The Pulse of Private Equity – 12/8/2014

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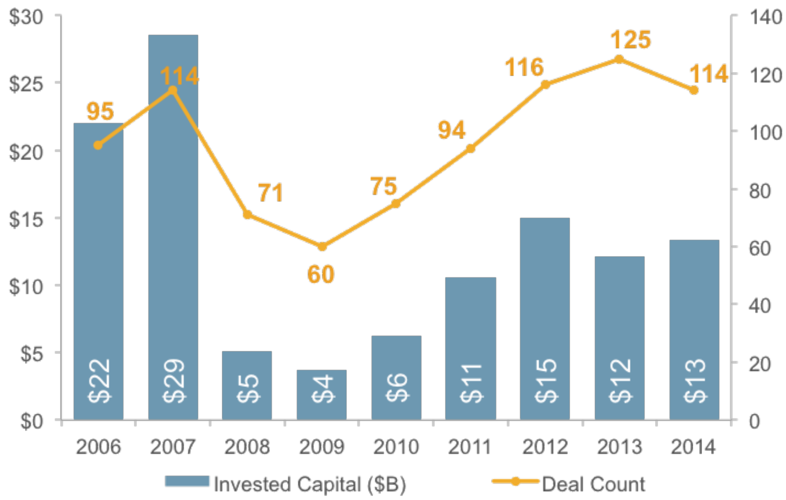
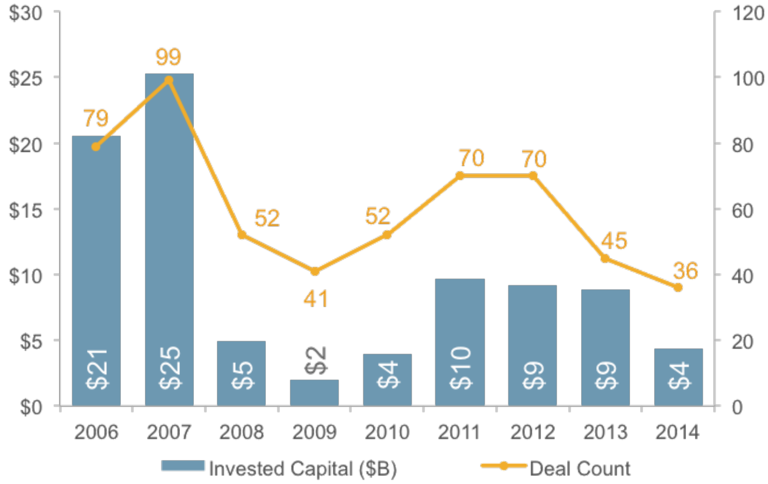
Retail Wars: M&A and PE Activity Diverging

Poor consumer sentiment hasn't really dampened enthusiasm among private equity investors, which continue to target retail-focused companies. When PE targets a sector, more often than not they find a way to get it, even if it means stretching their bids. But in the case of the retail sector, strategic buyers have gotten in the way. Notice the trend lines below, which present a stark contrast between recent M&A activity and PE investments. Combined PE and M&A activity has steadily increased since the 2008-2010 recession, hitting a post-crisis high of 125 deals in 2013 and another 114 through Thanksgiving weekend this year. Total PE and M&A value in the retail space this year has already eclipsed last year's mark, $13.3 billion to $12.1 billion. By itself, though, PE has struggled of late, recording just 45 of those 125 deals last year, down from 70 transactions in each of the previous two years. Year-to-date, 36 PE deals have closed totaling a meager $4.4 billion, about a third of the combined $13.3 billion between M&A and PE in 2014.

PE and M&A Acquisitions in Retail



Private Equity Investment in Retail



We mentioned in a previous Lead Left submission that strategics are outbidding PE in the consumer sector. Yes, some corners of the consumer markets are looking to PE for capital, particularly brands looking to finance their expansion plans and add new locations. On the whole, though, strategics are winning many of these options because they can balloon their bids to high levels, thanks to the synergies they're buying. In many cases, the real multiples strategics are paying are a turn or two lower than they are on paper. And however motivated PE buyers are in the retail space, they're not as hungry as strategics right now, which aren't seeing much organic growth and need to pay up for growth through M&A.

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