

CONSUMER · RETAIL

THIRD QUARTER

2018

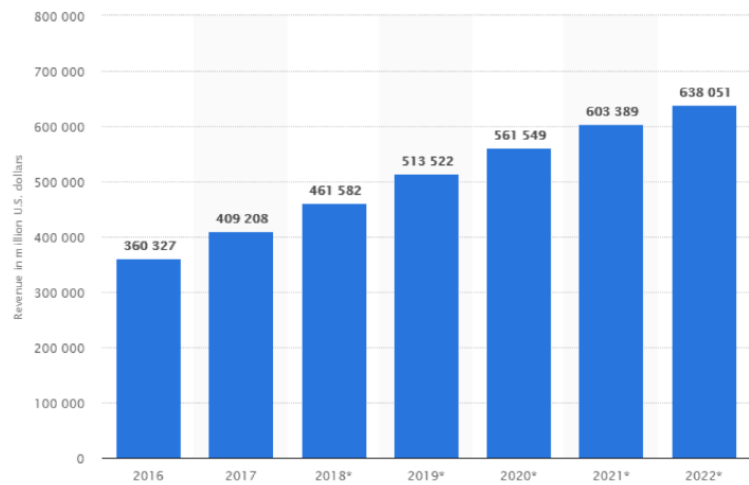
The Consumer Retail Industry Practice Group draws on the experience of CFA dealmakers, who as former business owners, CEOs, and industry professionals, have first-hand knowledge and have completed many transactions in sectors throughout the Consumer Retail category. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Consumer | Retail M&A

M&A activity for North American based target companies in the Consumer and Retail sector for Q2 2018 included 90 closed deals, according to data published by industry data tracker *FactSet*.

One of the notable middle market transactions closed in June when Fairfax Financial Holdings Ltd acquired Toys "R" Us Ltd, trading as Toys "R" Us (Canada) Ltd from Toys "R" Us, Inc. for CAD300 million (US\$237.9 million), via bankruptcy. The acquisition is in line with the growth strategy of Fairfax Financial Holdings. The transaction was subject to customary closing conditions, including remaining court and applicable regulatory approvals. Toys "R" Us is located in Concord, Ontario and retails toys, games and electronics for children.

Retail e-commerce sales in the United States from 2016 to 2022 (in million U.S. dollars)



Source: Statista

Driven in large part by the ubiquity of Amazon, retail dollars seem to be on a continuous trend toward leaving storefronts for the online giant.

Transactional Overview

Notable closed lower middle market transactions for the period in the Consumer and Retail sector include:

June 2018 - Synchrony Financial acquired Loop Commerce, Inc., a portfolio company of Novel TMT Ventures, Primera Capital, LLC, SG VC LLC and Wicklow Capital, Inc., for US\$29 million in contingent payout, dependent on certain future revenues. Synchrony Financial operates as a holding company that engages in the provision of consumer financial services. Loop Commerce operates online gift stores. It develops applications for creating personalized gifts. The company was founded in 2012 and is headquartered in Menlo Park, CA.



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For over 60 years CFA has been advocating on behalf of business owners. Whether you're selling, buying or recapitalizing your company, our business is your business.

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May 2018 - DSW, Inc. acquired the remaining 50.8% stake, not already owned in Town Shoes, Ltd. for CAD44.7 million (US\$34.9 million). The acquisition is in line with the growth strategy of DSW. DSW engages in the distribution of footwear and accessory brands .Town Shoes owns and operates shoe stores. It sells and distributes women's and men's footwear, handbags and accessories. The company was founded in 1952 and is headquartered in Downsview, Canada

April 2018 - Getty Realty Corp acquired the business and assets of 30 Gas & Convenience Stores from E-Z Mart Stores, Inc. for US\$52 million in cash. Getty Realty Corp. operates as a real estate investment trust. It engages in the acquisition and leasing of convenience store and gas service station properties. E-Z Mart operates convenience store chain and gasoline stations.

Selected Q3 Transactions	
Target/Issuer	Buyers/Investors
Dowco, Inc.	Patrick Industries, Inc.
Champlain Oil Co., Inc. /Retail Fuel & Convenience Stores/	Global Partners LP
Panera Bread Co. /38 Cafes/	Manna Development Group LLC
EntrustRx	Omnicare, Inc.; Advanced Care Scripts, Inc.
Tate's Bake Shop, Inc.	Mondelez International, Inc.
CID Resources, Inc.	Superior Uniform Group, Inc.
Superior Plus Energy Svcs, Inc. /Refined Fuels & Terminal Bus/	Sunoco LP
Birchbox, Inc.	Viking Global Investors LP

Industry Update

The retail sector is experiencing margin pressure due to rising wage costs and limited ability to raise prices to compensate. Limited pricing power and rapidly rising wages relative to other industries are squeezing retail profits. Dollar store operators Dollar General and Dollar Tree are among the retailers that blamed rising labor costs for their earnings shortfalls in the first quarter, The Wall Street Journal reports. Nonsupervisor retail wages rose 3.9% in the second quarter of 2018 from the year before, their strongest growth since 2002, according to the Labor Department. (By comparison, average hourly wages for all nonfarm employees increased 2.7% in June from a year earlier.) Competition from Amazon and other online players that offer low prices and free shipping is making it particularly difficult for retailers to offset rising wages. The average US retail price for diesel and regular gas, a major operating cost for trucking fleets, rose 30% and 25.8%, respectively, in the week ending July 16, 2018, compared to the same week in 2017.

Industry Indicators

- Total US consumer spending, an indicator of retail sales, rose 2.3%, primarily from nondurable goods expenditures, in April 2018 compared to the same month in 2017.
- Total US retail sales, a measure of the retail sector, increased 5.5% in the first six months of 2018 compared to the same period in 2017.
- US tourism spending on shopping, which impacts retail sector revenues, increased 3.6% in the third quarter of 2017 compared to the same period in 2016.

The Consumer Retail Practice Group is a multi-disciplinary group of investment banking advisors within Corporate Finance Associates. Collectively, the Consumer Retail Practice Group provides M&A advice to public and private companies in all sectors of the consumer retail industries, including apparel and accessories, consumer electronics, consumer products, consumer services, DIY, grocery and convenience stores, health, beauty and personal care, home and giftware, sporting goods and toys. For information on mergers, acquisitions, divestitures, recapitalizations, joint ventures or financial resources, contact your local Corporate Finance Associates office.

