

# Consumer Industry

## Middle Market Deal Activity & Outlook

Mergers & Acquisitions

2021

Pandemic Accelerates Demand for Outdoor Recreation, E-Commerce, and Health & Wellness Products

### Sector Insights

E-Commerce & Internet Retailing  
Food Distribution  
Health & Wellness  
Juvenile Products & Toys  
Outdoor Recreation & Enthusiasts  
Pet Food & Animal Care

### Industry Insights

M&A Overview  
Public Market Valuations  
Valuation Drivers  
Macroeconomic Trends



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PARTNERS**

Capstone Partners is one of the largest and most active independently-owned investment banking firms in the United States. Over the past 20 years, thousands of business owners, investors, and creditors have trusted us to help guide their strategic decisions and maximize financial outcomes at every stage of the corporate lifecycle.



A DIFFERENT KIND OF FIRM. BUILT FOR THE MIDDLE MARKET.

<b>Mergers &amp; Acquisitions</b> <ul style="list-style-type: none"> <li>Sell-side Advisory</li> <li>Buy-side Advisory</li> <li>Recapitalizations</li> <li>Mergers &amp; Joint Ventures</li> </ul>	<b>Capital Advisory</b> <ul style="list-style-type: none"> <li>Equity Advisory</li> <li>Debt Advisory</li> <li>Infrastructure Finance</li> </ul>	<b>Financial Advisory</b> <ul style="list-style-type: none"> <li>Transaction Advisory</li> <li>Interim Management</li> <li>Performance Improvement</li> <li>Valuation Advisory</li> <li>Litigation Support</li> </ul>	<b>Special Situations &amp; Restructuring</b> <ul style="list-style-type: none"> <li>Special Situations</li> <li>Turnaround</li> <li>Restructuring</li> <li>Bankruptcy</li> <li>Insolvency</li> </ul>
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# Connect with Capstone's Consumer Investment Banking Group

Capstone Partners is the bank of choice for fast-growing entrepreneurs driving changes in the marketplace. The majority of transactions completed by our **Consumer Investment Banking** group are for privately-owned businesses accessing long-term investors for the first time. Our team knows strategic buyers drive the highest valuations and we are razor focused on getting to know each of their sweet spots in M&A. Using that proprietary data, we will work closely with you to prep your company and put you in the ideal position for the best possible outcome.




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## Capstone-Advised Transaction Highlights

<p>Branded camping hammocks and accessories</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>E-commerce floral arrangement and gifting</p>  <p>HAS COMPLETED A SERIES C FUNDING ROUND CO-LED BY</p> 	<p>Provider of soy-free Asian sauces</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>Branded pet care products</p>  <p>HAS SECURED DEBT FINANCING FROM</p> 	<p>Private label mattress manufacturer</p>  <p>HAS SECURED \$142.5 MILLION IN SENIOR CREDIT FACILITIES FOR THE ACQUISITION OF</p> 
<p>Insect control solutions for pets &amp; livestock</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>Branded gifts, toys &amp; lifestyle products designer</p>  <p>HAS DIVESTED</p> 	<p>Auto repair &amp; maintenance chain</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>Premium spirits manufacturer</p>  <p>HAS FORMED A JOINT VENTURE WITH</p> 	<p>Branded grass-fed beef</p>  <p>HAS BEEN ACQUIRED BY</p> 
<p>All-natural, healthy treats for pets</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>Entertainment retailer</p>  <p>HAS SECURED FINANCING FROM</p> 	<p>Online retailer of mattresses</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>Consumer goods and e-commerce services</p>  <p>HAS PARTNERED WITH</p> 	<p>Online provider of hybrid trees and plants</p>  <p>HAS RECAPITALIZED WITH</p> 

## Awards & Accolades

<p><b>2021</b></p> <p>INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p><b>2020</b></p> <p>INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p><b>2020</b></p> <p>MID-MARKET INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p><b>2020</b></p> <p>MIDDLE MARKET INVESTMENT BANK OF THE YEAR</p> 	<p><b>2020</b></p> <p>CORPORATE RESTRUCTURING FIRM OF THE YEAR</p> 
<p><b>2019</b></p> <p>INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p><b>2019</b></p> <p>INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p><b>2019</b></p> <p>GLOBAL M&amp;A MIDDLE MARKET INVESTMENT BANK OF THE YEAR</p> 	<p><b>2019</b></p> <p>INDEPENDENT INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p><b>2018</b></p> <p>US DEBT FINANCING ADVISORY OF THE YEAR</p> 

## M&A Overview



**36%**

*Deal Volume Increase*



**\$84.1B**

*Total Disclosed Deal Value*

## Transaction Statistics



**13.1x**

*Average EBITDA*



**70%**

*Strategic Buyers*



**\$219M**

*Average Value*



**30%**

*Financial Buyers*



**35%**

*Outdoor Recreation  
Deal Volume Increase*



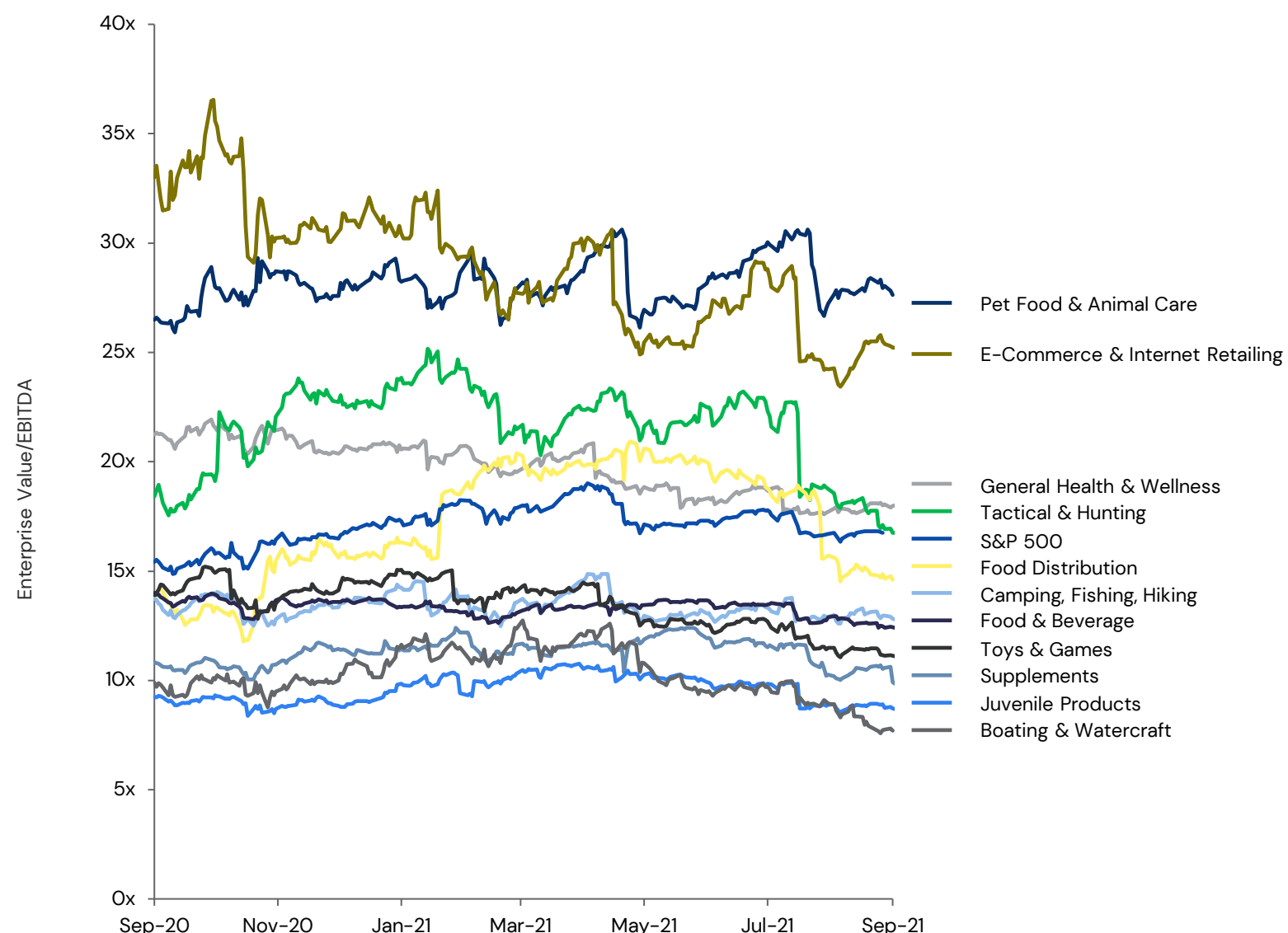
**45%**

*E-Commerce  
Deal Volume Increase*

*Percentage increases reflect year-over-year changes*

# Public Market Valuation Breakdown

## EBITDA Multiples by Sector



Pet Products & Animal Care: CENT, ELAN, PETQ, ZTS; E-Commerce & Internet Retailing: FLWS, AMZN, ASC, BOO, EBAY, OSTK, VIPS; General Health & Wellness: ABT, 300146, CHD, CL, HYPE3, NATR, PHN, RKT, USNA, 531335; Tactical & Hunting: AQUT, POWW, AXON, CZG, SWBI, RGR, VFC, VSTO; Food Distribution: DIT, CORE, PFGC, SYI, UNFI, USFD; Camping, Fishing, Hiking: CWH, CLAR, DILB, GRMN, JOUT, PII, THULE, YETI; Food & Beverage: BN, GIS, HAIN, KRZ, MDLZ, POST, SMPL; Toys & Games: FNKO, HAS, JAKK, MAT, TOY, 7867; Supplements: BKL, GL9, HLF, JWEL, MED, WW; Juvenile Products: CRWS, DILB, 1086, NWL, SUMR; Boating & Watercraft: BC, MBUU, MPX, MCFT  
Source: Capital IQ and Capstone Research



**Kenneth Wasik**  
Head of Consumer Investment Banking

2021 was an amazing year for the Consumer Products industry. The immediate and long term impacts of COVID have profoundly influenced the sector, more so than any other industry – leading to a historic M&A market that kicked off in the second half of 2021. In the short term, unit volumes and pricing changed significantly to meet shifting consumer demands. In the long-run, an acceleration to e-commerce channels, the emergence of brands built by a new generation of consumers, the importance of robust supply chains, and the need for a stable employee base are four of the major trends that will impact consumer brands well into the future.

On the M&A front, transaction volume increased 36% year-over-year (YOY) as the Consumer industry became a favorite spot for strategic buyers. Private-to-private company deals continued to dominate the landscape, comprising 57% of all transactions in YTD 2021. In contrast, total PE deals accounted for 29% of transactions. We do not see the dominance of private strategic deals changing in the foreseeable future. As the largest seller of private-to-private companies on Wall Street, we are certainly biased. However, history dictates that private consumer companies capture larger synergies, are more adept at nurturing a brand, and will typically pay a premium purchase price compared to private equity.

The majority of our private clients were motivated to sell their business in 2021 due to the confluence of Biden's perceived tax increases in 2022 and their emergence from COVID with strong financial results. These companies were met with fervent buyer appetite driving elevated valuations amid heightened competition in deal processes. Private strategic and public buyers have leveraged healthy cash reserves, while PE has capitalized on cheap financing – fueling a feeding frenzy of private target company transactions. Average valuation multiples hit 13x LTM (last twelve-month) EBITDA for the first time in memory. Although debt levels have not reached new highs, they certainly are within viewing distance.

As with all feeding frenzies, buyers have zeroed in on the most attractive, easily digested targets. Companies with uncertain or complicated growth stories, severe COVID impacts to profitability, or operating in battered sectors had significant challenges grabbing attention of buyers. We saw a mix of a smaller group of highly aggressive bidders and a large group of quick "no's". Interestingly, gross margins have become very important to buyers in response to volatility in supply chains and overall inflationary trends. A strong margin profile helps to insulate core business operations from broader macroeconomic disruption, allowing the business to maintain pricing power and continue driving positive cash flows.

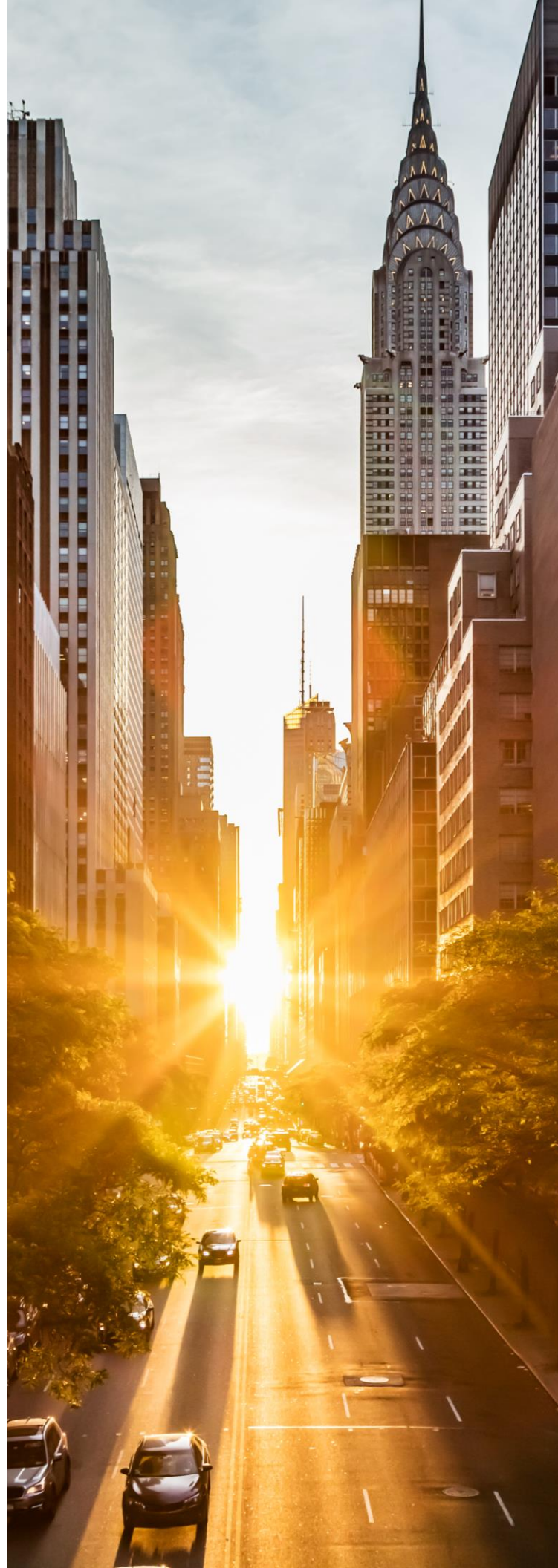
We are increasingly hearing that private owners are fatigued having steered their business through COVID, only to emerge to face unprecedented supply chain challenges and an extremely tight labor force. In addition, amid rising costs and the concern of stagflation trickling into the economy, many business owners are holding a sober outlook for the near term, which has encouraged an increased willingness to pursue an M&A sale. While economic headwinds persist, the resolve of middle market founders and entrepreneurs have facilitated a wave of quality companies coming to market, a dynamic that we expect to continue throughout the remainder of the year and into 2022. As we approach a record year in Consumer M&A, 2022 looks to match its pace with strategic buyers and private equity continuing to actively pursue privately-owned businesses.

## Consumer M&A Volume Surges

Heightened merger and acquisition (M&A) volume in the Consumer industry through year-to-date (YTD) has been driven by significant levels of pent-up demand, impending capital gains tax increases, and favorable industry valuations. Many buyers remained sidelined through much of 2020, with strategics focused on maintaining healthy balance sheets and private equity allocating resources to support portfolio companies. With industry participants now operating on greater financial footing, deal flow has returned at a fervent pace through YTD 2021, reflected by a 36% YOY increase in transaction volume. Private strategic buyers have been the most active M&A participants, accounting for 57% of total deal volume.

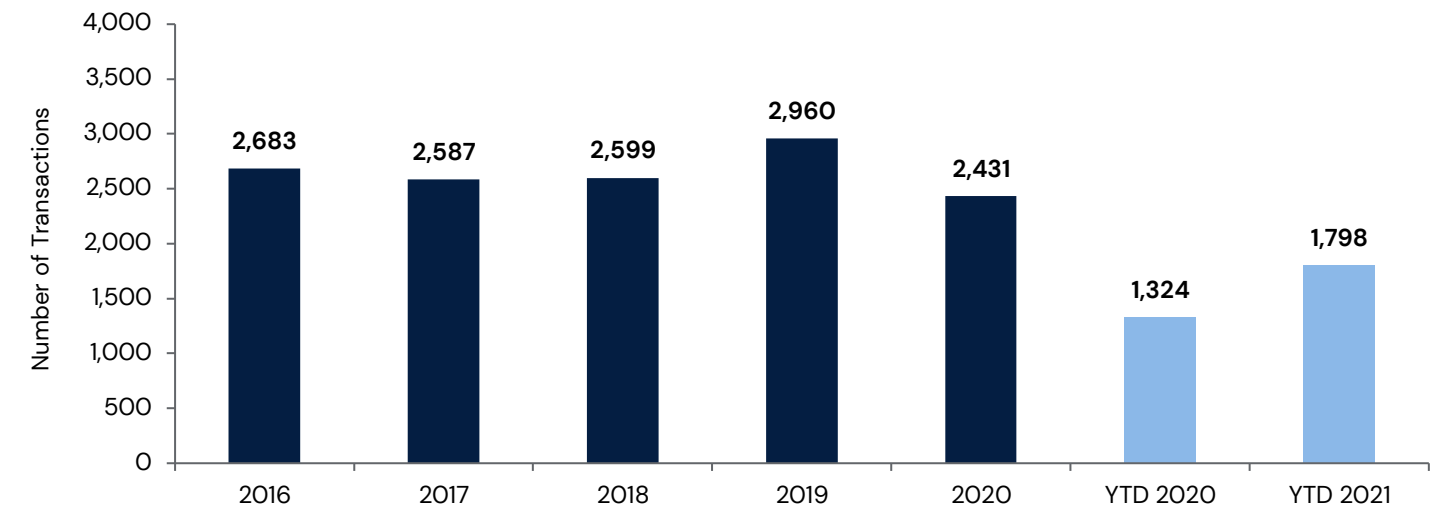
Private equity (PE), armed with massive levels of dry powder and leveraging a historically low interest rate environment, have comprised 30% of total transactions. PE deal flow has reached historic levels, forcing sponsors to be increasingly selective in bidding and narrow their sector focuses. Notably, the overwhelming pace of prospective transactions has caused many PE firms to pass on deals they likely would have bid on 12 months ago. Targets with brand strength, recurring revenue, and customer retention will remain highly sought-after among the sponsor universe through 2021 and into 2022.

Tax implications under the Biden administration have been top of mind for business owners with many expediting their exit and pursuing an M&A sale before year-end – contributing to what is shaping up to be a historic M&A market in 2021. With M&A sale processes typically taking between six to nine months, the window for a full process is quickly winding down. However, Capstone’s intricate knowledge of the buyer universe, industry valuations, and coveted target company characteristics can allow for an efficient, “modified” process when appropriate. M&A multiples are currently standing at historic highs, with private equity buyers aggressively competing for high quality businesses, suggesting significant near-term consolidation activity.



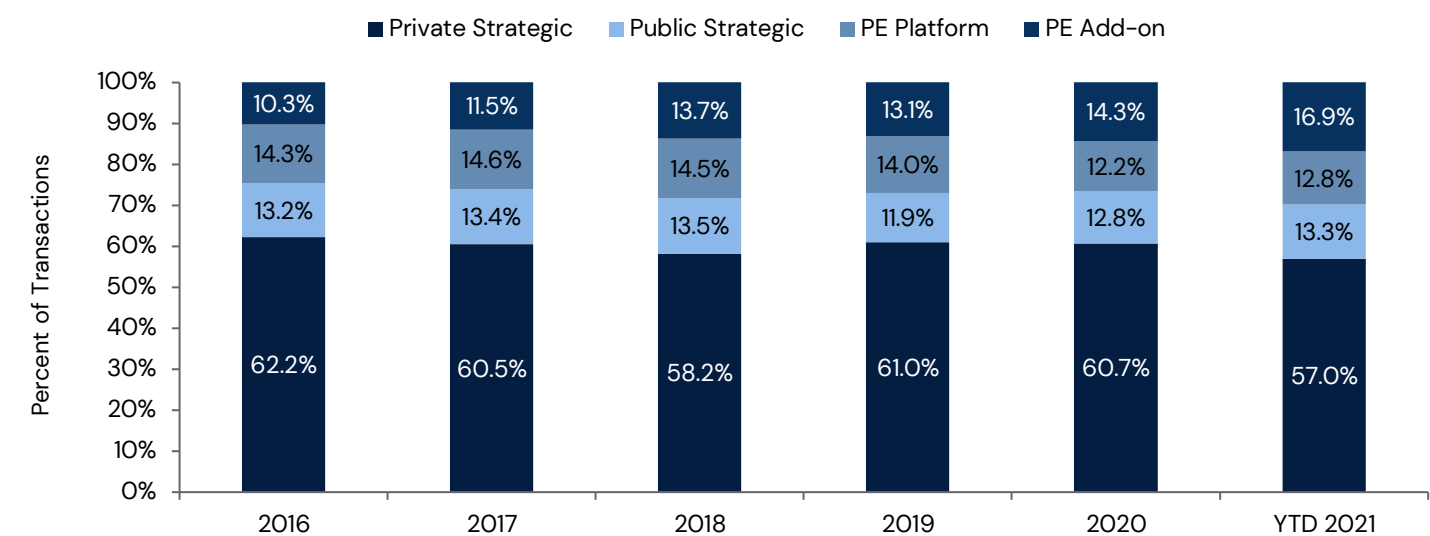
### M&A Volume Increases 36% Year-over-Year

Transaction volume has surged in YTD 2021 and is forecast to continue at a rapid pace through year end and into 2022. The prospect of tax rate increases under the Biden administration has pushed many owners to expedite a liquidity event.



### Private Strategics are Most Active Buyers

Private strategics have historically comprised the majority of deals and have accounted for 57% of total transactions in 2021. Private equity has increasingly utilized add-on acquisitions through YTD to bolster portfolio holdings.



Year-to-date (YTD) ended August 5  
Source: Capital IQ and Capstone Research

## Valuations Remain Elevated

Valuations in the Consumer industry have reached heightened levels in YTD 2021, with the average EBITDA multiple amounting to 13.1x, marking the highest average multiple over the past five years. Even during the pandemic multiples largely remained steady as a flight to quality drove selectivity in deal processes, with buyers favoring defensible businesses with strong financials. Through YTD, strategic buyers, leveraging improved balance sheets, have paid premium multiples for accretive targets that offer enhanced revenue streams or product diversification. Sponsors, recognizing the elevated pricing environment, have also demonstrated a willingness to pay heightened multiples for attractive businesses that complement their investment theses.

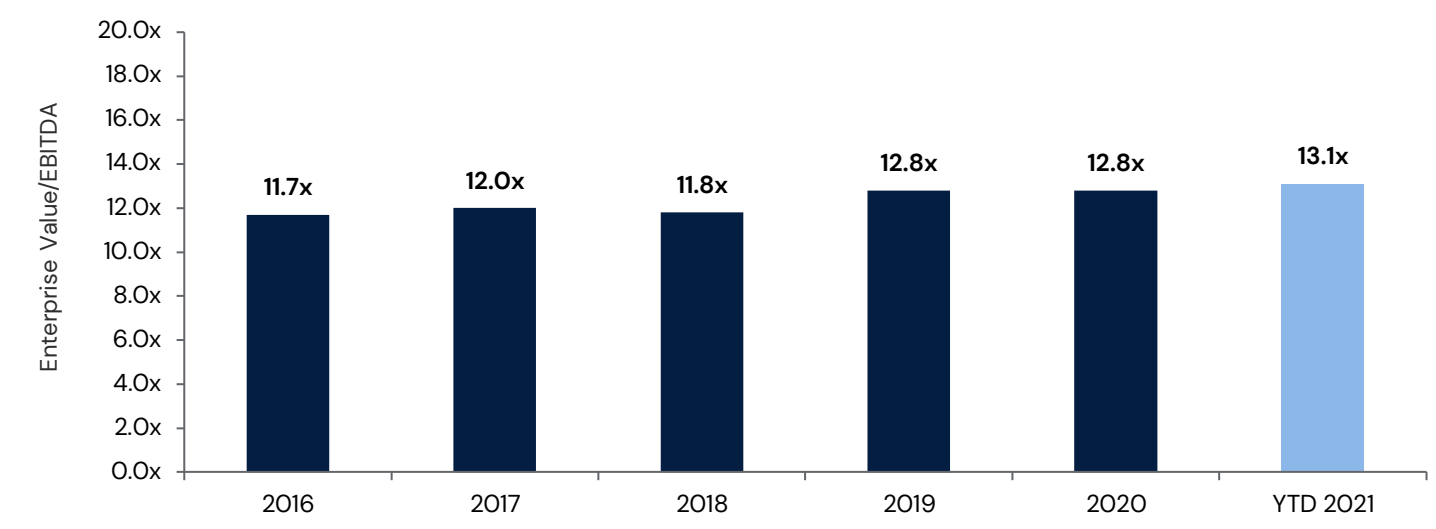
As buyers continue to grapple with COVID-adjusted EBITDA, seller financing or earnouts are forecasted to be increasingly prevalent in deal structures. Through the first half of 2021, dealmakers are taking note of this as pandemic induced uncertainties and supply chain disruptions linger. In addition, debt availability across the middle market has returned to pre-pandemic levels with the average Q2 2021 debt multiple standing at 3.7x, a strong improvement from 3.3x in the prior year quarter. Robust M&A activity and a continued supply and demand imbalance has caused lenders to increase leverage to win deals, according to [Capstone's Debt Advisory Group](#).

Consumer products and services providers with strong brand recognition, recurring revenue, robust e-commerce capabilities, and favorable margin profiles are expected to continue to command premium valuations. In addition, sponsor backing has driven healthy pricing with the median purchase multiple of PE-backed consumer companies amounting to 16.1x EBITDA upon sale. PE has recognized the incremental value that can be gained at exit, which has been evidenced by the prevalence of add-on acquisitions to drive pricing.



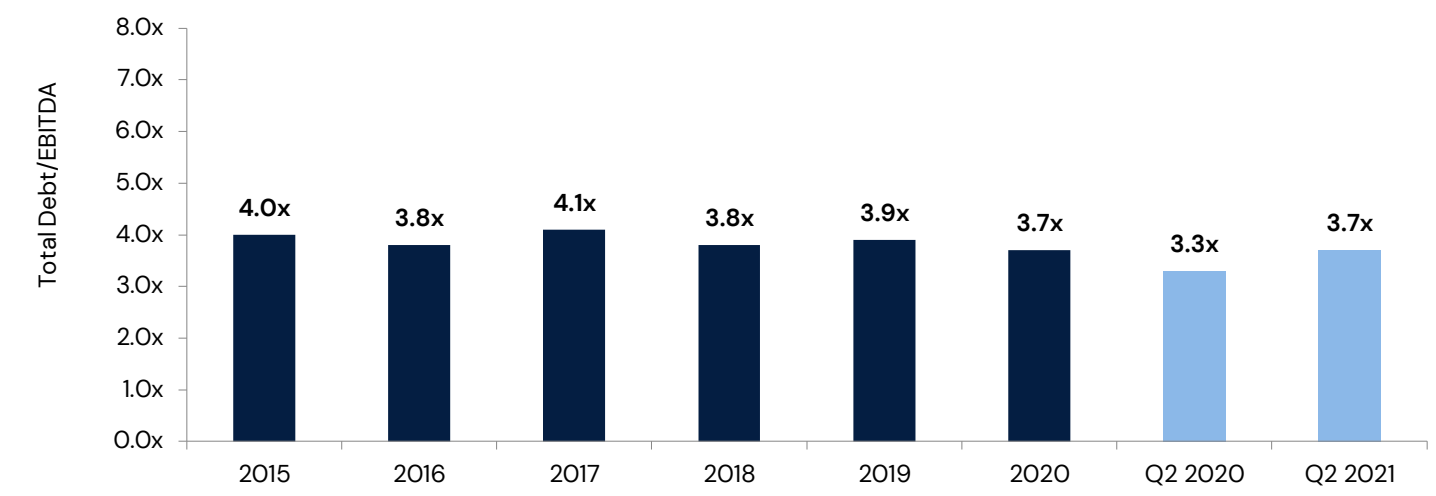
## Average Consumer Industry M&A EBITDA Purchase Multiples

Average EBITDA purchase multiples have expanded compared to the prior year at 13.1x. Intense competition in deal processes has driven pricing to heightened levels through YTD.



## Average Debt Multiple of Overall Middle Market LBO Transactions

Debt utilization and availability has recovered to pre-pandemic levels with the average middle market debt multiple standing at 3.7x in Q2. Friendly credit markets bode well for robust M&A activity, especially large-scale LBOs.



Year-to-date (YTD) ended August 5  
Source: Capital IQ, GF Data® and Capstone Research

## Macroeconomic Backdrop

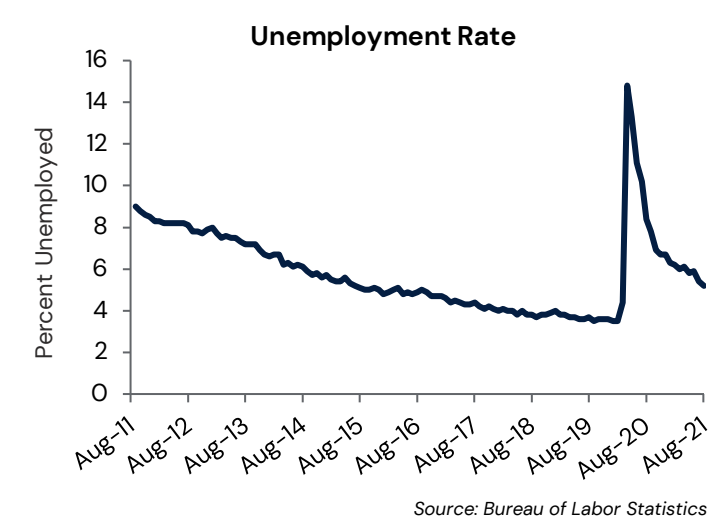
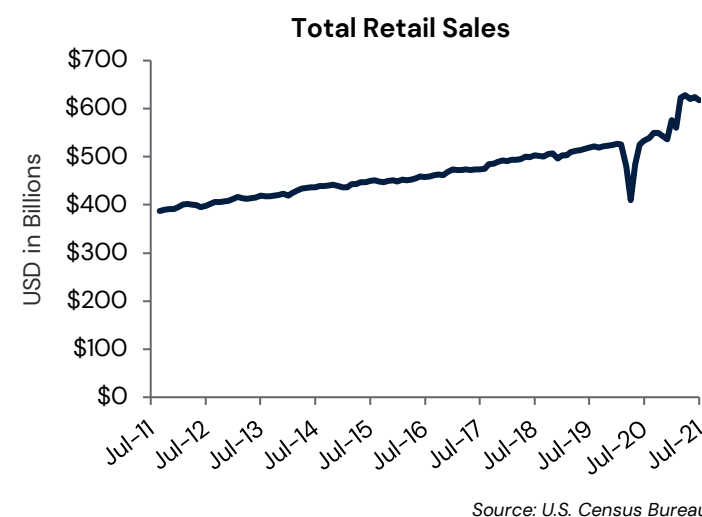
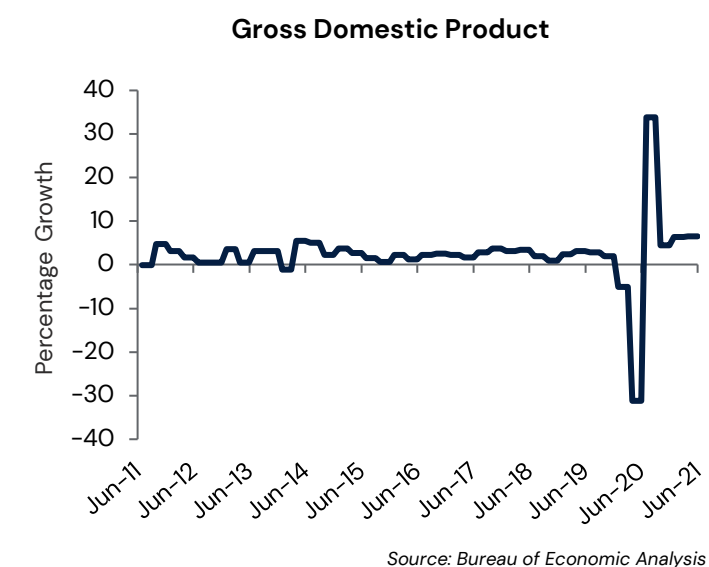
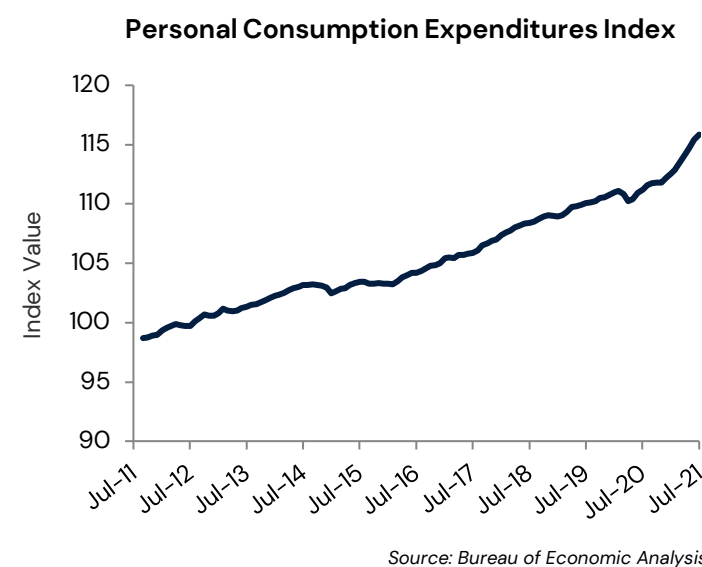
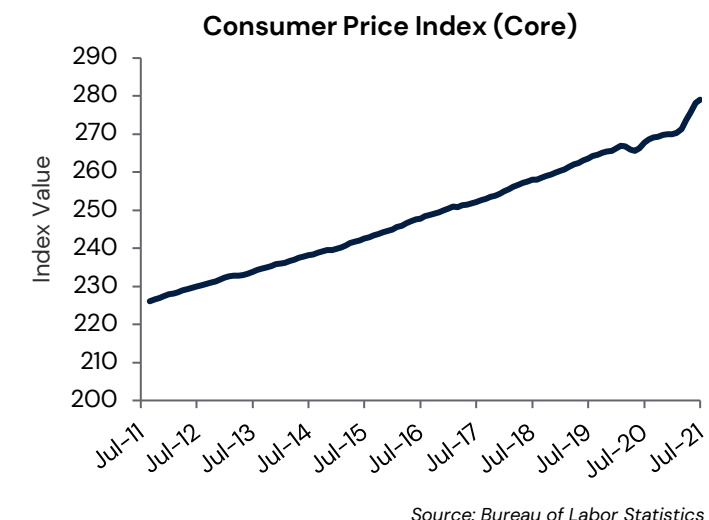
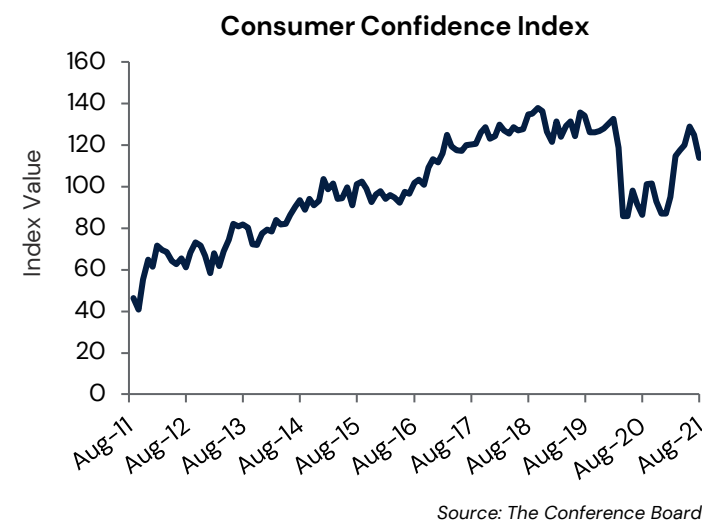
The acceleration of the U.S. economic recovery has been supported by exceptionally accommodative monetary policy and fiscal spending, with gross domestic product (GDP) demonstrating continued growth through Q2 at 6.5%, according to the Bureau of Economic Analysis.<sup>1</sup> However, despite vaccination rollouts and signs of a recovering labor market, rising COVID-19 and Delta variant cases have threatened the growth outlook. Notably, August payrolls growth fell significantly below estimates with employment rising by 235,000 jobs, following an increase of 1.1 million in July, according to the Bureau of Labor Statistics.<sup>2</sup> Consumer confidence has also waned in recent months, with August's Conference Board reading falling to the lowest level since February 2021.<sup>3</sup>

Fiscal stimulus packages bolstered consumer savings to record levels, with the personal savings rate peaking at 33.8% in April 2020.<sup>4</sup> The savings rate has since moderated but remains substantially above historic levels. A key question moving into the later half of 2021 will be if elevated levels of personal saving will translate into increased expenditures on consumer goods and services, especially as the holidays approach. Increasing retail sales in recent months have supported the prospect of further spending, however inventory levels and supply chain disruptions are expected to continue to challenge industry participants to meet consumer demand.

Rapid economic growth often coincides with potential inflation concerns and policymakers are expected to closely monitor economic data to gauge the level of capacity. Notably, core inflation, which excludes energy and food, increased 4.3% in July YOY, marking a slight decline from June's reading, according to the U.S. Bureau of Labor Statistics.<sup>5</sup> Consumers have also expressed expectations for higher inflation in the coming year, which introduces the risk of these expectations becoming self-fulfilling. However, as the economy continues to climb from pandemic-induced depths, consensus points to a gap between actual and potential output, as there are still 6.8 million fewer jobs compared to February 2020, according to the U.S. Labor Department.<sup>6</sup> As the Federal Reserve continues to eye maximum employment and a sustained 2% inflation, interest rates are expected to remain at current levels until mid-2022/2023. However, continued favorable borrowing costs and record equity prices have recently facilitated discussions on the possibility of tapering bond purchases in the near term.

The macroeconomic environment will certainly affect the decisions of business owners and how Wall Street views acquisition strategy and valuations. However, middle market M&A possesses a degree of insulation from larger market forces – demographics play a crucial role in transaction inventory. As America's baby boomers increasingly face a decision on ownership transition or monetization of their business, there is an inevitable wave of deals that will come to market.

## Macroeconomic Indicators





# Key Themes Driving Industry Activity & M&A Volume

## Trend #1: The rise of new brands

The preferences and tastes of Millennials and Generation Z have shaped the creation of new brands that have taken hold of the market. Many younger consumers are attracted to niche, unique, mission-driven brands that align with their own values, which are now becoming more widely distributed through social media and e-commerce platforms.

Smaller brands appealing to this new generation of consumers have achieved active followings and a loyal customer base. Capstone expects this trend to continue as younger generations continue to search for differentiation among brands.

## Trend #2: Healthy living trends here to stay

Nutritional products and functional food categories are receiving substantial consumer interest which has permeated into M&A markets. Demand for vitamins, minerals, and supplements has increased significantly as consumer awareness surrounding health and immunity has reached heightened levels amid the pandemic. Strategic consolidation is expected to continue as consumer products providers add healthy brands to their product offerings.

Private equity firms have actively targeted health-conscious brands to build or enhance sector portfolios. Demonstrated sector expertise will be a key differentiator in deal processes for sponsors as winning bids will be awarded to those with a track record of success.

## Trend #3: New consumers entering the sector

The pandemic encouraged a wave of new consumers to undertake outdoor activities and enthusiast pursuits. An increasingly diverse demographic of outdoor enthusiasts has driven demand for products serving subsectors including Camping, Boating, Hunting, and Fishing.

Leading industry players will continue to add and diversify product lines to capitalize on favorable consumer trends. The pandemic has created a lasting impact on the Outdoor Recreation sector with M&A activity forecast to remain at a fevered pitch through year end and into 2022.

## Trend #4: E-commerce & digital penetration

E-commerce and digital penetration have been essential features to drive sales over the past year and industry participants are expected to continue to bolster their direct-to-consumer (DTC) solutions. Efficient e-commerce fulfillment also requires sound supply chain networks, which will remain a challenge across the Consumer industry as materials shortages, tariffs, and production constraints have disrupted inventories.

Social media presence will be a key focus for brands heading into 2022 as many companies have sought to increasingly resonate with Millennials. Brands with strong online penetration and effective DTC capabilities will continue to receive healthy buyer interest.



## Trend #5: Channel diversification to continue

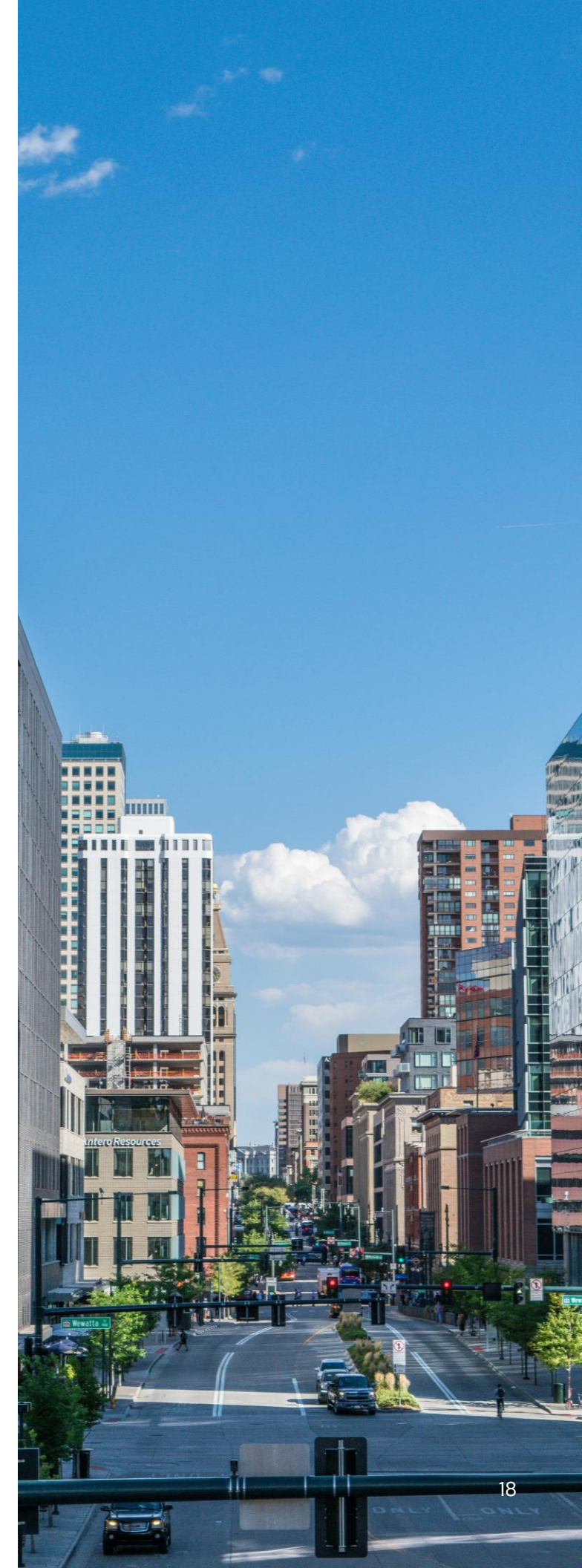
Many industry participants experienced drastic declines in revenue at the onset of the pandemic, relying on sales channels and end markets that suffered from an evaporation of customer demand. As the economy has emerged from COVID-19 strategics have sought acquisitions to diversify end markets and defend revenues, with some venturing far outside their core distribution channels.

Channel crossover and product diversification is forecast to continue through year-end and into 2022. Industry participants are expected to utilize M&A to fill gaps or vulnerabilities that have been exposed by the pandemic.

## Trend #6: Healthy buyer balance sheets

While many sellers delayed launching a sale process to recover revenues, buyers also remained on the sidelines for much of the pandemic. However, as consumer demand has proliferated and production levels have recovered, strategic and private equity buyers have enhanced their cash positions. Many buyers are operating on significantly stronger financial footing compared to 12 months ago, providing a favorable backdrop for middle market M&A activity.

In addition, improved debt availability and usage is expected to support more aggressive M&A pursuits. Equity contributions have moderated since the height of the pandemic, reflecting borrower-friendly market conditions.



# Notable M&A Transactions

## Outdoor Recreation & Enthusiasts



Vista Outdoor (NYSE:VSTO) has acquired leading golf technology provider Foresight Sports for an enterprise value of \$499 million, equivalent to approximately 10x EBITDA. Foresight Sports offers performance analysis solutions for the Golf industry, including its innovative launch monitors and simulations used in retail stores, driving ranges, commercial facilities, and homes. The acquisition of Foresight complements Vista's Bushnell Golf brand, enhancing its leadership position in the Golf Technology sector. The transaction is expected to be immediately accretive to earnings, according to a press release.<sup>7</sup>



CZG (SEP:CZG) has acquired leading U.S. firearms manufacturer Colt Defense for an enterprise value of \$256.2 million, equivalent to 4.4x estimated 2020 EBITDA. Colt has been a long-term supplier to the U.S. army and, through its Canadian subsidiary, has served as an exclusive small arms supplier to the Canadian military. Through the acquisition, Czech-based CZG expands its production capacity in the U.S. and Canada and bolsters its customer base. The combined entity is expected to generate \$500 million of revenue, according to a press release.<sup>8</sup>

## Health & Wellness



Unilever (LSE:ULVR) has continued to add to its wellness and supplements portfolio, having agreed to acquire leading wellness supplements and lifestyle products provider Onnit for an undisclosed sum (April 2021). Onnit's supplements include Alpha BRAIN®, which supports better memory, focus, and mental processing. It also offers functional nutrition, fitness essentials, and a digital content platform inclusive of fitness programs for its customer base. In addition, Onnit provides a subscription program, driving recurring revenue and repeat customers.



Nestlé (SWX:NESN) and KKR (NYSE:KKR) have entered an agreement in which Nestlé will acquire the core brands of The Bountiful Company for an enterprise value of \$5.8 billion, equivalent to 16.8x EBITDA. The transaction complements Nestlé's existing health and nutrition portfolio and enhances its leadership position in the mass retail, specialty retail, e-commerce and DTC channels in the U.S. The acquisition also demonstrates the premium multiples public strategic buyers are willing to pay to acquire leading brands with extensive customer reach.

## Food Distribution



Leading foodservice provider Sysco (NYSE:SY) has agreed to acquire Greco and Sons, a premier independent Italian specialty food distributor. Terms of the transaction were not disclosed. Greco provides meats and cheeses, fresh produce, and specialty imports to the Italian Restaurant sector. It operates across 10 distribution centers, providing over 15,000 products to its 8,000 customers according to a press release. The transaction is expected to add \$750 million of sales to Sysco upon closing and accelerate its revenue growth in the Italian Cuisine segment, according to the company's investor day presentation.<sup>9</sup>



Performance Food Group (NYSE:PFGC) has agreed to acquire Core-Mark (Nasdaq:CORE), a leading wholesale distributor to the Convenience Retail sector, for an enterprise value of \$2.7 billion and equivalent to 12.3x EBITDA. The acquisition expands Performance Food Group's geographic footprint and bolsters its presence in the convenience store channel, adding approximately \$17 billion to net sales, according to a company press release.<sup>10</sup> In addition, Core-Mark enhances Performance Food Group's customer base and diversifies its product offerings, most notably in the Fresh Food subsegment.



## Notable M&A Transactions (Continued)

### E-Commerce & Internet Retailing



Pattern has acquired e-commerce provider of kitchen accessories GIR for an undisclosed sum (June). GIR offers high quality spatulas, tongs, straws, food preparation tools, and other cookware products through its website. The acquisition follows its \$60 million series A venture funding from a group of investors. The financing will be used to acquire DTC businesses with healthy margins, loyal customer bases, and a focus on home-centric goods. GIR represents the first acquisition in its pursuit of building a robust DTC portfolio.



Capstone Partners advised Wise Owl Outfitters (Wise Owl), a leading provider of branded camping hammocks and related accessories sold on Amazon and direct-to-consumer (DTC), on its sale to Thrasio, a consumer goods company reimagining omnichannel commerce and consumer products. Founded in 2015 by Sarah and Todd Douglass, Wise Owl Outfitters is a growing camping brand offering high-quality, affordable camping hammocks and accessories. In addition to its selection of single and double camping hammocks, Wise Owl offers camping supplies and outdoor equipment, including bug nets, tree straps, rain tarps, pillows, sleeping pads, towels, tent stakes, and blankets.

*“Along with having the category leading camping hammock on Amazon, Wise Owl has built notable brand strength and a strong social media following. The brand has tremendous opportunities for future growth both on and off of Amazon, which was recognized by Thrasio,” commented Capstone Senior Director Lisa Tolliver.*

### Juvenile Products & Toys



TZP Group, a multi-strategy private equity firm has acquired a majority stake in leading omnichannel juvenile products brand Itzy Ritzy. Terms of the transaction were not disclosed. Itzy Ritzy offers diaper bags, toys, pacifiers, teething, and other baby and juvenile related products. The transaction highlights private equity's appetite for strong brands with robust product portfolios, as TZP will leverage its capital resources to scale Itzy Ritzy and drive further growth. Sponsors are expected to continue to actively target the sector with competition for quality assets driving strong valuation multiples.



Owlet Baby Care, producer of connected infant monitoring products, has announced plans to merge with a special purpose acquisition company (SPAC) formed by SandBridge Capital and PIMCO funds. The transaction values Owlet at an enterprise value of \$1.1 billion, equivalent to 6.2x 2022 expected net revenue, according to Owlet's investor presentation.<sup>11</sup> The elevated revenue multiple highlights the premium buyers are placing on connected, digital child rearing devices and the associated favorable long-term growth prospects.

*“The fundamental characteristics of the Juvenile Products & Toys industry have always drawn strong M&A interest to the sector. Now that the industry has proven its resiliency during the pandemic, quality companies can expect increased attention from buyers who are willing to pay premium valuations for growth-oriented businesses with strong brands,” commented Capstone Managing Director Sophea Chau.*

### Pet Food & Animal Care



Mid America Pet Food, backed by TA Associates, has acquired premium pet products provider Nature's Logic for an undisclosed sum (August). Nature's Logic offers natural, high quality pet food and treats, absent of synthetic vitamins. The acquisition bolsters Mid America's nutritional pet food offerings and creates an expansive product portfolio of premium pet products. The transaction also highlights the buyer appetite for small industry players with brand authenticity and penetration in fast growing end markets, including Pet Health and Nutrition.



Vestor Capital Partners has agreed to make a majority investment in PetHonesty, a leading premium pet products provider (July). Terms of the transaction were not disclosed. PetHonesty offers healthy supplements to address pet ailments including mobility, digestion, and allergies sold on its website and also through Amazon and Chewy.

Vestor has demonstrated expertise in the Pet Food and Better-for-You Food industry, having previously owned Big Heart Pet Brands. The acquisition demonstrates private equity's appetite for pet food & animal care targets with brand strength and differentiated product offerings. “Pet parents have shown they are deeply committed to purchasing premium products, and PetHonesty is well positioned as the pet humanization trend and pet ownership continues to grow,” commented Winston Song, Managing Director and Co-Head of Consumer at Vestor, in a press release.<sup>12</sup>



# E-Commerce & Internet Retailing

Rampant M&A Activity for Amazon Brands, Sponsors Increasingly Active

## M&A Overview & Outlook

Transaction volume in the E-Commerce & Internet Retailing sector has grown substantially, driven by strong buyer appetite for digitally native brands and increased consumer adoption of online shopping. Through YTD, M&A activity has increased 45% YOY, with private equity buyers (35% of deals) aggressively allocating capital to establish or enhance portfolios. Buyers have also increasingly recognized the value of building a portfolio of FBA (fulfillment by Amazon) brands, a concept that was previously met with significant hesitancy from institutional buyers. FBA aggregators, businesses that target Amazon and marketplace brands, have demonstrated the value of building robust portfolios and driving synergies, scale, and diversification. Notably, leading FBA consolidator Thrasio experienced a 60% YOY revenue growth among its private label brands on Amazon Prime Day, according to a press release.<sup>13</sup>

Venture capital has flooded the FBA sector as aggregators have raised approximately \$7 billion since Q2 2020, according to Marketplace Pulse.<sup>14</sup> The rise of well-capitalized buyers has fueled M&A activity, evidenced by Perch's recent \$775 million Series A funding round led by SoftBank to continue to roll-up marketplace retailers. Since its founding in 2019, Perch has acquired over 70 brands. FBA retailers with branded products, strong net margins, positive product reviews, and leading positions in organic Amazon searches have attracted strong buyer appetite. Category leadership demonstrated with a small concentration of SKU's (stock keeping units) has also shown to drive valuations. As elevated levels of capital and more traditional financial buyers enter the space, M&A activity is expected to continue at a fervent pace in 2022.

## Key Buyer Trends



Private equity firms have recently demonstrated increased comfort in building a portfolio of brands that derive a majority of their revenue from Amazon. The pandemic has highlighted the prevalence of FBA brands and sponsors have gradually begun to allocate more resources to capitalize on favorable tailwinds. The increase in sponsor activity is likely to drive valuations higher for leading industry participants with strong customer retention and brand loyalty. While anecdotally purchase multiples paid by aggregators typically amount to 3x-4x upfront cash with future payment potential, sponsors with the ability to write large equity checks are poised to drive increased competition in deal processes and pricing. Capstone recently advised Coop Home Goods on its sale to Topspin Consumer Partners, a consumer-focused private equity firm (June, deal terms are confidential). Coop sells high-quality adjustable memory foam pillows and sleep related products via Amazon and its own website.



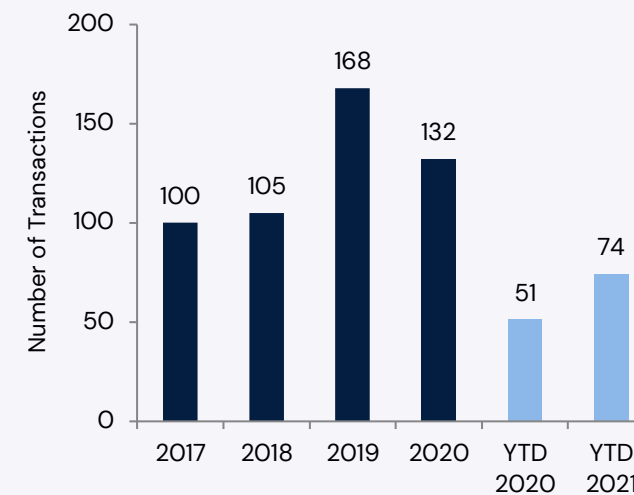
While traditional financial buyers are increasingly entering the space, acquisitions are still dominated by leading aggregators. Thrasio has established itself as a market leading consolidator, raising a total of nearly \$2 billion in funding and acquiring over 125 brands. Most recently, it raised a later stage venture capital round of \$100 million, a potential precursor to public listing via SPAC, according to Bloomberg.<sup>15</sup> Notably, Capstone advised Wise Owl Outfitters, a leading provider of branded camping hammocks and accessories sold on Amazon, on its sale to Thrasio in June. Terms of the transaction are confidential.



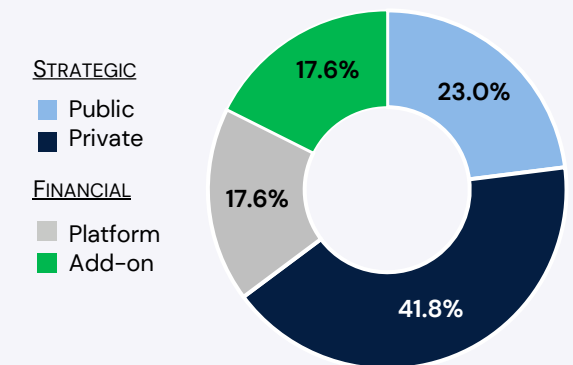
**Lisa Tolliver, Senior Director**

*"The M&A market is extremely active for attractive, growing FBA brands. In recent processes, we have received strong interest coming from aggregators, private equity investors, and even some corporate acquirers who seek to gain expertise in the Amazon channel. Many options exist today for owners of Amazon concentrated brands compared to even 12 months ago and valuations are on the rise driven by competition."*

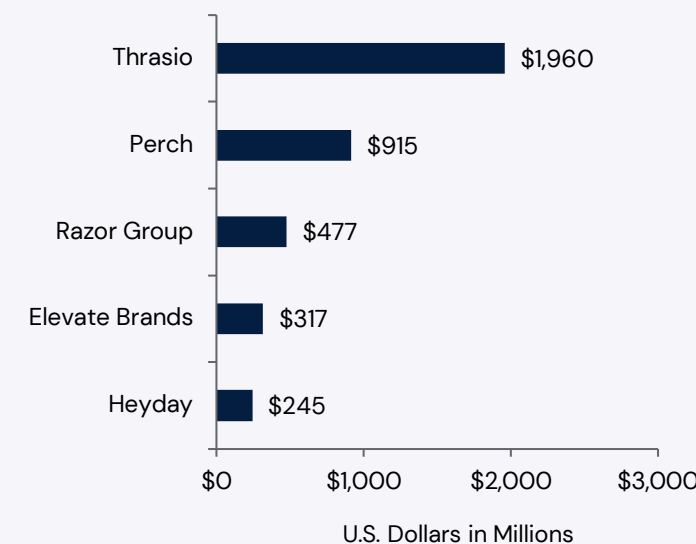
**M&A Transaction Volume Increases 45% Year-over-Year**



**Private Strategic Buyers Comprise Largest Percentage of Deals**



**Select Venture Capital Funding**



**Recent Capstone Transactions**



Year-to-date (YTD) ended June 25  
Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select E-Commerce & Internet Retailing Transactions

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
08/26/21	Coop Home Goods	Topspin	E-commerce provider of branded bedding and sleep-related products.	CF	CF	CF
06/23/21	Wise Owl Outfitters	Thrasio	Provides branded hammocks and related accessories sold on Amazon.	CF	CF	CF
06/17/21	Live Auctioneers	ATG Media	Offers an online auction site for collectibles, antiques, jewelry, and art auctions.	\$525.0	17.1x	31.8x
06/14/21	Spoonflower	Shutterfly	Provides a fabric printing marketplace.	\$225.0	-	-
06/08/21	GIR	Pattern	Offers kitchen accessories sold online.	-	-	-
05/13/21	Zeekit Online Shopping	Walmart (NYSE:WMT)	Develops an online application that allows users to view outfits.	-	-	-
05/05/21	Modcloth	Branded Online	Offers online retail of apparel for women.	-	-	-
05/05/21	Asterwood Naturals	Boosted Ecommerce	Manufactures and sells anti-ageing serums online.	-	-	-
05/03/21	Bliss Hammocks	Snow Joe	Provides hammocks, dry bags, and camping gear through its online platform.	-	-	-
04/30/21	Little West	PlantX (CNSX:VEGA)	Manufactures cold pressed juices sold online.	-	-	-
04/29/21	Wolf and Grizzly	Nolk	Offers outdoor products sold online.	-	-	-
04/26/21	Onnit	Unilever (LSE:ULVR)	Provides nutritional supplements and fitness equipment online.	-	-	-
04/21/21	Travel Stand Desk	Stronger Teams	Offers portable standing desks online.	-	-	-
04/21/21	For Life Products	Spectrum (NYSE:SPB)	Manufactures home and automotive care products sold online.	\$300.0	-	-
04/12/21	Akerson	TZP Group	Provides maternity apparel sold online.	-	-	-
03/31/21	BHP Marine	T-H Marine Supplies	Offers marine anchoring and mooring products sold online.	-	-	-
03/29/21	Oxford & Kin	Lensbox Healthcare	Provides eyewear products sold online.	-	-	-
03/17/21	Mayfair	Thrasio	Manufactures and online retails air mattresses.	-	-	-
02/09/21	JM Bullion	A-Mark (Nasdaq:AMRK)	Offers an online platform for retailing of precious metals.	\$173.3	0.1x	-
02/09/21	EcomAutomotive	Wheel Group	Provides an e-commerce platform for outdoor accessory products.	-	-	-
02/01/21	Recteq	Norwest Equity	Designs, markets, and sells pellet grills and accessories online.	-	-	-

Blue indicates Capstone advised transaction; CF= confidential  
Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Capstone Partners Advises Coop Home Goods on its Majority Recapitalization with Topspin Consumer Partners



Capstone Partners advised Coop Home Goods (Coop or the Company), a leading digitally native home goods brand, on its acquisition by Topspin Consumer Partners (Topspin).

Founded by siblings Kevin and Jin Chon in 2013 and based in Los Angeles, CA, Coop is a growing e-commerce company that designs and sells branded, high-quality adjustable memory foam pillows, bedding and sleep-related products through the Company's website and various e-commerce marketplaces, including Amazon. Coop's flagship product, the shredded bamboo memory foam pillow, has been the number one-ranked pillow by Consumer Reports for the past two years. The Company has developed a loyal customer following due to its superior branding, product quality, design and comfort, internet savvy and superior customer service. [Read more about the transaction here.](#)



# Food Distribution

Foodservice Players Expected to Utilize M&A to Gain Channel Diversification

## M&A Overview & Outlook

M&A activity in the Food Distribution industry has demonstrated remarkable resilience over the past year, with transaction volume largely unaffected by the pandemic. Consolidation has continued at a healthy pace through YTD 2021, with 37 deals announced or completed, a slight increase YOY. Private strategic buyers (56.8% of deals) have been the most active, seeking attractive targets to add scale, new geographic penetration, and product diversification. Private equity firms have also demonstrated steady sector appetite, attracted to the predictability of revenues and ability to enhance platforms through add-on acquisitions.

Depressed restaurant sales during COVID-19 caused many foodservice distribution players to reevaluate business models as they suffered severe revenue declines. Retail end markets displayed much greater resilience with 2021 sales increasing 12%, compared to a 27% decline in Foodservice, according to Pentallact.<sup>16</sup> As a result, large public foodservice companies including Sysco (NYSE:SY) and US Foods (NYSE:USFD) actively shifted to Grocery/Retail markets to offset revenue losses and capitalize on growth trends post-pandemic. As channel crossover further permeates the industry, M&A activity is expected to elevate as industry participants seek additional diversification and enhanced revenue defensibility. Notably, leading foodservice provider Performance Food Group (NYSE:PFGC) announced its acquisition of Core-Mark (Nasdaq:CORE), a premier wholesale distributor to the Convenience Retail market, for an enterprise value of \$2.7 billion, equivalent to 12.3x EBITDA. The transaction demonstrates the premium strategics are willing to pay to bolster their presence in attractive distribution channels.

## Key Subsector Trends



The Foodservice sector suffered substantial declines in the past year, however industry sales are forecast to increase 13% in 2021, according to Pentallact. Increased profitability in the sector bodes well for industry performance, evidenced by Performance Food Group experiencing a 51% YOY increase in EBITDA in its Foodservice segment in fiscal Q3, according to its earnings release.<sup>17</sup> In addition, trading metrics among leading public companies have improved, with EBITDA multiples reaching heightened levels. Notably, AMCON (NYSE:AMT), Performance Food Group, Sysco, and US Foods have all recorded YOY increases, trading at an average of 19.3x EBITDA. Foodservice providers are expected to be active M&A participants through year end, seeking accretive acquisitions to diversify channels and product offerings.



Retail end markets proved to be a significant revenue opportunity for industry participants amid the pandemic. While sales are expected to moderate through 2021, buyer demand for leading players servicing Retail/Grocery end markets remains healthy. Valuations have expanded for leading retail players with Core-Mark and United Natural Foods (NYSE:UNFI) exceeding 2020 levels, trading at 11.7x and 4.9x EBITDA, respectively.



The Specialty Distribution sector has represented an attractive end market with strong strategic buyer interest forecast to continue through the remainder of the year and into 2021. Niche specialty distribution operators with expansive customer relationships have the opportunity to attract premium multiples in the current M&A market.



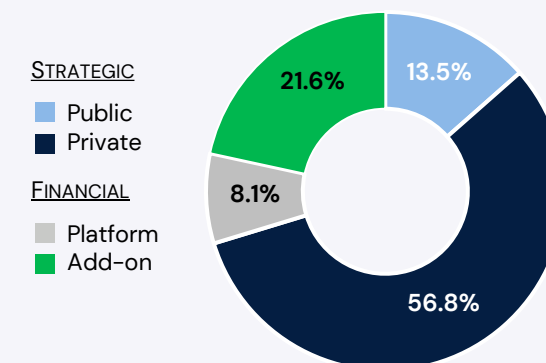
**Brian Boyle, Managing Director**

*“The Food Distribution sector is changing as traditional lines are being crossed. Many foodservice distributors have begun selling to Grocery/Retail customers, most notably in Specialty Food categories. Additionally, as labor and fuel costs have risen, food distributors are capturing additional margin by adding food processing capabilities. In addition to seeking more scale and reach, these vertical integration and crossover trends will continue to be important drivers of M&A activity going forward.”*

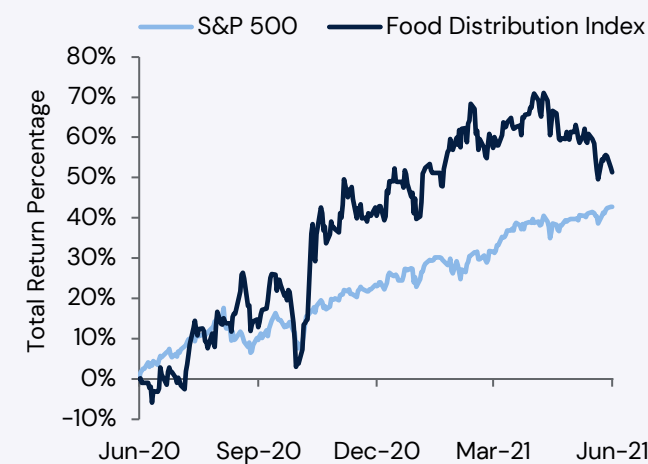
### Transaction Volume Remains Robust



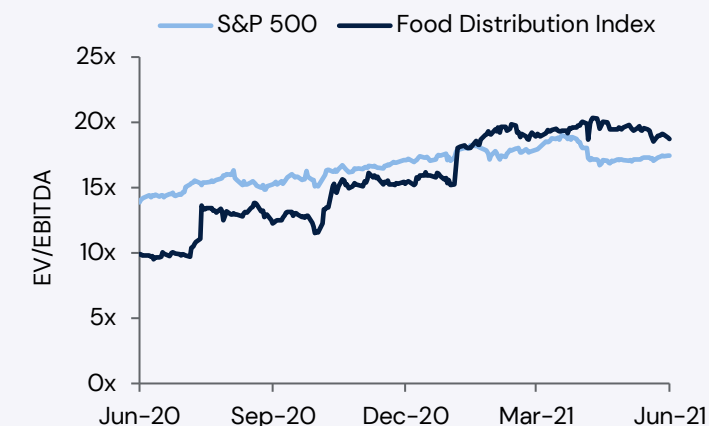
### Private Strategic Buyers, PE Add-ons Dominate Deal Activity



### Public Company Total Return Outpaces Broader Market



### Average Public Company EBITDA Multiples Continue to Improve



Food Distribution Index includes DIT, CORE, PFGC, SY, UNFI, USFD  
Year-to-date (YTD) ended June 29  
Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Food Distribution Transactions

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
08/05/21	Mermax	Premium Brands (TSX:PBH)	Provides food distribution and wholesale services.	-	-	-
08/03/21	Grant J. Hunt	GrubMarket	Imports and distributes fruits and vegetables.	-	-	-
07/20/21	BakeMark	Clearlake Capital	Produces and sells bakery supplies and food ingredients.	-	-	-
06/30/21	Valley Produce	FreshEdge	Distributes fresh produce and specialty products.	-	-	-
06/23/21	JM Swank	Brenntag (XTRA:BNR)	Distributes food ingredients.	\$304.0	0.6x	-
06/16/21	Nicola Imports	Chef's Warehouse	Provides specialty food products distribution.	-	-	-
06/01/21	Natural Merchants	Winc	Distributes and imports organic foods and wines.	-	-	-
05/28/21	School Lunch Products	GS Foods Group	Provides distribution of food products for K-12 school market.	-	-	-
05/20/21	Greco and Sons	Sysco (NYSE:SY)Y	Manufactures, imports, and distributes fresh meats and poultry products to restaurants and pizzerias.	-	-	-
05/18/21	Core-Mark (Nasdaq:CORE)	Performance Food Group (NYSE:PFGC)	Distributes packaged consumer products to the Convenience Retail industry.	\$2,694.0	0.2x	12.3x
05/04/21	Vaccaro & Sons Produce	GrubMarket	Distributes fruits, vegetables, and dairy products.	-	-	-
04/21/21	Jana Food Services	GrubMarket	Provides food distribution and sells frozen foods and meats.	-	-	-
03/15/21	In2food	Dobla USA Manufacturing	Imports and distributes pastry and chocolate ingredients in the U.S.	-	-	-
03/11/21	Distribution Cote-Nord	Premium Brands (TSX:PBH)	Provides food distribution services.	-	-	-
02/26/21	Foodservice division of K.Heeps	Schiff's Food Service	Comprises a food distribution business.	-	-	-
02/12/21	Earth Circle Organics	Monk-E Nutraceuticals	Wholesales and distributes raw and organic superfoods.	-	-	-
01/20/21	Wustefeld Candy	National Convenience	Provides wholesale distribution of grocery and convenience products.	-	-	-
01/19/21	Fresno Produce	GS Foods Group	Distributes fruits, vegetables, and foodservice items to customers including restaurants.	-	-	-
01/14/21	Bengard Marketing	GrubMarket	Provides distribution of fruits in the U.S.	-	-	-
12/14/20	Almark Foods	Post (NYSE:POST)	Offers hard-cooked and deviled egg products distributed to retail and foodservice distributors.	\$51.3	-	-
12/08/20	Leo's Apples	GrubMarket	Distributes fruit products.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Capstone Partners Active and Closed Engagements

**CONFIDENTIAL**

CORPORATE SALE

**PRODUCER OF  
BRANDED MEAT  
PRODUCTS**

**CONFIDENTIAL**

CORPORATE SALE

**DISTRIBUTOR OF  
BAKERY  
INGREDIENTS**



HAS BEEN ACQUIRED BY







# Health & Wellness

Trend Towards Healthy Living Supports Robust Future M&A Activity

## M&A Overview & Outlook

Consumers have placed heightened emphasis on immunity, mental health, and overall wellness amid the pandemic. This has been evidenced by a surge in demand for nutritional products, with U.S. supplement sales increasing nearly 15% YOY, according to Nutritional Outlook.<sup>18</sup> As consumers have increasingly prioritized healthy living, industry participants have sought rapid consolidation to meet elevated demand. Notably, through YTD 2021 transaction activity has increased 73% YOY, with 71 deals announced or completed. In addition, leading public companies have bolstered their cash positions and have actively reengaged in M&A to enhance product portfolios, accounting for 31% of transaction volume. Category leaders have remained highly coveted targets for public players, with premium multiples being paid for providers with demonstrated brand strength and customer reach.

Transaction activity is expected to remain rampant through year end and into 2022, with private equity firms continuing to aggressively build sector portfolios through platform investments or add-ons to holding companies. Health & wellness providers that possess brand strength and recognition, proprietary blends or product differentiation, and recurring revenue are poised to attract substantial sponsor interest at heightened valuations. The strong pricing environment has been evidenced by robust valuations among leading public companies, with general health & wellness providers trading at an average of 18.4x EBITDA, which bodes well for pricing in the middle market. While the timing of capital gains tax increases remain an uncertainty, the current transaction environment presents a significant opportunity for business owners exploring a liquidity event.

## Key Subsector Trends



Vitamins, minerals & supplements providers are expected to garner healthy strategic and private equity buyer interest through year end and into 2022. Valuations among public supplement companies have expanded compared to the prior year, with the average EBITDA multiple increasing to 16.8x from 15.2x. Notably, Nestlé (SWX:NESN) and KKR (NYSE:KKR) entered an agreement to acquire the core brands of the Bountiful Company in April for an enterprise value of \$5.8 billion, equivalent to 16.8x EBITDA.



Better-for-you products have experienced substantial demand with the increased consumer focus on health & wellness. Private equity firms that have demonstrated a track record of expertise in the space have remained acquisitive and are expected to continue to explore attractive targets. Of note, Brand Holdings, backed by Kidd & Company and T-street Capital completed its second acquisition, acquiring Simple Botanics, a leading provider of herbal tea and organic bars (March, undisclosed).



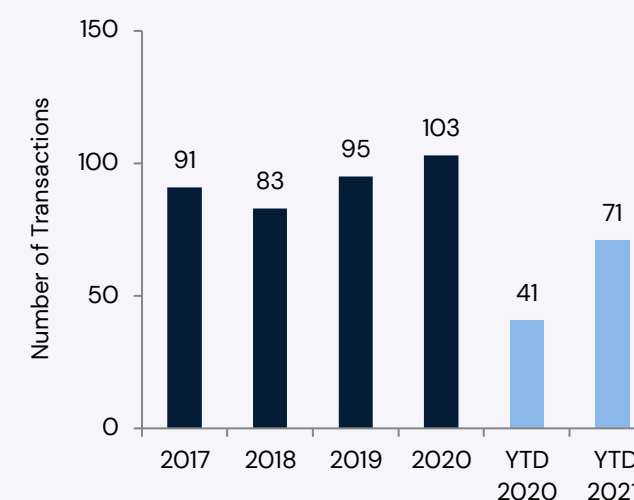
Contract manufacturers represent an attractive means of entry to the Health & Wellness industry for M&A participants. Rather than evaluating a target on brand strength, buyers can capitalize on industry tailwinds by acquiring vertically integrated product development providers with a robust client network and contract-based revenue. As demand persists for health-conscious products, outsourced providers are expected to remain favored targets among buyers, particularly in the sponsor buyer universe.



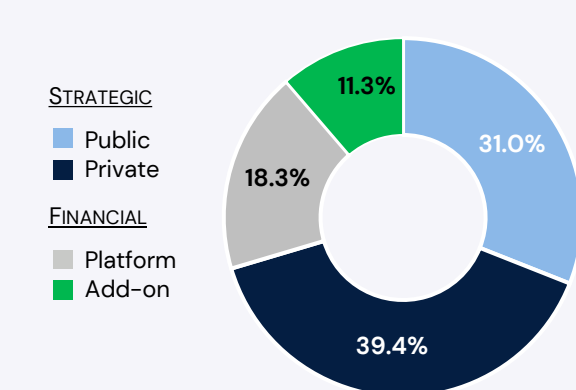
**Lisa Tolliver, Senior Director**

*“Consumers are keenly focused on health and wellness and the sector is attracting large amounts of capital from public and private investors, many of whom have never invested in this segment previously. DTC and ecommerce brands continue to be in strong demand. We expect M&A activity to continue to ramp for this sector, with Better-For-You brands, Health Supplements, Nutraceuticals and Sleep Wellness being particularly hot segments.”*

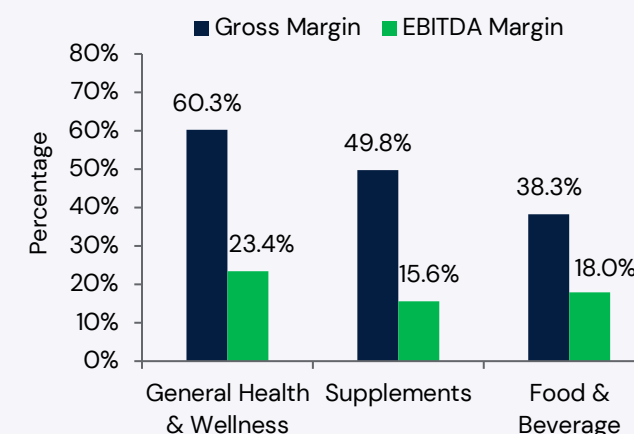
**Transaction Volume Elevates 73% Year-over-Year**



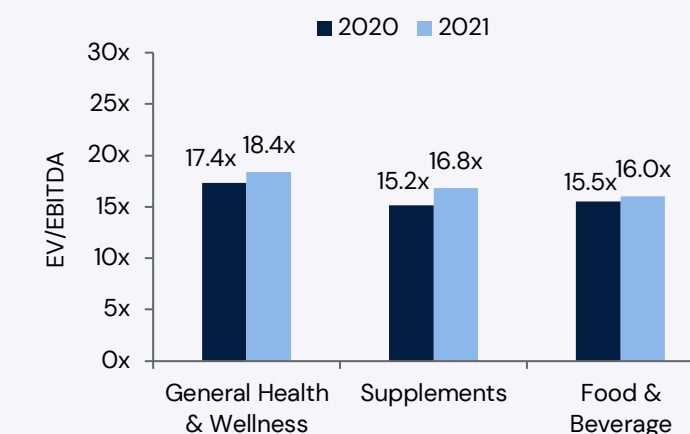
**Public Strategic Buyers Demonstrate Strong Interest in Sector**



**Average Public Company Margins Remain Healthy**



**Average Public Company EBITDA Multiples Outperform Prior Year Levels**



General Health & Wellness includes ABT, 300146, CHD, CL, HYPE3, NATR, PHN, RKT, USNA, 531335; Supplements includes BKL, GL9, HLF, JWEL, MED, WW; Food & Beverage includes BN, GIS, HAIN, KRZ, MDLZ, POST, SMPL  
Year-to-date (YTD) ended June 8  
Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Health & Wellness Transactions

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
07/16/21	Assets of Good Superfoods	Disruptive Technologies	Comprises snack food and protein bar contract manufacturing assets.	-	-	-
07/13/21	Suja Life	Paine Schwartz	Produces and sells cold-pressed organic juices.	-	-	-
07/08/21	Uqora	Pharmavite	Manufactures probiotic and supplement products for urinary tract infections.	-	-	-
07/06/21	Nature Spoon	GenTech (OTCPK:GTEH)	Offers herbal supplement lollipops for children.	-	-	-
06/30/21	VitaMedica	Grove (Nasdaq:GRVI)	Provides nutritional products.	-	-	-
06/30/21	Harmless Harvest	Danone Manifesto Ventures	Offers organic coconut water.	-	-	-
06/24/21	Life Boost	Perigon Health 360	Manufactures vitamins for men, women, and children.	-	-	-
06/21/21	Healthy Skoop	Brand Holdings	Provides plant-based protein powders.	-	-	-
06/17/21	Xtreme Organics	Scandia (OTCPK:SDNI)	Develops, manufactures, and distributes organic CBD dietary supplements.	-	-	-
06/17/21	Vega	WM Partners	Offers plant-based nutrition products.	-	-	-
06/08/21	Capstone Nutrition INW		Develops and manufactures science-based nutrition products.	-	-	-
06/03/21	Starwest Botanicals	Incline Management	Manufactures and supplies botanicals, herbs, spices, and dietary supplements.	-	-	-
05/25/21	Kodiak Cakes	L Catterton Partners	Produces whole grain pancakes and mixes.	-	-	-
05/18/21	Activ Nutritional	Guardion Health (Nasdaq:GHSI)	Manufactures and sells digestive chews.	\$26.0	-	-
05/11/21	Nutriscience	Tilia	Supplies nutritional and functional food ingredients.	-	-	-
04/30/21	Nature's Bounty	Nestlé Health Science	Produces and supplies nutritional supplements.	\$5,750.0	3.1x	16.8x
04/13/21	Nutrology	FitLife (OTCPK:FTLF)	Offers plant-based sports nutrition products.	-	-	-
04/06/21	Acenzia	Novo Healthnet	Develops and manufactures supplements and natural health products.	\$14.9	-	-
04/06/21	Inner Armour Sports Nutrition	IA Distribution	Produces and sells nutritional supplements for athletes.	\$173.3	0.1x	-
04/05/21	LIFEAID Beverage	Legacy Distribution	Manufactures and sells supplement nutritional products for men, women, and children.	-	-	-
03/30/21	Simple Botanicals	Brand Holdings	Provides herbal teas and organic nutrition bars.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Capstone Partners Active and Closed Engagements

**CONFIDENTIAL**

CORPORATE SALE

**E-COMMERCE PROVIDER OF VITAMINS & SUPPLEMENTS**

**CONFIDENTIAL**

CORPORATE SALE

**MANUFACTURER AND PROVIDER OF HEALTH SUPPLEMENTS**



HAS PARTNERED WITH





# Juvenile Products & Toys

Sector on record pace with companies buying smaller players as valuations rise

## M&A Overview & Outlook

The Juvenile Products & Toys industry experienced record levels of demand at the height of the pandemic as lockdown measures and stimulus checks drove increased consumer purchases of quality, trusted brands. Elevated sales growth has persisted through YTD, with the U.S. Juvenile Products industry growing 24% in Q1, led by gains in the Entertainment subsector, according to NPD.<sup>19</sup> In addition, leading public companies have captured significant revenue growth with Mattel (Nasdaq:MAT) and Funko (Nasdaq:FNKO) achieving YOY increases of 47% and 38% respectively, according to their earnings releases.<sup>20,21</sup> However, the rapid shift to e-commerce has emphasized the importance of efficient supply chain and logistics operations, a continued pain point for some in the industry.

Consolidation activity has followed heightened consumer demand as transaction volume has increased 55% YOY through YTD. Private strategic buyers have fueled M&A activity (59% of transactions), aggressively adding to their product portfolios to bolster category leadership or diversify offerings. In addition, impending capital gains increases have also driven a surge of deals to market, as many business owners have expedited their exit timeline to lock in potentially favorable tax rates before year end. Buyer appetite for category leaders with favorable product mixes, strong customer retention, and healthy margins is expected to remain elevated in the second half of 2021 and into 2022. As competition in deal processes intensifies, valuations and volume are expected to trend upwards. Heightened trading multiples among public companies have provided additional support to the strong pricing environment, creating a favorable backdrop for business owners bringing their company to market.

## Key Subsector Trends



The Toys & Games subsegment has experienced healthy growth throughout the pandemic, reflected by a 27% sales increase between January and April, with outdoor sports and toys remaining the largest category, according to NPD.<sup>22</sup> Elevated valuations among leading public companies over the last twelve months have trickled down into middle market pricing, a trend forecast to continue for brands with strong recognition and robust direct-to-consumer capabilities. Through YTD, the average trading EBITDA multiple among public Toys & Games providers has increased to 10.2x from 9.8x in 2020. Buyers are recognizing the premium industry participants are willing to pay for quality brands, evidenced by TOMY's (TSE:7867) purchase of Fat Brain at 14.6x EBITDA (\$41 million, October 2020).



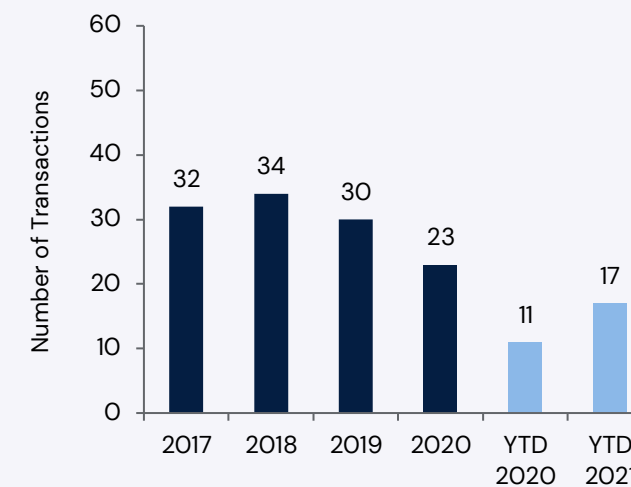
The Juvenile Products subsector has also exhibited strong valuation growth in public markets, with the average EBITDA multiple increasing to 6.6x. Durable products including car seats and strollers have experienced healthy sales growth, rising 28% and 19%, respectively in Q1. In addition, technology-enabled products, particularly those targeting infant and child safety have seen strong investor appetite. Owlet Baby Care, a leading provider of connected infant monitoring products, announced plans to merge with SandBridge Acquisition (NYSE:SBG), a special purpose acquisition company (SPAC) formed by Sandbridge Capital and PIMCO private funds. The transaction values Owlet at an enterprise value of \$1.1 billion, equivalent to 6.2x 2022 expected net revenue. Technology-enabled products are forecast to continue to attract institutional investment through year end and into 2022.



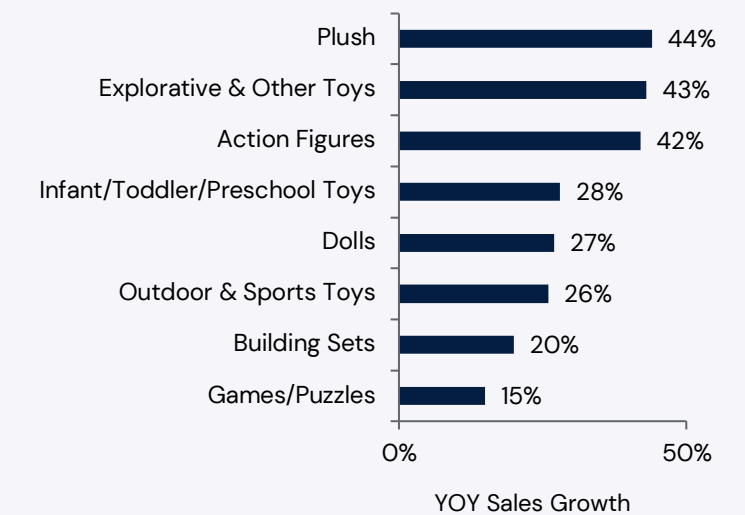
### Sophea Chau, Managing Director

*"Valuations are at all-time highs for companies with tremendous brand equity, as demonstrated by strong customer loyalty trends, category leadership, and robust supply chain operations. Companies with these characteristics are in a prime position in this 'seller's market,' especially if they want to get ahead of the increase in capital gains tax next year."*

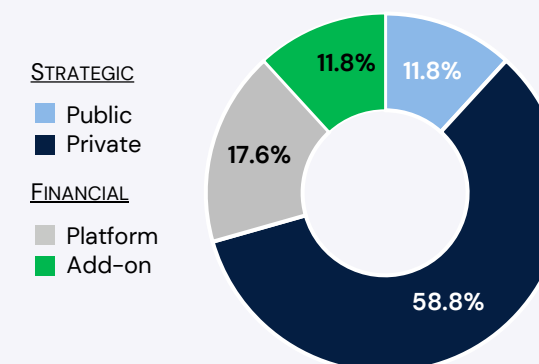
### Transaction Volume Remains Healthy



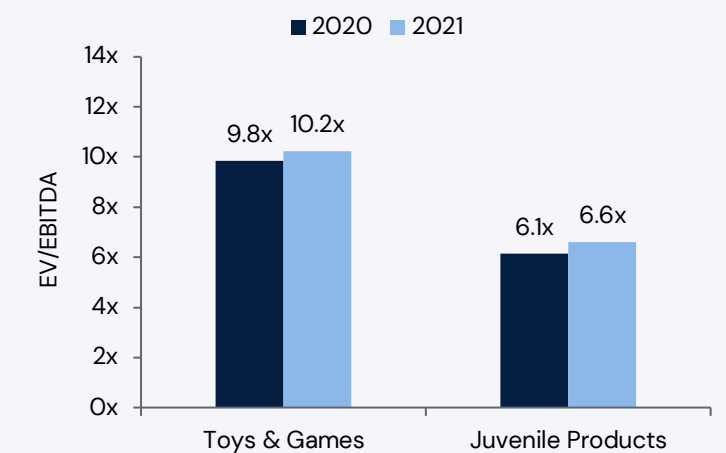
### Year-over-Year Product Sales Growth



### Strategic Buyers Comprise Majority of Transaction Activity



### Average Public Company EBITDA Multiples Increase Year-over-Year



*Toys & Games includes FNKO, HAS, JAKK, MAT, TOY, 7867; Juvenile Products includes CRWS, DILB, 1086, NWL, SUMR Year-to-date (YTD) ended June 16*  
Source: NPD, Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Juvenile Products & Toys Transactions

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
06/04/21	Plant Camp	Creadd Partners	Provides nutritional products for children.	-	-	-
05/18/21	Snuggles	PlayCore	Designs and manufactures indoor themed environments for children.	-	-	-
04/27/21	PeriGen	Halma (LSE:HLMA)	Provides fetal monitoring and clinical decision support systems.	\$58.0	2.9x	-
04/22/21	Itzy Ritzy	TZP Group	Offers diaper bags, gifts, toys, pacifiers, and other juvenile products.	-	-	-
04/08/21	Les Petits Terribles	Peekaboo Beans (CNSX:BEAN)	Produces healthy snacks and quick meals for children.	-	-	-
03/31/21	Plum	Sun-Maid Growers of California	Provides organic food products for babies, children, and mothers.	-	-	-
03/15/21	Tru Kids	WHP Global	Operates toys stores.	-	-	-
02/23/21	LunchBots	O2Cool	Manufactures stainless steel lunch boxes for children, teens, and adults.	-	-	-
02/16/21	Owlet Baby Care	Sandbridge Acquisition	Provides and health monitor for sleeping infants.	\$1,074.0	6.2x	-
02/10/21	Sprout Foods	Neptune Wellness (TSX:NEPT)	Offers organic baby food.	\$57.1	2.0x	-
01/21/21	LILLEbaby	Thrive	Designs and manufactures baby carriers, toddler carriers, and accessories.	-	-	-
01/18/21	Baby Gourmet	Hero Group	Provides organic food for babies and kids.	-	-	-
12/17/20	KidzShake	Nutritional Growth (ASX:NGS)	Provides vegan plant-based nutrition shakes for kids.	-	-	-
12/13/20	Think Operations	Topix	Provides body care, sun care, and baby care products.	-	-	-
11/16/20	Ceaco	Buffalo Games	Offers jigsaw puzzles for family entertainment.	-	-	-
11/13/20	ZOE Baby Products	Paladino Capital	Designs and manufactures strollers, baby furniture, and accessories.	-	-	-
11/12/20	Optimum Fulfillment	Flat River	Distributes toys, games, and other products.	-	-	-
10/30/20	Cortex Toys	Mighty Mojo	Manufactures and sells toys and games.	-	-	-
10/18/20	Fat Brain	TOMY International	Provides toys, games, and gifts.	\$41.0	1.0x	14.6x
10/15/20	Earth Baby	DYPER	Manufactures and distributes compostable diapers and wipes.	-	-	-
08/27/20	Big Blue Bubble	Enad Global 7 (OM:EG7)	Develops video games and mobile games including mobile games for kids.	\$57.8	6.3x	21.7x

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Capstone Partners Active and Closed Engagements

**CONFIDENTIAL**

CORPORATE SALE

**CHILDREN'S LITERACY APPLICATION**

**CONFIDENTIAL**

CORPORATE SALE

**E-COMMERCE BRANDED CHILDREN'S APPAREL**

**DC THOMSON**

HAS DIVESTED

**wild + wolf.**



# Outdoor Recreation & Enthusiasts

Elevated Outdoor Pursuits Expected to Drive Strong M&A Volume in 2022

## M&A Overview & Outlook

Heightened consumer interest in enthusiast pursuits has driven elevated M&A activity in the Outdoor Recreation & Enthusiasts industry. Notably, 80% of Americans have participated in outdoor activities during COVID-19, with one-third participating for the first time, according to Outdoor Recreation Roundtable.<sup>23</sup> Through YTD 2021, transaction volume has increased 34% year-over-year (YOY), with private strategic buyers (49% of transactions) driving deal activity. PE buyers (29% of transactions) have also remained active, aggressively building sector portfolios through platform investments or add-on acquisitions. The sustainability of M&A volume supports Wall Street's conviction that the accelerated consumer demand experienced during the height of the pandemic is likely here to stay. This has been further evidenced by the diversity of transactions announced or completed in the YTD with subsectors including Tactical & Hunting, Camping & Hiking, Boating & Watercraft, and Outdoor Power Sports all experiencing YOY increases in deal volume.

As industry participants continue to scale and diversify product offerings, consolidation activity is poised to remain robust in 2022. However, supply chain issues are likely to continue for the next 12 months as many leading industry players have reported lower inventory levels which may pressure margins. PE firms, leveraging low interest rates, aggressive financing markets, and historic levels of dry powder are forecast to continue to rapidly build and enhance sector portfolios. As competition in deal processes intensifies through year end and into 2022, Capstone anticipates premium valuations to persist for quality businesses with brand strength, recurring revenue, and demonstrated profitability through COVID-19.

## Key Subsector Trends



The Boating & Watercraft subsegment has continued to experience robust transaction volume with dealerships and manufacturers pursuing increased vertical integration to service surging consumer demand. Notably, MarineMax acquired Cruiser Yachts for an enterprise value of \$62.7 million, bolstering its premium yacht product portfolio. Leading public companies have experienced elevated trading multiples evidenced by the average Boating & Watercraft valuation standing at 11.5x EBITDA, with tailwinds expected to continue in the near term.



Consolidation in the Camping & Hiking segment has been led by Camping World (NYSE:CWH) which has aggressively purchased recreational vehicle providers through the YTD. Healthy consumer demand for travel and outdoor pursuits will continue to provide strong tailwinds through year end and into 2022.



The Tactical & Hunting segment is poised to benefit from a wave of new consumers, with nearly 8.4 million new entrants to the Shooting Sports space in 2020, spread over an increasingly diverse customer base, according to Vista Outdoor (NYSE:VSTO).<sup>24</sup> In addition, hunting licenses recorded an 8% growth in 2020, providing strong momentum for sustained sector activity and demand in 2022.



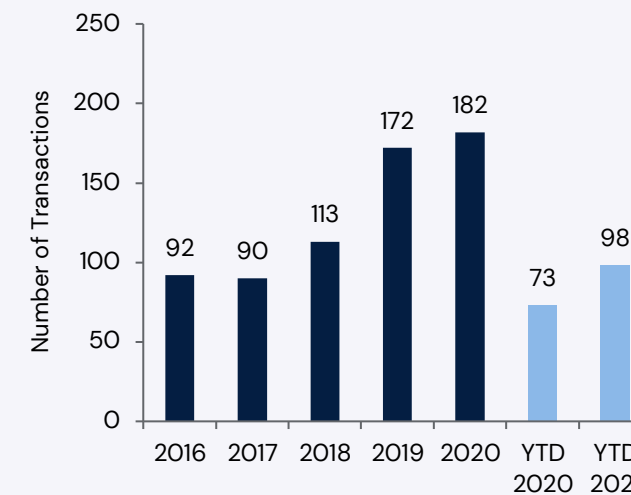
Transaction volume in the Sporting Goods subsector fell modestly YOY, however as team sports resume, apparel and equipment providers are poised to experience healthy buyer appetite. Notably, DICK'S Sporting Goods (NYSE:DKS) recorded a 119% increase in net sales YOY in Q1, according to its earnings release.<sup>25</sup>



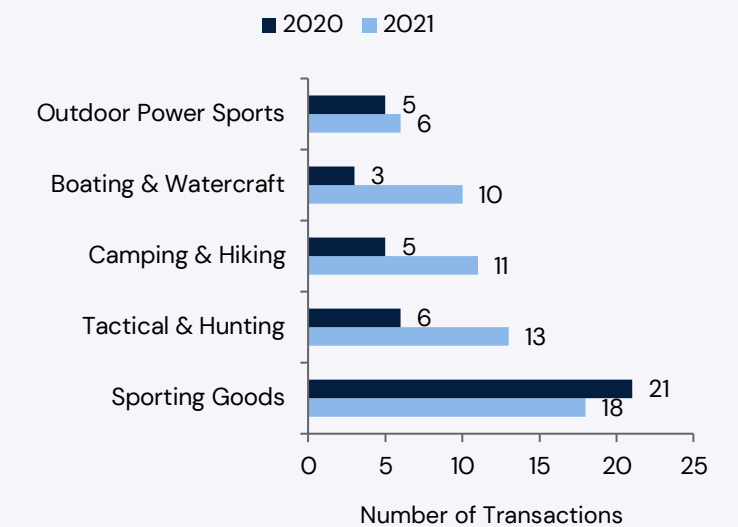
### Kenneth Wasik, Head of Consumer Investment Banking

"Never have the key elements of the Outdoor Recreation space – resilient specialty channels, high gross margin products, strong customer loyalty and positive demographic trends – been on better display than in the last two years. Strategic and financial buyers are in a frenzy to get hold of a quality brand, demand far outstrips supply. It's a seller's market."

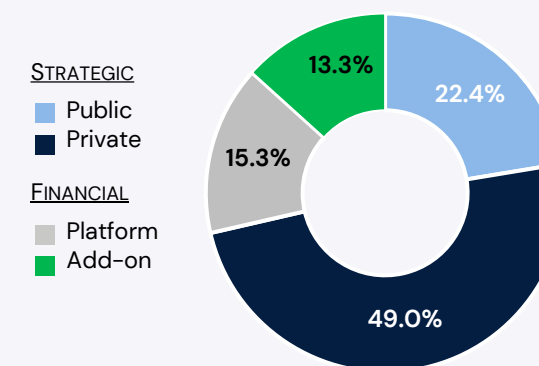
### M&A Transaction Volume Increases 34% Year-over-Year



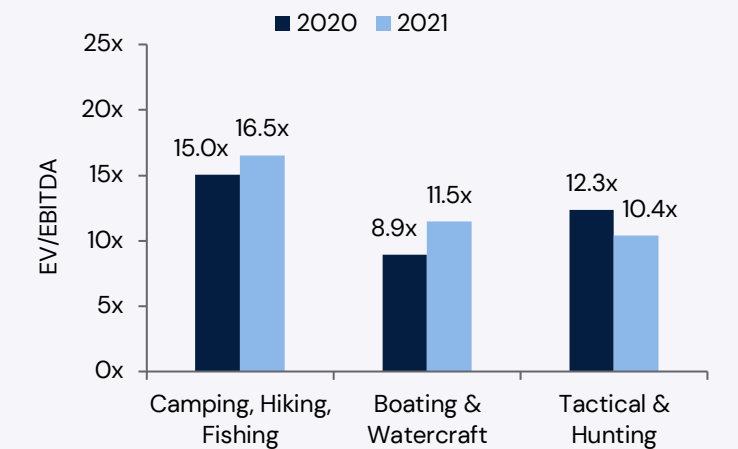
### Top Subsector Breakdown



### Strategics Lead Year-To-Date Buyer Breakdown



### Average Public Company EBITDA Multiples Remain Strong



Camping, Hiking, Fishing includes CWH, CLAR, DILB, GRMN, JOUT, PII, THULE, YETI; Boating & Watercraft includes BEN, BC, MBUU, MPX, MCFT; Tactical & Hunting includes AOUT, POWW, AXON, CZG, SWBI, RGR, VFC, VSTO  
Year-to-date (YTD) ended June 2  
Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Outdoor Recreation & Enthusiasts Transactions

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
09/10/21	Foresight Sports	Vista Outdoor (NYSE:VSTO)	Manufactures golf performance analysis and game enhancement technology.	\$499.0	5.0x	10.0x
08/17/21	MTD	Stanley Black & Decker (NYSE:SWK)	Provides outdoor power equipment including garden tractors, lawnmowers, and trimmers.	\$2,000.0	0.8x	8.0x
07/26/21	Full-Swing Golf	Bruin Capital	Manufactures and distributes golf simulators.	-	-	-
07/20/21	Barletta Boat	Winnebago (NYSE:WGO)	Designs, manufactures, and sells pontoon boats.	\$320.0	2.7x	30.5x
06/14/21	Advanced Elements	Confluence Outdoor	Manufactures paddle sports products.	-	-	-
05/26/21	QuietKat / Venor	Vista Outdoor (NYSE:VSTO)	Provides rugged all-terrain electric bikes and hunt-inspired apparel.	-	-	-
05/25/21	Alite Designs	Travel Hammock	Designs and manufactures backpacks, camping chairs, and other outdoor products.	-	-	-
05/20/21	Hatteras Yachts	White River Marine	Manufactures motorized recreational boats.	-	-	-
05/11/21	Taylor Made	Centroid	Provides golf products and accessories.	-	-	-
05/05/21	GCI Outdoor	MacNeill Pride	Designs and manufactures chairs and stools for outdoor applications.	-	-	-
05/03/21	Premier Marine	Envision	Manufactures touring, luxury, fishing, and cruise pontoon boats for recreational boaters.	-	-	-
05/03/21	Cruiser Yachts	MarineMax (NYSE:HZO)	Manufactures premium yachts.	\$62.7	0.8x	-
04/29/21	Wolf and Grizzly	Nolk	Manufactures and sells outdoor products online.	-	-	-
04/16/21	iRocker	Dubin Clark & Co	Manufactures watersports and outdoor recreation products.	-	-	-
04/14/21	West Marine	L Catterton	Provides boating supplies, gear, apparel, footwear, and other water related producted.	-	-	-
04/12/21	Club Car	Platinum Equity	Manufactures golf, utility, and transportation vehicles for Recreational markets.	\$1,680.0	-	12.1x
04/08/21	Volusia Motorsports	Ridenow Powersports	Sells and services motorcycles, scooters, all-terrain vehicles, and golf carts.	-	-	-
03/31/21	Hilltop Camper	Camping World (NYSE:CWH)	Provides recreational vehicle dealership services.	-	-	-
03/31/21	Dux Waterfowl	House of Outdoors	Offers consumer-focused waterfowl hunting apparel and accessories.	-	-	-
03/26/21	All American Marine	Bryton Marine	Manufactures aluminum hull boats.	-	-	-
03/23/21	Ecktron Performance	Kuldisak	Provides golf head covers.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Capstone Partners Active and Closed Engagements

**CONFIDENTIAL**

CORPORATE SALE

**LEADING PROVIDER OF E-BIKES**

**CONFIDENTIAL**

CORPORATE SALE

**PROVIDER OF FIREARM PARTS & ACCESSORIES**

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# Pet Food & Animal Care

Heightened Pet Ownership Drives Rapid Industry Growth and Buyer Interest


## M&A Overview & Outlook


The pandemic has drastically accelerated demand in the Pet Food & Animal Care industry as continued pet humanization, elevated levels of pet ownership, and e-commerce penetration have fueled product sales. Leading industry players are expecting to capitalize on favorable tailwinds, created by a surge in pet adoptions with over four million new pet owning households being formed in 2020, according to Central Garden & Pet (Nasdaq:CENT).<sup>26</sup> Despite labor shortages in its fulfillment centers, premier online pet products provider Chewy (NYSE:CHWY) recorded a 31.7% net sales increase YOY in fiscal Q1, according to its earnings release.<sup>27</sup> In addition, venture capital has flooded the Pet industry, with over \$1.1 billion raised in 2021 as of August 12, according to PitchBook.<sup>28</sup>

M&A transaction volume has been strong in 2021 with 57 deals announced or completed YTD, marking a 33% YOY increase. Strategic buyers have accounted for 56% of deals, featuring the addition of complementary products to bolster their offerings and customer reach. Private equity (PE) firms have also shown increased appetite for all pet related deals, demonstrating a willingness to aggressively bid for high quality targets. Sponsors have comprised 44% of deals YTD, utilizing add-on acquisitions to enhance sector portfolios and penetrate high growth end markets. In addition, new buyers have helped fuel M&A, with PE recognizing the robust consumer demand creating growth throughout the Pet sector. For example, following its first investment in the Animal Health sector, acquiring VetEvolve in 2020, Align Capital acquired Custom Veterinary Services in April for an undisclosed sum. Healthy PE activity is forecast to continue in the near term, leveraging low interest rates and historic levels of deployable capital.

## Key Subsector Trends

 Freeze-dried pet food has experienced robust demand in 2021, with the market expected to reach \$525 million by 2025, according to ReseachAndMarkets.<sup>29</sup> Freeze-dried products allow for longer shelf life without contamination or spoiling, locking in essential nutrients for a longer duration. In addition, the expensive equipment used in freeze drying makes M&A an attractive option for buyers looking to efficiently add capacity. Notably, Kinderhook acquired rapidly growing freeze-dried products provider Primal Pet Foods in August and has invested significant capital to expand freeze drying capacity. The acquisition complements Kinderhook's existing pet portfolio which includes Prairie Dog Pet Products, Himalayan, and Holistic Hound.

 As pet humanization trends have increasingly gained traction, nutritional pet products have witnessed strong consumer demand. Notably, target companies in the Healthy Consumables segment have comprised approximately 18% of YTD transactions, with PE buyers accounting for the majority of deals. Industry participants with strong brand strength offering health-conscious products are poised to capture significant buyer interest through year end and into 2022.

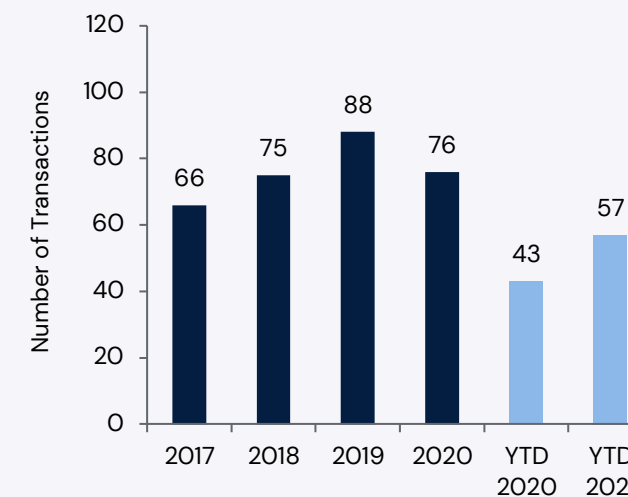
 E-commerce pet product sales have soared amid the pandemic, with online purchases accounting for 30% of the total market, according to Packaged Facts.<sup>30</sup> Omnichannel capabilities have proven critical during the pandemic as lockdown measures depressed traditional retail sales. The penetration of online purchasing can also be seen in the growth of Amazon pet food sales, which doubled YOY in 2020 to \$9 billion, according to Marker.<sup>31</sup>



### Tom Elliott, Managing Director

*"I believe delivering a 30-pound bag of dog food for free is inherently unprofitable. It has helped Amazon gain market share, as illustrated by its pet food sales reaching \$9 billion in 2020, but it is ultimately unsustainable. Either the current administration's pronounced focus on anti-competitive practices will pick this as a target or Amazon will eventually modify its program for economic reasons. The change will create opportunities, who will step in is the question."*

### M&A Transaction Volume Increases 33% Year-over-Year

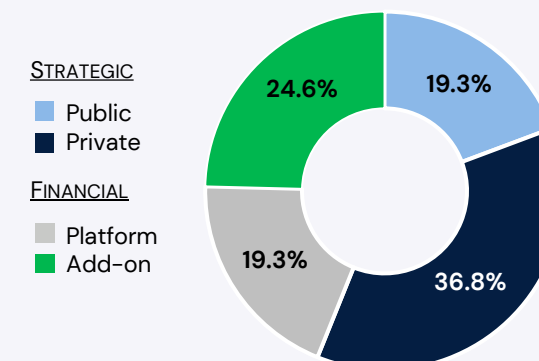


### Mid America Bolsters Premium Pet Products Portfolio

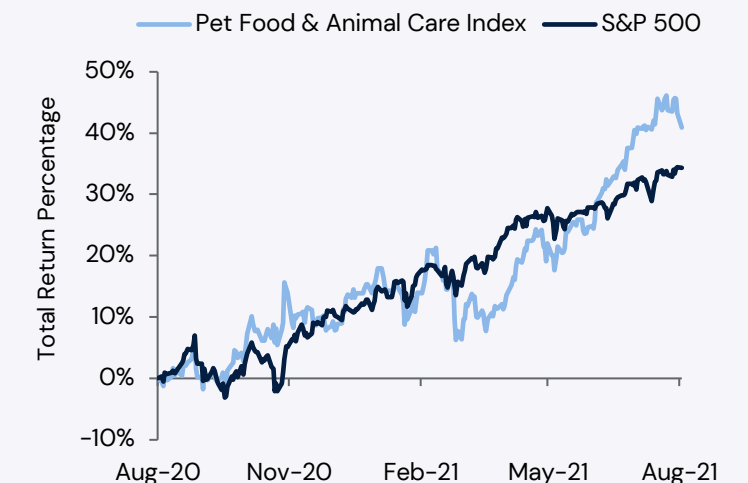


Mid America Pet Food, backed by TA Associates, has acquired premium pet products provider Nature's Logic. Nature's Logic represents a natural, high quality pet food sold primarily through the Pet Specialty channel. The acquisition bolsters Mid America's Victor brand offerings which have a strong reputation in the Farm and Feed channel. The transaction also highlights the appetite buyers have for small industry players with brand authenticity and penetration in complementary end markets where pet health and nutrition solutions are highly sought after by consumers.

### Strategic Buyers Comprise 56% of M&A Transactions



### Public Company Total Return Outpaces Broader Market



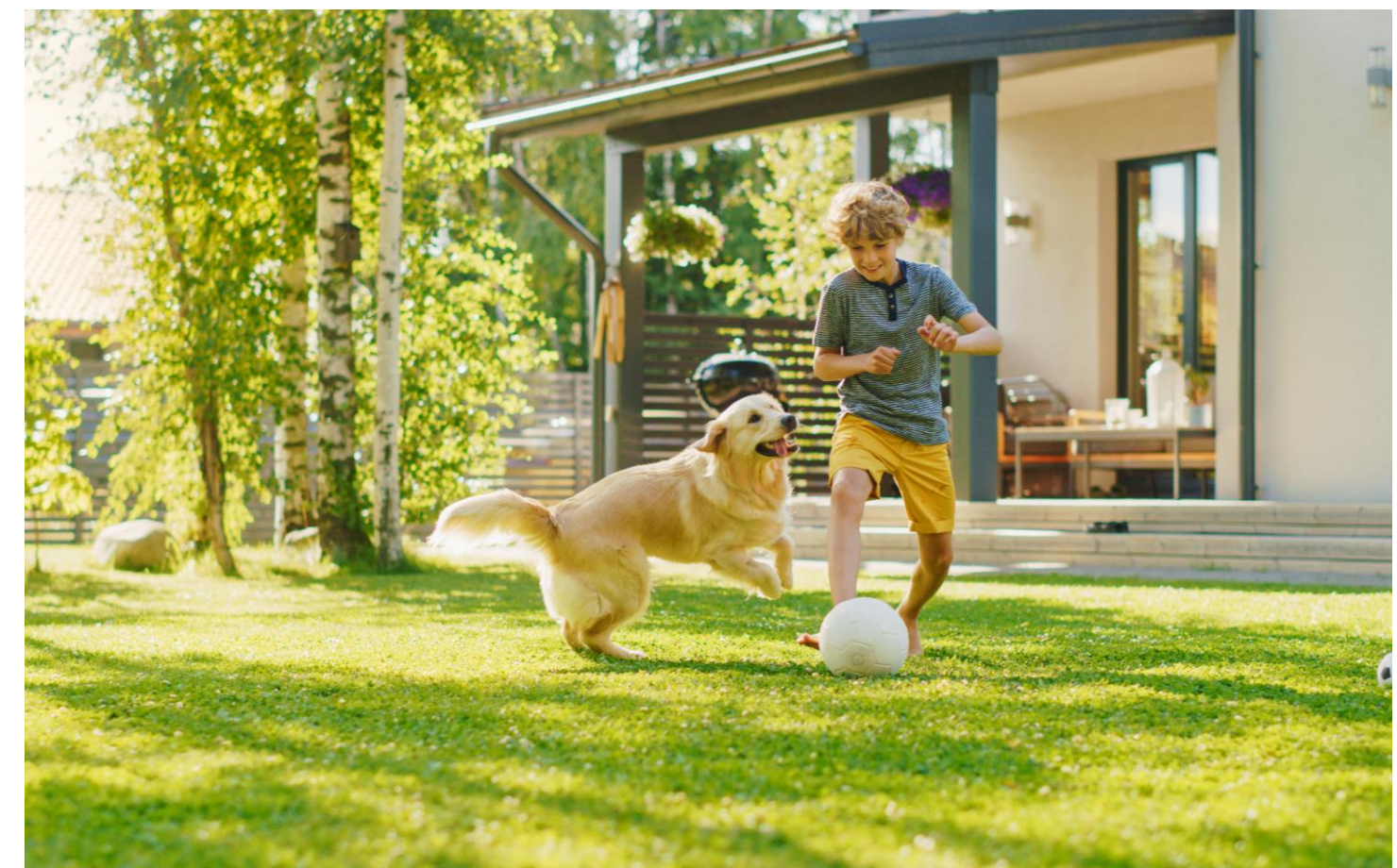
Index includes: ZTS, IDXX, CHWY, ELAN, FRPT, CENT, PETQ  
Year-to-date (YTD) ended August 5  
Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Pet Food & Animal Care Transactions

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
08/03/21	Lucky Paws	United Raw Pet Foods	Operates as a pet specialty retailer offering food, treats, toys, and accessories.	-	-	-
08/03/21	A Pet's Life	United Raw Pet Foods	Retails pet care products and services.	-	-	-
08/02/21	Nature's Logic	Mid America Pet Food	Offers premium pet food and treats.	-	-	-
07/30/21	Ren's Feed & Supplies	J.E. Mondou	Offers pet products and supplies.	-	-	-
07/26/21	Normerica	Minerals (NYSE:MTX)	Manufactures pet products including dog biscuits, treats, and cat litters.	\$147.4	1.3x	-
07/14/21	PetHonesty	Vestar Capital	Provides research, development, and production of pet supplements and products.	-	-	-
07/08/21	Pat your Pet	Thrasio	Manufactures and sells pet care and grooming products.	-	-	-
07/02/21	Primal Pet Foods	Kinderhook	Provides human-grade raw food and treats for dogs and cats.	-	-	-
06/15/21	CJBL Pet Proteins	3D Corporate Solutions	Manufactures fresh and frozen proteins for pet brands.	-	-	-
05/14/21	Nulo	Apax Partners	Offers pet food products for dogs and cats.	\$12.5	-	-
05/14/21	Tyson Pet Products	General Mills (NYSE:GIS)	Manufactures dog food.	\$1,200	5.0x	-
05/13/21	Ramard	Acumen Health	Provides health and performance products for animals.	-	-	-
05/04/21	Bucks Mercer Mobile	Better Vet	Offers mobile veterinary services.	-	-	-
04/26/21	Miller Veterinary	Patterson Veterinary	Distributes veterinary products.	-	-	-
04/23/21	United Vet Care	Nordic Capital	Provides veterinary care services.	-	-	-
04/20/21	Himalayan	Prairie Dog Pet	Produces and sells pet food products.	-	-	-
04/13/21	Fgspire	Pathway Vet Alliance	Provides veterinary services.	-	-	-
04/12/21	McLovin's Pet Food	Caduceus (OTCPK:CSOC)	Manufactures pet food.	\$68.0	-	-
04/01/21	Custom Veterinary	Align Capital	Provides contract manufacturing solutions for the Veterinary industry.	-	-	-
03/30/21	The Wild Side Pet Boutique	United Raw Pet Foods	Offers raw, dehydrated, baked, and frozen pet food.	-	-	-
03/01/21	Grizzly Pet Products	Whitebridge Pet	Provides fish-based products for dogs and cats.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

## Select Capstone Partners Active and Closed Engagements





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