

The “Big Unlock” for Sponsors Returning to Consumer and Retail

Ben Frost, global co-head of Consumer/Retail Investment Banking, discusses the trends driving activity across consumer/retail and shares his perspective on why financial sponsors are returning to the sector—and where they’re finding opportunities.

1 After enduring a decade of inflation in two years, consumer behaviors have evolved considerably. How are companies responding?

Due to the historic run-up in inflation over such a short period, the US consumer has had to adapt to dramatically different prices for many items they’re used to buying. Previously you could walk into a fast-food chain and know you could get large fries for \$1.99, which was appealing. When the cost of those large fries soars to \$5, however, it changes how much people can afford—and how much they want to apply their resources against that opportunity.

As a result, every consumer and retail company in America—if not globally—is navigating evolving consumer demands for a variety of products that are priced differently than ever before. How do companies get customers to buy their large fries for \$5 when they’re used to paying \$1.99?

Consumer products companies are finding ways to deliver more value to customers via promotions, better products through R&D, and greater personalization. Retailers, in turn, are using those promotional dollars to bring consumers back and/or seeking out differentiated products that consumers feel provide incremental value at higher prices.



2 A popular narrative has formed that food companies are keeping prices high to boost profits. Is this an overly simplistic assessment?

Rising prices make it easy for politicians to suggest that corporate greed is driving prices higher. Yet if you look at the average profit margins for publicly traded food companies in 2019 versus today, they are marginally *lower*. This suggests there are fundamental reasons behind these price increases that have nothing to do with the desires of large corporations. You must drill down into the labor costs and supply chain distribution costs, which determine the costs of manufacturing and delivering products to US consumers.



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3 This year has seen a flurry of transaction activity in the apparel space, but where else do you see heightened interest?

We are also starting to see more activity in the food sector after a period when most buyers were trying to assess what the “new normal” was post-COVID: Do people go out to restaurants again? How does that change their spending at grocery stores? There is always a trade-off between “at home” and “out of home” dining, and as this new normal stabilizes, food activity is gaining pace.

When it comes to retail, I think there’s a growing acceptance that despite all the gloomy predictions in recent decades, retail still plays a critical role in how consumers shop. People value the ability to go to a store and buy their good or service. Ironically, COVID *retought* everybody that value by temporarily taking it away.

4 As financial sponsors start returning to the space, what are the key areas of opportunity in the long and short term?

I think the “big unlock” for sponsors is the fact that valuations have come down a bit. This empowers sponsors—in a world of higher interest rates, heightened volatility, and more uncertainty around growth—to afford to meet the prices that sellers want. And now that that gap has closed, we’re seeing more activity for sponsors as both buyers and sellers.

Consumer services have shown themselves to be consistent, investable opportunities with strong growth and consistent cash flows and have been a particular area of interest, like KKR’s investment in Quick Quack Car Wash announced in June. Packaged food and food products, again after a period of COVID-driven volatility, are returning as an attractive place for private equity to allocate capital, as seen with CD&R’s acquisition of Shearer’s Foods earlier this year. And there is always going to be a place for private equity in new and emerging growth categories—ranging from restaurants to beauty.



5 You mentioned opportunities in beauty. How are sponsors adjusting their approach for the next generation of consumers?

In the world of consumer products, social media personalities have become what is most relevant to the next generation of shoppers. TikTok data has shown that ~80% of users have purchased a product after seeing it featured in TikTok creator content.

And increasingly, celebrities and reality stars are not just collaborating with financial sponsors but going out on their own. The Kardashians founded their own private equity firm focused on consumer products with a former Carlyle executive—and on the flip side, we have also seen investments from more traditional PE firms in popular celebrity brands like Rihanna’s Savage X Fenty line.

Outside of beauty, you can look at someone like Jason Kelce in the sports world. Jason was an excellent NFL player, which *some* people care about. Then he started a podcast with his brother, Travis, which *more* people care about. And then Travis starts dating Taylor Swift, which *everybody* cares about. Now, he’s both investing in and promoting consumer brands like Buffalo Wild Wings. He’s not the only one, either. There are private equity firms now dedicated to helping athletes invest in consumer companies that are aligned with their interests for sponsorship deals.

There is no question that private equity has been ahead of the curve and positioned their portfolios accordingly—to the benefit of both social media personalities and their LPs.



6 The benefits of AI for consumer/retail companies feel clearer than in some other industries. How do you expect companies to leverage AI going forward?

All consumer/retail companies are looking to take advantage of AI. The use cases range from efficiencies in responding to customers to creating products that allow for more personalization. You can imagine a day when you can buy a golf club, and the product is specifically designed for that consumer. This level of personalization is already occurring in the beauty sector, with some companies using AI to formulate hair care and skin care products that are unique to each customer. Companies are going to continue allocating capital to AI to provide more value for customers and make themselves more efficient.

When it comes to human capital, I think it’s hard to make predictions. If you asked me what multiple IBM traded at when I started 30 years ago, I would have to go to the library, print out a 10-K and 10-Q, run back upstairs, circle a bunch of numbers, enter them into a spreadsheet, and *then* tell you the answer. Now, I can find that on my phone in three seconds. Yet, the industry has more analysts today than back then, despite these technological efficiencies.

7 What aspect of today’s consumer/retail space would you not have believed, had you been told about it a decade ago? What has surprised you the most?

The consumer empowerment and sense of community in beauty is high on that list. Not long ago, whether you were shopping at Target or Neiman Marcus, there was a series of brands lining the aisles that consumers chose from. And for the most part, whether you were young or old, you all bought the same brands.

The consumer empowerment that has been injected into beauty has fundamentally changed the brands you see, the channels through which people buy, and also what influences them to buy certain products in certain channels. Companies targeting younger generations have successfully leveraged social media to engage with customers, share user-generated content, provide skin care education, and organize community challenges and campaigns.

8 Last question: the IPO market is finally reopening. What will 2025 look like in consumer/retail?

We should start with the fact that public investors have less choice to invest in consumer retail than they did a decade ago—since 2013 there are overall fewer consumer/retail companies in the Russell 3000 Index, and the overall weighting of consumer/retail companies in the index has decreased.

That said, we are finally seeing several hit the market after having been in the queue since 2021. And overall investor appetite feels very healthy, which bodes well for an active 2025 issuance calendar, assuming the macro holds and there are no surprises.

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