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2021 OUTLOOK

Retail M&A Grew in 2020, With More Deals Expected in 2021

Total value of 2020 deals outstripped 2019, and there's plenty of liquidity among major players

BY RICHARD COLLINGS | JANUARY 12, 2021

Home Depot's $8.7 billion purchase of HD Supply was among the largest retail deals in 2020.
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Despite the pandemic—or perhaps in part because of it—the total value of U.S. retail deals transacted in 2020 was about $36 billion, nearly triple the $13.9 billion tallied in 2019.

That growth came after year-over-year declines in both 2018 and 2019, according to corporate law firm White & Case, which compiled the data in partnership with M&A insights tool Mergermarket, a product of financial news and data company Acuris.

But that increase doesn't tell the full story for the retail sector's 2020: A deal is still considered as an acquisition no matter what sort of business a company is purchasing—a healthy one, or one out of bankruptcy.

The latter scenario was the case for a number of retailers felled by the pandemic, which included Brooks Brothers (purchased by Authentic Brands for $325 million) and JCPenney (acquired by mall operators Simon Property Group and Brookfield Property Partners for $1.75 billion).

Not all acquisitions were the product of a bankruptcy filing. There were also multibillion-dollar transactions such as 7-Eleven's $21 billion purchase of convenience chain Speedway from oil and gas company Marathon, home improvement retailer Home Depot's $8 billion addition of HD Supply, and apparel conglomerate VF's $2 billion buy of Supreme.

And analysts say we can expect such retail transactions to accelerate in 2021.

What will drive M&A in 2021

Some of that activity will be driven by companies streamlining their portfolios (such as VF) even as they acquire new additions, according to Cathy Leonhardt, who is co-head of investment bank PJ Solomon's global retail practice. German sportswear giant Adidas, for example, said in December it was weighing a sale of Reebok in what would likely be a billion dollar-plus deal.

In other cases, M&A will be driven by categories considered vital to future growth such as healthcare retail, Leonhardt said.

Historically, as the retail environment grew more competitive, companies needed to consolidate to bolster their positions, according to Leonhardt.

As for the acquirers, look to the largest players. Leonhardt pointed out that the top six to 10 retailers are "holding all the cards" due to sales growth and strong balance sheets. As a result, they can do whatever they need to keep their momentum going, including acquisitions.

Walmart, for example, announced in November that it acquired select assets of last-mile delivery platform JoyRun, which enables users to pick up and deliver items for friends and neighbors. The purchase will help the discount behemoth facilitate that expensive final step of delivery.

"The big, strong retailer will see pockets of opportunity to augment their business," she said.

Leonhardt expects consolidation to pick up in the latter half of 2021, after a number of deals were interrupted in 2020 by the pandemic.

But she noted that retailers will be selective in choosing their targets, and may decide in some cases that it would be better to build a brand themselves rather than to buy it. Walmart, for example, chose to start its own mattress brand Allswell in 2018 rather than buy one.

For a DTC company to be attractive, both the marketing and the brand itself better be pretty strong. She ticked off brand values such as being environmentally friendly as key to embodying what the consumer wants: “What you have to own has to be very special from a brand value perspective.”

What buyers will be thinking about

The key question acquirers will be asking, according to Leonhard, is whether the potential acquisition enables them to attract a new audience. Potential deals will depend on the strategic rationale, considering that the bigger the purchase, the more complicated it becomes to integrate.

Legacy brick-and-mortar retailers may look to build out their digital presence while ecommerce platforms, particularly the unprofitable ones, will seek safe harbor within larger legacy brick-and-mortar banners, said Andrea Weiss, co-founder of The O Alliance consultancy and CEO of Retail Consulting.

Such mergers—a player that’s more dominant in ecommerce with one that’s stronger in brick and mortar—could benefit both sides. The hope is that it would create an omnichannel experience for both brands, said Mary Ann Domuracki, a managing director at investment bank MMG Advisors.

That combined entity could then market to consumers more cost-effectively, saving money where there is overlap and utilizing the combined power of physical stores and digital outreach.

The financing for such deals is widely available, too, according to Leonhardt, who said there was an “extraordinary” the amount of liquidity in the market.

As a result, she advised keeping an eye on the SPAC (special purpose acquisition company) market, due to the large amount of capital SPACs have to make acquisitions, albeit on a finite timeline.

Meanwhile, the purchase of distressed assets is also likely to remain a theme in 2021 following a robust 2020, although retail bankruptcies overall are expected to decline.

There are a number of companies who like to buy businesses that are struggling, said Joel Rampoldt, a managing director at advisory firm AlixPartners: “If the fundamentals are sound and customers are loyal, that could be a great investment thesis.”