Sector Snapshot

Key Trends in Dealmaking

Consumer

Data provided by

PitchBook

citi

Commercial Bank

I have the privilege to introduce the 2024 Citi Commercial Bank Sector Snapshot Consumer Report.

Rich with data from PitchBook, the report looks beyond the headlines and takes a closer look at the Consumer sector in a time of political and economic uncertainty. It assesses market conditions, industry shifts, and key trends in investment, with a focus on M&A, venture flows, consumer funding, deal and exit counts and values.

This raises interesting questions: Will tech stock equity retain its dominance? Can post money valuations maintain their 2024 record levels? If interest rates have peaked, will buyout firms become less cautious? And will pre-seed financing sizes, at their highest to date, continue to rise? These are some of the areas covered in the report which delivers valuable insights and will unlock opportunities.

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Global Head of Consumer and Retail
Citi Commercial Bank

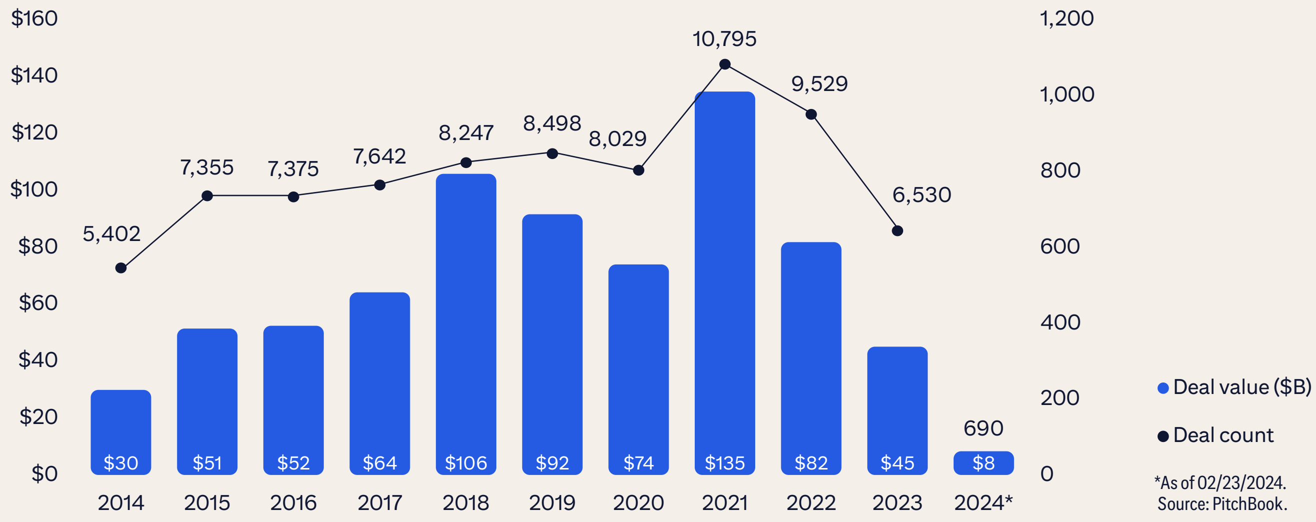
Introduction

In the past few years, consumers worldwide have faced complex challenges spanning high inflation to volatile supply chains to variable access to raw inputs compromised by geopolitical tensions. Unfortunately, as 2024 unfurls, the landscape looks as volatile as ever. The International Monetary Fund forecasts global growth of 3.1% in 2024 and 3.2% in 2025, with headline inflation falling to 5.8% but remaining high enough that in an election year for hundreds of millions, central banks' policies will likely continue seeking to steady growth yet curb monetary excess[1].

Despite surging financial markets in many areas, consumer sentiment remains weaker than may be anticipated, especially in the euro area. Such macroeconomic factors are weighing on dealmaking in private markets. At the emerging and innovation end of the capital and size spectrum, venture firms have pulled back markedly in the past few years, notching the lowest aggregates of deal counts in some time. M&A was more resilient, yet finally dipped in 2023 while a broader trend of gradually diminishing annual deal values continued.

Consumer VC activity has taken a *steep toll* from market volatility

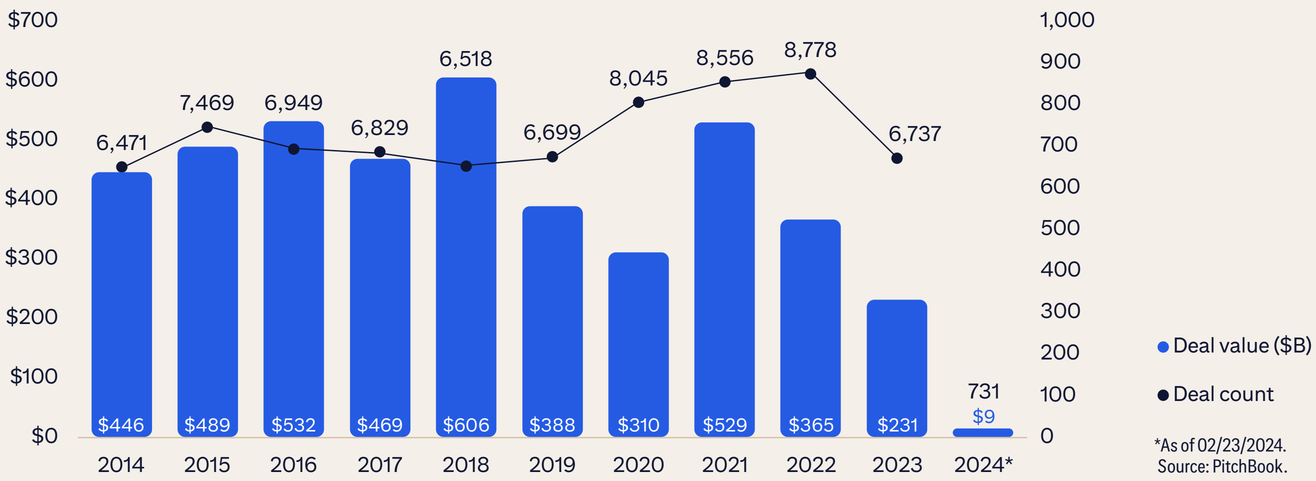
Global VC deal activity – Consumer Products and Services (B2C)



*As of 02/23/2024.
Source: PitchBook.

M&A in consumer has slowed due to a *variety of factors*

Global M&A deal activity – Consumer Products and Services (B2C)



*As of 02/23/2024.
Source: PitchBook.

[1] "Moderating Inflation and Steady Growth Open Path to Soft Landing," International Monetary Fund, January 30, 2024.

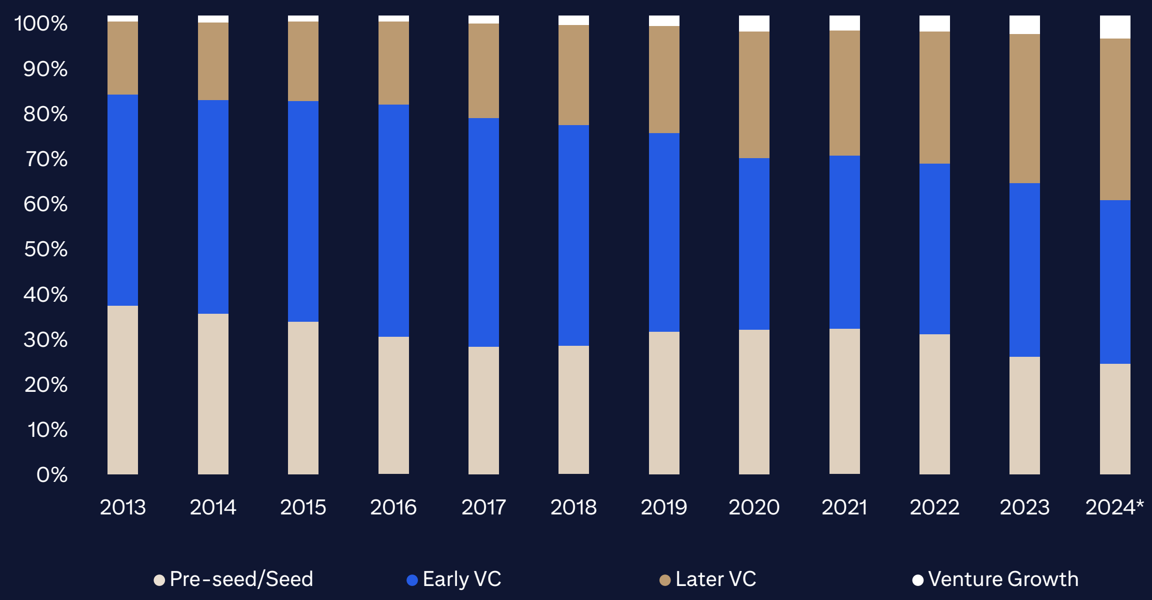
Market trends

Venture dealmakers in the vast B2C space face unique challenges. Entrenched competition by incumbents can lead to limited runway before growth hurdles, while the growth of supporting launch ecosystems that span marketing, manufacturing, and more has enabled both lower barriers to entry and much more competition from rival startups. Especially as macro factors remain volatile, consumer funding has pulled back in total, and the deals that do close are tilting toward late and growth stages, which can be less risky than early-stage deals.

However, financing metrics lend nuance. Both pre-seed/seed and early-stage median deal sizes are healthy at $1.2 million and $1.4 million, respectively, while respective post-money valuations are at all-time highs in 2024 to date. Plenty of capital is ready to be disbursed by VCs for the best-positioned companies, even at the earlier stages.

Amid caution, VC dealmaking *tilts toward* more mature companies

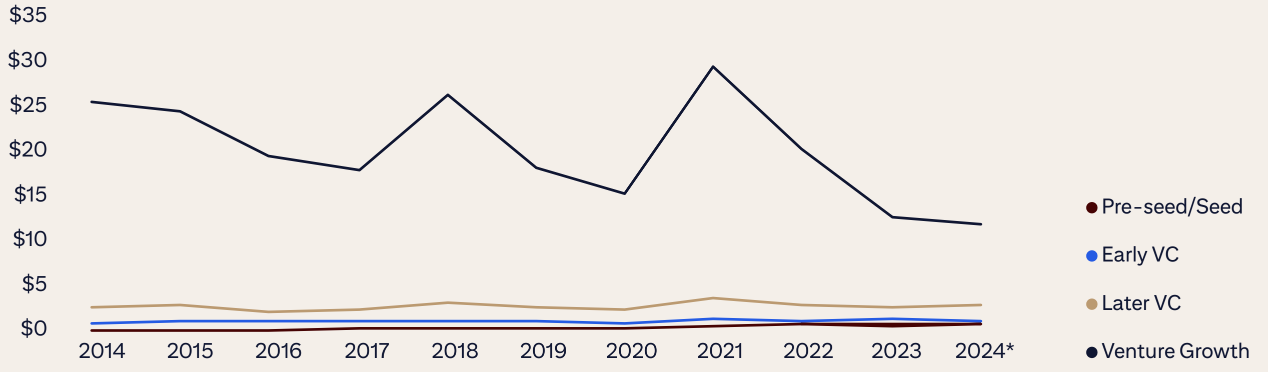
Global VC deal activity (#) by type – Consumer Products and Services (B2C)



*As of 02/23/2024. Source: PitchBook.

Financing sizes are *more resilient* than may be expected

Global median VC deal size by type ($M) – Consumer Products and Services (B2C)

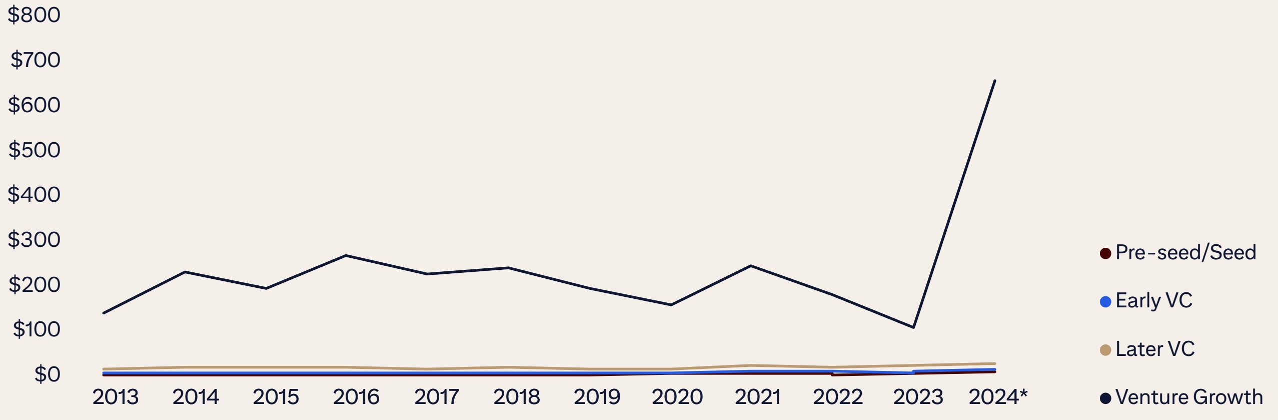


	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
Pre-seed/Seed	$0.4	$0.5	$0.5	$0.5	$0.6	$0.7	$0.7	$0.8	$1.0	$1.2	$1.1	$1.2
Early VC	$1.1	$1.3	$1.5	$1.3	$1.5	$1.4	$1.4	$1.2	$1.6	$1.6	$1.6	$1.4
Later VC	$2.3	$3.0	$3.2	$2.5	$2.6	$3.5	$2.9	$2.7	$4.1	$3.3	$3.0	$3.3
Venture Growth	$10.0	$25.0	$24.0	$19.2	$17.6	$25.9	$18.0	$15.1	$28.8	$20.0	$12.6	$11.8

*As of 02/23/2024. Source: PitchBook.

Valuations suggest skew by the *best-prepared* companies

Global median post-value by type ($M) – Consumer Products and Services (B2C)



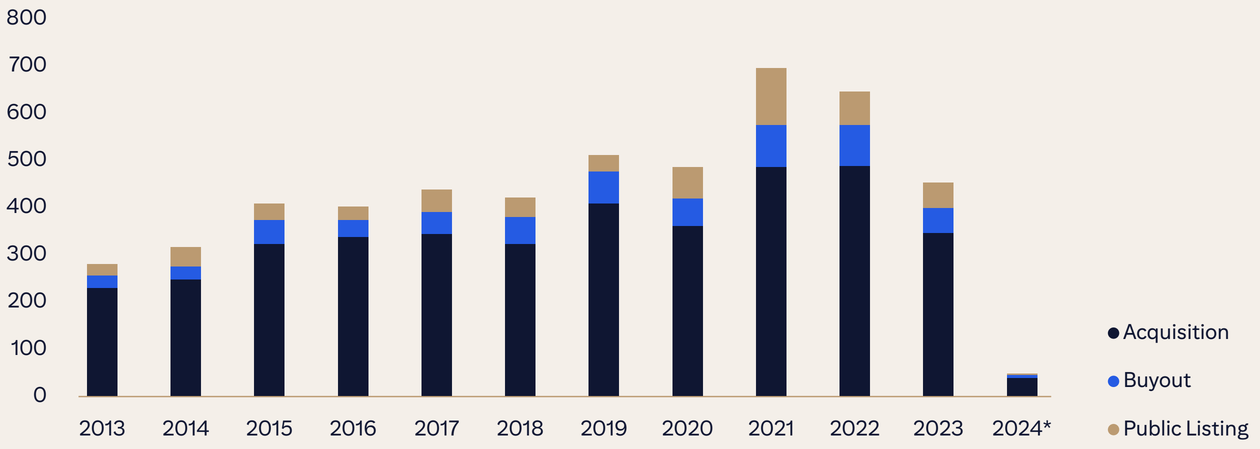
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
Pre-seed/Seed	$2.1	$2.1	$2.2	$2.2	$2.5	$3.3	$3.4	$3.7	$4.5	$6.0	$6.6	$10.0
Early VC	$5.0	$5.4	$6.0	$5.3	$4.8	$5.6	$5.3	$5.5	$9.0	$8.3	$8.1	$12.0
Later VC	$13.1	$15.0	$18.1	$15.7	$14.7	$15.0	$14.3	$13.7	$21.0	$15.8	$20.0	$26.9
Venture Growth	$134.1	$202.3	$198.7	$250.0	$210.0	$220.0	$165.0	$135.9	$237.3	$155.3	$88.3	$664.0

As of 02/23/2024. Note: the population sizes for the 2024 pre-seed/seed and venture growth metrics were below n = 30. Source: PitchBook.

The declining venture investment flows can also be explained by the ongoing dearth of sizable exits, especially in public listings. Currently, major tech stocks are dominating equities, so even as some indexes notch all-time highs in 2024 to date, the primary exit route for VC-backed B2C enterprises remains acquisition by corporate incumbents. Such sluggish exit rates signal that VC backers are relying on sufficient runway for exit conditions to improve. PitchBook data shows that the median time between the last venture financing and going public was 1.8 years in 2023, so VCs may be safe. A more pressing problem leading to liquidity lockup is the approximate $750 billion of aggregate valuation in consumer unicorns waiting to be unlocked worldwide.

M&A remains *primary driver* of consumer exits

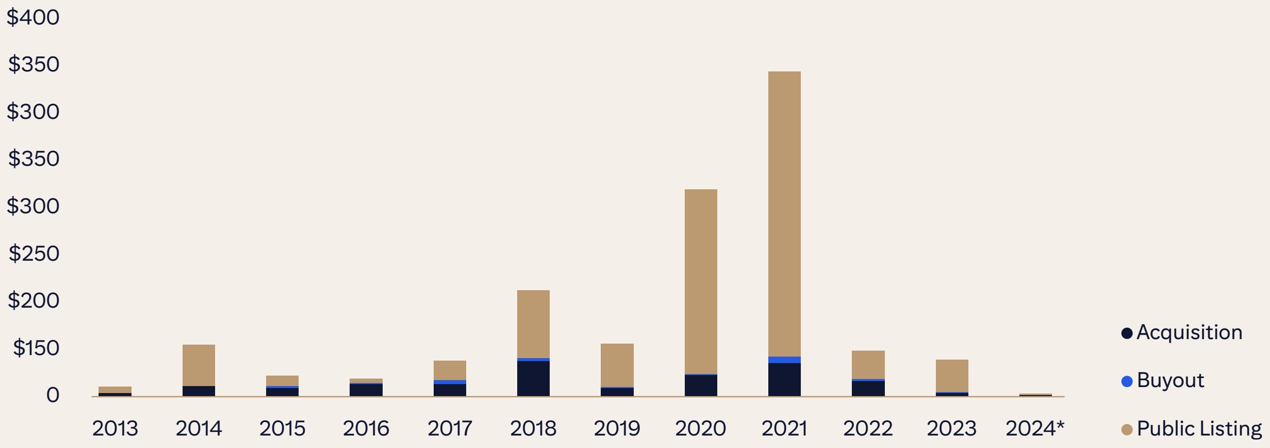
Global VC exits by type (#) – Consumer Products and Services (B2C)



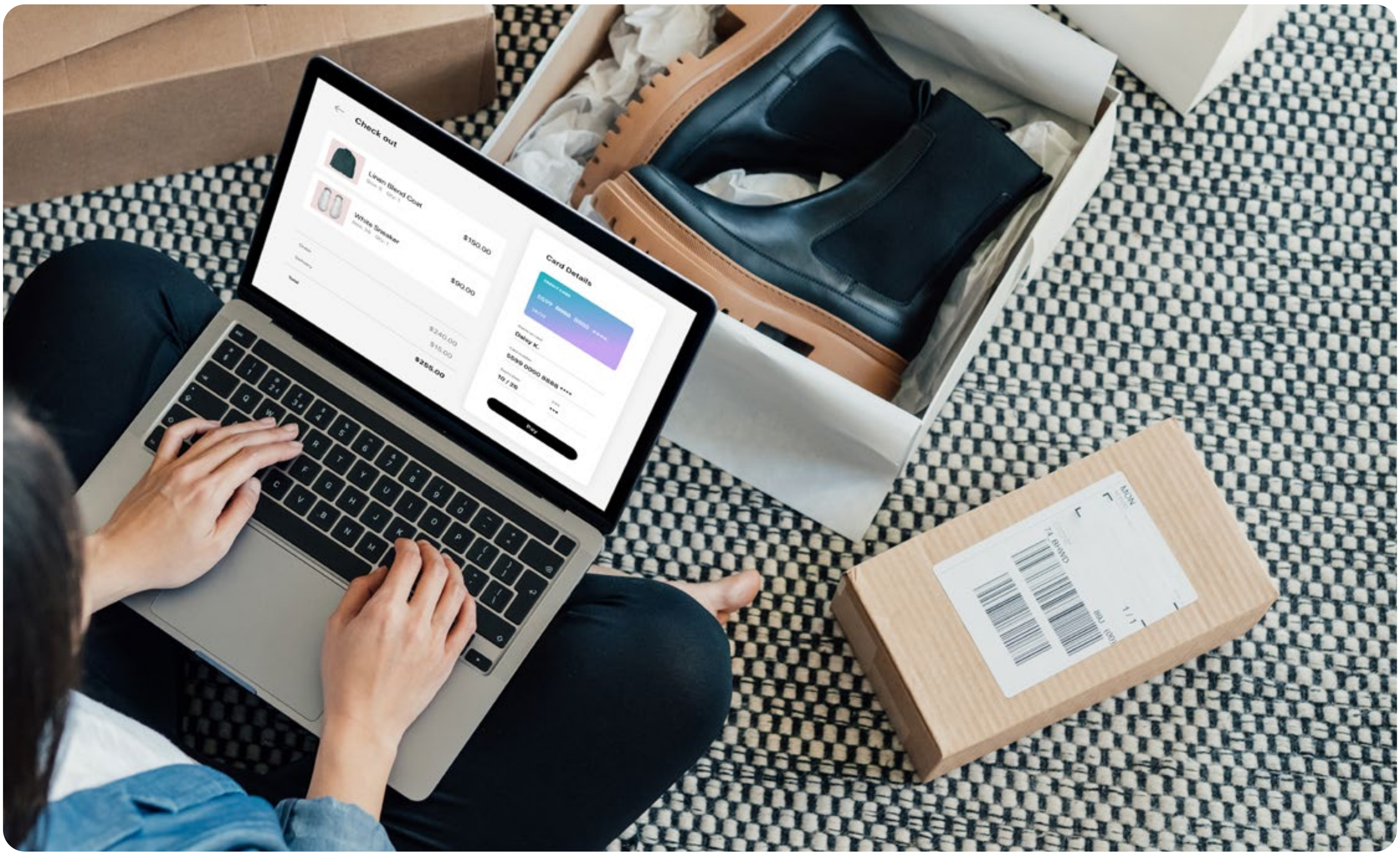
*As of 02/23/2024. Source: PitchBook.

Market volatility takes a *significant toll*

Global VC exits by type ($B) – Consumer Products and Services (B2C)

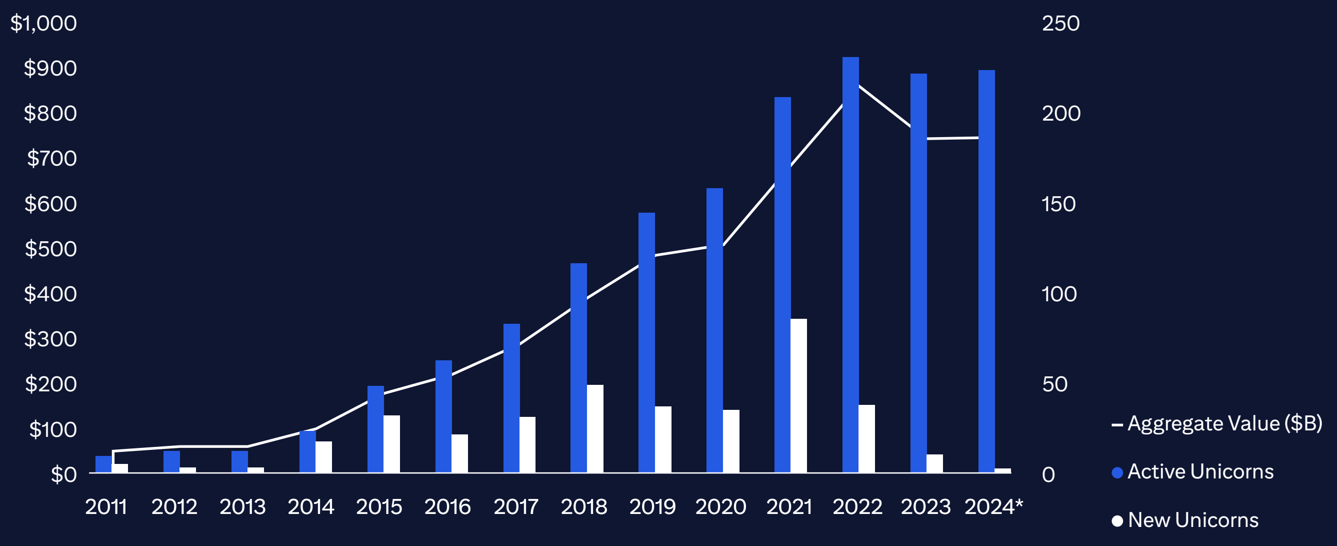


*As of 02/23/2024. Source: PitchBook.



Near-record unicorn value remains *largely untapped*

Global unicorn aggregate flow – Consumer Products and Services (B2C)



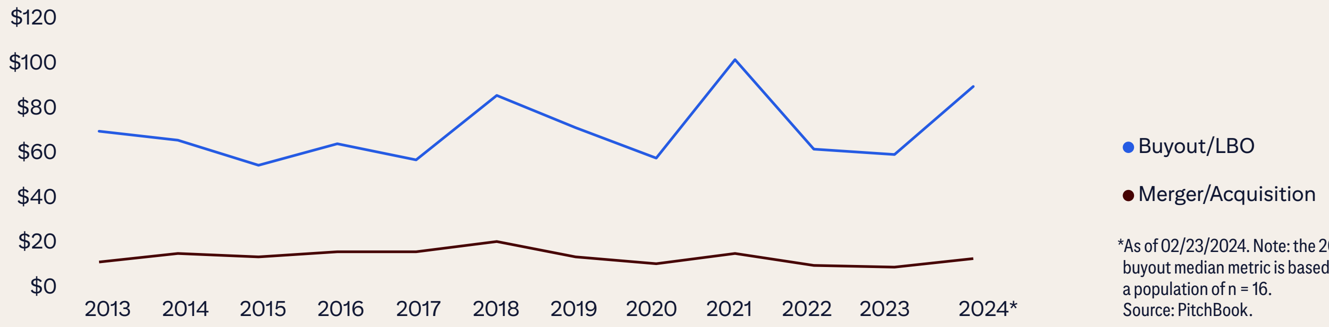
*As of 02/23/2024. Source: PitchBook.

In times of market volatility, cash-rich incumbents with surging or at least resilient stock prices often engage in acquisitions, capitalizing on marked-down, privately held companies. That helps explain the median B2C M&A value standing at $17.2 million in 2024 to date, a slight rebound from 2023. As interest rates hiked in the past two years, buyout firms pulled back somewhat, leading to $73.0 billion in 2023, which was the lowest annual tally for deal value for B2C PE in some time.

Corporations' (not buyout firms) relative resilience in dealmaking suggests some opportunistic consolidation –especially in the wake of the pandemic's challenges lessening and significant investment in tech stacks and hardware to mitigate rising labor and material costs. All buyer types are likely also slowing their pace in anticipation of shifting regulatory approaches and geopolitical tensions in a major election year for multiple nations that could affect fiscal, monetary, and sentimental factors.

Dealmaking *remains opportunistic*, leading to variability

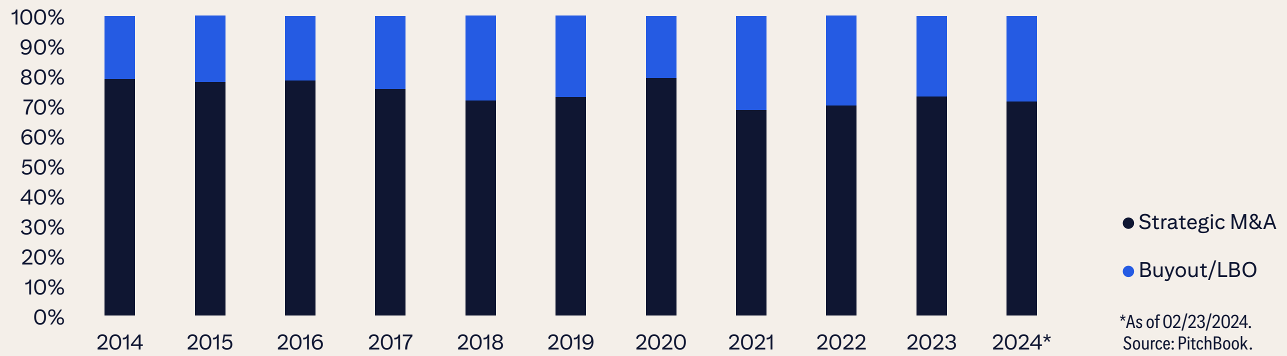
Global median M&A deal size by type ($M) – Consumer Products and Services (B2C)



As of 02/23/2024. Note: the 2024 buyout median metric is based on a population of n = 16.
Source: PitchBook.

Corporate consolidation still *dominates* consumer M&A

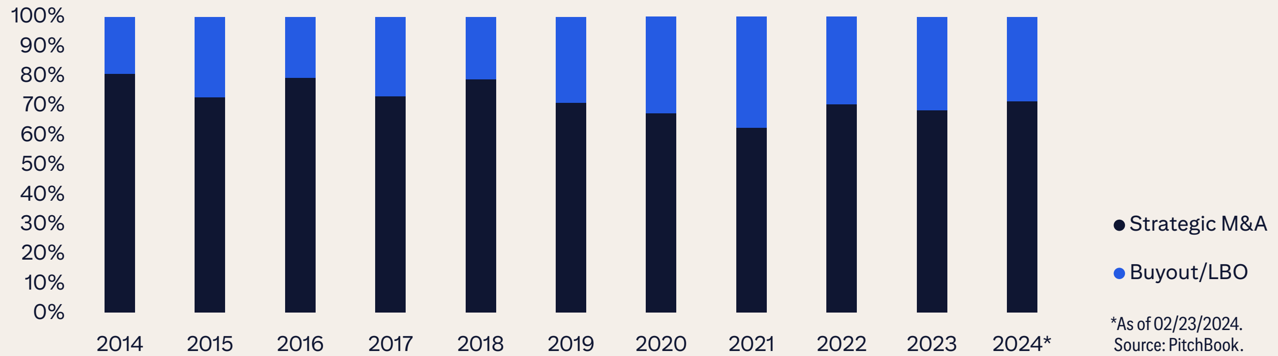
Global M&A deal activity (#) by type – Consumer Products and Services (B2C)



*As of 02/23/2024.
Source: PitchBook.

Buyout firms *pull back* as costs rise

Global M&A deal activity ($B) by type – Consumer Products and Services (B2C)



*As of 02/23/2024.
Source: PitchBook.

About Citi Commercial Bank

Citi Commercial Bank provides global banking solutions to emerging and mid-sized companies that are looking to grow rapidly and expand internationally. With Citi's global network, comprehensive solutions, and industry expertise, we help these businesses succeed across a wide variety of industries and at most stages of their growth.

https://citi.com/commercialbank

Methodology:
PitchBook's standard report methodology was utilized for classifying deal types, statuses, and geographies. For classifying B2C, the PitchBook industry code of "Consumer" was utilized. Venture deals and VC-backed exits methodologies were then applied to capture the emerging companies within these segments, while M&A methodologies were utilized to review general dealmaking conditions within the industry.

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