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PErspective in CONSUMER BUSINESS

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE CONSUMER BUSINESS INDUSTRY.

The trend of retail "rightsizing" has continued in 2015, with many big-name brands shrinking retail square footage and corporate headcounts as customers make more of their purchases online.

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The growth in e-commerce, coupled with sluggish consumer spending, has hit department stores and high street chains especially hard – J.C. Penney, Macy's and Sears have all seen multiple store closings over the last couple of years as part of the multi-year trend.

Distressed retail firms are being forced to shutter stores, even if the savings they stand to realize seem low. This year, Gap announced it would close 175 underperforming stores in North America – a quarter of its physical locations in the region – after posting sales declines for five quarters in a row. According to CNBC, overall square footage among retailers could shrink by a third to a half in the next five to 10 years. In an effort to bridge the physical-digital divide, retail firms are experimenting with omnichannel models, offering services such as in-store pickup for online orders, self-serve kiosks and online returns.

Another way retailers are adjusting their strategies is by establishing more discount outlets in order to connect to a wider audience. J. Crew recently launched J. Crew Mercantile, which will offer similar savings and merchandise to its existing discount brand J. Crew Factory. J. Crew Mercantile will be located in more Main Street and mall locations, closer to residential areas as opposed to out-of-town factory outlet malls.

PE firms may find the most opportunities in the middle market, as small to mid-sized retailers become distressed and seek assistance to right-size their operations. According to *Reuters*, middle market lending is a rare bright spot for PE firms in the current challenging buyout environment, due to smaller deal sizes. With regulatory restrictions on the amounts of debt banks can offer, it is increasingly difficult for PE firms to finance highly leveraged takeovers.

M&A activity is booming in many sectors, but PE firms are finding it harder to get in on deals, facing stiff competition from cash-rich corporates. According to New York-based data firm Dealogic, just 5 percent of deals announced so far this year have been private-equity backed, the *Wall Street Journal's* CFO Journal blog reports. However, while they are finding it hard to put their dollars to work, PE firms are seeing increased exit volumes, according to Business Insider. This is also true in the retail consumer business segment. High-end retailer Neiman Marcus recently filed for an initial public offering after 10 years in private-equity hands. The current owners Ares Management and the Canada Pension Plan Investment Board bought the century-old firm from Warburg Pincus and the Texas Pacific Group (now TPG Capital) for $6 billion in 2013.

PErspective in Consumer Business is a feature examining the role of private equity in the consumer business industry.

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