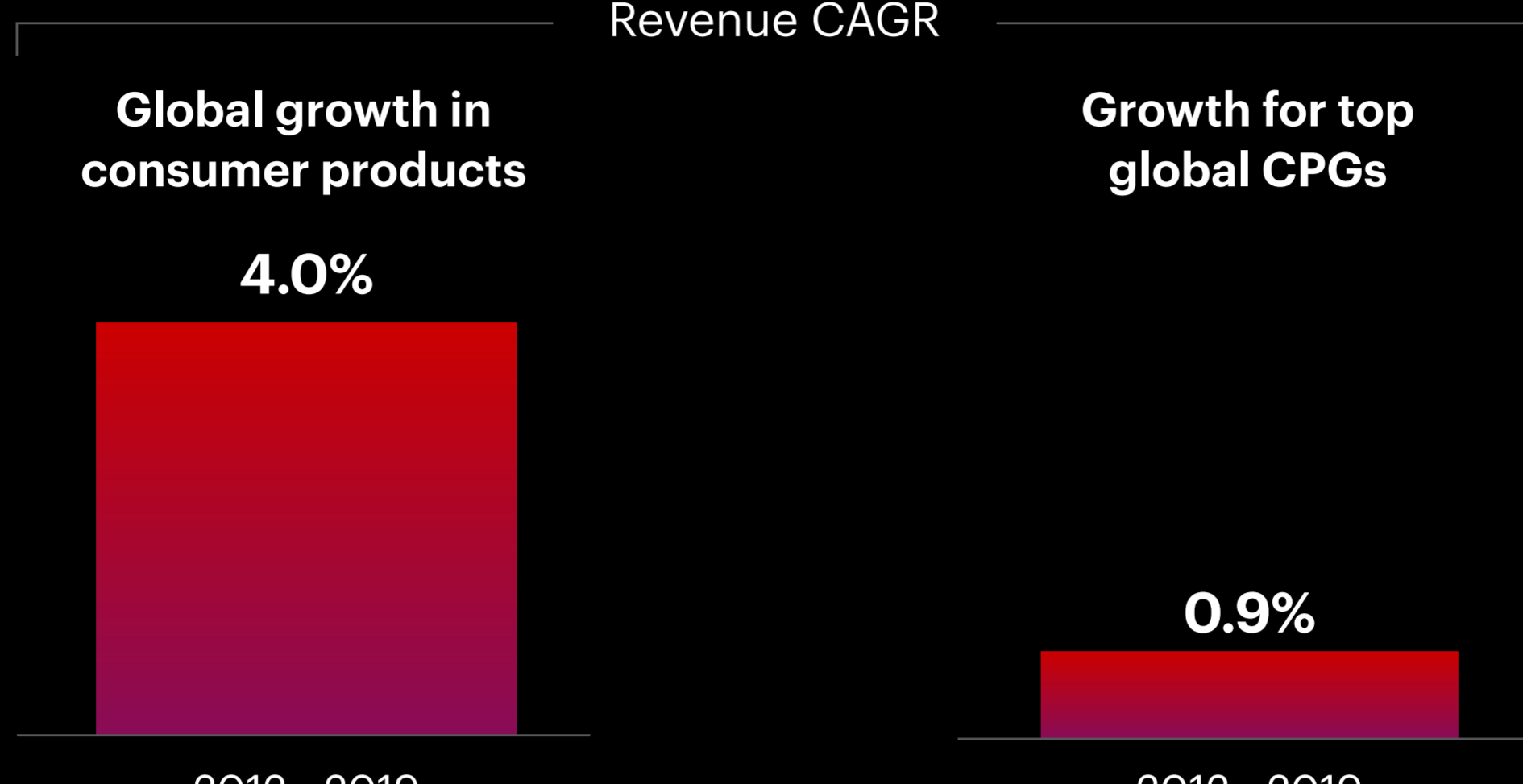


Small-Brand Acquisitions: Boosting the Odds of Success

Large consumer goods companies frequently look to acquire insurgent brands to counteract slow organic growth. The best acquirers avoid common pitfalls and apply a repeatable playbook to get the most value from the deal.

Large brands face a growth gap

Major consumer packaged goods companies (CPGs) are lagging the overall market in annual growth



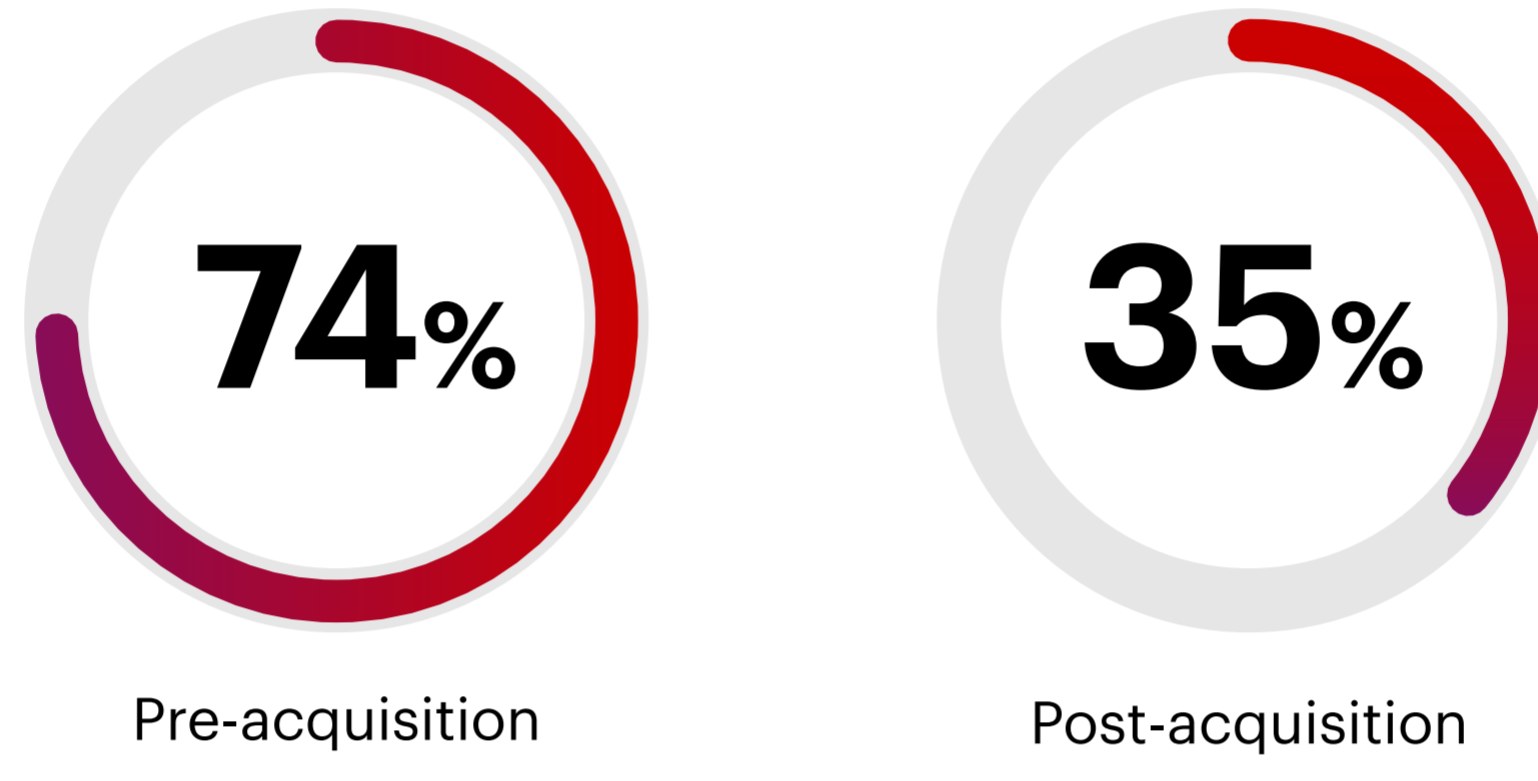
Notes: Top CPGs refers to 30 of the top 60 CPGs; 2020 data excluded due to the effects of the Covid-19 pandemic on many product categories; revenue figures reflect nominal reported revenue growth in constant currency (USD) as of December 31, 2019

Meanwhile, small insurgent brands outgrow their categories by **10x** and have captured **up to 1/3** of the growth in those categories—making them prime M&A targets

Small-brand acquisitions are important—but hard to do well

Many large brands face a trap: Few acquirers are able to maintain high levels of growth post-acquisition

Average growth rate of insurgent brands



Note: Insurgent brands are brands that have grown at 10x their category average over the last 5 years and have over \$25M in sales

Despite this decline, post-acquisition growth rates are still high compared to the rest of large CPG portfolios, making these **enticing deals to get right**

What goes wrong?

Small-brand deals include unique challenges, and large acquirers often face common pitfalls

Unique challenges



Growth and capability synergies are harder to assess



Unique growth model, culture and talent are critical to protect



Deal environment can be complex and highly competitive, often with limited access to data

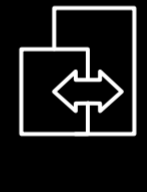
Common pitfalls



Missing critical red flags in diligence (often cultural or operational elements)



Over-integrating and suffocating the small brand's capabilities, undermining its culture



Under-integrating and missing the acquisition advantages that would deliver the most value



Hyper-focusing on immediate revenue synergies and increasing distribution too fast, harming long-term brand health



Overwhelming the acquisition with a large bureaucracy that distracts the brand from its core business

A repeatable playbook for small-brand acquisitions

Successful small-brand acquirers use M&A frequently and rely on a repeatable playbook when approaching these deals

1

Clearly articulate ambition and M&A strategy

Base the strategy on unique ownership advantages and a long view of the path forward



2

Create a compelling and defensible deal thesis

Support the thesis with a thorough diligence process that clarifies parenting advantages and top-line synergies



3

Have a value-creation plan in place

Allow for balanced scaling ambition by applying the insurgent growth model with appropriate growth and margin expectations



4

Design an integration plan that supports the right operating model

Unlock parenting scale advantages and capability transfers while protecting the Founder's Mentality®, insurgent mindset, and culture

