

BABY
PRODUCTS
SECTOR

M&A TRENDS
2022

A LEADING MIDDLE-MARKET INVESTMENT BANK WITH
DEEP INDUSTRY EXPERTISE, A NATIONWIDE FOOTPRINT
AND A GLOBAL REACH



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INDUSTRY OUTLOOK

THE OUTLOOK FOR THE BABY INDUSTRY IS POSITIVE, POWERED BY A GROWING AWARENESS OF THE IMPORTANCE OF HIGHER-QUALITY PRODUCTS AND FOOD THAT PROMOTE CHILDREN'S HEALTH AND WELL-BEING. THE MARKET IS ALSO BEING DRIVEN BY OLDER, WORKING PARENTS WITH MORE DISPOSABLE INCOME.

The global baby products market was valued at \$214.13 billion in 2021 and is expected to grow at a compound annual rate of 5.7% from 2022 to 2030. The North American segment is expected to grow at a compound annual rate of 4.6% over the same period.

Technological advancements, an increasing number of working parents, government initiatives to promote infant health and safety, and early adoption of advanced products have been contributing to the growth of the market in North America. According to TABS Industry Report, consumers with an income of more than \$150,000 are the primary drivers of the increase in penetration for baby products.

Consumer preferences toward high-quality, premium baby products are one of the primary factors driving market growth. Since many consumers today seek high-tech and best-in-class products and gadgets for themselves, the same buying behavior applies when purchasing personal care and nutritional products for their children.

BABY INDUSTRY OUTLOOK

Parents today look for premium, sustainable, ergonomically-designed products for their babies, which has led to an increase in demand for quality brands and products. There is also rising awareness about the health benefits of consuming baby food that has fewer pesticide residues and that is formulated for infants to toddlers (those between six months to two years), which is further augmenting demand.

Furthermore, consumers' top priorities have shifted to health and wellness. There has been a significant increase in awareness among parents about their baby's health and hygiene needs, helped by recommendations from the medical community on the importance of regular use of high-quality personal care products for better skin nourishment and hygiene. This has significantly increased the demand for baby care essentials, which has now become a predominant segment of the baby care product market. At the same time, parents today are more aware and opt for trusted brands. They prefer reputable brands that provide scientifically validated baby care products to ensure the healthy growth and development of their babies.

Needless to say, these premium products generally cost more than lesser quality products, which is also driving sales growth.

The demand for baby products is also growing significantly due to increased disposable income and the spending power of parents on superior quality baby products. According to the U.S. Centers for Disease Control and Prevention (CDC), the number of births in the United States has remained relatively steady over the past several years at more than four million babies per year. However, the average age of a first-time mother in the U.S. has increased to 26 years, compared to 21 in 1972. Parents in this higher age bracket generally have more disposable income than younger parents.

The online availability of baby care products and the increase in internet penetration have also contributed to market expansion across the globe. The rising number of smartphone users, easy access to internet connectivity, and the rise in the use of electronic banking and payment systems are projected to support online sales of baby products. Due to hectic lifestyles, consumers opt for the convenience of online shopping, which not only offers fast doorstep delivery but multiple discounts and offers at the same time, instead of visiting physical stores. The use of mobile wallets is also anticipated to increase in the years to come, which should further increase penetration.

Data from <https://www.grandviewresearch.com/industry-analysis/baby-products-market>

M&A OVERVIEW

Middle market business fundamentals remain strong, although some investors are starting to show caution. Revenue growth and hiring have been robust, although companies continue to face challenges in finding skilled workers. There remains a strong appetite for quality deals as valuations have declined slightly. Private equity firms still have nearly \$1 trillion of “dry powder” and eager to put it to work. M&A volume moderated slightly in the second half of 2022 and appears unlikely to duplicate 2021’s record pace, but is on track for another strong year.

Despite the constant barrage of headlines about rising inflation and interest rates, supply chain disruptions, plunging stock prices, and the recession, the M&A market—especially among middle market companies—remains robust. Volume has come down, but that’s only compared to 2021’s record, and possibly unsustainable, pace.

Valuation multiples also remain fairly steady and, we believe, sustainable, thanks to strong middle-market business fundamentals, as well as the continued availability of financing.

If there has been any decline in new deal volume recently, as we saw in the third quarter, we view it more as a pause as some buyers and sellers stay on the sidelines until the market turmoil and the economic environment shake out, rather than a change in long-term sentiment or business fundamentals. We continue to see a lot of evidence that the desire to do deals, among both buyers and sellers is as strong as ever.

Access to capital remains healthy, with private equity firms still holding nearly \$1 trillion of “dry powder.” What’s more, that capital “has more opportunities for M&A investment as valuations moderate due to market volatility,” PwC says in its “Deals 2022 midyear outlook. While buyers have gotten more selective, and businesses have grown more cautious, quality companies with the right attributes continue to attract prospective buyers. In fact, as middle market businesses have gotten more cautious about the current economic environment, many are “responding defensively by acquiring suppliers, either outright or in joint ventures (JVs), closer to home or in more geopolitically secure locations,” PwC says.

M&A OVERVIEW

Business fundamentals remain strong

Meanwhile, fundamentals among middle market companies remain robust. According to the National Center for the Middle Market's Mid-Year 2022 Indicator report, "nearly three quarters (73%) of middle market companies continue to report that overall company performance is better today than compared to one year ago; fewer than one in 10 companies (7%) report an overall decline in company performance." Looking ahead, "most businesses anticipate strong growth into 2023."

During the first half of 2022, middle market companies reported year-over-year revenue growth of 12.2%, virtually unchanged from the record high at the end of 2021 and nearly double the average YOY revenue growth rate of 6.8%. Not only did about 80% of companies report higher revenue growth between mid-2021 and mid-2022, nearly 60% reported growth of 10% or more, compared to just 36% of companies before the pandemic.

Middle market businesses are showing the same strong growth in their need to hire more workers, with the average employment growth rate at 10.8%, more than double the average 5.0% growth rate reported before the pandemic. Perhaps the biggest problem middle market companies are experiencing is finding enough skilled workers, with more than a quarter (28%) of them saying the size of their workforce is insufficient to meet demand and that they will need to continue to hire in 2023. Indeed, "growth and talent management remain top challenges for middle market leaders," the report said.

"Overall, middle market business leaders appear optimistic about their own growth as they head into the second half of 2022," the report concludes, "but leaders clearly have an eye on mounting headwinds related to inflation and ongoing supply chain challenges." Interestingly, the same percentage—39%--of middle market companies say inflation is having a positive impact for their businesses as those who say it is a negative.

Source: National Center for the Middle Market's Mid-Year 2022

NOTABLE TRANSACTIONS

As industry demand increases for high quality baby products, we expect the demand for acquisitions to also increase, with 2023 poised to be another strong year in the baby space.

Buyer	Target	Date	Transaction Value (\$, mm)	Target Business Description
Standard Investment	Brands4kids	29-Aug-22	N/A	Brands4kids A/S develops, manufactures, and markets children's wear in Europe.
NHTC Unison Holding Limited	Taisun Int'l Corp.	16-Aug-22	111.3	One of leading manufacturers in personal hygiene care products in Asia, specializing in the production of diapers' and sanitary napkins for consumers around the world.
For Heroes Only	Peekaboo Beans Inc.	21-Mar-22	N/A	Peekaboo Beans manufactures and sells clothing that allows children to play freely, all while being comfortable, durable, and stylish.
Kids2, Inc.	Summer Infant, Inc.	16-Mar-22	78.0	Summer Infant is a company specializing in infant and juvenile products from ages 0-3 years. The company provides a variety of nursery products, strollers, booster, and potty seats, blankets, bouncers, and more and sell to North American and International retailers.
Peninsula Capital Partners, Weave Growth Partners	Strolleria, LLC	24-Jan-22	N/A	Strolleria is a multi-million dollar retailer offering the selection of a big-box store and personal service of a boutique. The company carries hundreds of strollers, car seats, high chairs, playards and other baby products.
Coretec Group	Little Sleepies	31-Oct-21	N/A	Manufactures and sells sleepwear for kids and babies.
Montage Partners	Solly Baby	15-Oct-21	N/A	Premium Infant products in the Baby Wrap and Carrier Industry.
SPC Management Co. Inc., Stellus Capital Management, LLC	MOM Enterprises, Inc.	2-Jun-21	-	MOM Enterprises, Inc. manufactures and distributes baby health care products. The company's products include gripe water, gas relief drops, pro biotic drops, pro biotic powder pack chocolates, constipation ease drops, and vitamins and multivitamins. It sells its products online and through retailers. The company was incorporated in 1999 and is based in Richmond, California.
TZP Group	Quintessential Tots, LLC	22-Apr-21	-	Quintessential Tots, LLC doing business as Itzy Ritzy, provides products that include diaper bags, gifts, toys, pacifiers and loveys, snack and wet bags, teething, feeding, essentials, and baby covers. The company is based in Naperville, Illinois.
MidCap Financial, Axar Capital; Ven Bridge., FB Flurry ; Go Global Retail	Janie and Jack LLC	25-Mar-21	N/A	Janie and Jack is a children's clothing brand founded in 2002 in San Francisco, California. Their current product range includes clothing for newborns up to 24 months old, as well as boys and girls up to age 18.
Thrive International	LILLEbaby	21-Jan-21	-	LILLEbaby LLC designs and manufactures baby carrier, toddler carrier, and accessories.
SPP Management Services	Rufflebutts	31-Dec-20	-	Rufflebutts, Inc operates as an ecommerce children's apparel company. The company offers products, such as tops, rompers, bottoms, dresses, swim and beach wear, and other accessories.
Paladino Capital	ZOE Baby Products, LLC	13-Nov-20	-	ZOE Baby Products, LLC, doing business as ZOE Baby Products, engages in the design and manufacture of strollers. It also manufactures baby furniture and accessories.
TOMY International	Fat Brain Holdings LLC	18-Oct-20	41.0	Fat Brain Holdings LLC manufactures, markets, and sells toys, games, and gifts. The company was incorporated in 2015 and is based in Elkhorn, Nebraska. As of October 16, 2020, Fat Brain Holdings LLC operates as a subsidiary of TOMY International, Inc.
Cerberus Capital	Dorel Industries	2-Nov-20	634.0	Dorel Industries designs and manufactures for three areas: juvenile products, bicycles and home furnishings.
Swabbies Tech	Better Family	30-Apr-20	-	Better Family Inc. manufactures The Beebo, a hands-free bottle holder for feeding babies.
Pearl 33 Holdings	Cloud B	21-Feb-20	-	Cloud B, Inc. manufactures products and accessories that help children sleep. It offers swaddling blankets, baby sleeping bags, plush toys, and light products. It sells products online, as well as through specialty boutiques, gift stores, retailers, and online retailers worldwide.
365 Holdings	Planet Wise Inc.	12-Feb-20	-	Planet Wise Inc. manufactures and sells reusable products. Its products includes wet and dry bags, pail liners, changing pads, packing cubes, and zipper bags.
Thrive International, Inc.	Moby Wrap Inc./Petunia Pickle Bottom Corporation	13-Nov-19	-	Moby Wrap Inc./Petunia Pickle Bottom Corporation was acquired by Thrive International, Inc. Moby Wrap Inc. manufactures babywearing. Petunia Pickle Bottom Corporation designs, manufactures, distributes, and retails diaper bags, layette, and baby carriers.
Cota Capital Management LLC	Monica and Andy, Inc.	7-Feb-18	-	Monica and Andy, Inc. operates as a manufacturer and online retailer of organic clothing, blankets, and accessories for children. In addition, it offers furniture and decor; gear and travel; play and learning; health and safety; feeding and nursing; baby gifts and sets; and nursery and other products.
Learning Curve Brands, Inc. (nka:TOMY International, Inc.)	80% of Boon, Inc. and 80% of Keen Distribution	9-Aug-11	-	Boon Inc. designs, develops, and manufactures children's products. It offers bathing, eating, on-the-go, playing, storage and organization, seating/furniture, and toilet training products. Keen Distribution Inc. distributes children products which includes feeding utensils, bumbo baby seats, stroller accessory, and safety sleep pioneers.

CASE STUDY



*This announcement appears
as a matter of record only.*

Strolleria

has been acquired by

 **Weave Growth Partners**



PENINSULA CAPITAL PARTNERS L.L.C.

The undersigned initiated this transaction,
assisted in the negotiations, and acted as
financial advisor to Strolleria, LLC.

FOCUS
Investment Banking

In February 2022 FOCUS Investment Banking represented Strolleria LLC, a multichannel retailer of high-end baby gear, in its acquisition by Weave Growth Partners, a Silicon Valley-based private investment firm, and Peninsula Capital Partners, a Detroit-based private equity firm. The deal provides a good example of the growth in the market for premium baby products and online shopping.

Founded by Drew Venzke and Amy Venzke in 2016, Strolleria is a family-owned and operated retailer that sells high-end baby gear such as strollers, car seats, high chairs, play yards and related accessories. Strolleria carries hundreds of baby products from Bugaboo, Nuna, Orbit Baby, Stokke, UPPAbaby, and other high-quality brands. Strolleria offers the selection of a big-box store and the personal service of a boutique, with its showroom located in Scottsdale, Arizona. Its typical customers are parents who value brand image and high-quality products and demand a high-touch and collaborative shopping experience.

In addition to its wide product offerings, the company's major differentiator is its in-depth content marketing and search engine optimization strategies, which have paid off in creating a high-growth company with great consumer acceptance.

Austin Neudecker, Managing Partner at Weave Growth Partners, said he was "really impressed with the business Strolleria has built because of its deep knowledge of product lines and a superior customer service experience," an important quality to have as "new parents navigate what can sometimes be a confusing journey."

Ty Clutterbuck, Partner at Peninsula, added that Strolleria "is going to benefit from the major shift to e-commerce that is happening in the parenting category."

MEET THE TEAM



Leah White

Managing Director

leah.white@focusbankers.com

724.448.6180

Stan Gowisnock

Managing Director

stan.gowisnock@focusbankers.com

203.530.3376

Giorgio Andonian

Managing Director

giorgio.andonian@focusbankers.com

310.967.9263

Galen Pyle

Senior Advisor

galen@focusbankers.com

503.867.2413

RECENT TRANSACTIONS

*This announcement appears
as a matter of record only.*

Strolleria

has been acquired by

 **Weave Growth Partners**



PENINSULA CAPITAL PARTNERS L.L.C.

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Strolleria, LLC.

FOCUS
Investment Banking

*This announcement appears
as a matter of record only.*

BROTHERS
Your #1 Source for 1947-1987 Chevy & GMC Truck Restoration

has been acquired by

Holley

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Brothers Mail Order Industries.

FOCUS
Investment Banking

*This announcement appears
as a matter of record only.*

TSPORTLINE
WORLD'S FIRST TESLA TUNER

has been acquired by

 **KIAN**
CAPITAL

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to T Sportline.

FOCUS
Investment Banking

*This announcement appears
as a matter of record only.*

BRP

BOSTON RETAIL PARTNERS

has been acquired by

 **EarthLink**

The undersigned initiated this transaction, assisted in the negotiations and acted as financial advisor to Boston Retail Partners.

FOCUS
Investment Banking

*This announcement appears
as a matter of record only.*

Pxl

has been recapitalized by

 **bv** INVESTMENT PARTNERS
SINCE 1983

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to PixelMEDIA.

FOCUS
Investment Banking