In-house expertise

How private equity is modernizing consumer brands

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AMERICAN INVESTMENT COUNCIL

Data provided by PitchBook

Executive summary

Of all the sectors in which private equity invests, the consumer industry might be the most familiar to the industry. PE seeks to improve businesses by unlocking their value and setting them up for long-term success. Anyone who runs a company that sells to consumers—whether it's a meal at a restaurant, a trendy piece of clothing, or a household necessity such as laundry detergent—will tell you that consumers are a fickle bunch. We can be awfully challenging to keep up with.

That's where private equity comes in. In countless cases across several decades, PE firms have helped revive brands that fell out of favor with consumers—sometimes even pulling them out of bankruptcy—and have infused emerging brands with capital and know-how to bring them to the next level. These efforts are usually done without much fanfare.

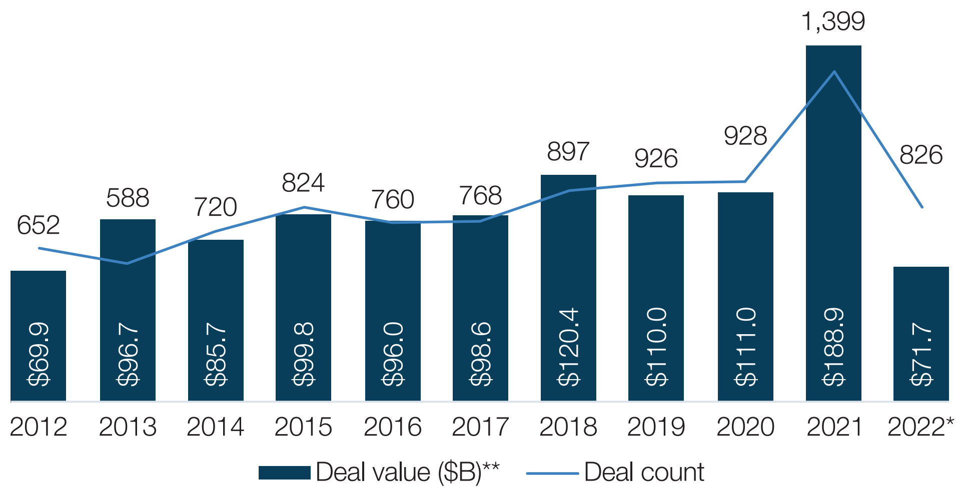
If you've ever had a chicken sandwich at Popeyes, it probably wouldn't occur to you that it was the result of a menu overhaul initiative spurred by PE sponsors. And PE firms helped stave off bankruptcy dozens of times when COVID-19 hit in 2020. Restaurant chains, salons, and consumer companies of all stripes received emergency capital from PE sponsors; those companies are still around today thanks to these sponsors.

Today's PE firms help consumer companies modernize their sales systems, especially with e-commerce. PE sponsors also help consumer brands by bringing in "operating partners" to advise their companies on just about everything. Operating partners are typically ex-CEOs or ex-COOs of large, successful companies; after accumulating decades of knowledge, they can significantly boost the fortunes of PE portfolio companies, especially smaller and family-owned ones. While private equity investors have a reputation for being financial wizards, their best asset is much more mundane: helping companies improve by identifying problems and fixing them. PE's biggest contributions don't involve spreadsheets at all; they involve people who bring experience, vision, and commitment to every company they invest in.

In-house expertise

Private equity has a familiarity with consumer companies that goes back decades. Over the past ten years, more than $1 trillion of PE capital has been invested in US consumer brands—over 8,000 of them, according to PitchBook data. Those sponsorships range from small, family-owned businesses to multibillion-dollar corporations that sell dozens of different products. Some are household names, including Dunkin' Brands, Panera Bread, Safeway, and Hostess Brands. At the other end are hundreds of smaller, more localized sponsorships that won't make the headlines, but benefit even more from PE's help.

B2C PE deal activity



Source: PitchBook | Geography: US
*As of September 1, 2022
**Includes extrapolated deal values

Compared with years past, one big difference in today's PE industry is how specialized investors have become. Specializing in one industry means hiring people who are experts in that industry, which takes a PE firm's capabilities and insights much further than it used to. Today's consumer investors can see specific trends emerging and can help companies grow alongside them for years to come. For example, younger consumers want to buy products that are sustainably produced and do some good for the world. PE executives know how to grow those brands and make them into household names. The same can be said for other categories, such as healthy living and personal care products.

Private equity at work: JustFoodForDogs

JustFood ForDogs
It All Starts With Nutrition.

Founded over a decade ago, JustFoodForDogs describes itself as a "pet food kitchen." After adopting his dog Simon from the pound, founder Shawn Bradley discovered how many chemical preservatives are used across the dog food industry. He decided to start cooking human-grade food for his dogs, and their health improved. His idea turned into a business, and JustFoodForDogs developed a loyal customer base in California and online. That's when L Catterton stepped in, offering capital and industry insights to help grow the company and reach more pet owners. JustFoodForDogs' CEO Carey Tischler was excited to partner with the PE firm, citing "L Catterton's outstanding track record" in pet food and pet health, "paired with [its] deep consumer growth expertise and excellent resources."[1]

1: "JustFoodForDogs Receives Significant Investment from L Catterton's Growth Fund," L Catterton, April 25, 2017.

What are operating partners?

Private equity firms created and perfected the “operating partner” model, which plays a quiet but powerful role in PE value creation. “Operating partner” is a fancy term for industry experts who have run companies of their own, and as operating partners, can impart their knowledge to PE portfolio companies. In prior years, they might have been a CEO or COO—roles wherein their foresight and decision-making were integral to a company’s success. They also know their industries well. They have seen good times and bad, and have helped their companies adapt, evolve, and thrive in a number of environments. They know what they’re doing, and they want to cap off their careers by helping other companies do the same.

Operating partners are vital to private equity’s value creation process. They help develop strategic plans and form close bonds with portfolio company management teams, often working with them on a day-to-day basis. Their outside perspectives can help companies think outside the box, meet new people in the industry, and provide useful guidance when things go wrong. Many were especially useful when the pandemic upended dozens of industries in 2020.

Because many operating partners used to work at big brands with worldwide recognition—and typically were responsible for hundreds or thousands of employees and major company initiatives—they can be particularly helpful to smaller companies with large aspirations. They know how to create value because they’ve already proven themselves—in some cases multiple times. Operating partners who bring an institutional mindset to emerging brands and family-founded companies are a major reason that so many portfolio companies have grown, become more efficient, and achieved ambitious goals over several decades.

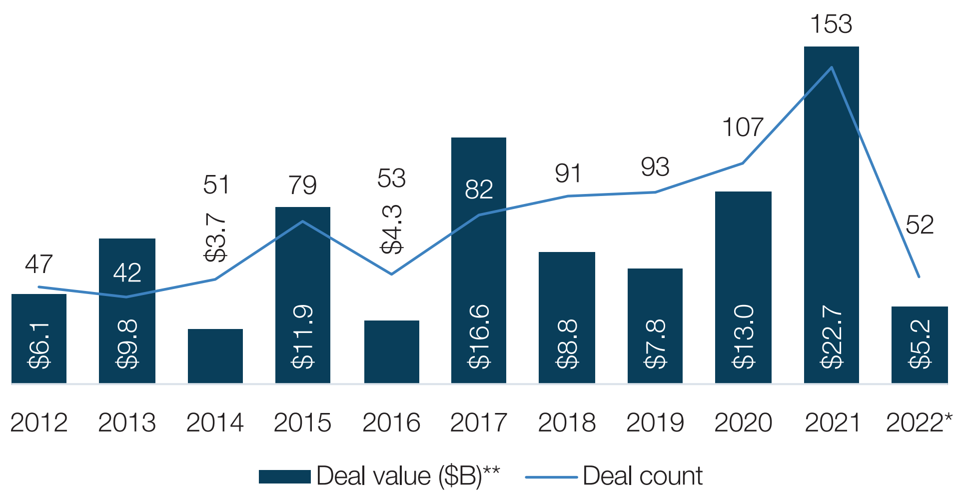
Acceleration of Dutch Bros. Coffee to IPO

Founded in the early 1990s, Dutch Bros (pronounced “bros,” not “brothers”) is an operator and franchiser of drive-thru coffee shops. It grew steadily throughout the ensuing years, with the first franchise opening in Oregon in 2000. It currently operates in 11 states, all told. 2018 saw TSG Consumer Partners back the company with a minority growth investment, given the scalability potential and growth rate of the business. Over the next few years, Dutch Bros and TSG Partners worked together to prepare for the company’s first major liquidity event, which included taking on some debt from Chase Bank in order to fund expansion and retool the business’ balance sheet in May 2021.

Approximately four months later, Dutch Bros listed on the New York Stock Exchange (NYSE) under the ticker BROS. It was valued at $3.8 billion in the debut, boasting healthy financials, which produced an EBITDA margin of 8.2% on gross profit of $139.8 million. Benefiting from bullish equities markets, the company saw its stock price soar from the listing level of $23 to $53 within the next 30 days. Even despite market volatility, as of mid-December 2022, its stock traded at just over $30, and its trailing 12-month revenue of $677.3 million was up over 50% year-over-year (based on financials reported in September 2022).

Modernizing consumer brands

E-commerce PE deal activity



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One of the biggest challenges in today's consumer industry is keeping up with technology. The way we purchase our products—whether they're necessities, extras, or anything in between—has gone largely digital. Consumer companies were already struggling to perfect the online purchasing process before COVID-19 struck, but the pandemic supercharged the need to have a frictionless and online presence, no matter what the company sells.

Private equity sponsors have been strengthening those capabilities for several years, but now it's a necessity. One of PE's main contributions today is to modernize its portfolio companies. That comes in many forms. PE's financial acumen and attention to detail has steered portfolio companies to data analytics, wherein a wealth of valuable information can be discovered. In many cases, PE sponsors can help identify a consumer company's most loyal customers, improve customer interactions, and identify unnecessary costs that weigh companies down. When those problems are addressed, more capital can be funneled into product development and advertising, leading to more profitable companies that can expand and hire more people.

Private equity at work: Reverb

Reverb is a music company that started with a simple plan: to make buying instruments simpler, cheaper, and an entirely online process. Founded in 2013, Reverb had a straightforward—and passionate—audience to market to: musicians. For decades, musicians of all levels have ventured to music stores to strum guitars, test the drums, and get a feel for the instrument prior to buying. That's a hard business model to duplicate online, but Reverb bypassed it by creating a "product + community" combination. Those are the words of Summit Partners, a buyout and growth investor which often backs innovative startups such as Reverb. In July 2019, Reverb agreed to sell to Etsy, where its platform could reach a bigger audience. Summit Partners, which led two growth/venture rounds before the acquisition, helped Reverb strengthen its target audience while creating "seamless transactions on the Reverb marketplace."[2] Summit Partners, which invests across several sectors, said the product + community model can be replicated in other areas of the economy, including healthcare, software, and other consumer segments.

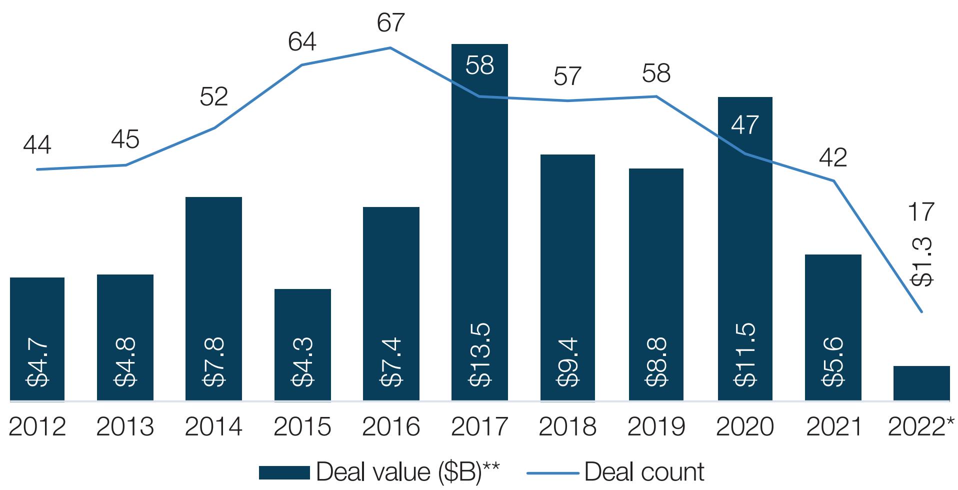
2: "The Power of Community in Building Brands: Etsy to Acquire Reverb," Summit Partners, n.d., accessed October 6, 2022.

Restaurants

Private equity investments can bring a major boost to restaurants and restaurant chains. Thanks to their standard business model, restaurants can be expanded to new cities and states—and PE capital can expedite that growth. Some of the most recognizable restaurant brands have been sponsored by investors over the past decade, including Buffalo Wild Wings, Red Lobster, Sonic, P.F. Chang's, Benihana, and TGI Fridays. All told, more than 500 restaurant brands have taken PE capital over the past decade, totaling almost $78 billion.

PE's contributions come in many forms. The money can be used to open new locations, upgrade existing buildings, hire more staff, or expand menu offerings. At Popeyes Louisiana Kitchen, PE sponsors believed a menu overhaul would reinvigorate the brand, and they were right. Popeyes now-famous chicken sandwiches were born out of those efforts, and they became popular so fast that many branches were sold out within months. More recently, PE firms helped capitalize and protect restaurant chains when the pandemic began. Trudy's, detailed below, survived 2020 and emerged in 2021 with a new look. And national chain The Cheesecake Factory was assisted by help from PE firm Roark Capital Group. The Cheesecake Factory operates about 300 restaurants nationwide and employs almost 50,000 people. Roark's investment provided relief for the company, which emerged from COVID-19 intact.

Restaurant PE deal activity



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Private equity at work: Trudy's

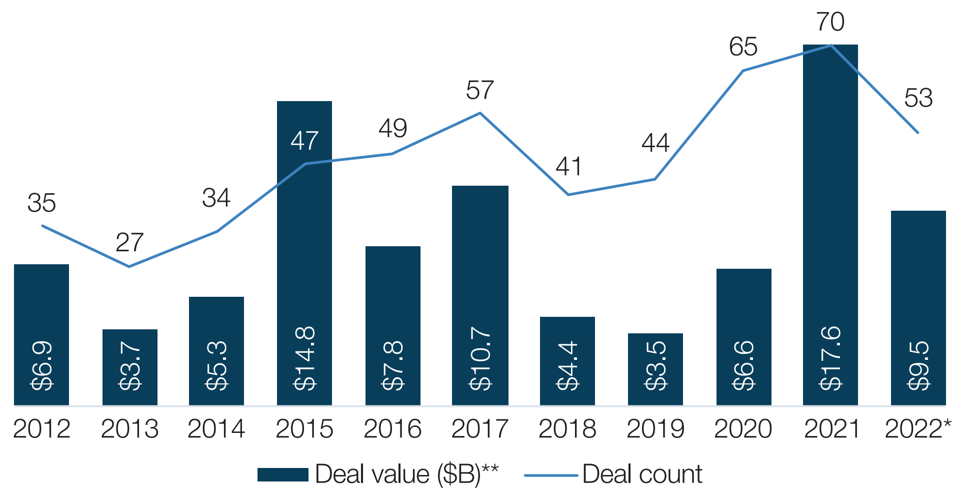
Trudy's is a regional restaurant chain that operates four locations in Austin. A popular brand, Trudy's was forced into bankruptcy protection due to COVID-19, like hundreds of other local and regional restaurants throughout the country. Hargett Hunter Capital Partners, a lower-middle-market investor based in Raleigh, North Carolina, and Dallas, bought all four properties out of bankruptcy in summer 2020. Jeff Brock, who dined at one of Trudy's locations on his first trip to Texas 20 years ago, led the acquisition. In an interview with CoStar News, Brock said he was excited to "support a 45-year-old brand in one of the greatest markets in the country."[3] One year later, Trudy's reintroduced itself with a new logo, as well as a new program called "Women of Trudy's," which recognizes women who serve their local communities.[4]

3: "Hargett Hunter To Invest in Trudy's," Hargett Hunter, July 31, 2020.
4: "Iconic Austin Tex-Mex Restaurant Debuts New Look, and New Program," Patch, Claudia Alvarez, June 30, 2021.

Specialty retail

Consumer behavior is always changing, which means consumer companies have to change as well. Specialty retail refers to companies, products, and services that don't always fit neatly into today's categories. Although many of these companies can singlehandedly redefine what a product can do, they still benefit significantly from PE insight and resources. That's why PE sponsors have invested over $80 billion in almost 500 specialty retail companies over the past decade.

Specialty retail PE deal activity



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Take RVs. Across the country, hundreds of RV dealerships sell these vehicles, and millions are on the road today. In 2014, a former NASA architect wanted to reimagine the RV experience and founded a company called TAXA Outdoors. TAXA's RVs are smaller than many others on the road, but they use space-saving and eco-friendly materials that impress even the most seasoned outdoor explorers. CEO and founder Garrett Finney said he founded TAXA "to break down the barriers between people and nature, creating innovative and rugged camping machines to enhance outdoor experiences." TAXA is now backed by the resources and industry knowledge of L Catterton. Finney was drawn to the firm's "strong track record of supporting experiential outdoor brands." The company aims to "expand [its] reach and launch new types of habitats and products,"[5] thereby inspiring more people to get outside.

Private equity at work: Paula's Choice Skincare

PAULA'S CHOICE
SKINCARE

Paula's Choice, a skincare brand founded in 1995 by skincare expert Paula Begoun, benefited from private equity in a big way. AIC member TA Associates, which fields a consumer investment team with deep experience in the industry, acquired Paula's Choice in 2016. TA was drawn to the company's mission and products—all cruelty-free, with the aim to "perform beautifully without false promises."[6] Under TA sponsorship, Paula's Choice grew to one of the biggest digital beauty brands worldwide, with a loyal customer base. In 2021, TA sold the company to Unilever, which wants to "introduce the brand and its iconic products to an even bigger audience."[7] Begoun appreciated that TA embraced the company's "unique positioning" and helped develop its product line.[8]

5: "L Catterton Acquires Taxa Outdoors," PR Newswire, March 8, 2022.
6: "Paula's Choice, LLC," TA Associates, n.d., accessed October 6, 2022.
7: "Unilever to Acquire Paula's Choice from TA Associates," TA Associates, June 14, 2021.
8: Ibid.

Private equity at work

Beautycounter

Back in 2011, the idea behind Beautycounter was hatched. CEO Gregg Renfrew learned that the government bans just 30 ingredients that go into personal products.[9] In 2013, Renfrew started not just her company, but also the clean beauty movement as a whole. Beautycounter, which was acquired by AIC member Carlyle, bans 1,800 questionable ingredients from its products. Now an award-winning company, Beautycounter's partnership with Carlyle will help fuel not just the company's growth, but the promising clean beauty movement.[10]

Wella Company & Briogeo Hair Care

In December 2020, AIC member KKR created Wella Company. At the time, it was part of Coty's Professional and Retail Hair business, but KKR envisioned an independent company that could redefine the hair care business. Less than two years later, Wella Company started down that path by acquiring Briogeo, one of the biggest independent Black-owned brands in the country. Briogeo's founder, Nancy Twine, built the company around natural hair care, with solutions for every kind of hair texture. Her products have won the Allure Best of Beauty Award for five years running.[11]

Supergoop!

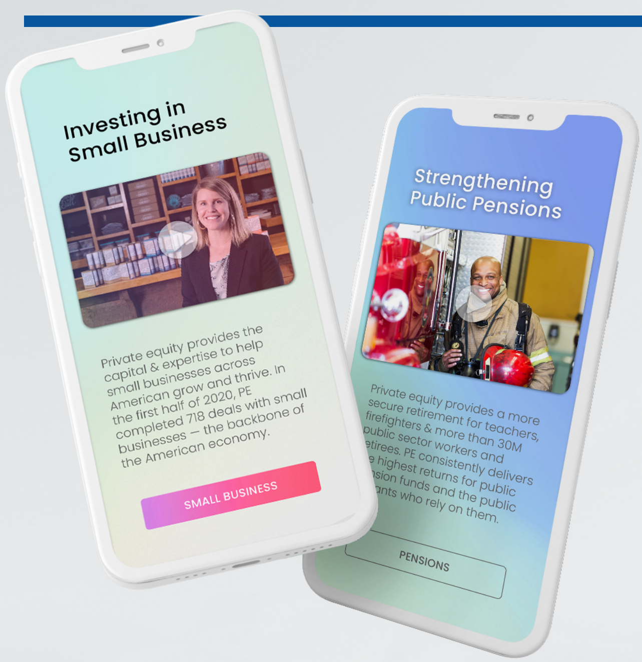
In May 2022, AIC member Blackstone partnered with Supergoop!, which makes sunscreen safer than the typical products out there. It was founded by Holly Thaggard after a close friend of hers was diagnosed with skin cancer at only 29. Holly was a teacher before dedicating her time to dermatologist-approved sunscreens. Blackstone's sponsorship will help Supergoop! innovate beyond its current product line and launch "category-creating" initiatives. The company's Ounce by Ounce program has donated over 4,000 SPF pumps to schools around the country. Its partnership with Blackstone is expanding on that: The "I Promise School" part of the new collaboration will educate children about sun protection.[12]

9: "We Are Beautycounter," Beautycounter, n.d., accessed November 4, 2022.
10: "Beautycounter, the Industry Leading Clean Beauty Brand, Partners with The Carlyle Group to Fast-Track Growth," The Carlyle Group, April 13, 2021.
11: "Wella Company Amplifies Growth with the Acquisition of Briogeo, a Fast-Growing Independent Hair Care Company Focused on Eco-Ethical and Natural Hair Care Products," PR Newswire, April 29, 2022.
12: "Supergoop! and Blackstone Growth (BXG) Partner with New Investors to Teach Even More People About the Importance of Daily SPF," Blackstone, May 24, 2022.

PRIVATE EQUITY
INVESTING IN AMERICA

From urban to rural and everywhere in between, private equity is making a positive impact across America and investing in every community to:

- Back small businesses
- Support good-paying jobs
- Boost the American economy
- Strengthen public pensions



The American Investment Council (AIC) is an advocacy and resource organization established to develop and provide information about the private investment industry and its contributions to the long-term growth of the U.S. economy and retirement security of American workers. Member firms of the AIC consist of the country's leading private equity and growth capital firms united by their successful partnerships with limited partners and American businesses.

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