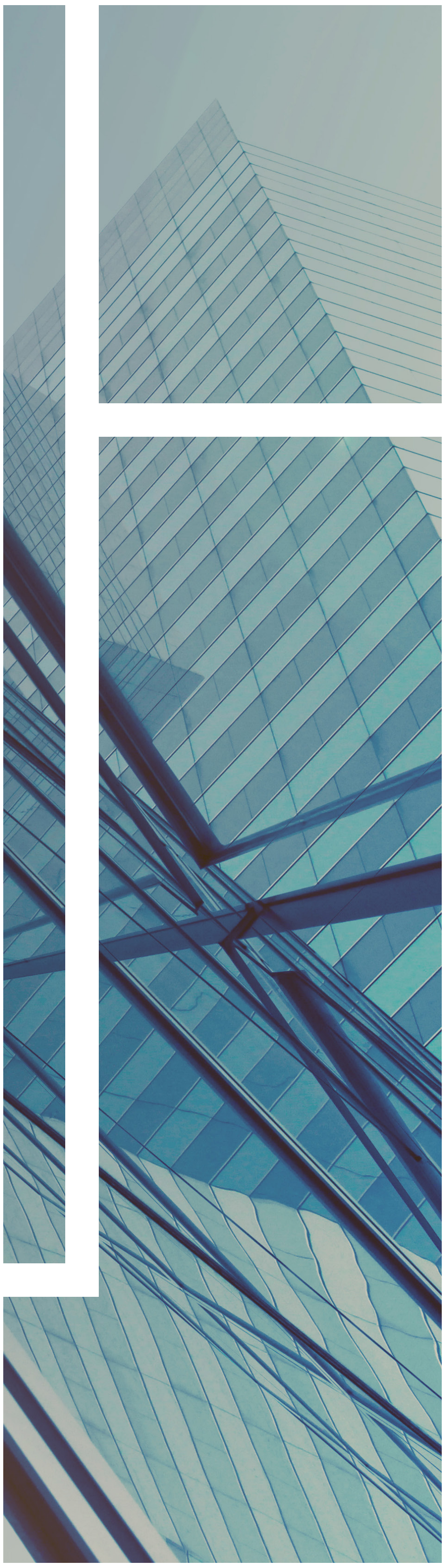
How COVID-19 Could Change Consumer Spending Behavior, Even in a Post-Pandemic World



CONTRIBUTOR Dominic Rispoli, Managing Director, New York

As people stock chest freezers with frozen meals and stores and restaurants temporality shutter their doors, COVID-19 has undoubtedly created significant disruption within consumer purchasing in the restaurant, retail and CPG sectors in the near-term—but the pandemic also has the potential to drive dramatic shifts in consumer behavior long after the virus has abated.

We are in an unprecedented period of economic shutdown influencing almost every aspect of how we live our lives as consumers. Undoubtedly, the difficult decisions required will result in significant job losses, dislocation for students attempting to enter the workforce, and dwindling balances in the investor accounts as the stock market seesaws. Traditionally, consumers have proven resilient in the face of setbacks, with short memories of challenged periods, but the Great Recession proved that younger generations in particular can be deeply shaped by financial hardship.

The emergence of significant trends could alter consumer habits long after we emerge from this immediate danger:

- Increased value of time at home could engrain nesting tendencies
- Less comfort with large group settings
- More conservative spending patterns to recuperate equities losses
- Less travel in captive, highly populated settings like cruise ships
- Increased use of video conferencing as an acceptable means of communication
- A desire to support local neighbors and community

The results of the above trends will bring far-reaching implications even for some of the best performing sectors before the pandemic hit. For example, consider the fitness industry. We expect continued positive consumer emphasis on and investment in fitness. However, the mode of fitness consumption could change. People may prefer to workout at home after purchasing connected fitness equipment or in smaller environments offered by boutique fitness operators. This could result in difficult traffic trends for big box operators who will need to consider how to make consumers once again comfortable in larger group settings.

COVID-19 may also accelerate the already prolific growth of direct-to-consumer brands. Delivery will become even more prevalent for everything from CPG to restaurants. E-commerce growth will accelerate even faster putting increased pressure on big box retail operators and Class B and C malls. Similarly, it will be incumbent upon restaurant operators to rapidly evolve their delivery models to become consistently profitable contributors to the overall business.

Lastly, with a return of confidence, people will most certainly shop. However, an event as prolific as this pandemic may shift consumption to align with consumer values of interpersonal connectivity, focus on family and friends, and community. As a result, there will likely be increased allocation of consumer spending to niche retailers, e-tailers, and brands that truly resonate with consumers' desire to create better and more fulfilling community environments. Consumers will engage with those companies in all aspects of their lives and they ultimately will thrive.

LINCOLN PERSPECTIVE

While much M&A deal making is on hold until valuations stabilize and we have greater clarity around the duration of the pandemic ahead, we expect the following opportunities for PE investors looking to monetize portfolio companies or deploy capital:

- Strategic buyers with significant capital resources will be an increasingly meaningful acquiror of PE portfolio companies
- The emergence of PE-backed consolidation platforms, particularly in sectors where SG&A and operating efficiency is critical – namely retail, restaurants and consumer services
- E-commerce companies with demonstrated (or a clear path to) profitability will attract strong investor interest
- Consumer services businesses growth will significantly outpace traditional multi-unit retail venues
- Distressed opportunities will be plentiful for operationally focused investors