

KEYNOTE INTERVIEW

Too big to ignore



*The scale opportunity presented by consumer spending means there are always areas offering growth and resilience, according to **Pierre-Axel Botuha**, partner and co-head of the French private equity team at 3i*

Q What are the most interesting areas within the consumer sector right now and why?

What we look for in consumer assets doesn't change with cycles. We aim to invest in categories that benefit from both strong growth drivers and a high degree of resilience; one of the subsectors that especially fits that profile is wellness.

We like the vitamins, minerals and supplements industry in particular, and have recently completed an investment in French natural food supplements brand Nutergia. That company is a textbook example of what we like to see in a consumer investment: consumers view Nutergia's products as non-discretionary, and consumption is being driven by secular tailwinds

as people increasingly look to counterbalance the less-healthy aspects of modern living, such as dining out and processed foods, with supplements. Nutergia's products are based around the proprietary concept of active cellular nutrition and benefit from a long-standing endorsement from healthcare professionals, which makes them very differentiated in the sector.

Another category we like is discount retail – for example, in 2024 we sold the value-for-money optical and hearing platform nexeye to KKR, having originally invested in 2017 and doubled the size of the business. Pet food is also a compelling sector, combining

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both growth and resilience: we sold the premium, natural pet food brand MPM to Partners Group last year. Finally, we also look at leisure, entertainment and travel, although always with an emphasis on being highly selective.

Q Are there any consumer subsectors that you actively stay away from?

Resilience in the consumer space stems from the fact that consumers are unlikely to postpone a purchase. We therefore shy away from anything that is too discretionary in nature, such as luxury goods, or anything that is too fashion-orientated. For example, within the vitamins, minerals and supplements sector, we tend to avoid brands associated with beauty, haircare or slimming. This isn't because the

space isn't enduring, but there is fashion risk – what's in vogue and what's not. We don't want to be subject to temporary trends because novelty-fuelled consumer demand can change quickly. Lastly, we do not invest in anything that is heavily regulated or publicly subsidised.

Q Many private equity firms have chosen to sidestep the consumer sector entirely, in spite of its pockets of strong resilience. Why have you taken a different approach?

Private equity sentiment around the sector ebbs and flows. Our view, however, is that the space is vast, consistently representing more than 40 percent of GDP in Western economies and even more in the US.

While I can understand that some investors may choose to be underweight to consumer due to a degree of inherent cyclicality, I believe the sector is simply too big to ignore entirely if you are a player of any real scale. Furthermore, the fact that consumer is so big and so broad means there are always pockets of growth to be found somewhere. The consumer is constantly evolving.

Cyclicality also works both ways: while there's downside risk, there's many opportunities on the upside. We manage this through portfolio construction.

We balance premium branded products, such as WaterWipes and Danish children's apparel company Konges Sløjd, with value-orientated companies, all while targeting businesses that are winning propositions with consumers regardless of price point. Consumer companies are actually among the most scalable businesses an investor can own, with the potential to generate outsized returns – particularly if you are able to hold assets for longer than the typical private equity window, as we are, in order to compensate for taking a little more cyclicality risk.

“Consumer companies are among the most scalable businesses an investor can own”

Q What value creation levers are particularly effective in the consumer space?

It very much depends on the company, but something that is relevant across the board is talent management. It is vital to bring in the requisite talent in order to activate other value creation levers effectively.

We also do a lot of buy-and-build, particularly as we have access to permanent capital. We often see opportunities to acquire a competitor or a supplier, and our differentiated model means we are not constrained by capital allocations or timeframes. That flexibility can be very beneficial.

We focus a lot on opening up new channels. Nutergia's products are widely sold in pharmacies, for example, but we see significant scope to sell to online consumers, too. We are also very keen on new product and brand development. When we first invest in consumer companies, we often find that the marketing team is the most under-resourced part of the business, so we spend a lot of time reinforcing that function.

Q What are the biggest opportunities and challenges for expanding consumer businesses internationally?

We have a long track record of helping consumer businesses to internationalise. This is a value creation lever that is always relevant for European companies because individual national markets are simply too small to fulfil the size ambitions we have for companies at exit.

MPM is a great example of this: when we first invested in the pet food brand, it was predominantly a UK business, with around 14 percent of sales coming from the US. That increased to over 40 percent by the time we exited, while the company itself had doubled in size.

That said, there are challenges in expanding consumer companies across borders. For us, the answer is to identify businesses with broad consumer appeal, rather than placing too much emphasis on adapting the proposition to local markets. Nonetheless, the go-to-market strategy can differ in different countries. Access to talent in new geographies can also be a real challenge, and that is an area where we can provide a lot of support to portfolio companies.

Q What is the exit environment for consumer businesses today and how do you approach this part of the investment life cycle?

The exit environment across all sectors is clearly quite challenging right now – and perhaps even more so in consumer. However, if you have the right assets, exiting is definitely possible.

We sold MPM just two months after President Donald Trump's 'Liberation Day' tariff announcement last year. Because the business had such strong traction with US consumers and such durable growth potential, we executed a successful sale process nonetheless. The exit generated a 3.2x return and an IRR of 29 percent.

Although the fact that some PE firms are shying away from consumer has had an impact on exits, it is a real positive for us on the buy side in terms of competitive dynamics, particularly as management teams have come to recognise us as an investor that is committed to the sector. Furthermore, because we invest off our own balance sheet, we don't have to worry about fund cycles. That means we can be selective about what we buy and when we buy it, and it also means we can be selective about when we sell. ■