

# Consumers

Mini Report

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OAKWOOD



# Executive Summary

The consumer industry in 2024 is undergoing a period of significant transformation, marked by recovery, innovation, and evolving consumer behavior. This report provides a comprehensive analysis of the latest developments within key sectors, including consumer staples, consumer discretionary, retail, cosmetics, hospitality and leisure, and media and entertainment. As the sector rebounds from pandemic-related disruptions, it is increasingly shaped by technological advancements such as artificial intelligence (AI) and augmented reality (AR), which are redefining consumer experiences driving growth across multiple industries and an increasingly vital role in shaping market competition.

The report covers the past performance of the consumer industry, noting that while certain sectors, such as hospitality and leisure, have experienced strong growth, others, including retail and automotive, continue to face challenges due to rising inflation and economic uncertainties. Recent mergers and acquisitions (M&A) in the consumer sector, such as Take-Two Interactive's acquisition of Gearbox Entertainment, highlight the strategic shift toward consolidating resources, expanding market presence, and driving innovation within the gaming and digital industry. The report explores macroeconomic factors, such as inflation and geopolitical risks, which could impact the sector over the next few months. At the same time, industry-specific trends like the rise of sustainability-conscious consumers, the growing importance of digital experiences, and advances in AI will influence sector performance and market positioning.

Within Oakwood's Portfolio we reviewed the performance of previously invested stock by Oakwood in the consumer sector like Spotify and Uber. Both companies have outperformed industry benchmarks, with Spotify benefiting from its innovation in AI-driven recommendations and podcast expansion, while Uber has seen substantial growth due to its dominance in ridesharing and food delivery.

This report aims to provide a detailed overview of the consumer industry's current performance, challenges, and opportunities, offering valuable insights to stakeholders and investors looking to navigate the evolving landscape.

# Past Performance

## Industry development

The recognition of the consumer market industry has become a paramount focus in analysis and evaluation for investors focusing on diversifying their portfolios through transformative acquisitions. Currently, the consumer sector is experiencing a robust comeback in 2024 from the detrimental pandemic struggles, with an element of future optimism, seen by the prospects of increased consumer confidence, higher discretionary spending and business model reinventions fueled by advancements in artificial intelligence and boosts in innovation such as AR <sup>1</sup>. Subsequently, over the past YTD, the consumer staples sector has strengthened by 22%, alongside consumer discretionary, where the division is expected to report the highest (year-over-year) earnings growth rate of all eleven sectors at 35.8%, alongside market capitalisation exceeding \$7496.33 billion and a revenue of \$4,474.96 billion <sup>2</sup>. In relation to investment propositions and dealmaking, the consumer market is expected to improve in the second quarter of the year, after a challenging two plus years during which deal volumes and values trended well below historical norms. In the first half of 2024, deal volumes declined by a further 22% from an already low level in the same period the prior year due to the current macroeconomic environment. However, despite the declines, value added to the consumer goods market is projected to amount to \$2.8 trillion in 2024, alongside a compound annual growth rate of 1.19% is expected during the period between (2024-2029) <sup>3</sup>. Furthermore, the hospitality and leisure sector are also experiencing a substantial comeback in 2024 from the devastating pandemic, where global industry is set to soar to a staggering \$5,816.66 billion by 2027, with a remarkable compound annual growth of 5.5% <sup>1</sup>. Similarly, in the entertainment and media sector, the industry is gaining aggregate growth, evident in M&E's total revenues to hit \$2.8 trillion dollars, with multiple market leaders restructuring their business models to evolve,

retain market leadership dominance and accelerate their exposure to the market <sup>4</sup>. However, difficulties confronting the retail sector are evident from the rise in retail insolvencies during 2023 and the first half of 2024, evident in the recent restructuring of The Body Shop <sup>3</sup>. Although, there is some level of consolidation in the retail sector as the more financially stable companies are searching to take advantage of accruing brands, intellectual property, and selected assets. As, subsequently, seen in the cosmetics and beauty sector which grew by 11% over 2023, contributing £27.2 billion to the UK GDP.

## Mergers and Acquisitions

### Take-Two Interactive Acquiring Gearbox Entertainment

In a \$460 million contract, industry giant Take-Two Interactive acquired Gearbox Entertainment from its parent company: Embracer Group <sup>5</sup>. Take Two Interactive develop and publish popular video game series like Grand Theft Auto and Red Dead Redemption. "Our acquisition of Gearbox is an exciting moment for Take-Two and will strengthen our industry-leading creative talent and portfolio of owned intellectual property, including the iconic Borderlands franchise," said Take-Two CEO Strauss Zelnick <sup>5</sup>.

Meanwhile, from Embracer's perspective, the deal was part of a divestment process to transform Embracer's future. Embracer claims the sale would cut its net debt by \$301.23 million <sup>6</sup>. However, the Embracer Group had to split into three different companies to regain investor confidence, following the acquisition <sup>7</sup>. Revenue is projected to grow between 10-12% in 2024-2025, spurred by significant new releases.

### Take-Two Interactive's Performance and Future

Take-Two Interactive had a revenue of \$5.33 billion in the 2024 fiscal year, a similar figure to the former fiscal year. The company has a 'positive momentum' for the 2025 fiscal year and expects a \$20 million revenue increase. What about Grand Theft Auto Six? Strauss Zelnick, Take-Two's CEO, posits the 2025 fiscal year 'outlook reflects a narrowing of Rockstar Games' previously established window of Calendar 2025 to Fall of Calendar 2025 for Grand Theft Auto VI. We are highly confident that Rockstar Games will deliver an unparalleled entertainment experience, and our expectations for the commercial impact of the title continue to increase' <sup>8</sup>.

1. <https://www.pwc.com/gx/en/services/deals/trends/consumer-markets.html>

2. <https://simplywall.st/markets/us/consumer-staples>

3. <https://www.statista.com/outlook/io/manufacturing/consumer-goods/worldwide>

4. <https://www.pwc.com/gx/en/news-room/press-releases/2024/pwc-global-entertainment-and-media-outlook-2024-28.html>

5. <https://www.take2games.com/ir/news/take-two-interactive-software-inc-acquire-gearbox-entertainment>

6. <https://www.reuters.com/markets/deals/take-two-interactive-acquire-borderlands-maker-gearbox-entertainment-embracer-2024-03-28/>

7. <https://www.gamesindustry.biz/embracer-group-splits-into-three-everything-you-need-to-know>

8. <https://www.take2games.com/ir/news/take-two-interactive-software-inc-reports-results-fourth-0>

## AR in the Retail Space

Augmented reality (AR) is an interactive experience combining computer generated content with the real world. In the retail industry it is being used to bridge the gap between online and in-person shopping. Although just 1% of retailers have brought on AR in their practices, it is expected to grow in the future <sup>10</sup>. A current estimation for AR in retail is worth in 2025 is \$12 billion. Of those 1% utilizing AR are companies such as Ikea and JD. Ikea are one of the earliest adopters of AR in their business. They currently have an app which enables customers to see how IKEA furniture would look in their own home. JD facilitates virtual try-ons from cosmetics to shoes, partnering with Sony for the use of Time of Flight distance measuring system to measure foot size. AR changes how customers behave <sup>9</sup>. Customers experience higher levels of customer satisfaction; AMA found a 17% increase in consumer purchase intent when AR is used in retail <sup>10</sup>. As the use of AR enables the customers to get a better feel for the product before purchasing, the risk of returns is decreased - Shopify reported a 40% decrease in returns from 3D visualization <sup>11</sup>. The future of AI has exciting prospects increasing sophistication, wider adoption and greater integration are to follow. In 2021 the market size was valued at \$2 billion and is expected to grow to upwards of \$61.3 billion by 2032 (a CAGR of 41.4%, 2022-2031).

# Future Outlook

## Macro Impacts

In an ever-changing global economy, the environment of the consumer sector requires innovation, fierce competitiveness, and brand loyalty to navigate the complex challenges posed by macro-economic impacts. Despite the sector's non-cyclical nature, understanding the influences of trends such as shifting preferences, technological advancements and geopolitical developments is essential for stakeholders within the consumer sector to reach informed decisions.

Currently, one of the largest economic trends likely to influence the sector is inflation and, subsequently, the cost of living. Post-pandemic, consumer spending behavior is recovering convincingly from the crisis of widespread strained disposable income caused by energy market volatility due to geopolitical factors, rocketing production costs and unemployment levels.

In terms of fiscal policy, conveyed in the new labour budget, set at the end of October, outlines the importance of managing inflation, aiming for 2.6% in 2025 <sup>12</sup>. The horizon looks set for growth, and firms within the discretionary sector will particularly benefit, with demand for luxury purchases creeps back up to above pre-COVID levels.

Furthermore, as awareness around sustainability, ethical practices and eco-friendliness soars, a shift in preferences toward ESG initiatives will influence consumer behavior, brand loyalty prospects and market competition, profoundly.

Approximately 46% of UK consumers now buy sustainable products to limit their impact on the environment. Furthermore, the average consumer states they are willing to pay 9.7% more for sustainably produced goods <sup>13</sup>. Regulation to further stimulate ESG actions is highly likely, so a long-term consumer gainer will have to embed the initiatives into their core strategy, innovating to where the growth is.

## Industry Specific Issue

Consumer market stocks can be highly volatile due to shifts in consumer sentiment, macroeconomic factors, and economic fluctuations. Consequently, a major risk to the consumer industry could stem from an elevated global inflation rate, due to escalating global political tensions, which could precipitate a rise in operating costs for businesses, thereby compressing profit margins <sup>16</sup>. Thus, such financial strain could unfortunately force some companies to resort to measures like layoffs or downsizing to maintain financial stability, seen by Starbucks and Home Depot. Similarly, despite consumer discretionary spending improving, with the economic environment being so unpredictable, alongside the increased living costs, the automotive industry can face huge challenges for growth due to uncertain consumer spending. As, companies like Toyota (-10.67%) and Volkswagen (-21.15%) have struggled, due to periods of economic uncertainty and lack of consumer discretionary spending <sup>14</sup>. Also, with many organizations strengthening their e-commerce dominance and implementing technologies such as AI and the introduction of AR, there is a major concern due to the growing cybersecurity attacks on organizations <sup>17</sup>. As, these cyber-attacks can lead to reputational damage, decreased consumer trust and impacting stock performance significantly, as seen recently through Equilend, who process trillions of dollars of securities transactions a month was on shutdown <sup>15</sup>.

9. <https://www.retail-insight-network.com/data-insights/top-ranked-retail-companies-in-augmented-reality/?cf-view>

10. <https://www.reydar.com/augmented-reality-retail-stats-benefits-examples/>

11. <https://www.ienhance.co/insights/how-to-increase-roi#the-impact-of-3d-and-ar-on-key-business-metrics>

12. <https://lordslibrary.parliament.uk/autumn-budget-2024-key-announcements-and-analysis/#heading-8>

13. <https://www.pwc.com/gx/en/news-room/press-releases/2024/pwc-2024-voice-of-consumer-survey.html>

14. <https://www.dw.com/en/volkswagens-crisis-how-can-europes-car-industry-survive/a-70231806>

15. <https://www.pionline.com/cybersecurity/equilend-cyberattack-leaves-banks-stuck-excel-and-headache>

16. <https://www.statista.com/topics/9729/impact-of-inflation-on-consumer-behavior/#editorsPicks>

17. <https://partners.wsj.com/simon-kucher/ai-the-business-growth-superpower/decoding-consumer-shifts-for-better-growth/>

# Current portfolio analysis

## Spotify



The investment in Spotify, initiated in December 2023, at a share price of \$196.15 per share with an initial buy in of \$714, has yielded comparatively exceptional returns over a one-year period ending 14th December 2024. With 3.64 shares purchased, the current value of the investment stands at \$1,758.40, which translates to a \$1,044.40 return, or a 146.28% ROI. As portrayed, Spotify's performance significantly exceeds that of the media and entertainment industry, as well as the wider market, depicted in the S&P 500, which returned around 55% over the given time. This performance can be attributed to Spotify's reports of better-than-expected earnings, due to focused investment on AI to power recommendations and expanding of product availability in audiobooks and podcasts, as outlined in their most recent shareholder deck [18](#). This has earned them a 31.7% market share against competitors, and investors suggest there is still a significant outlook for growth, with both the earnings growth rate and the EPS expected to grow proportionately faster than peers, and the return on equity forecast 23.5% in 3 years, above analysts' forecasts for the industry [19](#). With a healthy market position, and promising innovative potential at Spotify, the stock is rated as 4 (Overweight). Oakwood is advised to hold.

## Haleon

Since the initial buy-in on December 1, 2023, at \$8.45 per share, Haleon has delivered a 6.6% return, with its current price at \$9.01 and a portfolio value of \$756.84. This performance is notable given Haleon's organic revenue growth of 8.0% in 2023 and a 10.4% rise in adjusted operating profit at constant currency, which exceeded medium-term guidance and bolstered its competitive edge, with 58% of its brands maintaining or growing market share. Compared to the S&P 500, which typically averages 10% annual returns, Haleon's achievement within less than a year highlights its resilience in the consumer health sector. Analysts offering 12-month price targets have set a median target of \$11.39, representing a 17.33% upside from the current price of \$9.71, with consistent "Buy" and "Outperform" recommendations reinforcing confidence in the stock [21](#). With a rating of 4 (Overweight), Haleon is supported by strong financials, strategic geographic expansion, a solid dividend outlook, and a £500 million share buyback program for 2024 [20](#). Oakwood is advised to maintain an overweight position, given its robust fundamentals, innovative focus, and growth trajectory.

## Uber

Since the initial investment on December 4, 2023, at \$62.25 per share, Uber Technologies Inc. has delivered a 14.51% return over one year, with the current price at \$71.28 and a portfolio value of \$784.08 [23](#). Uber's performance aligns with the typical 10% annual return of the S&P 500, demonstrating steady growth in a shorter period. The company's Q3 2024 earnings exceeded expectations, reporting \$1.20 per share versus the consensus of \$0.41, and its \$11.19 billion revenue for the quarter outperformed forecasts, marking a 26.8% year-on-year increase [22](#). Analysts remain highly optimistic, with 37 "Outperform" and 13 "Buy" ratings as of November 28, 2024. The median 12-month price target of \$90.00 suggests a 26.28% upside from the current price, with high estimates reaching \$120.00, reflecting strong confidence in Uber's growth trajectory.

Given Uber's strong market position, robust financial performance, and strategic expansion into high-growth areas, the stock is rated as 4 (Overweight) [23](#). Its significant improvements in revenue and earnings, alongside consistent analyst support, signal a favorable outlook. Oakwood is advised to maintain an overweight position, with the potential to increase exposure to leverage the expected upside.

18. <https://investors.spotify.com/home/default.aspx>

19. <https://simplywall.st/stocks/us/media/nyse-spot/spotify-technology/future>

20. <https://www.haleon.com/investors/results-reports-presentations/results>

21. <https://markets.ft.com/data/equities/tearsheet/summary?s=HLN:LSE>

22. <https://investor.uber.com/financials/default.aspx>

23. <https://markets.ft.com/data/equities/tearsheet/summary?s=UBER:NYSE>



# Conclusion

The consumer industry is on the verge of significant growth, supported by a two-year high in consumer confidence and a reduction in interest rates from 5% to 4.75%, signaling an improved investment climate. Key players such as Take-Two Interactive exemplify the industry's dynamic potential, with their acquisition of Gearbox Entertainment expanding their gaming portfolio and fostering innovation, though this has introduced challenges for competitors like Embracer Group. The sector's growth will be further driven by recovering consumer spending behavior and increasing demand for discretionary products, underscoring the importance of adapting to macroeconomic shifts and consumer preferences. Sustainability and ethical practices are no longer optional but vital for capturing market share, as ESG considerations increasingly influence both consumers and investors. Additionally, the integration of augmented reality is set to redefine the retail experience, meeting growing demands for convenience and innovation. With Uber Technologies Inc. demonstrating strong earnings growth and market share expansion, and Haleon achieving robust revenue growth and geographic diversification, both companies highlight the sector's resilience and lucrative investment opportunities. Together, these developments position the consumer industry as a fertile ground for strategic investment and sustained prosperity.