TULLY & HOLLAND
Investment Banking for Consumer Companies

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How Some US-Based Consumer Product Companies May Stay Resilient Amid Tariffs

On April 2nd, President Trump announced sweeping new import tariffs, including a 10% baseline levy and steeper "reciprocal" rates on dozens of nations. These "Liberation Day" measures represent a sharp escalation in trade barriers. Economists and consumer product industry leaders have warned that such tariffs can raise costs for US businesses and consumers, driving up prices on the physical or virtual shelf. **During this time of market turbulence, certain US-based consumer product companies can stay formidable. In an M&A context, companies that possess one, or more, of the following strategic "identities" can maintain strong growth outlook and valuations:**

1) ***"I'm a defensive good"*** : the company sells essential or downturn-resistant products that consumers will demand, even in tough times and at slightly inflated prices. Investors will pour into staple companies that are viewed as inelastic. Products that elevate personhood – for example lipstick, some luxury products – may experience elevated velocities. Market reaction thus reflects confidence that these companies' earnings are resilient, keeping more premium valuations.

2) ***"I'm largely made in the USA"*** *:* without stating the obvious - the company that relies less on imported materials and production is inherently less exposed to import tariffs. Many U.S. consumer-product companies, *especially in food and beverage*, conduct the bulk of their operations domestically- providing a natural shield against tariffs. A brand with a largely domestic supply chain can continue sourcing raw materials and producing goods without incurring the new 10% (or higher) import taxes that competitors might face. *More costly packaging may still be deleterious to margins*- but firms that are more insulated can either 1) keep prices more stable (gaining an advantage and possibly market share), or 2) enjoy higher margins if industry-wide prices rise.

3) ***"I'm at the leading edge of consumer trends"*** : even if tariffs increase costs in 2025, consumer demand for products that match modern tastes and preferences may remain strong. For example, within food and beverage, "clean", "transparent", "close to nature" products can remain a powerful force. Brands at the forefront of "organic," "plant-based", and "protein-rich" may stay attractive in

Griffin Keady
Managing Director
gkeady@tullyandholland.com

the eyes of buyers. Health-conscious and environmentally-aware consumers- especially those in younger generations (Gen Z, Gen Alpha) - value branded products that align with their values. Because of higher levels of loyalty, these companies can potentially maintain margins by passing on higher costs more easily than conventional brands.

There are of course many possible downsides to the consumer products industry in an age of tariffs. For example: new and exciting consumer brands within food & beverage, that source global flavors and ingredients, may have growth severely stifled. Time will tell whether consumers trade delicious global-flavors for better value.

Despite the fog of uncertainty, certain consumer companies will maintain strong levels of demand, growth, and valuation, particularly if possessing some of the aforementioned "identities."

Griffin Keady
Managing Director
gkeady@tullyandholland.com