



COSMETICS MANUFACTURING
Update | Q3 2020



Victory Partners

Cosmetics Manufacturing Update | Q3 2020

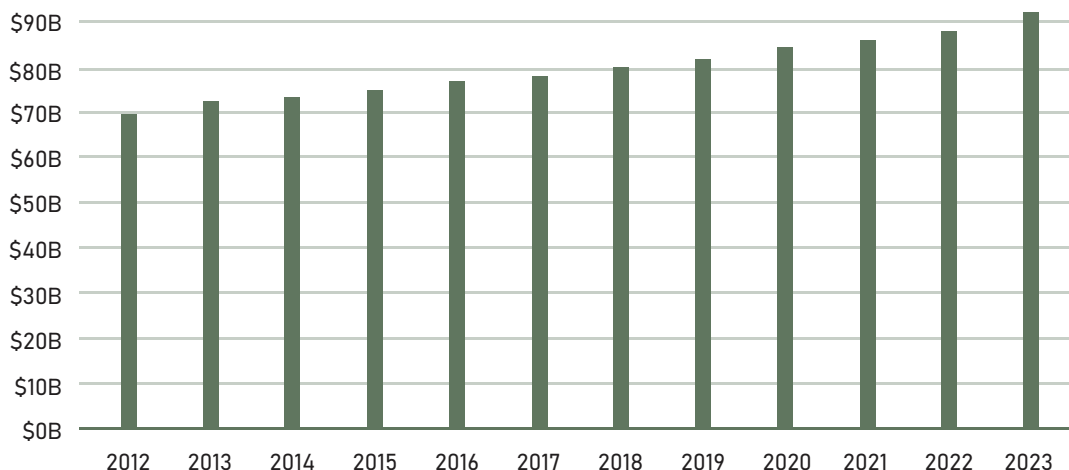
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INDUSTRY OUTLOOK

Common Thread Collective, a digital growth agency, has identified the Direct to Consumer cosmetics industry as one of the fastest-growing consumer product categories worldwide. According to Statista, the cosmetics industry will have grown an estimated 5.9% CAGR from 2018 with revenues growing from \$507.8B to \$569.4B by 2020. Perhaps even more notable is the change in landscape, as this sector has opened up to smaller players who are able to provide new, fresh products. Industry dynamics have shifted due to the growing proportion of purchases from younger generations who possess an affinity for bold, modern ideas that break from the norm. These conditions favor new entrants over incumbents who are often stuck in large-scale manufacturing processes. These conditions favor nimble, smaller players who tend to be better at providing the novel, intriguing products that younger consumers crave.

The State of the Beauty & Personal Care Industry
in the US: Total Sales



Source: Statista 2020



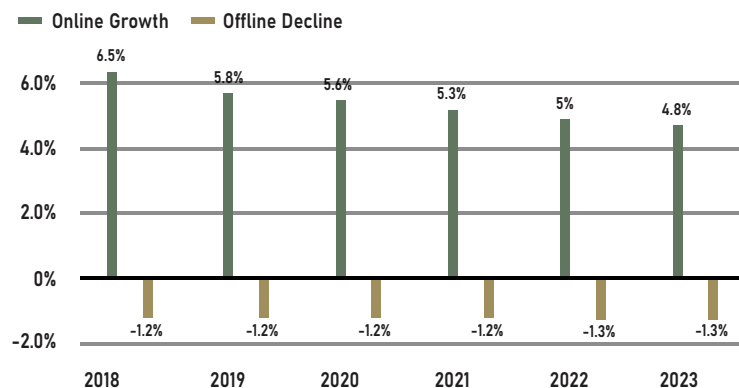
M&A OVERVIEW

According to Allied Market Research, a research company that performs deep industry analysis, product launches and acquisitions are the two most popular business development tactics within the cosmetics sector. Within skincare, acquisitions have in been fact the most popular method to achieve growth in the past three years. Other prominent strategies include expansions and agreements. 2019 was a particularly busy year for beauty M&A activity, including Kylie Jenner's sale of 51% of her Kylie Cosmetics empire to Coty for \$600 million. New CEO Christoph Honnefelder will partner with Kylie to implement an expansion plan aimed at transforming Kylie's empire into a "global powerhouse brand". Investment Bank Capstone Headwaters announced that total beauty M&A activity for 2019 was up 19% from 2018. While deal flow in the early months of 2020 took a dip due to Covid-19, transaction volume has rebounded with 171 deals ranging from \$150M to \$5B in enterprise value closed in July. A report by William Blair projects that merger activity will stay strong through the remainder of 2020. William Blair notes that with activity accelerating, investors may be willing to pay a premium for companies with healthy financials and sturdy, valuable assets. Furthermore, acquirers with strong cash reserves have a history of pursuing acquisition-based growth over organic growth in order to mitigate risk. The Coronavirus has further augmented the need for these firms to seek out acquisitions in order to preserve positive financial performance, or to otherwise neutralize losses.

Shopping Activity Continues to Migrate to Online Platforms

Much like purchasing trends in other segments, cosmetic customers are doing more of their shopping online, while in-person spending is declining. Online cosmetic sales grew at 6.5%, 5.8%, and 5.6% in 2018, 2019, and 2020, respectively. Meanwhile, offline spending has decreased by 1.2% year over year since 2018 with forecasts estimating this decline to continue into the future. Nevertheless, customers still report in-store purchasing, as the most popular channel to buy cosmetic products. Roughly 60% of women in the United States stated drug stores or pharmacies as being among their preferred destinations for buying cosmetics. Mass merchandisers, online shopping, and department stores were listed as the second, third, and fourth favorites options, respectively, for cosmetic purchases. Another interesting insight extracted from sector data is that different forces dominate different platforms. Within traditional retail, the top 20 manufacturers constitute 96% of all revenue. Conversely, within e-commerce, the top 20 manufacturers only account for 16% of all sales, with smaller firms earning 84% of total cosmetic revenues. Such analysis indicates that cosmetic startups and smaller players in this space can achieve significant success by targeting online shoppers.

Percent Change on Online vs Offline Sales Channels



Source: Statista 2020

Cosmetics Manufacturing Deals Outlook

Announced	Target Name	Aquirer Name	Value (\$B)	Segment
11/18/20	Have & Be Co. Ltd.	Estée Lauder	\$1.7B	Perfumes, Cosmetics, Toiletries
11/18/20	Iberchem	Croda International Plc	\$990M	Perfume



M&A OVERVIEW: CONTINUED

10/29/20	Boxycharm	Ipsy	\$500M	Makeup
10/08/19	Drunk Elephant	Shiseido	\$845M	Skincare
09/30/20	Perricone MD	The Hut Group	\$60M	Skincare
09/24/20	Alés Groupe	Impala	\$13.5M	Hairdressing
07/11/19	Laboratoires Filorga	Colgate	\$1.68B	Skincare
06/19/20	Thayer Natural Remedies	L'Oréal	\$400M	Skincare
06/11/19	Tatcha	Unilever	\$500M	Skincare
06/05/20	Charlotte Tillbury	Puig	\$1.5B	Makeup
06/01/20	Coty Inc.	KKR	\$4.3B	Fragrances, Cosmetics, Skincare, Hair Care Products

SEGMENT HIGHLIGHTS: SKINCARE

Skincare currently constitutes 19.5% of the total beauty market, drawing \$145.2B in revenue in 2020 based on data gathered from Euromonitor and Cosmetics Business. Global skincare revenue grew at a CAGR of 5.1% in the 8-year span from 2012 to 2020, from \$99.6B in 2012 to \$148.3B in 2020. Skincare is considered to be the most technically advanced and diverse category within the beauty industry. Skincare products must undergo a series of dermatological tests before being approved for sale to the general public. Recent trending technologies includes nanogold and nanosome technology that incorporates micro-particles as small as a nanometer into various creams and moisturizers. This innovation enables product manufacturers to deliver active ingredients, oxygen, and nutrients to deeper layers of the skin. Other developing trends include plants-first skin formulas, which do not use animal products.

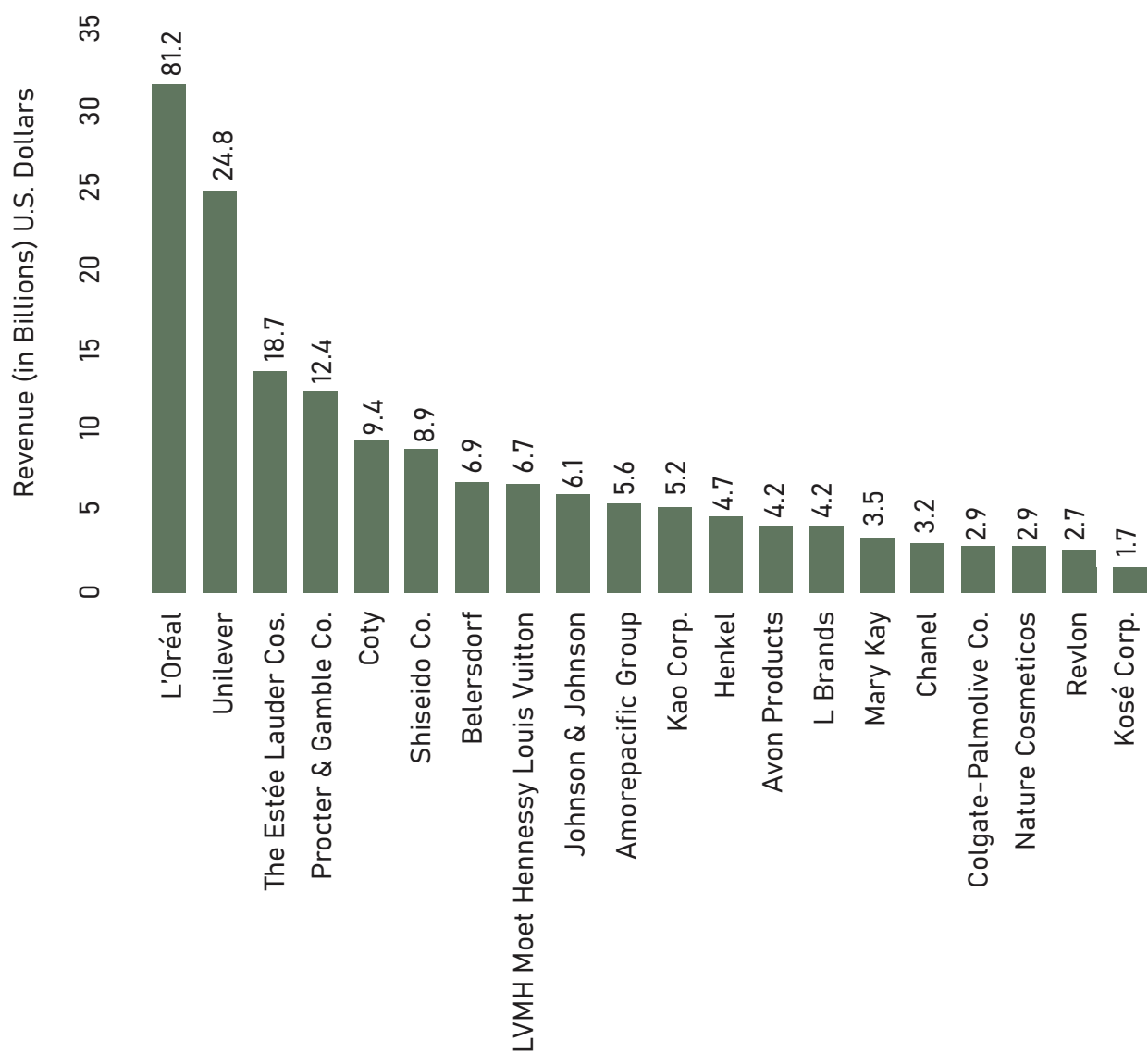
“ [Our] bank's pipeline of beauty and skincare deals coming to market in 2020 is at a record level. ”

- Steve Davis
Managing Director at Intrepid Investment Bank



SEGMENT HIGHLIGHTS: MAKEUP

The impact of the internet and social media on the makeup sector is prominent and arguably more pronounced than any other segment of the beauty market. Popular marketing tactics for the makeup industry used to include more rudimentary methods such as free makeup samples at mall kiosks. As of recent, strategies have evolved to sending Instagram influencers free product in exchange for marketing their products to millions of followers. Other creative advertising methods include makeup tutorials published on YouTube that can often garner millions of views. The global face makeup market was worth \$32.0 B in 2019. From a geographical perspective, Europe leads the international makeup market with increasing demand for natural, herbal, and organic face makeup. Everyday application of makeup is deemed to be harmful for the skin as it can block pores and induce acne. However, halal, natural, and organic face makeup with moisturizing, anti-septic, anti-bacterial, and anti-inflammatory properties could eliminate these issues and drive increases to future spending.



Source: Statista

Beauty Manufacturer



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FIRM MANTRA

“ It is not the critic who counts; nor the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat. ”



Theodore Roosevelt

- Theodore Roosevelt
The Man in the Arena



FIRM TRACK RECORD

Broad Industry Experience in Mergers & Aquisitions





FIRM TRACK RECORD

Broad Industry Experience in Mergers & Aquisitions



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