

Beauty

Sector and M&A Report

2017

Beauty is now in 'the eye of the acquirers'

The M&A market for beauty products has reached a tipping point - 'acquire, or be acquired'. Consolidation is being driven by large strategic players, who are systematically acquiring smaller players as they emerge. Private equity is also ramping up investments and boosting valuations.

The 'Global 30' enjoy a massive buying advantage over the rest of the market, which is made up of mainly small businesses with specialized offerings. These giant groups have a genuine need to add growth assets to their portfolios, and are eager buyers of innovation, creativity, potential for geographic expansion, and digital and social connections. (They struggle to foster innovation themselves, and rarely create brands from the ground up any more.) Meanwhile midcaps are acquiring for scale and new capabilities in related categories that can be added to product portfolios.

- **Growing market:** The global beauty market grew by 5% in 2016 and is growing at a 10-year CAGR of 4%, thanks to growth in emerging markets and demand for 'premium'. The hottest segment is currently make-up, which grew by 8.4% in 2016. Other trends to watch out for include 'natural & organic', 'active beauty', and 'sustainable choice + ultra performance'.
- **Market power is lopsided:** the 'Global 30' beauty companies represent some 63% of the global market, while the rest is made up of mainly small actors (ie. brands). This has created a ripe environment for deal-making and market consolidation, as small players often require growth capital, while the largest players tend to lack the necessary innovation, creativity and digital-media savvy of the younger upstarts.
- **The M&A market is booming,** supported by large strategic groups, but also by midcaps and increasingly private equity. Europe is seeing the most deals, with 36% of all worldwide transactions in the last five years.
- **Deal drivers:** Deals are being designed to broaden product portfolios in specific segments, and to access new customers and geographies. The dynamic make-up segment is highly sought after, and brands with large followings on social media (You Tube, Instagram). The rise of the 'influencer' is a game-changer, as these online stars with millions of followers now have the power to make or break brands.
- **Valuations** for dedicated beauty players are generally high - the listed players are averaging 13.3x EBITDA, while the Capitalmind Transaction Database shows that double-digit multiples are common in the midcap space, with mid-teens and higher possible for best-in-class brands.
- **Private equity** has become an active market participant, on the lookout for attractive growth categories (eg. natural & organic), and also consolidation plays within mature market segments - eg. in France, the fragrances segment is widely fragmented, and the industry is increasingly seeking partners with growth capital.



Nicolas Balon
Partner, Capitalmind

"The beauty market has reached a tipping point, where small and mid-sized businesses need to steer their strategies towards accelerating international growth and/or being acquired. Market power is becoming more lopsided, as the largest beauty players continue to grow their market share and also outperform."

Key takeaways



Growth

The global beauty market grew by 5% in 2016, well ahead of global GDP of 3.1%. Make-up is the standout segment, posting a CAGR_{4YR} of 8.4%.



Market power

The market is dominated by a small number of large players: the collective revenues of the 'Global 30' represent some 63% of the worldwide market.



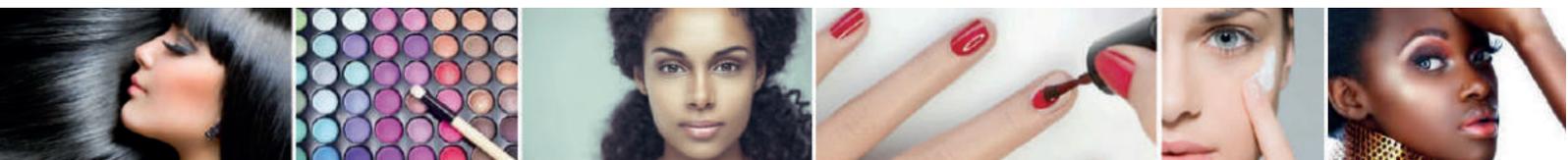
Trends

Growth trends are in many cases being driven by young consumers (Gen Z & Millennials). Reaching these new and emerging consumers is critical.



M&A

The M&A market is hot - we are on track for a record number of deals in 2017. Europe has the largest share of transactions worldwide, while France is the leading country.



The rise of 'influencers'

The rapid rise of beauty content on social media is turning the industry on its head. Powerful digital 'influencers' and their millions of followers can make or break brands, which is forcing traditional players to re-think strategies.

In a 2015 survey by Variety magazine, the five most influential people among Americans aged 13 to 18 were all YouTube stars. This represents a sea change in popular culture, and has far-reaching implications for brands looking to connect with these young consumers. The role of the influencer goes something like this: they post, snap, or tweet to their hundreds of thousands or even millions of followers, who then buy the products they recommend.

The shopping habits of Millennials and Gen Z are very different from those of Baby Boomers and Gen X. Gone are the days when women took their beauty tips from magazines. Nowadays social media platforms such as YouTube have become powerful tools for influencing young consumers, and an important shop window for new and emerging brands that need to reach larger customer bases. Conversely, the social media phenomenon represents a massive challenge for

traditional beauty players. Shoppers between the ages of 18 and 34 now represent nearly 29% of the total beauty market*, but the big brands are still trying to figure this demographic out. "We are trying to stay in the game", explains Jane Lauder, president of the cosmetics brand Clinique and the grand-daughter of Estée Lauder, the founder of Estée Lauder. "It's all evolving so quickly. Every day is different and everything is constantly changing."

It's early days for influencer marketing, but the initial signs are that it is highly effective: according to one US market research group, influencer marketing delivers 11x higher ROI than traditional brand marketing.** Meanwhile, influencer collaborations in prestige make-up generate twice the amount of sales as celebrity-led ones in their first month*.

* Source: NPD Group
**TapInfluence and Nielsen Catalina Solutions (2016)

If you would like to discuss this report in more detail or opportunities for your business, please call



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Selected credentials in the beauty sector
(Capitalmind & affiliates)

<p>DESIGNER PARFUMS EA Cosmetics Distribution Financing advisory</p>	<p>CIRE TRUDON Strategic advisory</p>	<p>ST.TROPEZ The Ultimate Tan was advised on a capital injection supported by LDC</p>	<p>Brain Wash Shareholding reorganization</p>	<p>J.H. Partners sold GOSMILE to Undisclosed Family office</p>
Fine fragrance	Fine fragrance & scented candles	Sun tan	Hairdressing salons	Oral care

Smart advice, by your side, worldwide



A world map with various countries highlighted in white, indicating office locations. The countries listed are: Australia, Benelux, Brazil, Canada, Chile, China, Denmark, France, Germany, India, Italy, Japan, Mexico, Peru, Poland, Russia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, UK, and USA.

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