

GCG COSMETICS SECTOR

Report July 2021

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M&A DRIVERS

Strategic buyers have been very keen to cement their position at the top of the cosmetics industry by buying smaller companies that could represent a potential threat.

The industry has therefore taken a turn and developed into an “Acquire or be Acquired” market with large players wanting to up their ESG offerings.

Access to consumers

The majority of M&A transactions in beauty are designed to access consumers and expand product ranges. Larger corporates are frantically buying up smaller cosmetics houses in order to expand their product ranges and offerings to customers. Sales have increased year-on-year in the industry and this owes to the larger players constantly improving their product lines and offerings.

Access to channels

The pandemic has increased the need and desire for companies to have a strong virtual and online presence as in-person advertising in retail outlets was shut down for the majority of 2020. Brands with strong social media followings and strong e-commerce offerings have become more in demand as companies seek to exert more influence with customers.

Access to innovation

Acquisitions of smaller companies with innovative products gives larger corporates the ability to expand their product range and update their current products at a far faster rate than organically.

Access to markets

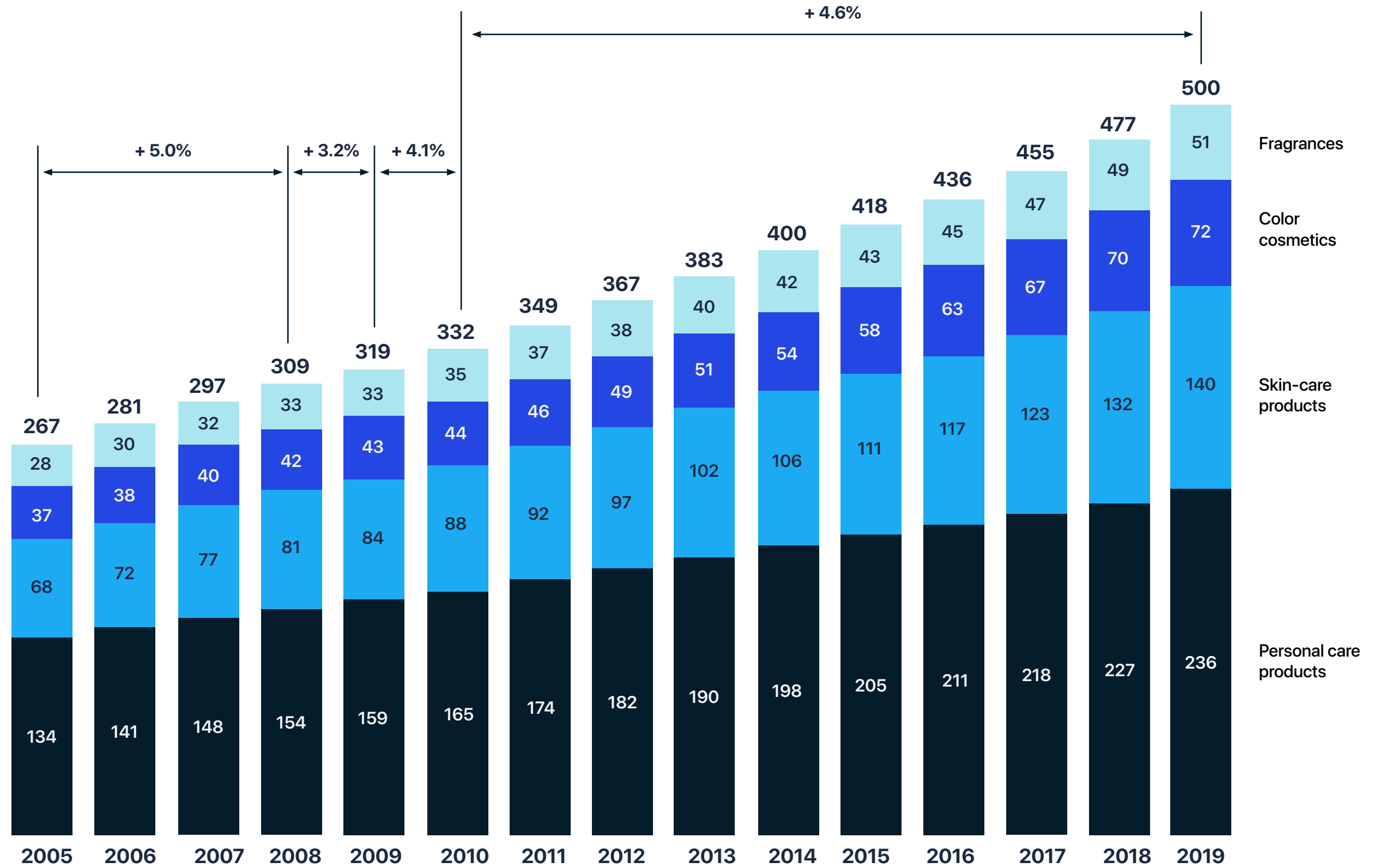
Expanding into new geographies is one of the quickest ways in which a business can increase its client base. This was seen in 2020 as companies looked at ways of growing via cross-border transactions.

Access to quality brands

Historically, cash-rich strategic acquirers have always focused on established brands rather than having to built them in-house. However the pandemic has meant that companies have to innovate or become irrelevant and therefore this has pushed the acquisitions of lesser known but innovative brands with more niche customer bases and geographical profiles.

M&A DRIVERS

Global Beauty-Industry Retail Sales, billion USD



Source: McKinsey & Company 2021

TRENDS IN THE COSMETICS INDUSTRY SECTOR

Trend: D2C – Direct to Consumer

Online sales in all sectors of the beauty industry are booming, with additional boost coming from COVID-19. D2C and Social Shopping play an outstanding role fueling e-commerce, apart from the big traditional players. In the US, brick-and-mortar still rules with 81% of the market, with offline market share declining, while online climbing.

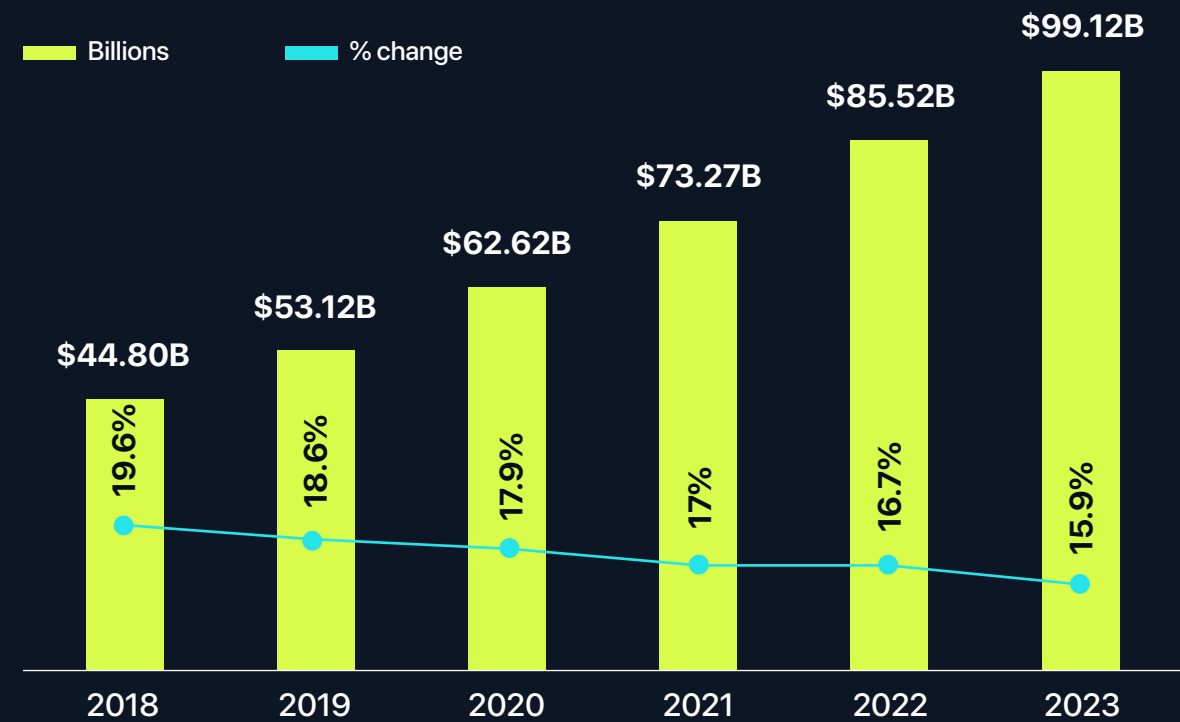
However, cosmetics brands looking to rule on a global scale must follow a customer-centric model that intersects both digital and physical channels resulting in an increasing number of pop-up stores. These allow the brands to reap the benefits of a physical presence to capture consumer demand without the real estate costs. Amazon's Hair & Beauty Salon opening in London is a most recent and spectacular example.

In B2B companies need to excel in transforming from pure field sales to e-shop sales in order to cut sales/distribution cost and react to increasing e-com demand of their business partners.



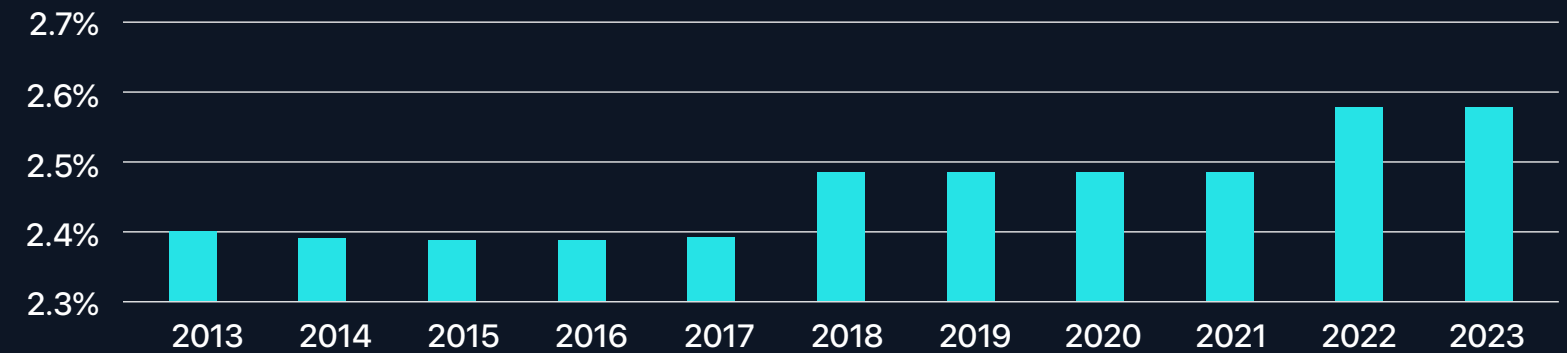
TRENDS IN THE COSMETICS INDUSTRY SECTOR

Health, Personal Care & Beauty Retail E-commerce Sales

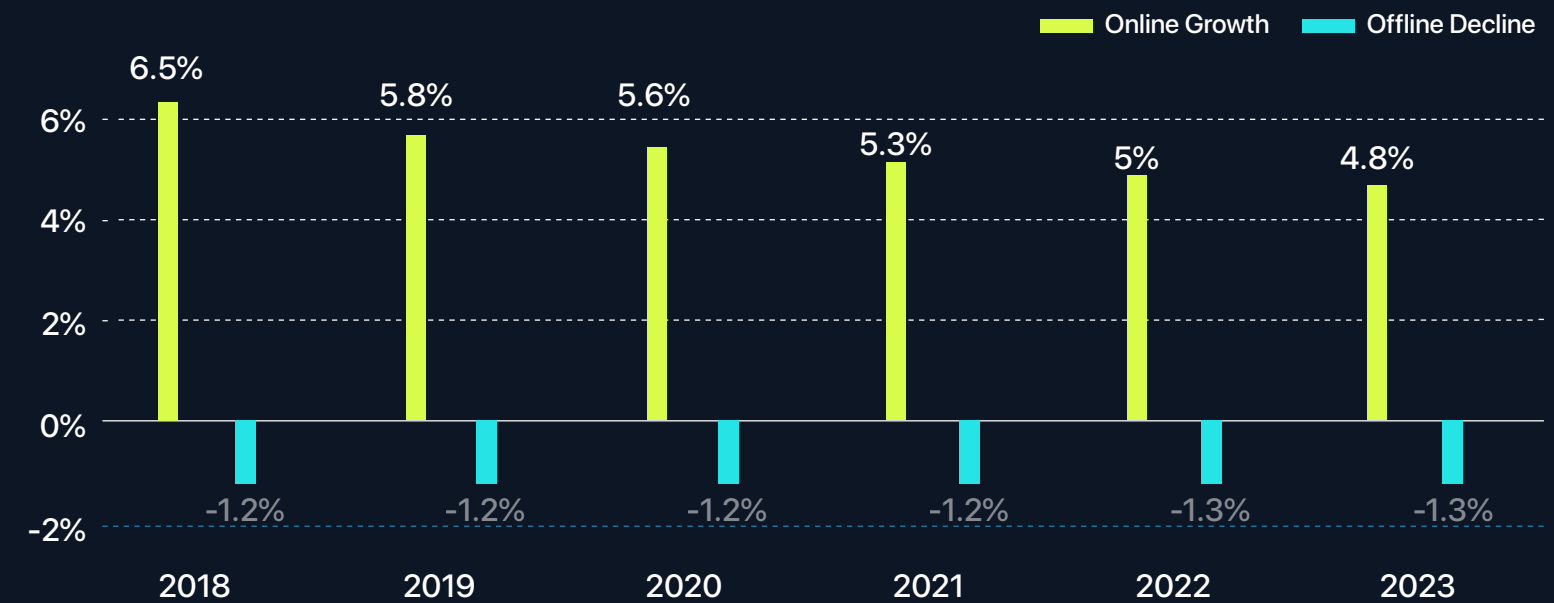


Source: Statista

Percent Change in Overall Market Growth



Percent Change in Online vs Offline Sales Channels



TRENDS IN THE COSMETICS INDUSTRY SECTOR

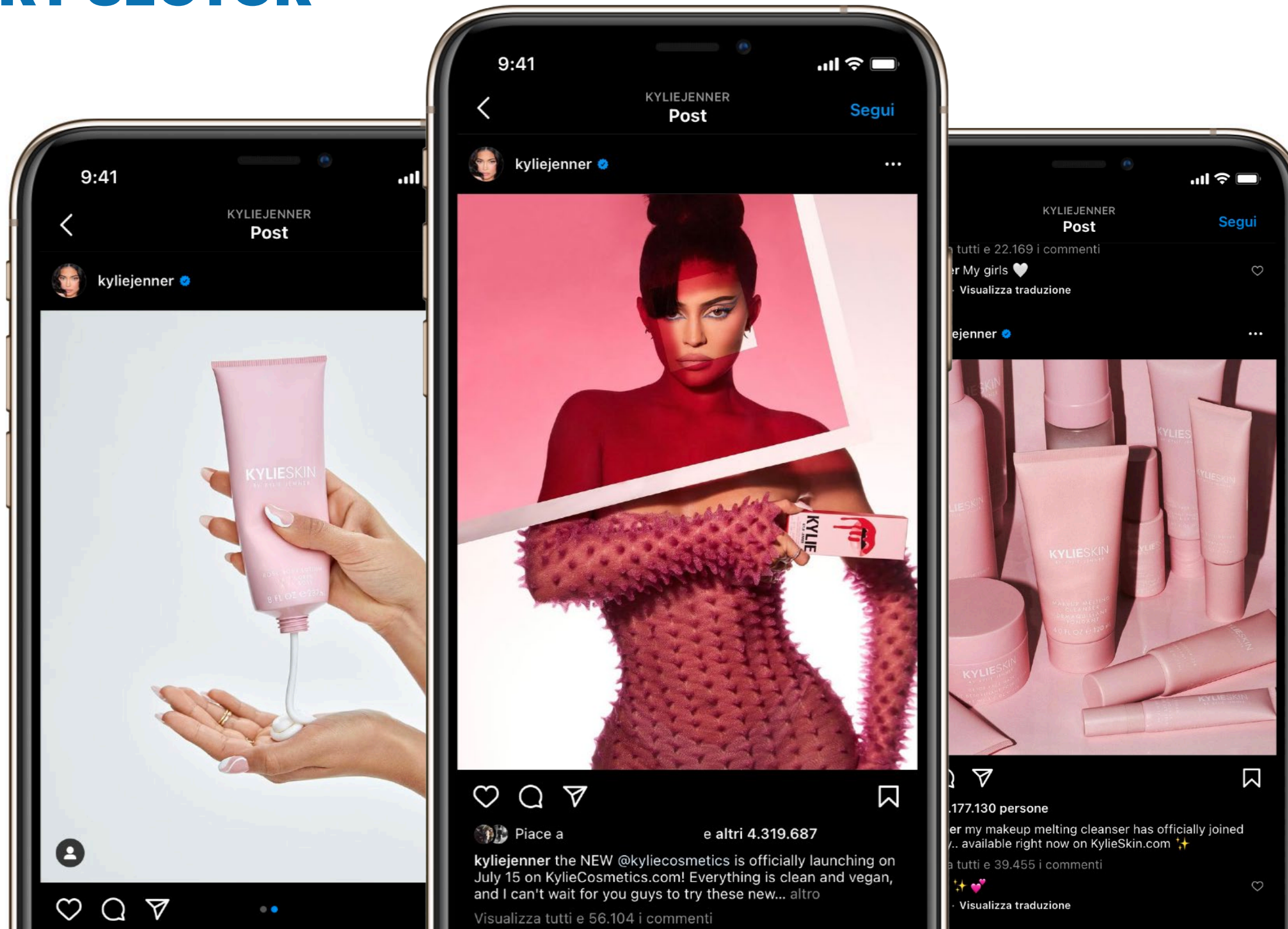
Trend: Social Selling/Shopping

Social media selling is shaking the fundamentals of e-commerce with very quick-to-market products and innovations. With the power of influencers, expert bloggers and brand evangelists like Kylie Jenner, online offerings lend themselves to new e-commerce penetration opportunities for D2C brands. This strong trend is coupled with more consumer-packaged product sizes.

The full power of social shopping still seems to be waiting to be untapped since beauty products make up the second-largest product category for engagement across Instagram, Twitter, and Facebook (see graph on page 9). Even more striking, 29% of Millennials make purchasing decisions based on media or online reviews — 3x greater than that of Gen X'ers and a whopping 6x more than Baby Boomers.



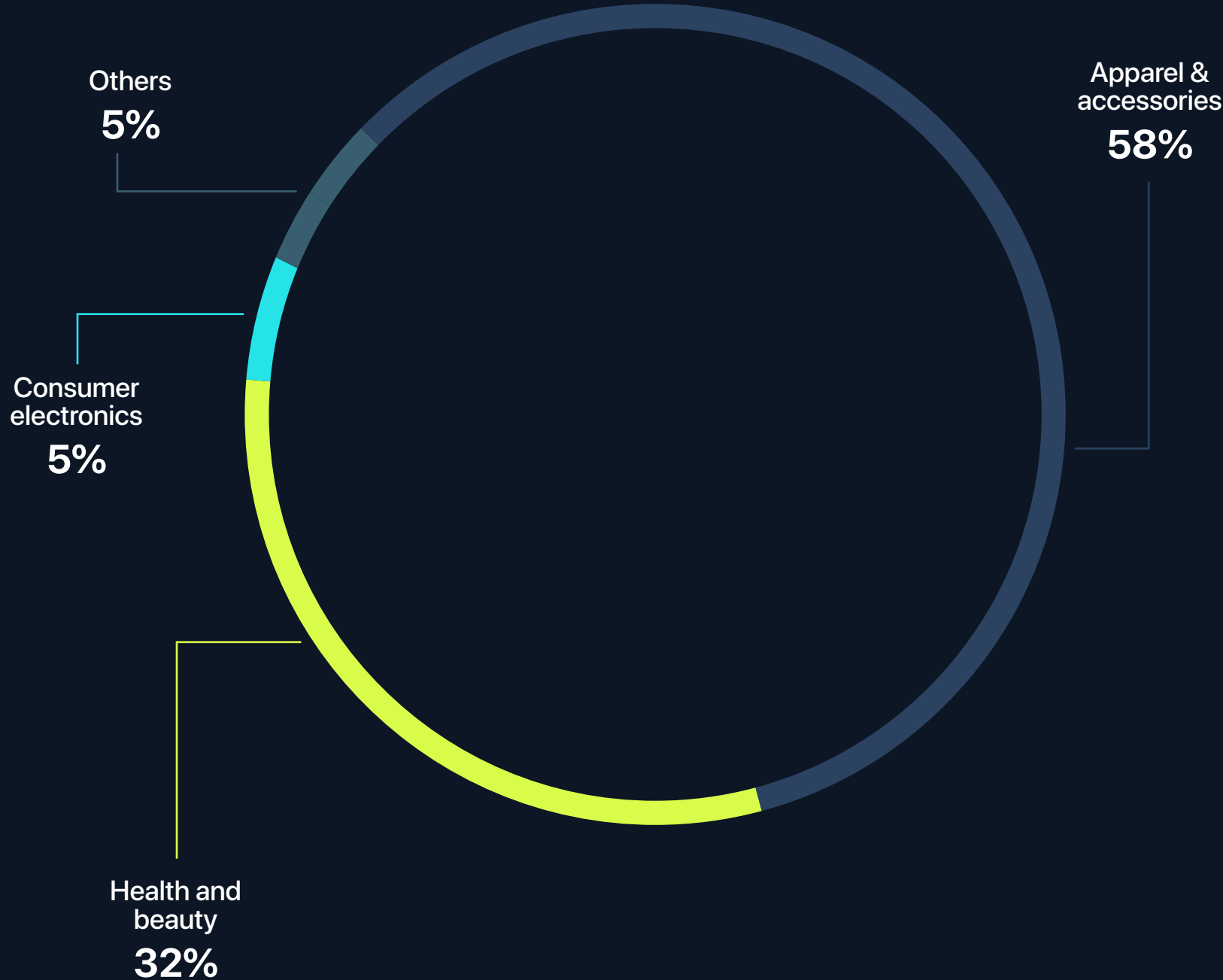
TRENDS IN THE COSMETICS INDUSTRY SECTOR



TRENDS IN THE COSMETICS INDUSTRY SECTOR

Global Share of Social Media Actions by Product Category

Actions include all content and post-level reactions, comments, shares, retweets, likes and dislikes across Facebook, Instagram and Twitter.



Source: Statista 2020

TRENDS IN THE COSMETICS INDUSTRY SECTOR

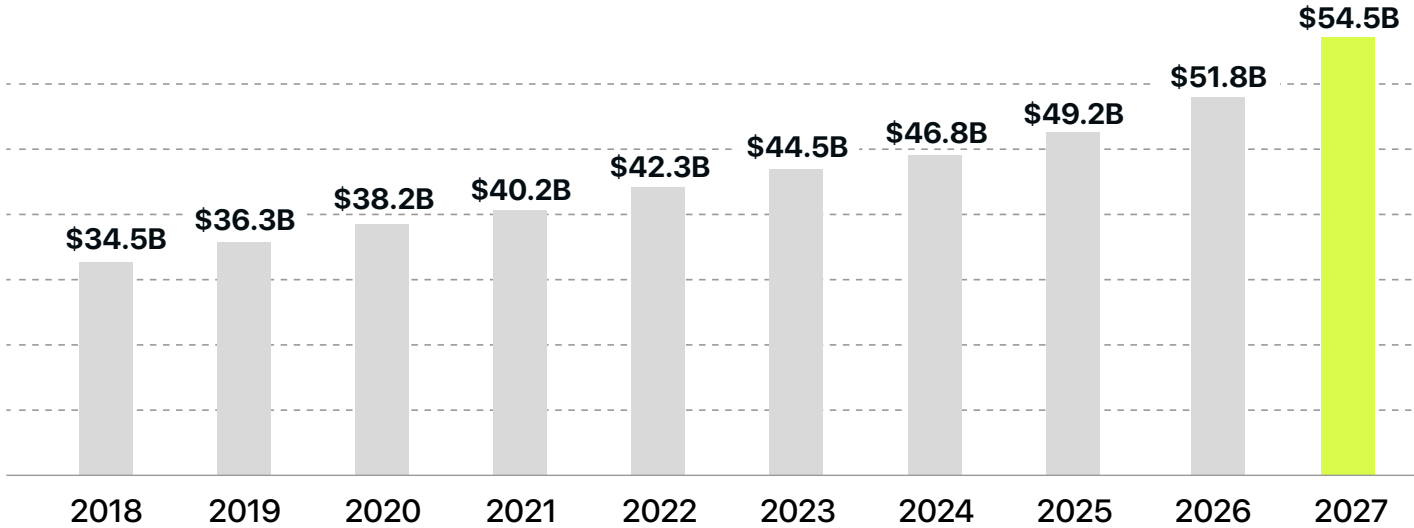
Trend: Natural Cosmetics

Rising incomes and sustainability awareness make consumers more considerate of both product effectiveness and ingredients. In marketing terms, this is translated into the use of buzzwords, such as natural, organic, free-from or clean. Often the product claims are accompanied by social and environmental campaigns, supporting the eco and sustainability character of the brand.

Not surprisingly, the global market value for natural cosmetics is expected to nearly double from USD 34.5 bn in 2018 to roughly USD 54.5 bn by the year 2027.

Source: Statista 2018

Global Market Value for Natural Cosmetics



TRENDS IN THE COSMETICS INDUSTRY SECTOR

Trend: The Demographics of Beauty - Diversity, Ethnicity

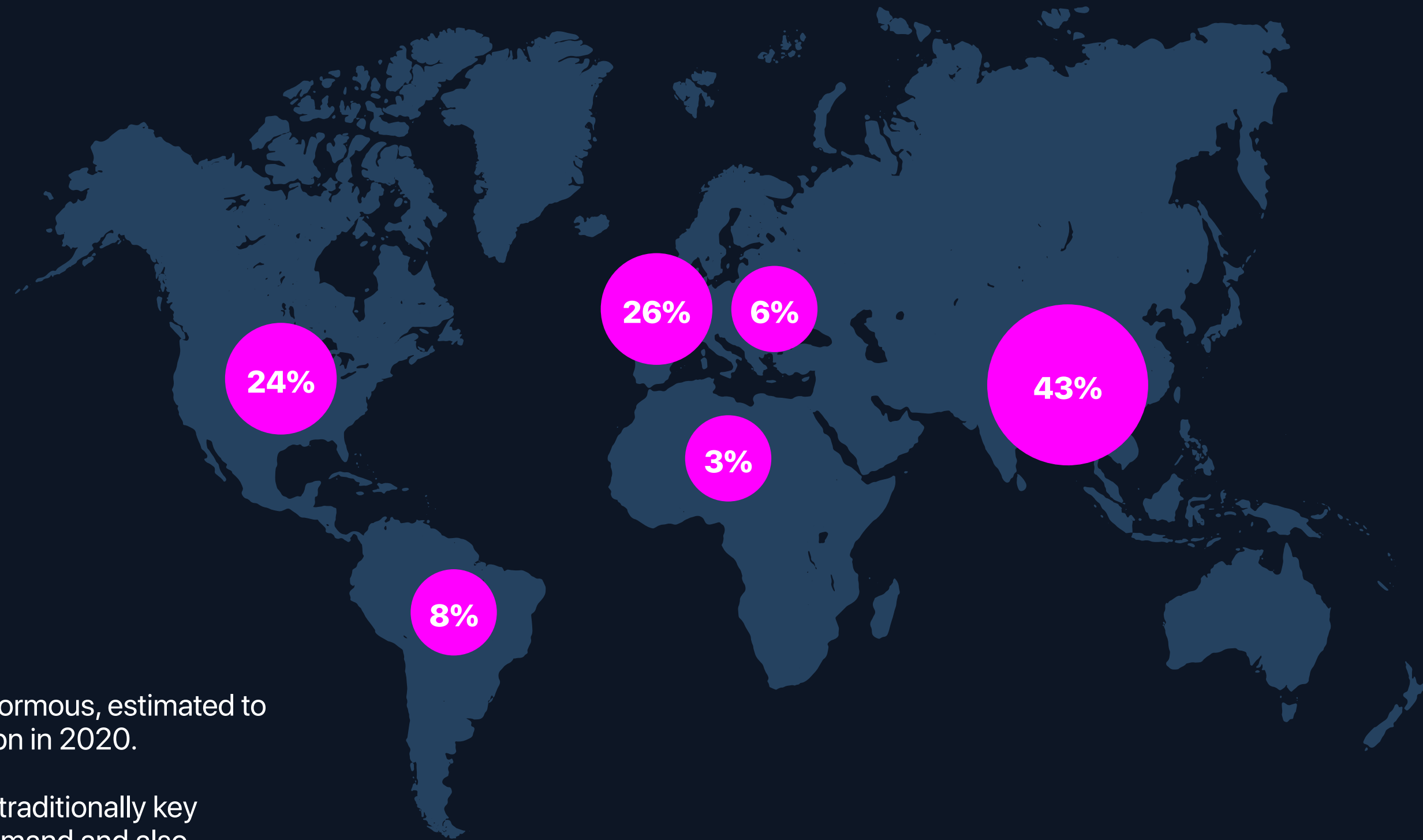
With non-western countries climbing in purchasing power, their influence on demographics follow. With ethnicity, culture, and rituals different from North America and Europe, diversity shapes the broader global market in its image.

Variety is now the norm, fueled also by better and fairer retail shopping experiences for everyone.

This reflects a sense that what used to be considered niche by archaic advertisers is now a loud wake-up call for marketers that diversity is critical for expansion.

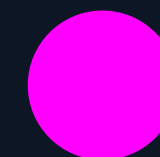


DEFINING THE MARKET



The global beauty market is enormous, estimated to be worth more than USD 500 bn in 2020.

Europe and North America are traditionally key markets (as both sources of demand and also as incubators for new market trends), however emerging markets in Asia and Latin America have also become seriously big-hitters and will continue to grow in importance.



Breakdown of the market by geographic zone

Source: L'Oréal

DEFINING THE MARKET

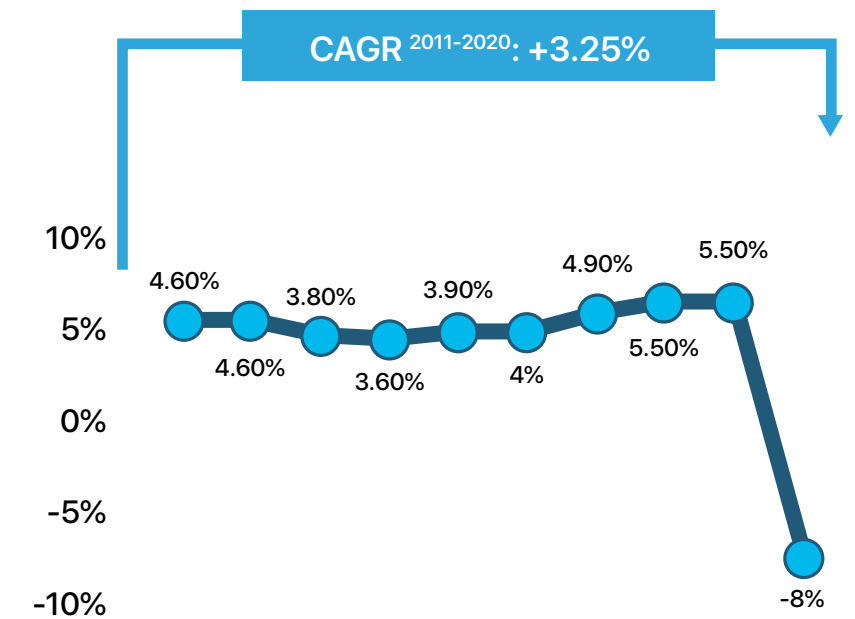
The beauty market decreased by 8% in 2020*, versus -3.4% for the global economy.

Over the past 10 years, it has grown by a CAGR of 3.25%*, driven by premium product categories and emerging markets.

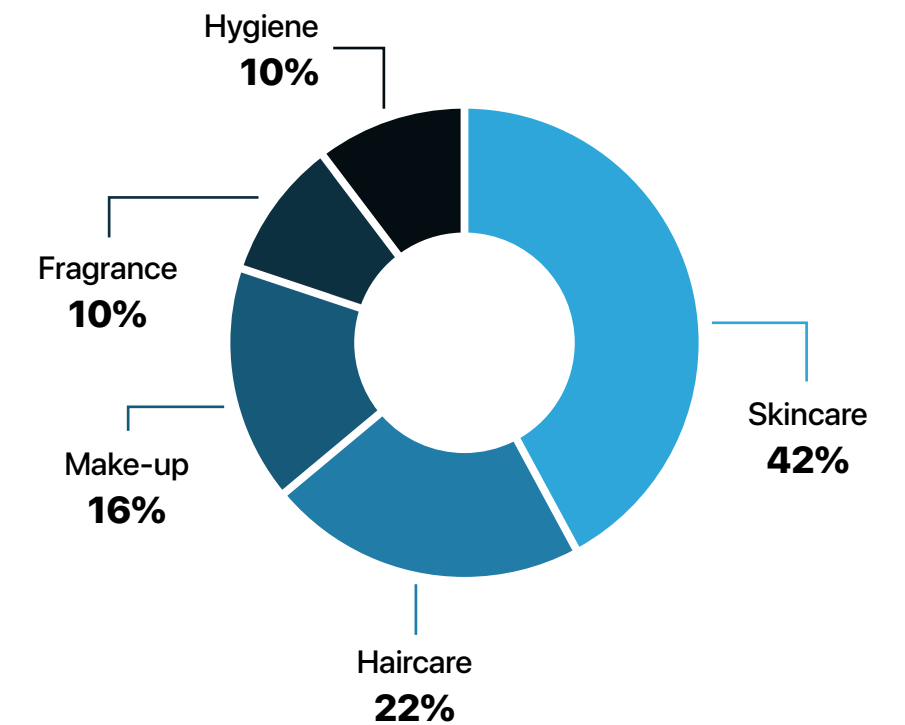
Growth in the global beauty market is being supported by emerging markets and rates of high innovation. Future growth is forecasted to remain strong for premium products, in both developed and emerging markets.

*Source: L'Oreal

Worldwide beauty market growth over 10 years (%)



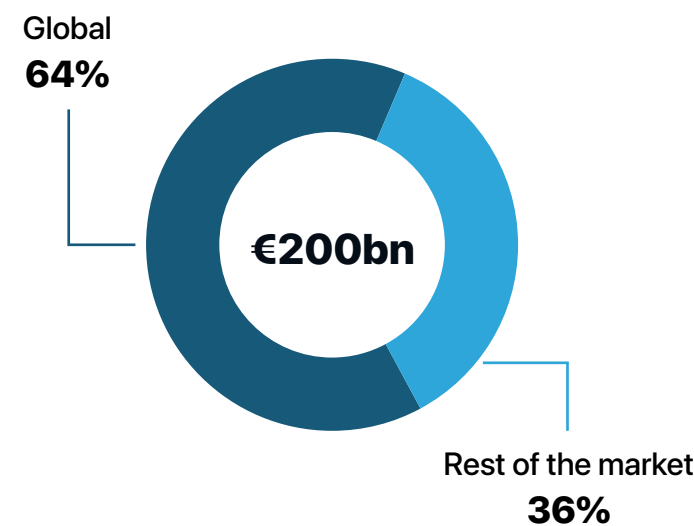
Worldwide beauty market breakdown by product category



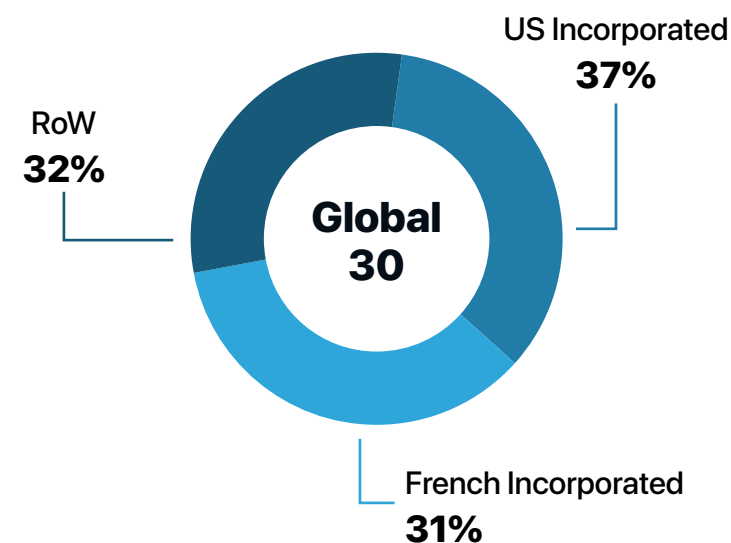
GLOBAL 30 PLAYERS

The market is dominated by a small number of giant listed and unlisted groups. Moreover, these behemoths are not standing still; they are aggressively pursuing growth opportunities, often via acquisitions. L'Oreal leads the pack with €27.99 bn in annual revenues and 2 acquisitions last year, followed by Estée Lauder with €13.25 bn.

Market concentration



Global 30 Country HQ



#	Group Name	Beauty Group Profile				Positioning				M&A 2020	
		Country HQ	Pure player	Beauty Sales 2020 in EUR Billion	Listed	Make-up	Franchising	Skincare	Haircare	Acquisitions	Disposals
1	L'Oréal	France	✓	28	✓	■	■	■	■	2	0
2	The Estée Lauder Cos.	USA	✓	13,3	✓	■	■	■	■	0	0
3	P&G **	USA		11,3	✓			■	■	2	43
4	Shiseido Co.	Japan	✓	7	✓	■	■	■	■	0	0
5	Beiersdorf	Germany	✓	7	✓			■	■	1	0
6	LG Household & Health	South Korea		5,8	✓	■	■	■	■	8	0
7	LVMH	France		5,2	✓	■	■	■		0	0
8	Chanel	France	✓	4,6		■	■	■		0	0
9	Johnson & Johnson	USA		3,7	✓			■	■	1	0
10	Henkel	Germany	✓	3,6	✓	■		■	■	3	0
11	Coty Inc. **	USA	✓	3,5	✓	■		■		2	0
12	Amorepacific Group	South Korea	✓	3,4	✓	■			■	1	0
13	Alticor	USA	✓	3,2		■		■		0	0
14	Natura Cosméticos *	Brazil	✓	2,6	✓	■	■	■	■	1	0
15	Avon products	USA	✓	2,5	✓		■	■		1	0
16	Mary Kay	USA	✓	2,5		■	■	■		0	0
17	Kao Corp.	Japan		2,3	✓	■		■	■	0	0
18	KOSÉ Corporation	Japan	✓	2,2	✓	■		■		0	0
19	Groupe Rocher	France	✓	2		■	■	■	■	0	0
20	Revlon/Elizabeth Arden	USA	✓	1,6		■	■	■	■	?	?
21	Puig	Spain	✓	1,6		■				1	0
22	Groupe Clarins	France	✓	1,5		■	■			0	2
23	L'Occitane Group	Switzerland	✓	1,5	✓	■	■	■	■	0	0
24	POLA Orbis Holdings	Japan	✓	1,3	✓	■		■		0	0
25	Guthy-Renker	USA	✓	1,3		■		■	■	0	0
26	Groupe Pierre Fabre	France	✓	1,1				■	■	0	2
27	Godrej Consumer	India		1,1	✓			■	■	0	0
28	Nu Skin Enterprises	USA		1	✓	■		■	■	0	0
29	Oriflame	Switzerland	✓	1	✓	■		■		0	0
30	Belcorp	Peru		0,7		■	■	■	■	0	0

VALUATIONS

The world's largest listed beauty players are performing strongly, with EBITDA multiple approximately in the range of 13 to 15. EBITDA margins are also healthy.

Beauty valuations are being boosted by a positive global growth story and high demand for deals from strategic buyers who want to quickly expand their product and/or customer bases.

Beauty Group	Profile		Financials					EV	EV/Sales	EV/EBITDA	EV/EBIT
Name	Country HQ	Sales FY20	EBITDA FY20	EBIT FY20	EBITDA Margin	EBIT Margin	2020	2020	2020	2020	
L'Oréal	France	34,349	7,119	5,520	21%	16%	208,785	6.08	29.33	37.82	
Estée Lauder	USA	14,294	2,723	686	19%	5%	43,522	3.04	15.98	63.44	
Coty	USA	4,718	346	-829	7%	-18%	11,899	2.52	34.39	-14.35	
Shiseido	Japan	2,406	53	-9	2%	0%	29,195	12.13	550.85	-3,243.89	
Beiersdorf	Germany	8,896	1,373	1,057	15%	12%	27,824	3.13	20.27	26.32	
Avon Products	USA	3,625	17	-98	0%	-3%	N/A				
Kao	Japan	13,488	2,557	1,726	19%	13%	36,308	2.69	14.20	21.04	
AmorePacifc	South Korea	4,074	484	131	12%	3%	10,573	2.60	21.85	80.71	
Natura Cosméticos	Brazil	3,545	742	437	21%	12%	N/A				
KOSÉ	Japan	3,015	459	370	15%	12%	6,548	2.17	14.27	17.70	
Revlon	USA	1,904	1,473	-140	77%	-7%	3,862	2.03	2.62	-27.59	
POLA Orbis	Japan	1,701	203	107	12%	6%	3,832	2.25	18.88	35.81	
L'Occitane	Luxembourg	1,803	427	207	24%	11%	2,490	1.38	5.83	12.03	
Oriflame	Switzerland	480	336	331	70%	69%	N/A				
Nu Skin	USA	2,581	332	257	13%	10%	2,673	1.04	8.05	10.40	

HEADLINE TRANSACTIONS

Strong momentum was shown between 2020 and the beginning of 2021, with multiple megadeals announced. Investors are looking for strong margins, credible founders and high growth rates.

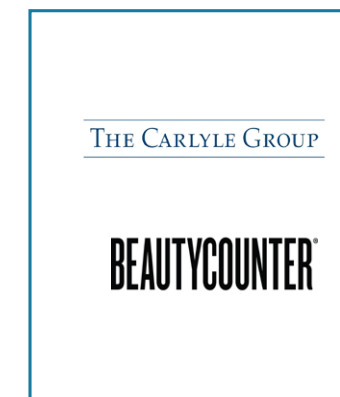
Mission-focused beauty brands that do well for the environment are at the forefront of investors minds, due to the fact that up-and-coming brands are potentially more aware of sustainable practices and ESG than older more established brands. One way for the larger brands to catch up quickly is to source through acquisition.



CVC acquisition of Shiseido for USD 1.5 bn. Under the terms of the deal CVC will acquire 65% of a joint venture that owns the assets of the business.



Estée Lauder acquisition of Deciem for USD 1 bn. The deal brings their ownership up from 29% to 76% and values the company at USD 2.2 bn.



Carlyle Group acquisition of Bodycounter for USD 1 bn. Bodycounter is a mission-driven, digitally native clean beauty brand.

GCG TOMBSTONES



Beltrae

Has advised

Vita Liberata

in debt and equity
funding round with

**Broadlake
Private Equity**

FUNDRAISING



Has advised

Panzeri Diffusion srl

in the 100% sale
of equity to an

**Investment
Fund**

M&A SELL-SIDE



XLCS^o
P A R T N E R S

Has advised

**Nortech Packaging
and Tishma Technologies**

in the acquisition by

**Intertape Polymer
Group (IPG)**

M&A SELL-SIDE



MARKTLINK

Has advised

**Frisilux
Holding**

in the acquisition of

Iso Beauty

M&A BUY-SIDE



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