Houlihan Lokey

BEAUTY AND PERSONAL CARE

Leading Independent, Global Advisory Firm

Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

HLI
LISTED
NYSE

2,595	36	$7B	$1.8B	~25%	NO
GLOBAL EMPLOYEES(1)	LOCATIONS(1)	MARKET CAP(2)	ANNUAL REVENUE(3)	EMPLOYEE-OWNED	DEBT

Corporate Finance

- No. 1 Global M&A Advisor Under $1 Billion
- Raised Approximately $25 Billion in Capital Over the Past Two Years

2022 M&A Advisory Rankings
Global Transactions Under $1 Billion

	Advisor	Deals
1	**Houlihan Lokey**	**381**
2	Rothschild	369
3	JP Morgan	217

Source: Refinitiv. Excludes accounting firms and brokers.

Financial Restructuring

- No. 1 Global Restructuring Advisor
- $3.0 Trillion of Aggregate Transaction Value Completed

2022 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	**Houlihan Lokey**	**58**
2	PJT Partners	30
3	Lazard	29

Source: Refinitiv.

Financial and Valuation Advisory

- No. 1 Global M&A Fairness Opinion Advisor Over the Past 25 Years
- 1,000+ Annual Valuation Engagements

1998 to 2022 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	**Houlihan Lokey**	**1,232**
2	JP Morgan	1,030
3	Duff & Phelps, A Kroll Business	938

Source: Refinitiv. Announced or completed transactions.

Financial Sponsors Coverage

- No. 1 Global Advisor to Private Equity Firms
- 1,000+ Sponsors Covered Globally

2022 Most Active Global Investment Banks to Private Equity Firms

	Advisor	Deals
1	**Houlihan Lokey**	**242**
2	Lincoln International	192
3	Deloitte	190

Source: PitchBook.

(1) As of June 30, 2023.
(2) As of August 2023.
(3) LTM ended June 30, 2023.

No. 1 M&A Advisor

All U.S. Consumer, Food & Retail Transactions

2022 M&A Advisory Rankings—All U.S. Consumer, Food & Retail Transactions

	Advisor	Deals
1	**Houlihan Lokey**	**21**
2	Goldman Sachs	18
3	William Blair	17
4	JP Morgan	16
5	Lincoln International	13
5	Robert W Baird	13

Source: Refinitiv. Excludes accounting firms and brokers.

LEADING GLOBAL INDEPENDENT INVESTMENT BANK

Americas

Atlanta
Baltimore
Boston
Chicago
Dallas
Houston
Los Angeles
Miami
Minneapolis
New York
San Francisco
São Paulo
Washington, D.C.

Europe and Middle East

Amsterdam
Antwerp
Dubai
Frankfurt
London
Madrid
Manchester
Milan
Munich
Paris
Stockholm
Tel Aviv
Zurich

Asia-Pacific

Beijing
Fukuoka
Gurugram
Hong Kong SAR
Mumbai
Nagoya
Shanghai
Singapore
Sydney
Tokyo

Bold denotes Consumer, Food & Retail (CFR) team.

14	**130+**	**100+**	**600+**
LOCATIONS WORLDWIDE	CONSUMER, FOOD & RETAIL BANKERS	TOTAL CONSUMER, FOOD & RETAIL DEALS PAST THREE YEARS	CROSS-BORDER TRANSACTIONS SINCE 2011

Beauty and Personal Care: Change Is Constant

Beauty and personal care continues to be a highly dynamic and competitive market. While M&A volumes and broader markets softened in 2022 as buyers adopted a lower-risk, higher-bar approach, the future of beauty and personal care remains bright. Catalysts signal the return of a more attractive deal environment for the remainder of 2023 and into 2024, as product innovations and emerging brands shape the landscape. Questions remain on where the bar is and what valuations make sense from a strategic perspective.

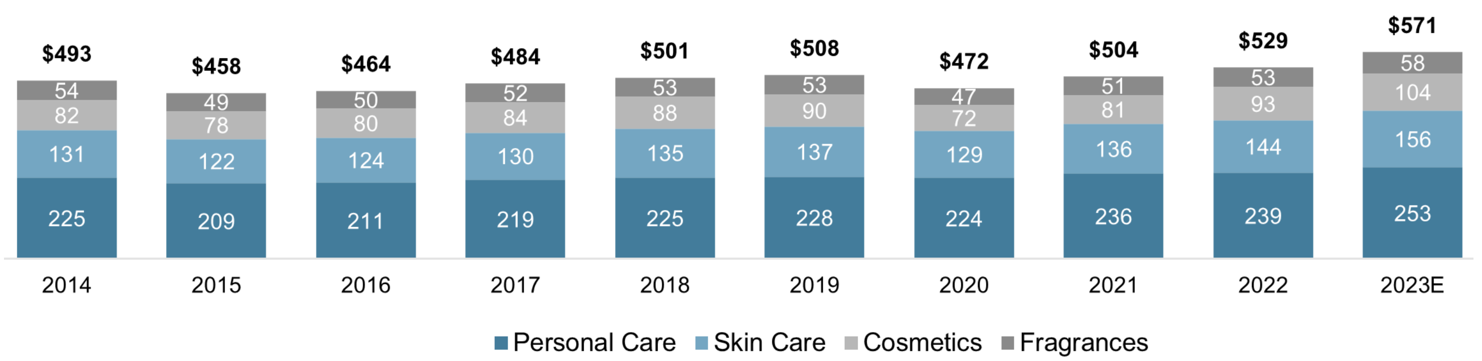
In this piece, we share insights and observations on the themes currently driving the M&A market and those expected to drive it going forward. We will highlight the key consumer trends driving market behavior and the key criteria and factors that optimize buyer interest and value in today's environment.

State of the Industry: Innovation Across the Board—Don't Miss Out

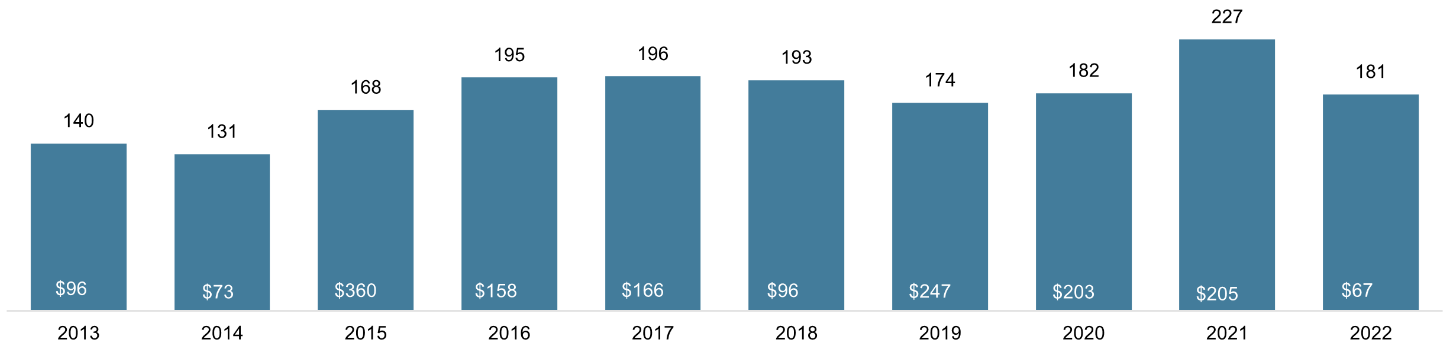
Beauty and personal care is still a highly attractive market beyond the COVID-19 pandemic. Consumer demand remains high and spend remains stable in an otherwise challenged macroeconomic environment. The industry saw strong growth in 2022 to $87 billion in total sales volume and is expected to grow another $4 billion next year at a rate of 4.9%. Skin care is seeing continued strong growth, having stalled a little during COVID-19, with cosmetics and fragrance also seeing a resurgence as social calendars and office policies return to normal.

While most fast-growing sectors are driven by innovation, the proliferation of innovation within beauty and personal care makes this sector truly unique. Newly commercialized science, marketing ingenuity, and differentiated routes-to-market all converge to create a dynamic and high-stakes category.

Beauty and Personal Care Market Growth



Beauty and Personal Care M&A Volume and Average Deal Size



Sources: Statista, "Global Beauty and Personal Care Market," 2023. S&P Capital IQ.
(1) Based on acquisitions where information is publicly available, and stake acquired is 30% or higher. (2) Industry classification based on "Personal Care Products."

Susan Roddy, Managing Director in Houlihan Lokey's Consumer, Food & Retail Group, noted:

"M&A activity was lighter in 2022 as buyers took a lower-risk, more selective approach to M&A targets with a higher bar in addition to a valuation gap between buyers and sellers across the market. We expect buyers to jump back into the market in the near term but with a more disciplined approach and focus on scale, profitability, and mature channel strategies being key drivers of interest."

2023 and 2024 Expectations: The Next Chapter

Houlihan Lokey expects the consumer and channel trends outlined below to remain key proof points for companies to differentiate in a crowded landscape.

Brand Loyalty Remains, but It's Not Exactly the Same

While consumers remain loyal to brands, the definition of loyalty has evolved. Today's consumers exhibit a strong willingness to test and incorporate new products into their routines. Incumbent brands face fierce competition from emerging brands in the battle for bathroom shelf space. Brands must remain nimble and adapt to their consumers' most pressing needs to stay relevant and maintain customer loyalty. The most important trends we see concern i) the convergence of beauty and wellness, ii) product efficacy driving value, and iii) brand authenticity and social relevance. It generally takes a mix of all three to resonate with consumers. As beauty and wellness converge, validation from experts and clinical proof of product benefits have become almost table stakes. Today's consumers are educated and armed with the scientific information necessary to evaluate product efficacy claims. Where price was once the determinant of value, efficacy and quality now drive product choice. Certain brands have developed cult followings by being "everything to one," instead of trying to be "everything to everyone."

Tim Leach, Managing Director in Houlihan Lokey's Consumer, Food & Retail Group, noted:

"A number of global strategics have issued impairments for recent acquisitions, which has led to a cooling off of the acquisition frenzy with only "must have" deals getting done. These are the transactions that deliver strong synergies and have tended to be larger and highly profitable. Corporate development teams are saying they are ready to engage on earlier-stage, faster growth opportunities with exceptional brand equity, validated efficacy, an established omnichannel footprint with demonstrated sell-through velocity, and those that offer consumers good value."

Several of the above industry trends are driven by Gen Z, which is more intimately connected with beauty than prior generations. The proliferation of social media has provided a powerful platform for consumers to discover new products, educate themselves, and share their experiences, thoughts, and opinions. Although sometimes perceived as fickle, Gen Z has proven to be loyal to brands that deliver effective products and reflect their values. As the beauty sector tracks and commercializes products to suit Gen Z's preferences, some brands have treated Gen Z as the entry point for broader market access due to their rising importance. Some brands have adopted the mindset that Gen Z is a psychographic—not a demographic—and have not shifted product offerings to target older customers, while others have reached beyond their initial customer base and developed products for a slightly older consumer. Regardless of how you classify Gen Z, they exert an undeniable influence over sector trends.

Omnichannel: A Necessity for Success

A diversified channel strategy is necessary for success. Today's consumers purchase across multiple channels and expect to find their favorite brands wherever they shop. Key themes driving the need for a diversified channel strategy include the challenges of profitably executing direct-to-consumer (DTC) strategies, blurred lines between retail tiers, and the evolution of Amazon's journey in beauty.

Sam Scanlan, Senior Vice President in Houlihan Lokey's Consumer, Food & Retail Group, noted:

"During the COVID-19 pandemic, DTC was a major driver of success for numerous brands, and many thought the DTC model had finally been mastered. Coming into 2023, we know that mastery of DTC remains elusive and that DTC is best utilized as a component of a multi-channel strategy."

Increasingly informed consumers no longer equate price with value and are searching for products across retail tiers. This shift has pushed brands to adopt broader channel strategies, regardless of their core positioning (e.g., expansion into mass). As Amazon continues to invest in the sector, it has become more of a discovery than a restocking channel. Amazon can represent an efficient and lower-risk strategy to tap into e-commerce, which is the fastest-growing and largest channel for the sector—if managed properly. The world is evolving quickly, and now more than ever, a diversified channel strategy is the best way for brands to grow and protect their market position.

Drivers of Deal Activity

The bar for M&A remains high, given the current macroeconomic environment. The macro background should be less of an impediment moving forward, as buyers become more comfortable with inflation, credit markets, and consumer behavior trends. Global strategics across CPG and beauty and private equity remain active. Strategics take a longer-term approach to building brand portfolios, leveraging M&A to stay relevant and supplement gaps with buzzy brands. Consumer private equity firms have record amounts of dry powder to support deal activity. While credit markets are more stable, expensive pricing may result in more moderate valuations for those transactions. Houlihan Lokey sees several trends driving deal activity for the next 12–18 months.

Contract manufacturers remain an attractive way for private equity to invest in the overall growth of the category without betting on a single brand. As the number of emerging brands continues to grow, so will the need for outsourced platforms to service and support them. Newer brands rely on their co-manufacturers to help them innovate and launch new products. The importance of innovation and category expansion will continue to drive premiums for assets with broader manufacturing and research and development capabilities. We also expect to see more cross-border interest in building international platforms to support brands and innovation across markets.

Houlihan Lokey

Tombstones

BEAUTYBIO
a portfolio company of
KAINOS CHANGE CAPITAL AT WORK
has been acquired by
NU SKIN
Sellside Advisor

DIADERMINE LABORATOIRES
a portfolio company of
Henkel
has been acquired by
LABORI INTERNATIONAL B.V.
Sellside Advisor

Yellow Wood PARTNERS
has acquired the Suave brand in North America from
Unilever
Buyside Advisor

NAK HAIR AUSTRALIA
has been acquired by
ADAMANTEM CAPITAL
Sellside Advisor

A controlling interest in
Thinx
has been acquired by
Kimberly-Clark
Sellside Advisor

DUKE CANNON SUPPLY CO.
has been acquired by
MAIN POST PARTNERS
Sellside Advisor

INVINCIBLE BRANDS
has sold premium DTC brands
BANANA HelloBody MERMAID+ME
to
Henkel
Sellside Advisor*

FUSIONPKG
has been acquired by
Aptargroup
Sellside Advisor

PALLADIUM EQUITY PARTNERS
has acquired
accupac
Buyside Advisor

HCT Group
to merge with
kdc/one
a portfolio company of
CORNELL CAPITAL
Sellside Advisor

eSalon
has been acquired by
Henkel
Sellside Advisor

THE ABNORMAL BEAUTY COMPANY. DECIEM
has sold a majority stake to
ESTĒE LAUDER
Sellside Advisor*

Tombstones included herein represent transactions closed from 2020 forward.
**Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company.*

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Financial Restructuring

Financial and Valuation Advisory

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