By Kelly Kovack and Posted April 5, 2017 In Exclusives, Finance, Insight

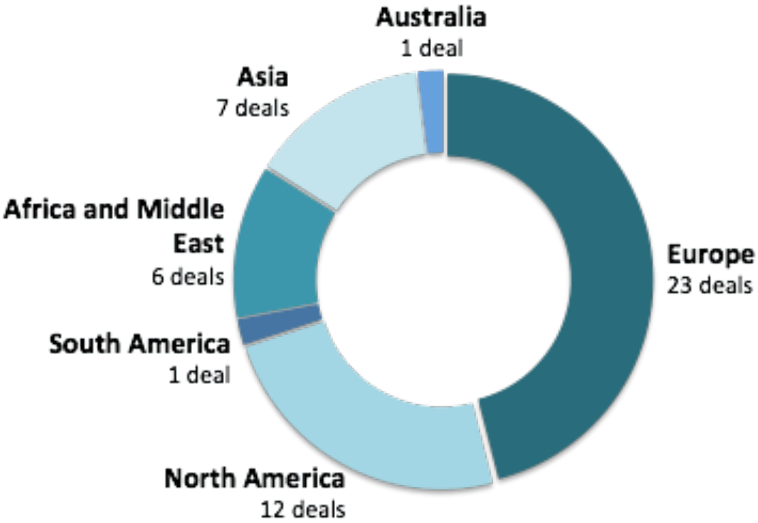
M&A is changing the map and the menu in the cosmetic ingredient market.

ThinkingLinking's M&A study shows rationalization of the fragmented cosmetic ingredient market through 50 deals worth over €2 billion over the last five years. The cross-border M&A firm active in cosmetic ingredients deals has released its report on the global consolidation among cosmetic ingredients producers, and talked with BeautyMatter.

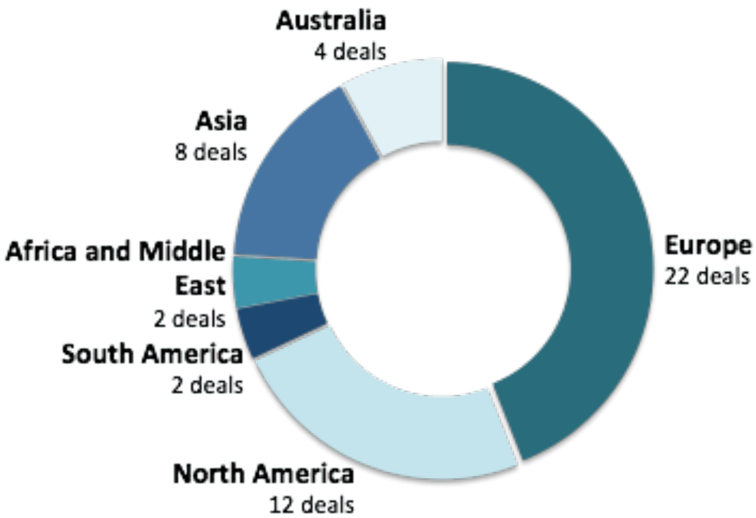
In the five-year period from 2012 to 2016, 50 acquisitions in cosmetic ingredient market have deepened the transformation of the sector from a diverse market of niche producers of individual ingredients in individual countries into an industry of multi-ingredient/multi-country providers. There are no signs that the trend is set to stop.

"This is a rationalization of both map and menu," Mark Dixon, Chief Thinking Officer at ThinkingLinking, told BeautyMatter. "Companies are expanding their geographical sourcing and geographical customer channels but at the same time they are expanding the range of products they control. They are filling in the relevant cells in a product-country matrix."

WHO ARE THE SHOPPERS?



WHERE DO THEY SHOP?



“This is an expansion game operating in these two dimensions from the perspective of a single company. But its competitors are of course meanwhile doing precisely the same and expanding behind its back into its own product areas and geographies. This is what makes the sector dynamic and interesting like a game of ‘ingredients chess.’”

In total, 45 acquirers were involved in the 50 deals.

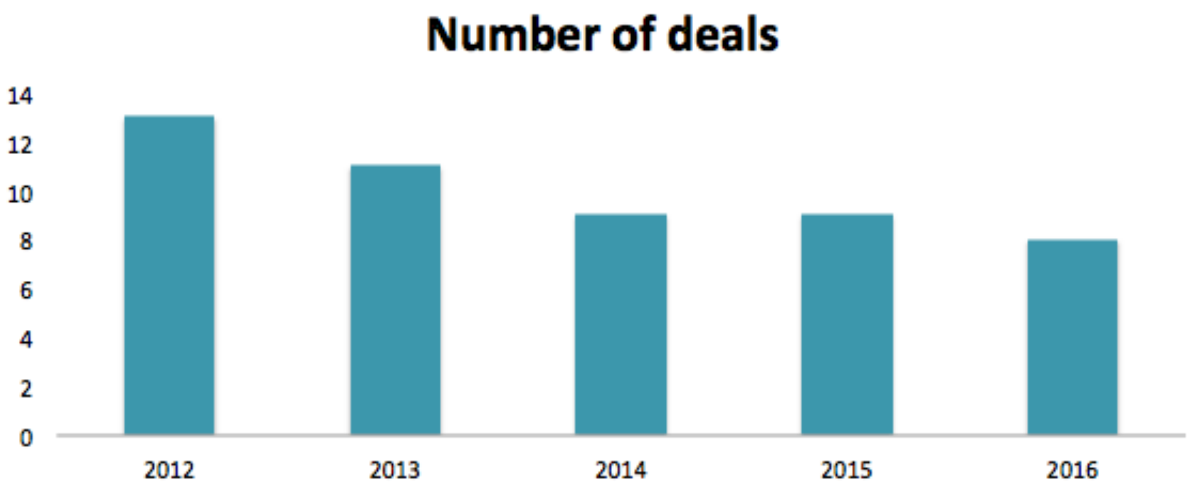
“It’s not just the big players making the deals,” explained Eric Chiu, who led the “Alchemists Go Shopping” research project. “We see the usual suspects of course, but the 50 deals were done by 45 different buyers. It’s more spread out than people think.”

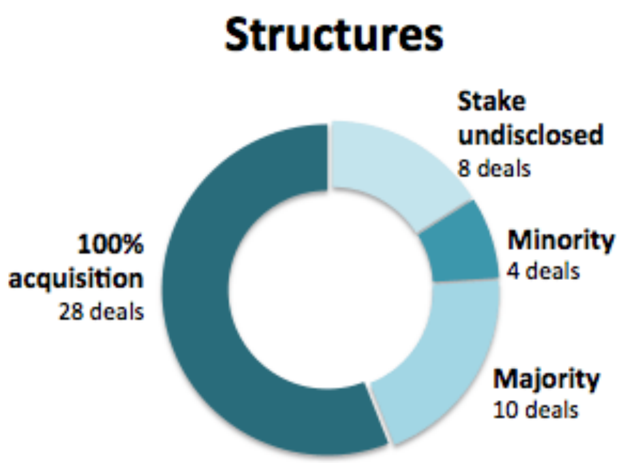
"There is really a two-level consolidation going on: a handful of multibillion buyers buying the larger targets; but most of the deals in volume are by mid-sized buyers. In other words, the middle market is buying the middle market. Of course, when those get large enough they become attractive enough prey to the major players and it starts all over again."

More facts from the report:

Investment values were disclosed for about half of the deals (22). These were worth €2.3bn ($2.5bn). ThinkingLinking estimated the total value of all 50 deals at over €3bn ($3.2bn) taking into account that the undisclosed deals tend to be smaller.

2012 and 2013 were slightly more active years in number of deals. Since then the picture has been stable, with around 10 deals a year, and shows no signs of abating.





The investors came from 16 countries and went into 20. Approximately half of the deals (28) were cross-border. Not surprisingly given the origin of the sector, Europe saw the greatest focus—both as the source of the investor and for the location of the target.

Emerging investors have appeared from the Middle East and, increasingly, from Asia.

A variety of deal structures were employed. Slightly more than half the deals (28) were 100% acquisitions, and 14 deals involved the original owners keeping an ongoing equity stake. The structure of the remaining 8 deals wasn't disclosed.

Ingredients are not commodities:

The title of the firm's report—"Alchemists go shopping"—adds a bit of mystery and glamour to the cosmetics ingredients sector, which is often seen by outsiders as nothing more than a commodity supplier to the fashionable branded cosmetics world.

"These businesses are the opposite of commodity. They are special and each is different. Economic value comes from considerable barriers to entry—know-how, technology, often patents as well, customer relationships and a deep understanding of 'ingredient trajectories.' Such companies are in high demand and command high prices," explained Richard Despard, ThinkingLinking's Senior Linker at the firm's InLinking division which is focused on ingredients M&A.

"This is definitely a seller's market. There's no lack of money among the major players, but persuading mid-sized business owners to give up isn't just a matter of money. They care deeply about their businesses. Often there's a family legacy to protect as well. Throwing money at them isn't the way and of course overpaying will anyway dent the buyer's EPS. That's why every deal we work on is first about understanding both the strategic and cultural fit, rather than just the financial. That's the only way to make a valuable mid-market niche ingredients company happy and also it's the only way for the buyer to win the deal. I know it's a cliché, but we use this three-step test to help our clients get a win-win deal."

Download the full "Alchemists Go Shopping" report from ThinkingLinking.