



Not Cosmetic

The cosmetics sector M&A trend is about substance not superficiality

Analysis of acquisitions made by the Top 20 over last five years

X Not Cosmetic

Cosmetics sector M&A is about substance not superficiality

There's now clear evidence that the top cosmetics groups are trying to expand into what we like to call 'cosmetics which are not cosmetic'!

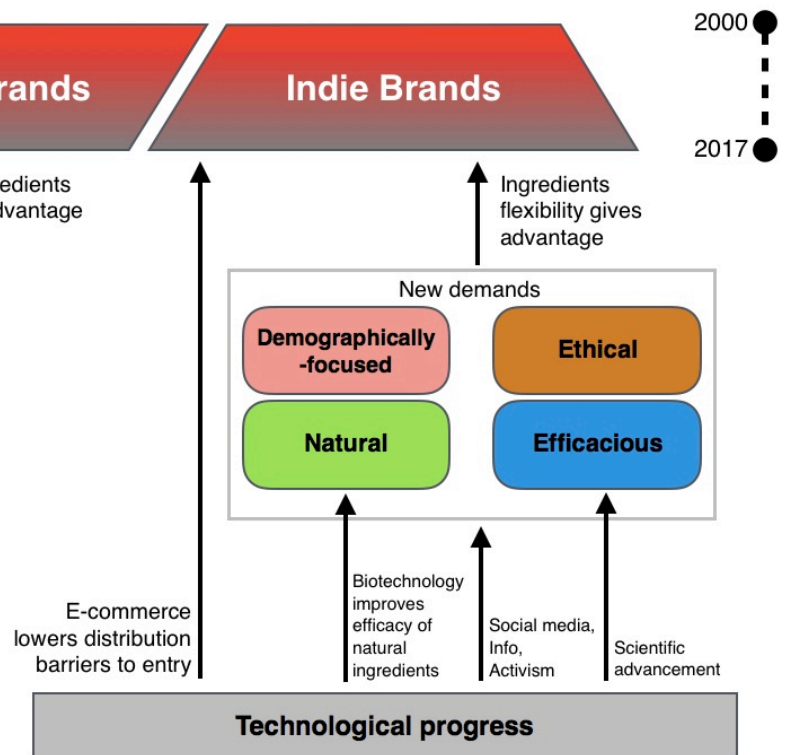
The large cosmetics brands must do whatever they can to protect their market shares. After decades of enjoying barriers of entry which they have erected around themselves, they found themselves behind their battlements under siege.

They used to rest on the laurels of loyalty customers felt towards their brands and when they lost a customer it was to another in the oligopoly. Consumers worshipped brands and the personalities and publicity that built them. The richer the brand, the more it could spend, and the more products it sold only helped to amortise the marketing costs and let it spend more and more. This was the virtuous circle they enjoyed for decades.

However, these barriers of entry have been cleared away by a perfect storm of change.

Dramatic Dynamics

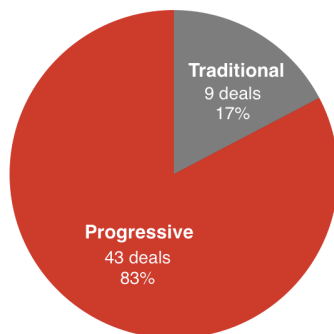
Vicious cycle of change in cosmetics sector



Source: *ThinkingLinking*

Progressive or Traditional?

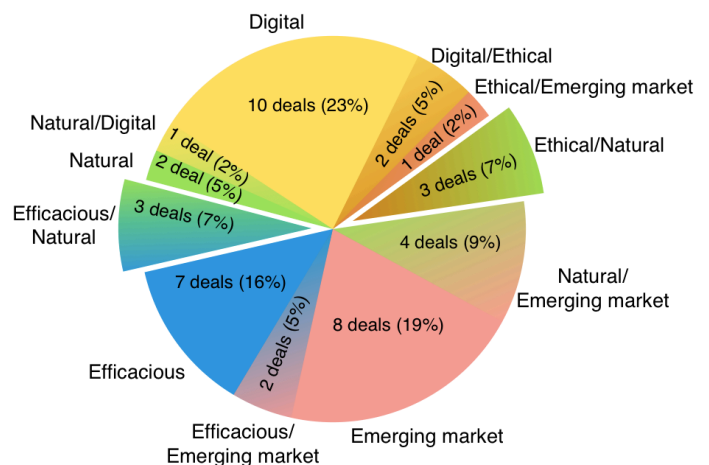
Motives for Top 20's M&A



Source: *ThinkingLinking*

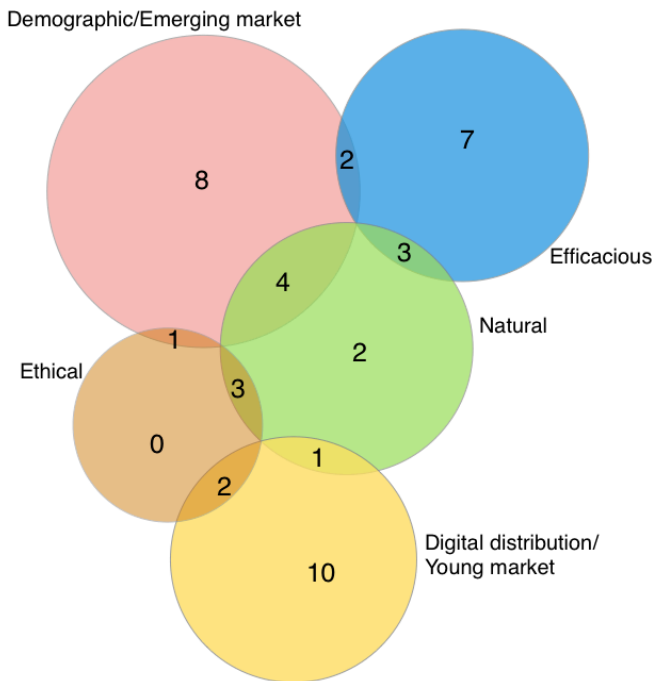
Slices of progress

Motives for Top 20's M&A



Picture of the Future

Overlapping progressiveness in cosmetics M&A by Top 20



Source: *ThinkingLinking*

Consumers have become interested in things other than fashion, personality and status. They now want products which serve them rather than serve the needs they have been conditioned to want. They want to know what's in their products in terms of efficacy, nature and ethics. They want products which are authentic and connected to their views, feelings, tastes and own demographics. These demanding consumers are shopping and educating themselves online and engaging in and being influenced by activism on these issues, while technology is also making their demands a reality through scientific progress.

Meanwhile, the big brands even with their economic power, and indeed because of their brand power, find it difficult to change the ingredients of their established products to meet this new world order. They are weighted down by legacy 'ingredients baggage' and don't have the nimbleness of the independents. The big brands now find themselves in a vicious cycle instead of a virtuous circle.

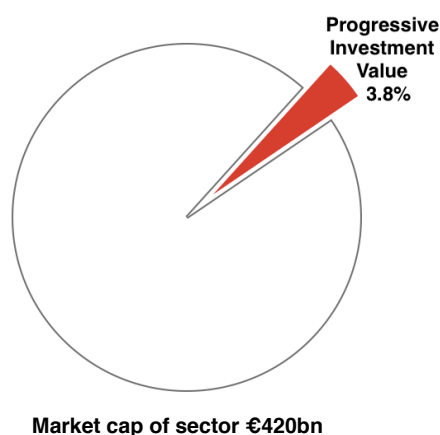
So, if you can't change what you have and what you have is losing market share and you're sitting on cash, what's the logical move? M&A.

Acquisitions of indie brands built on progressive directions is what many of them have been doing.

ThinkingLinking has analysed the acquisitions by the Top 20 over the last five years. Of the 52 deals they've made, 43 involved a target which fell into one or more of the five key progressive trends we monitor in the sector:

Progress is relative

Financial commitment to 'progress' by Top 20



- Natural
- Ethical
- Efficacious
- Digital/Young market
- Emerging/Demographic markets

Only 9 deals didn't have a strong progressive motivation, which is perhaps unsurprising given the strategic imperative of jumping on the trends.

To the credit of some acquirers, they managed to do some deals which ticked two boxes, though none ticked more than that.

Are these 43 deals enough? No. Their total value, including an estimate for deals with undisclosed prices, is €16bn. This is a drop in the ocean compared to the size of the sector, with a valuation of €420bn. Over five years, they've invested only 3.8% of their current valuation.

While they're doing the right thing, this is hardly enough to stop the independents from climbing over the battlements.

Note: The market capitalisation of €420bn is adjusted to exclude value associated with non-cosmetic profits of diversified companies Unilever, P&G, J&J, LVMH, L Brands and Chanel.

Source: *ThinkingLinking*

Shopping for Substance

Top 20's acquisitions scored for progressiveness
2013-2017

Acquirer	Target	Type			Deal size (€m)		Natural	Efficacious	Ethical	Digital distrib/ young market	Demographic/ emerging market	Traditional expansion
L'Oreal	CeraVe, AcneFree and Ambi	brand	US	2017	n/a	100%		✓			✓	
	IT Cosmetics	brand	US	2016	1100	100%		✓				
	Atelier Cologne	brand	France	2016	n/a	100%						✓
	Raylon corporation's key assets	non-brand	US	2017	n/a	100%						✓
	Niely Cosméticos	brand	Brazil	2015	n/a	100%						✓
	NYX	brand	US	2014	n/a	100%				✓		
	Decléor Carita	brand	France	2014	0.2	100%	✓					✓
	Magic Holdings	brand	China	2014	615.4	100%						✓
	Carol's Daughter	brand	US	2014	n/a	100%	✓					✓
	Coloright	non-brand	Israel	2014	n/a	100%		✓				
	Beauty business of Interconsumer Products	brand	Kenya	2013	n/a	100%						✓
	Cheryl's Cosmeceuticals	brand	India	2013	n/a	100%		✓				
Unilever	Sundial Brands	brand	US	2017	n/a	100%			✓		✓	
	Hourglass	brand	US	2017	n/a	100%	✓	✓				
	Carver Korea	brand	Korea	2017	2300	100%		✓				✓
	Quala's personal/home care brands	brand	Colombia	2017	n/a	100%						✓
	Dollar Shave Club	brand	US	2016	900	100%	✓					✓
	Seventh Generation	brand	US	2016	n/a	100%	✓		✓			
	Living Proof	brand	US	2016	n/a	100%		✓				
	Dermalogica	brand	US	2015	n/a	100%						✓
	Kate Somerville Skincare	brand	US	2015	n/a	100%	✓	✓				
	Ren	brand	UK	2015	n/a	100%	✓					
	Murad	brand	US	2015	n/a	100%	✓	✓				
Estee Lauder	Too Faced	brand	US	2016	1350	100%			✓	✓		
	Becca	brand	US	2016	n/a	100%			✓	✓		
	By Kilian	brand	France	2016	n/a	100%						✓
	Glamglow	brand	US	2015	150m(est.)	100%				✓		

Source: ThinkingLinking

Acquirer	Target	Type			Deal size (€m)							Natural	Efficacious	Ethical	Digital distrib/ young market	Demographic/ emerging market	Traditional expansion
	Le Labo	brand	US	2014	20m(est.)	100%									✓		
	Rodin Olio Lusso	brand	US	2014	n/a	100%	✓								✓		
	Editions de Parfums Frédéric Malle	brand	France	2014	n/a	100%									✓		
Coty	Yunique	brand	US	2017	531	60%									✓		
	Beauty Business of Hypermarcas	brand	Brazil	2016	901	100%										✓	
	Good Hair Day	brand	UK	2016	459	100%		✓									
	P&G Beauty brands	brand	US	2016	n/a	Merger											✓
	Bourjois	brand	France	2015	349	100%											✓
	Lena White	non-brand	UK	2017	n/a	100%											✓
	Beamly	non-brand	UK	2015	n/a	100%									✓		
SHISEIDO	Laura Mercier Revive	brand	US	2016	234	100%		✓									
	Giaran	non-brand	US	2017	n/a	100%									✓		
	JWALK	non-brand	US	2017	n/a	100%									✓		
	MATCHCo	non-brand	US	2017	n/a	100%									✓		
Johnson & Johnson	Vogue International	brand	US	2016	3000	100%	✓										
	NeoStrata Company	brand	US	2016	n/a	100%		✓									
Kao	Direct Sales Division of ESP	non-brand	US	2013	n/a	100 %											✓
LVMH	Maison Francis Kurkdjian	brand	France	2017	n/a	majority											✓
	Luxola Pte.	non-brand	Singapore	2015	n/a	100%									✓		
Natura	The Body Shop	brand	UK	2017	1000	100%	✓		✓								
	Aesop	brand	Australia	2013	38.9	65%	✓									✓	
Revlon	Elizabeth Arden	brand	US	2016	784	100%										✓	
	CB Beauty SAS & company	non-brand	UK	2015	n/a	100%											✓
	Colomer Group	brand	Spain	2013	500	100%										✓	
Kose	Tarte Cosmetics	brand	US	2014	102	94%	✓		✓								

Source: ThinkingLinking



COSMETICS LINKING TEAM

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M&A services

Our main focus is to link large cosmetics groups with progressive smaller brands or ingredients – whether efficacious, natural, ethical – and strategic opportunities in demographic or emerging markets:

- sell-side mandates
- buy-side mandates
- sale of equity stakes
- emerging market M&A
- vintage brand M&A

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THINKING LINKING

ThinkingLinking is the methodology and strategy focused cross-border M&A adviser specialised in delivering optimal transactions to clients.

The concept is to use strategic thinking to identify the partners with the strongest strategic fit and then to focus on negotiating the best deal with the best partner. This thinking-first approach gives our clients an advantage in completing the optimal transaction for shareholder value.

We thus bridge the gap between the right opportunity and the right investor – which otherwise will likely not meet each other – and bring expertise to the M&A process to enhance the likelihood and terms of the eventual transaction.

We operate under a strategy-before-finance slogan ‘We think before we link’ and have an integrated range of services built around this two-phase approach to M&A.

This approach can be applied to any sector. The firm has departments which focus on particular fields, such as cosmetics, ingredients, life sciences and business services.