

M&A MARKET FAVORABLE FOR PRIVATE BUSINESSES, INDIE BRANDS SEE ELEVATED INTEREST

BEAUTY & WELLNESS SECTOR UPDATE | JUNE 2022



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Beauty & Wellness

M&A Market Favorable For Private Businesses, Indie Brands See Elevated Interest

KEY SECTOR TAKEAWAYS

Capstone Partners' [Consumer Investment Banking Group](#) is pleased to share its Beauty & Wellness report. Merger and acquisition (M&A) activity has continued at healthy levels through year-to-date (YTD) 2022, with robust valuations being awarded to leading brands and product manufacturers. While deal flow in many sectors has cooled since the transaction rush of Q4 2021, private business owners in the Beauty & Wellness sector are still experiencing heightened buyer interest, presenting a favorable backdrop for a liquidity event.

1. The Beauty & Wellness sector has historically shown recession resilient traits, with valuations holding up well during previous economic downturns.
2. Independent (indie) brands have continued to attract robust sales growth and buyer interest as a new generation of consumers search for niche products aligning with ESG (environmental, social, governance) principles.
3. Private equity buyers have remained active in the sector, pursuing leading brands and contract manufacturers, often through add-on acquisitions.
4. While the current valuation and M&A environment is moderating for many sectors, the Beauty & Wellness sector has shown no signs of slowing. Private businesses with brand strength, high gross margins, and recurring revenue are poised to attract strong pricing in M&A processes.
5. This is an ideal time for indie beauty brands that are considering financing and liquidity needs to access the markets. We have seen increasing appreciation for indie brands bringing fresh ideas to consumers through alternative channels including direct-to-consumer (DTC) sales. The marketplace is beginning to realize the new generation of consumer is seeking their own brands that better personify their own lifestyles.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.

To learn more about Capstone's wide range of advisory services and Beauty & Wellness sector expertise, please contact Capstone Managing Director [Ken Wasik](#).

BEAUTY SECTOR SALES RISE, INDIE BRANDS IN HIGH DEMAND

Elevated inflation, rising interest rates, and the potential of an economic downturn have challenged business owners across the Consumer industry and encouraged caution among institutional investors. However, the Beauty & Wellness sector, while combating supply chain issues and rising input costs, is forecasted to maintain robust growth in the near term with the space often viewed as recession resistant. Notably, 2022 beauty sales are expected to exceed 2019 levels to reach \$560 billion, according to McKinsey.¹ As the Federal Reserve weighs several additional interest rate increases in 2022 and returns and valuations come under pressure, sectors with a record of defensibility amid downturns are poised to capture strong buyer and investor interest.

In analyzing the financial crisis beginning in 2007, the Beauty & Wellness sector's outperformance of the broader market provides optimism in the event of another downturn on the horizon. Notably, Capstone's Beauty & Wellness public company index averaged an EBITDA trading multiple of 10.5x from 2007–2009, compared to the S&P 500 average of 9.3x over the same time period. In addition, COVID-19 era trading metrics in the sector have exceeded the S&P 500, with EBITDA multiples in the Beauty & Wellness space averaging 16.1x from March 2020 to May 2022, compared to 15.8x among the S&P 500. While the valuation environment is moderating for many sectors, business owners in the Beauty & Wellness space still stand to achieve strong pricing amid economic uncertainty.

The Beauty & Wellness sector experienced healthy sales growth in 2021, which has continued through Q1 2022. The Prestige Beauty segment achieved \$22.3 billion in sales in 2021, representing a 30% increase year-over-year (YOY), according to NPD.² Within Prestige Beauty, the Fragrance category emerged as a top performer in 2021, with dollar sales growing 49% YOY and equaling skincare sales for the first time on record. This healthy revenue growth has persisted through Q1 2022, with fragrance sales rising 18% YOY, slightly trailing the broader Prestige Beauty segment's growth of 19% (NPD). The outlier performance of the Fragrance segment in 2021 may be attributed to the rapid adoption of younger, independent, DTC brands that have resonated strongly with Millennials and Generation Z.



Ken Wasik
Head of Consumer Investment Banking

"Interestingly, in uncertain economic markets, the Beauty sector outperforms other consumer segments. Consumers simply won't change their beauty regimes in the face of hardships. For this reason, privately owned brands should not be deterred from market conditions that impact other sectors. The market remains strong for beauty brands seeking capital and liquidity."

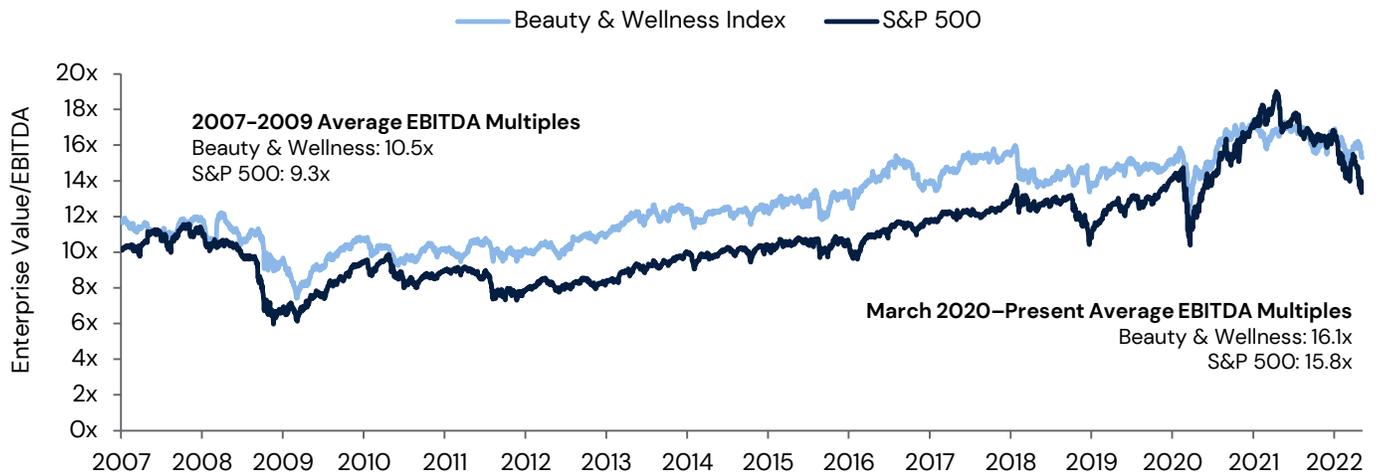
Indie brands have captured significant growth in recent years, which has permeated M&A market activity. Indie beauty brands are often characterized as smaller players, operating mainly through DTC channels, leveraging innovative social media engagement techniques, and seeking a niche market position. Ethical and sustainable production processes and ingredients sourcing have become a hallmark of this market segment as consumers are significantly more conscious of the environmental impacts of their purchases. This has fueled substantial growth in the Clean Beauty segment, which experienced a 10% YOY sales increase in 2021, largely driven by indie beauty brands which account for approximately 12% of total market sales, according to Kline.³ In addition, with many operating as digitally native, indie brands often have significant insight to their customer base gathered through their e-commerce analytics capabilities. This allows for more targeted marketing spend to drive incremental sales and customer retention.

Economic uncertainty and inflation concerns will continue to impact the market, and as investors and buyers search for growth areas, the Beauty & Wellness sector presents a favorable opportunity. Private business owners of beauty brands and contract manufacturers are still able to capitalize on a strong M&A environment and capture a healthy exit multiple. The prevalence of indie brands will encourage more consolidation as large public players seek niche categories with established e-commerce capabilities.

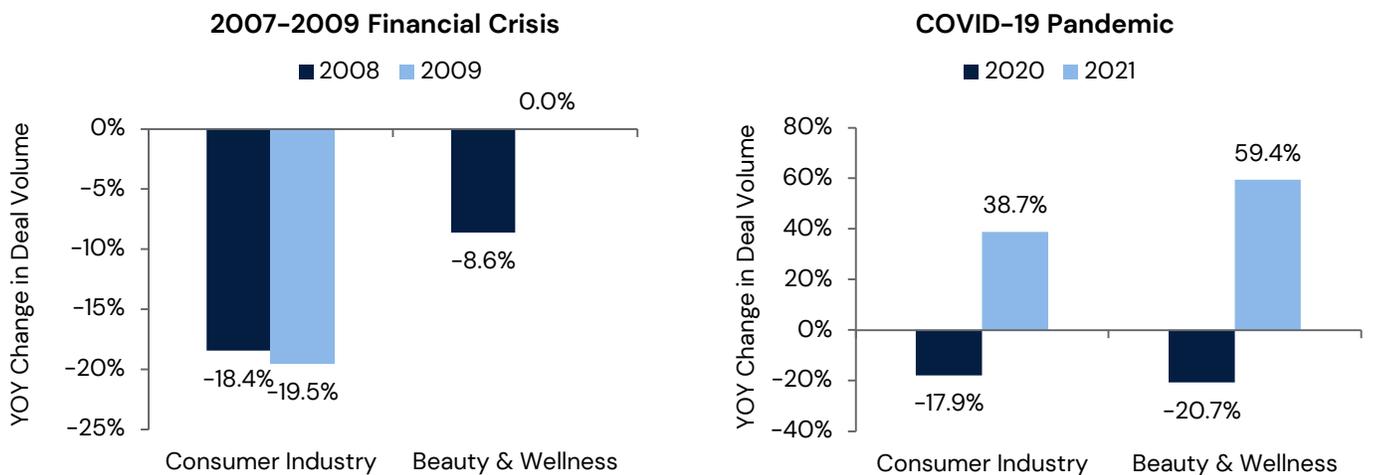
BEAUTY & WELLNESS AMID ECONOMIC DOWNTURNS

As the U.S. and global economy continues to grapple with elevated inflation and the prospect of slowing output, sectors that maintain robust levels of consumer discretionary spending are expected to combat potential recessionary headwinds. While the Beauty & Wellness sector has certainly been impacted by past recessions and the COVID-19 pandemic, it has demonstrated valuation strength amid market downturns, outperforming the S&P 500 on an EBITDA multiple basis. In addition, deal activity in the sector has often outperformed the broader Consumer industry amid economic turmoil. In 2007-2009, the sector demonstrated a swift recovery, with deal volume essentially flat YOY in 2009, when the Consumer industry saw declines of nearly 20%. While M&A volume in the sector fell drastically at the onset of the pandemic, its recovery far exceeded the broader Consumer industry, rising 59.4% YOY in 2021.

Beauty & Wellness Public Company Trading Multiples vs. S&P 500

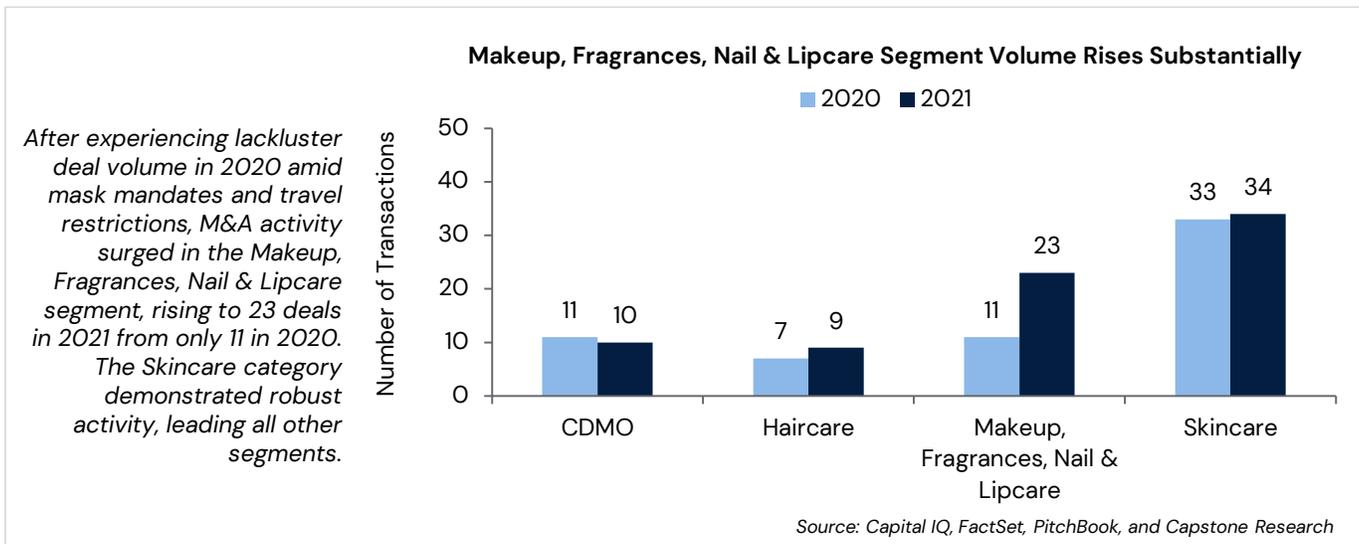
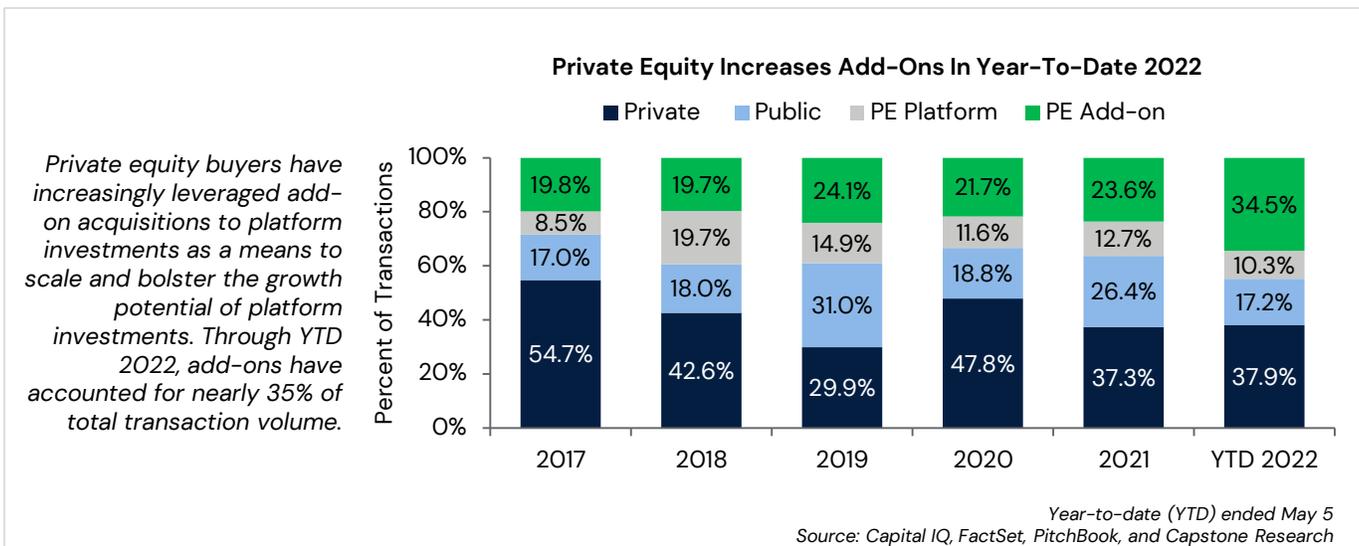
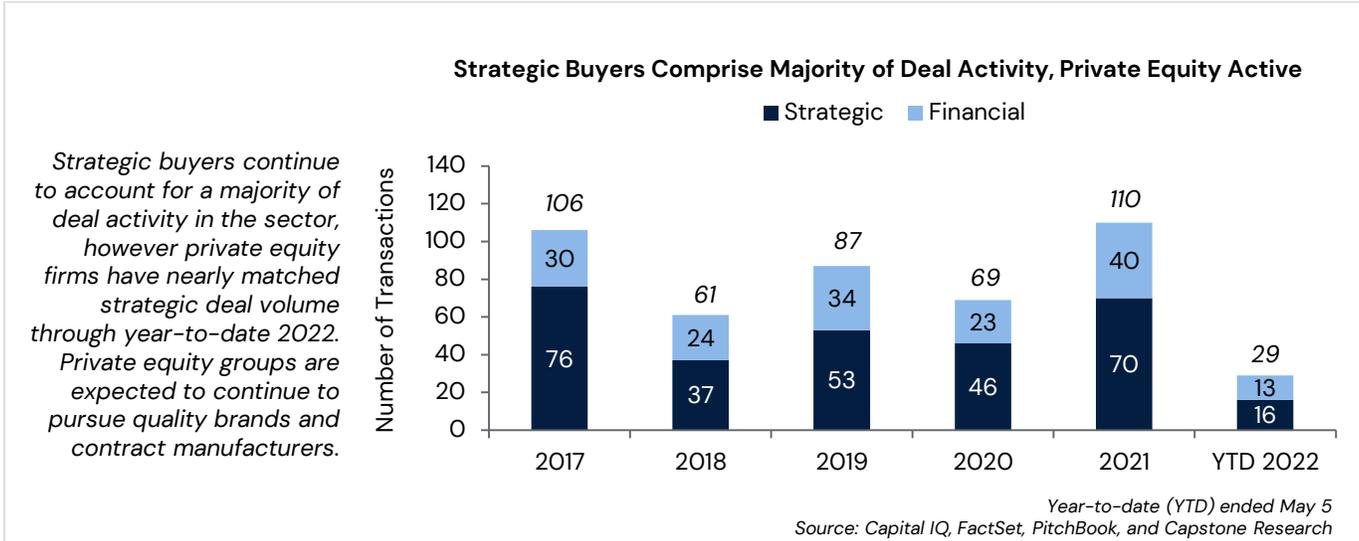


Beauty & Wellness M&A Volume vs. Consumer Industry



Source: Capital IQ and Capstone Research

M&A ACTIVITY AND BUYER BREAKDOWN



INDIE BRANDS GARNER HEALTHY BUYER INTEREST

M&A activity in the Beauty & Wellness sector has continued at a healthy pace through YTD 2022, with 29 transactions announced or completed. The deal market for indie beauty brands remains robust as buyers have actively pursued private companies appealing to current consumer preferences, which often revolve around ESG principles and unique positioning. Notably, Wella recently acquired Briogeo, a leading independent hair care brand offering eco-ethical and natural products (April 2022, undisclosed). The investment appetite for these brands also extends to financial buyers, with brand strength, customer retention, and demonstrated sales growth playing a key role in private equity and family offices' transaction screening criteria. Family holding company, Famille C recently acquired skincare-powered makeup brand ILIA for an undisclosed sum (February 2022). Achieving \$100 million in sales in 2021, ILIA represents the type of high growth indie brands that investors are increasingly backing with capital.

Beauty & Wellness M&A Transaction Volume



Year-to-date (YTD) ended May 5
 Source: Capital IQ, FactSet, PitchBook, and Capstone Research

Through YTD 2022 strategic buyers have led deal activity, comprising 55.2% of total transactions. Despite rising interest rates and an uncertain economic outlook, healthy valuations continue to be awarded to leading brands and contract manufacturers. With strategic buyers leveraging strong balance sheets, premiums are being paid for companies that provide penetration to new segments or drive meaningful synergies. Notably, the average M&A purchase multiple in the Beauty & Wellness sector has amounted to a robust 13.5x EBITDA from 2018 through YTD 2022. This valuation strength has persisted down market, with companies under \$500 million in enterprise value averaging 10.7x EBITDA – outpacing the broader middle market Consumer industry average of 10.3x, according to [Capstone’s Middle Market M&A Valuations Index](#).

Private equity buyers (44.8% of YTD 2022 deals) continue to deploy capital to the sector, both through the acquisition of brands and contract manufacturers. Outsourced manufacturers represent a valuable sector entry point for financial buyers, often characterized by high revenue predictability. Although a lower margin business, the opportunities to scale these players serve as an attractive investment thesis for sponsors. In addition, with the rapid growth of indie brands, there will be an inevitable long term demand for outsourced manufacturing and product development.

Beauty & Wellness Valuation Analysis

Valuation Method	Average Revenue Multiple	Average EBITDA Multiple
Beauty & Wellness M&A Transactions (2018–Present)	4.0x	13.5
Beauty & Wellness M&A Transactions EV < \$500mm (2018–Present)	3.7x	10.7x
Consumer Industry M&A Transactions EV < \$500mm (2019–2021)	1.7x	10.3x

Source: Capital IQ, FactSet, PitchBook, and Capstone Research

NOTABLE TRANSACTIONS AND M&A INSIGHTS



Briogeo

Wella has agreed to acquire leading independent hair care brand Briogeo for an undisclosed sum (April 2022). Briogeo offers clean and natural hair care products for all hair types, hair texture, and ethnicities. The acquisition complements Wella's existing hair product portfolio, accelerating its growth in the Hair category which has emerged as one of the fastest growing segments in the Beauty sector. Wella's expansive customer reach, robust research and development (R&D) and digital market capabilities are expected to fuel the next chapter of growth for Briogeo.



Ken Wasik
Head of Consumer Investment Banking

"This is an exciting time in the Beauty sector from an M&A perspective. We have powerful trends including: the new, well-educated consumer that will research the claims and ingredients of a brand; large buyers scrambling to capture a younger generation's thirst for their own beauty brands; the rising influence of Asian-based skin care regimes; the continued success of DTC indie brands that are able to quickly build large followings; and the large number of private equity firms that are actively looking for add-on acquisitions to their beauty portfolio companies."



LG Household & Health Care (KOSE:A051900) has acquired a 65% stake in The Crème Shop for an enterprise value of \$184.6 million (April 2022). U.S.-based The Crème Shop focuses on the manufacturing and marketing of Korean cosmetics and related accessories. It has recorded an average annual sales growth of 30% over the past three years, according to a press release.⁴ In addition, The Crème Shop has actively targeted Millennials and Gen Z, providing LG Household & Healthcare with a valuable customer base. The transaction also diversified LG Household & Health Care's revenue sources, which has historically relied heavily on China.



Knowlton Development Corporation (kcd/one) has received a significant investment from global investment firm KKR (NYSE:KKR), and in parallel, announced its acquisition of Aerofil Technology (March 2022). Terms of the acquisition were not disclosed. Aerofil is a privately held provider of aerosol and liquid filling solutions for markets including Personal Care, Household, and Automotive. The acquisition of Aerofil adds aerosol capabilities to kdc/one's North American offerings and provides a 400,000 square-foot facility serving a broad range of customers, according to a press release.⁵



Yellow Wood Partners, a consumer focused private equity firm, has acquired sexual device brand PlusOne® from Clio, marking the formation of a new sexual wellness platform, Beacon Wellness Brands (March 2022). Terms of the transaction were not disclosed. The transaction highlights the growing interest among private equity in sexual health brands that has coincided with heightened consumer interest. "The sexual wellness category is evolving and becoming less taboo as consumers are increasingly more educated about their overall wellness and quality of life," commented Jamie Leventhal, Founder of Clio in a press release.⁶



Taro Pharmaceuticals (NYSE:TARO) has acquired Alchemee, formerly The Proactiv Company, for an enterprise value of \$99.3 million, equivalent to approximately 0.6x revenue. The brand has reportedly experienced a decline in sales in recent years, which may be attributed to concern over product efficacy, a drop in interest among millennials, and the prevalence of DTC brands offering more economical products. Despite operating challenges, Alchemee adds a reputable brand to Taro's portfolio of prescription and over-the-counter dermatology products.

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
04/29/22	Briogeo Hair Care	Wella	Provides clean and natural hair care products.	-	-	-
04/20/22	The Crème Shop	LG H&H (KOSE:A051900)	Manufactures and markets cosmetics, skincare, and beauty products.	\$184.6	-	-
04/18/22	Innovative Fragrances	Phoenix Aromas & Essential Oils	Manufactures and offers fragrances for consumers and commercial products.	-	-	-
03/30/22	Aerofil Technology	Knowlton Development	Provides contract manufacturing services for aerosol and liquid packaging.	-	-	-
03/23/22	Blush Wellness	Wellness Brands	Offers personal and beauty care products for women.	-	-	-
03/17/22	PlusOne® of Clio	Yellow Wood Partners	Comprises a sexual device manufacturing business.	-	-	-
03/15/22	Private Label Select	Cosmetic Solutions	Manufactures and distributes cosmetics.	-	-	-
03/14/22	Joanna Vargas Skin Care	SuperOrdinaryCo	Provides skincare products for wellness and overall health.	-	-	-
02/22/22	Alechemee	Taro (NYSE:TARO)	Offers non-prescription acne treatment products.	-	-	-
02/04/22	Nicole and Brizee	Channel Op	Manufactures and distributes personal care products including shampoo and body wash.	-	-	-
02/03/22	COVER FX Skin Care	AS Beauty Group	Provides foundation makeup, cover up cosmetics, and skincare products.	-	-	-
02/02/22	ILIA	Famille C Venture	Offers cosmetics including foundations, moisturizers, and powders.	-	-	-
01/28/22	Violet Grey	Farfetch (NYSE:FTCH)	Provides beauty care products through physical stores and online.	\$44.4	-	-
01/27/22	Bella il Fiore	Creative Brands	Offers online retail of beauty products including haircare, skincare, spa, and clothing.	-	-	-
01/23/22	Organic Harvest	Sanghvi Beauty & Technologies	Produces and sells beauty and personal care products.	-	-	-
01/20/22	Salon Service Group	Great Range Capital	Wholesales hair care products to salons and stylists.	-	-	-
01/19/22	Appelson	Boosted Ecommerce	Manufactures hair tools sold online.	-	-	-
01/18/22	Anacapa	Argentum Medical	Provides antimicrobial skin and wound care products.	-	-	-
01/18/22	Mexico & U.S. Operations of JAFRA	Betterware (Nasdaq:BWMX)	Offers beauty and personal care products and manufacturing, R&D, and direct selling capabilities.	\$255.0	-	-
01/13/22	Diversified Manufacturing	Smith & Vandiver	Provides contract manufacturing for beauty and personal care products.	-	-	-
01/04/22	Fresh Heritage	Branded E-Commerce	Offers grooming products for men.	-	-	-
01/04/22	TULA Life	Procter & Gamble (NYSE:PG)	Manufactures skincare products for hydrating, cleaning, and exfoliating.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

BUYER UNIVERSE

Capstone has developed intricate knowledge of the strategic and financial buyer universe through ongoing conversations with industry participants. If you would like to learn more about relevant buyers in your sector, please reach out to Managing Director [Ken Wasik](#).

Leading Strategic Buyers



Leading Financial Buyers



Source: Capstone Research

PUBLIC COMPANY DATA

Company	Price 05/10/22	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Amorepacific Corporation	\$132.34	56.2%	\$8,330.8	\$7,736.3	\$4,082.7	\$592.1	14.5%	1.9x	13.1x
Church & Dwight Co., Inc.	\$98.00	93.1%	\$23,791.6	\$26,197.4	\$5,248.4	\$1,212.2	23.1%	5.0x	21.6x
Colgate-Palmolive Company	\$76.67	89.6%	\$64,245.0	\$71,317.0	\$17,476.0	\$4,467.0	25.6%	4.1x	16.0x
Coty Inc.	\$6.31	56.7%	\$5,292.7	\$10,173.3	\$5,198.5	\$982.2	18.9%	2.0x	10.4x
e.l.f. Beauty, Inc.	\$22.40	66.6%	\$1,167.5	\$1,253.8	\$379.7	\$54.9	14.5%	3.3x	22.8x
Edgewell Personal Care Company	\$34.02	65.6%	\$1,839.6	\$3,091.6	\$2,127.9	\$332.3	15.6%	1.5x	9.3x
Inter Parfums, Inc.	\$78.49	72.4%	\$2,499.3	\$2,580.5	\$931.7	\$179.9	19.3%	2.8x	14.3x
Johnson & Johnson	\$177.09	94.9%	\$465,994.9	\$466,870.9	\$94,880.0	\$32,711.0	34.5%	4.9x	14.3x
Kao Corporation	\$40.19	75.1%	\$19,045.3	\$18,624.9	\$12,322.3	\$2,107.9	17.1%	1.5x	8.8x
L'Oréal S.A.	\$341.43	74.7%	\$183,104.3	\$186,887.9	\$36,719.7	\$8,339.9	22.7%	NM	22.4x
Newell Brands Inc.	\$22.62	76.7%	\$9,353.4	\$14,583.4	\$10,689.0	\$1,575.0	14.7%	1.4x	9.3x
Nu Skin Enterprises, Inc.	\$44.55	71.1%	\$2,236.8	\$2,424.5	\$2,623.5	\$405.0	15.4%	0.9x	6.0x
Revlon, Inc.	\$4.13	23.4%	\$214.7	\$3,583.2	\$2,113.3	\$271.8	12.9%	1.7x	13.2x
Shiseido Company, Limited	\$41.30	64.1%	\$16,498.5	\$16,807.8	\$8,990.6	\$958.4	10.7%	1.9x	17.5x
The Honest Company, Inc.	\$3.31	16.6%	\$303.1	\$247.4	\$318.6	NM	NA	0.8x	NM
The Procter & Gamble Company	\$154.79	93.6%	\$371,387.2	\$397,644.2	\$79,618.0	\$21,783.0	27.4%	5.0x	18.3x
Tupperware Brands Corporation	\$7.62	26.1%	\$349.3	\$989.9	\$1,536.5	\$258.5	16.8%	0.6x	3.8x
Ulta Beauty, Inc.	\$380.87	86.8%	\$19,891.8	\$21,306.9	\$8,630.9	\$1,949.6	22.6%	2.5x	10.9x
Unilever PLC	\$45.49	84.1%	\$116,150.2	\$145,045.6	\$59,642.9	\$12,910.3	21.6%	2.4x	11.2x
Mean							19.3%	2.4x	13.5x
Median							18.0%	1.9x	13.1x
Harmonic Mean							17.8%	1.7x	11.0x

EV = enterprise value; LTM = last twelve months
 \$ in millions, except per share data
 NM = Not Meaningful

Source: Capital IQ as of May 10, 2022

BEAUTY & WELLNESS REPORT CONTRIBUTORS



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Ken joined Capstone to lead the Consumer Investment Banking practice. He brings nearly 25 years of investment banking experience including domestic and international mergers & acquisitions, initial and secondary offerings of public companies, debt raises and private placements for his clients. He has helped raise over \$10 billion in capital for clients during his career. Ken regularly presents at consumer industry conferences and has testified twice as an expert witness on consumer brands. He joins Capstone Partners from Stephens Investment Bank, where he started and led the Consumer Products Group. Ken is a Series 79 Registered Investment Banking Representative and holds an MBA in Finance from Columbia University and a BS in Accounting from St. Joseph's University.



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Connor currently serves as Research Manager at Capstone Partners. Connor provides M&A insights, capital markets analysis, and macroeconomic updates for C-suite middle market executives. He specializes in the coverage of the Healthcare and Consumer industries. Prior to joining the Research Team at Capstone, Connor was a specialist with the Investor Services team at BlackRock where he was responsible for assessing fund and account performance, communicating relevant market dynamics, and facilitating trades for shareholders, financial advisors, and institutional clients. Connor holds a BA in Economics from Bates College and is a Series 7 Registered Securities Representative.



FIRM TRACK RECORD

Capstone's Consumer Investment Banking Group maintains an active presence in the Beauty & Wellness sector with in-depth knowledge of the buyer universe and business characteristics that drive premium valuations in an M&A process. Our frequent conversations with industry participants provide us with increased transparency into market trends and buyer preferences. A sampling of Capstone's closed and active deals is outlined below.

<p>CONFIDENTIAL</p> <p>CORPORATE SALE</p> <p>PROVIDER OF INTIMACY PRODUCTS</p>	<p><i>Natures Craft</i></p> <p>HAS BEEN ACQUIRED BY</p> <p>AN UNDISCLOSED STRATEGIC BUYER</p>	<p></p> <p>HAS BEEN ACQUIRED BY</p> <p>WLC WEST LANE CAPITAL PARTNERS IN PARTNERSHIP WITH J.P.Morgan Asset Management</p>	<p></p> <p>HAS ACQUIRED</p> <p>Clinere™</p>
<p></p> <p>HAS PARTNERED WITH</p> <p>PROMUS EQUITY PARTNERS</p>	<p>purple</p> <p>HAS BEEN ACQUIRED BY</p> <p></p>	<p>GO SMILE™ the smile beauty company a portfolio company of JHPartners</p> <p>HAS BEEN ACQUIRED BY</p> <p>UNDISCLOSED FAMILY OFFICE</p>	<p></p> <p>HAS BEEN ACQUIRED BY</p> <p>AVON</p>
<p>Westone®</p> <p>HAS BEEN ACQUIRED BY</p> <p>HealthEdge INVESTMENT PARTNERS</p>	<p>CRYSTAL™ BODY DEODORANT</p> <p>HAS BEEN ACQUIRED BY</p> <p>JUGGERNAUT CAPITAL PARTNERS</p>	<p>benefit SAN FRANCISCO</p> <p>HAS BEEN ACQUIRED BY</p> <p>LVMH</p>	<p></p> <p>HAS BEEN ACQUIRED BY</p> <p>CONAIR</p>



ENDNOTES

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Common Goals. Uncommon Results.

Disclosure

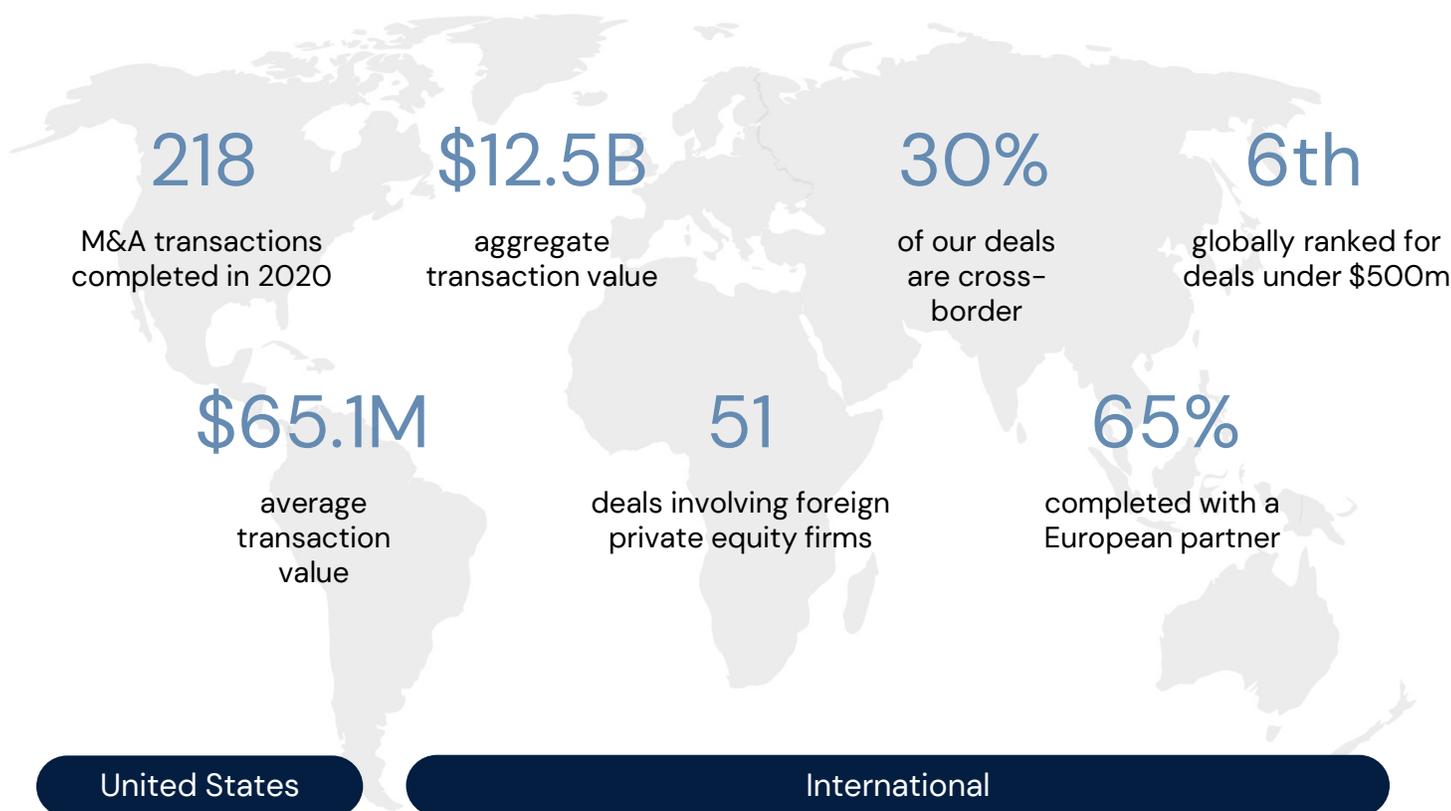
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