

# MARKET CONDITIONS AND STRATEGIC BUYERS FAVOR MIDDLE MARKET BEAUTY

BEAUTY SECTOR UPDATE | MAY 2023



**CAPSTONE  
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# Beauty

## Market Conditions and Strategic Buyers Favor Middle Market Beauty

### KEY SECTOR TAKEAWAYS

Capstone Partners' Consumer Investment Banking Group is pleased to share its Beauty report. The Beauty space has historically been viewed as recession resistant, with consumers often refusing to sacrifice their beauty and wellness routines despite economic turbulence. Through early 2023, strong performance by public companies has largely upheld this view, however, merger and acquisition (M&A) activity in the sector has yet to experience the same exuberance. Several key report takeaways are outlined below.

1. M&A activity has fallen compared to the prior year, however, quality privately-owned companies have continued to attract healthy buyer interest.
2. Leading public companies in the sector have captured robust revenue growth as consumers have continued to spend on beauty and personal care products.
3. Strategic buyers have led acquisition activity, often moving down market to acquire smaller brands.
4. Financial buyers have been increasingly selective in their acquisition pursuits amid elevated financing costs and uncertainty in forecasting cash flows.
5. Yellow Wood Partners, a consumer-focused private equity firm, shares its insights on the Beauty space following its acquisition of Suave.

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 sector knowledge, please [contact us](#).



## BEAUTY SECTOR PERSEVERES THROUGH ECONOMIC UNCERTAINTY

Economic headwinds have failed to deter consumer spending in the Beauty sector, with the space demonstrating its recession resilience through early 2023. In 2022, overall beauty product sales increased 11% year-over-year (YOY) amid a backdrop of eroding consumer purchasing power, according to NPD.<sup>1</sup> The sector has captured elevated sales despite personal savings falling to their lowest level since 2009 (U.S. Bureau of Economic Analysis<sup>2</sup>)—indicating that consumers have seemingly designated the Beauty space as an essential spend. Sector participants are expected to benefit from sustained customer loyalty, despite lingering cost pressures. Notably, 79% of consumers plan to spend the same or more on beauty and personal care items in 2023 as in 2022, according to Nielson IQ.<sup>3</sup> Recessionary headwinds will continue to challenge sector participants through 2023, however, the backdrop of robust consumer demand has provided a layer of insulation from adverse market conditions.

The Prestige Beauty segment drove sector revenue in 2022, experiencing a 15% YOY sales increase, according to NPD. While higher prices contributed to robust sales, the Prestige Beauty space stood alone as the only segment across Discretionary Retail and Consumer Packaged Goods to achieve unit sales growth in 2022. Many prestige beauty providers possess an affluent customer base less impacted by inflation and recessionary pressures. However, brand strength and customer retention have also played a significant role in driving growth—evidenced by the value consumers have placed on high end brands. Notably, LVMH Moët Hennessy Louis Vuitton (ENXTPA:MC) achieved an 11% YOY increase in revenue in its Perfumes & Cosmetics business group in Q1, according to its earnings release.<sup>4</sup> LVMH's strong top line results are reflective of healthy prestige beauty spending across the U.S, with prestige makeup and fragrance achieving sales growth of 18% and 11%, respectively. Fragrances, in particular, have benefited from premiumization as sales revenue for fragrances priced over \$150 grew by 16% YOY in 2022, according to NPD.<sup>5</sup> Prestige brands with entrenched customer loyalty are expected to continue to capture consumer demand through 2023.

Mass market beauty providers have also fared well through early 2023, although seemingly not at the



**Ken Wasik**  
Managing Director,  
Head of Beauty Sector

*"The current market has financial buyers largely sitting on the sidelines. We believe large strategic buyers are going to shy away from large acquisitions in this market to focus on fast growing middle market beauty brands."*

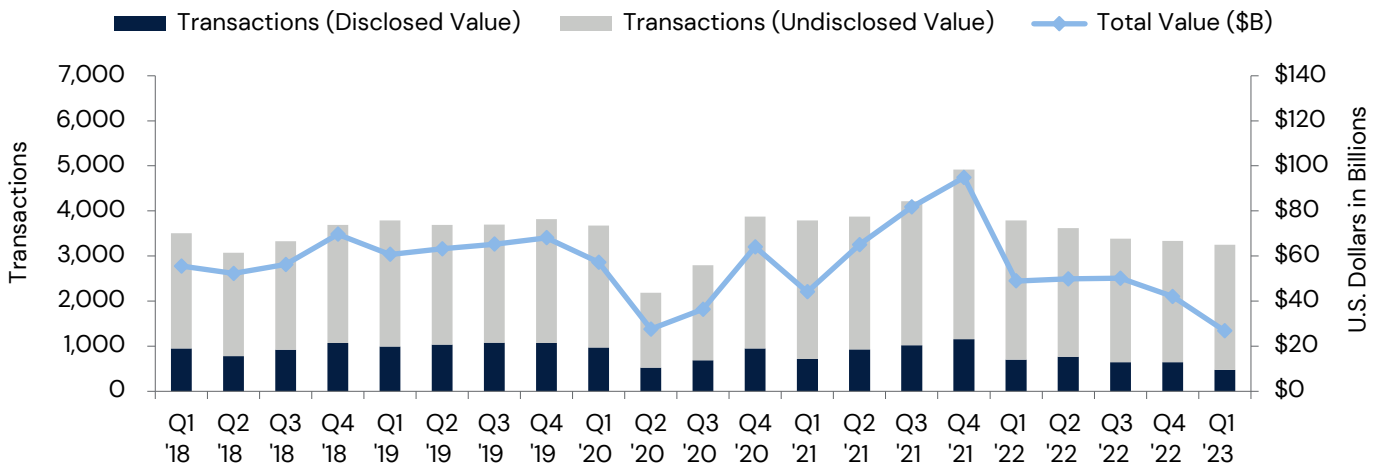
expense of the Prestige market. Consumer belt-tightening often results in a trade-down effect which has supported lower priced brands. e.l.f Beauty (NYSE:ELF) has been a clear beneficiary of this trend and grew net sales by 49% YOY with gross margin rising 180 basis points in its fiscal Q3 2023, according to its earnings release.<sup>6</sup> e.l.f's success in expanding its market share through innovation and attractive price points has manifested in a strong following and brand visibility. In addition, certain areas of the Mass Market channel have outperformed the Prestige channel, indicating the lack of a severe quality drop off. Notably, Facial Skincare in the mass market was the top performing segment across the entire Beauty space from a revenue growth perspective in 2022.

While it is too early in the business cycle to label the Beauty space as a clear winner of the current economic environment, the sector has continued to outperform the broader market. Through year-to-date (YTD) 2023, the average trading multiple in Capstone's Beauty Index has amounted to 16.5x EV/EBITDA, compared to 13.5x EV/EBITDA in the S&P 500. Healthy public trading multiples and strong consumer purchases have often provided tailwinds for sector M&A. However, through early 2023, transaction markets have appeared dislocated from these trends with transaction volume softening (more details on following pages). Privately-owned businesses can still view this as a seller's market as the fundamentals remain healthy—which may lend to a resurgence in acquirer and investor activity in the second half of the year.

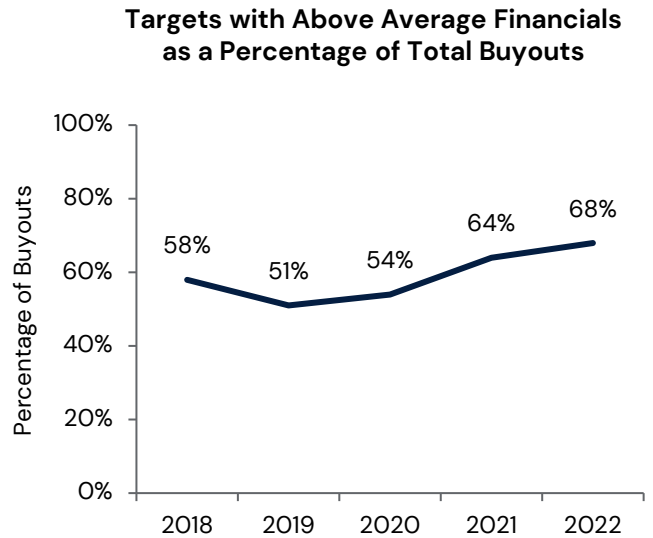
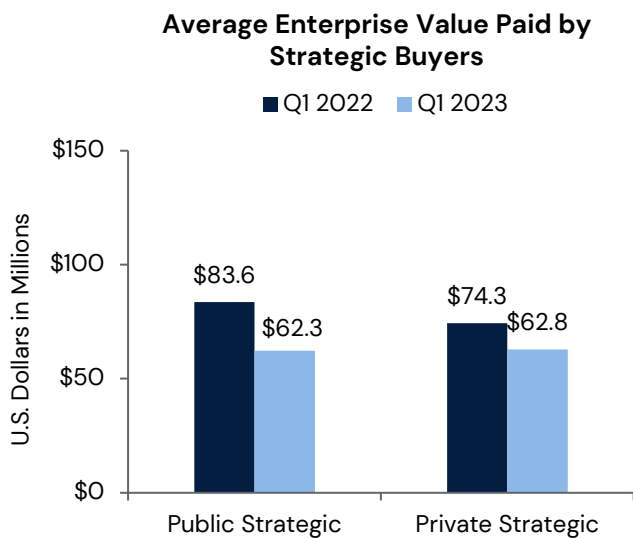
## MIDDLE MARKET M&A SIGNALS

1. M&A volume declines have not been unique to the Beauty sector as total middle market dealmaking has softened through Q1 2023, falling 14.3% YOY. High-quality companies have remained in demand.
2. Strategic buyers have moved down market to acquire smaller targets, evidenced by the decrease in average deal value paid by private and public strategics—a trend Capstone is seeing play out among sector participants in the Beauty space.
3. While dry powder remains abundant, private equity firms have been increasingly selective in acquisition pursuits, as quality companies with above average financials comprised 68% of 2022 total buyouts.

### Overall Middle Market Transaction Volume

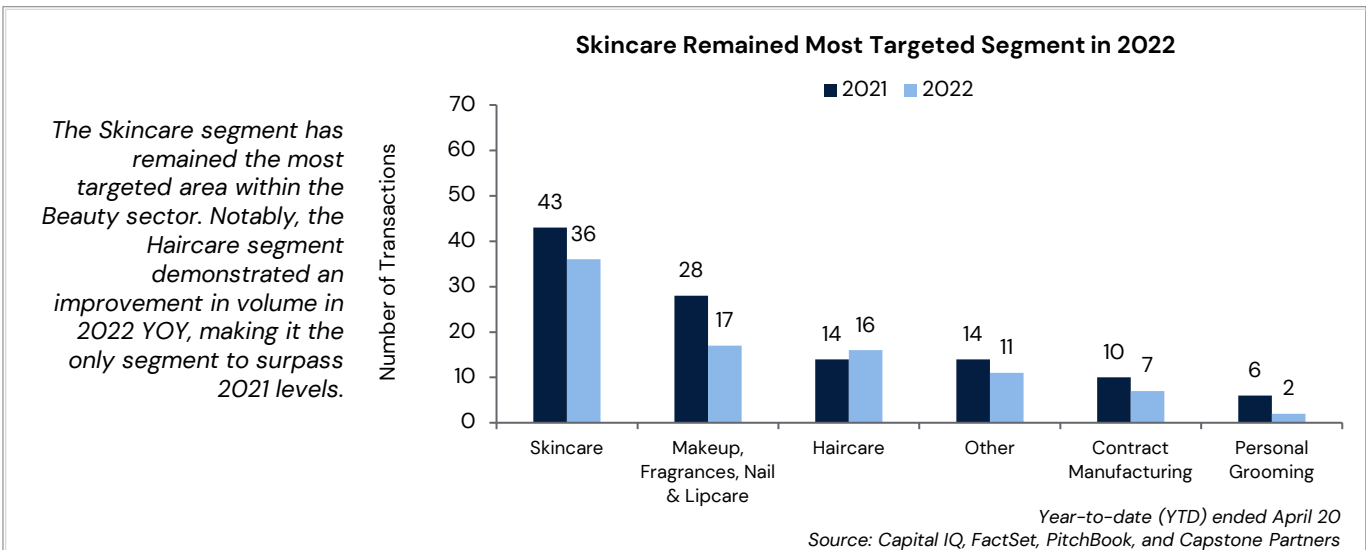
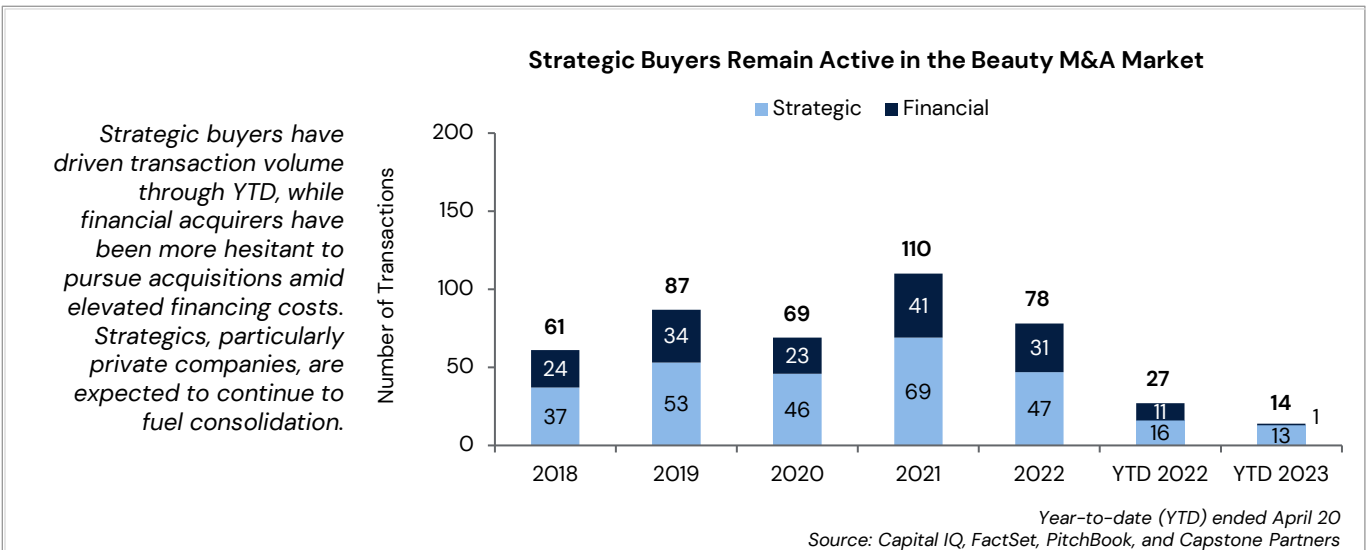
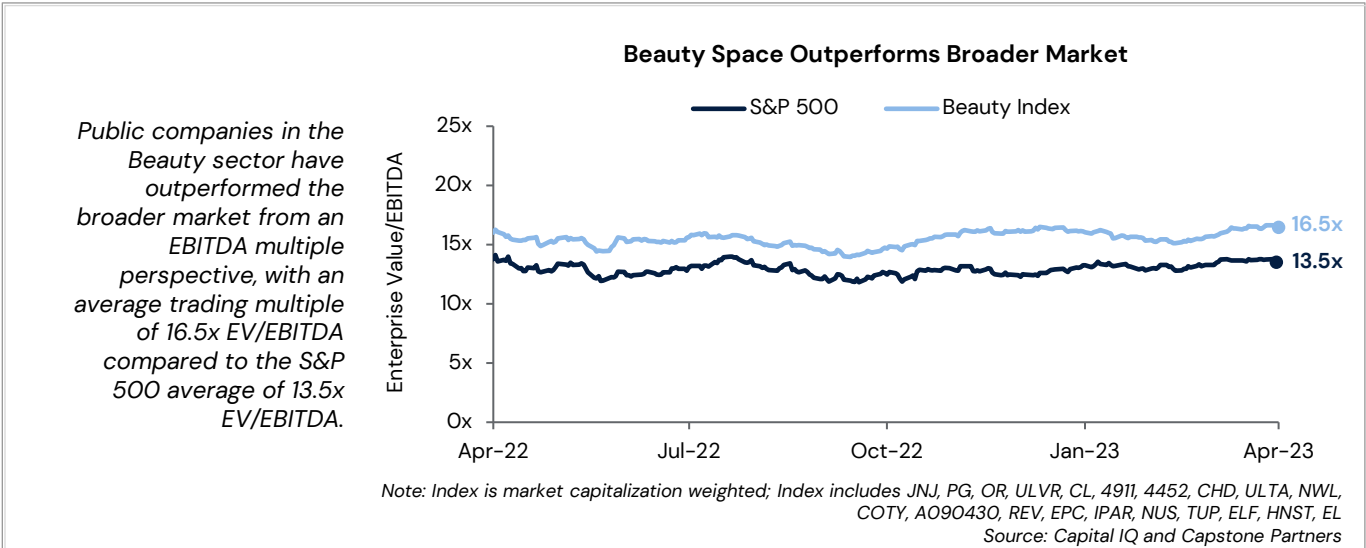


### Middle Market Strategic and Private Equity Buyer Activity



Note: GF Data® defines better financial performers as businesses with TTM EBITDA margins and revenue growth rates both above 10%, or one above 12% and the other metric at least 8%  
 Source: Capital IQ, GF Data®, Capstone Partners

## PUBLIC COMPANY VALUATIONS AND M&A DATA



## Q&A WITH YELLOW WOOD PARTNERS



Capstone Partners discussed [Yellow Wood Partners'](#) recent acquisition of Suave from Unilever with Yellow Wood Partners Principal Sarah Mascioli Ensslen. Yellow Wood Partners is a Boston-based private investment firm that invests exclusively in the Consumer industry in the middle market. The firm seeks to acquire branded consumer products that sell into a variety of consumer channels, including mass, drug, food, specialty, value, club and e-commerce. Yellow Wood's Consumer Operating DNA investment and operating strategy is based on utilizing the firm's functional operating resources to help maximize brand performance by driving organic growth and increasing operating efficiencies while acquiring additional brands into a limited number of platform companies in its concentrated investment portfolio.

### ***Can you describe the key motivations behind the acquisition of Suave?***

Suave is a leading master personal care brand with entrenched positions across multiple categories. Suave is the #1 brand by volume in Hair Care; one out of every four households in the U.S. uses a Suave hair care product. Suave also has a leading position in Body Wash, where it is the #2 brand by volume.

Suave has leading consumer awareness among personal care brands; approximately 75% of all consumers know the Suave brand. We are excited to build on this awareness and support Suave's perception among consumers as high-quality products at affordable price points, which has been built over the past 75 years.

### ***What are your plans for the next chapter of growth for the brand?***

Suave has been part of a broader portfolio at Unilever, and we look forward to carving Suave out and setting the brand up independently for its next stage of growth. In carving it out, we will hire a management team who wakes up every day thinking about Suave and structure a business infrastructure uniquely suited to support Suave's success.

We are excited to increase support for Suave's brand message selling value-oriented products for savvy consumers. Suave also looks forward to

partnering with retailers to innovate and bring cutting edge Beauty & Personal Care trends to the opening price point segment of the Beauty & Personal Care market.

### ***What attracts you to the Beauty & Personal Care sector?***

Yellow Wood has been investing in the Beauty & Personal Care sector since its founding over a decade ago. The firm has built significant expertise and experience across categories by focusing on long-term consumer trends and evolving consumption patterns. The sector continues to remain an attractive place for us to invest because of continued growth through innovation and consumption changes, ubiquitous household penetration, and high repeat purchase rates. Yellow Wood's investors thrive on following the consumer's evolution through data and trends.



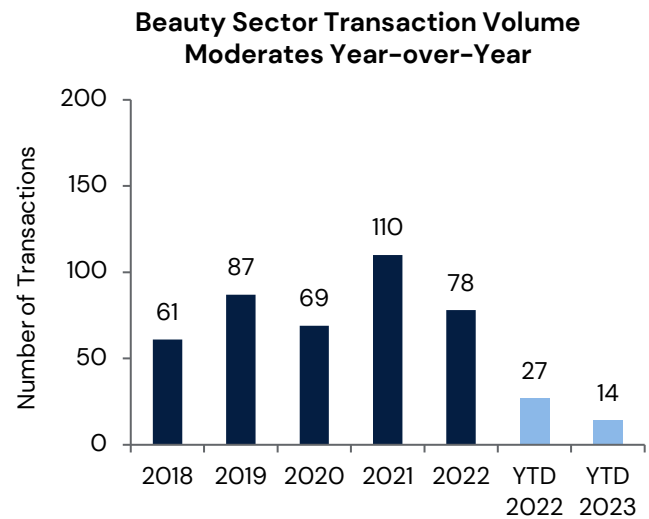
**Sarah Mascioli Ensslen**  
Principal, Yellow Wood Partners

*Sarah joined Yellow Wood Partners in 2019 as a Vice President and was promoted to Principal in 2021. Her nearly 10 year career has spanned private equity and investment banking. Sarah received a BA from Princeton University and an MBA from Harvard Business School.*



## STRATEGICS DRIVE M&A MARKET AND PURSUE SMALLER DEALS

M&A activity has slowed in the Beauty space, with 14 transactions announced or completed YTD, marking a 48.2% YOY decline. While deal volumes have lowered, the fundamentals for Beauty M&A remain sound—albeit, challenged by tighter credit conditions and economic uncertainty. However, the consumer has proved resilient amid economic headwinds and has continued to actively spend on beauty products. Valuations in early 2023 have remained robust for leading sector public companies, which tends to bode well for middle market M&A pricing. Historically, target companies in the sector have achieved healthy pricing, with the average M&A EBITDA multiple from 2018 through 2022 amounting to 13.0x EV/EBITDA. Recurring revenue, customer loyalty, and a strong margin profile have been key drivers of premium valuations.



Year-to-date (YTD) ended April 20  
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Strategic buyers have continued to comprise the majority of transactions, accounting for 65.2% of 2022–YTD 2023 deals. Through the first quarter of 2023, strategic buyers have been hesitant to pursue large scale transactions and have focused on completing smaller, high-quality tuck-in acquisitions. This may provide opportunity for privately-owned middle market companies seeking a liquidity event as strategic buyers have moved significantly down market. Notably, the average deal value paid by public strategic buyers across all industries in the middle market declined 25.5% YOY in Q1 to \$62.3 million.

Financial buyers have largely remained on the sidelines through YTD 2023, as elevated financing costs have increased the scrutiny sponsors are placing on target companies’ forecasted cash flows. However, as strategics have thinned their portfolios, this has presented opportunities for private equity firms to acquire strong brands and provide them with a dedicated investment platform. This has been recently evidenced by Yellow Wood Partners’ February acquisition of Unilever’s (NYSE:UL) beauty and personal care brand, Suave, in North America. Terms of the transaction were not disclosed.

Privately-owned brands, which have accounted for 58.7% of 2022–YTD 2023 deals, are expected to continue to be actively targeted by strategics. Increased visibility in the terminal interest rate may also lure more financial buyers into the space. In addition, as sector players have continued to search for efficiency and cost savings, contract manufacturers have captured healthy demand as outsourced partners. While many financial buyers have waited for improved economic visibility, contract manufacturing targets represent an attractive means to gain sector exposure and capitalize on current outsourcing trends.

### Key Sector M&A Takeaways



**Flight to quality**

Beauty companies with healthy gross margins and brand strength have continued to garner buyer attention.



**Trading Multiples Holding Strong**

Public companies have continued to trade at premium EBITDA multiples and capture strong market returns.



**Strategics Active in the Market**

Strategics have been optimizing their portfolios and pursuing accretive middle market acquisitions.



**Privately-owned Brands in Demand**

Privately-owned brands have comprised a majority of transactions from 2022 through YTD 2023.

## SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
02/14/23	Suave	Yellow Wood Partners	Provides beauty and grooming solutions including shampoos, conditioners, body washes, and body lotions.	-	-	-
01/13/23	Bliss World	AS Beauty	Offers cruelty-free, planet-friendly skincare products.	-	-	-
01/11/23	Mielle Organics	Procter & Gamble (NYSE:PG)	Provides organic skin and hair care products.	-	-	-
12/31/22	Skylar Body	Starco Brands (OTCPK:STCB)	Offers natural perfumes, body washes, body lotions, deodorants, hand creams, and candles.	\$16.4	-	-
11/09/22	ZitSticka	Heyday	Manufactures and sells cosmetics products including patches and soaked swaps.	-	-	-
09/16/22	Klabin Fragrances	Turpaz Industries (TASE:TRPZ)	Offers research, development, and production of fragrance, natural oil blends, and extracts.	\$30.0	3.1x	12.5x
09/06/22	Hero Might Patch	Church & Dwight (NYSE:CHD)	Provides acne treatment products.	\$630.0	5.5x	14.0x
09/01/22	Tata's Natural Alchemy	Amorepacific (KOSE:A090430)	Provides natural antiaging skincare products.	-	-	-
08/18/22	Contract Filling	Arizona Natural Resources	Manufactures deodorants and cosmetic equipment for cosmetic brands and luxury fragrance houses.	-	-	-
07/04/22	Maritime Beauty Supply	Founder East Capital Partners	Distributes professional beauty supplies.	-	-	-
07/04/22	Nutrimetics	New Image Group	Provides skincare and cosmetics products.	-	-	-
06/03/22	Youngblood Mineral Cosmetics	Luxury Brands	Offers skincare products, makeup, and cosmetic equipment.	-	-	-
05/17/22	Bellami Hair	Beauty Industry Group	Designs and manufactures hair extensions and related accessories.	-	-	-
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)	Provides feminine care products.	\$184.6	-	-
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.	-	-	-
02/22/22	Alchemee	Taro (NYSE:TARO)	Provides non-prescription acne treatment products.	\$91.9	0.6x	-
02/02/22	Ilia	Famille C Venture	Offers cosmetic products including foundations, moisturizers, powders, and lipsticks.	-	-	-
01/27/22	Bella il Fiore	Creative Brands	Provides online retailing of beauty products including hair care and skincare.	-	-	-
01/19/22	Appelson	Boosted Ecommerce	Manufactures hair tools.	-	-	-
01/13/22	Diversified Manufacturing	Smith & Vandiver	Provides contract manufacturing for beauty and personal care products.	-	-	-

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

## PUBLIC COMPANY DATA

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV/LTM		
	04/27/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA	
Amorepacific Corporation	\$92.15	66.8%	\$5,700.8	\$5,268.9	\$3,287.9	\$399.8	12.2%	1.6x	13.2x	
Church & Dwight Co., Inc.	\$97.30	95.7%	\$23,766.9	\$25,982.9	\$5,508.2	\$1,230.5	22.3%	4.7x	21.1x	
Colgate-Palmolive Company	\$77.93	93.0%	\$64,848.5	\$73,574.5	\$18,338.0	\$4,078.0	22.2%	4.0x	18.0x	
Coty Inc.	\$11.74	92.9%	\$10,009.5	\$14,539.8	\$5,268.1	\$982.1	18.6%	2.8x	14.8x	
e.l.f. Beauty, Inc.	\$92.85	95.7%	\$4,948.4	\$4,946.1	\$496.6	\$84.2	17.0%	NM	NM	
Edgewell Personal Care Company	\$43.76	96.3%	\$2,250.0	\$3,633.5	\$2,177.5	\$319.9	14.7%	1.7x	11.4x	
Inter Parfums, Inc.	\$154.27	95.7%	\$4,953.5	\$5,079.0	\$1,086.7	\$222.4	20.5%	4.7x	22.8x	
Johnson & Johnson	\$163.00	88.3%	\$426,016.2	\$443,456.2	\$96,263.0	\$33,490.5	34.8%	4.6x	13.2x	
Kao Corporation	\$40.44	87.4%	\$18,798.7	\$18,904.2	\$11,761.8	\$1,562.2	13.3%	1.6x	12.1x	
L'Oréal S.A.	\$477.60	97.8%	\$255,603.1	\$258,934.0	\$40,889.8	\$9,319.7	22.8%	NM	27.8x	
Newell Brands Inc.	\$11.88	48.1%	\$4,919.8	\$10,747.8	\$8,876.0	\$1,100.0	12.4%	1.2x	9.8x	
Nu Skin Enterprises, Inc.	\$39.49	82.5%	\$1,970.6	\$2,205.7	\$2,225.7	\$276.9	12.4%	1.0x	8.0x	
Shiseido Company, Limited	\$49.96	99.0%	\$19,964.0	\$21,294.8	\$8,093.8	\$772.5	9.5%	2.6x	27.6x	
The Estée Lauder Companies Inc.	\$245.67	86.4%	\$87,758.3	\$92,474.3	\$16,356.0	\$4,169.5	25.5%	NM	22.2x	
The Honest Company, Inc.	\$1.67	37.0%	\$155.9	\$178.3	\$313.7	NM	NA	0.6x	NM	
The Procter & Gamble Company	\$156.47	95.6%	\$368,795.0	\$398,893.0	\$80,968.0	\$21,548.0	26.6%	4.9x	18.5x	
Tupperware Brands Corporation	\$1.26	7.0%	\$56.0	\$651.3	\$1,305.6	\$129.6	9.9%	0.5x	5.0x	
Ulta Beauty, Inc.	\$547.77	99.0%	\$27,437.0	\$28,602.3	\$10,208.6	\$2,283.6	22.4%	2.8x	12.5x	
Unilever PLC	\$55.77	91.1%	\$140,816.3	\$170,443.8	\$64,201.1	\$12,464.5	19.4%	2.7x	13.7x	
							<b>Mean</b>	<b>18.7%</b>	<b>2.6x</b>	<b>16.0x</b>
							<b>Median</b>	<b>19.0%</b>	<b>2.6x</b>	<b>13.7x</b>
							<b>Harmonic Mean</b>	<b>16.5%</b>	<b>1.6x</b>	<b>13.2x</b>

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

Source: Capital IQ as of April 27, 2023



## BEAUTY 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 Vice President of Market Intelligence 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 Consumer industry. Prior to joining the Market Intelligence Team at Capstone, Connor was a specialist with the Investor Services team at BlackRock. Connor holds a BA in Economics from Bates College. He is a Series 7 Registered Securities Representative and has passed levels I and II of the CFA program.



## FIRM TRACK RECORD

Capstone's Consumer Investment Banking Group maintains an active presence in the Beauty 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><b>CONFIDENTIAL</b></p> <p>CORPORATE SALE</p> <p>BEAUTY &amp; PERSONAL CARE CONTRACT MANUFACTURER</p>	<p><b>CONFIDENTIAL</b></p> <p>CORPORATE SALE</p> <p>PROVIDER OF INTIMACY PRODUCTS</p>	<p><i>Natures Craft</i></p> <p>HAS BEEN ACQUIRED BY</p> <p><b>AN UNDISCLOSED STRATEGIC BUYER</b></p>	<p></p> <p>HAS BEEN ACQUIRED BY</p> <p><b>WLC WEST LANE CAPITAL PARTNERS</b> IN PARTNERSHIP WITH <b>J.P.Morgan</b> Asset Management</p>
<p></p> <p>HAS ACQUIRED</p> <p><i>Clinere™</i></p>	<p></p> <p>HAS PARTNERED WITH</p> <p><b>PROMUS™</b> EQUITY PARTNERS</p>	<p><b>purple</b></p> <p>HAS BEEN ACQUIRED BY</p> <p> GLOBAL PARTNER ACQUISITION CORP</p>	<p> the smile beauty company a portfolio company of <b>JHPartners</b></p> <p>HAS BEEN ACQUIRED BY</p> <p><b>UNDISCLOSED FAMILY OFFICE</b></p>
<p> teach.play.inspire.</p> <p>HAS BEEN ACQUIRED BY</p> <p><b>AVON</b></p>	<p><b>Westone®</b></p> <p>HAS BEEN ACQUIRED BY</p> <p><b>HealthEdge</b> INVESTMENT PARTNERS</p>	<p><b>CRYSTAL™</b> BODY DEODORANT</p> <p>HAS BEEN ACQUIRED BY</p> <p><b>JUGGERNAUT</b> CAPITAL PARTNERS</p>	<p><b>benefit</b> SAN FRANCISCO</p> <p>HAS BEEN ACQUIRED BY</p> <p><b>LVMH</b></p>



## ENDNOTES

1. NPD, "U.S. Prestige Beauty Shines in 2022 as Sales Revenues Grow by 15%, Says NPD," <https://www.npd.com/news/press-releases/2023/u-s-prestige-beauty-shines-in-2022-as-sales-revenues-grow-by-15-says-npd/>, accessed April 26, 2023.
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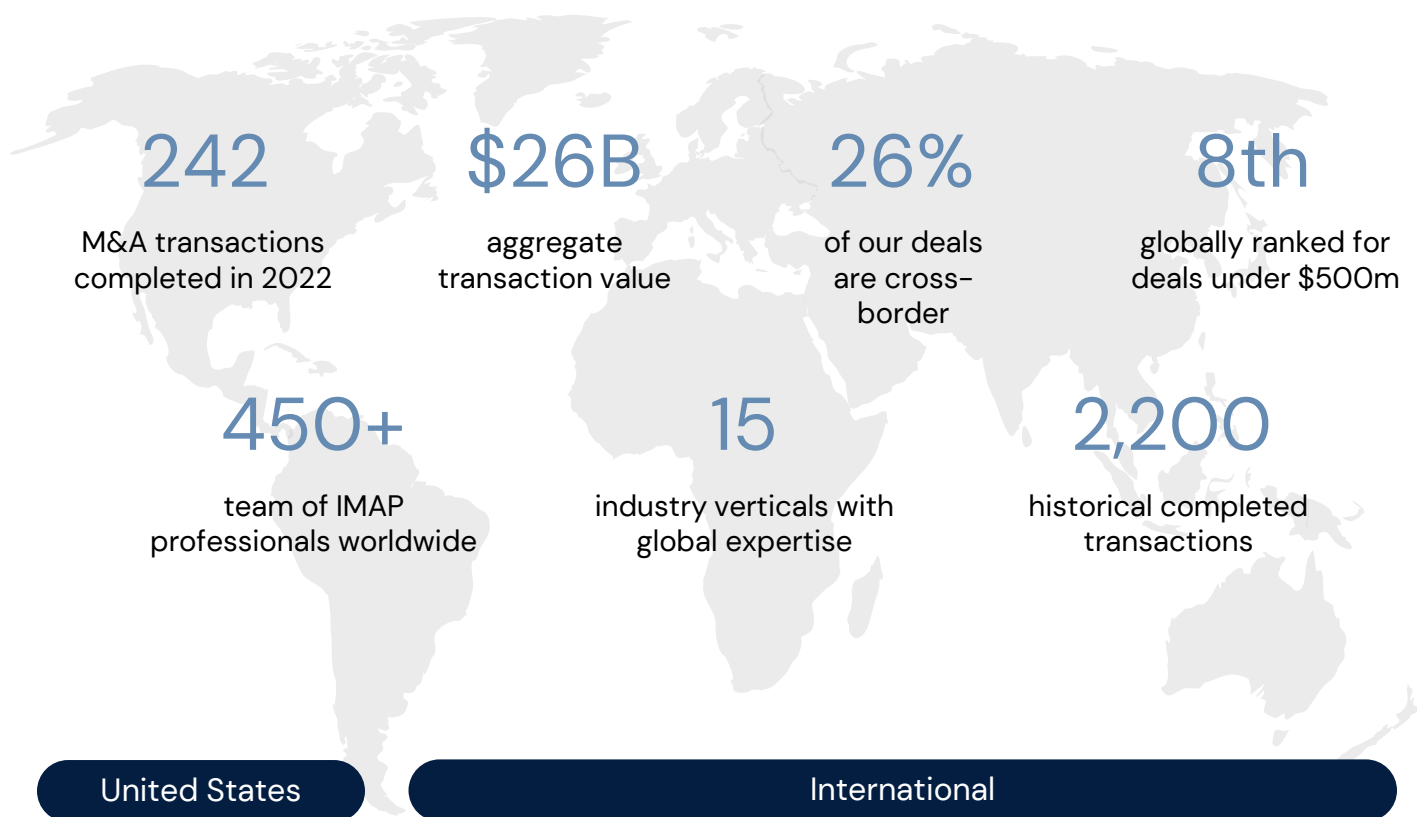




# CAPSTONE PARTNERS

## Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ professionals across 41 countries.



~200 professionals  
11 offices

Boston · Chicago · Dallas ·  
Denver · Detroit · Los Angeles ·  
Orange County · Philadelphia ·  
Richmond · San Diego · Tampa

450+ professionals  
60+ offices in 43 countries

Asia: China · India · Japan · Thailand  
Africa: Congo · Egypt · Ghana · Ivory Coast · Mauritius · Morocco · Nigeria · Senegal · South Africa  
Americas: Toronto · Vancouver · Argentina · Brazil · Chile · Colombia · Mexico · Panama & Central America · Peru  
Europe: Belgium · Bosnia & Herzegovina · Croatia · Czech Republic · Finland · France · Germany · Hungary · Ireland  
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