

SALES OF BEAUTY COMPANIES IN 2024 ACCELERATING, DRIVEN BY CORPORATE BUYERS

BEAUTY SECTOR UPDATE | AUGUST 2024



**CAPSTONE
PARTNERS**

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Beauty

Sales of Beauty Companies in 2024 Accelerating, Driven by Corporate Buyers

KEY SECTOR TAKEAWAYS

Capstone Partners' [Consumer Investment Banking Group](#) is pleased to share its Beauty market report. The Beauty sector has continued to see robust consumer demand despite mixed signals regarding the strength of the U.S. consumer across the wider Consumer industry. Strong public company performance, healthy sales growth, and forecasted interest rate cuts are expected to expand attractive merger and acquisition (M&A) opportunities from beyond the lower middle market, where the market has been particularly active to-date. Several key takeaways are included below.

1. Beauty sector M&A has accelerated through year-to-date (YTD), highlighting a market rebound from a 2023 volumes.
2. Consumer spending in the sector has remained strong despite headwinds, with the Prestige segment providing the majority of year-over-year (YOY) gains in the sector.
3. Private strategic buyers have comprised 66.7% of total transaction volume to-date while public players have remained sidelined despite strong share price performance over the same period.
4. Transaction valuations have remained robust, with attractive targets exemplifying strong customer loyalty, whitespace opportunity, and science-backed products garnering premium valuations.

Capstone Partners has developed a full suite of corporate finance solutions, including, financial advisory services, merger and acquisition advisory, debt advisory, and equity capital financing to help privately owned businesses and private equity firms navigate through each stage of a company's lifecycle.

To learn more about Capstone's wide range of advisory services and Beauty sector knowledge, please [contact us](#).

BEAUTY SALES BUOYED BY PRESTIGE SEGMENT, DEMAND STABILIZES

While the narrative surrounding the health of the consumer has remained bearish, the Beauty sector has continued to see sales growth, further solidifying the space as a non-discretionary spend for consumers. Although seeing a visible deceleration compared to prior periods of double-digit growth, sales grew by more than \$600 million in Q1 2024, led by 9% YOY growth in the Prestige segment, according to Circana.¹ In contrast, Mass Market segment sales rose at a slower rate (2%), indicating consumers have moved up-market, driving demand for high-quality, all-natural products. Sector sales outlook has remained positive, evidenced by a third of Generation Z consumers reporting intentions to splurge in the category through August 2024, followed closely by Millennials (31%), according to a McKinsey survey.²

Notably, Prestige Skincare (10%), Haircare (11%), and Fragrance (13%) products have comprised most of the sector's YOY sales gains in Q1, while Makeup (5%) lagged despite the category maintaining its position as the largest Prestige Beauty category, according to Circana. Fragrance sales have soared over the past three years (growing by 24% per year on average, according to Circana data^{3,4,5}) and the market has trended toward a period of sustainable growth. The fundamental drivers of Fragrance, particularly in the Prestige segment have been two-fold. First, younger consumers have fostered an environment where individuality and self-expression are prioritized and encouraged, driving the adoption of fragrances as a way to stand out and enhance their beauty routine. "They want to express their differences, which is why you see the rise of premium fragrances, because this is a guarantee of a fragrance that is not worn by many," noted Nicolas Hieronimus, CEO of L'Oreal (ENXTPA:OR), in the company's Q1 2024 conference call.⁶ Secondly, younger generations have adopted a multitude of fragrances for various social environments, driving up the average number of fragrances an individual owns. On average, consumers have 3.3 different fragrances, each suiting different occasions such as work, day outings, and nighttime events, according to Hieronimus at a BNP Paribas conference.⁷ As sales have begun to reach a more feasible terminal growth rate, boutique fragrance makers will likely garner significant acquisition interest.

With moderating sales growth amid a mature market, middle market participants will likely face



Ken Wasik
Managing Director
Co-Head of Investment Banking

"We like where the Beauty market is for our middle-market clients. Private strategic buyers remain motivated and have made up for the lack of private equity activity. Traditionally, private buyers have paid higher valuations for companies. We do not see immediate signs of the private equity floodgates opening up and releasing the significant amount of capital on the sector. We have been tailoring our processes to the strategic buyer universe."

scaling headwinds in the near- to mid-term. While e-commerce sales have comprised an increasing share of total retail sales, consumers have continued to shop in person, leaving ample white space for digitally native brands. Notably, half of consumers primarily buy personal care and beauty products at physical locations, according to Capital One Shopping.⁸ For pure-play e-commerce brands, business owners are expected to face fervent competition in the online marketplace. Compounded by slowing sales growth across the sector, successful firms are projected to diversify sales channels, expand distribution networks to reach new, high-growth markets, and supplement marquee products with innovative developments in adjacent categories in order to scale operations.

Geographic expansion and new product development have typically been capital intensive endeavors; entering and maintaining shelf-space in brick-and-mortar retail has proven even more challenging for sector players without connections and professional experience. These factors are forecasted to contribute to robust M&A demand as business owners look for strategic guidance or an opportune exit and larger players seek scalable brands with value-added product offerings.

Beauty share price outperformance over the prior two years has not led to significant dealmaking. This has run contrary to trends in 2019, where the Beauty sector saw 89 deals alongside strong public equity returns. Capstone expects public sector strength to catalyze M&A activity, as firms look to continue driving shareholder value.

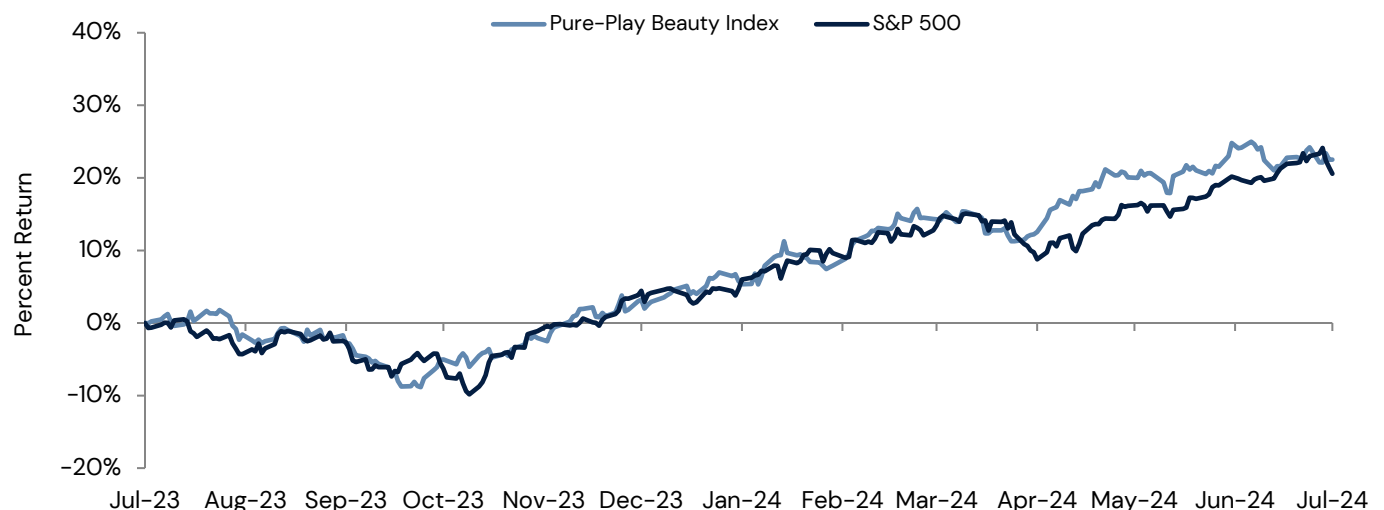
PUBLIC SECTOR OUTPERFORMANCE EXPECTED TO FUEL M&A DEMAND

Public equity investors have piled into pure-play Beauty players as they seek insulation from broader consumer spending headwinds and volatile demand affecting the broader industry. Pure-play Beauty, particularly leaders with Prestige end markets and products deemed non-discretionary—such as toothpaste—have seen inelastic demand, further driving attraction to the space. The S&P 500 Index, a common benchmark for public equity performance, has set all time highs over the past year, recording a 20.6% return in the trailing twelve months (TTM). However, Capstone’s Pure-Play Beauty Index has surpassed the S&P 500 Index, seeing a 22.5% return in the same period. With the outlook on demand volatility beginning to break, Capstone expects M&A activity among public companies to increase with continued share price outperformance as firms’ retained earnings enable aggressive deployment of growth strategies.

KEY PERFORMANCE DRIVERS

- Brand Strength**
 Trusted and recognized brands often possess strong pricing power and sticky demand, as well as scale opportunity when coupled with effective advertisement spend, providing investors with an added layer of reassurance amid consumer spending headwinds.
- End Market**
 Despite the inflationary environment, companies targeting the Prestige and Masstige (products priced between Mass Market and Prestige) end markets have maintained pricing power due to an affluent consumer base exhibiting stable demand.
- Debt Servicing Capacity**
 Investors have closely scrutinized companies’ interest coverage ratios and maturity schedules as interest rate hikes have made debt servicing increasingly costly, thus diminishing free cash flows otherwise available for reinvestment, such as capital expenditures or acquisitions.
- Volume Growth**
 As inflation cools, investors have increasingly favored volume growth and volume/price mix, a notable shift from pricing power which has enabled top line expansion for many sector participants in recent periods.

Defensive Pure-Play Beauty Players Favored by Public Equity Investors

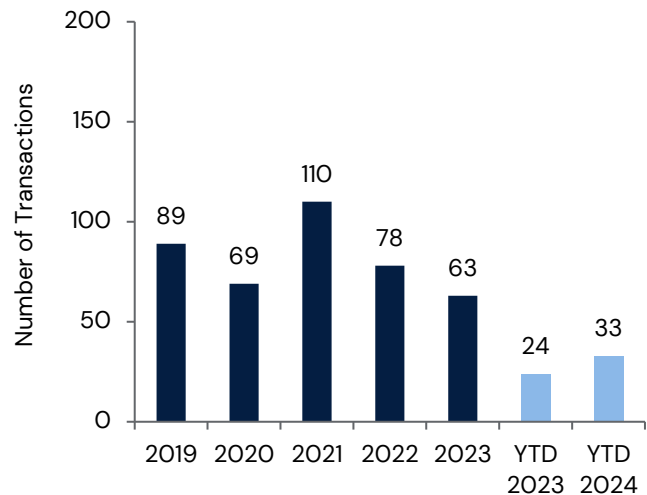


Pure-Play Beauty Index includes: 4452, CHD, CL, ELF, EPC
 Source: Capital IQ and Capstone Partners as of July 19, 2024

BEAUTY M&A REBOUNDS, ACTIVITY EXPECTED TO MOVE UP-MARKET

The Beauty sector has experienced an uptick in dealmaking, with 33 transactions announced or completed YTD, a 37.5% increase compared to the prior year period. Excluding Roquette Feres’ acquisition of International Flavors & Fragrances’ (NYSE:IFF) Pharma Solutions business (March, \$2.9 billion), disclosed enterprise values have averaged \$73.8 million to-date, indicating an active lower middle market. Skincare brands have continued to garner robust buyer attention, accounting for 54.5% of targets, as private strategics look to buy into new products and innovations they could not invent themselves. Buyer rationale has focused on acquiring brands deemed safe bets with growing end markets to enable seamless integration and margin accretion post-acquisition. Capstone expects M&A activity to move upstream through year-end and into 2025 as pure-play public strategics continue to perform well and Beauty spending holds up despite prolonged macroeconomic pressures.

Beauty M&A Rebound Evidences 2023 Trough in Dealmaking



Year-to-date (YTD) ended July 3
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Strategic buyers have led deal activity through YTD, comprising 75.8% of total transactions. Private strategics have buoyed dealmaking to-date, accounting for 66.7% of transactions, while public strategics have largely sat on the sideline, contributing three deals to the total sector volume. While some public players have focused on organic growth and debt servicing, Church & Dwight (NYSE:CHD) cited accretive M&A as its top priority for free cash flow use, according to a dbAccess Global Consumer Conference 2024 presentation.⁹ Capstone expects more engagement from public players in the M&A market as firms turn to inorganic volume growth to help buoy share price performance.

While private equity buyers have continued to grapple with a troubled fundraising environment, financial sponsors have deployed more capital in the sector, growing from six deals in YTD 2023 to eight in YTD 2024. Digitally-focused brands with strong customer loyalty and clinically-backed beauty products have served as a reliable sector entry point for sponsors to-date. To balance limited partner (LP) demands for returns amid a choppy economic outlook, brand equity and its associated customer loyalty have made digitally-native branded companies a sound bet in the current environment. Beauty companies have continued to garner premium valuations, outperforming the wider Consumer industry on a revenue and EBITDA multiple basis.

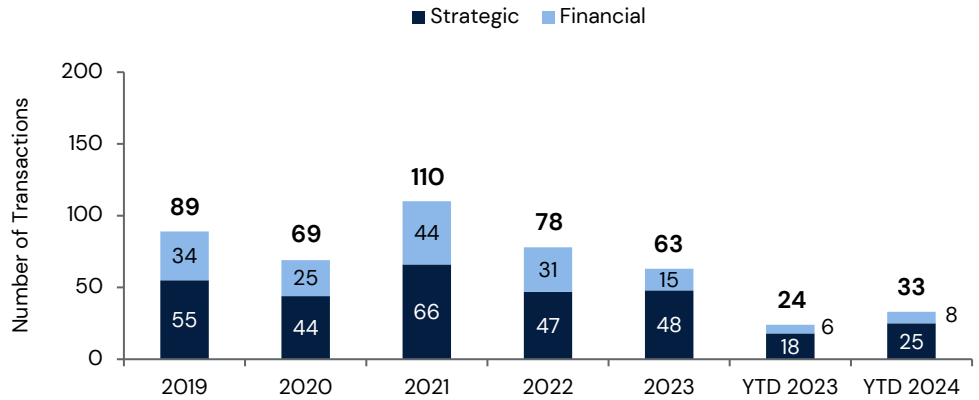
Beauty Garner Premium Valuations Among Adject Sectors

Valuation Method	Average Revenue Multiple	Average EBITDA Multiple
Beauty M&A Transactions (2020-YTD)	5.2x	14.9x
Beauty M&A Transactions EV < \$500mm (2020-YTD)	4.9x	14.6x
Consumer Industry M&A Transactions EV < \$500mm (2020-YTD)	2.1x	10.8x

Year-to-date (YTD) ended July 3
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

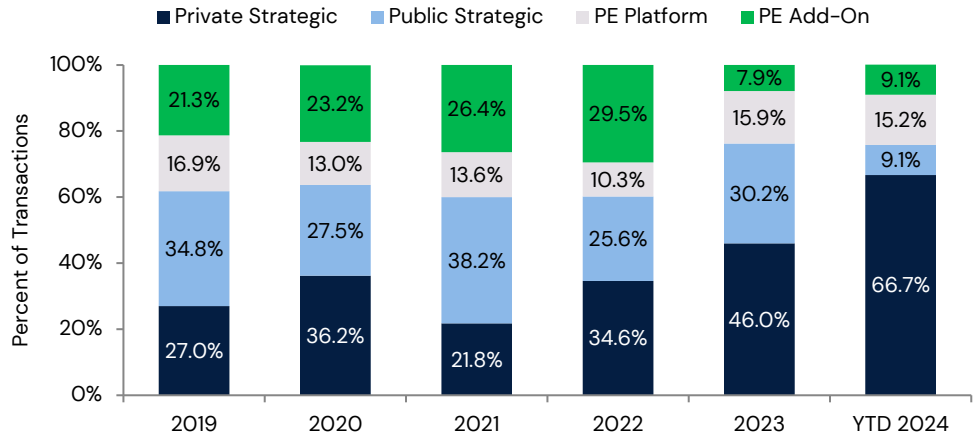
M&A VOLUME GROWS DESPITE KEY PARTICIPANTS MISSING

Year-to-Date M&A Volume on Pace to Lap Full-Year 2023, Strategic Buyers Drive Dealmaking
Strategics have historically dominated the buyer universe. Private equity buyer activity has seen a noticeable slowdown compared to the 2019–2022 period, as challenging credit markets have stifled sponsor transaction appetite.



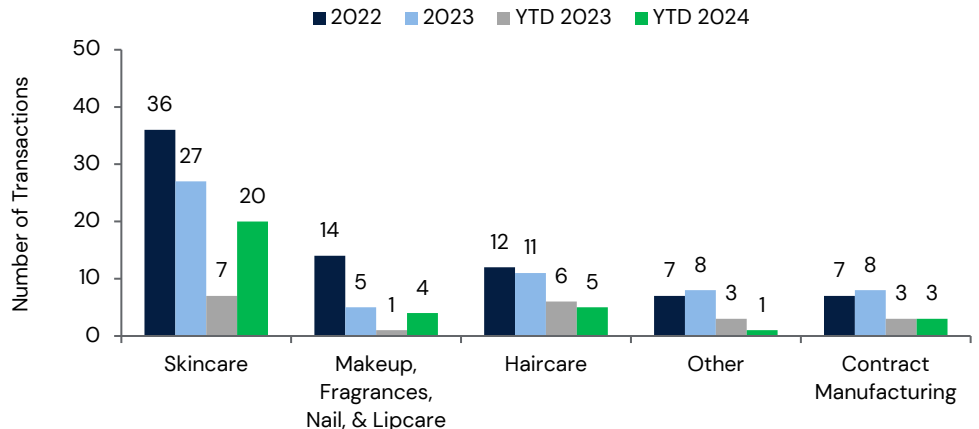
Year-to-date (YTD) ended July 3
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Private Strategics Bolster M&A Activity, Public Strategic and Private Equity Add-Ons Lag
Public players are expected to re-enter the market due to strong share price performances and growth fundamentals, catalyzing an acceleration in M&A activity through year-end and into 2025 while interest rate cuts are expected to spur add-on activity.



Year-to-date (YTD) ended July 3
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Skincare Segment Targets Remain Attractive, Haircare Sees Slight Uptick
The Skincare segment has seen robust deal activity to-date, rising 60.6% compared to the prior year period. Haircare has remained an attractive segment, with many targets focused on hair loss treatment.



Year-to-date (YTD) ended July 3
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

NOTABLE TRANSACTIONS

ESTÉE LAUDER

DECIEM

In June, the Estee Lauder Companies (NYSE:EL) acquired the remaining interests in DECIEM, for an estimated \$860 million. DECIEM is a Canadian skincare company offering science-backed, vegan, and cruelty-free skincare and makeup products. Estee Lauder adopted a progressive investment strategy, first investing in DECIEM in 2017 and taking majority ownership in 2021 for a total of \$1.7 billion over the three transactions.

DECIEM boasts robust vertical integrations and a multi-brand portfolio, including The Ordinary, with global distribution. “DECIEM is an exceptional company with authentic brands, highly effective must-have products, and a uniquely transparent and engaging relationship with its devoted consumers around the world,” said Stephanie de La Faverie, Executive Group President at Estee Lauder, according to a press release.¹⁰

Megalabs

DS
LABS

Megalabs, a leading pharmaceutical company, acquired dermatology company DS Laboratories, a provider of science-backed haircare products, for an undisclosed sum (June). The firm also offers skincare products, including aging skin solutions, and a hair and skin assessment feature on its branded website. The acquisition further solidifies Megalabs’ presence in the Dermatology space, a key focus area for the firm.

Megalabs operational prowess is expected to support and strengthen DS Labs’ research and development (R&D) efforts. Megalabs aims to leverage DS Labs to bolster its presence in the key U.S. market. “Our mission has always been to improve patient outcomes through dermatological science. Joining Megalabs allows us to expand our reach and impact,” said Fernando Tamez, Director of DS Labs, in a press release.¹¹

Monogram
Capital
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tru
FRAGRANCE & BEAUTY

In April, Monogram Capital Partners, a consumer-focused private equity firm, acquired beauty brand builder Tru Fragrance & Beauty for an undisclosed sum. Tru wholesales exclusive fragrances to beauty and apparel retailers and offers products through its DTC website. Tru Fragrance & Beauty has seen robust growth, in which its owned brands doubled the company’s revenue over the past three years, according to a press release.¹²

The deal is the latest of seven acquisitions and a recently announced private placement in the space, indicating Monogram’s ongoing appetite for dealmaking. After closing, Monogram plans to accelerate Tru’s scale through international distribution. Tru cited add-on prospects as a key incentive in the deal. “We look forward to building on our platform through accelerated growth of our own brands, the launch of new brands, and the addition of strategic acquisitions, leveraging Monogram’s extensive experience in each of these key areas,” said Monte Henige, Executive Chairman of Tru Fragrance & Beauty, in the press release.

West Lane
Capital Partners

mented

Lower middle market private equity firm West Lane Capital Partners, acquired Mented Cosmetics for an undisclosed sum (April). Mented offers clean, vegan, cruelty-free cosmetics tailored to women of color, sold wholesale through retail outlets and DTC via a branded website. West Lane Capital expects to leverage its relationships and sector knowledge to expand distribution and facilitate new product development, according to a press release.¹³

Mented joins three other active beauty platforms under West Lane’s management: haircare producer Seven (April, undisclosed), professional beauty product maker Simply Organic (August 2021, undisclosed), and specialty cosmetics manufacturer Blossom (May 2019, undisclosed). “Mented is a very strong addition to the West Lane platform of beauty and wellness businesses, and we are excited to...continue providing high quality products to Mented’s loyal customer base. We see strong synergies with many of our other businesses in the industry,” said Michael Wentz, a Vice President at West Lane, in the press release.

SELECT BEAUTY TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
07/01/24	EVER Skincare	Forum Brands	Manufactures skincare products online.	-	-	-
06/24/24	Stripes Beauty	L Catterton	Produces personal care and beauty products.	-	-	-
06/19/24	Reviva Labs	Sendayco	Manufactures personal care and beauty products.	-	-	-
06/03/24	DECIEM	The Estee Lauder Companies (NYSE:EL)	Produces beauty products.	-	-	-
05/28/24	DS Healthcare Group	Mega Labs	Develops products for haircare, skincare, and personal care.	-	-	-
05/16/24	Silly George	NEXGEL (Nasdaq:NXGL)	Manufactures eyelash products.	\$0.6	-	-
05/16/24	ATHR Beauty	Gostrider	Operates an online platform offering clean, vegan beauty products.	-	-	-
04/22/24	Mented Cosmetics	West Lane Capital Partners	Manufactures cosmetic products.	-	-	-
04/18/24	Oomph Innovations	lbeauty Brands	Produces haircare products including hairbrushes, hair straighteners, and vent brushes.	-	-	-
04/09/24	Cellese	ArchiMed	Develops science-backed skincare products.	-	-	-
04/03/24	Seven	West Lane Capital Partners	Produces haircare products.	-	-	-
04/02/24	Tru Fragrance & Beauty	Monogram Capital Partners	Designs fragrance and beauty brands.	-	-	-
04/02/24	Frontman	Slate Brands	Manufactures skincare products.	-	-	-
03/28/24	Biodermis	Nuance Medical	Produces sun protection and scar treatment gel.	\$8.0	-	-
03/19/24	International Flavors & Fragrances (NYSE:IFF)	Roquette Feres	Comprises IFF's Pharma Solutions business.	\$2,850.0	-	13.0x
03/14/24	DERMAdoctor	New Age Investments	Produces and sells skincare products.	\$1.1	0.3x	-
02/22/24	JuveXO Brand	Congela Biocosmetics	Sells anti-aging and inflammation reducing skincare products.	-	-	-
02/01/24	Kashemere Collections	310 Nutrition	Operates a beauty and lifestyle brand selling skin and body care products.	-	-	-
01/23/24	RoC Opco	Bridgepoint Group (LSE:BPT)	Manufactures skincare products.	-	-	-
01/03/24	Primal Life Organics	Society Brands	Produces organic cosmetic, skincare, and dental care products.	-	-	-
12/22/23	Dr. Dennis Gross Skincare	Shiseido Americas	Develops skincare products.	\$450.0	5.6x	-
12/22/23	Aquis Hairsciences	Unilever (LSE:ULVR)	Produces and retails haircare products.	-	-	-
12/05/23	Kenkoderm	NEXGEL (Nasdaq:NXGL)	Manufactures skincare products focusing on psoriasis treatment.	\$1.1	-	-

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

PUBLIC COMPANY DATA: BEAUTY

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV/LTM	
	07/08/24	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Amorepacific Corporation	\$111.38	76.8%	\$6,845.0	\$6,244.0	\$2,732.1	\$266.5	9.8%	2.3x	23.4x
Church & Dwight Co., Inc.	\$104.61	94.8%	\$25,579.5	\$27,647.0	\$5,941.4	\$1,311.8	22.1%	4.7x	21.1x
Colgate-Palmolive Company	\$97.04	97.9%	\$79,615.6	\$87,381.6	\$19,752.0	\$4,878.0	24.7%	4.4x	17.9x
Coty Inc.	\$9.90	73.6%	\$8,546.2	\$12,909.9	\$6,106.2	\$1,202.8	19.7%	2.1x	10.7x
e.l.f. Beauty, Inc.	\$206.42	93.1%	\$11,546.9	\$11,729.4	\$1,023.9	\$184.9	18.1%	NM	NM
Edgewell Personal Care Company	\$39.18	92.9%	\$1,941.5	\$3,119.7	\$2,272.4	\$333.4	14.7%	1.4x	9.4x
Inter Parfums, Inc.	\$115.41	73.6%	\$3,695.8	\$3,980.7	\$1,329.9	\$254.6	19.1%	3.0x	15.6x
Johnson & Johnson	\$147.05	83.6%	\$353,902.2	\$361,316.2	\$85,648.0	\$30,813.0	36.0%	4.2x	11.7x
Kao Corporation	\$41.72	95.5%	\$19,395.6	\$19,639.0	\$10,251.4	\$1,369.7	13.4%	1.9x	14.3x
L'Oréal S.A.	\$436.67	87.3%	\$233,501.0	\$238,240.5	\$45,520.6	\$10,429.8	22.9%	NM	22.8x
Newell Brands Inc.	\$5.74	49.4%	\$2,383.0	\$7,662.0	\$7,981.0	\$1,020.8	12.8%	1.0x	7.5x
Nu Skin Enterprises, Inc.	\$9.77	32.1%	\$485.3	\$928.0	\$1,905.0	\$228.3	12.0%	0.5x	4.1x
Shiseido Company, Limited	\$28.13	69.1%	\$11,243.6	\$12,789.9	\$6,495.5	\$523.3	8.1%	2.0x	24.4x
The Estée Lauder Companies Inc.	\$104.21	53.2%	\$37,365.9	\$44,344.9	\$15,346.0	\$2,681.8	17.5%	2.9x	16.5x
The Honest Company, Inc.	\$3.00	61.3%	\$295.9	\$290.2	\$347.2	NM	NA	0.8x	NM
The Procter & Gamble Company	\$165.66	97.8%	\$390,980.0	\$417,210.0	\$84,060.0	\$24,526.0	29.2%	5.0x	17.0x
Tupperware Brands Corporation	\$1.36	23.0%	\$63.3	\$782.6	\$1,141.9	\$108.8	9.5%	0.7x	7.2x
Ulta Beauty, Inc.	\$396.01	68.9%	\$18,896.2	\$20,264.3	\$11,298.9	\$2,322.4	20.6%	1.8x	8.7x
Unilever PLC	\$56.62	98.7%	\$141,132.1	\$170,591.6	\$65,882.6	\$12,921.4	19.6%	2.6x	13.2x

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

Mean	19.3%	3.7x	17.4x
Median	18.1%	2.7x	17.7x
Harmonic Mean	16.9%	2.6x	19.1x

BEAUTY REPORT CONTRIBUTORS



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Ken serves as Capstone’s Co-Head of Investment Banking and leads the Consumer Investment Banking Group. 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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FIRM AWARDS & ACCOLADES

Capstone Partners is consistently recognized as an elite middle market firm by multiple leading industry organizations. This has afforded our clients with immediate market credibility in the acquirer and investor communities. From 2016 to 2023, Capstone has received 21 “investment banking firm of the year” awards from organizations such as The M&A Atlas Awards, The M&A Advisor, M&A Today, and ACQ5. A sampling of Capstone’s recent awards is shown below.



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.

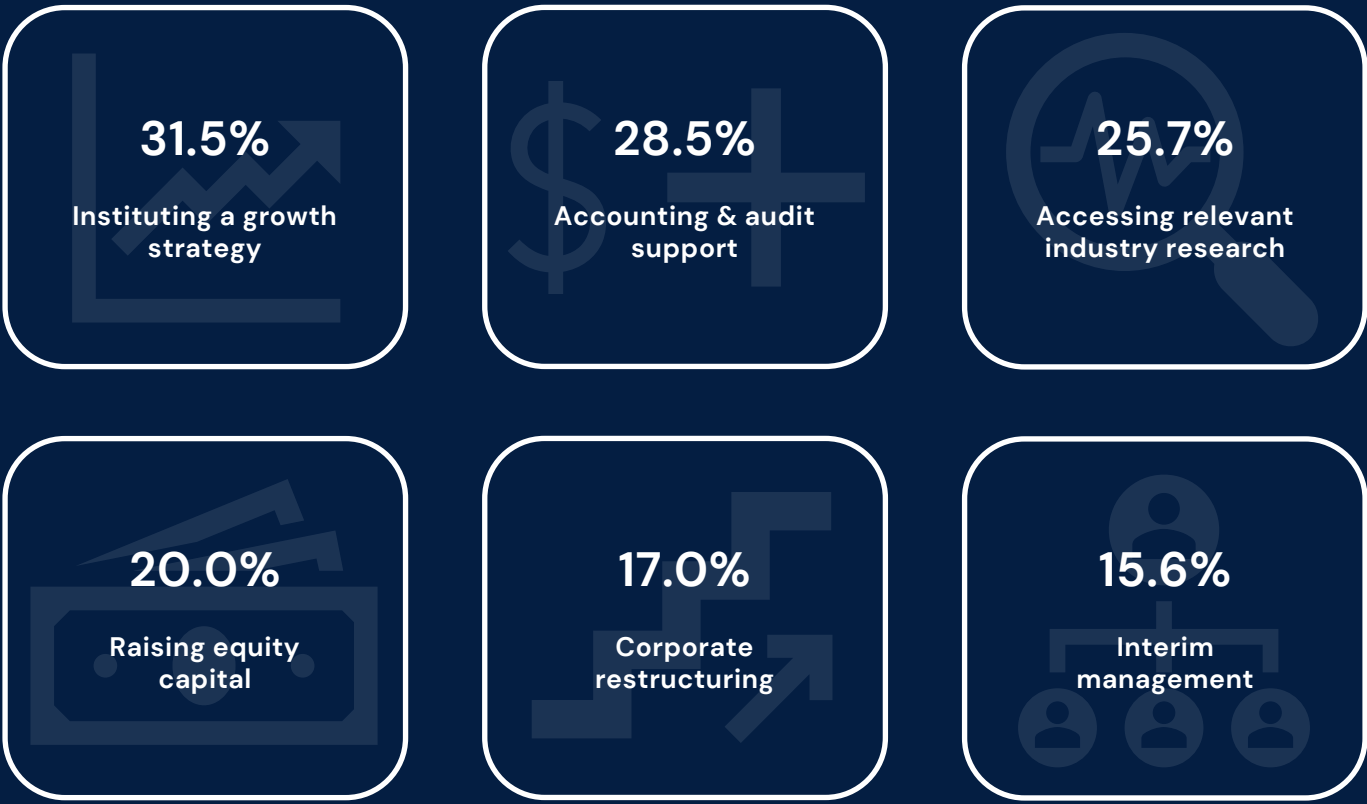
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CAPSTONE’S PROPRIETARY RESEARCH REVEALS TOP SERVICES IN DEMAND

The current stage and initiatives of a business often dictates which financial services are in demand. As the majority of CEOs polled in Capstone’s 2023 Middle Market Business Owners Survey indicated growth strategies are a priority for 2024, the lion’s share (31.5%) of owners anticipate a need for growth strategy support services. Similarly, 28.5% of owners require accounting and audit support to shore-up cash flows and establish financial stability. In addition, more than one-fourth of CEOs demonstrated an interest in accessing relevant industry research to keep up with emerging industry trends, complete competitor analyses, and track capital markets activity in their space.

Capstone has developed a full suite of [corporate finance solutions](#) 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. In addition, we developed a specialty consulting practice to provide financial advisory services to companies experiencing distress or performance challenges. All of these capabilities are supported by 16 industry groups, an active sponsor coverage group, and a dedicated market intelligence team.

Top Financial Services Required by Business Owners in 2024



*Question: Have you ever had, or do you anticipate having, a need for any of the following services?
Source: Capstone Partners’ Middle Market Business Owner Survey, Total Sample Size (N): 435*

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Disclosure

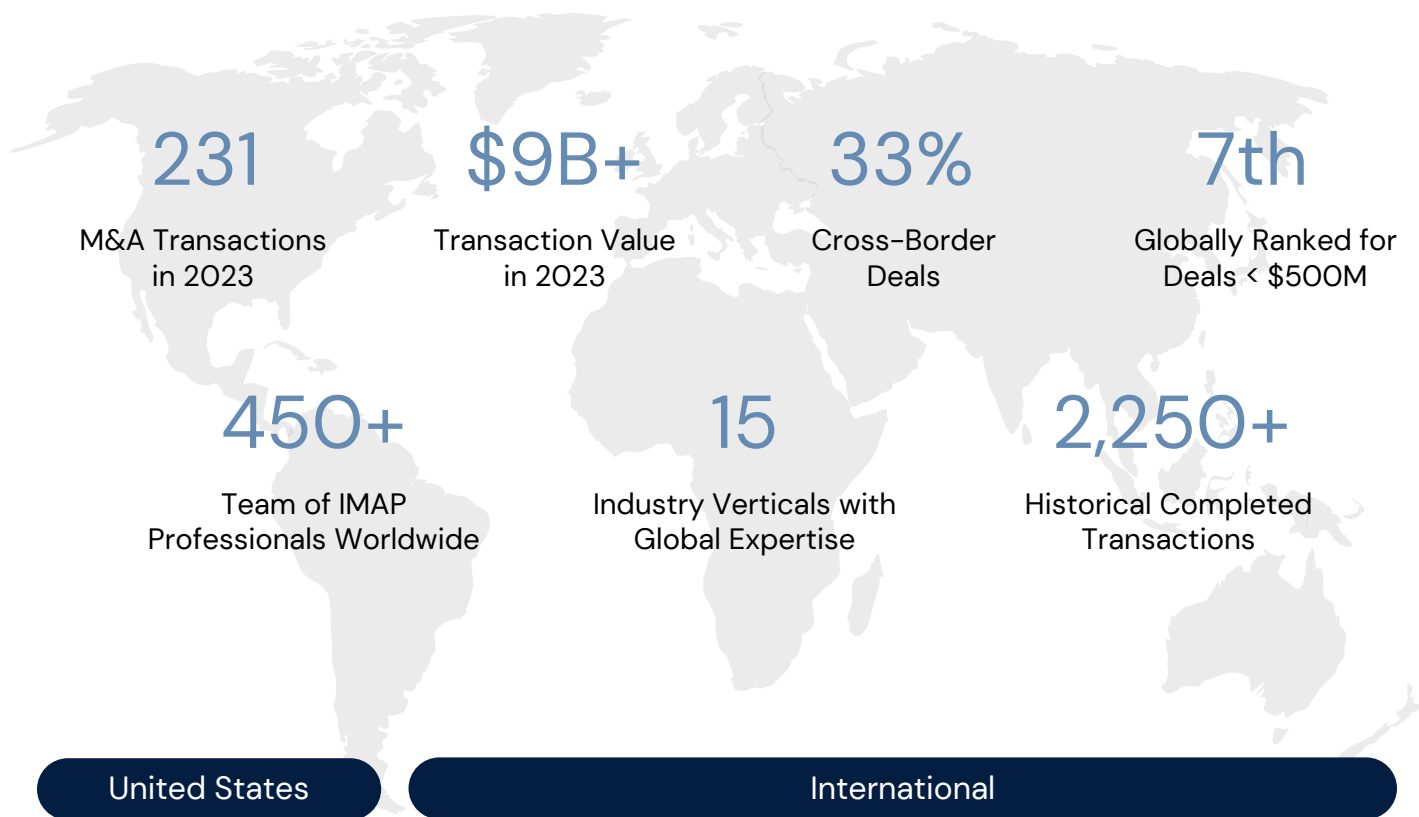
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