

QUARTERLY CONSUMER NOTE – AN M&A PERSPECTIVE

Cavendish



SUB-SECTOR IN FOCUS:

Beauty And Personal Care

Q1 2024



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About Cavendish



Henry Wells
Head of Consumer

"Welcome to the Cavendish Quarterly Consumer Note, where we give an M&A perspective on a number of key themes impacting operators and investors in the sector.

In each of these publications, we take a more detailed look at a particular sub-sector; this quarter we look at Beauty and Personal Care and next quarter we will be looking at Travel.

Our focus in Beauty and Personal Care is around the resilience of the sub-sector in times of economic downturn, and the positive investment appetite as a result.

We hope you find this interesting and if you have any questions, or you would like to discuss anything in this document, please contact me or any member of the Cavendish team (contact details on the back page)."

Henry Wells

01) CONSUMER SECTOR: KEY THEMES

Indications of wider economic recovery in the UK continue, despite an unexpected, modest downturn in consumer confidence in February 2024

In January, GfK's consumer confidence score reached its highest in two years at -19. Amid positivity in wider economic indicators, reports of a technical recession in the last quarter of 2023 appear to have dampened consumer confidence in February 2024, driving a 2-point reduction

There are however "distinct signs of an upturn" present in the economy, with Bank of England Governor, Andrew Bailey, suggesting that the 'technical' recession in the UK is already nearing its end.

Consumer price inflation has exhibited stability, at around 4% since November 2023. Projections from the Bank of England anticipate a return to the target inflation rate of 2% by the second quarter of 2024, largely attributed to a decline in energy prices.

According to recent surveys by the ONS, 48% of trading businesses also indicated that they were not contemplating raising prices in March 2024.

With inflationary pressures alleviating, wages experiencing growth, and a reduction in national insurance contributions, in effect, disposable income for households across the UK is on the rise.

Reports from The Times indicate that the average household's disposable income rose to £230 per week in January 2024, marking a notable 6.1% year-on-year increase from January 2023 and surpassing pre-pandemic levels.

Additionally, data from Barclays reveals a positive trend in consumer spending, with consumer card spending increasing by 3.1% year-on-year in January 2024. This represents an uptick from the 2.3% growth observed in December 2023. These figures underpin longer term improvements in consumer confidence and suggest a strengthening economic landscape.

FIGURE 1: GfK CONSUMER CONFIDENCE

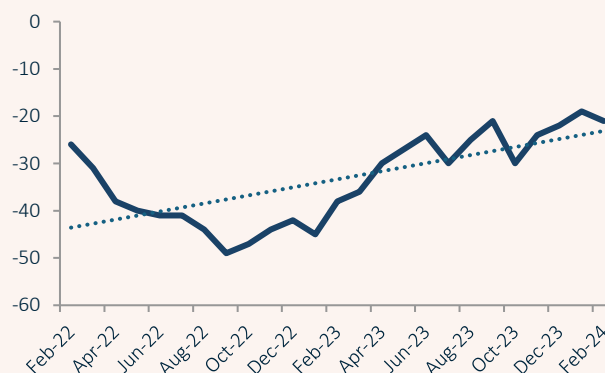
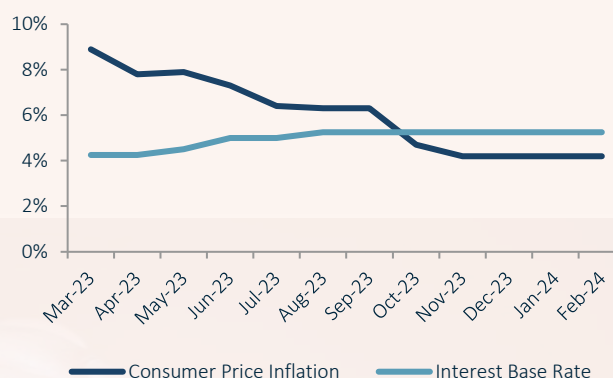


FIGURE 2: BOE INFLATION & INTEREST



M&A ACTIVITY IN THE CONSUMER SECTOR

Between global pandemics, high debt costs and macroeconomic uncertainty, the past few years have undoubtedly been challenging in the consumer sector, seeing M&A volumes and deal values decline and many processes extended.

However, cautious optimism began to spread across consumer markets at the end of 2023 and in Q1 we have already seen momentum returning in the sector.

Partly driven by pent-up demand, we are seeing increased drive among dealmakers and stakeholders alike to get deals done and accelerate transformation.

Improvements in M&A sentiment in the consumer sector is being helped by the steady closure of the valuation gap between buyers and sellers, which was underpinned by inflated valuations seen throughout the pandemic, settling across many consumer categories.

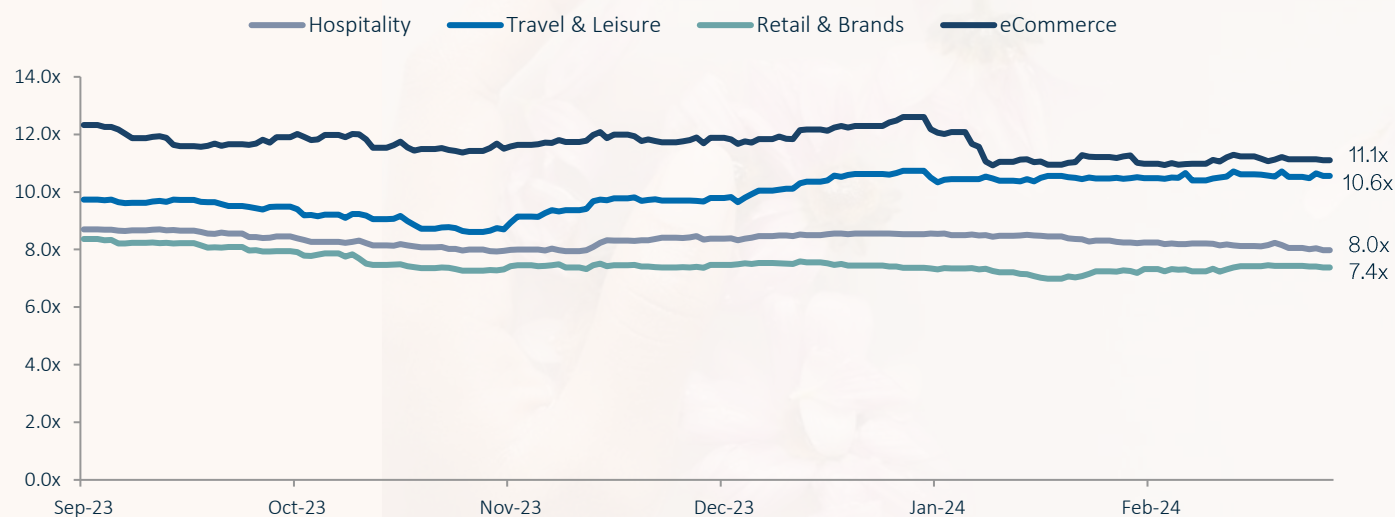
Notable Consumer Sector Transactions In The Last Quarter:

- Coupage Inc completed the acquisition of the assets of global online luxury company Farfetch Holdings plc, providing access to \$500m in capital.
- Shamal Holding, a Dubai-based investment firm, acquired full controlling interest in the SUSHISAMBA Group, an operator of luxury dining restaurants.
- Iconix International Inc. acquired majority ownership of British streetwear brand, Hoodrich.
- Confectionery giant Mars acquired British chocolate brand Hotel Chocolat in a deal worth £534m.

01) CONSUMER SECTOR: KEY THEMES

The start of 2024 has seen listed EV/EBITDA multiples stabilise across the consumer sector

FIGURE 3: UK LISTED VALUATIONS - EV / EBITDA



COHORTS

- Hospitality:** Loungers plc, The Brighton Pier Group plc, Revolution Bars Group, Nightcap plc, Domino's Pizza Group plc, Marston's plc, Mitchells & Butlers plc, Fuller, Smith & Turner plc, Young & Co's Brewery plc, Shepherd Neame Limited
- Travel & Leisure:** Saga plc, Norwegian Cruise Line Holdings Ltd, Royal Caribbean Cruises Ltd, Carnival Corporation & plc, Tripadvisor, Inc, Webjet Limited, Booking Holdings Inc, Expedia Group Inc, eDreams ODIGEO S.A., On the Beach Group plc, Hostelworld Group plc
- Retail & Brands:** Frasers Group plc, Burberry Group plc, Dr. Martens plc, Mulberry Group plc, N Brown Group plc, NEXT plc, Superdry plc
- eCommerce:** AO World plc, Marks Electrical Group plc, Moonpig Group plc, musicMagpie plc, THG plc, CMO Group plc, ASOS plc, boohoo group plc

Hospitality

- EV/EBITDA multiples in the Hospitality cohort were down 0.2x in February 2024 vs February 2023.
- This is reflective of the impact of inflation on both operating costs and subdued consumer confidence, and many operators remaining highly leveraged coming out of the pandemic.
- Despite this, the Tenzo Hospitality Industry Report reported that the 2023 festive period was strong for many operators (+11.2% increase in sales year-over-year) and as more corporates ask staff to return to the office, operators are gearing themselves up for a further uplift in demand in line with footfall.

Travel & Leisure

- The Travel cohort has experienced a 0.8x uplift in trading multiples over the past 12 months.
- The World Travel & Tourism Council predicts that in 2023 the tourism industry surpassed its pre-pandemic high of 2019, with no foreseeable risk of decline.
- Barclays did however report that spend in the Travel sector increased year-on-year by 8.9% in January 2024 – the lowest growth in two years – which is reflective of the strong recovery experienced in 2023 peaks.
- This rose back to a 9.3% year-on-year increase in February 2024.

Retail & Brands

- The 'Golden Quarter' of 2023 brought challenges to the retail sector, reflected in a 19.2% LTM decline in trading multiples in the cohort.
- Challenges in the retail sub-sector included supply chain disruptions, inflated operating costs and consumers taking a more cautious approach to spending.
- This considered, positive economic indicators such as falling inflation and high employment rates present opportunities for success in 2024.

eCommerce

- Facing similar challenges to the Retail & Brands sub-sector, the eCommerce cohort experienced a decline in EV/EBITDA valuations of 4.3% over the 12 months to February 2024.
- Supporting the eCommerce sub-sector, however, is increasing positivity around the future use of artificial intelligence and how it can be used to further enhance a tailored customer experience online.

02) SUB-SECTOR IN FOCUS: BEAUTY AND PERSONAL CARE

The Beauty and Personal Care industry has continued to show resilience and adaptability in the face of ongoing global challenges

Despite economic fluctuations and shifting consumer behaviours in the past quarter, the global Beauty and Personal Care sub-sector continues to demonstrate steady growth. McKinsey predicts the global market to reach c.\$580bn by 2027, representing 6% growth per annum from 2023

This upward trajectory reflects the sustained demand for Beauty and Personal Care, driven by brand innovation and consumer prioritisation of self-care.

While disposable income has been squeezed across the UK, we have not seen the same level of slowdown in Beauty and Personal Care as we did in most categories in 2023, and 2024 is being driven by a more optimistic investment environment.

We have already seen several transactions take place in 2024, including British multinational powerhouse, Unilever, acquiring biology-first haircare brand, K18; Spanish beauty and fashion conglomerate, Puig, acquiring German premium skincare brand, Dr Barbara Sturm; and American personal care producer and retailer, Suave Brands, acquiring world leading 'skincare for lips' brand ChapStick from Haleon.

Looking ahead, the Beauty and Personal Care space is poised for continued growth, driven by evolving consumer preferences and technological advancements.

In this fragmented market, it is imperative for brands to show clear differentiation to its end consumer. Consumers are more sceptical than ever when it comes to traditional Beauty and Personal Care offerings, and increasingly seek products and services backed by demonstrable scientific confirmation.

Consequently, we have seen transaction criteria pivot away from near-term sales growth as the highest priority and towards longer term sustainable growth, with a focus on innovation and a strong product development pipeline.

Brands that prioritise innovation, sustainability, and consumer-centricity are well-positioned to thrive in this dynamic landscape.



02) SUB-SECTOR IN FOCUS: BEAUTY AND PERSONAL CARE

Key trends we are seeing in the Beauty and Personal Care sector

Wellness Integration

- The lines between beauty and wellness continue to blur, with a focus on holistic approaches to skincare and beauty. Consumers want to feel as good as they look, with a focus on “beauty from within”.
- Brands are incorporating ingredients traditionally associated with wellness, such as adaptogens, CBD and probiotics into their products to promote overall health and relaxation.

Customisation and Personalisation

- The sector continues its relationship with technology, particularly with the offering of interactive and virtual experiences. We are beginning to see wider access to digital consultations (both AR and VR), with services such as virtual skin assessments and beauty diagnostic tools. The result of these provide targeted, individual product recommendations to the end user.
- Customisation is already a major trend, with brands offering personalised multi-step skincare routines, cosmetics shades tailored to your skin tone, and vitamin and supplement plans created to suit your lifestyle.

Clean Beauty

- Increasingly informed consumers are mindful not only of the impacts of products on themselves, but also on the environment. Consumers regularly seek products formulated with natural, non-toxic ingredients, devoid of potentially harmful chemicals such as parabens and sulphates.
- Brands are responding by offering “clean” or “green” alternatives. Those focusing on transparency and ethical practices have gained substantial traction, particularly with the Gen Z consumer who has significant influence on the sector.

Scientific Validation

- A more informed consumer is forcing the sector to continually evolve its formulations, moving beyond superficial products promising benefits such as anti-ageing and acne treatment.
- The shift towards biotechnology in the beauty and wellness industry sees experts turning to nature to study the processes of natural organisms, aiming to replicate them in laboratories for mass production. This approach not only produces ingredients that enhance skin health and longevity, but it also does so in a sustainable manner.

Men's Skincare

- The men's skincare market is expected to grow to \$22bn by 2030 from \$13bn in 2021, with 56% of men buying more skincare products in 2023 than they did in 2018. With evolving concepts of masculinity, the widespread influence of social media, and the embracement of self-care, the men's skincare and grooming industry continues to see significant expansion.
- This sub-sector frequently focuses on minimalism in the form of simplified skincare routines, often centred on sets or starter kits comprising core, evidence-backed products.

02) SUB-SECTOR IN FOCUS: BEAUTY AND PERSONAL CARE

Beauty and Personal Care companies have consistently traded ahead of the wider Retail & Brands and eCommerce sub-sectors over the past 12 months

As a sub-sector that is perpetually prioritised by consumers, listed Beauty and Personal Care companies often outperform the broader market in times of economic stress and reduced disposable income

Across the four Beauty and Personal Care categories tracked, listed companies traded at an average 14.6x EV/EBITDA multiple in Feb-24.

In the same period, our eCommerce cohort traded at 11.2x and our Retail & Brands cohort at 7.2x (Figure 4).

STANDOUT PUBLIC PLAYERS

See Figure 5

Several frontrunners have emerged in the public Beauty and Personal Care market, achieving impressive uplifts in trading multiples over the past year:

- 1) L'Oreal:** L'Oreal announced in August 2023 that it had completed its largest acquisition to date. L'Oreal outbid LVMH, Shiseido and Clarins to acquire highly profitable, luxury beauty brand – Aesop.
- 2) L'Occitane:** The brand's valuation over the last year has been influenced by speculation surrounding a potential move away from the public market.
- 3) e.l.f Beauty*:** With consumers increasingly seeking high-quality products at affordable prices, e.l.f's value-orientated approach and effective product innovation has driven substantial sales growth, gross margin improvement and market share gain.
- 4) Warpaint London:** Warpaint has repeatedly upgraded profit guidance over the last 12 months, underpinned by a rapid strategic expansion strategy into new retailers.
- 5) M1 Kliniken:** M1 Kliniken secured long-term procurement advantages in November 2023 with the acquisition of online pharmacy, German Nutri Care.

FIGURE 4: GLOBAL LISTED BEAUTY AND PERSONAL CARE MULTIPLES

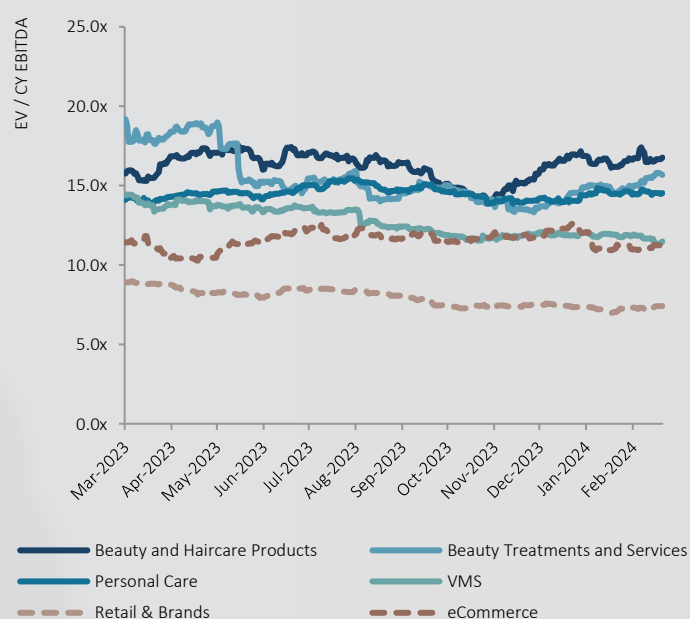
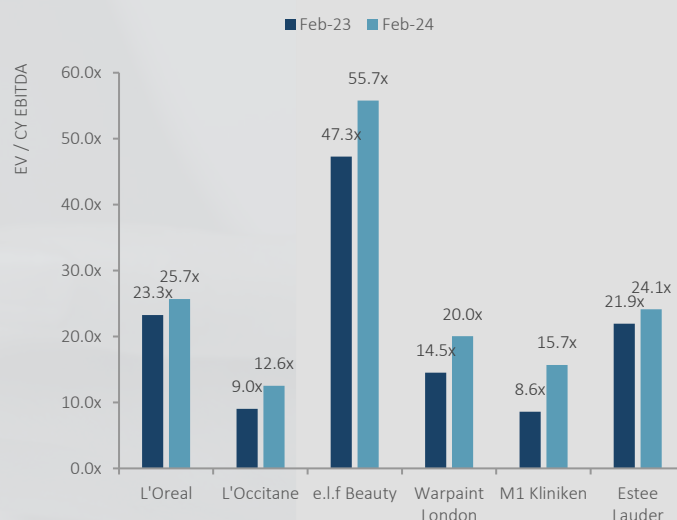


FIGURE 5: STANDOUT PUBLIC PLAYERS



02) SUB-SECTOR IN FOCUS: BEAUTY AND PERSONAL CARE

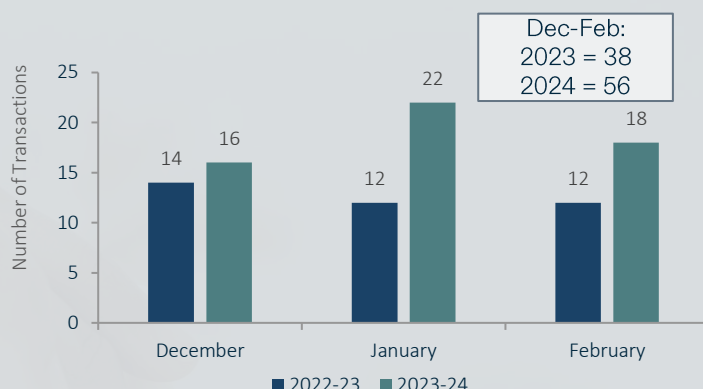
M&A activity in Beauty and Personal Care has surpassed many other categories in the wider consumer sector

In the 3 months to the end of February 2024, 56 transactions were completed in the Beauty and Personal Care sector globally - a 47% uplift from the same period in the prior year

This surge in activity is attributed to the inherently attractive characteristics of beauty businesses, including robust profit margins and resilience even in times of economic downturn.

2023 concluded with two high-profile acquisitions: Shiseido's acquisition of Dr. Gross Skincare and the announcement of Unilever's acquisition of K18, showing strategic acquirers are continuing to look for differentiated brands to enhance their portfolios.

FIGURE 6: GLOBAL BEAUTY AND PERSONAL CARE TRANSACTIONS



IN THE SPOTLIGHT: SELECTED TRANSACTIONS IN THE LAST YEAR

Date	Target	Target Business Description	Target Country	Acquirer
Mar-24	BeautyNova SpA	Holding company of professional haircare brands	Italy	PAI Partners SAS
Feb-24	Cible Skin	Luxury cosmetics and skincare brand	France	Verlinvest SA
Feb-24	Neubourg Skin Care GmbH & Co KG	Skincare manufacturer specialising in foot care	Germany	Avia Pharma AB
Feb-24	Skinidea Co Ltd	Manufacturer of skincare and cosmetics	South Korea	Morgan Stanley Global Private Equity
Jan-24	DS & Durga LLC	Perfume and fragrance manufacturer	United States	Manzanita Capital Ltd
Jan-24	ChapStick Brand of Haleon plc	Lip balm brand	United Kingdom	Suave Brands Company LLC
Jan-24	Barbara Sturm Molecular Cosmetics GmbH	Manufacturer of anti-inflammatory skin care products	Germany	Puig SL
Jan-24	RoC Opco LLC	Manufacturing skincare products	United States	Bridgepoint Advisers Limited; Bridgepoint Group plc
Dec-23	Aquis Hairsciences Inc. (K18)	Produces and retails haircare products	United States	Unilever PLC
Dec-23	Dr. Dennis Gross Skincare LLC	Develops, manufactures, and sells skin care products	United States	Shiseido Americas Corporation
Dec-23	Guangzhou Good Skin Technology Co., Ltd.	Manufactures personal care products for children aged between three to twelve	China	L Catterton Partners
Dec-23	This Works Products Limited	Manufactures skincare and bodycare products	United Kingdom	Inspirit Management Ltd
Dec-23	Straand Pty Ltd.	Produces and retails scalp care products	Australia	Unilever Ventures Limited
Dec-23	Patrick Kidd Holdings Pty Ltd.	Men's grooming company that provides skincare and haircare products	Australia	Shiseido Long Term Investments for the Future (LIFT) Venture
Nov-23	The Body Shop International Limited	Manufactures and sells beauty products	United Kingdom	AURELIUS Equity Opportunities SE & Co. KGaA
Oct-23	Lucas Meyer Cosmetics Canada, Inc.	Develops, manufactures, and markets ingredients for the cosmetic and personal care industry	Canada	Clariant AG
Sep-23	VIVAWAVE Co., Ltd.	Manufactures makeup products, such as lipsticks and cheek blushes	South Korea	LG H&H Co., Ltd.
Sep-23	Eighth Day Labs, Inc.	Develops and distributes skin care products	United States	L Catterton Partners
Sep-23	Maria Nila AB	Manufactures hair care products	Sweden	L Catterton Management Limited
Aug-23	The Center Brands LLC (Naturium)	Manufactures dermatologist tested and naturals botanicals skin care products	United States	e.l.f. Cosmetics, Inc.
Aug-23	The Private Clinic Group Limited	Operates a chain of cosmetic surgery clinics	United Kingdom	Q Group International
Jun-23	Creed Fragrances	Manufactures and sells perfumes, body washes, and shower gels	United Kingdom	Kering SA
May-23	SILK Laser Australia Limited	Operates and franchises a network of clinics that offer non-surgical aesthetic services	Australia	EC Healthcare
Apr-23	Aesop Retail Pty Ltd	Produces and sells skin, hair, hand, fragrance, and body care products	Australia	L'Oréal S.A.

03) ABOUT CAVENDISH

A full-service investment bank and trusted advisor to ambitious growth companies and their investors

Cavendish is a UK champion for ambitious growth and investment companies. The Group is trusted by public and private companies, operating across industry sectors, to deliver expert services in equity capital markets, M&A, debt advisory and growth capital. Cavendish has offices in London and Edinburgh, and has a global reach through its membership of Oaklins.

Cavendish is uniquely placed to advise on the various tracks for growth, investment, IPO and exit options.

Investment Banking

- Corporate Finance
- Capital Markets
- M&A Advisory
- Debt Advisory

150+ investment banking professionals

Advised on
c. £1.0bn of transactions in
the last 6 months

40+
Deals completed in
the last 18 months

Equities

- Institutional Sales
- Research
- Trading

222 listed clients

#1 NOMAD and Broker on AIM

£14bn+ raised since
2015

21 research analysts
covering c.200 stocks

Alternative Financing

- Private Equity
- VC Funding
- Private Growth Capital

180+ relationships with global
Private Equity and VC funds

40% of deals transacted
with Private Equity

£1.1bn
of debt financing raised since
2017

Cross-border M&A

- International reach through our
membership of Oaklins

Global reach in 45 countries

15 vertical markets with
deep industry expertise

368 deals closed worth
US\$25.1bn
in 2022 across the network

Cavendish

03) ABOUT CAVENDISH

The Cavendish team have a wealth of experience across the Consumer sector

Selected
Beauty and
Personal Care
Credentials

NATIVE

has been acquired by

P&G

M&A SELL-SIDE
Consumer

**BigGreen
smile**

received investment from

**Future
Business
Partnership**

M&A SELL-SIDE
Consumer

Margaret Dabbs
LONDON

sale of minority holding to

bestworld

M&A SELL-SIDE
Consumer

John Bell & Croyden

has been acquired by

+well

M&A SELL-SIDE
Consumer

Selected
Retail & Brands
Credentials

Bramblecrest

has been acquired by

EOT

M&A SELL-SIDE
Consumer

Silver Cross

has been acquired by

FOSUN 复星

M&A SELL-SIDE
Consumer

WILLIAM MORRIS
LONDON

has been acquired by

**DESIGN
LYLWEAR
GROUP**

M&A SELL-SIDE
Consumer

Ro&Zo

has been acquired by

Pembroke

M&A SELL-SIDE
Consumer

Selected
Consumer
Goods &
Services
Credentials

**Pure
Cremation**

has been acquired by

epiris

M&A SELL-SIDE
Consumer

**PIMLICO
PLUMBERS**

has been acquired by

neighborly

M&A SELL-SIDE
Consumer

iSmash.

has been acquired by

A group of Private Investors

M&A SELL-SIDE
Consumer

wine-searcher

has been acquired by

Flaviar

M&A SELL-SIDE
Consumer

Selected
Hospitality
Credentials

PEACH
Eating Life Differently

has been acquired by

**REVOLUTION
BARS GROUP**

M&A SELL-SIDE
Consumer

**Dirty
martini**
COCKTAIL BARS

has been acquired by

NIGHTCAP

M&A SELL-SIDE
Consumer

BARBURRITO
MEXICAN EATERY

has been acquired by

**The
Restaurant**
Group plc

M&A SELL-SIDE
Consumer

**REVOLUTION
BARS GROUP**

Nominated
Adviser and
Broker

NOMAD AND BROKER
Consumer

Selected
Travel, Leisure
& Hospitality
Credentials

**Virginia
EXPERIENCE
DAYS**

has been acquired by

EQUISTONE

M&A SELL-SIDE
Consumer

NEILSON
RELAX AS HARD AS YOU LIKE

has been acquired by

LDC

M&A SELL-SIDE
Consumer

Scott Dunn

has been acquired by

inflexion

M&A SELL-SIDE
Consumer

Destinology

has been acquired by

Brooklyn Travel

M&A SELL-SIDE
Consumer

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