



WWD CEO SUMMIT  
BEAUTY

# SILVER

## BAIRD'S TAKEAWAYS

May 2023



# BAIRD'S TAKEAWAYS FROM WWD'S BEAUTY CEO SUMMIT

*We attended the 25th WWD CEO Summit in New York on May 9<sup>th</sup> – 10<sup>th</sup>. Given that this was the 25th anniversary of the first such event, the conference was full of reflections on how the beauty industry has evolved over the last quarter-century. Some of the most notable themes that we picked up on during the two days of the summit are summarized in the following pages.*

- 1. GenZ: Just How Different Are They from the Rest of Us?**
- 2. Brick & Mortar: Keys to Success are to Find the Right Partners and to Make Shopping an Experience**
- 3. Med Spas: More Welcoming than a Doctor's Office, but More Personal than a Makeup Bar**
- 4. The Science of Beauty: The Lab is the Hottest Testing Ground Today**
- 5. When It Comes to Beauty Regimens, Increasingly Simple Can Be Special, and Less Can be More**
- 6. Amazon Has Finally Emerged as a Highly Relevant Channel for Prestige Beauty**



# GENZ: JUST HOW DIFFERENT ARE THEY FROM THE REST OF US?

---

- Given the importance of younger generations not only as prime shoppers today but also shapers of the future, we thought it was interesting to hear several contrasts made between the behavior and preferences of Millennials (defined as ages 27-42) and GenZ (defined as ages 11-26). While social media really emerged primarily as a networking and social tool when Millennials were coming of age, social media has really never not existed for GenZ. As such, for the GenZ, the question is less “how much time” people spend on social media, but rather “how” they engage in the online world (implying that the GenZ world simply is centered on and around social media, for better or worse). Notably, 48% of GenZ said social media makes them feel anxious or depressed, and 65% are focused on using community-focused apps as opposed to feed-based apps, simply because being part of a community is less pressure-filled.
- 82% of GenZ consumers say that fashion is important to them in establishing their identity, and as such, they are generally obsessed with editing and curating their image. Interestingly, when editing their image, GenZ is searching for permission to be themselves, and they are embracing diversity, inclusion, acceptance and truth.
- Given the current mental health crisis among many Millennials and GenZ'ers, we heard an urging for the Beauty industry to promote more images of beauty coming from within oneself, as opposed to only being apparent on the outside, and we heard a plea for more brands to help young people feel “more than” as opposed to “less than”. We heard that “conversation rate” should be more important than “conversion rate” as brands work online to market themselves to younger demographics, as brands that succeed over time are often those that focus less on a specific transaction and more on a long-term relationship with their customers.
- While GenZ is important given the size and future spending ability of the cohort, the reality is that for the first time in history, the consumer aged 50+ is going to be the largest purchasing demographic in developed countries. Importantly, consumers are realizing that with advances occurring in medicine and the broadening adoption of wellness and self-care activities, they can expect to live longer than previously anticipated. As such, products and services aimed at this older cohort, especially ones focused on longevity and those that help diminish anxiety about aging, are resonating with consumers who increasingly have the ability and willingness to pay premium prices to help them live longer and healthier lives.



# BRICK & MORTAR: KEYS TO SUCCESS ARE TO FIND THE RIGHT PARTNERS AND TO MAKE SHOPPING AN EXPERIENCE

---

- We heard how valuable partnerships can be between brands and retailers, as brow queen Anastasia Soare said that her brand really took off once it was launched in Nordstrom stores in 2000 (not only as a service but with products as well), and Nordstrom commented how important this relationship still is (with 72 brow studios currently operating in Nordstrom stores). For both Anastasia and Nordstrom, superior customer service is a core tenet for them, and this commonality has helped their partnership evolve and succeed over time.
- Another example of a successful partnership is between Ulta and L'Oréal, as the increasing scale of Ulta and the increasing breadth of L'Oréal's business in terms of brands and products have been mutually beneficial to each company. Both Ulta and L'Oréal recognize that consumers are not dedicated to one price point, and each strives to be a company that serves all consumers, regardless of their price sensitivity. Both Ulta and L'Oréal believe that consumers search for newness when it comes to beauty, and as such, both companies are dedicated to supporting new brands that have strong and differentiated positioning. Both Ulta of these companies are channel-agnostic, and they work to make their products available to consumers whenever and however they want to shop. And lastly, both Ulta and L'Oréal are keenly focused on wellness, and both companies are investing in expanding the dialogue around sexual wellness, aging and longevity, and self-care.
- We heard from Jo Horgan of Mecca (which now operates 110 stores across Australia) that key to their growth has been the expansion of services, including a brow studio, a fragrance lab and skin care services offering booster shots, dermal skin care and injectables. Given that they view themselves less as a retailer and more as an "educator, problem solver and entertainer", Mecca's new flagship store in Melbourne will also house an apothecary that offers IV infusions, a hair & nail salon and a champagne bar.





# MED SPAS: MORE WELCOMING THAN A DOCTOR'S OFFICE, BUT MORE PERSONAL THAN A MAKEUP BAR

---

- The U.S. med spa market (broadly defined) is expected to grow by 14% over the next five years. Part of this growth will come from younger consumers being more interested in more services as they increasingly recognize the importance not only of treating a problem, but also preventing one.
- There are a ton of new concepts coming to market, which offer a mix of services and experiences, but all which strive to connect with their consumers in a personal way, which is a reflection of the recognition that “relational wellness” is incredibly important, and that people generally enjoy interacting with other people (an aesthetician, a doctor, a stylist) when it comes to discussing their skincare and beauty challenges.
- One emerging theme is multi-tasking, with consumers asking things like “Can I have an IV drip while my hair is having a scalp treatment while I am also getting a HydraFacial?”
- The use of data – not only personal data but also regional data – is a real competitive advantage when it comes to med spas and treatments. For example, if there is an excessive amount of fluoride in the water in a region, more people could suffer from eczema, which is easily treatable once identified.
- Med spas can be full-service venues too – offering not just treatment but product sales as well. Keys to success on the retail side are to make sure the assortment is highly curated and both consistent with and complementary to the services offered.



# THE SCIENCE OF BEAUTY: THE LAB IS THE HOTTEST TESTING GROUND TODAY

---

- Andrew Stanleick from HydraFacial told us that he believes that today, beauty is as much about the process as it is about the result, and that consumers care more and more about the efficacy of the products and processes they use or engage in. He argued that trust-worthy MDs and aestheticians are the new beauty influencers, and that today, 34% of prestige skin care brands in the U.S. are those that are termed “clinical”.
- As a reflection of how important clinical brands and services are to consumers, we heard that Dr Dennis Gross Alpha Beta Universal Daily Peel is the top replenishment SKU at Sephora today.
- Fernando Acosta from ROC Skincare told us that while 97% of people believe that it is important to take care of your skin, only 39% of people in the U.S. actually use a skin care product in the morning, only 31% at night, and only 23% both in the morning and at night (whereas 98% of people brush their teeth at least in the U.S.). His view is that it is neither price nor accessibility that prevents more consumers from using more skin care products, but rather confusion and intimidation, and that if more consumers were able to better understand what product to use how and when, overall adoption would increase. Indeed, he stated that 69% of consumers believe that communications about skin care are too complicated.
- Giorgos Tsetis, CEO and Co-founder of Nutrafol, told us how medical research (that stress leads to elevated cortisol in the body, which often leads to hair loss) was the under-pinning of the launch of the brand, but that it really was the changing of the conversation about hair loss, the breaking thru of barriers to make the discussion about the physical effects of stress more acceptable, and the willingness of retailers like Sephora to embrace previously taboo topics that have contributed to the brand's tremendous success.



# WHEN IT COMES TO BEAUTY REGIMENS, INCREASINGLY SIMPLE CAN BE SPECIAL, AND LESS CAN BE MORE

---

- When asked about how to successfully break through a very crowded skin care market, Hailey Bieber, Rhode's founder, talked about the importance of not overwhelming the consumer, and that having a highly effective and differentiated product in a less well-penetrated category (in Rhode's case, it is their peptide lip treatment) has helped distinguish her brand from the pack.
- We heard that for younger consumers, increasingly there is a "JOMO" (a joy of missing out) as opposed to a "FOMO" (a fear of missing out), as many consumers have limited time, money and patience to try new products and are increasingly looking to simplify their routines.
- Interestingly, "newness" in Beauty has transitioned from being the lifeblood of the industry to now a secondary consideration. Indeed, NPD offered that new items across beauty categories accounted for 3.4% of overall SKU count in December 2019 and just 1.6% in December 2022, representing a 70% reduction. The learning: that in order for innovation to succeed at retail, it needs to be successful at resonating with consumers in a highly relevant way.



# AMAZON HAS FINALLY EMERGED AS A HIGHLY RELEVANT CHANNEL FOR PRESTIGE BEAUTY

---

- In 2013, Amazon launched their “premium store” for beauty, while in 2020, Amazon launched their “luxury store” for beauty. Today, Amazon has 100M prestige beauty customers shopping on Amazon every month, which has led Amazon to earn a 12% market share for prestige beauty. Amazon’s “unlimited shelf” helps support its growth, as the retailer is willing to work with brands of any size and state of development. Interestingly, we learned that on Amazon, 95% of product search is driven by brand (as opposed to a specific product), and that 69% of all beauty product searches start on Amazon (as opposed to on any other retail web site).
- In 2022, the U.S. prestige Beauty market grew 15%, while on Amazon, the category grew 47%, and surpassed \$2 bn in retail sales. Notably, in 2019, 89% of all prestige beauty brands were present on Amazon, while this year, that number is expected to reach 93%. More than half of those brands are “managed” in partnership with Amazon, which leads to more consistent pricing, more aggressive management of counterfeit product and more reliable in-stock inventory management.
- One expert stated that the three core channel pillars of successful brand building are brick-and-mortar, brand-specific DTC and Amazon, with each channel offering unique attributes that when combined, make for the most successful growth strategy for a beauty brand. While consumers might use a brand-owned DTC site for information-gathering, 84% of consumers actually prefer to purchase products on Amazon, given the fact that the user experience on the platform is familiar and consistent.
- Looking ahead, Amazon’s strategy is to continue to gain market share in prestige beauty by leveraging its technology. First, Amazon intends to elevate the shopping experience by offering creative content for specific brands, including on Amazon Live (where 75% of sales generated thru the streaming app are consumers that are new to the brand). Second, Amazon intends to leverage major marketing events such as Prime Day to offer early access to new products, where the messaging can be supported by the use of key influencers. Third, Amazon intends to take advantage of its vast amount of data from both search and sales to help brands be well informed about what consumers are most interested in at any point in time (e.g., Amazon said that lip, mascara, nail, and science-backed skincare products are especially popular items currently). Fourth and lastly, Amazon intends to reinvent and reinforce the value of immersive technologies, including virtual try-on and skin diagnostics.





## WHERE WE'VE BEEN

In recent months, we've been traveling a lot, meeting with companies and investors in the Beauty & Wellness industry. We've attended several other conferences and industry events in addition to WWD Beauty CEO Summit and our takeaways from recent events are offered below:

### KEY LEARNINGS FROM THE BEAUTY TECH & INNOVATION SUMMIT

March 2023, San Francisco

1. AI (Artificial Intelligence) and AR (Augmented Reality) are here to stay
2. Beauty and Personal Care companies leverage AI and AR to help build consumer engagement
3. Where we are in the shift to online and away from brick and mortar in the Beauty industry
4. Technology for Beauty companies goes beyond the online activity, impacting products, packaging and ingredients
5. Personalization of products and services can become the holy grail output of technology

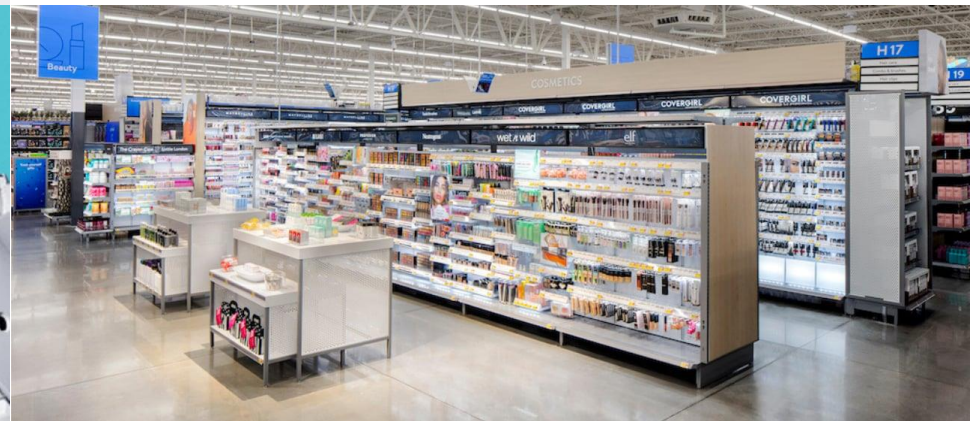


[Read Complete Takeaways](#)

### TAKEAWAYS FROM CONVERSATION WITH WALMART BEAUTY EXECUTIVE

March 2023, New York City

1. Walmart: a force to be reckoned with -competitive advantages relative to other retailers in the Beauty space
2. How Walmart views the Beauty category
3. How Walmart plans to elevate the Beauty shopping experience
4. Beauty customization and personalization at Walmart
5. Challenges Walmart sees in the Beauty category
6. Walmart's relationship with its Beauty suppliers



[Read Complete Takeaways](#)

## ABOUT US:



For the last 30+ years at Citi, I've analyzed public companies in the beauty space as an equity research analyst and worked with beauty, personal care & wellness brands on the investment banking side. I've watched some companies grow faster than others, observed that some businesses are more profitable than others and witnessed some

acquisitions create more value for strategic buyers than others. Some companies have had a consistent management team in place for years, while others have had more turnover. Depending on the year, growth rates vary by product category and geographic region. But through it all, the beauty space is among the most dynamic of all the categories I've studied. Growth can be robust, but consumers can be fickle and to be successful, companies must be willing to adapt and evolve, perhaps more so than in just about any other consumer packaged goods category.

I've partnered with Lauren Leibrandt (a seasoned investment banking veteran) at Baird to help build out the firm's Beauty & Wellness Investment Banking Platform. We seek to partner with leading brands across the spectrum of beauty & wellness categories, including color cosmetics, haircare, skincare, fragrance, as well as more wellness-oriented categories such as ingestible beauty, menstrual health, menopause, fertility and sexual wellness. Our goal is to work across the beauty & wellness industry to help create value for founders, employees and owners.

- Wendy Nicholson,  
wcnicholson@rwbaird.com | 917-853-9901



For the past 15 years, I've worked in investment banking and capital markets, with the majority of my career focused on the Consumer sector and brands empowering the lives of female consumers. I'm a longtime Baird veteran and have previously been at Deutsche Bank and Bank of America Merrill Lynch. Working with companies and

management teams is a passion of mine. I've been fortunate to work with companies across a wide spectrum of company stages, transaction sizes and transaction types, including sellside M&A, growth capital raises, public to private transactions, initial public offerings and public follow-on offerings.

We are typically involved in some of the most pivotal periods of a company's lifecycle, and it's thrilling to provide strategy, guidance and advice on how to optimize the range of potential options available to a company in the M&A and capital markets.

Adding Wendy Nicholson to our team is a huge competitive advantage. Her knowledge of the beauty & wellness industry, insights into strategic buyer activity and relationships with the C-suite at these strategics is unparalleled. As a female driven leadership team, we believe we're uniquely positioned to serve brands in the beauty & wellness sector given our innate knowledge of the categories and the various nuances that go into making companies successful and brands thrive.

- Lauren Leibrandt,  
lleibrandt@rwbaird.com | 312-609-7060

### Companies We've Worked With:

capri BLUE™

COTY  
SINCE 1904

elf

ESTÉE LAUDER



Goody

HONEST

interparfums

kao

Kimberly-Clark

knix

newell  
BRANDS

NU SKIN

prAna



J&amp;J Johnson

THYMES

WARBY  
PARKER



