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**FUTURE
FIFTY**
BEAUTYMATTER

BAIRD'S TAKEAWAYS

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TAKEAWAYS FROM BEAUTYMATTER'S FUTURE50 EVENT

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FIRST, A LOOK BACK, AND RECOGNITION THAT TIMES HAVE CHANGED



- Historically, the Beauty category was smaller, with “beauty” itself much more narrowly-defined.
- Over the years, the category has become more global, with South Asia and Far East Asia driving much of the growth of the category (discussed in more detail on page 6).
- Well-capitalized investors (both strategics and sponsors) have realized that the beauty industry is “too attractive to ignore” and have helped fund expansion into new markets and new categories. Most recently, more “platform plays” have emerged, such as Waldencast, which offer founders the opportunity to remain quasi-independent, while benefiting from both the strategic insight and financial resources that an invested partner can bring to the table.





BEAUTY CONTINUES TO PROVE ITS RESILIENCY, CREATIVITY AND ADAPTABILITY

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- **Resiliency:** Even with the outlook for a recession looming, the consensus is that consumers will continue to prioritize spending on products and experiences that bring them joy and help promote their personal sense of well-being. As evidence that spending on luxury goods around the world remains alive and well, we were reminded that the market capitalization of Hermès recently surpassed that of Nike.
- **Creativity:** Innovation in Beauty abounds, especially as new technologies lead to more creative solutions in marketing (think AI and AR), distribution (as tech-enabled shopping becomes a bigger factor in more markets around the world) and in the products themselves (think beauty devices and more personalized products and services that are prescribed through tele-health services).
- **Adaptability:** More consumers want personalization or customization, but how a manufacturer or retailer can offer this in a cost-effective way has been a difficult problem to solve. One company that seems to be bridging the gap is Function of Beauty, which has expanded beyond their successful DTC business. The Company now sells 20 SKU's of core products and boosters at Target, which when combined in various formulas can create more than 3,000 customized offerings.

THERE ARE NEW CHALLENGES TO ACKNOWLEDGE WHEN IT COMES TO BUILDING A SUCCESSFUL BEAUTY BRAND

- Customer acquisition has never been more expensive given evolving privacy laws, and obtaining distribution at key brick and mortar retailers in an increasingly crowded market is getting harder.
- Revenue growth matters most, but increasingly, profitability is becoming more of a focus and the flexibility to continue to re-invest remains mission-critical for both nascent and more well-established brands.
- Marketing should no longer be considered a cost center; it needs to be viewed as a critical growth driver, and one that is supported with robust data and analytics.
- Being an “activist” brand can be polarizing, but just about everyone supports a mission-driven brand. Messages about health and wellness for both consumers and the environment tend to be universally well-received.



THE DEBATE RAGES ON ABOUT THE IMPORTANCE OF AN OMNI-CHANNEL DISTRIBUTION STRATEGY

- The path to building a successful brand today must include distribution at physical stores, many of which promote more try-on, offer a wide assortment, multiple payment options, and encourage loyalty through robust reward programs (e.g., Ulta's loyalty program, Ultamate Rewards, has 40M+ members). Within this ecosystem, DTC is a channel, not a strategy.
- However, there is greater flexibility that comes from being purely DTC, as it is easier to manage inventory, promotions and pricing when you don't have an intermediary to negotiate with. It also offers increased reach, given that you are not constrained to the physical locations and to the limited traffic in many brick and mortar stores.

IS INDIA THE NEW CHINA?

- The argument that the best days of growth for the Beauty industry in China are behind us is very much alive. The category has become much more crowded and competitive. While China remains a massive market and per capita consumption of Beauty products (especially at prestige price points) remains well below that seen in either the U.S. or Western Europe, it feels as if enthusiasm for the Beauty category in China has waned a bit.
- In China, consumer focus has historically been on skincare, both for cultural and environmental factors, and likely the impact of Japanese consumer trends, which have long-favored a robust skincare regimen. However, the opportunity in the Beauty market in India seems to be centered more on color cosmetics, which reflects a cultural appreciation for celebration and festivity (think the multi-day traditional wedding ceremony, the glamorous Bollywood scene or Dior's Fall 2023 show recently staged in Mumbai).
- Today, India is the 8th largest Beauty market in the world but given that India has the world's largest population (of 1.4B+ consumers), the country has huge potential to grow significantly over time. Additionally, because English is the primary language spoken in India, the country should prove to be more accessible for more brands entering the market.
- Interestingly, one expert told us that India is "brand-poor" when it comes to Beauty, with many of the world's largest brands having not yet committed to investing heavily in the local market, preferring thus far to be present at travel retail locations and in neighboring markets where Indian consumers often vacation, such as Dubai.
- Digital-first works fine in India, for both marketing and distribution, but the real acceleration in category growth and consumer shift to more premium-priced products will likely occur only when more brands plant their feet on the ground in, especially in terms of brick and mortar distribution.

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 FUTURE50 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

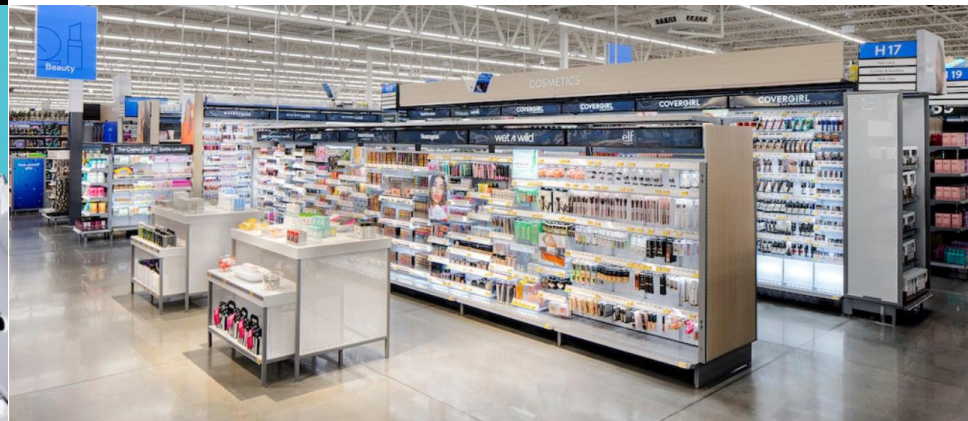


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TAKEAWAYS FROM CONVERSATION WITH WALMART BEAUTY EXECUTIVE

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



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ABOUT US:

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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 recently 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,
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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,
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