



COSMOPROF

NORTH AMERICA
LAS VEGAS

BAIRD

BAIRD'S TAKEAWAYS

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BAIRD'S TAKEAWAYS FROM THE 23RD EDITION OF COSMOPROF NORTH AMERICA

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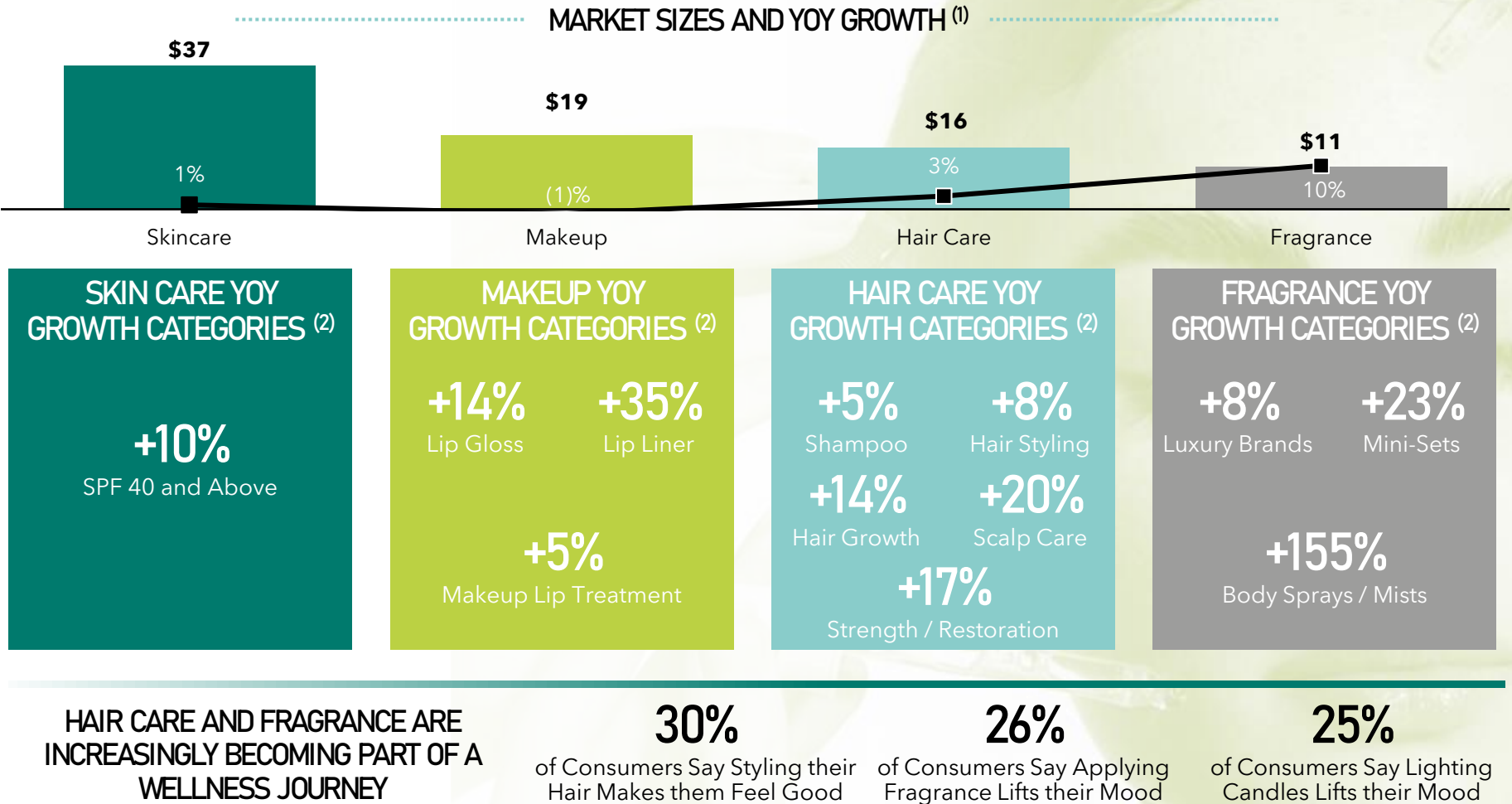
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THE CURRENT BACKDROP FOR BEAUTY

- At Cosmoprof, we heard from Larissa Jensen of Circana, who provided some data about the current state of the U.S. beauty industry
 - Year to date (as of the end of May 2025), **overall consumer spending has been fairly tepid**, reflecting weakening consumer confidence amid concerns about rising prices due to geopolitical tensions, tariffs and the risks of a weakening job market
 - Specifically, spending on **general merchandise was down 2%** while spending on **retail food & beverage was up 3%** (driven mostly by higher selling prices). Importantly, consumer spending on **mass and prestige beauty was up 3% in the YTD period**, which comes as a bit of a pleasant surprise given that many folks consider spending on beauty to be more discretionary in nature
 - Looking ahead, Circana forecasts that the **U.S. beauty industry will remain relatively stable - posting 2 to 3% growth in each of the next 3 years**. Underlying this forecast are varying expectations for category growth (with hair and fragrance expected to outpace skin and color)
 - Interestingly, Circana expects that the **prestige industry will show slower growth** than it has historically - not only as the firm expects consumers to show more price sensitivity when it comes to beauty spending, but also given the **continued growth in e-commerce as a beauty retail destination** (and given the fact that masstige price points tend to outperform prestige online)
- Of note, a recent report by McKinsey was a bit more positive about the outlook for the beauty market - forecasting that the **global market will grow 5% annually through 2030** (we underscore that this is a forecast for the global market, which no doubt includes and assumes recovery in both the China and Travel Retail regions, both of which have been especially sluggish in recent years, but both of which represent important segments of the global beauty market)

CROSS-EXAMINING CATEGORY TRENDS

- According to Circana, there continue to be wide gaps in growth by category, driven by different levels of innovation and newness, coupled with changing consumer preferences



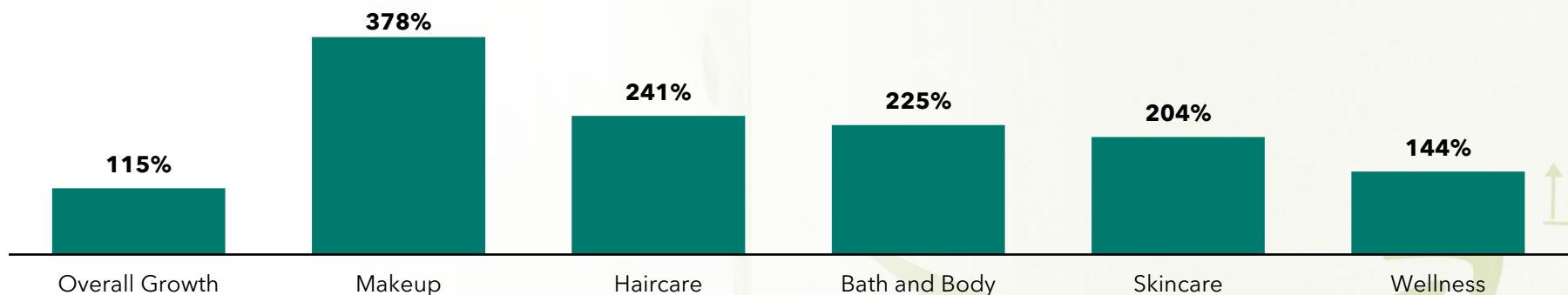
Source: Circana.
1) \$ in billions. As of LTM March.
2) As of LTM March.

- Of note, at Cosmoprof, the increase in the number of K-beauty brands was striking (one data point referenced a more than 50% increase in the number of K-beauty brands present this year when compared to last year). Indeed, Cosmoprof itself advertised that more than 250 Korean brands and suppliers would attend the show
- As reported by the Associated Press, and cited by Beauty Independent, the U.S. International Trade Commission estimates that **the U.S. imported \$1.7 billion in South Korean cosmetics in 2024, a 54% spike from the year before**. South Korea trails only France and the U.S. in beauty export volume, and the U.S. recently surpassed China to become South Korea's leading export market for beauty
- On the one hand, the resurgence of K-beauty in the U.S. at the current moment is a bit of a surprise to us, given the lofty tariffs that are currently slated to impact goods being imported to the U.S. from Korea. On the other hand, given the number of new products that are being launched and introduced into the U.S. by Korean companies, it feels as if **there is a tidal wave of Korean beauty influence coming onshore**. Interestingly, as we saw at Cosmoprof, K-beauty has expanded its reach from primarily facial skincare previously to now include color cosmetics, hair care and VMS products
- Amorepacific's recent financial results offered some evidence of the strength of Korean beauty brands around the world. Specifically, **Amorepacific posted global revenue growth of 11%**, with 8% growth domestically and 14% growth overseas. **The company posted 10% growth in the U.S.**, driven by new brand launches and strong performance of key products
- Another proof point of how focused K-beauty companies are on the U.S. market is the **much-anticipated opening of Olive Young in Los Angeles**, which will be the first U.S. store operated by the successful Korean retailer. While several of Olive Young's stores in South Korea span nearly 13,000 square feet over five floors, the LA location will be smaller, with an emphasis on fun experiential shopping. Olive Young has stated that it plans for the staff in the LA store to be a mix of people it brings from South Korea and local beauty consultants and makeup artists. As evidence of the growing global interest in K-beauty, **Olive Young reported that in 1H25, global e-commerce platform sales grew 70% from a year ago**, with 300% growth in the United Kingdom and 180% growth in Japan

THE PRIME DAY EFFECT

- Cosmoprof took place the week following Amazon's Prime Day, and there was much chatter about how strong sales results were given the extended shopping holiday (as Prime Day lasted 4 days in 2025 compared to 2 days in 2024). Specifically, according to Market Defense, **during Prime Day week (July 8-11), U.S. retailers brought in \$24.1B in online sales, a 30% YoY increase**
- Interestingly, 75% of shoppers during Prime Day 2025 were women, and roughly half of them had an income between \$40K and \$80K. The age split was fairly even across cohorts, but notably, consumers under 34 years old or older than 65 represented less than one third of Prime Day shoppers. Given this demographic profile of Prime Day shoppers, it is not surprising **that Beauty & Cosmetics represented the fifth most common category purchased on Prime Day**, after Apparel & Shoes, Household Essentials, Home Goods, and Health & Wellness
- Not surprisingly, **new product launches and innovation drove outsized growth for beauty** shoppers during Prime Day, with several callouts being About-Face (which contributed to strong growth in makeup), Medicube (which drove growth in skin care) and Nutrafol (which drove growth in hair care)

YOY CHANGE IN SALES IN BEAUTY CATEGORIES FOR PRIME DAY ⁽¹⁾



Sources: Navigo and Market Defense.

1) Prime Day 2025 compared to Prime Day 2024.

SOME INSIGHTS FROM CONTRACT MANUFACTURERS

- The beauty and personal care industry increasingly depends on contract manufacturers (CMs) not just for blending, filling and packaging, but also for new product development (NPD) and formulation. As indie brands continuously gain market share, and typically outsource most of their NPD and production, the CM sector keeps expanding
- That said, there have been pressure points and areas of volatility in the first half of 2025 that seem to have affected several CMs that we spoke with at Cosmoprof
 - The **cost to import certain raw materials and machinery is higher now due to tariffs**, with the longer-term magnitude and impact of these cost headwinds still to be determined
 - Several important retail customers (e.g., Ulta and Sephora) are changing product assortment as they **shift towards more wellness, more fragrance and more beauty device offerings**, aiming to bring more customers back into the store and accelerate revenue growth
 - Other big brick & mortar retailers (e.g., Target) are seeing **weaker foot traffic**, owing to a **shift to more online shopping**, which is leading to more volatility in order patterns for CMs as inventory levels are reset
 - In some cases, **lower volumes for large multinational players** have **led those players to insource more of their production** (given excess capacity at owned-facilities), therefore pressuring volumes at the CMs that have historically been tapped to handle excess or overflow demand
- The **landscape for beauty & personal care contract manufacturing in the U.S. remains highly fragmented**, despite several notable acquisitions that took place since the start of 2014 (e.g., Elevation Labs acquiring Boomerang Laboratories, SV Labs acquiring Sigan Industries and Trademark Cosmetics acquiring DMI Personal Care). With private equity still very much engaged in the CM industry, we expect that there will continue to be an active level of M&A across the industry in years to come
- The **regulatory landscape for beauty & personal care contract manufacturers continues to intensify**, with the number of CMs audited or that received Warning Letters from the FDA increasing. While some of this more rigorous oversight may be attributable to the implementation of MoCRA (Modernization of Cosmetics Regulation Act), it also feels as if the FDA is acting more deliberately about ensuring the CM industry is following stated regulations when it comes to manufacturing operations. The impact of this more stringent oversight is notable in some recent cases, with either ownership of the CM changing hands or a significant level of turnover in the customer base taking place

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Color Cosmetics



Skincare



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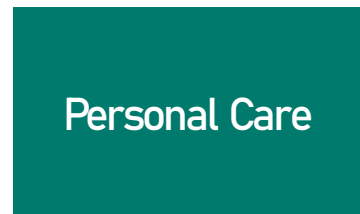
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