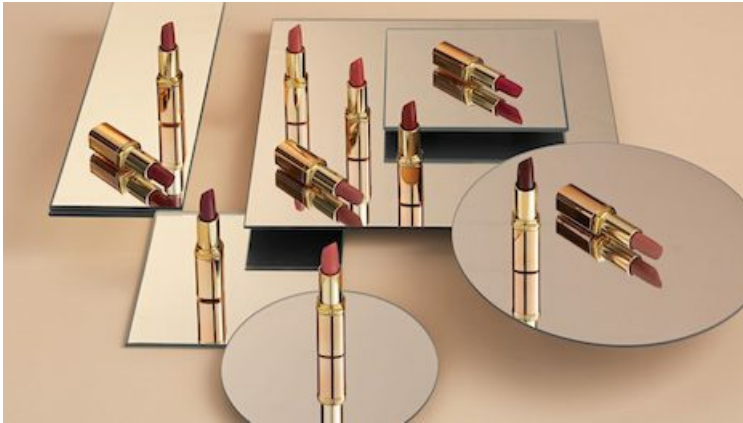


FRAGRANCE AND PERSONAL CARE

Deals worth \$1B or more to drive beauty M&A landscape over next two years: Kearney

November 28, 2023



Deals valued at over \$1 billion and under \$100 million are expected to increase in volume over the next two years. Image credit: L'Oral Paris

By ZACH JAMES

Prestige beauty players are balancing the challenge of appealing to younger consumers with the advantages that strong pricing power and loyal consumer bases bring, according to global managing consulting firm Kearney.

Beauty and Personal Care: Resetting the Stage for M&A, the company's latest report, reveals short-term predictions for a growing industry. Of the executives surveyed, 89 percent expect M&A volume and overall consolidation to increase over the course of the next two years.

"Given financial market headwinds, the year ahead will undoubtedly present a window of opportunity for experienced acquirers," said Gavin Meschnig, consumer goods and retail partner at **Kearney**, in a statement.

"In the current environment, decisions about portfolios will separate the winners from the losers," Mr. Meschnig said. "Leading beauty and personal care players will move decisively to adapt their portfolios in an agile way."

For the study, Kearney spoke with more than a dozen senior executives who focus on M&A deals around the globe and surveyed 130 senior investment professionals. The report also draws upon internal data and research from American capital market company PitchBook and U.K.-based financial platform Dealogic.

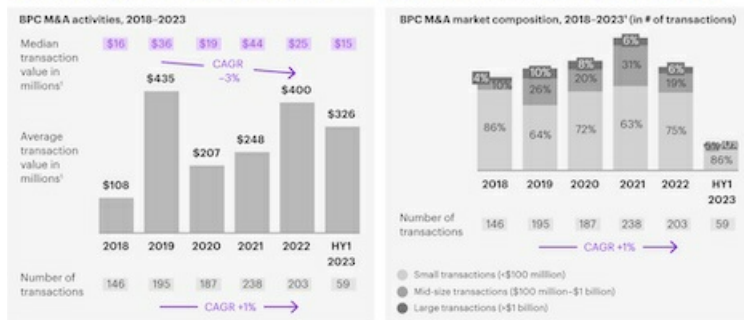
Money moves

In the lead-up to 2025, beauty and personal care (BPC) transactions valued at over \$1 billion and under \$100 million are predicted to increase in frequency, with acquisitions valued in between those two financial segments decreasing over the next two years.

Increased overall volume of transactions with small transactions dominating the market composition

BPC M&A activities have remained high throughout the pandemic; the average transaction value recovered in 2022

2019 saw a drastic increase in mid-size transactions, with large transactions steadily increasing over the past years



*Based on deals with reported deal value
 Note: Percentages may not resolve due to rounding.
 Sources: Dealogic; Kearney analysis

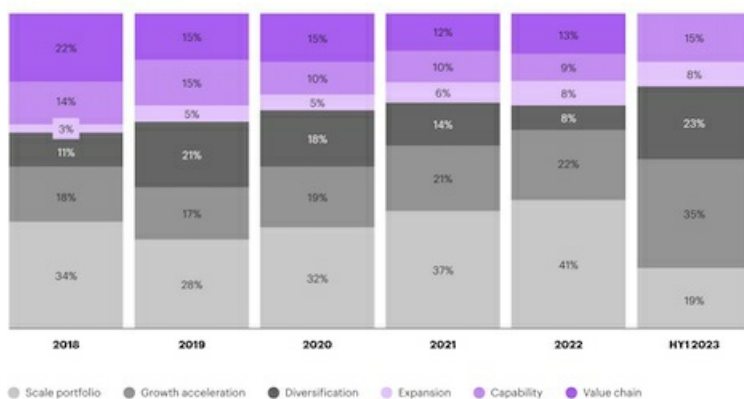
Following down years in the number of acquisitions, the next two are expected to see growth. Image credit: Kearney

There are two areas of focus, the high-priced moves (over \$1 billion) and smaller transactions (under \$100 million), the former including more established names such as those in the luxury segment. The latter encompasses younger brands that are often embraced by Gen Z, a population said to drive 30 percent of all growth in the beauty industry.

“Luxury/ultra-luxury is expected to be the most dynamic segment in years to come from an M&A perspective in BPC, as it’s still relatively untapped compared to other categories like apparel, as 67 percent of respondents expect the segment to grow in the next 2 years from an M&A standpoint,” said Pauline Mexmain, report coauthor and senior manager of consumer goods and retail at Kearney, Los Angeles.

Most transactions aim to enhance the portfolio of the acquirer with growth-focused brands

BPC M&A activity rationales (in # of transactions—strategic transactions only)



Note: Percentages may not resolve due to rounding.
 Sources: Pitchbook; Kearney analysis

Growth is the objective of corporations looking to merge with or acquire new pieces for their portfolios. Image credit: Kearney

“There is strong momentum towards companies targeting more specifically the Gen Z segment; e.g. Creed, Parfums de Marly, Aesop, Deciem, Kylie Cosmetics, Youth to the People,” Ms. Mexmain said. “Several established players have already implemented strategies towards Gen Z paying close attention to what matters: differentiated claims, product efficacy (particularly key to ensure repeat/retain) and “value for money,” as the Gen Z consumer is trending to be more savvy.”

Midrange brands will likely remain untapped by larger ones looking for new additions to their portfolios. According to the report, taking lower risks by buying up-and-coming labels and cashing in on legacy names are among the most pressing priorities.

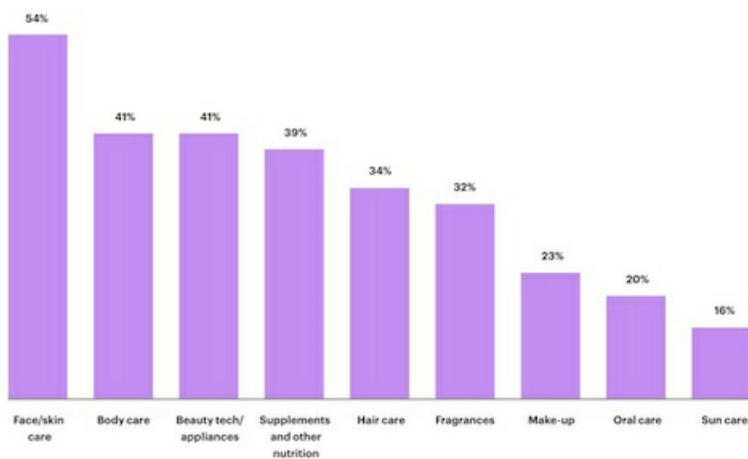
Areas of attention

Among beauty’s various categories, skincare is widely viewed by executives as the most relevant and likely to grow.

The segment shares associations with wellness, a category dominating the luxury BPC landscape. Japanese beauty group Shiseido is among the brands expanding into this rapidly growing market, launching a new label to capitalize on the trend (see story).

Among key subcategories, respondents ranked face/skin care as the most relevant subcategory in the upcoming 2 years

Beauty and personal care subcategories relevancy ranking in the next 2 years (N=130)



¹ Percentages may not resolve due to rounding.

² Personal care includes body care, sun care, and oral care.

Sources: Dealogic; Kearney BFC M&A Executive survey 2023; Kearney analysis

More than half of survey respondents viewed skincare as the most relevant M&A subcategory in the coming years, with makeup taking a dive. Image credit: Kearney

The company is also reaching into the Indian market, recently opening a boutique in the country ([see story](#)) and appointing a brand ambassador from the nation ([see story](#)) for the first time.

In a report Kearney published in October 2023, Southeast Asia and India were indeed identified as golden ticket opportunities as larger luxury beauty players move into the next decade ([see story](#)), upping M&A potential for businesses seeing success in the regions. Fragrance is another area of concern.

“The beauty segment is an interesting one, especially Fragrance, as it can be seen as the ‘entry to luxury,’” said Ms. Mexmain.

“High profitability, steady dynamic growth (+6 percent projected for Fragrances over 2023-27, driven by both price and volume, the volume being driven itself by the Gen Z segment increased penetration) and with minor recession exposure (no decline of color cosmetics in 2008, only a 1.5 percent contraction of skincare) [makes the segment one to watch in the coming years].”

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