



# Beauty Products - Why Investing Makes Sense

By Bruce Roberts



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# Summary

Some of the world's greatest wealth has been created within the beauty industry (e.g., the L'Oréal family – over \$60 billion, Estee Lauder heirs – \$18 billion+). In 2019, Kylie Jenner, with her line of self-branded cosmetics, became the youngest person to become a billionaire (at 21 – earlier than Facebook founder, Mark Zuckerberg).

So, have you considered adding beauty products into your private investment portfolio? Based upon many factors making this category one of the most compelling for private investment, Carofin recommends you do so.

## WHAT DO WE MEAN BY “BEAUTY PRODUCTS?”

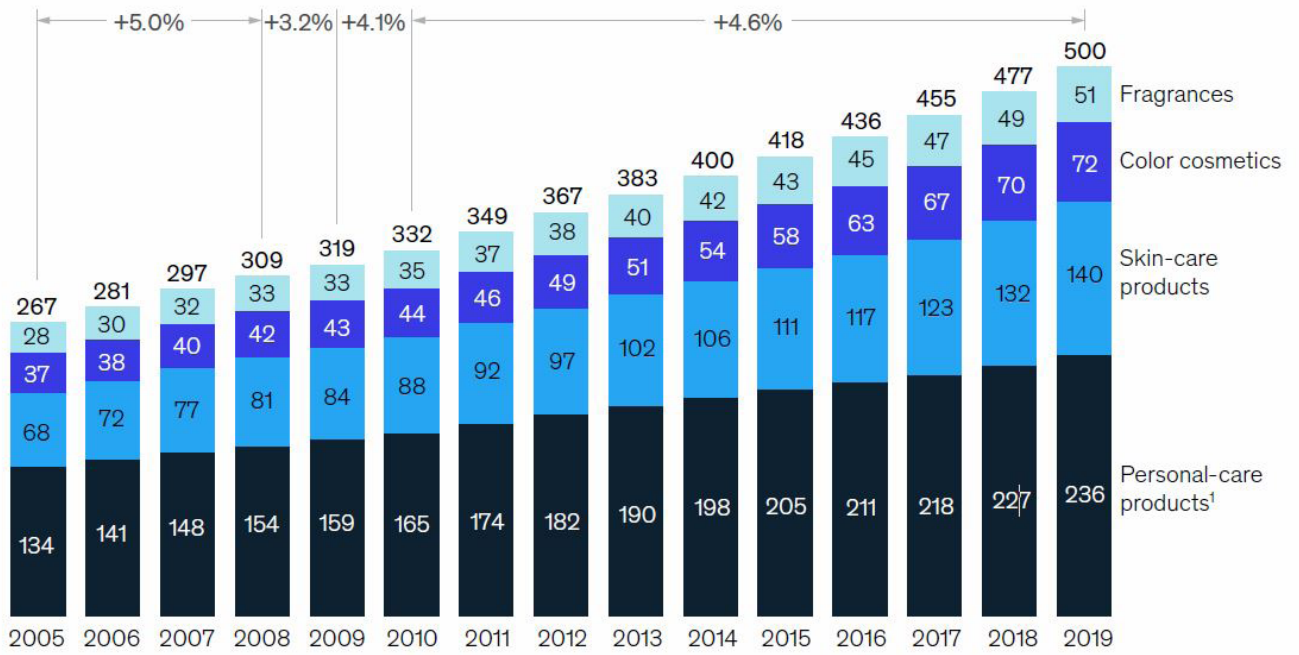
*Beauty products include skin care, personal care, color cosmetics, and fragrance, each of which is intended to support, enhance or change the appearance of the face or body.*

Many people want to look their best at least some of the time. Whatever their criteria, many spend significant amounts on beauty products to achieve the best results.



# 1 Beauty Industry Overview

Global beauty-industry retail sales, \$ billion



Note: Figures may not sum to listed totals, because of rounding.

<sup>1</sup>Includes bath, hair-care, men's shaving, oral-care, shower, and adults' sun-care products; deodorants; and depilatories.

Source: Euromonitor

Source: McKinsey & Company, "How COVID-19 is changing the world of beauty", 5/5/2020

As suggested above, beauty is a large industry – now over \$500 billion – with projections that it will continue to grow at over 3%/year, potentially exceeding \$700 billion by 2025.



One contributing factor: more people globally are attaining middle class status and, as a result, they have more discretionary income. In 2016, middle-market households included 3.2 billion persons, growing at 140 million per year – 88% of this growth from Asia. These households spent between 18% and 27% of their income on discretionary items, such as cosmetics.

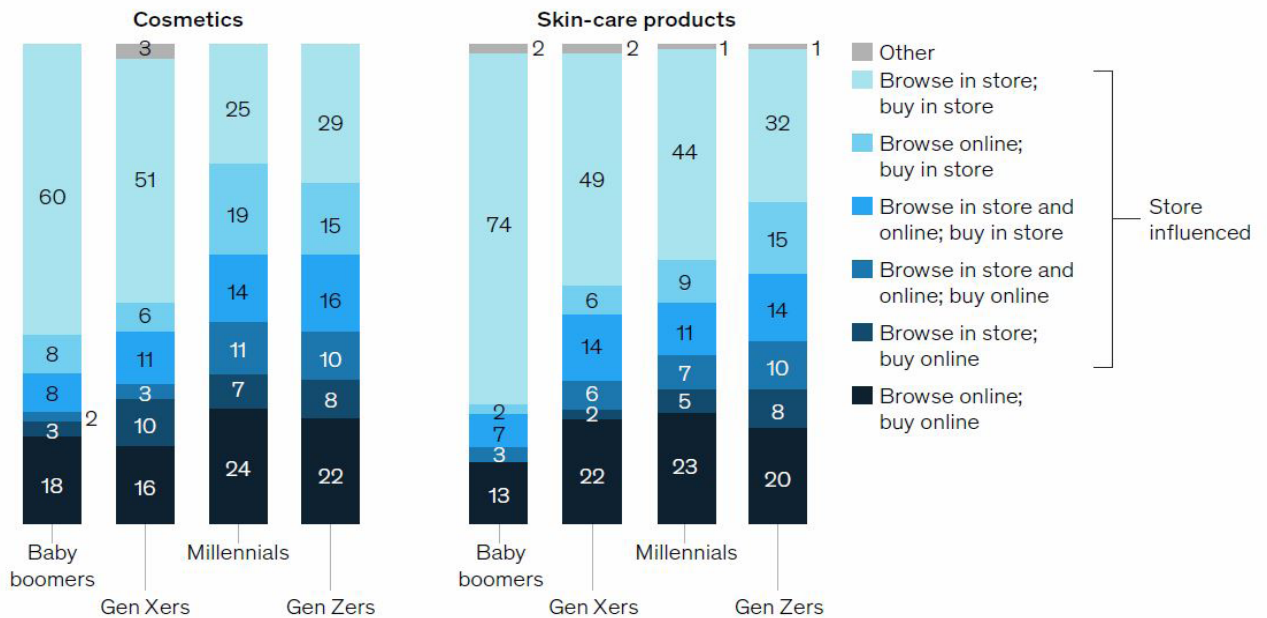


Notably, the beauty industry has continued to grow during past recessions, perhaps as a result of the “Lipstick Effect” wherein consumers indulge in “little luxuries” to give them an emotional lift.

Though beauty sales have dipped recently as a result of the current COVID pandemic, they haven’t dropped as significantly as many other categories – perhaps because we are now also “Zooming” (more “face time” than ever) and wearing masks, drawing more attention to our eyes and eyebrows.

While COVID-19 has negatively affected brick and mortar retail sales for beauty products, growing online sales have softened the blow. Depending on the age group and the product category, 23% to 42% of beauty products are now purchased online.

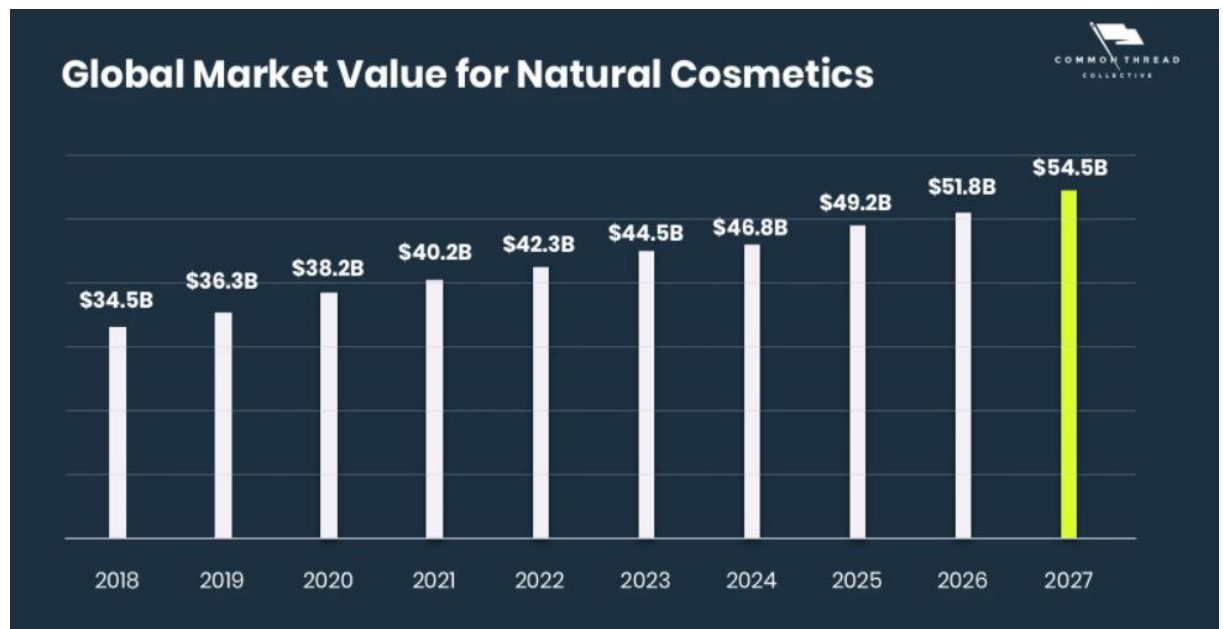
Shopping habits, by age group, % of respondents<sup>1</sup>



Note: Figures may not sum to 100%, because of rounding.  
<sup>1</sup> Question: How do you purchase [cosmetics and skin-care products] most often? (n = 10,000).  
 Source: McKinsey New Age of the Consumer Generational Survey 2019

## Industry Change Drivers = Investment Opportunities

While the underlying global demographics alone are compelling for the industry, numerous trends are creating new product and brand introductions. These include, as identified by a recent Ipsos study:



Source: Common Thread Collective – Cosmetic Marketing & Industry Trends: A 2020 Ecommerce Report on the State of the Online Beauty; 4/16/2020

- » **Natural, clean and sustainable** – 66% of consumers said, “I would be interested in trying new things if they were natural; 59% said they would try new products if they were clean.”
- » **Beauty in their eye** – “Going” are the days of using only ideal facial types for advertising. Accurately and positively reflecting age (54%), embracing all body types (49%), facial features (47%), race/ethnicity (42%) and genders (40%) are each ranked highly by today’s consumer.
- » **Claiming authentic beauty** – Much like the above, the natural beauty of each individual is becoming the goal, and less so some unrealistic, unachievable ideal, as the established brands have traditionally promoted.

- » **Mergers and Acquisitions** – Cosmetics companies of all sizes are moving into this redefined market. Large companies are aggressively looking to expand via acquisition to “get there quickly” and to supplement their in-house brands redevelopment and repositioning.
  - » The top 10 beauty companies (L’Oréal, Revlon, etc.) derived 10%-20% of their revenues from new products introduced within the last three years, many of which they had acquired.
  - » Acquisition interest typically starts once the company reaches sales of \$20 million and the resultant median Enterprise Value/Sales multiple is 4.2x during 2017-2019.

## ② Beauty Product Fundamentals – More Reasons to Invest

In addition to the above, beauty products provide an inherently rich environment for creating new businesses and for growing them. With online marketing and increasingly efficient supply chain (adaptable to shifting consumer buying patterns and demand), new cosmetics are poised to flourish.

### PRODUCT CHARACTERISTICS

**Beauty products are inherently lucrative.**

- » **Margins** - 80% gross margins ((revenue – cost of goods) / revenue) are common in this industry; 90%+ is not unusual.
- » **Form Factor** – Because these products are small, they can be shipped easily – both from the point of manufacture (often overseas) and, increasingly, directly to the consumer.

- » **Consumable/Replenishment** – Once brand loyalty has been established, the product is repurchased about every 120 days.
- » **Modest price points** – Most products cost \$10 to \$50 dollars at full retail. Therefore, consumers take on little financial exposure in trying something new – like experimenting with a different bottle of wine.
- » **Brand Loyalty** – 80% of consumers say their personal beauty and grooming needs are met by the products they currently purchase. So, once you have a customer, you tend to keep them for a while as they replenish.



## ECOMMERCE COMPATIBLE

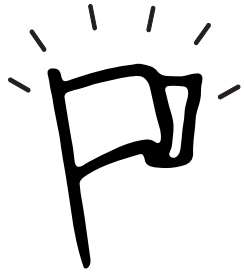
**Beauty is made for ecommerce and, therefore, an estimated 25% of all industry sales (50% or more of the growth) is being generated by online sales (a trend reinforced during the COVID pandemic).**

- » **Consumer Interaction** – The online experience specific to product presentation continues to improve, but this is also a world where consumers can provide product reviews, sharing their personal experience with a given product (this affects approximately 45% of purchases).
- » **Online Marketing** – As many beauty product customers are largely younger, they're often very active in the digital environments where they can be reached (YouTube, Instagram, etc.).
- » **Social media technology** – “Influencers,” some well-known like Kylie Jenner, the Kardashians, and Michelle Phan, each reach millions of followers worldwide. Many, many other less well-known individuals also play a significant role in product evaluation and promotion.

When looking at which brand-discovery channels are more effective among the beauty buyers' segment, influencers are having a clear impact. For example, consumers are now around 41% more likely to discover new brands or products via online ads seen on influencers'

social media pages. They are 47% more likely to be doing so via updates on brands' own social media pages.

## 3 Risk Assessment



Every security involves the risk that it will not perform as expected for the investor. Conducting your investment analysis should highlight the major risks inherent to the security being offered, but there are other risks which can present themselves over the course of the investment. Major categories of risk include:

- » **Investment-related Risks** – Specific to the security being offered.
- » **Industry-related Risks** – Risks inherent to the Issuer's broader industry (e.g., agriculture, consumer products, real estate, oil & gas, etc.).
- » **Macro-Economic Risks** – General economic risks which may affect the specific industry directly or indirectly.
- » **Management-related Risks** – The performance of key personnel, the overall reliance upon personnel performance.
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- » **Regulatory Risk** – The potential for adverse regulatory actions affecting an industry or specific to the issuer.
- » **Offering-related Risks** – The accuracy of issuer representations, and the manner that the security is offered to investors.
- » **Tax-related Risks** – Future tax rulings and their impact on income recognition, risk of IRS audit, etc.





# Conclusion

We began supporting the beauty industry in 2013, and we see no end for emerging investment opportunities. The underlying theme may evolve, and the product applications vary, but the underlying fundamentals won't change:

- » Most individuals want to look their best – to put their best “face” forward.
- » The inherent nature of beauty products makes them well-suited to entrepreneurial endeavors.

We strongly suggest that you take the time to explore this industry. You'll find many opportunities, relatively little competition for investment and a clear path to liquidity.

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