

# IMAP

Industry Report

## Personal Care Products & Services -Coverage Report Q1 2017

Research Conducted by

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**Capstone Partners**

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# Capstone Partners

## PERSONAL CARE PRODUCTS & SERVICES

Q1 2017

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### **M&A OVERVIEW**

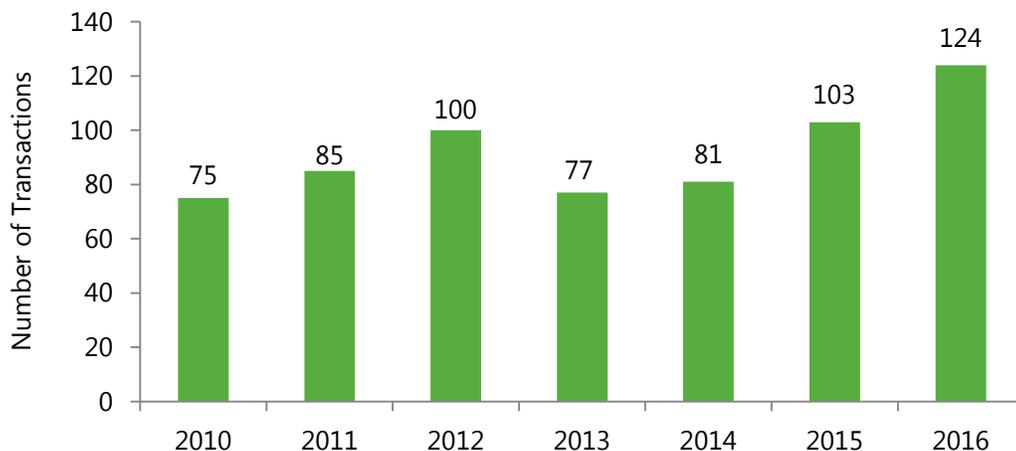
The Personal Care Products and Services industry saw a record-high level of mergers and acquisitions announced or closed in 2016. Activity rose from 103 transactions in 2015 to 124 transactions in 2016—translating to a 20.4% increase. The sector has profited from the strengthening labor market and a 3.5% year-over-year rise in personal income. These improvements have boosted consumer confidence and spending power. Both strategic and private equity buyers have been aggressive in the sector. In 2015, the buyer composition was 60.2% strategic and 39.8% financial. This shifted slightly to 55.3% strategic buyers and 44.7% financial buyers in 2016. Private equity firms are becoming larger players in this space as they seize the opportunity to make platform and add-on acquisitions in this growing market.

### **SEGMENT HIGHLIGHT: NATURAL & ORGANIC**

The Organic Personal Care market is projected to reach \$25.1 billion by 2025, according to Grand View Research. Changing consumer perspectives on the potential health hazards of chemicals have augmented industry growth. Millennials specifically are very wary of chemically-laced products and are willing to pay a premium for pure ingredients. Consumers are also more aware of “fairy-dusting” (the sprinkling of only a small amount of an advertised key ingredient into a product) and now demand higher concentrations and/or higher potency of these key ingredients.

In January, Nordstrom announced it will roll out Natural Beauty Outposts in 46 cities across the US. “We have carried a few natural beauty brands in some of our stores and spas for some time, but our customers have been asking for more of it,” Nordstrom’s National Beauty Director, MaryNell Maddox, told *Forbes*. As consumers continue to demand clean ingredients, Organic Personal Care will be a prime market for M&A.

**M&A Transactions: Personal Care Products & Services**



Sources: Capital IQ, Capstone Partners LLC research

## PERSONAL CARE PRODUCTS & SERVICES TRENDS AND DRIVERS

There are a number of drivers and trends that have had a significant impact on recent Personal Care Products and Services deal activity. One of these key factors that Capstone has identified is outlined below.

- ▶ **Rapid consolidation of dermatology practices** – Dermatology practices have seen a recent uptick in consolidation due to several key drivers. One factor is that the market is very fragmented, leaving the arena ripe for strategic buyers to become key shareholders through M&A. Additionally, both medical and cosmetic dermatology services are in high demand due to the aging population, the expansion of health insurance coverage and the increase in per capita income. As the long-term profitability of the market becomes more apparent, private equity groups are targeting the industry. Another leading reason for consolidation is the challenge that smaller practices face from new regulations and laws. In 2015, almost a quarter (23.0%) of physician practice owners were actively looking to sell their company and 12.5% were looking to merge, according to the Practice Profitability Index (a report featuring the survey results of more than 5,000 physician participants). The top drivers of sale or merger decisions for physicians seeking an exit were too much administrative work, profitability challenges and regulatory burdens.

Compliance is a huge challenge for physician owned practices today, according to Dave Morell, President & COO of Advanced Dermatology and Cosmetic Surgery (ADCS), the largest dermatology practice in the US. "You have to breathe and look at those regulations every single day and to make certain you are complying with them," Morell told *Practical Dermatology*. Many smaller practices do not have the human capital to keep up with the regulations, and seek to merge with companies that offer fulltime human resource and legal teams to deal with insurance and compliance laws. As the market grows and becomes more attractive for strategic and financial buyers, this consolidation trend will likely continue.

### Projected Revenue: US Dermatologists



Source: IBISWorld

## NOTABLE TRANSACTIONS

Several notable transactions were announced or completed in the Personal Care Products and Services industry in 2016. Capstone has outlined select transactions below, followed by a more comprehensive list on the following tables.

- ▶ **ADCS goes on buying spree with 13 acquisitions in 2016** – The Florida-based private company Advanced Dermatology and Cosmetic Surgery (ADCS) was highly active in 2016 making 13 dermatology practice acquisitions. Terms of the deals were not disclosed. ADCS offers a variety of skin, hair and nail care with cosmetic procedures including spider and varicose vein therapy, Botox, collagen, Restylane, chemical peels, laser hair removal, laser skin resurfacing and permanent make-up. According to Founder Dr. Mark Leavitt, there was no strategy to acquire other clinics when ADCS was founded in 1989. However, the company established a hub-and-spoke model in Florida by setting up smaller clinics in areas without dermatology practices and then proceeded to manage and eventually acquire additional clinics. Audax Private equity played a leading role in ADCS's growth. Between 2012 and 2016, the private equity group expanded the company from 53 clinics to more than 170. In May 2016, Audax sold a majority stake of ADCS to the New York-based private equity group Harvest Partners. At that time, the company's estimated value was over \$600.0 million. ADCS has already acquired three dermatology practices to date in 2017, indicating that it shows no sign of slowing its acquisition pace.
- ▶ **Estee Lauder acquires Too Faced Cosmetics (November 2016)** – In a \$1.5 billion dollar deal, Estee Lauder acquired the trendy Too Faced Cosmetics brand. Launched in Southern California in 1998, Too Faced produces quirky products such as Peanut Butter and Jelly eye shadow, Born This Way foundation and Hangover primer. Too Faced targets millennial consumers and has an Instagram following of more than 7.3 million. Global private equity firm General Atlantic bought a majority stake in Too Faced in 2015 and valued the company at \$500.0 million. In under two years, the private equity firm tripled Too Faced Cosmetics' value—bringing its selling price to \$1.5 billion. "We are delighted to be joining forces with The Estée Lauder Companies as we continue to drive Too Faced's dynamic growth," said Too Faced Cofounders Jeremy Johnson and Jerrod Blandino. "We started our careers behind the counters of the Estée Lauder brand, so this is truly a 'homecoming' for us. The Estée Lauder Companies appreciates our unique vision, to provide innovative, cruelty-free makeup products that give women the confidence to 'have fun, play and dream big,' and is committed to ensuring that we retain and build on the core pillars of our brand that are so important to us and our fans. This commitment, combined with ELC's incredible world-class resources, will help us assure the ongoing growth and success of Too Faced for many years to come." William P. Lauder, Executive Chairman of The Estée Lauder Companies, added, "the entrepreneurial spirit at the heart of The Estée Lauder Companies is evident in the remarkable success of Too Faced. Jerrod and Jeremy started the brand with a simple, yet compelling creative concept, and transformed it into something that is truly extraordinary. We are absolutely delighted that Jeremy and Jerrod are 'returning' to the Company where they began their careers in beauty, and we welcome the entire Too Faced team to our family."

**PERSONAL CARE PRODUCTS & SERVICES: SELECT M&A TRANSACTIONS**

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
12/22/16	BioGanix	Relevium Technologies	Sells dietary supplement products.	\$4.3	1.1x	3.3x
12/19/16	Laura Geller Beauty	Glansol	Provides makeup, cosmetics and beauty care products for women.	-	-	-
12/19/16	Julep Beauty	Glansol	Operates as an ecommerce beauty products company.	-	-	-
12/19/16	Clark's Botanicals	Glansol	Distributes skin care products.	-	-	-
12/16/16	Living Proof	Unilever	Manufactures and supplies hair care products.	-	-	-
12/08/16	Achelois	CannaRoyalty	Manufactures skincare products under the brand name DermaLeaf.	-	-	-
11/17/16	Fuel Hair	Beauty Elite Group	Manufactures hair styling products.	-	-	-
11/16/16	Creative Fragrances	Agilex Flavors and Fragrances	Markets fragrances and perfumes for personal, industrial and institutional purposes.	-	-	-
11/16/16	Thibiant International	Knowlton Development	Provides hair care products, including conditioners, shampoos and sprays.	-	-	-
11/15/16	Patriot Bioenergy	Real Estate Contacts	Offers hemp skin care products, including hand lotions, skin creams and body creams.	-	-	-
11/14/16	Too Faced Cosmetics	The Estée Lauder Companies	Offers eye, lip and face make-up products.	\$1,450.0	-	-
10/21/16	BECCA	The Estée Lauder Companies	Offers skin perfecting make-up products, eye shadows, crèmes, glosses, liners, palettes and tints for lips.	-	-	-
10/18/16	Skin Care Center of Southern Illinois	United Skin Specialists	Provides medical, surgical and cosmetic dermatology services.	-	-	-
10/14/16	Naples Center for Dermatology	GTCR	Offers treatment for various types of skin disorders and cosmetic concerns.	-	-	-
10/05/16	ermis LABS	ICTV Brands	Develops skin care products.	-	-	-
10/04/16	Enhance Skin Products	Integumen	Develops cosmetics and skin care products.	-	-	-
09/30/16	willagirl	Origami Owl	Manufactures and sells skincare products for young women and girls.	-	-	-
09/22/16	Mirabella & Lipland	Bellami	Manufactures cosmetics products.	-	-	-
09/19/16	IdealShape	The Hut.com	Sells weight loss supplements.	-	-	-
09/14/16	Bitch Slap! Cosmetics	Unknown Buyer	Engages in the production and distribution of cosmetics for women.	-	-	-
09/13/16	SalonQuest	Conair Corporation	Offers priming products, conditioners, hydrating balms and other hair styling products.	-	-	-
09/08/16	DermaSilk Brands	Ember Therapeutics	Manufactures anti-aging cosmetic products and nutritional supplements.	-	-	-
08/30/16	800Razors	Shave Mob	Manufactures razors.	-	-	-
08/25/16	Legacy for Life	Youngevity International	Distributes nutraceutical products for weight management, skincare and anti-aging.	-	-	-
08/19/16	Dermatology Clinic	ADCS	Operates a dermatology clinic.	-	-	-

**PERSONAL CARE PRODUCTS & SERVICES: SELECT M&A TRANSACTIONS (CONTINUED)**

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
08/12/16	Nature's Pearl	Youngevity	Offers grape seed supplements, antioxidant skin and personal care products, lotions and hair products.	-	-	-
08/08/16	XpresSpa	FORM	Operates a network of airport spas for business and leisure travelers.	\$28.7	0.7x	-
08/05/16	ClassicShaving	The Grooming Network	Supplies wet-shaving and grooming products.	-	-	-
07/26/16	P&G's TAG Brand	My Import	Manufactures body fragrances for men.	-	-	-
07/25/16	J&J Rembrandt Brand	Ranir	Offers a brand of teeth whitening products.	-	-	-
07/22/16	It Cosmetics	L'Oreal	Manufactures skincare and makeup products.	\$1,200.0	6.6x	-
07/22/16	Regal Beauty	American International	Manufactures cosmetic products under the brand "Model in a Bottle."	-	-	-
07/20/16	Dollar Shave Club	Unilever	Offers blades, shave butter, after shave solutions and wipes.	\$1,000.0	6.6x	-
06/27/16	NUDE Skincare & Brands	Counter Brands	Offers skincare products.	-	-	-
06/16/16	Elizabeth Arden	Revlon	Sells fragrances, cosmetics and skin care products.	\$868.2	0.9x	-
06/02/16	Vogue International	Johnson & Johnson	Distributes salon-heritage hair care and other personal care products.	\$3,300.0	-	-
05/18/16	Manhattan Center for Dermatology	Schweiger Dermatology	Provides medical and cosmetic dermatology services in NY.	-	-	-
05/16/16	High Ridge	Clayton, Dubilier & Rice	Manufactures hair care and skin cleansing products.	\$415.0	-	-
05/03/16	ReNew Life Formulas	Clorox	Offers herbal cleansing products, oil supplements, fiber supplements and specialty supplements.	\$290.0	2.5x	-
04/28/16	Aubrey Organics	Nutraceutical International	Offers hair and skin care, bath and spa, makeup, baby care, shaving, fragrance and lip balm products.	-	-	-
04/26/16	NeoStrata	Johnson & Johnson	Develops and markets therapeutic and cosmetic dermatological products.	-	-	-
04/05/16	Liquid Technologies	Frontenac	Manufactures hair and skin care products.	-	-	-
03/09/16	The Gents Place	Massage Heights	Offers hair, skin, shave, body and massage, and shoe services to men.	-	-	-
03/03/16	P&G's Select Hair Care Brands	Henkel	Manufactures shampoo under the brands Pert, Shamtu and Blendax.	-	-	-
02/02/16	DreamDry	Hudson BLVD	Owns and operates salons in NY.	-	-	-
02/02/16	Vitamin World	Centre Lane	Manufactures vitamins, minerals, herbs and nutritional supplements.	\$25.0	-	-
02/01/16	Sage Products	Stryker	Manufactures and sells disposable health and personal care products.	\$2,775.0	6.5x	-
01/25/16	Swanson Health	Swander Pace	Sells vitamins and supplements, natural health care products and organic foods.	-	-	-
01/19/16	CityMani	Elizabeth Arden Spas	Offers on-demand nail care services for private and small group parties.	-	-	-
01/04/16	Raylon	L'Oreal	Offers hair care and hair color products, tools and appliances, and skin and nail care products.	-	-	-

**CAPSTONE PARTNERS: COMPLETED PERSONAL CARE PRODUCTS & SERVICES TRANSACTIONS**



has been acquired by

**ANAPHORA, LLC**



has been acquired by

**QUAD PARTNERS**



has been acquired by

**REGIS**



has secured financing from

**NEWVA CAPITAL PARTNERS, LP**



has been acquired by

**MILAN MILAN INSTITUTE**



has recapitalized with




has been acquired by

**REGIS**

**Pierre's**  
School of Cosmetology

has been acquired by

**REGIS**

**CAPSTONE PARTNERS: OTHER CONSUMER PRODUCTS & SERVICES TRANSACTIONS**

**CONFIDENTIAL**

corporate sale  
(IN PROCESS)

**MANUFACTURES HANDCRAFTED BEERS**



has merged with



a portfolio company of



**Global Organic Specialty Source, Inc.**

has been acquired by





strategic joint venture




has been acquired by



a portfolio company of




has been acquired by




has been acquired by




has recapitalized with



**BLACK CANYON CAPITAL**

THE PERSONAL CARE PRODUCTS & SERVICES TEAM



**Tracy Patch, Vice President**

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Tracy is a Vice President in the Orange County office, supporting the management of the Western Region. Prior to Capstone, Tracy worked as a senior banking professional in Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. She possesses nearly 15 years of experience in middle market investment banking, working on both domestic and cross-border transactions. Her previous finance experience includes working in the hedge fund industry with Collins/Bay Island Securities LLC and Talisman Capital. Prior to that, Mrs. Patch worked with institutional fixed income sales at Vining Sparks IBG, LP and Robert Thomas Securities, Inc. She also was a manager at The Disney Company. Mrs. Patch holds an MBA from Pepperdine University and a BS in Finance from Miami University of Ohio. She is a Series 7 and 63 Registered Securities Representative.



**David Bench, Managing Director**

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David is a Managing Director in charge of the Western Region, based out of Orange County. Prior to Capstone, David managed the Western region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. David has focused on middle market investment banking for nearly 30 years and has been the lead banker in over 250 M&A transactions involving both domestic and foreign corporate buyers, as well as leveraged recaps with private equity sponsors. David's achievements in investment banking have gained national recognition by The M&A Advisor: one of his transactions was awarded the "Private Equity Deal of the Year," while another was recognized as the "Energy Deal of the Year." Mr. Bench has also been awarded "Middle Market Financing Professional of the Year," an award recognizing M&A's most accomplished professionals. Mr. Bench holds a BS and an MBA in Finance from Brigham Young University. He is a Series 7 and 63 Registered Securities Representative and a Series 24 Registered Securities Principal.



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Christopher is an Associate in the Orange County office. He supports management and clients in the Western Region. Christopher is engaged in the execution and advisory of mergers, acquisitions and strategic capital raises. Prior to joining Capstone, he was an associate with a boutique M&A firm focused on valuation, M&A advisory, corporate finance, acquisition target research and exit-planning strategy. His industry experience includes manufacturing, healthcare, TMT and consumer. Christopher was also a research analyst in the M&A department at United Capital Financial Advisors. He earned a BA from the University of San Diego. Christopher is a Registered Securities Representative having passed the FINRA Series 79 and 63 examinations.

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## ABOUT CAPSTONE PARTNERS

**Capstone Partners LLC** is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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World Class Wall Street Expertise. Built for the Middle Market