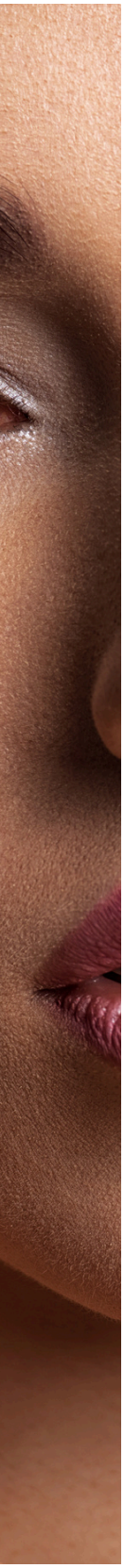


ARTICLE

Market Drivers in M&A Activity in the Beauty Sector

FOCUS is a trusted middle market bank with a rich history, deep resources and proven results. We embrace a client-first philosophy centered on personalized service, deep industry expertise, and delivering results-driven solutions. Our integrated operations with FOCUS Capital Partners empower us to skillfully navigate the complexities of cross-border transactions, offering clients strategic advantages in an ever-evolving global marketplace.

FOCUS
Investment Banking



OVERVIEW

The middle-market beauty industry has been an active source of M&A activity, with a variety of trends reflecting the sector's evolving dynamics, driven by consumer demands for innovation, sustainability, and digital transformation. Middle-market beauty companies—generally defined as those with valuations between $10 million and $300 million—are increasingly seen as attractive targets for private equity (PE) firms, larger beauty conglomerates, and emerging brands looking to expand.

Here are some key M&A trends shaping the middle-market beauty space:

1. CONSUMER DEMAND FOR CLEAN, NATURAL, AND SUSTAINABLE PRODUCTS

- **Clean Beauty**: As consumers become more ingredient-conscious, there's been a surge in demand for clean beauty products free from harmful chemicals. This trend has led to M&A activity where larger companies acquire smaller, clean beauty brands to diversify their portfolios and tap into the eco-conscious consumer market.
- **Sustainability**: Brands with sustainable practices (e.g., zero-waste packaging, ethical sourcing, or carbon-neutral production) are highly sought after. Companies in the middle market that align with these values often attract interest from investors or larger beauty players aiming to strengthen their green credentials.

2. E-COMMERCE AND DIRECT-TO-CONSUMER (DTC) EXPANSION

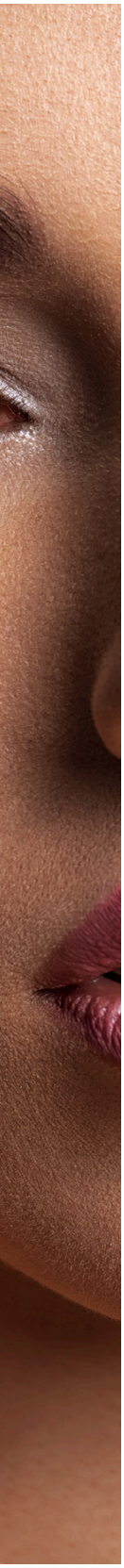
- **Shift to E-Commerce**: As consumers increasingly prefer online shopping, particularly since the pandemic, beauty brands are moving toward direct-to-consumer (DTC) models. Companies that have strong e-commerce channels or digital-native business models are more appealing to acquirers.
- **Social Media Influence**: The rise of influencers and social media-driven purchasing behavior has created a demand for beauty brands with strong online followings or those that have successfully harnessed the power of platforms like Instagram, TikTok, and YouTube. M&A deals often focus on companies with a solid online presence and influencer-driven marketing.

3. EXPANSION INTO WELLNESS AND HOLISTIC BEAUTY

- **Beauty & Wellness Integration**: Consumers are increasingly seeking wellness-related beauty products that offer benefits beyond just cosmetics. This includes skincare with health benefits, products infused with CBD or adaptogens, and wellness products that emphasize mental health and self-care.

4. PRODUCT INNOVATION AND TECHNOLOGY

- **Beauty Tech**: The convergence of beauty and technology has become a major trend. Innovations like AI-driven skincare recommendations, smart beauty tools (e.g., app-connected devices), and personalized skincare products are fueling the demand for beauty companies that integrate technology into their offerings.
- **At-Home Beauty Tools**: The growth in at-home beauty treatments (e.g., LED masks, micro-needling devices) has led to an increased interest in acquiring tech-based beauty tools that are popular with consumers seeking spa-like experiences at home.



5. MERGERS AND ACQUISITIONS AMONG INDIE AND NICHE BRANDS

- **Indie Brand Boom**: Indie beauty brands have gained traction for their ability to innovate and cater to niche markets. Larger beauty players are increasingly interested in acquiring these brands to tap into emerging consumer preferences, especially in skincare, haircare, and wellness segments.
- **Private Equity Role**: Private equity (PE) firms play a key role in M&A by investing in and scaling small and mid-sized beauty brands, often helping them grow before selling them to larger corporations or other financial buyers.

6. GEOGRAPHIC EXPANSION AND INTERNATIONALIZATION

- **Global Growth**: Middle-market beauty companies are also increasingly looking to expand into new geographical markets, particularly in Asia, Latin America, and the Middle East, where there is growing demand for premium beauty products.
- **Strategic Acquisitions for Market Entry**: Larger companies are acquiring beauty brands with a strong presence in key international markets, as a way to accelerate their entry into new regions.

7. ACQUISITIONS FOR BRAND DIVERSIFICATION

- **Portfolio Diversification**: Larger beauty conglomerates are acquiring middle-market beauty companies as part of a strategy to diversify their product offerings. This is especially prevalent in the skincare, haircare, and wellness segments, where conglomerates want to expand their brand portfolio and appeal to a wider range of consumers.

8. PRIVATE EQUITY ACTIVITY AND BRAND SCALING

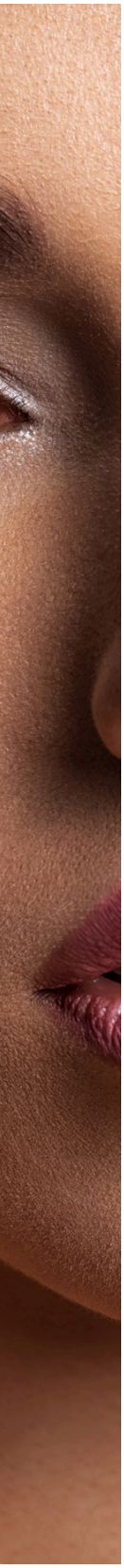
- **Private Equity (PE) Investment**: PE firms are actively investing in beauty companies, particularly those with scalable business models, strong growth potential, or high brand equity. These firms typically aim to help brands scale, streamline operations, and eventually sell them for a return on investment.

9. M&A ACTIVITY IN PROFESSIONAL BEAUTY

- **Salon and Spa Products**: The professional beauty market, including salon products and services, is also seeing M&A activity. Beauty brands that target the salon and professional aesthetic market are being acquired by larger companies aiming to expand their reach in this niche.

10. STRATEGIC CONSOLIDATION AND ROLL-UP STRATEGIES

- **Roll-Up Strategies**: A common strategy involves acquiring smaller brands to create a larger, more competitive entity with a broader portfolio. Beauty companies—especially in the skincare and wellness sectors—are being rolled up to increase market share and operational efficiencies.



CONCLUSION

The middle-market beauty M&A space is marked by a focus on innovation, sustainability, and digital transformation. Companies in the sector are looking for strategic acquisitions that can provide growth opportunities in emerging trends like clean beauty, wellness, tech-driven products, and global expansion. Private equity, large beauty conglomerates, and emerging beauty brands are all active players in this space, each seeking to leverage M&A to drive market share, brand diversification, and geographic growth.

SAMPLE TRANSACTIONS

