



Beauty Market Heats Up

FOCUS Investment Banking offers merger, acquisition and capital raising services for the red-hot beauty industry.

Beauty Industry Outlook

The “Lipstick Index” Effect

Affluent customers, younger consumers, men, women, and even the most budget-minded all appear willing to keep spending on beauty, cosmetics, skin creams, colognes and perfumes despite the current economic environment, a bullish sign for the industry. Indeed, the industry actually prospers in such a situation, at least compared to other consumer industries.

“[The beauty industry is defying inflation](#),” the Wall Street Journal recently reported. “Consumers are still willing to pay up to look and smell good, setting the beauty industry apart from a range of industries dealing with declining demand from inflation-weary shoppers.”

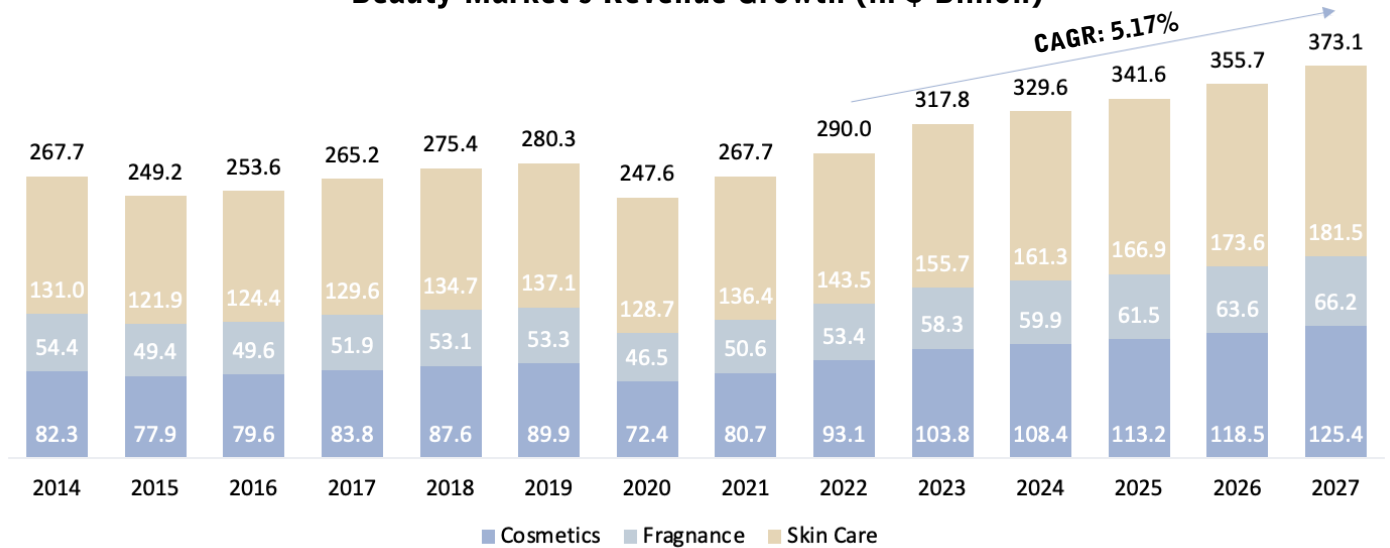
According to Business Insider, the “[lipstick index](#) posits that consumers are more likely to cut back on expenses like eating out than on small luxuries like lipstick during times of economic hardship.” The term was coined originally during the 2001 recession by Leonard Lauder, then the chairman of Estee Lauder. Lauder noted that lipstick sales rose in the autumn of that year, indicating that women facing an uncertain economic environment held onto beauty products as an affordable indulgence. The index also held true in the financial crisis of 2008-09.

In the current environment, amid high inflation and the threat of a recession, makeup sales have been booming, according to Live Mint. As masks come off, lipstick has been leading the way in both the U.S. and Europe. But cosmetics demand isn’t confined to lipstick. The natural aesthetic, characterized by glowing skin, has generated interest for new makeup, as has an increasingly popular more dramatic look—bold, colored eyeliner and gems from the TV show Euphoria. As a result, the entire beauty industry is experiencing a boom, and attracting the focus of the financial markets.

The beauty and personal care industry has indeed established itself as recession proof, defying the economic headwinds and trends, in contrast to other major consumer sectors. According to Statista, revenue in the Beauty & Personal Care market totaled \$528.60 billion in 2022, and is expected to grow at a cumulative annual rate of 4.64% through 2027. Revenue in the Beauty market alone (which includes cosmetic, fragrance and skin care) totaled \$289.99 billion in 2022, and is expected to grow at a 5.17% annual rate to \$373.11 billion in 2027.

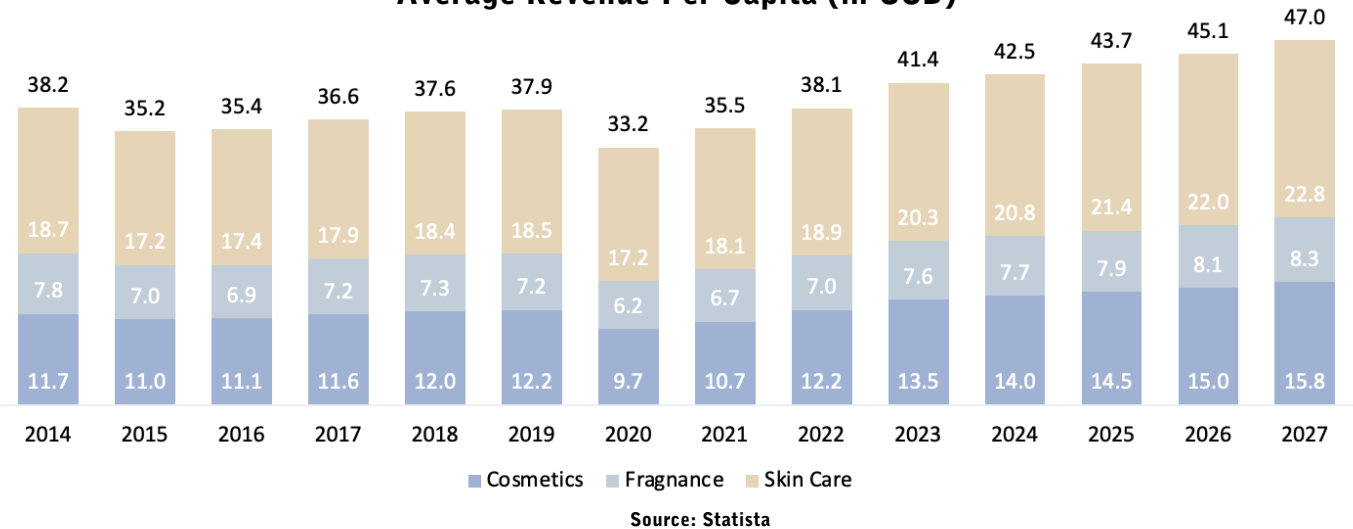
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Beauty Market's Revenue Growth (in \$ Billion)



In terms of average revenue per capita, the beauty market captured \$38.09 in 2022, which is up nearly 15% from \$33.15 in 2020 (during the pandemic) and is forecast to grow another 23% to \$46.95 by 2027.

Average Revenue Per Capita (in USD)



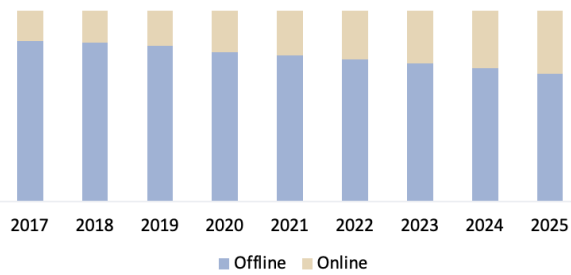
E-commerce: Accelerating the Growth of the Beauty Industry

A shift towards digital retailing was already in motion, but the industry's planned gradual shift to e-commerce was accelerated by the pandemic, pushing traditional brick-and-mortar retailers to embrace technology. Companies with an online presence are expected to fare well in the future. A digital model should improve long-term profitability, although competitive pressure from new online entrants has intensified.

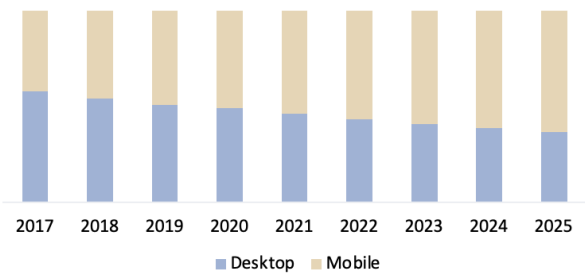
From clean beauty to hyper-personalized skincare and cosmetics solutions, the beauty industry has always been at the forefront of e-commerce innovation and reinvention, and retailers are always looking to enhance their customer experience. 2022 was no exception (as per Yieldify). According to Statista, 25.4% of the industry's total revenue was generated through online sales in 2022.

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Revenue Share by Channels (in %)



Revenue Share by Mobile/Desktop Split (in %)



Real-World Example: Beauty Technology Platform

GlossGenius, a New York-based startup that operates a technology platform to help small spa, studio and salon owners manage their operations, recently raised \$25 million to develop “business-in-a-box” software for beauty professionals, according to TechCrunch. The company has more than 40,000 customers in the beauty and wellness space that do about \$2 billion a year in transaction volume on its platform. The company is looking to “build a holistic, all-encompassing [business management platform for small business owners in the beauty and wellness space](#),” TechCrunch said.

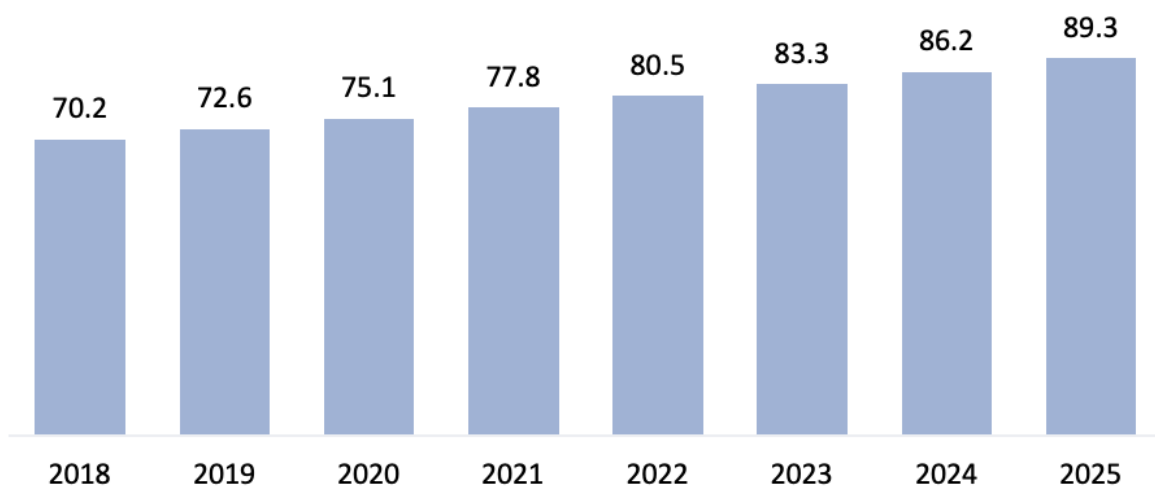
Market Defining Trends

Inclusivity in the beauty market

Consumers now seek value-driven products that reflect their personalities and lifestyles.

Global cosmetic industry data shows sales of multicultural beauty products surging at a pace double that of the conventional market and companies that are embracing inclusive styles and lines are seeing their efforts rewarded in higher annual revenue. As per a Nielsen survey, American beauty industry aisles are finally beginning to reflect diversity. The number of unique color ranges has grown seven times as fast as product lines as a whole, while the number of unique colors of foundation sold has grown three times as fast as the rate of new general product development across foundations.

Size of the Global Color Beauty Market
(in \$ Billion)



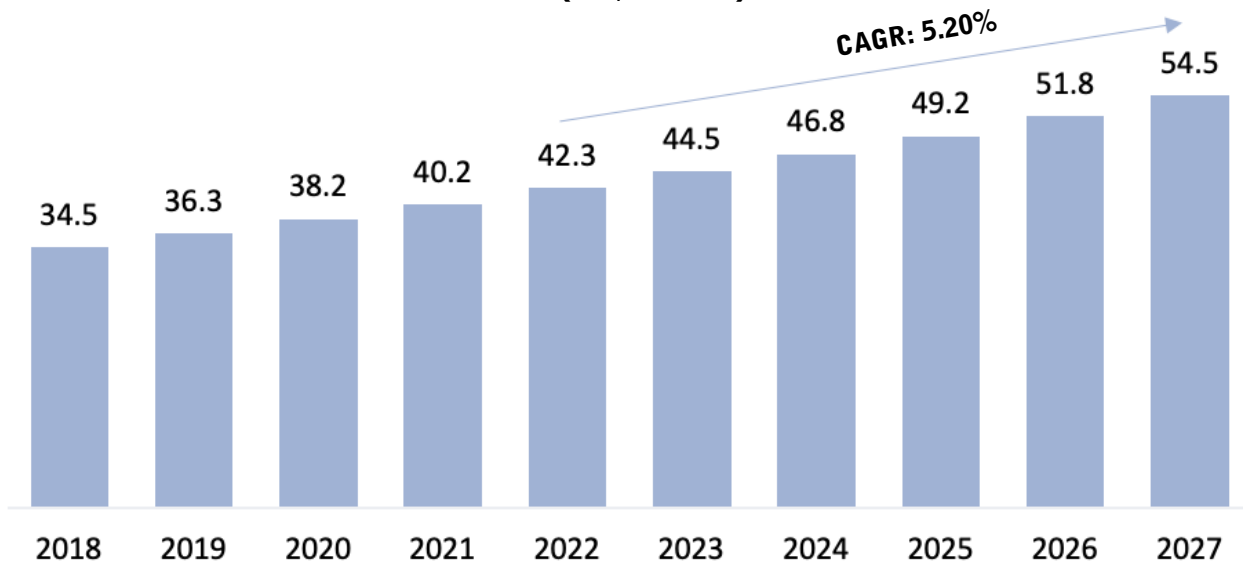
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Shift towards natural, clean, and transparent beauty

Consumers are also seeking brands that are as transparent in their ingredient list as they are natural in their products. While “clean beauty” has been a rising buzz phrase across the industry since 2018, it is still a controversial, confusing, and enigmatic concept that can present more questions than answers.

For example, both the U.S. FDA and the EU vary on their banned ingredients: the FDA bans 11 ingredients, while the EU bans 1,328. But more brands are beginning to emerge with minimalistic and transparent approaches as more consumers pay eagle-eyed attention to the ingredients list on the back of the packet.

Growth Market Value for Natural Cosmetics (in \$ Billion)



Source: Common Thread

NPD's Beauty Index Points to Growth

NPD Group points out in a recent report the reasons for their optimism about the beauty industry (2), as they expect market's sales energy to continue to grow. The report notes that NPD's “beauty index” encompasses more than just lipstick or fragrances; the index is tied to the same dynamics, but on a broader scale. Like the “lipstick index” cited above, NPD's beauty index assumes that when consumer sentiment is low, the desire to treat oneself goes up. NPD observed the impact of consumers treating themselves across all prestige beauty categories throughout 2022.

The second reason for NPD's positive outlook is that more consumers are likely to purchase beauty products at brick-and-mortar stores going forward. This shift away from online shopping could be a boon to beauty product sales, as physical stores traditionally capture the largest share of revenue across all categories. The retail channel also has a higher frequency of impulse purchasing, and beauty products are the ultimate little luxury—they are quick and easy to pick up while walking the aisles. Online sales will remain important, but physical stores will likely be the winners during the important holiday season.

The final, but equally important, reason for NPD's optimism stems from the beauty industry's largest consumer base, namely the prestige market. Nearly half of its shopper base has a household income of more than \$100,000 per year. This contrasts with the mass-market shopper, which has a greater diversity of income levels. According to IRI shopper panel data, about one-third of the mass market shopper base earns less than \$50,000 per year. These consumers are more likely to cut back on spending during tough times. In contrast, NPD's holiday study reveals that consumers earning over \$150,000 are more likely than other income ranges to spend more, shop for themselves, and purchase beauty products during the holiday season.

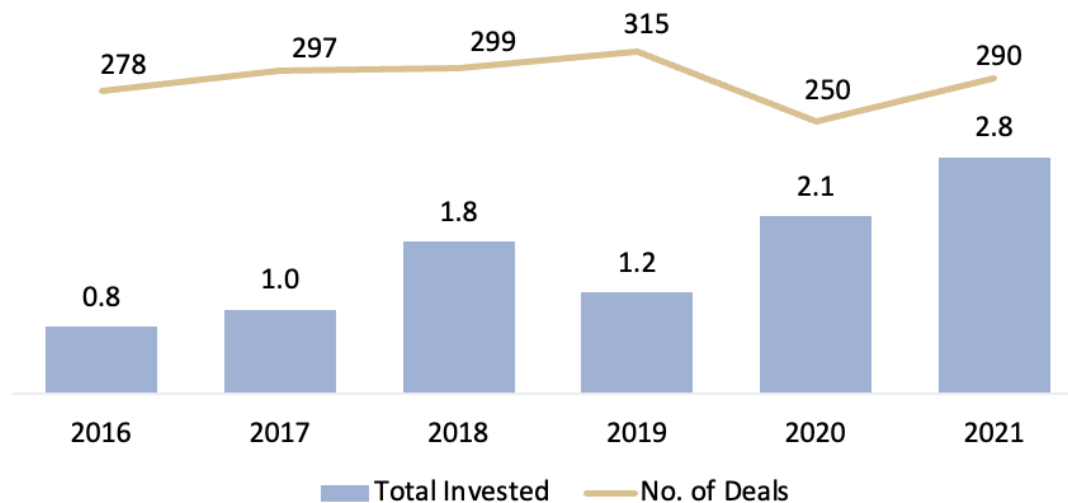
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Venture Capital and the Beauty Industry

Venture Capitalists are Cheerful

Consumers are upbeat about the sector, and so are investors. Insider recently profiled 13 venture capitalists who specialize in investing in beauty startups. According to the website, "venture-capital interest in beauty has exploded in the past several years, as investors look to cash in on the category's [feverish mergers-and-acquisitions scene](#)." Venture funding for beauty startups has more than quadrupled since 2016, Insider says, from \$800 million in 278 deals in 2016 to \$2.8 billion in 290 deals in 2021, according to Pitchbook. Pitchbook adds that by the first half of 2022, investment tapered off at just under 100 deals, but beauty continues to draw attention from venture capital firms as the sector at-large grows by embracing technology and social media to sell products.

VC Funding to Beauty Companies (in \$ Billion)



CrunchBase highlights a few major examples:

- Kylie Jenner's Kylie Cosmetics and Kim Kardashian's KKW Beauty, both digitally native beauty brands, were acquired by cosmetics giant Coty for majority and minority stakes, at valuations greater than \$1 billion.
- Estee Lauder shelled out \$1.7 billion for Korean beauty company Have & Be Co. in 2019 and \$1.5 billion for Too Faced Cosmetics in 2016.

Venture-backed companies like Glossier have also raised more than \$1 billion, turning investors' attention toward beauty. This reflects how much money is being raised by the sector.

For the past year and a half, skincare and haircare companies have been seeking the most capital, according to True Beauty Ventures co-founder Cristina Nuñez. But since more people are out and socializing than during the pandemic, Nuñez expects color cosmetics companies to again start reaching out for capital. "When you look at the overall industry, color cosmetics makes up the bulk of the industry, so it'll be interesting to see how that ticks up again," Nuñez said.

Estee Buys a Ford

Deal volume in 2022 was tracking at \$400 million in 84 deals through May 27, but the beauty sector got a big boost in November when [Estée Lauder agreed to buy Tom Ford for \\$2.8 billion](#), as reported by the Wall Street Journal. The company founded by Tom Ford, Gucci's former long-time creative director, "is best-known for its menswear" but has "a fast-growing, high-end line of cosmetics and fragrances" that is "considered a so-called ultra-prestige brand." Estée Lauder has been an active acquirer the past few years, although the Tom Ford acquisition was its biggest by far.

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Joining the Venture Capital Crowd

Ulta Beauty, the largest chain of beauty stores in the U.S., [has launched its own VC fund](#), TechCrunch reported. The \$20 million fund, called Prisma Ventures, plans to support “early-stage companies that have the potential to improve the online or in-store shopping experience for Ulta customers” as well as to “foster innovation at the company.”

VC activity is also strong outside the U.S. [Thailand’s top beauty e-commerce platform](#), Konvy, received \$10 million in new Series A funding from Insignia Ventures Partners, which it plans to use to accelerate its omnichannel and international distribution, TechCrunch reported. Founded in 2012 by a Chinese entrepreneur, the company handles more than 20,000 individual products from more than 1,000 brands, including L’Oréal, Shiseido, and Eucerin.

Summer International, which does business in the U.S., South Korea, Singapore, the Philippines and Indonesia, raised \$5 million in a seed round from investors that it intends to use to “identify the most influential content creators and work with them to incubate new brands,” according to TechCrunch. The company’s goal is to “create an ecosystem to help influencers and creators [launch and sell beauty brands using consumer data and analytics](#).”

Verlinvest, a family-backed growth fund investor that has previously backed several well-known consumer brands such as Oatly and Chewy.com, is investing €50 million into its own “kick-starter” VC fund, called V3 Ventures. According to TechCrunch, the company eventually plans to invest €100 million into health, beauty and food startups in the U.K., Europe, U.S. and India.

Next steps

[FOCUS Investment Banking](#) believes beauty will remain a hot sector and resilient in the business environment in 2023. If you’re looking to sell your beauty business, acquire one, or seek growth investment, contact us today. Our [Consumer Group](#) leverages years of industry transaction experience and confidently advises on mergers, acquisitions, and raising capital for profitable, growing businesses.

End notes and sources:

1. <https://www.statista.com/outlook/cmo/beauty-personal-care/worldwide>
2. <https://www.npd.com/news/blog/2022/beauty-indulgences-this-holiday-season/>
3. <https://pitchbook.com/blog/us-vc-firms-investing-in-beauty>
4. <https://news.crunchbase.com/business/beauty-cosmetics-startups-vc-investment/>



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