

The background of the entire page is an abstract, artistic composition of thick, overlapping brushstrokes in various shades of red, pink, and magenta. The strokes are dynamic and fluid, creating a sense of movement and depth. The colors transition from bright, saturated reds to softer pinks and purples, with some darker, almost black, areas where the strokes are more densely packed or shadowed. The overall effect is a rich, textured visual field.

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DC Discusses: Private equity
sees shining opportunity in
Beauty & Personal Care
contract development and
manufacturing

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DC Discusses: Private equity sees shining opportunity in Beauty & Personal Care contract development and manufacturing

Beauty & Personal Care (BPC) is a large, global market that has experienced steady growth, demonstrated strong resilience and was estimated to be worth USD \$545 billion in 2023, and anticipated to reach USD \$858 billion in 2030¹. Supporting companies, such as Contract Development and Manufacturing Organizations (CDMOs) and Contract Manufacturing Organizations (CMOs), have hugely benefited from the industry's growth and as a result, the global cosmetic CDMO and CMO market is projected to grow rapidly, at a CAGR of 6.5% from 2018 to 2030². In this article we explore some of the drivers, including:

- Indie brands: many independent beauty brands initially scale through digital or specialty channels and lack the infrastructure for large-scale manufacturing, making CDMOs / CMOs a crucial partner in bringing their products to the market
- Near-shoring: bringing supply chains closer to home to meet consumer demand and manage geopolitical risk
- Bio-sourcing and eco-friendly packaging: growing consumer demand for natural and sustainably sourced ingredients and packaging
- Enhanced outsourcing needs in development and formulation: strengthening the CDMOs differentiation, profitability and long-term relationships with customers
- BPC and Healthcare: the convergence of wellness, healthcare and beauty is driving consolidation
- Regulations: regulatory bodies increasing focus on the safety and efficacy of beauty products

In the latest DC Discusses article, our Consumer, Leisure and Retail and Industrials teams discuss the outlook for Beauty & Personal Care contract manufacturing M&A activity.

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The rise of digitally native independent beauty brands

Over the past 10 years, independent brands have taken an increasing share of the market from the large strategic players³. Often born online and deeply connected with their consumer base, as digitally native brands scale, they can increasingly turn to CDMOs / CMOs to enable them to compete with more established brands. In our view, many CDMOs / CMOs adapted their business models to service independent brands by partnering earlier in the growth cycle and becoming value-added innovation partners.

Bulk manufacturing, producing large quantities of the product base, often for creams, serums and lotions, can be considered a different stage of the manufacturing process to filling and packaging, with all three requiring the right expertise and technology to ensure consistently high-quality production. We have observed large strategic players largely curtailing their in-house manufacturing capabilities to avoid the required capital investments to maintain flexibility and focus on brand building and maintaining an "asset light" business model.

Illustrating private equity interest in this area, in March 2024, Fremman Capital, a pan-European mid-market investment firm, announced the acquisition of Innovative Beauty Group, a BPC service provider that was part of the Albéa group. Innovative Beauty Group offers its clients a 360-degree product development service, with end-to-end product management capabilities addressing the more complex aspects of bringing a product to market, including the ideation of the product, formulation, filling, packaging solutions and marketing⁴.

Near-shoring and friendshoring

Pressure to reduce time-to-market and maintaining reliable supply chains has led brands to turn to manufacturers who can employ specialized expertise and established supplier relationships to shorten lead times and ensure quality in the production process⁵. Near-shoring can enable faster turnaround times from production to market, which can be crucial in the beauty industry where trends change rapidly, and the consumer expects prompt product delivery. Geopolitical tensions

and conflicts can also pose a risk to any company with an international supply chain. In response, industries including Beauty and Personal Care, can near-shore and friend-shore their manufacturing and procurement operations. Supply chain disruptions during the pandemic may have further encouraged BPC brands to onshore their manufacturing, driving domestic interest and growth in BPC manufacturing and development.

Bio-sourcing and eco-friendly packaging

Since Covid, consumer interest in beauty bio-sourcing, using natural, renewable and sustainably harvested ingredients in product formulations has soared. Similarly, consumers favor products with limited active ingredients and eco-friendly packaging - BPC sustainable products have seen a 10% CAGR between 2020 and 2023⁶. Increasing consumer demand for natural and sustainable products has pushed CDMOs / CMOs to gain specialized knowledge in sourcing, processing and formulating with natural ingredients, investing in innovative technology to extract and process natural ingredients while preserving their efficacy and sustainability. These trends, in our view, are gaining traction with private equity and trade buyers. In July 2023, Croda International Plc, a specialty chemicals company, acquired Solus Biotech, a global supplier in premium, biotechnology-derived active ingredients for the BPC and Pharmaceutical sectors⁷. Furthermore, in March 2022, Cosmetic Solutions, a leading innovation partner and contract manufacturer of BPC products based in Florida, acquired Private Label Select, an organic and nature cosmetics and personal care manufacturer based in New Mexico⁸.

Blurring the lines between Healthcare and Cosmetics

Many BPC products are now marketed as being at the intersection of healthcare and cosmetics, or 'cosmeceuticals', which offer products that can offer therapeutic alongside traditional beauty benefits⁹. Consumers can look for products that not only enhance their appearance, but also offer health benefits, including anti-aging, UV protection, and skin repair.

Over the past 20 years, the Healthcare sector has seen CDMOs and CMOs grow to become a crucial part of the industry¹⁰. We believe private equity firms have built up a wealth of experience acquiring assets from pharma organizations selling off facilities and outsourcing production. Recent examples of private equity activity in the space include Advent International and Warburg Pincus' acquisition of Baxter's biopharma solutions business¹¹, and Astorg's acquisition of CordenPharma¹². Having built up this experience, and with the increasing convergence in the Healthcare and BPC sectors, it may be no surprise that private equity can see opportunity in building the CDMO and CMO market servicing the BPC industry.

Enhanced outsourcing needs in development and formulation

Identified trends such as digitally native independent beauty brands, sustainable product formulations and treating and protective products are generating increased research and development needs. These needs are further enhanced by new consumer expectations such as innovative formulations offering customization options and inclusive beauty to all body or skin types.

CDMOs will be benefiting, in our view, from these new trends in order to increasingly provide R&D and formulation in addition to manufacturing services. This is likely to enhance the CDMOs differentiation, profitability and long-term relationship with customers. The latter would include private labels, mid-size and indie brands but also large brands to a certain extent.

Regulators tighten focus on safety and efficacy of products

The beauty industry is attracting the focus of regulators around the world, who are tightening up their controls over the safety and efficacy of beauty products¹³. Stringent testing requirements, with strict protocols for testing product safety and efficacy before market release and regulations promoting the use of sustainable and ethically sourced ingredients can benefit CDMOs and CMOs who need to stay on top of the latest regulatory requirements.

In the US, the recent expansion of the FDA's Modernization of Cosmetics Regulation Act (MoCRA)¹⁴, requires companies to adhere to good manufacturing practices, providing detailed reporting of adverse events and maintaining records, as well as the compulsory registration of manufacturing facilities and product listing with the FDA. Similarly, the European Union health and safety product regulations are getting tighter.

For instance, in September 2021, the EU regulation 2020/1682¹⁵ prohibited the sale of cosmetic products (namely nail polish and semi-permanent varnish gels) containing HEMA and Di-HEMA TMHDC to individuals¹⁶.

Keeping abreast of regulatory requirements in different locations can make operations more complicated and expensive. As CDMOs and CMOs can possess deep regulatory expertise, have robust quality control systems and compliance processes, their knowledge pool can support companies that do not have the knowhow or do not want the cost of bringing it in-house. For instance, in September 2021, the EU regulation 2020/1682¹⁵ prohibited the sale of cosmetic products (namely nail polish and semi-permanent varnish gels) containing HEMA and Di-HEMA TMHDC to individuals¹⁶.



Compelling investment thesis drawing private equity interest

We believe BPC CDMOs are a fertile ground for private equity firms who are interested in investing in assets benefiting from the broader BPC industry's tailwinds without having to take the risk on a single brand or retailer. In addition, an increasing focus on innovation, efficiency, and quality is contributing to demand for customized, differentiated, high-quality products from CDMOs / CMOs who can act as long-term strategic partners and have the capabilities to support innovation.

With few large consolidators and many available assets, the BPC CDMO / CMO market remains an attractive space for private equity platform investment:

- There are thousands of cosmetic and beauty product manufacturers in the United States, many of which remain independently owned¹⁷. As a result, the market is highly fragmented, creating numerous acquisition opportunities for consolidators. For example, PE-backed companies kdc/one¹⁸ and Voyant Beauty¹⁹ built larger platforms through acquisitions. Consolidation has many potential benefits including further customer or category diversification, leveraging existing capabilities including chemists and labs, leveraging unused capacity, and expanding geographic footprint. We are seeing exciting consolidation opportunities arise with potential multiple arbitrage, with valuations ranging from mid-to-high single digit EBITDA multiples for smaller commoditized targets, which may have significant customer concentration, to valuations well into the double digits for attractive, growing, large and diversified platforms
- Similarly in France, the CDMO market remains highly fragmented. As a result, several market consolidation initiatives have taken place across Europe since 2023 through private equity investments. Recent examples include: IDI, a French-listed private equity firm, acquired Creapharm Cosmetics in January²⁰; Lessonia's management buyout was backed by private equity firms, NewAlpha Verto, Bpifrance, and BNP last March²¹; and in April this year, we advised Fiabila on its sale of a majority stake to Apheon, a European mid-market private equity firm²².
- Many developers and manufacturers in the industry have evolved their offerings, now serving as strategic

partners to brands and offering unprecedented value add through innovative formulation R&D, custom-tailored solutions, regulatory compliance, supply chain flexibility and manufacturing efficiencies. These mutually beneficial partnerships help manufacturers become more valuable companies by solidifying their integral position in the beauty supply chain

- Manufacturers in the space benefit from favorable customer stickiness across all clients due to the partnership nature of the relationships and the relative complexity of switching contract manufacturers and formula ownership

However, there seem to be differing opinions on the effects of such consolidation. Some can view private equity participation as positive, providing necessary funding for manufacturers to advance operations and produce superior offerings. Further, consolidation may create more stable, mature CDMOs and CMOs with better consistency and contributions for brands. Conversely, more skeptical views can cite concerns that smaller beauty brands may not be able to scale or find adequate access to resources amidst a space of predominantly larger manufacturers with higher minimum order quantity requirements, hampering creativity and diminishing opportunity for smaller players.

In India, the BPC market reached \$28 billion in 2023, and is expected to have a CAGR of 5.6% between 2024 and 2032²³. We believe contract development and manufacturing of BPC brands is picking up in India, driven by a shift from being a disorderly sector to one that is maturing and the emergence of direct-to-consumer brands, which are not interested in manufacturing their products themselves. Driven by these trends, in the listed space, we have observed some companies²⁴ create significant shareholder value which has also led to interest from private equity funds.

Private equity activity projected to accelerate

There is strong investment interest in beauty and personal care manufacturing, largely driven by private equity, as reflected in recent M&A activity:

- **March 2024:** Elevation Labs, a Knox Lane portfolio company, acquired Boomerang Laboratories, a Minnesota-based BPC contract developer and manufacturer²⁵
- **June 2022:** Knox Lane, San Francisco-based private equity firm, acquired Elevation Labs, an Idaho-based premium beauty product formulator and manufacturer²⁶
- **March 2022:** Gotha Cosmetics, an Italian makeup manufacturer, acquired iColor Group, a China-based cosmetic formulation and filling company²⁷
- **March 2022:** KKR, global investment firm, acquired Knowlton Development Corporation (kdc/one), a Canadian-based innovation and solutions provider for beauty, personal care, and home brands²⁸
- **January 2022, November 2023, July 2024:** Anjac Health & Beauty, an industrial group specializing in BPC developing and manufacturing, acquired Apollo, a Canadian-based private label personal care product manufacturer²⁹, then Stepfid, a French luxury perfume

manufacturer and conditioner³⁰ and most recently, APR Beauty, a Canada-based provider of turnkey solutions for branded and private label beauty and skincare products³¹

DC Advisory has experience in the space having advised on several relevant transactions, including:

- **August 2024:** DC Advisory advised Advantage Partners, a middle market private equity fund, on its sale of Premier Centre Group, a home care and personal care contract manufacturing business, to Toyo Seikan, one of the largest global comprehensive packaging solutions providers³²
- **February 2024:** DC Advisory acted as exclusive financial advisor to the shareholders of Fiabila, a leading cosmetics CDMO specialized in nail products, on its sale of a majority stake to Apheon, a pan-European mid-market private equity firm³³
- **November 2022:** DC Advisory advised Evonik, a German chemical company, on the sale of its U.S. betaine business to Kensing, a manufacturer of specialty chemicals across the personal care, home care, and health care sectors³⁴

Contract developers and manufacturers can serve as strategic partners to BPC brands, granting them innovation and stability amidst an everchanging beauty industry. For these reasons, we believe they will likely continue to draw PE interest into the future.

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