



INTRODUCTION

The past few months have unquestionably brought major changes to the way consumers think about personal care and household care. Evidence that consumers have simultaneously relaxed their personal grooming routines and heightened their focus on household hygiene is everywhere - from the trending hashtag [#quarantinebeard](#) to [widespread shortages of disinfectant cleaners](#).

Changes in consumer behavior have deeply affected the personal care and household care industries in just a few months. Demand for household cleaners and personal hygiene products have surged, generating triple-digit increases in sales of products such as hand sanitizer, while the virus has exacerbated the already-ongoing decline in sales of discretionary personal care items and cosmetics. Prestige cosmetics brands and fragrances have been particularly hard hit, seeing significant sales declines driven by social distancing, working from home, and mask wearing.

While a portion of this effect is driven by temporary measures - for example, somebody working from home has 11 fewer personal care occasions weekly than somebody who works away from the home¹ - COVID-19 has prompted several changes that mirror longer-term trends in consumer preferences and will likely persist, at some level, post-pandemic. Purchases and usage of color cosmetics have been steadily declining for some time as women gravitate towards a more natural look. Months of social distancing, allowing consumers to spend significantly less time primping, are likely to accelerate the long-term trend of pared-back grooming routines and slow the recovery for certain categories of personal care products.

Meanwhile, the share of consumer products that is purchased online continues to rise, accelerating the pre-pandemic trend towards the increasing importance of e-commerce. Online sales were over 30% higher for the week of May 26 - June 1 vs. February pre-pandemic numbers², an increase much greater than the 15% year-over-year increase in e-commerce sales during 2019³. The past few weeks have seen e-commerce sales begin to level off, but given the historical stickiness of e-commerce habits, it is reasonable to expect that the recent boost in online sales will endure post-pandemic.

Change brings opportunity, and the current situation presents an occasion for companies to align themselves with evolving consumer preferences, to connect with consumers, and to build loyalty. In this update, we'll discuss how purchasing patterns have changed - both in terms of what consumers are purchasing and how they're purchasing it - and examine how today's landscape could shape the future of household and personal care products.

¹ Source: Kantar

² Source: NPD

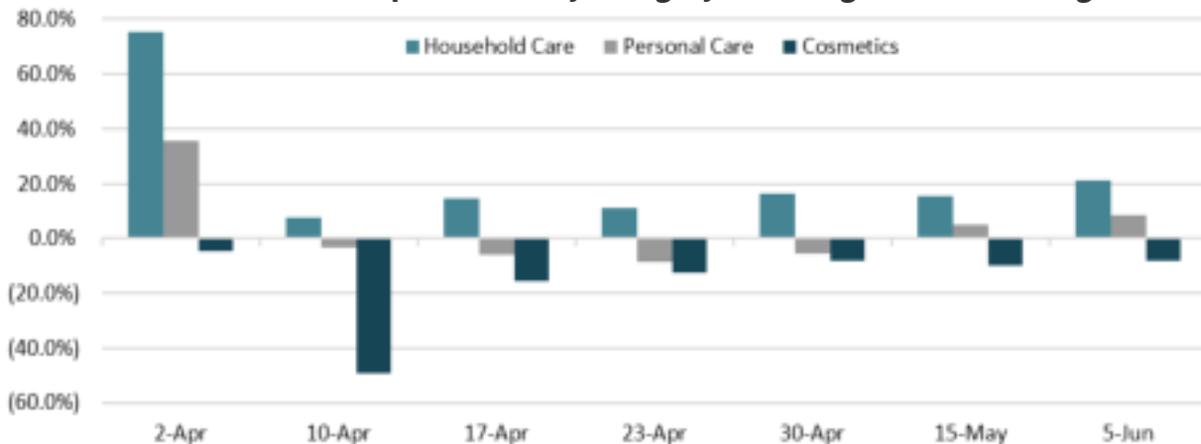
³ Source: Digital Commerce 360



CONSUMER SPENDING BY CATEGORY REFLECTS CHANGING PRIORITIES

- Trends have stabilized somewhat after the initial stockpiling of household care products and hand sanitizer in late March and early April
- Heightened demand for household care products persists as Americans remain more concerned about home cleanliness than they did pre-pandemic
- Sales of personal care products are recovering from their April-May slump
- Consumer expenditures on cosmetics remain about 8% below pre-pandemic levels

U.S. Consumer Expenditures by Category: % Change vs. One Year Ago

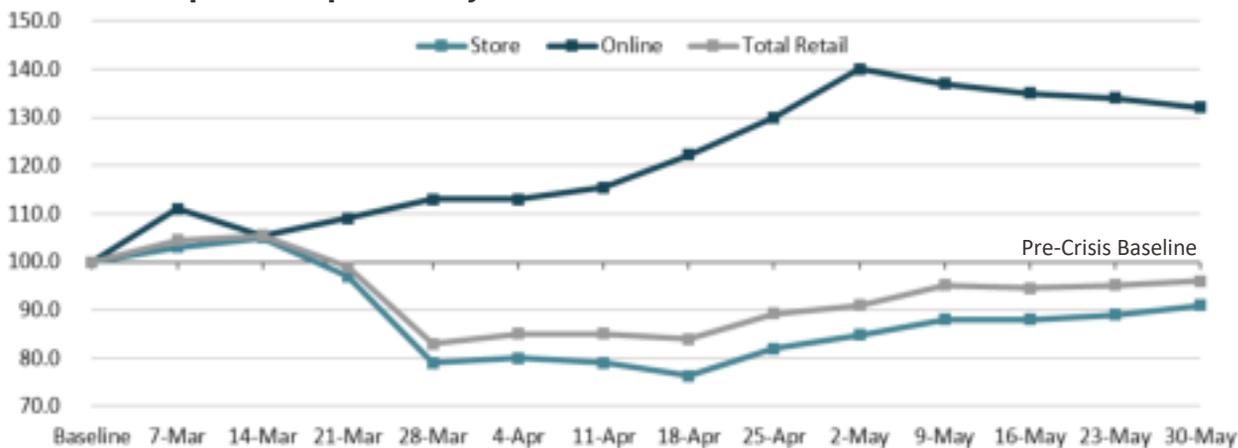


Source: IRI

A GREATER PORTION OF U.S. RETAIL PURCHASES ARE OCCURRING ONLINE

- Total retail expenditures are trending back towards pre-pandemic levels
- Online purchases of consumer goods have declined slightly over the past few weeks but remain well above the pre-crisis baseline

Per-Capita Receipt Index by Purchase Method Relative to Pre-Crisis Baseline



Source: NPD



COVID-19 LONG-TERM IMPACT ON HOUSEHOLD AND PERSONAL CARE PRODUCTS

Some changes resulting from the pandemic are likely to survive over the longer term. Here are some trends that may endure, and how they will shape consumer demand in the future.

HEIGHTENED FOCUS ON HOUSEHOLD CARE AND PERSONAL HYGIENE

In household care and personal hygiene products, the pandemic has made consumers more aware of the need to maintain personal hygiene as well as a clean household, with an enhanced focus on ingredients that are safe, natural, and green. Trust will become increasingly important to consumers, allowing innovative and appealing brands to capture market share and loyalty.

SHIFTING PRIORITIES FOR “NICE TO HAVE” PERSONAL CARE ITEMS

Sales of personal care staples such as shampoo and deodorant will continue to remain relatively steady. Discretionary personal care items and premium brands will likely continue to see decreased sales in the near-to medium-term, as a struggling economy prompts consumers to tighten their budgets. Consumers will look to budget-friendly pampering to ease stress and boost their mood, and affordable, wellness-oriented luxuries could be a bright spot among personal care products for the foreseeable future.

CHANGING FORM OF COLOR COSMETICS

Already experiencing long-term declines in sales, traditional color cosmetics are likely to fall further out of favor, particularly among younger generations. Women continue to favor a natural look, using less makeup and focusing instead on skincare to achieve a naturally radiant glow. Light touch, hybrid skincare/makeup solutions, such as moisturizing foundation, will gain popularity over traditional makeup offerings. A heightened awareness of personal wellness and safety will further the popularity of clean and natural beauty products.

THE RISE OF DIY BEAUTY

DIY beauty categories such as hair dye and nail care have found new customers amidst shuttered beauty salons and tightening budgets. Innovative products that can produce salon-quality results at a more accessible price point are well-positioned to develop loyal customer relationships.

E-COMMERCE TRENDS ACCELERATED

The increased use of e-commerce is almost certain to drive a lasting change in consumer behavior. Now is the time for consumer brands to optimize their e-commerce strategy. It is imperative that businesses ensure operational preparedness to fulfill and deliver an increased number of online orders, and to manage customer expectations accordingly. Developing digital communications and messaging that resonates with the mindset of today's consumer can help businesses form new customer relationships and build brand trust.



PUBLICLY-TRADED HOUSEHOLD AND PERSONAL CARE COMPANIES

Company Name	Market Cap	Enterprise Value	Trailing Twelve Months ("TTM") Financial Metrics				Enterprise Value / TTM		Six Month Share Price Change
			Revenue	EBITDA	EBITDA Margin	y/y Revenue Growth %	Revenue	EBITDA	
Household Care Products									
Reckitt Benckiser Group plc	\$61,757.2	\$75,795.9	\$16,389.6	(\$1,731.3)	2.0%	(10.6%)	4.6x	nm	8.3%
Colgate-Palmolive Co	62,346.7	69,792.7	15,906.0	4,047.0	3.1%	25.4%	4.4x	17.2x	6.0%
Kimberly-Clark Corp.	46,294.0	54,005.0	18,826.0	4,045.0	2.4%	21.5%	2.9x	13.4x	0.0%
The Clorox Company	25,831.5	28,603.5	6,365.0	1,358.0	1.4%	21.3%	4.5x	21.1x	35.2%
Church & Dwight Co Inc	17,969.8	19,705.9	4,478.2	1,104.1	7.0%	24.7%	4.4x	17.8x	4.4%
Median	\$46,294.0	\$54,005.0	\$15,906.0	\$1,358.0	2.4%	21.5%	4.4x	17.5x	6.0%
Average	\$42,839.9	\$49,580.6	\$12,393.0	\$1,764.6	3.2%	16.5%	4.2x	17.4x	10.8%
Personal Care Products									
Procter & Gamble Co.	\$286,233.8	\$308,152.8	\$70,346.0	\$10,561.0	4.8%	15.0%	4.4x	29.2x	(7.9%)
Unilever Nederland B.V.	126,764.8	153,006.0	58,188.7	12,049.7	2.0%	20.7%	2.6x	12.7x	(11.8%)
Edgewell Personal Care LLC	1,476.4	2,332.8	2,114.2	(253.5)	(2.2%)	(12.0%)	1.1x	nm	(13.8%)
Median	\$126,764.8	\$153,006.0	\$58,188.7	\$10,561.0	2.0%	15.0%	2.6x	20.9x	(11.8%)
Average	\$138,158.3	\$154,497.2	\$43,549.6	\$7,452.4	1.5%	7.9%	2.7x	20.9x	(11.1%)
Cosmetics									
Estée Lauder Companies Inc.	\$68,896.5	\$72,909.5	\$15,454.0	\$2,537.0	6.1%	16.4%	4.7x	28.7x	(5.8%)
Ulta Beauty, Inc.	12,761.9	14,397.1	6,828.2	862.5	(1.3%)	12.6%	2.1x	16.7x	(10.6%)
Coty, Inc.	3,716.3	12,657.2	7,931.2	(2,116.9)	(10.2%)	(26.7%)	1.6x	nm	(56.0%)
Revlon, Inc.	550.1	3,771.5	2,319.4	9.6	(9.3%)	0.4%	1.6x	nm	(53.8%)
e.l.f. Cosmetics, Inc.	845.2	952.0	282.9	52.5	5.7%	18.6%	3.4x	18.1x	13.9%
Median	\$3,716.3	\$12,657.2	\$6,828.2	\$52.5	(1.3%)	12.6%	2.1x	18.1x	(10.6%)
Average	\$17,354.0	\$20,937.5	\$6,563.1	\$268.9	(1.8%)	4.3%	2.7x	21.2x	(22.5%)

Source: Pitchbook as of 6/12/2020

PRECEDENT TRANSACTIONS: HOUSEHOLD CARE PRODUCTS

Date	Target	Target Business Description	Buyer	Enterprise Value (\$M)	Enterprise Value / Revenue	Enterprise Value / EBITDA
Jan-19	The Laundress	Provides an eco-friendly line of detergent, fabric care, and home cleaning products	Unilever	\$100.0	-	-
Jul-18	Prestige Brands Holdings <i>Household Cleaning Business</i>	Includes the Comet, Spic & Span, Cinch, Chore Boy, and Chlorinol household product brands	KIK Custom Products	69.0	0.9x	5.9x
Nov-17	NEST Fragrances	Provides home and personal care products including scented candles, room sprays, soaps, and lotions	Eurazeo Brands	70.0	0.9x	-
Feb-17	HG International	European supplier of specialist consumer cleaning and maintenance products marketed under the HG name	Cobepa SA	250.0	3.8x	17.1x
Sep-16	7th Generation	Manufactures plant-based detergents and household cleaners	Unilever	700.0	3.5x	-
Jun-16	Sun Products Corporation	U.S.-based manufacturer of laundry detergent, fabric softeners, and other household care products	Henkel North American Consumer Goods	3,600.0	2.3x	18.8x ¹
Household Care Products Median				\$175.0	2.3x	17.1x
Household Care Products Average				\$798.2	2.3x	13.9x

¹ EV/EBIT Multiple; EBITDA not disclosed



PRECEDENT TRANSACTIONS: PERSONAL CARE PRODUCTS

Date	Target	Target Business Description	Buyer	Enterprise	Enterprise Value /	
				Value (\$M)	Revenue	EBITDA
Dec-19	Dr. Jart+	Manufacturer and supplier of skin care products based in Seoul, South Korea	The Estée Lauder Companies	\$1,902.0	3.8x	-
Dec-19	DevaCurl	Provider of haircare products for curly hair	Henkel	505.5	5.4x	-
Nov-19	The Mane Choice	Manufactures and supplies hair care products	MAV Beauty Brands	38.0 ¹	1.6x	5.9x
Nov-19	Drunk Elephant	Manufactures, markets and distributes a range of premium skin care products	Shiseido Americas	845.0	11.3x	-
Sep-19	Oars + Alps	Producer and retailer of men's skincare products	SC Johnson	20.0	-	-
Sep-19	Redwood Holding Group	Manufacturer and distributor of hemp-derived CBD infused skincare and other consumer products	Cronos Group	300.0	-	-
Aug-19	New Avon	Producer and retailer of skincare, color cosmetics, fragrance, and personal care products	LG Household & Health Care	125.0	-	-
Jul-19	Tatcha	Operator of a luxury skincare brand with a collection of products	Unilever	500.0	5.0x	-
Jul-19	Nestle Skin Health	Skincare products including the Cetaphil and Proactiv product lines and prescription dermatology medicines	Consortium led by EQT Partners	10,100.0	3.6x	18.0x
Jul-19	Ranir	Manufacturer of consumer oral care products including power toothbrushes and tooth whiteners	Perrigo Company	750.0	2.6x	-
Jun-19	Sun Bum	Manufacturer and seller of sun care products	SC Johnson	400.0	5.7x	-
Mar-19	Envy Medical	Developer of skincare products	Allergan	81.4	-	-
Mar-19	ELEMIS	Provider of skincare products and treatments in the United Kingdom	L'Occitane International	900.0	4.9x	16.4x
Feb-19	This is L.	Provider of personal care products	Procter & Gamble	100.0	-	-
Personal Care Products Median				\$450.0	4.3x	16.4x
Personal Care Products Average				\$1,183.3	4.1x	13.4x

¹ Plus potential post-closing contingent cash earnout payments of up to \$52.5mm over a three-year period



PRECEDENT TRANSACTIONS: COSMETICS

Date	Target	Target Business Description	Buyer	Enterprise	Enterprise Value /	
				Value (\$M)	Revenue	EBITDA
Apr-20	Clarins Group <i>Fragrance Division</i>	Operator of a luxury fragrance and cosmetic group based in Paris, France	L'Oreal	-	-	-
Feb-20	W3ll People	Manufacturer and retailer of organic makeup and beauty products	E.L.F. Cosmetics	\$27.0	3.9x	-
Jan-20	Kylie Cosmetics <i>51% Stake</i>	Provider of makeup products including lipsticks, lip kits, eyeshadow palettes, and highlighters	Coty	1,176.5	6.7x	-
Jan-20	Avon Products	Manufacturer and distributor of beauty products worldwide	Natura Cosmetics	2,161.4	0.5x	6.2x
Aug-19	Morphe	Manufactures and markets a range of beauty products including lipsticks, pigments, and brushes	General Atlantic, Sofina	3,666.7	7.3x	28.2x
Apr-19	Coty <i>20% Stake</i>	Global beauty company offering cosmetics, skin, fragrance, and haircare brands	JAB Holding Company	8,737.5	1.0x	9.8x
Cosmetics Median				\$2,161.4	3.9x	9.8x
Cosmetics Average				\$3,153.8	3.8x	14.7x

CONSUMER PRACTICE



MERIDIAN CAPITAL INVESTMENT BANKERS

Meridian Capital has been helping middle market business owners achieve their M&A and corporate finance goals since 1995.

CONSUMER PRACTICE OVERVIEW

Meridian's consumer practice provides comprehensive investment banking services to a wide range of consumer products and retail companies.

TRANSACTION EXPERTISE

- Mergers & Acquisitions
- Growth Capital
- Strategic Advisory

TAILORED PROCESSES

- High-Touch Approach
- Multidisciplinary Deal Team
- End-to-End Services

MERIDIAN CAPITAL'S CONSUMER TEAM



MICHAEL BARBER
Managing Director
mbarber@meridianllc.com



GIOVANNA BURNS
Senior Vice President
gburns@meridianllc.com



BENTON STURT
Senior Associate
bsturt@meridianllc.com



SEAN MAIER
Senior Analyst
smaier@meridianllc.com



GABRIEL CABALLERO
Analyst
gcaballero@meridianllc.com

About Meridian Capital

Meridian Capital (www.meridianllc.com), a Seattle-based M&A advisory firm, has served as a trusted advisor to business owners on complex corporate finance, M&A, and strategic challenges for over 20 years. The firm differentiates itself through its deep industry insights, highly customized service approach, and end-to-end commitment to execution.

Contact Us

1809 Seventh Avenue
Suite 1330
Seattle, WA 98101
t: (206) 623-4000
e: info@meridianllc.com
meridianllc.com