

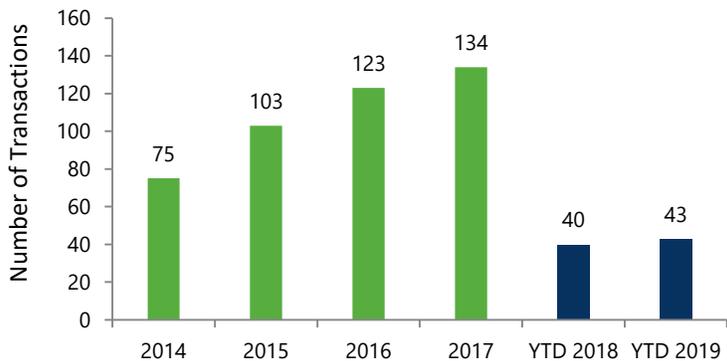


INDUSTRY OVERVIEW

- ▶ Sustained growth in disposable incomes has propelled discretionary spending and provided solid growth fundamentals for the Personal Care Products & Services Industry. The Global Cosmetics market alone was valued at over \$523 billion in 2017 and is forecasted to increase at an annualized rate of 7.15% through 2023, according to CB Insights.¹ Low barriers of entry have resulted in a fragmented market with new entrants increasing at a rate of 4.9% in the five years leading up to 2019, according to IBISWorld.² Through Q1, larger players have targeted emerging niche brands marketed to specific demographics in order to align with shifting consumer preferences and expand market share in the face of globalization.
- ▶ The health of the mergers and acquisitions market extends internationally, highlighted by CG Partners Ltd.'s January acquisition of Slovenian cosmetic products manufacturer MGC Derma d.o.o. for an enterprise value of \$11.5 million. International deal activity and strong retail sales growth over the past year is reflected in domestic and global 2018 EBITDA multiples of 9.8x and 10.0x respectively.

TRANSACTION VOLUME

- ▶ US and Canada deal activity remains robust with 43 deals announced or closed through year-to-date 2019, compared to 40 deals during the same period in 2018. Strategic buyers have continued to demonstrate a focus on the industry making up 60% of all transactions year-to-date 2019.



Year-to-date (YTD) ended April 18

Source: Capital IQ, FactSet, Pitchbook, and Capstone Headwaters Research

KEY TRENDS & DRIVERS

- ▶ **Private Label Products** – Private label products have seen significant growth and have outpaced sales of branded products by three times. Additionally, private label products are expected to capture 25% of retail sales over the next decade, according to CB Insights. The transition towards private labels is driven by both the consumer and retailer. Among Millennials, 83% view private label products as equivalent to national brands and 75% attest private labels are a better value, according to IRI.³ Retailers benefit from increased production power and low marketing costs, along with 25-30% higher margins. With consumers and retailers both valuing private labels, players such as Walmart and Target have established their own beauty lines.
- ▶ **Contract Manufacturing** – Strong growth among private label products has presented a unique opportunity for US contract manufacturers (CM) in the Personal Care space. With e-commerce comprising an increasing percentage of retail sales, there is a need for value-added partners who bring innovation, lean manufacturing, and sustainability capabilities. As evidenced in Fareva's 2018 acquisition of Avon's last remaining US manufacturing facility, CMs have been a critical piece enabling beauty and personal care brands to scale faster and more efficiently.

SELECT TRANSACTIONS

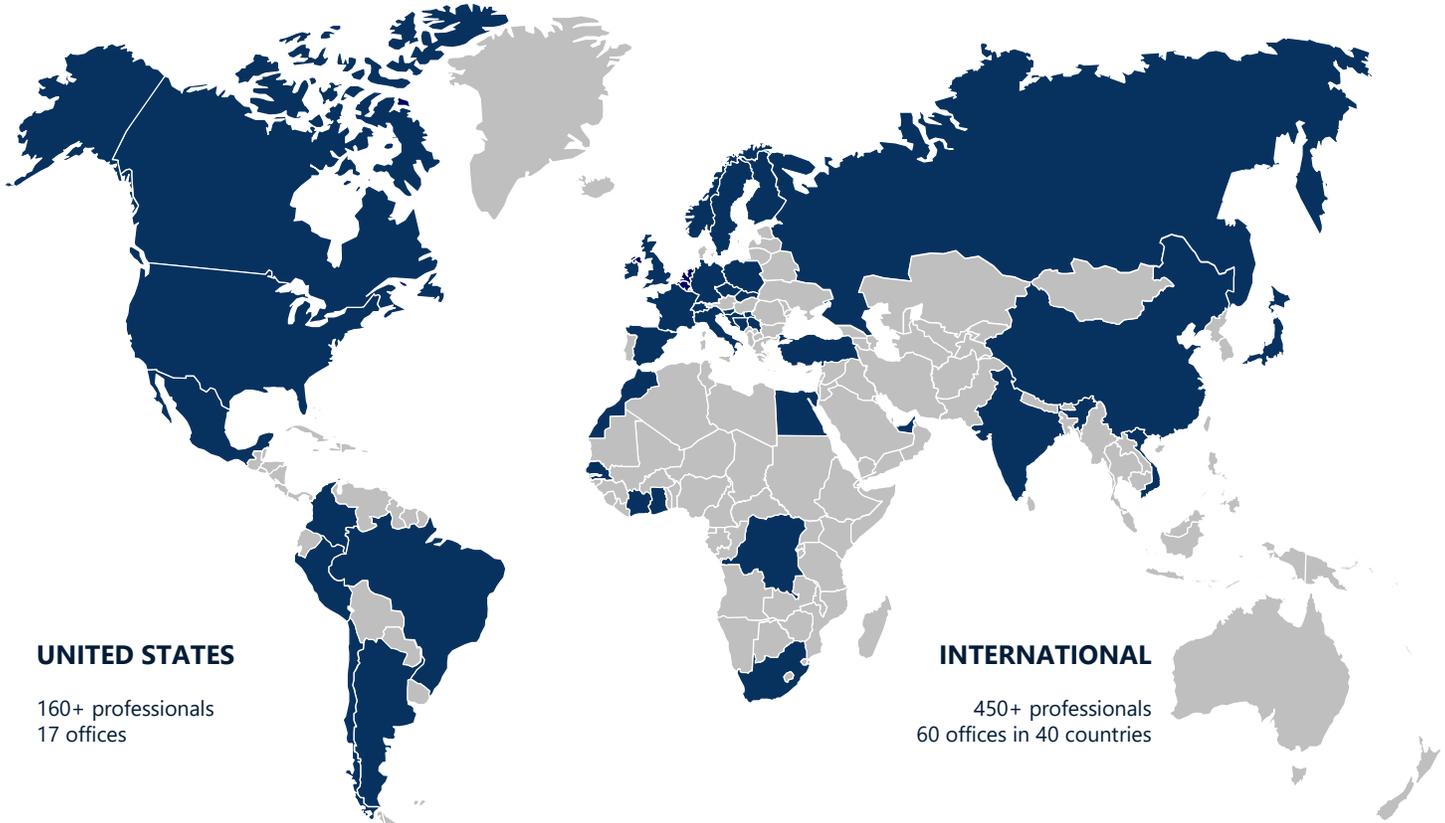
- ▶ **The Proctor & Gamble Company Acquires This Is L. Inc. (February 2019, ~\$100 Million)** – Proctor & Gamble (NYSE:PG) has acquired leading feminine care brand This Is L. at an enterprise value of \$100 million. This Is L. provides personal care products made with organic cotton and is sold in retail stores across the US, such as Target and CVS. The deal comes on the heels of P&G's active Q1 during which the consumer products conglomerate acquired three Personal Care Products companies. The acquisition allows P&G to leverage This Is L.'s product expertise to enhance its Always and Tampax portfolio and place additional focus on natural products.
- ▶ **CBD Life Sciences Inc. Acquires LBC Bioscience Inc. (January 2019, Undisclosed)** – CBD Life Sciences (OTCPK:CBDL) has acquired organic cannabidiol supplements and wellness products developer LBC Bioscience for an undisclosed amount. Founded in 2015, LBC provides massage oils and sleeping aids, and is developing an anti-aging skin product line. The transaction is indicative of the growing presence of CBD in consumer products, a market that is estimated to reach \$22 billion by 2022, according to the Brightfield Group.⁴

CAPSTONE HEADWATERS TRANSACTIONS

<p>CONFIDENTIAL</p> <p>Corporate Sale (In process)</p> <p>MANUFACTURER OF PREMIUM ESSENTIAL OILS</p>	<p>CONFIDENTIAL</p> <p>Corporate sale (In process)</p> <p>MULTI-LOCATION COSMETOLOGY SCHOOL</p>	<p>CONFIDENTIAL</p> <p>Corporate sale (In process)</p> <p>BRANDED AROMA THERAPY PRODUCTS</p>
<p>QUEST PRODUCTS</p> <p>has acquired</p> <p>Clinere</p>	<p>QUEST PRODUCTS</p> <p>has been recapitalized by</p> <p>PROMUS EQUITY PARTNERS</p>	<p>CRYSTAL BODY DEODORANT</p> <p>has been acquired by</p> <p>JUGGERNAUT CAPITAL PARTNERS</p>



BUILT FOR THE MIDDLE MARKET



CITATIONS

1. CB Insights, "Private Labels Rising: How Retailers Own Products Are Taking Off And Transforming the CPG Industry," <https://www.cbinsights.com/research/private-labels-disrupt-cpg-retail/>, accessed April 18, 2019
2. IBISWorld, "Cosmetic & Beauty Products Manufacturing in the US," <https://clients1.ibisworld.com/reports/us/industry/default.aspx?entid=499>, accessed April 18, 2019
3. Information Resources Inc. "Private Label 2017: Key Trends," https://www.iriworldwide.com/IRI/media/Q3-PL-Trends_Key-Trends.pdf, accessed April 25, 2019
4. Seeking Alpha, "CBD Life Sciences Introduces Wholly Owned Subsidiary LBC Bioscience," <https://seekingalpha.com/pr/17403887-cdb-life-sciences-introduces-wholly-owned-subsidiary-lbc-bioscience>, accessed April 23, 2019

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