

BAIRD

IMPACT OF COVID-19 ON BEAUTY & WELLNESS

July 2020



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MACRO THEMES

COVID-19 HAS LED US INTO UNCHARTED TERRITORY

MACRO THEMES

The current pandemic has impacted virtually every facet of the economy and consumers' day-to-day lives.

Rising unemployment rates, reduced discretionary spending, social distancing and lockdown restrictions have altered consumer behavior.

Significant discrepancies between winners and losers as those sub-sectors most exposed to physical retail and without a digital presence have taken the biggest hit.

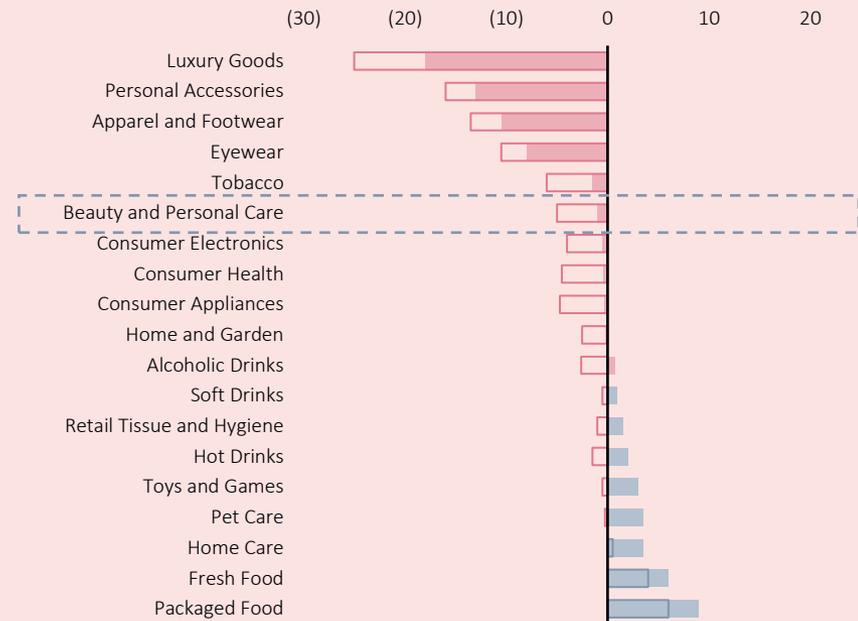
Successes defined by the strength of the digital proposition, ability to fulfill orders during quarantine and connection and direct relationship with the consumer.

Rapid acceleration in the ongoing shift to digital.

Accelerated consciousness of health, wellness and sustainability.

BEAUTY AMONG TOP 10 NEGATIVELY IMPACTED INDUSTRIES

(ESTIMATED PROBABILITY 25-35% INDUSTRY LEVEL RETAIL SERIES 2019-2020, % GROWTH, 2019 CONSTANT PRICES, FIXED YEAR EXCHANGE RATE)



Baseline

- Positive
- Negative

COVID-19 Deep Recession Case

- Positive
- Negative

IMPACT ON THE CONSUMER LANDSCAPE

BOTH RETAILERS AND CONSUMERS ARE REACTING TO THE CHANGING LANDSCAPE AT A PACE NEVER BEFORE EXPERIENCED

RETAIL

Businesses are being forced to adapt quickly and will need to make investments in e-commerce technology, digital customer acquisition, online ordering and delivery / logistics infrastructure, in order to remain competitive.

Successful consumer businesses in today's world must have a sophisticated E-commerce infrastructure that can satisfy meaningfully increased demand and associated fulfillment.

All of the ongoing changes are leading to a significant number of distressed retailers / brands, rife with share gains and acquisition opportunities.

Consumer companies are now reforecasting expected levels of revenue, profitability and cash flow for 2020, but the ability to do so is understandably challenged.

Innovation expected with new business models likely to emerge as agile businesses (existing and new) respond to consumer needs.

CONSUMER

Lockdown restrictions have led to social distancing, accelerated shifts to remote working and likely reductions in domestic and international business travel going forward.

Channel disruption has caused consumers to flock to the E-commerce channel as retail has been largely closed for an extended period of time – it will be interesting to see how much of this short-term demand affects the long-term pace of e-commerce vs. brick and mortar growth.

Reduced discretionary income and focus on saving money during these uncertain times means consumers may trade down to lower-priced, value-for-money products versus the prestige / premium offerings.

Re-evaluation of values during COVID-19 like safety, hygiene, wellness and importance of quality time with family likely to cause longer-term shifts in consumer spending priorities.

TRENDS AFFECTING THE CONSUMER INDUSTRY

SURVIVAL INSTINCTS

Recovery will coincide with a recessionary market, compelling players to ramp up resilience planning and adapt models

Surviving companies will have made bold and rapid interventions to stabilize their core business



(32%)
Decline in cosmetics retail revenue during initial stages of COVID-19 crisis



COMPANY CHALLENGES

Darwinian Shakeout

The crisis will shake out the weak, embolden the strong and accelerate the decline of struggling companies

Companies must adapt by evaluating divestiture and acquisition opportunities to strengthen their core and capture whitespaces that emerge



100,000
Expected retail store closures by 2025, a trend accelerated by COVID-19

Innovation Imperative

To cope with new restrictions, mitigate the impact of the pandemic and adapt to consumer shifts, companies must embrace new strategies to future-proof

Players must harness innovations and quickly scale what works in order to make radical and enduring changes



Value chain is disrupted leading to *rapid scaling of innovation* from digital design to social commerce

CONSUMER SHIFTS

Discount Mindset

Decade-long build-up of bargain culture will be exacerbated by a rise in anti-consumerism, a glut in inventory and cash-strapped consumers trading down

To reach increasingly frugal and disillusioned consumers, brands must find inventive ways to regain value



56%
Consumers who said *special promotions* were an important factor when shopping

Digital Escalation

Social distancing has highlighted the importance of digital channels and lockdowns have elevated digital as an urgent priority

Unless companies scale up and strengthen their digital capabilities, they will suffer in the longer term



>700%
YoY Increase in *livestreaming* on Chinese e-comm website Taobao since the outbreak

Source: Skypad, Business of Fashion and McKinsey & Company.

THE NEXT NORMAL

NEW DEMANDS, NEW VALUES, NEW PRIORITIES

CAUTIOUS SPENDING

5.1%

Forecast year-on-year real decline in global average household disposable income in 2020

NEW VALUES

6.9%

of global consumers said they are looking for ways to simplify their lives

HEALTH TOP OF MIND

76%

of businesses said COVID-19 will cause increased anxiety for their employees

AGILE INNOVATION

54%

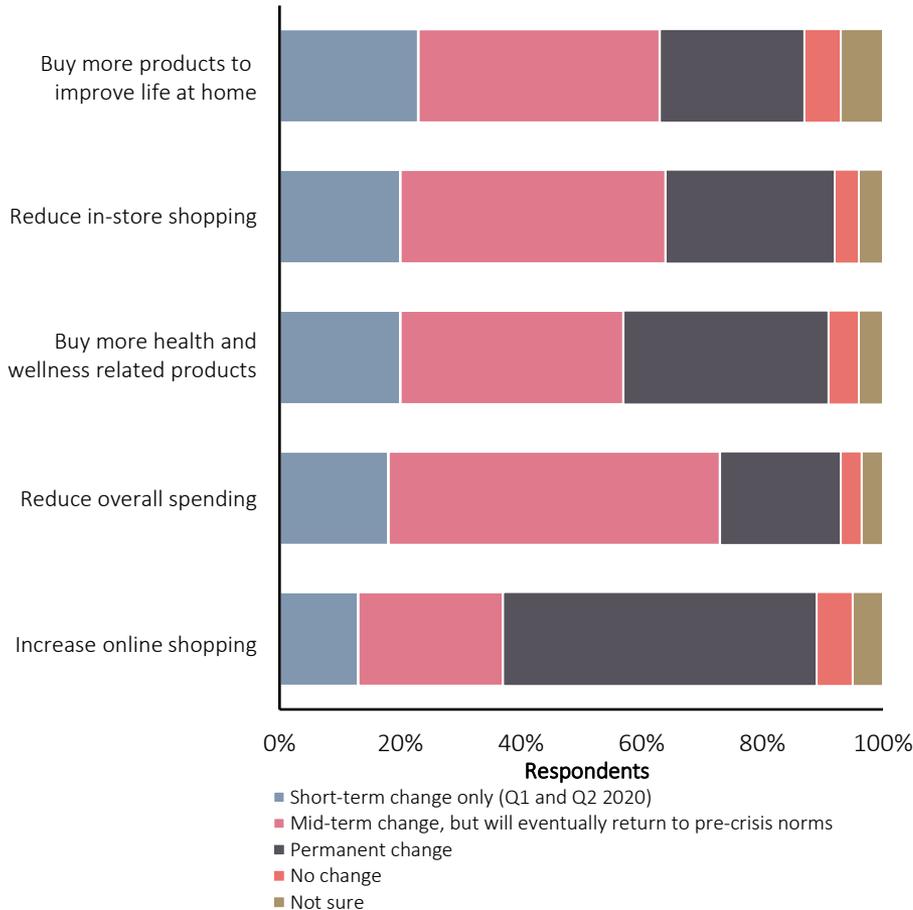
of businesses said consumers will permanently change their shopping and spending behavior as a result of COVID-19

- Economic recession with job losses, falling incomes and uncertain earning prospects makes consumers more cautious and more selective in their purchasing decisions
- Consumers likely to trade down for certain products and reserve purchases of luxury items for when the economy is more stable
- Consumers emerging from isolation and lockdowns are turning their backs on excess consumerism, prioritizing quality vs. quantity and buying less
- Disruptions in the supply chain have highlighted the importance in localized supply chains and thereby encouraged people to buy local with a focus on sustainable
- COVID-19 has brought health awareness to an entirely new level as fear of infection makes consumers focus on hygiene, immunity and health risks to themselves and others
- Stress and anxiety on the rise due to the current environment as consumers look to take care of their health more proactively with a focus on self-care
- The speed of disruption caused by COVID-19 highlights the importance of being flexible and able to innovate to meet the demands brought about by disruptions and rapidly changing consumer habits
- Consumers will expect the brands they support to put people and their wellbeing ahead of profits

SHIFTING PRIORITIES IN CONSUMER SPENDING

CONSUMERS ARE RE-EVALUATING THEIR LIFE PRIORITIES, GIVING RISE TO NEW VALUES AND SPENDING CRITERIA

ANTICIPATED CHANGES TO CONSUMER SHOPPING AND SPENDING BEHAVIOR (APRIL 2020)



As consumer life has been transformed in significant ways because of COVID-19 and the social distancing ordinances in place, many of the recent trends in shopping behavior will experience mid-term or even permanent change.

- Nowhere is this more evident than in the permanent shift to the online channel.

The lines between the domestic sphere and professional sphere have been blurred as many people are working from home.

- This will lead to a decline in apparel and footwear sales and certain categories of beauty products as well as an increase in hometainment.

Changes to the consumer mindset will lead to spending more time at home, reduction in the purchase of non-essential items, reduced air travel, a greater focus on family and self care, as well as on nature, mental wellbeing and preventative health.

- Sanitation and immunity-boosting products within the food, beverage and consumer health industries will continue to see high demand along with a further convergence of beauty and health and wellness.

Source: Euromonitor International COVID-19 Voice of the Industry Survey, April 2020.
 Q: How do you think consumers will change their shopping and spending behavior as a result of the COVID-19 pandemic? N=2846.



INDUSTRY IMPACTS

NEAR-TERM IMPACT ON BEAUTY & WELLNESS

LARGELY CONSIDERED RECESSION PROOF, THE \$500B+ BEAUTY INDUSTRY FACES UNPRECEDENTED CHALLENGES

At the outset of the crisis, consumers focused on the essentials (in beauty and personal care and consumer products more broadly), with dampened discretionary spending activity.

Sustained operations at retailers deemed essential (mass market retailers, drugstores, etc.) and a shift to online supported sales in the category, but did not compensate for the loss of in-store sales that were 4X or greater beauty E-commerce sales pre-pandemic.

A shift to local brands, boost in masstige offerings and a newly redefined channel mix / retail landscape has happened – it remains to be seen how these shifts will play out over the long run.

Beauty routines are evolving and focusing more on self-care to provide a sense of normalcy during these anxiety-ridden times.

Prestige beauty was down (14%) in Q1 2020, with color cosmetics faring the worst at a (22%) decline

IMPACT ON DEMAND BY CATEGORY

STRONG

- Hand Sanitizers
- Soaps / Handcare
- Hair Color
- Hygiene Products

MEDIUM

- Facial / Skincare
- Nails
- Shampoo / Styling Products
- Body Care

WEAK

- Color Cosmetics
- Fragrances
- Suncare
- Premium Brands

TRANSFORMATION IN THE WELLNESS MOVEMENT

WITH THE PERCEIVED FAILURE OF TRADITIONAL HEALTH SYSTEMS IN THE FACE OF THE PANDEMIC, MANY CONSUMERS ARE NOW TAKING A PROACTIVE, LONG-TERM APPROACH TO THEIR OWN HEALTH & WELLNESS JOURNEYS

health + wellness:

consumer mindset

MOVING AWAY FROM

illness

TREATMENT

QUICK
FIX

reactive

obligation



TOWARDS

vitality

PREVENTION

LONG
TERM

proactive

experience

ACCELERATION OF SELF-CARE

SELF-CARE IS ABOUT PRACTICING WELLNESS AND PROTECTING ONE OWN’S WELLBEING, ESPECIALLY DURING TIMES OF STRESS

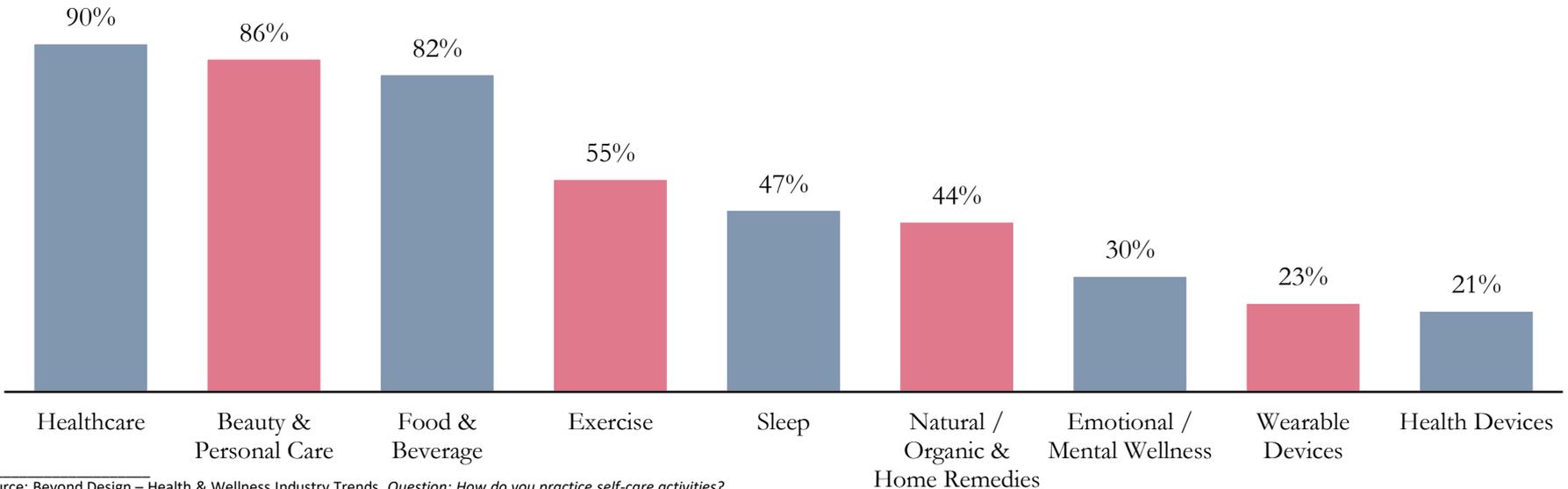
The wellness market has grown exponentially in recent years driven by a re-prioritization of consumer values, including an increasing focus on health in a holistic manner.

- The Global Wellness Institute estimates the wellness economy to be \$4.5 trillion, encompassing Beauty & Personal Care, Fitness, Nutrition, Preventative & Personalized Medicine, Spas & Personal Pampering and Wellness Tourism & Real Estate.

COVID has further accelerated the importance of wellness related activities – nearly 9 in 10 Americans now practice some form of self-care, with more than 1/3 of consumers increasing their self-care in the past year.

Wellness has become a lifestyle rather than an occasional activity and encompasses many facets of consumers’ daily lives.

SELF-CARE ACTIVITIES (% OF RESPONDENTS)



Source: Beyond Design – Health & Wellness Industry Trends. Question: How do you practice self-care activities?

BEAUTY BRAND RESPONSES TO COVID-19

WITH THE ECONOMY SHUT DOWN, BRANDS MUST ACT NIMBLY TO CONSERVE CASH WHILE ALSO MAINTAINING AN ACTIVE, MEANINGFUL DIALOGUE WITH CONSUMERS

INTERNAL INITIATIVES

After maintaining the health and safety of employees, financial flexibility / reducing costs has been the next most critical priority as revenue streams at most brands have dwindled.

Reducing employee headcount with layoffs or furloughs.

Deferring salaries of senior executives.

Significantly culling marketing expenses.

Suspension of NPD and deferral of new product launches.

Deferring rent across the retail base, if applicable.

Working with lending relationships to increase borrowing capacity, reduce principal cash payments and get more flexibility in covenants.

Working with vendors on flexible payment terms.

Adjusting inventory flow to meet liquidity needs.

EXTERNAL FACING EFFORTS

Consumers are increasingly demanding more from the brands they support – in these trying times, purpose and engagement are especially critical.

Charitable initiatives / corporate social responsibility.

Repurposing of manufacturing capabilities for hand sanitizers, masks and soaps.

Support of front-line essential workers.

Refocus on in-demand and resilient categories.

Social / virtual consumer engagement.

Active dialogue with consumers on what they're doing to support the crisis – consumers don't want to be "sold to" right now, but they do want content from and engagement with the brands they support.

Elevated risk of being perceived as "tone-deaf" if marketing efforts / messaging aren't carefully curated.

Brands that are better able to remain flexible will emerge from the pandemic with stronger competitive positioning and increased market share as a shake out happens across the industry

FORECASTED DECLINES IN BEAUTY & WELLNESS

THE BEAUTY INDUSTRY IS EXPECTED TO EXPERIENCE THE STEEPEST DECLINE IN THE LAST 60+ YEARS



Beauty habits change when the consumer is at home – **90% of women indicated they’re wearing little or no makeup** while working from home as they are generally taking a more relaxed approach to their beauty routines, choosing to focus more on self-care vs. makeup glam.

Working from home could be the “next normal” for many, which will see some of the challenges / pressures continue to impact the sector.

Regardless of the channels and categories served, **every brand has felt a profound impact from COVID-19** – those that are able to adapt quickly in these trying times are poised to rebound and be stronger on the other side of the pandemic.

INTENT TO SPEND ON BEAUTY PRODUCTS ONCE THE PANDEMIC ENDS



30% intend to spend more



70% intend to spend the same or less

KLINE PREDICTS COVID-19 WILL CAUSE THE STEEPEST DECLINE EVER IN THE COSMETICS & TOILETRIES INDUSTRY SINCE THEY BEGAN TRACKING 60 YEARS AGO



(2.5%) Estimated decline in 2020



(8.0%) Worst case scenario



1.5% Best case scenario

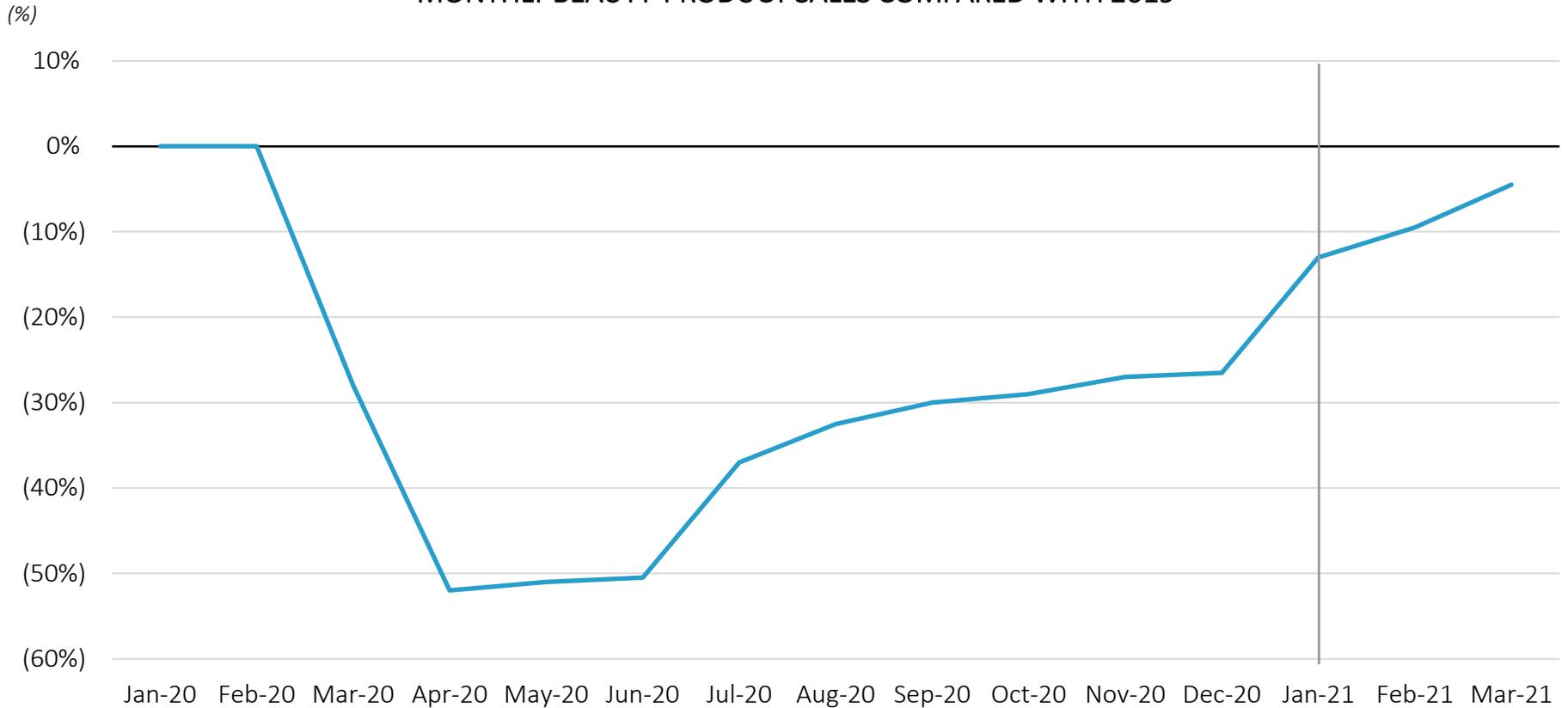


During the Great Recession, the industry declined (0.8%)

IMPACT OF A COVID-19 RECURRENCE

U.S. BEAUTY INDUSTRY REVENUE COULD FALL BY AS MUCH AS 35%

MONTHLY BEAUTY-PRODUCT SALES COMPARED WITH 2019



(25%) to (35%)

change year over year

~50%

drop in peak sales year over year

8 – 20 weeks

Of store closures
(with rolling openings)

Q1 2022

before return to pre-crisis level

Estimate based on McKinsey economic-impact scenario A1 (virus recurrence).
 Source: Daxue Consulting; Earnest Research; National Electronic Disease Surveillance System Base System; *Safeguarding our lives and our livelihoods:
 The imperative of our time, *Mar 2020, McKinsey.com; McKinsey COVID-19 US Consumer Pulse Survey, Mar 16-17 2020; McKinsey analysis.

LEARNINGS FROM THE GREAT RECESSION

BEAUTY SUFFERED A SLIGHT SLOWDOWN IN 2008, WITH PREMIUM COSMETICS BEARING THE BRUNT OF THE DOWNTURN

Beauty is a recession-resilient category, suffering a modest decline in the 2008 crisis.

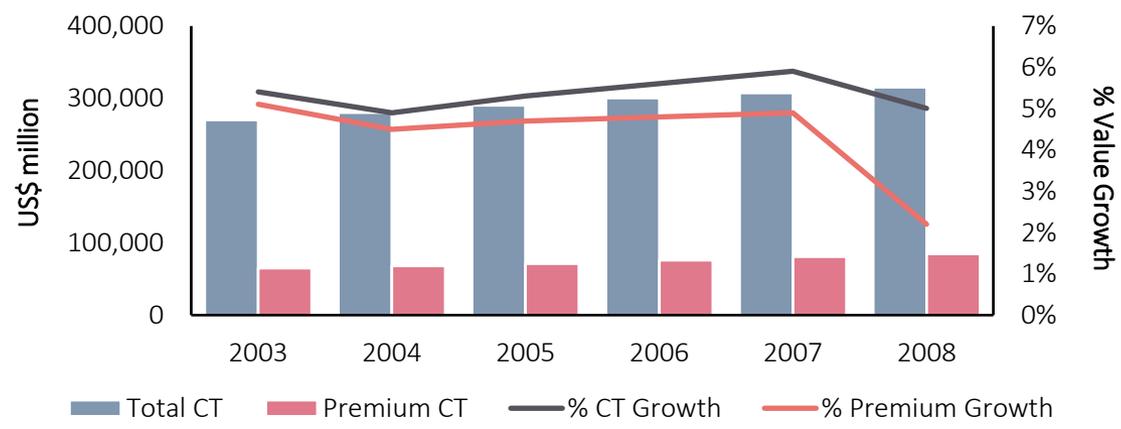
Consumers sacrificed luxury brands and focused more on mass or masstige alternatives leading to declines in premium beauty, which took until 2011 to recover to pre-recession levels.

A similar decline in premium brands is likely to happen in the current pandemic along with other discretionary categories.

Frugal shopping will return (either through trading down or waiting for sales & promotions) – both because of lower discretionary income and because consumers are re-evaluating what’s important to them in the current environment.

Makeup and fragrances likely to suffer worse today due to limited social interactions, but skincare better positioned due to alignment with health and overall wellness.

GLOBAL COSMETICS & TOILETRIES PERFORMANCE (2003 – 2008)



RESILIENT SECTORS DURING THE GREAT RECESSION

- Skincare (anti-aging)
- Men’s grooming products (undeveloped sector with untapped opportunities)
- Suncare (increased education and rising awareness of anti-aging benefits)
- Babycare (parents unwilling to give up on the quality of their children’s products)
- Deodorants (as replacements for fragrances)
- Bath & shower
- Multi-functional products

Source: Euromonitor.



CHANNEL AND CATEGORY SHIFTS

COVID-19 IMPACT BY CHANNEL

THE PANDEMIC HAS ACCELERATED THE GROWTH OF BEAUTY IN THE ONLINE CHANNEL

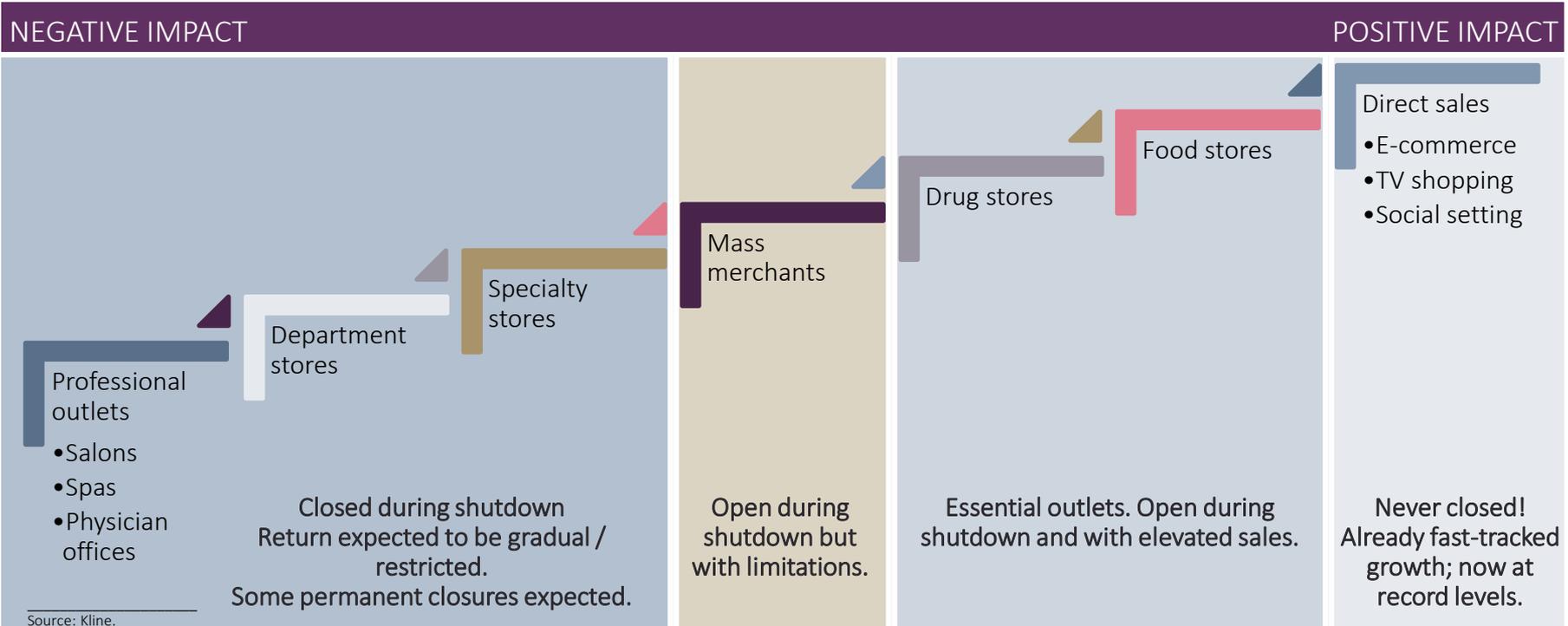
KEY COMMENTARY

The Professional channel has been hit the hardest, with government mandated shutdowns forcing salons and spas to close their doors.

Further decline in department stores continues; beauty, once a bright spot in this channel, may not be enough to sustain traffic.

General decline in the number of shopping trips consumers are willing to make and an increased desire for all-in-one shopping trips have negatively impacted specialty retailers and may have a lasting impact.

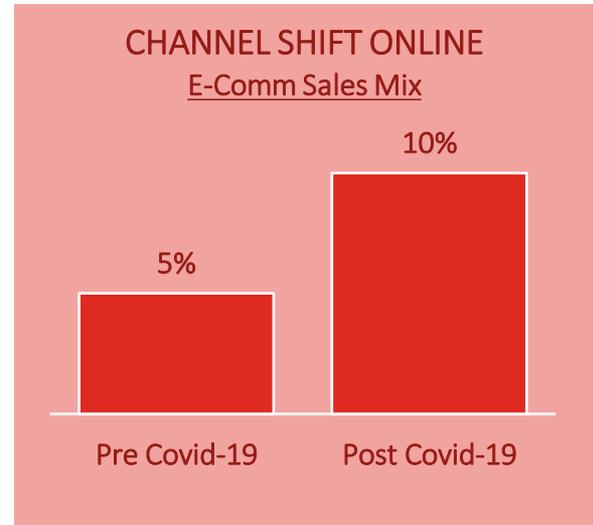
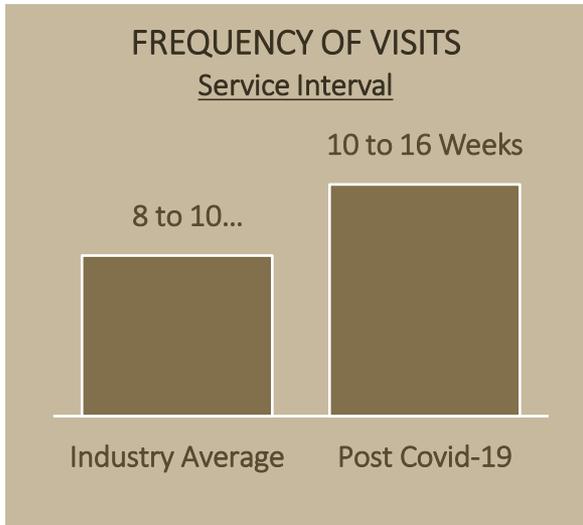
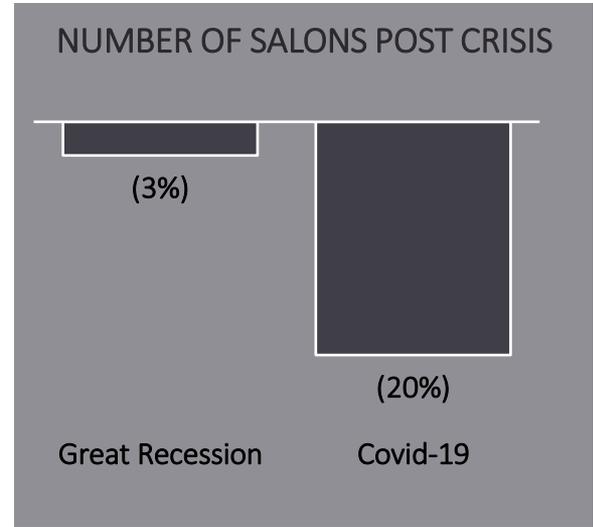
With the shutdowns of non-essential retailers, consumers may grow more comfortable shopping at multi-category retailers like drug and food stores, who have ramped up their focus in recent years on the beauty category.



Source: Kline.

IMPACT TO THE PROFESSIONAL CHANNEL

GOVERNMENT-MANDATED SHUTDOWNS HAVE HIT THE BEAUTY SERVICES INDUSTRY HARD



Source: IbisWorld, Kline.

CHANGING RETAIL LANDSCAPE

WHAT DOES A HIGH TOUCH, EXPERIENTIAL CATEGORY LOOK LIKE AFTER COVID-19?

A Letter from CEO Mary Dillon:
 We Look Forward to Welcoming You Back to Ulta Beauty with Safety at Heart





Face Coverings
 Associates are required to wear them, and we ask you to as well.



Testers are Unavailable
 Please don't touch or use them as they are for display only.



Increased Cleaning
 We frequently clean and disinfect throughout the day.



Hand Sanitizer
 Available throughout the store for your use.



Social Distancing
 Practice appropriate distancing of at least six feet. To support this, we will have limited occupancy throughout stores.



Salon Services
 Where available, hair services are by appointment only with increased safety measures.



Associate Wellness
 Associates will participate in daily wellness screens before their shifts.

Ulta began re-opening stores in May, with strict guidelines in place to protect the health and safety of both employees and customers

COVID-19 HAS DRAMATICALLY CHANGED THE FUTURE OF BEAUTY RETAILING

Prompted by the virus, retailers are being forced to address their sanitation protocols and change the way they allow consumers to sample products in their stores.

Trying and testing out products, such a hallmark of the beauty experience and a major factor in the consumer purchasing decision, will need to evolve as concerns over sanitization and hygiene will remain in a post-COVID world.

Testers act as a way to get consumers in the store and educate them on different products, and as such, retailers are exploring new ways of sampling that are safe.

- Individually wrapped samples come with their own set of drawbacks, such as the extra packaging required and waste produced – and if it's been touched by too many people, you have the same issues as before.

Product reviews have become all the more important.

Virtual try-ons and consultations have also become a fixture of beauty retail during the pandemic, but the element of human connection can be challenging to replicate.



Sephora also recently began re-opening stores, but no testers are being allowed – how will beauty retailers recreate the experiential / testing element that was so crucial for drawing consumers into stores and convincing them to purchase products?

BEAUTY IS EXPERIENCING A RAPID SHIFT ONLINE

CONSUMERS WILL INCREASE THEIR CONSUMPTION THROUGH THE ONLINE CHANNEL, BUT IT WILL NOT OFFSET THE DRAMATIC DECLINES EXPERIENCED FROM THE CLOSURE OF RETAIL LOCATIONS

The importance of digital has increased significantly in a sector where the physical store has remained important for trial and experience.

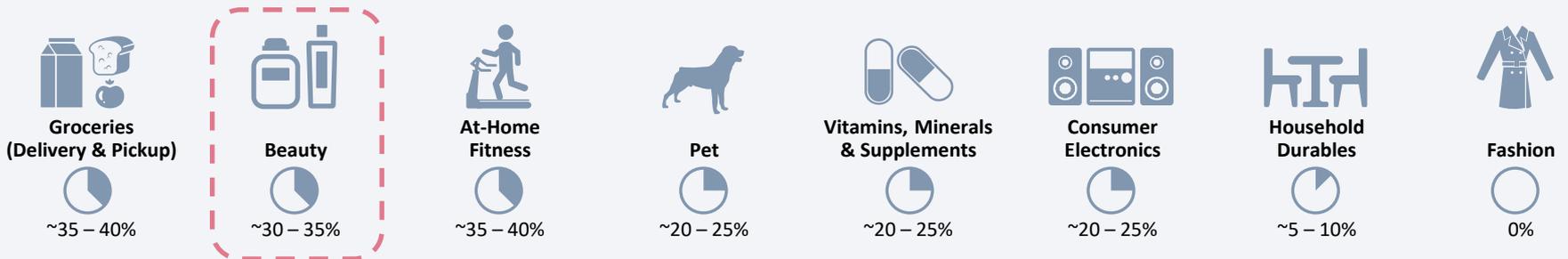
Pre-COVID, 70%+ of beauty purchases involved a visit to an offline location, with E-commerce only accounting for 11% of 2019 total sales.

Some brands and retailers with inventory and shipment operations ready to scale have reported 2X E-commerce sales compared to pre-COVID-19 levels, but that will likely moderate once non-essential retailers are back in business.

Temporary closures of 47,000 chain stores, including beauty specialists and department stores such as Sephora, Ulta, Nordstrom and Macy's will mean a dramatic shift in how consumers shop for beauty beyond the crisis.

Surge in online demand has created challenges and pressures for E-commerce infrastructures trying to function efficiently, considering safety of manpower, vendor management and delivery delays.

ESTIMATED % OF ONLINE SHARE GAIN THAT CONSUMERS SAY WILL PERSIST / REMAIN IN A POST-CONTAINMENT WORLD



E-commerce is the place consumers have to be now, but as social distancing directives ease, will consumers return to their old shopping habits?

RISE OF AMAZON AS A FORMIDABLE BEAUTY PLAYER

AMAZON HAS BEEN THE UNDISPUTED WINNER FROM THE COVID-19 CRISIS

Beauty's adoption of Amazon as a major selling channel was never a question of if, but when.

- Change in consumer behavior is being accelerated by the pandemic and will have long-term impacts on what, where and how people buy products and services.

Selling a prestige, luxury beauty brand on Amazon used to be seen as a detriment to all other channels, but increasingly, a brand needs a presence on Amazon in order to be relevant.

While Amazon is still less of a place for product discovery and more of a means to fulfill demand, that will likely change in the future as companies create curated brand experiences through Amazon.

As a brand on Amazon, it is critical to both maintain your brand integrity by representing it as you would at any other consumer touchpoint and not upset other retail partners.

- Achieving the latter requires price discipline and an ability to hold to MAP as well as controlling unauthorized resellers of the product.

Brands that are poised to succeed on Amazon need A+ content and a dedicated selling strategy including significant investments in content, videos / pictures, product details and descriptions, reviews, ratings.



Total sales on Amazon were
\$280 billion in 2019

80%

check Amazon for pricing and reviews before purchasing

63%

of shoppers start their online searches for products on Amazon (more people search for products on Amazon vs. Google)

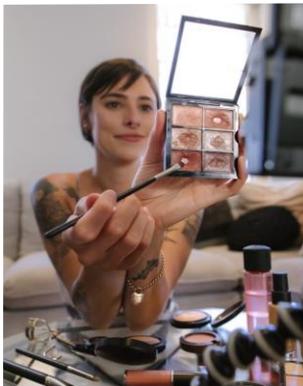
Amazon is estimated to own

49%

of the U.S. E-commerce market share in 2020

PREMIUM BEAUTY





BEAUTY IS GOING VIRTUAL

In a world where people have been stuck at home, beauty professionals and brands are getting creative in how they reach consumers on the social platforms they are using to stay entertained – consumption of digital content has reached an all-time high.

Brands have ramped up their content and education strategy on social media, while at the same time, rethinking their influencer strategies as marketing budgets have been revisited.

Salons have started preparing and shipping color touch-up kits to customers and offering virtual tutorials to help customers maintain their hair color during the pandemic.

Beyond more traditional social media platforms, livestreaming on platforms such as Facebook Live, Instagram and TikTok, will be vital for engaging with the younger consumer base.

Of the world's top global beauty brands, 15% now operate an official TikTok account, up from just 5% in October 2019 – a trend that is expected to continue after the pandemic subsides.

RISE OF DO-IT-YOURSELF BEAUTY

THE AT-HOME BEAUTY MARKET IS PARTICULARLY BENEFITTING IN THE CURRENT ENVIRONMENT

While salons & spas are closed, consumers are forced to look for alternatives for their beauty treatments.

Even as salons have started to re-open, lingering concerns over safety will cause a subset of consumers to forego their regular services in favor of treatments that can be completed at home.

A desire to save money is also a contributing factor in choosing to perform a beauty treatment yourself versus visiting a salon.

Influencers and “show me how” content are especially popular as consumers learn how to self-master the services they previously went to a professional for.

Many brands are trying to adapt by offering online product tutorials, virtual consultations and how-to guides for using their products effectively at home.

Mixture of education and entertaining content is critical in engaging with consumer base.



+23% Sales of hair dye



+166% Sales of hair clippers

In the first week of April 2020 versus last year

+800% **OLIVE & JUNE**

Sales increase week-over-week in April

+10-12X

Increase in sales



MADISON REED®





STRATEGIC REVIEW

COVID-19 IS CHANGING THE WORLD OF BEAUTY

AND STRATEGIC PLAYERS ARE BEING FORCED TO ADAPT

The global beauty industry has been shocked by the COVID-19 crisis. 1H 2020 sales have been weak, supply chain bottlenecks have reduced product availability and consumers have had limited access to retail outlets.

Major strategics have had to pivot quickly to respond to a set of challenges that seem to change daily. Many withdrew their 2020 guidance amid retail closures and reduced demand. Some strategics that could produce hygienic goods immediately increased production of hand sanitizer and related products.

Strategics have also had to update their day-to-day operations. Beyond remote working for office jobs, many firms have greatly raised hygiene standards in their factories, requiring PPE and worker temperature checks.

Amorepacific and Estee Lauder have invested heavily in their E-commerce abilities. L'Oréal, which already had a fulsome digital presence, has been rewarded by the market, with their stock price growing YTD.

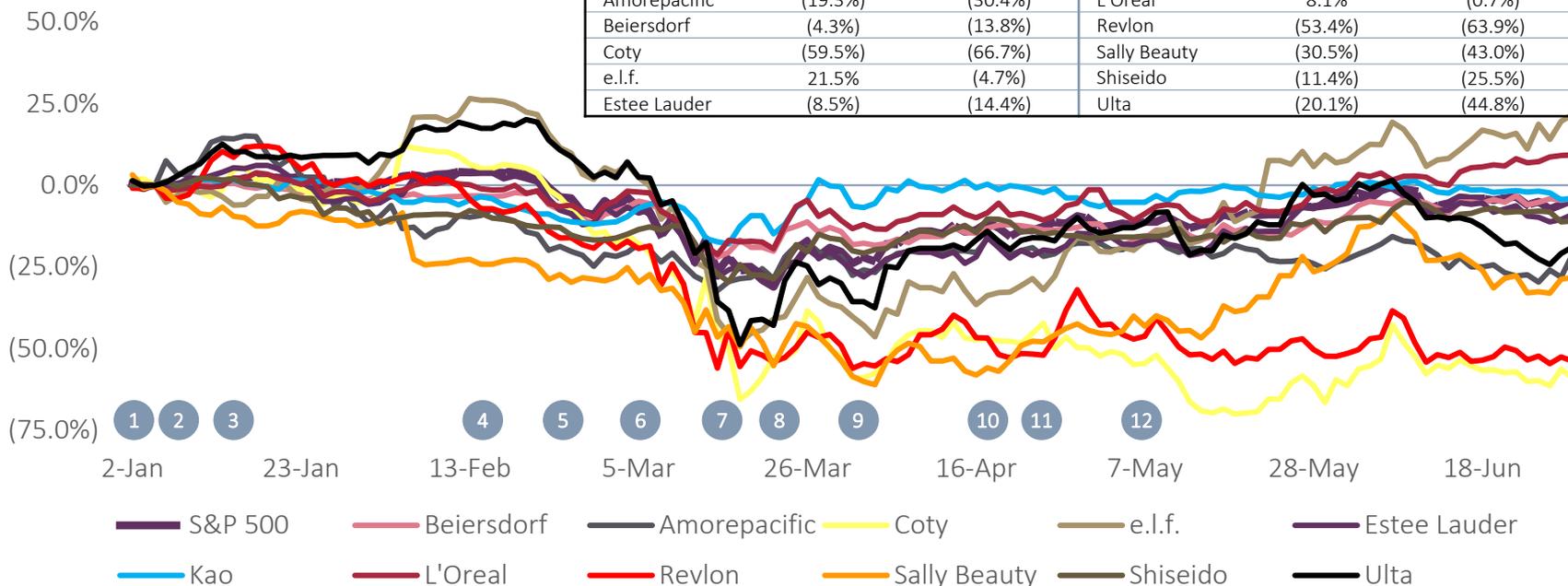
There are signs that the beauty industry may have a V-shaped recovery. In China, the industry's February sales fell up to 80 percent compared with 2019. In March, the year-on-year decline was 20 percent—a rapid rebound under the circumstances.



“BRANDS NEED TO STOP WAITING FOR 'THIS TO BE OVER' — THERE IS NO GOING BACKWARDS. OUR WORLD HAS PERMANENTLY CHANGED...IF YOU'RE WAITING FOR THINGS TO BE 'NORMAL' AGAIN, YOU'LL BE WAITING FOR A VERY LONG TIME.”
- CHARLENE VALLEDOR,
PRESIDENT SOS BEAUTY

COVID-19 IMPACT ON BEAUTY STRATEGICS

	YTD	% Off 52 Wk High		YTD	% Off 52 Wk High
S&P 500	(4.9%)	(8.7%)	Kao	(4.5%)	(7.7%)
Amorepacific	(19.3%)	(30.4%)	L'Oréal	8.1%	(0.7%)
Beiersdorf	(4.3%)	(13.8%)	Revlon	(53.4%)	(63.9%)
Coty	(59.5%)	(66.7%)	Sally Beauty	(30.5%)	(43.0%)
e.l.f.	21.5%	(4.7%)	Shiseido	(11.4%)	(25.5%)
Estee Lauder	(8.5%)	(14.4%)	Ulta	(20.1%)	(44.8%)



<p>1. Disease Anomaly Detected</p> <p>January 4th, 2020 – The World Health Organization reports on heightened pneumonia cases in Wuhan, China</p>	<p>2. Outbreak Declared in China</p> <p>January 5th, 2020 – WHO reports first “Disease Outbreak News” notification and publishes risk assessment</p>	<p>3. First International Case</p> <p>January 13th, 2020 – Officials confirm a case of COVID-19 in Thailand, the first recorded case outside of China</p>	<p>4. First Case Outside of Asia</p> <p>February 15th, 2020 - France reports the first death from COVID-19 outside of Asia</p>	<p>5. Rise in Italian Cases</p> <p>February 23rd, 2020 – Italy becomes the nation with the largest outbreak outside of Asia</p>	<p>6. Italy Shuts Down</p> <p>March 4th – March 9th, 2020 – Italy places a “Shelter in Place” order shutting down all non-essential services</p>
<p>7. Europe Travel Ban</p> <p>March 11th, 2020 – President Trump bans all travel between the United States and Europe</p>	<p>8. US “Shelter in Place”</p> <p>March 16th – March 21st, 2020 – U.S. begins shutdown and implements “shelter-in-place” orders</p>	<p>9. Federal Reserve Takes Action</p> <p>March 31st, 2020 -The Fed launches range of measures to increase financial market liquidity</p>	<p>10. China Ends Lockdown</p> <p>April 8th, 2020 – China announces that it will lift the lockdown on Wuhan amidst declining infection rates</p>	<p>11. Europe Stabilizes</p> <p>April 22nd, 2020 - Outbreaks in Western Europe “appear to be stable or declining,” says WHO</p>	<p>12. U.S. Begins Reopening</p> <p>May 1st, 2020 – As case counts approach stable, non-exponential growth, many states announce plans to gradually reopen</p>

IMPACT ON SELECT BEAUTY STRATEGICS

AMOREPACIFIC

“E-commerce was already very top of mind for us. This just sped that up.” – Jessica Hanson, Amorepacific U.S. President

Impact and Response

- Sharp declines in both sales and profit
 - Sales in Asia fell by 31% and sales in Europe fell by 7%
 - Domestic online sales were up by 80%
- Store Closures
 - ~60% of all stores in China were closed in February, closures down to single digits by April
 - In the rest of the ASEAN region, >80% of stores were closed by the end of March
- Began requiring all production staff to wear PPE while onsite, and had supply chain hygiene practices certified by the Korean Ministry of Food and Drug Safety
- Announced focus on people-free salon-style consultation, with planned launch of smartphone app that measures users’ faces and then prints a custom hydrogel match based on face shape and skin needs
 - Amorepacific believes that customized beauty goods will be a bridgehead for 2020 earnings improvement

+7.5% **(19.3%)**
 2019 Stock Stock YTD
 Performance

Beiersdorf

“The global COVID-19 crisis is changing our life and work radically. Beiersdorf’s foundations are strong enough to enable us to master and overcome this unprecedented crisis together – and emerge from it stronger in the long term. Despite today’s major economic challenges, we will stay on course with our strategy and will maintain investing in our initiatives.” – Stefan De Loecker, CEO

Impact and Response

- Beiersdorf withdrew 2020 sales guidance, noting that strong headwinds were expected for all of 2020
- As of Q1 2020, sales were down 1.9% across the firm and consumer sales were down by 1.0%
 - Comp sales were down by 3.9% total and 3.3% in consumer
 - European sales declined by 6.6%, with a 9.0% decline in Western Europe
 - Sales were down by 6.4% across Africa, Asia and Australia
 - Americas sales were up 7.9%, driven by strong Latin American performance
- Although essential personal care items had seen a sales surge, and online sales were up, travel retail had been impacted by “the collapse of international travel” and sales were down by 35.8%

+15.7% **(4.3%)**
 2019 Stock Stock YTD
 Performance

IMPACT ON SELECT BEAUTY STRATEGICS (CONT.)

COTY

"I don't think that COVID makes a difference to our plan. We had the plan to focus on our power SKUs and to give them a disproportionate share of shelf and align, I would call it, our power SKUs with - across the line from a distribution, promotion and advertising standpoint." – Pierre Laubies, CEO

Impact and Response

- Cut executive salaries by 25% and switched production lines to produce several thousand bottles of hand sanitizer gel per week, all of which are being distributed free of charge to medical professionals and Coty employees working in plants and distribution centers
- Expects net revenues for Q3 FY20 to decline roughly 20%, with a meaningful impact on profit
- Sale process for its Professional, Retail Hair and Brazilian operations to KKR has moved forward
- Sold \$1 billion in convertible preferred shares to KKR in what is deemed a "strategic transformation"
- Coty's largest shareholder, JAB, has notified the Company that it has decided to fully repay the loan it used to finance the tender offer in 2019

+54.3%
2019 Stock
Performance

(59.5%)
Stock YTD

e.l.f.

"We are seeing a change in consumer behavior due to the COVID-19 pandemic and anticipate that our sales...will be significantly depressed during this time." – Tarang Amin, CEO

Impact and Response

- The Company suspended net sales guidance for FY21 (beginning April 1st, 2020), as it has seen a significant decline in retail sales, although there were minimal supply chain disruptions
- The Company is focused on e.l.f.'s relative performance to the category (better than the category so far) and the opportunity to build market share
- The Company is seeking to reduce working capital, better match marketing expense to demand, and explore other areas to reduce operational costs
- Longer-term, the Company remains confident in its core value proposition of delivering prestige quality cosmetics and skin care at extraordinary prices
- Acquired clean beauty brand W3ll People in February 2020 in a \$27 million cash deal

+68.3%
2019 Stock
Performance

+21.5%
Stock YTD

IMPACT ON SELECT BEAUTY STRATEGICS (CONT.)

ESTÉE LAUDER

“In light of ongoing temporary store closures in many regions, we have begun to adjust our cost structure and have enhanced our liquidity during this challenging time. We remain focused on our proven strategy built on multiple engines of growth and the desirability of our brands and their hero franchises. Our diverse portfolio of categories, channels and geographies affords us the needed agility to navigate through this environment and emerge strongly.” – Fabrizio Freda, President and CEO

Impact and Response

- There has been a rapid acceleration in online sales across product categories and geographies
- Implemented strict cost controls to help mitigate expected lost sales, including reduced advertising and promotion activities, travel, meetings, consulting and certain employee costs
- The Company has planned reductions in capital expenditures in facilities and consumer-facing counters
- Net Sales declined 11% for the 3rd quarter ended March 31, 2020 driven primarily by retail store closures

+58.9%
2019 Stock
Performance

(8.5%)
Stock YTD



“We are seeing a change in consumer behavior due to the COVID-19 pandemic and anticipate that our sales and Nielsen-tracked channel results, while better than the category, will be significantly depressed during this time.” – April 27th Press Release

Impact and Response

- For 2020, Kao is projecting significant shortfall versus plan
- Kao responded by quickly switching production to focus on hygiene products
- On March 31st, Kao announced that although there was a drop for their Cosmetics business, increasing demand for hygiene goods resulted in an increase in net sales and operating income for Q1
- Early sales for seasonal products have been below plan
- Investors were advised to expect significant negative impact in Cosmetics due to declining store sales and the inability to upsell consumers through in-person store consultants
- Investors have been eagerly following Kao’s partnership with Kitasato University and their efforts to develop a COVID-19 vaccine

+14.1%
2019 Stock
Performance

(4.5%)
Stock YTD

IMPACT ON SELECT BEAUTY STRATEGICS (CONT.)



“Our strength rests on our balanced business model, with our presence in all distribution channels and all categories” – Jean-Paul Agon, Chairman and CEO

Impact and Response

- Digital capabilities are proving a strength as E-commerce is growing at +52.6% and now represents close to 20% of sales
- Luxe and Professional Products Divisions are the most impacted due to the closure of perfumeries, department stores and hair salons around the world
- Consumer Products Division has seen a more moderate decline because of activity in mass-market retail
- Active Cosmetics Division is still posting double-digit growth due to a portfolio of brands adapted to strong demand for health-related products as pharmacies remain open
- L'Oréal remains an active acquiror having just announced the acquisition of Thayers Natural Remedies for approximately \$400 million

+31.6%
2019 Stock
Performance

+8.1%
Stock YTD



“Although our business was significantly impacted during the first quarter of 2020 by the ongoing global COVID-19 pandemic, we have taken aggressive steps to mitigate these effects and feel confident that we will emerge well positioned to continue our transformation and maintain our leadership position within the beauty category” – Debbie Perelman, President and CEO

Impact and Response

- Announced Business Optimization and Restructuring to improve profitability and cash flow – expected to generate \$200-\$230 million in annualized cost reductions by the end of 2022
- Finalized debt refinancing in May 2020 to improve capital structure
- E-commerce business grew approximately 47% and represented over 12% of sales in Q1, almost doubling the scale since Q1 2019
- Overall Net Sales declined 18% in Q1 due to negative impacts associated with COVID-19

(18.6%)
2019 Stock
Performance

(53.4%)
Stock YTD

IMPACT ON SELECT BEAUTY STRATEGICS (CONT.)



“When it comes right down to it, our customers want to feel good about themselves, and they're willing to sacrifice other things before they sacrifice their investment in themselves and how they look. COVID-19 is not your typical financial disruption. In some respects, it has created a growth opportunity for both our retail and our wholesale businesses.” – Chris Brickman, President and CEO

Impact and Response

- The Company withdrew 2020 earnings guidance and took the following immediate steps: abated near term rents, furloughed 60% of its corporate staff, reduced executive compensation, reduced marketing and worked with vendors to lower inventory and increase terms
- The Company increased their borrowing capacity from \$500M to \$620M
- As of March 31st, same store sales dropped 7.1% for the entire quarter
- Shipped E-commerce sales for Sally US & Canada retail were up 118% in March, and 872% in April

+5.5% **(30.5%)**
 2019 Stock Stock YTD
 Performance



“Going forward, business results are still subject to uncertainties, such as the viral spread and the timing of resumption of economic activities due to regulatory measures taken by each country. It is currently very difficult to assess trends and the impact of these uncertainties.” – May 12th, 2020 Earnings Call

Impact and Response

- Although Shiseido had previously been working on its “VISION 2020” plan to reach new sales highs by 2020, it has withdrawn earlier projections and will announce new estimates later this year
- Sales of their four main brands (SHISEIDO, Clé de Peau Beauté, NARS and ELIXIR) at leading stores during the 2020 Chinese New Year period were down 55% from the previous year
- Shiseido reaffirmed their commitment to growing in China, announcing a new Chinese innovation center
- Announced that they were seeing recovery in Chinese markets as early as March 25th
- Shiseido has been less optimistic about Europe and North America, expecting long-term disruptions to sales as well as potential supply chain issues

+19.4% **(11.4%)**
 2019 Stock Stock YTD
 Performance

IMPACT ON SELECT BEAUTY STRATEGICS (CONT.)



“Although we do not expect to fully offset the revenue impact of our store closings, the multi-year, strategic investments we have made to enhance our omnichannel and supply chain capabilities... have enabled us to support increased E-commerce demand and guest engagement.” – Mary Dillon, CEO

Impact and Response

- Q1 financial results (announced on May 28th) saw sales decline by 33% year-on-year
- Leveraging digital and E-commerce platforms to drive sales during the temporary closure of all locations
- Actively reducing expense plans, moderating the pace of investments in international capabilities, aligning inventory with sales trends and reducing capital expenditure plans related to new store openings
- Self-care, wellness and skincare products have seen the greatest sales increases as consumers seek stress relief, well-being and general good health
- Began re-opening stores in May in addition to providing Curbside Pickup in many locations
- In June 2020, announced a partnership with clean beauty retailer Credo Beauty to have an endcap in 100 Ulta doors in Fall 2020 in addition to an online presence

(1.4%)

2019 Stock
Performance

(20.1%)

Stock YTD

M&A ENVIRONMENT

A NEW NORMAL OF COMPANIES PURSUING MORE CONSERVATIVE, PROFITABLE GROWTH WITH DISLOCATION LEADING TO M&A OPPORTUNITIES

Valuations likely to moderate after a period of increasing multiples paid for top assets in the beauty space.

Strategics and financial sponsors alike will be more concerned with profitability and less enamored with high-growth, unprofitable brands.

Strategic acquirors will face increasing pressure to use M&A to support growth objectives as global GDP slows on the heels of the crisis.

It will be a challenge for big and small players to identify the lasting trends coming out of the pandemic, but a shake-up in the market creates unique pockets of opportunity for investment.

While activity has slowed tremendously over the past several months, the recent majority stake acquisition of Charlotte Tilbury by Puig and BDT Capital Partners signals to the market the continued trust among investors and the resiliency of the beauty category.

RECENT M&A TRANSACTIONS

(\$ in millions)

Target	Acquiror	Date	EV	EV / Rev
KKW BEAUTY <small>(20% Stake)</small>	C O T Y	Jun-20	\$1,000	-
 <small>(Minority Stake)</small>		Jun-20	-	-
 <small>COLOR CARE AUTHORITY</small>	Conway	Jun -20	-	-
Sundaily	Grove <small>COLLABORATIVE</small>	Jun-20	-	-
 <small>SKINCARE</small>	L'ORÉAL	Jun -20	\$400	~9x
VITAL PROTEINS		Jun-20	-	-
Charlotte Tilbury		Jun-20	~1,200	~5
W3LL PEOPLE	e.l.f.	Feb-20	27	3.9
drybar	Helen of Troy	Jan-20	255	3.9
KYLIE COSMETICS	C O T Y	Jan-20	1,200	6.8



IMPACT TO MANUFACTURING

NEW PRIORITIES FOR PRODUCTS AND PACKAGING

SUSTAINABLE TAKES A BACKSEAT TO SHELF STABLE AND GERM-FREE

Pre-COVID, there was an ongoing shift led by consumer demand, especially Millennials and Gen-Z, for more sustainable product offerings and reduced waste in beauty packaging.

Consumers' views are likely to change (at least in the near-term) for more hygiene-driven features, in which consumers may view disposable or one-time use packaging (as wasteful as it is) as positive.

While jars and pots may have been on the decline, we expect to see surges in products that allow for hands-free solutions like pads, misters and multi-purpose sticks as consumers begin to look for brush-free or touch-free application systems.

Brand owners will need to ensure their contract manufacturing partners have procedures in place for personnel, including personal hygiene, and for facilities, including facility cleaning and upkeep.



THE PANDEMIC IS MAKING CONSUMERS HYPER-AWARE OF THE NEED FOR HYGIENIC PACKAGING

CONTRACT MANUFACTURERS FELT AN IMMEDIATE AND POWERFUL SHOCK



Prior to COVID-19, contract manufacturing was one of the most notable bright spots in the healthy and growing beauty and personal care industry.

Expected product launches were postponed, changing consumer habits reduced sales of former superstar products and production slowdowns caused overhead to eat into profitability.

The rapid transition caused by COVID-19 happened in a matter of weeks and experts expect the recovery will take some time – some believe the challenges could stretch into mid-2021.

COVID-19 HAS IMPACTED REVENUE AND VIABILITY

 **96%** of contract manufacturers expect to see some sort of negative impact from COVID-19

 **75%** of major retail orders were cancelled by March 31st, and the other 25% were delayed

 **(30%)** More than half of contract manufacturers registered a revenue decline of 30% or greater

 **14%** Only 14% of contract manufacturers believe they can survive a slowdown lasting six more months

 **30%** of contract manufacturers would not expect to survive the next 90 days if a slowdown continues

 **40%** Up to 40% of contract manufacturers are expected to close within the next 12 months, according to ICMAD

TEMPORARY SLOWDOWN, LONG-TERM OPPORTUNITY

MANY BRANDS WILL BE EAGER TO SHIFT RISK TO CONTRACT MANUFACTURERS AFTER COVID-19 PASSES

PRESENT IMPACT

- Product development delays compounded by the inability to perform product testing due to lack of access to panelists
- Material shortages (surge in need for hand sanitizer has reduced supply for necessary emulsifiers)
- Restriction of shipments by major carriers and parcel services of BPC products not classified as medical or critical personal care
- Liquidity issues may lead to shutdowns for manufacturers with limited capital following growth-focused industrial cycle
- Anxiety around increased number of COVID-19 cases and potential for second wave later this year



FUTURE EFFECT

- Surviving manufacturers will be able to more quickly return to operating at scale than firms with more complex organizations
- Contract manufacturing will become an increasingly popular alternative to in-house production, as it will allow brands to outsource risk, hygiene controls and supply chain maintenance
- Reduced reliance on raw materials from China will require heightened expertise in sourcing from a global marketplace
- Potential for regional, localized COVID-19 outbreaks increases incentive for geographically diverse and agile manufacturing base, able to quickly cover for temporary plant shutdowns

SUPPLY CHAIN DIVERSIFICATION

MANUFACTURERS AROUND THE GLOBE ARE RE-EVALUATING THEIR SUPPLY AND LOGISTICS STRATEGIES BY DIVERSIFYING SUPPLY CHAINS AND HAVING ALTERNATE SUPPLIERS ON HAND

Before COVID-19, manufacturing supply chains were extremely effective, but concentrated.

When the supply chain disruption started in China, numerous factories across industries were shut down and restrictions on transportation were imposed.

The pandemic exposed the weakness of being too concentrated with any one geography, country, region or supplier, not to mention the ongoing and increasing tariffs being levied on Chinese goods.

The American Chamber of Commerce in South China found that 64% of U.S. companies were considering moving production elsewhere.

Japan unveiled a \$2.2 billion fund to tempt Japanese manufacturers back to the country or even to Southeast Asia – as long as they leave China – in response to supply chain disruptions stemming from the pandemic.

Going forward, we expect there will be increased focus on having diversified and domestic manufacturing capabilities, especially in the U.S.

% OF MANUFACTURERS REPORTING SUPPLY CHAIN INTERRUPTIONS AND DIFFICULTIES





SUB-SECTOR THEMES

SKINCARE

CONSUMER INTEREST IN SKINCARE IS EXPECTED TO KEEP GROWING

2019 was the year of the skincare blockbuster deal – Drunk Elephant, Elemis, Filorga, Tatcha all sold for truly premium multiples.

Skincare will continue its reign in 2020 as consumers prioritize a longer-term proactive approach to beauty and due to continued tailwinds from skincare being linked closely with self-care.

Across skincare products and CPG as a whole, consumers are more ingredient-savvy as they look to fully understand what they are applying to their skin. Several brands are fulfilling this desire for education and concrete evidence, especially as terms like “natural” and “clean” have become diluted.

Skincare is linked with self-care rituals, and individuals are proactively looking to preserve healthy skin over time instead of fixing issues. As such, skincare is more of a priority than makeup.

TRENDS FOR 2020 AND BEYOND



Clinical-grade advanced formulations, especially to aggressively target signs of aging



Focus on clean, smooth and “poreless” skin



Increasing utilization of CBD as an ingredient



Multi-benefit and multi-functional products that offer features such as anti-aging, exfoliation and hydration, and also can be used across categories (e.g., skincare and lip care)

SELECT ON-TREND SKINCARE BRANDS

ALGENIST

BEAUTYBIO[®]
SCIENCE

BIOSSANCE.

DR. BARBARA
STURM

HERBIVORE
BOTANICALS

INDIE LEE

THE INKEY LIST™

KYLIESKIN
BY KYLIE JENNER

LORD JONES

St
SAINT JANE

SUMMER FRIDAYS

Supergoop!

TATA HARPER™

TRUE BOTANICALS

TULA
SKINCARE

VERSED

VOLITION

YOUTH TO THE PEOPLE

CLEAN PRODUCTS

SHOPPERS ARE SEEKING OUT PRODUCTS THAT ARE CLEAN, ETHICAL AND COMMUNITY-FOCUSED

The clean movement, which was already quite dynamic, will continue its rapid trajectory. Safety, proven ethical sourcing and transparency of ingredients will be even more sought after as the move from “clean” to “conscious” beauty evolves.

The DNA of clean beauty is safety – safety resonates with and comforts consumers, especially now. Consumers are willing to pay more for clean products.

Clean skincare grew nearly 30% in 2019, while prestige skincare grew about 5% per NPDI.

Clean originally gained momentum in the skincare category, but has now expanded to include offerings in the color, haircare and fragrance categories – improved technology and formulations have allowed for products to be both clean and efficacious.

Major retailers have started capitalizing on this trend as well. On June 16th, both Ulta and Sephora announced partnerships with Clean beauty companies. Ulta will be bringing eight brands from Credo, an organic beauty retailer, into 100 Ulta Beauty stores and on Ulta.com this fall. Sephora announced an in-store and online pop-up event with Beautycounter, a direct-marketing Clean beauty company that previously relied on independent salespeople.

Products need to go beyond Clean – consumers also care about vegan, organic, cruelty-free ingredients and manufacturing processes – it’s not enough to claim these benefits – they must be substantiated as well.

+11% Clean beauty sales increase y-o-y

(14%) Prestige beauty sales decline y-o-y

PROMINENT CLEAN BEAUTY BRANDS

alpyn beauty
WILDCRAFTED ACTIVES

BITE

Briogeo

COVER FX

glo

GLOW RECIPE

ILIA

Kjær Weis

Kosas

LAWLESS

lilah b.

Milk
MAKEUP

rms beauty

saie

thrive[™]
causemetics

VAPOUR

W3LL[™]
PEOPLE

WANDER
BEAUTY

PERSONALIZED BEAUTY

NOT PURSUING PERSONALIZED BEAUTY IS LEAVING A SIGNIFICANT GROWTH OPPORTUNITY ON THE TABLE

Product personalization as a trend had been growing before COVID-19 began and primarily focused on haircare and skincare.

Typically using quiz-based methodologies (largely online), brands create custom formulations based on the end user's specific needs and preferences.

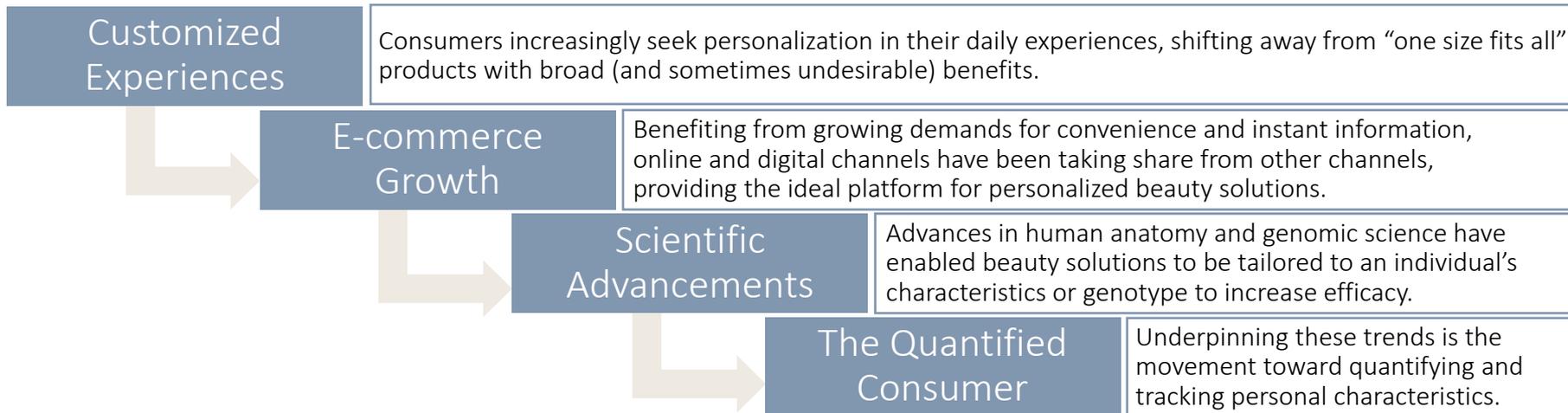
The scope and reach of custom formulations is evolving as the demand for such products increases.

Playing to convenience and efficacy, hyper-personalized formulations have the potential to take share from traditional beauty products.

BROAD OPPORTUNITY ACROSS SERVICES AND PRICE POINTS



A NATURAL EVOLUTION OF MAJOR TRENDS



BEAUTY FOCUSED ON BIPOC DEMOGRAPHIC

INCREASING DIVERSITY IN THE U.S. PRESENTS AN OPPORTUNITY FOR BRANDS WITH THE RIGHT MESSAGE AND FEATURES

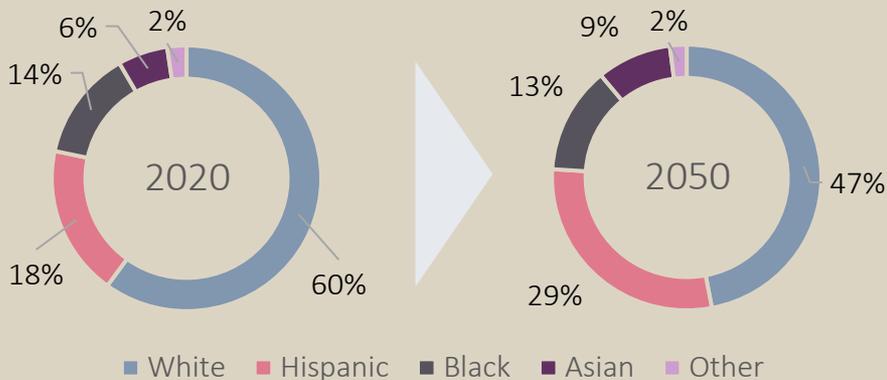
Multicultural beauty in America is becoming progressively important as more and more brands are developing products to fit the unique interests and needs of multicultural consumers. The increasing diversity of the country bodes well for the beauty industry.

Current events have resulted in brands reviewing their diversity efforts. Social media has created a platform for consumers to criticize brands that fail to be inclusive and diverse in product offerings, branding and company leadership. Additionally, consumers are eager to support brands that are created by diverse founders, curating lists of these brands and sharing them widely. Authenticity is key, and “tone deaf” messaging can backfire and permanently reduce consumer enthusiasm.

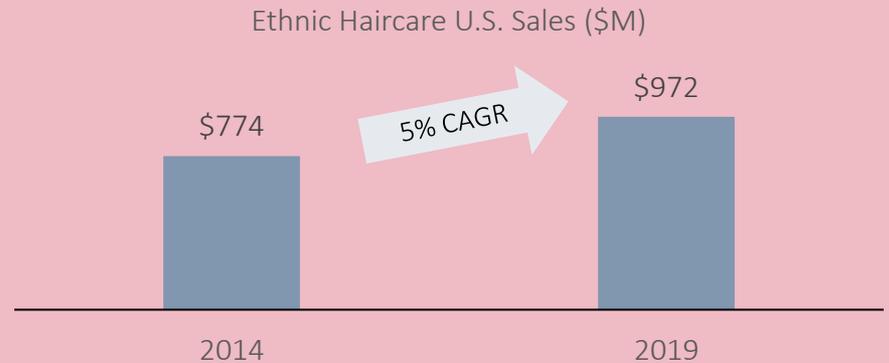
Brands engaging diverse consumers are rewarded. Hispanic and Black women tend to be more engaged with beauty trends and more experimental in their beauty routines. Growing incomes and consumer interest creates opportunities for brands to engage in new ways.

When it comes to the latest beauty trends, America’s multicultural women seem to be the most enthusiastic. Two thirds of Hispanic women (66%) say they create complex makeup looks, compared to 51% of U.S. women overall. Hispanic women are also more interested in multi-purpose beauty products (49% vs 41% women overall). Meanwhile, Black women are more likely to be interested in trends surrounding natural beauty products (64% vs 45% women overall).

CHANGING AMERICAN DEMOGRAPHICS



GROWTH OUTPACING GENERAL CATEGORY



INGESTIBLE BEAUTY

FOCUS ON INSIDE-OUT BEAUTY AND WELLNESS WILL CONTINUE

BAIRD



The APAC region is the leader in food, beverage, and supplements with functional beauty benefits.

Watch for ingestible beauty to gain traction outside the APAC region. Globally, consumers are focused on preventative aging measures as more people view beauty as a reflection of overall health.



The global nutricosmetics market is worth \$7.4B, per CB Insights' Industry Analyst Consensus.

The supplement industry grew to a substantial +\$123B in 2019, with expected year-over-year growth of 8%.



Increased focus on immunity as people look to protect themselves against disease.

Ingestibles are viewed as part of a well-rounded beauty routine.

Adaptogens and superherbs are trending ingredients in ingestible beauty. Adaptogens are said to help alleviate the impacts of stress and anxiety, while superherbs have a high nutritional density.



Established players are making acquisitions that could enable a future expansion into ingestible beauty.

For example, Unilever purchased supplement startup OLLY last year, which currently offers an Undeniable Beauty supplement for skin, nails, and hair.

MEN'S PERSONAL CARE

INCREASED ACCEPTANCE AND DEMAND FOR MEN'S GROOMING PRODUCTS IS DRIVING AN INDUSTRY BOOM

Men's grooming is moving into the spotlight and expanding into categories that were previously reserved almost exclusively for women. While the earliest startups were primarily focused on shaving, more options for men's personal care are emerging. Companies recognize that men have been underserved and are willing to upgrade their personal care routines with the right approach.

Startups are focusing on personalization, straightforward messaging, and education as ways to provide a seamless experience for men buying products they're unfamiliar with.

These companies have seen notable M&A activity over the past few years. Men's skincare company Oars + Alps was acquired by SC Johnson in September 2019. Earlier in the year, Edgewell Personal Care Company made a \$1.37B bid for shaving unicorn Harry's Razor Company before the acquisition was blocked by the FTC in 2020. Walker & Company was acquired by P&G in late 2018.

D2C channels appear to serve men well. Men are less inclined to shop for leisure and more likely to shop online for privacy reasons compared to women. Hims found success marketing itself as a stigma-free way for patients to seek out products for erectile dysfunction and hair loss, and has since extended into skincare, supplements, and haircare.



BEAUTY TECHNOLOGY BOOM

THE BEAUTY CONSUMER'S ADVENTUROUS SPIRIT ENABLES RAPID ADAPTATION OF NEW TECH



In 2018, L'Oréal purchased beauty AR company Modiface in its first ever tech acquisition; signaling the rise of an increasingly tech-enabled future.



Following the lockdowns, consumer willingness to trade in-store experiences for online, tech-savvy solutions has advanced ten years in a matter of weeks. Online shopping will become far more normal, forcing brands to become even more sophisticated in their approach.

14% of consumers try on makeup virtually, rising to 26% for millennials. 66% saying they would like to try augmented reality technology in the future.



In 2019, the adoption of virtual beauty and AR try-on capabilities accelerated among retailers and brands. Sephora and Ulta have adopted the practice, and it will be a crucial element of their strategy going forward.



Consumers are looking for brands to step up and understand the challenges they face that their parents didn't. Community and real-world purpose will be central to success.



TRENDS AND TAKEAWAYS

WHAT WILL MATTER IN A POST-COVID WORLD?

THE ECONOMIC AND CONSUMER LANDSCAPE HAS BEEN TRANSFORMED

As consumers continue to struggle with the spread of the virus, lockdowns and new daily routines, they are also affected by rising unemployment and deteriorating earnings.

Health has become a priority as people realize the existing systems in place have not been able to protect them during the pandemic.

Almost every experience, product and service will be reassessed by people according to the extent to which it either enhances or diminishes health.

Many of the behavior shifts brought on by COVID, including a focus on family / community, health and digital solutions, are expected to last long after the pandemic is contained.

In 2020, the crucial theme for beauty and self-care will be the convergence of health, beauty and wellness.

COVID IS NOW THE
BIGGEST GLOBAL EVENT,
AND CHALLENGE, OF
OUR LIFETIMES

IMPLICATIONS FOR NEW CONSUMER BEHAVIOR

THE NEED TO RESPOND WON'T END WHEN THE VIRUS'S THREAT RECEDES



Every Business is a Health Business

Health will dominate consumer thinking. Every business needs to understand where it can plug in.

The Virtual Century

Anything that can be done virtually will be. Winners will be those who explore creative possibilities.

Cocooning

Winners will be those that zero their sights on the home. Comfort will carry a price premium.

The Cost of Confidence

Trust will be more important than ever before. Brands must rebuild trust. Justifiable optimism will sell well.

Reinvention of Authority

Consumers will view authority differently based on government response success. The balance will be tricky.

“We are hopeful one week and afraid another. Neither emotion invalidates the other. Neither makes us weak or foolish. There are many pressures right now. I prioritize self-care and set tiny goals.”

- Talkspace therapist Elizabeth Hinkle on COVID-19 impact and coping

BRANDS WILL NEED TO ADAPT

AS THE BEAUTY INDUSTRY UNDERGOES TRANSFORMATIONAL SHIFTS, CONSUMER PREFERENCES AND EXPECTATIONS WILL CHANGE AND NEW AND INNOVATIVE ENTRANTS WILL EMERGE, WHICH WILL REDEFINE THE COMPETITIVE LANDSCAPE

What traits and characteristics will successful brands need to have in the future?



Brand authenticity and reason to be



Personalized dialogue with consumers, including content, education and superior service



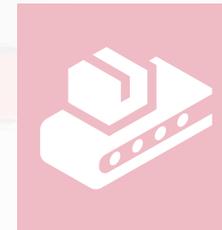
Transparency on products and pricing (both in ingredients and manufacturing processes)



Superior value proposition



Developed trust and loyalty with the consumer



Flexible and agile supply chain with a local and a sustainability focus



Online presence that delivers a compelling and unique brand experience that fosters community



Sophisticated and rapid R&D capabilities



Multiple growth opportunities

15 OTHER INDUSTRY TRENDS TO WATCH

NEW DEMOGRAPHICS, PRODUCTS, TECHNOLOGIES, AND CONSUMER BEHAVIORAL INSIGHTS ARE IMPACTING THE SECTOR ON BOTH THE STARTUP AND CORPORATE SIDES

CUSTOMER EXPERIENCE

	Trend	Momentum	Impact Areas	Overview
	Unbundling the Spa and the Salon	★★★★☆	Localization, Next-Gen Distribution, New Markets, Personalization	Beauty services are decoupling from traditional retail, thanks to on-demand technologies and at-home services.
	Virtual Try-On	★★★★☆	E-Commerce, New Markets, Personalization	Augmented reality enhances and personalizes the shopping experience while providing valuable data to beauty brands.

MANUFACTURING

	Trend	Momentum	Impact Areas	Overview
	Beauty Manufacturing M&A on the Rise	★★★★☆	Next-Gen Distribution, Transparency	As digital brands continue to be the focus for M&A, manufacturing targets could see more attractive valuations.
	Partnerships with Farms & Labs	★★★★☆	Sustainability, Transparency	Natural beauty brands have started the farm-to-face movement to better evaluate and control ingredient production.
	Evidence-Based Skin Analysis	★★★★☆	Data Collection, Personalization	Brands are using tracking and A.I. to personalize skincare routines and recommendations.
	Sustainable Packaging	★★★★☆	Sustainability, Transparency	Consumers are becoming increasingly averse to single-use packaging.

15 OTHER INDUSTRY TRENDS TO WATCH (CONT.)

NEW DEMOGRAPHICS, PRODUCTS, TECHNOLOGIES, AND CONSUMER BEHAVIORAL INSIGHTS ARE IMPACTING THE SECTOR ON BOTH THE STARTUP AND CORPORATE SIDES

MARKETING & MERCHANDISING

	Trend	Momentum	Impact Areas	Overview
	Big Tech & Beauty	★★★★★	Data Collection, E Commerce, New Markets	Big beauty conglomerates are acquiring tech companies, and voice assistants are becoming a new marketing channel.
	Ingredient Transparency	★★★★★	Sustainability, Transparency	The FDA has had limited historical oversight over cosmetics, but consumer demand and recent regulations are indicating change.
	Beauty Meets Wellness	★★★★★	New Markets	Beauty is increasingly tied to holistic healthiness, including a better diet, physical fitness and cognitive balance.

PRICING & DISTRIBUTION

	Trend	Momentum	Impact Areas	Overview
	Alternative Retailers	★★★★☆	Localization, Next-Gen Distribution, New Markets	Offline distribution channels, including human-free retail and tech-enabled makeup booths are growing in popularity.
	Transparent Pricing & the Growth of "Masstige"	★★★★☆	New Markets, Transparency	Consumers are demanding better quality at lower prices; subscription boxes and private label are filling the gap for now.

Sources: CB Insights.

15 OTHER INDUSTRY TRENDS TO WATCH (CONT.)

NEW DEMOGRAPHICS, PRODUCTS, TECHNOLOGIES, AND CONSUMER BEHAVIORAL INSIGHTS ARE IMPACTING THE SECTOR ON BOTH THE STARTUP AND CORPORATE SIDES

PRODUCT DEVELOPMENT				
	Trend	Momentum	Impact Areas	Overview
	Connected Beauty Systems	★★★★☆	Data Collection, Personalization	Apps, personalized devices, AI and machine-learning are forming a connected eco-system for better consumer data.
	Local Beauty Goes Global	★★★★☆	E-Commerce, Localization, New Markets	Inspired by the success of K-Beauty, new culture-inspired consumer beauty trends are going global.
	Inclusive Beauty	★★★★★	New Markets	Beauty brands targeting specific needs for underserved demographics are growing thanks to pent up demand.
	Big Beauty	★★★★★	Data Collection, E-Commerce, New Markets, Personalization	Big beauty companies are building their own incubators, as well as investing in more early-stage companies

WHERE DO WE GO FROM HERE?

COVID-19 HAS HAD A PROFOUND IMPACT ON ECONOMIES, BUSINESSES AND CONSUMERS WORLDWIDE

Reassessment of priorities and values, including what consumers are willing to spend money on.

Health and wellness considered paramount, with mental wellbeing at the forefront.

Further convergence of health, beauty and wellness with prioritization of essentials.

Quality over quantity.

More focus on predictive / preventative health versus current model of treatment once disease occurs.

Higher standards for hygiene across all facets of manufacturing, supply chains, labor practices, retail environments and consumer life.

Retraction from rapid globalization trajectory.

Rethinking supply chains with more focus than ever before on regional products and community.

Strengthening of online as the channel of the future.

Artificial intelligence used constructively.

Expansion of sustainability to include focus on conservation of natural resources and low impact to the environment – “good for me and good for the planet.”

BAIRD RESOURCES

BAIRD'S CROSS-FUNCTIONAL RESOURCES AND TEAMS

To the extent that you are interested in reading other perspectives on the impact COVID-19 is having on the debt and equity markets, as well as strategic insights on the broader economy, below are a few recommended readings:

- **Baird's View on the Economy:** On June 19th, Strategas Securities, a Baird research partner, released an article detailing the current economic climate:
 - [Navigating a Generational Moment](#)
- **Baird's View on the Financial Markets:** Every week, Baird's Investment Strategy Team, led by Bruce Bittles, releases their insights on the most important economic and financial market news:
 - [Weekly Market Notes](#)
- **Baird's Consumer Team:** On June 12th, Baird's Consumer Investment Banking practice released a sector recap and outlook:
 - [Consumer Products Monthly](#)
 - For more information on Baird's Consumer team, please visit this link: [Consumer Team Overview](#)
- **Baird's Debt Advisory Team:** Throughout March and April, Baird's Debt Advisory team, led by Anne-Marie Peterson, released the following update and perspectives on the U.S. Debt Markets:
 - [Managing Your Debt Through COVID-19 \(Part 1\)](#)
 - [Managing Your Debt Through COVID-19 \(Part 2\)](#)
 - [Managing Your Debt Through COVID-19 \(Part 3\)](#)

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