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Alchemists go shopping

Global M&A activity in cosmetic ingredients
50 deals by 45 buyers from 16 countries into 20 target countries worth \$1.5 billion

INLINKING

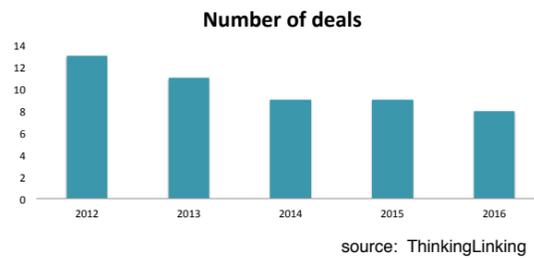
EXECUTIVE SUMMARY

Alchemists go shopping

50 deals by 45 buyers from 16 countries into 20 target countries worth over €2 billion

In the five year-period from 2012-2016 we've seen 50 investments in cosmetic ingredients businesses by a wide range of investors. In total, 45 investors were involved in this activity.

Investment values for about half of the deals (22) were disclosed.

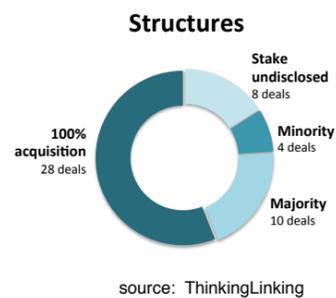


2012 and 2013 were slightly more active years in number of deals. Since 2014 the picture has been stable, with around 10 deals a year.

The investors came from 16 countries and went into 20. Approximately half of the deals (28) were cross-border. Not surprisingly Europe saw the greatest focus, both as the source of the investor and for the location of the target.

Emerging investors have appeared from the Middle East and increasingly from Asia.

A variety of deal structures were employed. Slightly more than half the deals (28) were 100% acquisitions, and 14 deals involved the original owners keeping an ongoing equity stake, while the structure of the remaining 8 deals wasn't disclosed.



The 45 investors include many new faces we hadn't seen before on the investment scene. They had previously been happy with organic growth but have now joined in the consolidation of the sector.

Although usual suspects were behind many of the €100m deals, the investors in the €10-100m deal range were mostly well-funded mid-sized businesses making their first acquisition. Several more are in pipeline at time of going to press.

Who is shopping



Where they shop



Top Cosmetics Ingredients Deals

Acquirer	Acquirer nation	Target	Target nation	Deal size (\$m)	% acquired
Symrise AG	Germany	Pinova Holdings, Inc.	US	417.0	100
International Flavors & Fragrances Inc.	US	Lucas Meyer Cosmetics	Canada	311.0	100
Magnum Industrial Partners SI	Spain	Iberchem Sa	Spain	105.7	87
Flotek Industries Inc	US	Florida Chemical Co Inc	US	102.2	100
International Flavors & Fragrances Inc.	US	Aromor Flavors & Fragrances	Israel	88.0	100

source: ThinkingLinking

What's the thinking behind the linking?

We summarise the drivers behind the deals

Companies rarely disclose a detailed motivation and when they do it often comes across as an external message designed for client consumption. Therefore, we present our checklist of drivers behind the deals.

The investors fall into three main groups, financial investors, 'core' buyers from the cosmetic ingredients sector, and horizontal moves such as by food, beverages or pharmaceuticals ingredients producers entering cosmetic ingredients for the first time. The core investors are by far the most active.

CORE DEALS

Gap-filling for customers'

demands: M&A allows companies to add new products demanded by customers such as natural, organic and active ingredients to their portfolios, satisfying customers and growing revenues.

Gap-filling to cross-sell:

A broader customer base allows buyers to cross-sell existing products, break into long-term customer relationships hitherto controlled by mid-market producers, as well as benefit by combining both companies' distribution channels.

Know-how: Acquisitions can provide the research and R&D needed to keep innovating and keep up with the innovating demands of customers.

Market entry: M&A enables buyers to enter new geographical markets that are large or fast-growing. Buyers aiming to expand global footprint through export or setting up production can face barriers and high costs in markets with stringent regulations and high safety standards.

Global sourcing: Some natural ingredients can only be sourced from specific geographical areas and an acquisition is sometimes the best way either to control the source or expand

sourcing where there is a lack of capacity to meet customer demand.

Procurement pressure: Some cosmetics companies are concentrating procurement in fewer, larger producers. The top four players already have more than half of the market.

Negotiating power: An acquisition can increase negotiating power vis-à-vis mid-market customers and suppliers.

Cost synergies: A combination can reduce R&D, admin and other costs.

HORIZONTAL MOVES

Multiple sector sale channels: Many ingredients can be sold to more than one of the cosmetics, pharmaceutical, food and beverage channels, meaning the horizontal move can boost sales in both the acquirer's and target's ingredients.

Barriers to entry: Regulatory requirements and a research-intensive environment make it hard for companies to enter cosmetic ingredients organically for the first time without suffering heavy costs and delay.

FINANCIAL PLAYS

Some private equity firms are buying in the hope of consolidating cosmetic ingredients businesses through further acquisitions in the sector while others enter cosmetics ingredients as the first step to horizontal deals such as food and beverages ingredients.

SELLERS' POINT OF VIEW

Competitive environment: Many of the same reasons favouring core acquirers are pressuring sellers to give up their businesses if they are not willing or able to expand themselves. Even if they remain very profitable, by 'standing still' they won't see the growth they've enjoyed in past years.

Change of focus: a shift in focus by mid-to-large players can result in a cosmetic ingredients spin-off.



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M&A services & methodologies

- sell side mandates
- sale of minority/majority stakes
- pre-sale Value Enhancement Programme (VEP)
- Optimal Global Partner strategic review (OGP)
- Counter-party Synergy Analysis (CSA)
- hosting of Joint Business Planning (JBP)
- buy side mandates

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THINKING LINKING

ThinkingLinking is the cross-border M&A and transaction adviser specialised in capitalising on emerging investors and emerging growth markets to deliver greater value to clients with a focus on key sectors.

The concept is to use strategic thinking to identify the partners with the strongest strategic fit and then to focus on negotiating the best deal with the best partner. This thinking-first approach and our focus on the emerging investors with emerging market growth opportunities gives our clients an advantage in completing the optimal transaction for the benefit of their businesses and their wealth.

We thus bridge the gap between the right opportunity in one market and the right investor in another, which otherwise either may not meet each other, or not conclude a deal.

We operate under a strategy-before-finance slogan 'We think before we link' and have an integrated range of services and methodologies focused on implementing this philosophy.