



Green Makes Green: Finance, Investment in Natural Personal Care Market

Natural personal care is scorching hot; a look at M&As in the sector

The “exceptional growth characteristics” of the natural personal-care category are making small organic and natural firms extremely attractive to large companies looking to take their piece of the green pie, according to Stephen Tardio, Managing Director of **HT Capital Advisors** in Chicago, Illinois.

“I am not one to slip into hyperbole very easily, but I must characterize the sector as very hot, in all honesty,” Tardio said. “Natural personal care has elements of organic production, sustainability, ‘green technology,’ healthcare, functional consumptives, and anti-aging, all of which are very, very interesting areas for investors these days.”

M&A Roundup

Investors are making their interest known - between 2005 and 2007, some of the largest names in consumer products acquired well-known organic and natural personal firms.

In December 2005, **Mentholatum** purchased **PHisoderm** natural skin care from **Chattem** for \$10 million. That spring, **L’Oreal** acquired **SkinCeuticals** natural skin care, which recorded \$35 million in sales, for \$150 million. The following month, **Hain Celestial** purchased the **Zia Cosmetics** line of natural skin care, which grossed \$10 million in sales, for \$11 million.

In March 2006, Tom and Kate Chappell, founders of the leading natural care brand **Tom’s of Maine**’s, sold 84% of the company to Colgate for \$120 million. The firm grossed \$50 million in sales according to the **J.H. Chapman Group**.

That same month, L’Oreal made headlines with its roughly \$1.14 billion acquisition of **The Body Shop**. Six months later, the

firm purchased the leading French organic cosmetic company **Sanoflore**, which had recorded \$20 million in sales.

In December 2006, organic food company Hain Celestial acquired **Avalon Natural Products** and its natural and organic personal care brands *Avalon Organics* and *Alba Botanica* for \$120 million. Avalon’s sales were approximately \$40 million in 2005.

In October 2007, **Clorox** got onboard, purchasing **Burt’s Bees**, which grossed \$170 million in sales, for an outstanding \$925 million. Burt’s Bees sales were estimated at \$165 million, making this a deal valued at 5.6-times sales.

Investors Race Brands to Mass

Worldwide consulting and research firm **Kline & Company** investigated the trend in an October 2007 report.

“As the green products trend continues to advance, consumer demand for natural personal care products is driving a major shift from niche distribution channels to more mainstream mass retail outlets ... fueling a sharp increase in sales,” the firm reported.

“The move to mass retail could help promote a revival of sorts among long-established yet little-known natural products companies like **Jason Natural Products** and **Avalon Natural Products**. However, it also makes them prime candidates for acquisition by the major players in the personal care market.”

The natural personal care market is ripe for picking, with the United States and Western Europe reporting double-digit growth, according to Kline. Products containing “a high proportion of natural ingredients” comprise 49% of sales. In 2007, manufacturers’ sales totaled \$3.8 billion, an increase of 13.5% over 2006 levels.

The market, though fragmented, does have several large key players, the firm says. The top five names, which include specialty shops **The Body Shop** and **L’Occitane**, account for more than 40% of total sales (\$1.25 billion). Kline forecasts that the market will continue its double-digit growth to reach \$7.0 billion by

2012, up from \$3.8 billion in 2007.

“These dollars are luring buyers more so than a true attraction to buying and selling “green,” according to Tardio.

“Much of it is based not on underlying fundamentals, but rather investment hype and early stage venture capital flows,” he said. For example, “We are in discussions on the ‘buy’ side with multibillion-dollar personal care and luxury goods companies, and on the ‘sell’ side with companies with as little as \$10 million in revenue, and unbelievably the large players are open to considering acquisitions of a size that in other industries would be unheard of. This is all because of the exceptional growth characteristics in this sector.”

Although investment in the natural and organic personal care industry is “en vogue” with large companies viewing mergers and acquisitions as a market entry route, a major challenge remains in finding suitable partners, according to the UK-based research firm **Organic Monitor**.

For instance, it could be said that some companies are being “shopped around” for acquisition.

“Typically these would be companies that are ‘not yet ready for prime time,’ that is, they rely heavily on future projections, have a heavy marketing channel concentration, or whose products just don’t have the product market acceptance data to qualify for a premium valuation from a premium buyer,” Tardio explained. “These companies are in danger of becoming ‘shop worn’ in industry parlance.”

According to Tardio, it is impossible to say how many natural personal care companies are currently for sale.

“There are dozens, if not hundreds, of players in this industry, the vast majority of which are still independently owned,” Kline & Company’s Carrie Mellage said.

“Undoubtedly, private equity-backed NPC companies will be looking for a liquidity event for their financial sponsors as soon as an adequate return can be generated, anywhere from two to five years,” Tardio said. “I expect

Selected Deals in Cosmeceuticals and Natural & Organic Personal Care

Date	Target	Acquirer	Val. (\$M)	Sales(\$M)
Oct-07	Burt's Bees	Clorox	925	165
Oct-07	Colorescience	VMG Equity Partners	NA	NA
May-07	Tisserand	First Natural Limited	NA	NA
Jan-07	HDS Cosmetics Lab (DDF Brand)	Procter & Gamble	NA	NA
Jan-07	Laboratorios Abad	Kiluva	3	NA
Jan-07	Hebron	Purity Life	NA	NA
Dec-06	Avalon Natural Products	The Hain Celestial Group	120	40
Nov-06	Caleel + Hayden	North Castle Partners	NA	NA
Oct-06	Sanoflore	L'Oreal	NA	20
Jun-06	Jurlique	JH Partners	NA	NA
Mar-06	Tom's of Maine	Colgate-Palmolive	120	50
Mar-06	Para Laboratories	The Hain Celestial Group	NA	20
Jan-06	Levlad	Harvest Partners*	NA	NA
Dec-05	pHisoderm (Chattem brand)	The Metholatum Company	10	NA
Nov-05	Dental Concepts	Prestige Brands	31	15
Oct-05	Polymedica Women's Health Products Division	Amerifit	45	17
Oct-05	Naomi	Southern Cosmetics	NA	9
Oct-05	MD Beauty	Berkshire Partners & JH Partners*	408	NA
Aug-05	Levlad	Harvest Partners*	NA	NA
May-05	SkinCeuticals	L'Oreal	150	35
May-05	Alterna	TSG Consumer Partners	NA	NA
Apr-05	Zia Cosmetics	The Hain Celestial Group	11	10
Apr-05	The Natural Dentist	Great Spirit Ventures	NA	NA

Source: J.H. Chapman Group, L.L.C. *Health & Nutrition Industry Census - Trends in Mergers & Acquisitions*, www.jhchapman.com, *recapitalization of private equity fund

there will be some in this category in 2008.”

“Any select entrepreneur-led company you might want to name is perpetually for sale, but only at a price that is usually unrealistic,” he added.

In addition, acquirers typically look for very specific things when seeking out natural personal care companies, such as established brands, superior trailing growth trajectory, for example, 50% year-on-year revenue growth, favorable future market demographics, strong operating leverage as the business scales up, strong management resumes, and positive and accelerating cash flow.

Still other buyers have specific requests. For example, “Some buyers place value in the seller actually manufacturing their product, but many do not. Financial investors interested in growth platforms will often rather see their growth equity go toward building a brand rather than ramping up manufacturing capability, and corporate acquirers typically don't like to add a new manufacturing operation and try to integrate it into the way they do things.”

“Having said that, if keeping manufacturing in house is key to the competitive advantage, it does have value.”

Seller Beware

Tardio enumerated the advice he would give to a natural personal care company CEO looking to sell his business.

First, he cautioned, “Do not assume the buyers that approach you are necessarily the best buyers for your business. They are simply the most preliminarily interested.”

Second, “Do not assume that the best transaction is the one with the highest price; recognize that you will have financial, personal and psychological needs that will have to be met to feel comfortable with the deal.”

This was true in the case of Tom's of Maine, whose founders, the Chappells, made certain requests before completing the sale. Among those requests were that the company remain headquartered in Kennebunk, Maine, with Tom Chappell continuing as its head. The couple also retained a 14% stake in the company.

“We chose **Colgate** as our partner because they have the global expertise to help take Tom's of Maine to the next level,” the Chappells said in their announcement of the sale.

The couple also considered Colgate's reputation when mulling the sale. Citing Colgate's 200-year history and commitment to product excellence, the Chappells said they viewed the company “as an excellent fit with our own cultural values.”

Third, Tardio recommended that sellers “hire a banker that not only understands the dynamics of the industry sector, but also understands that each assignment is unique and requires a commitment of time and resources commensurate with the commitment you make to your business.”

Lastly, Tardio suggested that potential sellers “be realistic as to valuation of your business, or you are setting yourself up for failure. Seek valuation input from several sources – tend to trust the lower estimates.” 