COSMOPROF

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BAIRD'S TAKEAWAYS

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BAIRD'S TAKEAWAYS FROM THE 22ND EDITION OF COSMOPROF NORTH AMERICA

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2. Brick & Mortar Reigns, but Amazon's Rising
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MASSTIGE SURGES PAST INDUSTRY GROWTH, FUELED BY THE "DUPE" CULTURE

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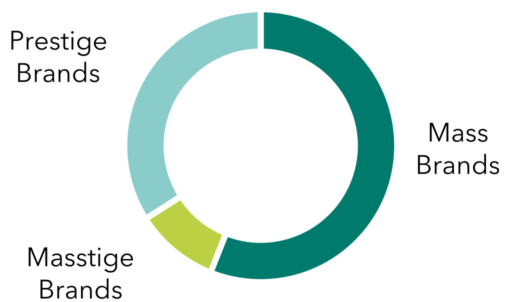
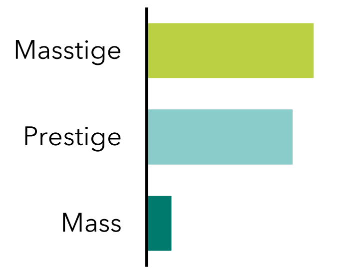
- Within beauty, the lines between prestige and mass continue to blur. That said, the notion that brands can no longer rely on their distribution to define them – a strong brand and community is vastly more important than where they are sold – becomes more widely accepted, performance is still predominantly tracked based on the prestige and mass dichotomy
- However, this dynamic is evolving; Circana broke down the beauty category performance between prestige, mass and masstige and it was insightful to learn that while prestige still drives significant growth, it is the masstige segment that posted the largest dollar growth in Q1 of 2024

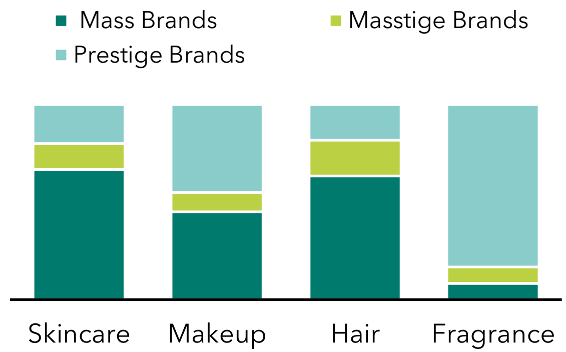
DOLLAR SALES



DOLLAR PERCENT CHANGE VS. PRIOR YEAR



TOTAL BEAUTY MARKET DOLLAR SHARE



- While the share of masstige is still relatively small, the landscape will evolve in the coming years as masstige continues to grow at an accelerated pace, largely driven by "dupes", which are increasingly popular with consumers. And, while many brands work hard to prevent dupes from encroaching on their footprints, we learned that in fact, the launch of "dupes" oftentimes leads to stronger sales for the original "duped" product.

Beauty is the **#4** category in which dupes are most popular

27% of consumers have purchased a beauty dupe

~50% of U.S. Gen Z and Millennial consumers think it is important to have a dupe as an alternative to an expensive brand when buying makeup

Source: Circana, Q1 (Jan – Mar) 2024.

BRICK & MORTAR REIGNS, BUT AMAZON'S RISING

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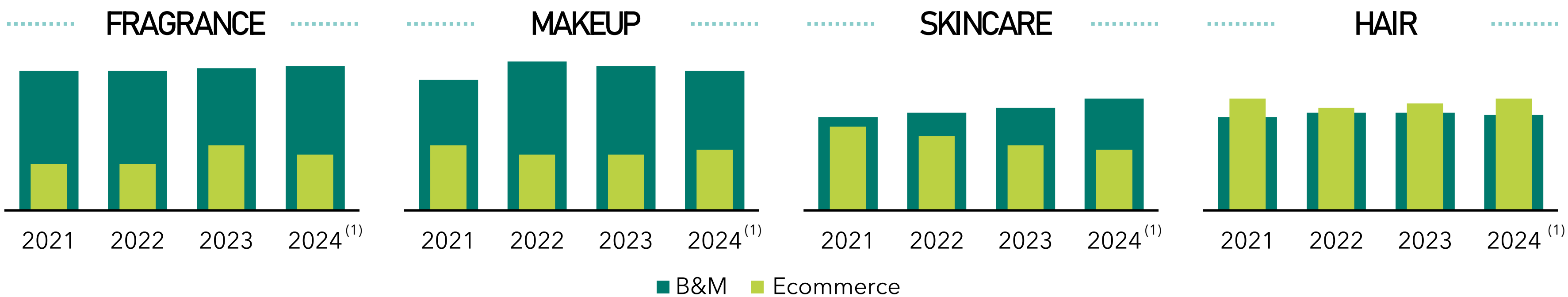
- Despite the tremendous acceleration of ecommerce, especially during the pandemic, and the flurry of DTC brands in the beauty industry, brick and mortar (B&M) is still the primary channel for beauty across all of the categories, except for haircare:

Physical retail remains key for fragrance and makeup, which are highly sensorial categories; interestingly, when buying makeup, younger consumers are more likely than older generations to purchase in-store (74% of consumers aged 18-24 buy makeup in-store, while the rate drops to ~60-65% for consumers 25-54 years old)

Ecommerce accounts for 53% of haircare sales and has grown 17% YoY, while B&M has expanded only 5%; this is driven by convenience and discovery – hair wellness continues to be a key priority for consumers and social media feeds into this trend

DOLLAR SALES BY CHANNEL



- While B&M still reigns, Amazon was actually the fastest growing beauty channel in Q1 of 2024, not surprisingly, as this has been a key area of focus for the ecommerce giant. Amazon has been investing heavily in prestige beauty and has established a robust program that accepts brands by invite only and offers consumers an elevated shopping experience in a custom storefront and in an authorized seller environment (premium beauty brands that are part of the program are exclusive authorized sellers) – this initiative is paying off for Amazon, who just launched Clinique, Kiehl's and Dolce & Gabbana Perfumes, amongst other brands

Source: Circana U.S. BeautyTrends/total measured market/Jan 2022-Mar 2024.
(1) 2024 data based on adjusted dollars/units to normalized for the 53rd week in 2024.

BEAUTY INDUSTRY GROWTH REMAINS RESILIENT, BUT PRODUCTS SEEN AS AN AFFORDABLE LUXURY ARE THE ONES THRIVING

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- The Lipstick Index appears to stand the test of time (and evolve alongside the segment); while makeup is the slowest growing category within beauty, the prestige lip segment was up 26% in Q1 of 2024 and hybrid lip products (tinted balms and oils) were up 93%

HYBRID LIP PRODUCTS [1]

- 38% of total lip category
- 90%+ dollar growth
- Top makeup dollar gainer
- Top launch subsegment

LIP BALM
+97% vs. YA

LIP OIL
+84% vs. YA

"Dupe" Culture is a Key Growth Driver in the Hybrid Lip Products Segment

- Consumers are treating themselves to more than lip products as of late; minis are also seeing exponential growth [2]

2x	16%	~72%
unit growth on travel size / minis vs. of other sizes	of consumers buy minis because they are more affordable version (+3pts vs. YA)	YoY growth in luxury minis

- While minis are seen as a "little treat" and indulgence for consumers, they are often more complex and labor-intensive to manufacture than full-sized products; so, it will be interesting to see how the category evolves as margin and sustainability pressures intensify

Source: Circana U.S. total measured market, 3ME March 2024.
(1) Circana, U.S. Prestige Beauty, total measured market, YTD March 2024, custom field.
(2) Circana makeup consumer report, 2023.

GEN ALPHA – BEAUTY'S NEW ENTHUSIAST

- The "Sephora kids" trend took over social media in late 2023 and early 2024 in reference to tweens flooding retailers such as Sephora and Ulta. Regardless of how we name this audience, the reality is that Gen Alpha is beauty's new enthusiast and one of the most relevant consumer groups – their economic footprint is expected to reach ~$5.5T by 2029, almost as much as Gen Z and Millennials' combined spending power, per BBC

- Gen Alpha's impact is already felt on beauty sales – there has been a 24% growth in dollar spend in the category in households with kids ($100K+ of income) and this is largely driven by parents buying products for their beauty enthusiast children

60%	46%	30%	20%
Report Purchasing Hair Care	Report Purchasing Skin Care	Report Purchasing Makeup	Report Purchasing Fragrance

- While Gen Alpha's impact on the beauty industry is undeniable and it's exciting to see a young generation so engaged in the category, brands, retailers and contract manufacturing partners need to be cautious on their communication and formulations geared to this audience. In California, for example, a bill aimed at preventing the sale of anti-aging skincare to children under the age of 13 continues to move forward in the legislative process and would regulate the sale of skincare products containing ingredients like Vitamin A, Vitamin C, retinol, etc.

Source: Circana Checkout Omnipanel Tracking YTD May 2024.

HEIGHTENED RESPONSIBILITY FOR BRANDS AND CONTRACT MANUFACTURERS AMIDST EVOLVING REGULATIONS

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- The regulatory landscape for beauty and personal care is evolving and brands and contract manufacturers (CMs) are still establishing their roles and responsibilities in accordance with the new regulations in this era of transparency

- MoCRA (Modernization of Cosmetics Regulation Act) brings significant changes to the beauty industry, impacting both brands and CMs who must adapt to stricter regulations, increased transparency requirements, and a more complex data landscape (small businesses, defined as those with average gross annual sales under $1M, may qualify for certain exemptions from registration and listing requirements). These stakeholders share heightened responsibility and liability under MoCRA, with an emphasis on traceability throughout the supply chain – MoCRA's requirements are similar to those for over-the-counter (OTC) products, so contract manufacturers who already produce OTC products have an advantage

- Adverse event reporting is one of the big changes under MoCRA – a responsible person, (manufacturer, packer, or distributor of a cosmetic product whose name appears on the label of such cosmetic product) often the brand, must report serious adverse events associated with the use of cosmetic products in the U.S. within 15 business days. Brands should have robust processes for managing these reports and subsequent investigations and they are responsible for maintaining communication with the regulatory body and should have trained personnel and established procedures to handle these interactions, while CMs must facilitate and disclose FDA visits to the brands, who may then oversee investigations involving their products

- In this evolving landscape, brands are encouraged to have quality agreements with theirs CMs or to leverage commercial agreements to clearly outline responsibilities, especially concerning regulatory compliance, claims substantiation and adverse event reporting; while CMs can often assist with these processes, the burden ultimately falls on the brand

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