

A woman with blonde hair is floating on her back in a swimming pool. She is wearing a white bikini top. Her eyes are closed, and she has a peaceful expression. The pool's floor is made of dark, diamond-shaped tiles, which are clearly visible through the clear water. The lighting is soft, suggesting a calm, late afternoon or early morning setting.

William Hood

GLOBAL CONSUMER & LIVING WELL
NEWSLETTER

MARCH 2021

TRENDS | TRANSACTIONS | TRANSCRIPTS | TRAVEL

FOR CLIENTS & FRIENDS OF THE FIRM

William Hood & Company is focused on the global Consumer & Living Well™ industries with broad sector coverage across nutrition, functional food & beverage, beauty & personal care and active living.

WE ARE SUBJECT MATTER EXPERTS ON WHAT YOU...

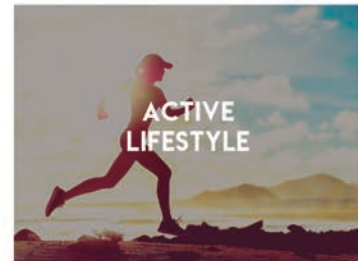
PUT IN



PUT ON



DO WITH



YOUR BODY

WITH A WINNING COMBINATION OF TRANSACTIONAL AND OPERATING EXPERIENCE, AND A POWERFUL GLOBAL NETWORK

- 23 years of investment banking experience with primary focus in Consumer Health & Wellness M&A and Capital Markets
- Former Founder and Head of Consumer Health and Wellness Practice at Leading global investment bank
- Advised on many of the most notable health & wellness industry transactions, including the sale of Liquid IV to Unilever, OLLY's sale to Unilever; Atrium Innovations' sale to Nestlé for \$2.3 BN; The Nature's Bounty Company's sale to KKR for \$3BN; Holland & Barrett's sale to L1 Retail for \$2.4BN; Schiff's sale to RB for \$1.4BN, GNC's manufacturing assets sale to IVC and Santa Cruz Nutritionals sale to Roundtable
- Serves on Board of Directors for Vitamin Angels, Board of Trustees for VA UK and Editorial Board for the Nutrition Business Journal

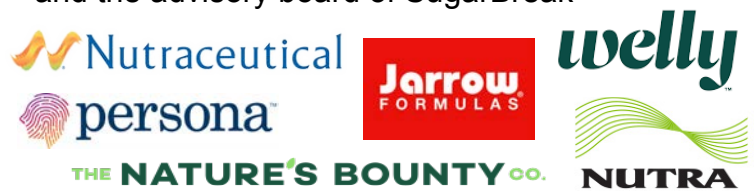


William Hood

- Over 15 years of investment banking, corporate development and brand building experience
- Former Vice President of Strategic Initiatives at The Nature's Bounty Company, where she also held a variety of operating leadership roles including managing the Nature's Bounty, Pure Protein, Body Fortress and Met-Rx brands, as well as the company's Private Label business
- Notable transactions include the sale of Jarrow to New Mountain Capital, a minority stake in Nutraceutical from HGGC to the Maze Group and Snapdragon Capital Partners, OLLY's sale to Unilever, GNC's Nutra manufacturing assets to IVC, Holland and Barrett's to L1 Retail, Persona to Nestlé and The Nature's Bounty Company's acquisition of Dr. Organic
- Serves on Board of Directors for Vitamin Angels and the advisory board of SugarBreak



Jill Staib



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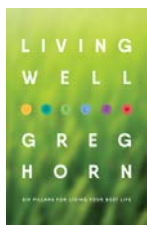
- 30 years of executive, corporate development, strategic, venture & finance experience



Greg Horn

- Former CEO of GNC Live Well, which grew from \$400 million to \$1.5 billion over his 11 years in management
- Former CEO of Garden of Life during a successful turnaround resulting in sale
- Prior Chairman of Royal Numico's N.A. Executive Committee
- Innovator in science-based nutrition, as Co-founder or Founding CEO of Brand New Brands, Attune Foods, STRONG Research, Celsius, Axcella Health and IncREDIBLE Foods
- Technical expert and best-selling author on the science of nutrition
- Involved, in a principal capacity, in over \$5 billion worth of M&A and capital raising transactions

GNC LiveWell.



- Over 15 years of investment banking and corporate development experience



Luc-Henry Rousselle

- Prior investment banking roles at Moelis, Barclays and Lehman Brothers in London and New York
- Operating experience includes five years in leadership roles at The Estée Lauder Companies in Corporate Development, and Strategy & Finance for MAC Cosmetics
- Notable transactions include the sale of InstaNatural to an affiliate of Monogram, sale of W3LL PEOPLE to e.l.f., Gryphon's acquisition of RoC from J&J, Estée Lauder's acquisition of GLAMGLOW and Smashbox, and COTY's acquisition of OPI



- Over 20 years of investment banking experience with primary emphasis on Active Lifestyle M&A



Kevin McGee

- Focus on businesses and enthusiast brands in the sporting goods, outdoor recreation, sportsman, fitness, performance apparel and footwear verticals
- Notable transactions include Allen Edmonds sale to Brentwood Associates, Battenfeld Technologies sale to Smith & Wesson, Bollé Brands sale to a financial sponsor, CCM Hockey sale to Birch Hill, Lew's Fishing to BDT Capital, Louisville Slugger to Wilson Sporting Goods and POC Sports to Investcorp



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TRENDS

As the pandemic runs its course and reshapes entire industries, it is also planting the seeds of lasting change in consumer behavior. Health and wellness remain beneficiaries of a re-sorting of consumer priorities, with implications for years to come.

Consumer Focus Remains on Health

Consumers continue to focus on health and wellness as the pandemic passes the one-year mark. Here are trends currently shaping the category.



1	Holistic Health	Consumers are taking a holistic approach, embracing physical, emotional and mental self-care.
2	Digital Is Dominant	The accelerated shift to all things digital will not reverse in the post-pandemic world.
3	Finding Purpose	With time to reflect on their values, consumers are seeking purpose in their purchases.
4	Functionalization	Nutrition products are all about the benefits, with ingredient science powering innovation and claims.
5	Mainstreaming Forms	Food and beverage are the preferred forms for nutrition, and everything from coffee to cookies is getting a functional nutrition boost.
6	Transparency Revolution	As consumers equate transparency with efficacy, companies are making the details of their products and supply chains visible to all.
7	Precision Nutrition	The rise of more accurate and less invasive measurements is enabling the next wave of personalization with precision.
8	The New Roaring '20s?	Pent up consumer demand means that this decade could be the best yet for the health & wellness category.

We would be delighted to discuss our view on any of these trends in depth with clients.



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TRAVEL

We will get back into travel once the pandemic abates. Meanwhile, our transaction business is strong but mostly virtual.



Executing InstaNatural

As a sign of the times, this transaction was done start to finish virtually, with no travel whatsoever.

Hatching the Plan for Welly

Unilever's Peter Ter Kulve visited California this summer to strategize about the Welly deal with Welly founder Eric Ryan, OLLY CEO Gerry Chesser and Jill. Peter is holding Eric's dog Piper, who was not included in the sale.



Supply Side 2020: Virtual Edition

William Hood & Company sponsored the first-ever virtual edition of Supply Side in fall of 2020.



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TRANSACTIONS

The global Consumer & Living Well™ industries are an active space, as consumers demand better solutions for looking and feeling their best. Innovation is being driven by smaller companies, and large companies are happy to buy & scale promising companies as part of their growth strategies.

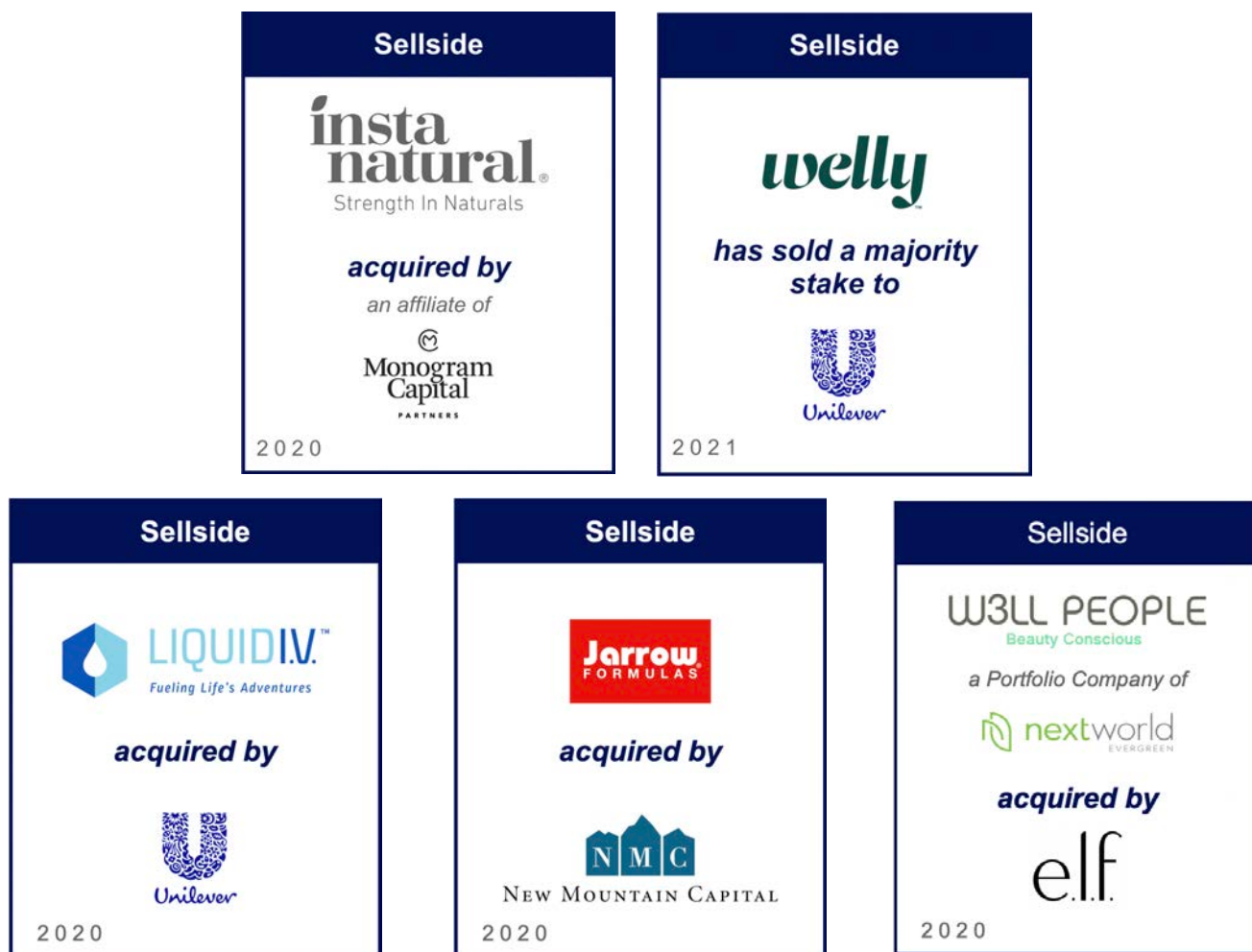
Global Consumer & Living Well™ Transactions of Note October 2020–February 2021

- Yatsen, owner of DTC makeup brand Perfect Diary, acquired Eve Lom, a 35-year-old skin care brand known for its cleanser.
- The Estée Lauder Companies acquired an additional 47% stake in DECIEM, Inc. (d/b/a The Ordinary) for \$1 billion, implying an enterprise value of \$2.1 billion.
- Private equity firm VMG acquired a minority stake in Solidcore, a disruptive fitness company that provides pilates-based resistance training classes.
- Feel Good Organics, an organic superfoods brand exclusively sold on Amazon.com, was acquired by WM Partners.
- Natural beauty manufacturer Smith & Vandiver was acquired by San Francisco Equity Partners.
- Reckitt Benckiser acquired feminine care brand Queen V, which makes sexual wellness products for women.
- ZICO coconut water has been re-acquired by Powerplant Ventures from the Coca-Cola Company.
- TA Associates invested in OmniActive Health Technologies, a manufacturer of premium, scientifically validated natural nutraceutical ingredients.
- COTY completed its 20% investment in KKW Beauty for \$200 million.
- WM Partners closed out the year with the acquisition of Jade Leaf, a high-growth brand of organic Japanese matcha green tea products.
- L'Oréal has agreed to acquire premium Japanese skin care brand Takami.
- Church & Dwight acquired Matrixx, a homeopathic and allopathic OTC solutions brand, from Gryphon Investors for \$530 million.
- Unilever acquired SmartyPants Vitamins, a US based company with a portfolio of supplements made with premium ingredients to support the wellbeing of children and adults.
- Mars has acquired snack maker KIND in a deal rumored to be worth \$5 billion.
- PanTheryx, the world's largest colostrum-based nutrition and biotechnology company, closed on the acquisition of Goodgut digestive health brands, including the Preлива polyphenol prebiotic formula.



- Whole Earth Brands, Inc., acquired Swerve, a rapidly growing keto-friendly and plant-based sweetener and baking brand for \$80 million.
- New Mountain Capital acquired Natrol, a leading VMS brand, and has plans to combine it with another recently acquired VMS brand, Jarrow Formulas.
- Naturelo, a premium brand of VMS products derived from whole food ingredients, was acquired by Arcadia Consumer Healthcare.
- ZO Skin Health, a clinically backed skin care brand sold through the Professional channel, was acquired by Blackstone.
- Compass Diversified acquired performance fit system innovator BOA Technology for \$454 million.

Highlight: Recent William Hood & Company Transactions



- InstaNatural, an accessibly priced natural skin care brand primarily sold on Amazon, was acquired by an affiliate of Monogram Capital.
- Unilever acquired a majority stake in Welly Health PBC, a playful bandage brand from the mind of serial entrepreneur Eric Ryan.





TRANSCRIPTS

One of the best parts of our work is that we get to have **such** interesting conversations every single day. Hearing from business and thought leaders across the entire market space informs our point of view. Here we have a chance to share some of the best dialogues, along with new opinions and positions shaped by them.

SPACmania, a Permanent Fixture in the M&A and Capital Markets Landscape or a Bubble Waiting to Burst?

By William Hood

Barely a conversation goes by in the M&A world today without mention of SPACs. Bankers I know are giving up industry coverage to become Head of SPAC Coverage at their current firm or a new firm, and major law firms are setting up groups to focus solely on SPACs, both the initial IPO, as well as the “deSPACing” process of buying a stake in a company. Anyone with any level of remotely remarkable experience in a given industry is raising a SPAC. In 2020, 248 SPACs were raised, and in the first two months alone of 2021, 228 SPACs have been raised with many more in the pipeline. One of my banker friends recently described the phenomenon to me as SPACmania (hence the title of this article), and this reminds me of another mania, “Tulipmania.” According to Investopedia, Tulipmania describes “one of the most famous market bubbles and crashes of all time,” occurring in Holland during the early to mid-1600s.

What is a SPAC? According to The Corporate Finance Institute, a SPAC, or a special purpose acquisition company, is a corporation formed for the sole purpose of raising investment capital through an initial public offering (IPO). Such a business structure allows investors to contribute money towards a fund, which is then used to acquire one or more unspecified



In 1637 at the height of Tulipmania, a single tulip bulb was worth more than a grand house in Amsterdam.

businesses to be identified after the IPO. When the SPAC raises the required funds through an IPO, the money is held in a trust until a predetermined period elapses or the desired acquisition is made. SPACs are typically formed by experienced business executives who are confident that their reputation and experience in a specific industry will help them identify a profitable company to acquire and trade in the public domain. These individuals are known as the SPAC founders or sponsors. Since the SPAC is only a shell company, the founders or sponsors become the selling point when sourcing funds from investors. After the SPAC has raised the required capital through an IPO, the sponsors have 18 to 24 months to identify a target and complete the acquisition. The period may vary depending on the company and industry. The fair market value of



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the target company must be 80% or more of the SPAC's trust assets. The SPAC's sponsors typically own 20% of the equity of the SPAC plus warrants, which generally looks like a 5-6x return on their upfront at-risk capital upon the successful completion of an acquisition. These are great economics for a successful SPAC sponsor. In the event that the planned

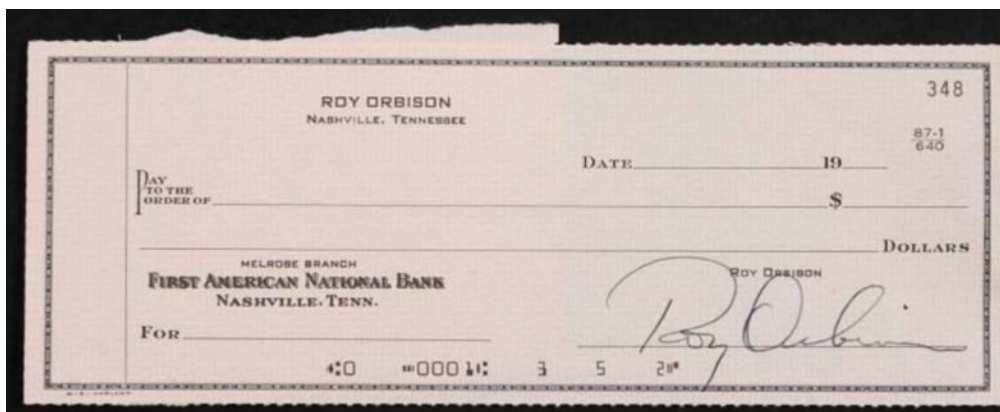
acquisition is not made, or legal formalities are still pending, the SPAC is required to return the funds to the investors, after deducting bank and

broker fees. Bank and broker fees are the "at risk" capital of the SPAC sponsors, which for a standard \$200 million SPAC are in the \$5-\$6 million range. If the SPAC is unable to consummate a transaction, the sponsor(s) will lose their upfront capital, the investors are made whole, and yes, the bankers and lawyers who raised the SPAC in the first place keep their fees and make some great profits (go Wall Street). This has the result of putting significant pressure on the SPAC sponsors to find and do a deal, and in the case of SPACs nearing their expiry, any deal in order to preserve their investment capital.

What does a SPAC represent for a seller? Simply put, a SPAC is a way for a company to go public with a less demanding and rigorous process than a traditional IPO. The timeline can be much shorter, three to four months, and the underwriting fees much lower, 2-3% instead of 6-7%. However, the sellers are not selling their

companies in the traditional sense because they are only selling a portion of their shares (typically 20%). The existing shareholders and the management team of the target company will be the majority owners (80%) and responsible for running the company and for reporting quarterly results. The average SPAC is about \$200 million in size, which means the

average SPACable company needs to have a valuation of approximately \$800 million. Valuations can be very strong and are typically based on one-



SPACs are also called "blank check companies."

to two-year forward projections allowing for some financial wizardry. However, once public, the target companies need to achieve those projections in order to continue to support their public market share price and valuation. Otherwise, the remaining shares owned by the sellers can lose much of their value quickly, and the target company shareholders, management and board members can be open to shareholder lawsuits. For many sellers, selling 80-100% of their shares to a strategic buyer or private equity firm (even for 20% less than a SPAC valuation in the case of private equity) can be a much more straightforward and lower risk way to achieve their exit / liquidity objectives. As a result, SPACs are often considered to be "Plan B" by sellers. Another nuance of this dynamic is the difference in objectives between the SPAC sponsors and the sellers of the target companies that are being "SPAC'd." Often times, the SPAC sponsors are taking advantage of a market window to make a quick return on



their initial at-risk capital. They will look to sell all their shares as soon as possible to mitigate risk of those shares losing value if the share price falls below the “IPO” price. However, the original owners of the company being SPAC’d are left holding a majority of the shares and need to deliver on the rosy forecasts they presented in order for the SPAC merger to be approved and to become public.

Many of our clients ask us if they should consider SPACs as an exit alternative. We tell them that they have to consider two lines of thought and inquiry. Firstly, are their commercial, operational and financial profiles even SPACable, and secondly does a SPAC transaction achieve their objectives. To the first point, a friend of mine who is Head of SPACs for a leading global investment bank tells me that a company has to have at least \$150 million in revenue and be growing at least 30% per year. With this profile, profitability can be less important in the short term, he tells me. In addition, the company needs to be in a place where it can become “IPO Ready” within three to six months. IPO Ready means that the company has historical audits, financial processes and systems in place to satisfy the regulatory and reporting requirements of a public company. These requirements are onerous and not to be taken lightly. For entrepreneurial companies that are not ready, this can be a costly and time-consuming exercise, and even then, they may not truly be ready.

So back to the question of whether SPACs are a long-term fixture in the capital and M&A markets or a bubble waiting to pop. While there have been some very successful SPAC stories in the consumer products industry like the Simply Good Food

Company (NASDAQ:SMPL), I worry that the sheer number of SPACs looking for companies and the emergence of lower quality speculative founder / sponsor teams, combined with the immense pressure on those teams to effect a transaction, will result in lower quality companies being SPAC’d at high valuations based upon very speculative growth and earnings projections. In my mind, despite the checks and balances of the SPAC shareholders needing to approve a deal, this could be a disaster waiting to happen. Imagine a world in which hundreds of newly SPAC’d companies start missing their projections at the same time in 12–24 months... could this be a catalyst for a broader market correction or worse, a bear market? Would that result in a lack of investor interest in new SPACs and therefore the end of the SPAC boom for a period? Time will tell. But if I were a finance or legal professional betting my future on the SPAC market, I would make very sure to keep one foot firmly planted in the businesses of trusted, tried and true M&A and capital markets work so as to have something to do when the music stops.



Boon or bubble?



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Lasting Change: Consumer Behavior in a Post-Pandemic World

By Jill Staib

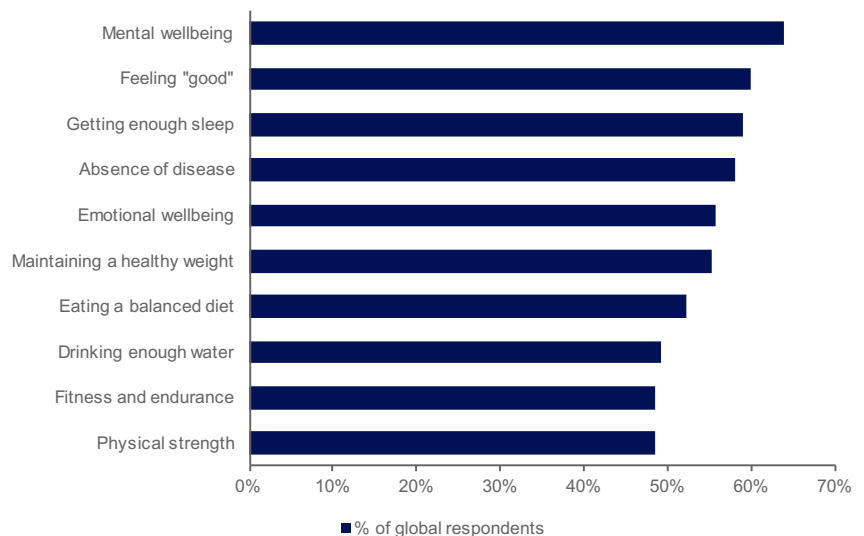
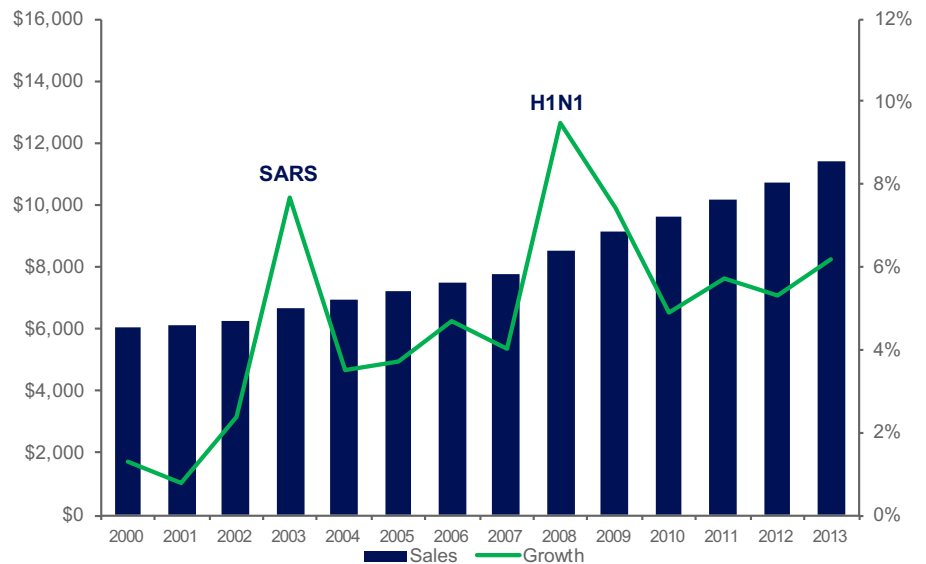
The health and wellness consumer products industry has undoubtedly benefited from accelerated growth rates the past 12 months, as consumers view COVID-19 as a wake-up call to focus on their health and wellbeing. There are many predictions and hypotheses regarding the now infamous “COVID bump” and the sustainability of long-term growth trajectories for businesses and brands in the space. Historically speaking and analyzing growth trends specifically as they relate to VMS, during past pandemics (SARS and H1N1) category growth experienced a sustained “health halo” with above normal growth rates for a period of one to two years post pandemic. However, COVID-19 is unprecedented, and given the gravity and duration of this pandemic, we anticipate much longer lasting impact.

So how can brands be best suited to benefit from this “health halo”? The way consumers shop and the brands they seek out to shop for have materially shifted this past year. We at William Hood & Company are closely tracking the “new normal” trends we view as fundamental and sustainable. Below is a snapshot view of three we are tracking:

1. A Holistic Approach to Health

Historically, consumers have viewed health generally as physical — how I feel and how I look. The approach consumers take now is different and more holistic — their focus on mental wellbeing is as prevalent as their focus on physical health. The social isolation and disruption to routine has been difficult for many during COVID and mental wellbeing now has the spotlight.

US Vitamin Dollar Sales 2000-2013 (Non-Herbal)



Source: Nutrition Business Journal (\$ millions, consumer)



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The conversation about mental health is losing stigma and brands are offering products and services to offer support at an ever-increasing rate. There is an increase in proactive management of mental wellbeing within the supplementation category, with stress support driving significant growth for the category of Active Lifestyle, with sales of fishing equipment, bikes and meditation app subscriptions all skyrocketing.

US VMS Sales Growth by Channel	
Channel	2020E Growth
Total	+14.0% (\$5.0B Growth vs. YA)
Natural & Specialty	+5.7%
Mass Market	+10.1%
Direct Channels	+4.9%
Practitioner	+5.8%
E-Commerce	+88.7% (\$2.7B Growth vs. YA)

Source: Nutrition Business Journal

2. Digital Is Dominant

Our lives have undoubtedly moved online at a more rapid rate than anyone could have predicted. The ability for brands to connect with consumers via digital channels from both a marketing and selling standpoint is beyond critical. 42% of consumers are now shopping for their health and wellness products online due to COVID. As categories like health care and fitness have quickly adapted to virtual visits and classes, consumer digital adoption curves have shattered. The same is true for supplements. NBJ reports ecommerce as far and away the fastest growing channel with +83.7% growth versus YA up an astronomical \$2.7 billion dollars!

3. Finding Purpose

Consumers seek out and trust brands that align with their core values. Throughout COVID, there has been a renewed focus on values — what matters to me and why. Many have used this time of uncertainty to reset and recalibrate not only how they live their lives, but also which brands they shop for.

Zeno group's recent "strength of purpose study" revealed consumers are 4x more likely to purchase from and 6x more likely to protect and remain loyal to purpose-driven companies. Authentic purpose can be a core differentiator for brands, and no industry is better positioned than health and wellness to give back and pay it forward. It matters more than ever to consumers.

75% percent of consumers have tried a new shopping behavior, and most intend to continue it beyond the crisis.



Source: McKinsey & Company COVID-19 US Consumer Pulse Survey 6/15-6/21/2020



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Functional FBI: Food, Beverage and Ingredients

By Greg Horn

The ingredients and functional nutrition segment is a bright spot in the overall consumer economy and powers broader consumer trends toward personalization and functionalization of more mainstream foods for health. According to custom research commissioned with Mordor Intelligence, the North American nutraceuticals market powered by ingredients and functional nutrition is a \$129B US global category expected to grow by 6.9% through 2025.

Focus on Functional FBI

At William Hood & Company we call this segment Functional FBI, and we view it as an exciting frontier in the nutrition industry — it's where innovation happens. Functional FBI also establishes the foundation of the entire nutrition industry. This is where the research is done that creates marketing claims that enable consumer adoption of health-changing nutrition products. It's also the toolbox that enables personalization of nutrition protocols based on individual needs. These nutrition ingredients and the functional nutrition products they enable are held to a higher scientific and efficacy standard and carry evidence that they work to impact health.

Function = Benefit

Functionality in nutrition is best defined as a health benefit that can be proven in humans in a clinical trial. In consumer products, these are expressed as label claims that clearly communicate benefit to consumers. At GNC in the early 1990s, many of our consumers were true experts at nutrition. They knew the differences between the parts of herbs and put together their own regimens from A-Z vitamins. That niche market has since gone mainstream, as consumers in the general market have discovered the end-benefits of nutrition. That has driven the category away from A-Z ingredient or botanical names into functional benefits. Benefit-oriented brands like GNC's Preventive Nutrition® (capsules, circa 1995) through breakthrough brands like OLLY® (gummies, circa 2015) are great examples of this move toward easy-to-understand functional benefit.



Functional foods and beverages, powered by clinically researched ingredients that enable label claims, are one of the most exciting frontiers in the nutrition industry.



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Marching to Mainstream: Food Goes Functional

Functional nutrition was once the almost exclusive territory of supplement pills and powders. We built a billion-dollar business on it at GNC, and a more natural version at Garden of Life. When I started the first functional food and beverage incubator in 2003, the vision was simple: Functional foods and beverages with proven function. That initiative resulted in leading functional nutrition brands like Attune® (now owned by Post), Corazonas®, and Celsius® (now public with a \$4 billion+ valuation). The march of functional nutrition to the mainstream is now well underway, because food and beverage are consumers' preferred form for nutrition. Probiotics are a great example. Chilled space is the most expensive real estate in a supermarket. If you walk into a Whole Foods store today, you will see a large refrigerated case of high-value probiotic supplements, just as you did a decade ago. The difference now is that next to that case will be three chilled cases full of probiotic beverages. Consumers are voting with their dollars, and food forms are winning.

Ingredients at the Foundation

The vast majority of clinical research in the nutrition category is done on individual ingredients, forming the foundation for the functional supplements, foods and beverages. These clinically validated ingredients are the tool kit for enabling label claims on functional nutrition products so that consumers can quickly recognize the health benefits. We revere the science-based ingredient companies because they are at the leading edge of science and consumer benefit for the entire nutrition industry.



Clinically validated ingredients also serve as the foundation for creating personalized nutrition regimens tailored to specific nutrient requirements. These customized protocols, created by experts (and increasingly expert systems) can unlock the power of nutrition for better health, measured at the level of the individual.



What's Happening Now

Six forces are driving the growing demand for foods, beverages and ingredients with clinically validated health benefits:



Published scientific evidence connecting nutrition and health is doubling every nine years.



A new consumer brings new definitions for healthy and expectations of brand and channels.



Nutrition products are emphasizing end-benefit functions, instead of ingredients.



Nutrition is evolving from pills to foods and beverages and creating new end-use markets.



Next-generation science and new materials enable production of food in a whole new way.



Radical advances in visibility into what's in food and how nutrition impacts health.

Accelerating Evolution

Functional FBI is evolving at an accelerating pace as consumer demand for functional nutrition continues to grow. Just a few years ago, developing functional nutrition products was a brand new field. Now there is a rich and dynamic ecosystem with sophisticated players at all levels. Navigating this space requires an understanding of nutrition science, branding and consumer markets, the regulatory environment for claims, and an intimate familiarity with the dynamics and players in the nutrition ingredients world. This segment of the nutrition industry is driven by the endless curiosity of scientists, and the innovations it creates are products that benefit health across all delivery forms.

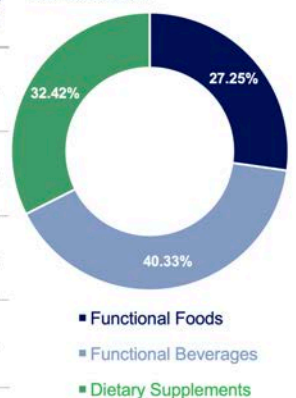
NUTRACEUTICALS MARKET

Revenue in USD billion, by Product Type, North America, 2016-2025

Product Type	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	CAGR % (2020-2025)
Functional Foods	26.1	27.6	29.2	31.0	32.9	34.9	37.0	39.3	41.8	44.4	6.2%
Functional Beverages	38.1	40.5	43.1	45.9	48.9	52.0	55.4	59.1	63.0	67.3	6.6%
Dietary Supplements	30.0	32.1	34.4	36.9	39.6	42.5	45.7	49.3	53.2	57.4	7.7%
Total	94.2	100.2	106.7	113.7	121.3	129.4	138.2	147.7	158.0	169.1	6.9%

SOURCE: Mordor Intelligence

Market Share (%), by Product Type, North America, 2019



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Active Lifestyle: An Interview with Kevin McGee

Greg Horn sat down with Kevin McGee, William Hood & Company's newest Managing Director, for a socially distanced (by 1,345 miles) conversation about the firm's new Active Lifestyle practice area.

Greg: Kevin, before we start, tell us a little about yourself.

Kevin: Thanks, Greg. I was born and raised in the Chicagoland area, and still live there with my family. Since I was a kid, I have always been into the outdoors, both for recreation and especially for playing sports like baseball, basketball, tennis and golf. I passed my love for sports onto my kids, who are 11 and 13 years old. We are trying to improve our golf game as a family, which is hard to do during winter in Chicago. I'm very much looking forward to spring!

Greg: What types of companies are included in "Active Lifestyle"?

Kevin: What we call "Active Lifestyle" at William Hood & Company includes businesses and brands in the sporting goods, outdoor recreation, performance apparel & footwear and fitness categories. What brings these all together is that they tie to what people choose to do in their free time to have fun and to maintain a healthy lifestyle. It covers the activities people do when they are pursuing their passion, the gear they use, and the clothing and footwear they wear while doing

it. It's interesting to note that the apparel people used to wear only during their free time is now often worn on business Zoom calls!

Greg: How did you come to specialize in Active Lifestyle?

Kevin: My career training is 20 years in investment banking with a focus on M&A and capital raises. For the first 10 years of my career, I was a generalist working across a variety of industries. Once my career reached a point where I could choose my coverage area, I gravitated to Active Lifestyle companies because it was a way to combine my professional life with my personal interests in outdoor lifestyle and sporting goods. As with any career, there was some good luck along the way. My first deal in the category was Prince Sports, the exact brand of tennis racket

that I grew up using. Later, I got to work with Louisville Slugger, an iconic baseball brand that I used as I swung for the fences as a kid. I fell in love with the idea of working professionally with products and in categories that I remain passionate about every single day. Over the years, I have been very fortunate to work with exceptional management teams and some of the most well-known brands in the industry.



Greg: This is a new practice area at William Hood & Company. What brought you here?

Kevin: After 20 years in banking, I was ready to lead a practice area, so I systematically sought out firms that were very strong in areas that are naturally adjacent to Active Lifestyle. The strongest of these was William Hood & Company, where the expertise in nutrition, health and beauty is second to none. Active Lifestyle is what you do with your body and what you wear while doing it. Nutrition and healthy living is about what you put into and onto your body. It's a natural fit as the

consumers who are focused on living an active lifestyle are the same people who eat healthy and purchase vitamins, supplements and beauty products.

Greg: Where do you see potential in this space?

Kevin: Active Lifestyle is a healthy and growing category, with a fascinating combination of innovative smaller brands and large heritage brands. These two types of companies are looking for different things: Innovators are looking to advance growth and scale their technologies, products or brands into a broader market, while established brands are often looking for the next stage of their evolution to fuel growth. Both serve an incredibly passionate end consumer who wants to maximize performance, comfort and enjoyment



of the sports and outdoor activities where they spend their free time and (yes) lots of their money. The pandemic has been a boom for anything outdoors, since it was something people could actually do and stay safe, and millions of people have discovered or rediscovered their joy of the outdoors in the past year. Relaxed dress codes in the work-from-home period also mean that more and more people are wearing their performance hiking apparel and even footwear on city streets (and in offices) than ever before.

Greg: How can you help Active Lifestyle companies?

Kevin: My experience in this specific category can add value, but it starts with getting to know

a brand's management and understanding what their issues and objectives are for the business. Getting to know their goals and where they want their business to go informs any advice or assistance and helps me connect the dots for them. After spending the last decade focusing specifically on Active Lifestyle across all types of businesses (from founders to private equity-owned middle market companies to large public companies), there are a lot of dots to connect — always with the goal of a great outcome for the client.

Greg: Any closing thoughts?

Kevin: Active Lifestyle rounds out William Hood & Company's healthy living platform, and it's an exciting time for the category. I'm thrilled to be working with this team and look forward to bringing the practice's potential to life.



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Beauty Set for Rebound

By Luc-Henry Rousselle

Beauty is known for reliable long-term growth, but sales suffered greatly from the pandemic. However, there is every reason to believe the industry will rebound in the near term.

As 2020 came to an end, it was a sobering view to see US prestige beauty retail sales down 19% year-over-year overall, wiping out 5 years of growth, and mass estimated to be down 1% year-over-year despite suffering less than prestige from store closures. Department stores suffered greatly though prestige sales outside of department stores grew 1%, speaking to the resilience of specialty, TV home shopping and e-commerce. Makeup was particularly hard hit as consumer behavior shifted due to masking and reduced social interactions. Some pockets of growth such as dermo-cosmetics, at-home devices, hair, lash products, “beauty from within,” bath, and home care products mitigated somewhat the overall performance.

It is no surprise that e-commerce was the biggest mitigant to the decline of sales in 2020. The beauty category had been a lagger in e-commerce penetration versus other consumer verticals, but 2020 saw a step change in the importance of digital sales, with all categories doubling penetration in prestige and e-commerce now representing a third of sales in mass. This past year also marked the awakening of the industry to Amazon, which is becoming more and more important as demonstrated by its tremendous in beauty & personal growth in the ~40%+ area, volume in the ~\$25bn+ area and access to over 125 million “prime” consumers. Entrepreneurs are developing profitable brands at scale leveraging all the tools the platform has to offer,

larger groups are taking a more proactive approach, and retailers are taking notice by bringing Amazon native brands onto their shelves. Despite its limitations from an experience point of view, we believe Amazon will play a bigger role in everyday beauty & personal care and take share from mass retailers. As a response, mass players are flexing their muscle, and it will be interesting to watch how the revamped Walmart Marketplace will perform. The digital boom has also brought to the forefront beauty tech that enhances the shopping experience, such as augmented reality applications that allows customers to try products on virtually, personalized recommendations leveraging data, or virtual video consultations.

We believe the beauty industry will rebound in the near term.

There is every reason to believe the industry will rebound. In past crises such as the great recession of 2007-2009, all verticals rebounded in the subsequent years, albeit the impact on sales was not as strong as during the height of COVID. The news of vaccines being widely available in the US, and hopefully globally, in the near term is not the only reason for optimism. Green shoots of hope include:

- Most of the negative impact of COVID was concentrated in Q2 of 2020 and the YoY trends are improving from quarter to quarter, with premium hair and premium fragrance flipping back to growth in Q4 in the US.
- China rebounded fast as the COVID crisis receded promptly, and due to the prominence of online sales, premium beauty sales in China were up a staggering 71% in 2020.



- In the US, there are signs of optimism for the specialty channel, with Sephora and Ulta announcing new partnerships with Kohl's and Target as well as new door openings in 2021. Sephora is planning to open 60 freestanding stores and 200 "Sephora at Kohl's" locations in 2021.
- There were fewer new product launches in 2020, which could imply some brands were holding back for better times.
- There was more promotional activity than ever in 2020, and this may recede as the brands gain more confidence.
- The Estée Lauder Companies' earnings levels are above pre-pandemic levels for the quarter ended 12/31/2020.

We believe investment and M&A activity will keep at a solid pace in 2021.

Although M&A activity slowed down at the height of the COVID crisis, we have seen a pickup in activity in recent months and expect 2021 to be a solid year for M&A. There are more and more private investors attracted to the space's strong fundamentals, including long-term growth prospects, high levels of profitability, asset light businesses, a global marketplace and a broad universe of strategic and financial buyers. The investor set has grown, with more and more family offices investing directly as well as foreign investors joining the ever-growing group of traditional private equity funds playing in the space. New to the field are the SPACs that are all the rage, and we expect more competition coming from them, albeit mostly for large transactions well

U.S. ANNUAL 2020 % DOLLAR GROWTH BY CATEGORY				
		Premium		Mass
	Total Measured Market	Brick & Mortar	E-commerce	Mass Market ⁽¹⁾
Total	(19%)	(39%)	46%	(1%)
Makeup	(34%)	(49%)	34%	(7%)
Skin Care	(11%)	(40%)	49%	2%
Fragrance	(8%)	(20%)	60%	(8%)
Hair	7%	(31%)	64%	3%

(1) Euromonitor International

Source: The NPD Group, Inc. / BeautyTrends® U.S. Prestige Beauty Total Measured Market, Department Store / Specialty Brick & Mortar, Dotcom



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in the hundreds of millions of dollars. After a period of distraction, strategics have mostly adjusted to the new normal and we expect them to get back into the M&A arena more deliberately. However, we expect the bar to be placed high and discipline to be on investors' minds, with greater attention to key value drivers including profitability.

In the near term, we believe great attention will be given to skin care and hair care brands as well as bath, body and home care in both mass and prestige. Emerging trends such as "beauty from within" and natural makeup are also expected to gather strong interest. Well executed and authentic brands with a strong following and consumer love will keep attracting investors. Specialty and e-commerce,

as well as select mass players including Target and Walmart, are expected to be perceived as attractive channels. Most certainly, DTC strength and China potential will be at a premium.

Furthermore, interest for non-brand beauty assets is at an all-time high. We believe there will be continued investor interest for such companies including co-manufacturers, co-packers, and ingredient providers.

We are living in interesting times; the past year has seen meaningful cultural shifts and the acceleration of existing trends. Brands and investors will need to be agile and stay in tune with the consumer and the meta environment to seize the great opportunities to come.

BEAUTY CONNECT

Luc-Henry will join other experts to speak about M&A trends in the beauty & personal care industry at Beauty Connect, April 27-28, 2021.

Use discount code SPK10 for 10% off the ticket price.



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THOUGHTS?
Please share them!

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