William Hood

GLOBAL CONSUMER & LIVING WELL NEWSLETTER

MAY 2020

TRENDS | TRANSACTIONS | TRANSCRIPTS | TRAVEL

FOR CLIENTS & FRIENDS OF THE FIRM

TRENDS

We are living in a time of unprecedented change, as the COVID-19 pandemic sends shock waves through the world economy. Trends are both accelerating and being upended, with implications for many years to come. Health and wellness products are a bright spot as we live through interesting times.

Strong Health and Nutrition Trends In the Pandemic Era

The COVID-19 pandemic has moved prioritization of health to the forefront and accelerated changes in consumer behavior.

Here are the top nutrition industry trends emerging so far in the post-COVID-19 world:

1	**Health Is the New Top Consumer Priority**	Proactive self-care has never been more important.
2	**Food as Medicine**	Healthy and functional food is a key to a healthy immune system.
3	**Online Channel Accelerates**	The move to e-commerce is happening at light speed.
4	**Immune Boosting**	Supplements and foods known to boost the immune system get a big boost.
5	**Eating In**	At-home meals are the only option under quarantine, creating the need for meal planning.
6	**Seeking Functionality**	Functional foods and beverages with a health benefit are growing.
7	**Plants Rising**	Plant-based and vegan foods sales are rising during the pandemic.
8	**Voting Values**	Consumers are voting their values with more sustainable food purchases.

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

> ***Our hearts go out to the people whose health and employment have been impacted by the COVID-19 pandemic. WHC has made a donation to the Northwell Health Foundation to help clinical teams at the forefront of care.***

TRAVEL

We can't move around right now, but we are keeping the world moving for our clients. No *coronacations* here—we are busier and more productive than ever!

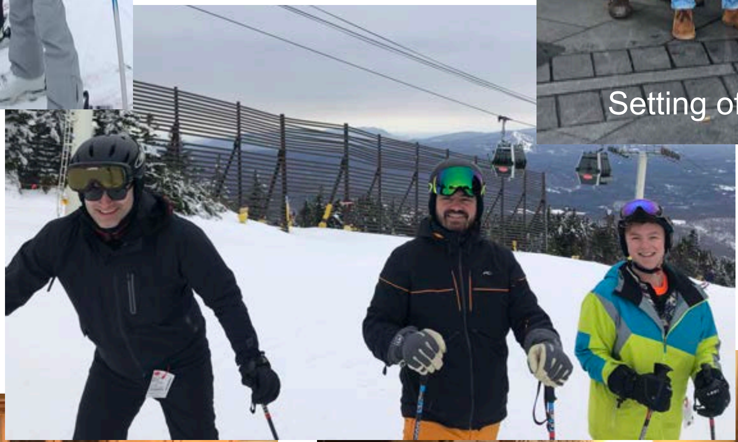
BEFORE…

Remember Skiing?

WHC took over Stratton, VT, for a few days in early February for an offsite. We even managed to fit in skiing and a few inappropriate rounds of Cards Against Humanity!

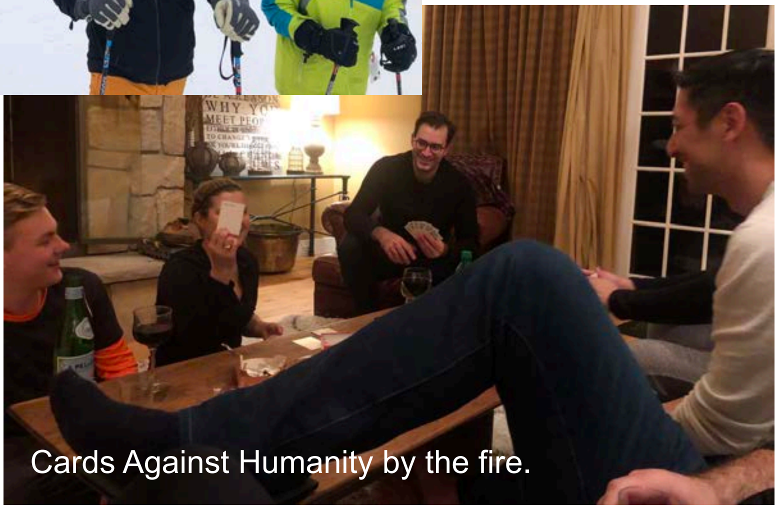
The beginner class…

Setting off for the road trip!



…and the advanced class.

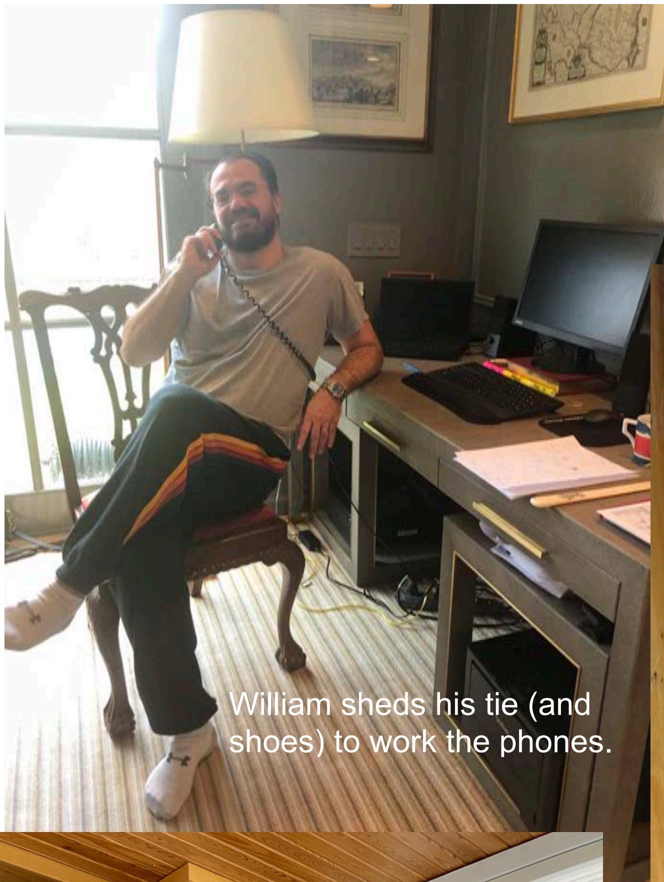
Peter and Jeremy mastering the art of margarita making.



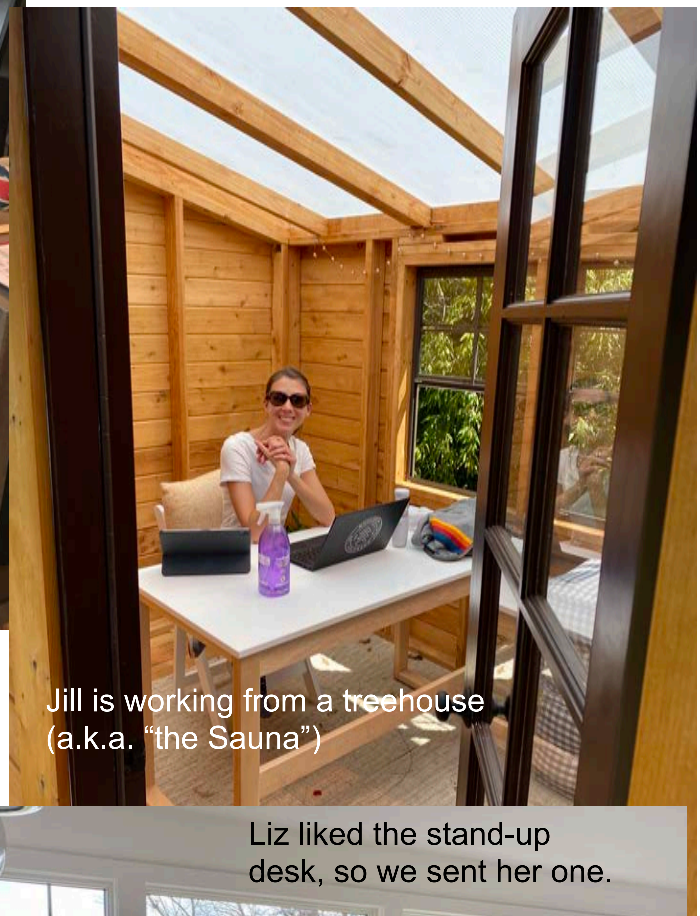
Cards Against Humanity by the fire.

AFTER...

We are all looking forward to getting together again but until then, we have managed to set up some pretty impressive #ronarigs.



William sheds his tie (and shoes) to work the phones.

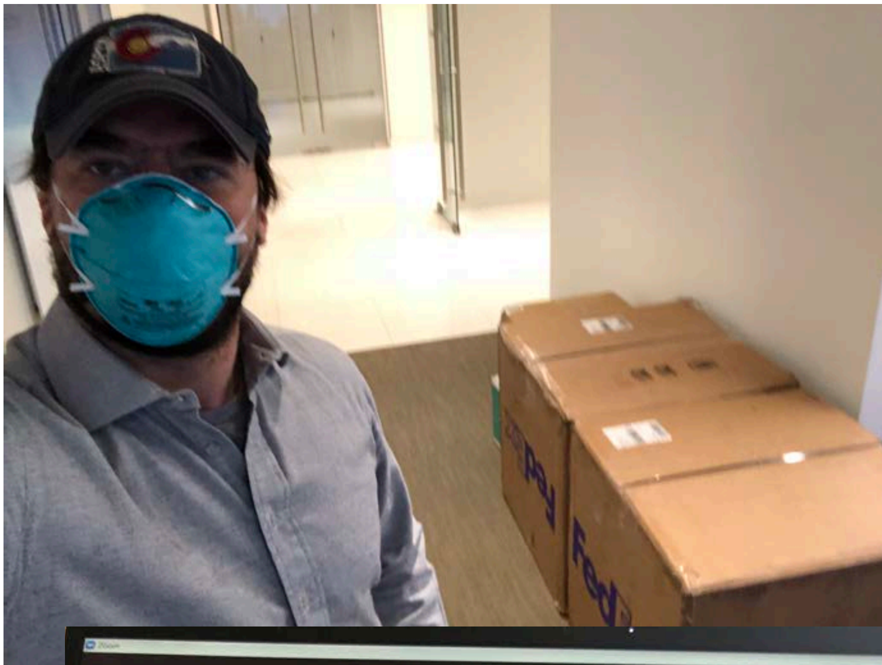


Jill is working from a treehouse (a.k.a. “the Sauna”)

Greg in his bright and productive Florida office.

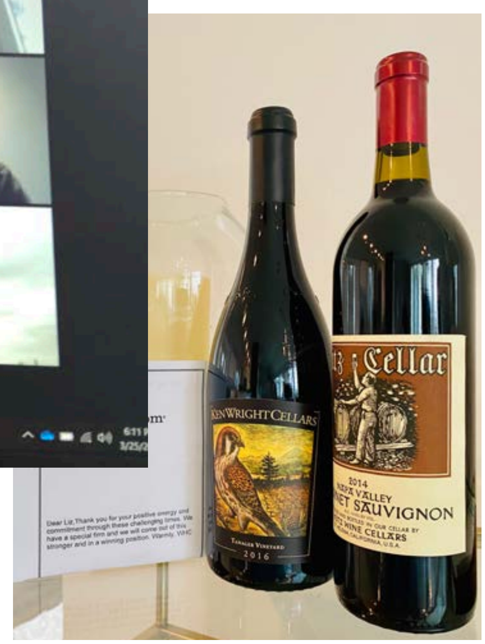
Liz liked the stand-up desk, so we sent her one.

WORKING THROUGH IT



William ventures into our NYC office during the height of the lockdown to liberate some product and deliver for a client.

One of many Zoom happy hours
(William provided the wine for this one!).



This won't last forever. While it does, we are doing our best to stay healthy and productive…and even having some fun along the way.

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 November 2019 to May 2020

- Private equity firm Butterfly announced that it has acquired a majority stake in Orgain, an organic and clean nutrition products producer based in California.
- Sonoma Brands, an emerging brands private equity investor and incubator, acquired KRAVE from The Hershey Company for an undisclosed amount.
- Ascendis Health sold its subsidiary, Scitec, Europe's leading sports nutrition business to Atlas Invest.
- The Simply Good Foods Co. completed the acquisition of Quest Nutrition, a healthy lifestyle food company with a leading presence in bars.
- Fitbit, Inc. (NYSE: FIT) has been acquired by Google LLC for $7.35 per share in cash, valuing the company at a fully diluted equity value of approximately $2.1 billion.
- Plant-based food company Nurture Brands has bought healthy snack bar brand The Primal Pantry for an undisclosed amount.
- DuPont is combining its nutrition and industrial biosciences division with International Flavors & Fragrances in a transaction that values the division at $26.2 billion.
- TB12, Inc., performance lifestyle brand co-founded by Tom Brady, acquired VitalFit Nutrition.
- PepsiCo, Inc. (NASDAQ: PEP) has entered into an agreement to acquire popular energy drink maker, Rockstar Energy Beverages ("Rockstar") for $3.85 billion.
- AptarGroup, a global leader in consumer dispensing, active packaging and drug delivery solutions has acquired FusionPKG, a leader in high-quality, prestige airless and color cosmetics packaging.
- e.l.f. Cosmetics acquired the beauty brand W3LL PEOPLE for $27 million, representing a 3.9x multiple on 2020E sales, to expand e.l.f.'s brand portfolio and break into the clean beauty space.
- Natura &Co has acquired Avon Products, Inc., a landmark transaction creating the world's fourth-largest pure-play beauty company.
- Colgate-Palmolive Company has acquired Hello Products LLC, the fast-growing indie oral care brand.
- Helen of Troy, a consumer products conglomerate, has acquired prestige hair care brand Drybar for $256 million in cash.

- The award-winning makeup and skincare division of Milk Group received a minority investment from global beauty conglomerate Amorepacific Group, forming a strategic partnership that will help forge a path for Milk Makeup as they enter the South Korean marketplace.
- Revolutionary hair care brand Olaplex was acquired by global private equity firm Advent International for an estimated $1 billion.
- Coty Inc. (NYSE:COTY) acquired a 51% ownership of Kylie Jenner's beauty business for $600M to jointly build and further develop Kylie's beauty business into a global powerhouse brand.
- Henkel acquired Deva Concepts (d/b/a DevaCurl), a high growth professional hair care business, to strengthen its professional hair care portfolio with a category-leader in the fast-growing curly hair segment.
- Coty Inc. (NYSE: COTY) announced a strategic partnership with KKR, which will provide the Company with an initial investment of $750 million. Additionally, Coty and KKR signed a Memorandum of Understanding for the sale of a majority in Coty's Professional Beauty and Retail Hair Businesses, which includes the Wella, Clairol, OPI and ghd brands, at a contemplated enterprise value of $4.3 billion, or 12.3x 2019 EBITDA.

Highlight: Recent William Hood and Company Transactions

Sellside
W3LL PEOPLE Beauty Conscious
a Portfolio Company of
nextworld EVERGREEN
acquired by
e.l.f.
2020

Sellside
before brands
we nourish possibilities
investment from
Nestlé
2019

Sellside
persona
a Portfolio Company of
L Catterton
acquired by
Nestlé
2019

Sellside
Nutraceutical
a Portfolio Company of
HGGC
minority investment from
Snapdragon
MAZE
2019

Sellside
OLLY
acquired by
Unilever
2019

Sellside
NUTRA
a Subsidiary of
GNC LIVE WELL
acquired by
IVC
2019

Sellside
habit
a Subsidiary of
Campbell's
acquired by
VIOME
2019

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.

The State of M&A Markets for the Consumer and Living Well™ Industry through COVID-19: An Interview with William Hood

Greg: How is the health and wellness industry doing right now?

William: In our role as trusted investment bankers, we are in the unique position of having senior level dialogue with all of the leading industry participants (the by-product of this is that I have, for the first time in my life, become self-sufficient with IT, including even Zoom). This access and dialogue provide us with great perspectives and a consolidated view from the field.

The bottom line is this—health and wellness is a bright spot in the economy during these difficult times. The news from the field is that the vast majority of our friends and clients in the health and wellness industry are experiencing record demand from retailers and consumers on the B2C side as well as customers on the B2B side. This all began with immunity related products in advance of the declaration of a global pandemic, but it has spread (like a virus) to other general health nutritional products in a halo effect. In addition, this demand is being seen across channels, including retail, online and direct to consumer. As a result, many companies in the space closed their books with record first quarters. One of our clients, a high growth disruptive wellness brand, had a Q1 budget of $25 million at the beginning of the year. On March 15th, they revised that to an estimate of $30 million, and ultimately closed the quarter at $35 million—a $10 million increase over the initial budget of $25 million. Another client, a very successful and large direct to consumer business, had their best days ever in their company history during the depths of the quarantine, with a general health and wellness business. And we are hearing similar stories about brands selling on Amazon as well.

The natural next question is what does this short-term increased demand mean for the rest of the year and for the future. The general view is that as long as COVID-19 continues to play a role in our collective psyche, then strong demand will continue. There is also a view that post-COVID-19 the new base of industry sales will be higher, as existing users become more compliant and new users who tried products during the crisis are converted to full-time users Trial leads to conversion. Ultimately, what weapons do we have as individuals to fight a novel coronavirus? We have hygiene and health for prevention, and we have social distancing for mitigation. A healthy lifestyle is more and more universally recognized as a key ingredient to supporting good health and a strong immune system.

Another discussion we are having in the field is around what happens to this industry in a recession. Many of our senior leader contacts were around during the 2008-2009 recession and are generally aware of the historical data showing that many key health and wellness categories like supplements grew nicely during that period. They are optimistic the same will be true this year and potentially next, especially in light of the backdrop of COVID-19. So, in summary, there is a fairly robust consensus from the field that the short-, mid- and long-term prognosis for the industry is very positive.

Greg: At a recent industry conference you told us all that M&A and financing activity was at a record high in the health and wellness industry. How has the COVID-19 and the stock market volatility impacted M&A and financing and how do you see that playing out for the rest of the year and beyond?

William: That's a great question, Greg and one that we need to look at from two perspectives. The first perspective asks the question, what is the long-term strategic interest in the industry, and has that fundamentally changed? The second perspective asks, what is the appetite and the ability of corporate and private equity buyers to execute on an M&A or financing transaction in the short-term current environment? It is very important that we separate the two, and always keep the long view in mind. The answer to the first perspective is that interest in the health and wellness industry remains very strong if not stronger than when I last presented to the industry. Many of the leading companies and funds that currently play in the space are experiencing their best or near best performance from their health and wellness brands ever, and companies and funds that are not playing in the space are becoming even more intrigued and motivated to do so.

To answer the second part of the question, about current ability and appetite to try to do a deal right now, I will put on my Dr. Fauci and Dr. Birx hats. The M&A and financing markets have absolutely been affected by the events of the past 8 weeks. M&A and non-rescue financing for most corporations and even many private equity firms have taken a back seat to employee safety, business continuity, liquidity and supply chain management. This was especially true in the first few weeks of the crisis, and to be expected. However, the good news is that the market is not closed by any means, and it is feeling warmer every day as we get through the psychological panic phase of the COVID-19 crisis and move towards responsibly opening up the country again. But pushing deals forward and to the finish line in these times requires more work, more creativity and certainly more patience, as those of us dealmakers experienced in 2008 and 2009. Travel, for example, is an important component of completing deals, but the reality is that 80% to 90% of the work can be done desktop and remotely now. One obviously needs to meet management teams face-to-face and conduct site visits, but these can also be timed when travel restrictions are lifted in the hopefully not too distant future. M&A transactions, for example, typically take 5-9 months to complete. I like to say that the M&A markets are only as frozen as dealmakers and decision makers want them to be.

Let's talk a little more about M&A—mergers and acquisitions. Simplistically, there are two types of M&A buyers, large global strategic companies and private equity firms, which are essentially managed pools of capital.

The large global strategic companies' M&A departments are absolutely open for business, and they are receptive to reviewing deals right now. However, they do need the time and attention of their senior business leaders to make decisions. These are CEOs, regional geographic heads and business unit heads, and they are currently engaged in managing business continuity, supply chain challenges and the safety of their employees. Therefore, They have less bandwidth than in normal times

for non-essential business. In addition, general psychology around risk and return is certainly impacted too. However, most of these highly accomplished leaders are also experienced and smart enough to know that opportunities that are in the long-term interest of their shareholders may present themselves at this time, and they need to keep an eye open. And for sellers, this may be a window for your business to standout and shine in what is normally a very crowded market. But the fit with their strategy and organization needs to be stronger for them to engage now rather than in more stable times. Simply put, you need to be more “must have” than “nice to have” to get real engagement from the strategic universe.

We do believe that certain business leaders, who strive to look for ways to take more initiative now, will end up looking very smart for taking advantage of opportunities today while others are hindered by fear.

Based on most of our discussions, the private equity world is very much open for business. These funds still have the same amount of money that they had before, and it is still their job to put that money to work—that is what they are paid to do and how they create tax advantaged carried interest (as a reminder, there is more private equity cash needing to be deployed than at any other time in history). Certainly, during the first two to three weeks of the crisis, the general partners at these funds were very focused on the liquidity and management support needs of their portfolio companies—talking to CEOs, CFOs and lenders. But now, they appear to have a better grip on that for the most part, and they have moved into a mode of wanting to look at good companies that are well positioned to weather the current crisis and thrive on the other side—health and wellness and hygiene related businesses are great examples. We know firsthand that private equity firms are willing to invest the time and resources in looking at deals, and they are actively putting in bids on companies. However, private equity transactions are reliant on the debt markets, which are certainly challenged right now, but this mostly impacts very large transactions. Small to midsize transactions involving good companies in attractive industries are still able to access the debt markets for buyout funding.

The venture capital, or “VC,” world is the most challenged area for any kind of equity transaction right now. VC investing is the riskiest type of equity investing. You are often investing at the idea stage or in very early stage companies that are not yet profitable from a cash flow perspective. This can be very scary in the current environment. We do believe that there will be a period where venture funding is very hard to come by, and businesses that need to raise capital in the very short term may be challenged to do that and ultimately survive. Some of our VC friends are calling this a natural culling period. However, we are seeing VC deals close now, so the market is certainly not closed.

Greg: So what is your advice to people running businesses in the industry?

William: Number 1) Look after your employees, your families and your communities. 2) Get a grip on your supply chain and ensure that you can receive, process and ship product. 3) Address the current levels of demand for your products as best you can. Remember that every product you get into a new consumer’s hand is not only increased sales, but it’s also trial and has the potential for conversion. 4) Reevaluate your e-commerce strategy. Like with products, increased trial of shopping online will result in conversion and a higher base of online shoppers on the other side.

Think hard about how you can position yourselves to be successful in the new normal, where health and wellness are even more important than before. For a large company or a private equity firm, this could be an acquisition in the supplement industry (I know a differentiated investment banking firm who can help!). For an existing business in the industry, make sure your business is on a solid financial footing, think about your three-year strategic plan and use this as an opportunity to engender loyalty with all the new consumers trying your product for the first time. Consumers will remember how you showed up for them during this time.

William’s advice for businesses in the COVID-19 era:

1. Look after your employees, your families and your communities.

2. Get a grip on your supply chain and ensure that you can receive, process and ship product.

3. Address the current levels of demand for your products as best you can. Remember that every product you get into a new consumer’s hand is not only increased sales, but it’s also trial and has the potential for conversion.

4. Reevaluate your e-commerce strategy. Like with products, increased trial of shopping online will result in conversion and a higher base of online shoppers on the other side.

Health & Nutrition: A Sustainable Bright Spot in the Future Economy

By Jill Staib

While so much is still uncertain, one known truth is that consumers' relationship with health and wellness will undoubtedly change, and that change will be a bright spot for companies focused on health and nutrition. We think of COVID-19 as the great accelerator, and the recent behavioral shift around health and hygiene will remain with us far into the future. Our friends at New Hope fielded a survey in which 77% of respondents said that personal health is more important to them now than it was in 2019. Only 2% replied that it is less important! The consumer shift we are all witnessing today will have a long-term and lasting impact on not only what consumers shop for but also how they shop.

It is no surprise that consumers' focus on preventative and proactive health has led to a significant increase in sales for the vitamin, mineral, and supplement (VMS) category. Many leading VMS companies posted record months in March, the VMS category is up 33% and is now #2 across all Health and Beauty Care, second only to Upper Respiratory Cough, Cold OTC products.

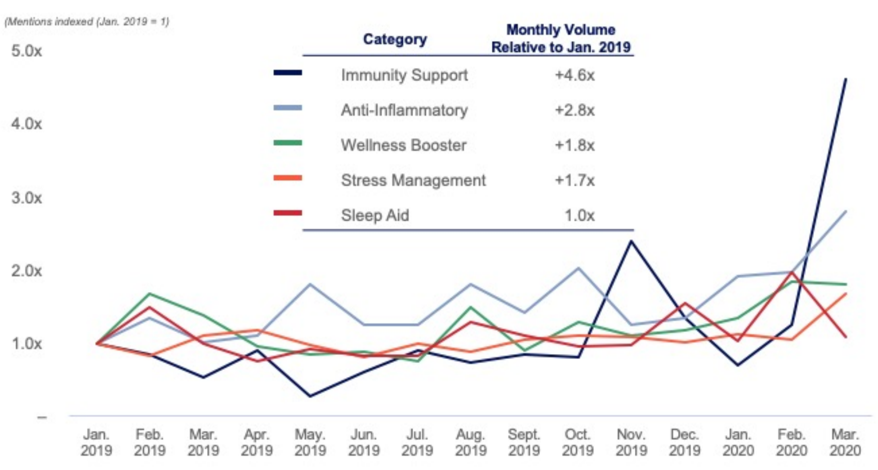
Supplements Rising: +33% All-Outlet Growth

HBC Super Category	U.S ALL OUTLET SALES (week ending 3/21/20) Rank	% $ Chg YA
Upper Respiratory	1	40.0%
Vitamin & Supplements	2	33.0%
Hair Care	3	7.0%
Oral Hygeine	4	19.0%
Bath & Shower	5	41.0%
Pain Relief	6	39.0%
Cosmetic & Nail Grooming	7	(8.0%)
GI Care	8	15.0%
Feminine Care	9	31.0%
First Aid	10	34.0%
Facial Skin Care	11	4.0%
Footcare	19	(7.0%)
Sun Care	20	(9.0%)
Fragrances	21	(13.0%)
Grand Total		**23.0%**

Source: Nielsen 4 Weeks Ending 3/21/2020

While the VMS category has typically grown during recessionary periods, the levels attributed to the growth crisis to date are unprecedented. Leading the charge are immunity supplements. With consumers feeling they have little control right now, they are gravitating towards immune support products to help bolster their immune systems and give them a bit more peace of mind about their health. Discussions about using vitamins, minerals, and supplements are at a historic peak as of March.

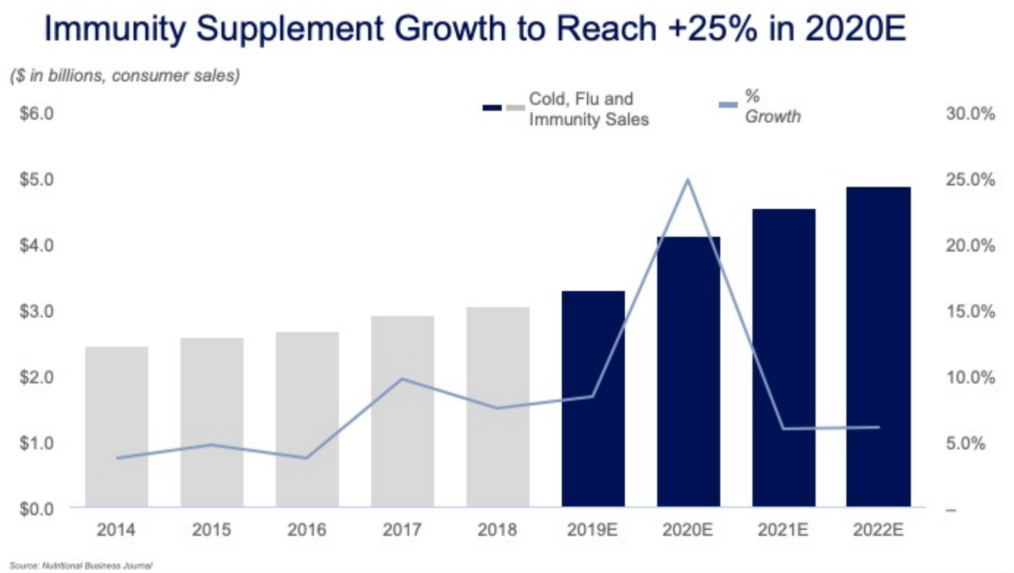
Reddit, Twitter and Blog Post Volume on VMS Use: Jan 2019 - March 2020



Note: Mentions indexed (Jan. 2019 = 1) | Includes mentions from blog posts, Reddit and Twitter
Source: Crimson Hexagon | L.E.K. research and analysis

Immunity VMS is expected to spike, with a 25%+ growth rate in 2020. Any product with a prominent immune health claim is now flying off the (real or virtual) shelves. According to NetRush, 17 of the top 20 vitamin category products on Amazon right now are immune related, and in the overall category of health and household on Amazon, 20% of sales are Elderberry and another 20% are Vitamin C. While there have been few new brand entrants beyond Emergen-C (sold to Pfizer in 2012) and Airborne (sold to Schiff, now Reckitt Benckiser, in 2012) focused primarily on immunity, we do expect new brands and innovative product launches to occur in the near future to capitalize on the current environment.

Across all VMS categories, new users are entering the category. According to a recent NBJ survey, 20% of consumers who have historically "never" used supplements reported an expected increase in supplement usage in the next three months. And where are they buying these supplements? This has also been impacted by COVID-19.



The migration from in-store to online shopping has accelerated at a record pace. E-commerce VMS sales growth is expected to far outpace 2019 growth of 17.8% as consumers move their purchases online and are likely to not move back. A reported 37% of consumers have switched to buy items that they normally would purchase in store to online. As consumers experiment and develop a comfort level with new ways of shopping, brands are quickly adjusting their go to market strategies.

The importance of an omnichannel strategy has never been more evident. According to Kantar Research, 85% of CPG companies are planning more investment in e-commerce and new channels due to consumers' newly formed channel preference during the pandemic period, and 81% are planning an acceleration of their company's digital transformation. Undoubtedly, brands that are best positioned to win in the new environment have robust e-commerce strategies in place. As more and more retailers push plan-o-gram resets and consumers limit unnecessary shopping trips, brands need to develop new strategies to effectively launch innovation without traditional in-store support.

This unprecedented time should be viewed as an opportunity for health and wellness companies to pause and reset their future strategies to address the new normal. We know that the brands that are able to connect and build loyalty with consumers today are the brands that will win in the future.

A Bright Future for Beauty M&A

By Luc-Henry Rousselle

Beauty is a resilient industry - The global beauty and personal care industry has proven its ability to survive and thrive through global wars, economic downturns and most recently through the COVID-19 pandemic. This is true across categories and price points. For example, all categories rebounded strongly after the 2009 crisis, premium brands in particular, and we are seeing skincare, hair color, DTC/ personalization and at-home spa products accelerate as consumers stay at home. We expect a bounce back in cosmetics as people reenter the work force and begin to socialize again.

In February 2020, Pre-COVID-19 and on the back of a lackluster year for color cosmetics, industry pundits at the not-to-be-missed annual CEW State of the Industry conference were warning of concerns for the future growth of our industry. However, nobody could have expected what we were about to experience just a few weeks later.

In shutting down so many outlets for beauty products globally, this crisis is unlike any other, and its impact will be deeply felt. As we safely and progressively transition out of shelter in place, the landscape will inevitably look different; some department stores, salons or spas may never reopen, and certain promising startups may not find the capital they need to keep going. However, others will thrive, and new, exciting technologies to engage the consumer will take hold. We believe this period will crystalize major macro trends and accelerate us on the path towards a bright future.

Crystallized trends – Certain well-known macro trends are crystallizing, such as the slowdown of department stores whose share of beauty and personal care retail sales had already decreased below 10% by 2018. In the early 2010s, strategics playing in premium beauty were investing in independent brands growing in the specialty channel to balance portfolio exposure and acknowledge the consumers' increased appetite for open sell environments. Examples include ELC's acquisition of Smashbox in 2010 and more recently Shiseido with its acquisition of Drunk Elephant. The recently announced bankruptcy of storied retailers such as Barneys (pre-COVID-19) and Neiman Marcus in the US, or Debenhams in the UK, will force strategic decisions for brand owners. Our beloved department stores will need to accelerate the pace of innovation and introduce bolder new retailing concepts.

Crystallization of macro trends and an acceleration towards the future

Acceleration towards a more digital future – Beauty is a category with low online penetration; it grew to only ~10% in the US in 2019. Almost unbelievably, this is comparable to the furniture category! Brands and retailers are seeing a strong increase in their online sales during the crisis and more importantly, consumers are learning and getting more comfortable discovering new products and replenishing their beauty needs online.
As we emerge from sheltering in place, it seems safe to assume online penetration for the category will have increased for the long term. We believe brands will be compelled to review their opportunities to accelerate online sales with their existing retail partners (such as Ulta.com) and diversify their channel exposures with third-party online platforms. Amazon is the platform chosen by 66% of consumers when looking for a new beauty and personal care product, and with its 110 million+ prime members and estimated $16bn in beauty & personal care retail sales in 2018, it has long been the industry's proverbial "elephant in the room." Its impressive growth and scale in our

category has only been made clearer by the current crisis. In the last few years, we have seen more independent brands take advantage of the relative absence of some of the more established brands, who shun the platform, to grow quickly and profitably. We expect more brands to take a closer look at Amazon over the next 6-12 months as they explore new ways to diversify their channels of distribution with e-commerce as a priority.

Inspired by what is happening in China, sales of beauty products directly from influencers on social media platforms could grow faster in Western countries as brands try to diversify their online models. In China, influencers and key opinion leaders (“KOLs”) can set up their own online store on WeChat, the “super app” used by over 1 billion people, and showcase products from the brands they select, which their followers can buy seamlessly from their phones with the touch of a finger.

As we all become more tech savvy during this crisis, even William Hood himself (see earlier article), the adoption of new ways of digitally shopping could accelerate. Incredibly, in 2018, ~30% of the owners of an Amazon Echo or Google Assistant had purchased a personal care product using their voice only. Soon, our consumer will be able to ask her digital assistant for her favorite lipstick before starting her workday and get it delivered by drone to her doorstep in time for cocktails.

We predict M&A will become even more strategic post-COVID-19 as shaping portfolios to address long-term trends and diversify becomes a necessity.

Divestitures – In the face of the crisis, as strategics observe the shifting landscape, we expect to see them take a harder look at their portfolio and overcome their reluctance to sell brands. Coty and Unilever already announced a review of their portfolio of beauty & personal care brands this year. Recently, L’Oréal divested Roger Gallet, Nestlé divested Galderma and J&J sold RoC Skincare. We expect carveout artists to see more opportunities come their way.

Diversification – Consumer preferences shift constantly, and having multiple engines of growth and the ability to navigate trends effectively and nimbly with a portfolio of brands will be more and more highly valued. L’Occitane has entered new segments and categories through acquisition including dermo-cosmetics and makeup. e.l.f. recently made its first acquisition with W3LL PEOPLE thereby diversifying into the fast-growing natural cosmetics category.

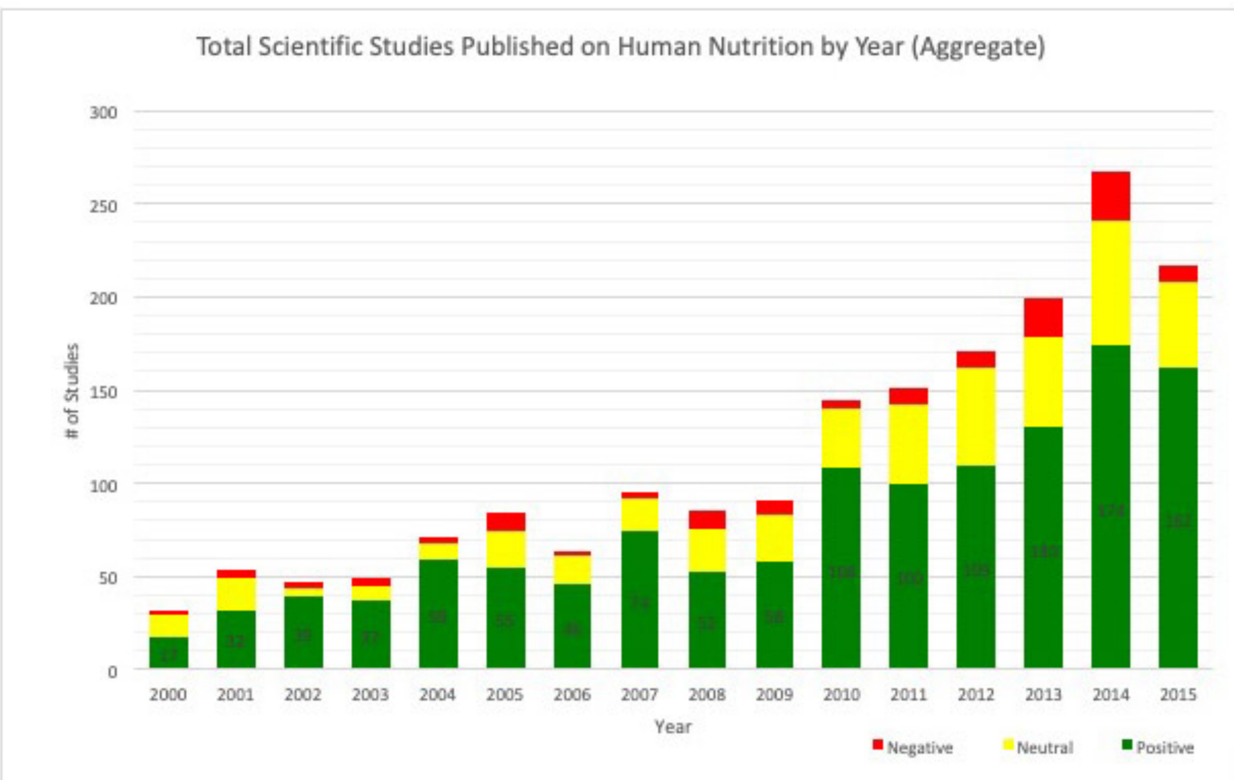
We believe brands that are well-positioned in growth channels such as e-commerce or specialty will keep attracting strong interest in the near term. We also envision a resurgence of interest for mass and drug channels that are better positioned during a slower economic cycle or possible future pandemic lockdowns and where new exciting brands are developing. We also expect personalization and natural beauty to maintain their existing momentum for the foreseeable future.

Valuations – We expect valuations to be impacted following a two to three-year peak period. A rationalization could help create more liquidity as the valuation gap between buyers and sellers narrows. Nevertheless, we believe quality brands with profitable business models that are well-positioned from a trend and channel perspective will command very attractive valuations as the long-term fundamentals and investment thesis for the sector remains. We believe the consumer will continue to drive interest and excitement in the beauty space and expect to see an acceleration in investments and M&A across start-ups and multi-nationals in the near to medium term. For beauty, the future is bright.

The Science of What's Inside By Greg Horn

In 1633, Galileo Galilei was placed under house arrest for telling the world that his observations and calculations proved the earth rotated around the sun. Almost four hundred years later, we are all beneficiaries of Galileo's heresy. His imprisonment marked a turning point in the development of civilization, when the humility of scientific method replaced the arrogance of the "we know because we're older than you and in charge" method of gaining knowledge. The scientific method is as powerful as it is humble: we assume we are wrong (the null hypothesis) and then gather and analyze measurements to prove or disprove our hypothesis. Its widespread adoption is possibly the greatest single advancement in humankind's history.

The nutrition ingredient business is also powerful yet humble. Over the past several decades, explosive growth of the consumer nutrition category has been driven by the humble hard work of actually proving what works with science. Most of this work is done by the intelligent and motivated people working in the ingredients segment of the nutrition industry. These are the ones who are scouring the labs, forests and oceans of the world to source bioactives; connecting the dots from traditional use or assay screens to positive benefits for health, writing patents to articulate and protect their inventions; designing and conducting clinical trials to prove their ingredients work; publishing results so that the findings are popularized and bringing the resulting ingredient to market at a cost per day that works for the consumer.



Source: Specialty Nutrition Consulting, Inc. Analysis

This is the science of what's inside, and the importance of this work cannot be underestimated. Clinical studies on humans create claims. Claims create initial consumer demand in niches. With the right claims and marketing, initial consumer demand creates mainstream consumer demand with broader distribution of products in multiple convenient and delicious forms.

Collagen is an excellent case study. When I started working at GNC in 1989 we sold collagen as a joint health product. In the early 2000's some collagen consumers realized that it also helped with their gut health. But the real breakthrough came in 2014 when a German study sponsored by Gelita found that collagen peptides (their differentiated form of collagen) had significant benefits for skin. The collagen beauty market was born with this study. Since 2014, the science of what's inside enabled enormous growth in collagen for beauty. Collagen is now in everything from pills and powders to beverages, coffee creamers, and even cookies—all with health benefit claims enabled by human studies.

Robust Ecosystem of Science-Based Ingredient Companies

Today, there is a robust ecosystem of science-based ingredient companies working together with academic and commercial researchers, intellectual property attorneys, contract research organizations, testing labs, growers and harvesters to bring clinically proven ingredients with supportable health benefits to our market. Galileo would be proud.

A Watershed Moment for Clean Beauty: An Interview with W3LL PEOPLE's James Walker and Shirley Pinkson

Luc-Henry caught up with James Walker, the tree-hugging wellness visionary, and Shirley Pinkson, the celebrity makeup artist, both co-founders of W3LL PEOPLE, a cosmetics brand that approaches beauty with simplicity, authenticity, and the belief that clean beauty outperforms conventional every time.

Luc-Henry Rousselle, Shirley Pinkson, James Walker, and Liz Van Pelt

Luc-Henry: Over a decade ago, the idea of natural cosmetics had not entered the mainstream. How did that affect how your thought about the W3LL PEOPLE brand when you started?

James: One of the things I am most proud of is that when we started W3LL PEOPLE over a decade ago, there was not really a clean beauty segment. We set out to elevate this idea of high-performance cosmetics that deliver but do not sacrifice anything from a wellness perspective. At first, it was difficult to convince manufacturers, retailers, and customers that you could in fact produce a cosmetic with natural, non-toxic ingredients that you can enjoy as much, or perhaps even better, than a conventional product. Fast forward to today and we are very proud that we helped elevate the brand and clean category at large.

Luc-Henry: The 3 in W3LL PEOPLE stands for the three co-founders of the brand, the beauty dream team. What were some of the benefits and challenges of building a brand and working together?

Shirley: The three of us have been best friends since college. We always liked to have fun together, and to this day, that has not changed. Part of the secret sauce to W3LL PEOPLE has been our complementarity. James is the marketing guru and a self-proclaimed tree-hugger, Renee is a dermatologist and I am a makeup artist. The three of us have such specific talents, and we are so different from one another that when when we started working together it was very dynamic. Each one of us had so much to bring to the table. So really, it was only beneficial from the get-go. The only challenges that we faced, honestly, were created as life took us in different directions. We hit key life milestones and spread out geographically. The distance can pose some issues. For example, when James and I are together, dreams happen; when we are apart, they can take more time to materialize.

Luc-Henry: Present at Whole Foods, Target, Ulta, Credo and The Detox Market, among others, W3LL PEOPLE has a differentiated distribution strategy. How did all the pieces come together?

James: When we started in wholesale, we had the luxury of attracting fine prestigious retailers such as Fred Segal's in LA, Bendel's in New York and eventually Sephora thanks to our hero Expressionist Mascara, which all felt very rewarding. However, one of the brand's milestones was when we did a lot of soul searching and felt that we may be missing the mark in terms of offering better choices to as many people as possible. Hence, four or five years ago, we pivoted to masstige and evolved our product line to reach a broader audience and be more inclusive. That is when we decided to partner with Target, which was a seminal moment for the brand, because it cemented our position as a leader in clean beauty. It was a success from the get-go and it has been 100 mph ever since. We feel very fortunate to have stewarded the brand in that direction and attained the type of marketplace penetration and success that we have garnered so far.

W3LL PEOPLE

Luc-Henry: As the cosmetics market was slowing down already in 2019, W3LL PEOPLE was thriving with its clean minimalist approach, natural products and masstige positioning. As the industry is heavily impacted by the COVID-19 crisis, what does the future hold for natural beauty and W3LL PEOPLE?

Shirley: This is a challenge for sure, and there is a big question mark here. We do have a couple of things going for us: our accessibility and our authentic clean beauty positioning. Not only is it easy to find us, we offer reasonable price points that won't make you wiggle too much. We also have a lot of "street cred" when it comes to the efficacy and quality of our products from a wellness perspective. The trend is that people want to take care of themselves. With the limited choices they have right now, people want to do good, and that includes doing good for themselves. That is where natural beauty and W3LL PEOPLE have a winning hand right now. Many women are not wearing makeup every day at the moment. Are they going to spend money on more prestige makeup lines and go to the mall for a mascara or concealer? I want to go to my Target or Whole Foods versus the mall, and I do not want to drop a huge "dime" on makeup. COVID-19 has hit us and will continue to do so for a while. But I believe there is a lot of light at the end of the tunnel and the rebound will happen relatively quickly.

James: If anything, we are all more invested than ever in making good choices. W3LL PEOPLE is perfectly positioned, right down to our name, to support that goal. Right now, extreme trend driven looks are not at the top of the list for people in the morning because we are sheltering in place and making safe choices, which is not conducive to heavy makeup looks. Our clean, minimalist looks and hybrid products that have skincare benefits are favorable facets of the brand that will help us accelerate on the other side of this.

Luc-Henry: W3LL PEOPLE was e.l.f.'s first acquisition. Why do you think it was a good match?

James: A few things. It started with the people. In our early meetings with the senior team at e.l.f, it was clear that there was a good connection and a lot of commonalities. Basically, a can-do attitude, not accepting no for an answer, which as an indie clean beauty brand for over a decade, we find is essential. The energy and excitement among the team laid the platform and runway for coming together. This was a milestone moment for us.

We knew that we needed the right kind of partner to safeguard the brand, with the resources to take it to that next level. I also note that e.l.f. is bringing a high performance, high design professional makeup line to a broad audience. Seeing their success, it only made sense to partner and leverage their chassis to take our clean beauty mission and products to another level.

Luc-Henry: You decided to stay involved with e.l.f. as it takes W3LL PEOPLE through its next phase of growth. How has the experience of joining a larger team been? How have your roles evolved?

Shirley: We are still in the integration phase and it has been a learning curve. We are still figuring out how to navigate the e.l.f. organization. The e.l.f. team really showed up and has been very eager to dig in. Thanks to their efforts, we are already on track to build a bigger, better brand.

James: There are a lot of moving parts indeed and we have been rolling up our sleeves to partner with the e.l.f. team from day one! Furthermore, we have felt nothing but respect and excitement for W3LL PEOPLE from their team. There has also been a lot of curiosity about clean beauty and a desire to learn, and I appreciate being around curious people. Beyond functional work, there has been a lot of thinking around how to leverage their team's "superpowers" and build on their incremental insights, resources, and perspectives to grow the W3LL PEOPLE brand. We are starting to see the results of all this work, and I am very excited about where it is going!

Luc-Henry Rousselle: What have you learned from the e.l.f. team? And, what have you been able to teach them?

Shirley: We had to learn how to integrate into a bigger structure of people. I really enjoy that there are people dedicated to this or that while at W3LL PEOPLE, we all wore multiple hats. When you are used to figuring everything out yourself, it takes some time to change your mindset and learn to leverage the resources that the company has to offer. Working with e.l.f. has allowed us to operate at a higher level. Anything is possible here and their resources out-scale what we had. This has allowed us to be a lot freer, go back to our roots individually and be true creators as opposed to two people trying to run a brand. On the other hand, we have been able to contribute our knowledge of clean beauty and natural ingredients as well as support the partnership with retailers that are less known to e.l.f. like Whole Foods.

James: It really has been exciting from a business perspective. Learning their approach to benchmarking and analytics, for example, with regards to marketing campaigns or developing our distribution footprint has been fantastic.

Luc-Henry Rousselle: Why did you choose William Hood & Company as you advisor? How did their team help you during the transaction process?

James: What really made the difference in choosing you as an advisor were the strong personal recommendations we received from peers and contacts in the industry. Of course, the firm's reputation, track record and your differentiated real-life beauty industry experience were also very important. It all shined throughout the process, and we were very pleased with the outcome.

THOUGHTS?

Please share them!

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