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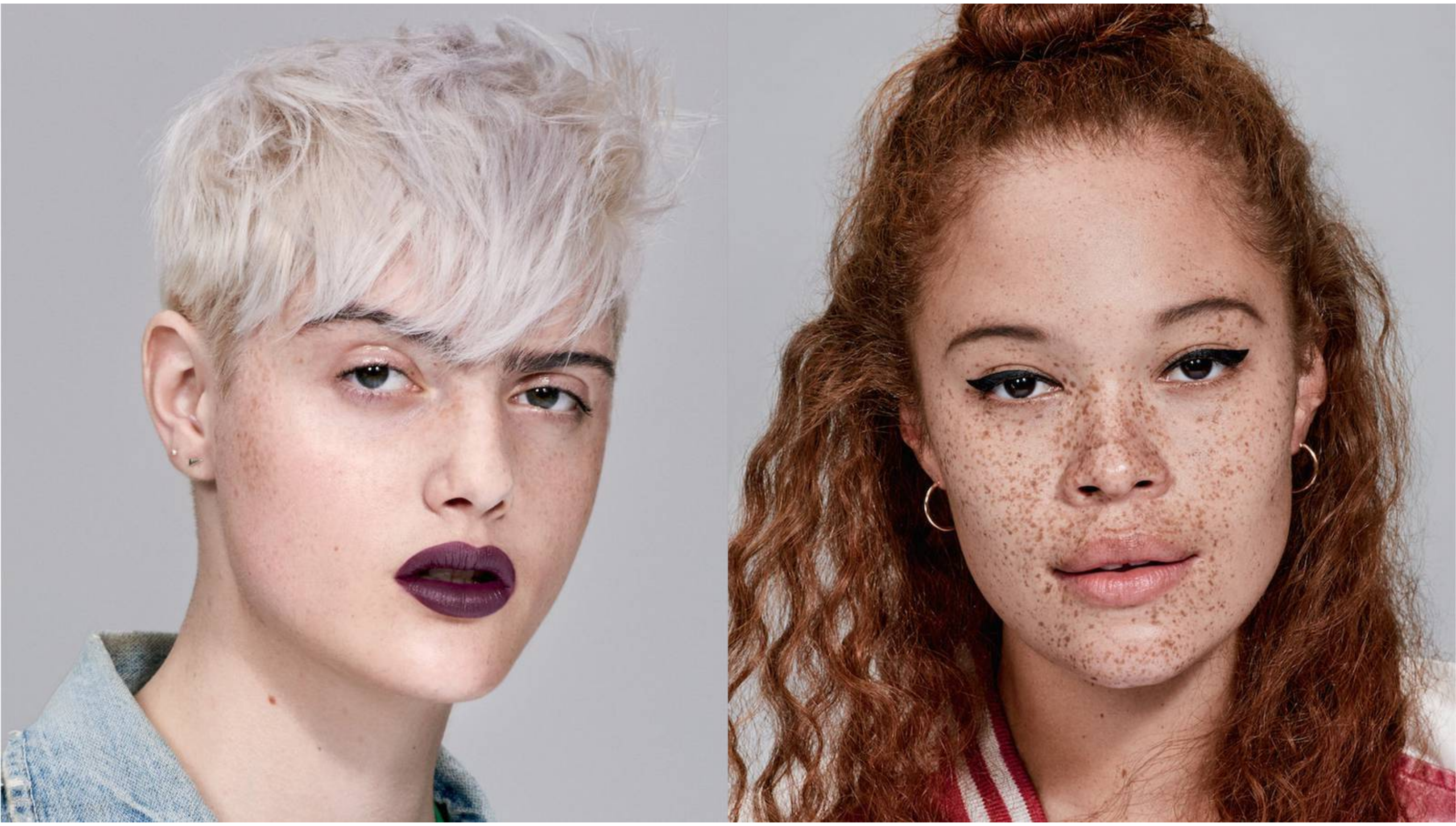
BEAUTY

Beauty Brands' Newest Exit Strategy

A new wave of deals in beauty show there are future paths beyond an acquisition from Estée Lauder or L'Oréal.



Milk Makeup Autumn/Winter 2016 campaign. Courtesy.

By **CHANTAL FERNANDEZ**
17 November 2021

When Milk Makeup launched at Sephora almost six years ago, its futuristic packaging and slick marketing **quickly turned it into a Gen-Z favourite**. The buzz it built at Sephora helped propel the brand, and it soon landed its first investment from the same private equity partners that had backed Too Faced before **it was acquired by Estée Lauder** for $1.4 billion in 2016.

At the time, it seemed as if Milk was set for a similar fate. But the beauty industry has changed since then. The pace of buzzy brand launches has only increased, saturating the market. **And with a surplus of new and cheap capital in the market**, the conglomerates are no longer the dominant exit strategies for the next generation of fast-growing brands.

So Milk Makeup found a different exit strategy. On Monday, two former L'Oréal executives announced they had acquired the brand, along with dermatology-focused skincare brand Obagi, through **Waldencast Acquisition Corp.**, a special purpose acquisition company (also known as a SPAC). Milk's sellers received $140 million and 15 percent of the new combined company, valued at $1.2 billion.

The goal with the acquisitions, said Waldencast founder and chief executive Michel Brousset, is to bring together the benefits of a conglomerate's shared infrastructure with the entrepreneurial freedom of an independent brand.

"We're trying to combine the best of both worlds but also leave some of the bad of both worlds behind," he said.

Waldencast's acquisitions are just two of several recent examples of the next wave of beauty exits. Just in the last week, the Swiss natural beauty brand group L'Occitane Groupe S.A. announced it had acquired a majority stake in body care brand Sol de Janeiro in a deal that valued it at $450 million. The early stage-focused American group Rare Beauty Brands also announced the acquisition of nail care brand Dr. Dana. These two join other newly-formed platforms, including the new parent company of three makeup brands that Shiseido offloaded in August — Bare Minerals, Buxom and Laura Mercier — which were acquired by AI Beauty Holdings, a new group formed by the private equity firm Advent.

Advent also recently facilitated a different kind of successful exit — an initial public offering — **for hair care brand Olaplex, which it acquired in 2019.** The fast-growing label was valued at over $15 billion after its debut in September when it raised $1.5 billion. Historically, beauty brands such as Bare Escentuals and Physicians Formula have struggled on the public market. But Olaplex's success has signalled it can be done, and others may follow suit — the L Catterton-backed Il Makiage, for example, has said it is aiming for an IPO, too.

This activity fits into a larger trend across industries. Low interest rates have made funding cheaper and easier to obtain, coupled with a surge in the popularity of SPACs and other types of public and private funding models. Basically, there's a lot of capital out there, as well as a greater number of potential options for founders who are not ready to cash out or become subsumed by a giant conglomerate portfolio.

Sol de Janeiro's founder and chief executive officer Heela Yang, for example, will retain a minority stake in the brand and continue to lead it, explaining in the deal's announcement that "my commitment to growing Sol de Janeiro and leading the team I worked hard to build remains unwavering."

What's Next

Overall, interest remains high because beauty continues to deliver strong returns to investors, especially in fast-growing categories like "clinical" skin care. As well, public company multiples, including SPACs, have the advantage of generally trading higher when compared to strategic mergers and acquisitions, said Ransley Carpio, beauty investor and operator who is currently the managing partner at Patina Brands. But

Investors looking for surer bets are turning to more mature brands, and they have many in the $50 million to $100 million revenue range in the market now, looking for capital to help them enter the next stage of growth.

But the increased competition in the beauty market means the next group of winning brands will need to offer a more differentiated or trusted product or positioning in a fast-growing sub-category like nail care or **hair care** and can show **they aren't bogged down by high marketing costs.**

For Milk Makeup, Waldencast's growth plan involves marketing to older customers who are less familiar with the brand, expanding its product range beyond its most well-known products like a cannabis-infused mascara and a lightweight skin tint, and growing its distribution beyond its close partnership with Sephora in the US, where it said it is the second most-popular clean beauty brand.

But the strategy has its challenges. Milk was growing quickly, more than doubling its net sales in 2019 to $51 million, before the pandemic exacerbated a slump in colour cosmetics and the brand is still operating at a loss. And expanding its distribution could harm its partnership with Sephora, where Waldencast said it still wants to continue growing the brand.

With Obagi, Waldencast wants to turn it into the next SkinCeuticals, one of the first doctor-backed brands that is now owned by L'Oréal. Obagi said it currently generates 95 percent of its revenue from its medical line, which is predominantly sold at doctor's offices. It only launched its consumer brand in 2018, but Waldencast sees room to grow that element of its business by entering both mass and specialty retailers as well as expanding into clinical devices and spa services.

"There are so many ways to grow these businesses that do not necessarily require the level of infrastructure [it did in the past]," said Wendy Liebmann, CEO of consulting firm WSL Strategic Retail. "That's where these companies are seeing the opportunity."

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