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Consumer Health and Wellness: Compelling Attributes, Powerful Megatrends Make M&A Holistically Attractive

Investors and industry participants can capitalize on these dynamics with specific value creation frameworks

This whitepaper serves as a tool for investors and industry participants to enhance their understanding of the consumer health and wellness market and improve their ability to evaluate M&A value creation opportunities. In the following pages, we highlight compelling attributes of the market, identify the powerful megatrends that are fueling its long-term growth, and provide frameworks to inform business model alignment and corporate development actions.

Given the importance of these topics and the relatively inconsistent focus they are receiving, we include data from a proprietary William Blair consumer health and wellness survey of 500 consumers to better understand their attitudes and behaviors with respect to health and wellness solutions, as well as proprietary analysis of point-of-sale data. For clarity, the consumer health and wellness market includes over-the-counter (OTC) remedies; vitamins, minerals, and supplements (VMS); and medical devices, as well as related services.

Highly Attractive Market Attributes

In this first section, we consider the multiple attributes that render the consumer health and wellness market highly attractive to investors.

Large and growing market: The consumer health and wellness market is one of the largest and fastest-growing segments of the consumer packaged goods industry, representing nearly 20% of all non-edible sales and growing at a consistent rate in the mid- to upper single digits.¹ According to IRI, the market generates roughly \$105 billion in revenue (at retail) on an omnichannel basis. The highly fragmented nature of the market presents opportunities for strategic acquirers and multibrand platforms to consolidate and for emerging brands to disrupt the market by acting on developing trends.

Recurring and resilient demand: Consumer health and wellness solutions have become an integral part of consumers' regimens given the ability to address chronic and ongoing needs, desire of consumers to always look and feel their best, proven product efficacy, and extent of healthcare practitioner recommendations. This recurring demand lowers the cost of servicing consumers, enables cross-selling of products, enhances operational activities to reduce costs and improve productivity, and supports resiliency through challenging economic conditions. For example, sales of nutritional supplements grew in both 2008 and 2020, according to the *Nutrition Business Journal*.

Brand equity and industry profitability: Brands matter in a market where products address multiple consumer needs, methods of consumption differ, and safety and efficacy are critically important. Consumers are willing to pay a premium price for safety and efficacy, and retailers find brands attractive given their high margins and efficient shelf sets. However, following the decline in private-label market share from 23% in 2017 to 21% in 2021,² there may be opportunity for private label to increase share as consumers consider alternatives to brands in challenging economic conditions. Two companies that demonstrate the industry's strong profitability are Prestige Consumer Healthcare, a leading personal wellness brand owner (OTC focus), and The Better Being Company, a leading whole-body wellness brand owner (VMS focus), which have gross margins of 58% and 53%, respectively.³ Strong industry profitability supports investment in

research, innovation, and marketing and further reinforces brand equity.

Key Trends in Consumer Health and Wellness

In this section, we highlight five enduring megatrends that are driving long-term growth in the consumer health and wellness market.

Megatrend One: Rise of self-care

Rising costs and challenges embedded in the U.S. healthcare system, access to a growing range of consumer health and wellness solutions, and pandemic fatigue have contributed to the rise of self-care and the emergence of the self-directed consumer. Today's self-directed and proactive consumer is strongly interested in prevention. This focus on prevention is boosting market demand as individuals take steps in their daily lives to improve their well-being and interact with their health and wellness practitioners for preventative recommendations.

A powerful component of this is the increasing number of consumers

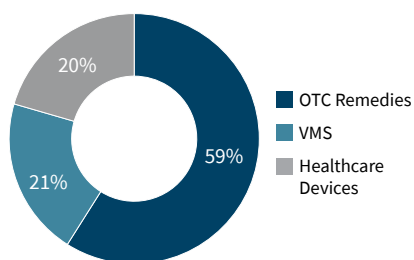
who are adopting health and wellness regimens. Such regimens may include addressing chronic conditions with daily care, following a personal hygiene regimen for oral and skin care, taking vitamins and following a specific diet for nutrition, and incorporating supplements into regular physical fitness routines. Younger generations (e.g., millennials and Gen Z) are doing more to expand their regimens than older consumers (e.g., baby boomers), according to our survey of consumers.

Additionally, a key driver of self-care is breakthrough innovation that addresses the latent unmet needs of consumers and enables individual autonomy. Such innovation comes in many forms, including new product formulations, telemedicine, health monitoring devices, mobile apps, and other technologies. The potential of innovation to drive growth cannot be understated, and our survey found that most consumers want more autonomy to meet their health and wellness goals.

Large and growing consumer health and wellness market

According to IRI, U.S. consumers spent \$105 billion on consumer health and wellness in 2021, about 70% of which is represented by in-store sales and the remaining 30% by e-commerce. From 2017 to 2021, the market grew at a 5% compound annual rate in the store due to increased demand, innovation, and pricing.

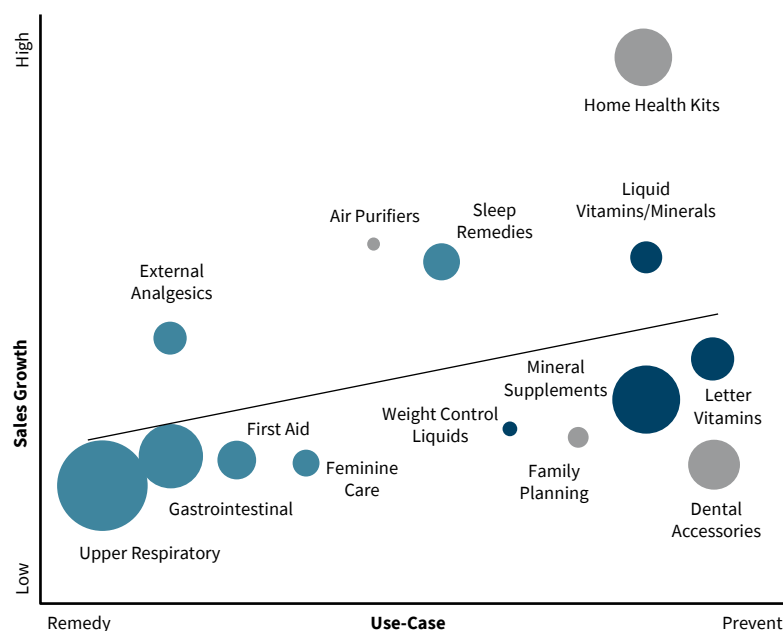
Consumer health and wellness market segmentation³



Products focused on prevention are growing rapidly

Over the past four years, the growth rates of consumer health and wellness products focused on prevention grew faster than those oriented to remedying existing conditions.

Growth of sales and use-cases: OTC, VMS, and devices⁴



Bubble size reflects share of total sales. Use-case rank is based on qualitative assessment of the consumers' use of products in specific categories.

2. Source: IRI.

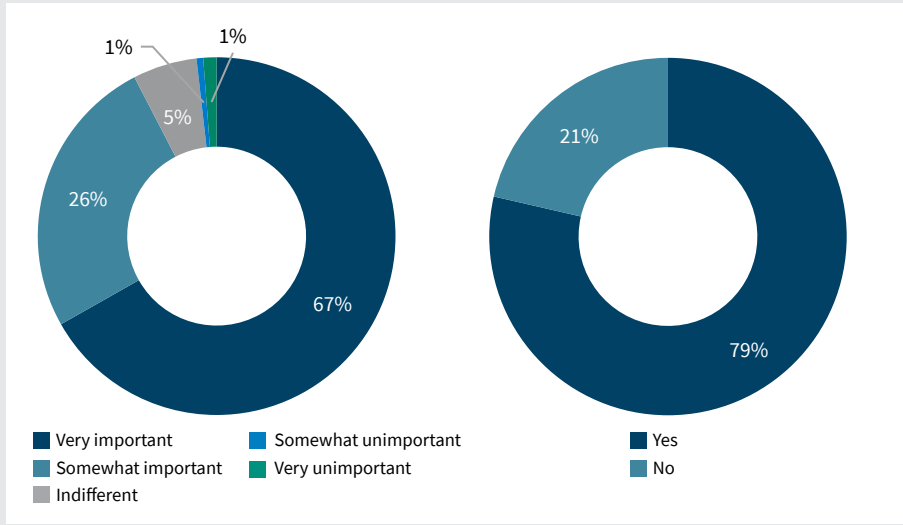
3. Sources: Company announcements.

4. Sources: IRI, William Blair Equity Research.

Consumers prioritize self-care⁵

How important is actively improving your health and wellness to prevent future health complications and enhance your wellbeing (i.e., practicing self-care)?

Have you made, or are you making, lifestyle changes to better prevent future health complications and improve your overall well-being?



Megatrend Two: Consumer behavior changes

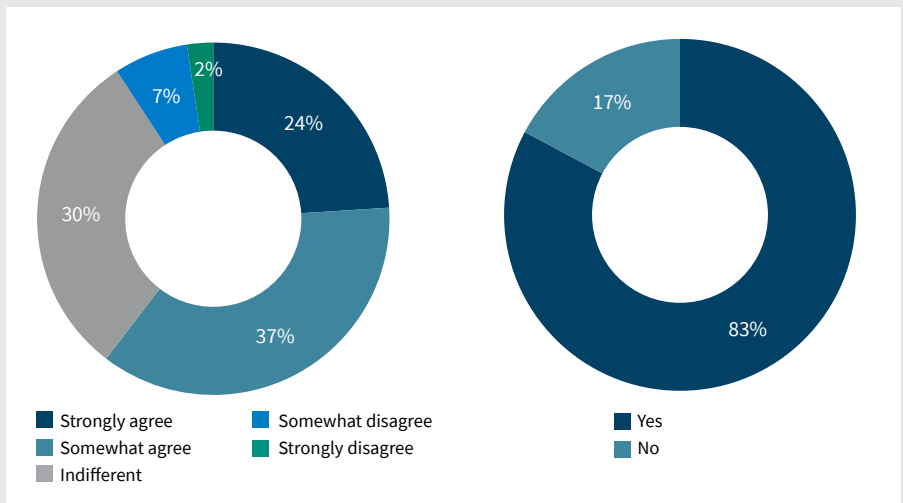
Consumers are generally better-informed today and empowered to take control of their health and wellness. The COVID-19 pandemic has caused consumers to rethink their priorities, driving a more holistic approach to health and wellness. Our survey shows that a majority of consumer purchases now address more health and wellness need states than just 12 months ago, and most consumers are willing to buy new products to address new need states.

With the migration to e-commerce, consumers' desire to interact and transact with brands online has increased. Given this dynamic, direct consumer engagement is paramount. First-party data informs business optimization—including innovation, marketing, pricing, and promotion—in ways that reduce customer acquisition costs, increase lifetime value, grow household penetration, and increase buy rates. Additionally, content is critical to digital marketing, because over half of all product searches originate on Amazon. Finally, online communities are key to an engaged user base. Our survey found that over four in five consumers participate in online communities related to health and wellness. Consumers rely heavily on these communities for information and education about their health and wellness regimens, and a strong community can drive word-of-mouth more than paid advertising.

Change in consumer health and wellness purchase behavior⁵

Do you agree that your current purchases address more health and wellness needs than they did 12 months ago?

Are you willing to buy new OTC medications or VMS to treat a broader range of wellness needs?



Megatrend Three: Importance of omnichannel approach

While the COVID-19 pandemic accelerated the shift to online, e-commerce growth rates are now normalizing, and consumers are returning to physical stores. Given this dynamic, brands should focus on establishing an optimized footprint that features channels working together to deliver the best outcomes for the brand. This is particularly important given the speed at which consumers are rapidly migrating from device to device and online to in-person.

Retail currently offers broader reach, but e-Commerce represents future growth. Performance of the VMS category in 2021 is a good example of this, with in-store purchases representing 72% of sales and Amazon sales growing at 43%.⁶

The benefits of an omnichannel approach are demonstrated by RedCon1, a rapidly growing creator and seller of premium supplements for individuals seeking to optimize their daily active lives. The company initially brought its products to market through its website before expanding into fitness centers and gyms as well as specialty stores such as GNC and Vitamin Shoppe. Since then, RedCon1 has expanded into large retailers like Walmart.

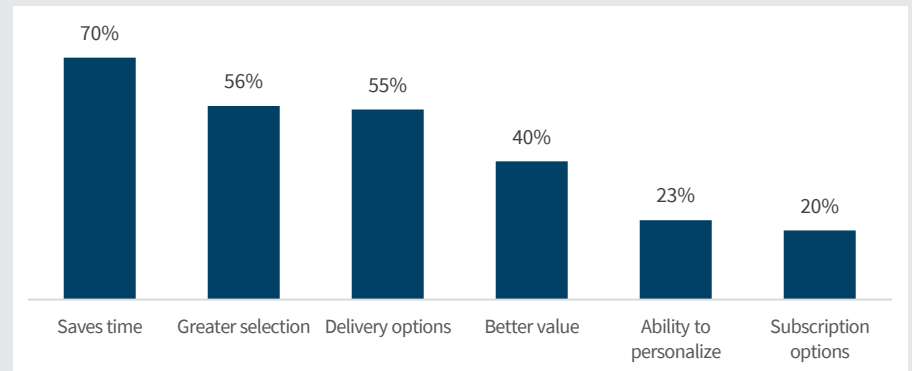
Megatrend Four: Innovation in product forms and functions

Brands that successfully innovate—including through meeting latent unmet needs, personalization, technology, research in promising fields, and clean ingredients—can unlock tremendous growth by driving new consumers to existing categories or newly created categories.

Meeting latent unmet needs: A key objective of innovation in health and wellness is to meet consumers' needs in new ways that were not previously considered or were not previously available. This approach is embodied by Bonafide, which delivers a new health experience to women with a range of naturally derived, clinically validated solutions for menopausal symptoms. Another example is Rae Wellness, which is passionately opening dialogue about important women's health topics and delivering high-quality supplements at accessible price points to all women.

Multiple drivers of online health and wellness purchases⁷

Why do you purchase health and wellness products online?



Personalization: There is rapidly growing interest in personalized health and wellness products and services due to the clear need state in this area. As evidence of this trend, more than 6 in 10 supplement users show strong interest in personalized supplements, and 75% of them said they would pay a premium for personalization.⁸ One example of a rapidly growing leader in personalized solutions is Gainful, which uses a proprietary survey to analyze consumers' health and wellness goals and delivers a customized protocol including pre-workout, protein powder, hydration, and performance boosters, as well as access to registered dietician services for free.

Technology: Consumers' desire for greater personal autonomy in achieving their holistic goals is demonstrated in their growing use of technology, including digital devices and services. Our survey found that about one-half of consumers are using or have used health monitoring devices, mobile apps, fitness measurement devices, and/or prescription refill ordering. Importantly, almost one-half of consumers report that they plan to increase their use of such technology in the next 12 months.

Research in promising fields: Research in promising fields is fostering product innovation, particularly related to a holistic approach to health and wellness, such as in the area of gut health. The gut microbiome plays an important role in overall human health, and over the past five years venture investors have pumped \$1 billion into U.S. companies working in this area.⁹ For example, Pendulum Therapeutics (founded in 2013) is addressing imbalances in the gut

microbiome through research that uses next-generation DNA sequencing technologies. Its line of medical probiotics features the efficacy of traditional pharmaceuticals and the safety and accessibility of probiotics.

Clean ingredients: Consistent with consumers' preference for organic or natural products, clean ingredients are gaining traction in consumer health and wellness. Our survey showed a majority of consumers are interested in and willing to pay more for products made with ingredients that are free of artificial flavors, dyes, and other additives. Due to the general demand for accuracy in labeling, we expect that terminology such as organic, non-GMO, vegan, and gluten-free will migrate to labels for consumer health and wellness products over time. One example of an innovative clean ingredients company is Genexa, a clean medicine company that uses a patented system to make OTC products with the same active ingredients as category leaders but without artificial preservatives, dyes, sweeteners, and common allergens.

6. Source: ClearCut Analytics.

7. Source: William Blair survey.

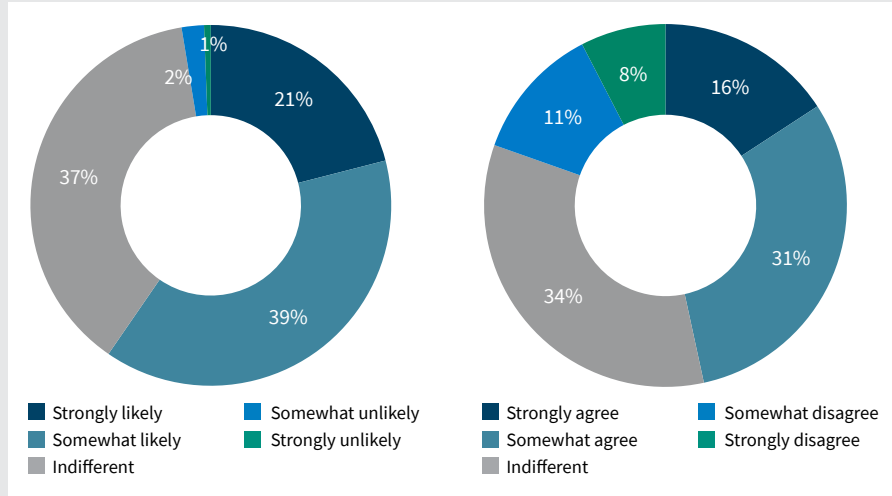
8. Source: Natural Marketing Institute.

9. Source: PitchBook Data, Inc.

Consumers are interested in greater personalization and clean ingredients¹⁰

Would you be more likely to purchase a health and wellness product or service if it was personalized (e.g., formulation, dose, therapy)?

Do you agree that you are planning to increase the use of devices or mobile apps to help you address a health and wellness goal in the next 12 months (versus the amount you used them in the past)?



Megatrend Five: Evolving role of the healthcare practitioner

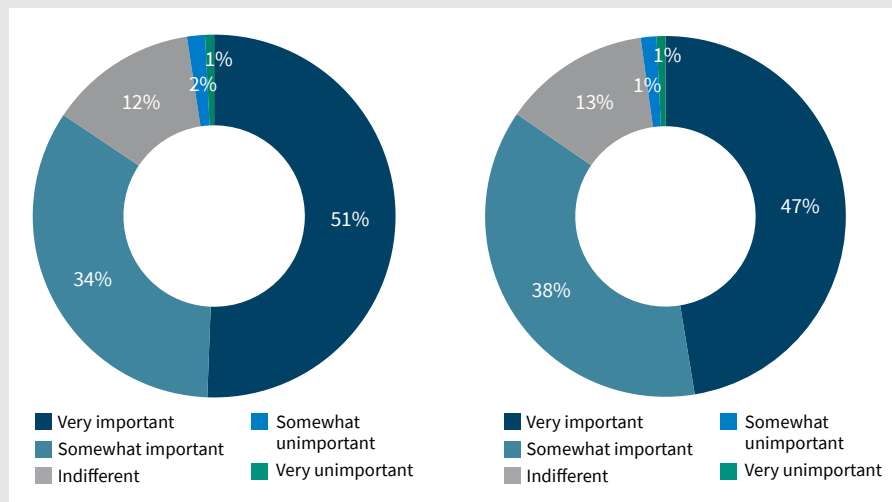
New technologies, better-informed and empowered consumers, and a shift in healthcare professionals' focus from curing to prevention have the potential to transform healthcare delivery. Our survey shows that the vast majority of consumers want their practitioners to consider preventative measures as part of their healthcare and counsel them on consumer health and wellness products as alternatives to prescriptions and medical procedures. In addition, consumers are increasingly using technology-based tools to get information on medical costs and health issues, track their health, make care-related decisions, and interact with practitioners.

One example of a leading company in integrative medicine is Fullscript, a tech-enabled supplement dispensing platform and patient adherence tool that supports practitioners at the point of care and beyond. The platform offers practitioners easy ways to manage their dispensary, recommend specific treatment plans for customers, optimize patient follow-ups, and automate product reorders. Practitioners can discover products on the Fullscript platform and recommend them to patients, providing a one-stop-shop experience.

Consumers want healthcare providers to focus on preventative measures¹⁰

How important is it that your healthcare practitioner considers long-term preventative initiatives when addressing existing health and wellness needs?

How important is it that your healthcare practitioner recommends products or services that will improve long-term outcomes (e.g., vitamins, minerals, or supplements) in addition to existing health and wellness needs?



Value Creation Frameworks in Consumer Health and Wellness

In this section, we provide frameworks to assist investors and industry participants when evaluating value creation opportunities.

Business model alignment

As shown in the visual below, there is strong growth potential in portfolios that are strategically aligned with consumers' interests in preventative care or chronic needs, particularly as people assume more control over their own health and wellness; focus on

aspirational, in addition to conventional, need states; and provide holistic rather than niche care that supports a broader set of use-cases. Products with these characteristics have a better chance of becoming a regular part of consumers' health and wellness approaches.

Additionally, there are multiple operating capabilities that are key for success in the consumer health and wellness market.

At the top of the stack is portfolio management—how a company

regulates and resources its brands to maximize the value of the portfolio. Effective portfolio management involves carefully analyzing each brand, allocating resources based on strategic and financial goals, and providing support for brand-specific channel, customer, and consumer marketing programs.

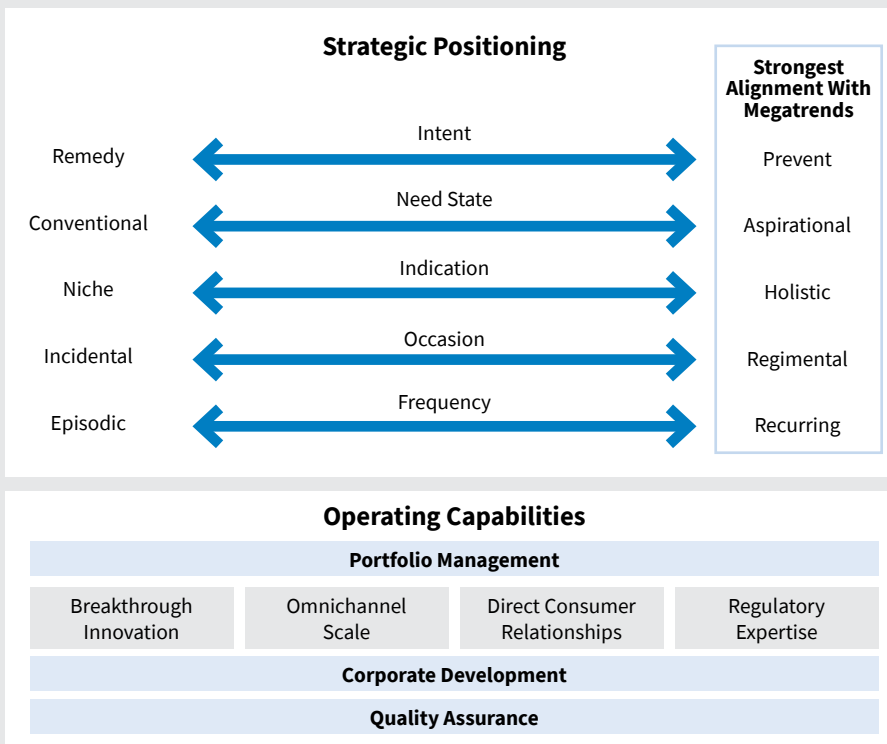
Within portfolio management, to accomplish breakthrough innovation, companies must take a holistic view of the entire innovation journey, including having a reliable roadmap that enables sustained and relevant new product launches. Omnichannel scale means determining how the range of available channels—both online and offline—can work together to deliver the best outcomes for a brand. Direct consumer relationships are critical today because of the value of connected devices, which have redefined the shopping experience and altered how and when consumers learn about products and decide to make a purchase. Consumer health and wellness companies must also maintain a clear understanding of new and existing regulations that impact their products and processes as well as document their protocols and maintain data to ensure proper compliance.

Below portfolio management in the stack is corporate development—a company's efforts to create value through external means, including bolt-on acquisitions to address whitespace in the portfolio and divestitures of non-core assets. And at the bottom of the stack is quality assurance, another key capability, as many companies today are dealing with product quality issues in the face of labor and supply chain challenges.

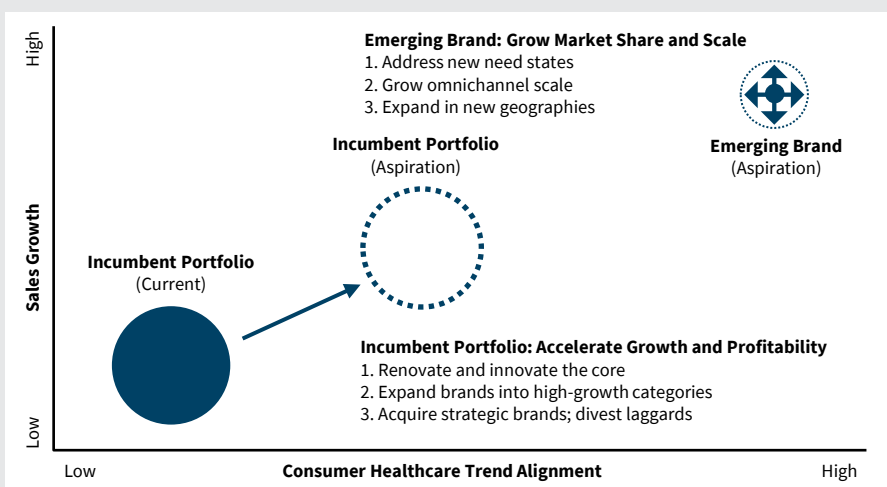
Business development approaches

Established health and wellness companies can renovate and expand their portfolios through organic efforts as well as through M&A and other external efforts. The market also features ample whitespace for emerging brands and start-ups that are positioned attractively. As shown in the visual on the side, incumbent companies with established brand portfolios may be able to accelerate sales growth by innovating at the core, expanding brands into higher-growth categories, and acquiring strategic brands. Emerging brands can develop strategies to drive growth and profitability through market share expansion and scale, which involves addressing new need states, growing omnichannel scale, and pursuing new geographies.

A framework for business model alignment in consumer health and wellness¹¹



A framework for business development approaches in consumer health and wellness¹¹



11. Source: William Blair. Exhibit is for illustrative purposes only.

Highly Active Consumer Health and Wellness M&A Environment

M&A activity in the consumer health and wellness market is supported by a number of participants. Pure-play health and wellness companies such as Prestige Consumer Healthcare and Jamieson Wellness are actively acquiring scale brands. Consumer packaged goods companies such as Unilever, Nestle, and Church & Dwight are acquiring health and wellness companies to boost growth and profitability. Many large pharmaceutical companies, such as GSK and Johnson & Johnson are divesting or spinning off consumer units to drive value creation. Finally, private equity and venture capital sponsors see opportunities in businesses that align with the key market trends described earlier. Examples include PE-owned platforms such as Advantice Health, Arcadia Consumer Healthcare, Bridges Consumer Healthcare, Scholl's Wellness, and Vytalogy Wellness.

The active deal market in the industry consists of venture capital seeding early-stage concepts, private equity funding growth for profitable midstage businesses, and public market strategics seeking to increase shareholder value. Since early 2017, M&A activity has been strong and relatively steady with an average of 56 deals and \$2.5 billion of capital invested per quarter. In 2021, capital invested

nearly tripled compared to 2020, from \$6 billion to \$16 billion.¹²

William Blair has been involved in several transactions that reflect strong interest in consumer health and wellness M&A.

- **Biote merger with Haymaker Acquisition Corp. III:** William Blair advised Haymaker Acquisition Corp. III (NASDAQ:HYAC), a publicly traded special purpose acquisition company (SPAC), in connection with its merger with Biote in May 2022. Biote is a consumer-directed health and wellness company that is transforming health outcomes for the large and growing segment of the population experiencing hormone imbalances, a widespread and underdiagnosed problem that increases risk of disease and impacts approximately 200 million Americans.
- **PronoKal Group acquired by Nestle Health Science:** William Blair advised Abac Capital and PronoKal in connection with the sale of PronoKal to Nestle Health Science in March 2022. PronoKal is a European leader in medical weight loss treatment, providing a science-backed multidisciplinary treatment method that combines medical prescription, high-quality dietary products, nutritional coaching,

physical training, and applied genomics.

- **Fullscript growth investment led by HGGC and Snapdragon:** William Blair advised Fullscript in connection with a strategic growth investment led by HGGC and Snapdragon Capital Partners in November 2021. Fullscript is a tech-enabled supplement dispensing platform and patient adherence tool that supports practitioners at the point of care and beyond.
- **Akorn Pharmaceuticals' consumer health business acquisition by Prestige:** William Blair advised Akorn Pharmaceuticals in connection with the sale of its consumer health business to Prestige Consumer Healthcare in July 2021. Akorn's consumer health business is a leading portfolio of branded OTC solutions across dry eye, cough and cold, and natural pain relief.
- **Ranir acquisition by Perrigo:** William Blair advised Ranir, the leading domestic provider of private-label oral care products including toothbrushes, dental flow, teeth whiteners, and other accessories, in its sale to Perrigo in July 2019. This acquisition was part of Perrigo's transformation strategy launched in early 2019 to refocus the organization around self-care.

Select Recent Consumer Health and Wellness M&A Transactions¹²

USD millions

Company	Deal Date	Transaction Size	Deal Description
HRA Pharma	5/2/2022	\$1,900	Acquired by Perrigo
TheraBreath	12/27/2021	\$580	Acquired by Church & Dwight
Fullscript	11/10/2021	\$240	Private Financing
The Bountiful Company	8/9/2021	\$5,750	Acquired by Nestle
Akorn Consumer Health	7/1/2021	\$230	Acquired by Prestige
Matrixx Initiatives	12/1/2020	\$533	Acquired by Church & Dwight
Natrol	11/30/2020	\$550	Acquired by Vytalogy
Care/Of	11/17/2020	\$158	Acquired by Bayer
Ranir	7/1/2019	\$750	Acquired by Perrigo
Merck (Consumer Health)	11/30/2018	\$3,838	Acquired by Procter & Gamble
Nutranext	4/2/2018	\$700	Acquired by Clorox
Atrium Innovations	3/1/2018	\$2,300	Acquired by Nestle
Teva	11/2017	\$675	Acquired by Foundation
Waterpik	8/8/2017	\$1,000	Acquired by Church & Dwight
Fleet Laboratories	1/26/2017	\$825	Acquired by Prestige
Dentek	2/8/2016	\$225	Acquired by Prestige

To learn more about the key themes driving M&A interest in the consumer health and wellness market, including access to William Blair's proprietary consumer survey, please reach out to William Blair's consumer investment banking team.

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