Value-added development partners across the consumer products spectrum attracting significant M&A attention

Value-added development partners—a term used to describe companies that help brands and retailers bring products to market and provide additional value beyond the standard contract manufacturing and packaging services—are playing an essential role in the growth and profitability of multiple highly attractive consumer end markets.

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Emerging consumer brands and large CPG companies alike lean on value-added development partners to innovate, develop, and bring to market high-value, bespoke products within rapidly growing areas of the B2B consumer market, including the beauty and personal care, consumer health/self-care, and household products sectors. These industry players have thrived in recent years due to powerful macro tailwinds, including but not limited to the proliferation of emerging, high-growth consumer brands, increased outsourcing of manufacturing and packaging services by large CPG companies, consumers' elevated focus on wellness and self-care, and growing demand for innovative and sustainable products. Merger and acquisition (M&A) attention on value-added development partners in these sectors has increased over time due to a number of factors. The non-discretionary, consumable nature of the products produced by value-added development partners makes them largely recession-resilient, with consistent demand and long-term growth regardless of economic cycle. In addition, value-added partners provide investors with an opportunity to invest in attractive end markets via a diversified basket of customers and products (i.e., an "index play" on the respective sectors), thereby limiting single-brand risk. Furthermore, these end markets are massive and global in nature and yet still highly fragmented, which provides acquirers numerous opportunities to expand their capabilities and geographic footprint, realize synergies, and ultimately drive value via tuck-in acquisitions or greenfield expansion once a platform has been established.

We explore the market for value-added development partners in beauty and personal care, consumer health, and household products and highlight key valuation drivers as well as select transaction activity in the space. While these trends are also relevant in other consumer sectors, such as food and beverage, we focus primarily on the sectors noted above because of their more emerging and fragmented status today.

Market overview and dynamics

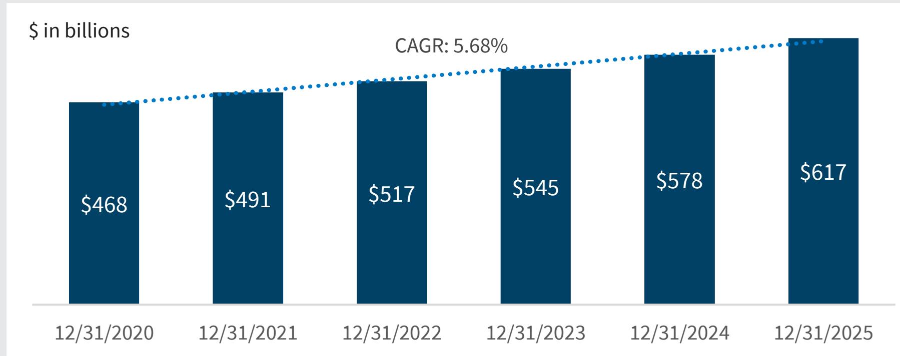
Value-added development partners help to facilitate brands bringing products to market in various ways, including supplying ingredients; providing formulation, manufacturing, and filling services; and packaging products before they are shipped to the end consumer. These partners typically offer complementary capabilities and expertise in these and other supporting functions so brands can focus their attention on marketing and driving sales. The highest-value providers have capabilities beyond those of traditional contract manufacturers, including differentiated capabilities in areas like research and development, innovation, custom formulations, and product design and engineering support to help brands bring truly differentiated consumer products to market.

Value-added manufacturers and development partners are the focus of increased M&A attention partly because they are addressing very large and growing end markets, including:

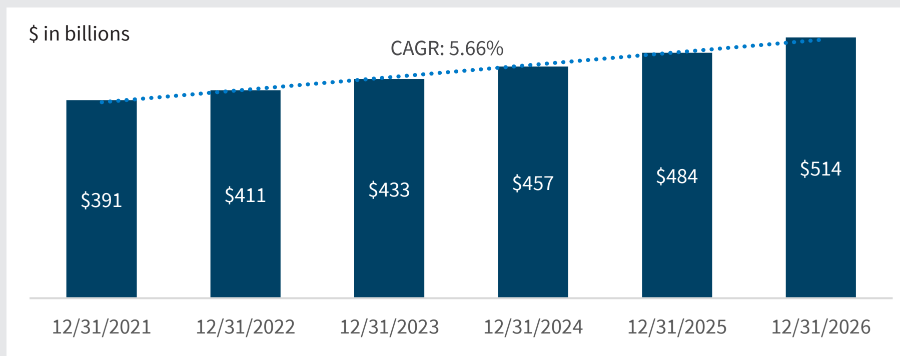
- **Beauty and personal care:** The global beauty and personal care market is projected to grow from $468 billion in 2020 to $617 billion by 2025 at a compound annual growth rate of 5.7%.
- **Consumer health:** The consumer health market—including vitamins, minerals, and supplements (VMS), over-the-counter (OTC) products, and healthcare devices—is a nearly $400 billion market globally today and is projected to grow to more than $500 billion by 2026 at a compound annual growth rate of 5.7%.
- **Home and laundry care:** The global home and laundry care market is projected to grow from $184 billion in 2021 to $224 billion in 2026 at a compound annual growth rate of 4.0%.

Key end markets - size and growth rates

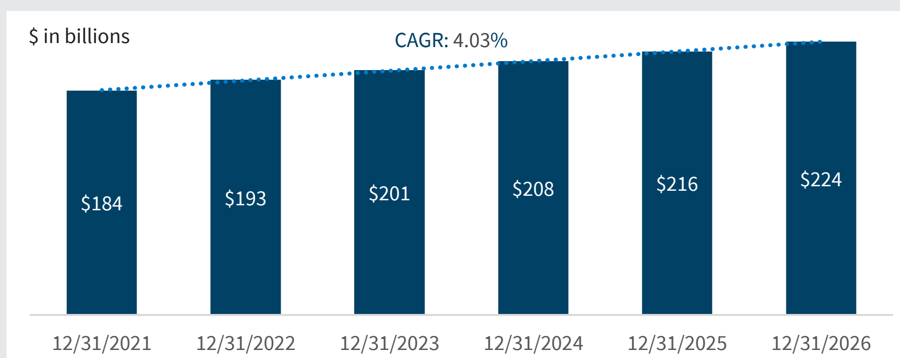
Beauty and Personal Care[1]



Consumer Health[2]



Home and Laundry Care[3]

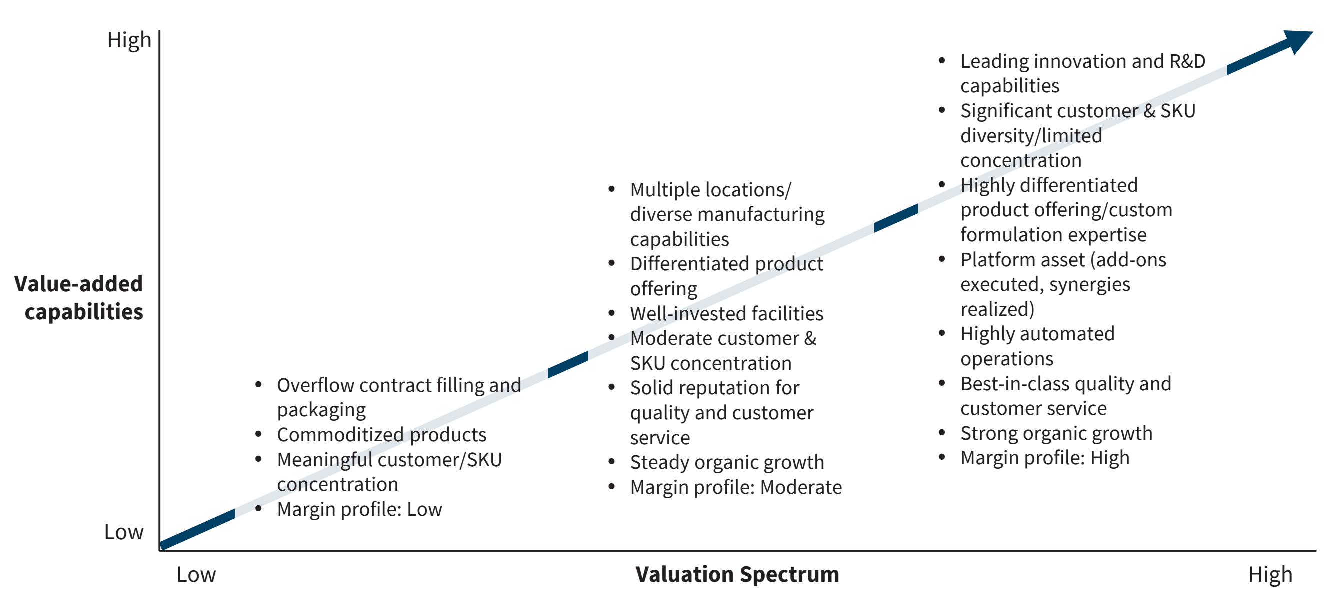


The market for these types of products continues to evolve based on shifting consumer preferences, and so does the role of value-added development partners. In the past, these companies were generally viewed as unsophisticated businesses providing basic outsourced functions for brands, such as simple overflow contract filling and packaging services. They tended to trade at lower valuations to match the perceived limited value they provided to brands as well as their general lack of differentiation.

The market has evolved significantly over the past few years. Today, many value-added partners trade at premium valuations due to their ability to provide advanced capabilities and expertise as well as unique, custom formulations, allowing brands to focus their attention on sales and marketing efforts. Those that truly add value serve as collaborative, innovative partners and work closely with brands to bolster research and development capabilities and enhance the potential for success with new product launches.

1. Technavio's Personal Care Market by Product and Geography - Forecast and Analysis 2021-2025, published in September 2021, by Infiniti Research.
2. Technavio's Consumer Healthcare Market by Product and Geography - Forecast and Analysis 2022-2026, published May 2022, by Infiniti Research.
3. Statista, Home & Laundry Care, 2022–2026.

Illustrative Framework for Evaluating Value-Added Development Partners



The chart above provides a framework for investors when evaluating M&A opportunities in this sector. Companies with limited value-added capabilities and more commoditized products and services tend to trade at EBITDA multiples in the mid- to high-single-digit range. Those with a higher degree of value-added capabilities typically trade at EBITDA multiples in the double digits, and best-in-class operators with truly differentiated capabilities can trade for EBITDA multiples well into the teens.

Consumer tailwinds are also bolstering demand for value-added development partners. Consumers are driving innovation as they seek new specialty items, sustainable products and processes, and clean and healthy ingredients. Consumers are also showing a greater willingness to try new brands, strengthening the potential growth of value-added partners that serve emerging asset-light consumer brands.

What is driving value among value-added development partners?

There are several exciting themes driving M&A interest in value-added development partners:

Favorable market dynamics: As noted above, value-added development partners are playing instrumental roles in very large and growing end markets. Many of these markets feature resilient consumer demand, as consumers have shown a willingness to continue investing in their personal health and wellness even during challenging economic times. In addition, the non-discretionary, consumable nature of these products provides a buffer against economic cycle risk. This strong, resilient consumer demand bolsters the confidence that these investments are less risky and more likely to provide an attractive return.

Opportunity to gain diversified exposure to attractive end markets: Rather than taking a concentrated bet on a single brand or product offering—which is a challenging proposition for many financial sponsors—investing in value-added partners that serve a portfolio of brands allows investors to limit single-brand risk and build more diversified exposure to key macro trends and products shaping the consumer sector today.

Proliferation of asset-light consumer brands: Today, more and more brands are emerging that are asset-light—in other words, they are virtual companies that do not have significant operations or manufacturing capabilities but are true innovators bringing unique and differentiated products to market. A recent explosion in the number of asset-light consumer brands has led to an increasing need for value-added development partners that can facilitate the development and manufacturing of products and the ability to bring them to market in efficient and scalable ways.

Large CPG companies' need for flexibility: Demand for innovative value-added development partners has grown as large consumer packaged goods (CPG) companies are acquiring and managing emerging asset-light brands. Rather than bringing product manufacturing for such emerging brands in-house, many large CPG companies are increasingly relying on partners to develop and manufacture these products. Many large CPG companies recognize that their core competencies are in sales and marketing and therefore are willing to outsource manufacturing and other processes to value-added partners to ensure they are able to meet the demand of their end consumers.

Consumers' growing focus on health and wellness: The health and wellness space is particularly attractive as consumers are increasingly embracing healthy lifestyle choices and showing a willingness to pay a premium for self-care products that add to their health and personal well-being. Recent trends among consumers include:

- An increased reliance on OTC products, which tend to be significantly more cost effective than prescriptions yet still highly efficacious;

- Additional focus by consumers on investing in personal wellness, including more advanced skin and hair care regimens and various nutritional products, resulting in an overall improvement in general health habits;
- A willingness to pay a premium for natural, clean, and organic products; and
- An openness to purchase products via a variety of delivery channels including direct-to-consumer, telehealth, and specialty retail.

Convenience and cost savings are also at play as some consumers desire quick, inexpensive, self-directed treatments—including over-the-counter medications and solutions—over doctor visits and prescriptions. This emphasis on self-care also includes a greater focus on oral self-care.

Demand for innovation and sustainability: To be truly differentiated in these markets, brands must be able to anticipate and respond to changing consumer preferences and consistently deliver innovative new products to the market. There is also strong and growing desire from consumers for sustainable products, supply chain partners, processes, and packaging solutions. The ability to collaborate and innovate with brand partners in these areas is critical. Partnerships with value-added specialty firms that can help sustain and accelerate growth and enhance capabilities can provide a critical competitive edge.

Successful consolidation strategies

While these sectors remain highly fragmented, several strategic consolidators (many of whom are backed by leading private equity firms) have been actively executing on roll-up strategies and have demonstrated that consolidation can lead to benefits of scale, including geographic and capability diversification that allows value-added partners to serve customers more broadly and drive operating efficiencies via cost synergies. Examples of successful consolidators include:

- **KDC/One:** a global provider of value-added solutions to many of the world's leading brands in the beauty, personal care, and home care categories. KDC/One has been one of the most active global consolidators in the beauty and personal care sector and currently operates 25 manufacturing facilities across North America, Europe, Asia, and Latin America. KDC/One is a portfolio company of Cornell Capital, and KKR and CDPQ are also part of the existing investor group.
- **PLZ Corp:** a leading manufacturer of specialty brand and private label aerosol and liquid products in North America. PLZ has been another major consolidator, operating 17 manufacturing facilities in North America and ~2.7 million sq. ft. of manufacturing space. PLZ operates within the Pritzker Private Capital family of companies.
- **Voyant Beauty:** a full-service manufacturing and innovation partner to leading brands across the beauty and personal care industry. Voyant operates 15 manufacturing facilities across the United States, Canada, and Europe, and materially expanded its operating footprint and capabilities via the acquisition of KIK Personal Care in 2020 (William Blair acted as financial advisor to KIK). Voyant Beauty (f/k/a Vee Pak) is a portfolio company of Wind Point Partners.
- **DCC Health & Beauty Solutions (LSE: DCC):** a manufacturer and supplier of nutritional, cosmetic, health, and pharmaceutical products to world-leading health and beauty companies. DCC Health & Beauty operates across eight strategic facilities in Europe and North America and is a part of the leading international sales, marketing, and support services group DCC plc.
- **Innovations in Nutrition and Wellness (INW):** a leader in custom R&D, manufacturing, and marketing support solutions for global brands that serve the fast-growing nutrition and wellness industry. INW has executed on several strategic acquisitions over the past few years to further expand its geographic footprint and product offerings. INW is a portfolio company of Cornell Capital.
- **Truvant:** a provider of a wide range of scalable contract packaging, contract manufacturing, and supply chain solutions to many of the world's leading food, consumer, household, and industrial brands. Truvant was formed when Prairie Industries, along with its partner company Nu-Pak, acquired Sonoco's European contract packaging business, creating a global operation with 15 facilities in five countries. Truvant is a portfolio company of The Halifax Group.
- **Vantage Specialty Chemicals:** a global natural chemistry company that creates, produces, and sources high-end and tailored specialty chemicals and ingredients incorporated into everyday products across multiple end markets, including personal care, food, and various other industrial and consumer applications. Vantage has significantly expanded its operations, end market expertise, and global reach over time via multiple accretive acquisitions. Vantage is a portfolio company of H.I.G. Capital, and The Jordan Company is also a minority investor in the business.
- **Arizona Natural Resources (ANR):** a leading full-service contract manufacturer, formulator, and distributor of customized hair care, skin care, fragrance, and cosmetic products. ANR has more than 800,000 square feet of production space and 70 filling lines across four manufacturing facilities in the United States. ANR is a portfolio company of CORE Industrial Partners.

Additional platforms in these sectors have also successfully executed on roll-up strategies of one or more add-on acquisitions to expand their capabilities and/or geographic reach, including **Bright Innovation Labs** (backed by Aterian Investment Partners); **Cosmetic Solutions** (backed by Lee Equity); **Elevation Labs** (backed by Knox Lane); **Hunter Amenities** (privately held); **Oxygen Development** (privately held); and **SV Labs** (backed by San Francisco Equity Partners).

Recent William Blair transactions highlight value drivers

William Blair has been involved in several recent transactions that highlight investors' growing interest in value-added development partners and other companies in the consumer health and personal care market, including:

- **Elevation Labs acquired by Knox Lane:** Elevation Labs is an industry leading, value-added developer for the most dynamic, high-growth beauty brands in the world. The company offers custom development and comprehensive manufacturing solutions, with expertise in both traditional and high-performance clean beauty, including skincare, haircare, color cosmetics, and OTC products. Elevation operates out of two best-in-class facilities with broad and diverse formulation and filling capabilities, providing innovation expertise through award-winning products. William Blair advised Elevation Labs on its sale to Knox Lane.
- **Revision Skincare and Goodier Cosmetics acquired by Gryphon:** Revision Skincare and Goodier Cosmetics combined represent a leading independent skincare platform delivering highly efficacious, clinically proven skincare products and strong development capabilities. Revision's portfolio includes well-known franchises such as Nectifirm®, Intellishade®, D·E·J, and Revox™. Goodier Cosmetics is a trusted developer and manufacturer in cosmetic and OTC topical skincare solutions with best-in-class, in-house formulation and R&D capabilities. William Blair advised Gryphon Investors on its acquisition of Revision and Goodier.
- **KIK Personal Care acquired by Voyant Beauty Holdings.** KIK Personal Care (KPC) is a leading full-service partner to leading global brands as well as high-growth, rapidly emerging brands across the personal care and beauty industry. The company operates a network of facilities across North America, with broad and diverse development and manufacturing capabilities across a wide range of products. William Blair advised KIK Custom Products in the divestiture of its Personal Care business (KPC) to Voyant Beauty, a portfolio company of Wind Point Partners.
- **Ranir acquired by Perrigo.** Ranir is a leading global manufacturer of store brand, private label consumer oral care products, including power and manual toothbrushes, teeth whiteners, dental floss, flossers, and interdental brushes. Its products, which include some of the world's largest oral care store brands, can be found at major retailers across the globe. William Blair served as exclusive financial advisor to Ranir in its sale to Perrigo (NYSE: PRGO). The transaction supported Perrigo's transformation to a consumer-focused, self-care company while enhancing its global leadership in consumer self-care solutions.
- **TEAM Technologies acquired by Clearlake Capital.** TEAM Technologies is a leading end-to-end manufacturing solutions provider of medical and dental products. TEAM offers its customers turnkey processes and solutions for every stage of the development and manufacturing process, ranging from product design and development to finished device manufacturing, assembly, and packaging. William Blair advised TEAM Technologies on its sale to Clearlake Capital.

The value-added development partners investment thesis is also playing out in other areas of the B2B consumer market. This includes the food and beverage sector, which is several years ahead and has already seen substantial consolidation activity relative to the sectors highlighted in this report, as well as the apparel industry. A recent example in the apparel sector is the acquisition of **PrimaLoft** by Compass Diversified (NYSE: CODI). William Blair acted as financial advisor to **PrimaLoft**, which is an advanced material technology company and leader in research and innovative development of comfort solutions with high-performance insulations and fabrics for leading apparel brands.

The B2B consumer market is a dynamic and highly attractive sector in which innovative, value-added partnerships can provide a critical competitive edge for both emerging and established consumer brands. To learn more about the trends shaping M&A activity in the B2B consumer sector, please do not hesitate to reach out to the consumer and retail team at William Blair.

Select William Blair Transactions

Not Disclosed	Not Disclosed	Not Disclosed	$750,000,000	Not Disclosed	$530,000,000
Elevation Labs a portfolio company of Clearview Capital	Gryphon Investors	KIK Personal Care a division of KIK Custom Products and portfolio company of Centerbridge Partners	Ranir	TEAM Technologies	PrimaLoft a portfolio company of Victor Capital Partners
has been acquired by	has acquired	has been acquired by	has been acquired by	has been acquired by	has been acquired by
Knox Lane	Revision Skincare / Goodier Cosmetics	Voyant Beauty a portfolio company of Wind Point Partners	Perrigo	Clearlake Capital	Compass Diversified