

Sparked by Innovation, Fueled by Consumption - Emerging Ingredients Trends

In-Cosmetics 2011

Day 1, March 29th

Milan, Italy

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 **Kline**

Today's Presentation

“Fueled by Consumption”

- What is the current landscape of the personal care industry?

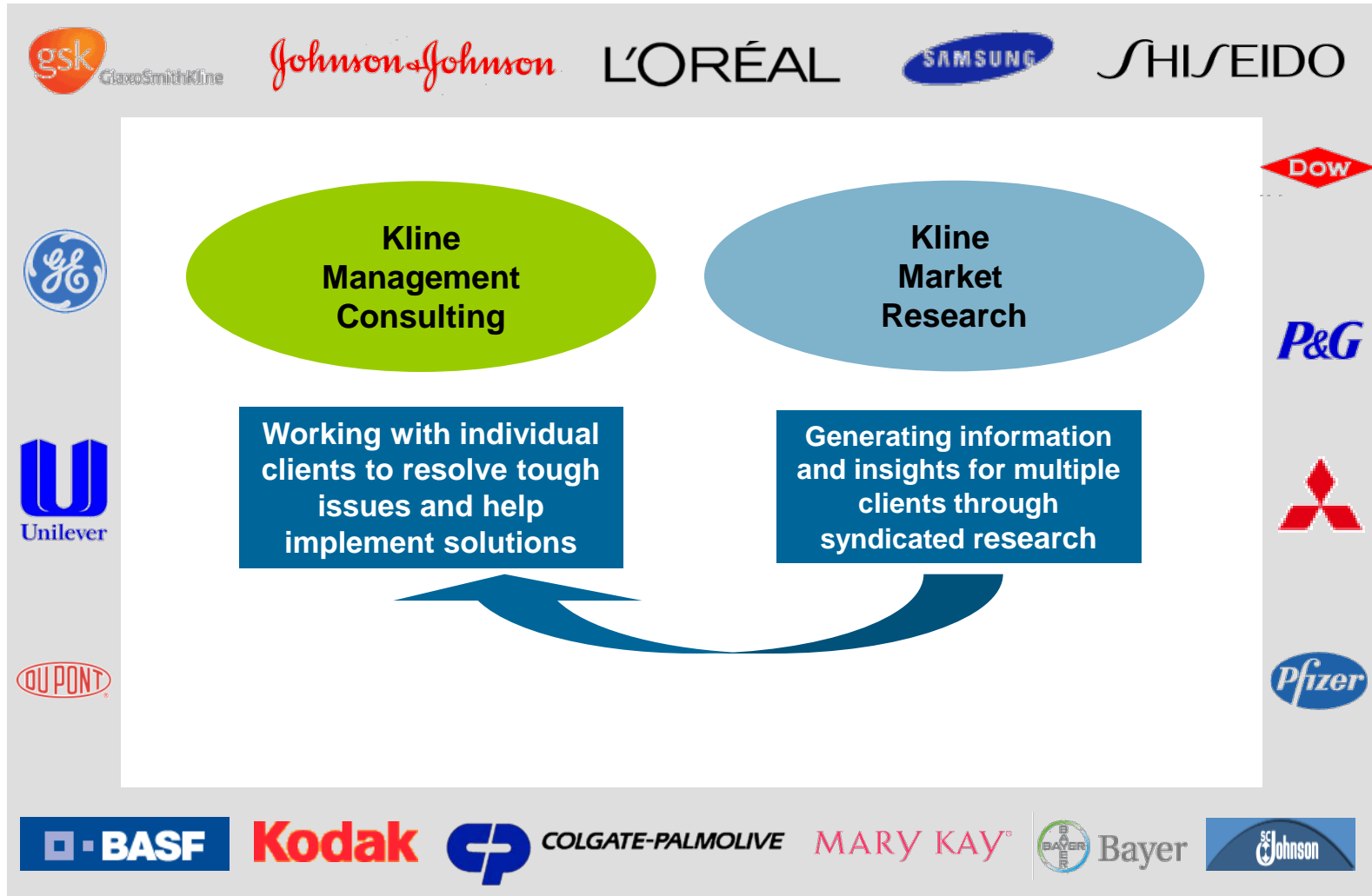
“Sparked by Innovation”

- What trends are occurring at the brand level?
- What innovations are occurring at the brand level?

“Emerging Ingredient Trends”

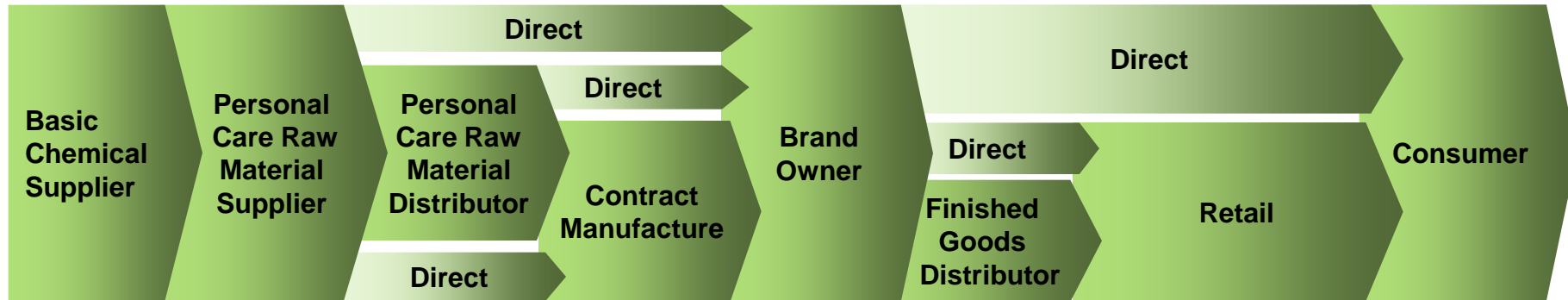
- What trends are occurring at the ingredient level?

Kline & Company is a leading management consulting and market research firm, active within chemicals and related industries



With over 40 years activity in this industry, our personal care domain expertise covers the whole value chain

Personal Care Value Chain



- Antimicrobials
- Conditioning polymers
- Emollients
- Film formers
- Hair fixative polymers
- Rheology control agents
- Skin whitening agents
- Specialty actives
- Specialty delivery systems
- Specialty and commodity
- UV absorbers

- Fragrances
- Hair care
- Makeup
- Nail care
- Oral care
- Skin care
- Toiletries

- Department stores
- Direct sales
- Drug outlets
- Food stores
- Mass merchandisers
- Pharmacies/
perfumeries
- Salons
- Spas/beauty institutes
- Specialty stores

Today's Presentation

“Fueled by Consumption”

- **What is the current landscape of the personal care industry?**

“Sparked by Innovation”

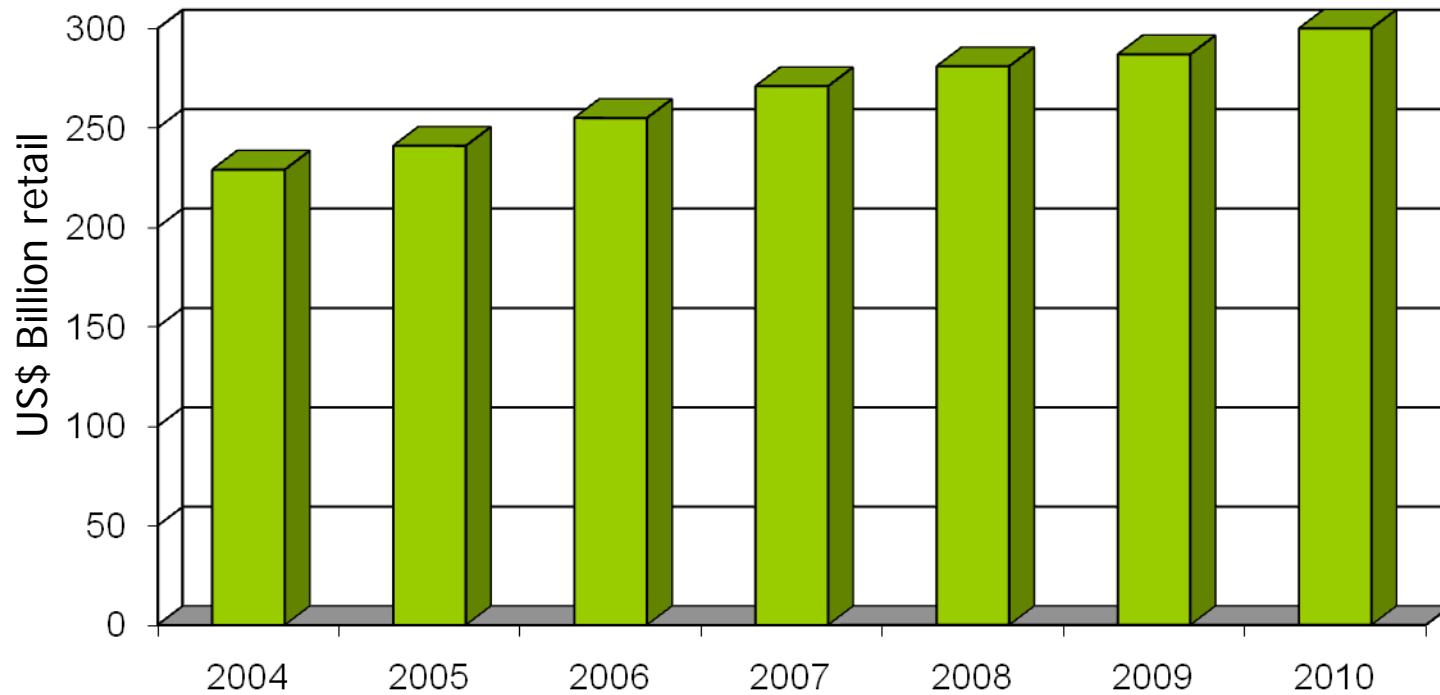
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“Emerging Ingredient Trends”

- What trends are occurring at the ingredient level?

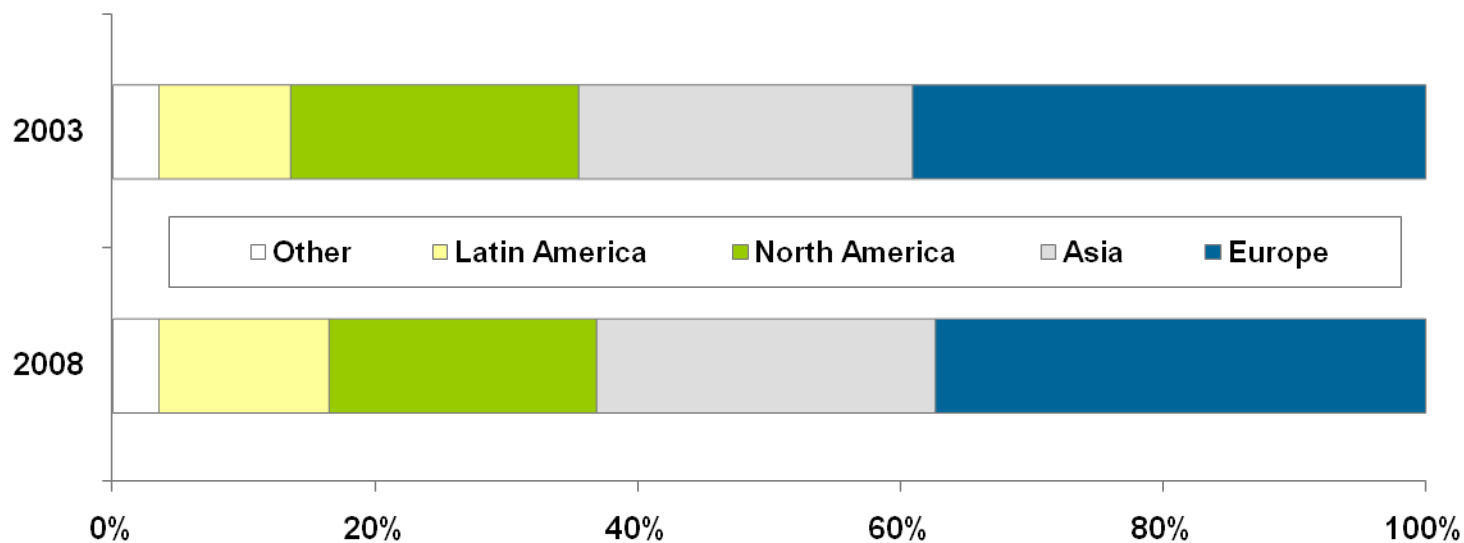
The 2008-2009 had limited impact on the global personal care market

Global Retail Sales, 2003 - 2010



Europe remains the largest region, but is losing share

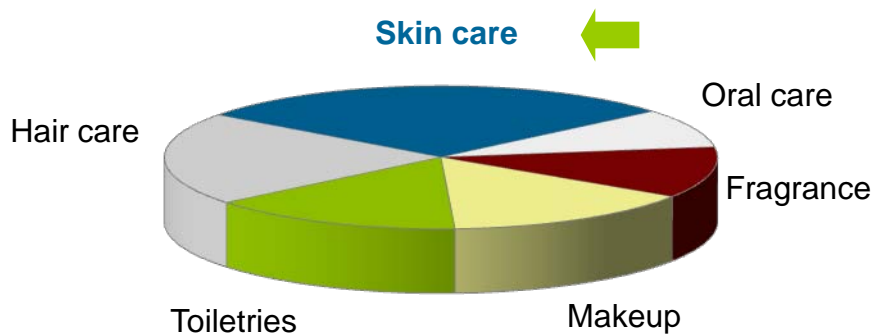
Global Personal Care Market Share by Region, 2009



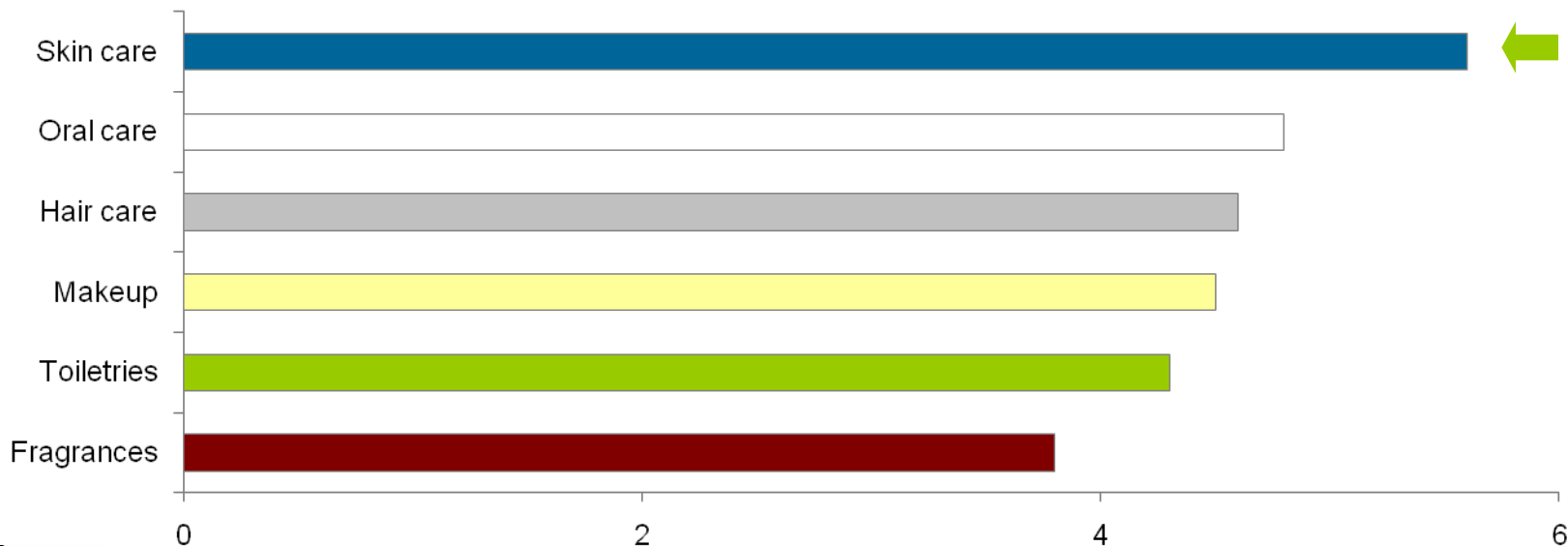
Low Growth	Medium Growth	High Growth
France	Canada	Argentina
Germany	Mexico	Brazil
Italy	Poland	China
Japan	South Korea	India
United States		Russia

Skin care is the largest and fastest growing product class

Global Personal Care Market Share by Product Category, 2010



2004 – 2010 Growth (%)



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“Emerging Ingredient Trends”

- What trends are occurring at the ingredient level?

What trends are occurring at the brand level?

- The majority of focus in the skin care product class is directed towards maintaining a youthful appearance
 - Anti-aging and acne treatment products continue to be in vogue

EXAMPLE: Kinerase C⁸ Peptide Intensive Treatment

- “Reduces the depth and appearance of wrinkles caused by repetitive facial expressions up to 34.9%”
- Contains:
 - SNAP-8: a neuropeptide
 - Kinetin: antioxidant
 - Stabilized vitamin C
 - Green Tea Eco
 - Vitamin E
 - Beta-glucan
 - Hyaluronic acid



Manufacturers need to explore other areas for growth

- Innovation has slowed in some categories, as the industry waits for the next mega-trend:
 - Naturals
 - Home devices
 - Beauty from within
 - Men's grooming
- Efforts are directed towards improved product formulations and product packaging to drive sales



DermaPlus' DermaLastyl-β Concentrated Skin Rejuvenation Formula
Incorporating technology developed for "wound healing on the battlefield"



Green remains at the forefront of the industry

- Companies are moving toward being “green” and shifting focus towards being sustainable and socially responsibility
- Areas of focus include:
 - Raw material sourcing
 - Packaging
 - Review of manufacturing processes
 - Social responsibility
- Leaders within sustainability include:



- Naturals trend is inherently linked with sustainability

Today's Presentation

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“Emerging Ingredient Trends”

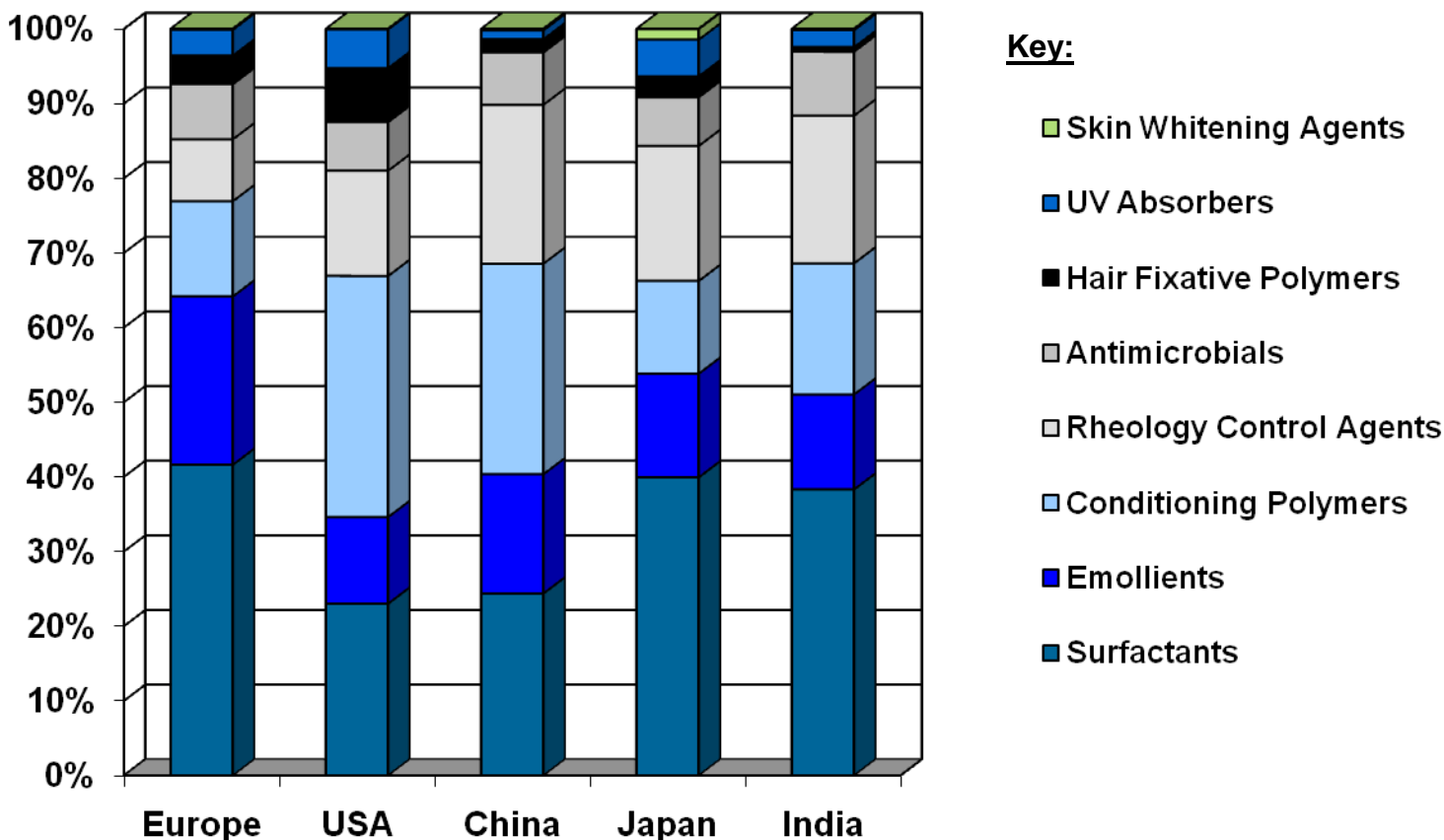
- **What trends are occurring at the ingredient level?**

Ingredients being used within personal care play a variety of roles within a formulation

Product Category	Product Examples
Antimicrobials	Parabens, Imidazolidinyl urea, Quaternium 15, Phenoxyethanol
Conditioning polymers	Cationic Guar, Polyquaterniums, Proteins, Silicones
Emollients	Emollient esters, Natural oils
Hair fixative/styling polymers	Amphomer Fixative Polymers, Resyn Fixative Polymers, VP/VA Copolymer, PVP Styling and Fixative Polymers
Rheology control agents	Hydroxypropylmethyl cellulose, Carboxymethyl cellulose, Glucose derivatives
Skin lightening/whitening actives	Hydroquinone, Arbutin, Kojic acid and derivatives, Licorice extract
Surfactants	Acyl isethionates, Ether carboxylates, Sulfosuccinates, Alkyl polyglucosides
UV absorbers	Octyl methoxycinnamate , Benzophenone-3, Avobenzone

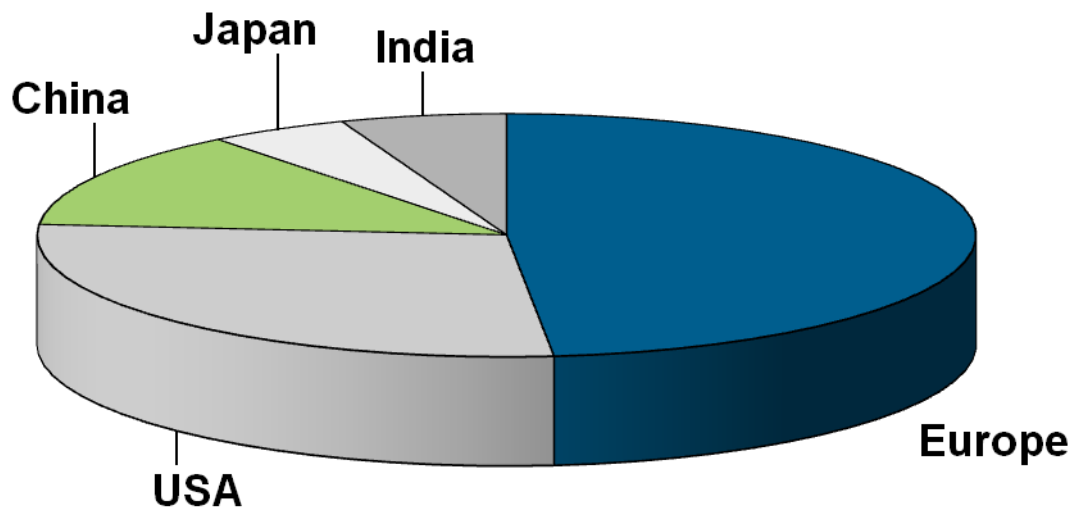
As defined below, volume consumption is approximately 575,000 tonnes in 2009, following a challenging year due to recession

Volume Breakdown for Personal Care Ingredients by Product Category, 2009



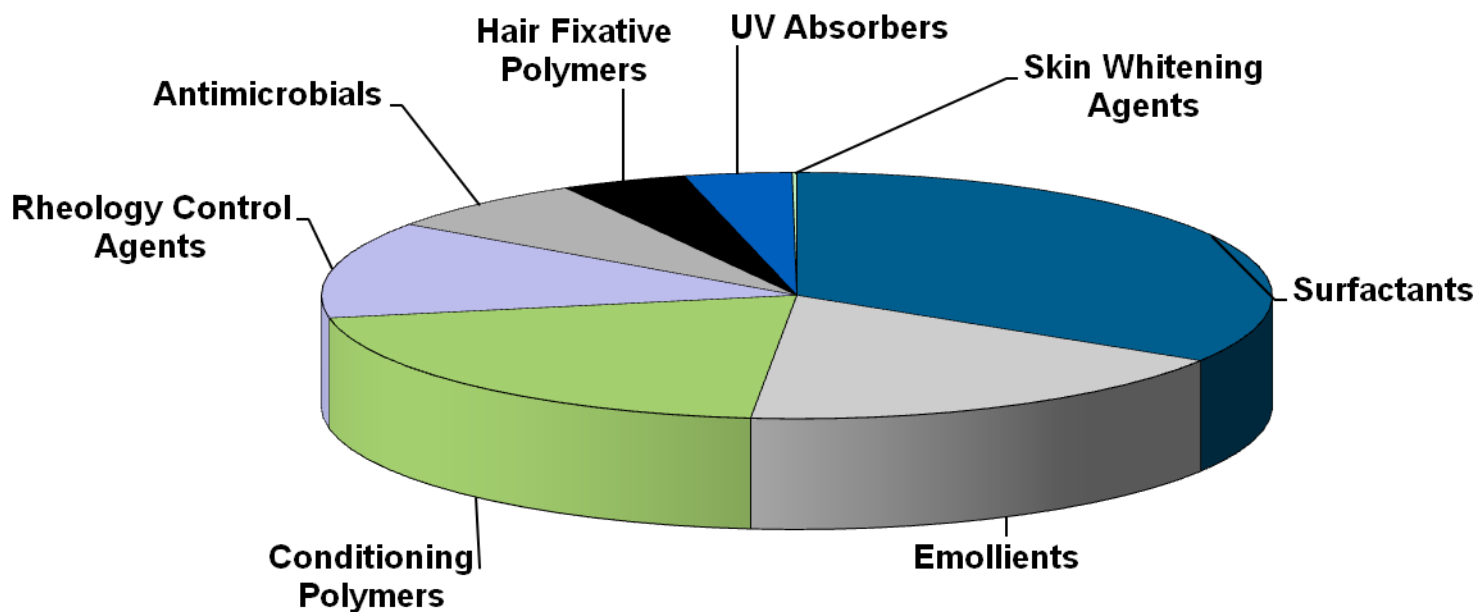
Europe remains the largest market for personal care ingredients post-recession, however is losing share as emerging markets gain momentum

Personal Care Ingredient Volume Market Share by Key Region, 2009



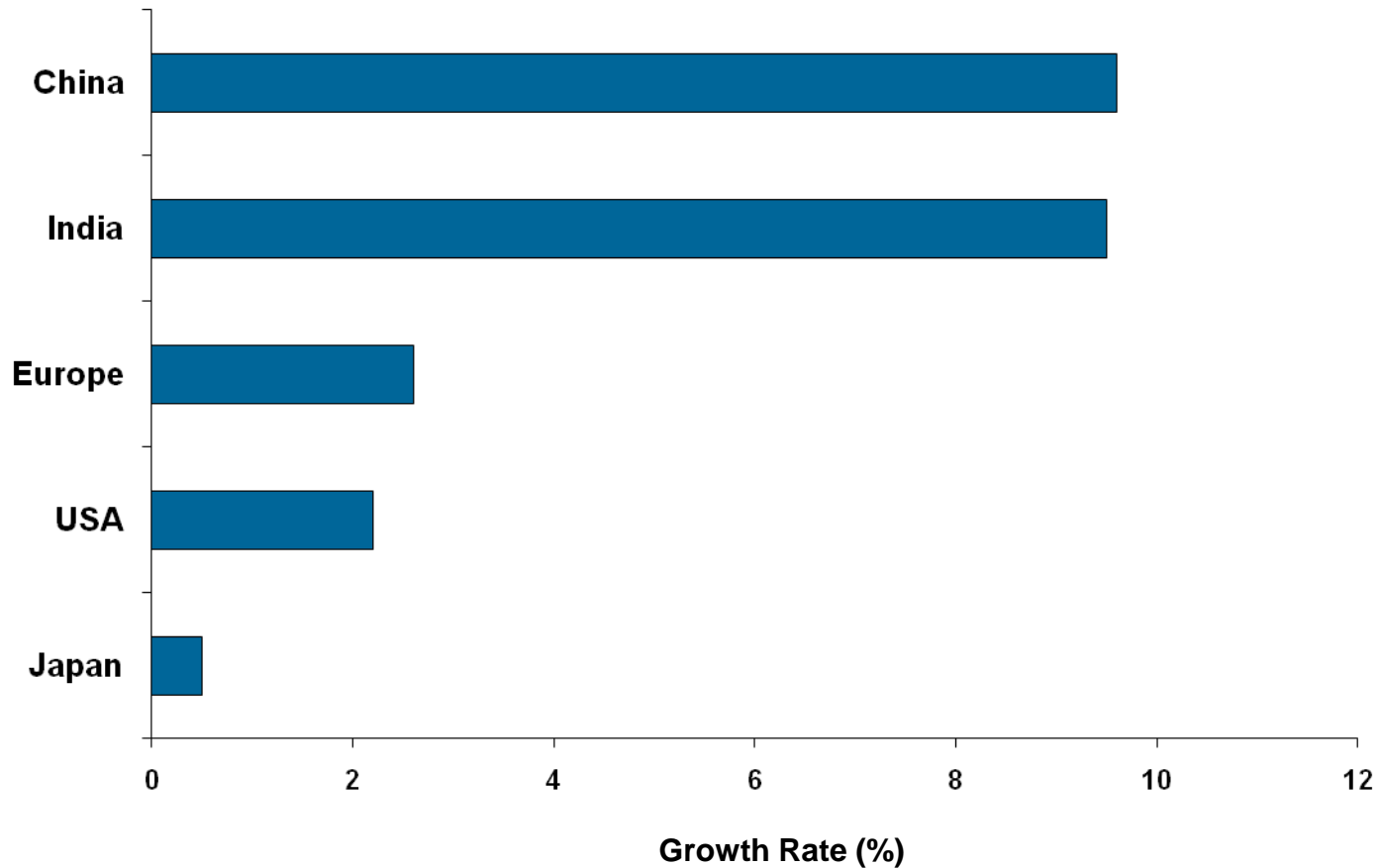
Surfactants account for 34% of sales within the USA, Europe, Japan, China, and India, followed by conditioning polymers

Personal Care Ingredients Volume Share by Product Category, 2009



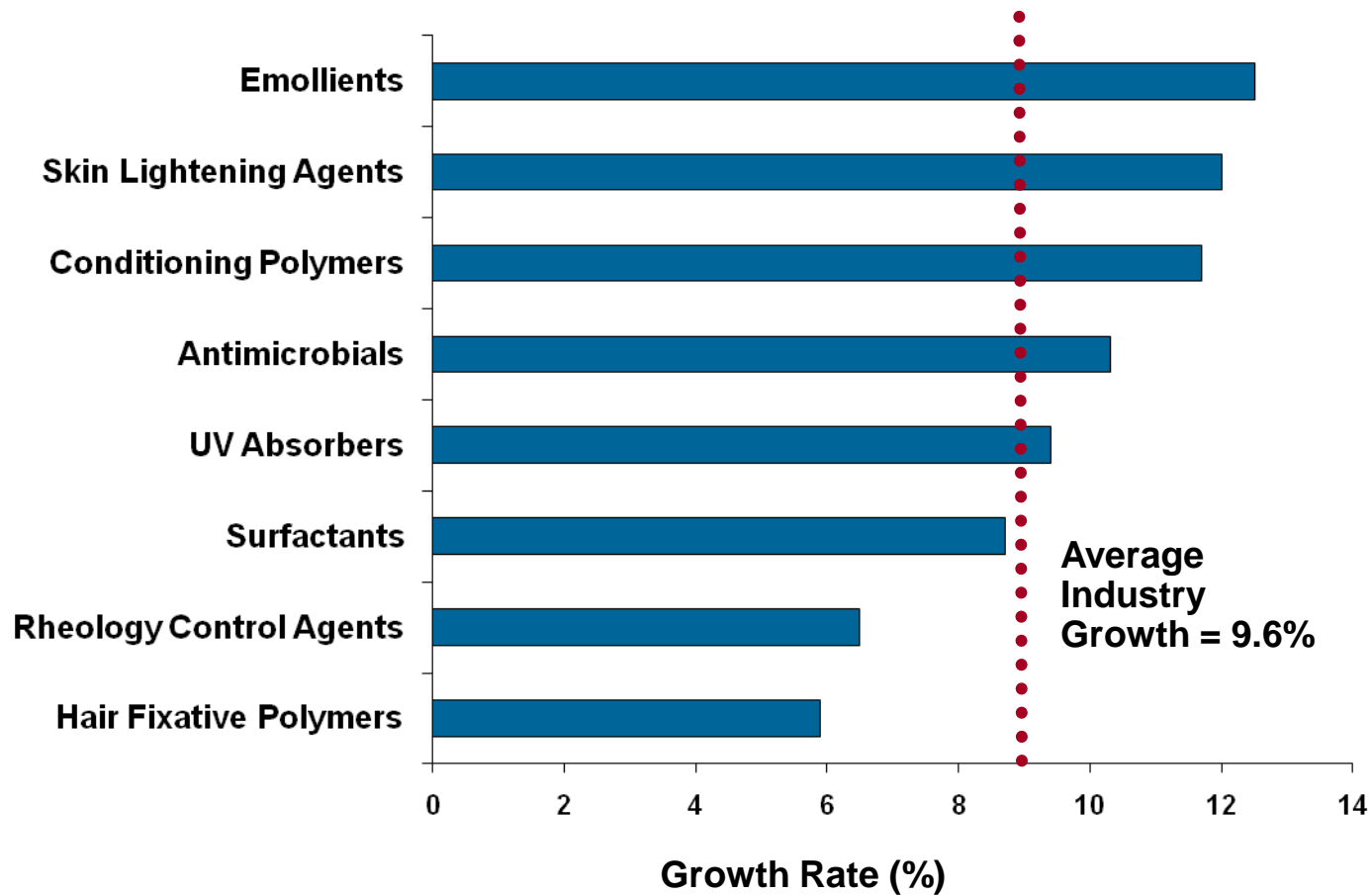
China and India provide significant opportunities due to strong growth drivers

Volume Growth by Region, 2010 - 2014



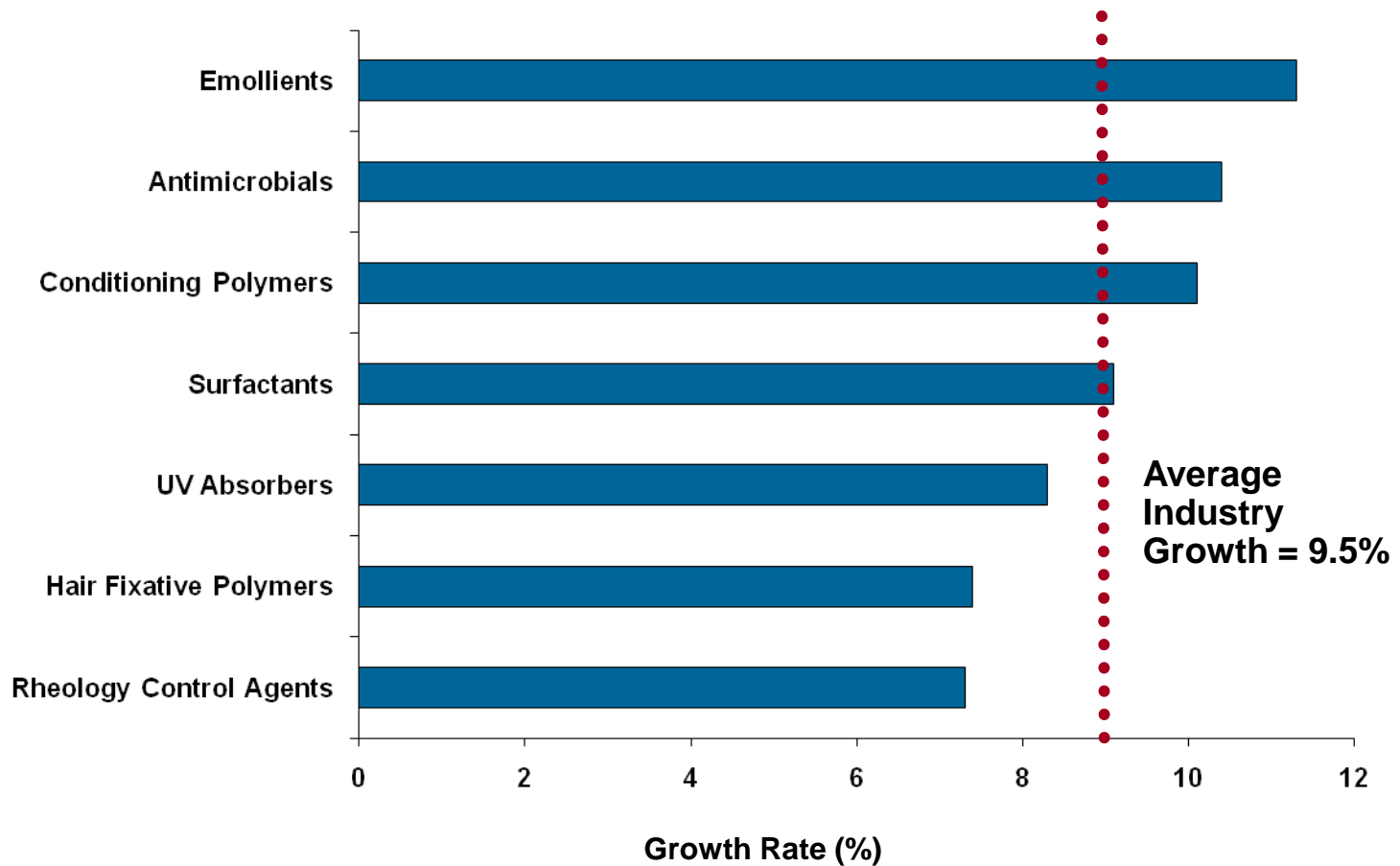
Volume CAGR in China is 9.6% (2010-2014), key markets such as emollients and conditioning polymers underpins this growth

CHINA Volume Growth by Product Category, 2010 - 2014



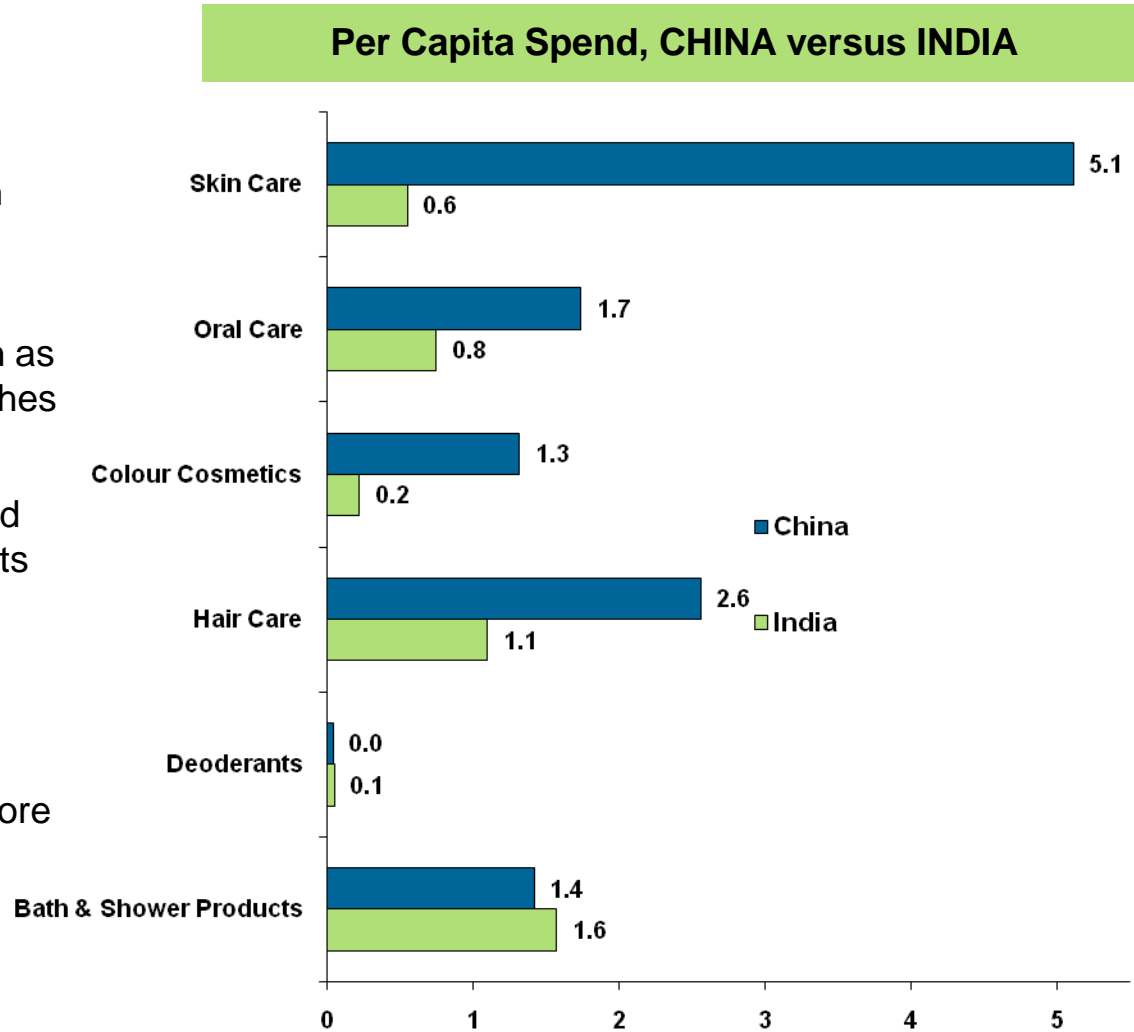
Emollients are also a key growth area in India, with a volume CAGR of 11.3%

INDIA Volume Growth by Product Group, 2010- 2014



So, what is driving growth of emollients?

- Emollients benefit from strong market drivers including:
 - Increasing living standards in both China and India
 - Growth in product categories such as lipstick, face cream and body washes
 - Consumer trends toward increased focus on overall body care products are driving sales of emollients
 - Trend towards moisturizing body washes has increased the use of emollient esters, while bath oils more likely contain natural oils



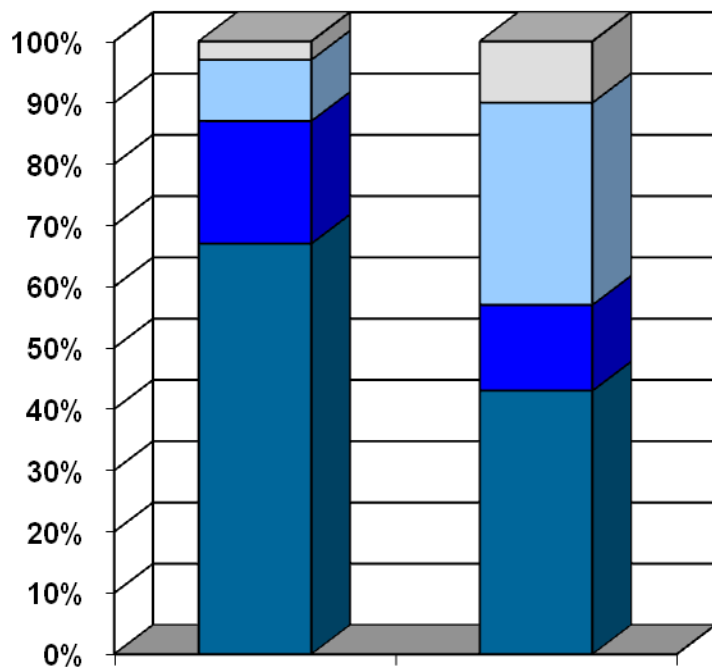
Source: Tata 'Outlook for Personal Care Ingredients Industry: An Indian Perspective'

So, what is driving growth of emollients?

- Emollients benefit from strong market drivers including:
 - ✓ Naturals
 - ✓ Natural products are increasingly popular
 - ✓ Eco-certification will drive demand of natural and vegetable based emollients
 - ✓ Anti-ageing
 - ✓ A growing number of performance claims for facial products including promises of “smoother-looking” skin and a “more youthful” appearance
 - ✓ Increases awareness created by skin-protection products will directly impact the demand for emollients

Classic emollients still dominate consumption in personal care, however natural oil extracts are gaining share

Emollient Volume Breakdown by Product Category, 2009



Key:

China

India

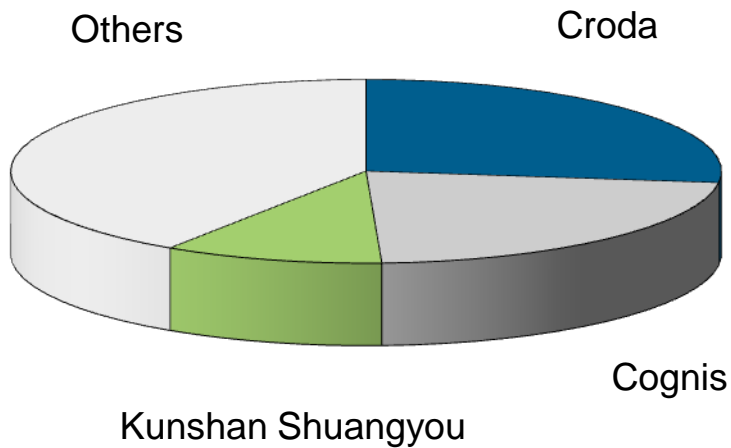
■ Classic ■ Complex ■ Natural Oil Extracts ■ Lanolin/derivatives

Key Emollient Product Category	Examples
Natural Oil Extracts	Almond oil Castor oil Jojoba oil Shea butter Squalene
Lanolin & Derivatives	Lanolin Lanolin alcohol
Emollient ester, classic	Caprylic/capric triglyceride Isooctyl palmitate Isopropyl myristate Isopropyl palmitate Myristyl myristate Octyl palmitate
Emollient ester, complex	C ₁₂₋₁₅ alkyl benzoate Cetreyal octanoate

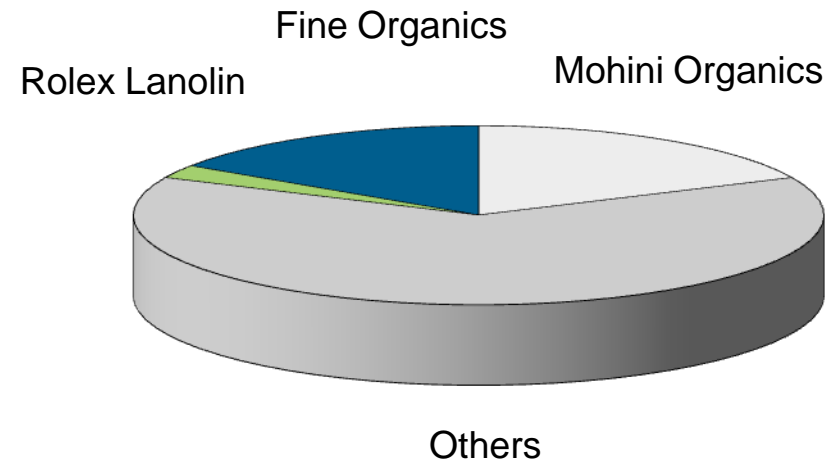
Multinationals dominate the market in China, whereas domestic players lead sales in India

Emollients Volume Market Share in China and India, 2009

China

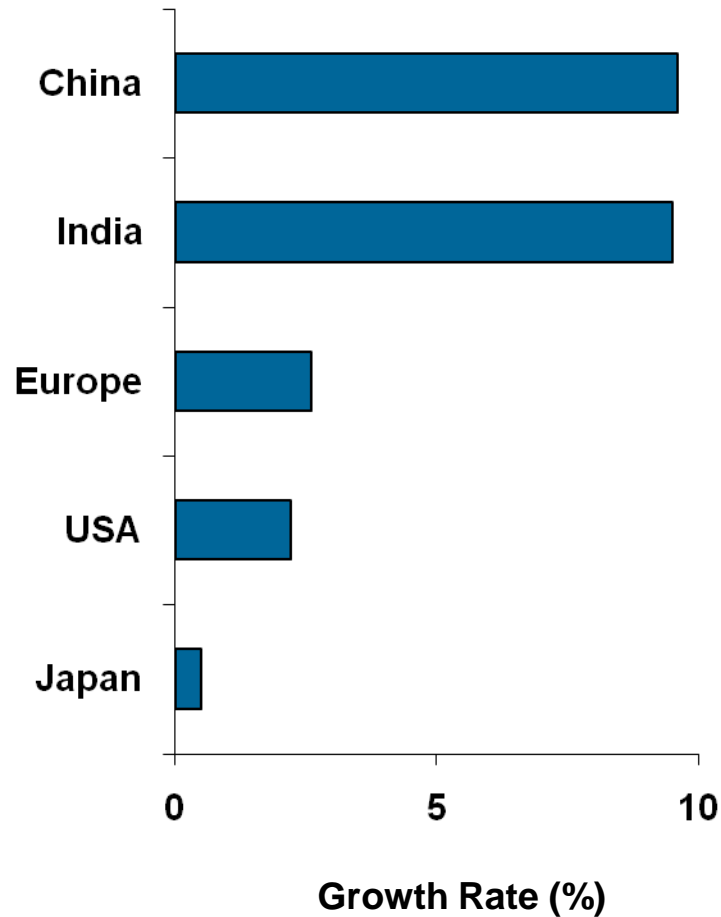


India

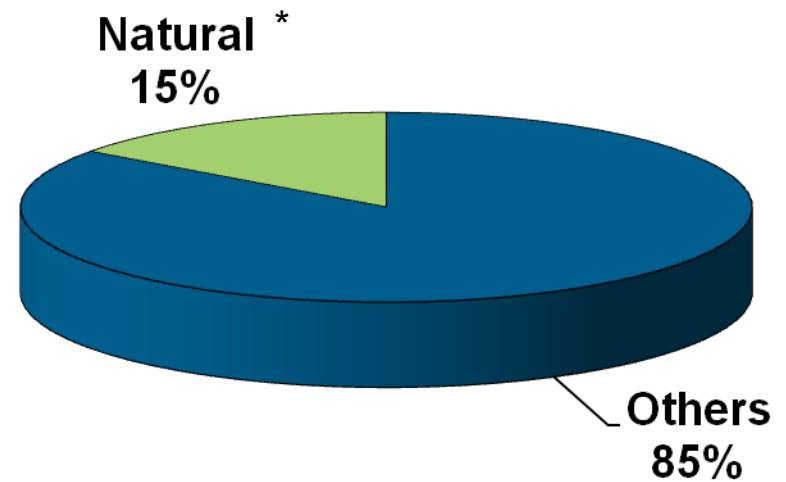


China and India are driving opportunities for growth, but what about Europe and the USA?

Volume Growth by Region, 2010 - 2014



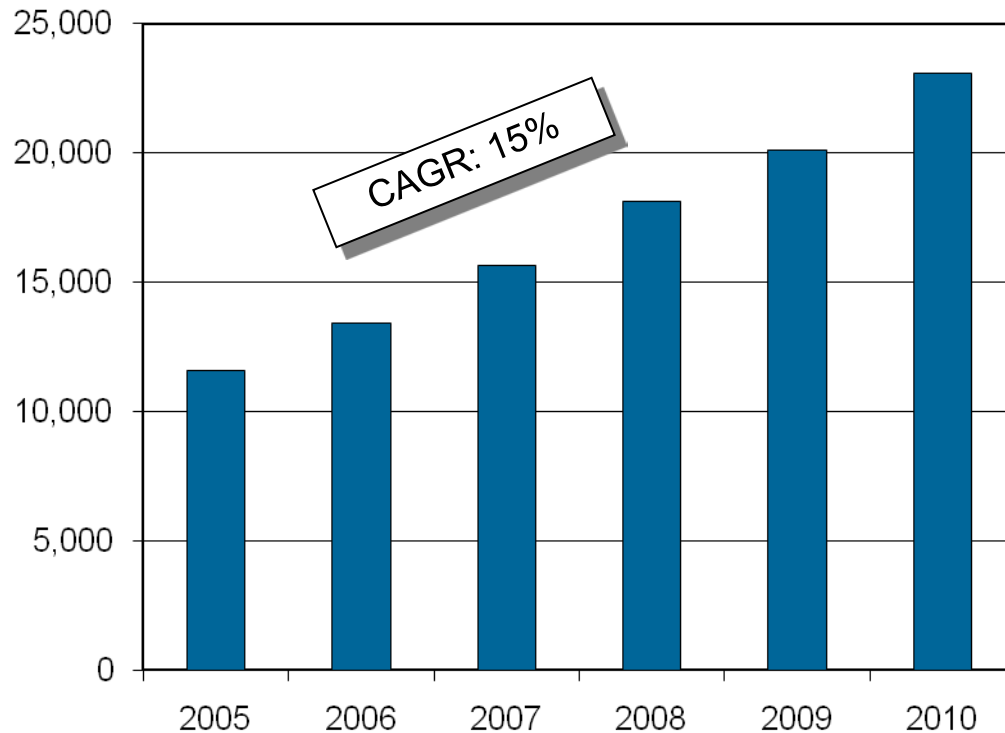
Emollients are benefiting from development of the naturals segment not only in Asia, but in all regions



* - Includes truly natural and natural inspired

Naturals continue to be undeterred by economic slowdown

Manufacturers' Sales of the Natural Personal Care Market, 2005-2010



In 2010, sales grow 15% from 2009 to reach USD 23 billion

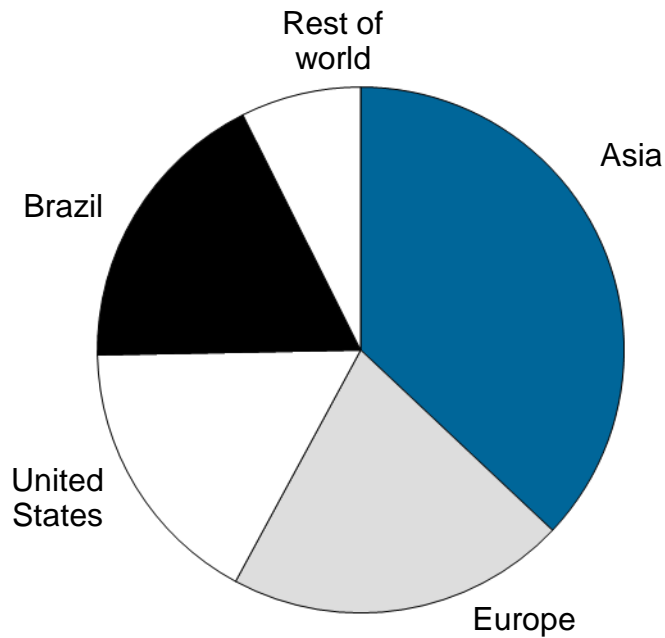
Consistent growth seen across regions

Market has been experiencing double-digit growth since 2005

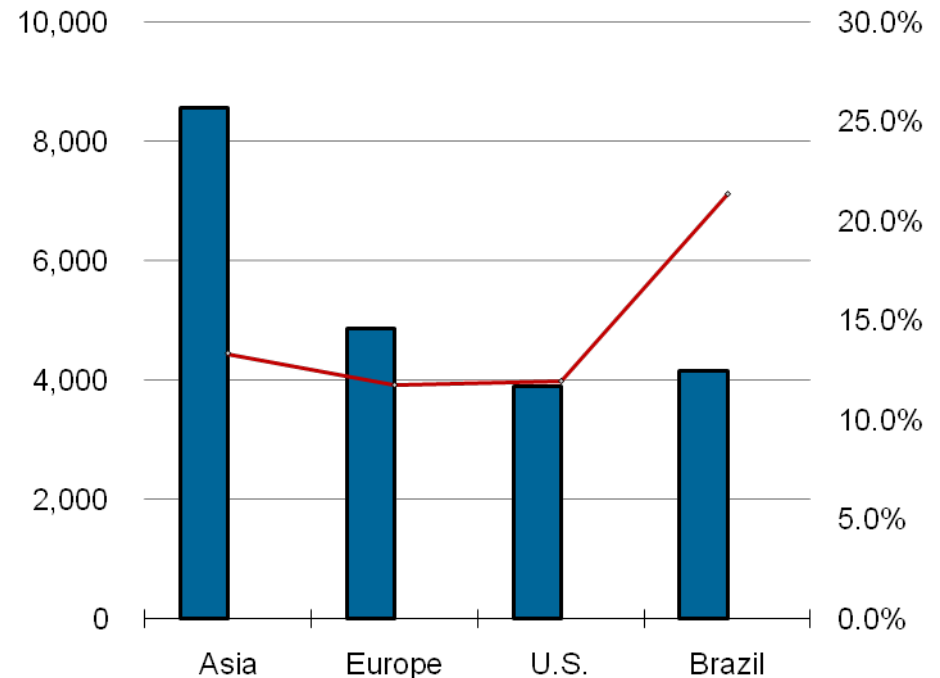
NOTE: All data in manufacturers' sales, unless otherwise indicated; manufacturers' sales refers to the price received by the marketer before distributor and/or retail markups. The above figure includes sales from four key regions: the United States, Europe, Asia, and Brazil. Rest of the world sales are included.

The naturals market in Europe and the USA are catching up due to continuous growth in the supply of affordable natural products

Sales of Natural Personal Care Products by Region, 2010



Manufacturers' Sales and Growth of Natural Personal Care Products by Region, 2010



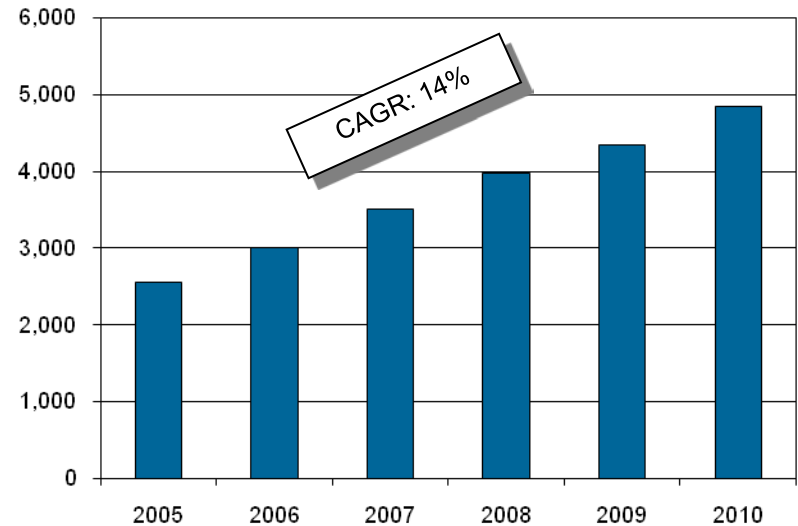
EUROPE

- The market for natural personal care products in Europe grew by 12% in 2010
- This is slightly lower than the past 5 years' CAGR.
- Increased product supply and changing pricing strategies of marketers of natural products contribute to growth.

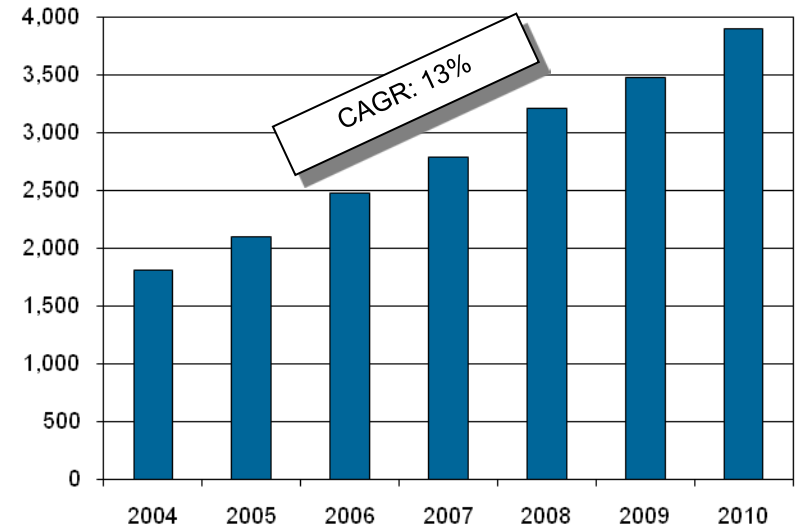
UNITED STATES

- The natural personal care market, after witnessing a decline in sales growth in 2009, recovers well in 2010
- Sales growth in 2010 was a healthy 12%.
- Improving economic conditions and the reviving financial system in the U.S. has increased consumers confidence to spend more on beauty products.

USD Million mfr.

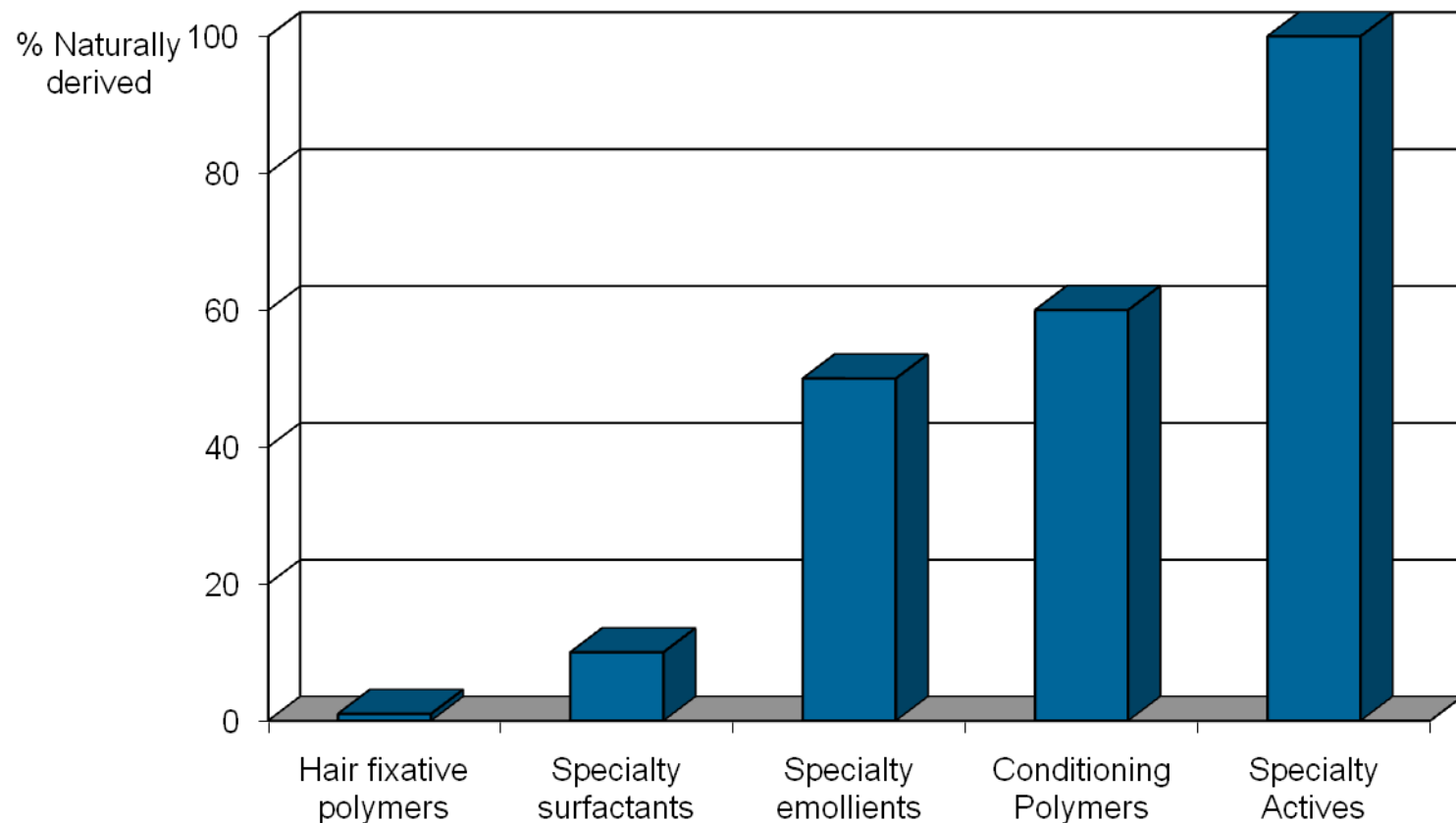


USD Million mfr.

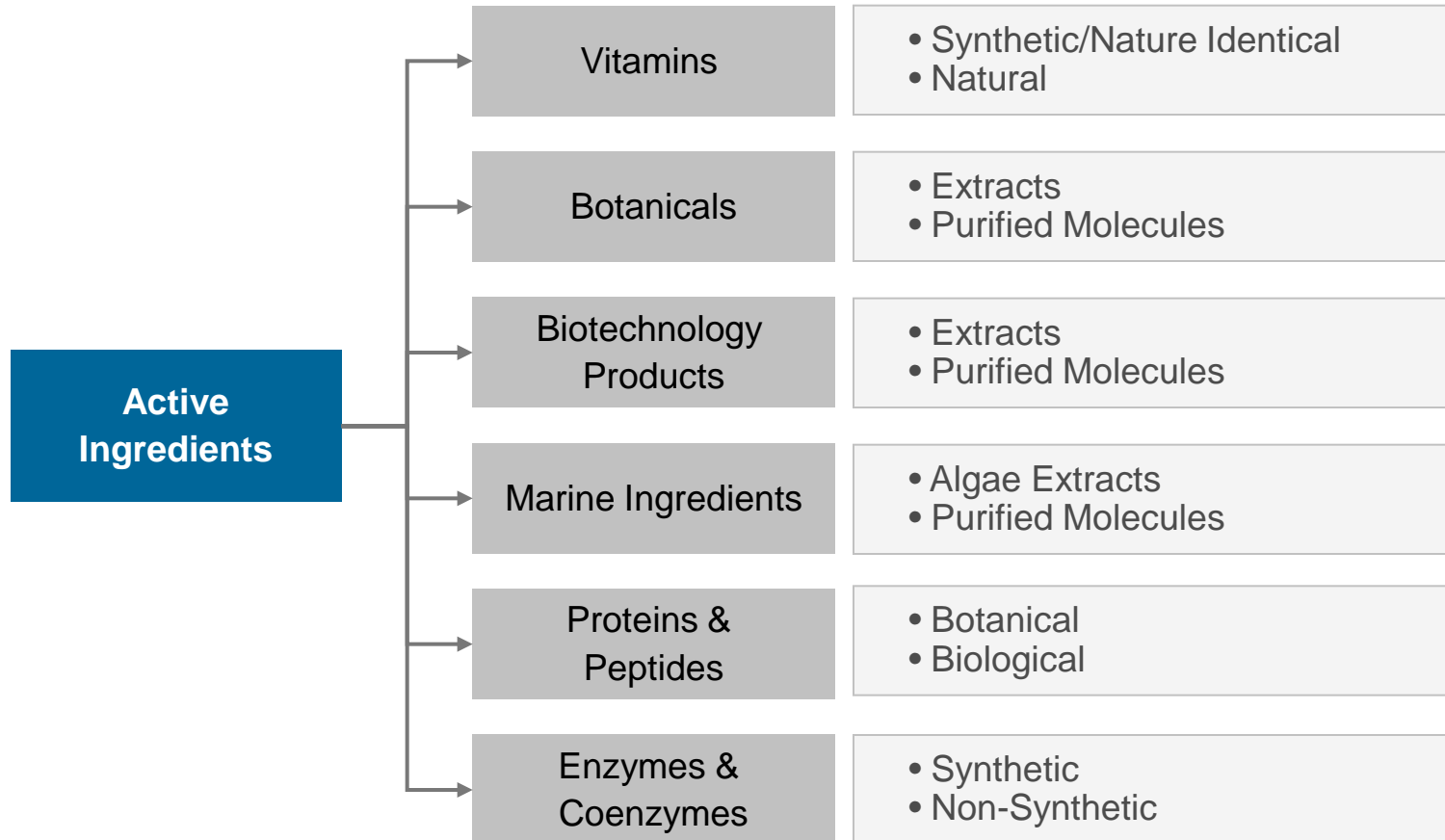


Other ingredient classes are also benefiting from the naturals trend, although performance is hindering uptake

Personal Care Ingredients by Type and % Naturally Derived, 2009



So what are specialty actives? Demand for active ingredients is high in Europe, as consumers increasingly try to combat signs of ageing

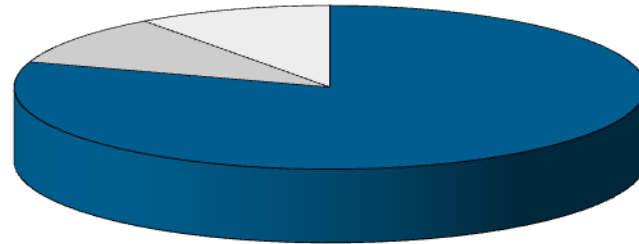


Where are specialty actives used? For example, botanicals

Sources

- Wide variety of bioflavanoids, polyphenols, glucosides, lipids, and anti-oxidants from plant sources:
 - Oat extracts: avenanthamides
 - Green tea extracts
 - Soy extracts: isoflavones
 - Chamomille
 - Bisabolol
 - Grape seed extracts
 - Kinetin
 - Allantoin

Benefits: Europe



Application

Anti-Ageing, Anti-Wrinkle

Anti-Inflammatory

Other: Slimming, Skin whitening, Hair care, Increased microcirculation, And many which are specific to the extract molecule or molecule cocktail, etc

Delivery systems were originally developed to enhance active stabilization, but are now focused on penetration of the skin

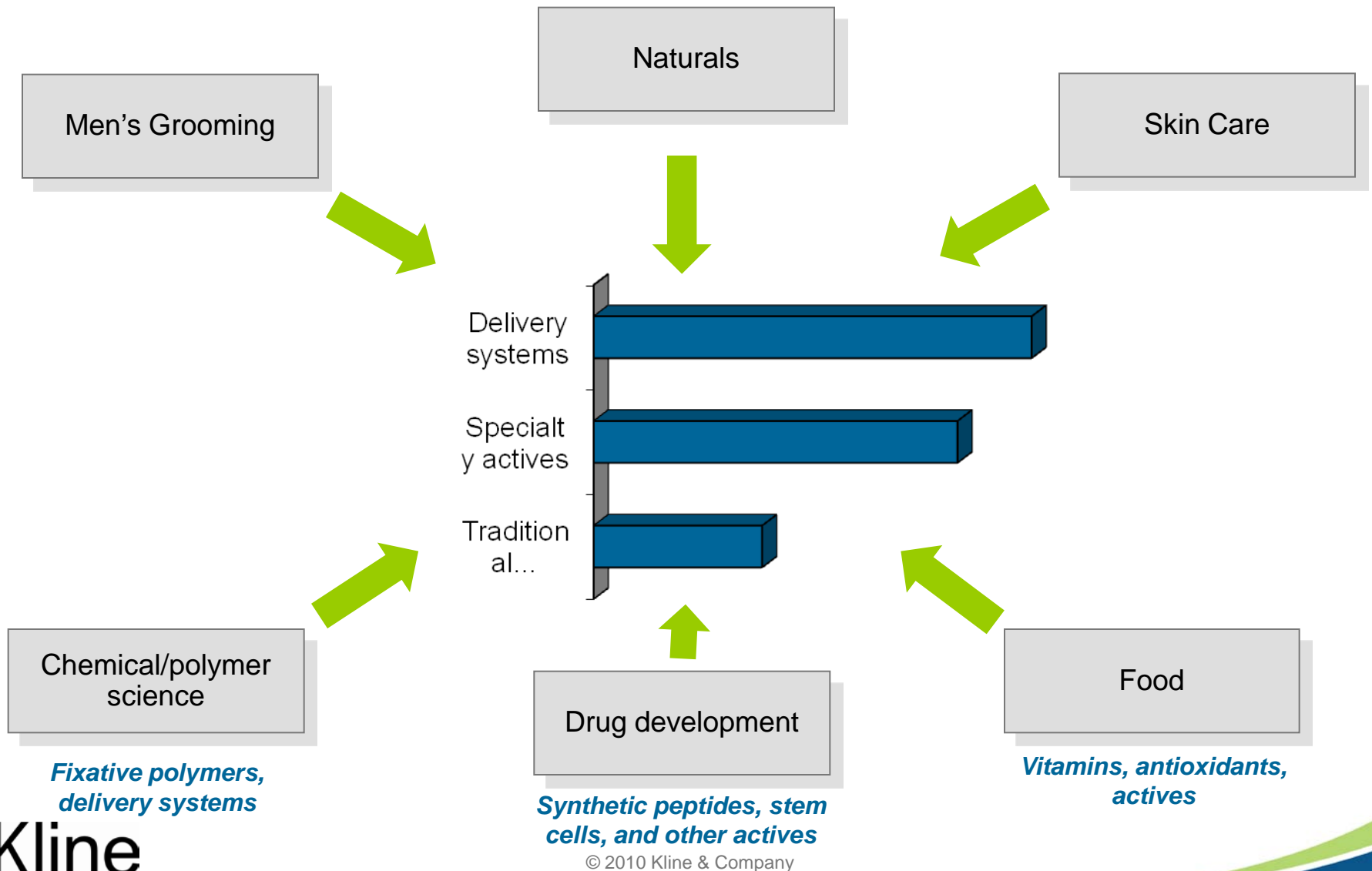
Sources

- Nanoparticles (Nanosized phospholipid-based encapsulation)
- Microcapsules
- Microsponges
- Patches
- Films

Examples



Essential to understand trends at the personal care brand level, in order to identify opportunities in ingredient supply



Men's Grooming

Naturals

Skin Care

Delivery systems

Specialty actives

Traditional...

Chemical/polymer science

Fixative polymers, delivery systems

Drug development

Synthetic peptides, stem cells, and other actives

Food

Vitamins, antioxidants, actives

Today's Presentation

Thank you for attending today's presentation



AVAILABLE

PERSONAL CARE INGREDIENTS 2010: Database

This database includes eight product groups, and provides quantitative data including:

- Consumption of key personal care ingredients by application
- Supplier sales by ingredient type
- Average market pricing of ingredient
- Forecast consumption of ingredient within a five-year timeframe (2010 to 2014)

Region: Europe, USA, Japan, China

Each Region = USD 12,000

The image shows the cover of a report titled "Global Personal Care Ingredients 2010: Market Analysis and Opportunities". The cover has a white background with a blue and green curved graphic at the top. The title is in a large, bold, blue font. Below the title, it says "Published 2nd Quarter 2010" and "Base Year: 2009". There is a section for "Regional Coverage" listing "United States", "Europe", "Japan", and "China". To the right of this list, there is a paragraph of text describing the database's unique offering and a list of questions it addresses. At the bottom, there is a footer with the website "www.KlineGroup.com", the report number "Report 81679", the copyright "© 2010 Kline & Company Inc.", and the Kline logo.

Chemicals
Database

Global Personal Care Ingredients 2010:
Market Analysis and Opportunities

Published 2nd Quarter 2010
Base Year: 2009

Regional Coverage
United States
Europe
Japan
China

Our unique offering within the personal care ingredients market enables subscribers to access comprehensive market data for selected product groups via an interactive online database.

Data included within the database, will address such questions as:

- What is the size of the personal care ingredients market by region, by product category and type, and by application?
- What are the growth prospects within each region and application?
- What are comparative pricing differences for each product by region?
- Who are the leading suppliers?

The database will be updated annually, and subscribers will need to renew their subscriptions yearly.

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eKline

NEW!

NATURAL PERSONAL CARE INGREDIENTS 2011: Multi-regional Market Analysis and Opportunities

These reports are designed to assist suppliers and distributors of personal care ingredients, address such questions as:

- What is the size of the natural personal care ingredients market by product category?
- What is the growth projection for natural ingredients?
- What are the pricing differences for natural and synthetic ingredients?
- Who are the leading natural ingredient suppliers?
- How do the brand manufacturers define natural?
- What are the main decision-making criteria for a purchaser of natural personal care ingredients?
- What are the current unmet needs for manufacturers of natural finished products?
- What is the outlook for natural finished products?

Regions: Europe, USA

Discounts available until May 27th 2011,

Standard Price: USA & EU = \$24,900

USA or EU only = \$16,400

Natural Personal Care Ingredients 2011:
Multi-regional Market Analysis and Opportunities

To Be Published 4th Quarter 2011
Base Year: 2011

Regional Coverage
United States
Europe

This report series focuses on natural personal care ingredients and investigates the supply and procurement practices operating within this developing market. This program is specifically designed to assist suppliers and distributors of personal care ingredients, addressing such questions as:

- What is the size of the natural personal care ingredients market by product category?
- What is the growth projection for natural ingredients?
- What are the pricing differences for natural and synthetic ingredients?
- Who are the leading natural ingredient suppliers?
 - What products do they offer?
 - What are their strengths, and how do they position themselves?
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- What is the outlook for natural finished products?

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