

Opportunities in Skin Care:

Exploring Specialty Actives



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Today's presentation

Looking Good: The Personal Care Market

Action! Specialty Actives - Generating Results

A Substantiated Future:
The Outlook for Specialty Actives

Making the Difference:
Trends Affecting Other Specialty Ingredients

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Aggressive promotional activity, compelling technological advances, and social media have helped industry sales rebound from 2009's decline.

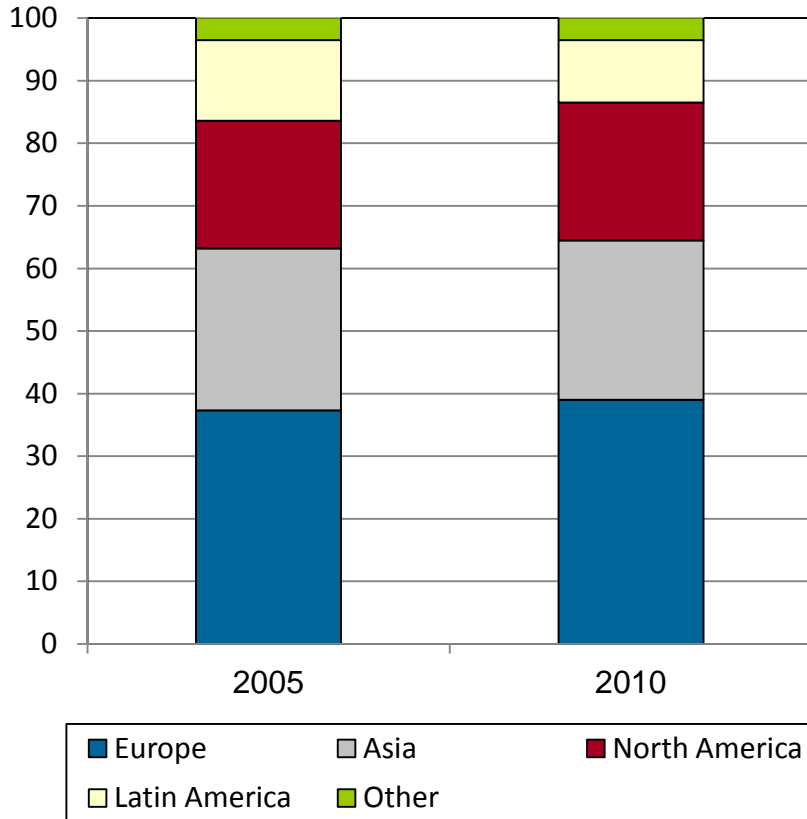


Growth is back and robust:

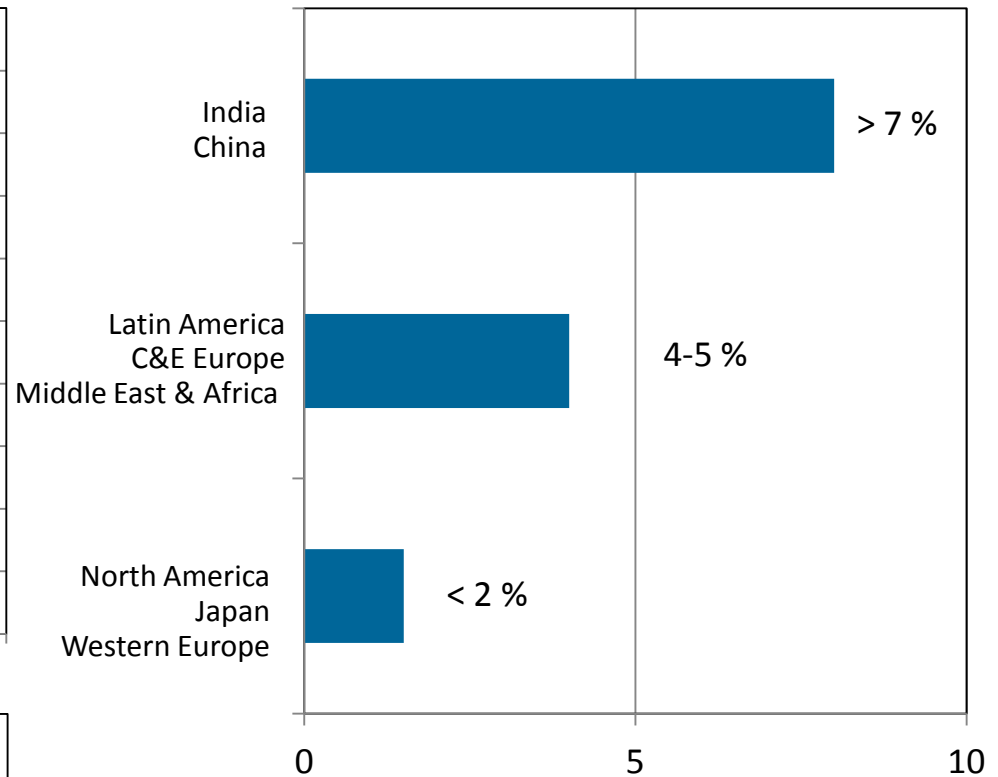
- In 2011, the U.S. cosmetics and toiletries market records the best year in more than a decade!
- In Europe, the unsettled financial crisis may still impact upon this.

Europe remains the largest market, but is losing market share to developing markets, in particular China and Brazil.

Manufacturers' Sales, 2005 - 2010

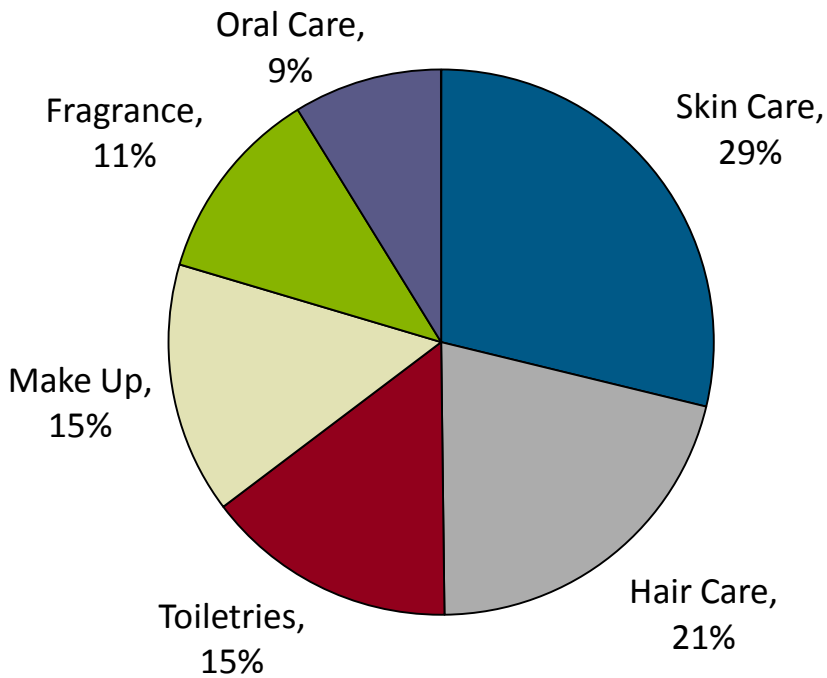


Regional Growth 2010 - 2015

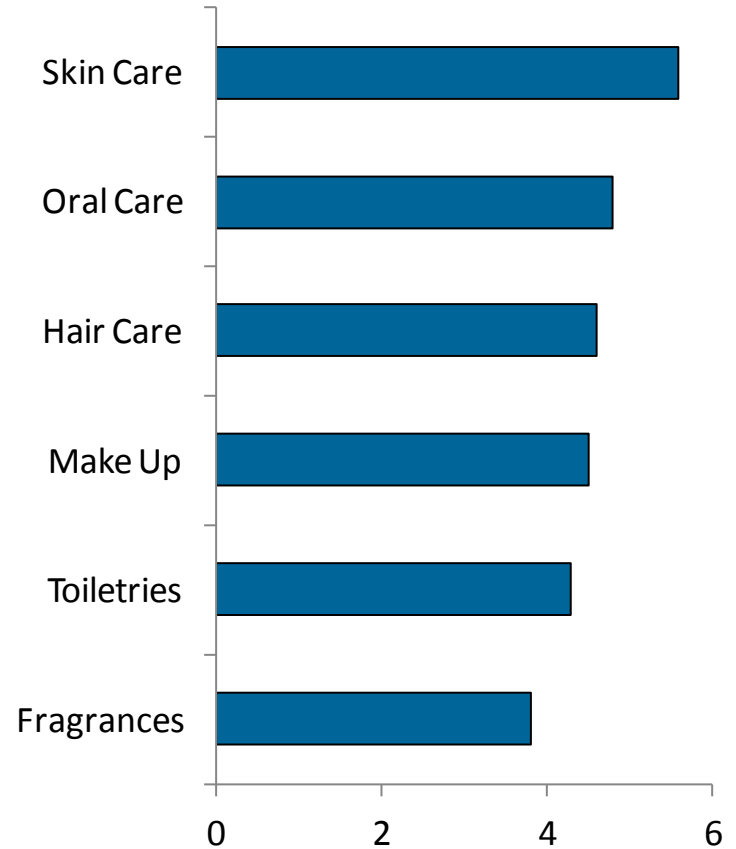


Skin care is the largest and fastest growing product class globally.

Global Personal Care Share by Category, 2010

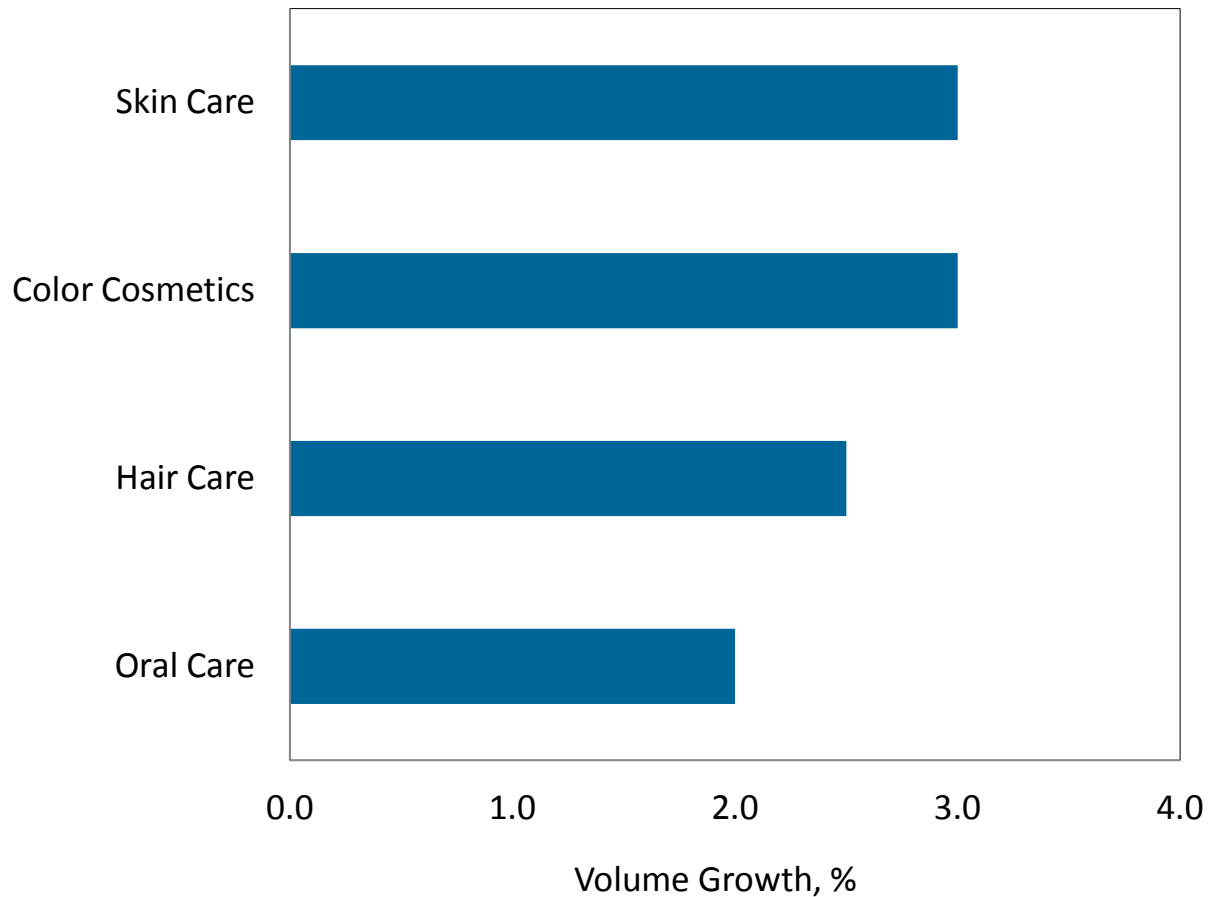


Global Product Category Growth, 2005-2010



Skin care also outpaces median growth in Europe, providing rich opportunities for raw material suppliers.

European Personal Care Market Development by Category, 2005 to 2010



Skin care is benefiting from several strong growth drivers.

- Growing societal pressures and stresses have made more consumers seek out “Looking good, feeling good” experiences.
 - Consumers have gained confidence in their spending patterns and are **investing in themselves**.
 - **A pragmatic impetus:** economic uncertainty has impelled people to invest in themselves in order to look their best.
- Consumers have become **more knowledgeable** about product ingredients; “Label reading” is no longer the exception, and consumers are making more educated choices.
- Development and greater accessibility of the professional skin care sector in spas, wellness centers, and the like.
 - The professional skin care sector provides patrons with a place that offers a relaxing and comforting retreat.
 - Clients are provided knowledgeable guidance and appraisal by skin specialists (e.g., estheticians, dermatologists).
 - Products offered are often perceived as being of higher quality than generally available products for mass brands.



Consumers want the results from their skin care products, which positively impacts the specialty actives market.

Clever marketing can certainly draw consumer's attention,
but ultimately a product has to deliver.

+

Consumers continue to demand value, but are willing to pay
more for genuine results-oriented solutions.

+

Consumers have never been so well informed and had such
easy access to information.

=

Market leading demand and growth for specialty actives.



Additionally, consumers are also expecting their products include **natural ingredients**.

A “green” provenance, including packaging and sustainability, is a major market driver.

Today's presentation

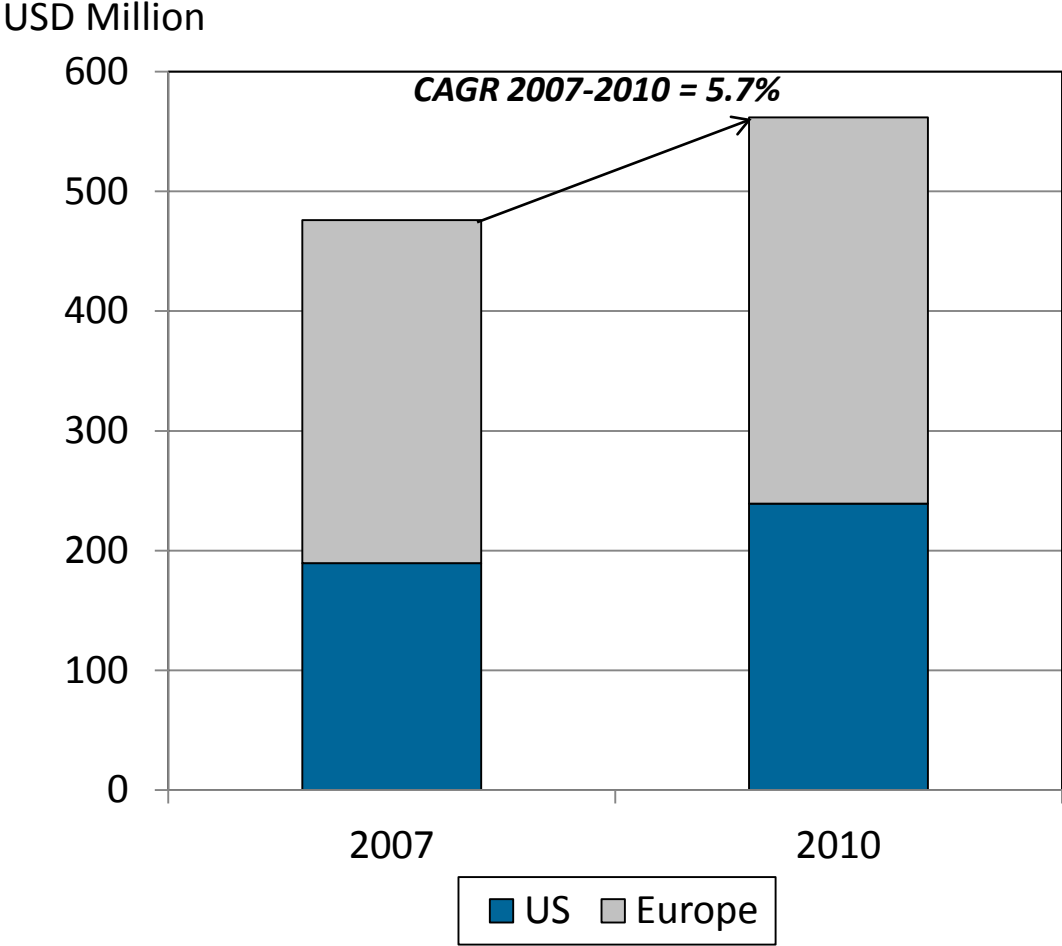
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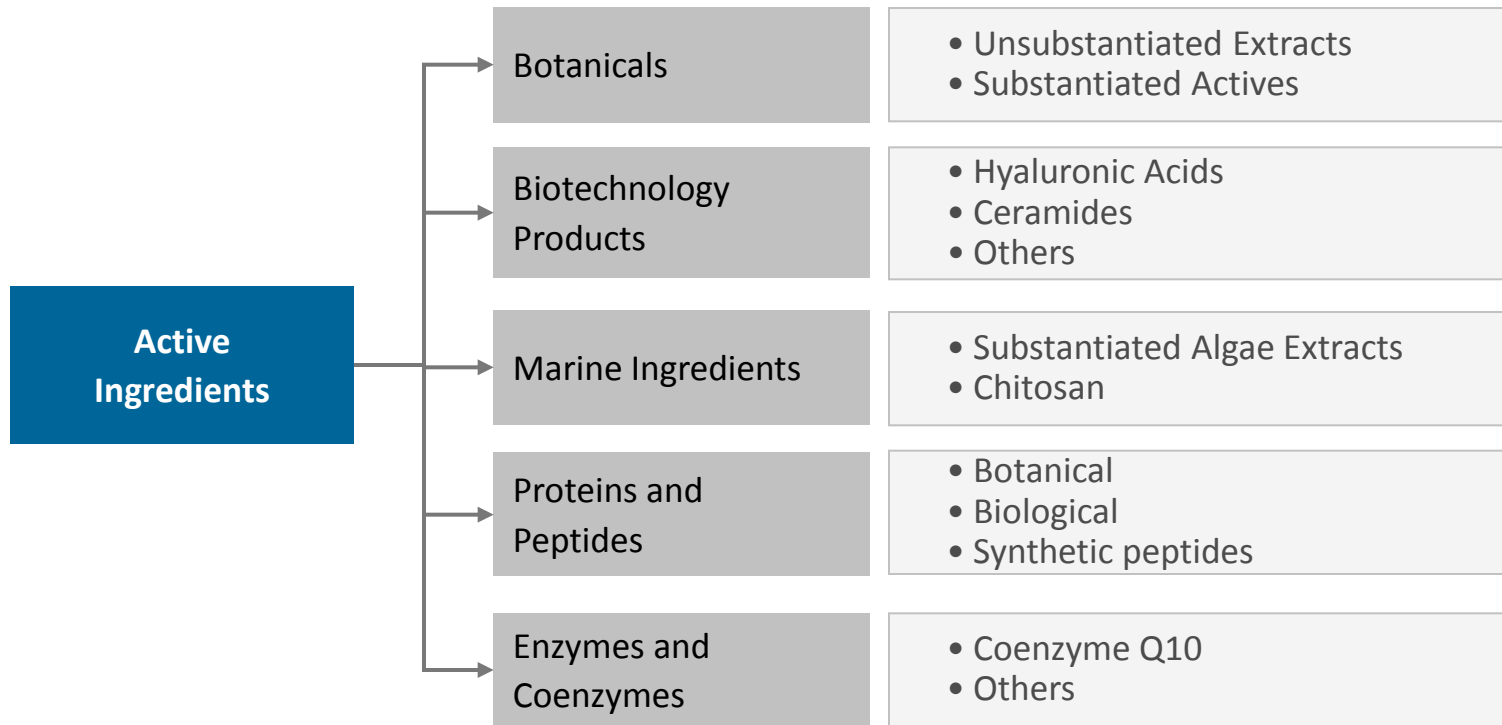
A Substantiated Future:
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Making the Difference:
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Despite the uncertain economical situation, the specialty actives market enjoys healthy growth rates in Europe and the United States.



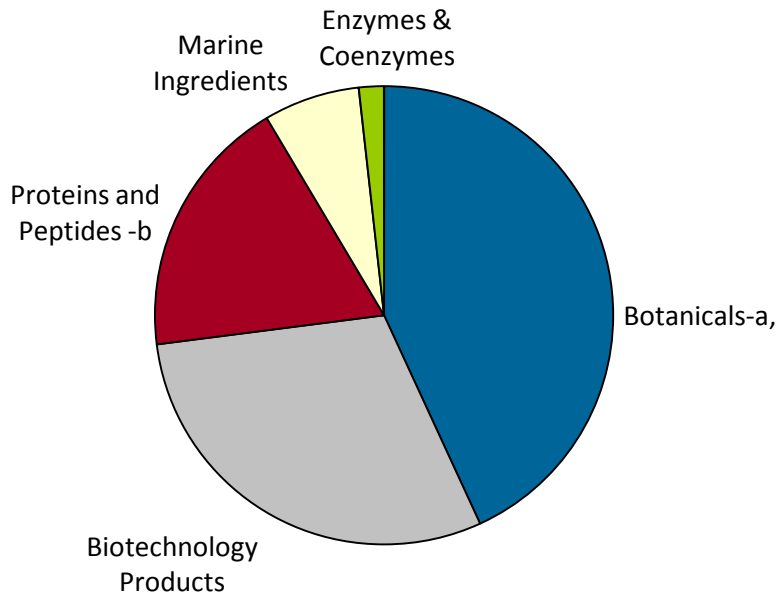
Consumer trends are driving innovation creating a developing market of active ingredients in personal care.



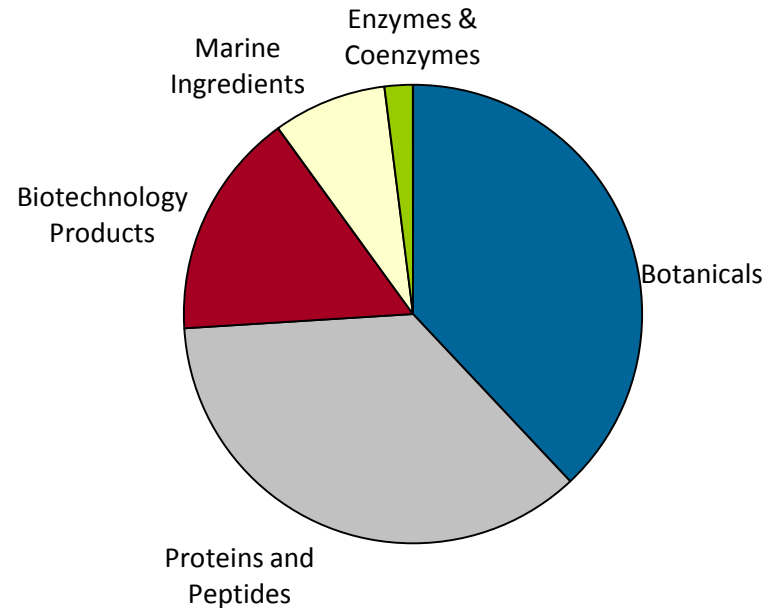
Botanicals are the most important product category in both the United States and Europe, with sales of over EUR 100 million in Europe.

Market Breakdown by Product Category, 2010

Europe

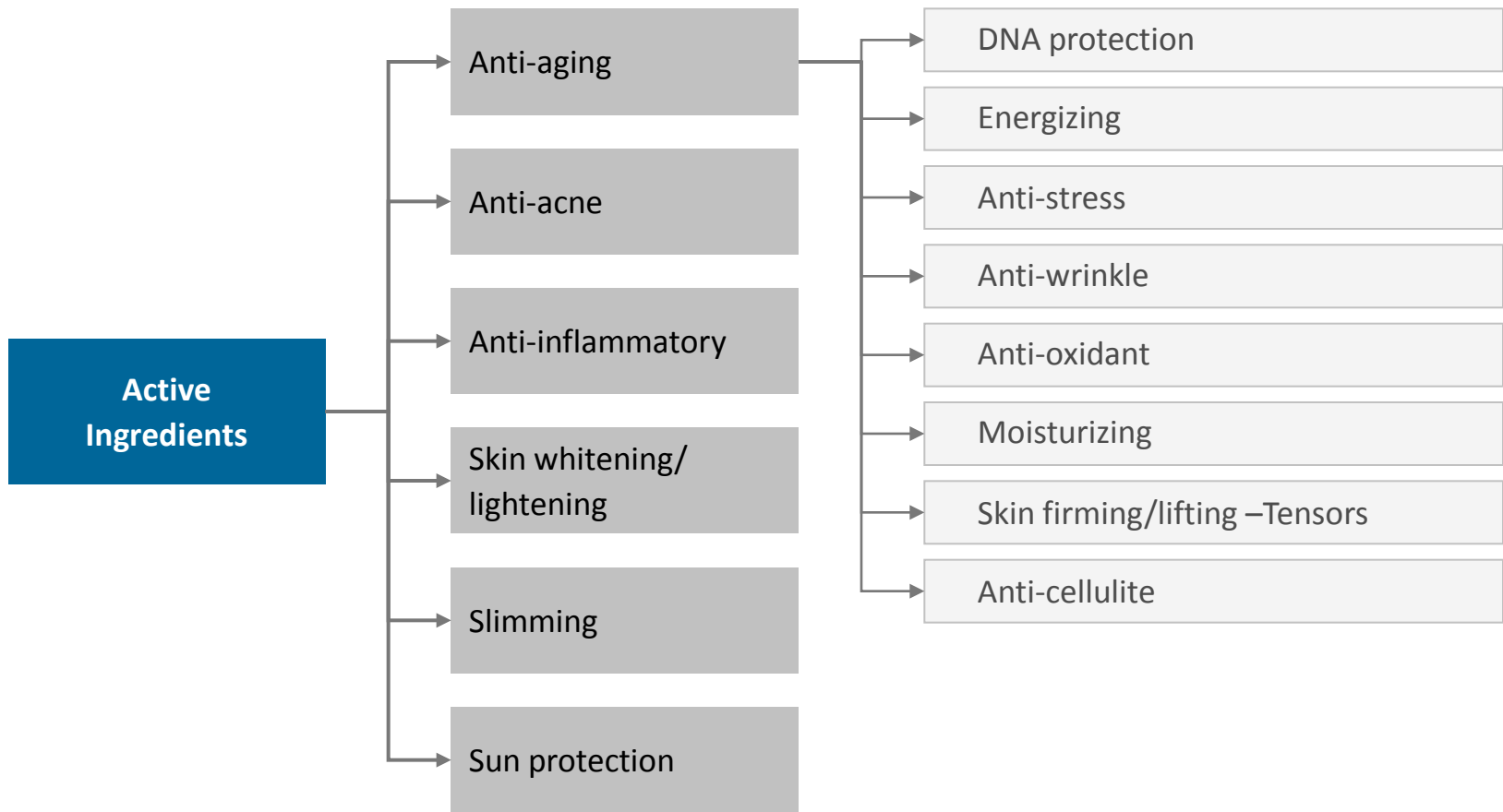


United States



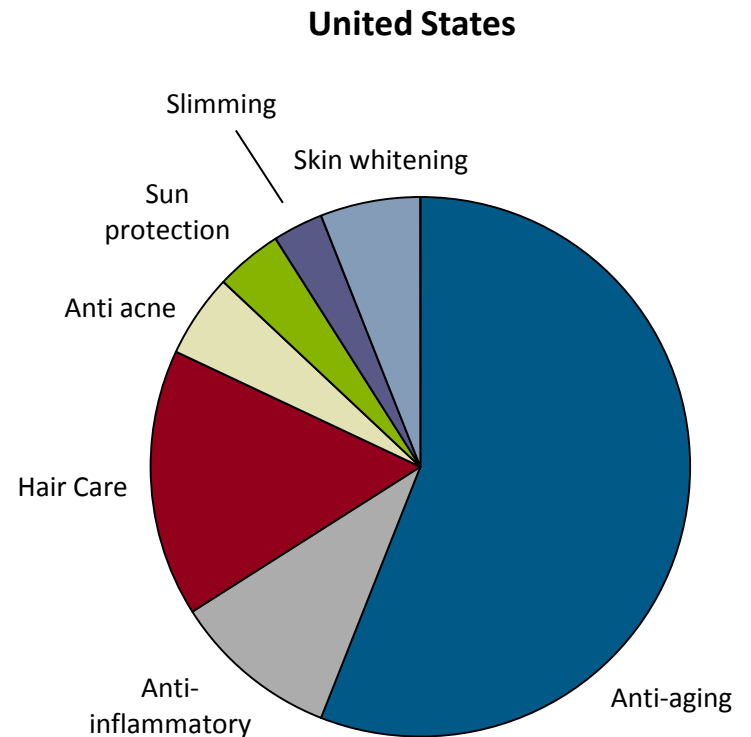
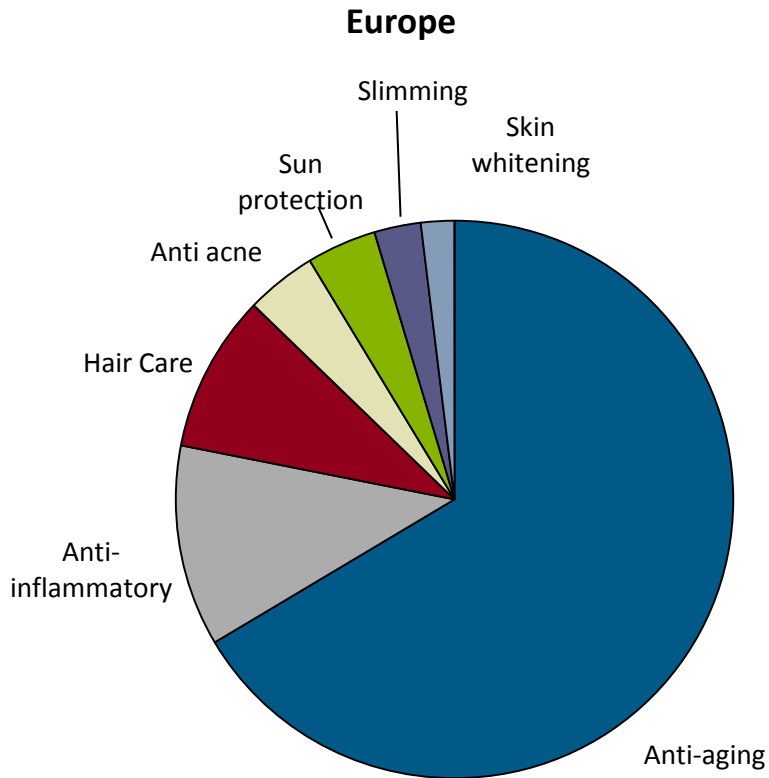
a- Excludes unsubstantiated extracts
b- Includes synthetic peptides

Specialty actives in personal care target a wide variety of performance benefits – although anti-aging functionality dominates.



Anti-aging accounts for around 60% of specialty actives targeted functionality in Europe and the United States.

Market Breakdown by Product Category, 2010



a- Excludes unsubstantiated extracts
b- Includes synthetic peptides

Anti-aging functionality focuses on age spots, anti-wrinkle, firming, moisturizing, and skin radiance

Active Type	Supplier	Trade Name
BOTANICALS	SOLIANCE	TEPHROLINE
	INDENA	XILOGEL
	SEDERMA	MOIST 24
BIOTECHNOLOGY PRODUCTS	CPN/CONTIPRO	HYACTIVE
	MIBELLE	PHYTOCELLTEC MALUS DOMESTICA
	SILAB	STEM-C-GUARD
PROTEINS/PEPTIDES	LIPOTEC	ADIFYLINE
	SEDERMA	MATRIXYL SYNTHÉ'6
	ISP VINCIONES	COLLAXYL IS
MARINE INGREDIENTS	BIOTECHMARINE	ANTILEUKINE 6
	CODIF	PHYCOJUVENINE
ENZYMES / COENZYMES	VARIOUS	UBIQUINONE



The reason behind the robust growth of actives is to be found on the consumer side.

- Consumers are better informed and consequently more discerning.
- They are prepared to pay extra for both genuinely effective and “green” products containing maximum of natural ingredients.
- Recognizing the market cachet of actives, formulators are including them in ever growing and diverse applications (hair care, slimming, sun protection, etc.).
- Higher-end actives are no longer exclusive to luxury channel products. The premium pricing that might have been lost is compensated by greater demand and greater volumes.
- Demographics: an aging population seeking a more youthful appearance is fueling the strong and growing anti-aging segment.

Consumer trends and trends affecting active ingredients are interconnected.

FINISHED PC PRODUCTS

- Natural or natural-inspired products are favored by consumers
- Anti-aging skin care products enjoy the largest growth
- Product line are increasingly segmented and target specific consumers / skin conditions
- Educated consumers are looking for really efficient products



PC ACTIVES

- Actives with a natural image are preferred by formulators
- Anti-aging actives are a focus for actives suppliers
- Suppliers of active ingredients develop dedicated product ranges
- Actives suppliers are offering highly substantiated products

Example of a skin care product sold through the luxury channel.



- La Prairie Cellular Cream Platinum Rare
- “Skin transforming formula that recharges the skin’s electrical balance with pure Platinum to ensure ageless performance, protects the skin’s DNA, and replenishes moisture continuously for a look of soft splendor”
- Contains:
 - Nano-sized particles of negatively charged platinum suspended in colloidal platinum water (reportedly serves as an electron donor to maintain a proper electrical balance in the skin)
 - Active cocktail (peptides, vitamins, and antioxidants)
 - Controlled-release nano-sized hesperidin Smart Crystals to protect DNA in the cell nucleus and act synergistically with Resveratrol for antioxidant protection and improve microcirculation in skin
 - Climate-activated Moisture Matrix which adjusts to humidity and temperature
- EUR 700 / 1.7 ml

Example of a skin care product sold through the professional channel.



- Mary Cohr's Crème Specific Rides
- "The ultra-comfortable fluid texture is specially designed to plump out wrinkles from the inside and to give the skin new elasticity. The skin is visibly younger."
- Contains:
 - Apricot Kernel Oil
 - Hydrolyzed wheat protein
 - Sodium hyaluronate
 - Ginkgo Biloba Leaf Extract
 - Hexapeptide-1
- EUR 40 / 50 ml

Example of a skin care product sold through the masstige channel.



- Lumene's Excellent Future line of anti-aging skin-care products
- "Prevent and delay damage from surfacing, and help prevent the formation of wrinkles and to smooth the appearance of wrinkles that has already formed."
- Contains ApplexellT an apple extract protecting skin's stem cells.
- EUR 25 / 50 ml

Example of a skin care product sold through the direct channel.



- Oriflame's Ecollagen 3D+ Anti-Wrinkle Day Cream
- “Brings firmness back and re-pumples wrinkles from within.”
- Contains:
 - Tri-peptide complex
 - Hyaluronic acid
- EUR 20 / 50 ml

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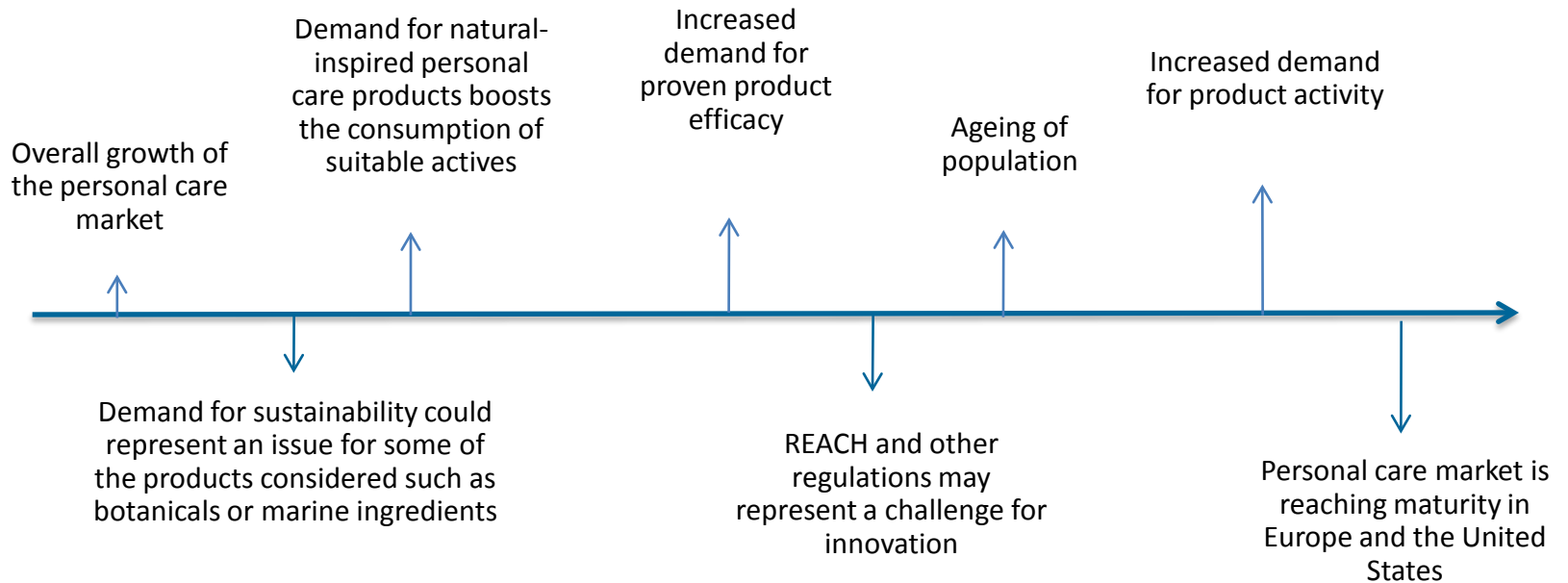
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Making the Difference:
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Due to an increased demand for activity and efficacy, the specialty actives market is expected to grow faster than the personal care industry.

Market Drivers and Constraints Influencing the Specialty Actives Market, 2010

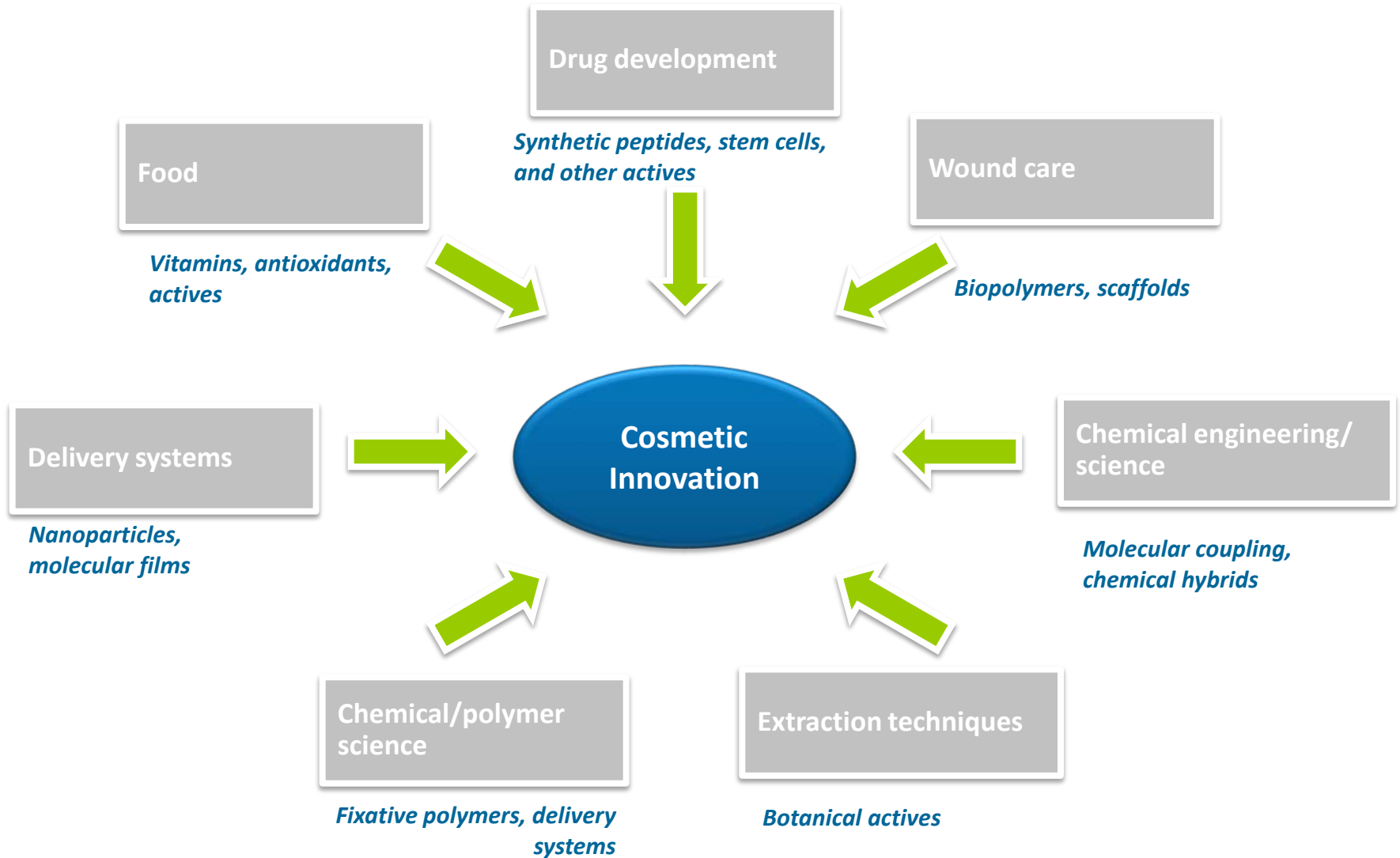


Innovation can provide the stimulus for growth.

- In the 1990s, the introduction of affordable and high performance skin care in mass resulted in growth of the entire market.
 - This trend is continuing currently with the growth of the masstige products.

- During the 2000s, examples of radical innovation include:
 - Product categories:
 - Pore strips
 - Antibacterial hand sanitizers
 - Battery-operated toothbrushes
 - Teeth whitening systems
 - Sunless tanners and, more recently, gradual tanners
 - Sales channels:
 - Online sales
 - Home shopping television channels
 - Vertically-integrated specialty stores

However, innovation needs to come from a variety of sources.



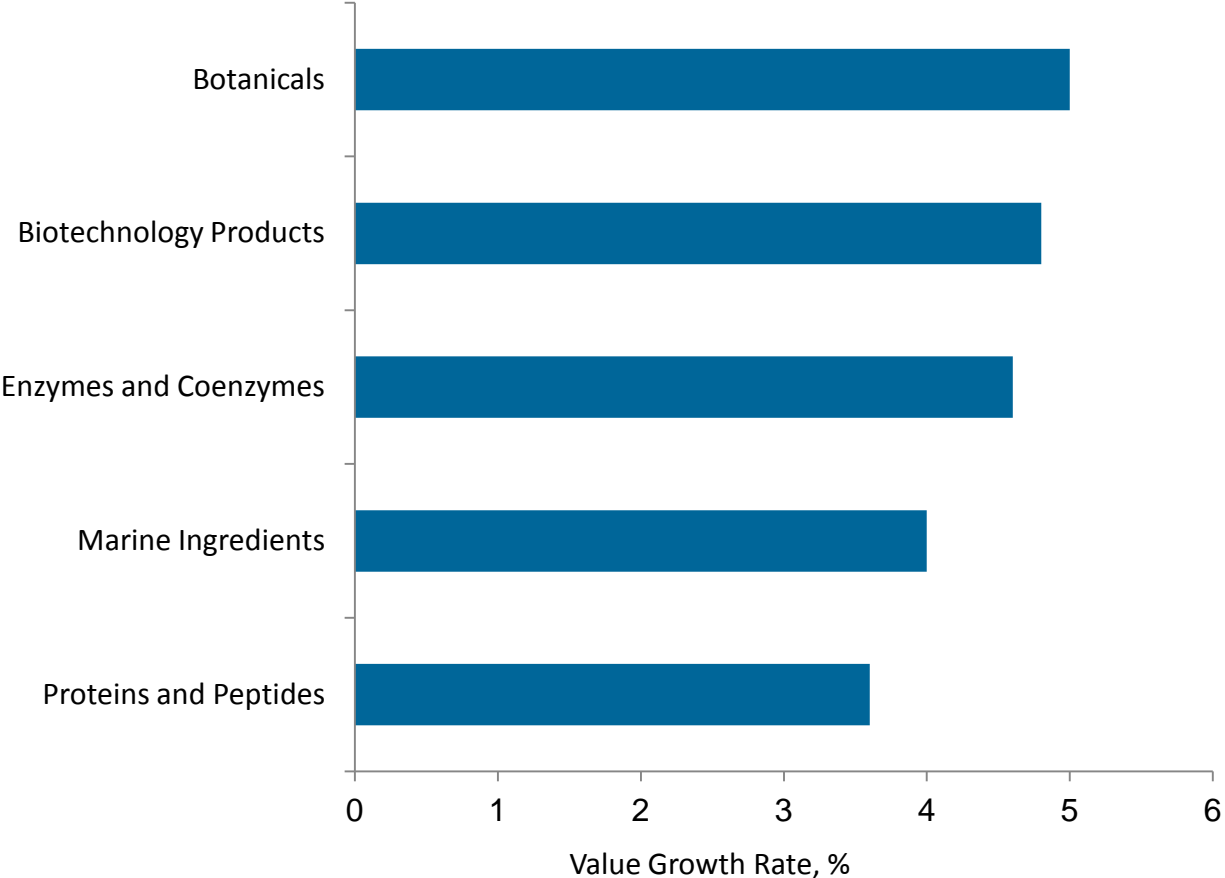
Sales of natural personal care products continue to show promising growth.



- Global sales of natural personal care grew by
 - near 15 % in 2010
 - 10.9% in 2011
 - CAGR (2003-2010) is over 14%
- Key factors contributing to growth of the segment:
 - Natural/mainstream convergence
 - Product development
 - Competitive pricing
 - Entry of the global marketers of personal care in the natural segment
 - Retailers across channels embracing the trend

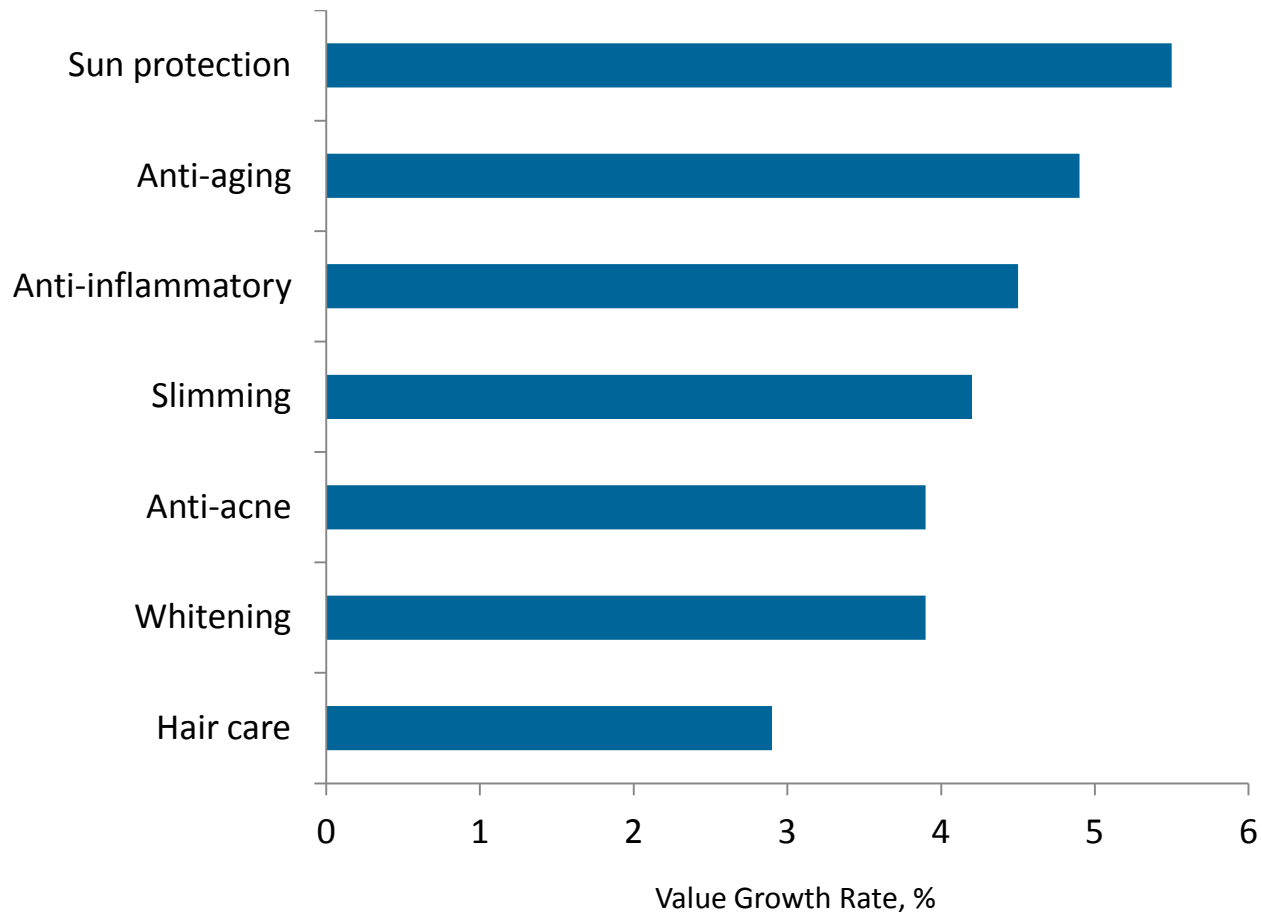
The specialty active market in Europe is expected to grow at an average annual rate of 4.6% per year between 2011 and 2015.

Value Growth by Product Category, 2011 to 2015



Sun protection is forecast to develop at the fastest rate, whilst anti-aging actives will continue to take advantage of solid growth drivers.

Value Growth by Functionality, 2011 to 2015



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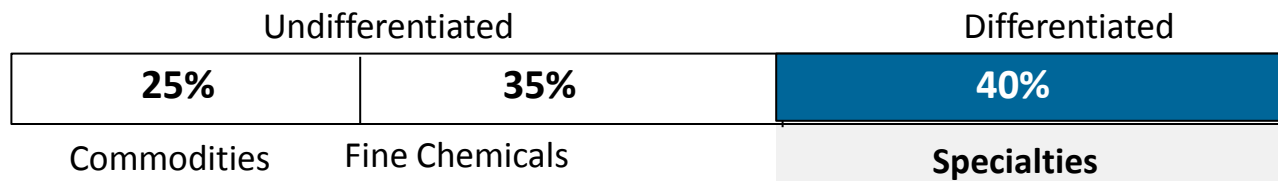
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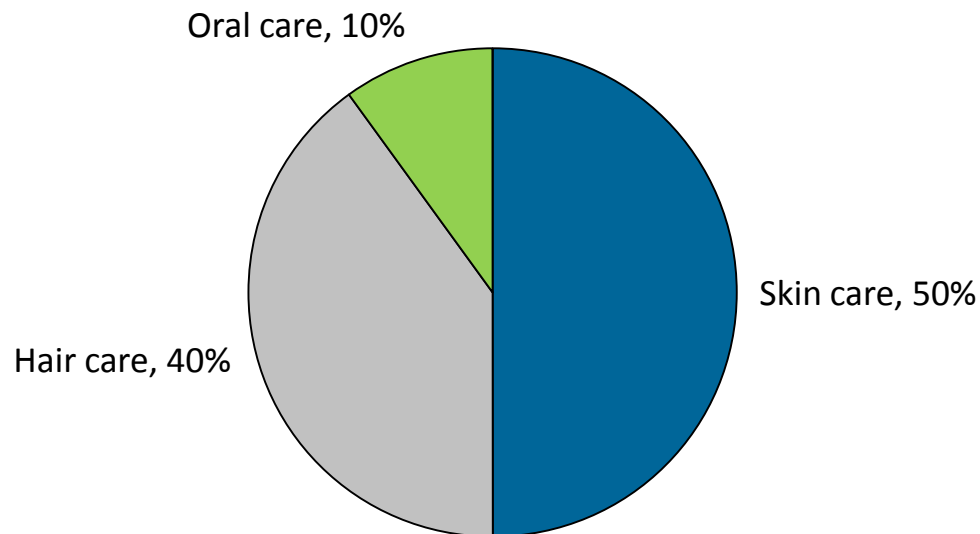
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With 40% of raw material consumption in “differentiated” positions in a €8bn to €12bn market, this is also an attractive chemical industry segment.

Ingredient Market: €8 billion to €12 billion



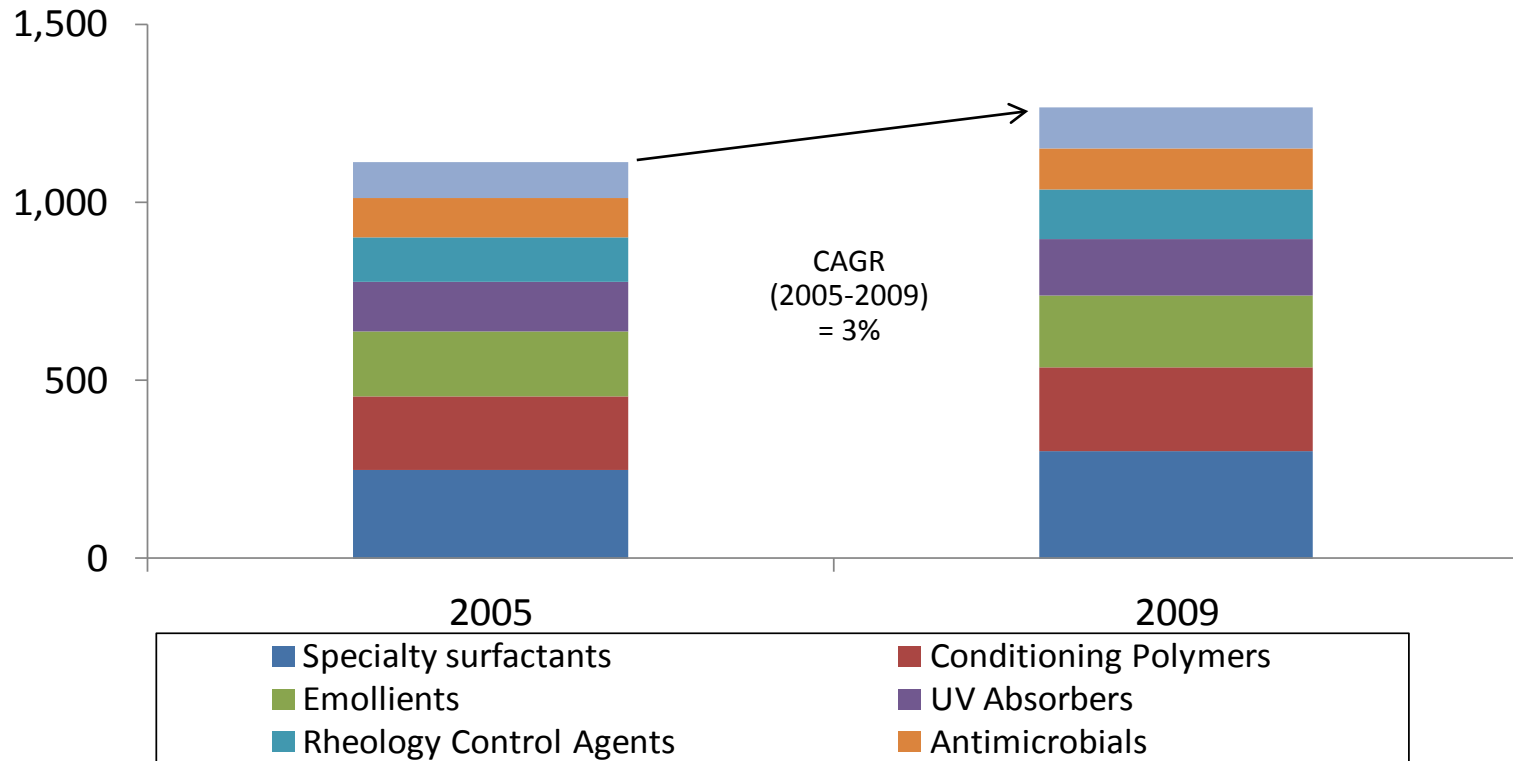
By Application



Unlike the commodity market, the specialty ingredients market is still enjoying a healthy growth rate, notably on a value basis.

Specialty Ingredients Market Value Growth, 2005-2009

The European market of specialty ingredients was value at about EUR 1.3 billion in 2009





Data in this presentation have been sourced from Kline's **Specialty Actives in Personal Care 2011**.

Covers:

- Botanical actives, proteins and peptides, biotechnology products, and other types of active ingredient.

Reports available in the series:

- Specialty Actives in Personal 2011
 - Europe
 - United States
- Data are also accessible via an interactive online database

Chemicals
In-Depth Report Series

Specialty Actives in Personal Care 2011:
Multi-Regional Market Analysis and Opportunities

To Be Published 2nd Quarter 2011
Base Year: 2010

Regional Coverage
United States
Europe
Asia

- Japan
- China

Rest

Functional activity has become a key marketing focus in skin care in recent years. This report program focuses on specialty actives, namely those used in cosmetic applications for anti-aging, anti-inflammatory, and other skin benefits.

Key questions addressed by this research include:

- What is the size of the specialty actives market by region, product category, and application?
- What are the growth prospects within each region and application for specialty actives?
- What regulations are affecting the market?
- What are comparative pricing differences for each product by region?
- Who are the leading suppliers?
 - What products do they offer?
 - What are their strengths and how do they position themselves?
 - What merger and acquisition activity has shaped the market?
- Which new products have entered the marketplace, and from whom have they taken market share?

Alongside our comprehensive market reports, data will also be accessible via an interactive online database.

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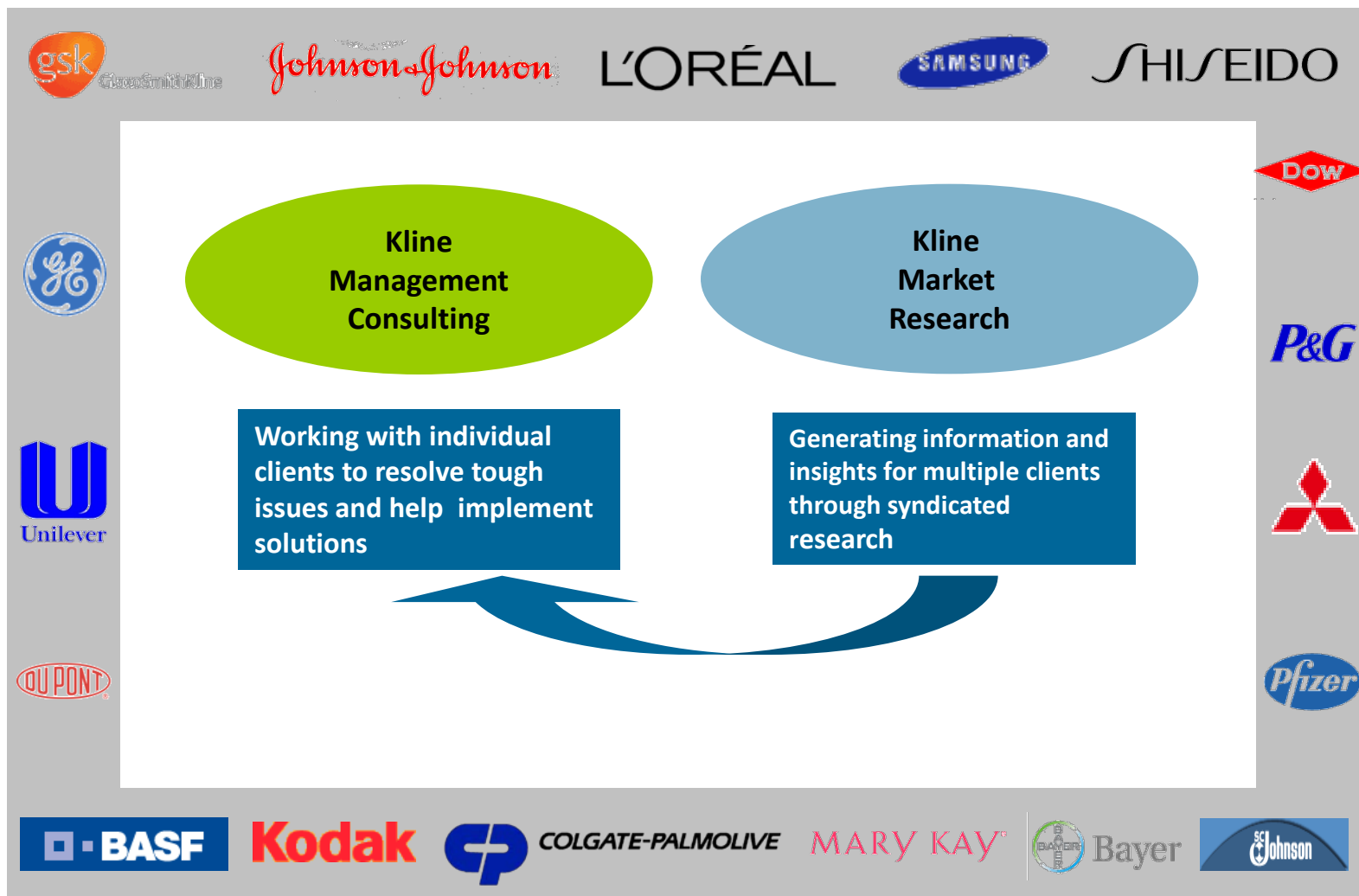


Personal Care Ingredients: Database

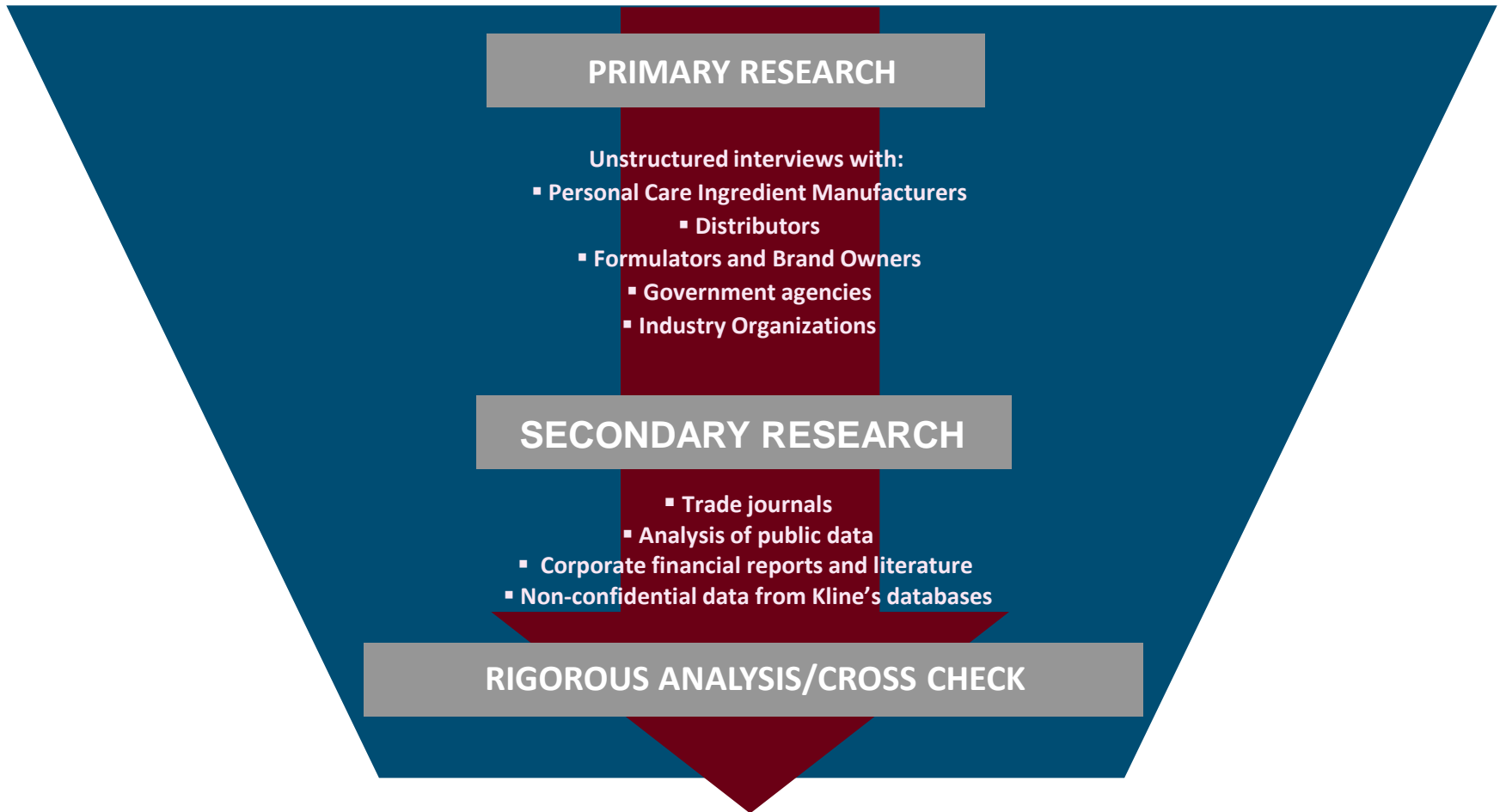
- Personal Care Ingredients is an easy to use and powerful interactive database containing data on over 100 personal care ingredients in key regional markets.
- Markets covered include: Europe, the United States, Japan, China, Southeast Asia, and India.
- Includes an extensive executive summary including qualitative information about trends affecting the market + tri-annual industry updates

As an attendee, enjoy a 10% discount on this indispensable service.

Kline & Company is a leading management consulting and published market research firm with domain expertise across the personal care value chain.



Kline's emphasis on primary research and rigorous analysis methodology results in high quality and insightful reports.



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