

Brazil:
Cosmetics, Fragrances &
Toiletries Market

ASTOR GROUP



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Last year, Brazil's Cosmetics, Fragrances and Toiletries (CFT) market grew faster than any other market in the world, growing an astounding 30%. Already the world's 3rd-largest market, Brazil enjoyed retail sales of US\$37.4 billion in 2010 representing approximately 10% of the global market and 58% of the Latin American market.¹

Growth has primarily been driven by increased sales to an expanding middle class that still has significant room to grow. Moreover, Brazilian consumers' average annual spend on CFT products amounts to approximately 4% of their personal income, the highest of any nation in the world and three times the global average. Despite an average income that is one third of US consumers', Brazilians' purchases of CFT products is on par with Americans'. If current trends continue, Brazil will replace Japan as the 2nd-largest CFT market in 2013, representing a windfall to CFT producers.¹

| | | 2010 US\$ Billion (consumer price) | Growth % | Share % |
|----------|-----------------------|--|-------------|-------------|
| | World | 374.3 | 7.0 | |
| 1 | USA | 59.8 | 1.7 | 16.0 |
| 2 | Japan | 43.8 | 6.8 | 11.7 |
| 3 | Brazil | 37.4 | 30.1 | 10.0 |
| 4 | China | 23.6 | 10.8 | 6.3 |
| 5 | Germany | 17.7 | -2.0 | 4.7 |
| 6 | France | 15.9 | -3.8 | 4.2 |
| 7 | United Kingdom | 15.3 | 3.4 | 4.1 |
| 8 | Russia | 12.5 | 15.0 | 3.3 |
| 9 | Italy | 12.0 | -4.5 | 3.2 |
| 10 | Spain | 10.4 | -5.3 | 2.8 |
| | Top Ten | 248.3 | 6.3 | 66.3 |

Source: ©Euromonitor International

Outlook, Trends

Although inflation and exchange rates are issues to monitor in the coming years, the performance of the Brazilian CFT industry and the overall economy should be robust with double-digit CFT growth and the following industry trends:¹

- The Brazilian retail market will play a larger role driven by foreign multinationals taking share from direct retail and by increasing market sophistication
- Higher-end products (e.g. prestige, masstige) will take market share from mass
- Locally produced products (e.g. ingredients, production) will continue to be preferred

1 - ABIHPEC, Brazil's main CFT trade association, expects the Brazilian CFT industry to grow 13% in 2011



Growth Drivers

Demographics

- Growing Middle Class: strong economic performance in Brazil is leading to increasing purchasing power (across all classes of society) and to the dramatic expansion of the middle class
 - Increasing disposable income for CFT products, a primary destination for Brazilians
 - In recent months, Class C (middle class) CFT sales increased 22% Y-o-Y vs. 17% for Class A (upper class) and now represent 46% of CFT sales vs. 27% in 2002
- Increasing number of women in the workforce (now 45% of the workforce; primary consumers of CFT products)
- Increased life expectancy and the desire of older people to preserve a youthful appearance
- Rising personal credit for Brazilians

Changes in Market Dynamics

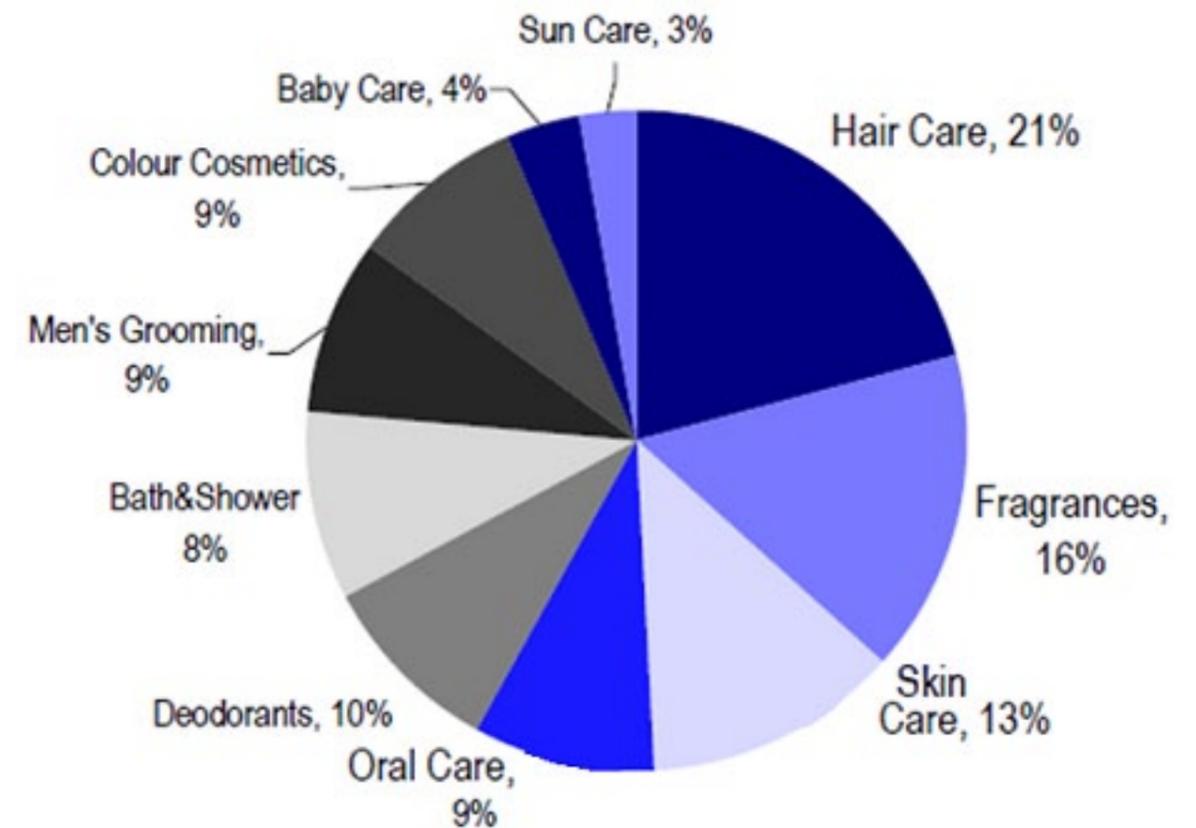
- Innovation: steady stream of new product launches targeted at increasingly popular niche markets addressing specific consumer demands
 - Holistic, wellness, natural, anti-aging, improved formulations (vitamin-enriched, longer-lasting, less toxic, more resistant to environmental stress, free of allergic reactions, alcohol-free, etc.)
 - According to ABIHPEC (Associação Brasileira da Indústria de Higiene Pessoal, Perfumaria e Cosméticos), 20 new products are launched each day in Brazil
- Aggressive spend in marketing/advertising driven by increasing numbers of sales reps (domestic, foreign corporations)
- Wider distribution reach on the supply side (reaching new middle class consumers, including the north, Amazon regions)

Market Segments

Brazil ranks at or near the top in almost all key Cosmetics, Fragrances and Toiletries segments.

Globally, the CFT industry's largest segment has consistently been make-up, representing 35% of sales. Products for skin care have gained substantial market share in recent years, where both make-up and skin care have benefitted from increased sales of products with anti-aging ingredients (segment has room to grow as 2/3 of sales are in women between 19-39 years of age – according to Johnson & Johnson Brasil).

CFT categories breakdown in Brazil (2010)



Source: Euromonitor International

| | Global Sales (US\$ Billion; 2009) | % of Total Market | Brazil's Global Ranking (2010) |
|----------------|--------------------------------------|----------------------|-----------------------------------|
| Make-up | 117.5 | 35.2% | 3rd |
| Skin care | 75.8 | 22.7% | 4th |
| Oral hygiene | 64.6 | 19.4% | 2nd |
| Hair care | 63.7 | 19.1% | 2nd |
| Fragrances | 38.9 | 11.7% | 1st |
| Bath products | 28.9 | 8.7% | 2nd |
| Men's products | 26.3 | 7.9% | 2nd |
| Deodorants | 17.0 | 5.1% | 1st |
| Sun protection | 7.8 | 2.3% | 2nd |
| Kid's products | 5.8 | 1.8% | 1st |

Source: Euromonitor International

Growth Segments

Key segments expected to gain share in the near-term include sun protection, kids products and make-up, driven by greater consumption in terms of purchase frequency, higher penetration in some lower-income groups, and better distribution. ABIHPEC expects the market for sunscreen in Brazil to grow 24% in 2011, and make-up at 19%, which would be a record year.





Understanding Brazil: Beauty

To succeed in Brazil's CFT market, it is critical to understand Brazil's beauty culture, as well as the country's geography

Beauty

The strength of the industry, its domestic market and world-leading consumption, is firmly rooted in the country's ongoing love affair with beauty. Beauty is ubiquitous in Brazil, both in the landscape and in the people. Brazil is blessed with a gorgeous coastline, plentiful beaches and warm weather, and its people are comprised of an attractive mix of numerous ethnic backgrounds, producing many of the world's most in-demand fashion models.

Sophistication

With rising purchasing power, consumers have become more sophisticated and can afford more expensive cosmetics, fragrance and toiletries. The market is changing to adapt. Avon is now moving away from mass offerings in certain segments, offering masstige fragrances (prestige for the masses) in an attempt to meet consumers' more sophisticated demands.

Beauty is critical to life in Brazil

- Brazilians spend much of their free time outside and at the beach, where looking good is essential.
- Brazilians lead active lifestyles, whether it's playing soccer, dancing samba or walking along the beach.
- Brazilian women are constantly in search of perfecting their image. Brazilian women love to wear make-up but prefer products which give them a natural look, made with natural ingredients.
- Brazilian models are well known for their beauty, inspiring fashion campaigns and styles around the world, as well as young Brazilian girls who dream of growing up to be the next top model.
- Brazilians are very concerned about animal testing and the environment. Brazilian cosmetic companies avoid animal testing and offer products inspired by nature.



Understanding Brazil

Brazil is the largest and most populous country in South America (~ 200 million)

- 8 out of 10 Brazilians currently live in metropolitan areas
- Major cities include Sao Paulo, Rio de Janeiro, Belo Horizonte, Fortaleza, Salvador, Brasilia
- Most major cities were built on the coasts, near seaports, which allows for easier distribution of products, but logistics continues to be a problem throughout the country
- The diversity of Brazil in terms of geography and demography represents unique challenges and opportunities for manufacturers of CFT products
- Brazil, with its 8.5 million square kilometers, has significant climate differences, and lifestyles vary greatly from highly urbanized areas throughout the Southeast to the sparsely-populated North
- The wealthier Southeast region contains 42% of the population but almost 57% of Brazilian GDP (according to IBGE data), which shows a strong concentration of income in the markets in which large consumer industries operate
- Brazilians represent a complex mixture of African, European and Asian ancestry, with varying skin tones, hairstyles and preferences; although the Brazilian market contains millions of consumers and products for the mass market, these differences provide opportunities for producers to develop specialized products that often can successfully compete against existing products for the mass market

Distribution Channels



Distribution Channels

There are three main distribution channels for CFT products in Brazil: traditional third-party distribution, direct sales and company stores.

We expect third-party distribution to increasingly take market share from other segments as incomes increase, drugstore pharmacies expand and companies improve in-store customer targeting.

Third-party distribution currently accounts for approximately 65% of all sales and serves higher income consumers

- Distribution includes supermarkets, pharmacies, specialty, beauty stores, department stores
- Drugstore pharmacies have been taking share away from grocery stores/supermarkets in recent years
- Competition with direct selling: currently losing share and growing slower, but we expect that this segment will recapture share and grow as incomes increase

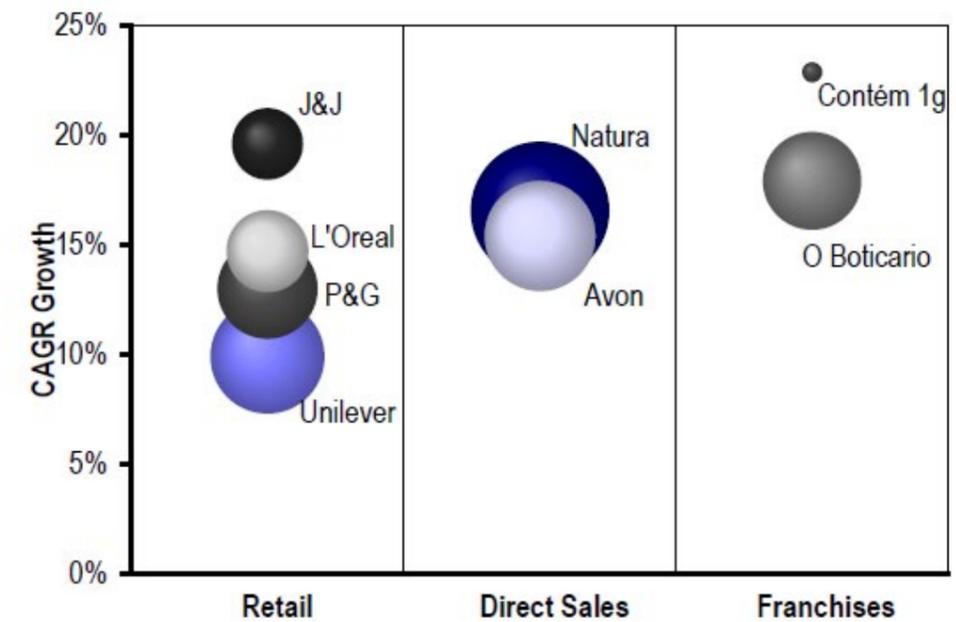
Direct sales account for approximately 25% of overall sales, more than 50% of cosmetics sales and approximately 40% of skin product sales

- Channel and share gains vs. third-party distributors being driven by Natura, Avon
- Leading firms use “door-to-door” as main distribution strategy; approximately 3 million direct sales representatives in Brazil
- Larger component in Brazil/ LatAm vs. rest of world

Company stores account for approximately 10% of total sales

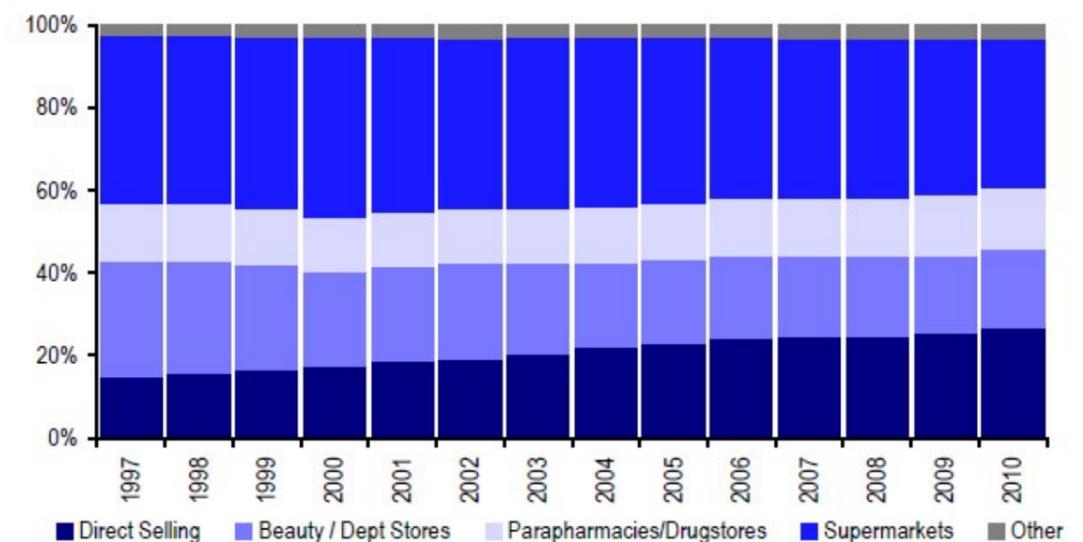
- O Boticario makes up the majority of this segment

Retail-based companies show an overall slower growth rate in Brazil



Source: Euromonitor and UBS estimates. (1) Size of bubbles represents market share; (2) Growth in '05-'10 CAGR

Brazil personal care sales by channel (1997-10)



Source: Euromonitor and UBS estimates

Drugstores: A Growing Channel in Brazil

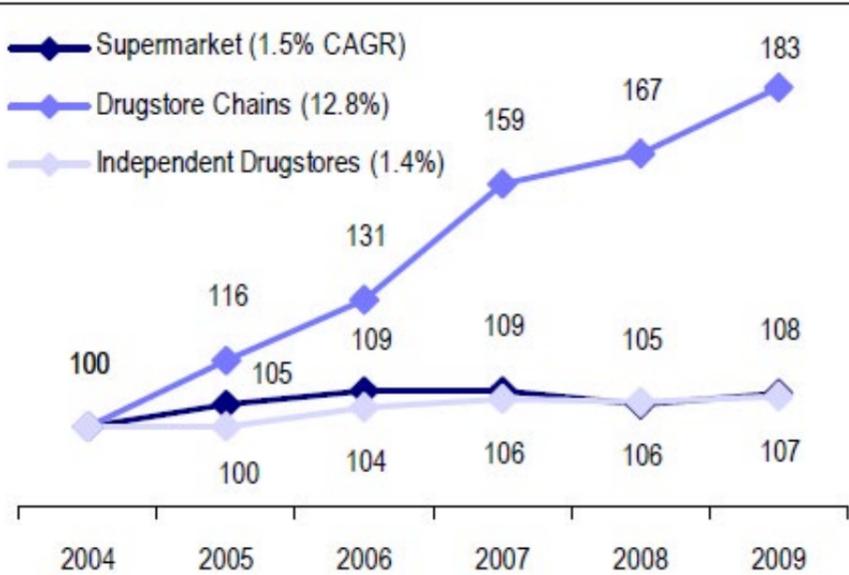
Drugstore pharmacies have been taking share from supermarkets, experiencing higher growth fueled by increasing points of sale, greater product assortment, greater convenience

Channel Importance as % of Sales*



Source: AC Nielsen, Barclays Capital.
*Sales of 28 Personal Care Categories – Total Brazil as food and drug stores

CFT sales evolution per channel in Brazil



Source: AC Nielsen and UBS estimates. (1) Growth in '04 – '09 CAGR

- 5 largest chains: 1/4 of total drugstore sales (% should increase with M&A, geographic expansion)

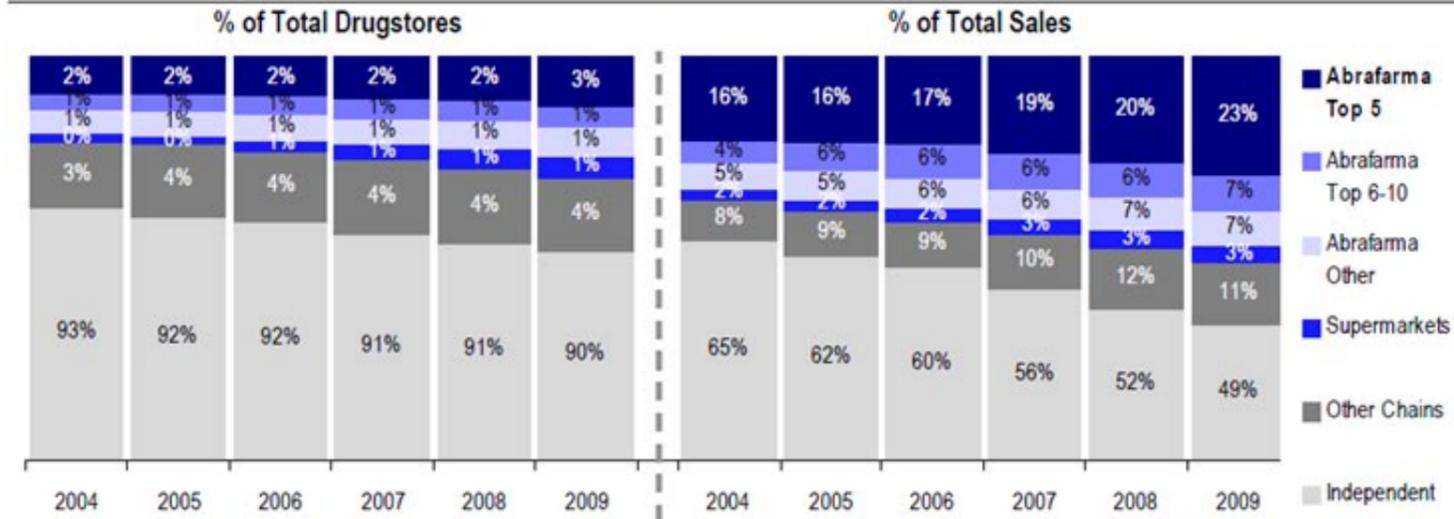
- Important channel for hair coloring products, skin creams and sunscreen

- Aimed at higher price points compared to supermarkets (higher profit margins)

- Key ruling: Anvisa's (National Sanitary Surveillance Agency) recent RDC 44 ruling that forces drugstores to move their OTC drugs behind the counter, resulting in more selling areas designated to personal care and nutritional food products

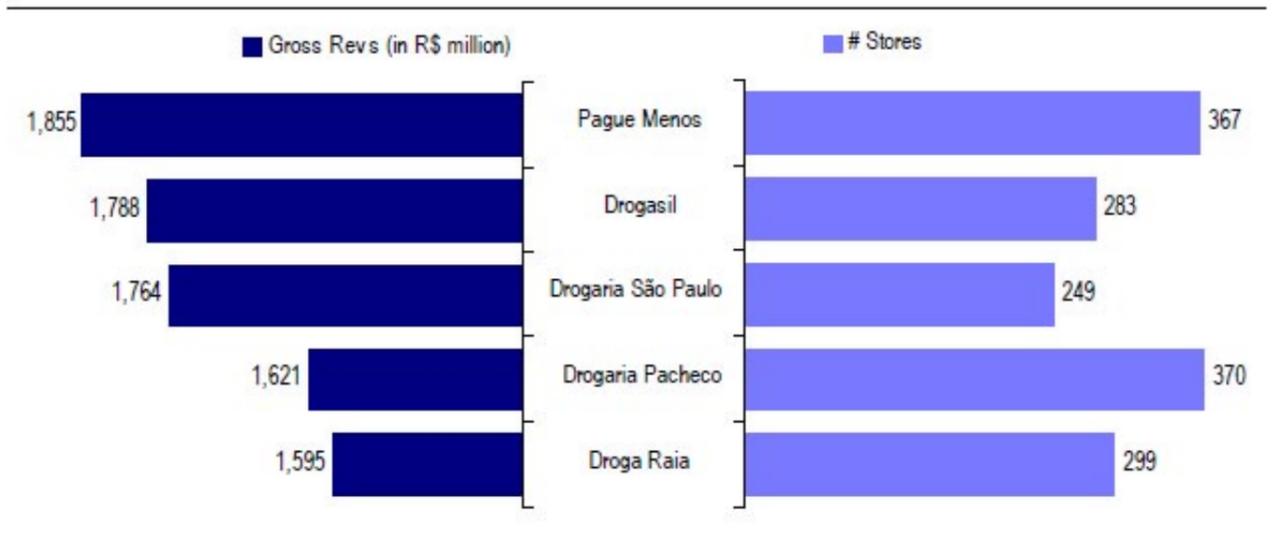
- Companies like Procter & Gamble have started selling product (its Olay brand - a masstige skin care and anti-ageing product line) to pharmaceutical outlets first

Top 5 largest drugstore retailers answer for nearly one quarter of total sales



Source: IMS, Abrafarma, Company reports and UBS estimates

Abrafarma Top 5 drugstore retailers in Brazil (2009)



Source: Abrafarma, UBS estimates

Improving Retail Results: The L'Oreal Experience

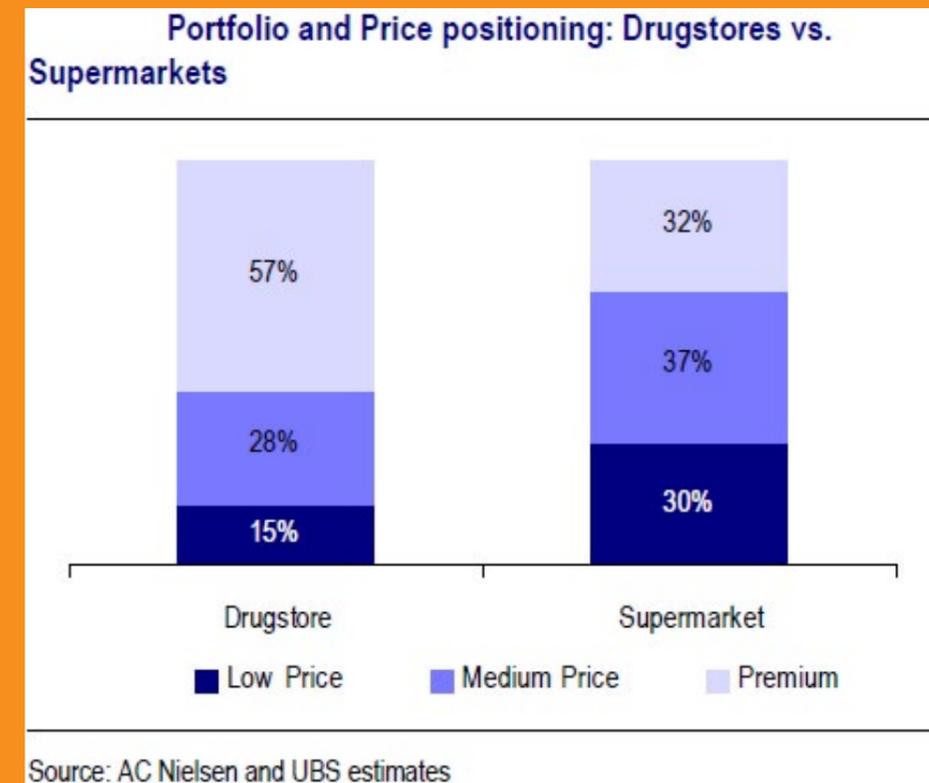
L'Oreal

In Brazil the company is seeking to create a retail make-up business from scratch and capture share from the direct sales channel by:

- Introducing dedicated, personal beauty advisers at department stores
- Offering new product lines at drugstore pharmacies (including lightening creams)
- Creating the appropriate atmosphere to sell the product, including improved displays
- Focusing on channels like Lojas Americanas (currently negotiating with the chain to expand its make-up walls country-wide)
- Skin care: targeting pharmacies and drugstores with product tailored to Brazilian women
 - For example, foundation, a strong L'Oreal category worldwide, isn't a big seller in Brazil because women find it increases the oiliness of their skin – as a result, L'Oreal's research team is now working on less oily foundation products with more natural and local ingredients

Other companies looking to improve their Brazilian retail results are launching new efforts:

- Estee Lauder: Mac stores are being rolled-out in shopping malls throughout Brazil, after the company realized that ~60% of its customers at their Times Square store were Brazilians
- Procter & Gamble: Olay displays in pharmacies (generally in higher-end outlets)



M&A: Key Recent Transactions in Brazil's Cosmetics, Fragrances & Toiletries Industry

Impetus for M&A:

Declining growth at major brands and in developed markets

Geographic expansion: focusing on high growth, emerging markets

Channel development: to reach new consumers and new industry segments

Cost savings/synergies for larger companies

| Date | Target | Acquirer | Details |
|----------------|--|---------------------------------|--|
| May 2011 | Akakia | Globalbras (Água de Cheiro) | Obtained 100 stores and 400 new products (goal of having 1000 stores by the end of December 2011); terms undisclosed |
| May 2011 | Bertin (cosmetics) | JBS Group (J & F Participações) | Paid R\$350m; 2010 target revenue of R\$487m; includes several wholesaler cosmetics companies OX, Hydratta, Francis, Neutrox, Phytoderm, Karina and Kolene |
| May 2011 | Ecologie Cosméticos | Bombril | Acquired 75% for R\$15m; 2010 revenue of R\$20m; over 120 products for hair care, body and face |
| December 2010 | Mantecorp. | Hypermarcas | Paid R\$2.5 billion for drugmaker, sun protection brand (Episol), moisturizers (Epidrat moisturizers), target sales of R\$572m (46% prescription drugs, 30% OTC medicines, 16% skin care products and 8% generic drugs); gross profit of R\$375m |
| October 2010 | Bitufo | Hypermarcas | Paid R\$82.5m; oral hygiene products |
| October 2010 | Pom Pom (Colgate-Palmolive) | Hypermarcas | Paid R\$85m |
| July 2010 | Sack's | LVMH | Acquired 70% stake in the Brazilian online retailer of fragrances, cosmetics and toiletries; purpose: to use to develop its Sephora cosmetics chain in Brazil |
| May 2010 | Facilit Odontológica e Perfumaria Ltda | Hypermarcas | Paid R\$60m for Sanifill brand of toothbrushes and antiseptics |
| October 2009 | Água de Cheiro | Globalbras | Revenue of R\$60m; acquired 269 stores, then invested R\$150m into the company |
| September 2009 | SS Cosméticos (infant hygiene) | Hypermarcas | Paid R\$25m for the portfolio that included the brand Hydrogen, and licensed products from Disney |
| October 2008 | Niasi | Hypermarcas | Paid R\$328m; strong in hair coloring and nail polish markets; major brands: Risqué and Biocolor; target revenue of R\$246m in 2007 |

Brazilian Cosmetics, Fragrances & Toiletries Companies

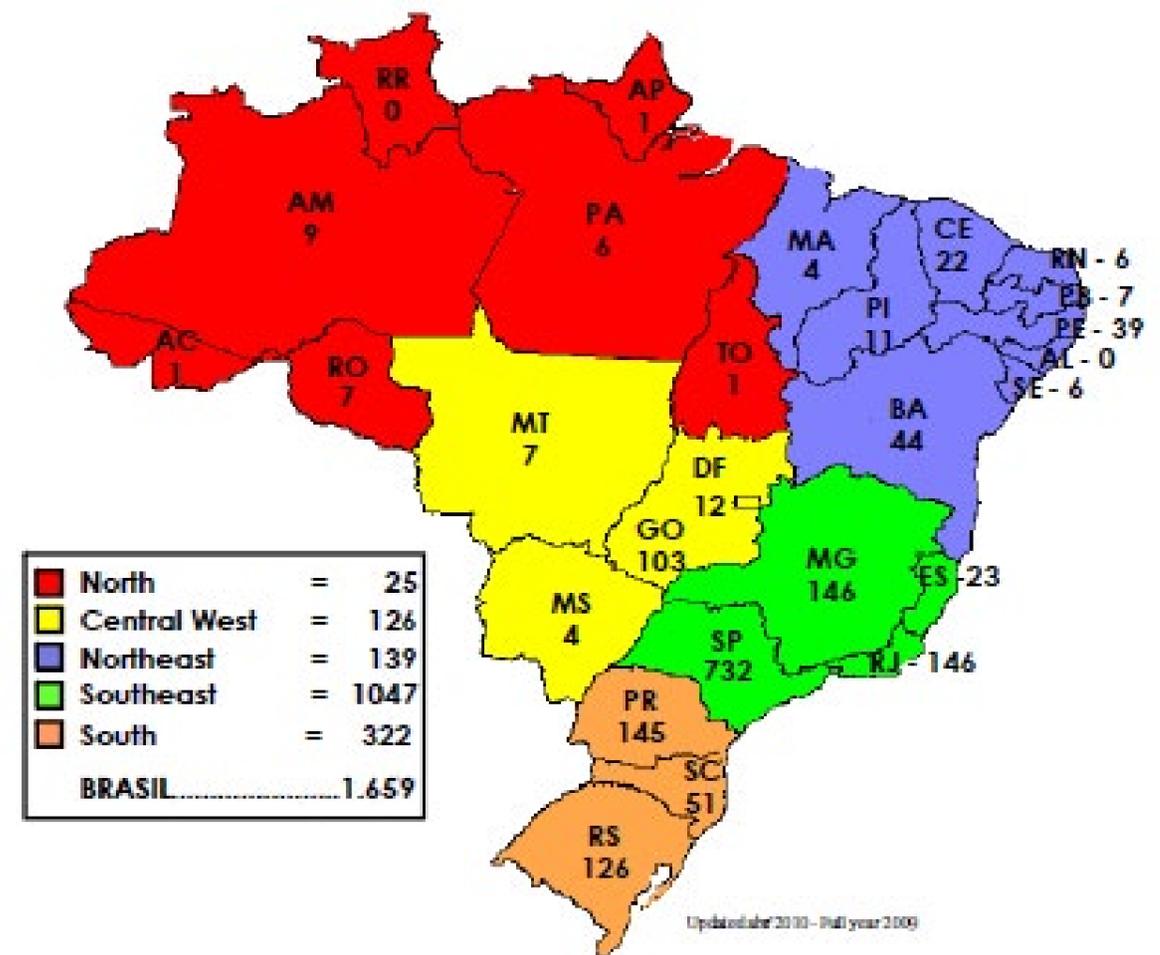
To survive in the burgeoning Brazilian Cosmetics, Fragrances and Toiletries (CFT) market, domestic and foreign companies need deep local knowledge and an effective execution plan.

Companies must offer a wide range of products and brand offerings, at attractive prices, while incentivizing repeat purchases. Additionally, they must have effective strategies in place to build brand awareness and generate traffic, have a reliable supply chain for quick turnaround and fulfillment, and invest in a state-of-the-art technology to generate constant innovation and new product offerings.

There are 1,659 formal companies in the industry, with the top 15 companies having 70% market share:

- 1,047 companies in the Southeast
- The Brazilian market is dominated by low-cost products (95% of the market)
- Luxury products represent only 5% of the market, however, the luxury products segment grew 11% in 2010

· The companies are distributed by region/state as follows:



Brazil's Largest Cosmetics, Fragrances & Toiletries Companies, Brands

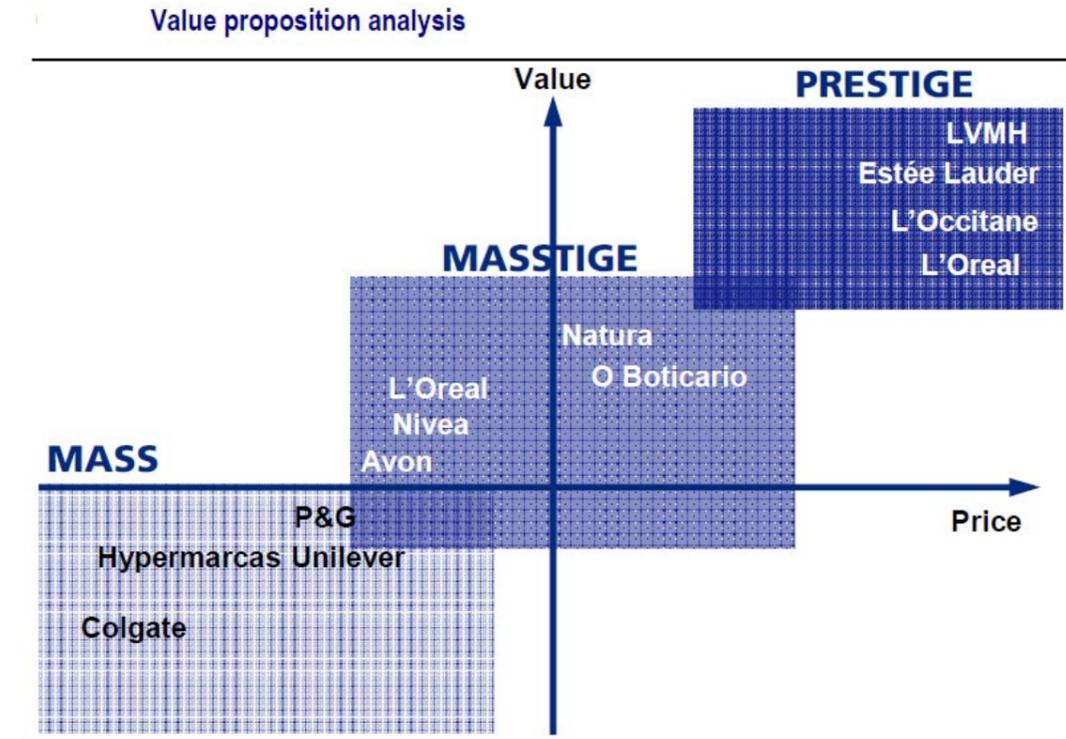
Domestic Leaders: Natura, O Boticário, Hypermarchas

Selection of Mid-Sized Domestic Players: Jequití, Contém 1g, Neily, Casa Granada, Agua de Cheiro (Globalbras)

Market Share position by product segment in 2009*

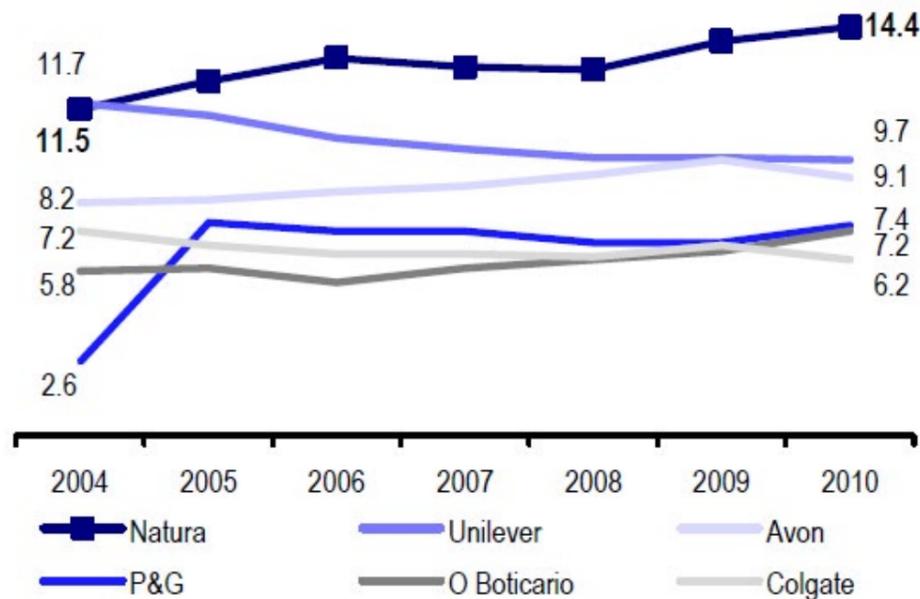
| | Natura Rank Position | Natura | Avon | Unilever | P&G | O Boticário | Colgate Palmolive | L'Oréal | J&J | HYPE | Nivea |
|-------------------|----------------------|--------|-------|----------|-------|-------------|-------------------|---------|-------|------|-------|
| Bath and Shower | 2nd | 12.6% | 1.7% | 23.6% | n.a. | 2.1% | 6.9% | n.a. | 2.0% | 1.3% | 1.0% |
| Colour Cosmetics | 2nd | 13.1% | 34.7% | n.a. | n.a. | 7.4% | n.a. | 7.5% | n.a. | 7.1% | n.a. |
| Deodorants | 2nd | 14.4% | 8.3% | 29.9% | 0.6% | 4.0% | 0.7% | 1.1% | 1.2% | 1.9% | 5.8% |
| Fragrances | 1st | 28.8% | 11.7% | n.a. | 0.8% | 20.1% | n.a. | 1.3% | 0.6% | 0.4% | n.a. |
| Hair Care | 8th | 2.8% | 2.3% | 16.3% | 7.3% | 0.5% | 4.5% | 14.5% | 0.6% | 3.3% | n.a. |
| Men's Grooming | 3rd | 9.4% | 0.6% | 17.3% | 38.8% | 5.0% | 0.6% | n.a. | n.a. | 2.8% | 3.3% |
| Skin Care | 1st | 21.8% | 20.0% | 2.1% | n.a. | 4.9% | n.a. | 3.5% | 4.5% | 5.4% | 6.7% |
| Sun Care | 4th | 8.8% | 9.7% | n.a. | n.a. | 2.2% | n.a. | 2.7% | 32.8% | 3.3% | 14.2% |
| Premium Cosmetics | n.a. | n.a. | n.a. | n.a. | 6.7% | n.a. | n.a. | 26.5% | n.a. | n.a. | n.a. |

Source: Euromonitor, Barclays Capital.
*As % of Retail Sales



Source: Euromonitor International

Market Share in the Brazilian CT&F Market



Source: Euromonitor International

Brazilian CF&T Market Share by Company, Retail Sales Value (2005-2009)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Natura | 8.9% | 9.1% | 10.5% | 11.7% | 12.6% | 13.4% | 13.1% | 12.9% | 13.2% |
| Unilever | 13.1% | 12.3% | 12.6% | 11.9% | 11.4% | 10.5% | 10.2% | 9.8% | 9.9% |
| Avon | 8.1% | 8.3% | 7.9% | 8.3% | 8.2% | 8.6% | 9.0% | 9.2% | 9.5% |
| Procter & Gamble | 1.8% | 0.9% | 2.9% | 3.0% | 7.8% | 7.5% | 7.5% | 7.0% | 6.7% |
| O Boticário | 5.9% | 6.6% | 6.3% | 5.9% | 6.0% | 5.5% | 5.9% | 6.2% | 6.3% |
| Colgate-Palmolive | 8.9% | 7.6% | 7.3% | 7.2% | 6.6% | 6.3% | 6.1% | 6.0% | 6.1% |
| L'Oréal | 4.6% | 4.8% | 4.7% | 4.9% | 4.6% | 4.9% | 5.5% | 4.8% | 4.7% |
| Johnson & Johnson | 2.4% | 2.5% | 2.6% | 2.9% | 2.9% | 3.4% | 3.8% | 3.7% | 3.6% |
| Hypermarchas | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.9% | 2.4% | 2.6% |
| Nivea (Beiersdorf) | 1.2% | 1.2% | 1.2% | 1.3% | 1.5% | 1.5% | 1.7% | 2.0% | 2.0% |

Source: Euromonitor, Barclays Capital

Source: Euromonitor International

Astor Group Expertise in Brazil

Astor Group has a unique combination of merger and acquisition, CFT and Brazil experience-

We maintain ongoing contact with a deep network of players within the CFT sector that enable us to identify the most desirable partners and begin discussions with those that are not entertaining discussions.

Our partners have a successful track record building, growing and selling brands within the CFT markets.

We recognize why Brazilian CFT transactions are different than other types of deals and we prepare our clients so that there are no surprises.

No other advisor is better able to help multinational companies leverage Brazil's domestic market.

Sample Targets

The following is a representative list of CFT companies in Brazil



Dermatological cosmetics producer

Description

The company specializes in dermatological cosmetics, targeting mostly high-end consumers. Products are sold through the company's own stores, half of which are owned and the other half which are franchised. The company is looking to open 10 new stores in 2011 and expand into department stores. The company is seeking to add to existing operations in Brazil and Colombia but is seeking to grow into other LatAm countries and Europe.

Financials

Revenue of approximately R\$50 million

The deal:

Seeking a financial partner for growth capital

Beauty retailer

Description

Major online retailer of cosmetics in Brazil, carrying over 270 brands and attracting four million unique visitors each month and with nearly 1 million customers. The company is in the midst of planning an aggressive expansion campaign, launching physical stores at Brazilian malls across the country.

Financials

N/A

The deal

Seeking equity investor

Natural hair care, organic cosmetics producer

Description

Offers hair coloring products infused with Brazilian ingredients and created without the use of animal testing. Additionally, it sells organic and natural cosmetics

The product is sold through leading third-party distributors in Brazil, while 20-30% of revenues come from exports (export to 20 countries)

Financials

R\$25 million in revenue, R\$5 million in EBITDA

Leading direct sales cosmetics producer

Description

Leading brand, product-based company sold through network of over 150,000 sales consultants

Sells over 900 SKUs in cosmetics, jewelry and accessories segments

Heavy focus on sustainability and marketing

Financials

R\$400 million in revenue

The deal

Open to offers ranging from a minority investment to a full buy-out

Select Mid-Sized Brazilian Cosmetics, Fragrances & Toiletries Companies from Our Network

| Total Revenue | Distribution | Description |
|---------------|--------------------------------|---|
| R\$250m | Own retail stores | Goal to reach 1,000 stores by end of 2011; owned by acquisitive holding group |
| R\$100m | Mix of channels | Target lower and middle class; also engage in direct selling |
| N/A | Third-party | Focus on hair care; targets classes C and D; 1,000+ SKUs |
| R\$180m | Own retail stores | Focus on soap |
| R\$50m | Third-party, own retail stores | Focus on luxury segment - fragrances |
| R\$500m | Third-party | Focus on hair care; 2,000 employees; expanding production by 50% |
| R\$50m | Own retail stores | Focus on cosmetics and pharmacy |
| R\$400m | Direct sales | Focus on cosmetics, jewelry and accessories segments |



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