

Wella – A Case of Corporate Carve-out



Sami Favre

Vice President
Petiole USA Limited

When the COVID-19 pandemic shocked the global beauty industry, Petiole seized the opportunity to enter the historically resilient and continuously growing market.



Constantin Wagner

Analyst
Petiole Asset
Management AG

As Doors to Salons and Stores Closed, Another Door to Opportunities Opens

Before the pandemic, the global beauty market was growing steadily with generations of loyal customers. It was a resilient market, growing constantly for more than a decade.



Source: McKinsey & Company

COVID-19 forced the closure of many hair salons and stores in Q1 2020. The hard-hit beauty market responded quickly as many manufacturers switched production to hand sanitizers and cleaning agents, while do-it-yourself (DIY) beauty products such as hair coloring and nail care grew rapidly. Innovative companies adopted digital platforms to increase online sales with some product brands and retailers doubling their e-commerce revenues compared to pre-COVID-19 levels.

With balance sheets under stress after the initial blow of the pandemic, many companies began rethinking their business models for new sources of cash flow that led to increased mergers and acquisitions (M&A) and divestment.

Coty Announces the Sale of Wella

In November 2020, Coty, a major global beauty company, announced the sale of the Professional Hair and Retail division of Wella. Coty had originally intended to sell all its equity in Wella, but decided to hold a minority stake to benefit from its recovery. The carve-out of Wella from its parent company presented an opportunity to invest in the resilient growth of the beauty market.

Despite underperformance during its ownership by Procter & Gamble (P&G), Wella held up well with the strength of its brands, products, sales force, and customer relationships. After its acquisition by Coty in 2015, product innovation at Wella was low and the company's complexity led to integration issues. During the pandemic, the haircare segment was among the best performing categories as consumers sought DIY hair-styling solutions during the lockdown. The rapidly changing consumer habits required innovation and product development in the highly fragmented and competitive market. COVID-19 forced beauty brands to reach customers online through third parties, paving the way for the digital transformation of the sector.

Unlocking Value from the Wella Carve-out

In the last three years, Petiole co-invested in several undervalued carve-outs where value can be added by shedding incompatible assets. Wella had an attractive growth potential with well-known brands and a strong market position.

Wella is the market leader in professional hair care, styling and colorants in Europe and has a solid second place in the US market. Its core brands Wella, System, Sebastian, Clairol and Nioxin are sold to 270,000 salons and hairdressers worldwide with a full-time direct sales force of 1,500 employees. Wella's professional nail brand, OPI, is the global market leader in its category used by half a million professionals in over 100,000 salons worldwide with a robust market share in nail polish and gel. OPI has 66% usage across US salons. Its hair appliance brand, ghd, has a majority market share in the UK and 40% e-commerce penetration with substantial digital capabilities. The brand includes hair-styling appliances, such as hairdryers, straighteners and brushes that are sold to over 50,000 salons around the globe through a sales force of 216 full-time employees.

Although the brand relies on direct sales to salons and hairdressers that were not operational during the pandemic, recovery is underway. A consumer survey showed that almost half the customers await salons to reopen after unpleasant DIY experiences. More than 70% of salon customers are expected to return within two to three months when they reopen. Beyond Covid-19, surveys show that more than 95% of consumers will return to salons. In summary, hairdressers do not anticipate a long-term negative impact.

Long-term Growth Trends in Beauty Industry

The prospects remain attractive for the beauty industry and COVID-19 has accelerated e-commerce trends among the rising middle class that are unlikely to change. Wella is well-positioned to benefit from the growing popularity of business-to-consumer e-commerce brands, websites, social media platforms and marketplaces, as customers are more likely to spend online on a diversified, innovative product mix.

KKR has been monitoring Wella for several years, particularly its retail hair care assets. It has invested \$18.4 billion in consumer-facing private equity transactions, including 55 carve-outs over the past 43 years. Corporate carve-outs, such as the case for Wella, have risen exponentially especially in cross-border settings where the pandemic has made onsite due diligence difficult, if not impossible. Petiole works only with the most capable and experienced partners, like KKR, that have a proven track record in carve-out investments.

Disclaimer

This presentation was issued by Petiole Asset Management AG (“PAM”) on October 27, 2021 and is provided to you for informational purposes only and contains proprietary information that may not be reproduced, distributed to, or used by, any third parties without PAM’s prior written consent.

This presentation is not intended for citizens or residents of the United States of America or “US Persons” as that term is defined in “Regulation S” of the US Securities Act of 1933. If any, no investment products presented here are permitted for sale under the Securities Act of 1933 or any other regulation applicable in the United States. Accordingly, no investment product may be offered or sold directly or indirectly in the United States of America to residents and citizens of the United States of America or to “US Persons”.

All information, figures, calculations, graphs and other numerical representations appearing in this presentation have not been audited and may be subject to change over time. Furthermore, certain valuations (including valuations of investments) appearing in this presentation are subject to change as they may be based on either estimates or historical figures that do not reflect the latest valuation. Although all information and opinions expressed in this presentation were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to their accuracy or completeness. The information contained herein is not a substitute for a thorough due diligence investigation. Past performance is not indicative of and does not guarantee future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units. Exit timelines, prices and related projections are estimates only, and exits could happen sooner or later than expected, or at a higher or lower valuation than expected, and are conditional, among other things, on certain assumptions and future performance relating to the financial and operational health of each business and macroeconomic conditions.

PAM makes no representation or warranty, express or implied, with respect to any statistics or historical or current financial data, whether created by PAM through its own research or quoted from other sources. With respect to any such statistics or data delivered or made available by or on behalf of PAM, it is acknowledged that (a) the investor takes full responsibility for making its own evaluation of the materiality of the information and the integrity of the quoted source and (b) the investor has no claim against PAM.

To the extent this presentation contains any forecasts, projections, goals, plans and other forward-looking statements, such forward-looking statements are inherently subject to various parameters, most of which are difficult to predict and many of which are beyond PAM’s control and may cause actual performance, financial results and other projections in the future to differ materially from any projections of future performance, results or achievements expressed or implied by such forward-looking statements.

Investors should not place undue reliance on these forward-looking statements. PAM undertakes no obligation to update any forward-looking statements to conform to actual results or changes in PAM’s expectations, unless required by applicable law.

PAM makes no representation or warranty, express or implied, with respect to any financial projection or forecast. With respect to any such projection or forecast delivered or made available by or on behalf of PAM, it is acknowledged that (a) there are uncertainties inherent in attempting to make such projections and forecasts, (b) the investor is familiar with such uncertainties, (c) the investor takes full responsibility for making its own evaluation of the adequacy and accuracy of all such projections and forecasts so furnished to it and (d) the investor has no claim against PAM.

This presentation represents a summary of certain information, the full terms of which are contained in a Private Placement Memorandum that should be reviewed for a more complete understanding of the investments and their risks. In addition, this presentation does not constitute and should not be construed as investment advice, tax or legal advice, an offer to sell, or a solicitation to buy, any instrument or other financial product, nor does it amount to a commitment by PAM to make such an offer at present or an indication of PAM’s willingness to make sure an offer in the future.

Petiole Asset Management AG is a company limited by shares with registered address at Bahnhofstrasse 64, 8001 Zurich, Switzerland and is authorized as investment manager by the Swiss Financial Market Supervisory Authority FINMA.

All rights reserved. Copyright © 2021 Petiole Asset Management AG