Specialty Actives:
All Action in Brazil and China and Reanimating the European and U.S. Markets

A presentation at:

in-cosmetics®
Hamburg, 1-3 April 2014
The leading global business platform for personal care ingredients
Agenda

Personal Care Market Overview

Current State of the Ingredients and Active Ingredients Markets

Outlook

About Kline
Personal care is a highly attractive segment of the consumer products market

Personal Care Market Characteristics

- Global sales of USD 350-400 billion (retail level)
- Experiencing 4% to 5% global annual growth
- Ability to weather recessions better than other businesses
- Highly sustainable industry drivers, such as demographics
- Low-capital intensive asset base
- High return on capital
Anti-aging continues to be the main growth engine for the entire global personal care industry in 2013.

Global sales estimate: USD 350 billion retail.
Trends Driving Growth

**Consumer Trends**

- Consumers tend to cross-shop
- Masks, peels, and oils prosper with consumers interested in DIY treatment
- Growing consumer interest in naturally-positioned products

**Product Trends**

- Anti-aging remains the driving force and includes products to provide radiance, skin firming, brightening, color correction, and wrinkle reduction
- Diversified product offerings with multi-functional benefits
- BB products proliferate; CC products up-and-coming
Consumers eager for innovation – agelessness, a global preoccupation

- Consumers more knowledgeable
- Consumers proactive
- Desire to be more marketable
- Healthier lifestyles
Anti-aging is the most popular targeted skin condition globally, but local specificities exist.
Anti-aging will continue to be a growth driver in the industry
Demand for anti-aging products will continue

- Looking good, feeling good trend to persevere
- Anti-aging properties more mainstream
- Innovation and new product launches will drive the market
- Anti-aging properties in makeup products
- Growing interest from men
- Further segmentation of anti-aging products linked to functionality and/or area of application
- New tools and apps that help purchasing are likely to be created and increasingly used by consumers
- Companies will need to be very careful about the claims made
Consumers Desire Multi-functional Products

- Exploring what products consumers wish they have, Kline uncovered four major themes among over 420 responses, one of which was multi-functional.

Natural anti-aging products are a growing trend

- Anti-aging properties continue to drive the majority of growth for natural skin care.

SOURCE: Kline’s Consumer Insights of Personal Care Innovation USA.
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With 40% of raw material consumption in “differentiated” positions, anti-aging is an attractive chemical industry segment.

### Ingredient Market: USD 14 billion to USD 18 billion

<table>
<thead>
<tr>
<th>Undifferentiated</th>
<th>Differentiated</th>
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<tbody>
<tr>
<td>25%</td>
<td>40%</td>
</tr>
<tr>
<td>Commodities</td>
<td>Specialties</td>
</tr>
<tr>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Fine Chemicals</td>
<td></td>
</tr>
</tbody>
</table>

### By Application

- **Skin care,** 50%
- **Hair care,** 40%
- **Oral care,** 10%
Europe and the United States remain the leading consuming regions of specialty ingredients, with China recently taking the third position.

**Personal Care Ingredients Value Share by Region, 2013**

- Europe
- United States
- China
- India
- Southeast Asia
- Japan
- Brazil

**Total: ~ USD 6.5 Billion**

NOTE: Brazil excluded.
Specialties among specialties, the active ingredients market is benefiting from consumers’ expectation for visible results

- **Botanicals**
  - Unsubstantiated extracts
  - Substantiated actives

- **Biotechnology Products**
  - Hyaluronic acids
  - Ceramides
  - Others

- **Marine Ingredients**
  - Substantiated algae extracts
  - Chitosan

- **Proteins and Peptides**
  - Botanical
  - Biological
  - Synthetic peptides

- **Enzymes and Coenzymes**
  - Coenzyme Q10
  - Others

SOURCE: Kline Specialty Actives in Personal Care 2013.
By far, Europe and the United States remain the largest markets for active ingredients.

- Historically, Europe has been the leading market globally.
- Most of the market leaders are European companies.
- New markets are emerging as more high-end brands are being formulated locally.
Botanical actives are the largest consumed actives both in Europe and the United States.

**Market Breakdown by Product Category, 2013**

- **Europe**
  - Botanicals-a
  - Enzymes and coenzymes
  - Marine ingredients
  - Proteins and peptides-b
  - Biotechnology products

- **United States**
  - Botanicals-a
  - Enzymes and coenzymes
  - Marine ingredients
  - Biotechnology products
  - Proteins and peptides-b

*a- Excludes unsubstantiated extracts.
b- Includes synthetic peptides.*
In “mature markets,” the consumption of specialty active ingredients is still enjoying a large growth.
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 a 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 driving the strong and growing anti-aging segment.

- The potentially large men’s grooming market is still relatively underdeveloped.
The proteins and peptides category is leading in Brazil

Market Breakdown by Product Category, 2013

- Proteins and peptides
- Marine ingredients
- Biotechnology products
- Enzymes and coenzymes
- Botanicals

a- Excludes unsubstantiated extracts.
b- Includes synthetic peptides.
Hair care is driving the consumption of active ingredients in Brazil

- Brazil is the largest region in the hair care market and ninth in face care. Sixty-seven percent of the population is mixed skin and oily skin, and approximately 70% of the population has curly hair, wavy hair or curly hair.

- About 86% of Brazilian women have colored their hair at least once, and this is leading to a need of specific treatments and active ingredients.

- Similar to other regions, naturally-sourced ingredients are preferred, and this preference is explaining the large share of the botanicals segment.

- Brazilian consumers’ cost-sensitivity remains very high and is slowing down the market potential for specialty ingredients.
The Chinese market of specialty actives is also greatly affected by local consumers’ expectations, but also by the large availability of biotechnology products.
China is still the focus for luxury goods

- In 2012, China had 1,020,000 millionaires.

- In 2012, China also had 63,500 “super-rich” (super rich >RMB 100 million ~USD 16 million).

- By 2015, China will consume one-third of global luxury goods.

- By 2020, outbound Chinese tourists will number 200 million.
The market of specialty actives in China is emerging as local prestige brands are being developed

- The biotechnology products segment is by far the largest in China due to two main factors:
  - While anti-aging is the most important functionality in China, it is the moisturizing sub-functionality that is the key to the market.
  - Fermentation products, such as hyaluronic acid and beta-glucans, are easily available in China and their limited costs allow local formulators to include active ingredients in the formulations.

- Botanicals is another very important segment in the country as Chinese people have a long history of using plant extracts for skin care benefits.
Specialty actives in personal care target a wide variety of performance benefits – although the anti-aging functionality dominates.
The split of sales of specialty actives by functionality reflects local specificities

Value Breakdown for Specialty Active Ingredients by Functionality, 2013

- **Europe**
- **United States**
- **Brazil**
- **China**

Legend:
- **Anti-aging**
- **Hair care**
- **Anti-inflammatory**
- **Skin lightening**
- **Slimming**
- **Anti-acne**
- **Sun protection**

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Concentration still takes place in the active ingredient supplier landscape and reflects the market attractiveness and growth potential.

<table>
<thead>
<tr>
<th>Acquiring company</th>
<th>Acquired company</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRODA</td>
<td>IRB</td>
</tr>
<tr>
<td>Lubrizol</td>
<td>active organics</td>
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<tr>
<td>Lipotec</td>
<td>Lucas Meyer</td>
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<tr>
<td>Uni-Pex</td>
<td>Biotech Marine</td>
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<td>SEPPIC</td>
<td>Givaudan</td>
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<td>SoliancE</td>
<td>Naturellement Innovant</td>
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</table>
BASF is in a leading position for most of the ingredient categories in Europe

### European Volume Market Share of Leading Three Suppliers, 2012

<table>
<thead>
<tr>
<th>Region</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>Volume share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Croda</td>
<td>BASF</td>
<td>Silab</td>
<td>38</td>
</tr>
<tr>
<td>United States</td>
<td>Croda</td>
<td>BASF</td>
<td>Lubrizol</td>
<td>49</td>
</tr>
<tr>
<td>Brazil</td>
<td>Croda</td>
<td>BASF</td>
<td>IonQuimica</td>
<td>60</td>
</tr>
<tr>
<td>China</td>
<td>Freda</td>
<td>Croda</td>
<td>BASF</td>
<td>44</td>
</tr>
</tbody>
</table>
While within the early days of the actives market in China and Brazil, multi-national companies were leading, and the market now sees the emergence of local suppliers.

- MNCs still hold a competitive advantage of substantiation claim production, but understanding of local problematic expectations is favoring the emergence of local leaders.

- In China, biotechnology product suppliers holds an important share of the market:
  - Freda
  - Bioland
  - Onlystar

- Nevertheless, global leaders such as BASF or Croda are still leaders in the high-end market.
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Consumer trends and trends affecting active ingredients are interconnected

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

### 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
By far, China is expected to offer the largest market opportunities within the next five years.
Anti-aging actives are expected to outperform the growth average in all the considered regions until 2018.
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Recently Published:
Specialty Actives in Personal Care

Covers:
- Botanical actives, proteins and peptides, biotechnology products, and other types of active ingredients.

Regional Coverage:
- Europe
- United States
- China
- Brazil

Data is also accessible via an interactive online database.
## Consumer Products Practice Research

**Personal Care Research**

- Cosmetics & Toiletries USA
- Male Grooming Products: Global Market Brief
- Natural Personal Care: Global Market Brief
- Beauty Devices: Global Market Brief

## Professional Beauty

**Professional Beauty**

- Professional Aesthetics: Global Market Analysis and Opportunities
- Professional Skin Care Global Series: Market Analysis and Opportunities
- Salon Hair Care Global Series: Market Analysis and Opportunities
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