Houlihan Lokey

CONSUMER HEALTH AND WELLNESS

A Return to Fundamentals

Leading Independent, Global Advisory Firm

Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

HLI LISTED NYSE

2,500+	35	$6.5B+	$1.8B	~25%	NO
EMPLOYEES	LOCATIONS	MARKET CAP(1)	ANNUAL REVENUE(2)	EMPLOYEE-OWNED	DEBT

Corporate Finance

- No. 1 Global M&A Advisor Under $1 Billion
- Leading Capital Markets Advisor Raising More Than $100 Billion in Past Five Years

2022 M&A Advisory Rankings
Global Transactions Under $1 Billion

	Advisor	Deals
1	**Houlihan Lokey**	**381**
2	Rothschild	369
3	JP Morgan	217

Source: Refinitiv. Excludes accounting firms and brokers.

Financial Restructuring

- No. 1 Global Restructuring Advisor
- $3.0 Trillion of Aggregate Transaction Value Completed

2022 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	**Houlihan Lokey**	**58**
2	PJT Partners	30
3	Lazard	29

Source: Refinitiv.

Financial and Valuation Advisory

- No. 1 Global M&A Fairness Opinion Advisor Over the Past 25 Years
- 1,000+ Annual Valuation Engagements

1998 to 2022 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	**Houlihan Lokey**	**1,232**
2	JP Morgan	1,030
3	Duff & Phelps, A Kroll Business	938

Source: Refinitiv. Announced or completed transactions.

Financial Sponsors Coverage

- No. 1 Global Advisor to Private Equity Firms
- 1,000+ Sponsors Covered Globally

2022 Most Active Global Investment Banks to Private Equity Firms

	Advisor	Deals
1	**Houlihan Lokey**	**242**
2	Lincoln International	192
3	Deloitte	190

Source: PitchBook.

(1) As of January 2023.
(2) LTM ended December 31, 2022.

No. 1 M&A Advisor

All U.S. Consumer, Food & Retail Transactions

2022 M&A Advisory Rankings—All U.S. Consumer, Food & Retail Transactions

	Advisor	Deals
1	**Houlihan Lokey**	**21**
2	Goldman Sachs	18
3	William Blair	17
4	JP Morgan	16
5	Lincoln International	13
5	Robert W Baird	13

Source: Refinitiv based on 2022 number of transactions. Excludes accounting firms and brokers.

LEADING GLOBAL INDEPENDENT INVESTMENT BANK

North America

Atlanta	**Miami**
Boston	Minneapolis
Chicago	**New York**
Dallas	San Francisco
Houston	Washington, D.C.
Los Angeles	

Europe and Middle East

Amsterdam	**Milan**
Dubai	Munich
Frankfurt	Paris
London	Stockholm
Madrid	Tel Aviv
Manchester	**Zurich**

Asia-Pacific

Beijing	Nagoya
Fukuoka	Osaka
Gurugram	Shanghai
Ho Chi Minh City	Singapore
Hong Kong SAR	**Sydney**
Mumbai	**Tokyo**

Bold denotes Consumer, Food & Retail (CFR) team.

14
LOCATIONS WORLDWIDE

130+
CONSUMER, FOOD & RETAIL BANKERS

100+
TOTAL CONSUMER, FOOD & RETAIL DEALS PAST THREE YEARS

350+
CROSS-BORDER TRANSACTIONS SINCE 2011

Consumer Health and Wellness: A Return to Fundamentals

The consumer health and wellness sector saw a surge of M&A activity over the past 10 years, with transaction volume peaking in 2021 as the COVID-19 pandemic drove appetite for products supporting health and longevity. 2022, however, was a markedly different story, with companies facing a number of headwinds impacting both revenue and profitability. The result was an increasingly high bar for M&A, with fewer deals getting done and a mixed bag of valuations, leaving many to question what is in store for this year.

In this piece, we share insights into the decrease in activity over the past year and discuss what it means for M&A and valuations in 2023. We will highlight the key trends and specific criteria that can position a company for strong interest and value in today's environment.

2022 Year in Review: The COVID-19 Hangover

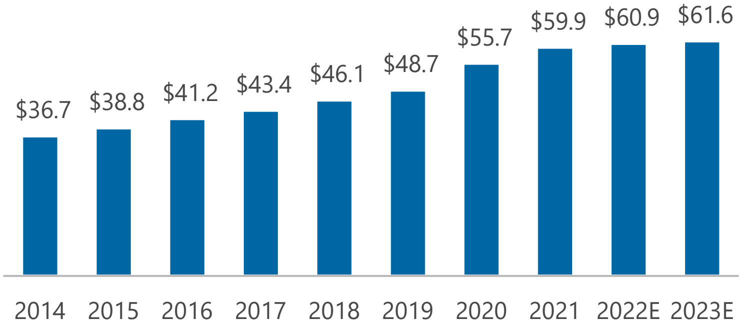
Consumer health and wellness was a fantastic place to be through COVID-19 and its aftermath, with categories like VMS seeing a whopping $11.2 billion in incremental sales volume between 2019 and 2021, up more than 23% from pre-COVID-19 levels. The industry saw this growth normalize in 2022, as total sales volumes for the year are estimated at $60.9 billion, up 1.7% versus 2021.

Susan Roddy, Managing Director in Houlihan Lokey's Consumer, Food & Retail Group, noted:

"In 2022, softer consumer demand meant flat to declining revenue for many companies in the space, along with a disproportionate impact to the bottom line as costs continued to rise."

VMS Category Growth

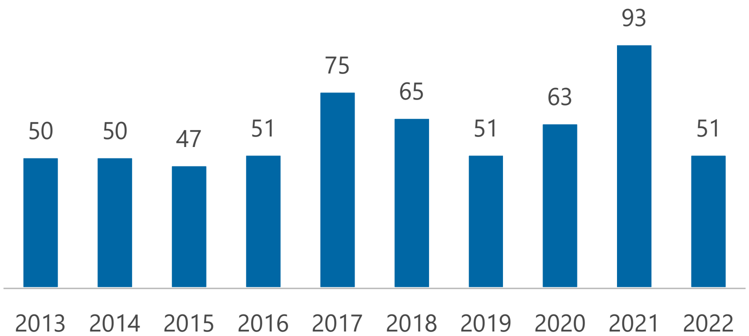
($ in billions)



Source: Nutrition Business Journal 2022.

Consumer Health and Wellness M&A

(Number of closed deals)



Source: PitchBook.

"The deal environment was further burdened by a gap in valuation expectations between sellers and buyers, along with constrained credit markets limiting capital availability. All of these factors together resulted in a significant decline in M&A activity for the year."

2023 Expectations: A Return to Fundamentals

So, what does this mean for 2023? Houlihan Lokey expects 2023 to mark a return to fundamentals, both in terms of business models and valuations. Here, we share key insights into what will drive buyer and investor interest in the coming year and how to maximize value in today's market environment.

DTC Is Out; Omnichannel Is In

2022 was the year of reckoning for many DTC brands. Increasing ad costs on Facebook, combined with worsening ad measurement (Apple's iOS 14 privacy changes), were a struggle for most DTC companies, with many also facing supply chain challenges and increased shipping costs. In response, many DTC brands flocked to brick-and-mortar, looking for alternative channels to drive growth and profit.

The results for most remain to be seen, but the takeaway is clear: 2023 will be the year of omnichannel, as strategic and financial investors alike look to de-risk channel dependence and pursue investments in companies with a more balanced approach to driving profitable growth. This does not mean that all is gloom and doom in DTC land.

"Brands that are digitally native, tech-forward, and adept at gathering and leveraging consumer data will continue to be valuable, especially if they can do so profitably."

Profitability Over Growth

Perhaps the most dramatic change over the past 12 months has been how buyers view the P&L. Eighteen months ago, investors were chasing high-growth assets, with a much more forgiving view toward profitability.

"We knew we were at the top of the market when revenue multiples became the new baseline for valuation," said Susan Roddy. "More recently, there has been a noticeable shift in the types of opportunities that are attracting strong interest in the market. Buyers are looking for proven resiliency and a track record of sustained profitability."

Growth will still be a consideration, but it is no longer prioritized at the expense of the rest of the P&L.

"Understanding how buyers will look at your size, growth, and margin profile is critical as you think about timing to approach the market," said Roddy. "We like to develop relationships with companies early so we can help them plan ahead for an optimal exit."

Standing Out From the Crowd

In today's environment, buyers are taking a much more disciplined approach to reviewing acquisitions, and being able to articulate clear points of differentiation is important. Houlihan Lokey sees a number of key trends and attributes driving deal activity this year.

Millennial Mom will continue to be a coveted consumer demographic, as will the brands who speak to her with clean labels, transparency, and better-for-you product attributes.

We also see a huge opportunity in healthy aging, particularly for brands targeting condition-specific categories like cognitive, heart health, blood pressure or circulation, and menopause. Women's health and femtech are ripe for investment from both strategic buyers and financial investors.

"We continue to see buyers place a premium on science, and this is especially true in nutritional supplements. Products backed by patents or clinical trials are relatively unique and may be valued at a premium. Doctor or pharmacist recommended claims, if substantiated, can also be indicative of trust and credibility. We also see interest in innovative products or formats, including novel ingredients, unique delivery methods, or products with enhanced absorption or bioavailability."

While it is tempting to "do it all," Roddy's advice to growing brands today is "focus over breadth." Generally speaking, buyers are much more interested in seeing established market leadership in one or two categories than presence across many.

Categories to Watch in 2023

Women's Health and Personal Care

Natural OTC and Clean Medicine

Sexual Health and Well-Being

Healthy Aging

Cognitive and Brain Health

Well-Being Ingredients

What Do We Expect From Buyers?

The M&A bar remains high in 2023 as rising inflation, tight credit, and broader market sentiment have subdued the go-go activity we saw in 2021, but Houlihan Lokey remains bullish on the sector. We expect continued appetite from the large global strategics who are flush with cash and tend to take a longer-term view toward portfolio growth. The consumer health and wellness sector remains an attractive sector in which to invest, despite softer demand and earnings volatility in the near term. Large CPG players like Nestlé and Unilever will continue to invest in high-quality assets that provide incremental capabilities or fill a white space gap in their portfolios. Likewise, the newly independent consumer health divisions of large pharma, like Haleon and Kenvue, will be motivated to add higher-growth brands in attractive subsegments. Despite the current environment, premium assets are still garnering significant attention in the market and Houlihan Lokey expects M&A activity to rebound in 2023.

Spotlight on Well-Being Ingredients

Just as Houlihan Lokey expects an uptick in M&A activity among standout brands, Houlihan Lokey also expects an uptick in M&A activity in another complementary area of the consumer health value chain—well-being ingredients. As brands continue to seek evolution, innovation, and differentiation, companies that develop and manufacture high-impact specialty ingredients—the sources of key sensory, functional, or nutritional attributes in the finished products—are increasingly prized partners. M&A involving larger and middle-market companies in this area of the value chain has been active in the past and could pick up again as both larger companies and investors seek to address growing consumer demand in key categories. "There is noteworthy innovation and differentiation among the developers and manufacturers of specialty ingredients that supply consumer health brands," said Tim Larsen, Managing Director in Houlihan Lokey's Consumer, Food & Retail Group focused on well-being ingredients. "Closely connected to the categories that Susie highlighted as intriguing for consumer health brands, we would expect to see growing interest and activity in specialty ingredients for areas pertaining to the brain—cognitive performance, mental health, optical health—as well as ongoing activity in microbiome health and other lifestyle-focused segments."

Maximizing Value in Today's Environment

"It is more important than ever to plan ahead for an exit," said Susan Roddy.

Those who are weathering today's dynamic environment may be uniquely positioned to approach the market. With more than 15 years of dedicated coverage to the consumer health and wellness sector, Houlihan Lokey is a market leader in sellside advisory with a unique focus on helping founders and entrepreneurs achieve their aims and objectives. Houlihan Lokey's dedicated team focuses exclusively on consumer health and wellness, allowing them to leverage years of experience advising companies for their capital-raising or sellside needs.

LifeStyles SKYN
a portfolio company of
信宸資本 TRUSTAR CAPITAL
has been acquired by
LINDEN
Sellside Advisor

A controlling interest in
Thinx
has been acquired by
Kimberly-Clark
Sellside Advisor

Deerland Probiotics & Enzymes
a portfolio company of
ROUNDTABLE HEALTHCARE PARTNERS
has been acquired by
ADM
Sellside Advisor

Zesty Paws
a portfolio company of
maxim PARTNERS
has been acquired by
H&H Group inspiring wellness
Sellside Advisor

ARCADIA CONSUMER HEALTHCARE
a portfolio company of
AVISTA CAPITAL PARTNERS
has been acquired by
Bansk
Sellside Advisor

VITAMINLER.COM SUPPLEMENTLER.COM
Dikey Vitamin Group
has sold a minority stake and entered into a strategic partnership with
Nestlé HealthScience
Sellside Advisor

nuun
a portfolio company of
TSG CONSUMER
has been acquired by
Nestlé HealthScience
Sellside Advisor

mommy's BLISS
has been acquired by
SPC SWANDER PACE CAPITAL
Sellside Advisor

SMARTYPANTS
has been acquired by
Unilever
Sellside Advisor

care/of
has been acquired by
BAYER
Sellside Advisor

foodspring
has been acquired by
MARS
Sellside Advisor

ZARBEE'S NATURALS
a portfolio company of
L CATTERTON
has been acquired by
Johnson & Johnson CONSUMER INC.
Sellside Advisor

Tombstones included herein represent transactions closed from 2018 forward.

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Financial Restructuring

Financial and Valuation Advisory

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