Ingredient Trends in the Personal Care and Cosmetics Industry 2020

Presentation Prepared for

in-cosmetics™ Asia
Bangkok • 31 October - 2 November 2017
PRESENTATION

AGENDA

- Frost & Sullivan: The Growth Partner
- Global Cosmetic Ingredients
- Ingredients in Cosmetics:
  - Key Trends Globally
  - Key Trends in Asia
- What’s in store for 2020
GROWTH PARTNERSHIP COMPANY
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40+ offices, 30 Countries
2,000+ Consultants
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Value Creation
- Corporate Strategy
- Market Entry
- New Product development
- Go To Market
- Business and Financial Planning

Value Delivery
- Implementation planning
- M&A advisory
- Partner identification
- Customer Experience enhancement
- Key Account Management

Value Protection
- Portfolio monitoring
- Regulatory Impact Analysis
- Digital strategy
- Risk Management
- Competitive Intelligence

Industry Groups
- 10 Industries
- *Future of Health, Beauty and Packaging
- 50+ Product Categories
- Combination of Market, Technology, Economics & Applications

Global Perspective
Consulting Services
Industry Expertise

Frost & Sullivan
HOW DO WE HELP COMPANIES ACHIEVE GROWTH FOR THE FUTURE?

- **Strategic/ Internal Planning**
  - Thought Leadership white paper
  - Case Studies
  - Analyst video quote
  - Infographics
  - Workshops

- **Tactical/ External Engagement**
  - Market analysis,
    - Customer analysis,
    - Competitor analysis,
    - Channel partner,
    - Industry Benchmarking,
    - GTM, etc.

- **Customized Engagements**
  - Syndicated Research Reports
  - Customized End User Research
  - Research As A Service
  - Key Account Insights

- **Syndicated Research**
  - Syndicated Research Reports
  - Customized End User Research
  - Research As A Service
  - Key Account Insights

- **Growth Consulting**
  - Thought Leadership white paper
  - Case Studies
  - Analyst video quote
  - Infographics
  - Workshops

- **Vision & Strategy**
  - Strategic/ Internal Planning

- **Leveraging insights from**
  - **Across 10 verticals**
    - Digital Transformation
    - Transformational Health
    - Electronics & Security
    - Minerals and Mining
    - TechVision
    - Mobility
    - Energy and environment
    - Visionary Science
    - Industrial automation and measurement
    - Aerospace & Defense

**F R O S T & S U L L I V A N**
WHY ACCESS FROST & SULLIVAN?

More than 1,200 analysts and consultants across the globe tracking emerging technologies and end-user markets to help position our clients to take advantage of growth opportunities.

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ACCESS TO KEY STAKEHOLDERS ACROSS THE VALUE CHAIN

IN-HOUSE PRIMARY INTELLIGENCE

DECADES OF EXPERIENCE & SUCCESS

DISRUPTIVE TECHNOLOGIES & IMPACT ANALYSIS

GLOBAL FIELDWORK REACH

EXCLUSIVELY FOCUSED ON GROWTH

TRANSLATE DATA INTO ACTIONABLE STRATEGY
For over 50 years, Frost & Sullivan has worked with leaders in organizations, universities and within the investment community to help identify opportunities and capitalize on innovation to achieve transformational growth.

From ideation to realization, we leverage a global perspective, technology expertise and in-depth coverage of all industries to help organizations overcome challenges and build a pipeline for future success.
360° Research integrates seven perspectives into a complete, overall view of factors that impact every industry.

The personal care and cosmetic ingredients include synthetic, natural, multifunctional, and others.

Growth by acquisition, innovation, customer service leadership, and value addition are some of the strategies adopted by ingredient suppliers.

Vertical integration and sideward integration are also aimed at to earn higher margins and to expand product line respectively.

Companies are increasing their global reach by acquiring companies for synergies of geographical markets, technologies and products, and even distribution channels.
Global Ingredients in Cosmetics
KEY MEGA TRENDS IMPACTING THE PERSONAL CARE INDUSTRY

Global Megatrends are creating a Conducive Environment for the Growth of Personal Care Markets in ASEAN

URBANIZATION
Rise of urban middle class population in ASEAN is fuelling the growth of consumption and demand.

FUNCTIONALITY & PERFORMANCE
Increasing consumer interest in products that have multi-functional benefits and higher performance, are driving companies to focus more on R&D.

GLOBALISATION
Increasingly, greater numbers of personal care product manufacturers and their ingredient supplying companies are going global and setting up their bases in emerging economies such as ASEAN, Latin America, India, China, etc.

HEALTH & WELLNESS
Personal Care has moved beyond beauty and cosmetics products to healthy skin, hair and nails. With the ageing population, the need to have wrinkle free skin has driven the need for active ingredients to take care of these concerns.

LOW CARBON ECONOMY
Increasingly, manufacturing companies are aiming to reduce their overall carbon footprint through implementation of sustainable business practices.
**OVERALL GLOBAL PERSONAL CARE PRODUCT MARKET**

<table>
<thead>
<tr>
<th>Inside Body</th>
<th>Outside Body</th>
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<tbody>
<tr>
<td><strong>Benefit</strong></td>
<td><strong>Delivery</strong></td>
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<tr>
<td><strong>Nutricosmetics</strong>&lt;br&gt;Digestible supplements that offer beautification and/or personal hygiene benefits&lt;br&gt;2018 USD 5.7 billion</td>
<td><strong>Cosmetics/Personal Care</strong>&lt;br&gt;General and topical beautification and personal care / hygiene products&lt;br&gt;2018 USD 700 billion</td>
</tr>
<tr>
<td><strong>Nutraceuticals</strong>&lt;br&gt;Supplements that offer nutritional and/or health benefits&lt;br&gt;2018 USD 175 billion</td>
<td><strong>Cosmeceuticals</strong>&lt;br&gt;Cosmetic products that offer nutritional and/or health benefits&lt;br&gt;2018 USD 45 billion</td>
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*Data as of 2018.*
Frost & Sullivan believes that growth and the emergence of new ingredients will be spurred on by:

- Increase in awareness and education
- More ownership on brands and manufacturers for sustainability and clean labeling
- Fragmentation of market will continue
- Increasing R&D efforts across players
- Higher level of consolidation amongst players

**Global Ingredients in Cosmetics Market**

- **2019**: US$ 6.38 Billion
- **2023**: US$ 8.61 Billion

CAGR: 7.8%
COSMECEUTICALS, NUTRACEUTICALS AND NUTRICOSMETICS ARE AMONG THE FASTEST GROWING SEGMENTS IN THE PERSONAL CARE H&W INDUSTRY

The three segments have witnessed increasing innovation and consumer acceptance as consumers increasingly seek out new ways to maintain health and youth.

**Cosmeceuticals**
Topical cosmetics that have medicinal or drug-like benefits

**Nutraceuticals**
Products derived from food sources that provide extra health benefits

**Nutricosmetics**
Supplementation of nutrients that are formulated and marketed specifically for beauty purposes
Frost & Sullivan believes that a large part of the demand growth will be from APAC.

Drivers for APAC growth includes:

- Almost 40% of the growth in ingredients will stem from the APAC market.
- Greater propensity to spend.
- Access to eCommerce through platforms like Qoo10, Shopee, Lazada, etc.
- High level of consumerism.
- Larger online penetration in emerging markets.
INCREASING AWARENESS ON THE LINKS BETWEEN FOOD CONSUMPTION AND ENHANCED BEAUTY HAS INCREASED THE DEMAND FOR BEAUTY FOOD PRODUCTS IN ASIA

• **China** and **Japan** are the largest markets in Asia forming almost 80% of the total market

• **Japan** has an established system for approving Nutricosmetic and functional products. The ‘Foods for Specific Health Use’ or FOSHU legislation has encouraged the rapid introduction of Nutricosmetics products in Japan

• **The Asia-Pacific nutricosmetics market** is driven by increasing awareness and interest in new technology, media coverage, and consumer demand

• **The rising awareness of nutricosmetics and the huge population in China and India** is expected to further boost the nutricosmetics market growth
**Beauty from within Approach**
- Growing supporting information and scientific evidence showing positive effect of products
- Combined effect of nutrition, health and beauty with single ingestible food fortification

**Demand for Natural**
- Increasing demand for proactive natural preventive measures such as supplements and food fortification
- Many natural and organic ingredients overlap with nutricosmetic formulations

**Increasing Beauty Concern**
- General trend towards healthier lifestyles and growing concern for personal health and beauty among consumers
- Consumers are looking for convenient solutions in different formats outside of lotions, pills and sprays

**Aging Population**
- Growing aging population in Asia wanting to look young and stay health
- Concerns over beauty are increasing leading to use of ingredients in supplementation and food fortification form
**KEY MARKET CHALLENGES**

**Lack of Consumer Awareness**
- Confusion about difference from other product categories and clear reason for purchase
- Knowledge of ingredients, benefits with scientific backing

**Skepticism on Product Claims**
- Unsure of product efficacy as little proof is provided for claims
- General skepticism on cosmetic products across most of the new categories

**Lack of Regulatory Guidance**
- No clear regulations on production, promotion and categorization
- Innovating edible cosmetics with good taste, benefits and stability / safety

**No Instant Results**
- No instant effective results or gratification – long disciplined process
- Belief that results will eventually occur with no visible case studies of targeted outcome
Key Trends boosting the Ingredients Market Globally
Larger number of single households
- 35% globally by 2030
- Awareness of prevention of illness or diseases

She-economy
- Women have a higher propensity to spend
- Larger number of advertisements targeting niche segments for women

Gender Neutral products
- Increasing number of gender neutral products where an entire range is attractive to both sexes whether it be emollients, toners or make-up

Indonesia will replace the US as the second largest market to target for skin care and beauty. US, India and South Korea follows
INFLUENCERS LEADING DEMAND

- Influencer led demand for new ingredient products
- Indie skin care brands winning affluent customers through influencers
- Influencers communicating the need for sustainable products and transparency of ingredients
- Diversity is in demand eg Fenty setting the way for other like Benefit Cosmetics
- Brands apologizing to influencers e.g. Givenchy vs Jeffrey Star
- Natural care spearheaded by influencers and prominent actresses eg Gwyneth Paltrow and the use of silver
- Herbivore Botanicals answer to Clean Beauty and the concept of “Free-OF” Blue Algae Green tea

Source: MediaKix, Pexel
Key Cosmetic and Personal Care Ingredients Trends Globally
Globally saw an increase of almost 30% % of products containing plant based extracts

Trending ingredients for 2020 include:

- **Blue Algae**
- **Pumpkin/ cucurbita**
- **Mushroom phenolics, polyphenolics, polysaccharides** → antioxidant, anti-ageing, whitening, moisturising, hair growth.
- **Australian kakadu plum** one of the highest sources of vitamin C e.g. Derma Doctor , Red Earth
- **Kojic Acid**- mushrooms/fermented rice
- **Soy**
- **Azelaic Acid** – concentrate from oat/wheat /rye
ABP-HA’S

**AHA Alpha hydroxy acids** to improve skin moisture content, high in hydration, glycolic acid

**BHA Beta Hydroxy Acid** - Oily acne prone sin; treatment of blackheads and whiteheads, salicylic acid

**PHA Polyhydroxy Acids** sensitive skin option for AHA, eczema, rosacea, antioxidant

- Cheaper alternative to dermabrasion - consumers preferring natural AHA mainly from fruits
- Mass marketed and premium products available
- Exfoliation prime time
- K-Beauty boosted
VEGAN COSMETICS

- Shift in lifestyle choices
- Environmentally and ethically conscious consumers
- Products that are cruelty-free and sustainable for the environment
- 175% increase in Vegan branded cosmetics in the last 5 years
- US$3.5 billion with 6% CAGR to 2028
- From Luxury to mass products e.g. Hourglass
- No animal by-products
- Ingredients and packaging
- Strategy for corporates to include a vegan friendly range e.g. Lush Cosmetics, Unilever to have 100% vegan friendly products by 2020

Source: FactMR, Vegconomist, Marketing Week, Sephora
TEA TREE OIL AND WITCH HAZEL SEE A RETURN

- Pollutants, dust, debris clogging the pores or creating acne
- Part of the natural trend sees a comeback of these old school ingredients to treat skin issues
- Tea tree oil and witch hazel, staples for clearing acne and blemishes for clearer skin see a return in 2018/9 period and this trend is set to last into 2020

**Tea tree**: anti-inflammatory and anti-microbial; calms redness, swelling and reduces acne scares

**Witch Hazel**: Acne care products in the form of oils, gels, patches, as an astringent to shrink pores and soothe skin or inflammation. Touted for short term instead of long term care
CBD CRAZE COMING TO ASIA?

- Cannabidiol or CBD has skyrocketed in spa services and products in the West aside from it being used for medical reasons
- Serums, face creams, masks, oils any hemp-based products
- Optimization of active ingredients in skin care products
- Japan, South Korea and Thailand it is legal for medical use
- Projected to be US$25 billion by 2029
- US$5.8 billion in medical CBD by 2024 - The Arcview Group with total CBD products reaching $10 billion in Asia
- Yooya a high-end CBD goods platform acquired by HK based investment firm to enable entry to China consumers
- CannAcubed, Singapore based “farmer” owning land in Yunnan
BAKUCHIOL OR RETINOL

- Bakuchiol helps prevent fine lines and wrinkles, improves pigmentation, and boosts elastin *ie firmness, collagen, protein*

- Retinol mainly used for lines and wrinkles has created intolerance in some *i.e skin irritations*

- Bakuchiol is just one of the many potential alternatives being studied

- The only botanical extract thus far that's shown real, clinically-proven results similar to that of retinol — stimulating collagen production, strengthening the skin's foundation, and minimizing the appearance of lines and wrinkles, without the risk of irritation - Joshua Zeichner MD

- Bakuchiol as a replacement to avoid the harsh long term effects of using retinol *ie skin irritation and redness*
KEFIR, CHARCOAL, AND SILVER

Kefir / Goats milk :
• High antioxidant, vitamins, organic acids, fats and protein to your skin cells

Charcoal (Activated) :
• Draws bacteria, poisons, chemicals, dirt and other micro-particles to the surface of skin
• Fights acne by drawing impurities out

Colloidal Silver / Silver Hydrosol :
• Anti-fungal, antibacterial and anti-inflammatory properties
• Combats redness, acne, and chronic conditions like dermatitis and rosacea
Fragmentation in the cosmetics and personal care industry is high in Asia Pacific

Uniquely Asian ingredients used in skincare e.g. snake venom; ginseng;

Trust for brands with empirical evidence and natural ingredients still required

Mainly eCommerce enabling the sales of products cross border

Continuing of the K-skin craze: 10 steps to Glass skin

Chinese consumers holds the major share in purchasing products (eCommerce) using their smartphones than any other country globally
FUTURE OF ASEAN – HOTSPOT FOR GROWTH

Implementation of AEC single market initiatives will unify the region and help it emerge as a global superpower.

ASEAN in 2025

- ASEAN total GDP expected to increase from $2.4 trillion in 2015 to **$5.2 trillion** in 2025
- The AEC to play a major role in increasing ASEAN’s GDP by removing trade barriers and forming a single market
- ASEAN to reach **62%** Internet penetration by 2025 from 40% in 2015
- ASEAN predicted to supply **6.7%** of the world’s gas energy supply in 2025
- Consumer expenditure in ASEAN to be worth **$3.3 trillion** by 2025
- ASEAN FDI stock to double from 2015 to 2025, reaching **$3.6 trillion**
- ASEAN to be home to **470 million** working adults by 2025

Percentage of female students for higher education to rise to 51.5%

ASEAN online retail to be worth more than **$25.22 billion** by 2020

A total of **$110 billion** needed until 2025 for ASEAN infrastructure projects

Major ASEAN airports to be reachable by **50%** of the world within **5** hours

ASEAN regional integration to increase renewable energy generation by **4.2%**

By 2025, ASEAN to have 5 Mega Cities and a **53.3%** urban population

ASEAN healthcare market to be worth **$137 billion in 2025**, from $101 billion in 2015

Source: Frost & Sullivan
## Evolution of Key Aspects of the Industry

<table>
<thead>
<tr>
<th>Factors</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
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<tbody>
<tr>
<td><strong>Inside – out approach</strong></td>
<td>Product development for problems like anti-aging, skin lightening etc.</td>
<td>Balance between beauty and food Multi-functional products for multiple target groups</td>
<td>Emergence of preventive nutricosmetic products</td>
</tr>
<tr>
<td><strong>Natural ingredients</strong></td>
<td>Crops produced under the banner of “organic”</td>
<td>More green chemistry based products with efficient processing</td>
<td>Natural ingredients using white biotechnology</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Modification of existing technologies for several applications</td>
<td>Implementation of technologies for controlled release of ingredients</td>
<td>Nutrigenomics based products</td>
</tr>
<tr>
<td><strong>Legislation</strong></td>
<td>No defined legislation</td>
<td>Streamlining guidelines to improve definition and approval of new novel products</td>
<td>Increased availability of products with approved claims</td>
</tr>
<tr>
<td><strong>Consumer awareness</strong></td>
<td>Moderate awareness, consumers expect instant gratification</td>
<td>Increased interest in ingredients &amp; consumers looking for scientific evidence</td>
<td>Increased consumer demand for permanent solutions</td>
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THE LAST WORD

Industry Trends:

• **Personal care and cosmetic ingredients face highly competitive price pressures**, leading to the need for mergers with or the acquisition of competitors to achieve cost leadership by expanding technological innovation and diversification strategies.

• **A majority (80-90%) of the personal care and cosmetic active ingredients** are commodities or reaching commodity status, and thus innovation in products and technologies is an urgent requirement for growth.

• **Consolidation is reshaping the industry as leading competitors** acquire and assimilate target companies with compatible products and technologies.

Growth Opportunities:

- **Product portfolio diversification** through acquisitions is a key differentiator
- **Customer preference** for one-stop shop solution providers
- **Face masks** and **anti-aging high growth** segments together with products targeting gender neutral or men’s segments
- **Increased funding interest** from private equity firms
- The industry **remains fragmented** with a number of successful start-ups and entrepreneurial set-ups that are profitable as small businesses, prompting M&A activities.
Question & Answer

SESSION
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