

## In Style: Beauty Brands With Social Media Cred

► **Cosmetics companies are buying tiny brands with online followings**

► **"Authenticity is what makes it work"**

More than half a century ago, Revlon founder Charles Revson famously described the true business of cosmetics makers: "We sell hope." Today the same could be said about what the large, established beauty houses see in small, social media-driven makeup companies. The prospect of wooing the millions of millennials who base their makeup and skin-care purchase decisions on online likes, follows, and reviews from influencers has sparked a feeding frenzy for small, hip brands. The 52 acquisitions in the beauty and personal-care industry last year were the most in a decade, and some of the hottest targets were private brands with massive social media fan bases, according to investment bank Financo LLC.

If there's any slowdown this year, it'll only be because demand for buyout candidates outstrips supply, says Colin Welch, a managing director at TSG Consumer Partners LLC, which bought a minority stake in a little line called IT Cosmetics in 2012. The company reached sales of \$182 million last year, when TSG orchestrated its sale to L'Oréal SA for \$1.2 billion.

"There's a lot of capital chasing investments," says Welch.

Big cosmetics companies used to turn up their noses at any acquisition with less than \$100 million in annual sales, says Vennette Ho, a managing director at Financo. Now there's practically no bottom because revenue can climb fast if a line suddenly catches digital fire. That's because millennials and teens are so receptive to social media tips on what to buy, and because word-of-mouth is the primary factor behind as much as 50 percent of their purchasing decisions, according to McKinsey & Co.

These days, "consumers are gravitating to smaller brands with innovation," Ho says. They also want what's called "authenticity," which roughly translates into an interesting backstory from a photogenic founder who applies the personal touch. At **Huda Beauty**, founder Huda Kattan, an Iraqi American who lives in Dubai, stars in video tutorials demonstrating how to use her latest products; she also answers questions from customers on her blog, beginning her responses with "Hey honey." Her Instagram followers exceed 18 million.

"Authenticity is what makes it work," says Claudia Soare,

president of **Anastasia Beverly Hills**, the celebrity salon empire her mother, Anastasia Soare, founded in 1997. Started in a rented room in Los Angeles, Anastasia now operates Brow Studios in 80 Nordstrom stores nationwide.

Anastasia Beverly Hills—a favorite of many A-listers, including Kim Kardashian—saw its U.S. online sales grow by an industry-leading 150 percent in 2016. What's more, it's No. 1 in social media value in the sector, as calculated by Tribe Dynamics, an internet branding company that tracks tweets and retweets, YouTube hits, and more to determine the coolest of the cool. One measure is Instagram followers: Anastasia has more than 13 million.

That performance has put the company on the wish lists of many mergers-and-acquisitions professionals. But Anastasia Soare is having none of it, saying she regularly rebuffs suitors and doesn't plan to stop. "We don't need to answer to anybody," she says. One reason for the aversion to selling out: "The minute you introduce a financial backer," says daughter Claudia, "we'll never be able to deliver the same kind of feeling. The original brand will get diluted. It's inevitable."

Private equity firms and

big beauty conglomerates aren't likely to stop trying to snap up small fry, however. "The beauty companies have become extremely acquisitive because their portfolio brands have been tired and dated," says Ryan Craig, a partner at Bertram Capital Management LLC, which last year sold a majority stake in Paula's Choice, a skin-care and cosmetics maker, to TA Associates Management LP, a Boston-based private equity firm. "That has left an opportunity for a lot of small, nimble brands to attract younger consumers because they offer something new." One example: **Shiseido Co.**, Asia's largest cosmetics maker, in January acquired MatchCo, a 10-employee outfit that developed a smartphone app which scans a person's skin tone to formulate a customized makeup foundation.

Even venerable **Estée Lauder Cos.** has joined the buying frenzy. Last year it shelled out \$1.5 billion—its biggest acquisition deal ever—for Too Faced Cosmetics, whose products are a big hit with women under 40. It also snatched up Becca Cosmetics, active on Instagram and Facebook and known for its shimmery highlights and appeal to young women of color, for a figure estimated to be more than \$200 million. ►

### Cash That Like Button



Indie brands and products/**Brand's number of Instagram followers**

- ① Anastasia Beverly Hills' Lip Palette/**13.2m**
- ② IT Cosmetics' Your Skin But Better CC Cream with SPF 50+/**604k**
- ③ Real Techniques' Ultimate Base Set/**1.6m**
- ④ Paula's Choice's Clear Daily Skin Clearing Treatment/**42.3k**
- ⑤ Makeup Geek's Kathleen Lights Highlighter Palette/**2.3m**
- ⑥ Huda Beauty's Liquid Matte Lipstick/**18.4m**
- ⑦ Too Faced's Natural Eyes Neutral Eyeshadow Palette/**8.5m**
- ⑧ Kylie Cosmetics' Birthday Edition Matte Liquid Lipstick/**12.4m**

► Says Andrew Crawford, a managing director at private equity firm General Atlantic LLC, which acquired a majority stake in Too Faced a year before flipping it to Estée Lauder: "Success leads to a lot of interest." —Stephanie Wong

**The bottom line** There were 52 acquisitions of beauty-related companies last year. Such deals often involve small, social media-fueled targets.