



INNOVATION IN PERSONAL CARE – CHALLENGES FACING RAW MATERIAL SUPPLIERS AND THEIR CUSTOMERS

A Presentation at



October 26 to October 29, 2006

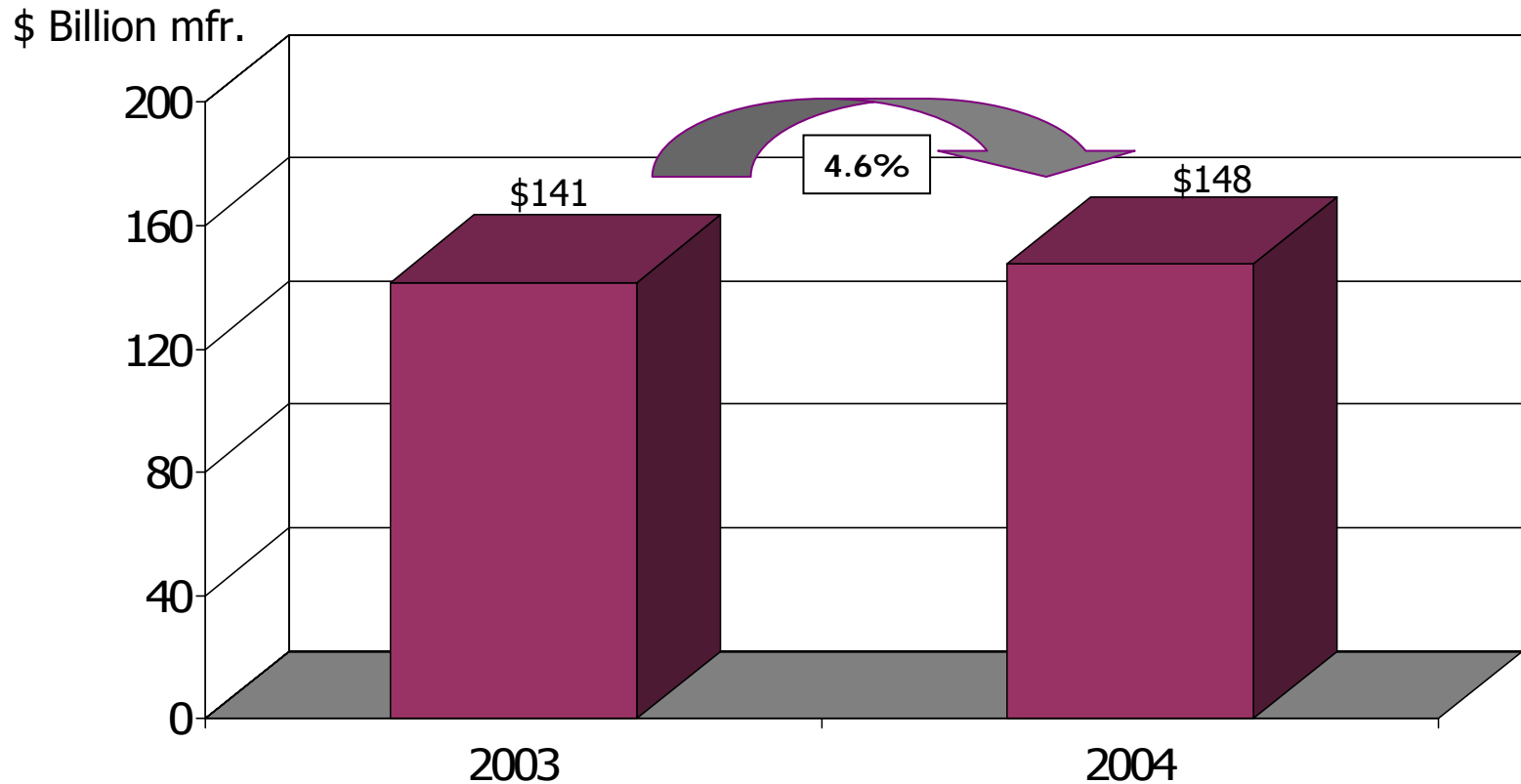
Presented by Ian Butcher – Vice President- Kline & Company



Today, we are going discuss....

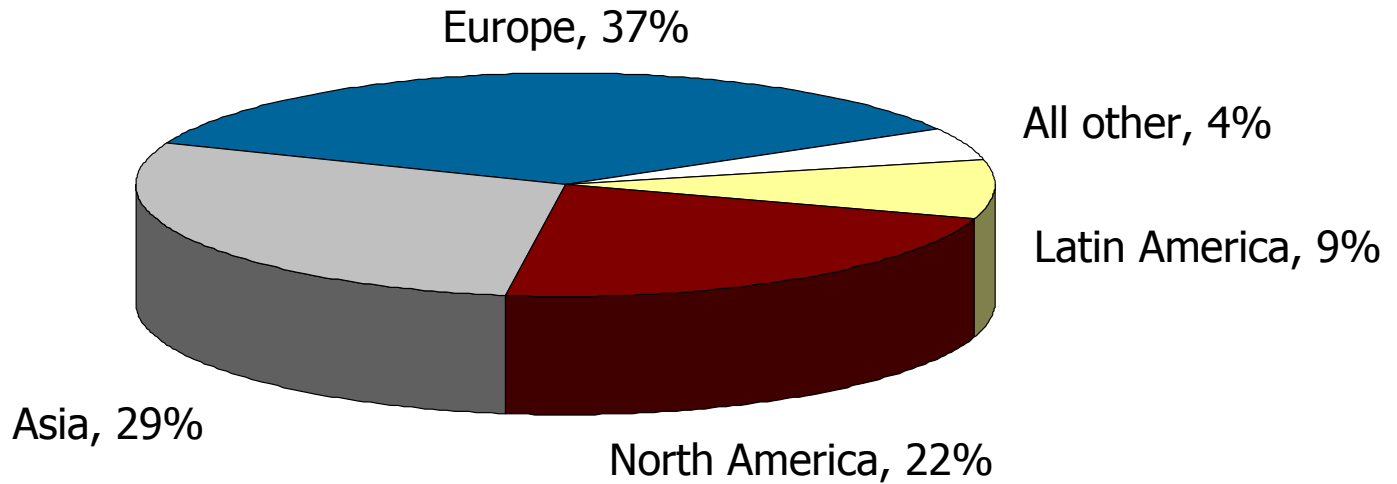
- The global personal care industry, including Russia
- The global market for raw materials for personal care
- The history of innovation in personal care
- Important enabling technologies
- Current and future innovation sources for personal care

The Global C&T market reached nearly \$148 billion in 2004 . . .



Sales are reported on a manufacturers' level

Europe represents the largest market . . .



Total: US\$148 Billion Mfr.



Russia accounts for 3% of total global market.

Developing markets like Argentina, Brazil, Russia, and China demonstrate the strongest growth . . .

Double-digit growth

- Argentina
- Brazil
- China
- Russia

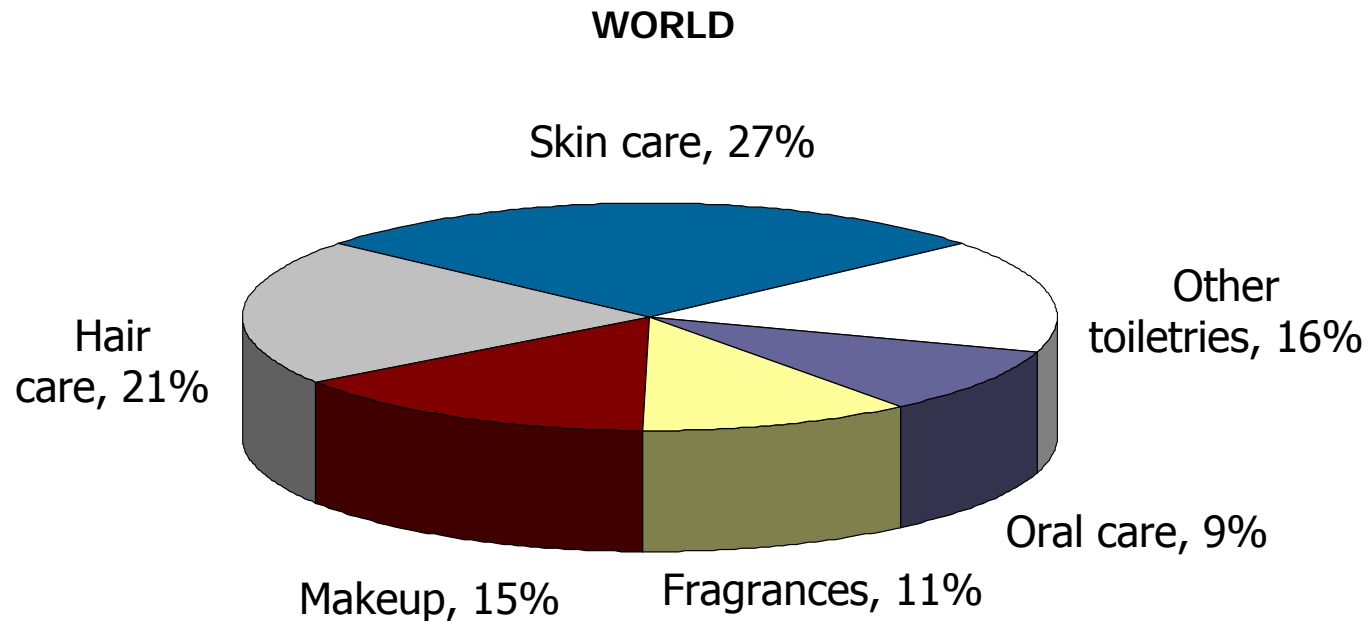
Moderate growth

- India
- Spain
- Mexico
- South Korea
- Canada

Below average growth

- United Kingdom
- Poland
- France
- Italy
- United States
- Japan
- Germany

Skin care is the largest category on a global basis . . .



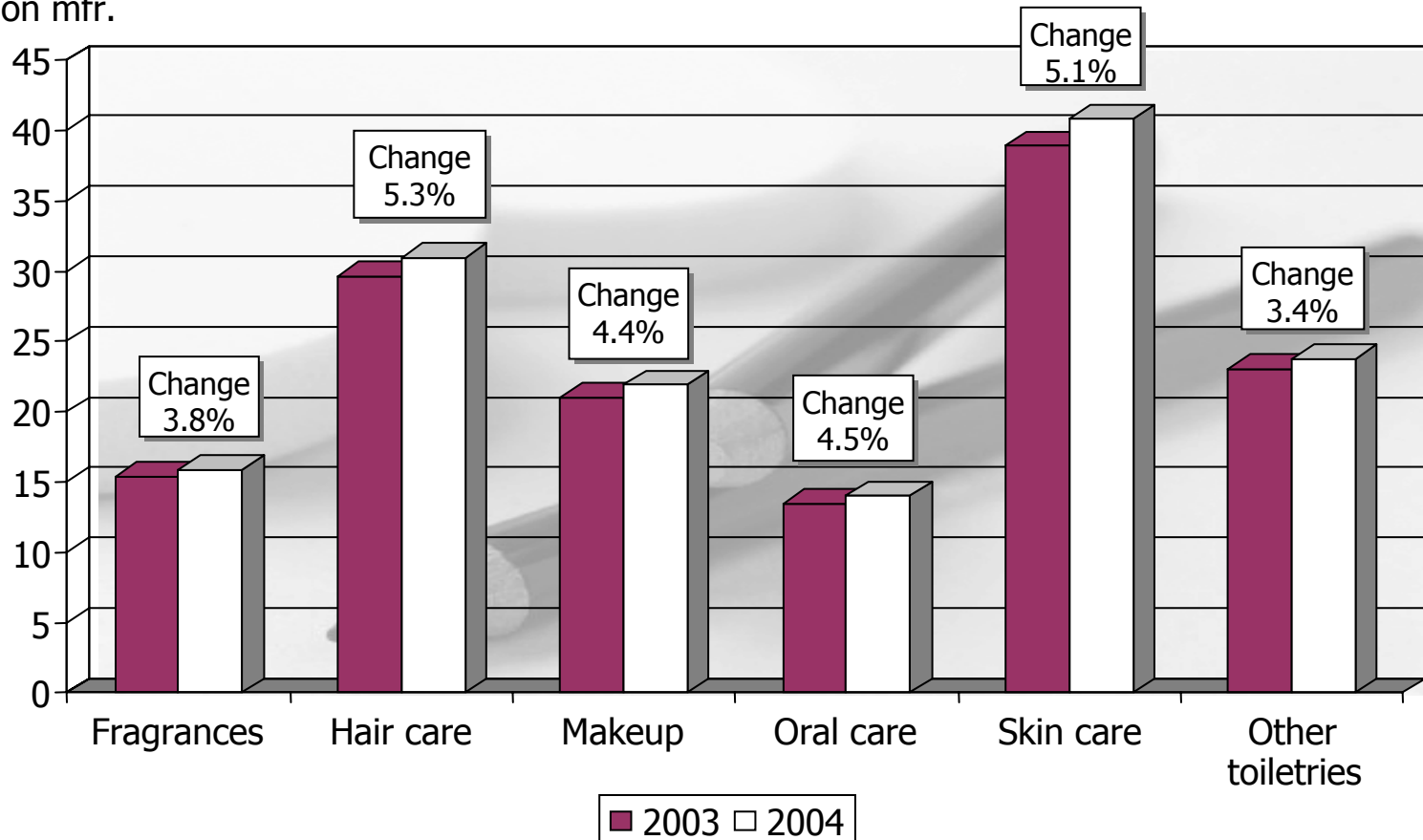
Total: US\$148 Billion Mfr.



In Russia, fragrances, oral care, and makeup are the leading categories.





Skin care and hair care demonstrate the strongest growth worldwide . . .

\$ Billion mfr.



In Russia, hair coloring products, hand and body lotions, baby care products, and hair styling products exhibited >20% average annual growth.

Players are becoming more global . . .

Company	Asia Pacific	Europe	Latin America	North America
AVON	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
BDF Beiersdorf	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
 COLGATE-PALMOLIVE COMPANY	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
 ESTÉE LAUDER COMPANIES	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Johnson+Johnson	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
 Kao Corporation	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
L'ORÉAL	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Procter&Gamble	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
SHISEIDO	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
 Unilever	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>

Although some key regional players remain . . .

Asia Pacific

- Amore Pacific
- Shiseido
- Kanebo
- Kao
- Kose

Latin America


- Jafra
- Natura
- O Boticário

Europe

- Beiersdorf
- Boots
- Henkel
- Oriflame
- Puig
- Yves Rocher

North America

- Colgate-Palmolive
- Estée Lauder
- Johnson & Johnson
- Limited Brands
- Mary Kay



In Russia, Procter & Gamble, Henkel, L'Oreal, Unilever, and Kalina combined, account for 22% of total manufacturers' sales.

Demographics and sector-specific trends are key sustainable growth drivers for the global personal care industry. . .



- Demographics
 - Western baby boomers with increasing anti-aging and wellness needs
 - Growing professional population in such emerging markets as China and India

- Personal care sectors
 - Continued demand by C&T formulators for innovative raw materials
 - Emergence of high-end mass markets for skin care and hair care
 - Importance of growing male grooming and professional sectors in Western markets
 - Consumer preference to purchase personal care products which claim to be manufactured from “naturally derived” raw materials



What makes this industry so attractive to marketers of finished products and raw material/technology suppliers?

- Large
- Growing – realizing at least 2-3 x GDP growth
- Non-cyclical
- Driven by sustainable demographic and sector-specific trends
- Relatively low barriers to entry
- It craves **INNOVATION**

EVOLUTION OF PRODUCT FUNCTIONALITY AND DEMAND FOR INNOVATION

Hair care	Cleansing Conditioning Styling Coloring	Multifunctionality Mildness "Natural"	Targeted products Color-specific Texture-specific Mildness "Natural" Color-life extension
Skin care	Cleansing/soaps Moisturizing Makeup Sun tan products	Cleansing/body washes Antiaging (AHAs, retinol) UV protection Mildness Antibacterial Pore strips	Targeted antiaging products Targeted skin-care products UVA/UVB protection "Natural" Sun-less tanning Professional products
Oral care	Anti-cavity	Targeted products - Whitening - Anti-gingivitis - Tartar-control - Breath strips	Targeted products - Whitening - "Oxi" - Anti-gingivitis - Tartar-control - Breath strips

1980s

1990s

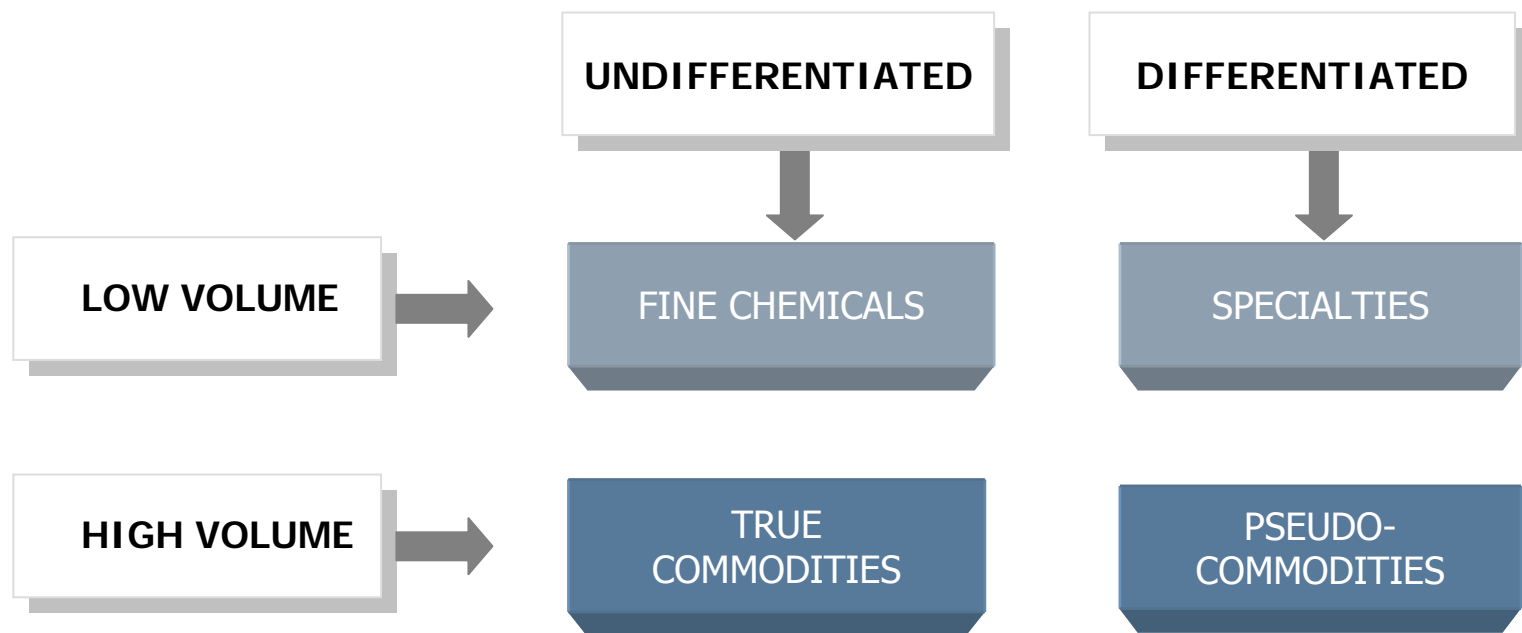
2000s



Performance/innovation need

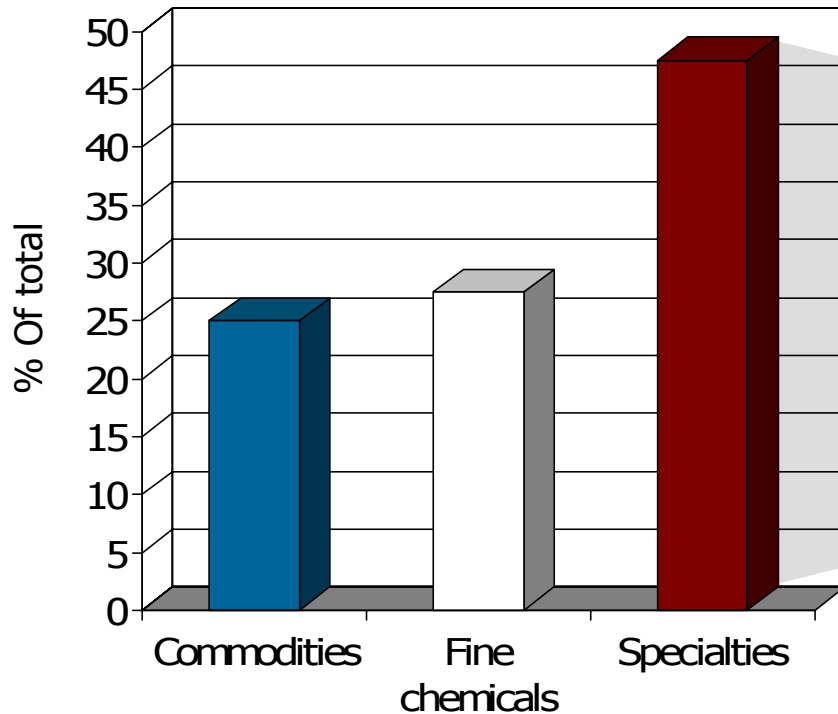
Personal care ingredients have varying levels of differentiation . . .

- Can be classified into specialty, commodity, and fine chemicals
 - Compared with commodity products, specialty raw materials are sold in comparatively low volumes and at higher prices on a per-kilo basis

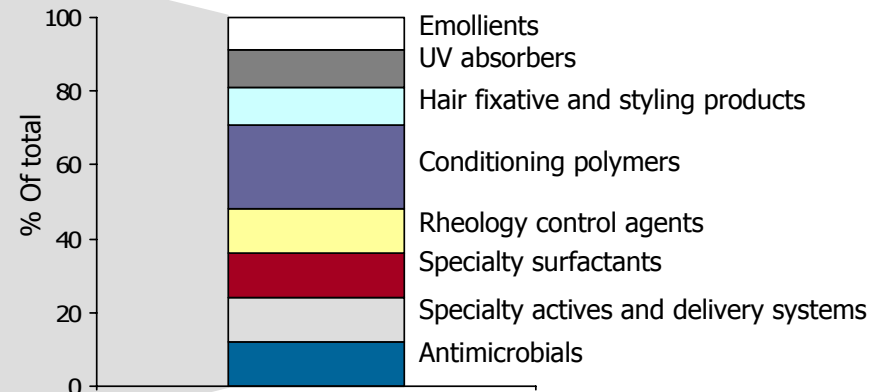


Personal care ingredients are a \$7 billion industry, of which 45% are specialties . . .

Market by Product Segment



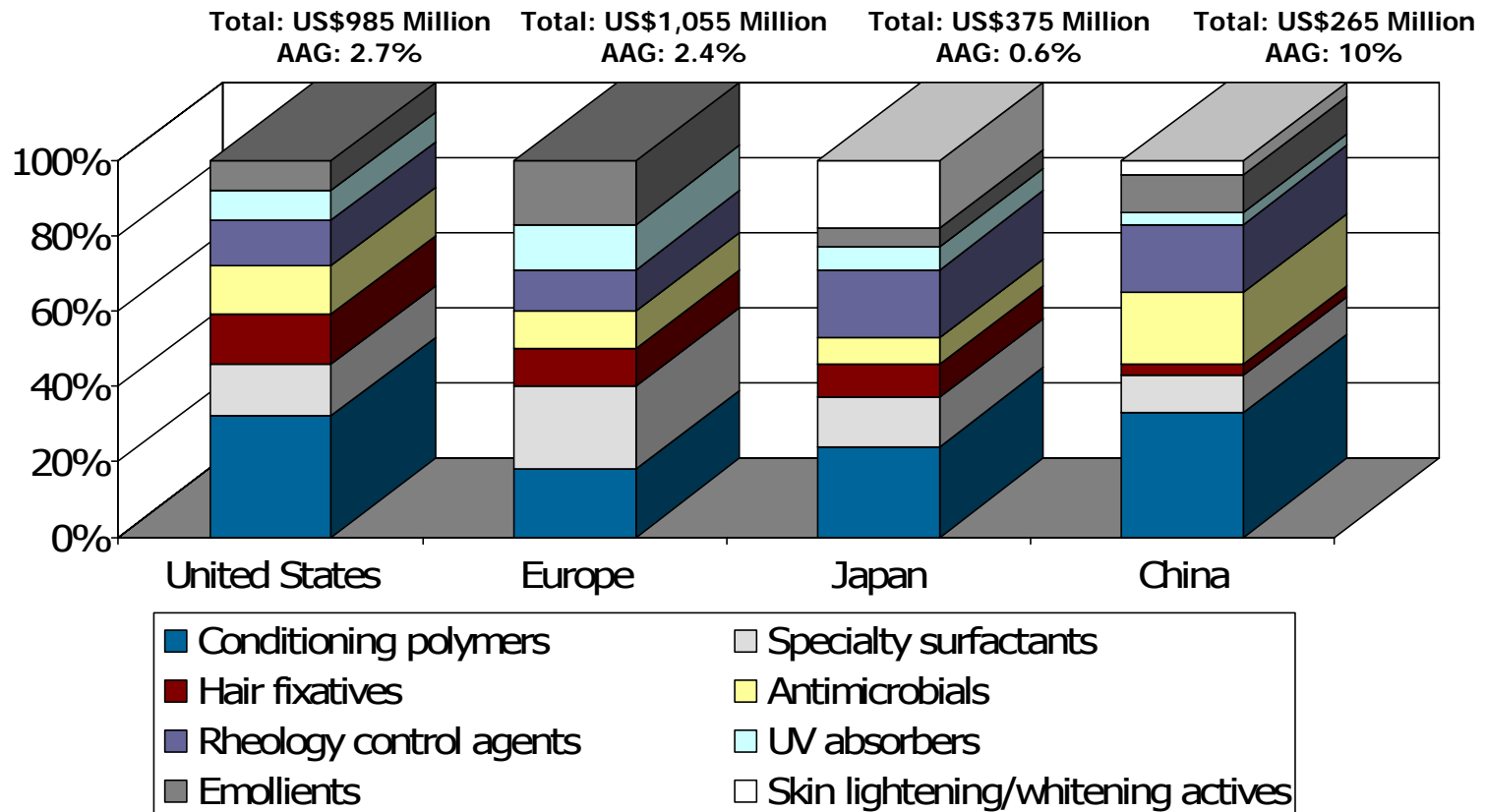
Specialties: Sub-segmentation



Specialty raw materials can be segmented into functional or performance categories

Product category	Functional	Performance
Antimicrobials	✓	-
Emollients	✓	✓
Hair fixative and styling polymers	-	✓
Rheology control agents	✓	-
Skin lightening/whitening actives	-	✓
Specialty conditioning polymers	-	✓
Specialty surfactants	✓	✓
UV absorbers	-	✓

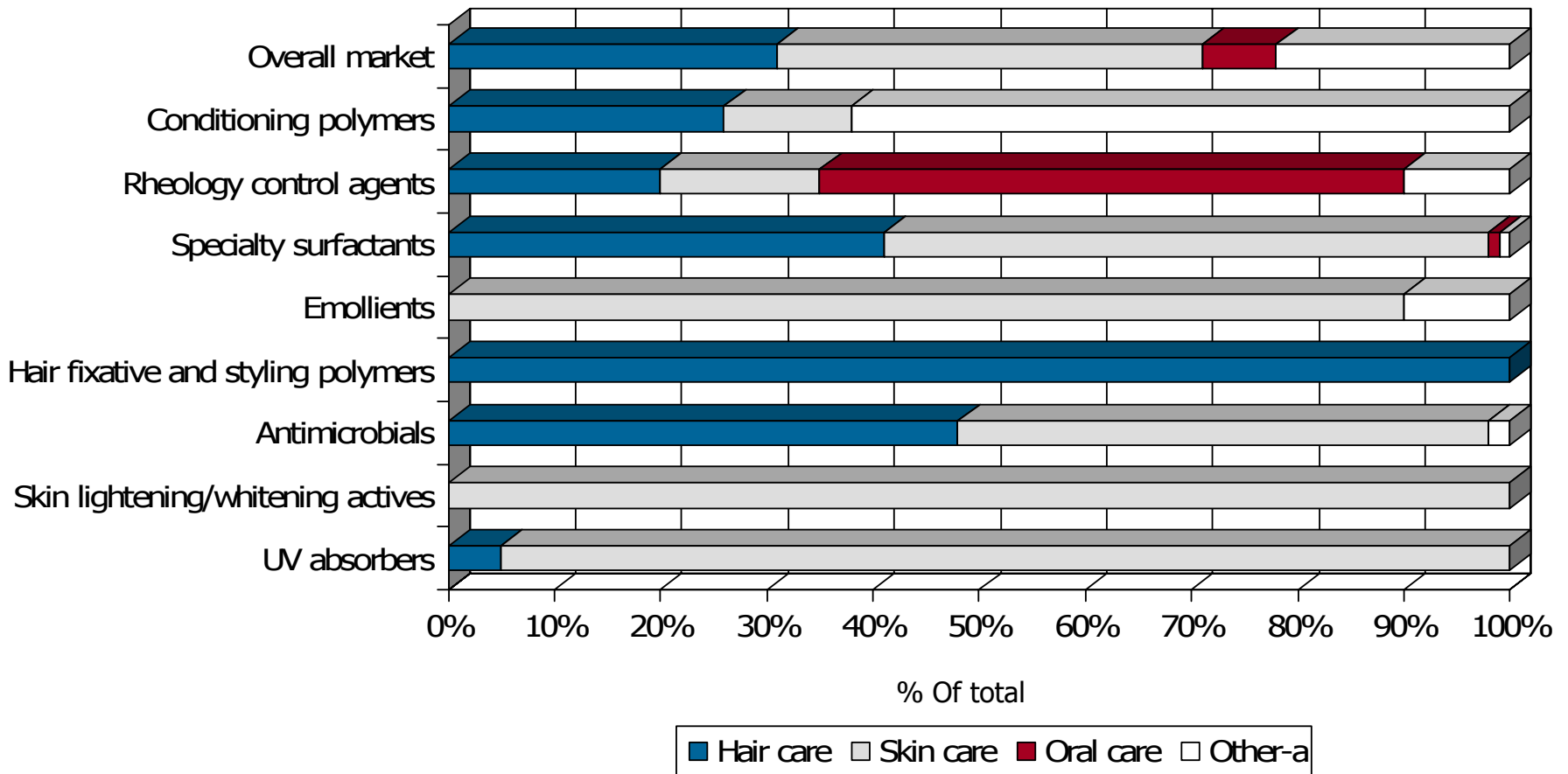
Europe is the leading market for specialty raw materials for cosmetics and toiletries.....



a- Skin lightening/whitening actives represent less than 1% of the U.S. and West European markets.

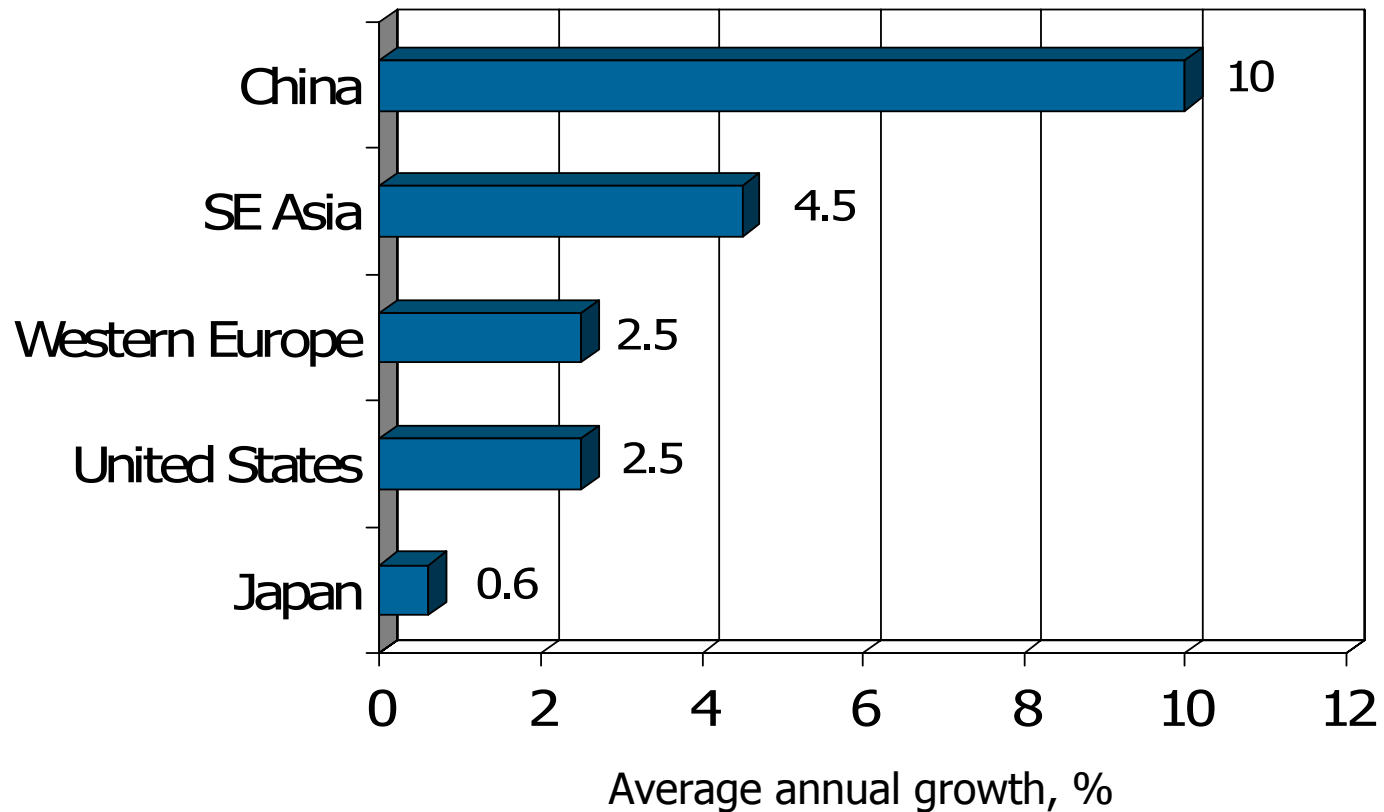
Skin care is the leading market for the specialty raw materials....

Skin care is the leading market for the specialty raw materials.



a- Includes antiperspirants and deodorants.

China is one of the fastest growing markets for specialty raw materials for C&T on a global basis . . .





Silicones have been instrumental in enabling product innovation and delivering new personal care product classes . . .

- Multifunctional and valued by formulators in hair care and skin care applications
- Enabled new generation of antiperspirants/deodorants (stick form, transparent, no residue)
- Enabled new generation of 2-in-1 shampoos
- Compete with traditional emollients in facial treatments and hand and body lotions

Delivery systems have enabled significant product innovation in anti-aging skin care

- Enabled new generation of anti-aging products
 - Stabilizing actives
 - Controlled release
 - Reduces irritancy
 - More effective active delivery
 - Improved/enhanced penetration
 - Longer shelf life
- Includes nanoparticles, microcapsules, patches, and films



As have specialty actives . . .

- Enabled new generation of antiaging products
 - Plethora of actives currently available
 - Peptides are currently “hot”
 - Substantiated, branded botanical actives are also “hot”
 - Stabilized forms of vitamin C are also “hot”

Examples of “innovation” Prestige channel – delivery systems/actives



- Lancôme Platinéum Hydroxy_(a)-Calcium™ Complex Re-Densifying and Strengthening Cream
- Hydroxy_(a)-Calcium™ Complex
 - Delivery system (including cyclodextrins) containing (bio-assimilable form of calcium, ginseng, and yeast extract)
- Vitamin E
- UV filters
 - Ensulizole, Octinoxate, Titanium Dioxide
- \$108 for 1.7oz (50g)

Examples of “innovation” Prestige channel – delivery systems/actives



- Estée Lauder Perfectionist Power Correcting Patch for Deeper Eye Lines/Wrinkles
- Controlled release delivery of patented bio-peptide (acetyl hexapeptide-3) in a polyacrylate-4 reservoir
- Uses microelectronic delivery mechanism supplied by Power Paper
- \$100 for 8 pairs of patches (each patch weighs 4g)

Examples of “innovation”

Mass-market channel – specialty actives



- Procter & Gamble’s Olay Regenerist Continuous Night Recovery Moisturizing Treatment
- Palmitoyl Pentapeptide-3
- Vitamin E
- Niacinamide (Vitamin B3)
- Panthenol (Vitamin B5)
- Specialty silicones
- Selected botanical extracts
- Regenerist brand has grown very well and is estimated at around \$80 million in the U.S. (or around 18% of Olay’s total facial treatment sales)
- \$18.99 for 1.7oz (48g)

Examples of “innovation” Professional – specialty actives



- Kline Becker’s StriVectin-SD Wrinkle and Stretch Mark Cream
- Oligo peptide (Pal-KTTKS)
- Vitamin A (retinyl palmitate)
- Vitamin E (tocopheryl acetate)
- U.S. Sales grew rapidly from around \$8 million in 2003 to \$42 million in 2004
- \$135 for 6oz

Examples of “innovation”

Mass market: Oral Care



- Listerine PocketPaks Oral Care Strips, Cool Mint
- Novel delivery system in highly mature sector
- Water-soluble film (pullulan substrate)
- Blockbuster brand
- \$3.39 72 strips

Examples of “innovation”

Beauty from outside and within



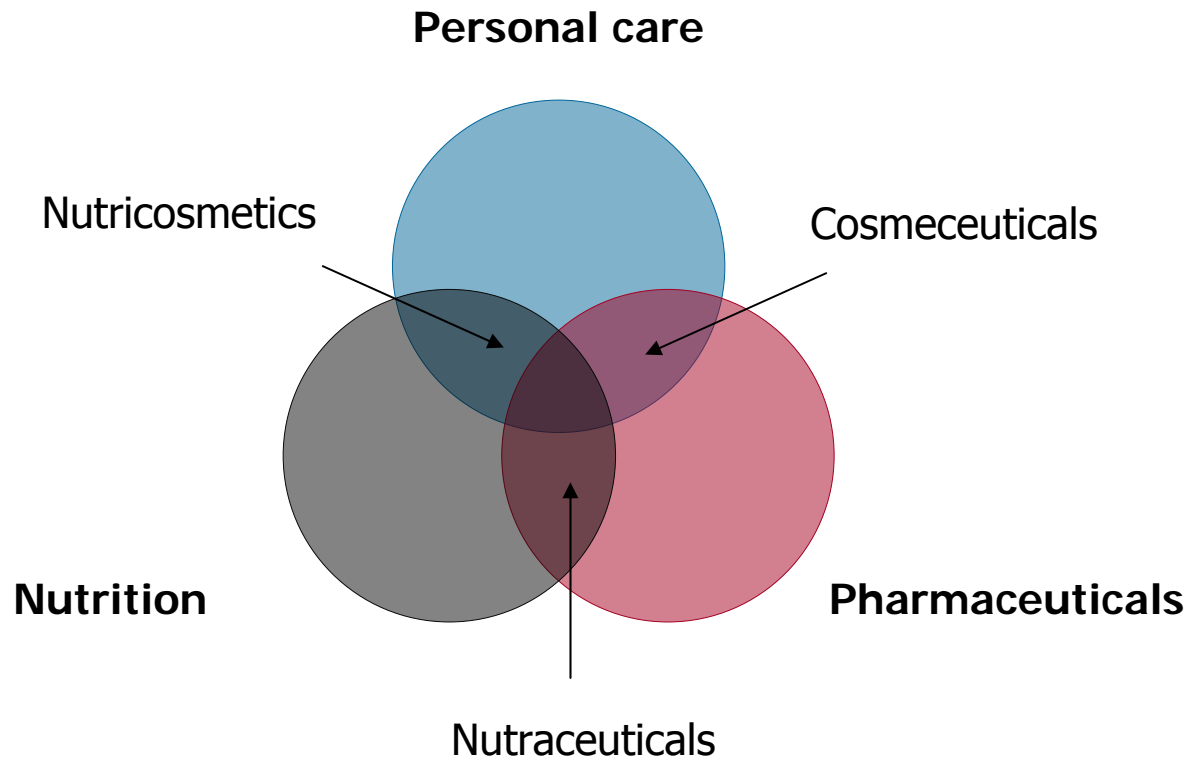
- Borba Clinicals – range of targeted supplements for specific skin types complemented with a range of topically applied skin care products
- Borba Skin Balance Water \$2.50
- Borba Skin Balance Aqualess Crystalline Packets \$100
- Borba Fiber Knit Orbital Eye Rejuvenator uses hydrolyzed silk fibers (\$65 for 0.5oz)
- Borba Fiber Knit Night Repair Emulsion – Age Defying Acai uses hydrolyzed elastin fibers (\$75 for 3.5oz)



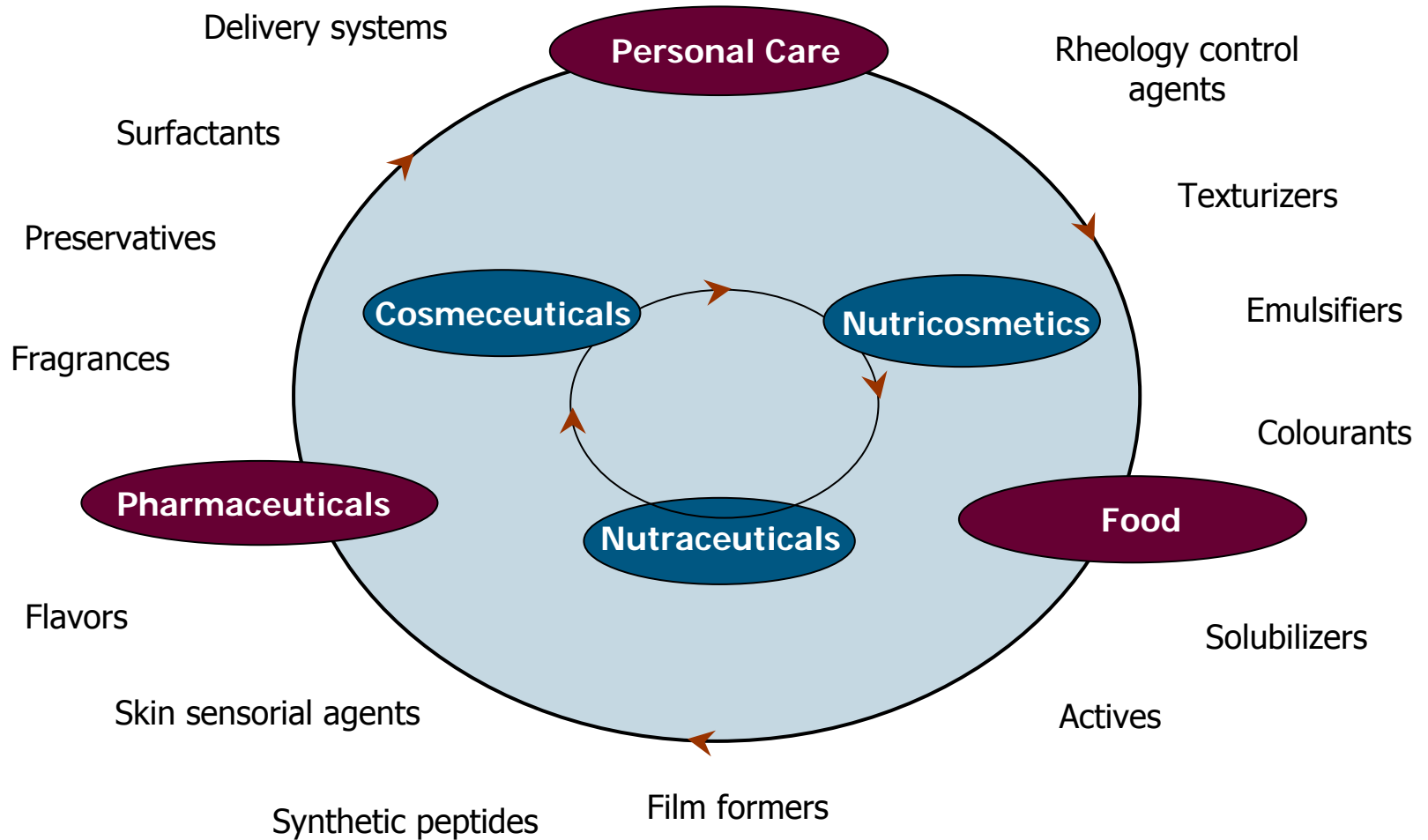
SO WHERE IS THE INNOVATION COMING FROM?

CONSUMER MARKETS

There continues to be increasing convergence with pharma and nutrition sectors that has led to new personal care categories and raw materials and technologies . . .



A plethora of raw material categories are used across the market spaces . . .





SO WHERE IS THE INNOVATION COMING FROM?

INDUSTRIAL MARKETS

Industrial market spaces provide a fertile breeding ground for innovation. . .

Technologies

- Polymers
- Fibers
- Nano
- Fermentation
- Molecular coupling

Performance properties

- Film forming
- Adhesion
- Delivery



Personal care

Adhesives and sealants, paints and coatings, plastics, construction, aerospace, textiles and nonwovens, among others



In the skin-care segment, the prestige and professional brands act as a magnet for innovation...

- New technologies are typically first implemented in prestige brands
 - Usually higher raw material spend compared with mass-market and “masstige” brands
- Prestige sales involve a high level of customer interaction and education compared with mass-market brands that are usually “self serve”
- Technologies can then be leveraged from prestige to high-end mass market and other channel brands
 - As volumes increase and price points decline somewhat

For hair care, salon brands are the early adopters of new technologies and innovation..

- Higher raw material spend compared with mass-market brands
- Higher level of customer interaction and education compared with mass-market brands that are usually “self serve”
- Good trial market for new technologies and product concepts
- Considered less risky to launch a new product in this channel
- Successful technologies and/or product concepts can then be leveraged to the mass market
- Mass market hair care products is currently expanding rapidly and there is an increasing level of segmentation among brands



Appraisal

- The personal care market space is highly attractive to raw material suppliers
 - Large
 - Non cyclical
 - Growth consistently 2x-3x GDP compared with mass-market brands
 - Suppliers are rewarded for innovative technologies
 - Relatively low barriers to entry
- However, companies must utilize a well thought out/structured strategy to achieve success and maximize value creation



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