



cutting through complexity

Georgian National Investment Agency

Chemical Sector Research
Perfumery and Cosmetics

April 2015



Our findings, observations and/or recommendations are those that we could reasonably derive from the procedures or scope of services performed. The specific procedures performed were agreed with Georgian National Investment Agency (the Client) and were performed by us as set forth in the Report.

Our work was carried out solely based on the publicly available research data.

We have indicated within our Report the sources of the information presented and have satisfied ourselves, so far as possible, that the information presented in our Report is consistent with other information which was made available to us in the course of our work in accordance with the terms of the Contract. We have not, however, sought to establish the reliability of the sources by reference to other evidence.

All recommendations, provided to you with/in this Report that refer to the future have some limitations in the sense that they are based on the assumptions valid on the issuance date. These assumptions could change with time, after the date of this Report issuance, and so could lose their value.

References to 'KPMG Analysis' in this Report indicate only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented; we do not accept responsibility for the underlying data.

Mapping – General overview

As defined by the Food and Drug Administration (FDA), cosmetics is intended to be applied to the human body for cleansing, beautifying, promoting attractiveness, or altering the appearance without affecting the body's structure or functions.

Cosmetic products are manufactured by using chemicals, minerals, and some natural ingredients. Cosmetic products are segmented into the following products

- skin care products,
- hair care products,
- color cosmetics,
- fragrances, etc.

These products are used to enhance the beauty of the consumers by rejuvenating skin, giving shine to the hair, and so on.

Perfume is a mixture of fragrant essential oils or aroma compounds, fixatives and solvents. Perfumes are designed to give the human body, animals, food, objects, and living spaces a pleasant scent.

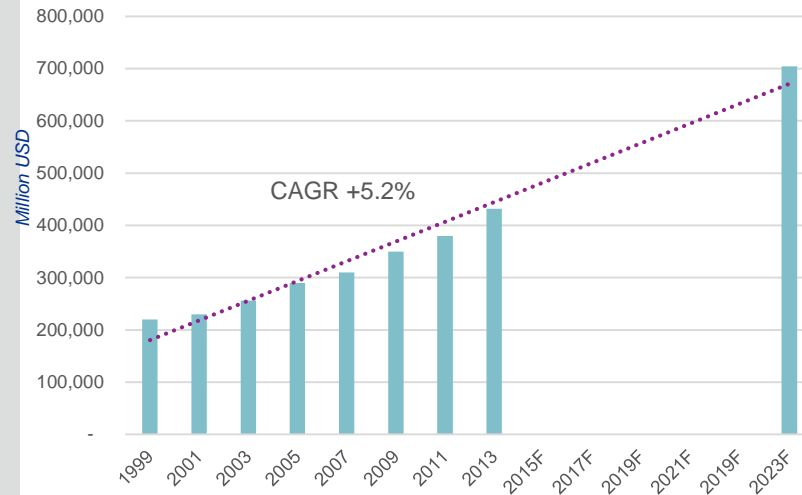
The global perfume and cosmetics market grew 5.2% in 2013 to \$432 billion

Trade of perfumery and cosmetics grew by 7.5% in 2013 to reach USD 102,645 million

The global perfume and cosmetics market grew to \$598 billion in 2013, and posted a CAGR of 5.2% over the past 14 years, including 2008, when the global fiscal crisis took place. L’Oreal, the world’s number-one cosmetics firm by sales, expects the value of the global cosmetics market to double to \$800 billion over the next 10~15 years.

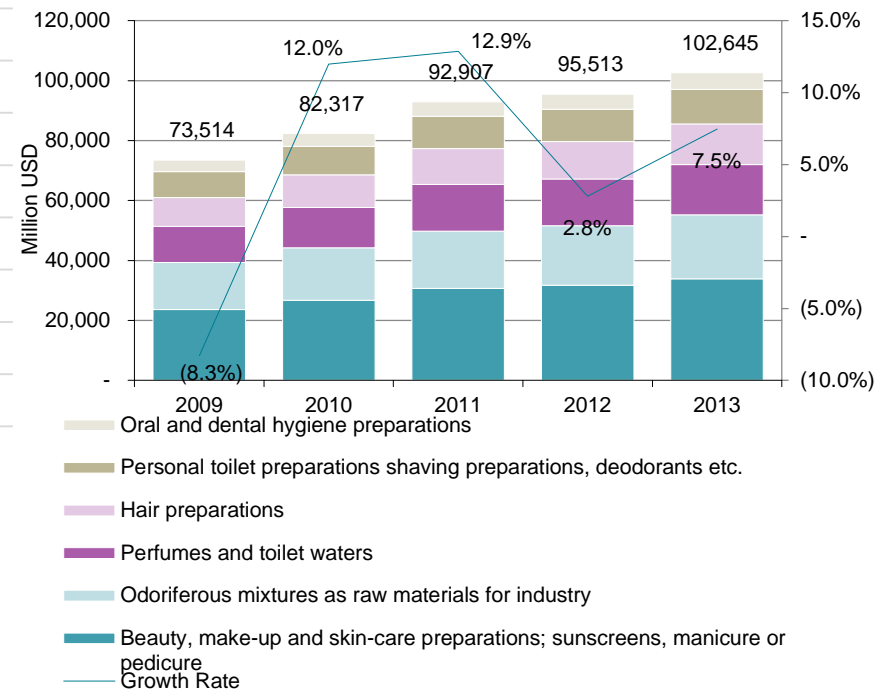
Trade of perfumery and cosmetics grew by 7.5% in 2013 to reach USD 102,645 million. Perfumery and cosmetics industry grew with CAGR of 8.7% from 2009 till 2013.

Global Perfume and cosmetics market



Source: 2015 Korean cosmetics market outlook

The world trade of perfumery and cosmetics 2009-2013



Source: ITC

Top 15 countries had a market size worth USD 304.3 billion in 2013, together comprising 58.7% of the global perfume and cosmetics market.

The global leaders in the market are USA, China, Brazil and Japan. Top 15 countries had a market size worth USD 304.3 billion in 2013, together comprising 70.4% of the global perfume and cosmetics market. The list includes:

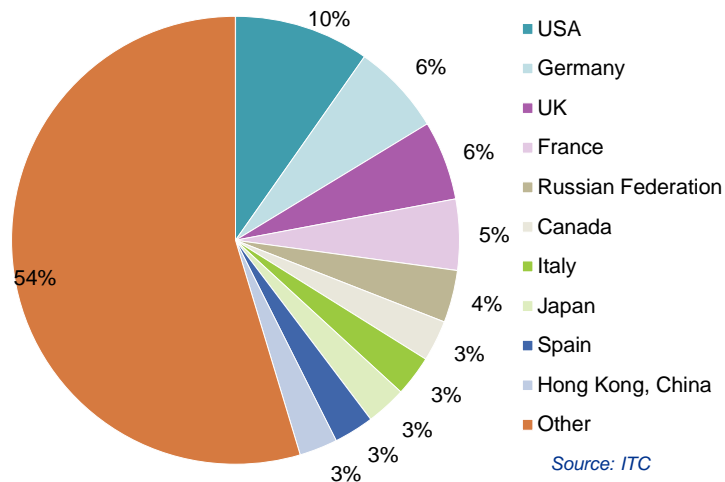
Cosmetics consumption values by countries, 2013			
Rank	Country	Consumption (USD billion)	Consumption share (%)
1	United States	73,256	17.0%
2	China (excl HK)	44,220	10.2%
3	Brazil	42,953	9.9%
4	Japan	39,051	9.0%
5	Germany	19,051	4.4%
6	France	16,798	3.9%
7	Russia	14,177	3.3%
8	Italy	12,168	2.8%
9	South Korea	9,818	2.3%
10	India	9,793	2.3%
11	Spain	9,266	2.1%
12	Thailand	4,884	1.1%
13	Turkey	4,108	1.0%
14	Indonesia	3,796	0.9%
15	Vietnam	993	0.2%
Top 15 countries		304,332	70.4%
Other countries		127,686	29.6%
Total		432,018	100.0%

Source: 2015 Korean cosmetics market outlook

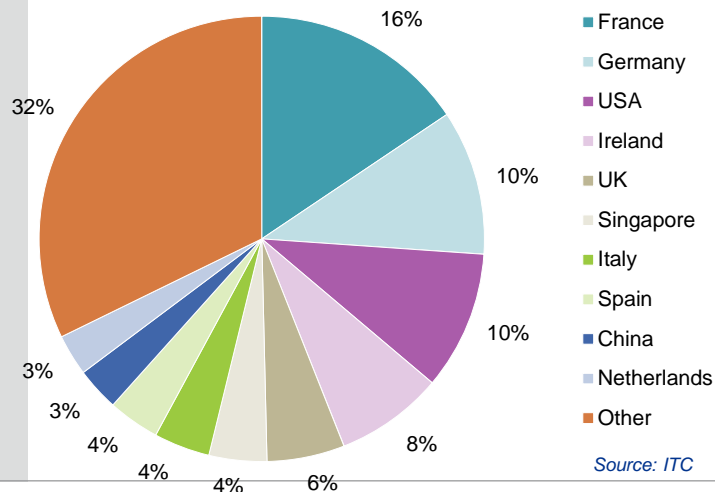
In terms of market leaders, for the past 10 years, the sales ranking of the top 20 global cosmetics firms has remained almost unchanged. In the cosmetics market, more than 75% of new brands/products fail. The main reason is their failure to differentiate themselves from existing products

Georgia was the largest importer of perfumery and cosmetics in South Caucasus

Structure of the world perfumery and cosmetics import by countries in 2013



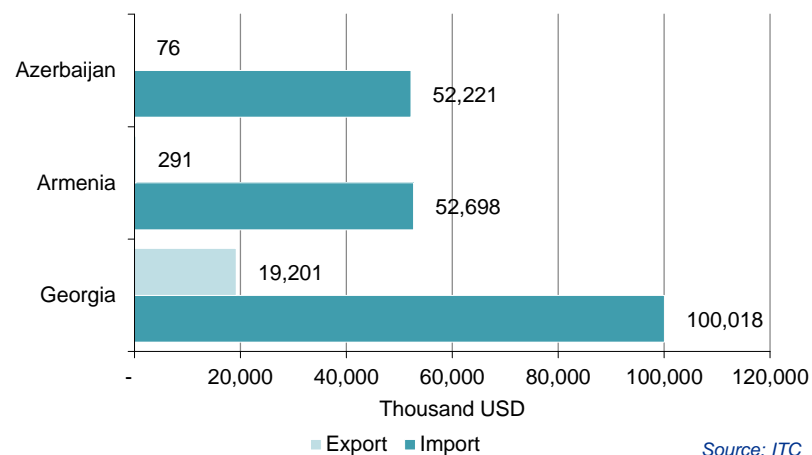
Structure of the world perfumery and cosmetics export by countries in 2013



In 2013 top ten importing countries of perfumery and cosmetics accounted for about 44% of world perfumery and cosmetics import. USA, Germany and UK were the top 3 importers of the products with shares of 10%, 6% and 6% respectively. Meanwhile in 2013 top ten exporting countries of perfumery and cosmetics accounted for about 68% of world export. France, Germany and USA were the top 3 exporters of perfumery and cosmetics with shares of 16%, 10% and 10% in the world export of perfumery cosmetics.

In 2013 the import of perfumery and cosmetics in South Caucasus (Georgia, Azerbaijan and Armenia) was about USD 205 million, while the export was only USD 20 million. Among the countries of South Caucasus Georgia was the biggest importer.

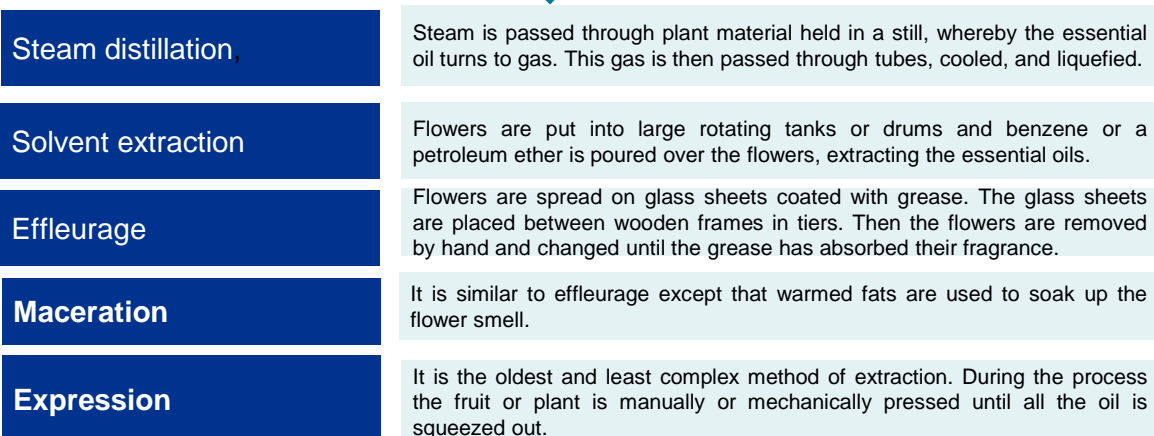
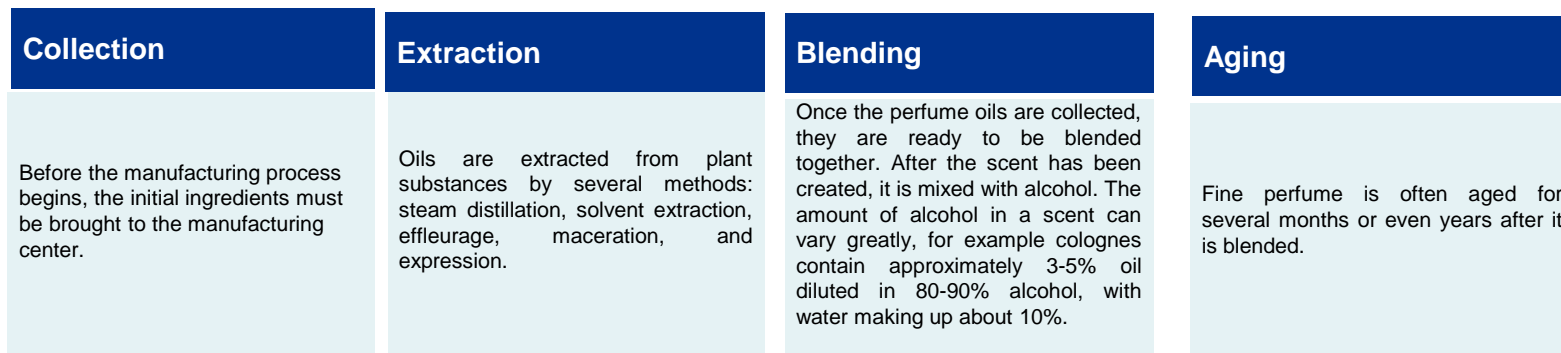
Import and export of perfumery and cosmetics in South Caucasus in 2013



The main raw materials for perfumery and cosmetics are the alcohol, wax, essential oils.

Other necessary ingredients include colorants flowers, gums, etc.

Perfumery and cosmetics production cycle general description



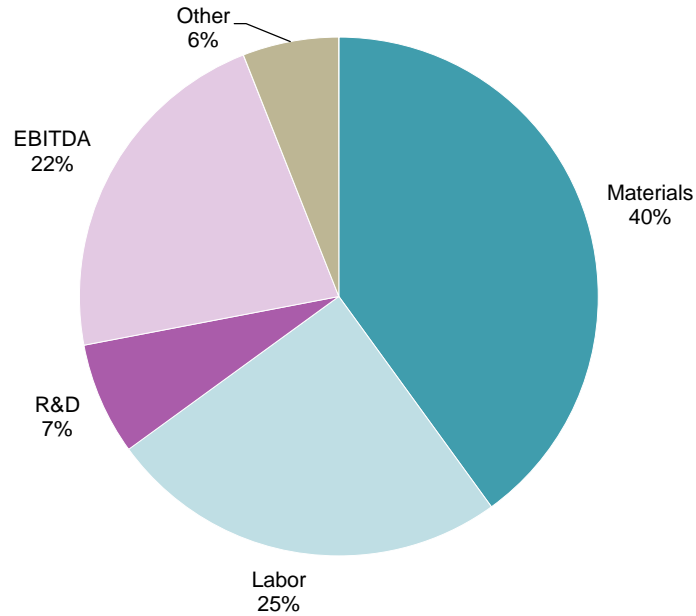
Perfume	
P/E	27.4x
Return on Assets %	7.5%
Gross Margin %	40.1%
SG&A Margin %	32.5%
EBIT Margin %	7.4%
Net Income Margin %	5.1%

The main raw materials for perfumes and cosmetics are essential oil, alcohol and waxes, which are analyzed in the Sections “Essential oils”, “Other basic organic chemicals” and “Soap” respectively. The ratio analysis can also be found in these sections of the report.

Raw material expenses has major portion in COGS

Cost of materials, packaging and transportation costs are important price drivers

Breakdown of sales by costs



Source: Liberum

Raw material inventory management represents a key financial risk for the perfumery and cosmetics companies because raw material purchases are the single largest component of operating costs and tie up considerable working capital.

Material purchases accounted for an average 42% of revenues and 71% of Cost of Goods Sold (COGS).

Overall the average prices in the region have had relatively flat trend during 2010-2013

Our research showed that during the period between 2010 and 2013 average import price of perfumery and cosmetics increased for CIS and EU, while the average price decreased for Central Asia. As shown on the chart prices are quite different among Central Asia and the other two regions.

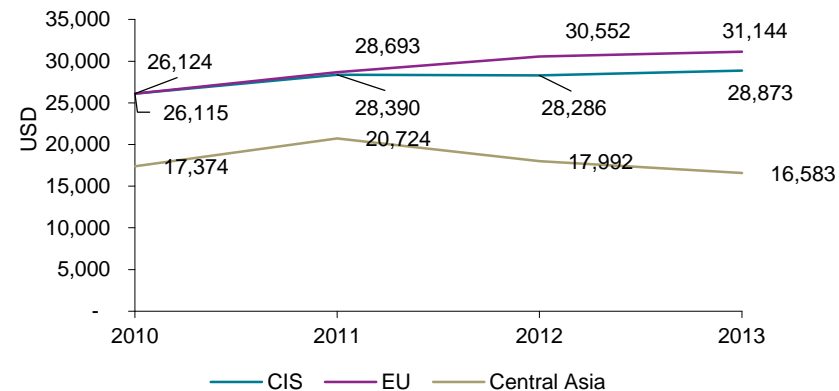
On average EU holds the first position by highest import price of perfume and cosmetics.

Volume and price of consumption can be affected by many factors. The fundamental price drivers are supply, demand and price of raw materials.

The price drivers include:

- Cost of raw materials
- Packaging
- Transportation costs (both for raw materials and finished products)

Average import price of perfumery and cosmetics in CIS, EU and Central Asia, 2010-2013 (USD/Tons)



Source: ITC

Global Top 20 producing	
Producers (cosmetics and perfumery)	Total Revenue to Feb 2015 [LTM] (Million USD)
1 L'Oreal SA	31,226
2 Mibelle AG	29,173
3 Unilever	23,900*
4 Estee Lauder Inc.	10,182
5 Avon Products Inc.	9,178
6 Herbalife Ltd.	5,094
7 Coty Inc.	4,556
8 Natura Cosméticos SA	3,012
9 Revlon Consumer Products Corp.	1,931
10 Revlon, Inc.	1,931
11 Hypermarchas S.A.	1,833
12 Oriflame Cosmetics SA	1,620
13 Puig Beauty & Fashion Group S.L.	1,472
14 Elizabeth Arden International S.a.r.l.	1,238
15 Elizabeth Arden, Inc.	1,091
16 Amway Corporation	1,026
17 Shanghai Jahwa United Co., Ltd.	824
18 Mandom Corp.	635
19 Guerlain SA	564
20 TheFaceShop Co., Ltd.	518

Source: S&P

*As of 31 Dec 2013

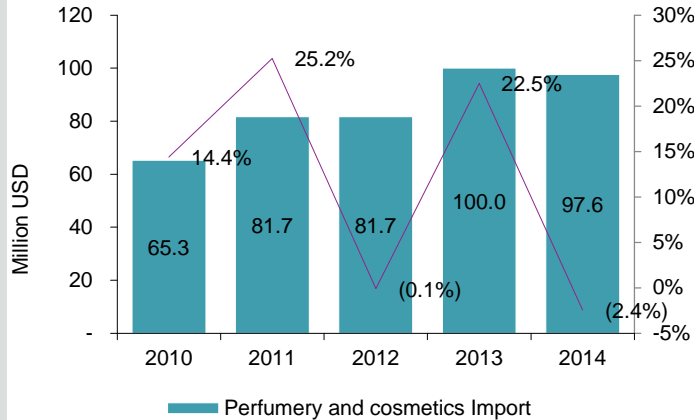
Producers (perfumery only)	Country
1 Givaudan SA	Switzerland
2 International Flavors & Fragrances Inc.	United States
3 Symrise AG	Germany
4 Takasago International Corp.	Japan
5 Robertet SA	France
6 Interparfums	France
7 Art & Fragrance SA	Switzerland
8 Jacques Bogart SA	France
9 China Flavors & Fragrances Co. Ltd.	Hong Kong
10 Ulric de Varens SA	France

Source: Rosinvest

Georgia- Perfumery and cosmetics import

In 2014 Georgia imported USD 98 million of perfumery and cosmetics products majority of which were hair preparations, beauty, make-up and skin care preparations, sunscreens, manicure and pedicure products.

Import of perfumery and cosmetic in 2010 - 2014



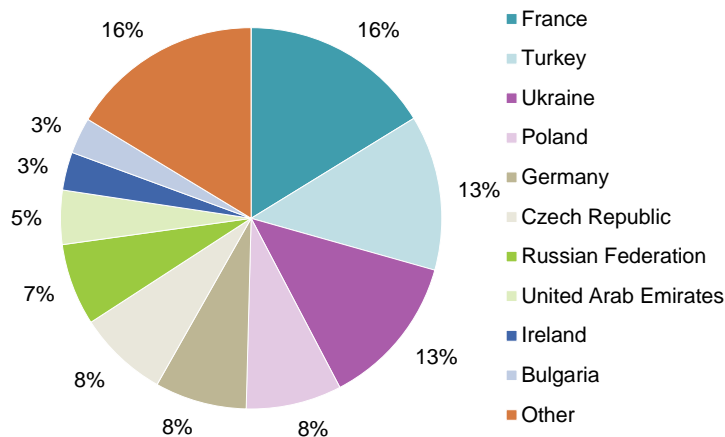
In 2014 the import of perfumery and cosmetics in Georgia decreased by 2.4% and amounted to USD 98 million. During 2010 – 2014 the import of perfumery and cosmetics recorded 10.6% CAGR.

In 2014 France accounted for 16% of the total import of perfumery and cosmetics to Georgia. Turkey and Ukraine are also the largest exporters of perfumery and cosmetics to Georgia accounting for 26% of the import in total.

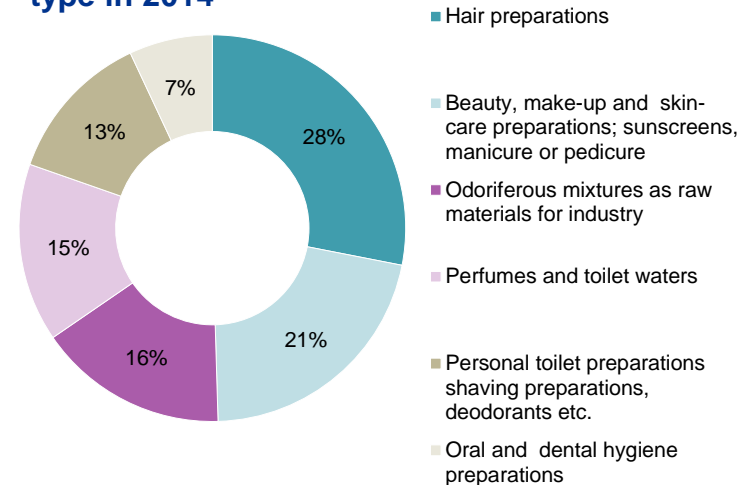
In 2014 the hair preparations were the main type of perfumery and cosmetics imported to Georgia accounting for 28% of the import. Beauty, make-up and skin-care preparations, sunscreens, manicure and pedicure preparations were the second largest group of imported perfumery and cosmetics (21%).

Source: ITC

Perfumery and cosmetics import structure by countries, 2014



Perfumery and cosmetics import structure by product type in 2014



Source: ITC

Source: ITC

In 2014 Georgia exported USD 3 million of perfumery and cosmetics.

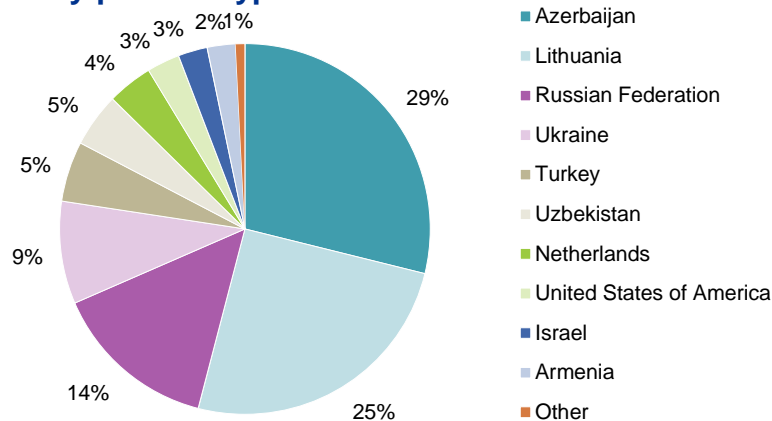
Georgia exported mainly personal toilet and shaving preparations to Azerbaijan, Lithuania and Russia.

In 2014 the export of perfumery and cosmetics from Georgia decreased by 86.3% and was USD 3 million. During the 2010 – 2014 the perfumery and cosmetics export recorded -21% CAGR.

In 2014 the largest export country for perfumery and cosmetics was Azerbaijan. It accounted for 29% of Georgia’s export. The second largest destination of export for perfumery and cosmetics from Georgia was Lithuania accounting for 25% of the export, followed by Russia and Ukraine accounting for 14% and 9% respectively.

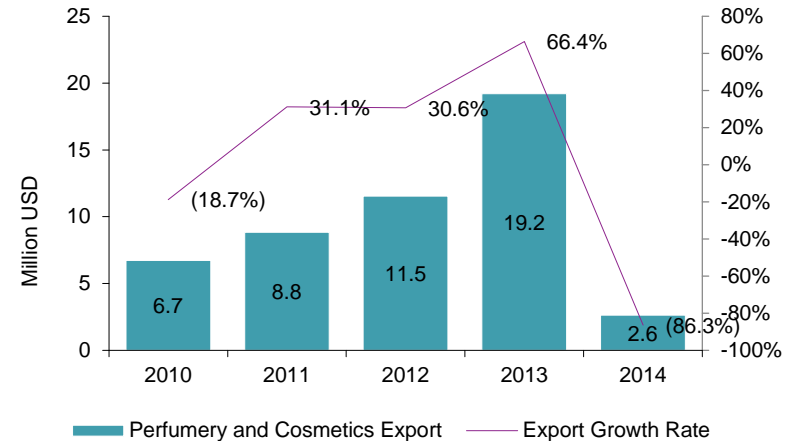
In 2014 Georgia export of perfumery and cosmetics included personal toilet preparations, shaving preparations, deodorants (29% of export) and oral, dental hygiene preparations (24% of export).

Perfumery and cosmetics export structure by product type in 2014



Source: ITC

Export of perfumery and cosmetics in 2010 - 2014



Source: ITC

Perfumery and cosmetics export structure by countries, 2014

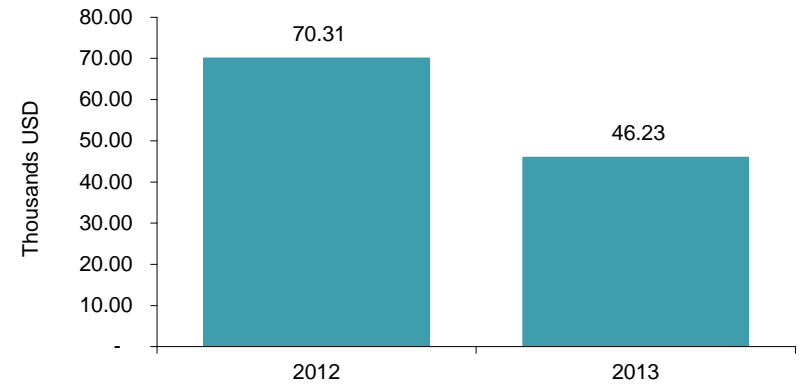


Source: ITC

In 2013 Georgia produced USD 46 thousands of perfumery and cosmetics

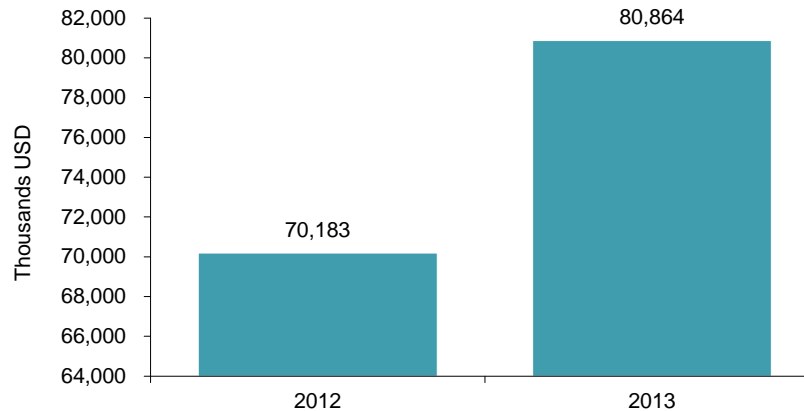
According to the National statistics office of Georgia in 2013 the production of perfumery and cosmetics in Georgia was only USD 46 thousands which compared with 2012 has decreased by 34%.

Perfumery and cosmetics production



Source: NSOG, KPMG research and analysis

Perfumery and cosmetics consumption



Source: NSOG, KPMG research and analysis

Having the value of perfumery and cosmetics import, export and production we calculated the consumption of perfumery and cosmetics in Georgia (production - export + import = consumption). According to our calculations in 2013 Georgia consumed around USD 80.8 million of perfumery and cosmetics.

Pipeline

Project	Pipeline
L’Oreal plans to invest in India in 2016	L’Oreal SA plans to raise its investments in India to a total of \$176 million by 2016 as it moves to raise sales in the country’s fast-growing market for high-end beauty and haircare products. .
L’Oréal will invest USD 180 million in Brazil by 2016	To increase its market share in Brazil, L’Oréal will invest USD 180 million in its existing operations by 2016



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