Q3 IN BEAUTY AND PERSONAL CARE
APPENDIX
## Executive summary

<table>
<thead>
<tr>
<th>GDP Growth</th>
<th>Highlights</th>
<th>GDP Growth</th>
<th>Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>We have raised US real GDP growth forecasts to 2.7% in 2018 and 2.6% in 2019. Fiscal stimulus is the key contributor to the faster growth, while private sector confidence remains high.</td>
<td><strong>China</strong></td>
<td>China’s GDP rose by 6.8% in the first half of 2018, but output growth is likely to slow in the second half. The real GDP growth forecast remains unchanged at 6.5% in 2018 and 6.3% in 2019.</td>
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<tr>
<td><strong>Eurozone</strong></td>
<td>The Eurozone economy has slowed down. Yet private confidence remains high and borrowing costs - low. Real GDP growth forecast lowered to 2.1% in 2018 and 1.8% in 2019.</td>
<td><strong>Brazil</strong></td>
<td>Lower growth in Q1 2018, falling consumer confidence and a truckers’ strike have prompted us to cut Brazil’s real GDP growth to 1.9% in 2018. The forecast for 2019 is unchanged at 2.5%.</td>
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<tr>
<td><strong>UK</strong></td>
<td>Brexit uncertainty continues hurting the UK economy. Following weak economic performance in Q1 2018, the real GDP growth forecast has been downgraded to 1.2% in 2018 and 1.3% in 2019.</td>
<td><strong>Russia</strong></td>
<td>A higher oil price has had a positive impact on the Russian economy. Domestic demand is also supporting GDP growth. We see real GDP grow by 1.5% in 2018 and 1.7% in 2019.</td>
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<tr>
<td><strong>Japan</strong></td>
<td>Weaker-than-expected Q1 2018 economic performance in Japan and tensions in the foreign trade arena have resulted in a real GDP growth forecast decline to 1.1% in 2018 and 1.0% in 2019.</td>
<td><strong>India</strong></td>
<td>India’s economy appears to be back on track. Investment growth is expected to continue as demand improves. This keeps our real GDP growth forecast unchanged at 7.4% in 2018 and 7.5% in 2019.</td>
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# GDP growth forecasts: revisions over last quarter

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<tr>
<th>Country</th>
<th>2017 %</th>
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<th>2019(f) %</th>
<th>2020(f) %</th>
<th>2021-2025 average(f) %</th>
<th>2018 forecast change Percentage points</th>
<th>2019 forecast change Percentage points</th>
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Global risk scenarios

Summary
The risks to global economic growth have escalated since May 2018. The tensions between the US, China and the EU have amplified the chances of a major trade war scenario. This in turn has increased the risk of more severe scenarios such as global downturn or even new economic crisis.

In Europe, the election of a populist government in Italy has boosted the risk of Eurozone shocks, and could endanger the block’s financial stability. The likelihood of a no-deal Brexit has once again surged as a result of difficulties in reconciling positions inside the UK and with the EU, while the negotiation deadlines are coming close.

Note: *Impact is measured as world GDP change over three years compared to baseline scenario, in percentage points.
This quarter we have introduced the Global Risks Index. It ranks scenarios by the expected GDP impact of a scenario: the impact of the scenario multiplied by its probability.

Our Global Risks Index highlights three key adverse scenarios: A Global Downturn, an Emerging Markets Slowdown and a Global Crisis. While a full-blown Major Trade War has only a modest impact on global output, it significantly raises the risk of a more general downturn, leading to a Global Crisis.

The Eurozone Recession and Crisis scenarios have been updated to incorporate an Italian Eurozone exit (Italexit), following the emergence of a new populist government in Italy. Under certain circumstances the new government’s fiscal policies combined with a more general worsening of the Eurozone economy and financial markets could lead to Italexit.

The Major Trade War scenario has been revised to include tariffs between the US and the EU. While recent talks between US President Trump and European Commission President Juncker have diffused tensions, the new international policy environment under President Trump is volatile, and risks of an escalating trade war remain significant.

We have revised our worst case Global Crisis scenario. The new scenario features a combination of a major trade war that leads to a global downturn, with the effects from these two combined scenarios amplifying each other. While we only assign this scenario a 1-5% probability over a 1-year horizon, its impact is high enough to rank it third in terms of the Global Risks Index.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Global risks index</th>
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<td>Global Downturn</td>
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<tr>
<td>Emerging Markets Slowdown</td>
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<tr>
<td>Global Crisis</td>
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<tr>
<td>China Hard Landing</td>
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<tr>
<td>Major Trade War</td>
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<tr>
<td>Eurozone Recession</td>
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<tr>
<td>Trump Adverse Policies</td>
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<td>No-Deal Brexit</td>
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<tr>
<td>Eurozone Crisis</td>
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<tr>
<td>Korean Conflict</td>
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</tbody>
</table>
### Major macro risks for beauty and personal care industry

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Description</th>
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<tbody>
<tr>
<td>Global Downturn</td>
<td>Fears about trade wars and populist policies in advanced economies cause a fall in private confidence. Uncertainty and overvaluation concerns lead to a sell-off in financial markets, while global spill-overs cause a slowdown in emerging markets.</td>
</tr>
<tr>
<td>China Hard Landing</td>
<td>A rise in the proportion of non-performing loans leads to a banking crisis and tightening credit conditions. Private sector confidence declines, slowing the rebalancing process.</td>
</tr>
<tr>
<td>Major Trade War</td>
<td>Growing geopolitical and EU break-up risks increase uncertainty and reduce investment. Significant deterioration takes place in Eurozone credit markets, consumer and business confidence. Italy and Greece exit the Eurozone.</td>
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</tbody>
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**Quarterly Update**

Euromonitor International’s latest industry forecast as of Q3 2018.

Source: Euromonitor International Macro Model

Note: All scenarios played in Q4 2018
### Key findings

<table>
<thead>
<tr>
<th>Premium BPC offers higher gains but greater risk</th>
<th>Premium BPC is expected to add USD810 million which is twice as much as mass with the Q3 update. At the same time, the premium segment is subject to higher market uncertainty especially in developed markets where the majority of sales come from and where it relies on GDP to a greater extent. Thus in a pessimistic scenario, the CAGR might lose 0.7 p.p. while mass BPC would remain more resistant losing just 0.3 p.p.</th>
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<tbody>
<tr>
<td>Skin care the biggest winner in Q3</td>
<td>During the Q3 update, skin care experienced the strongest upgrade globally gaining USD1.1 billion. There has been a growing number of launches from major players featuring anti-pollution claims as consumer focus shifts to skin protection. As the IFM points out, given the positive long-term relationship between urbanisation and skin care sales, anti-pollution will remain on the radar in the longer term.</td>
</tr>
<tr>
<td>Inclusivity is driving force for colour cosmetics</td>
<td>Colour cosmetics, which is forecast to be one of the fastest growing categories in the next five years, added 0.2 p.p. to a baseline CAGR of 3.8%. Colour cosmetic brands are actively embracing inclusivity realising that a one-size-fits-all approach no longer works for consumers with the new standards of multiple foundation shades and gender-inclusive make-up.</td>
</tr>
<tr>
<td>Australian beauty is expanding globally</td>
<td>As the Australian BPC market matures, Australian brands are finding new ways to diversify. Australian brands draw on their heritage, born in a pure environment blending modern science with unique local fauna and flora. Such brands are poised to succeed in the international arena where a preference for all-natural ingredients tops consumers’ agendas.</td>
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</table>
The Q3 update as of August 2018 reveals a marginally improved picture in beauty and personal care (BPC) as the economic outlook for the majority of countries remains unchanged. The revisions are built in line with Euromonitor’s Passport Baseline figures, which reference annual data publication as of April 2018.

The forecast value CAGR of the industry was upgraded by 0.1 p.p., resulting in an increase in the anticipated CAGR from 2.7% to 2.8%. This equates to a USD3.1 billion absolute gain, on a USD492 billion baseline growth projection by 2022. Skin care is the largest contributor to the positive upgrade absorbing a third of the absolute value gain and advancing by USD1.1 billion.

Despite rising trade tensions between the US and a number of countries including China and the EU which led to the new tariffs being imposed, GDP projections were improved in the US due to the positive impact of tax cuts on investment and high private sector confidence which contributed to the BPC upgrade, with the US emerging as the largest beneficiary of Q3 upgrade.

Euromonitor International’s Industry Forecast Model shows upper and lower boundaries, calculated according to best- and worst-case GDP macro scenarios for the forecast period. These pessimistic and optimistic scenarios capture the magnitude of potential macro forecast volatility.
Premium BPC is tempting but risky, mass represents more potential

Premium BPC is expected to add USD810 million which is twice as much as mass with the Q3 update. While premium BPC is forecast to post a higher CAGR of 4% compared to just 2.3% CAGR experienced by mass, over the forecast period, premium growth is expected to decelerate while mass on the other hand will accelerate. The premium segment is subject to higher market uncertainty as it relies on GDP to a greater extent in the largest developed markets such as the UK and the US for example, and in a pessimistic scenario the global CAGR might drop to 3.3% while mass BPC will remain more resistant maintaining a 2% CAGR.

The number of political and economic turbulences in core premium markets are among the main reasons for uncertainty in the premium segment. For example, within the largest BPC markets, the UK experienced a downgrade on the back of Brexit uncertainties as consumers are preferring to limit expenditures on premium products.

China, the second largest premium market, which is also expected to be one of the fastest growing premium markets globally looking ahead, at the same time poses the greatest market uncertainty. The forecast positive performance is driven by consumers’ growing purchasing power and millennials who are fond of premium products for their better quality and more fashionable style. As the growth in China is highly reliant on income, with 40% of BPC growth sourced from GDP per capita, in a situation where income could potentially decline, the premium segment will lose USD743 million.
Skin care is back in the spotlight in 2018 after years of make-up reigning over BPC. With the Q3 update, all the skin care subcategories were upgraded with premium anti-agers gaining most followed by premium moisturisers as marginally improved economic conditions projected with Q3 update would allow consumers to increase spending on skin care opting for premium high-quality products.

At the same time, the quest for healthier lifestyles resulted in consumers shifting to prevention and health-focused solutions within skin care. In this regard, dermocosmetics appeals to consumers providing a mixture of prevention and remedy without resorting to pharmaceutical treatments that potentially come with side effects.

Dermocosmetics is looking to capitalise on skin care upgrade and consumers’ growing focus on health-orientated solutions. For example, during the Q2 interim results, L’Oréal announced that its Active Cosmetics division again demonstrated one of the highest double-digit growth rates in the company, driven by La Roche-Posay that innovates with Hyalu B5, and Vichy Minéral 89.

At the same time Rodan+Fields, a dermocosmetics brand that experienced exponential growth in the last few years in the US, received a strategic investment from TPG Capital, the global private equity platform, to finance the next phase of growth as it transforms the skin care industry with its dermatology-inspired skin care products, disruptive consumer-connected commerce model and powerful consultant community.
Urbanisation to sustain longevity of skin protection trend

- During Q3 update skin care experienced the strongest upgrade globally gaining USD1.1 billion. One of the trends that would support skin care sales is consumers’ shift towards prevention and skin protection as they are driven by the idea of maintaining healthy-looking skin from early on to avoid premature ageing. Growing awareness about external aggressors such as harmful effects of sun exposure has resulted in sun protection being one of the most sought-after skin care benefits in 2017, according to Euromonitor’s Beauty Survey. Similarly, anti-pollution claims that have been around for a long time, are gaining more prominence and becoming mainstream within skin care as pollution is known to negatively affect the skin and contribute to premature ageing.

- Thus, in the recent quarter there has been a growing number of launches focusing on anti-pollution claims from brands including Vichy, Bareminerals, Drunk Elephant and thisworks. Anti-pollution is likely to remain on the radar in the longer term and investing in skin care with anti-pollution claims might be a good strategy for companies to capitalise on the lucrative skin care market as the IFM points out that there is a positive long-term relationship between urbanisation and skin care sales. In particular, as the urban population globally is expected to grow, the need for skin care which would protect against one of the biggest problems associated with large cities, pollution, is set to expand positively contributing to skin care value sales.
US jumping on the natural trend benefiting from expanding distribution

- Consumers are increasingly adopting a holistic approach where skin, body and mind are considered as a single entity. With this view, there is greater convergence happening between BPC and other industries, as food and beverage-inspired initiatives, such as the adoption of natural ingredients, vegan and clean labels, for example, are finding reflection within staple beauty categories such as skin care in the US.

- The FDA is not providing any definition to the terms “natural” and “clean” which poses a challenge to US consumers as the absence of legal regulations has resulted in a plethora of brands using those terms with impunity while containing chemicals.

- Sephora, one of the biggest beauty specialist retailers in the US featuring premium brands, is demystifying the beauty choice for consumers with the new initiative “Clean in Sephora” highlighting clean beauty products with the green seal of approval and attracting a range of new brands with clean and natural credentials from Australia. Such initiatives are boosting the skin care category which has seen the biggest upgrade in Q3 benefiting from consumers’ desire to invest in higher-priced clean and natural brands and benefiting from positive developments from retailers.
Inclusivity becomes driving force for colour cosmetics

- Colour cosmetics, which is forecast to be one of the fastest growing categories in the next five years, emerged as the second largest beneficiary of the Q3 update in skin care as the CAGR added 0.2 p.p. to the baseline CAGR of 3.8%. Unsurprisingly the US, the largest colour cosmetics market and home to most cutting-edge innovations absorbed almost half of the colour cosmetics upgrade.

- For colour cosmetics globally and in the US, soft drivers have a significant impact as their weight within total growth decomposition is high, and companies have come up with various initiatives to capitalise on the lucrative market which has one of the highest unmet potentials globally sourced from China, India and the US.

- Colour cosmetics brands are actively embracing inclusivity realising that a one-size-fits-all approach no longer works for consumers, as according to Euromonitor’s Beauty Survey, globally 17% of consumers prefer colour cosmetics with specific benefits/claims compared with 16% that prefer colour cosmetics appropriate for general usage, in 2017. The overwhelming success of Fenty Beauty by Rihanna which features more than 40 foundation shades has set new industry standards with brands such as Dior, Lancôme, Giorgio Armani and Revlon with new “shade inclusive” brand Flesh following suit and launching foundations in 40+ shades.

- Colour cosmetics is also eliminating traditional gender stereotypes shifting the BPC industry boundaries forward to highlight gender inclusivity. Brands such as Milk Makeup and Anastasia Beverly Hills feature both men and women in their campaigns promoting genderless beauty, while Chanel launched the first make-up line for men starting with South Korea, highlighting that beauty is not a matter of gender, but a matter of style.
World Cup not enough to boost consumption in Russia

- The crisis that hit Russia in 2014 continues to negatively affect BPC performance and is expected to limit future growth as well since in the longer term Russians are likely to remain price-sensitive looking for cheaper products that would limit value sales. Nevertheless, Passport Baseline forecasts are showing improving growth for Russia as consumption is expected to slowly recover in future.

- From 14 June to 15 July Russia hosted the FIFA World Cup - the largest event on the footballing calendar. The investments in preparation for the tournament created new jobs building new stadiums and upgrading ageing infrastructure which positively albeit marginally contributed to Russia’s GDP. Besides, extra influx of tourists in Q3 had a short-term positive effect on the challenging economic situation. Overall, the World Cup definitely put Russia into the international spotlight, however it was too short to bring any long-term economic improvements. On the back of this, and most importantly, recovering oil prices, which the Russian economy depends on, BPC experienced marginal upgrade in Q3 with sales being upgraded by USD9.6 million as GDP projections improved.

- Despite crisis and marginal upgrade Russia remains a hotbed for beauty companies and competitive landscape continues to become more fragmented with the plethora of Korean brands appearing in Russia, as well as opening of new specialist retail chain Ile de Beauté, which launched the US cosmetic brand Too Faced.
Truck drivers’ strike bites in Brazil

- Brazil’s economy is expected to gain momentum in the long term as private consumption is forecast to recover on the back of lower inflation. The positive outlook contributed to BPC upgrade as forecast CAGR rose 0.1 p.p. to expected 4.8% growth.

- However, Brazil is still associated with high economic risk and uncertainty as the long-term optimistic outlook is questioned after events in May 2018 when the country was hit by the truck drivers’ strike against rising fuel prices. As a result, the main roads were blocked preventing the delivery of goods to consumers, which cost the Brazilian economy around 0.2% in gross domestic product terms in 2018, according to the government. In addition, the general election scheduled for October 2018 is adding uncertainty to the country’s future.

- In relation to the truck drivers’ strike, major BPC players in Brazil immediately reported losses in their latest interim results. Unilever reported below expectation half-year growth and it “estimates that the impact of the strike in Brazil was around 60 basis points in first half growth”. In its Beauty & Personal Care division, the company mentions that sales of hair care and deodorants were most exposed to events. Similarly, Procter & Gamble reported in the latest quarterly release that “the worst transportation strike in more than 20 years has shut down shipments for two weeks”.

- Avon also reported quarterly losses estimating that the truck drivers' strike reduced constant dollar revenue by approximately 1% with reduction in the number of sales representative at the same time. The newly appointed CEO is expected to turn around this negative trend for Avon, which relies heavily on Brazil as one of its major markets.

- In contrast, Natura Cosméticos, the BPC market leader in Brazil and the largest local beauty company, reported resilience to the truck drivers’ strike in May, with sales also being positively affected by Mother’s Day. As Natura continues to strengthen its positions with The Body Shop acquisition, it is likely to be the main beneficiary of the positive BPC upgrade in Q3.
Trade war disrupting BPC space in the US, the EU and China

- The Trump administration in the US imposed tariffs on a number of industries and countries including China and the EU, and as a result, China and the EU hit back imposing tariffs of up to 25% on US goods which include some BPC products among others. In light of the escalating tensions, the probability of a Major Trade War scenario between the US, China and several other Asian countries, Canada, Mexico and the EU was increased by Euromonitor International to 17%. In a Major Trade War scenario, BPC in China, the US and the EU is expected to remain resilient as markets would not lose much according to Euromonitor International’s Industry Forecast Model (IFM).

- Nevertheless, tariffs put pressure on American companies in China and EU that might need to increase product prices at a certain point to mitigate the effect of rising costs. And while in its latest interim report Estée Lauder’s management said that the company is “doing [its] best” to avoid price increases related to existing or potential tariffs, the situation might change if the geopolitical tensions escalate.

- International companies importing to the EU and China from the US may choose to produce and export goods from other countries avoiding operations through the US. For example, Sephora is no longer shipping goods from the US to the UK, instead all orders are delivered from France. There is also high probability that in such an environment local brands might replace US ones especially in China where local brands are in a strong position and have consolidated share in the last five years incorporating local heritage at affordable price points. However, the UK Cosmetic, Toiletry & Perfumery Association warned that EU cosmetics sector has significant reliance on US imports which would be hard to replace.
Australian beauty is expanding globally

- The Australian BPC market is expected to post a CAGR of 2.5% over 2017-2022 with minor growth improvement of less than 0.1 p.p. in the Q3 update. However, in the next five years BPC growth in Australia is expected to marginally slow down since the market is becoming more saturated with limited unmet potential, and Australian brands are eyeing international expansion starting with the US where their presence is already becoming more prominent as they entered Sephora.

- Arguably pioneers of the “natural” movement, Australian brands blend modern science with unique local fauna and flora in product formulations. These brands are poised to succeed in an international arena where preference for all-natural ingredients in skin care for example is high, according to Euromonitor’s Beauty Survey. Originating in Australia, Aesop has seen double-digit growth every year since 2012 proving that the Australian beauty approach based on simplicity and ingredient purity appeals to global consumers and A-Beauty is poised to receive recognition similar to K-Beauty and J-Beauty.

- Along with the US, China and India represent lucrative opportunities for A-Beauty as both countries have the highest preference for natural ingredients and the largest BPC unmet potential. However, when considering India for potential expansion one needs to take into account the challenging economic situation which prevents the country from realising the unmet potential.
**Italy to follow the UK in attempts to leave EU family?**

- Brexit uncertainty is hitting the UK in Q3 as the real GDP growth forecast has been downgraded and the BPC 5-year projected growth deteriorated marginally by less than 0.1 p.p. The probability of a No-Deal Brexit scenario was increased to 43% in Q3 presenting a marginal threat to the BPC market in the UK, which would incur losses on the back of inflationary pressures resulting from rising labour costs and low consumer confidence depressing spending growth.

- However, it is not only Brexit that is shaking the EU, but also the probability of Italy exiting the EU after the election of populist party in Italy. The scenario of Eurozone recession allows to estimate the impact of Italexit on BPC performance as one of the assumptions for this scenario is that Italy and Greece exit the EU. Similar to Brexit, a Eurozone recession scenario shows that BPC in Italy will remain resilient towards shock incurring only marginal loses.

- In the cases of both Brexit and Italexit, in both countries premium BPC would lose most of all as its performance is heavily dependent on per capita income. For example in its Q2 interim results, L’Oréal reported that the luxury market went down comparatively to the previous year as consumer confidence declined and they preferred to restrict luxury purchases. Another reason is that the number of tourists seeking premium products declined as the pound appreciated and prices for luxury goods in the UK were aligned with the rest of the world.

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**Implications of No-Deal Brexit Scenario for the UK**

**Implications of Eurozone Recession Scenario for Italy**
Economic reforms benefit Egypt but old consumption habits are hard to break

- In Egypt, BPC gained the most in terms of the growth rate as the baseline CAGR of 3.3% was updated to 4%. Positive performance comes as Egypt starts feeling the effect of economic reforms that were launched more than a year ago.

- Depilatories has seen the biggest upgrade as with improving economic conditions consumers are expected to trade up to more expensive products. At the same time, the population, one of the biggest drivers within depilatories growth decomposition, is expected to expand at a high rate in Egypt with an increasing number of women and teenagers, which supports volume growth.

- Habit persistence, which shows the effect that growth in a previous year has on subsequent years, significantly impacts BPC growth in Egypt as all the categories are highly elastic, reflecting the notion that old consumption habits are hard to break. People are generally creatures of habit and the years of economic hardship made Egyptians economise on sun care as awareness about the necessity of product usage remained low. Brands are working hard to break these old habits by launching intensive campaigns to increase awareness regarding the necessity of skin protection against harmful UV exposure. In addition, positive soft drivers such as product variety with growing availability of sun care across all price ranges are expected to stimulate demand even from consumers with the lowest income levels.
In a highly competitive BPC marketplace, major players are increasingly losing their positions to new disruptive brands that are often characterised by direct conversation with consumers, and focus on developing niche and highly specialised products. Thus bigger players are evaluating their strategies, and are pursuing mergers and acquisitions that drive faster value creation, and expedite access to new consumers, markets, distribution channels, and expertise with Q3 2018 seeing a number of billion dollar M&A deals.

Unilever has acquired a majority stake in Equilibra, which has a growing presence in the natural BPC segments, offering skin care and hair care ranges. It is also one of the leading players within nutritional supplements in Italy, which reflects Unilever's intentions to extend the proposition in the lucrative wellbeing space adopting a holistic approach by offering ingestible and topical beauty products.

L'Oréal made a series of acquisitions starting with Stylenanda, a South Korean make-up brand that would help to strengthen L'Oréal's positions in Asia. Next, L'Oréal extended its portfolio with Pulp Riot, the US-based professional hair colour brand which will expand L'Oréal's presence in the digital space. The addition of German natural beauty company Logocos Naturkosmetik AG, which operates across hair care, skin care and colour cosmetics, secures L'Oréal's position in the natural beauty space.

Procter & Gamble added First Aid Beauty, a solution-based “serious” skin care brand targeting skin concerns such as ageing, acne, dryness, dullness and redness to its portfolio. Under P&G, First Aid Beauty will be able to increase its global footprint operating as a wholly-owned subsidiary.
# Conclusions: Q3 prospects in global BPC

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<tr>
<td>Unchanged economic outlook brings minor upgrade to BPC</td>
<td>• The global and regional GDP growth figures suggest a largely unchanged economic outlook which turned beneficial to BPC performance that added 0.1 p.p. to projected CAGR.</td>
</tr>
<tr>
<td>US is the main source of positive revisions</td>
<td>• Despite the escalation of trade protectionism triggered by the Trump administration, the US emerges as the largest beneficiary of the Q3 upgrade on the back of tax cuts that have had a positive impact on the economy as well as high private sector confidence.</td>
</tr>
<tr>
<td>Probability of Major Trade War scenario rises</td>
<td>• The probability of a Major Trade War scenario between the US, China and several other Asian countries, Canada, Mexico and the EU has increased, however the BPC market will remain resilient as companies are expected to look for strategies to mitigate the effect of imposed tariffs.</td>
</tr>
<tr>
<td>Outlook for Russia remains gloomy</td>
<td>• The crisis that hit Russia in 2014 continues to negatively affect BPC performance. Rising oil prices as well as the positive short-term impact from hosting the FIFA World Cup were not enough to re-energise consumption in Q3.</td>
</tr>
<tr>
<td>EU at risk of losing another member</td>
<td>• The election of a populist party in Italy has put the future of Italy within the EU under consideration. The probability of Italy following the UK in an attempt to leave the EU leaves BPC resilient with premium BPC absorbing marginal growth deceleration.</td>
</tr>
</tbody>
</table>
Q1 IN BEAUTY AND PERSONAL CARE

APPENDIX
About Euromonitor International’s Industry Forecast Model

- The Industry Forecast Model is a new tool from Euromonitor International that integrates intuitive, judgment-based forecasting with the quantitative techniques of an econometric Industry Demand Model.
- The Industry Demand Model assesses the relationships between several historic quantifiable independent variables (demand drivers) and historic retail volume sales for different markets that Euromonitor International tracks.
- In identifying these relationships, the model estimates elasticities for each statistically significant demand driver, including income growth, changing retail prices, demographic trends and retail channel trends.
- Multiplying these elasticities by corresponding year-on-year growth forecasts for each demand driver allows the Forecast Model to build annualised retail volume and value forecasts for a market in a given year.
- While estimated demand driver elasticities are constant, forecast demand driver growth can change over time. For example, forecast GDP growth for a given year is regularly upgraded or downgraded in Euromonitor International’s Macro Model to reflect changing economic and socio-political conditions.
- In turn, changing only forecast growth for GDP in this example allows the Beauty and Personal Care Forecast Model to create multiple retail forecasts that capture the impact of these changing macroeconomic conditions.
Growth decomposition explained

- To help understand and illustrate the impact of each demand driver to a market’s retail growth performance and prospects, Euromonitor International employs a graphical tool called “growth decomposition”.
- The fundamental idea behind growth decomposition is that a product category’s retail sales performance and future prospects can be explained through changes in underlying demand factors.
- As explained above, the impact of demand driver change to a retail market sales can be calculated by multiplying a demand driver’s observed elasticity by that demand driver’s rate of change over a period of time. Multiplying demand driver elasticity by forecast demand driver growth yields the percentage points of overall retail growth that that specific demand driver is contributing to the market forecast under review.
- In addition, Euromonitor analysts estimate the impact of “soft drivers” to overall retail growth via their empirical research. The relative impact and importance of “soft drivers” can be shown alongside that of the measurable demand drivers identified by the Industry Demand Model.
- In the growth decomposition visual below, the percentage points of growth that each demand driver is contributing to overall market growth are illustrated in the coloured segments of the stacked bar charts.
**APPENDIX**

**Soft drivers and the Industry Forecast Model**

- The power of Euromonitor International’s forecasting methodology is that it blends statistical modelling with local market observations reflecting local industry consensus. As such, retail market forecasts also rely on the insights and expertise of Euromonitor’s global analyst network. Euromonitor analysts work closely with the Industry Demand Model to ensure that it remains consistent with their empirical observations, guaranteeing that quantitative and intuitive expectations fully complement each other.

- Euromonitor analysts also capture all the demand drivers beyond the scope of the Industry Demand Model. These “soft drivers” remain critical to future retail sales, but are either fundamentally unquantifiable or have no globally comparable data with which to measure them.

- Soft drivers are captured and measured exclusively by empirical research from Euromonitor analysts, and their overall positive or negative impact is estimated on top of the results of the Industry Demand Model.
Significance and applications for growth decomposition

- By attributing a fraction of overall retail growth to each contributing demand driver, overall category growth can be “decomposed”. In doing so, an extensive picture of underlying market fundamentals and processes on a category-by-category and country-by-country basis can be provided.

- Ultimately, growth decomposition allows Industry Forecast Model users to:
  - Identify different demand drivers that affect historic sales, and will likely impact future market prospects;
  - Evaluate the relative importance of different demand factors over time and then identify which factors generate the highest deviations in historic - and ultimately future - consumption;
  - Illuminate the underlying market dynamics for each product category;
  - Measure and predict the effects of demand driver shocks, either expected or hypothetical;
  - Facilitate scenario analysis by generating understanding of which demand factors can be influenced by a manufacturer or retailer, and which are beyond their control.

Retail Volume Sales, '000 tonnes, 2011 - 2019 CAGR %

- **Russia - Baby Food**
  - **Retail Volume Sales Growth:** Quarterly Update
  - **Driver Effects:**
    - GDP per Capita
    - Product Price
    - Habit Persistence
    - Population
    - Demographics
      - (Baby/Infants; Population Aged 0-2)
    - Market Environment
      - (Convenience Stores; Grocery; Outlets)
    - Soft Drivers

Retail Volume Sales, '000 tonnes, 2011 - 2019 CAGR %

- **India - Ice Cream**
  - **Retail Volume Sales Growth:** Quarterly Update
  - **Driver Effects:**
    - GDP per Capita
    - Product Price
    - Habit Persistence
    - Population
    - Demographics
      - (Kids; Teenagers)
    - Market Environment
      - (Convenience Stores; Selling Spaces; Grocery; Outlets)
    - Soft Drivers
      - (+ Availability; + Competition; + Consumer Awareness
       + Promotion; - Lifestyle trends; - Maturity of sector)
Key applications for Industry Forecast Model

1. Quarterly Forecast Restatements
   - Regularly updated retail market forecasts to reflect latest macro expectations (e.g., quarter-on-quarter real GDP growth revisions) for all markets.

2. “What If?” Scenario Analysis
   - See and compare how a hypothetical event (e.g., Eurozone recession, China hard landing, Brexit) stands to impact different market forecasts.

3. Growth Decomposition and Demand Driver Elasticities
   - Understand, compare and respond to the forces driving expected market growth across different product categories and countries.

4. Assess Market Potential
   - See the ceiling on retail volume or value sales and growth, regardless of a specific forecast scenario. How much more can that market really grow?
FOR FURTHER INSIGHT PLEASE CONTACT

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