ASHLEIGH BARKER, ALFREDO BARRETO, JR. AND ERIC PERLMUTTER-GUMBINER SHARE INSIGHTS ON THE BUSINESS OF BEAUTY, FASHION AND CONSUMER GOODS

The **Beauty, Fashion & Consumer Goods Roundtable** is produced by the L.A. Times B2B Publishing team in conjunction with Greenberg Glusker LLP, Lincoln International and Objective, Investment Banking & Valuation.

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Many of the leading products and services behind keeping people living well while looking and feeling good are from businesses and organizations that were started and continue to thrive here in Los Angeles and the surrounding areas. In fact, successful beauty and self-care companies are catalysts for significant economic growth in the region.

Indeed, when it comes to the ever-evolving beauty, fashion and consumer goods industries, Southern California remains a prominent global leader in terms of trends, innovation, sustainability and protocols.

As the legal and financial landscape around fashion, beauty and consumer products continues to adjust and shift, an increasing number of consumers, businesses and investors are tasked with navigating an often complex set of rules and best practices. As with any consumer-facing industry, learning about the ins and outs of the sector can be overwhelming.

To take a closer look at the latest developments and trends in the business of beauty, fashion and consumer goods, we have turned to three of the region's leading authorities, who graciously weighed in for a discussion and shared insights.

Q: HOW WOULD YOU DESCRIBE THE CURRENT OUTLOOK(S) FOR THE BEAUTY, FASHION AND CONSUMER GOODS SECTORS IN 2024?

A: Perlmutter-Gumbiner

The outlook is dynamic, adapting to evolving consumer preferences and building an omnichannel customer base. Brands that can create unique value propositions for their customers, stay ahead of trends and create a variety of exciting SKUs are likely to thrive. The beauty, fashion and consumer goods sectors are built on the resilience seen in consumer spending despite macroeconomic challenges. Both luxury and discount brands are likely to perform well, driven by continued consumer demand and a reduction in geopolitical and supply chain disruptions.

A: Barker

I'm optimistic about the outlook for beauty. While broader consumer discretionary has no doubt felt pressure amid the current macroeconomic backdrop (high interest rates, geopolitical tensions, uncertainty around upcoming presidential elections), the beauty of the beauty industry is the consumer's inherent desire to invest in their well-being and find those small joy-factors, whether that is in the form of a new lipstick, a new skincare serum, hair growth supplement or fragrance that reminds us of a memorable vacation. Yes, consumers have become more selective with their purchase criteria, but the underlying fundamentals driving the beauty and personal care industry will continue to demand a share of consumers' discretionary income for the foreseeable future.

A: Barreto

The outlook for the beauty, fashion and consumer goods sectors in 2024 reflects both resilience and challenges. Despite a dip in the University of Michigan's Consumer Sentiment Index to 68.2 in June, U.S. consumers continue to increase spending, even amid rising inflation, high interest rates and depleted savings. The Index, which surveys 500 households monthly, reflects consumer optimism about the economy and their personal finances. A strong labor market and wage growth, which has outpaced inflation, have bolstered purchasing power. Strategic acquirers are seeking growth through acquisitions, particularly in luxury and better-for-you, healthy brands, which benefit from consumer shifts toward premium products and health-conscious purchases. Despite challenges, the sectors continue to show potential for growth and acquisition opportunities.

Q: WHAT ARE SOME OF THE KEY TRENDS DRIVING GROWTH IN THE BEAUTY INDUSTRY TODAY?

A: Barker

Several trends are driving growth in beauty with a consistent theme of blurred categories seen throughout. One is the convergence of skincare and cosmetics, with consumers favoring makeup products infused with SPF and ingredients such as vitamin C and hyaluronic acid, reflecting a broader desire for multifunctional products that simplify routines while enhancing skin health. Another trend is the "skinification" of hair and scalp, driven by haircare products formulated with peptides and other nutrients that support hair growth and improve scalp health, highlighting a focus on holistic beauty and treating the scalp as an extension of one's skin. Body care has also undergone an awakening, particularly with the destigmatization of the "taboo" – products that treat body issues no one wants to talk about but everyone faces and points to consumers' desire to invest the same care in the skin below their necks as they do above.

Q: HOW HAS THE CONSUMER SHOPPING PROCESS CHANGED IN RECENT YEARS AND HOW DOES THAT AFFECT THE INDUSTRY?

A: Barreto

In recent years, the consumer shopping process has shifted toward digital platforms, with e-commerce and mobile shopping becoming dominant. Consumers now expect seamless, personalized experiences across multiple channels, driven by AI and data analytics. Social media and influencer marketing have also influenced purchasing decisions, making brand engagement and online presence critical. Convenience, speed and sustainability are now top priorities, with customers preferring fast deliveries and eco-conscious products. For the industry, these changes demand agility and innovation. Retailers must invest in digital infrastructure, enhance customer experience through personalization and maintain strong social media engagement. Brands that adapt to these trends by embracing omnichannel strategies, offering eco-friendly options and leveraging data to meet customer expectations will stay competitive in this rapidly evolving landscape.

A: Barker

Amid the economic backdrop, there is a shift toward conscious consumption with consumers making more informed and intentional purchase decisions underscored by the demand for convenience and immediate gratification. Access to information has enabled consumers to seek products that are personalized to their specific needs vs. a "one size fits all" approach. With information comes the ability to be more selective, favoring quality over quantity or trends of the moment. The demand for immediate gratification – spurred by online sellers that enable consumers to discover, purchase and receive products all in the same day – has led to the development of social commerce platforms that play a meaningful role in how consumers discover, engage and are ultimately influenced to purchase new products.

Q: ANY NEW TAX-RELATED CONSIDERATIONS THAT CONSUMER GOODS COMPANIES SHOULD BE AWARE OF?

A: Perlmutter-Gumbiner

It has been around for a long time, but QSBS (Qualified Small Business Stock) tax planning is not talked about enough for early-stage consumer goods companies. If structured correctly, QSBS allows for up to 100% exclusion of federal capital gains on the sale of stock, up to $10 million or 10 times the adjusted basis (up to $500 million in excluded gains). To qualify, the company must be a C-corporation and meet certain requirements, including

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>
> \- Ashleigh Barker

staying below $50 million in gross assets at the time the qualifying shares were issued. For beauty and fashion startups, early tax planning is key as there are structural moves your attorney and tax accountant can make to help founders and early investors shield as much money as possible from tax.

Q: WHAT DO INVESTORS LOOK FOR IN A HEALTH, BEAUTY OR CONSUMER GOODS COMPANY THESE DAYS?

A: Barker

Investors are looking to make bets on the brands they believe will still resonate, not in five or 10 years, but 20 years from now. Beauty brands positioned around a core offering or benefit that still find ways to innovate on new delivery formats or demonstrate tangible results and claims backed by clinical evidence that proves products deliver on their promises will be most successful in capturing investor interest. Distribution and financial stability are two focus areas. Omnichannel distribution has become increasingly important as it enables a brand to get in front of more consumers to drive discovery and trial. It also demonstrates proof points around their viability to survive in a noisy retail market. Brands can no longer subscribe to a "growth at all costs" mentality and must demonstrate their ability to capitalize on cost efficiencies and drive consistent, profitable returns without compromising growth.

A: Barreto

Investors and acquirers alike are increasingly focused on companies in the health & wellness, beauty and consumer goods sectors that not only exhibit strong brand loyalty and align with trends like sustainability and premiumization but also have a great organizational structure. A strong leadership team, particularly at the head of customer acquisition and customer success, is crucial for driving growth with a clear value proposition and ensuring long-term consumer loyalty. Financials that demonstrate profitability and a growth trajectory are essential. Acquirers also look for additional revenue lines or potential synergies that can be unlocked post-transaction as well as scalable operations and resilience to economic pressures. Companies that embody these qualities are highly sought after in today's market.

Q: WHAT IS YOUR PROJECTION FOR BRICK-AND-MORTAR RETAIL IN THE CONSUMER GOODS SPACE MOVING INTO THE NEXT FEW YEARS?

A: Barker

Brick-and-mortar (B&M) retail has undergone meaningful shifts over the last decade from the department era to the emergence of specialty retailers and more recently the disruption of digital and social commerce, changing the way consumers discover, shop and interact with their favorite brands. However, while digital commerce makes it possible for consumers to discover, shop and receive a shipment of said product in the very same day, B&M will continue to play a crucial role as the experiential hub that allows consumers to truly experience products

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>
> \- Alfredo Barreto, Jr.

up close. The aim of B&M should not be to replicate the online experience but to find innovative synergies that expand one's reach, i.e. bridging physical and digital shopping by delivering more immersive experiences that online platforms can't replicate, incorporating augmented reality mirrors to try products on or skin consultations powered by AI.

Q: WHAT ARE SOME OF THE BIGGEST MISTAKES THAT CONSUMER GOODS COMPANIES MAKE, PARTICULARLY WHEN PREPARING TO SELL THE BUSINESS?

A: Barreto

One common mistake consumer goods companies make when preparing to sell is inadequate preparation. Many underestimate the time needed to clean up financials, streamline operations, and resolve legal or compliance issues, which buyers expect in a well-run business. Another issue is failing to document and protect intellectual property and brand strength, which are often key drivers of value. Without proper protection, trademarks or proprietary processes may diminish the company's appeal. Additionally, companies overly reliant on a few customers or suppliers face added risk. Diversifying these relationships before a sale can be crucial. Lastly, poorly tracked operational metrics like inventory turnover, margins and cash flow can erode buyer confidence, so consistent KPIs and transparent financials are essential.

Q: WHAT ARE THE PROS AND CONS OF BEING BASED IN LOS ANGELES OR SOUTHERN CALIFORNIA IN 2024?

A: Perlmutter-Gumbiner

I think there is no better city or region in the world to base a fashion or beauty company than Los Angeles and Southern California. The "pros" include access to a vibrant creative community, including everything that Hollywood has to offer, a wealth of young talent from the region's top tier universities, immediate exposure to the latest trends and a diverse home market to easily test products and innovations. The "cons" may include high costs of living and doing business and regulatory complexities (although any company that sells in California will be subject to a number of those).

A: Barreto

Being based in Los Angeles or Southern California in 2024 offers distinct advantages and challenges. *Pros*: The region has a high concentration of consumer and wellness companies, creating a vibrant ecosystem for collaboration, partnerships and access to specialized talent. Southern California's diverse population provides a broad consumer base, making it ideal for testing products and trends. Additionally, proximity to key international markets, particularly Asia and Mexico, enhances global trade opportunities. *Cons*: On the downside, the high cost of living and doing business, including rising rents and wages, can reduce profitability. Traffic congestion and logistical challenges also pose operational inefficiencies, especially for supply chain management. Finally, California's regulatory environment can add layers of complexity to business operations.

Q: WHAT DO YOU PROJECT WILL BE SOME OF THE KEY CONSUMER TRENDS THAT BEAUTY INDUSTRY ORGANIZATIONS WILL NEED TO GET AHEAD OF IN THE COMING YEARS?

A: Barker

Whether it is digital transformation, consumer demand for personalized experiences and the ever-evolving shift in the retail landscape, consumers are investing their wallet share in brands that align with their values, such as those committed to sustainable, cruelty-free practices and ingredients that are not just better for the consumer but also better for the environment. While keeping these factors in mind, it's important that beauty companies stay focused on their core capabilities and don't try to become everything to everyone, understanding that few success stories are built overnight, rather it takes patience and careful strategic planning.

Q: LOOKING AHEAD, ARE THERE ANY SPECIFIC TRENDS THAT CONSUMER GOODS COMPANIES FROM MANUFACTURING TO RETAIL NEED TO CONSIDER?

A: Barreto

A key trend reshaping the consumer goods industry is the decoupling of manufacturing from China, driven by rising labor costs, geopolitical tensions and supply chain disruptions. Mexico is emerging as a viable alternative, offering proximity to the large U.S. market, cost efficiencies and trade advantages under the USMCA. This shift requires companies to rethink supply chain strategies, emphasizing nearshoring and diversifying production locations to minimize risks. From manufacturing to retail, consumer goods companies must also focus on sustainability, digital transformation and evolving consumer preferences. Demand for eco-friendly products, personalized shopping experiences and faster deliveries is growing. Businesses need to invest in digital platforms, supply chain transparency and omnichannel strategies to meet these expectations. Additionally, reshoring or nearshoring can improve resilience against future disruptions, reduce transportation costs and enable faster response times to market shifts.

Q: HOW IMPORTANT IS LABELING IN THE BEAUTY AND FASHION WORLD?

A: Perlmutter-Gumbiner

Accurate, transparent labeling is crucial, especially as consumers become more knowledgeable about ingredients and sustainability. Labels need to convey product benefits clearly while meeting regulatory requirements. This is especially important for beauty companies in California where plaintiff's attorneys are always lurking and looking to make claims against companies that are not in compliance with Proposition 65 or the California Department of Public Health's labeling requirements. While a legal review of beauty products may not be top of mind, a quick review by counsel can save major headaches down the road.

Q: WHAT ADVICE WOULD YOU GIVE TO A MID-MARKET HEALTH & WELLNESS, FASHION OR CONSUMER GOODS COMPANY LOOKING TO SELL TO A PRIVATE EQUITY OR STRATEGIC BUYER IN 2024/2025?

A: Barreto

For mid-market health & wellness, fashion or consumer goods companies looking to sell to private equity or strategic buyers in 2024/2025, focus on presenting a strong, scalable growth story. Buyers seek companies with resilient revenue streams, solid margins and clear market differentiation. Invest in digital transformation, including e-commerce capabilities and data analytics to showcase your adaptability to changing consumer trends. Highlight any efforts towards sustainability, as ESG (Environmental, Social, Governance) factors are increasingly important

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to buyers. Operational efficiency and a robust supply chain are also critical, especially with ongoing global disruptions. Ensure your financials are well organized with clean records and projections that demonstrate growth potential. Additionally, consider professionalizing management and processes, positioning the business for a smooth transition post-sale. Engage with experienced advisors to guide you through the process – from valuation to deal structuring – to maximize value and attract the right buyer.

Q: WHAT DO INVESTORS LOOK FOR IN A HEALTH, BEAUTY OR CONSUMER GOODS COMPANY THESE DAYS?

A: Perlmutter-Gumbiner

Focus on building a strong, unique brand and demonstrate scalability. Clearly articulate your value proposition and product market fit. When meeting with potential investors, you should have a clear vision of your business goals, your growth strategy and how that specific investor is the best fit to get you there, whether that is help with the supply chain, access to a specific retailer or assistance in building out the management. Most importantly, make sure that the investor's expectations are aligned with your own on success and timing.

A: Barker

The current market has been challenging for early-stage brands seeking growth capital, particularly those in discretionary sectors like beauty and fashion. There is still significant dry powder that investors are eager to deploy, but risk appetites are lower and the thresholds to get a deal done are at all-time highs. To founders: Consider what you're solving for to attract value-add investors. Beyond capital itself, value comes in many forms, i.e., access to distribution networks, new capabilities, prior experience with CPG companies that have pursued a path to exit and the right set of terms. Founders should be clear about their vision for the future of their company and the role they intend to play, ensuring they align themselves with a partner who shares their vision, believes in the mission or purpose of the brand and has full confidence in the team executing the growth strategy.

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