Future M&A Trends and Drivers Across the Personal Care Value Chain

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M&A momentum of 2010 carried and grew for most of 2011 …

Increase in Deal Flow

- Strategies are increasingly focused on growth
- Growing number of properties came to market
- Investment in resources to pursue/execute strategy
- Significant capital is available

The growth in M&A continues to be driven by a shift in strategy from cost management to a focus on growth

The vast majority of our clients are focused on growth

- The approach of most is a combination of internal growth and acquisition
- Few look at acquisition as the sole means to growth

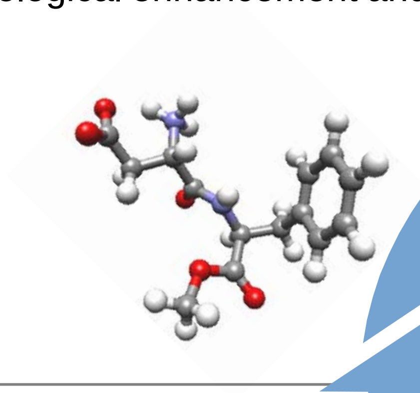
2 primary objectives of acquisition

Grow share of existing business

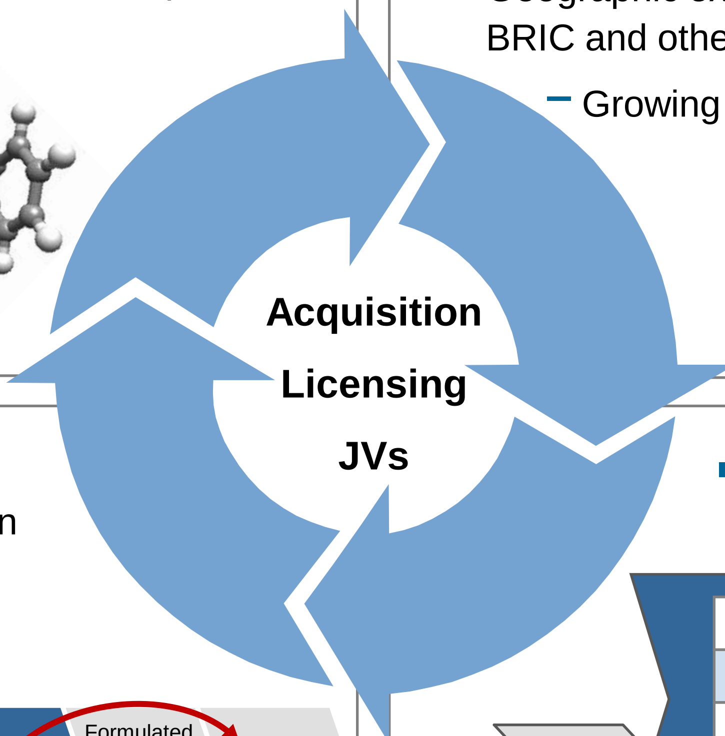
Gain access to:
- New/adjacent markets and geographies
- Products and technologies

A wide range of strategic options are evaluated

- Technological enhancement and expansion

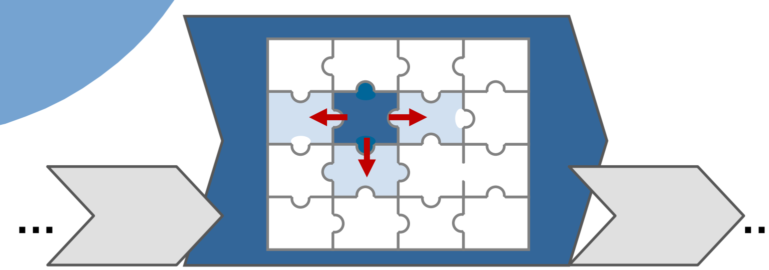


- Geographic expansion, particular focus on BRIC and other emerging markets
  - Growing interest in Africa



- Repositioning on value chain; renewed interest in distribution

- Product and market adjacencies



For most of the year, a growing number of properties came to market

2011 Market Recap

- Increasingly a sellers' market
- EBITDA multiples escalating
- Strategic shift in focus/portfolio management
- Post integration spinoffs; mandated divestments
- Distressed assets/financial restructuring
- PE funds seeking to monetize investments; generate returns for LPs

Companies are investing in resources to pursue/execute strategy

2011 Resources Trend
■ Reestablishing or reenergizing corporate development function at strategics ■ Greater recruiting of successful deal origination teams at PEs and deal execution teams at strategics ■ Changing chairs – experienced, proven growth leaders heavily recruited by both strategics and sponsors ■ Funding made available for growth and diversification focused consulting

Significant capital is available

Many strategics with greatest amount of cash on balance sheet in decades

- Used to fund growth by investing in current businesses or acquiring share or new/adjacent businesses
- Invest or capital will be used by acquirer to reduce debt incurred

Billions in PE capital needs to be invested

- Have seen figures as high $800 billion in the US to $2 trillion globally
- New funds being raised are often oversubscribed
- Sponsors need exits to generate returns to LPs to provide new funds with a higher probability of success new funds

Lending environment improved during year but showing signs of tightening

- Equity investment requirements decreasing
- Hurdles and availability significantly different in Europe vs. US

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Despite all of this, 2011 did not fully live up to expectations

2011 Recap

- US deal flow was good, but much lower than expected/hoped for elsewhere
- Quality of properties improved, but fewer high quality properties were marketed
  - Properties pulled off market for variety of reasons

Difficulties Observed

- Availability of credit was tighter ex-US
- Misalignment of sellers vs. buyers expectations
- Problems with integration
  - Consumed more time than expected
  - Distracted resources from identifying and pursuing more acquisitions

In Q4 2011, we saw even more signs that the environment is changing

?

Deal Flow

- Deal pipeline not as robust
- Slowdown in completed deals
- IPO issuance down dramatically
- Financing getting tighter, lenders more demanding

Yet, we are cautiously optimistic about 2012 deal flow. . .

PE Firms	Mid-sized Companies
▪ Continued pressure to do deals ▪ Renewed interest in chemicals ▪ Fewer megadeals ▪ Mostly mid-market and bolt-ons ▪ More frequent roll ups	▪ Will continue to consolidate; some megadeals ▪ Mostly mid-market and bolt-ons ▪ Limited number of global majors & many regional and local players

- Very competitive → Speed to action essential
- In some instances, sellers' expectations temper and come into better alignment with buyers
- Ability to identify and close true, value creating opportunities

. . . especially in the chemicals space . . .

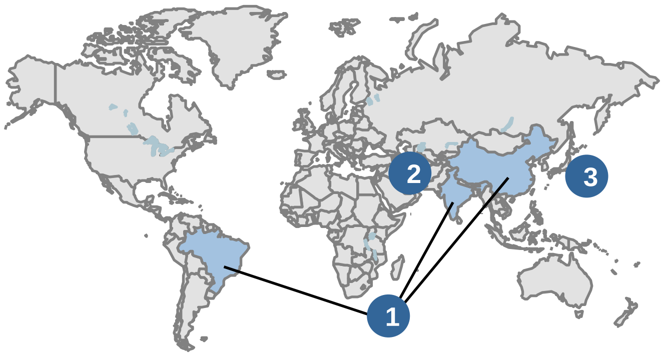
Industry in an Up Cycle, Believed by Many

- Notable earnings improvement and dividends
- Driving increase in deal flow
- Ownership looking to exit as business and multiples improve
- Strategics focused on portfolio optimization – value added, less commodities
- Broader landscape and value chain coverage
- Ceding/selling business to players in emerging economies
- Less about integration plays – leaving that to emerging players
    - Spin offs increasing due to tax advantages

Continued Consolidation

- Industry consolidation will continue leading to a barbell industry and segments
    - Smaller deals, fewer midsized companies available
- Clients approach us on much broader array of topics beyond DD

Geographic Shift



1. Greater interest in emerging economies (BIC) – inbound and outbound
2. ME oil money looking for value creating investment
    - Some suggest that companies in the emerging economies and ME will account for the majority of large global chemical companies; today only a few are viewed as such
3. Japan becoming more active

. . . and personal care in particular

Personal Care Industry Characteristics

- Still viewed by many as a less cyclical and fairly resilient space
- Seen to offer greater opportunity to create value, especially in natural products
- Broader plays across value chain
  - Formulation and distribution of increasing interest
- Target rich environment for boltons
  - Smaller, privately held companies
  - Finding platform investments has become more challenging

As companies continue to review and optimize their portfolios, we expect that a growing number of assets – attractive businesses – will be deemed non-strategic and come to market

Investment agendas and philosophies for strategics and financials are markedly different

Strategics

- Clear support of mid- to long-term strategy, with acquisitions frequently and publicly stated as important driver of revenue growth and value creation
- Increase/diversify geographic footprint and level of participation in value chain
- Bolt ons and adjacencies
- Asset light
  - Technology
- More readily justify larger deals
- Drive integration, often with large scale reorganization, and realization of synergies
- Often stated aversion to transformational acquisitions, affirmed by fewer megadeals

Financials

- Short/mid-term focus
- Bolt-ons for current portfolio companies
- New platforms; buy and builds
- Moving up and down value chain
- Greater activity in middle market; fewer mega deals vs. strategics
- PE to PE flips
- Frequently invest side-by side with management; fewer large scale reorganizations
- Performance improvement often a route to creating value

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A number of challenges must be dealt with

Economic Concerns in the US and Europe

- Sovereign debt crisis in US and Europe
- Concerns of reemergence of recession in Europe
- Deals taking much longer to close
- Further tightening in lending environment, especially in Europe
- Buyers and lenders requiring much more diligence; our analyses are now regularly included in package for lenders

Mismatched Expectations

- Continued increase in multiples; conflict between buyers and sellers expectations
  - Sellers holding out for unrealistic prices made worse by all the capital available
  - Good properties fall off market due to poorly run process or catastrophic unexpected events

Changes in Industry Landscape

- The number of megadeals is expected to either remain the same or decline
  - Few transformational acquisitions
  - Ability to justify
  - Valuations and fear of taking on too much debt
  - Longer time to close and realize impact
- Growing favor for smaller deals
  - Larger number of targets
  - Faster close; easier to integrate
  - Lower cost and risk
  - Quicker impacts
  - Further increase in competition and sellers' expectations

Performance Improvement

- At times, little room to maneuver on performance improvement, especially for PE to PE flips

Cross border deals are especially challenging, regardless which side of the table you are on

- Issues go well beyond difference in languages
  - Culture
  - Demographics
  - Accounting techniques and valuation
  - Import tariffs and taxation

- Better to understand and customize process and management systems for geography rather than force fit on a global basis – especially is areas of high growth risk or inflation

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