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# California Dreamin': 10 Brands to Watch

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California Dreamin'
*Photo By pPhoto illustration by Barbara Sullivan; surfer photo by Epic Stock Media; Palm trees by Locote*

California is nicknamed the Golden State, but for beauty brands, a better moniker might be the Green State. Beauty conglomerates and private equity firms are pouring cash into California at an unprecedented rate. L'Oréal is perhaps the state's biggest beauty sugar daddy. In less than two years, it bought three Southern California brands: NYX, Baxter of California and Urban Decay. But it's hardly alone. The Estée Lauder Cos. nabbed Smashbox, Coty Inc. snapped up OPI Products Inc., Henkel AG added Sexy Hair Concepts earlier this year and the list goes on.

What's behind the great innovation machine that is California? "It's in the water. It's in the sunshine. It's in the creativity," quips Mona Monaghan-Kelliher, who recently moved from New York to L.A. to become chief marketing officer of Milani. Vennette Ho, managing director at Financo, says, "The West Coast is a huge center of innovation for the beauty industry, and is its own little microcosm in terms of talent." In particular for beauty, California's pole position in digital technology, celebrity culture, the health and wellness movement and as the gateway to Asia makes it fertile ground for beauty upstarts.

No wonder, then, companies born there have become attractive acquisition targets, a fact not expected to change soon. Talking about the mergers and acquisitions market, Andrew Charbin, senior vice president at The Sage Group, says, "Deal volume will stay high for the rest of this year. There are all kinds of records that could be broken. We'll see a good number of companies that aren't in market now consider going into it fourth quarter this year or beginning of next." Here, 10 California-based brands that industry insiders say beauty buyers would be happy to get their hands on.

## JOSIE MARAN


Josie Maran
*Photo By George Chinsee*

Josie Maran personifies the golden girl ethos of Southern California, but the former model has channeled the business savvy of her birthplace into her role as beauty entrepreneur. "I'm from Silicon Valley, so it's in my DNA," says Maran. Undeniably, the change-the-world, go-with-your-gut gusto of Silicon Valley is ingrained in Maran, who launched her prestige eco-conscious cosmetics brand in 2007. "I would always ask makeup artists if they had something that was healthier, but they would say it was impossible to have healthy, natural products that were good enough. I really wanted to prove them wrong," she says. The argan oil that's become a centerpiece of Maran's line was a fortunate accident. "I discovered it on a modeling trip and fell in love," she recalls. Today, argan oil is used in everything from her mascaras to moisturizers, and accounts for a third of sales. Prices range from $6 to $96 for the L.A.-based company.

Josie Maran
*Photo By George Chinsee*

A brand so dependent upon a single ingredient might seem like a risky bet. But argan oil is the liquid gold that transformed the format into a significant category in the U.S. "Josie Maran will keep its first-mover status," says Jani Friedman, vice president of new brand development at Guthy-Renker and a former managing director at Demeter Group. "They've made it very easy for people to get into oils."

If Maran wanted to sell—which she and her husband, brand president Ali Alborzi, insist they have no intention of doing—Friedman and financial sources say it would field plenty of offers. Alborzi said sales have grown from $1 million in 2009 to more than $100 million annually, which could garner $200 million to $500 million in an acquisition based on recent multiples.

"We are self-funded, and we plan to remain so. I meet with people because it's important to understand the climate," says Alborzi. "Our vision is to pass it down to our kids, but who knows what the climate can look like, though we have definitely gotten over the hurdle of needing a money injection through a partner."

Currently sold on QVC and in Sephora in the U.S., the brand is expanding internationally and considering infomercials and stores. "We have gotten here through intuition and Josie's drive," says Alborzi. "We think there is a huge potential to grow even bigger."

NEXT: GlamGlow >>

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## GLAMGLOW

Mud, of course, isn't usually that sexy. But throw in a Hollywood backstory (Shannon and Glenn Dellimore, the husband-and-wife cofounders of GlamGlow, whipped up the initial batch for actors who wanted to look good on camera), a slew of advanced ingredients (SuperMud Clearing Treatment has a six-acid AHA & BHA blend and activated charcoal, for instance) and choice

GlamGlow

Photo By George Chinsee

distribution (Neiman Marcus, Sephora, Harrods and Selfridges) and mud becomes quite alluring. Alluring enough for GlamGlow to generate $3.2 million in sales at retail in 2011, when it launched, $17.5 million the next year and $106 million the year after that, according to Glenn Dellimore. Alluring enough to spread GlamGlow to more than 6,000 retail doors in 87 countries, almost 1,000 spas, 26 airline carriers and a handful of the world's best hotel properties. Each of the five stockkeeping units is priced at $69. Dellimore attributes GlamGlow's rise to its positioning and the immediate results. "Consumers love that the products work. They can see the results after one use," he says.


GlamGlow
Photo By George Chinsee

Potential buyers might love different results: the ones that show on a balance sheet. Dellimore says he and Shannon receive calls at least every other week from people interested in buying or investing in the Hollywood-based brand. Financial sources say The Sage Group is marketing GlamGlow. A GlamGlow spokeswoman clarified that Sage has been advising it on business matters for years. Sage declined to comment. Dellimore is in no hurry to sell GlamGlow. "The company doesn't need money. We have incredible EBITDA. We have no debts. We have cash in the bank," he says.

Prospective buyers would be intrigued by its rapid growth, says Financo's Ho, but they'd "have to decide if it is a [long-term] trend or a fad." They may be willing to come in at the lower end of a valuation range that goes from $200 million to $500 million, but higher valuations could be difficult without additional time to prove its model. No matter. Dellimore indicates he's not in the beauty business for a quick buck. "For Shannon and I, money doesn't motivate us," he asserts. "We have a lot more to give to the company that we've created."

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## TOO FACED


Too Faced
Photo By George Chinsee

As two kids working behind cosmetics counters in the Nineties, Jerrod Blandino and Jeremy Johnson peered out at a sea of brands packaged in black and dreamt of creating an oasis of pink. "We saw first hand the need for fun, inspiration and femininity," says Blandino. Thus was born Too Faced in 1998, with an unabashedly girly approach that was embodied in glitter eye shadow, a hit out of the gate.

Today, Sephora, Ulta and HSN are its largest retailers; prices range from $17 to $49. The Irvine-based brand is sold in some 3,000 doors globally, and 25 percent of its business is international. “Year after year, we have had thrilling comps, but in the last three years, we have skyrocketed to a whole other place,” says Blandino. Bestsellers include the mascara Better Than Sex, which Blandino says is up 200 percent: “Having 200-plus percent comps is not normal.”

Too Faced
*Photo By George Chinsee*

It’s also not normal for a brand to stay independent with that kind of performance. Blandino says he and Johnson rebuffed offers for Too Faced for years, but finally decided to relinquish a majority stake to Weston Presidio in 2012 to better support its substantial growth. Eric Hohl, chief operating and financial officer, says, “Jeremy and Jerrod are the right blend of creative with business. The history of the company is nothing but pretty solid growth in the top line, and it has been profitable since Day One.” Sources estimate Too Faced’s yearly retail sales volume at about $150 million. At multiples of two times revenues on the low end to five times on the high end, Too Faced could be worth $200 million to $750 million.

Financial sources believe Too Faced could attract similar parties to those that were interested in Tarte and Urban Decay. Names mentioned include Kosé, L’Oréal, Estée Lauder and Shiseido. One financial source says, “Too Faced is kind of the last great indie brand, and there is a scarcity there. If I’m a strategic and I don’t have an indie-type brand that speaks to Millennials and social media, I’d be interested.” Zach Grannis, business development analyst at CircleUp and formerly an investment banking associate at Piper Jaffray, stresses Too Faced’s social media prowess. “They do a great job at social marketing. Their founders really drive the authenticity of the brand,” he notes.

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**MURAD**

Murad
*Photo By George Chinsee*

Dermatologist Howard Murad is the guy who arrives at the party before the guacamole is whipped: He opened a day spa in 1987 when only a smattering existed in the U.S.; he started his doctor brand in 1995 before there was a category known as such, and he cultivated an omnichannel approach to retail long before it became a buzzword du jour. Being first has paid off. Murad’s 2013 sales are estimated to have gained 12 percent to hit $206.6 million, and the El Segundo-based brand, with products priced from $16 to $150, has been profitable most of the years its been in business, says Murad.

Over the next five years, Murad’s goal is to double sales. “The trend is more growth in professional and in retail, and less growth in direct," says Murad's nephew and the brand's general manager, Richard Murad. "We are supporting that by using more direct to drive traffic to retail. Frankly, I don't care where the sales come from as long as we are touching the right customers." International will certainly play a larger role. Murad recently bought its U.K. distributor, and Richard Murad explains the brand will use it "as a staging point for Europe because the U.K. has been a great success for us." Murad is also opening a Hong Kong office to shepherd its Asian operations.


Murad
*Photo By George Chinsee*

The size and scope of the enterprise has attracted suitors. In 2007, Murad had serious discussions to sell to the Estée Lauder Cos. "It just wasn't the right time," says Howard Murad. "We're a family company. We enjoy what we do." Even though the brand could fetch as much as $500 million to $1 billion, sources estimate, Murad is in no rush. "It would take a significant amount of money to dislodge ourselves, and it would have to be a company that we felt could grow the brand better than we could," says Richard Murad. For now, Howard Murad says, "I look at this as a wonderful time in my life." Why change?

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**KATE SOMERVILLE**


Kate Somerville
*Photo By George Chinsee*


Kate Somerville brings the clinic to the cosmetics counter with an aura of in-the-know cool. The aesthetician opened her clinic in West Hollywood in 2004 and cultivated a clientele plucked from the pages of People magazine. "It was hip and felt comfortable, but you would also get results, and you wouldn't look beat up after," says Somerville. "The celebrities really started talking in the press about it. Back then, it wasn't $40,000 to tweet something. It was just a bunch of great girls like Kate Walsh and Debra Messing saying 'Kate Somerville' when they were asked about their beauty secrets."

What celebrities get, noncelebs want. Kate Somerville's number-one product, ExfoliKate, grew out of a service at the spa and sold out in four minutes at its launch on QVC in 2006.

Somerville brought on the private equity firm JH Partners in 2007, when her business, between the clinic and the skin care line, was estimated to be about $12 million. Today, sources estimate brand sales of $30 million to $40 million, with 12 percent coming from international. Product prices range from $22 to $195. “Our compound growth rate in Nordstrom and Sephora is 20, 30, 40 percent a year over the last five years,” says ceo Michelle Taylor.

Kate Somerville
*Photo By George Chinsee*

The JH chapter of Kate Somerville’s story may be coming to an end. “The Lauders, the L’Oréals, the Cotys of the world have proven that they can build brands, and they have teams that they can plug you in to. I feel like I have gotten the brand to a place where that is needed now. Whoever does come in at this next juncture can just blow it up,” says Somerville.

Sources say Kate Somerville would be a pretty small purchase for a flush conglomerate—estimates range from $100 million to $400 million based on recent multiples and the brand’s sales—and that it’s premium positioning is valuable. “Your crowd [of prospective buyers] is quite large if you have a successful prestige skin care brand. It really comes down to the scale. How proven is it? How much does it work in different geographies? It has been built very thoughtfully,” says one financial source.

NEXT: Dollar Shave Club >>

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## **DOLLAR SHAVE CLUB**

Dollar Shave Club, founded in Los Angeles, is for dudes with attitude.


Dollar Shave Club
*Photo By George Chinsee*

The brand’s sensibilities are captured with perfect pitch in the 2012 video “Our Blades Are F**king Great,” which has collected almost 16 million YouTube views, and in profiles DSC does of members in its magazine intended for bathroom reading. “These are guys who quit their job to start a BBQ business or bike business. They’re people who drive around Asia to raise money for charity or start a high school robotics program,” says DSC founder Michael Dubin. They are also guys who care about what they look like.


Dollar Shave Club
*Photo By George Chinsee*

Dubin estimates Dollar Shave Club has captured 7.5 percent of the U.S. cartridge market and is on track to generate $60 million in revenues this year after hitting $20 million last year. There are more than 800,000 active members who pay from $1 to $9 for blades monthly. Now, Dubin wants to move beyond razors to, in his words, “own the men’s bathroom.” Already, he says, 40 percent of members are using the brand’s nonrazor products.

When asked about Dollar Shave Club, financial sources swoon.
"Love, love, love," exclaims one. But there are notes of caution about its profitability and valuation. Dollar Shave Club has raised around $23 million in venture capital, and venture capitalists may aim above the multiples of at minimum two to at maximum five times revenues customary in beauty. Ho says, "A transaction for a company [like Dollar Shave Club] is less likely to be multiple-driven. It's more likely to be about someone paying an outsized price today for the future potential of a trailblazing business model or brand. There is a lot of money right now that needs to be put to work, and there are a lot of strategics who can theoretically afford to be less price and multiple-sensitive because it ends up being a drop in the bucket for them."

NEXT: Tria Beauty >>

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## TRIA BEAUTY

How's this for differentiation: Tria Beauty has the sole FDA-cleared at-home laser hair-removal device on the market. Founded in 2003 by a team of scientists who had previously developed LightSheer laser hair removal for physician's offices, Tria didn't really catch on until Clarisonic broke into bathrooms. But now it's on fire, with devices priced from $299 to $495, and retail sales estimated at $100 million for the Dublin, Calif.-based firm. "We've gone from a handful of early adopters to the mainstream," says Kevin Appelbaum, ceo. As the beauty-equipment sector evolved, so has Tria, into the acne and antiaging segments. "Our fastest-growing device is antiaging, which launched in January, and is already a quarter of our business," says the ceo.

Rather than go the acquisition route, Tria was headed toward trading on the NASDAQ until it pulled the plugged on an IPO in 2012. Today, Tria would consider either an IPO or an acquisition. "Over the course of the next 12 months, I expect that one of those two things will happen," says Appelbaum. Still, venture-backed Tria faces hurdles due to profitability concerns and pricing expectations. "They have been through institutional financing that can be viewed as a more intensive bridge to a broader liquidity event. It is not the typical beauty brand that had a private equity sponsor for a few years," says Grannis. When Tria was weighing an IPO, its valuation was roughly $289 million, and it was coming off of 2011 net sales of $45 million and losses of $34.8 million. A comparable multiple would put its current worth in excess of $600 million. One source says, "They got some really high valuations from early investors. It's going to be hard for those groups to get a valuation that will appease them." Appelbaum's pitch is that Tria has a sustainable competitive advantage through its intellectual property and that topicals are a significant opportunity.

NEXT: Yes To >>

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## YES TO

Yes To might say yes to a deal, if the price is right. According to financial sources, the brand was on the market, but an acquisition failed to materialize. “It was a busted process. Their valuation expectations were too high,” speculates one source. With estimated yearly revenues north of $50 million, typical beauty multiples equate to a valuation of $100 million to $250 million for Yes To. But Burt’s Bees established a towering benchmark in natural personal care by selling to Clorox for around $925 million in 2007 when the brand was expected to generate $170 million in sales. San Francisco-based Yes To may not command that much on the open market or have nabbed its preferred price yet, but it does have traits that make it an attractive candidate. It’s achieved girth in a category where few brands have, with a door count of more than 20,000 in the U.S., including CVS, Walgreens, Wal-Mart and Kroger. Prices range from $2.99 to $19.99. Steven Davis, partner and managing director at Intrepid Investment Bankers LLC, says, “Natural and organic continues to be hot. Beauty and personal care tend to follow food and beverage. You’re starting to see a lot of momentum there.” Naming Clorox, Unilever, Beiersdorf and Johnson & Johnson as potential acquirers of Yes To, another source says, “I don’t know why no one has bought them. I am frankly surprised.”

Yes To
*Photo By George Chinsee*

Yes To
*Photo By George Chinsee*

Joy Chen, who was brought in as Yes To’s ceo in 2009 by its private equity backers, San Francisco Equity Partners and Simon Equity Partners, can envision it as part of a larger entity. “We would benefit from a scaling perspective,” she says, adding, “There are still a lot of opportunities that we feel we can do independently. That’s why we’ve held off to date.” Yes To has been going after those opportunities, repositioning itself to speak to a broader customer base, adding a host of fruits and vegetables to address a variety of concerns. Yes to Cucumbers has become its biggest line; this year’s priority is making Yes to Coconut a success. Predicts Chen, “Natural beauty is in its infancy, and it is going to continue to grow.”

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**MILANI**

With E.l.f. Cosmetics snapped up by TPG Growth and L’Oréal paying a pretty penny for NYX earlier this year, all eyes are now on Milani. A long-time staple of retailers like Walgreens, CVS and Wal-Mart, the brand started life in nail and lip, and targeted African-American shoppers. The owners of Jordana Cosmetics, Ralph Bijou and Laurie Minc, picked up Milani from Nina International in 2001 and swiftly went about broadening its range and reach, although Monaghan-Kelliher says a perception still exists that Milani, based in Los Angeles, is an African-American brand. To extend its reach, Milani has been emphasizing its multicultural orientation, a strategy that appears to be paying off. “We have over 67 percent market share for that audience,” says Monaghan-Kelliher, noting that half of Milani’s customer base is Caucasian, and half is a multicultural melting pot of African-Americans, Asian-Americans and Latinas. “The common denominator is that these are women who love to experiment with color.”


Milani
*Photo By George Chinsee*

Milani has also beefed up its executive ranks, with a new chief financial officer, senior vice president of product development, vice president of sales and business development and vice president of regulatory in addition to the new cmo, bolstered its pipeline of product innovations and amped up its social media presence. The hires fueled speculation that Milani could be setting itself up for a sale, which Monaghan-Kelliher firmly denies.


Milani
*Photo By George Chinsee*

At the moment, Milani, which sources estimate generates $60 million to $100 million in annual sales, is unlikely to lure an offer that matches NYX’s, but its enhanced internal prowess and the burgeoning multicultural population make it an attractive prospect. “They [Minc and Bijou] are positioning this business to double, and it is doing extremely well,” says Monaghan-Kelliher.

NEXT: Dermalogica >>

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## DERMALOGICA


Dermalogica
*Photo By George Chinsee*

Dermalogica is like a dancing elephant that refuses to join the circus. Perennially chased by hungry suitors, husband-and-wife Ray and Jane Wurwand, who launched the line in 1986, have steadfastly remained on the acquisition sidelines. This year, it was rumored that L’Oréal bid $1 billion to win over Dermalogica, but the brand continues to be owned by the Wurwands. With annual sales estimated between $200 million and $300 million, the offer would have placed the L.A.-based company in the rarefied world of beauty brands that have nailed down a multiple of more than three times revenues. Questioned about a potential deal with L’Oréal, Dermalogica president Jerry Wenker said, "Lots of rumors have abounded over the years concerning Dermalogica, but there is absolutely no truth [to the rumor] that L'Oréal is acquiring Dermalogica or even that Dermalogica is for sale."


Dermalogica
*Photo By George Chinsee*

What's so intriguing about Dermalogica? Vera Sandarová, a marketing manager at Kline & Co., says, "It is very stable. It is a cornerstone of the spa industry and it has a great reputation." One financial source says, "It is just a powerful brand within its channel. I've seen studies that found it has the highest brand recognition within the spa marketplace." Dermalogica has approximately 120 products, and is available in 7,000 skin-care centers, spas and salons in the U.S. The brand is sold in around 80 countries, and sources figure international sales account for half of its business. But its strength in the professional segment is what makes it particularly appealing. "You leverage your options with distribution," says Friedman. Jane Wurwand doesn't seem willing to let that happen. "The advantages of being an independent company is that we are agile, nimble and can respond to what's happening on the ground," she said in GCI magazine's March issue. "It allows us to react quickly to situations and opportunities as they arise without having to go through any red tape. We can develop products that we feel are interesting, unique and niche. We are planning for the long-term brand identity—not just the next quarter of profits."