



EXECUTIVE INSIGHTS

Enhancing Beauty: Exploring Five Investment Trends in Medical Aesthetics

Key takeaways

- 1.** The medical aesthetics industry has seen significant growth, driven by demographic and awareness trends. An aging population and younger demographics are driving increased demand for aesthetic services, fueled by social media influences, remote work trends and greater social acceptance
- 2.** Innovations in technology and product development, such as longer-acting neurotoxin injections and innovative materials for tissue regeneration, are broadening treatment options and driving greater adoption rates.
- 3.** Medical spas and aesthetics clinics are playing a crucial role in meeting the rising demand for aesthetics treatments. These settings offer superior consumer experiences and lower costs, driving a significant share of treatments.
- 4.** Regulatory developments, particularly in Europe, are reshaping the landscape of the medical aesthetics industry, favoring larger manufacturers; the industry is poised for de novo chain expansion and M&A-linked consolidation to capitalize on cross-selling and cost synergies.

Introduction

The medical aesthetics field offers an extensive array of consumer treatments and products, from laser hair removal and injectables to body contouring and skin care solutions. Demonstrating remarkable resilience during economic downturns, including the 2008 financial crisis and the COVID-19 pandemic, this sector has experienced a surge in demand. The uptick is largely attributed to the increasing influence of social media, the rise in remote working and a greater focus on self-care and social acceptance, sparking a wave of investments and M&A.^{2,3}

Based on proprietary research in the sector, L.E.K. Consulting have observed five key trends that we believe indicate that the medical aesthetics industry is poised for significant further investment: rising consumer interest, the introduction of innovative treatment options, the expansion of medical spas (med spas) and aesthetics clinics, an evolving regulatory landscape, and consolidation opportunities.



Trend 1: Consumer interest is driving a boom in demand for medical aesthetics

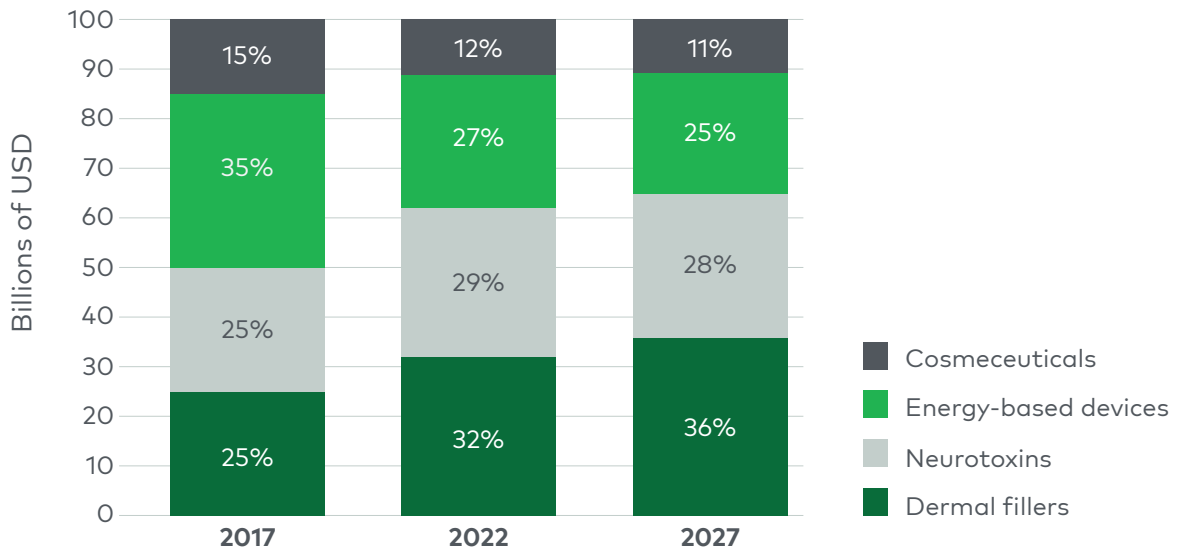
The global medical aesthetics market has boomed in recent years and is estimated to reach c.\$24 billion in 2027, with c.9% growth per year from 2022 to 2027 (see Figure 1).

This expansion has largely been driven by increasing consumer demand as stigma related to the use of such treatments continues to fade. As the population ages, consumers are turning toward treatments to combat cosmetic concerns associated with aging (e.g., wrinkles). Meanwhile, younger consumers are increasingly adopting med spa services due to heightened self-awareness stemming from social media exposure and seeking these services for their preventive benefits. The rise in remote work and video calls during COVID-19 triggered the “Zoom boom,” which led consumers to increasingly scrutinize their facial appearances and notice areas for improvement.

Moreover, the rising popularity of medical aesthetics among men as societal norms shift has led companies to target them more directly, though women are expected to continue to make up the vast majority of the consumer base (c.90%-95% through 2030).

Overall, the penetration¹ of the aesthetics treatment market is very low — for example, c.3% in the injectables market. However, c.18% of current non-users of injectables would consider purchasing treatments in the future, implying a much larger addressable population of c.6x-7x current market size, or \$70 billion-\$80 billion. Manufacturers have increased their marketing spend in an effort to realize sales to these potential customers.

Figure 1
Global medical aesthetics market (2017-2027F)



Source: Allied Market Research; The Insight Partners; L.E.K. research, interviews and analysis

The medical aesthetics market is also attracting new customers seeking wellness-oriented treatments (e.g., intravenous and injection therapies). This innovative approach, blending health benefits with cosmetic enhancement, has the potential to contribute significantly to market growth by appealing to health-conscious consumers seeking comprehensive wellness and beauty regimens.



Trend 2: Innovative products are expanding treatment options to broaden the consumer base

The market for medical aesthetics treatments has experienced significant growth, offering nonsurgical alternatives to invasive procedures. These treatments, which include both pharmaceuticals and energy-based devices, have expanded consumer choices and increased adoption rates. They cover a wide range of applications, allowing for the targeted treatment of specific aesthetic concerns.

One notable development in the industry is the creation of longer-lasting neurotoxin injections and premixed injectables. These advancements streamline the treatment process and enhance consumer throughput. Additionally, innovative materials like silk protein injections in a hyaluronic acid matrix are leading the way in faster tissue regeneration.

Skin boosters such as Profhilo and fat-targeting treatments such as Kybella are also making strides. Profhilo offers deep hydration, while Kybella focuses on removing fat from targeted areas, e.g., under the chin. These innovations are designed to cater to diverse skin types, treatment needs and demographic groups, widening the consumer base.

Select brands such as Hydrafacial and CoolSculpting have also cultivated significant customer pull through innovative solutions and treatment experience to capture consumer interest and generate demand. Additionally, both of these brands actively market to end consumers, creating pull for channel participants to adopt these treatments.

Furthermore, the industry's innovation extends to off-label use of drugs for nonsurgical treatments. An example is Ozempic, an anti-diabetic drug being used as a weight-loss solution. This reflects the industry's adaptability and innovative mindset. However, it underscores the necessity for clear regulatory and ethical oversight. Practices offering aesthetics treatments must ensure credibility and manage consumer expectations carefully, including informing consumers of potential side effects.

In response to diverse consumer demands, manufacturers are diversifying their portfolios with a range of new products and services, tapping into both established and emerging consumer needs. This strategic expansion allows for more targeted upselling and cross-selling opportunities, as businesses can offer tailored solutions across different demographics and aesthetic preferences, such as age-specific treatments or enhancements popularized through social media or cultural trends. On the device side, best-in-class technologies are attracting more consumers by improving treatment outcomes, e.g., enhanced efficacy, faster recovery. Laser technologies for skin resurfacing, tattoo removal and hair removal continue to evolve, while new treatments such as radiofrequency microneedling are gaining traction among consumers. Technological advancements are also enabling average treatment volumes per clinic to grow by reducing procedure durations and improving ease of use. Notably, players such as Matex Lab market combinations of pharmaceuticals and devices to advance synergistic treatment approaches, such as its pegylated dermal filler alongside the Sectum radiofrequency handheld device for volume enhancement and skin regeneration.



Trend 3: Med spas and aesthetics clinics are rising to meet this demand and expand consumer access

Med spas sit at the intersection of medical aesthetics treatments and broader beauty treatments and are an increasingly popular option for consumers. In the U.S. in 2023, c.40%-45% of medical aesthetics treatments were performed in med spas/aesthetics clinics; in the U.K. and Ireland, this figure was c.50%-55%.

Med spas are increasingly becoming the preferred venue for consumers seeking injectable treatments, surpassing dermatology and cosmetic surgery practices. This trend is driven by the exceptional consumer experience offered by med spas, positioning them for significant growth within the medical aesthetics market. Notably, the expansion of players such as Thérapie and Laser Clinics in the U.K. via greenfield locations and Cosmetique Totale in

Europe via a combination of M&A and greenfield has rapidly increased the availability of aesthetics treatments. This has led to supply-driven growth as consumers are increasingly exposed to med spa treatments, prompting consumer interest and exploration of services.

The med spa market is poised for continued growth, even amid economic downturns. Despite a decrease in consumer spending, the number of med spas and the rate of penetration are expected to rise. One key aspect of this market is strong customer loyalty. About 70% of med spa customers express interest in memberships, which have been shown to boost both spending per visit and visit frequency. However, only one-third of med spas offer such memberships currently, highlighting a significant opportunity area.

This preference is financially beneficial for med spas, as members tend to spend about 44% more than nonmembers do. Furthermore, after just three visits, around 76% of consumers view themselves as "lifetime" customers of a med spa. This sense of loyalty further manifests through referrals, with consumers reporting they have referred others to med spas an average of three times over the past year.

Med spas have become a preferred workplace for nurses, especially those seeking relief from the stress and burnout experienced during COVID-19. This challenging period led many nurses to reconsider their careers in traditional healthcare settings, such as hospitals. Additionally, some healthcare providers currently in these conventional roles, who do not yet offer aesthetics treatments, have shown a keen interest in doing so within the relaxed environment of a med spa. This interest suggests that med spas could become a key employer in the future.

However, administering injectables, the most popular service offered by med spas, requires specialized skills. Being a nurse does not automatically qualify someone to perform these treatments. This highlights the essential role of master injectors, who have received advanced training in these specific procedures, and underscores the need for targeted training and development programs to fulfill the sector's specific needs effectively.

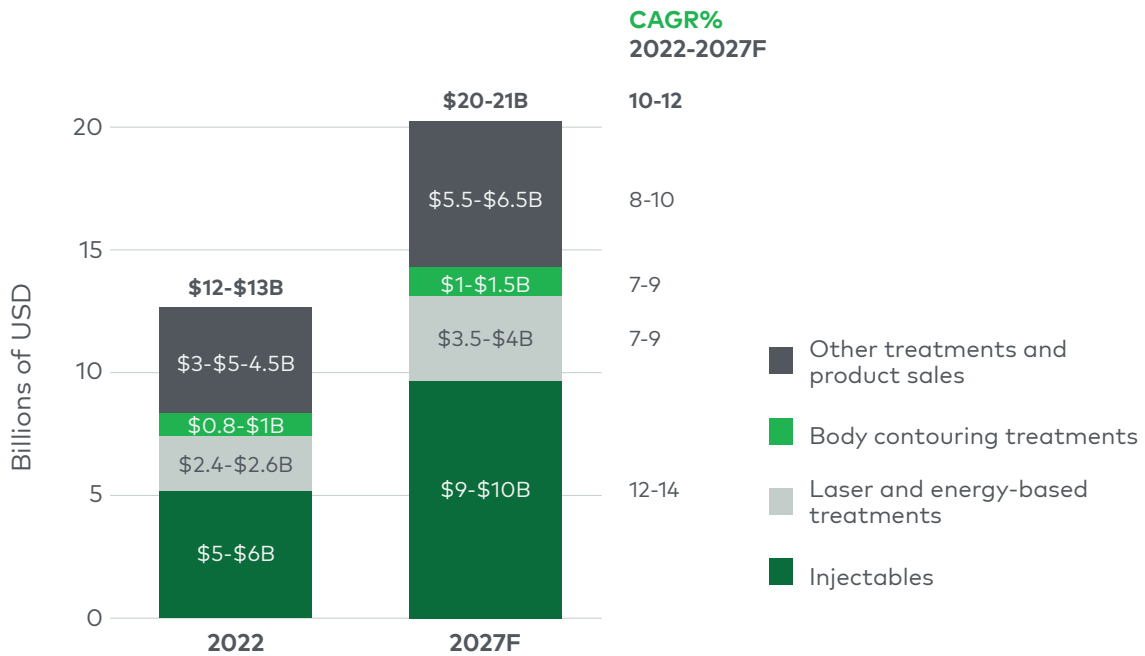
Med spa professionals prioritize both work experience and financial factors when selecting their work environment. Key aspects such as work-life balance, in-house training, career progression, development opportunities and quality of management are particularly valued. These work experience factors tend to outweigh financial considerations for most. Med spas stand out in this respect, offering superior work experiences compared to other settings.

This alignment with these professionals' preferences allows med spas, especially those operating on a larger scale, to more effectively attract talent. They leverage competitive compensation, a positive workplace culture, and structured training and development programs. Such programs are crucial for equipping these professionals with the skills

needed for specialized treatments like injectables, which are highly sought after and also generate higher profit margins.

In the U.S., med spas are experiencing rapid growth compared to other settings, attributed to consumer perceptions of a better environment, superior customer service, access to a broader range of treatments and lower costs. The sector is anticipated to expand at approximately 10%-12% per year between 2022 and 2027. Injectables, making up the largest service segment by value (about 40%-50%), are expected to grow even faster, at around 12%-14% annually (see Figure 2). In the U.K., med spas/aesthetics clinics are expected to grow between 10% and 11% over the same period, with injectables leading as the largest service segment in value (c.30%-40%).

Figure 2
US med spas, current and forecasted market size (2022-2027F)



Source: L.E.K. research, interviews and analysis

Despite the economic challenges of 2023, the U.S. med spa industry demonstrated resilience. Historically, recessions have resulted in mild gross domestic product declines, with minimally invasive treatments such as Botox maintaining sales or continuing to grow, partly due to requiring repeat treatments. However, there is anticipation of cautious consumer spending in aesthetics, with expectations for reduced frequency of treatments. In the long run, any reduction in spend per customer likely will be offset by a growing consumer base, increased acceptance for aesthetics treatments and the repeat nature of some treatments.



Trend 4: Regulatory developments are reshaping European markets

Across the U.S. and Europe, regulatory approval has been the primary requirement for treatments and devices to gain successful market entry. New pharmaceutical treatments require significant clinical evidence and process navigation to gain regulatory approval. Requirements for devices in the U.S. are more flexible than those for pharmaceuticals, with limited regulatory changes on the horizon. In Europe, however, the recent implementation of the Medical Device Regulation (MDR) has created new challenges for manufacturers, favoring those that are large, reliable and well established:

- Higher requirements for clinical evidence: manufacturers may need to conduct more studies, which may be too costly for low-cost challengers
- Scope expansion and stricter classification: More energy-based devices fall under stricter MDR requirements, forcing manufacturers to implement costly new standards
- Stricter post-market oversight: Manufacturers need to be prepared for unannounced audits and have stricter reporting requirements
- Requirement for qualified personnel: Manufacturers may leverage external partners to handle the regulatory burden. Due to additional efforts and required personnel, large suppliers are better positioned to manage and comply with the new MDR
- No "grandfathering" provisions: All currently approved devices must be recertified in accordance with the new MDR requirements

In the U.S. and U.K., licensing for medical aesthetics service providers allows a range of professionals, including dentists, nurses and beauticians, to administer treatments such as fillers and toxins. However, the U.S. features a complex regulatory landscape, with state-level regulations differing significantly from federal guidelines, leading to variations in treatment administration requirements across states.

The U.K.'s approach to regulation is less stringent, with no specific restrictions on who can perform nonsurgical cosmetic treatments and no enforcement of practice standards or insurance requirements for practitioners. In contrast, continental Europe, notably France and Belgium, enforces stricter regulations, permitting only licensed medical doctors to perform procedures that penetrate the skin, such as injections and microneedling.

Recent years have seen an increase in regulatory attention toward the med spa industry. In February 2022, the U.K. government declared plans to establish a licensing regime for nonsurgical cosmetic procedures involving neurotoxins and fillers. This move aims to uphold consistent standards and safeguard individuals against unlicensed practitioners, potentially boosting sector confidence and attracting new consumers.

However, this tightening of regulations may result in a decrease in customer volume at the market's lower end. The anticipated exit of some low-cost practitioners due to the financial burden of regulatory compliance could limit options for price-sensitive customers.



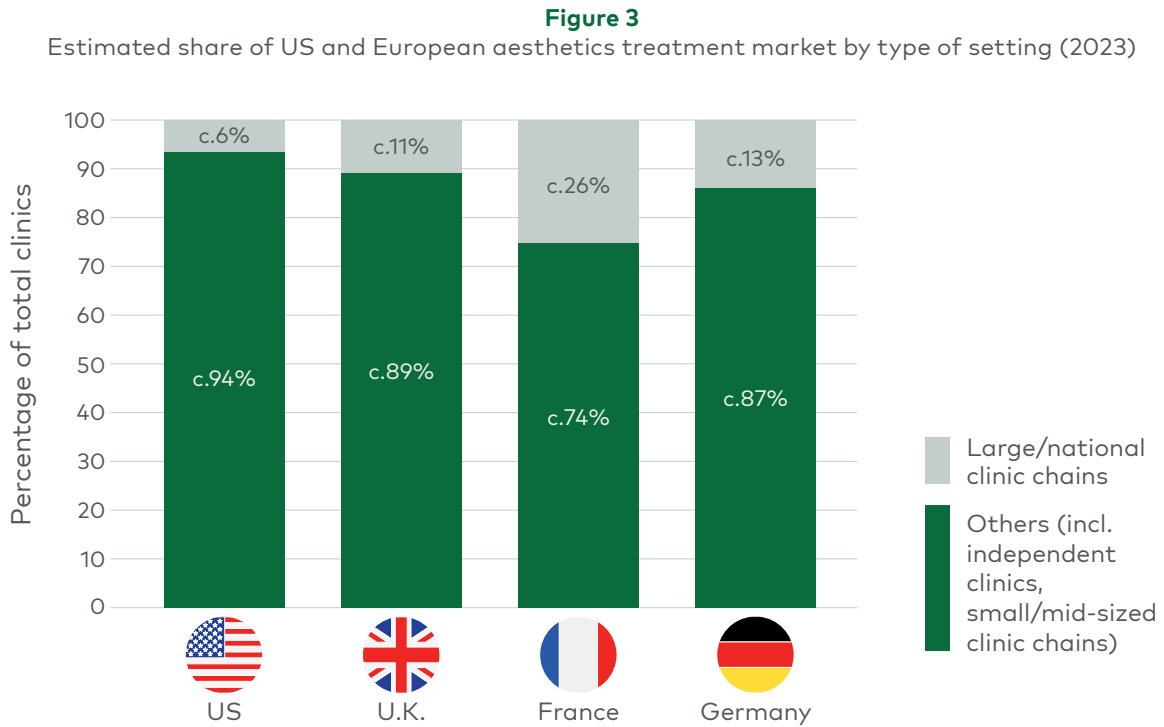
Trend 5: Opportunities for investment, de novo growth and consolidation are expanding with the industry

The medical aesthetics industry, characterized by a diverse range of products, manufacturers and providers, along with increased regulatory scrutiny, is poised for de novo chain expansion and M&A-linked consolidation. Providers aim to offer comprehensive services, such as combining injectables with energy-based device treatments, to deliver immediate, sustainable results alongside enhanced consumer comfort and convenience. Such combination protocols enable premium pricing, better customer throughput and the opportunity to establish a reputation as a high-end, innovative practice. Underlying strong consumer demand is also providing a tailwind for supply-side expansion of med spa/aesthetics clinic chains at greenfield locations.

For manufacturers, the trend of clinics providing multiple services opens up cross-selling opportunities. Industry consolidation through M&A can lead to cost savings in compliance and quality assurance. Employees in med spas stand to gain from consolidation as well, benefiting from clearer career paths, better access to training and administrative support, and, in the U.S., additional social benefits.

While most medical aesthetics practices remain small, independent clinics, there has been a noticeable shift toward consolidation with the emergence of med spa and aesthetics clinic franchises in the U.S. and Europe. In the U.S., the presence of med spa franchises has significantly expanded, evidenced by the increase in the proportion of practitioners (from 5% in 2011 to 25% in 2021) and locations (from 5% in 2011 to 11% in 2021) associated with franchises.³

Across the U.S., U.K., Germany and France, the vast majority of medical aesthetics treatments are still offered by independent clinics and practices, with the largest players forming c.6%-26% of the market (see Figure 3). France shows a higher level of consolidation given the higher presence of franchise networks (e.g., Lazeo, DepilTech). Nevertheless, the movement toward forming larger chains and the consolidation of these practices is expected to accelerate.^{4,5}



Source: L.E.K. research, interviews and analysis

This trend toward consolidation is further exemplified by specific industry movements, such as Princeton Medspa Partners acquiring three clinics in 2022 and 2023 and Persistence Capital Partners launching a \$275 million fund in 2023 to continue growing as a med spa platform through acquisitions in North America.

Large players like Allergan, Galderma and Merz comprise the majority of the U.S. and European markets for treatments; with respect to dermal fillers, in 2021 they represented c.70% of the European market and c.90% of the U.S. market, the slightly higher percentage in the U.S. supported by Lebreton patents and bundling. However, the aesthetics device market is more fragmented than that for fillers, with major players Zeltiq (acquired by Allergan in 2017), Cynosure, Cutera and Solta representing c.39% of the U.S. market and c.30% of the European market in 2021. M&A activity has been accelerating in this space, exemplified by Cynosure’s recent acquisition of Lutronic and Cutera’s recent appointment of a CEO with a reputation for dealmaking.^{6,7}

Conclusion

The medical aesthetics industry has experienced remarkable growth due to increasing consumer demand and a broadening consumer base, fueled by a diminishing stigma around aesthetics treatments, an aging population seeking anti-aging solutions and heightened awareness driven by social media and remote work trends. Innovative technologies and products, such as longer-acting neurotoxin injections and new materials for faster tissue regeneration, are expanding treatment options and consumer access. Med spas and aesthetics clinics are meeting this demand and expanding access for consumers, with a significant share of treatments being performed in these settings, driven by factors like better consumer experience and lower costs. Regulatory developments, particularly in Europe, are reshaping the industry landscape, favoring larger manufacturers. Consolidation is on the horizon, with opportunities for M&A to capitalize on cross-selling and cost synergies. While major players dominate some segments of the market, e.g., dermal fillers, there's a growing trend toward consolidation and franchising among med spas and devices, especially in markets like France and the U.S. Overall, the industry is poised for further growth and transformation, driven by technological innovation, changing consumer preferences and regulatory dynamics.

How L.E.K. Consulting can help

In the rapidly evolving medical aesthetics industry, we specialize in addressing critical challenges and unlocking opportunities for our provider clients and across the investment landscape. Drawing on our deep expertise in medical aesthetics, we support clients with critical insights and commercial and growth strategy to capitalize on the industry's strong fundamentals and growth tailwinds, navigate regulatory challenges and maintain a competitive edge in this dynamic sector.

To find out more, please reach out to an L.E.K. partner (details below)

Endnotes

¹Penetration refers to the proportion of total population receiving a particular treatment in a given year

²Modern Aesthetics, "Evolving Perspectives: The Aesthetics Mergers & Acquisitions Market Today." <https://modernaesthetics.com/articles/2023-july-aug/evolving-perspectives-the-aesthetics-mergers-acquisitions-market-today>

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⁶PR Newswire, "Cynosure and Lutronic Announce Merger to Create a Leading Global Medical Aesthetics Technology Company." <https://www.prnewswire.com/news-releases/cynosure-and-lutronic-announce-merger-to-create-a-leading-global-medical-aesthetics-technology-company-302039011.html>

⁷Reuters, "Cutera taps serial dealmaker Harris as CEO, stock price surges." <https://www.reuters.com/business/healthcare-pharmaceuticals/cutera-taps-serial-dealmaker-harris-ceo-stock-price-surges-2023-07-27/>

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