

Look Forward to M&A Opportunities in Consumer Health and Well-Being Sectors

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Article

L.E.K. Look Forward Into 2024

Welcome to Look Forward, L.E.K. Consulting's annual analysis of the challenges and opportunities in the year ahead. In this paper, partners **Adrienne Rivlin** and **Mark Boyd-Boland** look back at a slow year for M&A in consumer health but find reasons to be optimistic for some segments in 2024.

Look Forward to M&A Opportunities for segments focused on consumer health and well-being

M&A in consumer health

Pent-up demand from the pandemic, strong capital markets and an increase in the consumer trend for self-care made 2021 a strong year for M&A. However, transactions fell significantly in 2022 and slowed further in 2023, largely due to a combination of the unfavourable macroeconomic environment, rising inflation and interest rates and sluggish sales in some segments due to cost-of-living pressures. Looking ahead, we anticipate more subdued M&A activity to continue into 2024, given the prevailing economic headwinds and cost-of-living challenges. Investors are more likely to hold off for improved market conditions and clarity on future product trends that will drive growth within the sector. Certain segments, however, such as vitamins, minerals and supplements (VMS), organic/alternative products and digital solutions, are poised to sustain continued interest given the

heightened consumer focus on overall well-being (both physical and mental). How will 2024 unfold? We have five key predictions for the year ahead.

Prediction 1 – Portfolio rationalisation of large consumer health players likely to resume

A recent major trend has been spin-outs/demergers of the consumer health businesses from large pharma players, most notably Haleon (GSK) and Kenvue (J&J). Adding to this is Sanofi's planned 2024 separation. These restructurings have shifted priorities and reshaped the M&A landscape.

These newly independent consumer health businesses are expected to return to historical portfolio optimisation strategies, mirroring the M&A approach of their parent companies in the 2010s. They are also likely to maintain their category focus by divesting non-core brands.

This has been seen in the recent sale by Haleon of Lamisil to Karo Healthcare and also in Haleon's exploration of divestment opportunities for the Nicotinell brand (as of July 2023).

Countries such as the UK have also committed to reducing barriers for pharmaceutical over-the-counter (OTC) switches, offering a potential avenue for further M&A among consumer health businesses with an OTC focus in particular.

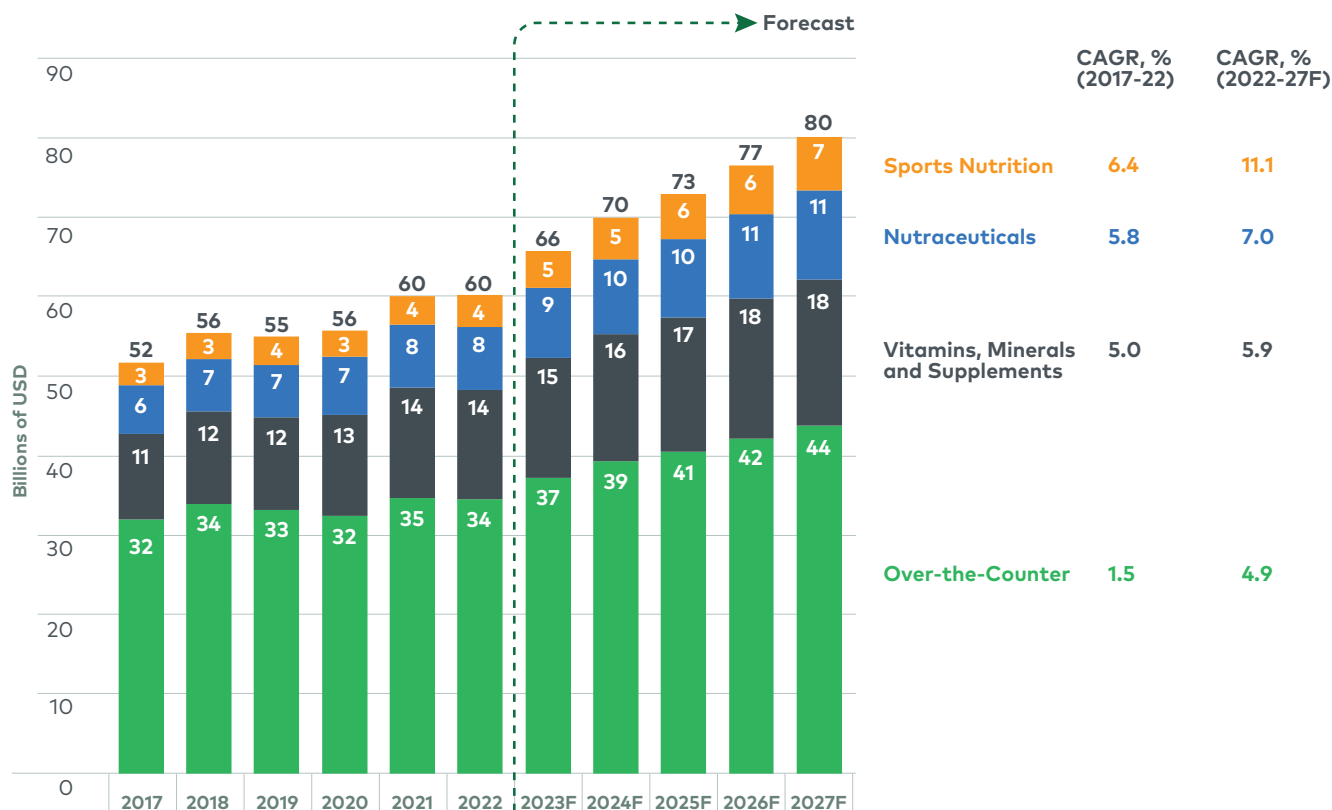
Prediction 2 – VMS, nutraceuticals and sports nutrition likely to remain robust despite recent revenue downturn

VMS and nutraceutical companies have consistently commanded strong valuations in recent years and are likely to continue to be attractive despite recent, more restrained market growth. We expect that Covid-19-linked greater consumer focus on personal health and well-being will continue to sustain product sales, particularly as consumer confidence returns fuelled by easing inflation and cost-of-living pressures.

For VMS and nutraceuticals, M&A trends are expected to mirror current consumer preferences, with an emphasis on holistic 'wellness' and a growing focus on ethical sustainability. Brands that have built an identity based around sustainable, organic, natural and ethical sourcing of ingredients and business practices will make particularly attractive acquisition targets.

The sports nutrition space has been the highest-growth consumer health segment of the past five years and continues to have a favourable outlook (see Figure 1).

Figure 1
European consumer health market size by product segment (2017-27F)



Note: Nutraceuticals segment contains Herbal/traditional dietary supplements; vitamins, minerals and supplements segment contains Vitamins and non-herbal/traditional dietary supplements

Source: Euromonitor; L.E.K. research and analysis

A high-profile target within the VMS/nutraceutical space is Vitabiotics, which has been rumoured to be exploring a potential sale. While the motive behind the sale remains unclear, one possibility is the funding of its continued expansion in the rapidly growing Asian market. Given the current macroeconomic environment, a partial sale might be preferable to raise capital; new investors could additionally serve as a catalyst to advance the digitisation of the business and strengthen its ecommerce presence, which aligns with Vitabiotics' Asian expansion strategy to target younger demographics. Alternatively, a full sale could offer new owners an opportunity to integrate Vitabiotics' existing success into a broader buy-and-build strategy.

Prediction 3 – Continued interest in digital solutions/use of AI

Acquisition and investment targeting digital solutions (e.g. wearables, telemedicine platforms, health and fitness apps) reached a peak in 2021 as the pandemic accelerated the digitalisation of the consumer health sector. This growth has continued despite post-pandemic normalisation. Though the largest global players are US-based, the fragmented European market offers potential for consolidation through deal activity.

Digital solutions, particularly those designed to streamline operations and enhance care delivery, will continue to attract growing interest as desirable assets. The emergence of generative artificial intelligence and its applications (e.g. patient engagement, personalised treatment plans, patient monitoring) will ignite further interest as healthcare companies increasingly look to either acquire or bolster existing capabilities via strategic M&A.

Prediction 4 – Growth opportunities in China

The US has traditionally led as the largest consumer health market, followed by China and major European geographies. However, slower growth due to market maturation has compelled industry players to look elsewhere for growth.

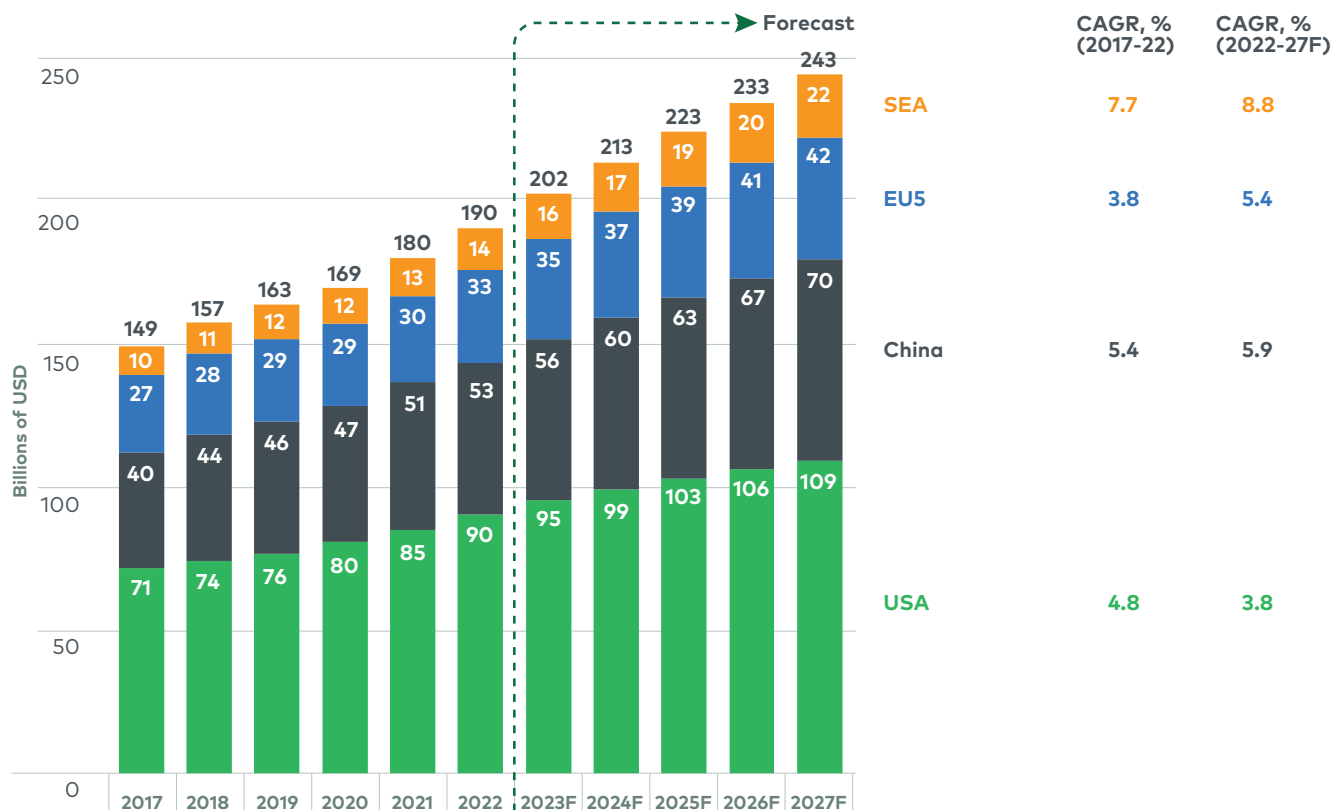
Despite China's higher growth rate (c.6% p.a. between 2022 and 2027), Western brands remain relatively underpenetrated, presenting an opportunity for quality Western brands to achieve substantial growth due to their perceived higher quality.

Within Southeast Asia, Thailand, Indonesia, Malaysia and the Philippines also represent large market opportunities, with five-year annual growth rates of c.6% or more for 2022-27F. Southeast Asian countries exhibit higher online engagement (compared to Europe) and have a younger consumer health user base, reinforcing the importance of a well-invested and robust digital offering for Western brands seeking to build out their presence in Asia (see Figure 2).

Prediction 5 – Continued expansion of CPG in the absence of significant pharma and PE activity

As interest in consumer healthcare amongst the general public has increased, consumer health products have expanded from more specialised settings, such as supplement shops, into more mainstream settings, such as grocery stores. This trend, combined with pharma companies scaling back acquisitions in this space in recent years, has opened the door for consumer packaged goods (CPG) companies to move into the space, with a spate of acquisitions in recent years. CPG companies are particularly focused on sports nutrition

Figure 2
Consumer health market size by key geographies (2017-27F)



Note: SEA includes Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand and Vietnam

Source: Euromonitor; L.E.K. research and analysis

and VMS, which fit as healthy alternatives alongside their non-health-related brands. After establishing an initial beachhead in consumer health, these companies, such as Nestle, Unilever and Mondelez, are poised to expand further into consumer health through additional strategic acquisitions.

CPG companies are likely to continue to target the sports nutrition space, which has been the highest-growth consumer health segment over the past five years and has returned to strong growth post-pandemic. Key opinion leader feedback suggests generally squeezed margins in the sports nutrition space, and these products may be more suitable for large CPG companies that are experienced in operating high-scale/low-margin business models than for smaller investors.

After an influx of private equity (PE) investment into consumer health in 2021-22, driven by high levels of dry powder after the pandemic, low interest rates and robust fundraising, we expect that PE firms will continue to add to their consumer health portfolios using a buy-and-build strategy to grow their own platforms, creating scale and greater cost efficiencies. However, PE activity in the sector may be tempered by the highest borrowing costs seen in recent years, likely constraining debt-financed deals.

As markets continue to evolve and opportunities emerge, we remain focused on helping all of our clients to look forward with a clear and effective commercial strategy.

About the Authors



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Adrienne Rivlin, Ph.D., is a Partner in L.E.K. Consulting's Healthcare practice, based in the London office. Adrienne advises private and public-sector organisations across the pharmaceutical, biotech, medical device and consumer healthcare sectors on their critical commercial challenges, including corporate and portfolio strategy development, product launch, pricing and market access, clinical governance structures and processes, and commercial and regulatory due diligence. She is passionate about addressing some of the most challenging issues facing the healthcare sector today, including access to and affordability of treatment, discrimination in medicine affecting both patients and caregivers, and mental health. Before her 10-year career in consulting, Adrienne was a researcher, public policy consultant and tutor at the University of Oxford. During this time, she worked with the Home Office, Ministry of Justice and Department of Health to research and review health policy in prisons. Adrienne has authored numerous articles in academic journals on key issues impacting the global healthcare and life sciences sectors.



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Mark Boyd-Boland is a Partner in L.E.K. Consulting's London office. Mark has been with the firm since 2014 and is a member of L.E.K.'s global Consumer practice. He has led a number of high-profile strategy and transformation projects for large corporates and has provided buy- and sell-side support on multiple transactions. Mark has extensive experience advising clients across the retail, consumer products, and travel and leisure sectors as well as across the consumer health landscape and broader consumer product categories, with a particular focus on digital and omnichannel business models. He has worked on a broad range of strategic engagements, including growth strategy, digital strategy, proposition development, customer segmentation, loyalty and customer experience, and market entry, supported by detailed consumer insights, market segmentation and channel analysis. Mark holds undergraduate degrees in commerce and law from the University of Sydney and an MBA from INSEAD.



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