

*Private
Equity
Society*



Aurelius' £207m acquisition of The Body Shop

Deal Overview

Acquirer



Aurelius Equity Opportunities



Expected to close:
Q1 2024

Target



THE BODY SHOP

The Body Shop

£207m

Total Transaction Value

*£200m

Implied Equity Value

Financial Advisors (Buy-side & Sell-side)

Buy-side

DENTONS GLOBAL ADVISORS

Sell-side

Morgan Stanley

BRUNSWICK

*3.5%

Premium

3.0x

EV/EBITDA Multiple



LSE Private Equity Society

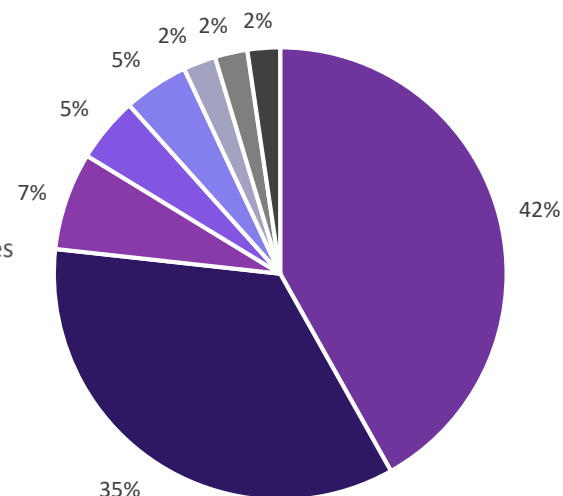
*Based on Itaú BBA equity value analysis of The Body Shop, October 2023

Aurelius Equity Opportunities

- Founded in 2005 and headquartered in Grünwald, Germany
- **Specialisation:** operational improvement, carve-outs, restructurisation, buyouts, spin-offs and portfolio synergies
- **Recent Transactions and Successful Deals**
 - Sale of Distrelec Group (acquired in 2020) to RS Group for €365m resulting in an equity value of €200m
 - LSG Lufthansa Holding AG: LBO Buyout with 100% stake in a leading global airline caterer and onboard retail provider

Portfolio:

- Industrials
- Consumer Discretionary
- Materials
- Consumer Staples
- Health Care
- Communication Services
- Financials
- Information Technology



136

Total Investments

£896m

Assets under Management (AUM)

46

Active investments



LSE Private Equity Society

The Body Shop - Overview

Company History

1976	Founded as a small cosmetics shop in Brighton, England by Anita Roddick
1984	Went public in April of the year and opened at a price of £95p
2006	Taken over by French personal care brand L'Oreal for £652.3 million at £300p/share
2017	Sold to Brazilian group Natura Cosméticos for €1 billion
2023	Acquired by private equity firm Aurelius for £207 million, a significant drop in valuation

Physical Footprint

979 Self-owned Stores	1,477 Franchise Stores	70+ Countries Reached
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Business Overview

Retailer of a range of skincare, body care, and hair care products



Vitamin E Day Cream



Rescuing Hand Protector



Vitamin C Moisturizer



Peptalk Flower Lip Oil

First among competitors to promote ethical consumerism

L'OCCITANE
EN PROVENCE



YVES ROCHER

LUSH FRESH
HANDMADE
COSMETICS

WELEDA



The Body Shop - Historic Financial Performance (Income Statement)

- **Net Sales:** 16.2% decrease in turnover (£79m decrease from 2021 to 2022)
- **COGS:** Remained constant meaning this had no play in the overall net loss
- **Operating Loss:** The operating expenses of the company are larger than the gross profit so ultimately there is a loss of £76m compared to an operating profit of £7m in 2021. This loss was largely driven by the 27.1% decrease in gross profit as a result of lower net sales
- **Loss Before Tax:** There was a loss before tax of £71m compared to a profit before tax of £10m in 2021. This £81m decrease is consequent to the operating loss incurred
- **Income:** Overall the company experienced a loss of £60m in 2022 which portrays the unprofitability of its operations. The company was impacted by increased costs across the business due to inflationary pressures and rising energy prices

Statement of comprehensive income For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Turnover	5	408	487
Cost of sales		(196)	(196)
Gross profit		<u>212</u>	<u>291</u>
Distribution costs		(11)	(13)
Administrative expenses		(281)	(279)
Other operating income	6	4	8
Operating (loss)/profit	7	<u>(76)</u>	<u>7</u>
Dividend receivable from subsidiary undertakings	11	12	7
Interest receivable and similar income	12	1	2
Interest payable and similar expenses	13	(8)	(6)
(Loss)/profit before tax		<u>(71)</u>	<u>10</u>
Tax on (loss)/profit	14	11	6
(Loss)/profit for the financial year		<u>(60)</u>	<u>16</u>
Other comprehensive income:			
Other comprehensive income		-	-
Total comprehensive (expenses)/income for the year		<u>(60)</u>	<u>16</u>



The Body Shop - Historic Financial Performance (Balance Sheet)

Assets

- **Deferred Tax Assets:** Increased significantly from £9m to £23m implying a rise in future taxes that will be covered or payable
- **Cash and Cash Equivalents:** There is a significant decrease from £170m in 2021 to £54m in 2022, suggesting a worsening of liquidity
- **Total Assets:** Decreased from £347m to £214m, indicating an overall decline in the company's asset base

Liabilities & Equity

- **Total Current Liabilities:** A small decrease from £260m in 2021 to £245m in 2022 has improved the company's short-term solvency
- **Long-term Debt:** Significant decrease by £75m. The lower the long-term debt, the less leverage a company has, and the stronger its equity position
- **Retained Earnings:** Decrease by £60m emphasising the net loss incurred
- **Total Equity:** Decreased by £59m, worsening the company's financial health and potentially its ability to sustain future growth

Statement of financial position As at 31 December 2022

	Note	2022 £m	2021 £m
Non-current assets			
Intangible assets	15	52	50
Tangible assets	16	31	36
Right-of-use assets	17	53	59
Investments in subsidiaries	18	204	223
Deferred tax assets	14	23	9
		363	377
Current assets			
Stocks	19	65	88
Debtors: amounts falling due within one year	20	95	89
Cash and cash equivalents	22	54	170
		214	347
Creditors: amounts falling due within one year	23	(243)	(258)
Provision for liabilities	25	(2)	(2)
		(31)	87
Net current (liabilities)/assets			
		332	464
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	24	(41)	(116)
Provision for liabilities	25	(7)	(5)
		284	343
Net assets			
Capital and reserves			
Called up share capital	26	12	12
Share premium account	26	133	133
Other reserves	26	5	4
Profit and loss account	27	134	194
		284	343
Total equity			



The Body Shop - Historic Financial Performance (Cash Flow)

Operating Activities:

- **Loss before Tax:** An operating loss of £71m (operating expenses exceeded operating revenue in 2022) can be deemed concerning as there is an indication that financial challenges or inefficiencies are present within the company
- **Working Capital Adjustments:** The decrease in inventory by £23m means that less cash is tied up in inventory and this freed-up cash can be used for paying off debt, investing in growth initiatives, or returning value to shareholders. In addition, the increase in trade receivables (£6m) is not accompanied by corresponding increases in sales so this could strain the company's cash flow and liquidity position

Investing Activities:

- **Decrease in Tangible Assets:** Generates cash inflow (£5m) for the company, which can be used to fund various activities such as debt repayment. However, the company may be selling assets to raise cash to meet short-term obligations, indicating underlying financial challenges

Financing Activities:

- **LR Borrowing:** While reducing long-term debt (by £75m) can be positive, excessively paying down debt might suggest that the company lacks attractive investment opportunities for deploying its cash

The Body Shop 2022 CF

	£m
Operating Activites	
Loss before tax	-71
Tangible assets deprectiation	9
ROU assets depreciation	19
Intangible assets amotization	14
Gain on disposal	17
Interest expense	3
Working capital adjustments:	
Decrease in Inventory	23
Increase in TR	-6
Decrease in TP	-75
Dividends Received	5
Interest Paid	1
Deferred Tax	-14
	<hr/>
	-75
Investing Activites	
Decrease in tangible assets	5
Investment in subsidiaries	19
	<hr/>
	24
Financing Activites	
Long-term borrowing	-75
	<hr/>
	-75



Risks

1. Consumer Preferences and Behavior:

- Changing consumer preferences and increased demand for sustainable and ethically sourced products pose a risk. The Body Shop must continually adapt its offerings to meet evolving consumer expectations.
- The Body Shop has faced challenges due to consumers prioritizing affordability over sustainability and ethical claims. This has led to a decline in market share from 1.4% in 2020 to 0.8% in 2022, with expectations to remain flat in 2023.
- The risk of consumers favoring value players and discounters over The Body Shop emphasizes the need for a broadened pricing architecture to retain and attract customers.



2. Economic Conditions:

- Economic downturns in certain markets such as China will impact The Body Shop's revenue and profitability, particularly in discretionary spending categories like beauty products.



3. Market Share Decline

- The decline in The Body Shop's market share from 1.4% in 2020 to 0.8% in 2022 indicates a significant challenge in retaining customers and capturing new segments of the market.
- Aurelius must address the factors contributing to this decline, such as changing consumer preferences and increased competition, to mitigate further erosion of market share.



4. Revenue Fluctuations:

- The fluctuating demand for premium beauty products during the pandemic highlights the vulnerability of The Body Shop's revenue streams to external factors.
- Economic uncertainties and shifts in consumer spending behavior can impact sales performance and overall financial stability, necessitating proactive risk management strategies.



Projections & opportunities

1. Diversification of Pricing Architecture:

- To improve The Body Shop's performance, Aurelius will focus on diversifying its pricing architecture. This includes offering products across different price points to cater to varying consumer preferences and budgets. On paper, this should allow to address the demand for more affordable options while maintaining its sustainability and ethical claims.

2. Omni-channel Retailing:

- Leveraging Aurelius' expertise in omni-channel retailing, The Body Shop can expand its digital presence and capitalize on e-commerce opportunities. Investing in online platforms and enhancing the customer shopping experience can drive long-term growth.

3. Further Global Expansion

- With operations in 89 markets and partnerships with franchisees, The Body Shop has significant potential for global expansion. Strategic investments in emerging markets and innovative marketing initiatives can drive brand awareness and penetration.

4. Strategic Partnerships:

- Collaborating with retailers such as John Lewis & Partners will help broaden The Body Shop's appeal and reach a more diverse audience. Partnerships and concessions can enable the retailer to tap into different customer segments and expand its market presence.

5. General Brand Revitalization

- By capitalizing on The Body Shop's iconic brand and heritage in socially responsible products, there is an opportunity to re-energize the business and attract new customers. Aurelius stated it will investing heavily in areas such as product innovation, marketing campaigns, and customer engagement initiatives, which will certainly rejuvenate the brand's appeal.

