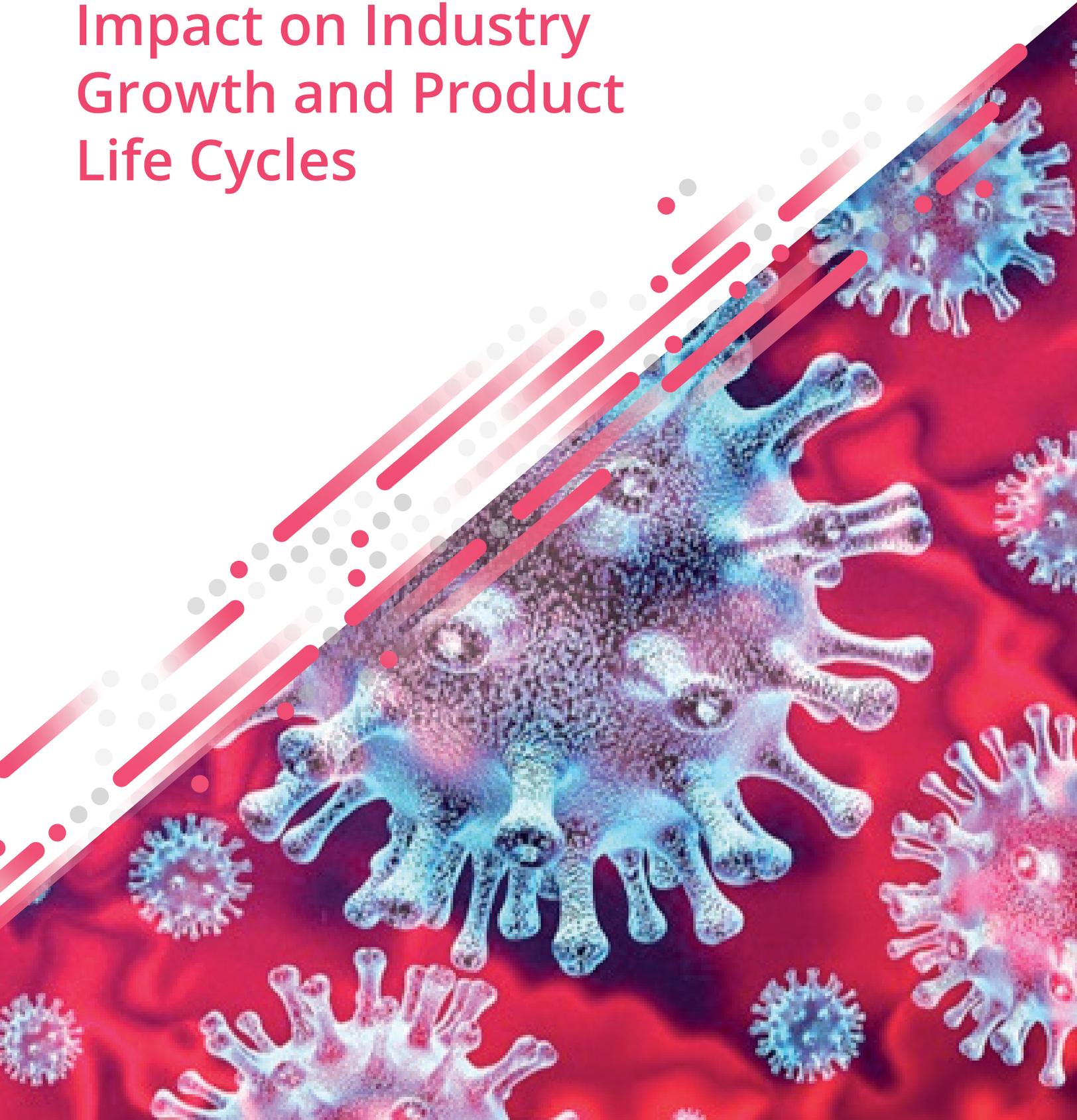


# Impact on Industry Growth and Product Life Cycles



# PCPC Leads Off Annual Meeting With Coronavirus Remarks: “A Significant New World Overnight”

## Executive Summary

Coronavirus was a factor in attendance of the Personal Care Products Council's 2020 annual meeting in Palm Beach, FL. Opening the conference on 2 March, chairman George Calvert, chief supply chain officer at Amway, discussed with CEO Lezlee Westine the epidemic's ongoing impact on supply networks and global cosmetics business.

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The Personal Care Products Council kicked off its 2020 annual meeting with a dialogue between president and CEO Lezlee Westine and chairman George Calvert, chief supply chain officer at Amway, on industry's key priorities and concerns in a changing world fraught with challenges.

Coronavirus was an early topic of discussion during the 2 March plenary session. According to PCPC, the event's attendance in Palm Beach, FL, was impacted amid growing reports of coronavirus cases and deaths overseas and, now, stateside.

Calvert spoke to the virus' implications for global business.

“Almost overnight in China during the New Year celebration, all of the sudden we've got this incredible outbreak that has hit just about every consumer products company around the world in some way,” he said. (Also see “Estee Lauder Companies: Coronavirus Will Drag On Growth Engines In FY 2020 Back Half” - HBW Insight, 7 Feb, 2020.)

In this environment, “anti-epidemic” products are in high demand, from hand sanitizers to air treatment systems, straining supply networks, according to Calvert.

“If you have a 500% spike in vitamin C [demand], which we saw, that spike alone is equivalent to our global volume for the rest of the world for a year,” he said. “So finding that amount of ascorbic acid, packaging, whatever it might be, to meet that demand, is stunning.”

He continued, “The supply chain for a lot of these materials is coming from China. Can we get the initial supplies of these? Yeah, probably. Because a lot of the brokers have some somewhere in a warehouse. It's that secondary supply that's going to be the problem.”

Calvert noted that unlike anti-epidemic products, some non-essential product sales have slowed, a deceleration that PCPC expects to continue as coronavirus infections spread.

“This isn't just a one-and-done in China. This is how it rolls out across the world. We're going to have to be ready both from a product standpoint as well as a supply chain standpoint to combat that,” Calvert said. (Also see “Colgate Offers ‘Anti-Aging’ Toothpaste In China, Ready For ‘Prolonged’ Coronavirus” - HBW Insight, 25 Feb, 2020.)

He then touched on an issue that, in its worst manifestations, has triggered the attention of the US Federal Trade Commission – ie, opportunistic marketing that capitalizes on coronavirus fears.

“One of the things we obviously have to be very careful about in this type of situation is overclaims, and making sure that we don't say things that are not true about what products are capable of doing and what they're not doing,” Calvert said.

He concluded, “It's a significant new world overnight.”

# Colgate Offers 'Anti-Aging' Toothpaste In China, Ready For 'Prolonged' Coronavirus

## Executive Summary

Colgate expects a 'modest negative impact' from the coronavirus on its first quarter results, but it made contingency plans for longer-term impact. In a presentation at the CAGNY conference, CEO Noel Wallace discussed a new anti-aging toothpaste in China and the latest iteration of Colgate Optic White in the US.

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Colgate-Palmolive Co. expects a "modest negative impact" from the coronavirus in China on its first-quarter results and is prepared to a "prolonged impact," says CEO Noel Wallace.

Wallace said during the recent Consumer Analyst Group of New York conference in Boca Raton, FL, that it is too early to assess full-year impact but Colgate has "robust contingency plans already in place in the anticipation should we have a prolonged impact from the virus."

The firm "is doing an extraordinary job getting up and running, with both manufacturing pieces we have in China and our supply chain integration there back up and running after an extended holiday season from the Chinese New Year and the extended break they had from the coronavirus," he said on 21 February.

Colgate did not estimate an impact on the first quarter results, which it will release on 1 May, when it reported its fourth-quarter results in January but forecast its 2020 full-year reported sales to grow 4%-6% and organic sales 3%-5%. The firm's total sales in 2019 reached \$15.69bn, with the Asia-Pacific region representing 17%.

Executives from other consumer health product

firms- including GlaxoSmithKline PLC, Herbalife Nutrition Ltd., Procter & Gamble Co. and Sanofi - have said the coronavirus, first detected in the Wuhan region of China in December before becoming a national epidemic in January and since reported in numerous other countries, would have an impact on their results, but it's too early to estimate cost. P&G noted store traffic in China is down considerably. (Also see "Coronavirus Drives TCM Sales In China, Clouds Global Consumer Health Outlook" - HBW Insight, 20 Feb, 2020.)

## Anti-Aging Toothpaste For 'Younger Consumer'

Despite China being ground zero for the coronavirus outbreak, Colgate anticipates strong sales of its Colgate Miracle Repair C+ Gum Repair toothpaste, which rolled out exclusively online in the country in late 2019.

Miracle Repair C+ Gum Repair, Colgate's first toothpaste formulated with amino acid, "goes into a very important emerging space in China, which is the aging area," Wallace said. "In China, aging is for the young consumer. And the young consumers there are taking anti-aging products across whether it's skin health or otherwise, and very, very much looking to provide benefits to themselves at an early age."

To support the launch, Colgate relied on online videos by celebrities that generated around 100m views during a single promotional event on 11 November. Also on that day, within a three minute-time frame, the video blogger promotions drove the sale of 50,000 packs of the toothpaste in just three minutes and led 500,000 visitors to its branded web page, according to Colgate.

Wallace noted 98% of the product's buyers are

new to Colgate and 80% are below the age of 30. "This is driven by our ability to target and differentiate our products based on unique needs of consumers and use our media much more effectively."

The firm's Colgate Maximum Cavity Protection with Neutrasucar – launched in selection regions outside the US in 2013 – is formulated with arginine, a type of amino acid that provides cavity protection but is not described online as providing anti-aging benefits. (Also see "Colgate Pushes Acid-Neutralizing Toothpaste As Emerging Market Driver" - HBW Insight, 28 Oct, 2013.)

#### **Optic White With 3% Hydrogen Peroxide In US**

In the US, Colgate in January launched another

iteration of its Colgate Optic White toothpaste – Optic White Renewal, its highest-priced product under the brand available in Enamel Strength, High Impact White and Lasting Fresh varieties.

The toothpaste contains 3% hydrogen peroxide, compared to 2% in the previous version launched in 2018, to deliver the best whitening capability yet, says Wallace. Product packaging states the formula "removes 10 years of yellow stains."

The formula retails for \$7 for a 3-ounce tube, compared to \$5 for the 2% version and \$3 for the original High-Cleaning Silica version of Optic White launched in 2011. (Also see "Colgate Launches Optic White Toothpaste To Compete With Whitening Strips" - HBW Insight, 1 Aug, 2011.)

# Estee Lauder Companies: Coronavirus Will Drag On Growth Engines In FY 2020 Back Half

## Executive Summary

The Estee Lauder Companies has lowered its full-year guidance to account for store closures, canceled travel plans and other effects of the coronavirus outbreak. The firm achieved record-setting 16% organic growth in the second quarter, led by China, travel retail and skin care, and is confident that it can get quickly back to speed once markets recover from the global health scare.

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Estee Lauder Companies Inc. expects a “very challenging” couple of quarters ahead as the world responds to the coronavirus outbreak in China.

During a 6 February call to discuss Lauder’s fiscal 2020 second-quarter results, company leadership declined to provide granular Q3 guidance due to coronavirus unknowns.

However, it made clear that near-term growth prospects in areas that have been fueling Lauder’s stellar performance of late – namely Asia/Pacific and travel retail – are markedly reduced.

“Chinese consumers in many big cities are staying home, and retailers are closing stores or limiting hours in an effort to help contain the spread of the virus,” Chief Executive Officer Fabrizio Freda noted.

According to Chief Financial Officer Tracey Travis, two-thirds of Lauder’s department store doors in China are shuttered at the moment.

“Additionally,” Freda said, “global travel is being restricted, and the effect is being felt beyond China into major travel retail corridors and large tourist cities.”

Lauder’s digital sales in China more than doubled in the second quarter, propelled by its expanding brand presence on Tmall, but even the online market is under pressure due to production and distribution slowdowns, Freda said.

Lauder has confidence in its potential to quickly ramp up affected businesses once coronavirus threats are contained, and the firm’s longer-term outlook on China and its strategic commitments in the country remain unchanged, Freda said.

He noted that the company has plans for a new state-of-the-art innovation center in China to enhance its go-to-market capabilities and product development informed by local trends and tastes.

Investors likewise seem optimistic about Lauder’s ability to ride out current challenges and return to form late in the fiscal year, as the company indicated.

While Lauder has adjusted its full-year targets, now projecting 6% to 8% net sales growth on a constant currency basis, compared with its previous 8% to 9% growth forecast, its stock has been up since it posted its impressive Q2 results.

Deutsche Bank analyst Steve Powers is not surprised, despite his view that immediate challenges will result in double-digit sales declines in Lauder’s third quarter. He pointed in a research note to the firm’s 30% constant-currency growth in Asia/Pacific in the second quarter, along with 18% gains in Europe, the Middle East and Africa, driven by travel retail, as clear signals that Lauder’s brands continue to resonate powerfully in China and with its citizens traveling abroad.

Morningstar analyst Rebecca Scheuneman is similarly assured of Lauder’s ability to bounce

back from coronavirus impacts. "Once the virus is contained (which is admittedly difficult to predict), we expect Estee's strong brands ... will continue their strong growth trajectories, as was the case after the 2004 Avian flu epidemic," she said in a same-day note.

### **Americas Growth Flashes Up, But Stabilization Efforts Continue**

Lauder's net second-quarter sales totaled \$4.62bn, an increase of 15% versus the prior-year period, or 16% in constant currency, representing its highest organic growth rate in 20 years in the seasonally largest quarter of its fiscal year.

The firm recorded increases in all regions and all major categories, led by skin care, which climbed 27%, reported (or 28% in constant currency), to \$2.2bn.

Analysts were eager to know whether the second-quarter upturn in Lauder's Americas business, which inched up 1% to \$1.23bn after consecutive quarterly declines, is a one-off owing to a successful holiday season or evidence of deeper improvements that are likely to sustain growth in the region going forward.

Travis said the firm remains in a mode of "progressing towards stabilization" in North America.

"I would not expect that the second quarter would necessarily be reflective of continued acceleration from there. But the North America team is executing against all of the strategies that were laid out last year, and we're seeing some good outcomes from that," he said.

For example, Lauder is working to overcome continued makeup market softness by launching

products that combine makeup and skin-care benefits.

Its namesake brand's new Futurist Hydra Rescue Moisturizing Makeup – touted as "flawless makeup with serious skincare" – is off to a very strong start, according to the Lauder execs.

Despite cooling demand, Lauder's makeup business still advanced 6% reported, or 7% in constant currency, to reach \$1.66bn in the second quarter.

But Travis noted that challenges in the category, particularly North America, led the firm to take a \$777m impairment charge in the second quarter related to Too Faced and Becca, picked up in 2016, and Smashbox, acquired in 2010.

"Even so," said Morningstar's Scheuneman, "we do not completely discard the value that these makeup brands have brought to the firm, as they gave Estee a material presence in the specialty-multi channel, which has taken significant share from North American department stores."

Meanwhile, Lauder is optimistic about its first acquisition in Asia, which it completed in the second quarter – Korean skin-care company Have & Be Co. Ltd., in which it took a minority stake four years ago.

The deal builds out Lauder's portfolio with Dr. Jart+ skin care, a brand that "has grown rapidly with cutting-edge innovation and excellent speed-to-market capabilities," Freda said.

The addition of Dr. Jart+ is expected to add one point of growth to Lauder's full-year performance as forecasted, according to the firm.

**For full coverage on Coronavirus from HBW Insight, please click here**