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Puig: The Second Century

In June 2020 Marc Puig closed the acquisition of Charlotte Tilbury by Puig for 900 million euros. Charlotte Tilbury was a London based cosmetics company made famous by several celebrities using its products. In 2020 Marc Puig was considering key issues, challenges and opportunities facing the company towards 2025. Puig would celebrate its 110 anniversary in 2020. In June 2020 the world was facing the problems created by the global coronavirus pandemic, but it was expected that the world would recover growth in normality during the fall of 2020.

Puig history

Puig was established in Barcelona, Spain by Mr. Antonio Puig, in 1914. Initially, the company distributed British and French cosmetic brands in the Spanish market. He loved art and enjoyed artistic creativity. In 1922 he launched Milady, the first product manufactured by the company. Milady was the first lipstick to be produced in Spain. In 1940, due to the Spanish civil war, the borders in Spain were closed and it was hard to import products from other countries so the company launched Agua Lavanda Puig, a fragrance developed with domestic ingredients that would be one of the most emblematic products in the history of the company. Growth led the company to change its location, and a new factory was established in what today is a central location in Barcelona.

Mr. Antonio Puig Castelló had four children, Antonio, Mariano, Jose Maria and Enrique. As they completed their studies they joined the company. Antonio and Mariano focused on perfumery, Jose Maria devoted himself to diversification, while Enrique became involved in external and institutional relations. Antonio had a keen eye on aesthetics and he brought the notion of modern industrial design and a search for high quality standards for Puig products while Mariano was the person with international ambitions and a keen understanding of people and leadership.

The company continued to grow and in the 1960’s a new factory was built in an industrial park in the outskirts of Barcelona. At that time the company made its first strategic commitments that included the following components:

1. Development of a team of talented and creative people that embodied the culture and values of the Puig family. A long-term commitment to Puig as a family owned company that would be passed from generation to generation was also implied in the Puig brothers’ vision.

2. Product quality. This would require developing its own laboratories to produce fragrances and cosmetics that were at the industry forefront from all perspectives including the health care aspects.

3. Internationalization. It started with an effort to sell Agua Lavanda Puig in the Americas, particularly in the USA. This lead to the creation of the first subsidiary outside Spain in 1959 in the US.

The development of Puig continued at an international level that was quite an innovation in Spain in the sixties and the seventies of last century. After a few good early results, the company realized that to sell fragrances in the US you needed more than just a good product from Spanish origin, and the association with a French brand seemed necessary to reach a new level. In 1968 a license agreement for the development of fragrances with ground breaking designer Paco Rabanne was signed, and a new company was established in Paris, Paco Rabanne Parfums. In 1976 a perfume factory was built in Chartres in France. At the end of the 80's, Puig bought the fashion house of Paco Rabanne from the designer. both fashion and fragrances from this iconic designer were under the umbrella of Puig.

In the 80's, in New York, the company signed a license agreement with the designer Carolina Herrera to create and sell fragrances under her name. This was part of an expansion plan to make Puig more international, particularly in the Americas'. This period of growth included acquisitions, alliances, and intensive international activity. The first Carolina Herrera fragrances were launched in 1988. They were very successful and Puig once again extended this strategy by purchasing the Carolina Herrera fashion house in 1995. In 1997, as forerunner of the Celebrity fragrances category, the multi-talented artist Antonio Banderas created the Antonio Banderas Fragrances brand in partnership with Puig. In 1998 the house of Nina Ricci, both fashion and fragrance business, was acquired.

In 1998 a holding company named Puig Beauty and Fashion (later renamed Puig) was established to manage in an orderly way the fragrances, cosmetics and fashion businesses. At this time, the leadership of the company passed from the second generation to a "team at the top" solution with four individuals, three from the third generation of the family and one non-family member who became "primus inter paris" of this group in 2001. Puig acquired also Myrurgia in 2000 and Gal in 2001 reinforcing its position in the Spanish market by adding to its portfolio brands such as Adolfo Dominguez, Massimo Dutti, Heno de Pravia and by expanding into product categories such as soaps, deodorants, bath gels, body milks and color cosmetics. In 2002 a license agreement was signed with Comme des Garçons for the development and distribution of some of its fragrances, and in 2003 Puig signed a strategic alliance with Prada, a renowned fashion and luxury goods brand, to launch a joint venture to develop and sell Prada's cosmetics and fragrances.

Puig entered the current century with declining sales and rapid deterioration of profitability after a few years of growth in the late nineties. By 2004 the company faced significant financial challenges as it reported operating losses, and failed to meet the covenants of its debt. After the acquisition of different companies during the 90's and early 2000's, Puig chose to keep these mostly as autonomous units in an effort to protect their creativity. The increased complexity of the enlarged portfolio distracted management during this period and many launches did not succeed. In addition the dollar/euro exchange rate situation in that time further exacerbated the problem.

It is in this challenging context that the company's leadership passed on to the third generation of the family, with the appointment of Marc Puig as CEO of the company in November 2004.

The Turn-around

Soon after Marc Puig became the CEO, he lead a company-wide effort to identify and build on the strengths of the company. This led to the conclusion that Puig was good at building brands through fashion and translating the image of those brands to prestige fragrances. With full support from the company's board, Marc Puig focused the strategy of the company on this strength - being a "fragrance led brand owner", where fashion built the image of the brand and fragrance captured the business volume. The company would divest the other activities that did not fit this strategy in an orderly fashion. In order to make this new approach successful the company launched a plan based on three pillars: Passion, People and Performance.

Passion referred to the ability to move the relationship Puig established with the consumer from just launching fragrance products to emphasizing experiences, surprising the consumer through innovation and creativity, bringing things that the consumer did not expect, becoming a story teller, tapping the emotions of the consumer. Prior to 2004, for fear of failure, the company had been launching in its recent years commercial products and "me too" products that had little to say to the consumer. As Marc Puig said: "we learnt the hard way that the biggest risk we could take was taking none. We decided to take risks and rather than just sell products, we would bring new experiences to the consumer, telling stories that could excite them. We had to sell dreams in a bottle". Current examples of this philosophy were: 212 VIP, by Carolina Herrera; Valentina, by Valentino; One Million and Lady Million, by Paco Rabanne; or Nina, by Nina Ricci.

People, the second key word, was associated with what was considered a strong value of the company. Since the family had been involved with the company since its inception, there were certain values the family held as true that permeated throughout the organization. Puig was a family owned company from Mediterranean roots that for many years had considered that people were the key asset of the company, and had not just hired people to do a job, but also to engage them with a value system and an entrepreneurial project.

The third key word was Performance and had to do with efficiency. In 2004 this was addressed through two lines of action: a) focus on categories and geographies, and b) simplify the structure. The core categories were: Fashion and Fragrances. Other categories would be divested in an orderly manner. The company also analyzed its geographical footprint. In 2004 it had problems in Spain, France, North America, Mexico and Japan. Puig decided to concentrate its efforts on either high consumption per capita markets or on high growth markets with special focus in territories with fragrance tradition. In emerging high growth markets, Puig would work for a higher market share than its worldwide average thus progressively increasing its weighted average market share. As a result, the company focused its efforts on Western Europe, the core market for the fragrance category where a brand established its credibility, and then in emerging markets such as Latin America, Middle East, Eastern Europe.

The second line of action in 2004 was to have a more efficient and simple structure in manufacturing, sales, and back office operations. The company went from 10 manufacturing sites worldwide down to 5. It also reduced overlapping sales forces, export organizations, and consolidated back-office and distribution centers. This reduced costs and increased efficiency. In 2004, with sales of 793 M€, Puig had a capital employed of 477 M€. In contrast, in 2012, with sales of 1.488 M€, the capital employed went down to 325 M€. At the same time, the company entered a practice of allocating resources to strengthen its brands. Over those years, half the savings were directed to improve the bottom line and the other half to support brand building.The turn-around processes started in 2004 allowed the company to grow in a well balanced way its revenues, profitability, value creation and market share.

Learnings from the turnaround

As Marc Puig reflected on the turnaround process started in 2004, he identified several key lessons for the company's future direction:

- Surprise the consumer through innovation and creativity, bringing to them things that they just did not expect. Don't just sell products, tell stories, and produce experiences.
- Take care of people, giving them room to grow, challenging them to places they did not think they could go and help them in the process, and integrating them in the solid family business values of the Puig company.
- Maintain a clearly understood obsession with efficiency remembering that continuous change is required and that there are very capable competitors.
- Do not fall into complacency even if the goals are successfully reached. Keep raising the bar.

Organization and Governance

Even though Puig was a family business, it was managed by a professional management team. Exhibit 1 shows the top management organization chart of Puig at the end of 2019. Marc Puig knew that the strategy of being a fragrance led brand owner was easy to articulate but complex to execute. It required a good understanding of a changing customer through the complex process of going from fashion to fragrance, doing it at the global level and at an increasing speed. He felt that to be an effective leader in this type of business, one had to combine creativity with efficiency - constantly challenge the status quo and to take risks, and build an organization that functions like a well-oiled machine. Since this is not easy to accomplish, and there are constant struggles and compromises to make, when an organization finds the right balance, value is created.

The turnaround process through which the company had gone helped Marc Puig to evaluate the management of the company in action, and this led him to shape the organization chart of the company. The evolution of the organization had been discussed at the board level, and Marc Puig had managed to get all the members of his team to present in several instances key aspects of their responsibility to the board. As some board members had said, the complexity of the strategy could justify slightly different organization charts, but Marc Puig felt very comfortable with its organization although he had to personally stimulate and facilitate the connections of his team to work really as a team. Eulalia Alfonso, the Chief Human Resources Officer, worked at Puig for a long time, and she was of great help to the CEO.

Manuel Puig, son of Antonio Puig Jr., and cousin of Marc was Vice Chairman of Puig with a deep understanding of the company's strategy, its key markets, and their different players. He was directly involved as President of Nina Ricci Fashion and Jean Paul Gaultier fashion house; he was also involved in all the critical forums where key choices and decisions were made. Jose Manuel Albesa as the Chief Brand Officer (CBO) was responsible for shaping the fragrance brands' product development and marketing plans. Javier Bach as the Chief Operating Officer (COO) was in charge of all sales and operations including R&D. Joan Albiol, as the Chief Financial Officer (CFO) oversaw the financial aspects of the company, maintaining close communication with all domestic and international units to produce coherent financial information for decision making and financial reporting. Eulalia Alfonso was the Chief Human Resources Officer. Exhibit 1 shows the organization chart of the company in 2018.

Puig had an empowered board of directors to oversee its governance. Through its internal regulations, the family had elected the board of the company. The family considered that the best way to protect its sustainability was to have a balanced presence of the family and of independent directors at the board. They called it "self-disempowerment" of the family. The idea is that family involvement is a good thing because the family aspiration is to get the baton from the prior generation, grow the business and be able to pass it to the next generation while maintaining control of its destiny. At the same time, to protect the family from the typical traps of family business, in particular to deal with issues of leadership and strategy, the family limited its own power. The Board of Puig had more independent directors than family members. The Board's CNR committee (the remuneration and nomination committee) was composed exclusively of non-family members. Currently, the objective at the Board of Puig had been to gather a wide variety of management skills including knowledge about the specific aspects of the fashion and fragrances businesses. Marc Puig had made a strong commitment to the professional governance of the company. The board was adequately informed with detailed information on all aspects of the company.

Around eight Board meetings were planned one year ahead, lasted for 6 hours each, and each one addressed the basic aspects of the evolution of the company (sales, profits, market shares, brand evolution, new launches, and any other key issues) and, in addition, each board would focus on a major topic (organizational structure, emerging markets, a potential acquisition, etc.).

The Board's Audit Committee and the Nomination and Remuneration Committee met regularly to evaluate carefully the financial information of Puig, and all the key aspects of compensation and organization of the top management levels, sharing their feedback with the rest of the board.

The board members felt that Marc Puig and the management team paid close attention to their recommendations; independent evaluations of the board had reflected a general satisfaction with its professionalism and effectiveness.

Looking forward to 2025

Exhibit 2 shows the Balance Sheet of Puig in 2018. Exhibit 3 shows the Income Statement. In December 31st 2018 the company employed 4296 people.

In spite of the global economic slowdown that severely impacted its key markets beginning in 2007, Puig continued to report good profits and maintained a solid balance sheet. Marc Puig felt comfortable with the company's strategy but he asked himself whether this model could keep bringing sufficient growth prospects going forward. Puig worldwide prestige fragrance market share had gone from 3.7 in 2006 to 9.7 in 2018, consistently gaining market share year after year and making Puig the company that had contributed the most to the growth of the category on a worldwide basis. The question going forward was whether maintaining a focused approach as Puig had been doing over these years was the best approach and whether Puig could continue gaining market share and thus keep growing or whether the formula might have reached a limit and Puig had to consider exploring new business models.

Understanding the fragrance industry

The fragrance market was divided into two major categories depending on the distribution channel and subsequently, retail price: The prestige and the mass category. The main distribution channels for prestige were department stores, perfumeries and travel retail in airports (duty free shops). Prices in prestige were above 40-50€ for a 50ml bottle. The mass market was mostly composed of local brands distributed through food retailers, drugstores or door to door. Prices were usually below 30€ for 100 ml bottle. Puig competed primarily in the prestige segment of the fragrance market.

The consumer

From ancient societies, fragrances were used for different reasons: for daily hygiene, to mask odors, to seduce, to gain self-confidence… The extent of usage of fragrances varied among different regions of the world depending on cultural behaviors - from societies where individuals did not want to invade the intimacy of other individuals (e.g. Japan and other northern Asian countries in which the fragrance category represented only a small reality in the overall beauty world– the other two being skin care and color cosmetics) to others where fragrance was part of the daily routine (e.g. France or other Mediterranean and Latin cultures, the Middle East, and eastern European countries, where fragrance was the main category in the prestige distribution channel vs. skin care or color cosmetics).

The buying process was also complex as consumers were often different than buyers. Nearly half of the sales were done as gifts, particularly in connection with especial days such as Christmas, Father's Day or Mother's Day. As a gift, fragrances competed with very diverse categories ranging from electronics to luxury experiences. The rest of the sales were for own consumption, and in that case, the buyer and the consumer were the same person. The type of buyer varied from those that were highly loyal to a specific brand or product to others that wanted to change their fragrance regularly.

It was difficult to assess what made someone choose one product vs. another: whether the strength of the brand name, the advertising campaign for the product itself, the likeness of the fragrance, the attractiveness of the package, the recommendation of the beauty advisor or the strong presence of the brand at the point of sale, etc… and what made people loyal to a specific product vs. be willing to switch across brands. Every year hundreds of new fragrances were launched in the market and competed with existing fragrances for retail space and premium locations.

The distribution channel

Traditionally prestige fragrances were sold by independent perfumeries in a very atomized market. In recent years there was a consolidation process in the distribution channel, led by multinational chains like Sephora with presence in multiple countries with their perfumery shops, by big national department stores like Macy's, and by duty free operators that operated around the world. The pattern of distribution varied widely around the world. In some countries, such as the US, department stores dominated the distribution channel; in others, such as Canada, UK, or Chile, the channel consisted of a combination of department stores, perfumeries and pharmacy stores. .

As a result of the consolidation of the distribution channel in developed markets, there was a shift of power from manufacturers to the channel of distribution, pushing manufacturers themselves to consolidate. In developing markets, the channel was still unstructured in many instances. In some cases, only a few department stores or perfumeries existed, so the distribution expanded through pharmacies, or still lacked an organized channel. For example, in Brazil, one of the biggest markets in the world for fragrance, the lack of multi-brand retail physical channel resulted in the development of a door-to-door direct sales channel, and vertically integrated local operators that sold their own brands.

The online channel was developing in the fragrance industry, reaching about 20% of the market in 2018. It is growing well in some major emerging markets such as Brazil and China.

The manufacturers

In the prestige fragrance market, more than 75% of the products were inspired by fashion names while the rest were derived from cosmetic brands, jewelry players or pure fragrance brands. Prestige fragrance was an affordable way to access the luxury world, and functioned as a complement to the wardrobe. Much like in the eyewear industry, fashion brands became the inspiration for this category. Under a given brand name, several fragrance lines could be launched over time, some lasting for years while others failing or only surviving for short period of times. The success rate of new launches was generally quite low.

Fragrance producers fell into two categories - those that owned the fashion brands (such as Chanel and LVMH with brands like Dior or Givenchy under their portfolio), and those that licensed the fashion name from the owner of the brand, and sold fragrances under that brand name. Under a license agreement, a manufacturer acquired the right to manufacture and sell products in a certain category for a period of time in exchange for a royalty payment under a framework agreed by licensor and licensee. The licensor kept certain rights, most typically the veto power over the products to be launched.

The manufacturers themselves had also gone from a highly atomized industry to a progressively consolidated one. This dynamic was due not only to the concentration at the channel of distribution but also to the increasing power of brands to which the fragrance manufacturers were linked through licensing agreements. In fact, two thirds of the fragrances were managed under licensing agreements and the power shifted over the years from the licensee (manufacturer) to the brand licensor (owner of the brand), as fashion brands increased their size, and thus their leverage. The remaining one third of the fragrances were managed in-house by the brand owners.

Manufacturers could be divided in three groups: leaders, challengers and niche players. The leaders were mostly multinationals competing in other categories and with fragrances representing less than a small percentage of their total sales (except Coty with more than 50% of its business in fragrances). Most of these companies were leaders in other sectors and had sales of several billions of dollars (e.g. L'Oréal the world's biggest beauty company, P&G the biggest fast consumer goods company in the world, LVMH the world luxury leader, Estee Lauder the largest beauty player in the prestige distribution…). These were companies leading the concentration process. Most of them were managed under the licensing model except LVMH and Chanel who had the fragrance business in-house (owned brands).

The challengers were smaller size companies with strong presence in fragrances. This group was at risk of being consolidated given its lack of critical mass to keep competing in a more consolidated world. In fact, some were already acquired (e.g., in recent years L'Oréal acquired YSL Beauté or LVMH acquired Bvlgari).

The third group was the niche one. This included small fragrance companies with niche, local or regional presence. Most of them were using distributors to sell internationally their portfolio of licenses – they did not have owned subsidiaries except in two or three core markets. Niche players were being favored by department and specialty stores that were searching for product exclusivity as a way of differentiating themselves from other retailers. In some emerging markets such as the Middle East, niche players with Arabic scents had an important role in the premium category and their market was almost as big as that of the international brands.

Exhibit 4 shows the fragrance sector market share evolution from 2006 through 2018 and Exhibit 5 the sales of the leading sector players and the percentage of their sales by the fragrance unit.

Puig was one of the world top 6 leading companies in this fragrance category. Most of Puig stronger competitors competed in categories other than fragrances while at Puig fragrances accounted for most of its activity. While Puig had been a small player, it had been able to play somewhat differently, launching products like One Million by Paco Rabanne that had had significant impact in the market place. Storytelling with risk taking, innovative fragrances, theater at the point of sale, and creating dreams with the story it told made consumers want to be associated with that product. In addition, except for LVMH and Chanel, which owned the brands they managed in the fragrance categories, most other players were pure licensees of the brands they happen to manage. Puig had a hybrid model with both owned brands as well as licensed brands. This hybrid model allowed Puig to take risks with its owned brands that it could not take with the brands under license. With the licensed brands, the company had to abide by the veto power and direction from the brand owners who were less likely to take such risks. Since Puig´s owned brands had a smaller presence in the fashion world than the other licensed brands, there was a question of how much more potential Puig's owned brands had in the fragrance category, and whether they were approaching their maximum potential.

Strategic Options

There were several options going forward for Puig.

The first option was to assume that Puig's current business model would still be valid over the next decade. In that case the hypothesis would be that if other companies had matched certain ideas of the formula, then it was Puig organization's responsibility to keep finding new innovative ideas to keep surprising the consumer. Since at Puig fragrance was the most important category, compared to other companies where fragrances were one among many other product categories, it was to Puig's advantage as an organization to focus on one and only category. If that was the case then it could aim to reach a minimum of 10% market share, and become a top 3 fragrance company by 2020 or even aspire to double again its market share as it had done over the previous decade.

This type of growth might require a combination of organic growth and acquisitions. This could entail, among other options, acquiring smaller European fragrance companies, or independent brand owners, or even discards from multinationals that were pruning their portfolio. One potential challenge in pursuing this option was that smaller companies and independent brand owners were increasingly wielding significant negotiating power as they were being pursued by several larger fragrance companies, thus making the terms of acquisition potentially unattractive. There was also the potential challenge of sustaining the acquired brands, which were typically developed through the creativity and passion of an individual, in a larger corporate setting. How many fragrance brands can a company manage before losing focus and creativity, and without potentially cannibalizing one brand with another? In support of this path, Puig acquired in 2011 60% of the fashion house of Jean Paul Gaultier (while the designer himself kept the remaining 40%). Jean Paul Gaultier had licensed its fragrance business (1.5% value market share in 2012) to a Puig's competitor, license which expired in 2016.

Another possibility within this first option would be to consider that at the end the greatest strength of Puig was its knowledge of the fragrance category. In that case, an alternative way to grow in the fragrance market might be to move outside the traditional fashion licensees or the traditional perfumery channel: vertically integrated fragrance lines that have their own retail network or pursue niche brands with selective distribution that have seen a recent explosion in department stores worldwide. These niche brands exploited their fragrance sophistication, and did not depend on fashion brands

A second option that Puig could consider was, while retaining the company's current market focus, to expand into color cosmetics and skin care, the other two beauty product categories normally sold through the company's current channels (perfumeries and or department stores). These two categories also had significantly more growth potential in the emerging Asian territories than fragrance itself. One potential benefit to entering the color cosmetics and skin care was that it had the potential to increase

Puig's leverage and influence with its channel partners. Puig's holding company was already active in the skin care business through successful skincare brands present in the pharmacy distribution. This know-how could be applied for new products or for buying existing brands and applying the know-how from the sister companies into the prestige distribution channel.

A third option, one that was more ambitious but potentially more risky, was the diversification into adjacent space in current markets extending the company's current focus from fragrances to the larger fashion world. In recent years, Puig's most successful new fragrances were mostly from fashion brands that the company owned, rather than from licensed brands. The company's management felt that, with owned brands the degrees of freedom to translate the image of a brand into the fragrance world were larger. Therefore, one potential formula for success was to build a brand in the fashion category and then to translate the image successfully in the fragrance world. Although Puig was involved in the fashion business for more than 20 years, it still represented only a small percentage of its sales and its level of success was still mixed. Some of the fashion brands under its portfolio had seen a successful evolution under Puig management while others were still struggling to find the right formula.

A significant expansion into the fashion industry would probably entail acquiring one or more fashion houses that had a strong position in the fashion market, and had majority of the sales in fashion and accessories rather than in fragrances. Expanding into the larger fashion and accessory business would not only allow the company to enlarge its foot-print in its current markets, but it would also increase its chances to exploit the fast growing Asian markets where demand for fragrances was far less than the demand for luxury fashion goods in general. However, becoming a fashion-led brand owner (a model where fashion sales were bigger than fragrance sales for a given brand), from its current positioning of fragrance-led brand ownership (where fragrance sales were bigger than fashion sales for a given brand), would require the company to develop many new capabilities. The fashion market was very competitive and risky, so Puig needed to weigh the potential benefits and risks of this option carefully.

A fourth option would be to retain the company's focus on fragrances, but to expand aggressively in emerging markets. Puig had already expanded into some of them, especially in the Middle East and Latin America but there were many white spaces still available. For example, the company had limited presence in Brazil, the world's second largest perfume market. To expand in Brazil, the company had to develop completely new capabilities for distribution. The retail channels in Brazil differed significantly from the European channels that Puig knew how to manage. Most of the fragrance business in Brazil was done through door to door business or by developing own retail chain. The traditional retail channel that one would find in developed countries had a very limited presence in Brazil, so there were not yet developed channels of distribution to sell its products. Further, there were already established Brazilian fragrance companies that would be formidable competitors who knew the local consumer behavior, and mastered the art of operating through the local distribution channels. How should Puig approach the Brazilian market? Was it more risky to enter this market, or to concede it to the local players who might become future global competitors? Beyond Brazil, it was unclear whether there was potential for prestige fragrance products in large growth markets such as China and India. Traditionally, cultures in these countries did not foster the usage of fragrances. However, as these societies were being increasingly exposed to Western culture through education, commerce, and travel, was there a latent market for fragrances developing? Should the company investigate this hypothesis further? If so, how should Puig pursue this without potentially wasting a lot of corporate resources and time?

Marc Puig knew that all the options above involved cultivating new capabilities and managing new risks. It was important for the management team and the board to decide on the best option to build on the company's extra-ordinary performance in recent years as it seeks to position itself for the next decade.

Puig Evolution from 2014 to 2019

Marc Puig started saying that in 2018 Puig had reached revenues of 1933 million euros and net income of 242 million euros. Revenues had been growing 5% on a like-for-like and constant currency basis. Reported sales remained stable. Net income grew 6% in a year of record profits (2018). Puig was strengthening its model of brands and its position in the fashion world with the acquisition of Dries Van Noten.

In December 2019, Marc Puig gave the following information to the case writers:

"Changes in the industry in the past 5 years

The beauty business has three categories: color cosmetics, skin care and fragrances. In a typical department store floor, duty free or perfumery chain that's what you find in the beauty sector.

In the past 5 years a few phenomena have developed.

First, the selfie generation has propelled the two beauty categories that are visual, color cosmetics and skin care vs fragrance which is not a visual category. If you take a selfie, show your pictures on Instagram or Facebook, do a face time call, things that people do all the time, you want to look good and this fact has propelled the visual categories, color cosmetics and skin care at the expense of fragrance.

Second, the niche, small brands have outperformed most of the consolidated large brands. This is true in any fast consumer goods category, be it beer, yogurt or pet food, and the beauty category is not immune. You have an idea about a new product, you don't need big advertising budgets or the support of large retail chains like you used to do because the internet, with its influencers, and its ability to distribute can make any new brand today propelled. In addition, new brands can come now from very different inspirations, be it celebrities (Rihanna), different countries (skin care in Korea), or the clean revolution.

Third, the growth of Asia, and in particular of China and the Chinese traveler, has changed dramatically the beauty sector. Most of the growth experienced in the past 5 years in the industry has come from China and the Chinese traveler. Chinese do not have a tradition to use fragrance as part of their daily routine because during Mao years fragrance was forbidden as a bourgeois product. Although this is changing in the new generations, in particular in the very young generations, it is still a very small percentage of the beauty pie. On the contrary, for color cosmetic and skin care, it has been a booming period, with a large number of people entering the category. This growth has also come with some differences versus other markets: 1.- China is a digital first market, with WeChat, Weibo and Tmall being key to drive awareness and business. 2.- fashion brands, which in the rest of the world lead the industry in fragrance but not necessarily in beauty (color and skin care) except for Chanel and Dior, have succeeded in enticing the Chinese cosmetic with their products (Yves Saint Laurent, Armani, Givenchy are case in point). 3.- in fragrance, except Chanel and Dior, Chinese consumer seems to prefer the niche and special brands rather than the typical more established brands that we find in the west.

Fourth, fragrance licenses for big brands is no longer an attractive proposition for Puig. It has become a very aggressive and risky proposition for a company like ours and the limited time frame of the license, without a secure continuation of it at the end of the tenure, combined with our long term view being a family business that looks at the next generation as our goal, has made Puig filter very strictly the type of license we are willing to sign from now on. And in the process, we have decided not to renew certain of our big licenses, with its corresponding loss of revenues.

Strategic options chosen

How has Puig responded to all these changes? What have been and will be the priorities? Marc Puig answered these questions as follows:

Puig has decided that its businesses is to build its own brands and make them love brands, brands that generate engagement, emotional connection, loyalty beyond reason, that contain great stories, that have authenticity, that touch our senses, because if we do so, if we succeed in creating love brands, then we will create the conditions for a sustainable operation, one in which we can be in control of our destiny, not any more at the mercy of third parties choosing to renew or not the license agreement.

We are going to bet on our brands. We see great potential to make both Paco Rabanne and Carolina Herrera a one billion brand each, with the "One Rabanne" and "House of Herrera" script, with both brands having plans to launch color cosmetic products under their label and growing its fashion businesses, and to nurture both Jean Paul Gaultier and Nina Ricci in their fashion and fragrance activity. We took a majority stake in a cult fashion house, Dries Van Notten, in 2018 to help the brand grow and eventually enter the beauty category in 2021. We see tremendous opportunity in expanding the Dries Van Notten jewel, our fifth own fashion house.

We plan to tap on the niche territory, with its very exclusive distribution policy and high price point position; we bought in 2015 the British brand Penhaligon's (founded in 1870 with currently 40 own retail shops around the world) and the French brand L'artisan Parfumer (founded in 1976 and present primarily in France with 5 owned boutiques in Paris) with both businesses present both at retail in their own shops as well as in limited and very exclusive retail accounts. We also took a majority stake in Eric Butterbaugh (a niche fragrance brand created by a Hollywood florist and sold exclusively at Saks 5th avenue for the time being). Just five years ago we did not participate in this niche world and we intend to double down on it in the future as its growth projections outstrip those of the industry as a whole.

We entered the color cosmetic category with a license with Christian Louboutin in 2018, the highly acclaimed shoe brand of the red sole signature, license that met our strict criteria. Our first inroad in this beauty category. It has helped us gain know how and confidence about our ability to run this category and an interesting exposure to the Chinese consumer, since they seem very keen on its products.

We also see potential in what we call "local conquerors", brands in emerging markets with strong roots and storytelling where we see potential to enlarge their existing portfolio. Rather than nurture a brand from the west and take it to the rest of the world as we have done until now, we see opportunities in helping these emerging brands most often from emerging markets and grow and expand them in the future beyond their current country of origin. We took a minority stake in a Brazilian brand Granado (founded in 1870 with currently 40 plus stores in Brazil) in 2016 and we've seen this brand expand its fragrance offer and enter the French market with two stores. We also took a minority stake, with options to increase, it in two additional brands in early 2019: Loto del Sur, a brand based on plants from the Latin American territory based in Colombia, with 10 stores in that market, and Kama Ayurveda, a skin care Indian brand with 60 stores in that country and plans to expand now in the UK.

We have an opportunity to tap on the growing middle class in emerging markets that are eager to enter our categories with our lifestyle portfolio, with brands such as Antonio Banderas or Shakira.

And we plan to exploit the opportunities that the digital revolution offers through our Puig futures ventures, with projects like Air Parfum or L'Alchemist Atelier.

Lots of potential to tap into with exciting times ahead".

Geographical Breakdown

In 2018, 14% of revenues were generated in Spain and 86% in other countries throughout the rest of the world. Emerging markets outside of North America and the European Union accounted for 41% of the company's business.

In Spain, retail sales of selective fragrances to end consumers had increased by over 1%, and Puig maintained its leadership both in selective perfumery and in the mass market. Some significant chains closed some of their doors, which had a negative impact on sales to this channel, resulting in a net reduction of 3%.

The developed markets grew 9% compared to the previous year on a comparable basis, equivalent to 8% reported growth.

In emerging markets, revenues grew by 4% on a like-for-like and constant currency basis. The drop in the exchange rate in countries like Argentina and Brazil had an impact on reported sales, which decreased by 6% in these markets. See Exhibit 6.

All Puig fragrances were manufactured in the company's production centers in Spain and France. In 2019 Puig sold its products in more than 150 countries and had affiliates in 26 of them.

Business Development

The ambition of Puig was to construct a portfolio of "Love Brands." In 2018 Puig faced challenges in the area of its main business of selective fragrances, owing to the mutual decision of Valentino S.p.A and Puig to terminate the licensing agreement under which Puig had developed and distributed fragrances for the Valentino label. This made Puig shift its strategy, giving more support to its owned brands, with which Puig was planning to be much more ambitious. Puig wanted to make Paco Rabanne and Carolina Herrera into brands generating revenues over €1 billion, by reassigning resources previously dedicated to supporting licensed brands.

Paco Rabanne, headed by Julien Dossena as artistic director, had achieved very positive reviews from the specialist press over recent shows, putting Puig among the top 10 at Paris Fashion Week in 2018. In fragrances, the brand has ranked fourth globally since 2015, with two lines in the top 10 masculines. In 2018, 1 Million held fourth place 10 years after its initial launch and continued to grow.

Carolina Herrera, founder of the brand that bears her name, had taken on the role of global brand ambassador and named the American designer Wes Gordon creative director, responsible for design and artistic direction at this New York fashion house. In the area of fragrances, the brand had risen three positions, reaching number 11 in the global ranking, despite the contraction of its key markets. The brand has maintained its leading position in Latin America and strengthened thanks to the success of Good Girl, the fastest-growing feminine line in the industry in 2018.

Both at Paco Rabanne and Carolina Herrera, there were plans to enter new categories in the near future.

Likewise, Puig rebuilt enthusiasm for owned brands such as Jean Paul Gaultier, which had reached a historic sales record in its third year after joining the Puig range of fragrances. Nina Ricci had a brand relaunch and it has a surprisingly positive impact at its first show after the appointment of its new creative directors, Rushemy Botter and Lisi Herrebrugh.

Puig had maintained a portfolio of Lifestyle brands, with brands like Antonio Banderas, of wider distribution which allowed to take the opportunity of the growing middle class, particularly in emerging markets.

At the same time, Puig had continued to back the development of the growing niche brand segment. Puig had been very selective in distribution of these brands, which were aimed at sophisticated consumers. Along these lines, in 2018 Puig acquired a majority share in Dries Van Noten, which would be extended to the fragrances category with very selective distribution, as Puig does with fashion. Puig would continue to promote the development of Penhaligon's, a brand that enjoyed double-digit growth above the market rate and has 35 owned stores, which, together with digital sales, generated more than 70% of the brand sales. L'Artisan Parfumeur, which only had a presence in Paris, had shown through its excellent performance in its owned stores and in large department stores that it was ready to be scaled up to the international market.

Puig had also completed in 2018 a majority acquisition of Eric Buterbaugh Los Angeles, a small niche brand with very limited distribution.

In 2018 Puig reached an agreement with Christian Louboutin to develop its beauty business. This strategic alliance will afford entry into the color cosmetics category and offer a source of learning for knowledge transfer to the owned brands.

Future Plans

Puig had increased its interest in leading local and regional platforms in the beauty sector, with brands that have a differentiated offering, based on tradition, ingredients or concepts that were relevant in their respective territories, with potential for expanding their growth geographically. After success as a minority shareholder of Granado in Brazil, and in line with the new strategic priority, in early 2019 Puig acquired a minority share in Loto del Sur, a Colombian company with premium positioning in the beauty sector, and in Kama Ayurveda, a leading Indian company making beauty and personal care products. Both agreements were the first step towards a majority holding by Puig in the future.

In 2018 Puig sales reached 1932 million euros. The sales of the recently acquired Charlotte Tilbury were 250 M€ according to the Financial Times. Marc Puig's goal going forward was to generate revenues of 3 billion euros by 2025.

Sustainability and Social Action

On another front, Puig continued to uphold its firm commitment to sustainability in five key spheres of corporate activity (Product Stewardship, Sustainable Sourcing, Responsible Logistics, Responsible Manufacturing, and Employees and Facilities) through 13 action programs for which it had established a series of ambitious goals for 2020. In 2018 this program was revised, as many of the objectives had been achieved, and thus the third phase of the program started, pursuing a more sustainable business model focusing on the circular economy and greater awareness and participation among employees. A key point is that Puig had continued to lower the carbon footprint of its activities, with a 5% reduction compared to last year. Thus, the company consolidated its objective of zero waste to landfill across all production facilities and use of sustainable sources in factories and corporate offices.

Puig had continued to support social action through Invisible Beauty, a program run in close collaboration with Ashoka that provided young entrepreneurs with the mentorship, training, and grants they needed to promote and develop socially oriented projects.

Puig also supported the work of other social entrepreneurs around the world in 2018 such as the ongoing work of David Cuartielles, the co-creator of Arduino (Spain); Matthieu Dardaillon, with Ticket for Change (France); and Mariana Costa, with Laboratoria (Peru).

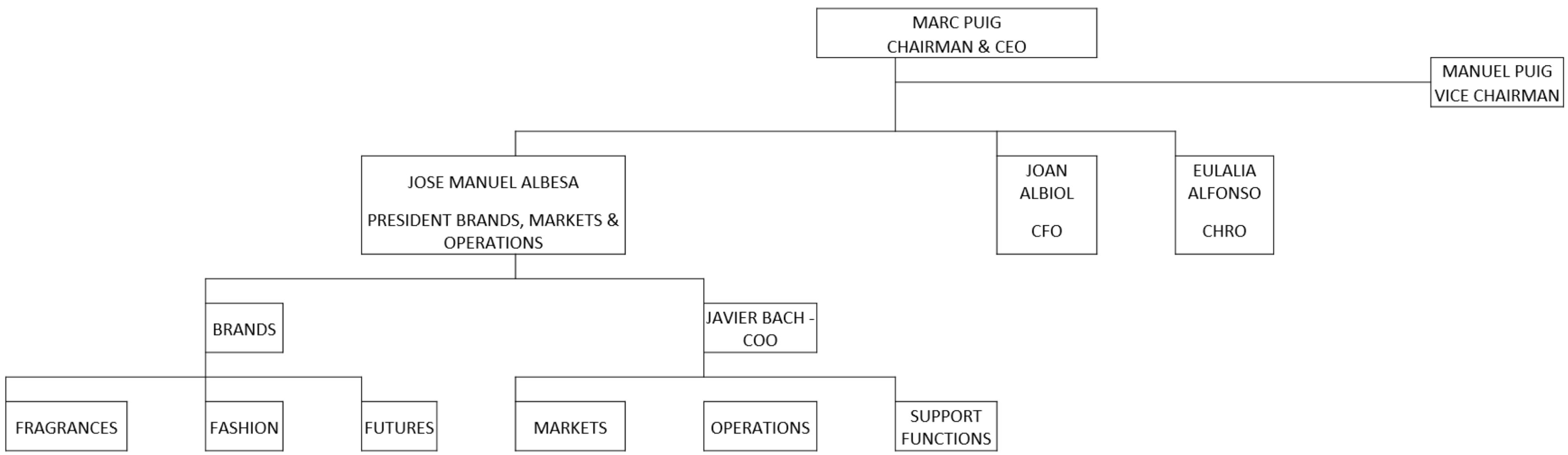
In 2018, the Makers program, which helped young people who are committed to improving their social environment, has taken its first steps towards working internationally, extending its coverage to France and Argentina, and substantially increasing the commitment and participation of employees.

Puig Futures

In April 2018 Puig launched Puig Futures, a platform to promote innovation in the digital sphere, in products, technology and new business models, inspired by other similar sectors. The vision was to lead the transformation of the fragrance category through innovation.

In 2018 six pilot projects were launched, allowing Puig brands and markets to experiment with new and innovative technologies in the digital sphere and new business models, in collaboration with selected start-ups. Partnerships had been built up with tech companies, such as AirParfum, with innovative proposals to improve the olfactory experience at point of sale.

Exhibit 1 Organization Chart of PUIG at December 2019



Source: Company

Exhibit 2

Balance Sheet	**2018**
Assets	
Cash and Cash Equivalents	822.430
Receivables	263.984
Inventories	229.095
Other Current Assets	53.818
Non Current Assets	1.076.532
TOTAL ASSETS	2.445.859
Liabilities	
Short Term Interest Bearing Debt	71.383
Trade Payables	108.772
Other Current Liabilities	380.022
Long Term Debt Interest Bearing Debt	331.258
Non Current Liabilities	208.794
Capital and Reserves	1.345.630
TOTAL LIABILITIES	2.445.859

Source: Company

Exhibit 3

Income Statement

	2018
Net Revenues	1.932.685
Cost of Sales	522.924
Gross Margin	1.409.761
Sales and Distribution Expenses	293.483
Promotion and Advertising Expenses	580.310
G&A	190.242
Total Operating Expenses	1.064.035
Profit Before Interest, Taxes and brand deprec.	345.726
Brands Depreciation	5.604
Profit Before Interest and Taxes	340.122
Financial Expenses	13.944
Taxes	78.667
Net Profits	247.511

Source: Company

Exhibit 4 Sector sell out evolution

Sector sell out evolution (*)

Scope of mkts		2006	2012	2013	2014	2015	2016	2017	2018
PLAYER	**MAIN BRANDS**								
COTY	H.BOSS/GUCCI/CK/M JACOBS/CHLOE	12,8%	11,4%	10,7%	10,6%	10,1%	17,0%	17,0%	17,9%
L'ORÉAL	G. ARMANI/YSL/LANCOME/RALPH LAUREN/V&R	15,9%	16,2%	16,7%	17,1%	17,3%	17,4%	17,3%	17,8%
LVMH	C.DIOR/BVLGARI/GIVENCHY/GUERLAIN/KENZO	10,1%	13,4%	13,4%	13,0%	13,4%	13,4%	13,6%	13,8%
CHANEL	CHANEL	7,8%	11,0%	11,0%	11,0%	10,8%	10,6%	10,9%	11,1%
PUIG	Paco Rabanne/Carolina Herrera/Jean Paul Gaultier/Prada/Nina Ricci	3,7%	7,0%	7,4%	7,7%	7,9%	9,1%	9,6%	9,7%
E. LAUDER	JO MALONE/E. LAUDER/TOM FORD/CLINIQUE/DKNY	9,7%	7,1%	7,1%	7,4%	8,0%	7,8%	8,1%	8,0%
SHISEIDO	D&G/I. MIYAKE/N.RODRIGUEZ/ELIE SAAB/ZADIG & VOLTAIRE	3,6%	3,7%	3,4%	3,4%	3,2%	5,1%	4,9%	5,0%
INTERPARFUMS	JIMMY CHOO/COACH/MONTBLANC/ROCHAS/OSCAR DE LA RENTA	1,8%	2,7%	1,6%	2,2%	2,4%	2,6%	2,9%	3,2%
EUROITALIA	VERSACE/MOSCHINO/MISSONI/REPORTER/JOHN RICHMOND	1,1%	1,1%	1,5%	1,6%	1,9%	2,2%	2,3%	2,6%
CLARINS	T.MUGLER/AZZARO/PORSCHE DESIGN/SWAROVSKI/CLARINS	3,0%	2,5%	2,4%	2,3%	2,2%	2,2%	2,2%	2,2%
HERMES		1,1%	1,4%	1,5%	1,5%	1,5%	1,5%	1,6%	1,6%
REVLON/ARDEN	KATE SPADE/LIZ CLAIBORNE/PAUL SEBASTIAN/ALFRED SUNG/SHAWIN MENDES	1,9%	2,5%	2,6%	2,0%	1,8%	1,8%	1,7%	1,5%
P&G		12,7%	12,9%	12,3%	11,5%	11,0%			

(*) In the last 5 years there has been a concentration of the top players through M&A:
Procter & Gamble brands acquired by Coty in 2016
Procter & Gamble's Dolce Gabanna License went to Shiseido in 2016
Jean Paul Gaultier License went from Shiseido to Puig in 2016
Coty acquires Burberry long term fragrance license in 2017

Exhibit 5 Top fragrance Brands in 2018

Top Fragrance Brands

PLAYER	Brands in Top 20				Company size A18	Fragrance weight
COTY	H.Boss	Gucci	CK	M.Jacobs	7,3 Bn €	40%
L'ORÉAL	G.Armani	YSL	Lancome	R.Lauren	26,9 Bn€	11%
LVMH	C.Dior	Bvlgari	Givenchy		46,8 Bn€	3%
CHANEL	Chanel				9,3 Bn€	n/a
PUIG	P.Rabanne	C. Herrera			1,9 Bn€	over 90%
E. LAUDER	Jo Malone	E.Lauder			12,5 Bn €	12%
BPI /SHISHEIDO	D&G				8,4 Bn€	9%

Fragrance weight is the percentage of total sales of fragrance sales

Source: Company

Exhibit 6: Sales by regions

In millions of euros

		2017	2018	A18/A17	(1)
Revenues in Spain		290	280	-3%	-3%
Revenues generated in developed markets	(North America+ European Union excl. Spain)	793	854	8%	9%
Revenues generated in emerging markets	(Rest of the world)	852	800	-6%	4%
TOTAL		**1,935**	**1,933**	**0%**	**5%**

(1) Growth on a like-for-like and constant currency basis, and accounting rules basis.

Source: Company