

A cowboy image, low barriers to entry and vulnerability to economic downturns have led many investors to eschew the cosmetic procedure market, but a potential step-up in regulatory requirements along with increased demand could be set to transform the landscape.

**Henry Petch** and **Adam Scott** of Mansfield Advisors LLP examine why investors could be eyeing the resulting opportunities for platforms and consolidation



# Beauty is in the eye of the investor

**C**osmetic procedures – both surgical and not – receive an ever-increasing amount of public attention in the UK as the array of tweaks and adjustments on offer to the consumer have become more popular and normalised with time.

At first glance this would be an attractive area for investment. It is mostly clinic based – so avoiding the high capex of hospitals; it is private pay – and there's certainly the private wealth to afford it; and it seems it should benefit from some wider cultural acceptance and pressure to look young and successful. However, the segment has been quiet, and returns mediocre at best.

One explanation is that spending is highly discretionary and vulnerable to economic downturns. For actual surgery, the barrier to scale is that the named surgeon is most often the key factor for patients, rather than any brand and facilities, so it is challenging to achieve scale benefits.

Coming from a healthcare perspective, you may think first of elective surgery for cosmetic purposes. This has

not grown over the last five years from a UK total of c.£285m; including the major private hospital groups. It is now dwarfed by the more consumer-orientated non-surgical segment, which shows far more promise.

The public data here is sparse – partly because of a relative lack of regulation – but consumer research firm Mintel estimates £3bn for the UK, 10x larger than the entire acute surgical market.

## So, who are the main players?

TriSpan is investing heavily and has begun to roll-up. It acquired Sk:n from Graphite Capital in 2019 for an enterprise value of £35m, and has since acquired three non-surgical clinics: The MOLE Clinic, Adonia (including Courthouse Clinics) and Destination Skin. TriSpan is not only interested in these non-surgical providers, having also acquired The Harley Medical Group in 2019 from RCapital.

There have been relatively few other investments in the five years. The Aurelius Group has the Transform Hospital Group, an amalgamation of two businesses acquired in 2016. It provides cosmetic and bariatric surgery from its 21 clinics and two hospitals. The focus is strongly at the medical end of cosmetics, i.e. condition led.

The clinics act as 'spokes' into the hospital 'hubs' making up c.75% of revenue, while non-surgical procedures make up the rest. More recently the group has been acting as a service provider, offering its hospital space out to meet NHS and private demand.

The Private Clinic Group (PCG) has also been private-equity backed since 2008. Its owner BlueGem has doubled the number of clinics to twelve including, most recently, Cosmetic Skin Clinic in 2019, growing revenue from £4m in 2008 to £18.5m in that year.

Larger hospital chains such as Spire Healthcare have publicly stated they wish to exit this segment. However, Spire is still the largest surgical provider with c.9,000 patients per year.



**TABLE ONE COMMON NON-SURGICAL AND SURGICAL TREATMENTS**

Non-surgical treatments have much shorter recovery times than surgical

Procedure	Category	Method	Recovery	Length of effect
<b>Non-surgical</b>				
CoolSculpting	Body	Freezes fat cells to kill them. Best for those within 10kg of ideal body weight	No recovery	Permanent
Laser hair removal	Body	Lasers permanently damage the hair follicle	No recovery	Permanent
Skin lasers	Body	Lasers are aimed at specific sections of skin to stimulate natural healing by creating a "controlled injury". Different types of lasers are used for the different applications (tightening, blemishes, scars, skin lightening, cellulite)	Causes peeling over the area, in some cases can worsen problem	Six-12 months
Micro-needling	Face/body	Stimulates a wound healing response for a variety of purposes (scarring, textural issues, pigmentation, wrinkles)	Minor swelling and tenderness	Two-three months
Threading	Face	Surgical thread is sewn into the subdermis to tighten the skin, and stimulate collagen production	Minor swelling and tenderness	12-18 months
Dermal fillers	Injectables	Inject hyaluronic acid into skin which binds to water and helps fill and plump the skin, or sculpt the face	Minor swelling and tenderness	12-24 months
Botox (botulinum toxin)	Injectables	Treats wrinkles by paralyzing targeted facial muscles	No recovery	Three-six months
<b>Surgical</b>				
Face lift	-	A flap of skin on each side of the face is pulled back, and tissues below the skin are surgically altered to return the contour of the face to a more youthful shape	Two-four weeks of bruising and swelling, scarring possible	Ten years
Facial implant	-	Solid pre-shaped objects are inserted in the face to enhance the physical structure of the face	Ten-day liquid diet, four-six weeks before physical activity, scarring possible	Permanent
Liposuction	-	Remove excess body fat by suction using special surgical equipment	Bruising and swelling for up to six months, scarring, numbness for six weeks	Permanent

SOURCE MANSFIELD ADVISORS RESEARCH

## Modern cosmetic procedures require less cost, risk and discomfort

There has been a dramatic shift in demand over the past decade towards non-surgical approaches. The International Society of Aesthetic Plastic Surgery reported a 10% global increase in non-surgical procedures in one year alone to 2018, against a decrease of 0.6% in actual surgeries. Simultaneously, rhinoplasty decreased 21% owing to non-surgical 'liquid nose jobs.'

The three treatment categories are (1) injectables (botox & dermal fillers), (2) face treatments and (3) body treatments. Relatively informal clinics can provide all three so hospital settings are not required. Botox, dermal fillers and skin lasers are the largest markets, although data remains sparse.

These procedures are much cheaper than surgical equivalents: chin dermal fillers are c.£700 vs implants at c.£6,000. Secondly, there are fewer demands on the patient: faster treatments, fewer risks and shorter recovery times. Procedure

are perceived to be less 'radical' and can be more subtle in effect and have been normalized by social media influencers and celebrities.

## A trusted clinic brand clinic should have a strong advantage when surgeons are not needed

Surgeon-based models often require a star surgeon to attract clients. In a model without the surgeon, a trusted brand should become a possible competitive



**TABLE TWO** NON-SURGICAL PRICES BY PROVIDER TYPE

Chains struggle to gain share as budget options undercut them

Provider of service	Positioning	Dermal filler (c.1ml)	Botox (per area)	Hair removal (legs)
The Wellington Clinic	Premium clinic	£384	£250	-
sk:n	Branded clinic	£350	£210	£320
Beauty salon	High street budget	£150	£135	£100
Facebook adverts	Individual budget	£80	-	-

SOURCE MANSFIELD ADVISORS RESEARCH

advantage, along with the economies of scale that a chain could achieve.

However, in reality, specialist chains have struggled from low barriers to entry in non-surgical procedures, competing with beauticians and dentists on the one side and acute hospital groups with far stronger clinical reputations on the other. Substitute providers price lower, arguably because they can spend less on training, insurance and the paraphernalia of clinical governance. The higher prices (see Table Two) mean the chains struggle to gain market share. There's no explicit market share data between specialist clinics, solo operators, dentists or beauty salons. However, it is striking that the top five specialist groups by revenue (see Table Three) only comprise ~4% of Mintel's estimated market size!

### The market is likely to change considerably in the near term, finally allowing brands to prosper

Recognised brands have strict governance controls in place, hold indemnity insurance, and administer treatments using qualified professionals. This increases costs and raises prices for the consumer. However, much of the market is not as controlled – many procedures are done in hair or beauty salons, or by individuals advertising online (on Gumtree, Facebook etc). Since many of the non-surgical procedures fall outside the regulatory framework of the CQC in England and its equivalents elsewhere, providers arguably lack the skills and training required to administer these treatments safely. They also cannot afford to hire professionals because their position in the market is defined by undercutting the competition on prices, as well as being hyper local in some cases. This sort of dynamic is most prevalent for injectables like dermal fillers and

for laser hair removal. The result has been alarming levels of hospitalisations from malpractice and, given the lack of any formal body, these people have no recourse for the harm done to them.

Many key opinion leaders have spoken out about the problems with the lack of regulation.

Former British Association of Aesthetic Plastic Surgeons (BAAPS) president Rajiv

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Grover said: 'The non-surgical sector is rife with lax regulation and unethical promotions and the public must remain vigilant as 'non-surgical' does not mean the same as 'non-medical'. These treatments have risks as well as benefits and patients must choose their practitioner very carefully.'

Paul Harris, former president of BAAPS has had several encounters with patients who have experienced complications from low quality injectables. He said: 'I recently had a patient who'd had a dermal filler in the face and had developed sepsis as a result - she was almost admitted to intensive care. This can easily be avoided with proper procedures in a medical clinic, but it happened because of the lack of legislation.'

This is not necessarily a new issue.

After the Poly Implant Prothèse (PIP) scandal, Sir Bruce Keogh released a report calling for various legislation within cosmetic procedures. A set of guidelines was published by Health Education England (HEE) on various non-surgical cosmetic procedures, but no regulation was implemented. This review surveyed GPs and surgeons to get an understanding of the rate of complications. Amongst the 86 GPs who replied, over 900 cases of complications were reported following cosmetic interventions. Those following botulinum toxin injections, laser treatment, and dermal fillers were the most common issues upon which patients consulted their GP. A similar pattern was reported by the 129 nurses who responded to the survey.

The 57 plastic surgeons who took part reported seeing 380 patients with complications of non-surgical treatments. These included problems following botulinum toxin injections, dermal fillers, chemical peels, and laser treatments. Complications following minor liposuction and autologous fat transfers were also reported. Plastic surgeons noted that nearly two-thirds of the complications reported were irreversible.

Other bodies have since been created such as the Joint Council for Cosmetic Practitioners (JCCP) - a voluntary, subscription-based group focused on best practice and the provision of accreditation. This is a step in the right direction, but could never be as comprehensive as statutory regulation.

An All-Party Parliamentary Group (APPG) released a report in June 2021 addressing issues with this market and risks to consumers. The report argues for handing enforcement responsibilities from local authorities to police.

The APPG also calls for the level of legislation which many of our Western peers already have. In France, only plastic surgeons, dermatologists, ENT surgeons and maxillofacial surgeons are authorised to treat patients with cosmetic injectables



**TABLE THREE MAJOR COSMETIC GROUPS**

The five largest groups still only make up 4% of the cosmetic market

Group	Primary sector	Revenue	EBITDAR	Ownership	# clinics	Capabilities			
						Surgical	Skin	Injectables	Body
Transform Hospital Group	Cosmetic Surgery	£45.8m	£2.9m	Aurelius	14 (2 hospitals)	✓	✓	✓	✓
sk:n	Non-surgical cosmetic	£32.6m	£5.7m	TriSpan	53	✗	✓	✓	✓
The Harley Medical Group	Cosmetic Surgery	£21.5m	£1.6m	TriSpan	31	✓	✓	✓	✓
The Private Clinic (inc. The Cosmetic Skin Clinic)	Cosmetic Surgery	£18.5m	£1.3m	Bluegem	12	✓	✓	✓	✓
MYA Cosmetic Surgery	Cosmetic Surgery	£18.5m	£0.2m	Private	13	✓	✗	✓	✗

SOURCE MANSFIELD ADVISORS RESEARCH

to the face. In Denmark, regulations were introduced in 2007, requiring anyone carrying out cosmetic procedures to be registered. All procedures must be carried out by a medical professional, and only the lowest risk procedures such as chemical peels can be delegated to nurses.

The European Committee for Standardization (CEN) in 2015 released a report which sets the guidelines and standards for all non-surgical practitioners, although this is again a voluntary set of guidelines. Further afield in North America, regulation varies in each state, but the majority of states have some form of state-governed regulation preventing those without appropriate qualifications from treating patients.

There is some good news in the recently passed Botulinum Toxin and Cosmetic Fillers (Children) Act (May 2021), which bans these procedures for under 18s. This is a step in the right direction and indicates the willingness of government to make changes here.

We are convinced that it is only a matter of time before this market receives some sort of legislation in the UK, requiring, among others, professional qualifications, quality standards, insurance requirements, and banning minors from certain procedures like injectables. Rather than creating a mandatory and regulated register of practitioners, the APPG report recommends, in addition to the proposed nationally regulated training and qualifications framework, that a

new licensing system governed by local authorities is established to drive up industry standards, for lower costs and easier enforcement.

The impact this would have on the market cannot be understated – it would be enormously beneficial for the specialist clinics. Operators like Sk:n are already adhering to these standards, so this will not constitute any extra cost to them. The solo operators and the beauty salons will face a huge barrier to continue, which will likely push them out of the market completely. They simply will not have the capital to operate a safe and functional clinic that must be regulated. Furthermore, investors who were previously concerned about scandals will now be more inclined to enter the market and will likely look towards the specialist clinics.

Despite this, there is uncertainty on client risk perceptions and price sensitivity. Are these consumers even willing to pay a premium, or will regulation just shrink the market? It is hard to say when there is such little data on this market, but our view is that the specialist clinics will absorb the majority of this new demand.

### **A mixed model will ultimately be the gold-standard**

Looking at the current state of the market, the pure surgical chains (Transform, MYA, The Harley Medical Group) have not been successful in their current

models. We believe the gold standard will be for the specialist clinics to build their brand up, and then begin to acquire high-end surgeries with a light-asset operating model. Transform have a model that looks similar to this, with a hub and spoke system. However, the primary source of revenue is in the surgical work rather than the non-surgical.

The benefits of starting in the non-surgical space are to develop relationships earlier with the consumer who is more likely to have a non-surgical procedure first, and then consider surgical options later.

The volume of consumers in non-surgical is also much greater, amplifying the opportunity to build a trusted brand. As a result, it is more likely that the current non-surgical chains will eventually acquire specialist surgical centres so they can provide the full cosmetic offering. However, this will require capital from investors.

We believe this market will change dramatically over the coming years due to shifts in consumer behaviour, the high possibility of regulation, and the emergence of specialist clinic brands. That's the opportunity to invest which TriSpan have already spotted, utilising Sk:n as a platform.

However, there's still room for others to invest and build strong brands in this space, especially given the size of the market, the lack of consolidation and double-digit growth.