

IT'S SKIN 1Q 2016 Earnings Release

2016.05.10.

IR Team



Clinical Skin Solution Cosmetics It'S SKIN

Investor Relations 2016

Table of Contents

- Summary of 1Q'16 Earnings
- Analysis of Sales of 1Q'16
- Outlook of Business
- Financial Statement





1. Summary of 1Q 2016 Earnings

- Sales decreased to 83.4bn, QoQ 0.9%, YoY 27.5% due to the tightened regulation from Chinese Gov't.
- OP declined to 27.6bn due to the one time cost, such as the exclusive modeling fee of 1.4 bn.
- Still Highest OPM among Korean cosmetics companies, at 33.1% with 'Prestige Branding' and efficient channels.
- 335.4bn in Cash and Cash Equivalent to be utilized for 'Cross Border Collaboration Strategy' and improving Global Business Portfolio.

[Unit : Mn KRW %]

	1Q 2015	4Q 2015	1Q 2016	YoY	QoQ
Sales	115,107	84,228	83,433	-27.5%	-0.9%
Domestic	53,451	39,445	43,491	-18.6%	10.3%
Overseas	61,656	44,783	39,942	-35.2%	-10.8%
COGS	43,335	32,413	31,824	-26.6%	-1.8%
Gross Profit	71,772	51,815	51,609	-28.1%	-0.4%
GPM(%)	62.4%	61.5%	61.9%	-0.5%p	0.6%p
ST&A	17,266	18,196	24,004	39.0%	31.9%
Operating Profit	54,506	33,619	27,605	-49.4%	-17.9%
OPM(%)	47.4%	39.9%	33.1%	-14.3%p	-6.8%p
RP	56,057	33,761	29,793	-46.9%	-11.8%
Tax	12,765	12,160	7,333	-42.6%	-39.7%
NP	43,291	21,600	22,461	-48.1%	4.0%

- Domestic Sales: Road shops+ Hypermarkets+ DFS in Korea+ Online mall

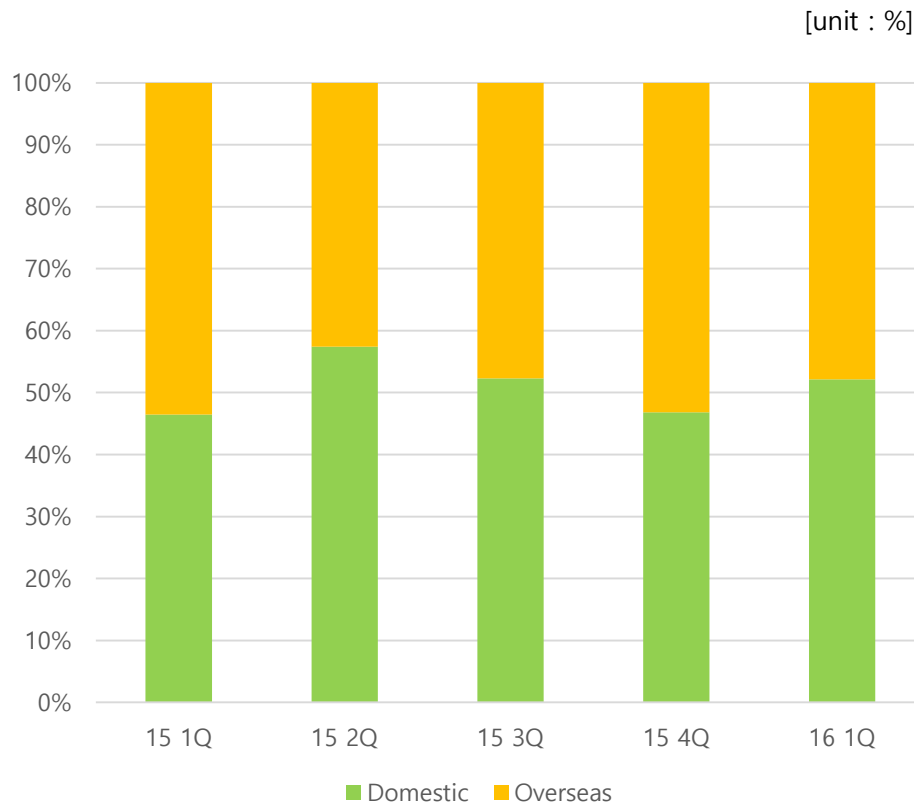
- Overseas Sales: Export + Export Agents



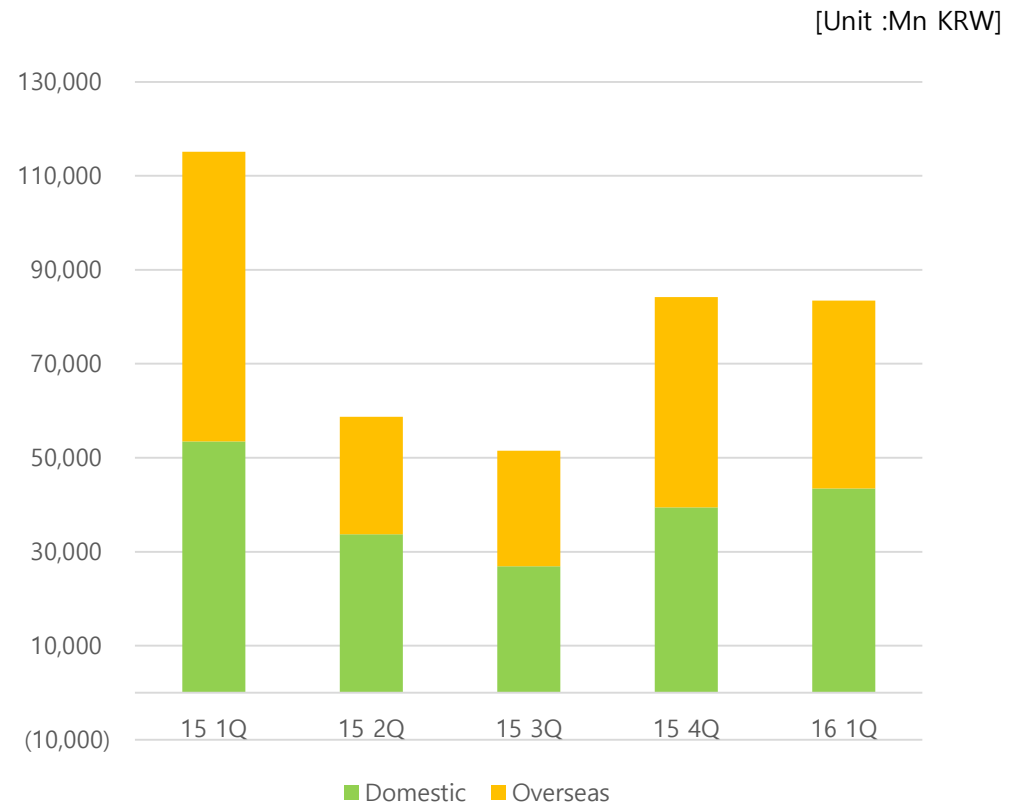
2. Sales Breakdown by Region

- Remain balanced with Domestic Sales portion of total 52% and Overseas 48%
- Domestic Sales: Exclusive model Yuna Kim increased Brand Recognition and helped boost Domestic Sales 10.3% QoQ
- Overseas Sales: Sales from Export Agency to China had Pre-orders in 1Q'15 due to the expectations that Chinese Gov't would toughen customs regulations from 2Q'15 that resulted in high base and customs delay slowed Sales QoQ 10.8 % and YoY 35.2%

Domestic vs Overseas Sales



Quarterly Trend of Sales



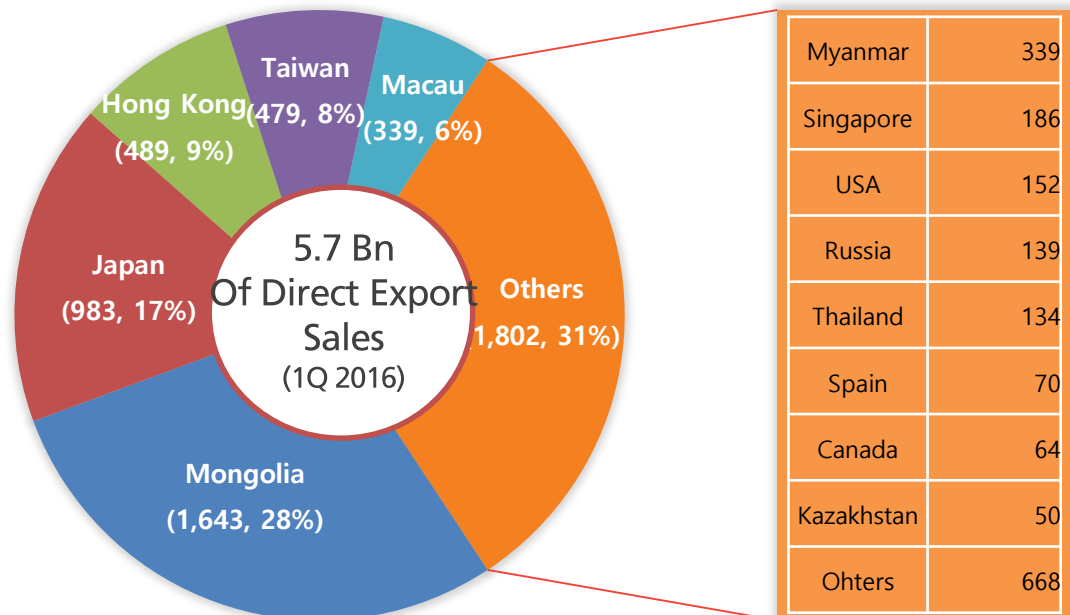


2. Sales Breakdown by Nation

- China: Expanding Sales Channels by securing Off-line channel through On-line from New-World Group's HOKO-Mall at Free Trade Zone, JV with SEMIR.
- Mongolia: Meeting increasing demand through the Road-shops and shops in Shopping mall located in the 'Inner Mongolia Region' near to China.
- Japan: Turning around Sales by launching PB products including 'Tinted Eyebrow, Cotton Swap Remover and so on.
- Hong Kong: Expecting increase in Sales through 'Cross Boarder E-Commerce Platform in China' such as Tmall Global and Bonded Warehouse, with first Booking 0.3bn in Sales in March.
- Myanmar: Signed up with new distributing partner at the end of 2015, and expect to see growing sales to open up first Road-shop in Mandalay 2016.
- Singapore: Opened up first Road-shop at Bugis Junction 1Q'16, and expect to open up 2nd and 3rd shop at the same time.
- Thailand: Signed up new exclusive modeling contract with 'GOT7', one of which members from Thailand boosting the Sales of Cream D'Escargot.
- Russia: Expect to see Sales growing from 160 shops at Vladivostok, Ulan-ude and Yakutsk
- Expanding MS: Entering 12 DFS shops through Louis Vuitton MH group, Foray into India with Dabur India Group and so on.

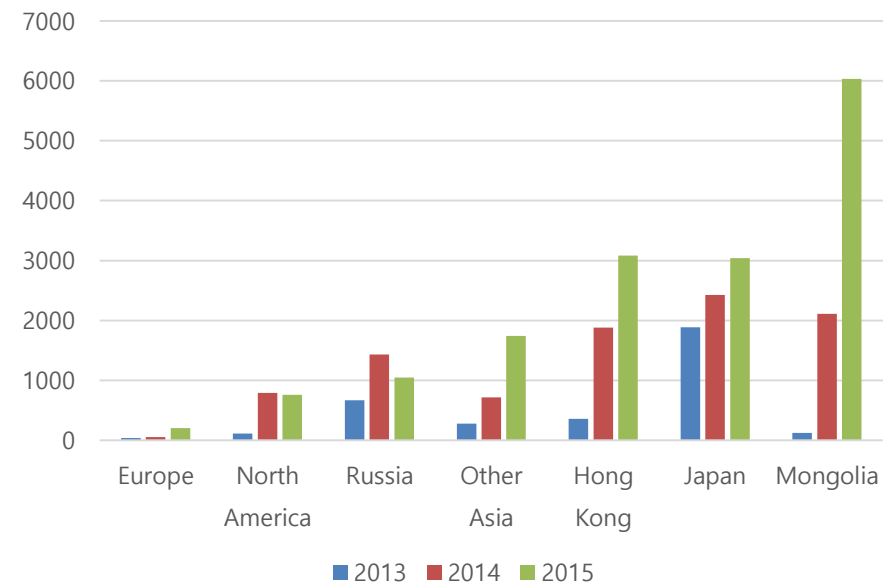
Portion of Direct Overseas Sales

[Unit: Mn KRW, %]



Exporting to Major Nations

[Unit: Mn KRW]



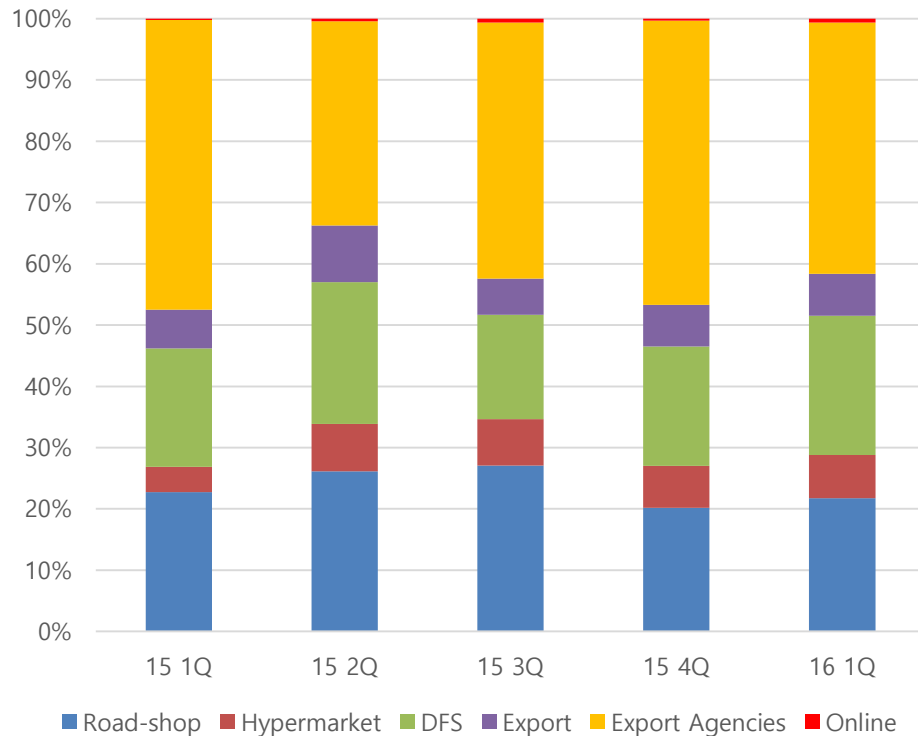


2. Sales Breakdown by Channel

- Online Sales: increased thanks to new Cross Boarder E-Commerce and Renewal of domestic online mall by 105.2% YoY, 82.7% QoQ
- DFS Sales: improved 15.5% QoQ led by increasing number of Chinese Tourist to Korea and increasing number of DFS shops
- Sales from Shops at Hypermarket: increased 23.2% YoY, 2.4% QoQ thanks to the increasing number of Shops opened (108 to 125)
- Road-shop (Stand alone shops): 2 New Directly Owned Shops and added franchise shops (114 to 122) boosted Sales 6.7% QoQ
- Sales from Export Agencies: Chinese Customers Pre-ordered in 1Q'15 due to the expectations that Chinese Gov't would toughen customs regulations from 2Q'15 that resulted in high base and customs delay 1Q'16 slowed Sales QoQ 10.8 % and YoY 35.2%

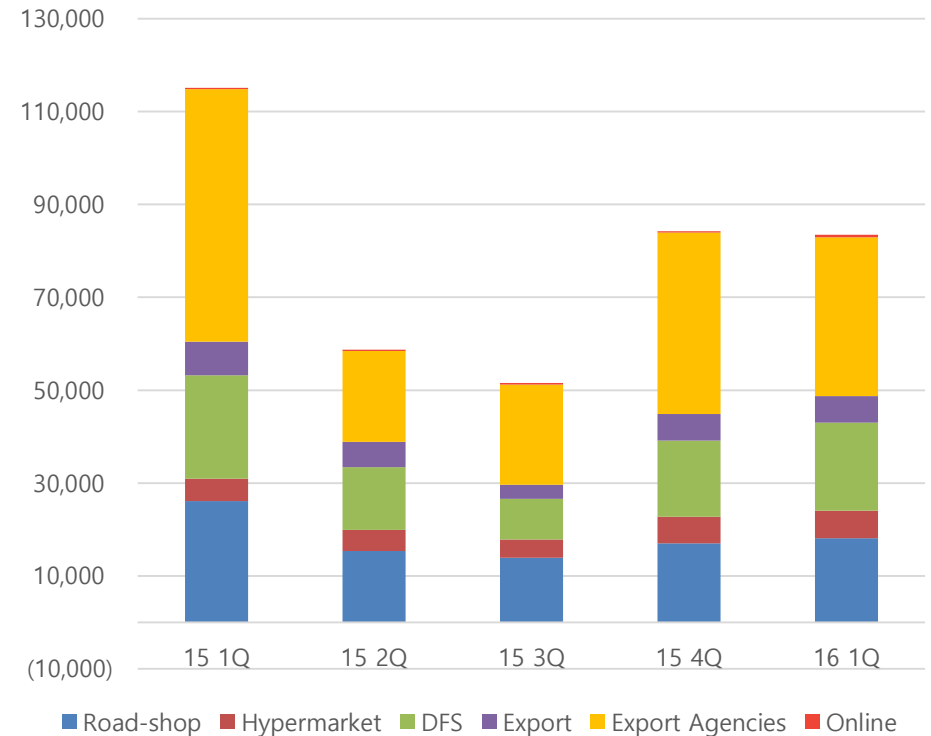
Sales Breakdown by Channel

[Unit : %]



Quarterly Sales Trend

[Unit :Mn KRW]



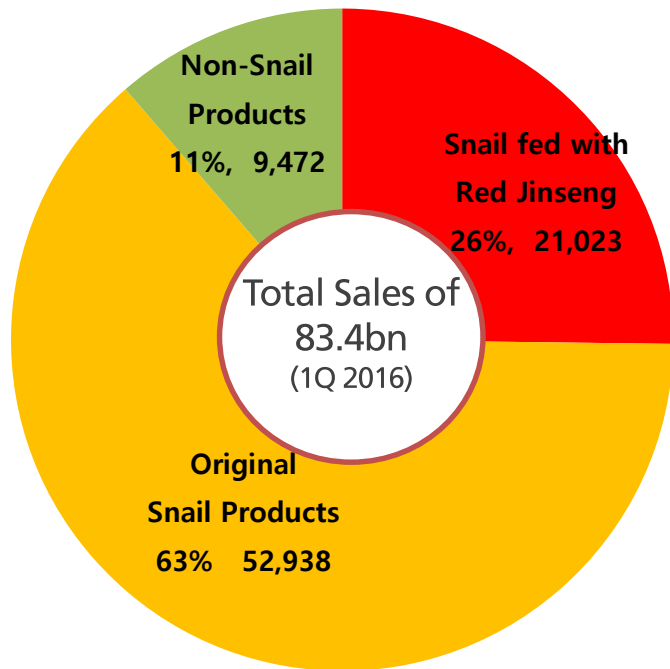


2. Sales Breakdown by Product

- Jinseng Eyecream(PRESTIGE Yeux Ginseng d'escargot) : Surpassed the Sales of Original Snail Cream proved Spillover effect.
- Non-seasonal Product such as Toner, Emulsion, Serum and Eyecream sold more than Cream and Mask that are richer. (31→ 33 bn)
- New Trend: Package Product having Toner, Emulsion and Cream sold better than the Cream only.
- Lip balm, Cushion Pact, Sun Block Cream made with the slime of Snail just added to the Snail Product Line.
- Product Diversification: Sales of Power 10 formula Serum and Homme Line increased.

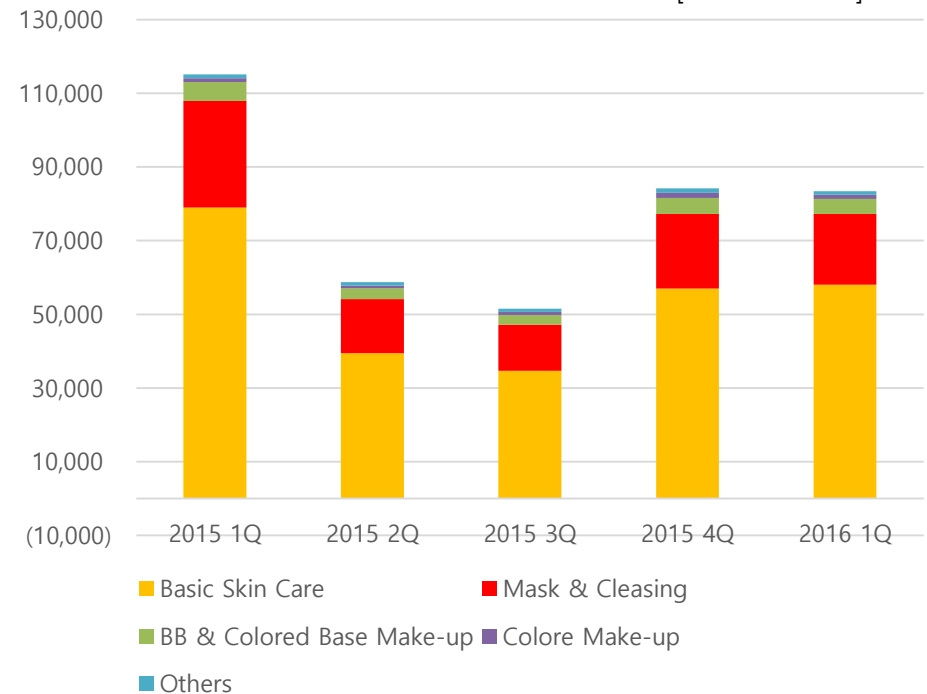
Sales Breakdown by Product Line

[Unit : %]



Quarterly Sales Trend

[Unit :Mn KRW]





3. Outlook of Business

- **FY2016 quarterly sales:**
 - QoQ Sales Growth to be expected from 2Q'16 because of the Base Effect from MERS 2015.
- **2 Track strategy from 2Q 2017:**
 - Made in Korea [Prestige] + Made in China [Masstige] (Production from Hanbul Cosmetics's factory in china from 2Q 2017)
- **Sales channel expansion in china:**
 - Collaboration with Strategic Partners such as Jumei, New World Group with Offline to Online, and JV with Semir group.
 - To Extend distribution Channel focusing more on Cross Border E-Commerce Platform & Bonded Warehouse.
- **Beneficiary of the Policy:**
 - As of April 8th, Tax got lowered from 50% to 11.9% for the Basic Skin Care Cosmetics, one of the key competence of IT'S SKIN
- **Foray into 'Post China Market' :**
 - Ready to expand the global market share, with strategic partners including Dabur India Group, DFS Louis Vuitton MH group, and so on.
- **100 New items will be introduced in the market within 2017 to see Next Snail Line:**
 - 2nd Generation D'escargot product to be released to Enhance the value of D'escargot line.
 - New Basic Cosmetic lines including Bio Cosmetic will be introduced to improve the Brand Identity, and lead the market.
 - Wide range of Color Cosmetics such as Kim Yuna's Special edition to be added to satisfy the customers and create new trend.
 - New exclusive PB product will boost sales and strengthen the unity with partners and customers.





4. Comprehensive Income Statement & Statement of Financial Position

[UNIT : Mn KRW]

Account	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1Q
I. Sales	115,107	58,703	51,524	84,228	83,433
II. Cost of goods sold	43,335	23,160	20,521	32,413	31,824
III. Gross profit	71,772	35,543	31,004	51,815	51,609
IV. SG&A expense	17,266	21,024	21,826	18,196	24,004
1. Labor	1,115	1,704	1,492	2,370	2,331
2. Welfare	160	230	174	188	184
3. Depreciation	1,042	1,149	1,183	1,178	1,214
4. Advertising	3,414	6,844	2,614	1,993	7,667
5. Commission	1,943	2,401	2,828	2,858	2,864
6. Sales Commission	7,239	5,999	3,987	6,767	6,740
7. Promotion	303	397	146	495	489
8. Events	524	586	635	662	680
9. Stock compensation	-	-	7,290	-	-
10. Others	1,526	1,714	1,477	1,685	1,835
V. Operating income	54,506	14,520	9,177	33,619	27,605
VI. Non-operating profit	1,630	1,625	197	543	2,548
1. Interest & Discount	709	718	558	751	2,439
2. Others	921	907	361	207	109
VII. Non-operating Cost	79	141	70	402	360
VIII. Earnings before tax	56,057	16,003	9,305	33,761	29,793
IX. Corporate tax	12,765	4,211	2,252	12,160	7,333
X. Net Income	43,291	11,792	7,053	21,600	22,461

[UNIT : MnKRW]

Account	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1Q
Assets	196,439	199,314	185,254	388,089	388,298
Current assets	183,858	186,011	172,064	375,157	373,108
Cash&Cashable assets	23,086	3,805	14,189	73,014	42,337
Other financial assets	126,000	140,500	124,000	262,000	293,000
account receivable	18,002	7,454	9,993	11,766	16,368
Inventory	13,226	29,098	19,199	24,024	14,900
Other Current assets	3,544	5,154	4,683	4,354	6,503
Non-current assets	12,582	13,303	13,190	12,932	15,190
Tangible assets	9,114	9,564	9,295	8,757	8,603
Intangible assets	1,267	1,289	1,276	1,261	1,971
Other Non-current assets	2,200	2,449	2,619	2,913	4,616
Liabilities	79,979	59,519	29,495	71,220	65,698
Current liabilities	79,125	58,634	28,499	70,338	64,614
Trade payable	35,745	31,280	8,525	30,521	11,256
Deferred tax liabilities	25,364	20,271	11,791	31,089	23,774
Other current liabilities	18,015	7,083	8,183	8,729	29,583
Non-current liabilities	855	885	996	882	1,084
Capital	116,460	139,795	155,758	316,869	322,600
capital stock	4,000	4,000	4,027	4,368	4,368
capital surplus	-	10,404	19,287	155,683	155,683
earned surplus	116,460	128,192	135,245	156,818	162,550
Other capital	(4,000)	(2,800)	(2,800)	-	-