

**It°S HANBUL**

Investor Relations 2017

# **IT°S HANBUL 1Q 2017 Earnings Release**

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IR & PR Team



# IT'S HANBUL



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## 1. Summary of 1Q'17 Earnings (Consolidated FS)

**Sales decreased 35.1% to 54.1bn, OP declined 51.8% to 13.3bn.**

**IT'S SKIN CHINA booked 120mn Sales for CFDA-approved items including 'Power10 Formula Essence'.**

[Unit:mn KRW]

	1Q '16		1Q '17		YoY(%)
	Amount	% of Sales	Amount	% of Sales	
Sales	83,433	100.0%	54,142	100.0%	-35.1%
IT'S SKIN	83,433	100.0%	54,045	99.8%	-35.2%
IT'S SKIN CHINA	-	0.0%	119	0.2%	-
Internal Transaction	-	0.0%	(21)	0.0%	-
COGS	31,824	38.1%	21,691	40.1%	-31.8%
Gross Profit	51,609	61.9%	32,452	59.9%	-37.1%
GPM(%)	61.9%		59.9%		
SG&A	24,029	28.8%	19,151	35.4%	-20.3%
Operating Profit	27,580	33.1%	13,301	24.6%	-51.8%
OPM(%)	33.1%		24.6%		
Recurring Profit	29,768	35.7%	13,899	25.7%	-53.3%
Income Tax	7,333	8.8%	2,987	5.5%	-59.3%
Net Profit	22,435	26.9%	10,912	20.2%	-51.4%



## 2. Summary of 1Q'17 Earnings (Separated FS)

**Sales decreased 35.2% YoY to 54.0bn, OP declined 52.0% YoY to 13.2bn.**

- Local sales portion edged up thanks to the popularity of the new color cosmetics, such as 'Life Palette' and 'Tiger Cicà', but THAAD retaliation has heavily affected both Domestic and Overseas Sales, despite improved brand awareness.
- Still higher level of OPM at 25% resulted from efficiently managed marketing cost amid of Merger and China Risk.

[Unit:mn KRW]

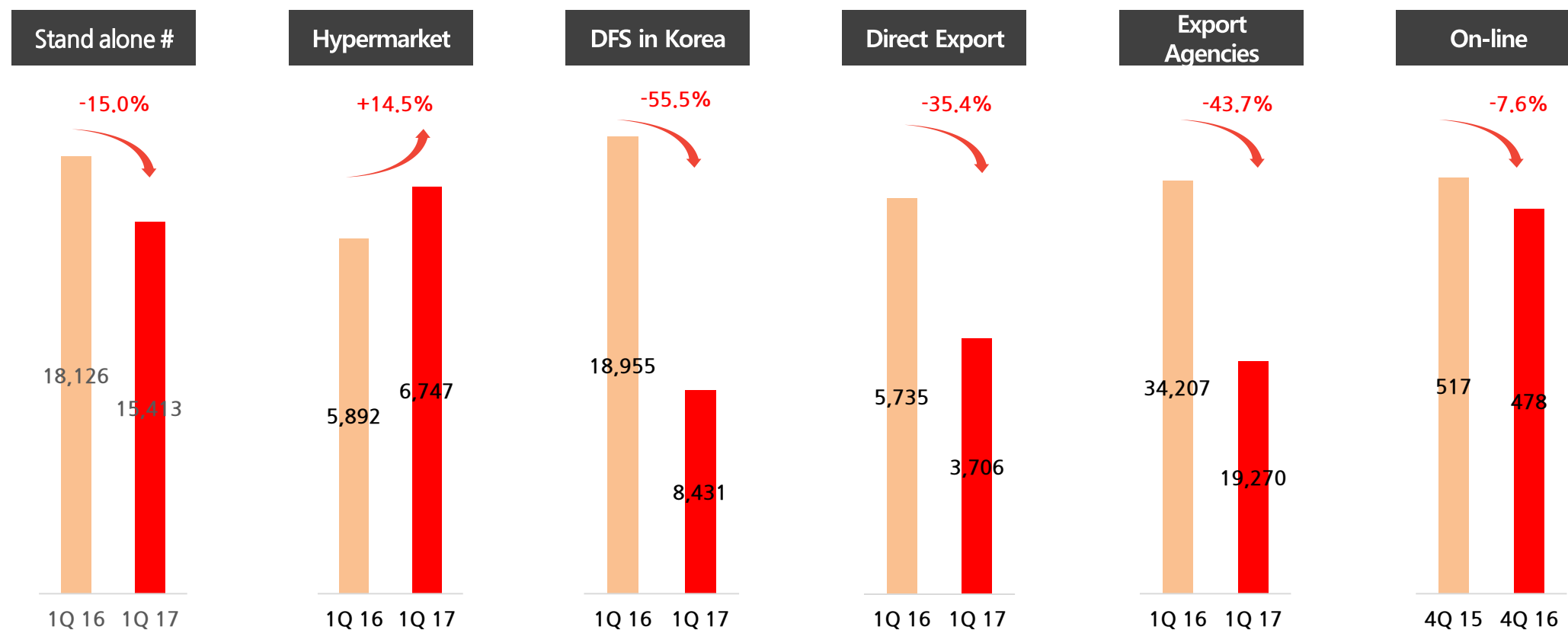
	1Q '16		1Q '17		YoY(%)
	Amount	% of Sales	Amount	% of Sales	
<b>Sales</b>	83,433	100.0%	54,045	100.0%	-35.2%
Domestic	43,491	52.1%	31,069	57.5%	-28.6%
Overseas	39,942	47.9%	22,976	42.5%	-42.5%
<b>COGS</b>	31,824	38.1%	21,688	40.1%	-31.9%
<b>Gross Profit</b>	51,609	61.9%	32,357	59.9%	-37.3%
<b>GPM(%)</b>	61.9%		59.9%		
<b>SG&amp;A</b>	24,004	28.8%	19,109	35.4%	-20.4%
<b>Operating Profit</b>	27,605	33.1%	13,248	24.5%	-52.0%
<b>OPM(%)</b>	33.1%		24.5%		
<b>Recurring Profit</b>	29,793	35.7%	13,852	25.6%	-53.5%
<b>Income Tax</b>	7,333	8.8%	2,987	5.5%	-59.3%
<b>Net Profit</b>	22,461	26.9%	10,865	20.1%	-51.6%



### 3. 1Q'17 Sales by Channel

- **Stand alone shops** : Sales dropped 15% YoY due to slow domestic economy & decrease in inbound tourists from China.
- **Hypermarkets** : Increase in number of stores resulted in the rise in Sales by 14.5% to 6.7bn, 'E-mart exclusive products' will boost Sales.
- **DFS in Korea** : Sales fell 55.5% YoY due to THAAD and LOTTE DFS issue, but try to boost with 'DFS only products'.
- **Direct Export** : Sales dropped 35.4% YoY due to the delay of direct sales to China, but grew in Japan, USA, Europe market.
- **Export Agencies** : Sales fell 43.7% YoY due to tightened regulation, but expect to be recovered when THAAD issue resolved.

[Unit:mn KRW]







## 4. 1Q'17 Sales by Region

- **Japan** : Made Biggest contribution with a wide range of customers loving Skin care (*Snail*, *Power10*, *AC lines*) and other Color cosmetics.
- **Thailand** : Sales jumped up 280% thanks to improved brand recognition after having promotions with global model, GOT7.
- **China** : Still delay in customs, but try to get more CFDA approved items, and will foray into China w/ 'Made in China products' from 3Q
- **Hong Kong** : Just signed contract with 'SaSa' and CBECs will make wider channels, with a variety of new lines of products along with 'Snail'.
- **USA** : Just signed contract with big channels, and still getting stable orders from "shop in shop" for 'Mask Sheets' and 'Macaron Lip Balm'.
- **Others** : Enter into Sephora in Europe for the 1st time, continuing orders from NewU in India, about to open shops in Middle East & etc..

### Recently Opened Shops and Sales Counters Abroad



▲ NewU India (Deli)



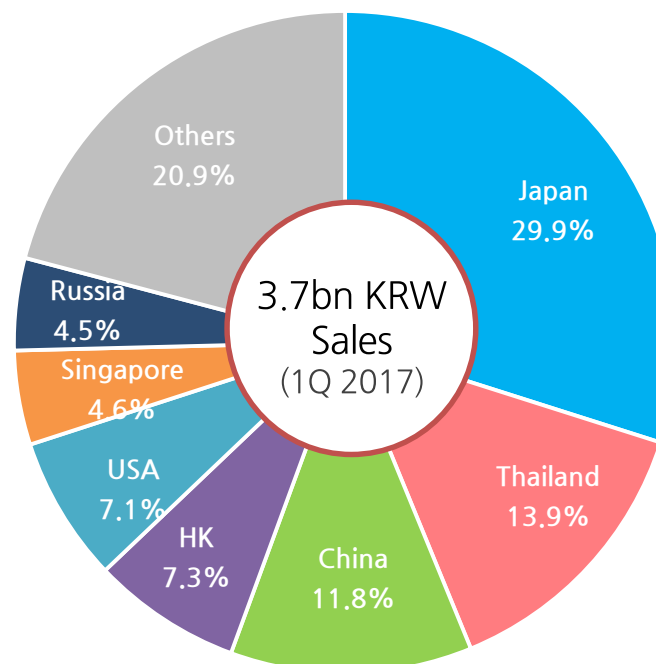
▲ Japan (Tokyo)



▲ Ecuador (Quito)

### % of Sales by Region (As of 1Q'17)

[Unit: %]

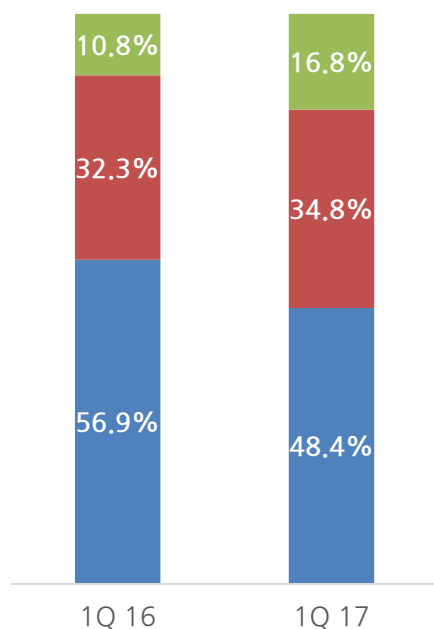




## 5. 1Q'17 Sales by Product

- *'PRESTIGE Yeux Ginseng d'escargot'*: Made biggest contribution for 5 consecutive quarters, w/ other 59 snail products still popular.
- *'Life Pallet 'line (Eye 2, Cheek 2)'*: Sold out within 1 week at online promotion, and 2<sup>nd</sup> offline launching sales still hot.
- *'Tiger Cica' line*: Successful debux of 'post snail products' including *Colored Cica Cushion* and the line to be expanded 3Q.
- *Propolis Cream d'escargot'*: Sales from Exclusive Tourist Attractions made similar level to sales of Original Cream from all.
- **Tailored products**: Products for specific channel, such as 'E-mart only', 'Homeshopping only', & 'Watson's only' drive growth.

Snail vs Non-Snail



Steady Best seller and Newly Hit Products



■ Others ■ Snail Jinseng ■ Snail (*PRESTIGE Yeux Ginseng d'escargot'*, Life Pallet (Eye and Cheek), Tiger Cica (Tone-up cousin and BB cousin, Gel Cream and Balm), Propolis Cream d'escargot)



## 6. Cost Analysis : SG&A

- **Labor Cost** : Similar amount booked despite newly added employees due to the decrease in bonus and incentives
- **Marketing Cost** : 57% cut off advertisement cost for the THAAD retaliation and Merger decision postponed TV ads.
- **Commission** : Increase in commission for entering more Hypermarket stores offset decrease in commission from DFS.
- **Depreciation** : 28% YoY increased from Interior Depreciation from increasing number of new stores and interior renewal.
- **Others** : 45.1% YoY increased with R&D cost of 200mn KRW and Rent cost of 600mn for HQ and new shops opened.

[Unit:mn KRW]

	1Q'16		1Q'17		YoY
	Amount	%	Amount	%	
<b>SG&amp;A</b>	<b>24,004</b>	<b>100.0%</b>	<b>19,109</b>	<b>100.0%</b>	<b>-20.4%</b>
Labor	2,331	9.7%	2,337	12.2%	0.3%
Marketing	8,836	36.8%	4,831	25.3%	-45.3%
Advertisement	7,667	31.9%	3,329	17.4%	-56.6%
Promotion	489	2.0%	907	4.7%	85.7%
Event	680	2.8%	594	3.1%	-12.6%
Commission	9,604	40.0%	7,456	39.0%	-22.4%
Payment Commission	2,864	11.9%	5,127	26.8%	79.0%
Selling Commission	6,740	28.1%	2,329	12.2%	-65.4%
Depreciation	1,214	5.1%	1,553	8.1%	28.0%
Others	2,020	8.4%	2,931	15.3%	45.1%





## 7. FS Summary (Separated)

### ○ Statement of Financial Position

[Unit : Million KRW]

	2013	2014	2015	2016	2017 1Q
Current assets	21,954	144,983	375,157	349,852	356,407
Non-current assets	3,872	9,785	12,932	19,108	20,067
<b>Total assets</b>	<b>25,826</b>	<b>154,767</b>	<b>388,089</b>	<b>368,959</b>	<b>376,473</b>
Current liabilities	16,122	73,946	70,338	27,874	36,421
Non-current liabilities	290	590	882	1,135	1,342
<b>Total liabilities</b>	<b>16,412</b>	<b>74,536</b>	<b>71,220</b>	<b>29,009</b>	<b>37,763</b>
Capital stock	4,000	4,000	4,368	8,736	8,736
Retained earnings	5,414	80,231	156,818	198,443	197,202
Capital Surplus	-	-	155,683	151,239	151,239
Other equity items	-	(4,000)	-	(18,466)	(18,466)
<b>Total shareholders' equity</b>	<b>9,414</b>	<b>80,231</b>	<b>316,869</b>	<b>339,951</b>	<b>338,711</b>

### ○ Comprehensive Income Statement

[Unit : Million KRW]

	2013	2014	2015	2016	2017 1Q
<b>Sales</b>	<b>52,378</b>	<b>241,884</b>	<b>309,562</b>	<b>267,459</b>	<b>54,045</b>
<b>COGS</b>	<b>22,965</b>	<b>93,717</b>	<b>119,428</b>	<b>103,416</b>	<b>21,688</b>
<b>SG&amp;A expenses</b>	<b>21,117</b>	<b>49,106</b>	<b>78,311</b>	<b>90,606</b>	<b>19,109</b>
<b>Operating income</b>	<b>8,296</b>	<b>99,061</b>	<b>111,823</b>	<b>73,436</b>	<b>13,248</b>
<b>Operating Margin(%)</b>	<b>15.8%</b>	<b>41.0%</b>	<b>36.1%</b>	<b>27.5%</b>	<b>24.5%</b>
<b>Non-operating income</b>	<b>552</b>	<b>1,786</b>	<b>4,000</b>	<b>6,065</b>	<b>1,317</b>
<b>Non-operating expenses</b>	<b>215</b>	<b>28</b>	<b>692</b>	<b>1,434</b>	<b>713</b>
<b>Corporate tax</b>	<b>1,878</b>	<b>24,488</b>	<b>31,389</b>	<b>19,577</b>	<b>2,987</b>
<b>Net income</b>	<b>6,755</b>	<b>76,331</b>	<b>83,736</b>	<b>58,490</b>	<b>10,865</b>
<b>Net Income Margin(%)</b>	<b>12.9%</b>	<b>30.8%</b>	<b>27.0%</b>	<b>21.9%</b>	<b>20.1%</b>

Note 1: The financial figures of 2013 is based on K-GAAP

Note 2 : The financial figures from 2014 to 2016 are based on K-IFRS