

IT'S SKIN 2Q 2016 Earnings Release

2016. 08. 09.

IR Team





1. Summary of 1H 2016 Earnings

- Sales increased to 145bn, 7.1% increase compared to 2H 2015, 16.4% drop compared to 1H 2015.
- Operating Profit decreased to 42bn, 2.3% drop compared to 2H 2015, 39.4% drop compared to 1H 2015.
- Net Income increased to 33bn, 16.5% increase compared to 2H 2015, 39.4% drop compared to 1H 2015.

[Unit : Million KRW]

	2015 1H	2015 2H	2016 1H	YoY	QoQ
Sales	173,810	135,752	145,374	-16.4%	7.1%
Domestic	87,142	66,385	80,646	-7.5%	21.5%
Overseas	86,668	69,367	64,728	-25.3%	-6.7%
COGS	66,494	52,934	55,929	-15.9%	5.7%
Gross Profit	107,315	82,819	89,446	-16.7%	8.0%
GPM(%)	61.7%	61.0%	61.5%		
ST&A	38,289	40,022	47,645	24.4%	19.0%
Operating Profit	69,026	42,797	41,801	-39.4%	-2.3%
OPM(%)	39.7%	31.5%	28.8%		
RP	72,060	43,065	44,477	-38.3%	3.3%
Tax	16,976	14,412	11,098	-34.6%	-23.0%
NP	55,083	28,653	33,378	-39.4%	16.5%

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

- Overseas Sales: Export + Export Agents



2. Summary of 2Q 2016 Earnings

- Sales posted to 61.9bn +5.5% YoY, -25.8% QoQ, due to the decrease in Sales from China.
- OP decreased to 14.2bn by -2.2% YoY, -48.6% QoQ, due to the increase in Marketing Cost.
- Sales from Stand alone shops and Hypermarket shops grew by 10.3% and 31.7% respectively, thanks to the fundamental improvement in the Brand's Reputation from the TV-CM with Yuna Kim and Got7 and new stores.
- On top of the weak seasonality, changes in Tax policy, tightened regulation for imported cosmetics led to the changes in Consumer's behavior in China, Political issue on Korean gov't's decision to deploy the THAAD system and Product Mix change from Prestige line to lower ASP, and consequently sluggish export sales.
- Plans to diversify channels to China by setting up JV with Semir, O2O with the New World Group, and to expand CBEC with CFDA approved products.

[Unit: Million KRW]

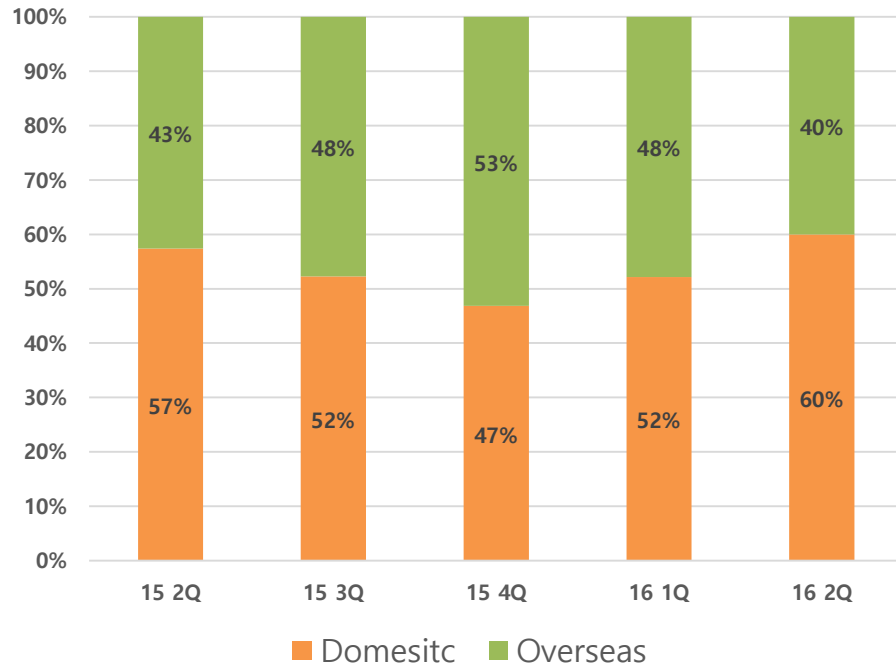
	2015 2Q	2016 1Q	2016 2Q	YoY	QoQ
Sales	58,703	83,433	61,941	5.5%	-25.8%
Domestic	33,691	43,491	37,155	10.3%	-14.6%
Overseas	25,012	39,942	24,786	-0.9%	-37.9%
COGS	23,160	31,824	24,104	4.1%	-24.3%
Gross Profit	35,543	51,609	37,837	6.5%	-26.7%
GPM(%)	60.5%	61.9%	61.1%		
ST&A	21,024	24,004	23,641	12.4%	-1.5%
Operating Profit	14,519	27,605	14,196	-2.2%	-48.6%
OPM(%)	24.7%	33.1%	22.9%		
RP	16,003	29,793	14,683	-8.2%	-50.7%
Tax	4,211	7,333	3,766	-10.6%	-48.6%
NP	11,792	22,461	10,918	-7.4%	-51.4%



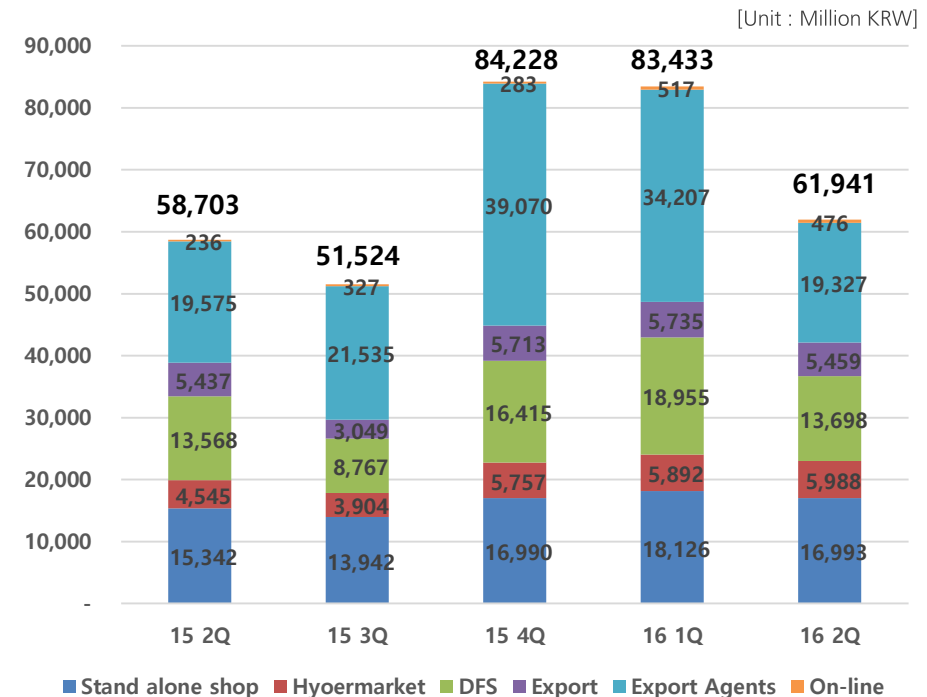
3. Sales breakdown by Channel

- Stand alone shops posted 17.0bn, +10.8% YoY thanks to improved Brand's Reputation from the TV-CM with Yuna Kim and new additions of directly owned stores at Kangnam and Kangwon, and the newly added franchise stores all over the nation.
- New addition to Hypermarket stores such as E-mart increased by 22% YoY, resulted in the rise in Sales by 31.7% to 6.0bn.
- DFS in Korea generated 13.7bn Sales, 1% YoY growth due to LOTTE DFS Closed shop and Changes in Product mix for weak seasonality.
- Export to North America and Southeast Asia showed stronger growth with 5.5bn sales, while weaker sales to China made 19.3 bn.

Domestic vs Overseas



Quarterly Sales Breakdown by Channel

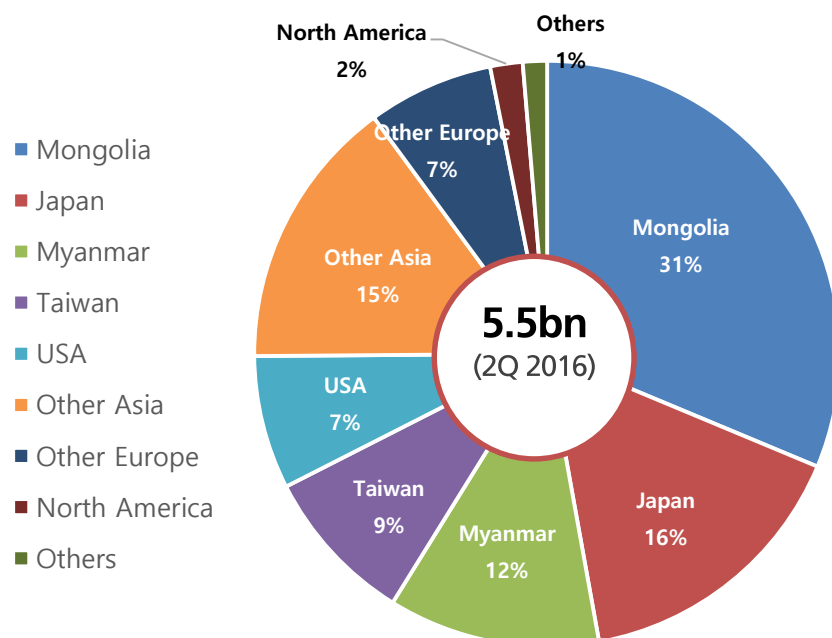




4. Sales Breakdown by Region

- China : CBEC (T-mall Global) kicking off, New World Group's O2O channel recorded the first direct Sales to China in 2Q 16.
- Mongol : Continued rising demand for the D'Escargot (Snail) products, because of higher moisturization effect for the dry atmosphere in Mongolian territory, which recorded the highest sales contribution for two consecutive quarters.
- Myanmar : Initial Sales with new partner recorded in March, followed by the opening of stand alone shops in Mandalay to increase Sales.
- North America : Entering Sephora and Urban Outfitters in the USA, with Cookie and Cream Body Lotion and Macaron Lip balm.
- Taiwan, HK and others: Continued Demand for D'Escargot products as well as Cheaper products such as Aloe and Collagen.

Direct Export Sales



Expanding O2O business with HOKO



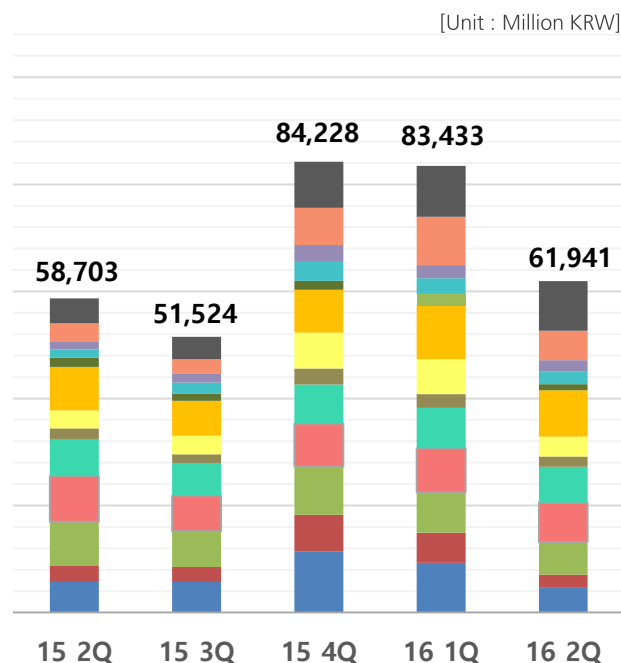
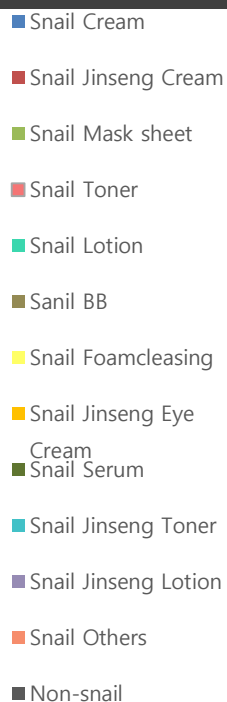
* Left photo: Front Page of HOKO Mobile Application, showing IT'S SKIN LOGO, Right upper photo: HOKO Shopping mall in Gwandong, Posan City, Right down: "Rose de Black" on Kiosk at Chow Tai Fok, world biggest jewelry company.



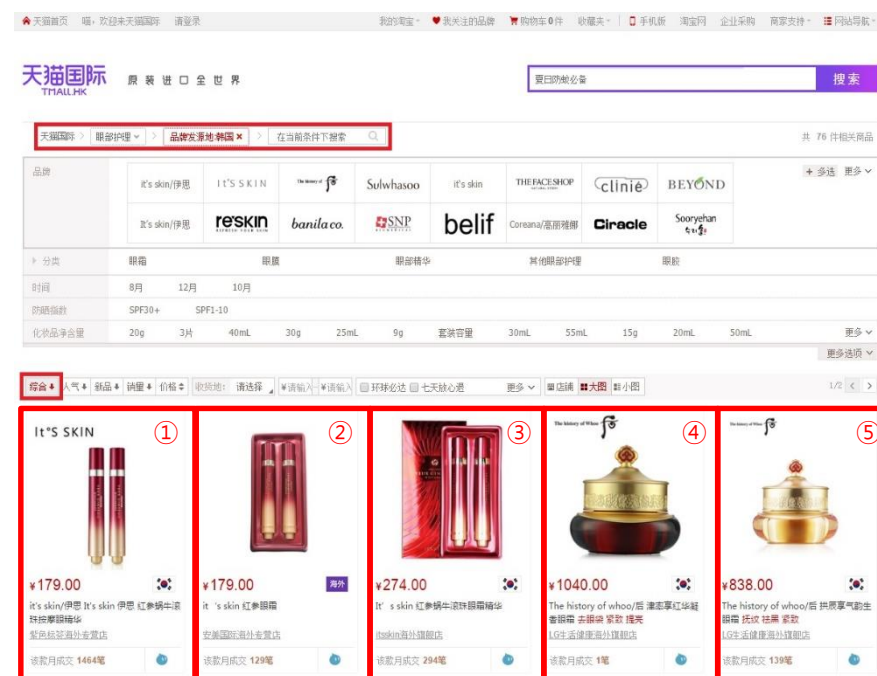
5. Sales Breakdown by product

- PRESTIGE Yeux Ginseng D'Escargot : made biggest contribution for 2 consecutive quarters, Ranked No.1 Eye cream from T-mall Global.
- CFDA approved items: Aloe, Collagen, Hyaluronic Acid started to be sold through direct channels, and grew 37% YoY since May'16
- Summer Products: Cloud Beer lines and Soothing gel lines replaced the higher ranks from the Snail product line.
- Non-snail products: Increasing demand for the lower ASP product and higher ASP with set-packaging made Sales growth 100% YoY.
- Masstige products: Got7 Mask sheet, Air Mask sheet, Power10 formula, Melting Lip and Chick Color make-ups increase in popularity.
- Homme & Baby: Renewed Double shot Fluid, BeBe D'Escargot sales grew 166% and 25% respectively compared to previous year.

Sales breakdown by product



Korean Eye Care Cosmetics Ranking @ T-mall Global
(as of 2016.06.30)





6. Cost Analysis : SG&A

- Marketing : Heavy Ad. Cost for TV Commercial with Yuna Kim and bigger promotions for the opening ceremony at road shops.
- Commission : Increased commission from Entering more Hypermarket stores offset decrease in commission from DFS.
- Others : Other employee benefit (0.3 bn), Rent from the new addition (0.3 bn), Samples(0.25 bn) increased.

[Unit : Million KRW]

구분	2015 2Q	2016 1Q	2016 2Q	YoY	QoQ
SG&A	21,024	24,004	23,641	12.4%	-1.5%
Labor	1,704	2,331	1,682	-1.3%	-27.8%
Marketing	7,827	8,553	8,743	11.7%	2.2%
Advertisement	6,844	7,667	7,588	10.9%	-1.0%
Event	586	680	760	29.7%	11.8%
Promotion	397	206	395	-0.5%	91.7%
Commission	8,399	9,604	8,617	2.6%	-10.3%
Payment Commission	2,401	2,864	3,582	49.2%	25.1%
Selling Commission	5,998	6,740	5,035	-16.1%	-25.3%
Depreciation	1,149	1,214	1,315	14.4%	8.3%
Others	1,944	2,302	3,283	48.7%	30.8%



7. Outlook of Business

○ JV Strategy with Semir in China

- Joint Venture with Semir: Semir will take part in Distributing, IT'S SKIN in Branding & Marketing, and HANBUL in manufacturing.
- HANBUL factory in China: to be completed in May 2017, and Another New Brand from JV to be added from 3Q 2017.

○ Expanding Direct Sales

- DFS in central city, CBEC (Cross Boarder E-Commerce) including T-mall Global and Taobao will actively sell CFDA approved products.
- First 6 items of Power10Formula approved from CFDA, to be distributed to Drug stores including Watsons' by a major agency in China.
- Adding Shop-in-shop in Sephora & Urban Outfitters in North America to increase popularity for Mask sheet, color and body products.
- Registration process ongoing in India. NewU Channel is now ready to introduce 200 items including D'Escargot products within 2H16.

○ Marketing Strategy for 2H16

- More active communication with Chinese consumers by using more effective ways, WangHong (SNS celebrity) and having PPL.
- Strengthening Prestige line with 10th Anniversary D'Escargot Edition, new products from both Snail line and botanical bio line.
- Expanding Masstige line with Color, Character Collaboration, Homme, and Baby lines with diversified price strategy.

8. FS Summary



○ Statement of Financial Position

[Unit : Million KRW]

	2012	2013	2014	2015	2016 1Q	2016 2Q
Current assets	7,107	21,954	144,983	375,157	373,153	344,665
Non-current assets	3,161	3,872	9,785	12,932	15,055	16,790
Total assets	10,268	25,826	154,767	388,089	388,207	361,455
Current liabilities	7,305	16,122	73,946	70,338	64,614	26,978
Non-current liabilities	304	290	590	882	1,084	1,218
Total liabilities	7,608	16,412	74,536	71,220	65,698	28,196
Capital stock	4,000	4,000	4,000	4,368	4,368	8,736
Retained earnings	(1,340)	5,414	80,231	156,818	162,458	173,285
Capital Surplus	-	-	-	155,683	155,683	151,239
Other equity items	-	-	(4,000)	-	-	-
Total shareholders' equity	2,660	9,414	80,231	316,869	322,509	333,259

○ Comprehensive Income Statement

[Unit : Million KRW]

Items	2012	2013	2014	2015	2016 1Q	2016 2Q
Sales	31,797	52,378	241,884	309,562	83,433	61,941
COGS	13,723	22,965	93,717	119,428	31,824	24,104
SG&A expenses	15,285	21,117	49,106	78,311	24,004	23,641
Operating income	2,789	8,296	99,061	111,823	27,605	14,196
Operating Margin(%)	8.8%	15.8%	41.0%	36.1%	33.1%	22.9%
Non-recurring stock compensation cost	n.a.	n.a.	n.a	(7,290)	n.a	n.a
Non-operating income	315	552	1,786	4,000	2,548	602
Non-operating expenses	150	215	28	692	360	115
Corporate tax	722	1,878	24,488	31,389	7,333	3,766
Net income	2,231	6,755	76,331	83,736	22,461	10,918
Net Income Margin(%)	7.0%	12.9%	30.8%	27.0%	26.9%	17.6%

Note 1 : The stock price compensation cost was a non-recurring, non-cash item. After excluding it, the Net Income and Net profit margin will be KRW91,026 million and 29.4% respectively.

Note 2 : The financial figures from 2012 to 2013 are based on K-GAAP

Note 3 : The financial figures from 2014 to 2015 are based on K-IFRS