

IT'S SKIN 3Q 2016 Earnings Release

2016. 11. 08.

IR Team





1. Summary of 3Q '16 Earnings

Sales up 11.0% to KRW 57.2bn, OP up 74.1% to 16.0bn

- While sales growth at the Export Agencies turned negative QoQ due to the deteriorated channel condition for the imported cosmetics in China, sales growth at other channels was robust, despite the product mix shift to lower-end products because of the longer & hotter summer season.
- Higher Operating Profit growth thanks to the lower SG&A such as non-recurring stock price compensation cost of 7.3 bn at 3Q'15.

[Unit: Mn KRW]

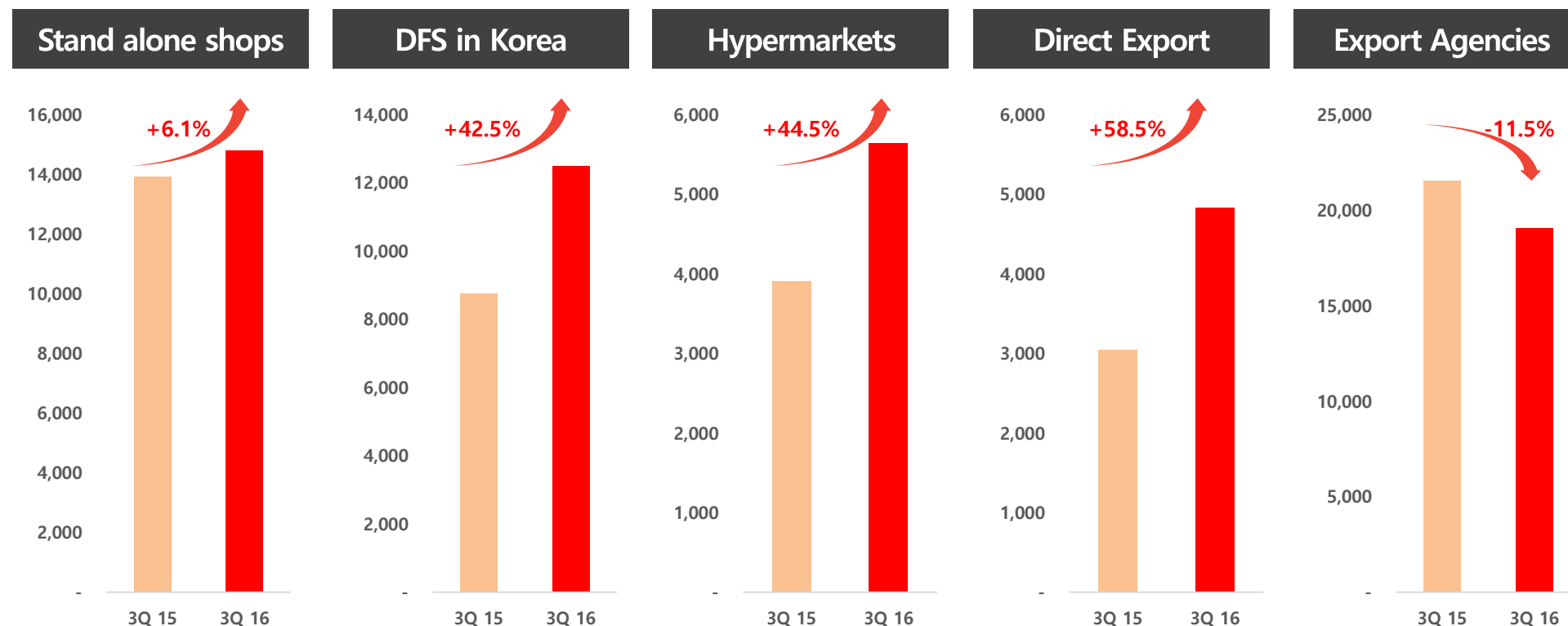
	3Q 2015	% of Sales	3Q 2016	% of Sales	YoY(%)
Sales	51,524	100.0%	57,201	100.0%	11.0%
Domestic	26,940	52.3%	33,303	58.2%	23.6%
Overseas	24,584	47.7%	23,898	41.8%	-2.8%
COGS	20,521	39.8%	22,345	39.1%	8.9%
Gross Profit	31,004	60.2%	34,855	60.9%	12.4%
GPM(%)	60.2%		60.94%		
SG&A	21,826	42.4%	18,875	33.0%	-13.5%
Operating Profit	9,177	17.8%	15,980	27.9%	74.1%
OPM(%)	17.8%		27.94%		
RP	9,305	18.1%	16,879	29.5%	81.4%
Tax	2,252	4.4%	4,177	7.3%	85.5%
NP	7,053	13.7%	12,702	22.2%	80.1%



2. Sales by Channel

- Stand alone shops: Sales increased 6.1% YoY to 14.8bn thanks to improved Brand's Reputation and successful repackaging products.
- DFS in Korea : *Prestige D'escargot* products (Eye Cream & Mask sheet) outperformed and grew 42.5% YoY to 12.5 despite of closed LOTTE DFS shop.
- Hypermarket: New stores opening at E-mart and LOTTE mart increased by 26% YoY, resulted in the rise in Sales by 44.5% to 5.6bn.
- Direct Export: Sales grew 58% YoY by penetrating into Chinese local site with CFDA approved products and CBEC with Snail products.
- Export Agencies: Due to the seasonality and political issues, sales of Rich product such as *D'escargot* decreased 11.5% YoY to 19.1bn.

[Unit: Mn KRW]

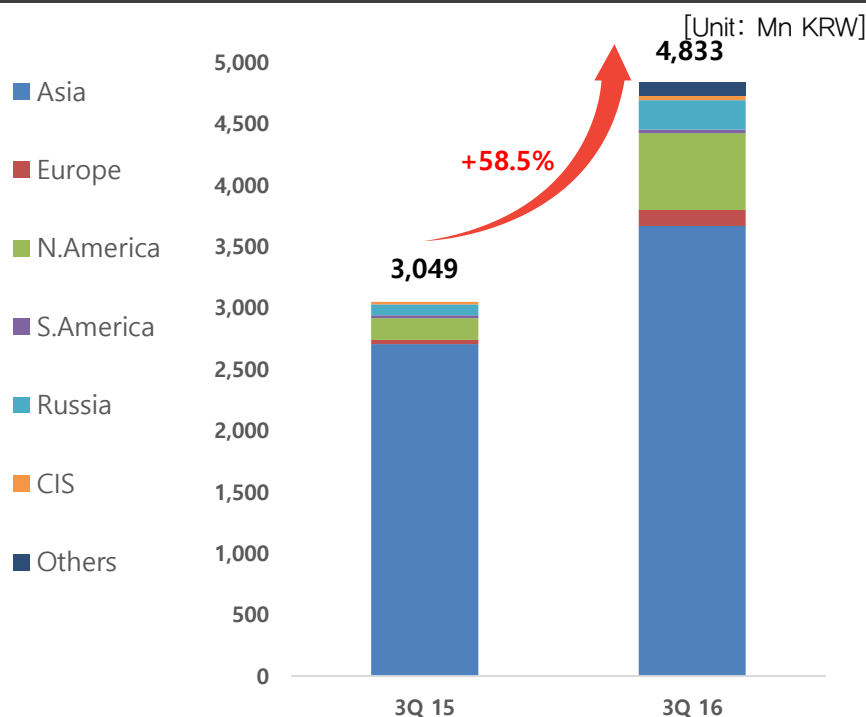




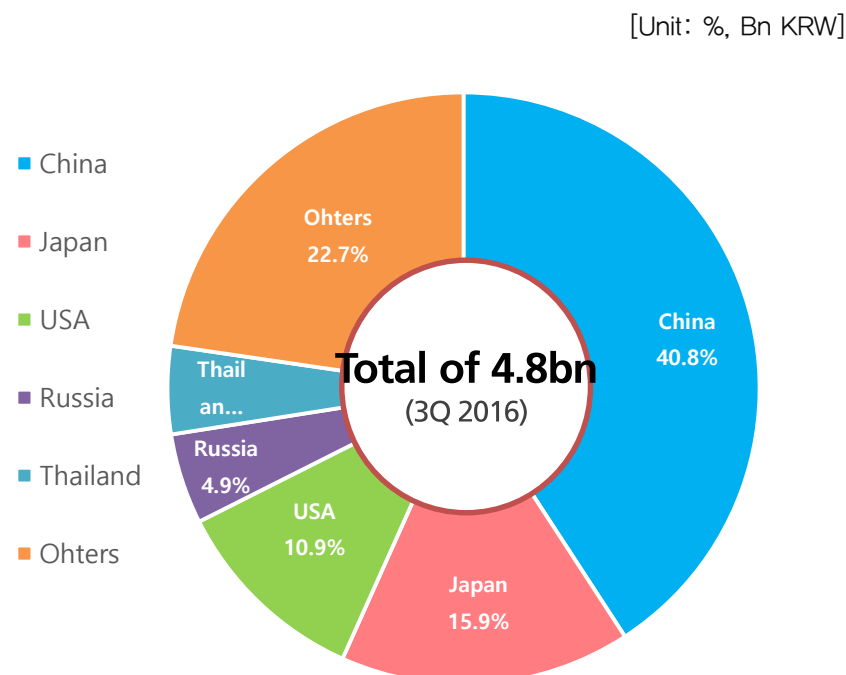
3. Sales by Region

- China : Sales grew from 0.2 to 2bn by penetrating into Chinese local site with CFDA approved products and CBEC with Prestige D'escargot products.
- Japan : Steady sales from Color make-up, Masstige product & newly launched products only for Plaza such as 'Tinted Eyebrow, Cotton Swap Remover.
- USA: Sales rose 419% YoY, expanding warehouse to enter to Sephora, Urban Outfitters, with sustainable popularity of Macaron Lip Balm and Mask sheets.
- Russia : Sales increased 169% YoY through 160 shop-in-shops at Moscow and Vladivostok
- Thailand: Sales hiked 405% YoY, with popularity of one of the GOT7 members from Thailand boosted the Sales of Snail Cream and Mask sheets.

Direct Export Sales by Region



% of Sales by Region (As of 3Q16)

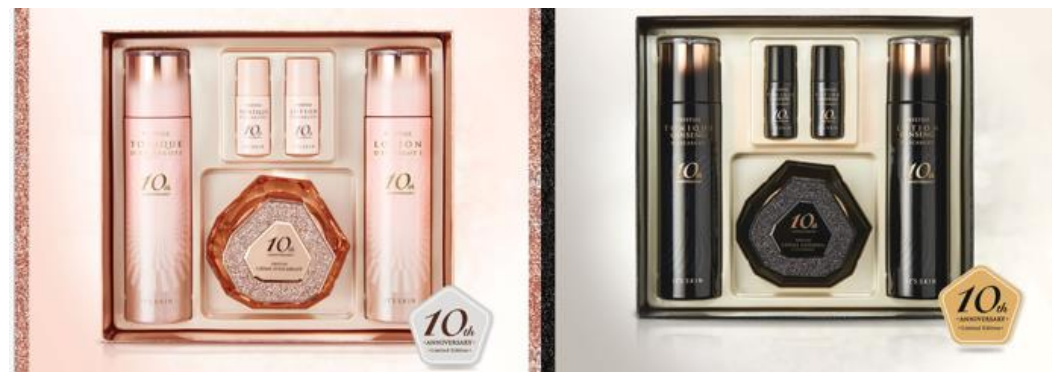
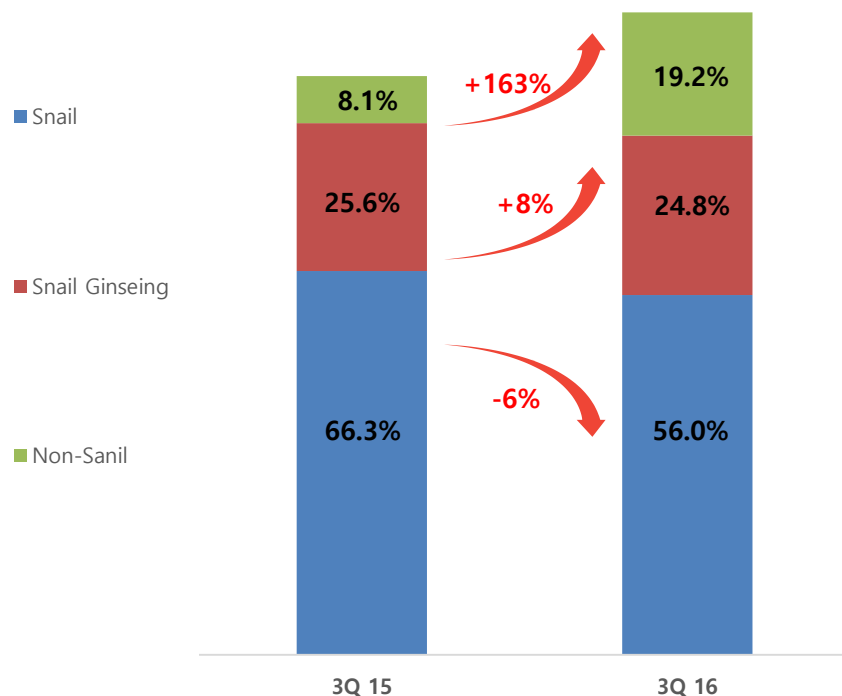




4. Sales by Product -1

- Non-Snail products such as *Flower Cell* (Toner, Emulsion and Cream), called as "Post *D'Escargot*" grew 163% YoY to diversify product lines.
- PRESTIGE Yeux Ginseng D'Escargot* (Snail Ginseng Eye Cream) accounts for 12% of total Sales, made biggest contribution for 3 consecutive quarters.
- Repackaging product: *10th Anniversary Limited Edition of D'Escargot* Set only for domestic market close to sold-out, and positive impact over original ones.
- Sales of Snail products decreased 6% YoY due to the longer and hotter summer season, and the deteriorated channel condition by Chinese Gov't policy.

Sales Trend of Snail vs Non-Snail

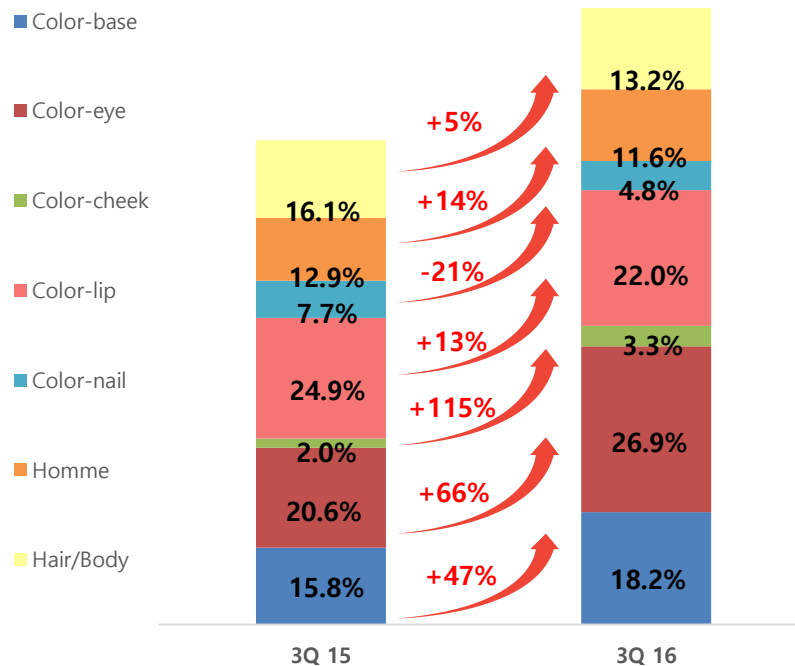




5. Sales by Product - 2

- Expanded 'Power 10 Formula' line grew 89% YoY, *Homme* line jumped 152% YoY, *Bebe* line improved 22% YoY and Other products rose 198% YoY.
- Robust sales growth of color makeup such as 'It's Top By Professional Mono Special Palette Eye-shadow' (Called Yuna's Palette) & Lip lines.
- Successful collaboration with *Sesame Street* and *Power 10 Formula* and *Macaron Lip Balm*, *Rolling Stick* and *Hand Cream* drove the Sales growth.

Sales Trend of Color make-up, Homme, Hair/Body





6. Cost Analysis : SG&A

- Marketing cost: Rose 82% YoY with 76% increased Ad. cost for TVCF of Flower Cell and On-line promotion cost for the Sesame Street Collaboration.
- Commission : Increase in commission for entering more Hypermarket stores offset decrease in commission from DFS(Commission account name changed).
- Other cost : Despite the rising cost such as rent of 0.5bn, OP improved 74.1% YoY due to the one time cost of 7.3bn from the previous year.

[Unit:Mn KRW]

구분	2015 3Q	2016 3Q	YoY(%)
SG&A	21,826	18,875	-13.5%
Labor	1,492	1,613	8.1%
Marketing	3,395	6,173	81.8%
Advertisement	2,614	4,591	75.6%
Promotion	146	815	458.2%
Event	635	768	20.9%
Commission	6,816	7,186	5.4%
Payment Commission	2,828	4,942	74.8%
Selling Commission	3,987	2,243	-43.7%
Depreciation	1,183	1,398	18.2%
Others	8,940	2,505	-72.0%

7. FS Summary



○ Statement of Financial Position

[Unit : Million KRW]

	2013	2014	2015	2016 1Q	2016 2Q	2016 3Q
Current assets	21,954	144,983	375,157	373,153	344,665	339,287
Non-current assets	3,872	9,785	12,932	15,055	16,790	17,658
Total assets	25,826	154,767	388,089	388,207	361,455	356,946
Current liabilities	16,122	73,946	70,338	64,614	26,978	20,395
Non-current liabilities	290	590	882	1,084	1,218	1,299
Total liabilities	16,412	74,536	71,220	65,698	28,196	21,694
Capital stock	4,000	4,000	4,368	4,368	8,736	8,736
Retained earnings	5,414	80,231	156,818	162,458	173,285	185,987
Capital Surplus	-	-	155,683	155,683	151,239	151,239
Other equity items	-	(4,000)	-	-	-	(10,710)
Total shareholder s' equity	9,414	80,231	316,869	322,509	333,259	335,251

○ Comprehensive Income Statement

[Unit : Million KRW]

과 목	2013	2014	2015	2016 1Q	2016 2Q	2016 3Q
Sales	52,378	241,884	309,562	83,433	61,941	57,201
COGS	22,965	93,717	119,428	31,824	24,104	22,345
SG&A expenses	21,117	49,106	78,311	24,004	23,641	18,875
Operating income	8,296	99,061	111,823	27,605	14,196	15,980
Operating Margin(%)	15.8%	41.0%	36.1%	33.1%	22.9%	27.9%
Non-operating income	552	1,786	4,000	2,548	602	1,214
Non-operating expenses	215	28	692	360	115	315
Corporate tax	1,878	24,488	31,389	7,333	3,766	4,177
Net income	6,755	76,331	83,736	22,461	10,918	12,702
Net Income Margin(%)	12.9%	30.8%	27.0%	26.9%	17.6%	22.2%

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