

IT'S SKIN 4Q 2016 Earnings Release

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IR Team



It'S SKIN



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1. Summary of 2016 Earnings

Sales decreased 13.6% to 267.5bn, OP declined 34.3% to 73.4bn

- Decreased Sales is attributable to the deteriorated channel condition for the imported cosmetics in China after the gov't toughened the regulations.
- Increased SG&A resulted from the mounted marketing cost to enhance Brand Value, Premium image of *Prestige d'escargot* & new products.

[Unit:mn KRW]

	2015		2016		YoY(%)
	Amount	% of Sales	Amount	% of Sales	
Sales	309,562	100.0%	267,459	100.0%	-13.6%
Domestic	153,527	49.6%	152,920	57.2%	-0.4%
Overseas	156,035	50.4%	114,539	42.8%	-26.6%
COGS	119,428	38.6%	103,416	38.7%	-13.4%
Gross Profit	190,134	61.4%	164,042	61.3%	-13.7%
GPM(%)	61.4%		61.3%		
SG&A	78,311	25.3%	90,606	33.9%	15.7%
Operating Profit	111,823		73,436	27.5%	-34.3%
OPM(%)	36.1%		27.5%		
Recurring Profit	115,125	37.2%	78,067	29.2%	-32.2%
Income Tax	31,389	10.1%	19,577	7.3%	
Net Profit	83,736	27.0%	58,490	21.9%	-30.1%



2. Summary of 4Q '16 Earnings

Sales decreased 23.0% YoY to 64.9bn, OP declined 53.4% YoY to 15.7bn

- Sales from Stand alone shops & Hypermarket grew 6.1%, 36.7% YoY respectively, while DFS, Export Agencies decreased 22.8%, 49.0% YoY.
- SG&A increased 32.4% YoY due to the cost for a new R&D Center in Seoul, and increased advertising cost of 5.5 bn for 'Flower Cell'.

[Unit:mn KRW]

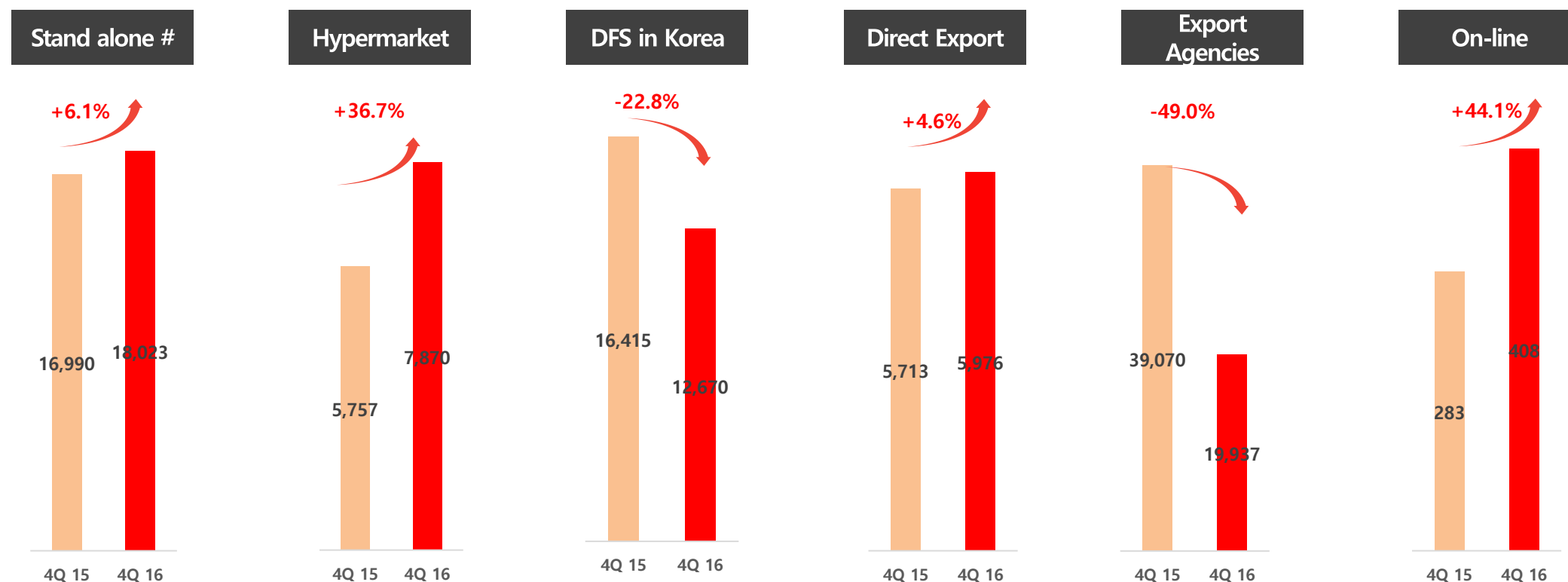
	4Q 2015		4Q 2016		YoY(%)
	Amount	% of Sales	Amount	% of Sales	
Sales	84,228	100.0%	64,884	100.0%	-23.0%
Domestic	39,445	46.8%	38,971	60.1%	-1.2%
Overseas	44,783	53.2%	25,913	39.9%	-42.1%
COGS	32,413	38.5%	25,142	38.8%	-22.4%
Gross Profit	51,815	61.5%	39,741	61.2%	-23.3%
GPM(%)	61.5%		61.2%		
SG&A	18,196	21.6%	24,087	37.1%	32.4%
Operating Profit	33,619	39.9%	15,655	24.1%	-53.4%
OPM(%)	39.9%		24.1%		
Recurring Profit	33,761	40.1%	16,711	25.8%	-50.5%
Income Tax	12,160	14.4%	4,302	6.6%	-64.6%
Net Profit	21,600	25.6%	12,409	19.1%	-42.6%



3. 4Q Sales by Channel

- **Stand alone shops** : Sales up 6.1% from newly introduced Color makeup(eye, chick, lip) & Sesame Street Masksheet, Homme & Hair&Body.
- **Hypermarkets** : Number of stores increased by 26.5% YoY, robust sales of *Prestige Jinseng D'escargot* ' resulted in the rise in Sales by 36.7% to 7.9bn.
- **DFS in Korea** : Sales dropped 22.8% YoY due to the lower growth rate of inbound tourists from China & closed DFS Shop at LOTTE dept.
- **Direct Export** : Sales rose 4.6% YoY thanks to the increase in direct sales to China, and growing demand from USA, Japan, Russia & Thailand.
- **Export Agencies** : Sales fell 49.0% YoY due to tightened regulation of CFDA, while portion of CBEC sales continue to increase gradually.
- **On-line** : Recently activated in-house online shopping mall and combined On-Off line membership program boosted sales 44.1% YoY.

[Unit:mn KRW]



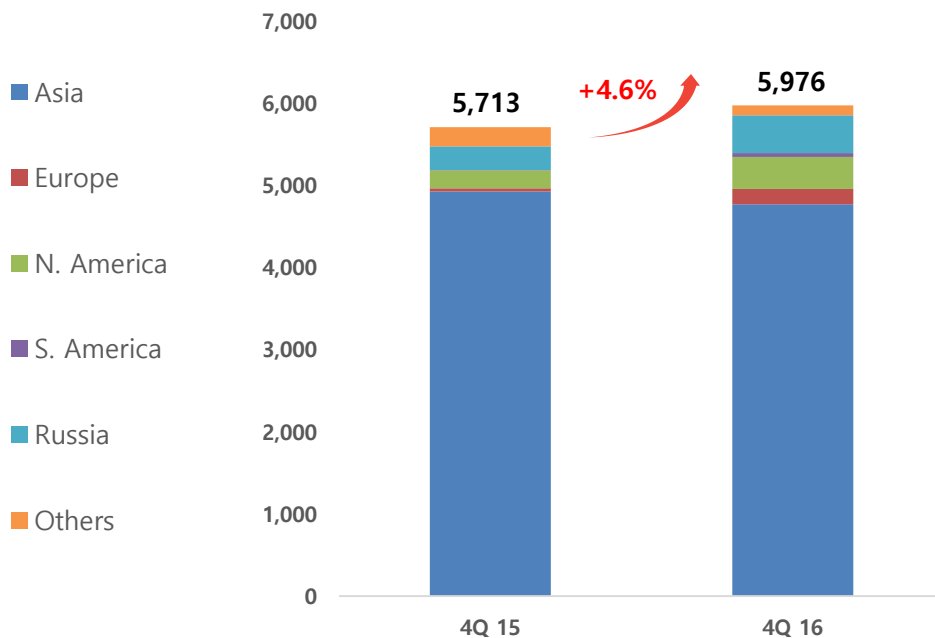


4. 4Q Sales by Region

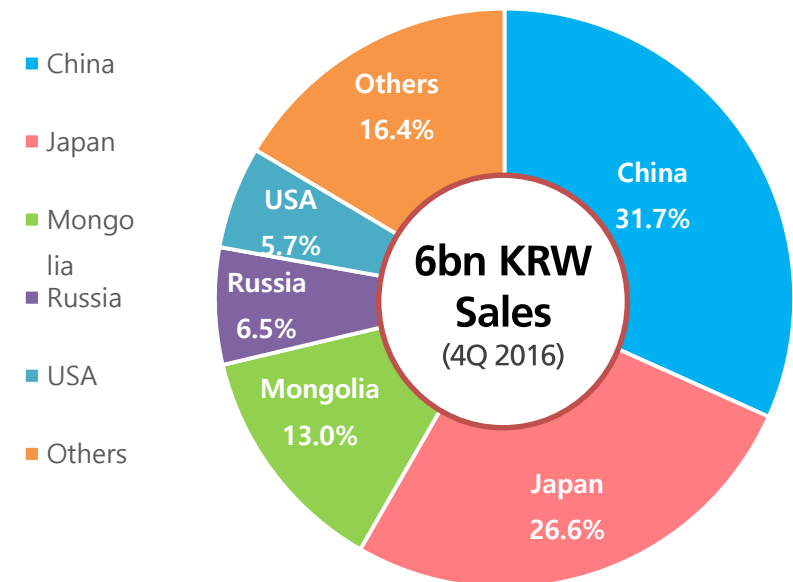
- **China** : 1.9 bn KRW Sales from CBEC(Tmall Global) on Nov. 11st and the Sales from the Event of Clinical Camp (Tmall Global + Local site).
- **Japan** : Sales jumped 100% to 1.6 bn KRW thanks to the first Stand alone shop at Tokyo opened in Nov. and steady sales from Plaza.
- **Mongolia** : Strong seasonality for Moisturizers and 2 shops with interior renewal among 4 shops regenerated Sales to 780 Mn KRW.
- **Russia** : 4 Stand alone shops and 160 counters continue to generate revenue, despite fluctuating local currency, scheduled to open shops.
- **USA** : Growing orders from Sephora 328, American-eagle 100, Burlington 50, Forever21 50, Lovesick 20, Ulta 50, Urbanoutfitters 100.
- **Others** : Sales is expected to increase from the 4th anniversary promotion in Thailand, 2nd Stand alone shop to be opened in Poland.

Direct Export Sales by Region

[Unit:mn KRW]



% of Sales by Region (As of 4Q16)

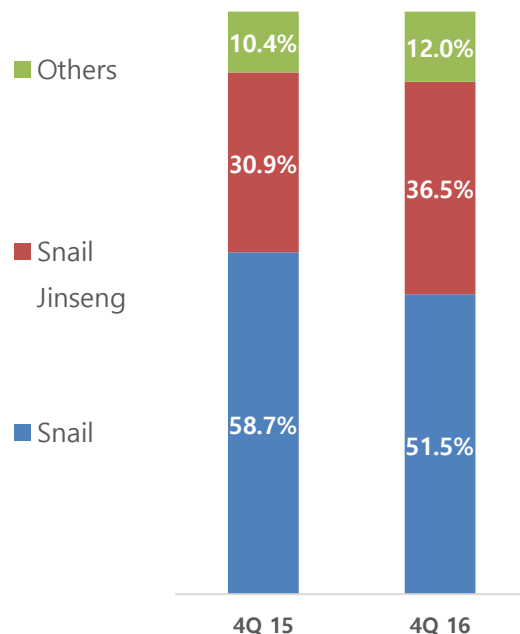




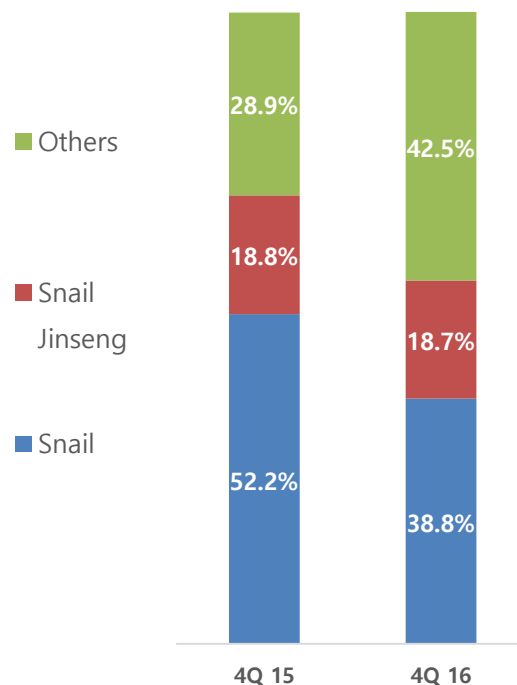
5. 4Q Sales by Product

- *'PRESTIGE Yeux Ginseng d'escargot'*: Made biggest contribution for 4 consecutive quarters, 83bn Sales for 5 yrs. Rank #1 eye cream at Lotte DFS.
- *'PRESTIGE Foam d'escargot'*: Ranked No.1 based on the sales volume, accounts for 11% of total sales volume, 5mn units sold for 5 yrs.
- *'Prestige d'escargot'*: Original line continued to generate sales, Jinseng line boosted sales, 'A New d'escargot' line to be introduced 2Q'17.
- *Post d'escargot products*: Sale portion of Snail vs Non-snail became 57.5 : 42.5 thanks to the successful product line expansion.
- *Tailored products*: Products for specific channels, Made in China by Korea Products and Second Brand from JV with Semir to be released.

Sales Trend of Snail vs Non-Snail



Volume of Snail vs Non-Snail



No.1
Based on Sales



No.1
Based on Volume





6. Cost Analysis : SG&A

- **Labor Cost** : Newly joined employees for empowered R&D Center, Design Center, and Sales dept. and 1.1 bn of special incentive paid.
- **Marketing Cost** : Enhanced advertisement cost of 7.5bn KRW to boost sales for new products including 'Flower-cell'.
- **Commission** : Increase in commission for entering more Hypermarket stores offset decrease in commission from DFS and 1 bn one-off cost of IPO '16.
- **Depreciation** : Interior Depreciation from the increasing number of new stores at Hypermarket and Directly operating Stand alone shops.
- **Others** : R&D cost of 70mn KRW, Rent cost of 540mn for HQ and new shops, and the Insurance cost for increased number of employees.

[Unit:mn KRW]

	4Q 2015		4Q 2016		YoY(%)
SG&A	18,196	100.0%	24,087	100.0%	32.4%
Labor	2,370	13.0%	2,868	11.9%	21.0%
Marketing	3,150	17.3%	8,961	37.2%	184.5%
Advertisement	1,993	11.0%	7,537	31.3%	278.2%
Promotion	495	2.7%	687	2.9%	38.8%
Event	662	3.6%	737	3.1%	11.3%
Commission	9,625	52.9%	7,962	33.1%	-17.3%
Payment Commission	2,858	15.7%	5,178	21.5%	81.2%
Selling Commission	6,767	37.2%	2,784	11.6%	-58.9%
Depreciation	1,178	6.5%	1,479	6.1%	25.5%
Others	1,872	10.3%	2,817	11.7%	50.4%



7. FS Summary

○ Statement of Financial Position

[Unit : Million KRW]

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

○ Comprehensive Income Statement

[Unit : Million KRW]

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

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