

# **AMOREPACIFIC Corporation**

## **2013 Earnings Release**

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AMOREPACIFIC Investor Relations  
February 6 2014

- Contents -

1. 2013 Earnings Summary
2. Cosmetics Business
  - 2.1 Domestic
  - 2.2 Overseas
3. Mass & Sulloc Business
4. 4Q 2013 Earnings Summary
5. Financial Summary
6. 2014 Business Plan

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**AMOREPACIFIC Corp. has adopted the K-IFRS since 2011.**

# 1. 2013 Earnings Summary

## Sales up 8.8% to KRW 3,100.4bn, OP up 1.2% to KRW 369.8bn

- Despite the slowdown in the market caused by weak consumption, sales reached KRW 3tn backed by innovative product launches, strengthened distribution portfolio and expanded overseas business
- Despite the sluggish luxury business due to the trading-down, OP increased slightly on the back of strong performance of new growth businesses such as Travel retail and Digital

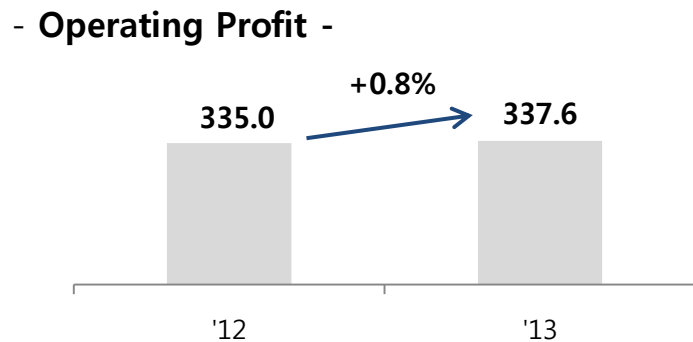
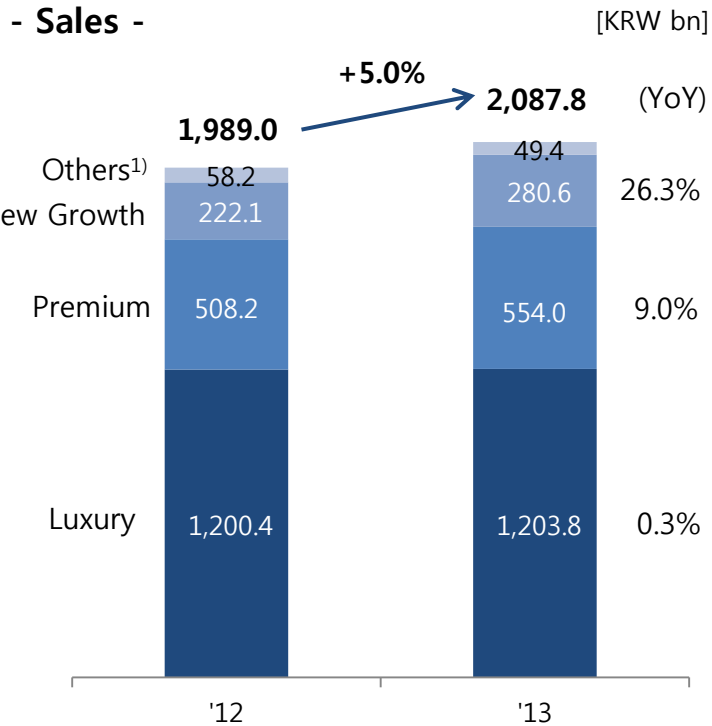
### - Sales & OP -

[KRW bn]

	'12 YTD	(%of Sales, OPM)	'13 YTD	(%of Sales, OPM)	YoY (%)
<b>Sales</b>	<b>2,849.5</b>	<b>100.0%</b>	<b>3,100.4</b>	<b>100.0%</b>	<b>8.8%</b>
<b>Cosmetics</b>	<b>2,411.6</b>	<b>84.6%</b>	<b>2,627.7</b>	<b>84.8%</b>	<b>9.0%</b>
<b>Domestic</b>	1,989.0	69.8%	2,087.8	67.3%	5.0%
<b>Overseas</b>	422.6	14.8%	539.9	17.4%	27.8%
<b>Mass &amp; Sulloc</b>	<b>437.9</b>	<b>15.4%</b>	<b>472.7</b>	<b>15.2%</b>	<b>7.9%</b>
<b>Operating Profit</b>	<b>365.3</b>	<b>12.8%</b>	<b>369.8</b>	<b>11.9%</b>	<b>1.2%</b>
<b>Cosmetics</b>	<b>325.5</b>	<b>13.5%</b>	<b>331.9</b>	<b>12.6%</b>	<b>2.0%</b>
<b>Domestic</b>	335.0	16.8%	337.6	16.2%	0.8%
<b>Overseas</b>	-9.5	-2.3%	-5.7	-1.1%	40.0%
<b>Mass &amp; Sulloc</b>	<b>39.8</b>	<b>9.1%</b>	<b>37.9*</b>	<b>8.0%</b>	<b>-4.8%</b>
<b>Net profit</b>	<b>269.3</b>	<b>9.4%</b>	<b>267.4</b>	<b>8.6%</b>	<b>0.7%</b>

379\*: Inclusive of inventory write-down for Sulloc (KRW 4.7bn)

# 2.1 Cosmetics Business - Domestic



1) Inclusive of Lirikos and OEM

## Luxury Division

**[Door-to-door] Decreased sales due to the slowdown in channel and trading-down**

- Weaker demand for expensive products resulted in decreased sales of major luxury brands
- Sluggish sales due to the inventory control to secure the channel visibility

**[Dep. store] Reinforced market leadership behind by differentiated brand portfolio**

- Solid sales of make-up category of '**Hera**' increased inflow of new younger customers and strengthened brand positioning, Increased sales of '**Primera**' by capturing the demand for affordable products
- '**Sulwhasoo**' Increased market share and strengthened no. 1 position by differentiated brand power and new product launches

**[Travel retail] Strong sales growth backed by increased sales contribution of foreign travelers and expanded overseas business**

- Increased purchase amount of Chinese travelers (+126% yoy)
- Continued store expansion and brand launches to accelerate the business in the Asean region

## Premium Division

**[Specialty store] Innovation of products and space strengthened channel leadership**

- Reinforced store attractiveness led to increased inflow of new younger customers
- Solid same store sales growth delivered by robust performance of '**Laneige**'/'**IOPE**' and sales of make-up/trendy products

**[Hypermarket] Turned to positive growth thanks to the good sales of '**Mamonde**'/'**IOPE**'**

- Positive growth led by robust sales of hit products of '**IOPE**' (Air Cushion, Bio Essence), launch of new '**Mamonde**' shops and good sales of major products (First Energy serum, Extra moisture line)

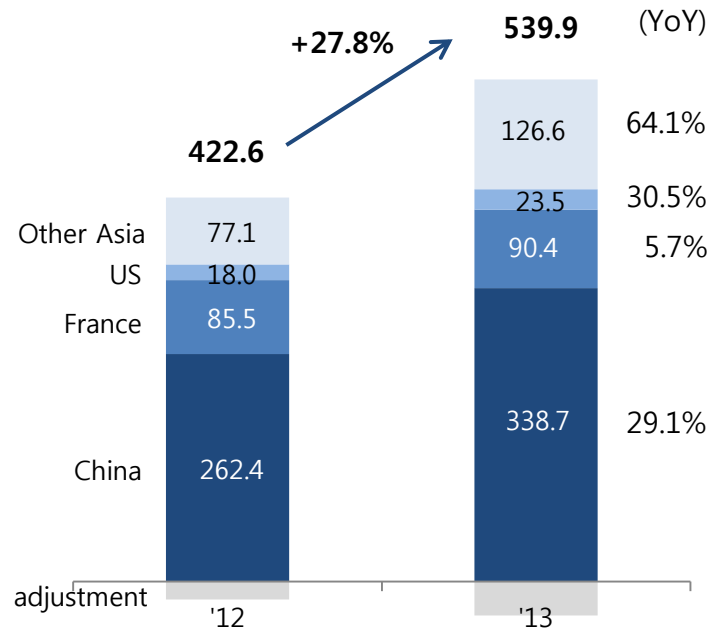
## New Growth Division

**[Digital] Solid sales growth with profitability improvement**

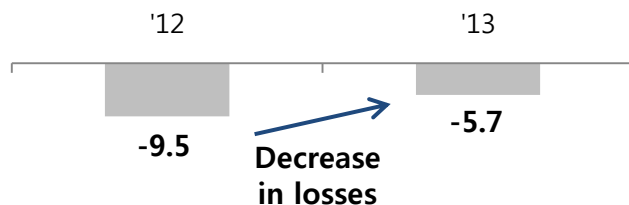
- Active responses to customer needs through the launch of Home-shopping exclusive brand, '**Verite**', Reinforced business basis through renewal of Direct mall and opening of 'Laneige' mall

## 2.2 Cosmetics Business - Overseas

- Sales - [KRW bn]



- Operating Profit -



**Overseas business** Strong performance in emerging markets such as China and Asean behind by business expansion, Profitable growth delivered by efficient cost control in developed markets

**[China]** Strengthened brand power and expanded distribution channels resulted in solid sales growth

- **Laneige:** Strengthened brand equity and successful new product launches led to increased inflow of new customers and improved same store sales growth
- **Mamonde:** Secured visibility of distribution channels through inventory control, Investment in marketing activities to reinforce the brand identity
- **Sulwhasoo:** Enhanced same store sales through concentrating on key Dep. stores, Reinforced brand loyalty backed by strengthened VIP communication
- **Innisfree:** Opening of new FSS\* and investment in online marketing resulted in strengthened brand awareness

**[Other Asia]** Secured new customers on the back of new product launches and channel diversification resulted in robust sales growth

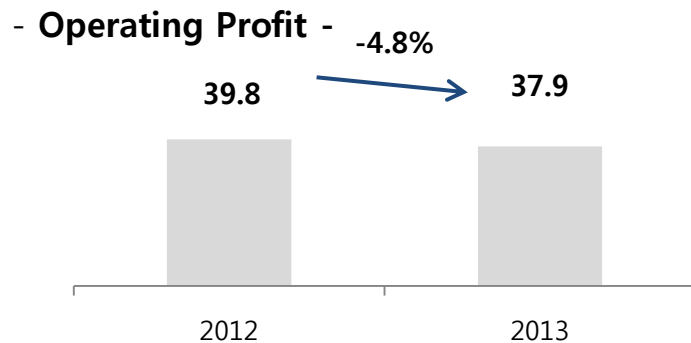
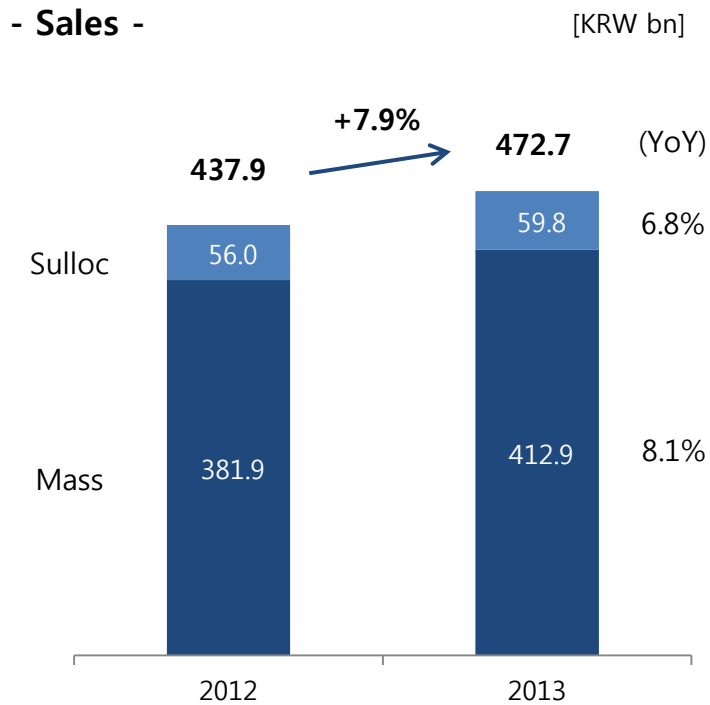
- **Sulwhasoo:** Accelerated penetration into luxury markets through store expansion (Malaysia, Vietnam, Indonesia, Thailand)
- **Laneige:** Launch of new products(BB Cushion) and diversification of distribution channel (Online, FSS, Sephora, etc) resulted in strong sales growth
- **Innisfree:** Penetration into Asean market through opening of the first location in Singapore/ **Etude:** Continued store expansion in Hong Kong and Japan
- Sales growth by country: Singapore+118%, Taiwan+42%, Malaysia+472% Thailand +225%

**[US]** Increased point-of-sale and improved business efficiency resulted in strong sales growth with profitability improvement

- **AP:** Strong sales growth on the back of successful launch of new product(CC Cushion) and expansion of point-of-sale (Nordstrom, Sephora) / Secured online business base through opening direct mall
- **Amore shop:** Solid sales of 'Laneige'/'IOPE' resulted in profitable growth

**[France]** Turned to positive growth thanks to the sales increase in local market and exports to ME/US

# 3.1 Mass & Sulloc Business



## Mass Division

**Improved product mix behind by strong sales of cosmetic category, Increased market leadership throughout all categories**

### [Hair care]

- **Mis-en-scene** : Enhanced brand image on the back of the expanded customer experience through the new campaign 'Change your hair' / Increased market share behind by robust sales of functional lines including treatment and serum and products of Bubble Hair Dye line (13.1% → 14.4%)
- **Ryoe** : Increased sales of functional line / Created new demand for 'fragrant' herbal hair shampoo backed by successful launch of new line

### [Body care]

- Increased market share in cleansing and moisturizing categories behind by solid sales of hit products(Soapberry cleansing of '**Happy Bath**') and new products(Total aging line of '**illi**')
- Increased market share in premium moisturizing category backed by strong sales of cosmetic category (18.1% → 24.6%)

### [Oral care]

- **Median**: Strong sales of functional lines increased portion of premium category

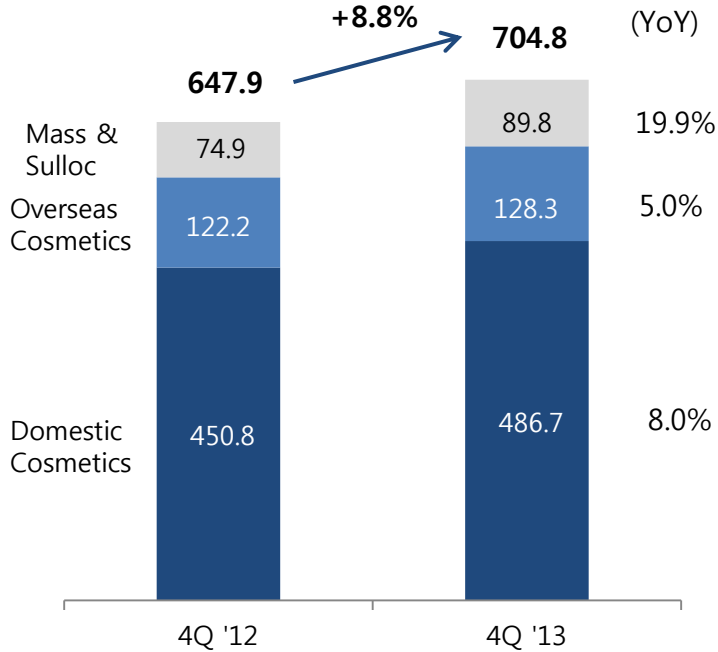
## Sulloc Division

**Enhanced brand awareness thanks to the increased sales of premium products**

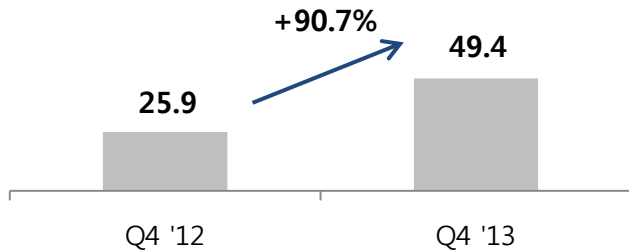
- Solid sales through Tea café, Dep. store and online mall resulted in increased contribution of premium products(62% → 70%) and continued inflow of new customers
- Better product mix and efficient investment in Tea café led to profitability improvement when excluding the impact of one-off cost related to the inventory write-off (KRW4.7bn)

# 4. 4Q 2013 Earnings Summary

## - Sales - [KRW bn]



## - Operating Profit -



### 4Q 2013 Robust profitable growth through all divisions

Sales KRW704.8bn (+9%), Operating Profit KRW49.4bn (+91%)

#### [Domestic Cosmetics] Strong sales growth delivered by new growth channels such as Travel retail and Digital

- (Travel retail) High growth backed by continued heavy demand from Chinese travelers and increased purchasing amount / (Digital) Robust sales of hit products and home-shopping exclusive brand
- (Door-to-door) Decreased negative growth by maintaining optimum inventory level
- Improved profitability backed by recovered positive growth of luxury division and increased sales contribution of Travel retail and Digital channels

#### [Overseas Cosmetics] Solid Sales and OP growth backed by enhanced brand awareness, expanded point-of-sale and improved business efficiency

- China(+18%): Despite slowdown in sales of 'Mamonde' caused by channel realignment, profitability improvement delivered by increasing same store sales of 'Laneige', passing break-even point for 'Innisfree' and efficient cost control
- Asia(+48%): 'Laneige' Increased sales within Home-shopping channel (Thailand, Taiwan), 'Sulwhasoo' Improved same store sales growth and expanded new stores (Singapore, Malaysia), 'Innisfree' Opening 3<sup>rd</sup> location in Hong Kong and continued strong same store sales
- US(+33%): Opening direct online mall, expanded point-of-sale and improved same store sales growth resulted in continued robust growth
- France(+11%): Increased sales delivered by new product launches

#### [Mass & Sulloc] Rise in sales thanks to the increased sales contribution of premium products and sales recognition timing difference of Chuseok gift sets

- Mass: Solid performance by increase in sales of functional products and sales recognition timing difference of Chuseok gift sets / Profitability improvement through efficient cost control
- Sulloc: Continued increase in sales of premium products including blending tea bag resulted in solid growth / Increased inflow of new customers backed by improved online service and infra structure/ Incurred one-off cost related to inventory write-down (KRW4.7bn)

## 5. Financial Summary

### Income Statement

[KRWbn]

	2012		2013	
<b>Sales</b>	<b>2,849.5</b>	100.0%	<b>3,100.4</b>	100.0%
Gross Profit	2,002.2	70.3%	2,188.6	70.6%
SG&A expenses <sup>1)</sup>	1,636.9	57.4%	1,818.8	58.7%
<b>Operating Profit</b>	<b>365.3</b>	12.8%	<b>369.8</b>	11.9%
Non-operating Profit/Expenses	-3.6		-6.3	
Profit before tax	361.7	12.7%	363.5	11.7%
<b>Consolidated net income</b>	<b>269.3</b>	9.4%	<b>267.4</b>	8.6%

### Statements of Financial Position

[KRWbn]

	2012. 12	2013.12
<b>Assets</b>	<b>3,026.2</b>	<b>3,401.8</b>
Current assets	804.2	967.5
Non-current assets	2,222.0	2,434.3
<b>Liabilities</b>	<b>682.4</b>	<b>833.7</b>
Current liabilities	417.2	542.7
Non-current liabilities	265.2	291.0
<b>Shareholder's Equity</b>	<b>2,343.8</b>	<b>2,568.1</b>
Capital stock	34.5	34.5
Additional paid-in capital	712.7	712.7
Capital surplus	7.8	7.8
Other components of equity	-1.8	-1.8
Accumulated other comprehensive income	-12.0	-14.0
Retained earnings	1,592.4	1,815.2
Non-controlling interest	10.2	13.7

1) 2012 numbers have been adjusted to reflect the change of K-IFRS 1019, the 'Employee Benefits' clause



# Together, We Can Targeting Sales growth of 10%, OP growth of 12%

### 1 Customer-focused management

- Setting up every strategic direction at the customers' stance
- Deriving implications through observation of customers' behavior
- Providing customers with the best purchasing experience/products

### 2 Quality-focused management

- Pursuing quality-focused growth
- Improving same store sales and managing unprofitable stores
- Strengthening management of inventory/SKU

### 3 Expansion of the overseas business

- Optimizing management system for overseas business
- Spreading 'Global Champion Brands'
- Concentrating our capabilities on Asian markets and improving profitability in developed markets

### 4 Digitalization

- Enhancing the capability and infra structure for digital business
- Developing digital strategies to create synergy effect between on- and off-line businesses.

### 5 Communication with stakeholders

- Reinforcing communication with business partners
- Strengthening legal system and right business practices
- Supporting beauty partners to increase their income level