



# Presentation Materials for the 2<sup>nd</sup> Quarter of FY2017



Feb. 3, 2017

Istyle Inc.

Stock code: 3660

## Overview of Financial Results for the 2<sup>nd</sup> Quarter of FY2017



## The 1<sup>st</sup> Half / Highlight

<b>Consolidated Financial Results</b>	<p><b>Net sales up; profits down on forward investment for medium-term business plan, but on track</b></p> <p>Net sales : <b>8,426</b> Million yen YoY : <b>122.9</b> %</p> <p>OP: : <b>731</b> Million yen YoY : <b>79.6</b> %</p>
<b>On Platform business</b>	<p><b>Brisk results centered on advertising services, with higher net sales and profits</b></p> <p>Net sales : <b>3,335</b> Million yen YoY : <b>117.3</b> %</p> <p>OP: : <b>1,245</b> Million yen YoY : <b>116.6</b> %</p>
<b>Beauty Service business</b>	<p><b>Sales up due to opening new stores and M&amp;A, but profits down on accelerating store openings</b></p> <p>Net sales : <b>3,727</b> Million yen YoY : <b>136.5</b> %</p> <p>OP: : <b>75</b> Million yen YoY : <b>32.5</b> %</p>
<b>Global business</b>	<p><b>Sales up on local currency basis, but flat year-on-year due to yen appreciation</b></p> <p>Net sales : <b>1,267</b> Million yen YoY : <b>100.3</b> %</p> <p>OP: : <b>111</b> Million yen YoY : <b>77.2</b> %</p>

## The 1<sup>st</sup> Half / Overview of operating results

- **Sales up sharply** year-on-year, but **profits down on headquarters floor space expansion, forward investment in new businesses, and other factors**
- Progress toward earnings targets **mostly on track**

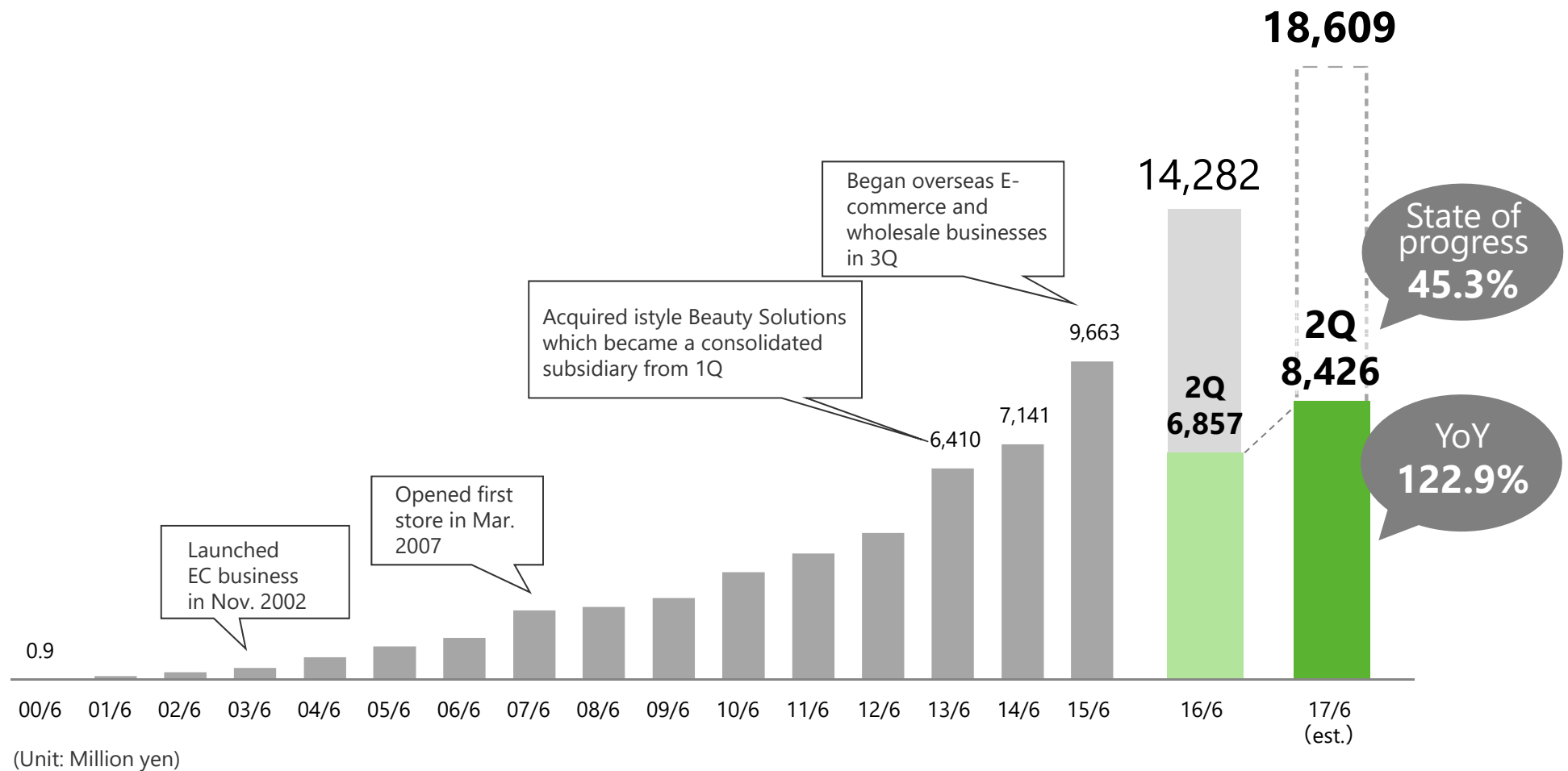
	2Q/FY17 (Jul.-Dec.)	2Q/FY16 (Jul.-Dec.)	YoY changes	FY17 plan	State of progress
Net sales	8,426	6,857	122.9%	18,609	<b>45.3%</b>
Gross profit	4,621	3,932	117.5%	—	—
SG&A	3,890	3,013	129.1%	—	—
Operating income	731	919	79.6%	1,450	<b>50.4%</b>
Ordinary income	710	891	79.7%	1,352	<b>52.5%</b>
Net income attributable to owners of the parent company	474	755 ※	62.8%	854	<b>55.5%</b>

(Unit: Million yen)

\* Posted extraordinary profit of 177 million yen in profit from the sales of Indonesian subsidiary for 1Q/FY16.

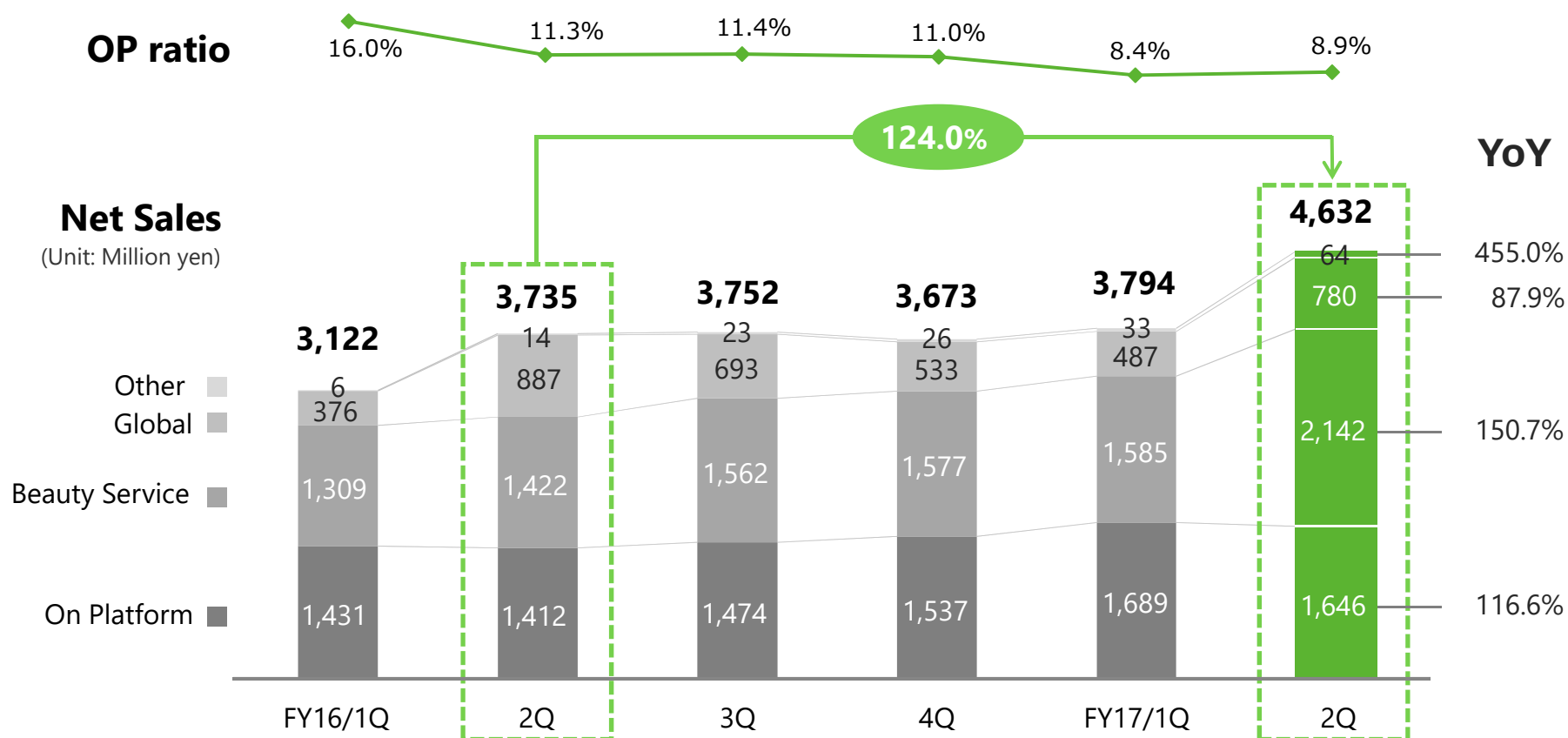
## Full year / Trend in net sales

- Continued to post increased sales income since the company's founding



## Trends in Segment sales

- **Sales up in all businesses** except the Global business, which was affected by yen appreciation

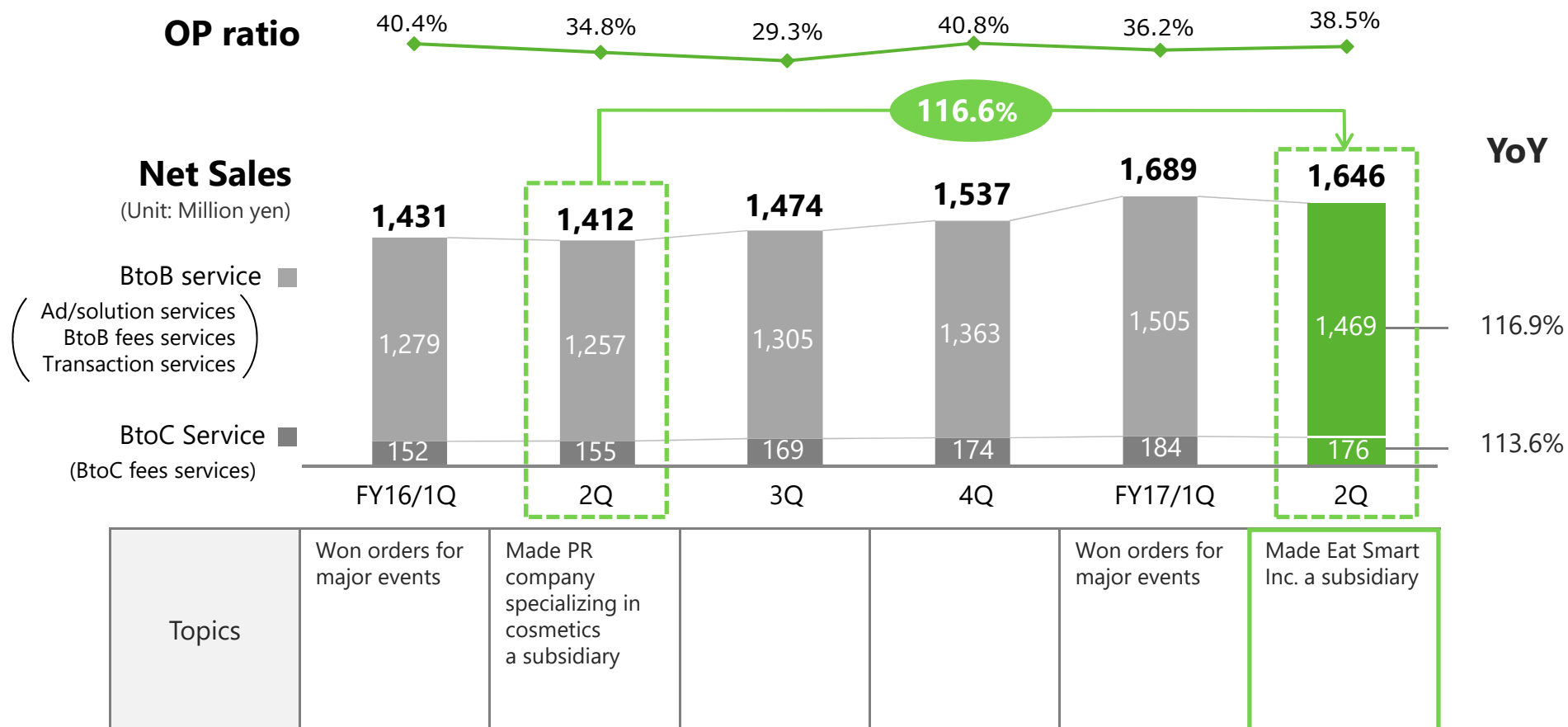


\*1 Business segments have changed from 1Q FY17. Figures for 3Q-4Q FY16 in this material have not been audited.

\*2 Sales and profit figures are expressed in units of millions of yen(rounded).

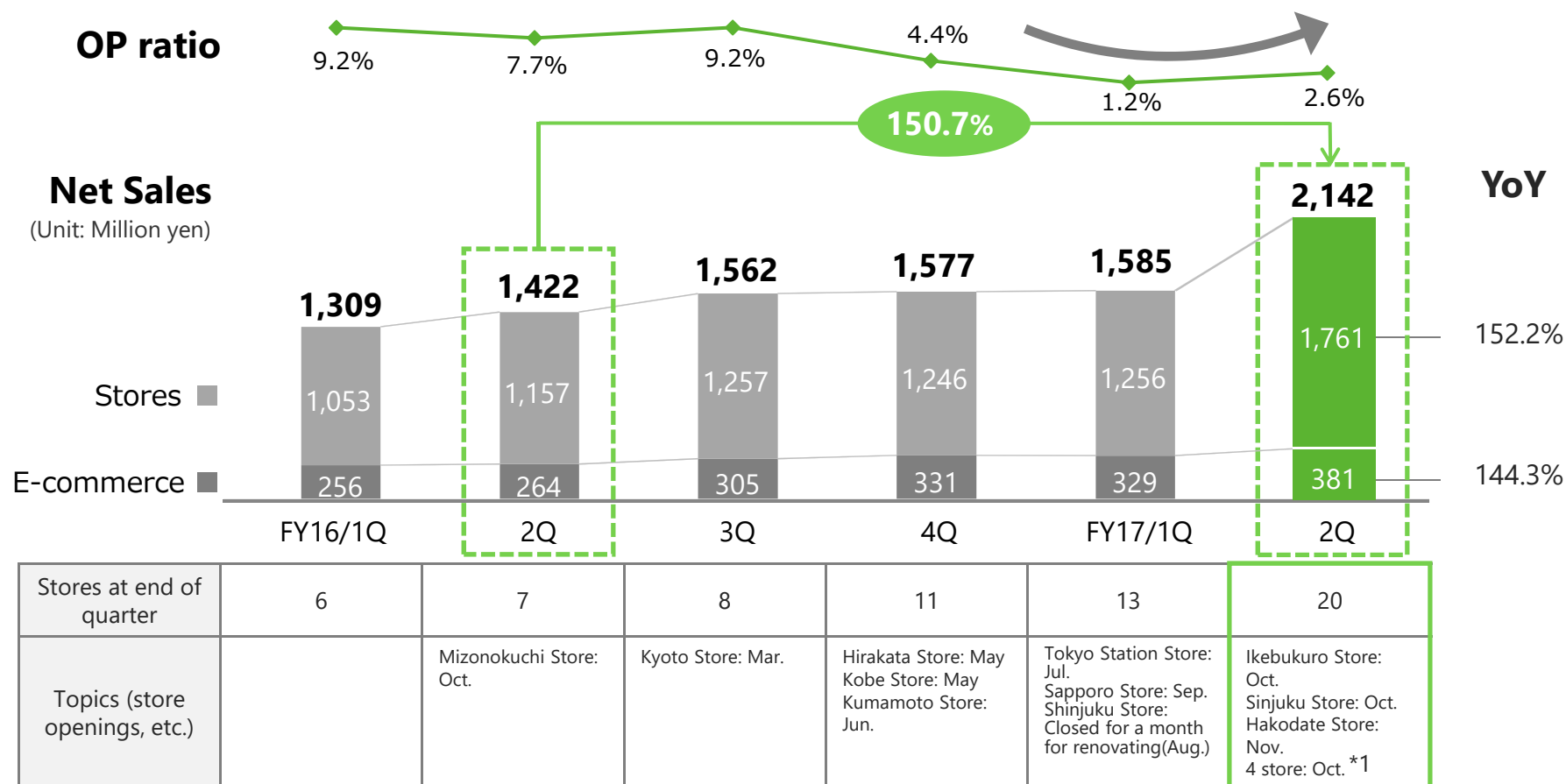
## Trends in Segment sales / On Platform business

- **Brisk performance of advertising services** drove earnings
- In B-to-C fee-based services, *BLOOMBOX* continued its brisk performance, while premium membership has stopped falling despite promotion cutbacks



## Trends in Segment sales / Beauty Service business

- **Strong growth of E-commerce business** as a result of various campaigns
- **Sharp sales growth** on growth of existing stores, new stores, and four stores acquired by M&A
- **Profit margin down year-on-year**, due to increase in recently opened stores and investment in new businesses



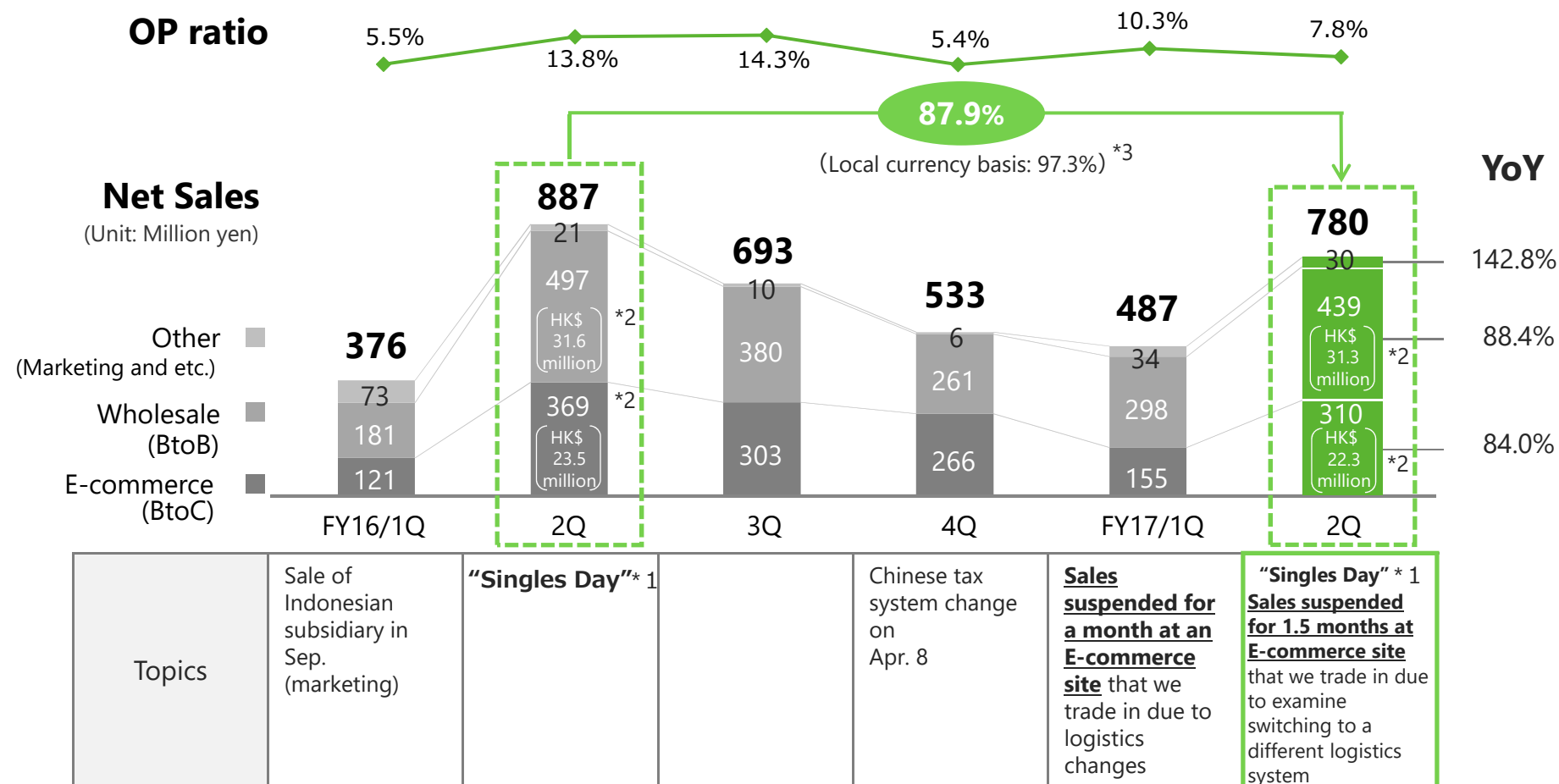
\*1 Two stores in Toyama and one store each in Ishikawa and Gunma acquired by M&A included in consolidated profit and loss statement from October

\*2 See p.26 for up-to-date list of stores



## Trends in Segment sales / Global business

- Sales down due to temporary closure of one E-commerce site, frontloading wholesale orders for Singles Day, and effect of yen appreciation
- **Sales more or less flat on local currency basis; 1H sales up 26.1% in wholesale, up 9.4% in E-commerce**
- Sales up on Singles Day (Nov 11), but promotional expenses also increased

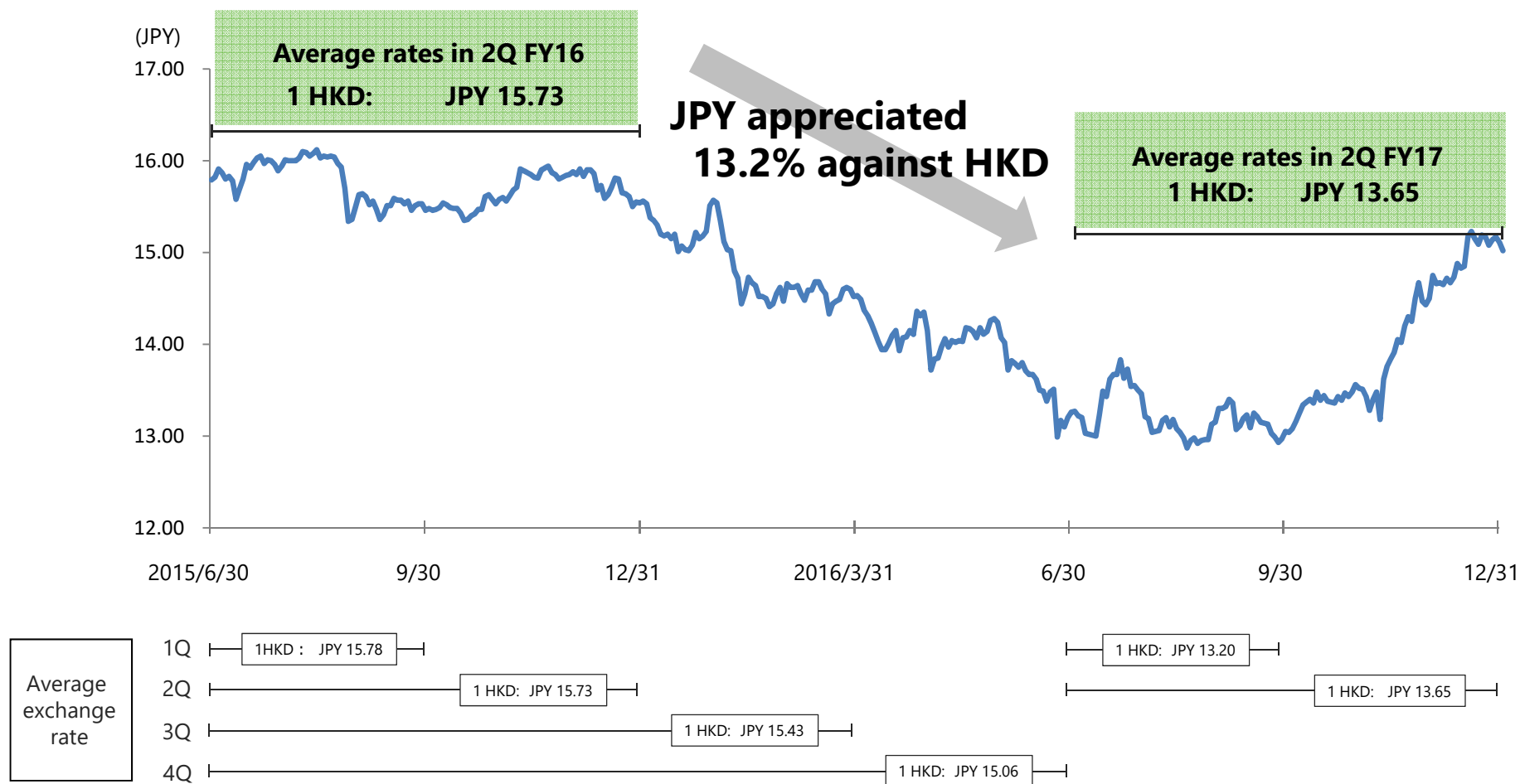


\*1 A major E-commerce sale held on November 11 in China

\*2 Local currency basis (cross-border E-commerce business is operated by Hong Kong subsidiary)

\*3 Comparison based on wholesale and E-commerce businesses only

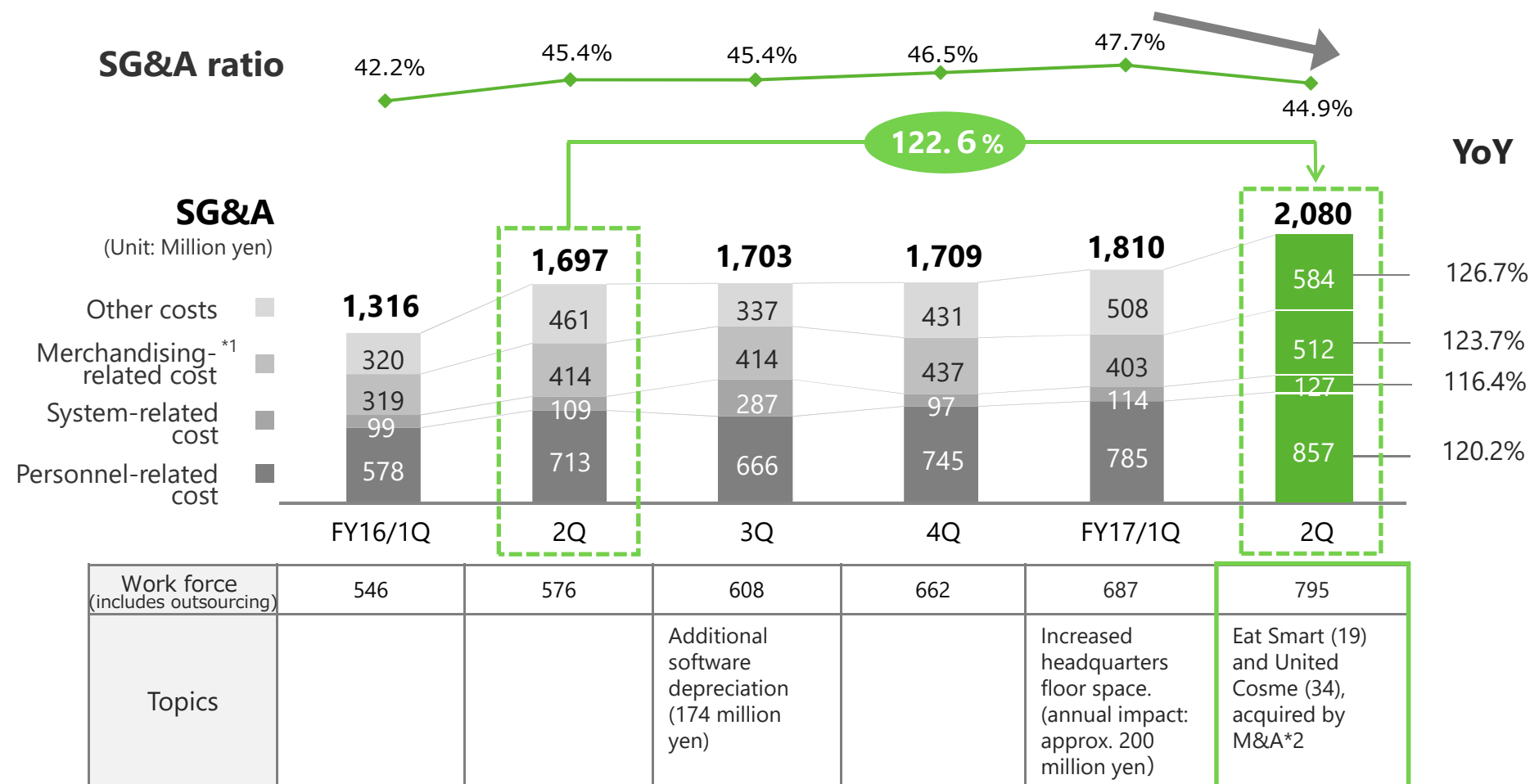
## Trends in Hong Kong dollar exchange rate



\* Cross-border E-commerce business is operated by Hong Kong subsidiary

## Trends in SG&A expenses

- **Increased work force** due to strengthened hiring and M&A for business expansion and achieving sustained growth
- **Increased rental from 1Q** due to headquarters floor space expansion to prepare for larger work force

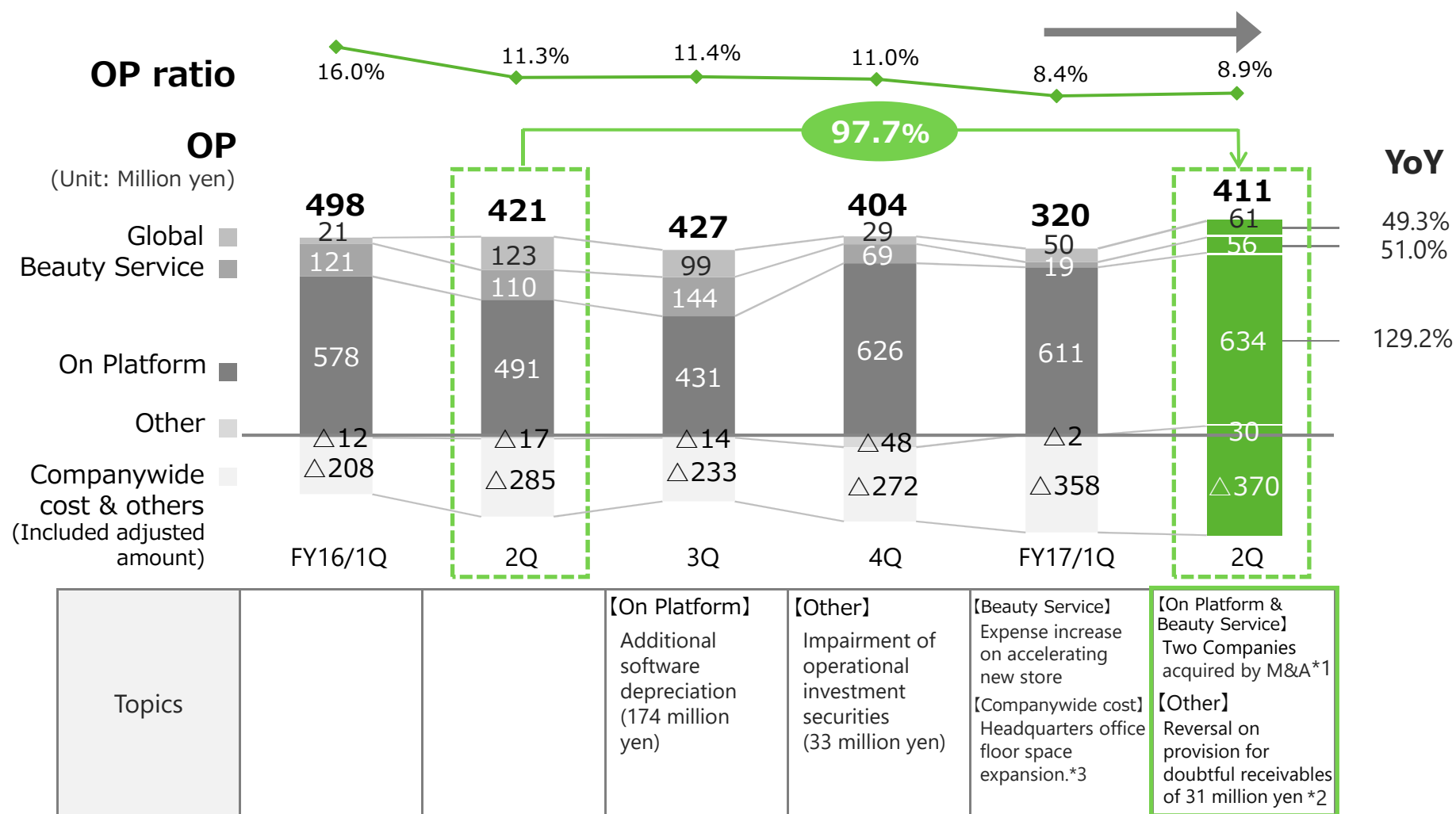


<sup>\*1</sup> Total cost linked to the amount of sales in e-commerce and store business, such as delivery fee or rent fee

<sup>\*2</sup> Figures in parentheses are the number of employees as of December 2016

# Trend in operating income by segment

- Profits down year-on-year due to aggressive hiring based on medium- to long-term outlook and headquarters floor space expansion, but **trending on budget**



\*1 On Platform business: Eat Smart; Beauty Service business: United Cosme

\*2 Reversal of 31 million yen on provisions booked for some operational investment securities in investment and consulting business

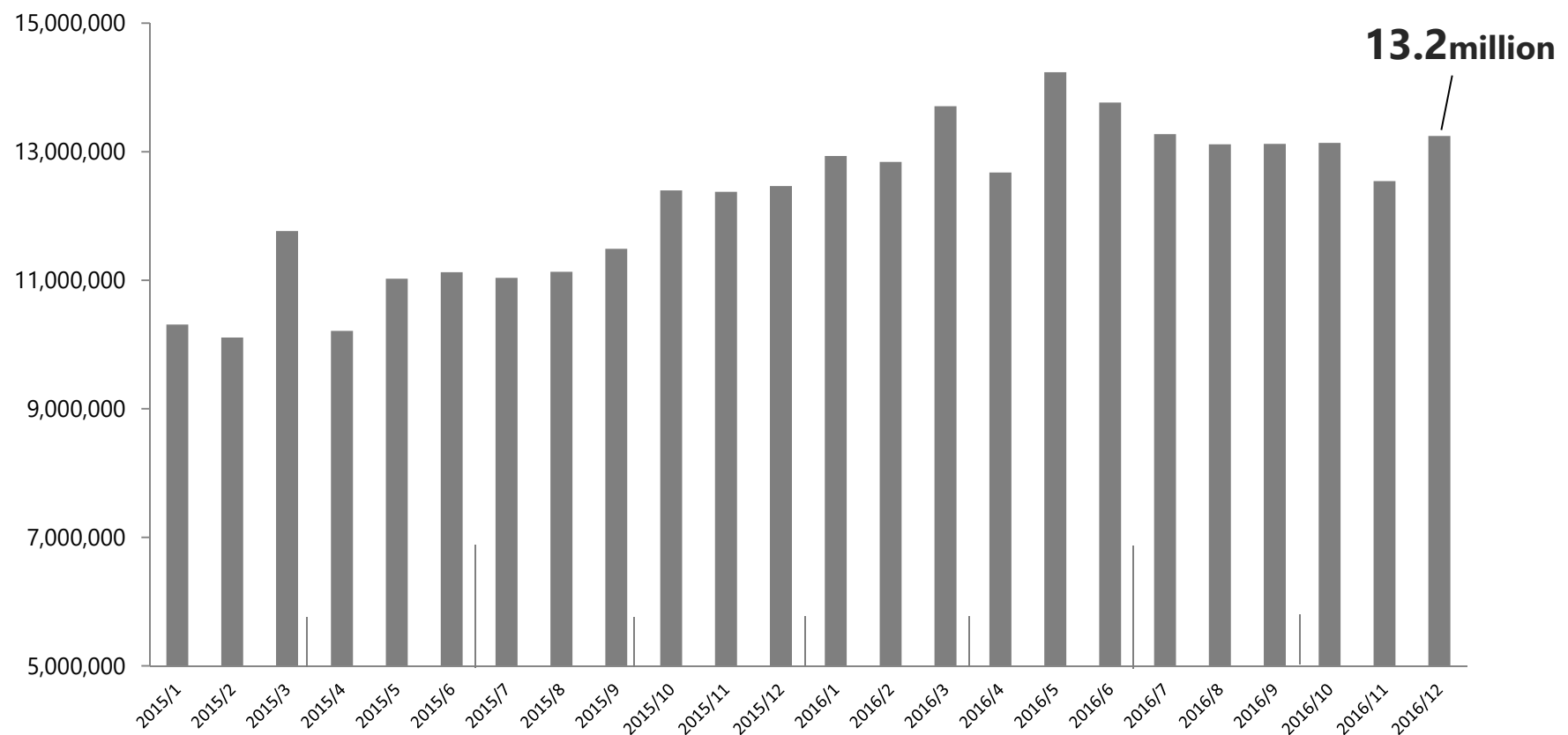
\*3 Annual impact: approx. 200 million yen

## Status of Operating Services

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## Trend in number of monthly unique users(Total at all sites)

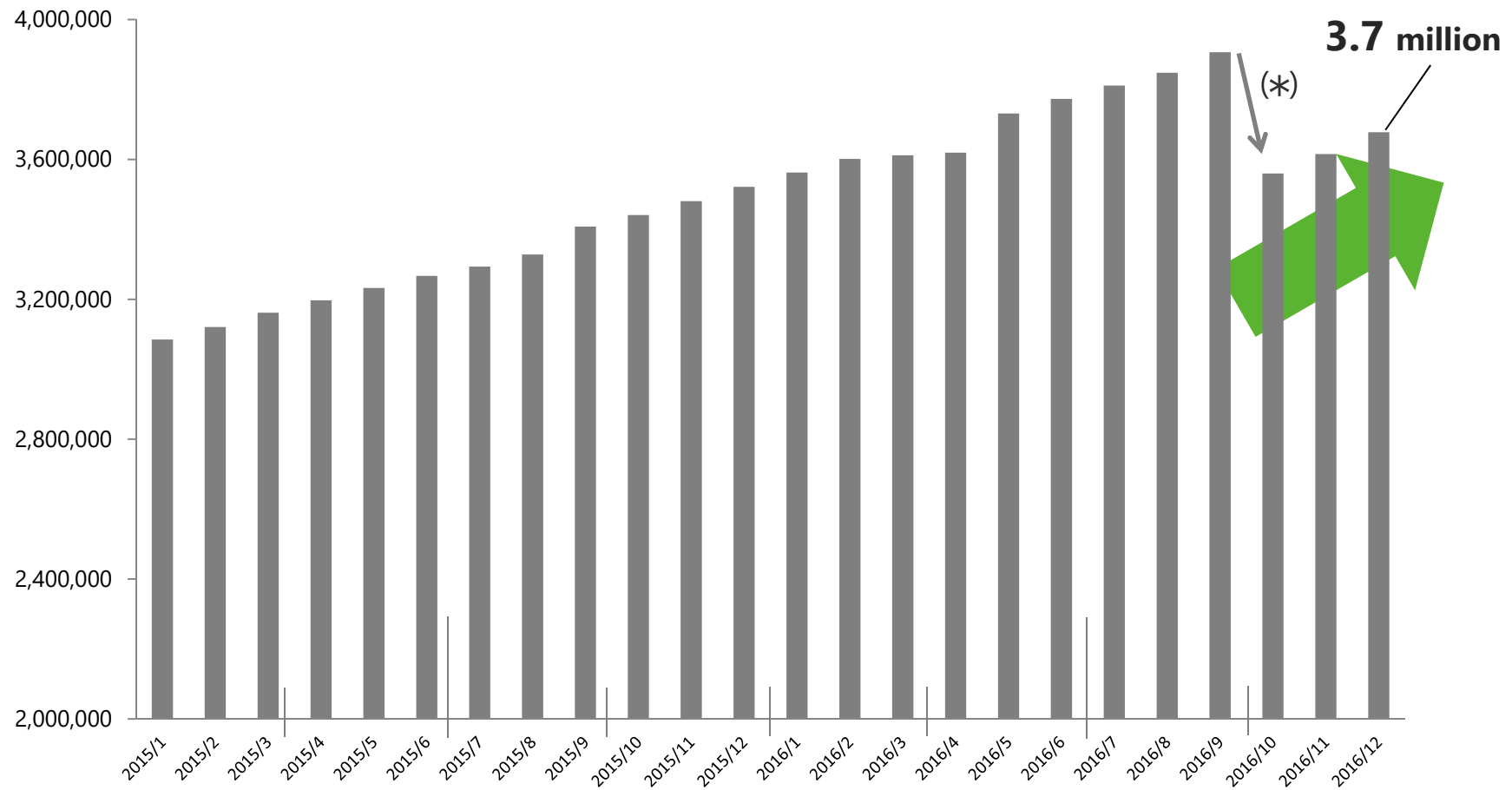
- **Monthly trends stable**, with some seasonal fluctuations
- No big promotions, but **targeting growth in longer term by strengthening platforms**



Unique users of Eat Smart (added to consolidated profit and loss statement from October 2016) are not included in the graph, because its system has not been linked with the istyle system and some user duplication is likely

## Trend in number of members

- The number of members is **on an upward trend** after a temporary decline after member IDs of group site not linked to @cosme IDs as of end-September 2016 were deleted. (\*)



Members of Eat Smart (added to consolidated profit and loss statement from October 2016) are not included in the graph, because its system has not been linked with the istyle system and some user duplication is likely

## On Platform business / Strengthening sales activities that target new business sectors

- Established a special team in January **to strengthen sales targeting clients in all beauty-related sectors**
- Working with Eat Smart, which became a subsidiary in the end of September, to cultivate clients in new business sectors



- Planning Dept. 3, Marketing Planning Division
  - A sales department targeting new business sectors other than cosmetics and toiletries established in January 2017



- Eat Smart Inc.
  - Has been providing a broad range of services with a food and health focus since it was founded in 2004

Working  
together to  
propose services

### Broad range of beauty-related clients

- Foods, beverages
- Health foods
- Supplements
- Pharmaceutical and quasi-pharmaceutical products



etc.



## Beauty Service business / New store in Japan

- **Twenty stores as of end-2Q FY17** as a result of opening five new stores and addition of four stores by M&A
- To open three new stores and expand floor space at one store in 3Q.

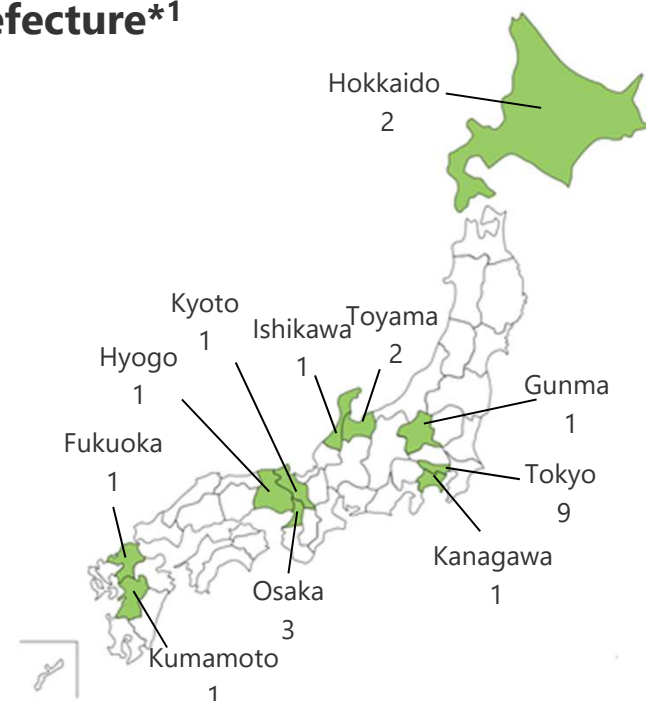
### New stores※1

1Q	@cosme store <b>mike!</b> Gransta Store (Tokyo Station)	Opened in Jul. 2016
	@cosme store TSUTAYA Sapporo Utsukushigaoka store	Opened in Sep. 2016
2Q	@cosme store Ikebukuro Sunshine city store	Opened in Oct. 2016
	@cosme store <b>mike!</b> Lumine Shinjuku Store	Opened in Oct. 2016
	@cosme store TSUTAYA Hakodate store	Opened in Nov. 2016
	Kcosme Beauté Apita Town Kanazawa Bay store	M&A
	Kcosme Beauté Aeon Mall Takasaki store	M&A
	Kcosme Beauté Aeon Mall Takaoka store	M&A
3Q	Kcosme Beauté Marier Toyama store	M&A
	@cosme store Machida Marui store	Scheduled to open on Mar. 2017
	@cosme store Amu Est Hakata store	Scheduled to open on Mar. 2017
	@cosme store Lucua Osaka store	Scheduled to open on Mar. 2017

### Topics

@cosme store Lumine Est Shinjuku Store	Renovated in Sep. 2016
@cosme store Ueno Marui Store	Scheduled to expansion on Feb. 2017

### Breakdown of store openings by prefecture\*1



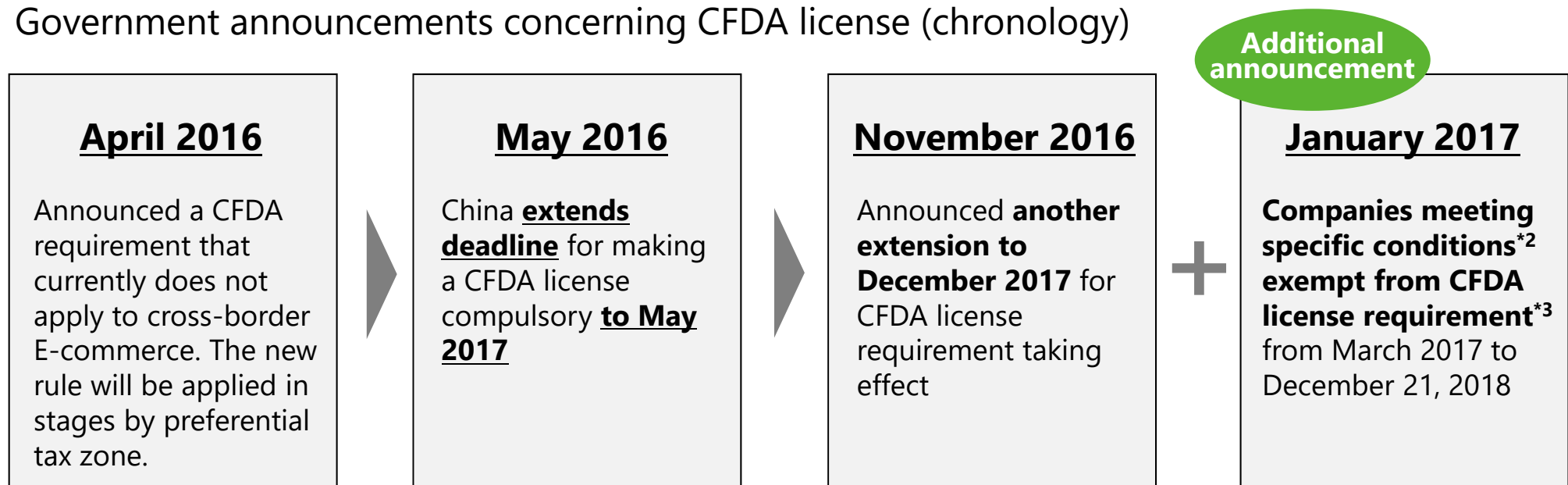
\*1 Includes stores scheduled to open.

\*2 See p.26 for up-to-date list of stores.

## Global Business / Changes to cross-border E-commerce regulations

- China **extends deadline again for making a CFDA license\*<sup>1</sup> compulsory to December 2017** for new cosmetics imports
- Flexible response to maximize advantages, considering additional announcement on CFDA license in January (which does not change extension of deadline for obtaining license to December 2017)

### Government announcements concerning CFDA license (chronology)



\*1 To acquire imported cosmetics hygiene certificate issued by the China Food and Drug Administration

\*2 Applies only to companies registered in Pudong New Area, Shanghai that do customs clearance on imports in the Shanghai Pilot Free Trade Zone. Excludes specialized cosmetics like skin whitening products and sunblock and others.

\*3 Based on current information as of January 31, 2017

## Global business / First overseas @cosme store to open

- **First overseas @cosme store to open in Taipei** (two stores)
- **In addition, preparing to open one or two new stores in Taiwan and Hong Kong** in summer 2017

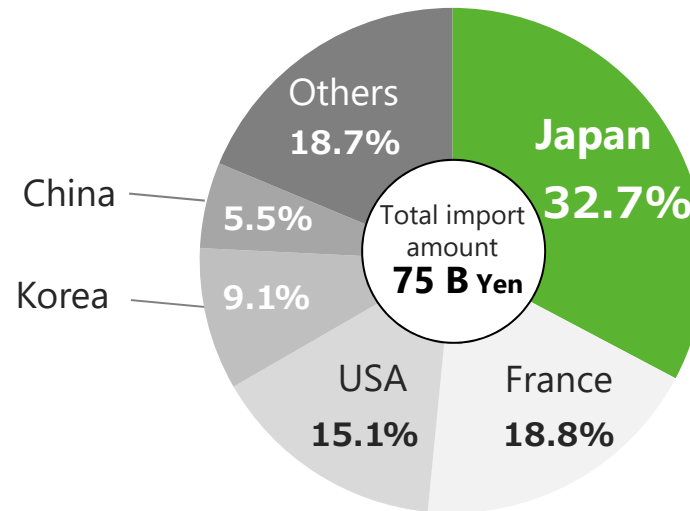
### ■ @cosme store Breeze Taipei Station Store

Open: May 2017 (Planned)  
Floor area: Approx. 205 m<sup>2</sup>  
Location: The new store will open in Breeze Taipei Station, a major shopping center in the Taipei station complex, near High Speed Rail platforms

### ■ @cosme store Breeze Xin Yi store

Open: Jun. 2017 (Planned)  
Floor area: Approx. 201 m<sup>2</sup>  
Location: The new store will open in Breeze Xin Yi adjacent to Taipei City Hall Station

### Cosmetics imports by countries (In Taiwan, 2014) \*



\* Source: Tokyo Customs "Export of Cosmetics"

## Appendix



## Company Information

Corporate name	istyle Inc.	
Listed stock exchange/ securities code	Listed on the First Section of the Tokyo Stock Exchange/3660	
President and CEO	Tetsuro Yoshimatsu	
Date of establishment	July 27, 1999	
Headquarters	1-12-32 Akasaka, Minato-ku, Tokyo, Japan	
Capital *As of June 30, 2016	1.6 billion yen	
Accounting period	June 30	
Description of business	<ul style="list-style-type: none"> <li>•Planning and operation of the beauty portal site @cosme</li> <li>•Provides the related advertising and marketing research services</li> </ul>	
Number of employees *As of June 30, 2016	532 (consolidated)	
Subsidiaries and affiliates *As of Dec. 30, 2016	Cosme. com Inc. cosme next Co. Ltd. istyle Beauty Solutions Inc. istyle career Inc. istyle trading Inc. IS Partners Inc. istyle capital Inc. istyle makers Inc.	istyle China Co., Limited istyle Global (Singapore) Pte. Limited istyle Global (Hong Kong) Co., Limited istyle Retail (Hong Kong) Co., Limited media globe Inc. Eat Smart Inc. United Cosme Inc. iSGS Investment Works, Inc. (Equity method affiliated company) open8 Inc. (Equity method affiliated company)

# History

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1999	Jul	Limited company I-Style Co., Ltd. founded
	Dec	Launched @cosme, a cosmetics portal site
2000	Apr	I-Style Co., Ltd. becomes istyle Inc., a joint-stock corporation
2002	Nov	Opened cosmetics online shopping site <i>cosme.com</i> (now @cosme shopping) and started operating of E-commerce
2007	Mar	Opened first @cosme store in Shinjuku Lumine Est, Tokyo by cosme next co.,Ltd.
2008	Jan	Launched online recruitment website @cosme Career
2010	Sep	cosme next Co., Ltd. becomes a wholly owned subsidiary
2012	Mar	istyle Inc. went public on the Tokyo Stock Exchange Mothers market
	May	Established istyle Global (Hong Kong)Co., Limited to kick start overseas business expansion
		Acquired CyberStar Inc. (now istyle Beauty Solutions Inc.), which runs <i>ispot</i> , and made it a consolidated subsidiary
	Aug	Established istyle Global (Singapore) Pte. Limited in Singapore
	Oct	Established istyle China Co., Limited in China
	Nov	Alteration of listing market from Mothers to Tokyo Stock Exchange First Section
2014	Jul	Acquired all shares in Beauty Trend Japan Co., Ltd., which runs <i>GLOSSYBOX</i> (now <i>BLOOMBOX</i> )
	Nov	Established istyle capital, Inc. to launch investment & consulting business
	Dec	Established istyle trading, Inc. to begin overseas E-commerce and wholesale business in January 2015
2015	Jul	Established istyle career Inc., a recruitment company specializing in the cosmetics and beauty businesses
	Sep	Acquired Media Globe Co., Ltd., a PR company specializing in the cosmetics business, and made it a subsidiary
2016	Mar	Established IS Partners Inc.
	Jul	Established istyle makers Inc.
	Sep	Acquired shares in food and health service provider Eat Smart Inc. and made it a subsidiary
		Acquired shares in cosmetics retailer United Cosme Inc. and made it a subsidiary
	Oct.	Established istyle Retail (Hong Kong) Co., Limited and opened a store operation center in Taiwan in January 2017

# Our Business Portfolio / On Platform business

## Advertising and Solutions Service

This services using @cosme for cosmetics manufacturers and beauty-related businesses.



Banner ad

Branding ads

@cosme logos are used in in-store sales promotions.



## Fee-Based Service

We offer the following monthly fee-based services offered on @cosme.

### ► BtoB

We provide beauty-related business operators with tools for communicating with users.

- For brands 
- For salons 
- For retailers 

### ► BtoC

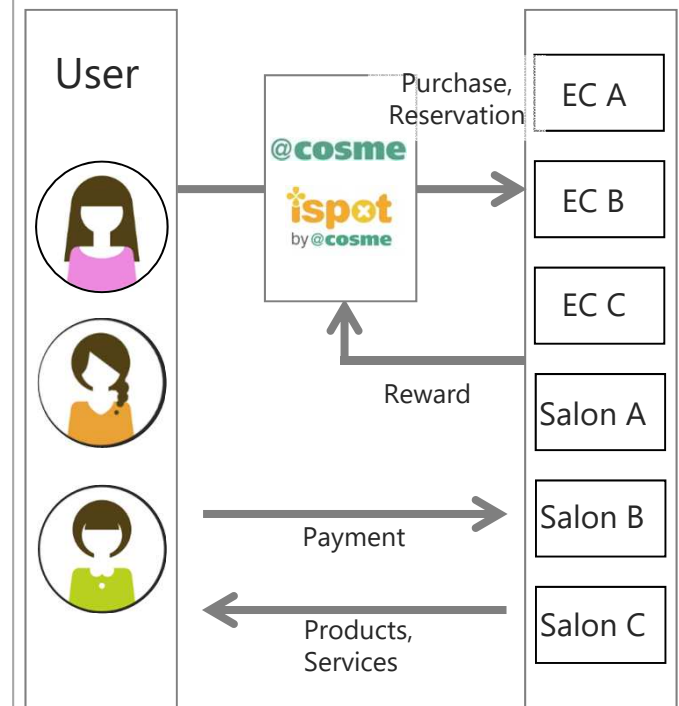
Premium Membership



A variety of services are provided by means of multiple price ranges.

## Transaction-based Service

This service offers results-based compensation for profit, affiliates, etc.



## Our Business Portfolio / Beauty Service business

### Retail Store

We will develop multiple retail models, accelerating the pace of store launches.

#### ► Direct Management Model

- Core @cosme stores (Large-Scale)

**@cosme store**

- Brand-Focused Stores (Small-Scale)

**in harmony**  
by @cosme store

- Self-Service Store (Small-Scale)

@cosme store **miike!**

#### ► Collaboration Model

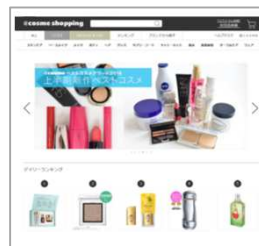
**@cosme store / TSUTAYA**

### Retail EC

Our EC @cosme shopping operate store branch at on Yahoo, Rakuten, Amazon, etc.

## @cosme shopping

Main shop



Rakuten Ichiba



Yahoo! shopping



amazon.co.jp



### Planning and development of cosmetics and other products

We will develop new types of cosmetic/beauty-related products.

#### ► For domestic market

Cooperate with manufacturers to develop cosmetic/beauty-related products

#### ► For overseas market

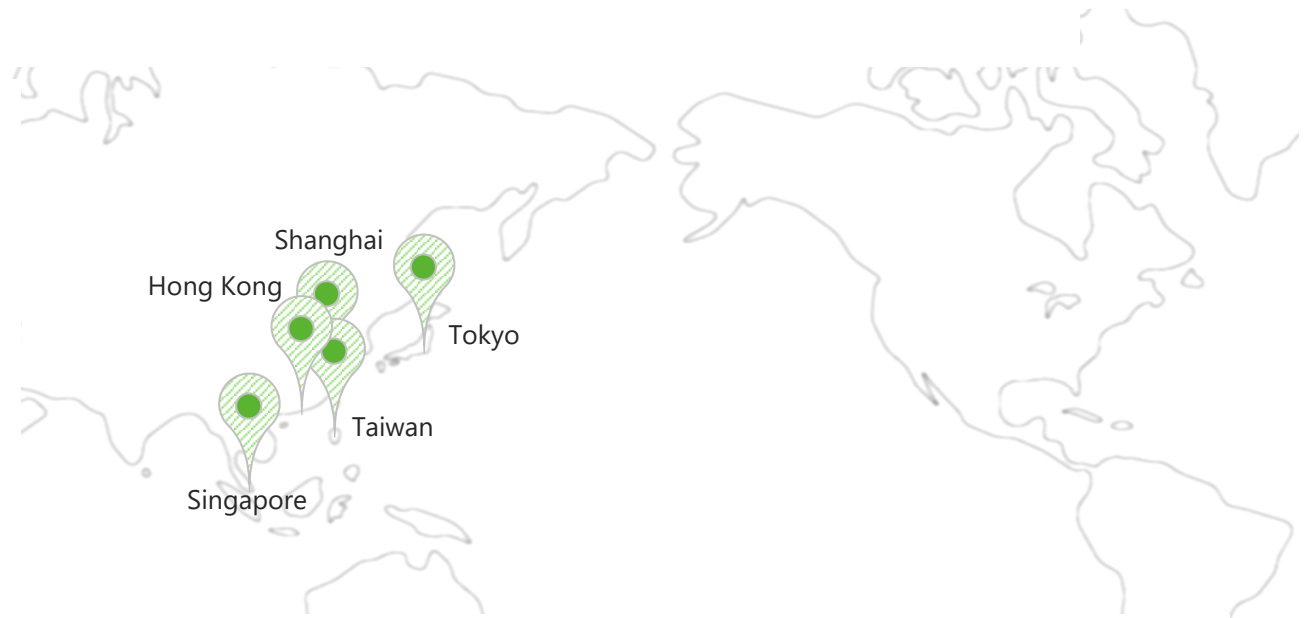
Develop original cosmetic/beauty-related products



## Our Business Portfolio / Global business

- Expand @cosme business model to overseas markets.

- Marketing  
Main market: China
- E-commerce (BtoC)  
Main market: China
- Wholesale (BtoB)  
Main market: China
- Store  
Main market: Taiwan



- ☐ Subsidiary
- ☐ Branch

Tokyo	est. 2014/12
<u>istyle trading Inc.</u>	
Import, export and wholesale of cosmetics and beauty-related products	

Singapore	est. 2012/8
<u>istyle Global (Singapore) Pte. Ltd.</u>	
Business development hub	

Shanghai	est. 2012/10
<u>istyle China Co., Ltd.</u>	
Marketing solution provider for cosmetics clients	

Hong Kong	est. 2012/5
<u>istyle Global (Hong Kong) Co., Ltd.</u>	
Cross-border E-commerce in China	

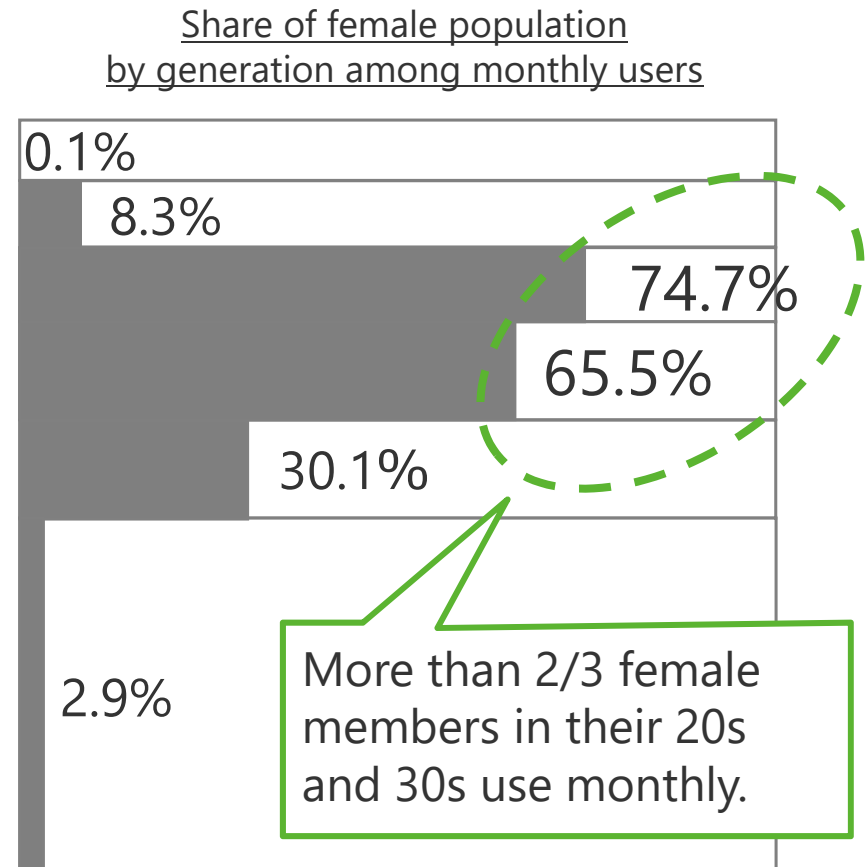
Hong Kong	est. 2016/10
<u>istyle Retail (Hong Kong) Co., Ltd.</u>	
Development and operation of stores in Hong Kong and Taiwan	

Taiwan	est. 2017/1
<u>istyle Retail (Hong Kong) Co., Ltd. (Taiwan Branch)</u>	
Operational base for stores in Taiwan	

## @cosme / Overwhelming usage ratio by female members

- Roughly 13.8 million monthly unique users use @cosme portal site. (As of Jun. 2016)
- Massive reach among female members in their 20s and 30s.

<u>Generation</u>	<u>Female population</u>	<u>Number of users</u>
Under age of 10	5.12 mil.	0 mil.
Age 10 thru 19	5.65 mil.	0.47 mil.
20s	6.18 mil.	4.62 mil.
30s	7.67 mil.	5.02 mil.
40s	9.18 mil.	2.77 mil.
50 and over	31.45 mil.	0.91 mil.
All generations	65.25 mil.	13.80 mil.



Source: Population statistics published by Ministry of Internal Affairs and Communications. (figures determined on Jan. 2016)  
Calculations based on the number of unique users of PC, smart phone and feature phone as well as member distribution. (figures determined on Jun. 2016)

# Retail Store List

## @cosme store

Lumine Est Shinjuku store	Opened in Mar. 2007 Renovated in Sep. 2016	238㎡
Ueno Marui store	Opened in Nov. 2008 Renovated in Sep. 2012	241㎡
Shibuya Marui store	Opened in Apr. 2009 Relocated in Apr. 2015	198㎡
Lumine Ikebukuro store	Opened in Apr.2012	257㎡
Lumine Yurakucho store	Opened in Feb. 2014	224㎡
TSUTAYA EBISUBASHI store	Opened in Nov. 2014	297㎡
Mizonokuchi Marui Family store	Opened in Oct. 2015	271㎡

Kobe Marui store	Opened in May 2016	162㎡
T-SITE COSME Hirakata store	Opened in May 2016	142㎡
TSUTAYA Kumamoto Sannenzaka store	Opened in Jun. 2016	228㎡
TSUTAYA Sapporo Utsukushigaoka store	Opened in Sep. 2016	234㎡
Ikebukuro Sunshine city store	Opened in Oct. 2016	162㎡
TSUTAYA Hakodate store	Opened Nov. 2016	264㎡
Machida Marui store	Scheduled to open on Mar. 2017	122㎡

Amu Est Hakata store	Scheduled to open on Mar. 2017	106㎡
Lucua Osaka store	Scheduled to open on Mar. 2017	102㎡

### <Overseas store>

Breeze Taipei Station Store(Taiwan)	Scheduled to open on May. 2017	205㎡
Breeze Xin Yi store (Taiwan)	Scheduled to open on Jun. 2017	201㎡

## @cosme store mikke!

Gransta store (Tokyo Station)	Opened in Jul. 2016	69㎡
Lumine Shinjuku store	Opened in Oct. 2016	66㎡

## in harmony by @cosme store

Kyoto The Cube store	Opened in Mar. 2016	43㎡
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## Kcosme Beauté \*

Marier Toyama Store	Opened in Sep. 1987	109㎡
Aeon Mall Takaoka store	Opened in Sep. 2002	172㎡
Aeon Mall Takasaki store	Opened in Oct. 2006	135㎡
Apita Town Kanazawa Bay store	Opened in Nov. 2007	149㎡

\*Acquired shares in United Cosme, which operates the four stores above, in September 2016. (included in consolidated income statement from October 2016)

# Segment Changes / New & Previous

## Previous Segments

Marketing	
Advertising	
Sales Promotion	
Brand Fan Club	
Premium Fees	
BLOOMBOX	
Overseas Marketing	
Retail	
Dom-estic	E-commerce
	Stores
Over-seas	E-commerce
	Wholesale
Beauty Business Support	
ispot	
Recruiting	
Temp Dispatching	
Investment Development	
Investment Development	

## New Segments

On Platform	
Advertising	
Sales Promotion	
Recruiting	
Brand Fan Club	
ispot	
@cosme Store Guide	
Premium Fees	
BLOOMBOX	
Rewards (Incl. Affiliates)*1	
Beauty Service	
Dom-estic	E-commerce
	Stores
Products	
Global	
Over-seas	Marketing
	E-commerce
	Stores
	Wholesale
Other	
Staff Dispatching	
Investment Development	

\*1 Includes result-based compensation for affiliates, as well as rewards based on stores launched on @cosme shopping.



MARKET DESIGN COMPANY

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