

# Presentation Materials for the 3<sup>rd</sup> Quarter of FY2017



May. 2. 2017

istyle Inc.

Stock code: 3660

## Overview of Financial Results for the 3<sup>rd</sup> Quarter of FY2017



# The 3<sup>rd</sup> Quarter / Highlight

## Consolidated Financial Results

**Net sales up; profits down on forward investment for medium-term business plan, but on track**

Net sales : **13,265** Million yen YoY : **125.0** %

OP : **1,135** Million yen YoY : **84.3** %

## On Platform business

**B-to-B services brisk; sales and profits up**

Net sales : **5,089** Million yen YoY : **117.9** %

OP : **1,908** Million yen YoY : **127.3** %

## Beauty Service business

**Fifteen more stores from end-3Q FY16 to 23; sales up, but profits down on aggressive store opening**

Net sales : **6,190** Million yen YoY : **144.2** %

OP : **171** Million yen YoY : **45.7** %

## Global business

**Sales up on local currency basis, but down slightly in yen terms due to forex factors**

Net sales : **1,808** Million yen YoY : **92.5** %

OP : **106** Million yen YoY : **43.7** %

\*1 See pages 22 to 24 for a description of the services of each business segment.

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

## The 3<sup>rd</sup> Quarter / Overview of operating results

- **Profits down (though within expected range) due to forward investment** in new businesses, headquarters expansion and other factors
- Progress toward full-year earnings forecast mostly on target, but **revised up full-year forecast to reflect extraordinary income of 283 million yen** from sale of investment securities

	3Q/FY17 (Jul.-Mar.)	3Q/FY16 (Jul.-Mar.)	YoY changes	FY17 plan (Previous)	FY17 plan (Revised)	State of progress
Net sales	13,265	10,609	125.0%	18,609	18,609	71.3%
Gross profit	7,274	6,063	120.0%	—	—	—
SG&A	6,139	4,717	130.2%	—	—	—
Operating income	1,135	1,346	84.3%	1,450	1,450	78.3%
Ordinary income	1,029	1,293	79.6%	1,352	1,352	76.1%
Net income attributable to owners of the parent company	852 *1	1,016 *2	83.8%	854	Revised 1,050	81.1%

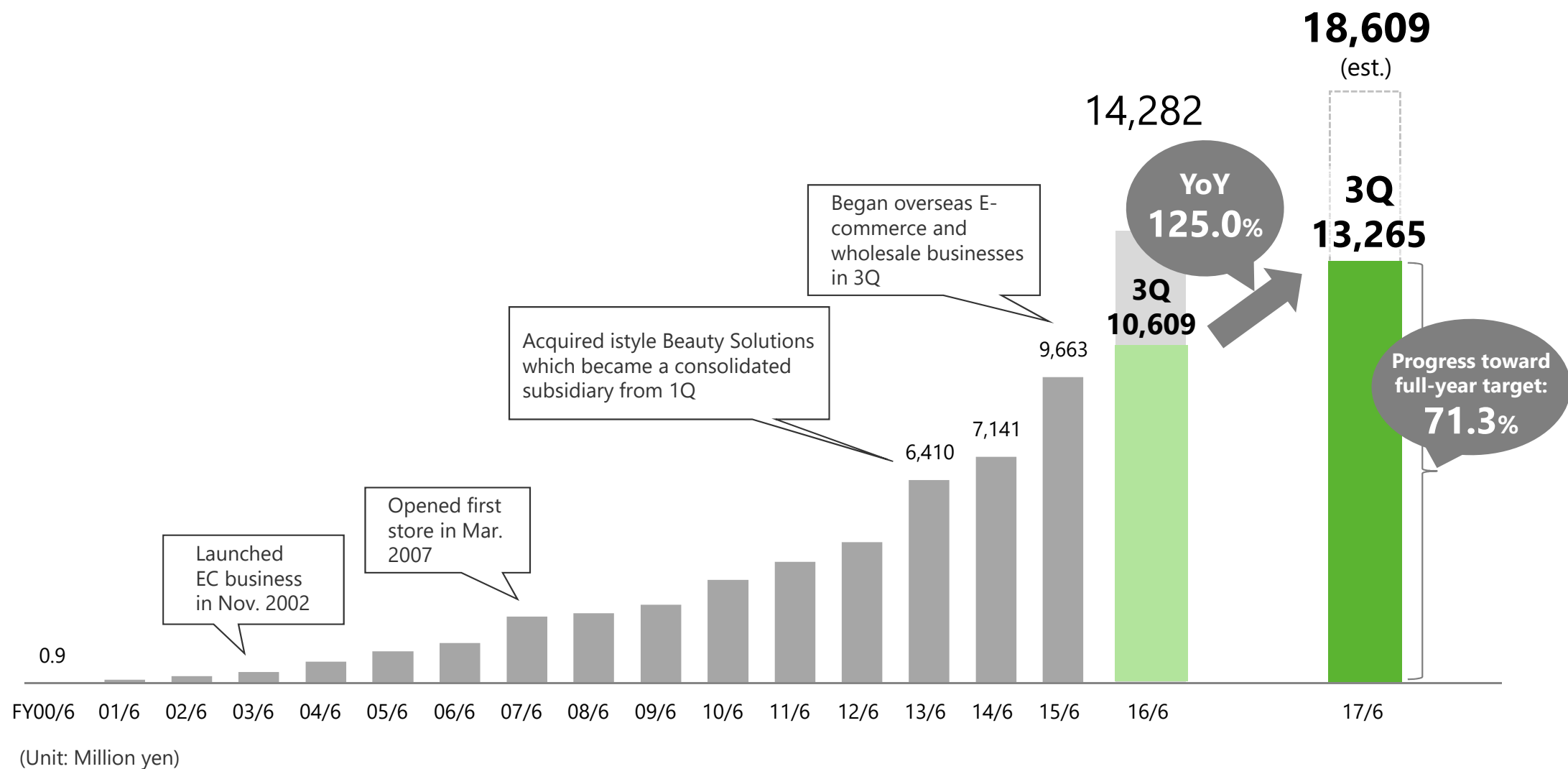
(Unit: Million yen)

\*1 Posted extraordinary profit of 283 million yen in profit from the sales of investment securities for 3Q/FY17.

\*2 Posted extraordinary profit of 177 million yen in profit from the sales of Indonesian subsidiary for 1Q/FY16.

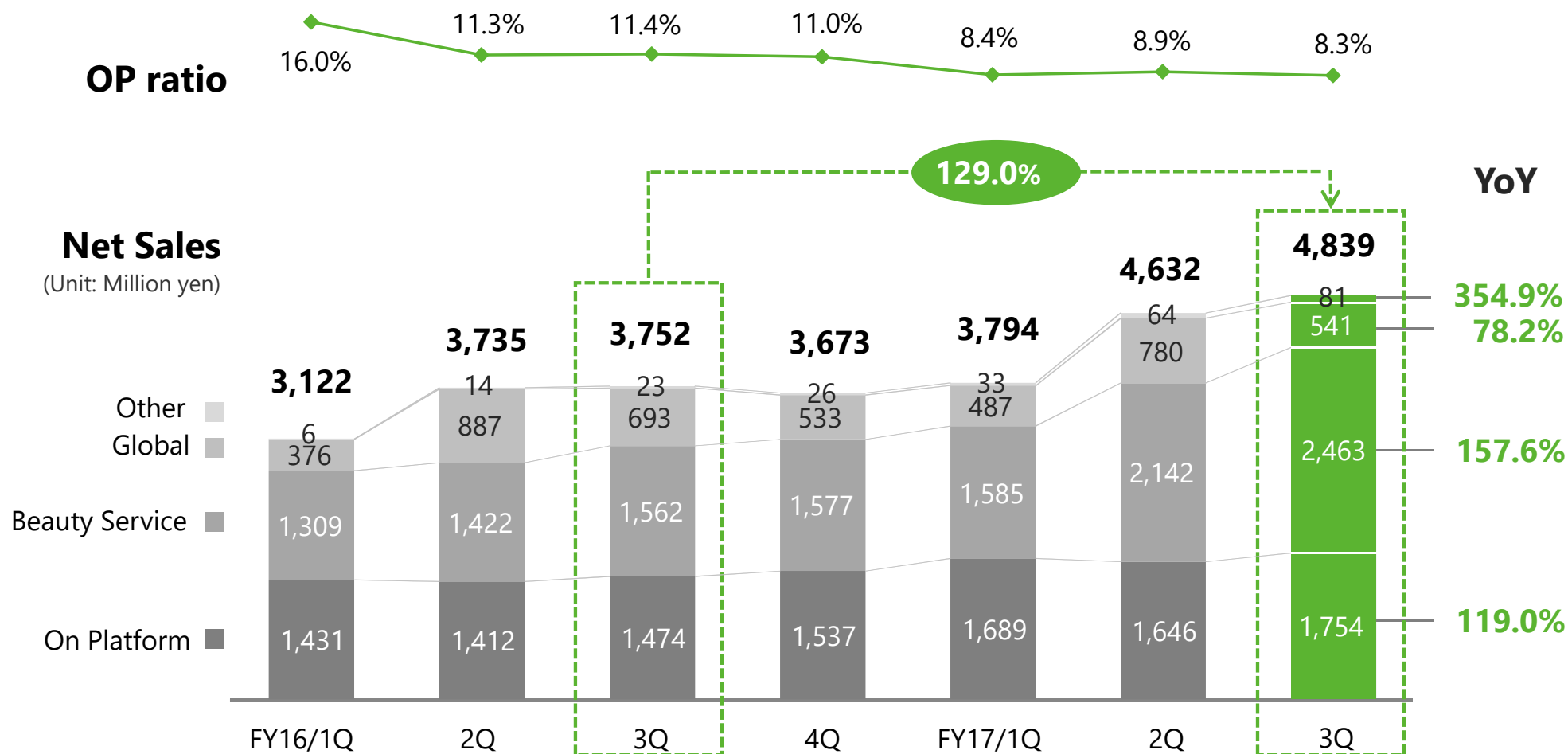
# Full year / Trend in net sales

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



# Trends in Segment sales

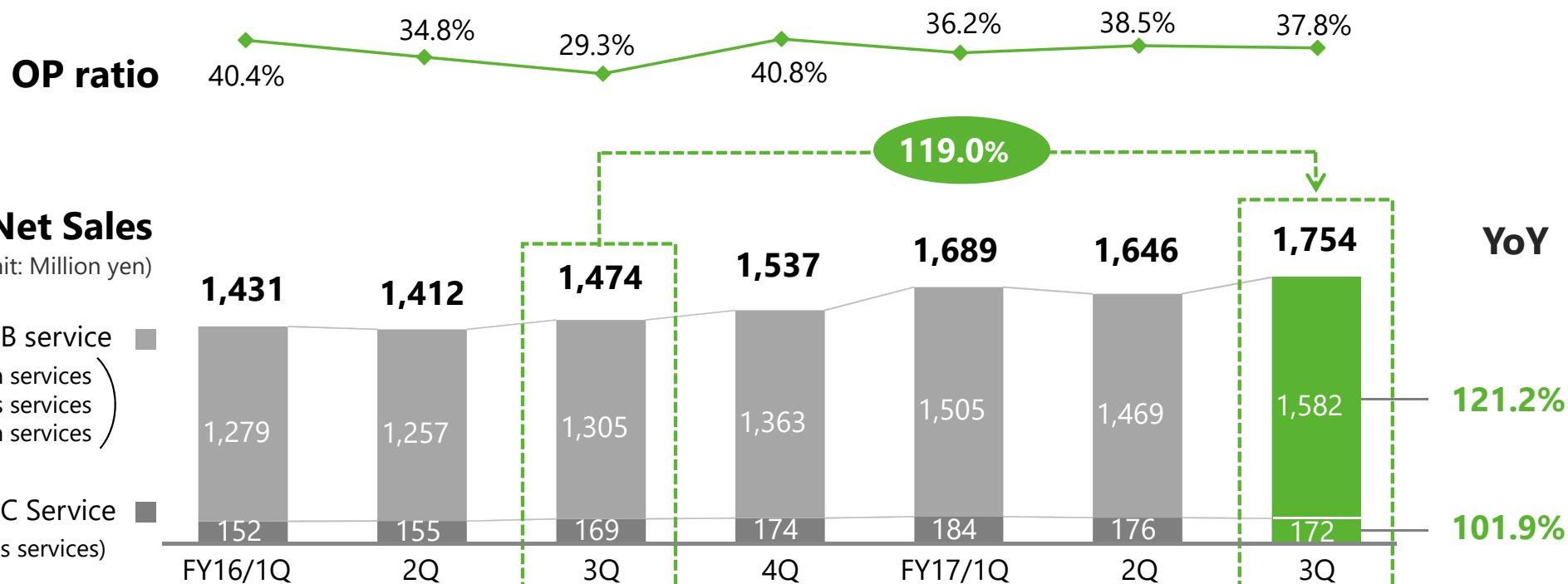
- Sales up in all businesses except the Global business



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

# Trends in Segment sales / On Platform business

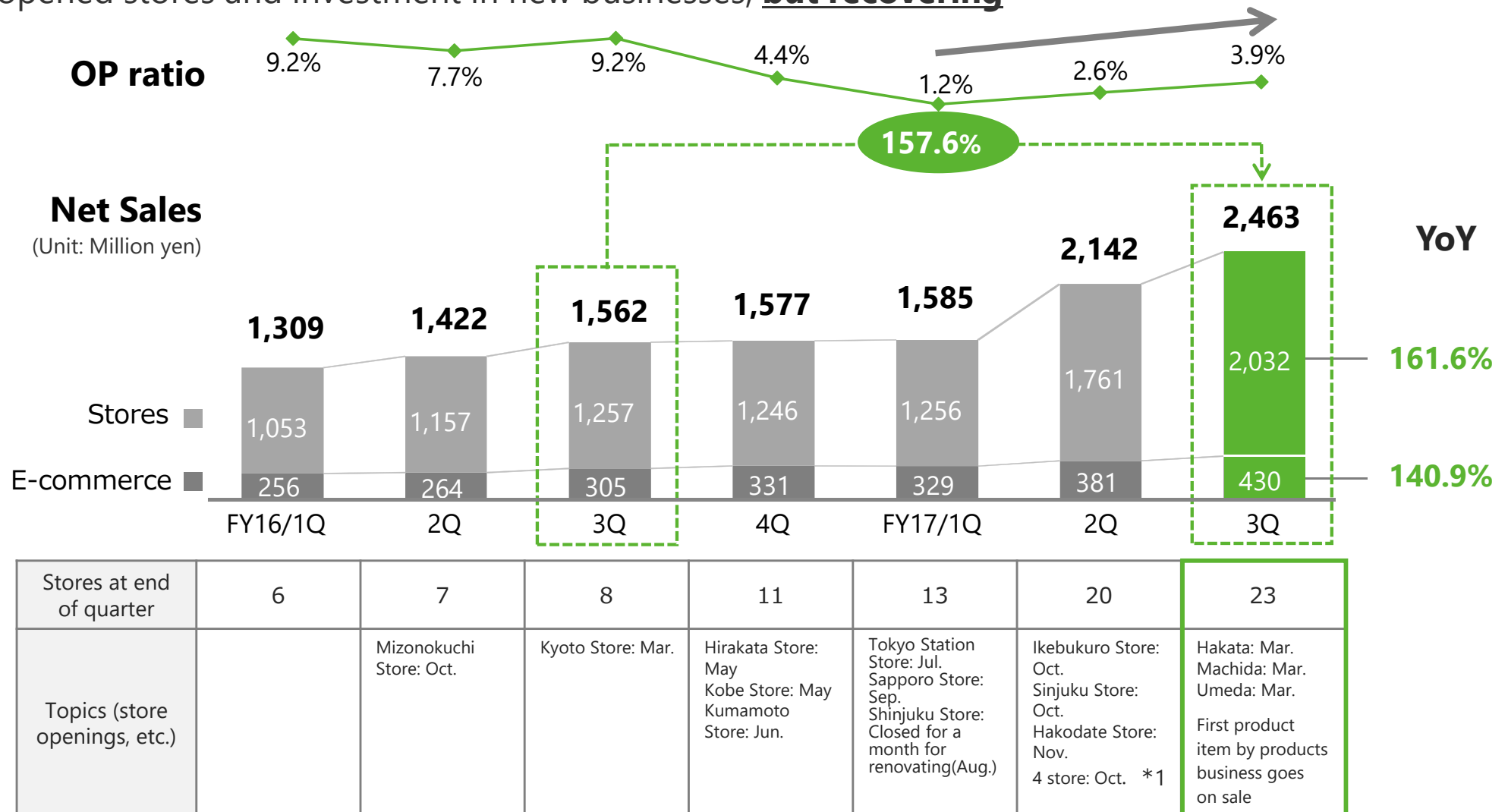
- **Brisk revenue from advertising and B-to-B fee-based services** drove earnings
- B-to-C services also performed well; premium membership holds steady despite promotional cutbacks



Topics	Won orders for major events	Cosmetics PR company Media Globe Co., Ltd. becomes a subsidiary			Won orders for major events	Eat Smart Inc., which provides food and health-related services, becomes a subsidiary	
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# Trends in Segment sales / Beauty Service business

- **E-commerce sales up 40.9%** due to various promotional campaigns and other factors
- **Stores increased to 23 stores at end-3Q**, up 11 from a year ago plus four acquired by M&A, resulting in a **61.6% increase in store sales**. **Profit margin down** due to increased share of newly opened stores and investment in new businesses, **but recovering**



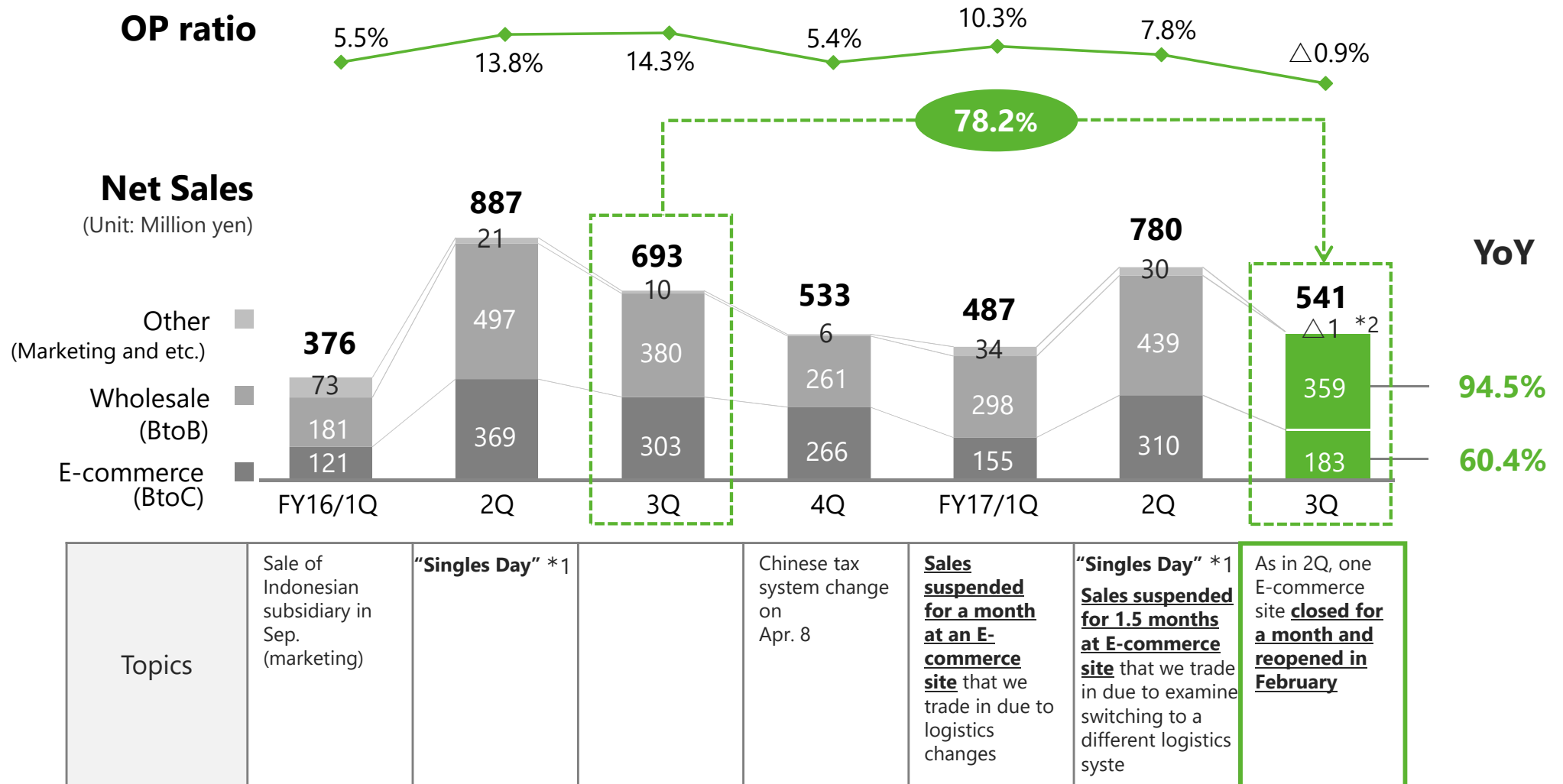
\*1 Two stores in Toyama and one store each in Ishikawa and Gunma acquired by M&A included in consolidated profit and loss statement from October

\*2 See p.27 for up-to-date list of stores



# Trends in Segment sales / Global business

- Sales down due to temporary closure of E-commerce site
- **Sharp profit decline** due to **M&A-related expenses** and **costs for preparing to open stores in Taiwan**

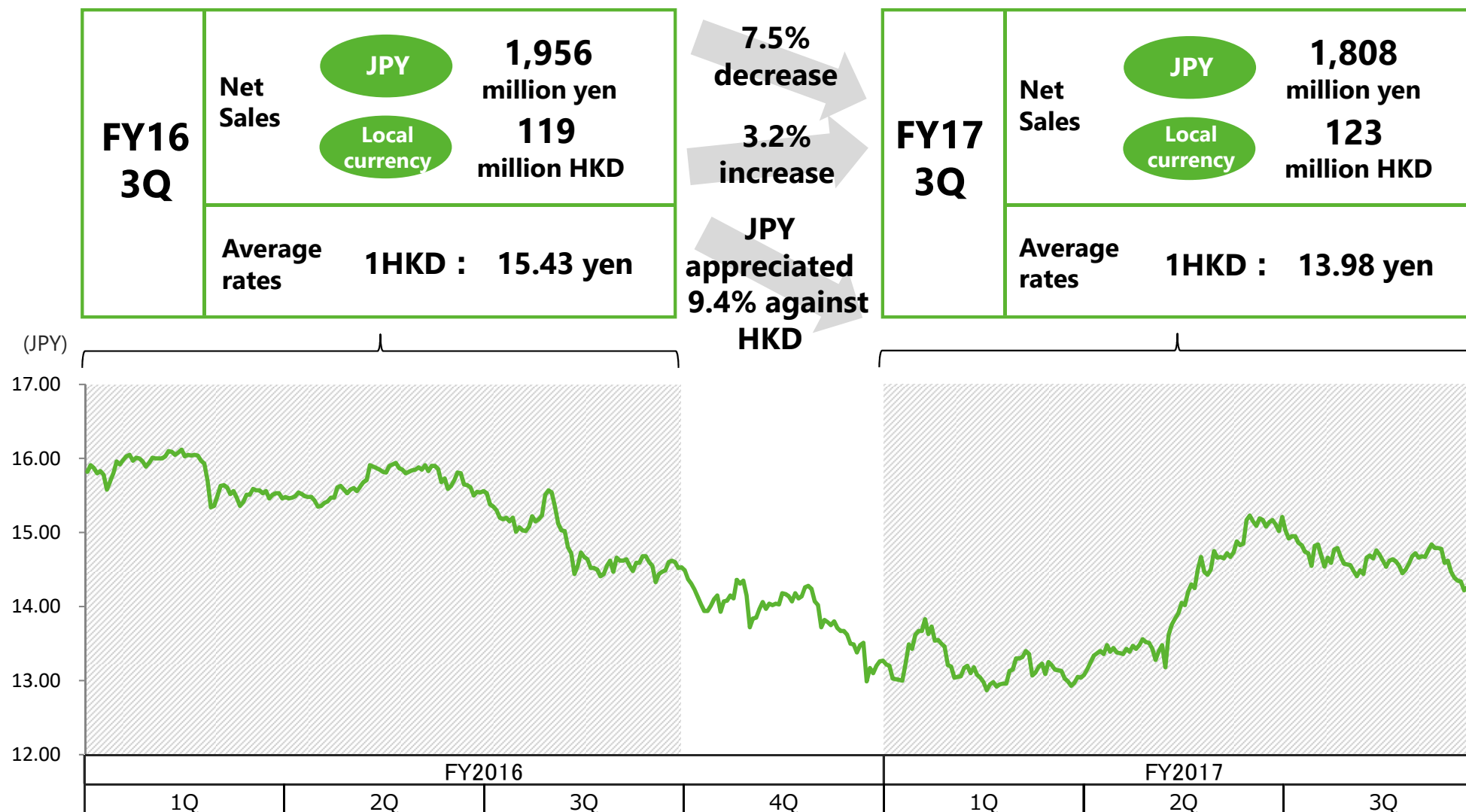


\*1 A major E-commerce sale held on November 11 in China

\*2 Due to recording internal transactions in 3Q instead of performing accounting treatment of less important transactions in transit in 2Q of FY17

# Global business / Forex impact

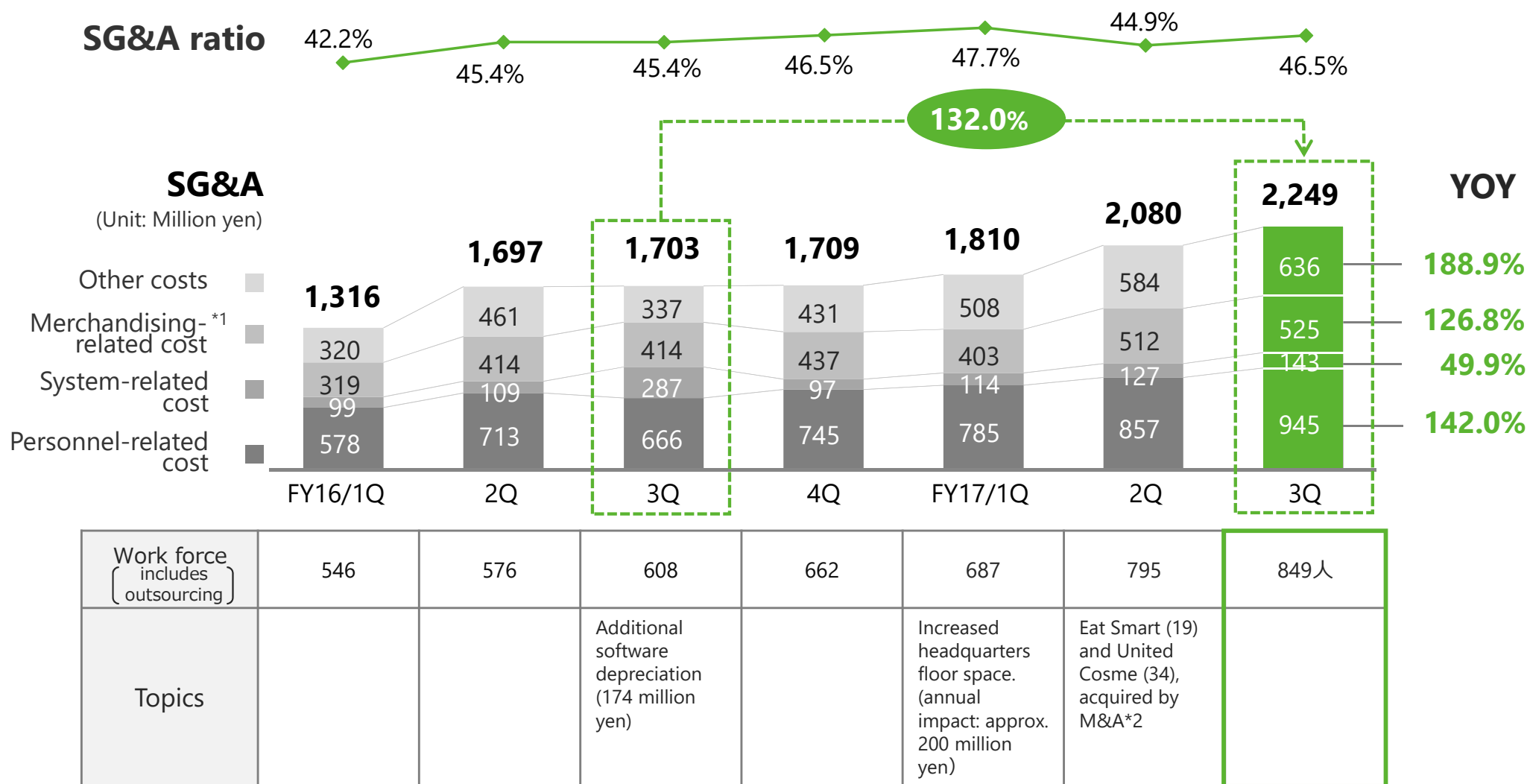
- Cumulative 3Q sales declined year-on-year, due in part to yen appreciation, but **increased 3.2% on local currency basis.**



\* Comparison of local currency-based sales based on cross-border E-commerce and wholesale businesses in China only, which account for the majority of sales (Hong Kong subsidiary operates cross-border E-commerce business)

# Trends in SG&A expenses

- **Increased work force** due to strengthened hiring and M&A for business expansion and achieving sustained growth. Cost of purchasing consumables (furnishings, supplies etc.) rises with head count.
- SG&A expenses increase alongside sales, but SG&A expense ratio maintained at certain level.

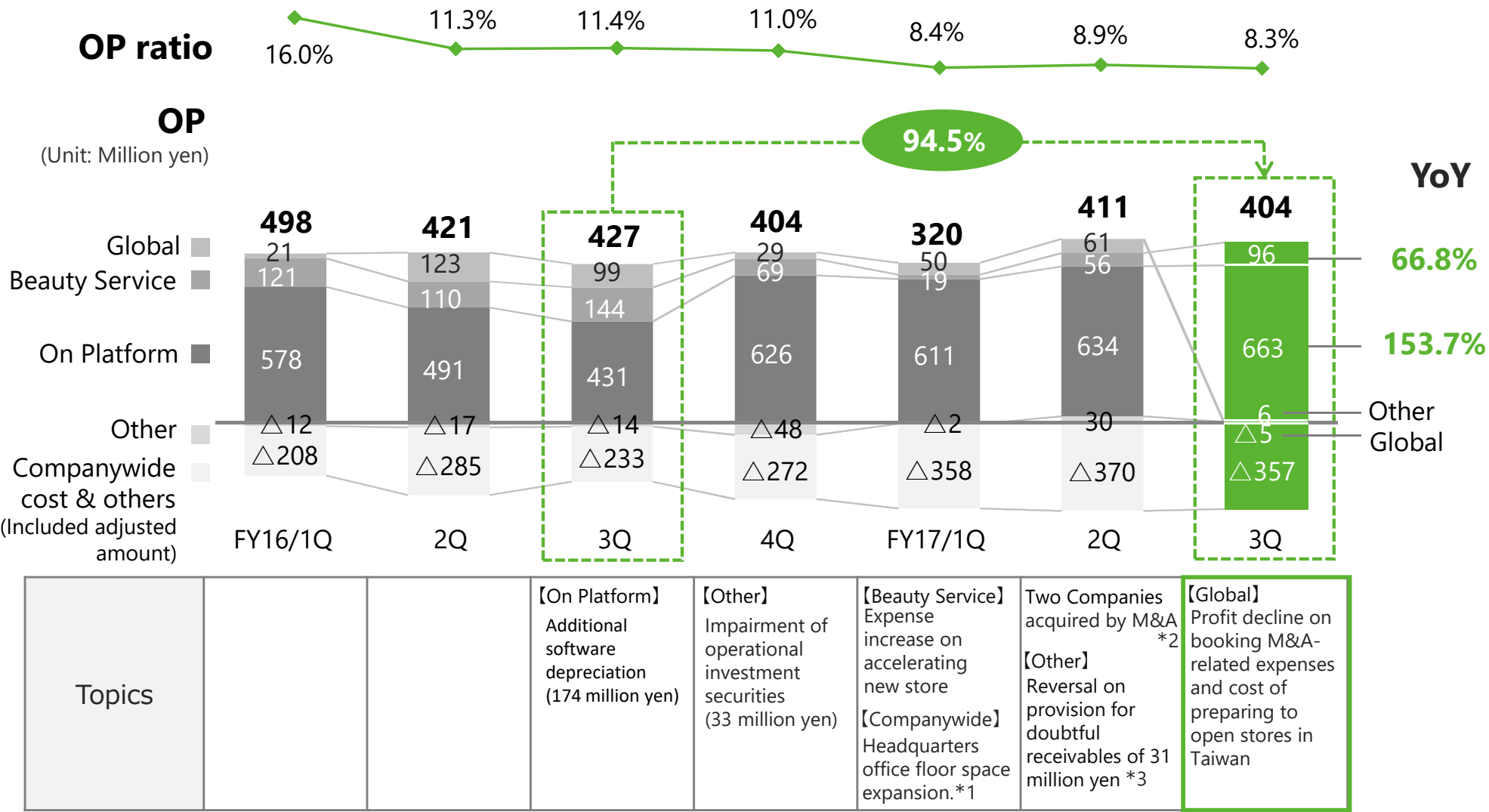


\*1 Total cost linked to the amount of sales in e-commerce and store business, such as delivery fee or rent fee

\*2 Figures in parentheses are the number of employees as of December 2016

# Trend in operating income by segment

- Operating profit down year-on-year due to aggressive hiring based on medium- to long-term outlook and headquarters floor space expansion, but **consolidated operating profit trending on budget** despite fluctuations in each segment's profit.



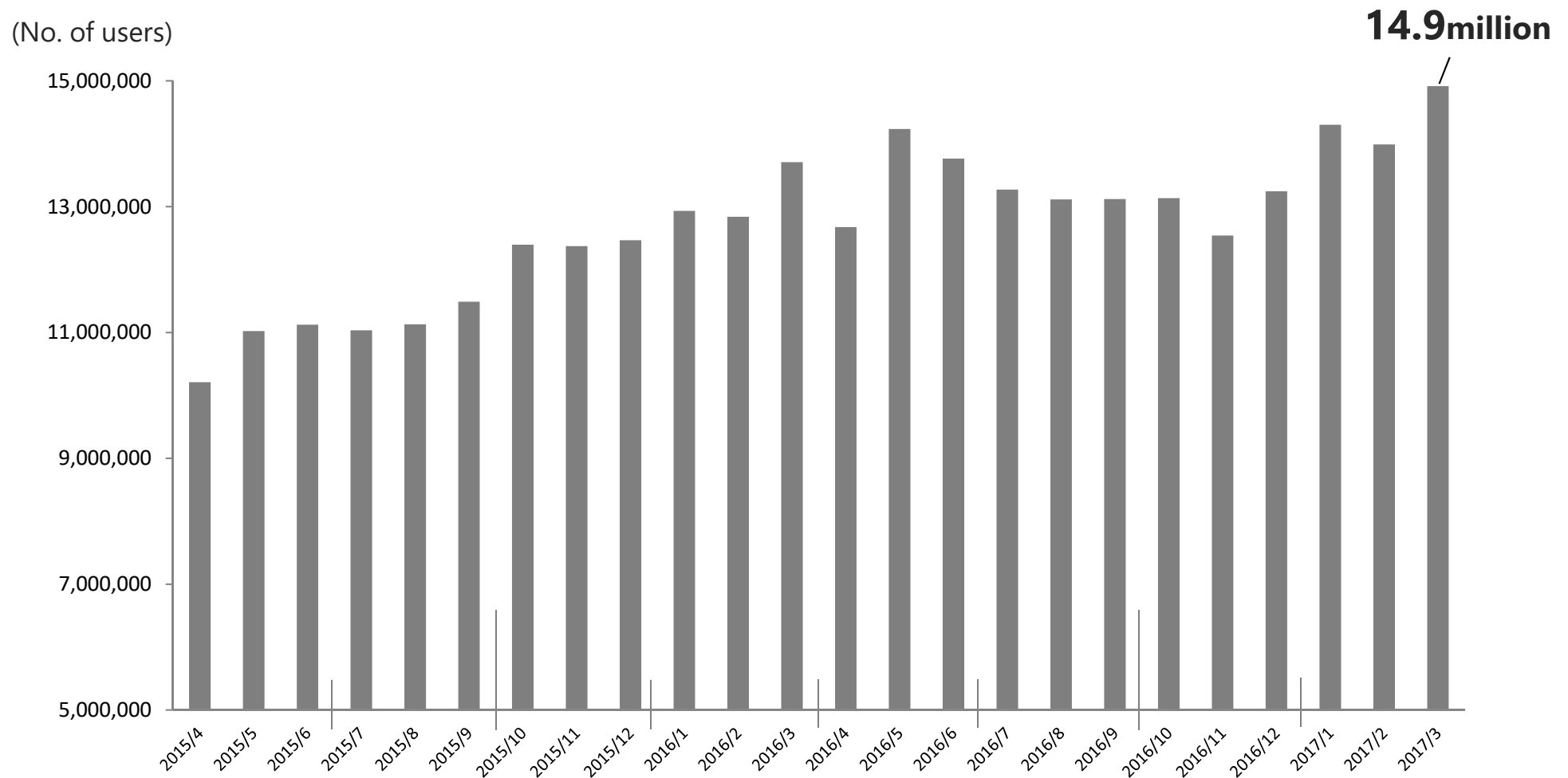
\*1 Annual impact: approx. 200 million yen  
\*2 On Platform business: Eat Smart; Inc. Beauty Service business: United Cosme Inc.  
\*3 Reversal of 31 million yen on provisions booked for some operational investment securities in investment and consulting business

## Status of Operating Services

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

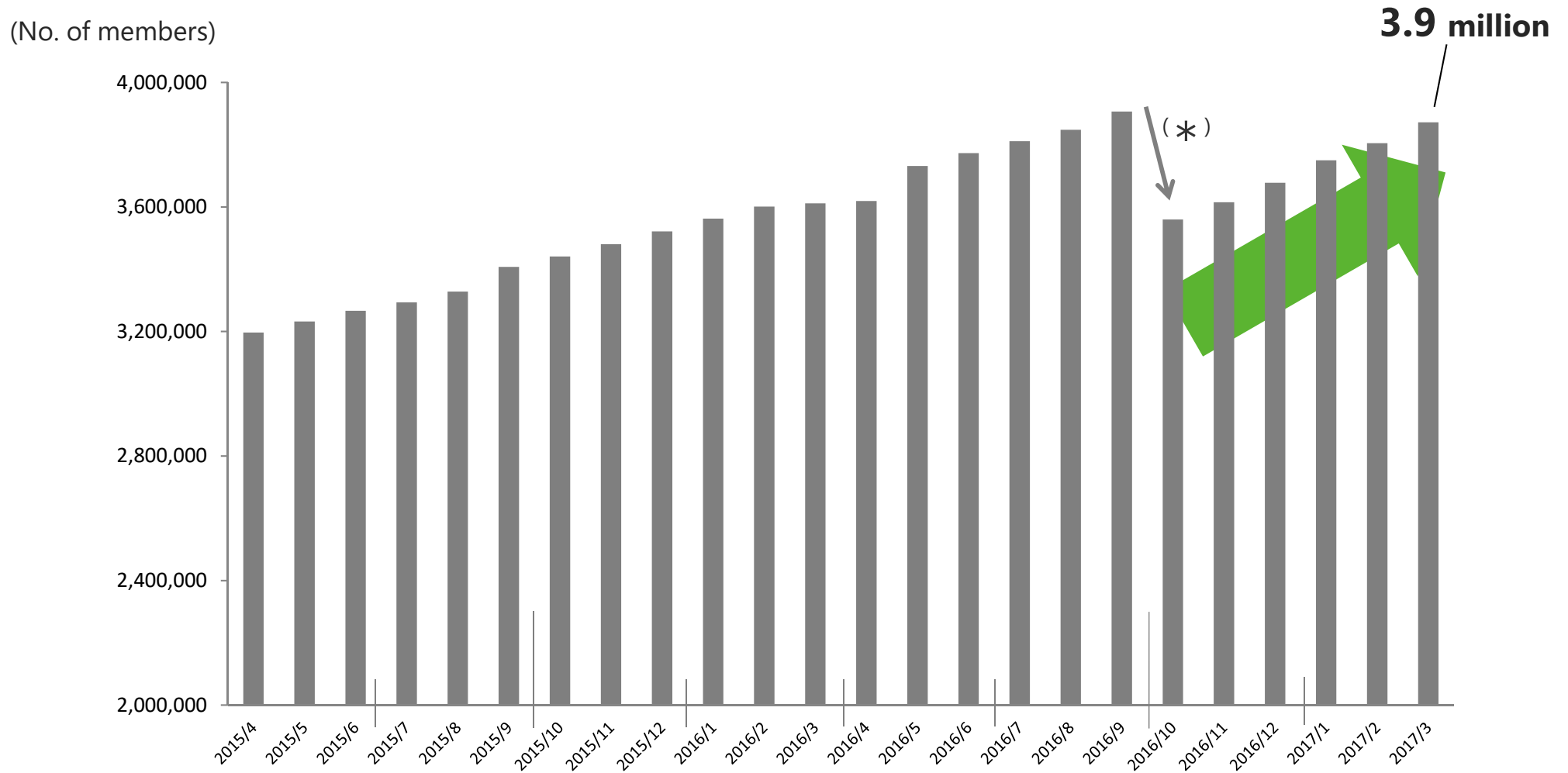
- **Monthly trends stable**, with some seasonal fluctuations
- No big promotions, but **targeting growth in longer term by strengthening platform**



\*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 due to deleting 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 / @cosme My Page changed to timeline format like top page

- @cosme My Page (smartphone version) changed to timeline format with content feed depending on user's action

## My Page: Private Room (only user can view)



## Content associated with each user's action automatically updated on daily basis and displayed in timeline format

- Posts by people and companies followed
- Posts of blog themes followed
- Posts of products "liked"\*
- @cosme article content
- etc.

Aiming for a site that consumers can use on a daily basis



\* Like = action taken in response to products, articles, and blog themes in which the user takes an interest



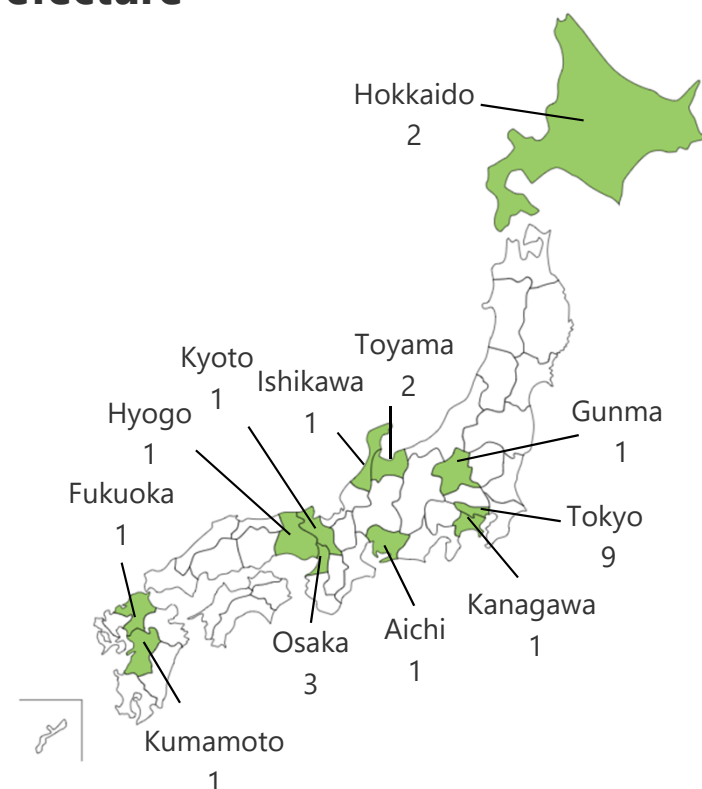
# Beauty Service business / New store in Japan

- Eight new stores and four added by M&A **bring total at end-3Q FY17 to 23 stores.**
- One new store planned for 4Q.

## New stores※1

1Q		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
		Lumine Shinjuku Store	Opened in Oct. 2016
	@cosme store	TSUTAYA Hakodate store	Opened in Nov. 2016
	Kcosme Beauté	Apita Town Kanazawa Bay store ※2	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	Amu Est Hakata store	Opened in Mar. 2017
	@cosme store	Machida Marui store	Opened in Mar. 2017
	@cosme store	Lucua Osaka store	Opened in Mar. 2017
4Q	@cosme store	Nagoya Takashimaya Gate Tower Mall store	Opened in Apr. 2017

## Breakdown of store openings by prefecture\*1



\*1 Includes recently opened stores

\*2 Renewal and expansion of @cosme store in April 2017 (floor space increased from 149m<sup>2</sup> to 228m<sup>2</sup>)

\*3 See p.27 for up-to-date list of stores.

## Beauty Service business / @cosme Nippon Project launched

- Launched @cosme Nippon Project to communicate the allure of Japanese beauty to the world, planning and sales beauty products using traditional Japanese natural ingredients and materials

[First product] On sale March 1, 2017

3Q



*Seaweed, Flower and Fruit Beauty Serum Face Mask with Ryukyu Bihada*  
¥1,200 for three 27.5ml sachets

[Second products] On sale April 15, 2017

4Q



Horse Mane Oil

- Hand Wash (left) ¥2,300 for 250ml
- Hand Lotion (center) ¥2,700 for 250ml
- Hand & Nail Serum (right) ¥1,480 for 12g

On sale at @cosme store and @cosme shopping;  
to be sold in 4Q onward in new Taiwanese stores (scheduled to open in May),  
Chinese cross-border E-commerce business and wholesale to other countries

# Global business / Acquired Malaysian E-commerce site

- Hermo Creative (M) Sdn. Bhd., which operates one of Malaysia's largest beauty and cosmetics E-commerce sites Hermo, becomes a subsidiary\*
- Plans to operate media and stores in the longer term as well as grow the E-commerce site by leveraging istyle's know-how

## HERMO

Hermo Creative (M) Sdn. Bhd.

Founded in 2012, the company operates one of Malaysia's largest beauty and cosmetics E-commerce sites.



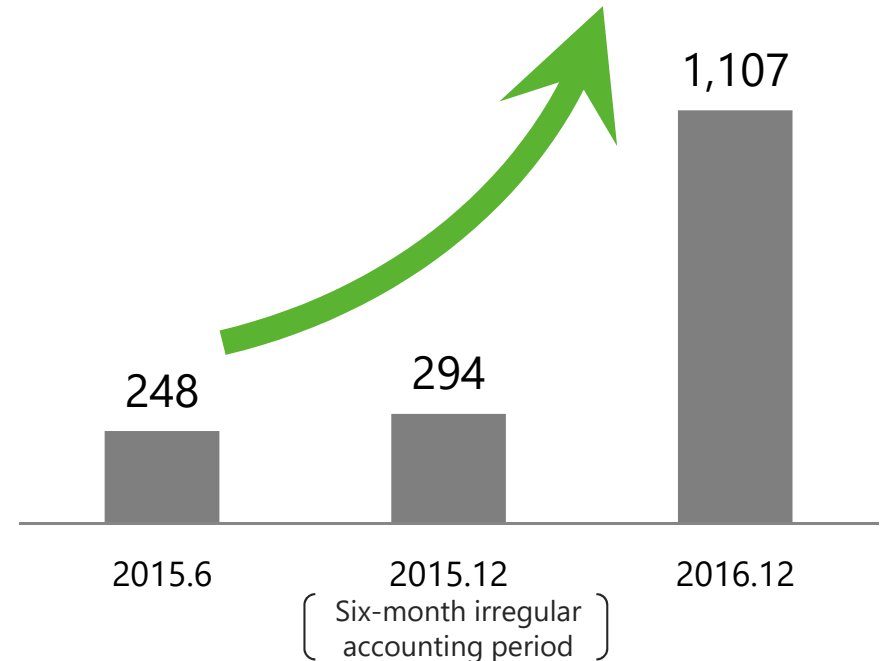
■ Brands sold	<u>300</u>
■ Product items sold	<u>9,000</u>
■ Average spend per purchase	<u>¥3,200</u>

[www.hermo.my](http://www.hermo.my)

As of Mar. 2017

## Recent sales trends

(Unit: million yen)



\* To be included in consolidated income statement from 4Q FY17

## Appendix

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# 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 Mar. 30, 2017	<div> <div> <p>[Japan]</p> <p>Cosme. com Inc.</p> <p>cosme next Co. Ltd.</p> <p>istyle Beauty Solutions Inc.</p> <p>istyle career Inc.</p> <p>istyle trading Inc.</p> <p>IS Partners Inc.</p> <p>istyle capital Inc.</p> <p>iMakers Inc.</p> <p>media globe Inc.</p> <p>Eat Smart Inc.</p> <p>United Cosme Inc.</p> </div> <div> <p>iSGS Investment Works, Inc. (Equity method affiliated company)</p> <p>open8 Inc. (Equity method affiliated company)</p> <p>[Overseas]</p> <ul style="list-style-type: none"> <li>•istyle China Co., Limited</li> <li>•istyle Global (Singapore) Pte. Limited</li> <li>•istyle International Trading (Hong Kong) Co., Limited</li> <li>•istyle Retail (Hong Kong) Co., Limited</li> <li>•Hermo Creative (M) Sdn. Bhd. *</li> </ul> <p>( *To be included in consolidated income statement from 4Q FY17)</p> </div> </div>

# 沿革

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., Ltd. (now istyle International Trading (Hong Kong) Co., Ltd.) 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
2014	Nov	Alteration of listing market from Mothers to Tokyo Stock Exchange First Section
	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. (now iMakers 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
2017	Apr.	Acquired shares in Hermo Creative (M) Sdn. Bhd., which operates a beauty/cosmetics E-commerce site in Malaysia, and made it a subsidiary

# Our Business Portfolio / On Platform business

## Advertising and Solutions Service

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



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

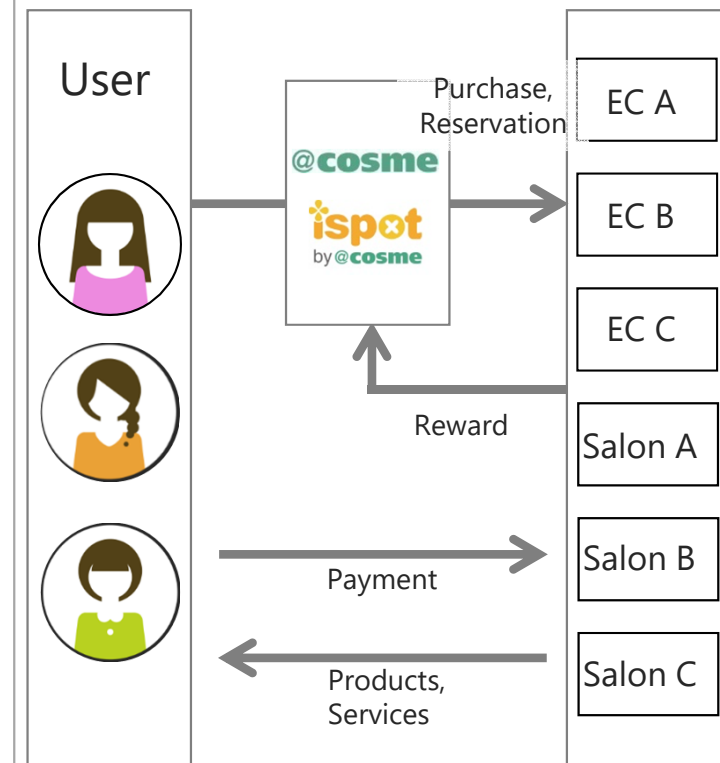
Premium Membership



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 **mike!**

### ► 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

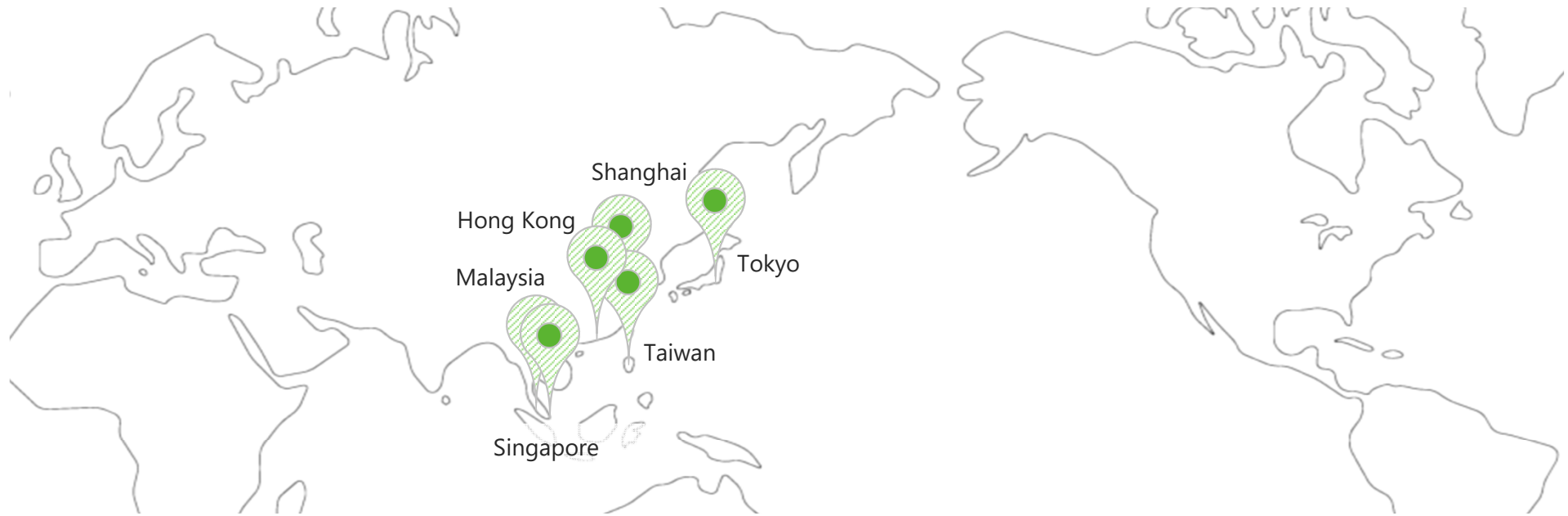
### ► For overseas market

Develop original cosmetic/beauty-related products



# Our Business Portfolio / Global business

- Expand @cosme business model to overseas markets.



**Hong Kong** est. 2012/5  
istyle International Trading (Hong Kong) Co., Limited  
 Cross-border E-commerce in China

**Singapore** est. 2012/8  
istyle Global (Singapore) Pte. Ltd.  
 Business development hub

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

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

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

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

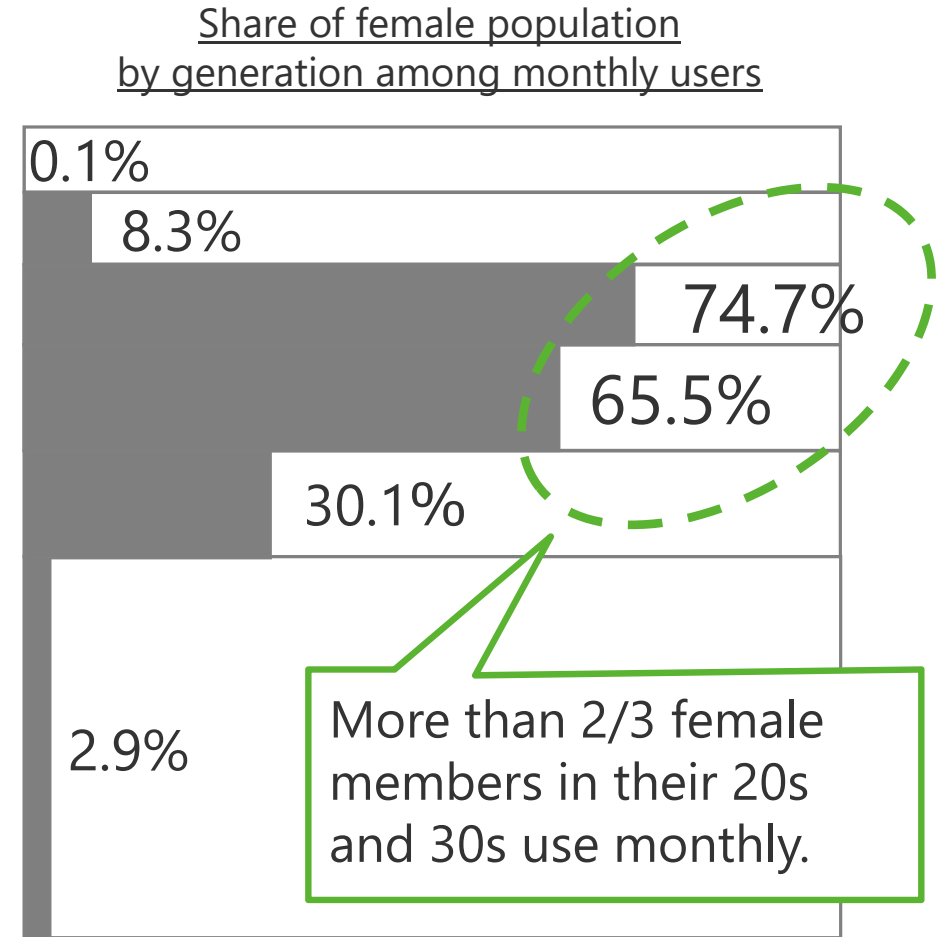
**Malaysia** Subsidiary from 2017/4  
Hermo Creative (M) Sdn. Bhd.  
 Operates Malaysian E-commerce site

- ☐ Subsidiary
- ☐ Branch

## @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.

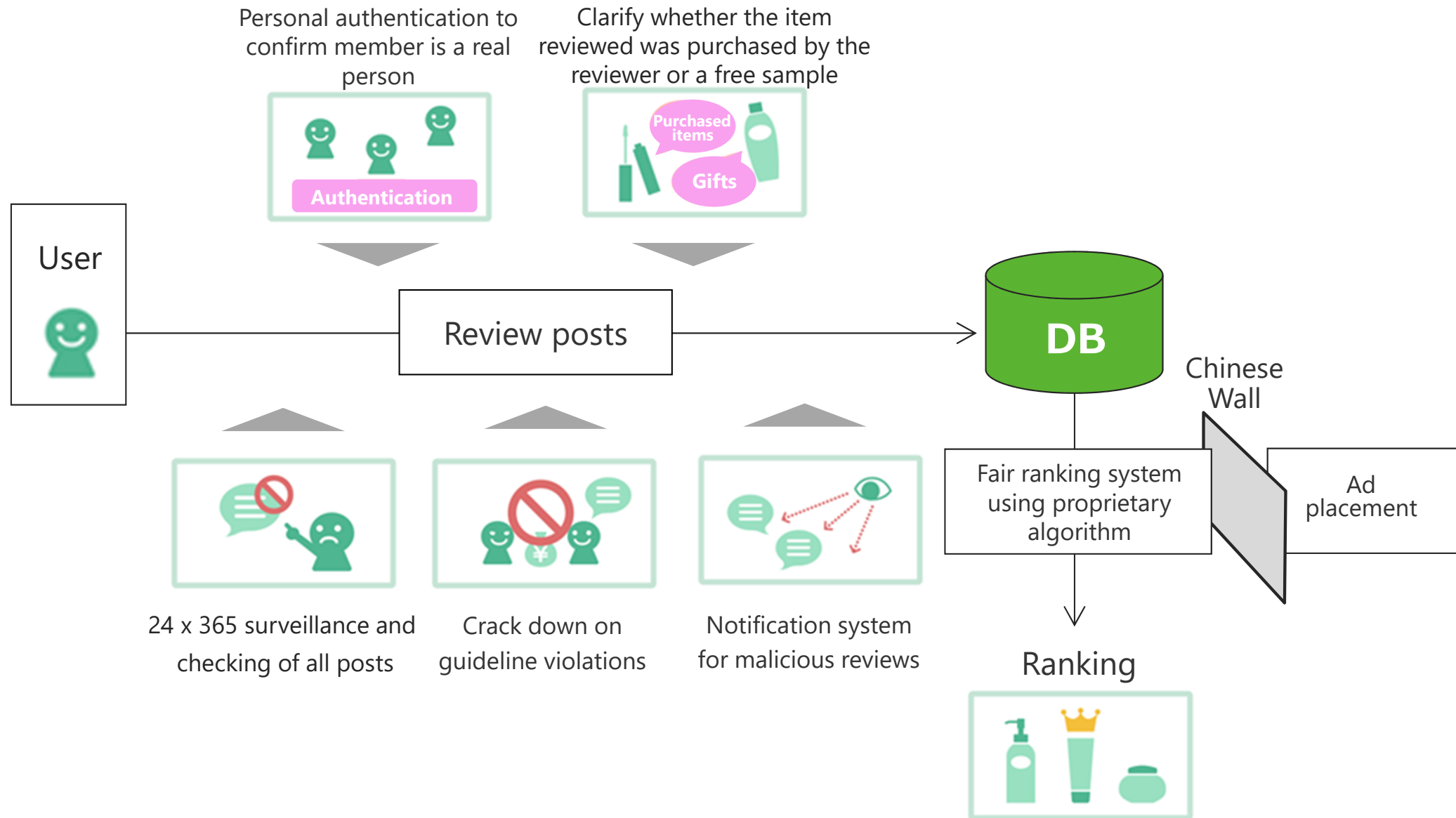
<u>Generation</u>	<u>Female population</u>	<u>Number of users</u>
Under age of 10	5.12 mil.	0 mil.
Age 10 thru 19	5.65 mil.	0.47 mil.
20s	6.18 mil.	4.62 mil.
30s	7.67 mil.	5.02 mil.
40s	9.18 mil.	2.77 mil.
50 and over	31.45 mil.	0.91 mil.
All generations	65.25 mil.	13.80 mil.



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)

# How to maintain soundness of @cosme database

- Eliminate impropriety and build a sound database that will be supported and used by many beauty-related stakeholders



# Retail Store List (Total: 26 in Japan and overseas) \*1

## @cosme store (Japan: 18 stores, Overseas: 2 stores) \*1

Lumine Est Shinjuku store	Opened in Mar. 2007 Renovated in Sep. 2016	238㎡
Ueno Marui store	Opened in Nov. 2008 Expansion Feb. 2017	350㎡
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㎡
Amu Est Hakata store	Opened Mar. 2017	106㎡

Machida Marui store	Opened Mar. 2017	122㎡
Lucua Osaka store	Opened Mar. 2017	102㎡
Nagoya Takashimaya Gate Tower Mall store	Opened Apr. 2017	182㎡
Apita Town Kanazawa store *2, 3	Opened in Nov. 2007 Renovated in Apr. 2017	228㎡

### <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㎡

Coming soon

Coming soon

## @cosme store **mikke!** (2 stores)

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

## in harmony (1 store) by @cosme store

Kyoto The Cube store	Opened in Mar. 2016	43㎡
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## Kcosme Beauté (3 stores)

Marier Toyama Store *2	Opened in Sep. 1987	109㎡
Aeon Mall Takaoka store *2	Opened in Sep. 2002	172㎡
Aeon Mall Takasaki store *2	Opened in Oct. 2006	135㎡

\*1 Includes stores scheduled to open

\*2 Acquired from Kcosme Beaute in September 2016 (included in consolidated income statement from 2Q FY17)

\*3 Kcosme Beaute stores rebranded as @cosme stores in April 2017

# 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 <b>NEW</b>	
Premium Fees	
BLOOMBOX	
Rewards (Incl. Affiliates)*1 <b>NEW</b>	
Beauty Service	
Dom-estic	E-commerce
	Stores
Products <b>NEW</b>	
Global	
Over-seas	Marketing
	E-commerce
	Stores <b>NEW</b>
	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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