August 2017

CHLITINA
克 麗 緹 娜

20
立足腾飞二十年
YEARS

第二十屆上海國際電影節唯一指定護膚品牌

CHLITINA
克麗緹娜

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Corporate Snapshot

1) **Stock Ticker**: 4137 TT
2) **Market Cap**: US$336m (on July 1, 2017 price of NT$128.5)
3) **Paid-In Capital**: NT$795m (= 79.5m shares O/S)
4) **2016 Sales**: NT$3,361m
5) **2016 Net Profit**: NT$731m
6) **2016 ROE**: 19.5%
7) **Major Shareholder**: Wealthy Garden (35%)
8) **Industry of Operation**: Beauty salon franchise (under Beauty & Personal Care)
9) **Current Market Positioning**: Industry leader in mid-to-high-end beauty salon franchise
10) **Current Market Focus**: China (95% of sales)

Corporate Snapshot (cont.)

11) **Business Model**: We R&D, manufacture, market and sell our Chlitina brand cosmetic products to our franchise beauty salons, and generate the bulk of our sales via this channel.

12) **2016 Sales Breakdown by Products**: Beauty salon franchise channels (87%), Licensing & other channels (13%).

13) **Brands under Chlitina and their respective structures**:

A) Chlitina (our main brand targeted at beauty salon channels)

B) 3DR & Peekaboo (brands licensed exclusively to Kelti which sells products via direct marketing channels)

C) Up Lider (Chlitina's new brand targeted at beauty clinic channels)

14) **# of Beauty Salon Franchises by Regions (2Q17)**: around 3,400 in China, 300 in TW

Corporate Snapshot (cont.)

15) **Full-time employees by regions & functions**: 570 employees (410 in China offices focused on sales/marketing/distribution, 100 in China production, 50 in TW focused on TW operations, 10 in TW/China R&D).

16) **Factory location & highlights**: Factory in Shanghai Songjiang Industrial Zone (SSIZ). Chlitina brand products are entirely produced in-house.

17) **Training center location & highlights**: Main training center also in SSIZ. This is part of the services provided to franchise owners to send themselves & beauticians to participate in mgmt. & training classes / forums. We also have regional (but smaller) training centers.

18) **R&D center location & highlights**: Hsin-Ju (TW). R&D strength in facial products, but with new body products targeted in 2018F, as part of strategic move to increase avg. spending per salon visit (>90% of sales are facial-related) and entry into adjacent market.

The Chlitina Brand in Beauty Care

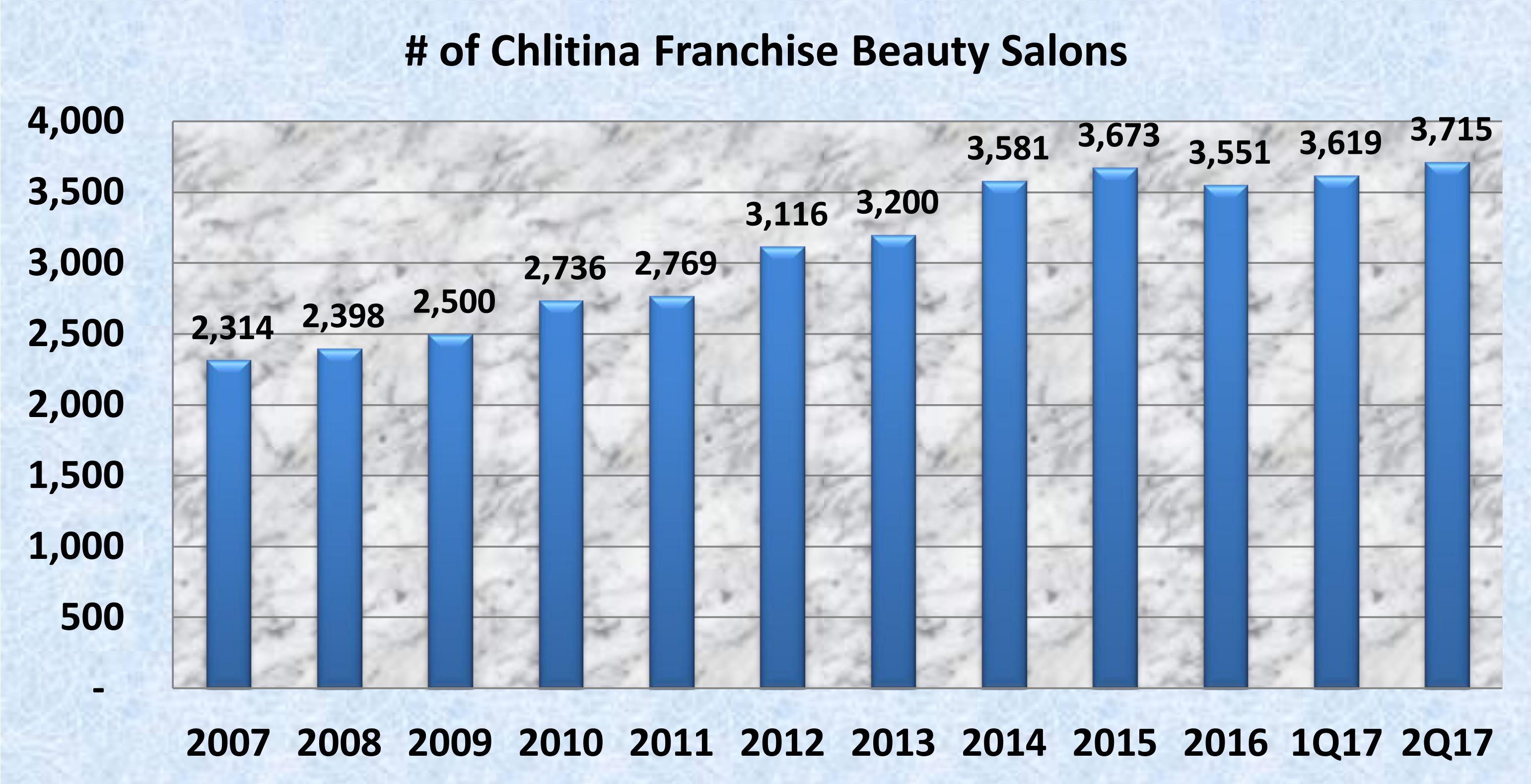
<u>**A 20-Year Brand in China, and the industry leader in salon franchise**</u>

- **1989**: Brand inception of Chlitina by Dr. Chen, who successfully applied amino acids into beauty care products (E.P.O. series).
- **1997**: Joanna Chen, Dr. Chen's daughter and the Chairwoman of Chilitina, headed the Chlitina brand into the China market. With successful marketing tactics backed by strong products, Chlitina entered a period of high growths for years to come.
- **1999**: Opening of Chlitina's first salon flagship store in Shanghai.
- **2001-2003**: Opening of Chlitina's training center and factory.
- **2008**: Setup of joint R&D program center in Paris with French partner.

The Chlitina Brand in Beauty Care (cont.)

- **2012**: Awarded “Franchise 50” for fast growing franchises in China by U.S. media Entrepreneur Group. Awarded “Asia’s Most Valuable Brand” by M Famous Brand in Asia Brand Annual Meeting.
- **2013**: Chlitina went IPO in Taiwan (stock ticker: 4137 TT).
- **2015**: Awarded “20 Best Taiwan Global Brands” by Interbrand / Department of Economics).
- **2016**: Awarded “20 Best Taiwan Global Brands” by Interbrand / Department of Economics). Sole Skincare Sponsor of 2016 Shanghai International Film & TV Festival. Chairwoman nominated as China’s Medical Beauty Industry Association (MBIA) Branch President.
- **2017**:). Sole Skincare Sponsor of 2017 Shanghai International Film & TV Festival.

The Chlitina Brand in Beauty Care (cont.)



Source: Chlitina

The Chlitina Brand in Beauty Care (cont.)

Over 3,700 franchise beauty salons in Greater China, #1 in China

Source: Chlitina

Industry Framework

Size of China Skincare Market (95% of Chlitina's sales):

According to Euromonitor, China's skincare market sized to around RMB 170 bn (or US$25 bn) in 2016.

China Beauty & Personal Care Product Sales (2016)

By Application Categories	RMB m	%
Skincare	**169,139**	**47%**
Hair Care	**49,455**	**14%**
Oral Care	**31,912**	**9%**
Color Cosmetics	**28,314**	**8%**
Bath & Shower	**21,107**	**6%**
Combo Set	**17,707**	**5%**
Baby & Child Care	**15,103**	**4%**
Men's Care	**12,446**	**3%**
Sun Care	**5,535**	**2%**
Fragrances	**5,367**	**2%**
Deodorants	**711**	**0%**
Depilatories / Hair Removal	**474**	**0%**
Total:	**357,269**	**100%**

Note 1: Red lined categories are seeing slower growths and contracting in % total

Note 2: Blue lined categories are seeing higher growths and increasing in % total

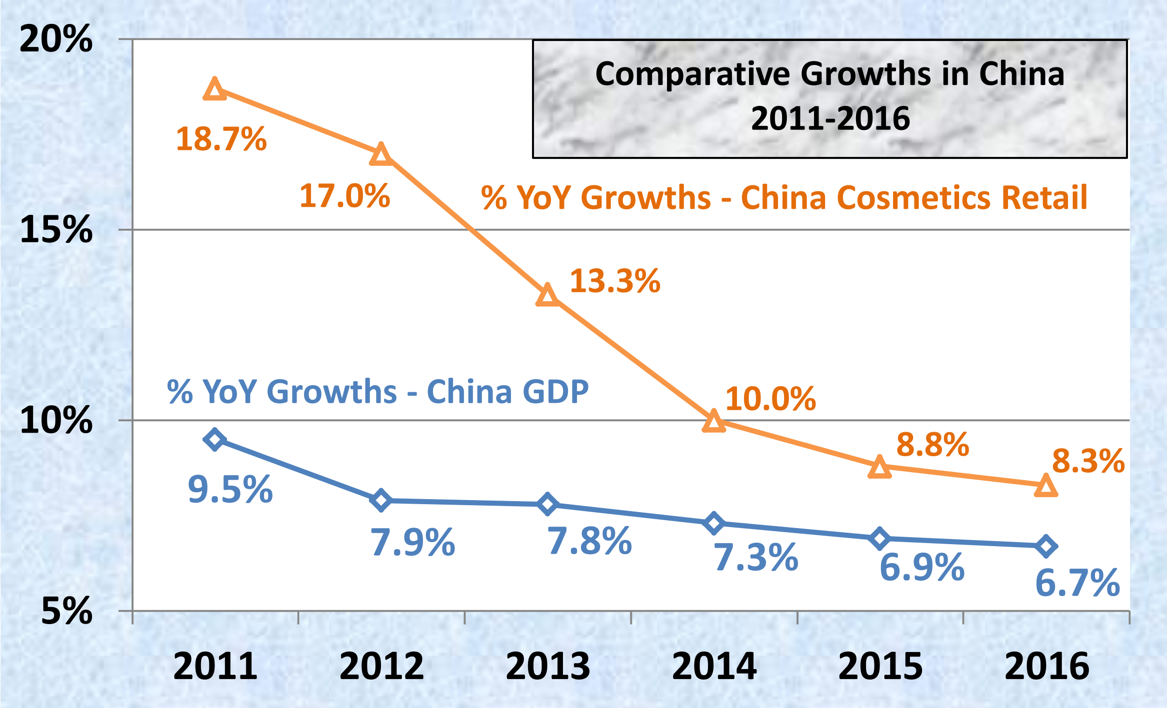
Note 3: Black lined categories are growing inline with industry and stable in % total

Others: Euromonitor acknowledges double counting in its research

Source: Euromonitor, Chlitina

Industry Framework (cont.)

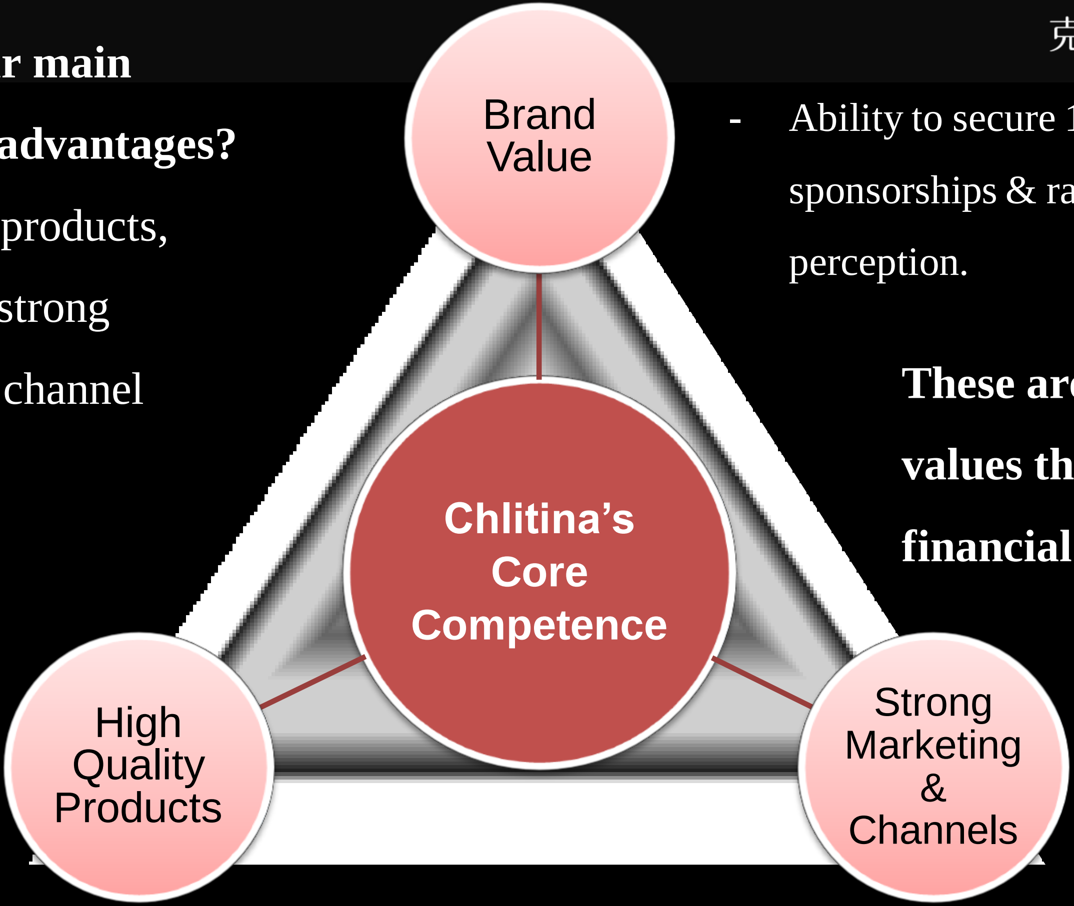
Industry demand growth outlook in China: Corp salary grows 6-10% per year, similar to GDP growths. According to Euromonitor, consumer spending growths on cosmetics (beauty & personal care) generally outpace that of GDP growths. Segment-wise, higher-end / price brands generally grow even faster than lower-end / price brands.



Source: The Statistics Portal, Chlitina

3) What are our main competitive advantages?

High quality products, brand value, strong marketing & channel networks.



- Ability to secure 1st tier sponsorships & raise brand perception.

These are the qualitative values that drive Chlitina's financial performances.

- Strong R&D and know-how

- Training center values attract new franchise biz

Corporate Focus & Strategies

Business Expansion Strategies:

1) Broaden product portfolio to address a larger market and attract new franchises:

New Body Therapy Session Series in 2018F: At the moment, customers who wants to do Body mostly seek a Body shop. Our goal is to capture a pool of these customers as they come to do Face with Chlitina, which can raise our sales per customer visit & SSS.

Existing Products

Body Categories

	Body Soothing	Whitening	Moisturizing	Firming	Breast Care	Slimming	Private Part
2017	Yes		Yes		Yes		
2018F	Target	Target	Target	Target	Target	Target	Target

Source: Chlitina

Corporate Focus & Strategies (cont.)

2) Geographic Expansions into Developing Areas in China

Source: Chlitina

- Faster disposable income & consumer spending growths in Developing Areas.
- Rising emphasis on beauty as disposable income rises.

Developed Areas

Our Coverage: Shanghai, Beijing, Guangdong, Ningbo, Jiangsu...

Main Objective: Raise SSS via new product categories

Well-off Areas

Our Coverage: Fujian, Jiangxi, Henan, Shandong, Liaoning, Guangxi…

Main Objective: Raise market share

Developing Areas

Our Coverage: Heilongjiang, Guizhou, Jilin…

Main Objective: Brand awareness & attract new franchises

2016 Year-End	Developed Areas	Well-off Areas	Developing Areas	Total
# of Stores in China	1,732	1,414	132	3,278
% of Total	53%	43%	4%	100%

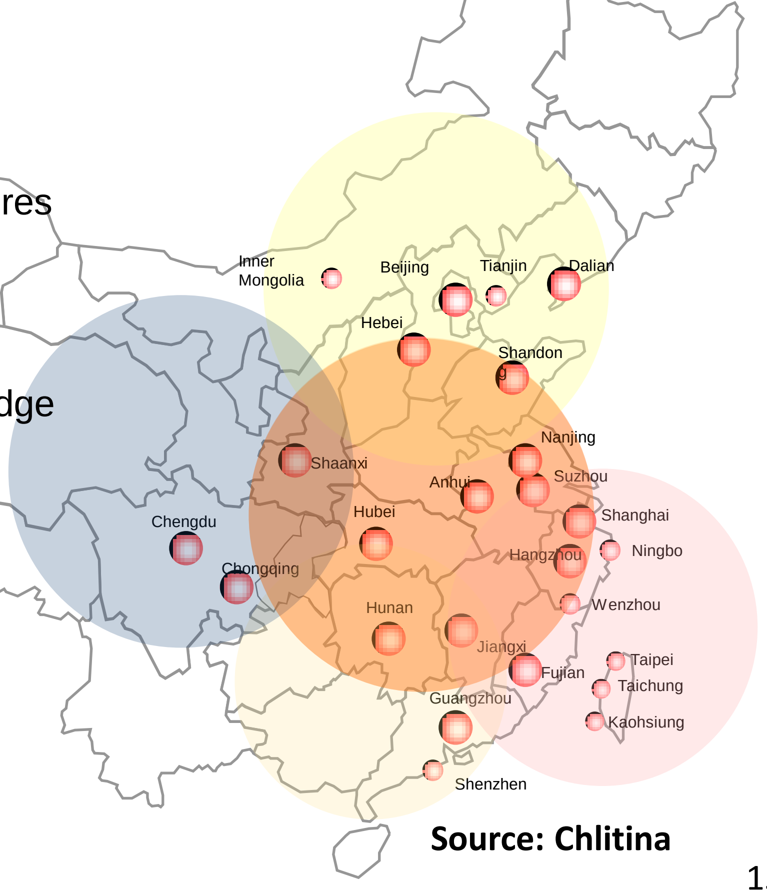
Corporate Focus & Strategies (cont.)

Franchise Management on a Closer Look

- 25 Branch Offices for:
  - Timely advice & supervision for existing franchise stores
  - Strategies for business development and expansion
  - Storefront management courses for new franchises
  - Local training in skincare practices & product knowledge

- Main Training Center in Shanghai (SSIZ):
  - Can accommodate 2,000 trainees
  - Staffed by highly-qualified teaching personnel
  - 10 categories of professional training classes

    for beauticians and franchise owners / managers



Source: Chlitina

Corporate Focus & Strategies (cont.)

Training Center in Shanghai (SSIZ)

Corporate Focus & Strategies (cont.)

Franchise Longevity

	<1 Year	1-3 Years	3-5 Years	5-10 Years	>10 Years	All
% Total	17%	24%	22%	21%	16%	100%

Source: Chlitina

- **Health of Chlitina's Franchise Network**: We think franchise longevity is a good indicator on the overall health of Chlitina's franchise network. Unprofitable franchises largely exit within 1 year, and we have been seeing a trend of % of franchises operating longer & longer. Note that 16% of our current franchises are over 10 years in operation.

3) **Develop new distribution channels**: Chlitina is working on developing its internet retailing channel. we will continue to seek to improve the operation here.

4) Future Development Schemes on a 5-Year Roadmap:

- **Medical Beauty Clinics**: Chlitina is investing into China beauty clinics industry. This represents a new distribution channel but also is an opportunity for Chlitina to offer more medical-based / biotech products in the future. Given medical clinic operating license quotas in China, Chlitina will proceed via M&A strategy. (In 2017, bought a beauty clinic in Beijing for RMB 6.5m.)
- **Medical-based / biotech product offerings and R&D**: Concurrently, Chlitina will look for opportunities to invest into product technologies. Our strategic alliance with China's Tongji University on regenerative medicine also serves as a key foundation for our future developments in this area.

Financial Summary & Outlook

Our profits are highly sensitive to volume & TWD/RMB FX: Sales are determined by SSS, # of stores, and TWD/RMB FX (RMB depreciation significantly hurts our biz). Our GM is relatively stable (volatility depends on product mix). Our OPEX is linked to sales on compensation structure.

What happened in 2015 & 2016? The trademark "3DR Peekaboo", licenseing+ODM biz for Kelti., 2015 for China policy thereby affecting our license income.

Chlitina - Financial Performance

	2013	2014	2015	2016
Net Sales (NT$m)	$2,701	$3,071	$4,394	$3,361
Net Profit (NT$m)	**$693**	**$756**	**$1,167**	**$731**
GM (%)	78%	81%	76%	80%
OPM (%)	30%	29%	31%	30%
Net Margin (%)	26%	25%	27%	22%
ROE (%)	**35%**	**24%**	**32%**	**19%**
EPS (NT$)	**$9.4**	**$9.5**	**$14.7**	**$9.2**
Avg. FX - TWD/RMB	**4.8**	**4.9**	**5.0**	**4.8**

Source: Chlitina

Financial Summary & Outlook (cont.)

CHLITINA 克麗緹娜 20 YEARS

Sales Breakdown; Segmental GM (channel GM >80%; royalty GM 100%; ODM GM 20%)

Sales Breakdown	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17
Sales Breakdown (NT$m)	**$824**	**$992**	**$1,137**	**$1,441**	**$4,394**	**$1,103**	**$730**	**$713**	**$815**	**$3,361**	**$718**	**$765**
Channel - Beauty Salon Franchise	**$727**	**$819**	**$655**	**$826**	**$3,027**	**$709**	**$635**	**$679**	**$775**	**$2,799**	**$681**	**$754**
Channel - Internet Retailing	**$2**	**$5**	**$40**	**$56**	**$103**	**$43**	**$29**	**$22**	**$29**	**$123**	**$26**	**$9**
Channel - Beauty Clinic	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$2**	**$3**	**$0**	**$0**
Licensing & ODM	**$95**	**$167**	**$442**	**$559**	**$1,264**	**$351**	**$65**	**$12**	**$8**	**$437**	**$12**	**$1**
- Trademark Royalty	$47	$67	$221	$320	$655	$160	$55	$15	$3	$233	$0	$0
- ODM Production	$49	$100	$221	$239	$610	$191	$11	($3)	$5	$204	$12	$1
Sales Breakdown (%)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Channel - Beauty Salon Franchise	**88.2%**	**82.6%**	**57.6%**	**57.3%**	**68.9%**	**64.3%**	**87.0%**	**95.2%**	**95.1%**	**83.3%**	**94.8%**	**98.7%**
Channel - Internet Retailing	**0.3%**	**0.5%**	**3.5%**	**3.9%**	**2.4%**	**3.9%**	**4.0%**	**3.0%**	**3.6%**	**3.7%**	**3.6%**	**1.1%**
Channel - Beauty Clinic	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.3%**	**0.1%**	**0.0%**	**0.1%**
Licensing & ODM	**11.6%**	**16.9%**	**38.9%**	**38.8%**	**28.8%**	**31.8%**	**9.0%**	**1.7%**	**1.0%**	**13.0%**	**1.6%**	**0.2%**
- Trademark Royalty	5.6%	6.8%	19.4%	22.2%	14.9%	14.5%	7.5%	2.1%	0.4%	6.9%	0.0%	0.0%
- ODM Production	5.9%	10.1%	19.4%	16.6%	13.9%	17.3%	1.5%	-0.4%	0.6%	6.1%	1.6%	0.2%

Financial Summary & Outlook (cont.)

CHLITINA 克麗緹娜 20 YEARS

Chlitina has a very strong Balance Sheet

As of end of 2016:

- Chlitina has a cash position of NT$3.5 bn and a net-cash position of NT$2.7 bn.
- Net cash sized to 75% of shareholder equity.
- Net cash equaled to 22% of market cap.

Unit: NT$m	2013	2014	2015	2016
Total Current Assets	$3,160	$2,994	$4,736	$4,259
Total Non-Current Assets	$1,178	$1,405	$1,239	$1,351
Total Assets	$4,338	$4,399	$5,975	$5,610
Total Current Liab.	$977	$1,062	$1,168	$2,030
Total Non-Current Liabilities	$395	$8	$860	$20
Total Liabilities	$1,372	$1,070	$2,028	$2,050
Total Shareholder Equity	$2,966	$3,330	$3,947	$3,560
Total Liabilities & Shareholder Equity	$4,338	$4,399	$5,975	$5,610

Selective Items (NT$m)				
Inventories	$235	$239	$437	$461
Net Debt (Net Cash)	($2,291)	($2,410)	($2,548)	($2,682)

B/S Ratios Analysis				
Liquidity & Turnover Ratios:				
Current Ratio	324%	282%	405%	210%
Quick Ratio	292%	255%	361%	182%
Cash Ratio	271%	227%	291%	175%
Solvency Ratios:				
Total Debt / Total Shareholder Equity	14.3%	0.0%	21.5%	24.3%
Net Debt / Total Shareholder Equity	(77.3)%	(72.4)%	(64.6)%	(75.3)%

Financial Summary & Outlook (cont.)

CHLITINA 克麗緹娜 20 立足腾飞二十年 YEARS

and a very strong FCF profile which allows us to pay cash dividends

Unit: NT$m	2013	2014	2015	2016
Operation Cash Flow	$795	$824	$550	$1,474
Investment Cash Flow	($520)	($216)	$121	($293)
Financing Cash Flow	$1,463	($946)	$333	($838)
FX Adjustment	$60	$102	($18)	($192)
Change in CF	$1,797	($236)	$986	$151

FCF	$62	$731	$532	$1,330
FCF per share (NT$)	$0.8	$9.2	$6.7	$16.7

Other Selective Items				
EPS (NT$)	$9.4	$9.5	$14.7	$9.2
Cash Dividend per Share (Cash DPS, NT$)	$6.0	$7.0	$10.0	$6.5
Cash DPR on Prior Year's EPS (%)	64%	74%	68%	71%

Source: Chlitina

Financial Summary & Outlook (cont.)

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2Q17 P&L Summary – Starting to see an operational turnaround trend

- YoY EPS growth back to (+) growth territory after 4 quarters of YoY declines.
- 2Q17 EPS of NT$2.0 is at a 1-year high.

Chlitina (4137 TT) - 2Q17 Result						
P&L Summary (NT$m)	**2Q17**	**1Q17**	**% QoQ**	**2Q16**	**% YoY**	**Notes:**
Sales	765	718	7%	730	5%	Excluding FX translation, RMB sales is up 15% YoY
Gross Profit	621	593	5%	621	0%	
Operating Profit	195	179	9%	183	7%	
Pretax Profit	227	142	60%	210	8%	2Q17 non-op includes China gov‘t subsidy (NT$25m)
Net Profit	159	93	71%	154	3%	
EPS (NT$)	2.02	1.18	71%	1.93	5%	
Margins & ROE (%)						
Gross Margin	81.2%	82.6%	N.A.	85.1%	N.A.	
Operating Margin	25.5%	24.9%	N.A.	25.1%	N.A.	OPEX cost reductions
Pretax Margin	29.7%	19.8%	N.A.	28.8%	N.A.	
Net Margin	20.8%	13.0%	N.A.	21.1%	N.A.	
ROE (Annualized)	17.6%	10.4%	N.A.	17.3%	N.A.	
Other Key Operating Metrics						
Exchange Rate (TWD/RMB)	4.42	4.52	(2)%	4.93	(10)%	Heavy YoY impact from RMB depreciation
Franchise Store Count	3,715	3,619	3%	3,702	0%	
Quarterly Sales per Store to Chlitina (NT$k)	203	188	8%	172	18%	YoY increase due from earlier store restructuring

Financial Summary & Outlook (cont.)

CHLITINA 克麗緹娜 20 YEARS

2Q17 Segmental Breakdown

- Strong core channel (beauty salon franchise) sales performance in 2Q17.
  - In TWD (financial reporting currency), +19% YoY.
  - In RMB (operating currency), up almost 30% YoY.

Chlitina (4137 TT) - 2Q17 Result						
Sales Breakdown (NT$m)	**2Q17**	**1Q17**	**% QoQ**	**2Q16**	**% YoY**	**Notes:**
Channel – Beauty Salon Franchise	755	681	11%	635	19%	Strong YoY growth despite RMB weakness
Channel – Internet Retailing	9	26	(67)%	29	(70)%	Outlook could improve in 2H17F
Channel – Beauty Clinic	0.4	-	N.A.	-	N.A.	Sales could start to rise in 2H17F (1 clinic in Beijing)
Licensing & ODM	1	12	(89)%	65	(98)%	
Sales Breakdown (%)						
Channel – Beauty Salon Franchise	98.7%	94.8%	N.A.	87.1%	N.A.	
Channel – Internet Retailing	1.1%	3.6%	N.A.	4.0%	N.A.	
Channel – Beauty Clinic	0.1%	0.0%	N.A.	0.0%	N.A.	
Licensing & ODM	0.2%	1.6%	N.A.	9.0%	N.A.	Further negative impact from here will be limited
Other Key Operating Metrics						
Exchange Rate (TWD/RMB)	4.42	4.52	(2)%	4.93	(10)%	Heavy YoY impact from RMB depreciation

Financial Summary & Outlook (cont.)

CHLITINA 克麗緹娜 20 YEARS

2Q17 Cash Flow Summary

- 2Q17 FCF status favorable.
- Chlitina's annual FCF remains in the positive over 2012-2016. We do not expect the status to change in the near future.

Chlitina (4137 TT) - 2Q17 Result			
Cash Flow Summary (NT$m)	2016	1Q17	2Q17
Operation Cash Flow	$1,474	($100)	$121
Investment Cash Flow	($293)	($32)	$122
Financing Cash Flow	($838)	($73)	$0
FX Adjustment	($192)	($121)	$35
Change in CF	$151	($326)	$278
FCF	$1,330	($80)	$529
FCF per share (NT$)	$16.7	($1.0)	$6.7

- FCF = Net income + Depreciation & Amortization + change in NWC - CAPEX

Financial Summary & Outlook (cont.)

2017F Investment Summary- beauty salon franchise sales up in 2017 Growth in 2018F

2017F – The GOOD! (Disclaimer: we do NOT provide official financial guidance)

- # of franchise stores could grow >5% YoY to around 3,800 stores
- RMB-based SSS growth could be in the range of 5-6% YoY
- Realigning company resources to achieve our Business Expansion Strategies – 1) broaden product portfolio; 2) expand geographically; 3) expand distribution channels; 4) form the foundation for entry into beauty clinic industry

Financial Summary & Outlook (cont.)

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2017F – The Challenges (Disclaimer: we do NOT provide official financial guidance)

- RMB has depreciated against TWD by about 10% YoY, which directly impacts our sales & profits (FX sensitivity is close to 1, as most of our sales & costs are in RMB)
- Initial investments in broadening our product portfolio + higher OPEX for beauty clinic business could slightly raise our OPEX YoY (thus OPM could be down YoY)

Financial Summary & Outlook (cont.)

2018F – Chlitina's Opportunity

- Assuming RMB stabilizes, Chlitina's sales & profits growths should be back to double-digit YoY as YoY comps become favorable
- New body series debut in 2018F should start to help our biz overall (ie. attract new franchises, increase SSS, strengthen the competitiveness of franchises)
- New biz opportunities under Chlitina's future roadmap

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Thanks for your attention!