

# IPO Research Report

## The Cosmetics King



---

### The Cosmetics King Goes Public

---

The Cosmetics King, under the leadership of the “Indonesian Cosmetics Queen”, Ibu Martha Tilaar, is finally making its public appearance, inviting the public to share as much as 33.2% of its bright future. This is an attempt to further strengthen its foothold in the Indonesian Personal Beauty & Care Industry, as well as to be the first Indonesian cosmetics brand to establish retail presence globally. The secret to the King’s success is the Lady’s Vision - Local Wisdom Go Global; the Lady’s Wisdom - her unique understanding in Indonesian herbs & Jamu; and the Lady’s Entrepreneurship - her ability to grow her garage saloon into a market leader in the highly competitive cosmetics business in 30 years.

---

### Eternal Growth Drivers (1) Brands, (2) Distribution (3) R&D

PT Martina Berto is the manufacturing and marketing arm of the Martha Tilaar group, the leader in Indonesian colour cosmetics business segment and an aggressive fighter in the skin care business segment. The 3 core reasons that have ensured its survival in this highly competitive & fragmented Personal Beauty & Care industry have been (1) its capability to successfully nurture a complete range of highly recognizable brands, which covers all the economic segments across different industry segments in Indonesia; (2) its ability to bring its products to 230mn cosmetics users (yes, including men) across the 5,200 km wide 17,500-island Indonesian archipelago; (3) and lastly, its ability to create its blue ocean, by investing extensively in herbal & Jamu research in the past 30 years. They have successfully monetized their intellectual assets through products such as the Sari Ayu Putih Langsat whitening cream, and Sari Ayu Lancar Datang Bulan Herbal drink. There are still more products to come, more geographic reach to cover, and obviously a lot more money to be made through this truly unique, difficult to replicate competitive advantage.

### Consistent Market Share & Top Line Grabber

With 1.2% annual population growth, 10% nominal wage income growth and increasing per capita cosmetics spending in Indonesia, it is not difficult to imagine the industry growing at 10% CAGR in the past, as well as into the next 5 years. The amazing fact is that this company has been grabbing market share, outgrowing the industry 2 to 1 at 24% CAGR in the past 3 years. The company aims to maintain this spectacular record, by maintaining this 2 to 1 industry outgrowing ratio into the next 5 years. Clearly, it is focused to be the no 1 in colour cosmetics (currently no 2), no 3 in skin care (currently no 4), no 5 in hair care (currently no 18), and establish a presence in the bath and shower, fragrance segments. Through its Martha Tilaar Shop expansion, the company will attack the high margin A segment Indonesia consumers. The shop is also the key for the company’s global expansion.

### Economies of Scale to Kick In

While there is little worry about the company’s ability to grab share and generate revenue, concerns exist in its ability to generate margins. The good news however, is that this is in the past. The vast turnaround in margins has been observed in 2007 through 2010 has been largely due to company specific, micro driven reasons when Martina Berto re-strategized in 2007. The turnaround in margins is expected to continue as economies of scale kick in; when revenue out grow relatively large fixed costs from its extensive brand portfolio maintenance, large below the line marketing investments as well as research activities.

### Valuation

We price Martina Berto in a wide range, between 12.5x to 18.0x 2011 P/E equivalent to Rp675/shr to Rp975/shr. The lower range is roughly at a 20% premium to the illiquid peers due to Martina Berto’s operational strength. Our DCF mode prices Martina Berto at 15.3x 2011 P/E. The higher range is due to its unique positioning as the Indonesian Cosmetics King; other kings in the Indonesian consumer sector (even the illiquid ones) are currently trading in the range of 14.3x to 31.1x 2011 P/E, with an average of 18.1x. From a regional angle, China & India cosmetic peers trade at 23.0x to 38.0x 2011 P/E.

<b>1. Cosmetics Industry Overview .....</b>	<b>3</b>
1.1 Global cosmetics industry.....	3
1.2 India - China cosmetics industry .....	4
1.3 Indonesia cosmetics industry .....	5
<b>2. Eternal Growth Drivers .....</b>	<b>9</b>
2.1 Brand portfolio covering all economic groups .....	9
2.2 Strong distribution network provides better product reach.....	10
2.3 Focused research & development ensures diverse product mix .....	12
<b>3. Consistent Market Share &amp; Top Line Grabber .....</b>	<b>14</b>
3.1 Martina Berto has consistently outperformed Indonesian cosmetics market .....	14
3.2 Strong macro-economic fundamentals leading to growth of the industry .....	14
3.3 Unique position to result in superior top-line growth and increased market share .....	15
<b>4. Economies of Scale to Kick In .....</b>	<b>17</b>
4.1 Re-strategizing in 2007 lead to turnaround in margins.....	17
4.2 Economies of scale supported by below the line marketing and research activities .....	18
<b>5. Valuation .....</b>	<b>19</b>
5.1 Discounted cash flow model (DCF) .....	19
5.2 Peer-based valuation .....	20
<b>6. Appendix .....</b>	<b>22</b>
6.1 Company overview .....	22
6.2 Key risks .....	28

Handi Hutajaya

Strategist

*handi.hutajaya@trimegah.com*

Fitriana Aghita

Consumer Analyst

*fitriana.aghita@trimegah.com*

Rovandi

Research Assistant & Productions

*rovandi@trimegah.com*

# Cosmetics Industry Overview

## 1.1 Global cosmetics industry

The global cosmetics market is a highly diversified US\$164bn industry, based on 2009 worldwide sales, sub-divided into five main business segments: Skincare, hair care, make-up, fragrances & toiletries. It has achieved sustained growth and proved resistant to adverse economic conditions, with sales increasing at a 3-year CAGR of 3% (2006-09) and a 15-year CAGR of 4.2%.

### Global Cosmetic Industry Outlook

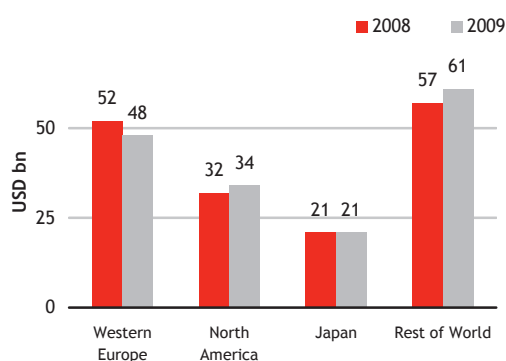
#### Developing markets drive continued global cosmetics industry growth

As macroeconomic conditions improve in coming years, we expect the industry to continue attractive growth at a forecast CAGR of 3%-4% to 2013. Such expansion will be driven mainly by increased opportunities in developing economies with their developed counterparts maintaining pre-established preferences and expenditure patterns. Indeed, we expect developed markets to become increasingly mature, restricting further growth opportunities and challenging the innovation and diversity of global companies seeking to sustain growth in such areas.

Instead, overall global industry expansion will be driven by developing markets, especially in the BRIC region, reflecting their increasingly large and diverse economies, rising populations, higher disposable incomes and greater per capita cosmetics consumption. L'Oreal currently estimates that at some point between 2020 and 2025, developing countries may account for over 50% of the global cosmetics market.

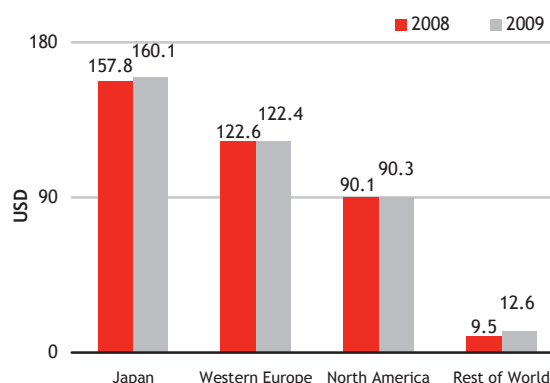
Macroeconomic conditions in developing economies continue to improve as both income and consumption increase. Based on estimates prepared by L'Oreal, Asia, particularly China and India, will be the largest growth driver over the next 10 years.

#### Market Growth by Geography



Source: L'Oreal Report 2009

#### Growth in per capita Cosmetics Consumption



Source: L'Oreal Report 2009

#### Cross-segment outlook

Currently, the outlook for the various product segments, as estimated by Euromonitor, is:

- Skin care market is expected to increase its already substantial leading market share of the total cosmetics market to US\$91bn by 2014, mainly due to strong demand from the Asian markets.
- The market for premium cosmetics is expected to be around US\$86bn in 2014.
- The global fragrances market is estimated to increase at a CAGR of around 3% to US\$35bn by 2011.

## 1.2 India - China cosmetics industry

### Indian cosmetics market: Rapid growth driven by rising middle class consumers

The Indian cosmetics industry has witnessed rapid growth over the last couple of decades. Despite the recent market slowdown, India remains one of the fastest growing beauty markets globally, growing at 13% per annum. As the middle-class consumer base and its disposable income grow, the market is expected to move nearly four times faster than the mature beauty markets and twice as fast as the global market, according to a report by Kline & Co.

Even with double-digit growth rates, the market penetration of cosmetics and toiletries products in India is very low. Current per capita expenditure on cosmetics is about \$1, compared to \$36.65 in other Asian countries. This low market penetration for cosmetics and personal care products in India offers an opportunity for more significant growth in this country of 1.2 billion people.

### Herbal and colour cosmetics: Major contributors to the Indian cosmetics market

Among the segments, the herbal cosmetics segment dwarfs the others at a value of \$630m. Colour cosmetics is the fastest growing segment, as more and more women become aware of looking good through the use of makeup; nail enamel (\$23m) and lipstick (\$21m) account for about 65% of the colour cosmetics segment. The hair care market is pegged at \$200m, while men's personal care, another fast growing segment, is valued at approximately \$165m.

### Market players: Opportune market for domestic and international players

With its high growth rate, the market offers extensive opportunities to domestic and international players. However, high duty structure and certain ambiguities in terms of investment rules are among the complaints that companies looking to enter India make, and the reason that non-Indian brands account for only 20% of the total market.

In recent years Indian cosmetics manufacturers have begun to manufacture products to cater to an International need. For instance, herbal cosmetics from India have a great demand in the overseas market and many cosmetic products that are manufactured in India today are supplied to international suppliers of branded cosmetics products like The Body Shop.

### Chinese cosmetics market

The Chinese cosmetics and toiletries market is the second largest in the Asia-Pacific region after Japan and the third largest in the world. In 2008 the wholesale and retail sales of cosmetics was \$9bn, an increase of 22.2% on the previous year. Market projections show cosmetics growing by 13% annually to reach sales of \$15.1bn by 2010.

Increasing disposable income and surging working population along with various other factors will enable cosmetics industry to post an impressive 12.3% CAGR during 2010-2013 and reach a market size of \$31bn by 2013.

**Skin care products and natural & pharmaceutical cosmetic products driving the industry growth**

Skin care is the most valuable cosmetic and toiletries sector in China, accounting for 32% of all cosmetics sales and is expected to reach \$6bn in 2010. Hair care is the most saturated sub-sector, with slower growth in the recent years. This sub-sector has been fully dominated by the big foreign brands. Natural & Pharmaceutical cosmetics sub-sector is a popular and growing market. It's expected that this sub sector will develop with an annual growth rate of 10%-20%.

**Level playing field for domestic and international cosmetics players**

The market provides immense opportunities to both domestic and international players. The Chinese market is characterised by the presence of 4,000 cosmetic manufacturers. However, international companies like P&G and L'Oreal are currently leading the Chinese cosmetics and toiletries market. These companies are responsible for generating majority of the industry revenue and are preferred by the consumers over the local companies. Strong and wide product lines along with aggressive marketing strategies have been considered the reasons for success proactively adopted by these international cosmetics giants.

**1.3 Indonesia cosmetics industry****Indonesian Market Size and Growth****A high growth industry with potential to sustain momentum to 2012**

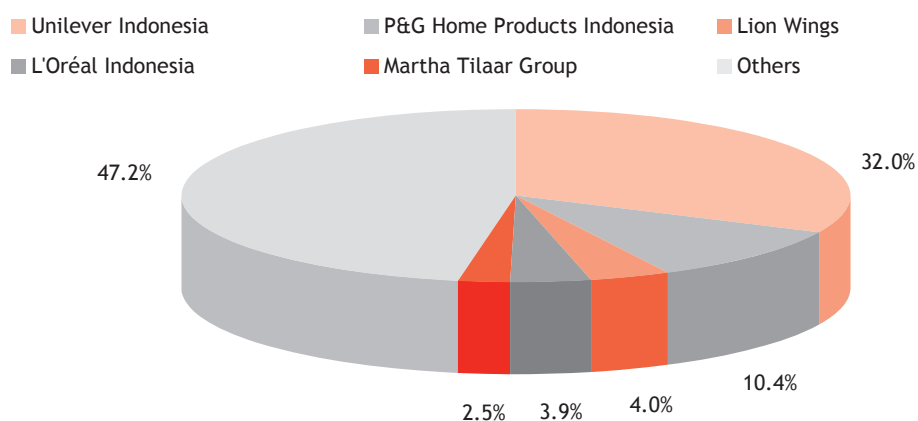
The Indonesian cosmetics market reported total sales of around US\$1.9bn in 2009. In 2008-09, adverse global macroeconomic conditions impacted per capita spending on cosmetics and undermined consumer sentiment. Despite these global macro-industry trends, total sales of cosmetics products in Indonesia increased by 16% between 2008 and 2009. As market conditions improve we expect acceleration in Indonesia's requirement for cosmetics, mainly due to higher demand from the country's increasingly affluent middle-class which comprises around 50% of the country's population. Their expansion, currently running at a CAGR of 35%, together with increasing affluence is likely to focus interest on health, lifestyle and luxury status products, resulting in higher spending on discretionary items including cosmetics and personal care.

**Major players in the Indonesian market**

Indonesia is home to around 350 cosmetic product manufacturers, many of which are very small-scale boutique companies producing low price cosmetics. Multinational firms including Unilever Indonesia PT and P&G Home Products Indonesia PT remain market leaders due to their strong product lines, superior brand images and substantial marketing budgets. Their market position is supported by Indonesian consumer preference for foreign rather than domestic brands, which are regarded as more reliable and better quality.

However, more recently domestic producers such as PT Martha Tilaar Group and PT Mustika Ratu have reported significant growth in sales and market share. This has been largely attributed to their focus on utilising natural ingredients to produce herbal and chemical free beauty products. Since Indonesia is a natural source for around 75% of all herbs used as raw materials in natural cosmetics, they have been long and widely accepted both locally and internationally.

### Major Players in Indonesia



Source: Euromonitor

### Beauty & Personal Care Sub-segments

Segment	Market Size and Outlook
Baby Care	Market Size (2009): Rp 586bn
	Expected Future Growth (CAGR 2009-14): 4.3%
	Major Players: PZ Cussons Indonesia PT, Johnson & Johnson Indonesia PT, Sara Lee Body Care Indonesia Tbk PT, Multi Indocitra Tbk PT, Tempo Scan Pacific Tbk PT <b>Martha Tilaar Group Market Share: NA</b>
Bath and Shower	Market Size (2009): Rp 3410.2bn
	Expected Future Growth (CAGR 2009-14): 2.7%
	Major Players: Unilever Indonesia Tbk PT, Sayap Mas Utama PT, PZ Cussons Indonesia PT, Johnson & Johnson Indonesia PT, Bina Karya Prima PT <b>Martha Tilaar Group Market Share: NA</b>
Colour Cosmetics	Market Size (2009): Rp 1988.5bn
	Expected Future Growth (CAGR 2009-14): 3.5%
	Major Players: Orindo Alam Ayu PT, Martha Tilaar Group, L'Oréal Indonesia PT, Vitapharm PT, Mustika Ratu Tbk PT <b>Martha Tilaar Group Market Share: 13.6%</b>
Deodorants	Market Size (2009): Rp 243.3bn
	Expected Future Growth (CAGR 2009-14): 3.5%
	Major Players: Unilever Indonesia Tbk PT, Mandom Indonesia Tbk PT, Orindo Alam Ayu PT, Amindoway Jaya PT, Priskila Prima Makmur PT <b>Martha Tilaar Group Market Share: NA</b>

Fragrances	Market Size (2009): Rp 1143bn
	Expected Future Growth (CAGR 2009-14): 7.0%
	Major Players: Orindo Alam Ayu PT, Kinocare Era Kosmetindo PT, Mandom Indonesia Tbk PT, Monica Hijau Lestari PT, Sara Lee Body Care Indonesia Tbk PT
	<b>Martha Tilaar Group Market Share: NA</b>
Hair Care	Market Size (2009): Rp 4907.9bn
	Expected Future Growth (CAGR 2009-14): 3.9%
	Major Players: Unilever Indonesia Tbk PT, Procter & Gamble Home Products Indonesia PT, L'Oréal Indonesia PT, Mandom Indonesia Tbk PT, Lion Wings PT
	<b>Martha Tilaar Group Market Share: 0.1%</b>
Men's Grooming	Market Size (2009): Rp 838.1bn
	Expected Future Growth (CAGR 2009-14): 6.5%
	Major Players: Mandom Indonesia Tbk PT, Procter & Gamble Home Products Indonesia PT, Unilever Indonesia Tbk PT, Sara Lee Body Care Indonesia Tbk PT, Kao Indonesia PT
	<b>Martha Tilaar Group Market Share: NA</b>
Oral Care Excluding Power Toothbrushes	Market Size (2009): Rp 3971.7bn
	Expected Future Growth (CAGR 2009-14): 0.2%
	Major Players: Unilever Indonesia Tbk PT, Ultra Prima Abadi PT, Lion Wings PT, Procter & Gamble Home Products Indonesia PT, Sterling Products Indonesia PT
	<b>Martha Tilaar Group Market Share: NA</b>
Skin Care	Market Size (2009): Rp 4267.2bn
	Expected Future Growth (CAGR 2009-14): 9.8%
	Major Players: Unilever Indonesia Tbk PT, Procter & Gamble Home Products Indonesia PT, Kao Indonesia PT, Martha Tilaar Group, Vitapharm PT
	<b>Martha Tilaar Group Market Share: 5.7%</b>
Sun Care	Market Size (2009): Rp10.7bn
	Expected Future Growth (CAGR 2009-14): -0.8%
	Major Players: Beiersdorf Indonesia PT, Orindo Alam Ayu PT, Nusa Selaras Indonesia PT, Unilever Indonesia Tbk PT, Playtex Products Inc
	<b>Martha Tilaar Group Market Share: NA</b>
Sets/Kits	Market Size (2009): Rp106.2bn
	Expected Future Growth (CAGR 2009-14): 3.5%
	Major Players: Orindo Alam Ayu PT, Monica Hijau Lestari PT, PZ Cussons Indonesia PT, Nusa Selaras Indonesia PT, Johnson & Johnson Indonesia PT
	<b>Martha Tilaar Group Market Share: NA</b>
Premium Cosmetics	Market Size (2009): Rp851.7bn
	Expected Future Growth (CAGR 2009-14): 6.4%

Note: CAGR is calculated based on Constant Value Growth

## Forward Outlook

Over the year Indonesian economy has registered healthy growth rate and World Bank estimated the GDP to expand by 6% in 2010. Poverty and unemployment have declined in recent past, with the poverty rate falling to 13.3% in March 2010 from 14.2% in 2009, and the unemployment rate easing to 7.4% in February 2010 from 7.9% in August 2009.

Indonesia's improving growth prospects and sound macroeconomic policy are supported by its rapidly increasing population. While accounting for 3.5% of the world's population, Indonesia is the fourth most populated country worldwide with 238 million inhabitants (2009), around 50% of which are aged 26 - 54. These factors together with manageable inflation have resulted in increased consumer spending, creating extensive opportunities for consumer product manufacturers.

The favourable macroeconomic environment coupled with 10% nominal growth in wages and increasing per capita cosmetics spending helped the Indonesian Cosmetic market to achieve growth rate between 2007 and 2009. This trend is expected to continue in near future 10% CAGR coming five years.

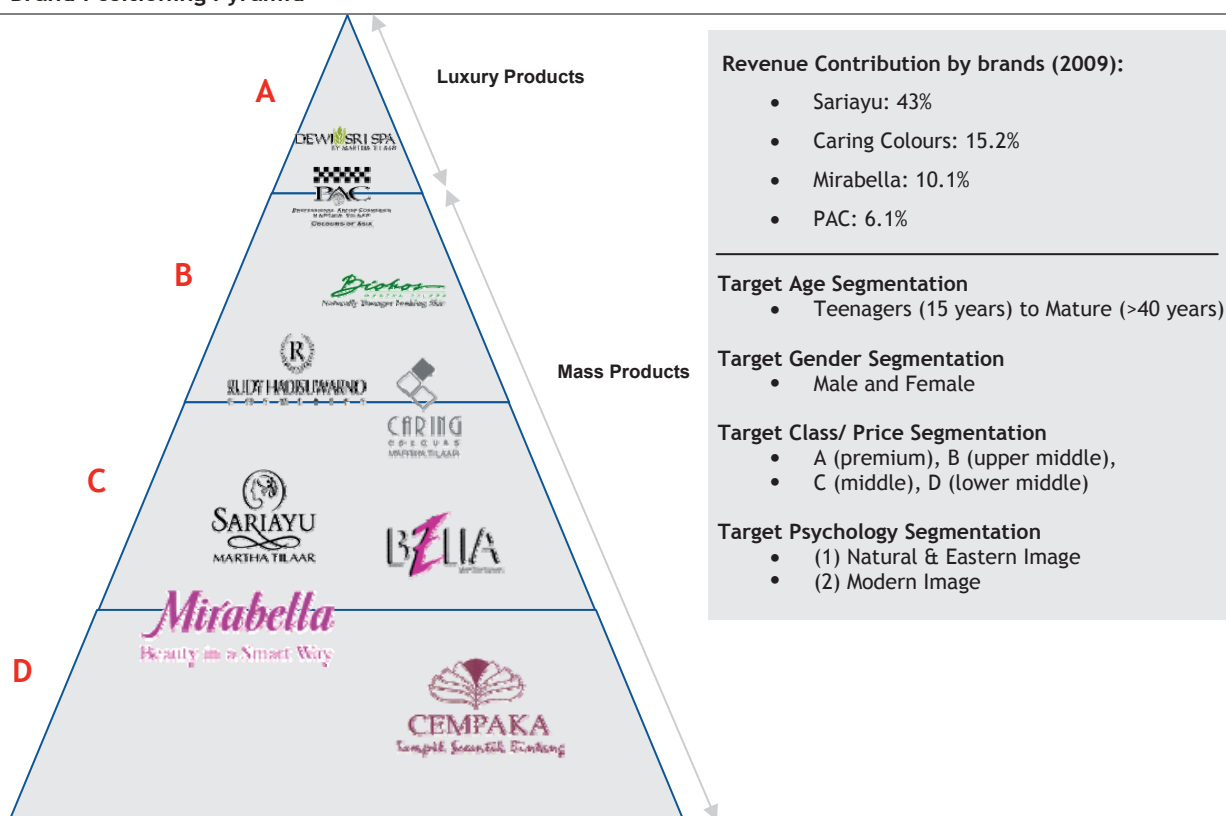


## 2. Eternal Growth Drivers

### 2.1 Brand portfolio covering all economic groups

PT Martina Berto provides multiple brands covering almost all product categories including skin care, hair care, colour cosmetics, fragrances and spa. The Company's brand portfolio includes: Belia, Biokos, Caring Colours, Cempaka, Dewi Sri Spa, Mirabella, PAC, Rudy Hadisuwarno and Sariayu, which together service all socioeconomic groups (A, B, C and D). Further, these brands also target all demographic and psychographic sections based on age, gender and consumer behaviour.

Brand Positioning Pyramid<sup>(1)</sup>



Source: Company data

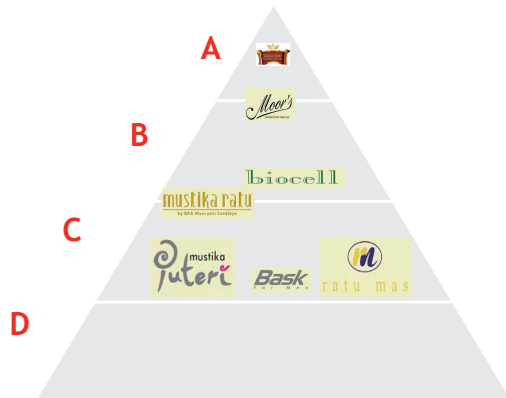
Note: (1) Socioeconomic classes defined as A: Premium, B: Upper Middle, C: Middle D: Lower Middle

Around 66% of the Company's brands are positioned in the mid-section of the pyramid represented by segments B and C, and contribute around 75% of total revenue. These comprise middle and upper middle classes and have expanded at a CAGR of 35% since 2006. The Company's strategy of brand positioning is consistent with the demographic landscape of Indonesia, with the 26-54 age group (which includes most cosmetics consumers) comprising almost 50% of the total population and contributing 75% of national income.

Presence of multiple brands in all socio economic segments gives PT Martina Berto a distinct advantage over its competitors. Though key Competitors of Martina Berto like Mustika Ratu, Mandom Indonesia, and Unilever have very strong presence in some of the segments, but their brand portfolio fails to address the entire socio-economic pyramid. This strategy of maintaining multiple brands covering all socio-economic segments requires

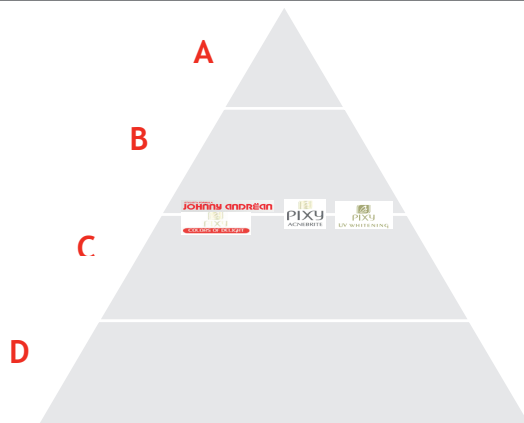
Martina Berto to incur higher fix brand expense, we believe this strategy will reap benefit in the growing market of Indonesia in the coming years.

#### Brand Pyramid: Mustika Ratu



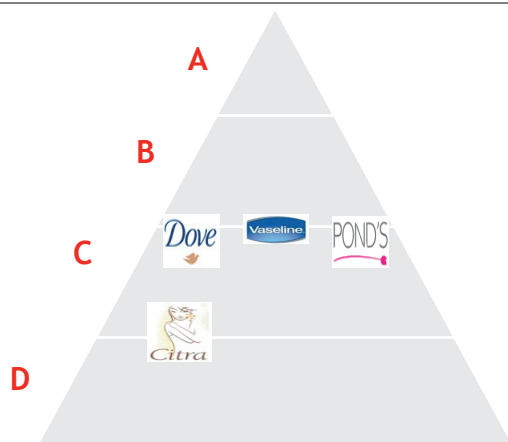
Source: Company Data, Trimegah Securities

#### Brand Pyramid: Mandom Indonesia



Source: Company Data, Trimegah Securities

#### Brand Pyramid: Unilever



Source: Company Data, Trimegah Securities

## **2.2 Strong distribution network provides better product reach**

### **2.2.1 Strong position in marketing channels well supported by Martha Tilaar speciality store**

PT Martina Berto distributes products through its Trade Marketing operation which manages distribution channels and trading relationships with channel partners. The Company is extensively represented in most modern and conventional marketing channels, enabling superior distribution of its products compared to peers. It distributes its products through 24 agents, 14 branches and 5 depots nationwide. Further, Martha Tilaar speciality store support the Company's distribution channel both throughout Indonesia and internationally. The first Martha Tilaar speciality store was opened in Singapore 2010 and more stores are lined up for other international markets.

#### **Strong supply and distribution relationships**

The Company maintains strong relationships with its suppliers and distributors. Its distributor network enables widescale distribution and also serves as a channel for promotional activities, consumer education and awareness programmes. In addition, Martha Tilaar shop support brand-building initiatives, acting as company customer support centres alongside its retail hub. The Company's spa products are separately promoted and distributed through spa chains operated by the PT Cantika Puspa Pesona. A different subsidiary of the company also provides outsourced labour for Company manufacturing facilities.

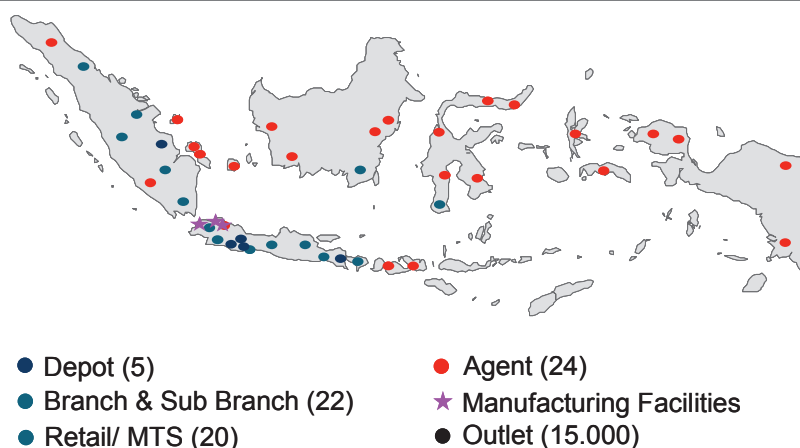
#### **Strategically located manufacturing facilities well supported by distribution network and marketing activities**

The Company operates three strategically-located manufacturing facilities in Indonesia. Seamless logistics support, excellent distribution system, proximity to major sea and air ports make these locations elements of paramount strategic advantage to the Company. It has an extensive presence across marketing channels, with multiple agents, branches and depots located across Indonesia that ensure superior distribution. Additionally, the Company has a strong relationship with its suppliers and distributors that support the Company in various promotional activities.

#### **Manufacturing locations close to major ports**

PT Martina Berto's manufacturing facilities are located in the Pulogadung industrial area and at Gunung Putri in Indonesia. Both are strategically located to service the major Indonesian markets of Java and Sumatra, which contribute almost 72% of Company revenues. Further, both lie near the port of Tanjung Priok and Jakarta, the national capital. Their proximity to Jakarta supports the Company's efforts to optimise its logistics and distribution. Concurrently, the region also represents a major market for the Company's products. In the near term, the Company plans to open an integrated manufacturing facility in Cikarang, located near the Cikarang dry port which offers integrated logistics support.

## Manufacturing Facilities and Distribution Network



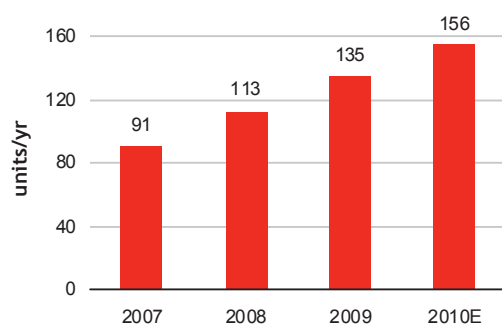
Source: Company

## 2.3 Focused research & development ensures diverse product mix

### 2.3.1 Established player with a large and diverse product mix and strong market position in Indonesia

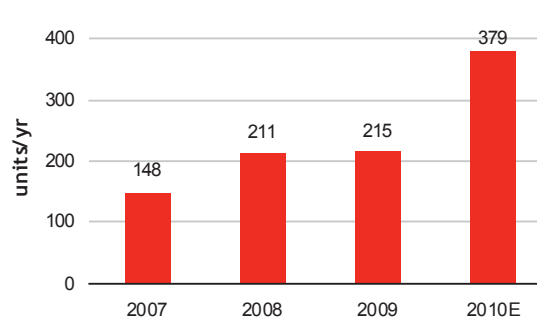
PT Marina Berto has manufactured cosmetic products for over thirty years and is a leading company in the fragmented Indonesian cosmetics manufacturing industry which comprises over 350 producers. Since its inception, the Company has maintained a strong focus on product development. As a result, it currently provides a wide range of products in all categories, servicing virtually all socio-economic groups within the Indonesian cosmetics market. The Company markets its products as a balanced portfolio of brands with strong market shares and widespread recognition in Indonesia. It has invested heavily in R&D activities, spending IDR17.5bn during the past three years alone, resulting in the launch of 405 products and the development of approximately 1,000 cosmetic formulations.

No. of Products Launched (2007 - 2010E)



Source: Company Data

No. of Formulae Developed (2007 - 2010E)



Source: Company Data

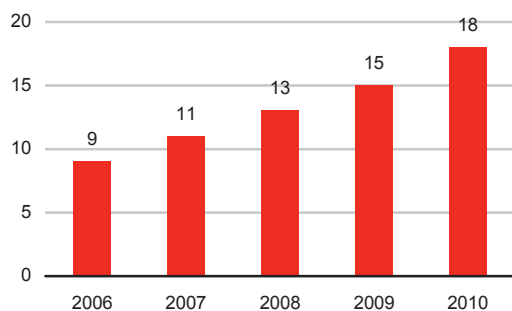
### 2.3.2 Diverse product mix from continuous R&D

The Company offers a diverse range of products across the entire beauty and skin care spectrum. It is strongly positioned in skin care and colour cosmetics market in Indonesia with corresponding market shares of 5.7% (ranked 4<sup>th</sup>) and 13.6% (ranked 2<sup>nd</sup>). Further, the Company has improved its market position in bath & shower, hair care, fragrances and spa care products. Concurrently, the Company invested IDR17.5bn in R&D (which

increased at a CAGR of 5% between 2007 and 2009) with expenditure consistently around 1% of revenues, significantly higher than its peers.

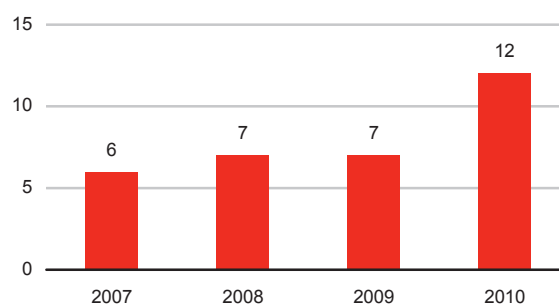
The commitment of PT Marina Berto towards R&D is well depicted in increasing number of research conducted in Martha Tilaar Innovation Center (MTIC) and increasing number of project collaboration with universities & research institutions.

**Plant Research Conducted In Martha Tilaar Innovation Center**



Source: Company Data

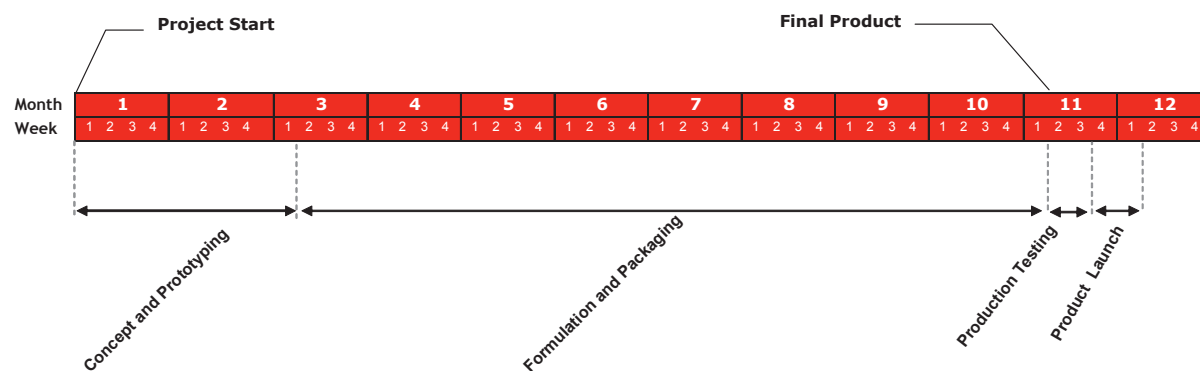
**Project Collaboration With Universities & Research Institutions**



Source: Company Data

The company takes nearly 45 weeks to develop a new product. This includes R&D, marketing, packaging, trial production and product launching. Additionally the Company spends an additional 16 weeks to develop new moldings. The following table describe the detailed new product development process of the Company.

**Product Development Time Table (in months)**



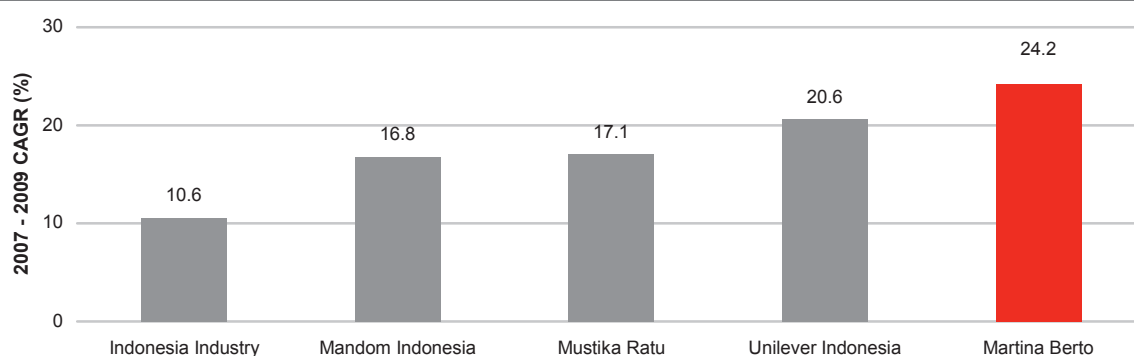
Source: Company Data

### 3. Consistent Market Share & Top Line Grabber

#### 3.1 Martina Berto has consistently outperformed Indonesian cosmetics market

Martina Berto has been able to consistently maintain its market share in the growing Indonesian cosmetics market. The Company has outperformed local cosmetics peers' as well Indonesian cosmetics industry during FY 2007-09. Martina Berto registered a growth of 24.2% during FY 2007-09 as compared to 10.6% growth of the Indonesian cosmetics industry during the same period. Mandom Indonesia, Mustika Ratu & Unilever Indonesia (Indonesian peers) grew at a CAGR of 16.8%, 17.1% and 20.6% respectively during FY 2007-09. Martina Berto's growth was driven by new product launches, heavy marketing and sales promotion and distribution network expansion to remote areas.

#### Martina Berto's top line growth is significantly higher than competition



Source: Company Data, Euromonitor

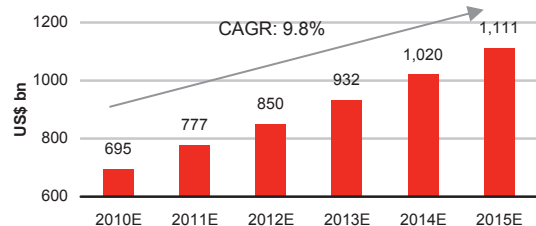
#### 3.2 Strong macro-economic fundamentals leading to growth of the industry

The Indonesian cosmetics market reported total sales of around US\$1.9bn in 2009. Between 2007 and 2009, the market expanded at a CAGR of 10.6% given strong fundamentals of Indonesian economy. According to Euromonitor estimates, the market size is set to increase to US\$2.2bn in 2010. With 1.2% annual population growth, 10% nominal growth and increasing per capita cosmetics spending in Indonesia, Indonesian cosmetics industry is expected to increase at a CAGR of between 10% and 15% to 2012 and about 10% thereafter.

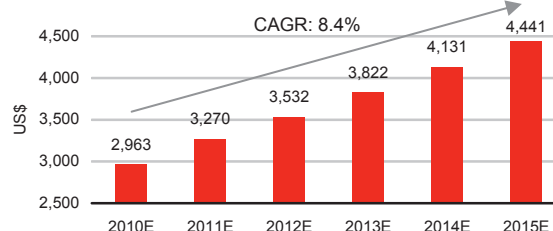
Indonesia's improving growth prospects and sound macroeconomic policy are supported by its rapidly gaining population. While accounting for 3.5% of the world's population, Indonesia is the fourth most populated country worldwide with 238 mn inhabitants (2009). The average annual nominal GDP growth is expected to be >12% from 2010-15. At the same time both poverty and unemployment have declined with the poverty rate falling to 13.3% in March 2010 from 14.2% in 2009, and the unemployment rate easing to 7.4% in February 2010 from 7.9% in August 2009.

### Supportive macro-economic fundamentals to drive growth

Indonesian GDP



Per Capita Consumption GDP

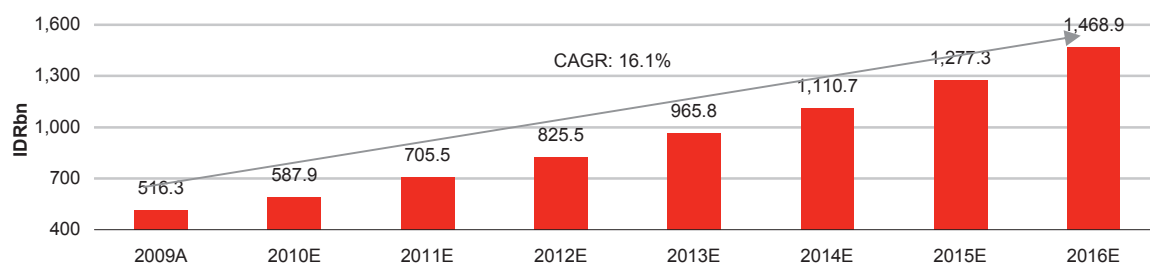


Source: IMF

### 3.3 Unique position to result in superior top-line growth and increased market share

Given strong industry fundamentals and Martina Berto's unique positioning as Indonesian cosmetics king, its top-line is expected to grow at a CAGR of 16.1% from IDR516.4bn in FY 2009 to IDR1,468.9bn in FY 2016, aided by:

- **Higher prices:** Price increases are expected to contribute upto 2.0% of total sales growth during the forecast period compared to around 1.0% in 1H 2010. Relatively smaller growth in this period was due to significant price competition amongst various global companies including Unilever and P&G. However, the price war is receding given that market leaders are aggressively discounting price already.
- **Capacity expansion:** The management expects the Company to spend IDR135bn in FY 2011 to expand its production capacity especially in colour cosmetics and skin care segments. Dry cosmetics division's manufacturing capacity utilization already exceeds 100%. The Company has also announced plans to integrate all production facilities at Cikarang to increase efficiency and improve realizations.
- **New product development:** The Company maintains a strong R&D division. The number of new product launches increased from 91 in 2007 to 156 in YTD 2010. Historically, the Company has regularly developed new formulas and products, which contributed 4.5% to sales growth in FY 2009. The Company will continue to invest in its R&D and quality control divisions to ensure consistent development of new and better quality products in future.
- **Expansion into new geographical markets:** The Company plans to expand its geographical representation within the forecast period, particularly in Vietnam, the Middle East, China, Korea and India. Subsequently, it intends to enter markets in Africa, Europe and America.
- **New segments:** Martha Tilaar Shop "Home Spa" products is expected to penetrate bath and shower, hair care, skin care, cosmetics, herbs (tea) segment A customers which will provided additional top line growth and improved major growth to the company's P & C. The plans for such expansion are already underway and expected to materialize in next few years. In addition, the expansion of Martha Tilaar Shop (Body Shop of Indonesia) globally would significantly boost brand pressure and recognition. The management believes that this would be the fastest growing segment for the company.

**Strong Top-line Growth for Martina Berto**

Source: Company Data, management estimates

**Strategic position and capacity expansion to support higher sales**

Within the next five years the Company is strategically positioned to:

- Strengthen position in colour cosmetic category from rank 2 to rank 1 with existing brands
- Strengthen position in skin care category from rank 4 to rank 3 with existing brands
- Strengthen position in hair care from rank 18 to rank 5 with existing and new brands with focus in hair treatment and professional hair products
- Diversify in new product categories : bath & shower, fragrance, with existing brands
- Diversify & strengthen its position in herbal products & Jamu products
- International expansion by Martha Tilaar Shop (MTS), spa products and herbal products
- Increase distribution network in domestic market by opening depots to reach more new sales points in remote areas
- Martina Berto is planning to spend IDR135bn in 2011 to build a new integrated and green manufacturing facility in Cikarang.

**Martha Tilaar Shops**

Source: Company Data

**Martina Berto Future Factory in Cikarang**

Source: Company Data

The Company is expected to make further in-roads into the Indonesian cosmetics industry, increasing its market share from 2.5% in FY 2009 to 4.3% in FY 2014.

in (Rpbn)	2010E	2011E	2012E	2013E	2014E	CAGR 10-14
Revenues	587.9	705.5	825.5	965.8	1,110.7	17.2%
Market Share in Indonesian Cosmetic Industry	2.7%	3.1%	3.5%	3.9%	4.3%	-

Source: Euromonitor, company data



## 4. Economies of Scale to Kick In

### 4.1 Re-strategizing in 2007 lead to turnaround in margins

#### Historical performance

Income Statement (Rpbn)	2007A	2008A	2009A	1H2009A	1H2010A
Sales	334.9	429.9	516.3	245.9	257.9
(% Growth)	--	28.3%	20.1%	--	4.9%
COGS	(150.2)	(196.5)	(248.2)	(117.3)	(120.5)
Gross income	184.7	233.4	268.1	128.6	137.4
(% Margin)	55.2%	54.3%	51.9%	52.3%	53.3%
S, G,&A Costs	(173.2)	(218.6)	(240.2)	(115.8)	(120.0)
Operating Income	11.6	14.9	27.9	12.8	17.4
(% Margin)	3.5%	3.5%	5.4%	5.2%	6.7%
Net Interest Income	(9.7)	(8.8)	(7.8)	--	(3.5)
Other Income	1.7	(2.0)	6.9	--	1.9
Income Before Tax	3.6	4.0	27.0	--	15.7
Net Income	2.3	2.7	22.2	--	11.8
(% Margin)	0.7%	0.6%	4.3%	--	4.6%

Source: Company Data

The Company reported a gross margin of 51.9% in FY 2009 compared to 55.2% in FY 2007 with individual products achieving profitability of between 30%-70%. Benefits from high margin quality brands were partly offset by the impact of increased marketing expenditure. A slight deterioration in gross margin in recent years has largely resulted from new product launches in mass markets, targeting an expanding and relatively affluent middle-class (e.g. Biokos, and DSS brands). Further, sales growth in FY 2009 was driven by an expanded low-end brand (i.e. Sari Ayu and Mirabella) segment resulting in a lower overall gross margin of 51.9%.

However, the Company reported an improved operating margin of 5.4% in FY 2009 compared to 3.5% in FY 2007, as marketing and selling expense to sales ratio fell from 37.4% to 35.1% during the same period. Higher expenses in FY 2007 were a result of increased expenditure on marketing investment in the new brand strategy. We expect the Company to leverage such investments in coming years. The general & administrative (G&A) expense to sales ratio declined to 11.4% in FY 2009 from 14.3% in FY 2007 with the Company capitalizing on its IT and CSR infrastructure investments. A reduction in SG&A expenses resulted in a relative improvement in operating margin to 5.4% in FY 2009.

**Economies of scale supported by below the line marketing and research activities****Projected Performance**

<b>Income Statement (Rpbn)</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Sales	587.9	705.5	825.5	965.8	1,110.7	1,277.3	1,468.9
(% Growth)	13.9%	20.0%	17.0%	17.0%	15.0%	15.0%	15.0%
COGS	(273.9)	(326.5)	(385.3)	(449.7)	(514.9)	(589.9)	(676.0)
Gross income	314.1	379.0	440.2	516.1	595.7	687.4	792.8
(% Margin)	53.4%	53.7%	53.3%	53.4%	53.6%	53.8%	54.0%
S, G,&A Costs	(266.4)	(306.8)	(360.7)	(415.2)	(472.4)	(537.7)	(612.3)
Operating Income	47.7	72.3	79.4	100.9	123.4	149.7	180.6
(% Margin)	8.1%	10.2%	9.6%	10.4%	11.1%	11.7%	12.3%
Net Interest Income	(6.3)	3.9	9.9	8.5	10.2	12.6	15.6
Other Income	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Incomer Before Tax	42.0	76.2	89.4	109.4	133.6	162.3	196.2
Net Income	33.6	57.2	67.0	82.0	100.2	121.7	147.1
(% Margin)	5.7%	8.1%	8.1%	8.5%	9.0%	9.5%	10.0%

Source: Trimegah Securities

We expect new more efficient production facilities and previous investments in marketing and IT infrastructure to provide higher economic returns with increased operating leverage, and improve margins during the forecast period. We project a reduction in G&A expenses as a percentage of sales from 11.4% in FY 2009 to between 5-6% in FY 2016, supporting higher operating margins. The net margin is expected to increase from 4.3% in FY 2009 to 10.0% in FY 2016, due to operational efficiencies, economies of scale and lower borrowing costs as guided by management.

## 5. Valuation

We value Martina Berto in a wide range, between 12.5x to 18.0x 2011 P/E. The lower range is roughly at ~ 20% premium to the illiquid peers that are being ignored by the market due to Martina Berto's operational excellence. Our DCF prices Martina Berto at 15.3x 2011 P/E. The higher range is due to its unique positioning as the Indonesian Cosmetics King; other kings in the Indonesian consumer sector (even the illiquid ones) are currently trading in the range of 14.0x to 29.2x 2011 P/E, with an average of 18.1x. From a regional angle, China & India cosmetic peers trade at 15.6x to 36.6x 2011 P/E.

### 5.1 Discounted cash flow model (DCF)

Our DCF model is based on these assumptions: we calculate unlevered free cash flows (FCFs), which are then discounted at the weighted average cost of capital (WACC) in order to calculate the fair value of equity. We apply a cost of equity of 15.0% and cost of debt of 10.9% based on market estimates, which are assumed constant for projected years. We use a WACC of 14.6%, and a terminal growth rate of 2.0%. Based on these assumptions, our DCF calculation values Martina Berto at 15.3x 2011 P/E.

WACC has been derived using the Capital Asset Pricing Model (CAPM). Our model's key assumptions are as follows:

Assumptions	
Debt level (%)	10.0
Equity level (%)	90.0
Tax rate (%)	25.0
Risk free rate (%)	10.0
Debt margin (%)	4.5
Post-tax cost of debt (%)	10.9
Market Risk premium (%)	5.0
Beta	1.0
Cost of equity (%)	15.0
<b>WACC</b>	<b>14.6</b>

Source: Trimegah Securities

### 5.2 Peer-based valuation

#### Local Peers

Local Indonesian peers (Mandom Indonesia, Mustika Ratu) are currently trading at an average 11.6x 2009 P/E and 10.2x 2010 P/E. We believe Martina Berto to trade at 20% premium to these uncompetitive and illiquid peers given the Company's strong brand presence in Indonesia and association with Martha Tilaar group. This gives the lower range of MB's valuation at ~12.5x 2011 P/E.

#### Comparable Company Trading Analysis

USDmn	Country	Equity Value (a)	Enterprise Value (b)	Revenue LFY	Enterprise value as a multiple of				P/E			PEG 2011	EPS Growth		
					Revenue		EBITDA		Dec-09	Dec-10	Dec-11		2008-09	2009-10	2010-11
					Dec-10	Dec-11	Dec-10	Dec-11							
Mandom Indonesia Tbk PT	Indonesia	161.8	148.0	154.1	1.0x	n/a	4.9x	n/a	11.7x	10.2x	n/a	n/a	7.0%	13.0%	n/a
Mustika Ratu Tbk PT	Indonesia	27.0	17.0	38.0	n/a	n/a	n/a	n/a	11.4x	n/a	n/a	n/a	(8.0%)	n/a	n/a
Mean					1.0x	n/m	4.9x	n/m	11.6x	10.2x	n/m	n/m	0.5%	13.0%	n/m
Median					1.0x	n/m	4.9x	n/m	11.6x	10.2x	n/m	n/m	0.5%	13.0%	n/m

Source: Company, Reuters, Trimegah Securities

## Indonesian Consumer Kings

Big consumer companies in Indonesia (Indonesian Kings) are currently trading in the range of 14.0x to 29.2x 2011 P/E, with an average of 18.1x. Given the unique positioning of the Company as Indonesian Cosmetics King, we believe the higher range of Martina Berto's valuation to be at par with other Kings in the Indonesian consumer market. This gives us a higher range of Martina Berto's valuation at ~18.0x 2011 P/E.

### Comparable Company Trading Analysis

USD in Mln	Description	Equity Value (a)	Enterprise Value (b)	Revenue LFY	Enterprise value as a multiple of				P/E		PEG 2011	EPS Growth		
					Revenue	Revenue	EBITDA	Revenue	Dec-10	Dec-11		2008-09	2009-10	2010-11
						Dec-10	Dec-11	Dec-10	Dec-11	Dec-11				
Astra International Tbk PT	Auto King	24,333.2	26,796.1	10,936.4	1.9x	1.7x	12.8x	11.0x	17.0x	14.8x	1.0x	12.9%	28.5%	15.0%
Unilever Indonesia Tbk PT	Household Goods King	14,016.7	13,800.2	2,025.4	6.0x	5.2x	24.2x	20.9x	33.8x	29.2x	1.8x	26.6%	22.3%	15.9%
Gudang Garam Tbk PT	Cigarettes King	9,119.6	9,346.1	3,660.0	2.2x	2.1x	12.9x	11.2x	19.6x	16.4x	0.8x	83.6%	21.6%	19.5%
Kalbe Farma Tbk PT	Pharmaceutical King	3,616.2	3,526.9	1,008.7	3.1x	2.7x	15.4x	13.5x	25.9x	22.0x	1.3x	33.6%	34.7%	17.5%
Charoen Pokhand Indonesia Tbk PT	Chicken King	3,500.0	3,555.6	1,616.0	2.0x	1.8x	11.8x	11.1x	16.3x	15.1x	1.9x	n/m	20.1%	8.0%
Indofood CBP Sukses Makmur Tbk PT	Instant Noodle King	3,365.6	3,483.8	444.9	1.7x	1.6x	10.5x	10.1x	19.0x	18.1x	3.7x	n/a	n/m	4.9%
Mayora Indah Tbk PT	Biscuit King	970.0	1,042.8	530.3	1.4x	1.1x	10.6x	8.7x	18.7x	15.1x	0.6x	89.3%	25.9%	24.0%
ACE Hardware Indonesia Tbk PT	D.I.Y King	442.6	390.6	150.8	2.1x	1.7x	13.7x	10.9x	22.8x	18.0x	0.8x	20.2%	14.9%	22.9%
Mitra Adiperkasa Tbk PT	Store Middle Class Retail King	428.4	530.4	456.3	1.0x	0.9x	7.2x	6.2x	18.4x	14.1x	0.4x	(386.9%)	18.1%	35.6%
Mean					2.4x	2.1x	13.2x	11.5x	21.3x	18.1x	1.4x	(17.3%)	23.3%	18.1%
Median					2.0x	1.7x	12.8x	11.0x	19.0x	16.4x	1.0x	26.6%	22.0%	17.5%

Source: Reuters, Trimegah Securities

## China & India Cosmetics Peers

Regional cosmetics peers in China & India are currently trading in the range of 15.6x to 36.6x 2011 P/E, with an average of 24.7x 2011 P/E. With the similar cosmetics industry dynamics of China & India and Martina Berto's expansion plans into these geographies, we believe there is still upside potential for Martina Berto which we have valued in the range of 12.5x to 18.0x 2011 P/E equivalent to Rp675/shr to Rp975/shr.

### Comparable Company Trading Analysis

USDm	Country	Equity Value (a)	Enterprise Value (b)	Revenue LFY	Enterprise value as a multiple of				P/E		PEG 2011	EPS Growth		
					Revenue	Revenue	EBITDA	Revenue	Dec-10	Dec-11		2008-09	2009-10	2010-11
						Dec-10	Dec-11	Dec-10	Dec-11	Dec-11				
<b>China</b>														
Shanghai Jahwa United Co Ltd	China	2,369.1	2,275.2	404.5	4.9x	4.2x	34.0x	26.5x	49.0x	36.6x	0.9x	46.5%	9.6%	39.1%
Bawang International (Group) Holding	China	1,148.7	925.7	263.4	3.3x	2.7x	17.2x	11.7x	22.1x	15.6x	0.4x	26.4%	(26.1%)	42.1%
Mean					4.1x	3.4x	25.6x	19.1x	35.5x	26.1x	0.7x	36.4%	-8.3%	40.6%
Median					4.1x	3.4x	25.6x	19.1x	35.5x	26.1x	0.7x	36.4%	-8.3%	40.6%
<b>India</b>														
Dabur India Ltd	India	3,578.1	3,602.5	740.2	4.3x	3.7x	22.2x	18.8x	28.8x	24.1x	1.2x	25.8%	23.4%	20.1%
Godrej Consumer Products Ltd	India	2,798.7	2,758.0	445.5	4.2x	3.3x	20.1x	16.8x	30.1x	23.9x	1.2x	48.4%	42.0%	19.5%
Marico Ltd	India	1,751.1	1,794.2	580.8	2.8x	2.4x	19.6x	16.7x	28.9x	23.6x	1.1x	24.4%	23.6%	22.0%
Emami Ltd	India	1,436.8	1,458.2	226.6	5.6x	4.8x	23.1x	19.3x	29.9x	24.3x	1.3x	70.1%	32.0%	19.4%
Mean					4.2x	3.5x	21.2x	17.9x	29.4x	24.0x	1.2x	42.2%	30.2%	20.3%
Median					4.3x	3.5x	21.1x	17.8x	29.4x	24.0x	1.2x	37.1%	27.8%	19.8%
<b>China and India</b>														
Mean					4.2x	3.5x	22.7x	18.3x	31.5x	24.7x	1.0x	40.3%	17.4%	27.0%
Median					4.3x	3.5x	21.1x	17.8x	29.4x	24.0x	1.1x	36.4%	23.5%	21.1%
<b>Global</b>														
L'Oreal SA	France	65,701.9	67,920.4	23,133.6	2.6x	2.5x	13.2x	12.3x	21.1x	19.2x	1.9x	(2.2%)	17.7%	9.9%
Colgate Palmolive Co	United States	37,611.4	40,547.4	15,327.0	2.6x	2.4x	9.7x	9.1x	15.5x	14.3x	1.7x	13.4%	8.9%	8.5%
Beiersdorf AG	Germany	13,665.5	11,332.6	7,610.3	1.4x	1.3x	10.1x	9.3x	21.9x	19.8x	1.8x	(23.6%)	25.8%	10.7%
Avon Products Inc	United States	12,336.6	13,878.4	10,284.7	1.2x	1.2x	9.0x	7.8x	14.6x	12.5x	0.7x	(30.5%)	32.2%	17.8%
Estee Lauder Companies Inc	United States	14,918.0	15,042.7	7,795.8	1.9x	1.8x	12.4x	11.2x	27.3x	22.6x	1.9x	10.2%	33.7%	12.1%
L'Occitane International SA	Luxembourg	4,126.9	4,158.8	810.6	4.5x	3.8x	18.8x	15.6x	31.1x	25.5x	1.5x	33.3%	17.8%	17.5%
Oriflame Cosmetics SA	Luxembourg	3,021.8	3,355.1	1,743.2	1.7x	1.5x	12.5x	10.8x	17.2x	14.1x	0.7x	(24.0%)	32.3%	19.1%
PZ Cussons Plc	United Kingdom	2,556.0	2,526.1	1,203.0	2.0x	1.9x	12.7x	11.5x	23.8x	21.9x	2.1x	27.7%	12.8%	10.5%
Nu Skin Enterprises Inc	United States	1,988.3	1,961.7	1,331.1	1.3x	1.2x	8.2x	7.6x	15.6x	13.8x	1.0x	47.6%	31.2%	14.0%
Elizabeth Arden Inc	United States	579.2	830.0	1,103.8	0.7x	0.7x	9.6x	7.8x	21.4x	14.5x	0.3x	0.2%	87.0%	47.9%
Ales Groupe Societe Anonyme	France	211.2	219.1	217.9	1.0x	0.9x	8.6x	7.7x	23.3x	18.3x	0.7x	(22.5%)	(4.5%)	27.6%
Mean					1.9x	1.8x	11.3x	10.1x	21.2x	17.9x	1.3x	2.7%	26.8%	17.8%
Median					1.7x	1.5x	10.1x	9.3x	21.4x	18.3x	1.5x	0.2%	25.8%	14.0%

(a) Based on closing price of 26 Nov 2010

(b) Calculated as equity value plus total debt, minority (at book value unless otherwise noted) and preferred stock, less cash & equivalents

Source: Reuters, Trimegah Securities

**Income Statement (Rpbn)**

Year end 31 Dec	2008	2009	2010E	2011F	2012F
Revenue	429.9	516.3	587.9	705.5	825.5
% growth	28.3	20.1	78.1	20.0	17.0
COGS	(196.5)	(248.2)	(273.9)	(326.5)	(385.3)
Gross Profit	233.4	268.1	314.1	379.0	440.2
Opr Profit	14.9	27.9	47.7	72.3	79.4
EBITDA	18.0	26.6	52.3	79.9	93.7
% growth	17.9	47.3	55.1	52.8	17.2
Net int inc/(exp)	(8.8)	(7.8)	(6.3)	3.9	9.9
Gain/(loss) forex	(3.5)	2.6	0.6	-	-
Other inc/(exp)	1.2	0.6	0.6	-	-
Pre-tax Profit	4.0	27.0	43.2	76.2	89.4
Tax	(1.4)	(4.8)	(11.2)	(19.1)	(22.3)
Minority Int.	0.0	(0.0)	(0.0)	-	-
Extra. Items	-	-	-	-	-
Net Profit	2.7	22.2	33.6	57.2	67.0
% growth	19.6	724.6	54.3	70.2	17.2

Source: Trimegah Securities

**Balance Sheet (Rpbn)**

Year end 31 Dec	2008	2009	2010E	2011F	2012F
Cash and Deposits	15.9	13.5	11.0	184.2	121.5
Other current assets	191.2	198.4	193.5	220.3	256.3
Net fixed assets	44.0	47.9	55.4	155.3	237.6
Other assets	28.3	17.1	14.7	14.7	14.7
Total assets	279.4	276.9	274.6	574.5	630.2
ST debt	20.7	22.7	-	-	-
Other current liabilities	87.1	97.4	93.2	96.6	105.4
LT Debt	49.9	43.5	43.6	-	-
Other LT Liab	30.3	22.6	23.9	23.9	23.9
Minority interest	0.4	0.0	0.0	0.0	0.0
Total Liabilities	188.1	186.2	160.7	120.5	129.4
Shareholder's Equity	90.9	90.7	113.9	453.9	500.8
Net debt/(cash)	54.6	52.8	32.5	(184.2)	(121.5)
Working capital	99.3	91.8	111.3	307.9	272.4

Source: Trimegah Securities

**Key Ratio analysis**

Year end 31 Dec	2008	2009	2010E	2011F	2012F
<b>Profitability</b>					
Gross Margins (%)	54.3	51.9	53.4	53.7	53.3
Op Margins (%)	3.5	5.4	8.1	10.2	9.6
EBITDA Margins (%)	4.2	5.1	8.9	11.3	11.3
Net Margins (%)	0.6	4.3	5.7	8.1	8.1
ROE (%)	3.0	24.5	29.5	12.6	13.4
ROA (%)	1.0	8.0	12.2	10.0	10.6
<b>Stability</b>					
Current ratio (x)	1.9	1.8	2.2	4.2	3.6
Net Debt/Equity (x)	0.6	0.6	0.3	(0.4)	(0.2)
Int Coverage (x)	0.7	0.3	0.1	0.0	-
<b>Efficiency</b>					
A/P days	71.7	62.1	59.9	54.0	54.0
A/R days	103.6	85.1	80.8	72.0	72.0
Inventory days	96.5	98.7	69.4	77.8	77.1

Source: Trimegah Securities

**Cash Flow (Rpbn)**

Year end 31 Dec	2008	2009	2010E	2011F	2012F
Net Profit	2.7	22.2	33.6	57.2	60.1
Depr/Amort	3.2	(1.3)	4.6	7.6	14.3
Chg in Working Cap	-	-	(22.0)	(23.4)	(27.2)
Others	-	-	-	-	-
CF's from oprs	20.8	44.0	34.3	41.4	54.1
Capex	(3.1)	(10.3)	(12.1)	(107.5)	(96.6)
Others	-	-	-	-	-
CF's from investing	(1.4)	(3.1)	(5.4)	(107.5)	(96.6)
Net change in debt	(10.4)	(4.3)	-	(43.6)	-
Others	-	0.4	-	-	-
CF's from financing	(15.8)	(36.6)	(26.1)	239.3	(20.1)
Net cash flow	1.9	(2.4)	2.8	173.1	(62.6)
Cash at BoY	14.0	15.9	13.5	11.0	184.2
Cash at EoY	15.9	13.5	11.0	184.2	121.5

Source: Trimegah Securities

## 6. Appendix

### 6.1 Company overview

PT Martina Berto has manufactured and sold beauty & personal care, jamu (herbal medicines) and spa products for over thirty years. It operates as a manufacturing and marketing subsidiary of the Martha Tilaar Group, a leader in the Indonesian cosmetics market.

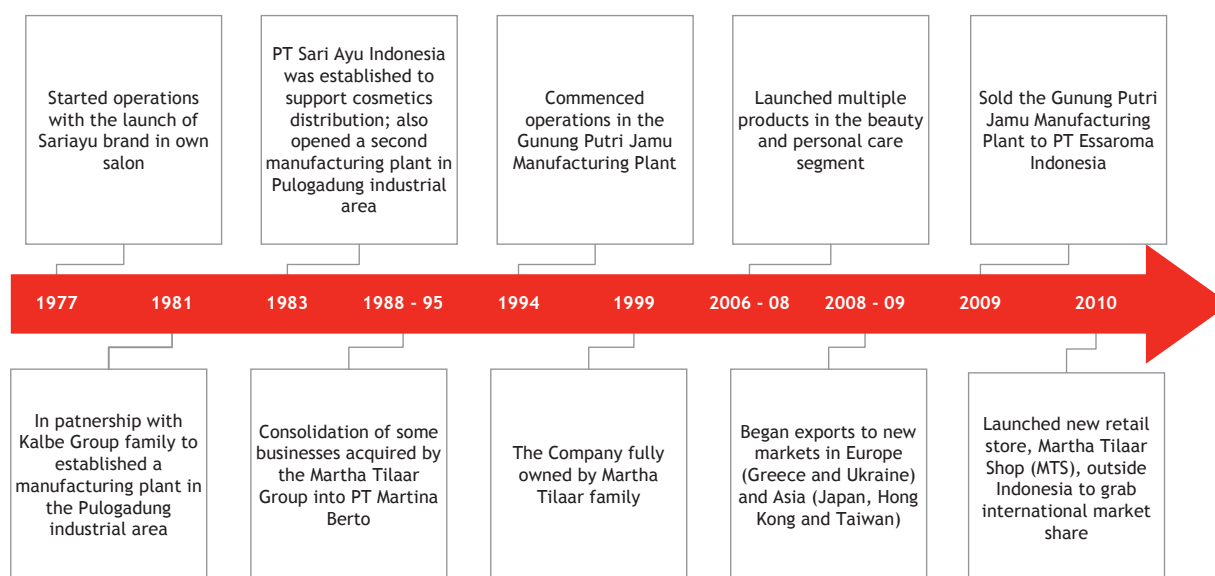
The Company provides a wide range of cosmetic products in all beauty and personal care sub-segments with strong market shares in skin care and colour cosmetics. The Company operates three manufacturing facilities together with a wide distribution network. It exports its products internationally in Singapore, Malaysia, Brunei, the Middle East and the US. The Company employs around 1,000 personnel as of June 30, 2010.

#### Background and History

PT Martina Berto was established in 1977 by Dr. HC Martha Tilaar, widely regarded in Indonesia as the ‘mother’ of beauty and personal care. Initially, the Company commenced operations as a small unit, launching the ‘Sari Ayu’ cosmetics brand. However, in response to growing demand for its cosmetic products it opened two factories in the Pulogadung industrial area in 1981 and 1986 respectively. Between 1988 and 1990, the Company launched five brands: ‘Cempaka’, ‘Jamu Martina’, ‘Biokos’, ‘Caring Colours’ and ‘Belia’.

In 1994 the Company further opened a factory in Gunung Putri for jamu production. In 1996, PT Martina Berto became the first Indonesian cosmetics company to be awarded an ISO 9001 certificate for its quality management system. In 1999, the Company acquired Kalbe Group, consolidating its position in the Indonesian market. In 2008, the Company began exports to new markets in Asia and Europe. In 2010, it was also awarded an ISO 14001 certificate for quality management systems.

#### Company Evolution Timeline



Source: Company Data

## Product portfolio

PT Martina Berto offers a very wide range of beauty and personal care products in all areas, particularly in skin care, colour cosmetics, bath and shower products and fragrances. Cumulatively, it has strengthened its product line with multiple product launches.

The Company's products are provided through a portfolio of brands, most of which are licensed from its parent, Martha Tilaar Group. The following table identifies these brands and provides a description of their characteristics, ownership and socio-economic positioning.

### PT Martina Berto: Product offering

Brand Ownership	Brand	Product Description	Target Economic Class
Brand licenses from Martha Tilaar Group (Contribute almost 80% of the Company revenues)	 SARIAYU MARTHA TILAAAR	Sariayu is a natural beauty care product suitable for the tropical climate	C
	 Biokos MARTHA TILAAAR Naturally Younger Looking Skin	Biokos is an anti-aging product targeted towards the urban aging population	B
	 CARING COLOURS MARTHA TILAAAR The Colours that Care	Caring Colours is a beauty care product for the urban and active population	C
	 PAC PROFESSIONAL ARTIST COSMETICS MARTHA TILAAAR COLOURS OF ASIA The Art of Make Up	Professional Artist Cosmetics (PAC) is designed for stage makeup / artists and the consumers, who prefer bold colours	A
	 DEWI SRI SPA BY MARTHA TILAAAR	Dewi Sri Spa is a holistic body treatment product line for aromatherapy	A
Brand license from PT Rudy Hadisuwarno (Contribute 10% of the Company revenues)	 BELIA all about fun	Belia colognes are targeted towards teenage girls	D
	 RUDY HADISUWARNO COSMETICS	Rudy Hadisuwarno is a series of hair care and cosmetics products for the urban population	B
	 Mirabella Beauty in a Smart Way	Mirabella cosmetics include lipsticks, colour cosmetics and hair care products for women	D
Company owned brands (Contribute 10% of the Company revenues)	 CEMPAKA Tampil Seindah Bidadari	Cempaka includes skincare products, make up base and colour cosmetics	D
	 JAMU MARTINA	A herbal (Jamu) product specifically designed for foreign clients; serves the domestic customers as well	--

Note: A (Premium), B (upper middle), C (middle), D (lower middle)

Source: Company Data

## Segment Overview

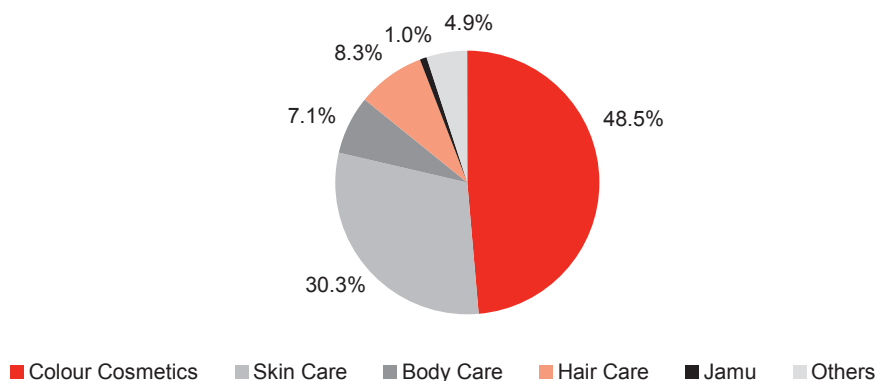
The Company operates in three business segments: Beauty and personal care, Jamu (herbal medicines), and Spa products. The beauty and personal care segment is the main revenue driver of the Company. In 2009 the Company had a market share of 13.6% in colour cosmetics, 5.7% in skin care products and 2.5% in beauty & personal care products in Indonesia.

Product type	Value share	Rank
Beauty and personal care	2.50%	9 <sup>th</sup>
Colour cosmetics	13.60%	2 <sup>nd</sup>
Hair care	0.10%	18 <sup>th</sup>
Skin care	5.70%	4 <sup>th</sup>

Source: Euromonitor Report

Beauty and Personal Care Products	Jamu	Spa Products
 <p>Belia Biokos Caring Colours Cempaka Mirabella Rudy Hadisuwarno Professional Artist Cosmetic's (PAC)</p>	 <p>Sariayu Jamu Garden Jamu Martina Berto Tea</p>	 <p>Dewi Sri Spa</p>

## Revenue Generated by Product Categories (YTD June 2010)



Source: Company data

Domestic market contributes more than 98% of the total revenue and the company exports its products to Malaysia, Singapore, Brunei Darussalam, Philippines, Vietnam, the Middle East and USA. Though the present contribution of exports to total revenue of the company is fairly small, the Company has aggressive plans to expand globally.



## Growth Strategy

**Product innovation:** The Company maintains a constant focus on R&D (research and development) to develop beauty products that are ahead of market and competition. Constant innovation and research led to development of 405 products and approximately 1,000 cosmetic formulations between 2007 and 2010. The company invested IDR17.5bn over the last three years in R&D (this figure grew at 5% CAGR between 2007 and 2009).

**Strategic brand positioning:** The Company's brand portfolio targets all socio-economic classes, though they also address all demographic and psychographic sections based on age, gender and consumer behaviour. Of its brands, around 66% target the 26-54 age group, which represents approximately 50% of the Indonesian population. Overall, these brands contribute around 75% of the Company's total revenues. This strategic brand positioning enables it to minimise concentration risks and competition simultaneously.

**Harnessing PT Martha Tilaar shops for customer interface:** PT Martina Berto has always attached considerable importance to understanding customer requirements and product feedback. Consequently, the Company uses Martha Tilaar shops as a 'customer service centre' for its own products. These are important in helping the Company to interact with customers and for accumulating insights on consumer behaviour and products. This process confers on the Company a strategic advantage over other cosmetics manufacturers unable to directly assimilate both retail and customer feedback.

## Distribution network

PT Martina Berto is strongly positioned in all marketing channels in Indonesia, ensuring superior nationwide distribution. This process is managed by its Trade Marketing business which operates the Company's distribution channels and conducts its trade relationships with channel partners. In doing so, it utilises modern trade (e.g. online stores, chain stores and supermarkets) and conventional (e.g. wholesalers, cosmetic retailers, beauty salons and spa) channels to distribute its products.

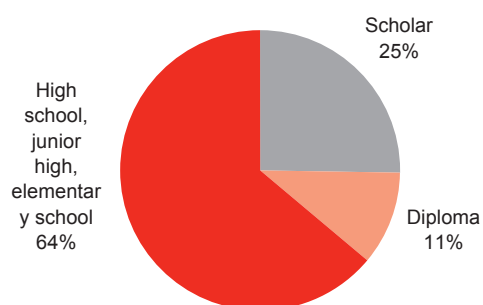
PT Martina Berto is strongly integrated with the Martha Tilaar Group of companies with the following benefits:

- A stronger distribution network through association with PT SAI Indonesia, operators of 14 branches in major Indonesian cities and key provinces
- Enhanced consumer education, promotion and product development through Puspita Martha International Beauty Schools
- Promotional activity management by PT Creative Style
- Supply of spa products through PT Cantika Puspa Pesona, Indonesian and international spa operator
- Labour outsourcing support provided by PT Kreasi Boga Primatama
- International market expansion opportunities, customer support and product promotion through Martha Tilaar Shops.

## Employees

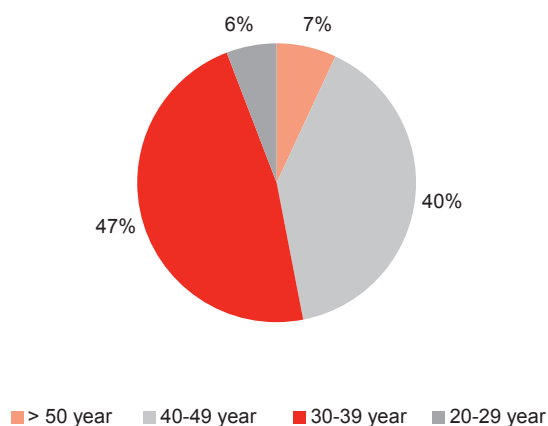
The Company and its subsidiaries employed 995 personnel as of June 30, 2010, some 689 by PT Martina Berto and 113 by its subsidiary PT Cedefindo. By strategic choice, the Company's workforce is both young (over 50% of employees are aged under 40) and highly educated (36% of employees are either scholar or diploma holder).

Composition of Employees by Educational Level



Source: Company Data

Composition of Employees by Level of Age



Source: Company Data

## Management

PT Martina Berto is led by an experienced and seasoned management team, under the aegis of Dr HC Martha Tilaar. The Company leadership has rich educational background and work experience.

### Board of Commissioners

**Dr HC Martha Tilaar**, 73, is the founder and the owner of Martha Tilaar Group and has served as the Commissioner of PT Martina Berto since 2005. She completed Bachelor of Beauty Culture from Bloomington Indiana, USA in 1968 and earned a doctorate in fashion and artistry from the University of Tucson, Arizona, USA in 1984.

**Ratna Handana**, 71, has served as the Commissioner of PT Martina Berto since 2005. She completed S-1 degree in law from University of Indonesia in 1964. She also serves as a Commissioner of PT Martha Beauty Gallery, PT SAI Indonesia, PT Sariayu Prima and PT Cedefindo.

**Kusmayanto Kadiman**, 56, was appointed an Independent Commissioner of PT Martina Berto in 2010. He owns a Masters in Mechanical Engineering from the University of New South Wales, Sydney. He was awarded a PhD from the Australian National University in 1988 and earned S1 degree in Engineering Physics from the Institut Teknologi Bandung (ITB) in 1977.

**Hartanto Santosa**, has served as the CEO of the Martha Tilaar Group since 2005. He has more than a decade of experience in the cosmetics industry.

#### Board of Directors

**Bryan David Emil**, 39, has served as a Director of PT Martina Berto since 2005. He owns a Bachelor of Science in Business Administration from the University of Relands, California, USA. He completed his MBA in 1995 and has a Post Graduate Diploma in Marketing from Warren Keegan Institution, New York City, USA. In 2004 he completed an executive course in Finance and Accounting from Graduate School of Columbia in New York City, USA.

**Drs. Handiwidjaja**, 56, has served as the Finance Director of PT Martina Berto since 2003. He completed his Bachelors in Accountancy from the Academy of Accounting Indonesia in 1979. In 1984 he completed his second Bachelor's degree in Economics from University of Pancasila and in 1987 he completed S1 degree in Management from University of Pancasila. He also serves as the Commissioner of PT Cedefindo.

**Samuel Eduard Pranata**, 37, was appointed the Marketing Director of the Company in 2006. He earned S1 Business Administration from the University of Atma Jaya, Jakarta in 1997. He also completed Master of Science in field of study Administration from Boston University, Massachusetts, USA in 1999.

**Anita Dwiyanita**, 56, promoted as Production Director of the company in 2000. He completed his graduation in Pharmacy from Institut Teknologi Bandung in 1978 and was awarded the title of pharmacist in 1981. He completed his MBA from LPPM (Institute for Management Education and Development), Jakarta in 1991.

#### Overview of facilities

The company currently operates two manufacturing plants for cosmetics and jamu production. All the manufacturing plants have met international quality standards such as Indonesian GMP, ISO 9001 and ISO 14001.

- **Pulogadung Plant:** The Company has two plants in Pulogadung, established in 1981 and 1986 respectively. The Pulogadung Plant, located in the Pulogadung Industrial Estate, is used for cosmetics production. However, the old Pulogadung Plant has already been changed into a sales & marketing office and distribution centre to cater to the wider national and international distribution network (including MTS).
- **Gunung Putri Plant:** The Gunung Putri Plant has been operated through lease and joint operation with PT Essaroma for Jamu production since 1994. However, PT Essaroma purchased the premises from the company in July 2009.

Additionally, PT Martina Berto is also engaged in contract manufacturing through its subsidiary PT Cedefindo, which is engaged in manufacturing of cosmetics, toiletries & fragrances. PT Cedefindo caters to around 25 third party customers including some multinational companies such as Lancome, Oriflame, Chico and Fa, Polycolor, Lip Ice (Rohto Japan).

## 6.2 Key risks

### Macro-economic risks

- Indonesia accounts for 98% of Company revenues. Any threat to / deterioration in economic growth in Indonesia may undermine the Company's business growth.
- Any change in macro-economic factors including employment, income and inflation, which impact consumer markets, may adversely affect the Company's business.

### Industry risks

- A successful cosmetics business largely depends on consumption patterns, any adverse change in which could jeopardise cosmetics industry growth.
- The cosmetics industry is characterised by the presence of major global players with deep market penetration, which may in turn result in industry consolidation, in turn posing business risk to smaller players.

### Company specific risks

- The Company's current saturated manufacturing capacity could result in a future supply / demand imbalance.
- Lack of sufficient information technology infrastructure might limit the efficiency of the Company's operations and increase costs.
- The Company's business is highly dependent on the Martha Tilaar Group with most distribution based on channels created by the parent company.
- The Company procures most of its raw materials and packaging components internationally. Any currency or business fluctuations in sourcing countries may cause sourcing bottlenecks and increase costs.