

POLA ORBIS HOLDINGS INC.**Summary of Key Questions and Answers Concerning the Financial Results for FY2022 Q2**

- Q1. [Market] The company has made a difficult assumption about the external environment in Japan, in the second half of the fiscal year, what level of recovery does the company anticipate?**
- Regarding the domestic cosmetics market, according to statistical data we have, January to March is on a par with the previous year and April to June is a recovery of less than 2%. We had assumed a recovery of around +5% at the beginning of the year, but it has not reached it. We expect the situation to remain severe due to the current situation of the spread of COVID-19 infections.
- Q2. [Consolidated results] Reasons behind the plan for increased revenue and decreased income in the second half of the fiscal year.**
- It is mainly due to a decrease in income from POLA. In the consignment sales channel, revenue is forecast to decline by less than 10%, gross profit will decline and there will be upfront investment during the next fiscal year. Other channels are on a growth track. In domestic e-commerce, the company will accelerate investment to increase its top line. ORBIS reduced advertising investment by around 20% in the first half, but this is because it will make a large promotional investment when a new product is launched in the second half.
- Q3. [Consolidated results] It seems that the number of customers is decreasing throughout the group. CRM is in place, but is the group not making good use of it?**
- It depends on each brand. The brands have different concepts and different situations. However, the changing social environment has made it difficult to take advantage of the strengths of each brand. We have been implementing changes since the pandemic began and from second half of the year onwards, we would like to show you the results of our efforts.
- Q4. [Consolidated results] Regarding decline in revenue, the macro and individual strategies, which one is the main factor? COVID-19 is not a short-term social change but a long-term change. Are there any strategies addressing it?**
- The market contraction is seen as temporary due to changes in behavior and the decline in inbound tourism etc. during the pandemic. In terms of individual strategies, POLA is promoting OMO and ORBIS has new CRM focusing on customer lifestyles. CRM is important from the perspective of increasing market share in a market that is not expected to expand significantly. The company is also advancing initiatives in new areas, such as well-being. We will talk about the future portfolio as soon as the company is ready.
- Q5. [Consolidated results] What is the outlook for travel retail in China and South Korea?**
- For travel retail in South Korea, shipment is being suppressed to prevent price collapses in the Chinese C2C market. Travel retail in China is expected to expand in the future and we will continue opening new stores. From an investment perspective, in travel retail, we are not considering any major investments other than store openings.

By opening stores and strengthening PR through social media in mainland China, the brand presence will increase, which will also lead to the profitability of travel retail.

Q6. [POLA brand] What are the trends by channel in the outlook for the second half of the year?

➔ Regarding the sales, in second half of the year, POLA as a whole is expected to be on par with the previous year (up approximately 0.5% YoY), and we expect consignment sales will be down approximately 10%, overseas will be up 10%, and revenue from domestic department stores and domestic e-commerce will increase.

Q7. [POLA brand] What is the reason behind the significant attrition of customers that are lower than F4 customers (less than four purchases per year) regarding the customer structure of the consignment sales channel?

➔ Although the second purchase rate of new customers has not declined, communication is necessary to increase the subsequent repeat rate. It is important how to appeal to customers about the benefits of coming to our stores, however here we are not able to approach customers as we did conventionally.

Q8. [POLA brand] Are there any factors behind the weak performance other than the difficulty of leveraging the strengths of offline customer service, such as aesthetics?

➔ The main factor behind this is that the number of customers visiting the stores is lower than expected, which is also connect to the reason for the struggle of products other than the B.A series. As a result, number of stores are decreasing, and it is difficult to increase the number of customers even by leveraging CRM. The consignment sales channel is run by sole proprietorships, and smaller scale organizations may not be able to sustain a storefront if sales decline. Concurrent with recovering sales, measures are being taken to minimize the reduction in number of stores.

Q9. [POLA brand] Can we understand that the decline in the number of stores will be a bottleneck in the recovery of the number of customers?

➔ To enable a recovery of the customer base of customers lower than F4, it is important to create a trend where new customers become repeat customers. To do this, the key point is how we ensure that recruited Beauty Directors (BDs) can continue to grow.

Q10. [POLA brand] What about the two ideas of the trend toward BD professionalization and BD recruitment in order to enable customer numbers to recover?

➔ There is no change in the direction of the professionalization of BDs. The idea is to curb the decline in the number of potential professional BDs, instead of pursuing a large quantity of amateurs.

Q11. [POLA brand] What is the progress of horizontal development regarding stores that are utilizing social media, which have been successfully acquiring customers? Also, is there an idea of guiding customers of department store and e-commerce to the consignment sales channel?

➔ Regarding examples of stores' utilization of social media, we have begun to see the results of our efforts since last year. In July, an in-person meeting was held with store managers from across the country to start the second half of the fiscal year and unify their awareness of the current situation and future strategies. We are on the same vector, and there are no barriers to horizontal development. Guiding customers of other channels to the consignment sales channel is a central part of the POLA OMO strategy. We are working to have the system built by FY2023.

Q12. [POLA brand] Do you think that the number of new customers in the consignment sales channel will begin to recover in the second half of the year and that the total number of customers will also increase from the first half of next year, which will enable you to achieve the FY2023 targets in the medium-term plan?

→ Based on the ratio of new customers to existing customers, a full-fledged recovery of the total number of customers is a target from the next fiscal year. Forecasts for FY2023 will be discussed in the future. As the forecasts for the current fiscal year have been revised, next year's forecasts will be considered in the upcoming deliberation of the plan for the next fiscal year.

Q13. [POLA brand] Regarding the expansion of the domestic e-commerce channel, has there been a decline in the rate of growth?

→ Because the cost of customer acquisition is rising, we have to control costs.

Q14. [POLA brand] What is the company's view of the Chinese market?

→ Even after the lockdown ended, there are a variety of restrictions on behavior. We don't have any doubts that the market is improving, although it is slow. Although we struggled to acquire new customers, the brand presence and business model have not been affected, and it is expected to return to a level close to our previous growth potential as the market recovers. We assume the consumer appetite for prestige skincare products will not be significantly shaken.

Q15. [POLA brand] Regarding travel retail in South Korea, what is the outlook for the suppression of shipments in the current fiscal year, and for the next fiscal year?

→ In first half, the sales of travel retail in South Korea decreased approximately ¥2.7 billion. Resale in the Chinese market via travel retail in South Korea could have led to greater brand recognition, however we cannot overlook the situation in which the price collapse has expanded in the Chinese market. As no significant changes have yet been seen in the C2C market as of the first half of the fiscal year, in the second half we will suppress shipments as planned and decide on a shipment policy for the next fiscal year after confirming the situation.

Q16. [POLA brand] Is there still room for cost reduction?

→ Costs will be controlled in accordance with fluctuations in sales, but investment for future growth will be necessary and will be carried out while balancing investment and cost control.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2022 Q2 for POLA ORBIS HOLDINGS INC. in view of fair disclosure while taking responsibility for the summarization. It does not guarantee the accuracy and completeness of the information provided, and such information is subject to change without notice. Statements about the future included in this material, including financial projections, are based on information currently available to us and certain assumptions that are considered reasonable, which do not guarantee the achievement of the projected results. The actual financial results may vary from such forecasts depending on the economic situation and various other uncertain factors.