

**POLA ORBIS HOLDINGS INC.****Summary of Key Questions and Answers Concerning the Financial Results for FY2023 Q2**

- Q1. [Consolidated results] What is your view of marketing investments in the revised full-year forecast?**
- First, the first-half expenses were about ¥2 billion less than expected, mainly for POLA and ORBIS. The reason for the lower expenses was that marketing activities could not be carried out due to a temporary shortage of inventory because of better-than-expected sales of some products. Of that first half cost reduction, approximately ¥1.5 billion was shifted to the second half to strengthen the customer base. However, by controlling execution while checking the return on investment, we would like to pursue profitability in excess of the plan and increase operating income as much as possible. In addition, in order to realize sustainable growth and improved profitability during the next fiscal year and beyond, the company will make additional investments while assessing whether or not such investments will lead to future growth in terms of customer retention and LTV (lifetime value) improvement.
- Q2. [Consolidated results] Is it correct to assume that if marketing investments result in higher sales, operating income will also be higher?**
- Yes, however, given the negative Chinese market environment relative to expectations and the higher hurdles in the second half compared to the first half, we aim to achieve sales in line with the plan.
- Q3. [Consolidated results] Regarding profitability in the next fiscal year and beyond, will the company return to a structure that allows marginal profit to accompany by increased sales to contribute to profits?**
- The company intends to return to that structure. We believe that any increase in profitability is based on the customer structure, and this fiscal year, we will increase the number of new customers and halt the decline in the number of customers. To achieve this, we need to invest in marketing. And by increasing the number of existing customers, the company will be able to more efficiently control SG&A expenses, which will lead to improved profitability.
- Q4. [POLA brand] The YoY sales ratio of the consignment sales channel appears to be slowing compared to the first quarter, what is the current situation and what is the future?**
- Although the YoY comparison is smaller because of differences in the market environment for the same period of the previous year, we do not consider the situation to have worsened compared to the first quarter. Regarding the awareness of the issue, the number of new customers is increasing YoY as a business combining the consignment sales channel, department store and e-commerce channels in Japan, but the consignment sales channel is weaker than expected. The company's ongoing theme is to promote digitalization, including the effective use of social media etc. at each store, and promote the OMO (Online Merges with Offline) strategy by implementing ways to connect the digital channel to the real channel. In the second half of the fiscal year, we plan to develop

communications for aesthetic services to encourage store visit, which is one of our main features. As for the annual forecast, the company revised its annual sales forecast for the consignment sales channel from +3.5% YoY to +2% YoY in light of the customer acquisition status in the first half of the fiscal year. On the other hand, the company expects growth in department stores and e-commerce to cover the entire domestic businesses.

**Q5. [POLA brand] What are the reasons for the struggle to acquire new customers in the consignment sales channel?**

➔ The flow of new customer acquisitions is changing. The general purchasing behavior of the consumer is now based on the trend to make purchases after acquiring information online through social media, etc. In our company, new customer acquisitions through e-commerce and department stores as entry channels are strong. Therefore, the key point is finding ways to lead customers who have made contact with us digitally to our consignment sales channel stores. Stores that are able to effectively use store social media accounts are doing well in acquiring new customers. The skill level required for digital sales activities needs to be improved.

**Q6. [POLA brand] What is the number of Beauty Directors (BDs) and number of stores in the consignment sales channel?**

➔ The number of BDs was about 25,000 as of the end of June 2023, which was almost unchanged from the first quarter. The number of stores has been decreasing because of the impact of the struggle to acquire customers up to the previous year, but the company hopes that this will bottom out as performance improves.

**Q7. [POLA brand] What is the future outlook for B.A MILK FOAM?**

➔ The annual plan of ¥1 billion has already been achieved as of the first half. We will strengthen our marketing and aim to increase sales in the third quarter when inventory is ready.

**Q8. [POLA brand] Please describe the changes in the external environment, the progress made in the first half, and the outlook for the second half in China.**

➔ China was in lockdown last year, and the business plan for this fiscal year was to anticipate a recovery of the lockdown. However, the Chinese economy is not as strong as we had assumed, and on Hainan Island, customers are cautious about making purchases. In the first half, POLA's China business increased sales by about 20% because of the expansion of customer contact points and the growth in aesthetic treatment sales, but sales did not reach the plan. As a result, at the beginning of the period, we projected annual sales of ¥21 billion for the overseas business as a whole, but we lowered our outlook for China, and revised downward the overseas business sales as a whole to ¥19.5 billion. In the second half, we aim to achieve higher sales growth than in the first half with our highly differentiated new product, B.A. MILK FOAM. Regarding the topic of treated water from nuclear power plants in Japan, we understand that the impact has subsided since June, but we will continue to monitor the progress of the issue.

**Q9. [POLA brand] What is the status of Korean duty-free?**

➔ The Company has suppressed shipments to the Korean duty-free channel since 2022 and continues to do so because there has been no recovery in the number of Chinese travelers at this time. In addition, there is a policy for resellers at duty-free stores, which makes it difficult to read the retail situation. Although sales increased in the first half because of the shipping timing, sales for the year are expected to be at the same level as the previous year.

**Q10. [ORBIS brand] What are the reasons for the growth of external channels and how sustainable are they?**

- ➔ External channels are mainly platforms, such as Amazon. During the COVID-19 pandemic, the purchasing behavior of consumers through e-commerce platforms has become more common. We have been able to effectively reach a customer base that it had not been able to reach through direct selling. We recognize that its future theme is finding ways to create deeper relationships with the customers acquired through external channels and to improve the retention rate through the use of apps.

**Q11. [ORBIS brand] What is your outlook for profitability and future development?**

- ➔ Direct selling channel is the most profitable for ORBIS, but the profitability of external channels is also at a sufficient level. While there is room for expansion in the external channels, the highest priority for the brand is direct selling, and for now, we believe it is important to strengthen the direct selling customer structure and put the company on a growth trajectory.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2023 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.