

POLA ORBIS HOLDINGS INC.**Summary of Key Questions and Answers Concerning the Financial Results for FY2023****Q1. [Market] What is your outlook for the Chinese cosmetics market?**

→ The plan is based on a low single-digit growth rate from FY2024 to FY2026. We are taking a conservative view of trends in the first half of FY2024. Although we expect the growth rate to be smaller than in the past, the market size is large, and we will continue to position it as a priority market for us.

Q2. [Consolidated results] What are the details of the impairment losses in FY2023?

→ Impairment losses of about ¥900 million were recorded for the FUJIMI brand, and asset impairment losses, such as stores, etc. were recorded for several other brands.

Q3. [Consolidated results] The Beauty Care business has a large increase in income compared to the increase in revenue in FY2024. What is your approach to marketing expenses?

→ By brand, POLA plans an increase in income of about 16% on an increase in revenue of about 3.5%, while ORBIS plans an increase in income of about 12% on an increase in revenue of about 5%. There is also the effect of improving losses from unprofitable brands. Although we do not intend to cut expenses significantly, we invested more in sales related expenses in FY2023 than in a normal year because it is a year of investment in customer acquisition. As a result, the composition of sales related expenses is expected to be lower in FY2024 than in the previous year. The plan is basically based on the policy of limiting the increase in expenses to less than the rate of revenue growth.

Q4. [Consolidated results] What are the reasons for the deterioration of the reconciliations segment in the FY2024 forecast?

→ The increase in digital technology and human resource investments for the entire group is the main factor. In addition, development costs related to new businesses and variable costs due to an increase in the number of individual shareholders are also impacting the situation. For 2025 and beyond, no further cost increases are planned, and in the 2024-2026 mid-term management plan, the Company intends to increase the overall consolidated operating margin, including such company-wide investments.

Q5. [Consolidated results] What is the operating margin outlook for each brand in FY2026?

→ On a consolidated basis, the Company aims for an operating margin of 12% to 13% in FY2026, which will be around 3% higher than in FY2023. Major brands are expected to improve at the same level.

Q6. [Consolidated results] What changes do you expect from the establishment of a company to oversee management for your Chinese business?

→ We cannot survive in the market without speedily executing an optimal strategy as a group, rather than optimizing on a brand-by-brand basis as we have done in the past. We want to accelerate business development centered on POLA by investing management resources in a concentrated and effective manner.

Q7. [Consolidated results] Please tell us about your Next Market development in your overseas strategy.

→ After mainland China, ASEAN is the Next Market where we want to accelerate growth. And as in mainland China, we will quickly shift from a brand-by-brand approach to a management structure that allows us to strategically develop which brands in which regions as a group. In the market for prestige and above, further expansion is expected, and we have positioned POLA as our most important brand during this three-year period.

Q8. [POLA brand] What is the balance between revenue growth rate and income growth rate in FY2024?

→ There will be an improvement in the channel mix: revenue will increase in channels with relatively high operating margins for POLA, such as e-commerce, department stores, and the hotel amenities business. In FY2023, POLA invested in acquiring new customers, which halted the decline in the number of customers for the domestic business as a whole. Promoting the repeat business of acquired customers is more profitable than acquiring new customers. Increasing the composition of existing customers will contribute to improving profitability.

Q9. [POLA brand] When will the consignment sales channel turn to increase revenues in FY2024?

→ We believe the turn will come from the second half of 2024. The decline in revenue in the consignment sales channel in FY2023 was largely due to a decrease in the number of stores and customers, but the impact of the decline in both of these factors has been shrinking. For the POLA brand as a whole, sales recovery is planned mainly in the second half of the year.

Q10. [POLA brand] What is the number of Beauty Directors?

→ The number is 23,000 as of the end of 2023. Although there is a possibility that the number will decrease from this point, we will continue to recruit. At the same time, we will also focus on the quality perspective of how we can deepen relationships with our customers.

Q11. [POLA brand] What is behind the shift in strategy from investing in new customer acquisition to building up existing customers?

→ In FY2023, the Company invested in new customer acquisition and increased the number of new customers, but for the next three years, the Company plans to shift its focus to turning customers into repeat customers instead of investing in new customers. Rather than not investing in new customers, the Company will continue to acquire a certain number of new customers but will increase the total number of customers by building up existing customers and increase the lifetime value of each customer in order to improve the profitability of the brand.

Q12. [POLA brand] What is the difference between the new salon model and the existing POLA THE BEAUTY model?

→ While the Company has been promoting Online Merges with Offline (OMO) and sending customers acquired online to its physical stores, there was a gap between store locations and customer needs. In urban areas, some stores have a high percentage of customers in their 20s, and many loyal customers of B.A are in their late 30s and 40s. The idea is to relocate stores that are easily accessible to such working women and offer high quality service to suit the customers' lifestyles. In terms of how to develop the new salon model, the Company plans to open completely new, larger stores with more aesthetic beds than before as well as renovate existing stores. In addition, the new salon model is not necessarily under direct management because it is considering the business sense and expertise of the consignment sales field to be utilized.

Q13. [POLA brand] Please tell us about the capital investment and running costs of the new salon model and the selection of target stores.

→ Investments in the POLA brand are not planned to increase all at once in FY2024. It depends on preconditions, such as the location and scale, etc. of the stores, and whether it is opening new stores or renewing existing stores. The first store will be launched and verified first. Specific adjustments are being made to the location and conditions, etc. for the first store, which is scheduled to open this year. We have made some progress in narrowing down the 300 aesthetic salons that we aim to open in the future.

Q14. [POLA brand] How will the new strategy for the Chinese business change from the previous high prestige strategy?

→ There are several tiers within the broad category of high prestige. Among the stores that have opened, those with a large number of customers whose annual purchases exceed a certain amount have stable performance, which is largely due to their location and commercial area. The Company intends to focus more narrowly on customers who make stable personal investments that are less susceptible to economic trends and to focus on deepening relationships with them. Rather than increasing the number of stores, POLA will increase communication with customers and increase brand experience opportunities, such as workshops, etc. for customers. The Company will also promote the verification of a new store model that can maximize the value provided in this way.

Q15. [POLA brand] How will the product strategy of the Chinese business change?

→ The Chinese market is characterized by a tendency for single product nomination purchases to be concentrated on star products that have good reviews and become a hot topic. The presence of star products is a good thing in itself as it leads to brand recognition, but the key is how to get customers to become fans of the brand through cross-selling. The Company intends to promote cross-selling with higher-priced, use-effective products, such as B.A series cream and the premium line, GRANDLUXE, in order to raise the level of service and the average purchase per customer.

Q16. [Brands under development] What is the background for the improvement in operating income across brands under development in October-December FY2023?

- ➔ The overall result of these factors: increased income from higher revenue at DECENCIA, reduced losses from the brand discontinuations of Amplitude and ITRIM, and more efficient marketing expenses to bring THREE and FUJIMI turn into the black.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2023 Q4 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.