

# Third Quarter of Fiscal 2016 Supplementary Material

---

POLA ORBIS HOLDINGS INC.  
Director and Vice President  
Management Planning, Accounting and  
Global Business Division  
Naoki Kume

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts and Initiatives for Fiscal 2016
4. Topics and Appendix

## Cosmetic Market

- Japanese cosmetic market seemed to progress steadily in spite of the decline in inbound growth and pure domestic demand seemed to be flat compared to last year.\*
- Overall Chinese market continued to show the trend that consumption moves from urban department stores to rural areas, online, and cross-border EC.

\*Source: Ministry of Economy, Japan Department Stores Association Trade and Industry, Ministry of Internal Affairs and Communications, Intage SLI.

## Our Group

- Consolidated sales and operating income were up yoy driven by the flagship brand POLA and brands under development.
- POLA outperformed expectation although 3Q was a tough comparison due to renewal of “B.A” series last year.
- ORBIS attained sales growth, however, operating income declined slightly due to increase of in point expenses.
- As for overseas brands, Jurlique struggled while H2O PLUS has made the revamped products available at stores.
- THREE and decencia from brands under development category sustained strong performance and exceeded the expectation. The Group decided to transfer of all shares of pdc INC. and FUTURE LABO INC.

## Reference: Updates on inbound sales

- As of FY2015 Q3(cum): Approx. a little less than 5% of consolidated net sales  
Inner Lock IX was launched in February and inbound significantly increased in 3Q.



- As of FY2016 Q3(cum): Approx. a little less than 7% of consolidated net sales  
POLA products such as Inner Lock IX, B.A skincare and beauty/health food remained popular.



- Estimate for FY2016 full-year : Approximately 6% of consolidated net sales  
(For FY2015 full-year, inbound accounted for around 5%)



WHITE SHOT  
Inner Lock IX

B.A  
The Tablet

(mil. yen)	FY2015	FY2016	YoY	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Consolidated net sales	152,503	159,150	6,647	4.4%
Cost of sales	29,081	29,890	809	2.8%
Gross profit	123,421	129,260	5,838	4.7%
SG&A* expenses	108,174	110,949	2,775	2.6%
Operating income	15,247	18,310	3,062	20.1%

\*Selling, General and Administrative Expenses

### Key Factors

- Consol. net sales** Driven by the inbound sales at POLA and growth at brands under development, domestic brands achieved increases in sales.  
 As for overseas brands, Jurlique struggled at Hong Kong and DFS whereas H2O PLUS made the revamped products available at retail stores.  
 Overseas sales ratio: 8.2%
- Cost of sales** Cost of sales ratio improved both at flagship brands and brands under development.  
 Cost of sales ratio FY2015Q3: 19.07 % ⇒ FY2016Q3: 18.78 %
- SG&A expenses**
  - Labor expenses : down ¥ 1,054 mil. YoY  
 -> Due to the change of business model of Jurlique in China
  - Sales commissions : down ¥ 239 mil. YoY
  - Sales related expenses : up ¥ 3,479 mil. YoY  
 -> Of which ¥1,871 mil is due to classification changes in POLA's commission system.
  - Administrative expenses : up ¥589 mil. YoY
- Operating income** Beauty care : up ¥3,575 mil. YoY

## Analysis of Consolidated P&L Changes

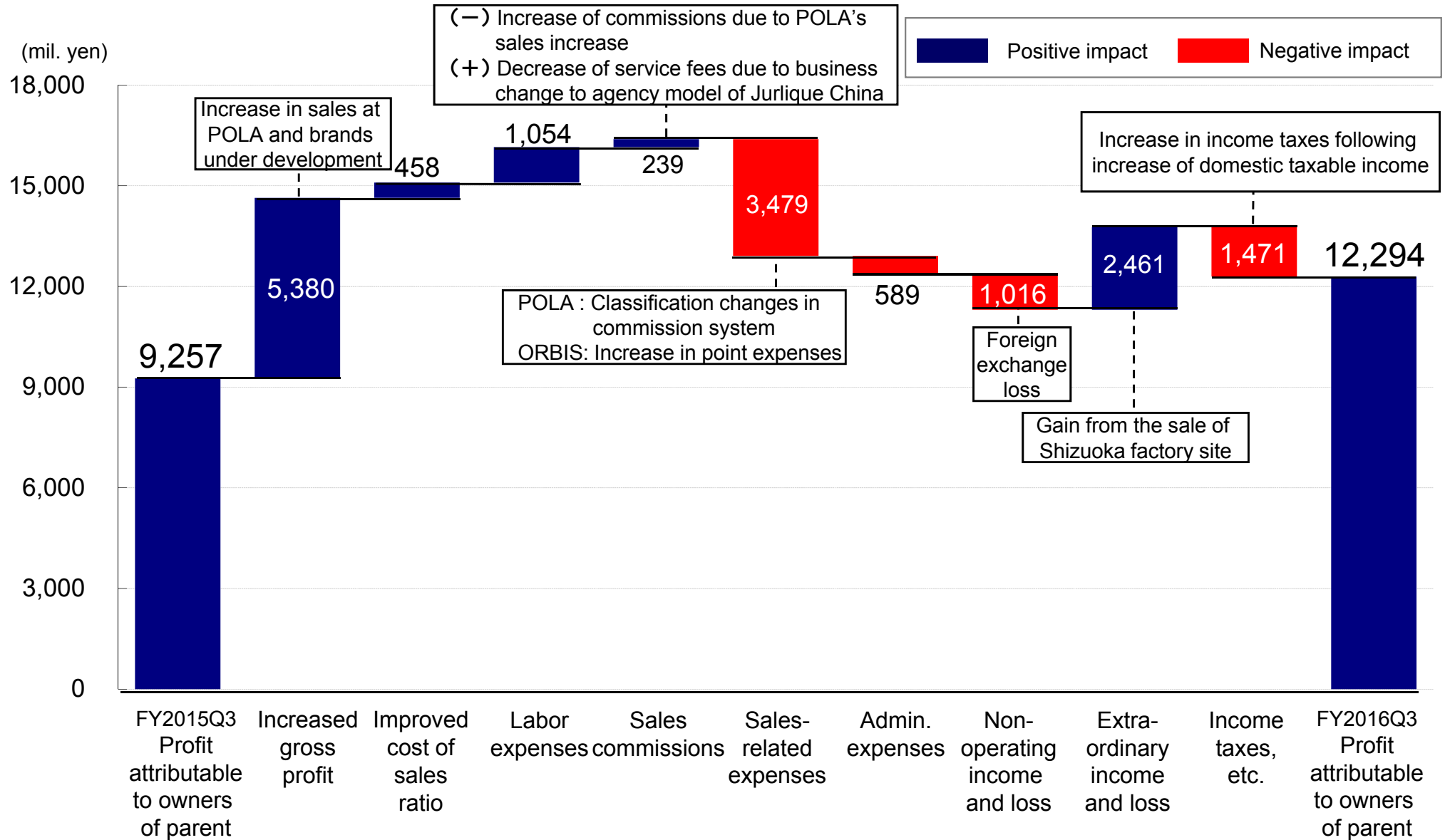
### Operating Income to Profit Attributable to Owners of Parent

(mil. yen)	FY2015	FY2016	YoY	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Operating income	15,247	18,310	3,062	20.1%
Non-operating income	457	342	(114)	(25.1%)
Non-operating expenses	301	1,202	901	299.2%
Ordinary income	15,404	17,450	2,046	13.3%
Extraordinary income	543	3,034	2,491	458.8%
Extraordinary loss	201	231	29	14.8%
Profit before income taxes	15,745	20,253	4,507	28.6%
Income taxes	6,454	7,945	1,491	23.1%
Profit attributable to non-controlling interests	33	13	(20)	(59.8%)
Profit attributable to owners of parent	9,257	12,294	3,036	32.8%

#### Key Factors

- Non-operating expenses : Loss from unfavorable foreign exchange: ¥939 mil.
- Extraordinary income : Gain from sales of the land of former factory site in Shizuoka, as announced on February 15<sup>th</sup>, 2016 : ¥2,989 mil.
- Income taxes : Increase in income taxes following increase of domestic taxable income: ¥1,547 mil.

Profit attributable to owners of parent was up 32.8% yoy. Increases in gross profit and extraordinary income offset non-operating expense from unfavorable currency exchange and increased income tax expenses.



1. Highlights of Consolidated Performance
2. **Segment Analysis**
3. Forecasts and Initiatives for Fiscal 2016
4. Topics and Appendix

(mil yen)	FY2015	FY2016	YoY	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Consolidated net sales	152,503	159,150	6,647	4.4%
Beauty care	142,005	147,308	5,302	3.7%
Real estate	2,198	2,285	87	4.0%
Others	8,299	9,556	1,257	15.2%
Operating income	15,247	18,310	3,062	20.1%
Beauty care	14,128	17,703	3,575	25.3%
Real estate	911	1,188	277	30.5%
Others	398	(197)	(596)	-
Reconciliations	(190)	(384)	(193)	-

## Segment Results Summary

- Beauty care** POLA and brands under development contributed to the sales growth. Operating income increased by 25.3% driven by improvements in profitability mainly at POLA.
- Real estate** Maintained high occupancy rate resulted in increased sales and operating income.
- Others** At pharmaceutical business, two new drugs boosted the sales however didn't hit the budgets. There is a delay in recouping initial promotion expenses for a newly-introduced drug. At building maintenance business, sales remained flat and o/p increased slightly yoy.



## Beauty Care Business Results by Brands

(mil. yen)	FY2015	FY2016	YoY	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Beauty care net sales	142,005	147,308	5,302	3.7%
POLA	76,382	83,543	7,161	9.4%
ORBIS	41,702	41,982	279	0.7%
Jurlique	12,196	8,800	(3,395)	(27.8%)
H2O PLUS	2,914	1,891	(1,022)	(35.1%)
Brands under development	8,809	11,089	2,280	25.9%
Beauty care operating income	14,128	17,703	3,575	25.3%
POLA	8,499	11,757	3,257	38.3%
ORBIS	8,562	8,368	(193)	(2.3%)
Jurlique	(1,543)	(1,711)	(168)	-
H2O PLUS	(1,349)	(1,516)	(166)	-
Brands under development	(40)	806	846	-

Note: Consolidated operating income and loss for each brand are shown for reference purpose only (figures are unaudited)

### Q3 Result

- Inbound sales ratio is approximately 12%. Aging-care and whitening products continued to be strong.
- PB<sup>(1)</sup> channel sustained a high level of growth.
- As of 3Q, POLA has outperformed expectation.

Q3 (YTD)	Results (mil. yen)	YoY change
Net sales	83,543	9.4%
Operating income	11,757	38.3%

#### Key indicators

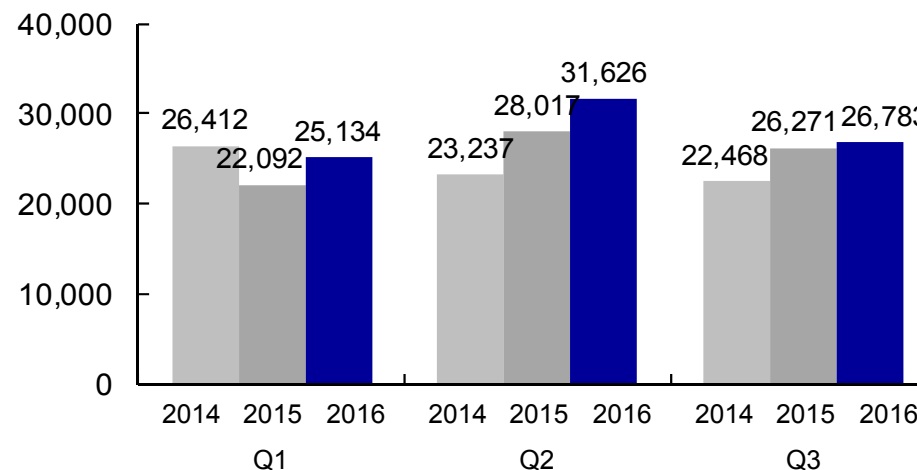
Number of sales offices (vs. Dec. 2015)		4,623 (down 133)
Number of PB <sup>(1)</sup> (vs. Dec. 2015)		636 (up 6)
Cosmetic sales ratio	PB <sup>(1)</sup>	42.4%
	Esthe-inn	42.9%
	D2D <sup>(2)</sup> and other	14.7%
Sales growth*	PB	up 18.0%
	PB (like-for-like)	up 17.8%
	Esthe-inn	up 9.6%
	D2D	down 9.5%
Purchase per customer*		up 2.8%
Number of new customers*		up 9.8%

### Topics

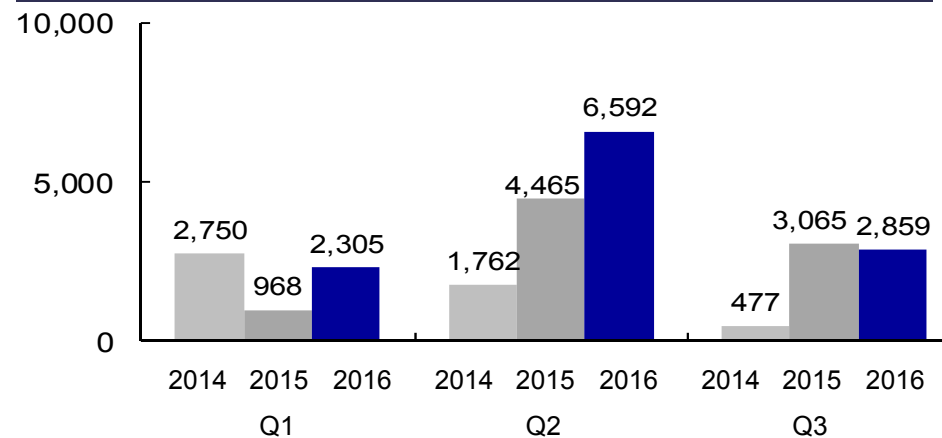
- Launched a facial cream from the popular “Whiteshot” series (July 1<sup>st</sup>). Sold 63,000 items in the first month and recorded significantly higher sales amount than initial plan.



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



(1) PB: POLA THE BEAUTY stores (2) D2D: Conventional door-to-door \*YoY

### Q3 Result

- Sales increased due to increase of the number of customers.
- Operating income decreased due to increased point expenses pushed by promotions and purchase price per customer lower than expectation.

Q3 (YTD)	Results (mil. yen)	YoY change
Net sales	41,982	0.7%
Operating income	8,368	(2.3%)
Key indicators		
Sales ratio	Online	45.2%
	Other mail-order	28.3%
	Store and overseas	26.5%
Sales increase*	Online	up 3.4%
	Other mail-order	down 4.2%
	Stores and overseas	up 1.6%
Mail-order <sup>(1)</sup> purchase per customer*		down 0.8%
Number of mail-order <sup>(1)</sup> customers*		up 1.1%
Mail-order <sup>(1)</sup> skincare purchase ratio*		up 1.0%

\* YoY basis

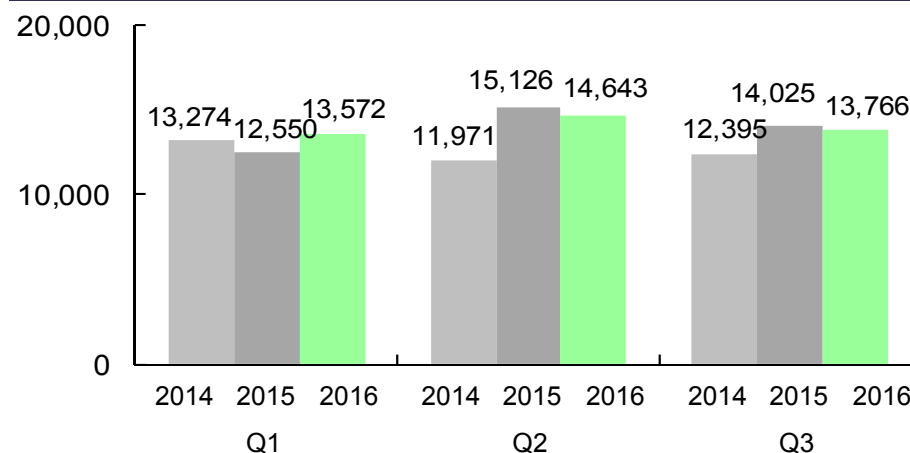
(1) Mail-order includes online and other mail-order

### Topics

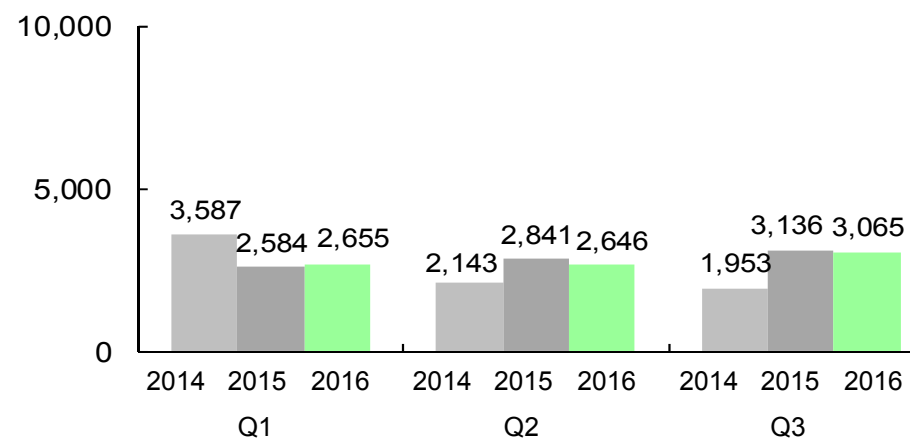
- Introduced items with seasonal appeal such as color makeup for autumn.



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



### Q3 Result

- Sales decreased by 17% (AUD basis).
- Sales in China remained at same level as last year in retail basis.
- Hong Kong and DFS both continued to struggle.
- Operating income dropped yoy because of the decrease in sales, but improved as a quarter in 3Q.

Q3 (YTD)	Results (mil. yen)	YoY change <sup>(1)</sup>
Net sales	8,800	(27.8%)
Operating income (before goodwill amortization)	(1,204)	(242)
Operating income	(1,711)	(168)
Key indicators		
Number of doors in China (vs. Dec. 2015)		117 (up 3)
Sales ratio	China	21%
	Hong Kong	14%
	Duty free stores	18%
	Australia	29%
Sales growth <sup>(2)</sup>	China	down 41%
	Hong Kong	down 15%
	Duty free stores	down 16%
	Australia	up 3%

(1) For operating income YoY difference is shown in amount (mil. yen).

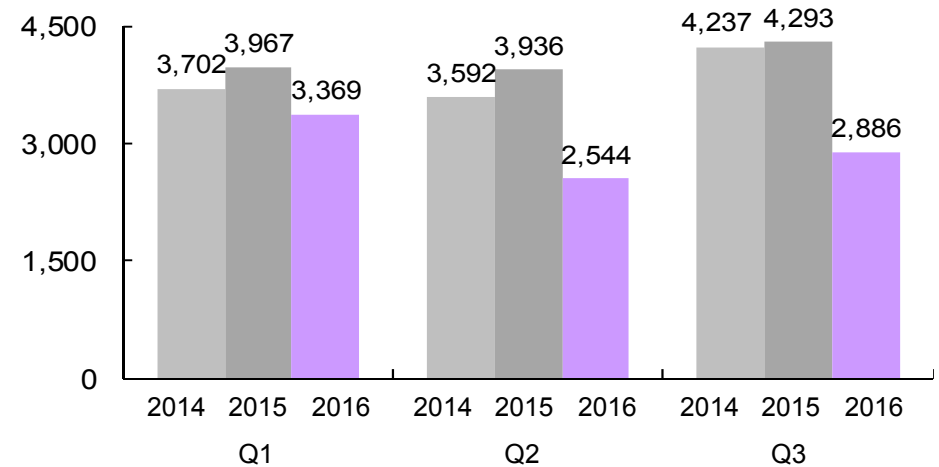
(2) AUD basis, YoY

### Topics

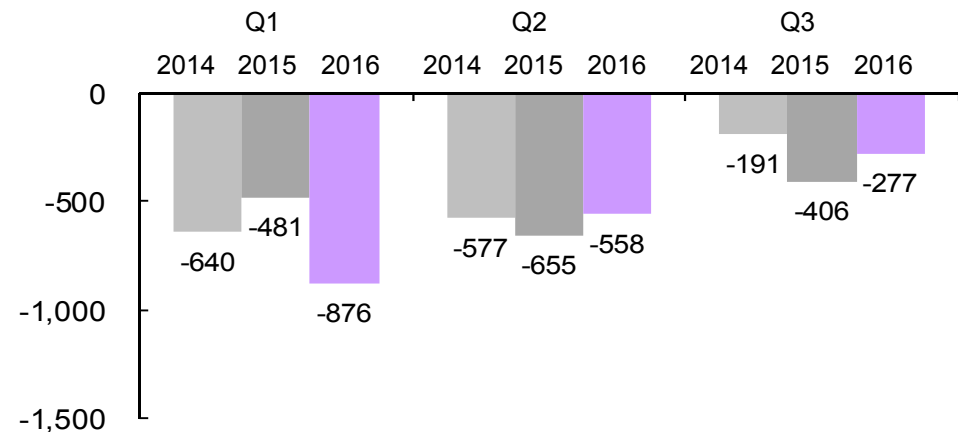
- Launched Jurlique Hydrating Water Essence (August 25<sup>th</sup>).



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



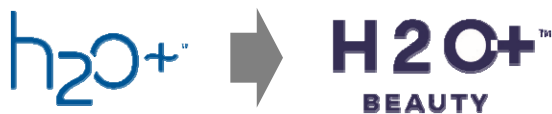
## Q3 Result

- In North America, revamped products became available at stores from September (mainly at ULTA Beauty).
- Operating loss recovered on a quarterly basis.

Q3 (YTD)	Results (mil. yen)	YoY change <sup>(1)</sup>
Net sales	1,891	(35.1%)
Operating income	(1,516)	(166)
Key indicators		
Number of doors in China (vs. Dec. 2015)		0 (down 71)
Sales ratio	China	3%
	North America	84%
Sales growth <sup>(2)</sup>	China	down 85%
	North America	down 5%

(1) For operating income YoY difference is shown in amount (mil. yen).

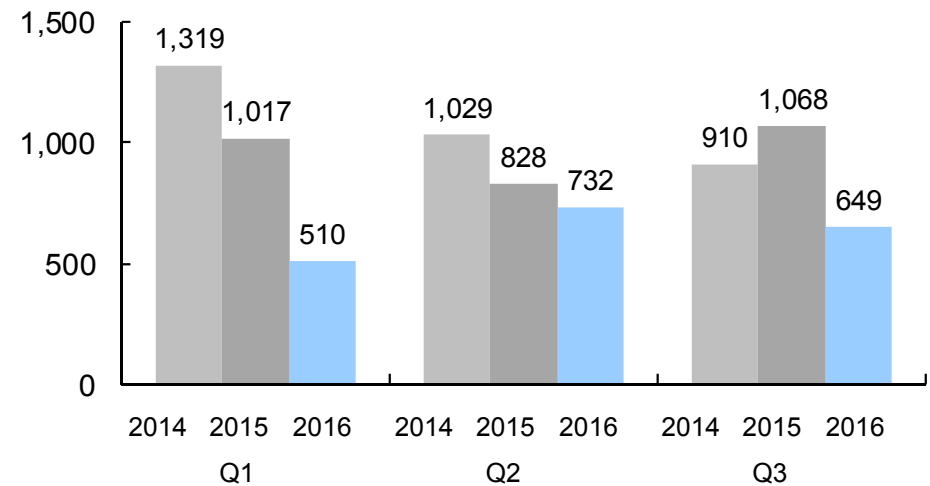
(2) USD basis, YoY



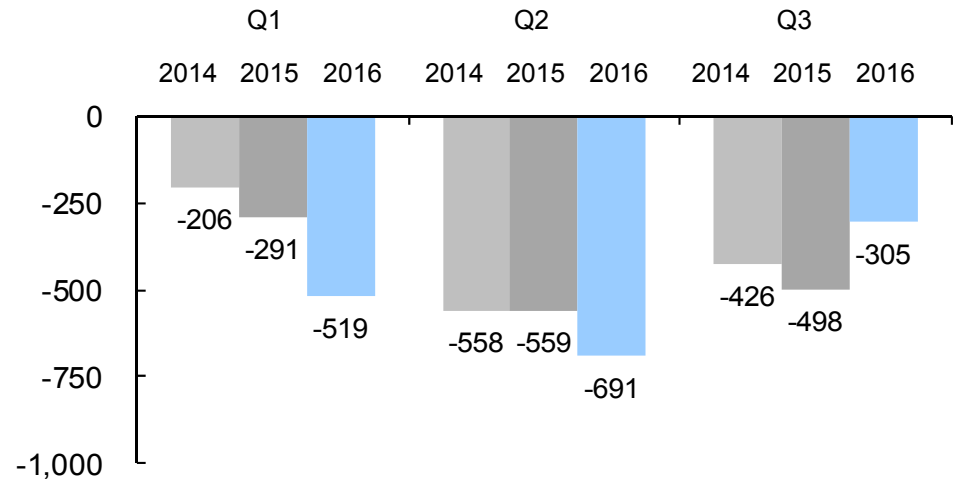
## Topics

- Withdrawal from China will be completed by the end of 2016.

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



## Q3 Result

- At THREE, new stores and existing stores both performed very well and sales were approximately up 50% yoy.
- At decencia, the number of customers has steadily increased and sales were approximately up 60% yoy.
- As announced on October 3<sup>rd</sup>, all shares of pdc INC. and FUTURE LABO INC. were decided to be transferred.

Q3 (YTD)	Results (mil. yen)	YoY change*
Net sales	11,089	25.9%
Operating income	806	846
Key indicators		
THREE	Dept. store counters in Japan	33
	Other stores in Japan	47
	Overseas stores (Thailand, Taiwan, Indonesia, Malaysia and Hong Kong)	23

\*For operating income YoY difference is shown in amount (mil. yen).

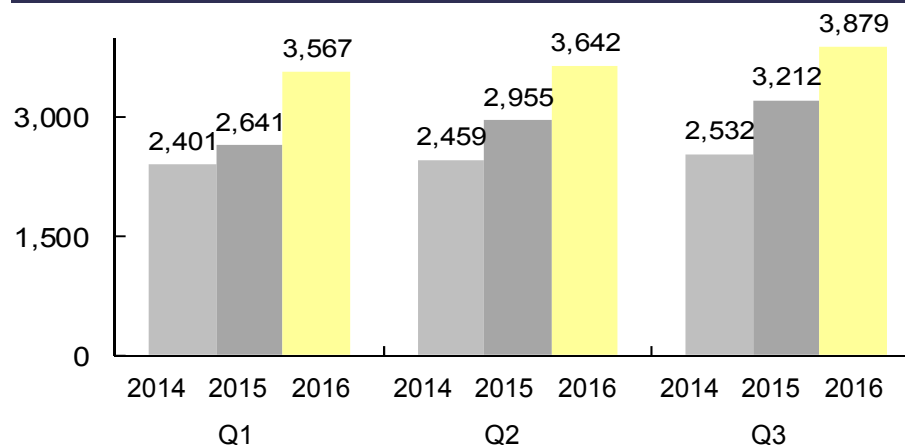
## Topics

- THREE:  
in July, e-commerce started in Japan.  
in September, opened stores in Hong Kong.

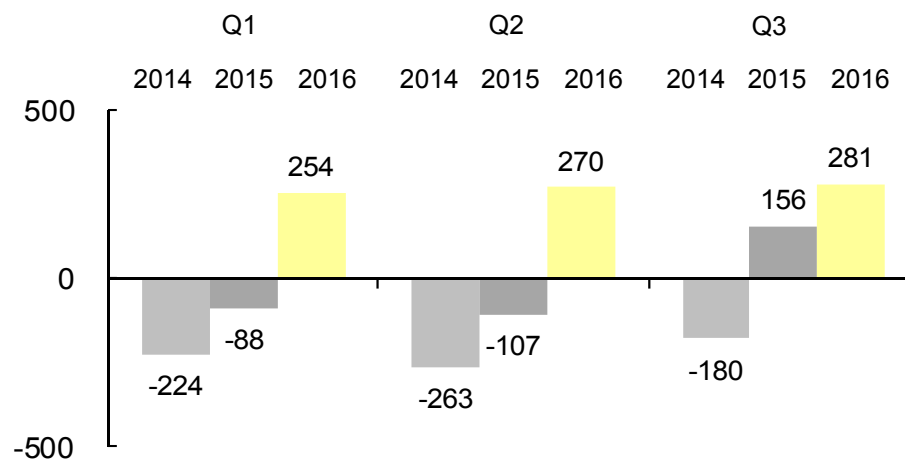


THREE Official Online Shop

### Quarterly net sales (mil. yen)



### Quarterly operating income (mil. yen)



1. Highlights of Consolidated Performance
2. Segment Analysis
3. **Forecasts and Initiatives for Fiscal 2016**
4. Topics and Appendix

Aim to achieve increase in sales and operating income for the 7<sup>th</sup> consecutive year and achieve the Mid-term Management Plan

(mil. yen)	FY2016 Full-year Plan	YoY change		FY2016 Q3 (YTD)	YoY change	
		Amount	%		Amount	%
Consol. net sales	223,000	8,211	3.8%	159,150	6,647	4.4%
Beauty care	206,000	5,429	2.7%	147,308	5,302	3.7%
Real estate	2,900	(51)	(1.8%)	2,285	87	4.0%
Others	14,100	2,833	25.2%	9,556	1,257	15.2%
OP income	26,000	3,488	15.5%	18,310	3,062	20.1%
Beauty care	24,800	3,509	16.5%	17,703	3,575	25.3%
Real estate	1,300	34	2.7%	1,188	277	30.5%
Others	600	306	104.2%	(197)	(596)	—
Reconciliations	(700)	(360)	—	(384)	(193)	—
Ordinary income	25,300	2,940	13.2%	17,450	2,046	13.3%
Net income attributable to owners of parent	17,200	3,104	22.0%	12,294	3,036	32.8%

【Assumption of the Plan】 Assumed exchange rates: 1.00 AUD = 82JPY(PY 91.06) 1.00 USD = 112JPY (PY121.04 ) 1.00 CNY = 17JPY(PY 19.21)

• Inbound sales in 2H is approximately 7 billion yen, a slight decline compared to 2015.

• Impact of the transfer of shares of pdc INC. and FUTURE LABO INC. is not included in the forecast above as the transfer is not completed yet.

	FY2015	FY2016 (Plan)
Shareholder return	Annual ¥150 Consol. payout ratio 58.8%	Annual ¥200 (Interim ¥90, Year-end ¥110) Consol. payout ratio 64.3%
Capital investment	¥12,074 million	¥8,000 million
Depreciation	¥6,528 million	¥7,000-8,000 million



## Realizing 2014 - 2016 Medium-term Management Plan

### ■ Sustain stable growth of flagship brands to lead Group earnings



- Launch a limited item from the flagship “B.A” series and promote a high-prestige serum.
- Implement strategic investments for promotion of “Wrinkle Shot Medical Serum”, the first-ever quasi-drug that claims for wrinkle-improving function to be launched in Japan.
- In order to increase customer purchase price, take measures to enhance number of items purchased per customer by introducing limited products for cross-selling and increase customer contact.



POLA B.A Precious Box

### ■ Overseas brands contributing to profitability through high sales growth



- Stimulate repeat customers’ interest by promoting holiday items for year-end shopping season.
- Aim for efficient management of stores and growth at existing stores in China.
- Focus business resource on prestige channels in North America in order to increase retail sales and improve profitability.



Jurlique Hand Care Collection

### ■ Sales growth and monetization of brands under development



- Develop marketing focusing on new products for Autumn/Winter season.
- Start the new branding strategy from November; fully renew the “ayanasu” series.

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts and Initiatives for Fiscal 2016
4. **Topics and Appendix**

Stock transfer of pdc and FUTURE LABO is scheduled to be completed in 2016 Q4

**【Objectives】**

- To review the brand portfolio as a part of multi-brand strategy of the Group.
- To achieve the long-term vision, “Highly Profitable Global Company” and attain operating margin at the top level in the industry (13%-15%).
- To take initiatives to “further strengthening domestic earnings structure” and “improving capital efficiency” for enhancing corporate value.



The Group will replenish the brand portfolio in the next medium-term management plan



- Scheme : 100% stock transfer
- Transfer price : 1,200 million yen
- Sales : 2,704 million yen (FY2015)
- O/P : 8 million yen
- Net profit : 2 million yen
- Transfer date : Early in December (tentative)  
(Expected closing date)

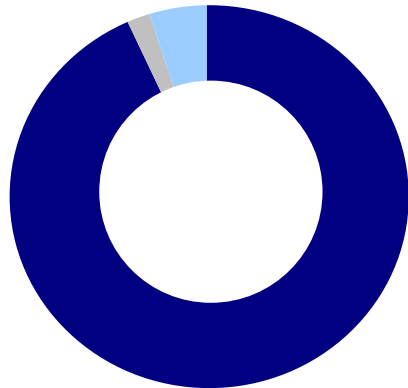
- Scheme : 100% stock transfer
- Transfer price : 1,200 million yen
- Sales : 1,351 million yen (FY2015)
- O/P : -234 million yen
- Net profit : -144 million yen
- Transfer date : Early in November (tentative)  
(Expected closing date)

- Expected Impact for the current fiscal year results :  
Sales : about - 700 million yen      O/P : about - 50 million yen      Net profit : about +1,000 million yen  
(extraordinary gain + tax refund)

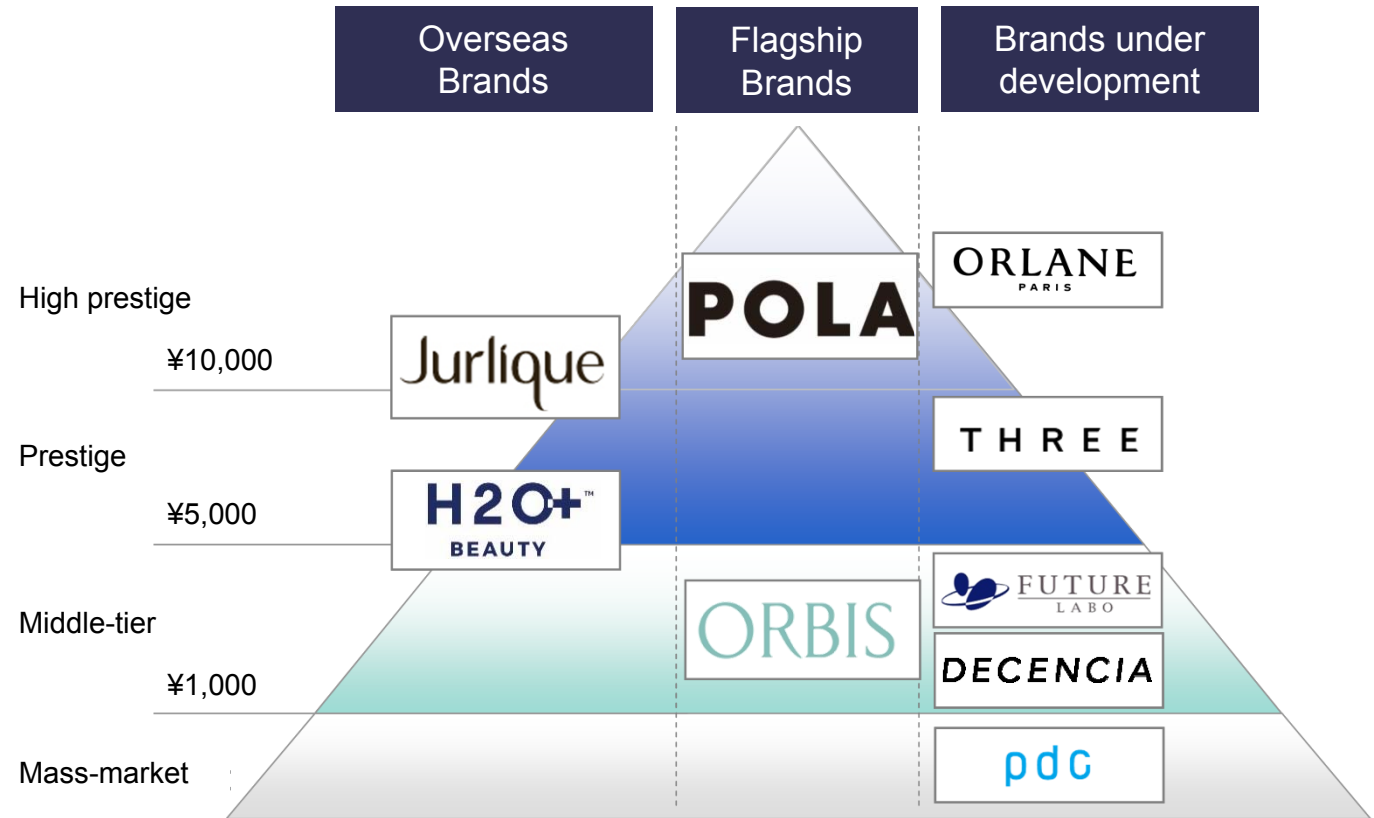
- Impact of the factors above are yet to be included in the forecast as it is in progress before closing.  
The transfers will be completed in 2016 Q4 and the two companies will be removed from consolidation thereafter.

Beauty care is the core business of the Group, and 9 different cosmetic brands are operated under the Group umbrella.

FY2015  
Consol. Net Sales  
¥214.8 bil.




- Beauty care business 93%
- Real estate business 2%
- Other businesses 5%  
(dermatological drugs and building maintenance business)



## Our strengths

- Multi-brand strategy
  - Focus on skincare products
  - Flagship brands, POLA and ORBIS own and operate through their own unique sales channels
- 
- Meeting diversified needs of customers
  - High customer repeat ratio
  - Strong relationships with customers

	Sales ratio*	Brand	Concept and products	Price	Sales channel
Flagship brands	55%	<b>POLA</b> Since 1929	<ul style="list-style-type: none"> <li>High-prestige skincare</li> <li>Leading-edge technology in anti-aging and skin-whitening fields</li> </ul>	Approx. ¥10,000 or higher	<ul style="list-style-type: none"> <li>Consignment sales through Beauty Directors: POLA THE BEAUTY (PB), Esthe-inn and conventional door-to-door</li> <li>Department store counters</li> </ul>
	28%	<b>ORBIS</b> Since 1984	<ul style="list-style-type: none"> <li>Provides original-concept 100% OIL-FREE skincare products</li> <li>Offers aging-care lineup for wide range of age groups</li> </ul>	¥1,000~ ¥3,000	<ul style="list-style-type: none"> <li>Online</li> <li>Catalog</li> <li>Retail stores</li> </ul>
Overseas Brands	9%	<b>Jurlique</b> Acquired in 2012	<ul style="list-style-type: none"> <li>Prestige organic skincare brand from Australia</li> </ul>	Approx. ¥5,000 or higher	<ul style="list-style-type: none"> <li>Department store counters, directly-operated stores,</li> <li>Duty free stores</li> </ul>
	2%	<b>H2O+<sup>™</sup></b> <b>BEAUTY</b> Acquired in 2011	<ul style="list-style-type: none"> <li>Skincare products made with natural, sea-derived ingredients</li> </ul>	Approx. ¥4,000 not sold in Japan	<ul style="list-style-type: none"> <li>US: Specialty stores and online</li> </ul>
Brands under development		<b>T H R E E</b> Since 2009	<ul style="list-style-type: none"> <li>Skincare made with natural ingredients from Japan and fashion-forward make-up</li> </ul>	Approx. ¥5,000 or higher	<ul style="list-style-type: none"> <li>Department store counters and specialty stores</li> <li>Directly-operated stores and online</li> </ul>
		<b>p d c</b> Since 1992	<ul style="list-style-type: none"> <li>Affordably priced cosmetic products for mass-market</li> </ul>	Approx. ¥1,000	<ul style="list-style-type: none"> <li>Drug stores, GMS</li> <li>Variety stores</li> </ul>
	6%	 <b>FUTURE LABO</b> Acquired in 2006	<ul style="list-style-type: none"> <li>Cosmetic and other products with unique features</li> </ul>	¥3,000~ ¥6,000	<ul style="list-style-type: none"> <li>Mainly sold through TV shopping channels</li> </ul>
		<b>DECENCIA</b> Since 2007	<ul style="list-style-type: none"> <li>Skincare for dry, sensitive skin</li> </ul>	¥2,000~ ¥5,000	<ul style="list-style-type: none"> <li>Online</li> </ul>
		<b>ORLANE</b> <small>PARIS</small> JV established in 2007	<ul style="list-style-type: none"> <li>High prestige anti-aging skincare cosmetics from France</li> </ul>	Approx. ¥10,000 or higher	<ul style="list-style-type: none"> <li>Department store counters</li> <li>Specialty stores</li> </ul>

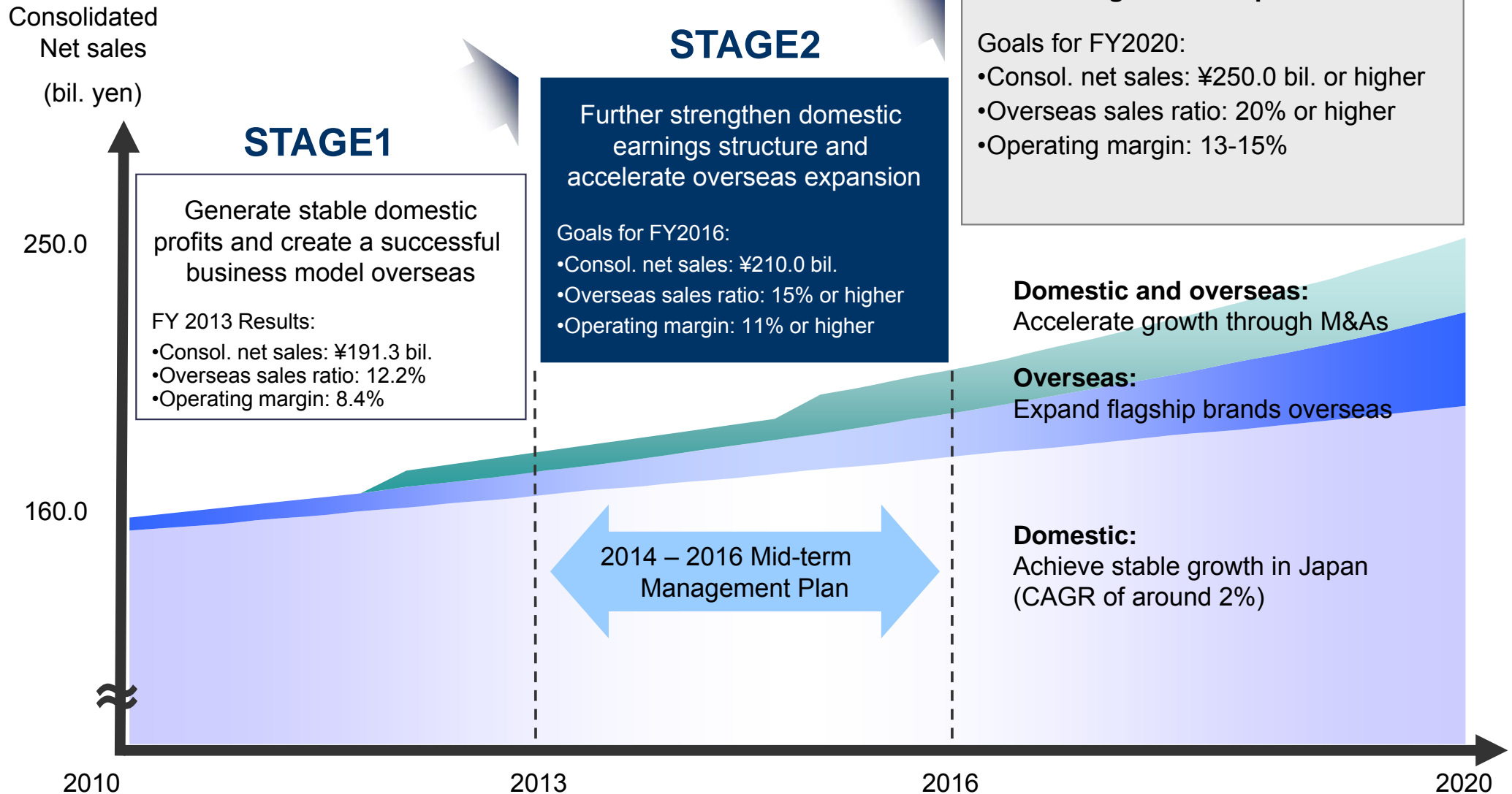
\*Sales ratio in the beauty care business as of FY2015

(mil. yen)	FY2014	FY2015	YoY Change	
	Results	Results	Amount	%
Consolidated net sales	198,094	214,788	16,693	8.4%
Beauty care net sales	184,475	200,570	16,095	8.7%
POLA	99,571	109,352	9,780	9.8%
ORBIS	52,302	56,354	4,051	7.7%
Jurlique	17,600	18,390	789	4.5%
H2O PLUS	4,876	3,944	(931)	(19.1%)
Brands under development	10,123	12,529	2,405	23.8%
Consol. operating income	17,683	22,511	4,827	27.3%
Beauty care operating income	16,535	21,290	4,754	28.8%
POLA	8,583	12,302	3,719	43.3%
ORBIS	10,792	11,197	404	3.7%
Jurlique	(445)	(379)	66	-
H2O PLUS	(1,435)	(1,814)	(378)	-
Brands under development	(958)	(15)	943	-

Note: Consolidated operating income and loss for each brand are shown for reference purpose only (figures are unaudited)

Corporate Philosophy

“Inspire all people and touch their hearts”



The 2nd stage of the long-term vision for 2020  
 Aim to enhance the enterprise value by further strengthening domestic earnings structure, accelerating overseas expansion, and improving capital efficiency.

### Consolidated net sales

- Consol. net sales: CAGR **3 to 4%**  
 (¥210.0 bil. in FY2016)
- Overseas sales ratio: **15%** or higher in FY2016

### Operating income

- Operating income: CAGR **15%** or higher
- Operating margin: **11%** or higher in FY2016

### Capital efficiency

- Target for ROE: **8%** or higher in FY2016  
**New target: 9%**

### Shareholder return

- Consolidated payout ratio: **50%** or higher  
 from FY2014

