

POLA ORBIS HOLDINGS INC.

Summary of Key Questions and Answers Concerning the Financial Results of FY2017 Q2

Q1. [Wrinkle Shot Serum] Is customer acquisition through Wrinkle Shot Serum still going well in 2Q?

→ Yes. We believe that one of the factors that encouraged customer acquisition was good reviews in beauty magazines, where Wrinkle Shot Serum received first place from MAQUIA, VOCE, and Biteki in their best cosmetics awards for the first half of 2017. In addition, the momentum of customer acquisition in the department store channel is not slowing down.

Q2. [Wrinkle Shot Serum] What is the degree of customer penetration among POLA's existing customers?

→ For 1H, the customer penetration of Wrinkle Shot Serum among existing customers of POLA is around 40%.
By age group, those in their 40s and 50s comprise the largest share, which corresponds to POLA's target age groups. Something we did not initially expect is the cross-selling of other products along with Wrinkle Shot Serum, which further boosted sales at POLA.

Q3. [Wrinkle Shot Serum] Given that Wrinkle Shot Serum encouraged cross-selling, what are the growth rates of POLA's main series other than Wrinkle Shot Serum for 2Q?

→ The high-prestige skincare series B.A is enjoying the greatest ripple effect among existing products at POLA.
On a year-on-year basis, the B.A series grew 14%, the whitening series grew 13%, and beauty food products grew 8% in 2Q.

Q4. [Wrinkle Shot Serum] What are your expectations regarding the possibility of the overseas expansion of Wrinkle Shot Serum?

→ After a two-year post-marketing surveillance period, we would like to launch Wrinkle Shot Serum overseas.
We are currently planning to make preparations for doing so.

Q5. [Wrinkle Shot Serum] Have you seen any impact of competitive products so far? Has there been any impact on your plan this year?

→ At present, we have not seen Wrinkle Shot Serum affected by the launch of competitive products. We believe that Wrinkle Shot Serum can achieve and go beyond the annual target of ¥12.5 billion this year. In the future, we would like to expand the range of wrinkle-related products, however we have not decided on anything specific.

- Q6. [Wrinkle Shot Serum] The forecast for 4Q quarterly sales is less than for 3Q. Is that because of seasonality?**
- We may see some seasonality, but the difference between 3Q and 4Q is actually based on our initial sales plan, taking account of sales promotion schedules. We now think that the balance of 3Q and 4Q will be almost at the same level.
- Q7. [Wrinkle Shot Serum] What are your expectations regarding the sales of Wrinkle Shot Serum for next year?**
- We will develop a business plan for next year in autumn. As a result, we cannot talk about the sales plan for Wrinkle Shot Serum for next year. However, as we plan to implement additional promotional activities in 2H this year, those effects may last until next year.
- Q8. [Inbound Sales] What has caused the increase in the inbound ratio of Wrinkle Shot Serum?**
- Increased brand recognition of POLA among Chinese consumers is one of the causes. We assume that this has resulted from the consumption shift of Chinese customers from beauty food products to cosmetics products at POLA.
- Q9. [POLA brand] In terms of the year-on-year sales decline of Wrinkle Shot Serum that is expected to appear in 2018, do you think that cross-selling will also decrease if Wrinkle Shot Serum sells less in 2018, or can cross-selling be sustained?**
- We think that we can sustain the sales of the products that are enjoying the cross-selling effect from Wrinkle Shot Serum. POLA is expected to acquire good skincare-oriented customers through Wrinkle Shot Serum, and we believe that they will cover the sales decline that is anticipated for Wrinkle Shot Serum in 2018 compared with 2017.
- In addition, as POLA will launch other new products next year, we are not particularly concerned about the sales decline that is anticipated for Wrinkle Shot Serum.
- Q10. [POLA brand] Will the OP margin for 2H be lower than that for 1H?**
- Yes. As a matter of fact, the OP margin for 1H was quite a lot higher than expected. This is because promotional expenses were already incurred in 4Q 2016, and the utilization rate of the factory was very high in 1H.
- Q11. [POLA brand] Has POLA maintained the marginal profit ratio level of 1Q in 2Q as well?**
- Yes. We think that POLA can maintain the current level of marginal profit in future.
- Q12. [POLA brand] Does production capacity need more investments as demand increases?**
- Not necessarily. We utilize in-house production for our value-added specialty products while promoting outsource manufacturing for the rest of the products.

Q13. [Overall brands] In the conference presentation, it was mentioned that the winning and losing brands are very distinctive. What specific issues have you identified?

→ ORBIS will enhance its life-time value for customers by promoting one-to-one (personalized) marketing. To this end, the brand needs to clearly define its target, empower the brand strength, and differentiate the brand positioning in terms of products and services.

For H2O PLUS, the restructuring of the business model is now completed and it is time to focus on marketing with the appealing product range in the North American market. In the future, the brand needs to work on overseas channel expansion.

Jurlique is struggling due to a lack of new products and a lackluster storefront. From next year onward, the brand will place emphasis on releasing new products, shift to a new marketing strategy that utilizes CRM, and obtain group-wide support to resolve the issues.

Q14. [ORBIS brand] How long will it take for ORBIS to recover from its current situation? Which is the priority, sales or operating income?

→ For 2018-2020, the business plan for ORBIS will be based on 1%-2% growth in sales and 5%-10% growth in operating income. However, since the sales decrease we saw in 1H has resulted from a decrease in the number of customers, it will be difficult for the brand to achieve a rapid recovery within 2017. (The Group lowered sales and operating income in the revised performance forecast for FY2017 as announced as of 1Q.)

For the next two to three years, the brand aims to realize stable sales growth and maintain an OP margin level of 18%-20%.

In addition, the middle-price market to which ORBIS belongs is in a difficult situation under the ongoing polarization of the price range in the domestic market.

From a medium-term perspective, the brand needs to change the way it presents the value offered by the brand, its services, and differentiated products. These initiatives will require at least two to three years to realize. Moreover, it is going to take some time for the brand to find a new communication tool that can replace LINE, which has contributed significantly to customer acquisition in recent years.

Q15. [Jurlique brand] Can Jurlique solve the lack of new products?

→ Currently, the group is supporting Jurlique to release new products. In 2017, the brand will launch its revamped body care series onto the market. For skincare products, the launch will be next year. These new products will be available via all channels, including Australia and duty-free stores.

Q16. [Brands under development] To what extent and when do you expect to see the impact of new brands?

→ Although we cannot discuss the details, we are planning to launch new brands from existing companies. We may be able to make an announcement about the new brands later this year. At the same time, an in-house venture project is in progress. The impact on consolidated business performance will be a few years ahead, but ideally speaking, we would like to launch new brands that generate sales of ¥5 billion five years after the launch and ¥10 billion after seven years with a double-digit OP margin.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY 2017 H1 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. The statements about the future, including financial projections, included in this material 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.