

**POLA ORBIS HOLDINGS INC.****Summary of Key Questions and Answers Concerning the Financial Results for FY2019 Q1**

- Q1. [POLA brand] How do you evaluate the decline in inbound and buyer sales following the impact of China's new e-commerce law compared to the expectations?**
- The sales decline was more significant than expected. We are able to obtain a clear picture of inbound sales and sales from foreign national beauty directors (hereinafter referred to as "foreign national BDs"), and those sales were in line with our expectations for the first quarter.
- On the other hand, there was buyer demand in other domestic sales that could not be clearly identified as buyer sales, and that amount fell more than expected.
- Q2. [POLA brand] When do you think that the declines in buyer demand and sales by foreign national BDs will come to an end?**
- We cannot say anything about the sales to buyers, but in terms of sales by the foreign national BDs, we started to see changes in the momentum from the middle of the third quarter of fiscal 2018. Given that the sales by foreign national BDs for the first quarter of fiscal 2019 were at almost the same level as those for the fourth quarter of fiscal 2018, we assume that the decline in sales will come to an end at some point around the third quarter of fiscal 2019.
- Q3. [POLA brand] Do you anticipate that channel optimization will progress as a result of the decline in buyer demand in reaction to the new e-commerce law in China?**
- Generally speaking, yes. With the same stance as before, we recognize that resale itself is an issue that must be controlled or restrained.
- Q4. [POLA brand] With macro indicators such as statistics from department stores and the Japan Tourism Agency, the number of tourists has recovered from February to March. Is the situation the same as this for POLA?**
- It is a fact that tourists (the number of tourists visiting Japan) are experiencing a recovery trend. Inbound sales in department stores are also returning. On the other hand, we cannot comment with certainty about the activities of buyers in Japan because we are unable to grasp the full picture.

- Q5. [POLA brand] As for monthly sales during the first quarter, have they gradually been improving from January to March?**
- The degree of the decrease in sales was the highest in January and has moderated towards March.
- The background to this is the price revision to Wrinkle Shot in January 2018 and the renewal effect of White Shot Inner Lock that also occurred in the first quarter of fiscal 2018, both of which made it a tough comparison for the first quarter of fiscal 2019.
- Q6. [POLA brand] Are you taking countermeasures in response to the reputational damage to Inner Lock? Since more than half of the sales decline was due to Inner Lock, was the reputational impact significant?**
- It is difficult to measure the degree of the reputational damage that is linked to POLA's sales as a result of the false article. Since we are actively taking countermeasures in China locally through a range of means, including making a protest, we believe that the impact will weaken gradually.
- The reason behind the sales decline of Inner Locks seems to be more due to weakening demand from buyers under the new e-commerce law. Since there is a shelf life for beauty and health foods, including Inner Lock, we speculate that buyers are rushing to sell off their resale stocks.
- Q7. [POLA brand] What was the level of the decrease in domestic sales due to Inner Lock and Wrinkle Shot, respectively?**
- The decrease in domestic sales of Inner Lock was the largest, at approximately ¥3.0 billion, and the decrease in Wrinkle Shot was approximately ¥1.3 billion. As mentioned above, there was also a rebound effect from the strong sales from last year for these products. Since we are going to launch Wrinkle Shot on domestic e-commerce and cross border e-commerce, the annual sales plan remains at the same level as last year's sales.
- On the other hand, the B.A series is growing steadily year on year.
- Q8. [POLA brand] Will Inner Lock's sales recover to last year's level?**
- Concerning overseas sales of Inner Lock, we are selling the product on cross-border e-commerce, duty-free, etc. We would like to have expectations for the product overseas, because these sales channels are not weak at present.
- However, we believe that it will be difficult for domestic sales (including inbound and buyer sales), which account for the majority of the sales, to recover to the same level as last year.
- Q9. [POLA brand] When do you plan to launch Wrinkle Shot on cross-border e-commerce?**
- We plan to launch the product on June 1st.
- Q10. [ORBIS brand] What is the progress of the sales of the new product DEFENCERA? Is the decrease in operating income due to advertising investments?**
- DEFENCERA sold exceeding the plan, at just over ¥800 million for the first quarter.
- Although operating income decreased year on year as a result of aggressive advertising investments made at the time of the launch, the operating profit margin is expect to improve in the second quarter because we will not invest in advertising as much as in the first quarter.

**Q11. [ORBIS brand] What is the situation of ORBIS U, which was revamped in October 2018?**

→ The overall ORBIS U series continues to perform well, with + 30% sales growth year on year.

It contributes to the improvement of the purchase price per customer, and the brand is able to realize the reinforcement of the customer structure.

**Q12. [Jurlique brand] What is your outlook for the full year?**

→ We are planning for sales to decrease year on year. On the other hand, the operating loss is expected to improve for the full year. This improvement will be achieved by implementing reductions in headquarters expenses, SG&A expenses, etc. and the allowance for doubtful accounts recorded in the fourth quarter of fiscal 2018 that is expected to come off this year.

**Q13. [ACRO THREE brand] What are the composition ratios and growth rates of the domestic and overseas sales of THREE? What is the outlook for the future?**

→ The overseas sales ratio of THREE is about 25%. The sales growth rate in Japan domestic is about +10% year on year, and that of overseas is about +20% year on year.

Although, for the domestic channel, THREE has already opened counters in most of the major department stores, there is still room for overseas expansion in terms of the region as well as the number of stores.

On a side note, the ratio of overseas sales exceeds 25% of total sales on a retail basis, since most of the overseas business is carried out through agencies.

**Q14. [ACRO new brands] How is the progress of the three new brands against the plan?**

→ Amplitude exceeded the plan. FIVEISM and ITRIM are slightly below the plan. Since all brands are experiencing strong inquiries from department stores, we expect that the performance of each brand will catch up as they accelerate store openings.

**Q15. [Consolidated forecast] Does the guidance remain unchanged even when the new products from POLA White Shot (facial lotion and emulsion) are taken into account? Could you tell us the amount of the sales plan and also the amount of the net increase excluding cannibalization to the POLA brand for the new White Shot products, as well as the impact on the profit side?**

→ POLA's sales were lower than planned for the first quarter. We expect that the sales of the new White Shot products will make up for the difference in sales compared to the plan in the first half.

For the new White Shot products, we are anticipating the net increase in sales to be around ¥3.0 billion against the sales target of ¥6.0 billion (on a retail basis). As for the impact on profit, although the gross margin of the new White Shot products is high among POLA's products, we are planning to make advertising investments to acquire new customers.

We did not change the guidance because we consider that there are uncertain factors for the second quarter and onward.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2019 Q1 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.