

# First Quarter of Fiscal 2018 Supplementary Material

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POLA ORBIS HOLDINGS INC.  
Director and Vice President  
Management Planning, IT, HR and  
Group International Business  
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1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2018
4. Initiatives Going Forward & Appendices

## Cosmetics Market

- The Japanese cosmetics market overall showed steady growth. However, the domestic market alone, excluding inbound demand seemed to be flat year-on-year.\*
- By price range, high prestige remained steady.
- As for the inbound market, the market overall continued to grow backed up by the increasing number of tourists visiting Japan, but the growth rate of the average spending price has slowed down slightly.

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

## Our Group

- The Group achieved increases in sales and operating income on a consolidated basis, driven by POLA and brands under development.
- For POLA, thanks to the expansion of the customer base last year, the brand achieved increases in sales and operating income year on year, in spite of the high performance recorded in the first quarter of last year.
- ORBIS is currently implementing structural reforms; The sales ratio of the mainstay skincare series improved but the sales decreased due to the reduced number of customers.
- Jurlique maintained flat year on year due to strengthened investments for branding. Sales fell at H2O PLUS as a result of the selection and integration of sales channels.
- THREE and DECENCIA from brands under development maintained their momentum.

## Updates on Inbound Sales (Consolidated)

- FY2016 (full year) : Approximately 6% of consolidated net sales
- ↓
- FY2017 (full year) : Approximately 7% of consolidated net sales
- ↓
- FY2018 Q1 : Approximately 7% of consolidated net sales

(mil. yen)	FY2017	FY2018	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	56,074	59,526	3,452	6.2%
Cost of sales	9,320	9,445	124	1.3%
Gross profit	46,753	50,081	3,327	7.1%
SG&A* expenses	37,626	40,137	2,511	6.7%
Operating income	9,127	9,943	816	8.9%

\*Selling, General and Administrative Expenses

### Key Factors

- Consol. net sales** Sales were very strong driven by POLA, especially from existing customers, for which the brand successfully expanded its customer base during last year. On the other hand at ORBIS, sales did not recover but the sales from new customers increased year on year thanks to the promotion centered on ORBIS=U.
- Cost of sales** The cost of sales ratio was improved owing to an increase in the sales compound ratio of high-prestige products under the POLA brand.  
 Cost of sales ratio 2017Q1: 16.62% ⇒ 2018Q1: 15.87%
- SG&A expenses**
  - Labor expenses : up ¥282 mil. YoY
  - Sales commissions : up ¥1,066 mil. YoY  
 -> resulted from increased sales at POLA. The commission ratio within POLA has improved.
  - Sales related expenses : up ¥611 mil. YoY  
 -> resulted from costs for customer structure reforms at ORBIS.
  - Administrative expenses : up ¥551 mil. YoY  
 -> resulted from costs for launching new brands.
- Operating income** Beauty care : up ¥879 mil. YoY

# Analysis of Consolidated P&L Changes

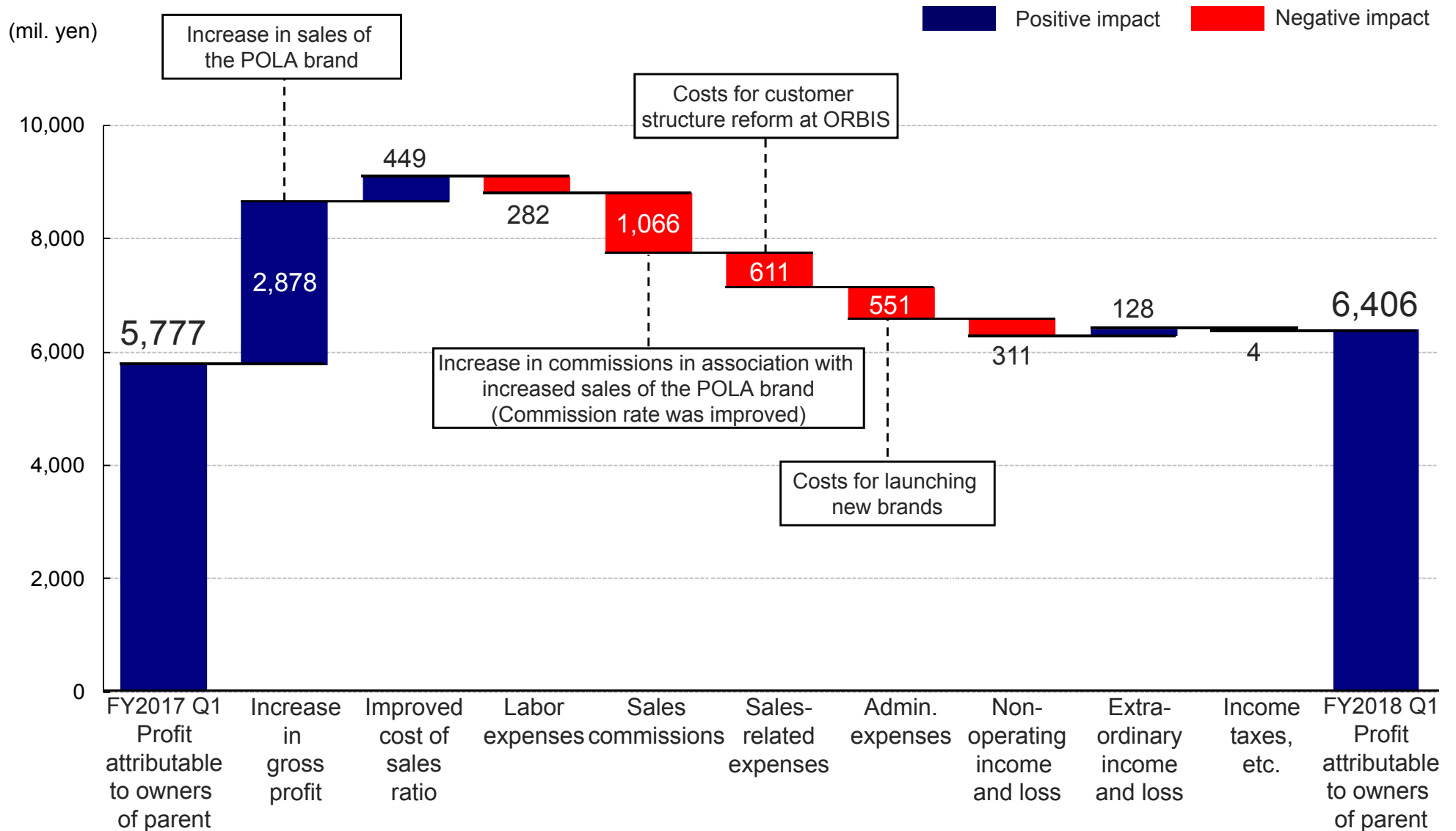
## Operating Income to Profit Attributable to Owners of Parent

(mil. yen)	FY2017	FY2018	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Operating income	9,127	9,943	816	8.9%
Non-operating income	107	155	48	44.5%
Non-operating expenses	279	638	359	128.4%
Ordinary income	8,955	9,460	505	5.6%
Extraordinary income	7	26	19	252.2%
Extraordinary loss	128	19	(108)	(84.5%)
Profit before income taxes	8,834	9,467	633	7.2%
Income taxes	3,056	3,063	6	0.2%
Profit attributable to non-controlling interests	0	(2)	(2)	-
Profit attributable to owners of parent	5,777	6,406	628	10.9%

### Key Factors

- Non-operating expenses : Loss from unfavorable foreign exchange rates ¥600 mil.
- Income taxes : Lowered effective tax rate as a result of a reduction of losses in overseas business (effective tax rate = 32.4%)

Profit attributable to owners of parent was up 10.9% yoy due to an increase in the gross margin and improvements in the profit structure



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(mil yen)	FY2017	FY2018	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	56,074	59,526	3,452	6.2%
Beauty care	52,345	55,821	3,476	6.6%
Real estate	675	676	1	0.2%
Others	3,053	3,028	(25)	(0.8%)
Operating income	9,127	9,943	816	8.9%
Beauty care	8,790	9,670	879	10.0%
Real estate	334	312	(21)	(6.5%)
Others	(10)	74	85	-
Reconciliations	13	(113)	(126)	-

## Segment Results Summary

- Beauty care** Sales grew driven by POLA.  
 Operating income rose 10% thanks to sales increase at POLA and COGS improvement.
- Real estate** Occupancy rate has been maintained at a high level. However, temporary maintenance expenses were incurred.
- Others** At pharmaceutical business, sales increased year-on-year by concentrating sales and promotion resources on mainstay products.  
 At building maintenance business, sales dropped due to staffing shortages.



## Beauty Care Business Results by Brands

(mil. yen)	FY2017	FY2018	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Beauty care net sales	52,345	55,821	3,476	6.6%
POLA	33,126	36,164	3,037	9.2%
ORBIS	12,760	12,475	(284)	(2.2%)
Jurlique	2,603	2,599	(3)	(0.1%)
H2O PLUS	635	517	(118)	(18.6%)
Brands under development	3,220	4,065	844	26.2%
Beauty care operating income	8,790	9,670	879	10.0%
POLA	6,794	7,693	899	13.2%
ORBIS	2,626	2,466	(160)	(6.1%)
Jurlique	(695)	(775)	(79)	-
H2O PLUS	(180)	(157)	22	-
Brands under development	245	443	197	80.6%

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

### Q1 Result

- The number of existing customer grew.
- New whitening products are strong.
- Entered the Korean duty-free store market.(January)
- The inbound ratio was approximately 11%.

Q1	Results (mil. yen)	YoY Change
Net sales	36,164	9.2%
Operating income	7,693	13.2%
Key indicators		
Number of sales offices (vs. Dec. 2017)		4,135 (down 15)
Number of PB <sup>(1)</sup> (vs. Dec. 2017)		658 (up 2)
Cosmetics sales ratio	PB <sup>(1)</sup>	39.6%
	Esthe-inn	47.6%
	D2D <sup>(2)</sup> and other	12.8%
Sales growth*	PB	up 4.9%
	PB (like-for-like)	up 4.8%
	Esthe-inn	up 5.9%
	D2D	up 1.5%
Purchase per customer*		down 4.6%
Number of new customers*		down 12.2%
Growth rate of overseas sales		up 156.6%

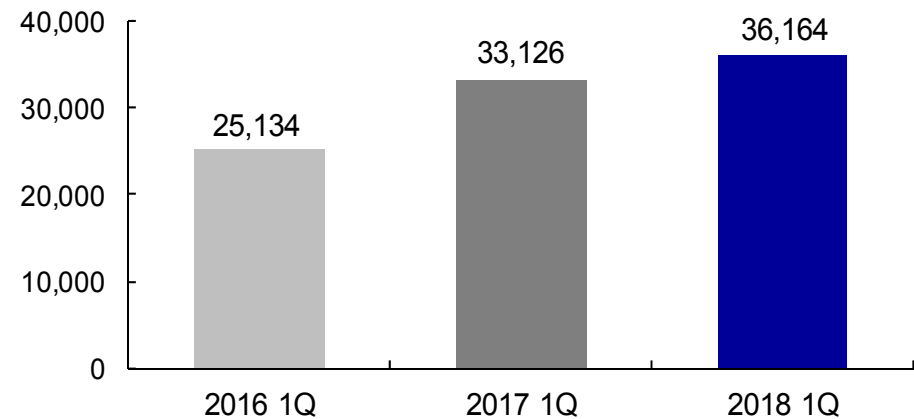
(1) PB: POLA THE BEAUTY stores (2) D2D: Conventional door-to-door \*YoY

### Topics

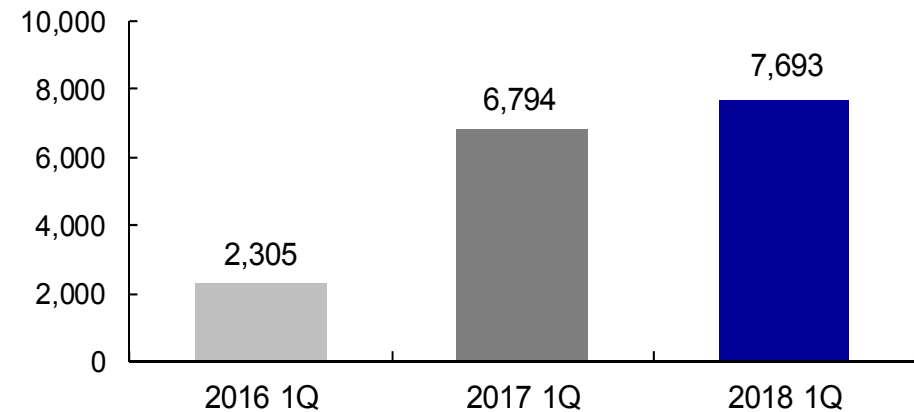
- Renewed “White Shot”, the whitening series.
- “MAQUIA Whitening & UV Grand-Prix”
- Best of best whitening awards (left two)
  - Whitening inner care awards #1 (right)



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



### Q1 Result

- Developed promotions centered on “ORBIS=U”.
- The purchase price per customer recovered to the same level as the first quarter of last year. However, the number of customers decreased.
- Focused on acquisition of customers with potential of high lifetime value in ORBIS. Result started to appear in a leading indicator.

(# of customers purchasing the mainstay skincare product series)

Q1	Results (mil. yen)	YoY change
Net sales	12,475	(2.2%)
Operating income	2,466	(6.1%)
Key indicators		
Sales ratio	Online	47.2%
	Other mail-order	24.5%
	Stores and overseas	28.3%
Sales increase*	Online	up 1.0%
	Other mail-order	down 12.0%
	Stores and overseas	up 0.8%
Mail-order <sup>(1)</sup> purchase per customer*		up 0.3%
Number of mail-order <sup>(1)</sup> customers*		down 4.1%
Number of customers purchasing the mainstay skincare product series* <sup>(2)</sup>		up 11.2%

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

(2) For the last 6 months period

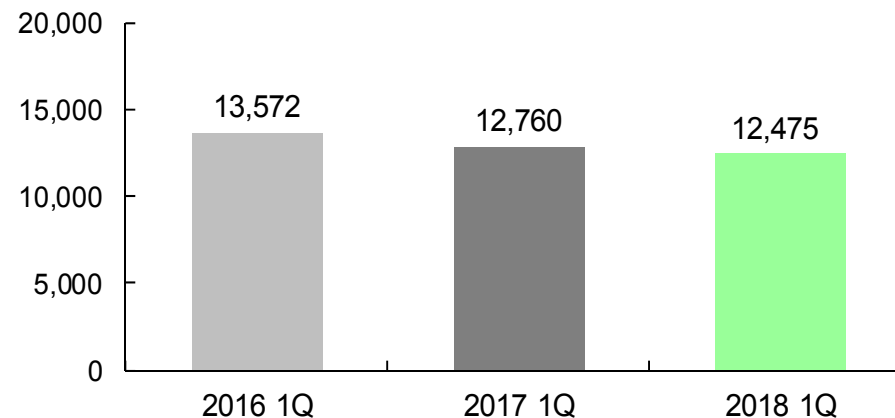
\* YoY basis

### Topics

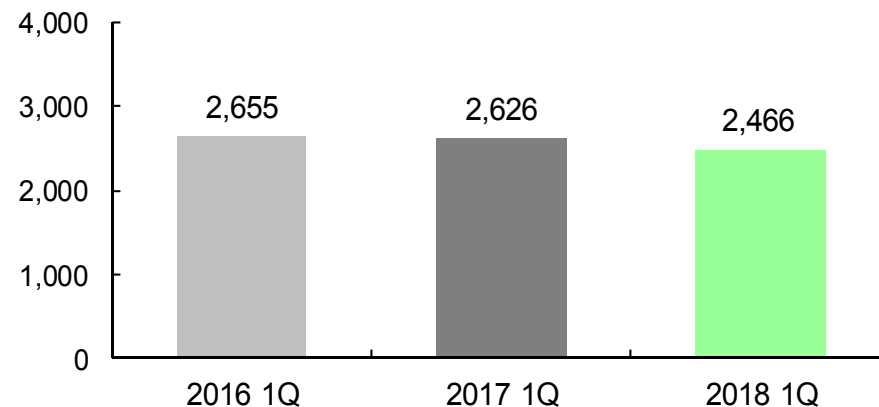
- Initiatives for unified design across the brand



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



### Q1 Result

- Sales increased by 1% yoy (on an AUD basis).
- By region, sales grew in China, Hong Kong and duty-free markets.
- Operating income dropped due to strengthened investments in branding.

Q1	Results (mil. yen)	YoY change <sup>(1)</sup>
Net sales	2,599	(0.1%)
Operating income (before goodwill amortization)	(760)	(79)
Operating income	(775)	(79)

### Key indicators

Number of doors in China (vs. Dec. 2017)		104 (down 6)
Sales ratio	China	19%
	Hong Kong	14%
	Duty free	17%
	Australia	26%
Sales growth <sup>(2)</sup>	China	up 0%
	Hong Kong	up 4%
	Duty free	up 13%
	Australia	down 13%

(1) For operating income, the YoY difference is shown as an amount (mil. yen).

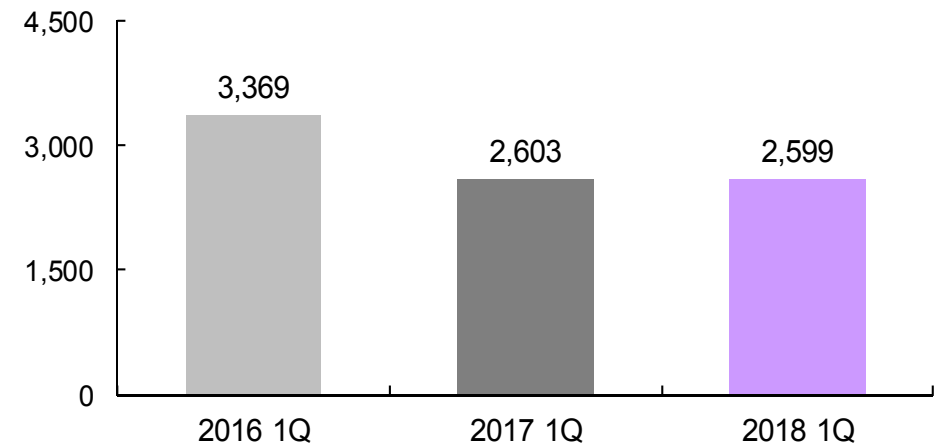
(2) AUD basis, YoY

### Topics

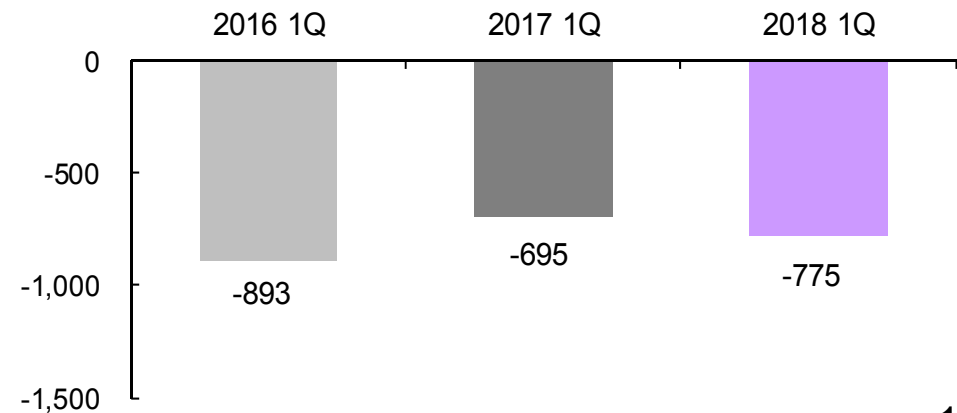
- Reinforce brand communication as a premium natural skincare brand



### Quarterly net sales (mil. yen)



### Quarterly operating income (mil. yen)



## Q1 Result

- Sales were down year on year in North America due to the reduction of sales channels.
- Strengthened communication with existing retailers and implemented marketing strategies focused on hero products development. (OASIS series)

Q1	Results (mil. yen)	YoY change <sup>(1)</sup>
Net sales	517	(18.6%)
Operating income	(157)	22
Key indicators		
Sales ratio	North America	88%
	Others	12%
Sales growth <sup>(2)</sup>	North America	down 9%
	Others	down 42%

(1) For operating income, the YoY difference is shown as an amount (mil. yen)

(2) USD basis, YoY

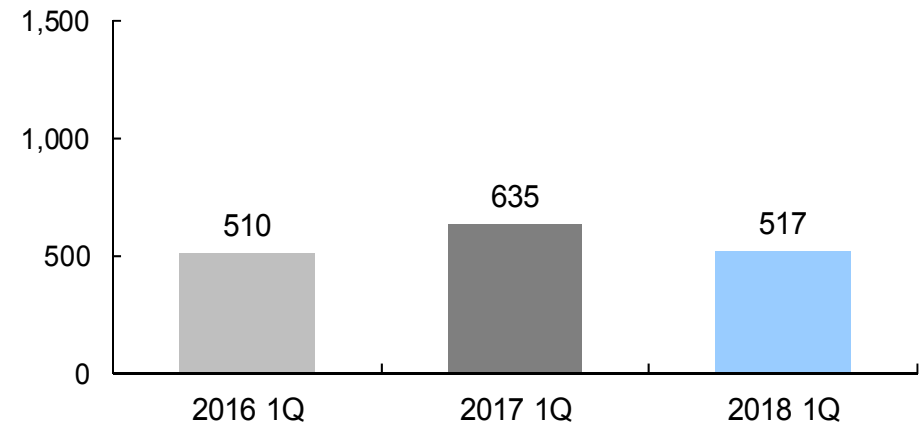
## Topics

- Implemented management changes and kicked off for brand revitalization

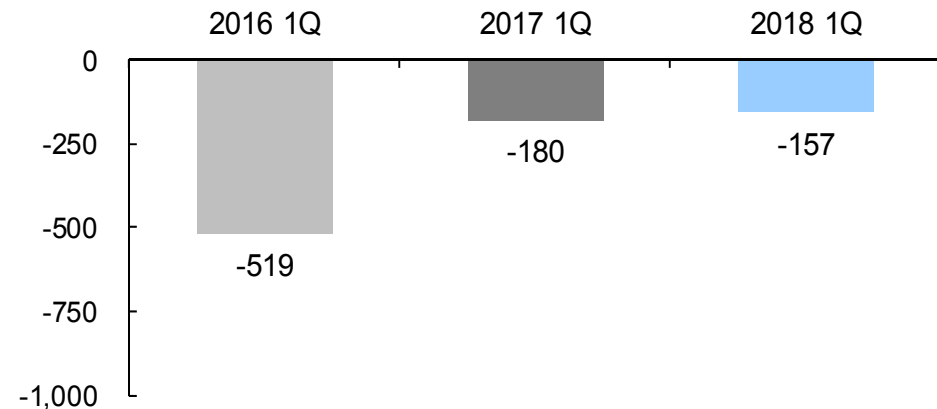


OASIS series

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



## Q1 Result

- At THREE, sales were strong, especially from existing customers. Holistic care products contributed to the sales.
- Costs for launching new brands amounted to approximately ¥150 mil.
- The whitening product series was revamped at DECENCIA, which showed sales growth of 20%.

Q1	Results (mil. yen)	YoY change
Net sales	4,065	26.2%
Operating income	443	80.6%
ACRO Net sales	2,313	27.6%
ACRO OP income	175	(25.6%)
(THREE Net sales)	2,313	27.6%
(THREE OP income)	321	36.3%

### Key indicators

THREE	Dept. store counters in Japan	38
	Other stores in Japan	65
	Overseas stores (in 7 countries & regions)	37
	Overseas sales ratio	20%

### Brand Portfolio of Brands Under Development

Company	ACRO INC.	DECENCIA INC.
Brand	THREE + New Brands	DECENCIA

Note: Apart from the portfolio above, Brands Under Development includes the OEM business.

## Topics

- New products from THREE and DECENCIA

From left:

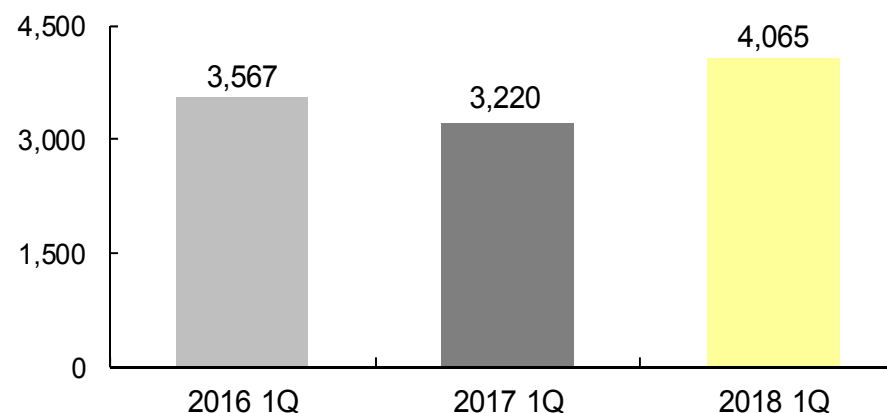
THREE new base makeup

THREE "THREE" series

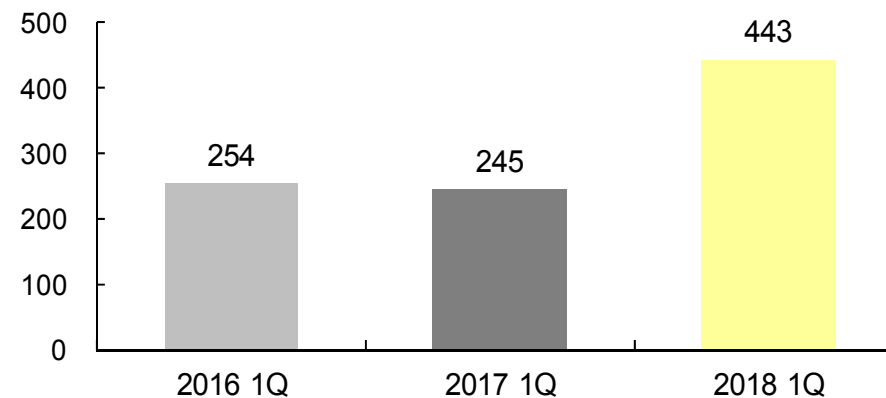
DECENCIA "saeru" series



### Quarterly net sales (mil. yen)



### Quarterly operating income (mil. yen)



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## Forecasts for FY2018 (No Change)

(mil. yen)	FY2018	YoY Change		FY2018	YoY Change	
	H1 Plan	Amount	%	Full-year Plan	Amount	%
Consol. net sales	121,000	3,621	3.1%	253,000	8,664	3.5%
Beauty care	112,900	3,596	3.3%	235,800	8,666	3.8%
Real estate	1,300	(48)	(3.6%)	2,600	(94)	(3.5%)
Others	6,800	73	1.1%	14,600	92	0.6%
OP income	19,600	(1,344)	(6.4%)	41,500	2,618	6.7%
Beauty care	19,200	(895)	(4.5%)	40,700	2,578	6.8%
Real estate	500	(92)	(15.7%)	900	(182)	(16.9%)
Others	150	(15)	(9.2%)	300	614	—
Reconciliations	(250)	(341)	—	(400)	(391)	—
Ordinary income	19,600	(1,344)	(6.4%)	41,500	2,249	5.7%
Net income attributable to owners of parent	13,000	(955)	(6.8%)	28,000	862	3.2%

### 【Assumptions behind the plan】

- Inbound sales : approximately ¥17,500 mil. (almost same level as last year)
- Sales of Wrinkle Shot Serum : ¥10,000 mil.

### 【Assumed exchange rates】

- 1.00 AUD = 88 JPY (PY 86.00)
- 1.00 USD = 110 JPY (PY 112.18)
- 1.00 CNY = 17 JPY (PY 16.62)

	FY2017	FY2018 (plan)
Shareholder returns	Annual ¥70 Consol. payout ratio 57.1%	Annual ¥80 (Interim ¥35, Year-end ¥45) Consol. payout ratio 63.2%
Capital investment	¥8,885 million	¥8,000 ~ 9,000 million
Depreciation	¥6,551 million	¥7,000 ~ 8,000 million



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■ Sustain stable growth of flagship brands to lead Group earnings

**POLA**

- Launch Wrinkle Shot overseas (see next page for details)
- Introduce seasonal promotions for new whitening products and cross-sells through Wrinkle Shot
- Accelerate overseas store openings  
(Open four new stores in Beijing, Shanghai and Hong Kong by April)



POLA  
(left) WHITISSIMO UV Block Shield White Plus  
(right) Wrinkle Shot Season Special Kit

**ORBIS**

- Reinforce communication through “ORBIS=U”  
Concentrate resources on targeted customer acquisition

■ Bring overseas operations solidly into the black overall

**Jurlique**

- Constantly launch new products
- Develop unified branding at every customer touchpoint

**H2O+<sup>TM</sup>**  
BEAUTY

- Focus on main products and main retailers in view of investment efficiency



Jurlique  
New Cleansing Line

■ Expand brands under development, create new brands, pursue M&A activity

**T H R E E**

- May - Summer makeup collection
- June - New scalp & hair care series

**DECENCIA**

- Focus on acquisition and retention of new customers
- Sustain strong sales among existing customers



THREE (left) Shimmering Lip Jam  
(right) ORDERANGE Shampoo & Conditioner



*Wrinkle shot*

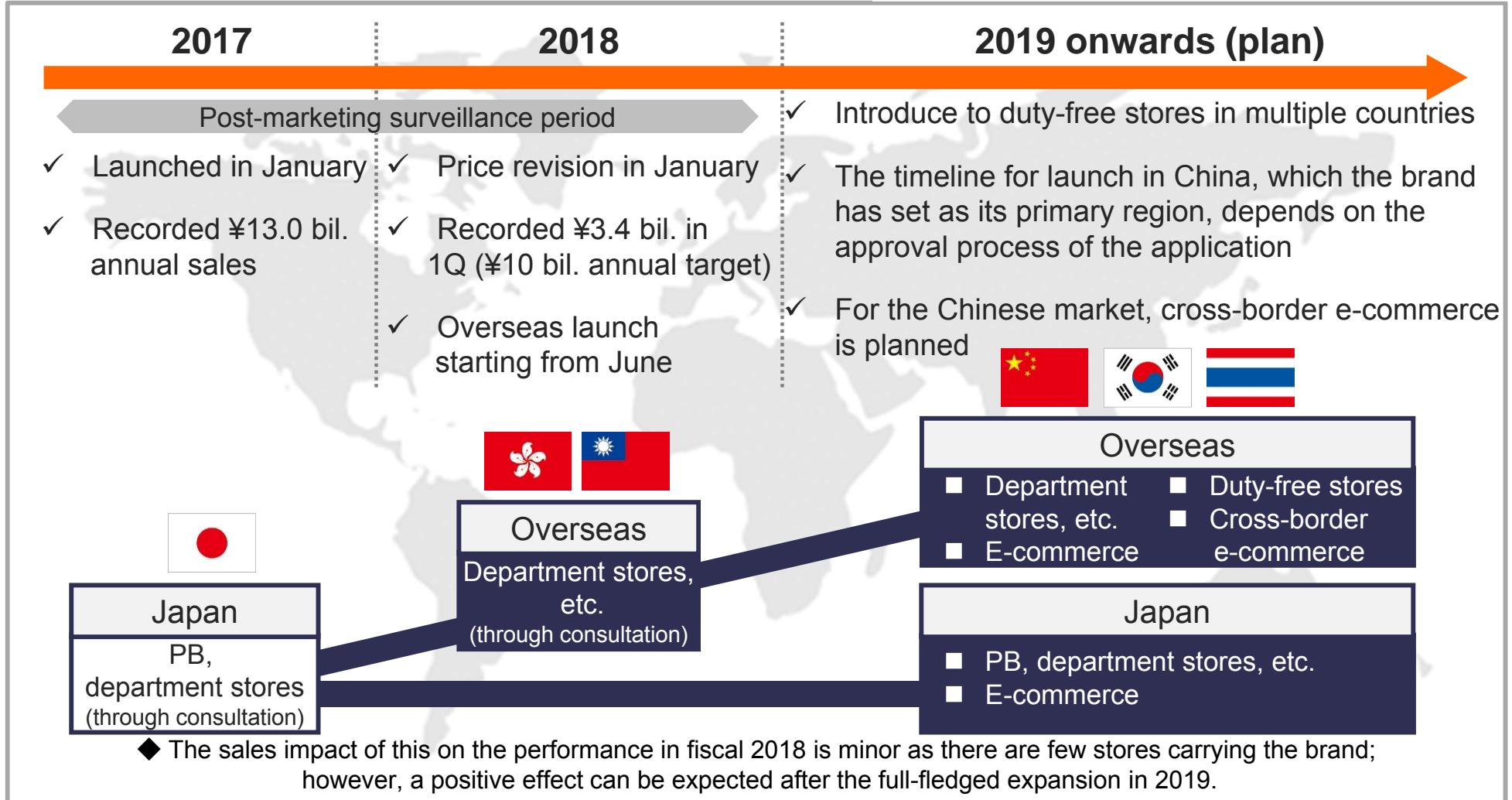
Overseas launch in 2018; starting from June 15 (Hong Kong and Taiwan)

■ Being backed up by post-marketing surveillance in Japan since the launch

There are no serious problems at the moment

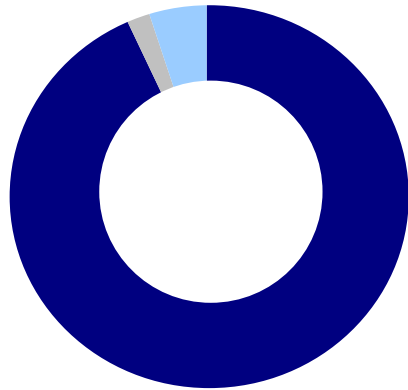


Set out to undertake overseas launches (in Hong Kong and Taiwan, at channels with face-to-face consultations)

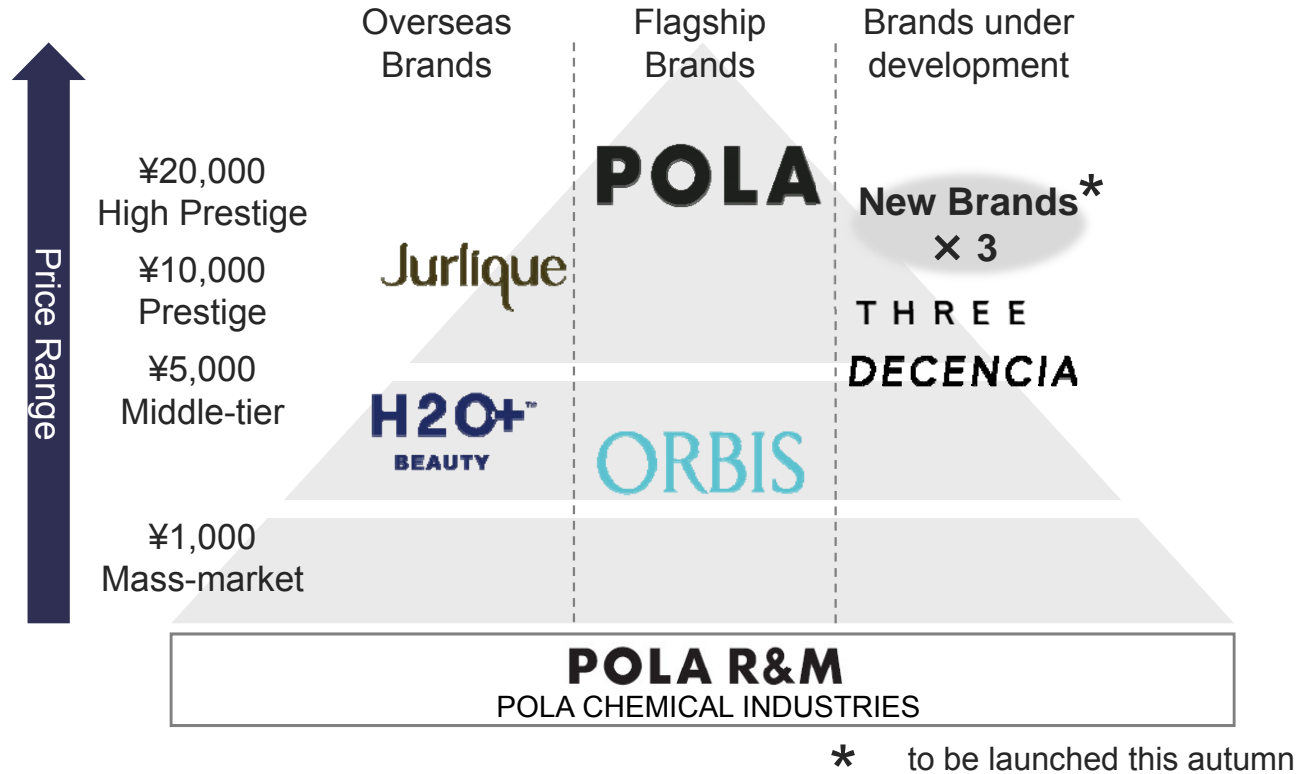


Beauty care is the core business of the Group, and 6 different cosmetics brands are operated under the Group umbrella

FY2017  
Consol. Net Sales  
¥244.3 bil.



- Beauty care business 93%
- Real estate business 1%
- Other businesses 6%  
(dermatological drugs and building maintenance business)

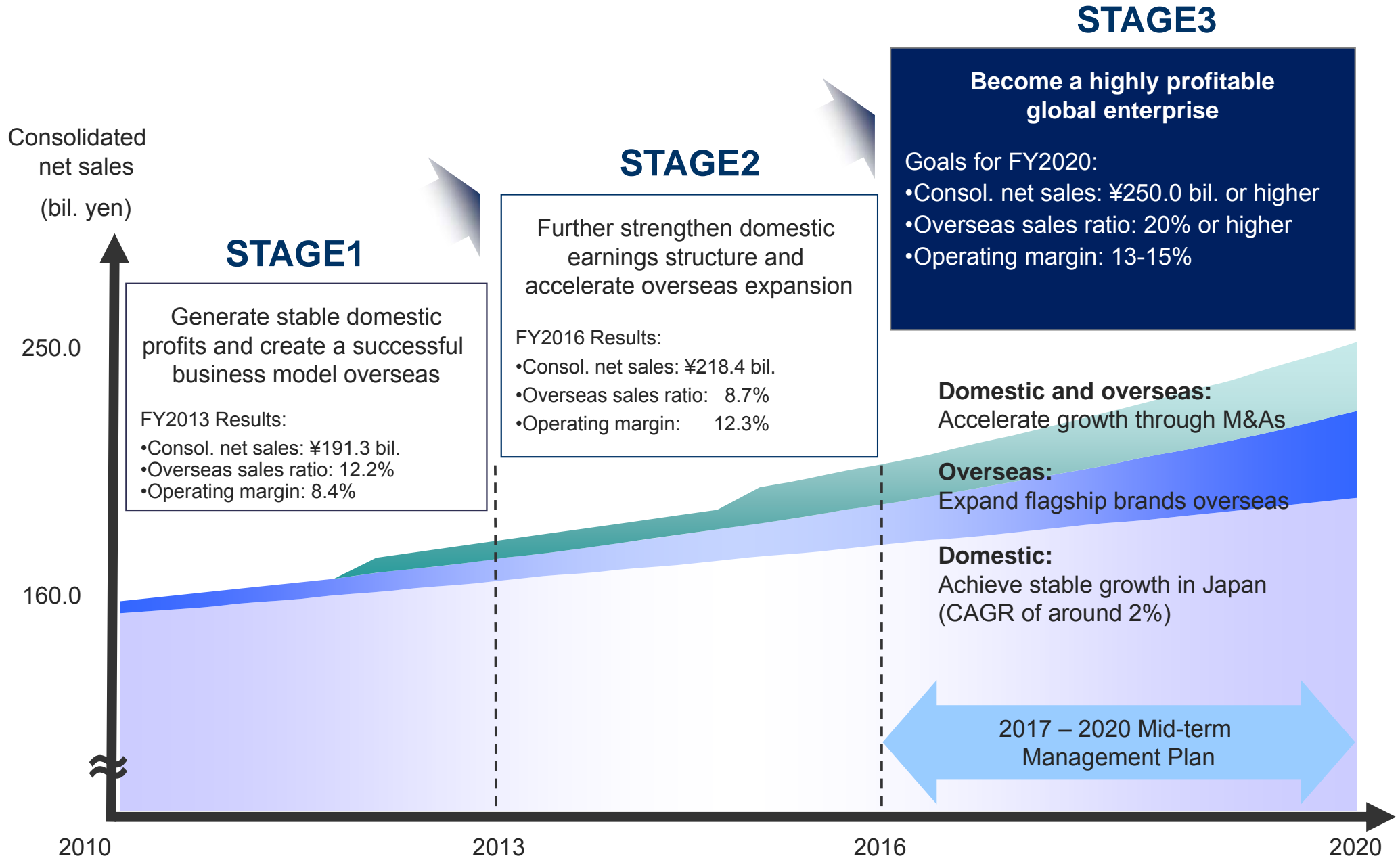


Our strengths

- 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	63%	<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> <li>Overseas</li> </ul>
	23%	<b>ORBIS</b> Since 1984	<ul style="list-style-type: none"> <li>Anti-aging brand to draw out people's intrinsic beauty</li> </ul>	¥1,000~ ¥3,000	<ul style="list-style-type: none"> <li>Mail-order (online and catalog)</li> <li>Retail stores</li> <li>Overseas</li> </ul>
Overseas Brands	6%	<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>Specialty stores, department store counters and directly-operated stores,</li> <li>Duty free stores</li> </ul>
	1%	<b>H2O+™</b> <b>BEAUTY</b> Acquired in 2011	<ul style="list-style-type: none"> <li>Skincare with concept of innovation and power of pure water</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	7%	<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> <li>Overseas</li> </ul>
		<b>DECENCIA</b> Since 2007	<ul style="list-style-type: none"> <li>Skincare for sensitive skin</li> </ul>	¥2,000~ ¥5,000	<ul style="list-style-type: none"> <li>Online</li> </ul>

\*Sales ratio in the beauty care business as of FY2017



The final stage of the long-term vision for 2020.  
Aim to improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth.

**Consolidated net sales**

- Consol. net sales: CAGR **3 to 4%**  
(¥250.0 bil. in FY2020)

**Operating income**

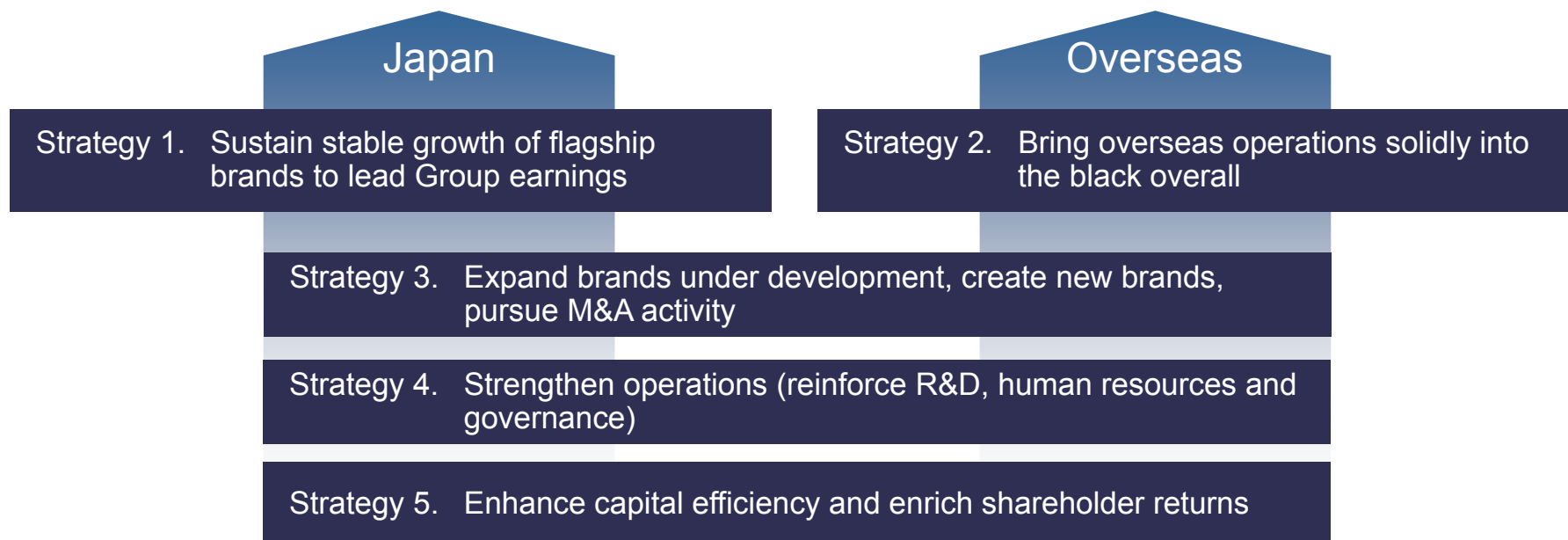
- Operating income: CAGR **10% or higher**
- Operating margin: **15% or higher** in FY2020

**Capital efficiency**

- Target for ROE: **12%** in FY2020

**Shareholder returns**

- Consolidated payout ratio: **60% or higher**  
from FY2017



## (Appendix) Beauty Care Business Results for FY2015 – FY2017 by Brands

(mil. yen)	FY2015 Results	FY2016 Results	FY2017 Results	2016 vs 2017 YoY Change	
				Amount	%
Consolidated net sales	214,788	218,482	244,335	25,853	11.8%
Beauty care net sales	200,570	202,446	227,133	24,686	12.2%
POLA	109,352	116,126	144,012	27,886	24.0%
ORBIS	56,354	55,857	53,066	(2,790)	(5.0%)
Jurlique	18,390	13,118	12,772	(346)	(2.6%)
H2O PLUS	3,944	2,547	2,303	(243)	(9.6%)
Brands under development	12,529	14,796	14,978	181	1.2%
Consol. operating income	22,511	26,839	38,881	12,041	44.9%
Beauty care operating income	21,290	25,904	38,121	12,216	47.2%
POLA	12,302	16,993	28,584	11,591	68.2%
ORBIS	11,197	11,279	9,080	(2,199)	(19.5%)
Jurlique	(379)	(1,183)	(505)	677	-
H2O PLUS	(1,814)	(2,027)	(317)	1,709	-
Brands under development	(15)	841	1,278	437	51.9%

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