

POLA ORBIS HOLDINGS INC.

Summary of Key Questions and Answers Concerning the Financial Results for FY2018 Q1

Q1. [POLA brand] What were the drivers of the 156% growth in the overseas business, and what was the background behind the growth?

→ The major drivers were overseas duty-free stores (the brand entered Korea), the Chinese business (including cross-border e-commerce), and duty-free stores at international airports in Japan. To date, the brand has refrained from undertaking store openings aggressively in China; however, taking the growing brand recognition and the popularity of the B.A products as opportunities, the brand is now accelerating store openings, mainly at department store counters.

Q2. [POLA brand] Is there any ripple effect on the Chinese business from inbound consumption?

→ There is a flow whereby inbound customers at POLA in Japan later purchase the brand in China after returning home. In addition, word of mouth, promotions in Japan and in-store consultations appear to help with the acceleration of the Chinese business.

Q3. [POLA brand] Is there a positive or negative impact on the OP margin as a result of the growth in overseas business sales?

→ We expect that there will not be a negative effect.

Q4. [POLA brand] What is the position of cross-border e-commerce in China for the brand? How do you see the risk of change in the regulations regarding cross-border e-commerce?

→ Stores such as counters at department stores are still our main channels. We regard cross-border e-commerce as a complementary channel to such physical channels. We recognize the changes in the regulations as risks, and we are constantly gathering information on them. If there appear to be signs of regulation changes, we will consider the appropriate response promptly.

Q5. [POLA brand] What were the sales from duty-free channels in the overseas business during the last year (full-year) and the first quarter of this year? Will the overseas duty-free business expand further in the future?

→ FY2017 (full-year) : a little less than ¥800 million (from international airports in Japan only)

FY2018 Q1 : a little less than ¥800 million (of which a little less than ¥300 million is from international airports in Japan, and ¥500 million is from overseas duty-free stores)

Performance has been showing strong growth. Going forward, the brand plans to increase its numbers of duty-free stores both at airports and downtown, not only in Korea but also in other countries.

- Q6. [POLA Wrinkle Shot Serum] How do you evaluate the sales in February and March this year, given that the January sales were ¥2.2 billion this year?**
- Wrinkle Shot sales are progressing favorably in line with the annual target of ¥10.0 billion. As the brand carries out re-promotion campaigns at appropriate times during the year, variations in monthly sales can appear.
- As for the sales from overseas expansion, we have not included them in our annual guidance, so those sales will be added on to the initial forecast. Because there are currently only seven stores that will be able to carry the product, the sales impact of the overseas launch will remain small this year, however, the brand will expand to other channels and countries in the next fiscal year.
- Q7. [POLA Wrinkle Shot Serum] How difficult is it to obtain import approval in China? When do you think it will become possible?**
- We believe it is hard to obtain import approval. We have already started to work on obtaining approval; however, the specific timing has not been confirmed.
- Q8. [POLA Wrinkle Shot Serum] What will the total sales of Wrinkle Shot in Japan and overseas be in 2020?**
- The sales target for the product for 2020 is undecided. The situation will differ depending on various factors such as the pace of the expansion of overseas stores, the delivery situation, the situation in China, etc.
- Q9. [POLA brand] What were the inbound sales in the first quarter at POLA? They were flat compared to the fourth quarter of the previous year; do you think that they are possibly affected by the acceleration of the overseas business?**
- Inbound sales amounted to ¥4.3 billion on a consolidated basis, of which ¥4.0 billion were from POLA and ¥0.3 billion were from THREE. For POLA, inbound sales for the first quarter increased by approximately 5% year on year. The Company has announced that inbound sales will become flat year on year for this fiscal year. We do not believe that overseas sales or any other specific factors are affecting them.
- Q10. [POLA brand] In the summary of the financial results report, advertising expenses increased in the first quarter. Were they incurred at POLA?**
- The majority of the advertising expenses are incurred at POLA and ORBIS. There was an increase of approximately ¥300 million at POLA (mainly for new products) and an increase of ¥200 million at ORBIS (mainly for ORBIS=U).
- Q11. [POLA brand] Advertising expenses increased year on year in the first quarter. Did you make a change to the Company's initial guidance that advertising expenses are to be decreased for the full year of 2018?**
- There is no change in the guidance that advertising expenses are to be decreased by more than ¥1.0 billion for the full year. In the first quarter, in particular, expenses were incurred for new product launches and the re-promotion of Wrinkle Shot Serum.

Q12. [POLA brand] The average spending price and the number of new customers has decreased. How are these matters relevant to the increased sales at POLA?

→ The decrease in the number of new customers is due to the launch of Wrinkle Shot Serum in the first quarter of last year. However, thanks to repeat purchases by customers who were acquired during the last year and the revitalization of existing customers, the brand achieved a 10% increase in the total number of customers, which offset those decreases and contributed to the sales growth. As a side note, the decrease in the average spending price is also due to the launch of Wrinkle Shot Serum last year, and this decrease is within the range of our expectations.

Q13. [POLA brand] Could you provide us with a channel breakdown of the 9% (¥3.0 billion) increase in sales at POLA?

- 1) Increase in domestic demand through Japanese BDs and department stores: Approximately a little more than +2% (¥800 million)
2) Increase in domestic demand through foreign national BDs: Approximately +3% (¥1.0 billion)
3) Increase in inbound sales: Approximately a little less than 1% (¥100 million)
4) Increase at overseas business: Approximately +3% (¥1.0 billion)

Q14. [POLA brand] What makes up the incremental operating margin at POLA in terms of the movement of gross margin, variable costs and fixed costs?

→ An increase in the gross margin of about ¥3.0 billion, an increase in sales commissions of ¥1.1 billion, and an increase in fixed costs of ¥1.0 billion make up the ¥0.9 billion increase in operating income.

Q15. [ORBIS brand] Does the cost increase in the first quarter comprise advertising expenses?

→ Yes. The brand is actively carrying out marketing initiatives focusing on ORBIS=U.

Q16. [ORBIS brand] Is there any change in the sales composition ratio of ORBIS=U as a result of marketing initiatives?

→ ORBIS=U accounts for 20% of skincare sales at ORBIS in the first quarter. This is 30% more than the previous year, which means that the composition ratio has been increased.

Q17. [Jurlique brand] What was the reason for the sales decrease in the Australian market and the increase in the duty-free market?

→ In Australia, a contract with a retailer who is unsuitable for the brand was terminated. Apart from this, there was no other major negative impact in the market.

Regarding the sales increase in the duty-free market, although it depends on the inventory levels, it is due to sell-in in association with sell-through.

Q18. [Brands under development] What is the situation of the costs for new brand launches?

➔ During the first quarter, costs of ¥150 million were incurred (mainly for development and personnel costs). The amount was less than our initial plan, but this resulted from a schedule shift in executing costs. Costs are expected to increase, especially after the new brand announcement and around the start of the business in autumn, especially for advertising expenses.

Q19. [Consolidated results] According to the initial guidance, the company expects a profit decline for the first half of this year. What is the stance of the Company for the guidance reflecting the result for the first quarter?

➔ In the first quarter, profit exceeded ¥1.0 billion compared to the plan. Although the performance forecast for the first half of this year is expected to decline by ¥1.3 billion, the Company intends to keep this excess as surplus going forward.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2018 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.