

**POLA ORBIS HOLDINGS INC.****Summary of Key Questions and Answers Concerning the Financial Results for FY2018 Q2**

**Q1. [Consolidated results] It is understandable that the additional investment plan in the second half is the reason for not making a revision to the full-year forecast. In terms of the second half alone, are there any guidelines for the level of the operating margin or the amount of investment? What should we expect the momentum to be like in the second half?**

➔ At present, the level of the operating margin and the amount of investment have not become clear, as they are to be examined during the third quarter. One thing we can say is that it is possible for the Group to sustain the level of momentum of the first half (sales approximately + 6% and operating income approximately + 10% year on year) in the second half as well. In the second half, we would like to make investments in branding and stores of POLA in order to maintain its favorable momentum going forward. In addition, we would like to accelerate investments in the overseas business of POLA, which has a great opportunity thanks to its raising popularity.

On the other hand, we anticipate a downside risk in Jurlique's performance, particularly in terms of a drop in operating income due to weak sales in China and Australia.

On a consolidated basis, however, we would like to emphasize that we do not foresee any serious problems in the business as a whole.

**Q2. [POLA brand] The year-on-year growth rate of inbound sales in the second quarter was higher than in the first quarter. Do you see any changes in the trend?**

➔ Inbound sales have become stable with no significant change since 2017. The gap in the growth rate in the first quarter and second quarter is not significant. The brand has introduced purchase limits per customer in order to prevent parallel exports that could potentially damage the brand equity, but the department store channel continues to capture inbound demand.

**Q3. [POLA Wrinkle Shot Serum] Can re-promotion initiatives (limited kit) accelerate the sales of Wrinkle Shot? Do you plan another price revision to the product?**

➔ The limited Wrinkle Shot Anniversary Kit in January achieved a very favorable outcome. In the second half, re-promotion initiatives are planned in July and the November-December period along with a limited kit that is similar to the one in January. We plan to spend ¥500 – ¥1,000 million on each promotion and expect a favorable return.

As for pricing, we do not plan to undertake another price revision to Wrinkle Shot.

- Q4. [POLA Wrinkle Shot Serum] What do you expect the contribution of Wrinkle Shot to overseas sales to be?**
- For this fiscal year, the overseas sales of Wrinkle Shot are only limited in Hong Kong and Taiwan. However, the brand plans to launch the product in other countries from next year onward. For the Chinese market, as it is likely to take time to launch the product in stores due to regulations, we are currently considering a route through cross-border e-commerce.
- Although the overseas sales plan for the product for next year is undecided, we would like to aim for a large contribution.
- As a side note, we believe that it is also very important to raise the brand value of POLA as a high prestige brand in the overseas market, but not only for the popularity of the Wrinkle Shot product. Today, the B.A and White Shot series have become very popular overseas, and overseas sales growth is strong (2.3 times year on year). By raising the brand value, we would like to maintain the strong momentum.
- Q5. [POLA brand] What is the situation of the overseas duty-free business? Is the business through distributors or subsidiaries? Is sell-through going well?**
- POLA opened a counter at a downtown duty-free store in Korea, and sales have been strong. The brand plans to open more counters in Korea and other countries in Asia. The duty-free business is a distributor model. Sell-through and sell-in are both progressing beyond the plan, and there is no need for concern about excess inventory.
- Q6. [POLA brand] Could you provide us with a channel breakdown of the ¥7.0 billion increase in sales at POLA? What is the growth rate of sales through foreign national Beauty Directors?**
- The increase in domestic business through Beauty Directors was approximately +¥3.2 billion, the increase in domestic business at department stores was approximately +¥1.6 billion, the increase in overseas business was approximately +¥1.9 billion, and the remaining others were approximately +¥0.3 billion.
- Sales through foreign national Beauty Directors grew 13% year on year.
- Q7. [POLA brand] It seems that the degree of improvement in the gross margin has slowed down. Is there any reason behind this?**
- Looking back, the improvement in the gross margin last year was exceptionally good thanks to the success of Wrinkle Shot. If we compare the first quarter and second quarter of this year, the range of the improvement in the gross margin decreased slightly in the second quarter due to the product mix. However, the gross margin for the first half has improved approximately 0.3 pt year on year, which is in line with the plan.
- Q8. [POLA brand] Are you concerned about the decrease in the number of new customers at POLA?**
- Last year, customer acquisition was exceptionally successful thanks to the launch of Wrinkle Shot. As for this year, it appears that the number of new customers has decreased due to the record high achieved last year; however, as an ordinary year, the number of new customers for the first half of this year is acceptable.
- On the other hand, the number of existing customers grew significantly, and the number of customers as a whole marked double-digit growth.

**Q9. [POLA brand] It appears that the growth rate in operating income is not as high as it is in sales. Is this because of an increase in the sales composition ratio of beauty and health food? What do you expect POLA's profitability to be like next year?**

➔ It is a fact that the degree of the contribution of beauty and health food products to sales growth was relatively high in the first half; however, that of skincare products was also high. At POLA, the more sales increase, the more commission expenses are incurred – this results in operating income growth remaining at a similar level to sales growth.

POLA's operating margin for the first half was 23%, and the first quarter and second quarter both recorded double-digit growth. We expect that POLA will be able to keep its high profitability at the current level from next year onward.

**Q10. [ORBIS brand] What is the purpose of lowering the price point of the new ORBIS U? Do you aim to up-sell, shifting from other products such as AQUA FORCE?**

➔ The purpose of the price change is to shift the product to a price range that is a relatively blue ocean among the middle price range market. The middle price range market as a whole is currently sluggish; however, we find that there is room for opportunity in the price range between ¥2,500 and ¥3,000. There will be some up-selling from AQUA FORCE after the renewal of ORBIS U; however, we are aiming to acquire new customers. To achieve this, the brand plans to introduce a range of initiatives and promotions from October.

**Q11. [ORBIS brand] Operating income increased despite the sales drop. Is this achieved in the same way as in FY2016, when ORBIS managed to achieve an increase in operating income by cutting costs?**

➔ For FY2016, ORBIS did achieve an increase in operating income by cutting costs. However, in terms of the first half of this year, the approach is different from that of FY2016. The brand is now concentrating its resources on a marketing strategy centered on the existing ORBIS=U product, has ceased campaigns with the appeal of affordable pricing, and is striving to improve the LTV (Lifetime Value) of loyal customers. By doing so, the brand has achieved improvements in cost of goods sold and cost efficiency, as well as a recovery in profitability.

**Q12. [ORBIS brand] The number of customers purchasing the mainstay skincare product series has grown significantly. Did ORBIS take any special measures?**

➔ As mentioned above, the brand ceased campaigns with the appeal of affordable pricing and concentrated its marketing resources on the existing ORBIS=U product. Consequently, health food and fashion products dropped and the composition ratio and sales of skincare products grew. This resulted in an increase in gross profit, a decrease in promotion expenses and an increase in operating income for the first half.

**Q13. [Jurlique brand] It seems to be taking time for the performance of Jurlique to recover. What do you think is the bottleneck?**

→ In the past, Jurlique's characteristic of "Natural / Organic" used to be quite unique in the market. Nowadays, however, many similar brands have been created in the market and the competition has become fierce.

In addition, as an internal issue, the fact that the brand lacked new products until last year was one of the reasons for the weak sales. From 2018, the brand has established a business foundation for creating products that can deliver the real brand value of Jurlique, and it plans to launch new products on a regular basis going forward.

**Q14. [New brands] Do you anticipate the cannibalization of the POLA brand as a result of the launch of the new brands?**

→ For the ITRIM brand, the sales channel is department stores, which will potentially cannibalize POLA's department store sales. However, although the price range of ITRIM is similar to that of POLA, the concepts and target customers are different.

For the Amplitude brand, the products are makeup. We therefore expect cannibalization to be less of an issue.

**Q15. [New brands] Do you have any guidance for the timeline of profitability and sales targets for the three new brands that are to be launched?**

→ We are already planning to open about 10 stores in total for the three brands, and we are receiving requests for more openings for next year. In addition, we hope to expand the brand overseas in the near future as well.

For now, the new brands are aiming for sales of about ¥2 billion each, and standalone profitability in about five years. For ACRO INC. as a whole, we would like to aim to break even in 2020.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2018 Q2 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.