Fiscal 2018
Supplementary Material

POLA ORBIS HOLDINGS INC.
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POLA ORBIS HOLDINGS

FY2018 Key Topics

Cosmetics Market

- Japanese cosmetics market including exports showed steady growth; however, a slowdown trend in inbound consumption is observed since September and the same situation continues up to the present.
- Excluding inbound demand, it is assumed that the size of the Japanese domestic market is shrinking.

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

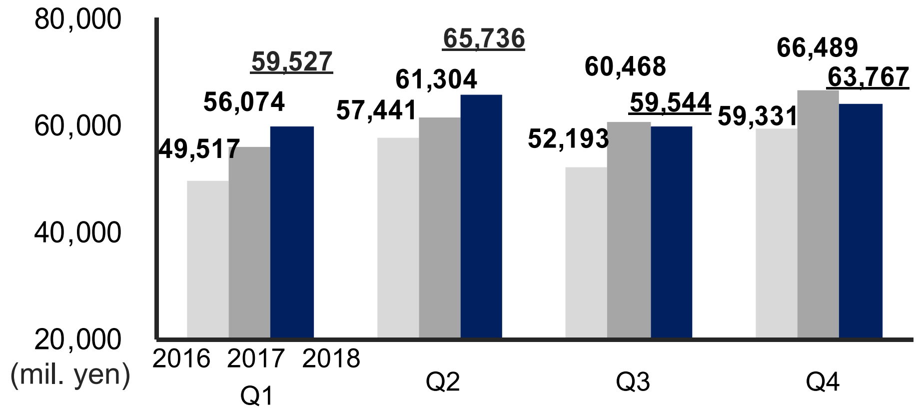
Our Group

- The Group achieved increases both in sales and operating income for nine consecutive years being driven by POLA.
- POLA was affected by the trend of inbound and buyers; however, the brand successfully expanded its customer base in Japan.
- ORBIS launched new “ORBIS U” and realized an increase in operating income thanks to initiatives focused on brand appeal.
- Jurlique continued to struggle and incurred an impairment loss.
- As for brands under development, THREE continued to expand both in Japan and overseas and new brands were off to a good start.

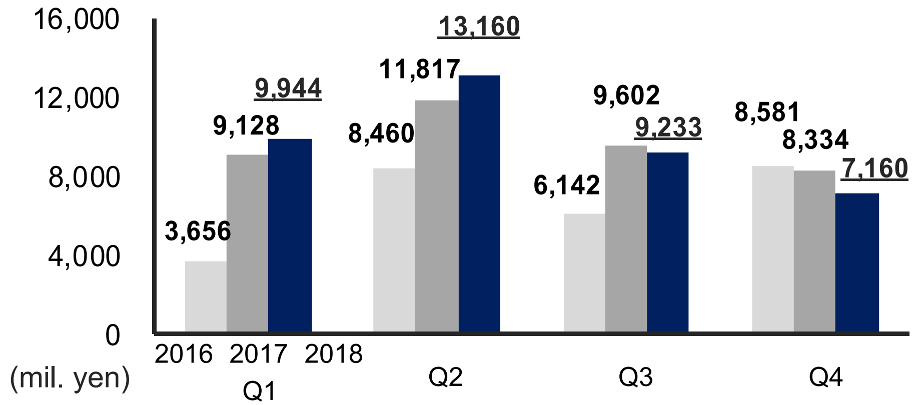
(Reference) Ratio of Inbound Sales to Consolidated Net Sales

FY2016 (Full year)	Approx. 6%
FY2017 (Full year)	Approx. 7%
FY2018 (Full year)	Approx. 7%

Quarterly Consolidated Sales



Quarterly Operating Income



Actual vs Planned Variance Analysis

(mil. yen)	FY2017 Results	FY2018 Results	YoY Change		vs. Plan (Nov 26, 2018)	
			Amount	%	Amount	%
Consol. net sales	244,335	248,574	4,239	1.7%	(4,425)	(1.7%)
Operating income	38,881	39,496	615	1.6%	(2,003)	(4.8%)
Ordinary income	39,250	38,954	(295)	(0.8%)	(2,545)	(6.1%)
Profit attributable to owners of parent	27,137	8,388	(18,749)	(69.1%)	(12,711)	(60.2%)

Average exchange rates: 1.00 AUD = 82.59 JPY, 1.00 USD = 110.43 JPY, 1.00 CNY = 16.71 JPY

	Variance from Nov 26 Plan	Major Factors of the Variance
Consol. net sales	- ¥4,425 mil. (-1.7%)	■ POLA (approx. + ¥1,200 mil.) ■ ORBIS (approx. - ¥2,600 mil.) ■ Jurlique (approx. - ¥3,600 mil.) ■ Brands under development (approx. + ¥1,000 mil.)
Operating income	- ¥2,003 mil. (-4.8%)	■ Increase in gross profit and improved cost efficiencies at POLA (approx. + ¥1,600 mil.) ■ Improved efficiency of promotion expenses at ORBIS (approx. + ¥300 mil.) ■ Decrease in gross profit and allowance for doubtful accounts related to delayed receivables at Jurlique (approx. - ¥3,700 mil.)
Ordinary income	- ¥2,545 mil. (-6.1%)	■ In addition to a decrease in operating income, FX losses incurred (approx. - ¥600 mil.)
Profit attributable to owners of parent	- ¥12,711 mil. (-60.2%)	■ Impairment loss at Jurlique (approx. - ¥11,300 mil.) ■ Extraordinary losses due to a voluntary product recall at POLA (approx. - ¥700 mil.) ■ Adjustments as a result of the closing of transfer of the pharmaceuticals business (approx. - ¥400 mil.)

POLA ORBIS HOLDINGS

Analysis of Consolidated P&L Changes
Net Sales to Operating Income

(mil. yen)	FY2017 Results	FY2018 Results	YoY Change Amount	YoY Change %
Consolidated net sales	244,335	248,574	4,239	1.7%
Cost of sales	41,632	41,521	(110)	(0.3%)
Gross profit	202,703	207,052	4,349	2.1%
SG&A* expenses	163,822	167,556	3,734	2.3%
Operating income	38,881	39,496	615	1.6%

*Selling, General and Administrative Expenses

Key Factors

■ Consol. net sales: Sales were mostly driven by POLA, which experienced strong sales to existing customers in Japan and growth in the Chinese, Hong Kong, and duty-free markets. Sales decreased at ORBIS and Jurlique. THREE sustained favorable sales.

■ Cost of sales: The cost of sales ratio was improved owing to an increase in the sales composition ratio of high-prestige products under POLA and improved skincare ratio at ORBIS.
Cost of sales ratio FY2017: 17.0% ⇒ FY2018: 16.7%

■ SG&A expenses:
Labor expenses : up ¥949 mil. YoY
-> resulted from store expansion at POLA and personnel increases at new brands.
Sales commissions : up ¥1,812 mil. YoY
-> resulted from increased sales at POLA. The commission ratio within POLA has improved.
Sales related expenses : down ¥2,478 mil. YoY
-> reduction in advertising expenses at POLA and improved efficiency of promotion expenses at ORBIS.
Administrative expenses,etc.: up ¥3,450 mil. YoY
-> resulted from overseas expansion of POLA, a recording of allowance for doubtful accounts at Jurlique, and new brand launches.

■ Operating income: Operating margin FY2017: 15.9% ⇒ FY2018: 15.9%

Analysis of Consolidated P&L Changes
Operating Income to Profit Attributable to Owners of Parent

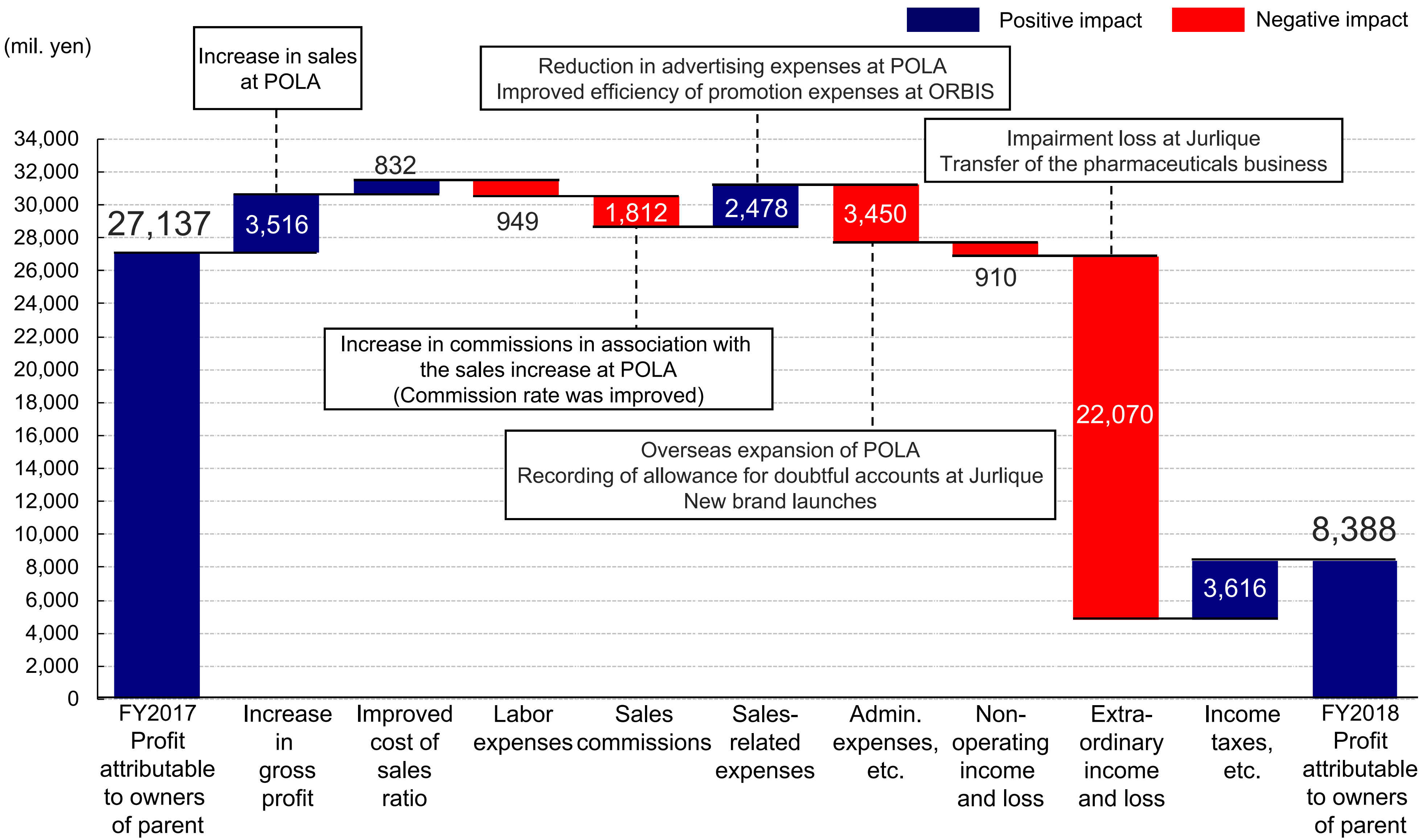
(mil. yen)	FY2017 Results	FY2018 Results	YoY Amount	YoY %
Operating income	38,881	39,496	615	1.6%
Non-operating income	465	476	10	2.3%
Non-operating expenses	96	1,017	921	959.4%
Ordinary income	39,250	38,954	(295)	(0.8%)
Extraordinary income	630	28	(601)	(95.5%)
Extraordinary losses	1,450	22,919	21,468	-
Profit before income taxes	38,430	16,064	(22,366)	(58.2%)
Income taxes	11,281	7,675	(3,606)	(32.0%)
Profit attributable to non-controlling interests	11	0	(10)	(95.4%)
Profit attributable to owners of parent	27,137	8,388	(18,749)	(69.1%)

Key Factors

- Non-operating expenses : Loss from unfavorable foreign exchange rates ¥834 mil.
- Extraordinary losses : Impairment loss at Jurlique (goodwill, right of trademark, and other tangible and intangible fixed assets) ¥11,331 mil.
  Losses as a result of transfer of the pharmaceuticals business (debt waiver, etc.) ¥10,056 mil.
  Losses due to a voluntary product recall at POLA ¥709 mil.

Factors Impacting Profit Attributable to Owners of Parent

Profit attributable to owners of parent was down 69.1% yoy due to extraordinary losses



POLA ORBIS HOLDINGS

Segment Results

(mil yen)	FY2017 Results	FY2018 Results	YoY Amount	YoY %
Consolidated net sales	244,335	248,574	4,239	1.7%
Beauty care	227,133	231,207	4,074	1.8%
Real estate	2,694	2,707	12	0.5%
Others	14,507	14,659	151	1.0%
Operating income	38,881	39,496	615	1.6%
Beauty care	38,121	38,294	173	0.5%
Real estate	1,082	1,001	(81)	(7.5%)
Others	(314)	796	1,110	-
Reconciliations	(8)	(596)	(587)	-

Segment Results Summary

- Beauty care: Sales growth was mainly attributed to POLA and brands under development. Operating income rose 0.5% due to recording of allowance for doubtful accounts at Jurlique and new brand launches.
- Real estate: Occupancy rate has been maintained at a high level. However, maintenance expenses were incurred.
- Others: The Group withdrew from the pharmaceuticals business. (share transfer completed on January 1, 2019)

Beauty Care Business Results by Brands

(mil. yen)	FY2017 Results	FY2018 Results	YoY Change Amount	YoY Change %
Beauty care net sales	227,133	231,207	4,074	1.8%
POLA	144,012	150,183	6,170	4.3%
ORBIS	53,066	51,051	(2,014)	(3.8%)
Jurlique	12,772	10,386	(2,385)	(18.7%)
H2O PLUS	2,303	2,041	(261)	(11.4%)
Brands under development	14,978	17,544	2,566	17.1%
Beauty care operating income	38,121	38,294	173	0.5%
POLA	28,584	32,574	3,989	14.0%
ORBIS	9,080	9,340	259	2.9%
Jurlique	(505)	(3,763)	(3,257)	-
H2O PLUS	(317)	(552)	(235)	-
Brands under development	1,278	695	(583)	(45.6%)

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

POLA

Brand Analysis (1)

FY2018 Result

- External factors affected the performance in the 2H (see right), however, POLA maintained stable growth for the full year thanks to the increased number of customers.
- Overseas sales grew especially in the Chinese, Hong Kong, and duty-free markets (by 2 times).
- The inbound ratio was approximately 11%.

	Inbound and buyers (estimate)	Sales in Japan: Cosmetics	Sales in Japan: Others	Overseas
1H	+15%	+6%	-5%	+132%
2H	-8%	±0%	-26%	+96%

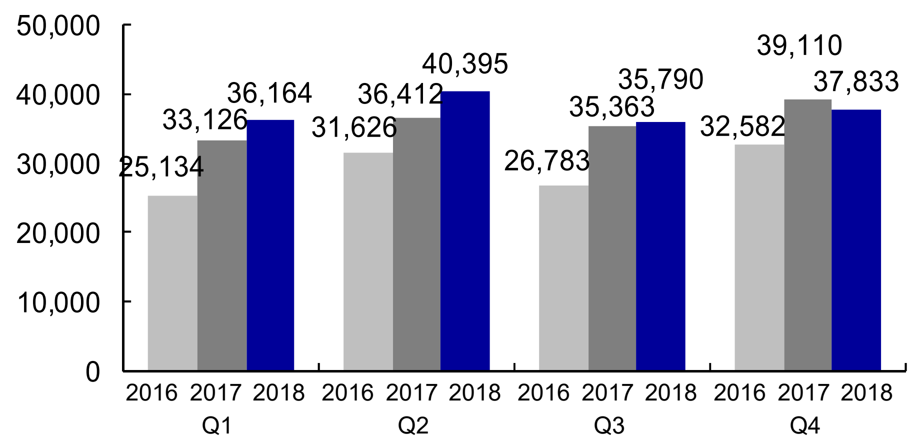
July - Counterfeits of Wrinkle Shot
September - False article about Innerlock
October - Strengthened customs inspection and news of e-commerce law

Q4	Results (mil. yen)	YoY Change
Net sales	150,183	4.3%
Operating income	32,574	14.0%

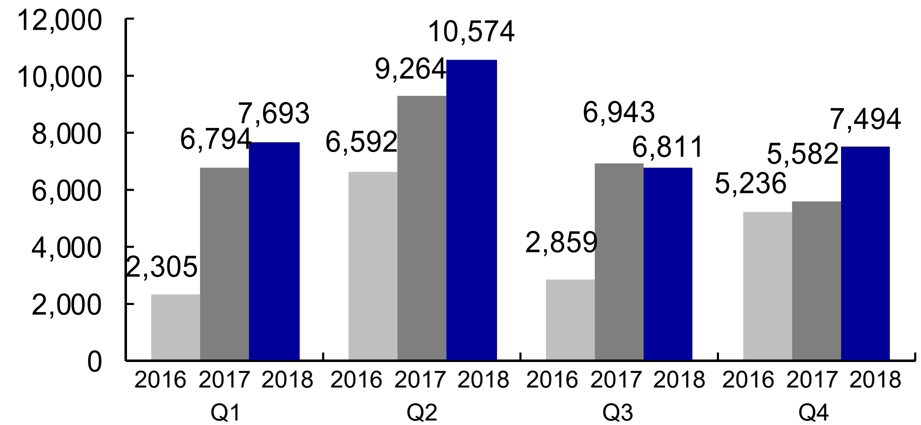
Key indicators		
Number of sales offices (vs. Dec. 2017)		4,178 (up 28)
Number of PB(2) (vs. Dec. 2017)		669 (up 13)
Cosmetics sales ratio	PB(2)	38.0%
	Esthe-inn	49.4%
	D2D(3) and other	12.6%
Sales growth*	PB	up 0.6%
	PB (like-for-like)	up 0.5%
	Esthe-inn	up 0.9%
	D2D	down 6.4%
Purchase per customer*		down 5.0%
Number of customers*		up 7.1%
Growth rate of overseas sales*		up 109.6%

(1)

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



(1) Consignment sales channel (2) PB: POLA THE BEAUTY stores
(3) D2D: Conventional door-to-door *YoY

Brand Analysis (2)

FY2018 Result

- Launched new ORBIS U in October.
- Operating income increased by improved cost efficiency, however, restrained discount-type promotions resulted in a decrease in the number of customers.
- Successfully improved the quality of the customer structure; the brand aims to improve repeat ratio and purchase price per customer.

Q4		Results (mil. yen)	YoY Change
Net sales		51,051	(3.8%)
Operating income		9,340	2.9%
Key indicators			
Sales ratio	Online		48.6%
	Other mail-order		23.7%
	Stores and overseas		27.7%
Sales increase*	Online		down 1.0%
	Other mail-order		down 9.8%
	Stores and overseas		down 2.7%
Mail-order[1] purchase per customer*			up 1.6%
Number of mail-order[1] customers*			down 6.3%
Number of customers purchasing the ORBIS U series*[2] [3]			up 51.3%

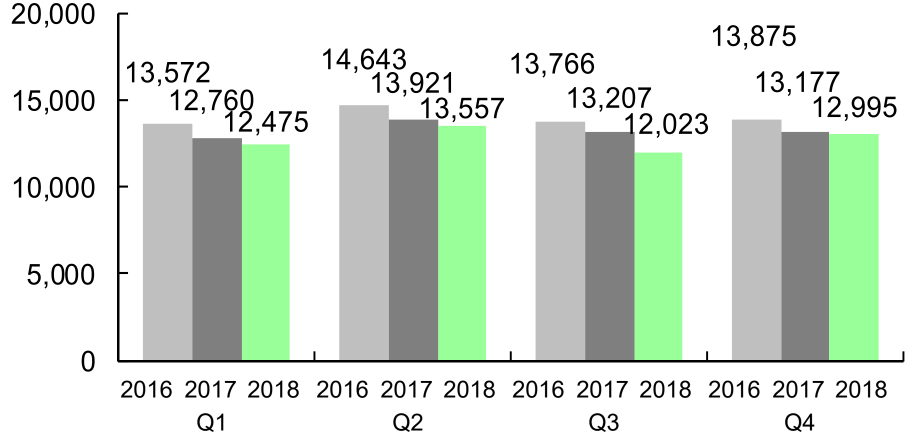
(1) Mail-order includes online and other mail-order * YoY basis
(2) For the last 6 months period (3) Series consists of ORBIS U, U encore, and U white

Topics

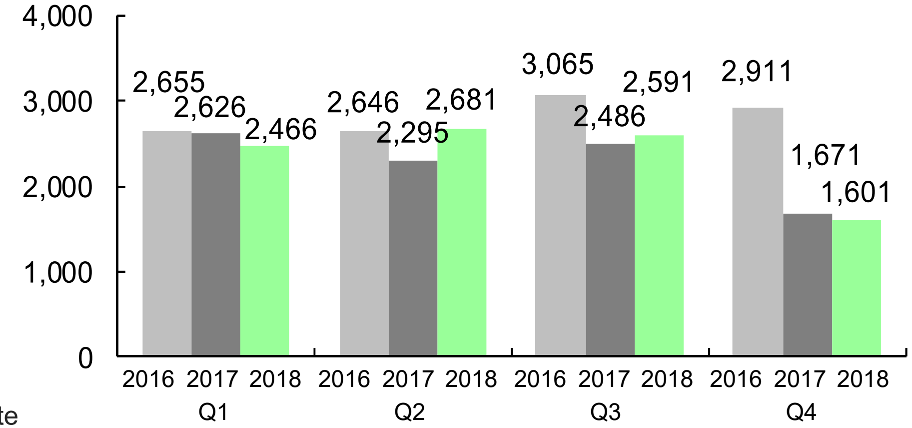
- ORBIS U series[3]
  Sales total : + 34% yoy
  Sales composition ratio : 21%
  (up 6.0pt YoY)

ORBIS U

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Jurlique

Brand Analysis (3)

FY2018 Result

- Sales declined by 15.3% yoy (on an AUD basis).
- Sales of the mainstay new products exceeded that of last year however, the brand continued to struggle due to a reduction in sales locations and channel optimization.
- Recorded an impairment loss in 4Q.

Q4		Results (mil. yen)	YoY Change[1]
Net sales		10,386	(18.7%)
Operating income (before goodwill amortization)		(3,704)	(3,260)
Operating income		(3,763)	(3,257)
Key indicators			
Number of doors in China (vs. Dec. 2017)			89 (down 21)
Sales ratio	China		14%
	Hong Kong		16%
	Duty free		15%
	Australia		31%
Sales growth[2]	China		down 38%
	Hong Kong		down 7%
	Duty free		down 10%
	Australia		down 17%

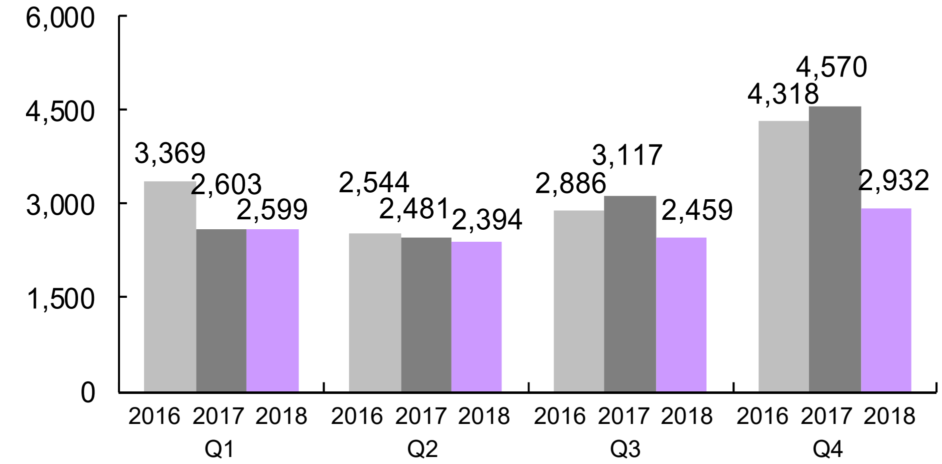
(1) For operating income, the YoY difference is shown as an amount (mil. yen).
(2) AUD basis, YoY

Topics

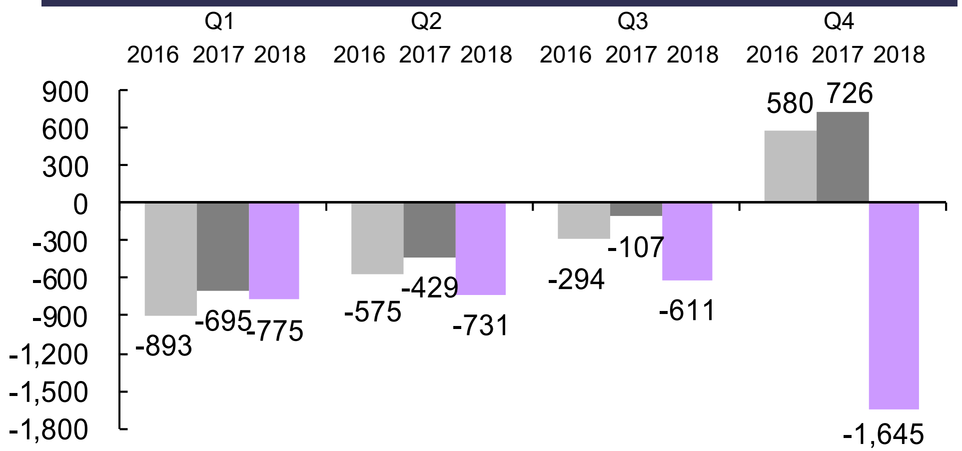
- New product that symbolizes the brand won best cosmetics awards from beauty magazines

Herbal Recovery Signature Serum

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Jurlique

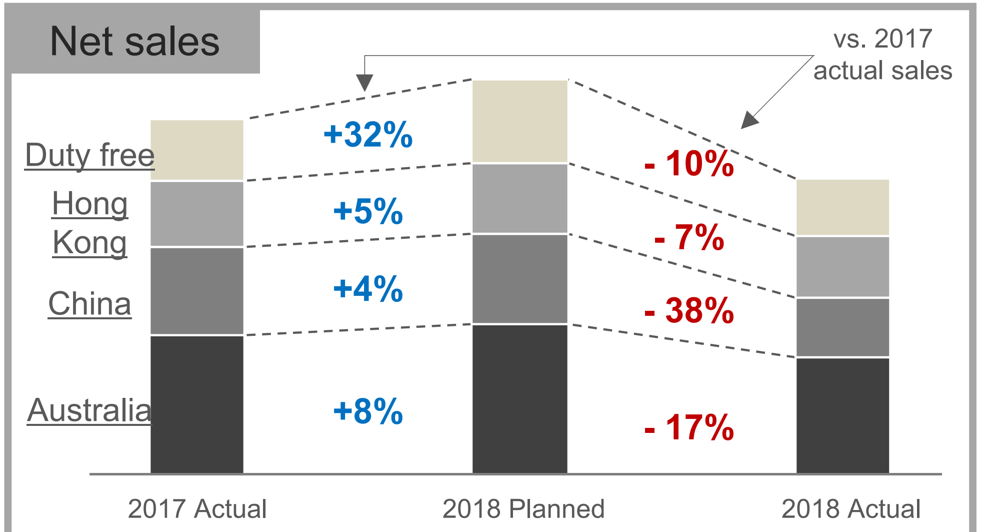
Performance Variance and Impairment Loss of Jurlique

Recorded impairment loss (on goodwill, etc.) in the fourth quarter of fiscal 2018

Reasons for the recording

- In spite of the measures such as organizational changes and reform in product development system and marketing plan, it is taking time to reach the expected outcome
- Recorded an impairment loss as a result of considering the situation where the difference between the performance plan and outlook became large for fiscal 2018

Net sales



OP income

Operating loss increased against initial plan of break-even due to the following factors:

- ✓ Decrease in gross profit as a result of a decrease in sales at all channel
- ✓ Recording of allowance for doubtful accounts related to delayed receivables as a temporary cost

Recorded amount and impact on future performance

FY 2018	Impairment loss : approximately ¥11,300 mil. (Goodwill of approx. ¥800 mil., right of trademark of approx. ¥8,400 mil. and other tangible and intangible fixed assets of approx. ¥2,100 mil.)
FY 2019	Decrease in depreciation : approximately ¥350 mil.

See page 26 for initiatives going forward

Brand Analysis (4)

FY2018 Result

- Sales decreased due to a decrease in the number of stores that carry the brand at a retail chain.
- Valuation loss on goods was incurred as a result of streamlining the number of products.

Q4	Results (mil. yen)	YoY Change[1]
Net sales	2,041	(11.4%)
Operating income	(552)	(235)

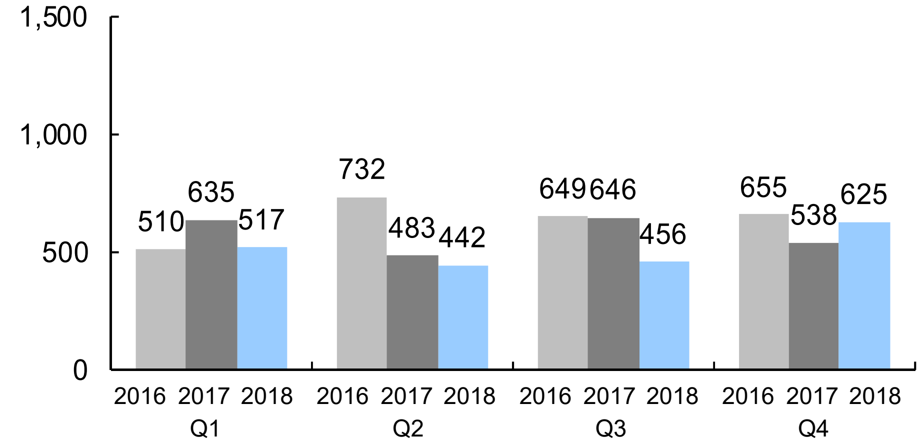
Key indicators		
Sales ratio	North America	87%
	Others	13%
Sales growth[2]	North America	down 13%
	Others	up 14%

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

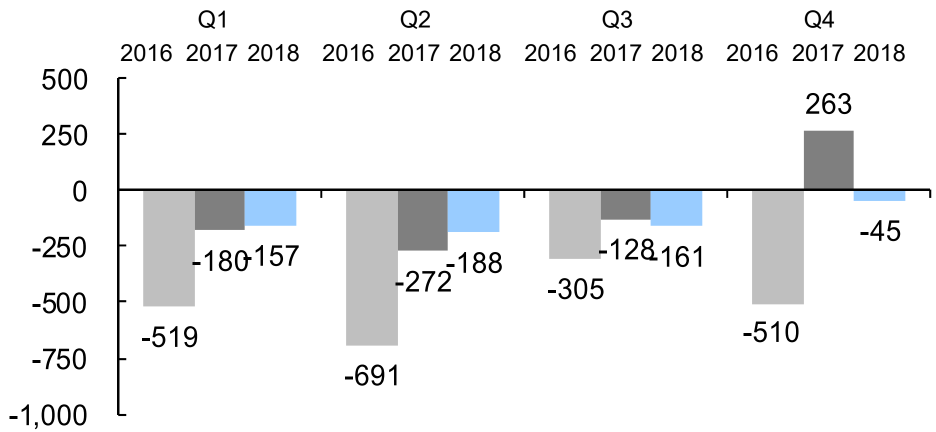
Topics

- The brand plans to debut products that are developed and manufactured by POLA CHEMICAL INDUSTREIS, INC. in 2019

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (5) Brands Under Development

FY2018 Result

- THREE strengthened customer structure by focusing on skincare and expanded overseas channel such as duty-free and cross-border e-commerce.
- Costs for launching new brands were approx. ¥1.5 bil. as planned. THREE doubled its OP income (increased by ¥500 mil.) on a stand-alone basis.
- DECENCIA sustained growth driven by existing customers.

Q4	Results (mil. yen)	YoY Change
Net sales	17,544	17.1%
Operating income	695	(45.6%)
ACRO Net sales	10,485	30.6%
ACRO OP income	(516)	(1,039)
(THREE Net sales)	10,320	28.6%
(THREE OP income)	1,008	92.9%

Key indicators		
THREE	Dept. store counters in Japan	41
	Other stores in Japan	70
	Overseas stores (in 7 countries & regions)	55
	Overseas sales ratio	20%

■ Brand Portfolio of Brands Under Development

Company	ACRO INC.	DECENCIA INC.
Brand	THREE, ITRIM, Amplitude, FIVEISM × THREE	DECENCIA

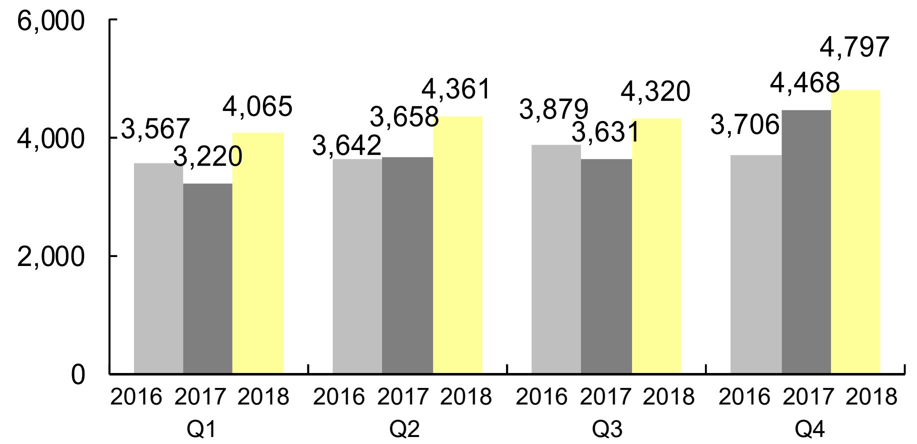
Note: Apart from the portfolio above, Brands Under Development includes the OEM business.

Topics

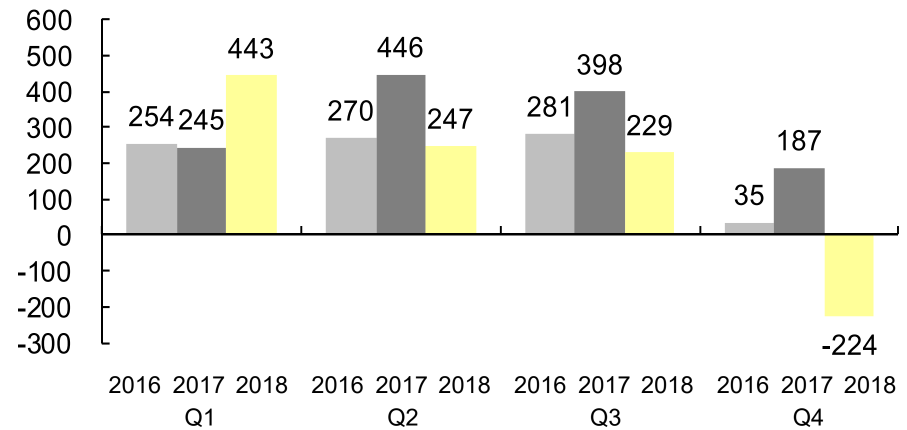
- Won #1 best cosmetics awards from major beauty magazines in 2H

From left : THREE (2 items)
ITRIM
Amplitude

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



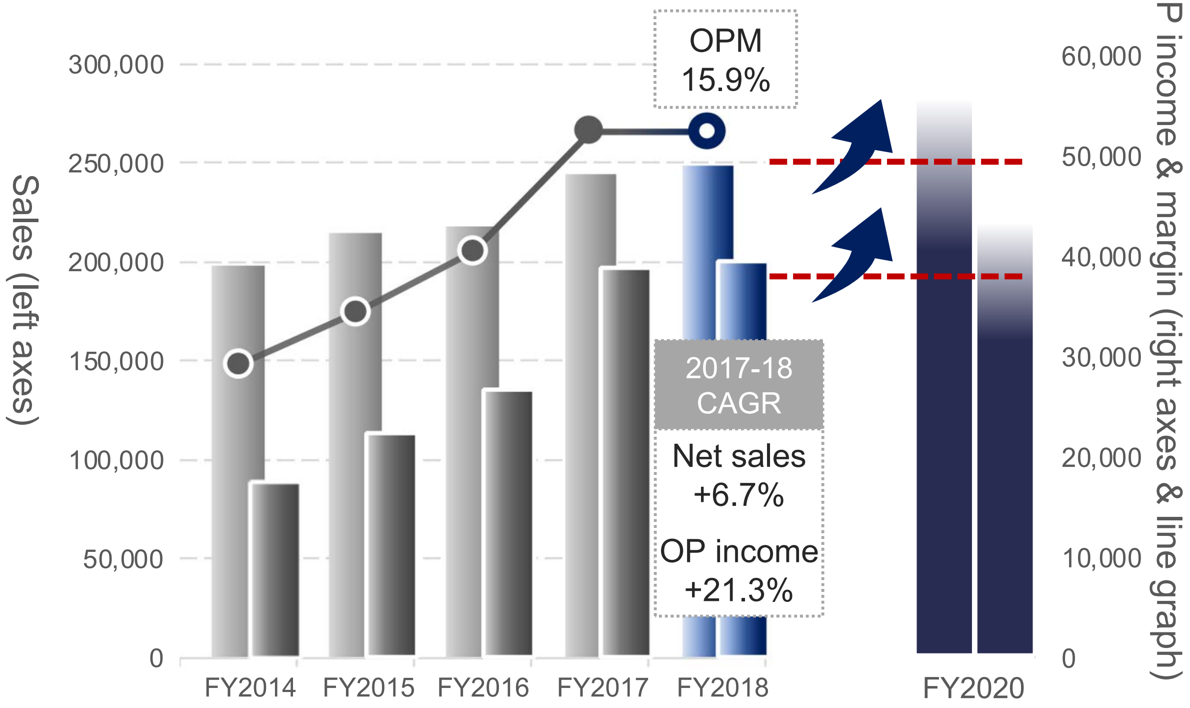
1. Highlights of Consolidated Performance
2. Segment Analysis
3. Progress of Mid-term Management Plan
4. Forecasts and Initiatives for Fiscal 2019
5. Appendices

Progress of 2017–2020 Medium-term Management Plan

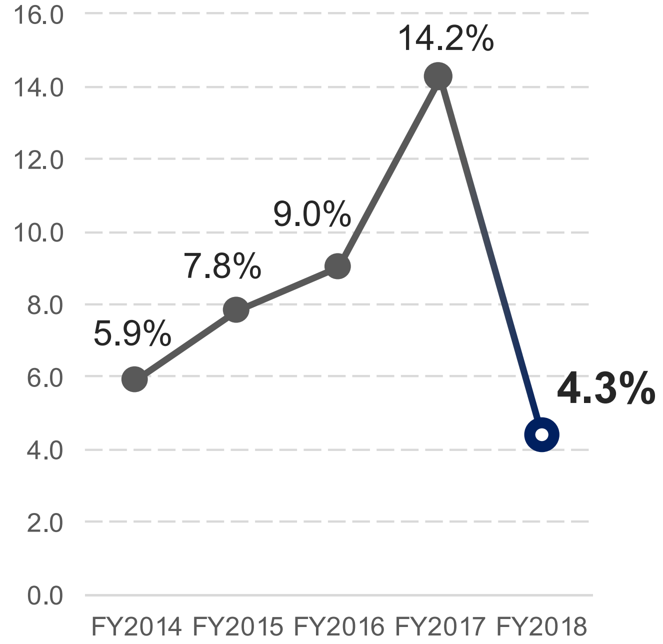
【Management Indicators for 2020】

Net sales	¥250 bil. or higher CAGR 3-4%	OP income	OP margin 15% or higher CAGR 10%	ROE	12% or higher

(¥ mil.) Sales / OP income & margin



(%) ROE



Some of the indicators such as net sales CAGR have already been achieved; however, ROE is temporary declined due to an impact of extraordinary losses. The Group aims to achieve the medium-term management plan and make a leap for the next long-term vision in the two years until 2020.

Progress of 2017–2020 Medium-term Management Plan

【Growth Strategies】

	Strategies		Evaluation
1	Sustain stable growth of flagship brands to lead Group earnings	Slightly behind	- POLA is successfully strengthening customer base. - ORBIS is carrying out its branding initiatives, however, increase in sales is to be realized in 2019.
2	Bring overseas operations solidly into the black overall	Behind	- Operating losses increased both at Jurlique and H2O PLUS which are seeing growth potential issue. - Overseas business of POLA doubled its sales in two consecutive years and contributes to profit.
3	Expand brands under development, create new brands, pursue M&A activity	On track	- THREE and DECENCIA continue to expand. - Three new brands were launched in September 2018.
4	Strengthen operations (reinforce R&D, human resources and governance)	On track	- Launch of a skin FOSHU* and approval of new skin whitening active ingredient. - Establish a voluntary advisory committee for nomination and compensation.
5	Enhance capital efficiency and enrich shareholder returns	Slightly behind	- ROE temporarily declined due to extraordinary losses. - Realized stable increase in dividends.

* Food for Specified Health Uses (FOSHU)

Priority matters are:
(1) bringing ORBIS back to a sales growth trajectory and
(2) drastically reforming the structure at Jurlique and H2O PLUS for profitability improvement.

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POLA ORBIS HOLDINGS

Forecasts for Fiscal 2019

(mil. yen)	FY2018 Full-year Results	YoY Change Amount	YoY Change %	FY2019 Full-year Plan	YoY Change Amount	YoY Change %
Consol. net sales	248,574	4,239	1.7%	241,000	(7,574)	(3.0%)
Beauty care	231,207	4,074	1.8%	236,200	4,992	2.2%
Real estate	2,707	12	0.5%	2,400	(307)	(11.3%)
Others	14,659	151	1.0%	2,400	(12,259)	(83.6%)
OP income	39,496	615	1.6%	40,500	1,003	2.5%
Beauty care	38,294	173	0.5%	40,600	2,305	6.0%
Real estate	1,001	(81)	(7.5%)	800	(201)	(20.1%)
Others	796	1,110	–	100	(696)	(87.4%)
Reconciliations	(596)	(587)	–	(1,000)	(403)	–
Ordinary income	38,954	(295)	(0.8%)	40,500	1,545	4.0%
Net income attributable to owners of parent	8,388	(18,749)	(69.1%)	25,500	17,111	204.0%

Assumed exchange rates : 1.00 AUD = 86 JPY(PY 82.59) 1.00 USD = 107 JPY (PY110.43) 1.00 CNY = 16.7 JPY(PY 16.71)

■ Consolidated net sales and OP income excluding the pharmaceuticals businesses in the Other segment (transfer completed on January 1, 2019)

(mil. yen)	FY2018 Full-year Results	FY2019 Full-year Plan	YoY Change Amount	YoY Change %
Consol. net sales	236,255	241,000	4,744	2.0%
Others	2,340	2,400	59	2.5%
OP income	38,896	40,500	1,603	4.1%
Others	196	100	(96)	(49.2%)

POLA ORBIS HOLDINGS

Forecasts for Fiscal 2019

The Group aims to achieve an increase in OP income for ten consecutive years; however, anticipates a decline in net sales and OP income in 1H based on assumptions below.

(mil. yen)	FY2019	YoY Change		FY2019	YoY Change	
	H1 Plan	Amount	%	H2 Plan	Amount	%
Consol. net sales	117,000	(8,262)	(6.6%)	124,000	688	0.6%
Beauty care	114,600	(2,373)	(2.0%)	121,600	7,365	6.4%
OP income	20,800	(2,303)	(10.0%)	19,700	3,307	20.2%
Beauty care	20,800	(1,453)	(6.5%)	19,800	3,759	23.4%
Ordinary income	20,800	(1,923)	(8.5%)	19,700	3,468	21.4%
Net income attributable to owners of parent	13,600	(1,721)	(11.2%)	11,900	18,832	–

Assumptions :

- ✓ Trend of inbound and buyers - Similar trend to 4Q 2018 to continue in 1H 2019
- ✓ Impact of the consumption tax hike - Rush demand and its backlash to be offset for the full year
- ✓ Impact of transfer of pharmaceuticals business - 2018 H1: ¥5,779 mil. (sales) / ¥434 mil. (OP income)
  - 2018 H2: ¥6,539 mil. (sales) / ¥165 mil. (OP income)

	FY2018	FY2019 (plan)
Shareholder returns	Annual ¥80 Consol. payout ratio 210.9 %	Annual ¥116 (Interim ¥35, Year-end ¥45, Commemorative ¥36) Consol. payout ratio 100.6%
Capital investment	¥10,514 million	¥12,000 - 13,000 million
Depreciation	¥7,075 million	¥7,000 - 8,000 million

POLA

Initiatives Going Forward

Establish brand presence in the global market

Japan

Expand repeat customers

Improve repeat ratio and build a customer base that works as the foundation for stable growth

Overseas

Increase stores

Develop new customers primarily in China

Expand Wrinkle Shot overseas and on EC Introduce quasi-drug products that are blended with new skin whitening active ingredient	Product	Price	Review on price difference between Japan and overseas
Reinforce collaborated promotions between Japan and overseas	Promo	Place	Develop borderless channel network between Japan, inbound and overseas

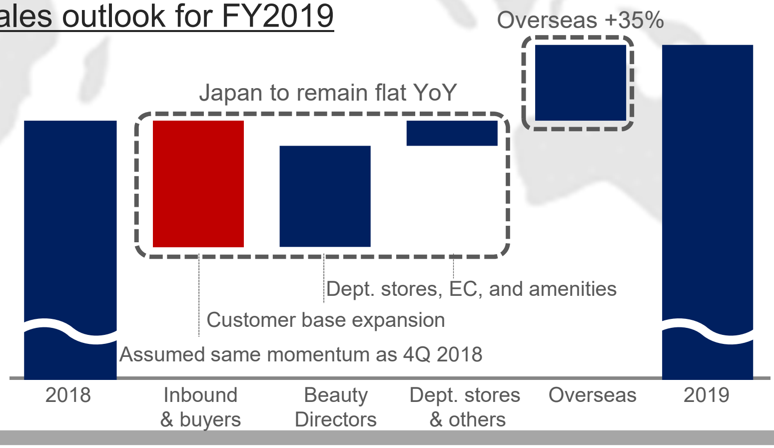
Sales outlook

2019 - 2020 Net Sales CAGR

Japan **1-2%** + Overseas **35%**

Note: POLA anticipates changes in sales mix in 2019; see right for breakdown of sales growth for FY2019

Sales outlook for FY2019



Initiatives Going Forward – Japan

Expand customer base and further solidify customer structure

Strengthen communication related to branding and product value and aim for sustainable brand value improvement

Customer base

2017 → 2018

Acquired new customers through Wrinkle Shot

# of existing customers **up 18%**

Potential needs

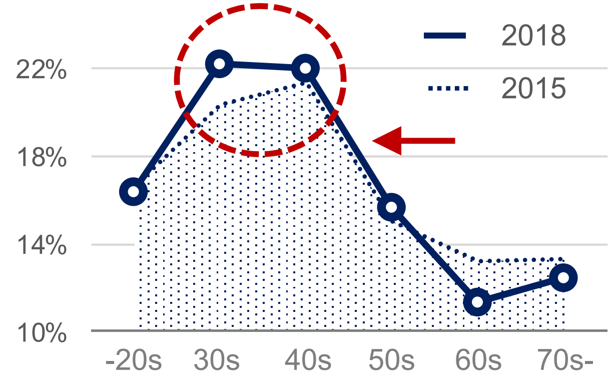
Change in survey results from 2015 to 2018

Favorable image **up 12pt**

Willingness of use **up 15pt**

(Results of a survey on those in their 30s and below, conducted by POLA)

Customer composition ratio by age group
(Comparison of 2018 and 2015)



✓ Shifting towards the 30s and 40s that the brand can expect high lifetime value

✓ The number of customers increased at all age group

Solid customer structure for Sustainable business growth

POLA

Note: All figures above are of consignment sales channel

Initiatives Going Forward – Overseas

Enhance brand recognition mainly in Asia with the Chinese market as a priority

¥15.0 bil. net sales with 100 stores in 2020

- Expand physical touchpoint with customers
- Introduce Wrinkle Shot at a larger scale (launch on cross-border EC is planned in April)

Enhance brand recognition by utilizing both expanding store network around China and e-commerce

# of high prestige stores

Dec. 2018: **50** → 2020 : **100**

(of which, 15 → 40 in China)

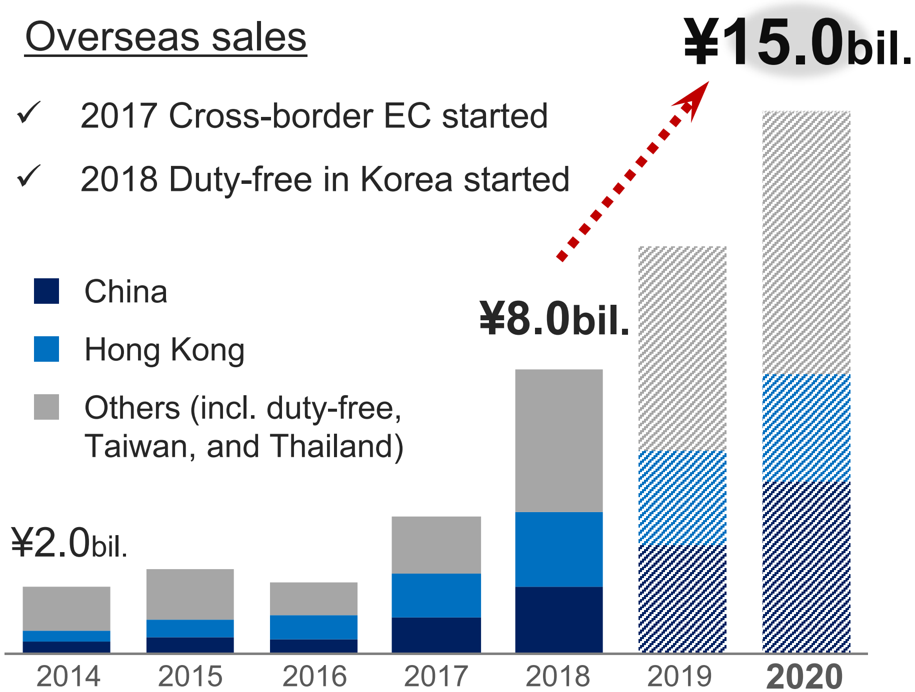
2019 – 2020 : Net Sales CAGR 35%

Aim to reach 10% overseas sales ratio at an early stage

Overseas sales

✓ 2017 Cross-border EC started

✓ 2018 Duty-free in Korea started



Initiatives Going Forward

Strengthen brand communication centered on products for the growth

2019 – 2020 : Net Sales CAGR 2-3% and 20% OP margin

- Actively invest in “DEFENCERA”, the first FOSHU* product for skin that became available in Japan
  *Foods for Specified Health Uses

✓ “Prevents skin moisture from escaping”

✓ A skincare product certified as FOSHU*

✓ Temporary supply shortage occurred due to better-than-expected sales progress since the launch in January

- Improve brand awareness and expand the business rapidly in the Chinese market

Strategic alliance

ORBIS

“DEFENCERA” to be sold on Tmall end Feb.

天猫国际 TMALL GLOBAL

- Reform customer communication

✕	○	↗
Catalog delivery	**Develop personalized app**	**Sales structure improvement**
Point bargains		**Maximize LTV**

Jurlique

Initiatives Going Forward

Fundamentally review on business structure and stop increase in losses

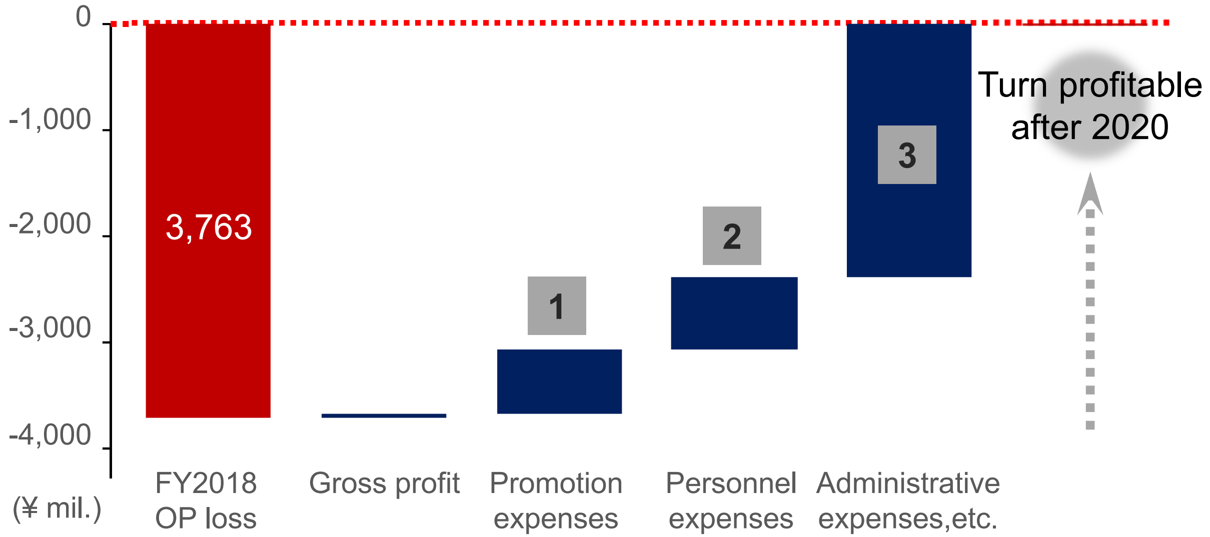
Although some temporary costs will be incurred in the course of reform, Jurlique strives to turn profitable after 2020

P&L structure

To turn profitable after 2020

✓ Improvement in gross profit will be realized after 2020 due to ongoing closure of unprofitable stores

✓ Aim to turn to profitability by full-scale cost structure reform



1 Reduction in marketing expenses

- Close unprofitable stores in China and reorganize unprofitable business
- Concentrate business resources on Australia and Hong Kong as the key markets and narrow down SKU

2 Reduction in personnel expenses

- Downsize by reviewing the function and structure of the organization

3 Reduction and efficiency improvement of admin. expenses

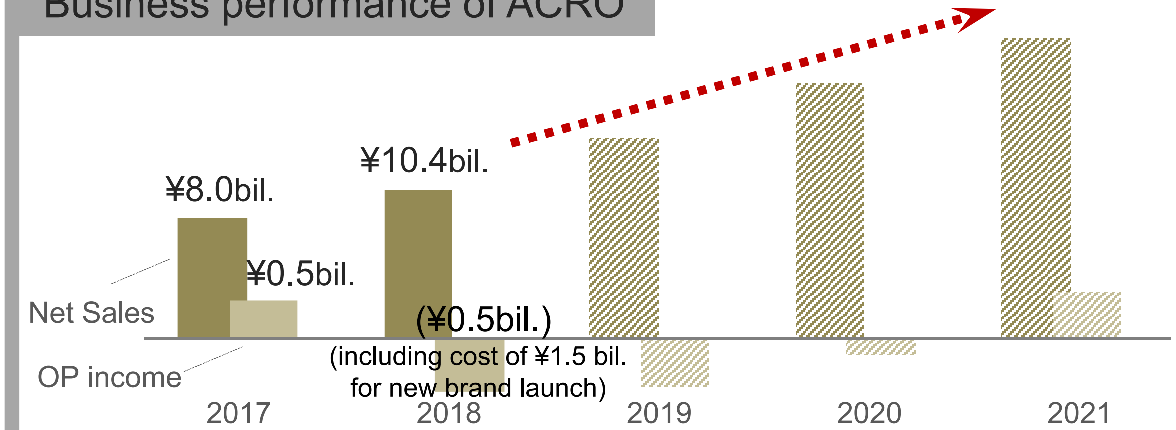
- One-off cost incurred in 2018 (allowance for doubtful acc, approx. ¥1,600 mil.)
- Operation of the Japanese business has been passed on to POLA
- Review on the business model in China

Initiatives Going Forward

Further enhance brand value of THREE; new brands to become next drivers

2019 - 2020	Key Strategies	Channels
THREE	■ Enhance brand value ■ Reinforce customer engagement <u>Strengthen business structure and improve profitability</u>	■ Accelerate global expansion (new stores and new countries) ■ Acquire customers through online advertising and reinforce e-commerce
Amplitude ITRIM FIVEISM × THREE	■ Enhance brand recognition <u>Establish brand positioning and increase customer touchpoint and the number of customers</u>	■ Major department stores in Japan ■ Rapidly expand overseas mainly in Asia → 50 stores in 2020 (in total, worldwide)

Business performance of ACRO



Target for 2021

Net Sales CAGR **15-20**%
Realize profitability as ACRO as a whole

Initiatives Going Forward - Other Brands

Enhance brand value and cultivate points of contact with new customers

DECENCIA

- ■ Expand channels (department stores and flagship stores)
  - ✓ Diversify touchpoints
  - ✓ Strengthen customer intimacy in the brand that is not only limited to functional value
- ■ Reform digital marketing strategy
  - ✓ Timely respond to change in the environment of online advertising
  - ✓ Outsource operation function and focus on direction

Product lineup expansion
Left : ayanasu base makeup items (September 2018)
Right: ayanasu cleansing & wash (April 2019)

Business structure reform for the growth after 2020

H2O+™ BEAUTY

- ■ Review on sales channel to reduce losses
  - ✓ Withdraw from wholesale in North America
  - ✓ Focus on online and amenity business
- ■ Launch new products developed and manufactured by POLA CHEMICAL INDUSTRIES, INC.

3-Step System
1.Elements Keep It Fresh Cleanser
2.Oasis Hydrating Beauty Essence
3.Oasis Hydrating Treatment

Strengthen Operations (R&D and Governance)

Research & Development

Expand new business opportunities by activities of the research organization (MIRC) established in POLA ORBIS HOLDINGS INC. and lead to open innovation

- Continue to boost R&D investment

- Plan to increase expenditure ratio to sales by 20% in 2020 compared with 2018 (in beauty care business)

- Ensure sustainable creation of new material pipelines

2017 2018 2019 onward

"Wrinkle Shot Serum", anti-wrinkle cosmetics

"DEFENCERA", skin FOSHU

New skin whitening active ingredient

New pipelines

Launched 2017

Launched 2019

Governance

- The Group has established voluntary advisory committees on management nomination, appointment and remuneration (from January 2019)
- For the executive remuneration system, the Group plans to form a system that enhances commitment to business performance

Further improvement in Capital Efficiency and Shareholder Returns

Improvement of shareholder return

Change in policy on shareholder return

With a policy of consolidated payout ratio of 60% or higher,
enhance shareholder return by realizing stable profit growth.
From a liquidity perspective, the Company will not conduct purchases of treasury stock for the time being and strives to enrich shareholder returns in the form of cash dividends.

With a policy of consolidated payout ratio of 60% or higher,
enhance shareholder return by realizing stable profit growth.
Purchases of treasury stock shall be considered based on our investment strategies, as well as market prices and liquidity of the Company's shares.

90th anniversary commemorative dividend

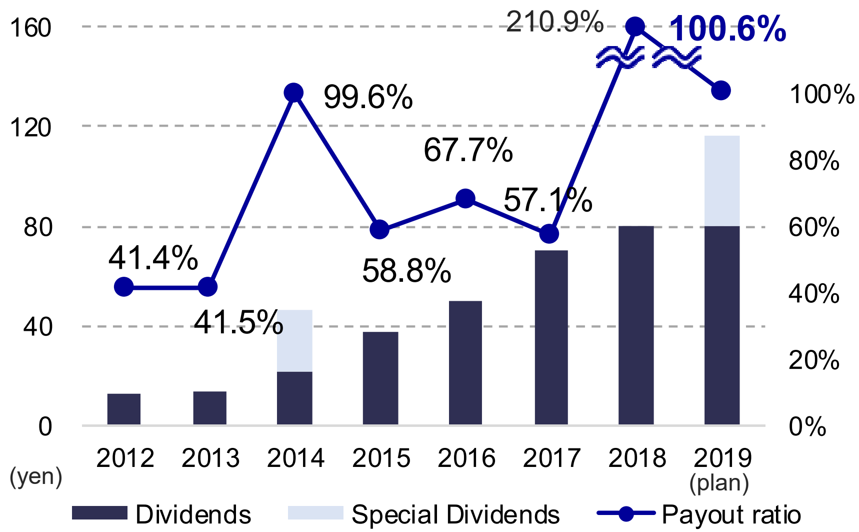
Dividend forecast for fiscal 2019

Ordinary dividend ¥80
(Consol. payout ratio 69.4%)

Commemorative dividend ¥36

Annual dividend
¥116 per share
(Consol. Payout ratio 100.6%)

Dividend yield to be around 4%
(including shareholder benefit program)



New Skin Whitening Active Ingredient (Quasi-drug)

Received approval for quasi-drug products with a new skin whitening active ingredient for the first time in about 10 years; products to be launched in May 2019 from POLA

"Suppresses melanin accumulation and prevents spots and freckles"
as efficacy claim,
a totally different mechanism from the existing claim of
"Suppresses melanin production and prevents spots and freckles"

The Group introduces a new solution
for skin whitening

Facial lotion and emulsion with the price of ¥11,000 (excluding tax) each will be added to "POLA White Shot Series" *
Advertising and promotions to be planned for the launch

***Sales target is undecided and not factored into the 2019 guidance as of February 13, 2019**

[Reference] Annual sales of White Shot Series in 2018 : approx. ¥7.0 billion (cosmetics products only)

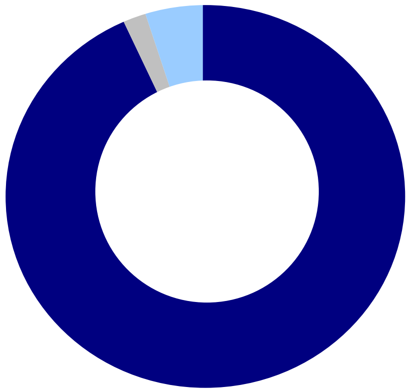
POLA ORBIS HOLDINGS

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Progress of Mid-term Management Plan
4. Forecasts and Initiatives for Fiscal 2019
5. Appendices

(Appendix) About POLA ORBIS Group

Beauty care is the core business of the Group, and 9 different cosmetics brands are operated under the Group umbrella

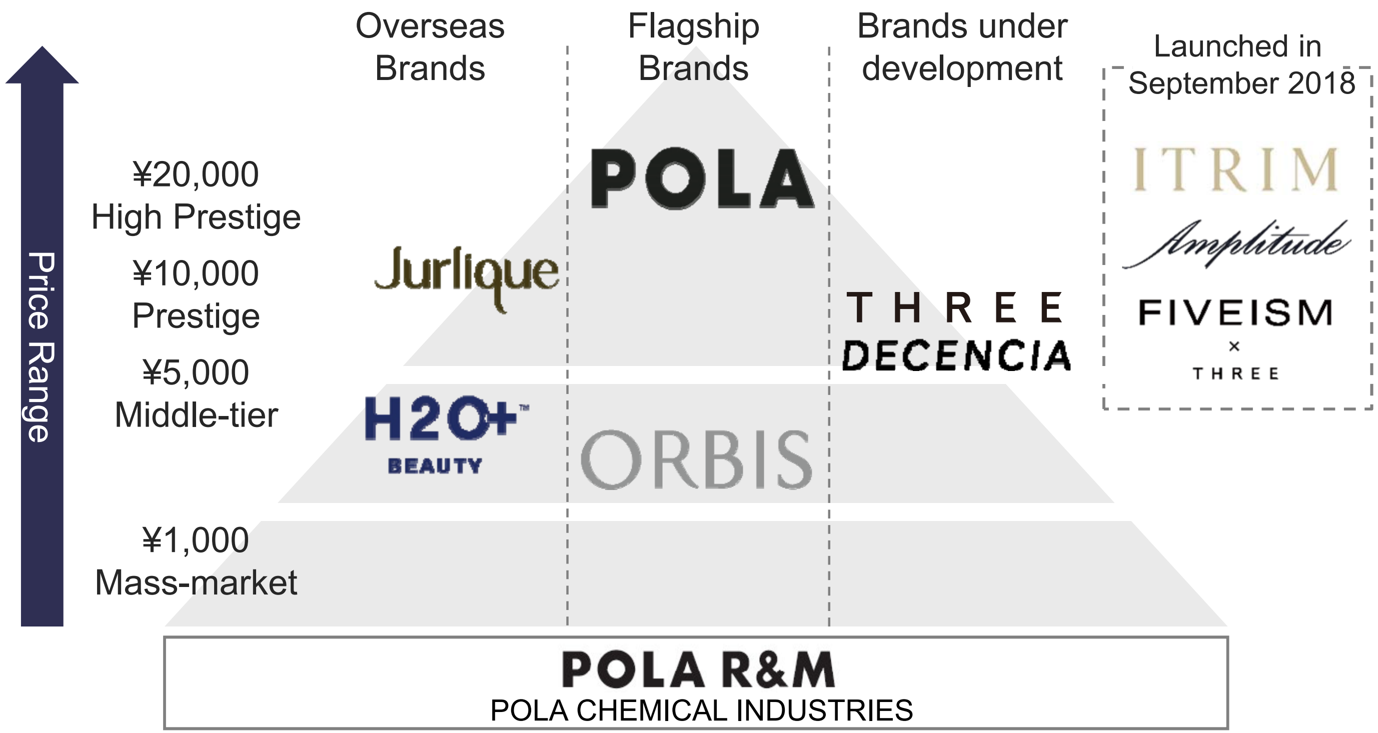
FY2018
Consol. Net Sales
¥248.5 bil.



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

(Appendix) Beauty Care Business Brand Portfolio

	Sales ratio*	Brand	Concept and products	Price	Sales channel
Flagship brands	65%	POLA Since 1929	■ High-prestige skincare ■ Leading-edge technology in anti-aging and skin-whitening fields	Approx. ¥10,000 or higher	■ Consignment sales through Beauty Directors, department store counters and online ■ Overseas, duty free stores
Flagship brands	22%	ORBIS Since 1984	■ Anti-aging brand to draw out people's intrinsic beauty	Approx. ¥1,000~ ¥3,000	■ Mail-order (online and catalog) ■ Directly-operated stores ■ Overseas
Overseas Brands	4%	Jurlique Acquired in 2012	■ Premium natural skincare brand from Australia	Approx. ¥5,000 or higher	■ Department store counters, directly-operated stores, and online ■ Duty free stores
Overseas Brands	1%	H2O+ BEAUTY Acquired in 2011	■ Skincare with concept of innovation and power of pure water	Approx. ¥4,000 not sold in Japan	■ US: Specialty stores and online
Brands under develop-ment	8%	THREE Since 2009	■ Skincare made with natural ingredients from Japan and fashion-forward make-up	Approx. ¥5,000 or higher	■ Department store counters and specialty stores ■ Directly-operated stores and online ■ Overseas and duty free stores (Operated by ACRO INC.)
Brands under develop-ment	8%	Amplitude Since 2018	■ High prestige quality makeup from Japan	Approx. ¥5,000~ ¥10,000	■ Department stores and online (Operated by ACRO INC.)
Brands under develop-ment	8%	ITRIM Since 2018	■ Premium skincare made from finely selected organic ingredients	Approx. ¥20,000	■ Department stores and online (Operated by ACRO INC.)
Brands under develop-ment	8%	FIVEISM × THREE Since 2018	■ Industry's first men's cosmetics focusing on makeup	Approx. ¥2,000~ ¥12,000	■ Department stores, directly-operated stores ■ Online (Operated by ACRO INC.)
Brands under develop-ment	8%	DECENCIA Since 2007	■ Skincare for sensitive skin	Approx. ¥2,000～ ¥5,000	■ Online

*Sales ratio in the beauty care business as of FY2018

(Appendix) Improvement in Capital Efficiency and Shareholder Returns

Initiatives to Improve Capital Efficiency

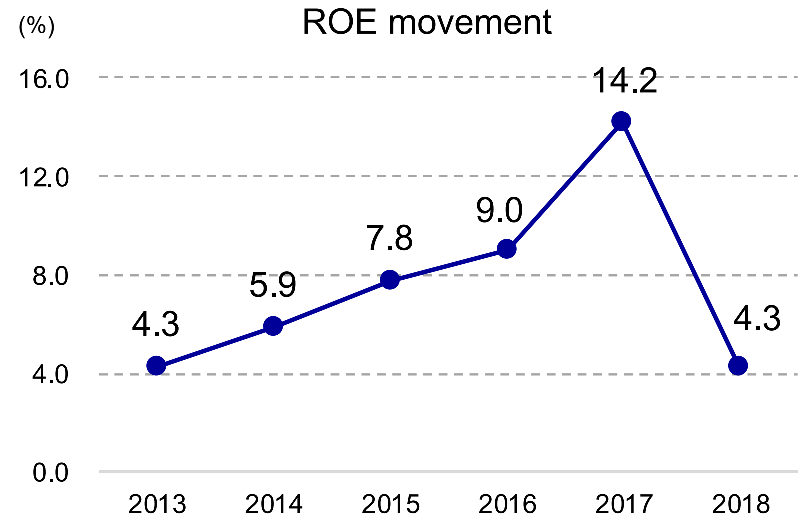
Target for 2020
ROE 12%
(Return on equity)

= EPS (Earnings per share) / BPS (Book value per share)

EPS:
- Operating income CAGR10%
- Achieve net income growth which is higher than operating income growth by decreasing overseas losses

BPS:
- Improve shareholder return through dividends
- Optimize balance sheet
- Investment for future growth

Achieved the target for 2020 at the year of 2017
Setting 12% as a way point and aim for global level in the long term

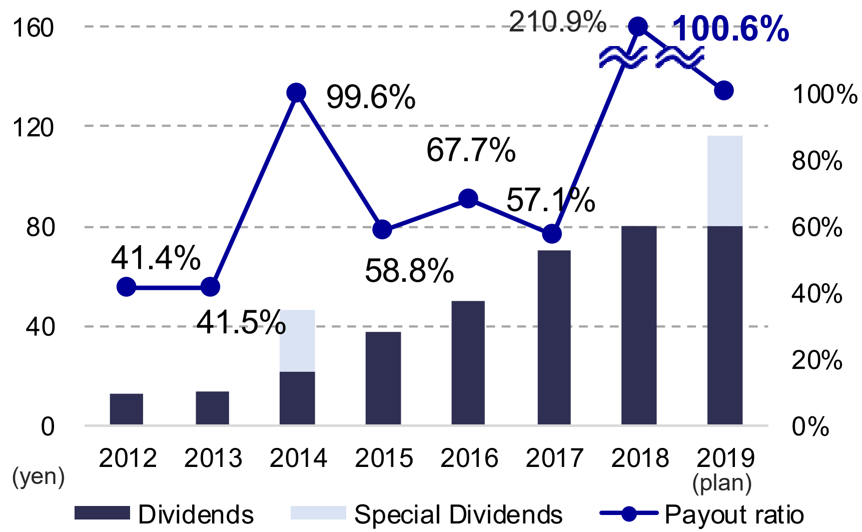


Improvement of Shareholder Return

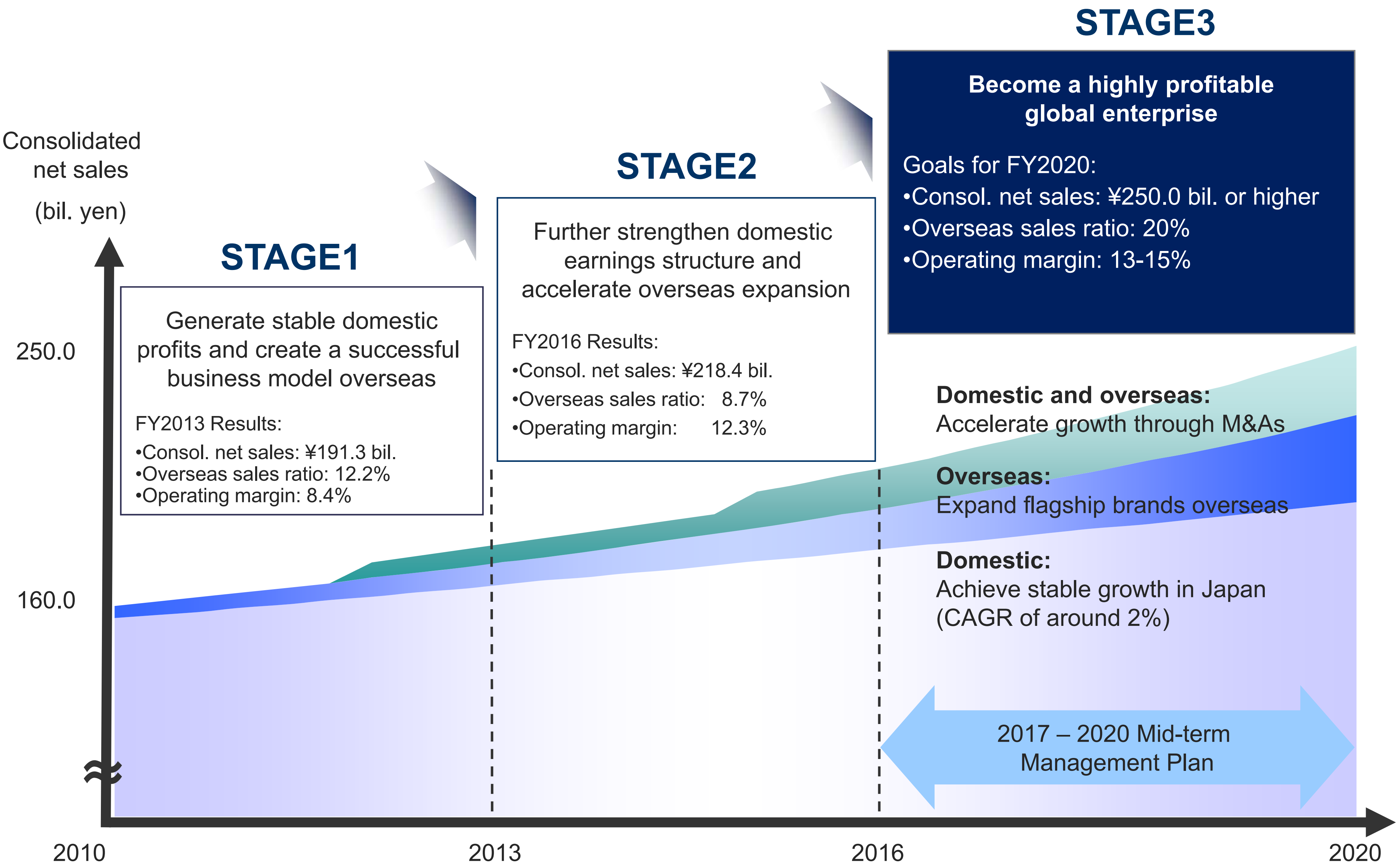
Basic Policy :

- With a policy of consolidated payout ratio of **60%** or higher, enhance shareholder return by realizing stable profit growth
- Purchases of treasury stock shall be considered based on our investment strategies, as well as market prices and liquidity of the Company's shares

Dividends forecast for FY2019:
- Dividend per share : **¥116**
(Interim ¥35, Year-end ¥45, Commemorative ¥36)
- Consol. payout ratio : 100.6%



(Appendix) Long-term Vision



(Appendix) 2017 – 2020 Medium-term Management Plan

**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

Japan

Overseas

Strategy 1. Sustain stable growth of flagship brands to lead Group earnings

Strategy 2. Bring overseas operations solidly into the black overall

Strategy 3. Expand brands under development, create new brands, pursue M&A activity

Strategy 4. Strengthen operations (reinforce R&D, human resources and governance)

Strategy 5. Enhance capital efficiency and enrich shareholder returns

(Appendix) Beauty Care Business Results for FY2016 – FY2018 by Brands

(mil. yen)	FY2016 Results	FY2017 Results	FY2018 Results	2017 vs 2018 YoY Change Amount	%
Consolidated net sales	218,482	244,335	248,574	4,239	1.7%
Beauty care net sales	202,446	227,133	231,207	4,074	1.8%
POLA	116,126	144,012	150,183	6,170	4.3%
ORBIS	55,857	53,066	51,051	(2,014)	(3.8%)
Jurlique	13,118	12,772	10,386	(2,385)	(18.7%)
H2O PLUS	2,547	2,303	2,041	(261)	(11.4%)
Brands under development	14,796	14,978	17,544	2,566	17.1%
Consol. operating income	26,839	38,881	39,496	615	1.6%
Beauty care operating income	25,904	38,121	38,294	173	0.5%
POLA	16,993	28,584	32,574	3,989	14.0%
ORBIS	11,279	9,080	9,340	259	2.9%
Jurlique	(1,183)	(505)	(3,763)	(3,257)	-
H2O PLUS	(2,027)	(317)	(552)	(235)	-
Brands under development	841	1,278	695	(583)	(45.6%)

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