

**POLA ORBIS HOLDINGS INC.****Summary of Key Questions and Answers Concerning the Financial Results for FY2020 Q2**

- Q1. [Consolidated results] Net sales for the April to June quarter are showing a recovery trend. What are the monthly year-on-year changes?**
- ➔ April: POLA -45%, ORBIS -23%, Consolidated -37%
  - May: POLA -44%, ORBIS -17%, Consolidated -36%
  - June: POLA -26%, ORBIS -3%, Consolidated -17%
- Q2. [Consolidated results] Describe the recovery status difference between POLA and ORBIS in June.**
- ➔ POLA's existing customers are returning, however, it is struggling to acquire new customers. Until now, trial aesthetics is the main way to acquire new customer, but POLA has not been used in the same way as before COVID-19. On the other hand, e-commerce sales in ORBIS were strong, supporting the overall performance.
- Q3. [Consolidated results] Aesthetic sales is recognized to be approximately 10% of total POLA sales. Describe the product category situations other than aesthetic.**
- ➔ Because aesthetic has a strong meaning of motivating customers to visit stores, we are struggling with not only aesthetic sales, but also sales of skincare and other cosmetics. There is also a downtrend in health food products due to the decrease of inbound tourists.
- Q4. [Consolidated results] Will cost reductions continue in the second half?**
- ➔ Cost reductions will continue throughout the year. Although some promotional costs, such as advertising expenses, have shifted from the first half to the second half, we plan to reduce costs by about ¥4 billion this year.
- Q5. [Consolidated results] Describe the cost saving for the ¥1.6 billion cost reductions of first half, and the reduction measures in the second half.**
- ➔ Breaking down ¥1.6 billion by brand, the main factors are POLA ¥700 million, ORBIS ¥400 million, Jurlique ¥300 million, and ACRO ¥200 million. We reduced sales related expenses by cutting primarily through advertising expenses and promotions at stores. On the other hand, reduced administrative expenses by cutting overhead cost instead of having meetings, trainings and business trips for the entire group, shifted activities and events online. In the second half of the fiscal year, we will continue to improve efficiency by putting the sales promotion methods online.

- Q6. [Market] What is the trend of the domestic cosmetics market by price range?**
- According to data from a consumer survey conducted by a research company, the overall price range is on a declining trend, but the decline is relatively small in the low-price range and the high-price range. There is a trend toward bipolarization.
- Q7. [Market] What is your outlook for the cosmetics market going forward?**
- The domestic market is uncertain depending on the spread of COVID-19, but it is expected to gradually recover toward the fourth quarter. Inbound sales will continue to face a challenging business environment. On the other hand, the recovery in China is prompt and e-commerce is more active than before COVID-19. We expect this will continue going forward.
- Q8. [POLA brand] What kinds of preventive measures are taken in aesthetics? Also, do you predict that the operation rate will return to the original level?**
- Sanitary management includes social distancing, ventilation and adjustment of aesthetic bed numbers, physical condition management of staff, wearing masks, face-shield wearing and partitions. For minimizing the risk of infections, we thoroughly disinfect the area and use disposable items. As for the operation rate, the adjustment of the number of aesthetic beds and the number of reservations are being set to avoid closeness, and it will take time to return to the situation before COVID-19.
- Q9. [POLA brand] Under these circumstances, what is the motivation of the Beauty Director in the consignment sales channel?**
- Sales are tough, however the shop owners want to maintain the store, which we support. While overall motivation has not declined, the number of Beauty Directors by the end of June was around 38,000, down from the end of the previous year due to the number of foreign national Beauty Directors decreasing and the difficulty of recruiting.
- Q10. [POLA brand] Is there a cannibalization with existing channels in domestic e-commerce?**
- In the first half, approximately 40% of e-commerce customers are the new customers for POLA. Inflow from existing channels is 15%, and existing e-commerce customers are 45%. Recognizing that e-commerce should be strengthened to acquire new customers rather than the fear of cannibalization.
- Q11. [POLA brand] Until now, POLA has emphasized counseling, and the company impression is that digitalization has not been aggressive. Did the policy change?**
- The policy did not change; however, the consumer consciousness has changed a lot. The unit price of products purchased by consumers online increased, not just in cosmetics. I believe that the high-prestige products like POLA is able to expand the sales through e-commerce. Therefore, how to personalize the information will be an important issue for us—personalization as a high-value-added product. If we can strengthen our CRM and communicate 1 on 1, customers may be willing to buy our products as expected.
- Q12. [POLA brand] The cost structure will change greatly if POLA proceeds with the shift to online, but how will it change its profit structure?**
- Higher online ratios will improve profitability. The ideal store state is an issue to be examined in the future.

- Q13. [POLA brand] Premium skincare can only have its intrinsic value appeal to others through experience. Is it possible to sell premium skincare on e-commerce without aesthetics over the long term?**
- We do not intend to completely shift to e-commerce and aesthetics will continue to be an important value proposition in the future. Online counseling by a designated Beauty Director will be expanded as an online effort. In addition to consulting on beauty, we offer pre-counseling service before receiving aesthetics and use it as a tool linking online and offline.
- Q14. [POLA brand] How was the Chinese 618? What is the strategy for e-commerce in China in the future?**
- POLA does not create much price appeal, such as discounts. Currently, the basic policy remains unchanged. However, from this year, we strengthened campaigns to an extent that does not impair the brand value in the e-commerce merchandising period, such as 618. In the future, we plan to expand sales channels other than Tmall and increase marketing investment.
- Q15. [POLA brand] Regarding the store development in China, how is the progress of POLA THE BEAUTY?**
- This year, we have not been able to open stores as expected, we will proceed according to the circumstances of offline channels.
- Q16. [POLA brand] Is there any effect on the duty free store on Hainan Island, China, which is attracting attention?**
- Because the store has not opened, there is no impact on earnings. It will be an important channel in terms of capturing demand from Chinese consumers amid the difficult outlook for international travel restrictions. Regarding the duty free market, we plan to proceed with negotiations in POLA and across the group.
- Q17. [POLA brand] What are the measures other than e-commerce for the recovery in the second half?**
- The main focus is the full renewal of the B.A series in September. It is a flagship series and aims to acquire both existing and new customers.
- Q18. [ORBIS brand] Despite strong mail-order (online and catalog) sales, describe the reason that the unit price of purchases has fallen.**
- The number of new customers increased by double-digit year-on-year, while the number of purchased items and the number of purchases fell for new customers, the unit purchase price was pushed down. However, the product unit price has risen and the structure will improve over time.
- Q19. [Jurlique brand] Describe why the China business appears to be performing well even amid changes in sales standards due to the shift to direct ownership.**
- Online sales such as live commerce were strong and stores have been recovering since April. By shifting from dealer licensing to directly-operated stores, we have placed a structure that enables to consistently make the brand appealing as a skincare brand.
- Q20. [Jurlique brand] While profits are improving, what is the situation toward moving into black?**
- In first half, despite temporary factors, we can see the effects of reducing fixed costs by closing unprofitable stores and downsizing organization, which were implemented last year. Going forward, the company plans to continue reducing headquarter expenses and improving efficiency by shifting to e-commerce.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2020 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.