

POLA ORBIS HOLDINGS INC.**Summary of Key Questions and Answers Concerning the Financial Results for FY2021 Q2**

- Q1. [Market] Are there any updates to the outlook for the domestic cosmetics market this year (annual +4-5% recovery)?**
- The store channel is being significantly affected by the unexpected prolonging the state of emergency, and the domestic market excluding inbound tourists in the first half is on a par with the previous year. In the domestic market, we recognize that the outlook of a 4-5% recovery in fiscal 2021 is a significantly raised bar. In addition, by category, skincare entered positive territory, while makeup continued to struggle in the negative in the previous year. By price range, the situation is better in the high price range than the low price range.
- Q2. [POLA brand] What is the background behind the increase in revenues from April to June, and the reason for the improved profit margin during the state of emergency?**
- Despite sales activities were affected including stores shutdowns etc., aesthetic sales in the consignment sales channel are recovering, mainly to existing customers. It has recovered to a level close to the pre-COVID-19 2019 level, and customers with high loyalty are returning. In terms of operating income, we were able to improve the operating margin due to an increase of high value-added products such as the B.A Series and the Wrinkle Shot Series.
- Q3. [POLA brand] About the growth rate (sell-in) and its persistence of online and offline activities in Mainland China.**
- China (including cross-border e-commerce) as a whole was up 96% YoY in the first half, up 49% online, and up 140% offline. For offline stores, we are opening stores that provide counseling and aesthetic services, mainly in malls. In our offline stores, we sell products and also offer customers a unique POLA experience. The persistence rate is higher than that of department stores, and we believe that it will contribute to sustainable growth. We recognize that POLA is leading the development of these product sales and aesthetic services.
- Q4. [POLA brand] About the channel development concept and the positioning of live commerce in China.**
- One of POLA's strengths is our provision of brand experience in offline stores, including counseling and aesthetic services, and it is strengthening stores with product sales and aesthetic services. On the other hand, in the development of stores, the selection of store locations is important, and because it cannot cover all of China, e-commerce and duty-free stores are also important touchpoints with customers in terms of improving brand recognition and the presentation of the brand's outlook. For live commerce, KOL selection and other considerations are necessary, but we think it is an important marketing method in that it persuasively conveys product appeal to customers. We operate with an emphasis on properly communication focusing on products quality without relying excessively on sales promotions.

- Q5. [POLA brand] We hear that the competitive environment in the Chinese market is intensifying and it is affecting profitability, but POLA seems to be less impacted. Is this due to differences in business scale and phase?**
- We emphasize POLA's repeat ratio also in China. Our approach is to steadily accumulate customers while controlling campaigns and GWPs to prevent excessive sales promotions. We recognize that growth is achieved by the fact that there are some presentative products can be purchased mainly by customers and the market recognizes POLA's brand position. Therefore, it has been able to grow after securing profitability. Going forward, by building up the distinctiveness and reputation of the brand, even if the scales of the store network and e-commerce business expand, we will take a similar stance and we believe that profitability can be secured.
- Q6. [POLA brand] The company opened a store on Hainan Island, but what impact will it have on existing channels? In addition, what do you anticipate the impact from the tightening of resale regulations in August will be?**
- We think the impact on existing channels is temporary, but we do not expect them to be negatively affected in the medium-to-long term. Further, the company cannot make year-on-year comparisons regarding the strengthened resale regulations because our first store opened in July. We believe it is good for the brand value. Hainan Island's pricing is balanced with mainland China, and the company's strategy is to control GWP and steadily accumulate customer numbers.
- Q7. [POLA brand] Will the new business model of the consignment sales channels impact accounting?**
- The accounting process remains unchanged, as part of the individual consignment contracts becomes corporate consignment contracts. And the impact on PL, including sales commissions, will be negligible. We believe that we can build a business model that can realize more sustainable business growth by improving business continuity and stability through employment in addition to the advantages of consignment sales.
- Q8. [ORBIS brand] In the April to June quarter, we saw an increase in sales, but what is the situation regarding existing customers and what measures are being taken?**
- Some existing customers have been less active, due to the rebranding strategy shifting to skincare-centered customers. Aware of the challenges, we will increase operations in special care products in addition to basic skincare lines and increase sales by continuing strong acquisition of new customers while raising lifetime value (LTV). The company has already promoted measures regarding the number of purchased items for special care products and the appeals of ORBIS U., the strategic product.
- Q9. [Jurlique brand] What is behind the slowdown in the April to June sales in Mainland China compared with the first quarter?**
- It is true that the first quarter had higher year-on-year sales due to the switch from a distributor model to a directly operated model in January 2020 and the rebound from the Chinese market lock-down. However, although there is a rise and fall in the rhythm compared to the previous year, sales in Mainland China is not slowing down, in addition to the selling situations and marketing are stable.

Q10. [Jurlique brand] Describe the reason that the loss improvement of first quarter was better than in first half.

→ As standard cost accounting easily impacts the first quarter, the impact of a decline in the cost of sales ratio was larger than in first half, but in terms of costs excluding this impact, fixed cost are reduced due to organizational downsizing, and trends have not changed from the first quarter. Further, as a temporary special factor in the previous year, there was approximately ¥350 million cost return due to the business model change in China, therefore the extent of the improvement appears to be small.

Q11. [Jurlique brand] Is there a possibility that the profit structure of the China business will deteriorate due to intensified competition in Hainan Island?

→ Hainan Island is one of the key points of contact with customers for Jurlique. In Mainland China, the company significantly reduced the number of stores compared to the period when agency was operating stores due to the shift to them being directly operated, and established a system that allows thorough branding at stores. The business model of building up our own customer list and maximize LTV is getting on track. We will carefully control costs in China and improve profitability as planned.

Q12. [Brands under development] What is the fiscal 2021 outlook for FUJIMI and the year-on-year comparison? Also describe the situation regarding the acquisition of new customers.

→ After FUJIMI was included in the scope of consolidation, the net sales outlook of FUJIMI is ¥1.3 billion (+70% YoY) in April to December. The acquisition of new customers has been affected temporarily by the decline in marketing due to advertising representation issues. However, from April onward, the company has been airing TV commercials and acquiring new customers since June. We want to accumulate customers and maintain a high growth rate.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2021 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.