POLA ORBIS HOLDINGS

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

Q1. [Consolidated results] What are the assumptions for each brand in the forecasts of FY2022?

➔ For net sales, in terms of standard for revenue recognition in real terms, compared with the previous year, POLA: Approximately +6%; ORBIS: Approximately +5%; Brands under development: Approximately +8%; Jurlique: Approximately +13%; H2O PLUS: Approximately +34%

Q2. [Consolidated results] What impact will the suppression of the flow of product into CtoC markets?

➔ In terms of results, the Company is expected to record a negative impact of approximately ¥4 billion in net sales and ¥2 billion in operating income for the current fiscal year. We aim to avoid chronic declines in market prices from a long-term brand development perspective, as seen in the trend of price collapses in the Chinese CtoC market. Our specific approaches include controlling shipments of the South Korean duty-free channel. We will monitor the results of our efforts and consider future measures.

Q3. [POLA brand] The domestic performance in October to December in FY2021 was sluggish. What was behind this and what initiatives will you take going forward?

➔ In the same period of FY2020, POLA entirely renewed its mainstay series, B.A, and strengthened sales promotions. Therefore, the high hurdle of the full B.A renewal is the biggest factor. On the other hand, the operating profit margin improved, reflecting an improved cost of sales ratio and a decrease in marketing costs. We recognized that the business characteristics centered on face-to-face sales have led to weak results compared to the market. In the future, POLA will seek to set up a unique OMO system and focus on expanding the number of customer touchpoints. On the product side, POLA has renewed the aesthetic menu in January, and so we expect sales to benefit from new customer acquisition and the revitalization of existing customers.

Q4. [POLA brand] Will suppression of the flow of product into CtoC markets lead to lower operating margins? What will the operating margins be over the medium to long term?

➔ The forecasts for FY2022 targets an operating margin of 14.6%, improving in real terms comparison. In the past, POLA recorded an operating margin of approximately 22% with the contribution to sales by inbound tourist and buyer, which did not require much marketing expenses then. However, we anticipated there is no return of inbound demand until FY2023. By raising the weighting of overseas and e-commerce, which have high operating margins, we hope to reach nearly 20% within the long-term management plan.

Q5. [POLA brand] How will the activities of the Beauty Directors (BDs) change?

➔ By setting up OMO system, sales activities will be mainly online. Regionality is a characteristic of the POLA consignment sales channel. We have stores nationwide, which opened by BDs with a vision of being rooted within their region and a desire to contribute to the community. The stores are using social media to disseminate information that features stores and BDs. Each store has its own individuality, which leads to customer visits and provide counseling and aesthetic treatment service. We will horizontally deploy successful cases like these going forward. In addition, we have put in place a mechanism to connect BDs' online activities to e-commerce, which had previously been divided.

Q6. [POLA brand] The number of shops and BDs in the consignment sales channel is declining. How does the Company maintain and continue to have contact with customers, and will incorporation contribute?

➔ One of the strengths of direct selling is that it is possible to approach customers using sales data, and so the decrease in the number of shops and BDs does not directly lead to a decrease in the number of customers. Another aim of our ongoing incorporation efforts is to improve customer continuity. A lower turnover rate and customer management as a corporate organization enable more sustainable business activities.

Q7. [POLA brand] In the second half of FY2021, why is the Chinese business showing signs of a slowdown? What are the strategies for achieving the plan for FY2022?

➔ Growth slowed due to the impact on attracting customers in the mainstay offline channel, which was affected by the spread of COVID-19 and the impact of power shortages. At the same time, Singles' Day did not show significant growth, due to our limited promotions and discounts. However the brand's presence and the reputation of its products are not declining. Although growth stalled on temporary factors, our reputation for high value-added skincare remains high, particularly in the B.A series. Going forward, we will continue to actively work to improve its brand presence and expand the number of customer contact points, such as opening stores providing aesthetic treatment and developing new online platforms.

Q8. [POLA brand] What is POLA's brand equity in the Chinese market?

➔ In brand evaluation, B.A is known with the keyword "black technology," which means something is supported by specialized, cutting-edge, and sophisticated technologies. We have won an ideal reputation, which supports our ability to attract customers to stores and its performance.

Q9. [POLA brand] How is the development of the WRINKLE SHOT SERUM in the Chinese market?

➔ Due to licensing, store distribution is not possible, and it is being developed solely through cross-border e-commerce. Local sales hurdles are high. However, there are items such as B.A EYEZONE CREAM and LIGHT SELECTOR (sunscreen) etc. that can be nominated and purchased on a single item basis, and we recognize that our research and technical capabilities are understood by customers mainly through B.A.

Q10. [ORBIS brand] In FY2021, what was behind the significant decline in income of approximately ¥1.4 billion looks relatively large compared with the decline of approximately ¥2 billion in revenue?

➔ The main reason was a decrease in gross profit. On the other hand, we controlled sales promotion and advertising expenses. Another factor was an increase in SG&A expenses due to the impact of the reclassification of expenses related to the response to COVID-19 to extraordinary losses in the previous fiscal year.

Q11. [ORBIS brand] What are the future measures for improvement?

- In FY2022, ORBIS is approaching its 35th anniversary. We plan a major new product in the second half and we will undertake extensive marketing activities. In FY2022, we will halt the decline in the number of customers. Strengthening CRM is our main strategy. Fundamentally, the one-to-one customer approach based on customer attribute data is ORBIS's strength. In addition, we will incorporate a new mechanism for analyzing interests and tastes. With this new CRM strategy, we aim to halt the decline in customer numbers and improve LTV by deepening engagement.

Q12. [Long-term Management Plan] Regarding the new business, are there any details that you can give at this point?

- In addition to me-fullness, a wellness tech project for fatigue care that has already begun, we are also considering artificial skin (Mirror Skin), DIY cosmetics, and aesthetic medicine. The artificial skin is planned to be launched as cosmetics in FY2029, but before its launch, using the knowledge obtained in the previous stage is also considered. In our R&D strategy, we aim to develop new businesses that transcend the bounds of cosmetics while focusing on cosmetics. We think that addressing social issues from the cosmetics and individual domains with the expansion of business domains is also linked to cosmetics branding.

Q13. [Long-term Management Plan] What is your perspective on the amount of investment in new businesses? And what will the business scale be in FY2023?

- With regard to capital investment, in addition to the New Aoyama Building, we are also investing in a new R&D base (TDC) in Yokohama, and until FY2024, which is scheduled to be completed, investment is expected to be increased by around ¥3 to ¥4 billion every year to the past average. Depreciation is about ¥8 to ¥9 billion per year. In addition, we do not assume a large monetization in the period FY2021-2023, which is a phase for sowing seeds.