

POLA ORBIS HOLDINGS INC.**Summary of Key Questions and Answers Concerning the Financial Results of FY2019 Q2**

- Q1. [POLA brand] The decrease in sales during the first quarter was mainly attributable to Inner Lock; however, in the second quarter, beauty and health food products other than Inner Lock were also factors in the sales decline. When will the decline in beauty and health food products end?**
- POLA has a wide range of beauty and health food products. Among them, Inner Lock has been one of the most popular products. Inner Lock remained particularly popular until the first half of 2018; however, from the second half of 2018, POLA started to see an overall decline in sales of beauty and health foods, including Inner Lock, from buyers because of reputational damage from rumors and the impact of the reinforcement of the new e-commerce law. Therefore, we expect that the year-on-year sales decline will moderate around the middle of the third quarter.
- Q2. [POLA brand] Do you think there is a change in demand for Inner Lock from end consumers? What will the sales level of the product be when effects such as inventory adjustments by buyers are over?**
- We do not believe that end demand is weakening, given that sales of the product at duty-free shops in South Korea and on cross-border e-commerce continue to expand. However, we do not foresee that sales of the product will return to the level of 2017 or the first half of 2018, and we estimate that the quarterly sales will be around ¥1.5 to ¥2.0 billion.
- Q3. [POLA brand] What is the progress on new White Shot products? How do you plan to promote the products going forward?**
- The products are well received because sales to existing customers and evaluations by best cosmetics awards are both good. However, the new White Shot products struggle with acquiring new customers, because the products are in the whitening category, which has many competing products. In the second half, although POLA will take measures to enhance product sales, we are anticipating annual sales to be about ¥4.0 billion against the annual sales target of ¥6.0 billion.
- Q4. [POLA brand] According to the revised forecast for the second half, POLA anticipates a decrease in operating income despite an increase in sales. Please provide the reason.**
- Viewing at the balance on a consolidated basis, the forecast is slightly conservative looking only at the POLA brand. If sales firmly increase, an increase in operating profit is possible for POLA in the second half.

Q5. [POLA brand] The number of sales offices decreased. Is the decrease in the number of Beauty Directors related to the decrease in domestic sales?

→ While the number of Beauty Directors decreased slightly, the impact of the decrease is insignificant and will not impact sales.

As for the number of sales offices, POLA sets a sales threshold to define the sales offices and some stores who did not reach that threshold.

Q6. [POLA brand] What is the situation behind the decrease in domestic sales?

→ Thanks to the launch of Wrinkle Shot Serum in 2017, POLA successfully acquired new customers and increased the total number of customers in 2018. With this expanded customer base, POLA was planning to increase domestic sales in 2019; however, domestic sales for the first half were weaker than expected due to changes in the internal and external environment, including but not limited to a decrease in demand from inbound tourists and buyers. Within the decrease in domestic sales, we assume that there is a considerable drop resulting from a decline in buyer demand, although we cannot determine the exact amount.

In contrast, sales from products such as esthetic treatments and the B.A. series, which are recognized as KPI indicators that show trends of existing domestic customers, are growing.

Q7. [POLA brand] Could you elaborate on the market data that shows a contraction in the high-priced cosmetics market in Japan? In addition, is it possible to make major strategic changes, such as to the business model, based on changes in consumer sentiment?

→ Looking at the past, it is rare to see market data that shows a decline in the high-end cosmetics market. We understand that it is necessary to determine whether or not this trend is temporary, but there is no impression that consumption by existing domestic customers is very weak.

In forecasting the second half performance, we recognize that fundamentals are in a difficult situation. However, we aim to continue to outperform the market environment by encouraging repeat purchases by existing customers with a consultation-based business model while acquiring new customers with highly differentiated products.

In addition, we understand that the methods of selling and buying consumer goods have changed dramatically. For example, the sharing economy and the online C2C marketplace (such as sales apps) are very active, which has an especially notable impact on the apparel market. We believe this can also happen in the cosmetics market. Based on these situations, when considering the next long-term business plan from 2021, we recognize that we need to think deeply about the nature of the business model and channel of cosmetics industry from a long-term perspective.

Q8. [POLA brand] How do you plan to expand the overseas business of POLA, especially for e-commerce in China?

→ Store expansion will be the main driver in the short-term. We have raised the target of overseas sales for POLA from ¥11.0 billion to ¥13.0 billion for this year, and we would like to raise the target for fiscal 2020 as high as possible. POLA also plans to expand store networks in various formats, not only for existing department stores but also for duty-free stores and stores with salons that can provide esthetic services.

For e-commerce in China, Tmall is the main channel. POLA will also strengthen cross-border e-commerce going forward.

We think that the cosmetics market in China can maintain a growth rate of +6 to 7% going forward and within that the momentum of wealthy people and urban workers will remain strong.

Q9. [POLA brand] Is overseas business contributing to POLA's profitability?

→ The profit margin in overseas business is higher than that of the entire POLA brand. Therefore, it is possible to contribute to profits by increasing the composition ratio of overseas sales.

Q10. [POLA brand] Inventory levels are increasing across the industry prior to the tax hike. Is there any risk of losses on disposal or valuation of such inventory in the future?

→ The inventory level is also increasing at POLA. We are currently paying careful attention to the movement of POLA's health food products, etc.; however, we are not seeing risks such as losses on disposal or evaluation.

Q11. [ORBIS brand] For operating income, is there a possibility that ORBIS will not reach the forecast for the full year, even though a downward revision was only made at POLA?

→ ORBIS increased costs for promoting new products in the first half by about ¥1.1 to ¥1.2 billion compared to last year. In the second half, ORBIS will improve profitability by reducing the costs of advertising and point expenses, and lowering the cost of goods as a result of an increase in the sales of refill products of ORBIS U.

Q12. [Jurlique brand] Why did the full-year forecast for operating income remain unchanged, while a downward revision was made for sales?

→ Sales were down 56% year on year in the Chinese market for the first half. It is likely that this situation will continue in the second half. However, because the sales decline is mostly attributable to the closure of unprofitable stores, we believe that Jurlique can improve the amount of operating losses by taking measures to reduce operating costs, mainly for the headquarters.

Q13. [Others] What are your thoughts about share buybacks?

→ This year, we are planning shareholder returns through cash dividends, including special dividends. We recognize that share buybacks is a topic that we would like to consider going forward.

Q14. [Others] Do you plan to change the brand strategy or investment strategy, such as strengthening investments to expand brands like the ORBIS and Jurlique brands, even if this would cause a temporary decrease in profit?

→ Currently, we are discussing the new long-term management plan and we will announce it in the spring of 2021. Until 2020, achieving the current medium-term plan is our priority. As part of the discussion of the new long-term management plan, however, we would like to produce an investment strategy, such as expanding the business from a long-term perspective.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2019 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.