

## **Risk Factors**

Unless otherwise noted, forward-looking statements in this description of business risks are assumptions and judgments made by management of the Group as of December 31, 2025.

### **Damage to brand value**

The Group has multiple brands, most notably POLA and ORBIS. Through conscientious business management and the supply of products and services designed to elicit customers' trust, each Group company responsible for a particular brand strives to maintain and enhance the respective brand's image. However, the operating results and financial position of the Group could be adversely affected if negative opinions and rumors about the Group's business activities were to spread, which could lead to loss of trust and impaired brand value.

### **Competition within the Group**

The Group adheres to a multi-brand, multi-channel sales strategy wherein its brands are promoted according to target customer segment (demographic base), price bracket and sales channel, thereby recognizing that the level of direct competition between brands under the Group umbrella is minimal. However, competition within the Group may arise in the course of promoting Group strategies to maximize the value of existing brands and accelerate the process of multi brand development, and such competition could adversely impact the operating results and financial position of the Group. As such, the Board of Directors is working to minimize these risks by establishing multiple key performance indicators for each brand and operation so as to confirm that each brand is producing expected results, and by monitoring the status of maintenance and management of originality at each brand.

### **Securing sales partners (business owners and corporations)**

POLA INC., the core company of the Group's Beauty Care segment, develops business based on consignment sales agreements. Securing sales partners under consignment sales agreements is an important activity for business expansion and something POLA constantly works on. However, if regulations under the Act on Specified Commercial Transactions are tightened or the labor environment changes, securing human resources may become more difficult, and the number of sales partner applicants may drop, etc., making it hard to secure sufficient human resources. Should this occur, the operating results and financial position of the Group could be adversely affected.

### **Strategic investment activities**

The Company oversees the execution of strategic investments within the Group to expand operations abroad, particularly in the Asia-Pacific region, as well as M&A activities and new businesses. Information necessary for making decisions on strategic investment activities is collected and examined. However, the operating results and financial position of the Group could be adversely affected if results initially expected are not achieved due to unexpected situations, such as unforeseen changes in the operating environment. Furthermore, operating

assets and assets such as goodwill accompanying M&A activity may end up as impairment losses on the books, if anticipated cash flow fails to appear due to poor performances. In view of these risks, the Group intends to employ external experts to conduct various forms of due diligence of potential M&A companies and to calculate corporate and stock value as part of its efforts to improve accuracy as well as ensure appropriate acquisition procedures and corporate valuation.

### **Cosmetics market environment**

The domestic cosmetics market has reached maturity. Against this backdrop, competition has intensified, fueled largely by the reorganization of corporate groups through M&A, the entry of new competitors into the market from different industries and the rising influence of distributors and retailers through alliances and integration. Consequently, the operating results and financial position of the Group could be adversely affected in the event that the Group cannot appropriately respond to unforeseen changes in the competitive environment. For this reason, in addition to actively developing overseas markets, we will focus on cultivating new business areas.

### **Research & development**

R&D is one source of the Group's competitive strength, and the Company intends to maintain investment in this area. R&D activities are undertaken in accordance with the annual R&D plan to ensure effective and efficient pursuits, but if the development of a new product is a long-term effort, the results may not be seen until years later. Also, in some cases, when anticipated results cannot be achieved, and the development period may need to be extended or additional investment may be required, in the end, a product still might not reach commercialization. If the initially anticipated results of R&D cannot be achieved as such, the operating results and financial position of the Group could be adversely affected. For this reason, with a view to shortening the development period prior to product commercialization and improving the accuracy of such process, the Group's Technical Development Center (TDC), an R&D base, has been in operations since 2024.

### **Manufacturing and quality assurance**

Efforts are made to continuously secure at appropriate prices the volume of raw materials required to manufacture products by striving to use diversified sources of supply and by maintaining good relationships with suppliers, under the supervision of divisions within the Group responsible for procuring raw materials. However, in the event of unforeseen circumstances caused by fluctuations in the price of crude oil and other raw materials or external factors, disruptions in the procurement of necessary raw materials, increases in manufacturing costs caused by rising purchase prices of key raw materials, etc., could occur. Under such conditions, the operating results and financial position of the Group could be adversely affected. In addition, the Group's cosmetics are manufactured at three locations, in Japan at POLA CHEMICAL INDUSTRIES' Fukuroi Factory, in the city of Fukuroi, Shizuoka Prefecture, TDC, in the city of Yokohama, Kanagawa Prefecture, and in Australia at Jurlique's Mount Barker Factory, in South Australia. Steps are taken to ensure practices in line with quality control standards to maintain and improve quality. But if issues with product quality, however remote the possibility, were to arise, the operating results and financial position of the Group could be adversely affected. To preempt

such issues, the Group organized the Group QCD Committee, which is composed of quality assurance staff from each Group company. The committee strives to strengthen the Group's quality assurance framework.

### **Overseas business activities**

The Group's main sales points are in Japan, but Group companies are also developing business in the Asia-Pacific region, where demand is expected to continue to grow, and further development will be pursued in overseas markets. Business activities in these overseas markets inherently carry the risk of social upheaval caused by economic instability, political unrest, labor problems, the outbreak of war, terrorist attacks and the spread of infectious diseases. The manifestation of such risks could adversely affect the operating results and financial position of the Group. For these reasons, in addition to information collected by overseas subsidiaries and the Company's divisions in charge of overseas businesses, the Multiple Intelligence Research Center (MIRC), a body in charge of collecting important information for the Group's management and business development, swiftly gathers information around the world. This action not only enables us to avoid risks through early risk detection, but also identify opportunities to expand existing businesses and develop new business areas. The Group is also striving to strengthen alliances with other companies and industries, universities, and research institutions, and is pursuing initiatives to increase corporate value over the medium to long term.

### **Currency exchange**

Paralleling an increase in import/export transactions due to the Group's expansion overseas, foreign currency-denominated settlements as well as loans extended to overseas subsidiaries carry the risk of exchange rate fluctuation. Additionally, since the local currency-denominated amounts reported by foreign consolidated subsidiaries are converted into yen when consolidated financial statements are prepared, changes in associated exchange rates may influence the operating results and financial position of the Group. For this reason, the Group monitors foreign exchange trends and use forward foreign exchange contracts and other hedging instruments as necessary to hedge such risk.

### **Limit of protection for intellectual property rights**

Steps have been taken to protect the intellectual property rights of companies under the Group umbrella, but third parties could infringe upon such rights through means beyond what might be anticipated. Consequently, the business activities of the Group could be adversely affected by the misappropriation of technologies and the creation of counterfeit goods etc., and also, third-party intellectual property rights could be infringed upon by a member, or members, of the Group, albeit unknowingly. For this reason, the Group established an Intellectual Property & Regulatory Affairs Center that specializes in managing the Group's intellectual property and developing strategies. The Center is tasked with formulating and implementing intellectual property strategies, such as securing patent and trademark rights at domestic and overseas bases, and monitoring the existence of any unjustifiable infringement of the rights held by the Company. At the same time, the Group conducts preventive investigation of infringements and other activities to ensure that it does not unintentionally infringe the rights of a third-party.

### **Information security**

To protect personal and confidential information from threats, the Group has implemented information security measures such as establishing an information security system, formulating and educating employees on internal rules, and conducting regular training in preparation for emergencies. These efforts are led by the Information Security Committee. However, if an information leak or system shutdown occurs due to a cyberattack or other incident, business stagnation, claims for damages against the Group, a loss of credibility, etc., could result. Any of those in turn could adversely affect the businesses of the Group. Accordingly, the Group is implementing the latest defense mechanisms against threats, which are becoming more sophisticated daily, by referring to the cybersecurity framework of the United States National Institute of Standards and Technology (NIST), which is being increasingly used by many organizations around the world.

### **Legal regulations, etc.**

The Group is subject to various laws and regulations related to the manufacture and sale of cosmetics, consignment sales, mail-order sales, etc. Failure to adequately comply with these laws and regulations may result in administrative guidance, the payment of surcharges or fines, restrictions on business activities, a decline in social reputation, etc. In response, we regularly track developments such as legal revisions and strive to comply with laws and regulations through internal training. Furthermore, as the Group operates in overseas markets, our overseas business could be affected by changes in import regulations or other developments in laws and regulations in relevant countries. To address these risks, the Group and related parties strive to comply with applicable laws and regulations, and are establishing internal systems and gathering information as needed.

### **Material litigation**

Although no lawsuits with the potential to seriously impact the Group were filed in fiscal 2024, there is a possibility that significant lawsuits or other actions may arise in the future, which could adversely affect the operating results and financial position of the Group.

### **Disasters**

The Group's production base for cosmetics is the Fukuroi Factory, operated by POLA CHEMICAL INDUSTRIES. Therefore, product supply could be interrupted for a long period in the event of a large-scale earthquake or flooding in the Tokai region, or some other major disaster. Furthermore, unprecedented large-scale natural disasters or accidents could occur in areas other than the Tokai region and interrupt the procurement of raw materials and components and the supply and sale of products, which could have an adverse effect on the operating results of the Group. To mitigate these risks, we secure BCP inventory of products and irreplaceable raw materials for specific items that are considered vital for the continuation of business (the Group's priority items), assuming cases in which the operations at the Fukuroi Factory is suspended for a certain period of time and situations where the procurement of products and raw materials becomes difficult due to occurrence of a disaster. We also strive to avoid or disperse these risks by switching the production of some products, primarily of our pillar companies POLA INC. and ORBIS Inc., to external manufacturing contractors and by equipping

TDC, our R&D base, with the function to produce the Group's priority items.

### **Spread of infectious diseases**

Given that face-to-face contact between customers and business partners is characteristic of daily business activities within the Group, the spread of infectious diseases with a significant social impact would necessitate voluntary suspension of service and sales activities and the closure of sales offices. In such a scenario, the operating results and financial position of the Group could be adversely affected in Japan and overseas. When measures such as stay-at-home requests or reduced business hours are taken due to the spread of infectious diseases, the use of face-to-face services will be severely restricted, and many customers will turn to e-commerce and other mail-order sales channels. We are working to respond to this trend and further expand business by strengthening the digital marketing capability at ORBIS Inc. and DECENCIA INC., which position mail-order sales as their main sales channel, and fusing offline and online sales at POLA INC. and ACRO INC., which position face-to-face sales as their main sales channel.

### **Climate change and human rights issues**

The aggravation of climate change is expected to generate adverse effects, such as more frequent natural disasters and changes in the ecosystems. It is also expected to pose risks on the Group's corporate activities, with global warming expected to cause changes in consumers' selection of cosmetics products (such as a shift to summer products and UV-protection products, and an increase in products that provides a sense of coolness). Also, the Group may be forced to change its product ingredients and prescriptions as a result of suspension of operations at offices and factories located near river and coastal areas due to flooding, suspension of operations at offices and factories due to frequent forest fires caused by global warming (mainly in Australia), or an increase in raw materials that are difficult to procure. The Group, which is primarily engaged in the manufacture and sale of cosmetics, is also striving to reduce greenhouse gas (CO<sub>2</sub>) emissions. By linking this initiative to long-term incentive (LTI) stock compensation for its executives, the Group is also working to improve the effectiveness of measures to resolve climate change issues.

In addition, in recent years, issues have been raised about forced labor, child labor and other human rights issues in the corporate supply chain. In its cosmetics business operations, the Group procures palm oil, mainly from Indonesia and Malaysia, and is concerned that the use of forced labor and child labor at palm oil plantations could constitute a significant human rights issue. To date, in addition to procuring certified palm oil, the Group has purchased credits and procured products with supply-chain certification through the Roundtable on Sustainable Palm Oil (RSPO), as part of its efforts to support palm oil plantations. The Group is continuing these efforts today and striving to act as a responsible company by conducting annual human rights due diligence.

### **Japan's declining population**

A significant increase in domestic demand, excluding the impact of inbound demand, in the cosmetics market and other industries in Japan will likely not occur because of Japan's declining population. The declining population could also cause other adverse effects, such as business stagnation. For this reason, the Group has

positioned further growth in global business development as a priority management theme and has been accelerating the M&A of overseas brands and the global development of existing brands. Under the current medium-term management plan, we are continuing to aim to further grow the overseas business and establish business bases in new markets, and are committed to strengthening global expansion efforts.

Furthermore, Japan's declining population may not only adversely impact our business performance, but also our ability to secure human resources engaged in business operations. The Group has responded to changes in lifestyles by implementing workstyle reforms such as expanding remote working systems and introducing side job systems, as well as by partially introducing unrestricted employment extension systems, etc. Going forward, the Group intends to focus on securing labor by promoting diverse workstyles across the entire Group.