

First Quarter of Fiscal 2017 Supplementary Material

POLA ORBIS HOLDINGS INC.

Director and Vice President

Management Planning, IT and Global Business

Naoki Kume

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2017
4. Initiatives Going Forward & Appendices

Cosmetic Market

- Japanese cosmetic market overall showed steady growth. However, pure domestic market excluding inbound seemed to be flat or declined slightly.*
- Department stores and online channels remained strong.
- Chinese cosmetic market sustained growth mainly at skincare category. Purchase location of the Chinese consumers has been shifting towards rural areas and online as the market gets matured.

*Source: Ministry of Economy, Trade and Industry, Japan Department Stores Association, Ministry of Internal Affairs and Communications, Intage SLI.

Our Group

- The Group achieved increases both in sales and operating income on a consolidated basis driven by POLA's strong sales and prosperous brands under development.
- Wrinkle Shot Serum (launched on January 1st) contributed to better-than-expected sales at POLA.
- Sales and operating income decreased at ORBIS due to weak sales of new products and decrease in the number of customers.
- As for overseas brands, Jurlique struggled at Hong Kong and duty free. Shipments of revamped products of H2O PLUS have been going well.
- DECENCIA and THREE from brands under development category sustained strong performance.

Reference: Updates on Inbound Sales (Consolidated)

- FY2015 (full-year) : Approximately 5% of consolidated net sales
- ↓
- FY2016 (full-year) : Approximately 6% of consolidated net sales
- ↓
- FY2017 (Q1) : Approximately 7% of consolidated net sales

(mil. yen)	FY2016	FY2017	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	49,516	56,074	6,557	13.2%
Cost of sales	9,443	9,320	(123)	(1.3%)
Gross profit	40,073	46,753	6,680	16.7%
SG&A* expenses	36,400	37,626	1,226	3.4%
Operating income	3,673	9,127	5,454	148.5%

*Selling, General and Administrative Expenses

Key Factors

- Consol. nets sales** For domestic brands, Wrinkle Shot Serum strongly boosted sales of POLA. Meanwhile, sales decreased at ORBIS because sales of new products and the number of active customers were weaker than expected. For overseas brands, Jurlique struggled at HK and duty-free and shipments of revamped products of H2O PLUS has been going underway.
- Cost of sales** Cost of sales ratio was highly improved due to increase in sales compound ratio of POLA's high-prestige products.
 Cost of sales ratio 2016Q1: 19.07% ⇒ 2017Q1: 16.62%
- SG&A expenses**
 - Labor expenses : down ¥21 mil. YoY
 - Sales commissions : up ¥1,759 mil. YoY
 - > resulted from increase in sales at POLA. Commission ratio within POLA has improved.
 - Sales related expenses : down ¥309 mil. YoY
 - Administrative expenses : down ¥201 mil. YoY
- Operating income** Beauty care : up ¥4,970 mil. YoY

Analysis of Consolidated P&L Changes

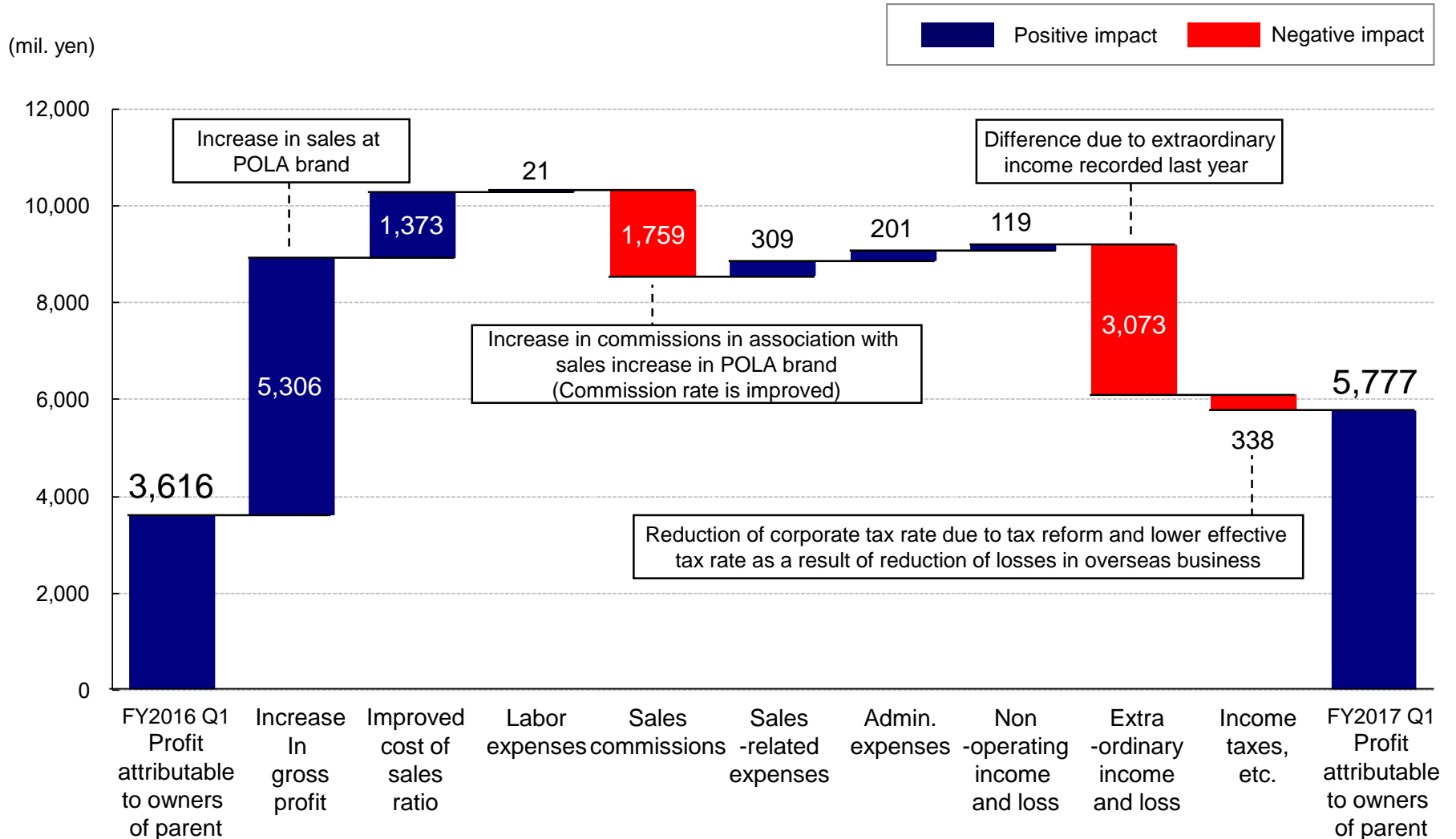
Operating Income to Profit Attributable to Owners of Parent

(mil. yen)	FY2016	FY2017	YoY	
	Q1 Results	Q1 Results	Amount	%
Operating income	3,673	9,127	5,454	148.5%
Non-operating income	111	107	(3)	(3.1%)
Non-operating expenses	402	279	(122)	(30.5%)
Ordinary income	3,381	8,955	5,573	164.8%
Extraordinary income	3,000	7	(2,992)	(99.7%)
Extraordinary loss	48	128	80	166.8%
Profit before income taxes	6,334	8,834	2,500	39.5%
Income taxes	2,713	3,056	343	12.6%
Profit attributable to non-controlling interests	4	0	(4)	-
Profit attributable to owners of parent	3,616	5,777	2,161	59.8%

Key Factors

- Non-operating expenses : Loss from unfavorable foreign exchange ¥255 mil.
- Extraordinary loss : Loss on disposal of fixed assets ¥128 mil.
- Income taxes : Reduction of corporate tax rate due to tax reform and lower effective tax rate as a result of reduction of losses in overseas business

Profit attributable to owners of parent was up 59.8% yoy driven by increase in gross margin and profit structure



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(mil yen)	FY2016	FY2017	YoY	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	49,516	56,074	6,557	13.2%
Beauty care	46,154	52,345	6,190	13.4%
Real estate	757	675	(81)	(10.8%)
Others	2,605	3,053	448	17.2%
Operating income	3,673	9,127	5,454	148.5%
Beauty care	3,820	8,790	4,970	130.1%
Real estate	479	334	(145)	(30.4%)
Others	(412)	(10)	401	-
Reconciliations	(214)	13	227	-

Segment Results Summary

- **Beauty care** Sales increased driven by POLA.
Operating income surged by 130% thanks to sales increase and profitability improvement at POLA.
- **Real estate** Although having maintained high occupancy level, both sales and operating income decreased as a result of a sale of a rental property in December 2016.
- **Others** At pharmaceutical business, sales and operating income increased yoy due to introduction of a new drug last year. Initiatives for strengthen sales force has been continued.
At building maintenance business, sales increased thanks to proactive sales activities.

Beauty Care Business Results by Brands

(mil. yen)	FY2016	FY2017	YoY	
	Q1 Results	Q1 Results	Amount	%
Beauty care net sales	46,154	52,345	6,190	13.4%
POLA	25,134	33,126	7,992	31.8%
ORBIS	13,572	12,760	(812)	(6.0%)
Jurlique	3,369	2,603	(766)	(22.7%)
H2O PLUS	510	635	125	24.6%
Brands under development	3,567	3,220	(347)	(9.7%)
Beauty care operating income	3,820	8,790	4,970	130.1%
POLA	2,305	6,794	4,488	194.7%
ORBIS	2,655	2,626	(29)	(1.1%)
Jurlique	(876)	(695)	180	-
H2O PLUS	(519)	(180)	338	-
Brands under development	254	245	(8)	(3.4%)

Note: Consolidated operating income and loss for each brand are shown for reference purpose only (figures are unaudited)

Q1 Result

- POLA outperformed initial expectation.
- Both the number of customers and average purchase price grew significantly driven by Wrinkle Shot Serum.
- Inbound ratio is around 12%.
- Whitening and aging-care products sold well.

Q1	Results (mil. yen)	YoY Change
Net sales	33,126	31.8%
Operating income	6,794	194.7%

Key indicators		
Number of sales offices (vs. Dec. 2016)		4,314 (down 311)
Number of PB ⁽¹⁾ (vs. Dec. 2016)		647(±0)
Cosmetic sales ratio	PB ⁽¹⁾	43.3%
	Esthe-inn	43.8%
	D2D ⁽²⁾ and other	12.9%
Sales growth*	PB	up 40.7%
	PB (like-for-like)	up 40.8%
	Esthe-inn	up 35.1%
	D2D	up 7.0%
Purchase per customer*		up 19.1%
Number of new customers*		up 10.1%

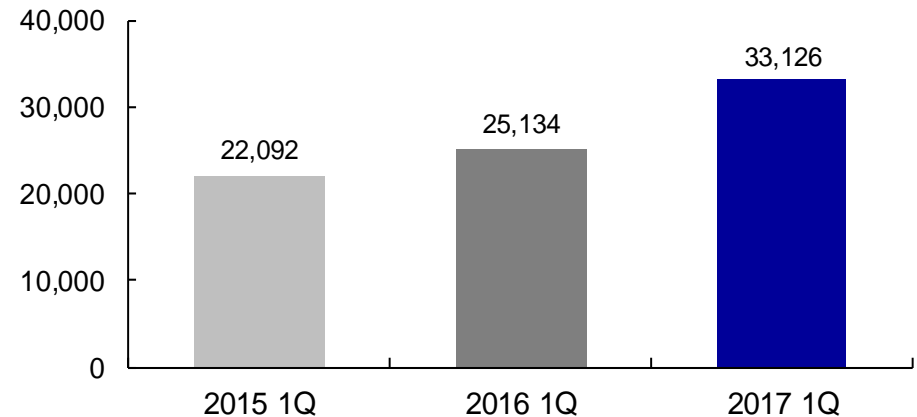
(1) PB: POLA THE BEAUTY stores (2) D2D: Conventional door-to-door *YoY

Topics

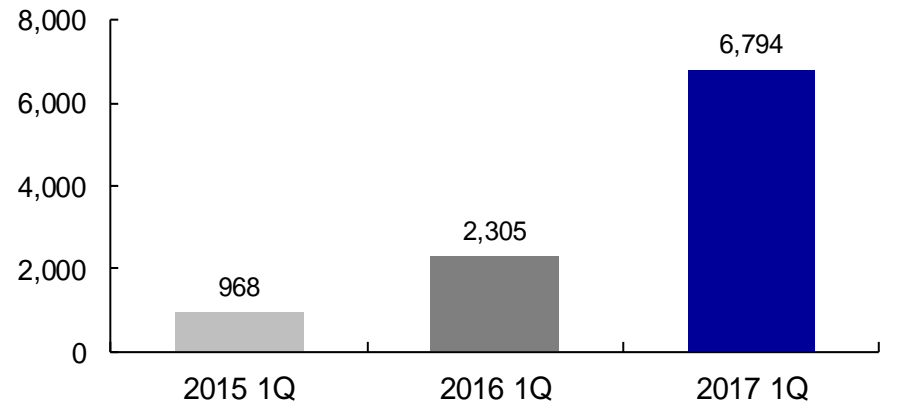
- “Wrinkle Shot Serum”, launched on January 1st, has sold beyond initial plan.
(See next page for details)



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)

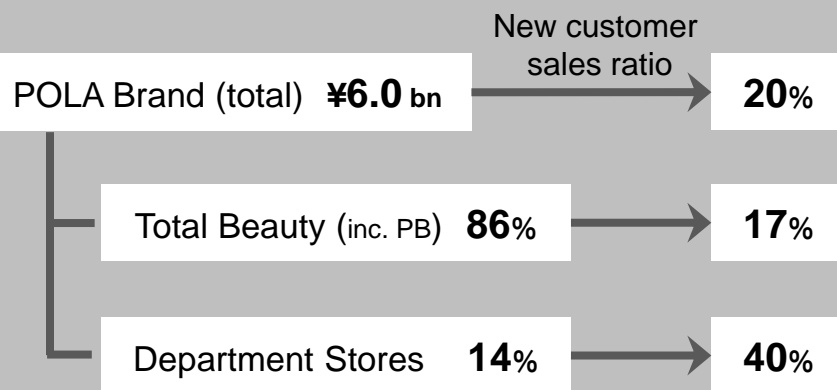
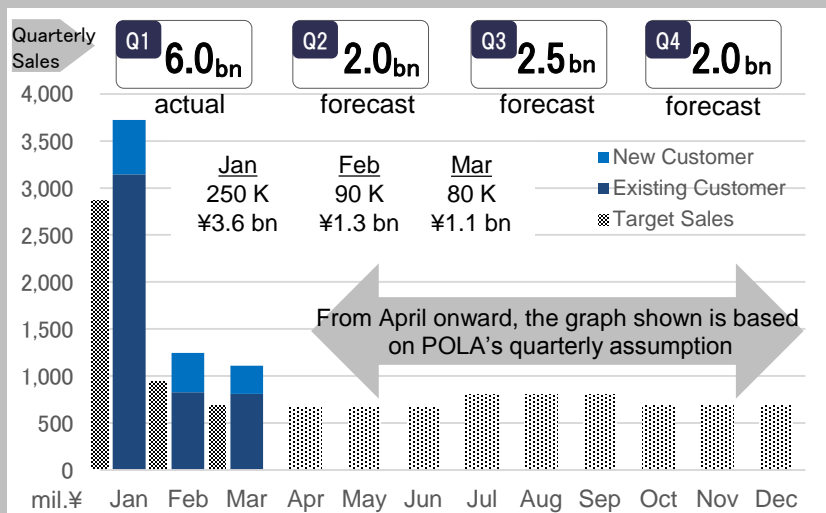


Three months has passed since its launch in January – Sales is beyond expectation. POLA revises the annual sales target upward from ¥10.0 billion to ¥12.5 billion.

During January – March, Wrinkle Shot Serum sold approximately 420K units, booked ¥6.0 billion of sales exceeding +30% compared to the initial plan

■ Breakdown of the Sales

[Expected sales progress]



- Customer acquisition through Wrinkle Shot Serum has been very successful.
- Around 30% of the Wrinkle Shot customer in January made second purchase at POLA by the end of March.

■ Impact on 1Q performance

- Cannibalization with existing products was less than expected.
- Wrinkle Shot Serum rather encourages cross-selling.

Wrinkle Shot Serum highly contributed to consolidated results

■ Performance forecast for 2Q onward

- Annual sales target is revised by +25% to ¥12.5 bn.
- Advertising and promotional expenses are scheduled in preparation for a competitive product launch. (¥1.0 billion in total). The brand seeks to establish an outstanding position as a pioneer of anti-wrinkle cosmetics and promote customer acquisition and high repeat ratio.

Q1 Result

- New products were not strong enough to arouse interest of new and existing customers. Weak customer expansion resulted in sales decrease.
- Operating income decreased slightly with efforts in improvement of cost of sales ratio and reduced sales-related expenses.

Q1	Results (mil. yen)	YoY change
Net sales	12,760	(6.0%)
Operating income	2,626	(1.1%)
Key indicators		
Sales ratio	Online	46.3%
	Other mail-order	26.3%
	Store and overseas	27.4%
Sales increase*	Online	down 1.8%
	Other mail-order	down 13.5%
	Stores and overseas	down 4.8%
Mail-order ⁽¹⁾ purchase per customer*		down 2.1%
Number of mail-order ⁽¹⁾ customers*		down 6.6%
Mail-order ⁽¹⁾ skincare purchase ratio*		down 2.1%

* YoY basis

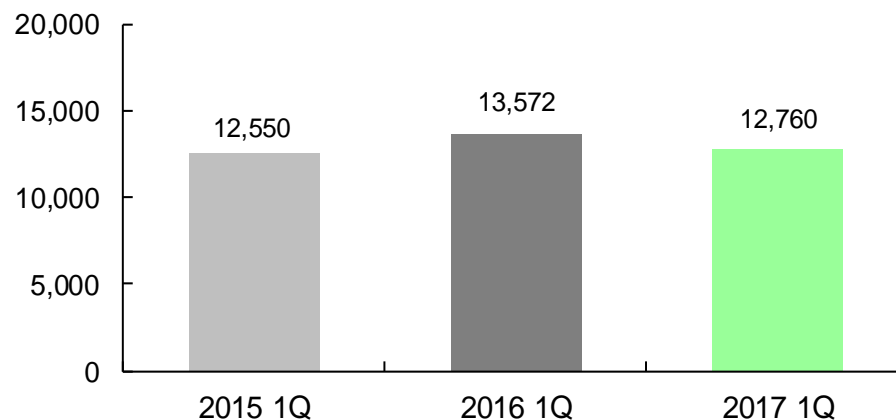
(1) Mail-order includes online and other mail-order

Topics

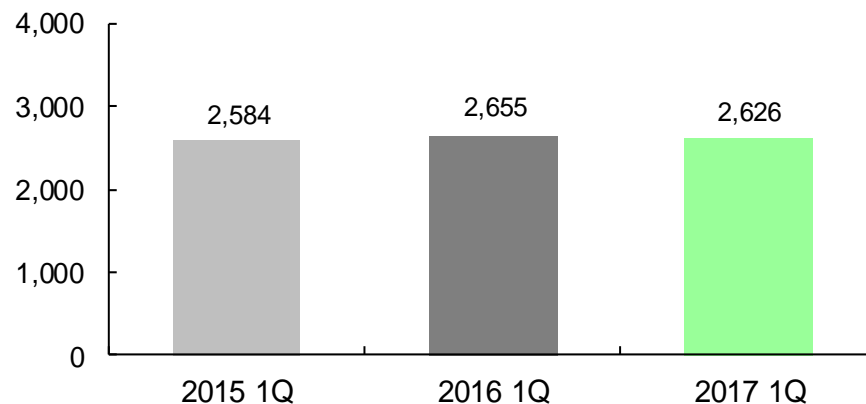
- Revamped the main series “AQUA FORCE”.
- Won “Amazon Marketplace Awards 2016 – Rookie Award”.



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Q1 Result

- Sales dropped by 25.4% YoY (in AUD basis)
- Hong Kong still suffers from the effect of decrease of the number of tourists.
- Operating income recovered due to business model change in China.

Q1	Results (mil. yen)	YoY change ⁽¹⁾
Net sales	2,603	(22.7%)
Operating income (before goodwill amortization)	(680)	20
Operating income	(695)	180

Key indicators		
Number of doors in China (vs. Dec. 2016)		111(down6)
Sales ratio	China	19%
	Hong Kong	14%
	Duty free	15%
	Australia	31%
Sales growth ⁽²⁾	China	down 51%
	Hong Kong	down 18%
	Duty free	down 33%
	Australia	down 10%

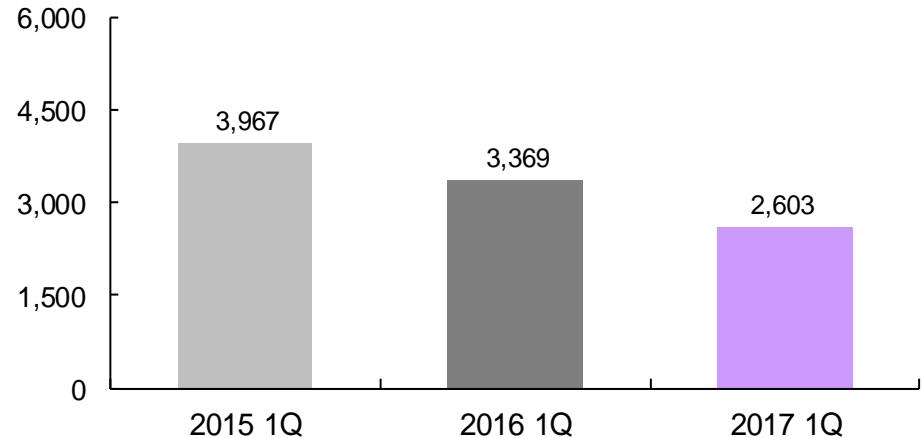
(1) For operating income YoY difference is shown in amount (mil. yen).

(2) AUD basis, YoY

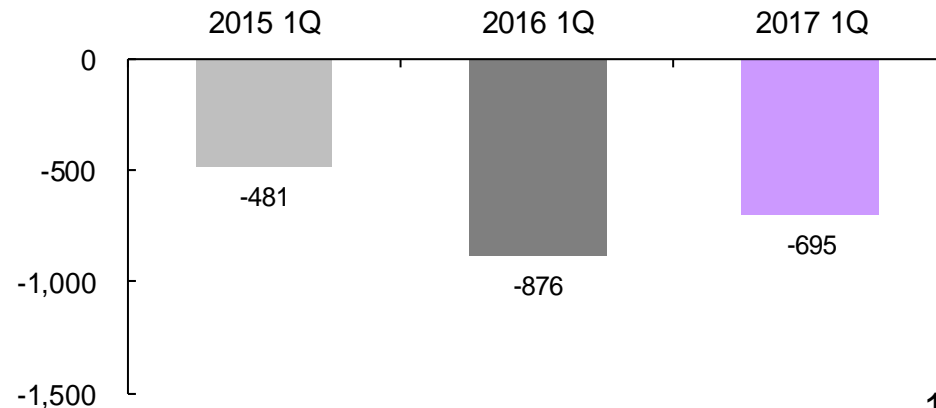
Topics

- In China, sales dropped due to business model change last year. Sales on retail basis was flat yoy.

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Q1 Result

- Revamped products sold better than expected at retail stores and shipment sales exceeded budget in North America.
- Operating loss recovered due to increase in gross margin and decrease in operation cost as the brand withdrew from China last year.

Q1	Results (mil. yen)	YoY change ⁽¹⁾
Net sales	635	24.6%
Operating income	(180)	338
Key indicators		
Sales ratio	North America	83%
	Others	17%
Sales growth ⁽²⁾	North America	up 26%
	Others	up 28%

(1) For operating income YoY difference is shown in amount (mil. yen).

(2) USD basis, YoY

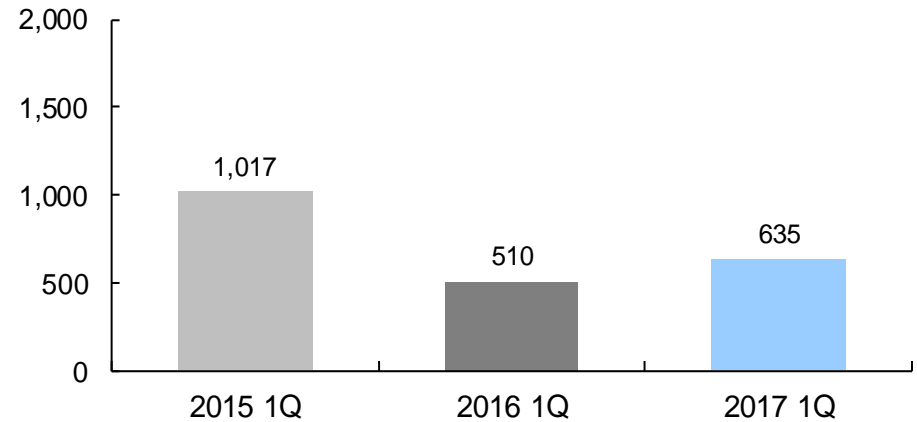
Topics

- New products launched 1Q are well received from market.

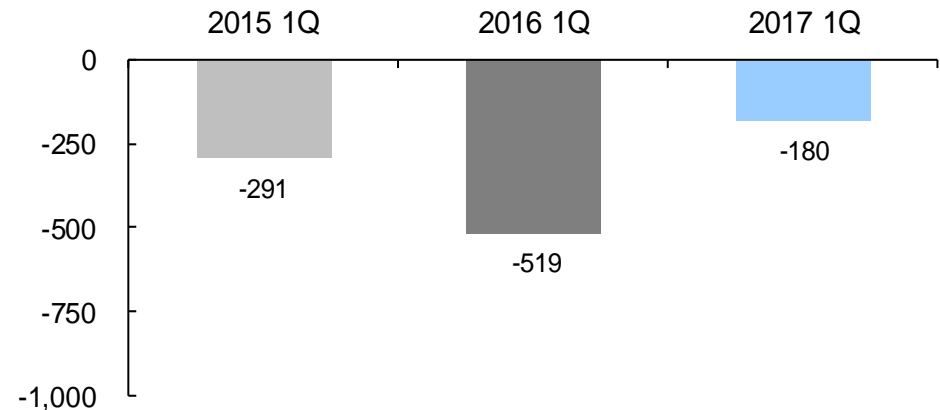
(AQUA DEFENSE Series)



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Q1 Result

- Sales of the brand category overall decreased yoy due to sales of FL and pdc brands last year. Like-for-like sales grew by 12% taking account of the yoy impact.
- Makeup products attracted new customers at THREE.
- Sales hiked by 40% at DECENCIA with increased number of customers and average purchase price.

Q1	Results (mil. yen)	YoY change
Net sales	3,220	(9.7%)
Operating income	245	(3.4%)
(THREE Net sales)	1,813	28.1%
(THREE OP income)	236	3.7%
Key indicators		
THREE Dept. store counters in Japan		36
Other stores in Japan		56
Overseas stores (Thailand, Taiwan, Indonesia, Malaysia and Hong Kong)		30

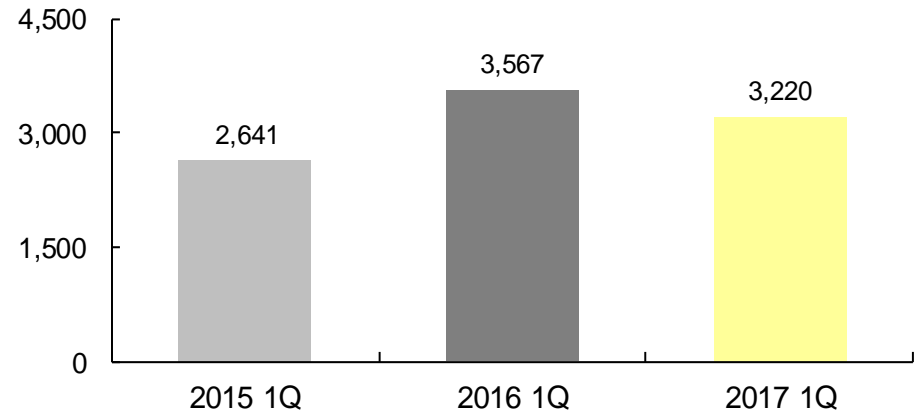
Note: Future Labo and pdc brands were sold to third parties in November 1st and December 1st 2016 respectively.

Topics

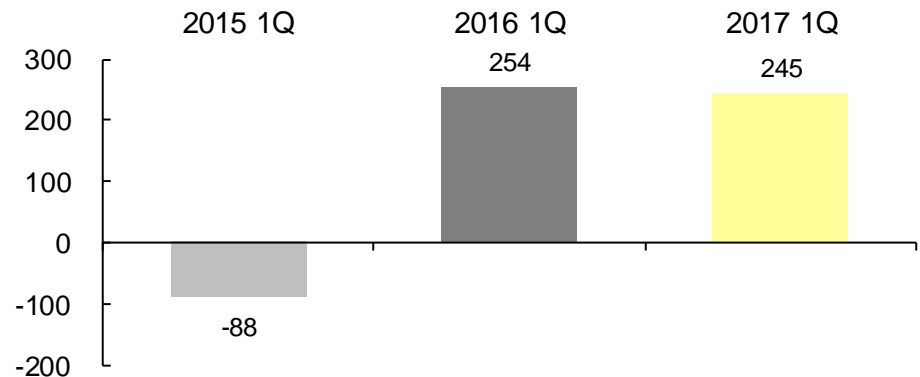
- (Left) March 3rd THREE Limited Kit
- (Right) March 1st DECENCIA “Enrich Booster Serum”



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)





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Both H1 and full-year forecasts are revised upwardly reflecting strong performance of POLA

(mil. yen)	FY2017	vs. Initial	YoY Change		FY2017	vs. Initial	YoY Change	
	H1	Forecast	Amount	%	Full-year	Forecast	Amount	%
Consol. net sales	115,000	4,500	8,042	7.5%	233,000	6,000	14,517	6.6%
Beauty care	107,000	4,500	7,656	7.7%	216,500	6,000	14,053	6.9%
Real estate	1,300	—	(217)	(14.3%)	2,500	—	(543)	(17.9%)
Others	6,700	—	603	9.9%	14,000	—	1,007	7.8%
OP income	17,000	3,600	4,849	39.9%	33,500	2,500	6,590	24.5%
Beauty care	16,950	3,600	4,869	40.3%	32,700	2,500	6,725	25.9%
Real estate	550	—	(247)	(31.1%)	1,000	—	(395)	(28.4%)
Others	(400)	—	(64)	—	0	—	133	—
Reconciliations	(100)	—	292	—	(200)	—	126	—
Ordinary income	17,000	3,600	5,741	51.0%	33,500	2,500	6,308	23.2%
Net income attributable to owners of parent	10,500	1,900	2,235	27.0%	21,500	1,500	4,052	23.2%

Assumed Exchange Rates: 1AUD = 82JPY, 1USD = 112JPY, 1CNY = 17JPY

+ factor	 POLA	<ul style="list-style-type: none"> - Upward revision for annual sale target for Wrinkle Shot Serum - Less-than-expected cannibalization and more-than-expected cross-selling
- factor	 ORBIS	<ul style="list-style-type: none"> - Reflected projection of decrease in sales and gross margin judging from the recent trend of its weak performance

Breakdown by brand	Revised amount (H1)		Revised amount (full-year)	
	Sales	OP margin	Sales	OP margin
POLA	6,500	4,600	9,500	5,000
ORBIS	(2,000)	(1,000)	(3,500)	(2,500)
TOTAL	4,500	3,600	6,000	2,500

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Sustain stable growth of flagship brands to lead Group earnings

POLA

- Promote Wrinkle Shot Serum focusing on customer acquisition and repeat purchases. Additional PR and advertisements are scheduled.
- Launch seasonal products including whitening items.
 - Revamp WHITISSIMO skincare series.
 - Add sheet masks and Inner Lock liquid to White Shot series.



POLA White Shot Series
Left : White Shot QX (mask)
Right : Inner Lock Liquid (drink)

ORBIS

- Focus on building a solid foundation for future growth next year onward and work on acquiring customer with high brand royalty.

Bring overseas operations solidly into the black overall

Jurlique

H2O+TM
BEAUTY

- Aim for higher brand recognition and strengthen communication with target customers by carrying out strategic CRM activities.
- Introduce app campaigns tied with popular products and new products with a view to promote brand recognition and customer acquisition.



H2O PLUS
Moisture Meter - Campaign
tied with OASIS products

Expand brands under development, create new brands, pursue M&A activity

T H R E E

- Enter Korea, the sixth foreign country for the brand in April and seek to strengthen brand presence in Asia.

New Brands

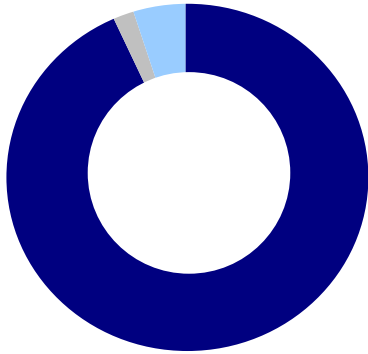
- Launch in-house venture project for creation of new brands.



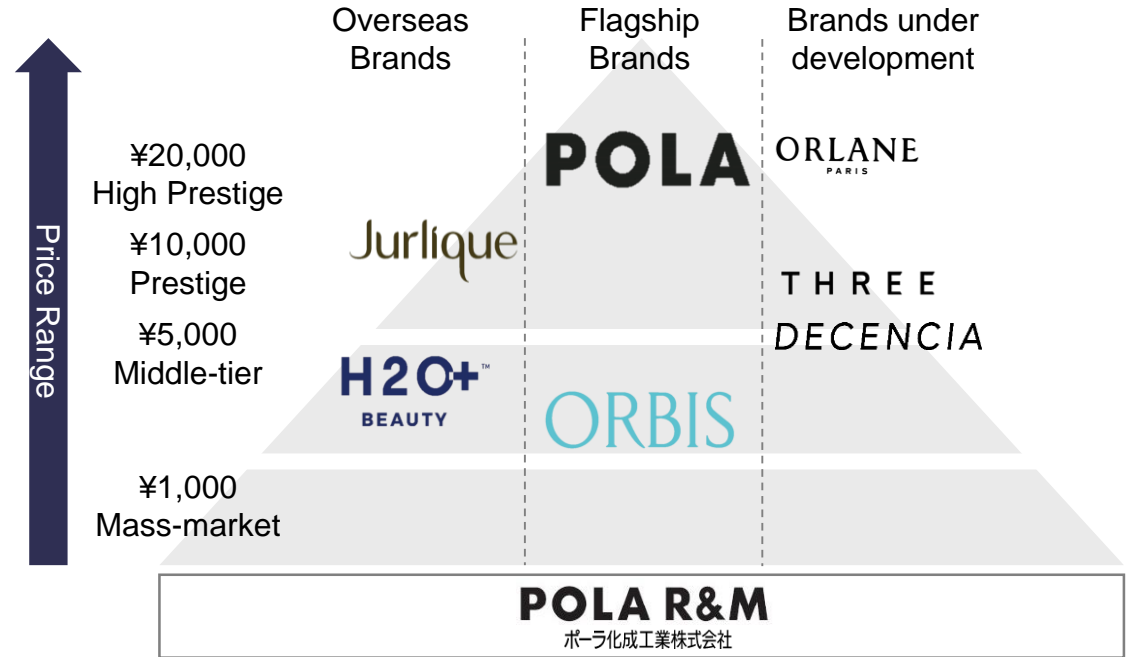
THREE Balancing UV Protector

Beauty care is the core business of the Group, and 7 different cosmetic brands are operated under the Group umbrella

FY2016
Consol. Net Sales
¥218.4 bil.



- Beauty care business 93%
- Real estate business 1%
- Other businesses 6%
(dermatological drugs and building maintenance business)



Our strengths

- Multi-brand strategy
 - Focus on skincare products
 - Flagship brands, POLA and ORBIS own and operate through their own unique sales channels
- ▶
- Meeting diversified needs of customers
 - High customer repeat ratio
 - Strong relationships with customers

	Sales ratio*	Brand	Concept and products	Price	Sales channel
Flagship brands	57%	POLA Since 1929	<ul style="list-style-type: none"> High-prestige skincare Leading-edge technology in anti-aging and skin-whitening fields 	Approx. ¥10,000 or higher	<ul style="list-style-type: none"> Consignment sales through Beauty Directors: POLA THE BEAUTY (PB), Esthe-inn and conventional door-to-door Department store counters
	28%	ORBIS Since 1984	<ul style="list-style-type: none"> Provides original-concept 100% OIL-FREE skincare products Offers aging-care lineup for wide range of age groups 	¥1,000~ ¥3,000	<ul style="list-style-type: none"> Online Catalog Retail stores
Overseas Brands	7%	Jurlique Acquired in 2012	<ul style="list-style-type: none"> Prestige organic skincare brand from Australia 	Approx. ¥5,000 or higher	<ul style="list-style-type: none"> Department store counters, directly-operated stores, Duty free stores
	1%	H2O+[™] BEAUTY Acquired in 2011	<ul style="list-style-type: none"> Skincare with concept of innovation and power of pure water 	Approx. ¥4,000 not sold in Japan	<ul style="list-style-type: none"> US: Specialty stores and online
Brands under development		T H R E E Since 2009	<ul style="list-style-type: none"> Skincare made with natural ingredients from Japan and fashion-forward make-up 	Approx. ¥5,000 or higher	<ul style="list-style-type: none"> Department store counters and specialty stores Directly-operated stores and online
	7%**	DECENCIA Since 2007	<ul style="list-style-type: none"> Skincare for sensitive skin 	¥2,000~ ¥5,000	<ul style="list-style-type: none"> Online
		ORLANE <small>PARIS</small> JV established in 2007	<ul style="list-style-type: none"> High prestige skincare cosmetics from France Strength in aging-care 	Approx. ¥10,000 or higher	<ul style="list-style-type: none"> Department store counters Specialty stores

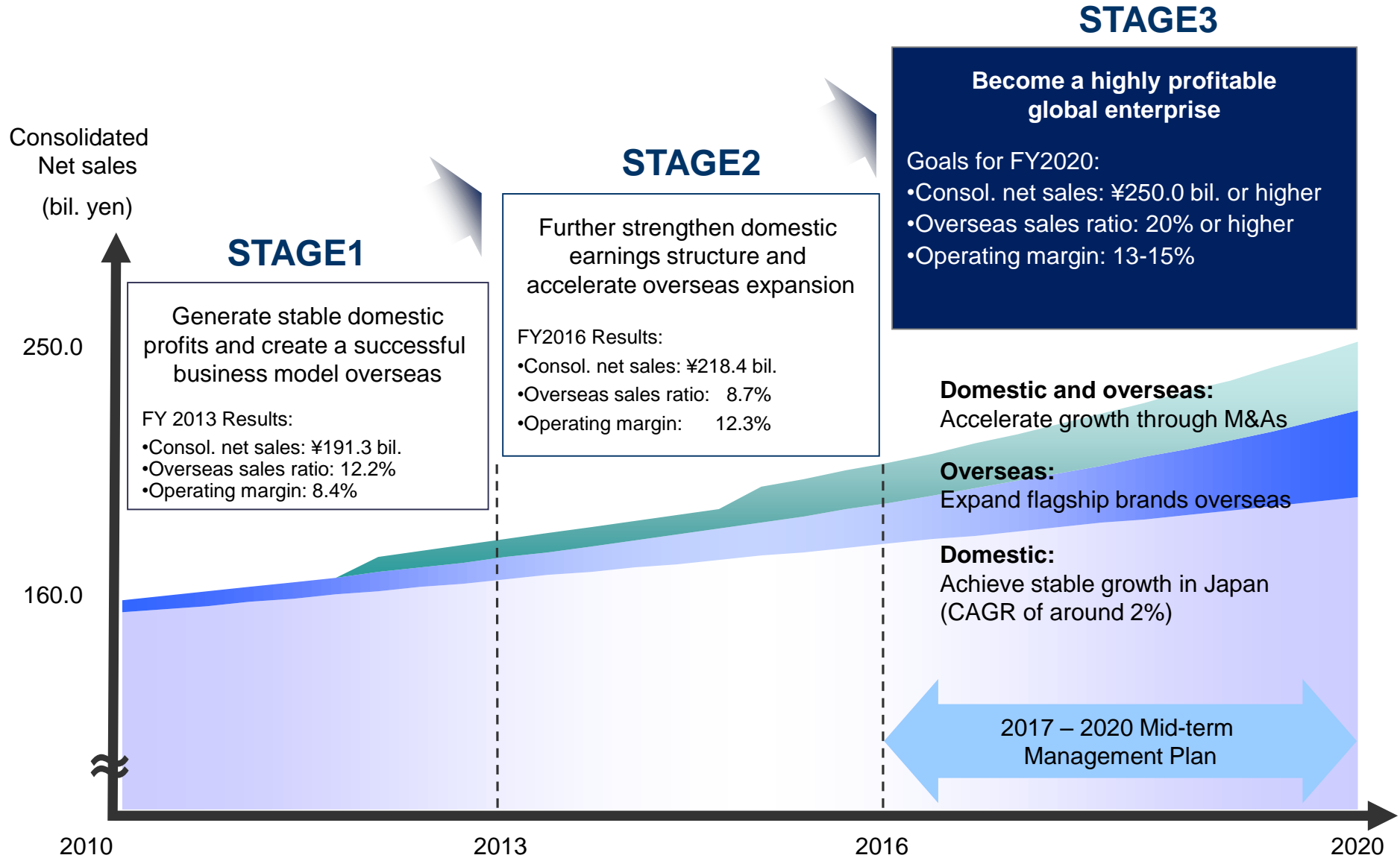
*Sales ratio in the beauty care business as of FY2016

**Sales of Brands under development for 2016 includes performance of two companies (FUTURE LABO INC - until end of October 2016 and pdc INC - until end of November 2016). which were sold during FY2016.

Appendix : Beauty Care Business Results for FY2014 – FY2016 by Brands

(mil. yen)	FY2014	FY2015	FY2016	2015 vs 2016 YoY Change	
	Results	Results	Results	Amount	%
Consolidated net sales	198,094	214,788	218,482	3,693	1.7%
Beauty care net sales	184,475	200,570	202,446	1,875	0.9%
POLA	99,571	109,352	116,126	6,773	6.2%
ORBIS	52,302	56,354	55,857	(497)	(0.9%)
Jurlique	17,600	18,390	13,118	(5,271)	(28.7%)
H2O PLUS	4,876	3,944	2,547	(1,397)	(35.4%)
Brands under development	10,123	12,529	14,796	2,267	18.1%
Consol. operating income	17,683	22,511	26,909	4,397	19.5%
Beauty care operating income	16,535	21,290	25,974	4,683	22.0%
POLA	8,583	12,302	16,993	4,690	38.1%
ORBIS	10,792	11,197	11,279	82	0.7%
Jurlique	(445)	(379)	(1,113)	(733)	-
H2O PLUS	(1,435)	(1,814)	(2,027)	(212)	-
Brands under development	(958)	(15)	841	856	-

Note: Consolidated operating income and loss for each brand are shown for reference purpose only (figures are unaudited)



The final stage of the long-term vision for 2020.

Aim to improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth.

Consolidated net sales

- Consol. net sales: CAGR **3 to 4%**
(¥250.0 bil. in FY2020)

Operating income

- Operating income: CAGR **10%** or higher
- Operating margin: **15%** or higher in FY2020

Capital efficiency

- Target for ROE: **12%** or higher in FY2020

Shareholder returns

- Consolidated payout ratio: **60%** or higher
from FY2017

