

POLA ORBIS HOLDINGS INC.**Summary of Key Questions and Answers Concerning the Financial Results of FY2020**

- Q1. [Plan] What is the outlook for domestic cosmetics market trends in 2021?**
- Excluding inbound tourists, the domestic cosmetics market is expected to grow by +4 to 5%.
- Q2. [Plan] What is the assumption for the three-year growth rate for each brand?**
- POLA: 2021-2023 CAGR +7 to 9%; ORBIS: +3%; Jurlique: +15 to 20%; H2O PLUS: +40 to 60%; Brands under Development: +10 to 15%. In terms of the new businesses, the cosmetic medicine task force and recruiting ideas from all employees are about to move forward. Therefore, the medium-term plan does not reflect the impact of these new businesses.
- Q3. [Plan] Regarding the cost structure, what are the concepts of the cost of sales ratio and SG&A expenses?**
- Based on the FY2019 level before the COVID-19 crisis, the consolidated cost of sales ratio is expected to account for just over 16%. The consolidated cost of sales ratio will be improved due to an increase in sales ratio of high-prestige brand POLA by its performance recovery and the cost of sales ratio reduction for loss-accruing brands. For SG&A expenses, we aim to improve the profit margin by keeping fixed cost growth below the rate of increase in revenue.
- Q4. [Plan] Why did the company decide to increase the planned payout even by ¥1? What is the company's stance on the payout ratio?**
- Based on the basic policy of 60% or higher consolidated payout ratio, the planned payout ratio of 99.8% for FY2021 has greatly exceeded the target. However we decided based on awareness of stable dividend increases accompanied by an increase in profits.
- Q5. [Plan] It is important to create more differentiated products when the online ratio increases. When will the effect of creating a TDC (Technical Development Center) be visible?**
- It is slightly too early to see the TDC effect, however we aim to launch products and quasi-drugs that are novel to other companies every three to five years.
- Q6. [Plan] Describe the contribution to the consolidated operating income margin from the increase in the e-commerce sales ratio.**
- The profit margin of e-commerce channels, including e-commerce in POLA, is extremely high and it can be expected to be effective in improving consolidation. By raising the e-commerce ratio across the Group, it is assumed to be an increase of around 1 to 2 ppt contribution toward an operating income margin of 15% or higher in FY2023.

- Q7. [POLA brand] Describe how to recover from the struggling situation of new customer acquisition.**
- Returning to FY2019 levels of the new customer acquisition numbers in consignment sales channel is not in our current plan. The consignment sales channel is planned to have CAGR of +1 to 2% over the three-year business plan, and the main strategy is to increase the ratio of loyal users and improve LTV. On the other hand, new customer acquisition in e-commerce is strong at POLA overall. In FY2020, there are 40 to 45% purely new customers in approximately 120,000 total e-commerce customers. Therefore, the ongoing strong, new acquisition and loyal customer development are key issues.
- Q8. [POLA brand] Describe the background of the strong, new customer acquisition for e-commerce?**
- The key is creating online contact points for customers who have heard of POLA's name and products, but lacked access to them. In terms of products, high-priced products are not difficult to sell in e-commerce, and those with established reputations and high perceived effects are strong, with B.A and Wrinkle Shot being the focal points for new acquisitions. In the future, new products will be prepared regularly in the first and second half for the main series.
- Q9. [POLA brand] What are the market conditions for counseling sales? How will you acquire customers in the future?**
- Face-to-face services cannot be provided as they were before the COVID-19 crisis, so online counseling was introduced. Introduction to the stores has progressed and the effect is visible. Next, we will tackle OMO that combines e-commerce for counseling sales, and develop the consignment sales channel so that sales can be completed online.
- Q10. [POLA brand] Regarding the OMO, is it necessary to devise ways to maintain the relationship between consignment sales and the e-commerce operated by the company?**
- We are not necessarily aim to shift customers to e-commerce entirely. The main idea is that centrally manage customer information across channels and also communicate and sell products in line with customers' values and tastes. E-commerce pursues usability and convenience to strengthen the acquisition of new customers, while the strength of Beauty Directors' counseling is an important value that e-commerce cannot match, it can be applied in both stores and online. We think it is possible to integrate the current real store and online.
- Q11. [POLA brand] What was the effect of COVID-19 supporting measures for Beauty Directors?**
- The total amount of support was about ¥1 billion, and the effects have been sufficiently apparent, we were able to curb store closures, which evaluated as a success.
- Q12. [POLA brand] Describe how to develop in mainland China.**
- Offline channels include department stores, which focus on product sales, and stores in shopping malls with product sales and aesthetics services. Online channels include domestic e-commerce in China and cross-border e-commerce. In FY2020, offline and online sales ratio accounted for about half of the total in each, and we plan to grow both channels.

Q13. [POLA brand] How was the Singles' Day in China?

➔ It grew by about +50% YoY, with the skincare growth mainly in B.A. We had a campaign; however we largely focus on value appeal to increase the repeat rate and LTV.

Q14. [POLA brand] How is the progress of planning to open stores in Hainan Island duty-free shop?

➔ We planned to open stores during the first half of 2021, however there is a possibility that the schedule will be changed depending on the request of the Chinese government and the duty-free shop due to the COVID-19 crisis.

Q15. [POLA brand] Describe how to increase sales as marketing costs are more necessary than ever in e-commerce and overseas amid this competitive environment.

➔ Attracting new e-commerce customers to loyal users is a new, major issue. Therefore, we invest in marketing and an OMO system to increase the repeat rate. We will establish a system that will lead to the next step based on the characteristics of the customer's purchasing history, etc. China still has room for growth, with high admiration for POLA. On the other hand, the customer touchpoints were insufficient. Both stores and e-commerce are urgently expanding.

Q16. [Overseas brands] Both overseas brands, Jurlique and H2O PLUS, have not reduced their losses as planned. Will you take any radical action?

➔ Both brands implemented cost structure reforms and substantial fixed cost reductions to lower the break-even point. As you mentioned, the timing of achieving profitability has unfortunately been postponed. On the other hand, good aspects are emerging in the focused market. We would like to achieve profitability during the current medium-term plan.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2020 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.