

**POLA ORBIS HOLDINGS INC.****Summary of Key Questions and Answers Concerning the Financial Results of FY2018**

- Q1. [Consolidated results] There was an announcement regarding significant shareholder returns for fiscal 2019. What are the priorities in terms of use of cash?**
- Currently, our financial assets are over ¥100.0 billion. We set stable working capital to be at about ¥50.0 billion with the remainder potentially available for M&A, growth investment, shareholder returns and other uses. All to be expensed within the range of cash on hand.
- We examine M&A opportunities more carefully than before and prioritize investment in growth, such as ACRO's new brands, and shareholder returns as before.
- Q2. [Consolidated results] Could you tell us about the status of development of pipelines such as active ingredients in terms of R&D and the cycle of introducing new products?**
- Although we thought that it would be ideal to be able to launch a new pipeline about once every five years, as a matter of fact, the current quasi-drug qualification process is very strict.
- However, in spite of the high hurdles, we have been able to obtain approvals, such as Wrinkle Shot, DEFENCERA, and a new skin whitening active ingredient. This has exceeded our expectations.
- Going forward, we would like to keep the current momentum and continuously develop new material, so we invite you to stay tuned.
- Q3. [Consolidated results] Do you have a plan to strengthen investments in brands looking at the long term, rather than securing short-term profitability?**
- The current medium- and long-term plan is targeted at 2020.
- Until 2020, for POLA, we aim to continue our strategies of maintaining stable domestic growth and accelerating overseas growth. For ORBIS, we would like to place importance on returning to an operating profit margin of 20% or more by concentrating investment in ORBIS U, which is a strategic product, and form a customer structure with a high lifetime value.
- However, for the plan after 2021, we are planning to develop a new long-term management plan and vision, among which there may be options to increase investments.

- Q4. [POLA inbound] Has the inbound sales forecast at POLA for 2019 taken into account the situation in January?**
- We do not disclose monthly performance for periods for which we have yet to announce the results, but the inbound sales forecast for 2019 is based on the trend in the 4Q of 2018.
- Domestic inbound and buyers are expected to slow (with a decrease of about ¥1.0 billion in inbound sales and about ¥4.0 billion in buyer sales).
- The main factors for the decline are the influence of false articles and counterfeit products on beauty and health foods, as well as the impact of the new e-commerce law in China.
- We will aim to increase sales by offsetting the decreased amount with a strong domestic customer base and the acceleration of the overseas business.
- Q5. [POLA brand] Sales decreased in 2H 2018. How were sales of products other than beauty health foods?**
- There is no sense of deceleration in mainstay cosmetics series such as B.A, and the number of esthetic customers from whom we can expect a high repeat rate is also increasing in Japan.
- In addition to beauty and health foods, decreases in sales are attributable to other product categories such as fashion items.
- Q6. [POLA overseas business] According to the supplementary material, POLA does not expect the increased amount of overseas sales to be larger the decreased amount of inbound and buyer sales for 2019. What measures are you taking to accelerate overseas sales other than store expansion?**
- The brand plans to increase overseas sales by ¥3.0 billion at least. The top priority is to expand stores as a high prestige cosmetics brand. Meanwhile, we recognize the need to improve the e-commerce environment overseas as well. We will strengthen all three channels of domestic stores in China, local e-commerce and cross-border e-commerce for the Chinese market.
- Q7. [POLA brand] What are the trends with buyers at the moment? Do you see better opportunities for regular channel expansion under the current situation?**
- Under the influence of China's new e-commerce law, the volume of CtoC transaction seems to be weakening. We recognize that there is an urgent need to expand our official channels to increase contact points with end customers.
- Q8. [ORBIS brand] What is the background behind the sales of DEFENCERA for the first month of the launch exceeding the plan? What are the sales for beauty and health foods of the entire Group?**
- We believe that the novelty of the FOSHU (Food for Specified Health Uses) product for skin that was first launched in Japan, the active investment in advertisements and the recent very dry season are the factors that helped boost sales. The product is also planned to be launched in Tmall Global from February, and we have high expectations for that.
- As a side note, sales of beauty and health foods including food products for the entire group are about ¥45.0 billion.

**Q9. [ORBIS brand] The 2019 plan of a 2% increase in sales sounds a little bit weak. Is there a possibility of implementing new measures such as channel expansion?**

→ Improvements in the customer structure are progressing smoothly thanks to the strategy focused on ORBIS U. On the other hand, since the brand has stopped discount measures such as point campaigns, sales that had been acquired through those campaigns will be decreased.

As for channel expansion, some of the products are sold on Amazon and LOHACO with a view to reaching new customers.

Going forward, the brand will actively develop applications designed for smartphone users.

**Q10. [Jurlique brand] An allowance for doubtful accounts was recorded for ¥1.6 billion in 2018; however, when this amount is excluded, the performance was actually break-even. Why did this arise and what is the outlook for business performance?**

→ Jurlique has receivables with respect to a business partner that are delayed and this resulted in the recording of an allowance for doubtful accounts in 2018.

The allowance was recorded at 100%, therefore Jurlique will not have to record a further allowance again in 2019 when the repayment becomes normalized.

On the other hand, expenses for closing unprofitable stores, etc. are expected to occur in 2019. These are temporary expenses for the purpose of future profitability.

**Q11. [Jurlique brand] In Australia and Hong Kong, what are the current situation of the businesses, profit and loss, and expected level of margin going forward?**

→ In Australia, Jurlique has stopped transactions that are at risk of brand damage; namely, eliminating parallel imports and putting emphasis on customer relationships based on directly managed stores.

In Hong Kong, the brand will strengthen visual merchandising and branding, including store exteriors, in order to revitalize the business.

We don't disclose margins by region, but the businesses are in the black, excluding head office expenses. However, after the allocation of headquarters expenses, the business is still operating at a loss. The brand will first take measures to reduce the costs, including headquarters, to improve profitability.

**Q12. [Jurlique brand] It appears that Jurlique is in an intense competitive environment, including concept differentiation. Can you expect the brand to recover?**

→ It is indeed taking time to recover. Of all things, marketing on the product side is the most important as a brand. Although the brand cannot revamp the full product range at one time, to survive in the competitive environment it would like to make use of the knowledge of the whole Group and introduce highly differentiated new products.

**Q13. [Jurlique brand] What are the measures to fundamentally reduce the losses for the brand?**

→ We plan to reduce the losses by reducing administrative and sales-related expenses, cutting costs on factories and production, and closing unprofitable stores in China.

**Q14. [Jurlique brand] The Company aims to turn Jurlique profitable after 2020, but is there any other option if this cannot be achieved?**

→ We are striving to turn the brand profitable. Therefore, even if this cannot be achieved, we will not plan to withdraw although other options may be considered.

**Q15. [Jurlique brand] On the timely disclosure release of the revision to the performance forecast, a reduction in directors' remuneration was also announced. Could you tell us more about this, including the background?**

→ The direct trigger is Jurlique 's impairment loss. As a result of discussions at the Board of Directors, including outside directors, taking into consideration past impairment losses on acquired brands, the decision was made to discipline ourselves. There is no direct connection with the establishment of a voluntary advisory committee.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2018 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.