

# Third Quarter of Fiscal 2017 Supplementary Material

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POLA ORBIS HOLDINGS INC.

Director and Vice President  
Management Planning, IT and  
Global Business Division

Naoki Kume

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

## Cosmetics Market

- Japanese cosmetics market overall showed steady growth. However, the pure domestic market, excluding inbound demand seemed to decline slightly.\*
- By price range, high prestige remained steady. By channel, drugstore, department store and e-commerce channels grew.
- As for the inbound market, demand continued to increase with a widening variety of purchasing products, sustained by an increase in the number of foreign visitors and continuous popularity of Japanese cosmetics.

\*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 in sales and each level of income on a consolidated basis, driven by POLA's strong sales and continuing prosperity of brands under development.
- Both sales and operating income significantly increased at POLA thanks to Wrinkle Shot Serum.
- Sales and operating income decreased at ORBIS due to continued decline in the number of customers.
- As for overseas brands, operating losses improved.
- THREE and DECENCIA 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 (1-3Q) : Approximately 7% of consolidated net sales

# Analysis of Consolidated P&L Changes

## Net Sales to Operating Income

(mil. yen)	FY2016	FY2017	YoY Change	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Consolidated net sales	159,150	177,846	18,695	11.7%
Cost of sales	29,890	29,415	(475)	(1.6%)
Gross profit	129,260	148,430	19,170	14.8%
SG&A* expenses	110,949	117,883	6,934	6.2%
Operating income	18,310	30,546	12,236	66.8%

### Key Factors

\*Selling, General and Administrative Expenses

- **Consol. net sales** For domestic brands, sales were very strong at POLA; Wrinkle Shot Serum highly contributed to acquisition and activation of customers that led to the strong sales. Sales dropped at ORBIS due to decrease in the number of customers, but was in line with the forecast. Jurlique continued to struggle in Australian and duty-free markets. At H2O PLUS, there is a delay in renewing a contract with a distributor in Russia and sales from existing retailer in US dropped.
- **Cost of sales** Cost of sales ratio was significantly improved owing to increase in sales compound ratio of high-prestige products under POLA brand.  
Cost of sales ratio 2016Q3: 18.78% ⇒ 2017Q3: 16.54%
- **SG&A expenses**

  - Labor expenses : up ¥593 mil. YoY
  - Sales commissions : up ¥5,256 mil. YoY
  - > resulted from increase in sales at POLA. Commission ratio within POLA has improved.
  - Sales related expenses : up ¥829 mil. YoY
  - > resulted from increase in variant cost associated with sales increase.
  - Administrative expenses : up ¥254 mil. YoY
- **Operating income** Beauty care : up ¥11,986 mil. YoY

## Analysis of Consolidated P&L Changes

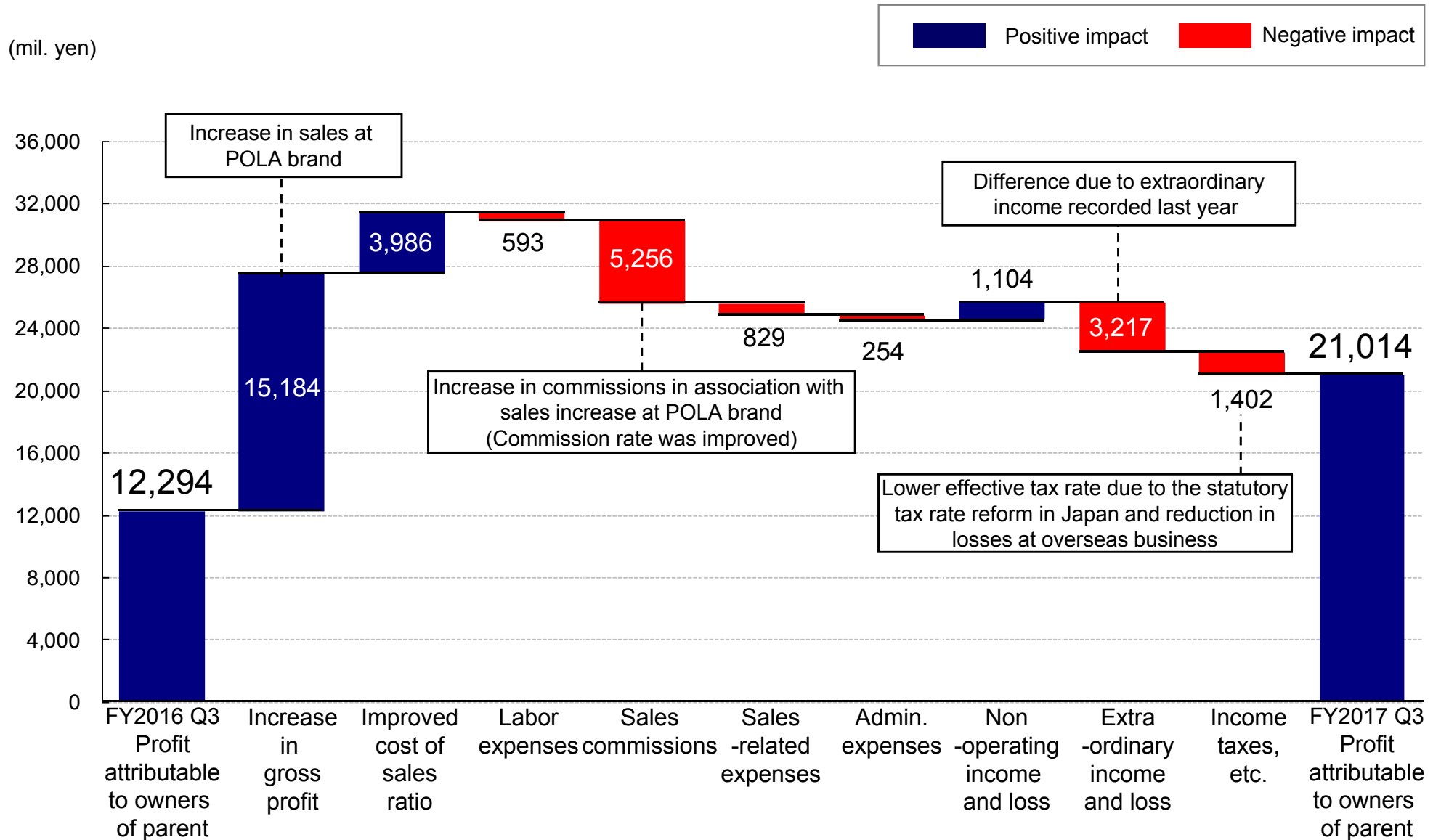
### Operating Income to Profit Attributable to Owners of Parent

(mil. yen)	FY2016	FY2017	YoY	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Operating income	18,310	30,546	12,236	66.8%
Non-operating income	342	332	(10)	(3.0%)
Non-operating expenses	1,202	88	(1,114)	(92.7%)
Ordinary income	17,450	30,791	13,340	76.4%
Extraordinary income	3,034	629	(2,404)	(79.3%)
Extraordinary loss	231	1,044	813	351.6%
Profit before income taxes	20,253	30,376	10,122	50.0%
Income taxes	7,945	9,345	1,400	17.6%
Profit attributable to non-controlling interests	13	16	2	19.4%
Profit attributable to owners of parent	12,294	21,014	8,719	70.9%

#### Key Factors

- Extraordinary income : Gain on sales of land ¥622 mil.
- Extraordinary loss : Loss related to the pharmaceuticals business ¥370 mil.  
: Loss on retirement of non-current assets ¥674 mil.
- Income taxes : Lower effective tax rate due to the statutory tax rate reform in Japan and reduction in losses at overseas business.

Profit attributable to owners of parent was up 70.9% yoy due to increase in gross margin and improvement in profit structure



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(mil yen)	FY2016	FY2017	YoY	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Consolidated net sales	159,150	177,846	18,695	11.7%
Beauty care	147,308	165,268	17,960	12.2%
Real estate	2,285	2,020	(265)	(11.6%)
Others	9,556	10,557	1,001	10.5%
Operating income	18,310	30,546	12,236	66.8%
Beauty care	17,703	29,689	11,986	67.7%
Real estate	1,188	913	(275)	(23.1%)
Others	(197)	(126)	70	-
Reconciliations	(384)	70	454	-

## Segment Results Summary

- Beauty care** Sales increased driven by POLA.  
 Operating income surged by 67% thanks to sales increase at POLA and COGS improvement.
- Real estate** Both sales and operating income decreased due to a sale of a rental property in December 2016; however, occupancy rate has been maintained at a high level.
- Others** At pharmaceutical business, sales and operating income increased yoy thanks to new drugs introduced last year. Initiatives for strengthen sales force are continued.



## Beauty Care Business Results by Brands

(mil. yen)	FY2016	FY2017	YoY	
	Q3 Results (YTD)	Q3 Results (YTD)	Amount	%
Beauty care net sales	147,308	165,268	17,960	12.2%
POLA	83,543	104,902	21,358	25.6%
ORBIS	41,982	39,888	(2,093)	(5.0%)
Jurlique	8,800	8,201	(599)	(6.8%)
H2O PLUS	1,891	1,765	(126)	(6.7%)
Brands under development	11,089	10,509	(579)	(5.2%)*
Beauty care operating income	17,703	29,689	11,986	67.7%
POLA	11,757	23,002	11,245	95.6%
ORBIS	8,368	7,409	(959)	(11.5%)
Jurlique	(1,711)	(1,232)	479	-
H2O PLUS	(1,516)	(580)	935	-
Brands under development	806	1,090	284	35.3%

\* +23.9% if calculated excluding FL and pdc brands which were sold during FY2016

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

### Q3 Result

- Wrinkle Shot encouraged customer acquisition and activation of existing customers. Both the number of customers and purchase price per customer grew.
- Sales of esthetic products increased by 5%, which bring a high chance of making repeat customers.
- Inbound ratio was approximately 12%.

Q3 (YTD)	Results (mil. yen)	YoY Change
Net sales	104,902	25.6%
Operating income	23,002	95.6%
Key indicators		
Number of sales offices (vs. Dec. 2016)		4,314 (down 311)
Number of PB <sup>(1)</sup> (vs. Dec. 2016)		653(up 6)
Cosmetics sales ratio	PB <sup>(1)</sup>	42.5%
	Esthe-inn	44.7%
	D2D <sup>(2)</sup> and other	12.8%
Sales growth*	PB	up 28.8%
	PB (like-for-like)	up 28.8%
	Esthe-inn	up 25.8%
	D2D	up 2.8%
Purchase per customer*		up 15.5%
Number of new customers*		up 6.7%

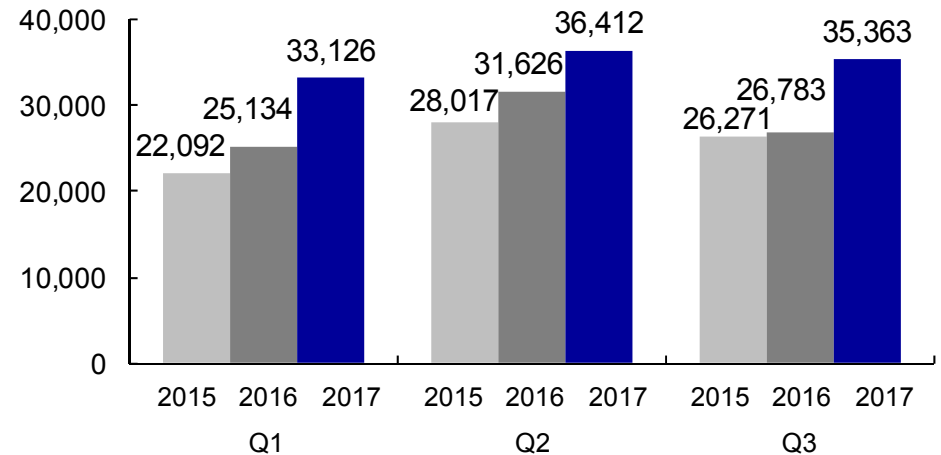
(1) PB: POLA THE BEAUTY stores (2) D2D: Conventional door-to-door \*YoY

### Topics

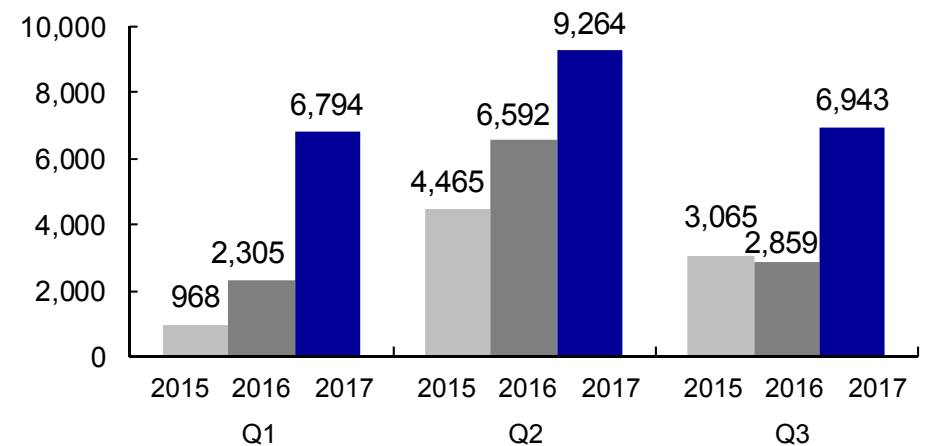
- Introduced new products in the B.A series.  
(Left) B.A prislumina (serum)  
(Right) B.A base makeup moist glow line



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)

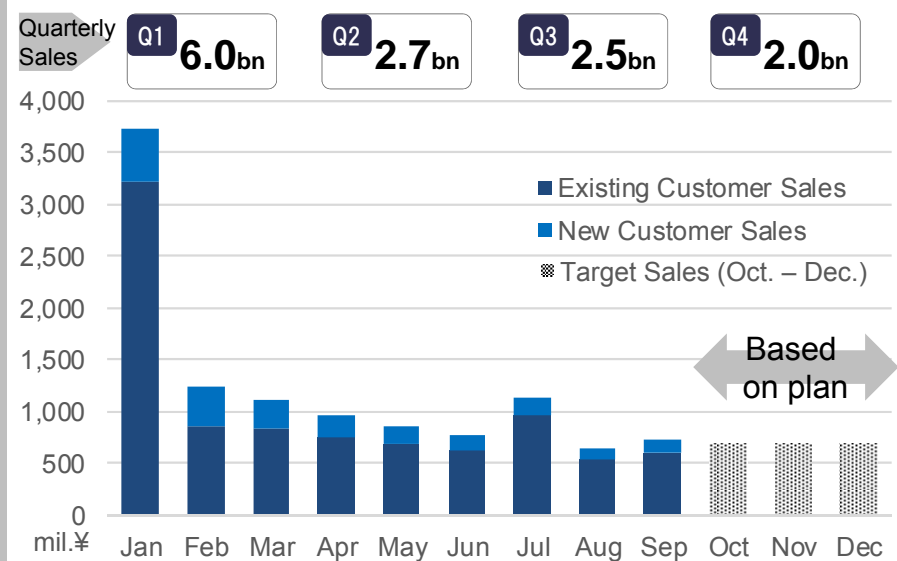




Sales progress above the revised target of ¥12.5bn, reinforcing customer base

Jan–Sep YTD Sales: Approximately 800,000 units, ¥11.2 billion  
 (+6% compared to the revised target / more than +30% compared to the initial target)

### ■ Sales progress



Channel Breakdown (of total sales)	¥11.2bn	Total Beauty (inc. PB)	<b>85%</b>
		Department Stores	<b>15%</b>
		Inbound Ratio	<b>17%</b>

**Cross Sell** Cannibalization with existing products was less than expected. Wrinkle Shot rather encouraged cross-selling within POLA brand.

### ■ Customer base reinforcement

Launch of Wrinkle Shot does not only add sales but also contributes to sustainable growth at POLA brand

#### ■ New Customers

Cross-selling ratio among new customers acquired through Wrinkle Shot

**Over 60%\***  
 (50%+ in 1H)  
 \*# of customer basis

Cross-selling products are mostly the prestige series “B.A” and beauty and health food products

As a result, the average purchase price of new customers grew better than that of all customers

Successfully captured the target customers

#### ■ Existing Customers

Purchase price per existing customer

**Increased by 10%+**  
 (flat YoY in 2016)

Main product series such as “B.A”, “Whiteshot”, and “APEX” marked nearly double-digit growth

Activated dormant customers and revitalized existing customers

### Q3 Result

- The number of customers during the three months in 3Q was maintained flat on a quarter-to-quarter basis by promoting skincare products.
- However, the slowdown trend of the purchasing activity among existing customers continued.
- Overall progress was in line with the forecast.

Q3 (YTD)	Results (mil. yen)	YoY change
Net sales	39,888	(5.0%)
Operating income	7,409	(11.5%)
Key indicators		
Sales ratio	Online	46.8%
	Other mail-order	25.9%
	Store and overseas	27.3%
Sales increase*	Online	down 1.5%
	Other mail-order	down 12.9%
	Stores and overseas	down 2.4%
Mail-order <sup>(1)</sup> purchase per customer*		down 3.0%
Number of mail-order <sup>(1)</sup> customers*		down 3.0%
Mail-order <sup>(1)</sup> skincare purchase ratio*		up 1.8%

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

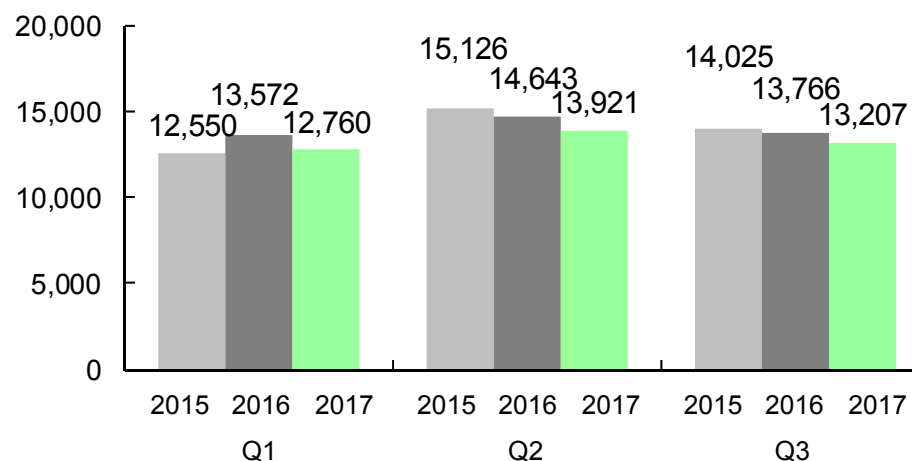
\* YoY basis

### Topics

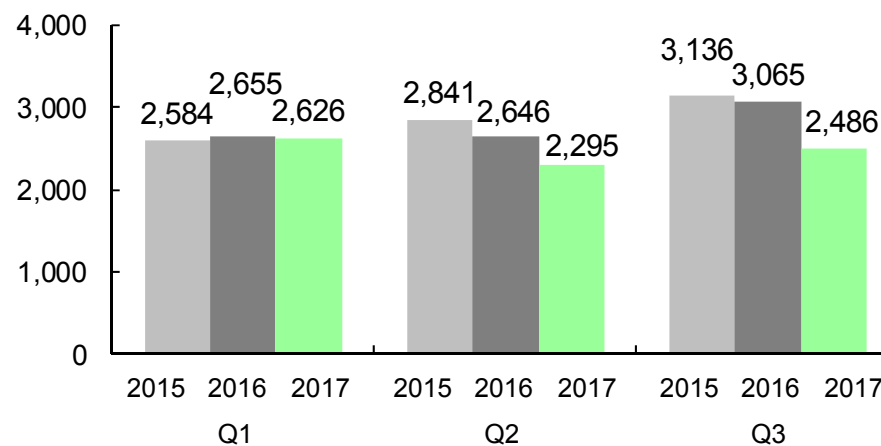
- Obtained the 1<sup>st</sup> place for three consecutive years under mail-order business “own-brand category” at JSCI (Japanese Customer Satisfaction Index Survey).



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



### Q3 Result

- Sales dropped by 13% yoy (on AUD basis).
- Hong Kong and duty-free businesses remained harsh; however, sales started to recover in Australian market thanks to new product launches.
- Operating income was maintained flat by offsetting the decrease in gross margin with restraints on costs.

Q3 (YTD)	Results (mil. yen)	YoY change <sup>(1)</sup>
Net sales	8,201	(6.8%)
Operating income (before goodwill amortization)	(1,186)	18
Operating income	(1,232)	479
Key indicators		
Number of doors in China (vs. Dec. 2016)		107(down 10)
Sales ratio	China	19%
	Hong Kong	14%
	Duty free	14%
	Australia	34%
Sales growth <sup>(2)</sup>	China	down 19%
	Hong Kong	down 10%
	Duty free	down 31%
	Australia	up 1%

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

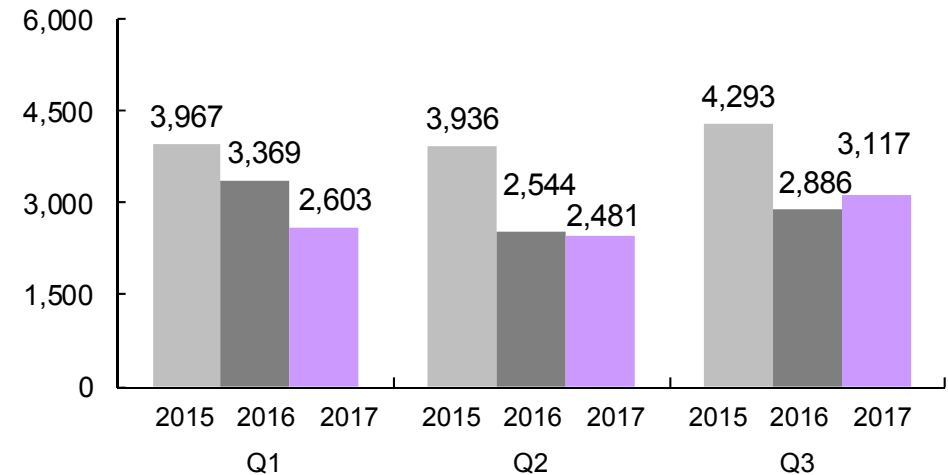
(2) AUD basis, YoY

### Topics

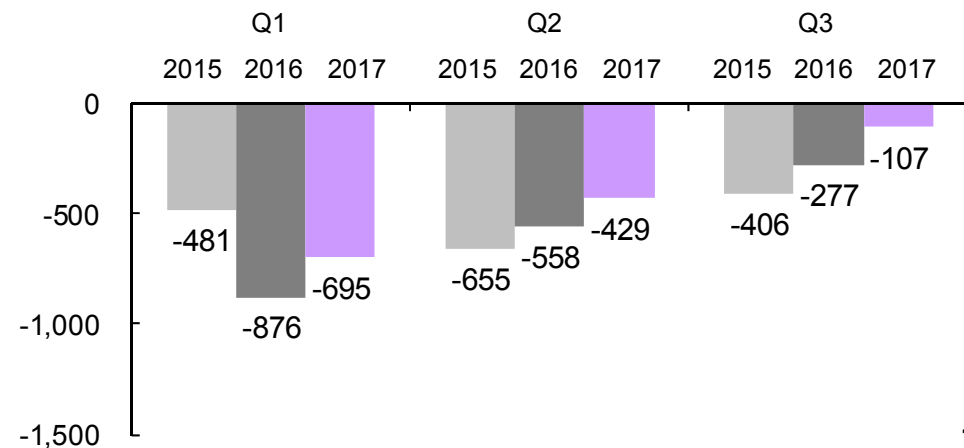
- Revamped the body care series, which serve as introduction products for brand entry (September)



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



## Q3 Result

- Sales decreased due to delay in renewing a contract with a distributor in Russia and slackness at existing retailers in North America.
- Operating income improved in line with initial plan owing to the withdrawal from China in terms of reduction in one-time costs of the withdrawal fee and operational losses recorded last year.

Q3 (YTD)	Results (mil. yen)	YoY change <sup>(1)</sup>
Net sales	1,765	(6.7%)
Operating income	(580)	935
Key indicators		
Sales ratio	North America	88%
	Others	12%
Sales growth <sup>(2)</sup>	North America	down 6%
	Others	down 29%

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

(2) USD basis, YoY

## Topics

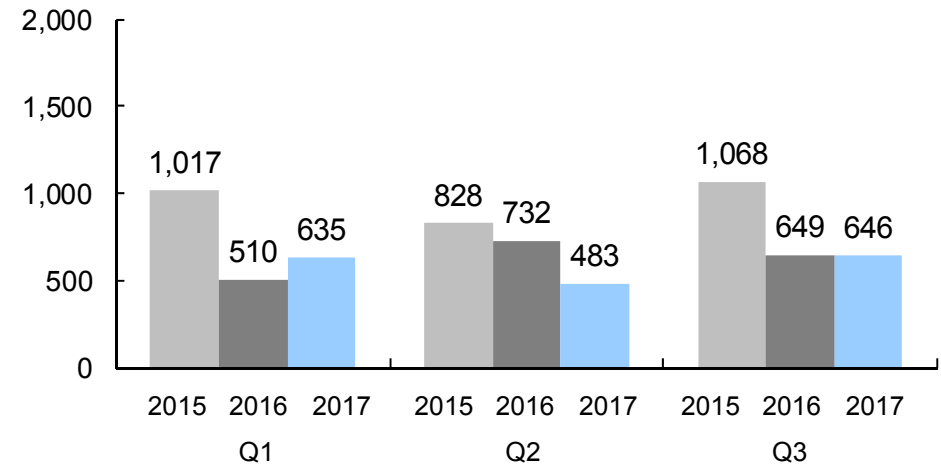
- Launched new products for 2H. Won awards from magazines



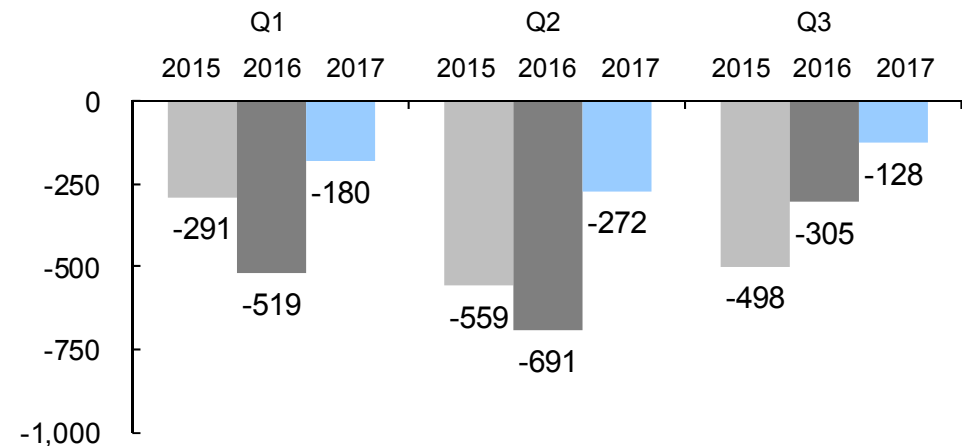
Oprah Beauty Award  
Allure Product Award

Left: BOOSTER  
Right: SEA GREENS Conditioner

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



## Q3 Result

- Overall sales decreased yoy due to sales of FL and pdc brands last year. Like-for-like sales grew by 23.9% excluding the two brands.
- At THREE, new customers increased driven by store openings; the number of stores/counters reached 100 in Japan.
- At DECENCIA, sales hiked by around 40% owing to the main series revamped last year.

Q3 (YTD)	Results (mil. yen)	YoY change
Net sales	10,509	(5.2%)
Operating income	1,090	35.3%
(THREE Net sales)	5,624	26.9%
(THREE OP income)	453	(6.8%)

### Key indicators

THREE	Dept. store counters in Japan	37
	Other stores in Japan	63
	Overseas stores (Thailand, Taiwan, Indonesia, Malaysia, Hong Kong, Korea and Singapore)	34
	Overseas sales ratio	12%

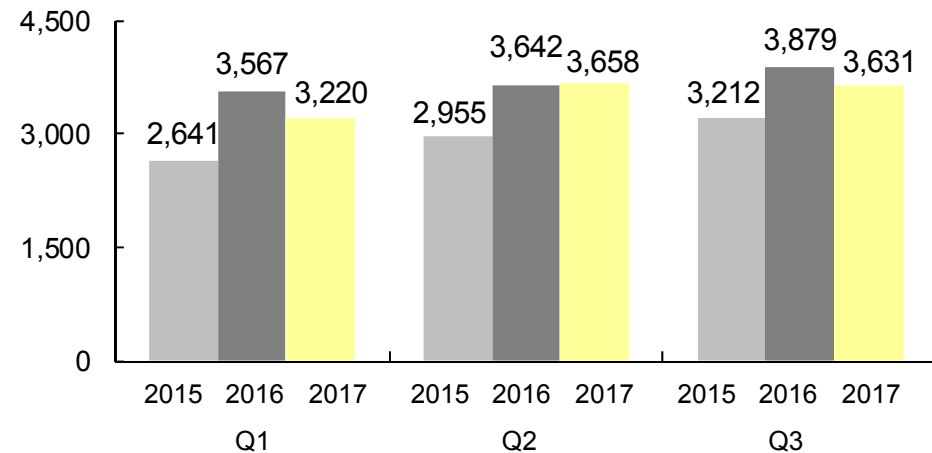
Note: Future Labo ("FL") and pdc brands were sold to third parties in November 1<sup>st</sup> and December 1<sup>st</sup> 2016 respectively.

## Topics

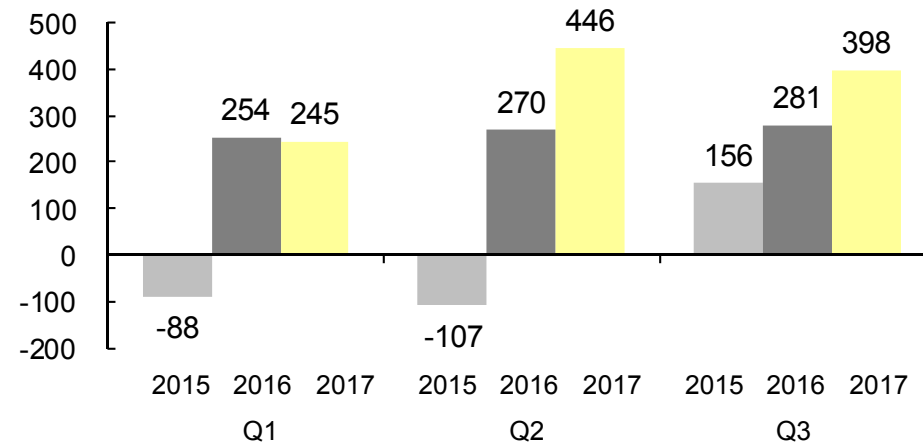
- THREE**
  - Entered into Singapore in September
  - Launched aging-care line "AIMING"



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



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Consolidated Sales and OP income are revised upwardly by 8.0bn and 1.5bn respectively. The Group is expecting increases both in sales and income for the eighth consecutive year.

(mil. yen)	Q3 Results(YTD)	YoY		2017 Full-year Forecast	vs. July 31 Forecast	YoY	
		Amount	%			Amount	%
Consol. net sales	177,846	18,695	11.7%	244,000	8,000	25,517	11.7%
Beauty care	165,268	17,960	12.2%	227,500	8,000	25,053	12.4%
Real estate	2,020	(265)	(11.6%)	2,500	0	(543)	(17.9%)
Others	10,557	1,001	10.5%	14,000	0	1,007	7.8%
OP income	30,546	12,236	66.8%	38,000	1,500	11,090	41.2%
Beauty care	29,689	11,986	67.7%	37,400	1,700	11,425	44.0%
Real estate	913	(275)	(23.1%)	1,000	0	(395)	(28.4%)
Others	(126)	70	—	(200)	(200)	(66)	—
Reconciliations	70	454	—	(200)	0	126	—
Ordinary income	30,791	13,340	76.4%	38,000	1,500	10,808	39.7%
Net income attributable to owners of parent	21,014	8,719	70.9%	25,300	1,500	7,852	45.0%

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

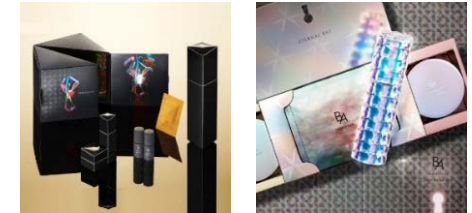
Revision contents	Sales	
	<ul style="list-style-type: none"> <li>■ Sales</li> <li>■ OP income</li> </ul>	<p>Revised upwardly at POLA to reflect strong performance of the brand. On the other hand, revised downwardly at Jurlique and H2O PLUS to reflect recent sales trend.</p> <p>At beauty care business, revised upwardly to reflect increase in gross margin associated with sales increase, while adding promotional investment cost under POLA and ORBIS brand to ensure sustainable growth next year. In addition, revised downwardly at pharmaceutical business to reflect downside risks.</p>

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## Sustain stable growth of flagship brands to lead Group earnings

**POLA**

- Launch limited-time special boxes from the “B.A” series, the most prestigious series from the brand.
- Carry out marketing campaigns in order to ensure sustainable growth next year and onwards. Aim at further customer acquisition and promotion of repeat purchases.



POLA

Left: B.A Black Shine Box  
Right: B.A Grandlux II Aura Shine Box

**ORBIS**

- Clarify its offering value by examining brand differentiation and restructuring product lineup.
- Take marketing initiatives focusing on acquisition of skincare-oriented customers with potential of high lifetime value, and on brand recognition and comprehension in the market.

## Bring overseas operations solidly into the black overall

**Jurlique**

- Introduce new products for year-end shopping season and stimulate repeat customers who have gifting occasions.
- Expand customer touchpoints by continuously developing new retailers in North America and introducing holiday gift sets.



Jurlique

Left: Sweet Violet & Grapefruit Hydrating Mist  
Right: Radiance Renewal 28 Day Programme

**H2O+**  
BEAUTY

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

**T H R E E**

- Launch a season collection that features autumn leaves in October and November sequentially from Hokkaido to the south.

**DECENCIA**

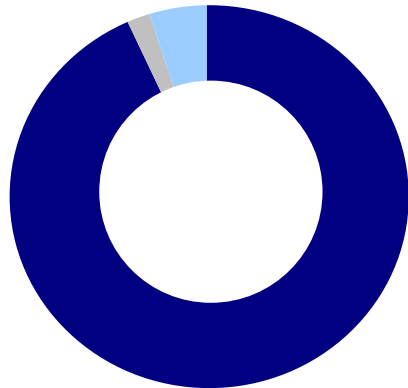
- Launch a prestige night serum that focuses on rough skin caused by lack of sleep and seek to raise potential of sensitive skin products and increase the brand presence.



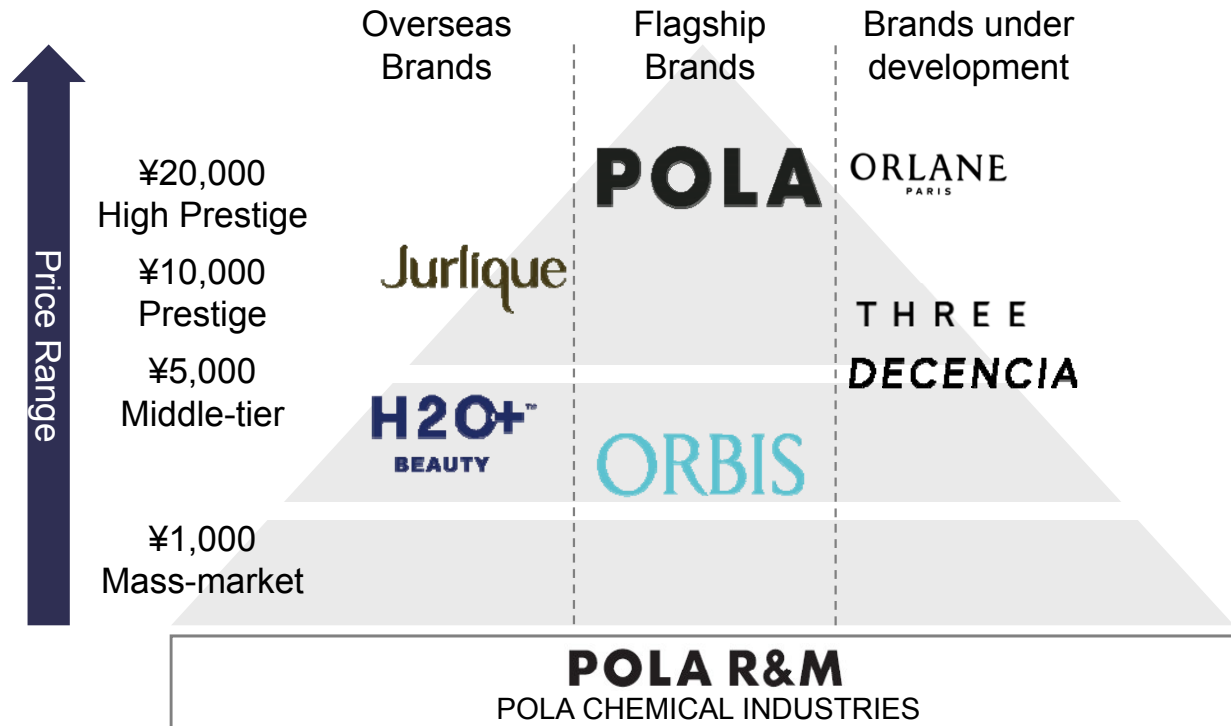
THREE Season Collection 18  
“WHEN THE LEAVES DANCE”

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

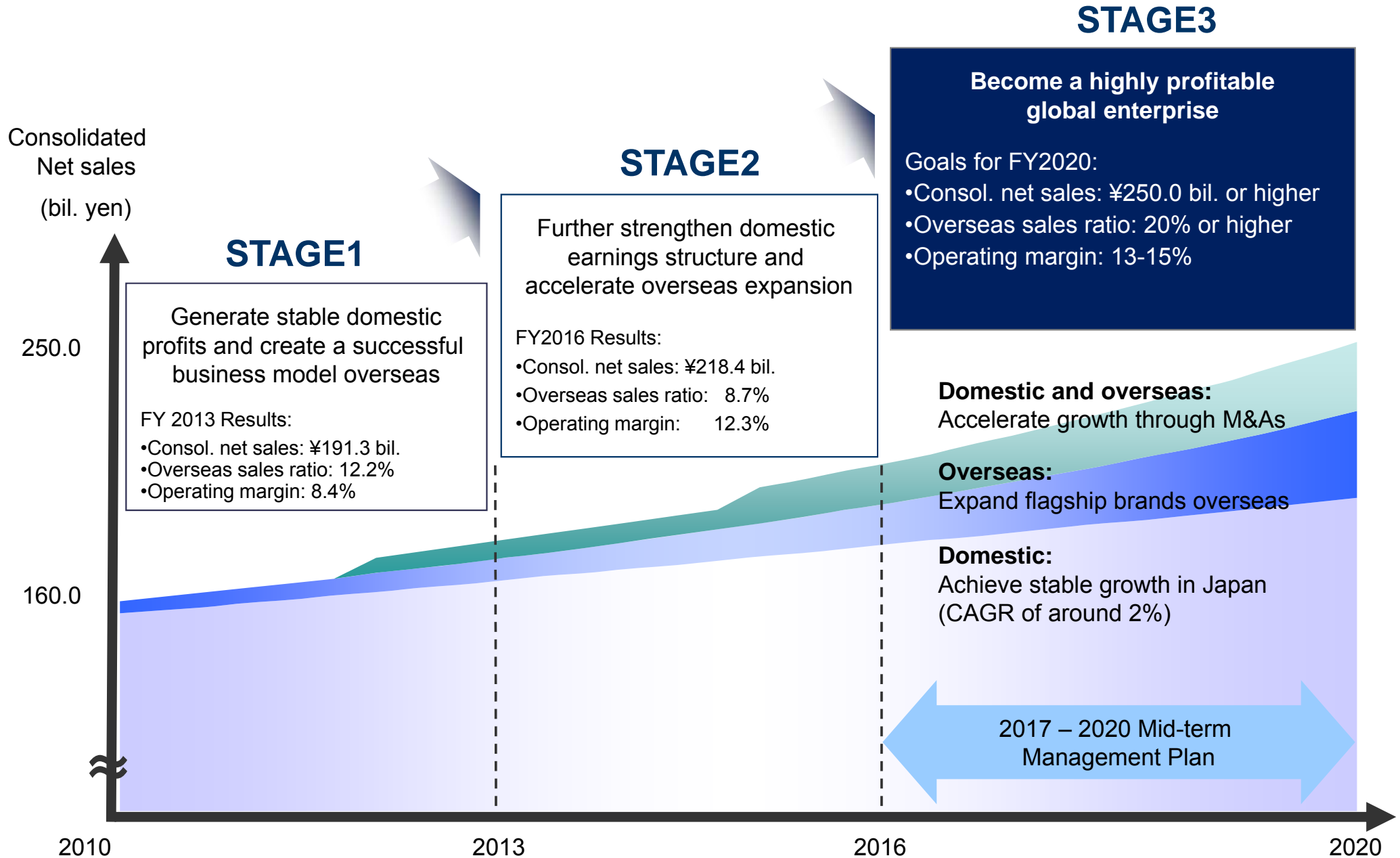
\*Sales ratio in the beauty care business as of FY2016

\*\*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 Results	FY2015 Results	FY2016 Results	2015 vs 2016 YoY Change	
				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

