

Summary of Key Questions and Answers Concerning the Financial Results for FY2025 Q3

1. [Consolidated results] How did the Company's performance in the third quarter compare to its expectations? What was the performance by brand?

On a consolidated basis, in the first half, net sales were approximately ¥1.2 billion below the company's expectations, while operating income exceeded expectations by approximately ¥1.3 billion. In addition, for the third quarter (July to September), net sales were approximately ¥1.3 billion below expectations, and operating income was approximately ¥1.1 billion above expectations. By brand in the third quarter (July to September), regarding net sales, POLA fell short by approximately ¥1.5 billion, ORBIS posted an upside of ¥0.2 billion, and Jurlique was ¥0.2 billion below expectations. For operating income, POLA was in line with expectations, ORBIS posted an upside of approximately ¥0.4 billion, Jurlique exceeded expectations by approximately ¥0.3 billion, and reconciliations posted an upside of approximately ¥0.4 billion.

2. [Consolidated results] Are there any factors that could lead to upside or downside in the full-year outlook?

It will be difficult to fully recover the shortfall in net sales versus the company's assumptions through the third quarter, but we aim to achieve the initially expected level for the fourth quarter (October to December). Regarding operating income, we plan to make marketing investments in POLA's new B.A products during the fourth quarter. Therefore, the upside in operating income through the third quarter will not fully carry over to the full-year guidance.

3. [Consolidated results] What is behind the decrease in reconciliations?

Starting in FY2025, we changed the method of cost allocation among segments. We are also working to improve the efficiency of headquarters expenses, which are trending lower year on year in reconciliations. However, some expenses have been deferred to the fourth quarter, so we do not expect a significant variance from our full-year assumptions. While there are variances in progress among segments, we remain committed to achieving the operating income guidance of ¥14.5 billion.

4. [POLA] What were the factors behind the approximately ¥1.5 billion shortfall in net sales versus the company's assumptions in the third quarter (July to September)?

The variance from assumptions was mainly due to the consignment sales channel. Sales in this channel were in line with assumptions in the first half, and we aimed for levels in line with the previous year in the second half. However, before the B.A products relaunch, purchase restraint was greater than expected. Following the September launch of the B.A products, existing customers, particularly those with high loyalty, have been purchasing, but customer purchasing activity has been sluggish because of insufficient promotional activities. As October to December is a peak season for the cosmetics market, we plan to strengthen proposals to customers and implement re-promotion measures to recover, aiming for sales levels in line with the previous year during this period.

5. [POLA] What drove the upside in operating income, and what marketing investments and initiatives will be implemented in the fourth quarter?

Our policy is to allocate the necessary expenses at the appropriate time. Operating income exceeded expectations because we executed spending while carefully assessing the return on investment. In the fourth quarter, we plan to leverage customer lists and drive purchases directly from the headquarters through such initiatives as direct mail and email distribution.

6. [POLA] Customer numbers in the domestic business appear to have declined at a faster pace compared to the first half. Which channels are seeing this decrease? Also, please provide the trends in customer numbers and average spending for the consignment sales channel.

Compared to the first half, customer numbers for the third quarter (YTD) declined year on year in the consignment sales, department store, and e-commerce channels. In the consignment sales channel, customer numbers for the third quarter (YTD) were down 7.4% year on year, while average spending per customer rose 4.5% year on year. We have been strategically strengthening communication with existing customers, and the number of new customers decreased significantly.

7. [POLA] What are the reasons behind the revenue decline in the consignment sales channel? Aside from the sales performance of B.A, are there any structural issues?

We have addressed organizational issues, such as the decline in Beauty Directors and store numbers. There are also early signs that the decline in store count is moderating. While continuing these initiatives, we will further discuss and implement measures internally to ensure that our actions do not negatively impact the customer base.

8. [POLA] POLA raised prices for aesthetic treatment services. Have you seen any impact?

We have received positive feedback on the new treatment techniques we introduced, and customers have continued to use the services even after the price increase. We have not seen any negative impact.

9. [POLA] What is the current status of the overseas business? Have there been any changes in the operating environment?

There have been no significant changes since the second quarter. In the Chinese market, uncertainty remains, but online sales continue to be strong. On the other hand, for the underperforming physical stores, we are closing unprofitable locations to enhance profitability.

10. [ORBIS] What is the current status of customer numbers in the direct selling channel?

ORBIS's direct selling channel already has more than two million customers, and given the domestic market environment, it is not easy to keep expanding customer numbers through direct selling channel alone. However, we are actively developing external channels, and we believe we can steadily increase the overall number of ORBIS users when these channels are included.

11. [ORBIS] How do you view the current competitive environment? Do you expect operating margin to continue improving going forward?

The mid-priced cosmetics market has remained flat, but ORBIS has continued to grow at a pace above market growth, indicating solid competitiveness. Operating margin is already at a high level, so achieving a significant further increase will be challenging. However, we aim to improve profitability through cost efficiencies in such areas as promotion and administrative expenses.

12. [ORBIS] How do you evaluate the third-quarter results?

In the second quarter, we invested in the cleansing oil launched in May, which contributed to higher sales in the third quarter. We aim to leverage cleansing oil purchases to drive cross-selling of other skincare products.

13. [Jurlique] How confident are you that profitability will be achieved next fiscal year? Have there been any changes in the market environment?

We are advancing fundamental structural reforms, including controlling selling, general and administrative expenses, to achieve profitability next fiscal year. The market environment remains challenging, particularly in mainland China, with no significant changes observed. While we aim to boost sales through new product launches and promotional activities, even if next year's sale remains flat, we aim to achieve profitability through structural profitability improvements.

14. [Others] What are the recent trends in the cosmetics market by price segment?

Based on the statistical data we monitor, the high-end segment of the cosmetics market grew through the third quarter (YTD). We own several premium cosmetics brands, including POLA, and view the market environment as trending positively.

[Attention]

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