POLA ORBIS HOLDINGS

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Announcement Regarding Recording of Extraordinary Loss and Revision to Full-year Consolidated Performance Forecast

POLA ORBIS HOLDINGS INC. (hereafter, the “Company”) hereby announces that it is expected to record an extraordinary loss in the fourth quarter of fiscal 2018, and has revised its full-year consolidated performance forecast, which was announced on November 26, 2018, as outlined below.

1. Recording of extraordinary loss

(1) Detail of the extraordinary loss
An impairment loss on non-current assets (goodwill of approximately ¥800 million, right of trademark of approximately ¥8,400 million and other tangible and intangible fixed assets of approximately ¥2,100 million) related to the Jurlique brand, in the amount of approximately ¥11,300 million will be recorded in the fourth quarter of fiscal 2018.

(2) Reason for the extraordinary loss
Jurlique has set Australia, China, Hong Kong, and travel retail as its priority markets and has sought business expansion in the markets with an emphasis on department stores and directly-operated stores. Especially in China, Jurlique has changed its business model in the country in 2016, shifting from managing directly-operated stores to a use of a distributor to respond to changes in the market environment, however, the recent performance of the business is still behind the plan. In addition, Jurlique has taken measures to revitalize the brand in Asia and Oceania markets, namely restructuring product development system and marketing strategies with the support of the Group in order to recover its business performance and steadily introducing new products to the market, however, it is taking time to reach the expected outcome.
In consideration of the situation where the difference between the performance plan and outlook became large especially in the fourth quarter of fiscal 2018 owing to a decrease in the number of stores and increases in costs, Jurlique reviewed its medium- to long-term business plan and future cash flow projections generated therefrom for the next fiscal year onward. An impairment test was also carried out, which resulted in the decision to record the impairment loss in fiscal 2018.
Going forward, on the sales side, Jurlique will concentrate its business resources to recover the sales by narrowing down key markets in addition to the closure of unprofitable stores that has already been taken place. In addition, Jurlique is working on organizational downsizing and reviewing cost structure.
With these efforts, although some temporary costs will be incurred in fiscal 2019, Jurlique aims to largely reduce the loss for fiscal 2020 and rebuild the brand as a premium natural skincare brand.

2. Revision to full-year consolidated performance forecast for fiscal 2018 (January 1, 2018–December 31, 2018)

Millions of yen (except per share data and percent)

	Net sales	Operating income	Ordinary income	Profit Attributable to Owners of Parent	Net income per share (yen)
Previous forecast (A)	253,000	41,500	41,500	21,100	95.40
Revised forecast (B)	248,500	39,400	38,900	8,300	37.53
Amount changes (B – A)	(4,500)	(2,100)	(2,600)	(12,800)	
Percent changes (%)	(1.8)	(5.1)	(6.3)	(60.7)	
(Reference) Actual full-year results of FY2017	244,335	38,881	39,250	27,137	122.70

Main reasons for revision

Net sales are expected to fall short of the previous forecast by approximately ¥4,500 million, due to the lower-than-planned performance of Jurlique, in addition to the change in the trend of inbound and buyer demands mainly from China.

Operating income and ordinary income are also expected to fall short of the previous forecasts, by approximately ¥2,100 million due to the lower-than-planned net sales and gross profit, and by approximately ¥2,600 million due to foreign exchange losses, respectively.

In addition, profit attributable to owners of parent is also expected to fall short of the previous forecasts by approximately ¥12,800 million, due to the decrease in ordinary income and the recording of the extraordinary loss from the impairment loss in the amount of approximately ¥11,300 million, as outlined in the section 1. above, etc.

3. Dividend forecast

   Regarding the year-end dividend for fiscal 2018, there is no change to the year-end dividend forecast of ¥45 per share, which was announced on October 30, 2018.

4. Other

   In view of the aforementioned results, it was decided that the Representative Director be subject to the reduction of the monthly compensation by 25% for 12 months, and Directors by 5% to 15% for the same period.

Note: Forecasts are based on information available as of the publication of this news release. Actual performance may differ from these forecasts, owing to changes in various factors.