

First Half of Fiscal 2017 Supplementary Material

POLA ORBIS HOLDINGS INC.
Representative Director and President
Satoshi Suzuki

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

Cosmetics Market

- Japanese cosmetic market overall showed steady growth. However, pure domestic market, excluding inbound seemed to be flat or declined slightly.*
- By price range, high prestige remained steady. By channel, drugstores, department stores and online channels grew.
- As for inbound demand, although the average basket price was slightly declined, total amount is still increasing as the number of foreign visitors and the variety of purchasing products are still on the rise.

*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 prosperous brands under development.
- Wrinkle Shot Serum contributed to better-than-expected sales at POLA.
- Sales and operating income decreased at ORBIS due to the declining number of customers.
- As for overseas brands, Jurlique struggled in Australian and duty-free market. Sales decreased YoY at H2O PLUS owing to initial shipment of revamped products recorded in 2Q last year.
- DECENCIA and THREE from brands under development category sustained strong performance (excluding impact of sales of FL and pdc brands).

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 (H1) : Approximately 7% of consolidated net sales

(mil. yen)	FY2016	FY2017	YoY Change	
	H1 Results	H1 Results	Amount	%
Consolidated net sales	106,957	117,378	10,420	9.7%
Cost of sales	20,121	18,925	(1,195)	(5.9%)
Gross profit	86,836	98,452	11,616	13.4%
SG&A* expenses	74,685	77,507	2,821	3.8%
Operating income	12,150	20,944	8,794	72.4%

*Selling, General and Administrative Expenses

Key Factors

- **Consol. net sales** For domestic brands, Wrinkle Shot Serum strongly boosted sales at POLA. Sales dropped at ORBIS because of the decreasing number of customers, but was in line with its revised plan.

For overseas brands, Jurlique continued to struggle in Australia and duty-free market.
- **Cost of sales** Cost of sales ratio showed better-than-expected improvement owing to increase in sales compound ratio of high-prestige products under POLA brand.
Cost of sales ratio 2016H1: 18.81% ⇒ 2017H1: 16.12%
- **SG&A expenses**

 - Labor expenses : up ¥172 mil. YoY
 - Sales commissions : up ¥2,845 mil. YoY
 - > resulted from increase in sales at POLA. Commission ratio within POLA has improved.
 - Sales related expenses : down ¥14 mil. YoY
 - Administrative expenses : down ¥181 mil. YoY
- **Operating income** Beauty care : up ¥8,015 mil. YoY

Analysis of Consolidated P&L Changes

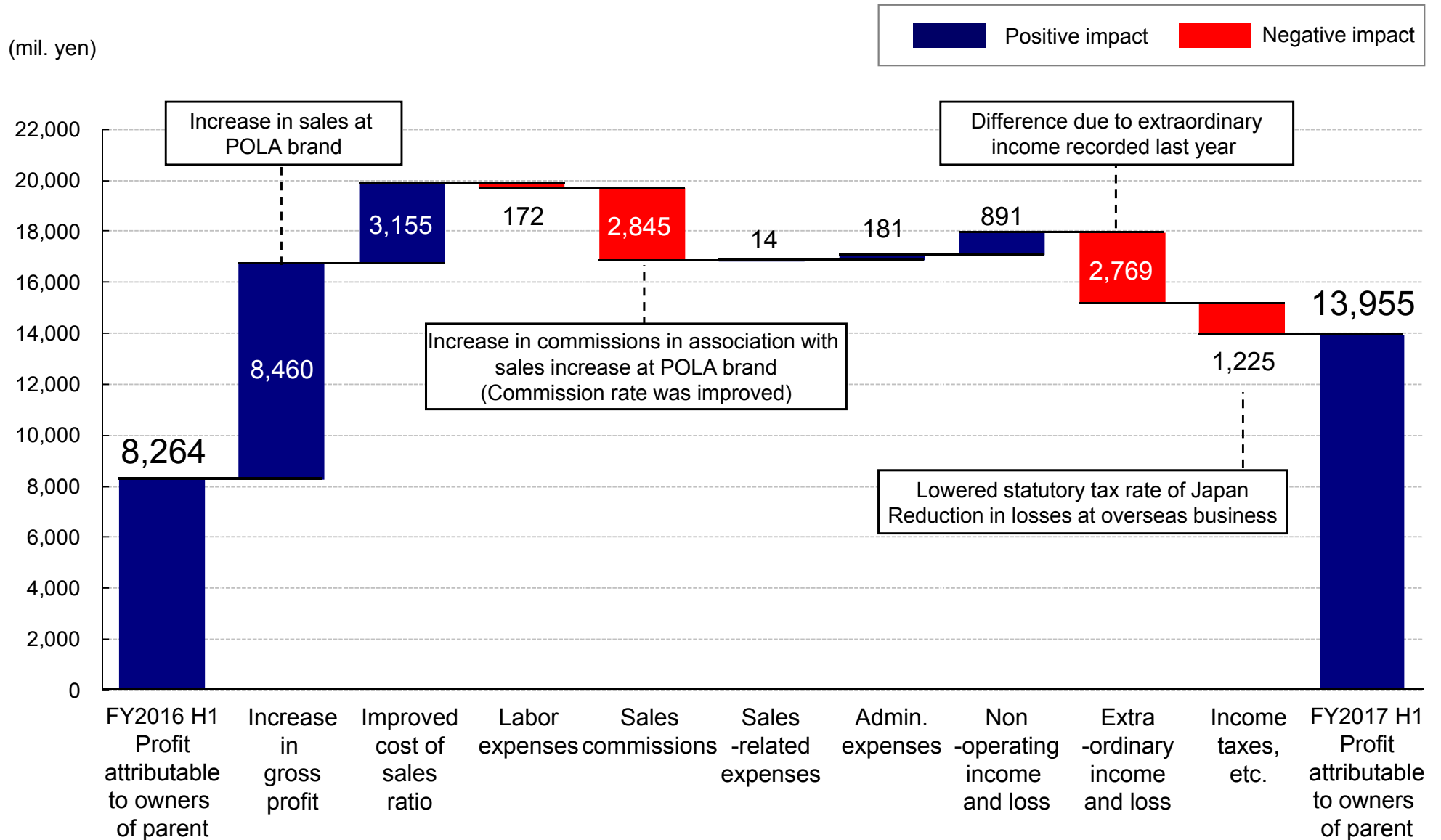
Operating Income to Profit Attributable to Owners of Parent

(mil. yen)	FY2016	FY2017	YoY	
	H1 Results	H1 Results	Amount	%
Operating income	12,150	20,944	8,794	72.4%
Non-operating income	229	228	0	(0.3%)
Non-operating expenses	1,121	229	(892)	(79.5%)
Ordinary income	11,258	20,944	9,685	86.0%
Extraordinary income	3,022	629	(2,393)	(79.2%)
Extraordinary loss	159	535	376	236.2%
Profit before income taxes	14,121	21,037	6,916	49.0%
Income taxes	5,846	7,071	1,225	21.0%
Profit attributable to non-controlling interests	10	10	0	1.3%
Profit attributable to owners of parent	8,264	13,955	5,690	68.9%

Key Factors

- Extraordinary income : Gain on sales of land ¥622 mil.
- Extraordinary loss : Loss related to the pharmaceuticals business ¥370 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 68.9% yoy due to increase in gross margin and improvement in profit structure



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(mil yen)	FY2016	FY2017	YoY	
	H1 Results	H1 Results	Amount	%
Consolidated net sales	106,957	117,378	10,420	9.7%
Beauty care	99,343	109,303	9,959	10.0%
Real estate	1,517	1,348	(169)	(11.1%)
Others	6,096	6,726	630	10.3%
Operating income	12,150	20,944	8,794	72.4%
Beauty care	12,080	20,095	8,015	66.4%
Real estate	797	592	(205)	(25.7%)
Others	(335)	165	500	-
Reconciliations	(392)	91	483	-

Segment Results Summary

- **Beauty care** Sales increased driven by POLA.
Operating income surged by 66% 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 as newly-introduced drugs sold in line with plan. Initiatives for strengthen sales force is continued.
At building maintenance business, sales increased thanks to proactive sales activities.

Beauty Care Business Results by Brands

(mil. yen)	FY2016	FY2017	YoY	
	H1 Results	H1 Results	Amount	%
Beauty care net sales	99,343	109,303	9,959	10.0%
POLA	56,760	69,538	12,778	22.5%
ORBIS	28,215	26,681	(1,533)	(5.4%)
Jurlique	5,914	5,084	(829)	(14.0%)
H2O PLUS	1,242	1,119	(123)	(9.9%)
Brands under development	7,210	6,878	(331)	(4.6%)*
Beauty care operating income	12,080	20,095	8,015	66.4%
POLA	8,897	16,058	7,161	80.5%
ORBIS	5,302	4,922	(380)	(7.2%)
Jurlique	(1,434)	(1,125)	308	-
H2O PLUS	(1,210)	(452)	758	-
Brands under development	524	692	167	32.0%

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

* +24.9% if calculated excluding FL and pdc brands which were sold during FY2016

H1 Result

- Successful customer acquisition through Wrinkle Shot led to cross-selling and repeat purchases. It also encouraged increases in the number of customers and purchase per customer.
- Product launches in 2Q successfully contributed to large increase in sales and profit.
- Inbound ratio was around 12%.

H1	Results (mil. yen)	YoY Change
Net sales	69,538	22.5%
Operating income	16,058	80.5%
Key indicators		
Number of sales offices (vs. Dec. 2016)		4,313 (down 312)
Number of PB ⁽¹⁾ (vs. Dec. 2016)		651(up 4)
Cosmetics sales ratio	PB ⁽¹⁾	43.7%
	Esthe-inn	43.6%
	D2D ⁽²⁾ and other	12.7%
Sales growth*	PB	up 26.2%
	PB (like-for-like)	up 26.3%
	Esthe-inn	up 25.4%
	D2D	up 1.1%
Purchase per customer*		up 14.4%
Number of new customers*		up 3.4%

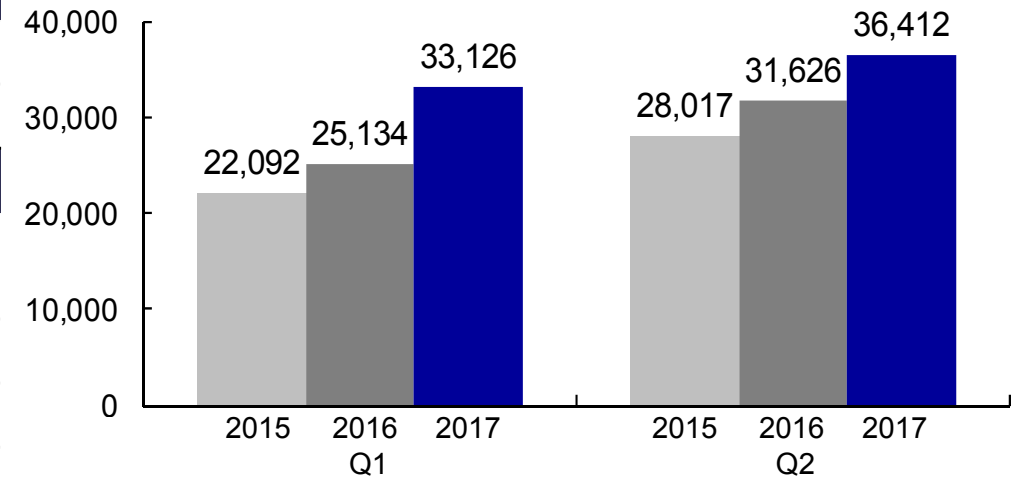
(1) PB: POLA THE BEAUTY stores (2) D2D: Conventional door-to-door *YoY

Topics

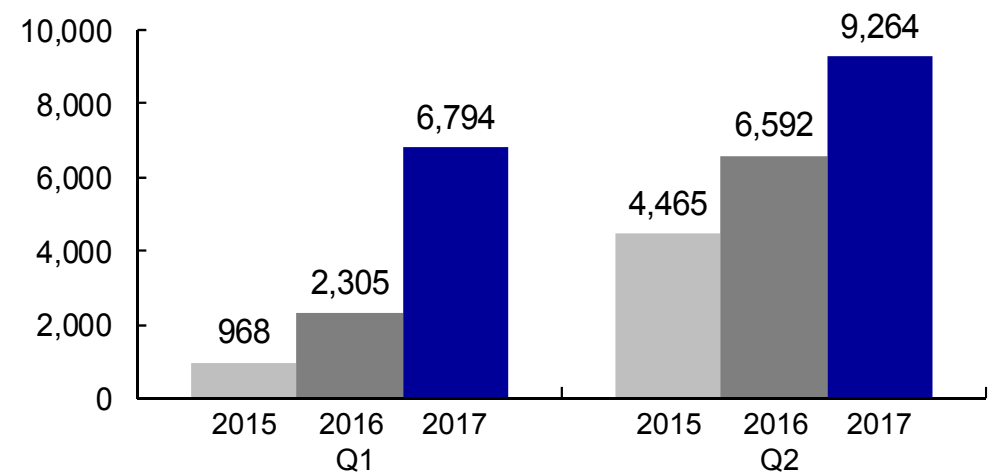
- Introduced a sheet mask and Inner Lock drink in WHITE SHOT series. (May 1st)



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)

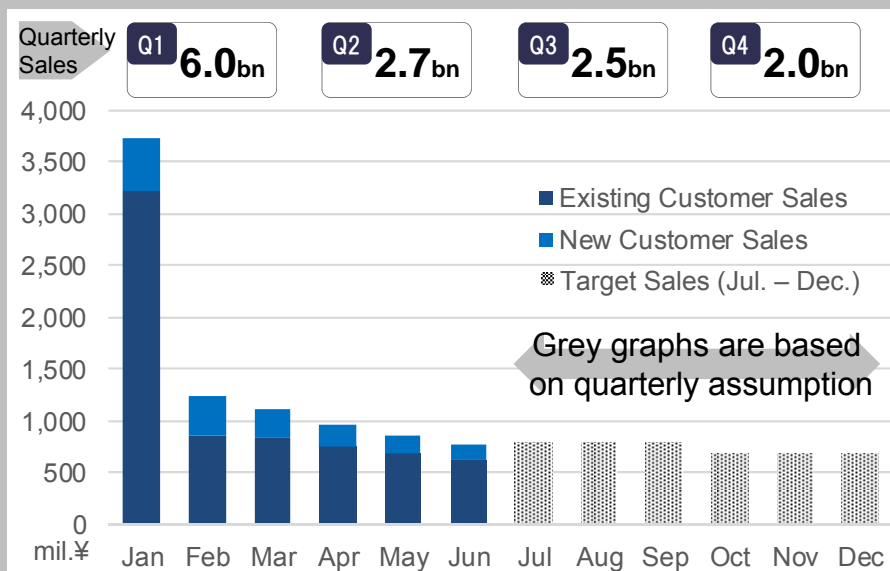




Sales progress above the revised target of ¥12.5bn, contributing to customer acquisition

Jan–Jun YTD Sales: Approximately 620,000 units, ¥8.7 billion
 (+9% compared to the revised target / more than +30% compared to the initial target)

■ Sales progress

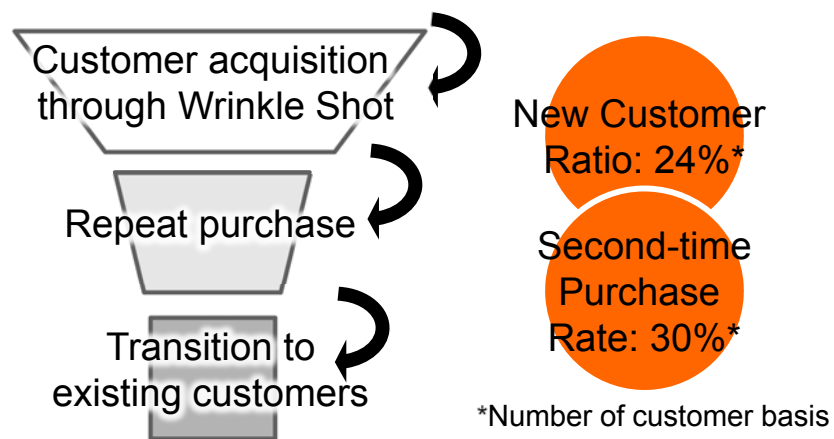


Channel Breakdown (of total sales)	¥8.7bn	Total Beauty (inc. PB)	86%
		Department Stores	14%
		Inbound Ratio	16%

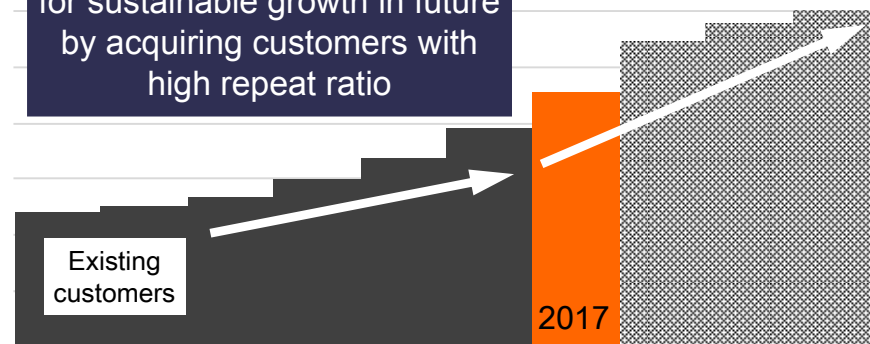
Cross Sell Cannibalization with existing products was less than expected. Wrinkle Shot rather encouraged cross-selling within POLA brand.

Reviews Won many best cosmetic awards in 1H (magazines) [Biteki] #1 of all-category, [VoCE] #1 of skincare category, [MAQUIA] Best of Best Award, etc.

■ Customer structure reinforcement



Aim to expand customer base for sustainable growth in future by acquiring customers with high repeat ratio



Reinforce business structure to realize sustainable growth by expanding customer base

H1 Result

- Sales decreased due to the down trend in the number of customers in spite of skincare-focused campaigns.
- Operating income dropped due to decrease in gross margin. Promotional budget was rescheduled to be used in 2H for the purpose of cost-benefit effectiveness.
- Overall performance was in line with the revised plan.

Topics

- Launched seasonal products and men's skincare series.
- Started mail-posting delivery service that does not require receiving stamps as a solution for customer absence.



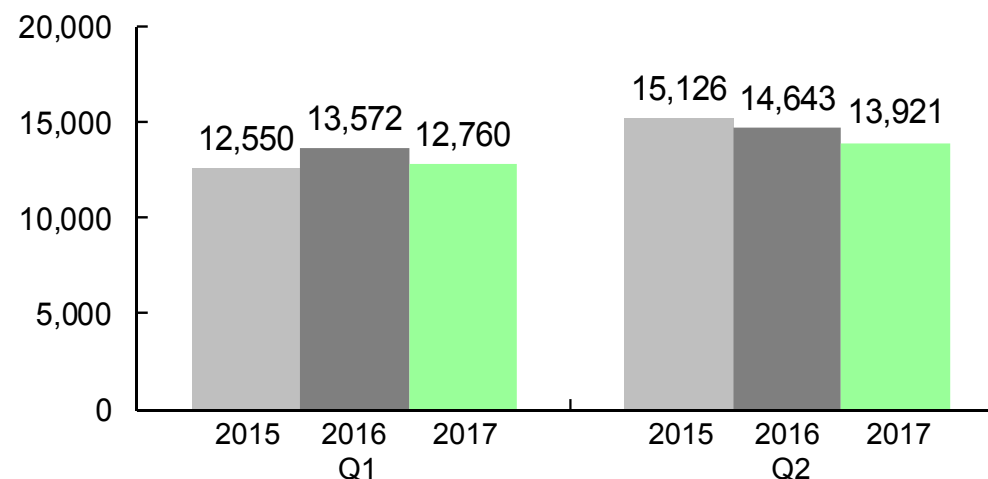
(Left) Sunscreen Super
(Right) ORBIS Mr. Series

H1	Results (mil. yen)	YoY change
Net sales	26,681	(5.4%)
Operating income	4,922	(7.2%)
Key indicators		
Sales ratio	Online	47.1%
	Other mail-order	26.0%
	Store and overseas	26.9%
Sales increase*	Online	down 1.8%
	Other mail-order	down 14.2%
	Stores and overseas	down 2.1%
Mail-order ⁽¹⁾ purchase per customer*		down 1.7%
Number of mail-order ⁽¹⁾ customers*		down 5.0%
Mail-order ⁽¹⁾ skincare purchase ratio*		up 1.6%

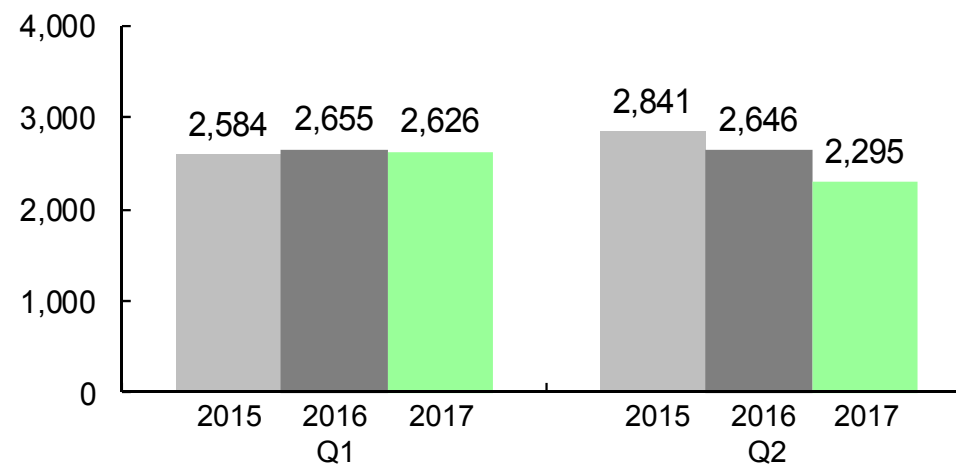
(1) Mail-order includes online and other mail-order

* YoY basis

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



H1 Result

- Sales dropped by 17% YoY (on AUD basis).
- Jurlique struggled due to weakened brand presence and decrease in the number of tourists, mainly in the Australian and duty-free markets.
- Restraints on SG&A cost covered the decrease in gross margin at operating income level.

H1	Results (mil. yen)	YoY change ⁽¹⁾
Net sales	5,084	(14.0%)
Operating income (before goodwill amortization)	(1,095)	(5)
Operating income	(1,125)	308
Key indicators		
Number of doors in China (vs. Dec. 2016)		110(down 7)
Sales ratio	China	19%
	Hong Kong	15%
	Duty free	14%
	Australia	31%
Sales growth ⁽²⁾	China	down 33%
	Hong Kong	down 5%
	Duty free	down 29%
	Australia	down 6%

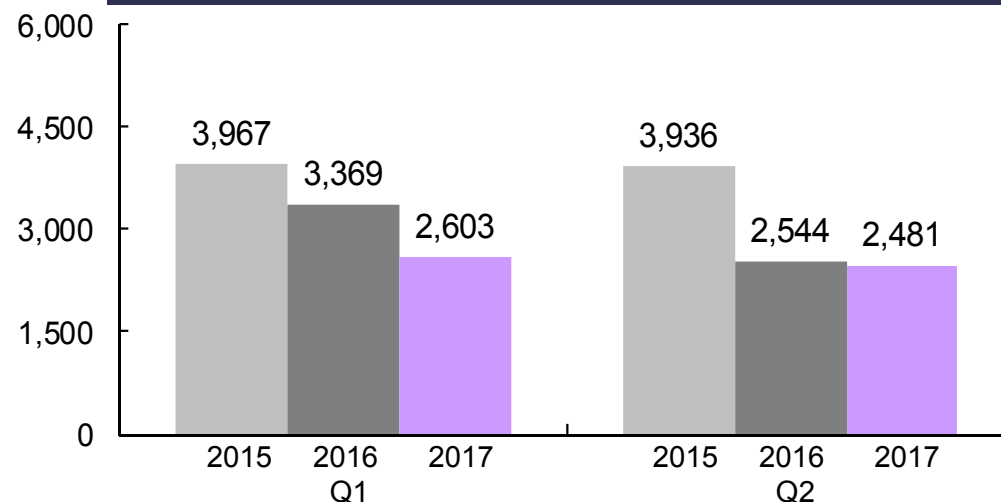
(1) For operating income YoY difference is shown in amount (mil. yen).

(2) AUD basis, YoY

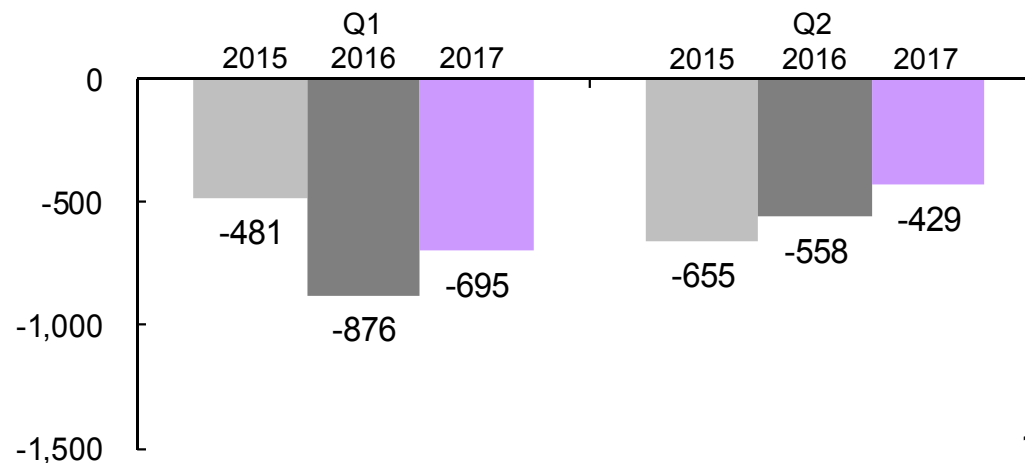
Topics

- Implemented new marketing strategy which was reformed last year.
- Introduced a customer nurturing program utilizing CRM data in Chinese market as the first market.

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



H1 Result

- Sales decreased because of the sales from initial shipments of revamped products recorded in June last year and delay in shipment schedules.
- Operating income improved in line with the 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.

H1	Results (mil. yen)	YoY change ⁽¹⁾
Net sales	1,119	(9.9%)
Operating income	(452)	758
Key indicators		
Sales ratio	North America	88%
	Others	12%
Sales growth ⁽²⁾	North America	down 12%
	Others	up 8%

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

(2) USD basis, YoY

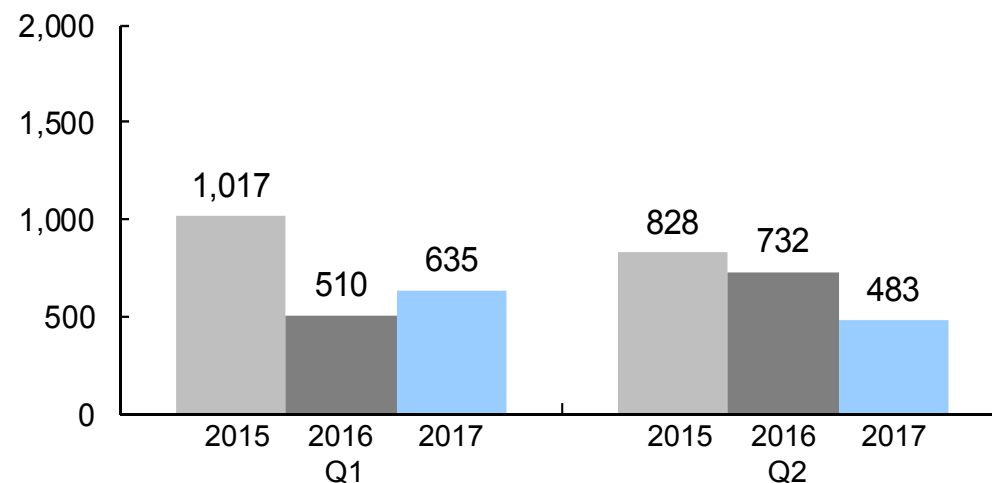
Topics

- Ran a product-linked campaign to raise brand recognition and reinforce skincare products.

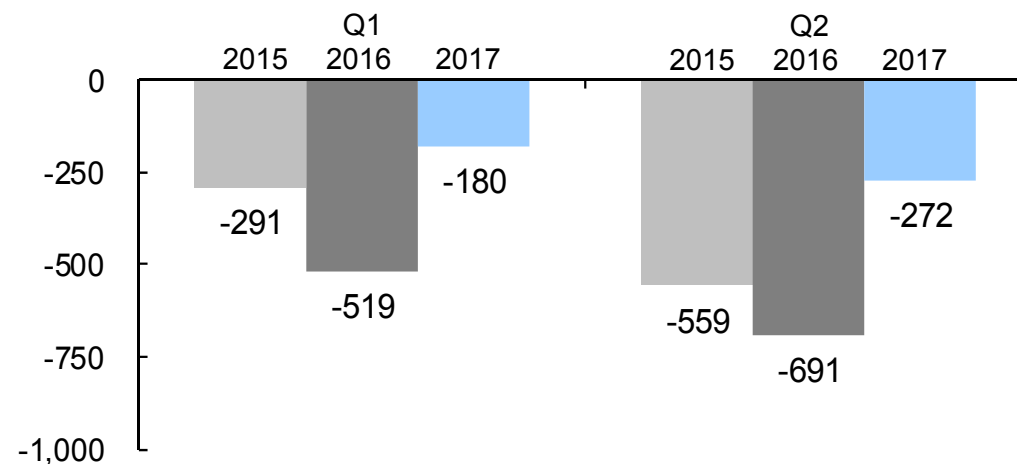


“Hydration Challenge” Campaign

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



H1 Result

- Overall sales decreased yoy due to sales of FL and pdc brands last year. Like-for-like sales grew by 24.9% excluding the two brands.
- At THREE, new customer increased driven by successful makeup products and store openings.
- At DECENCIA, sales hiked by around 40% owing to the main series revamped last year.

H1	Results (mil. yen)	YoY change
Net sales	6,878	(4.6%)
Operating income	692	32.0%
(THREE Net sales)	3,705	35.9%
(THREE OP income)	347	24.5%

Key indicators

THREE	Dept. store counters in Japan	36
	Other stores in Japan	63
	Overseas stores (Thailand, Taiwan, Indonesia, Malaysia, Hong Kong and Korea)	32

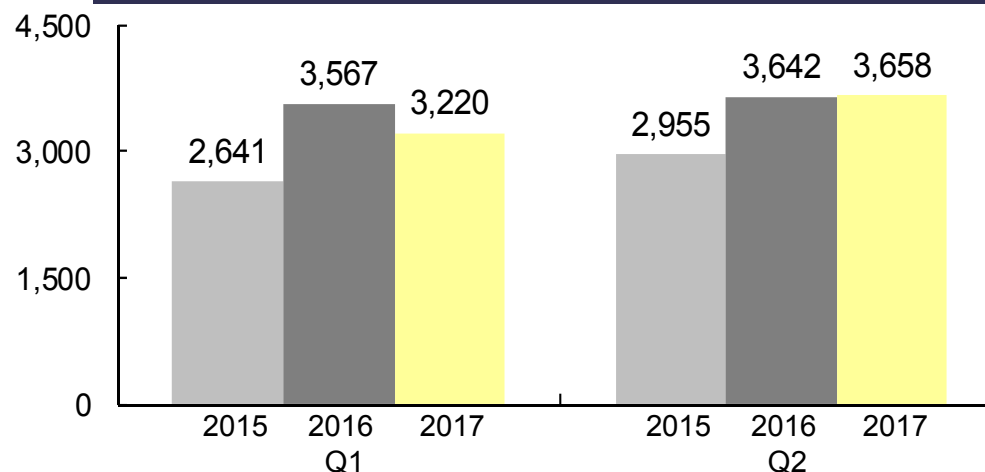
Note: Future Labo ("FL") and pdc brands were sold to third parties in November 1st and December 1st 2016 respectively.

Topics

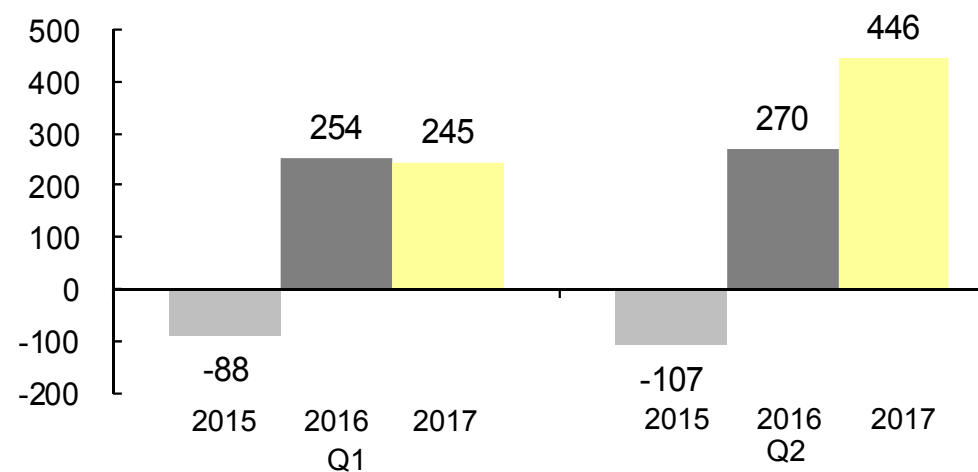
- THREE**
 - Entered into Korea in April
 - Won best cosmetic awards
- (Left) Angelic Complexion Primer
(Right) Eye Dimensional Quad Palette



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



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Both consolidated sales and OP are revised upwardly by ¥3.0 bn each to reflect recent performance

(mil. yen)	H1 Results	vs. May 1 Forecast	YoY Change		2017 Full-year Forecast	vs. May 1 Forecast	YoY Change	
			Amount	%			Amount	%
Consol. net sales	117,378	2,378	10,420	9.7%	236,000	3,000	17,517	8.0%
Beauty care	109,303	2,303	9,959	10.0%	219,500	3,000	17,053	8.4%
Real estate	1,348	48	(169)	(11.1%)	2,500	0	(543)	(17.9%)
Others	6,726	26	630	10.3%	14,000	0	1,007	7.8%
OP income	20,944	3,944	8,794	72.4%	36,500	3,000	9,590	35.6%
Beauty care	20,095	3,145	8,015	66.4%	35,700	3,000	9,725	37.4%
Real estate	592	42	(205)	(25.7%)	1,000	0	(395)	(28.4%)
Others	165	565	500	—	0	0	133	—
Reconciliations	91	191	483	—	(200)	0	126	—
Ordinary income	20,944	3,944	9,685	86.0%	36,500	3,000	9,308	34.2%
Net income attributable to owners of parent	13,955	3,455	5,690	68.9%	23,800	2,300	6,352	36.4%

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

Revision contents	■ Sales	Revised upwardly at POLA brand to reflect strong sales of the brand driven by cross-selling and successful customer acquisition through Wrinkle Shot Serum.
	■ OP income	Revised to reflect strong performance in 1H, additional promotional expenses for sustainable growth at POLA brand through Wrinkle Shot Serum, and downside risk of overseas brands.

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Sustain stable growth of flagship brands to lead Group earnings

POLA

- Launch new products from existing and new series in 2H.
Introduce a cream that presents new value of cosmetics (October 6th). It utilizes a research approaching a relationship between sagging and subcutaneous tissue.
- Carry out marketing campaigns aiming for further enhancing brand recognition and maintaining the current pace of customer acquisition through Wrinkle Shot.



POLA
V Resonatic Cream
¥58,000 (+tax)

ORBIS

- Focus on marketing investments that is solely targeted to customers who are expected to generate high LTV to realize greater brand presence in long term.
- For product side, start to brush up appearance of the brand to clarify its offering value.

Bring overseas operations solidly into the black overall

Jurlique

- Revamp the body care series for the first time in 10 years which will serve as introduction items for brand entry.
- Launch a limited version of the best-selling rose hand cream.



Jurlique
Left: New Body care Collection
Right: Rose Hand Cream 2017

H2O+
BEAUTY

- Introduce new products in 2H.
Aim to expand new sales channel and customer base.

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

THREE

- Start selling THREE in Singapore from September 15th.
Open the first shop which has in-shop spa in overseas.



TANGS at Tang Plaza

DECENCIA

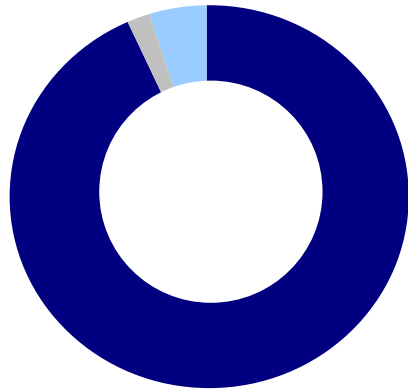
- Launch the top-end night serum of the brand (Oct 2nd).
The prestige item priced at ¥12,000 will be sold online.



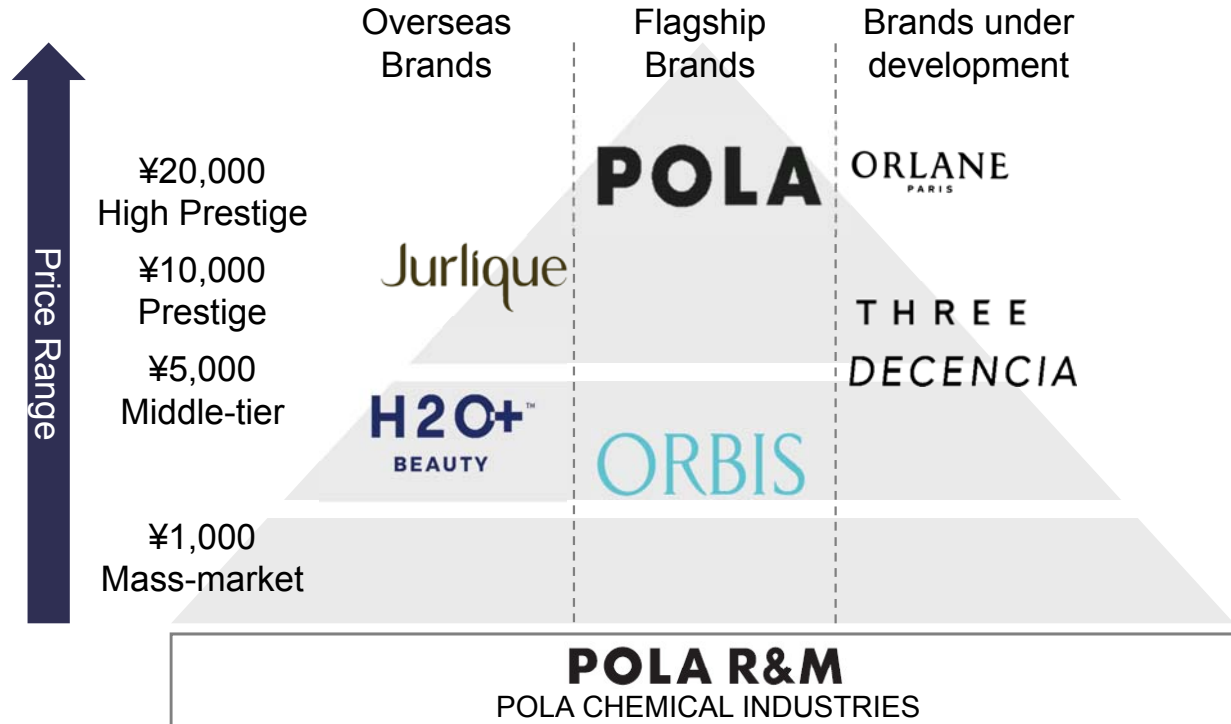
DECENCIA
Decency Essence 18

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

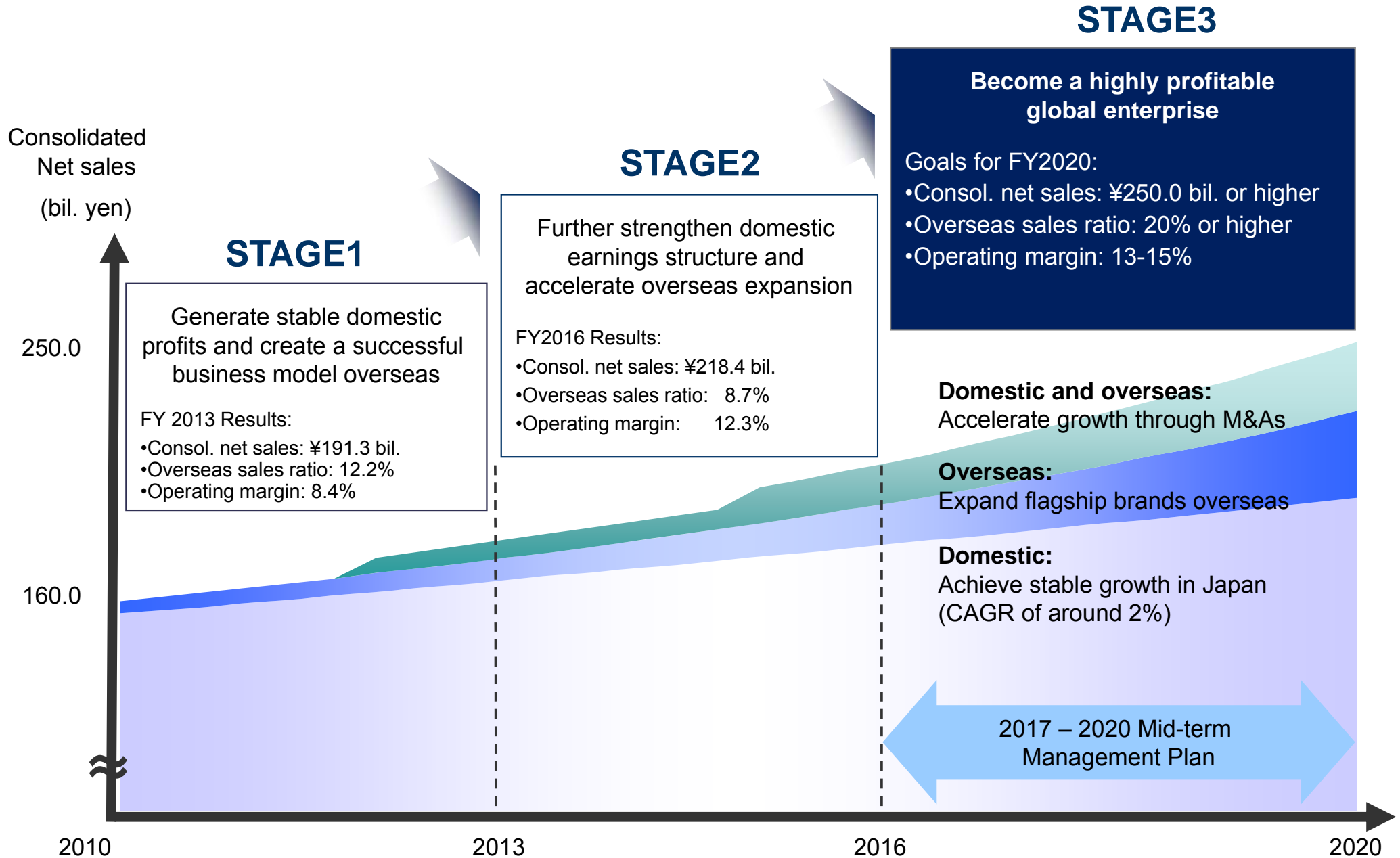
*Sales ratio in the beauty care business as of FY2016

**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

