

# First Half of Fiscal 2014 Supplementary Material

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POLA ORBIS HOLDINGS INC.  
President  
Satoshi Suzuki

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2014
4. Reference

## Cosmetic Market

- Due to the tax hike, the market experienced sales slowdown from April, but overall consumer sentiment is still improving.
- In China, competition is intensifying and personnel expenses, and rents are on the rising trend. Department stores in major cities, mainly on the coast, are struggling as number of department stores and shopping malls in regional cities increase and consumer demands spread out.

## Our Group

- There were drops in demands in reaction to the tax hike, but new product launches, mainly at POLA and ORBIS, helped to sustain sales. On consolidated basis, the Group realized increases in both sales and profits.
- In China, Jurlique maintained growth, but H2O PLUS continued to struggle.

| (mil. yen)        | FY2013     | FY2014     | YoY    |       | Compared with Forecasts<br>(announced on April 30) |       |
|-------------------|------------|------------|--------|-------|--|-------|
|                   | H1 Results | H1 Results | Amount | %     | Amount   | %     |
| Consol. net sales | 91,415     | 95,940     | 4,524  | 4.9%  | 440  | 0.5%  |
| Operating income  | 6,305      | 8,331      | 2,026  | 32.1% | 831  | 11.1% |
| Ordinary income   | 7,335      | 8,043      | 708    | 9.7%  | 643  | 8.7%  |
| Net income        | 3,402      | 3,700      | 298    | 8.8%  | 100  | 2.8%  |

| (mil. yen)             | FY2013     | FY2014     | YoY    |       |
|------------------------|------------|------------|--------|-------|
|                        | H1 Results | H1 Results | Amount | %     |
| Consolidated net sales | 91,415     | 95,940     | 4,524  | 4.9%  |
| Cost of sales          | 18,281     | 18,586     | 305    | 1.7%  |
| Gross profit           | 73,134     | 77,354     | 4,219  | 5.8%  |
| SG&A* expenses         | 66,829     | 69,022     | 2,193  | 3.3%  |
| Operating income       | 6,305      | 8,331      | 2,026  | 32.1% |

\*Selling, General and Administrative Expenses

### Key Factors

- Consol. net sales** Domestic brands, mainly ORBIS, successfully managed drops in demand after the tax hike and increased sales year-on-year.  
 Jurlique supported overseas sales growth.  
 Overseas sales ratio FY2013H1: 11.3% ⇒ FY2014H1: 11.5%
- Cost of sales** Improved cost of sales ratio due to the strong sales of middle to high priced products, mainly at POLA and ORBIS.  
 Cost of sales ratio: FY2013 H1: 20.00% ⇒ FY2014 H1: 19.37%
- SG&A expenses**
  - Labor expenses: up ¥983 mil. YoY
  - Sales commissions: up ¥481 mil. YoY
  - Sales related expenses: down ¥63 mil. YoY
  - Administrative expenses: up ¥791 mil. YoY
- Operating income** Beauty care business: up ¥2,068 mil. YoY

# Analysis of Consolidated P&L Changes

## Operating Income to Net Income

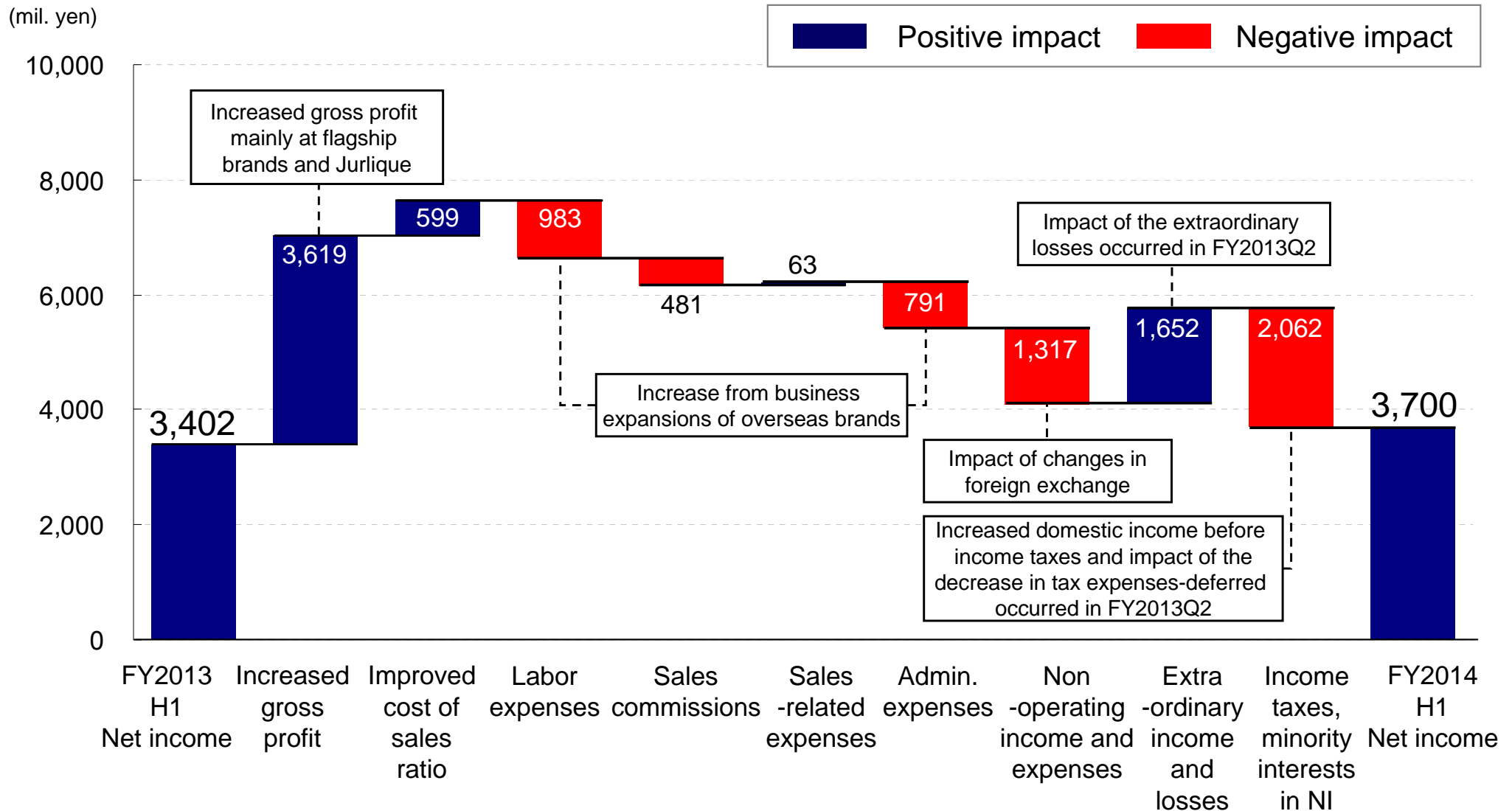
| (mil. yen)   | FY2013     | FY2014     | YoY     |         |
|--|------------|------------|---------|---------|
|  | H1 Results | H1 Results | Amount  | %       |
| Operating income   | 6,305      | 8,331      | 2,026   | 32.1%   |
| Non-operating income   | 1,080      | 328        | (752)   | (69.6%) |
| Non-operating expenses   | 50         | 616        | 565     | 1110.6% |
| Ordinary income  | 7,335      | 8,043      | 708     | 9.7%    |
| Extraordinary income   | 214        | 22         | (192)   | (89.5%) |
| Extraordinary loss   | 1,982      | 137        | (1,844) | (93.1%) |
| Income before income taxes   | 5,567      | 7,928      | 2,360   | 42.4%   |
| Income taxes   | 2,200      | 4,393      | 2,192   | 99.6%   |
| Minority interests in net income /<br>loss of consol. subsidiaries | (35)       | (165)      | (130)   | -       |
| Net income   | 3,402      | 3,700      | 298     | 8.8%    |

### Key Factors

- Non-operating income and expenses** FY2014 H1: Foreign exchange losses ¥493 mil. YoY (FY2013 H1: Foreign exchange gains ¥726 mil. YoY)
- Extraordinary loss** FY2013 H1 Loss on business liquidation following POLA USA pullout ¥1,000 mil. (FY2013 H1 Loss related to the plant integration ¥848 mil.)
- Income taxes** FY2014 H1 Increase in tax expenses-current due to increased domestic income before income taxes up ¥1,140 mil. YoY (FY2013 H1 Decrease in tax expenses-deferred following POLA USA pullout ¥1,186 mil.)

# Factors Impacting Net Income

Significant increase in gross profit due to the last-minute surge in demand before the tax hike, and elimination of extraordinary losses occurred during the same period last year led to increase in net income.



1. Highlights of Consolidated Performance
2. **Segment Analysis**
3. Forecasts for Fiscal 2014
4. Reference

## Segment Results

| (mil. yen)             | FY2013     | FY2014     | YoY    |       |
|------------------------|------------|------------|--------|-------|
|                        | H1 Results | H1 Results | Amount | %     |
| Consolidated net sales | 91,415     | 95,940     | 4,524  | 4.9%  |
| Beauty care            | 85,336     | 89,400     | 4,064  | 4.8%  |
| Real estate            | 1,493      | 1,571      | 77     | 5.2%  |
| Others                 | 4,586      | 4,968      | 381    | 8.3%  |
| Operating income       | 6,305      | 8,331      | 2,026  | 32.1% |
| Beauty care            | 5,703      | 7,772      | 2,068  | 36.3% |
| Real estate            | 645        | 665        | 19     | 3.1%  |
| Others                 | 98         | 191        | 93     | 95.0% |
| Reconciliations        | (142)      | (298)      | (156)  | -     |

### Summary

- **Beauty care** Domestic brands, especially ORBIS which has been performing strongly since Q1, showed steady performance. The segment realized significant increases in sales and operating income.
- **Real estate** Maintained high occupancy rate and performed steadily.
- **Others** In spite of the drop in demand after the tax hike, pharmaceutical business realized increases in sales and operating income with solid sales of *Lulicon* and other dermatological drugs. Building maintenance business increased both sales and operating income through increased sales activities.



## Beauty Care Business Results by Brands

| (mil. yen)               | FY2013     | FY2014     | YoY    |        |
|--------------------------|------------|------------|--------|--------|
|                          | H1 Results | H1 Results | Amount | %      |
| Beauty care net sales    | 85,336     | 89,400     | 4,064  | 4.8%   |
| POLA                     | 48,888     | 49,650     | 761    | 1.6%   |
| ORBIS                    | 23,647     | 25,245     | 1,598  | 6.8%   |
| Jurlique                 | 6,236      | 7,294      | 1,057  | 17.0%  |
| H2O PLUS                 | 2,472      | 2,348      | (123)  | (5.0%) |
| Brands under development | 4,090      | 4,861      | 770    | 18.8%  |
| Beauty care OP income    | 5,703      | 7,772      | 2,068  | 36.3%  |
| POLA                     | 3,417      | 4,512      | 1,095  | 32.1%  |
| ORBIS                    | 4,278      | 5,730      | 1,452  | 33.9%  |
| Jurlique                 | (905)      | (1,218)    | (312)  | -      |
| H2O PLUS                 | (334)      | (764)      | (429)  | -      |
| Brands under development | (751)      | (488)      | 263    | -      |

Note: Consolidate operating income and loss are shown for each brand for reference purpose only (figures are unaudited)  
 Results of Jurlique and H2O PLUS will be shown separately from this fiscal year.

### H1 Results

- Impacts from the tax hike were in line with expectations.
- POLA THE BEAUTY stores continued to be a sales driver.
- Successfully acquired new customers.

| H1  | Results (mil. yen)           | YoY              |
|---|------------------------------|------------------|
| Net sales                                   | 49,650                       | 1.6%             |
| Operating income                            | 4,512                        | 32.1%            |
| Key indicators                              |                              |                  |
| Number of sales offices<br>(vs. Dec. 2013)  |                              | 4,763<br>(up 14) |
| Number of PB <sup>(1)</sup> (vs. Dec. 2013) |                              | 609 (up 7)       |
| Cosmetic sales ratio                        | PB                           | 37.7%            |
|   | Esthe-inn                    | 40.3%            |
|   | D2D <sup>(2)</sup> and other | 22.0%            |
| Sales increase*                             | PB                           | up 7.1%          |
|   | PB (like-for-like)           | up 7.0%          |
|   | Esthe-inn                    | up 1.2%          |
|   | D2D                          | down 6.8%        |
| Purchase per customer*                      |                              | down 1.3%        |
| Number of new customers*                    |                              | up 10.4%         |

(1) PB: POLA THE BEAUTY stores

(2) D2D: Conventional door-to-door

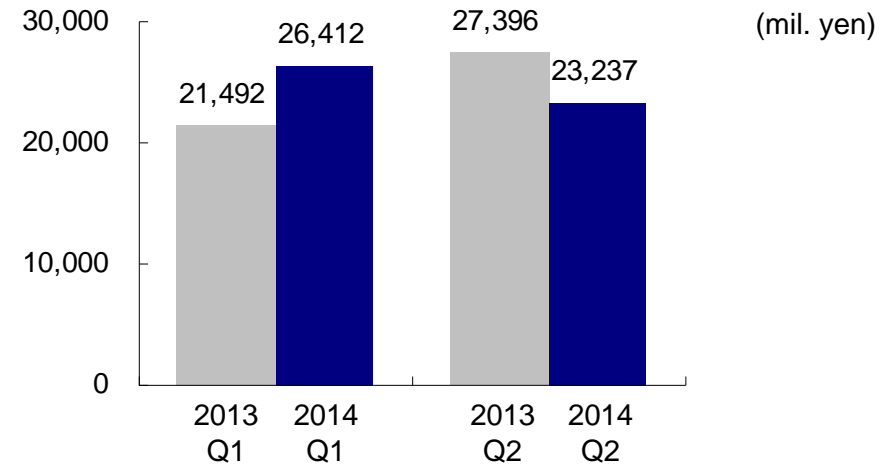
\*YoY

### Quarter topics

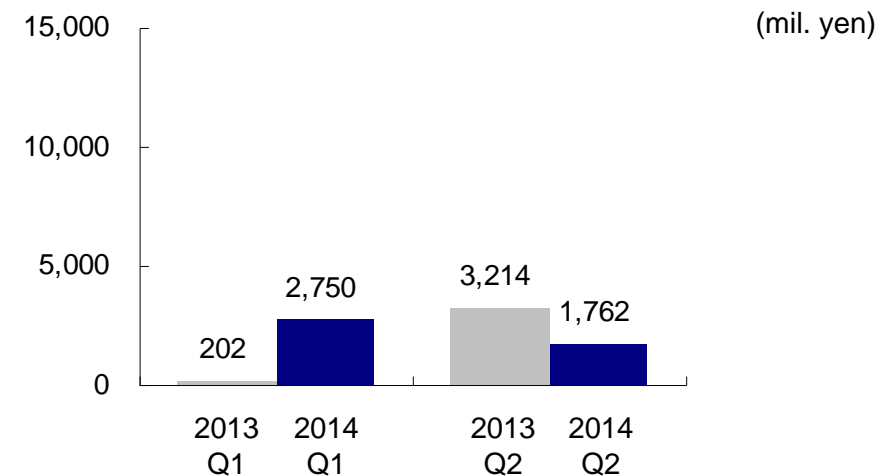
- Launched *B.A the protector S* in April.



### Quarterly net sales



### Quarterly operating income



### H1 Results

- Realized increases in sales and operating income. *ORBIS =U* launched in February, continued to show strong sales, and the drop in demand after the tax hike was within expectation.
- Continued to successfully acquire new customers through social media.

| H1   | Results (mil. yen)  | YoY       |
|--|---------------------|-----------|
| Net sales  | 25,245              | 6.8%      |
| Operating income                                 | 5,730               | 33.9%     |
| Key indicators                                   |                     |           |
| Sales ratio                                      | Online              | 40.4%     |
|  | Other mail-order    | 31.1%     |
|  | Store and overseas  | 28.5%     |
| Sales increase*                                  | Online              | up 15.2%  |
|  | Other mail-order    | down 3.2% |
|  | Stores and overseas | up 7.6%   |
| Mail-order <sup>(1)</sup> purchase per customer* |                     | up 2.9%   |
| Number of mail-order customers*                  |                     | up 3.4%   |
| Mail-order skincare purchase ratio*              |                     | up 2.4pt  |

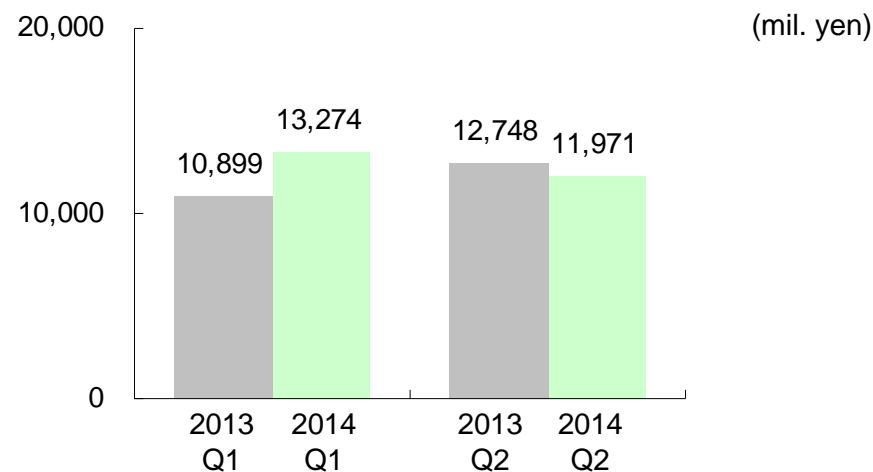
(1) Online and other mail-order  
\*YoY

### Quarter topics

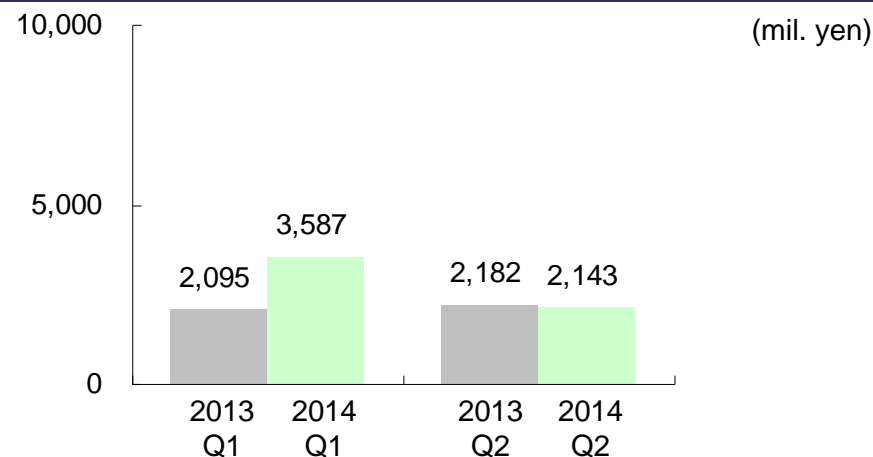
- Launched *Sunscreen*® shower in June.



### Quarterly net sales



### Quarterly operating income



### H1 Results

- In spite of limited new store openings, sales in China increased with solid sales at existing stores. Also, Hong Kong performed well and sales was up by 21% YoY on local currency basis.

| H1  | Results (mil. yen) | YoY <sup>(1)</sup> |
|---|--------------------|--------------------|
| Net sales                                 | 7,294              | 17.0%              |
| Operating income                          | (1,218)            | (312)              |
| Key indicators                            |                    |                    |
| Number of stores in China (vs. Dec. 2013) |                    | 95 (up 5)          |
| Sales ratio                               | China              | 27%                |
|   | Hong Kong          | 15%                |
|   | Duty free stores   | 17%                |
| Sales increase <sup>(2)</sup>             | China              | up 33%             |
|   | Hong Kong          | up 19%             |
|   | Duty free stores   | up 12%             |

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

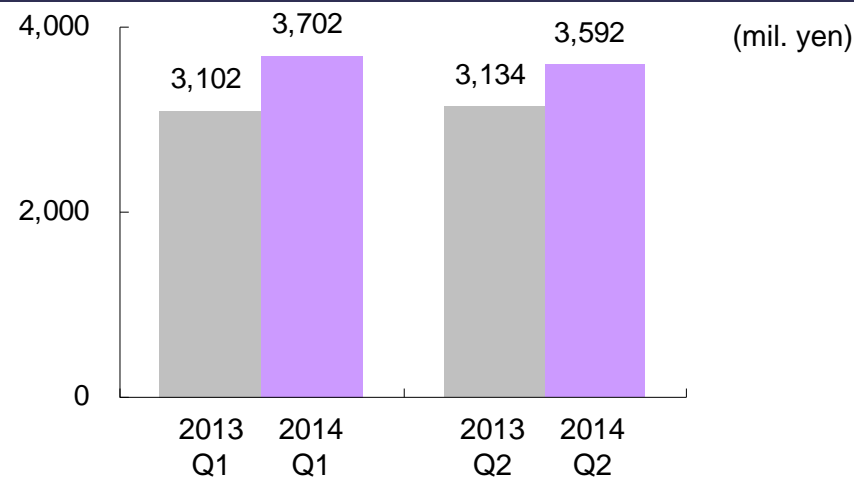
(2) Local currency basis, YoY

### Quarter topics

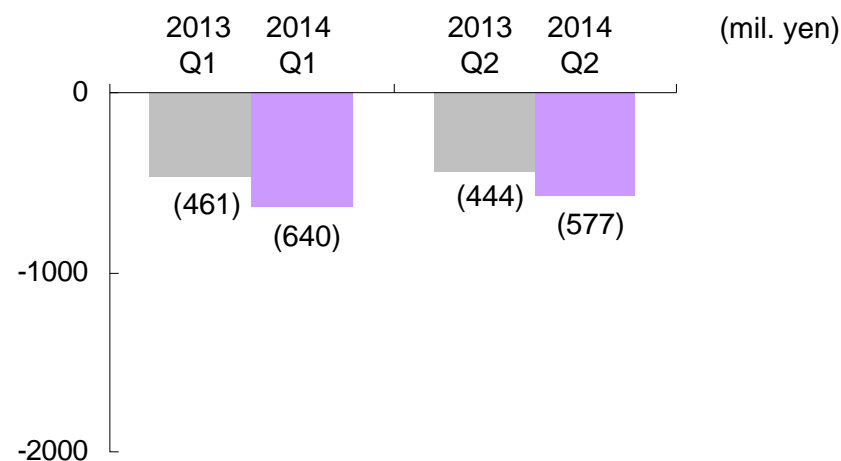
- Launched *Purely White* series in April in China.



### Quarterly net sales



### Quarterly operating income



## H1 results

- Continued to struggle in China. Sales was weaker than the same period last year.
- Sales was down by 11% YoY on local currency basis.

| H1  | Results (mil. yen) | YoY <sup>(1)</sup> |
|---|--------------------|--------------------|
| Net sales                                   | 2,348              | (5.0%)             |
| Operating income                            | (764)              | (429)              |
| Key indicators                              |                    |                    |
| Number of doors in China<br>(vs. Dec. 2013) |                    | 396<br>(down 8)    |
| Sales ratio                                 | China              | 28%                |
|   | North America      | 58%                |
| Sales increase <sup>(2)</sup>               | China              | down 17%           |
|   | North America      | up 12%             |

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

(2) Local currency basis, YoY

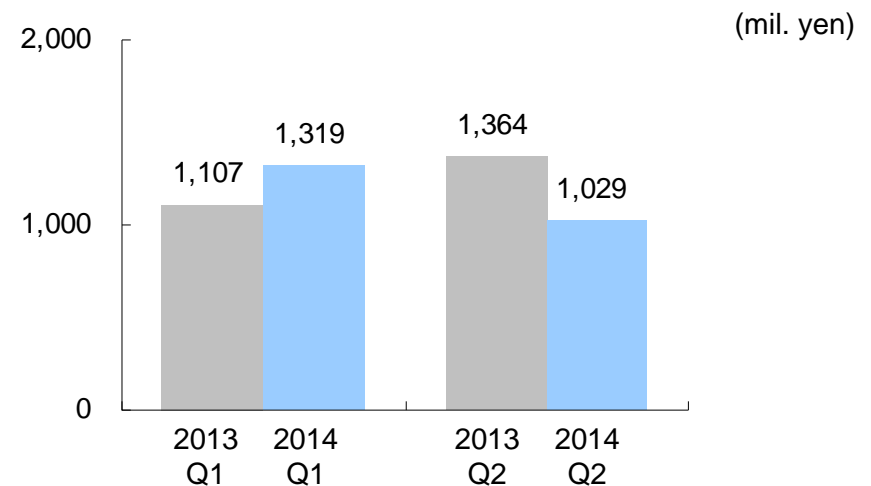
### Current situation and issues in China

- Competition intensified by market entries of overseas and domestic brands.
- Rents and personnel expenses are on the rising trend.
- Delays in developing internal structures at JV which was established with a local agent in April 2013.
- ⇒ Changing and strengthening the organization structure, and revising marketing plans to recover the business soon.

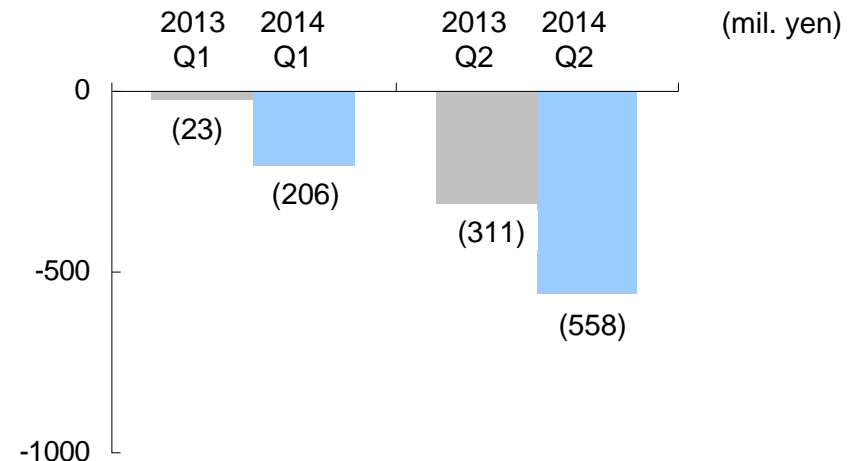
## Quarter topics

- Changed a management structure at JV to recover the business in China.

### Quarterly net sales



### Quarterly operating income



## H1 results

- With successful new products launches, THREE performed strongly even after the tax hike.
- decencia successfully increased number of customers and purchase per customer.
- pdc, the brand targeting mass-market, struggled to maintain shelves at retail stores.

| H1               | Results (mil. yen)                    | YoY*  |
|------------------|---------------------------------------|-------|
| Net sales        | 4,861                                 | 18.8% |
| Operating income | (488)                                 | 263   |
| Key indicators   |                                       |       |
| THREE            | Dept. store counters in Japan         | 27    |
|                  | Other stores in Japan                 | 23    |
|                  | Overseas stores (Thailand and Taiwan) | 11    |

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

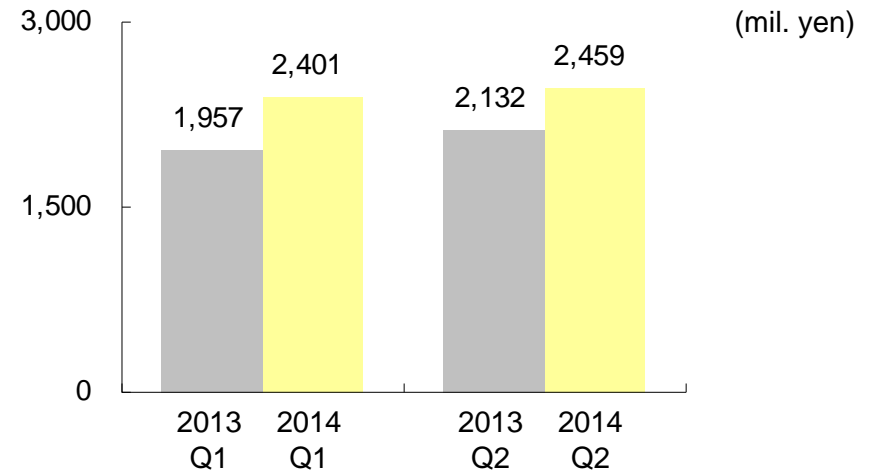
## Quarter topics

- THREE and decencia recorded more than 60% increases in sales after the tax hike.
- THREE opened new stores in Thailand and Taiwan.

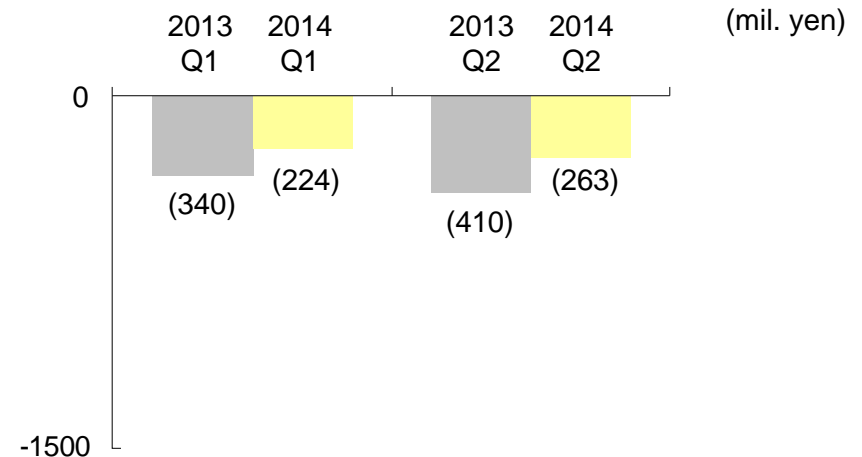


Launched in May  
THREE Summer Nail Collection

## Quarterly net sales



## Quarterly operating income



1. Highlights of Consolidated Performance
2. Segment Analysis
3. **Forecasts for Fiscal 2014**
4. Reference

Domestic brands, especially flagship brands are performing strongly, and they will fill in for underperforming overseas brands to meet the annual consolidated targets.

| (mil. yen)        | FY2014    | YoY    |         | FY2014     | YoY    |       |
|-------------------|-----------|--------|---------|------------|--------|-------|
|                   | Full Year | Amount | %       | H1 Results | Amount | %     |
| Consol. net sales | 198,000   | 6,644  | 3.5%    | 95,940     | 4,524  | 4.9%  |
| Beauty care       | 184,700   | 6,393  | 3.6%    | 89,400     | 4,064  | 4.8%  |
| Real estate       | 3,100     | 64     | 2.1%    | 1,571      | 77     | 5.2%  |
| Others            | 10,200    | 186    | 1.9%    | 4,968      | 381    | 8.3%  |
| OP income         | 17,650    | 1,632  | 10.2%   | 8,331      | 2,026  | 32.1% |
| Beauty care       | 16,850    | 2,069  | 14.0%   | 7,772      | 2,068  | 36.3% |
| Real estate       | 1,250     | (8)    | (0.7%)  | 665        | 19     | 3.1%  |
| Others            | 350       | (60)   | (14.7%) | 191        | 93     | 95.0% |
| Reconciliations   | (800)     | (368)  | —       | (298)      | (156)  | —     |
| Ordinary income   | 17,900    | 63     | 0.4%    | 8,043      | 708    | 9.7%  |
| Net income        | 8,800     | 1,481  | 20.2%   | 3,700      | 298    | 8.8%  |

Assumed exchange rates: AUD1.00 = ¥92 USD1.00 = ¥105 CNY1.00 = ¥17



## Realizing 2014 - 2016 Medium-term Management Plan

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

POLA

- Launched tailor-made skincare and make-up series, APEX, in July to strengthen consulting skills of POLA ladies, and increase shares in anti-aging market.
- Renew “RED B.A” in October, and aim to acquire new customers.

ORBIS

- Continue to acquire new customers through social media.
- Implement efficient sales promotion measures based on the core system, which was renewed last year.

## Overseas brands contributing to profitability through high sales growth

Jurlique

- Launch new anti-aging skincare products infused with the Group’s R&D capabilities.
- Aim to increase number of repeat customers to realize further growth in sales at existing stores in China.

h2o+

- Change the management structure at JV and revise marketing strategies to recover the business in China soon.

## Sales growth and monetization of brands under development

pdc

- Secure shelves at retail stores by launching new products.

THREE

- Expand sales further by launching appealing new products and strengthen sales skills of staffs.

decencia

- Launch special care products to increase purchase per customer, and aim to make profits soon.

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2014
4. Reference

Download historical financial data here.  
<http://ir.po-holdings.co.jp/en/Library/Factsheet.html>

**POLA**



B.A

Anti-aging

The most prestige skincare and foundation make-up series at POLA.



APEX

Anti-aging

Launched in 1989 as the first tailor-made skincare and foundation make-up series in the industry.



WHITISSIMO

Skin-whitening

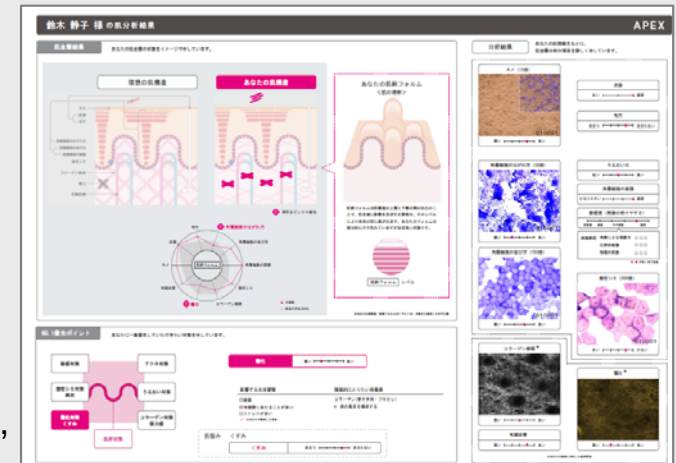
Skin-whitening series infused with the latest research findings.



WHITE SHOT

APEX renewal launch in July 2014

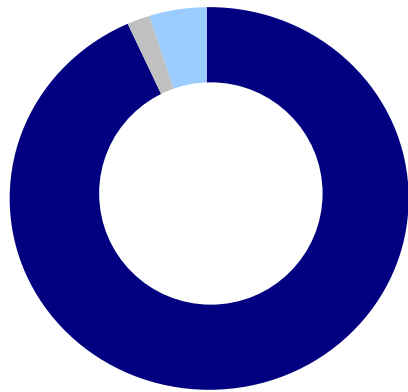
- APEX was introduced to the market in 1989 as the first tailor-made cosmetics in the industry.
- Based on 15 million data sets collected from Japanese women's skin, and detailed skin check on each customer, products suited for each customer will be provided from the selection of 2.56 million types of skincare and 3,600 types of foundation make-up products.
- Backed by the research on inner skin and the latest image analysis technology, new APEX series became able to analyze all layers of skin.



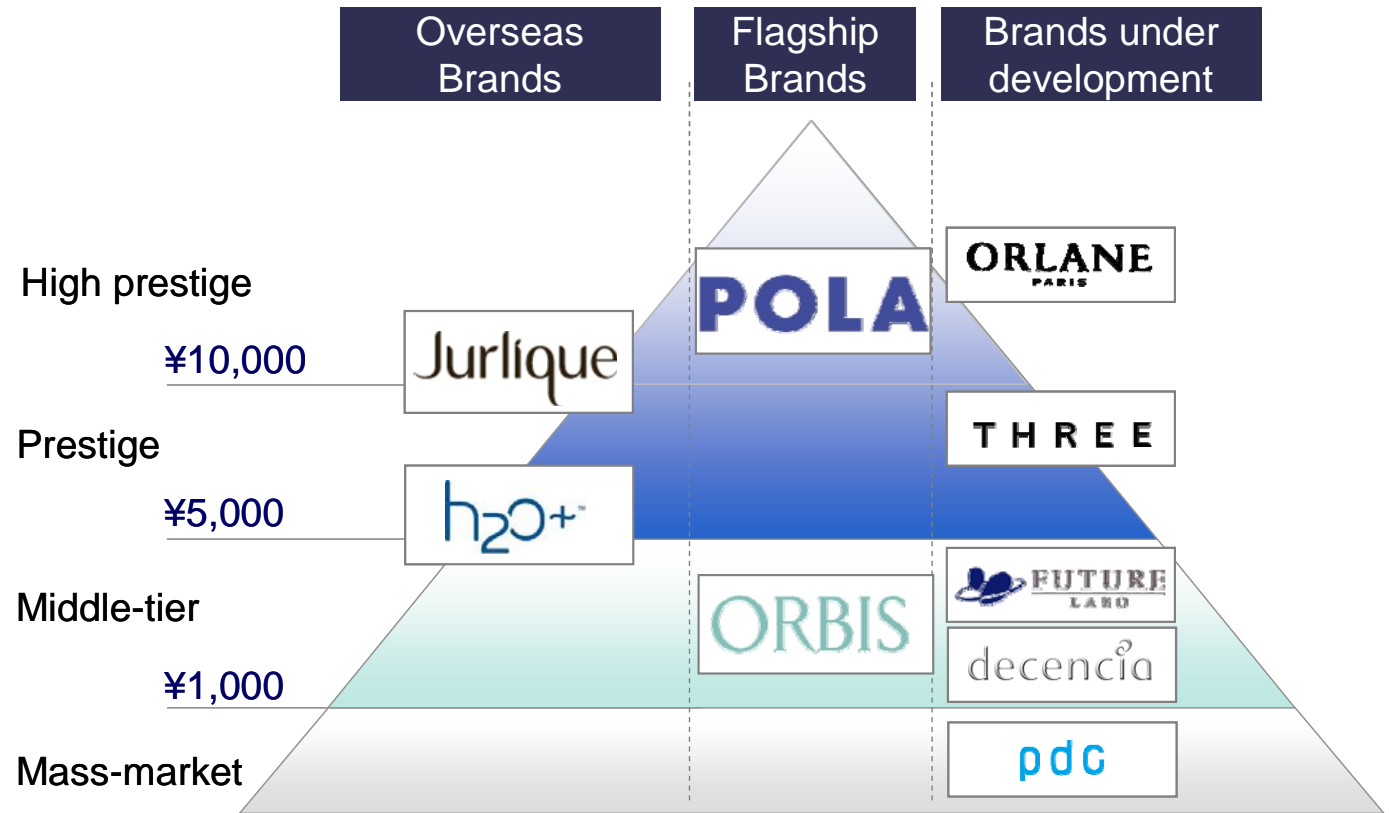
Example of advice sheet provided to customers

Beauty care is the core business of the Group, and 9 different cosmetic brands are operated under the Group umbrella.

FY2013  
Consol. Net Sales  
¥191.3 bil.












- Beauty care business 93%
- Real estate business 2%
- Other businesses 5%  
(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%          |    | <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 POLA LADIES: POLA THE BEAUTY (PB), Esthe-inn and conventional door-to-door</li> <li>Directly operated counters in department stores</li> </ul> |
|                          | 27%          |    | <ul style="list-style-type: none"> <li>Provides original-concept 100% OIL-FREE skincare products</li> <li>Anti-aging product series to meet demands from all ages</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          | 11%          |    | <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>Directly operated counters and stores in department stores and shopping malls</li> <li>Duty free stores</li> </ul>   |
|                          |              |    | <ul style="list-style-type: none"> <li>Skincare products made with natural, sea-derived ingredients</li> </ul>   | Approx. ¥4,000 not sold in Japan | <ul style="list-style-type: none"> <li>China: Department stores, shopping malls and specialty stores</li> <li>US: Specialty stores and directly operated stores</li> </ul>                                      |
| Brands under development | 5%           |    | <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>Directly operated counters in department stores</li> </ul>   |
|                          |              |  | <ul style="list-style-type: none"> <li>Affordably priced cosmetic products for mass-market</li> </ul>  | Approx. ¥1,000                   | <ul style="list-style-type: none"> <li>Drug stores, GMS</li> <li>Variety stores</li> </ul>  |
|                          |              |  | <ul style="list-style-type: none"> <li>Cosmetic and other products with unique features</li> </ul>   | ¥3,000~ ¥6,000                   | <ul style="list-style-type: none"> <li>Mainly sold through TV shopping channels</li> </ul>  |
|                          |              |  | <ul style="list-style-type: none"> <li>Skincare for dry, sensitive skin</li> </ul>   | ¥2,000~ ¥5,000                   | <ul style="list-style-type: none"> <li>Online</li> </ul>  |
|                          |              |  | <ul style="list-style-type: none"> <li>High prestige anti-aging skincare cosmetics from France</li> </ul>  | Approx. ¥10,000 or higher        | <ul style="list-style-type: none"> <li>Directly operated counters in department stores</li> <li>Specialty stores</li> </ul>   |

Corporate Philosophy

“Inspire all people and touch their hearts”

Consolidated  
Net sales  
(bil. yen)

**STAGE1**

Generate stable domestic profits and create a successful business model overseas

FY 2013 Results:

- Consol. net sales: ¥191.3 bil.
- Overseas sales ratio: 12.2%
- Operating margin: 8.4%

**STAGE2**

Further strengthen domestic earnings structure and accelerate overseas expansion

Goals for FY2016:

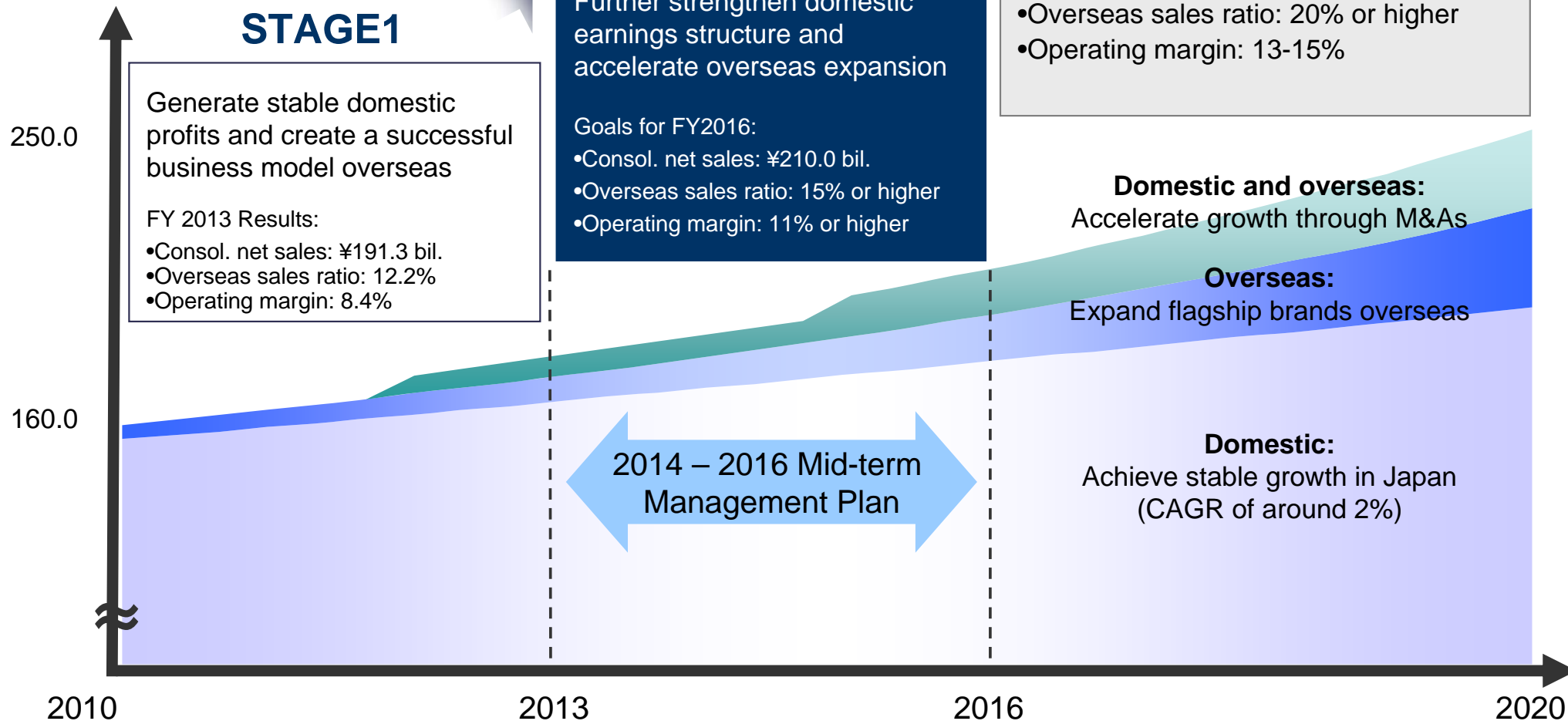
- Consol. net sales: ¥210.0 bil.
- Overseas sales ratio: 15% or higher
- Operating margin: 11% or higher

**STAGE3**

**Become a highly profitable global enterprise**

Goals for FY2020:

- Consol. net sales: ¥250.0 bil. or higher
- Overseas sales ratio: 20% or higher
- Operating margin: 13-15%



The 2nd stage of the long-term vision for 2020  
 Aim to enhance the enterprise value by further strengthening domestic earnings structure, accelerating overseas expansion, and improving capital efficiency.

## Consolidated net sales

- Consol. net sales: CAGR 3 to 4%  
(¥210.0 bil. in FY2016)
- Overseas sales ratio: 15% or higher in FY2016

## Operating income

- Operating income: CAGR 15% or higher
- Operating margin: 11% or higher in FY2016

## Capital efficiency

- Target for ROE: 8% or higher in FY2016

## Shareholder return

- Consolidated payout ratio: 50% or higher from FY2014

### Japan

Strategy 1. Sustain stable growth of flagship brands to lead Group earnings

Strategy 2. Sales growth and monetization of brands under development

### Overseas

Strategy 3. Overseas brands contributing to profitability through high sales growth

Strategy 4. Restructure overseas expansion of flagship brands

Strategy 5. Strengthen operations (R&D, production and human resources)

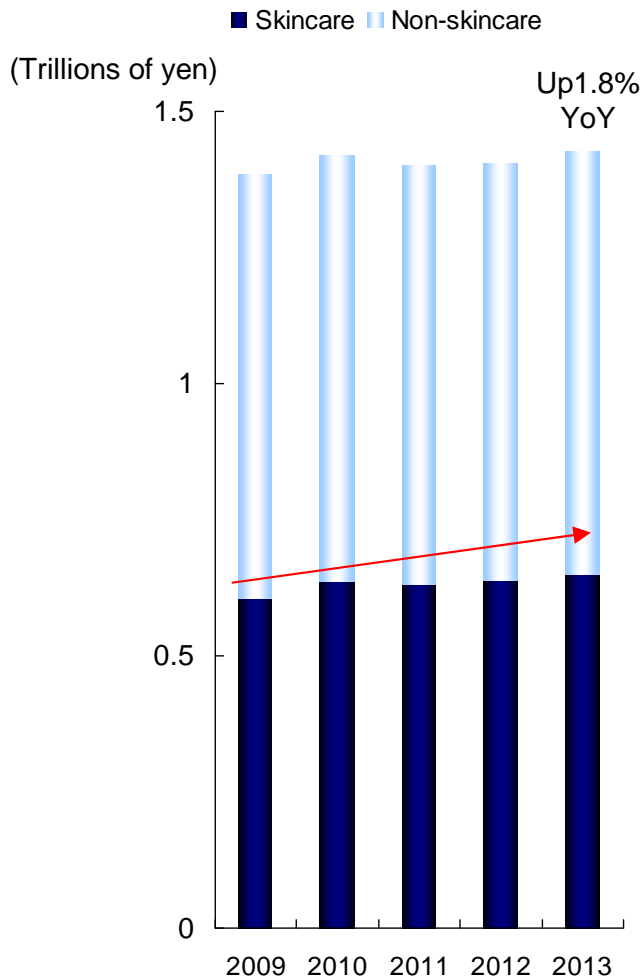
Strategy 6. Improve capital efficiency and shareholder return

# (Reference) Domestic Cosmetic Market

In 2013, domestic cosmetic market showed 1.8% growth. However, in the past five years, it remained flat.

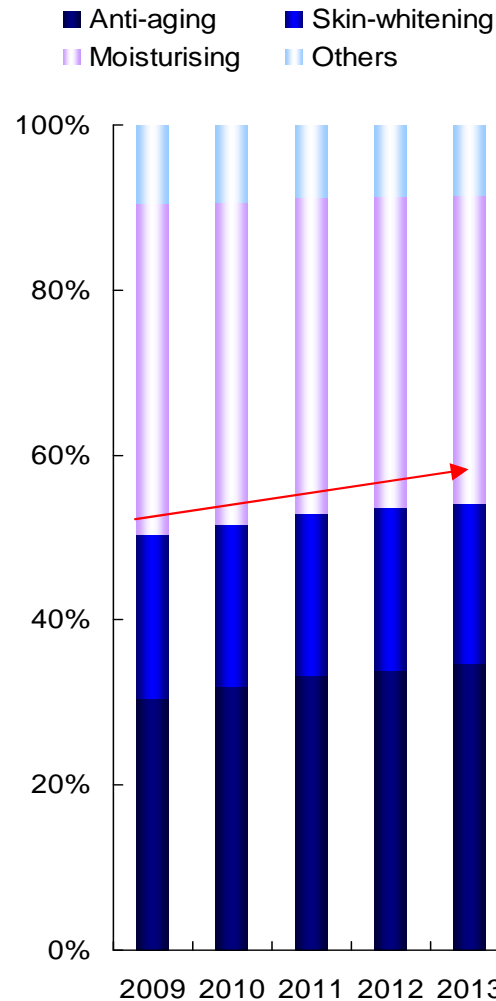
Market ratio increased in skin-whitening and anti-aging fields, and high prestige products priced higher than ¥10,000, where the Group puts efforts in.

Domestic Cosmetics Shipments



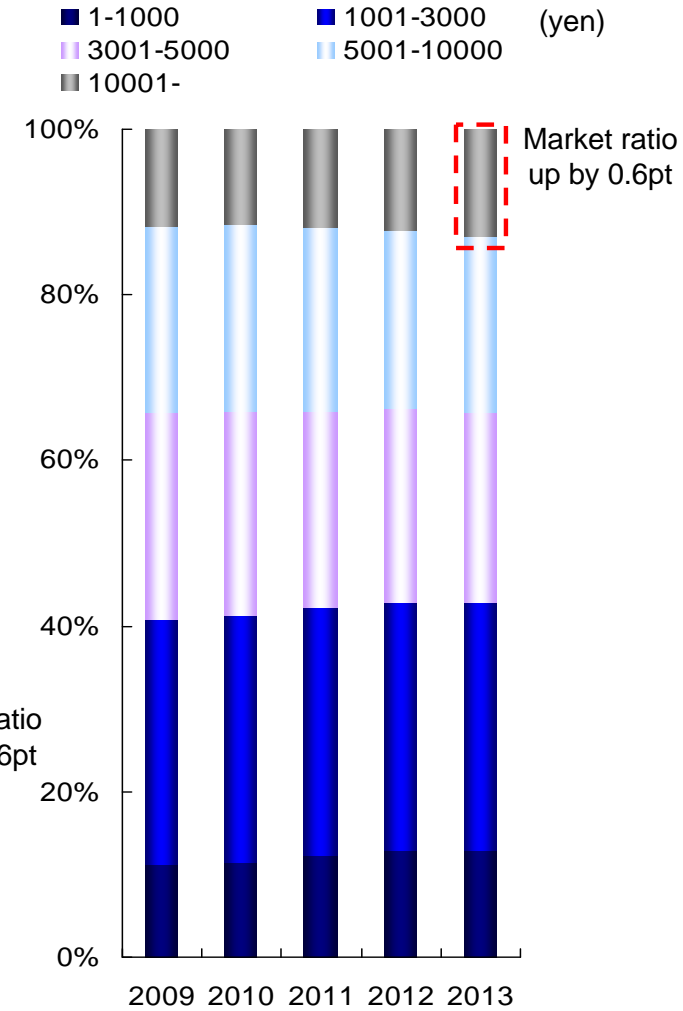
Source: The Office of Current Survey for Mining and Manufacturing within the Ministry of Economy, Trade and Industry  
Company assumption

Skincare Market by Product Function



Source: Fuji Keizai Group "Marketing Handbook of Cosmetics 2013"

Skincare Market by Price Range



Source: Intage SLI