

First Quarter of Fiscal 2016 Supplementary Material

POLA ORBIS HOLDINGS INC.

Director and Vice President

Management Planning, Accounting and
Global Business Division

Naoki Kume

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts and Initiatives for Fiscal 2016
4. Appendix

Cosmetic Market

- Japanese cosmetic market continued to be strong driven by inbound tourists. (Domestic demand seemed to remain flat.*)
- Department stores in urban areas of Japan recorded double-digit growth thanks to the inbound demand and Chinese new year.
- In China, while overall market sustained growth, the market of department stores in urban areas showed a negative trend. Consumption remarkably scattered towards other channels such as rural areas, online channels, and overseas.

*Source: Ministry of Economy, Japan Department Stores Association Trade and Industry, Ministry of Internal Affairs and Communications, Intage SLI.

Our Group

- Both consolidated sales and operating income were up compared to 2015Q1 thanks to the flagship brands POLA and ORBIS as well as brands under development which are performing well.
- POLA outperformed the expectation due to favorable sales of the whitening series and new products launched in Q1.
- ORBIS increased its sales in line with the expectation with positive impact from new products launched in March.
- Jurlique and H2O PLUS both struggled in Chinese market.
- As for brands under development, THREE and decencia sustained the strong performance from fiscal 2015.

Reference: Impact of inbound demands

- As of FY2015 Q1: Approx. a little less than 3%* of consolidated net sales

The inbound sales ratio was relatively low in 2015Q1 since inbound sales were boosted after April 2015 subsequent to the launch of Inner Lock IX



- As of FY2016 Q1: Approx. 7% of consolidated net sales

Firstly captured Inner Lock IX (skin whitening beauty food), inbound demands spread out to some of the skincare products such as B.A and other health food.

While capturing inbound demands, POLA continues to set limits on excessive purchasing volume that could lead to brand damaging.

Apart from inbound demands, development of sales representatives of foreign nationals who sell to domestic customers strongly contributed to sales growth in Japan.



WHITE SHOT
Inner Lock IX
(skin whitening beauty food)

(mil. yen)	FY2015	FY2016	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	45,392	49,516	4,123	9.1%
Cost of sales	8,703	9,443	740	8.5%
Gross profit	36,689	40,073	3,383	9.2%
SG&A* expenses	33,779	36,400	2,620	7.8%
Operating income	2,909	3,673	763	26.2%

*Selling, General and Administrative Expenses

Key Factors

- **Consol. nets sales** Domestic brands increased total sales and operating income supported by POLA's continuing strong sales of whitening products and ORBIS's performance recovery. Overseas brands struggled in China and HK while Jurlique performed well in Australia. Overseas sales ratio: 9.1%
- **Cost of sales** Cost of sales ratio slightly improved due to increase of POLA's sales compound ratio. Cost of sales ratio 2015Q1: 19.17% ⇒ 2016Q1: 19.07%
- **SG&A expenses**

 - Labor expenses: down ¥6 mil. yoy
 - Sales commissions: up ¥615 mil. yoy
 - Sales related expenses: up ¥1,601 mil. yoy

→Main factor is an increase of variable cost associated with sales of POLA and ORBIS.

 - Administrative expenses: up ¥409 mil. yoy
- **Operating income** Beauty care : up ¥1,129 mil. yoy

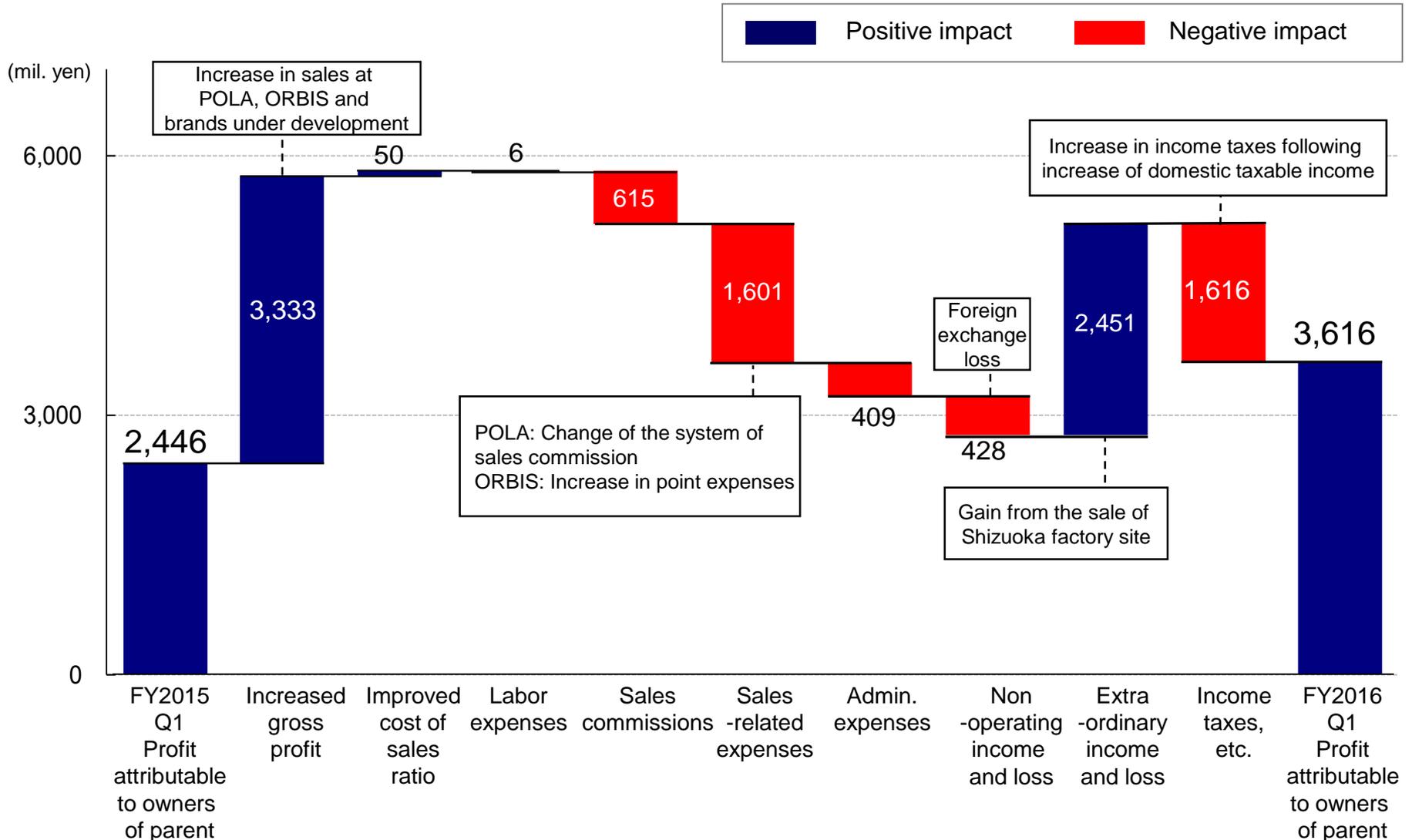
(mil. yen)	FY2015	FY2016	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Operating income	2,909	3,673	763	26.2%
Non-operating income	195	111	(84)	(43.2%)
Non-operating expenses	58	402	344	588.4%
Ordinary income	3,047	3,381	334	11.0%
Extraordinary income	544	3,000	2,455	451.0%
Extraordinary loss	43	48	4	10.8%
Profit before income taxes	3,548	6,334	2,785	78.5%
Income taxes	1,106	2,713	1,607	145.3%
Profit (loss) attributable to non-controlling interests	(4)	4	8	-
Profit attributable to owners of parent	2,446	3,616	1,169	47.8%

Key Factors

- Non-operating expenses 2016Q1: Loss from unfavorable foreign exchange: ¥374 mil.
- Extraordinary income 2016Q1: Gain from sales of the land of former factory site in Shizuoka, as announced on February 15th, 2016 : ¥2,989 mil.
- Income taxes 2016Q1: Increase in income taxes following increase of domestic taxable income: ¥1,889 mil.

Factors Impacting Profit Attributable to Owners of Parent

Profit attributable to owners of parent was up 47.8% yoy in spite of the negative impact of non-operating expense from unfavorable currency exchange and increased income tax expenses. The major factors are increases in gross profit and extraordinary income.



1. Highlights of Consolidated Performance
2. **Segment Analysis**
3. Forecasts and Initiatives for Fiscal 2016
4. Appendix

(mil yen)	FY2015	FY2016	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	45,392	49,516	4,123	9.1%
Beauty care	42,268	46,154	3,885	9.2%
Real estate	728	757	28	3.9%
Others	2,395	2,605	209	8.7%
Operating income	2,909	3,673	763	26.2%
Beauty care	2,691	3,820	1,129	42.0%
Real estate	317	479	161	51.0%
Others	(68)	(412)	(343)	-
Reconciliations	(30)	(214)	(183)	-

Segment Results Summary

- Beauty care** POLA, ORBIS and brands under development contributed to the sales growth. Operating income increased by 42% driven by improvement in profitability mainly at POLA.
- Real estate** Maintained high occupancy rate resulted in flat sales yoy. Operating income increased due to brokerage fee associated with the sale of a property.
- Others** At pharmaceutical business, operating income decreased due to additional expenses for initial sales promotions for a new drug.
 At building maintenance business, income managed to grow whereas sales declined slightly.

Beauty Care Business Results by Brands

(mil. yen)	FY2015	FY2016	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Beauty care net sales	42,268	46,154	3,885	9.2%
POLA	22,092	25,134	3,041	13.8%
ORBIS	12,550	13,572	1,022	8.1%
Jurlique	3,967	3,369	(597)	(15.1%)
H2O PLUS	1,017	510	(507)	(49.9%)
Brands under development	2,641	3,567	926	35.1%
Beauty care operating income	2,691	3,820	1,129	42.0%
POLA	968	2,305	1,336	138.0%
ORBIS	2,584	2,655	71	2.8%
Jurlique	(481)	(876)	(395)	-
H2O PLUS	(291)	(519)	(227)	-
Brands under development	(88)	254	342	-

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

Q1 Result

- POLA recorded significant growth both in sales and profit yoy because inbound ratio was low in 2015Q1 and sales of whitening products continued to be strong.
- Purchase per customer enjoyed benefit of high-priced new products.
- Overall performance went beyond the initial expectation.

Q1	Results (mil. yen)	YoY change
Net sales	25,134	+13.8%
Operating income	2,305	+138.0%

Key indicators

Number of sales offices (vs. Dec. 2015)		4,676 (down 80)
Number of PB ⁽¹⁾ (vs. Dec. 2015)		630(±0)
Cosmetic sales ratio	PB ⁽¹⁾	42.6%
	Esthe-inn	41.5%
	D2D ⁽²⁾ and other	15.9%
Sales growth*	PB	up 26.2%
	PB (like-for-like)	up 26.3%
	Esthe-inn	up 8.7%
	D2D	down 10.9%
Purchase per customer*		up 9.9%
Number of new customers*		up 84.3%

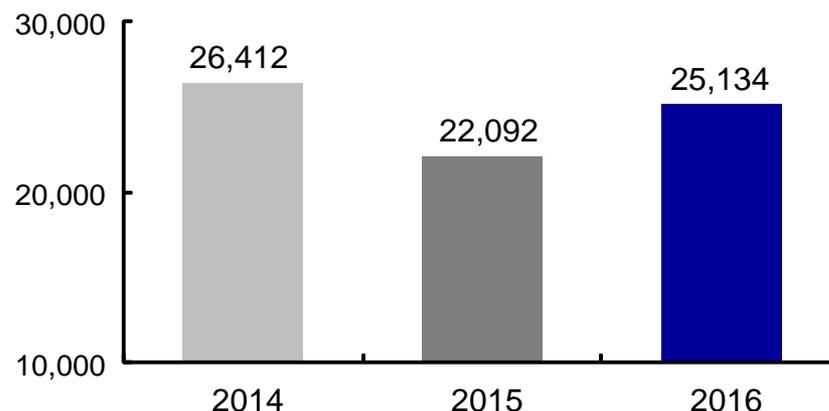
(1) PB: POLA THE BEAUTY stores (2) D2D: Conventional door-to-door *YoY

Topics

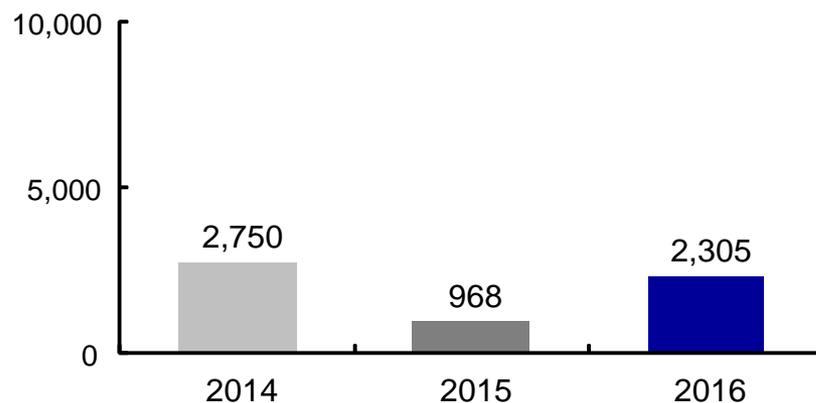
- B.A protector, new product launched from B.A series receives favorable reviews.
(Day cream with sunscreen function)
Won "Best of Best UV Award" from MAQUIA Whitening Grand Prix 2016.



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Q1 Result

- Sales grew due to increased number of customers encouraged by promotions of the point program.
- ORBIS=U WHITE kicked off a good start at its launch in March.
- Customer acquisition and enhancement of repeat purchase utilizing social media kept going successful.

Q1	Results (mil. yen)	YoY change
Net sales	13,572	+8.1%
Operating income	2,655	+2.8%

Key indicators		
Sales ratio	Online	44.3 %
	Other mail-order	28.6%
	Store and overseas	27.1%
Sales increase*	Online	up 11.2%
	Other mail-order	up 6.6%
	Stores and overseas	up 5.3%
Mail-order ⁽¹⁾ purchase per customer*		down 5.2%
Number of mail-order ⁽¹⁾ customers*		up 15.4%
Mail-order ⁽¹⁾ skincare purchase ratio*		down 2.6%

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

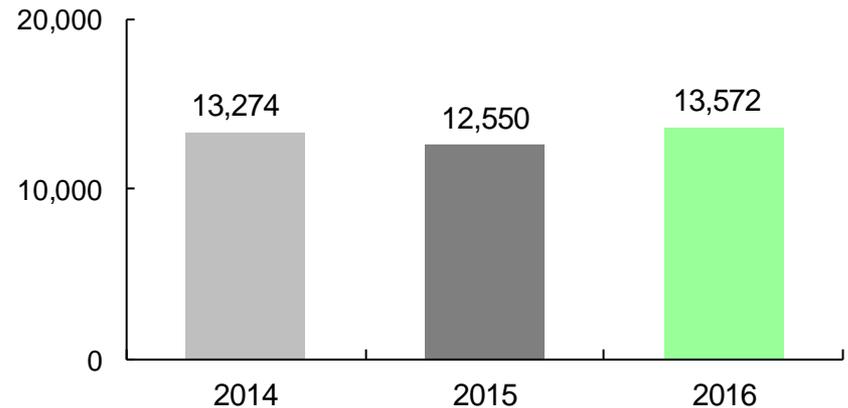
*YoY

Topics

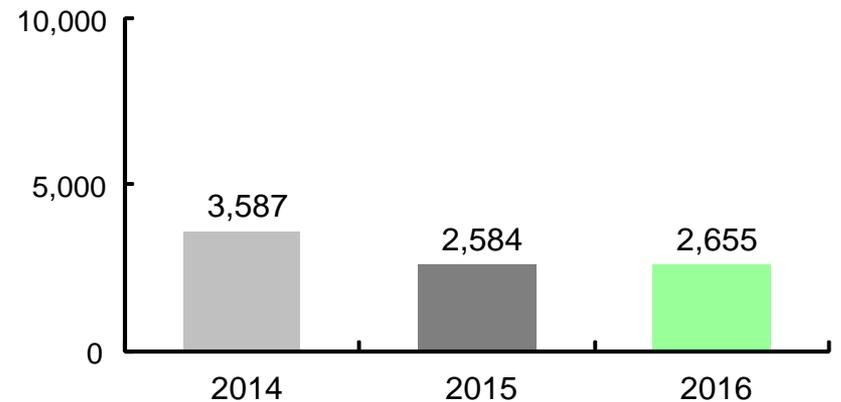
- Released whitening line adding to the ORBIS=U series.
- Won the #1 in the monthly cosmetics rankings at i-VOCE under facial cleanser, lotion, and serum categories.



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Q1 Result

- Net sales decreased by 4%. (AUD basis)
- In China, sales grew by 2% yoy.
The business model has been changed from March.(Agency model)
- Operating income dropped due to difficulties mainly in Hong Kong.

Q1	Results (mil. yen)	YoY change ⁽¹⁾
Net sales	3,369	(15.1%)
Operating income (before goodwill amortization)	(701)	(417)
Operating income	(876)	(395)
Key indicators		
Number of doors in China (vs. Dec. 2015)		116 (up 2)
Sales ratio	China	29%
	Hong Kong	13%
	Duty free stores	17%
	Australia	25%
Sales growth ⁽²⁾	China	up 2%
	Hong Kong	down 18%
	Duty free stores	down 8%
	Australia	up 5%

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

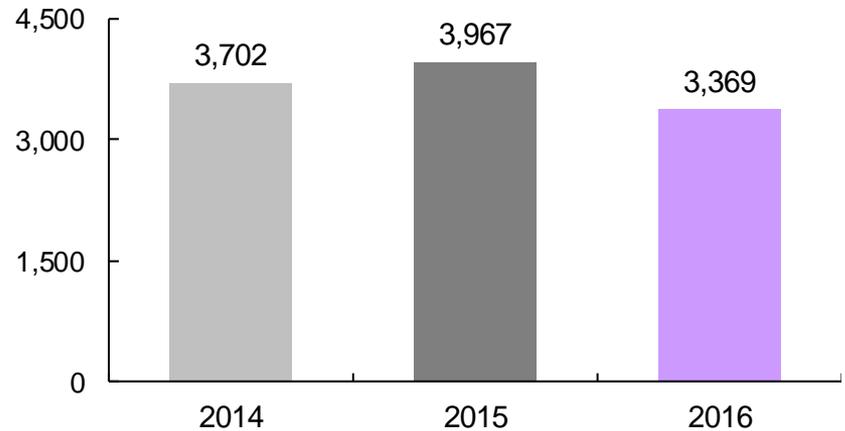
(2) AUD basis, YoY

Topics

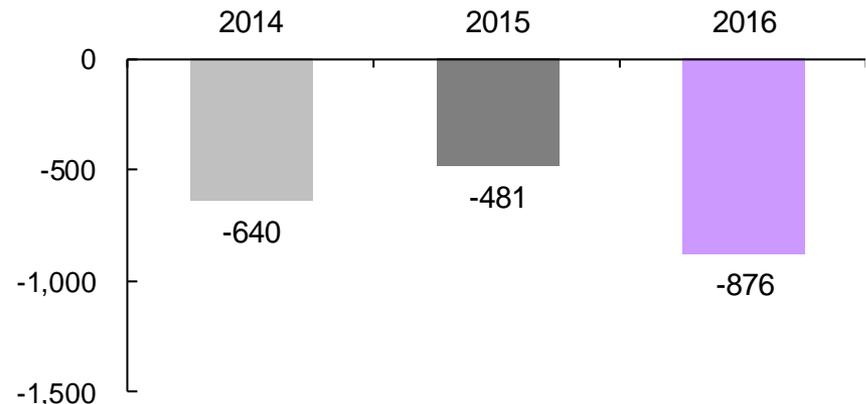
- Sun Specialist High Protection Cream originally sold for the 30th anniversary of the brand for limited period, came back as a regular item.



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Q1 Result

- Sales were down 48% due to the closure of counters in Chinese department stores and shrinkage of distribution channels in North America. (USD basis)

Q1	Results (mil. yen)	YoY change ⁽¹⁾
Net sales	510	down 49.9%
Operating income	(519)	(227)
Key indicators		
Number of doors in China (vs. Dec. 2015)		40 (down 31)
Sales ratio	China	10%
	North America	83%
Sales growth ⁽²⁾	China	down 76%
	North America	down 34%

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

(2) USD basis, YoY

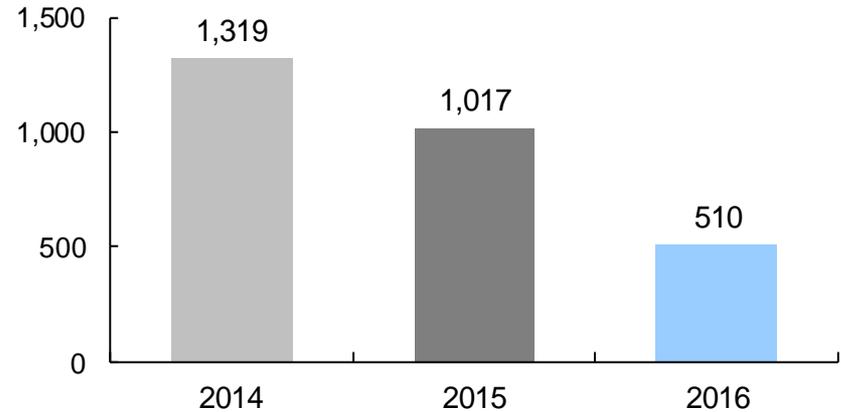


Press event carried out in US received favorable review in Q1.

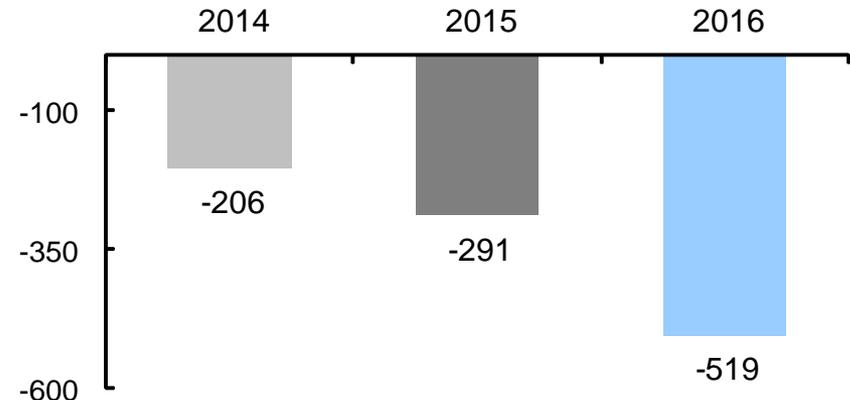
Topics

- On track with marketing plan for the brand restage.

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Q1 Result

- THREE and decencia continued to lead the growth.
- THREE had new store openings and successful launch of new products that led to approx. 60% sales increase yoy.
- decencia increased the sales by 80% yoy due to strong repeat purchases by new customers which were acquired since last year.
- Both THREE and decencia achieved profitability.

Q1	Results (mil. yen)	YoY change*
Net sales	3,567	+35.1%
Operating income	254	+342
Key indicators		
THREE Dept. store counters in Japan		31
Other stores in Japan		43
Overseas stores (Thailand, Taiwan and Indonesia)		19

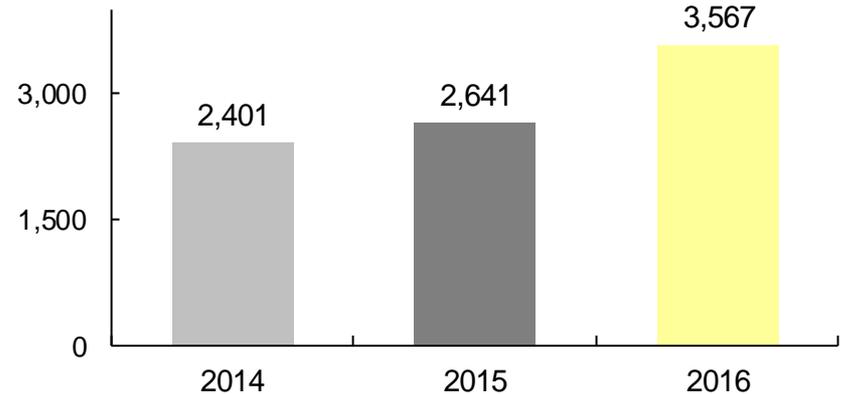
*For operating income YoY difference is shown in amount (mil. yen).

Topics

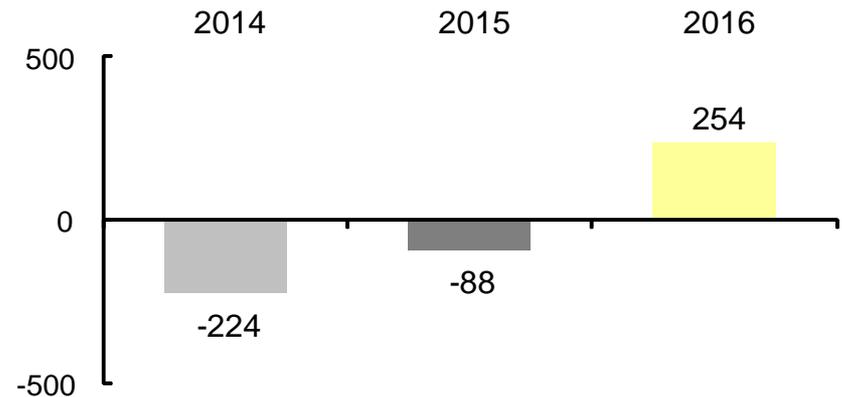
- "SAKURAISM", a spring limited makeup & skincare collection from THREE was launched in line with with cherry blossom season nationwide. The lineup was so popular that some of the products went sold out very quickly.



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



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Forecasts for FY2016 (No change)

Aim to achieve increase in sales and operating income for the 7th consecutive year and achieve the Mid-term Management Plan

(mil. yen)	FY2015	YoY change		FY2016	YoY change		FY2016	YoY change	
	Results	Amount	%	Full Year Plan	Amount	%	H1 Plan	Amount	%
Consol. net sales	214,788	16,693	8.4%	219,000	4,211	2.0%	102,000	2,216	2.2%
Beauty care	200,570	16,095	8.7%	202,000	1,429	0.7%	94,500	1,366	1.5%
Real estate	2,951	(227)	(7.2%)	2,900	(51)	(1.8%)	1,500	48	3.3%
Others	11,266	825	7.9%	14,100	2,833	25.2%	6,000	802	15.4%
OP income	22,511	4,827	27.3%	25,000	2,488	11.1%	9,500	260	2.8%
Beauty care	21,290	4,754	28.8%	23,800	2,509	11.8%	9,200	524	6.0%
Real estate	1,265	38	3.1%	1,300	34	2.7%	700	102	17.1%
Others	293	(178)	(37.8%)	600	306	104.2%	(100)	(172)	—
Reconciliations	(339)	212	—	(700)	(360)	—	(300)	(193)	—
Ordinary income	22,359	3,292	17.3%	25,100	2,740	12.3%	9,500	(173)	(1.8%)
Net income attributable to owners of parent	14,095	3,712	35.8%	17,200	3,104	22.0%	7,200	1,109	18.2%

【Assumption of the Plan】 Assumed exchange rates: 1.00 AUD = 82JPY(PY 91.06) 1.00 USD = 118JPY (PY121.04) 1.00 CNY = 18 JPY(PY 19.21)

•Plan of full-year consolidated sales includes sales to inbound tourists of approximately 8,000 million.

•Plan of net income includes extraordinary income of approx. 3,000 million from transfer of a fixed asset (site of former factory) as announced on February 15, 2016.

	FY2015	FY2016 (Plan)
Shareholder return	Annual ¥150, Consol. payout ratio 58.8%	Annual ¥200 (Interim ¥90, Year-end ¥110) Consol. payout ratio 64.3%
Capital investment	¥12,074 million	¥8,000 million
Depreciation	¥6,528 million	¥7,000-8,000 million

Realizing 2014 - 2016 Medium-term Management Plan

Sustain stable growth of flagship brands to lead Group earnings

POLA

- Renew all esthetic menu in April.
Newly developed the industry's first esthetic technique that focuses on cheeks.
The revamped esthetic menu is composed of three courses that are tied with POLA's existing skincare lineups in order to encourage customers to purchase skincare products.
- Boost customer acquisition by promoting seasonal products such as WHITISSIMO and WHITE SHOT series. Meanwhile, the brand also focuses on making repeat customers.



WHITISSIMO

ORBIS

- Improve the number of customers and average customer purchases by ORBIS =U WHITE launched in March and new whitening products.
- Continue to take advantage of LINE (instant messaging app) aiming to increase new customer acquisition and the second purchase rate.



Whitening BB, released by ORBIS on May 23rd

Realizing 2014 - 2016 Medium-term Management Plan

Sales growth and monetization of brands under development

T H R E E

- Launch "2016 SUMMER MAKEUP COLLECTION" on May 11th. New colors of make-up items which is core of THREE breakthrough.
- Open a concept store in a luxury shopping mall "Pavilion" in Kuala Lumpur, Malaysia. (Mid-April)



Overseas brands contributing to profitability through high sales growth and other businesses



- Jurlique shifts to agency model as a way to reduce fixed costs and improve its business in China.
- H2O PLUS carries out its marketing plan for the product launch scheduled in the first half. The new products will be based on the new concept.



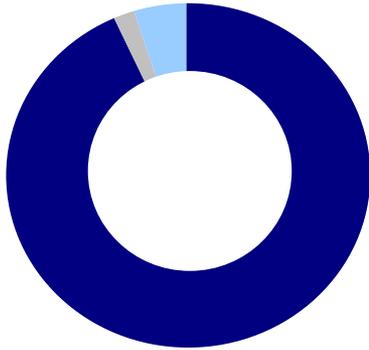
- The price of LUCONAC (external-use medicine for onychomycosis) has been settled at ¥3,492.3 per each.
- Launch on April 25th.
- Having the track record of LULICON and advantage in price, LUCONAC receives good market expectation.



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

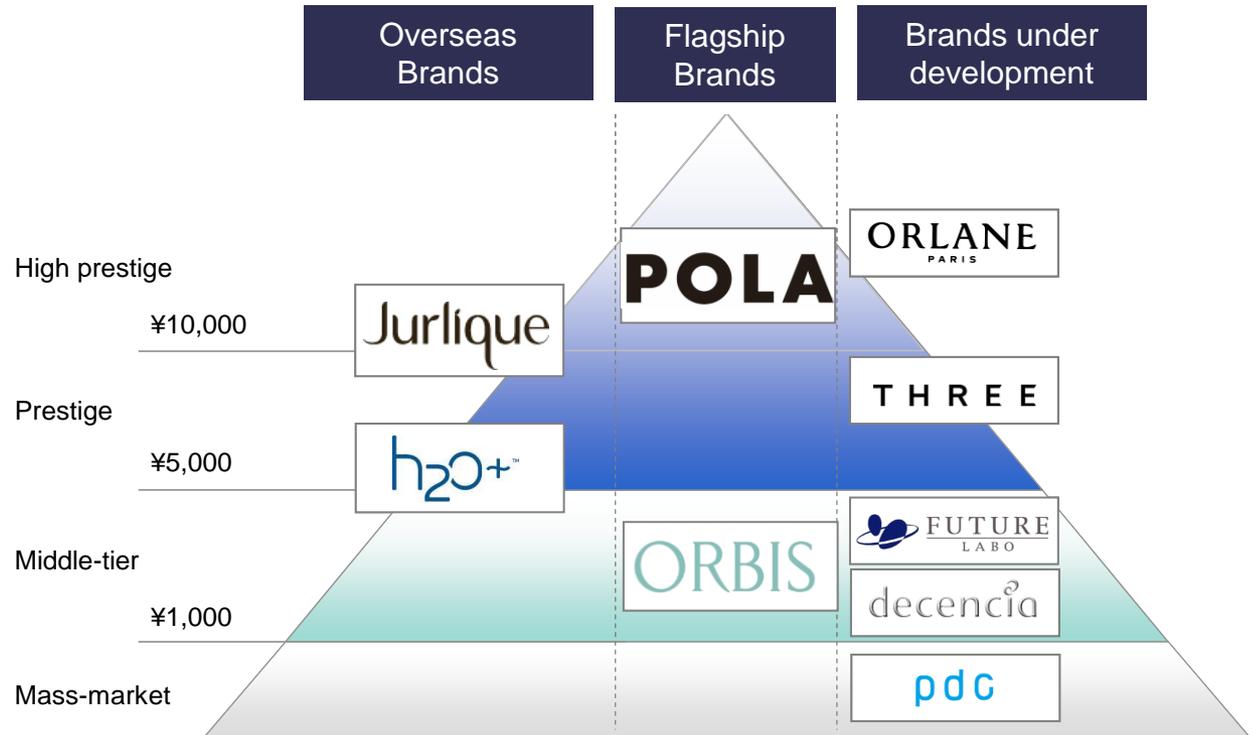
FY2015
Consol. Net Sales
¥214.8 bil.



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	55%	POLA	<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 Directly operated counters in department stores
	28%	ORBIS	<ul style="list-style-type: none"> Provides original-concept 100% OIL-FREE skincare products Anti-aging product series to meet demands from all ages 	¥1,000~ ¥3,000	<ul style="list-style-type: none"> Online Catalog Retail stores
Overseas brands	9%	Jurlique	<ul style="list-style-type: none"> Prestige organic skincare brand from Australia 	Approx. ¥5,000 or higher	<ul style="list-style-type: none"> Directly operated counters and stores in department stores and shopping malls Duty free stores
	2%	h2o+	<ul style="list-style-type: none"> Skincare products made with natural, sea-derived ingredients 	Approx. ¥4,000 not sold in Japan	<ul style="list-style-type: none"> China: Department stores, shopping malls and specialty stores US: Specialty stores and directly operated stores
Brands under development		T H R E E	<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"> Directly operated counters in department stores
		pdc	<ul style="list-style-type: none"> Affordably priced cosmetic products for mass-market 	Approx. ¥1,000	<ul style="list-style-type: none"> Drug stores, GMS Variety stores
	6%	FUTURE LABO	<ul style="list-style-type: none"> Cosmetic and other products with unique features 	¥3,000~ ¥6,000	<ul style="list-style-type: none"> Mainly sold through TV shopping channels
		decencia	<ul style="list-style-type: none"> Skincare for dry, sensitive skin 	¥2,000~ ¥5,000	<ul style="list-style-type: none"> Online
		ORLANE PARIS	<ul style="list-style-type: none"> High prestige anti-aging skincare cosmetics from France 	Approx. ¥10,000 or higher	<ul style="list-style-type: none"> Directly operated counters in department stores Specialty stores

*Sales ratio in the beauty care business as of FY2015

(mil. yen)	FY2014	FY2015	YoY Change	
	Results	Results	Amount	%
Consolidated net sales	198,094	214,788	16,693	8.4%
Beauty care net sales	184,475	200,570	16,095	8.7%
POLA	99,571	109,352	9,780	9.8%
ORBIS	52,302	56,354	4,051	7.7%
Jurlique	17,600	18,390	789	4.5%
H2O PLUS	4,876	3,944	(931)	(19.1%)
Brands under development	10,123	12,529	2,405	23.8%
Consol. operating income	17,683	22,511	4,827	27.3%
Beauty care operating income	16,535	21,290	4,754	28.8%
POLA	8,583	12,302	3,719	43.3%
ORBIS	10,792	11,197	404	3.7%
Jurlique	(445)	(379)	66	-
H2O PLUS	(1,435)	(1,814)	(378)	-
Brands under development	(958)	(15)	943	-

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

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%

250.0

160.0

2010

2013

2016

2020

2014 – 2016 Mid-term Management Plan

Domestic and overseas:
Accelerate growth through M&As

Overseas:
Expand flagship brands overseas

Domestic:
Achieve stable growth in Japan
(CAGR of around 2%)

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
New target: 9%

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