Summary of Financial Results

For the First Quarter of Fiscal Year Ending December 31, 2019 (Consolidated)

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan. The following English translation is based on the original Japanese-language document.

April 26, 2019

POLA ORBIS HOLDINGS INC.

Listing: Tokyo Stock Exchange, First Section (Code No.: 4927)
URL: https://www.po-holdings.co.jp/
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Filing Date of Quarterly Securities Report: May 15, 2019
Start of Cash Dividend Payment: —
Supplemental Materials Prepared for Quarterly Financial Results: Yes
Conference Presentation for Quarterly Financial Results: Yes(for analysts)

(Amounts less than one million yen have been truncated)

1. Consolidated Performance for the First Three Months of Fiscal 2019
(January 1, 2019–March 31, 2019)

(1) Consolidated Operating Results

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2019 Three Months	52,440	(11.9)	6,773	(31.9)	6,525	(31.0)	4,157	(35.1)
FY2018 Three Months	59,526	6.2	9,943	8.9	9,460	5.6	6,406	10.9

Note: Comprehensive income: ¥4,227 million (-24.0%) for the three months ended March 31, 2019;
¥5,560 million (8.5%) for the three months ended March 31, 2018

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY2019 Three Months	18.80	18.77
FY2018 Three Months	28.97	28.93

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	Millions of yen	Millions of yen	%	Yen
FY2019 First Quarter	225,050	183,071	81.2	825.90
FY2018	244,596	188,797	77.0	851.78

Reference: Equity capital: FY2019 First Quarter: ¥182,672 million; FY2018: ¥188,395 million

2. Dividends

	Annual Cash Dividends Per Share				
	Q1-end	Q2-end	Q3-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	—	35.00	—	45.00	80.00
FY2019	—				
FY2019 (Forecast)		35.00	—	81.00	116.00

Note1: Revisions to the cash dividends forecast announced most recently: none
Note2: Dividend per share for Year-end of ¥81.00 for the fiscal year ending December 31, 2019 consists of ¥45.00 for ordinary dividend and ¥36.00 for special dividend.

3. Consolidated Performance Forecast for Fiscal Year Ending December 31, 2019
(January 1, 2019–December 31, 2019)

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Net Income Per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	117,000	(6.6)	20,800	(10.0)	20,800	(8.5)	13,600	(11.2)	61.49
Full year	241,000	(3.0)	40,500	2.5	40,500	4.0	25,500	204.0	115.29

Note: Revisions to the consolidated performance forecast announced most recently: none

Notes to Summary Information

(1) Changes in significant subsidiaries during the current period
(Changes in specific subsidiaries resulting in changes in the scope of consolidation) : None

(2) Application of special accounting methods for the preparation of the quarterly consolidated financial statements : None

(3) Changes in accounting policies, accounting estimates, and restatement
1) Changes in accounting policies associated with revision of accounting standards : Yes
2) Changes other than (3)-1) : None
3) Changes in accounting estimates : None
4) Restatements : None

(4) Number of shares issued and outstanding (common stock)
1) Number of shares issued and outstanding at the end of each period (including treasury stock)
At March 31, 2019 229,136,156 shares
At December 31, 2018 229,136,156 shares
2) Number of shares of treasury stock at the end of each period
At March 31, 2019 7,956,853 shares
At December 31, 2018 7,956,853 shares
3) Average number of shares issued and outstanding in each period
Three months ended March 31, 2019 221,179,303 shares
Three months ended March 31, 2018 221,178,319 shares

Information Regarding Quarterly Review Procedures
The quarterly financial results report is exempt from quarterly review by certified public accountants or accounting firms.

Explanation of Appropriate Use of Performance Forecast and Other Special Items
This report contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may differ materially from these projections resulting from changes in the economic environment and other risks and uncertainties. For performance projections, please refer to “1. Qualitative Information on Consolidated Performance for the First Quarter of Fiscal 2019 (3) Explanation of Consolidated Performance Forecast and Other Predictive Information” on page 5.

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1. Qualitative Information on Consolidated Performance for the Three Months of Fiscal 2019

(1) Explanation of Consolidated Operating Results

During the three months of fiscal 2019 (January 1–March 31, 2019), the Japanese economy continued on a moderate recovery track, showing signs of a pickup in personal consumption amid continued improvement in the employment and income climate.

The domestic cosmetics market saw a slowdown in recent growth, partly reflecting the impact of China's E-commerce Law coming into effect, even though inbound consumption by tourists visiting Japan was steady. The market scale is expected to shrink when inbound consumption is excluded. In the overseas cosmetics market, a modest expansion continued with steady growth in Asia, mainly in China.

Within this market environment, the POLA ORBIS Group (the "Group") continued its efforts to achieve further improved profitability in Japan, a solid shift toward profitability from overseas operations and creations of brands for next-generation growth. The efforts were in line with the four-year medium-term management plan (from 2017 to 2020) that started in fiscal 2017.

As a result of these factors, the Group achieved the following consolidated operating results for the three months of fiscal 2019.

Consolidated net sales for the three months of fiscal 2019 decreased 11.9% year on year, to \52,440 million, reflecting the impact of a decline in domestic inbound sales of the flagship brand POLA. Operating income declined 31.9% year on year, to ¥6,773 million, resulting from lower gross profit accompanying the decrease in sales. Ordinary income declined 31.0% year on year, to ¥6,525 million. As a result, profit attributable to owners of parent decreased 35.1% year on year, to ¥4,157 million.

Operating Results Overview (Millions of yen)

	Three Months Ended March 31			
	2018	**2019**	Year-on-Year	
			Amount Change	Percent Change (%)
Net Sales	¥59,526	**¥52,440**	¥(7,085)	(11.9)
Operating Income	9,943	**6,773**	(3,169)	(31.9)
Ordinary Income	9,460	**6,525**	(2,935)	(31.0)
Profit Attributable to Owners of Parent	¥6,406	**¥4,157**	¥(2,249)	(35.1)

Operating Results by Segment

Net Sales (Segment Sales to External Customers) (Millions of yen)

	Three Months Ended March 31			
	2018	**2019**	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥55,821	**¥51,165**	¥(4,656)	(8.3)
Real Estate	676	**658**	(18)	(2.7)
Others	3,028	**617**	(2,410)	(79.6)
Total	¥59,526	**¥52,440**	¥(7,085)	(11.9)

Segment Profit (Loss) (Operating Income (Loss)) (Millions of yen)

	Three Months Ended March 31			
	2018	**2019**	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥9,670	**¥6,449**	¥(3,221)	(33.3)
Real Estate	312	**304**	(7)	(2.5)
Others	74	**35**	(38)	(52.3)
Reconciliations of Segment Profit (Note)	(113)	**(15)**	98	—
Total	¥9,943	**¥6,773**	¥(3,169)	(31.9)

Note: Reconciliations of segment profit refer to elimination of profits arising from inter-company transactions and expenses not allocated to reportable segments. Please see note 2 in “1. Information about Net Sales and Profit (Loss) by Reportable Segment” on page 10 and 11 for the details of reconciliations of segment income during the period.

Beauty Care

The Beauty Care segment consists of the flagship brands POLA and ORBIS, the overseas brands Jurlique and H2O PLUS, and the brands under development THREE, DECENCIA, Amplitude, ITRIM, and FIVEISM × THREE.

POLA is seeking to further improve the value of its brand and strengthen its business foundation through efforts to launch highly functional products focused on the field of anti-aging and skin-whitening and to strengthen development of professional human resources who embody the value of the brand. In the domestic market, in January, POLA launched a limited-edition size of POLA Wrinkle Shot Serum, the first medicated cosmetic product in Japan approved under quasi-drug rules for improving wrinkles, to mark the second anniversary of the product’s launch. In February, POLA’s pinnacle series B.A commenced sales of its B.A Tablet and B.A Liquid, aimed at a sensation of beauty that fills the entire body. Furthermore, in May, POLA plans to launch a new product that contains the new whitening active ingredient approved for the market for the first time in about a decade. POLA University also got under way as an institution that increases the value of all POLA human resources, based on the mission of “cultivating professional human resources who are desired and chosen by the market.” In overseas markets, brand recognition improved and operating results were favorable as a result of growth in department stores and new format stores with full-scale esthetic services as well as cross-border e-commerce. However, POLA recorded net sales and operating income below those of the corresponding period of the previous year due to the slowdown in inbound demand in the domestic market.

ORBIS is making efforts to enhance its presence through the creation of brand differentiation in order to re-grow into a highly profitable business. ORBIS stepped up communication centered on products that embody the worldview of the brand message, “Simply you. Simply beautiful.” along with consistent marketing communication. In the domestic market, the “ORBIS U” anti-aging skincare series that was completely revamped in October 2018 has been well received. Furthermore, in January 2019, ORBIS carried out a full-fledged market introduction of ORBIS DEFENCERA, the first Food for Specified Health Uses (FOSHU) launched in Japan with skincare functions. ORBIS DEFENCERA became popular for its novelty and reliability as a FOSHU product and for proposing a new “drinkable skincare,” which contributed to gaining new customers. In overseas markets, ORBIS made proactive advertising investments to accelerate growth in the Chinese market. However, net sales and operating income of ORBIS fell below those of the corresponding period of the previous year due to stock-outs of ORBIS DEFENCERA.

For overseas brands, the Group took initiatives aimed at business growth in Australia and Hong Kong for Jurlique and in the United States, where H2O PLUS originated. Jurlique focused on sales in directly operated channels in Australia and Hong Kong but net sales fell below that of the corresponding period of the previous year due to sluggish sales in Chinese and Australian markets. While, Jurlique made proactive efforts to reform the cost structure by downsizing headquarters functions. As a result, operating losses remained at the same level as that of the corresponding period of the previous year. H2O PLUS felt the impact of a withdrawal from some retailers due to a revision of its channel strategy as well as a decrease in shipments of hotel amenities. As a result, net sales and operating losses deteriorated compared with those of the corresponding period of the previous year.

Brands under development recorded higher net sales than those of the corresponding period of the previous year due to the strong performance of THREE, which marked the 10th anniversary of the brand's launch. However, operating income fell below that of the corresponding period of the previous year due to further growth investments for the new brands that were added in 2018, namely Amplitude, ITRIM, and FIVEISM × THREE.

As a result of the factors noted above, net sales—sales to external customers—were ¥51,165 million, down 8.3% year on year, and operating income was ¥6,449 million, down 33.3% year on year.

Real Estate

The Real Estate segment concentrates on the leasing of office buildings in urban areas. Efforts are currently directed at sustaining and improving rental income and reducing vacancy rates by creating attractive office environments. Another area of emphasis is the residential properties rental business. This business highlights condominiums perfect for families with young children. During the three months of fiscal 2019, profitability increased due to revision of occupancy conditions in light of the situation in the market and at other companies as well as the implementation of measures to improve the value of buildings. Despite these efforts, net sales and operating income fell below those of the corresponding period of the previous year as a result of some tenants moving out.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥658 million, down 2.7% year on year, and operating income was ¥304 million, down 2.5% year on year.

Others

The Others segment is the building maintenance business.

The building maintenance business is engaged in the operation and management of buildings mainly catering to the needs of Group companies. During the three months of fiscal 2019, net sales and operating income were up year on year due to large construction orders received in the Tokyo metropolitan area.

As a result of the above, in addition to the impact of withdrawal from the pharmaceuticals business in January 2019, net sales—sales to external customers—generated by the Others segment totaled ¥617 million, down 79.6% year on year, and operating income was ¥35 million, down 52.3% year on year.

(2) Explanation of Consolidated Financial Position

As of March 31, 2019, total assets stood at ¥225,050 million, down 8.0%, or ¥19,546 million, from December 31, 2018. Factors related to this change included increases of ¥3,268 million in short-term investments in securities and ¥2,086 million in investments in securities for the management of surplus funds, as well as decreases of ¥19,005 million in cash and deposits and ¥5,953 million in notes and accounts receivable – trade.

Total liabilities amounted to ¥41,978 million, down 24.8%, or ¥13,820 million, from December 31, 2018. Factors related to this change included a decrease of ¥9,844 million due to a decrease in provision for loss on business liquidation, as well as a decrease of ¥4,701 million in income taxes payable.

Net assets amounted to ¥183,071 million, down 3.0 %, or ¥5,725 million, from December 31, 2018. Factors related to this change included ¥9,953 million in dividends from retained earnings, partially offset by an increase of ¥4,157 million in profit attributable to owners of parent.

(3) Explanation of Consolidated Performance Forecast and Other Predictive Information

The Group has made no revisions to the full-year consolidated performance forecast announced on February 13, 2019.

(Information for reference)

Cumulative Results for Fiscal 2018

	(Millions of yen)			
	Three Months	Six Months	Nine Months	Full Year
Net Sales	¥59,526	¥125,262	¥184,807	¥248,574
Operating Income	9,943	23,103	32,335	39,496
Ordinary Income	9,460	22,723	32,189	38,954
Profit Attributable to Owners of Parent	¥ 6,406	¥ 15,321	¥ 22,393	¥ 8,388

Quarterly Results for Fiscal 2018

	(Millions of yen)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	¥59,526	¥65,736	¥59,544	¥63,767
Operating Income	9,943	13,159	9,232	7,160
Ordinary Income	9,460	13,262	9,465	6,765
Profit(Loss) Attributable to Owners of Parent	¥ 6,406	¥ 8,914	¥ 7,072	¥ (14,004)

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2018 December 31, 2018	**FY2019 First Quarter March 31, 2019**
Assets		
Current assets		
Cash and deposits	¥ 77,332	**¥ 58,326**
Notes and accounts receivable – trade	27,285	**21,331**
Short-term investments in securities	22,597	**25,866**
Merchandise and finished goods	17,034	**15,211**
Work in process	923	**1,081**
Raw materials and supplies	6,008	**6,016**
Other	6,230	**10,180**
Allowance for doubtful accounts	(1,396)	**(1,397)**
Total current assets	156,016	**136,616**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,350	**17,909**
Land	14,675	**14,145**
Other, net	11,799	**12,398**
Total property, plant and equipment	45,825	**44,454**
Intangible assets		
Right of trademark	29	**34**
Software	5,600	**6,626**
Other	105	**100**
Total intangible assets	5,735	**6,760**
Investments and other assets		
Investments in securities	22,737	**24,824**
Other	14,541	**12,669**
Allowance for doubtful accounts	(260)	**(274)**
Total investments and other assets	37,019	**37,219**
Total non-current assets	88,580	**88,434**
Total assets	¥244,596	**¥225,050**

(Millions of yen)

	FY2018 December 31, 2018	**FY2019 First Quarter March 31, 2019**
Liabilities		
Current liabilities		
Notes and accounts payable – trade	¥ 5,519	**¥ 3,852**
Income taxes payable	5,431	**730**
Provision for bonuses	1,585	**1,674**
Provision for point program	3,547	**3,213**
Provision for loss on business liquidation	9,906	**61**
Other provisions	67	**31**
Other	20,096	**22,391**
Total current liabilities	46,154	**31,955**
Non-current liabilities		
Other provisions	52	**79**
Net defined benefit liability	4,236	**3,897**
Other	5,355	**6,046**
Total non-current liabilities	9,644	**10,023**
Total liabilities	55,799	**41,978**
Net assets		
Shareholders' equity		
Common stock	10,000	**10,000**
Capital surplus	90,240	**80,287**
Retained earnings	88,968	**93,125**
Treasury stock	(2,188)	**(2,188)**
Total shareholders' equity	187,021	**181,225**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2	**(131)**
Foreign currency translation adjustments	2,063	**2,033**
Remeasurements of defined benefit plans	(691)	**(454)**
Total accumulated other comprehensive income	1,374	**1,446**
Subscription rights to shares	275	**276**
Non-controlling interests	125	**123**
Total net assets	188,797	**183,071**
Total liabilities and net assets	¥244,596	**¥225,050**

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Three Months Ended March 31	
	FY2018 (January 1, 2018– March 31, 2018)	**FY2019 (January 1, 2019– March 31, 2019)**
Net sales	¥59,526	**¥52,440**
Cost of sales	9,445	**8,011**
Gross profit	50,081	**44,429**
Selling, general and administrative expenses		
Sales commission	13,700	**12,014**
Promotion expenses	5,091	**4,659**
Advertising expenses	2,524	**2,793**
Salaries, allowances and bonuses	4,912	**4,652**
Provision for bonuses	1,135	**1,010**
Provision for point program	2,253	**2,378**
Other	10,520	**10,147**
Total selling, general and administrative expenses	40,137	**37,655**
Operating income	9,943	**6,773**
Non-operating income		
Interest income	47	**42**
Foreign exchange gains	—	**66**
Other	108	**72**
Total non-operating income	155	**182**
Non-operating expenses		
Interest expense	16	**21**
Loss on valuation of investment securities	—	**265**
Foreign exchange losses	600	**—**
Compensation expenses	—	**103**
Other	21	**40**
Total non-operating expenses	638	**430**
Ordinary income	9,460	**6,525**
Extraordinary income		
Gain on reversal of subscription rights to shares	26	**—**
Other	0	**0**
Total extraordinary income	26	**0**
Extraordinary losses		
Loss on disposal of non-current assets	17	**7**
Other	2	**0**
Total extraordinary losses	19	**8**
Profit before income taxes	9,467	**6,516**
Income taxes – current	3,411	**531**
Income taxes – deferred	(348)	**1,830**
Total income taxes	3,063	**2,362**
Profit	6,403	**4,154**
Profit (Loss) attributable to non-controlling interests	(2)	**(2)**
Profit attributable to owners of parent	¥ 6,406	**¥ 4,157**

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three Months Ended March 31	
	FY2018 (January 1, 2018– March 31, 2018)	**FY2019 (January 1, 2019– March 31, 2019)**
Profit	¥6,403	**¥4,154**
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	**(134)**
Foreign currency translation adjustments	(891)	**(29)**
Remeasurements of defined benefit plans	48	**236**
Total other comprehensive income	(843)	**72**
Comprehensive income	5,560	**4,227**
Comprehensive income attributable to owners of parent	5,567	**4,229**
Comprehensive income attributable to non-controlling interests	¥(7)	**¥(2)**

(3) Notes to Consolidated Financial Statements

(Going Concern Assumptions)
None

(Significant Changes in Shareholders' Equity)
None

(Changes in Accounting Policies)

The Group subsidiaries which have been prepared their financial statements in accordance with IFRS, adopted IFRS 16 “Leases” (Issued in January 2016; hereafter, “IFRS 16”) in the three months ended March 31, 2019. As a transitional measure upon the adoption of IFRS 16, the subsidiaries have recognized the cumulative effect of initially applying this Standard on the initial date of application.

For leases that the Group as lessee previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application.

With the application of this Standard, “Other” under “Property, plant and equipment” has increased ¥1,577 million, “Other” under “Current liabilities” has increased ¥725 million, and “Other” under “Non-current liabilities” has increased ¥914 million in the Consolidated Balance Sheets.

And the impact of this change on the profit and loss for the first quarter of fiscal 2019 is minor.

(Additional Information)

Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) at the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the non-current liabilities section, respectively.

(Segment Information)

Ⅰ. First Quarter of Fiscal 2018 (January 1, 2018-March 31, 2018)

1. Information about Net Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Financial Statements (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net Sales							
Sales to External Customers	¥55,821	¥676	¥56,498	¥3,028	¥59,526	―	¥59,526
Intersegment Sales or Transfers	22	129	152	399	551	¥(551)	―
Total	55,844	806	56,650	3,427	60,078	(551)	59,526
Segment Profit (Loss)	¥9,670	¥312	¥9,982	¥74	¥10,056	¥(113)	¥9,943

Notes: 1. “Others” comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance businesses.
2. The segment profit reconciliation of ¥(113) million includes intersegment transaction eliminations of ¥785 million, and corporate expenses of ¥(898) million not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
3. Segment profit is adjusted for operating income reported in the quarterly consolidated statements of income.

2. Information about Impairment Loss of Non-current Assets and Goodwill by Reportable Segment

(Significant Impairment Loss of Non-current Assets)
None

(Significant Changes in Goodwill)
None

Ⅱ. First Quarter of Fiscal 2019 (January 1, 2019–March 31, 2019)

1. Information about Net Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Financial Statements (Note 3)
	Beauty Care	**Real Estate**	**Subtotal**				
Net Sales							
Sales to External Customers	**¥51,165**	**¥658**	**¥51,823**	**¥617**	**¥52,440**	**—**	**¥52,440**
Intersegment Sales or Transfers	**17**	**123**	**141**	**504**	**645**	**¥(645)**	**—**
Total	**51,182**	**782**	**51,964**	**1,121**	**53,086**	**(645)**	**52,440**
Segment Profit (Loss)	**¥6,449**	**¥304**	**¥6,753**	**¥35**	**¥6,789**	**¥(15)**	**¥6,773**

Notes: 1. “Others” comprises business operations that are not categorized as reportable segments and include the building maintenance business. The pharmaceuticals business, which was previously included in “Others”, is excluded from the scope of the consolidation with the transfer of all shares of POLA PHARMA INC. at January 1, 2019.

2. The segment profit reconciliation of ¥ (15) million includes intersegment transaction eliminations of ¥953 million, and corporate expenses of ¥ (968) million not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.

3. Segment profit is adjusted for operating income reported in the quarterly consolidated statements of income.

2. Information about Impairment Loss of Non-current Assets and Goodwill by Reportable Segment

(Significant Impairment Loss of Non-current Assets)

None

(Significant Changes in Goodwill)

None