

# Results for 1Q-3Q of Fiscal 2012: Supplementary Materials

**Naoki Kume**

DIRECTOR OF FINANCE/MANAGEMENT PLANNING DIV.  
POLA ORBIS HOLDINGS INC.

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.

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2012

Consolidated net sales increased sharply, thanks to a solid contribution from Jurlique.  
Operating income for 1Q-3Q of fiscal 2012 decreased, owing to the impact of acquisition-related costs, but operating income was in line with the Company's expectations.



## 1Q-3Q Consolidated

Net sales: ¥129,724 million (+8.2%); Operating income: ¥8,013 million (-8.8%)  
(year-on-year basis)

### Existing Business

Net sales: ¥123,435 million (+2.9%); Operating income: ¥9,371 million (+6.7%)

- POLA ⇒ Net sales : ¥71,160 million (+2.6%); Operating income : ¥4,123 million (+16.2%)  
POLA THE BEAUTY (PB) driving earnings
- ORBIS ⇒ Net sales : ¥35,471 million (-0.3%); Operating income : ¥5,677million (+11.9%)  
Improved profitability primarily due to strengthening of Internet sales and product strategy focusing on skincare  
(year-on-year basis)

### Jurlique

Net sales: ¥6,288 million; Operating loss: ¥1,358 million

- Net sales and operating income in line with expectations
  - 1Q-3Q depreciation and amortization costs relating to Jurlique's acquisition : ¥1,378 million  
⇒ Inventory valuation differences (cost): ¥729 million;  
Depreciation or amortization of non-current assets and amortization of goodwill (SG&A): ¥648 million
- Note: Annual depreciation and amortization costs relating to Jurlique's acquisition expected to reach ¥1,500–1,600 million  
(year-on-year basis)

# Highlights of Consolidated Performance [P&L Summary]

| (Millions of yen)                                   | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change |               |
|---|--------------------|--------------------|------------|---------------|
|   |                    |                    | Amount     | Percentage(%) |
| <b>Net Sales</b>                                    | 119,946            | <b>129,724</b>     | 9,777      | 8.2%          |
| <b>Cost of sales</b>                                | 23,400             | <b>26,449</b>      | 3,049      | 13.0%         |
| <b>Gross profit</b>                                 | 96,546             | <b>103,274</b>     | 6,728      | 7.0%          |
| <b>Selling, general and administrative expenses</b> | 87,762             | <b>95,261</b>      | 7,499      | 8.5%          |
| <b>Operating income</b>                             | 8,784              | <b>8,013</b>       | -770       | -8.8%         |
| <b>Ordinary income</b>                              | 9,108              | <b>8,425</b>       | -682       | -7.5%         |
| <b>Income before income taxes</b>                   | 7,398              | <b>8,382</b>       | 983        | 13.3%         |
| <b>Net income</b>                                   | 5,475              | <b>3,687</b>       | -1,788     | -32.7%        |

Jurlique and H2O PLUS  
Amount of YoY change

+7,395 mil

+2,532 mil  
including ¥729 million in inventory valuation differences accompanying acquisition of Jurlique

+6,831 mil  
including amortization of goodwill and other items

-1,969 mil

+1,665 mil  
due to improvement in extraordinary income/losses

-2,776 mil  
due to increase in income taxes

## Summary of consolidated results

Consolidated net sales ⇒ Steady performance centering on flagship brands.  
Sharp sales growth bolstered by Jurlique & H2O.

Operating income ⇒ Decrease in profits due to costs relating to Jurlique's acquisition

Net income ⇒ Net income fell due to higher income taxes offsetting a large reduction in extraordinary loss from the same period a year earlier

# Analysis of Consolidated P&L Changes

## Net Sales to Operating Income

| (Millions of yen)                               | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change |               |
|---|--------------------|--------------------|------------|---------------|
|   |                    |                    | Amount     | Percentage(%) |
| Net sales                                       | 119,946            | 129,724            | 9,777      | 8.2%          |
| Cost of sales                                   | 23,400             | 26,449             | 3,049      | 13.0%         |
| Gross profit                                    | 96,546             | 103,274            | 6,728      | 7.0%          |
| Selling, general and<br>administrative expenses | 87,762             | 95,261             | 7,499      | 8.5%          |
| Operating income                                | 8,784              | 8,013              | -770       | -8.8%         |

### Consolidated net sales

- POLA ⇒ up ¥1,812 mil
  - ORBIS ⇒ down ¥92 mil
  - Jurlique ⇒ up ¥6,288 mil
  - H2O PLUS ⇒ up ¥1,106 mil
- (year-on-year basis)

### Cost of sales

- Cost of sales ratio: 1Q-3Q FY2011: 19.51% ⇒ 1Q-3Q FY2012: 20.39%
- Factor lowering the ratio: Improvements in cost of sales ratio centering on flagship brands
- Factors raising the ratio: Impact of newly consolidating H2O PLUS and Jurlique, as well as inventory valuation differences of ¥729 mil

### SG&A

- Up ¥7,499 mil (Overseas brands: up ¥6,831 mil)
  - Personnel expense ⇒ up ¥2,056 mil
  - Administrative expenses ⇒ up ¥3,040 mil
  - Sales-related expenses ⇒ up ¥1,418 mil
  - Sales commissions ⇒ up ¥983 mil
- (year-on-year basis)

### Operating income

- Down ¥770 mil (down ¥491 mil in the Beauty Care segment)
- (year-on-year basis)

# Analysis of Consolidated P&L Changes

## Operating Income to Net Income

| (Millions of yen)   | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change |               |
|---|--------------------|--------------------|------------|---------------|
|   |                    |                    | Amount     | Percentage(%) |
| Operating income  | 8,784              | 8,013              | -770       | -8.8%         |
| Non-operating income  | 603                | 520                | -83        | -13.8%        |
| Non-operating expenses                                      | 279                | 108                | -171       | -61.3%        |
| Ordinary income   | 9,108              | 8,425              | -682       | -7.5%         |
| Extraordinary income  | 558                | 134                | -423       | -76.0%        |
| Extraordinary losses  | 2,267              | 177                | -2,089     | -92.2%        |
| Income before income taxes                                  | 7,398              | 8,382              | 983        | 13.3%         |
| Income taxes  | 1,933              | 4,709              | 2,776      | 143.6%        |
| Minority interests in net loss of consolidated subsidiaries | -10                | -14                | -4         | —             |
| Net income  | 5,475              | 3,687              | -1,788     | -32.7%        |

### Non-operating income/expenses

- Increase in profits reflecting lower foreign exchange loss: +¥170 mil (¥3 mil of foreign exchange gain by 3Q)
- Decline in interest income due to investment of funds: -¥30 mil (year-on-year basis)

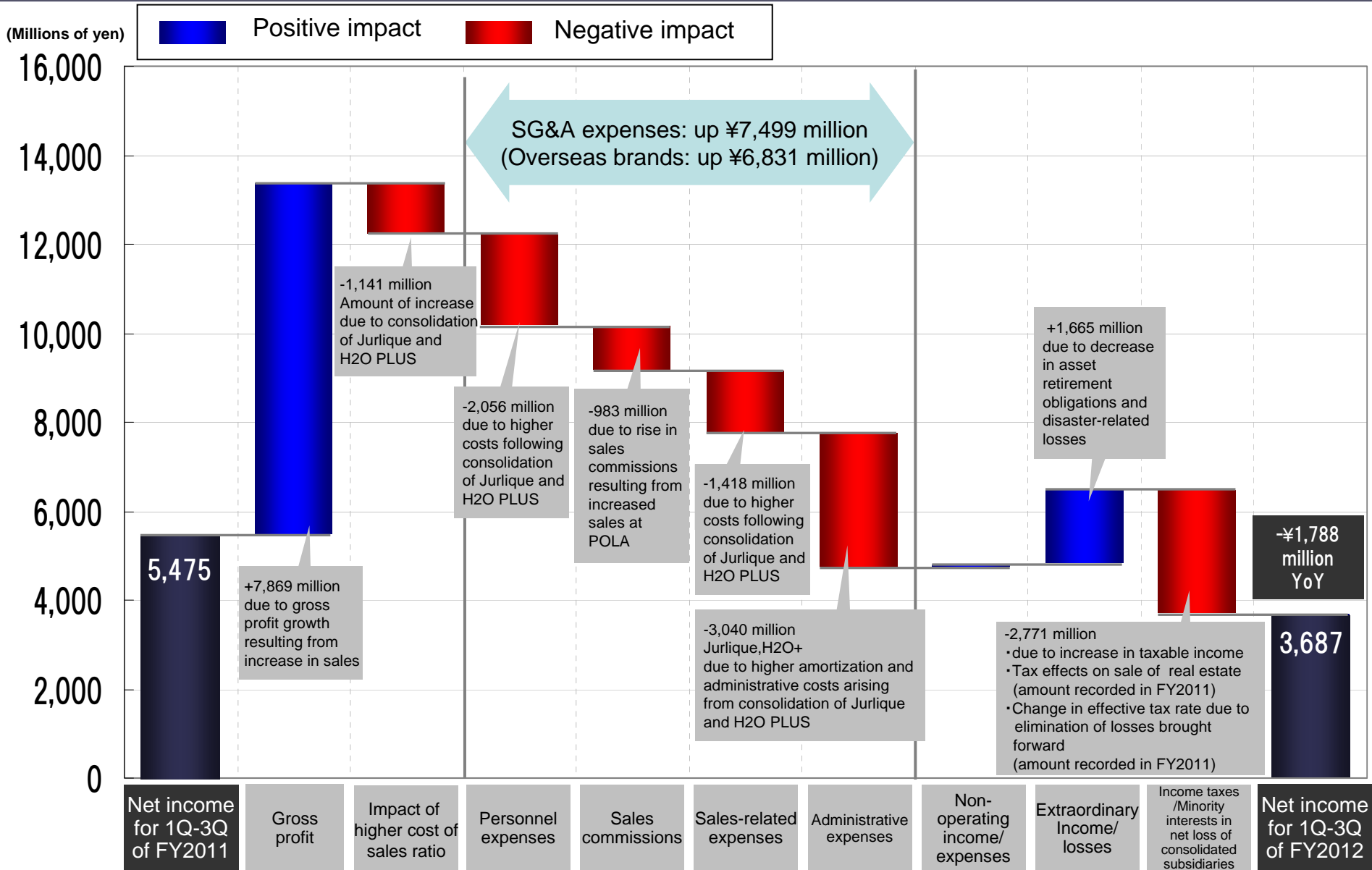
### Extraordinary income/losses

- 【Extraordinary income】 Reversal of provisions for directors' retirement benefits: 119 mil (year-on-year basis)  
Gain on sales of subsidiaries' stocks: -¥529 mil (amount recorded in FY2011)
- 【Extraordinary losses】 Loss on disaster: -¥425 mil (amount recorded in FY2011)  
Asset retirement obligations: -¥954 mil (amount recorded in FY2011)

### Income taxes

- Increase in income taxes due to higher taxable income: +893 mil (year-on-year basis)
- Tax effects on sale of real estate: +¥1,335 mil (amount recorded in FY2011)
- Change in effective tax rate due to elimination of losses brought forward: +¥660 mil (amount recorded in FY2011)

# Factors Impacting Net Income



1. Highlights of Consolidated Performance
- 2. Segment Analysis**
3. Forecasts for Fiscal 2012



# Operating Results by Segment

| (Millions of yen)             | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change   |               |
|-------------------------------|--------------------|--------------------|--------------|---------------|
|                               |                    |                    | Amount       | Percentage(%) |
| <b>Consolidated net sales</b> | <b>119,946</b>     | <b>129,724</b>     | <b>9,777</b> | <b>8.2%</b>   |
| Beauty Care                   | 111,140            | 120,847            | 9,707        | 8.7%          |
| Real Estate                   | 2,336              | 2,143              | -193         | -8.3%         |
| Others                        | 6,469              | 6,732              | 262          | 4.1%          |
| <b>Operating income</b>       | <b>8,784</b>       | <b>8,013</b>       | <b>-770</b>  | <b>-8.8%</b>  |
| Beauty Care                   | 7,178              | 6,687              | -491         | -6.8%         |
| Real Estate                   | 997                | 917                | -80          | -8.1%         |
| Others                        | 343                | 214                | -128         | -37.5%        |
| Reconciliations               | 264                | 193                | -70          | -26.7%        |

# Beauty Care Segment Operating Results by Product Type

| (Millions of yen) | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change |               |
|-------------------|--------------------|--------------------|------------|---------------|
|                   |                    |                    | Amount     | Percentage(%) |
| Net sales         | 111,140            | 120,847            | 9,707      | 8.7%          |
| Cosmetics         | 102,484            | 111,955            | 9,470      | 9.2%          |
| Fashion           | 8,655              | 8,892              | 237        | 2.7%          |
| Operating income  | 7,178              | 6,687              | -491       | -6.8%         |
| Cosmetics         | 7,718              | 6,892              | -825       | -10.7%        |
| Fashion           | -539               | -205               | 334        | —             |

- ◆ **Cosmetics** ⇒ Steady performance of flagship brands and brands under development.  
Sharp sales growth, owing to contributions from overseas brands.  
Decrease in operating income, owing to one-time costs relating to the acquisition of overseas brands.
- ◆ **Fashion** ⇒ Sales events held as planned this period, contrasting with the previous year when the earthquake led to the cancellation of some events and caused other issues.  
Improvement in operating income reflecting sales growth.

• Figures are based on the same calculation methods used for the same period of the previous year for reference purposes only (unaudited)

# Beauty Care Segment Operating Results, by Brand

| (Millions of yen)                      | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change |               |
|--|--------------------|--------------------|------------|---------------|
|  |                    |                    | Amount     | Percentage(%) |
| Net sales                              | 111,140            | 120,847            | 9,707      | 8.7%          |
| POLA                                   | 69,347             | 71,160             | 1,812      | 2.6%          |
| ORBIS                                  | 35,563             | 35,471             | -92        | -0.3%         |
| Brands under development               | 5,364              | 5,956              | 591        | 11.0%         |
| Overseas brands<br>(Jurlique and H2O+) | 864                | 8,259              | 7,395      | 855.9%        |
| Operating income                       | 7,178              | 6,687              | -491       | -6.8%         |
| POLA                                   | 3,548              | 4,123              | 574        | 16.2%         |
| ORBIS                                  | 5,071              | 5,677              | 605        | 11.9%         |
| Brands under development               | -1,338             | -1,040             | 297        | —             |
| Overseas brands<br>(Jurlique and H2O+) | -103               | -2,072             | -1,969     | —             |

- ◆ POLA ⇒ Continued to revitalize the sales organization and was rewarded with favorable results. Sharp increase in profits due to improved sales cost efficiency.
- ◆ ORBIS ⇒ Improved profitability due to skincare-centered product strategy, as well as streamlining of catalog-related and other sales costs.
- ◆ Brands under development ⇒ Continued to post double-digit growth. THREE showed year-on-year growth of about 50%.
- ◆ Overseas brands ⇒ Jurlique performed in line with the Company's forecasts. H2O PLUS performed below expectations due to a change in agent in China. 1Q-3Q operating income includes costs of ¥1,163 million associated with Jurlique acquisition.

Note: Consolidated operating income and losses are shown for each brand, for reference purpose only (unaudited).

## 1 - Generate stable profits with flagship brands

**POLA**

Products

- ◆ Reinvigorated sales expansion of existing products with the launch of B.A THE PRECIOUS SYNERGY SET in September.

Sales Channels

- ◆ Number of POLA THE BEAUTY(PB) stores rose by 27 to 560
- ◆ PB store 3Q sales: +10.3%  
Note: Reference: Esthe Inn +2.6%; Conventional door-to-door sales: -8.5%
- ◆ PB existing store 3Q sales: +8.7%  
(year-on-year basis)

Customers

- ◆ Amount spent per customer: -3.3%
- ◆ Number of customers: +6.5% (new customers: +13.1%)  
(year-on-year basis)



B.A THE PRECIOUS SYNERGY SET launched in September

**ORBIS**

Products

- ◆ Launched first anti-aging product, the new AQUAFORCE EXTRA, in August (year-on-year basis)

Sales Channels

- ◆ Online order ratio: +2.7 pt  
(year-on-year basis)

Customers

- ◆ Amount spent per customer: +7.3%
- ◆ Mail-order skincare purchaser ratio: +4.7 pt
- ◆ Mail-order sales ratio for skincare products out of new customer sales: +6.9 pt  
(year-on-year basis)

Logistics

- ◆ Completed a dual-site logistics system with distribution centers in both Eastern and Western Japan.



New AQUAFORCE EXTRA launched in August

## 2 – Accelerate growth of brands under development

**T H R E E**

- ◆ Two outlets in department stores to open in second half, bringing total to 17.
- ◆ Existing stores maintaining strong sales.



New CONCENTRATE series launched in September

## 3 – Develop presence overseas by capitalizing on the Group's strengths

**International brands**

- ◆ Jurlique ⇒ Number of outlets in department stores in China: 24 more outlets than the previous year end.
- ◆ H2O PLUS ⇒ Launched products developed by POLA CHEMICAL INDUSTRIES. Shipments stall due to a change in agent in China.



H2O PLUS Total Source Night Cream

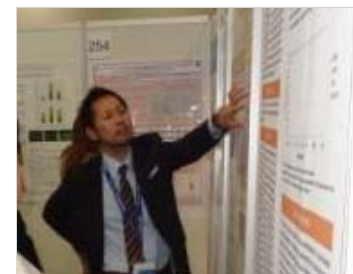
**Existing brands**

- ◆ POLA ⇒ Approval of direct sales license in China pending.
- ◆ ORBIS ⇒ Increase in new customers, thanks to successful promotional activities in China.

## 4 – Reinforce R&D capabilities

**POLA CHEMICAL INDUSTRIES**

- ◆ 27th International Federation of Societies of Cosmetic Chemists (IFSCC) Congress. Won the highest award in poster presentation category.



IFSCC Congress 2012

# Real Estate/Others Segment Results

| (Millions of yen)             | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change |               |
|-------------------------------|--------------------|--------------------|------------|---------------|
|                               |                    |                    | Amount     | Percentage(%) |
| Real estate segment net sales | 2,336              | 2,143              | -193       | -8.3%         |
| Operating income              | 997                | 917                | -80        | -8.1%         |

◆ Revenues down year-on-year, affected by downward trend of rents in real estate market.

| (Millions of yen)        | 1Q-3Q of<br>FY2011 | 1Q-3Q of<br>FY2012 | YoY Change |               |
|--------------------------|--------------------|--------------------|------------|---------------|
|                          |                    |                    | Amount     | Percentage(%) |
| Others segment net sales | 6,469              | 6,732              | 262        | 4.1%          |
| Operating income         | 343                | 214                | -128       | -37.5%        |

- ◆ Pharmaceuticals ⇒ Higher performance compared with a year earlier due to increase in medical institutions using *Lulicon*.
- ◆ Building maintenance ⇒ Year-on-year growth due to strong performance in renovation/repairs and staffing services.

Note: The commercial printing business was excluded from the scope of consolidation from 3Q of FY2011.

(FY2011 1H results: Net sales: approx. ¥230 mil; Operating income: approx. ¥200 mil)

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# Forecasts for Fiscal 2012

No change to previously announced full-year forecast on July 30.  
 Aiming for operating income growth of 10% or more,  
 in line with the fundamental policy of the Medium-term Management Plan.

| (Millions of yen)      | FY2011  | FY2012    | YoY Change |               |
|------------------------|---------|-----------|------------|---------------|
|                        | Actual  | Forecasts | Amount     | Percentage(%) |
| Consolidated net sales | 166,657 | 182,000   | 15,342     | 9.2%          |
| Beauty Care            | 154,778 | 170,200   | 15,421     | 10.0%         |
| Real Estate            | 3,089   | 2,900     | -189       | -6.1%         |
| Others                 | 8,790   | 8,900     | 109        | 1.2%          |
| Operating income       | 12,853  | 14,200    | 1,346      | 10.5%         |
| Beauty Care            | 10,787  | 12,500    | 1,712      | 15.9%         |
| Real Estate            | 1,283   | 1,100     | -183       | -14.3%        |
| Others                 | 501     | 300       | -201       | -40.2%        |
| Reconciliations        | 280     | 300       | 19         | 7.1%          |
| Ordinary income        | 13,322  | 14,700    | 1,377      | 10.3%         |
| Net income             | 8,039   | 7,200     | -839       | -10.4%        |



**POLA**

- ◆ Launch of *B.A THE EYE CREAM* in October
- ◆ Open 30 POLA THE BEAUTY stores by year-end and achieve stable growth at existing stores
- ◆ Encourage new customers to become repeat customers



*B.A The Eye Cream*,  
launched in October,  
¥21,000

**ORBIS**

- ◆ Reinforce delivery services  
→ Offer nationwide next-day delivery, same-day delivery in key Kanto and Kansai cities, and pickup services at convenience stores
- ◆ Reinvigorate sales expansion of mainstay skincare products, particularly *EXCELLENT ENRICH*
- ◆ Promote widespread appreciation of brand value based on new brand statement



*EXCELLENT ENRICH*

**Jurlique**

- ◆ Introduce limited edition products and reinforce promotional activities for the Christmas shopping season



*HERBAL COLLECTION KIT*

**h2o+**

- ◆ Strive to recover quickly from setbacks caused by the change in agent  
→ Accelerate rebranding and strengthen relationship with new agent

Generate stable profits with flagship brands and invest funds to implement growth strategy



- ◆ Consolidated net sales ⇒ CAGR\* of 2–3% \* CAGR: Compound annual growth rate
- ◆ Operating income ⇒ CAGR of 10% or higher
- ◆ Operating margin ⇒ 9% (10% in Japan) in 2013

Strategy 1 — Generate stable profits with flagship brands

## POLA

- Increase profits from POLA THE BEAUTY
- Increase market share in luxury skincare cosmetics

## ORBIS

- Implement measures to rebuild the ORBIS brand

Generate stable profits

Strategy 2 — Accelerate growth of the portfolio of brands under development



Strategy 3 — Develop the Group's presence overseas by capitalizing on the Group's strengths

- POLA**
  - Develop door-to-door sales channels in China
  - Consulting-based sales in Russia and neighboring countries

- ORBIS**
  - Mail-order sales business in China

- Jurlique**
  - Accelerate growth and improve profitability in Asia

- h2o+**
  - Swiftly achieve synergistic effects

Strategy 4 — Reinforce R&D capabilities

- Reinforce skincare ingredient development capabilities

Strategy 5 — Reinforce the operating base

1. Enhance brand recognition (unaided recall)

2. Concentration on core competence

3. Business process management

4. Step up personnel training

## Corporate Philosophy

“Inspire all people and touch their hearts”

## Management Indicators

Net sales: ¥250.0 billion or more  
Overseas sales ratio: 20% or more  
Operating margin: Top level in the industry (13–15%)

Scale

