First Quarter of Fiscal 2018
Supplementary Material

POLA ORBIS HOLDINGS INC.
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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.

POLA ORBIS HOLDINGS

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2018
4. Initiatives Going Forward & Appendices

Q1 Key Topics

Cosmetics Market

- Japanese cosmetics market overall showed steady growth. However, pure domestic market, excluding inbound demand seemed to be flat year-on-year.*
- By price range, high prestige remained steady.
- As for inbound market, the market overall continued to grow backed up by the increasing number of tourists visiting Japan, but the growth rate of the average spending price has slowed down slightly.

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

Our Group

- The Group achieved increases in sales and operating income on a consolidated basis, driven by POLA and brands under development.
- For POLA, thanks to the customer base expanded during last year, the brand achieved increases in sales and operating income year-on-year, in spite of the high performance recorded in the first quarter of last year.
- ORBIS is currently implementing structural reforms; sales ratio of mainstay skincare series improved but the sales decreased due to the decreased number of customers.
- Jurlique maintained its performance flat year-on-year due to strengthened investments for branding.
  Sales dropped at H2O PLUS as a result of selection and integration of sales channels.
- THREE and DECENCIA from brands under development maintained their momentum.

Updates on Inbound Sales (Consolidated)

- FY2016 (full-year) : Approximately 6% of consolidated net sales
  ↓
- FY2017 (full-year) : Approximately 7% of consolidated net sales
  ↓
- FY2018 Q1 : Approximately 7% of consolidated net sales

Analysis of Consolidated P&L Changes
Net Sales to Operating Income

(mil. yen)	FY2017 Q1 Results	FY2018 Q1 Results	YoY Change Amount	YoY Change %
Consolidated net sales	56,074	59,526	3,452	6.2%
Cost of sales	9,320	9,445	124	1.3%
Gross profit	46,753	50,081	3,327	7.1%
SG&A* expenses	37,626	40,137	2,511	6.7%
Operating income	9,127	9,943	816	8.9%

*Selling, General and Administrative Expenses

Key Factors

- **Consol. net sales** — Sales were very strong driven by POLA, especially from existing customers which the brand successfully expanded its customer base during last year.
  On the other hand at ORBIS, sales did not recover but the sales from new customers increased year-on-year thanks to the promotion centered on ORBIS=U.
- **Cost of sales** — Cost of sales ratio was improved owing to increase in sales compound ratio of high-prestige products under POLA brand.
  Cost of sale ratio 2017Q1 : 16.62% ⇒ 2018Q1: 15.87%
- **SG&A expenses**
  Labor expenses : up ¥282 mil. YoY
  Sales commissions : up ¥1,066 mil. YoY
  -> resulted from increase in sales at POLA. Commission ratio within POLA has improved.
  Sales related expenses : up ¥611 mil. YoY
  -> resulted from costs for customer structure reforms at ORBIS.
  Administrative expenses : up ¥551 mil. YoY
  -> resulted from costs for launching new brands.
- **Operating income** — Beauty care : up ¥879 mil. YoY

Analysis of Consolidated P&L Changes
Operating Income to Profit Attributable to Owners of Parent

(mil. yen)	FY2017 Q1 Results	FY2018 Q1 Results	YoY Change Amount	YoY Change %
Operating income	9,127	9,943	816	8.9%
Non-operating income	107	155	48	44.5%
Non-operating expenses	279	638	359	128.4%
Ordinary income	8,955	9,460	505	5.6%
Extraordinary income	7	26	19	252.2%
Extraordinary loss	128	19	(108)	(84.5%)
Profit before income taxes	8,834	9,467	633	7.2%
Income taxes	3,056	3,063	6	0.2%
Profit attributable to non-controlling interests	0	(2)	(2)	-
Profit attributable to owners of parent	5,777	6,406	628	10.9%

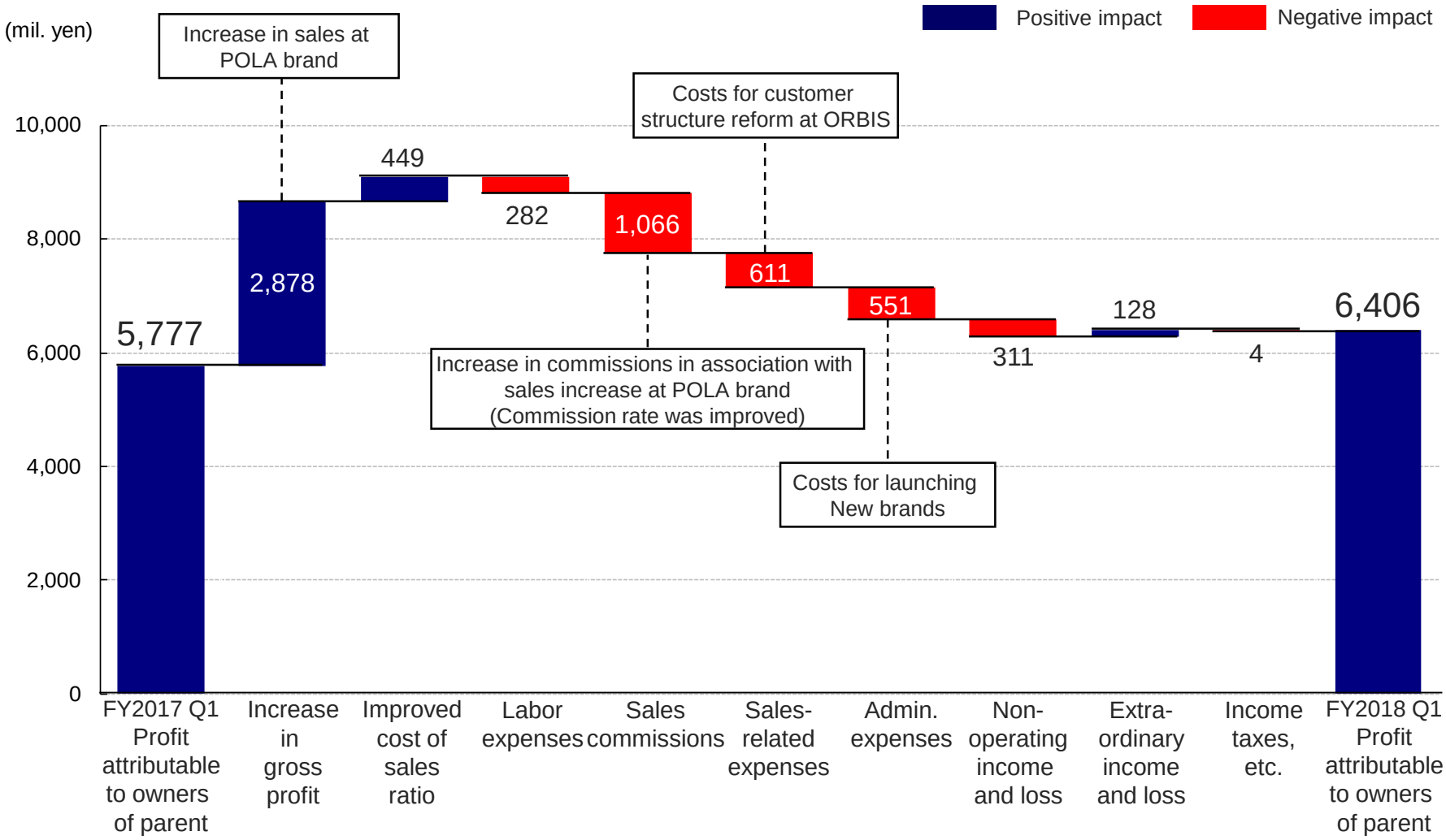
Key Factors

■ Non-operating expenses : Loss from unfavorable foreign exchanges ¥600 mil.

■ Income taxes : Lowered effective tax rate as a result of reduction of losses in overseas business (Effective tax rate = 32.4%)

Factors Impacting Profit Attributable to Owners of Parent

Profit attributable to owners of parent was up 10.9% yoy
due to increase in gross margin and improvement in profit structure



POLA ORBIS HOLDINGS

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Segment Results

(mil yen)	FY2017 Q1 Results	FY2018 Q1 Results	YoY Change Amount	YoY Change %
Consolidated net sales	56,074	59,526	3,452	6.2%
Beauty care	52,345	55,821	3,476	6.6%
Real estate	675	676	1	0.2%
Others	3,053	3,028	(25)	(0.8%)
Operating income	9,127	9,943	816	8.9%
Beauty care	8,790	9,670	879	10.0%
Real estate	334	312	(21)	(6.5%)
Others	(10)	74	85	-
Reconciliations	13	(113)	(126)	-

Segment Results Summary

- Beauty care: Sales grew driven by POLA.
  Operating income rose 10% thanks to sales increase at POLA and COGS improvement.
- Real estate: Occupancy rate has been maintained at a high level. However, temporary maintenance expenses were incurred.
- Others: At pharmaceutical business, sales increased year-on-year by concentrating sales and promotion resources on mainstay products.
  At building maintenance business, sales dropped due to staffing shortages.

Beauty Care Business Results by Brands

(mil. yen)	FY2017 Q1 Results	FY2018 Q1 Results	YoY Change Amount	YoY Change %
Beauty care net sales	52,345	55,821	3,476	6.6%
POLA	33,126	36,164	3,037	9.2%
ORBIS	12,760	12,475	(284)	(2.2%)
Jurlique	2,603	2,599	(3)	(0.1%)
H2O PLUS	635	517	(118)	(18.6%)
Brands under development	3,220	4,065	844	26.2%
Beauty care operating income	8,790	9,670	879	10.0%
POLA	6,794	7,693	899	13.2%
ORBIS	2,626	2,466	(160)	(6.1%)
Jurlique	(695)	(775)	(79)	-
H2O PLUS	(180)	(157)	22	-
Brands under development	245	443	197	80.6%

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

Brand Analysis (1)

Q1 Result

- The number of existing customer grew.
- New whitening products are strong.
- Entered into Korean duty-free store market.(January)
- Inbound ratio was approximately 11%.

Topics

- Renewed “White Shot”, the whitening series.

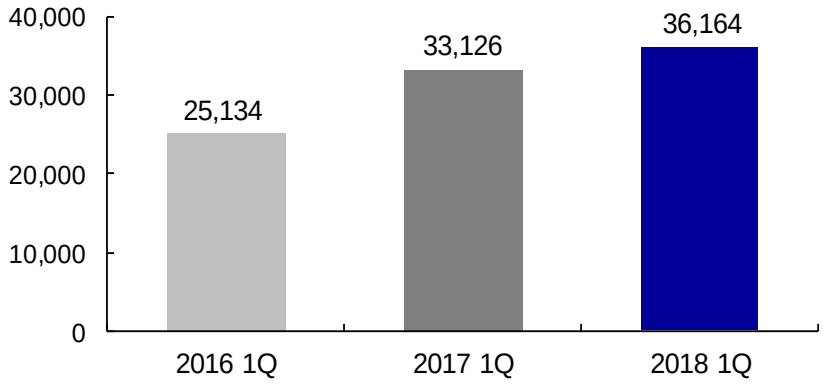
“MAQUIA Whitening & UV Grand-Prix”
- Best of best whitening awards (left two)
- Whitening inner care awards #1 (right)



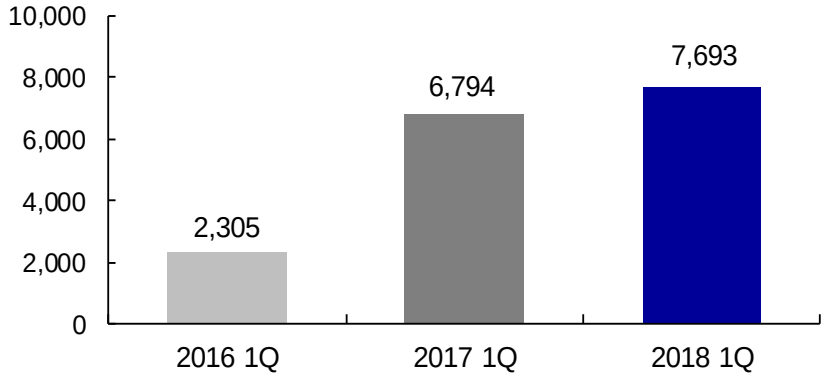
Q1		Results (mil. yen)	YoY Change
Net sales		36,164	9.2%
Operating income		7,693	13.2%
Key indicators			
Number of sales offices (vs. Dec. 2017)			4,135 (down 15)
Number of PB(1) (vs. Dec. 2017)			658 (up 2)
Cosmetics sales ratio	PB(1)		39.6%
	Esthe-inn		47.6%
	D2D(2) and other		12.8%
Sales growth*	PB		up 4.9%
	PB (like-for-like)		up 4.8%
	Esthe-inn		up 5.9%
	D2D		up 1.5%
Purchase per customer*			down 4.6%
Number of new customers*			down 12.2%
Growth rate of overseas sales			up 156.6%

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

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (2)

Q1 Result

- Developed promotions centered on “ORBIS=U”.
- Purchase price per customer recovered at the same level as the first quarter of last year. However, the number of customers decreased.
- Focused on acquisition of customers with potential of high lifetime value in ORBIS. Its result started to appear in a leading indicator.

(# of customers purchased mainstay skincare product series)

Q1		Results (mil. yen)	YoY change
Net sales		12,475	(2.2%)
Operating income		2,466	(6.1%)
Key indicators			
Sales ratio	Online		47.2%
	Other mail-order		24.5%
	Stores and overseas		28.3%
Sales increase*	Online		up 1.0%
	Other mail-order		down 12.0%
	Stores and overseas		up 0.8%
Mail-order(1) purchase per customer*			up 0.3%
Number of mail-order(1) customers*			down 4.1%
Number of customers purchased mainstay skincare product series*(2)			up 11.2%

* YoY basis

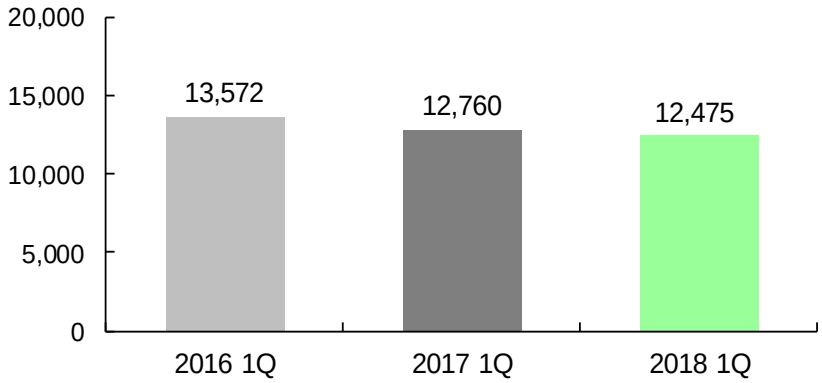
(1) Mail-order includes online and other mail-order
(2) For last 6 months period

Topics

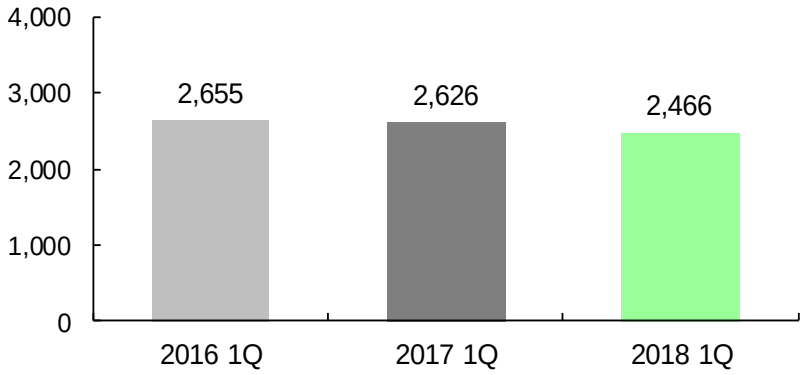
- Initiatives for unified design across the brand



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (3)

Q1 Result

- Sales increased by 1% yoy (on AUD basis).
- By region, sales grew at China, Hong Kong and duty-free markets.
- Operating income dropped due to strengthened investments in branding.

Q1		Results (mil. yen)	YoY change(1)
Net sales		2,599	(0.1%)
Operating income (before goodwill amortization)		(760)	(79)
Operating income		(775)	(79)
Key indicators			
Number of doors in China (vs. Dec. 2017)			104 (down 6)
Sales ratio	China		19%
	Hong Kong		14%
	Duty free		17%
	Australia		26%
Sales growth(2)	China		up 0%
	Hong Kong		up 4%
	Duty free		up 13%
	Australia		down 13%

(1) For operating income YoY difference is shown in amount (mil. yen).
(2) AUD basis, YoY

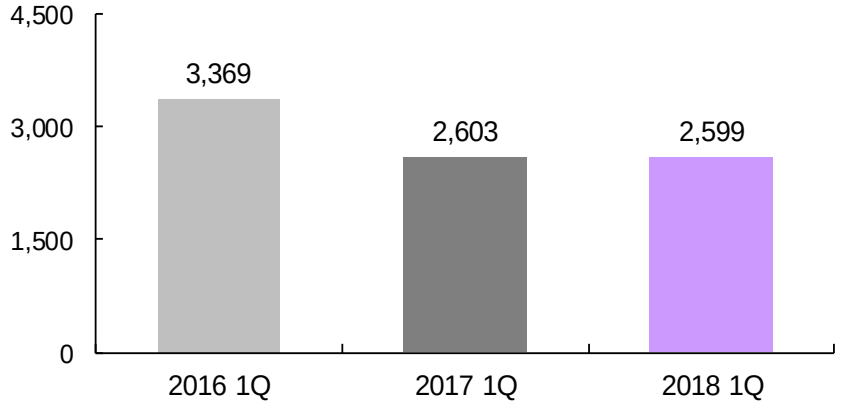
Topics

- Reinforce brand communication as a premium natural skincare brand

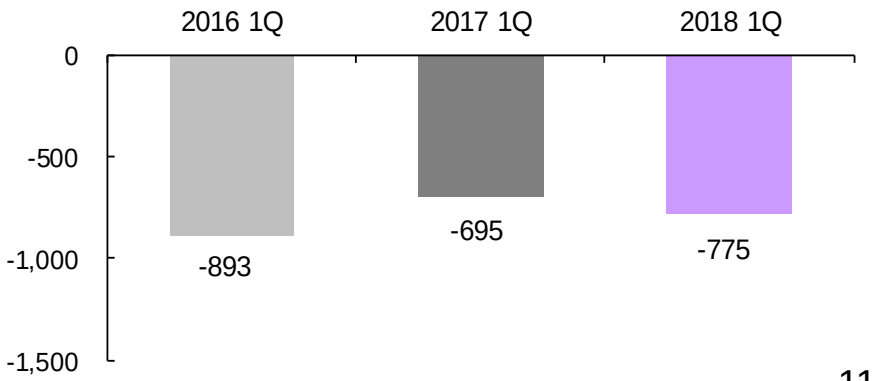




Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (4)

Q1 Result

- Sales were down year-on-year in North America due to reduction in sales channels.
- Strengthened communication with existing retailers and implement marketing strategies focused on hero products development. (OASIS series)

Q1		Results (mil. yen)	YoY change(1)
Net sales		517	(18.6%)
Operating income		(157)	22
Key indicators			
Sales ratio	North America		88%
	Others		12%
Sales growth(2)	North America		down 9%
	Others		down 42%

(1) For operating income YoY difference is shown in amount (mil. yen)
(2) USD basis, YoY

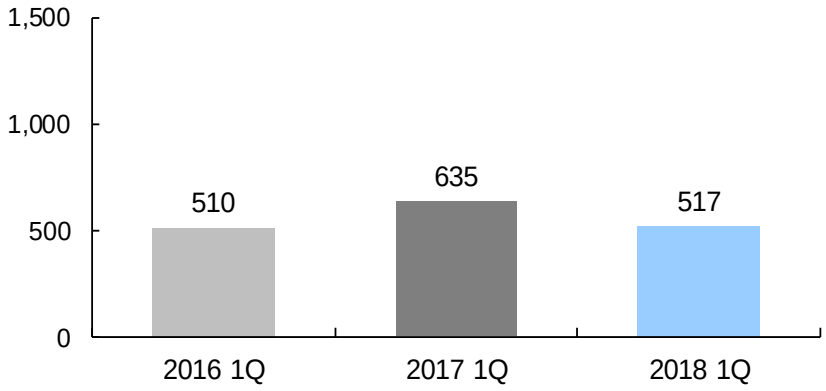
Topics

- Implemented management changes and kicked-off for brand revitalization

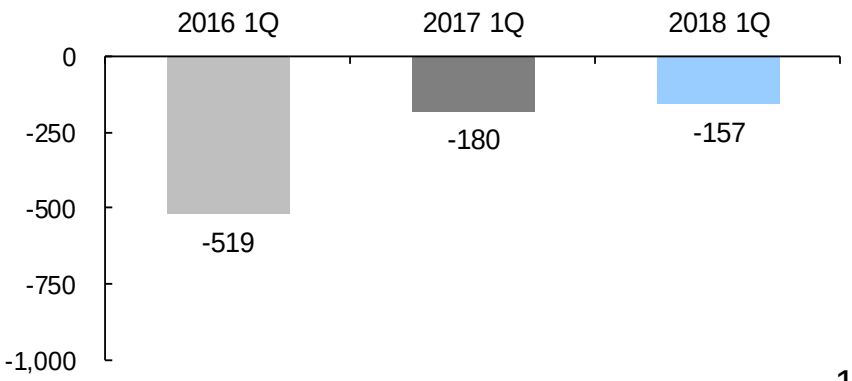


OASIS series

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (5) Brands Under Development

Q1 Result

- At THREE, sales especially from existing customers were strong. Holistic care products contributed to the sales.
- Costs for launching new brands amounted to approximately ¥150 mil.
- Whitening product series was revamped at DECENCIA, which showed 20% of sales growth.

Q1	Results (mil. yen)	YoY change
Net sales	4,065	26.2%
Operating income	443	80.6%
ACRO Net sales	2,313	27.6%
ACRO OP income	175	(25.6%)
(THREE Net sales)	2,313	27.6%
(THREE OP income)	321	36.3%

Key indicators		
THREE	Dept. store counters in Japan	38
	Other stores in Japan	65
	Overseas stores (in 7 countries & regions)	37
	Overseas sales ratio	20%

■ Brand Portfolio of Brands Under Development

Company	ACRO INC.	DECENCIA INC.
Brand	THREE + New Brands	DECENCIA

Note: Apart from the portfolio above, Brands Under Development includes OEM business.

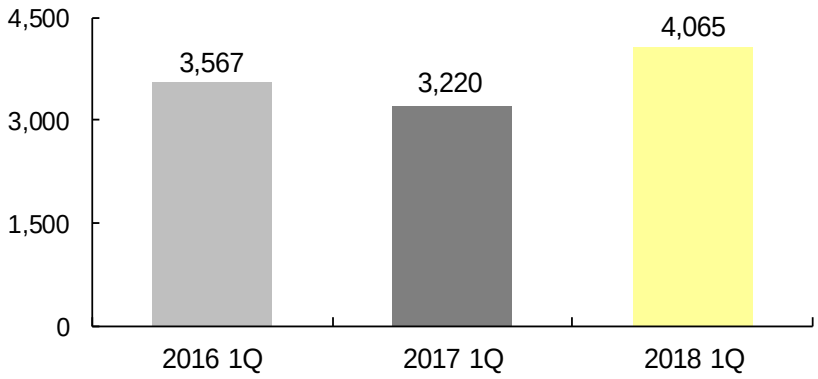
Topics

- New products from THREE and DECENCIA

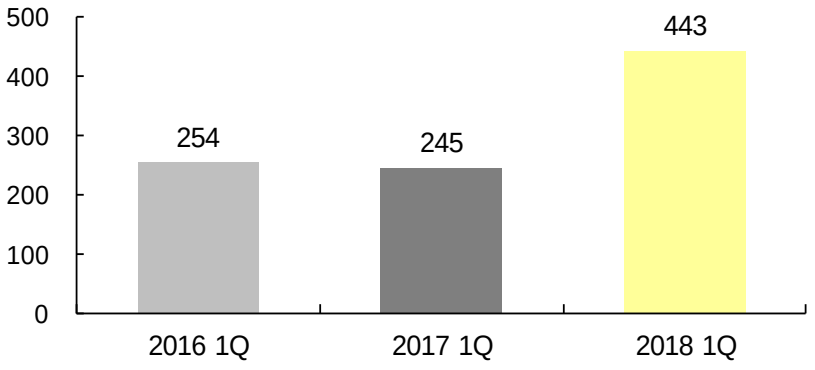
From left:
THREE new base makeup
THREE “THREE” series
DECENCIA “saeru” series



Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



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Forecasts for FY2018 (No Change)

(mil. yen)	FY2018 H1 Plan	YoY Change Amount	YoY Change %	FY2018 Full-year Plan	YoY Change Amount	YoY Change %
Consol. net sales	121,000	3,621	3.1%	253,000	8,664	3.5%
Beauty care	112,900	3,596	3.3%	235,800	8,666	3.8%
Real estate	1,300	(48)	(3.6%)	2,600	(94)	(3.5%)
Others	6,800	73	1.1%	14,600	92	0.6%
OP income	19,600	(1,344)	(6.4%)	41,500	2,618	6.7%
Beauty care	19,200	(895)	(4.5%)	40,700	2,578	6.8%
Real estate	500	(92)	(15.7%)	900	(182)	(16.9%)
Others	150	(15)	(9.2%)	300	614	–
Reconciliations	(250)	(341)	–	(400)	(391)	–
Ordinary income	19,600	(1,344)	(6.4%)	41,500	2,249	5.7%
Net income attributable to owners of parent	13,000	(955)	(6.8%)	28,000	862	3.2%

【Assumptions behind the plan】
- Inbound sales : approximately ¥17,500 mil. (almost same level as last year)
- Sales of Wrinkle Shot Serum : ¥10,000 mil.

【Assumed exchange rates】
1.00 AUD = 88 JPY(PY 86.00)
1.00 USD = 110JPY (PY112.18)
1.00 CNY = 17 JPY(PY 16.62)

	FY2017	FY2018 (plan)
Shareholder returns	Annual ¥70 Consol. payout ratio 57.1%	Annual ¥80 (Interim ¥35, Year-end ¥45) Consol. payout ratio 63.2%
Capital investment	¥8,885 million	¥8,000 ~ 9,000 million
Depreciation	¥6,551 million	¥7,000 ~ 8,000 million

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Initiatives for 2018 onward

■ Sustain stable growth of flagship brands to lead Group earnings

POLA

- Launch Wrinkle Shot overseas (see next page for details)
- Introduce seasonal promotions for new whitening products and cross-sells through Wrinkle Shot
- Accelerate overseas store openings
  (Open four new stores in Beijing, Shanghai and Hong Kong by April)

ORBIS

- Reinforce communication through “ORBIS=U”
  Concentrate resources on targeted customer acquisition





POLA
(left) WHITISSIMO UV Block Shield White Plus
(right) Wrinkle Shot Season Special Kit

■ Bring overseas operations solidly into the black overall

Jurlique

- Constantly launch new products
- Develop unified branding at every customer touchpoint

H2O+ BEAUTY

- Focus on main products and main retailers in view of investment efficiency



Jurlique
New Cleansing Line

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

THREE

- May - Summer makeup collection
  June - New scalp & hair care series

DECENCIA

- Focus on acquisition and retention of new customers
  Sustain strong sales among existing customers



THREE (left) Shimmering Lip Jam
(right) ORDERANGE Shampoo & Conditioner

Overseas Expansion of POLA Wrinkle Shot Serum



Overseas launch in 2018; starting from June 15 (Hong Kong and Taiwan)

■ Being backed up by post-marketing surveillance in Japan since the launch

There are no serious problems at the moment

Set out to overseas launches
(in Hong Kong and Taiwan, at channels with face-to-face consultation)

2017

Post-marketing surveillance period

- ✓ Launched in January
- ✓ Recorded ¥13.0 bil. annual sales

2018

- ✓ Price revision in January
- ✓ Recorded ¥3.4 bil. in 1Q (¥10 bil. annual target)
- ✓ Overseas launch starting from June

2019 onwards (plan)

- ✓ Introduce to duty-free stores in multiple countries
- ✓ Timeline for launch in China, where the brand set as its primary region, depends on the approval process of the application
- ✓ For the Chinese market, cross-border e-commerce is planned

Japan
PB, Department stores (through consultation)

Overseas
Department stores, etc. (through consultation)

Overseas
- ■ Department stores, etc.
- ■ Duty-fee stores
- ■ Cross-border e-commerce
- ■ E-commerce

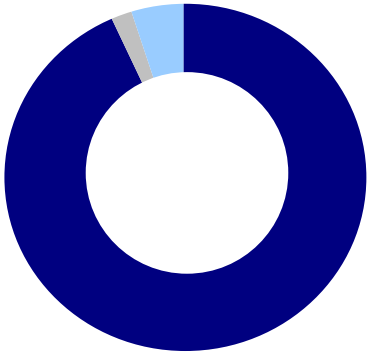
Japan
- ■ PB, department stores, etc.
- ■ E-commerce

◆ Sales impact of this on the performance of fiscal 2018 is minor as there are few stores carrying the brand; however, positive effect can be expected after the full-fledged expansion in 2019.

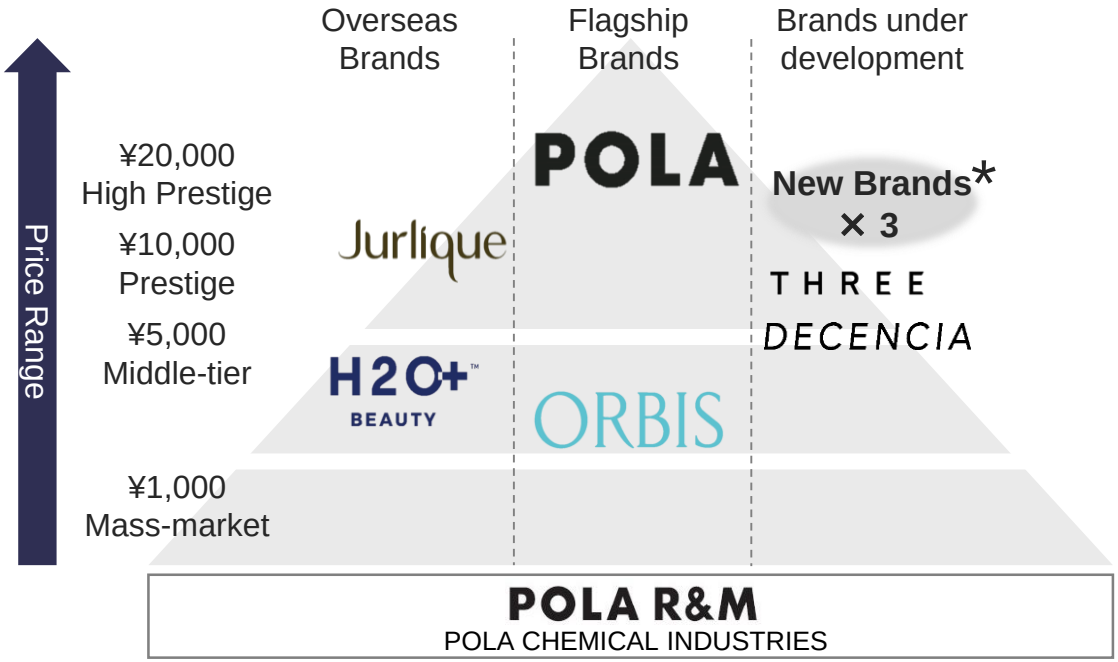
(Appendix) About POLA ORBIS Group

Beauty care is the core business of the Group, and 6 different cosmetics brands are operated under the Group umbrella

FY2017
Consol. Net Sales
¥244.3 bil.



- Beauty care business 93%
- Real estate business 1%
- Other businesses 6% (dermatological drugs and building maintenance business)



* to be launched in this autumn

Our strengths

- Multi-brand strategy
- Focus on skincare products
- Flagship brands, POLA and ORBIS own and operate through their own unique sales channels

→

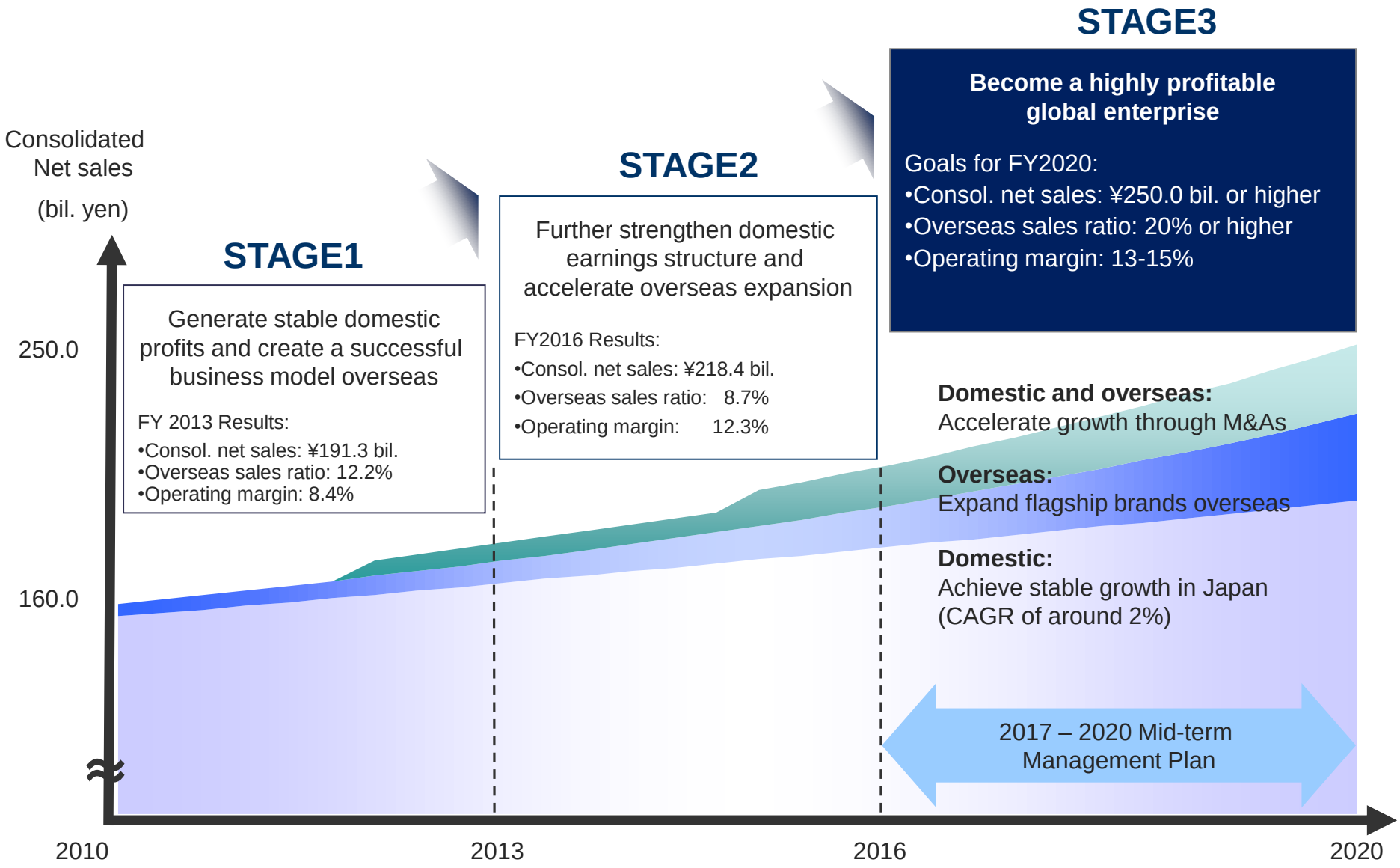
- Meeting diversified needs of customers
- High customer repeat ratio
- Strong relationships with customers

(Appendix) Beauty Care Business Brand Portfolio

	Sales ratio*	Brand	Concept and products	Price	Sales channel
Flagship brands	63%	POLA Since 1929	■ High-prestige skincare ■ Leading-edge technology in anti-aging and skin-whitening fields	Approx. ¥10,000 or higher	■ Consignment sales through Beauty Directors: POLA THE BEAUTY (PB), Esthe-inn and conventional door-to-door ■ Department store counters ■ Overseas
	23%	ORBIS Since 1984	■ Anti-aging brand to draw out the people's intrinsic beauty	¥1,000~ ¥3,000	■ Mail-order (online and catalog) ■ Retail stores ■ Overseas
Overseas Brands	6%	Jurlique Acquired in 2012	■ Prestige organic skincare brand from Australia	Approx. ¥5,000 or higher	■ Specialty stores, department store counters and directly-operated stores, ■ Duty free stores
	1%	H2O+ BEAUTY Acquired in 2011	■ Skincare with concept of innovation and power of pure water	Approx. ¥4,000 not sold in Japan	■ US: Specialty stores and online
Brands under develop -ment	7%	THREE Since 2009	■ Skincare made with natural ingredients from Japan and fashion-forward make-up	Approx. ¥5,000 or higher	■ Department store counters and specialty stores ■ Directly-operated stores and online ■ Overseas
		DECENCIA Since 2007	■ Skincare for sensitive skin	¥2,000～ ¥5,000	■ Online

*Sales ratio in the beauty care business as of FY2017

(Appendix) Long-term Vision



(Appendix) 2017 – 2020 Medium-term Management Plan

The final stage of the long-term vision for 2020.
Aim to improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth.

Consolidated net sales

- Consol. net sales: CAGR 3 to 4%
  (¥250.0 bil. in FY2020)

Operating income

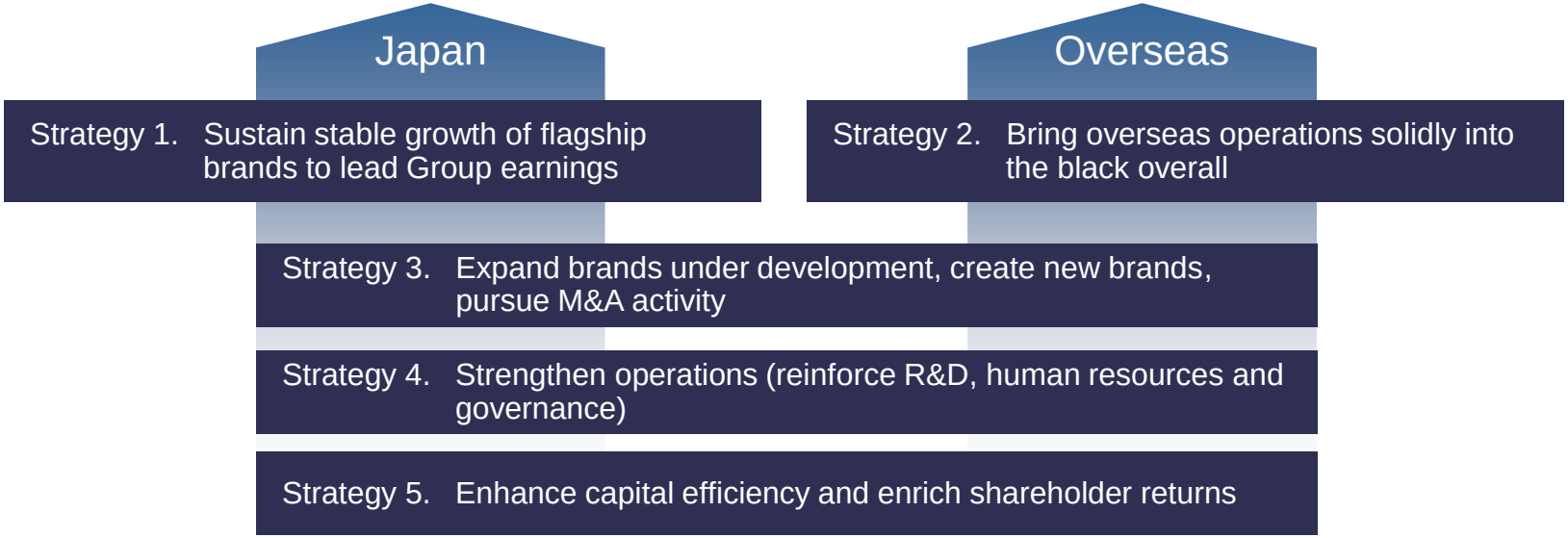
- Operating income: CAGR 10% or higher
- Operating margin: 15% or higher in FY2020

Capital efficiency

- Target for ROE: 12% in FY2020

Shareholder returns

- Consolidated payout ratio: 60% or higher from FY2017



(Appendix) Beauty Care Business Results for FY2015 – FY2017 by Brands

(mil. yen)	FY2015 Results	FY2016 Results	FY2017 Results	2016 vs 2017 YoY Change Amount	%
Consolidated net sales	214,788	218,482	244,335	25,853	11.8%
Beauty care net sales	200,570	202,446	227,133	24,686	12.2%
POLA	109,352	116,126	144,012	27,886	24.0%
ORBIS	56,354	55,857	53,066	(2,790)	(5.0%)
Jurlique	18,390	13,118	12,772	(346)	(2.6%)
H2O PLUS	3,944	2,547	2,303	(243)	(9.6%)
Brands under development	12,529	14,796	14,978	181	1.2%
Consol. operating income	22,511	26,839	38,881	12,041	44.9%
Beauty care operating income	21,290	25,904	38,121	12,216	47.2%
POLA	12,302	16,993	28,584	11,591	68.2%
ORBIS	11,197	11,279	9,080	(2,199)	(19.5%)
Jurlique	(379)	(1,183)	(505)	677	-
H2O PLUS	(1,814)	(2,027)	(317)	1,709	-
Brands under development	(15)	841	1,278	437	51.9%

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