

# First Quarter of Fiscal 2019 Supplementary Material

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**POLA ORBIS HOLDINGS INC.**

Director and Vice President

Management Planning, IT, HR and

Group International Business

**Naoki Kume**

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2019
4. Initiatives Going Forward & Appendices

## Cosmetics Market

- The Japanese cosmetics market including exports showed steady growth.
- As for the inbound market, the number of tourists visiting Japan has been growing. However, the demands from inbound customers and buyers decelerated tentatively due to the enactment of the e-commerce law in China.
- Excluding inbound demand, it is assumed that the size of the Japanese domestic market is shrinking.

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

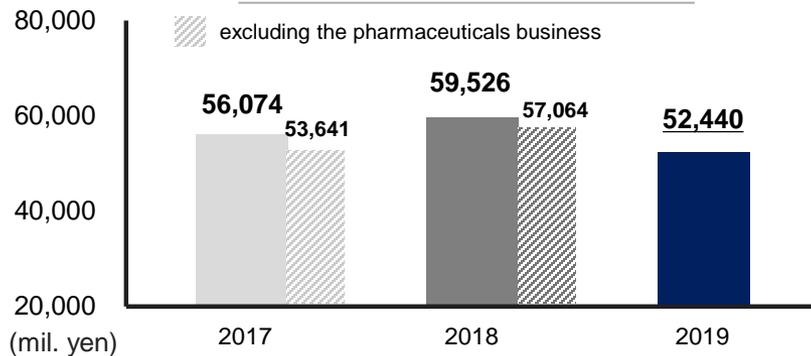
## Our Group

- Consolidated sales and operating income decreased owing to POLA, even when the effect of the transfer of the pharmaceuticals business is excluded.
- POLA experienced a slowdown in the domestic business due to the e-commerce law in China while overseas sales grew just as planned.
- Business structure has been improved for ORBIS thanks to favorable sales of “ORBIS U” and “DEFENCERA”.
- Jurlique embarked on channel optimization and organizational review.
- As for brands under development, THREE continued to expand both in Japan and overseas and new brands increased the number of stores.

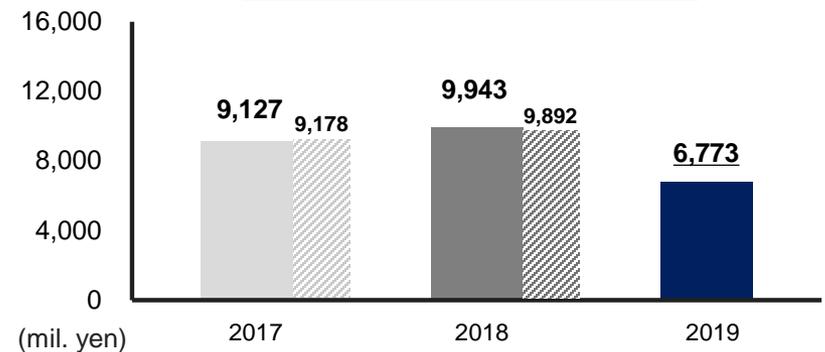
(Reference) Ratio of Inbound Sales to Consolidated Net Sales

FY2017 (Full year)	Approx. 7%
FY2018 (Full year)	Approx. 7%
FY2019 Q1	Approx. 7%

Quarterly Consolidated Sales



Quarterly Operating Income



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

(mil. yen)	FY2018	FY2019	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	59,526	52,440	(7,085)	(11.9%)
Cost of sales	9,445	8,011	(1,434)	(15.2%)
Gross profit	50,081	44,429	(5,651)	(11.3%)
SG&A* expenses	40,137	37,655	(2,481)	(6.2%)
Operating income	9,943	6,773	(3,169)	(31.9%)

Note: YoY change in consolidated net sales and OP income excluding the pharmaceuticals business were down 8.1% and down 31.5% respectively.

\*Selling, General and Administrative Expenses

## Key Factors

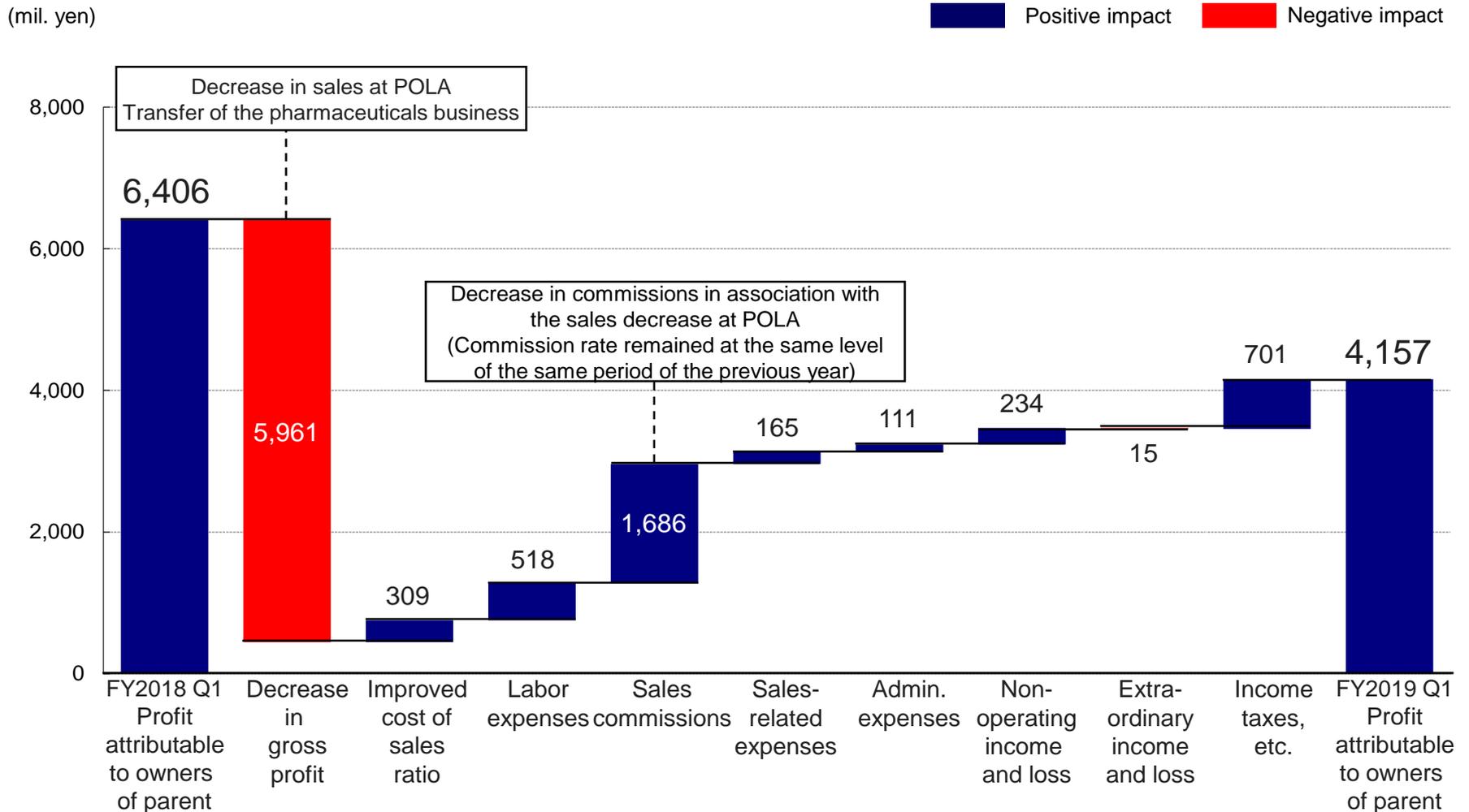
- Consol. net sales** Sales declined year on year mainly due to POLA which experienced a change in activities of inbound customers and buyers as a result of the enactment of the e-commerce law in China, in addition to the impact of the transfer of the pharmaceuticals business which had recorded ¥2,461 million in Q1 2018.
- Cost of sales** The cost of sales ratio improved because of the transfer of the pharmaceuticals business on a consolidated basis. By each brand, it remained at the same level yoy.  
 Cost of sales ratio 2018Q1: 15.9% ⇒ 2019Q1: 15.3%
- SG&A expenses**
  - Labor expenses : down ¥518 mil. YoY  
-> resulted from the transfer of the pharmaceuticals business.
  - Sales commissions : down ¥1,686 mil. YoY  
-> resulted from a sales decline at POLA.
  - Sales related expenses : down ¥165 mil. YoY  
-> an increase in advertising expenses at ORBIS partially offset decreases in expenses.
  - Administrative expenses : down ¥111 mil. YoY  
-> resulted from the transfer of the pharmaceuticals business.
- Operating income** Operating margin FY2018Q1: 16.7% ⇒ FY2019Q1: 12.9%

(mil. yen)	FY2018	FY2019	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Operating income	9,943	6,773	(3,169)	(31.9%)
Non-operating income	155	182	26	16.9%
Non-operating expenses	638	430	(208)	(32.6%)
Ordinary income	9,460	6,525	(2,935)	(31.0%)
Extraordinary income	26	0	(26)	(99.9%)
Extraordinary losses	19	8	(11)	(56.4%)
Profit before income taxes	9,467	6,516	(2,951)	(31.2%)
Income taxes	3,063	2,362	(701)	(22.9%)
Profit attributable to non-controlling interests	(2)	(2)	0	-
Profit attributable to owners of parent	6,406	4,157	(2,249)	(35.1%)

### Key Factors

- Non-operating income : Gain from favorable foreign exchange rates ¥66 mil.
- Income taxes : Effective tax rate 36.2%

Profit attributable to owners of parent was down 35.1% year on year due to a decrease in gross profit as a result of sales decrease



1. Highlights of Consolidated Performance
2. **Segment Analysis**
3. Forecasts for Fiscal 2019
4. Initiatives Going Forward & Appendices

(mil yen)	FY2018	FY2019	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Consolidated net sales	59,526	52,440	(7,085)	(11.9%)
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%)
Operating income	9,943	6,773	(3,169)	(31.9%)
Beauty care	9,670	6,449	(3,221)	(33.3%)
Real estate	312	304	(7)	(2.5%)
Others	74	35	(38)	(52.3%)
Reconciliations	(113)	(15)	98	-

## Segment Results Summary

- Beauty care**      Sales fell below the same period of last year; although sales increased at brands under development, the impact of POLA's sales decline was significant. Operating income decreased mainly due to a decrease in gross profit while operating loss at Jurlique has been improved.
- Real estate**      Occupancy rate has been maintained at a high level.
- Others**            Sales and operating income declined compared to the same period of last year due to the transfer of the pharmaceuticals business.

## Beauty Care Business Results by Brands

(mil. yen)	FY2018	FY2019	YoY Change	
	Q1 Results	Q1 Results	Amount	%
Beauty care net sales	55,821	51,165	(4,656)	(8.3%)
POLA	36,164	32,021	(4,142)	(11.5%)
ORBIS	12,475	12,317	(157)	(1.3%)
Jurlique	2,599	1,866	(733)	(28.2%)
H2O PLUS	517	354	(163)	(31.5%)
Brands under development	4,065	4,604	539	13.3%
Beauty care operating income	9,670	6,449	(3,221)	(33.3%)
POLA	7,693	5,594	(2,098)	(27.3%)
ORBIS	2,466	1,719	(746)	(30.3%)
Jurlique	(775)	(757)	17	-
H2O PLUS	(157)	(223)	(65)	-
Brands under development	443	116	(327)	(73.8%)

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

### Q1 Result

- Sales to inbound customers and buyers decreased. “Inner Lock” was weaker than expected.
- The mainstay “B.A” series sustained sales growth. Overseas business accelerated in China and Hong Kong. (Overseas sales were up 42% YoY)
- The inbound ratio was approx. 10%. (down 1ppt YoY)

Q1	Results (mil. yen)	YoY Change
Net sales	32,021	(11.5%)
Operating income	5,594	(27.3%)
Key indicators		
Sales ratio	Consignment sales	77.2%
	Overseas	7.5%
	Dept. store, B2B <sup>(1)</sup> , EC	15.3%
Sales growth*	Consignment sales	down 17.9%
	Overseas	up 42.3%
	Dept. store, B2B <sup>(1)</sup> , EC	up 12.5%
Consignment sales channel	# of sales offices**	4,165 (down 13)
	# of PB <sup>(2)</sup> **	668 (down 1)
	Purchase per customer*	down 2.9%
	# of customers*	down 12.3%
Number of stores overseas**		53 (up 3)

(1) B2B: Hotel amenity business (2) PB: POLA THE BEAUTY stores

\*YoY, \*\* vs Dec. 2018

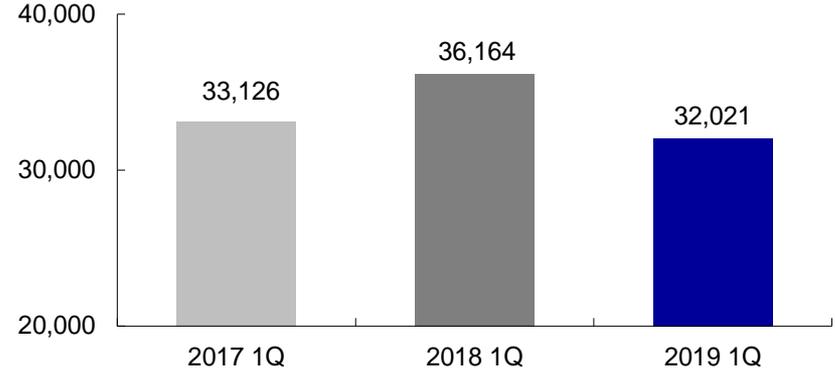
### Topics

- Constantly introduce new and limited products

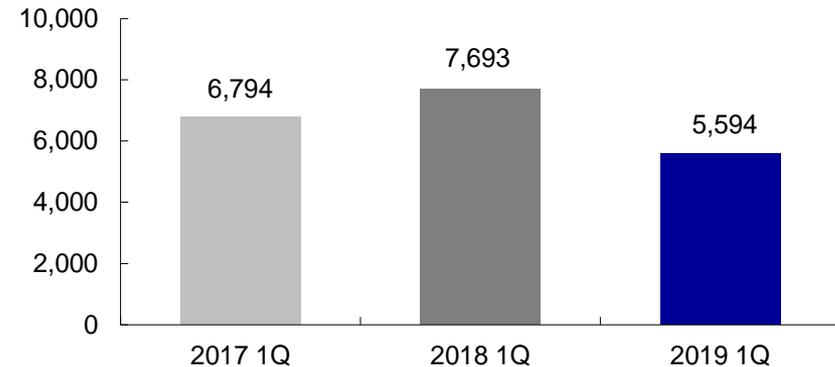
Left : Wrinkle Shot Serum Large Size  
Right: B.A Tablet and B.A Liquid



### Quarterly net sales (mil. yen)



### Quarterly operating income (mil. yen)



### Q1 Result

- “DEFENCERA” sold better than expected.  
Additional promotional and advertising investments implemented together with “ORBIS U”. (+¥600 mil YoY)
- Refinement of customer targets continues.  
By product category, skincare and innercare were strong.

Q1	Results (mil. yen)	YoY Change
Net sales	12,317	(1.3%)
Operating income	1,719	(30.3%)
Key indicators		
Sales ratio	Online	50.6%
	Other mail-order	21.2%
	Stores, overseas, etc.	28.2%
Sales growth*	Online	up 5.8%
	Other mail-order	down 12.0%
	Stores, overseas, etc.	down 4.2%
Mail-order <sup>(1)</sup> purchase per customer*		up 4.8%
Number of mail-order <sup>(1)</sup> customers*		down 4.7%
Number of customers purchasing the ORBIS U series* <sup>(2) (3)</sup>		up 49.7%

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

(2) For the last 6 months period (3) Series consists of ORBIS U, U encore, and U white

\* YoY basis

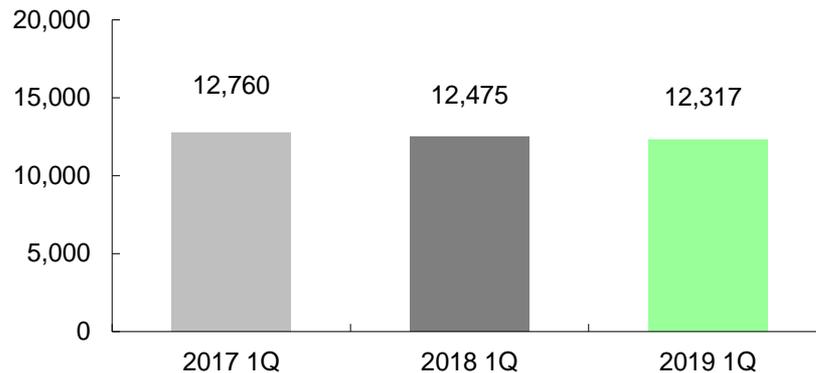
### Topics

- Full-scale launch of “DEFENCERA” in January
  - FOSHU with verified function for skin
  - Available on cross-border EC from late February
  - Supply shortage resolved mid-April

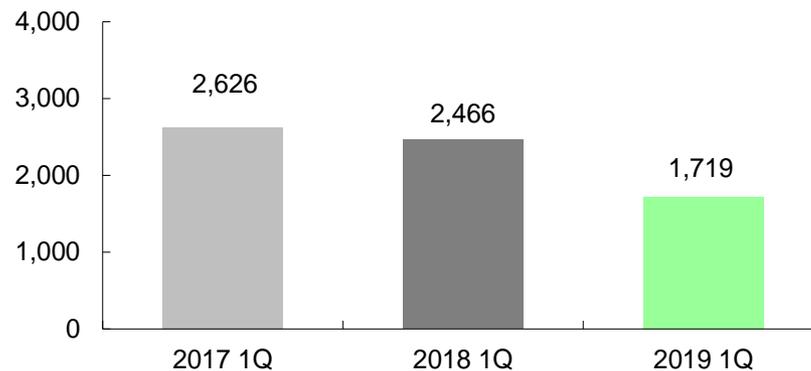


DEFENCERA

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



## Q1 Result

- Jurlique has begun to undertake reforms in order to turn into profitability.  
Carried out withdrawal from unprofitable business and rationalization of headquarters organization.
- H2O withdrew from a retailer as part of the review on the channel strategy.

Q1		Results (mil. yen)	YoY change <sup>(1)</sup>
Jurlique	Net sales	1,866	(28.2%)
	OP income	(757)	17
H2O PLUS	Net sales	354	(31.5%)
	OP income	(223)	(65)

### Key indicators

#### Jurlique

Sales ratio	Australia	29%
	Hong Kong	16%
	Duty free	17%
	China	13%
Sales growth <sup>(2)</sup>	Australia	down 13%
	Hong Kong	down 12%
	Duty free	down 22%
	China	down 48%

(1) For operating income, the YoY difference is shown as an amount (mil. yen)

(2) AUD basis, YoY

## Topics

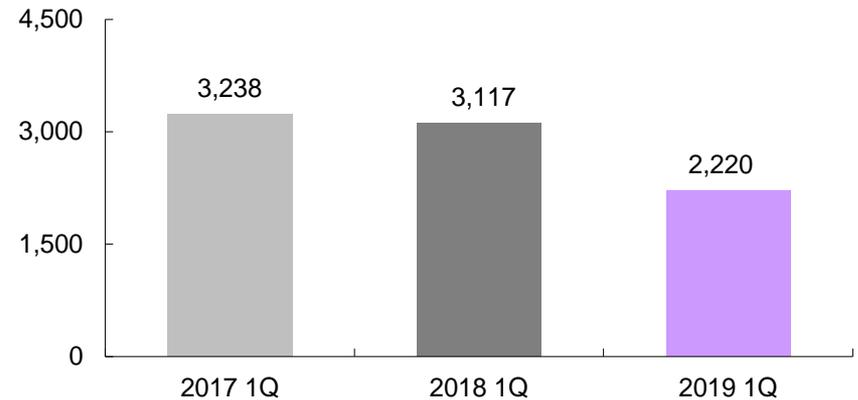
### Jurlique

- Constantly Introduce new products
- Work with POLA CHEMICAL INDUSTRIES INC. to reduce the ratio of cost of goods

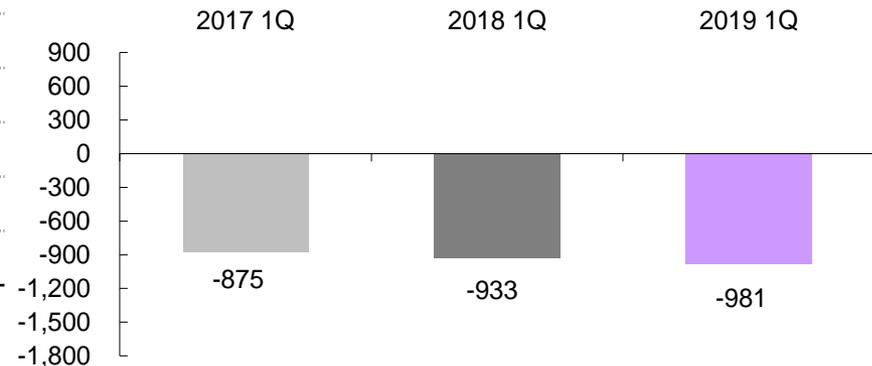


Jurlique  
Rosewater Balancing Mist

### Quarterly net sales (mil. yen)



### Quarterly operating income (mil. yen)



## Q1 Result

- THREE took measures to improve the customer repeat rate in order to strengthen the business structure. Overseas sales continued to be strong mainly at duty free.
- New brands from ACRO expanded customer touchpoints. (15 stores as of March 31<sup>st</sup>)
- DECENCIA struggled with acquisition and retention of new customers.

Q1	Results (mil. yen)	YoY Change
Net sales	4,604	13.3%
Operating income	116	(73.8%)
ACRO Net sales	2,788	20.6%
ACRO OP income	(247)	(423)
(THREE Net sales)	2,611	12.9%
(THREE OP income)	222	(30.9%)

## Key indicators

THREE	# of stores in Japan (vs. Dec. 2018)	112 (up 1)
	# of stores overseas (vs. Dec. 2018) (in 7 countries & regions)	58 (up 3)
	Overseas sales ratio	25%

## Brand Portfolio of Brands Under Development

Company	ACRO INC.	DECENCIA INC.
Brand	THREE ITRIM <i>Amplitude</i> FIVEISM X THREE	DECENCIA

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

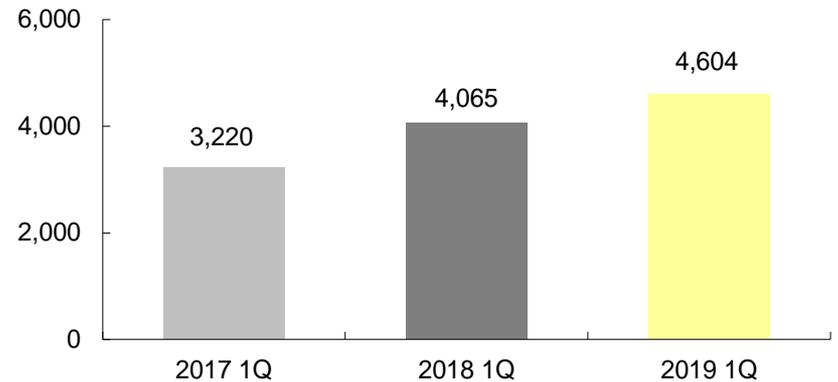
## Topics

- New products from THREE and Amplitude

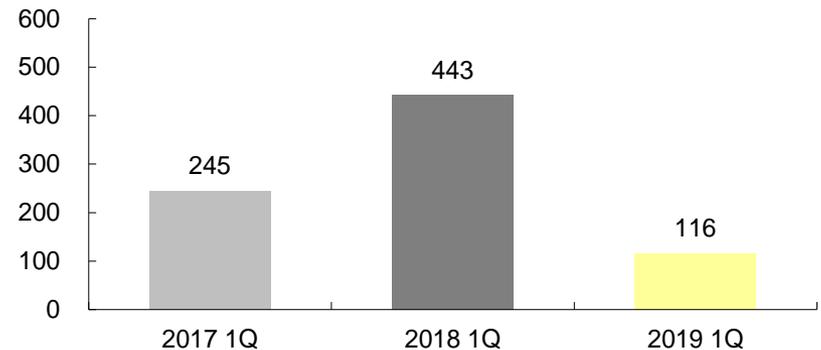
Left : THREE  
New BASE MAKEUP  
Right : Amplitude  
Basic Spring Colors 2019



## Quarterly net sales (mil. yen)



## Quarterly operating income (mil. yen)



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No revision to the forecast after reflecting the impact of new whitening products from POLA

(mil. yen)	FY2019	YoY Change		FY2019	YoY Change	
	H1 Plan	Amount	%	Full-year Plan	Amount	%
Consol. net sales	117,000	(8,262)	(6.6%)	241,000	(7,574)	(3.0%)
Beauty care	114,600	(2,373)	(2.0%)	236,200	4,992	2.2%
Real estate	1,250	(104)	(7.7%)	2,400	(307)	(11.3%)
Others	1,150	(5,784)	(83.4%)	2,400	(12,259)	(83.6%)
OP income	20,800	(2,303)	(10.0%)	40,500	1,003	2.5%
Beauty care	20,800	(1,453)	(6.5%)	40,600	2,305	6.0%
Real estate	450	(114)	(20.2%)	800	(201)	(20.1%)
Others	50	(469)	(90.4%)	100	(696)	(87.4%)
Reconciliations	(500)	(265)	—	(1,000)	(403)	—
Ordinary income	20,800	(1,923)	(8.5%)	40,500	1,545	4.0%
Net income attributable to owners of parent	13,600	(1,721)	(11.2%)	25,500	17,111	204.0%

Assumed exchange rates : 1.00 AUD = 86 JPY(PY 82.59) 1.00 USD = 107 JPY (PY110.43) 1.00 CNY = 16.7 JPY(PY 16.71)

	FY2018	FY2019 (plan)
Shareholder returns	Annual ¥80 Consol. payout ratio 210.9 %	Annual ¥116 (Interim ¥35, Year-end ¥45, Commemorative ¥36) Consol. payout ratio 100.6%
Capital investment	¥10,514 million	¥12,000 - 13,000 million
Depreciation	¥7,075 million	¥7,000 - 8,000 million

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■ Sustain stable growth of flagship brands to lead Group earnings

**POLA**

- Launch new products with the new skin whitening active ingredient from the “White Shot” series in May
  - ✓ ¥6.0 billion sales target for fiscal 2019 (retail-sales basis)
  - ✓ Aim for customer acquisition as well as cross-selling among existing White Shot customers
- Revamp “APEX”, a personalized skincare brand in July
  - ✓ Introduce industry's first skin analysis technology using video analysis
  - ✓ Enable to provide skin check results immediately and shorten the delivery lead time to about 4 days
  - ✓ Offer the best skincare out of 8.62 million patterns
- Expand sales channel for “Wrinkle Shot”
  - ✓ Planning to launch on duty-free and e-commerce in April and June respectively (both in Japan and overseas)



Left : White Shot LX  
Right: White Shot MX



**ORBIS**

- Continue to acquire customers through “ORBIS U” and “DEFENCERA”
- Implement an AI-programmed personal color finder as a new function to ORBIS mobile app (April)
- Expand brand recognition in China by the launch of “DEFENCERA”
- Aim to achieve increases in sales as well as operating income by improving the ratio of online sales and purchase price per customer; promote cross-selling and focus on mainstay products



ORBIS U

■ Bring overseas operations solidly into the black overall

Jurlique

**H2O+**  
BEAUTY

- Work on channel streamlining as well as selection and concentration of costs to reduce losses
- Revitalize storefronts by introducing new products
- Expand brand recognition by utilizing social media and enhance repeat purchases by sample distributions for online customers



Jurlique  
Hand Wash and Hand Lotion

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

**T H R E E**

*Amplitude*  
**FIVEISM**  
x  
**THREE**

**DECENCIA**

- Launch “Summer Makeup Collection” in May
- Promote cross-selling and repeat purchases beyond product category
- Amplitude – Successful store openings going forward
- ITRIM – Fine-tune the brand visual and clarify its offering value
- FIVEISM – Open pop-up stores from April (in Sapporo, Nagoya and Hakata)
- Focus on marketing strategy as a brand for sensitive skin with differentiated products  
Aim for acquisition and retention of customers



THREE  
Summer Makeup Collection



DECENCIA  
ayanasu Cleansing cream  
and Cream wash

## Initiatives to Improve Capital Efficiency

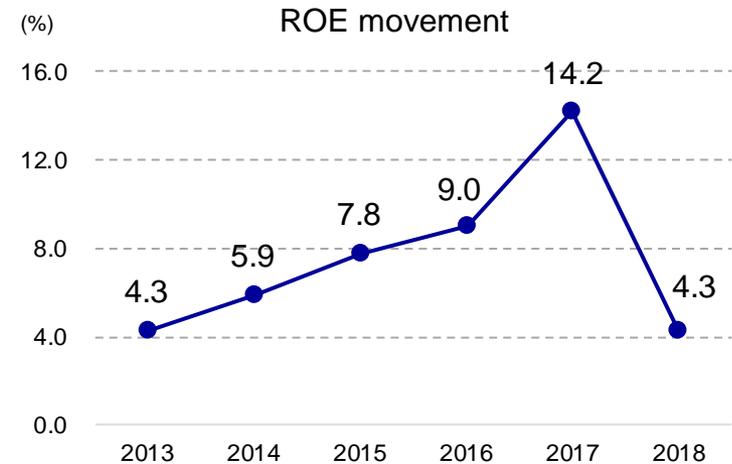
Target for 2020  
**ROE 12%**  
(Return on equity)

**EPS**  
(Earnings per share)

**BPS**  
(Book value per share)

- Operating income CAGR10%
- Achieve net income growth which is higher than operating income growth by decreasing overseas losses
- Improve shareholder return through dividends
- Optimize balance sheet
- Investment for future growth

**Achieved the target for 2020 at the year of 2017**  
**Setting 12% as a way point and aim for global level in the long term**



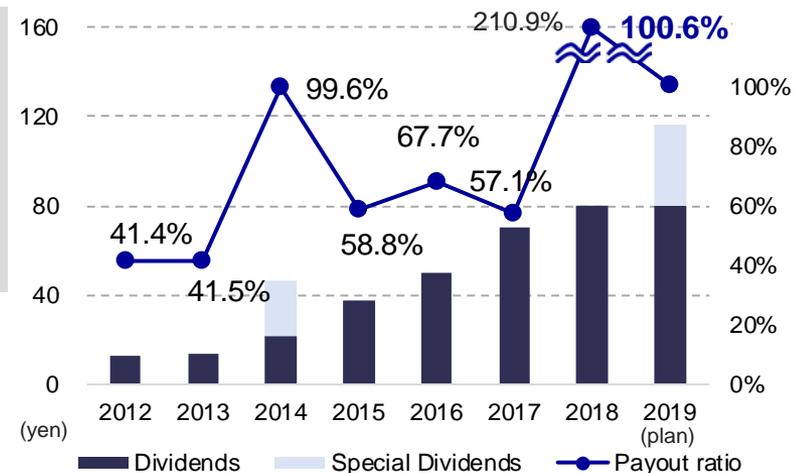
## Improvement of Shareholder Return

### Basic Policy :

- With a policy of consolidated payout ratio of **60% or higher**, enhance shareholder return by realizing stable profit growth
- Purchases of treasury stock shall be considered based on our investment strategies, as well as market prices and liquidity of the Company's shares

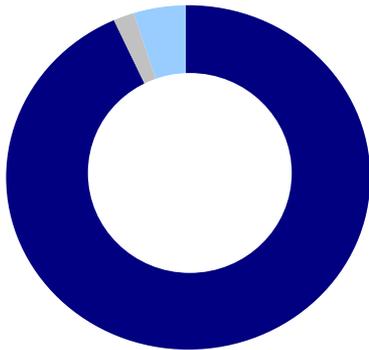
### Dividends forecast for FY2019:

- Dividend per share : **¥116**  
(Interim ¥35, Year-end ¥45, Commemorative ¥36)
- Consol. payout ratio : 100.6%

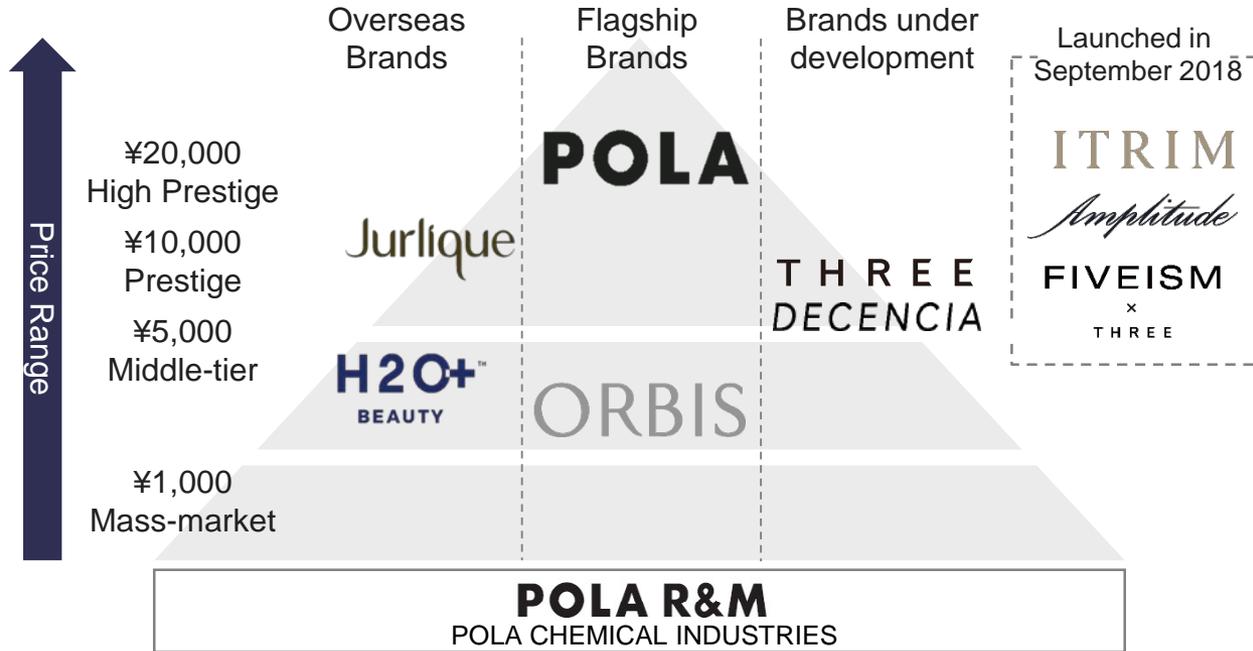


Beauty care is the core business of the Group, and 9 different cosmetics brands are operated under the Group umbrella

FY2018  
Consol. Net Sales  
¥248.5 bil.



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



Our strengths

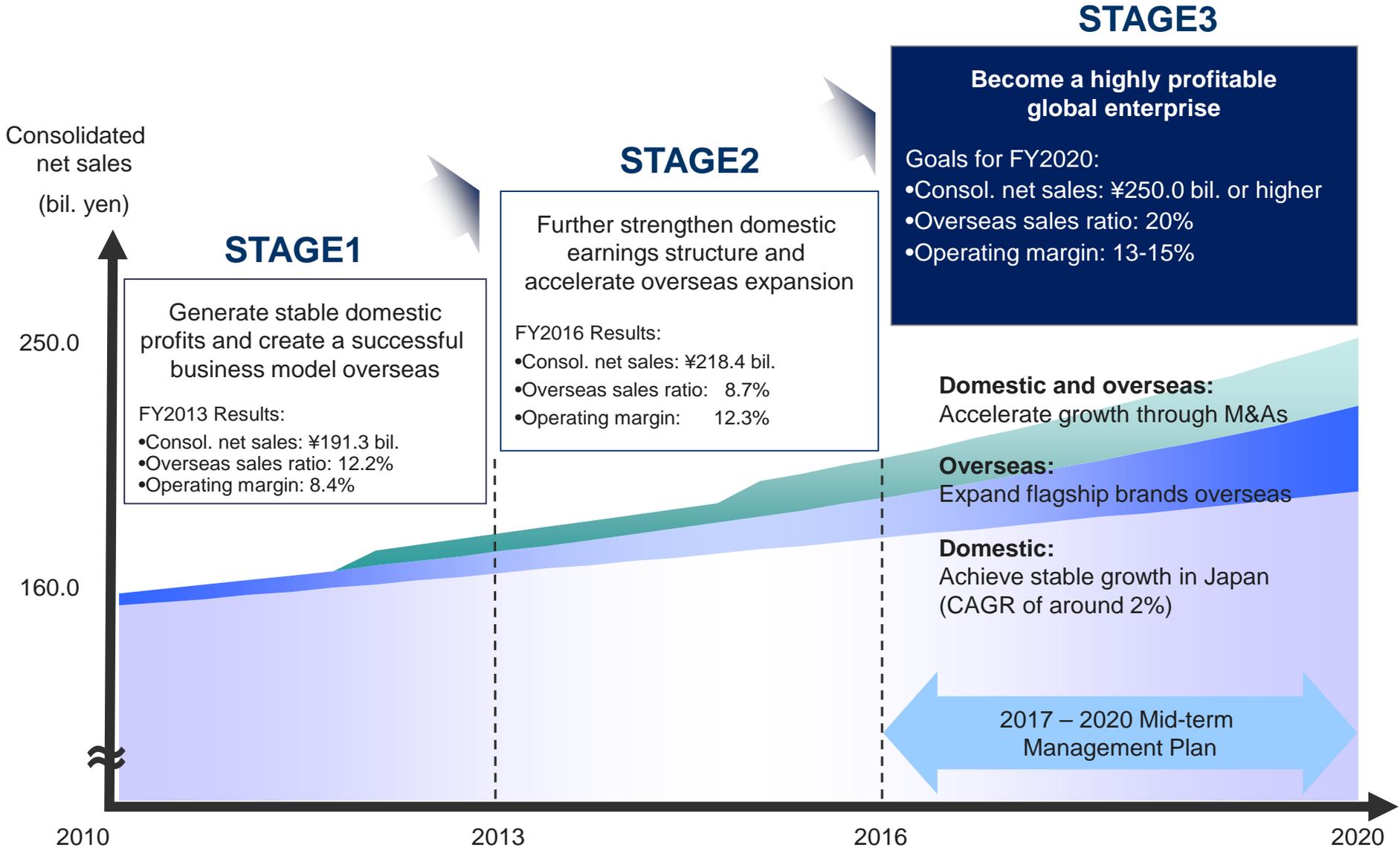
- Multi-brand strategy
- Focus on skincare products
- Flagship brands, POLA and ORBIS own and operate through their own unique sales channels
- Meeting diversified needs of customers
- High customer repeat ratio
- Strong relationships with customers

# (Appendix) Beauty Care Business Brand Portfolio

	Sales ratio*	Brand	Concept and products	Price	Sales channel
Flagship brands	65%	<b>POLA</b> Since 1929	<ul style="list-style-type: none"> <li>High-prestige skincare</li> <li>Leading-edge technology in anti-aging and skin-whitening fields</li> </ul>	Approx. ¥10,000 or higher	<ul style="list-style-type: none"> <li>Consignment sales through Beauty Directors, department store counters and online</li> <li>Overseas, duty free stores</li> </ul>
	22%	<b>ORBIS</b> Since 1984	<ul style="list-style-type: none"> <li>Anti-aging brand to draw out people's intrinsic beauty</li> </ul>	Approx. ¥1,000~ ¥3,000	<ul style="list-style-type: none"> <li>Mail-order (online and catalog)</li> <li>Directly-operated stores</li> <li>Overseas</li> </ul>
Overseas Brands	4%	<b>Jurlique</b> Acquired in 2012	<ul style="list-style-type: none"> <li>Premium natural skincare brand from Australia</li> </ul>	Approx. ¥5,000 or higher	<ul style="list-style-type: none"> <li>Department store counters, directly-operated stores, and online</li> <li>Duty free stores</li> </ul>
	1%	<b>H2O+<sup>™</sup></b> <b>BEAUTY</b> Acquired in 2011	<ul style="list-style-type: none"> <li>Skincare with concept of innovation and power of pure water</li> </ul>	Approx. ¥4,000 not sold in Japan	<ul style="list-style-type: none"> <li>US: Specialty stores and online</li> </ul>
Brands under development		<b>T H R E E</b> Since 2009	<ul style="list-style-type: none"> <li>Skincare made with natural ingredients from Japan and fashion-forward make-up</li> </ul>	Approx. ¥5,000 or higher	<ul style="list-style-type: none"> <li>Department store counters and specialty stores</li> <li>Directly-operated stores and online</li> <li>Overseas and duty free stores</li> </ul>
		<i>Amplitude</i> Since 2018	<ul style="list-style-type: none"> <li>High prestige quality makeup from Japan</li> </ul>	Approx. ¥5,000~ ¥10,000	<ul style="list-style-type: none"> <li>Department stores and online</li> </ul>
	8%	<b>ITRIM</b> Since 2018	<ul style="list-style-type: none"> <li>Premium skincare made from finely selected organic ingredients</li> </ul>	Approx. ¥20,000	<ul style="list-style-type: none"> <li>Department stores and online</li> </ul>
		<b>FIVEISM</b> x <b>T H R E E</b> Since 2018	<ul style="list-style-type: none"> <li>Industry's first men's cosmetics focusing on makeup</li> </ul>	Approx. ¥2,000~ ¥12,000	<ul style="list-style-type: none"> <li>Department stores, directly-operated stores</li> <li>Online</li> </ul>
		<b>DECENCIA</b> Since 2007	<ul style="list-style-type: none"> <li>Skincare for sensitive skin</li> </ul>	Approx. ¥2,000~ ¥5,000	<ul style="list-style-type: none"> <li>Online</li> </ul>

Operated by ACRO INC.

\*Sales ratio in the beauty care business as of FY2018



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

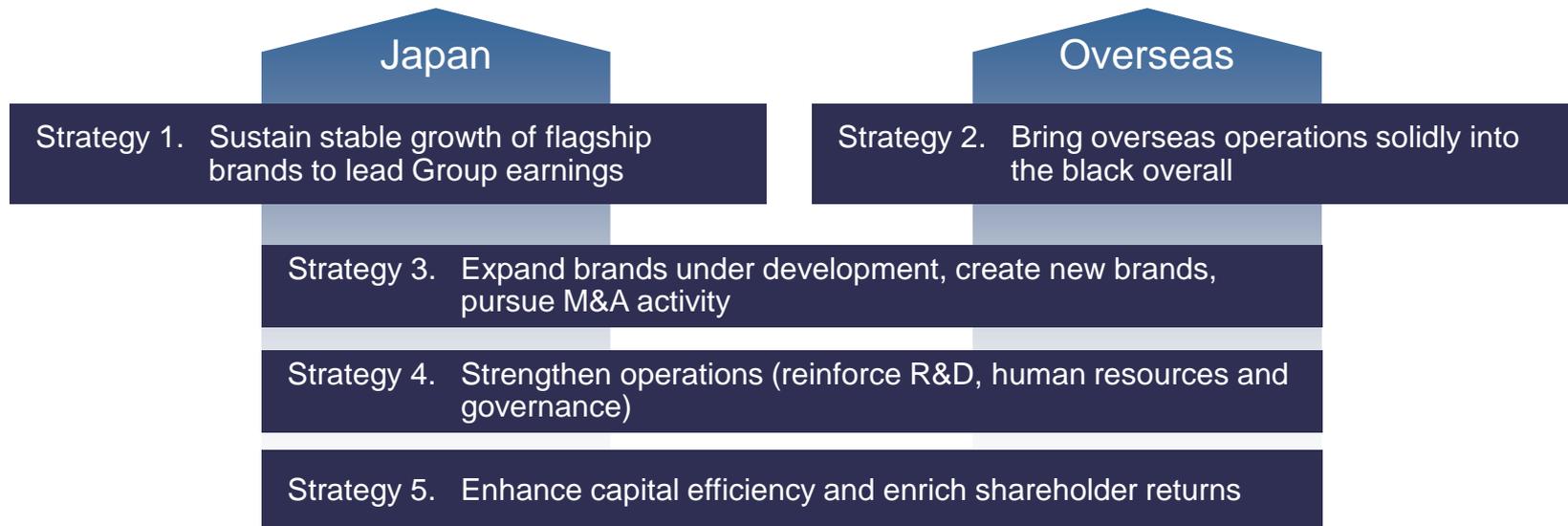
- Operating income: CAGR **10%** or higher
- Operating margin: **15%** or higher in FY2020

### Capital efficiency

- Target for ROE: **12%** in FY2020

### Shareholder returns

- Consolidated payout ratio: **60%** or higher  
 from FY2017



# (Appendix) Beauty Care Business Results for FY2016 – FY2018 by Brands

(mil. yen)	FY2016	FY2017	FY2018	2017 vs 2018 YoY Change	
	Results	Results	Results	Amount	%
Consolidated net sales	218,482	244,335	248,574	4,239	1.7%
Beauty care net sales	202,446	227,133	231,207	4,074	1.8%
POLA	116,126	144,012	150,183	6,170	4.3%
ORBIS	55,857	53,066	51,051	(2,014)	(3.8%)
Jurlique	13,118	12,772	10,386	(2,385)	(18.7%)
H2O PLUS	2,547	2,303	2,041	(261)	(11.4%)
Brands under development	14,796	14,978	17,544	2,566	17.1%
Consol. operating income	26,839	38,881	39,496	615	1.6%
Beauty care operating income	25,904	38,121	38,294	173	0.5%
POLA	16,993	28,584	32,574	3,989	14.0%
ORBIS	11,279	9,080	9,340	259	2.9%
Jurlique	(1,183)	(505)	(3,763)	(3,257)	-
H2O PLUS	(2,027)	(317)	(552)	(235)	-
Brands under development	841	1,278	695	(583)	(45.6%)

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