Held February 6, 2024

FANCL CORPORATION
FY Mar/2024 Q3 Financial Results Briefing
Q&A Session Summary

1. In the H1 financial results, operating income was approximately ¥1 billion above the plan. What are the factors behind the ¥500 million upward revision of your forecast?

⇒We originally aimed for an increase of ¥1 billion in operating income. However, due to the impact of the release of treated water from the Fukushima nuclear power plant, we lost some of the momentum that we had gained through to Q2, and as a result we have made an upward revision of ¥500 million. On the expense side, while we plan to decrease advertising expenditure in Q4 compared to the previous period, we expect to increase promotion expenditure.

2. The gross profit margin improved from the previous year in Q3, but why is it expected to decline from Q4?

⇒Our gross profit margin for Q3 improved by 1.7% compared to the previous year, reaching 68.4%. The reasons for this improvement are as follows: 1) Greater than expected improvement in efficiency of China supplement production after switching from domestically sourced ingredients to imported ingredients due to concerns related to the release of treated water; 2) The share of sales through direct sales channels (online and catalogue and direct store sales), which have relatively higher margins, increased from 69.8% to 72.7%. 3) Due to the mismatch in overseas accounting periods, there was a discrepancy of ¥300 million in cost of sales. This discrepancy will be accounted for in Q4 cost of sales and will be offset in H2.

3. It was mentioned that it will take a little more time for overseas Key Opinion Leader (KOL) promotions of Attenir to return to normal. How long are you anticipating this will take?

⇒W11 last year was affected by KOLs refraining from endorsing Japanese brands due to concerns stemming from the release of treated water from the Fukushima nuclear power plant. However, in the latter half of October, KOLs implemented live commerce promotions. While it was initially anticipated that no promotions could be carried out, approximately half of the planned activities eventually took place. However, the tone of these live commerce events seemed more passive than in previous years, so they were not as effective. Looking ahead, we intend to leverage not only top-tier KOLs but also mid-tier ones, gradually ramping up our promotional efforts.

4. It appears that high-margin supplement products are performing well. Do you anticipate an increase in the overall operating margin over the long term?

⇒The full-year operating margin for both cosmetics and supplements is expected to be 13%. Progress in cost reduction efforts for supplements, coupled with increased sales of high-margin products, suggests that the operating profit margin for supplements is gradually aligning with that of cosmetics.

5. What approach will you take to advertising expenditure for the next fiscal year and beyond?

⇒This fiscal year we have reduced domestic response advertising expenditure on our owned platforms, but have increased it on external online platforms. Additionally, we have increased promotion expenditure aimed at reinforcing connections with our customers, and we are confident that this is yielding positive results.

As for the next fiscal year, although no definitive plans have been made at this point, we do not anticipate a substantial increase in domestic advertising expenditure and aim to maintain our current strategy focused on efficiency. However, this April FANCL Cosmetics will launch a new skincare line *toiro*, that targets a younger demographic of customers, and we intend to allocate resources to each product as necessary. Regarding overseas markets, promotions in China were not fully implemented in H2 due to the impact of releasing treated water from the Fukushima nuclear power plant. However, we aim to ramp up promotions next fiscal year.

Moreover, we intend to increase promotion expenditure both domestically and overseas with the goal of improving customer loyalty.

Ends