

FANCL

正直品質。

FANCL Group

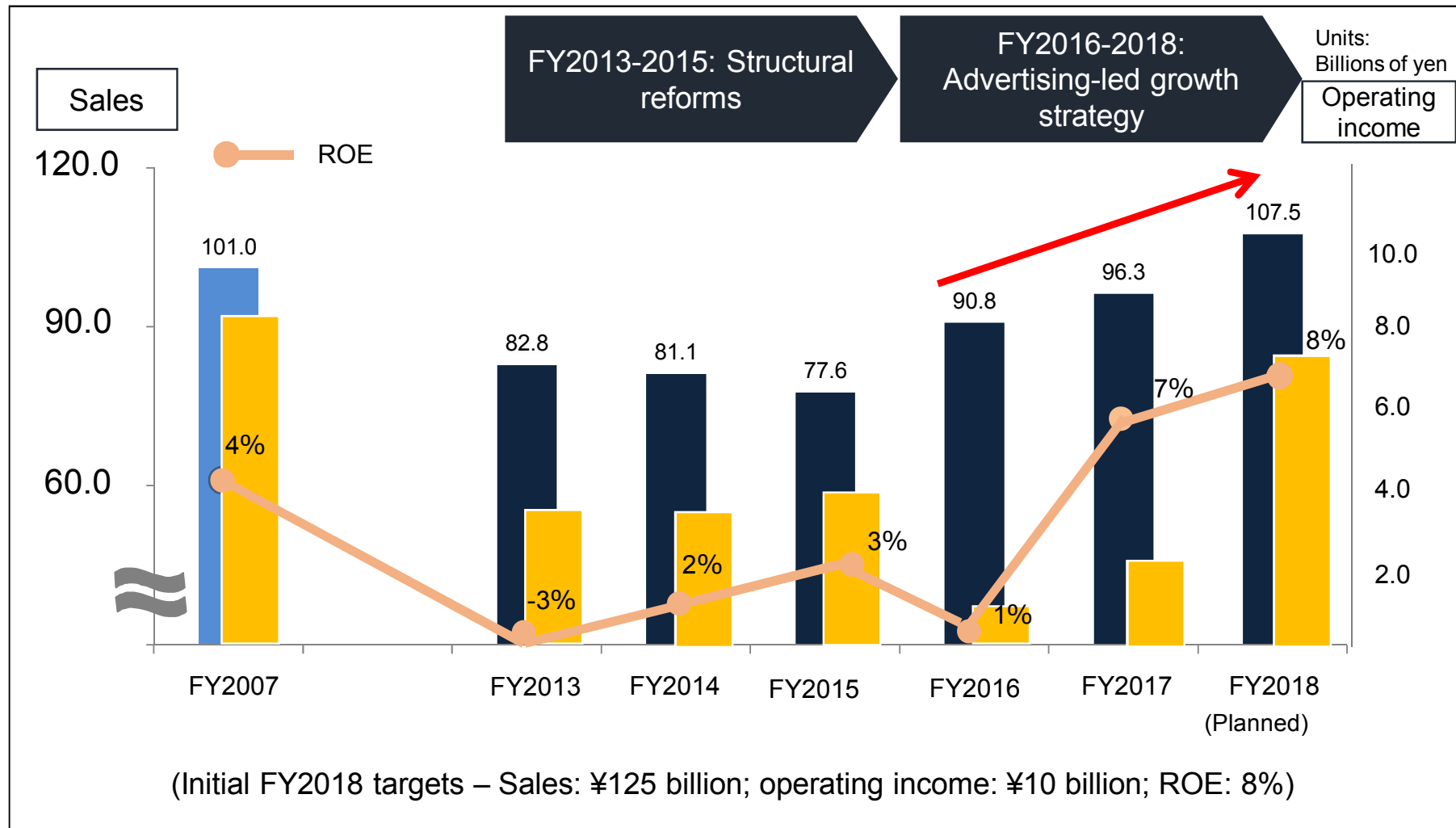
Medium-Term Management Plan:
ACTION 2020 (FY2019-FY2021)

March 23, 2018

Review of the advertising-led growth strategy
of the 1st Medium-Term Management Plan
(FY2016-FY2018)

FY2016-2018: Summary of results of 1st Medium-Term Management Plan

V-shaped recovery in performance resulting from advertising-led growth strategy; achieved record-high sales for first time in 11 years



FY2016-2018: Summary of results of 1st Medium-Term Management Plan

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Policy	Evaluation	Results and issues
Make strategic investments in advertising	◎	Highest ever numbers of customers using FANCL cosmetics, supplements, and ATTENIR products Versus before Medium-Term Management Plan (FY15): FANCL cosmetics (mail order) +8% Supplements (mail order) +51%, ATTENIR +52%
Expand wholesale and store channels to optimize effectiveness of advertising	○	Wholesale: <ul style="list-style-type: none"> • Cosmetics, drug stores 7,700 stores (end of FY15) → 12,000 stores (end of Dec. 2017) • Supplements 47,000 stores (end of FY15) → 60,000 stores (end of Dec. 2017) • FANCL-managed stores 164 stores (end of FY15) → 197 stores (end of 2018) (Initial plan: 350 stores by end of FY18)
Strengthen cross-selling	△	<ul style="list-style-type: none"> • Success in expansion of entry products, creating new star products such as <i>Enkin</i> and <i>Age-Bracket Based Supplements</i>. However, did not achieve cross-selling target

FY2016-2018: 1st Medium-Term Management Plan

Future-facing initiatives

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Business area		Details
Business	Overseas	<ul style="list-style-type: none"> Developed boscia as third cosmetics brand (Sales +80% vs before Medium-Term Management Plan (FY2015)) Agreement with China Sinopharm International Corporation ("China Sinopharm International") in health food products business
	BtoB	<p>Nestle x FANCL</p> <p>Joint development of special capsules for "Nestle Wellness Ambassador" containing supplements</p> <p>DyDo DRINCO x FANCL</p> <p>Joint development of <i>Calorie Limit for the Mature aged</i> branded PET bottle tea</p> 
Management foundation	Research	Establishment of second R&D center as "innovation research center"
	Manufacturing	Addition of world-class supplement production facility at Chiba Plant

VISION2030

VISION2030

Make the world healthier and more beautiful

Towards 2030, the FANCL group aims to launch business ventures in a range of areas. In each business domain we aim to support customer lifestyles full of beauty and health, not only in Japan but on a global scale, as a corporate group that customers can trust and rely upon

Business environment & opportunities

Business environment

- Japan's population will reach 120 million, with further aging and a lower birthrate
 - One third of the population will be 65+(37m people)
 - Lifespans will continue to increase
 - Single person households will make up 38% of the total. As nuclear families become the norm, more, older people will live alone
- Japan's healthcare costs expected to grow from ¥42 trillion (2015) to ¥60 trillion (2025)
- World population forecast to be 8.5 billion in 2030 (+1.1 bn on 2016)

Business opportunities

Beauty

- ① Beauty consciousness is diversifying and becoming borderless as borders of nationality, gender, etc.,
- ② Working women increasing (more women in careers in their 50s and 60s)
- ③ Beauty techniques are changing

Health

- ① Need to work and stay healthy for longer
- ② Deepening problem of medical costs→Need to extend healthy lifespan
- ③ As single person households increase more people eat alone, leading to increases in nutritional deficiencies and obesity

Beauty & Health

- ① Increasing global population
- ② Increasing eco and ethical awareness among consumers

Vision for each business

Beauty

Aim to diversify our brands in line with diversifying consumer values, transcending the boundaries of cosmetics to develop business centered on beauty-focused fashion and lifestyle offerings.

Health

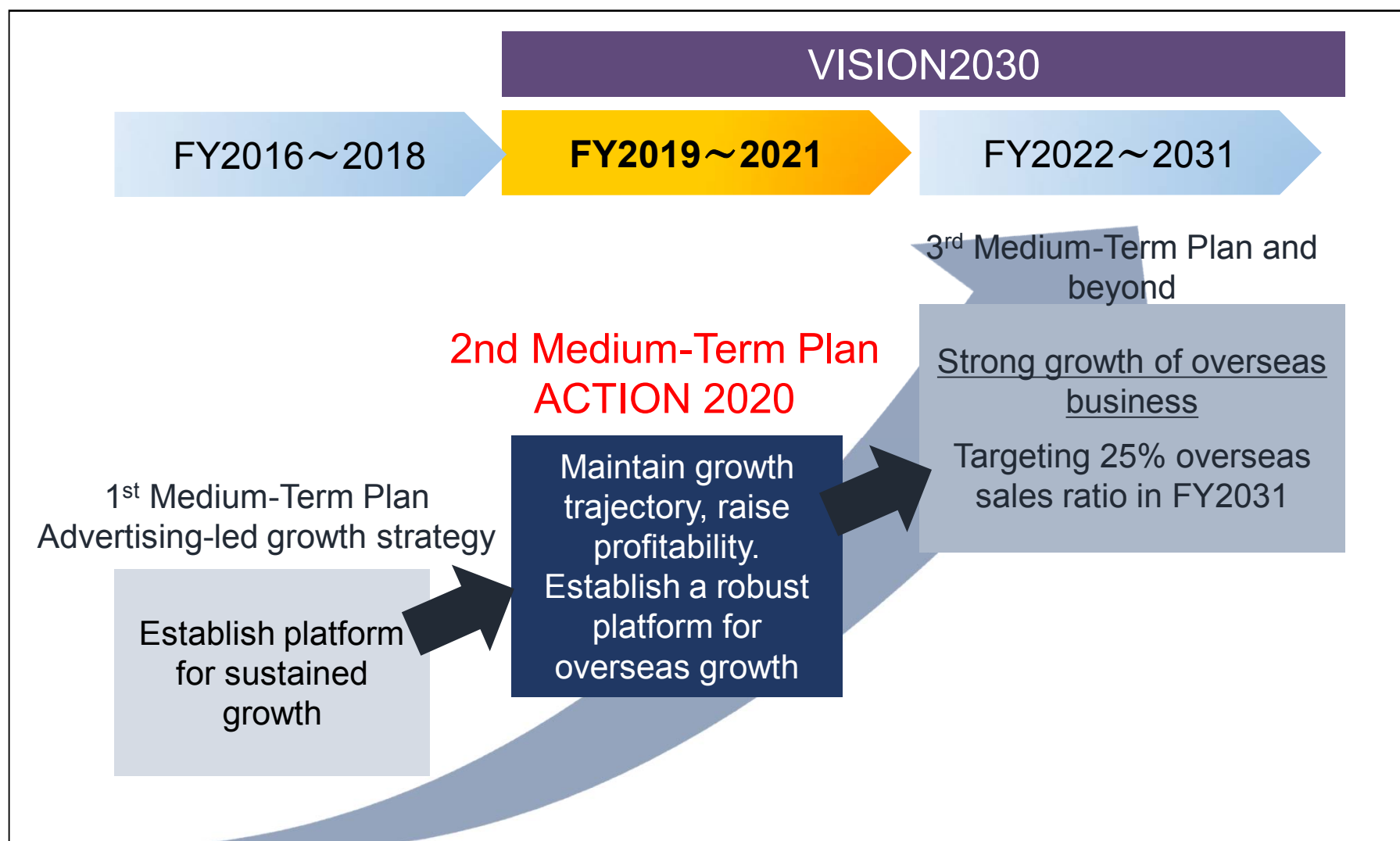
Develop new health business that supports a society in an era of 100-year lifespans, aiming to become the most widely-used supplement brand.

Beauty & Health

Actively expand the FANCL, boschia, and ATTENIR brands into overseas markets, aiming for each to become brands that are loved by customers worldwide.

2nd Medium-Term Management Plan
ACTION 2020
Creating the future
(FY2019-FY2021)

Mobilize the entire group under the slogan: ALL-FANCL ONE-FANCL



ACTION2020: Numerical targets

Aiming to achieve highest operating profit since FY2000

	FY2018 (plan)	FY2021 (plan)
Sales	107.5bn	126.0bn
Operating income	7.7bn	12.6bn
(Operating profit margin)	7.2%	10.0%
ROE	8%	10%

		Average annual growth rate	FY2021 operating profit margin
Cosmetics	FANCL	+4%	15%
	ATTENIR	+11%	
	boscia	+14%	
	Total	+5%	
Nutritional supplements		+5%	5%
Other		+7%	5%

Premise

Inbound demand up slightly from FY2018

Overseas sales ratio target

FY2021: 11% (FY2018 plan: 9%)

- Grow existing business while sowing the seeds for new business development
- Manage business with rigorous profit focus and careful assessment of investment outcomes

① Implement a consistent production process from research through to sales, to develop products with unique value

- Cosmetics: Bring new brands to market
- Supplements: Foster new hit products, launch personal supplements, etc.

② Evolve sales channels to grow customers and products

- Mail order: Personalize response, use external EC sites
- Stores: Align with customers and local characteristics
- Wholesale: Optimize in-store share

③ Continue to adopt new approaches to maximize PR and advertising impact

- Optimize impact by creating combined ad/PR/event initiatives
- Build brand understanding through corporate PR

Action 2020: Seven challenges

Growth business

④ Target full-fledged growth in overseas businesses

- FANCL cosmetics: expand in Asia, revitalize North America
- FANCL supplements: begin China business
- *boscia*: extend into Europe and the Middle and Near East

⑤ Take on new business opportunities with a venture spirit and a sense of justice

- Use R&D and technological skills to develop OEM business
- Develop new beauty business
- Leverage FANCL brand for BtoB business, business promoting healthy management

Management foundation

⑥ Promote forward-looking investment and diverse employee activation to achieve greater growth and profitability

- Develop R&D, manufacturing, distribution and IT systems to support sales







⑦ Further boost corporate value and refine our "Honest Quality"

- Strengthen quality assurance system
- Ensure healthy management, diversity and environmental awareness

Cosmetics Business

FANCL Cosmetics: Diversifying the brand

Policy Create unique new brands with deep personal customer appeal

Package design image		Key products	Channel	Contribution to FY2021 sales
<p>FANCL Prestige</p> 		<p>Personal cosmetics</p>	<p>Select no. of Japanese dept. stores; (Overseas)</p>	<p>Contribute to 3rd MTMP</p>
<p>The FANCL</p> <p>High quality 「Enriched × Mutenka」</p> 		<p>Mutenka skin care Mutenka make-up Mutenka hair care, etc.</p> <p><i>Mild Cleansing Oil, Facial Washing Powder, etc.</i></p>	<p>Mail order, stores</p> <p>Mail order, stores, wholesale</p>	<p>90% plus</p>
<p>NEO FANCL</p> <p>Convenience, high volume 「Culture × Mutenka」</p> 		<p><i>Beauty BOUQUET</i> (60yo +) New brand (30yo +/-) New brand (40yo +/-)</p>	<p>Wholesale (mail order, stores)</p>	<p>Under 10%</p>

FANCL Cosmetics: Product & channel strategy



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	<p>Product & channel strategy</p> <p>← Tap large pool of new customers (Wholesale) → Deepen loyalty, repeat sales (Mail order, stores) →</p>	Key initiatives
Core categories	<p>Cleansing</p> <p>Facial wash</p> <p>Basic skin care</p>	<p>Facial cleansing, Basic Skin Care</p> <ul style="list-style-type: none"> • Pursue detailed focus on Basic Skin Care while strengthening facial cleansing category centered on <i>Mild Cleansing Oil</i> <p><i>Beauty BOUQUET</i></p> <ul style="list-style-type: none"> • Expand in drug stores nationwide, adding make-up and upmarket lines
Growth categories	<p>Launch <i>Beauty BOUQUET</i></p> <p>FY2019 New 30s brand Special Care</p> <p>FY2020 New 40s brand Personal cosmetics</p> <p>Make-up</p> <p>Hair care</p>	<p>Personal cosmetics</p> <p>Strengthen the <i>Skin Solution</i> line</p> <p>Make-up</p> <ul style="list-style-type: none"> • Position <i>Aqua Serum Rouge</i> (Feb. 2018) as key item <p>Hair care</p> <ul style="list-style-type: none"> • Begin strengthening, starting with <i>Mild Cleansing Shampoo</i> (March 2018)

Policy Build FANCL as a global brand, positioning Asia as a key regional market while making inroads into North America

Asia

- Strengthen FANCL brand’s “Mutenka” appeal
- Expand specialist products to match local needs
- Roll out entry into 3-4 new Asian markets in addition to China, Hong Kong, Taiwan and Singapore




BEAUTY FACIAL TREATMENT ESSENCE Q10

North America

- Re-approach the American market to expand the FANCL brand
(Skincare market is approx. ¥2tr, with 3% CAGR 2009-2016)
- Launch store on external EC site during FY2019
Begin test marketing via web, SNS, etc.

US skincare market (EC sales)



Annual growth + 10% ¥300bn

2009 2011 2013 2015

Market data: Euro Monitor

Policy	Become a lifestyle proposal business providing women of the world with accessible high quality in fashion and beauty
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	Performance decline		Business reform		Return to growth
FY	2008	▶	2013	2014	2018
Sales ¥	10.7bn	▶	8.0bn	7.9bn	11.0bn
					2019 onwards
					2020 15.0bn

Cosmetics

Meet the needs of prestige brand users by introducing innovative, unique products



Collection (fashion)

Deepen connections with existing customers by launching a premium line positioned as a key category

Communication method

Further evolve our unique web-based 'communication cycle model'

Prepare for international launch as a globally relevant brand



Develop globally

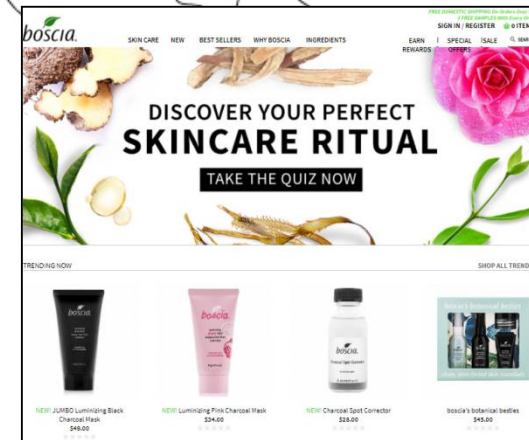


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Botanical **Sci**ence **A**dvanced technology

Policy

Strengthen existing business in North America while internationalizing with launches in Europe and the Near and Middle East. Strengthen boscia.com and other proprietary sales routes.




boscia.com

Note: Store numbers refer to the number of SEPHORA and other stores offering boscia products

Target 1.5x sales increase over next 3 years compared to FY2018

Cosmetics business road map

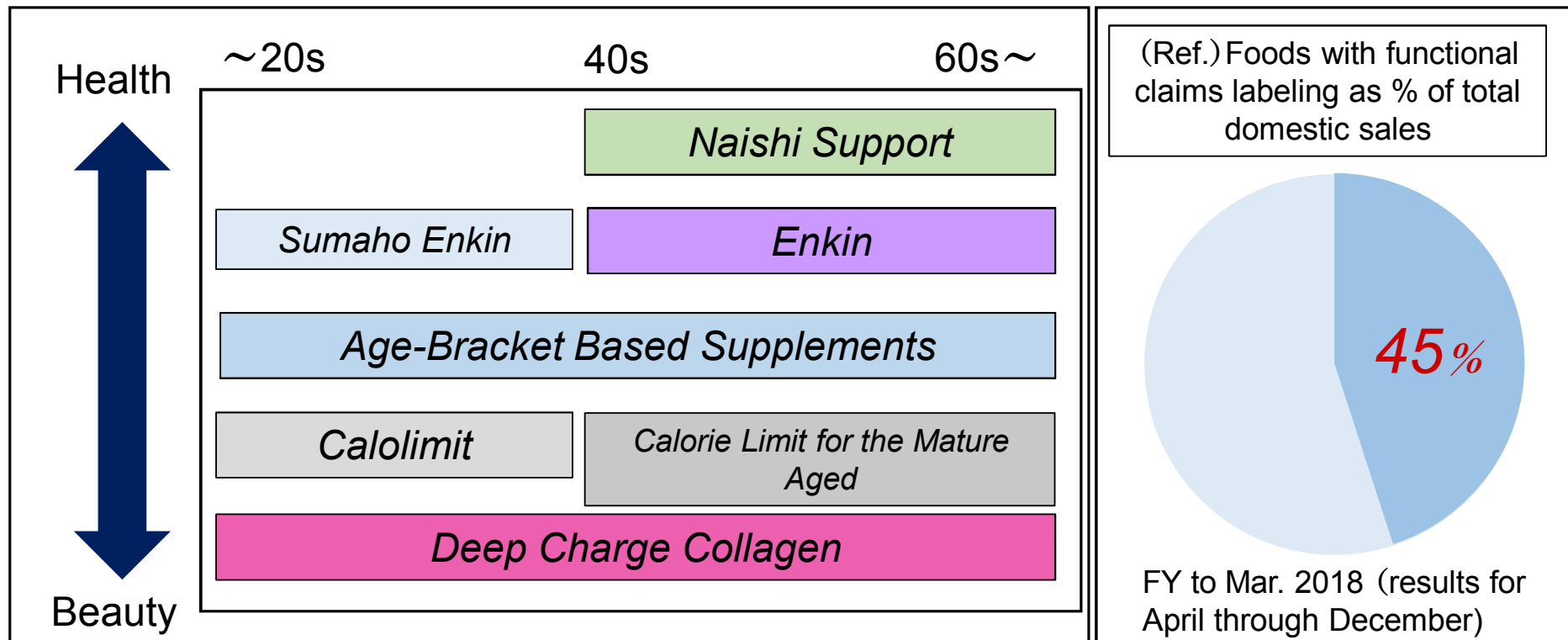
		FY2019	FY2020	FY2021	¥ Increase vs FY2018
FANCL	Existing business	Strengthen Basic Skin Care and facial cleansing categories			+4.0bn
		Strengthen make-up and haircare categories			
	New business	<i>Beauty BOUQUET</i> Strengthen drugstore channel/add make-up, other items			+2.0bn
		Launch new 30s brand	Launch new 40s brand	 FANCL Prestige launch	
	Launch on US e-commerce sites	 Use test marketing to guide market development			
ATTENIR	Launch series of innovative new products / strengthen collections / progress web communication				+4.0bn
boscia	Enter Europe, Near and Middle East				+1.5bn
	Strengthen proprietary sales channels				

Health Business

Policy

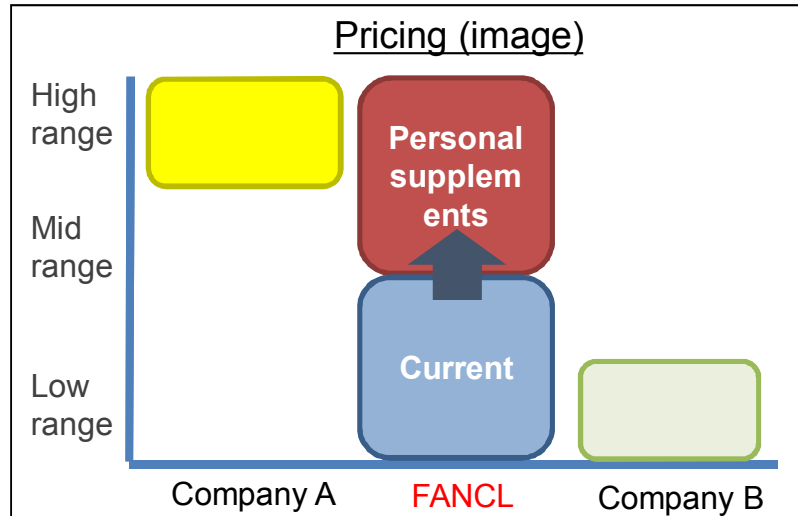
Aim to become the most widely-used supplement brand in an era of 100-year lifespans.

① Foster star products and consolidate existing range

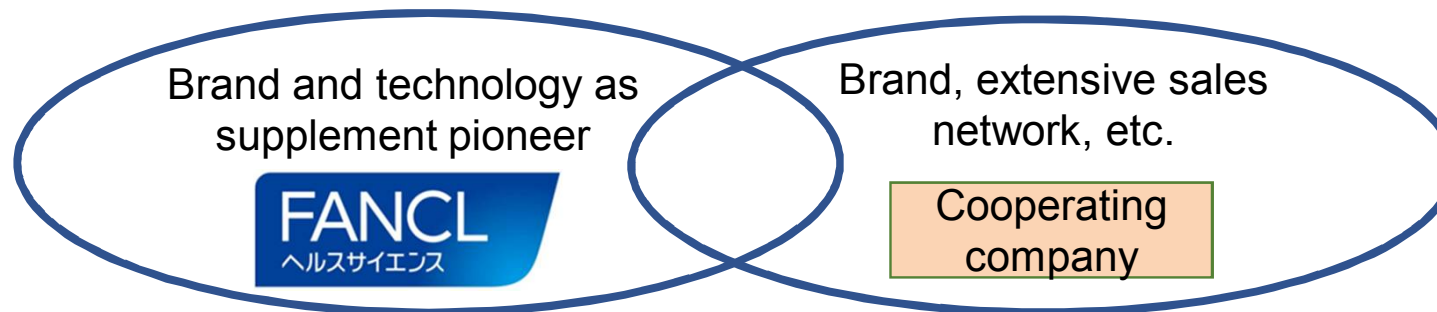


Facilitate easier customer product selection by consolidating lineup

② Create proprietary market by launching personal supplements



③ Strengthen BtoB business by making use of FANCL brand with other companies' resources



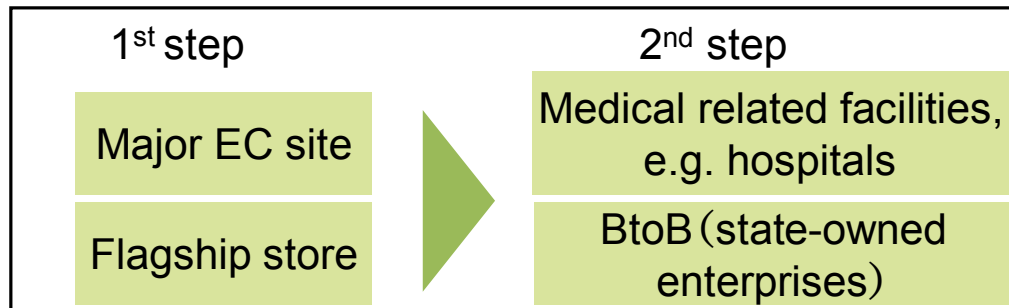
Deepen ties with companies that have strong brands and superior capabilities in the food industry, to foster future growth pillars

Policy

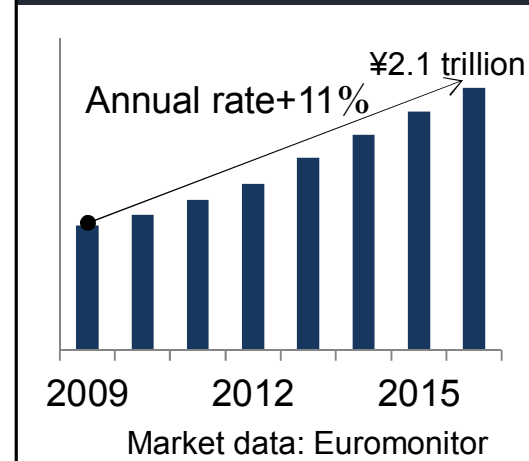
Position China as the most important market and as a pillar for growth, and expand into regions outside of Asia, working to build a foundation for growth

China

Implement efforts for commercialization with China Sinopharm International Corporation (distributorship agreement concluded in 2017)
Launch planned in FY2020




China's supplement market



Outside Asia

- Plan to enter markets outside of Asia
- Begin market research and business structure considerations, aiming for sales launch in FY2021

Health business roadmap

	FY2019	FY2020	FY2021	¥ Increase vs FY2018
Existing businesses	Continue fostering of star product growth			+ ¥4.5 bn
	Consolidate products			
New businesses	Release of personal supplements	 Full-scale deployment		+ ¥1.5 bn
	Develop health management promotion business			
	Develop BtoB business utilizing FANCL brands and resources of other companies			
	Acquire approvals etc. for development of China-only products	Launch supplement business in China		
	Outside of Asia Consider market survey and business schemes	Begin sales outside of Asia		

Channels

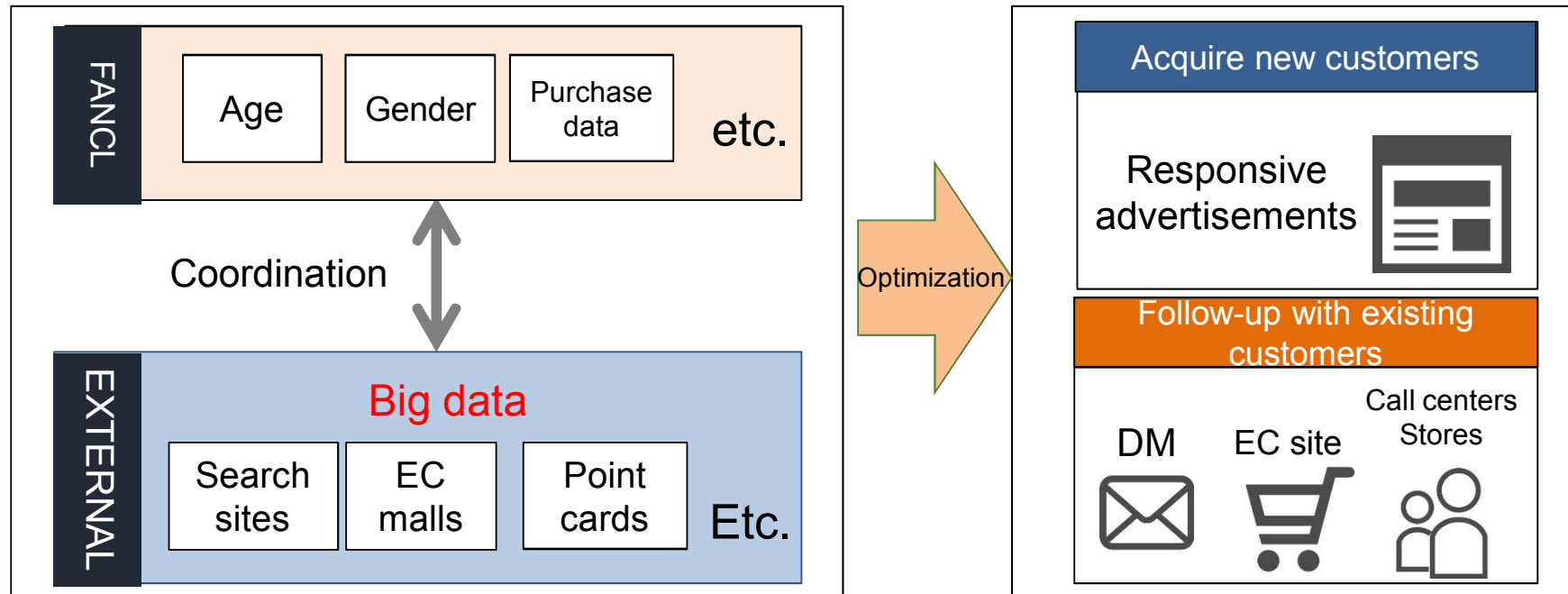
Strategy for mail order channel

Policy

Work to maximize sales and revenues by utilizing both in-house and external mail order platforms

FANCL mail order: FANCL's core channel. Develop branding and personalization

Progress CRM in accordance with external data



External mail order: Acquire new customer groups which are difficult to reach directly with company mail order (Rakuten, Yahoo, LOHACO, Amazon)

Strategy for retail and wholesale channels

■ Directly-managed stores

Policy

Clarify the role of showrooms, focusing on the experience element, and work to develop unique stores in popular, high quality locations.

Develop **new FANCL shops** based on hybrid shop concept, with **enhancements in internal and external beauty offerings, leveraging store fronts, and counseling functions**

Examples of store format

Enhanced BC focused store, enhanced make-up focused store, a store for young people (FANCL Beauty & Health)

Branches carefully selected for their superior locations. Plan to have 205 stores by FY2021 (197 stores as of the end of FY2018)

Department type store in a metropolitan area

Strengthened BC type store



■ Wholesale channel

Policy

Expand sales per store, strive to maximize in-store share

Product launch of *Beauty BOUQUET* and new brand for women around their 30s, etc., using wholesale channel as main channel

Advertisement strategy

Advertisement strategy

Policy

Advertisement expenditure is investment in the future. Continue at ¥15 bn per year
Launch both corporate and product advertising to increase sales and improve brand value

■ Corporate advertisements, "Honest Quality"



Continue promotion of "Honest Quality," including developing new commercials



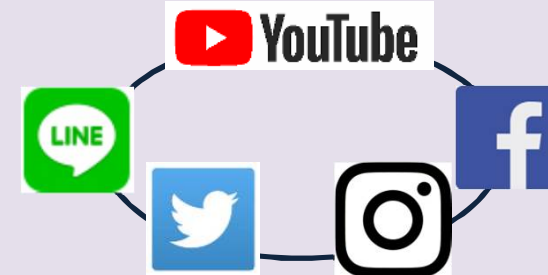
■ Product advertisements



- Streamline advertising for existing products, **shift to online**
- Set aside surplus budget for new brands and products to use advertisement expenditure effectively



Further develop promotion methods, combining advertising, PR, and events.
Fully leverage social media, and develop two-way communication with customers to evoke emotional response



Management foundation, ESG

Reinforce management foundation

Research	<ul style="list-style-type: none">• Develop new star products, accelerate global capabilities• Utilize our unique technological capabilities to expand OEM business and processed foods development.
Production	<ul style="list-style-type: none">• Build on our domestic production platform with a view for sales expansion (enhancement of supplement production capacity, robotization, automation, etc.)
IT Systems	<ul style="list-style-type: none">• Advance IT rebuilding project System integration of all channels (summer 2018) Aggregate marketing data, utilize AI (2020)
Logistics	<ul style="list-style-type: none">• Streamline logistical operations to minimize the impact of delivery fee increases• Prepare for development of new logistics center
Human resources	<ul style="list-style-type: none">• Develop personnel who embody the company's corporate philosophy• Develop global human resources

Founding philosophy of the FANCL Group

Eliminate the “Negatives” with a Sense of Justice

<p>Environment</p>	<ul style="list-style-type: none"> • Establish “FANCL Sustainability Plan” stipulating an expansion of environmentally conscious products and strengthened communication of environmental messages to customers. • Further enhance environment information disclosure <p><i>Reference: Received "Award for Excellent in Environmental Reporting" at the 21st Environmental Communication Awards, sponsored by the Ministry of the Environment, and non-profit The Global Environmental Forum (GEF)</i></p>
<p>Society</p>	<ul style="list-style-type: none"> • Sustainable procurement (revise procurement policies) • Support independence for seniors and people with disabilities (e.g. products and services for the visually impaired) • Promote diversity management (promoting success for women and elderly, collaboration with people with disabilities) • Further promotion of healthy management for an active work environment
<p>Governance</p>	<ul style="list-style-type: none"> • Foster next generation of management through Ikemori Leadership Training • Implement shareholder returns that consider medium-to-long-term earnings, cash flow, and capital efficiency • Strengthen dialogue with stakeholders and investors

Capital investment and shareholder returns

Capital investment and shareholder returns

While maintaining a sound financial base, aim for 10% ROE by FY2021 through investment growth and shareholder returns

Changes in shareholder returns policy

	Before changes	After changes
Dividends	Maintain a dividend payout ratio of at least 40% of consolidated net income	Consider a dividend amount given a target consolidated dividend payout ratio of approximately 40% and DOE (dividend on equity) ratio of approximately 5%
Acquisition of treasury shares	Flexibly consider the acquisition of treasury shares with the aim of improving the capital efficiency ratio, while taking into account trends in the share price and future capital funding requirements	No change
Cancellation of treasury stock	Treasury shares in excess of 10% of the total number of outstanding shares will be cancelled	No change

Cash flow distribution

FY2019 - 2021

- Inflows from operating cash flow: ¥31.5 billion
 - Capital investment: ¥10.5 billion + α
 - Shareholder returns: ¥11.5 billion
 - Internal reserves: ¥9.5 billion
- } Cash out
} ¥ 22.0 billion + α

Key capital investments

- Manufacturing facilities: approx. ¥4.5 bn
- IT systems: approx. ¥3.0 bn
- Store investments: approx. ¥1.5 bn

↳ Plan to use for expansion of supplement production capacity, investment in new logistics center

In closing

2nd Medium-term Management Plan: ACTION 2020



VISION 2030

**Make the world healthier and more
beautiful**

ALL-FANCL ONE-FANCL

Combining FANCL's research, manufacturing,
business, and sales functions
to strengthen its ability to generate profit

