

# FANCL Corporation

## Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2017

April 1, 2016 to June 30, 2016

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

## SUMMARY OF FINANCIAL STATEMENTS (consolidated)

First Quarter Results for the Fiscal Year Ending March 31, 2017

**FANCL CORPORATION**

**July 27, 2016**

www.fancl.jp/en/

Stock exchange listings: Tokyo 1<sup>st</sup> section, code number 4921  
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Scheduled date for submission of the first quarter *hokokusho* (securities report): August 12, 2016

Scheduled date for distribution of dividends: --

Availability of supplementary explanatory material for first quarter results: Available

Presentation meeting for first quarter results: Scheduled (for institutional investors and analysts)

### **1) Consolidated results for the first quarter (April 1, 2016 to June 30, 2016) of the fiscal year ending March 31, 2017**

#### (1) Consolidated Operating Results

	Three months ended June 30, 2016		Three months ended June 30, 2015	
		% change		% change
Net sales .....	23,483	6.2	22,112	23.8
Operating income .....	(114)	--	638	--
Ordinary income .....	(77)	--	680	--
Net income attributable to owners of the parent company .....	(241)	--	468	--
Earnings per share (¥) .....	(3.85)	--	7.34	--
Earnings per share (diluted) (¥) .....	--	--	7.25	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.

2. Comprehensive income: Three months ended June 30, 2016: -¥303 million (--%)

Three months ended June 30, 2015: ¥462 million (--%)

#### (2) Consolidated Financial Position

	As of June 30, 2016		As of March 31, 2016	
Total assets .....	82,834		83,767	
Net assets .....	68,276		69,639	
Shareholders' equity/total assets (%) .....	81.6		82.3	

Shareholders' equity: As of June 30, 2016: ¥67,552 million

As of March 31, 2016: ¥68,909 million

### **2) Dividends per share**

	FY ended March 31, 2016	FY ending March 31, 2017 (forecast)
Interim period .....	17.00	29.00
Year-end .....	17.00	29.00
Annual .....	34.00	58.00

Note: Changes to the dividend forecast during the period under review: Yes

Breakdown of interim dividend for the FY ending March 31, 2017 (forecast): Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of year-end dividend for the FY ending March 31, 2017 (forecast): Ordinary dividend: ¥17.00; special dividend: ¥12.00

### **3) Consolidated forecasts for the fiscal year ending March 31, 2017 (April 1, 2016 to March 31, 2017)**

	Six months ending September 30, 2016		Fiscal year ending March 31, 2017	
		Change (%)		Change (%)
Net sales .....	48,000	11.1	102,500	12.8
Operating income .....	(1,000)	--	3,000	149.1
Ordinary income .....	(950)	--	3,100	118.0
Net income attributable to owners of the parent company .....	3,300	--	6,200	--
Earnings per share (¥) .....	52.70	--	99.00	--

Note: Changes to the Consolidated forecasts during the period under review: Yes

#### **4) Other**

**(1) Transfer of important subsidiaries during the period:** None

Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

**(2) Use of simplified accounting methods or special accounting procedures:** None

**(3) Changes in accounting policy, changes in accounting estimates, and restatements:**

1. Changes following revisions to accounting standards: Yes
2. Other changes: None
3. Changes in accounting estimates: None
4. Restatements: None

**(4) Number of outstanding shares (common stock)**

1. Number of shares outstanding (including treasury shares)	June 30, 2016	65,176,600 shares	March 31, 2016	65,176,600 shares
2. Number of treasury shares	June 30, 2016	2,545,945 shares	March 31, 2016	2,553,377 shares
3. Average number of shares during the first quarter period	Three months to June 30, 2016	62,626,710 shares	Three months to June 30, 2015	63,767,216 shares

**Important Notice**

Disclosure of status of quarterly report review procedures:

At time of disclosure of this quarterly financial report the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law was in progress.

Appropriate use of financial forecasts:

Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 7: 1. Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2017.

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# 1. Operating Results

## (1) Summary of business performance (consolidated)

(All comparisons are with the first quarter of the previous fiscal year, unless stated otherwise.)

During the first quarter period under review, the Japanese economy continued to stagnate on the whole due to factors such as the prolonged effects of the rise in consumption tax, a fall in personal consumption, and sluggish production and exports, and despite improvement in the employment and income environment. Looking ahead, while a modest recovery is expected as various government policies take effect, the situation requires caution due to the prominent risk of economic downturn posed by the increased global economic uncertainty following Britain's decision to leave the EU and the rapid rise of the yen.

During the first quarter period under review, consolidated sales increased 6.2% to ¥23,483 million following growth in earnings across all businesses, mainly due to strategic investment in advertising continued from the previous period based on policies in the Medium-term Management Plan. Although gross profit increased due to growth in earnings, an operating loss of ¥114 million was recorded (compared to operating income of ¥638 million in the previous period), largely due to an increase in selling, general and administrative expenses resulting from proactive investment in advertising aimed at increasing the customer base. An ordinary loss of ¥77 million was recorded (compared to ordinary income of ¥680 million in the previous period), as well as a net loss attributable to owners of the parent company of ¥241 million (compared to net income attributable to owners of the parent company of ¥468 million in the previous period).

Segment results are as follows:

### 1) Cosmetics Business

#### Sales

Sales from the Cosmetics business increased 2.9% to ¥13,895 million. (Millions of yen, rounded down)

	Three months ended June 30, 2016		Three months ended June 30, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	11,098	79.9	10,966	81.2	1.2
ATTENIR Cosmetics	2,083	15.0	1,888	14.0	10.3
boscia	462	3.3	363	2.7	27.0
Others	251	1.8	278	2.1	(9.5)
Totals	13,895	100.0	13,497	100.0	2.9

	Three months ended June 30, 2016		Three months ended June 30, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	6,075	43.7	5,750	42.6	5.7
Retail store sales	5,063	36.5	5,127	38.0	(1.2)
Wholesales and others	1,239	8.9	1,022	7.6	21.3
Overseas Sales	1,516	10.9	1,597	11.8	(5.0)
Totals	13,895	100.0	13,497	100.0	2.9

Sales of **FANCL Cosmetics** increased 1.2% to ¥11,098 million, due to the renewal and introduction into drugstores of *Aging Care washing cream*, along with the effects of *Mild Cleansing Oil* promotions and favorable performance of summer kits.

Sales of **ATTENIR Cosmetics** increased 10.3% to ¥2,083 million due to new customer acquisition driven by new products such as *SkinClear Cleanse Oil*, and favorable results from a campaign targeting existing customers

Results by **sales channels**: mail order sales increased 5.7% year on year to ¥6,075 million, retail store sales decreased 1.2% to ¥5,063 million, wholesale sales through other sales channels increased 21.3% to ¥1,239 million, and overseas sales decreased 5.0% to ¥1,516 million.

#### Operating income

Despite growth in earnings, operating income decreased by 43.9% to ¥949 million, mainly due to an increase in marketing costs compared to the previous period.

## 2) Nutritional Supplements Business

### Sales

Nutritional supplement sales increased 11.5% to ¥7,666 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2016		Three months ended June 30, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	3,086	40.3	2,528	36.8	22.1
Retail store sales	1,876	24.5	1,716	25.0	9.3
Wholesales and others	2,338	30.5	2,286	33.2	2.3
Overseas Sales	363	4.7	343	5.0	5.9
Totals	7,666	100.0	6,875	100.0	11.5

Revenues from **product sales** increased due to strong trending sales following promotions of *Enkin*, a food with functional claims labeling, and dietary supplement *Calorie Limit for the Mature Aged*, as well as growth in sales of *Age Bracket-Based Supplements*.

Results by **sales channels**: mail order sales increased 22.1% to ¥3,086 million, retail store sales increased 9.3% to ¥1,876 million, wholesale sales through other sales channels increased 2.3% to ¥2,338 million and overseas sales increased 5.9% to ¥363 million.

### Operating income

Despite growth in earnings, an operating loss of ¥449 million was recorded (compared to operating income of ¥48 million in the previous period), mainly due to an increase in marketing costs compared to the previous period.

## 3) Other Businesses

### Sales

Other businesses increased 10.5% year on year to ¥1,921 million

(Millions of yen, rounded down)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Change (%)
Hatsuga genmai	688	642	7.3
Kale juice	737	663	11.2
Other	494	433	14.2
Totals	1,921	1,738	10.5

Hatsuga genmai (germinated brown rice) sales increased 7.3% to ¥688 million mainly due to a favorable trend in sales of *Hatsuga Genmai Kin-no-Ibuki*.

Sales of Kale juice increased 11.2% to ¥737 million.

Other sales increased 14.2% to ¥494 million.

### Operating income

An operating loss of ¥229 million was recorded, a ¥495 million improvement on the previous period, due to growth in earnings and the results of efforts to streamline marketing costs.

## (2) Summary of consolidated financial position

(All comparisons are with the end of the previous fiscal year, unless stated otherwise.)

Assets decreased ¥933 million to ¥82,834 million. The primary contributing factors were a decrease of ¥1,643 million in current assets and an increase of ¥709 million in fixed assets. Contributing to the decrease in current assets were a ¥7,006 million decrease in marketable securities, a ¥4,834 million increase in cash and deposits, and a ¥593 million increase in "Other" current assets due to an increase in income taxes receivable. The increase in fixed assets was primarily a result of a ¥981 million increase in tangible fixed assets due to an increase in buildings and structures, and a ¥176 million decrease in intangible fixed assets. Liabilities increased ¥429 million from the end of the previous fiscal year to ¥14,558 million. The primary contributing factors were an increase of ¥456 million in current liabilities and a decrease of ¥26 million in fixed liabilities. Factors contributing to the increase in current liabilities include a ¥520 million increase in allowance for bonus, a ¥446 million increase in "Other" current liabilities due to an increase in deposits, a ¥217 million decrease in notes and accounts payable, and a ¥297 million decrease in income taxes payable. Net assets decreased ¥1,363 million to ¥68,276 million. The main contributing factor was a decrease of ¥1,306 million in retained earnings primarily due to dividend payments

As a result, the shareholders' equity ratio declined 0.7 percentage points from the end of the previous fiscal year to 81.6%.

## (3) Forecasts for the fiscal year ending March 31, 2017

(Consolidated interim period)

	Revised forecasts		Previously announced forecasts	
		Change (%)		Change (%)
Net sales .....	48,000	11.1	48,000	11.1
Operating income .....	(1,000)	--	(1,000)	--
Ordinary income .....	(950)	--	(950)	--
Net income attributable to owners of the parent company .....	3,300	--	(1,000)	--
Earnings per share (¥) .....	52.70	--	(15.97)	--

(Consolidated full-year period)

	Revised forecasts		Previously announced forecasts	
		Change (%)		Change (%)
Net sales .....	102,500	12.8	102,500	12.8
Operating income .....	3,000	149.1	3,000	149.1
Ordinary income .....	3,100	118.0	3,100	118.0
Net income attributable to owners of the parent company .....	6,200	--	1,900	263.4
Earnings per share (¥) .....	99.00	--	30.34	--

The Company expects to record extraordinary income in the interim period of the consolidated fiscal year ending March 31, 2017 due to the sale of a portion of its investment securities, and accordingly, revisions have been made to net income attributable to owners of the parent company for the consolidated interim period and the consolidated full-year period.

Net sales, operating income, and ordinary income forecasts remain unchanged from those previously announced.

## 2. Other

(1) Changes to subsidiaries during the period: None

(2) Use of special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

Change in accounting policy

In accordance with changes to the Corporation Tax Act, the *Practical Solution on a change in depreciation method due to Tax Reform 2016* (Accounting Standards Board of Japan (ASBJ) PITF No. 32) issued on June 17, 2016, has been applied from the first quarter period, and the depreciation method for buildings and accompanying facilities, and structures acquired on or after April 1, 2016, will be changed from the declining balance method to the straight line method.

The effect of this change on the first quarter period under review are minimal.

(4) Additional information

The *Implementation Guidance on Recoverability of Deferred Tax Assets* (ASBJ Guidance No. 26) issued on March 28, 2016, has been applied from the first quarter period under review.



### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

	<i>Millions of yen, rounded down</i>	
	As of June 30, 2016	As of March 31, 2016
<b>ASSETS</b>		
<b>I. Current assets:</b>		
Cash and cash equivalents .....	22,869	18,034
Notes and accounts receivable .....	9,595	9,997
Marketable securities .....	999	8,006
Merchandise and products .....	3,717	3,548
Work in progress .....	39	26
Raw materials and supplies .....	3,944	3,787
Others .....	3,562	2,969
Allowance for doubtful accounts .....	(54)	(51)
Total current assets .....	44,674	46,317
<b>II. Fixed assets:</b>		
Tangible fixed assets		
Buildings and structures .....	26,907	25,355
Accumulated depreciation and accumulated impairment loss .....	(14,704)	(14,513)
Buildings and structures (net) .....	12,202	10,841
Machinery and transport equipment .....	7,588	7,552
Accumulated depreciation and accumulated impairment loss .....	(6,364)	(6,282)
Machinery and transport equipment (net) .....	1,223	1,270
Furniture, tools and fixtures .....	7,755	7,600
Accumulated depreciation and accumulated impairment loss .....	(6,515)	(6,490)
Furniture, tools and fixtures (net) .....	1,240	1,109
Land .....	11,920	11,951
Lease assets	399	386
Accumulated depreciation and accumulated impairment loss .....	(249)	(227)
Lease assets (net) .....	149	158
Others .....	806	1,230
Total tangible fixed assets .....	27,543	26,562
Intangible fixed assets		
Others .....	2,462	2,639
Total intangible fixed assets .....	2,462	2,639
Investments and other assets		
Investment securities .....	5,472	5,656
Others .....	2,681	2,591
Total investments and other assets .....	8,153	8,248
Total fixed assets .....	38,159	37,449
<b>Total Assets .....</b>	<b>82,834</b>	<b>83,767</b>

## Consolidated Balance Sheets, continued

	<i>Millions of yen, rounded down</i>	
	As of June 30, 2016	As of March 31, 2016
<b>LIABILITIES</b>		
I. Current liabilities:		
Notes and accounts payable .....	2,329	2,547
Accrued income taxes .....	600	898
Allowance for bonus .....	1,595	1,074
Allowance for points.....	1,512	1,507
Others.....	6,562	6,115
Total current liabilities .....	12,599	12,143
II. Long-term liabilities:		
Retirement benefit liabilities .....	1,298	1,324
Asset retirement obligations.....	402	385
Others.....	257	274
Total long-term liabilities .....	1,958	1,984
Total liabilities.....	14,558	14,128
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock.....	10,795	10,795
Additional paid-in capital.....	11,706	11,706
Retained earnings .....	48,828	50,134
Treasury stock .....	(3,695)	(3,706)
Total shareholders' equity .....	67,634	68,930
Other comprehensive income		
Foreign currency translation adjustment.....	80	146
Total adjustments related to retirement benefits	(162)	(166)
Total other comprehensive income.....	(82)	(20)
Warrants.....	723	729
Total net assets.....	68,276	69,639
<b>Total Liabilities and Net Assets .....</b>	<b>82,834</b>	<b>83,767</b>

**(2) Consolidated statements of income and Consolidated statements of comprehensive income**  
**Consolidated statements of income**

*Millions of yen, rounded down*

	April 1, 2016 to June 30, 2016	April 1, 2015 to June 30, 2015
Net sales .....	23,483	22,112
Cost of sales .....	7,054	6,519
Gross profit .....	16,428	15,592
Selling, general and administrative expenses .....	16,542	14,954
Operating income .....	(114)	638
Non-operating income		
Interest income .....	1	1
Dividend income .....	0	0
Rental income .....	26	26
Other non-operating income .....	44	41
Total non-operating income .....	72	69
Non-operating expenses		
Rent expenses on fixed assets .....	8	8
Loss on foreign exchange .....	17	13
Other non-operating expenses .....	9	5
Total non-operating expenses .....	36	27
Ordinary income .....	(77)	680
Extraordinary income		
Income from sale of fixed assets .....	0	0
Gain on reversal of subscription rights to shares .....	2	0
Total extraordinary income .....	2	0
Extraordinary loss		
Loss on disposal of fixed assets .....	4	9
Impairment loss .....	59	--
Loss on closure of stores .....	3	3
Other .....	0	0
Total extraordinary loss .....	67	12
Income before income taxes .....	(142)	668
Income and other taxes .....	407	604
Adjustments to income and other taxes .....	(308)	(403)
Total income and other taxes .....	99	200
Net income .....	(241)	468
Net income attributable to owners of the parent company .....	(241)	468

## Consolidated statements of comprehensive income

Millions of yen, rounded down

	April 1, 2016 to June 30, 2016	April 1, 2015 to June 30, 2015
Income before minority interests.....	(241)	468
<b>Other comprehensive income</b>		
Foreign currency translation adjustment.....	(66)	(2)
Adjustments related to retirement benefits .....	4	(3)
Total other comprehensive income.....	(61)	(6)
<b>Comprehensive income</b>	<b>(303)</b>	<b>462</b>
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	(303)	462
Comprehensive income attributable to minor interests .....	--	--

### (3) Notes to the consolidated financial statements

#### Items related to going concern:

No applicable items

#### Note on significant change in shareholders' equity

No applicable items

#### Segment information

Business Segments

##### 1. Three months ended June 30, 2016

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate <sup>*2</sup>	Consolidated <sup>*3</sup>
	Cosmetics Business	Nutritional Supplements Business	Other Businesses <sup>*1</sup>			
<b>1. Sales and operating income:</b>						
(1) Sales to external customers	13,895	7,666	1,921	23,483	--	23,483
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	13,895	7,666	1,921	23,483	--	23,483
Operating income (loss)	949	(449)	(229)	270	(384)	(114)

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income (loss) of (¥384 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

##### 2. Three months ended June 30, 2015

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate <sup>*2</sup>	Consolidated <sup>*3</sup>
	Cosmetics Business	Nutritional Supplements Business	Other Businesses <sup>*1</sup>			
<b>1. Sales and operating income:</b>						
(1) Sales to external customers	13,497	6,875	1,738	22,112	--	22,112
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	13,497	6,875	1,738	22,112	--	22,112
Operating income (loss)	1,692	48	(724)	1,016	(378)	638

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income (loss) of (¥378 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.