

# FANCL Corporation

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

April 1, 2016 to December 31, 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)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2017

**FANCL CORPORATION**

**January 30, 2017**

www.fancl.jp/en/

Stock exchange listings: Tokyo 1<sup>st</sup> section, code number 4921  
Contact: Kazuyuki Shimada  
Senior Managing Director and General Manager  
of Group Support Center  
Telephone: +81-45-226-1200

President, Representative Director: Kazuyoshi Miyajima

Scheduled date for submission of interim *hokokusho* (securities report): February 13, 2017

Scheduled date for distribution of dividends: -

Availability of supplementary explanatory material for the third quarter results: Available

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

### **1) Consolidated results for the nine-month period (April 1, 2016 to December 31, 2016) of the fiscal year ending March 31, 2017**

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Nine months ended December 31, 2016		Nine months ended December 31, 2015	
		% change		% change
Net sales .....	71,674	5.4	67,986	16.7
Operating income .....	(440)	--	1,382	(31.0)
Ordinary income .....	(331)	--	1,532	(30.1)
Net income attributable to owners of the parent company .....	4,001	334.2	921	(45.3)
Earnings per share (¥) .....	63.73	--	14.61	--
Earnings per share (diluted) (¥) .....	62.95	--	14.40	--

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

2. Comprehensive income: Nine months ended December 31, 2016: ¥3,838 million (323.2%)

Nine months ended December 31, 2015: ¥907 million (-46.1%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of December 31, 2016	As of March 31, 2016
Total assets .....	83,303	83,767
Net assets .....	71,078	69,639
Shareholders' equity/total assets (%) .....	84.4	82.3

Shareholders' equity: As of December 31, 2016: ¥70,302 million

As of March 31, 2016: ¥68,909 million

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

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

Note: Changes to the dividend forecast during the period under review: None

Breakdown of interim dividend for the FY ending March 31, 2017: 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)**

(Millions of yen)

	Fiscal year ending March 31, 2017	
		Change (%)
Net sales .....	99,000	9.0
Operating income .....	3,000	149.1
Ordinary income .....	3,100	118.0
Net income attributable to owners of the parent company .....	6,200	--
Earnings per share (¥) .....	99.00	--

Note: Changes to the Consolidated forecasts during the period under review: None

#### **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)	December 31, 2016	65,176,600 shares	March 31, 2016	65,176,600 shares
2. Number of treasury shares	December 31, 2016	2,213,705 shares	March 31, 2016	2,553,377 shares
3. Average number of shares during the interim period	Nine months to December 31, 2016	62,784,910 shares	Nine months to December 31, 2016	63,059,548 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.

## Contents

### 1. Operating Results

(1) Summary of business performance.....	5
(2) Summary of consolidated financial position.....	7
(3) Forecasts for the fiscal year ending March 31, 2017.....	7

### 2. Other

(1) Changes to subsidiaries during the period.....	7
(2) Use of special accounting procedures.....	7
(3) Changes in accounting policy, changes in accounting estimates, and restatements.....	7
(4) Additional information.....	7

### 3. Consolidated financial statements

(1) Consolidated balance sheets.....	8
(2) Consolidated statement of income and Consolidated statement of comprehensive income....	10
Consolidated statement of income.....	10
Consolidated statement of comprehensive income.....	11
(3) Notes to the consolidated financial statements.....	12
Items related to going concern.....	12
Note on significant change in shareholders' equity.....	12
Segment information.....	12

# 1. Operating Results

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

(All comparisons are with the nine-month period of the previous fiscal year, unless stated otherwise.)

During the nine-month period under review, despite robust employment conditions, Japan's domestic consumption environment lacked strength as consumer prices trended downward due to an increase in budget-mindedness among consumers.

Amid these conditions, consolidated sales increased 5.4% to ¥71,674 million due to an increase in sales in all businesses as a result of strategic investment in advertising continued from the previous period based on policies in the Medium-term Management Plan (FY2016 – FY2018). Although gross profit increased as a result of the increase in sales, an operating loss of ¥440 million and an ordinary loss of ¥331 million was recorded, compared to operating income of ¥1,382 million and ordinary income of ¥1,532 million in the previous year. This was due to an increase in selling, general and administrative expenses resulting from proactive advertisement investment aimed at expanding the customer base. Net income attributable to owners of the parent company increased 334.2% to ¥4,001 million, due to the recording of extraordinary income for the sale of investment securities.

Segment results are as follows:

### 1) Cosmetics Business

#### Sales

Sales from the Cosmetics business increased 2.5% to ¥42,228 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2016		Nine months ended December 31, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	33,240	78.7	33,244	80.7	(0.0)
ATTENIR Cosmetics	6,748	16.0	5,697	13.8	18.5
boscia	1,587	3.8	1,513	3.7	4.9
Others	651	1.5	746	1.8	(12.7)
Totals	42,228	100.0	41,200	100.0	2.5

	Nine months ended December 31, 2016		Nine months ended December 31, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	18,826	44.6	17,952	43.6	4.9
Retail store sales	14,862	35.2	15,227	36.9	(2.4)
Wholesales and others	3,860	9.1	3,202	7.8	20.6
Overseas Sales	4,678	11.1	4,818	11.7	(2.9)
Totals	42,228	100.0	41,200	100.0	2.5

Sales of **FANCL Cosmetics** decreased 0.0% to ¥33,240 million, as a decline in overseas sales offset an increase in domestic sales resulting from the effects of a renewal of *Aging Care Washing Cream* and *Facial Washing Powder*, an expansion of wholesale sales to drugstores, and core product promotions.

Sales of **ATTENIR Cosmetics** increased 18.5% to ¥6,748 million, due to the effects of the addition of new products such as *SkinClear Cleanse Oil*, and a significant increase in customers resulting from a web-based communications strategy.

Results by sales channels were: mail order sales increased 4.9% year on year to ¥18,826 million, retail store sales decreased 2.4% to ¥14,862million, wholesale sales through other sales channels increased 20.6% to ¥3,860 million, and overseas sales decreased 2.9% to ¥4,678 million.

#### Operating income

Despite growth in earnings, operating income decreased 42.4% to ¥2,810 million, mainly due to an increase in marketing costs compared to the previous period.

## 2) Nutritional Supplements Business

### Sales

Nutritional supplement sales increased 11.8% to ¥23,898 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2016		Nine months ended December 31, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	9,847	41.2	8,332	39.0	18.2
Retail store sales	5,749	24.1	5,376	25.1	6.9
Wholesales and others	7,182	30.0	6,666	31.2	7.7
Overseas Sales	1,119	4.7	1,008	4.7	11.0
Totals	23,898	100.0	21,383	100.0	11.8

Revenues from product sales increased due to the effect of promotions and subsequent strong trends in sales of foods with functional claims labelling *Enkin* and *Calolimit*.

Results by sales channels were: mail order sales increased 18.2% to ¥9,847 million, retail store sales increased 6.9% to ¥5,749 million, wholesale through other sales channels increased 7.7% to ¥7,182 million and overseas sales increased 11.0% to ¥1,119 million.

### Operating income

Despite growth in earnings, an operating loss of ¥1,476 million was recorded, a ¥797 million expansion on the previous period, mainly due to an increase in marketing costs.

## 3) Other Businesses

### Sales

Other businesses increased 2.7% year on year to ¥5,547 million

(Millions of yen, rounded down)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015	Change (%)
Hatsuga genmai	1,902	1,982	(4.0)
Kale juice	2,067	2,096	(1.4)
Other	1,577	1,322	19.3
Totals	5,547	5,401	2.7

### Operating income

An operating loss of ¥526 million was recorded, a ¥1,061 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 ¥464 million to ¥83,303 million. The primary contributing factors were an increase of ¥3,291 million in current assets and a decrease of ¥3,756 million in fixed assets.

Contributing to the increase in current assets were a ¥10,382 million increase in cash and cash equivalents, a ¥982 million increase in notes and accounts receivable, and a ¥8,006 million decrease marketable securities. The decrease in fixed assets was primarily the result of a ¥5,528 million decrease in investment securities, and a ¥1,459 million increase in tangible fixed assets due to an increase in buildings and structures.

Liabilities decreased ¥1,903 million from the end of the previous fiscal year to ¥12,224 million. The primary contributing factor was a decrease of ¥1,908 million in current liabilities. Factors contributing to the decrease in current liabilities include a ¥495 million decrease in income taxes payable, a ¥519 million decrease in allowance for bonus, and a ¥830 million decrease in "Other" current liabilities due to a decrease in accounts payable.

Net assets increased ¥1,438 million to ¥71,078 million. Contributing factors included a ¥4,001 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥2,889 million decline in retained earnings from dividend payments.

As a result, the shareholders' equity ratio rose 2.1 percentage points from the end of the previous fiscal year to 84.4%.

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

The full-year consolidated results forecasts are unchanged from that announced on October 28, 2016.

## 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 nine-month 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.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

	<i>Millions of yen, rounded down</i>	
	As of December 31, 2016	As of March 31, 2016
<b>ASSETS</b>		
<b>I. Current assets:</b>		
Cash and cash equivalents .....	28,417	18,034
Notes and accounts receivable .....	10,979	9,997
Marketable securities .....	--	8,006
Merchandise and products .....	3,938	3,548
Work in progress .....	25	26
Raw materials and supplies .....	3,215	3,787
Others .....	3,099	2,969
Allowance for doubtful accounts .....	(67)	(51)
Total current assets .....	49,609	46,317
<b>II. Fixed assets:</b>		
Tangible fixed assets		
Buildings and structures .....	27,143	25,355
Accumulated depreciation and accumulated impairment loss .....	(14,477)	(14,513)
Buildings and structures (net) .....	12,666	10,841
Machinery and transport equipment .....	8,240	7,552
Accumulated depreciation and accumulated impairment loss .....	(6,315)	(6,282)
Machinery and transport equipment (net) .....	1,924	1,270
Furniture, tools and fixtures .....	7,952	7,600
Accumulated depreciation and accumulated impairment loss .....	(6,670)	(6,490)
Furniture, tools and fixtures (net) .....	1,281	1,109
Land .....	11,904	11,951
Lease assets .....	405	386
Accumulated depreciation and accumulated impairment loss .....	(263)	(227)
Lease assets (net) .....	142	158
Others .....	101	1,230
Total tangible fixed assets .....	28,022	26,562
Intangible fixed assets		
Others .....	2,237	2,639
Total intangible fixed assets .....	2,237	2,639
Investments and other assets		
Investment securities .....	128	5,656
Others .....	3,306	2,591
Total investments and other assets .....	3,434	8,248
Total fixed assets .....	33,693	37,449
<b>Total Assets .....</b>	<b>83,303</b>	<b>83,767</b>

## Consolidated Balance Sheets, continued

	<i>Millions of yen, rounded down</i>	
	As of December 31, 2016	As of March 31, 2016
<b>LIABILITIES</b>		
I. Current liabilities:		
Notes and accounts payable .....	2,359	2,547
Accrued income taxes .....	402	898
Allowance for bonus .....	554	1,074
Allowance for points.....	1,629	1,507
Asset retirement obligations.....	3	--
Others.....	5,285	6,115
Total current liabilities .....	10,234	12,143
II. Long-term liabilities:		
Retirement benefit liabilities .....	1,316	1,324
Asset retirement obligations.....	413	385
Others .....	260	274
Total long-term liabilities .....	1,990	1,984
Total liabilities.....	12,224	14,128
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock.....	10,795	10,795
Additional paid-in capital.....	11,706	11,706
Retained earnings .....	51,197	50,134
Treasury stock .....	(3,213)	(3,706)
Total shareholders' equity .....	70,485	68,930
Other comprehensive income		
Foreign currency translation adjustment.....	(20)	146
Total adjustments related to retirement benefits	(162)	(166)
Total other comprehensive income.....	(182)	(20)
Warrants.....	776	729
Total net assets.....	71,078	69,639
<b>Total Liabilities and Net Assets .....</b>	<b>83,303</b>	<b>83,767</b>

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

*Millions of yen, rounded down*

	April 1, 2016 to December 31, 2016	April 1, 2015 to December 31, 2015
Net sales .....	71,674	67,986
Cost of sales .....	21,381	19,977
Gross profit .....	50,292	48,008
Selling, general and administrative expenses .....	50,733	46,625
Operating income .....	(440)	1,382
Non-operating income		
Interest income .....	3	6
Dividend income .....	0	0
Rental income .....	78	78
Other non-operating income .....	122	140
Total non-operating income .....	204	225
Non-operating expenses		
Rent expenses on fixed assets .....	26	25
Loss on foreign exchange .....	43	28
Other non-operating expenses .....	24	21
Total non-operating expenses .....	94	76
Ordinary income .....	(331)	1,532
Extraordinary income		
Income from sale of fixed assets .....	0	0
Gain on reversal of subscription rights to shares .....	36	1
Gain on sale of investment securities .....	4,440	--
Gain on investments in silent partnerships .....	--	36
Total extraordinary income .....	4,477	38
Extraordinary loss		
Loss on sale of fixed assets .....	0	--
Loss on disposal of fixed assets .....	28	19
Impairment loss .....	64	--
Loss on closure of stores .....	26	30
Other .....	1	12
Total extraordinary loss .....	121	63
Income before income taxes .....	4,024	1,508
Income and other taxes .....	593	729
Adjustments to income and other taxes .....	(570)	(142)
Total income and other taxes .....	23	587
Net income .....	4,001	921
Net income attributable to owners of the parent company .....	4,001	921

## Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2016 to December 31, 2016	April 1, 2015 to December 31, 2015
Income before minority interests.....	4,001	921
<b>Other comprehensive income</b>		
Foreign currency translation adjustment.....	(166)	(4)
Adjustments related to retirement benefits .....	4	(9)
Total other comprehensive income.....	(162)	(14)
<b>Comprehensive income</b>	<b>3,838</b>	<b>907</b>
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	3,838	907
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. Nine months ended December 31, 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	42,228	23,898	5,547	71,674	--	71,674
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	42,228	23,898	5,547	71,674	--	71,674
Operating income (loss)	2,810	(1,476)	(526)	807	(1,248)	(440)

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 (¥1,248 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. Nine months ended December 31, 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	41,200	21,383	5,401	67,986	--	67,986
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	41,200	21,383	5,401	67,986	--	67,986
Operating income (loss)	4,877	(678)	(1,587)	2,611	(1,228)	1,382

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 (¥1,228 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.