

FANCL Corporation

Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2019

April 1, 2018 to September 30, 2018

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)

Interim Period Results for the Fiscal Year Ending March 31, 2019

FANCL CORPORATION

October 30, 2018

www.fancl.jp/en/

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Scheduled date for submission of interim *hokokusho* (securities report): November 13, 2018

Scheduled date for distribution of dividends: December 5, 2018

Availability of supplementary explanatory material for the interim results: Available

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

1) Consolidated results for the interim period (April 1, 2018 to September 30, 2018) of the fiscal year ending March 31, 2019

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Six months ended September 30, 2018		Six months ended September 30, 2017	
		% change		% change
Net sales	60,288	16.3	51,857	12.3
Operating income	7,082	89.6	3,736	--
Ordinary income	7,172	86.6	3,843	--
Net income attributable to owners of the parent company.....	4,850	95.1	2,485	(35.8)
Earnings per share (¥)	76.23	--	39.27	--
Earnings per share (diluted) (¥).....	75.28	--	38.84	--

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

2. Comprehensive income: Six months ended September 30, 2018: ¥4,829 million (95.6%)

Six months ended September 30, 2017: ¥2,468 million (-33.7%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of September 30, 2018	As of March 31, 2018
Total assets.....	95,163	92,380
Net assets	78,662	75,597
Shareholders' equity/total assets (%).....	81.9	81.0

Shareholders' equity: As of September 30, 2018: ¥77,942 million

As of March 31, 2018: ¥74,805 million

2) Dividends per share

	FY ended March 31, 2018	FY ending March 31, 2019
Interim period	29.00	30.00
Year-end	29.00	15.00 (forecast)
Annual.....	58.00	45.00 (forecast)

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

Breakdown of interim dividend for the FY ended March 31, 2018: Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of year-end dividend for the FY ended March 31, 2018: Ordinary dividend: ¥17.00; special dividend: ¥12.00

Note: Effective December 1, 2018, a share split will be implemented, with each share of common stock split for 2 shares. The annual dividend (forecast) amount shown for the FY ending March 31, 2019 takes this share split into account.

3) Consolidated forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

Millions of yen

	FY Ending March 31, 2019	
		Change %
Net sales	122,000	11.9
Operating income	12,200	44.4
Ordinary income	12,300	42.2
Profit (loss) attributable to owners of parent.....	8,400	35.7
Net income per share (¥).....	66.07	--

Notes: 1. Note: Changes to the Consolidated forecasts during the period under review: None

2. Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

3. Effective December 1, 2018, a share split will be implemented, with each share of common stock split for 2 shares. The consolidated net income per share forecast for the FY ending March 31, 2019 shown above takes this share split into account.

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: None
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)	September 30, 2018	65,176,600 shares	March 31, 2018	65,176,600 shares
2. Number of treasury shares	September 30, 2018	1,488,279 shares	March 31, 2018	1,610,007 shares
3. Average number of shares during the six-month period	Six months to September 30, 2018	63,628,409 shares	Six months to September 30, 2017	63,289,011 shares

***This quarterly financial report is not subject to audit procedures by a certified public accountant or auditor**

***Appropriate use of financial forecasts**

(Cautionary note regarding forward-looking statements)

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, 2019.

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1. Operating Results

(1) Summary of business performance (consolidated)

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

During the six-month period under review, overall consolidated sales increased 16.3% to ¥60,288 million as a result of a significant increase in sales in the core cosmetics and nutritional supplements businesses, amid strong trends in domestic consumption and robust inbound demand. Operating income increased 89.6% to ¥7,082 million due to an increase in gross profit from increased sales, which outweighed an increase in logistics costs from delivery price hikes and an increase in human resource expenses associated with the improvement in business performance. Ordinary income increased 86.6% to ¥7,172 million, and net income attributable to owners of the parent company increased 95.1% to ¥4,850 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 11.4% to ¥35,001 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2018		Six months ended September 30, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	27,602	78.9	24,142	76.8	14.3
ATTENIR Cosmetics	5,647	16.1	5,290	16.8	6.7
boscia	1,410	4.0	1,562	5.0	(9.8)
Others	341	1.0	428	1.4	(20.2)
Totals	35,001	100.0	31,424	100.0	11.4

	Six months ended September 30, 2018		Six months ended September 30, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	13,100	37.4	12,950	41.2	1.2
Direct store sales	14,210	40.6	11,436	36.4	24.3
Wholesales and others	3,793	10.9	3,197	10.2	18.6
Overseas sales	3,897	11.1	3,839	12.2	1.5
Totals	35,001	100.0	31,424	100.0	11.4

Sales of **FANCL Cosmetics** increased 14.3% to ¥27,602 million, due to strong sales of core products such as *Mild Cleansing Oil* for which a limited-edition design bottle was released, and basic skincare products, as well as contributions from *Beauty BOUQUET*, a cosmetics product aimed at the mature market.

Sales of **ATTENIR Cosmetics** increased 6.7% to ¥5,647 million, due to strong sales of core product *SkinClear Cleanse Oil* and basic skincare products.

Sales of **boscia** decreased 9.8% to ¥1,410 million, due to the absence of a temporary concentration of orders which occurred in the previous comparable period.

Results by sales channels were: online and catalogue sales increased 1.2% year on year to ¥13,100 million, direct store sales increased 24.3% to ¥14,210 million, wholesale sales through other sales channels increased 18.6% to ¥3,793 million, and overseas sales increased 1.5% to ¥3,897 million.

Operating income

Operating income increased 36.6% to ¥5,929 million, due to an increase in gross profit resulting from higher sales, as well as an improvement in production efficiency accompanying a growth in sales.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 28.9% to ¥21,977 million.

(Millions of yen, rounded down)

	Six-months ended September 30, 2018		Six-months ended September 30, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	6,938	31.6	6,475	38.0	7.2
Direct store sales	7,523	34.2	4,767	28.0	57.8
Wholesales and others	6,329	28.8	4,911	28.8	28.9
Overseas Sales	1,186	5.4	894	5.2	32.6
Totals	21,977	100.0	17,049	100.0	28.9

Revenues from product sales increased due to strong trends in sales of *Naishi Support* for which promotions including TV commercials were conducted, along with *Deep Charge Collagen*, and *Age Bracket-Based Supplements*.

Results by sales channels were: online and catalogue sales increased 7.2% to ¥6,938 million, direct store sales increased 57.8% to ¥7,523 million, wholesale sales through other sales channels increased 28.9% to ¥6,329 million, and overseas sales increased 32.6% to ¥1,186 million.

Operating income

Operating income increased 998.9% to ¥2,224 million, due to an increase in gross profit from higher sales, as well as an improvement in production efficiency resulting from growth in sales.

3) Other Businesses

Sales

Other businesses decreased 2.2% year on year to ¥3,308 million

(Millions of yen, rounded down)

	Six-months ended September 30, 2018	Six months-ended September 30, 2017	Change (%)
Hatsuga genmai	994	1,121	(11.2)
Kale juice	1,270	1,285	(1.1)
Other	1,042	977	6.7
Totals	3,308	3,383	(2.2)

Operating income

An operating loss of ¥166 million was recorded, compared to operating income of ¥58 million last year, due to a decrease in gross profit from lower sales.

(2) Summary of consolidated financial position

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

Assets increased ¥2,783 million to ¥95,163 million, primarily due to an increase of ¥2,786 million in current assets.

Contributing to the increase in current assets were a ¥593 million increase in notes and accounts receivable, a ¥666 million increase in merchandise and products, and a ¥1,060 million increase in raw materials and supplies.

Liabilities decreased ¥282 million from the end of the previous fiscal year to ¥16,500 million. The primary contributing factor was a decrease of ¥291 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥1,969 million decrease in "Other" current liabilities due to a decrease in accounts payable, as well as a ¥1,189 million increase in accrued income taxes and a ¥324 million increase in allowance for bonus.

Net assets increased ¥3,065 million to ¥78,662 million. Contributing factors included a ¥4,850 million increase in retained earnings due to the recording of net income attributable to owners of the parent, as well as a ¥1,843 million decrease in retained earnings from the payment of dividends.

As a result, the shareholders' equity ratio improved 0.9 points compared to the end of the previous fiscal year, to 81.9%.

Cash flow

Cash and cash equivalents as of September 30, 2018 were ¥36,836 million, ¥194 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities

Cash gained from operating activities during the interim period under review was ¥3,767 million compared to an inflow of ¥3,783 million in the interim period of the previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥6,937 million and depreciation expenses of ¥1,428 million.

Factors reducing operating cash flow included an increase in inventories of ¥1,784 million, and decrease in other current liabilities of ¥1,936 million.

Cash flows from investing activities

Cash used in investing activities during the interim period under review was ¥1,760 million, compared to an outflow of ¥1,087 million in the interim period of the previous fiscal year. Factors reducing investment cash flow included outlays of ¥1,441 million for acquisitions of tangible fixed assets, and outlays of ¥418 million for acquisitions of intangible fixed assets.

Cash flows from financing activities

Cash used in financing activities during the interim period under review was ¥1,804 million, compared to an outflow of ¥1,359 million in the interim period of the previous fiscal year. Factors reducing cash flow from financing activities included ¥1,840 million for dividend payments.

(3) Forecasts for the fiscal year ending March 31, 2019

The full-year forecast remains unchanged from that previously announced on July 30, 2018.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	<i>Millions of yen, rounded down</i>	
	As of September 30, 2018	As of March 31, 2018
ASSETS		
I. Current assets:		
Cash and cash equivalents	36,836	36,641
Notes and accounts receivable	14,384	13,791
Merchandise and products	4,776	4,109
Work in progress.....	66	21
Raw materials and supplies	5,230	4,169
Others	1,191	965
Allowance for doubtful accounts	(154)	(155)
Total current assets	62,330	59,543
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	27,696	27,402
Accumulated depreciation and accumulated impairment loss	(16,025)	(15,665)
Buildings and structures (net)	11,670	11,736
Machinery and transport equipment	8,917	8,541
Accumulated depreciation and accumulated impairment loss	(7,091)	(6,831)
Machinery and transport equipment (net)	1,825	1,709
Furniture, tools and fixtures	8,478	8,204
Accumulated depreciation and accumulated impairment loss	(7,150)	(7,088)
Furniture, tools and fixtures (net)	1,327	1,116
Land	11,839	11,607
Lease assets	282	301
Accumulated depreciation and accumulated impairment loss	(184)	(170)
Lease assets (net)	98	131
Others	221	302
Total tangible fixed assets	26,982	26,603
Intangible fixed assets		
Other	2,123	2,465
Total intangible fixed assets	2,123	2,465
Investments and other assets		
Investment securities	176	126
Others	3,549	3,641
Total investments and other assets	3,726	3,768
Total fixed assets	32,832	32,836
Total Assets	95,163	92,380

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of September 30, 2018	As of March 31, 2018
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,090	3,025
Accrued income taxes	2,420	1,230
Allowance for bonus	1,667	1,343
Allowance for points	1,672	1,576
Asset retirement obligations	2	--
Others	6,279	8,248
Total current liabilities	15,132	15,424
II. Long-term liabilities:		
Retirement benefit liabilities	706	703
Asset retirement obligations	405	409
Allowance for directors' bonuses	26	--
Others	229	245
Total long-term liabilities	1,368	1,358
Total liabilities	16,500	16,782
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	57,781	54,796
Treasury stock	(2,165)	(2,338)
Total shareholders' equity	78,117	74,959
Other comprehensive income		
Foreign currency translation adjustment	63	89
Total adjustments related to retirement benefits	(238)	(243)
Total other comprehensive income	(175)	(154)
Warrants	720	791
Total net assets	78,662	75,597
Total Liabilities and Net Assets	95,163	92,380

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

Millions of yen, rounded down

	April 1, 2018 to September 30, 2018	April 1, 2017 to September 30, 2017
Net sales	60,288	51,857
Cost of sales.....	17,163	15,028
Gross profit	43,124	36,829
Selling, general and administrative expenses	36,041	33,092
Operating income.....	7,082	3,736
Non-operating income		
Interest income	2	2
Dividend income	0	0
Rental income.....	52	51
Foreign exchange gain	13	6
Other non-operating income.....	53	78
Total non-operating income.....	121	138
Non-operating expenses		
Rent expenses on fixed asses	17	17
Provision of allowance for doubtful accounts.....	0	1
Other non-operating expenses.....	13	13
Total non-operating expenses	32	32
Ordinary income.....	7,172	3,843
Extraordinary income		
Gain on reversal of subscription rights to shares	0	2
Gain on transfer of retirement benefit plan ...	-	5
Total extraordinary income	0	8
Extraordinary loss		
Loss on disposal of fixed assets	186	3
Impairment loss	7	0
Loss on closure of stores	33	83
Other	7	1
Total extraordinary loss	234	89
Income before income taxes	6,937	3,762
Income and other taxes.....	2,131	698
Adjustments to income and other taxes.....	(43)	578
Total income and other taxes	2,087	1,276
Net income	4,850	2,485
Net income attributable to owners of the parent company.....	4,850	2,485

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2018 to September 30, 2018	April 1, 2017 to September 30, 2017
Income before minority interests.....	4,850	2,485
Other comprehensive income		
Foreign currency translation adjustment.....	(25)	(41)
Adjustments related to retirement benefits.....	4	24
Total other comprehensive income.....	(20)	(17)
Comprehensive income	4,829	2,468
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	4,829	2,468
Comprehensive income attributable to minor interests.....	--	--

(3) Consolidated Statement of Cash Flows*Millions of yen, rounded down*

	April 1, 2018 to September 30, 2018	April 1, 2017 to September 30, 2017
Cash flows from operating activities		
Income before income taxes	6,937	3,762
Depreciation	1,428	1,368
Impairment loss	7	0
Increase (decrease) in allowance for doubtful accounts.....	(0)	24
Increase (decrease) in allowance for bonuses	324	263
Increase (decrease) in allowance for directors' bonuses.....	26	--
Increase (decrease) in allowance for points	96	3
Increase (decrease) in retirement benefit related obligation....	10	(728)
Interest and dividend income.....	(2)	(2)
Loss (gain) from foreign exchange	(5)	(7)
Loss on disposal of fixed assets	186	3
Loss on store closures	33	83
Gain on reversal of subscription rights to shares	(0)	(2)
Decrease (increase) in accounts receivable.....	(596)	(1,436)
Decrease (increase) in inventories	(1,784)	11
Decrease (increase) in other current assets.....	(227)	(25)
Decrease (increase) in other fixed assets	87	4
Decrease (increase) in accounts payable	66	347
Increase (decrease) in other current liabilities	(1,936)	377
Increase (decrease) in other fixed liabilities.....	--	(2)
Others	(40)	(105)
Sub-total	4,610	3,938
Interest and dividends received	2	2
Income taxes paid.....	(845)	(840)
Refund of income taxes	--	683
Net cash provided by (used in) operating activities.....	3,767	3,783

Consolidated Statement of Cash Flows (continued)

	<i>Millions of yen, rounded down</i>	
	April 1, 2018 to September 30, 2018	April 1, 2017 to September 30, 2017
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(1,441)	(755)
Income from sale of tangible fixed assets	0	3
Payment for acquisition of intangible fixed assets	(418)	(393)
Payment for acquisition of investment securities	(49)	--
Income from loans receivable.....	50	--
Other payments.....	(61)	(66)
Other proceeds.....	161	124
Net cash used in investing activities	(1,760)	(1,087)
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	85	509
Payment for purchase of treasury stock	(5)	(1)
Cash dividends paid.....	(1,840)	(1,823)
Others	(43)	(44)
Net cash used in financing activities	(1,804)	(1,359)
IV. Effect of exchange rate changes on cash and cash equivalents	(8)	(7)
V. Net increase in cash and cash equivalents	194	1,328
VI. Cash and cash equivalents at the beginning of the period	36,641	31,609
VII. Cash and cash equivalents at end of period.....	36,836	32,938

(4) Notes to the consolidated financial statements

Items related to going concern:

No applicable items

Note on significant change in shareholders' equity

No applicable items

Additional information

Effective the beginning of the first quarter period, 'Partial Amendments to the Accounting Standard for Tax Effect Accounting' (Accounting Standards Board of Japan (ASBJ) Statement No. 28, revision on February 16, 2018) have been adopted, and as a result 'Deferred tax assets' are categorized into Investments and other assets.

Segment information

Business Segments

1. Six months ended September 30, 2018

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate* ²	Consolidated * ³
	Cosmetics Business	Nutritional Supplements Business	Other Businesses * ¹			
1. Sales and operating income:						
(1) Sales to external customers	35,001	21,977	3,308	60,288	--	60,288
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	35,001	21,977	3,308	60,288	--	60,288
Operating income (loss)	5,929	2,224	(166)	7,988	(905)	7,082

Notes:

- The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
- The adjustment amount on segment income (loss) of (¥905 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.
- Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

2. Six months ended September 30, 2017

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate* ²	Consolidated * ³
	Cosmetics Business	Nutritional Supplements Business	Other Businesses * ¹			
1. Sales and operating income:						
(1) Sales to external customers	31,424	17,049	3,383	51,857	--	51,857
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	31,424	17,049	3,383	51,857	--	51,857
Operating income (loss)	4,341	202	58	4,602	(865)	3,736

Notes:

- The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
- The adjustment amount on segment income of (¥865 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 is adjusted for operating income (loss) as recorded in the consolidated financial statements.