

# FANCL Corporation

## Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2020

April 1, 2019 to September 30, 2019

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 Results for the Fiscal Year Ending March 31, 2020

**FANCL CORPORATION**

**October 30, 2019**

<https://www.fancl.jp/en/>

Stock exchange listings: Tokyo 1<sup>st</sup> section, code number 4921  
 Contact: Yukihiro Ishigami  
 CFO, Executive Director, General Manager,  
 Corporate Planning Division  
 Telephone: +81-45-226-1200

President, Representative Director: Kazuyuki Shimada

Scheduled date for submission of interim *hokokusho* (securities report): November 13, 2019

Scheduled date for distribution of dividends: December 5, 2019

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, 2019 to September 30, 2019) of the fiscal year ending March 31, 2020**

#### (1) Consolidated Operating Results

	Six months ended September 30, 2019		Six months ended September 30, 2018	
		% change		% change
Net sales .....	66,203	9.8	60,288	16.3
Operating income .....	8,896	25.6	7,082	89.6
Ordinary income .....	8,983	25.3	7,172	86.6
Net income attributable to owners of the parent company .....	5,872	21.1	4,850	95.1
Earnings per share (¥) .....	48.93	--	38.11	--
Earnings per share (diluted) (¥) .....	48.51	--	37.64	--

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, 2019: 5,840 million (20.9%)

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

**Note:** Effective December 1, 2018, a share split was implemented, with each share of common stock split for 2 shares. Earnings per share and earnings per share (diluted) are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

#### (2) Consolidated Financial Position

	As of September 30, 2019	As of March 31, 2019
Total assets .....	92,756	80,307
Net assets .....	64,957	60,916
Shareholders' equity/total assets (%) .....	69.2	74.8

Shareholders' equity: As of September 30, 2019: ¥64,177 million

As of March 31, 2019: ¥60,050 million

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

	FY ended March 31, 2019	FY ending March 31, 2020
Interim period .....	30.00	17.00
Year-end .....	15.00	17.00 (forecast)
Annual .....	--	34.00 (forecast)

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

2. Effective December 1, 2018, a share split was implemented, with each share of common stock split for 2 shares. The year-end dividend amount shown for the FY ended March 31, 2019 takes this share split into account, while the annual dividend amount for the FY ending March 31, 2019 has been left blank (--).

### **3) Consolidated forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 to March 31, 2020)**

	FY Ending March 31, 2020	
		Change %
Net sales .....	131,000	6.9
Operating income .....	15,000	21.1
Ordinary income .....	15,100	22.3
Profit (loss) attributable to owners of parent .....	10,200	17.9
Net income per share (¥) .....	85.03	--

Notes: 1. Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

2. To better reflect actual conditions, net income per share has been calculated based on the number of shares outstanding at the end of the fiscal year minus the number of treasury shares as of the end of the fiscal year.

3. 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: 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, 2019	130,353,200 shares	March 31, 2019	130,353,200 shares
2. Number of treasury shares	September 30, 2019	10,278,188 shares	March 31, 2019	10,395,292 shares
3. Average number of shares during the six-month period	Six months to September 30, 2019	120,013,267 shares	Six months to September 30, 2018	127,256,819 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, 2020.

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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 9.8% to ¥66,203 million as a result of strong trends in both domestic and inbound sales, in addition to an increase in sales in the core cosmetics and nutritional supplements businesses due to rush demand prior to the consumption tax hike. Operating income increased 25.6% to ¥8,896 million due to an increase in gross profit from higher sales, which outweighed a year-on-year increase in marketing expenses. Ordinary income increased 25.3% to ¥8,983 million, and net income attributable to owners of the parent company increased 21.1% to ¥5,872 million.

Segment results are as follows:

### 1) Cosmetics Business

#### Sales

Sales from the Cosmetics business increased 14.0% to ¥39,903 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2019		Six months ended September 30, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	32,096	80.5	27,602	78.9	16.3
ATTENIR Cosmetics	6,431	16.1	5,647	16.1	13.9
boscia	931	2.3	1,410	4.0	(33.9)
Others	444	1.1	341	1.0	29.9
Totals	39,903	100.0	35,001	100.0	14.0

	Six months ended September 30, 2019		Six months ended September 30, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	14,864	37.3	13,100	37.4	13.5
Direct store sales	16,578	41.5	14,210	40.6	16.7
Wholesales and others	4,911	12.3	3,793	10.9	29.5
Overseas sales	3,547	8.9	3,897	11.1	(9.0)
Totals	39,903	100.0	35,001	100.0	14.0

Sales of **FANCL Cosmetics** increased 16.3% to ¥32,096 million, due to strong trends in sales of new product *DEEP CLEAR WASHING POWDER*, as well as contributions from *Beauty BOUQUET*, and *AND MIRAI*.

Sales of **ATTENIR Cosmetics** increased 13.9% to ¥6,431 million, due to strong sales of the relaunched basic skin care and cleansing products.

Sales of **boscia** decreased 33.9% to ¥931 million, as strong performances with new business expansions in the US, Europe, and Middle and Near East were outweighed by sluggish sales to core US wholesalers.

Results by sales channels were: online and catalogue sales increased 13.5% year on year to ¥14,864 million, direct store sales increased 16.7% to ¥16,578 million, wholesale sales through other sales channels increased 29.5% to ¥4,911 million, and overseas sales decreased 9.0% to ¥3,547 million.

#### Operating income

Operating income increased 27.0% to ¥7,531 million, due to an increase in gross profit resulting from higher sales.

## 2) Nutritional Supplements Business

### Sales

Nutritional supplement sales increased 4.5% to ¥22,962 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2019		Six months ended September 30, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	7,756	33.8	6,938	31.6	11.8
Direct store sales	6,941	30.2	7,523	34.2	(7.7)
Wholesales and others	7,022	30.6	6,329	28.8	10.9
Overseas Sales	1,241	5.4	1,186	5.4	4.7
Totals	22,962	100.0	21,977	100.0	4.5

Revenues from product sales increased due to strong trends in sales of Foods with Function Claims products *Naishi Support* and *Nyosan Support*, along with *Age Bracket-Based Supplements*.

Results by sales channels were: online and catalogue sales increased 11.8% to ¥7,756 million, direct store sales decreased 7.7% to ¥6,941 million, wholesale sales through other sales channels increased 10.9% to ¥7,022 million, and overseas sales increased 4.7% to ¥1,241 million.

### Operating income

Operating income decreased 1.9% to ¥2,183 million despite an increase in gross profit from growth in sales, which was offset by an increase in marketing costs for the promotion of *Nyosan Support* and other lifestyle related supplement products.

## 3) Other Businesses

### Sales

Other businesses increased 0.9% year on year to ¥3,337 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2019	Six months ended September 30, 2018	Change (%)
Hatsuga genmai	971	994	(2.3)
Kale juice	1,189	1,270	(6.4)
Other	1,176	1,042	12.8
Totals	3,337	3,308	0.9

### Operating income

Operating income of ¥126 million was recorded, compared to an operating loss of ¥166 million last year, due to an improvement in the profitability of the Hatsuga genmai and Kale juice businesses.

## **(2) Summary of consolidated financial position**

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

Assets increased ¥12,449 million to ¥92,756 million, primarily due to an increase of ¥10,988 million in current assets. The primary factor contributing to the increase in current assets was a ¥10,604 million increase in cash and cash equivalents.

Liabilities increased ¥8,409 million from the end of the previous fiscal year to ¥27,799 million. The primary contributing factors were a decrease of ¥1,859 million in current liabilities and a ¥10,268 million increase in long-term liabilities. Factors contributing to the decrease in current liabilities included a ¥953 million decrease in Notes and accounts payable and a ¥776 million decrease in Other current liabilities due to a decrease in accounts payable. Factors contributing to the increase in long-term liabilities included a ¥10,225 million increase in convertible bonds with stock acquisition rights.

Net assets increased ¥4,040 million to ¥64,957 million. Contributing factors included a ¥5,872 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥1,799 million decrease in retained earnings due to dividend payments. As a result, the shareholders' equity ratio declined 5.6 points compared to the end of the previous fiscal year, to 69.2%.

### **Cash flow**

Cash and cash equivalents as of September 30, 2019 were ¥29,239 million, ¥10,604 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 ¥5,977 million compared to an inflow of ¥3,767 million in the interim period of the previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥8,956 million and depreciation expenses of ¥1,533 million. Factors reducing operating cash flow included a decrease in notes and accounts payable of ¥947 million, and an increase in income taxes paid of ¥3,375 million.

#### **Cash flows from investing activities**

Cash used in investing activities during the interim period under review was ¥3,721 million, compared to an outflow of ¥1,760 million in the interim period of the previous fiscal year. Factors reducing investment cash flow included outlays of ¥3,321 million for acquisitions of tangible fixed assets, and outlays of ¥384 million for acquisitions of intangible fixed assets.

#### **Cash flows from financing activities**

Cash gained from financing activities during the interim period under review was ¥8,371 million, compared to an outflow of ¥1,804 million in the interim period of the previous fiscal year. Factors reducing cash flow from financing activities included income of ¥10,205 for the issue of convertible bonds with stock acquisition rights and ¥1,796 million for dividend payments.

## **(3) Forecasts for the fiscal year ending March 31, 2020**

The full-year forecast remains unchanged from that previously announced on April 25, 2019.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of September 30, 2019	As of March 31, 2019
<b>ASSETS</b>		
<b>I. Current assets:</b>		
Cash and cash equivalents .....	29,239	18,635
Notes and accounts receivable.....	15,918	15,580
Merchandise and products .....	5,268	5,244
Work in progress .....	--	26
Raw materials and supplies.....	6,095	6,185
Others.....	1,323	1,189
Allowance for doubtful accounts .....	(168)	(171)
Total current assets.....	57,677	46,689
<b>II. Fixed assets:</b>		
<b>Tangible fixed assets</b>		
Buildings and structures.....	28,502	28,082
Accumulated depreciation and accumulated impairment loss .....	(16,689)	(16,321)
Buildings and structures (net) .....	11,813	11,760
Machinery and transport equipment.....	9,873	9,467
Accumulated depreciation and accumulated impairment loss.....	(7,576)	(7,421)
Machinery and transport equipment (net) .....	2,296	2,045
Furniture, tools and fixtures .....	8,924	8,800
Accumulated depreciation and accumulated impairment loss .....	(7,372)	(7,384)
Furniture, tools and fixtures (net).....	1,552	1,416
Land .....	11,839	11,839
Lease assets.....	297	256
Accumulated depreciation and accumulated impairment loss.....	(108)	(106)
Lease assets (net).....	189	150
Construction in progress .....	1,504	314
Total tangible fixed assets .....	29,195	27,526
<b>Intangible fixed assets</b>		
Other .....	2,193	2,229
Total intangible fixed assets.....	2,193	2,229
<b>Investments and other assets</b>		
Investment securities .....	176	176
Others.....	3,513	3,685
Total investments and other assets .....	3,690	3,862
Total fixed assets .....	35,079	33,617
<b>Total Assets</b> .....	<b>92,756</b>	<b>80,307</b>



## Consolidated Balance Sheets (continued)

Millions of yen, rounded down

	As of September 30, 2019	As of March 31, 2019
<b>LIABILITIES</b>		
I. Current liabilities:		
Notes and accounts payable .....	2,300	3,253
Accrued income taxes .....	3,200	3,600
Allowance for bonus .....	1,588	1,512
Allowance for points .....	1,899	1,676
Asset retirement obligations .....	1	--
Others .....	7,132	7,909
Total current liabilities .....	16,092	17,951
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights .....	10,225	--
Retirement benefit liabilities .....	703	738
Asset retirement obligations .....	423	412
Allowance for directors' bonuses .....	98	64
Others .....	256	222
Total long-term liabilities .....	11,706	1,438
Total liabilities .....	27,799	19,390
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock .....	10,795	10,795
Additional paid-in capital .....	11,706	11,706
Retained earnings .....	62,823	58,902
Treasury stock .....	(20,921)	(21,160)
Total shareholders' equity .....	64,403	60,243
Other comprehensive income		
Foreign currency translation adjustment .....	34	67
Total adjustments related to retirement benefits .....	(260)	(261)
Total other comprehensive income .....	(225)	(193)
Warrants .....	779	866
Total net assets .....	64,957	60,916
<b>Total Liabilities and Net Assets .....</b>	<b>92,756</b>	<b>80,307</b>

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

*Millions of yen, rounded down*

	April 1, 2019 to September 30, 2019	April 1, 2018 to September 30, 2018
Net sales.....	66,203	60,288
Cost of sales.....	18,433	17,163
Gross profit.....	47,769	43,124
Selling, general and administrative expenses .....	38,873	36,041
Operating income .....	8,896	7,082
Non-operating income		
Interest income .....	26	2
Dividend income .....	0	0
Rental income.....	24	52
Foreign exchange gain.....	--	13
Insurance proceeds.....	46	--
Other non-operating income.....	59	53
Total non-operating income.....	157	121
Non-operating expenses		
Rent expenses on fixed asses.....	6	17
Allowance for doubtful accounts	0	0
Loss on foreign exchange .....	8	--
Bond issue expenses .....	44	--
Other non-operating expenses .....	11	13
Total non-operating expenses .....	70	32
Ordinary income .....	8,983	7,172
Extraordinary income		
Income from sale of fixed assets .....	0	--
Gain on reversal of subscription rights to shares .....	--	0
Gain on transfer of retirement benefit plan.	36	--
Total extraordinary income .....	36	0
Extraordinary loss		
Loss on sale of fixed assets.....	1	--
Loss on disposal of fixed assets .....	11	186
Impairment loss.....	4	7
Loss on closure of stores.....	44	33
Other .....	2	7
Total extraordinary loss .....	63	234
Income before income taxes .....	8,956	6,937
Income and other taxes.....	2,909	2,131
Adjustments to income and other taxes .....	174	(43)
Total income and other taxes .....	3,083	2,087
Net income .....	5,872	4,850
Net income attributable to owners of the parent company .....	5,872	4,850

## Consolidated statement of comprehensive income

*Millions of yen, rounded down*

	April 1, 2019 to September 30, 2019	April 1, 2018 to September 30, 2018
Income before minority interests.....	5,872	4,850
<b>Other comprehensive income</b>		
Foreign currency translation adjustment.....	(33)	(25)
Adjustments related to retirement benefits.....	0	4
Total other comprehensive income.....	(32)	(20)
<b>Comprehensive income</b>	5,840	4,829
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	5,840	4,829
Comprehensive income attributable to minor interests.....	--	--

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

	April 1, 2019 to September 30, 2019	April 1, 2018 to September 30, 2018
<b>Cash flows from operating activities</b>		
Income before income taxes .....	8,956	6,937
Depreciation .....	1,533	1,428
Impairment loss .....	4	7
Increase (decrease) in allowance for doubtful accounts.....	(1)	(0)
Increase (decrease) in allowance for bonuses .....	46	324
Increase (decrease) in allowance for directors' bonuses.....	34	26
Increase (decrease) in allowance for points .....	223	96
Increase (decrease) in retirement benefit related obligation ..	(33)	10
Interest and dividend income.....	(26)	(2)
Loss (gain) from foreign exchange.....	14	(5)
Loss (gain) on sale of fixed assets.....	1	--
Loss on disposal of fixed assets .....	11	186
Loss on store closures .....	44	33
Gain on reversal of subscription rights to shares .....	--	(0)
Bond issue expenses .....	44	--
Insurance proceeds .....	(46)	--
Decrease (increase) in accounts receivable.....	(348)	(596)
Decrease (increase) in inventories.....	71	(1,784)
Decrease (increase) in other current assets.....	(111)	(227)
Decrease (increase) in other fixed assets .....	4	87
Decrease (increase) in accounts payable.....	(947)	66
Increase (decrease) in other current liabilities .....	(208)	(1,936)
Others .....	38	(40)
<b>Sub-total .....</b>	<b>9,304</b>	<b>4,610</b>
Interest and dividends received .....	1	2
Income taxes paid.....	(3,375)	(845)
Others .....	46	--
<b>Net cash provided by (used in) operating activities.....</b>	<b>5,977</b>	<b>3,767</b>

## Consolidated Statement of Cash Flows (continued)

Millions of yen, rounded down

	April 1, 2019 to September 30, 2019	April 1, 2018 to September 30, 2018
<b>II. Cash flows from investing activities</b>		
Payment for acquisition of tangible fixed assets .....	(3,321)	(1,441)
Income from sale of tangible fixed assets.....	0	0
Payment for acquisition of intangible fixed assets .....	(384)	(418)
Payment for acquisition of investment securities .....	--	(49)
Income from loans receivable.....	50	50
Other payments .....	(116)	(61)
Other proceeds.....	50	161
<b>Net cash used in investing activities.....</b>	<b>(3,721)</b>	<b>(1,760)</b>
<b>III. Cash flows from financing activities</b>		
Proceeds from issuance of convertible bonds with stock acquisition rights.....	10,205	--
Proceeds from disposal of treasury stock .....	0	85
Payment for purchase of treasury stock .....	(0)	(5)
Cash dividends paid .....	(1,796)	(1,840)
Others .....	(37)	(43)
<b>Net cash used in financing activities .....</b>	<b>8,371</b>	<b>(1,804)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>(23)</b>	<b>(8)</b>
<b>V. Net increase in cash and cash equivalents .....</b>	<b>10,604</b>	<b>194</b>
<b>VI. Cash and cash equivalents at the beginning of the period.....</b>	<b>18,635</b>	<b>36,641</b>
<b>VII. Cash and cash equivalents at end of period.....</b>	<b>29,239</b>	<b>36,836</b>

## (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

## Segment information

Business Segments

### 1. Six months ended September 30, 2019

(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	39,903	22,962	3,337	66,203	--	66,203
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	39,903	22,962	3,337	66,203	--	66,203
Operating income	7,531	2,183	126	9,840	(944)	8,896

Notes:

1. The Other Businesses segment consists of sundries, personal effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice
2. The adjustment amount on segment income of (¥944 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 as recorded in the consolidated financial statements.

### 2. Six months ended September 30, 2018

(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	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:

1. The Other Businesses segment consists of sundries, personal effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice
2. 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.
3. Segment income (loss) is adjusted for operating income as recorded in the consolidated financial statements.