

FANCL Corporation

Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2021

April 1, 2020 to September 30, 2020

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, 2021

FANCL CORPORATION

November 4, 2020

www.fancl.jp/en/

Stock exchange listings: Tokyo 1st section, code number 4921
Contact: Koichi Matsumoto
Executive Officer, General Manager, Corporate
Planning Office
Telephone: +81-45-226-1200

President, Representative Director: Kazuyuki Shimada

Scheduled date for submission of interim *hokokusho* (securities report): November 13, 2020

Scheduled date for distribution of dividends: December 4, 2020

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, 2020 to September 30, 2020) of the fiscal year ending March 31, 2021

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Six months ended September 30, 2020		Six months ended September 30, 2019	
		% change		% change
Net sales	54,265	(18.0)	66,203	9.8
Operating income	4,878	(45.2)	8,896	25.6
Ordinary income	4,986	(44.5)	8,983	25.3
Net income attributable to owners of the parent company	3,573	(39.1)	5,872	21.1
Earnings per share (¥)	29.63	--	48.93	--
Earnings per share (diluted) (¥)	29.50	--	48.51	--

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, 2020: ¥3,548 million (-39.2%)

Six months ended September 30, 2019: 5,840 million (20.9%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of September 30, 2020	As of March 31, 2020
Total assets	94,288	94,478
Net assets	68,637	67,138
Shareholders' equity/total assets (%)	72.3	70.4

Shareholders' equity: As of September 30, 2020: ¥68,132 million

As of March 31, 2020: ¥66,546 million

2) Dividends per share

	FY ended March 31, 2020	FY ending March 31, 2021
Interim period	17.00	17.00
Year-end	17.00	17.00 (forecast)
Annual	34.00	34.00 (forecast)

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

3) Consolidated forecasts for the fiscal year ending March 31, 2021 (April 1, 2020 to March 31, 2021)

Millions of yen

	FY Ending March 31, 2021	
		Change %
Net sales	120,000	(5.4)
Operating income	13,000	(8.0)
Ordinary income	13,200	(7.8)
Profit (loss) attributable to owners of parent	9,000	(9.9)
Net income per share (¥)	74.59	--

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

2. 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: 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, 2020	130,353,200 shares	March 31, 2020	130,353,200 shares
2. Number of treasury shares	September 30, 2020	9,690,048 shares	March 31, 2020	9,794,956 shares
3. Average number of shares during the six-month period	Six months to September 30, 2020	120,616,163 shares	Six months to September 30, 2019	120,013,267 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, 2021.

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, 2021.....	7

2. 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) Consolidated statement of cash flows.....	12
(4) Notes to the consolidated financial statements.....	14
Items related to going concern.....	14
Note on significant change in shareholders' equity.....	14
Segment information.....	14

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 decreased 18.0% to ¥54,265 million due to lower sales in the core cosmetics business and nutritional supplements business, resulting from a drop in domestic and inbound demand caused by the impact of COVID-19, as well as the absence of rush demand prior to the consumption tax hike that occurred in the same period of the previous year. Operating income decreased 45.2% to ¥4,878 million, mainly due to a decline in gross profit due to lower sales, which outweighed efforts to efficiently use advertising expenses and a decrease in variable expenses such as sales commission fees in selling, general and administrative expenses. Ordinary income declined 44.5% to ¥4,986 million, and net income attributable to owners of the parent company declined 39.1% to ¥3,573 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business decreased 23.9% to ¥30,349 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2020		Six months ended September 30, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	22,986	75.7	32,096	80.5	(28.4)
ATTENIR Cosmetics	5,905	19.5	6,431	16.1	(8.2)
boscia	1,121	3.7	931	2.3	20.4
Others	335	1.1	444	1.1	(24.6)
Totals	30,349	100	39,903	100.0	(23.9)

	Six months ended September 30, 2020		Six months ended September 30, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	15,842	52.2	14,864	37.3	6.6
Direct store sales	7,438	24.5	16,578	41.5	(55.1)
Wholesales and others	3,659	12.1	4,911	12.3	(25.5)
Overseas sales	3,408	11.2	3,547	8.9	(3.9)
Totals	30,349	100.0	39,903	100.0	(23.9)

Sales of **FANCL Cosmetics** decreased 28.4% to ¥22,986 million, as direct store sales, wholesale and other sales, and overseas sales declined due to the impact of COVID-19, outweighing an increase in online and catalogue sales resulting from proactive efforts to direct customers from direct store sales to online and catalogue sales as well as significant growth in sales via external online and catalogue platforms.

Sales of **ATTENIR Cosmetics** decreased 8.2% to ¥5,905 million, as direct store sales declined due to COVID-19, which outweighed an increase in overseas sales where efforts have been focused on strengthening cross-border e-commerce sales to China.

Sales of **boscia** increased 20.4% to ¥1,121 million as a result of a focus on strengthening e-commerce channels, despite a decline in sales at cosmetics specialist stores and department stores due to the impact of COVID-19.

Operating income

Operating income declined 58.9% to ¥3,091 million, due to a decrease in gross profit resulting from lower sales, which outweighed the impact of the efficient use of advertising expenditure and a decline in variable expenses such as sales commission fees.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales decreased 15.1% to ¥19,485 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2020		Six months ended September 30, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	8,655	44.4	7,756	33.8	11.6
Direct store sales	3,589	18.4	6,941	30.2	(48.3)
Wholesales and others	5,746	29.5	7,022	30.6	(18.2)
Overseas Sales	1,494	7.7	1,241	5.4	20.4
Totals	19,485	100.0	22,962	100.0	(15.1)

Online and catalogue sales increased due to proactive efforts to drive customers from direct store sales to online and catalogue sales, along with a focus on strengthening subscription services, and significant growth in sales via external online and catalogue platforms. Overseas sales also increased due to strong cross-border e-commerce sales to China. However, direct store sales and wholesale sales through other sales channels decreased due to the impact of COVID-19.

Operating income

Operating income increased 10.4% to ¥2,410 million, due to factors such as efficient use of advertising expenditure and a decline in variable expenses such as sales commission fees, which outweighed a decrease in gross profit resulting from lower sales.

3) Other Businesses

Sales

Other businesses increased 32.7% year on year to ¥4,429 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2020	Six months ended September 30, 2019	Change (%)
Hatsuga genmai	1,058	971	9.0
Kale juice	1,185	1,189	(0.4)
Other	2,185	1,176	85.8
Totals	4,429	3,337	32.7

Sales of Hatsuga genmai increased due to increased demand associated with eating at home and heightened awareness of personal health, and Other sales increased as a result of sales of non-woven masks.

Operating income

Operating income increased 79.6% to ¥227 million, due to an increase in gross profit resulting from higher sales.

(2) Summary of consolidated financial position

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

Assets decreased ¥189 million to ¥94,288 million, primarily due to a decrease of ¥2,189 million in current assets and an increase of ¥2,000 million in fixed assets. The main factor contributing to the decrease in current assets was a ¥2,288 million decrease in cash and cash equivalents. The main factor contributing to the increase in fixed assets was a ¥1,939 million increase in tangible fixed assets.

Liabilities decreased ¥1,688 million from the end of the previous fiscal year to ¥25,651 million. The primary contributing factor was a decrease of ¥1,646 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥715 million decrease in accrued income taxes, and a ¥692 million decrease in other current liabilities due to a decline in consumption tax payable.

Net assets increased ¥1,498 million to ¥68,637 million. Contributing factors included a ¥3,573 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and ¥2,049 million decrease in retained earnings due to dividend payments.

As a result, the shareholders' equity ratio increased 1.8 points compared to the end of the previous fiscal year, to 72.3%.

Cash flow

Cash and cash equivalents as of September 30, 2020 were ¥25,702 million, ¥2,288 million lower 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 ¥2,637 million compared to an inflow of ¥5,977 million in the interim period of the previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥4,813 million and depreciation expenses of ¥1,761 million. Factors reducing operating cash flow included a decrease in other current liabilities of ¥1,499 million, and income taxes paid of ¥1,945 million.

Cash flows from investing activities

Cash used in investing activities during the interim period under review was ¥2,819 million, compared to an outflow of ¥3,721 million in the interim period of the previous fiscal year. Factors reducing investment cash flow included outlays of ¥2,470 million for acquisitions of tangible fixed assets, and outlays of ¥399 million for acquisitions of intangible fixed assets.

Cash flows from financing activities

Cash used in financing activities during the interim period under review was ¥2,081 million, compared to an inflow of ¥8,371 million in the interim period of the previous fiscal year. The main factor reducing cash flow from financing activities was ¥2,047 million for dividend payments.

(3) Forecasts for the fiscal year ending March 31, 2021

In light of recent trends in business performance, the full-year consolidated results forecasts for the fiscal year ending March 31, 2021 (April 1, 2020 to March 31, 2021) that were previously announced with the consolidated results on August 4, 2020 have been revised as follows.

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share (¥)
Previously announced forecasts	127,000	14,500	14,600	10,000	82.88
Revised forecasts	120,000	13,000	13,200	9,000	74.59

Amid the current challenging environment, despite the implementation of additional sales expansion measures and the reduction and streamlining of advertising expenditure, fixed costs and other expenses in order to achieve the full-year consolidated results forecast announced at the beginning of the period, sales, operating income, ordinary income, and net income attributable to owners of the parent company are expected to be lower than the previously announced forecasts, due to factors including inbound demand being unlikely to recover in the second half of the fiscal year, as well as the slow recovery of stores in Japan and overseas, as the spread of COVID-19 continues.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of September 30, 2020	As of March 31, 2020
ASSETS		
I. Current assets:		
Cash and cash equivalents	25,702	27,991
Notes and accounts receivable.....	11,630	12,114
Merchandise and products	5,994	5,602
Raw materials and supplies.....	6,696	6,579
Others.....	1,338	1,274
Allowance for doubtful accounts.....	(254)	(264)
Total current assets.....	51,106	53,296
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures.....	30,681	30,380
Accumulated depreciation and accumulated impairment loss	(17,266)	(16,983)
Buildings and structures (net)	13,415	13,396
Machinery and transport equipment.....	11,649	11,503
Accumulated depreciation and accumulated impairment loss.....	(8,273)	(7,863)
Machinery and transport equipment (net)	3,375	3,639
Furniture, tools and fixtures	9,269	8,886
Accumulated depreciation and accumulated impairment loss	(7,721)	(7,509)
Furniture, tools and fixtures (net).....	1,548	1,377
Land	14,143	14,143
Lease assets.....	259	294
Accumulated depreciation and accumulated impairment loss.....	(127)	(141)
Lease assets (net).....	131	152
Construction in progress	4,650	2,616
Total tangible fixed assets	37,264	35,324
Intangible fixed assets		
Other	2,208	2,246
Total intangible fixed assets.....	2,208	2,246
Investments and other assets		
Investment securities	226	226
Others.....	3,482	3,383
Total investments and other assets	3,708	3,609
Total fixed assets	43,181	41,181
Total Assets	94,288	94,478

Consolidated Balance Sheets (continued)

Millions of yen, rounded down

	As of September 30, 2020	As of March 31, 2020
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,581	2,918
Accrued income taxes	1,672	2,387
Provision for bonuses	1,334	1,306
Provision for points	2,002	1,918
Asset retirement obligations	2	4
Provision for directors' bonuses	103	116
Others	6,391	7,084
Total current liabilities	14,089	15,735
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,175	10,200
Retirement benefit liabilities	770	777
Asset retirement obligations	444	434
Others	171	192
Total long-term liabilities	11,561	11,604
Total liabilities	25,651	27,339
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	65,658	64,260
Treasury stock	(19,725)	(19,938)
Total shareholders' equity	68,434	66,823
Other comprehensive income		
Foreign currency translation adjustment...	31	52
Total adjustments related to retirement benefits	(332)	(329)
Total other comprehensive income	(301)	(277)
Warrants	504	592
Total net assets	68,637	67,138
Total Liabilities and Net Assets	94,288	94,478

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

Millions of yen, rounded down

	April 1, 2020 to September 30, 2020	April 1, 2019 to September 30, 2019
Net sales.....	54,265	66,203
Cost of sales.....	16,462	18,433
Gross profit.....	37,802	47,769
Selling, general and administrative expenses	32,924	38,873
Operating income	4,878	8,896
Non-operating income		
Interest income	25	26
Dividend income	0	0
Rental income.....	75	24
Insurance proceeds.....	--	46
Other non-operating income.....	43	59
Total non-operating income.....	145	157
Non-operating expenses		
Rent expenses on fixed asses.....	6	6
Allowance for doubtful accounts	1	0
Loss on foreign exchange	16	8
Bond issue expenses	--	44
Other non-operating expenses	13	11
Total non-operating expenses	37	70
Ordinary income	4,986	8,983
Extraordinary income		
Income from sale of fixed assets.....	1	0
Gain on transfer of retirement benefit plan.	--	36
Subsidy income	482	--
Other	3	--
Total extraordinary income	487	36
Extraordinary loss		
Loss on sale of fixed assets.....	--	1
Loss on disposal of fixed assets	41	11
Impairment loss.....	--	4
Loss on closure of stores.....	--	44
COVID-19 related loss	617	--
Other	0	2
Total extraordinary loss	660	63
Income before income taxes	4,813	8,956
Income and other taxes.....	1,246	2,909
Adjustments to income and other taxes	(6)	174
Total income and other taxes	1,240	3,083
Net income	3,573	5,872
Net income attributable to owners of the parent company	3,573	5,872

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2020 to September 30, 2020	April 1, 2019 to September 30, 2019
Income before minority interests.....	3,573	5,872
Other comprehensive income		
Foreign currency translation adjustment.....	(20)	(33)
Adjustments related to retirement benefits.....	(3)	0
Total other comprehensive income.....	(24)	(32)
Comprehensive income	3,548	5,840
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	3,548	5,840
Comprehensive income attributable to minor interests.....	--	--

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

	April 1, 2020 to September 30, 2020	April 1, 2019 to September 30, 2019
Cash flows from operating activities		
Income before income taxes	4,813	8,956
Depreciation	1,761	1,533
Impairment loss	--	4
Increase (decrease) in allowance for doubtful accounts.....	(8)	(1)
Increase (decrease) in allowance for bonuses	28	46
Increase (decrease) in allowance for directors' bonuses.....	(12)	34
Increase (decrease) in allowance for points	84	223
Increase (decrease) in retirement benefit related obligation ..	(12)	(33)
Interest and dividend income.....	(26)	(26)
Loss (gain) from foreign exchange.....	21	14
Loss (gain) on sale of fixed assets.....	(1)	1
Loss on disposal of fixed assets	41	11
Loss on store closures	--	44
Bond issue expenses	--	44
Insurance proceeds	--	(46)
Subsidy income	(482)	--
COVID-19 related loss	617	--
Decrease (increase) in accounts receivable.....	468	(348)
Decrease (increase) in inventories.....	(518)	71
Decrease (increase) in other current assets.....	(163)	(111)
Decrease (increase) in other fixed assets	5	4
Decrease (increase) in accounts payable.....	(331)	(947)
Increase (decrease) in other current liabilities	(1,499)	(208)
Increase (decrease) in other long-term liabilities	(0)	--
Others	(67)	38
Sub-total	4,717	9,304
Interest and dividends received	1	1
Income taxes paid.....	(1,945)	(3,375)
Subsidies received.....	482	--
COVID-19 related losses.....	(617)	--
Others	--	46
Net cash provided by (used in) operating activities.....	2,637	5,977

Consolidated Statement of Cash Flows (continued)

Millions of yen, rounded down

	April 1, 2020 to September 30, 2020	April 1, 2019 to September 30, 2019
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(2,470)	(3,321)
Income from sale of tangible fixed assets.....	2	0
Payment for acquisition of intangible fixed assets	(399)	(384)
Income from loans receivable.....	--	50
Other payments	(99)	(116)
Other proceeds	147	50
Net cash used in investing activities.....	(2,819)	(3,721)
III. Cash flows from financing activities		
Proceeds from issuance of convertible bonds with stock acquisition rights.....	--	10,205
Proceeds from disposal of treasury stock	0	0
Payment for purchase of treasury stock	(0)	(0)
Cash dividends paid	(2,047)	(1,796)
Others	(33)	(37)
Net cash used in financing activities	(2,081)	8,371
IV. Effect of exchange rate changes on cash and cash equivalents	(26)	(23)
V. Net increase in cash and cash equivalents	(2,288)	10,604
VI. Cash and cash equivalents at the beginning of the period.....	27,991	18,635
VII. Cash and cash equivalents at end of period.....	25,702	29,239

(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. Six months ended September 30, 2020

(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	30,349	19,485	4,429	54,265	--	54,265
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	30,349	19,485	4,429	54,265	--	54,265
Operating income	3,091	2,410	227	5,729	(851)	4,878

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 (¥851 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, 2019

(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	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 (loss) 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.