

FANCL Corporation

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2021

April 1, 2020 to December 31, 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)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2021

FANCL CORPORATION

January 28, 2021

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

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Scheduled date for submission of third quarter *hokokusho* (securities report): February 12, 2021

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

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Nine months ended December 31, 2020		Nine months ended December 31, 2019	
		% change		% change
Net sales	86,095	(12.8)	98,716	5.8
Operating income	8,686	(30.4)	12,472	17.0
Ordinary income	8,844	(29.9)	12,610	18.9
Net income attributable to owners of the parent company	6,159	(28.9)	8,662	18.9
Earnings per share (¥)	51.06	--	72.17	--
Earnings per share (diluted) (¥)	50.85	--	71.55	--

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, 2020: ¥6,096 million (-29.4%)

Nine months ended December 31, 2019: ¥8,632 million (18.2%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of December 31, 2020	As of March 31, 2020
Total assets	93,422	94,478
Net assets	69,289	67,138
Shareholders' equity/total assets (%)	73.5	70.4

Shareholders' equity: As of December 31, 2020: ¥68,628 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	115,000	(9.3)
Operating income	11,500	(18.6)
Ordinary income	11,700	(18.3)
Profit (loss) attributable to owners of parent	8,000	(19.9)
Net income per share (¥)	66.30	--

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)	December 31, 2020	130,353,200 shares	March 31, 2020	130,353,200 shares
2. Number of treasury shares	December 31, 2020	9,690,216 shares	March 31, 2020	9,794,956 shares
3. Average number of shares during the nine-month period	Nine months to December 31, 2020	120,631,856 shares	Nine months to December 31, 2019	120,033,867 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.

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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, overall consolidated sales decreased 12.8% to ¥86,095 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. Operating income decreased 30.4% to ¥8,686 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 29.9% to ¥8,844 million, and net income attributable to owners of the parent company declined 28.9% to ¥6,159 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business decreased 17.9% to ¥48,133 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2020		Nine months ended December 31, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	36,539	75.9	46,956	80.1	(22.2)
ATTENIR Cosmetics	9,316	19.3	9,748	16.6	(4.4)
boscia	1,767	3.7	1,329	2.3	32.9
Others	509	1.1	601	1.0	(15.3)
Totals	48,133	100.0	58,635	100.0	(17.9)

	Nine months ended December 31, 2020		Nine months ended December 31, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	24,716	51.3	22,366	38.1	10.5
Direct store sales	12,369	25.7	23,553	40.2	(47.5)
Wholesales and others	5,862	12.2	7,366	12.6	(20.4)
Overseas sales	5,184	10.8	5,349	9.1	(3.1)
Totals	48,133	100.0	58,635	100.0	(17.9)

Sales of **FANCL Cosmetics** decreased 22.2% to ¥36,539 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 the strengthening of external online and catalogue platforms.

Sales of **ATTENIR Cosmetics** decreased 4.4% to ¥9,316 million, as direct store sales declined due to the impact of 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 32.9% to ¥1,767 million as a result of a focus on strengthening e-commerce channels, despite a decline in sales at specialty cosmetics stores and department stores due to the impact of COVID-19.

Operating income

Operating income declined 45.3% to ¥5,469 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 10.1% to ¥31,329 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2020		Nine months ended December 31, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	13,482	43.0	11,946	34.3	12.9
Direct store sales	5,934	19.0	10,192	29.3	(41.8)
Wholesales and others	9,368	29.9	10,575	30.3	(11.4)
Overseas Sales	2,544	8.1	2,125	6.1	19.7
Totals	31,329	100.0	34,841	100.0	(10.1)

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 sales and 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 12.7% to ¥4,375 million despite a decline in sales, which was outweighed by an improvement in the gross profit margin resulting from an increase in the sales composition ratio of core products, as well as the efficient use of advertising expenditure and a decline in variable expenses such as sales commission fees.

3) Other Businesses

Sales

Other businesses increased 26.6% year on year to ¥6,632 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2020	Nine months ended December 31, 2019	Change (%)
Hatsuga genmai	1,622	1,529	6.1
Kale juice	1,867	1,840	1.5
Other	3,142	1,868	68.1
Totals	6,632	5,239	26.6

Sales of Kale juice and Hatsuga genmai increased due to heightened awareness of personal health, and Other sales increased as a result of the launch of sales of non-woven masks and the CLEAN & BARRIER series.

Operating income

Operating income increased 118.7% to ¥182 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 ¥1,055 million to ¥93,422 million, primarily due to a decrease of ¥3,189 million in current assets and an increase of ¥2,133 million in fixed assets. The primary factors contributing to the decrease in current assets was a ¥6,391 million decrease in cash and cash equivalents, and a ¥2,909 million increase in notes and accounts receivable. The primary factor contributing to the increase in fixed assets was a ¥2,396 million increase in tangible fixed assets.

Liabilities decreased ¥3,206 million from the end of the previous fiscal year to ¥24,133 million. The primary contributing factor was a decrease of ¥3,162 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥1,524 million decrease in accrued income taxes, a ¥1,079 million decrease in other current liabilities due to a decrease in accounts payable, and a ¥649 million decrease in provision for bonuses.

Net assets increased ¥2,150 million to ¥69,289 million. Contributing factors included a ¥6,159 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥4,100 million decrease in retained earnings due to dividend payments.

As a result, the shareholders' equity ratio increased 3.0 points compared to the end of the previous fiscal year, to 73.5%.

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

In light of recent trends in business performance, the Company has revised the full year consolidated results forecasts that were previously announced on November 4, 2020. Details are as follows:

(April 1, 2020 to March 31, 2021)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent company	Net income per share (¥)
Previously announced forecasts	120,000	13,000	13,200	9,000	74.59
Revised forecasts	115,000	11,500	11,700	8,000	66.30

Amid the ongoing COVID-19 pandemic, additional measures to expand sales and reduce and streamline expenses were carried out in order to achieve the full-year consolidated forecasts. However, as the rapid spread of COVID-19 has caused people to refrain from leaving their homes in Japan, and lockdowns are in effect in the U.S., Europe and other markets, the situation is expected to remain severe in Q4. Accordingly, the Company has decided to downwardly revise its forecasts for sales, operating income, ordinary income, and net income attributable to owners of the parent company.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	<i>Millions of yen, rounded down</i>	
	As of December 31, 2020	As of March 31, 2020
ASSETS		
I. Current assets:		
Cash and cash equivalents.....	21,599	27,991
Notes and accounts receivable.....	15,024	12,114
Merchandise and products.....	6,132	5,602
Raw materials and supplies.....	6,121	6,579
Others.....	1,482	1,274
Allowance for doubtful accounts	(253)	(264)
Total current assets.....	50,107	53,296
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures.....	30,815	30,380
Accumulated depreciation and accumulated impairment loss	(17,484)	(16,983)
Buildings and structures (net)	13,330	13,396
Machinery and transport equipment.....	11,668	11,503
Accumulated depreciation and accumulated impairment loss.....	(8,497)	(7,863)
Machinery and transport equipment (net)	3,170	3,639
Furniture, tools and fixtures	9,288	8,886
Accumulated depreciation and accumulated impairment loss	(7,889)	(7,509)
Furniture, tools and fixtures (net).....	1,398	1,377
Land	14,143	14,143
Lease assets.....	251	294
Accumulated depreciation and accumulated impairment loss.....	(135)	(141)
Lease assets (net).....	116	152
Construction in progress	5,560	2,616
Total tangible fixed assets	37,721	35,324
Intangible fixed assets		
Other	2,179	2,246
Total intangible fixed assets.....	2,179	2,246
Investments and other assets		
Investment securities	205	226
Others.....	3,208	3,383
Total investments and other assets	3,414	3,609
Total fixed assets	43,314	41,181
Total Assets	93,422	94,478

Consolidated Balance Sheets (continued)

Millions of yen, rounded down

	As of December 31, 2020	As of March 31, 2020
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,017	2,918
Accrued income taxes	863	2,387
Provision for bonuses	657	1,306
Provision for points	1,939	1,918
Asset retirement obligations	16	4
Provision for directors' bonuses	74	116
Others	6,004	7,084
Total current liabilities	12,572	15,735
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,162	10,200
Retirement benefit liabilities	798	777
Asset retirement obligations	438	434
Others	160	192
Total long-term liabilities	11,560	11,604
Total liabilities	24,133	27,339
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	66,192	64,260
Treasury stock	(19,725)	(19,938)
Total shareholders' equity	68,968	66,823
Other comprehensive income		
Net unrealized holding gain on other securities	(14)	--
Foreign currency translation adjustment	9	52
Total adjustments related to retirement benefits	(334)	(329)
Total other comprehensive income	(339)	(277)
Warrants	660	592
Total net assets	69,289	67,138
Total Liabilities and Net Assets	93,422	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 December 31, 2020	April 1, 2019 to December 31, 2019
Net sales.....	86,095	98,716
Cost of sales.....	25,690	28,091
Gross profit.....	60,405	70,625
Selling, general and administrative expenses	51,718	58,152
Operating income	8,686	12,472
Non-operating income		
Interest income	38	39
Dividend income	0	0
Rental income.....	114	36
Insurance proceeds.....	14	46
Other non-operating income.....	76	88
Total non-operating income.....	243	210
Non-operating expenses		
Rent expenses on fixed assets.....	9	9
Loss on foreign exchange	55	1
Bond issue expenses.....	--	44
Other non-operating expenses	20	17
Total non-operating expenses	85	73
Ordinary income	8,844	12,610
Extraordinary income		
Income from sale of fixed assets.....	1	0
Gain on transfer of retirement benefit plan.	--	36
Subsidy income	482	--
Other	4	--
Total extraordinary income	487	36
Extraordinary loss		
Loss on sale of fixed assets.....	--	1
Loss on disposal of fixed assets	44	15
Impairment loss.....	22	11
Loss on closure of stores.....	16	71
COVID-19 related loss	617	--
Other	1	2
Total extraordinary loss	703	102
Income before income taxes	8,629	12,544
Income and other taxes.....	2,154	3,470
Adjustments to income and other taxes	315	410
Total income and other taxes	2,469	3,881
Net income	6,159	8,662
Net income attributable to owners of the parent company	6,159	8,662

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2020 to December 31, 2020	April 1, 2019 to December 31, 2019
Income before minority interests.....	6,159	8,662
Other comprehensive income		
Net unrealized holding gain on other securities.....	(14)	--
Foreign currency translation adjustment.....	(42)	(31)
Adjustments related to retirement benefits.....	(5)	1
Total other comprehensive income.....	(62)	(30)
Comprehensive income	6,096	8,632
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	6,096	8,632
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, 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	48,133	31,329	6,632	86,095	--	86,095
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	48,133	31,329	6,632	86,095	--	86,095
Operating income	5,469	4,375	182	10,026	(1,340)	8,686

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 (¥1,340 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. Nine months ended December 31, 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	58,635	34,841	5,239	98,716	--	98,716
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	58,635	34,841	5,239	98,716	--	98,716
Operating income (loss)	10,005	3,883	83	13,971	(1,498)	12,472

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 (¥1,498 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.