FANCL Corporation

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2022

April 1, 2021 to June 30, 2021

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

First Quarter Results for the Fiscal Year Ending March 31, 2022

FANCL CORPORATION **August 4, 2021**

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

Stock exchange listings: Tokyo 1st section, code number 4921

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Scheduled date for submission of first quarter *hokokusho* (securities report): August 13, 2021

Scheduled date for distribution of dividends: --

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

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

1) Consolidated results for the first quarter period (April 1, 2021 to June 30, 2021) of the fiscal year ending March 31, 2022

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Three months ended June 30, 2021		Three months ended June 30, 2020	
		% change		% change
Net sales	25,176	(4.3)	26,298	(19.2)
Operating income	3,010	23.1	2,445	(44.1)
Ordinary income	3,242	29.3	2,507	(42.8)
Net income attributable to owners of the parent company	2,227	50.8	1,476	(43.4)
Earnings per share (¥)	18.46	--	12.25	--
Earnings per share (diluted) (¥)	18.38	--	12.19	--

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

2. Comprehensive income: Three months ended June 30, 2021: ¥2,327 million (58.7%)
Three months ended June 30, 2020: ¥1,466 million (-43.8%)

3. From the beginning of the first quarter period under review, the Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. As a result, net sales are ¥2,251 million lower, and operating income and ordinary income are each ¥185 million higher. If the figures for the fiscal year ending March 2021 were estimated on the same basis, the year-on-year increase in net sales would be 3.2%.

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of June 30, 2021	As of March 31, 2021
Total assets	96,723	97,533
Net assets	70,889	71,215
Equity ratio (%)	72.6	72.3

Shareholders' equity: As of June 30, 2021: ¥70,249 million
As of March 31, 2021: ¥70,554 million

2) Dividends per share

	FY ended March 31, 2021	FY ending March 31, 2022
Interim period (¥)	17.00	17.00 (forecast)
Year-end (¥)	17.00	17.00 (forecast)
Annual (¥)	34.00	34.00 (forecast)

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

3) Consolidated forecasts for the fiscal year ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Interim period ending September 30, 2021		FY Ending March 31, 2022	
		Change %		Change %
Net sales	52,450	(3.3)	109,000	(5.1)
Operating income	5,000	2.5	12,000	3.7
Ordinary income	5,100	2.3	12,200	3.5
Profit (loss) attributable to owners of parent	3,500	(2.1)	8,100	1.0
Net income per share (¥)	29.01	--	67.13	--

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: None

3. As the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc. has been adopted from the beginning of the first quarter of the fiscal year ending March 31, 2022, the above consolidated forecast reflects the application of this accounting standard. If the same standard is applied to the fiscal year ended March 31, 2021, net sales would be 3.7% higher year on year. There is no change in the operating income, ordinary income and net income forecasts before and after the application of the new accounting standard.

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)	June 30, 2021	130,353,200 shares	March 31, 2021	130,353,200 shares
2. Number of treasury shares	June 30, 2021	9,677,218 shares	March 31, 2021	9,690,356 shares
3. Average number of shares during the three-month period	Three months to June 30, 2021	120,665,289 shares	Three months to June 30, 2020	120,568,609 shares

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

*** Appropriate use of financial forecasts, other special notes**

(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, 2022.

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1. Operating Results

(1) Summary of business performance (consolidated)

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

During the three-month period under review, consolidated sales decreased 4.3% to ¥25,176 million, operating income increased 23.1% to ¥3,010 million, ordinary income increased 29.3% to ¥3,242 million, and net income attributable to owners of the parent company increased 50.8% to ¥2,227 million.

From the beginning of the first quarter period under review, the Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. (hereafter “Accounting Standard for Revenue Recognition”). As a result, sales are ¥2,251 million lower, and operating income and ordinary income are each ¥185 million higher.

To provide a more realistic analysis of the operating results, the results of the same period of the previous fiscal year have been reclassified to reflect the adoption of this new accounting standard (hereafter “after reclassification”).

During the three-month period under review, while the FANCL Group continued to be impacted by the COVID-19 pandemic, the degree of impact was limited in comparison to the same period of the previous fiscal year, when a state of emergency was in place. Sales in the core cosmetics and nutritional supplements businesses increased, resulting in a 3.2% increase in overall sales to ¥25,176 million. Operating income increased 23.1% ¥3,010 million due to an increase in gross profit on higher sales, despite an increase in depreciation expenses following the launch of operations at the Mishima Factory (supplements factory) and the Kansai Logistics Center, and the effect of the recording of personnel expenses associated with store closures as an extraordinary loss in the same period of the previous fiscal year. Ordinary income increased 29.3% to ¥3,242 million, and net income attributable to owners of the parent company increased 50.8% to ¥2,227 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 7.0% to ¥14,506 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2021		Three months ended June 30, 2020 (After reclassification)		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	10,507	72.5	10,041	74.1	4.6
ATTENIR Cosmetics	3,456	23.8	2,935	21.6	17.8
boscia	321	2.2	377	2.8	(14.9)
Others	221	1.5	197	1.5	11.9
Totals	14,506	100.0	13,552	100.0	7.0

	Three months ended June 30, 2021		Three months ended June 30, 2020 (After reclassification)		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	7,508	51.7	8,268	61.0	(9.2)
Direct store sales	3,249	22.4	2,070	15.3	56.9
Wholesales and others	1,998	13.8	1,671	12.3	19.6
Overseas sales	1,751	12.1	1,541	11.4	13.6
Totals	14,506	100.0	13,552	100.0	7.0

Sales of **FANCL Cosmetics** increased 4.6% to ¥10,507 million, due to strong sales of *Mild Cleansing Oil, DEEP CLEAR WASHING POWDER* and *CORE EFFECTOR*.

Sales of **ATTENIR Cosmetics** increased 17.8% to ¥3,456 million, due to contributions from *Dress snow* basic skin care which launched in April and cross-border e-commerce sales in China.

Sales of **boscia** decreased 14.9% to ¥321 million due to sluggish wholesale sales to real stores, despite a strong performance in e-commerce channels.

Results by **sales channels** were: online and catalogue sales declined 9.2% to ¥7,508 million, direct store sales increased 56.9% to ¥3,249 million, wholesale sales through other sales channels increased 19.6% to ¥1,998 million, and overseas sales increased 13.6% to ¥1,751 million.

Operating income

Operating income increased 34.8% to ¥2,083 million, due to an increase in gross profit resulting from higher sales, as well as the efficient use of marketing expenditure.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 5.7% to ¥8,988 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2021		Three months ended June 30, 2020 (After reclassification)		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	4,176	46.5	4,136	48.6	1.0
Direct store sales	1,535	17.1	889	10.5	72.8
Wholesales and others	2,349	26.1	2,995	35.2	(21.6)
Overseas Sales	926	10.3	481	5.7	92.5
Totals	8,988	100.0	8,501	100.0	5.7

Calolimit for the Mature Aged and *Ketsuatsu Support (Blood Pressure Support)* trended strongly, reflecting heightened health consciousness, and resulting in an increase in overall sales.

Results by **sales channels** were: Online and catalogue sales increased 1.0% to ¥4,176 million, direct store sales increased 72.8% to ¥1,535 million, wholesale sales through other sales channels declined 21.6% to ¥2,349 million, and overseas sales increased 92.5% to ¥926 million.

Operating income

Operating income increased 17.9% to ¥1,328 million, due to an increase in gross profit from higher sales and the efficient use of marketing expenditure, despite an increase in depreciation expenses for the newly established Mishima Factory (supplements factory).

3) Other Businesses

Sales

Other businesses decreased 28.5% to ¥1,682 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2021	Three months ended June 30, 2020 (After reclassification)	Change (%)
Hatsuga genmai	519	506	2.5
Kale juice	494	545	(9.3)
Other	667	1,301	(48.7)
Totals	1,682	2,353	(28.5)

In addition to a decrease in sales of Kale juice, sales of Other products decreased due to a reactionary decline in sales of non-woven masks which were sold in the previous fiscal year.

Operating income

Operating an operating loss of ¥29 million was recorded (compared to operating income of ¥163 million in the same period of the previous fiscal year) due to a decrease in gross profit caused by the decline in sales, despite an improvement in the gross profit margin.

(2) Summary of consolidated financial position

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

Assets decreased ¥810 million to ¥96,723 million, primarily due to a decrease of ¥1,680 million in current assets and an increase of ¥870 million in fixed assets. The main factor contributing to the decrease in current assets was a ¥412 million decrease in cash and cash equivalents, a ¥1,916 million decrease in notes and accounts receivable, and a ¥777 million increase in Other current assets due to an increase in accounts receivable - other. The main factor contributing to the increase in fixed assets was a ¥835 million increase in tangible fixed assets.

Liabilities decreased ¥484 million from the end of the previous fiscal year to ¥25,833 million. The primary contributing factor was a decrease of ¥443 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥2,014 million decrease in provision for points, ¥988 million decrease in accrued income taxes, and a ¥2,217 million increase other current liabilities due to an increase in contract liability and other factors.

The decrease in provision for points and increase in contract liability were the result of the adoption of the Accounting Standards for Revenue Recognition.

Net assets decreased ¥325 million to ¥70,889 million. Contributing factors included a ¥2,227 million increase in retained earnings due to the recording of net income attributable to owners of the parent, a ¥2,051 million decrease in retained earnings due to dividend payments, and a ¥602 million decrease in adjustment at the beginning of the period due to the adoption of the Accounting Standard for Revenue Recognition.
As a result, the shareholders’ equity ratio increased 0.3 points compared to the end of the previous fiscal year, to 72.6%.

(3) Forecasts for the fiscal year ending March 31, 2022

There is no change to the consolidated forecasts for the interim and full year period of the fiscal year ending March 31, 2022, which were announced on May 10, 2021.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen, rounded down)

	As of June 30, 2021	As of March 31, 2021
ASSETS		
I. Current assets:		
Cash and cash equivalents	25,074	25,487
Notes and accounts receivable	11,674	13,590
Merchandise and products	5,932	5,805
Raw materials and supplies	5,493	5,848
Others	2,284	1,506
Allowance for doubtful accounts	(117)	(216)
Total current assets	50,341	52,022
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	34,760	31,670
Accumulated depreciation and accumulated impairment loss	(17,989)	(17,768)
Buildings and structures (net)	16,771	13,901
Machinery and transport equipment	16,459	11,699
Accumulated depreciation and accumulated impairment loss	(9,025)	(8,730)
Machinery and transport equipment (net)	7,433	2,969
Furniture, tools and fixtures	9,969	9,299
Accumulated depreciation and accumulated impairment loss	(8,074)	(8,032)
Furniture, tools and fixtures (net)	1,894	1,267
Land	14,214	14,214
Lease assets	264	258
Accumulated depreciation and accumulated impairment loss	(166)	(150)
Lease assets (net)	98	108
Construction in progress	64	7,180
Total tangible fixed assets	40,477	39,642
Intangible fixed assets		
Other	2,325	2,253
Total intangible fixed assets	2,325	2,253
Investments and other assets		
Investment securities	176	199
Others	3,401	3,416
Total investments and other assets	3,577	3,615
Total fixed assets	46,381	45,511
Total Assets	**96,723**	**97,533**

Consolidated Balance Sheets, continued

(Millions of yen, rounded down)

	As of June 30, 2021	As of March 31, 2021
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,490	2,770
Accrued income taxes	955	1,943
Provision for bonuses	1,913	1,293
Provision for points	--	2,014
Asset retirement obligations	9	7
Others	8,986	6,769
Total current liabilities	14,354	14,798
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,137	10,150
Retirement benefit liabilities	789	783
Asset retirement obligations	421	427
Others	130	158
Total long-term liabilities	11,487	11,519
Total liabilities	25,833	26,318
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	67,617	68,050
Treasury stock	(19,699)	(19,726)
Total shareholders' equity	70,419	70,825
Other comprehensive income		
Foreign currency translation adjustment	63	(19)
Total adjustments related to retirement benefits	(232)	(251)
Total other comprehensive income	(169)	(270)
Warrants	640	660
Total net assets	70,889	71,215
Total Liabilities and Net Assets	**96,723**	**97,533**

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

Consolidated statement of income

(Millions of yen, rounded down)

	April 1, 2021 to June 30, 2021	April 1, 2020 to June 30, 2020
Net sales	25,176	26,298
Cost of sales	8,375	8,083
Gross profit	16,800	18,214
Selling, general and administrative expenses	13,790	15,769
Operating income	3,010	2,445
Non-operating income		
Interest income	13	12
Dividend income	0	0
Rental income	35	37
Foreign exchange gain	160	--
Other non-operating income	31	28
Total non-operating income	241	79
Non-operating expenses		
Interest expenses	0	--
Rent expenses on fixed assets	3	3
Provisions for allowance for bad debt	--	0
Loss on foreign exchange	--	6
Other non-operating expenses	4	6
Total non-operating expenses	8	16
Ordinary income	3,242	2,507
Extraordinary income		
Income from sale of fixed assets	0	1
Total extraordinary income	0	1
Extraordinary loss		
Loss on disposal of fixed assets	4	40
Loss on closure of stores	9	0
COVID-19 related loss	--	617
Other	1	0
Total extraordinary loss	16	660
Income before income taxes	3,225	1,849
Income and other taxes	794	400
Adjustments to income and other taxes	204	(28)
Total income and other taxes	998	372
Net income	2,227	1,476
Net income attributable to owners of the parent company	2,227	1,476

Consolidated statement of comprehensive income

(Millions of yen, rounded down)

	April 1, 2021 to June 30, 2021	April 1, 2020 to June 30, 2020
Income before minority interests................................	2,227	1,476
Other comprehensive income		
Foreign currency translation adjustment	82	(8)
Adjustments related to retirement benefits...............	18	(1)
Total other comprehensive income..........................	100	(10)
Comprehensive income	2,327	1,466
(Breakdown)		
Comprehensive income attributable to owners of the parent company...	2,327	1,466
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

Changes in accounting policy
Adoption of Accounting Standard for Revenue Recognition
From the beginning of the first quarter period under review, the Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. (hereafter "Accounting Standard for Revenue Recognition"), and recognizes revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to the customer.
The main changes resulting from the adoption of this accounting standard are as follows:

(1) Accounting for sales promotion expenses, etc.
With respect to certain sales promotion expenses, and sales commissions which are compensation paid to customers, while previously recorded as selling, general and administrative expenses, the Company has shifted to a method of deducting from sales.
In addition, for expenses pertaining to the performance obligation to grant free promotional items to customers in response to sales, the Company has shifted to a method of recording in cost of sales.

(2) Revenue recognition related to points programs
With respect to points programs, the Company previously recorded expenses that are expected to be required to be exchanged for points in the future as an allowance. However, the Company has now shifted to a method of identifying them as a performance obligation and deferring the recognition of revenue when the points provide significant rights to customers.

(3) Revenue recognition for sales with a right of return
With respect to sales with a right of return, the Company has shifted to a method of not recognizing revenue at the time of sale for the portion of returns expected, in accordance with the provisions on variable consideration.

In accordance with the transitional treatment prescribed in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of the retrospective application of the new accounting policy prior to the beginning of the first quarter period under review, was added to or deducted from retained earnings at the beginning of the first quarter period under review, and the new accounting policy has been applied from the beginning balance of the fiscal year under review.
As a result, sales for the first quarter period are ¥2,251 million lower, cost of sales is ¥353 million higher, and gross profit is ¥2,605 million lower. Selling, general and administrative expenses are ¥2,790 million lower, and operating income, ordinary income and income before income taxes and minority interests are each ¥185 million higher. In addition, the balance of retained earnings at the beginning of the fiscal year is ¥602 million lower.
As a result of the application of the Accounting Standard for Revenue Recognition, "Provision for points," which was presented in "Current liabilities" in the consolidated balance sheet for the previous fiscal year, is presented as "Contract liability" in "Other current liabilities" from the first quarter period under review. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year using the new presentation method.

Additional information
Accounting Standard for Fair Value Measurement
The Company has adopted the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereafter "Accounting Standard for Fair Value Measurement"), etc. from the beginning of the first quarter period under review. The Company will apply the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). The Company does not hold any financial instruments whose fair value is used as the value on the quarterly consolidated balance sheets, and there is no impact on the quarterly consolidated financial statements.

Segment information

Business Segments

1. Three months ended June 30, 2021

(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	14,506	8,988	1,682	25,176	--	25,176
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	14,506	8,988	1,682	25,176	--	25,176
Operating income	2,083	1,328	(29)	3,382	(372)	3,010

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 (¥372 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.
4. As described in “Changes in accounting policy”, effective from the beginning of the first quarter period under review, the Company has adopted the Accounting Standard for Revenue Recognition and changed its accounting method for revenue recognition. The Company has made similar changes to the method of calculating income and loss in its Business Segments. As a result of this change, in the first quarter period under review, compared with the previous method of calculation, Cosmetics Business sales are ¥1,379 million lower and segment income is ¥29 million higher, Nutritional Supplements Business sales are ¥765 million lower and segment income is ¥158 million higher, and Other Businesses sales are ¥106 million lower and segment income is ¥3 million higher.

2. Three months ended June 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	14,716	9,093	2,488	26,298	--	26,298
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	14,716	9,093	2,488	26,298	--	26,298
Operating income	1,545	1,126	163	2,836	(391)	2,445

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 (¥391 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.