FANCL Corporation

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

April 1, 2021 to December 31, 2021

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2022

FANCL CORPORATION **January 28, 2022**

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

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

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Scheduled date for submission of third quarter *hokokusho* (securities report): February 10, 2022

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, 2021 to December 31, 2021) of the fiscal year ending March 31, 2022

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Nine months ended December 31, 2021		Nine months ended December 31, 2020	
		% change		% change
Net sales	78,916	(8.3)	86,095	(12.8)
Operating income	8,426	(3.0)	8,686	(30.4)
Ordinary income	8,888	0.5	8,844	(29.9)
Net income attributable to owners of the parent company	6,492	5.4	6,159	(28.9)
Earnings per share (¥)	53.80	--	51.06	--
Earnings per share (diluted) (¥)	53.58	--	50.85	--

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, 2021: ¥6,633 million (8.8%)
Nine months ended December 31, 2020: ¥6,096 million (-29.4%)

3. From the beginning of the first quarter period, the Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. As a result, net sales are ¥6,824 million lower, and operating income and ordinary income are each ¥203 million higher. If the figures for the fiscal year ended March 2021 were estimated on the same basis, net sales would be 0.3% lower year-on-year.

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of December 31, 2021	As of March 31, 2021
Total assets	97,580	97,533
Net assets	73,143	71,215
Shareholders' equity/total assets (%)	74.3	72.3

Shareholders' equity: As of December 31, 2021: ¥72,503 million
As of March 31, 2021: ¥70,544 million

2) Dividends per share

	FY ended March 31, 2021	FY ending March 31, 2022
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, 2022 (April 1, 2021 to March 31, 2022)

Millions of yen

	FY Ending March 31, 2022	
		Change %
Net sales	106,500	(7.3)
Operating income	12,000	3.7
Ordinary income	12,200	3.5
Profit (loss) attributable to owners of parent	8,100	1.0
Net income per share (¥)	67.12	--

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: No

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 1.3% 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)	December 31, 2021	130,353,200 shares	March 31, 2021	130,353,200 shares
2. Number of treasury shares	December 31, 2021	9,677,443 shares	March 31, 2021	9,690,356 shares
3. Average number of shares during the nine-month period	Nine months to December 31, 2021	120,672,368 shares	Nine months to December 31, 2020	120,631,856 shares

Note: The number of treasury shares at the end of the period includes shares held by the Officer Compensation BIP (Board Incentive Plan) Trust Account (211,500 shares as of December 31, 2021). Furthermore, the treasury shares held by the Officer Compensation BIP Trust Account are included in the treasury stock deducted in the calculation of the average number of shares outstanding during the period.

***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, 2022.

Contents

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, consolidated sales decreased 8.3% to ¥78,916 million, operating income decreased 3.0% to ¥8,426 million, ordinary income increased 0.5% to ¥8,888 million, and net income attributable to owners of the parent company increased 5.4% to ¥6,492 million.
From the beginning of the first quarter period, the Company 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 ¥6,824 million lower, and operating income and ordinary income are each ¥203 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 nine-month period under review, although sales in the core cosmetics and nutritional supplements businesses increased, overall sales declined 0.3% to ¥78,916 million due to a decline in sales in other businesses resulting from factors including the absence of sales of non-woven masks that were sold in the previous comparable period. Operating income decreased 3.0% to ¥8,426 million due to an increase in depreciation expenses following the launch of operations at 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, which outweighed an increase in gross profit resulting from an improvement in the cost of sales ratio. Ordinary income increased 0.5% to ¥8,888 million, and net income attributable to owners of the parent company increased 5.4% to ¥6,492 million.

Segment results are as follows:
1) Cosmetics Business
Sales
Sales from the Cosmetics business increased 1.4% to ¥44,611 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2021		Nine months ended December 31, 2020 (After reclassification)		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	32,436	72.7	32,704	74.4	(0.8)
ATTENIR Cosmetics	10,583	23.7	9,132	20.8	15.9
boscia	794	1.8	1,628	3.7	(51.2)
Others	797	1.8	509	1.1	56.4
Totals	44,611	100.0	43,975	100.0	1.4

	Nine months ended December 31, 2021		Nine months ended December 31, 2020 (After reclassification)		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	23,045	51.7	23,698	53.9	(2.8)
Direct store sales	10,121	22.7	9,488	21.6	6.7
Wholesales and others	6,391	14.3	5,742	13.0	11.3
Overseas sales	5,053	11.3	5,045	11.5	0.1
Totals	44,611	100.0	43,975	100.0	1.4

Sales of **FANCL Cosmetics** decreased 0.8% to ¥32,436 million due to factors including a slowdown in sales of makeup and special care products, which outweighed a strong trend in sales of *MILD CLEANSING OIL*, which was subject to renewal.

Sales of **ATTENIR Cosmetics** increased 15.9% to ¥10,583 million, due to contributions from *Dress snow* basic skin care which launched in April, and cross-border e-commerce sales to China.

Sales of **boscia** decreased 51.2% to ¥794 million due to sluggish wholesale sales to real stores.

Results **by sales channels** were: online and catalogue sales decreased 2.8% to ¥23,045 million, direct store sales increased 6.7% to ¥10,121 million, wholesale sales through other sales channels increased 11.3% to ¥6,391 million, and overseas sales increased 0.1% to ¥5,053 million.

Operating income

Operating income increased 11.1% to ¥6,075 million, due to an increase in gross profit resulting from higher sales, as well as the efficient use of sales promotion expenditure.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 1.2% to ¥29,273 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2021		Nine months ended December 31, 2020 (After reclassification)		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	13,064	44.6	12,715	43.9	2.7
Direct store sales	5,001	17.1	4,515	15.6	10.8
Wholesales and others	7,554	25.8	9,159	31.7	(17.5)
Overseas Sales	3,653	12.5	2,544	8.8	43.6
Totals	29,273	100.0	28,935	100.0	1.2

Although sales of *Naishi Support* and *Calolimit* were lower year on year, sales of *Age Bracket-Based Supplements* grew significantly, particularly in the overseas channel, resulting in an increase in overall sales.

Results by **sales channels** were: Online and catalogue sales increased 2.7% to ¥13,064 million, direct store sales increased 10.8% to ¥5,001 million, wholesale sales through other sales channels declined 17.5% to ¥7,554 million, and overseas sales increased 43.6% to ¥3,653 million.

Operating income

Operating income declined 15.4% to ¥3,701 million due to deterioration of the cost of sales ratio resulting from an increase in depreciation expenses for the newly established Mishima Factory (supplements Factory), as well as an increase in depreciation expenses resulting from the launch of operations at the Kansai Logistics Center, and an increase in research and development expenses.

3) Other Businesses

Sales

Other businesses declined 19.5% year on year to ¥5,031 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2021	Nine months ended December 31, 2020 (After reclassification)	Change (%)
Hatsuga genmai	1,526	1,544	(1.2)
Kale juice	1,601	1,726	(7.2)
Other	1,903	2,981	(36.2)
Totals	5,031	6,252	(19.5)

In addition to a decrease in sales of Kale juice, Other sales also decreased as a result of an absence of sales of non-woven masks which were sold in the previous period.

Operating income

An operating loss of ¥20 million was recorded (compared to operating income of ¥182 million in the previous comparable period) due to a decrease in gross profit resulting from lower sales.

(2) Summary of consolidated financial position

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

Assets increased ¥47 million to ¥97,580 million, primarily due to an increase of ¥220 million in current assets and a decrease of ¥173 million in fixed assets. The primary factors contributing to the increase in current assets was a ¥1,664 million increase in notes and accounts receivable, a ¥1,122 million increase in other current assets due to an increase in accounts receivable – other and a ¥2,182 million decrease in cash and cash equivalents. The primary factor contributing to the decrease in fixed assets was a ¥169 million decrease in investments and other assets – others, mainly due to a decrease in guarantee deposits.

Liabilities decreased ¥1,880 million from the end of the previous fiscal year to ¥24,473 million. The primary contributing factor was a decrease of ¥1,968 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥2,014 million decrease in provision for points, a ¥1,319 million decrease in income taxes payable, and a ¥1,590 million increase in other current liabilities due to an increase in contract liability and a decrease in accounts payable - other.

The decrease in provision for points and increase in contract liability were the result of the adoption of accounting standards for revenue recognition.

Net assets increased ¥1,927 million to ¥73,143 million. Contributing factors included a ¥6,492 million increase in retained earnings due to the recording of net income attributable to owners of the parent, a ¥4,102 million decrease in retained earnings due to dividend payments, and a ¥602 million decrease in retained earnings 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 2.0 points compared to the end of the previous fiscal year, to 74.3%.

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

The full-year consolidated results forecasts are unchanged from those announced on October 28, 2021.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of December 31, 2021	As of March 31, 2021
ASSETS		
I. Current assets:		
Cash and cash equivalents	23,305	25,487
Notes and accounts receivable	15,255	13,590
Merchandise and products	5,783	5,805
Raw materials and supplies	5,382	5,848
Others	2,628	1,506
Allowance for doubtful accounts	(111)	(216)
Total current assets	52,243	52,022
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	34,759	31,670
Accumulated depreciation and accumulated impairment loss	(18,337)	(17,768)
Buildings and structures (net)	16,421	13,901
Machinery and transport equipment	16,719	11,699
Accumulated depreciation and accumulated impairment loss	(9,872)	(8,730)
Machinery and transport equipment (net)	6,846	2,969
Furniture, tools and fixtures	9,997	9,299
Accumulated depreciation and accumulated impairment loss	(8,375)	(8,032)
Furniture, tools and fixtures (net)	1,621	1,267
Land	14,214	14,214
Lease assets	199	258
Accumulated depreciation and accumulated impairment loss	(122)	(150)
Lease assets (net)	77	108
Construction in progress	239	7,180
Total tangible fixed assets	39,420	39,642
Intangible fixed assets		
Other	2,492	2,253
Total intangible fixed assets	2,492	2,253
Investments and other assets		
Investment securities	176	199
Others	3,247	3,416
Total investments and other assets	3,423	3,615
Total fixed assets	45,337	45,511
Total Assets	**97,580**	**97,533**

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of December 31, 2021	As of March 31, 2021
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,151	2,770
Accrued income taxes	624	1,943
Provision for bonuses	689	1,293
Provision for points	--	2,014
Asset retirement obligations	4	7
Others	8,360	6,769
Total current liabilities	12,830	14,798
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,112	10,150
Provision for share awards for directors	72	--
Retirement benefit liabilities	830	783
Asset retirement obligations	502	427
Others	89	158
Total long-term liabilities	11,607	11,519
Total liabilities	24,437	26,318
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	12,003	11,706
Retained earnings	69,837	68,050
Treasury stock	(20,003)	(19,726)
Total shareholders' equity	72,631	70,825
Other comprehensive income		
Foreign currency translation adjustment	67	(19)
Total adjustments related to retirement benefits	(196)	(251)
Total other comprehensive income	(128)	(270)
Warrants	640	660
Total net assets	73,143	71,215
Total Liabilities and Net Assets	**97,580**	**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 December 31, 2021	April 1, 2020 to December 31, 2020
Net sales	78,916	86,095
Cost of sales	26,252	25,690
Gross profit	52,664	60,405
Selling, general and administrative expenses	44,237	51,718
Operating income	8,426	8,686
Non-operating income		
Interest income	38	38
Dividend income	0	0
Foreign exchange gain	199	--
Rental income	99	114
Insurance proceeds	--	14
Other non-operating income	164	76
Total non-operating income	502	243
Non-operating expenses		
Interest expenses	0	--
Rent expenses on fixed assets	9	9
Loss on foreign exchange	--	55
Other non-operating expenses	30	20
Total non-operating expenses	40	85
Ordinary income	8,888	8,844
Extraordinary income		
Income from sale of fixed assets	0	1
Subsidy income	--	482
Other	--	4
Total extraordinary income	0	487
Extraordinary loss		
Loss on sale of fixed assets	0	--
Loss on disposal of fixed assets	25	44
Impairment loss	14	22
Loss on closure of stores	31	16
Compensation	20	--
COVID-19 related loss	--	617
Other	3	1
Total extraordinary loss	94	703
Income before income taxes	8,793	8,629
Income and other taxes	2,062	2,154
Adjustments to income and other taxes	239	315
Total income and other taxes	2,301	2,469
Net income	6,492	6,159
Net income attributable to owners of the parent company	6,492	6,159

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2021 to December 31, 2021	April 1, 2020 to December 31, 2020
Income before minority interests	6,492	6,159
Other comprehensive income		
Net unrealized holding gain on other securities	--	(14)
Foreign currency translation adjustment	86	(42)
Adjustments related to retirement benefits	54	(5)
Total other comprehensive income	141	(62)
Comprehensive income	6,633	6,096
(Breakdown)		
Comprehensive income attributable to owners of the parent company	6,633	6,096
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, 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, was added to or deducted from retained earnings at the beginning of the first quarter period, and the new accounting policy has been applied from the beginning balance of the fiscal year under review.
As a result, sales for the nine-month period are ¥6,824 million lower, cost of sales is ¥1,132 million higher, and gross profit is ¥7,957 million lower. Selling, general and administrative expenses are ¥8,160 million lower, and operating income, ordinary income and income before income taxes and minority interests are each ¥203 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, "Provison 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. 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. 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. Nine months ended December 31, 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	44,611	29,273	5,031	78,916	--	78,916
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	44,611	29,273	5,031	78,916	--	78,916
Operating income	6,075	3,701	(20)	9,756	(1,330)	8,426

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 (¥1,330 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.

2. Matters related to changes in reportable segments, etc.:

As described in “Changes in accounting policy”, effective from the beginning of the first quarter period, 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 nine-month period under review, compared with the previous method of calculation, Cosmetics Business sales are ¥4,032 million lower and segment income is ¥2 million higher, Nutritional Supplements Business sales are ¥2,491 million lower and segment income is ¥210 million higher, and Other Businesses sales are ¥301 million lower and segment income is ¥10 million higher.

2. 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.