

FANCL Corporation

Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2023

April 1, 2022 to September 30, 2022

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, 2023

FANCL CORPORATION

November 4, 2022

www.fancl.jp/en/

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Scheduled date for submission of interim *hokokusho* (securities report): November 11, 2022

Scheduled date for distribution of dividends: December 5, 2022

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, 2022 to September 30, 2022) of the fiscal year ending March 31, 2023

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Six months ended September 30, 2022		Six months ended September 30, 2021	
		% change		% change
Net sales	50,639	1.5	49,876	(8.1)
Operating income	3,350	(35.2)	5,171	6.0
Ordinary income	4,176	(24.9)	5,558	11.5
Net income attributable to owners of the parent company	2,654	(34.8)	4,070	13.9
Earnings per share (¥)	21.96	--	33.73	--
Earnings per share (diluted) (¥)	21.87	--	33.59	--

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, 2022: ¥2,850 million (-31.9%)

Six months ended September 30, 2021: ¥4,185 million (17.9%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of September 30, 2022	As of March 31, 2022
Total assets	101,876	100,121
Net assets	75,547	74,073
Shareholders' equity/total assets (%)	73.5	73.3

Shareholders' equity: As of September 30, 2022: ¥74,914 million

As of March 31, 2022: ¥73,432 million

2) Dividends per share

	FY ended March 31, 2022	FY ending March 31, 2023
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, 2023 (April 1, 2022 to March 31, 2023)

Millions of yen

	FY Ending March 31, 2023	
		Change %
Net sales	107,500	3.4
Operating income	9,800	0.3
Ordinary income	10,680	2.7
Profit (loss) attributable to owners of parent	6,950	(6.4)
Net income per share (¥)	57.48	--

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: 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 stock)	September 30, 2022	130,353,200 shares	March 31, 2022	130,353,200 shares
2. Number of treasury stock	September 30, 2022	9,431,351 shares	March 31, 2022	9,677,463 shares
3. Average number of shares during the six-month period	Six months to September 30, 2022	120,886,118 shares	Six months to September 30, 2021	120,670,627 shares

Note: The number of treasury stock at the end of the fiscal year includes the Company's shares held by the BIP Trust for Directors (211,013 shares as of September 30, 2022, and 211,500 shares as of March 31, 2022). The Company's shares held by the BIP Trust for Directors are included in treasury stock as a deduction in the calculation of average number of shares outstanding during the fiscal year.

***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, 2023.

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1. Operating Results

(1) Summary of business performance (consolidated)

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

During the six-month period under review, overall sales increased 1.5% to ¥50,639 million, with strategic investments in advertising resulting in an increase in sales in the core cosmetics and nutritional supplements businesses. Operating income decreased 35.2% to ¥3,350 million, as an increase in gross profit on higher sales was outweighed by the aggressive use of advertising expenditure aimed at expanding the customer base. Ordinary income decreased 24.9% to ¥4,176 million, and net income attributable to owners of the parent company decreased 34.8% to ¥2,654 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 1.6% to ¥28,694 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2022		Six months ended September 30, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	20,905	72.9	20,271	71.8	3.1
ATTENIR Cosmetics	6,744	23.5	7,004	24.8	(3.7)
boscia	398	1.4	529	1.9	(24.6)
Others	645	2.2	439	1.5	46.9
Totals	28,694	100.0	28,244	100.0	1.6

	Six months ended September 30, 2022		Six months ended September 30, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	15,269	53.2	14,588	51.6	4.7
Direct store sales	5,762	20.1	6,109	21.6	(5.7)
Wholesales and others	4,980	17.4	3,998	14.2	24.6
Overseas sales	2,682	9.3	3,547	12.6	(24.4)
Totals	28,694	100.0	28,244	100.0	1.6

Sales of **FANCL Cosmetics** increased 3.1% to ¥20,905 million, due to strong trending sales of *ENRICH+* and *MILD CLEANSING OIL*, which were subject to strengthened advertising and promotions, in addition to contributions from the newly launched *CLAY GEL FACIAL WASH*.

Sales of **ATTENIR Cosmetics** decreased 3.7% to ¥6,744 million, as strong domestic sales of *SKIN CLEAR CLEANSE OIL* and special care products were outweighed by a decline in overseas sales impacted by the lockdowns in China.

Sales of **boscia** decreased 24.6% to ¥398 million due to sluggish wholesale sales to real stores.

Results **by sales channels** were: online and catalogue sales increased 4.7% to ¥15,269 million, direct store sales decreased 5.7% to ¥5,762 million, wholesale sales through other sales channels increased 24.6% to ¥4,980 million, and overseas sales decreased 24.4% to ¥2,682 million.

Operating income

Operating income decreased 22.5% to ¥2,722 million, due the aggressive use of advertising expenditure, which outweighed an increase in gross profit resulting from higher sales.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 2.2% to ¥18,866 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2022		Six months ended September 30, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	8,794	46.6	8,376	45.4	5.0
Direct store sales	2,751	14.6	3,264	17.7	(15.7)
Wholesales and others	5,581	29.6	4,677	25.3	19.3
Overseas Sales	1,738	9.2	2,141	11.6	(18.8)
Totals	18,866	100.0	18,460	100.0	2.2

Strong trending sales of *Naishi Support*, which was subject to strengthened advertising, along with contributions from *Sleep & Fatigue Care* which launched in H2 of the previous year, resulted in an increase in overall sales.

Results by **sales channels** were: Online and catalogue sales increased 5.0% to ¥8,794 million, direct store sales decreased 15.7% to ¥2,751 million, wholesale sales through other sales channels increased 19.3% to ¥5,581 million, and overseas sales decreased 18.8% to ¥1,738 million.

Operating income

Operating income decreased 44.4% to ¥1,404 million, due to a deterioration in the gross profit margin caused by an increase in the sales composition of wholesale sales through other sales channels, which have comparatively high cost ratios, as well as the aggressive use of advertising expenditure.

3) Other Businesses

Sales

Other businesses decreased 2.9% year on year to ¥3,078 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2022	Six months ended September 30, 2021	Change (%)
Hatsuga genmai	996	1,010	(1.4)
Kale juice	964	980	(1.7)
Other	1,118	1,180	(5.3)
Totals	3,078	3,171	(2.9)

Operating income

Despite lower sales, gross profit increased due to an improvement in the gross profit margin of Hatsuga genmai and other factors, resulting in operating income of ¥65 million (compared to an operating loss of ¥21 million in the previous comparable period).

(2) Summary of consolidated financial position

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

Assets increased ¥1,755 million to ¥101,876 million, primarily due to an increase of ¥2,464 million in current assets and a decrease of ¥708 million in fixed assets. The main factors contributing to the increase in current assets were a ¥4,223 million increase in cash and cash equivalents, a ¥714 million decrease in notes and accounts receivable, a ¥257 million decrease in merchandise and products, and a ¥617 million decrease in current assets - other due to a decrease in accounts receivable - other. The main factors contributing to the decrease in fixed assets was a ¥1,420 million decrease in tangible fixed assets, and a ¥711 million increase in investments and other assets - others due to an increase in long-term prepaid expenses.

Liabilities increased ¥280 million from the end of the previous fiscal year to ¥26,329 million. The primary contributing factors were an increase of ¥23 million in current liabilities and an increase of ¥257 million in long-term liabilities. Factors contributing to the increase in current liabilities included a ¥572 million increase in accrued income taxes, a ¥282 million increase in contract liability, ¥84 million increase in allowance for bonuses, a ¥146 million increase other current liabilities due to an increase in accrued income taxes, and a ¥1,065 million decrease in notes and accounts payable.

Factors contributing to the increase in long-term liabilities included a ¥79 million increase in provision for share awards for directors, and a ¥165 million increase in long-term liabilities - others resulting from an increase in lease obligations.

Net assets increased ¥1,474 million to ¥75,547 million. Contributing factors included a ¥2,654 million increase in retained earnings due to the recording of net income attributable to owners of the parent, a ¥2,055 million decrease in retained earnings due to dividend payments, a ¥507 million decrease in treasury stock due to the disposal of treasury stock, and a ¥178 million increase in capital reserve.

As a result, the shareholders' equity ratio increased 0.2 points compared to the end of the previous fiscal year, to 73.5%.

Cash flow

Cash and cash equivalents as of September 30, 2022 were ¥34,331 million, ¥4,223 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities

Cash gained from operating activities during the interim period under review was ¥6,150 million compared to an inflow of ¥6,396 million in the interim period of the previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥4,107 million, depreciation expenses of ¥2,143 million, and an decrease in other current assets of ¥823 million. Factors reducing operating cash flow included income taxes paid of ¥1,136 million and a decrease in accounts payable of ¥1,117 million.

Cash flows from investing activities

Cash used in investing activities during the interim period under review was ¥922 million, compared to an outflow of ¥3,568 million in the interim period of the previous fiscal year. Factors reducing investment cash flow included outlays of ¥610 million for acquisitions of tangible fixed assets, and outlays of ¥404 million for acquisitions of intangible fixed assets.

Cash flows from financing activities

Cash used in financing activities during the interim period under review was ¥2,118 million, compared to an outflow of ¥2,079 million in the interim period of the previous fiscal year. The main factor reducing cash flow from financing activities was ¥2,052 million for dividend payments.

(3) Forecasts for the fiscal year ending March 31, 2023

In light of recent trends in business performance, the Company has revised the full year consolidated results forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023) that were previously announced on August 5, 2022

In the Japan business, sales fell short in the consolidated interim period under review as direct store sales were impacted of the spread of COVID-19, outweighing strong trending online and catalogue sales and wholesale sales due to strengthened investment in advertising. In addition to the shortfall in the Japan business, inventory adjustments at local distributors are taking longer than expected in overseas business, and the boschia brand is underperforming. Accordingly, the full-year forecasts for sales, operating income ordinary income and net income attributable to owners of the parent company have been revised.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen, rounded down)

	As of September 30, 2022	As of March 31, 2022
ASSETS		
I. Current assets:		
Cash and cash equivalents.....	34,331	30,108
Notes and accounts receivable.....	11,202	11,916
Merchandise and products.....	5,261	5,518
Raw materials and supplies.....	5,429	5,610
Others.....	1,936	2,553
Allowance for doubtful accounts.....	(90)	(101)
Total current assets.....	58,069	55,605
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures.....	34,447	34,715
Accumulated depreciation and accumulated impairment loss.....	(19,434)	(19,103)
Buildings and structures (net).....	15,012	15,611
Machinery and transport equipment.....	16,873	16,783
Accumulated depreciation and accumulated impairment loss.....	(11,076)	(10,326)
Machinery and transport equipment (net).....	5,796	6,456
Furniture, tools and fixtures.....	9,928	9,981
Accumulated depreciation and accumulated impairment loss.....	(8,493)	(8,435)
Furniture, tools and fixtures (net).....	1,434	1,546
Land.....	13,914	14,214
Leased assets.....	355	205
Accumulated depreciation and accumulated impairment loss.....	(177)	(127)
Leased assets (net).....	178	78
Others.....	128	--
Accumulated depreciation and accumulated impairment loss.....	(17)	--
Others.....	110	--
Construction in progress.....	74	34
Total tangible fixed assets.....	36,521	37,941
Intangible fixed assets		
Others.....	2,587	2,587
Total intangible fixed assets.....	2,587	2,587
Investments and other assets		
Investment securities.....	125	125
Others.....	4,572	3,860
Total investments and other assets.....	4,697	3,986
Total fixed assets.....	43,807	44,516
Total Assets.....	101,876	100,121

Consolidated Balance Sheets (continued)

(Millions of yen, rounded down)

	As of September 30, 2022	As of March 31, 2022
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,365	3,431
Accrued income taxes	1,843	1,271
Contract liability	2,743	2,461
Provision for bonuses	1,318	1,234
Asset retirement obligations	6	2
Others	6,118	5,971
Total current liabilities	14,396	14,373
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,075	10,100
Provision for share awards for directors....	188	108
Retirement benefit liabilities.....	929	880
Asset retirement obligations	485	496
Others	255	89
Total long-term liabilities	11,932	11,675
Total liabilities	26,329	26,048
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Capital reserve	12,181	12,003
Retained earnings	71,366	70,766
Treasury stock	(19,496)	(20,003)
Total shareholders' equity.....	74,846	73,561
Other comprehensive income		
Foreign currency translation adjustment....	256	100
Total adjustments related to retirement benefits	(188)	(228)
Total other comprehensive income	67	(128)
Stock acquisition rights	633	640
Total net assets	75,547	74,073
Total Liabilities and Net Assets	101,876	100,121

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

(Millions of yen, rounded down)

	April 1, 2022 to September 30, 2022	April 1, 2021 to September 30, 2021
Net sales.....	50,639	49,876
Cost of sales.....	16,393	16,530
Gross profit.....	34,245	33,346
Selling, general and administrative expenses.....	30,895	28,174
Operating income.....	3,350	5,171
Non-operating income		
Interest income.....	25	25
Dividend income.....	0	0
Foreign exchange gain (loss).....	735	162
Rental income.....	60	68
Other non-operating income.....	96	159
Total non-operating income.....	917	417
Non-operating expenses		
Interest expenses.....	0	0
Rent expenses on fixed assets.....	4	5
Provisions for allowance for bad debt.....	50	--
Other non-operating expenses.....	36	23
Total non-operating expenses.....	91	29
Ordinary income.....	4,176	5,558
Extraordinary income		
Income from sale of fixed assets.....	0	0
Total extraordinary income.....	0	0
Extraordinary loss		
Loss on sale of fixed assets.....	--	0
Loss on retirement of fixed assets.....	3	24
Impairment loss.....	4	3
Loss on store closings.....	61	27
Compensation.....	--	20
Other.....	--	3
Total extraordinary loss.....	69	78
Income before income taxes.....	4,107	5,480
Income and other taxes.....	1,708	1,286
Adjustments to income and other taxes.....	(255)	124
Total income and other taxes.....	1,453	1,410
Net income.....	2,654	4,070
Net income attributable to owners of the parent company.....	2,654	4,070

Consolidated statement of comprehensive income

(Millions of yen, rounded down)

	April 1, 2022 to September 30, 2022	April 1, 2021 to September 30, 2021
Income before minority interests	2,654	4,070
Other comprehensive income		
Foreign currency translation adjustment	155	78
Adjustments related to retirement benefits	40	36
Total other comprehensive income	196	115
Comprehensive income	2,850	4,185
(Breakdown)		
Comprehensive income attributable to owners of the parent company	2,850	4,185
Comprehensive income attributable to minor interests	--	--

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

	April 1, 2022 to September 30, 2022	April 1, 2021 to September 30, 2021
Cash flows from operating activities		
Income before income taxes	4,107	5,480
Depreciation.....	2,143	2,117
Impairment loss	4	3
Increase (decrease) in allowance for doubtful accounts	88	(104)
Increase (decrease) in allowance for bonuses.....	84	16
Increase (decrease) in provision for share awards for directors	81	--
Increase (decrease) in allowance for points.....	--	(2,014)
Increase (decrease) in contract liabilities	282	2,400
Increase (decrease) in retirement benefit liabilities	106	83
Interest and dividend income	(25)	(26)
Interest expenses on borrowings and bonds	0	0
Loss (gain) on foreign exchange.....	(1,066)	(260)
Loss (gain) on sale of fixed assets.....	(0)	(0)
Loss on retirement of fixed assets	3	24
Loss on store closures	61	27
Compensation.....	--	20
Decrease (increase) in accounts receivable	778	2,656
Decrease (increase) in inventories	490	436
Decrease (increase) in other current assets	823	(878)
Decrease (increase) in other fixed assets.....	(36)	12
Increase (decrease) in accounts payable	(1,117)	(470)
Increase (decrease) in other current liabilities	13	(1,277)
Increase (decrease) in other long-term liabilities	19	(39)
Others	443	(71)
Sub-total	7,286	8,136
Interest and dividends received	0	1
Interest expenses	(0)	(0)
Income taxes paid.....	(1,136)	(1,720)
Compensation paid	--	(20)
Net cash provided by (used in) operating activities	6,150	6,396

Consolidated Statement of Cash Flows (continued)

	<i>(Millions of yen, rounded down)</i>	
	April 1, 2022 to September 30, 2022	April 1, 2021 to September 30, 2021
II. Cash flows from investing activities		
Acquisition of tangible fixed assets	(610)	(3,183)
Income from sale of tangible fixed assets	0	0
Acquisition of intangible fixed assets	(404)	(568)
Proceeds on sales and redemption of investment securities	--	22
Purchase of shares of subsidiaries and associates	--	(44)
Other payments	(84)	(35)
Other proceeds	176	240
Net cash used in investing activities	(922)	(3,568)
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	0	0
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(2,052)	(2,048)
Others	(66)	(30)
Net cash used in financing activities	(2,118)	(2,079)
IV. Effect of exchange rate changes on cash and cash equivalents	1,112	281
V. Net increase in cash and cash equivalents	4,223	1,029
VI. Cash and cash equivalents at the beginning of the period	30,108	25,487
VII. Cash and cash equivalents at end of period	34,331	26,517

(4) Notes to the consolidated financial statements

Items related to going concern:

No applicable items

Note on significant change in shareholders' equity

No applicable items

Changes in accounting policy

Adoption of Accounting Standards Codification (ASC) 842, Leases

From the first quarter period, foreign consolidated subsidiaries that use U.S. accounting standards have adopted ASC 842, Leases. As a result, with regard to lease transactions at such foreign consolidated subsidiaries, the Company has decided, in principle, to record all leases as assets and liabilities on the balance sheet.

In applying this accounting standard, the cumulative effect of adopting this accounting standard is recognized at the date of adoption, as permitted by transitional measures.

As a result, at the beginning of the first quarter period, right-of-use assets are included in "Other" under tangible fixed assets, and lease obligations are included in "Other" under current liabilities.

The effect of the application of this accounting standard on the quarterly consolidated statements of income is immaterial.

Segment information

Business Segments

1. Six months ended September 30, 2022

(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	28,694	18,866	3,078	50,639	--	50,639
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	28,694	18,866	3,078	50,639	--	50,639
Operating income	2,722	1,404	65	4,192	(841)	3,350

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 (¥841 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, 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	28,244	18,460	3,171	49,876	--	49,876
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	28,244	18,460	3,171	49,876	--	49,876
Operating income	3,512	2,528	(21)	6,019	(848)	5,171

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 (¥848 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.