

FANCL

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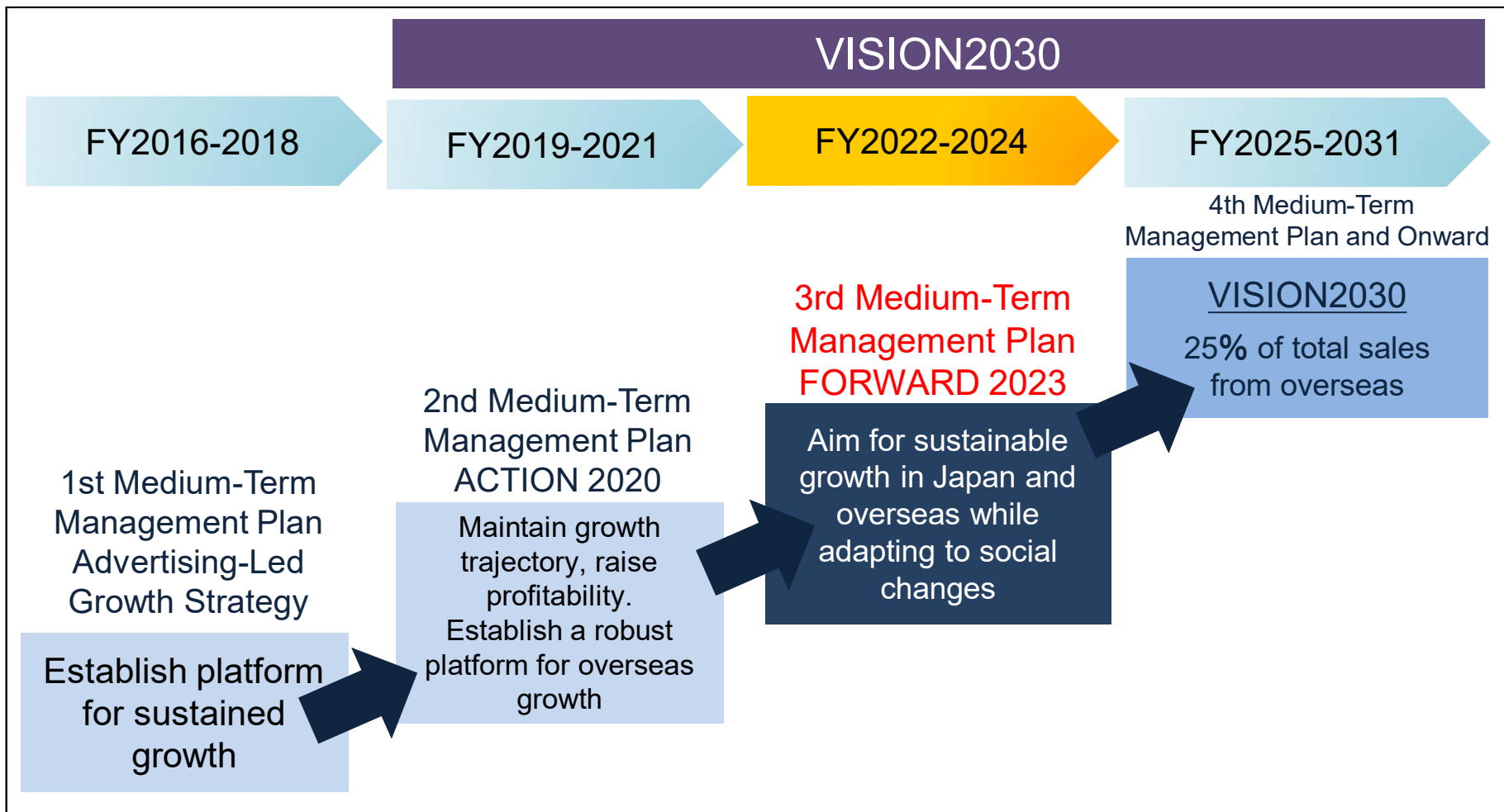
FANCL Group

Medium-Term Management Plan:
FORWARD 2023(FY2022-FY2024)

May 10, 2021

Forward 2023 -Conquer adversity and shape our future-

Plan Further build on ACTION 2020 and work to resolve new negatives that have arisen due to COVID-19, while adapting to social changes and achieving sustainable growth in Japan and overseas



FORWARD 2023 Numerical Targets

Essential to achieve numerical targets. Inbound demand not factored in.

(Billions of yen)		FY Mar/ 2021 Revenue Recognition Standard	FY Mar/2024 Plan		Sales CAGR※	FY Mar/2024 Operating margin	
Sales		105.1	120.0	Cosmetics	FANCL	+2.9%	14.8%
					ATTENIR	+5.4%	
					boscia	+8.7%	
					Total	+3.7%	
Operating income		11.5	15.0	Supplements	Domestic	+3.8%	14.8%
(Operating income ratio)		11.0%	12.5%		Overseas	+32.1%	
					Total	+6.8%	
Capital Efficiency	ROIC*	10.5%	11.0%	Other		(1.1%)	1.9%
	ROE	11.7%	12.5%	Consolidated Total		+4.5%	12.5%

*ROIC: After tax operating income ÷ (Interest bearing debt + owned capital)

*Comparison with FY Mar/2021 results after adoption of revenue recognition standard

Major policy: 7 challenges

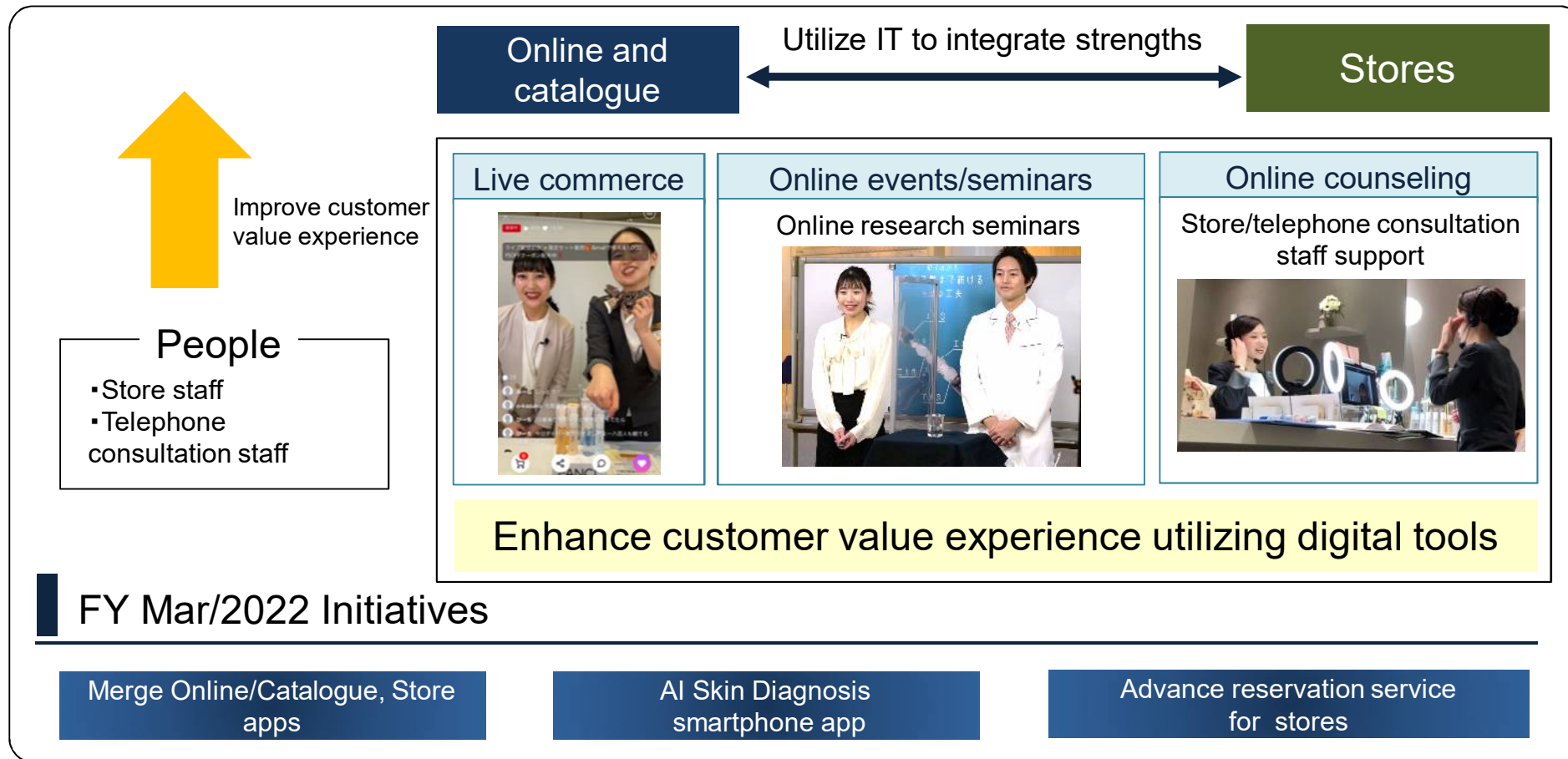
Clarify points to maintain or to improve, and engage with a sense of urgency

1. Create and promote products with unique value
2. Implement OMO that is unique to FANCL
3. Foster and develop new business
4. Promote full-scale globalization
5. Create synergies with Kirin Group
6. Implement Human resource development and utilization
7. Promote sustainable business, make lasting SDGs contributions

Background

Customers who use both the online/catalogue and store channels have 1.5 times the retention rate and 3 times the annual purchase total of customers who only use one channel

The result of customers' high value experience



FANCL OMO: Utilize IT to deeply understand customers

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Utilize IT to more deeply understand customers and enable a personalized approach with each individual

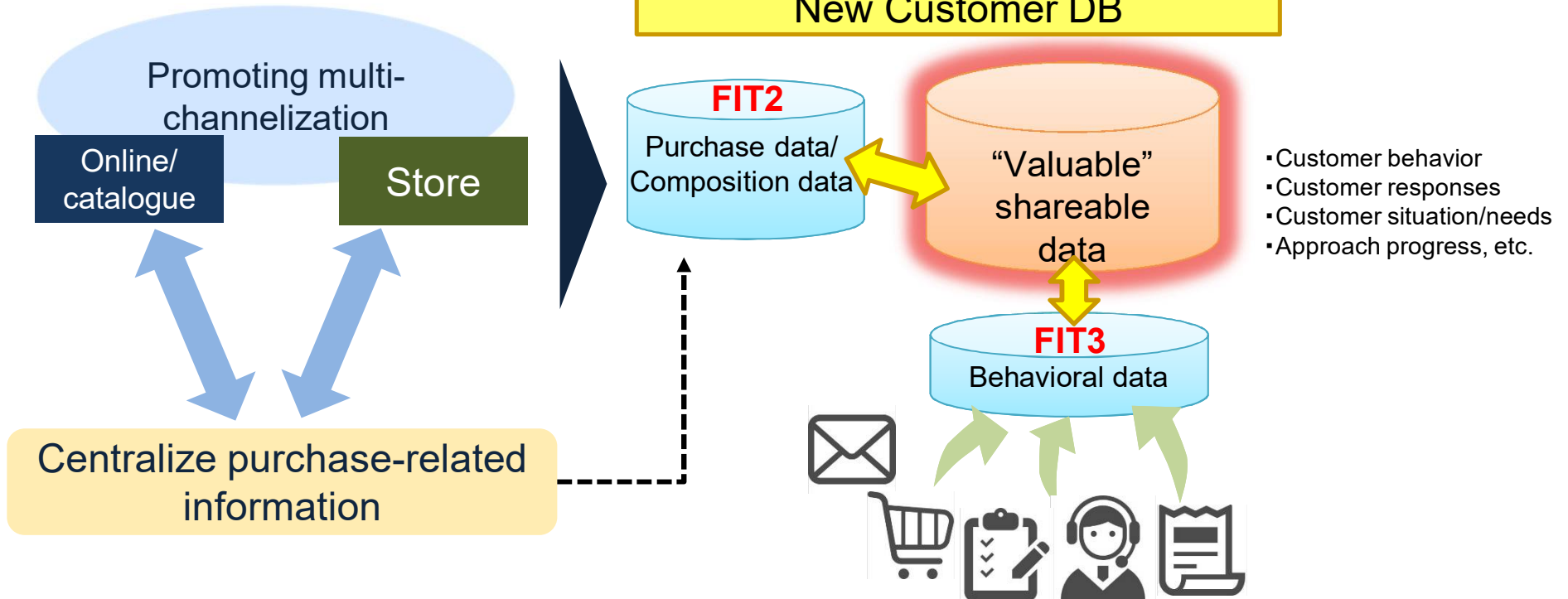
IT core system FIT2

IT core system FIT3 (Spring 2022)

- ✓ Centralization of customer data
- ✓ Facilitates online/catalogue ↔ store referrals, demonstrating multi-channel strengths

- ✓ Collect and analyze **data to better understand customers** including behavioral information leading up to purchases and response to FANCL approach



New Customer DB



Cosmetics Business

NEW

Plan	Maintain	Improve
	<ul style="list-style-type: none"> Absolute value from safety and assurance of Mutenka cosmetics Progress with brand diversification 	<ul style="list-style-type: none"> Promote high efficacy of Mutenka cosmetics through enhanced functions and new products

	Representative products	Core users	FY Mar/2031 Sales Composition Ratio
The FANCL 	Mutenka skincare Mutenka makeup, etc. Cleansing Facial wash, etc.	30s to 40s	80% (FY Mar/2021 95%)
Neo 	Beauty BOUQUET AND MIRAI	Over 50 Around 30	20% (FY Mar/2021 5%)
Prestige NEW	New Brand X	20s to 30s Those who are highly invested in skincare	

① Expand basic skin care users

- Renew basic skin care lines, one line every year
- Renew core skin care line in FY Mar/2022

② Become No. 1 brand in facial wash market

- In addition to strengthening *DEEP CLEAR WASHING POWDER*, launch new products to meet the current needs of society

③ Launch high performance serum

- Launch high performance serum following *CORE EFFECTOR* to expand number of serum users

Cosmetics subscription service
Launched
(February 2021)

Target products
All skincare lines, serums



Aiming to improve usability
and retention rate

	FY Mar/2022	FY Mar/2023	FY Mar/2024
Basic skin care	Renew one line every year		
Facial wash category		NEW Launch new products	
Special care	NEW Launch new products	Renew existing products	

Beauty BOUQUET

- Aim to expand skin care subscriptions
- Renewal in FY Mar/2022 using high-performance anti-aging ingredients developed jointly with Kirin



AND MIRAI

- Implement effective promotion with a focus on Instagram to improve brand recognition
- Prepare for overseas expansion



NEW

Prestige: New Brand X (Launching FY Mar/2022)

- Establish new company in April 2021
- Product offerings and branding detached from FANCL brand

	FY Mar/2022	FY Mar/2023 onward
Domestic	Development focused on e-commerce	
Overseas		Cross-border e-commerce development

Attenir Evolve into global brand

Policy	Maintain	NEW Improve
	<ul style="list-style-type: none"> Brand philosophy and values including "unique value" and "first-class quality" 	<ul style="list-style-type: none"> Evolve from domestic to global brand

Domestic

Categories that generate sales and profits

Skincare

April 2021
Launch of *Dress snow*
(Quasi-drug)



Inner care



April 2021
Collagen
Renewal


 Fostering brand image and sense of quality

Collection (Fashion)

Overseas

NEW Products

Develop products that meet overseas needs

April 2021

Launch *SKIN CLEAR CLEANSE AQUA Aroma Type*



New water-based cleanser, a mainstay product category in China's cleanser market

NEW Area-specific developments

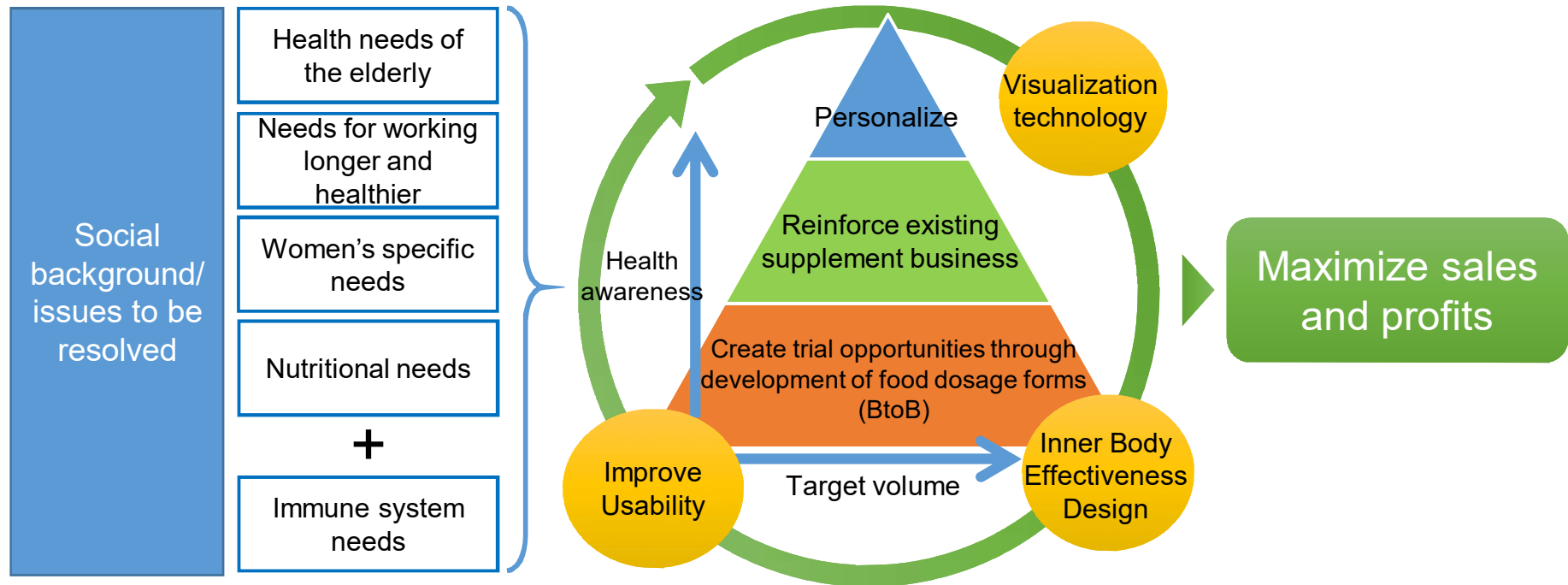
- China: General Trade Sales in FY Mar/2024
- Asia: Successive expansion of cross-border e-commerce
- North America: Sales on e-commerce sites

Policy	Maintain	NEW Improve				
	<ul style="list-style-type: none"> National and international branding strategies 	<ul style="list-style-type: none"> Further strengthen e-commerce with view for post-COVID-19 era Improve brand value and increase sales by launching Premium line 				
Area expansion		Timely product development				
<div style="background-color: #cfe2f3; padding: 5px; margin-bottom: 10px;">National branding (U.S.)</div> <ul style="list-style-type: none"> Strengthen own channel (boscia.com) while continuing focus on Costco and Amazon, where sales are strong 		<div style="display: flex; justify-content: space-around; margin-bottom: 10px;"> <div style="background-color: #1a3d4d; color: white; padding: 5px;">Line</div> <div style="background-color: #1a3d4d; color: white; padding: 5px;">Main channel</div> </div> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; padding: 10px;">Current line</td> <td style="width: 50%; text-align: center; padding: 10px;">Membership-based retail chains, drugstores, etc.</td> </tr> <tr> <td style="width: 50%; text-align: center; padding: 10px;">NEW Premium line</td> <td style="width: 50%; text-align: center; padding: 10px;">Specialty cosmetics stores, High-end department stores, own e-commerce platforms</td> </tr> </table> <ul style="list-style-type: none"> Expand the category to include body care products in addition to skin care products 	Current line	Membership-based retail chains, drugstores, etc.	NEW Premium line	Specialty cosmetics stores, High-end department stores, own e-commerce platforms
Current line	Membership-based retail chains, drugstores, etc.					
NEW Premium line	Specialty cosmetics stores, High-end department stores, own e-commerce platforms					
<div style="background-color: #cfe2f3; padding: 5px; margin-bottom: 10px;">International branding (Europe, Asia)</div> <ul style="list-style-type: none"> Utilize Costco and Amazon global sales channels Collaborate with strong retailers in each country <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">FY Mar/2022 Plan</div> <ul style="list-style-type: none"> UK: Costco, Amazon Europe: Douglas, Zohland China: T-mall, etc. 						
Enhance promotion	Share information through social media (Instagram, Facebook)					

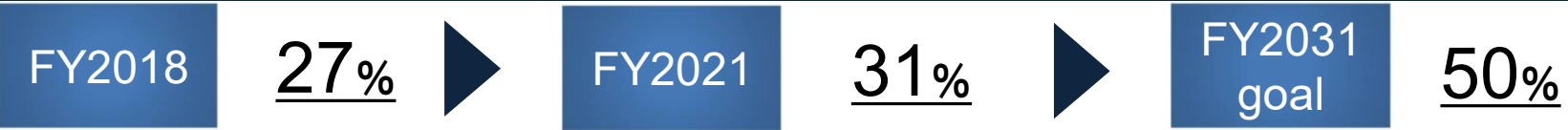
Health Business

Basic strategy

Policy	Maintain	NEW	Improve
	<ul style="list-style-type: none"> Achieve growth based on three pillars: reinforcement of existing supplement business, personalization, and creating trial opportunities by developing food dosage forms 		



Increase the use of Health foods (supplements) in Japan, helping to extend healthy life span and reduce medical costs



(Source: FANCL Health Needs Survey)

Existing supplement business

Expand sales through product development centered on food with functional claims products and regular renewal of star products

- ❑ Mainly targeting people in their 40s and 50s, positioning supplements addressing lifestyle-related diseases as a growth driver and investing aggressively in advertising
- ❑ Launch of food with functional claims products in fields with large markets that are subject to focus during the COVID-19 pandemic (supplements using Kirin ingredients)

Category	Policy	Typical products
Needs for working longer and healthier	<ul style="list-style-type: none"> • Launch new food with functional claims products that address lifestyle-related diseases and meet new needs brought about by the pandemic 	<i>Naishi Support, Ketsuatsu Support</i> (Weight and body fat care, blood pressure support) NEW Supplements using Kirin ingredients
Women's specific needs	<ul style="list-style-type: none"> • Maintain and expand upon FANCL's No. 1 position in the diet market • Strengthen beauty supplements 	<i>Calolimit series</i> <i>DEEP CHARGE COLLAGEN</i>
Health needs of the elderly	<ul style="list-style-type: none"> • Expand product lineup 	<i>Enkin</i> (Anti-aging eye care) (Renewal in April 2021) <i>Raku Hiza</i> ("Joint Support ")
Nutritional needs	<ul style="list-style-type: none"> • Lineup of products according to age, genetic makeup, and concerns 	Basic nutritional supplements Age bracket-based supplements
Immune system needs	<ul style="list-style-type: none"> • Expand product lineup 	NEW <i>Meneki Support</i> (Immunity Support) (Lineup expanded in 2021)

Personal ONE

FANCL's Strengths

Visualization Technology
Science-backed offerings

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A wide range of products for a wide range of needs

Leveraging visualization technologies

- Advanced proprietary urine testing technology for more detailed analysis of deficiencies



Expansion of line up

- Addition of new products to Personal ONE service to meet customer needs. i.e. *Meneki Support*, developed in existing supplement business

BtoB

Work with food manufacturers to develop products that both taste good and are healthy
Improve FANCL brand penetration, and cultivate potential supplement customers

Impact of increased awareness

Sales volume of products in collaboration with Calolimit 30 million (FY Mar/2021)



Achieved 4 times the sales volume of Calolimit series supplements

FY Mar/2022: Several product launches planned including collaboration with Kirin

China supplement business: Basic policy and brand positioning **FANCL**

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NEW

Policy	Maintain	Improve
	<ul style="list-style-type: none"> Maintain close partnership with Sinopharm Strengthen cross-border e-commerce 	<ul style="list-style-type: none"> Strengthen efforts to develop cross-border e-commerce beauty supplements Full-scale General Trade Sales (health food)

Comparison with major foreign brands (excluding door-to-door sales)

FANCL's differentiating factors

Brand	Country	Main products
FANCL	Japan	Health supplements including Age bracket-based supplements
Brand A	USA	Calcium
Brand B	Australia	Beauty supplements
Brand C	Australia	Health supplements

Country of origin	▪ Trust in <u>"Made in Japan"</u>
Product	▪ <u>Highly unique supplements</u> represented by inner body effectiveness and food with functional claims products
Brand	▪ <u>Strength as beauty brand AND health brand</u> ▪ Safe, secure
Network	▪ China's largest pharmaceutical company group <u>Sinopharm's expansive network</u> (pharmacies, medical facilities, etc.)

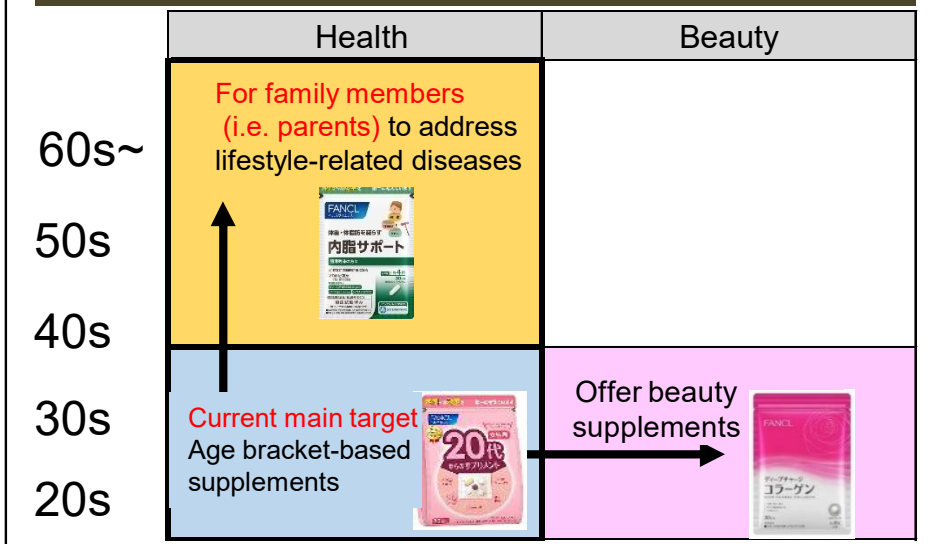
Leveraging FANCL's strengths to become China's No. 1 overseas brand in sales

Triple sales through cross-border e-commerce and general trade sales (¥6 bn in FY Mar/2024)

Cross-border e-commerce

- Strengthen beauty supplements targeting women, the main user group of cross-border e-commerce, and develop into a core category
- Strengthen supplements addressing lifestyle-related diseases sub-targeting these women's families

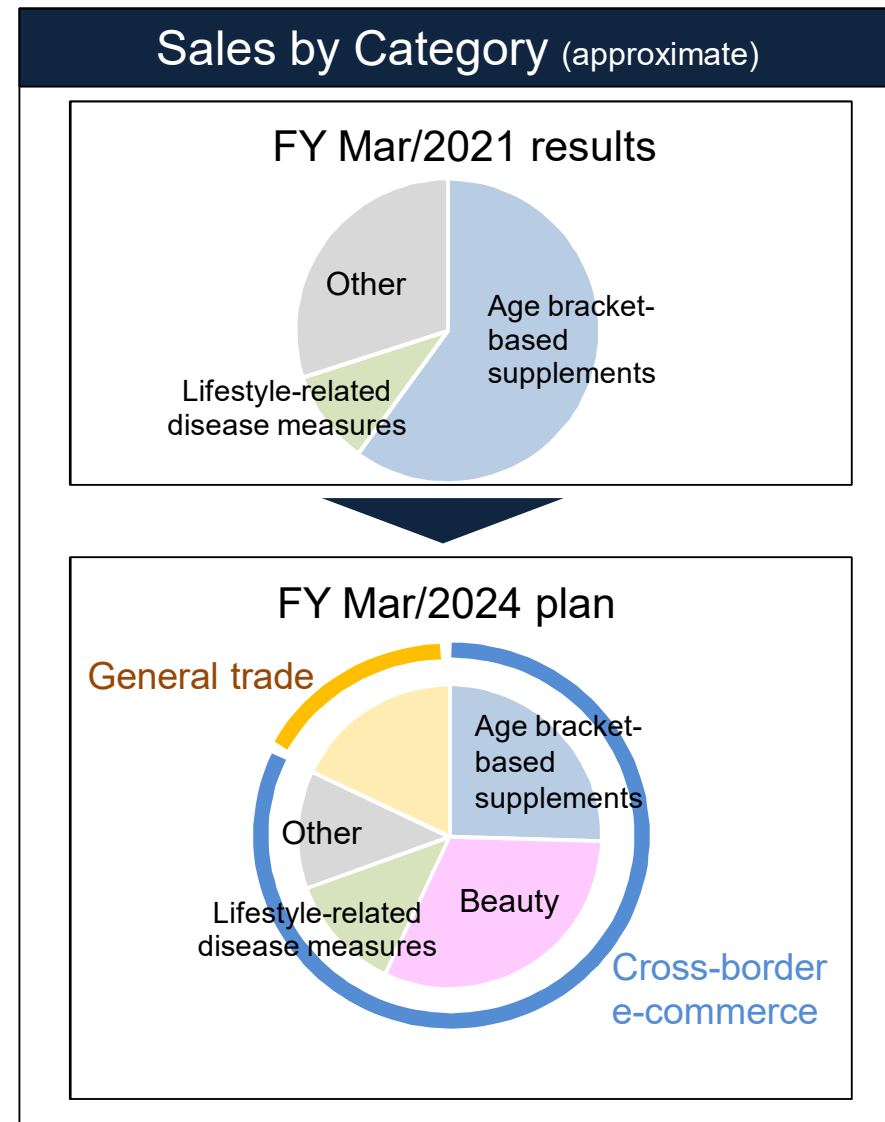
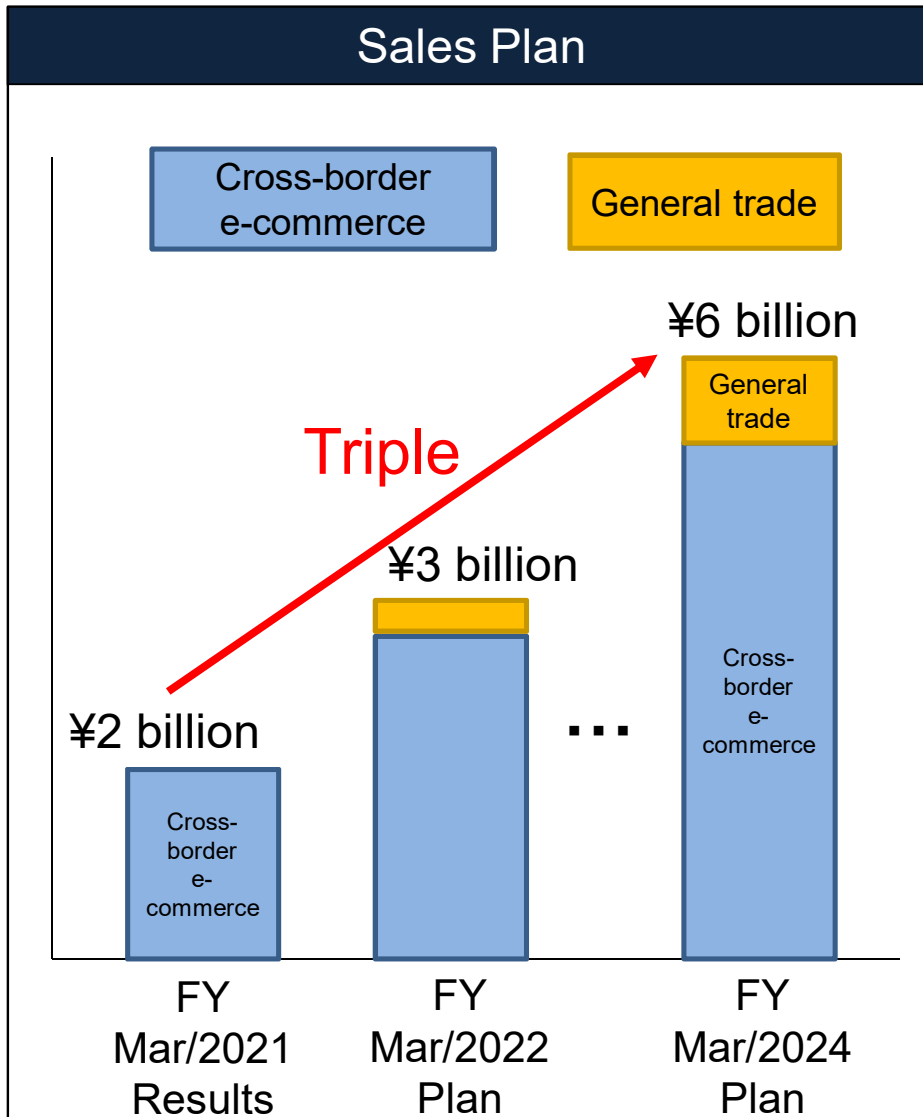
Achieve growth in the areas of health and beauty



NEW General trade sales (Health foods)

	Present	FY Mar/2022	FY Mar/2025 onwards
Approved Products	Five vitamins and minerals	Expand to 15 vitamins and minerals	Launch functional supplements
Sales channels	Domestic EC (independent mall)	Domestic EC (Mall flagship stores, etc.)	
	Duty-free stores		
	Department stores, supermarkets		
	Drugstores, hospital pharmacies		
Develop into health management service for employees of state-owned enterprises			

China supplement business: Sales plan



Reinforcement of management foundation

Research

- ❑ Accelerate business strategies and promote research on solutions to eliminate negatives
- ❑ Develop new products utilizing Kirin's technologies and materials

Infrastructure

- ❑ Manufacturing: Strengthen supply system, increase flexibility
 - Start operation of Mishima supplements plant (April 2021)
 - Shorten manufacturing lead time
 - Stable supply through BCP measures
- ❑ Logistics: Start operation of Kansai Logistics Center (June 2021)
 - Comprehensive automation and labor-saving measures
 - Shorten delivery time and reduction of delivery costs
- ❑ IT core system "FIT3" to go online (spring 2022)

Human resources

- ❑ Stratified HR development including future candidates for management roles, strengthening of global education
- ❑ Establish HR management system that consolidates HR information, realize optimal HR allocation and improved employee engagement in line with business priorities

FANCL Group's "Sustainable Declaration" Building a Bright Future Together

Guided by our founding philosophy of "Eliminating the 'Negatives' with a Sense of Justice," FANCL is confronting key issues of concern that will impact people's future lives, including the global environment and society, working together with our stakeholders to engender hope. We aim to contribute to the creation of a sustainable society that brings happiness to people now and in the future.

NEW

Key themes

Environment

To achieve business activities in harmony with nature

Contribute to the conservation of the natural environment by appreciating the blessings of nature in all aspects of our corporate activities, and address the increasingly important issue of climate change.



Healthy Living

For a healthy lifestyle that is unique to you

Contribute to the extension of healthy life expectancy and improvement of quality of life (QOL) for people around the world through our unique products and services.



Local Communities and Employees

To create a society where everyone can shine

Support people's happiness and contribute to the creation of a society where everyone can shine, based on our corporate culture of "loving people."



Sustainability policy: Key themes

Environment

Aim to achieve quantitative targets and enhance brand value by addressing climate change and pursuing unique initiatives

Zero CO2 emissions by FY Mar/ 2051

- Renewable energy power generation (solar panels)
- Purchase of electricity from renewable sources, etc.

Employ the 4Rs* to achieve 100% sustainable packaging by FY Mar/ 2031

- Reduce resin used in container manufacture, utilize refillable containers, implement easy-to-separate container design and collection, replace plastic with alternative

*4R: Reduce•Reuse•Recycle•Renewable

100% certified palm oil by FY Mar/ 2024

Healthy Living

Contribute to a sustainable society by eliminating the negatives and tackling social issues through our products and services.

- Addressing basic nutritional needs
- Initiatives to extend healthy life expectancy
- Initiatives to improve QOL

Local Communities and Employees

Contribute to the creation of a society where everyone can shine through the promotion of diversity and inclusion and social activities.

- Promotion of Diversity and Inclusion
 - Promotion of women
Ratio of female managers: 50% in FY Mar/24 (46.5% in FY Mar/21)
 - Expanding opportunities for people with disabilities
Employment rate of people with disabilities: 5% in FY Mar/31 (3.74% in FY Mar/21)
- Contributing to the local community
- Evolve educational seminars on beauty and health

Incorporate the meeting of CO2 emission, etc. targets into the evaluation of executives' medium-term incentive compensation

Capital Policy and Governance

Capital policy and Shareholder returns

Set ROIC as new KPI to further promote management practices that show awareness of business profitability and investment efficiency

Improve capital efficiency

	FY Mar/2018	FY Mar/2021	FY Mar/2024 Goal
ROIC*	8.5%	10.5%	11.0%
ROE	8.5%	11.7%	12.5%

*ROIC: Return on Invested Capital, Net income/(debt + equity)

Cashflow distribution

Less large investments from FY Mar/2023 onward

FY Mar/2022~FY Mar/2024

+Cash in from operating CF:	Approx. ¥38.0bn
- Capital expenditure:	Approx.¥11.5bn
- Shareholder returns:	Approx.¥12.0bn
Net	+ ¥14.5bn

Shareholder returns

- ❑ Target consolidated dividend payout ratio of approximately 40% and dividend on equity (DOE) of approximately 5%
- ❑ Share buybacks will be carried out flexibly considering capital needs and stock prices

Main capital expenditure

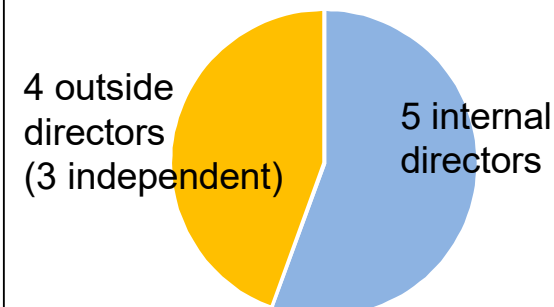
▪Kansai Logistics Center:	Approx. ¥ 1.0bn
▪Mfg facility expansion, updates:	Approx.¥ 2.0bn
▪IT System investment:	Approx.¥ 4.5bn
▪Store investments:	Approx.¥ 1.0bn

Improving management transparency (FY Mar/2021)

- One additional outside director
(Ratio of outside directors more than 1/3 since FY Mar/2020)
- Nomination and Compensation Committee to be chaired by outside director

Improving board effectiveness

9 Composition of Board of Directors



Outside Directors	Attributes	Field
Mitsuaki Nakakubo (independent)	Lawyer	Corporate legal affairs
Keiichiro Hashimoto (independent)	Former Vice President, MITSUBISHI MOTORS CORPORATION Former Chairman and President, Metropolitan Expressway Company Limited Former Vice Chairman & President of KEIZAI DOYUKAI (Japan Association of Corporate Executives)	Corporate management
Akira Matsumoto (independent)	Certified Public Accountant	Finance & Accounting Corporate Consulting
Junko Tsuboi	Senior Executive Officer Kirin Holdings Company, Limited	Marketing ▪ Brand Strategy

Holding sessions

- From FY Mar/2021 the board of directors has been holding additional themed sessions on top of regular resolutions and reporting activities
- These provide opportunities to incorporate the rich knowledge of outside directors



Hold lively discussions on medium- and long-term themes including DX, SDGs, and the New Medium-Term Management Plan

