

## Notice Regarding Medium Term Strategy (2013-15)

---

**Yokohama, November 14, 2013**—FANCL Corporation has confirmed the following aspects of its medium-term strategy for the Fiscal 2013 to 2015 period.

Since its establishment, FANCL Group has operated under a philosophy of building a system to eliminate negatives in the consumer experience, and has continued to challenge common industry practice with its *preservative-free cosmetics, dietary supplements, hatsuga genmai* and *kale* businesses. However, the Company has faced challenges in “eliminating negatives” and its pursuit of “ensuring the customer is fully satisfied”. In order to overcome the rapid change in the market and competitive environment, and to make progress towards globalization and renewing corporate growth, we believe that further reinforcing our fundamental customer-focused approach and developing strong connections with customers around the world are a top priority.

In this environment, in January 2013, the Company shifted to a new management structure that enables Company founder and Chairman, Kenji Ikemori, to be directly involved in executive management.

Since his return to the Company, Mr. Ikemori has continued steady efforts to strengthen the business foundations focusing his attention on elimination of all unprofitable business, including the closure of non-profitable stores and withdrawal from the Singapore and Taiwanese retail businesses. In addition, he has placed a greater focus on the customer through improvements to the distinctiveness of cosmetics items and the establishment of FANCL College to provide special training to retail personnel and support for developing future managers. He has also renewed FANCL’s flagship FANCL Ginza Square as a place to learn and disseminate information on global development. In addition, the company is making preparations to shift to a holding company structure as of April 1, 2014.

Details of FANCL’s medium-term strategy follow:

### **Basic Philosophy**

#### **Utilize strengths as a research and development-focused manufacturer with direct sales capabilities**

Reinforce business foundations while maintaining a strong focus on profitable business operations.

#### **<Reinforcing business foundations>**

- Strengthen product development for products targeting middle-aged to elderly customers and improve understanding of core products.
- Further strengthen R&D capabilities and cultivate new markets and services.

### <Profit-focused business operations>

- Aim to reduce cost ratio of core products by 5% within 3 years.
- Focus on profitability and productivity indicators, and achieve extensive cost reductions.

## **Business Strategy**

### **1. Beauty business strategy**

Increase customer numbers and raise brand loyalty by further expanding the Mutenka (additive free) cosmetics market, using its unique position built around Mutenka anti-stress skin care.

#### <Product strategy>

- Renew core products, reinforce product lineup and anti-aging research, and develop a new product lineup targeting an aging society.

#### <Research and technology strategy>

- Enter premium market segment by developing highly functional prestige brands (personal skin care) using our cutting edge additive-free technology, including the world's first diagnosis for assessing the aging of a person's skin.
- Utilize our existing Mutenka technology to develop products for distribution that meet the diverse needs of wholesalers.

#### <Sales strategy>

- Expand customer contact points by strengthening the development of mail order sales channels in addition to the direct sales channel.
- Increase customer satisfaction and brand loyalty through the deployment of staff with specialist knowledge and counseling capabilities, and the introduction of counseling tools.

#### <ATTENIR>

- Strengthen business by redefining FANCL's brand concept as Innovation, Honesty and Elegance, developing cosmetics lineup and the most advanced lineup of aging-care products, and restructuring our sales system.

### **2. Health business strategy**

Scientifically support our customers' pursuit of lifelong health and the realization of "Good Aging" by maintaining good physical and mental health.

#### <Supplements>

We are aiming to develop original strategic products *Hatsugamai Power PSG* and *Koshirax* (Low Back Support) for the middle-aged and senior market. *Hatsugamai Power PSG* is a supplement containing circulation-strengthening PSG, a component found in very small quantities in germinated brown rice. *Koshirax* is a supplement that targets lower back pain. We will further enhance our lineup of products for middle-aged and senior customers.

FANCL will aim to differentiate itself from competitors and develop unique products by leveraging our strengths in R&D, focusing on “efficacy in body” and “long lasting.”

#### **<Functional foods>**

In anticipation of the future direction of health food products, FANCL will create new markets by developing functional foods that are easily incorporated into daily meals.

#### **<Preventative healthcare>**

In addition to our strengths in R&D and technology, FANCL is using management resources to offer total support for our customers’ health and strengthening our position in preventative healthcare.

### **3. Store strategy**

- Within the next three years we are aiming to renew or change, including through consolidation, the function of directly managed stores to specialist cosmetic and health food stores to respond to the needs of customers from a specialist perspective while positioning them as showrooms.
- On October 20, 2013 our flagship store, FANCL Ginza Square, which showcases FANCL’s corporate identity, research technology, products, and services, reopened as a place to learn and disseminate information on global development.

### **4. Internet strategy**

- Based on the progress of internet technology, changes in devices, and increase in percentage of customer purchases made online, we will further improve usability and enhance our personal approach to improve user-friendliness and loyalty.

### **5. Overseas strategy**

- Conduct fundamental review of business, withdrawing from retail business in Taiwan and Singapore in March 2014, and planning to reenter as a wholesaler after April 2014.
- While expanding the boschia brand in overseas markets, in particular the United States, we will pursue a market strategy considering redevelopment of the FANCL brand.

### **6. Strengthen business foundations**

#### **<R&D>**

To enhance R&D capabilities and improve development speed we will further strengthen our research system by establishing a second research facility and increasing the number of research workers.

### **<Cost reduction>**

Aim to reduce cost of core products within three years by improving added value of products, while conducting a review of the development process and materials procurement from product planning to manufacture.

### **<Employee development>**

Strive to build a relationship of trust with customers and improve customer satisfaction by strengthening specialized training of retail and contact center staff, utilizing FANCL College, which was established in March 2013.

- Continue to implement Ikemori leadership training to include our management philosophy, a women managerial training program and executive manager training for candidate staff. These activities aim to cultivate the *Essence of FANCL*, contribute to society, take on the challenge of new ventures, remain aware of our customers' point of view and spread awareness of our managing principals. We will also implement enhanced training for regular employees and cultivate the next generation of managers.
- Aim to promote appointing females to managerial level targeting 40% by FY 2015 (FY 2012 31%)

### **<Transition to holding company structure>**

On April 1, 2014 FANCL will shift to a holding company structure focusing on profitable business development and promotion of rapid decision making and business execution, and to implement a framework to proactively generate new business.

### **Quantitative targets**

FY2013 was positioned as a year of preparation for re-growth and training. From FY2014 we will ensure business recovery and aim for a consolidated operating income margin of 8% (FY2012 4.7%).

Ends