

# Management Discussion and Analysis

## Sales

Sales decreased 0.4% to ¥103,595 million, as domestic store sales were slow due to the impact of the COVID-19 pandemic, and overseas sales declined due to the impact of lockdowns in China.

## Cosmetics Business

Sales from the Cosmetics business decreased 2.3% to ¥57,448 million.

Sales of FANCL Cosmetics decreased 1.5% to ¥42,102 million, due to factors including a slowdown in direct store sales and overseas sales due to the impact of the COVID-19 pandemic, which outweighed growth in online and catalogue sales and wholesales and others, for which we strengthened advertising.

Sales of ATTENIR Cosmetics decreased 2.5% to ¥13,447 million, as a decline in overseas sales, impacted by the lockdowns and inventory adjustments in China, outweighed strong domestic sales of SKIN CLEAR CLEANSE OIL and special care products.

Sales of boschia decreased 32.5% to ¥783 million due to sluggish wholesale sales to cosmetics specialty stores and department stores.

## Nutritional Supplements Business

Nutritional supplement sales increased 3.6% to ¥39,871 million.

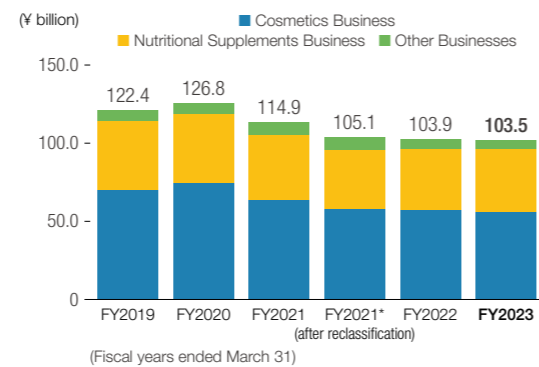
Domestic sales increased due to an increase in online and catalogue sales and wholesale sales as a result of strengthened advertising, which outweighed a decline in direct store sales caused by the impact of the COVID-19 pandemic.

Overseas sales declined due to lockdowns and inventory adjustments in China.

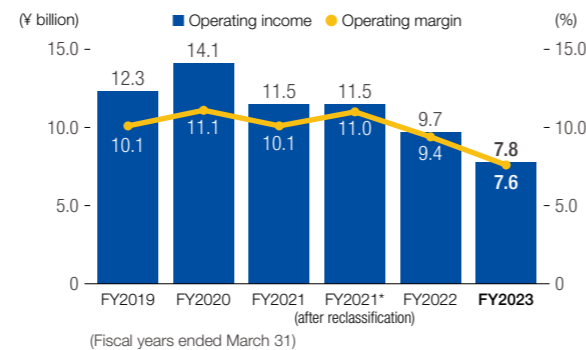
## Other Businesses

Other businesses decreased 6.5% year on year to ¥6,276 million.

### Sales



### Operating income/Operating margin



## Profit

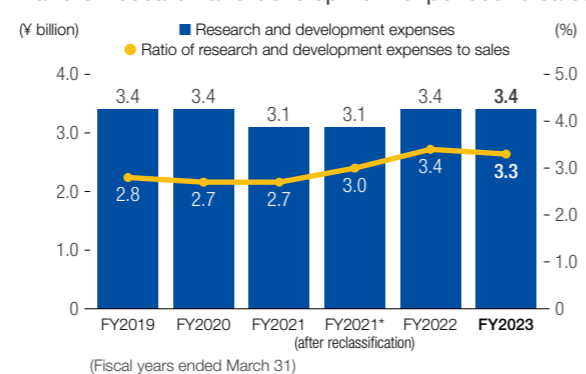
Operating income decreased 19.7% to ¥7,843 million, mainly due to the proactive use of advertising expenditure to expand the customer base. Ordinary income declined 17.7% to ¥8,557 million, and net income attributable to owners of the parent company declined 33.0% to ¥4,970 million.

## Research and Development Expenses

Total research and development expenses in the fiscal year under review came to ¥3,408 million.

At its Research Institute, FANCL engages in basic technological and product development research on cosmetics, nutritional supplements, *Hatsuga genmai* (germinated brown rice), and Kale Juice in an effort to promote safety and functionality research with a focus on peace of mind and safety as well as the development of products based on scientific evidence. In addition to leveraging its Yahho System, which collates and analyzes customer feedback received directly through the customer service center, in the development of products, FANCL also undertakes a wide range of research and development activities, including joint research with many domestic and international research institutions and participation in industry-government-academia collaboration projects. The Company maintains a total complement of 195 researchers, many of whom have acquired Ph.Ds. in such fields as agriculture, pharmacy, and science. FANCL is also actively engaged in new business-related research, and is advancing initiatives targeting pet food development and the health tech business.

### Research and development expenses/ Ratio of research and development expenses to sales



\* Results are reclassified under "Accounting Standard for Revenue Recognition," etc.

Furthermore, FANCL began promoting joint research projects with the R&D Division of Kirin Holdings Company, Limited in accordance with the capital and business alliance agreement concluded with that company in August 2019. Synergies have emerged, including the launch of products in 2021 and 2022 that apply the technology

created through this joint research project. Looking ahead, we will pursue joint projects in a number of wide-ranging fields including cosmetic development as well as brain function and intestinal environment research in a bid to secure additional research results.

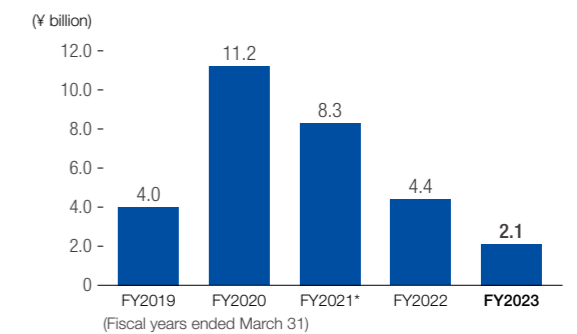
## Capital Investment

FANCL newly launched the Kansai Logistics Center while opening new and renovating existing stores as a common activity across all businesses. In the Nutritional Supplements Business, the Company made investments in connection with the opening of Mishima Factory, a supplement production base.

FANCL undertook capital investment including intangible fixed asset investment totaling ¥2,192 million. Looking at the amount of capital investment by segment, FANCL allocated funds of ¥1,099 million, ¥888 million, ¥153 million, and ¥51 million to the Cosmetics, Nutritional Supplements, Other Businesses, and Other, respectively.

Meanwhile, the Company did not dispose of or sell any major facilities.

### Capital investment



## Financial Position and Cash Flows

Assets increased ¥3,823 million to ¥103,944 million, primarily due to an increase of ¥6,356 million in current assets and a decrease of ¥2,533 million in fixed assets. The primary factor contributing to the increase in current assets was a ¥6,931 million increase in cash and cash equivalents. The primary factor contributing to the decrease in fixed assets was a ¥2,728 million decrease in tangible fixed assets due to depreciation.

Liabilities increased ¥2,233 million from the end of the previous fiscal year to ¥28,282 million. The primary contributing factors were an increase of ¥1,719 million in current liabilities and an increase of ¥514 million in long-term liabilities. Factors contributing to the increase in current liabilities included a ¥994 million increase in current liabilities – others resulting from an increase in consumption tax payable, and a ¥646 million increase in accrued income taxes. The primary factor contributing to the increase in long-term liabilities was a ¥342 million increase in retirement benefit liabilities and a ¥151 million increase in provision for share awards for directors.

Net assets increased ¥1,589 million to ¥75,662 million. Contributing factors included a ¥4,970 million increase in retained earnings due to the recording of net income attributable to owners of the parent company, a ¥4,114 million decrease in retained earnings due to dividend payments, a ¥524 million decrease in treasury stock due to the disposal of treasury stock, and a ¥186 million increase in capital reserve.

As a result, the shareholders' equity ratio decreased 1.1 points compared to the end of the previous fiscal year, to 72.2%.

Cash and cash equivalents ("funds") as of March 31, 2023 were ¥37,039 million, ¥6,931 million higher than at the end of the previous consolidated fiscal year.

The main contributing factors to cash flows during the consolidated fiscal year ended March 31, 2023 are as follows:

### Cash Flows from Operating Activities

Cash flows gained from operating activities during the period under review was ¥12,952 million, compared with an inflow of ¥13,097 million in the previous consolidated fiscal year. Factors increasing operating cash flow included income before income taxes of ¥8,214 million, depreciation of ¥4,377 million, and an increase in other current assets of ¥1,360 million. The main factor decreasing operating cash flows was income taxes paid of ¥2,527 million.

### Cash Flows from Investing Activities

Cash flows used in investing activities during the period under review was ¥1,867 million, compared with an outflow of ¥4,673 million in the previous consolidated fiscal year. This was primarily due to outlays of ¥1,143 million for acquisitions of tangible fixed assets, and outlays of ¥882 million for acquisitions of intangible fixed assets.

### Cash Flows from Financing Activities

Cash flows used in financing activities during the period under review was ¥4,247 million, compared with an outflow of ¥4,155 million in the previous consolidated fiscal year. The main factor reducing cash flows from financing activities was ¥4,109 million for dividend payments.

Free cash flows, which is the sum of cash flows from operating activities and cash flows from investing activities came to ¥11,084 million in FY Mar/2023.

The Company's cash requirements are primarily due to the purchase of raw materials for the manufacture of its products, and to cover its ongoing operations including manufacturing, selling, general and administrative expenses. Operating expenses comprise mainly advertising and other marketing expenses, with the majority of research and development costs for quality improvement being recorded as expenses.

In addition, FANCL issued Euro Yen convertible bonds due in 2024 in April 2019. The main uses of these funds are for the Kansai Logistics Center and capital investments in a nutritional supplements factory.