

## To Our Shareholders and Other Stakeholders

**FANCL is committed to being a company that supports the beauty and health of its customers and the world, throughout their lives.**

President & CEO  
Representative Director

*Kazuyuki Shimada*



### Profile

Born in Hiroshima Prefecture in 1955. After graduating from Doshisha University's Faculty of Law, joined The Daiichi, Inc. in 1979. After having been in charge of sales floors and worked as a headquarters staff member, served as secretary to the founder Isao Nakachi for eight years. Joined FANCL Corporation in 2003. Responsible for the Corporate Planning Dept., developed the foundation for business expansion and growth, and executed strategy promotions. In 2007, he became Executive Director and was appointed General Manager of the Management Strategy Division, and in 2010 he oversaw all Group staff departments as Executive Director and General Manager of the Administration Dept. After founder Kenji Ikemori had returned to management in 2013, Shimada was assigned to the frontline to promote and execute strategies.

He was appointed President & CEO, Representative Director in 2017.

## Review and Results for FY Mar/2023

FANCL worked diligently to reinforce its business base in Japan and accelerate the pace of global expansion as key areas of focus amid the lingering effects of COVID-19 in FY Mar/2023. Despite these endeavors, the Company's domestic store channel in particular encountered significant headwinds owing to the spread of the pandemic and subsequent quarantining. Turning to the Group's overseas operations, while every effort was made to grow sales of supplements to China and further expand ATTENIR's cross-border e-commerce activities, our financial results were extremely harsh in overall terms owing to the significant impact of lockdowns in China.

Notwithstanding the aforementioned, we remain confident in the results of our ongoing efforts to take on various challenges for the future and believe we are on the right track. First, we are rebuilding our customer base by bolstering our investments in advertising. For roughly 18 months from FY Mar/2021 when the COVID-19 pandemic began, we cut back advertising expenditure which resulted in a continued decline in the number of customers. However, we actively resumed our investments in advertising from the second half of FY Mar/2022. By bolstering advertising mainly of core products, we were able to secure a substantial recovery in the number of online and catalogue channel customers. As a result, we believe the platform is now in place to ensure stable growth. Against this backdrop, we will reinforce efforts to further develop existing customers in FY Mar/2024.

In addition, FANCL has placed considerable emphasis on investing in and developing its employees to reinforce its

### Aggressive investment in advertising for core products



management foundation. In particular, the large-scale organizational and personnel changes implemented in January and October 2022 encouraged those employees charged with taking the Company forward to take on new challenges and grow, which in turn has helped revitalize the organization. Moreover, we have continued to accelerate our new business endeavors, which is generating a host of promising business prospects. Taking these factors into consideration, I believe we have made progress toward our vision of becoming a company that is loved around the world by 2030.

Meanwhile, the challenge that FANCL faces is clear. It is imperative that we rebuild the store channel. Stores are an indispensable channel where customers can experience the true value of the brand and become fans through conversations with staff and by actually trying out products. Moving forward, we will work to maximize each customer's value experience by implementing Online Merges with Offline (OMO), a concept that combines the strengths of both online and catalogue as well as store channels and is unique to FANCL.

### Summary of the 3rd Medium-Term Management Plan



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### Progress of the Medium-Term Management Plan to Date

While results in the second year of the Medium-Term Management Plan were not entirely satisfactory against the backdrop of a harsh operating environment, significant progress was made in new business initiatives, efforts to generate synergies, and the development of human resources.

#### New Business Initiatives

In FY Mar/2023, FANCL conducted the Cross-Departmental Idea Contest with the aim of uncovering and generating new businesses. Numerous teams made up of employees unbridled by the confines of individual departments put forward a host of ideas as part of these initiatives. The standard that I hold most dear is that an idea must be inspiring. Drawing on the underlying strength of our founding philosophy —Eliminate the “Negatives” with a Sense of Justice— I am convinced that the true value of a new business proposal can only be measured by the degree to which the individual putting forward the proposal believes that only he or she can bring it to fruition. Some of the ideas that have been selected based on this conviction are already in the practical application stage.

For details regarding new businesses, please see pages 18-19.

#### Synergies with the Kirin Group

FANCL and the Kirin Group maintain close collaborative R&D ties. While initially envisioning symbiotic effects in the health food domain, we are also seeing synergies in the cosmetic business field. As part of our supplement range, we launched *Sleep & Fatigue Care*, which contains ornithine from the Kirin Group in October 2021. In addition, we released *KIRIN X FANCL Amino SUPLI Plus* and *Kirin Gogo-no-Kocha Apple Tea Plus*, a bottled tea beverage, from April 2023. In our Cosmetics Business, we introduced a new product in the *BRIGHTENING* line, which

contains Bright Polyphenol, a proprietary tea-derived ingredient, to help suppress the excessive production of melanin while enhancing skin conditioning functions in February 2023.

Kirin's strength in basic research and FANCL's expertise in applied research are highly compatible. Through interaction, researchers from both companies have continued to develop and deepen close-knit ties. Utilizing the YUBITOMA, volunteer-led workshops, steps have been taken to put forward 13 research themes. Looking ahead, every effort will be made to link research themes to the commercialization of products and services.



Research report meeting on the results of joint research conducted by FANCL and Kirin

Moreover, we are promoting the exchange of personnel across a wide range of departments. As one example of efforts to energize interaction over a broad array of domains, we will provide Kirin with online and catalogue sales CRM know-how while welcoming from Kirin one of Japan's leading data scientists who will pass on significant information on machine learning using AI.

For the Special Feature on the Value of FIT3 through Synergies between Kirin and FANCL, please see pages 26-27.

#### Synergy-Derived Products



### Developing Human Resources to Address Challenges That Arise in the Future

The development of human resources is of critical importance in FANCL's future as a robust going concern. Over the past decade or more, we have witnessed a number of unexpected events. This includes the Great East Japan Earthquake, the spread of the new coronavirus (COVID-19), and the conflict in Ukraine. Naturally, the potential exists for dramatic changes in the environment to once again occur in the future. As such, it will fall on the shoulders of FANCL's next management team to confront and address any future events and issues. Taking these factors into consideration, I strongly believe there is no time to waste. Without hesitation, we must develop human resources with the ability to accept this challenge.

Based on this understanding, we have invited outside lecturers to participate in the FANCL Management School from June 2022. This Management School provides general managers and deputy managers, earmarked for the position of director in the future, the opportunity to enhance their literacy in such fields as management strategy and finance. Building on this initiative, I also hold meetings with the aforementioned general managers and deputy managers during which we engage in lively discussions about FANCL's ideal vision of the future. I am encouraged to see that meeting members think seriously about their own and the Company's future and openly offer their thoughts through this forum.

FANCL formulated and put into operation a succession plan in the spring of 2023. In putting together this plan, discussions were held during Nomination and Compensation Committee meetings to clarify the requirements and qualities required of candidates for the position of CEO and Company director. Ultimately, these requirements were organized into 20 items in four categories. We place considerable weight on candidates who have an understanding of FANCL's philosophy, strengths, and history.

#### Succession plan

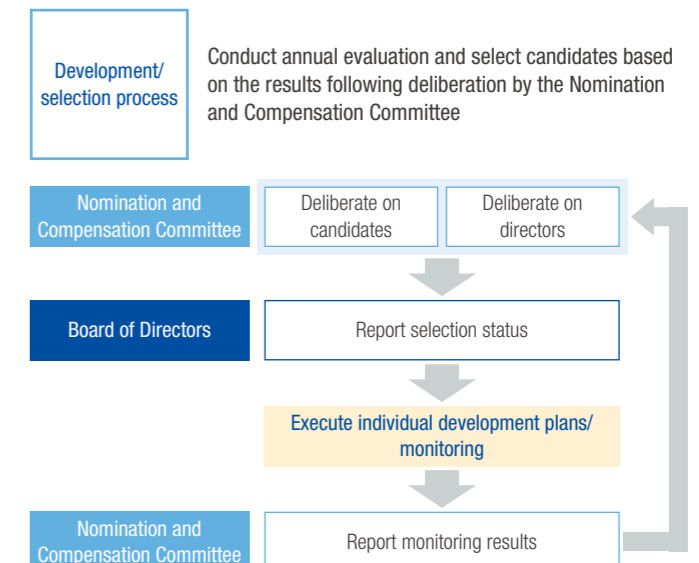
<b>Targets</b>	Future CEO and director candidates
<b>HR requirements</b>	Clarify requirements for managers into 20 items in four categories

Category	Key HR requirements
<b>Understands/embodies founding and management philosophies</b>	<ul style="list-style-type: none"> <li>Understands FANCL's strengths/weaknesses</li> <li>Has a deep affection for FANCL</li> </ul>
<b>Leadership</b>	<ul style="list-style-type: none"> <li>Has broad experience overcoming difficulties</li> <li>Can identify issues and communicate both within and outside the company</li> </ul>
<b>Humanity/ability</b>	<ul style="list-style-type: none"> <li>Modest, can engage in self-reflection</li> <li>Cares about people</li> <li>Is a critical thinker</li> </ul>
<b>Experience/knowledge</b>	<ul style="list-style-type: none"> <li>Able to think from a multistakeholder perspective</li> <li>Has a broad range of experience</li> </ul>

Together with a deep affection for the Company, candidates must also have experience in overcoming multiple challenging situations, maintain humility in concert with a critical spirit, and the ability to incorporate the perspectives of multiple stakeholders. With this in mind, we will formulate and implement practical, transfer, training, and other plans for each individual candidate. On a personal note, I will conduct interviews at least once a year to monitor the development of each candidate. I will then share with the Nomination and Compensation Committee details of progress. The selection of members of FANCL's Board of Directors will be made based on a comprehensive assessment of all of the aforementioned factors.

In addition, global human resources are essential when accelerating the pace of overseas expansion. As a part of this endeavor, several employees selected through an open recruitment process commenced overseas assignments in Asian countries from November 2022. We will look into the needs and negatives of the local population, and based on this, will consider the direction of existing business expansion and possibility of pursuing new businesses.

Moreover, we are vigorously promoting diversity and inclusion that is unique to FANCL. We conducted women's leadership training to help female employees excel in the workplace in 2022. Efforts are also being directed toward creating opportunities for mid-career and veteran employees to realize their full potential in 2023. Complementing these endeavors, we are focusing on the reskilling of human resources while supporting employees in their efforts to develop their own careers. Through these means, we are encouraging employees with 20 or 30 years under their belts to broaden their horizons and acquire new knowledge and experience.



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### Promoting Sustainability Activities That Are Unique to FANCL

Society continues to place increasingly higher and broader demands on the corporate sector to address a variety of concerns including climate change and human rights issues. Since identifying priority materiality issues and setting quantitative targets in May 2021, the awareness of all employees has increased dramatically. Spearheaded by the Sustainability Promotion Office, the Group as a whole is steadily implementing initiatives in line with action plans.

As far as efforts to reduce CO<sub>2</sub> emissions are concerned, FANCL switched to electricity generated from renewable energy sources at 12 of its domestic sites, including production plants, logistics center, and head office building as of April 2022, achieving its target well ahead of schedule. Going forward, we will work to improve the accuracy of Scope 3 calculations and set CO<sub>2</sub> emissions reduction targets.

In addition, FANCL employs large volumes of plastic for the containers and packaging of cosmetics and health foods that it handles. Reducing and/or recycling the volume of plastic used is

therefore an extremely important issue to ensure the sustainability of the Group's operations. As one initiative, the Company launched the FANCL Recycling Program in July 2021. Under this program, we put in place a mechanism where used cosmetic containers were collected from almost all of the Group's stores in Japan as of the end of March 2023. In expanding our efforts, we are in careful dialogue with the local government authorities in which our directly managed stores are located. By gaining their sympathy for our initiatives, we are fortifying forward-looking efforts with the local community. As an example of an activity that is unique to FANCL and an initiative that imbues handmade qualities, the collected containers are sorted, washed, and dried by FANCL SMILE Co., Ltd., a special subsidiary, and then recycled into flowerpots for use in events hosted by Yokohama City. In the future, we plan to work closely with the Kirin Group to develop new packaging containers that reduce the amount of plastic used and to achieve the horizontal recycling of cosmetic containers through chemical recycling.

### Further Strengthening the Governance Function

The effectiveness of the Board of Directors has increased over the years due to improvements in the function of outside directors and more active discussions. FANCL has held theme sessions to deliberate on important matters relating to medium- to long-term strategies since FY Mar/2021. These sessions serve as a forum for outside and internal directors to freely and openly comment on a variety of topics ranging from overseas strategy, intellectual property, to human capital. We have also established a mechanism to regularly report on the progress of management issues raised and addressed.

We have learned a great deal from the suggestions of outside directors, and have gained a lot of insight from them. On occasion, I receive harsh opinions and comments, especially when it comes to business investments and loans. Nevertheless, I am extremely grateful for their concerns, constructive criticism, and encouragement, as they earnestly consider the future of FANCL. Moving forward, I will continue to ensure that the expectations of our outside directors are steadfastly reflected in the Group's management.

### Pursuing FANCL's Unique Features as a Turning Point for the Future

During the three-year period of dramatic change and turmoil associated with COVID-19, FANCL's business performance was necessarily impacted. Despite these difficult conditions, I am convinced that the Company has successfully honed its true capabilities by confronting the harsh operating environment head on and overcoming each challenge with sustained momentum.

Naturally, we regret that we are yet to fully meet the expectations of our stakeholders. Having said this, however, I am confident that we can fully demonstrate the abilities gained through the adversity we have experienced and secure a recovery in earnings should the business environment improve in the future. Moving forward, I hope to shine a light on an even stronger FANCL in FY Mar/2024.

Amid the continued aging of Japan's population, many people hold the hope of remaining active and robust despite the passage of time. Looking beyond the simple improvement of health metrics, ensuring the beauty of one's skin is vital to securing genuine health. FANCL's strength lies in its efforts to promote both beauty and health through its dual Cosmetics and Health Food businesses.

Moreover, we recognize the innumerable opportunities that exist in overseas markets. China, in particular, is an attractive market where demand for supplements continues to grow owing to the nation's sense of crisis over the super-aging of its population. Serving as a tailwind, the brand image of safety, peace of mind, and kindness that FANCL has nurtured through its Cosmetics Business in China has allowed us to secure a competitive edge in the supplement market. Looking ahead, we will work to position ourselves on a sustained growth path.

As an initiative that began from September 2021, I held a total of 64 meetings to talk directly with roughly 600 employees from the young to Company veterans about the future. Without

exception, participants reconfirmed FANCL's commitment to being a company that supports the beauty and health of its customers and the world, throughout their lives. At the same time, we recognize that our future is far from assured if we continue to follow the exact same path we have taken in the past. To carry out what we genuinely hope to achieve, it is vital that we know our customers better, connect with them, and convert them into fans.

To that end, we have put in place the following action guidelines for FY Mar/2024: To stay true to the uniquely FANCL approach; break away from the winning patterns of the past, and; apply a data-driven mindset to business processes.

I believe that FY Mar/2024, FANCL's second founding period, will determine the Company's future. Looking ahead, we will review the values that we have held in the past as well as our business processes, and continue to leverage the strengths of collaborative ties throughout the Group. As we work toward achieving our established goals, we ask for the continued support and understanding of all stakeholders.

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