

## Business Overview and Future Strategies

### FANCL Cosmetics

Our mission is to solve skin problems around the world and bring smiles to people's faces.

Executive Officer  
General Manager, Cosmetics Division

Makoto Doumoto

#### Profile

After joining FANCL, Makoto Doumoto acquired experience in the customer service center and store operations at FANCL Ginza Square. Following his work in sales planning for directly managed stores and online and catalogue sales, he served as the General Manager of Marketing in the Cosmetics Business and as an ATTENIR director. He was appointed General Manager of the Cosmetics Division in January 2022.



#### FY Mar/2023 Results

Having adopted the slogan "Driven by Customer and Future Needs," in FY Mar/2023, we focused on the "clarification of FANCL's brand policy" and "expanding our fan base by growing our products."

As far as the clarification of our brand policy is concerned, we once again asked ourselves the question: "What are we aiming for a brand to achieve and for whom?" In the society to come, it is conceivable that such skin problems as rough or sensitive skin will increase due to the effects of climate change and various stresses. FANCL's strengths lie in its unique, additive-free *Mutenka* cosmetics that solve skin problems as well as in its customer service and service capabilities that support customers. This includes counseling at directly managed stores and beauty consultations at customer service centers. Further honing these unique strengths, we will aim to "relieve skin disorders, achieve the beauty of bare skin, and make people feel positive."

In a bid to "expand our fan base by growing our products," we focused on strengthening the following three points. The first was

to expand the number of basic skincare customers. We were able to strengthen and expand the promotion of our *FDR Acne Care* and *BRIGHTENING lines*, which were renewed in May 2022 and February 2023, respectively. The second was to expand our share of the pore care market. Including *MILD CLEANSING OIL*, our main product, we have strengthened our appeal for pore care with the new *CLAY GEL FACIAL WASH*, which was launched in April 2022, and were able to increase our market share. The third point was the promotion of cross-selling. The number of customers is steadily increasing due to promotions featuring thioredoxin, a feature ingredient of the high-performance *CORE EFFECTOR* serum, and the enhancement of proposals through counseling at directly managed stores.

In addition, the *BRANCHIC* prestige brand, which was launched in October 2021, commenced cross-border EC development in China in June 2022. Having strengthened promotions targeting beauty-conscious women, we were able to increase sales at the W11 (Singles' Day) sale in November 2022.



Reinforced pore care appeal with  
*CLAY GEL FACIAL WASH*



*BRANCHIC* strengthened product promotion  
in China

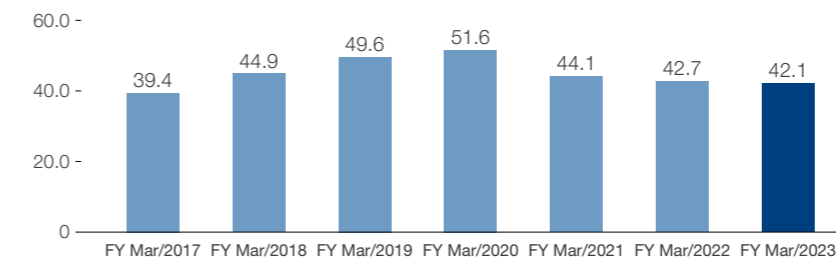


Product proposals through counseling utilizing  
FANCL's unique AI personal epidermal analysis

### FANCL Cosmetics

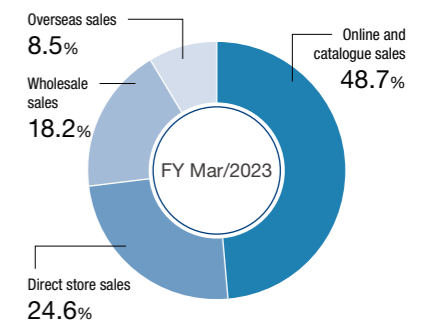
#### Sales

(¥ billion)



(Note) Applying "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc., from FY Mar/2022. Sales for FY Mar/2017 to FY Mar/2021 are estimated values when the same standard is applied.

#### Sales by Sales Channel



#### FY Mar/2024 Strategies

Looking at the Group's products, focusing on the recent demand for and market expansion of pore care, we launched *MILD CLEANSING OIL -BLACK & SMOOTH-*, which is formulated with charcoal and adsorbent mud and has improved functions to remove blackheads from pores in April 2023. Positioning this as a priority product for the current fiscal year, we will utilize a range of media to reinforce its promotion.

As a new challenge, we also aim to "acquire fans in the younger market, around the age of 30." While there are many people in this age group who suffer from skin problems, they tend to stumble in and around the market because they do not know what to do. I believe that FANCL, which has been dealing with skin problems for many years, must respond to this market niche in a steadfast manner. From now on, we are planning to expand our products for people around the age of 30.

Another challenge is to "reinforce our approach toward men." Geared toward men who suffer from rough skin after shaving and from acne, we will launch the *FDR Acne Care line* mainly via external malls.

#### Toward the Future of FANCL Cosmetics

We do not intend to limit ourselves to the framework of a cosmetics manufacturer. Our real goal is to become a "comprehensive solution brand" that relieves skin problems around the world through a range of products, counseling, and services, realizes the beauty of bare skin, and fully imbues customers with positive feelings. Technology can analyze the skin quality of customers who suffer from skin disorders, but in the years to come knowing the actual situation such as customer lifestyles and deeply understanding the way their minds work, I would like us to make proposals that are more attuned to customer sentiments. For example, if skin problems are caused by lack of sleep or not enough exercise, I believe that FANCL's unique approach can solve these problems and restore the health of the customer's mind and skin. To achieve this, based on our venture spirit that pursues the elimination of "negatives" and which has been handed down over the years, we will continue to boldly take on new challenges without fear of failure.

Purpose of the FANCL  
Cosmetics Brand

Facing the challenges of the underlying causes of skin problems in any era and increasing the number of people who can have confidence in their bare skin.

#### FY Mar/2024 Policies

Increase customers  
for basic skincare



Reinforce the *BRIGHTENING line* that  
simultaneously cares for dark spots, dullness,  
and rough skin

Expand the Company's share of  
the pore care market



Promote *MILD CLEANSING OIL  
-BLACK & SMOOTH-*, our priority product

Approach new targets



Cultivate and capture fans in the younger  
market, around the age of 30, and promote  
the *FDR Acne Care line* to men

# Business Overview and Future Strategies

## Health Foods

We aim to be a brand that supports the lifelong health of our customers by remaining attuned to the changing periods in their lives.

Executive Officer  
General Manager, Health Food Division Tomoko Saito



**Profile**  
After joining FANCL, Tomoko Saito was assigned to the customer service center. After transferring to ATENIR, where she worked in the Product Planning Department and the International Business Division, she served as the head of the Sales Strategy Office and then Director, and was appointed to the position of President and Representative Director in 2019. In October 2022, she was appointed General Manager of the Health Food Division.

### Strengths and Future Strategies of the Health Food Business

My feeling is that the Health Food Business is an area in which FANCL's "Upholding Quality" approach can be easily embodied. Our ability to develop formulations that thoroughly pursue "product efficacy in our body" to deliver the necessary ingredients to the places that need them is possible because we consistently conduct everything from research to production in-house and take pride in our strengths, which cannot be imitated by other companies. In addition, at the same time as developing a wide range of products that meet the various concerns and needs of our customers, that we possess multiple star products, such as *Calolimit*®, *Naishi Support* (Weight and body fat care), and *Enkin* (Anti-aging eye care), of which we sell billions of yen annually and are positioned at the top of the category in the market, forms the foundation of our management.

In contrast, we are in need of a broader understanding of our customers. Generally, cosmetics are often selected by brand, but supplements are a category that is often selected in accordance with specific concerns. Currently, health food customers are mainly in their 40s and 50s, but in the years to come, even if these customers age and their concerns change, for customers to choose FANCL supplements, we need to stay attuned to the changing stages in their lives. We are working diligently to understand what our customers want, provide the value they want, and build their trust in the FANCL brand.

### FY Mar/2024 Policies

In Japan, we will reinforce promotions for customers in those age groups that we have not been able to approach to any sufficient degree. First, for active senior customers in their late 50s and

above, we will reinforce communication through such products as *Bone Support*, *Raku Hiza* (Joint Support), and *Age bracket-based supplements*. For example, after menopause, women lose bone density and are at increased risk of bone fractures. Despite this, we are still only halfway through efforts to instill a sense of crisis and while also choosing the actions to be taken. Looking ahead, we will work to raise awareness toward women's bone health and increase the number of cases in which *Bone Support* is utilized.

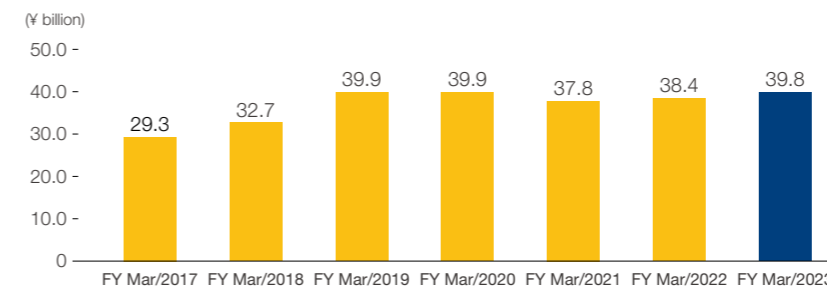
Timed to coincide with the announcement of the next Medium-Term Management Plan, we are looking at launching new products for active seniors. In the current fiscal year, we will accumulate know-how through communication with active senior customers and utilize the knowledge gained at this point to develop further dialogue when new products are launched.

For customers in their 30 and above, we will reinforce *Mama Lula Folic Acid & Iron Plus* and *Deep Charge Collagen*. Recognition of these products has increased due to the information disseminated by influencers. These products are performing well, mainly through external online and catalogue sales. This has the potential to become a successful model for acquiring customer segments that cannot be approached through in-house online and catalogue sales. Here, we will continue to focus on this in the current fiscal year.

As far as overseas sales are concerned, the expectation is that the market will once again reenergize as the impact of COVID-19 subsides. In cross-border e-commerce in China, we will work to further reinforce our strengths, such as *Age bracket-based supplements*, *Calolimit*®, and *Blueberry*. Turning in the meantime to the Group's general trade sales, we will take steps to obtain approvals for health foods and aim for sales in FY Mar/2025.

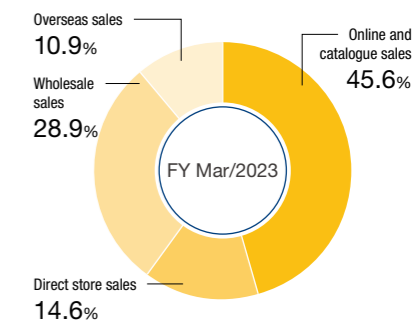
## Nutritional Supplements Business

### Sales



(Note) Applying "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc., from FY Mar/2022. Sales for FY Mar/2017 to FY Mar/2021 are estimated values when the same standard is applied.

### Sales by Sales Channel



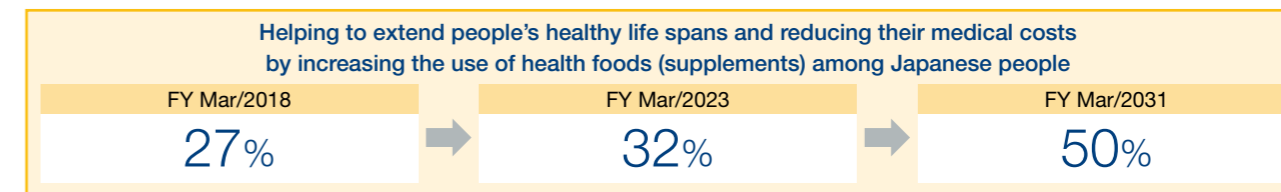
### FANCL's Vision for the Health Food Business

Our stated goals under VISION2030 are to increase the ratio of health food (supplements) consumption among Japanese people to 50% by FY Mar/2031 and to help to extend people's healthy life spans while reducing their medical costs. To achieve these goals, it is important to generalize how Japanese people deal with supplements. I think the key is to improve the health literacy of customers, particularly those in their 40s and 50s. If knowledge about the health of this group of customers increases, and the intake of health foods (supplements) becomes a daily routine, I

believe that the next generation of children and young people will naturally become more conscious of their health.

In an era of 100-year lifespans, we aim to realize a bright society in which people will be able to live energetically on their own throughout their lives. In addition to the problems that our customers currently have, we aim to remain a lifelong partner who can stay attuned to their every need by paying close attention to their background lifestyles and environments. By sincerely engaging in interaction with customers in ways that only FANCL can, we will develop trusted brands and products.

### Business Strategies



(Source: FANCL Health Needs Survey)

### Strengthening communications with customers in accordance with their ages and lifestyles





## Business Overview and Future Strategies

### New Business

## Aiming for lasting growth by taking on the challenges of new businesses

Representative Director,  
Senior Managing Director Tomochika Yamaguchi



#### Profile

Tomochika Yamaguchi joined FANCL in 2003. After working as the General Manager of the Store Planning Department he served as Executive Officer and General Manager of the Direct Sales Headquarters and then as Director of ATTENR. He was appointed Executive Managing Director in 2016, and Representative Director and Senior Managing Executive Officer, supervising sales channels for the domestic business, in January 2020. In January 2022, he was appointed to the position of Representative Director and Senior Managing Director in charge of Group business and General Manager of the New Business Development Division.

#### Necessity for New Businesses

For about 20 years from 2000, the Company created no new businesses comparable with its core cosmetics and health food businesses, and a blank period ensued. I think the main reason for this was that, under the strong leadership of FANCL's founder Kenji Ikemori, we had been able to obtain stable earnings through the superiority of existing business products and our strong customer base, and thus there had not been much incentive for employees to launch new businesses on their own. However, as we enter an era of uncertainty known by the term VUCA—short for volatility, uncertainty, complexity, and ambiguity—we cannot grow sustainably as a company and achieve our VISION2030 by relying solely on our existing main businesses. In fact, due to the impact of the COVID-19 pandemic, the earnings bases of our existing businesses are not as solid as they once were, and it is essential that we take on the challenges of creating businesses in new areas. Therefore, in January 2022, we established the New Business Development Division to earnestly promote new businesses that are not bound by preconceived notions.

#### Conducting the Cross-Departmental Idea Contest

If you suddenly decide to try to create a new business, you will inevitably find it difficult. Therefore, in an attempt to loosen entrenched minds, we first of all held a cross-departmental idea contest in which all employees could easily take on new challenges. The reason why we decided that this bottom-up project would be of a cross-departmental type was that we wanted employees who otherwise have little opportunity to interact with

each other to exchange opinions and gain new insights.

From this contest, which attracted more entries than initially anticipated, we gathered 32 ideas for a wide range of new businesses, services, and products that went beyond existing fields such as cosmetics and health foods. The four teams selected for the final judging portion of the contest were provided with active back-up by the New Business Development Division across a wide range of aspects that included organization building, milestone setting, and resource allocation. Building on each entry, we are continuing to consider whether they can be commercialized or become a product in a new area. One of these projects is in progress toward its launch as a new product.

Having not only created new businesses, this contest has also prompted the creation of horizontal collaboration within the organization, which in turn is strengthening existing businesses. In addition, there were some employees who took the initiative to develop networks with outside parties, which has been very effective in terms of human resource development.



The judging process in the Cross-Departmental Idea Contest

#### Toward the Achievement of Commercialization

As a new business created from an employee's proposal, we started selling *GOODISH* premium dog food in February 2023. As a health tech business having also acquired a patent for the world's first technology that measures the optimal exercise intensity according to the degree of physical strength from blood oxygen saturation, we are currently advancing R&D toward its commercialization. Generally priced at more than 10 million yen, the equipment required to measure exercise intensity is expensive, and the task of measuring requires many medical professionals. Aiming to develop wearable devices and apps costing hundreds of thousands of yen and to enter the fields of rehabilitation medicine and sports, we would like to improve the quality of rehabilitation

and provide programs to improve physical strength on an individual and personalized basis. In addition, we established the new Food Tech Division that will contribute to solving social issues in June 2022. Amid declining food self-sufficiency rates, the development of a business to consume high-quality protein and an agricultural infrastructure project to reverse the declining farming employment rate are under consideration.

For all employees to continue to eliminate the "negatives" in the world—and in the hope that they will boldly take on the challenges of creating businesses in new areas—we will work to transform ourselves into a free and open-minded company that can be fully accepting of their passion and aim to create businesses that will become pillars of earnings in the near future.

## Message from the Developer of *GOODISH* Premium Dog Food

Manager, Pet Food Development Department  
New Business Development Division

Naoko Funayama



Product development manager  
Naoko Funayama and her dog Ran

My dog's food allergies prompted me to learn about pet food and nutrition. When I searched for suitable food, I was worried because there were no products on the market that were suitable. At around the same time, I had the opportunity to come up with a new business idea at an Ikemori Leadership Training session initiated by FANCL's founder Kenji Ikemori, and for my proposal I had stated that I wanted to make dog food that can make all dogs healthy. With the start of laboratory development in September 2020, *GOODISH* was launched in February 2023.

In the case of ordinary dog food, any original nutritional value may be lost when subjected to the high temperatures in the manufacturing process, and chemically synthesized pigments are used to improve its appearance. A large number of antioxidants is sometimes used, and there are many cases where human convenience is prioritized in development. In contrast, *GOODISH* is good for dogs and a safe dog food manufactured with the same grade of raw materials and level of hygiene



*GOODISH* dog food is based on four types of meat: deer, chicken, horse, and fish

control as food for human consumption. Animal protein with an excellent amino acid balance is heat-treated at a low temperature for a short period of time, and a freeze-dried manufacturing method used to reproduce the freshly made aroma and flavor without damaging the nutritional components of the ingredients.

When I saw dogs seemingly in raptures when they were eating the new product at a taste test event, I could not stop smiling. As *GOODISH* was developed with dogs' physical health as the main priority, the price is high, starting at ¥14,300 for 30 bags. However, as they have come to realize the goodness of the product, the number of purchasers has gradually been increasing.

I would like to spread *GOODISH* to people like me who are worried about their dog's health, and to people who care about their dog's health as a family member. In addition to exhibiting at pet events, promoting department store VIP customer sales, and selling via specialty premium food stores, in the future I would like to take on the challenges of providing a service that can provide total care for the health of dogs.