

# FANCL

正直品質。



## FANCL REPORT

## 2023



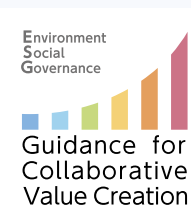
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## Editorial Policy

**Organizations** FANCL CORPORATION and the FANCL Group  
**Businesses** Cosmetics, nutritional supplements, and other businesses  
**Applicable Period** FY Mar/2023 (from April 1, 2022 to March 31, 2023)  
\* Certain information included in this report covers the period before March 31, 2022 and after April 1, 2023.

The FANCL Report was compiled based on the International Integrated Reporting Framework advocated by the IFRS Foundation, the Guidance for Collaborative Value Creation 2.0 issued by Japan's Ministry of Economy, Trade and Industry, and other related guidelines.



## Sources for detailed information



Sustainability Information  
[fanc1.jp/en/sustainable/](https://fanc1.jp/en/sustainable/)



IR Information  
[fanc1.jp/en/ir/](https://fanc1.jp/en/ir/)

# Corporate Philosophy

## Founding Philosophy

# Eliminate the “Negatives” with a Sense of Justice

## Corporate Philosophy

# “Can Achieve More”

The FANCL Group is a corporation that truly cares for people. FANCL has strived to eliminate customers' negative experience and pursue gentleness, safety, and assurance of its products. We always put ourselves in customers' shoes and the happiness of our customers forms the basis of everything we do.

We want to eliminate negative elements like worry, inconvenience, and dissatisfaction from the world. This has been our unchanging desire since the founding of FANCL.

Back in the year 1980, skin problems caused by cosmetics were becoming a widespread issue.

FANCL's *Mutenka* Cosmetics were born out of the desire to deliver genuine cosmetics that could beautify people's skin without using any damaging additives.

In the past, there was a deep-rooted perception in Japan that nutritional supplements were expensive. But FANCL has worked to change that perception, becoming the first in Japan to use the word “supplements,” establishing itself as a provider of high-value-added products including *Hatsuga genmai* (germinated brown rice) and *Kale Juice*.

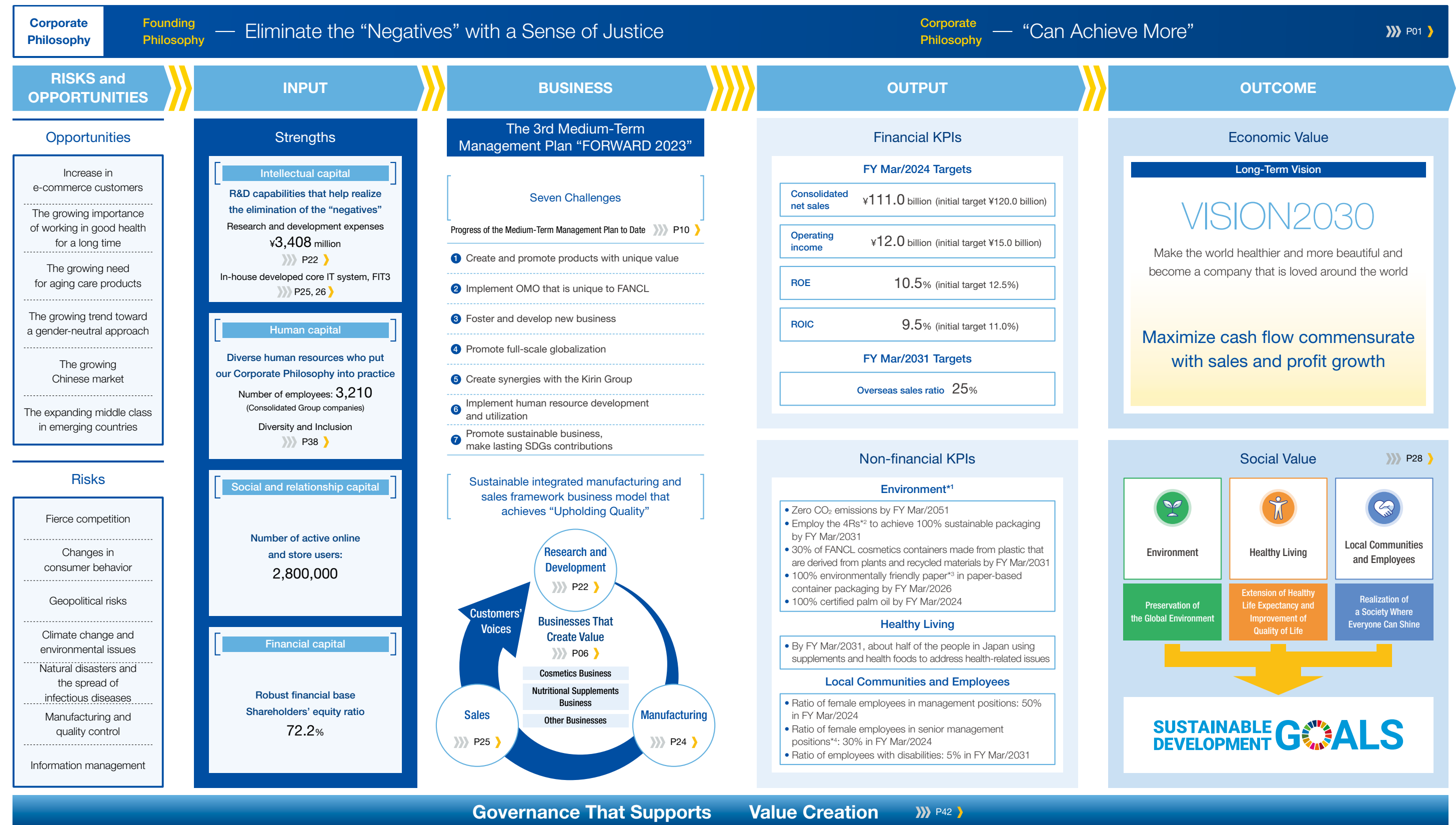
FANCL's business is rooted in the desire to eliminate consumers' “negative” experiences.

Our business areas, consisting of cosmetics, nutritional supplements, *Hatsuga genmai*, and *Kale Juice*, are the very essence of FANCL's ongoing efforts to identify the “negatives” in people's everyday life.

Focusing on what will bring happiness to our customers, we deny the status quo and continue to challenge ourselves with the idea that “Can Achieve More.”

# Value Creation Process

Taking full advantage of the wellspring of value creation that we have nurtured since our foundation, we will work diligently to ensure our ongoing sustainable growth while enhancing our corporate value by adhering to our Corporate Philosophy.



\*1 4R compatibility in the use of plastic container packaging materials, adoption of environmentally friendly paper in paper-based container packaging, and the procurement of certified palm oil apply to the cosmetics and health foods of FANCL Corporation and ATTENIR CORPORATION.  
 \*2 Reduce, Reuse, Recycle, Renewable.

\*3 Certified paper, non-wood paper, recycled paper, etc.  
 \*4 Managerial positions of departmental deputy manager and above, excluding directors.



# Track Record of Solving Social Issues through Business

Dissatisfactions, anxieties and inconveniences, no matter how small, are the “negatives” upon which FANCL maintains its focus. Bringing to bear our outside-the-box sensibility and originality, we welcome the challenge of eliminating such “negatives,” and that is the starting point for all our corporate activities.

FANCL is committed to transforming anxiety into peace of mind, inconvenience into convenience, and dissatisfaction into satisfaction. To support lifestyles of beauty and health, we offer products and services that meet the highest standards of safety while providing peace of mind. Aiming to eliminate the negatives to an even greater degree—this is our ongoing challenge.

We will continue to build a bright future together by eliminating “negatives” through our businesses.

**1982**

**Eliminate concerns about cosmetics pollution**

Birth of *Mutenka* Cosmetics



In the late 1970s, skin problems caused by cosmetics were a major social problem. After discovering that the cause was additives such as preservatives, FANCL's founder, Kenji Ikemori took on the challenge of developing cosmetics that did not use such additives. FANCL initially had difficulty removing such preservatives, but the idea of sizing products so they could be used up before spoiling gave birth to the long-desired concept of *Mutenka* (additive-free) cosmetics.

**1994**

**Eliminating health concerns faced by modern people**

Start of the Health Food Business



FANCL launched the Health Food Business to protect the health of people living in an age of food satiation. In order to dispel the conventional industry image that health foods are untrustworthy and expensive, the Company adopted an in-house production system and aluminum pouches, which are now the mainstream. FANCL was also the first to call these health foods that could be consumed with peace of mind on a daily basis “supplements.”

**1997**

**Eliminate the dissatisfaction of makeup removers that are hard on the skin**  
Launch of the first *MILD CLEANSING OIL*



**1998**

**Eliminate the inconvenience of the visually impaired to identify products**  
Development of touch mark stickers



**1999**

**Eliminate the employment concerns of people with disabilities**

Establishment of FANCL SMILE



Many people with disabilities wish to find employment, yet there are few job opportunities available to them. In response, we established special subsidiary FANCL SMILE Co., Ltd. in order to eliminate this “negative.” FANCL SMILE promotes the employment of people with disabilities not to protect them as socially vulnerable people, but rather to help them become “independent” members of society. FANCL SMILE currently employs around 100 staff members who play an active role in each business facility.

**2013**

**Eliminate the dissatisfaction surrounding health foods that do not work effectively**  
Enhanced appeal for inner body effectiveness design



**2020**

**Thoroughly eliminate dissatisfaction with choosing supplements**  
Launch of *Personal ONE*



Foundation

Future

1980

**1989**

**Eliminate dissatisfaction with sought-after but expensive cosmetics**

Launch of *ATTENIR* cosmetics



The belief that the higher priced cosmetics were, the more effective they were prevailed during Japan's bubble economy years. Even so, women were secretly dissatisfied with these prices. In response, we took on the challenge of developing the *ATTENIR* brand to eliminate these “negatives.” By upgrading and expanding the existing distribution system, we realized affordably priced, fashionable cosmetics abundantly blended with high-quality ingredients.

1990

**1995**

**Eliminate the dissatisfaction of not being able to see or try products by mail order alone**

Opening of the first directly managed store



**1996**

**Eliminate the dissatisfaction of not knowing which supplement to choose**  
Launch of the first one-pack supplement



**1997**

**Eliminate the inconvenience of receiving mail orders**

Development of the Designated Delivery Place service



The inconvenience of receiving products impeded mail order sales. In response, FANCL developed the Designated Delivery Place service\* to deliver products to customer-designated locations. In addition to eliminating the inconvenience of receiving packages, this service also reduced the time and effort required by delivery personnel to re-deliver packages as well as the CO<sub>2</sub> emissions produced by this. This service is the root of the package drop services that are now the standard in the home delivery industry.

2000

**1999**

**Eliminates discomfort from wearing underwear**

Start of the Underwear Business



Female employees voiced their desire to eliminate discomfort like tightness and itchiness while wearing underwear, and from this desire FANCL underwear was born. We achieve beauty and comfort for the wearer by strictly adhering to our own comfort standards, extending from material selection to design. These comfortable-to-wear items are an expression of FANCL's commitment to caring for bare skin.

**2004**

**Eliminate concerns about the consumption of health foods in combination with medications**

Launch of the health food and drug combination search services



Consuming health foods together with medications may affect the efficacy of the medications. To address this issue, we developed a system to search for combinations of about 120 FANCL health foods and around 30,000 medicines prescribed and sold in Japan. Under the supervision of physicians and specialized pharmacists, we continuously update information based on academic literature in order to reassure our customers.

2020

**2018**

**Resolve health concerns in China**

Full-scale launch of health food sales in China



We want to support people's health in China, where the rise in patients with lifestyle-related diseases is being called a social problem. With this in mind, we have started selling health foods using cross-border e-commerce through a partnership with China Sinopharm International Corporation, the largest pharmaceutical group in China. Since then, we have taken on the challenge of engaging in general trade sales and aim to further expand our product lines.

\* Transitioned to Designated Delivery Place Direct from 2019

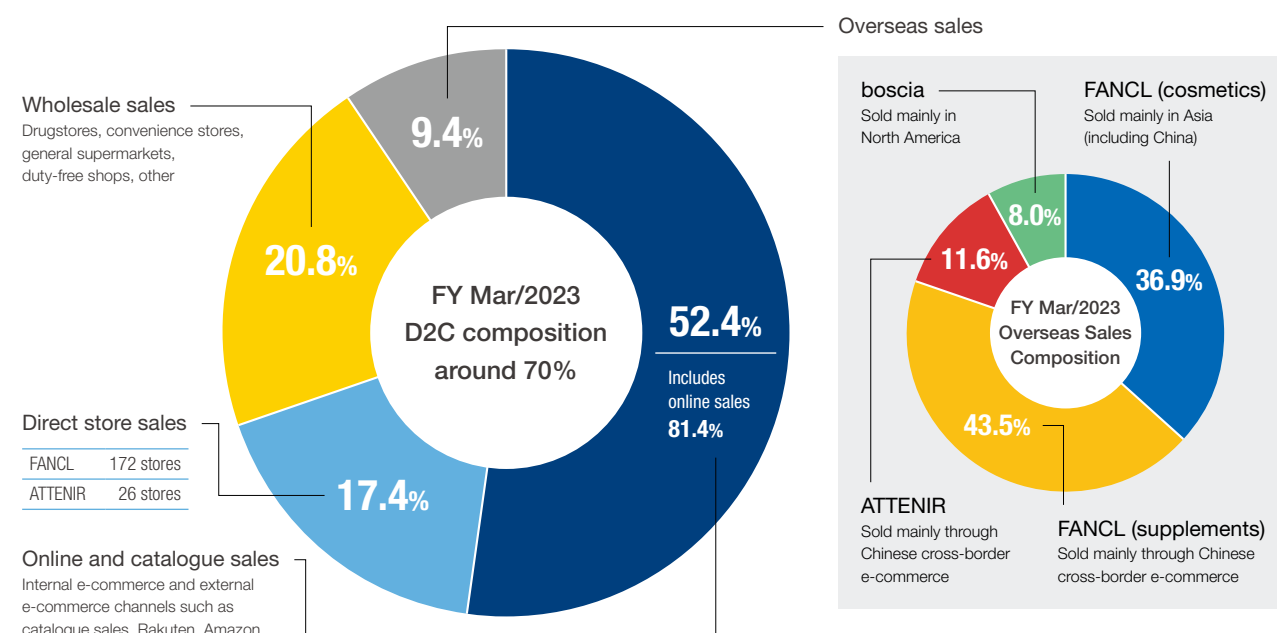


# About the FANCL Group

## Business Overview



## Sales Ratio by Sales Channels



## FY Mar/2023 Results

Net sales

¥103.5 billion

Operating income

¥7.8 billion

0.4% down YoY

19.7% down YoY

### Cosmetics Business

Net sales

¥57.4 billion

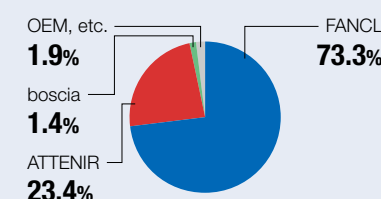
2.3% down YoY

Operating income

¥5.9 billion

22.1% down YoY

### Sales Composition by Brand



Although online and catalogue, wholesale, and other sales increased due to aggressive investments in advertising, overall business sales decreased as the impact of COVID-19 depressed sales at stores and overseas.

For FANCL cosmetics, online and catalogue as well as wholesale sales grew owing to enhanced advertising for *ENRICH+* and *MILD CLEANSING OIL*.

For ATTENIR, domestic sales of *SKIN CLEAR CLEANSE OIL* and special care products were strong, but overseas sales declined due to the impact of Chinese lockdowns and local inventory adjustments.

For boscia, sales decreased due to sluggish wholesale sales to cosmetics specialty stores, department stores, and other retailers. Despite an improved gross profit margin and efforts to effectively use sales promotion expenses, operating income declined mainly due to aggressive advertising spending.



ENRICH+



SKIN CLEAR CLEANSE OIL



boscia

### Nutritional Supplements Business

Net sales

¥39.8 billion

3.6% up YoY

Operating income

¥3.4 billion

12.1% down YoY

In Japan, sales increased mainly due to growth in online and catalogue as well as wholesale sales based on strengthened advertising, and despite lower store sales amid COVID-19.

By product, sales were strong for *Age Bracket-Based Supplements* while solid for *Enkin* and *Calolimit* for the Mature Aged, for both of which advertising was stepped up.

Overseas sales fell due to the impact of Chinese lockdowns and local inventory adjustments.

Although gross profit increased due to higher sales, operating income decreased mainly due to aggressive advertising spending.



Enkin



Calolimit for the Mature Aged



Naishi Support

### Other Businesses

Net sales

¥6.2 billion

6.5% down YoY

Operating income

¥0.09 billion

FY Mar/2022  
Operating loss ¥0.02 billion

Sales declined mainly for *Hatsuga genmai* and *Kale Juice*.

Sales decreased but operating income increased due to efforts to effectively use such overhead expenses as advertising costs.



Hatsuga genmai KIN-no-IBUKI



Kale Juice contains vegetables, lactic acid bacteria, and bifidobacteria

## 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 Dai-ichi Kangaro Co., Ltd. in 1979. After having been in charge of sales floors and worked as a headquarters staff member, served as secretary to the founder Isao Nakauchi 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





## To Our Shareholders and Other Stakeholders

### 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



Sleep & Fatigue Care



KIRIN X FANCL  
Amino SUPLI Plus



Kirin Gogo-no-Kocha  
Apple Tea Plus



BRIGHTENING ESSENCE  
(Quasi-drug)



BRIGHTENING MASK  
(Quasi-drug)

### 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.

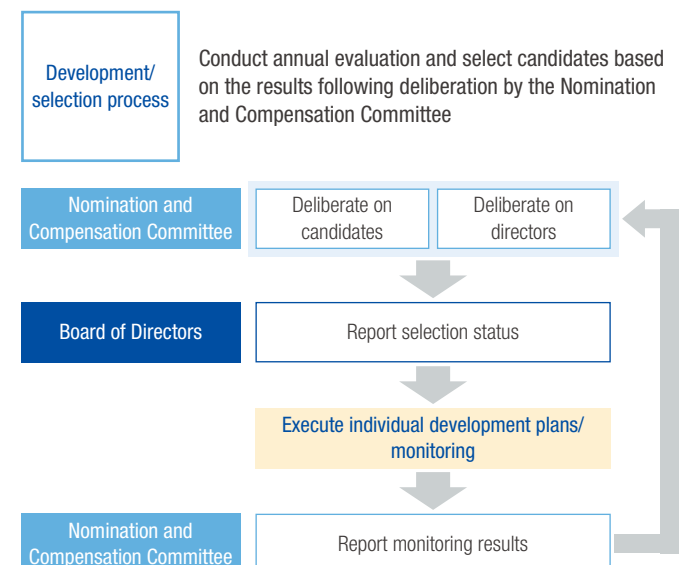
#### Succession plan

<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
Understands/embodies founding and management philosophies	<ul style="list-style-type: none"> <li>Understands FANCL's strengths/weaknesses</li> <li>Has a deep affection for FANCL</li> </ul>
Leadership	<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>
Humanity/ability	<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>
Experience/knowledge	<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.



## To Our Shareholders and Other Stakeholders

### 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.

**I believe that FY Mar/2024,  
FANCL's second founding  
period, will determine  
the Company's future.**





# 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

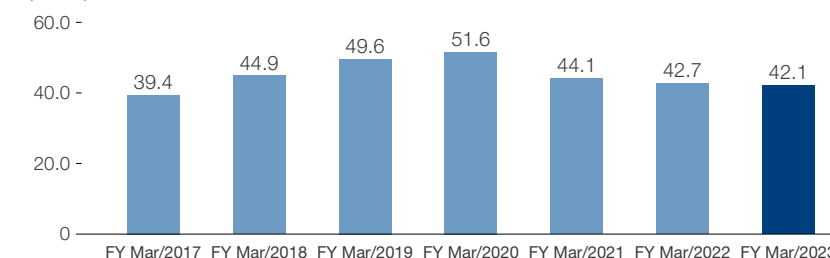


Product proposals through counseling utilizing  
FANCL's unique AI personal epidermal analysis

## FANCL Cosmetics

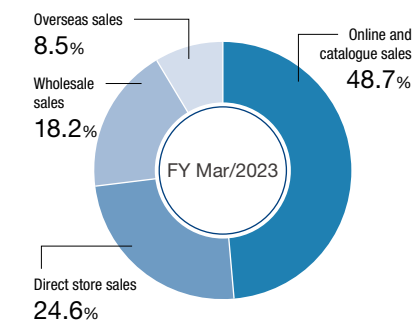
### Sales

(¥ 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

## 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.

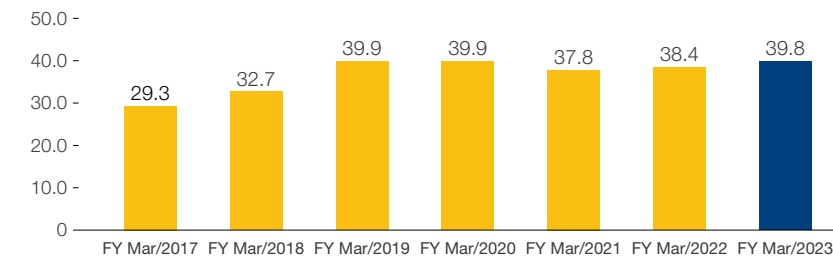
For customers in their 30 and above, we will reinforce *Mama Lula Folic Acid & Iron Plus* and *Deep Charge Collagen*. Recognition of these products has increased due to the information disseminated by influencers. These products are performing well, mainly through external online and catalogue sales. 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

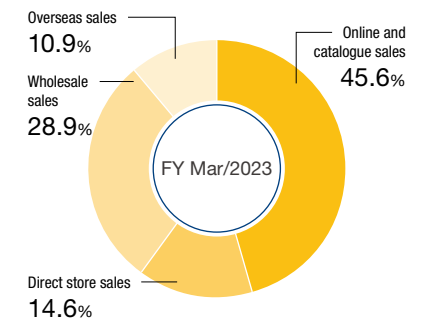
### Sales

(¥ 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



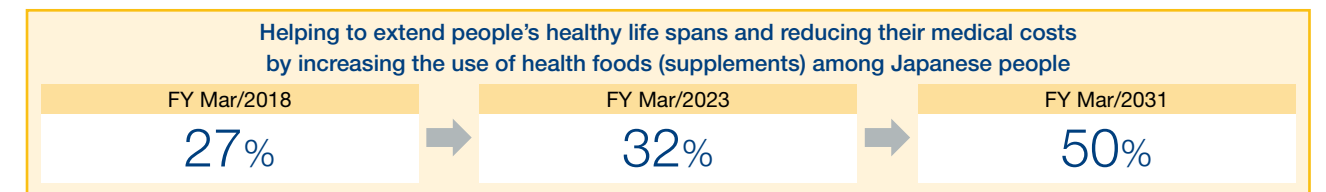
### FANCL's Vision for the Health Food Business

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 ATTENIR. 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.

# Wellspring of Value Creation

## Human Capital Management Initiatives

### Human Resources Strategies for Achieving the Management Strategy

Under VISION2030, the FANCL Group is taking up seven challenges as part of its management strategy. Having defined one of these challenges to implement human resource development and utilization, we are engaged in this effort from three perspectives, namely developing human resources, utilizing human resources, and fostering an organizational culture.

In order to build a robust corporate constitution that can rapidly address changes in the era of VUCA\*, we are developing a framework that allows employees to create new value. To do so, we are working to incorporate the acquisition of multiple fields of strength and a job rotation system into the Human Resources Development Policy.

After all, it is employees that execute value creation through business. We will therefore accelerate Diversity and Inclusion under an environment in which employees can work with enthusiasm, and execute human resources strategies that encourage employees to demonstrate their potential. And with our unique FANCL venture spirit, we will strive to create a culture in which all employees continue to take on the challenge of eliminating the “negatives.”



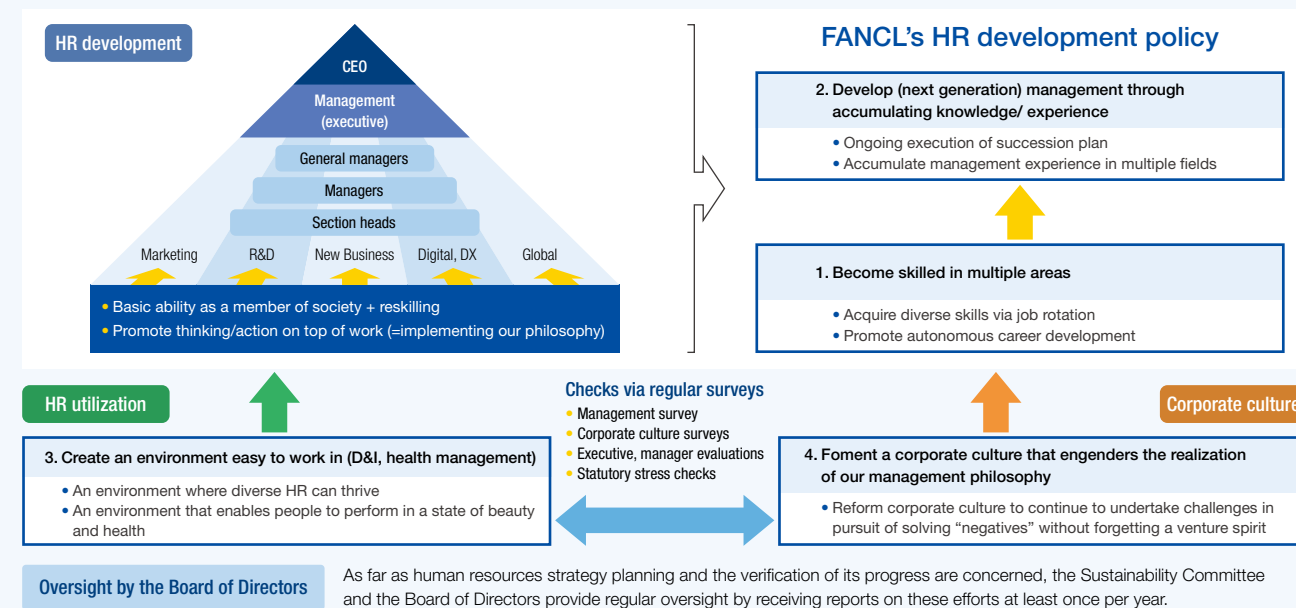
**Executive Managing Director**  
General Manager, Administration Headquarters

**Yasushi Sumida**

**Profile**

After joining FANCL in May 2005, Yasushi Sumida has been involved in areas ranging from basic research on cosmetics to product development and other related operations. In 2008, he served as Executive Officer, General Manager of FANCL Research Institute and General Manager of Cosmetics Research Institute. From 2013, he served as Executive Director and General Manager of FANCL Research Institute. Starting in June 2020, he served as Executive Managing Director and General Manager of FANCL Research Institute. Since October 2022, he has served as Executive Managing Director, General Manager of the Administration Headquarters, and General Manager of the Health Support Office.

### • HR strategy



### • Three perspectives

Human Resources Development	Human Resources Utilization	Organizational Culture
<b>1 Enhancing the ability to eliminate the “negatives” as the corporate philosophy</b>	<b>2 Creating an environment in which all employees can excel</b>	<b>3 Nurturing an organizational culture that enhances the ability to execute the corporate philosophy</b>
Each research institute creates new value drawing on the contributions of members with different fields of strength serving in various departments	An environment in which each individual employee maintains independence and demonstrates his or her diverse individuality and abilities	Transformation into an organizational culture in which employees continue to take on the challenge of eliminating the “negatives” with a venture spirit always in mind
<ul style="list-style-type: none"> <li>Human Resources Development Policy Formulation: Acquisition of multiple fields of strength + Job rotation system → Accumulation of knowledge and experience helps develop future generations of managers</li> <li>Selection of Functions Requiring Particular Enhancements: Management, marketing, R&amp;D, new business, digital/DX, global</li> </ul>	<ul style="list-style-type: none"> <li>D&amp;I: Promote young employees; advance the participation of female, veteran, and senior employees, as well as global human resources; encourage employment of persons with disabilities</li> <li>Health Management: Reduce absenteeism and presenteeism, improve work engagement</li> </ul>	<ul style="list-style-type: none"> <li>Change in Mindset: Reform the Code of Conduct to encompass a multi-stakeholder approach (customers, investors, shareholders, suppliers, communities and society, employees)</li> <li>Enhance the Ability to Act: Hold meetings to talk about the future (dialogue between the President &amp; CEO Representative Director and employees) and cross-departmental idea contests (new business creation)</li> </ul>

### Example of a Human Resources Development Initiative

#### • Developing the Next Generation of Managers

FANCL has constructed a systematic program for developing future generations of managers.

Organized for department managers and deputy managers, FANCL Management School invites outside lecturers for the purpose of nurturing the knowledge and perspectives required for management as well as acquiring management literacy. Specifically, this program teaches topics that include management strategy formulation, organizational reform, corporate accounting, and marketing and consumer behavior theory. During FY Mar/2023, 42 participants broke into separate teams and suggested management proposals regarding themes of their own choosing.

As a newly offered course this year, FANCL Management School Basic allows participants to study leadership and organizational management, management strategy and innovation, marketing, accounting, and overall foundational knowledge on management for



six months as a preliminary program for the FANCL Management School. To date, 58 group managers have participated.

Moreover, we also began a training program as part of the succession plan. In addition to providing hands-on experience, in order to develop candidates for the next generation of managers, we also offer programs that present the required knowledge (multi-stakeholder perspectives, IR, financial accounting, legal affairs, human resources affairs, etc.) for directors, as well as programs that provide a cross-cultural understanding and English language skills.

### Next Generation Manager Development Curriculum



### Example of a Human Resources Utilization Initiative

#### • Accelerating a Unique FANCL Approach to D&I

As a “corporation that truly cares for people,” the FANCL Group has adopted the key phrase “Embrace differences,” under which we have raised the goal of continuing to create new value by benefiting from a diverse human resources team whose wide variety of values and ways of thinking give space to individual qualities and strengths.

To this end, we have engaged in various efforts to create environments and mechanisms that serve to increase the diversity of the organization, and to evolve the Company into one in which each individual can fully demonstrate his or her capabilities and excel. This all takes place in an environment that allows those of different ages, genders, disabilities, sexual orientation and gender identity, nationality, race, religion, value systems, ways of thinking, and workstyles to respect each other, and to shine and thrive.

We have also implemented various measures in order to reveal subconscious prejudices, including Unconscious Bias Training and the Women's Leadership Program, which helps women to be themselves at work.

The diverse human resources team that works at FANCL will continue to promote transformation and value creation. At the same time, we will pursue the realization of the long-term vision by building an organizational culture that allows them to express their diverse personalities and capabilities.



**Executive Officer**  
General Manager, Sustainability Management Division

**Maho Yamamoto**

**Profile**

After entering FANCL, Maho Yamamoto has been involved in areas ranging from preparing advertising materials with a focus on online and catalogue sales to sales strategies, sales planning, CRM, EC site management, and other areas. After serving as manager of the department in charge of these tasks, she was appointed General Manager of the Promotion Office of SDGs in March 2020 (currently, General Manager of the Promotion Office of Sustainability after its renaming in October 2022). She has served as executive officer since June 2022.



# Wellspring of Value Creation

## Research and Development

### Transforming the Research Institute into the Launch Site for Creating the Future of FANCL

At the time I was appointed in October 2022, I raised my own goal for what I hoped to achieve as Transforming the Research Institute into the Launch Site for Creating the Future of FANCL. We are currently undertaking two themes in order to realize this goal. The first is planning and executing medium- to long-term research strategies. The second is developing and strengthening research personnel.

#### 1 Planning and executing medium- to long-term research strategies

Our lives were severely affected when the COVID-19 pandemic emerged in 2020. These kinds of changes in the environment coupled with an evolution in technology have thrust us into an uncertain age in which people and society are changing in ways that we cannot foresee. Which is why I believe it is important for us to clarify the future and vision we want to achieve for the coming 10 to 20 years, as well as to undertake various challenges to realize this future. In considering how the world will change into the future, what the future lifestyles of our customers will look like, and the “negatives” for our customers that will arise therefrom, I intend to clarify the themes with which FANCL must engage. Similarly, I intend to plan and promote research strategies that lead to the growth and enhancement of existing businesses, as well as the creation of new businesses, in the field of beauty and health.

#### 2 Developing and strengthening research personnel

In order for FANCL to continue eliminating the “negatives” and achieve growth, we must without question develop the people (human resources) that can achieve these goals. I therefore intend



Senior Executive Officer  
General Manager of FANCL Research Institute **Kazumasa Wakayama**

#### Profile

After joining FANCL in 2005, Kazumasa Wakayama has been involved in product development and local overseas production as part of the Cosmetics Business. Starting in 2013, he built the foundation for the Overseas Business, and in 2015 he took responsibility for the Health Food Business. At the same time, he oversaw the promotion of business and product strategies. He has served as General Manager of FANCL Research Institute since October 2022.

to clarify the roles expected of each and every research team member, and to create an organization in which each member can experience the joy of work, namely by experiencing his or her own growth and by sensing his or her own contribution to society through everyday work. Realizing our individual dreams and goals, and linking these to the growth of the Company, will inevitably flow through to the joy of our customers. I believe that becoming this type of organization will necessarily link to Transforming the Research Institute into the Launch Site for Creating the Future of FANCL.

### Promoting Research into the Solutions for Eliminating New “Negatives”

In order to bolster the growth of cosmetics, nutritional supplements, *Hatsuga genmai* (germinated brown rice), *Kale Juice*, and other existing business products, we promote safety and functional research with a focus on peace of mind and safety through basic technological research and product development research activities. At the same time, we engage in product development based on scientific evidence.

We conduct a wide range of activities, including joint research with the R&D Division at Kirin Holdings Company and other domestic and international research institutes, and participate in industry-government-academia collaboration projects. In each case, these activities are constantly evolving as we promote efforts to establish a research institute that is capable of addressing social issues and creating new businesses.

#### Major Achievements in FY Mar/2023

Number of products developed		Number of patent filings Domestic: 71, Foreign: 2		Number of Researchers and Professional Qualifications * As of April 2023	
FANCL Cosmetics	46	Number of academic presentations	39	Researchers	193
Nutritional Supplements	10	Number of research publications	17	Ph.Ds.	21
ATTENIR Cosmetics	31	Partners in joint research	25	Pharmacists	10
<i>Hatsuga genmai</i> , <i>Kale Juice</i> , and other food products	6	Research and development expenses	¥3,408 million	Registered dietitians and dieticians	8

## Research Topics

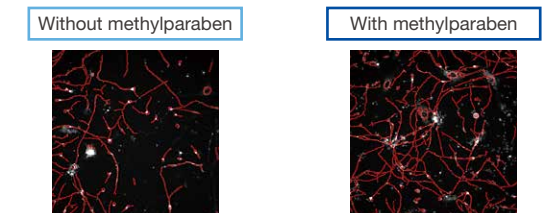
### Cosmetics

#### • New Knowledge on Human Sensory Nerves through iPS Cell Technology

Under a unique FANCL perspective, arising out of our start from *Mutenka* cosmetics that do not contain any additives or place a burden on the skin, we conduct research into skin aging mechanisms driven by the various types of skin stress that have continued to steadily increase.

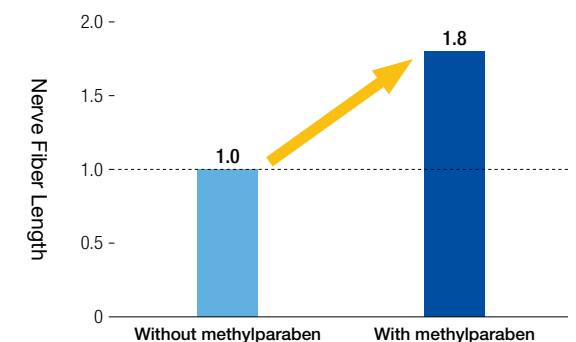
In recent years, we have seen steady growth in the numbers of both men and women complaining about sensitive skin, many of whom experience paresthesia, which makes it easy for their skin to feel tingling, prickly stimuli, and itchiness. FANCL demonstrated that paraben, one of the preservatives contained in cosmetics originally intended to beautify, was a cause of skin aging. Moreover, given our belief that the very discomfort of this stimulation and itchiness both lowered the QOL of daily life and led to skin aging, we took steps to research the impact of preservatives on sensory nerves. Using iPS cell culture technology, we successfully developed sensory nerve cells, which are difficult to remove from the body and culture, that respond to cosmetics ingredients. As a result, we discovered that preservatives and air pollutants held the potential to stimulate nerves, and thereby change sensory nerve cells from

a normal state to a hypersensitive state. The results of this research were presented as research findings at the International Federation of Societies of Cosmetic Chemists Congress.



Sensory nerves elongate due to the preservative paraben

#### Elongated Sensory Nerve Caused by Paraben



### Supplements

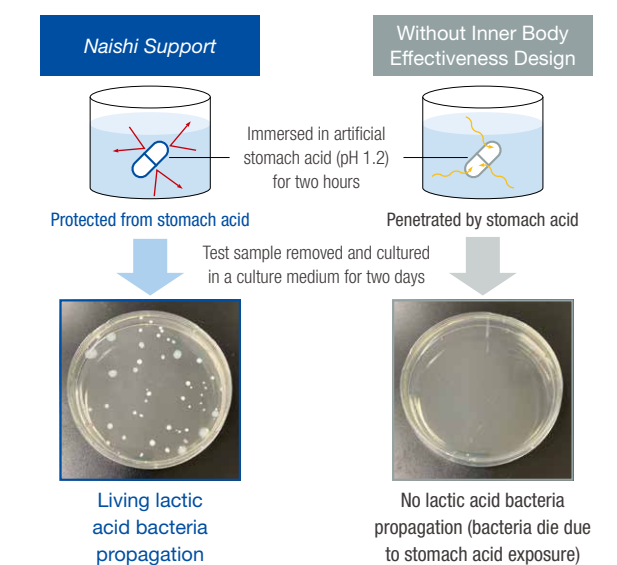
#### • Evolving Technology to Improve Product Efficacy in Our Body

Since launching the Health Food Business in 1994, FANCL has tirelessly worked to demonstrate technologies based on evidence. Moving forward, we have engaged in research and development under the motto of creating products whose effects can be experienced by our customers.

FANCL possesses a proprietary technology to improve product efficacy in our body. This technology ensures that active ingredients fully express their function within the body. Specifically, this technology seeks to discover the properties and workings of functional ingredients, and to make adjustments so that their capabilities are demonstrated to the greatest extent within the body. In this instance, we have engaged in countless related efforts as part of our research, including searching for highly functional ingredients and making ingredients more easily absorbed by the body.

In this vein, the barrier and release production method we developed and adopted for *Naishi Support* (Weight and body fat care) is a technology that protects lactic acid bacteria from stomach acids in order to release black ginger extract at the necessary location in the body, all while making the ingredients more easily absorbed. This technology allows us to formulate the ingredients that we want to dissolve quickly together with those that we want to protect from stomach acids in a single product, thereby designing products that match the workings

#### Test Results



**Naishi Support protects living lactic acid bacteria from stomach acids using inner body effectiveness design**

of the respective ingredients.

Likewise, we continuously pursue greater functionality through technologies that not only mix and solidify effective ingredients for the body, but that also address the various component characteristics within a small capsule that considers the ease of swallowing.

# Wellspring of Value Creation

## Supply Chain (Manufacturing, Logistics, Sales)

FANCL produces both cosmetics and health foods under a management framework that complies with GMP standards. The Company's domestic network comprised of six production bases pursues "Upholding Quality" under a strict standard unique to FANCL and under our stated mission of delivering products that provide customers with safety and reliability. Likewise, we sell our products through a wide range of channels that include online and catalogue sales, as well as directly managed store and wholesale sales. Moreover, by using IT to integrate the strengths of each channel, we are evolving our ties with our customers and seeking to maximize the customer's value experience.

### Manufacturing

#### Standards for Production Bases

Bases and Major Products	Standards	GMP*1 Standards	FSSC 22000*2	Facility
				Clean Room
FANCL B&H CORPORATION				
Chiba Factory	Cosmetics, supplements	●	—	●
Shiga Factory	Cosmetics	●	—	●
Yokohama Factory	Supplements	●	—	●
Gunma Factory	Cosmetics	●	—	●
Nagano Factory	Germinated brown rice, supplements	—	●	●
Mishima Factory	Supplements	●	●	●

\*1 Good Manufacturing Practices (GMP) was drawn up by the U.S. Food and Drug Administration to maintain production management and quality control for such items as cosmetics, pharmaceuticals and foods.

\*2 Internationally recognized Food Safety System Certification (FSSC) 22000

#### • [Cosmetics Factories] Toward Labor Savings and Higher Efficiency

We have sold one unit of *MILD CLEANSING OIL* every three seconds in Japan and abroad since launching this product in 1997. With an eye to the future, we therefore built a dedicated factory in Nagareyama, Chiba, that can efficiently mass-produce *MILD CLEANSING OIL* in March 2020. Along with shifting from a three-factory framework to a centralized approach, the new factory realized labor savings and greater efficiency to enable production of 12 million units per year, approximately 1.3 times that of the previous framework.

Meanwhile, specialized in small-lot production of multiple products, the Gunma Factory is able to produce 75 L to 2,000 L batches mainly using its seven vacuum emulsification systems as part of the bulk production process. Equipped with 14 filling machines as part of the filling process, the factory fills products ranging in volume from 0.5 mL to 1,000 mL with liquids of low to high viscosity. In addition, its refill spout pouch filling machines also help reduce plastic use and establish a manufacturing environment that can address "Upholding Quality" for various needs.



New MILD CLEANSING OIL Factory



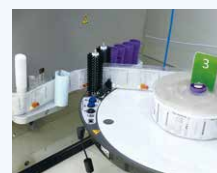
#### • [Supplement Factory] Addressing Global Demand

Having gone into operations in April 2021, the Mishima Factory is equipped with eight tableting machines that form the tablets for *Calolimit® for the Mature Aged* and other products, two hard capsule filling machines for *Naishi Support* (Weight and body fat care) and other products, and six advanced automatic sorting machines. The factory also inspects every tablet, capsule, and pill for cracks and chips at high speed. For *Age bracket-based supplements* in which a single package contains multiple supplements, we began operating four high-speed packaging units developed jointly with a machine manufacturer in order to address demand from China and the rest of the world in June 2023. Moreover, we continue to manufacture for the Kirin Group on a contract basis in an effort that began in April 2021, and are exhibiting synergies through this collaboration.

Meanwhile, our Yokohama Factory produces *Personal ONE* custom-made supplements. The fully-automated tablet packaging machines used for *Personal ONE* rapidly package each dose of different types of tablets to deliver safe, reliable products to our customers.



Mishima Factory



Personal ONE fully-automated tablet packaging machine

### Logistics

#### • Inventory Allocation through a Two-Site Framework. Reducing Lead Times and Shipping Costs

The FANCL Group logistics centers are based on a two-site framework consisting of the Kanto Logistics Center in Kashiwa, Chiba, and the Kansai Logistics Center in Kadoma, Osaka, to which the products manufactured at each of our factories are delivered the same day. Except for the first two days of the year and the closing inventory day, our logistics centers operate non-stop to rapidly deliver freshly-made products to our customers 362 days a year.

The Kanto Logistics Center is stocked with every FANCL product, which it delivers to customers throughout Japan. Moreover, the Kansai Logistics Center is stocked with approximately 300 of FANCL's mainstay products. In addition to delivering products to customers in western Japan, it also delivers every ATTENIR product to customers throughout the country. We stock both logistics centers with the appropriate volume of

inventory in order to more quickly and more accurately deliver products to our customers, while both managing each item based on the production date and best-by-date. Both centers also help to reduce CO<sub>2</sub> emissions by optimizing distances during shipping.

Having raised the goal of delivering high-quality products to our customers when and where they want, we seek to further improve quality and productivity.



FANCL Kanto Logistics Center



FANCL Kansai Logistics Center



### Sales

#### • Enhancing Customer Experience Value: The FIT3 Core IT System

FANCL delivers products to our customers through a multi-channel approach centered on online and catalogue sales, as well as on directly managed store and wholesale sales. At the same time, we work to build ties with our customers through the use of IT to integrate the strengths of each channel.

We released FIT\*3 in 2022 as our core IT system for promoting OMO initiatives and for realizing the best individual approach for each customer. Developed under the concept of a database for better understanding our customers, we use the system to deepen

our knowledge of customers as part of a positive data cycle that returns beneficial information.

By deploying the FANCL Members App, which integrates online, catalogue, and store information in one location, as a customer communications platform, we maintain the convenience of online and catalogue shopping while enabling face-to-face interaction at stores and online counseling



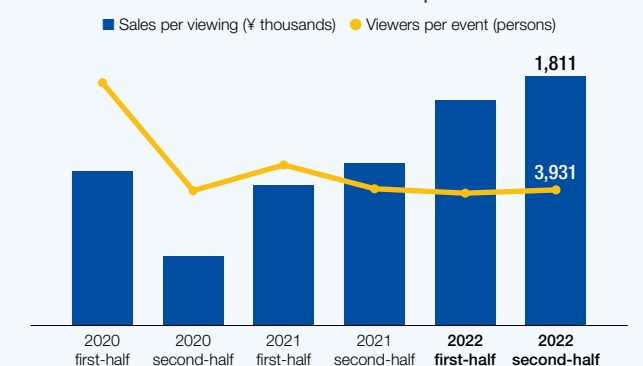
LIVE SHOPPING

reservations. Moreover, customers can now use this one app accordingly across a wide range of situations. We also use the app to stream live shopping and online events that build strong ties with our customers, where this initiative as a whole encourages cross-use of online and catalogue shopping with in-store purchases.

Currently, we are working to enhance planning while aiming for a high level of quality that emphasizes compassion for brand value. At the same time, we will engage in OMO strategies that deepen our ties with our customers while leveraging the respective channel characteristics together with IT.

\* FANCL Information Technology

#### Trends in LIVE SHOPPING Viewership and Sales Trends





## Special Feature

# Manifesting Synergies with the Kirin Group

## Maximizing the Value of FIT3 through Synergies between Kirin and FANCL

After announcing details of its capital and business alliance with Kirin Holdings Company, Limited (Kirin), in August 2019, FANCL has since launched a range of joint projects. We will create new value through collaboration and the exchange of personnel with Kirin as part of efforts to operate our unique FIT3 core IT system.

FANCL

Takaaki Hasegawa

KIRIN

Yuki Mayumi

### FIT3 Core IT System Serves to Enhance Customers' Experience Value

**Hasegawa** The proprietary FIT core IT system that we developed serves as a digital technology for supporting FANCL's online and catalogue as well as retail store sales. Since 2016, we have worked to upgrade and expand this system and centralize data, allowing us to put FIT3 into full-scale operation in January 2022. FIT3 does more than simply collect and analyze customer purchase data, however. For example, it also handles customer service details from call centers and directly managed stores, web access histories, and other forms of behavioral data with the aim of improving the precision of the Company's proposals and maximizing the experience value of our customers. You participated in the development team as a data scientist.

**Mayumi** My primary role was to realize a more advanced approach to our customers by adding machine learning, AI, and other functions to FIT3. In this way, FIT3 now accumulates an extremely broad range of data regarding our customers, and also offers a high level of freedom with regard to data processing. This in turn enables us to analyze data, prepare plot models, and verify results at a rapid pace. Which is

why my involvement in this project has been highly rewarding for me.

**Hasegawa** With a full understanding of FANCL's strengths and the significance held by data, you made various realistic proposals from an outside, objective standpoint. Thanks to you, we have been able to experience new possibilities for FIT3 that we had not previously recognized, which have given rise to many new ideas.

### Reducing the Subscription Product Churn Rate through Precision Forecasting and Approaches

**Mayumi** Since 2022, the subscription cancellation prevention model for one of FANCL's star products, namely *Naishi Support*, that I have been involved with has also gradually shown results. This model allows us to send direct mail and make proposals that encourage customers who are highly likely to cancel subscriptions, as analyzed by big data and AI, to continue their subscriptions with pinpoint accuracy. Although there were aspects with which we initially struggled, since incorporating this approach we have seen a downward trend in cancellations and have felt the model's results.

**Hasegawa** Even those of us who have worked with internal data for many years were previously unable to grasp the signs that a customer would cancel a subscription with high precision. We maintain an extremely large number of subscriptions for *Naishi Support*, so the results of this cancellation prevention model can also contribute significantly to revenue. Your skills as a data scientist were truly helpful, particularly in the area of building the AI-based prediction model.

If we can build a solid track record of these kinds of success stories, we should be able to apply a similar model to other products as well.

### Making FIT3 a Unique System That No One Can Copy

**Hasegawa** The strengths of FANCL include the data we have accumulated through our many years of direct sales to our customers and the expertise to work with this data. Engaged in both online and catalogue sales as well as directly managed stores, we are unusual in that we have recorded sales on the scale of tens of billions of yen in both areas. We continuously link our data from online and catalogue sales, as well as from directly managed stores in all 47 prefectures in Japan, on a real time basis. And specifically because of this integrated system, we can realize a range of unique approaches to digital marketing.

**Mayumi** Moreover, FANCL has an extremely large number of customers that have consistently used our products for many years. As such, I think it is possible to precisely pickup on the potential needs of our customers from this long-term data. This is indeed why I believe we can also enable advanced communications in a way that delivers only the

information that our customers truly need, if we pursue customer analysis through FIT3.

**Hasegawa** I feel the same. Yet the challenge lies in further enhancing our level of customer analysis. Which is why we must engage in all manner of data mining as part of FIT3. The key to this will be converting the tacit knowledge we have understood instinctively thus far into explicit knowledge. In other words, the process of replacing the knowledge accumulated within the Company with data that can be understood by AI is critical. In this respect, we are starting to see the development of a culture within the Company that is more aware of the importance of data, which has been a very positive trend.

If this momentum increases further and we leverage FIT3 data in a way that enables us to deploy action plans and sales strategies going forward, I believe we can further accelerate the implementation of OMO that is unique to FANCL, which is one of the challenges identified in the Medium-Term Management Plan.

**Mayumi** Although I have worked with many companies thus far, there is no question that it is unusual for corporations to centralize and accumulate customer information from multiple sales channels. And because FANCL effectively utilizes this kind of data in each of its development, manufacturing, and sales activities under the wonderful philosophy of eliminating the "negatives," I think this is something that other companies would struggle to copy.

**Hasegawa** Thank you. I hope to further perfect FIT3 and transform it into a one-of-a-kind core IT system that cannot be outclassed by any of our competitors. Your support will be essential for realizing this, and I hope that we can continue our strong team effort.

#### Takaaki Hasegawa

Manager, Sales Planning Department  
Direct Sales Division Headquarters  
FANCL CORPORATION

#### Yuki Mayumi

(Data scientist)  
Sales Planning Department Digital Marketing Group  
Direct Sales Division Headquarters  
FANCL CORPORATION  
(Seconded from Kirin Holdings Company)

# Sustainability Policy

Since its founding in 1980, the FANCL Group has continued to grow as a company that provides solutions to social issues. In June 2018, the FANCL Group Sustainable Declaration—Building a Bright Future Together—was developed to express our desire to contribute to the realization of a sustainable society. Having set key initiative themes and identified priority issues and quantitative targets, we are linking them to specific actions.

FANCL Group's "Sustainable Declaration"

## Building a Bright Future Together

Guided by our founding philosophy of "Eliminate the 'Negatives' with a Sense of Justices,"

FANCL is confronting key issues of concern that will impact people's future lives,

including the global environment and society, as well as 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.

### Key Initiative Themes














We set the Environment, Healthy Living, and Local Communities and Employees as key initiative themes for sustainability.

 <div>Environment</div> <p>To achieve business activities in harmony with nature</p> <p>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.</p>	 <div>Healthy Living</div> <p>For a healthy lifestyle that is unique to you</p> <p>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.</p>	 <div>Local Communities and Employees</div> <p>To create a society where everyone can shine</p> <p>Support people's happiness and contribute to the creation of a society where everyone can shine, based on our corporate culture of "truly cares for people."</p>
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### Process for Setting Key Initiative Themes and Priority Materiality Issues

<b>STEP 1</b>	Having analyzed the impact on the FANCL Group of international norms and trends, such as the SDGs, UN Global Compact, UN Guiding Principles on Business and Human Rights, and the Paris Agreement, we also identified the expectations and demands of stakeholders from various perspectives through dialogue with customers, investors, business partners, local communities, and employees.
<b>Take steps to identify social issues</b> (March to July 2020)	
<b>STEP 2</b>	The Sustainability Promotion Department organized sustainability initiatives by the level of their importance in light of their impact on society and on the FANCL Group and created drafts of the key initiative themes and priority issues as well as quantitative targets. These were reported to the Group Management Conference, which is composed of executive directors and executive officers.
<b>Undertake management discussions</b> (August to December 2020)	
<b>STEP 3</b>	Following discussions at the Group Management Conference, time was set aside for theme-based sessions. These sessions served as a forum for directors to engage in open and free discussions as well as to deepen dialogue. We then drafted specific strategies and action plans and announced them as sustainability strategies in our 3rd Medium-Term Management Plan FORWARD 2023 in May 2021.
<b>Resolve agenda items at Board of Directors' meetings and announce details</b> (May 2021)	

### Progress to Date of Key Issues and Targets

Key Initiative Theme	Contributions toward the Achievement of SDGs	Priority Materiality Issues	Quantitative Targets	FY Mar/2023 Results	Related Page(s)
 <div>Environment</div>	    	<ul style="list-style-type: none"><li>Addressing climate change</li><li>Reducing CO<sub>2</sub> emissions</li><li>Reducing plastic usage</li><li>Ensuring sustainable procurement</li></ul>	• Zero CO <sub>2</sub> emissions by FY Mar/2051	• CO <sub>2</sub> emissions 4,012t-CO <sub>2</sub> (62.6% reduction compared with the previous year)	P32
			• Employ the 4Rs*1 to achieve 100% sustainable packaging by FY Mar/2031 *1 Reduce (reduce the amount of plastic used in containers), Reuse (reuse containers), Recycle (container recovery and recycling), Renewable (switch to recycled materials or plant-based materials)	50.9%	P34-35
			• Set a 30% target for the use of plastic derived from plants and recycling materials for FANCL cosmetics containers by FY Mar/2031	40.1%. Target achieved	
			• Adopt 100% environmentally friendly paper*2 in paper-based container packaging by FY Mar/2026 *2 Certified paper, non-wood paper, recycled paper, etc.	85.2%	P33
 <div>Healthy Living</div>	  	<ul style="list-style-type: none"><li>Initiatives to extend healthy life expectancy</li><li>Addressing basic nutritional needs</li><li>Initiatives to improve QOL</li></ul>	• By FY Mar/2031, about half of the people in Japan using supplements and health foods to address health-related issues	31.5%	P36-37
			• Ratio of female employees in management positions: 50% in FY Mar/2024	47.1%	P38-39
 <div>Local Communities and Employees</div>	   	<ul style="list-style-type: none"><li>Promotion of diversity and inclusion</li><li>Contributing to the local community</li><li>Evolve educational seminars on beauty and health</li></ul>	• Ratio of female employees in senior management positions*3: 30% in FY Mar/2024 *3 Managerial positions of departmental deputy manager and above, excluding directors	28.0%	P38-39
			• Ratio of employees with disabilities: 5% in FY Mar/2031	4.46%	P38, 40

(Note) 4R compatibility in the use of plastic container packaging materials, adoption of environmentally friendly paper in paper-based container packaging, and the procurement of certified palm oil apply to the cosmetics and health foods of FANCL Corporation and ATTENIR CORPORATION.

### Governance Structure Sustainability Committee

In October 2021, we established the Sustainability Committee with the aim of placing sustainability at the core of our management and improving our corporate value over the medium to long term by achieving the goals we have set.

For details, please see Governance System (P42-43)





Three Key Themes ①

# Environment

To achieve business activities  
in harmony with nature

Contributions toward the achievement of SDGs



## Initiatives to Address Climate Change

We believe that solving climate change-related issues is a top priority for realizing a sustainable society. The FANCL Group will tackle climate change from both mitigation and adaptation perspectives, taking into account the opportunities and risks that we can see from a long-term perspective looking to 2050. We are grateful for the blessings of nature and contribute to the preservation of the natural environment in all aspects of our corporate activities. To link these policies to specific actions, the Company expressed its support for the TCFD recommendations on October 2020.



Details of the FANCL Group's climate change initiatives are available on the following website:

[www.fancl.jp/en/sustainable/environment/tcfd/index.html](http://www.fancl.jp/en/sustainable/environment/tcfd/index.html)

### • Governance Structure Sustainability Committee

Having positioned sustainability at the core of management, we established the Sustainability Committee, which is composed of executive directors and executive officers, to improve corporate value over the medium to long term. The Sustainability Committee manages and evaluates the progress made toward targets for sustainability initiatives, including climate change, while the Board of Directors performs oversight and monitoring functions.

### • Strategy

Having formulated VISION2030, its long-term vision looking toward 2030, the FANCL Group has been developing its business in pursuit of that vision. In June 2018, we formulated the FANCL Group Sustainability Declaration, thereby expressing our intention to contribute to the realization of a sustainable society in line with the Sustainable Development Goals (SDGs).

While giving top priority to tackling climate change in our 3rd Medium-Term Management Plan FORWARD 2023, we identified the reduction of CO<sub>2</sub> emissions, the reduction of plastic usage, and the procurement of sustainable palm oil as key environmental issues to be addressed. Having set quantitative targets for each of these key issues, we are promoting them throughout the Group.

### • Risk Management

At the FANCL Group, the department responsible for promoting sustainability manages climate change-related risks and opportunities related to the Group's overall business operations. Based on climate change scenarios, this department conducts qualitative analyses of possible risks and opportunities and calculates the financial impact. Details that need to be managed by the FANCL Group are submitted to the Sustainability Committee. We report matters of particular importance to the Board of Directors and take prompt action.

### • Metrics and Targets

The Sixth Assessment Report by the IPCC\* suggests that climate change will progress faster than previously predicted and calls for further strengthening of countermeasures as an urgent issue. In the FANCL Group's 3rd Medium-Term Management Plan FORWARD 2023 announced in FY Mar/2022, we significantly expanded our goals related to climate change in response to global trends and national policies and set net zero CO<sub>2</sub> emissions (covering Scope 1+2) by FY Mar/2051 as a new quantitative target.

\* The abbreviation for the Intergovernmental Panel on Climate Change, the IPCC is an intergovernmental organization established in 1988 by the World Meteorological Organization (WMO) and the United Nations Environment Program (UNEP).

Targets for and progress made with CO<sub>2</sub> emissions reduction P32



## Risks and Opportunities in Climate Change

### <Preconditions>

Applicable period	Up to and including FY Mar/2031
Scope	The scope of this report mainly covers the cosmetics and supplements businesses in the three domestic sales channels (online and catalogue, directly managed stores, wholesale)
Calculation conditions	Analyses based on the IPCC Fifth Assessment Report RCP2.6 (2°C scenario), etc. Calculation of the expected amount of sales and profit impact within the target period for each item Does not take into consideration such factors as the reinforcement of infrastructure, including public works, and technological advances, etc.

	Changes in the World	FANCL Group Risks and Opportunities	Amount of Financial Impact
Transition Risks	Tighter policies and regulations to address climate change	<b>Increase in carbon tax costs</b> In the event that policies and regulations on CO <sub>2</sub> emissions and plastic usage are made tighter with the intention of mitigating the effects of climate change, the investment costs for energy conservation and the introduction of renewable energy as well as for the reduction of plastic usage in products will increase. Of these, the introduction of a carbon tax in particular is expected to impose an increased burden on the FANCL Group. As a countermeasure, we have installed solar panels at our three domestic factories (the Shiga, Gunma and Mishima factories) and at the Kansai Logistics Center, and have been switching to renewable energy at our domestic bases since April 2022.	Carbon tax costs Approx. ¥250 million * Assumed costs for FY Mar/2031
	Restrictions on going out due to the outbreak of infectious diseases, decrease in inbound demand	<b>Decreases in direct store/wholesale net sales</b> It is projected that the incidence of pandemics will increase due to changes in water-borne infectious diseases and their pathogen vectors. In the event of an infectious disease outbreak, it is expected that directly managed store and wholesale net sales from inbound travel will decline due to travel restrictions, and that domestic sales will also decrease as people exercise self-restraint and refrain from going out. To counteract these downturns, we will take full advantage of the FANCL Group's multi-channel sales, including online and catalogue sales, directly managed store sales, and wholesale sales, while working to improve convenience for consumers by directing them to online and catalogue sales.	Decrease in net sales Approx. ¥1.5 billion * Calculated using COVID-19 trends as a reference.
Physical Risks	Increasing intensity of abnormal weather events and rising sea levels	<b>Decrease in net sales as a result of lower production capacity</b> The risk of inundation due to rising sea levels and various other flood-related risks, including the overflow of rivers due to torrential rains, can be expected to result in factory shutdowns. Located along the Edo River in Nagareyama City, Chiba Prefecture, the FANCL Group's Chiba Factory has a dedicated building for its core product, <i>MILD CLEANSING OIL</i> . Were the Edo River to flood, and the factory to shut down operations (assumed to be for one month), it is expected that net sales would decrease due to lost sales opportunities of <i>MILD CLEANSING OIL</i> . As a countermeasure, we have formulated an all-hazard business continuity plan (BCP) and made preparations to facilitate the early recovery of operations even if a disaster should temporarily occur.	Decrease in net sales of <i>MILD CLEANSING OIL</i> Approx. ¥1.0 billion * Based on the assumption that the factory would shut down for one month.
	Decrease in production volumes and deterioration in the quality of raw materials derived from agricultural products.	<b>Increase in raw material procurement costs</b> Affected by global warming and abnormal weather events brought about by climate change, decreases in the production volumes of raw materials derived from agricultural products and deterioration in their quality will occur. Taking into consideration such factors as soaring raw material procurement costs and the switch to alternative products, the FANCL Group expects to incur additional costs. In particular, decreases in crop yields, impacting such products as <i>Hatsuga genmai</i> (germinated brown rice) and <i>Kale Juice</i> , and difficulties in obtaining palm-derived raw materials such as glycerin could have a significant impact on the FANCL Group's business, resulting in an increase in its cost of sales. As a countermeasure, we have adopted sustainable procurement as a key environmental issue and are striving to ascertain risks in the supply chain while reviewing responses to each of the aforementioned factors.	Increase in the cost of sales of <i>Kale Juice</i> , <i>Hatsuga genmai</i> as well as palm-derived raw materials, etc. Approx. ¥200 million to ¥500 million
Opportunities	Changes in consumer needs due to the outbreak of infectious diseases	<b>Increase in net sales of products that meet new needs</b> Due to rising consumer interest in and concerns about health and hygiene in the event of an infectious disease outbreak, the FANCL Group expects an increase in demand for immune system and hygiene products as these products and services meet the requirements of new needs. <b>Increase in online and catalogue sales</b> In the event of an infectious disease outbreak, the FANCL Group expects that demand for online and catalogue sales will increase owing to a variety of factors. These factors include people refraining from going out and the closure of stores. Taking full advantage of the FANCL Group's multi-channel sales, we anticipate online and catalogue sales will increase as we direct consumers from directly managed store and wholesale sales to the online and catalogue channel.	Increase in net sales Approx. ¥1.0 billion * Calculated using COVID-19 trends as a reference.
	Improvement in corporate value through ESG evaluations	<b>Increased market evaluation</b> Response to climate change is of increasing importance in investors' investment decisions, and we can expect an improvement in ESG evaluations and support for stock prices by proactively engaging in responses to climate change. Institutional investors in Japan and overseas hold more than 40% of FANCL's issued shares and proactively disclosing climate change information may lead to an increase in the Company's stock prices.	Increase in net sales Approx. ¥2.5 billion * Calculated using COVID-19 trends as a reference.
			Stock price valuation Approx. ¥3.0 billion * Based on the assumption of a 1% increase in the Company's stock price.

## Specific Initiatives

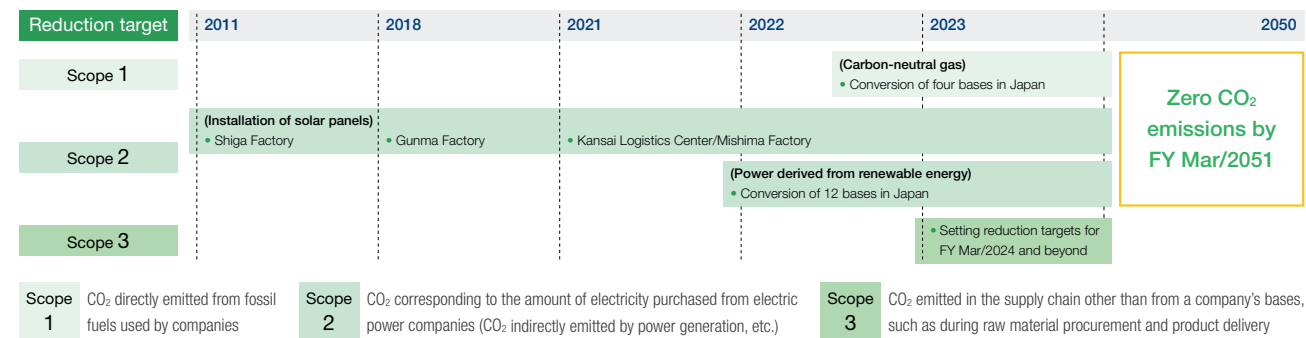
### • Reduction of CO<sub>2</sub> emissions

The FANCL Group aims to contribute to a decarbonized society by making climate change and reducing CO<sub>2</sub> emissions its top environmental priorities.

#### Quantitative Targets

Priority Materiality Issues	Target	Progress (FY Mar/2023)
Reduction of CO <sub>2</sub> emissions	By FY Mar/2051 ➔ <b>Effectively zero</b>	<ul style="list-style-type: none"> <li>CO<sub>2</sub> emissions <b>4,012t-CO<sub>2</sub></b> (62.6% reduction compared with the previous year)</li> <li>* Covering Scope 1+2</li> </ul>

#### Milestones in reducing CO<sub>2</sub> emissions



#### Efforts to Reduce CO<sub>2</sub> Emissions (Scope 1+2)

Having introduced solar panels for the first time at its Shiga Factory in 2011, the FANCL Group installed similar panels at its Gunma Factory in 2018, and at the Kansai Logistics Center and the Mishima Factory in June and November 2021, respectively. By using solar power generation at a total of four domestic locations to subsidize the electricity used during operations, we can expect an annual reduction in CO<sub>2</sub> emissions of approximately 480 tons.

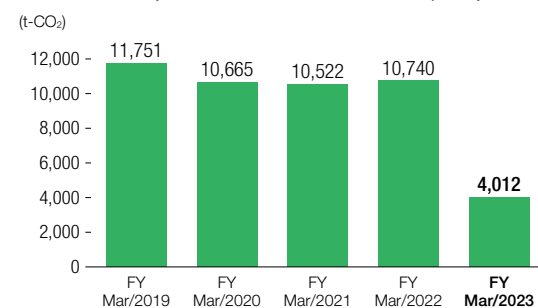


Solar panels at Kansai Logistics Center (installed in June 2021)



LNG tank at Shiga Factory (refilled with carbon-neutral LNG from July 2022)

#### FANCL Group CO<sub>2</sub> Emissions Results (Scope 1+2)



Having also begun to actively utilize electric power from renewable energy sources, the FANCL Group completed conversion work at 12 of its domestic bases (six production factories, one logistics center, and offices, including the Company's head office) in April 2022.

In addition, we switched to carbon-neutral gas\*<sup>1</sup> when purchasing city gas, liquefied natural gas (LNG), and liquefied propane gas (LPG) at four production factories from June to November 2022. The FANCL Group will continue its efforts to reduce CO<sub>2</sub> emissions as it targets zero CO<sub>2</sub> emissions by FY Mar/2051.

\*<sup>1</sup> Carbon-neutral gas is seen as not emitting CO<sub>2</sub> by offsetting the greenhouse gases emitted from extraction to the combustion of natural gas against CO<sub>2</sub> credits created by environmental conservation projects.

#### Efforts to Reduce CO<sub>2</sub> Emissions (Scope 3)

Other than the CO<sub>2</sub> emissions from our own bases, we are also promoting initiatives designed to reduce CO<sub>2</sub> emissions throughout the supply chain (Scope 3). Most importantly, for these initiatives we are shifting our attention to the CO<sub>2</sub> emitted when procuring products and materials, and to the CO<sub>2</sub> emitted when transporting products to customers and directly managed stores. We will work together with our business partners to look into how these initiatives can lead to reductions. Also, in FY Mar/2024, we plan to set CO<sub>2</sub> Scope 3 reduction targets and formulate action plans for our next Medium-Term Management Plan.

FANCL's ESG data collection for FY Mar/2023 has been posted on the following website page:

[www.fancl.jp/en/sustainable/data/esgdata/](http://www.fancl.jp/en/sustainable/data/esgdata/)

## • Sustainable Procurement

Building relationships of co-existence and co-prosperity with its business partners, the FANCL Group provides customers with products and services that are safe, secure, and of high quality while aiming for sustainable procurement that takes into consideration the environment, human rights, and labor issues.

#### Quantitative Targets

Priority Materiality Issues	Target	Progress
Procurement of certified palm oil*	By FY Mar/2024 ➔ <b>100%</b>	<b>100% target achieved</b> (RSPO Mass Balance 54%, Book & Claims 46%) * Results for January to December 2022

\* Covering the cosmetics and health foods of FANCL Corporation and ATTENIR CORPORATION.

#### FANCL Group Sustainable Procurement Policy

The basic concept of the FANCL Group's procurement activities is summarized and published in the FANCL Group Sustainable Procurement Policy. We have also summarized the items that we would like our business partners to follow in transactions in our Business Partner (Supplier) Guidelines. By asking for the understanding of our business partners, we are aiming for sustainable procurement that takes into consideration the environment, human rights, and labor issues in concert with business partners.



FANCL Group Sustainable Procurement Policy, Trading Partner (Supplier) Guidelines

[www.fancl.jp/en/sustainable/environment/procurement/guideline/](http://www.fancl.jp/en/sustainable/environment/procurement/guideline/)

#### Sustainable Palm Oil Procurement

Palm oil is a vegetable oil derived from oil palms cultivated in the tropics. In Malaysia and Indonesia, the two largest producers of palm oil, there are serious issues related to the large-scale deforestation of tropical forests brought about by agricultural development and issues surrounding the human rights of agricultural workers.

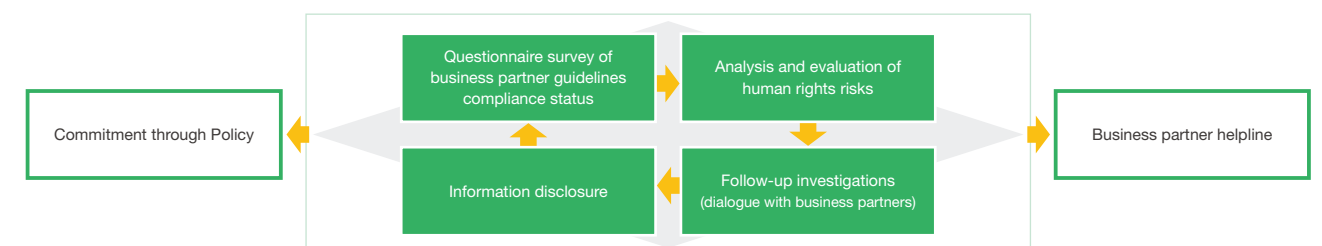
Since palm oil is also used in core FANCL products such as *MILD CLEANSING OIL*, the FANCL Group adopted the procurement of sustainable palm oil as its target and, having joined the Roundtable on Sustainable Palm Oil (RSPO) and Japan Sustainable Palm Oil Network (JaSPON), is addressing these issues by means of its memberships.

Under the policy of increasing the ratio of mass balance raw materials that are physically certified oil, we acquired RSPO supply chain certification for our own Chiba, Gunma and Shiga factories in September 2021. In FY Mar/2023, we met our 100% target by procuring 54% palm-derived raw materials in compatibility with the RSPO mass balance sourcing method and 46% by the book and claim method. From now on, we will gradually promote a switch to the mass balance approach for raw materials.



#### Procurement with Business Partners That Takes into Consideration the Environment and Human Rights in the Supply Chain

To ascertain the risks in the supply chain, we conducted a questionnaire survey of around 450 companies on the status of their compliance with the Business Partner (Supplier) Guidelines in October 2022. We conducted individual interviews with dozens of companies involved in major transactions. We also informed prospective new business partners of the Guidelines in advance and obtained their prior consent to comply with them before commencing transactions. In addition, as human rights due diligence, we put in place a mechanism for responding to human rights risks and established a helpline by which to receive complaints and reports from business partners, while striving in an ongoing manner to build and maintain fair and equitable business relationships with our business partners.





• Reducing Plastic Usage

From the perspective of the 4Rs\*, we will work to reduce plastic used in our products and services.

\* Reduce (reduce the amount of plastic used in containers), Reuse (reuse containers), Recycle (container recovery and recycling), Renewable (switch to recycled materials or plant-based materials)

Quantitative targets

Priority Materiality Issues	Targets	Progress
4R compatibility*1 in container packaging materials in which plastic is used	By FY Mar/2031 ➡ 100%	FY Mar/2023: 50.9%
Percentage of FANCL cosmetics containers made from plastic that are derived from plants and recycled materials	By FY Mar/2031 ➡ 30%	FY Mar/2023: 40.1% Target achieved
Adoption*1 of paper with low environmental footprint*2 for container packaging materials in which paper is used	By FY Mar/2026 ➡ 100%	FY Mar/2023: 85.2%

\*1 Covering FANCL Corporation, ATTENIR CORPORATION cosmetics, and health foods  
\*2 Certified paper, non-wood paper, recycled paper, etc.

Basic Policy on Reducing Plastic Use in Containers and Packaging

With the aim of realizing a decarbonized and recycling-oriented society, the FANCL Group is working with its customers to reduce the amount of plastic used in its containers and packaging. Already, our past efforts to proactively advance the concept of reduce and reuse have served to cut down the use of plastic.

Moreover, when the FANCL Group does indeed use plastic materials for the sealed and other containers required to protect the quality of *Mutenka* as the defining feature of its products, we have endeavored to reduce any incidence of environmental

impact whenever possible by adopting and incorporating a renewable perspective.

In FY Mar/2022, we began recovering and recycling cosmetics containers with the aim of better helping to achieve a recycling-oriented society.

In the future, we will strengthen our collaborative ties with the Kirin Group, with whom we have a capital and business alliance, in an effort to achieve horizontal recycling through which recovered cosmetics containers are renewed once again as raw materials for new cosmetics containers.

▶ Reduce (Reduction in amount of plastic used in containers)

With a top priority on reducing plastic use, FANCL is proactively working to make thinner, lighter containers and packages and to switch from plastic to paper and other materials. In FY Mar/2023, we replaced the plastic materials used for the outer cases of makeup brushes with FSC certified paper in an effort to reduce plastic use. In a similar fashion, we will gradually adopt the same approach for the outer cases of the foundation cosmetics sold through wholesale channels in FY Mar/2024.

In the case of supplements, we have successfully reduced materials by decreasing the thickness of aluminum pouches by 11% since 2013.



Outer case for foundation cosmetics sold through wholesale channels  
Aluminum pouch for supplements

TOPICS

Developing New Packaging through Synergy with the Kirin Group

[Developing cosmetics packaging from byproducts discharged during the beer brewing process as a first for Japan]

FANCL sells refills for cake foundations and other products for which the compact case is used multiple times, thus allowing customers to replace the content.

These refills are sold in blister packs\*1 that were originally made of plastic. In FY Mar/2023, however, FANCL conducted a joint research project with the Kirin Group's Package Innovation Laboratory and developed a sheet made from hemicellulose\*2 extracted from the beer lees left over as a byproduct during the *Kirin Ichiban Shibori* beer brewing process. Ultimately, we commercialized these sheets as refill blister packs made from plant-derived materials.

\*1 Blister Pack: A packaging made by deforming a heat-softened sheet into the shape of a mold.  
\*2 Hemicellulose: The general term for water-insoluble polysaccharides from which the cellulose contained in the plant cell walls has been removed.



Case and refill



Blister pack

▶ Reuse (Reuse of containers)

FANCL offers refills for many of its core cosmetics products, including face washes like *MILD CLEANSING OIL* and the Beauty BOUQUET aging care line. We have also actively promoted container reuse in the past for ATTENIR products, for which we have offered many refill options, including holders designed specifically for eco packs and products that can be refilled with a single-touch.



FANCL MILD CLEANSING OIL (for refills)



ATTENIR BRIGHT INCEPTION (for refills)

▶ Renewable (Switching to recycled or plant-derived materials)

Recycled PET made through chemical recycling\* technology is assumed to possess the same quality as petroleum-derived PET, yet is believed to be superior as a material for supporting the recycling of plastic resources. Coinciding with the renewal of *MILD CLEANSING OIL* in November 2021, we adopted 100% recycled PET for the container body. Following this, we have since expanded use of this approach to *ENRICH+*, *MOIST REFINE*, and our other core skin care products, as well as to some of our hair care products. During FY Mar/2023, we switched over all PET cosmetics containers for relevant products. As far as the ATTENIR lineup of products is concerned, we adopted recycled resin derived from Kirin beverage plastic bottle caps for the polyethylene spout part of *SKIN CLEAR CLEANSE OIL* eco pack containers. Similarly, we

adopted a plant-derived plastic (biomass plastic) made from sugar cane for the container of the ATTENIR SALON PREMIUM SHAMPOO - scalp & volume - hair care product we launched in January 2023.

\* Chemical recycling: Conversion of used resources into raw materials for plastic (PET) through chemical decomposition for reuse.



MILD CLEANSING OIL



ENRICH+



SKIN CLEAR CLEANSE OIL (eco pack)

▶ Recycle (Recovery and recycling of containers)

The FANCL Recycling Program collects used cosmetics containers from customers at directly managed stores throughout Japan. After the collected containers are sorted, washed, dried, and shredded by the special subsidiary FANCL SMILE Co., Ltd. \*, recycling companies with which we have partnered on this program use material recycling to convert the shredded containers into flowerpots. Originally launched at six stores in July 2021, we expanded the initiative nation-wide during FY Mar/2023. In order to do so, we repeatedly consulted with local governments about introducing the program where our directly managed stores are located. We donate the flowerpots to various entities, including Yokohama City, the home of the FANCL head office, where they have served to help communities, for example, through the use at the Garden Necklace Yokohama flower display event and for environmental education at elementary schools in the city.

In an effort to help create a recycling-oriented society together with many of its customers, FANCL has been actively engaged in unique recycling approaches that possess the three elements of reducing environmental impact, improving diversity and inclusion (active participation of people with disabilities), and contributing to local communities.

Going forward, as part of a new challenge, we will collaborate with the Kirin Group, with whom we have a capital and business alliance, with the aim of achieving horizontal recycling. Under this concept, used cosmetics containers will be renewed once again as cosmetics containers through a chemical recycling technology.

\* FANCL SMILE Co., Ltd.: A special subsidiary incorporated in 1999 for the purpose of supporting the independence of those with disabilities.



Collecting containers at directly managed stores around Japan



Washing work at FANCL SMILE



Shredded containers



## Three Key Themes ②

## Healthy Living

For a healthy lifestyle that  
is unique to you

Contributions toward the achievement of SDGs



## Toward Realizing Healthy Living

Since its founding, the FANCL Group has worked to provide value related to health and beauty, and has conducted research and development into various products intended to support the beautiful, healthy lifestyles of its customers.

Under the FANCL Group VISION2030, the Company aims to make the world healthier and more beautiful, and to become a company that is loved around the world. Under this vision and through our unique products and services, each of our businesses, including the core Health Food Business, will contribute to the extension of a healthy life expectancy and to the improvement of

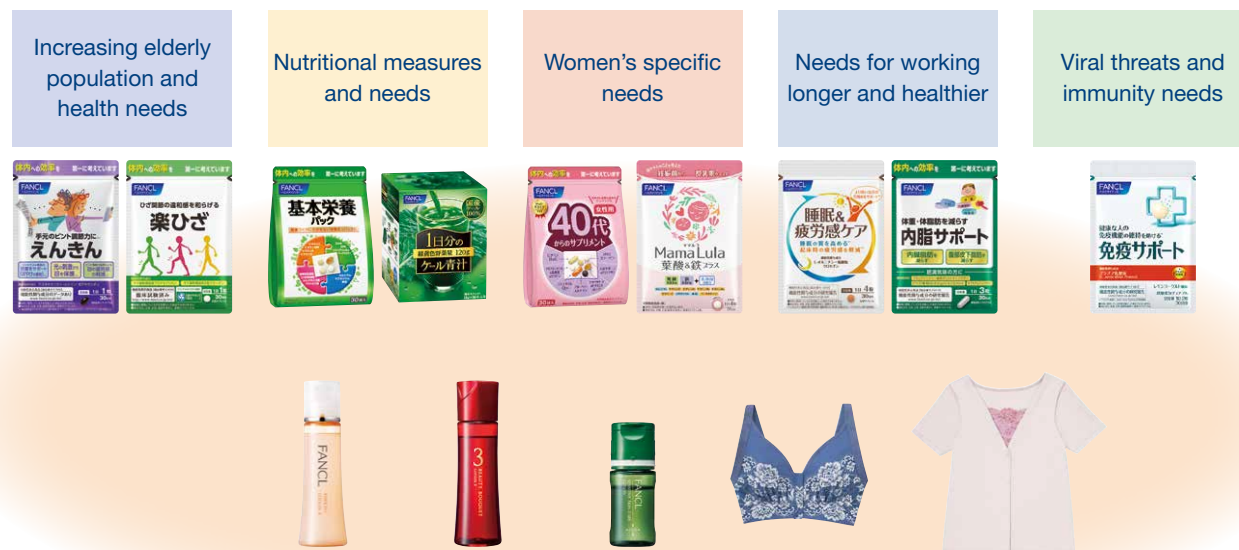
the quality of life (QOL) for people around the world.

As a pioneer in supplements, we place importance on confirming ingredients and data on efficacy based on scientific evidence, as well as on product efficacy in our body so that active ingredients efficiently exhibit their functions within the body. Which is why we have made countless modifications from ingredient selection through to the processing technologies. With a years-long track record intertwined with the health of people, FANCL utilizes a wealth of R&D and technological capabilities in its ongoing efforts to introduce products that offer new added value.

## Quantitative targets/Key issues

Priority Issues (Materiality)	Target	Progress to Date
<ul style="list-style-type: none"> <li>Initiatives to extend a healthy life</li> <li>Addressing basic nutritional needs</li> <li>Initiatives to improve QOL</li> </ul>	Ratio of people in Japan using supplements and health foods to address health-related issues By FY Mar/2031 ➡ <b>50%</b>	FY Mar/2023 ➡ <b>32%</b>

## Social issues and health needs/Products that address these needs



Through FANCL's unique products and services, the Company's entire range of health food, cosmetics, undergarments, and other business activities realize healthy living for consumers

## Resolving Social Issues through Products

## • Nutritional measures and needs

Improving the nutritional balance of everyday dietary habits is an important part of the solution for mental and physical function disorders caused by nutritional deficiencies and other health issues stemming from diets.

With the aim of contributing to the solutions for these nutritional issues, FANCL proposes supplements in support of efficiently consuming nutrients that cannot be covered by meals alone.



## • Health needs of the elderly

As society ages, the awareness of and actions taken regarding health by each individual have come into question. In order to help reduce steadily rising medical costs and to support active lifestyles that are always energetic, FANCL has made countless modifications from ingredient selection through to the processing technologies. Just a few of these changes include developing tablet sizes and shapes that prioritize the ease of swallowing, and reducing the number of tablets for each dose without changing functionality.



## Resolving Social Issues through Community Activities

## • FANCL Kanagawa SDGs Seminar - Nutrition -

With a focus on Kanagawa Prefecture, FANCL has held this SDGs seminar since April 2021 for elementary, middle, and high school students. Together with younger generations, FANCL is looking into such issues as food loss, nutritional imbalance, and the nutritional issues faced by youths based on the key sustainability theme of Healthy Living.



## • Nutritional education activities for children and communities through Hatsuga genmai and Kale Juice

FANCL held a menu contest in collaboration with Kirara Nursery School, which has continuously used FANCL *Hatsuga genmai* for its school lunches for more than 20 years. We donated some of the proceeds from the best menu selections to the NPO Japan Kodomo-Shokudo Support Center "MUSUBIE," an organization that runs children's cafeterias.

In addition, this fiscal year we began offering nutritional education seminars at children's cafeterias in cooperation with the Kanagawa Prefectural Government and NPOs. Along with NPO Kodomo-no-tonari and NPO Acchi Cocchi, we held quizzes covering basic knowledge on nutrition, and quizzes related to *Hatsuga genmai* and *Kale Juice*. We will continue to convey the importance of nutritional education and basic nutrition to children and communities.



## • Kanagawa Health Support Program

Leveraging the know-how and talent possessed by companies and organizations, Kanagawa Prefecture offers programs to support initiatives for "pre-illness improvement" for its citizens. FANCL also cooperates in these programs.



## Health Philosophy

One of the most important forms of capital for the FANCL Group is its people. Under the recognition that the health of our employees constitutes the management foundation for supporting healthy living, we work to create a corporate culture that prioritizes health, and to ensure sound management.

With the President & CEO, Representative Director serving as the person responsible for the Health Philosophy, we formulated the Declaration of Health Management in 2017 and opened the Health Support Office in 2018 in an effort to support the health of our employees.

For details on the Health Philosophy [www.fancl.jp/en/sustainable/society/healthcare/index.html](http://www.fancl.jp/en/sustainable/society/healthcare/index.html)







## Three Key Themes ③

## Local Communities and Employees

To create a society where  
everyone can shine

Contributions toward the achievement of SDGs



## Promotion of Diversity and Inclusion

As a “corporation that truly cares for people,” the FANCL Group has adopted the key diversity promotion phrase “Embrace differences” to express its aim to continue creating new value by benefiting from a diverse human resources team whose wide variety of values and ways of thinking give space to individual qualities and strengths. We respect and recognize each other’s diversity in values, ways of

thinking, and workstyles, irrespective of, for example, age, gender, disabilities, sexual orientation/gender identity, nationality, race, and religion. Striving so that we can demonstrate teamwork in environments where individuals can shine and thrive, we will promote change and encourage value creation.

## Quantitative targets/Key issues

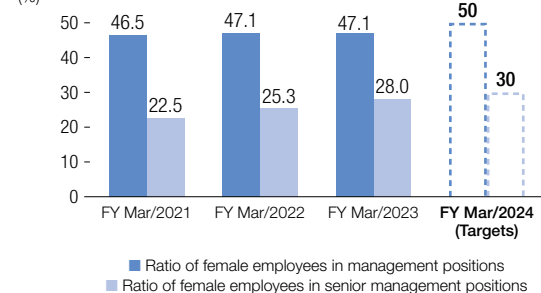
## Promotion of Female Empowerment

Targets		Progress to Date
• Ratio of female employees in management positions.	By FY Mar/2024 ➡ 50%	FY Mar/2023 ➡ 47.1%
• Ratio of female employees in senior management positions*.	By FY Mar/2024 ➡ 30%	FY Mar/2023 ➡ 28.0%
* Managerial positions of departmental deputy manager and above, excluding directors.		

To provide beauty and health to our customers, a corporate culture in which female employees play a central role has been deeply rooted at FANCL since its establishment. The ratio of female employees is 62.2%, and the ratio of female employees in management positions stands at 47.1% (FY Mar/2023).

In order to further promote female empowerment, FANCL offers training led by various role models, promotes work-life balance, and works to improve working environments so that everyone, regardless of gender or age, can thrive.

Ratio of female employees in management positions /  
Ratio of female employees in senior management positions  
(%)

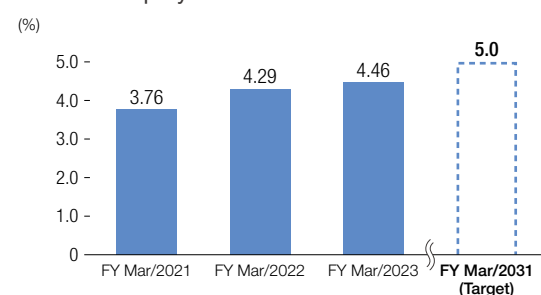


## Expanding Opportunities for People with Disabilities to Excel

Target	Progress to Date
• Ratio of employees with disabilities	By FY Mar/2031 ➡ 5%
	FY Mar/2023 ➡ 4.46%

Special subsidiary, FANCL SMILE Co., Ltd. hires people with disabilities throughout the year in a bid to expand their opportunities to work. FANCL’s head office also hires new graduates (associate regular employees) with disabilities. Currently, the FANCL Group is home to 112 thriving employees with disabilities (101 of whom work at FANCL SMILE). In an effort to nurture their abilities and potential to the fullest extent, we engage in various initiatives to support the success of these employees with an eye to their individual strengths.

Ratio of Employees with Disabilities



## Promotion of Female Empowerment

The FANCL Group endeavors to create workplaces that are comfortable for all employees, not just women, and engages in a range of initiatives under the belief that the ability of each individual to demonstrate their potential will connect to growth for the Company.

## • Women’s Leadership Program and Unconscious Bias Training

Held with the aim of further promoting the empowerment of women, the Women’s Leadership Program is led by current female executives from different backgrounds, including those who are married, single, and with and without children, to encourage changes in daily behavior by sending out messages of support. Unconscious Bias Training provides opportunities for participants to recognize their unconscious biases and preconceptions through training.



Participating female executives

## • Encouraging Men to Take Childcare Leave

As part of our efforts to create an environment that balances motivation with comfort, we encourage male employees to take childcare leave.

In FY Mar/2023, the ratio of male employees that took childcare leave was 100%\*. We will continue to promote its greater use.

\* Including the use of leave to support childbirth.



An employee on childcare leave

## Promoting Understanding of LGBTQ\*1

## • Creating Comfortable Workplaces for Everyone

As part of our efforts to create working environments in which our diverse range of employees can work enthusiastically, in April 2022 we established the Partnership Rules. These rules, in principle, require us to handle common-law marriages and same-sex marriages among our employees in the same manner as legal marriages. Moreover, we established LGBTQ Ally\*2, and engage in various activities under the desire to better understand and more closely work with those in the LGBTQ community.



LGBTQ Ally Promotion Members

\*1 L: Lesbian, G: Gay, B: Bisexual, T: Transgender, Q: Queer or Questioning.

\*2 An LGBTQ Ally is a person who empathizes and wishes to work more closely with those in the LGBTQ community. FANCL is currently home to 345 LGBTQ Allies as of April 2023.

## • Training related to Women-specific Health Issues

In order to deepen the understanding of women-specific health issues that differ by age, as well as to create comfortable working environments, we hold seminars related to women’s health. These seminars are attended by all executives and those who serve in the position of department manager or above as well as employees who express the desire to participate. For example, we also convey information for raising awareness of breast cancer self-examinations.

## • Commitment to Promoting Female Empowerment

In order to promote the empowerment of women, FANCL participates in the Male Leaders Coalition for Empowerment of Women organized by the Cabinet Office of Japan, and the Kanagawa Women’s Empowerment Support Organization.

During the leader meetings, we volunteer our own thoughts and initiatives regarding efforts to promote female empowerment, both internally and externally.



## • Signatories and Certifications related to Women’s Empowerment



## • Annual Training for Employees

We offer online video instruction covering basic knowledge on LGBTQ issues, movie showings, workshops, and training led by invited lecturers from the LGBTQ community, among other activities, in an effort to promote an accurate understanding of LGBTQ concerns.

## • LGBTQ-related Certifications



2022 PRIDE Index\*3 Gold Award

\*3 The PRIDE Index defines evaluation items for the five indicators of Policy (action declarations), Representation (LGBTQ community), Inspiration (awareness-raising activities), Development (human resource systems and programs), and Engagement/Empowerment (social contributions and public relations activities), based on which it evaluates corporate initiatives.

## FOCUS

## Promoting the Active Participation of People with Disabilities

## Special Subsidiary FANCL SMILE Co., Ltd.

In February 1999, FANCL SMILE Co., Ltd. was established as a special subsidiary with the aim of not only protecting people with disabilities, but also helping people with intellectual disabilities (who have fewer employment opportunities than those with physical disabilities) to become independent as members of society. Starting with the Iijima Building in 1999, we have created jobs by expanding our work locations to the Chiba Factory and Kanto Logistics Center in 2019, and the Kansai Logistics Center in February 2021. The origin of our company name comes from our belief that what unites people, regardless of disability, is a “smile.”

In addition to FANCL Group packaging cosmetics as well as



supplements and direct mail enclosure and shipping work, the Company has expanded new opportunities to include cookie production and sales as well as cleaning work involved in cosmetics container collection and recycling.

## Associate Regular Employee (Hiring New Graduates with Disabilities)

We established a new regular employment category in 2019 that allows those who require nursing care, suffer from a physical illness requiring long-term medical care, or have a physical disability to work flexibly during the hours and days they desire. We are also promoting flexible work styles and further strengthening diversity.



Maya Tanizawa

Salary & Benefits Group  
Personnel Department, Administration  
Headquarters

I am mainly in charge of running the company cafeteria. In recent years, the cafeteria has received an increasing number of requests to provide special menus in conjunction with various company events and proposals for projects that make effective use of the space. The changing nature and expanding role of the cafeteria makes the job very rewarding.



Yuta Oba

Legal Group  
Legal Department,  
Administration Headquarters

I am mainly responsible for storing various contracts related to inter-business transactions. As my work duties increase, I have to expand my knowledge encompassing a wide range of matters, but find it rewarding to be entrusted with more responsibility. I very much want to continue taking on new challenges.

## Art Event for the Disabled Held

We held the “No Border Art Gallery: Transcending Barriers to a New Era,” an art exhibition featuring works by people with disabilities, at the flagship store FANCL Ginza Square in August 2022. In September 2022, we sold items such as Art Brut\* *furoshiki* (wrapping cloths) to support the success of people with disabilities.

\* Art Brut: French for “raw art,” this term refers to paintings and sculptures that freely express artists’ ideas and are not bound by existing artistic concepts or trends.



## Relationships with People with Disabilities and What Makes FANCL Unique

The FANCL Group has a long history of working with people with disabilities. Starting with the establishment of FANCL SMILE in 1999, we have created a cooperative internal working environment for each of our employees to demonstrate their abilities by establishing an associate regular employee system in 2019.

Group employees feel very close to people with disabilities, and it is this awareness of inclusivity and fostering conditions for normal daily interactions in a variety of situations that has unknowingly shaped this sense of closeness. There are unlimited opportunities for people with disabilities to play an active role depending on their challenges. This is the “what makes FANCL unique.”

Osamu Minoshima

President, Representative Director  
FANCL SMILE Co., Ltd.



## • FANCL Kanagawa SDGs Seminar

Launched in 2021, the FANCL Kanagawa SDGs Seminar is a lecture program that discusses the concept of the SDGs together with local children mainly in Kanagawa Prefecture. The program includes one-off seminars, long courses, and summer vacation courses. Through discussions and presentations on the Company's three key themes of the “Environment,” “Healthy Living,” and “Local Communities and Employees,” the program provides participants with an opportunity to think about what they can do to spur on action.

Through the long-term courses, high school students and FANCL collaborate on product development from an SDGs perspective. In FY Mar/2023, FANCL worked with Toin Gakuen High School mainly on package development.

## Awards Received

- Ministry of Education, Culture, Sports, Science and Technology Fiscal Year 2022 Award in the large company category of the Youth Experience Activity Promotion, Judging Committee Honorable Mention
- Ministry of Economy, Trade and Industry 12th “Career Education Award” \* Large-company Department Encouragement Award
- 2nd Sotokoto SDGs Award 2022 Gold Medal

## • FANCL Seminars

FANCL launched its makeup seminars in 1988, engaging in a variety of activities that have brought it closer to customers.

At the present time, we are holding free FANCL seminars, for example, for the visually impaired, special-needs education, and cancer patients. We held FANCL Seminars 44 times with 641 people participating in FY Mar/2023.



A FANCL SMILE employee serving as a lecturer



Toin Gakuen + FANCL SDGs Project



## FY Mar/2023 Achievements

One-off seminar (elementary, junior, high school students): 39 times, 6,184 participants

Long course (high school students): 8 times, 20 participants

Summer vacation course (elementary school students): 1 time, 33 participants

Special course: 1 time each in Kanagawa and Fukuoka, 216 participants



## • Donation Activities Involving Customers, Shareholders, and Employees

We value collaboration with various stakeholders to solve social issues. We engage in donation activities through “customer donations of loyalty points,” “donations through shareholder special benefits,” and employee donations to the “Can Achieve More Fund.”

## FY Mar/2023 Achievements

Customer donations of loyalty points: 2,035 people, ¥3,365,981

Donations through shareholder special benefits: 569 people, ¥1,809,000

Can Achieve More Fund: 26 donations, ¥7,900,000

\* Amount including matching donation from FANCL



For details of the donation report:

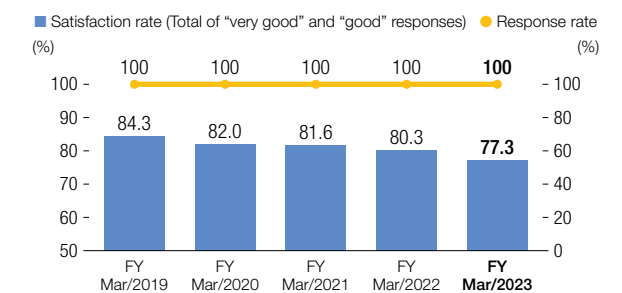
## Employee Satisfaction

With the aim of verifying employee engagement, such as management stance and job satisfaction, we have been conducting a questionnaire for management once a year since FY Mar/2015.

In FY Mar/2023, the rate was lower than the previous year due to the effects of the prolonged COVID-19 pandemic, but the level of satisfaction remained high.

Starting in 2021, “meetings to talk about the future together” are a forum through which we think about “the Earth, FANCL, and our own future” through dialogue between the president and various employees. The president is taking the initiative in creating an atmosphere that encourages employees to work positively toward the future, and various ideas and opinions are starting to be heard (around 600 participants as of the end of March 2023).

## Results from Employee Satisfaction Rate Survey



## Question content

(1) Salary, (2) Work, position, (3) Future of FANCL, (4) Working at FANCL, (5) Workplace relationships, (6) Management's stance on management

\* Employee satisfaction survey results are designated as one of the non-financial indicators of the performance-linked, stock-based compensation plan, which is used as a medium-term incentive in executive compensation (for details please see P. 44).



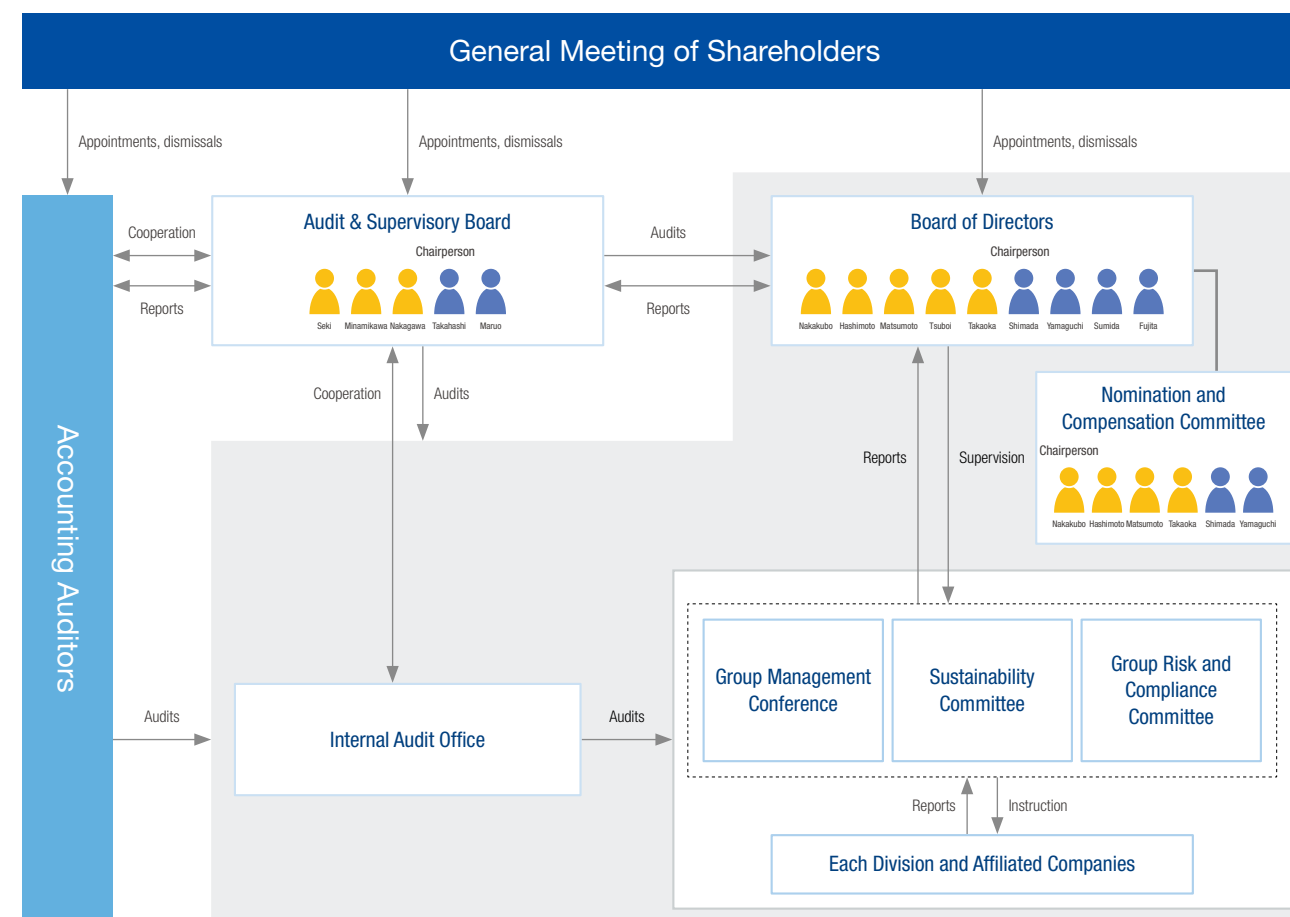
## Features of FANCL's Corporate Governance

- Adopted an Audit & Supervisory Board System
- Established a Nomination and Compensation Committee
- Four of nine are independent outside directors
- Nomination and Compensation Committee chaired by an independent outside director

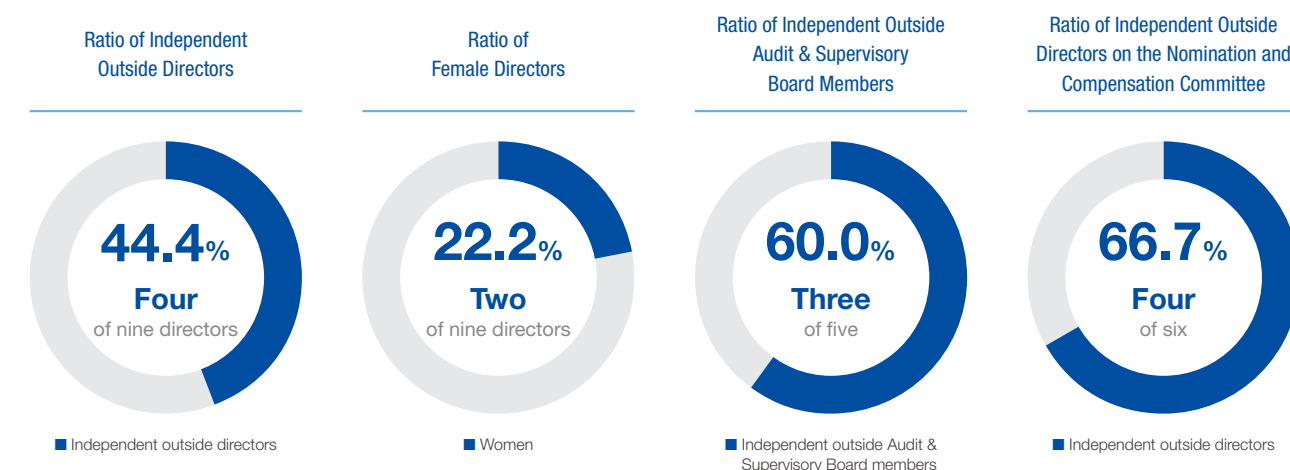
## Corporate Governance Structure

(As of June 24, 2023)

Outside Inside



## Composition of the Board of Directors, Audit & Supervisory Board, and the Nomination and Compensation Committee



## Sustainability Governance

### • Sustainability Management Structure

In October 2021, we established the Sustainability Committee with the aim of placing sustainability at the core of our management and improving our corporate value over the medium to long term by achieving the goals we have set for our priority issues. Chaired by the President & CEO, Representative Director, the Committee is composed of executive directors and executive officers, meets quarterly, and reports to the Board Directors twice a year. In addition to prior deliberation on the policies and strategies to be resolved at Board of Directors' meetings to enable the Board of

Directors to fulfill its supervisory and monitoring functions, the Committee manages and evaluates the progress made toward goals and conducts deliberations on measures. In FY Mar/2023, steps were taken to manage and evaluate the Group's progress in enhancing information disclosure based on the TCFD recommendations, reducing CO<sub>2</sub> emissions (introducing carbon neutral gas and improving the accuracy of Scope 3 calculations), expanding container collection and recycling to reduce plastic use, adopting certified palm oil, and engaging in sustainable procurement. Details of progress was then reported to the Board of Directors.



## Sustainability Committee Specific Deliberation Items

### About the Conduct of Business Partner Questionnaire Surveys on Sustainable Procurement

The Sustainability Promotion Office reported that a Business Partner Questionnaire Survey was posted online to ascertain the degree of compliance with the Supplier Guidelines. Of the approximate 450 business partners targeted under the questionnaire survey, responses were received from 304 business partners.

While around 70% of our business partners have formulated sustainable procurement policies, the status of their efforts differs depending on the size of each company and type of industry. Based on the responses received, explanations were provided, including the conduct of interviews on an individual business partner basis.

In light of these explanations, directors commented on the need to check the status of initiatives of business partners that have not yet responded as well as the importance of moving forward step by step, taking into consideration business partners beyond primary suppliers.

Based on the results of these discussions, the Sustainability Promotion Office decided to select business partners to be interviewed based on the questionnaire survey results and transaction details, as well as to take actions targeting those that have not yet responded. Going forward, we plan to strengthen our efforts to identify and address supply chain risks aimed at introducing management tools.

Looking to mutually exist and prosper with our business partners, we will face social issues together with the aim of realizing sustainable procurement.



### Protection of Minority Shareholders in Transactions with Controlling Shareholders, etc.

When the Company is to conduct related party transactions and/or transactions involving a conflict of interest, the Board of Directors first deliberates on important matters such as the transaction terms and conditions and makes its decisions based on Board meeting criteria.

Kirin Holdings Company, Limited currently holds 32.64% (39,540,000 shares) of FANCL's voting rights, and the Company is an equity-method affiliate of Kirin Holdings Company, Limited. In its transactions with Kirin Holdings Company, Limited, the Board of Directors deliberates and resolves that the terms and conditions of each transaction are not unfair compared to those with other third parties from the perspective of protecting minority shareholders.

## Governance

### Officer Compensation System

#### • Decision-Making Process for Compensation and Related Matters

The Company has in place a Nomination and Compensation Committee as an advisory body to the Board of Directors to actively involve the independent outside directors in the nomination of director candidates and in deciding officer compensation as well as to ensure the fairness, transparency and objectivity of procedures. The chairperson of the committee as well as the majority of its members are independent outside directors. In addition to matters relating to the nomination of directors and executive officers of the Company, the committee drafts the compensation system, deliberates on the amounts of compensation for each individual and submits its opinions to the Board of Directors.

Within the scope of his mandate, and following resolutions passed at shareholders' and Board of Directors' meetings, the President & CEO, Representative Director will respect the results of the Nomination and Compensation Committee's deliberations in determining, for example, individual compensation for directors, etc.

#### • Details of the Compensation System

Officer compensation consists of monthly compensation, which pays a fixed amount each month, stock-based compensation as a long-term incentive, and performance-linked, stock-based compensation as a medium-term incentive. The monthly

compensation is further divided into basic compensation, which is determined based on the weight of the officer's roles and responsibilities, and variable compensation that is determined each year on the basis of factors that include the degree to which the annual plan (operating income) in the previous fiscal year was achieved and an individual performance evaluation. In the case of outside directors, however, only basic compensation is paid.

The performance-linked, stock-based compensation plan grants to eligible directors the Company's shares and other financial instruments in accordance with factors that include the position held by the eligible director and the level of achievement of performance targets. The plan comprises two portions: a performance-linked portion, in which shares in the Company are delivered in accordance with the level of achievement of the Medium-Term Management Plan; and a fixed portion that is in accordance with the position held by the eligible director.

The performance-linked portion is positioned as a medium-term incentive for the realization of the Group's Medium-Term Management Plan. In addition to the achievement rate of financial indicators, compensation is determined from multiple perspectives. For the purposes of strengthening relationships with various stakeholders and contributing to society in a sustainable manner, we have adopted non-financial indicators, such as CO<sub>2</sub> emissions, employee engagement, and business partner evaluations.

The fixed portion is positioned as a long-term incentive to improve corporate value throughout the director's term in office.

#### Composition of compensation paid to the President & CEO, Representative Director

Form of payment	Monthly compensation		Medium-term incentive	Long-term incentive
	Monetary		Stocks + monetary*2	
Compensation composition ratio*1	Basic compensation 34%	Variable compensation 30%	Performance-linked portion*3 15%	Fixed portion 21%

└──────────┐  
Variable 45%  
Fixed 55%

\*1 The compensation composition ratio is an image calculated based on a certain level of the Company's earnings and share price, and will fluctuate according to the Company's earnings and share price.

\*2 50% of medium- and long-term incentives consist of the monetary portion and is paid as fund tax payments.

\*3 The performance-linked portion of the medium-term incentive is paid after the final fiscal year of the medium-term management plan.

#### Medium-term incentive performance-linked compensation index

Evaluation items	Evaluation index	Target value	Evaluation weight
Financial indicators	Net sales	¥120.0 billion	30%
	Operating income	¥15.0 billion	50%
	ROE	12.5%	10%
Non-financial indicators (ESG indicators)	CO <sub>2</sub> emissions	CO <sub>2</sub> emission target achievement rate of 100% or more	
	Employee engagement	Satisfaction rate of 80% or more	
	Business partner evaluations	Satisfaction rate of 90% or more	

\* Financial indicators: Evaluated based on actual results in the final year of the medium-term plan (FY Mar/2024)

\* Non-financial indicators: CO<sub>2</sub> emissions are evaluated based on the results of the final year of the medium-term management plan (FY Mar/2024), and other indicators are evaluated based on the average values of the three years of the medium-term management plan.

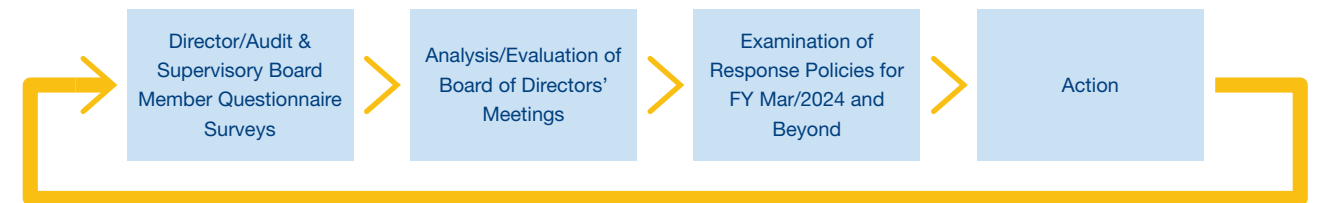
#### Officer Compensation, etc., in FY Mar/2023

Officer classifications	Total Compensation, etc. (¥ million)	Total compensation, etc., by type (¥ million)			Number of eligible officers
		Monthly compensation	Performance-linked stock compensation		
			Performance-linked grants		
			Performance-linked compensation	Fixed grant	
			Non-monetary compensation	Non-monetary compensation	
Directors	256	203	10	42	8
(Of whom Outside Directors)	(37)	(37)	(-)	(-)	(3)
Audit & Supervisory Board members	57	57	-	-	5
(Of whom outside Audit & Supervisory Board members)	(21)	(21)	(-)	(-)	(3)
Total	314	261	10	42	13
(Of whom outside officers)	(58)	(58)	(-)	(-)	(6)

(Note) The number of directors paid does not include unpaid directors (outside directors).

### Improving the Effectiveness of the Board of Directors

Every year since FY Mar/2016, directors and Audit & Supervisory Board members have been conducting self-evaluations of Board of Directors' meetings to gain a better understanding of the state of the Board and enable it to operate more effectively. In this manner, directors and Audit & Supervisory Board members are committed to continuous improvement.



#### Status of Dealing with Issues Identified in FY Mar/2021 and FY Mar/2022 Evaluations

1 Explanations in advance of Board of Directors' meetings	Recognizing that certain agenda items for advance explanation were identified as extraordinarily detailed, we strictly classified these items according to their level of importance and took steps to ensure their handling in a more streamlined and efficient manner in FY Mar/2023.
2 Regular monitoring of important themes	In light of the stated opinion that it would be a good idea to consider regularly discussing and monitoring important themes such as overseas business, we focused on the Chinese supplement business as well as the BRANCHIC and boscia cosmetics brands and reported to the Board of Directors on other important themes, which included such items as sustainability, risk, and compliance in FY Mar/2023.
3 More active non-business discussions	Taking into consideration the stated opinion regarding the desire to have more active discussions on matters other than business, such as governance and the strengthening of organizational capabilities, the Board of Directors held discussions on human capital management and its intellectual property strategies in FY Mar/2023.

#### Results of FY Mar/2023 Board Effectiveness Evaluations

Analysis/Evaluation of Board of Directors' Meetings	
Management of the Board of Directors	The number of agenda items, their content, and time allotted for deliberation are appropriate. Moreover, operations have evolved over the years, including advance explanation of important agenda items as well as reporting to the Board of Directors the gist of opinions expressed at the time advance explanations are provided.
Structure of the Board of Directors	Balanced from the perspective of business execution/non-execution. Each director is also appointed in a well-balanced manner based on their expertise. Diversity in terms of gender is also being promoted.
Board of Director Discussions	There is an atmosphere in which frank opinions are welcomed, and outside directors do not hesitate to engage in extremely lively discussions. Comments from outside the Company are being appropriately reflected in the execution of business. Systems for reporting from the Sustainability Committee and the Group Risk and Compliance Committee have been put in place. It was particularly good that important risks were reported to the Board of Directors and discussed.

Issues	
Management of the Board of Directors	Since the explanatory materials are sometimes extraordinarily detailed, it is necessary to be aware of the important points in making management decisions and to devise ways to make them more concise.
Structure of the Board of Directors	The appointment of female directors from within the Company is an issue for consideration over the medium to long term. Following the introduction of a succession plan, it may be possible to carry this out in a systematic manner in the years to come. There is some debate about whether the ratio of outside directors should be in the majority, but at this point in time this structure is functioning, so the feeling is that there is no real benefit to be gained.
Board of Director Discussions	FANCL calls for more medium- and long-term discussions going forward. It would be even better if the important opinions voiced by internal directors at, for example, management conferences were shared at Board of Directors' meetings.



Director and Audit & Supervisory Board Member Skill Matrix

In light of FANCL's management strategies, the Nomination and Compensation Committee identifies the skills that the Company's Board of Directors and each officer should possess and, after deliberation by the Committee, selects officer candidates.

Skill Definitions

Skill	Description	Reasons for Selection of Skill Items
Understanding of Management Philosophy	Understands the FANCL Group's Founding Philosophy and Corporate Philosophy.	Since its founding, the Company has continued to embody its founding philosophy and management philosophy and grow as a "company that provide solutions to social issues." The basic principles of FANCL's corporate activities are that we turn our eyes to the "negatives" and try to eliminate them with sensitivity and originality. The Company, therefore, selects the understanding of the founding philosophy and corporate philosophy as an important requirement for the Company's management.
Corporate Management (Representative Director experience)	Possesses the experience and skills of a representative director.	The Company has a business model of an integrated manufacturing and sales and has continued to grow through the development of several businesses and multi-channel sales. In the management of a wide range of organizations, the management of businesses, and the operation of organizations, comprehensive judgement is required. The Company, therefore, selects the experience of corporate management as a required skill.
ESG, Sustainability	Possesses knowledge, experience, and skills in non-financial factors that support corporate sustainability, such as ESG issues.	In the Company's founding philosophy, ESG management perspectives are essential. With the aim to contributing to the realization of a sustainable society and the achievement of sustainable growth for the Company, the Company has identified "Environment," "Healthy Living," and "Local Communities and Employees" as key initiative themes. To solve their respective issues and achieve the goals, the Company selects experience, insight and expertise, etc., regarding ESG as a required skill. (In the event that a candidate possesses one of E, S, and G, or several of them, ○ is marked.)
Manufacturing, Technology, R&D	Possesses knowledge, experience, and skills in research and development, technology, and the pursuit of safety and security.	The Company, as a research and development manufacturer that handles every aspect of its business, from research and development to production and sales, creates products that reflect the needs and voices of its customers, and achieves "Upholding Quality." The Company selects solid knowledge and experience in fields, from research on solutions to eliminate new "Negatives," development of products that are attuned to the "Negatives" of customers, to manufacturing that provides thorough safety and security, as a required skill.
Corporate Finance	Possesses knowledge, experience, and skills in corporate finance.	Not only accurate financial information but also the establishment of robust financial base are important as is the development of financial strategies that aim to achieve the strengthening of shareholder return targeted to enhance sustainable corporate value. The Company, therefore, selects solid knowledge, experience, and skills in corporate finance field as a required skill.
Quality & Safety, Compliance, Risk Management	Possesses knowledge, experience, and skills in quality & safety, compliance, and risk management.	Based on its founding philosophy and management philosophy, the Company has responsibilities for providing products and services that earn trust and satisfaction: a key theme related to corporate survival. The Company, therefore, selects this knowledge and experience as a required skill.
Brand Strategy, Marketing, Sales	Possesses knowledge, experience, and skills in brand strategy, marketing, and sales.	The Company is committed to eliminating the "Negatives," focusing mainly on its cosmetics-related and nutritional supplements-related businesses. It has been developing multiple channel sales in tune with the times, including mail order, direct store, wholesale, and overseas. Furthermore, in terms of products, services, etc., offering added value generates customer satisfaction and improvements in sustainable corporate value. The Company, therefore, selects the knowledge and experience as a required skill.
IR (dialogue with shareholders and investors)	Possesses knowledge, experience and skills in IR activities for shareholders and investors.	To be a company that earns the trust of shareholders and investors, the Company is implementing corporate activities and information disclosure in a fair and transparent manner. In terms of IR, the Company focuses on dialogue with shareholders and investors and makes use of their opinions in management and IR activities, bringing about improvements in corporate value. The Company, therefore, selects knowledge and experience in IR as a required skill.
ICT, Digital Technology, Digital Transformation	Possesses knowledge, experience and skills in ICT, Digital Technology and Digital Transformation.	The Company engages in promoting OMO that is unique to FANCL and continuing to create strong "bonds" with customers in its CRM strategy. As that basis, IT systems are important and essential; the Company, therefore, selects knowledge, experience and skills in promotion of DX, practical use of ICT, etc. as a required skill.
Global Experience, Overseas Business Management	Possesses knowledge, experience and skills in overseas assignments or overseas business support and management.	The Company aims to help customers lead beautiful, healthy, and prosperous lives, not only in Japan, but across the world. To promote the Company's global development, the Company selects this knowledge and experience as a required skill.

Skill Matrix

(Notes) Except for "Understanding of Management Philosophy," up to four main skills that each candidate possesses are marked with "○."Among them, the skills that possess particularly deep insight are marked with "◎."

Name	Position within the Company	Nomination and Compensation Committee. ★Chairman	Understanding of Management Philosophy	Corporate Management (Representative Director experience)	ESG, Sustainability	Manufacturing, Technology, R&D	Corporate Finance	Quality & Safety, Compliance, Risk Management	Brand Strategy, Marketing, Sales	IR (dialogue with shareholders and investors)	ICT, Digital Technology, Digital Transformation	Global Experience, Overseas Business Management
Kazuyuki Shimada	President & CEO, Representative Director	☆	●	◎					○	○	○	
Tomochika Yamaguchi	Representative Director, Senior Managing Director	☆	●	○					◎		○	○
Yasushi Sumida	Executive Managing Director		●		○	◎		○				
Shinro Fujita	Executive Managing Director		●	○			○		○			◎
Mitsuaki Nakakubo	Director	★	●					◎		○		○
Keiichiro Hashimoto	Director	☆	●	◎			○				○	○
Akira Matsumoto	Director	☆	●	○			◎					○
Junko Tsuboi	Director		●	○	○				◎	○		
Mika Takaoka	Director	☆			○				◎			
Seiichiro Takahashi	Audit & Supervisory Board Member		●		○			◎				
Naoya Maruo	Audit & Supervisory Board Member		●	○			○	◎				
Tsuneyoshi Seki	Audit & Supervisory Board Member		●	○			◎	○		○		
Hideki Minamikawa	Audit & Supervisory Board Member		●	○	◎			○				○
Miyuki Nakagawa	Audit & Supervisory Board Member		●					◎				

Risk Management

Risk Management System

With the aim of ensuring the appropriateness of internal control and improving Company-wide risk and compliance management, the Compliance Committee and Internal Control Committee were integrated and the Group Risk and Compliance Committee established in May 2022. The Group Risk and Compliance Committee, the Sustainability Committee, and the Group Management Conference, which is under the control of the Corporate Planning Division are responsible for managing the risks associated with each respective committee.

Risk Identification Process

On the basis of management and business plans, at the beginning of the fiscal year these committees/meetings and related departments conduct deliberations and extract business and other risks, after which we assess the importance of each risk by analyzing impact and urgency. The identified and analyzed risks are reported to the Board of Directors, the members of which then decide on the important risks for the FANCL Group. The status of response to the determined important risks is also reported to the Board of Directors as appropriate, and the Board of Directors verifies the effectiveness of those responses. For unresolved risks, we conduct reviews of our responses to those risks by taking further action. The risks that were decided to be of importance are also reviewed as appropriate.

Business and Other Risks

Degree of impact: Comprehensively judge the three items of loss, shutdown period, and loss of trust, and classify as S or A Urgency: Categorized as high or low or the need for urgent action		
Impact \ Urgency	Low	High
S	⑥ Competition/Changes in consumer behavior, lifestyle values ⑦ Climate change/Environmental issues ⑧ Infectious diseases	① Overseas business development/Geopolitics ② Legal regulations/Compliance ③ Manufacturing, quality control ④ Personal information/Information management/System failures ⑤ Natural disasters, accidents
A	⑪ Exchange rate fluctuations ⑫ Securing and cultivating of talented employees	⑨ Reputational damage/Reputation ⑩ Raw material procurement/Business partners

(Main Risks and Countermeasures)

Item	Specific risks	Main countermeasures
①	● Impact of geopolitical issues such as US-China trade friction and Japan-China relations ● Violations of laws and regulations due to inadequate governance of overseas subsidiaries	● Optimized sales balance in each region by reinforcing expansion in Asia other than China, Europe, and the United States ● Governance system enhancements for overseas subsidiaries
②	● Violation of advertising display regulations ● Violation of bribery, labor, and other applicable laws and regulations	● Supervision of the status of compliance by the Group Risk and Compliance Committee and regular reporting to the Board of Directors ● Conducted regular compliance training for employees ● Early detection and resolution of problems by receipt of internal reports
③	● Adverse effects on skin/physical condition due to product ingestion ● Product recalls due to quality problems, suspension of operations, etc.	● Manufacturing, quality control systems incorporating ISO and GMP mechanisms
④	● Suspension of business due to targeted attacks, etc. ● Information leaks due to cyberattacks, internal fraud, etc.	● Reinforced IT security measures by establishing the IT Security Working Group ● Compliance with relevant laws, guidelines, etc., and internal regulations, enhancement of information management system, and thorough employee training
⑤	● Functional suspension of operations at the Company's head office, factories, distribution centers, etc., due to the incidence of a disaster ● Shortage of germinated brown rice and kale juice raw materials due to the weather	● Formulation of an all-hazard business continuity plan ● Diversification of suppliers, production/distribution systems in multiple locations
⑥	● Insufficient response to changes in consumer values, decline in competitiveness due to the introduction of new products by competitors, etc.	● Product development based on customer needs and market surveys ● Creation of new businesses ● Multi-channel sales
⑦	● Flood damage due to global warming ● Tighter regulations for reducing CO <sub>2</sub> emissions, reduction in plastic usage, etc. ● Changes in consumer needs regarding environmental issues, changes in reputation among investors	● Setting of priorities for sustainability ● Progress management, evaluation, deliberation of individual measures by the Sustainability Committee for priority issues, and supervision and monitoring by the Board of Directors
⑧	● Business suspension and store closures due to the spread of infectious diseases	● Building of systems that enable business continuity ● Multi-channel sales
⑨	● Flood of postings on official accounts as well as the Company's words/actions ● Loss of brand image due to the circulation of counterfeit goods	● Formulation and internal knowledge/awareness of the crisis management response manual relating to SNS operations, and employee training ● Dealing with counterfeit goods through various measures including the suspension of imports in collaboration with customs
⑩	● Instability of raw material procurement brought about by soaring raw material prices due to the global economy or other factors, and dependence on specific suppliers ● Damage to brand image due to the failure to achieve socially expected sustainable procurement	● Reduction of risk from rising raw material prices through cost reductions and advance purchases, etc. ● Multi-supplier (multiple purchasing), multi-hub (multiple manufacturing bases), switching between two distribution bases ● Confirmation of working environments, etc., at suppliers through questionnaire surveys and interviews ● Procurement that shows consideration for the environment, such as the active adoption of sustainable palm oil
⑪	● Impact of exchange rate fluctuations on foreign currency-denominated transactions and the conversion of financial statements of foreign subsidiaries into Japanese yen	● Appropriate forward exchange contracts, etc.
⑫	● Shortage of human resources due to changes in the hiring environment, stagnation of business activities due to inadequacies in training	● Creation of comfortable working environments ● Systematic human resource development

## Message from an Outside Director

# Leveraging Knowledge Gained from Corporate Restructurings to Support New Challenges by FANCL

### Expectations on the Outside Directors

I believe the FANCL management team expects two things of me as an outside director. The first is to suggest strategies and measures that will contribute to future growth for FANCL based on my experience with various consulting services regarding corporate restructuring. The second is to help the internal management team become more aware from an objective perspective using my knowledge as an outside certified accountant.

### Strengths of and Challenges for FANCL

From my point of view, FANCL possesses two major strengths. The first is the fact that the founding philosophy of Eliminate the "Negatives" with a Sense of Justices is both deeply ingrained in all of the Company's executive, as well as employees. In responding sensitively to the new "negatives" that arise as the world undergoes a series of major changes, every employee continuously pursues products and services that address these negatives. This management concept has recently been termed purpose-driven

management, and although this approach has been proven to generate long-term growth in corporate value, the fact that FANCL has practiced this approach to management since its founding as a matter of course is a major strength.

The second is that FANCL possesses competitive, alluring products in the two areas of cosmetics and nutritional supplements. Another point I should mention here is the many FANCL fans among its customers. In order to eliminate the "negatives," FANCL has developed preservative-free cosmetics and high-quality, affordable nutritional supplements, and has grown in turn as a product-oriented company. On the other hand, as part of this process it has also considered ways of ensuring its customers use these products with comfort and peace-of-mind, and truly values its customers through close communication. In this way, FANCL has encouraged customers who were initially fans of its products to become fans of the Company itself. Possessing an unshakeable level of trust among its customers built up over many years, I regard FANCL as a customer infrastructure company. And I believe it is this very infrastructure that is FANCL's greatest intangible asset, the basis for all of its business activities, and something which will emerge as a driver of future growth.

On the other hand, I feel one issue for FANCL is the gradually advancing age of its customer base. In order for FANCL to continue sustained growth into the future, it must expand its fan base by ensuring that new customers from younger generations also use more and more of its products and services. For this

reason, the key is the open ideas of younger generations that are not caught up in past success stories and preconceived notions. It mostly seems to me that until now FANCL has operated in a top-down fashion, with talented managers leading employees. The current management team, however, is focused on creating an environment that allows all employees to voluntarily take on new challenges and flourish, in part to expand the fan base among younger generations going forward. I hope to see these self-directed challenges produce results, as well as the growth of a bottom-up company and organization.

### Evolving into a More Sophisticated Governance Structure

As it evolves into a sophisticated governance structure that successfully brings together the wisdom of all directors, the current Board of Directors is seeing yearly progress in improvements to its management approach, as well as the development of a free-spirited atmosphere that also allows the outside directors to present harsh opinions. As far as DX, human capital enhancements, and other major trends in society are concerned, I think it is a positive that the outside directors have taken the lead on theme-based sessions to discuss these topics, and that these discussions are reflected in management plans. In FY Mar/2023, the Board of Directors codified the succession plan defining the human resources requirements for future CEO candidates and future director candidates. As a result of thoroughgoing discussions, the Board included many unique qualifications as part of these human resources requirements, including the ability to embody the founding philosophy and the corporate philosophy, as well as possessing a deep love of FANCL. Detailed in a way that acutely conveys the expectations on future management teams, I believe this plan will contribute significantly to the sustainability of management.

### In Conclusion

FANCL possesses many of the elements required to enable sustainable growth. Its employees are flush with compassion and the ability to cooperate, and all are decent people. In order to drive innovation that realizes major progress, however, FANCL must further upgrade and expand its field of view and turn its sights to the outside.

For example, I feel it would be interesting to boldly employ outside talent with completely different sensibilities. In other words,



### Profile

After entering Sumitomo Bank (currently Sumitomo Mitsui Banking Corporation) in 1994, Akira Matsumoto joined KPMG Century Audit Corporation (currently KPMG AZSA LLC.) in 1999. He is currently involved in many corporate restructuring advisory projects as the President and Representative Director of MIT Corporate Advisory Services CO., LTD. (Registered as a certified public accountant in 2003)

by incorporating foreign elements that had not previously existed within the organization, subsequent unexpected chemical reactions might evolve organizations away from ones in which ideas tend to become rigid. Similarly, I also expect much from alliances with other companies possessing completely different business lines and cultures. FANCL offers many strong products, so if it is able to better deploy tie-up products with other companies, the potential would be immeasurable. This approach naturally coincides with major challenges, which is why I will continue to fully leverage my network, experience, and knowledge with the intent of supporting FANCL to the best of my ability as an outside director.



Outside Director  
(Independent Officer)

Akira Matsumoto



# Directors and Audit & Supervisory Board Members (As of June 24, 2023)

## Directors



President & CEO, Representative Director  
Kazuyuki Shimada



Representative Director, Senior Managing Director  
Tomochika Yamaguchi



Executive Managing Director  
Yasushi Sumida



Executive Managing Director  
Shinro Fujita

## Audit & Supervisory Board Members



Audit & Supervisory Board Member  
Seiichiro Takahashi



Audit & Supervisory Board Member  
Naoya Maruo

## Outside Directors



Outside Director (Independent Officer)  
Mitsuki Nakakubo

**April 1995** Registered as an attorney (under Daini Tokyo Bar Association) (Current registration)  
**January 2001** Partner of Asahi Law Offices (Current position)  
**April 2008** Member, Regular Meeting, Daini Tokyo Bar Association  
**June 2017** Outside Company Auditor of Nippon Kodo Holdings Corporation (Current position)  
**June 2019** Outside Director of the Company (Current position)  
**March 2021** Outside Director of Nikkiso Co., Ltd. (Current position)



Outside Director (Independent Officer)  
Keiichiro Hashimoto

**April 1974** Entered The Mitsubishi Bank, Ltd. (currently MUFG Bank, Ltd.)  
**June 2001** General Manager of Global Business Division of The Bank of Tokyo-Mitsubishi, Ltd. (currently MUFG Bank, Ltd.)  
**June 2003** Representative Member of the Board, Vice President and CFO of MITSUBISHI MOTORS CORPORATION  
**June 2005** Senior Executive Vice President of SEGA SAMMY HOLDINGS INC.  
**June 2010** Chairman and President of Metropolitan Expressway CO., Ltd.  
**May 2014** Vice President and COO of Shioya Tochi Co., Ltd.  
**June 2015** Audit & Supervisory Board Member of HIGASHI-NIPPON BANK, Ltd.  
**April 2016** Outside Audit & Supervisory Board Member of Concordia Financial Group, Ltd. (Current position)  
**April 2019** Vice Chairman & President of Japan Association of Corporate Executives  
**June 2020** Outside Director of the Company (Current position)  
**June 2021** Outside Director of Maeda Road Construction Co., Ltd. (Current position)  
**October 2021** Outside Director of INFRONEER Holdings Inc. (Current position)



Outside Director (Independent Officer)  
Akira Matsumoto

**April 1994** Entered Sumitomo Bank (currently Sumitomo Mitsui Banking Corporation)  
**October 1999** Entered KPMG Century Audit Corporation (currently KPMG AZSA LLC.)  
**April 2003** President and Representative Director of MIT Corporate Advisory Services CO., LTD. (Current position)  
**May 2003** Registered as a certified public accountant  
**June 2020** Outside Auditor of DESCENTE LTD. (Current position)  
**June 2020** Outside Director of the Company (Current position)

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## Outside Directors



Outside Director  
Junko Tsuboi

**April 1985** Entered Kirin Brewery Company, Limited (currently Kirin Holdings Company, Limited)  
**March 2005** General Manager of Corporate Communications Dept. of Kirin Beverage Company, Limited  
**March 2010** President and Representative Director of YOKOHAMA RED BRICK WAREHOUSE Co., Ltd.  
**March 2012** General Manager of CSR Management Dept. and General Manager of Corporate Communications Dept. of Kirin Holdings Company, Limited  
**January 2013** General Manager of Corporate Brand Management Dept. of CSV Div. of Kirin Company, Limited  
**March 2014** Executive Officer, General Manager of Corporate Brand Management Dept. of CSV Div. of Kirin Company, Limited  
**April 2016** Executive Officer, General Manager of Corporate Brand Management Dept. of Kirin Company, Limited  
**March 2019** Senior Executive Officer and General Manager of Corporate Brand Management Dept. of Kirin Holdings Company, Limited  
**June 2020** Outside Director of the Company (Current position)  
**March 2022** Senior Executive Officer of Kirin Holdings Company, Limited  
**March 2023** Director of the Board, Senior Executive Officer of Kirin Holdings Company, Limited (Current position)



Outside Director (Independent Officer)  
Mika Takaoka

**April 2001** Assistant Professor of Institute for Economic Research, Osaka City University (currently Osaka Metropolitan University)  
**April 2002** Assistant Professor of College of Economics, Rikkyo University  
**April 2006** Assistant Professor of College of Business, Rikkyo University  
**April 2007** Associate Professor of College of Business, Rikkyo University  
**April 2009** Professor of College of Business, Rikkyo University (Current position)  
**June 2014** Outside Director of MOS FOOD SERVICES, INC. (Current position)  
**June 2015** Outside Director of Kyodo Printing Co., Ltd. (Current position)  
**June 2018** Outside Director of SG HOLDINGS CO., LTD. (Current position)  
**May 2019** Outside Director of FamilyMart UNY Holdings Co., Ltd. (currently FamilyMart Co., Ltd.)  
**June 2023** Outside Director of the Company (Current position)

## Outside Audit & Supervisory Board Members



Outside Audit & Supervisory Board Member (Independent Officer)  
Tsuneyoshi Seki

**March 1991** Registered as a certified public accountant  
**August 1995** Joined Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC.)  
**June 2003** Partner in Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC.)  
**July 2014** Head of Tsuneyoshi Seki Certified Public Accountant Office (Current position)  
**August 2014** Representative Director and President of Knowledge and Solution Consulting (Current position)  
**June 2016** Outside Audit & Supervisory Board Member of the Company (Current position)  
**March 2021** Partner in Accounting Corporation TENYU (Current position)



Outside Audit & Supervisory Board Member (Independent Officer)  
Hideki Minamikawa

**April 1974** Joined Japan's Environment Agency (currently Ministry of the Environment)  
**January 2011** Administrative Vice-Minister of the Environment  
**July 2013** Advisor, Japan's Ministry of the Environment  
**June 2014** President of the Japan Environmental Sanitation Center (Current position)  
**June 2017** Outside Audit & Supervisory Board Member of the Company (Current position)



Outside Audit & Supervisory Board Member (Independent Officer)  
Miyuki Nakagawa

**April 1990** Public Prosecutor, Tokyo District Public Prosecutors Office  
**April 2008** Counsellor, Judicial System Department of Minister's Secretariat, Ministry of Justice  
**January 2011** Counsellor, Cabinet Secretariat, Assistant Chief Cabinet Secretary Office  
**April 2013** Public Prosecutor, Tokyo High Public Prosecutors Office  
**April 2019** Professor at Chuo Law School, Chuo University (Current position)  
**April 2019** Registered as an attorney  
**May 2019** Representative of Kosui Law Office (Current position)  
**June 2019** Outside Director of NITTO KOGYO CORPORATION (Current position)  
**June 2021** Outside Director of Nissan Chemical Corporation (Current position)  
**June 2021** Outside Audit & Supervisory Board Member of the Company (Current position)  
**June 2022** Outside Audit & Supervisory Board Member of Shinsei Bank, Ltd. (currently SBI Shinsei Bank, Ltd.) (Current position)  
**August 2022** Outside Audit & Supervisory Board Member of ASKUL Corporation (Current position)

## Executive Officers

### Senior Executive Officers

Kazumasa Wakayama General Manager of FANCL Research Institute

Yuna Akashi General Manager, Store Sales Division

Yoshihisa Hosaka President, Representative Director, Attenir CORPORATION

Junji Nagasaka President, Representative Director, FANCL B&H CORPORATION

Nobuyuki Uematsu General Manager of Information Technology Division

Akiko Matsugaya General Manager, Customer Service Division

Kengo Muraoka General Manager, Direct Sales Division; General Manager, New Life Business Department

### Executive Officers

Koichi Matsumoto

Hiroaki Hori

Tomoko Saito

Jun Saito

Makoto Doumoto

Yuhei Komine

Maho Yamamoto

General Manager, The Office of the President; General Manager, Secretary Department

General Manager of International Business Division; General Manager, Supervisory Office of Overseas Branches; General Manager, International Business Department; Managing Director of FANCL ASIA (PTE) LTD

General Manager, Health Food Division

General Manager, Wholesale Division

General Manager, Cosmetics Division; General Manager, Cosmetics Business Promotion Department; President, Representative Director, NEOF CORPORATION

General Manager, Corporate Planning Division

General Manager, Sustainability Management Division

# 11-Year Financial / Non-financial Summary

## Structural Reform Period

- Elimination of unprofitable businesses
- Reinforcement of wholesale channels, etc.

## The 1st Medium-Term Management Plan “Advertising-led Growth Strategy”

- Strategic investments in Advertising
- Expanding wholesale sales and direct store channels as part of our efforts to ensure that advertising produces the maximum effect

## The 2nd Medium-Term Management Plan ACTION 2020

- Maintain a growth trajectory, raise profitability
- Establish a robust platform for overseas growth

## The 3rd Medium-Term Management Plan FORWARD 2023

- Aiming for sustainable growth in Japan and overseas while adapting to social changes.

(¥ million)	FY Mar/2013	FY Mar/2014	FY Mar/2015	FY Mar/2016	FY Mar/2017	FY Mar/2018	FY Mar/2019	FY Mar/2020	FY Mar/2021	FY Mar/2021 <sup>*1</sup>	FY Mar/2022	FY Mar/2023	(¥ million)
<b>Financial data</b>													<b>Financial data</b>
<b>Fiscal year</b>													<b>Fiscal year</b>
Net sales	82,807	81,118	77,632	90,850	96,305	109,019	122,496	126,810	114,909	105,146	103,992	103,595	Net sales
Cosmetics	46,721	47,525	47,471	55,016	56,926	66,048	71,599	75,891	65,140	59,221	58,809	57,448	Cosmetics
Nutritional Supplements	26,601	25,386	23,285	28,612	32,085	35,933	43,919	44,006	41,191	37,854	38,471	39,871	Nutritional Supplements
Other Businesses	9,484	8,207	6,876	7,221	7,294	7,037	6,977	6,911	8,578	8,071	6,710	6,276	Other Businesses
<b>Results by sales channels</b>													<b>Results by sales channels</b>
Online and catalogue sales	40,133	39,696	36,545	40,078	43,037	46,206	46,806	49,896	56,813	54,071	52,902	54,318	Online and catalogue sales
Direct store sales	22,310	23,286	23,310	28,016	28,637	34,780	43,605	42,687	26,650	20,404	20,179	18,043	Direct store sales
Wholesale sales	11,873	10,216	11,356	14,573	16,388	17,813	21,676	23,549	20,970	20,361	19,444	21,480	Wholesale sales
Overseas sales	8,490	7,919	6,419	8,182	8,242	10,219	10,408	10,675	10,475	10,309	11,465	9,753	Overseas sales
Gross profit	55,528	55,393	54,295	63,878	67,810	77,431	87,378	90,543	81,110	69,948	69,116	69,213	Gross profit
Gross profit margin (%)	67.1	68.3	69.9	70.3	70.4	71.0	71.3	71.4	70.6	66.5	66.5	66.8	Gross profit margin (%)
Selling, general and administrative (SGA) expenses	51,670	51,450	50,294	62,673	65,565	68,983	74,990	76,417	69,534	58,371	59,345	61,370	Selling, general and administrative (SGA) expenses
SGA expenses to sales ratio (%)	62.4	63.4	64.8	69.0	68.1	63.3	61.2	60.3	60.5	55.5	57.1	59.2	SGA expenses to sales ratio (%)
Operating income	3,858	3,943	4,001	1,204	2,244	8,448	12,387	14,125	11,576	11,576	9,771	7,843	Operating income
Cosmetics	3,888	4,661	5,557	6,275	5,253	9,150	11,101	11,768	7,954	7,954	7,581	5,905	Cosmetics
Nutritional Supplements	1,962	1,125	(4)	(1,779)	(865)	864	3,519	4,095	5,042	5,042	3,902	3,429	Nutritional Supplements
Other Businesses	(290)	(4)	152	(1,774)	(599)	149	(299)	90	224	224	(25)	92	Other Businesses
Operating margin (%)	4.7	4.9	5.2	1.3	2.3	7.7	10.1	11.1	10.1	11.0	9.4	7.6	Operating margin (%)
Cosmetics (%)	8.3	9.8	11.7	11.4	9.2	13.9	15.5	15.5	12.2	13.4	12.9	10.3	Cosmetics (%)
Nutritional Supplements (%)	7.4	4.4	(0.0)	(6.2)	(2.7)	2.4	8.0	9.3	12.2	13.3	10.1	8.6	Nutritional Supplements (%)
Other Businesses (%)	(3.1)	(0.1)	2.2	(24.6)	(8.2)	2.1	(4.3)	1.3	2.6	2.8	(0.4)	1.5	Other Businesses (%)
Ordinary income	4,427	4,262	4,283	1,421	2,385	8,650	12,348	14,313	11,784	11,784	10,401	8,557	Ordinary income
Net income	(2,193)	1,343	2,301	522	5,146	6,191	8,649	9,985	8,016	8,016	7,421	4,970	Net income
Net income margin (%)	(2.6)	1.7	3.0	0.6	5.3	5.7	7.1	7.9	7.0	7.6	7.1	4.8	Net income margin (%)
ROE (%)	(2.9)	1.8	3.2	0.7	7.3	8.5	12.8	15.8	11.7	11.7	10.3	6.7	ROE (%)
Advertising expenses	8,631	8,265	7,907	15,035	14,816	15,164	15,919	15,402	11,850	11,848	12,577	14,868	Advertising expenses
Sales promotion expenses	9,189	9,426	9,451	11,888	12,833	12,839	13,430	14,542	15,668	8,649	7,645	6,887	Sales promotion expenses
Research and development expenses	2,498	2,428	2,353	2,852	3,277	3,112	3,464	3,440	3,145	3,145	3,492	3,408	Research and development expenses
Capital investment (cash flow basis)	3,375	2,439	7,612	3,726	4,074	2,476	3,683	11,233	8,207	8,207	5,089	2,026	Capital investment (cash flow basis)
Depreciation	3,443	2,972	2,973	3,207	3,185	2,826	3,057	3,307	3,665	3,665	4,563	4,377	Depreciation
Cash flows from operating activities	6,145	6,595	5,946	3,170	2,192	10,531	8,731	14,380	10,011	10,011	13,097	12,952	Cash flows from operating activities
Cash flows from investing activities	(822)	1,402	(5,972)	(3,389)	5,976	(2,392)	(3,160)	(11,309)	(8,135)	(8,135)	(4,673)	(1,867)	Cash flows from investing activities
Cash flows from financing activities	(2,251)	(3,956)	(1,820)	(4,647)	(2,552)	(3,126)	(23,559)	6,292	(4,170)	(4,170)	(4,155)	(4,247)	Cash flows from financing activities
Increase (Decrease) in cash and cash equivalents	3,171	4,149	(1,717)	(4,920)	5,568	5,031	(18,006)	9,355	(2,503)	(2,503)	4,620	6,931	Increase (Decrease) in cash and cash equivalents
<b>Fiscal year-end</b>													<b>Fiscal year-end</b>
Total assets	86,849	85,800	85,311	83,767	85,677	92,380	80,307	94,478	97,533	97,533	100,121	103,944	Total assets
Net assets	74,542	72,154	73,214	69,639	72,402	75,597	60,916	67,138	71,215	71,215	74,073	75,662	Net assets
Shareholders' equity ratio (%)	85.3	83.5	85.1	82.3	83.6	81.0	74.8	70.4	72.3	72.3	73.3	72.2	Shareholders' equity ratio (%)
<b>Shareholder Return</b>													<b>Shareholder Return</b>
Dividends per share (yen) <sup>*2</sup>	17.0	17.0	17.0	17.0	29.0 <sup>*3</sup>	29.0 <sup>*3</sup>	30.0	34.0	34.0	34.0	34.0	34.0	Dividends per share (yen) <sup>*2</sup>
Dividend payout ratio (%)	—	161.7	94.2	409.1	70.8	59.4	43.6	40.9	51.2	51.2	55.3	82.9	Dividend payout ratio (%)
DOE (dividend on equity) (%)	2.9	3.0	3.0	3.0	5.2	5.0	5.5	6.5	6.0	6.0	5.7	5.5	DOE (dividend on equity) (%)
Number of FANCL stores in Japan	175	167	164	176	201	197	204	212	211	211	198	172	Number of FANCL stores in Japan
<b>Non-financial data</b>													<b>Non-financial data</b>
CO <sub>2</sub> emissions (Scope 1+2) (t-CO <sub>2</sub> )	12,369	12,701	12,004	11,988	11,685	11,656	11,751	10,665	10,522	10,522	10,740	4,012	CO <sub>2</sub> emissions (Scope 1+2) (t-CO <sub>2</sub> )
Private power generation (solar panels) (MWh)	421	438	421	416	406	432	475	501	499	499	1,161	1,411	Private power generation (solar panels) (MWh)
Power derived from renewable energy (MWh)	—	—	—	—	—	—	—	—	—	—	2,772	17,860	Power derived from renewable energy (MWh)
Number of employees	1,224	1,106	1,128	1,223	1,278	1,288	1,381	1,432	1,277	1,277	1,270	1,281	Number of employees
Percentage of female employees in management (%) <sup>*4</sup>	42.7	40.6	41.4	42.0	43.4	45.5	46.2	43.6	46.5	46.5	47.1	47.1	Percentage of female employees in management (%) <sup>*4</sup>
Percentage of employees with disabilities (%)	—	—	2.55	2.64	2.39	2.45	2.31	3.07	3.76	3.76	4.29	4.46	Percentage of employees with disabilities (%)

(Previous Standard)

(Standard for Revenue Recognition)

<sup>\*1</sup> Effective from FY Mar/2022, the "Accounting Standard for Revenue Recognition", etc., has been applied. For reference, results for FY Mar/ 2021 have been restated to conform to this accounting standard.

<sup>\*2</sup> As a 1:2 stock split was conducted, with December 1, 2018 as the effective date, the dividends per share after the split are stated.

<sup>\*3</sup> FY Mar/2017 and FY Mar/2018 include the special dividend of ¥12.0.

<sup>\*4</sup> The number of employees is on a Group consolidated basis, and the ratio of female employees in management positions is for FANCL on a non-consolidated basis.



# 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.

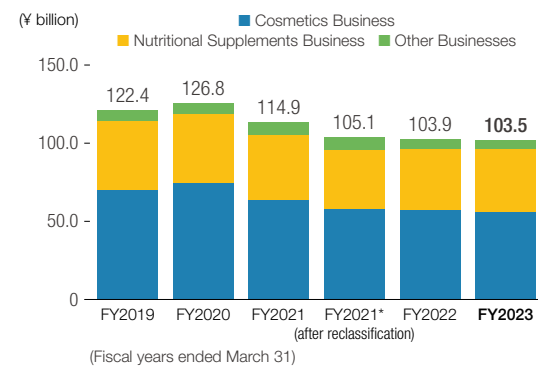
Domestic sales increased due to an increase in online and catalogue sales and wholesale sales as a result of strengthened advertising, which outweighed a decline in direct store sales caused by the impact of the COVID-19 pandemic.

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

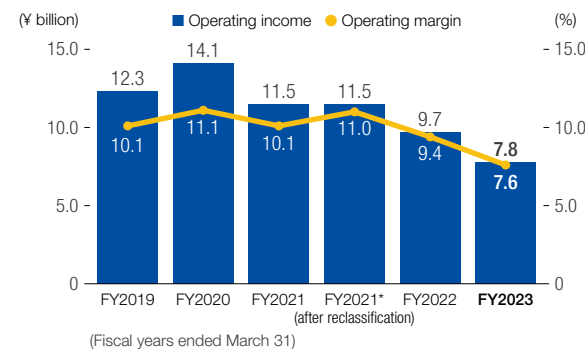
## Other Businesses

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.

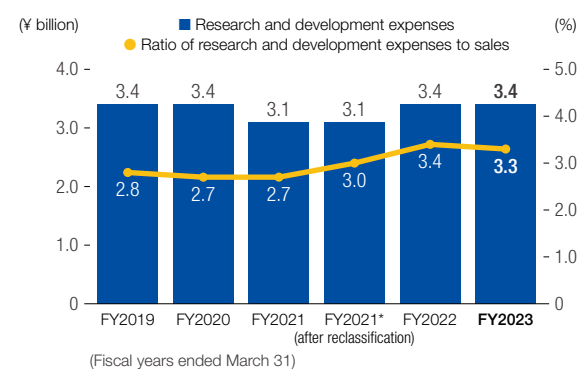
## Research and Development Expenses

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.

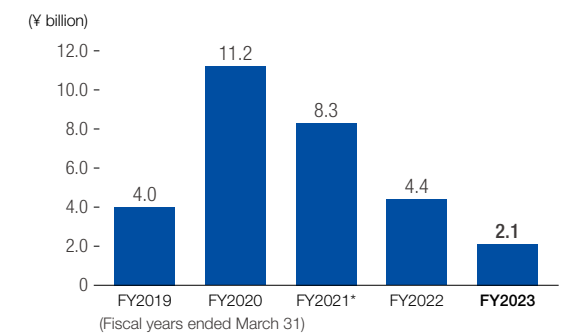
## Capital Investment

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.

# Consolidated Financial Statements

## Consolidated Balance Sheet

(¥ million)	As of March 31, 2023	As of March 31, 2022
<b>ASSETS</b>		
<b>I. Current assets:</b>		
Cash and cash equivalents	37,039	30,108
Notes receivable	6	6
Accounts receivable	11,673	11,910
Merchandise and products	5,999	5,518
Raw materials and supplies	5,532	5,610
Others	1,801	2,553
Allowance for doubtful accounts	(91)	(101)
Total current assets	61,962	55,605
<b>II. Fixed assets:</b>		
<b>Tangible fixed assets</b>		
Buildings and structures	34,216	34,715
Accumulated depreciation and accumulated impairment loss	(19,695)	(19,103)
Buildings and structures (net)	14,520	15,611
Machinery and transport equipment	16,928	16,783
Accumulated depreciation and accumulated impairment loss	(11,815)	(10,326)
Machinery and transport equipment (net)	5,113	6,456
Furniture, tools and fixtures	9,889	9,981
Accumulated depreciation and accumulated impairment loss	(8,677)	(8,435)
Furniture, tools and fixtures (net)	1,211	1,546
Land	13,914	14,214
Leased assets	317	205
Accumulated depreciation and accumulated impairment loss	(173)	(127)
Leased assets (net)	144	78
Other	124	—
Accumulated depreciation and accumulated impairment loss	(34)	—
Other (net)	89	—
Construction in progress	219	34
Total tangible fixed assets	35,213	37,941
<b>Intangible fixed assets</b>		
Other intangible fixed assets	2,485	2,587
Total intangible fixed assets	2,485	2,587
<b>Investments and other assets</b>		
Investment securities	125	125
Long-term loans	100	50
Deferred tax assets	2,642	2,634
Others	1,466	1,201
Allowance for doubtful accounts	(51)	(24)
Total investments and other assets	4,283	3,986
Total fixed assets	41,982	44,516
Total assets	103,944	100,121

(¥ million)	As of March 31, 2023	As of March 31, 2022
<b>LIABILITIES</b>		
<b>I. Current liabilities:</b>		
Accounts payable	3,378	3,431
Lease obligations	116	50
Accrued liabilities	4,127	4,589
Accrued income taxes	1,918	1,271
Contract liability	3,002	2,461
Provision for bonuses	1,223	1,234
Asset retirement obligations	—	2
Others	2,326	1,332
Total current liabilities	16,092	14,373
<b>II. Long-term liabilities:</b>		
Convertible bonds with stock acquisition rights	10,050	10,100
Lease obligations	135	35
Provision for share awards for directors	259	108
Retirement benefit liabilities	1,223	880
Asset retirement obligations	448	496
Others	72	54
Total long-term liabilities	12,189	11,675
Total liabilities	28,282	26,048

<b>NET ASSETS</b>		
<b>Shareholders' equity:</b>		
Common stock	10,795	10,795
Capital reserve	12,189	12,003
Retained earnings	71,623	70,766
Treasury stock	(19,479)	(20,003)
Total shareholders' equity	75,128	73,561
<b>Other comprehensive income</b>		
Foreign currency translation adjustment	242	100
Total adjustments related to retirement benefits	(312)	(228)
Total other comprehensive income	(70)	(128)
Stock acquisition rights	603	640
Total net assets	75,662	74,073
Total Liabilities and Net Assets	103,944	100,121

## Consolidated Statement of Income

(¥ million)	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Net sales	103,595	103,992
Cost of sales	34,382	34,876
Gross profit	69,213	69,116
<b>Selling, general and administrative expenses</b>		
Sales promotion expenses	6,887	7,645
Packing and transport expenses	5,478	5,448
Advertising expenses	14,868	12,577
Sales commission fee	3,111	2,933
Communications expenses	1,711	1,688
Directors' remuneration	415	426
Salaries and bonuses	11,016	11,075
Provision for accrued bonuses	1,027	1,006
Provision for share-based remuneration	156	108
Retirement benefit expenses	525	505
Compulsory welfare expenses	1,750	1,763
Welfare expenses	276	286
Depreciation	2,612	2,611
Research and development expenses	1,225	1,257
Rent expenses	1,172	1,216
Provisions for allowance for bad debt	28	43
Other	9,105	8,749
Total selling, general and administrative expenses	61,370	59,345
Operating income	7,843	9,771
<b>Non-operating income</b>		
Interest income	51	51
Dividend income	0	0
Foreign exchange gain (loss)	509	283
Rent income	119	130
Compensation payments received	17	17
Commissions earned	28	27
Other non-operating income	112	168
Total net operating income	839	680
<b>Non-operating expenses</b>		
Interest expenses	0	0
Rent expenses on fixed assets	8	11
Restricted stock-related expenses	24	—
Allowance for doubtful accounts	50	—
Miscellaneous losses	43	37
Total net operating expenses	126	49
Ordinary income	8,557	10,401
<b>Extraordinary income</b>		
Income from sale of fixed assets	0	0
Gain on sale of investment securities	—	31
Gain on reversal of share acquisition rights	7	—
Total extraordinary income	7	31
<b>Extraordinary loss</b>		
Loss on sale of fixed assets	—	0
Loss on disposal of fixed assets	70	25
Impairment loss	204	680
Loss on store closings	74	43
Other	—	108
Total extraordinary loss	350	858
Income before income taxes	8,214	9,575
Income and other taxes	3,186	2,643
Adjustments to income and other taxes	57	(489)
Total income before income taxes	3,244	2,153
Income before minority interests	4,970	7,421
Net income	4,970	7,421

## Consolidated Statement of Comprehensive Income

(¥ million)	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Income before minority interests	4,970	7,421
<b>Other comprehensive income</b>		
Foreign currency translation adjustment	141	119
Adjustments related to retirement benefits	(83)	22
Total other comprehensive income	58	142
Comprehensive income	5,029	7,563
<b>(Breakdown)</b>		
Comprehensive income attributable to owners of the parent company	5,029	7,563
Comprehensive income attributable to minor interests	—	—



## Consolidated Financial Statements

### Changes in Shareholders' Equity during the Period

(¥ million)	April 1, 2022 to March 31, 2023				
	Shareholders' equity				
	Common stock	Capital reserve	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current period	10,795	12,003	70,766	(20,003)	73,561
Changes of items during period					
Dividends of surplus	—	—	(4,114)	—	(4,114)
Net income attributable to owners of the parent company	—	—	4,970	—	4,970
Purchase of treasury shares	—	—	—	(0)	(0)
Disposal of treasury shares	—	186	—	525	712
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	—	186	856	524	1,567
Balance at end of current period	10,795	12,189	71,623	(19,479)	75,128

	Other comprehensive income				
	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income	Stock acquisition rights	Total net assets
Balance at beginning of current period	100	(228)	(128)	640	74,073
Changes of items during period					
Dividends of surplus	—	—	—	—	(4,114)
Net income attributable to owners of the parent company	—	—	—	—	4,970
Purchase of treasury shares	—	—	—	—	(0)
Disposal of treasury shares	—	—	—	—	712
Net changes of items other than shareholders' equity	141	(83)	58	(36)	21
Total changes of items during period	141	(83)	58	(36)	1,589
Balance at end of current period	242	(312)	(70)	603	75,662

(¥ million)	April 1, 2021 to March 31, 2022				
	Shareholders' equity				
	Common stock	Capital reserve	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	68,050	(19,726)	70,825
Cumulative effects of changes in accounting policies	—	—	(602)	—	(602)
Restated balance	10,795	11,706	67,448	(19,726)	70,223
Changes of items during period					
Dividends of surplus	—	—	(4,102)	—	(4,102)
Net income attributable to owners of the parent company	—	—	7,421	—	7,421
Purchase of treasury shares	—	—	—	(734)	(734)
Disposal of treasury shares	—	296	—	457	754
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	—	296	3,318	(277)	3,337
Balance at end of current period	10,795	12,003	70,766	(20,003)	73,561

	Other comprehensive income				
	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income	Stock acquisition rights	Total net assets
Balance at beginning of current period	(19)	(251)	(270)	660	71,215
Cumulative effects of changes in accounting policies	—	—	—	—	(602)
Restated balance	(19)	(251)	(270)	660	70,613
Changes of items during period					
Dividends of surplus	—	—	—	—	(4,102)
Net income attributable to owners of the parent company	—	—	—	—	7,421
Purchase of treasury shares	—	—	—	—	(734)
Disposal of treasury shares	—	—	—	—	754
Net changes of items other than shareholders' equity	119	22	142	(20)	121
Total changes of items during period	119	22	142	(20)	3,459
Balance at end of current period	100	(228)	(128)	640	74,073

### Consolidated Statement of Cash Flows

(¥ million)	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
<b>I. Cash flows from operating activities</b>		
Income before income taxes	8,214	9,575
Depreciation	4,377	4,563
Impairment loss	204	680
Increase (decrease) in allowance for doubtful accounts	(10)	(114)
Increase (decrease) in provision for bonuses	(11)	(59)
Increase (decrease) in provision for share awards for directors	156	108
Increase (decrease) in retirement benefit liabilities	222	129
Interest and dividend income	(51)	(51)
Interest expenses on borrowings and bonds	0	0
Loss (gain) on foreign exchange	(25)	(319)
Loss (gain) on sale of investment securities	—	(31)
Loss (gain) on sale of fixed assets	(0)	(0)
Loss on retirement of fixed assets	70	25
Loss on store closings	74	43
Subsidy income	—	(109)
Decrease (increase) in accounts receivable	303	1,779
Decrease (increase) in inventories	(354)	560
Decrease (increase) in other current assets	1,360	(964)
Decrease (increase) in other fixed assets	(415)	(4)
Increase (decrease) in accounts payable	(91)	639
Increase (decrease) in contract liability	540	27
Increase (decrease) in other current liabilities	457	3
Increase (decrease) in other fixed liabilities	18	(40)
Others	438	(150)
Sub-total	15,478	16,291
Interest and dividends received	1	1
Interest expenses	(0)	(0)
Income taxes paid	(2,527)	(3,304)
Subsidies received	—	109
Net cash provided by (used in) operating activities	12,952	13,097
<b>II. Cash flows from investing activities</b>		
Payment for acquisition of tangible fixed assets	(1,143)	(4,007)
Income from sale of tangible fixed assets	0	1
Payment for acquisition of intangible fixed assets	(882)	(1,081)
Proceeds on sale of investment securities	—	103
Other payments	(131)	(86)
Other proceeds	288	398
Net cash used in investing activities	(1,867)	(4,673)
<b>III. Cash flows from financing activities</b>		
Proceeds from disposal of treasury stock	0	733
Purchase of treasury stock	(0)	(734)
Cash dividends paid	(4,109)	(4,097)
Others	(137)	(56)
Net cash used in financing activities	(4,247)	(4,155)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	93	351
<b>V. Net increase in cash and cash equivalents</b>	6,931	4,620
<b>VI. Cash and cash equivalents at the beginning of the period</b>	30,108	25,487
<b>VIII. Cash and cash equivalents at end of period</b>	37,039	30,108

# Stock Information / Corporate Information

## Corporate Overview (As of March 31, 2023)

<b>Company Name</b>	FANCL CORPORATION	<b>Paid-in capital</b>	¥10,795 million
<b>Address</b>	89-1 Yamashita-cho, Naka-ku, Yokohama, Kanagawa-ken	<b>Number of employees</b>	896 * The number of employees does not include the area employees (968) and the average annual number of temporary workers (437).
<b>Telephone</b>	+81(45)226-1200 (switchboard)	<b>Research Institute</b>	FANCL Research Institute (Totsuka-ku, Yokohama, Kanagawa-ken)
<b>Representative</b>	Kazuyuki Shimada President & CEO, Representative Director	<b>Principal banks</b>	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Mizuho Bank, Ltd.
<b>Established</b>	August 18, 1981		

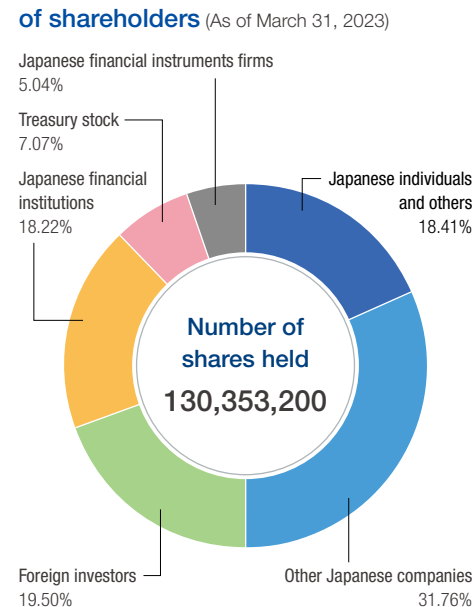
## Share Data (As of March 31, 2023)

<b>Number of shares authorized</b>	467,676,000
<b>Number of shareholders</b>	77,288
<b>Number of shares issued</b>	130,353,200

Name of shareholder	Number of shares held (thousands)	Shareholding ratio
Kirin Holdings Company, Limited	39,540	32.64%
The Master Trust Bank of Japan, Ltd. (Trust account)	15,102	12.47%
Custody Bank of Japan, Ltd. (Trust account)	5,932	4.90%
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	3,925	3.24%
MSIP CLIENT SECURITIES	2,447	2.02%
JPMorgan Securities Japan Co., Ltd.	2,154	1.78%
Nomura Securities Co., Ltd. (Self-transfer account)	1,935	1.60%
FANCL Employee Stock Ownership Plan	1,301	1.07%
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	1,186	0.98%
STATE STREET BANK WEST CLIENT - TREATY 505234	1,019	0.84%

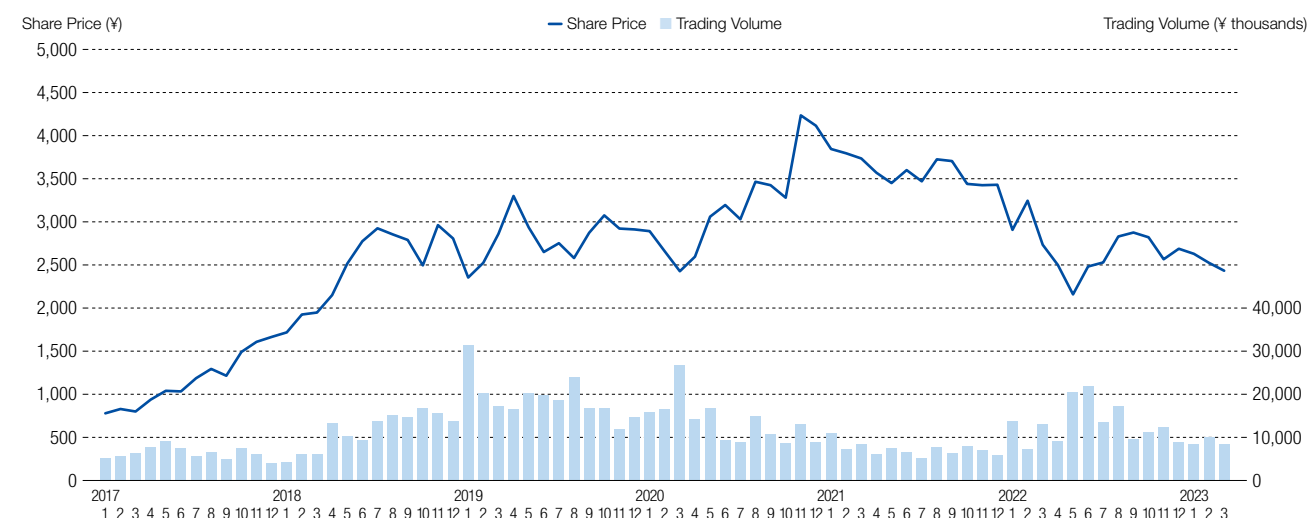
(Notes) 1. FANCL's holdings of treasury stock (9,220 thousand shares) are excluded from the above list of principle shareholders.  
2. Shareholding ratios are calculated after deduction of treasury stock (9,220 thousand shares). Although the Company has adopted an Officer Compensation BIP Trust, the Company's shares held by the Trust are not included in treasury stock.

## Breakdown of shares by type of shareholders (As of March 31, 2023)



## Trends in Share Price

### Trends in Share Price and Trading Volume



TSR (Total Shareholder Return) \* Indexed as 100 as of the end of March 2018.

	FY Mar/2019	FY Mar/2020	FY Mar/2021	FY Mar/2022	FY Mar/2023
<b>FANCL</b>	<b>148.4%</b>	<b>127.9%</b>	<b>196.8%</b>	<b>147.1%</b>	<b>133.4%</b>
TOPIX including dividends	95.0%	85.9%	122.2%	124.6%	131.8%

Indicates the return on investment (taking into account the share price and dividends) for investments made as of the end of March 2018.

## External Recognition & Awards

Along with its designation as a component of the major domestic and overseas ESG indexes, FANCL has received high recognition from various external organizations.

### Status of Inclusion in ESG Indexes

- FTSE4Good Index Series
- FTSE Blossom Japan Index
- FTSE Blossom Japan Sector Relative Index
- MSCI Japan Empowering Women Index (WIN)



\* The inclusion of FANCL CORPORATION in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of FANCL CORPORATION by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

### External Recognition of the Company's IR Activities

- Ranked 1st in the Cosmetics & Personal Care Category of the Award for Excellence in Corporate Disclosure by securities analysts (The Securities Analysts Association of Japan)
- Gomez IR Site Overall Ranking BRONZE
- Nikko Investor Relations Co., Ltd. All Markets Ranking in Japan Corporate Websites with Grade AA



### IR Information



fanc1.jp/en/ir/

### Other External Recognition

- Ministry of Economy, Trade and Industry "Certified Health & Productivity Management Outstanding Organization 2023 (White 500)"
- Selected as an Outstanding "Eruboshi" Company based on the Act on Promotion of Women's Participation and Advancement in the Workplace
- Ministry of Health, Labour and Welfare "Kurumin" Certification
- Gan-Ally-Bu "Gan-Ally Awards 2022" Gold Award
- PRIDE Index "Gold" certification
- Ministry of Education, Culture, Sports, Science and Technology 2022 "Award for Companies Promoting Experience-based Learning Activities for the Youth" Large-company Category, "Judges Panel Special Award of Encouragement"
- Ministry of Economy, Trade and Industry 12th "Career Education Award" \* Large-company Department Encouragement Award

\* Visit here for details on the "Career Education Award"  
<https://www.meti.go.jp/policy/economy/jinzai/career-education/award.html> (in Japanese)



### Sustainability Information



fanc1.jp/en/sustainable/

## Group of Companies (As of June 24, 2023)

Name of Company	Principal Business Activities
ATTENIR CORPORATION	Planning and sale of cosmetics, nutritional supplements, etc.
NEOF CORPORATION	Sale of cosmetics
FANCL ASIA (PTE) LTD	Sale of cosmetics and nutritional supplements
FANCL B&H CORPORATION	Production of cosmetics, nutritional supplements, and FANCL <i>Hatsuga genmai</i> (germinated brown rice)
NICOSTAR BEAUTECH Co., Ltd.	Sale and contract manufacturing of cosmetics and quasi-drugs
FANCL LAB Co., Ltd.	Sale and contract manufacturing of cosmetics and quasi-drugs
FANCL INTERNATIONAL, INC.	Sale of cosmetics and nutritional supplements
boscia, LLC	Sale of cosmetics





For inquiries about this report:

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