Held June 9, 2022

FANCL CORPORATION
June 2022 President's Small Meeting - Q&A summary

Date held	:	June 9, 2022 (Thursday) 10:00 - 11:30, 13:00 - 14:30
Agenda	:	Follow-up on FY Mar/2022 financial results
Audience	:	Sell-side analysts, institutional investors

(1) Supplementary Explanation of Financial Results for FY Mar/2022

Cosmetics Business

- The main factor behind the sluggish domestic sales in Q4 (January-March) of FY Mar/2022 was a 33% decline in the direct store channel compared to the strong results that we achieved in the same period of the previous fiscal year, which were a high hurdle to surpass. Online and catalogue sales and wholesale sales grew 6% and 9%, respectively, and the effects of proactive advertising in the second half of the year are beginning to show effect.
- FY Mar/2022 full year domestic sales (excluding inbound sales from overseas visitors to Japan) for the full year remained stable, on par with the pre-COVID-19 levels recorded in FY Mar/2020.
- In FY Mar/2023, we plan to concentrate and strengthen marketing investments in the Basic, Cleansing, and Facial Cleansing categories. The number of Basic and Cleansing customers has been growing steadily since the renewal of these categories last fall, thanks to strengthened advertising. In addition, in the Facial Cleansing category, *CLAY GEL FACIAL WASH,* which was launched in May in response to the growing needs for pore cleansing solutions, has been performing well. The number of drugstores handling the product reached 15,000 ahead of our initial targets.
- Today, *Mild Cleansing Oil* received three awards at the @cosme Best Cosmetics Awards for the first half of 2022, including the overall grand prize (the highest award), as well as first place for best cleansing product and first place for cleansing in the low-priced category.

Supplements Business

- The main factors behind the sluggish domestic sales growth in FY Mar/2022 were the poor performance in the wholesale channel and slow sales of mainstay diet products *Calolimit* and *Naishi Support*. Online and catalogue sales and store sales were both up year-on-year.

- In FY Mar/2020, with the impact of the COVID-19 pandemic as a tailwind, demand for supplements increased, and sales of *Calolimit* were at a record high, so we believed we could maintain sales while controlling advertising investments.
- In addition to changes in the dietary market environment caused by the COVID-19 pandemic, we had not been able to adequately respond to the aggressive advertising investment by other companies. Along with TV commercials to spread awareness widely, we will strengthen response advertising for the online and catalogue channel, and enhance in-store exposure for the wholesale channel, to attract new customers and revitalize sales.
- We have seen a gradual recovery in sales of *Naishi Support* since we stepped up advertising from the second half of the previous fiscal year. Going forward, we will strengthen advertising for several products including *Enkin (Anti-aging eye care), Ketsuatsu Support (Blood Pressure Support)*, and *Sleep & Fatigue Care*, in an effort to expand our customer base.

Overseas business

- Delays in obtaining approval for health food products has had only a minor impact on our business performance. While waiting for the study group to formulate rules regarding our application for nine additional vitamins and minerals, we are developing products with formulas that are expected to be approved in China.
- For now, the main growth driver is cross-border e-commerce, which has the potential to grow to ¥20 billion per year in wholesale. However, from a long-term perspective, health foods are also important, and we are moving forward with applications for approval and licensing with a view for the future.
- The lockdown in China has not only affected logistics within China, but also customs clearances, which were halted for two or three months in Shanghai, preventing us from sending new products. We expect this will have an impact on our wholesale sales to our distributor for the April to June period. On the other hand, sell-through in China was very strong, especially considering the lockdown. Although slightly short of the target planned at the beginning of the period, our sell-through was significantly higher than the previous year.
- For the 618 shopping festival sale, we were able to start on schedule with pre-orders on May 26.
- Looking at dietary supplement sales across T-Mall International as a whole, we see growth of more than 20% over the previous year. FANCL's sales grew by even more than that, and we have high hopes that his will boost our recovery in sales going forward.

(2) Q&A (summary)

1. Which brands and channels are the most efficient when it comes to the use of advertising expenditure? Do you feel you are getting a good response?

⇒We plan to increase advertising expenditure by ¥3.1 billion this fiscal year. Looking at the initial response, the most effective products are domestic FANCL Cosmetics, Attenir and China cross-border e-commerce supplements, with advertising investments already starting to show results and creating positive momentum. Meanwhile, we are seeing some good signs in our advertising for domestic supplements, but not all are going well.

2. What is your benchmark for advertising expenditure over the medium term?

⇒This fiscal year, we plan to spend slightly more than 14% of sales to make up for inadequacies of the previous fiscal year, but we do not need to spend that much in the next fiscal year and thereafter. We expect the ratio to be in the 11-12% range in line with sales growth. We will need to verify the effectiveness of advertising in the current fiscal year and make adjustments for next year onward.

3. We are currently seeing cost inflation. With incomes not rising, it is expected that people will hold off on some purchases. How do you perceive and deal with the possibility of trade-downs and restraint from purchasing?

⇒There are no plans to change sale prices. Supplements may be affected because they are not a daily necessity, but our cosmetics are highly unique and reasonably priced, so we do not believe they will be significantly affected by inflation.

4. What is the status of the core system "FIT3" since you launched its operation? We have heard that the amount of data that can be collected has increased with upgrades from the previous system, but what kind of feedback will this lead to? I would like to hear specific examples.

⇒In January this year, we launched the full-scale operation of "FIT3". We have created a platform that can handle information from stores, online and catalogue, and telephone communication in an integrated manner. As a new way to capture customers, we are currently creating estimation models that use machine learning. We have been able to create some promising models, and we are preparing to launch initiatives using those models starting from this month. We will take a more statistically advanced approach and generate further feedback to strengthen the models.

Last year, the company also integrated its store and online and catalogue apps. We will increase LTV by encouraging customers to use both channels, for example by integrating in-store counseling and online and catalogue review posts through a stamp rally.

5. Regarding the Chinese supplement business, you mentioned that you could expand wholesale to ¥20 billion through cross-border e-commerce, but you have already launched a considerable number of SKUs. How do you plan to tackle this?

⇒Although we are achieving significant sales with our *Age Bracket-Based Supplements*, our brand is still not yet recognized by many people, so there is room for significant growth through increased promotion and marketing investment.

While we had been working to further develop the positioning of our beauty supplements since last year, starting from June of this year we have been promoting *Calolimit* using famous actresses, with the goal of developing it into a second star product. Since there are many products with such high potential, we believe that we can establish second and third pillars if we invest in marketing.

6. Since Ms. Saito became president three years ago, she has rebuilt the Attenir brand, and achieved excellent results. What were the biggest changes that were made? Where do you believe the potential lies?

⇒Over the past three years, sales have steadily increased and we have been able to rebuild the company’s earnings structure. It has finally become a company that can stand on its own as a single entity. We have done a variety of things, but the most important thing we have done is create hit products. The strength of Attenir is that everything from product planning to sales, online and catalogue stores, overseas, supply, and demand, can be completed on a single floor. Even in creating a single product, all divisions are instantly united and can consider everything from entrance to exit all at once. This is what made *Dress Snow* such a hit.

The other key was the development of sales channels. There was never the intention to expand Attenir’s footprint on external online and catalogue sales platforms as much as FANCL, but we did it as a way of expanding our points of contact. Quite significantly, we were able to increase Attenir sales on Rakuten and Amazon while maintaining the brand’s positioning. Stores, overseas, and external online and catalogue sales are on par with each other. Overseas is a completely new sales channel. We had originally opened stores in China from 2010 to 2013, and the fact that there were Chinese customers who still remembered us provided a tailwind, and we were able to increase sales to ¥1.7 billion just a few years after launching test sales in 2018. Half of the China employees are Chinese, including colleagues who used to work for the company. We are globalizing Attenir just as much as FANCL. Speedy manufacturing, sales, sales channel development, and hit products, have all led to the current growth we are seeing.

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