

# FANCL

正直品質。

## **FANCL Group Financial Results Briefing For the period April 1, 2022 to September 30, 2022**

November 4, 2022

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# **Financial Highlights**

# Results by segment

FANCL

正直品質。

(Millions of yen)	H1 of FY to March 2022	H1 of FY to March 2023	Change YoY
<b>Sales</b>	<b>49,876</b>	<b>50,639</b>	<b>+ 1.5%</b>
<i>Cosmetics</i>	<b>28,244</b>	<b>28,694</b>	<b>+ 1.6%</b>
<i>Nutritional supplements</i>	<b>18,460</b>	<b>18,866</b>	<b>+ 2.2%</b>
<i>Other</i>	<b>3,171</b>	<b>3,078</b>	<b>(2.9%)</b>
<i>Hatsuga Genmai</i>	<b>1,010</b>	<b>996</b>	<b>(1.4%)</b>
<i>Kale Juice</i>	<b>980</b>	<b>964</b>	<b>(1.7%)</b>
<b>Operating income</b>	<b>5,171</b>	<b>3,350</b>	<b>(35.2%)</b>
<b>Ordinary income</b>	<b>5,558</b>	<b>4,176</b>	<b>(24.9%)</b>
<b>Net income</b>	<b>4,070</b>	<b>2,654</b>	<b>(34.8%)</b>
<b>※1 EBITDA</b>	<b>7,288</b>	<b>5,494</b>	<b>(24.6%)</b>
<b>※2 EBITDA margin</b>	<b>14.6%</b>	<b>10.8%</b>	<b>(3.8%)</b>

※1 EBITDA : Operating income + Depreciation

※2 EBITDA margin : EBITDA / Sales

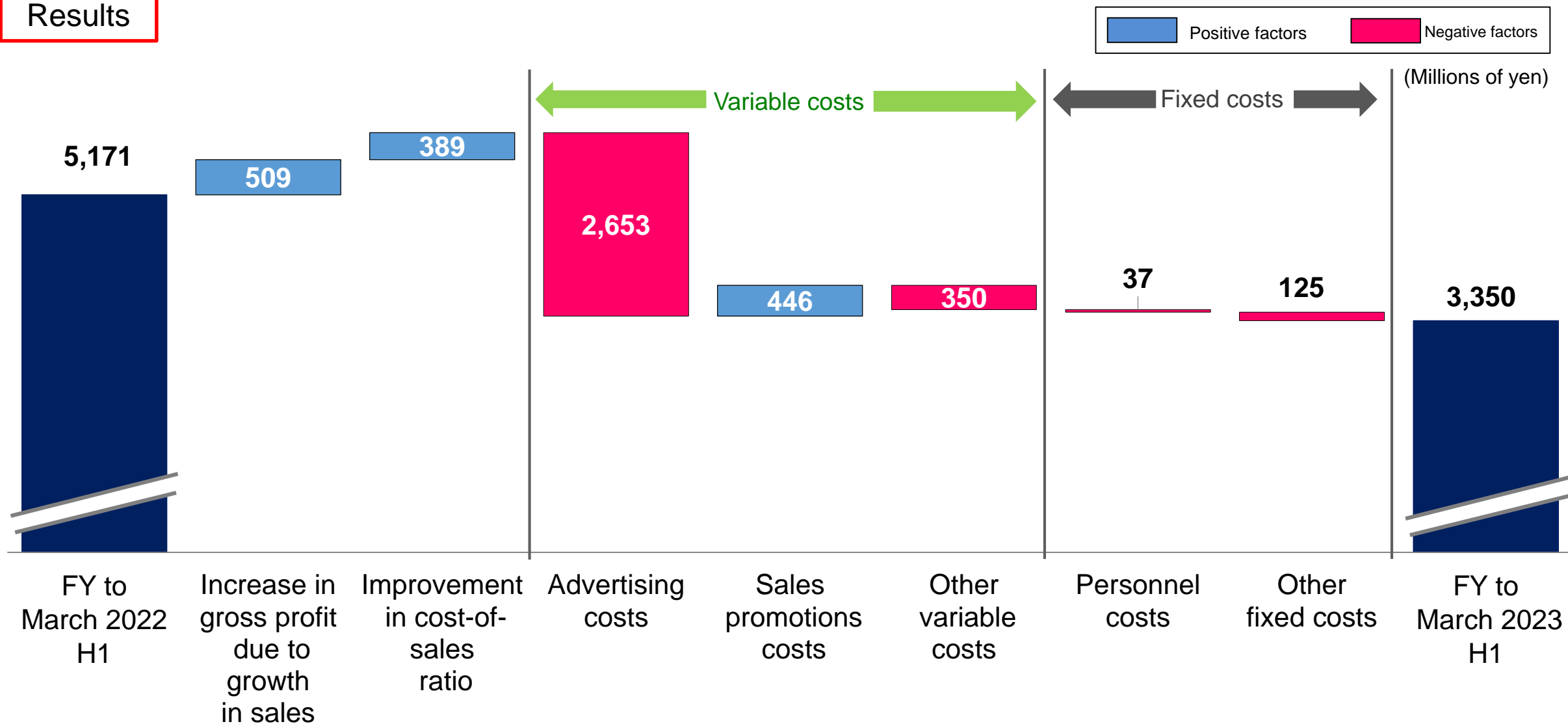
\*3 Negative impact of China lockdown

Sales: Approx ¥1,600 mn, Operating income: ¥700 mn

Sales breakdown (6-month period)			
Region	Amount	Change YoY	
Domestic	<b>46,213</b>	<b>+ 4.6%</b>	
Overseas ※3	<b>4,426</b>	<b>(22.3%)</b>	
Cosmetics		Amount	
		Change YoY	
FANCL ※3	Domestic	<b>19,392</b>	<b>+ 5.0%</b>
	Overseas	<b>1,513</b>	<b>(15.8%)</b>
	Total	<b>20,905</b>	<b>+ 3.1%</b>
ATTENIR ※3	Domestic	<b>5,974</b>	<b>+ 3.3%</b>
	Overseas	<b>770</b>	<b>(36.9%)</b>
	Total	<b>6,744</b>	<b>(3.7%)</b>
<i>boscia</i> ※3	<b>398</b>	<b>(24.6%)</b>	
Nutritional supplements		Amount	
		Change YoY	
Domestic ※3	<b>17,127</b>	<b>+ 5.0%</b>	
Overseas	<b>1,738</b>	<b>(18.8%)</b>	
Total	<b>18,866</b>	<b>+ 2.2%</b>	

# H1 Analysis of change in operating income

Results



## **Outlook for full year**

# Outlook of FY to March 2023

(Millions of yen)	FY to March 2022	FY to March 2023 (plan)	Change YoY
Sales	103,992	107,500	+ 3.4%
Cosmetics	58,809	59,950	+ 1.9%
Nutritional supplements	38,471	40,520	+ 5.3%
Other	6,710	7,030	+ 4.8%
Hatsuga Genmai	2,056	2,140	+ 4.1%
Kale Juice	2,110	2,240	+ 6.1%
Operating income	9,771	9,800	+ 0.3%
Ordinary income	10,401	10,680	+ 2.7%
Net income	7,421	6,950	(6.4%)
※1 EBITDA	14,335	14,100	(1.6%)
※2 EBITDA margin	13.8%	13.1%	(0.7%)

Amount revised from plan announced in Aug.
(1,900)
(1,330)
(550)
(20)
-
-
(600)
(320)
(500)

**Breakdown**  
Domestic -¥5.9 mn  
Overseas: -¥1.3 bn

Sales breakdown (Full year)			
Region	Amount	Change YoY	
Domestic	97,050	+ 4.9%	
Overseas	10,450	(11.1%)	
Cosmetics		Amount	Change YoY
FANCL	Domestic	40,090	+ 3.1%
	Overseas	3,630	(6.3%)
	Total	43,720	+ 2.2%
ATTENIR	Domestic	12,650	+ 5.1%
	Overseas	1,480	(15.9%)
	Total	14,130	+ 2.4%
boscia	900	(22.5%)	
Nutritional supplements		Amount	Change YoY
Domestic		36,100	+ 6.8%
Overseas		4,420	(5.1%)
Total		40,520	+ 5.3%

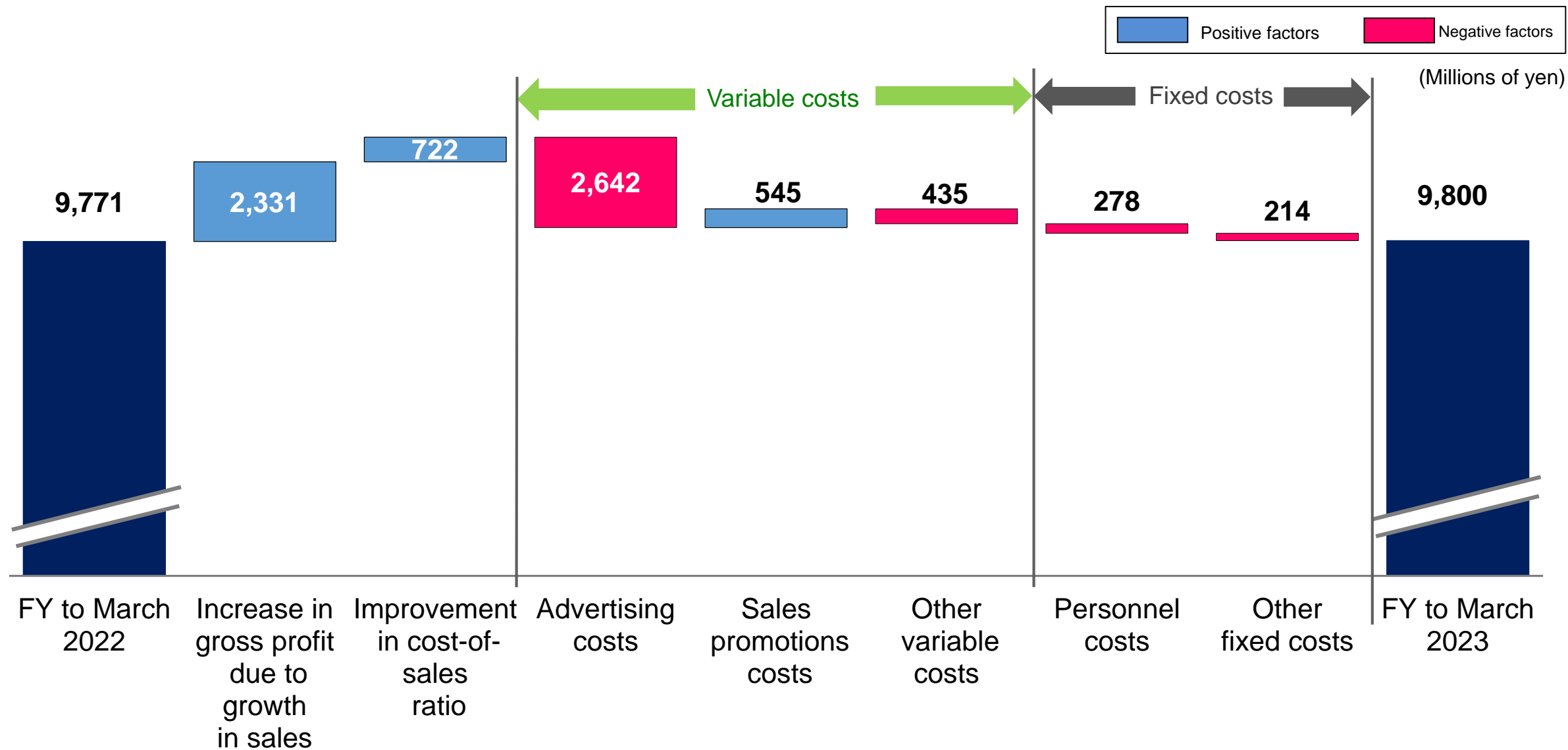
※1 EBITDA : Operating income + Depreciation

※2 EBITDA margin : EBITDA / Sales

## 【Assumption】

Inbound sales (Direct store sales) expected  
¥200 mn in FY Mar/2023

# FY Mar/2023: Analysis of change in operating income



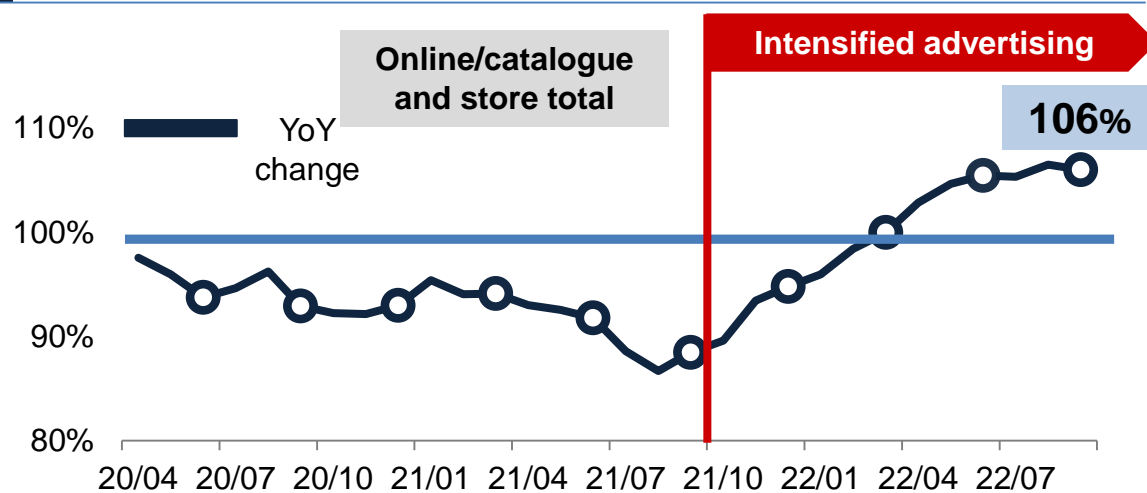


# **Effects of advertising**

# New customer acquisition / Advertising efficiency (CPR)

Customers increased to 106% as of end of September due to advertising investment since H2 of last year

## Trend in customer numbers



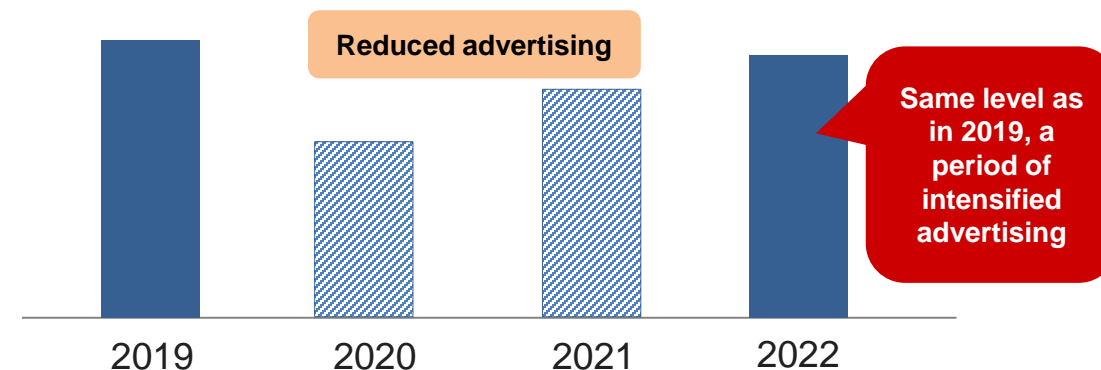
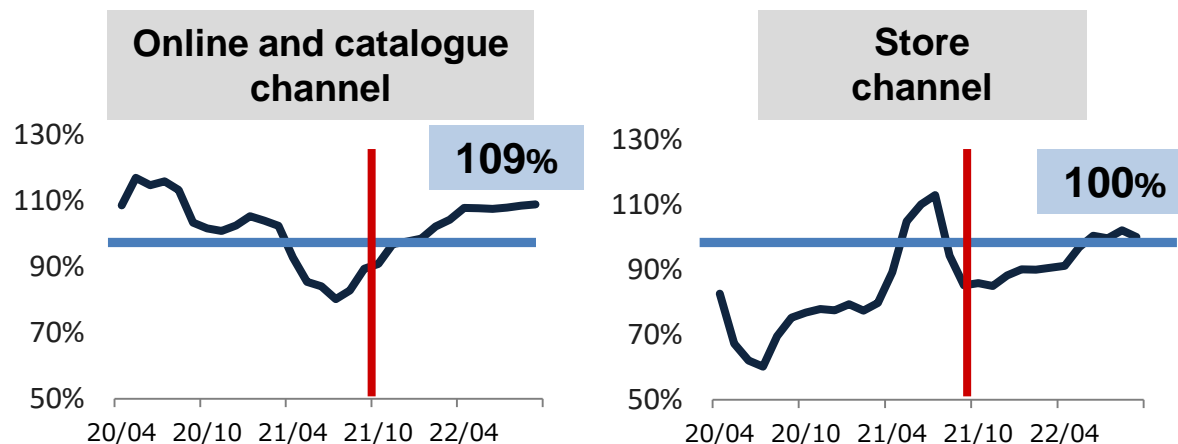
## H1 advertising expenditure and new customer acquisitions (YoY change)

	Advertising expenditure	New acquisitions	Overall customer numbers
Cosmetics	158%	130%	109%
Supplements	174%	112%	103%
Total	166%	122%	106%

(Note) FANCL's results

## Trend in cost per reach (CPR)

CPR = Online and catalogue response advertising cost ÷ No. of new acquisitions



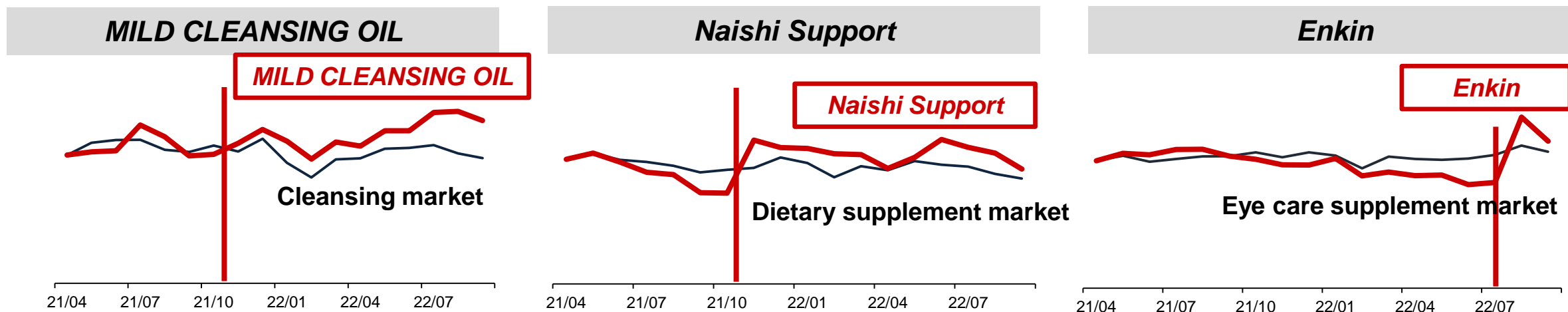
# Q2 (July - September) Effects of advertising for core products

Growth has outpaced competitors since advertising was strengthened, and effects of advertising are clearly showing

(Year-on-Year comparison)

	Product	New customer acquisitions	Sales	Key points
Cosmetics	<b>ENRICH+</b>	<b>190%</b>	<b>105%</b>	• Strong new acquisitions due to last year's renewal, effects of advertising
	<b>MILD CLEANSING OIL</b>	<b>171%</b>	<b>108%</b>	• Growth in market share due to last year's renewal, effects of advertising
Supplements	<b>Naishi Support</b>	<b>121%</b>	<b>123%</b>	• Increased customer numbers and sales due to ongoing TV promotions
	<b>Enkin</b>	<b>250%</b>	<b>105%</b>	• Large increase in new acquisitions due to first TV promotion in 2.5 years

## Drugstore POS results (comparison using April 2021 as starting point)



Source: True Data Inc. data from drugstore ID-POS systems compiled and edited by FANCL (Comparative markets are compiled into our own categories)

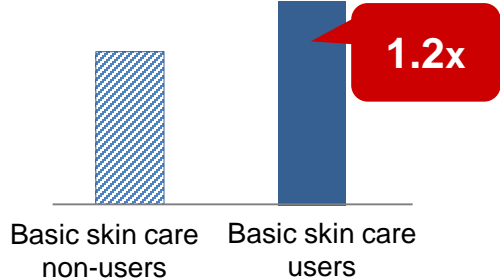
# **Cosmetics Business**

Concentrating marketing investments on basic skin care, cleansing and facial wash, and expanding customer base

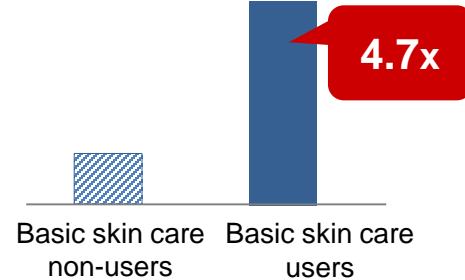
## Expansion of basic skin care customers

### Characteristics of basic skin care users

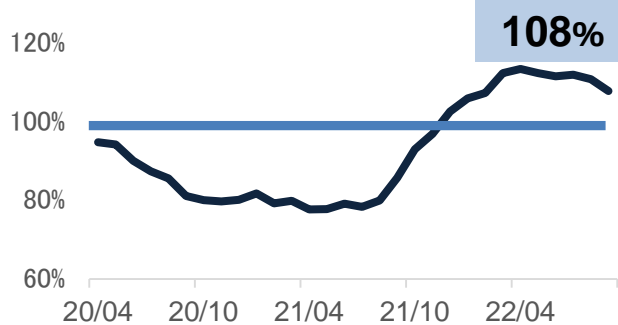
#### Rate of continued product usage for second year



#### Annual Purchase amount (LTV)

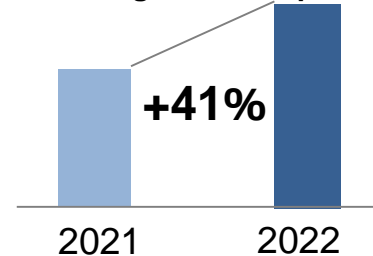


#### Basic skin care customer numbers (YoY change)



#### Subscriber numbers

Increased due to proactive marketing of subscriptions



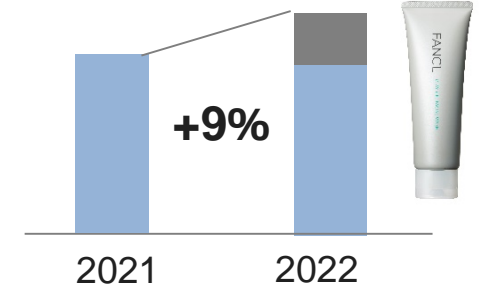
Strengthen advertising in H2, focusing on *ENRICH+* and *Acne Care*

## Strengthening of cleansing and facial wash

### CLAY GEL FACIAL WASH (Launched May 2022)



#### Facial wash category sales (H1)

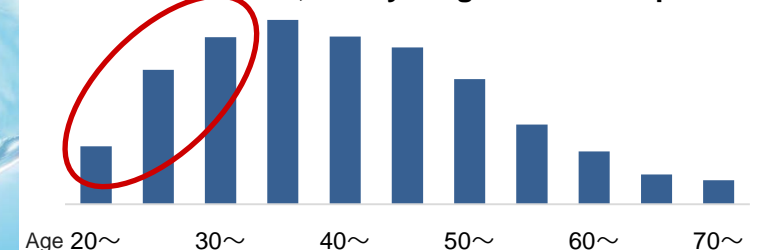


### MILD CLEANSING OIL (Renewed Nov. 2021)



#### MILD CLEANSING OIL customer age composition

A product that can attract a wide range of consumers, from young adults and up

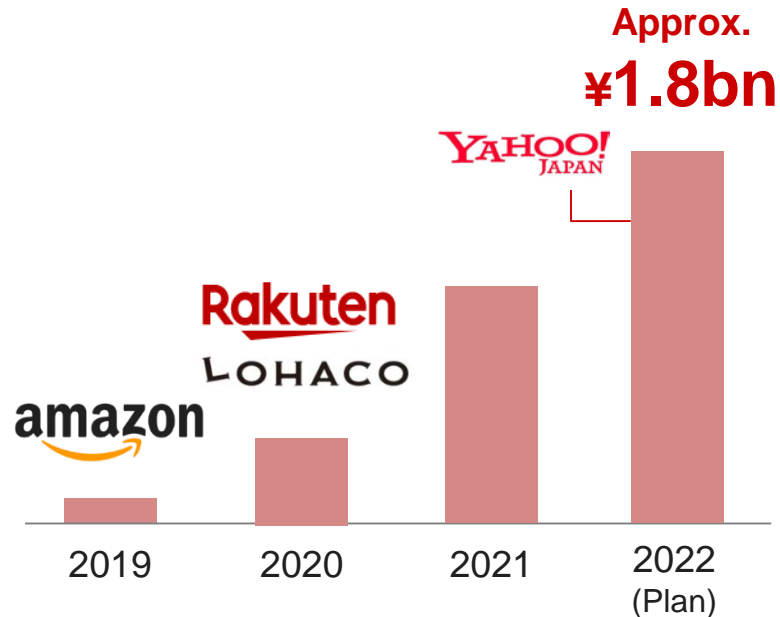


\*Drugstore customer composition

## Domestic

### Strengthening development of external online platforms as a growth channel

#### External online and catalogue platform sales



#### H1 results

External online and catalogue sales: Up **2.1x** YoY

External sales as a % of total online and catalogue sales: **18%**

#### Drivers of sales growth

- Opening highly profitable "official stores" that leverage FANCL's online and catalogue system and fulfillment strengths

#### Online mall store formats

Official store

Wholesale to retailers

High profitability

Low profitability

- Utilizing core FIT system and FANCL's direct marketing know-how



Ad management



CRM

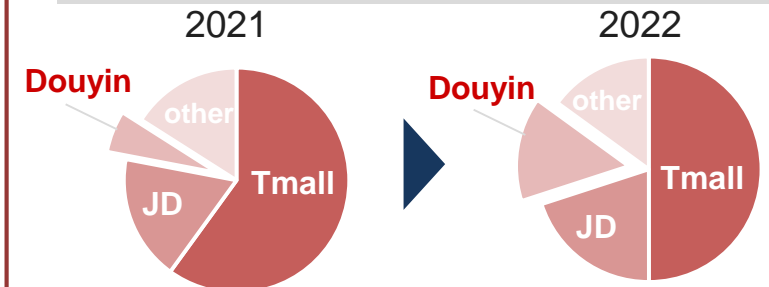


## Overseas

### Status of China cross-border e-commerce business

- YoY decline in H1 due to weak consumption following lockdowns and inventory squeeze by TP companies acting as operating agents
- Expanded to "Douyin" as a new channel (August 2021)
- Strengthened promotions, including use of beauty KOLs
- Develop general trade sales into a second pillar (planned for the second half of FY Mar/2023)

#### Cross-border e-commerce Share of sales by platform



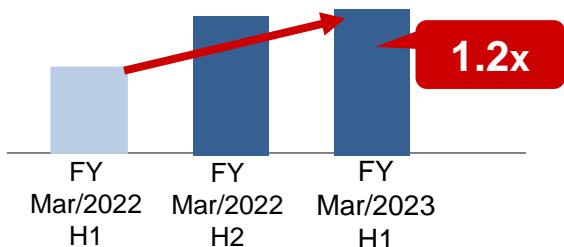
# **Health Business**

## Concentrating marketing investment on star products to effectively expand sales

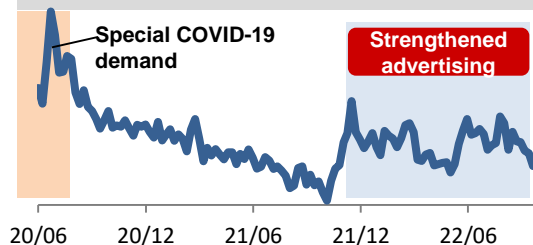
### Naishi Support

- New customer acquisitions and strong wholesale sales due to ongoing investment in advertising

New customer acquisitions



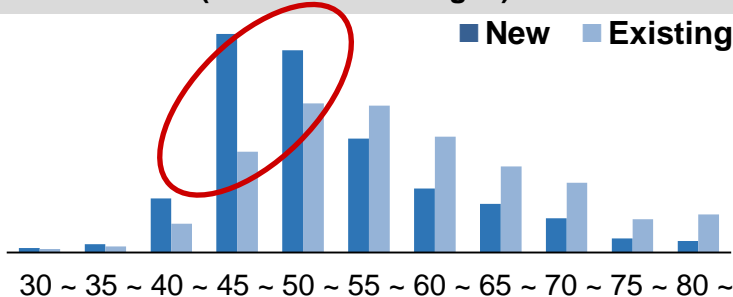
Drugstore POS



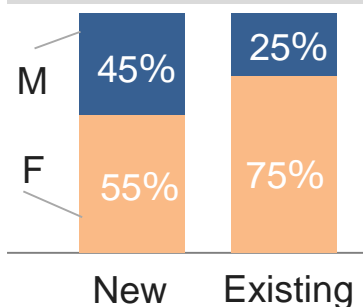
### Enkin

- Successful promotion through new commercials for the first time in 2.5 years

Age composition of new and existing customers (online and catalogue)



Ratio of male to female buyers

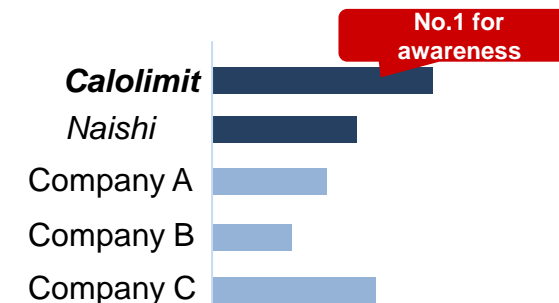


### Calolimit Series

- New commercials to launch in November for *Calolimit* and *Calolimit for the Mature Aged*



Brand awareness



Source: FANCL survey, March 2022

### Product appeal

	Calolimit	Calolimit for the Mature Aged
Target	Light users mainly in their 20s to 30s who want to maintain their shape	People in their 40's and 50's seeking greater effectiveness
Appeal points	Embodying brand values that support the "joy of eating well"	Understanding of the greater effectiveness (metabolic function) required for addressing the health concerns of mature aged adults

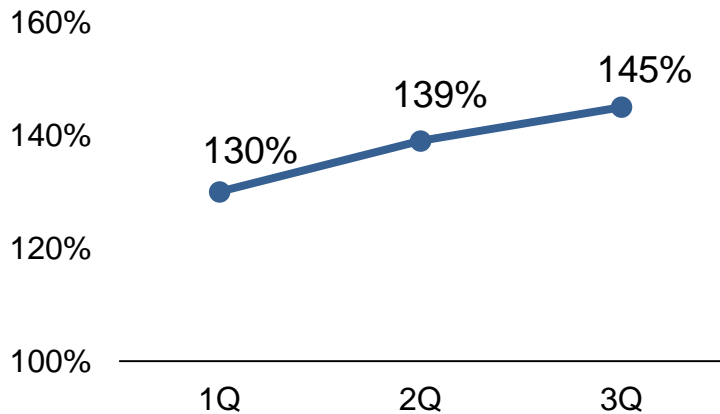
Aiming to expand customer base through continuous advertising



Local sales from January to September were strong, up 38% YoY, though plan reduced due to local inventory adjustments

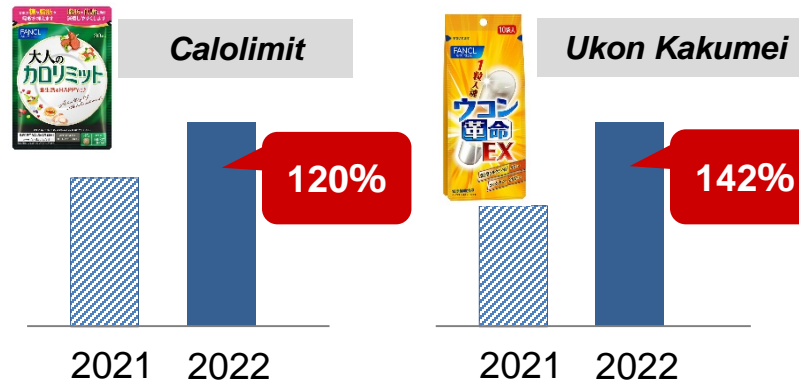
## Cross-border e-commerce

### Local retail (YoY change)



- While results were impacted by lockdowns, an increase in health awareness, and *Caloimit* and *Ukon Kakumei*, contributed to sales
- Wholesale sales expected to recover from Q4 as inventory adjustments run their course

### Cultivation of *Calolimit* and *Ukon Kakumei*



\*T-Mall International flagship store January-September sales



Social Video: "Plan everything efficiently"

## General trade

### License applications

#### Status of study group discussions

- No discussions were held on rulemaking, and therefore no progress has been made

#### Concurrent product development

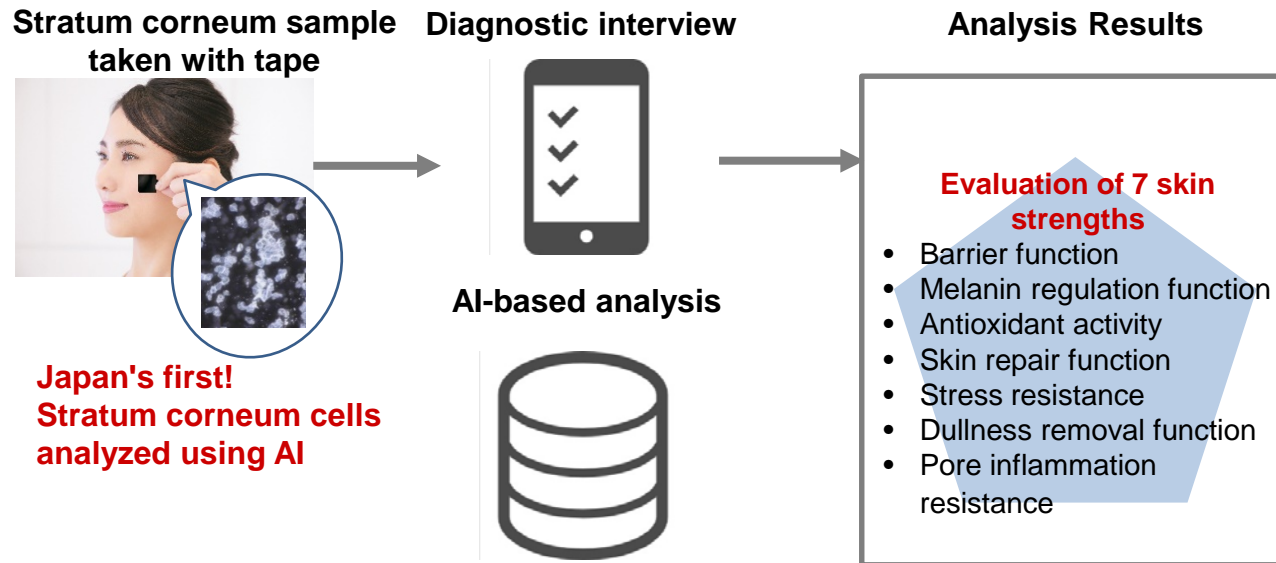
- FANCL's Research Institute completed formulation development of 9 products in accordance with local rules and regulations
- Progressing with preparation for applications
- Aiming to launch sales in FY Mar/2024

**OMO unique to FANCL**

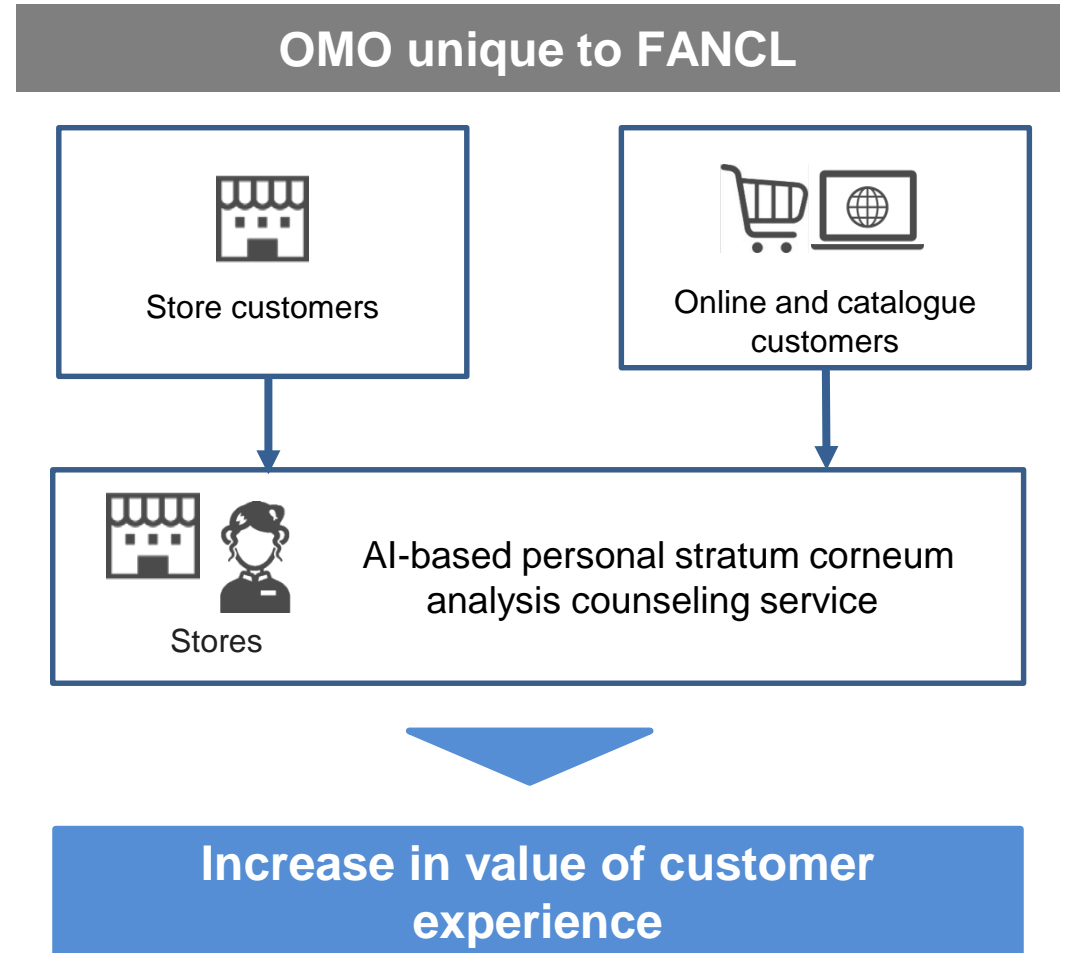
Working to improve customer experience value by offering experiences both in stores and online

## Service outline

- ✓ **Launch of Japan's first AI personal stratum corneum analysis** counseling service at **all stores**
- ✓ Analysis that combines "**stratum corneum shape**" and "**proteins related to skin beauty (stratum corneum biomarkers)**" using our independently developed AI. Determine **current skin concerns and future aging risks**



**Japan's first!**  
**Stratum corneum cells**  
**analyzed using AI**



Working to advance CRM by leveraging D2C know-how and the core FIT system

## FANCL's CRM strengths

### Unique knowledge and expertise

- Hundreds of unique scenarios developed and managed

(Typical company)

Dozens of scenarios at most, in some cases outsourcing scenario development to outside companies



### Core FIT system

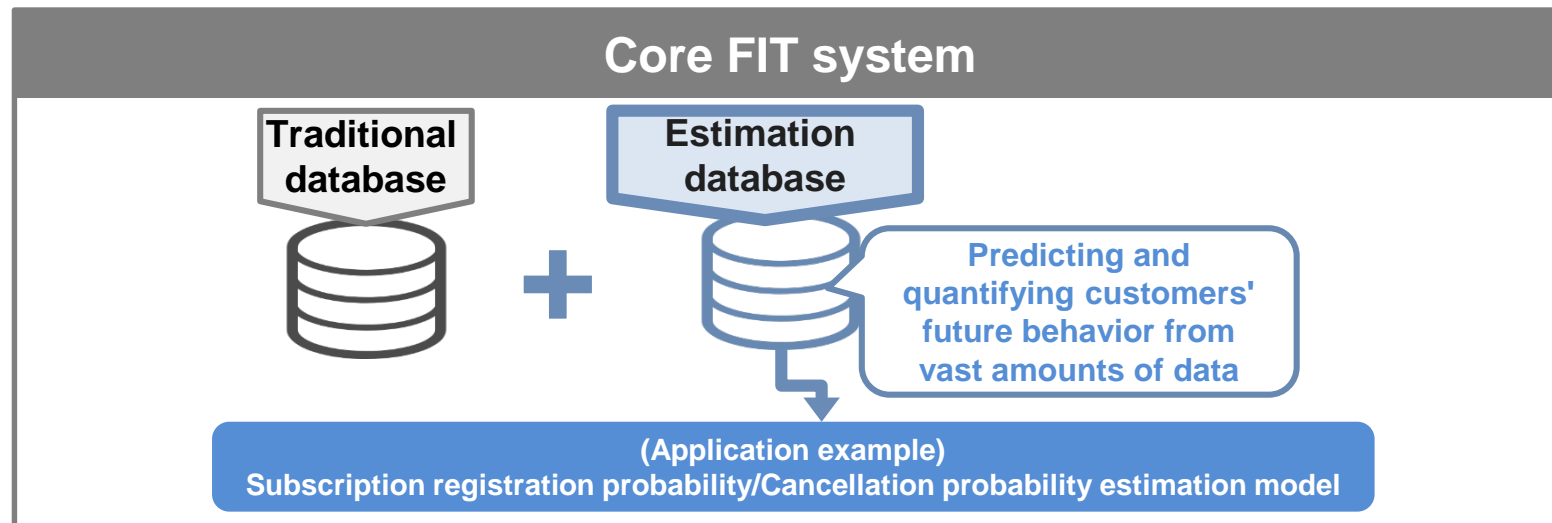
- Database functionality for easy addition of new data

(Typical company)

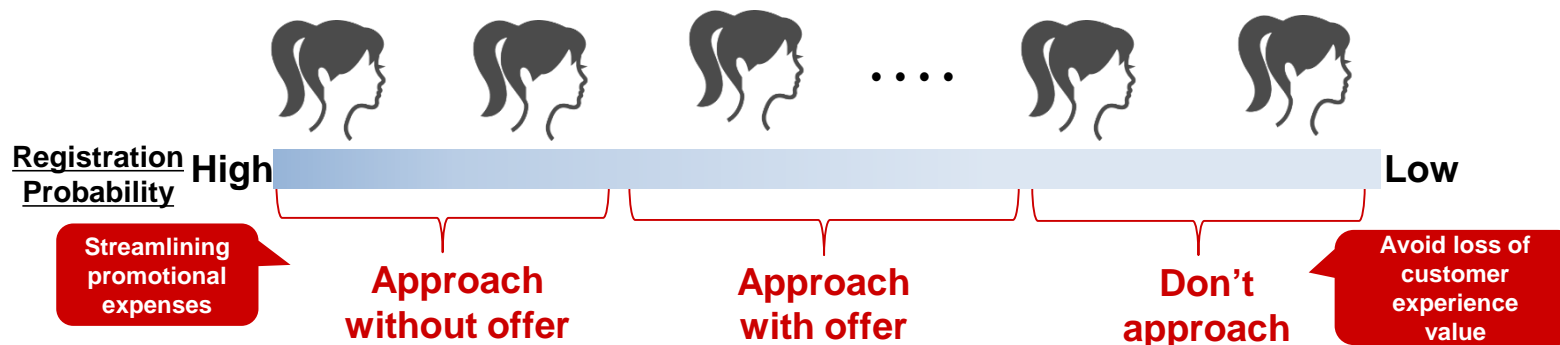
Dependent on vendors for system development, and cannot easily add data

Enables advanced CRM approaches

## CRM estimation model utilizing AI (machine learning)



### Subscription registration CRM model (image)



**ESG**

# Switching to sustainable containers and packaging materials

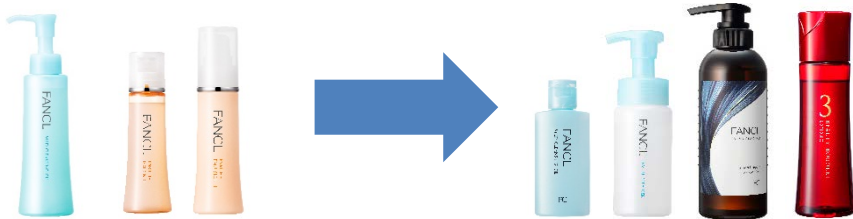
Key challenges	Quantitative targets	Progress
Achieve 4R* compatibility for containers and packaging that use plastic	<b>100%</b> by FY Mar/2031	As of end of Sep. 2022 → <b>45.9%</b>
Adoption of eco-friendly paper for containers and packaging that use paper	<b>100%</b> by FY Mar/2026	As of end of Sep. 2022 → <b>80.3%</b>

\*4R : Reduce, Reuse, Recycle, Renewable

## Use of recycled PET

**MILD CLEANSING OIL, ENRICH+** bottles made from 100% recycled materials

Switch to almost all PET materials by the end of FY Mar/2023



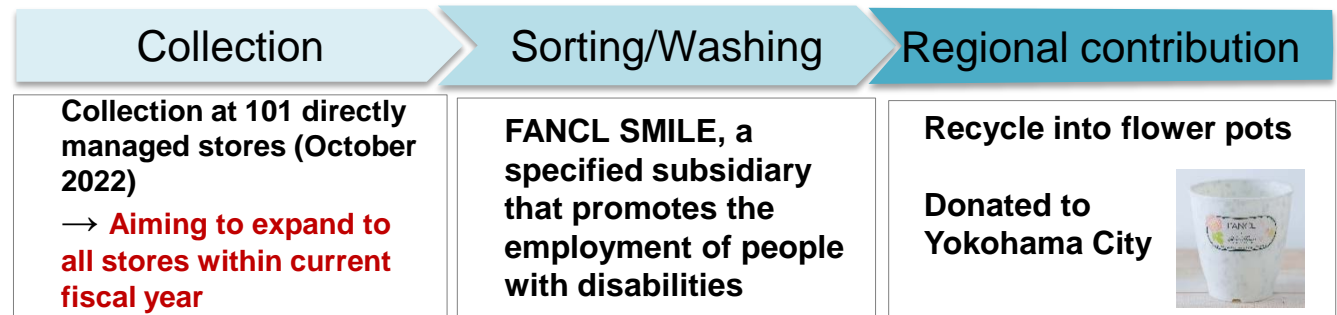
## Use of eco-friendly paper



Outer boxes for 18 makeup-related products changed from plastic to forest-certified paper

## Aiming for all stores to offer used container collection

### FANCL's proprietary collection system

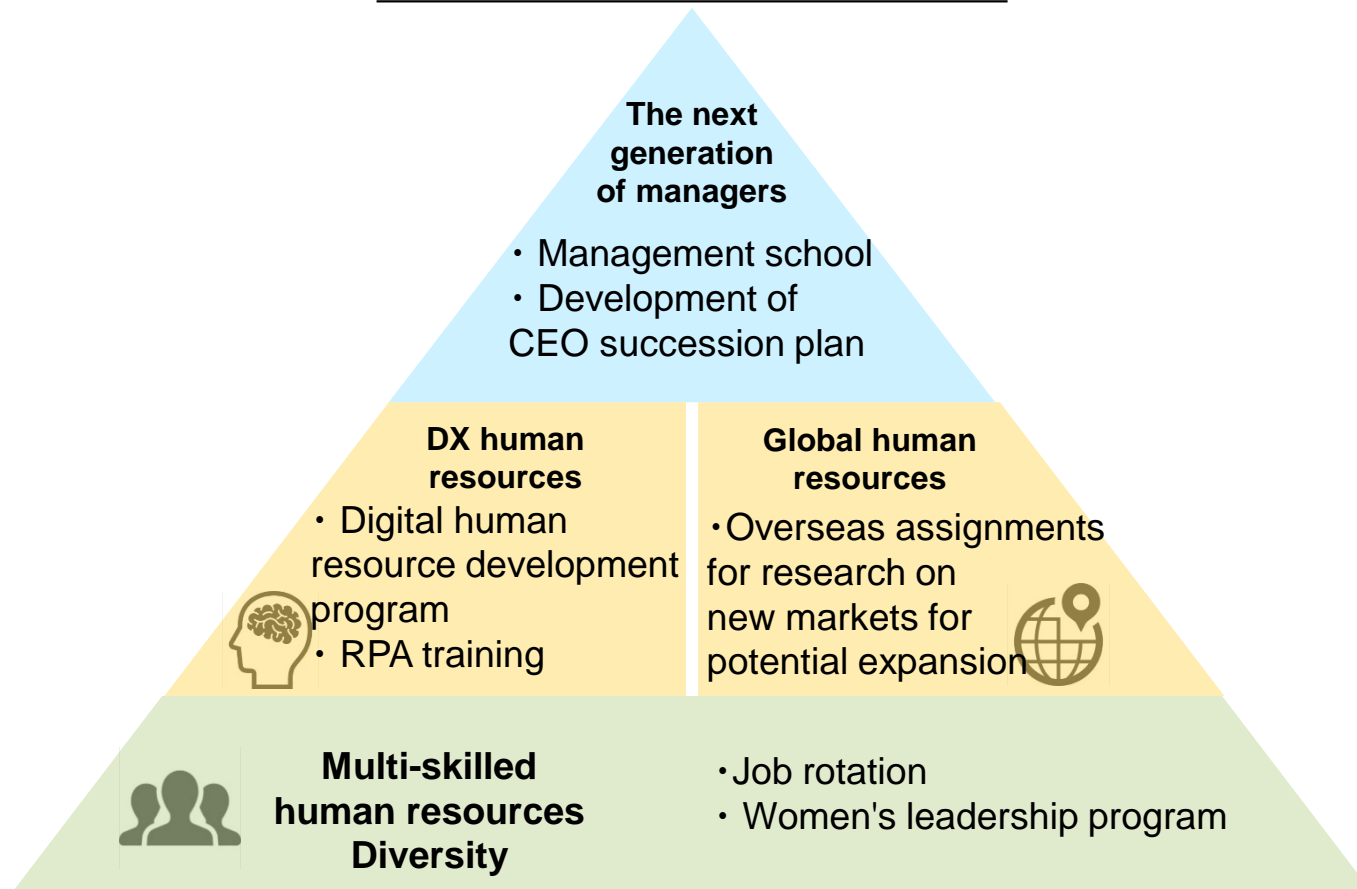


## Challenge: Recycle used containers into same containers

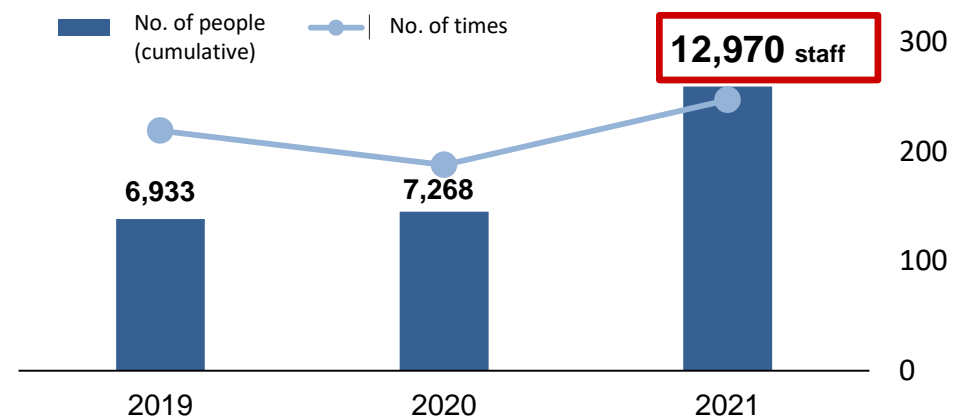


To realize VISION 2030, develop and promote human resources who will lead us into the future

## Human resource investment in FY Mar/2023: Areas of focus



## Results of training for head office employees



## Gender ratio of management staff

