

# FANCL

正直品質。

## **FANCL Group Financial Results Briefing For the period April 1, 2022 to December 31, 2022**

February 7, 2023

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# **Financial Highlights**

# Results by segment

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(Millions of yen)	Q3 of FY to March 2022 (Oct.-Dec.)	Q3 of FY to March 2023 (Oct.-Dec.)	Change YoY
<b>Sales</b>	<b>29,039</b>	<b>28,315</b>	<b>(2.5%)</b>
<i>Cosmetics</i>	<b>16,366</b>	<b>15,481</b>	<b>(5.4%)</b>
<i>Nutritional supplements</i>	<b>10,813</b>	<b>11,194</b>	<b>+ 3.5%</b>
<i>Other</i>	<b>1,859</b>	<b>1,638</b>	<b>(11.9%)</b>
<i>Hatsuga Genmai</i>	<b>516</b>	<b>507</b>	<b>(1.7%)</b>
<i>Kale Juice</i>	<b>621</b>	<b>567</b>	<b>(8.7%)</b>
<b>Operating income</b>	<b>3,255</b>	<b>3,092</b>	<b>(5.0%)</b>
<b>Ordinary income</b>	<b>3,329</b>	<b>3,100</b>	<b>(6.9%)</b>
<b>Net income</b>	<b>2,421</b>	<b>1,704</b>	<b>(29.6%)</b>
<b>※1 EBITDA</b>	<b>4,457</b>	<b>4,197</b>	<b>(5.8%)</b>
<b>※2 EBITDA margin</b>	<b>15.4%</b>	<b>14.8%</b>	<b>(0.5%)</b>

※1 EBITDA : Operating income + Depreciation

※2 EBITDA margin : EBITDA / Sales

Sales breakdown (3-month period)			
Region	Amount	Change YoY	
Domestic	<b>25,703</b>	<b>(1.2%)</b>	
Overseas	<b>2,611</b>	<b>(13.6%)</b>	
Cosmetics		Amount	
		Change YoY	
FANCL	Domestic	<b>10,407</b>	<b>(6.8%)</b>
	Overseas	<b>913</b>	<b>(8.7%)</b>
	Total	<b>11,320</b>	<b>(6.9%)</b>
ATTENIR	Domestic	<b>3,523</b>	<b>+ 5.5%</b>
	Overseas	<b>158</b>	<b>(34.0%)</b>
	Total	<b>3,681</b>	<b>+ 2.9%</b>
<i>boscia</i>		<b>195</b>	<b>(26.3%)</b>
Nutritional supplements		Amount	Change YoY
Domestic		<b>9,852</b>	<b>+ 5.9%</b>
Overseas		<b>1,342</b>	<b>(11.2%)</b>
Total		<b>11,194</b>	<b>+ 3.5%</b>

# Results by segment

FANCL

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(Millions of yen)	Nine-month period of FY to March 2022	Nine-month period of FY to March 2023	Change YoY
<b>Sales</b>	<b>78,916</b>	<b>78,954</b>	<b>+ 0.0%</b>
<i>Cosmetics</i>	<b>44,611</b>	<b>44,176</b>	<b>(1.0%)</b>
<i>Nutritional supplements</i>	<b>29,273</b>	<b>30,060</b>	<b>+ 2.7%</b>
<i>Other</i>	<b>5,031</b>	<b>4,717</b>	<b>(6.2%)</b>
<i>Hatsuga Genmai</i>	<b>1,526</b>	<b>1,503</b>	<b>(1.5%)</b>
<i>Kale Juice</i>	<b>1,601</b>	<b>1,531</b>	<b>(4.4%)</b>
<b>Operating income</b>	<b>8,426</b>	<b>6,442</b>	<b>(23.5%)</b>
<b>Ordinary income</b>	<b>8,888</b>	<b>7,277</b>	<b>(18.1%)</b>
<b>Net income</b>	<b>6,492</b>	<b>4,358</b>	<b>(32.9%)</b>
<b>※1 EBITDA</b>	<b>11,746</b>	<b>9,691</b>	<b>(17.5%)</b>
<b>※2 EBITDA margin</b>	<b>14.9%</b>	<b>12.3%</b>	<b>(2.6%)</b>

※1 EBITDA : Operating income + Depreciation

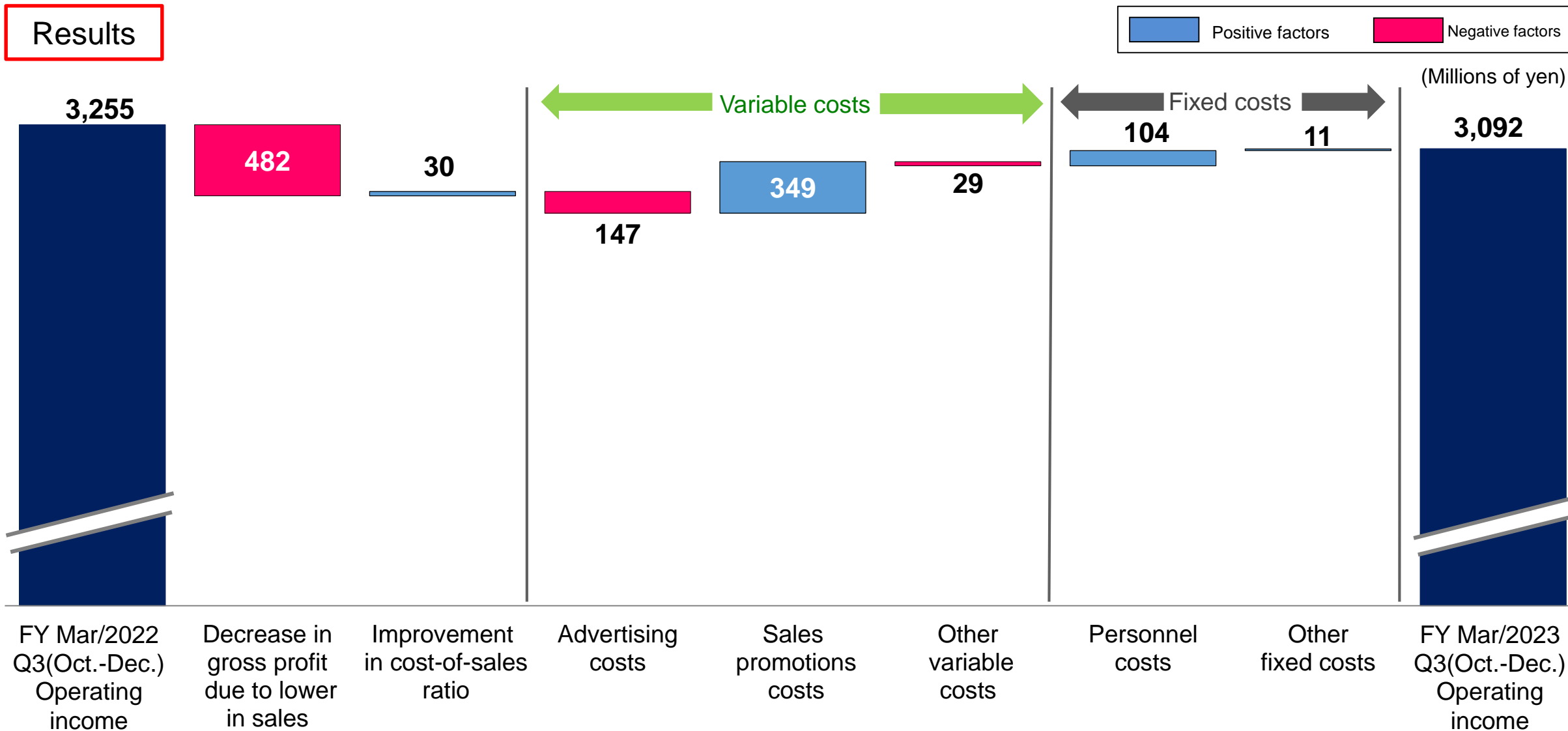
※2 EBITDA margin : EBITDA / Sales

※3 Negative impact of China lockdown

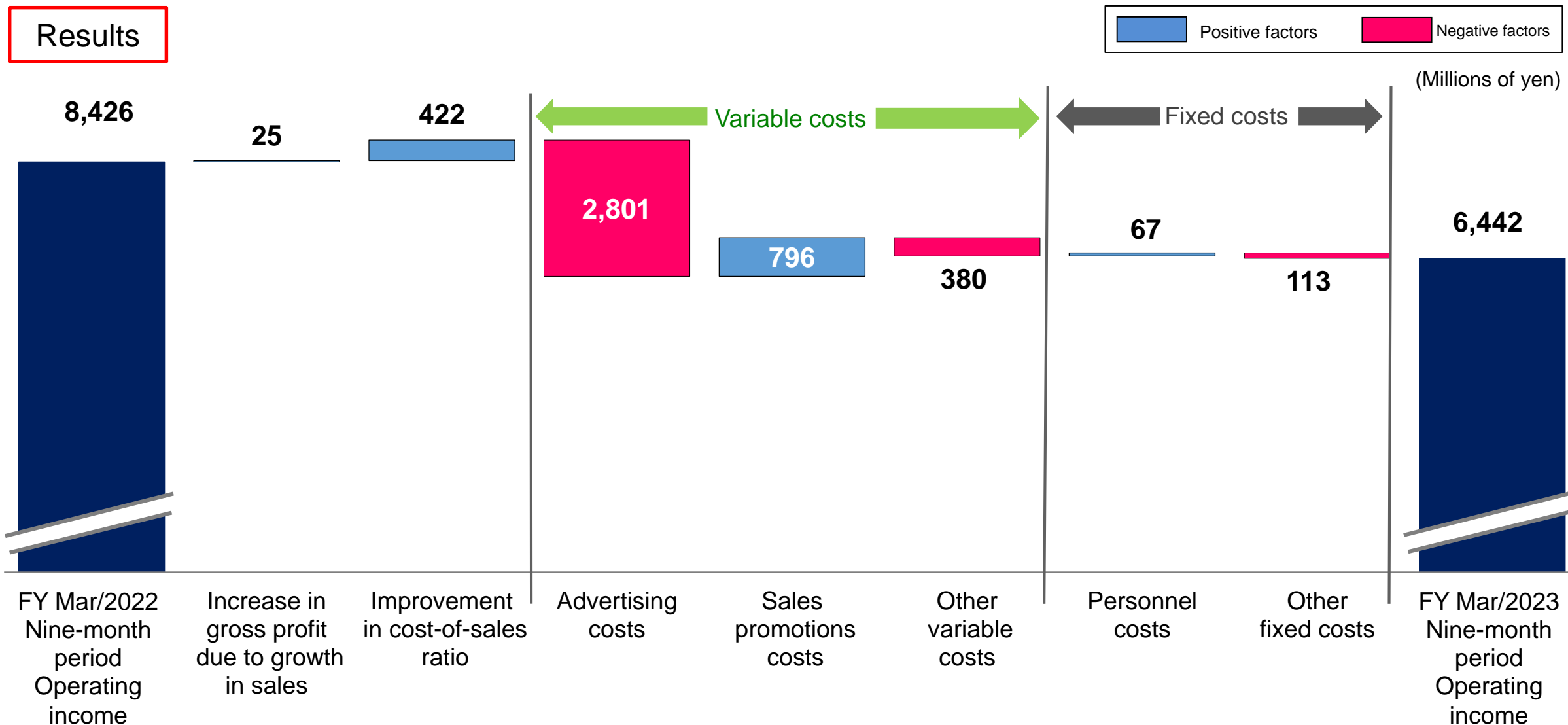
Sales: Approx ¥1,600 mn, Operating income: ¥700 mn

Sales breakdown (9-month period)			
Region	Amount	Change YoY	
Domestic	<b>71,916</b>	<b>+ 2.4%</b>	
Overseas ※3	<b>7,037</b>	<b>(19.3%)</b>	
Cosmetics		Amount	
		Change YoY	
FANCL ※3	Domestic	<b>29,800</b>	<b>+ 0.5%</b>
	Overseas	<b>2,426</b>	<b>(13.3%)</b>
	Total	<b>32,226</b>	<b>(0.6%)</b>
ATTENIR ※3	Domestic	<b>9,497</b>	<b>+ 4.1%</b>
	Overseas	<b>928</b>	<b>(36.4%)</b>
	Total	<b>10,426</b>	<b>(1.5%)</b>
boscia ※3	<b>594</b>	<b>(25.2%)</b>	
Nutritional supplements		Amount	
		Change YoY	
Domestic	<b>26,980</b>	<b>+ 5.3%</b>	
Overseas ※3	<b>3,080</b>	<b>(15.7%)</b>	
Total	<b>30,060</b>	<b>+ 2.7%</b>	

# Q3(October-December) Analysis of change in operating income



# Q3 cumulative(April-December) Analysis of change in operating income



# **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%
<i>Cosmetics</i>	58,809	59,950	+ 1.9%
<i>Nutritional supplements</i>	38,471	40,520	+ 5.3%
<i>Other</i>	6,710	7,030	+ 4.8%
<i>Hatsuga Genmai</i>	2,056	2,140	+ 4.1%
<i>Kale Juice</i>	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%)

※1 EBITDA : Operating income + Depreciation

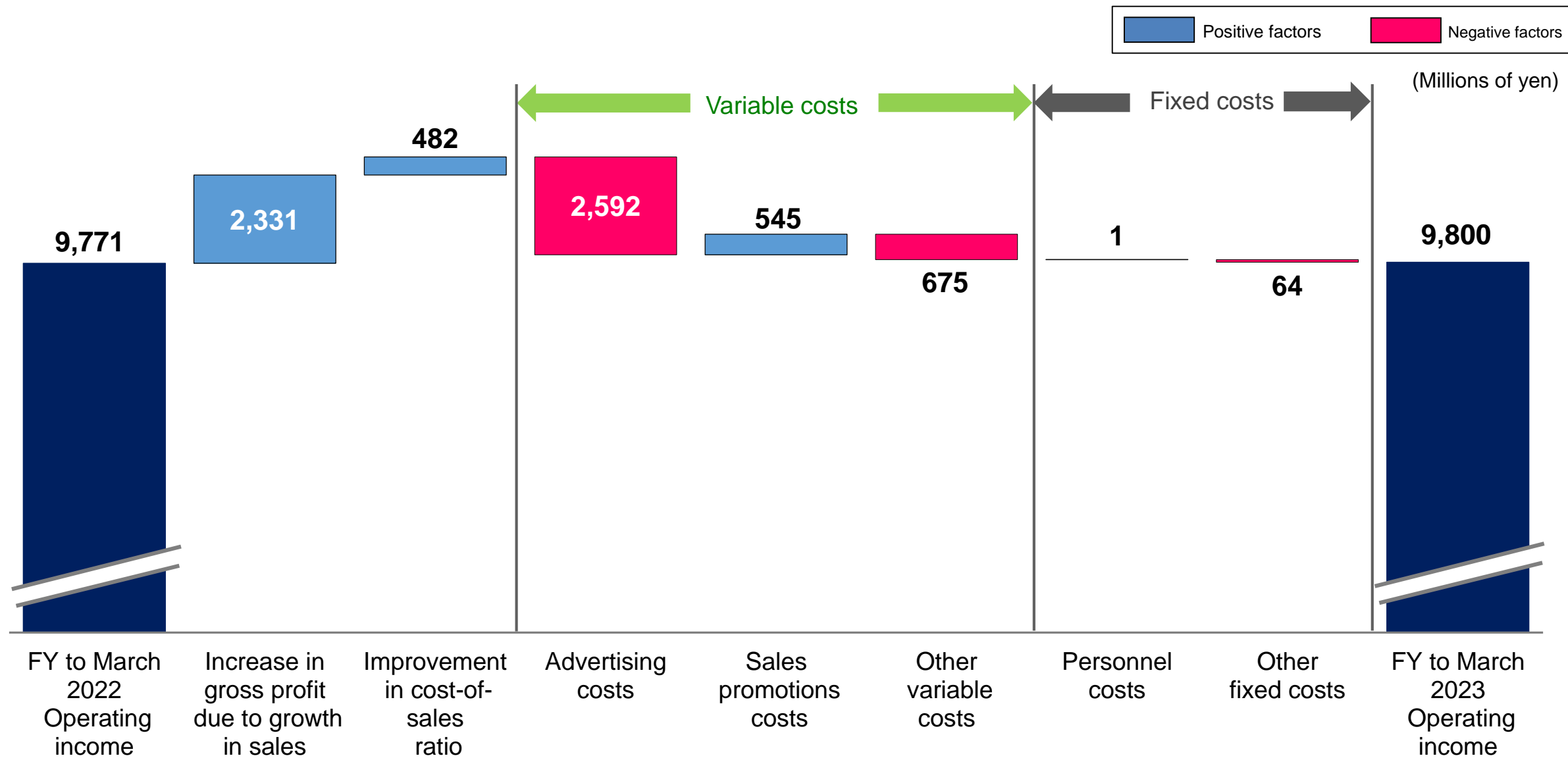
※2 EBITDA margin : EBITDA / Sales

## 【Assumption】

Inbound sales (Direct store sales) expected  
¥400 mn in FY Mar/2023

Sales breakdown (Full year)			
Region	Amount	Change YoY	
Domestic	97,220	+ 5.1%	
Overseas	10,280	(10.3%)	
Cosmetics		Amount	
FANCL	Domestic	40,150	+ 3.3%
	Overseas	3,670	(5.3%)
	Total	43,820	+ 2.5%
ATTENIR	Domestic	12,650	+ 5.1%
	Overseas	1,480	(15.9%)
	Total	14,130	+ 2.4%
<i>boscia</i>	800	(31.1%)	
Nutritional supplements		Amount	
Domestic	36,210	+ 7.1%	
Overseas	4,310	(7.4%)	
Total	40,520	+ 5.3%	

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



## **Q3 summary**

# Q3 (October-December) sales results by channel

Year-on Year comparison

Overall sales declined due to sluggish sales at direct stores, despite increase in online and catalogue and wholesale sales due to effects of advertising

(Unit: Millions of yen)

	FY Mar/2022 Q3 (Oct-Dec)	FY Mar/2023 Q3 (Oct-Dec)	YoY comparison (%)	Change
Online and catalogue	14,576	14,954	+ 2.6%	+ 377
Stores	5,866	4,820	(17.8%)	(1,045)
Wholesale	5,575	5,928	+ 6.3%	+ 353
Total domestic sales	26,018	25,703	(1.2%)	(315)

## Number of customers (number of sales)

- With the pandemic continuing to linger, the number of store visits was low, and customers have not increased
- Consumption styles are changing, and some customers have shifted to online and catalogue and wholesale channels
- We streamlined stores from the viewpoint of improving profitability (187 stores at the end of December (down 16 stores from the previous December))

## Purchase unit price

- Focusing on measures from the viewpoint of improving profitability

Comparison with plan

Online and catalogue and wholesale were largely in line with the plan, but store sales fell short

- Factors behind shortfall: In addition to the same reasons mentioned above in the YoY comparison, the H2 plan for stores has not been changed since the initial plan at the beginning of the fiscal year, and there have been deviations from the assumptions of the external environment that were considered at the beginning of the period.
- Deviations from assumptions: slow recovery of economic activity due to pandemic, deteriorating consumption environment due to inflation

# The future outlook for the Direct store channel

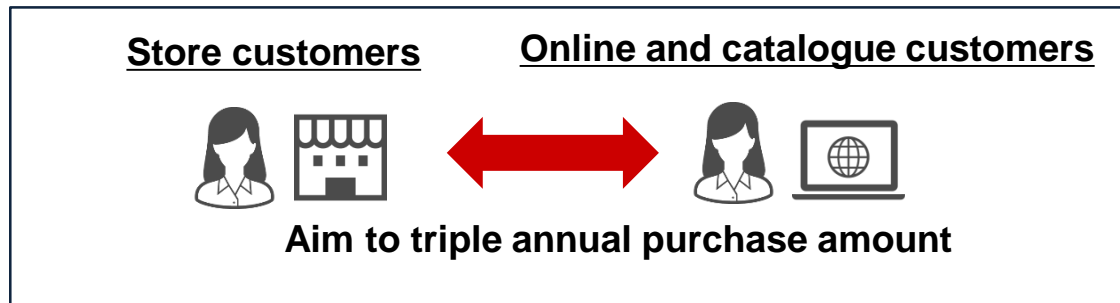
## > Respond to issues with a sense of urgency and rebuild early

### Store positioning

- Increase the number of FANCL "fans" by having visitors experience and feel the world view of the FANCL brand
- Achieve balance in both "branding" and "sales/profitability"

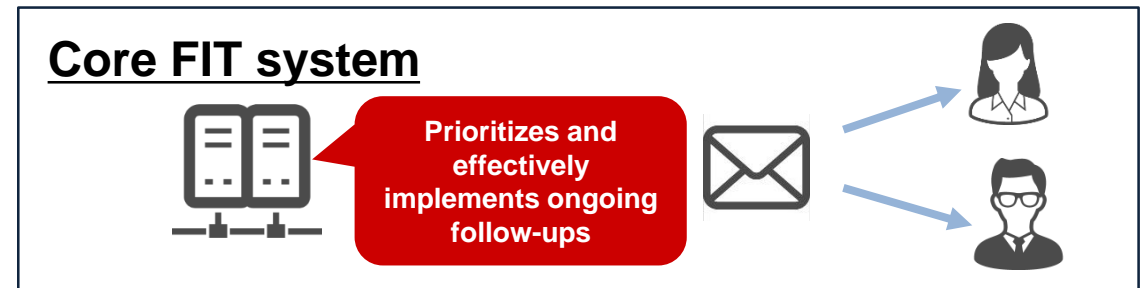
### Increase purchase unit price

- Implement well-rounded measures, determining the balance between sales and profitability
- Strengthen AI Personal Stratum Corneum Analysis counseling service
- Enhance value of customer experience by promoting store visits in conjunction with online and catalogue platforms

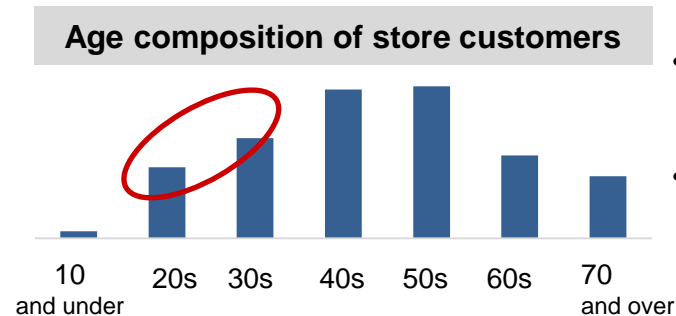


### Expansion of customer base

- Attract customers through commercial facility-run media and events, etc.
- In-store touch-ups, tastings, etc.
- Promote continuity by utilizing the core FIT system



- Opening experimental store targeting younger customers (this spring)



- Currently, customers are mainly around their 40s
- Continue approach to younger generations to acquire new customers

# Effects of advertising

> Customers increased to 101% as of end of December due to advertising investment from H2 of previous FY

## Trends in customer numbers

(Year-on-Year comparison)	Dec 2020	Dec 2021	Dec 2022
Online/catalogue	103%	98%	103%
Stores	77%	88%	95%
Total	93%	95%	101%

Number of online and catalogue customers reached record high

## Cumulative advertising expenditures and new customer acquisitions through to Q3

(Year-on-Year comparison)	Advertising expenditure	New acquisitions	Overall customer numbers
Cosmetics	131%	117%	103%
Supplements	137%	107%	98%
Total	134%	113%	101%

(Note) FANCL results

## Number of customers by user cluster

(Year-on-Year comparison)	Dec 2021	Dec 2022
Light	85%	103%
Middle	98%	101%
Heavy	98%	100%

Increase in light/middle cluster due to continuous new acquisitions

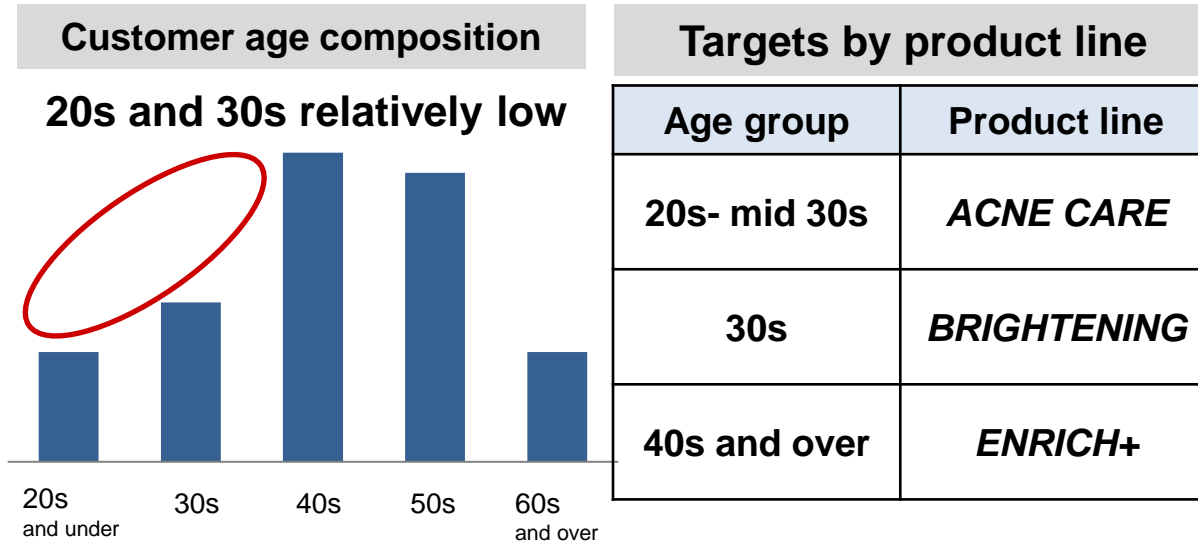
## Ref: Q3 (Oct-Dec) Effects of advertising for core products

(Year-on-Year comparison)	Product	Advertising expenditure	New acquisitions
Cosmetics	<i>ENRICH+</i>	122%	114%
	<i>MILD CLEANSING OIL</i>	62%	107%
Supplements	<i>Calolimit</i>	175%	154%
	<i>Naishi Support</i>	73%	72%

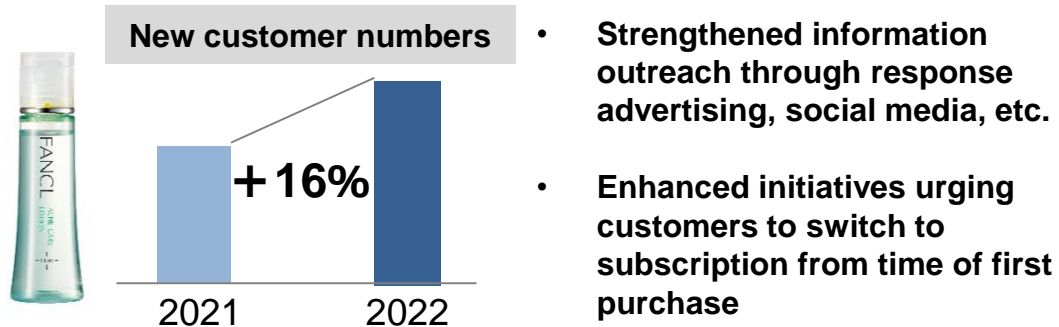
# **Cosmetics Business**

> Reinforced key theme of expanding Basic Skin Care customers. Basic skin care customers up 104% YoY

## Basic Skin Care – Age group-based approach



## Strengthening of *ACNE CARE* (quasi-drug) line



## Launch of *BRIGHTENING* (quasi drug) FANCL x KIRIN



Feb: Essence, Mask  
Mar: Lotion, Emulsion  
Price range: ¥1,870~3,300

Simultaneous 3-in-1 care

Standard

Blemishes



Dullness

Added functions in this product

Skin irritation

## China business

- The way to develop business following expiration of the period of current distributorship agreement yet determined at this time. Planning to consider options in further detail going forward
- Planning to initially focus on development of China supplements, Attenir and BRANCHIC, which we can work on independently, and develop into pillars of growth



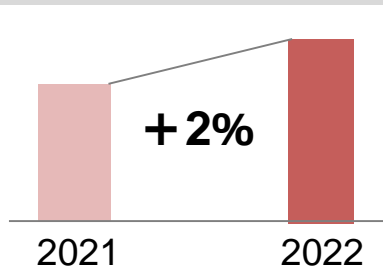
## Domestic

### Cross-selling to existing users

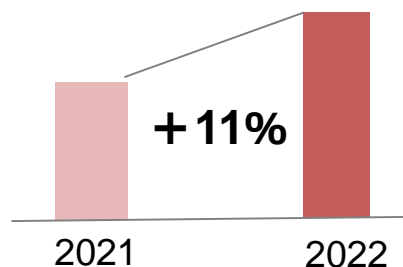
Offering special care products that can supplement the products already favored by our users



### Number of special care customers



### Special care sales



### Strengthening external e-commerce sales

External e-commerce sales: **2x** YoY

Breakdown of e-commerce sales

External e-commerce: **17%**

(% share for Q3 of last year (cumulative): 11%)

“2022 Rakuten Best Cosmetics”

**SKIN CLEAR CLEANSE OIL**

**Won overall 1st prize**



“Rakuten Best Cosmetics”

This award is presented for cosmetics and beauty products with the best sales and other purchasing data

## Overseas

### China cross-border e-commerce

- Shift toward measures aimed at increasing awareness and sales by leveraging beauty KOLs, etc., and rebuild a foundation for growth
- Develop general trade sales into a second growth pillar (planned for the second half of FY Mar/2024)



Leveraging KOLs through Douyin (TikTok) to carefully communicate brand value and product strengths

# **Health Business**

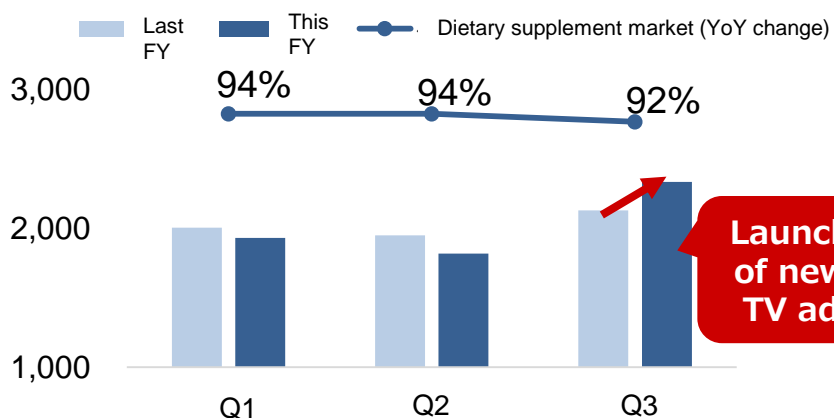
- > Focus on developing next generation of star products in addition to continuing to strengthen existing star products

## Enhanced promotion of *Calolimit*

- Return to profit despite difficult market environment

### Sales of *Calolimit* and overall dietary supplement market

Unit: Millions of yen



(Year-on-Year comparison)	H1	Q3 (Oct-Dec)
<b>Sales</b>	95%	110%

Expansion of customer base through continuous advertising initiatives

## Development of next generation of star products

### Sleep & Fatigue Care

- Expanded test marketing to Tokai area



#### August 2022 Shizuoka area results

Online and catalogue

New acquisition rate 1.5 times higher than other areas

Wholesale

POS 5 times the level prior to initiatives

#### February 2023 Tokai area

Create sales areas in stores and develop ads conveying product features

TV ad: Strengthen appeal of product's ability to **combat fatigue**

### Anti-Cholesterol Support

- Strong-trending sales since renewal



- ✓ Reasonably priced compared to competitor products
- ✓ Clinical trials confirmed efficacy in 4 weeks

(Year-on-Year comparison)	Pre-renewal (H1)	Post-renewal (Q3)
<b>Sales</b>	106%	326%

Online and catalogue

Launched response ads, promoted trial use, urged switch to subscription

Stores

Strengthened in-store presentation, held Lifestyle Counseling Fair

- > With end of local inventory adjustments, wholesale sales in Oct to Dec period increased significantly, at 140% compared to previous period

## Cross-border e-commerce

### W11 initiatives and sales

#### W11 outperforms market in growth

##### Preliminary/boom period: FANCL



'Inner-Body Efficacy' video



Promotion via KOLs

##### During W11: Sinopharm

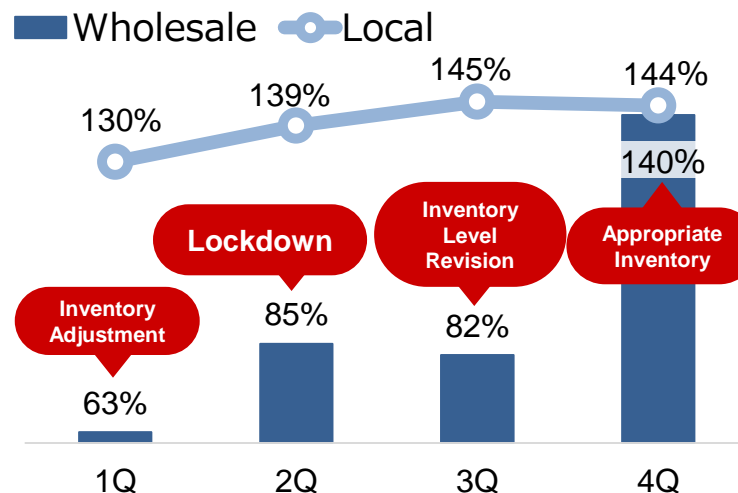


KOL live commerce



Age Bracket-Based Supplements, Calolimit, Ukon Kakumei selling well

#### Wholesale, local retail sales (YoY)



#### Responding to increased demand for immunity-related products from December



Distributing information on platforms, using live commerce

## General Trade

### License applications

#### Status of study group discussions

- No discussions nor progress on rulemaking

#### Concurrent product development

- Preparations underway for analytical testing at local testing organization
- Aiming for launch in FY Mar/2024

**OMO unique to FANCL**

# Stores: Launch of AI-based personal stratum corneum analysis counselling service at all stores

- > Counseling offering based on highly accurate skin analysis, leading to increased purchase rates and purchase unit price

## Effects of AI-based personal stratum corneum analysis

Stratum corneum sample taken with tape



Japan's first!  
Stratum corneum cells analyzed using AI

Diagnostic interview



AI-based analysis

Analysis results

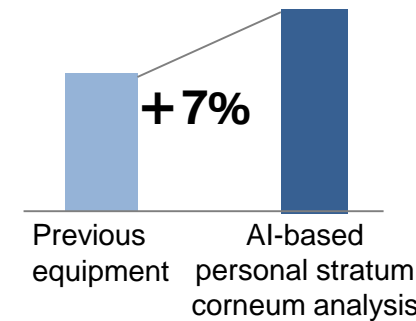
Evaluation of 7 skin strengths

### Ranking of items purchased after counseling

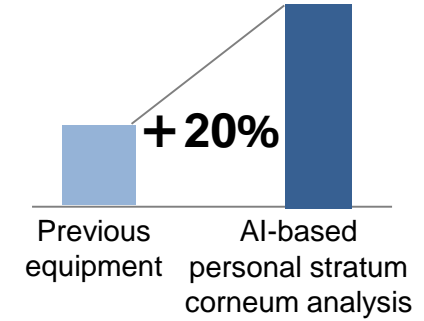
Increase in purchases of basic skin care and toners

	Previous equipment		AI stratum corneum
1	MILD CLEANSING OIL	1	ENRICH+ Lotion
2	CLAY GEL FACIAL WASH	2	ENRICH+ Emulsion
3	ENRICH+ Lotion	3	MILD CLEANSING OIL
4	ENRICH+ Emulsion	4	CORE EFFECTOR
~~~~~			
10	CORE EFFECTOR	5	CLAY GEL FACIAL WASH

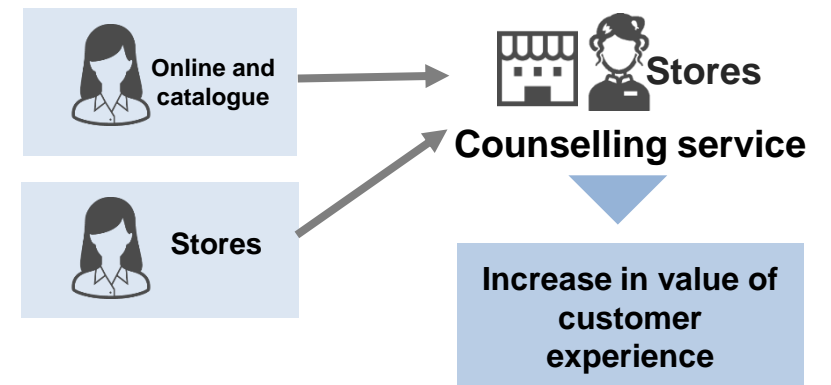
### Purchase rate after counselling



### Light to middle user cluster purchase unit price



### Further promotion of OMO unique to FANCL

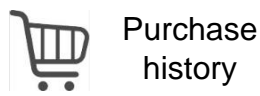


> Leveraging FANCL's unique strengths to achieve optimal communication for each customer

## FANCL's CRM strengths

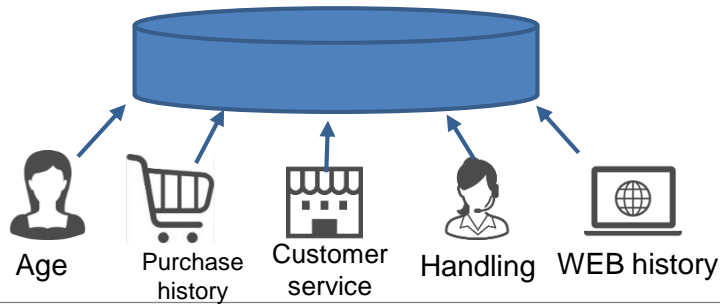
### CRM of a typical company

- Utilizing customer demographics and purchasing data



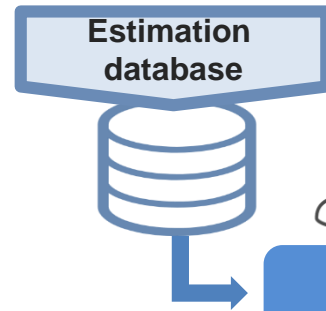
### FANCL's CRM

- Multiplying hundreds of factors to build our own estimation model



Requires a **flexible data storage system** and **advanced data analysis expertise**

## Operating a model to prevent subscription cancellations for *Naishi Support*



Analyzing subscription cancellation data to draw out statistically significant factors

Calculating a model to predict subscription cancellation rates and reasons for cancellation.

	Cancellation rate	Reason for cancellation	Measures to prevent cancellation
Customer A	70%	Can't feel the effects	Advise on correct dosing method
Customer B	60%	Ends up with excess volume of product	Inform customer that regular subscriptions can be temporarily suspended and delivery dates can be changed.
Customer C	●%	.....	.....

In the future, we aim to expand to other products and **increase sales by several hundred million yen per year**

**ESG**



Key issue	Quantitative target	State of progress
Use of certified palm oil*	100% by FY Mar/2024	100% achieved via book-and-claim method

\*Applies to FANCL and ATTENIR cosmetics and health foods

Sep 2021

**Obtained RSPO supply chain certification** for headquarters and factories



Obtained for 3 factories (Chiba, Shiga, Gunma)

Jan 2022

Began using certified palm oil for cosmetics and health foods  
**100% achieved via book-and-claim method**



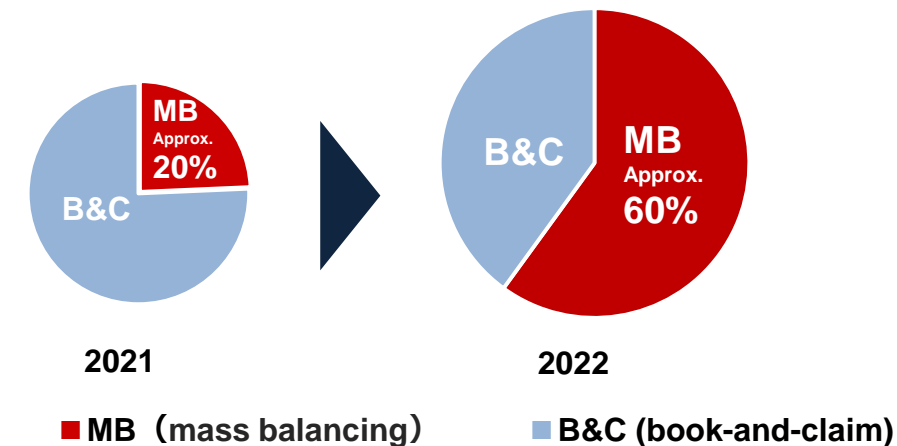
Sep 2022

**MILD CLEANSING OIL, SKIN CLEAR CLEANSE OIL**  
**mass balancing**



## Breakdown of palm oil use (cosmetics)

Using mass-balanced raw materials for products that require large volumes of palm oil  
Increased the **mass balancing ratio to approximately 60% in 2022.**



We will continue to strive for sustainable procurement and are currently preparing to join the Sedex platform.

# **Policy for next fiscal year**

## Positioning for next fiscal year

Endeavoring to ensure that the next fiscal year contributes positively to the next medium-term management plan, starting in FY Mar/2025.

### FY Mar/2023 initiatives

**Recovery of customer base** through advertising investments

### FY Mar/2024

#### Products

- FANCL Cosmetics: launch **major new products**
- ATTENIR: **Renew several core products**
- Supplements: Develop the next star product

#### Costs

- **Consider continuing to invest in advertising at the same scale as the current term** in order to establish a foundation for medium- to long-term growth
- **Make efforts to utilize other expenses efficiently**

### FY Mar/2024 plan

**Continued investment in advertising** to establish a foundation for growth

Although it will be difficult to achieve the targets outlined in the current medium-term business plan, we are aiming for a **significant recovery of operating income**, with contribution by factors such as the effects of advertising initiatives

#### Channels

Online and catalogue: In addition to direct sales channels, further strengthen our already promising external online and catalogue sales  
Stores: Improve profitability by reducing the number of unprofitable stores  
Wholesale: Strengthen sales promotions in line with advertising investments, introduce promotional products  
Overseas: **Sustainable growth in China supplements business**

