Held February 7, 2023

FANCL CORPORATION
FY Mar/2023 Q3 Financial Results Briefing
Q&A Session Summary

1. Can you explain the reason why Q3 sales fell short of the plan but operating income was in line with the plan?
   Also, do you think you can achieve your full-year operating income target? Are you hoping to see an increase in inbound sales?

⇒Q3 operating income was in line with the plan because we shifted ¥600 million yen of advertising expenditure to Q4. In order to maximize the effectiveness of advertising, we shifted ¥400 million to Q4 domestic advertising and ¥200 million to Q4 overseas advertising. As of now, we plan to use our advertising and sales promotion expenditure for Q4 as planned, but may consider flexibly adjusting overall expenditure according to the situation with sales.

Inbound sales were ¥200 million in Q3, and we don’t expect to see a significant increase in Q4 at this time. We do expect it to increase into the next fiscal year.

2. Why is the number of customers visiting FANCL stores declining, despite a recovery in the cosmetics market in department stores? Was the decrease due to the fact that *MILD CLEANSING OIL* and *ENRICH+* were renewed in the previous fiscal year? You would have been aware of this, so was there a lack of measures to counter this decline?

⇒Although the department store cosmetics market is recovering for high prestige brands, this is not thought to be the case for online and catalogue focused brands such as ours. Another factor is that many of FANCL's customers are in their 40s and 50s, which is a demographic that has been particularly sensitive to the COVID-19 pandemic. Although we knew that there would be a reactionary decline from the previous year's product renewals, we had decided to dramatically reduce the countermeasures to that decline in view of profitability. Looking back now, we may have reduced those countermeasures by too much. At the same time, excessive reliance on such countermeasures will result in significant fluctuations in sales, so our focus should be on working from a long-term perspective to ensure a steady flow of customers to our stores. We have recently been seeing an increase in the number of customers visiting our stores, and we do not expect the trend seen in Q3 to continue.

3. Direct store sales have been slow. What do you think about the future channel structure? Will you shift your focus to online and catalogue?

⇒Since each store location has a different customer base, our view is that it is necessary to adapt the style of the store to the needs of each location. Our stores are renewed every few years, and we will continue to make adjustments at the time of each store renewal. Profitability is tough compared to online and catalogue and wholesale, but we consider it an important channel, as it functions as a place to bring us in contact with new customers other than through advertising. In addition, when inbound travel to Japan fully recovers, we have high expectations that this channel will be the source of sales from inbound customers. We will continue to consider the roles of the online and catalogue and direct store channels based on these factors.

4. Regarding Attenir cross-border e-commerce, considering the KOL regulations that have been put in place, and the continued sluggish consumption in China, what are the prospects for recovery?

⇒With Attenir, the results were not what we were hoping for, due to the fact that we could not conduct promotions using top KOLs this year like we had with T-Mall in previous years due to the new regulations on top KOLs. Local inventory adjustments are also expected to continue for some time, and shipments from Japan are not expected to grow much for a number of months. Despite these factors, we plan to achieve solid growth for the full year period to March 2024.

Ends