

FANCL

正直品質。

FANCL Group Financial Results Briefing For the period April 1, 2022 to March 31, 2023

May 9, 2023

Contents

03

FY Mar/2023 results

Results by segment/channel
Analysis of change in operating income

07

Full year outlook

Outlook of FY to March 2024/
Analysis of change in operating income

10

Medium-Term Management Plan Second year Summary

Customers/
Recovery of the store channel/
FY Mar/2024 plan

14

Cosmetics Business

FANCL Cosmetics / Attenir

17

Health Business

Domestic / Overseas

20

Channel

Online and catalogue :
CRM strategy using core
FIT3 system/
Stores: Expansion of customer base

23

Human Capital Management

HR strategy for achieving VISION2030/
Succession plan

26

Looking toward the next Medium-Term Management Plan

FY Mar/2024: Turning point for the future

Financial Highlights

Results by segment

FANCL

正直品質。

(Millions of yen)	FY to March 2022	FY to March 2023	Change YoY
Sales	103,992	103,595	(0.4%)
<i>Cosmetics</i>	58,809	57,448	(2.3%)
<i>Nutritional supplements</i>	38,471	39,871	+ 3.6%
<i>Other</i>	6,710	6,276	(6.5%)
<i>Hatsuga Genmai</i>	2,056	1,985	(3.4%)
<i>Kale Juice</i>	2,110	2,005	(5.0%)
Operating income	9,771	7,843	(19.7%)
Ordinary income	10,401	8,557	(17.7%)
Net income	7,421	4,970	(33.0%)
※1 EBITDA	14,335	12,220	(14.8%)
※2 EBITDA margin	13.8%	11.8%	(2.0%)

※1 EBITDA : Operating income + Depreciation

※2 EBITDA margin : EBITDA / Sales

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

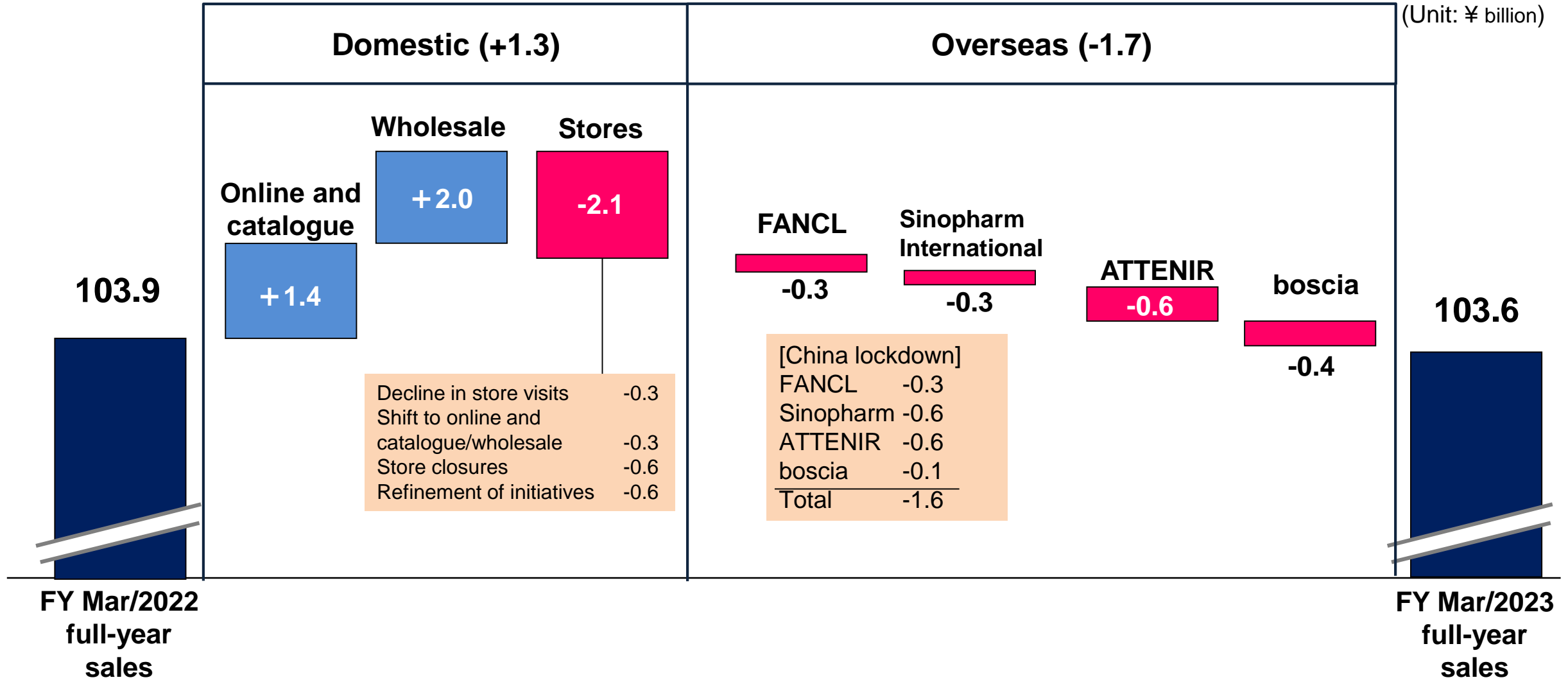
※3 Negative impact of China lockdown

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

Sales breakdown (Full year)		
Region	Amount	Change YoY
Domestic	93,842	+ 1.4%
Overseas ※3	9,753	(14.9%)
Cosmetics		Amount
	Domestic	38,504
	Overseas	3,597
	Total	42,102
Cosmetics		Amount
	Domestic	12,411
	Overseas	1,036
	Total	13,447
<i>boscia</i> ※3	783	(32.5%)
Nutritional supplements		Amount
	Domestic	35,546
	Overseas ※3	4,325
	Total	39,871

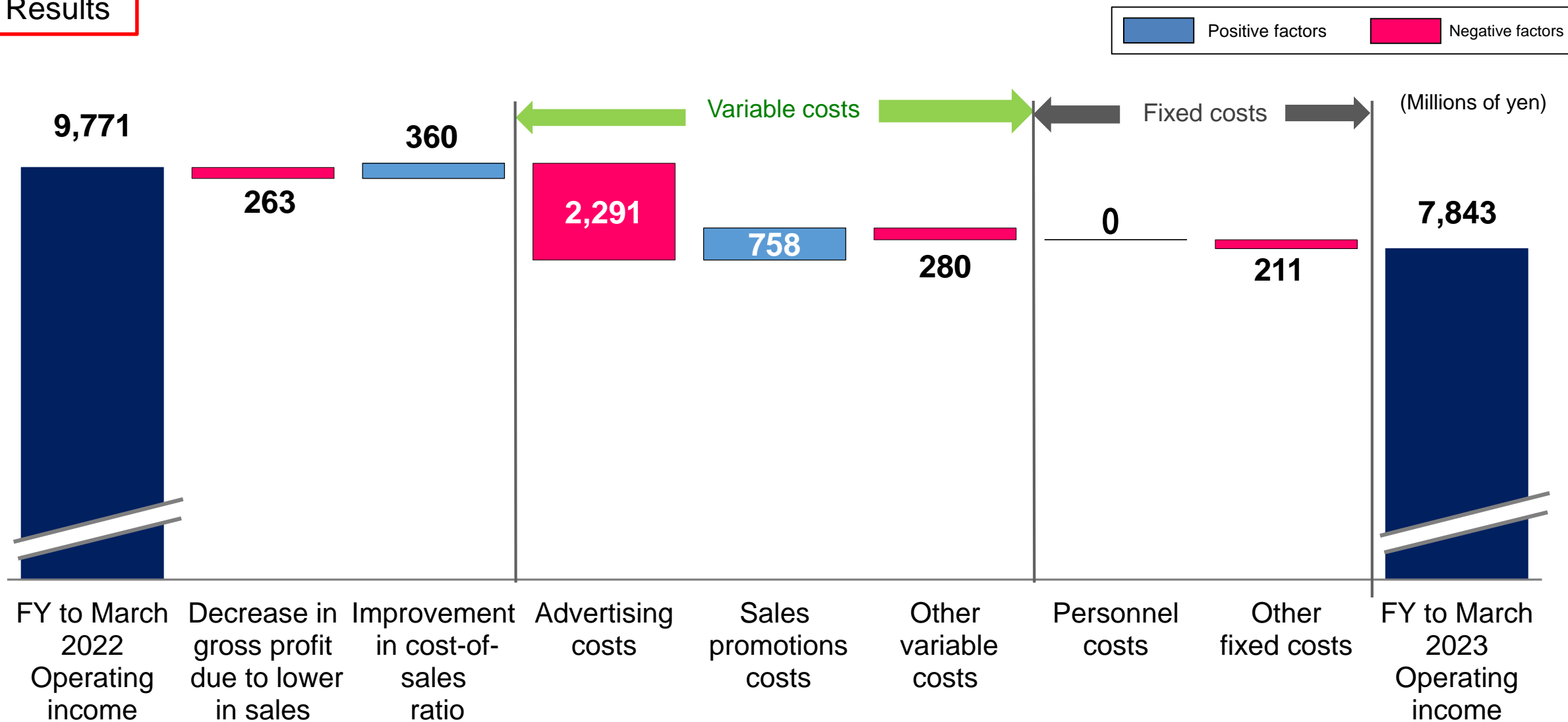
Results by channel

- > Online and catalogue and wholesale sales increased due to impact of advertisements, while overseas sales decreased due to impact of temporary circumstances such as the lockdown in China



FY Mar/2023 : Analysis of change in operating income

Results



Outlook for full year

Outlook of FY to March 2024

(Millions of yen)	FY to March 2023	FY to March 2024 (plan)	Change YoY
Sales	103,595	111,000	+7.1%
<i>Cosmetics</i>	57,448	60,790	+5.8%
<i>Nutritional supplements</i>	39,871	43,820	+9.9%
<i>Other</i>	6,276	6,390	+1.8%
<i>Hatsuga Genmai</i>	1,985	2,050	+3.2%
<i>Kale Juice</i>	2,005	2,040	+1.7%
Operating income	7,843	12,000	+53.0%
Ordinary income	8,557	12,200	+42.6%
Net income	4,970	8,000	+60.9%
※1 EBITDA	12,220	16,000	+30.9%
※2 EBITDA margin	11.8%	14.4%	+2.6%

※1 EBITDA : Operating income + Depreciation

※2 EBITDA margin : EBITDA / Sales

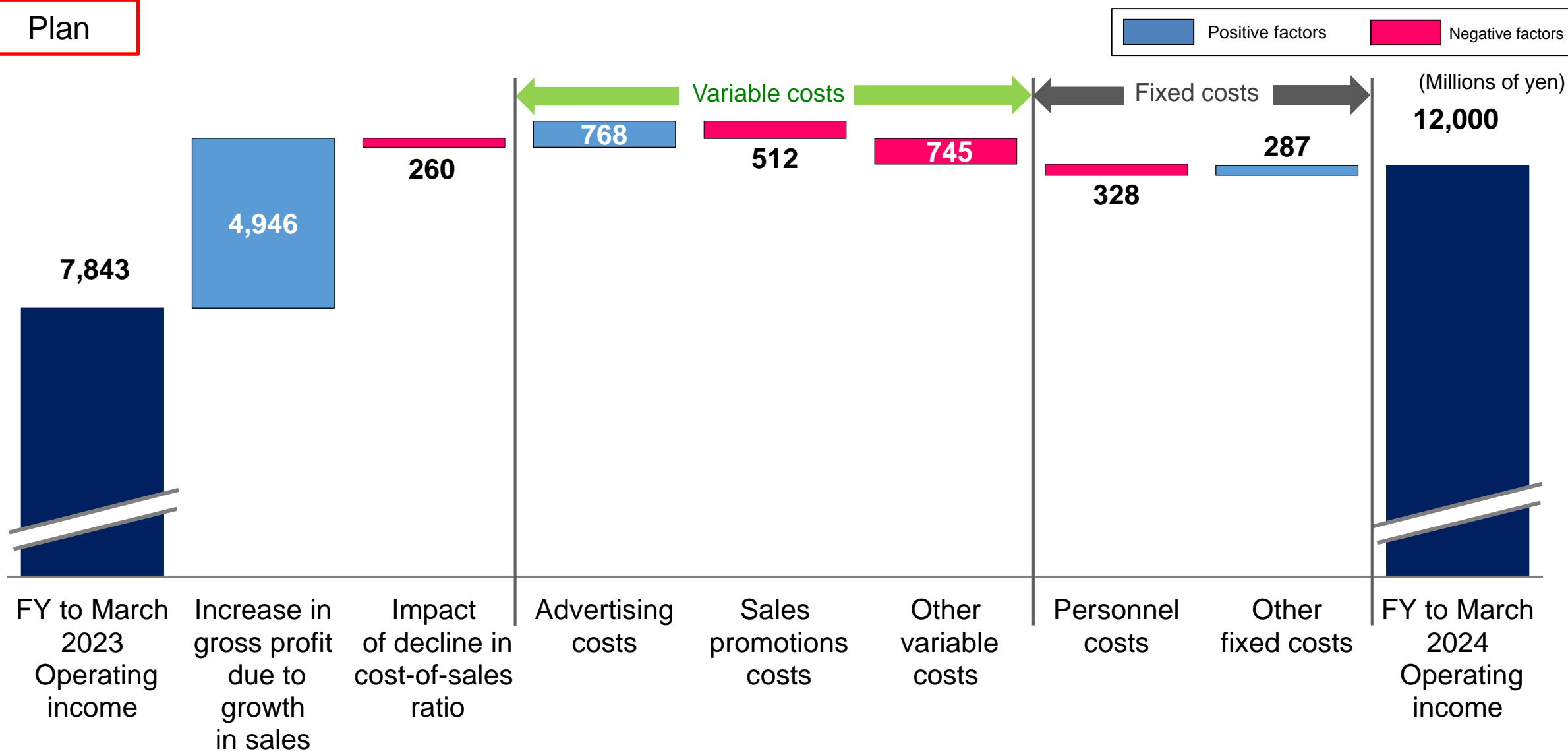
【Assumption】

Inbound sales (Direct store sales) expected
¥3,000 mn in FY Mar/2024

Sales breakdown (Full year)			
Region	Amount	Change YoY	
Domestic	99,630	+6.2%	
Overseas	11,370	+16.6%	
Cosmetics		Amount	
FANCL	Domestic	40,980	+6.4%
	Overseas	3,485	(3.1%)
	Total	44,465	+5.6%
ATTENIR	Domestic	13,320	+7.3%
	Overseas	1,530	+47.7%
	Total	14,850	+10.4%
boscia	775	(1.1%)	
Nutritional supplements		Amount	
Domestic	38,240	+7.6%	
Overseas	5,580	+29.0%	
Total	43,820	+9.9%	

FY Mar/2024 : Analysis of change in operating income

Plan

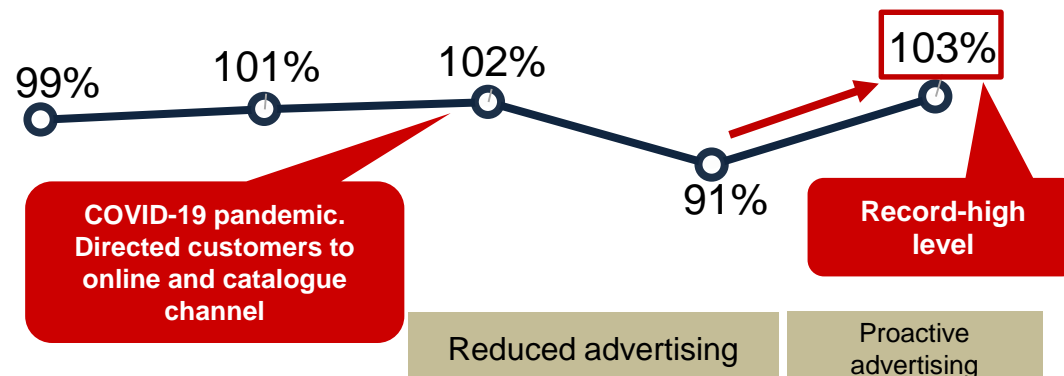


Medium-Term Management Plan Second year Summary

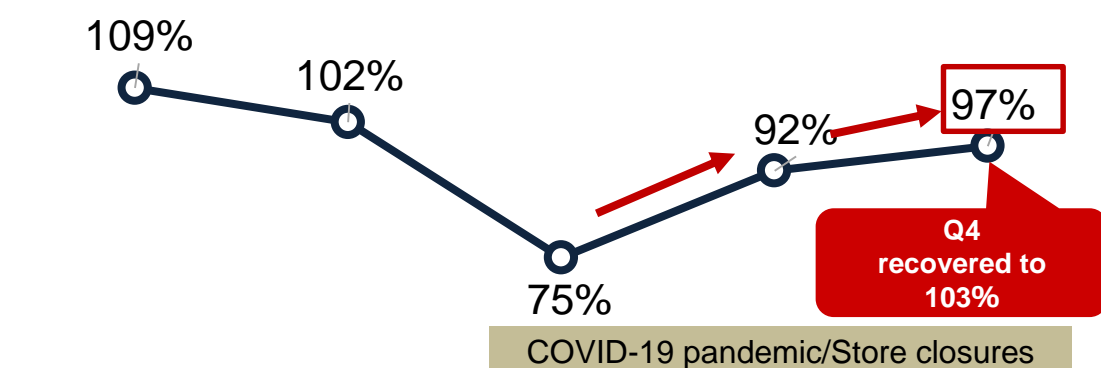
Customers – current situation

> Despite severe earnings results in FY Mar/2023, some success was achieved in strengthening our customer base

Overall online and catalogue customer numbers (YoY comparison)



Overall store customer numbers (YoY comparison)



FY Mar/ 2019 FY Mar/ 2020 FY Mar/ 2021 FY Mar/ 2022 FY Mar/ 2023

FY Mar/ 2019 FY Mar/ 2020 FY Mar/ 2021 FY Mar/ 2022 FY Mar/ 2023

Advertising effectiveness for core products

(YoY comparison)	Product	Advertising expenditure	New customer acquisitions
Cosmetics	<i>ENRICH+</i>	125%	127%
	<i>MILD CLEANSING OIL</i>	119%	120%

(YoY comparison)	Product	Advertising expenditure	New customer acquisitions
Supplements	<i>Enkin</i>	385%	210%
	<i>Calolimit</i>	159%	125%
	<i>Naishi Support</i>	121%	95%

Recovery of the store channel

> Sales recovered in Q4 due to recovery in visitor numbers and improvement in revisit rate

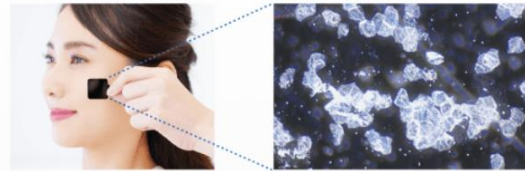
Embody brand, provide experiential value

Cosmetics-focused VMD (summer onwards)



AI-based personal stratum corneum analysis (September onwards)

Stratum corneum analysis reveals root causes of skin problems



No. of counselling sessions (Q4): + 107% YoY

Events (Q4 onwards)

Initiatives to acquire new customers using interior spaces

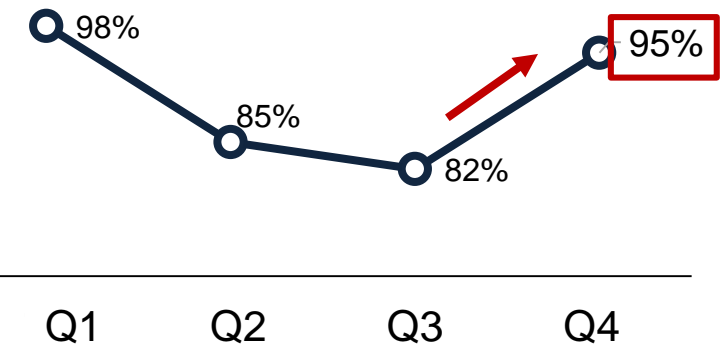


No. of new customer acquisitions (Q4): + 106% YoY

Initiatives to improve profitability

- Review of excessive measures: Curbed discount policies that do not lead to cross-selling or recurring store visits
→ Discount rate improved by 1.9%
- Closure of unprofitable stores
172 stores at end of period (-26 stores)

FANCL store sales (YoY)



Plan

While continuing investment in advertising aimed at new customer acquisitions, shift to strengthening development of existing customers

Changes in e-commerce market environment

- Existing players are accelerating digitalization
- New entrants from other industries

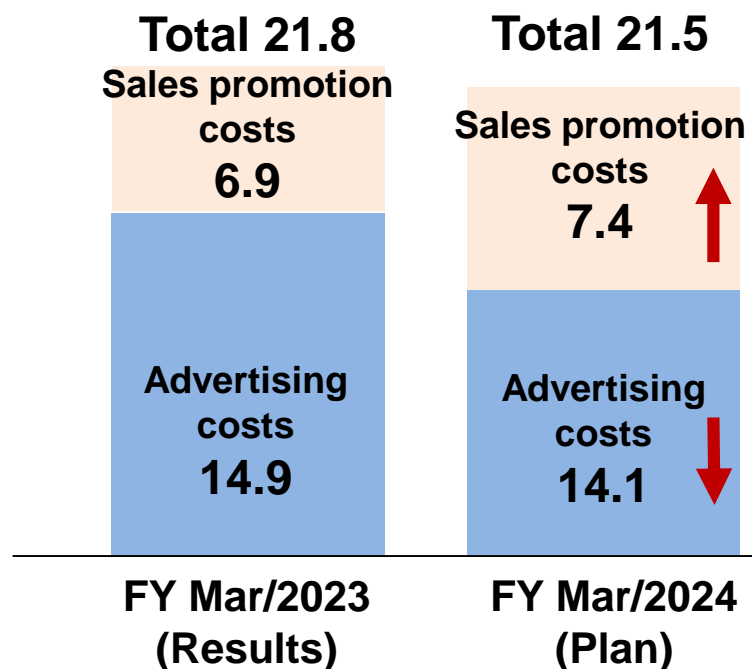
Increased vol. of digital advertising
=increase in ad unit prices

Plan

Review existing advertising methods and **develop customers through more effective marketing investment (turn customers into “fans”)**

Allocation of marketing expenditure

(Unit: ¥ billion)



Strengthen development of existing customers
Increase allocation of advertising to growth business

Japan
FANCL: Reduce response ads
ATTENIR: Increase response ads, mainly for external online platforms

Overseas
China supplements, ATTENIR cross-border e-commerce

Overseas business

- Strengthen positioning of overseas business as being in **“first year of global acceleration”**
- China supplements business** expected to **grow 45% YoY** with an increase in local marketing expenditure in coordination with Sinopharm International
- ATTENIR: launching general trade sales** from Q4 in addition to cross-border e-commerce

Cosmetics Business

> Promote the value of Mutenka cosmetics to sufferers of skin disorders or dry skin, and drive the creation of fans

Expand basic skin care customers

- Strengthen **BRIGHTENING** by leveraging increase in opportunities to go out (post pandemic)



The
"negatives"
of
Brightening
products

Irritates skin
Dries out skin

▼

FANCL

Focus on hypoallergenic,
Mutenka formulations.
W-Effect Brightening also
cares for dry skin.

Sales after Feb. launch strong at **140% YoY**

Cross-selling to basic skin care customers

- Strengthen special care and makeup proposals



BRIGHTENING ESSENCE



CORE EFFECTOR



SILKY FIT UV
FOUNDATION

Expand pore care market share

MILD CLEANSING OIL – BLACK & SMOOTH –

Launch: April 18, 2023 **Pore-specific BLACK MILD CLEANSING OIL**



Black cleansing oil for smooth skin, containing charcoal and absorption clay to remove blackheads and keratin plugs



	BLACK & SMOOTH	Standard product
Target	20s-30s	All ages
Appeal	Complete pore cleansing	Smooth skin, protects pore moisture
Sale price	¥1,980	¥1,870

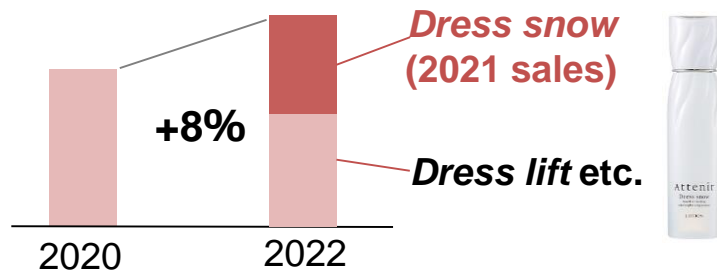
Increase sales price through high added value

> Position as growth business and boost investment in advertising in Japan and overseas

Domestic

Expand basic skin care users

Basic skin care sales



- Strengthen advertising with focus on *Dress snow* and develop high-quality customer base

Renew 3 main products (fall onwards)

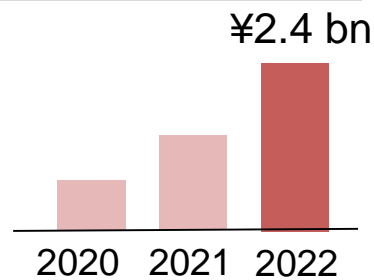


Boost investment in advertising

A year to establish a firm position for Attenir as an ageing care brand and set it on a path for growth

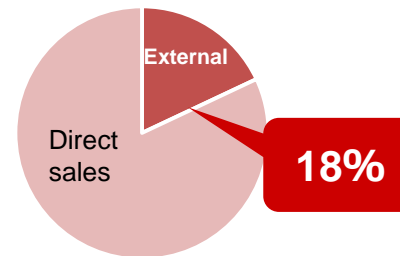
Full-scale expansion of external online platform sales

External online platform sales



- Increase advertising expenditure by 45% YoY

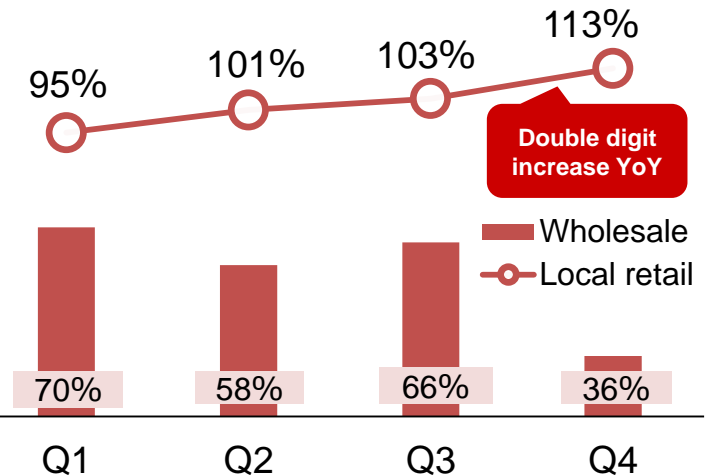
Breakdown of Online and catalogue sales



Overseas

China cross-border e-commerce

FY Mar/2023 sales (YoY)



- Sell-in expected to recover from Q2 of current FY due to inventory adjustments
- In general trade sales, license application for five products completed; plan to roll out in Q4

Health Business

> Focus on strengthening existing star products, expansion into new customer segments

Strengthening existing star products

Calolimit

Largest and most profitable in terms of sales

Naishi Support

- Sales second only to *Calolimit*
- Growing customers by strengthening advertising

Enkin

- Perceived as highly effective and boasts high retention rate
- 65% of customers are regular users

Launch of new TV ad in May

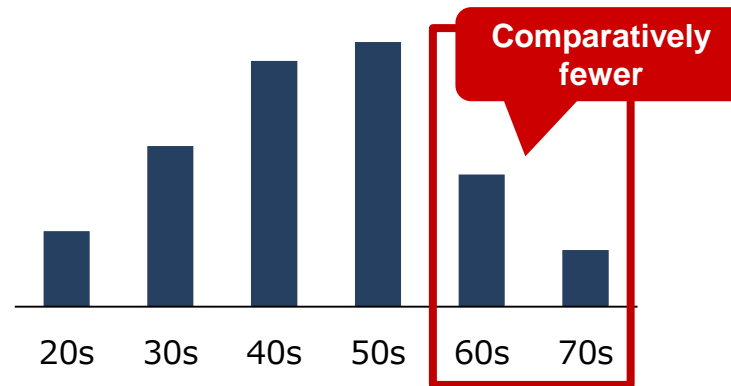


Expand number of customers through year-round advertising

Expansion into new customer segments

Active senior segment

Supplements: No. of customers by age



- Strengthen *Raku Hiza*, *Bone Support*, *Anti-Cholesterol Support*, and *Age Bracket-Based Supplements*
- Plan to launch strategic products from FY Mar/2025. Accumulate communication know-how, etc.

External online platform users

- Capture demographic that cannot be approached via FANCL online store
- Establish a sales model that is successful by generating buzz through social media and positive reviews
- Focus on *Mama Lula* and *Collagen* range

Mama Lula Folic Acid & Iron Plus



Price: ¥1,500

✓ Growth in external online platform sales after launch in 2019

✓ Addresses concerns in pre-pregnancy to lactation period with this single product

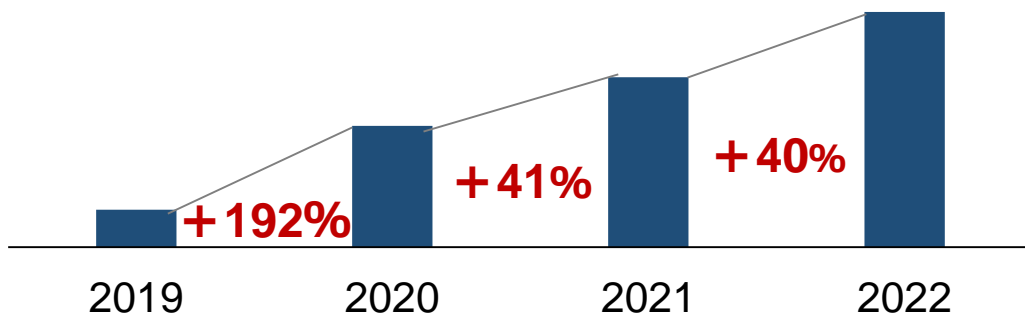
✓ A sustainable price of 50 yen per day

> Improve positioning in China market and accelerate growth through marketing investment

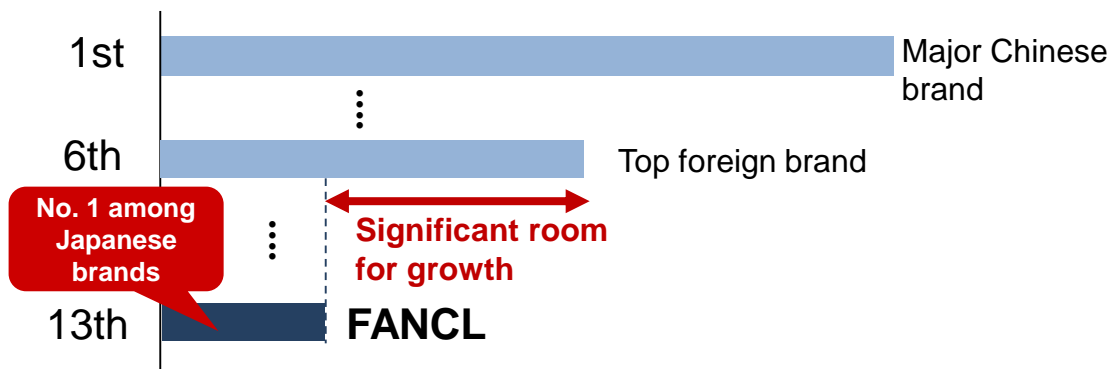
China supplements business: sales and recognition rate

FANCL sales (local retail)

Market CAGR + 5%



Brand recognition rate



Product/marketing strategy

Increase marketing expenditure to increase sales and product recognition

Strategy

Products

Channels

Obtain No. 1 position in category



All platforms

Develop into second pillar



Approach high-growth markets



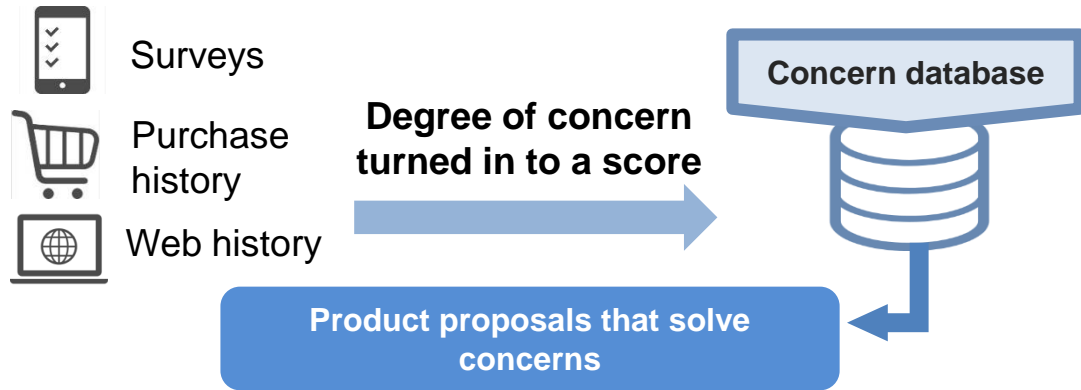
Many users in their 20s and 30s

For effective deployment, offer different products and information on e-commerce platforms according to customer attributes

Channel

> Built unique estimation model achieving optimal communication with each customer

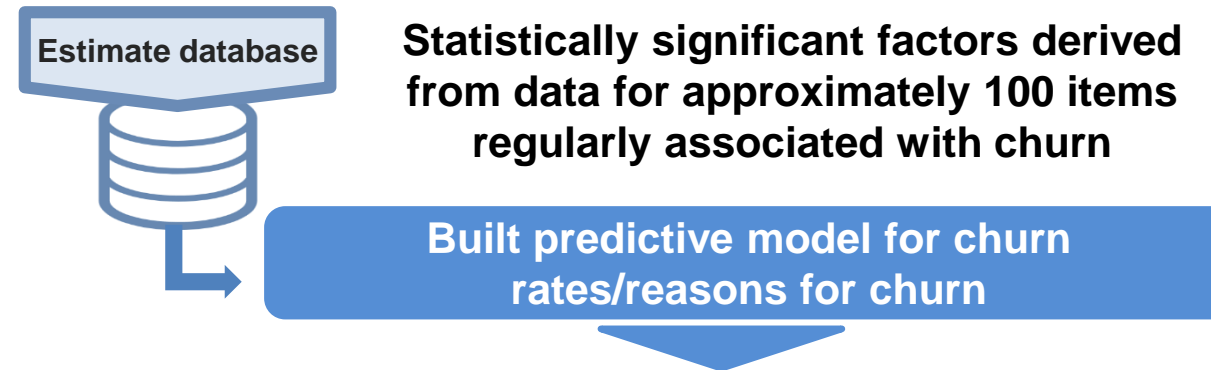
Product proposals utilizing “concern database”



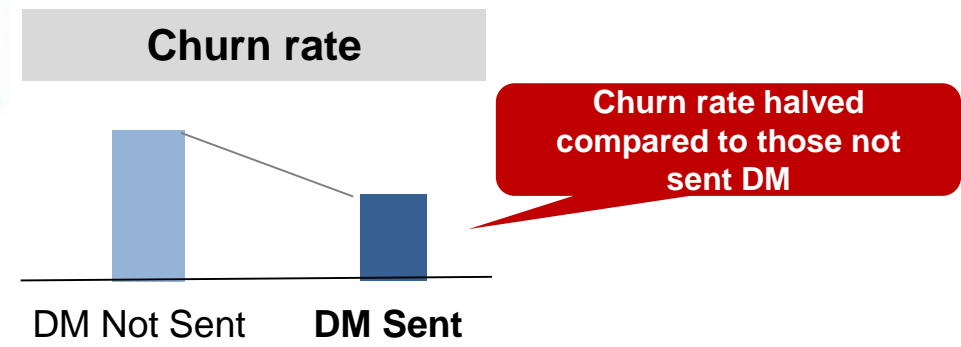
	Target group	Response rate
Existing	No purchases in last _ months	1
New	No purchases, but high concern score	2X

Expand target to customer segments that have not yet been approached

Naishi Support churn prevention model



Identify customers likely to cancel subscriptions and reasons for doing so, send direct mail to prevent cancellation



Stores: Expansion of customer base

> Leverage stores' characteristics to create fans, utilize FIT3 to increase repeat visits/raise LTV

Experiential stores for young consumers

Yurakucho Marui store (Renewed March 9)



In-store tester stand enables customers to freely try products



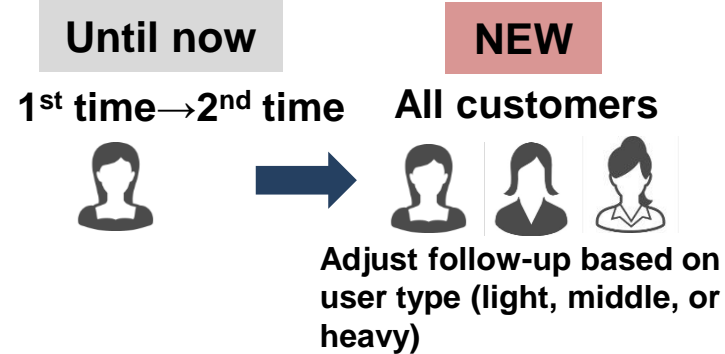
Staff push out content via Instagram

Ratio of new customers under 35: approx. **50%**

Initiatives at stores also targeting older customers
Enhancing fan creation at each store

Utilize FIT3 to enhance CRM

1. Promoting store visits



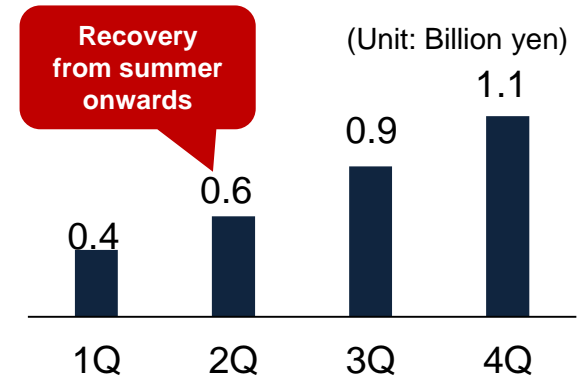
2. Promoting purchases



Automate detailed approach and systematically implement

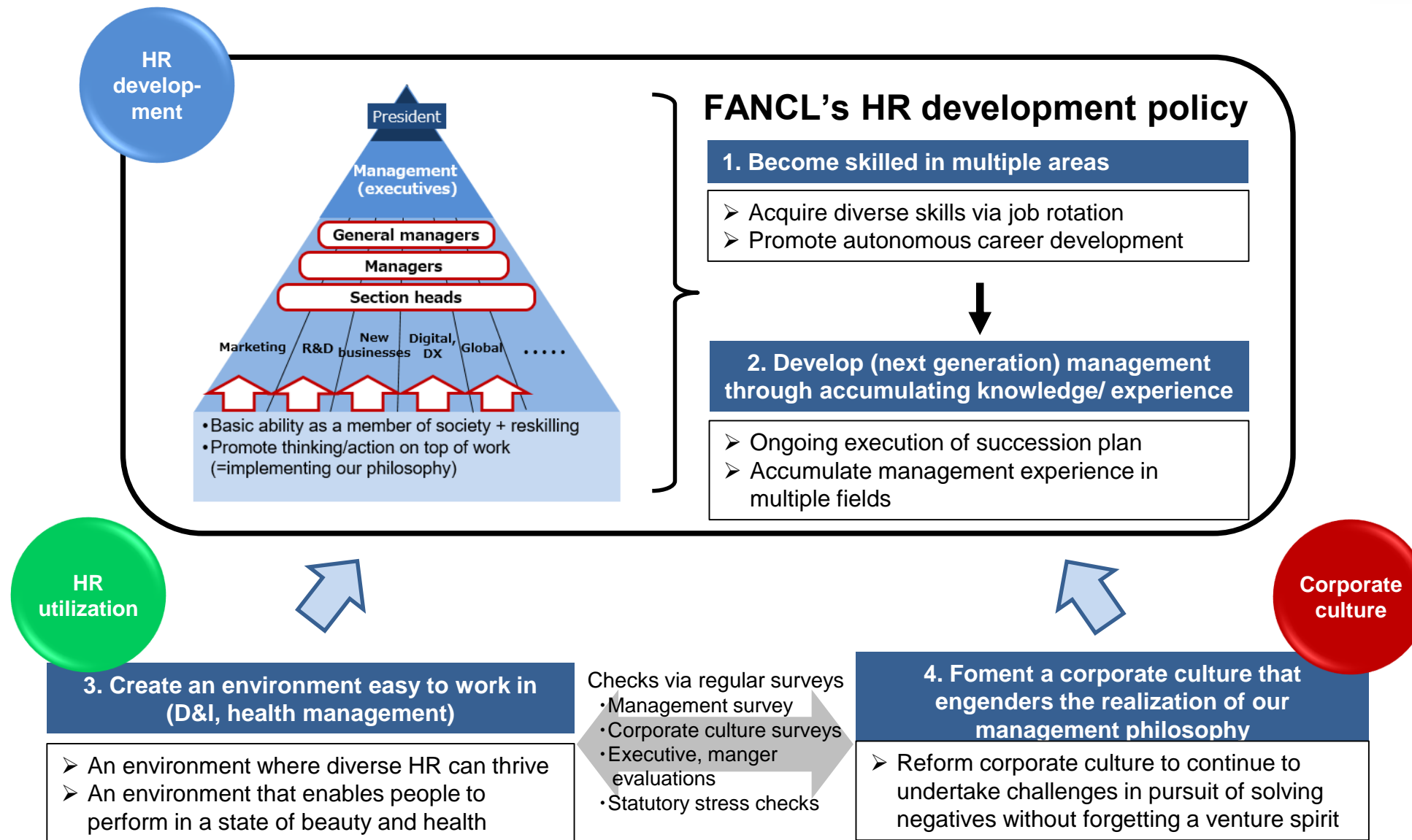
Inbound sales

FY sales target: **¥3.0 bn**



- Information spread through KOLs/KOCs
 - Increase of Chinese staff
 - Creation of packs comprising popular items
-
- Japan-only design

Human Capital Management



Succession plan

Targets

Future CEO and director candidates

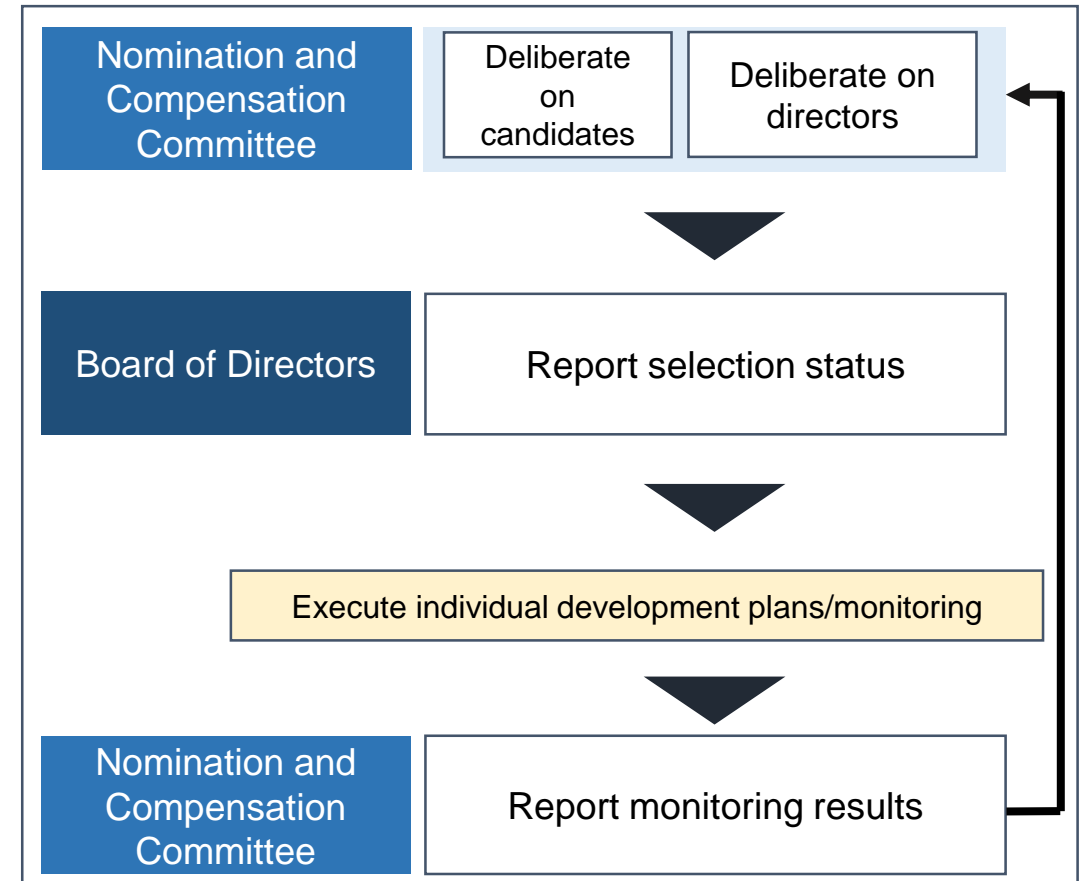
HR requirements

Clarify requirements for managers into 20 items in 4 categories

Category	Key HR requirements
Understands/embodies founding and management philosophies	Understands FANCL's strengths/weaknesses Has a deep affection for FANCL
Leadership	Has broad experience overcoming difficulties Can identify issues and communicate both within and outside the company
Humanity/ ability	Modest, can engage in self-reflection Cares about people Is a critical thinker
Experience/knowledge	Able to think from a multistakeholder perspective Has a broad range of experience

Development/ selection process

Conduct annual evaluation and select candidates based on the results following deliberation by the Nomination and Compensation Committee



**Looking toward the next
Medium-Term Management Plan**

FANCL is committed to being a company that supports the beauty and health of its customers and the world, throughout their lives.

Stay true to the uniquely FANCL approach, and create a new winning pattern

Premise: Know our customers (analysis, understanding, interpretation), and connect with them (value, information, experience)

<Current situation>

- Despite possessing an incredible volume of customer data, we are not making effective use of it.



<Plan>

- Use a data-driven mindset to understand customers from multiple perspectives, get to know them better, change the approach for each customer, and connect with them
- Review and restructure our marketing expenditure, organizational structure, and business processes

