Held June 1, 2023

FANCL CORPORATION

June 2023 President’s Small Meeting - Q&A summary

Date held	:	June 1, 2023 (Thursday) 10:00 - 11:30, 13:00 - 14:30
Agenda	:	Follow-up on FY Mar/2023 financial results, FY Mar/2024 plan
Audience	:	Sell-side analysts, institutional investors

(1) Supplementary Explanation of FY Mar/2023 Financial Results and FY Mar/2024 Plan

FY Mar/2023 was a challenging year in which we implemented aggressive advertising investments amid COVID-19 restrictions that continued for longer than expected in Japan, and significant headwinds overseas due to lockdowns in China and subsequent inventory adjustments.

I would like to apologize for not meeting the expectations of analysts and investors.

Now, I feel that we finally see the light at the end of the long and painful tunnel we have been in these past three years.

As of April and May, all channels in Japan have been performing well.

MILD CLEANSING OIL – BLACK & SMOOTH –, FANCL Cosmetics' number one strategic product for this fiscal year, is off to a good start, exceeding the plan in both direct store sales and wholesale channels since its April launch.

While major cosmetics companies are aggressively advertising this fiscal year, FANCL has stayed ahead of competitors by being active in advertising for the past year and a half and establishing its customer base to achieve a certain degree of growth.

Over the past few years, advertising expenses have increased 1.3 to 1.4 times due to the increase in digital advertising. We are glad that we invested in advertising before other companies became more aggressive in their advertising, although it was difficult for us in terms of profit. I believe that it enabled us to establish a base of customers and sales on external e-commerce platforms, and accumulate know-how on promotions.

FANCL will continue to invest at a high level in total advertising and sales promotion expenses in FY Mar/2024, but we are shifting to the stage of strengthening the development of customers acquired over the past year and a half, and we expect that this will contribute to sales more so than in the previous fiscal year.

Inbound sales are planned at ¥3 billion for the current fiscal year. To achieve this goal, we have already started using KOLs to introduce our products and stores in China. At present,

there is news of another wave of COVID-19 in China, however, we do not expect this to be prolonged in view of the situation in December of last year.
We will also take on the challenge of capturing demand outside of China, including Taiwan, Vietnam, and Thailand, starting in June. Although only FANCL's direct stores are incorporated in the announced plan, we will also commit to initiatives for airport duty-free stores, drugstores, and Attenir.
I would like to reiterate that we must achieve operating income of ¥12 billion for this fiscal year. We will steadily make progress towards achieving the goals of the current Medium Term Management Plan, and ensure we are in a good position as we commence the next Medium-Term Plan starting from FY Mar/2025.

(2) Q&A (summary)

1. The COVID-19 pandemic raised expectations for FANCL's D2C business, but an increasing number of other companies are now implementing similar business models. Going forward, can we expect to see pre-COVID growth rates, especially as competition intensifies for mid-priced products?

⇒Prior to the pandemic, foreign brands and high prestige brands mainly sold their products in department stores, but since then they have started selling their products D2C, including via their own online stores. Competition is also increasing due to the emergence of new brands created by influencers. In addition, while mid-priced brands are struggling, if you look at actual consumer purchasing behavior, it shows that an increasing number of consumers are choosing products across a wider price range rather than sticking to a single line. For example, a single customer may choose a mid-priced lotion and a high-priced serum.
Whether FANCL products are chosen by customers comes down to how much trust they have in the brand. We will work to make FANCL the brand of choice by strengthening communication that conveys the superior capabilities of Mutenka cosmetics in solving skin problems, and by enhancing product appeal.
The growth rate of the domestic cosmetics market is 102-103%, and we believe that FANCL can aim for a growth rate that exceeds the market.

2. What is the expected growth rate of the Nutritional Supplements business for the next fiscal year and beyond? How much can we expect the domestic portion of the business to grow? I can see it achieving growth due to the aging of the population, but I would like to hear from you about how much you expect the market to grow, and how much FANCL plans to grow the business.

⇒Our most recent growth rate is 103-105%. We plan to be a little stronger this fiscal year. As we emerge from the pandemic, people are eating out more and dieting needs are increasing, and we will continue to grow the *Calolimit* Series as a core product. *Enkin* is also growing thanks to the effects of commercials, and it has a high retention rate. Although a certain amount of investment is required for *Naishi Support* due to intensified competition, we plan grow sales of this product while working to prevent a decline in subscriptions using FIT3.

In addition, we will work to strengthen *Anti-Cholesterol Support*. Sales of *Sleep & Fatigue Care* and *Meneki Support* are also growing well.

We also want to focus on seniors. *BRAINs*, which is a synergy product with Kirin, is beginning to sell well. With the population continuing to age, going forward we hope to strengthen new products with functional claims that can respond to the needs of seniors. FANCL has a relatively low ratio of senior customers, so there is room for growth.

3. How have the sales trends of China supplements changed between pre- and post-pandemic?

⇒Both before and after the pandemic, *Age Bracket-based Supplements* have remained the main driver of sales. Before the pandemic, sales to women in their 30s accounted for a large majority of total sales, but after the pandemic, sales to women in their 40s and 50s, as well as to men, are also growing. Sell-out in the local market increased 140% year-on-year. In the previous fiscal year, we further strengthened our advertising for *Calolimit*. At last year's 618 shopping festival we featured a famous actress, and sales increased 1.5 times over the previous year. In the current fiscal year, the company will continue to strengthen *Calolimit* as our second strongest product behind *Age Bracket-Based Supplements*. In addition, China has become more digitally-focused than Japan, and the resulting strain on people’s eyes is triggering growth in the eye care market, so we will work to strengthen sales of *Blueberry* supplements. In addition, we will work to build momentum for *Sleep & Fatigue Care* using review-based promotions and KOLs.

4. What are the main points and ideas for the next Medium-Term Management Plan?

⇒For Japan, our plan will focus on how we can boost the fan loyalty of existing customers. Since the end of last year, we have begun to make changes to our initiatives, including KPIs. The key will be not only acquiring more new customers through advertisements, but also raising the level of empathy with customers to increase LTV, creating a flow to increase sales and profits as a result.

The second focus is growth overseas. In FY Mar/2023, we had lockdowns in China, which meant that China supplements and Attenir did not perform well. We want to be able return to growth again.

5. What changes do you think management needs? What do you need to step up to the next level?

⇒The first thing is that our business perspective was not designed with the goal of boosting fan loyalty. There was a time when it worked well to advertise good products to attract a large number of new customers, and that would lead to them buying products for a second and third time, but that method is now becoming less and less viable. We believe it is fundamentally important to go back to the basics and strengthen our connections with customers.

Overseas, we have not yet achieved sufficient results, so we must work hard to achieve them.

Aside from that, we also recognize the importance of taking on the challenge of developing new businesses, even if their contribution to our overall business performance is still small.

6. Please tell me what percent of inbound sales are to Chinese, and how you plan to capture non-Chinese demand.

⇒Before the pandemic, Chinese accounted for 90% of inbound sales. Since COVID-19 was downgraded to a Class 5 disease in Japan, the recovery of inbound demand has accelerated. Currently, the inbound sales to Chinese remains low at around 60% of the total, as visa issuance in China is limited to the wealthy.

There has also been a shift in the highest-selling products. Before the pandemic, *MILD CLEANSING OIL* was strong, but now *Age Bracket-Based Supplements*, *Naishi Support*, and *Calolimit* are selling well, indicating that the range of products of interest to overseas customers is broadening.

Inbound sales at direct stores recently reached approximately ¥200 million per month. Sales at airport duty-free stores and drugstores are also growing steadily. Although there are some concerns about a second wave of COVID-19 infection in China, it is not a major problem at this time, and we believe that we can achieve our annual sales target of ¥3 billion.

Ends