

# FANCL CORPORATION

## May 2024 President's Small Meeting - Q&A summary

---

Date held : May 20, 2024 (Monday) 10:00 - 11:30, 13:00 - 14:30  
Agenda : Follow-up on FY Mar/2024 financial results and new Medium-Term Management Plan  
Audience : Sell-side analysts, institutional investors

---

### Q&A summary

1. What is the background to your decision to revise the FANCL Cosmetics brand diversification strategy?

⇒We have revised our brand diversification strategy with a view to achieving future growth both domestically and overseas. In Japan, with an increasing number of product choices available to consumers, we need strong brand power in order for our products to be chosen. Our efforts to diversify and create a strong brand for each age group have resulted in the dilution of FANCL's strengths. To become a strong brand once again, we decided to leverage FANCL's core strengths.

Globally, derma skin care is growing, and an increasing number of people are experiencing skin concerns due to stress and climate change. Leveraging our strengths in improving skin health, we will use the increase in skin concerns as an opportunity to strengthen our brand.

2. You have been able to offer new skincare product *Toiro* as a Mutenka product in large-volume portions. Was this the result of any particular technological innovation? Also, as part of FANCL Cosmetics' policy of narrowing the target group to those with "skin concerns," is there any possibility of a switch-up in the customer base?

⇒For the past 22 years, the capacity of one bottle of lotion has always been 30 ml, but after years of research, we are now able to make large-volume and refillable products while maintaining the same Mutenka quality standards as before.

We do not expect to see a switch-up of the customer base. The volume of *Toiro*, which was launched in April, has been increased from 30 ml to 120 ml. A 30ml product will continue to be offered. About 40% of FANCL Cosmetics sales are supported by

customers who have been using our products for more than 10 years, and we will continue to sell our existing products while also introducing new offerings.

Until now, Mutenka has been positioned as a product range suitable for sensitive skin, but going forward, we will continue to develop a new fan base by evolving the strengths of Mutenka cosmetics to also address other skin concerns such as dull or rough skin.

3. In the Health business, as you work to strengthen the pre-senior segment, isn't it the D2C model that enables you to offer consultations to customers? Are there any changes in the future channel strategy?

⇒ In addition to approaching this with our product portfolio, another pillar of our strategy is to move away from our positioning as a supplement brand. Rather than achieving everything with supplements, our approach will focus on helping people stay healthy for longer through the three pillars of nutrition, exercise, and sleep. We want to provide services that design healthy lifestyles by visualizing the health status of our customers and listening to them, including their living environment. During the current Medium-Term Management Plan period, we will make ourselves known as a health support company and build a brand that will enable us to establish relationships of trust with our customers.

4. Regarding the numerical targets for the overseas business in the new Medium-Term Management Plan, with CAGR of +12.1% and sales of +¥4.2 billion, what is the breakdown between Cosmetics and Supplements, and what is the planned scale for each overseas market?

⇒ We plan to increase Cosmetics sales by ¥1.5 billion and Supplements sales by ¥2.5 billion. The breakdown of Cosmetics is: Attenir +¥1.5 billion and BRANCHIC +¥0.5 billion. In Supplements, the main focus is on initiatives with Sinopharm International. In Southeast Asia, we plan to initially offer Attenir cosmetics, starting with Vietnam. Although there are challenges regarding licensing for supplements, we would like to develop a new brand for the ASEAN market and initially launch it in Vietnam. During the three-year period of the new Medium-Term Management Plan, we are considering the development of halal supplements, and we would like to approach Indonesia and then the Middle East, followed by Muslim countries of Africa, etc. in the next 10 years.

5. Is there room for growth on external platforms in the online and catalogue channel? How do you see the potential for further acceleration and upside?

⇒ The growth rate of online and catalogue sales on external platforms is 1.5 times higher than the overall growth rates of the external online malls on which they are placed. Although the "Beni-Koji" issue has slowed the trend for Supplements, in terms of

expectations for growth this fiscal year, we are testing SKU expansion, mainly on Amazon, as well as efforts to increase the price per purchase since external platform customers purchase more frequently.

6. What are the most important non-financial goals of your new Medium-Term Management Plan? How will they be reflected in the executive compensation system?

⇒ In formulating the non-financial targets, we have established three priority themes and revised the Materiality matrix. Among the priority themes, “Healthy Living” in particular is linked to the beauty and health businesses as part of FANCL's unique sustainable approach. The KPIs for “Healthy Living” are planned with an awareness of the linkage between business strategy and non-financial targets. By growing our businesses, we want to link them to solutions to social issues.

In addition, starting from the previous Medium-Term Management Plan, 10% of the evaluation weighting of executive compensation is based on non-financial indicators for CO2 emissions, employee engagement, and trading partner evaluations. Employee engagement is based on a 360-degree survey of management. Trading partner evaluations are based on the results of a detailed questionnaire survey to determine whether there are any issues in conducting business with the company. Given that the COVID-19 pandemic changed the way employees work, an 80% satisfaction rate in employee engagement is not a low hurdle. We have achieved a 90% satisfaction rate in trading partner evaluations, and we have been working to strengthen relationships with partners to achieve this goal. For the new Medium-Term Management Plan, we will review the indicators of employee engagement and use stress check evaluation scores.

7. Regarding Scope 3 CO2 emissions, why are FANCL's category 4 emissions, which occur in upstream transportation and delivery, clearly higher than other companies?

⇒ Category 4 includes situations in which we bear the costs up to the point that the product is delivered to the customer. Since the online and catalogue channel is also included in upstream, a larger proportion of emissions is included in Category 4 compared to other companies.

For this Medium-Term Management Plan, we will focus on two categories - Category 1 and 4. Category 4 will change significantly depending on how we can improve logistics efficiency and reduce delivery costs, so we will work with delivery companies to address this issue.

Ends