

FANCL

正直品質。

FANCL Group Financial Results Briefing

For the period April 1, 2017 to June 30, 2017

July 27, 2017

China Health Food Business

China: Distributor agreement for health food business **FANCL**

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Exclusive distributorship agreement signed with China Sinopharm International Corporation

China's largest pharmaceutical group

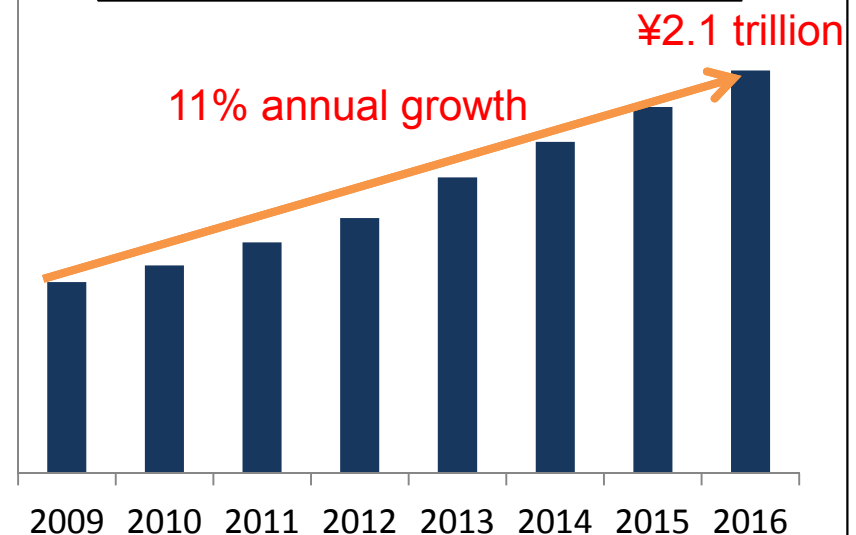
China National Pharmaceutical Group Corporation
(Sinopharm Group)

China Sinopharm International Corporation
(China Sinopharm International)

16 other subsidiaries
(6 listed companies)

Company name	China Sinopharm International Corporation
Business	Import and export of food products and pharmaceutical raw materials, supply of international medical equipment, hospital reform and management, duty free retail business, etc.
Capital	Approx. ¥34.0 billion (RMB 2.1 billion)

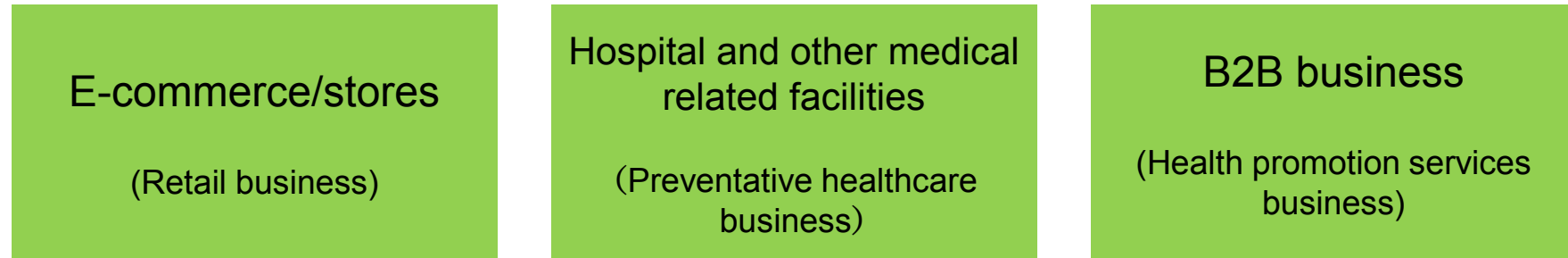
China's supplement market



Source: Euromonitor

Partner with China Sinopharm International, leveraging its expertise in obtaining permits for health foods to enable smooth business development

Business development structure (three business areas)



Steps in business entry process



Develop China-specific products, obtain permits and aim to launch sales from FY2020

Financial Highlights

Results by segment

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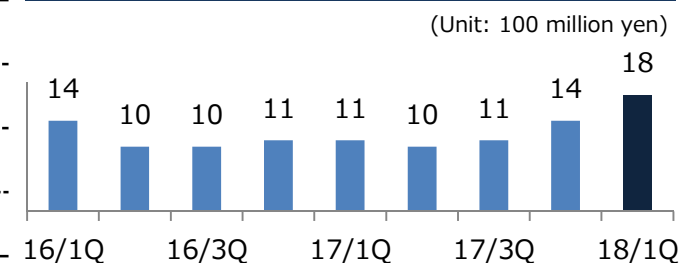
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(Millions of yen)	Q1 of FY to March 2017	Q1 of FY to March 2018	Change YoY
Sales	23,483	25,889	+ 10.2%
<i>Cosmetics</i>	13,895	15,776	+ 13.5%
<i>Nutritional supplements</i>	7,666	8,399	+ 9.6%
<i>Other</i>	1,921	1,712	(10.9%)
<i>Hatsuga Genmai</i>	688	590	(14.3%)
<i>Kale Juice</i>	737	633	(14.1%)
Operating income	(114)	1,215	—
Ordinary income	(77)	1,262	—
Net income	(241)	761	—

Sales breakdown

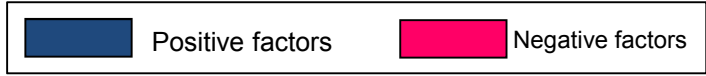
Results by cosmetics brand	<i>FANCL</i>	12,201	+9.9% (Domestic: +9.5%, Overseas: +13.7%)
	<i>ATTENIR</i>	2,650	+27.2%
	<i>boscia</i>	728	+57.6% (+60% on local currency basis)
Nutritional supplements		8,399	+9.6% (Domestic: +9.1%, Overseas: +19.7%)

Inbound sales(estimated)

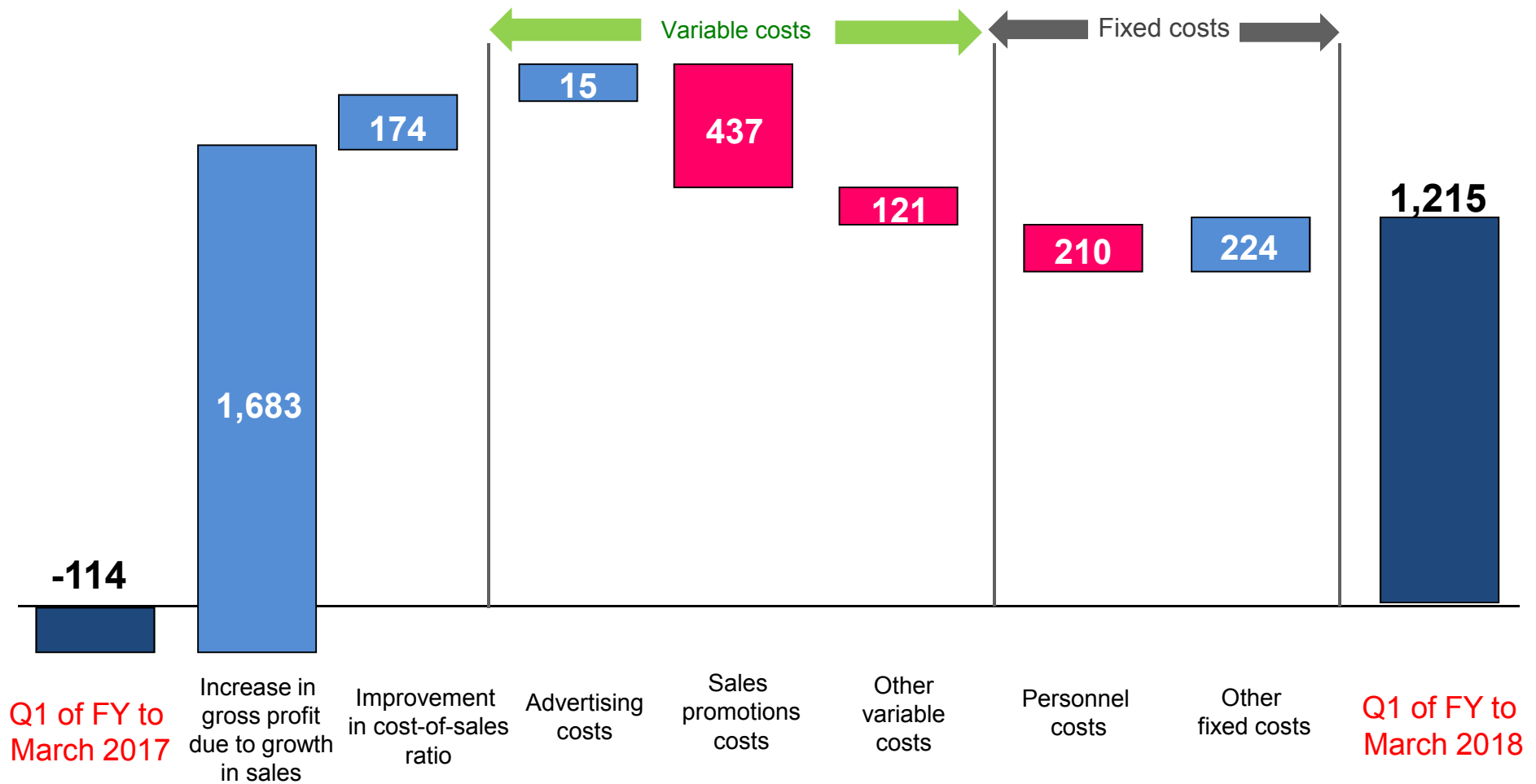


Analysis of change in Operating income

Results



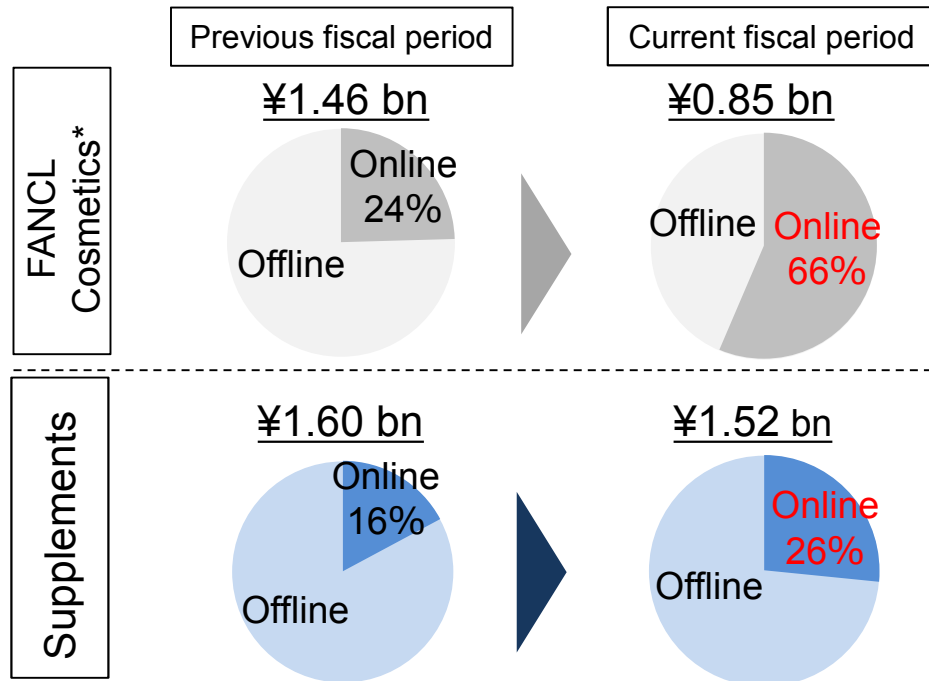
(Millions of yen)



Results of advertising

■ Shift to online advertising

<Advertising expenses (product advertising only) >



<New customer acquisitions>

	YoY	
FANCL Cosmetics*	106%	*Excluding Beauty BOUQUET
Supplements	110%	
Total	108%	

■ Created buzz through integrated advertising and PR

May: The “no-hard-work diet” seminar
 June: Base make-up (moisturizer) seminar



■ Corporate stance advertising

Communicate ‘Honest Quality’ stance to build brand trust and loyalty



(Ref.) Existing customer trends (YoY)

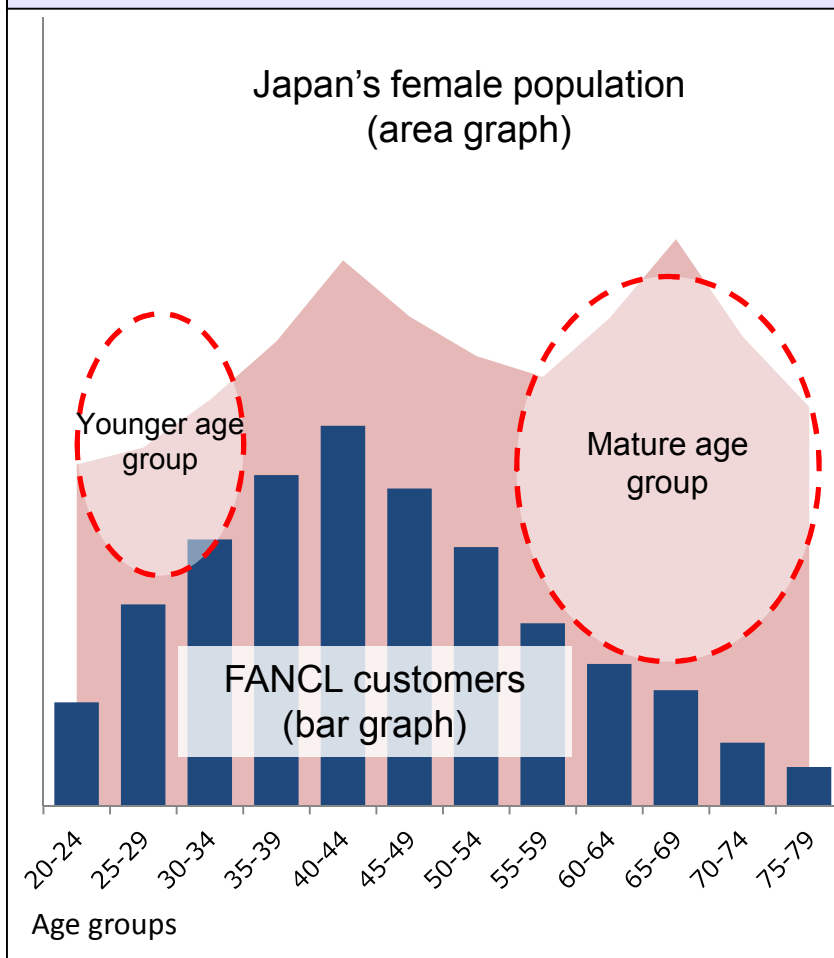
		2015				2016				2017	
		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
FANCL Cosmetics (Excluding Beauty BOUQUET)	Mail Order	100%	97%	97%	99%	102%	106%	107%	106%	105%	102%
	Retail Store	96%	93%	93%	94%	96%	100%	101%	102%	102%	102%
Supplements	Mail Order	92%	96%	102%	107%	115%	123%	129%	133%	130%	123%
	Retail Store	87%	90%	94%	97%	101%	102%	102%	103%	102%	103%
Attenir		94%	92%	94%	94%	98%	106%	113%	122%	125%	125%

*Existing customers who have made a purchase in the past 4 months
(12-month moving average)

Cosmetics Business

■ Reinforcement of approach to each target

Customer age groups



Younger age group (late 20s to early 30s)

■ Positioning *Active Conditioning Basic*, *Acne Care* as strategic products and implement online-focused marketing.

New customers aged 34 and under: +36% YoY

Mature age group

■ Full launch of *Beauty BOUQUET* (initially released in October last year)

Q1 sales in line with plan (sales: ¥230 million)

■ Full launch via mail order, retail stores from April
Wholesale channel: Testing in Shizuoka with view for expansion at drugstores

■ Expansion from skincare to make-up
April: (limited item) *Aging Care BB Cream*
August: (limited item) *Powder Foundation*

Late 30s to 40s

■ Strengthening cross-selling proposals

ATTENIR

High growth achieved as a result of web based communication model and introduction of innovative products

Q1 results
(YoY)

Sales +27% (Online: +45%)
New customer numbers +42%



Launched **ATTENIR MIDNIGHT MOISTURIZER** (Spring-Summer) in March 2017
Launched **SKIN RETOUCHER** in May 2017

Q2: Utilize new products as part of full-fledged customer acquisition initiatives

boscia

Q1 sales progressed at a pace exceeding forecast. Strong performance from Black Series products

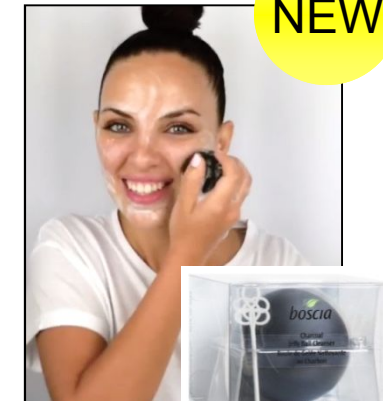
Q1 results
(YoY)

Sales +60%
*Based on local currency

Black Series



Black Mask
Launched in August 2010



Charcoal Jelly Ball Cleanser
Launched in May 2017



Strong local media interest, higher sales than forecast.
High hopes as hit follow-on product from Black Mask

Health Business

Supplements: Developing star products into series

Calolimit Series



Launched Food with Function Claims “Calorie Limit for the Mature Aged” on June 20, 2017

<Sales (YoY)>

On sale as
Foods with Function Claims

	FY2017 H1	FY2017 H2	FY2018 Q1
Calolimit	96%	106%	123%
Calorie Limit for the Mature Aged	106%	129%	142%
Total	101%	118%	131%



Three-dimensional promotion

Concentrated TV promotion

×

SNS upload campaign
“Share your photos enjoying Calolimit”

×

Special booth at TV Asahi’s Summer Station

Enkin series

Q1 results (YoY): Sales -6%

Down compared to FY2017 Q1 when a large-scale campaign was conducted, decline in freshness of TV commercials, other transient factors

- Review of communication including TV commercials
- Expansion of touch points through placement in non-supplement sales locations (eye care sections, different fields)



Sumaho Enkin
(for Smart Phone, PC users)
Launched March 2017

Supplements: Customer development

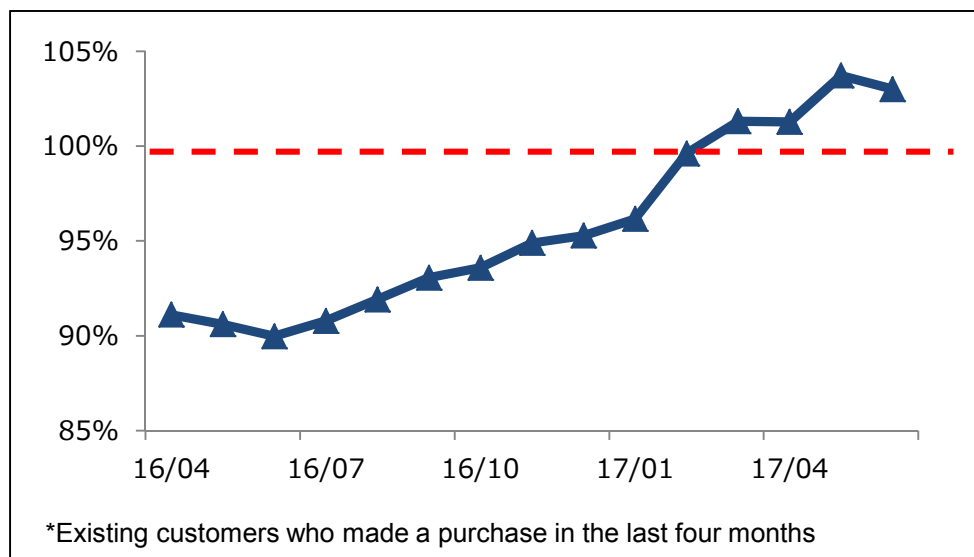
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<Existing Customer numbers (Mail order supplements) (compared to 2014)>

	FY2016 (1 st year of medium-term management plan)	FY2017 (2 nd year of medium-term management plan)	FY2018 (3 rd year of medium-term management plan)
Light users	112%	270%	317%
Mid-level	99%	108%	120%
Overall	104%	143%	156%

<Spend per purchase (mail order supplements) (YoY)>



Rise in spend per purchase due to growth of mid-level customer base



Essential Nutrient Pack
Launched May 19, 2017

Food with Function Claims



Touchi Support
(Blood-sugar level Care)
Launched June 20, 2017

Food with Function Claims



Naishi Support
(Weight and body fat care)
Launched June 20, 2017

Clinically tested

Equip your intestinal environment to lose weight and body fat!

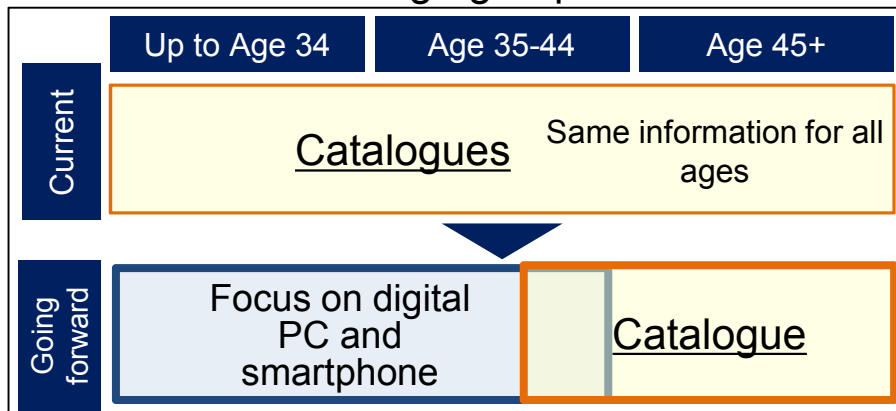
Uses proprietary technology to deliver living bifidobacteria to the gut

Channel

Channel strategy

Internet as main channel for mail order

Efficient use of web and paper media.
Providing relevant information for each age group



■ Catalogue cost reduction

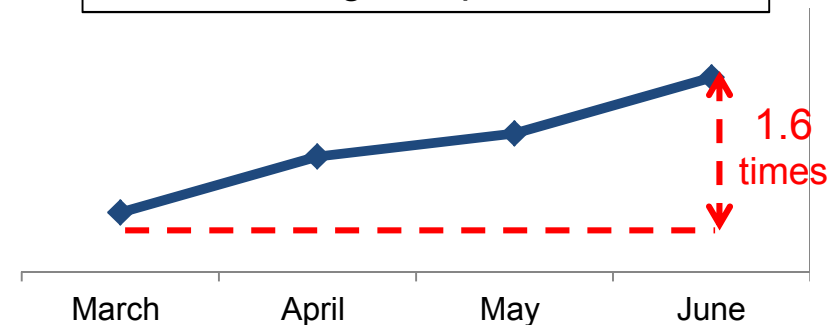
Review communication methods targeting 20s-40s

Conclusion within this year

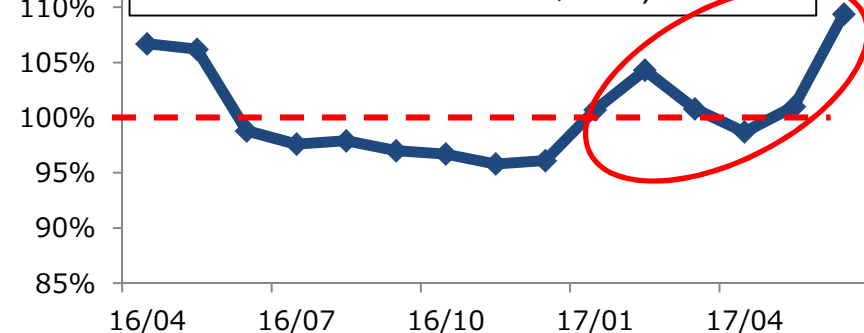
Effect of cost reduction forecasted at several hundred million yen for this FY

Strengthened counselling at stores

Counselling rate per customer



Spend per customer (excluding inbound tourists, YoY)



By strengthening counselling, spend per customer shifted towards an increase from early in the year

Outlook for first half / full year

Outlook for H1 of FY to March 2018

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(Millions of yen)	H1 of FY ending March 2017	H1 of FY ending March 2018	Change YoY
Sales	46,164	49,750	+7.8%
<i>Cosmetics</i>	27,132	29,960	+10.4%
<i>Nutritional supplements</i>	15,431	16,510	+7.0%
<i>Other</i>	3,600	3,280	(8.9%)
<i>Hatsuga Genmai</i>	1,251	1,120	(10.5%)
<i>Kale Juice</i>	1,367	1,240	(9.4%)
Operating income	(601)	1,500	—
Ordinary income	(541)	1,550	—
Net income	3,873	900	(76.8%)
Sales breakdown			
Results by cosmetics brand	<i>FANCL</i>	23,010	+6.8% (Domestic: +7.1%, Overseas: +4.3%)
	<i>ATTENIR</i>	5,130	+23.1%
	<i>boscia</i>	1,470	+49.1% (+49% on local currency basis)
Nutritional supplements	16,510	+7.0% (Domestic: +6.3%, Overseas +20.6%)	

Full-year outlook to March 2018

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(Millions of yen)	FY to March 2017	FY to March 2018	Change YoY
Sales	96,305	105,000	+9.0%
<i>Cosmetics</i>	56,926	62,950	+10.6%
<i>Nutritional supplements</i>	32,085	35,010	+9.1%
<i>Other</i>	7,294	7,040	(3.5%)
<i>Hatsuga Genmai</i>	2,490	2,320	(6.8%)
<i>Kale Juice</i>	2,711	2,620	(3.4%)
Operating income	2,244	6,000	+167.3%
Ordinary income	2,385	6,100	+155.7%
Net income	5,146	4,000	(22.3%)

Sales breakdown

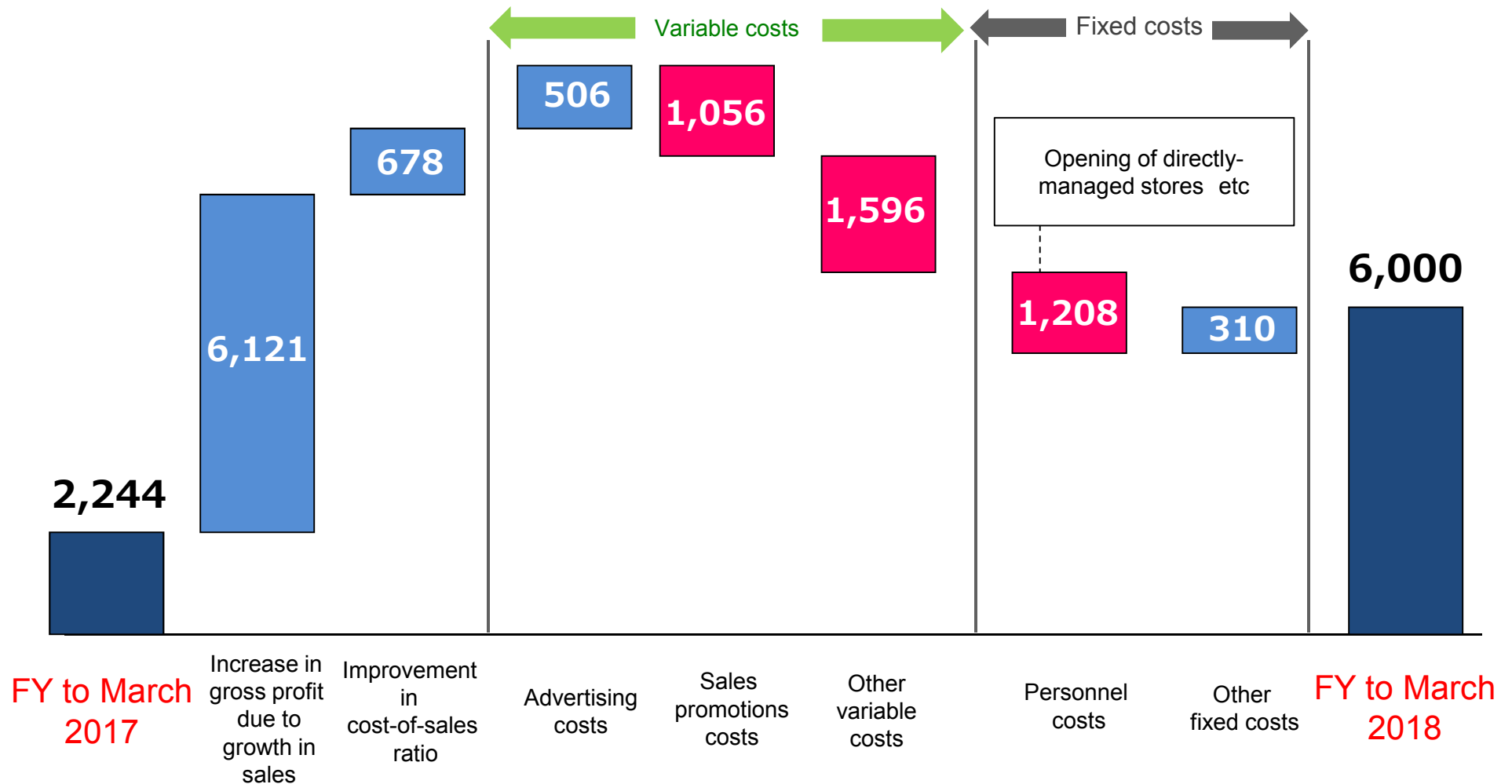
Results by cosmetics brand	<i>FANCL</i>	48,070	+6.8% (Domestic: +7.3%, Overseas: +2.9%)
	<i>ATTENIR</i>	10,960	+23.6%
	<i>boscia</i>	3,120	+38.2% (+36% on local currency basis)
Nutritional supplements		35,010	+9.1% (Domestic: +8.5%, Overseas: +21.0%)

Full-year outlook: Analysis of change in operating income

Plan

Positive factors Negative factors

(Millions of yen)



In closing

ALL-FANCL ONE-FANCL

Combining FANCL's research, manufacturing, business, and sales functions to strengthen its ability to generate profit

A promising start despite some challenges in Q1

- A newly established Marketing Division
 - Continuing to foster a sense of community, with planned cooperation between each channel and across both the cosmetics and health food businesses
- Key themes going forward: Further reinforcement of web, supplements
- Continue to operate with a sense of urgency

