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## FANCL Group Financial Results Briefing

For the period April 1, 2019 to September 30, 2019

October 30, 2019

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# First Half Summary

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	Area	Evaluation	Initiatives/status
Business	FANCL Cosmetics	Excellent	<ul style="list-style-type: none"> <li>• New product <i>DEEP CLEAR WASHING POWDER</i> a major hit</li> <li>• Progress in diversification of brands such as <i>Beauty BOUQUET</i> and <i>AND MIRAI</i></li> </ul>
	ATTENIR	Excellent	<ul style="list-style-type: none"> <li>• Successfully increased skincare customer numbers</li> <li>• Actual sales exceeded targets</li> </ul>
	boscia	Poor	<ul style="list-style-type: none"> <li>• Sales at Sephora in North America continue to struggle</li> </ul>
	Nutritional supplements	Good	<ul style="list-style-type: none"> <li>• In Japan, continued strong sales of star products</li> <li>• Recovery trend in inbound sales since September</li> </ul>
Channel	Online and catalogue	Excellent	<ul style="list-style-type: none"> <li>• Recovery trend in sales to middle to heavy user segment following launch of new member service</li> </ul>
	Direct stores	Good	<ul style="list-style-type: none"> <li>• Favorable sales due to the openings in top shopping complexes of major cities</li> </ul>
	Wholesale	Excellent	<ul style="list-style-type: none"> <li>• A superior top shelf products continue to sell well</li> <li>• Exceeded target number of stores with superior 2nd shelf</li> </ul>
	Overseas	Good	<ul style="list-style-type: none"> <li>• Strong sales of supplements via cross-border e-commerce business</li> </ul>

## Financial Highlights

# Results by segment

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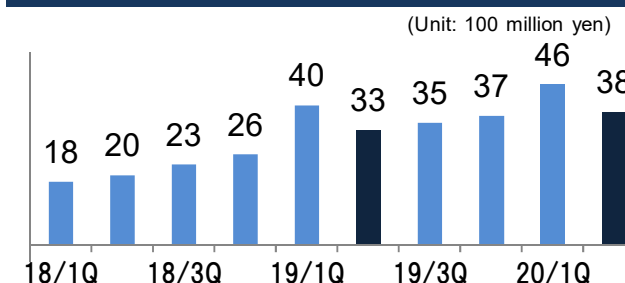
(Millions of yen)	H1 of FY ending March 2019	H1 of FY ending March 2020	Change YoY
Sales	60,288	66,203	+ 9.8%
Cosmetics	35,001	39,903	+ 14.0%
Nutritional supplements	21,977	22,962	+ 4.5%
Other	3,308	3,337	+ 0.9%
Hatsuga Genmai	994	971	(2.3%)
Kale Juice	1,270	1,189	(6.4%)
Operating income	7,082	8,896	+ 25.6%
Ordinary income	7,172	8,983	+ 25.3%
Net income	4,850	5,872	+ 21.1%

FY Mar/2020 H1 Excludes rush demand prior to consumption tax hike	Change YoY
64,003	+ 6.2%
38,103	+ 8.9%
22,562	+ 2.7%
3,337	+ 0.9%
971	(2.3%)
1,189	(6.4%)
7,796	+ 10.1%
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## Sales breakdown(6-month period)

Results by cosmetics brand	FANCL	32,096	+ 16.3% (Domestic: + 18.1%, Overseas: -2.1%)
	ATTENIR	6,431	+ 13.9%
	boscia	931	-33.9%
Nutritional supplements		22,962	+ 4.5% (Domestic: + 4.5%, Overseas: + 4.7%)

## Direct Store Inbound sales



# Analysis of change in Operating income

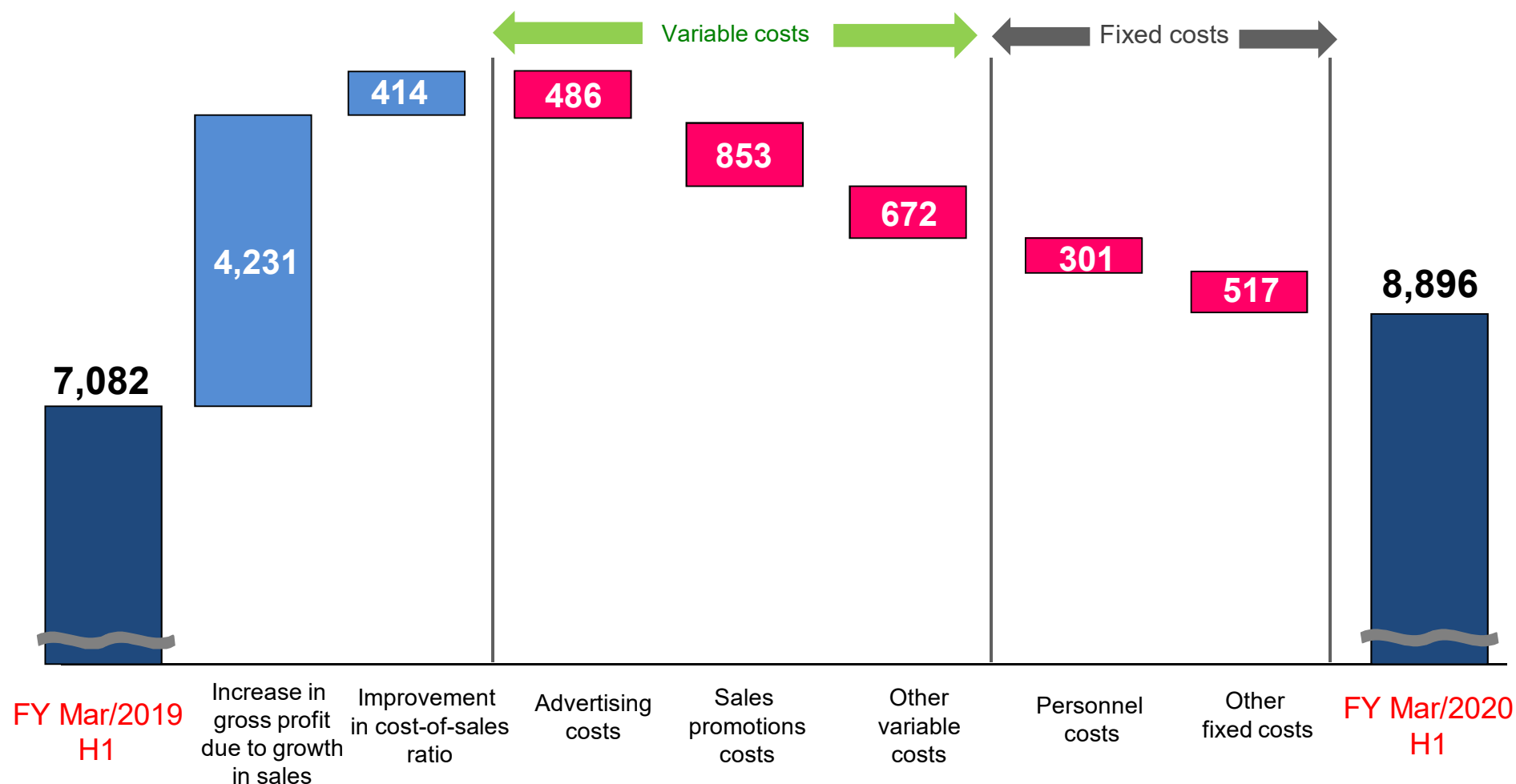
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## Results

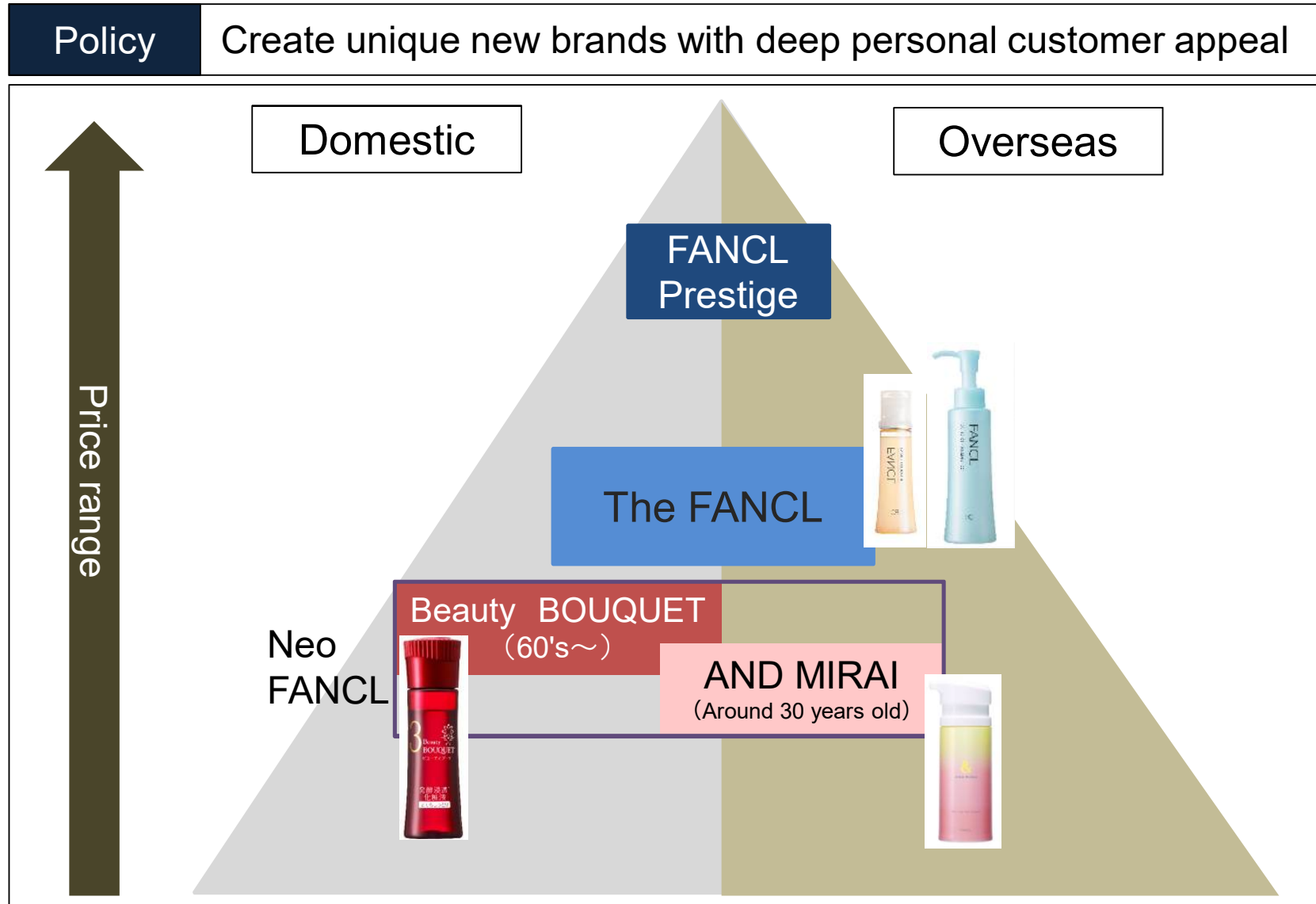
Positive factors Negative factors

(Millions of yen)



# Cosmetics Business

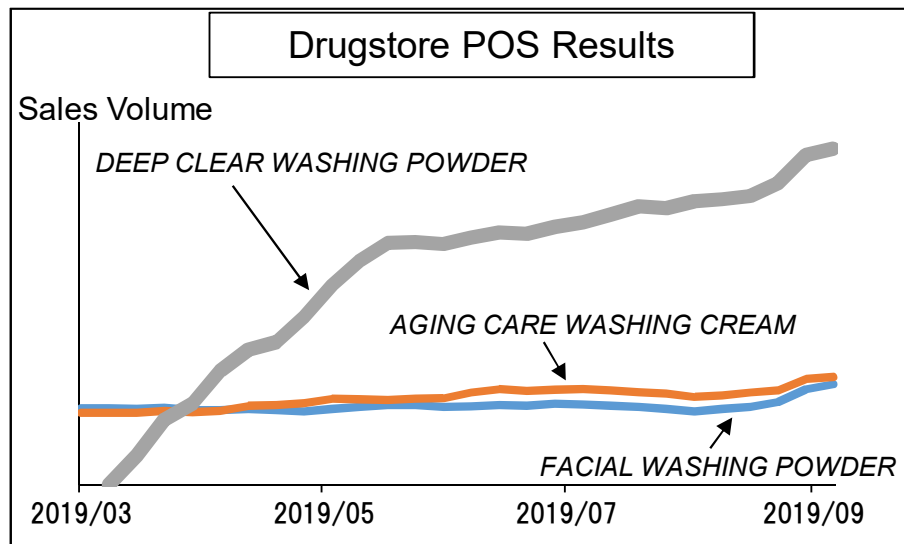
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## ■ DEEP CLEAR WASHING POWDER



Launched April 2019 Price: ¥1,980 (incl. tax)



Production to triple next spring

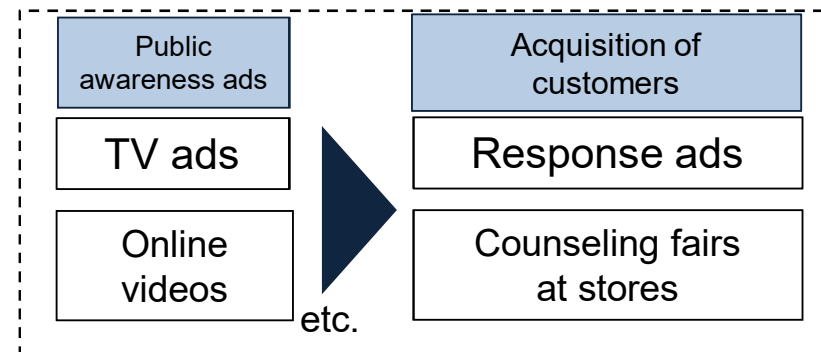
## ■ Basic Skin Care



Mutenka image of gentleness, safety

+

A feeling that you can become more beautiful



## ■ Neo FANCL

### Beauty BOUQUET

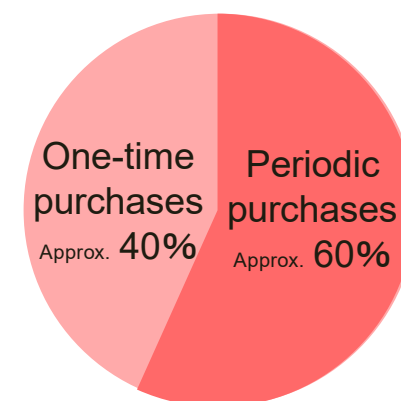
- Strong performance centered on online and catalogue channel.  
New customer numbers up +23 % YoY in H1
- Proactively informed customers of periodic purchasing service
- Periodic purchase sign-ups expanded to comprise 60% of online and catalogue sales

Sales for this FY are projected to increase 20% YoY

### AND MIRAI

- Strengthened position as a strategic brand for inbound customers
- Favorable sales of strategic product *Skin Up Gel Cream*  
Production increase planned starting in September

Composition of *Beauty BOUQUET*  
online and catalogue sales



## ■ FANCL Prestige

- Release at the end of FY2021 as a high-end brand offering a new value proposition utilizing FANCL research capabilities
- Plan to cultivate as a global brand in the future

# FANCL FANCL Cosmetics – Overseas business FANCL

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<p>Asia</p>	<div data-bbox="443 284 2024 359" data-label="Section-Header"> <h2>Strengthened collaboration with local sales agents</h2> </div> <div data-bbox="479 435 1173 815" data-label="List-Group"> <ul style="list-style-type: none"> <li>▪ Development of new style store with adjacent café/restaurant</li> <li>Reinforcement of branding</li> <li>▪ Limited-time local retail price reduction on some products</li> <li>Considering next steps</li> </ul> </div> <div data-bbox="1227 387 1989 898" data-label="Image"> </div>
<p>U.S.</p>	<div data-bbox="456 957 2024 1032" data-label="Section-Header"> <h2>Store opening on Amazon; promotion to start January 2020</h2> </div> <div data-bbox="465 1050 1238 1433" data-label="Complex-Block"> <p>Focused on marketing utilizing influencers</p> <div> <div>(SNS)</div> <div> </div> </div> <div> <div>(In-Mall Advertising)</div> <div> </div> </div> </div> <div data-bbox="1261 1050 2024 1433" data-label="Complex-Block"> <p>Consumer receptivity survey (2017)</p> <p>About 50% of women in the U.S. are self-conscious about sensitive skin.</p> <p>90% value products that are gentle on the skin</p> </div>

# Attenir Aiming for Worldwide Growth

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## ■ Skin Clear Cleanse Oil

Cleansing for mature skin  
Removes makeup and dullness in one



Relaunched on November 13, 2019  
Price: ¥1,870 (incl. tax)

Reformulated with Camellia oil which prevents  
saccharification  
Expands the functions of makeup remover into  
brightening

Strengthening of aging care functions  
Further expansion of the core 40s+ target

## ■ Store openings in department stores, expansion of cross-border e-commerce

### Direct stores

### Store openings

H1: Keio Department Store Shinjuku, Daimaru Kyoto Store, Daimaru Fukuoka Tenjin Store, Mitsukoshi Sendai Store, etc.

H2: JR Nagoya Takashimaya Store, etc.

Goal of 23 stores by the end of this fiscal year  
(17 as of end of previous FY)

### Cross-border e-commerce

#### From October 2018

Test launch  
(Wholesale to store vendors)

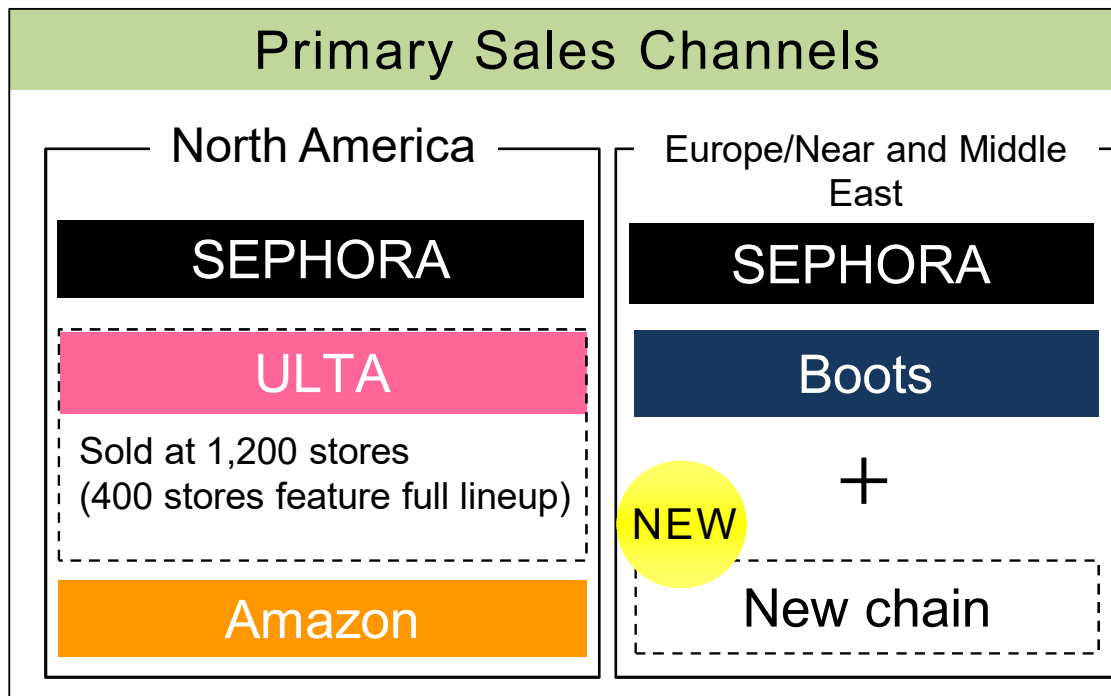
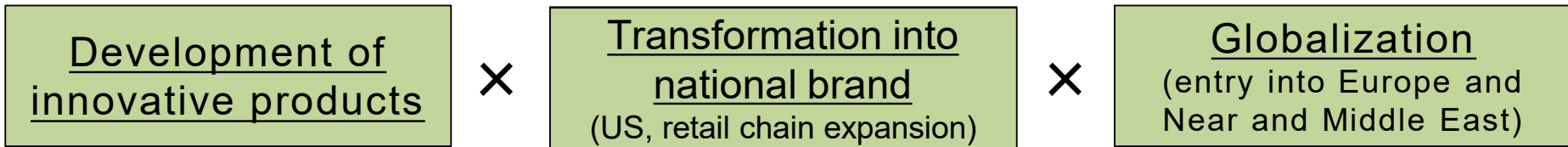
4SKU focusing on  
cleansing

#### From August 2019

Opening of flagship stores  
(Tmall Global, Kaola)

32SKU of basic skin  
care, special care  
products etc.

**Bo**tanical **Sci**ence **A**dvanced technology

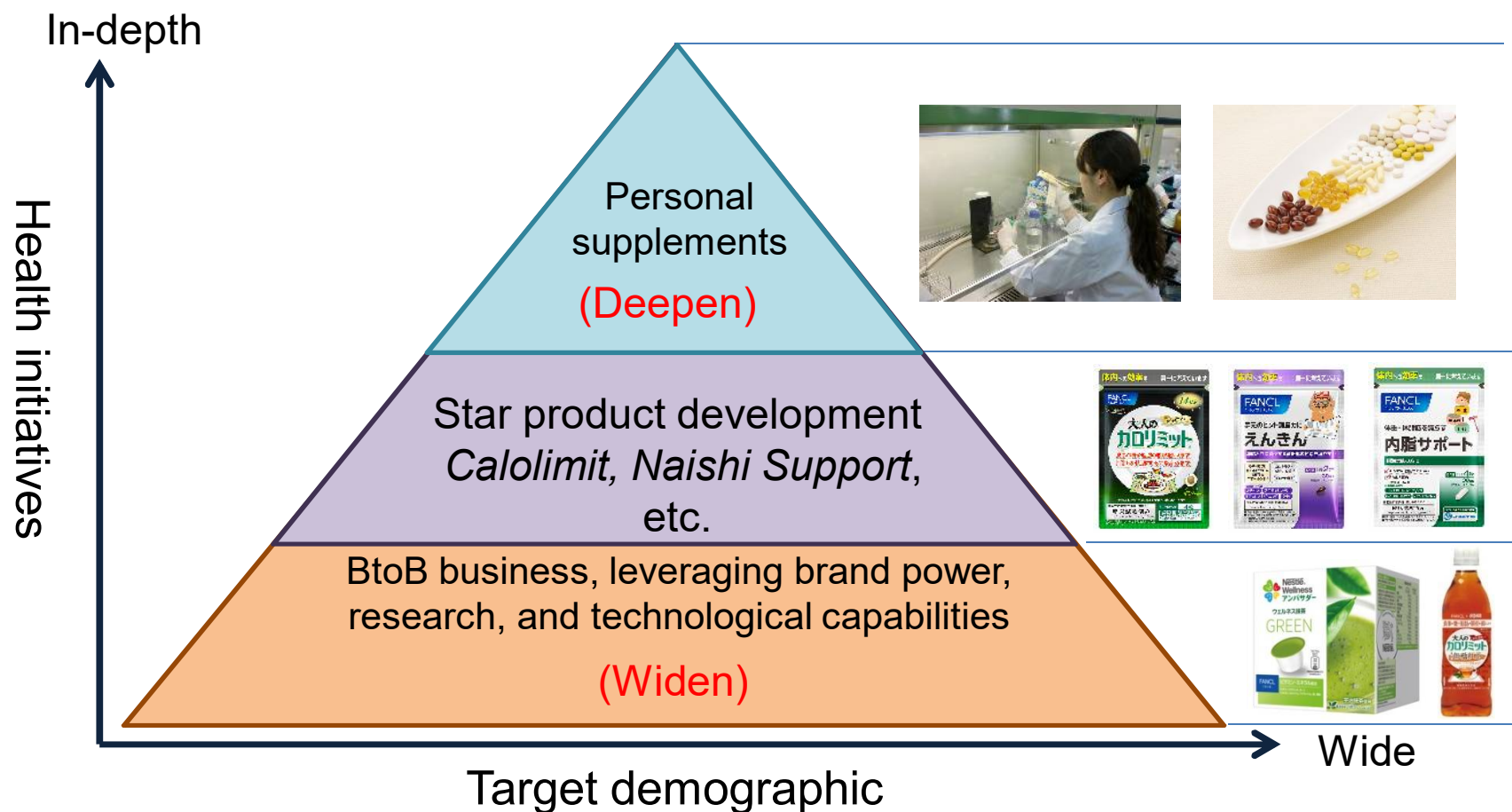


Working to expand to new sales channels, expect to achieve annual sales targets

# Health Business

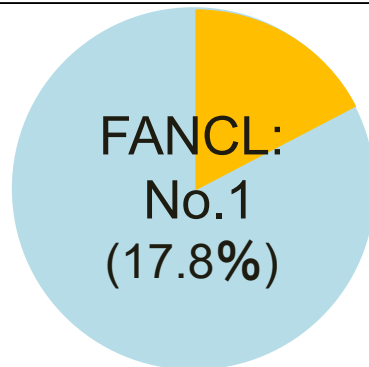
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Become the most trusted and widely-used  
Supplement (health food) manufacturer



## No. 1 in the Food with Function Claims market

Food with Function Claims (supplements)  
market share



Fujimi Keizai “HB Foods Marketing Manual 2019”  
No.3 Food with Function Claims Market Analysis – Health Food/Series  
Supplements: Fiscal 2017 Results by Monetary Amount



Star products are all clinically tested  
Foods with Function Claims

## Naishi Support and Nyosan Support (Uric Acid Support) performing well

### Support Series



### Sales Results (H1)

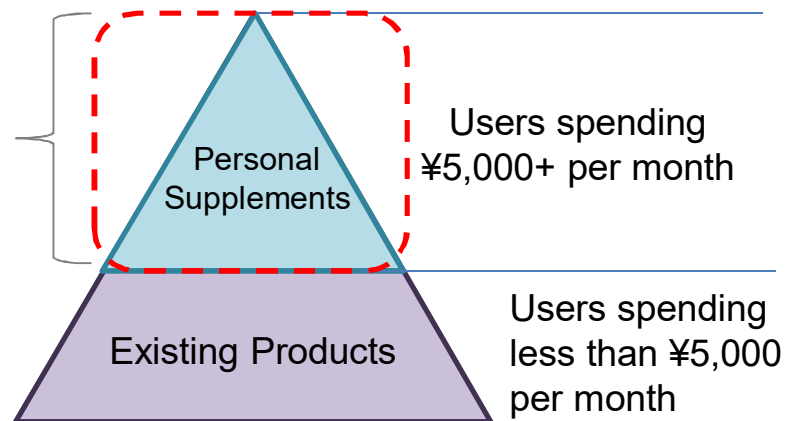
- *Naishi Support*: up 68% YoY
- *Nyosan Support*: up ¥400 million
- Other products in the *Support* series: up 42% YoY

Renewal planned for star products in H2

## ■ Personal supplements launched in H2 of FY Mar/2020

Target: Middle-aged and elderly supplement users

20% of all supplement users



Offering personally tailored supplements through consultations and scientific testing

**Base Supplement**

Essential nutrients for a healthy body



**Supplements targeting health concerns**

Resolve multiple health concerns (e.g. farsightedness, obesity, personal health data)

## ■ Utilize business foundations, including brand, research, and technological capabilities. Make BtoB a 4th channel



- Products developed jointly with Nestle and with Dydo DRINCO have been well received. New collaborations planned for the future
- Currently in discussion with multiple manufacturers. Scheduled to launch products with other manufacturers in H2

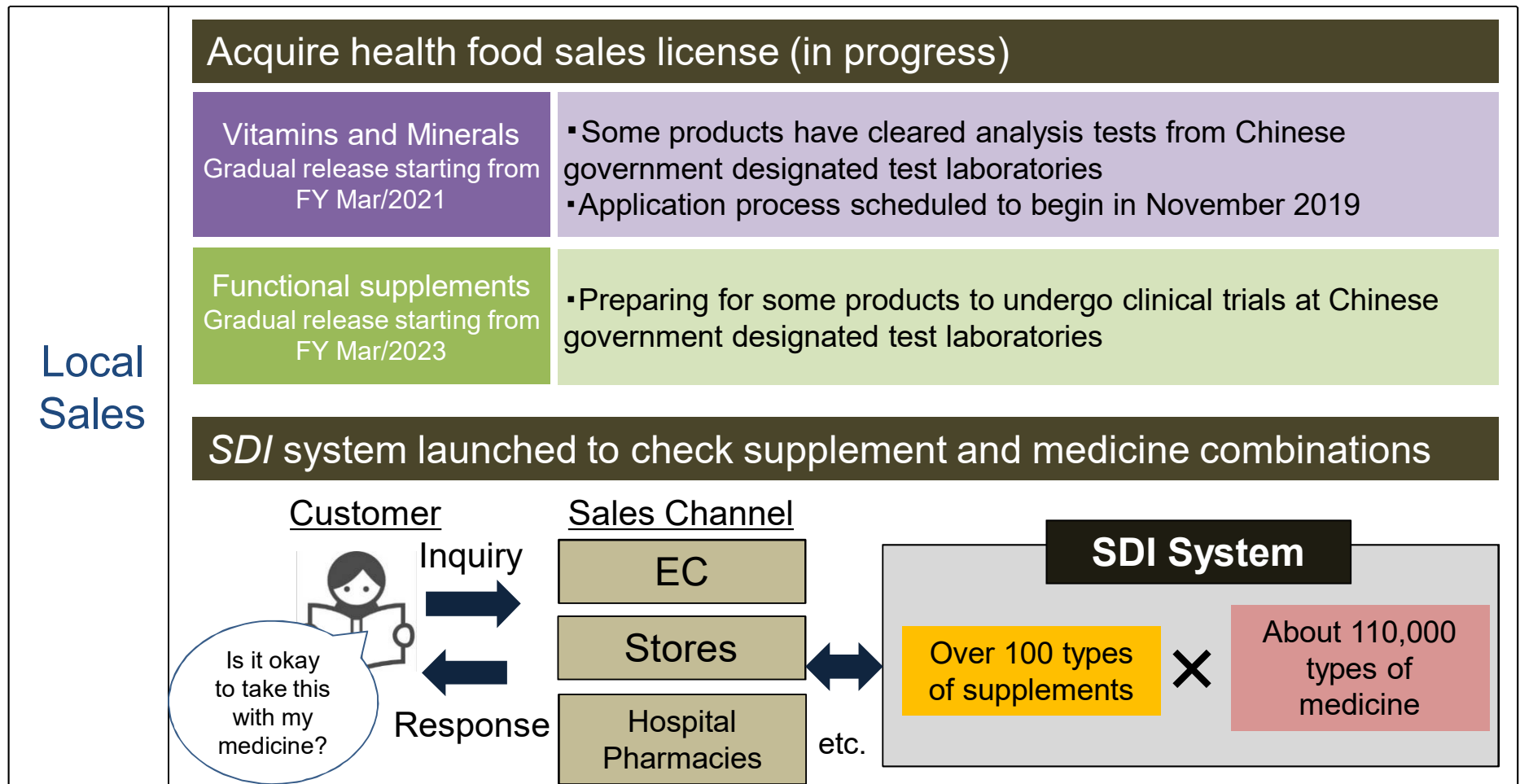


こころとからだに、  
おいしいものを。



Targeting annual sales of ¥1 billion level in Medium-Term Management Plan period to FY Mar/2021

Cross-border e-commerce	<ul style="list-style-type: none"> <li>▪ Repeat customer numbers steadily increasing since October 2018 launch</li> <li>▪ Now planning sales of ¥1.0 billion this FY (initial target at beginning of FY: ¥600 million)</li> </ul>
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Channel

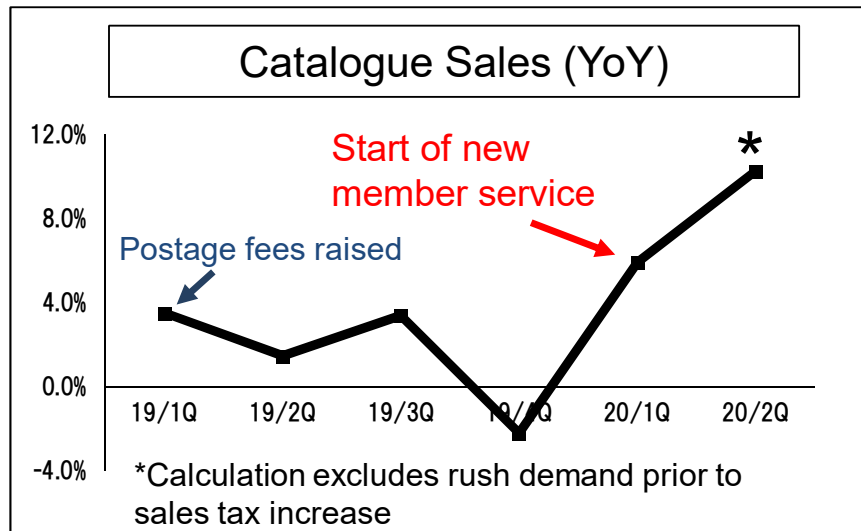
# Online and catalogue sales

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## Own Platform

Core channel with branding and personalized communication



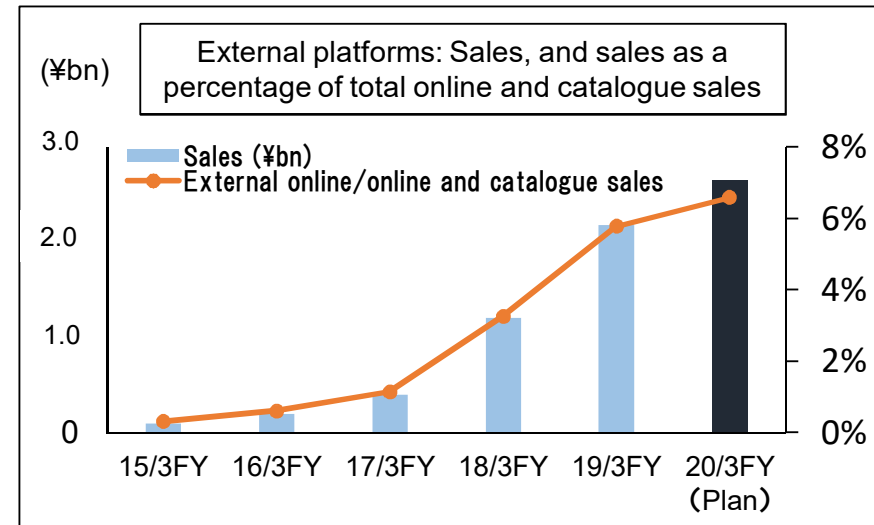
New

- Birthday month point system
- Free shipping benefits:
  1. Free for purchases over ¥10,000
  2. Spend over ¥100,000 in a year and shipping over ¥3,000 is free, etc.

Sales grew in the middle to heavy use segment

## External Platforms

Work to acquire customer segments which are difficult to gain contact with via own platforms



Initiatives

- For e-commerce malls such as Rakuten, Yahoo, Amazon, LOHACO:
1. Strengthen advertising
  2. Strengthen CRM measures

Increase external platform sales to about 7%

# Direct Stores / Wholesale

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## ■ Direct Stores

Opening stores in blue chip commercial facilities in metropolitan areas and proactively implementing renovations

Store openings (H1: 8 stores, H2: 7 stores)

- April: Daimaru Kobe Store
- August: Mitsukoshi Ginza Store, Iwataya Honten Fukuoka
- September Rumine Ikebukuro Store
- Second half Shibuya Scramble Square Store, Matsuya Ginza Store, Shinsaibashi Street-level Store, etc.

Renovations (H1: 23 stores, H2: 23 stores)

### Main stores with expansions

Daimaru Fukuoka Tenjin Store / Kintetsu Abenoharukas Store / Daimaru Shinsaibashi Store / Keio Shinjuku Store

Each store's sales floor space expanded 1.5 to 2 times compared to before renovation

## ■ Wholesale

Work to maximize in-store share, and expand sales per store

Aiming to secure superior third shelf, with nine new wholesale-only supplements to be released in fall 2019

### Superior top shelf

12,000 stores from spring 2018



### Superior second shelf

8,500 stores from spring 2019



### Superior third shelf

From fall 2019



# Investment Plan

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# Investment Plan

## New Factories

### Cosmetics

Investment amount: About ¥3.0 billion

- Acquired land adjacent to Chiba plant (April 2018)  
Aiming to launch operations in H2 of FY Mar/2020
- Expansion of *Mild Cleansing Oil* production capacity by up to 2.5 times the current levels

### Supplements

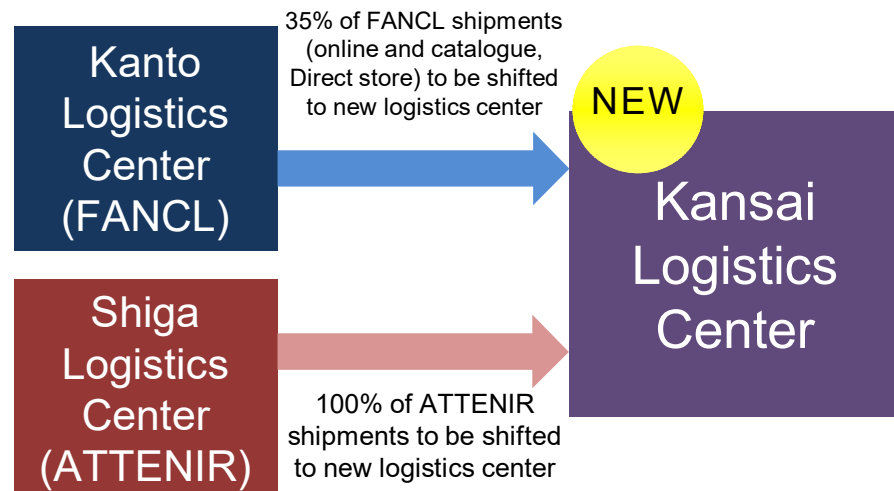
Investment amount: About ¥8.0 billion  
(planned)

- Acquired land and buildings in Mishima City, Shizuoka Prefecture
- Aiming for operations to start in March 2021  
Increasing production capacity up to 3 to 3.5 times the current level

## New Logistics Center

Investment amount: About ¥4.5 billion (planned)

- Contract with logistics facility in Kadoma City, Osaka
- Aiming for operations to start in June 2021



Total investment will exceed ¥15.0 billion, with ¥10 billion procured from profit for the period and CB

## Full year outlook

# Full-year outlook to March 2020

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(Millions of yen)	FY to March 2019	FY to March 2020	Change YoY
Sales	122,496	131,000	+6.9%
Cosmetics	71,599	78,450	+9.6%
Nutritional supplements	43,919	46,150	+5.1%
Other	6,977	6,400	(8.3%)
Hatsuga Genmai	2,037	1,850	(9.2%)
Kale Juice	2,622	2,450	(6.6%)
Operating income	12,387	15,000	+21.1%
Ordinary income	12,348	15,100	+22.3%
Net income	8,649	10,200	+17.9%

## Sales breakdown

Results forecasts by cosmetics brand	FANCL	61,870	+9.0% (Domestic:+10.0%, Overseas:-1.2%)
	ATTENIR	13,000	+12.9%
	boscia	2,780	+6.3%
Nutritional supplements		46,150	+5.1% (Domestic: +4.2%, Overseas: +19.7%)

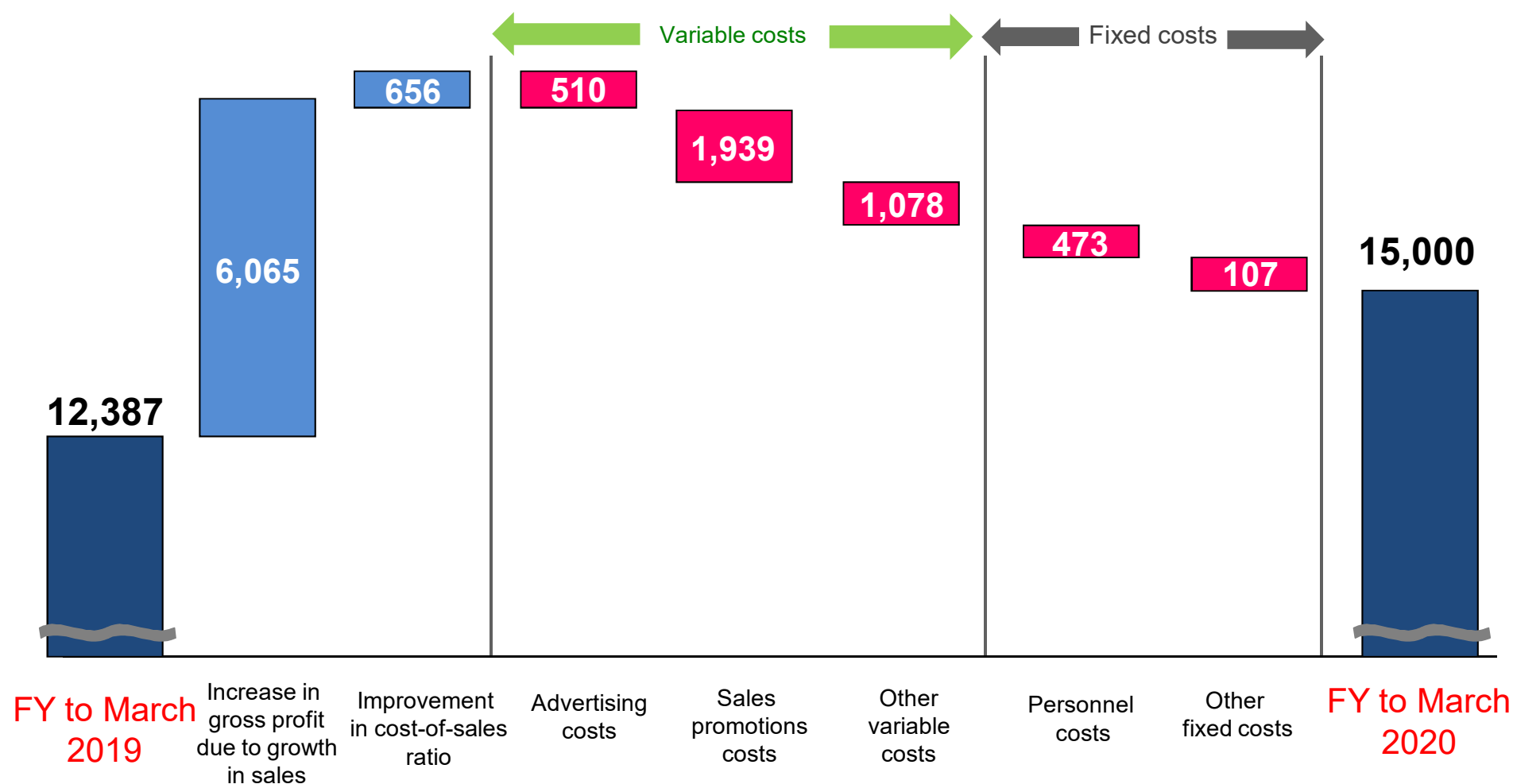
【Assumptions behind the plan】  
Inbound sales:16.3bn  
(The previous fiscal year 14.5bn)

## Full-year outlook: Analysis of change in operating income

Plan

Positive factors Negative factors

(Millions of yen)



# (Ref.) Existing customer trends (YoY)

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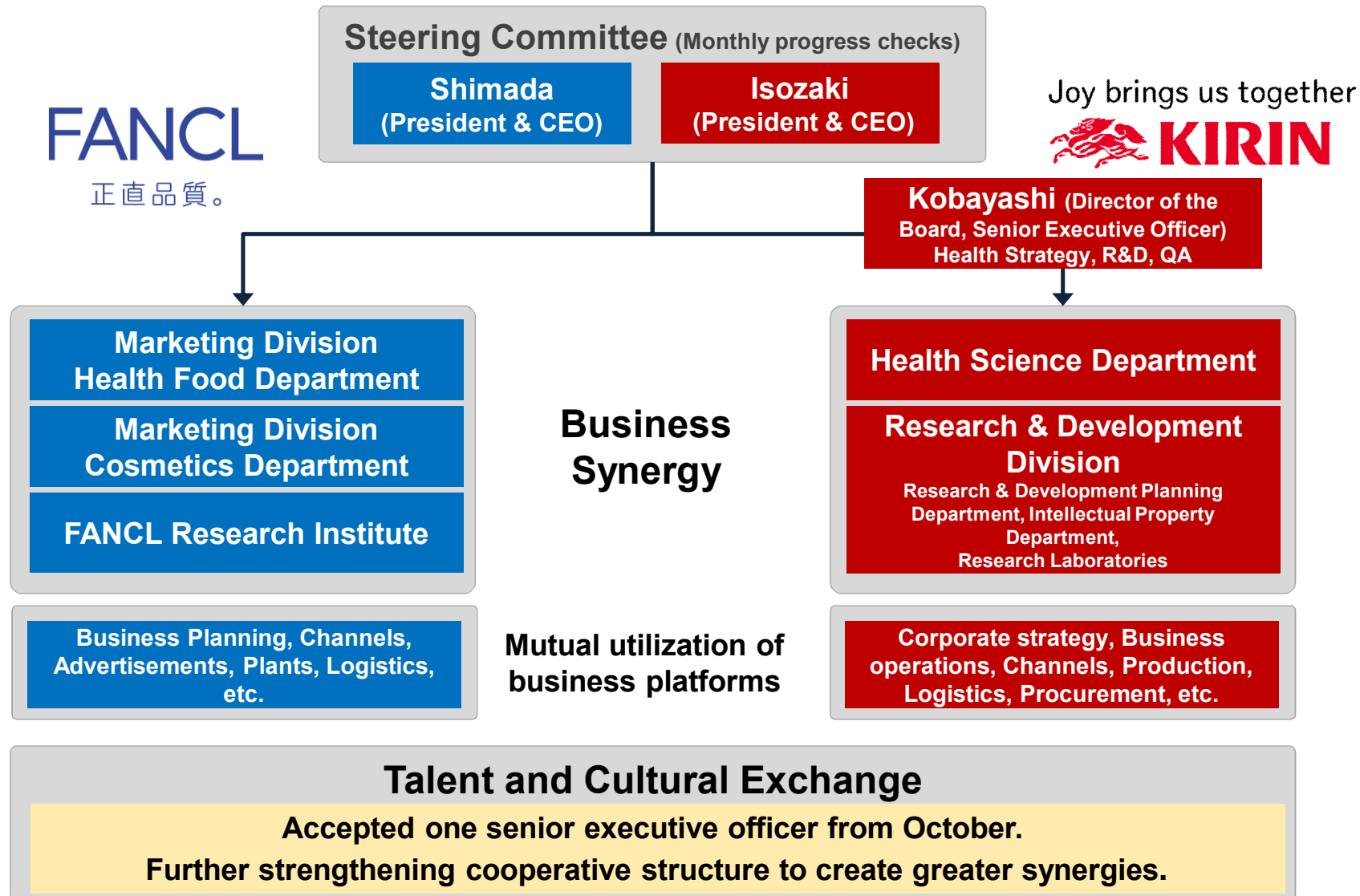
		2017				2018				2019		
		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
FANCL Cosmetics	Online and catalogue	105%	103%	101%	101%	102%	104%	104%	104%	102%	99%	101%
	Direct store	102%	102%	101%	100%	100%	101%	105%	110%	113%	113%	110%
Supplements	Online and catalogue	130%	123%	116%	109%	105%	103%	102%	103%	102%	102%	103%
	Direct store	102%	103%	105%	105%	106%	106%	108%	111%	112%	112%	108%
Attenir		125%	125%	125%	122%	121%	118%	112%	108%	105%	104%	103%

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

## Initiatives With Kirin Holdings



# Collaboration with Kirin Holdings



## Strengths

Joy brings us together



- **Brands** (*Gogo-no-Kocha, Namacha*, etc.)
- **R & D** (fermentation, cultivation, production of non-alcoholic beverages)
- **Materials** (amino acids, immune system, brain health, etc.)
- **Channels** (vending machines)



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- **Brands** (*Fancl, Attenir*, etc.)
- **R & D** (*Mutenka* technology, formulation and processing technology)
- **Use of materials** (supplements for healthy lifestyles)
- **Channels** (direct sales through stores and online)

## Health Products

Establish themes, needs and targets to be addressed based on the scale of health needs and the degree of unmet health needs for different age groups and genders

- |                         |                          |
|-------------------------|--------------------------|
| • Life-induced diseases | • Physical therapy       |
| • Health of the brain   | • Immune system          |
| • Frailty               | • Intestinal environment |

## Cosmetics

Kirin suggests materials and technologies to FANCL.  
FANCL breaks down these ideas for commercialization.

(Past Example) Two-component mixed serum '*BC INTENSIVE SKIN BOOSTER*'  
Kyowa Pharma Chemical and FANCL applied for a joint patent for freeze-drying formulation



## Mutual utilization of business platforms(proposed)

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	Area	Item	Implementation Plans
Sales Synergy	Own channels	Sharing of online and catalogue customers	<ul style="list-style-type: none"> <li>— Sharing FANCL and Kyowa Hakko Bio customers</li> <li>— Handling both companies' products</li> </ul>
		Utilization of vending machines	<ul style="list-style-type: none"> <li>— Supplement sales in office vending machines</li> </ul>
	Wholesale	Development of new wholesale channels	<ul style="list-style-type: none"> <li>— Joint sales via channels where each company is strong FANCL: drugstores / Kirin: supermarkets, etc.</li> </ul>
	Corporate	Health promotion business collaboration	<ul style="list-style-type: none"> <li>— Proposals to Kirin customers</li> <li>— Collaboration between FANCL health management promotion business and <i>Kirin Naturals</i>, etc.</li> </ul>
	Promotion and PR	Shared sales promotion and PR initiatives	<ul style="list-style-type: none"> <li>— Joint promotion of both companies' products</li> </ul>
Cost Synergy	Shared procurement	Materials/goods	<ul style="list-style-type: none"> <li>— Cosmetics, supplement ingredients, raw materials, etc.</li> </ul>
	Production	Sharing production consignment	<ul style="list-style-type: none"> <li>— Consign production of formulations in which mutual strengths exist FANCL: Tablets / Kirin: Drinks</li> </ul>
	Other	Logistics optimization, etc.	<ul style="list-style-type: none"> <li>— Consider joint logistics initiatives</li> </ul>

