

# FANCL Corporation

## Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2023

April 1, 2022 to June 30, 2022

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

## SUMMARY OF FINANCIAL STATEMENTS (consolidated)

First Quarter Results for the Fiscal Year Ending March 31, 2023

**FANCL CORPORATION**

**August 5, 2022**

http://www.fancl.jp/en/

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Scheduled date for submission of first quarter *hokokusho* (securities report): August 12, 2022

Scheduled date for distribution of dividends: --

Availability of supplementary explanatory material for the first quarter results: Available

Presentation meeting for the first quarter results: Scheduled (for institutional investors and analysts)

### **1) Consolidated results for the first quarter period (April 1, 2022 to June 30, 2022) of the fiscal year ending March 31, 2023**

#### (1) Consolidated Operating Results

*(Millions of yen, rounded down)*

	Three months ended June 30, 2022		Three months ended June 30, 2021	
		% change		% change
Net sales .....	25,610	1.7	25,176	(4.3)
Operating income .....	1,737	(42.3)	3,010	23.1
Ordinary income .....	1,956	(39.6)	3,242	29.3
Net income attributable to owners of the parent company .....	1,168	(47.5)	2,227	50.8
Earnings per share (¥) .....	9.67	--	18.46	--
Earnings per share (diluted) (¥) .....	9.63	--	18.38	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.

2. Comprehensive income: Three months ended June 30, 2022: ¥1,246 million (-46.4%)

Three months ended June 30, 2021: ¥2,327 million (58.7%)

#### (2) Consolidated Financial Position

*(Millions of yen, rounded down)*

	As of June 30, 2022	As of March 31, 2022
Total assets .....	100,744	100,121
Net assets .....	73,942	74,073
Equity ratio (%) .....	72.8	73.3

Shareholders' equity: As of June 30, 2022: ¥73,302 million

As of March 31, 2022: ¥73,432 million

### **2) Dividends per share**

	FY ended March 31, 2022	FY ending March 31, 2023
Interim period (¥) .....	17.00	17.00 (forecast)
Year-end (¥) .....	17.00	17.00 (forecast)
Annual (¥) .....	34.00	34.00 (forecast)

Note: Changes to the dividend forecast during the period under review: None

### **3) Consolidated forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023)**

*(Millions of yen)*

	Interim period ending September 30, 2022		FY Ending March 31, 2023	
		Change %		Change %
Net sales .....	51,160	2.6	109,400	5.2
Operating income .....	3,600	(30.4)	10,400	6.4
Ordinary income .....	4,100	(26.2)	11,000	5.8
Profit (loss) attributable to owners of parent .....	2,700	(33.7)	7,450	0.4
Net income per share (¥) .....	22.33	--	61.61	--

Notes: 1. Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

2. Changes to the Consolidated forecasts during the period under review: Yes

#### **4) Other**

**(1) Transfer of important subsidiaries during the period:** None

Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

**(2) Use of simplified accounting methods or special accounting procedures:** None

**(3) Changes in accounting policy, changes in accounting estimates, and restatements:**

1. Changes following revisions to accounting standards: Yes
2. Other changes: None
3. Changes in accounting estimates: None
4. Restatements: None

**(4) Number of outstanding shares (common stock)**

1. Number of shares outstanding (including treasury shares)	June 30, 2022	130,353,200 shares	March 31, 2022	130,353,200 shares
2. Number of treasury shares	June 30, 2022	9,431,541 shares	March 31, 2022	9,677,463 shares
3. Average number of shares during the three-month period	Three months to June 30, 2022	120,848,804 shares	Three months to June 30, 2021	120,665,289 shares

Note: The number of treasury shares at the end of the fiscal year includes the Company's shares held by the BIP Trust for Directors (211,313 shares as of June 30, 2022, and 211,500 shares as of March 31, 2022). The Company's shares held by the BIP Trust for Directors are included in treasury shares as a deduction in the calculation of average number of shares outstanding during the fiscal year.

**\*This quarterly financial report is not subject to audit procedures by a certified public accountant or auditor.**

**\* Appropriate use of financial forecasts, other special notes**

(Cautionary note regarding forward-looking statements)

Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 7: 1. Operating Results, Section 4, Forecasts for the fiscal year ending March 31, 2023.

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# 1. Operating Results

## (1) Summary of business performance (consolidated)

(All comparisons are with the three-month period of the previous fiscal year, unless stated otherwise.)

During the three-month period under review, Sales in the core cosmetics and nutritional supplements businesses increased, resulting in a 1.7% increase in overall sales to ¥25,610 million. Despite an increase in gross profit on higher sales, operating income decreased 42.3% to ¥1,737 million, mainly due to aggressive use of advertising expenditure to expand the customer base. Ordinary income decreased 39.6% to ¥1,956 million, and net income attributable to owners of the parent company decreased 47.5% to ¥1,168 million.

Segment results are as follows:

### 1) Cosmetics Business

#### Sales

Sales from the Cosmetics business increased 2.6% to ¥14,885 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2022		Three months ended June 30, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	10,882	73.1	10,507	72.5	3.6
ATTENIR Cosmetics	3,469	23.3	3,456	23.8	0.4
boscia	233	1.6	321	2.2	(27.2)
Others	300	2.0	221	1.5	35.9
Totals	14,885	100.0	14,506	100.0	2.6

	Three months ended June 30, 2022		Three months ended June 30, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	7,795	52.4	7,508	51.7	3.8
Direct store sales	3,281	22.0	3,249	22.4	1.0
Wholesales and others	2,364	15.9	1,998	13.8	18.4
Overseas sales	1,443	9.7	1,751	12.1	(17.6)
Totals	14,885	100.0	14,506	100.0	2.6

Sales of **FANCL Cosmetics** increased 3.6% to ¥10,882 million, due to strong trending sales of *ENRICH+* and *MILD CLEANSING OIL*, which were subject to strengthened advertising and promotions, in addition to contributions from the newly launched *CLAY GEL FACIAL WASH*.

Sales of **ATTENIR Cosmetics** increased 0.4% to ¥3,469 million, as domestic sales of *SKIN CLEAR CLEANSING OIL* and special care products were strong, outweighing a decline in overseas sales impacted by the lockdowns in China.

Sales of **boscia** decreased 27.2% to ¥233 million due to sluggish wholesale sales to real stores.

Results **by sales channels** were: online and catalogue sales increased 3.8% to ¥7,795 million, direct store sales increased 1.0% to ¥3,281 million, wholesale sales through other sales channels increased 18.4% to ¥2,364 million, and overseas sales decreased 17.6% to ¥1,443 million.

#### Operating income

Operating income decreased 27.2% to ¥1,517 million, due the aggressive use of advertising expenditure, which outweighed an increase in gross profit resulting from higher sales.

## 2) Nutritional Supplements Business

### Sales

Nutritional supplement sales increased 2.2% to ¥9,182 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2022		Three months ended June 30, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	4,339	47.2	4,176	46.5	3.9
Direct store sales	1,345	14.7	1,535	17.1	(12.4)
Wholesales and others	2,723	29.7	2,349	26.1	15.9
Overseas Sales	773	8.4	926	10.3	(16.5)
Totals	9,182	100.0	8,988	100.0	2.2

In addition to strong trending sales of *Naishi Support*, which was subject to strengthened advertising, *Age Bracket-Based Supplements* sales also grew, resulting in an increase in overall sales.

Results by **sales channels** were: Online and catalogue sales increased 3.9% to ¥4,339 million, direct store sales decreased 12.4% to ¥1,345 million, wholesale sales through other sales channels increased 15.9% to ¥2,723 million, and overseas sales decreased 16.5% to ¥773 million.

### Operating income

Operating income decreased 54.9% to ¥599 million, due to a deterioration in the gross profit margin caused by an increase in the sales composition of wholesale sales through other sales channels, which have comparatively high cost ratios, as well as the aggressive use of advertising expenditure.

## 3) Other Businesses

### Sales

Other businesses decreased 8.4% year on year to ¥1,541 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2022	Three months ended June 30, 2021	Change (%)
Hatsuga genmai	493	519	(5.0)
Kale juice	466	494	(5.7)
Other	581	667	(12.9)
Totals	1,541	1,682	(8.4)

### Operating income

Despite a decline in sales, gross profit increased due to an improvement in the gross profit margin of Hatsuga genmai, and as a result operating income was ¥14 million (compared to an operating loss of ¥29 million in the previous comparable period).

## (2) Summary of consolidated financial position

(All comparisons are with the end of the previous fiscal year, unless stated otherwise.)

Assets increased ¥623 million to ¥100,744 million, primarily due to an increase of ¥777 million in current assets and a decrease of ¥153 million in fixed assets. The main factors contributing to the increase in current assets was a ¥233 million increase in cash and cash equivalents, a ¥667 million increase in Other current assets due to an increase in prepaid expenses, and a decrease in ¥176 million merchandise and products. The main factors contributing to the decrease in fixed assets was a ¥861 million decrease in tangible fixed assets, and a ¥764 million increase in investments and other assets - Others due to an increase in long-term prepaid expenses.

Liabilities increased ¥754 million from the end of the previous fiscal year to ¥26,802 million. The primary contributing factors were an increase of ¥517 million in current liabilities and an increase of ¥236 million in long-term liabilities. Factors contributing to the increase in current liabilities included a ¥628 million increase in allowance for bonuses, a ¥244 million increase in contract liability, and a ¥369 million increase other current liabilities due to an increase in consumption tax payable, and a ¥646 million decrease in notes and accounts payable. Factors contributing to the increase in long-term liabilities included a ¥37 million increase in provision for share awards for directors, and a ¥184 million increase in long-term liabilities - others resulting from an increase in lease obligations.

Net assets decreased ¥130 million to ¥73,942 million. Contributing factors included a ¥2,055 million decrease in retained earnings due to dividend payments, a ¥1,168 million increase in retained earnings due to the recording of net income attributable to owners of the parent, a ¥501 million decrease in treasury stock due to the disposal of treasury stock, and a ¥175 million increase in capital reserve.

As a result, the shareholders' equity ratio decreased 0.5 points compared to the end of the previous fiscal year, to 72.8%.

## (3) Forecasts for the fiscal year ending March 31, 2023

In light of recent performance trends and other factors, we have revised our consolidated forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023), which were announced together with our financial results on May 10, 2022.

### (1) Revision of consolidated forecasts for the interim period of the of the fiscal year ending March 31, 2023

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
Previous forecast (A)	52,760	4,300	4,370	3,000	24.86
Revised forecast (B)	51,160	3,600	4,100	2,700	22.33
Change (B-A)	(1,600)	(700)	(270)	(300)	--
Change (%)	(3.0)	(16.3)	(6.2)	(10.0)	--
(Reference) Results of previous period (H1 of FY Mar/2022)	49,876	5,171	5,558	4,070	33.73

### (2) Revision of consolidated forecasts for the full-year period of the of the fiscal year ending March 31, 2023

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
Previous forecast (A)	111,000	11,100	11,250	7,700	63.81
Revised forecast (B)	109,400	10,400	11,000	7,450	61.61
Change (B-A)	(1,600)	(700)	(250)	(250)	--
Change (%)	(1.4)	(6.3)	(2.2)	(3.2)	--
(Reference) Results of previous period (FY Mar/2022)	103,992	9,771	10,401	7,421	61.50

The domestic business is progressing as planned as a result of strategic advertising investments carried out to expand the customer base. However, the overseas business is underperforming compared to the plan due to the impact of the China lockdowns. There has also been a delay in recovery of sales following the lifting of the lockdowns. As a result, we have revised our consolidated sales and income forecasts for the interim and full year periods of the fiscal year ending March 31, 2023.

In addition, the Company expects to record a foreign exchange gain as non-operating income due to the yen's depreciation.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen, rounded down)

	As of June 30, 2022	As of March 31, 2022
<b>ASSETS</b>		
<b>I. Current assets:</b>		
Cash and cash equivalents .....	30,341	30,108
Notes and accounts receivable .....	12,029	11,916
Merchandise and products .....	5,342	5,518
Raw materials and supplies .....	5,546	5,610
Others .....	3,220	2,553
Allowance for doubtful accounts .....	(98)	(101)
Total current assets .....	56,382	55,605
<b>II. Fixed assets:</b>		
<b>Tangible fixed assets</b>		
Buildings and structures .....	34,434	34,715
Accumulated depreciation and accumulated impairment loss .....	(19,286)	(19,103)
Buildings and structures (net) .....	15,147	15,611
Machinery and transport equipment .....	16,851	16,783
Accumulated depreciation and accumulated impairment loss .....	(10,696)	(10,326)
Machinery and transport equipment (net) .....	6,154	6,456
Furniture, tools and fixtures .....	9,899	9,981
Accumulated depreciation and accumulated impairment loss .....	(8,399)	(8,435)
Furniture, tools and fixtures (net) .....	1,499	1,546
Land .....	13,914	14,214
Lease assets .....	355	205
Accumulated depreciation and accumulated impairment loss .....	(152)	(127)
Lease assets (net) .....	203	78
Others .....	114	--
Accumulated depreciation and accumulated impairment loss .....	(8)	--
Others .....	106	--
Construction in progress .....	53	34
Total tangible fixed assets .....	37,080	37,941
<b>Intangible fixed assets</b>		
Others .....	2,530	2,587
Total intangible fixed assets .....	2,530	2,587
<b>Investments and other assets</b>		
Investment securities .....	125	125
Others .....	4,625	3,860
Total investments and other assets .....	4,751	3,986
Total fixed assets .....	44,362	44,516
<b>Total Assets</b> .....	<b>100,744</b>	<b>100,121</b>

## Consolidated Balance Sheets (continued)

(Millions of yen, rounded down)

	As of June 30, 2022	As of March 31, 2022
<b>LIABILITIES</b>		
I. Current liabilities:		
Notes and accounts payable .....	2,784	3,431
Accrued income taxes .....	1,193	1,271
Contract liability .....	2,705	2,461
Provision for bonuses .....	1,862	1,234
Asset retirement obligations .....	3	2
Others .....	6,341	5,971
Total current liabilities .....	14,890	14,373
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights .....	10,087	10,100
Provision for share awards for directors....	145	108
Retirement benefit liabilities.....	907	880
Asset retirement obligations .....	497	496
Others .....	274	89
Total long-term liabilities .....	11,911	11,675
Total liabilities .....	26,802	26,048
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Common stock .....	10,795	10,795
Capital reserve .....	12,178	12,003
Retained earnings .....	69,880	70,766
Treasury stock .....	(19,501)	(20,003)
Total shareholders' equity.....	73,351	73,561
<b>Other comprehensive income</b>		
Foreign currency translation adjustment....	158	100
Total adjustments related to retirement benefits .....	(208)	(228)
Total other comprehensive income .....	(49)	(128)
<b>Warrants</b> .....	640	640
<b>Total net assets</b> .....	73,942	74,073
<b>Total Liabilities and Net Assets</b> .....	<b>100,744</b>	<b>100,121</b>

**(2) Consolidated statement of income and Consolidated statement of comprehensive income**  
**Consolidated statement of income**

*(Millions of yen, rounded down)*

	April 1, 2022 to June 30, 2022	April 1, 2021 to June 30, 2021
Net sales.....	25,610	25,176
Cost of sales.....	8,336	8,375
Gross profit.....	17,273	16,800
Selling, general and administrative expenses ...	15,536	13,790
Operating income.....	1,737	3,010
Non-operating income		
Interest income.....	12	13
Dividend income.....	0	0
Rental income.....	30	35
Foreign exchange gain.....	184	160
Other non-operating income.....	62	31
Total non-operating income.....	289	241
Non-operating expenses		
Interest expenses.....	0	0
Rent expenses on fixed assets.....	2	3
Provisions for allowance for bad debt.....	50	--
Other non-operating expenses.....	18	4
Total non-operating expenses.....	70	8
Ordinary income.....	1,956	3,242
Extraordinary income		
Income from sale of fixed assets.....	0	0
Total extraordinary income.....	0	0
Extraordinary loss		
Loss on disposal of fixed assets.....	2	4
Impairment loss.....	0	--
Loss on closure of stores.....	--	9
Other.....	--	1
Total extraordinary loss.....	2	16
Income before income taxes.....	1,954	3,225
Income and other taxes.....	1,079	794
Adjustments to income and other taxes.....	(293)	204
Total income and other taxes.....	785	998
Net income.....	1,168	2,227
Net income attributable to owners of the parent company.....	1,168	2,227

## Consolidated statement of comprehensive income

(Millions of yen, rounded down)

	April 1, 2022 to June 30, 2022	April 1, 2021 to June 30, 2021
Income before minority interests .....	1,168	2,227
<b>Other comprehensive income</b>		
Foreign currency translation adjustment .....	58	82
Adjustments related to retirement benefits .....	20	18
Total other comprehensive income .....	78	100
<b>Comprehensive income</b>	1,246	2,327
(Breakdown)		
Comprehensive income attributable to owners of the parent company .....	1,246	2,327
Comprehensive income attributable to minor interests .....	--	--

### (3) Notes to the consolidated financial statements

#### Items related to going concern:

No applicable items

#### Note on significant change in shareholders' equity

No applicable items

#### Changes in accounting policy

Adoption of ASC 842, Leases

From the first quarter period under review, foreign consolidated subsidiaries that use U.S. accounting standards have adopted ASC 842, Leases. As a result, with regard to lease transactions at such foreign consolidated subsidiaries, the Company has decided, in principle, to record all leases as assets and liabilities on the balance sheet.

In applying this accounting standard, the cumulative effect of adopting this accounting standard is recognized at the date of adoption, as permitted by transitional measures.

As a result, at the beginning of the first quarter period under review, right-of-use assets are included in "Other" under tangible fixed assets, and lease obligations are included in "Other" under current liabilities.

The effect of the application of this accounting standard on the quarterly consolidated statements of income is immaterial.

#### Segment information

Business Segments

##### 1. Three months ended June 30, 2022

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate* <sup>2</sup>	Consolidated * <sup>3</sup>
	Cosmetics Business	Nutritional Supplements Business	Other Businesses * <sup>1</sup>			
<b>1. Sales and operating income:</b>						
(1) Sales to external customers		9,182	1,541	25,610	--	25,610
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	14,885	9,182	1,541	25,610	--	25,610
Operating income	1,517	599	14	2,131	(394)	1,737

Notes:

- The Other Businesses segment consists of sundries, personal effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice
- The adjustment amount on segment income of (¥394 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
- Segment income is adjusted for operating income as recorded in the consolidated financial statements.

##### 2. Three months ended June 30, 2021

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate* <sup>2</sup>	Consolidated * <sup>3</sup>
	Cosmetics Business	Nutritional Supplements Business	Other Businesses * <sup>1</sup>			
<b>1. Sales and operating income:</b>						
(1) Sales to external customers	14,506	8,988	1,682	25,176	--	25,176
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	14,506	8,988	1,682	25,176	--	25,176
Operating income (loss)	2,083	1,328	(29)	3,382	(372)	3,010

Notes:

1. The Other Businesses segment consists of sundries, personal effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice
2. The adjustment amount on segment income (loss) of (¥372 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income as recorded in the consolidated financial statements.