

FANCL Corporation

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

April 1, 2022 to December 31, 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)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2023

FANCL CORPORATION

February 7, 2023

<https://www.fancl.jp/en/>

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Scheduled date for submission of third quarter *hokokusho* (securities report): February 13, 2023

Scheduled date for distribution of dividends: --

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

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

1) Consolidated results for the nine-month period (April 1, 2022 to December 31, 2022) of the fiscal year ending March 31, 2023

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Nine months ended December 31, 2022		Nine months ended December 31, 2021	
		% change		% change
Net sales	78,954	0.0	78,916	(8.3)
Operating income	6,442	(23.5)	8,426	(3.0)
Ordinary income	7,277	(18.1)	8,888	0.5
Net income attributable to owners of the parent company	4,358	(32.9)	6,492	5.4
Earnings per share (¥)	36.05	--	53.80	--
Earnings per share (diluted) (¥)	35.91	--	53.58	--

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

2. Comprehensive income: Nine months ended December 31, 2022: ¥4,574 million (31.0%)

Nine months ended December 31, 2021: ¥6,633 million (8.8%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of December 31, 2022	As of March 31, 2022
Total assets	101,882	100,121
Net assets	75,213	74,073
Shareholders' equity/total assets (%)	73.2	73.3

Shareholders' equity: As of December 31, 2022: ¥74,602 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
Year-end	17.00	17.00 (forecast)
Annual	34.00	34.00 (forecast)

Notes: 1. Changes to dividend forecasts 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

	FY Ending March 31, 2023	
		Change %
Net sales	107,500	3.4
Operating income	9,800	0.3
Ordinary income	10,680	2.7
Profit (loss) attributable to owners of parent	6,950	(6.4)
Net income per share (¥)	57.47	--

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: No

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 stock)	December 31, 2022	130,353,200 shares	March 31, 2022	130,353,200 shares
2. Number of treasury stocks	December 31, 2022	9,427,256 shares	March 31, 2022	9,677,463 shares
3. Average number of shares during the nine-month period	Nine months to December 31, 2022	120,899,488 shares	Nine months to December 31, 2021	120,672,368 shares

Note: The number of treasury stocks at the end of the period includes shares held by the Officer Compensation BIP (Board Incentive Plan) Trust Account (210,515 shares as of December 31, 2022, 211,500 as of March 31, 2022). Furthermore, the treasury stock held by the Officer Compensation BIP Trust Account are included in the treasury stock deducted in the calculation of the average number of shares outstanding during the period.

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

*** Appropriate use of financial forecasts:**

(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 3, 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 nine-month period of the previous fiscal year, unless stated otherwise.)

During the nine-month period under review, overall sales increased 0.0% to ¥78,954 million, as an increase in sales in the nutritional supplements business was largely offset by a decline in sales in the cosmetics business, which was impacted by a decline in direct store sales in Japan and lockdowns in China. Operating income decreased 23.5% to ¥6,442 million due to factors including the aggressive use of advertising expenditure aimed at expanding the customer base. Ordinary income decreased 18.1% to ¥7,277 million, and net income attributable to owners of the parent company decreased 32.9% to ¥4,358 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business decreased 1.0% to ¥44,176 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2022		Nine months ended December 31, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	32,226	73.0	32,436	72.7	(0.6)
ATTENIR Cosmetics	10,426	23.6	10,583	23.7	(1.5)
boscia	594	1.3	794	1.8	(25.2)
Others	929	2.1	797	1.8	16.6
Totals	44,176	100.0	44,611	100.0	(1.0)

	Nine months ended December 31, 2022		Nine months ended December 31, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	24,066	54.5	23,045	51.7	4.4
Direct store sales	8,847	20.0	10,121	22.7	(12.6)
Wholesales and others	7,313	16.6	6,391	14.3	14.4
Overseas sales	3,949	8.9	5,053	11.3	(21.8)
Totals	44,176	100.0	44,611	100.0	(1.0)

Sales of **FANCL Cosmetics** decreased 0.6% to ¥32,226 million due to factors including a slowdown in direct store sales and overseas sales due to the impact of the COVID-19 pandemic, which outweighed growth in online and catalogue sales and wholesales and others.

Sales of **ATTENIR Cosmetics** decreased 1.5% to ¥10,426 million, as a decline in overseas sales impacted by the lockdowns in China outweighed strong domestic sales of *SKIN CLEAR CLEANSE OIL* and special care products.

Sales of **boscia** decreased 25.2% to ¥594 million due to sluggish wholesale sales to real stores.

Operating income

Operating income decreased 19.4% to ¥4,893 million, due to the aggressive use of advertising expenditure, which outweighed efforts to streamline sales promotion expenditure.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 2.7% to ¥30,060 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2022		Nine months ended December 31, 2021		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	13,714	45.6	13,064	44.6	5.0
Direct store sales	4,376	14.6	5,001	17.1	(12.5)
Wholesales and others	8,888	29.6	7,554	25.8	17.7
Overseas Sales	3,080	10.2	3,653	12.5	(15.7)
Totals	30,060	100.0	29,273	100.0	2.7

Domestic sales increased due to an increase in online and catalogue sales and wholesale sales as a result of strengthened advertising, which outweighed a decline in direct store sales caused by the impact of the COVID-19 pandemic.

Overseas sales declined as cross-border e-commerce sales to China were impacted by lockdowns and inventory adjustments.

Operating income

Operating income decreased 26.6% to ¥2,718 million, due to the aggressive use of advertising expenditure, which outweighed an increase in gross profit from higher sales.

3) Other Businesses

Sales

Other businesses declined 6.2% year on year to ¥4,717 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2022	Nine months ended December 31, 2021	Change (%)
Hatsuga genmai	1,503	1,526	(1.5)
Kale juice	1,531	1,601	(4.4)
Other	1,682	1,903	(11.6)
Totals	4,717	5,031	(6.2)

Operating income

Despite a decline in sales, operating income of ¥89 million was recorded (compared to an operating loss of ¥20 million in the previous comparable period) due to factors including an improvement in the gross profit ratio of Hatsuga genmai.

(2) Summary of consolidated financial position

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

Assets increased ¥1,760 million to ¥101,882 million, primarily due to an increase of ¥3,784 million in current assets and a decrease of ¥2,023 million in fixed assets. The primary factors contributing to the increase in current assets was a ¥2,164 million increase in notes and accounts receivable, and a ¥2,040 million increase in cash and cash equivalents. The primary factor contributing to the decrease in fixed assets was a ¥2,099 million decrease in tangible fixed assets due to depreciation.

Liabilities increased ¥620 million from the end of the previous fiscal year to ¥26,668 million. The primary contributing factor was an increase of ¥348 million in current liabilities and an increase of ¥272 million in long-term liabilities. Factors contributing to the increase in current liabilities included an ¥806 million increase other current liabilities due to an increase in accrued income taxes, and a ¥593 million decrease in allowance for bonuses. Factors contributing to the increase in long-term liabilities included a ¥110 million increase in provision for share awards for directors, and a ¥152 million increase in long-term liabilities - others resulting from an increase in lease obligations.

Net assets increased ¥1,140 million to ¥75,213 million. Contributing factors included a ¥4,358 million increase in retained earnings due to the recording of net income attributable to owners of the parent, a ¥4,114 million decrease in retained earnings due to dividend payments, a ¥522 million decrease in treasury stock due to the disposal of treasury stock, and a ¥186 million increase in capital reserve. As a result, the shareholders' equity ratio decreased 0.1 points compared to the end of the previous fiscal year, to 73.2%.

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

The full-year consolidated results forecasts are unchanged from those announced on November 4, 2022.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen, rounded down)

	As of December 31, 2022	As of March 31, 2022
ASSETS		
I. Current assets:		
Cash and cash equivalents	32,149	30,108
Notes and accounts receivable	14,081	11,916
Merchandise and products	5,612	5,518
Raw materials and supplies	5,419	5,610
Others	2,215	2,553
Allowance for doubtful accounts	(87)	(101)
Total current assets	59,389	55,605
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	34,372	34,715
Accumulated depreciation and accumulated impairment loss	(19,632)	(19,103)
Buildings and structures (net)	14,739	15,611
Machinery and transport equipment	16,879	16,783
Accumulated depreciation and accumulated impairment loss	(11,436)	(10,326)
Machinery and transport equipment (net)	5,442	6,456
Furniture, tools and fixtures	9,905	9,981
Accumulated depreciation and accumulated impairment loss	(8,598)	(8,435)
Furniture, tools and fixtures (net)	1,306	1,546
Land	13,914	14,214
Leased assets	369	205
Accumulated depreciation and accumulated impairment loss	(202)	(127)
Leased assets (net)	167	78
Others	136	--
Accumulated depreciation and accumulated impairment loss	(28)	--
Others	107	--
Construction in progress	164	34
Total tangible fixed assets	35,842	37,941
Intangible fixed assets		
Others	2,498	2,587
Total intangible fixed assets	2,498	2,587
Investments and other assets		
Investment securities	125	125
Others	4,026	3,860
Total investments and other assets	4,151	3,986
Total fixed assets	42,492	44,516
Total Assets	101,882	100,121

Consolidated Balance Sheets (continued)

(Millions of yen, rounded down)

	As of December 31, 2022	As of March 31, 2022
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,177	3,431
Accrued income taxes	1,148	1,271
Contract liability.....	2,964	2,461
Provision for bonuses.....	641	1,234
Asset retirement obligations	11	2
Others.....	6,778	5,971
Total current liabilities	14,721	14,373
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,062	10,100
Provision for share awards for directors...	219	108
Retirement benefit liabilities	951	880
Asset retirement obligations	472	496
Others.....	242	89
Total long-term liabilities	11,947	11,675
Total liabilities	26,668	26,048
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Capital reserve	12,189	12,003
Retained earnings	71,011	70,766
Treasury stock.....	(19,480)	(20,003)
Total shareholders' equity	74,515	73,561
Other comprehensive income		
Foreign currency translation adjustment...	255	100
Total adjustments related to retirement benefits	(168)	(228)
Total other comprehensive income.....	87	(128)
Stock acquisition rights.....	610	640
Total net assets.....	75,213	74,073
Total Liabilities and Net Assets.....	101,882	100,121

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

(Millions of yen, rounded down)

	April 1, 2022 to December 31, 2022	April 1, 2021 to December 31, 2021
Net sales	78,954	78,916
Cost of sales.....	25,841	26,252
Gross profit	53,112	52,664
Selling, general and administrative expenses	46,669	44,237
Operating income	6,442	8,426
Non-operating income		
Interest income	38	38
Dividend income	0	0
Foreign exchange gain (loss)	685	199
Rental income.....	89	99
Other non-operating income	127	164
Total non-operating income	941	502
Non-operating expenses		
Interest expenses	0	0
Rent expenses on fixed asses	6	9
Provisions for allowance for bad debt.....	50	--
Other non-operating expenses.....	49	30
Total non-operating expenses.....	106	40
Ordinary income	7,277	8,888
Extraordinary income		
Income from sale of fixed assets.....	0	0
Total extraordinary income.....	0	0
Extraordinary loss		
Loss on sale of fixed assets	--	0
Loss on retirement of fixed assets	5	25
Impairment loss	128	14
Loss on store closings.....	65	31
Compensation	--	20
Other	--	3
Total extraordinary loss.....	199	94
Income before income taxes	7,077	8,793
Income and other taxes	2,517	2,062
Adjustments to income and other taxes.....	201	239
Total income and other taxes	2,719	2,301
Net income	4,358	6,492
Net income attributable to owners of the parent company.....	4,358	6,492

Consolidated statement of comprehensive income

(Millions of yen, rounded down)

	April 1, 2022 to December 31, 2022	April 1, 2021 to December 31, 2021
Income before minority interests.....	4,358	6,492
Other comprehensive income		
Net unrealized holding gain on other securities.....		--
Foreign currency translation adjustment.....	155	86
Adjustments related to retirement benefits.....	60	54
Total other comprehensive income.....	215	141
Comprehensive income	4,574	6,633
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	4,574	6,633
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 Accounting Standards Codification (ASC) 842, Leases

From the first quarter period, 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, 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. Nine months ended December 31, 2022

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate*2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Other Businesses *1			
1. Sales and operating income:						
(1) Sales to external customers	44,176	30,060	4,717	78,954	--	78,954
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	44,176	30,060	4,717	78,954	--	78,954
Operating income	4,893	2,718	89	7,702	(1,259)	6,442

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 (¥1,259 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 is adjusted for operating income as recorded in the consolidated financial statements.

2. Nine months ended December 31, 2021

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate* ²	Consolidated * ³
	Cosmetics Business	Nutritional Supplements Business	Other Businesses * ¹			
1. Sales and operating income:						
(1) Sales to external customers	44,611	29,273	5,031	78,916	--	78,916
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	44,611	29,273	5,031	78,916	--	78,916
Operating income	6,075	3,701	(20)	9,756	(1,330)	8,426

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 (¥1,330 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 and loss is adjusted for operating income as recorded in the consolidated financial statements.