

FANCL Corporation

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2021

April 1, 2020 to June 30, 2020

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, 2021

FANCL CORPORATION

August 4, 2020

www.fancl.jp/en/

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Scheduled date for submission of first quarter *hokokusho* (securities report): August 13, 2020

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, 2020 to June 30, 2020) of the fiscal year ending March 31, 2021

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Three months ended June 30, 2020		Three months ended June 30, 2019	
		% change		% change
Net sales	26,298	(19.2)	32,544	5.7
Operating income	2,445	(44.1)	4,377	(2.5)
Ordinary income	2,507	(42.8)	4,382	(3.5)
Net income attributable to owners of the parent company	1,476	(43.4)	2,609	(17.4)
Earnings per share (¥)	12.25	--	21.75	--
Earnings per share (diluted) (¥)	12.19	--	21.56	--

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, 2019: ¥2,609 million (-15.5%)

Three months ended June 30, 2020: ¥1,466 million (-43.8%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of June 30, 2020	As of March 31, 2020
Total assets	91,415	94,478
Net assets	66,555	67,138
Shareholders' equity/total assets (%)	72.3	70.4

Shareholders' equity: As of June 30, 2020: ¥66,050 million

As of March 31, 2020: ¥66,546 million

2) Dividends per share

	FY ended March 31, 2020	FY ending March 31, 2021
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, 2021 (April 1, 2020 to March 31, 2021)

Millions of yen

	Interim period ending September 30, 2020		FY Ending March 31, 2021	
		Change %		Change %
Net sales	54,500	(17.7)	127,000	0.1
Operating income	4,300	(51.7)	14,500	2.6
Ordinary income	4,350	(51.6)	14,600	2.0
Profit (loss) attributable to owners of parent	2,600	(55.7)	10,000	0.1
Net income per share (¥)	21.55	--	82.88	--

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: None
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, 2020	130,353,200 shares	March 31, 2020	130,353,200 shares
2. Number of treasury shares	June 30, 2020	9,689,928 shares	March 31, 2020	9,794,956 shares
3. Average number of shares during the three-month period	Three months to June 30, 2020	120,568,609 shares	Three months to June 30, 2019	119,966,035 shares

***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, 2021.

Contents

1. Operating Results

(1) Summary of business performance.....	5
(2) Summary of consolidated financial position.....	7
(3) Forecasts for the fiscal year ending March 31, 2021.....	7

2. Consolidated Financial Statements

(1) Consolidated balance sheets.....	9
(2) Consolidated statement of income and Consolidated statement of comprehensive income....	11
Consolidated statement of income.....	11
Consolidated statement of comprehensive income.....	12
(3) Notes to the consolidated financial statements.....	13
Items related to going concern.....	13
Note on significant change in shareholders' equity.....	13
Segment information.....	13

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, overall consolidated sales decreased 19.2% to ¥26,298 million yen due to lower sales in the core cosmetics business and nutritional supplements business, resulting from a drop in domestic and inbound demand caused by the impact of COVID-19. Operating income decreased 44.1% to ¥2,445 million, mainly due to a decline in gross profit due to lower sales, which outweighed efforts to efficiently use advertising expenses and a decrease in variable expenses such as sales commission fees in selling, general and administrative expenses. Ordinary income declined 42.8% to ¥2,507 million, and net income attributable to owners of the parent company declined 43.4% to ¥1,476 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business decreased 24.6% to ¥14,716 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2020		Three months ended June 30, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	11,115	75.5	15,811	81.0	(29.7)
ATTENIR Cosmetics	2,978	20.2	3,126	16.0	(4.7)
boscia	425	2.9	397	2.0	7.2
Others	197	1.4	193	1.0	2.2
Totals	14,716	100.0	19,528	100.0	(24.6)

	Three months ended June 30, 2020		Three months ended June 30, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	8,608	58.5	7,081	36.3	21.6
Direct store sales	2,807	19.1	8,367	42.8	(66.5)
Wholesales and others	1,711	11.6	2,409	12.3	(29.0)
Overseas sales	1,589	10.8	1,670	8.6	(4.8)
Totals	14,716	100.0	19,528	100.0	(24.6)

Sales of **FANCL Cosmetics** decreased 29.7% to ¥11,115 million, as direct store sales, wholesale and other sales, and overseas sales declined due to the impact of COVID-19, outweighing an increase in online and catalogue sales resulting from proactive efforts to direct customers from direct store sales to online and catalogue sales, as well as significant growth in sales via external online and catalogue platforms.

Sales of **ATTENIR Cosmetics** decreased 4.7% to ¥2,978 million, as direct store sales declined due to COVID-19, which outweighed an increase in overseas sales where efforts have been focused on strengthening online and catalogue sales and cross-border e-commerce sales to China.

Sales of **boscia** increased 7.2% to ¥425 million as a result of a focus on strengthening e-commerce channels, despite a decline in sales at cosmetics specialist stores due to the impact of COVID-19.

Operating income

Operating income declined 59.2% to ¥1,545 million, due to a decrease in gross profit resulting from lower sales, which outweighed the impact of the efficient use of advertising expenditure and a decline in variable expenses such as sales commission fees.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales decreased 20.0% to ¥9,093 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2020		Three months ended June 30, 2019		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	4,373	48.1	3,785	33.3	15.5
Direct store sales	1,161	12.8	3,433	30.2	(66.2)
Wholesales and others	3,077	33.8	3,544	31.2	(13.2)
Overseas Sales	481	5.3	601	5.3	(20.0)
Totals	9,093	100.0	11,365	100.0	(20.0)

Results by sales channels were: Online and catalogue sales increased due to proactive efforts to drive customers from direct store sales to online and catalogue sales, along with a focus on strengthening subscription services and significant growth in sales via external online and catalogue platforms. However, direct store sales, wholesale sales through other sales channels, and overseas sales decreased due to the impact of COVID-19.

Operating income

Operating income increased 19.8% to ¥1,126 million, due to factors such as efficient use of advertising expenditure and a decline in variable expenses such as sales commission fees, which outweighed a decrease in gross profit resulting from lower sales.

3) Other Businesses

Sales

Other businesses increased 50.7% year on year to ¥2,488 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2020	Three months ended June 30, 2019	Change (%)
Hatsuga genmai	531	479	10.9
Kale juice	583	581	0.3
Other	1,372	589	132.9
Totals	2,488	1,650	50.7

Results by sales channels were: Sales of Hatsuga genmai and Kale juice increased as a result of increased demand associated with eating at home and heightened awareness of personal health, and Other sales increased as a result of sales of non-woven masks.

Operating income

Operating income increased 139.5% to ¥163 million, due to an increase in gross profit resulting from higher sales.

(2) Summary of consolidated financial position

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

Assets decreased ¥3,063 million to ¥91,415 million, primarily due to a decrease of ¥3,750 million in current assets and an increase of ¥686 million in fixed assets. The main factor contributing to the decrease in current assets was a ¥4,012 million decrease in cash and cash equivalents. The main factor contributing to the increase in fixed assets was a ¥606 million increase in tangible fixed assets.

Liabilities decreased ¥2,480 million from the end of the previous fiscal year to ¥24,859 million. The primary contributing factor was a decrease of ¥2,467 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥1,666 million decrease in accrued income taxes, and a ¥919 million decrease in other current liabilities due to a decline in accounts payable.

Net assets decreased ¥583 million to ¥66,555 million. Contributing factors included a ¥1,476 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and ¥2,049 million decrease in retained earnings due to dividend payments.

As a result, the shareholders' equity ratio increased 1.9 points compared to the end of the previous fiscal year, to 72.3%.

(3) Forecasts for the fiscal year ending March 31, 2021

In light of recent trends in business performance, the interim consolidated results forecasts for the fiscal year ending March 31, 2021 (April 1, 2020 to September 30, 2020) that were previously announced with the full-year consolidated results on May 7, 2020 have been revised as follows.

Interim consolidated results forecasts

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent company	Net income per share (¥)
Previously announced forecasts	53,850	3,000	3,050	1,800	14.93
Revised forecasts	54,500	4,300	4,350	2,600	21.55

Net sales are expected to exceed the previous forecast due to the earlier-than-initially-expected resumption of operations at domestic stores, and the strong performance of cross-border e-commerce supplement sales to China.

Operating income is expected to exceed the previous forecast due to the factors mentioned above, as well as the efficient use of advertising expenditure, efforts to reduce fixed costs, and the reclassification of personnel costs associated with temporary store closures to extraordinary losses in Q1. Ordinary income is expected to exceed the previous forecast due to the factors mentioned above. Net income attributable to owners of the parent company is expected to exceed the previous forecast due to the factors mentioned above, despite the recording of extraordinary losses in Q1 due to personnel costs associated with temporary store closures.

The full year forecasts are unchanged from the previous forecast because the timing of the recovery of inbound demand is not yet known.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of June 30, 2020	As of March 31, 2020
ASSETS		
I. Current assets:		
Cash and cash equivalents	23,978	27,991
Notes and accounts receivable.....	11,003	12,114
Merchandise and products.....	6,381	5,602
Raw materials and supplies	6,768	6,579
Others	1,680	1,274
Allowance for doubtful accounts.....	(266)	(264)
Total current assets.....	49,546	53,296
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures.....	30,452	30,380
Accumulated depreciation and accumulated impairment loss.....	(17,079)	(16,983)
Buildings and structures (net).....	13,373	13,396
Machinery and transport equipment.....	11,517	11,503
Accumulated depreciation and accumulated impairment loss.....	(8,080)	(7,863)
Machinery and transport equipment (net)	3,437	3,639
Furniture, tools and fixtures	8,922	8,886
Accumulated depreciation and accumulated impairment loss	(7,539)	(7,509)
Furniture, tools and fixtures (net).....	1,383	1,377
Land	14,143	14,143
Lease assets.....	259	294
Accumulated depreciation and accumulated impairment loss.....	(112)	(141)
Lease assets (net).....	146	152
Construction in progress.....	3,446	2,616
Total tangible fixed assets	35,931	35,324
Intangible fixed assets		
Other	2,190	2,246
Total intangible fixed assets.....	2,190	2,246
Investments and other assets		
Investment securities	226	226
Others.....	3,520	3,383
Total investments and other assets	3,746	3,609
Total fixed assets	41,868	41,181
Total Assets.....	91,415	94,478

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of June 30, 2020	As of March 31, 2020
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,548	2,918
Accrued income taxes	721	2,387
Allowance for bonus	1,794	1,306
Allowance for points	1,908	1,918
Asset retirement obligations	2	4
Allowance for directors' bonuses	127	116
Others	6,165	7,084
Total current liabilities	13,268	15,735
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,187	10,200
Retirement benefit liabilities	774	777
Asset retirement obligations	444	434
Others	184	192
Total long-term liabilities	11,591	11,604
Total liabilities	24,859	27,339
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	63,561	64,260
Treasury stock	(19,724)	(19,938)
Total shareholders' equity	66,338	66,823
Other comprehensive income		
Foreign currency translation adjustment	43	52
Total adjustments related to retirement benefits	(330)	(329)
Total other comprehensive income	(287)	(277)
Warrants	504	592
Total net assets	66,555	67,138
Total Liabilities and Net Assets	91,415	91,478

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

Millions of yen, rounded down

	April 1, 2020 to June 30, 2020	April 1, 2019 to June 30, 2019
Net sales.....	26,298	32,544
Cost of sales.....	8,083	9,108
Gross profit.....	18,214	23,435
Selling, general and administrative expenses	15,769	19,058
Operating income	2,445	4,377
Non-operating income		
Interest income	12	13
Dividend income	0	0
Rental income.....	37	11
Other non-operating income.....	28	35
Total non-operating income.....	79	60
Non-operating expenses		
Rent expenses on fixed assets.....	3	3
Provisions for allowance for bad debt.....	0	--
Loss on foreign exchange	6	1
Bond issue expenses	--	44
Other non-operating expenses	6	5
Total non-operating expenses	16	54
Ordinary income.....	2,507	4,382
Extraordinary income		
Income from sale of fixed assets	1	0
Gain on transfer of retirement benefit plan	--	35
Total extraordinary income	1	35
Extraordinary loss		
Loss on sale of fixed assets.....	--	0
Loss on disposal of fixed assets	40	5
Loss on closure of stores.....	0	22
COVID-19 related loss	617	--
Other.....	0	0
Total extraordinary loss	660	28
Income before income taxes	1,849	4,389
Income and other taxes.....	400	1,602
Adjustments to income and other taxes.....	(28)	177
Total income and other taxes	372	1,779
Net income	1,476	2,609
Net income attributable to owners of the parent company	1,476	2,609

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2020 to June 30, 2020	April 1, 2019 to June 30, 2019
Income before minority interests.....	1,476	2,609
Other comprehensive income		
Foreign currency translation adjustment.....	(8)	(0)
Adjustments related to retirement benefits.....	(1)	0
Total other comprehensive income.....	(10)	(0)
Comprehensive income	1,466	2,609
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	1,466	2,609
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

Segment information

Business Segments

1. Three months ended June 30, 2020

(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	14,716	9,093	2,488	26,298	--	26,298
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	14,716	9,093	2,488	26,298	--	26,298
Operating income	1,545	1,126	163	2,836	(391)	2,445

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 (¥391 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. Three months ended June 30, 2019

(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	19,528	11,365	1,650	32,544	--	32,544
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	19,528	11,365	1,650	32,544	--	32,544
Operating income	3,790	940	68	4,799	(422)	4,377

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 (¥422 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.