

FANCL Corporation  
TSE 1<sup>st</sup> Section: 4921

## **Notice regarding 2<sup>nd</sup> Medium-Term Management Plan (FY2019 to FY2021)**

**Yokohama March 23, 2018**—FANCL Corporation has formulated its 2<sup>nd</sup> Medium-Term Management Plan for the three-year period starting FY2019 (FY2019 to FY2021). Details are as follows.

With the return to management of founder Kenji Ikemori in 2013, FANCL Group implemented a variety of structural reforms, including withdrawal from unprofitable business, and investment for the future. Then, following the implementation of an advertising-led growth strategy for the 1<sup>st</sup> Medium-Term Management Plan starting from FY2016, the Group made a V-shaped recovery in its earnings, and during the current fiscal year is forecast to achieve record-high sales for the first time in 11 years.

Additionally, to develop our management foundation and ensure sustainable growth with a long-term perspective, we formulated VISION2030, aimed at shaping our goals through to the year 2030, and ACTION 2020, our 2<sup>nd</sup> Medium-Term Management Plan, which stipulates our initiatives for the first three fiscal years on our way to achieving this vision. Under the slogan ALL-FANCL, ONE-FANCL, the Group will come together to achieve further growth.

### **VISION2030**

Since our founding, the FANCL Group has continued to provide value through beauty and health offerings, and in 2030 we will mark 50 years of operation. By 2030, the world we live in is expected to be dramatically different, with low birth rates, extreme population aging, and a decline in the working population. VISION2030 presents aims that will allow the FANCL Group to continue to create new value and achieve sustainable growth within such an environment.

### **VISION2030 – Make the world healthier and more beautiful**

Towards 2030, the FANCL Group aims to launch business ventures in a range of areas. In each business domain we aim to support customer lifestyles full of beauty and health, not only in Japan but on a global scale, as a corporate group that customers can trust and rely upon

<b>Beauty</b>	Aim to diversify our brands in line with diversifying consumer values, transcending the boundaries of cosmetics to develop business centered on beauty-focused fashion and lifestyle offerings.
<b>Health</b>	Develop new health business that supports a society in an era of 100-year lifespans, aiming to become the most widely-used supplement brand.
<b>Beauty &amp; Health</b>	Actively expand the FANCL, boschia, and ATTENIR brands into overseas markets, aiming for each to become brands that are loved by customers worldwide.

## **2<sup>nd</sup> Medium-Term Management Plan (FY2019 to FY2021)**

In the 1<sup>st</sup> Medium-Term Management Plan for the period starting FY2016, we successfully established a foundation for sustainable growth, and therefore we position the 2<sup>nd</sup> Medium-Term Management Plan for the period starting FY2019 as a period in which we will enhance profitability by maintaining our growth trajectory, and solidify our foundation to achieve growth in our overseas business. The 2<sup>nd</sup> Medium Term Management Plan is named “ACTION 2020 - Creating the future” which is derived from a particular focus on our ability to act to achieve our goals. We have established 7 challenges, and will mobilize all employees to achieve them, leading to further growth from FY2022 and beyond.

### **2<sup>nd</sup> Medium-Term Management Plan – ACTION 2020 – Creating the future**

#### **Seven Challenges**

<b>Main business</b>	1. Implement a consistent production process from research through to sales, to develop products with unique value
	2. Evolve sales channels to grow both customers and products
	3. Continue to adopt new approaches to maximize PR and advertising impact
<b>Growth business</b>	4. Target full-fledged growth in overseas businesses
	5. Take on new business opportunities with a venture spirit and a sense of justice
<b>Management foundation</b>	6. Promote forward-looking investment and diverse employee activation to achieve greater growth and profitability
	7. Further boost corporate value and refine our "Honest Quality"

## **1. Business Strategy**

### **Cosmetics Business**

#### **<FANCL Cosmetics>**

Policy: Launch innovative and unique products with personal appeal, that a wide range of customers will use.

#### **■Brand Strategy**

Develop and diversify the brand structure according to the target, with the objective of developing new target customers.

<b>FANCL Prestige</b>	Position as a premium brand, and develop products that offer personal value-add.
<b>The FANCL</b>	Continue to develop as a core brand based on the concept of ‘Enriched x Mutenka’, offering unique products mainly through direct sales channels.
<b>NEO FANCL</b>	Develop as a line of products mainly for the wholesale market, based on the concept of ‘Culture x Mutenka’, targeting customers who place value in efficiency and convenience.

### ■Product Strategy

- In core categories, place a strong focus on *Basic Skin Care* which forms the core of the FANCL brand, and work to reinforce the facial cleanser category, centering on *Mild Cleansing Oil*.
- In growth categories, in addition to *Beauty BOUQUET*, which targets the 60s and over mature market, work to develop a presence in new customer segments, with the launch of a new brand for people around the 30s age group this spring, and a new brand targeting people around the 40s age group in FY2020. Additionally, strengthen product growth in makeup, hair care, and personal cosmetics product *Skin Solution*.

### ■Overseas Strategy

- In Asia, in addition to China, Hong Kong, Taiwan and Singapore where FANCL already has a presence, gradually expand into 3-4 more Asian countries.
- Revisit efforts to expand FANCL's brand presence in America.

### <ATTENIR>

- ATTENIR has achieved a recovery by returning to the founding philosophy of continuing to offer luxury brand quality at one-third of the market price or lower. FY2019 onwards is positioned as a stage of regrowth, in which it will aim to become a lifestyle proposal business providing women of the world with accessible, high-quality fashion and beauty.
- In cosmetics, continue to launch innovative and unique products that meet the expectations of prestige brand users.
- Introduce a new premium line to the high-quality apparel and sundries collection.
- Further evolve the unique web base communication cycle model.

### <boscia>

- boscia has established a solid foundation in the North America region, and has become the Group's third cosmetics brand. FY2019 will be positioned as the first year of globalization, with continued focus on further strengthening sales in the North America region, in addition to new expansion into Europe, and the Middle and Near East.
- Shift from the current wholesale focus to develop new sales channels, including strengthening online sales and establishing model stores with a view for the development of directly managed stores.

### Health Food Business

Policy: Aim to become the most widely-used supplement brand in an era of 100-year lifespans.

### ■Product Strategy

- Develop *Naishi Support* and other future star products alongside *Calolimit*, *Enkin* and

#### *Age-Bracket Based Supplements.*

- Create a propriety market, offering supplements that address each customer's personal nutritional needs.
- Utilize our brands, R&D, technological capabilities and outside resources to strengthen our B2B business and create new supplement offering opportunities through foods.

#### ■Overseas Strategy

- Position China as a key market, work to further collaborate with China Sinopharm International Corporation, a subsidiary of the largest pharmaceutical company in China, China National Pharmaceutical Group Corporation, and launch sales of supplements in FY2021.

## 2. Sales channel strategy

#### <Mail Order>

- Maximize sales and revenues by effectively utilizing a combination of both in-house mail order platforms (FANCL Online, catalogues), and external platforms. Position in-house mail order platforms as FANCL's core channel, and implement branding and personal communications initiatives. Through external platforms, focus on acquiring customers who are difficult to connect with via in-house platforms.

#### <Directly-Managed Store Sales>

- Clarify the role of showrooms, focusing on the experience element for both local and international customers, and work to develop unique stores in popular, high quality locations.
- Develop new FANCL shops with a focus on internal and external beauty, and create store styles that match the specific characteristics of the customers at their locations.

#### <Wholesale Sales>

- Regularly launch wholesale specialized products, and work to expand the per-store sales

## 3. Advertising Strategy

- Continue to invest ¥15.0 billion per year in advertising, positioning it as investment for the future.
- Develop both corporate advertising and product advertising to enhance brand value and expand sales.
- Further evolve our promotion methods, combining advertising, PR and events, and utilize online and social media tools to maximize the effects of advertisements.

#### 4. Reinforcement of Management Foundation, and ESG Initiatives

<b>Management Foundation</b>	<b>Research</b>	<ul style="list-style-type: none"> <li>Accelerate development of new star products and products for sale globally.</li> <li>Utilize our unique technological capabilities to expand OEM business and processed foods development.</li> </ul>
	<b>Production</b>	<ul style="list-style-type: none"> <li>Build on our domestic production platform with a view for sales expansion (enhancement of supplement production capacity, robotization, automation, etc.)</li> </ul>
	<b>IT systems</b>	<ul style="list-style-type: none"> <li>Further advance our foundation IT rebuilding project "FIT".</li> </ul>
	<b>Logistics</b>	<ul style="list-style-type: none"> <li>Streamline logistics operations to minimize the impact of delivery fee increases.</li> <li>Prepare for development of new logistics center.</li> </ul>
	<b>Human resources</b>	<ul style="list-style-type: none"> <li>Develop global human resources, and human resources that embody the company's corporate philosophy.</li> </ul>
<b>ESG</b>	<b>Environment</b>	<ul style="list-style-type: none"> <li>Formulate the FANCL Sustainability Plan and work to expand environmentally conscious products, along with strengthening our communication of information.</li> </ul>
	<b>Social</b>	<ul style="list-style-type: none"> <li>Implement procurement that considers the earth's environment, human rights, and labor.</li> <li>Support independence for people with disabilities</li> <li>Promote diversity management</li> <li>Further promote healthy management, and the creation of a workplace full of vitality.</li> </ul>
	<b>Governance</b>	<ul style="list-style-type: none"> <li>Develop next-generation leaders via the "Ikemori Leadership Training".</li> <li>Implement shareholder returns that consider medium- to long-term earnings, cash flow, and capital efficiency.</li> <li>Strengthen dialogue with shareholders and investors.</li> </ul>

#### 5. Returns to shareholders

FANCL considers the distribution of profit to shareholders to be an important management issue, and from FY2019, returns to shareholders will be conducted as follows. Under this policy, FANCL will implement a performance-linked distribution of profit to shareholders with stable dividend payouts

<b>Dividends</b>	Consider a dividend amount given a target consolidated dividend payout ratio of approximately 40% and DOE (dividend on equity) ratio of approximately 5%
<b>Acquisition of treasury shares</b>	Flexibly consider the acquisition of treasury shares with the aim of improving the capital efficiency ratio, while taking into account trends in the share price and future capital funding requirements
<b>Cancellation of treasury shares</b>	Treasury shares in excess of 10% of the total number of outstanding shares will be cancelled

## 6. Numerical targets

In FY2021, the final year of the Medium-Term Management Plan, we are targeting consolidated net sales of ¥126.0 billion, and operating income of ¥12.6 billion. We will aim to achieve ROE of 10% through growth investments and appropriate returns to shareholders.

	<b>Net sales</b>	<b>operating income</b>	<b>ROE</b>
<b>FY2021 (planned)</b>	¥126.0 billion	¥12.6 billion	10%
<b>Reference: FY2018*</b>	¥107.5 billion	¥7.7 billion	Approximately 8%

\*FY2018 figures are based on forecasts announced on January 30, 2018

**\*\*\*ENDS\*\*\***

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