

FANCL Corporation

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2019

April 1, 2018 to June 30, 2018

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, 2019

FANCL CORPORATION

July 30, 2018

www.fancl.jp/en/

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Scheduled date for submission of first quarter *hokokusho* (securities report): August 13, 2018

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 (April 1, 2018 to June 30, 2018) of the fiscal year ending March 31, 2019

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Three months ended June 30, 2018		Three months ended June 30, 2017	
		% change		% change
Net sales	30,799	19.0	25,889	10.2
Operating income	4,487	269.2	1,215	--
Ordinary income	4,543	259.9	1,262	--
Net income attributable to owners of the parent company	3,160	314.9	761	--
Earnings per share (¥)	49.71	--	12.06	--
Earnings per share (diluted) (¥)	49.06	--	11.92	--

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, 2018: ¥3,089 million (323.2%)

Three months ended June 30, 2017: ¥729 million (--%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of June 30, 2018	As of March 31, 2018
Total assets	93,556	92,380
Net assets	76,883	75,597
Shareholders' equity/total assets (%)	81.4	81.0

Shareholders' equity: As of June 30, 2018: ¥76,159 million

As of March 31, 2018: ¥74,805 million

2) Dividends per share

	FY ended March 31, 2018	FY ending March 31, 2019
Interim period	29.00	30.00 (forecast)
Year-end	29.00	30.00 (forecast)
Annual	58.00	60.00 (forecast)

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

Breakdown of interim dividend for the FY ended March 31, 2018: Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of year-end dividend for the FY ended March 31, 2018: Ordinary dividend: ¥17.00; special dividend: ¥12.00

3) Consolidated forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

Millions of yen

	Interim period ending September 30, 2018		FY Ending March 31, 2019	
		Change %		Change %
Net sales	59,740	15.2	122,000	11.9
Operating income	6,500	74.0	12,200	44.4
Ordinary income	6,550	70.4	12,300	42.2
Profit (loss) attributable to owners of parent	4,400	77.0	8,400	35.7
Net income per share (¥)	69.22	--	132.14	--

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

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, 2018	65,176,600 shares	March 31, 2018	65,176,600 shares
2. Number of treasury shares	June 30, 2018	1,521,799 shares	March 31, 2018	1,610,007 shares
3. Average number of shares during the three-month period	Three months to June 30, 2018	63,583,742 shares	Three-months to June 30, 2017	63,164,358 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, 2019.

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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, overall consolidated sales increased 19.0% to ¥30,799 million as a result of an increase in sales in the core cosmetics and nutritional supplements businesses, amid strong trends in domestic consumption and robust inbound demand. Operating income increased 269.2% to ¥4,487 million due to an increase in gross profit from increased sales, which outweighed an increase in logistics costs from delivery price hikes and an increase in human resource expenses associated with the transition of contract store employees to permanent employment arrangements. Ordinary income increased 259.9% to ¥4,543 million, and net income attributable to owners of the parent company increased 314.9% to ¥3,160 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 14.4% to ¥18,054 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2018		Three months ended June 30, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	14,366	79.6	12,201	77.3	17.7
ATTENIR Cosmetics	2,869	15.9	2,650	16.8	8.3
boscia	642	3.5	728	4.6	(11.8)
Others	177	1.0	196	1.3	(9.9)
Totals	18,054	100.0	15,776	100.0	14.4

	Three months ended June 30, 2018		Three months ended June 30, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	6,744	37.4	6,656	42.2	1.3
Direct store sales	7,461	41.3	5,746	36.4	29.8
Wholesales and others	1,975	10.9	1,446	9.2	36.6
Overseas sales	1,872	10.4	1,927	12.2	(2.8)
Totals	18,054	100.0	15,776	100.0	14.4

Sales of **FANCL Cosmetics** increased 17.7% to ¥14,366 million, due to strong sales of core products such as *Mild Cleansing Oil* and basic skincare products as well as contributions from *Aqua Serum Rouge* and *Mild Cleansing Shampoo*, both of which are being developed as key strategic products.

Sales of **ATTENIR Cosmetics** increased 8.3% to ¥2,869 million, due to strong sales of core product *SkinClear Cleanse Oil* and basic skincare products.

Sales of **boscia** decreased 11.8% to ¥642 million due to the absence of a temporary concentration of orders which occurred in the previous comparable period.

Results by sales channels were: online and catalogue sales increased 1.3% year on year to ¥6,744 million, direct store sales increased 29.8% to ¥7,461 million, wholesale sales through other sales channels increased 36.6% to ¥1,975 million, and overseas sales decreased 2.8% to ¥1,872 million.

Operating income

Operating income increased 92.8% to ¥3,540 million due to an increase in gross profit resulting from higher sales, as well as an improvement in gross profit margin accompanying a growth in sales of core products.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 31.2% to ¥11,022 million.

(Millions of yen, rounded down)

	Three-months ended June 30, 2018		Three-months ended June 30, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	3,506	31.8	3,269	38.9	7.3
Direct store sales	3,862	35.0	2,249	26.8	71.7
Wholesales and others	3,151	28.6	2,445	29.1	28.9
Overseas Sales	501	4.6	435	5.2	15.3
Totals	11,022	100.0	8,399	100.0	31.2

Revenues from product sales increased due to strong trends in sales of future star product candidates *Naishi Support*, *Deep Charge Collagen*, and *Age Bracket-Based Supplements*.

Results by sales channels were: online and catalogue sales increased 7.3% to ¥3,506 million, direct store sales increased 71.7% to ¥3,862 million, wholesale sales through other sales channels increased 28.9% to ¥3,151 million, and overseas sales increased 15.3% to ¥501 million.

Operating income

Operating income was ¥1,443 million, compared to a ¥257 million operating loss in the previous comparable period, due to an increase in gross profit from higher sales, as well as an improvement in the gross profit margin resulting from growth in sales of core products.

3) Other Businesses

Sales

Other businesses increased 0.6% year on year to ¥1,722 million

(Millions of yen, rounded down)

	Three months ended June 30, 2018	Three months ended June 30, 2017	Change (%)
Hatsuga genmai	520	590	(12.0)
Kale juice	636	633	0.5
Other	565	488	15.9
Totals	1,722	1,712	0.6

Operating income

An operating loss of ¥61 million was recorded, compared to operating income of ¥40 million last year, due to a decrease in gross profit from lower sales in the Hatsuga genmai business.

(2) Summary of consolidated financial position

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

Assets increased ¥1,176 million to ¥93,556 million. The primary contributing factors were an increase of ¥985 million in current assets and an increase of ¥190 million in fixed assets.

Contributing to the increase in current assets were a ¥1,070 million increase in notes and accounts receivable, a ¥489 million increase in raw materials and supplies, and a ¥827 million decrease in cash and cash equivalents. The increase in fixed assets was primarily the result of a ¥269 million increase in tangible fixed assets, and a ¥87 million decrease in intangible fixed assets.

Liabilities decreased ¥110 million from the end of the previous fiscal year to ¥16,672 million. The primary contributing factor was a decrease of ¥103 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥1,502 million decrease in “Other” current liabilities due to a decrease in accounts payable, as well as a ¥531 million increase in accrued income taxes and a ¥791 million increase in allowance for bonus.

Net assets increased ¥1,286 million to ¥76,883 million. Contributing factors included a ¥3,160 million increase in retained earnings due to the recording of net income attributable to owners of the parent, as well as a ¥1,843 million decrease in retained earnings from the payment of dividends.

As a result, the shareholders’ equity ratio improved 0.4 points compared to the end of the previous fiscal year, to 81.4%.

(3) Forecasts for the fiscal year ending March 31, 2019

For the interim period, net sales, operating income, ordinary income and net income figures have been revised upwards due to factors including strong sales in the FANCL Cosmetics and nutritional supplements businesses, and significantly higher-than-expected inbound demand.

For the full-year period, net sales, operating income, ordinary income and net income figures have been revised upwards due to factors including continued high levels of inbound demand and strong domestic sales expected in the second half of the year.

Furthermore, the newly announced forecasts take into account an additional investment of approximately ¥1,500 million, mainly for marketing expenditure, planned for the second half of this fiscal year for the purpose of strengthening growth in the next fiscal year and beyond, as well as an increase in bonuses in accordance with the strong business performance.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	<i>Millions of yen, rounded down</i>	
	As of June 30, 2018	As of March 31, 2018
ASSETS		
I. Current assets:		
Cash and cash equivalents	35,814	36,641
Notes and accounts receivable	14,861	13,791
Merchandise and products	3,987	4,109
Work in progress	74	21
Raw materials and supplies	4,658	4,169
Others	1,287	965
Allowance for doubtful accounts	(154)	(155)
Total current assets	60,529	59,543
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	27,589	27,402
Accumulated depreciation and accumulated impairment loss	(15,909)	(15,665)
Buildings and structures (net)	11,679	11,736
Machinery and transport equipment	8,858	8,541
Accumulated depreciation and accumulated impairment loss	(6,981)	(6,831)
Machinery and transport equipment (net)	1,876	1,709
Furniture, tools and fixtures	8,483	8,204
Accumulated depreciation and accumulated impairment loss	(7,242)	(7,088)
Furniture, tools and fixtures (net)	1,241	1,116
Land	11,839	11,607
Lease assets	308	301
Accumulated depreciation and accumulated impairment loss	(191)	(170)
Lease assets (net)	117	131
Others	118	302
Total tangible fixed assets	26,873	26,603
Intangible fixed assets		
Other	2,378	2,465
Total intangible fixed assets	2,378	2,465
Investments and other assets		
Investment securities	126	126
Others	3,649	3,641
Total investments and other assets	3,776	3,768
Total fixed assets	33,027	32,836
Total Assets	93,556	92,380

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of June 30, 2018	As of March 31, 2018
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,043	3,025
Accrued income taxes	1,762	1,230
Allowance for bonus	2,134	1,343
Allowance for points	1,632	1,576
Asset retirement obligations	2	--
Others	6,746	8,248
Total current liabilities	15,320	15,424
II. Long-term liabilities:		
Retirement benefit liabilities	695	703
Asset retirement obligations	401	409
Allowance for directors' bonuses	14	--
Others	240	245
Total long-term liabilities	1,352	1,358
Total liabilities	16,672	16,782
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	56,096	54,796
Treasury stock	(2,212)	(2,338)
Total shareholders' equity	76,384	74,959
Other comprehensive income		
Foreign currency translation adjustment	15	89
Total adjustments related to retirement benefits	(240)	(243)
Total other comprehensive income	(225)	(154)
Warrants	724	791
Total net assets	76,883	75,597
Total Liabilities and Net Assets	93,556	92,380

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

Millions of yen, rounded down

	April 1, 2018 to June 30, 2018	April 1, 2017 to June 30, 2017
Net sales	30,799	25,889
Cost of sales.....	8,805	7,602
Gross profit	21,993	18,286
Selling, general and administrative expenses	17,506	17,071
Operating income.....	4,487	1,215
Non-operating income		
Interest income	1	1
Dividend income	0	0
Rental income.....	26	25
Foreign exchange gain	14	2
Other non-operating income.....	30	32
Total non-operating income.....	71	61
Non-operating expenses		
Rent expenses on fixed assets	9	9
Other non-operating expenses.....	6	5
Total non-operating expenses	15	14
Ordinary income.....	4,543	1,262
Extraordinary income		
Gain on reversal of subscription rights to shares	0	1
Gain on transfer of retirement benefit plan	--	5
Total extraordinary income	0	7
Extraordinary loss		
Loss on disposal of fixed assets	1	2
Impairment loss	1	0
Loss on closure of stores	8	0
Loss on valuation of stocks of affiliates.....	--	1
Other	0	--
Total extraordinary loss	11	5
Income before income taxes	4,531	1,263
Income and other taxes.....	1,485	342
Adjustments to income and other taxes.....	(113)	159
Total income and other taxes	1,371	501
Net income	3,160	761
Net income attributable to owners of the parent company	3,160	761

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2018 to June 30, 2018	April 1, 2017 to June 30, 2017
Income before minority interests.....	3,160	761
Other comprehensive income		
Foreign currency translation adjustment.....	(73)	(39)
Adjustments related to retirement benefits.....	2	7
Total other comprehensive income.....	(71)	(31)
Comprehensive income	3,089	729
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	3,089	729
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

Additional information

Effective the beginning of the first quarter period under review, 'Partial Amendments to the Accounting Standard for Tax Effect Accounting' (Accounting Standards Board of Japan (ASBJ) Statement No. 28, revision on February 16, 2018) have been adopted, and as a result 'Deferred tax assets' are categorized into Investments and other assets.

Segment information

Business Segments

1. Three-months ended June 30, 2018

(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	18,054	11,022	1,722	30,799	--	30,799
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	18,054	11,022	1,722	30,799	--	30,799
Operating income (loss)	3,540	1,443	(61)	4,921	(434)	4,487

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income (loss) of (¥434 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 (loss) as recorded in the consolidated financial statements.

2. Three-months ended June 30, 2017

(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	15,776	8,399	1,712	25,889	--	25,889
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	15,776	8,399	1,712	25,889	--	25,889
Operating income (loss)	1,836	(257)	40	1,619	(403)	1,215

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income (loss) of (¥403 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 (loss) as recorded in the consolidated financial statements.