

FANCL Corporation

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

April 1, 2018 to December 31, 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)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2019

FANCL CORPORATION

January 30, 2019

www.fancl.jp/en/

Stock exchange listings: Tokyo 1st section, code number 4921
 Contact: Yukihiro Ishigami
 Executive Director, General Manager, Group
 Support Center
 Telephone: +81-45-226-1200

President, Representative Director: Kazuyuki Shimada

Scheduled date for submission of third quarter *hokokusho* (securities report): February 13, 2019

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, 2018 to December 31, 2018) of the fiscal year ending March 31, 2019

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Nine months ended December 31, 2018		Nine months ended December 31, 2017	
		% change		% change
Net sales	93,316	14.4	81,592	13.8
Operating income	10,664	51.6	7,035	--
Ordinary income	10,604	47.5	7,190	--
Net income attributable to owners of the parent company	7,285	50.5	4,839	21.0
Earnings per share (¥)	57.22	--	38.19	--
Earnings per share (diluted) (¥)	56.53	--	37.77	--

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, 2018: 7,300 million (50.8%)

Nine months ended December 31, 2017: ¥4,842 million (26.2%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of December 31, 2018	As of March 31, 2018
Total assets	95,585	92,380
Net assets	79,523	75,597
Shareholders' equity/total assets (%)	82.2	81.0

Shareholders' equity: As of December 31, 2018: ¥78,604 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
Year-end	29.00	15.00 (forecast)
Annual	58.00	--

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

Note: Effective December 1, 2018, a share split was implemented, with each share of common stock split for 2 shares. The interim dividend amount shown for the FY ending March 31, 2019 is based on standards prior to the share split, while the annual dividend (forecast) amount shown for the FY ending March 31, 2019 takes this share split into account.

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

Millions of yen

	FY Ending March 31, 2019	
		Change %
Net sales	122,000	11.9
Operating income	12,200	44.4
Ordinary income	12,300	42.2
Profit (loss) attributable to owners of parent	8,400	35.7
Net income per share (¥)	66.07	--

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: None

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)	December 31, 2018	130,353,200 shares	March 31, 2018	130,353,200 shares
2. Number of treasury shares	December 31, 2018	2,823,612 shares	March 31, 2018	3,220,014 shares
3. Average number of shares during the nine-month period	Nine months to December 31, 2018	127,314,857 shares	Nine months to December 31, 2017	126,713,861 shares

Note: Effective December 1, 2018, a share split was implemented, with each share of common stock split for 2 shares.

The number of outstanding shares (common stock) for the previous fiscal year are calculated on the assumption that the reverse stock split was conducted at the beginning of the previous fiscal year.

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

During the nine-month period under review, overall consolidated sales increased 14.4% to ¥93,316 million as a result of a significant increase in sales in the core cosmetics and nutritional supplements businesses, amid strong trends in domestic demand in addition to contributions from inbound demand. Operating income increased 51.6% to ¥10,664 million due to an increase in gross profit from increased sales, which outweighed an increase in marketing expenses and human resource expenses associated with the improvement in business performance. Ordinary income increased 47.5% to ¥10,604 million, and net income attributable to owners of the parent company increased 50.5% to ¥7,285 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 9.6% to ¥54,108 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2018		Nine months ended December 31, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	42,708	78.9	37,931	76.8	12.6
ATTENIR Cosmetics	8,806	16.3	8,483	17.2	3.8
boscia	2,052	3.8	2,320	4.7	(11.5)
Others	542	1.0	651	1.3	(16.8)
Totals	54,108	100.0	49,387	100.0	9.6

	Nine months ended December 31, 2018		Nine months ended December 31, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	20,849	38.5	20,827	42.2	0.1
Direct store sales	21,567	39.9	17,579	35.6	22.7
Wholesales and others	5,850	10.8	5,169	10.5	13.2
Overseas sales	5,841	10.8	5,811	11.7	0.5
Totals	54,108	100.0	49,387	100.0	9.6

Sales of **FANCL Cosmetics** increased 12.6% to ¥42,708 million, due to strong sales of basic skincare products which relaunched in September 2018, and *Mild Cleansing Oil*, which marked its 20th year since first going on sale, as well as contributions from *Beauty BOUQUET*, a cosmetics product aimed at the mature market.

Sales of **ATTENIR Cosmetics** increased 3.8% to ¥8,806 million, due to strong trends in sales of core product *SkinClear Cleanse Oil* as well as *Eye Extra Serum* which was relaunched in October 2018.

Sales of **boscia** decreased 11.5% to ¥2,052 million, due to the absence of a temporary concentration of orders which occurred in the first half of the previous fiscal year.

Results by sales channels were: online and catalogue sales increased 0.1% year on year to ¥20,849 million, direct store sales increased 22.7% to ¥21,567 million, wholesale sales through other sales channels increased 13.2% to ¥5,850 million, and overseas sales increased 0.5% to ¥5,841 million.

Operating income

Operating income increased 19.3% to ¥8,889 million, due to an increase in gross profit resulting from higher sales, as well as an improvement in production efficiency accompanying a growth in sales.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 26.0% to ¥33,855 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2018		Nine months ended December 31, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	11,044	32.6	10,235	38.1	7.9
Direct store sales	10,897	32.2	7,514	28.0	45.0
Wholesales and others	9,988	29.5	7,723	28.7	29.3
Overseas Sales	1,925	5.7	1,394	5.2	38.1
Totals	33,855	100.0	26,867	100.0	26.0

Revenues from product sales increased due to strong trends in sales of *Naishi Support*, a future star product candidate, along with *Age Bracket-Based Supplements*.

Results by sales channels were: online and catalogue sales increased 7.9% to ¥11,044 million, direct store sales increased 45.0% to ¥10,897 million, wholesale sales through other sales channels increased 29.3% to ¥9,988 million, and overseas sales increased 38.1% to ¥1,925 million.

Operating income

Operating income increased 343.7% to ¥3,471 million, due to an increase in gross profit from higher sales, as well as an improvement in production efficiency resulting from growth in sales.

3) Other Businesses

Sales

Other businesses increased 0.3% year on year to ¥5,352 million

(Millions of yen, rounded down)

	Nine months ended December 31, 2018	Nine months ended December 31, 2017	Change (%)
Hatsuga genmai	1,563	1,726	(9.4)
Kale juice	1,998	1,993	0.3
Other	1,790	1,617	10.7
Totals	5,352	5,337	0.3

Operating income

An operating loss of ¥174 million was recorded, compared to operating income of ¥175 million last year, due to a decrease in gross profit from lower sales of *Hastuga genmai*.

(2) Summary of consolidated financial position

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

Assets increased ¥3,205 million to ¥95,585 million, primarily due to an increase of ¥3,458 million in current assets. Contributing to the increase in current assets were a ¥1,528 million increase in notes and accounts receivable, a ¥1,112 million increase in merchandise and products and a ¥1,168 million increase in raw materials and supplies, as well as a ¥727 million decrease in cash and cash equivalents.

Liabilities decreased ¥720 million from the end of the previous fiscal year to ¥16,062 million. The primary contributing factor was a decrease of ¥718 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥585 million decrease in allowance for bonus, a ¥1,735 million decrease in “Other” current liabilities due to a decrease in accounts payable, as well as a ¥1,472 million increase in accrued income taxes.

Net assets increased ¥3,926 million to ¥79,523 million. Contributing factors included a ¥7,285 million increase in retained earnings due to the recording of net income attributable to owners of the parent, as well as a ¥3,754 million decrease in retained earnings from the payment of dividends.

As a result, the shareholders’ equity ratio improved 1.2 points compared to the end of the previous fiscal year, to 82.2%.

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

The full-year forecast remains unchanged from that previously announced on July 30, 2018.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	<i>Millions of yen, rounded down</i>	
	As of December 31, 2018	As of March 31, 2018
ASSETS		
I. Current assets:		
Cash and cash equivalents.....	35,913	36,641
Notes and accounts receivable.....	15,319	13,791
Merchandise and products	5,222	4,109
Work in progress	20	21
Raw materials and supplies.....	5,338	4,169
Others.....	1,340	965
Allowance for doubtful accounts	(152)	(155)
Total current assets	63,002	59,543
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	27,814	27,402
Accumulated depreciation and accumulated impairment loss	(16,183)	(15,665)
Buildings and structures (net).....	11,630	11,736
Machinery and transport equipment	9,233	8,541
Accumulated depreciation and accumulated impairment loss	(7,247)	(6,831)
Machinery and transport equipment (net).....	1,985	1,709
Furniture, tools and fixtures.....	8,531	8,204
Accumulated depreciation and accumulated impairment loss	(7,262)	(7,088)
Furniture, tools and fixtures (net).....	1,269	1,116
Land	11,839	11,607
Lease assets	274	301
Accumulated depreciation and accumulated impairment loss	(196)	(170)
Lease assets (net)	78	131
Others	213	302
Total tangible fixed assets	27,016	26,603
Intangible fixed assets		
Other	2,109	2,465
Total intangible fixed assets	2,109	2,465
Investments and other assets		
Investment securities.....	176	126
Others.....	3,281	3,641
Total investments and other assets	3,458	3,768
Total fixed assets.....	32,583	32,836
Total Assets	95,585	92,380

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of December 31, 2018	As of March 31, 2018
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,021	3,025
Accrued income taxes	2,703	1,230
Allowance for bonus	757	1,343
Allowance for points	1,709	1,576
Asset retirement obligations	0	--
Others	6,513	8,248
Total current liabilities	14,705	15,424
II. Long-term liabilities:		
Retirement benefit liabilities	719	703
Asset retirement obligations	409	409
Allowance for directors' bonuses	55	--
Others	172	245
Total long-term liabilities	1,357	1,358
Total liabilities	16,062	16,782
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	58,296	54,796
Treasury stock	(2,055)	(2,338)
Total shareholders' equity	78,743	74,959
Other comprehensive income		
Foreign currency translation adjustment	97	89
Total adjustments related to retirement benefits	(236)	(243)
Total other comprehensive income	(138)	(154)
Warrants	918	791
Total net assets	79,523	75,597
Total Liabilities and Net Assets	95,585	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 December 31, 2018	April 1, 2017 to December 31, 2017
Net sales	93,316	81,592
Cost of sales.....	26,823	23,539
Gross profit	66,493	58,052
Selling, general and administrative expenses	55,828	51,017
Operating income.....	10,664	7,035
Non-operating income		
Interest income	2	3
Dividend income	0	0
Rental income.....	68	77
Foreign exchange gain	--	17
Other non-operating income.....	84	106
Total non-operating income.....	156	204
Non-operating expenses		
Rent expenses on fixed assets	26	26
Loss on foreign exchange	1	--
Compensation expenses	166	--
Other non-operating expenses.....	21	22
Total non-operating expenses.....	216	49
Ordinary income.....	10,604	7,190
Extraordinary income		
Income from sale of fixed assets	299	--
Gain on reversal of subscription rights to shares	1	3
Gain on transfer of retirement benefit plan	--	5
Total extraordinary income	300	8
Extraordinary loss		
Loss on sale of fixed assets	--	0
Loss on disposal of fixed assets.....	199	43
Impairment loss	12	1
Loss on closure of stores	42	86
Other	8	1
Total extraordinary loss	263	132
Income before income taxes	10,641	7,066
Income and other taxes.....	3,128	1,073
Adjustments to income and other taxes.....	228	1,153
Total income and other taxes	3,356	2,227
Net income	7,285	4,839
Net income attributable to owners of the parent company	7,285	4,839

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2018 to December 31, 2018	April 1, 2017 to December 31, 2017
Income before minority interests.....	7,285	4,839
Other comprehensive income		
Foreign currency translation adjustment.....	8	(33)
Adjustments related to retirement benefits.....	7	36
Total other comprehensive income.....	15	2
Comprehensive income	7,300	4,842
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	7,300	4,842
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, '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. Nine months ended December 31, 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	54,108	33,855	5,352	93,316	--	93,316
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	54,108	33,855	5,352	93,316	--	93,316
Operating income (loss)	8,889	3,471	(174)	12,187	(1,522)	10,664

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 (¥1,522 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. Nine months ended December 31, 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	49,387	26,867	5,337	81,592	--	81,592
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	49,387	26,867	5,337	81,592	--	81,592
Operating income	7,450	782	175	8,408	(1,372)	7,035

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 of (¥1,372 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 is adjusted for operating income as recorded in the consolidated financial statements.