

FANCL Corporation

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2020

April 1, 2019 to June 30, 2019

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, 2020

FANCL CORPORATION

July 30, 2019

www.fancl.jp/en/

Stock exchange listings: Tokyo 1st section, code number 4921

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

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, 2019 to June 30, 2019) of the fiscal year ending March 31, 2020

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Three months ended June 30, 2019		Three months ended June 30, 2018	
		% change		% change
Net sales	32,544	5.7	30,799	19.0
Operating income	4,377	(2.5)	4,487	269.2
Ordinary income	4,382	(3.5)	4,543	259.9
Net income attributable to owners of the parent company	3,339	5.6	3,160	314.9
Earnings per share (¥)	27.83	--	24.85	--
Earnings per share (diluted) (¥)	27.58	--	24.53	--

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: ¥3,338 million (8.1%)

Three months ended June 30, 2018: ¥3,089 million (323.2%)

Note: Effective December 1, 2018, a share split was implemented, with each share of common stock split for 2 shares. Earnings per share and earnings per share (diluted) are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of June 30, 2019	As of March 31, 2019
Total assets	89,842	80,307
Net assets	62,456	60,916
Shareholders' equity/total assets (%)	68.6	74.8

Shareholders' equity: As of June 30, 2019: ¥61,657 million

As of March 31, 2019: ¥60,050 million

2) Dividends per share

	FY ended March 31, 2019	FY ending March 31, 2020
Interim period	30.00	17.00 (forecast)
Year-end	15.00	17.00 (forecast)
Annual	--	34.00 (forecast)

Note: Effective December 1, 2018, a share split was implemented, with each share of common stock split for 2 shares. The year-end dividend amount shown for the FY ended March 31, 2019 takes this share split into account, while the annual dividend amount for the FY ending March 31, 2019 has been left blank (--).

3) Consolidated forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

Millions of yen

	Interim period ending September 30, 2019		FY Ending March 31, 2020	
		Change %		Change %
Net sales	65,200	8.1	131,000	6.9
Operating income	7,450	5.2	15,000	21.1
Ordinary income	7,500	4.6	15,100	22.3
Profit (loss) attributable to owners of parent	5,100	5.2	10,200	17.9
Net income per share (¥)	42.51	--	85.03	--

Notes: 1. Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

2. To better reflect actual conditions, net income per share has been calculated based on the number of shares outstanding at the end of the fiscal year minus the number of treasury shares as of the end of the fiscal year.

3. 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)	June 30, 2019	130,353,200 shares	March 31, 2019	130,353,200 shares
2. Number of treasury shares	June 30, 2019	10,299,788 shares	March 31, 2019	10,395,292 shares
3. Average number of shares during the three-month period	Three months to June 30, 2019	119,966,035 shares	Three months to June 30, 2018	127,167,485 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, 2020.

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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 5.7% to ¥32,544 million as a result of an increase in sales in the core cosmetics and nutritional supplements businesses, amid strong trends in both domestic and inbound demand. Operating income decreased 2.5% to ¥4,377 million due to increased marketing expenses mainly in the nutritional supplements business, which outweighed the increase in sales. Ordinary income decreased 3.5% to ¥4,382 million, and net income attributable to owners of the parent company increased 5.6% to ¥3,339 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 8.2% to ¥19,528 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2019		Three months ended June 30, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	15,811	81.0	14,366	79.6	10.1
ATTENIR Cosmetics	3,126	16.0	2,869	15.9	9.0
boscia	397	2.0	642	3.5	(38.2)
Others	193	1.0	177	1.0	9.1
Totals	19,528	100.0	18,054	100.0	8.2

	Three months ended June 30, 2019		Three months ended June 30, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	7,081	36.3	6,744	37.4	5.0
Direct store sales	8,367	42.8	7,461	41.3	12.1
Wholesales and others	2,409	12.3	1,975	10.9	21.9
Overseas sales	1,670	8.6	1,872	10.4	(10.8)
Totals	19,528	100.0	18,054	100.0	8.2

Sales of **FANCL Cosmetics** increased 10.1% to ¥15,811 million, due to strong trends in sales of core products, as well as contributions from *DEEP CLEAR WASHING POWDER*, *Beauty BOUQUET*, and *AND MIRAI*.

Sales of **ATTENIR Cosmetics** increased 9.0% to ¥3,126 million, due to strong sales of the relaunched basic skin care and base makeup products.

Sales of **boscia** decreased 38.2% to ¥397 million, as strong performances with new business expansions in the US, Europe, and Middle and Near East were outweighed by sluggish sales to core US wholesalers.

Results by sales channels were: online and catalogue sales increased 5.0% year on year to ¥7,081 million, direct store sales increased 12.1% to ¥8,367 million, wholesale sales through other sales channels increased 21.9% to ¥2,409 million, and overseas sales decreased 10.8% to ¥1,670 million.

Operating income

Operating income increased 7.1% to ¥3,790 million, due to an increase in gross profit resulting from higher sales.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 3.1% to ¥11,365 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2019		Three months ended June 30, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	3,785	33.3	3,506	31.8	7.9
Direct store sales	3,433	30.2	3,862	35.0	(11.1)
Wholesales and others	3,544	31.2	3,151	28.6	12.5
Overseas Sales	601	5.3	501	4.6	19.9
Totals	11,365	100.0	11,022	100.0	3.1

Revenues from product sales increased due to strong trends in sales of Foods with Function Claims product *Naishi Support*, along with *Age Bracket-Based Supplements*.

Results by sales channels were: online and catalogue sales increased 7.9% to ¥3,785 million, direct store sales decreased 11.1% to ¥3,433 million, wholesale sales through other sales channels increased 12.5% to ¥3,544 million, and overseas sales increased 19.9% to ¥601 million.

Operating income

Operating income decreased 34.8% to ¥940 million due to factors such as an increase in marketing costs in comparison to the previous year, which offset the growth in sales.

3) Other Businesses

Sales

Other businesses decreased 4.2% year on year to ¥1,650 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Change (%)
Hatsuga genmai	479	520	(7.8)
Kale juice	581	636	(8.6)
Other	589	565	4.2
Totals	1,650	1,722	(4.2)

Operating income

Operating income of ¥68 million was recorded, compared to an operating loss of ¥61 million last year, due to an improvement in the profitability of Hatsuga genmai, which outweighed the decrease in sales.

(2) Summary of consolidated financial position

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

Assets increased ¥9,534 million to ¥89,842 million, primarily due to an increase of ¥8,726 million in current assets and an increase of ¥807 million in fixed assets. Contributing to the increase in current assets were a ¥8,983 million increase in cash and cash equivalents, a ¥396 million increase prepaid expenses, and a ¥734 million decrease in notes and accounts receivable. Contributing to the increase in fixed assets was a ¥1,082 million increase in tangible fixed assets.

Liabilities increased ¥7,995 million from the end of the previous fiscal year to ¥27,385 million. The primary contributing factor was a decrease of ¥2,240 million in current liabilities and a ¥10,236 million increase in long-term liabilities. Factors contributing to the decrease in current liabilities included a ¥2,496 million decrease in accrued income taxes. Factors contributing to the increase in long-term liabilities included a ¥10,237 million increase in convertible bonds with stock acquisition rights.

Net assets increased ¥1,539 million to ¥62,456 million. Contributing factors included a ¥1,413 million increase in retained earnings due to the recording of net income attributable to owners of the parent and other factors. As a result, the shareholders' equity ratio declined 6.2 points compared to the end of the previous fiscal year, to 68.6%.

(3) Forecasts for the fiscal year ending March 31, 2020

The interim and full-year forecast remains unchanged from that previously announced on April 25, 2019.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	<i>Millions of yen, rounded down</i>	
	As of June 30, 2019	As of March 31, 2019
ASSETS		
I. Current assets:		
Cash and cash equivalents	27,619	18,635
Notes and accounts receivable.....	14,873	15,580
Merchandise and products.....	5,233	5,244
Work in progress	25	26
Raw materials and supplies	6,287	6,185
Others	1,562	1,189
Allowance for doubtful accounts.....	(185)	(171)
Total current assets.....	55,416	46,689
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures.....	28,249	28,082
Accumulated depreciation and accumulated impairment loss	(16,502)	(16,321)
Buildings and structures (net)	11,746	11,760
Machinery and transport equipment.....	9,737	9,467
Accumulated depreciation and accumulated impairment loss.....	(7,543)	(7,421)
Machinery and transport equipment (net)	2,193	2,045
Furniture, tools and fixtures	8,959	8,800
Accumulated depreciation and accumulated impairment loss	(7,390)	(7,384)
Furniture, tools and fixtures (net).....	1,568	1,416
Land	11,839	11,839
Lease assets.....	245	256
Accumulated depreciation and accumulated impairment loss.....	(107)	(106)
Lease assets (net).....	138	150
Construction in progress.....	1,122	314
Total tangible fixed assets	28,608	27,526
Intangible fixed assets		
Other	2,158	2,229
Total intangible fixed assets.....	2,158	2,229
Investments and other assets		
Investment securities	176	176
Others.....	3,481	3,685
Total investments and other assets	3,657	3,862
Total fixed assets	34,425	33,617
Total Assets	89,842	80,307

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of June 30, 2019	As of March 31, 2019
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,158	3,253
Accrued income taxes	1,103	3,600
Allowance for bonus	2,182	1,512
Allowance for points	1,775	1,676
Others	7,491	7,909
Total current liabilities	15,710	17,951
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,237	--
Retirement benefit liabilities	723	738
Asset retirement obligations	416	412
Allowance for directors' bonuses	82	64
Others	214	222
Total long-term liabilities	11,674	1,438
Total liabilities	27,385	19,390
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	60,315	58,902
Treasury stock	(20,965)	(21,160)
Total shareholders' equity	61,851	60,243
Other comprehensive income		
Foreign currency translation adjustment...	66	67
Total adjustments related to retirement benefits	(260)	(261)
Total other comprehensive income	(193)	(193)
Warrants	798	866
Total net assets	62,456	60,916
Total Liabilities and Net Assets	89,842	80,307

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

Millions of yen, rounded down

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018
Net sales.....	32,544	30,799
Cost of sales.....	9,108	8,805
Gross profit.....	23,435	21,993
Selling, general and administrative expenses	19,058	17,506
Operating income	4,377	4,487
Non-operating income		
Interest income	13	1
Dividend income	0	0
Rental income.....	11	26
Foreign exchange gain.....	--	14
Other non-operating income.....	35	30
Total non-operating income.....	60	71
Non-operating expenses		
Rent expenses on fixed assets.....	3	9
Loss on foreign exchange	1	--
Bond issue expenses	44	--
Other non-operating expenses	5	6
Total non-operating expenses	54	15
Ordinary income	4,382	4,543
Extraordinary income		
Gain on reversal of subscription rights to shares.....	--	0
Income from sale of fixed assets	0	--
Gain on transfer of retirement benefit plan	35	--
Total extraordinary income	35	0
Extraordinary loss		
Loss on sale of fixed assets.....	0	--
Loss on disposal of fixed assets	5	1
Impairment loss.....	--	1
Loss on closure of stores.....	22	8
Other	0	0
Total extraordinary loss	28	11
Income before income taxes	4,389	4,531
Income and other taxes.....	873	1,485
Adjustments to income and other taxes	177	(113)
Total income and other taxes	1,050	1,371
Net income	3,339	3,160
Net income attributable to owners of the parent company	3,339	3,160

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018
Income before minority interests.....	3,339	3,160
Other comprehensive income		
Foreign currency translation adjustment	(0)	(73)
Adjustments related to retirement benefits.....	0	2
Total other comprehensive income.....	(0)	(71)
Comprehensive income	3,338	3,089
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	3,338	3,089
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, 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, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income 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.

2. 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 as recorded in the consolidated financial statements.