FANCL Corporation

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

April 1, 2019 to December 31, 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)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2020

FANCL CORPORATION

January 30, 2020

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

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

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Nine months ended December 31, 2019		Nine months ended December 31, 2018	
		% change		% change
Net sales	98,716	5.8	93,316	14.4
Operating income	12,472	17.0	10,664	51.6
Ordinary income	12,610	18.9	10,604	47.5
Net income attributable to owners of the parent company	8,662	18.9	7,285	50.5
Earnings per share (¥)	72.17	--	57.22	--
Earnings per share (diluted) (¥)	71.55	--	56.53	--

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, 2019: ¥8,632 million (18.2%)
Nine months ended December 31, 2018: ¥7,300 million (50.8%)

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 December 31, 2019	As of March 31, 2019
Total assets	92,352	80,307
Net assets	65,869	60,916
Shareholders' equity/total assets (%)	70.3	74.8

Shareholders' equity: As of December 31, 2019: ¥64,927 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
Year-end	15.00	17.00 (forecast)
Annual	--	34.00 (forecast)

Notes: 1. Changes to dividend forecasts during the period under review: None

2. 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

	FY Ending March 31, 2020	
		Change %
Net sales	131,000	6.9
Operating income	15,000	21.1
Ordinary income	15,100	22.3
Profit (loss) attributable to owners of parent	10,200	17.9
Net income per share (¥)	85.03	--

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

3. 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.

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, 2019	130,353,200 shares	March 31, 2019	130,353,200 shares
2. Number of treasury shares	December 31, 2019	10,278,576 shares	March 31, 2019	10,395,292 shares
3. Average number of shares during the nine-month period	Nine months to December 31, 2019	120,033,867 shares	Nine months to December 31, 2018	127,314,857 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 nine-month period of the previous fiscal year, unless stated otherwise.)

During the nine-month period under review, overall consolidated sales increased 5.8% to ¥98,716 million as a result of strong trends in both domestic and inbound sales, and an increase in sales in the core cosmetics and nutritional supplements businesses. Operating income increased 17.0% to ¥12,472 million due to an increase in gross profit from higher sales, which outweighed a year-on-year increase in marketing expenses. Ordinary income increased 18.9% to ¥12,610 million, and net income attributable to owners of the parent company increased 18.9% to ¥8,662 million.

Segment results are as follows:
1) Cosmetics Business
Sales
Sales from the Cosmetics business increased 8.4% to ¥58,635 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2019		Nine months ended December 31, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	46,956	80.1	42,708	78.9	9.9
ATTENIR Cosmetics	9,748	16.6	8,806	16.3	10.7
boscia	1,329	2.3	2,052	3.8	(35.2)
Others	601	1.0	542	1.0	11.0
Totals	58,635	100.0	54,108	100.0	8.4

	Nine months ended December 31, 2019		Nine months ended December 31, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	22,366	38.1	20,849	38.5	7.3
Direct store sales	23,553	40.2	21,567	39.9	9.2
Wholesales and others	7,366	12.6	5,850	10.8	25.9
Overseas sales	5,349	9.1	5,841	10.8	(8.4)
Totals	58,635	100.0	54,108	100.0	8.4

Sales of **FANCL Cosmetics** increased 9.9% to ¥46,956 million, due to strong trends in sales of core products such as *Mild Cleansing Oil,* in addition to contributions from new product *DEEP CLEAR WASHING POWDER*, and *Beauty BOUQUET*.

Sales of **ATTENIR Cosmetics** increased 10.7% to ¥9,748 million, due to strong sales of basic skin care products and the relaunched *Skin Clear Cleanse Oil*.

Sales of **boscia** decreased 35.2% to ¥1,329 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 7.3% year on year to ¥22,366 million, direct store sales increased 9.2% to ¥23,553 million, wholesale sales through other sales channels increased 25.9% to ¥7,366 million, and overseas sales decreased 8.4% to ¥5,349 million.

Operating income
Operating income increased 12.6% to ¥10,005 million, due to an increase in gross profit resulting from higher sales.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 2.9% to ¥34,841 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2019		Nine months ended December 31, 2018		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Online and catalogue sales	11,946	34.3	11,044	32.6	8.2
Direct store sales	10,192	29.3	10,897	32.2	(6.5)
Wholesales and others	10,575	30.3	9,988	29.5	5.9
Overseas Sales	2,125	6.1	1,925	5.7	10.4
Totals	34,841	100.0	33,855	100.0	2.9

Revenues from product sales increased due to strong trends in sales of Foods with Function Claims products *Naishi Support* and *Nyosan Support.*

Results by sales channels were: online and catalogue sales increased 8.2% to ¥11,946 million, direct store sales decreased 6.5% to ¥10,192 million, wholesale sales through other sales channels increased 5.9% to ¥10,575 million, and overseas sales increased 10.4% to ¥2,125 million.

Operating income

Operating income increased 11.8% to ¥3,883 million due to an increase in gross profit from growth in sales.

3) Other Businesses

Sales

Other businesses decreased 2.1% year on year to ¥5,239 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2019	Nine months ended December 31, 2018	Change (%)
Hatsuga genmai	1,529	1,563	(2.2)
Kale juice	1,840	1,998	(7.9)
Other	1,868	1,790	4.4
Totals	5,239	5,352	(2.1)

Operating income

Operating income of ¥83 million was recorded, compared to an operating loss of ¥174 million last year, due to an improvement in the profitability of the Hastuga genmai and Kale juice businesses.

(2) Summary of consolidated financial position

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

Assets increased ¥12,045 million to ¥92,352 million, primarily due to an increase of ¥9,176 million in current assets and an increase of ¥2,869 million in fixed assets. The primary factors contributing to the increase in current assets was a ¥8,065 million increase in cash and cash equivalents, and a ¥729 million increase in notes and accounts receivable. The primary factors contributing to the increase in fixed assets was a ¥3,296 million increase in tangible fixed assets.

Liabilities increased ¥7,093 million from the end of the previous fiscal year to ¥26,483 million. The primary contributing factors were a decrease of ¥3,134 million in current liabilities and a ¥10,227 million increase in long-term liabilities. Factors contributing to the decrease in current liabilities included a ¥1,700 million decrease in accrued income taxes and a ¥1,132 million decrease in Other current liabilities due to a decrease in accounts payable. Factors contributing to the increase in long-term liabilities included a ¥10,212 million increase in convertible bonds with stock acquisition rights.

Net assets increased ¥4,952 million to ¥65,869 million. Contributing factors included a ¥8,662 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥3,840 million decrease in retained earnings due to dividend payments.
As a result, the shareholders' equity ratio declined 4.5 points compared to the end of the previous fiscal year, to 70.3%.

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

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

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of December 31, 2019	As of March 31, 2019
ASSETS		
I. Current assets:		
Cash and cash equivalents	27,600	18,635
Notes and accounts receivable	16,310	15,580
Merchandise and products	5,479	5,244
Work in progress	--	26
Raw materials and supplies	6,099	6,185
Others	1,455	1,189
Allowance for doubtful accounts	(179)	(171)
Total current assets	55,865	46,689
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	28,614	28,082
Accumulated depreciation and accumulated impairment loss	(16,842)	(16,321)
Buildings and structures (net)	11,771	11,760
Machinery and transport equipment	9,911	9,467
Accumulated depreciation and accumulated impairment loss	(7,640)	(7,421)
Machinery and transport equipment (net)	2,271	2,045
Furniture, tools and fixtures	8,905	8,800
Accumulated depreciation and accumulated impairment loss	(7,445)	(7,384)
Furniture, tools and fixtures (net)	1,460	1,416
Land	11,839	11,839
Lease assets	297	256
Accumulated depreciation and accumulated impairment loss	(126)	(106)
Lease assets (net)	170	150
Construction in progress	3,309	314
Total tangible fixed assets	30,822	27,526
Intangible fixed assets		
Other	2,203	2,229
Total intangible fixed assets	2,203	2,229
Investments and other assets		
Investment securities	176	176
Others	3,283	3,685
Total investments and other assets	3,460	3,862
Total fixed assets	36,487	33,617
Total Assets	**92,352**	**80,307**

Consolidated Balance Sheets (continued)

Millions of yen, rounded down

	As of December 31, 2019	As of March 31, 2019
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	3,490	3,253
Accrued income taxes	1,899	3,600
Allowance for bonus	740	1,512
Allowance for points	1,907	1,676
Asset retirement obligations	3	--
Others	6,776	7,909
Total current liabilities	14,817	17,951
II. Long-term liabilities:		
Convertible bonds with stock acquisition rights	10,212	--
Retirement benefit liabilities	701	738
Asset retirement obligations	429	412
Allowance for directors' bonuses	115	64
Others	207	222
Total long-term liabilities	11,666	1,438
Total liabilities	26,483	19,390
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	63,573	58,902
Treasury stock	(20,922)	(21,160)
Total shareholders' equity	65,151	60,243
Other comprehensive income		
Foreign currency translation adjustment	36	67
Total adjustments related to retirement benefits	(259)	(261)
Total other comprehensive income	(223)	(193)
Warrants	941	866
Total net assets	65,869	60,916
Total Liabilities and Net Assets	**92,352**	**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 December 31, 2019	April 1, 2018 to December 31, 2018
Net sales	98,716	93,316
Cost of sales	28,091	26,823
Gross profit	70,625	66,493
Selling, general and administrative expenses	58,152	55,828
Operating income	12,472	10,664
Non-operating income		
Interest income	39	2
Dividend income	0	0
Rental income	36	68
Insurance proceeds	46	--
Other non-operating income	88	84
Total non-operating income	210	156
Non-operating expenses		
Rent expenses on fixed asses	9	26
Loss on foreign exchange	1	1
Compensation expenses	--	166
Bond issue expenses	44	--
Other non-operating expenses	17	21
Total non-operating expenses	73	216
Ordinary income	12,610	10,604
Extraordinary income		
Income from sale of fixed assets	0	299
Gain on reversal of subscription rights to shares	--	1
Gain on transfer of retirement benefit plan.	36	--
Total extraordinary income	36	300
Extraordinary loss		
Loss on sale of fixed assets	1	--
Loss on disposal of fixed assets	15	199
Impairment loss	11	12
Loss on closure of stores	71	42
Other	2	8
Total extraordinary loss	102	263
Income before income taxes	12,544	10,641
Income and other taxes	3,470	3,128
Adjustments to income and other taxes	410	228
Total income and other taxes	3,881	3,356
Net income	8,662	7,285
Net income attributable to owners of the parent company	8,662	7,285

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2019 to December 31, 2019	April 1, 2018 to December 31, 2018
Income before minority interests	8,662	7,285
Other comprehensive income		
Foreign currency translation adjustment	(31)	8
Adjustments related to retirement benefits	1	7
Total other comprehensive income	(30)	15
Comprehensive income	8,632	7,300
(Breakdown)		
Comprehensive income attributable to owners of the parent company	8,632	7,300
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. Nine months ended December 31, 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	58,635	34,841	5,239	98,716	--	98,716
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	58,635	34,841	5,239	98,716	--	98,716
Operating income	10,005	3,883	83	13,971	(1,498)	12,472

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 of (¥1,498 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. 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 is adjusted for operating income (loss) as recorded in the consolidated financial statements.