

May 11, 2015

FANCL Corporation  
TSE 1st Section: 4921

## **Medium-term management plan (FY2016 to FY2018)**

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FANCL Corporation wishes to notify you that at today's meeting of our Board of Directors, the Directors passed a resolution as follows concerning the "Medium-term management plan (FY2016 to FY2018)" that is to begin in FY2016.

Since its founding, the basic management policy of the FANCL Group has been "creating systems to eliminate the 'negatives'." Since then, we have developed the businesses of additive-free cosmetics, nutritional supplements, Hatsuga Genmai, Aojiru and others.

Since the return to management of our founder Kenji Ikemori in January 2013, we have gone back to the first principle of our Company, which is to "see things from the customers' perspective." We have also made several structural changes, including the withdrawal from unprofitable business, enhancement of wholesale channels, deployment of a new kind of shop in our store-sales channel, and a transition to a holding company structure.

In FY2015, amid the market rebound following the increase in consumption tax, the results of our management reforms became apparent. Income from FANCL cosmetics rose and our nutritional supplements business arrested its decline in income.

Recognizing these signs of growth, and wishing to aim for even higher growth, we formulated a new medium-term management plan. We are working to achieve our growth strategy that will accompany active investment in marketing.

### **Basic Approach**

**Make strategic investments in advertising and carry out a growth strategy with the aim of doubling sales in the 5 years from FY2016**

Reinforce the business foundation and invest strategically to grow sales

1. Grow sales through strategic investment

- In the Beauty and Health business, invest in advertising at levels significantly higher than usual to achieve higher brand awareness and sales
- Maximize advertising effects by improving the store network, investing

aggressively to create a network of 350 directly managed while working to expand wholesale sales channels

- Grow sales by using heavily marketed star products to stimulate consumer purchases of complementary items

## 2. Reinforce business foundation

- Improve the capacity utilization of existing manufacturing equipment, and work to improve productivity and reduce unit costs
- Make full use of the second R&D facility opening in FY2017 to strengthen R&D and increase the speed of product development

## **Business Strategy**

### **1. Beauty business strategy**

Reinforce the value of Mutenka anti-stress science as FANCL cosmetic's unique customer proposition, establishing a differentiated market position to grow customer numbers and raise brand loyalty

#### **<Product strategy>**

- Strengthen the facial cleansing product lineup and functionality to grow the customer base
- Progressively renew skin care products, appealing to customers who identify with the FANCL Mutenka philosophy
- Develop products and services for the promising anti-aging market that appeal to mature customers
- Enter new areas and create additional customer contacts points by drawing on FANCL's proprietary Skin Biomarker Analysis technology to develop personal skin care and other such services, while fostering FANCL's characteristic brands and technical capabilities

#### **<Marketing strategy>**

- Run concentrated campaigns promoting product features to increase penetration of wholesale store networks, increase per-store sales and capture new customers in direct marketing channels
- Develop new communication approaches through web and magazine media, appealing to the Mutenka value and brand philosophy to increase brand loyalty

#### **<ATTENIR>**

- Build the business by developing further products that reflect the ATTENIR brand founding values of quality, value and tastefulness and brand statement of

“generous is beauty”

- Restore sales growth by implementing large-scale campaigns and renewing core products
- Build the customer base by pursuing a new communication channel centered on internet media, and increase customer loyalty to achieve growth in new customers and a stronger repeat rate with existing customers.

## **2. Health business strategy**

Aim to be a leading health support company in Japan, in the pursuit of lifelong health and the realization of “Good Aging”.

### **<Product strategy>**

- Expand sales to middle-aged and senior customers with the development of highly differentiated products, developing business in the mature customer market
- Follow on from *Calorie Limit* and *Calorie Limit for the Mature Aged* by fostering additional star products
- Respond to new functional food labeling regulations introduced in April 2015 and strengthen sales of functional foods by drawing on FANCL’s proprietary research outcomes
- Use FANCL’s advanced Inner Body Effectiveness Design technology, to pursue the development of products that are highly effective within the body
- Grow sales in the wholesale channel through the development of exclusive wholesale products and other such measures

### **< Marketing strategy>**

- Encourage the cross-selling of other products using our star products as leads, and maximally leverage the strengths of the full product line-up with the aim of increasing sales.
- Expand sales of health foods by increasing the number of wholesale channel stores handling our products and in FANCL’s store sales channel renewing or opening more hybrid shops that have a high proportion of health food sales
- Improve specialized training for store and telephone sales staff and deploy employees with specialized knowledge
- Fully launch the preventative health domain, using genetic analysis and other such technologies, by establishing mail order sales and offering services (health promotion programs) to corporations and associations.

## **Strategy for each sales channel**

In domestic channels, reinforce the sales organization to optimize the effectiveness of investment in marketing.

### **1. Directly managed store sales**

- Create an environment that makes it easy for customers to purchase products, approximately doubling the network to 350 stores
- Strengthen area marketing, using marketing channels matched to different regions to increase rebrand awareness and attract customers to directly managed stores

### **2. Wholesale sales**

- Expand the number of stores handling our products through advertising-linked promotional campaigns, exclusive products and other such initiatives

### **3. Internet sales**

- Based on analysis of customer purchasing behaviors, conduct web-based marketing activities closely aligned with individual customers' preferred items to create an omni-channel environment

### **4. Overseas strategy**

- Pursue significant growth by increasing the number of stores handling FANCL's botanical skin care brand *boscia* promoted by FANCL INTERNATIONAL, INC., newly consolidated as a group company in FY2016

## **Reinforce business foundation**

### **1. Reduce unit costs**

- Make maximal use of existing manufacturing equipment and increase productivity while working to reduce unit costs

### **2. Develop personnel**

- Train the additional employees needed for the active expansion of the store network and develop people with the skills necessary for in-store sales and telephone sales, supporting higher customer satisfaction and loyalty.

### **3. Pursue R&D**

- Strengthen basic and foundational research by positioning FANCL's second R&D center, scheduled to open in FY2017, as an 'innovation research center' to research health food evidence and search for new materials for cosmetics and health foods

## **Numerical targets**

- In FY2016, we will expand sales as a result of our investment in advertising. From FY2017 onwards we will recover our investment. In FY2018, though increasing

our profitability, we aim to achieve consolidated sales of ¥125 billion and operating income of ¥10 billion.

- In addition, we aim to achieve an ROE of at least 8% in FY2018 through growth investment and appropriate returns to shareholders.

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