

FANCL Corporation
TSE 1st Section: 4921

Notice regarding introduction of performance-linked stock price-based compensation plan

May 19, 2021—At a board meeting held today, FANCL Corporation resolved to introduce a new performance-linked stock compensation plan (hereafter “Plan”) for FANCL Corporation Directors and Executive Officers (excluding Outside Directors and non-residents of Japan; hereafter “Company Directors, etc.”). The Plan will replace the current stock compensation-type stock options and the performance-linked stock price-based compensation plan (hereafter “phantom stock”).

In addition, the Board of Directors of each of the Company’s subsidiaries (hereafter “applicable Subsidiaries”) is scheduled to resolve to introduce this Plan at future board meetings, covering subsidiary Directors (excluding Outside Directors and non-residents of Japan; hereafter “applicable Directors, etc.” when combined with Company Directors, etc.).

As such, at the 41st Ordinary General Meeting of Shareholders (hereafter "General Meeting of Shareholders") scheduled to be held on June 26, 2021, the Company will announce as follows that it will propose the adoption of the Plan at shareholders’ meetings of each of its applicable Subsidiaries to be held in the future.

1. Purposes of the Plan

- (1) The Company will introduce the Plan with the goal of enhancing the link between the remuneration of applicable Directors, etc. and the Company's business performance and shareholder value, to raise awareness of the contribution to increasing long-term business performance and increasing shareholder value, in the pursuit of achieving the FANCL Group's Medium-Term Management Plan and enhancing corporate value*.
- (2) The Plan will use a system known as an officer compensation BIP (Board Incentive Plan) trust (hereafter the “Trust”). In the Plan, Company shares and money equivalent to the conversion of Company shares into cash (hereafter “Company Shares, etc.”) in proportion to the job positions of the applicable Directors, etc. and the degree to which they have achieved their targets, will be granted and paid (hereafter “Granted, etc.”) to the applicable Directors, etc.

* At present, Company compensation to Directors, etc., consists of monthly compensation, stock compensation-type stock options as a long-term incentive, and phantom stock as a medium-term incentive. Subject to approval at the General Meeting of Shareholders, the stock compensation-type stock option system will be abolished and the Company will not grant new stock acquisition rights. The phantom stock system will also be abolished. As a result of these

changes, compensation of Company Directors, etc. will consist of monthly compensation and performance-linked stock compensation. The compensation for Outside Directors who are independent of the execution of business will consist solely of monthly compensation.

2. Details of the Plan

(1) Overview of the Plan

The Plan will cover the period of three fiscal years (hereafter the “Plan Period”) from the fiscal year ending March 31, 2022 until the fiscal year ending March 31, 2024. In this system, predetermined points will be given in accordance with job position and the degree to which targets are achieved, and the Company Shares, etc. will be Granted, etc., in proportion to the number of points.

The Trust will comprise a) performance-linked grants where Company Shares, etc. will be Granted, etc. after the end of the Medium-Term Management Plan, and b) fixed grants that will be given on the retirement of applicable Directors, etc. The performance-linked grants are positioned as medium-term incentives while the fixed grants are positioned as a long-term incentive.

Furthermore, if the Trust is continued, the Plan Period will be in accordance with the fiscal periods of subsequent medium-term management plans.

(2) No. of Company Shares, etc., to be used in Grants, etc. to applicable Directors, etc.

The number of Company Shares, etc. to be Granted, etc., to applicable Directors, etc., is in proportion to the number of points calculated according to each of the point formulas in the performance-linked grants and fixed grants set forth below.

① Performance-linked grants

During the trust period, base points will be given at a certain time each year. After the end of the Plan Period, “performance-linked points” will be given, in accordance with the degree to which Medium-Term Management Plan targets have been achieved, based on the following point calculation formula.

(Performance-linked point calculation formula)

Total number of base points (base price of a performance-linked point for that job position ÷ Company stock price*¹) x performance-linked index*².

② Fixed grants

During the trust period, “fixed points” will be given at a certain time each year to applicable Directors, etc. based on the follow point calculation formula.

(Fixed point calculation formula)

Base price of a fixed point for that job position ÷ Company stock price*1.

*1 The average closing price on the Tokyo Stock Exchange for the month of March of the fiscal year before the start of the fiscal year in which the trust period begins.

*2 The performance-linked index may vary in the range of 0.0 to 2.0 and will be proportional to the degree that performance targets in the final fiscal year of the Medium-Term Management Plan are achieved. These performance targets, in addition to consolidated sales, consolidated operating income and ROE, include “amount of CO2 emissions”, “employee engagement,” and “supplier rating” as non-financial indicators.

(3) Maximum amount of trust funds to be contributed to the Trust and maximum number of Company Shares, etc. to be granted by the Trust

① Maximum amount of trust funds to be contributed to the Trust as share compensation to applicable Directors, etc. within the initial trust period.

For Company Directors, etc. ¥744 million; and for Subsidiary Directors ¥203 million.

Note however that if the Trust is continued, the maximum amount of trust funds to be given to the Trust for share compensation for applicable Directors, etc. in the Plan Period in which the Trust is extended will be as follows. For Company Directors it will be ¥248 million multiplied by the number of years of the new Plan Period; and for Subsidiary Directors it will be ¥67 million multiplied by the number of years of the new Plan Period.

② Maximum number of Company Shares, etc. to be granted by the Trust as share compensation to applicable Directors, etc. within the initial trust period.

For Company Directors, etc. 177,000 shares; and for Subsidiary Directors 48,300 Shares.

Note however that if the Trust is continued, the maximum amount of Company Shares, etc. to be granted by the Trust as compensation to applicable Directors, etc. in the trust period in which the Trust is extended will be as follows. To Company Directors it will be 59,000 shares multiplied by the number of years of the new Plan Period; and to Subsidiary Directors it will be 16,100 shares multiplied by the number of years of the new Plan Period.

(4) Method and timing of Granting, etc. of Company shares, etc. to Directors, etc.

① Performance-linked grants

In principle, the granting of Company Shares, etc. in performance-linked grants will be made after the end the Plan Period.

② Fixed grants

In principle, the granting of Company Shares, etc. in fixed grants will be made when the applicable Directors, etc. retire from office.

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