AXXZIA

March 25th ,2022



Financial Results Presentation for Q2 FY07/22

AXXZIA Inc.

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Executive Summary

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Executive Summary

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1H FY07/22

- Net sales: 3,934mn yen (+49.7% YoY)
- Operating income: 813mn yen (+26.9% YoY)

- Net sales came in 15.6% above the forecast; operating income exceeded the forecast by 31.4%.
- Achieved record high results at W11, China's largest e-commerce event.

Topics

- Record-high sales of AG Drink and Essence Sheet in 1H
- Launched new products: The White Drink, Hand Treatment, and Moist Care Essence.
- Sold the 10th anniversary special package Essence Sheet Premium (limited supply edition).

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Business Results: Highlights

Consolidated P&L (vs. 1H FY07/21 results)

- Net sales: 3,934mn yen, up 1,305mn yen YoY (+49.7% YoY)
- Operating income: 813mn yen, up 172mn yen YoY (+26.9% YoY)

(Unit: millions of yen)

	1H FY07/21	1H FY07/22	YoY change (amount)	YoY change
Net sales	2,628	**3,934**	+1,305	+49.7%
Operating income	641	**813**	+172	+26.9%
Operating margin	24.4%	**20.7%**	–	-3.7pt
Ordinary income	642	**835**	+192	+30.0%
Profit attributable to owners of parent	395	**542**	+146	+37.1%

*Figures for 1H FY07/21 are pre-listing figures (the Company was listed on the stock exchange in February 2021).

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Results vs. Forecast

- Net sales: +530mn yen vs. 1H forecast (115.6% progress rate)
- Operating income: +194mn yen vs. 1H forecast (131.4% progress rate)
- Quarterly profit: +144mn yen vs. 1H forecast (136.4% progress rate)

(Unit: millions of yen)

	1H FY07/22 Forecast	1H FY07/22 Results	Results vs. Forecast	Progress rate
Net sales	3,403	3,934	+530	**115.6%**
Operating income	**619**	**813**	+194	**131.4%**
Operating margin	**18.2%**	**20.7%**	—	**+2.5pt**
Ordinary income	613	835	+221	**136.2%**
Profit attributable to owners of parent	**397**	**542**	+144	**136.4%**

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Half-Year Breakdown of Full-Year Forecast

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- Earnings are expected to be concentrated in 2H, due in part to e-commerce events.
- 1H operating income accounts for about 40% of the full-year forecast.

(Unit: millions of yen)

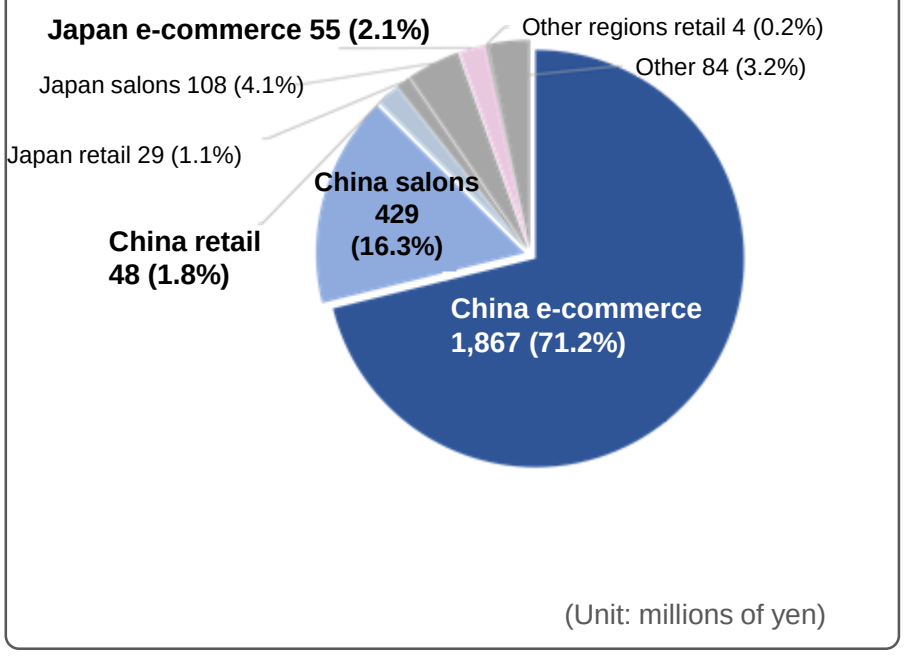
	1H FY07/22	2H FY07/22	Full-year FY07/22 Forecast
Net sales	3,403	3,713	7,117
vs. Full-year forecast	47.8%	52.2%	100.0%
Operating income	619	847	1,466
vs. Full-year forecast	42.2%	57.8%	100.0%
Ordinary income	613	811	1,424
vs. Full-year forecast	43.0%	57.0%	100.0%
Profit attributable to owners of parent	397	532	930
vs. Full-year forecast	42.8%	57.2%	100.0%

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1H FY07/22 Net Sales by Region and Channel

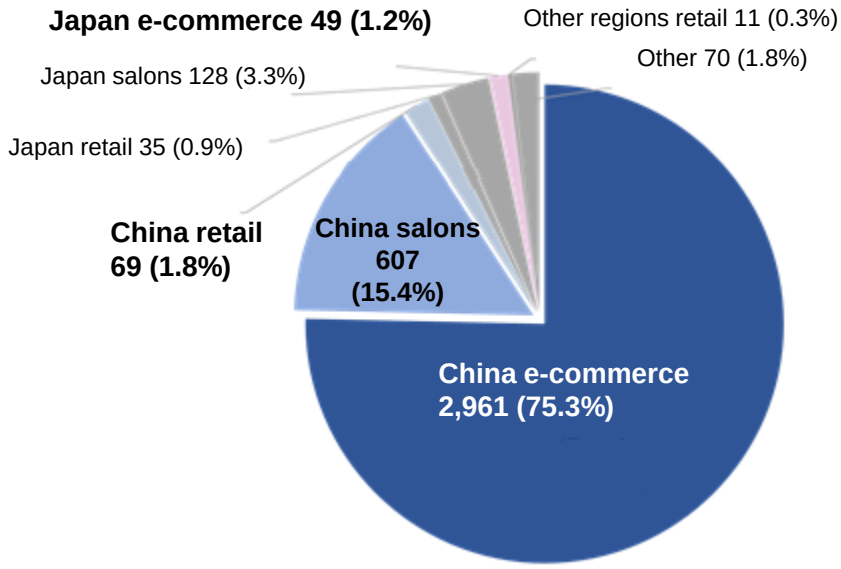
- China net sales (*1): 3,638mn yen (92.5% of total sales) +1,292mn yen YoY (+55.1% YoY)
- Japan net sales (*1): 213mn yen (5.4% of total sales) +19mn yen YoY (+10.2% YoY)

1H FY07/21 2,628mn yen



(Unit: millions of yen)

1H FY07/22 3,934mn yen



(Unit: millions of yen)

*1 Net sales in China and Japan are the total of e-commerce, salon, and retail sales.

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1H FY07/22 China E-commerce Net Sales by Channel

- China e-commerce net sales: 2,961mn yen +1,292mn yen (+58.6% YoY)
- Sales grew 391mn yen on TikTok while sales growth remained high across all other e-commerce channels.

(Unit: millions of yen)

	1H FY07/21 Results	1H FY07/22 Results	YoY change (amount)	YoY change
Taobao, etc.	1,020	1,300	+279	**+27.4%**
Tmall Global	682	969	+287	**+42.1%**
RED	164	299	+135	**+82.3%**
TikTok	–	**391**	+391	–
Total China e-commerce	**1,867**	**2,961**	+1,093	**+58.6%**

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CoGS and SG&A Expenses

- CoGS-to-sales ratio: 25.3% (-5.0ppt YoY)　SG&A-to-sales ratio: 54.0% (+8.7ppt YoY)
- Advertising expenses totaled 744mn yen, 3.5% above the 1H forecast of 719mn yen

The surplus in advertising expenses is linked to higher e-commerce sales in China and have generated solid ROI. As such, we will continue to make advertising investments.

(Unit: millions of yen)

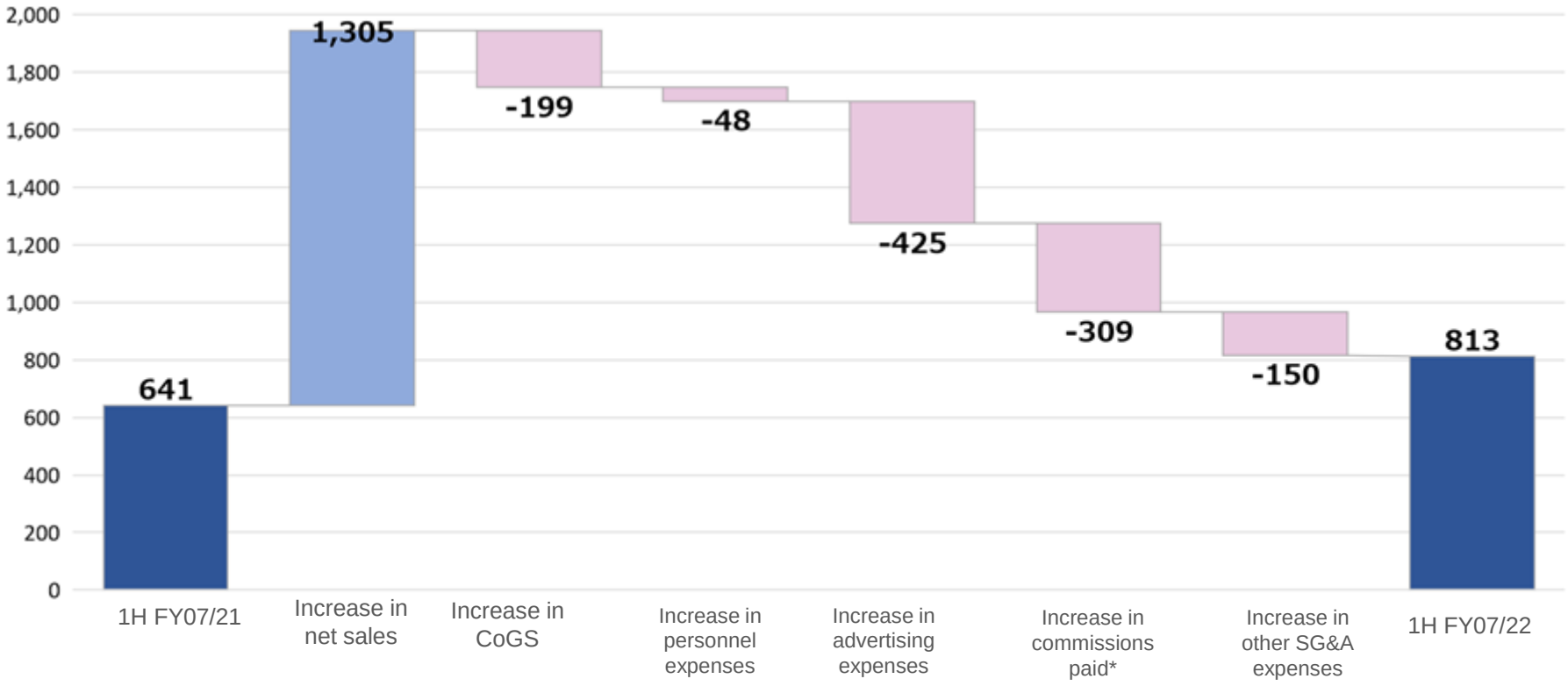
	1H FY07/21		1H FY07/22		YoY	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Change
Cost of goods sold	796	30.3%	**996**	**25.3%**	+199	-5.0pt
SG&A expenses	1,190	45.3%	**2,123**	**54.0%**	+933	+8.7pt
Advertising expenses	318	12.1%	**744**	**18.9%**	+425	+6.8pt
Commissions paid	304	11.6%	**614**	**15.6%**	+309	+4.0pt
Personnel expenses	333	12.7%	382	9.7%	+48	-3.0pt
Depreciation & amortization	9	0.3%	27	0.7%	+18	+0.4pt
R&D expenses	5	0.2%	6	0.2%	0	-0.1pt
Other	218	8.3%	349	8.9%	+130	+0.6pt

*Figures for Q2 FY07/21 are pre-listing figures (the Company was listed on the stock exchange in February 2021).

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Operating Income (Breakdown of YoY Change)

- Net sales: **Up 1,305mn yen** YoY (**+49.7%** YoY)
- Operating income: **Up 172mn yen** YoY (**+26.9%** YoY)
- As planned, we made upfront investments in advertising in order to raise brand awareness and expand the customer base.



*E-commerce platform usage fees, etc.

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Consolidated B/S

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- Continued to maintain a robust financial position, including current ratio and equity ratio.

(Unit: millions of yen)

	End-FY07/21		End-Q2 FY07/22		YoY change
	Amount	Ratio	Amount	Ratio	Amount
Current assets	7,690	93.0%	**8,004**	**93.3%**	+314
Non-current assets	577	7.0%	**578**	**6.7%**	+1
Total assets	8,267	100.0%	**8,583**	**100.0%**	+316
Current liabilities	958	11.6%	**749**	**8.7%**	-208
Non-current liabilities	116	1.4%	**83**	**1.0%**	-32
Total liabilities	1,074	13.0%	**833**	**9.7%**	-240
Total net assets	7,193	87.0%	**7,750**	**90.3%**	+556
Total liabilities and net assets	8,267	100.0%	**8,583**	**100.0%**	+316

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Q2 FY07/22 Topics

1H FY07/22 Topics (Products)

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- Net sales of the mainstay Essence Sheet and AG Drink products reached record-high levels thanks to strong sales at W11 and a solid launch of our Tiktok flagship store.

Axxzia Beauty Eyes “Essence Sheet Premium”
10th Anniversary Limited Package



AGtheory “AG Drink 5th”



Essence Sheet series

1H FY07/22 sales: 1,862mn yen

+74.0% QoQ

AG Drink series

1H FY07/22 sales: 1,235mn yen

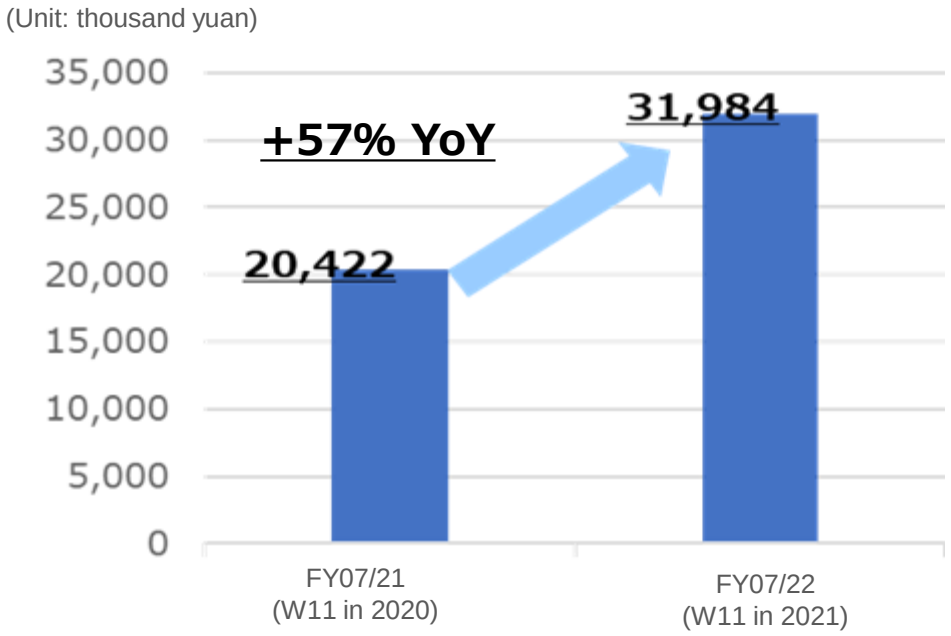
+24.8% QoQ

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Results of Cross-Border E-Commerce Flagship Stores at W11 event

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- Net sales during W11 Event (China's largest e-commerce event): +57% YoY



China's Three Major E-commerce Events

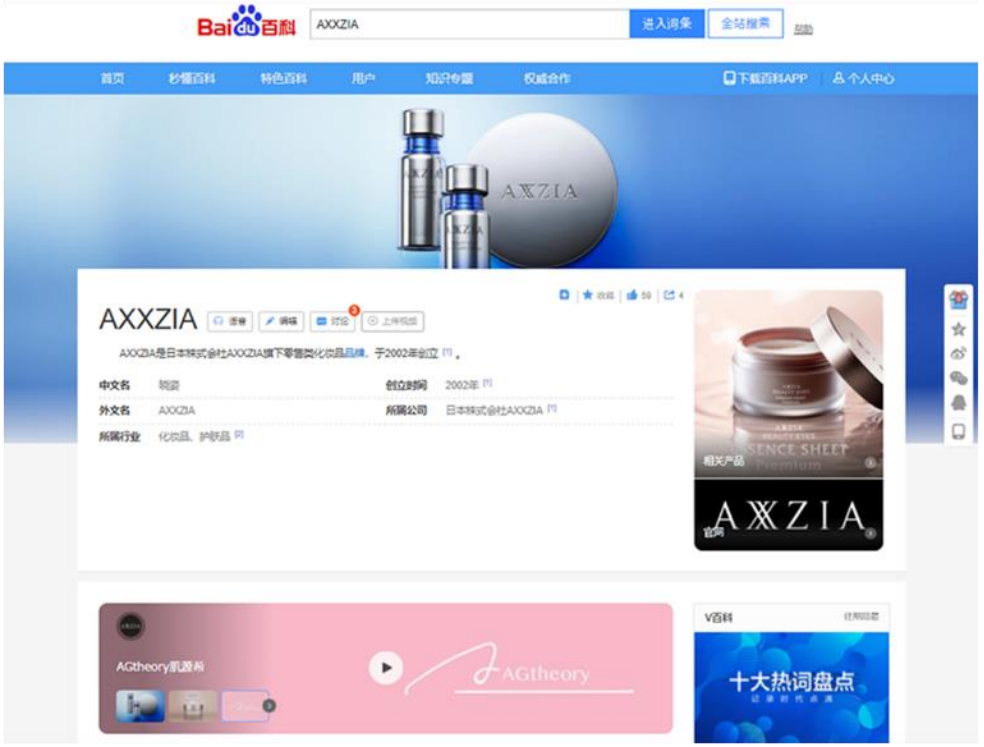
- China's largest e-commerce sales event held on Nov. 11 every year in celebration of Singles' Day
- E-commerce sales event for women's products held in conjunction with International Women's Day on March 8
- Annual e-commerce sales event held around June 18 every year, by Chinese e-commerce site JingdongMall

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Sign Up to the Baidu Baike LOFT New Advertising Service

- We have signed up to Baidu Baike LOFT, a new cross-border e-commerce advertising service recently launched by Baidu Japan Inc. on December 2021.
- By combining our use of Baidu with the service, we can further enhance our brand strength and expand our potential customer base in Chinese markets as well as direct customers to our cross-border e-commerce flagship stores. The service is expected to contribute to our earnings.





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Q2 FY07/22 Topics (New Products)

- We launched the following products and lines in Q2 FY07/22



Venus Recipe: The White Drink

Axxzia Beauty Body:
Hand Treatment
Moist Care Essence



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Future Initiatives

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Summary of the Acquisition of Huit Laboratories, Inc. as a Subsidiary

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Summary

Acquisition of 100% of shares in Huit Laboratories, Inc., thereby converting it into a subsidiary

Planned date of share acquisition	April 1, 2022
Cost of share acquisition	860mn yen *Share acquisition price
Method for the procurement of necessary funds	Cash and deposits on hand + borrowings (under consideration) *Currently reviewing fund position and leverage effect

Impact on consolidated financial results for FY07/22

We plan to acquire Huit Laboratories in April 2022 and expects the acquisition to have only a negligible impact on performance in FY07/22.

Challenges, Objectives, and Potential Synergies

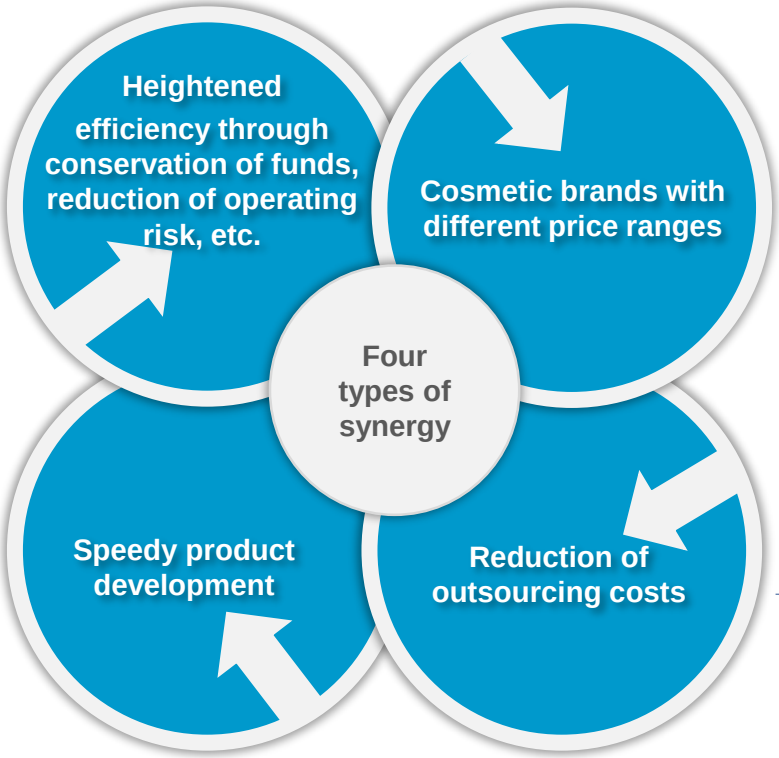
Challenges	Bottlenecks associated with order lot sizes and lead times encountered when performing original equipment manufacturing for other companies
Objectives	• Enabling of **speedy development, manufacture, and launch** of a wide variety of products in small quantities • Intended use of funds at time of IPO: **Construction of a new plant** • Shortening of the time required for plant construction and launch **by about 1.5 years** • **Reduction of risks** associated with the recruitment of personnel and the launch of operations • **Acquisition of domestic sales network (to generate revenue from sales)**
Synergys	• **Internalization** of outsourced manufacturing • **Acquisition of licenses and expertise** related to the manufacture of cosmetics and quasi-pharmaceutical products • **Sales channel and customer base expansion** achieved through the acquisition of brands with different price ranges

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Potential Synergies

- At the time of IPO, we established a 2.0bn yen fund for the construction of a new plant. We will convert Huit Laboratories, Inc. into a subsidiary for 860mn yen.
- Through this acquisition, we will shorten the amount of time required to establish and launch the plant.
- This acquisition will help us eliminate risks (associated with acquisition of manufacturing licenses and expertise or personnel recruitment) incurred prior to the launch of operations at the plant.

- Our skincare cosmetics and dietary supplements lie in the mid- to high-price range.
- This acquisition will facilitate sales channel and customer base expansion achieved through LisBlanc and other mid- to low-price skincare cosmetics.



- In comparison to outsourced manufacturing, this acquisition will allow us to increase our control over production lot sizes and shorten lead times that occur prior to product completion.
- This acquisition will empower us to manufacture prototypes of a wide variety of products in small quantities and enable speedy product launches.

- Currently, all of the Company's products are manufactured by subcontractors
- Internalizing a portion of the manufacturing operations that were previously outsourced will allow us to reduce associated costs.

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Future Brand Development

- Current status: Brand lineup featuring high- (premium) and mid-priced cosmetics and dietary supplements
- Future status: Complement this brand lineup by expanding sales channels and customer bases through the addition of mid- to low-priced products

	Salon-exclusive brand	B2C brand			B2C brand
	High-end Avg. selling price: Over 10,000 yen	Medium-range to high-end Avg. selling price: Over 5,000 yen			Medium- to low-range Avg. selling price: 3,000 yen
		Aging Care series	Eye Care series	Transparency and Luster series	Skincare series
Cosmetics (mainly skincare)					LisBlanc  Basic natural skin care cosmetics that have been sold for over 40 years
Supplements					

Current lineup

Future lineup

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Q2 FY07/22 Topics (Sales Channels)

- Opened Tmall Axxzia Cosmetics Flagship Store as a domestic e-commerce store in China on February 21, 2022.



*Opened under our Chinese subsidiary Xiaozi Cosmetic (Shanghai) Inc.

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Appendix

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Company Overview

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Creating things and experiences
that amaze people.

Company Overview

[Establishment]	December 21, 2011
[Capital]	2,109 million yen（As of end of July 2021）
[Location]	Tokyo, JAPAN
[Office]	Tokyo Head Office
	Tokyo 2nd Head Office
	Osaka Sales Office
	Fukuoka Sales Office
	AXXZIA GINZA SIX
[Business Activities]	Manufacturing / sales of cosmetics and supplements
[Market]	TSE Mothers (4936)

Board of Directors

President	Dan Taku
Executive Vice President	Xiaowei Amano
Managing Director	Wu Jun
Managing Director	Zhang Hui
Director	Masahiro Yoshida
Director	Yasuhito Fukui
Outside Director	Yujiro Arakawa
Outside Director	Reiko Akemine
Corporate Auditor	Masahiro Miyajima
Outside Corporate Auditor	Kenji Shimizu
Outside Corporate Auditor	Kuninobu Okuda

Consolidated Subsidiaries

Xiaozi Cosmetic (Shanghai) Inc.

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Corporate History



2021
- Listed on the Mothers market (section) of the Tokyo Stock Exchange
- Launched The B PRO, salon-exclusive brand for professional use
- Opened AXXZIA GINZA SIX Store, the Company's first directly managed store
- Opened AXXZIA's flagship store on Douyin/TikTok (China's leading mobile video app)
- Shanghai subsidiary opened a flagship store specializing in skincare products on Douyin/TikTok (China's leading mobile video app)
- Shanghai subsidiary opened AXXZIA's flagship store on JD.com, a major e-commerce platform in China



2019
- Opened AXXZIA's flagship stores on China's leading e-commerce platforms RED and Tmall Global
- Launched AGtheory, skincare brand for the retail market

2018
- Established Xiaozi Cosmetic (Shanghai) Inc. as a consolidated subsidiary (100%)



2016
- Launched Beauty Eyes, eye care and skincare brand for the retail market
- Launched Venus Recipe, supplements brand for the retail market



2013
- Launched Le Ciel de L'aube, skincare brand for beauty salons and spas



2012
- Changed company name from Orientina Cosme Co., Ltd. to AXXZIA Inc.

2011
- Established Orientina Cosme Co., Ltd. in Tokyo, Japan (Capital: 9 million yen)
- Started development and production of cosmetics for beauty salons

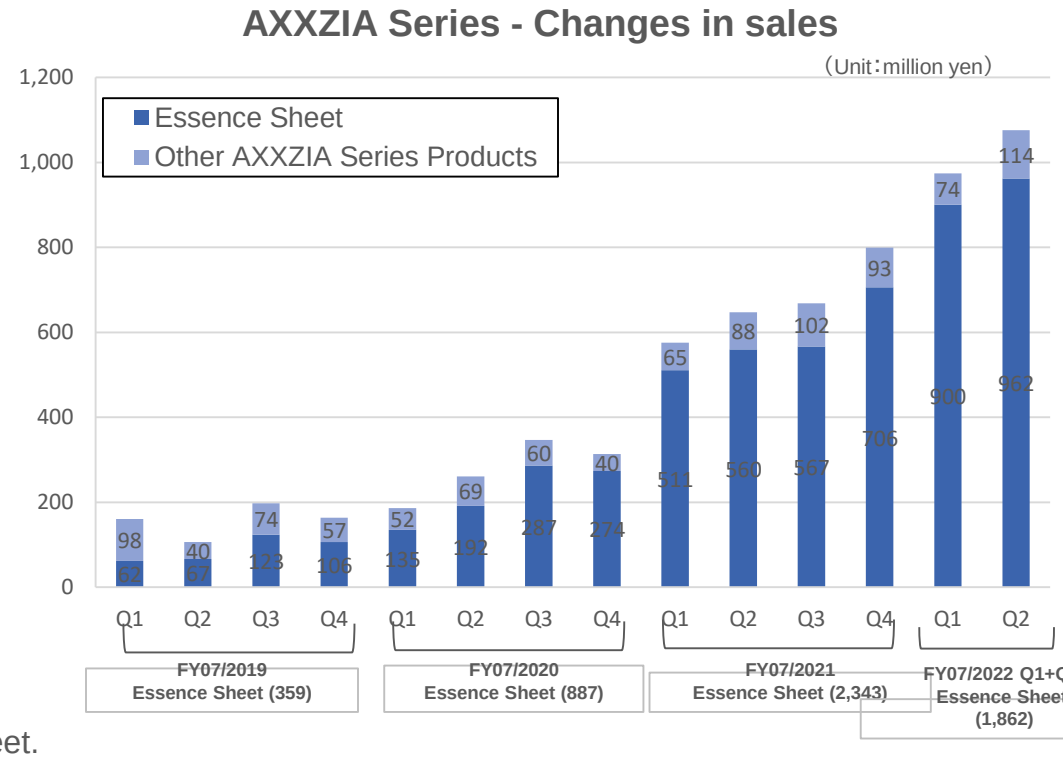
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Main Brands: AXXZIA Series

Our main retail brand consisting mainly of eye care cosmetics products.

- Succeeded in turning Essence Sheet into a hero product.
  (Grew sales by approx. **2.5**x to **706**mn yen in Q4 FY07/21 from **274**mn yen in Q4 FY07/20)
- Greater brand awareness also leads to awareness of the Company, because the brand carries the company name.





Milestones for sustainable growth

- Released a product series based on Essence Sheet.
- In December 2020, we launched Essence Sheet Premium Edition and sales are progressing favorably.
- In the spring of 2022, we plan to add a new sunscreen product to the series and turn it into a second growth driver.

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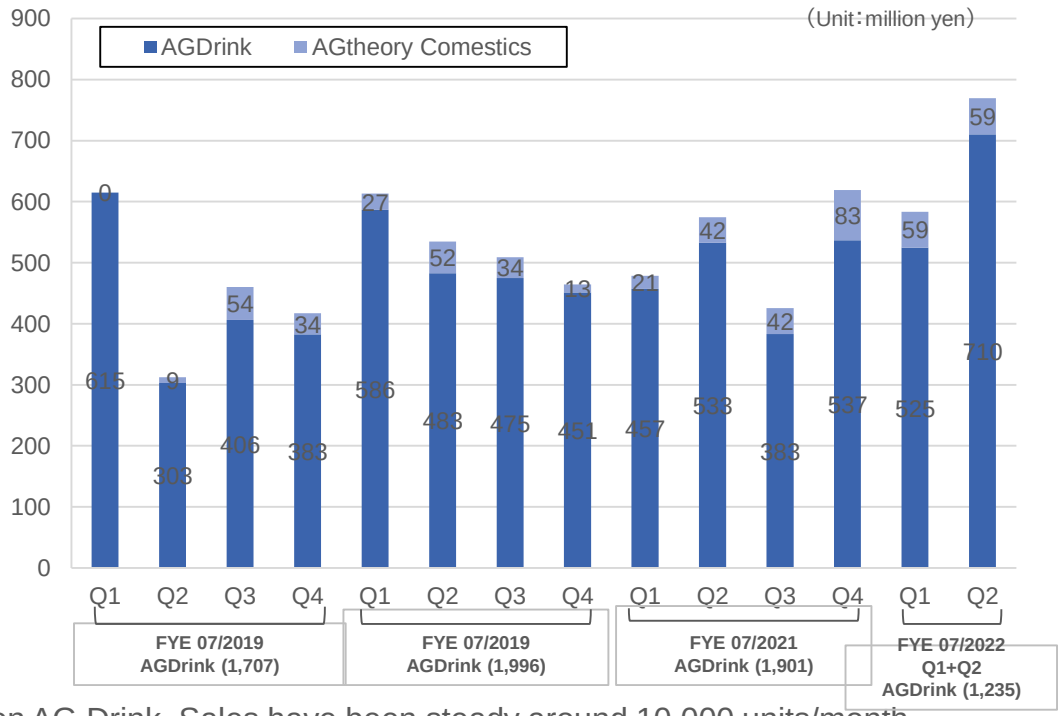
Main Brands: AGtheory Series

Second main retail brand consisting of the core AG Drink product and cosmetics products based on the same concept.

- Created a brand series that combine AG Drink (hero product) with AGtheory cosmetics (based on the same concept) to target the existing loyal users of AG Drink.
- AG Drink sales have increased steadily to **537**mn yen in Q4 FY07/21 from **451**mn yen in Q4 FY07/20.
- Expanding sales of AGtheory cosmetics based on AG Drink



AGtheory Series - Changes in sales



Milestones for Growth

- In March 2021, we released a renewed 5th-generation AG Drink. Sales have been steady around 10,000 units/month.
- In October 2021, we will expand the AGtheory cosmetics series to include facial cleanser and face wash products, completing the full lineup.

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Up-and-Coming (Whitening Appeal) Series

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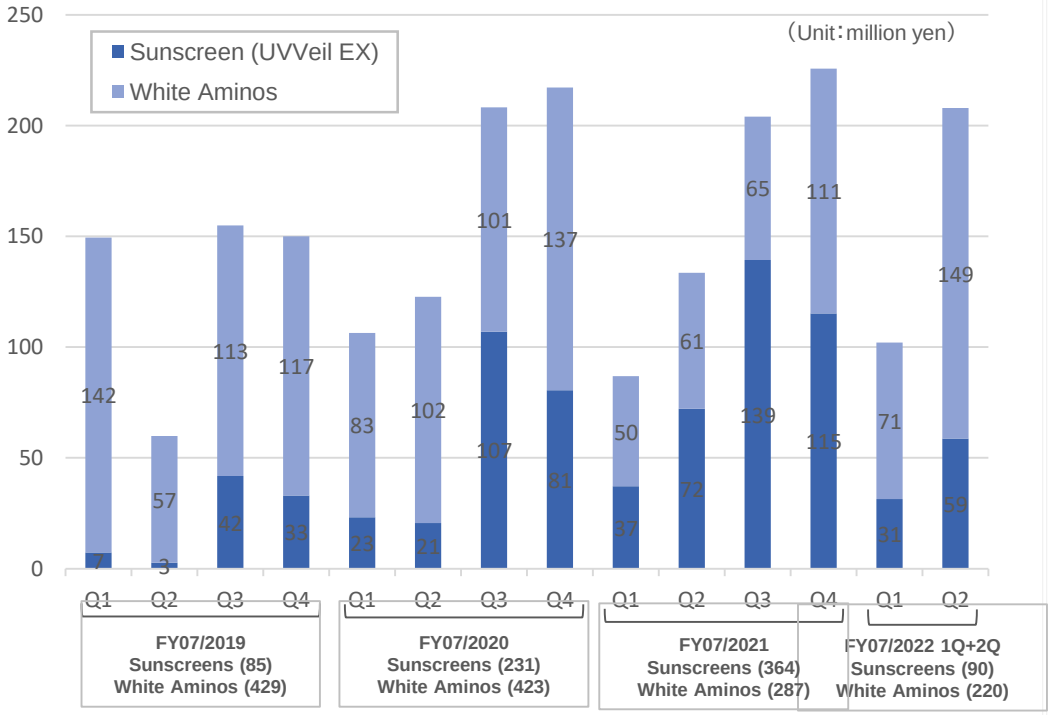
We position beauty supplements (White Aminos) and sunscreens as up-and-coming products, which we hope to turn into our third major brand.

- Both White Aminos and sunscreens (UV Veil EX) have become mid-sized hit products.
  (Sales of each product exceeded **100**mn yen in Q4 FY07/21)
- Developing these items into product series is under consideration.





Up-and-Coming (Whitening Appeal) Sales Trend



Milestones for turning into main series

- The following plans are underway for the full-scale launch starting in the spring of 2022.
- Release of a renewed White Aminos drink with a unique container.
- Release of AXXZIA's first cosmetics series (quasi-drugs) with skin whitening features.

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Salon-Exclusive (Professional) Series

Salon-exclusive products have been AXXZIA's strength and distinctive business area since its establishment.

- In addition to Le Ciel de L'aube, a long-selling brand available since AXXZIA's founding, we offer a range of special cosmetics (Eyetail Series) for professional use.
- We were one of the first companies to register cosmetics in China and launched a business targeting Chinese salons with made-in-Japan cosmetics, contributing to the success of our Shanghai subsidiary.

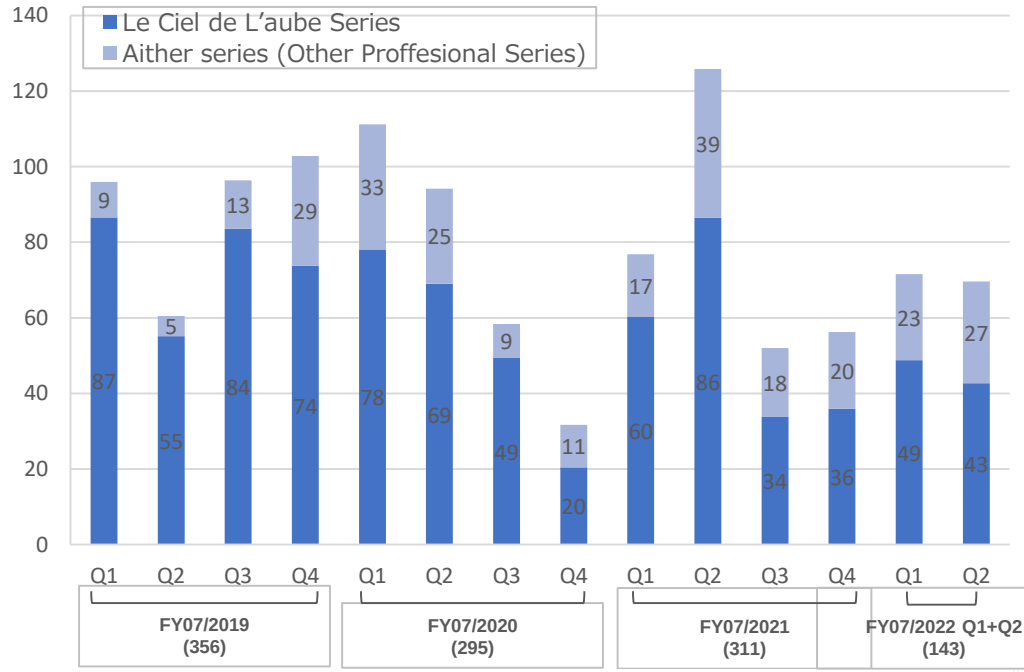


Milestones for sustainable growth

- In March 2021, we launched a new premium version skincare brand called The B. We aim to create a new growth driver by developing and expanding cosmetics catering to special-care needs.
- We will use this series as a leeway for introducing new products that employ novel technologies and ingredients.

Salon Exclusive Sales (Professional) Series - Changes in sales

(Unit：million yen)

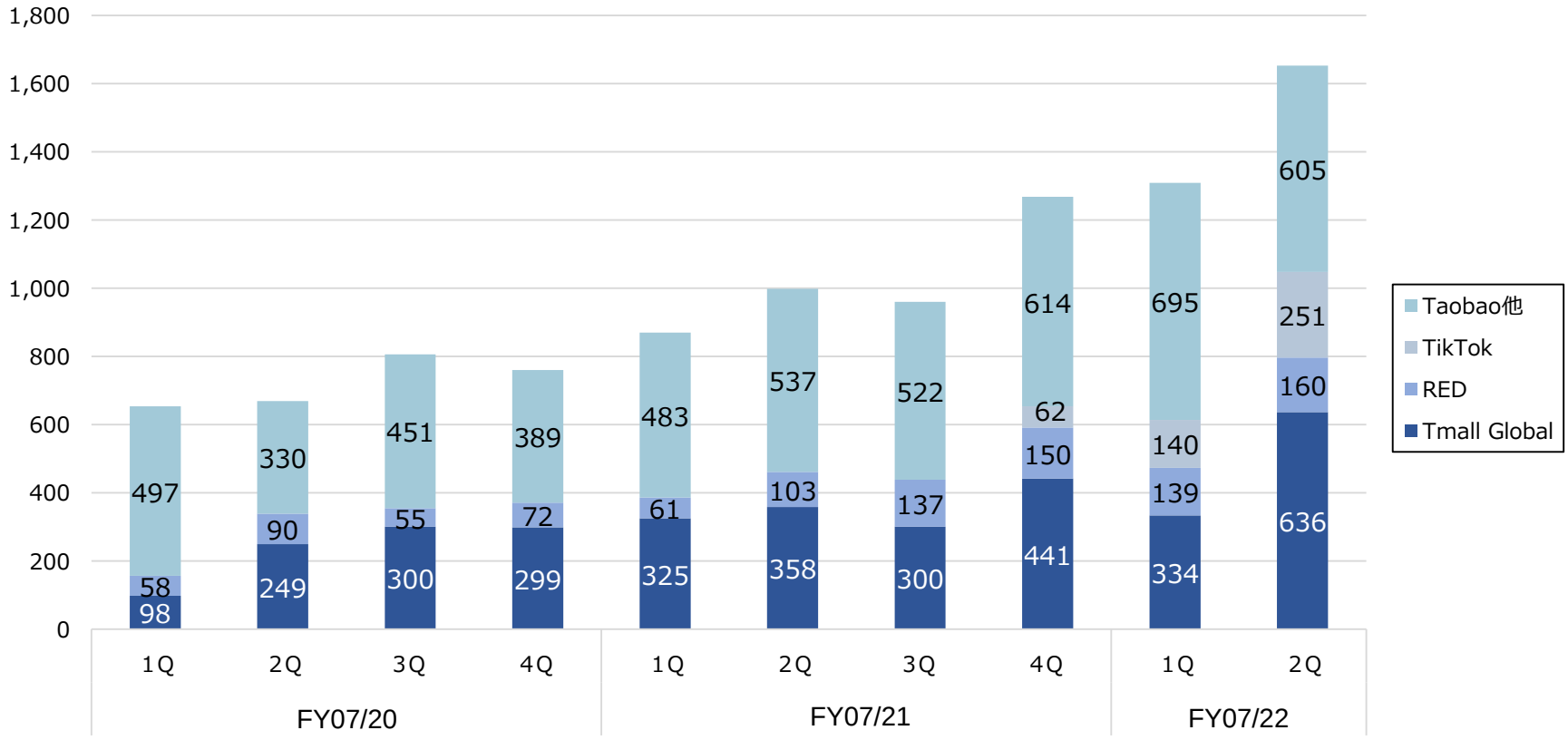


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Chinese E-commerce Sales Trend
(Quarterly, Q1 FY07/20–Q2 FY07/22)

- In the increasingly competitive Chinese e-commerce channel, quarterly sales via Alibaba platforms (Tmall Global, Taobao), RED and TikTok grew steadily.
- 1H FY07/22 net sales of 2,961mn yen was up 1,093mn yen (+58.6% YoY) from 1,867mn yen in 1H FY07/21
- Our sales promotion strategy of utilizing both top-down and bottom-up approaches to marketing has been successful.

(Unit: million yen)



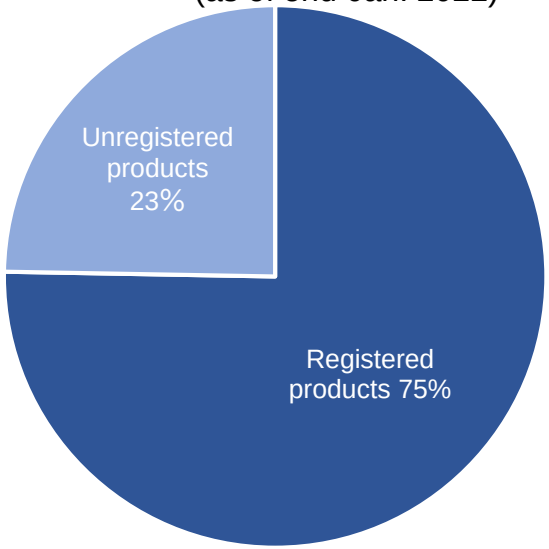
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Status of NMPA Approvals

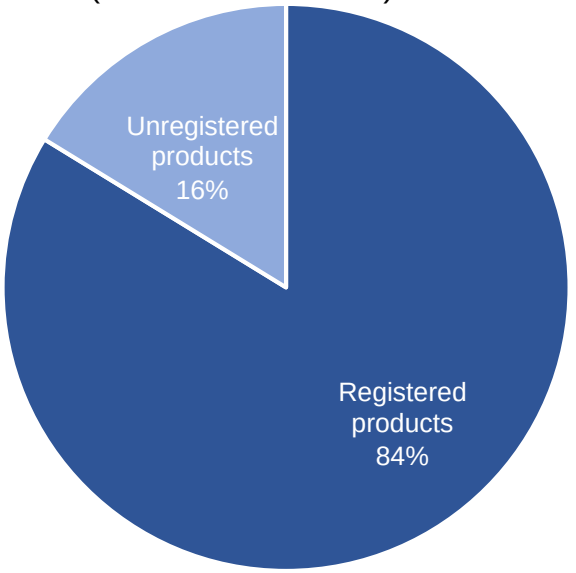
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- AXXZIA's product design emphasizes the use of NMPA-approved ingredients and formulas in order to ensure a smooth approval process.
  - Approx. 75% of the 89 total product SKUs are NMPA* approved.
  - Approx. 84% out of all products developed for the Chinese market
  - 100% approval rate in the last two years (generally, other companies average 20%-30%)
  - 3-month average application period (generally, other companies average 6 months)

Ratio of NMPA-registered products (all products)
(as of end-Jan. 2022)



Ratio of NMPA-registered products (products developed for Chinese market)
(as of end-Jan. 2022)



*NMPA: National Medical Products Administration. Government agency administering requirements and review permits in China for sales of medical devices, pharmaceuticals, pharmaceutical packaging materials, cosmetics, and health foods in the Chinese market. Equivalent to the Ministry of Health, Labour and Welfare (MHLW) certificate (manufacturing and marketing approval certificate) in Japan, the premarket approval (PMA) by the US FDA, and CE marking in the EU. Graph entries relate only to cosmetics as AXXZIA's dietary supplements are sold as general foods and beverages.
*Figures only apply to cosmetics for which we are applying for NMPA approval as our policy for supplements is to obtain Chinese import approval.

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Company profile of Huit Laboratories, Inc.

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Company profile

History

1977	Founded as LisBlanc Co., Ltd.
2011	Absorbed by Nissui Pharmaceutical Co., Ltd., a pharmaceutical company in the Nissui Group, and became Nissui Pharmaceutical's cosmetics division
2016	Spun off from Nissui Pharmaceutical as Nissui Pharma Cosmetics Co., Ltd.
July 2017	Became a wholly owned subsidiary of Senshukai Co., Ltd.
September 2017	Changed name to Huit Laboratories, Inc.

Business

Manufacture and wholesale of cosmetics and quasi-pharmaceutical products; original equipment manufacturing

Size

FY12/21

Net sales: **717**mn yen

Total assets: **858**mn yen

Net assets: **727**mn yen

Business model

Yatsugatake Plant

Located in Hokuto City, Yamanashi Prefecture, which is endowed with a rich natural environment, this manufacturing plant for cosmetics and quasi-pharmaceutical products uses natural water pumped directly from within the premise as the base for its products.





Wholesale business (core brands)

LisBlanc This brand of skin care cosmetics has been on the market for over 40 years. These products are distributed through wholesale to approximately 1,000 stores throughout Japan.

OEM business Through this business, we conduct original equipment manufacturing focused primarily on skin care products.

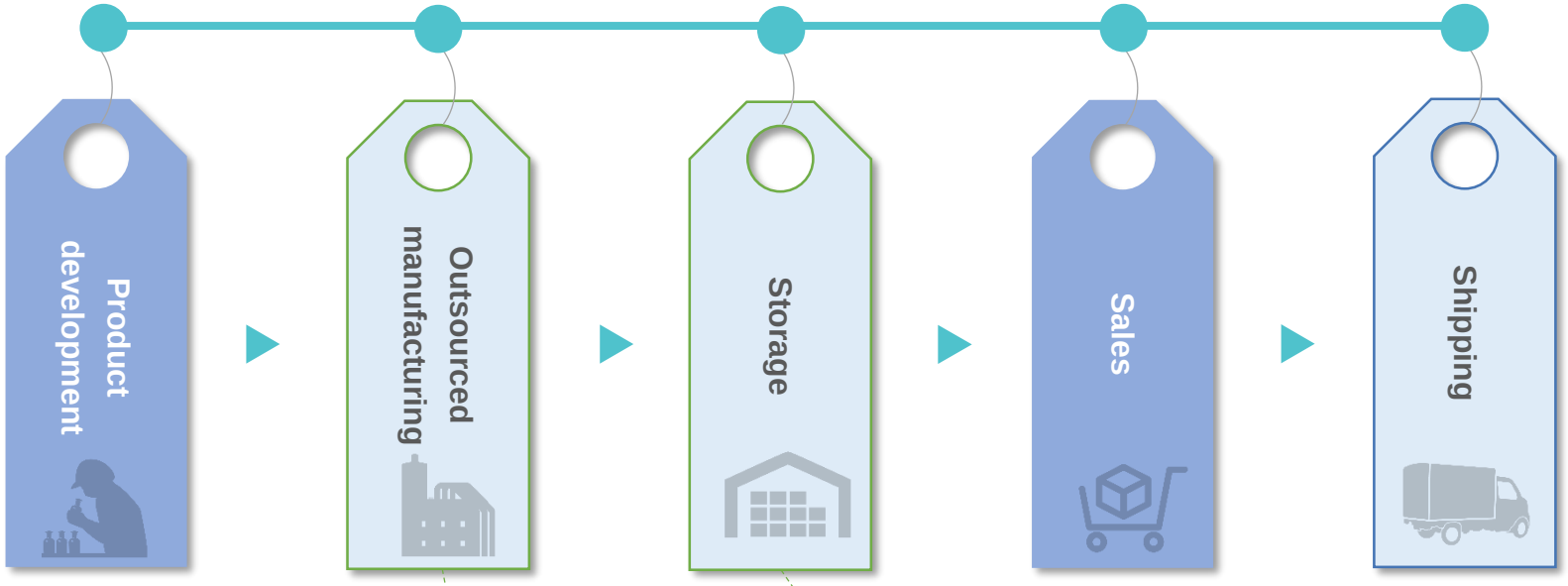


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Role of Huit Laboratories, Inc.

AXXZIA

Supplement outsourced manufacturing and storage operations of the AXXZIA Group (aside from product development and sales)



Disadvantages of outsourcing

The outsourcing company has limited control over production lot sizes and lead times due primarily to the need to secure production lines operated by its subcontractors.

The outsourcing company incurs storage costs

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Disclaimer and notes regarding the future outlook

AXXZIA

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AXXZIA

Creating things and experiences
that amaze people.

[Contact]

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