Translation

Notice: This document has been translated from the Japanese original for reference purposes. In the event of any discrepancy between this translated document and the Japanese original, the latter shall prevail.

Summary of Consolidated Financial Results for the First Two Quarters of the Fiscal Year Ending July 2023 (Based on Japanese GAAP)

March 13, 2023

Company name: AXXZIA Inc. Listing exchange: Tokyo Stock Exchange

Securities code: 4936 URL: https://axxzia.co.jp/en

Representative: Dan Taku, President and Representative Director

Inquiries: Yasuhito Fukui, Director in charge of Administration Division Phone: +81-3-6911-3899

Scheduled date for filing quarterly securities report: March 14, 2023

Scheduled date for commencing dividend payments: –

Preparation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial results briefing session: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen, unless otherwise noted)

1. Consolidated Financial Results for the First Two Quarters of the Fiscal Year Ending July 2023 (from August 1, 2022 to January 31, 2023)

(1) Consolidated Operating Results (Cumulative) (Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First two quarters ended January 31, 2023	5,118	30.1	923	13.4	867	3.9	572	5.4
First two quarters ended January 31, 2022	3,934	49.7	813	26.9	835	30.0	542	37.1

(Note) Comprehensive income
First two quarters ended January 31, 2023: 539 million yen [(6.0%)]
First two quarters ended January 31, 2022: 573 million yen [38.3%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
First two quarters ended January 31, 2023	22.16	22.05
First two quarters ended January 31, 2022	21.04	20.96

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of January 31, 2023	10,355	8,974	86.7
As of July 31, 2022	10,053	8,396	83.5

(Reference) Total shareholders' equity
As of January 31, 2023: 8,974 million yen As of July 31, 2022: 8,396 million yen

2. Cash Dividends

	Annual dividends per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended July 31, 2022	—	0.00	—	0.00	0.00
Fiscal year ending July 31, 2023	—	0.00			
Fiscal year ending July 31, 2023 (Forecast)			—	14.00	14.00

(Note) Revisions to the most recently announced dividend forecast: Yes

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending July 2023 (from August 1, 2022 to July 31, 2023)

(Percentage figures indicate year-on-year changes for full year and each quarter)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	10,351	26.0	1,818	11.3	1,797	2.9	1,172	5.0	45.43

(Note) Revisions to the most recently announced earnings forecast: No

* Notes

(1) Changes in significant subsidiaries during the first two quarters
(changes in specified subsidiaries resulting in change in scope of consolidation): No
Newly consolidated: None Excluded from consolidation: None

(2) Application of accounting method specific to preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

1) Changes in accounting policies due to revisions to accounting standards and other regulations:	Yes
2) Changes in accounting policies other than those in 1) above:	No
3) Changes in accounting estimates:	No
4) Restatement of prior period financial statements:	No

(4) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares)

As of January 31, 2023	25,851,000 shares	As of July 31, 2022	25,800,000 shares

2) Number of treasury shares at the end of the period

As of January 31, 2023	- shares	As of July 31, 2022	- shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year)

First two quarters ended January 31, 2023	25,821,592 shares	First two quarters ended January 31, 2022	25,800,000 shares

* This summary of quarterly financial results is not subject to quarterly review procedures by a certified public accountant or audit firm.

* Explanation regarding appropriate use of earnings forecasts, and other notes

(Notes on forward-looking statements)

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by the Company. Accordingly, such statements should not be construed as a guarantee of achieving the results by the Company. Actual business performance and other results may differ materially due to various factors.

In addition, for the conditions forming the assumptions used in forecasting earnings and precautions regarding the use of earnings forecasts, please refer to “1. Qualitative Information on the Financial Results for the Period under Review (3) Explanations on Consolidated Earnings Forecast and Other Forward-looking Statements” on page 3 of the Attachment.

Contents of Attachment

1. Qualitative Information on the Financial Results for the Period under Review 2
(1) Overview of Operating Results 2
(2) Financial Position 2
(3) Explanations on Consolidated Earnings Forecast and Other Forward-looking Statements 3
2. Quarterly Consolidated Financial Statements and Significant Notes Thereto 4
(1) Quarterly Consolidated Balance Sheets 4
(2) Quarterly Consolidated Statement of Income and Consolidated Statements of Comprehensive Income 6
Quarterly Consolidated Statement of Income 6
(Consolidated results for the first two quarters) 6
Quarterly Consolidated Statements of Comprehensive Income 7
(Consolidated results for the first two quarters) 7
(3) Quarterly Consolidated Cash Flows 8
(4) Notes to Quarterly Consolidated Financial Statements 9
(Notes on Going Concern Assumption) 9
(Changes in Accounting Policies) 9
(Additional Information) 9
(Segment Information, Etc.) 9
(Significant Subsequent Events) 9
3. Other 10

1. Qualitative Information on the Financial Results for the Period under Review

(1) Overview of Operating Results

During the first two quarters of the fiscal year ending July 2023 (August 1, 2022 to January 31, 2023), although the Japanese economy has been on a recovery trend from diminished economic activity, including a pickup in inbound demand and previously-restrained consumption related to going out while the impact of COVID-19 being in a decreasing trend, the situation still remains uncertain due to the impact of the situation in Ukraine, resource price trends and such.
In the domestic cosmetics market, signs of a recovery in consumption are beginning to gradually emerge as economic activity has been revitalized with the impact of COVID-19 beginning to subside and inbound demand is also recovering.
In the overseas cosmetics market, the outlook remains uncertain due to factors such as the future development of the situation in Ukraine and the impact of resource price trends.
In the Chinese market, the shift away from the zero-COVID policy led to a temporary explosion in the number of COVID-19 cases, but since the beginning of the year, the situation has been returning to normal and there are signs of a recovery in the flow of people.
Under such market conditions, the AXXZIA Group ("the Group") has invested in advertisement in mainland China, thereby further strengthening its sales capabilities while working to create next-generation growth products. In addition, the Group is developing products targeting the Chinese market that can achieve differentiation and is in the process of measures such as registering government approval for special cosmetics (a category defined by Chinese pharmaceutical regulations and, like Japan's quasi-drugs, positioned between medicine and cosmetics) enabling claims of effects and efficacy. Furthermore, in anticipation of a recovery in inbound demand in the domestic cosmetics market, the Group has been working on measures for the post-COVID era, including the opening of the Haneda Airport Garden store on January 31, 2023.
As a result, operating results for the first two quarters of the fiscal year ending July 2023 were as follows.

The Company posted net sales of 5,118,764 thousand yen (up 30.1% year-on-year) for the first two quarters ended January 31, 2023 due to strong performance of sales within China including cross-border EC. The Company posted operating income of 923,039 thousand yen (up 13.4%), ordinary income of 867,757 thousand yen (up 3.9%) and profit attributable to owners of parent of 572,116 thousand yen (up 5.4%).
Note that descriptions by segment are omitted, as the Group has a single operating segment engaged in the cosmetics business.

[Summary of Results]

	First two quarters of the fiscal year ended July 2022 Millions of yen	First two quarters of the fiscal year ending July 2023 Millions of yen	Year-on-year changes %
Net sales	3,934	5,118	+30.1
Operating income	813	923	+13.4
Ordinary income	835	867	+3.9
Profit attributable to owners of parent	542	572	+5.4

(2) Financial Position

(1) Assets, liabilities and net assets

(Assets)

Total assets at the end of the second quarter ended January 31, 2023 amounted to 10,355,390 thousand yen, an increase of 301,868 thousand yen (+3.0%) from the end of the previous fiscal year. Of this, current assets increased by 293,274 thousand yen (+3.3%) from the end of the previous fiscal year to 9,089,272 thousand yen and non-current assets increased by 8,593 thousand yen (+0.7%) from the end of the previous fiscal year to 1,266,118 thousand yen.
The increase in current assets was mainly attributable to factors such as cash and deposits increasing by 289,397 thousand yen and finished goods increasing by 83,690 thousand yen, while the increase in non-current assets was mainly attributable to intangible assets increasing by 1,894 thousand yen and investments and other assets increasing by 19,540 thousand yen, despite property, plant and equipment decreasing by 12,841 thousand yen.

(Liabilities)

Total liabilities at the end of the second quarter ended January 31, 2023 amounted to 1,380,499 thousand yen, a decrease of 276,936 thousand yen (-16.7%) from the end of the previous fiscal year. Of this, current liabilities decreased by 230,743 thousand yen (-18.6%) from the end of the previous fiscal year to 1,012,682 thousand yen and non-current liabilities decreased by 46,193 thousand yen (-11.2%) from the end of the previous fiscal year to 367,817 thousand yen.
The decrease in current liabilities was mainly attributable to factors such as repayment of short-term borrowings of 79,877 thousand yen and decrease in income taxes payable of 120,330 thousand yen.

(Net assets)

Total net assets at the end of the second quarter ended January 31, 2023 amounted to 8,974,890 thousand yen, an increase of 578,804 thousand yen (+6.9%) from the end of the previous fiscal year. This was mainly attributable to factors such as an increase in retained earnings resulting from recording of profit attributable to owners of parent, etc.
Consequently, the equity ratio came to 86.7% (in contrast to 83.5% at the end of the previous fiscal year).

(2) Cash flows

Cash and cash equivalents (“net cash”) at the end of the second quarter ended January 31, 2023 increased by 289,397 thousand yen from the end of the previous fiscal year to 6,679,088 thousand yen.

The status of cash flows in the period under review and their contributing factors.

(Cash flows from operating activities)

Net cash provided by operating activities during the first two quarters of the fiscal year ending July 2023 amounted to 554,754 thousand yen (in contrast with net cash provided amounting to 233,607 thousand yen during the same period previous year). This was mainly attributable to increases in cash from profit before income taxes of 867,757 thousand yen and an increase in trade payables of 17,170 thousand yen, while cash decreasing from trade receivables increasing by 48,340 thousand yen and income taxes paid of 416,540 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities during the first two quarters of the fiscal year ending July 2023 amounted to 63,881 thousand yen (in contrast with net cash used amounting to 42,968 thousand yen during the same period previous year). This was mainly attributable to factors such as purchase of property, plant and equipment of 26,071 thousand yen and purchase of intangible assets of 24,617 thousand yen.

(Cash flows from financing activities)

Net cash used in financing activities during the first two quarters of the fiscal year ending July 2023 amounted to 135,291 thousand yen (in contrast with net cash used amounting to 72,580 thousand yen during the same period previous year). This was mainly attributable to factors such as repayments of short-term borrowings of 79,877 thousand yen and repayments of long-term borrowings of 77,772 thousand yen.

(3) Explanations on Consolidated Earnings Forecast and Other Forward-looking Statements

With regard to the earnings forecast for the fiscal year ending July 31, 2023, no change has been made to the forecast for the entire fiscal year announced on September 14, 2022 in the Summary of Consolidated Financial Results for the Fiscal Year Ended July 2022.

Please note that the forecast has been prepared based on the information available as of today and certain assumptions deemed to be reasonable. Accordingly, actual business results may differ from the forecast figures due to various factors arising going forward.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (As of July 31, 2022)	Second quarter ended January 31, 2023 (As of January 31, 2023)
Assets		
Current assets		
Cash and deposits	6,389,690	6,679,088
Accounts receivable - trade	507,972	554,265
Finished goods	1,157,528	1,241,218
Work in process	10,745	10,352
Raw materials and supplies	418,177	330,086
Other	313,504	275,881
Allowance for doubtful accounts	(1,621)	(1,621)
Total current assets	8,795,997	9,089,272
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	163,797	181,996
Land	393,578	393,578
Other, net	214,291	183,251
Total property, plant and equipment	771,667	758,826
Intangible assets		
Goodwill	66,719	61,777
Other	142,428	149,265
Total intangible assets	209,148	211,042
Investments and other assets		
Deferred tax assets	116,187	124,877
Other	160,521	171,372
Total investments and other assets	276,709	296,249
Total non-current assets	1,257,525	1,266,118
Total assets	10,053,522	10,355,390

(Thousands of yen)

	Previous fiscal year (As of July 31, 2022)	Second quarter ended January 31, 2023 (As of January 31, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	128,141	144,463
Short-term borrowings	79,877	—
Current portion of long-term borrowings	155,544	155,544
Income taxes payable	376,743	256,413
Provision for bonuses	21,410	22,750
Other	481,708	433,511
Total current liabilities	1,243,425	1,012,682
Non-current liabilities		
Long-term borrowings	320,090	242,318
Deferred tax liabilities	20,812	33,387
Provision for Share-based Compensation	—	39,455
Other	73,108	52,656
Total non-current liabilities	414,010	367,817
Total liabilities	1,657,436	1,380,499
Net assets		
Shareholders' equity		
Share capital	2,109,875	2,129,765
Capital surplus	2,011,875	2,031,765
Retained earnings	4,142,769	4,714,886
Total shareholders' equity	8,264,519	8,876,416
Accumulated other comprehensive income		
Foreign currency translation adjustment	131,566	98,474
Total accumulated other comprehensive income	131,566	98,474
Total net assets	8,396,086	8,974,890
Total liabilities and net assets	10,053,522	10,355,390

(2) Quarterly Consolidated Statement of Income and Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statement of Income

(Consolidated results for the first two quarters)

(Thousands of yen)

	First two quarters ended January 31, 2022 (August 1, 2021 - January 31, 2022)	First two quarters ended January 31, 2023 (August 1, 2022 - January 31, 2023)
Net sales	3,934,303	5,118,764
Cost of sales	996,499	1,175,110
Gross profit	2,937,803	3,943,654
Selling, general and administrative expenses	2,123,903	3,020,614
Operating income	813,899	923,039
Non-operating income		
Interest and dividend income	566	1,681
Foreign exchange gains	19,751	—
Subsidy income	—	17,598
Other	1,809	1,688
Total non-operating income	22,127	20,968
Non-operating expenses		
Interest expenses	1,011	3,431
Foreign exchange losses	—	71,849
Other	2	970
Total non-operating expenses	1,013	76,250
Ordinary income	835,014	867,757
Profit before income taxes	835,014	867,757
Income taxes - current	279,759	291,792
Income taxes - deferred	12,545	3,849
Total income taxes	292,305	295,641
Profit	542,708	572,116
Profit attributable to owners of parent	542,708	572,116

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated results for the first two quarters)

(Thousands of yen)

	First two quarters ended January 31, 2022 (August 1, 2021 - January 31, 2022)	First two quarters ended January 31, 2023 (August 1, 2022 - January 31, 2023)
Profit	542,708	572,116
Other comprehensive income		
Deferred gains or losses on hedges	(3,978)	—
Foreign currency translation adjustment	34,855	(33,091)
Total other comprehensive income	30,876	(33,091)
Comprehensive income	573,585	539,024
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	573,585	539,024
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Cash Flows

(Thousands of yen)

	First two quarters ended January 31, 2022 (August 1, 2021 - January 31, 2022)	First two quarters ended January 31, 2023 (August 1, 2022 - January 31, 2023)
Cash flows from operating activities		
Profit before income taxes	835,014	867,757
Depreciation	30,907	61,447
Amortization of goodwill	—	4,942
Interest and dividend income	(566)	(1,681)
Interest expenses	1,011	3,431
Foreign exchange losses (gains)	(8,406)	46,173
Decrease (increase) in trade receivables	(19,182)	(48,340)
Decrease (increase) in inventories	(169,369)	(5,809)
Increase (decrease) in trade payables	36,434	17,170
Increase (decrease) in income taxes payable - factor based tax	(20,472)	(3,348)
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	(50,738)	23,383
Other, net	(11,165)	8,048
Subtotal	623,465	973,175
Interest and dividends received	566	1,681
Interest paid	(1,057)	(3,562)
Income taxes refund (paid)	(389,366)	(416,540)
Net cash provided by (used in) operating activities	233,607	554,754
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,700)	(26,071)
Purchase of intangible assets	(36,831)	(24,617)
Other, net	(436)	(13,192)
Net cash provided by (used in) investing activities	(42,968)	(63,881)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	(79,877)
Repayments of long-term borrowings	(69,772)	(77,772)
Proceeds from issuance of shares	—	39,780
Others, net	(2,808)	(17,422)
Net cash provided by (used in) financing activities	(72,580)	(135,291)
Effect of exchange rate change on cash and cash equivalents	29,453	(66,183)
Net increase (decrease) in cash and cash equivalents	147,510	289,397
Cash and cash equivalents at beginning of period	5,935,360	6,389,690
Cash and cash equivalents at end of period	6,082,870	6,679,088

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

Application of Implementation Guidance on Accounting Standard for Fair Value Measurement

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan [ASBJ] Guidance No. 31) from the beginning of the first quarter of the fiscal year ending July 2023, and decided to adopt the new accounting policies set forth by the said Implementation Guidance on Accounting Standard for Fair Value Measurement going forward in accordance with the transitional treatment stipulated in Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement.

Note that this change has not affected the quarterly consolidated financial statements.

(Additional Information)

(Impact of the COVID-19 Infections)

Although the Group predicts the impact of the COVID-19 Infections to continue over a certain period of time, accounting estimates are reflected in accounting based on currently available information in preparing consolidated financial statements. The future impact of COVID-19 remains uncertain and may affect our financial position and operating results in the future.

(Post-Delivery Type Performance-Linked Share-Based Compensation Program)

Pursuant to a resolution of the ordinary general meeting of shareholders held on October 24, 2022, the Company has introduced a post-delivery type performance-linked share-based compensation program (performance share units plan). This is to grant monetary compensation claims to the members of the Company's board of directors (excluding external directors) and employees in order to grant them the common shares of the Company in numbers in proportion to the level of achievement of predetermined performance targets, and the evaluation period is from August 2022 to July 2024.

The aim of this is to enhance our efforts to improve our medium-to-long-term corporate value and further share value with our shareholders.

The directors and employees subject to the program will, under the condition that they continuously serve as the Company's directors or employees over a certain period of time, be granted with monetary compensation claims for being granted with the Company's common shares according to the achievement ratio, etc. of numerical targets for such as performance for the evaluation period. The directors and employees will be granted with the Company's common shares by paying the entire amount of the concerned monetary compensation claims in kind. The standard number of shares to be granted is 123,389 shares and the final number of shares to be granted will be calculated by multiplying the level of achievement of performance target, etc. which will be calculated within the range of 0 – 200% according to the achievement ratio, etc. of numerical targets for such as performance for the concerned performance evaluation period. Accordingly, 39,455 thousand yen was recorded as provision for share-based payments in the first two quarters of the fiscal year ending July 2023.

For reference, this is not included in the calculation of diluted earnings per share due to the uncertainty of whether the conditions will be fulfilled.

(Segment Information, Etc.)

[Segment information]

I. First two quarters of the fiscal year ended July 2022 (August 1, 2021 - January 31, 2022)

The information is omitted as the Company has a single operating segment engaged in the cosmetics business.

II. First two quarters of the fiscal year ending July 2023 (August 1, 2022 - January 31, 2023)

The information is omitted as the Company has a single operating segment engaged in the cosmetics business.

(Significant Subsequent Events)

Not applicable.

3. Other

The Company had been listed on the Growth Market of the Tokyo Stock Exchange, but its application to the Tokyo Stock Exchange to change its listing classification to the Prime Market was approved on January 30, 2023. Accordingly, since February 17, 2023, the name of the financial instrument exchange where the Company's shares are listed has been the Tokyo Stock Exchange Prime Market.