Translation

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

June 12, 2023

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

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

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Scheduled date for filing quarterly securities report: June 13, 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 Three Quarters of the Fiscal Year Ending July 2023 (from August 1, 2022 to April 30, 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 three quarters ended April 30, 2023	7,892	40.2	1,340	22.2	1,290	9.6	842	12.6
First three quarters ended April 30, 2022	5,630	38.8	1,097	10.7	1,177	19.7	747	20.4

(Note) Comprehensive income
First three quarters ended April 30, 2023: 811 million yen [(2.0%)]
First three quarters ended April 30, 2022: 827 million yen [26.2%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
First three quarters ended April 30, 2023	32.60	32.46
First three quarters ended April 30, 2022	28.99	28.89

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of April 30, 2023	10,920	9,150	83.8
As of July 31, 2022	10,053	8,396	83.5

(Reference) Total shareholders' equity
As of April 30, 2023: 9,150 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: No

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 April 30, 2023	25,885,000 shares	As of July 31, 2022	25,800,000 shares

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

As of April 30, 2023	108,300 shares	As of July 31, 2022	- shares

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

First three quarters ended April 30, 2023	25,833,435 shares	First three quarters ended April 30, 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.

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

(1) Overview of Operating Results

During the first three quarters of the fiscal year ending July 2023 (August 1, 2022, to April 30, 2023), the Japanese economy has shown a trend towards recovery. The adverse impacts of COVID-19 are lessening, and amidst the policy changes being made to coexist with the virus, we saw a resurgence in economic activities such as the rebound of inbound demand and an increase in spending related to outdoor activities, which were previously suppressed. Nonetheless, the ongoing circumstances in Ukraine and the unpredictable fluctuations in resource prices still contribute to a persisting state of uncertainty.

In the domestic cosmetics market, as the effects of COVID-19 start to recede, we are beginning to witness early signs of revival in consumption. This recovery is due to the relaxation of compulsory mask-wearing regulations and revitalization of economic activities, alongside a gradual rebound in inbound demand.

In the overseas cosmetics market, we are witnessing a modest recovery. However, the future remains clouded with uncertainty due to variables such as evolving developments in Ukraine, implications of stricter monetary policies, and the volatility of resource prices.

In the Chinese market, the rapid surge in COVID-19 cases triggered by the shift from a zero-COVID strategy is subsiding, and there are signs of recovery in human flow and consumption.

Under such market conditions, the AXXZIA Group ("the Group") has taken proactive steps to bolster our sales performance and foster the development of next-generation growth products by investing in advertising within mainland China. The Group is also tailoring product development to meet the needs of the Chinese market, with a focus on creating differentiated products. We are pushing forward with gaining government approval for "special cosmetics" (a category defined by Chinese pharmaceutical regulations and, like Japan's quasi-drugs, positioned between medicine and cosmetics), which can substantiate their claimed effects and benefits. In our R&D efforts, we established a strategic business alliance with Intertrade Healthcare Co., Ltd. on March 13, 2023. Our R&D center and Intertrade are jointly investigating the effectiveness of IT Hanabiratake as a cosmetic ingredient and driving forward the creation of new cosmetic formulas. Looking ahead at the rebound in demand from international visitors in the domestic cosmetics market, we have implemented post-COVID-19 strategies, including the inauguration of the Haneda Airport Garden Store on January 31, 2023 and the Daimaru Shinsaibashi Store on March 1, 2023.

As a result, operating results for the first three quarters of the fiscal year ending July 2023 were as follows:

Net sales for the first three quarters reached 7,892,291 thousand yen (up 40.2% year on year) due to the robust performance of sales within China, including cross-border e-commerce. Operating income was 1,340,757 thousand yen (up 22.2%), ordinary income amounted to 1,290,389 thousand yen (up 9.6%), and profit attributable to owners of parent came to 842,152 thousand yen (up 12.6%).

Note that descriptions by segment are omitted, as the Group has a single operating segment engaged in the cosmetics business.

[Summary of Results]

	First three quarters of the fiscal year ended July 2022 Millions of yen	First three quarters of the fiscal year ending July 2023 Millions of yen	Year-on-year changes %
Net sales	5,630	7,892	+40.2
Operating income	1,097	1,340	+22.2
Ordinary income	1,177	1,290	+9.6
Profit attributable to owners of parent	747	842	+12.6

(2) Financial Position

(Assets)

Total assets at the end of the third quarter ended April 30, 2023 amounted to 10,920,982 thousand yen, an increase of 867,460 thousand yen (+8.6%) from the end of the previous fiscal year. Of this, current assets increased by 826,407 thousand yen (+9.3%) from the end of the previous fiscal year to 9,622,405 thousand yen. The increase in current assets was mainly attributable to increases in accounts receivable - trade of 609,390 thousand yen and finished goods of 295,601 thousand yen. Non-current assets increased by 41,052 thousand yen from the end of the previous fiscal year to 1,298,577 thousand yen (+3.3%). The increase was primarily due to an increase of 71,899 thousand yen in investments and other assets, despite decreases of 21,624 thousand yen in property, plant and equipment and 9,222 thousand yen in intangible assets.

(Liabilities)

Total liabilities at the end of the third quarter ended April 30, 2023 amounted to 1,770,423 thousand yen, a increase of 112,987 thousand yen (+6.8%) from the end of the previous fiscal year. Of this, current liabilities increased by 182,355 thousand yen (+14.7%) from the end of the previous fiscal year to 1,425,781 thousand yen. The increase in current liabilities was chiefly due to increases in accounts payable - trade of 202,263 thousand yen. Non-current liabilities decreased by 69,367 thousand yen from the end of the previous fiscal year to 344,642 thousand yen (-16.8%). The main factor for this decrease was a reduction in long-term borrowings of 116,658 thousand yen.

(Net assets)

Total net assets at the end of the third quarter ended April 30, 2023 amounted to 9,150,558 thousand yen, an increase of 754,472 thousand yen (+9.0%) 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 83.8% (in contrast to 83.5% at the end of the previous fiscal year).

(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)	Third quarter ended April 30, 2023 (As of April 30, 2023)
Assets		
Current assets		
Cash and deposits	6,389,690	5,471,421
Accounts receivable - trade	507,972	1,117,363
Finished goods	1,157,528	1,453,129
Work in process	10,745	10,453
Raw materials and supplies	418,177	297,567
Other	313,504	1,274,089
Allowance for doubtful accounts	(1,621)	(1,621)
Total current assets	8,795,997	9,622,405
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	163,797	162,854
Land	393,578	393,578
Other, net	214,291	193,610
Total property, plant and equipment	771,667	750,043
Intangible assets		
Goodwill	66,719	59,306
Other	142,428	140,619
Total intangible assets	209,148	199,925
Investments and other assets		
Deferred tax assets	116,187	180,943
Other	160,521	167,665
Total investments and other assets	276,709	348,608
Total non-current assets	1,257,525	1,298,577
Total assets	10,053,522	10,920,982

(Thousands of yen)

	Previous fiscal year (As of July 31, 2022)	Third quarter ended April 30, 2023 (As of April 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	128,141	330,404
Short-term borrowings	79,877	—
Current portion of long-term borrowings	155,544	155,544
Income taxes payable	376,743	126,881
Provision for bonuses	21,410	58,545
Other	481,708	754,406
Total current liabilities	1,243,425	1,425,781
Non-current liabilities		
Long-term borrowings	320,090	203,432
Deferred tax liabilities	20,812	47,628
Provision for Share-based Compensation	—	48,552
Other	73,108	45,028
Total non-current liabilities	414,010	344,642
Total liabilities	1,657,436	1,770,423
Net assets		
Shareholders' equity		
Share capital	2,109,875	2,143,025
Capital surplus	2,011,875	2,045,025
Retained earnings	4,142,769	4,984,922
Treasury shares	—	(122,897)
Total shareholders' equity	8,264,519	9,050,074
Accumulated other comprehensive income		
Foreign currency translation adjustment	131,566	100,484
Total accumulated other comprehensive income	131,566	100,484
Total net assets	8,396,086	9,150,558
Total liabilities and net assets	10,053,522	10,920,982

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

Quarterly Consolidated Statement of Income

(Consolidated results for the first three quarters)

(Thousands of yen)

	First three quarters ended April 30, 2022 (August 1, 2021 - April 30, 2022)	First three quarters ended April 30, 2023 (August 1, 2022 - April 30, 2023)
Net sales	5,630,241	7,892,291
Cost of sales	1,418,759	1,761,976
Gross profit	4,211,481	6,130,315
Selling, general and administrative expenses	3,114,423	4,789,557
Operating income	1,097,058	1,340,757
Non-operating income		
Interest and dividend income	830	3,228
Foreign exchange gains	80,136	—
Subsidy income	—	17,465
Other	2,164	3,193
Total non-operating income	83,131	23,887
Non-operating expenses		
Interest expenses	2,421	4,809
Foreign exchange losses	—	48,771
Share issuance costs	—	18,946
Other	9	1,728
Total non-operating expenses	2,430	74,256
Ordinary income	1,177,759	1,290,389
Profit before income taxes	1,177,759	1,290,389
Income taxes - current	473,749	487,346
Income taxes - deferred	(43,831)	(39,109)
Total income taxes	429,917	448,236
Profit	747,842	842,152
Profit attributable to owners of parent	747,842	842,152

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

(Thousands of yen)

	First three quarters ended April 30, 2022 (August 1, 2021 - April 30, 2022)	First three quarters ended April 30, 2023 (August 1, 2022 - April 30, 2023)
Profit	747,842	842,152
Other comprehensive income		
Foreign currency translation adjustment	83,993	(31,081)
Deferred gains or losses on hedges	(4,594)	—
Total other comprehensive income	79,398	(31,081)
Comprehensive income	827,240	811,070
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	827,240	811,070
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

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)

(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 122,573 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, 48,552 thousand yen was recorded as provision for share-based payments in the first three 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.

(Acquisition of Treasury Shares)

The Company resolved at the Board of Directors meeting held on April 17, 2023, based on the provisions of Article 459, Paragraph 1 of the Companies Act and Article 45 of the Company's Articles of Incorporation, matters concerning the acquisition of treasury shares. The acquisition status is as follows.

Status of acquisition of treasury shares (as of May 31, 2023)

(1) Type of shares acquired:	Common shares of the Company
(2) Total number of shares acquired:	595,700 shares
(3) Total amount of acquisition price:	705,309,800 yen
(4) Acquisition period:	April 18, 2023 to May 31, 2023 (on a settlement date basis)
(5) Method of acquisition:	Market purchase on the Tokyo Stock Exchange

(Reference) Resolution at the Board of Directors meeting held on April 17, 2023

(1) Type of shares to be acquired:	Common shares of the Company
(2) Total number of shares to be acquired:	Up to 750,000 shares (Ratio to total number of issued shares (excluding treasury shares): 2.90%)
(3) Total amount of acquisition price of shares:	Up to 1,100,000,000 yen
(4) Acquisition period:	April 18, 2023 to June 30, 2023
(5) Method of acquisition of shares:	Market purchase on the Tokyo Stock Exchange

(Segment Information, Etc.)

[Segment information]

I. First three quarters of the fiscal year ended July 2022 (August 1, 2021 - April 30, 2022)

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

II. First three quarters of the fiscal year ending July 2023 (August 1, 2022 - April 30, 2023)

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

(Significant Subsequent Events)

Not applicable.