

Translation

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Summary of Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending July 2024 (Based on Japanese GAAP)

June 14, 2024

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 Scheduled date for filing quarterly securities report: June 14, 2024
 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 2024 (from August 1, 2023 to April 30, 2024)

(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, 2024	9,113	15.5	953	(28.8)	1,155	(10.5)	811	(3.7)
First three quarters ended April 30, 2023	7,892	40.2	1,340	22.2	1,290	9.6	842	12.6

(Note) Comprehensive income

First three quarters ended April 30, 2024: 936 million yen [15.4%]
 First three quarters ended April 30, 2023: 811 million yen [(2.0%)]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
First three quarters ended April 30, 2024	32.59	32.53
First three quarters ended April 30, 2023	32.60	32.46

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of April 30, 2024	11,094	8,607	77.5
As of July 31, 2023	10,701	8,901	83.2

(Reference) Total shareholders' equity

As of April 30, 2024: 8,602 million yen As of July 31, 2023: 8,901 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, 2023	—	0.00	—	14.00	14.00
Fiscal year ending July 31, 2024	—	10.00	—	—	—
Fiscal year ending July 31, 2024 (Forecast)	—	—	—	10.00	20.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending July 2024 (from August 1, 2023 to July 31, 2024)

(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	12,200	7.6	830	(56.3)	1,040	(45.3)	700	(47.4)	28.10

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

* 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: No

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, 2024	25,167,000 shares	As of July 31, 2023	25,896,000 shares
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2) Number of treasury shares at the end of the period

As of April 30, 2024	750,000 shares	As of July 31, 2023	750,000 shares
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3) Average number of shares during the period (cumulative from the beginning of the fiscal year)

First three quarters ended April 30, 2024	24,896,876 shares	First three quarters ended April 30, 2023	25,833,435 shares
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* 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 2024 (August 1, 2023 to April 30, 2024), the Japanese economy has shown a trend toward gradual recovery, backed by the normalization of economic activities, improvement in the employment and income environment, and an increase in inbound consumption. On the other hand, conditions remain uncertain due to factors such as the situation surrounding the Middle East region, foreign exchange trends, and price hikes.

In the domestic cosmetics market, consumption is recovering against the backdrop of a moderate economic recovery, and inbound demand is also recovering thanks to a weaker yen.

In the Chinese market, although the move to refrain from purchasing Japanese products following the release of ALPS treated water into the ocean is coming to an end, economic recovery has stalled, and the market environment remains challenging.

In this market environment, the AXXZIA Group (“the Group”) has bolstered its advertising investments in mainland China to strengthen its sales capabilities. Additionally, the Group has been endeavoring to intensify its expansion into regions outside of China. Within China, the Group has been striving to further raise awareness and sales by appointing brand ambassadors and conducting live sales on Douyin to commemorate the first anniversary of the launch of its mainstay product, AGDrink X. In response to projected increases in inbound tourism demand, the Group launched pop-up stores in major cities across Japan, including Shibuya, Umeda, Sapporo, and Shinjuku. We also opened a new directly managed store in the Shinjuku Keio Department Store complex. Additionally, to raise awareness in Japan, we aired large-screen advertisements for AGDrink X at Shibuya Station. In other regions, we have worked to expand our global business by participating in exhibitions in Dubai and Hong Kong, and by conducting live sales and events targeting the Singapore market.

As a result, operating results for the first three quarters of the fiscal year ending July 2024 were as follows:

For the first three quarters ended April 30, 2024, the Company posted net sales of 9,113,821 thousand yen (up 15.5% year-on-year). Sales gradually recovered from the impact of Chinese consumers refraining from purchasing Japanese cosmetics following the release of treated water into the ocean. Additionally, various measures, such as live sales events for the inner care product AGDrink, proved successful. On the other hand, operating income came to 953,986 thousand yen (down 28.8% year-on-year) and ordinary income was 1,155,443 thousand yen (down 10.5% year-on-year) reflecting an increase in advertising expenses and commissions paid to the key opinion leaders (KOL) featured in various measures.

As a result of the above, profit attributable to owners of parent company amounted to 811,376 thousand yen (down 3.7% year-on-year).

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 2023	First three quarters of the fiscal year ending July 2024	Year-on-year changes
	Millions of yen	Millions of yen	%
Net sales	7,892	9,113	+15.5
Operating income	1,340	953	-28.8
Ordinary income	1,290	1,155	-10.5
Profit attributable to owners of parent	842	811	-3.7

(2) Financial Position

(Assets)

Total assets at the end of the third quarter ended April 30, 2024 amounted to 11,094,689 thousand yen, an increase of 393,326 thousand yen (+3.7%) from the end of the previous fiscal year. Of this, current assets decreased by 16,034 thousand yen (-0.2%) from the end of the previous fiscal year to 9,134,947 thousand yen. The decrease in current assets was mainly attributable to decreases in cash and deposits of 1,769,472 thousand yen, increases in accounts receivable - trade of 754,814 thousand yen, merchandise and finished goods of 296,014 thousand yen and other of 781,541 thousand yen. Non-current assets increased by 409,361 thousand yen from the end of the previous fiscal year to 1,959,741 thousand yen (+26.4%). The increase was primarily due to an increase of 269,146 thousand yen in property, plant and equipment, 82,723 thousand yen in intangible assets and 57,490 thousand yen in investments and other assets.

(Liabilities)

Total liabilities at the end of the third quarter ended April 30, 2024 amounted to 2,487,124 thousand yen, a increase of 687,361 thousand yen (+38.2%) from the end of the previous fiscal year. Of this, current liabilities increased by 835,358 thousand yen (+61.3%) from the end of the previous fiscal year to 2,198,604 thousand yen. The increase in current liabilities was chiefly due to increases in short-term borrowings of 530,000 thousand yen and accounts payable - other of 425,621 thousand yen. Non-current liabilities decreased by 147,996 thousand yen from the end of the previous fiscal year to 288,520 thousand yen (-33.9%). The main factor for this decrease was a reduction in long-term borrowings of 86,355 thousand yen.

(Net assets)

Total net assets at the end of the third quarter ended April 30, 2024 amounted to 8,607,564 thousand yen, a decrease of 294,034 thousand yen (-3.3%) from the end of the previous fiscal year. This was mainly attributable to factors such as a decrease in retained earnings resulting from the payment of 599,817 thousand yen in dividends. Consequently, the equity ratio came to 77.5% (in contrast to 83.2% 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, 2024, we have revised the forecast based on currently available information and projections, taking into consideration market trends in the Chinese market, which is the Group's main market, as well as the progress of our business performance in the first three quarters of the current consolidated fiscal year. For details, please refer to the "Notice of Revision of Full-Year Earnings Forecasts" released today (June 14, 2024).

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, 2023)	Third quarter ended April 30, 2024 (As of April 30, 2024)
Assets		
Current assets		
Cash and deposits	5,787,967	4,018,494
Accounts receivable - trade	1,081,314	1,836,128
Merchandise and finished goods	1,616,600	1,912,614
Work in process	11,464	9,109
Raw materials and supplies	268,682	192,791
Other	386,336	1,167,878
Allowance for doubtful accounts	(1,383)	(2,069)
Total current assets	9,150,982	9,134,947
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	166,047	700,034
Land	393,578	385,132
Other, net	491,184	234,789
Total property, plant and equipment	1,050,810	1,319,957
Intangible assets		
Goodwill	56,011	140,288
Other	133,911	132,358
Total intangible assets	189,922	272,646
Investments and other assets		
Deferred tax assets	145,670	128,418
Other	163,976	238,719
Total investments and other assets	309,647	367,137
Total non-current assets	1,550,380	1,959,741
Total assets	10,701,362	11,094,689

	(Thousands of yen)	
	Previous fiscal year (As of July 31, 2023)	Third quarter ended April 30, 2024 (As of April 30, 2024)
Liabilities		
Current liabilities		
Accounts payable - trade	219,764	185,011
Short-term borrowings	—	530,000
Current portion of long-term borrowings	239,080	265,816
Accounts payable - other	441,579	867,200
Income taxes payable	237,875	65,050
Provision for bonuses	34,945	71,208
Provision for shareholder benefit program	634	—
Other	189,366	214,316
Total current liabilities	1,363,246	2,198,604
Non-current liabilities		
Long-term borrowings	331,010	244,655
Deferred tax liabilities	1,954	1,864
Provision for Share-based Compensation	68,967	—
Other	34,585	42,000
Total non-current liabilities	436,517	288,520
Total liabilities	1,799,763	2,487,124
Net assets		
Shareholders' equity		
Share capital	2,147,315	2,155,505
Capital surplus	2,049,315	2,057,304
Retained earnings	5,473,634	4,794,116
Treasury shares	(891,265)	(655,867)
Total shareholders' equity	8,778,998	8,351,059
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	—	624
Foreign currency translation adjustment	122,600	250,483
Total accumulated other comprehensive income	122,600	251,107
Non-controlling interests	—	5,397
Total net assets	8,901,599	8,607,564
Total liabilities and net assets	10,701,362	11,094,689

(2) Quarterly Consolidated Statement of Income and Consolidated Statements of Comprehensive IncomeQuarterly Consolidated Statement of Income
(Consolidated results for the first three quarters)

(Thousands of yen)

	First three quarters ended April 30, 2023 (August 1, 2022 - April 30, 2023)	First three quarters ended April 30, 2024 (August 1, 2023 - April 30, 2024)
Net sales	7,892,291	9,113,821
Cost of sales	1,761,976	1,734,242
Gross profit	6,130,315	7,379,578
Selling, general and administrative expenses	4,789,557	6,425,592
Operating income	1,340,757	953,986
Non-operating income		
Interest and dividend income	3,228	39,661
Foreign exchange gains	—	145,530
Subsidy income	17,465	24,477
Other	3,193	2,668
Total non-operating income	23,887	212,336
Non-operating expenses		
Interest expenses	4,809	4,384
Share of loss of entities accounted for using equity method	—	1,076
Commission for purchase of treasury shares	699	4,431
Foreign exchange losses	48,771	—
Share issuance costs	18,946	—
Other	1,028	986
Total non-operating expenses	74,256	10,879
Ordinary income	1,290,389	1,155,443
Extraordinary income		
Gain on sale of non-current assets	—	14,280
Total extraordinary income	—	14,280
Profit before income taxes	1,290,389	1,169,723
Income taxes - current	487,346	346,470
Income taxes - deferred	(39,109)	15,679
Total income taxes	448,236	362,149
Profit	842,152	807,573
Loss attributable to non-controlling interests	—	(3,803)
Profit attributable to owners of parent	842,152	811,376

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

(Thousands of yen)

	First three quarters ended April 30, 2023 (August 1, 2022 - April 30, 2023)	First three quarters ended April 30, 2024 (August 1, 2023 - April 30, 2024)
Profit	842,152	807,573
Other comprehensive income		
Valuation difference on available-for-sale securities	—	624
Foreign currency translation adjustment	(31,081)	127,882
Total other comprehensive income	(31,081)	128,506
Comprehensive income	811,070	936,080
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	811,070	939,883
Comprehensive income attributable to non-controlling interests	—	(3,803)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Pursuant to a resolution approved at the Board of Directors meeting held on December 15, 2023, the Company retired 750,000 treasury shares on December 25, 2023, and repurchased 750,000 shares during the period from December 18, 2023, to March 6, 2024. As a result of the retirement and repurchase, retained earnings decreased by 891,265 thousand yen and treasury shares decreased by 235,398 thousand yen, respectively.

As a result, retained earnings amounted to 4,794,116 thousand yen and treasury shares amounted to 655,867 thousand yen at the end of the third quarter of the current fiscal year.

(Changes in Presentation)

(Consolidated Statement of Income)

Starting from the first three quarters of the current fiscal year, the commission of purchase for treasury shares, previously included under "other" in "non-operating expenses," is now listed separately, as its amount exceeded 20% of non-operating expenses. To reflect this change, we have reclassified the quarterly consolidated financial statements for the first three quarters of the previous fiscal year.

As a result, 1,728 thousand yen previously presented under "other" in "non-operating expenses" in the consolidated statement of income for the first three quarters of the previous fiscal year has been reclassified as 699 thousand yen for "commission of purchase for treasury shares" and 1,028 thousand yen for "other."

(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 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.

Due to a review of performance achievement ratio, etc. during the evaluation period, -68,967 thousand yen was recorded as share-based payment expenses in the first three quarters of the fiscal year ending July 2024.

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 three quarters of the fiscal year ended 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.

II. First three quarters of the fiscal year ending July 2024 (August 1, 2023 - April 30, 2024)

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

(Significant Subsequent Events)

(Business Combinations through Acquisition)

1. Outline of business combination

(1) Name of company to be acquired and its business description

Name of acquired company: M&D Co., Ltd.

Business: Retail and wholesale trade of cosmetics, etc.

(2) Major reasons for the business combination

This business combination will provide the Group with a foundation for e-commerce sales in Japan, thereby supporting the Group's efforts to expand the consolidated sales it generates domestically while bringing its business portfolio, of which operations in China comprise approximately 90%, closer in line with its strategic direction (reducing business risks and improving the Group's sales portfolio).

(3) Date of business combination

February 1, 2024

(4) Legal form of business combination

Acquisition of shares

- (5) Name of the company to be acquired following the business combination
No change
- (6) Percentage of voting rights to be acquired
100%
- (7) Bases for choosing the company to be acquired
This is because the Company acquired shares in exchange for cash.
2. Period of the acquired company's performance included in the quarterly consolidated statement of income for the cumulative quarter
from February 1, 2024 to February 29, 2024
3. Acquisition cost of company to be acquired and breakdown by type of consideration
- | Compensation of the acquisition | Cash | 10,000 thousand yen |
|---------------------------------|------|---------------------|
| Acquisition cost | | 10,000 thousand yen |
4. Amount, reason, amortization method, and amortization period of goodwill projected to result from the acquisition
- (1) Amount of goodwill recognized
93,244 thousand yen
Note that the amount specified above is tentatively calculated.
- (2) Reason for recognizing goodwill
This was mainly due to the excess profitability expected from future business development.
- (3) Amortization method and period
The Company intends to amortize the excess earnings power in the future in equal amounts over the period in which the excess earnings power is expected to be generated. The amortization period is currently being calculated as of the end of the third quarter of the current fiscal year.

(Significant Subsequent Events)

Not applicable.