

FY2024 2Q Results Briefing Q&A



Premier Anti-Aging Co., Ltd.
March 19, 2024

**Summary of Financial Results Briefing Q&A
for the First Six Months of the Fiscal Year Ending July 31, 2024
(held on March 14, 2024)**

[Notes]

The "Summary of Financial Results Briefing Q&A" is not a verbatim transcription of the questions and answers that took place at the briefing but has been summarized concisely at our discretion for those who were unable to attend.

1. The sales forecast for the full year is 20 billion yen, which means that the sales forecast for the second half is 9.35 billion yen. What do you think of the sales forecast for the third and fourth quarters? Can you achieve the full-year forecast?

As new acquisitions in the mail order business were lower than planned in the first half, sales from subscription mail order customers are expected to decline in the second half. Although the conversion rate is improving due to CRM measures for subscription mail order customers, the effects of the measures have not yet been fully realized. Since the trend of high CPO is also expected to continue, new acquisitions will remain at a low level, and sales are expected to be weak. Although there are risk factors such as a further rise in CPOs, deterioration in new acquisitions, and a decline in conversion rates, we will strive to achieve our full-year sales forecast of 20 billion yen.

2. You mentioned that you are preparing to build a new business scheme, but what is it like?

We view that the D2C business, including that of other companies, is reaching a plateau. The number of new entrants is increasing, the conversion rate is on the decline for the industry as a whole, and traditional methods are no longer applicable. We have two major sales channels, mail order and retail, and we are considering several new business models that take advantage of these resources. We will develop products and brands that match new methods and expand our business. We will provide further details as soon as they are ready.

3. The recovery business is performing well. In particular, in the second quarter alone, you achieved a high operating profit margin of 24%, but will the high growth in sales and profits continue going forward?

Sales of the recovery business for the first six months of this fiscal year increased to 899 million yen, exceeding the plan, and we would like to steadily grow sales at this pace. On the other hand, the recovery wear market continues to grow, and we believe that a certain amount of advertising investment is necessary to expand our market share in this growing market. Therefore, although sales growth will continue going forward, profit margins are expected to decline somewhat.

4. How long do you think CPO will remain high due to intensifying competition in the advertising market?

In addition to intensifying competition, CPOs continue to remain high due to factors such as stricter regulations. There is a possibility that CPO will decline due to the withdrawal of competitors, but unlike the past CPO trends, the current market is saturated, and we believe that the soaring CPO will not be resolved unless we take new action. To that end, we believe it is important to build a new business scheme.

5. While sales are expected to be lower in the second half than in the first half, the loss is expected to widen as advertising investments are essential for sales growth. Do you have any thoughts on selecting and concentrating your advertising investments in this difficult situation?

We strongly recognize that the selection and concentration of advertising investments is an urgent issue for our company. We have changed the way we do TV commercials, but we will continue to improve efficiency and select and concentrate our advertising investments, products and brands.

6. What system development did you discontinue this time? Is this different from the system for improving the cost structure that was set forth in the medium-term management plan?

The development of the system that was discontinued is necessary for business sales growth and is different from the measures in the medium-term management plan. Development was proceeding with the premise of rapid business growth, including sales of 100 billion yen, many brands and SKUs, overseas expansion, and the aim of improving customer convenience, etc. However, since the timing of the system development decision and the current management and business environment as well as sales situation are quite different, we decided that the priority is to utilize management resources to rebuild the existing business rather than continue system investment.

7. Why is the number of new acquisitions lower than planned? When do you think the decline in DUO sales will stop?

We believe that the decline in new acquisitions is due to the fact that Duo's awareness rate is over 80% and we have already acquired certain amount of new customer base. Although the cancellation rate has not increased, DUO has the highest number of active users, so a certain amount of cancellation is inevitable and is to be expected. However, we believe that there are still many CRM measures that can be taken to further reduce the cancellation rate and increase LTV. Previously, we have been selling products at half price for the first purchase by appealing the price. However, the brand image is gradually changing on the direction we want to pursue as we have shifted to promoting value through commercials featuring Yuko Araki and SNS featuring beauty experts and influencers such as MEGUMI, who have been using DUO for a long time. We will continue to further strengthen these appealing value promotions in the future. Introducing new products and rebranding may also be considered options to reverse sales. We will never give up on reversing DUO's sales.

8. There are signs of change in the retail industry, such as the consolidation of drug stores, but how do you see the impact on the company?

The drugstore industry is undergoing restructuring, and in the future it is expected that the drugstore industry will converge into three or four groups, and their sales power will further increase. We understand that some manufacturers are already considering private labeling, considering how they can collaborate with these drugstores. Although we may not go that far, we are considering ways to collaborate in various stages such as product development so that we can achieve a win-win situation and respond to the changing industry.

9. Raw materials and supplies, shipping and logistics costs are rising, but what is the impact on the company? Is it possible to pass on cost increases to prices?

Although raw material and logistics costs are rising, we think that there is room to control costs and variable costs. Our three main brands DUO in particular is in a different price range from the competition. Therefore, it is necessary to consider pricing strategies while looking at the price gap with the competition at present, how competitors are moving, and industry-wise trends beyond competition, etc.

10. Sales of DUO and CANADEL continue to decline, but how will they recover?

Sales of DUO are decreasing partly due to the backlash from the rapid growth of Black Balm. We aimed to increase sales by increasing the number of items other than balm, but it

did not lead to cross-selling effectively. However, DUO still maintains its position as the number one seller of cleansing products, and we aim to expand sales again by introducing new products.

CANADEL has grown to 6th place in the all-in-one cosmetics category but remains at a standstill. Regarding CANADEL, in light of changes in the environment such as post-corona lifestyles and climate change, we have pre-released new products, cleansing water and gelee lotion, from March 1st, and will launch them from the 18th at drugstores and variety stores, etc. nationwide. By introducing these new product lineups, we would like to create a new style for CANADEL and grow it further.

In addition to these, we are currently putting effort into developing Venex, SINTO, and other brands, and we would like to increase sales overall.

11. Can you tell us about the timing of new product launches, number of products, scale, etc.?

We are developing new products and preparing a counterattack. I think we will be able to talk about them in the fall.

Disclaimer Regarding Forecasts and Projections

- ✓ The document and information provided as part of our results announcement include forward-looking statements, which reflect our current expectations and assumptions about forecasts and risks. Our actual results may materially differ from those described in the forecast due to unknown risks and uncertainties.
- ✓ These risks and uncertainties include domestic and international economic conditions such as general industry and market conditions, interest, and currency exchange rate fluctuations.
- ✓ Cosmetics mail order/EC market trends may prove to be a major risk factor that impacts our growth and execution of business plans, but through active promotions and application of our understanding of customers' potential needs to product planning, we will do our utmost to mitigate such risks and hone our competitive edge. For other types of risks, please refer to the "Business Risks, etc." as highlighted in our Securities Report.

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