

# Pharma Foods International Co., Ltd.

2929

Tokyo Stock Exchange First Section

15-Nov.-2021

FISCO Ltd. Analyst

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FISCO Ltd.

<https://www.fisco.co.jp>

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## Summary

### A biotechnology company aiming to create pharma foods by fusing pharmaceuticals and foods

Pharma Foods International Co., Ltd. <2929> (hereafter, also “the Company”) is a biotechnology company whose basic policy is to conduct business that contributes to people’s health by aiming to create pharma foods through fusing pharmaceuticals and foods. By focusing on raw ingredients derived from nature and providing proprietary technologies and products that are based on scientific evidence, it is creating food ingredients that clearly function to improve both health maintenance and QOL (Quality of Life).

#### 1. Company profile

Based on its Bio Business Triangle concept and biotechnologies, the Company conducts three businesses: the Bio Seeds, the Bio Value, and the Bio Medical businesses. The Bio Seeds business is building an earnings foundation and expanding its business scope, the Bio Value business is working to expand the business foundation based on the Bio Seeds business’s technological seeds, and the Bio Medical business is progressing based on these technologies and earnings.

PharmaGABA®, which is the main product in the Bio Seeds business, holds the top share of GABA production. In the number of GABA notifications in the foods with functional claims system at the end of June 2021, it ranked highest with 503 notifications and is maintaining a track record of adoptions. This is leading to an increase in orders for the Company’s PharmaGABA®, which holds the top share of the growing adoptions of GABA by food manufacturers. In the Bio Value business, Newmo® Hair Growth Formula, a hair growth and restorer formula, has become a hit product and it is contributing significantly to results as a whole. The Bio Medical business is a drug discovery business that uses the antibody-production ALAgene® technology, which is the Company’s proprietary technology for producing antibodies derived from chickens, and a technology to develop bioactive peptides derived from chicken eggs. In January 2021, the Company concluded an exclusive licensing agreement with Mitsubishi Tanabe Pharma Corporation for a new therapeutic antibody to treat autoimmune diseases.

#### 2. Outline of results for FY7/21

In the FY7/21 consolidated results, net sales increased 204.5% year on year (YoY) to ¥46,752mn, operating profit rose 666.6% to ¥5,673mn, ordinary profit grew 631.0% to ¥5,767mn, and profit attributable to owners of parent increased 455.9% to ¥3,841mn, and both sales and profits set greatly increased new record highs. The Company continued to actively invest in each business, and as a result, it made progress in acquiring new customers, mainly for Newmo® Hair Growth Formula. So results were particularly strong in the Bio Value business and it contributed greatly to results as a whole. Advertising expenses increased 237.0% to ¥24,860mn as it conducted large-scale advertising so as not to miss a business opportunity. It also continued to actively invest in R&D, and R&D expenses increased 19.3% to ¥522mn. However, the accumulation of regular customers, mainly for Newmo® Hair Growth Formula, led to an increase in sales, and the Company was able to both conduct investment and generate profits.

Summary

**3. Outlook for FY7/22**

For the FY7/22 consolidated results, the Company is forecasting net sales to increase 29.7% YoY to ¥60,631mn, operating profit to grow 1.8% to ¥5,773mn, ordinary profit to rise 0.4% to ¥5,788mn, and profit attributable to owners of parent to increase 4.7% to ¥4,021mn. It is focusing investment in advertising expenses in the 1H, while in the 2H, it expects the number of regular customers to increase and to rein in advertising expenses, so results are forecast to be concentrated in the 2H. The Bio Value business is expected to continue to perform well, and Meiji Yakuhin Co., Ltd., newly made a consolidated subsidiary in August 2021, will also contribute, so sales are forecast to increase by double digits. Conversely, profits are expected to be basically unchanged YoY as the Company will continue to actively invest in advertising and R&D. Advertising expenses of around ¥30bn are expected, mainly for the internet, paper media, and television. Its policy is not to solely rely on Newmo® Hair Growth Formula, but also to develop the next period's large-scale products and to focus on CRM\*1. But it plans to boldly change the allocation of advertising expenses between media and between products, depending on trends in CPO\*2 and LTV\*3.

\*1 Abbreviation for Customer Relationship Management.

\*2 Abbreviation for Cost Per Order. It means the amount of advertising expenses required to acquire one customer.

\*3 Abbreviation for Life Time Value.

**4. Growth strategy**

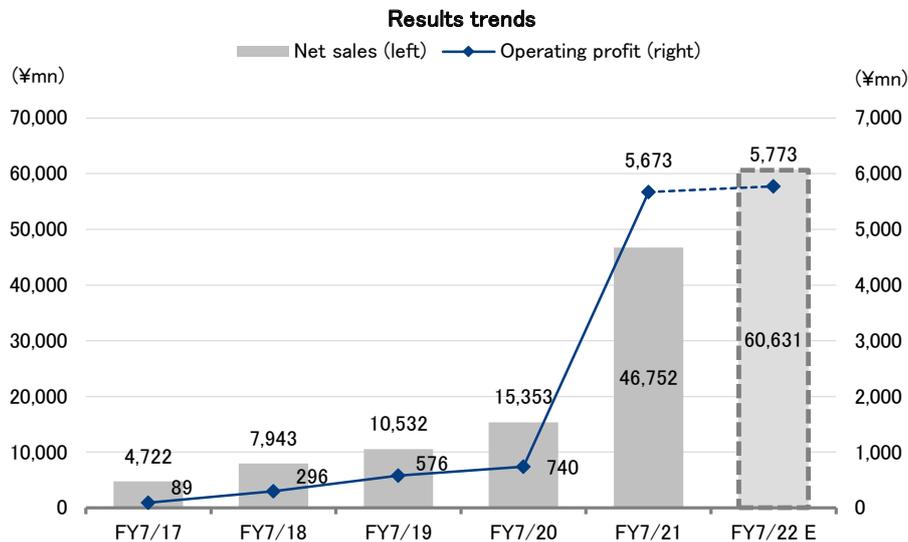
The Company has newly formulated Medium-Term Management Plan 2026. In the plan, it has set the medium-term management target of "Aiming to be 1K (a company with net sales of ¥100bn) through initiatives to create new value (new products, new markets, and a new organization)," and its numerical target for five years' time in FY7/26 is net sales of ¥100bn (¥70bn from the growth of its existing businesses and ¥30bn from the creation of new value\*). Other than this, for the profit level, it is aiming to build a structure that can secure an average operating profit margin of 10%. Up to FY7/26, its policy is to develop businesses without fear of the profit margin declining in a single fiscal year and to aim to expand scale while boldly taking on risks. The FY7/21 results were strong, driven by the Newmo® Hair Growth Formula that has become a hit product. Although there are some in the market voicing concerns about a rebound and a slowdown of growth from FY7/22 onwards, at FISCO, we think that the Company has the potential to achieve even further growth by creating new products and new markets and actively developing its businesses.

\* Includes the Company's own brand products, OEM and ODM, cross-border EC, new licensing-out of drug discovery, agriculture, chemicals, pharmaceutical e-commerce sales, cosmetics mall sales, and health devices.

**Key Points**

- A biotechnology company aiming to create pharma foods by fusing pharmaceuticals and foods
- The mainstay product PharmaGABA® holds the top share of GABA production, while Newmo® Hair Growth Formula has reached No. 1 in sales in the hair care market in two years since its launch
- In FY7/21, results were strong in the Bio Value business, and both sales and profits set greatly increased new record highs
- The FY7/22 forecasts are for sales to increase by double digits as the Bio Value business will maintain its strong performance, but for profits to be unchanged due to active investment in each business
- Aiming for net sales of ¥100bn in FY7/26 through initiatives to create new value

## Summary



Source: Prepared by FISCO from the Company's financial results

## Company profile

### Creates food ingredients that clearly function to improve both health maintenance and QOL

#### 1. Company profile

The Company is a biotechnology company whose basic policy is to conduct management that contributes to people's health by aiming to create pharma foods through fusing pharmaceuticals and foods. By focusing on raw ingredients derived from nature and providing proprietary technologies and products that are based on scientific evidence, it is creating food ingredients that clearly function to improve both health maintenance and QOL.

At the end of FY7/21, the location of the Company's headquarters was Nishikyo Ward, Kyoto City, and the Pharma Foods International Group consisted of the Company, its three consolidated subsidiaries (PharmaFoods Communication Inc., FUTURE LABO Inc. and medi-labo Co., Ltd.) and one equity-method affiliate (Benart Co., Ltd.). PharmaFoods Communication conducts call center operations for the Bio Value business, FUTURE LABO and medi-labo sell cosmetics, and Benart conducts a natural energy business. Also, in August 2021, the Company made a wholly owned subsidiary of Meiji Yakuin, which manufactures and sells pharmaceuticals and non-pharmaceutical products, and it will be added to the consolidated subsidiaries from FY7/22.

At the end of FY7/21, total assets were ¥20,944mn, net assets were ¥8,465mn, capital was ¥2,038mn, the equity ratio was 40.4%, and the number of issued shares was 29,062,100 shares.

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## Company profile

## 2. History

The Company was established as Pharma Foods Research Co., Ltd. in September 1997 in order to develop and sell functional food ingredients, and then changed its trade name to Pharma Foods International Co., Ltd. in October 2004. Regarding the main functional ingredient products, sales of the GABA-containing ingredient PharmaGABA® began in September 2001, the e-commerce sales brand Tamagokichi® and the Tamagosamine® with iHA® formulation supplement were launched in August 2012, and Newmo® Hair Growth Formula, a non-pharmaceutical product formulated with HGP® (Hair Growth Peptide), was launched in November 2018.

In March 2021, the Company concluded a capital and business alliance agreement with Sanyo Chemical Industries, Ltd. <4471>, and then in July 2021, it concluded a capital and business alliance agreement with ROHTO Pharmaceutical Co., Ltd. <4527>. In August 2021, it invested in Ai-BrainScience Inc., which is developing a cognitive function diagnostic app, while it also made a wholly owned subsidiary of Meiji Yakuin.

In relation to shares, the Company was listed on the Tokyo Stock Exchange (TSE) Mothers market in June 2006, its listing was changed to the TSE Second Section in December 2016, and then upgraded to the TSE First Section in February 2021. For the new market categories scheduled to be transitioned to in April 2022, the result of the primary judgment on the status of compliance with standards to maintain a listing in the new market categories confirmed that the Company complied with the standards of the Prime Market on July 9, 2021, and at its Board of Directors meeting on September 21, 2021, it resolved to apply to be listed on the Prime Market selection.

### History

Date	Event
September 1997	Pharma Foods Research Co., Ltd. was established in order to develop and sell functional food ingredients
October 2000	Established affiliate PharmaBio Co., Ltd. in order to conduct sales in South Korea (Company's ratio of shareholding: 50%)
May 2001	Market launched Ovopron®, a helicobacter pylori chicken egg antibody
September 2001	Market launched PharmaGABA®, an ingredient containing GABA
October 2003	Market launched Pharma Foods Delicious Catechin™, an ingredient containing catechin
July 2004	Made PharmaBio Co., Ltd. a wholly owned subsidiary
October 2004	Changed trade name to Pharma Foods International Co., Ltd.
March 2005	Market launched PF Alpha Lipoic Acid™, an ingredient containing alpha lipoic acid
June 2006	Listed on the TSE Mothers market
October 2006	Market launched Runpep®, an egg white peptides ingredient
April 2007	Established Hiroshima Bio Medical Co., Ltd. in order to conduct an R&D business in the field of blood purification therapy using chicken egg antibodies and to conduct a business for test drugs and reagents (Company's investment ratio: 49%)
May 2007	Changed the name of PharmaBio Co., Ltd. to Pharma Foods Korea Co., Ltd.
July 2007	Sold some of its shares of Pharma Foods Korea Co., Ltd. (Company's ratio of shareholding: 40%)
February 2010	Established the LSI Department in order to conduct outsourced researched work in the LSI (Life Science Information) field
February 2012	Launched the Bio Value business
July 2012	Market launched iHA®, a hyaluronic acid production-stimulating ingredient Invested in and made an affiliate of Benart Co., Ltd., which conducts a solar power generation business, in order to enter the renewable energy field (Company's ratio of shareholding: 33.3%)
August 2012	Market launched the e-commerce sales brand Tamagokichi® and Tamagosamine with iHA®
October 2012	Sold some of its shares of Benart (Company's ratio of shareholding: 50%, currently an equity-method affiliate)
September 2013	For the fully fledged development of the drug discovery business, conducted an absorption merger of Hiroshima Bio Medical and established the Bio Medical Department
September 2014	Opened the Company's own call center for the Tamagokichi® e-commerce sales brand
May 2015	Acquired the ISO 9001 quality management system certification
August 2015	Established PharmaFoods Communication Inc. to conduct call center operations for health foods and cosmetics (made a wholly owned subsidiary in December 2018, currently a consolidated subsidiary)
December 2015	Began joint research with the National Cancer Center Japan to develop antibodies to treat malignant tumors
November 2016	To expand the Bio Value business, made FUTURE LABO Inc. a subsidiary (currently a consolidated subsidiary)
December 2016	Listing was changed to the TSE Second Section
April 2017	Sold all of its shares of Pharma Foods Korea Co., Ltd.

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Company profile

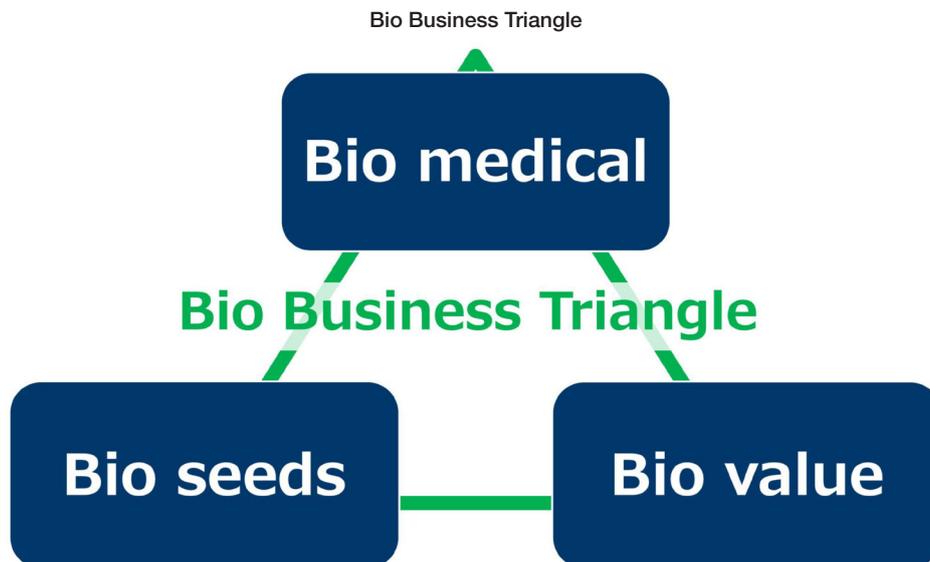
Date	Event
September 2017	PharmaFoods Communication conducted an absorption merger of PharmaFoods Communication Tokai Inc. in order to expand call center operations
October 2018	Concluded a joint research agreement with Mitsubishi Tanabe Pharma Corporation for antibody pharmaceuticals indicated for the treatment of autoimmune diseases
November 2018	Market launched Newmo® Hair Growth Formula, a non-pharmaceutical product formulated with HGP®
August 2020	In order to expand call center operations, PharmaFoods Communication conducted an absorption merger of joint venture company fit Call Tokai
January 2021	Concluded an exclusive licensing agreement with Mitsubishi Tanabe Pharma for a new therapeutic antibody to treat autoimmune diseases
February 2021	Listing was upgraded to the TSE First Section
March 2021	Concluded a capital and business alliance agreement with Sanyo Chemical Industries, Ltd.
July 2021	Concluded a capital and business alliance agreement with ROHTO Pharmaceutical Co., Ltd.
August 2021	Invested in Ai-BrainScience Inc., which is developing a cognitive function diagnostic app Made a wholly owned subsidiary of Meiji Yakuin Co., Ltd., which manufactures and sells pharmaceuticals and non-pharmaceutical products
September 2021	Formulated the Agriculture and Nutrition Basic Plan with Sanyo Chemical Industries

Source: Prepared by FISCO from the Company's securities report and press releases

## Business summary

### Conducts the Bio Seeds, Bio Value, and Bio Medical businesses

Based on its Bio Business Triangle concept and biotechnologies, the Company conducts three businesses: the Bio Seeds, the Bio Value, and the Bio Medical businesses. The Bio Seeds business is building an earnings foundation and expanding its business scope, the Bio Value business is working to expand the business foundation based on the Bio Seeds business's technological seeds, and the Bio Medical business is progressing based on these technologies and earnings. The Company is a fabless company that conducts operations such as establishing R&D, marketing, sales and manufacturing methods and production processes and confirming hygiene management, and it outsources the production of products to the plants of its external partner companies.



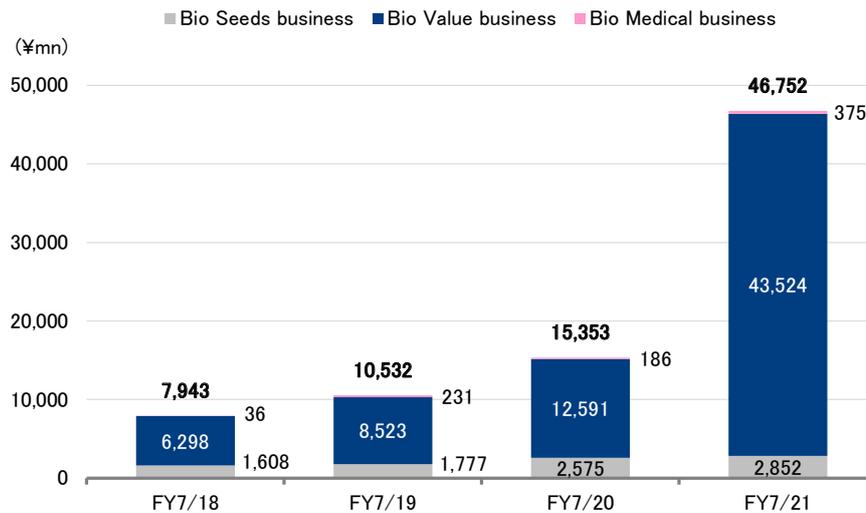
Source: Prepared by FISCO from the Company's results briefing materials

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Business summary

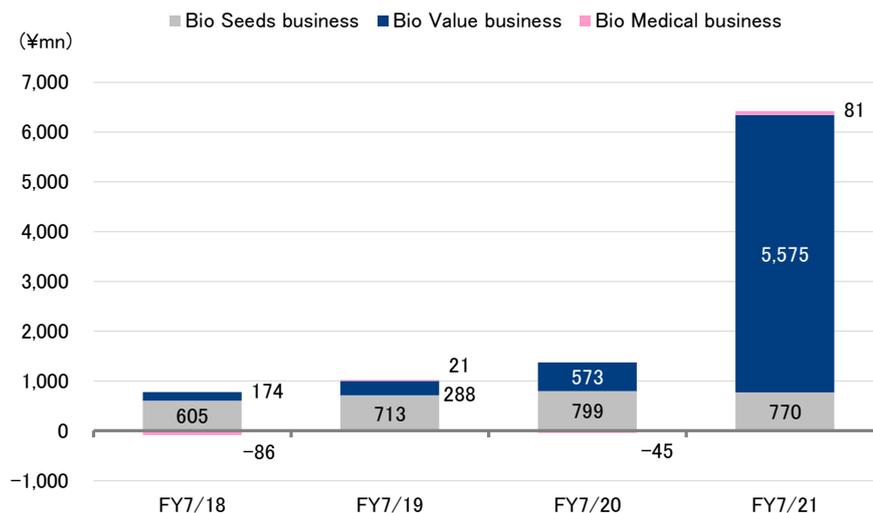
Looking at the trends in net sales and operating profit by business segment in the most recent five periods (FY7/18 to FY7/21), in the Bio Seeds business, net sales and operating profit grew steadily alongside the increase in the number of adopting companies. In the Bio Value business, Newmo® Hair Growth Formula, which was market launched in November 2018, has become a hit product and is contributing greatly to earnings as a whole. The Bio Medical business is at the development stage and it records lump-sum income relating to joint research and licensing as sales.

Trends in net sales by business segment



Source: Prepared by FISCO from the Company's financial results

Trends in operating profit by business segment

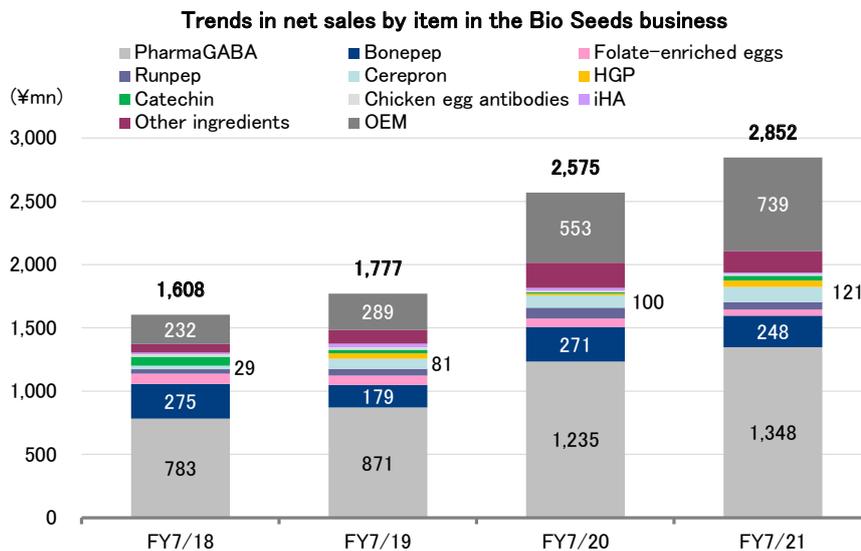


Note: From FY7/19, the Company changed the method of displaying Company-wide expenses and amortization of goodwill as the adjustment amounts. Figures in FY7/18 are calculated after this change  
 Source: Prepared by FISCO from the Company's financial results

## The mainstay product PharmaGABA® holds the top share for GABA production

### 1. Bio Seeds business

The Bio Seeds business researches and develops unique functional food ingredients and sells them, mainly in the foods field. The main functional ingredient products include PharmaGABA®, Bonepep®, Cerepron®, Runpep®, Pharma Biomix, HGP®, iHA®, and Moringa.



Source: Prepared by FISCO from the Company's results briefing materials

#### (1) PharmaGABA®

PharmaGABA® is the Company's mainstay product. GABA is a type of non-protein amino acid produced by animals and microorganisms, and is said to act as a neurotransmitter in the brain's inhibitory system. The Company separated the GABA-producing lactic acid bacteria in food and established a method of producing GABA through a fermentation method, which it sells as PharmaGABA®. PharmaGABA® is able to display functional claims, including "relieving stress," "reducing fatigue," "improving blood pressure," and "improving sleep quality," and its adoption for foods with functional claims is growing. In the number of GABA notifications in the foods with functional claims system at the end of June 2021, it ranked highest with 503 notifications and is maintaining a track record of adoptions. This is leading to an increase in orders for the Company's PharmaGABA®, which holds the top share of the growing adoptions of GABA by food manufacturers.

PharmaGABA® has also been found to have other effects, including "increasing muscle mass," "improving cognitive functions," and "improving skin elasticity," and the evidence for it is strengthening. The Company is also selling it overseas and is actively expanding sales in North America, China, South East Asia, and other regions, and its adoptions are growing. PharmaGABA® has acquired halal certification, so the plan is to launch fully fledged sales in the South East Asian region where there are many Muslims.

#### (2) Bonepep®

Bonepep® is a functional ingredient derived from egg yolk protein that was developed as a component to stimulate bone growth. A typical product that adopts it is Senobic sold by ROHTO Pharmaceutical.

Business summary

**(3) Cerepron®**

Cerepron® is a functional ingredient derived from yeast as a skin whitening ingredient in food (active yeast extract powder) that can be expected to have skin whitening effects. Needs for skin whitening are increasing particularly in overseas markets, and its adoptions are growing mainly in South East Asia.

**(4) Runpep®**

Runpep® is a functional ingredient derived from egg white protein that was developed to be a component with blood vessel expansion and blood flow improvement effects. It is being adopted for products relating to improving blood flow and reducing exercise fatigue, diet-related products, and male-function products.

**(5) Pharma Biomix**

Pharma Biomix is a feed supplement for hen to lay folate-enriched eggs. Within Japan, it has been adopted by JA.Z-TAMAGO. CO., LTD. for its “Shin-Tamago” and “Brown Shin-Tamago” products, and overseas, it has been adopted by Pulmuone in South Korea for functional eggs.

**(6) HGP®**

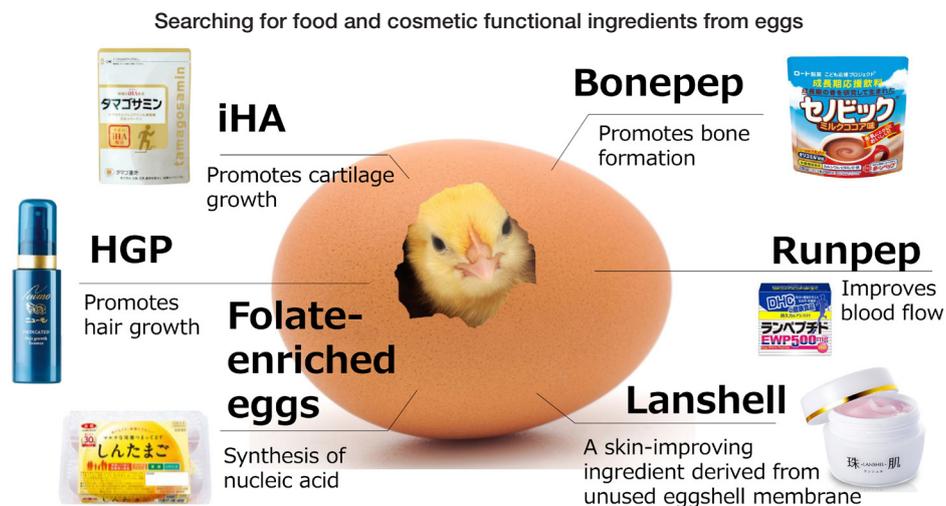
HGP® is a functional ingredient derived from egg yolk protein that was developed as a component that stimulates hair restoration and growth. Research results have been obtained that demonstrate the effects of taking the oral formulation, and it is being adopted by Japanese manufacturers and others.

**(7) iHA®**

iHA® is a functional ingredient derived from egg yolk protein that was developed as a component stimulating the production of hyaluronic acid. Research results have verified its effects in animal experiments, and it is being adopted for products in the Company’s Bio Value business and the products of domestic manufacturers.

**(8) Moringa**

Moringa is known to be a superfood and since ancient times, it has been used as herbal medication in Indian Ayurveda medicine. Research results have shown that it has an anti-aging effect, and it is being adopted for and used to create products in the foods and supplements fields.



Source: The Company’s results briefing materials

Business summary

In addition to selling various functional ingredients, the OEM business conducts outsourced OEM production, plans and sells products, including health foods and supplements, both in Japan and overseas that utilize the evidence cultivated in the development of functional ingredients. As a field that it will focus on in the future, the Company is aiming to expand the OEM business for its own products.

## Newmo® Hair Growth Formula has reached No. 1 in sales in the hair care market in two years since its launch

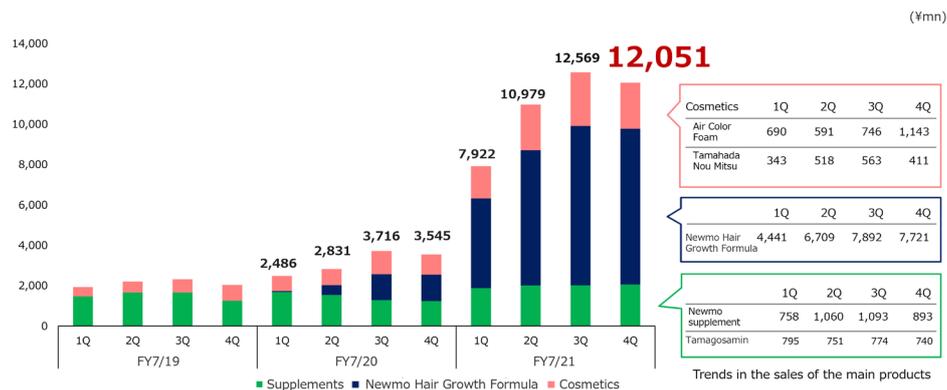
### 2. Bio Value business

As an “invention company’s e-commerce business,” the Bio Value business sells supplements and non-pharmaceutical products (under the Tamagokichi® brand) formulated using the Company’s proprietary functional ingredients and cosmetics (including under the SOGNANDO® brand). The sales methods are direct sales to consumers through e-commerce and wholesales to shopping specialist channels.

The main products include Tamagosamin®, which is an iHA® formulation supplement for knee joints, and the non-pharmaceutical product Newmo® Hair Growth Formula, and in cosmetics, Tamahada Lanshell®, a cosmetic cream formulated from active eggshell membranes, Tamahada Nou Mitsu®, and Derma Qll® keratin peeling gel. In February 2021, the Company launched sales of Has V, a type-three pharmaceutical, as phase 1 of its entry into the pharmaceuticals e-commerce market.

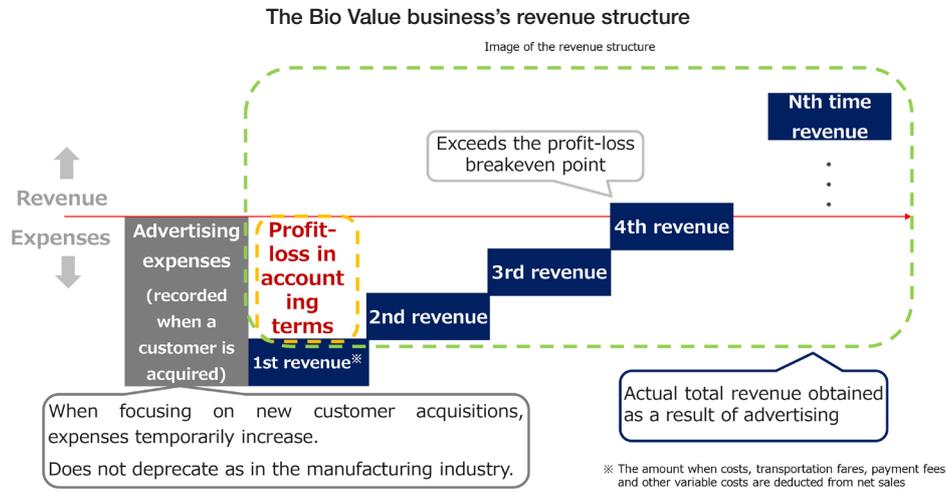
By item, Newmo® Hair Growth Formula, which promotes hair growth and restoration, is a hit product that has reached No. 1 in sales in the hair care market just two years since its sales launch, and it is contributing greatly to earnings as a whole. Also, in the cosmetics field, sales of HAIR BEAUTE® ECLAT Botanical Air Color Foam (a non-pharmaceutical product), which is permanent hair dye for white hair, are growing rapidly.

Net sales by item in the Bio Value business



It is necessary to be aware that the revenue structure of the Bio Value business is a structure in which advertising expenses and sales occur in different periods. Specifically, advertising expenses are recorded at the time a customer is acquired, but sales are recorded continuously over the regular course. So when the Company focuses on acquiring new customers, this temporarily causes expenses to increase.

Business summary



Source: The Company's results briefing materials

## Is developing a drug discovery business using its proprietary ALAgene® technology

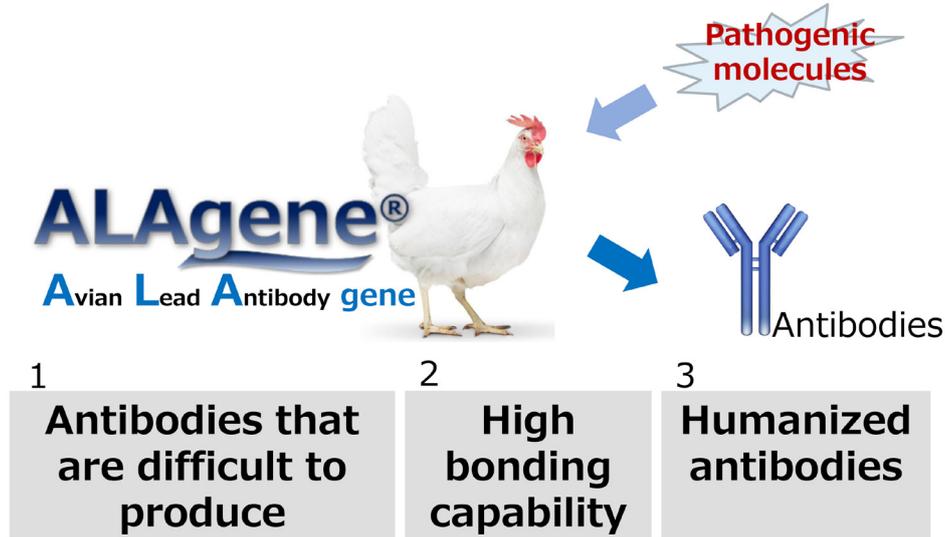
### 3. Bio Medical business

The Bio Medical business is a drug discovery business that uses ALAgene® technology, which is the Company's proprietary technology for producing antibodies derived from chickens, and a technology to develop bioactive peptides derived from chicken eggs.

ALAgene® technology is the Company's foundation technology that makes possible the production of antibodies for drug discovery target molecules that are difficult to produce using conventional technologies. It is using this technology to conduct R&D into antibody pharmaceuticals indicated for patients with autoimmune diseases and malignant tumors. Also, Reprotite®, which is a peptide derived from chicken eggs developed by the Company, has been successfully isolated and identified as a bioactive material involved in bone formation, and it is progressing its development as one important pipeline candidate.

Business summary

Producing antibody pharmaceuticals from chickens

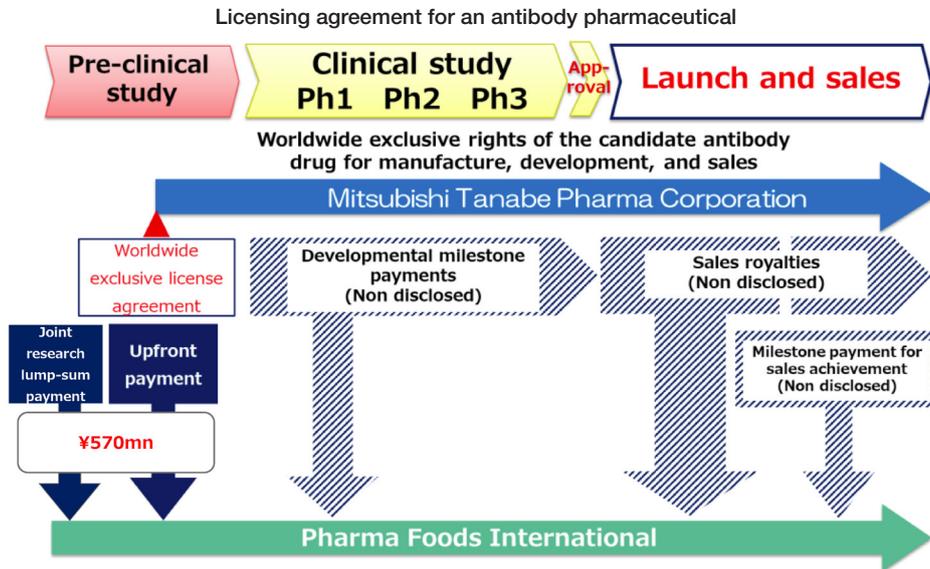


Source: The Company's results briefing materials

Also, based on the technologies obtained from R&D relating to functional ingredients overall, the Company is conducting the LSI (Life Science Information) business, in which external companies outsource the work such as analyses and efficacy evaluation tests to the company. It effectively utilizes the Company's technological capabilities to support the R&D of various manufacturers, mainly in the food industry, including by acquiring and analyzing data on functions, analyzing the components of various ingredients, and creating requests for finished products.

In terms of the business model, the Company progresses development up to the non-clinical trial stage, and from the clinical trials onwards, the pharmaceutical company to which it has licensed-out the development-candidate antibody conducts the manufacture, development and sales of it. The Company obtains license revenue, including a joint research lump-sum payment, development milestone payments, sales royalties after the market launch, and sales milestone payments. In the Autoimmune Disease Project, the Company progressed joint research with Mitsubishi Tanabe Pharma into antibody pharmaceuticals for two years starting in October 2018. As a result, they concluded an exclusive licensing agreement in January 2021.

Business summary



Source: The Company's results briefing materials

4. Risk factors and countermeasures

The risk factors include competition, delays in responding to product development and technological innovation, reliance on specific products, laws and regulations including the Pharmaceuticals and Medical Devices Act and the Food Hygiene Act, and the protection of personal information.

Regarding competition, PharmaGABA®, which is the mainstay product in the Bio Seeds business, holds the top share for GABA production, so currently there are few concerns about competition intensifying.

The risk factors in the Bio Value business include the effects of consumer preferences and purchasing trends, an increase in advertising expenses and sales that are less than forecast, and the extent of the reliance on specific products. Currently, it is highly reliant on Newmo® Hair Growth Formula, a hair growth and restorer formula. But the Company is actively developing new products, including MATSUGE★DELUXE WMOA, an eyelash-care product, and Egg Placenta® beauty cream that contains its proprietary ingredients, and its policy is to mitigate reliance-related risk by enhancing its product lineup. It also aims to mitigate risk related to advertising expenses by responsively controlling advertising expenses while observing sales and CPO trends. The Bio Value business concentrates spending on advertising in the 1H, while in the 2H, repeat purchases by regular customers increase. This reinforces the feature of earnings in which sales and profits as a whole are concentrated in the 2H.

In the Bio Medical business, a long period of time is required from the development of a new drug until its market launch, so there is risk relating to future uncertainty (development delays, discontinuations, etc.) To deal with this risk, when progressing a drug's business, the Company cautiously determines factors such as its market potential and the possibility of an actual market launch, and formulates a business plan for it covering a long period of time.

## Results trends

### In FY7/21, results were strong in the Bio Value business, and both sales and profits set greatly increased new record highs

#### 1. Outline of results for FY7/21

In the FY7/21 consolidated results, net sales increased 204.5% YoY to ¥46,752mn, operating profit rose 666.6% to ¥5,673mn, ordinary profit grew 631.0% to ¥5,767mn, and profit attributable to owners of parent increased 455.9% to ¥3,841mn, and both sales and profits set greatly increased new record highs. The Company continued to actively invest in each of its businesses, and as a result, it made progress in acquiring new customers, mainly for Newmo® Hair Growth Formula. So results were particularly strong in the Bio Value business and it contributed greatly to results as a whole.

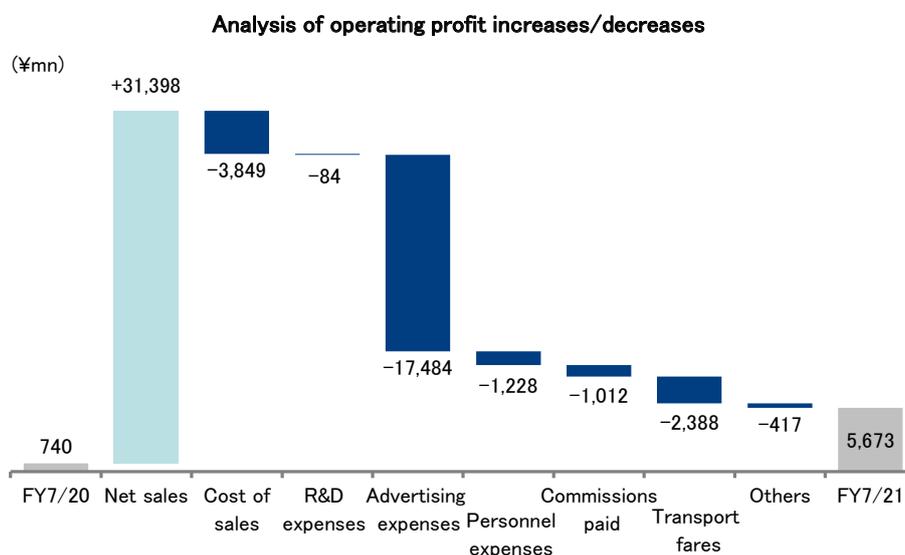
Consolidated results for FY7/21

	FY7/20		FY7/21		YoY
	Results	% of total	Results	% of total	
Net sales	15,353	100.0%	46,752	100.0%	204.5%
Bio Seeds business	2,575	16.8%	2,852	6.1%	10.7%
Bio Value business	12,591	82.0%	43,524	93.1%	245.7%
Bio Medical business	186	1.2%	375	0.8%	101.4%
Gross profit	12,175	79.3%	39,724	85.0%	226.3%
SG&A expenses	11,435	74.5%	34,051	72.8%	197.8%
Operating profit	740	4.8%	5,673	12.1%	666.6%
Bio Seeds business	799	31.0%	770	27.0%	-3.7%
Bio Value business	573	4.6%	5,575	12.8%	872.3%
Bio Medical business	-45	-24.2%	81	21.6%	-
Adjustment amount	-587	-	-754	-	-
Ordinary profit	788	5.1%	5,767	12.3%	631.0%
Profit attributable to owners of parent	690	4.5%	3,841	8.2%	455.9%

Source: Prepared by FISCO from the Company's financial results

Advertising expenses increased 237.0% to ¥24,860mn (of which, an increase of 237.3% to ¥24,858mn in the Bio Value business), and the Company conducted large-scale advertising so as not to miss a business opportunity. It also continued to actively invest in R&D, and R&D expenses increased 19.3% to ¥522mn. However, the accumulation of regular customers, mainly for Newmo® Hair Growth Formula, led to an increase in sales, and it was able to both conduct investment and generate profits. Also, gross profit increased 226.3% and the gross profit margin rose 5.7 percentage points (pp) to 85.0%. Conversely, SG&A expenses increased 197.8%, but the SG&A expenses ratio fell 1.7pp to 72.8%. The operating profit margin rose 7.3pp to 12.1%.

## Results trends



Source: Prepared by FISCO from the Company's results briefing materials

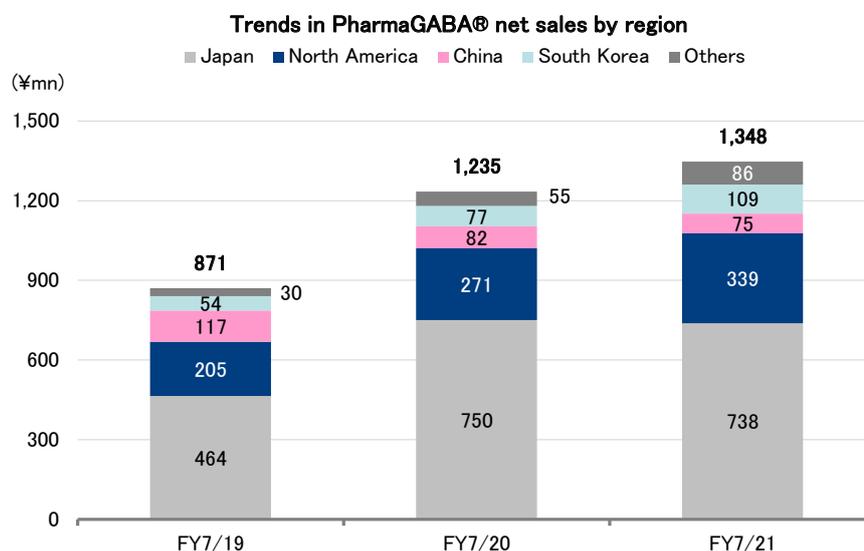
## 2. Trends by business segment

### (1) Bio Seeds business

In the Bio Seeds business, net sales increased 10.7% YoY to ¥2,852mn, but operating profit declined 3.7% to ¥770mn. Sales were driven by the mainstay PharmaGABA® and the OEM business, which is a field that the Company is focusing on. Conversely, profits declined slightly because it continued to actively invest in R&D expenses and also as a result of efforts to revise the sales structure, including focusing on the OEM business.

Net sales of PharmaGABA® increased 9.1% YoY to ¥1,348mn. In the number of GABA notifications in the foods with functional claims system at the end of June 2021, it ranked highest with 503 notifications and is maintaining a track record of adoptions. This is leading to an increase in orders for the Company's PharmaGABA®, which holds the top share of the growing adoptions of GABA by food manufacturers. In sales of PharmaGABA® by region, sales in Japan continued to be solid, decreasing only 1.6% to ¥738mn, while overseas sales increased 25.8% to ¥610mn due to the growth of supplements in North America.

## Results trends



Source: Prepared by FISCO from the Company's results briefing materials

In the OEM business, net sales increased 33.7% YoY to ¥739mn. Sales increased, mainly in Japan, including of diet foods for healthcare companies and pouch jelly for original brands.

Other than the above, net sales of the skin whitening ingredient Cerepron®, which is currently growing mainly overseas, increased 21.4% YoY to ¥121mn. Due to the increase in demand, particularly in China, HGP® net sales rose 217.7% to ¥50mn, while Bonepep® net sales decreased 8.5% to ¥248mn.

## (2) Bio Value business

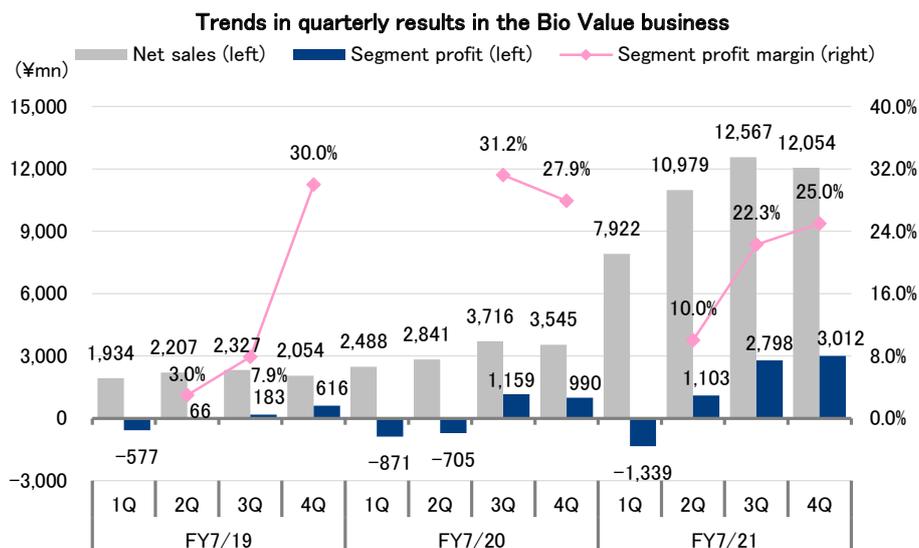
In the Bio Value business, net sales increased 245.7% YoY to ¥43,524mn and operating profit rose 872.3% to ¥5,575mn. Customer acquisition efficiency was higher than anticipated, particularly from TV and internet advertising, and therefore the amount of annual advertising expenses increased. As a result, at the end of July 2021, the number of purchases by regular customers was 773,844 purchases (244,715 purchases at the end of the previous period) and the “early generation of profits” and the “rise in the profit level” are continuing due to the repeat purchases brought about by this foundation. The absolute number of cancellations of regular customers acquired in the 1H of the period increased, but as a balance was maintained with the inflow of new customers, the number of purchases by regular customers was maintained in the upper 700,000 range. Advertising expenses in the 1Q to the 3Q were in the ¥6,000mn range, but in the 4Q, they were kept down to ¥5,495mn. So the Company can be positively evaluated for being able to maintain the number of regular customers at the same level despite keeping down advertising expenses.

Net sales of Newmo® Hair Growth Formula increased rapidly to ¥26,763mn. In addition to TV and online advertising, the Company focused on acquiring customers through paper media, including newspaper advertising. The number of repeat purchases by existing customers also increased. The relative value of Newmo® Hair Growth Formula's CPO (TV) was 46.8% in the 1Q and 48.3% in the 2Q, and then rose to 62.6% in the 3Q and 68.1% in the 4Q. Therefore, even though the Company kept down advertising expenses in the 2H, it successfully grew sales based on the large investment made in advertising expenses in the 1H to avoid missing a business opportunity. In this way, it is mitigating the risk relating to advertising expenses by responsively controlling advertising expenses while observing trends in sales and CPO.

Results trends

In sales of supplements, purchases of the Newmo® Supplement made at the same time as purchases of the hair restorer formula contributed to an improvement in sales per customer, and as a result, net sales were ¥3,806mn. Also, net sales of the knee joint supplement Tamagosamin® were ¥3,061mn, which also contributed to profits.

In cosmetics sales, net sales of HAIR BEAUTE® ECLAT Botanical Air Color Foam increased rapidly to ¥3,170mn. The Company conduct customer acquisition prioritizing CPO, and as a result, at the end of July 2021, the number of purchases by regular customers was 98,210 purchases (26,326 purchases at the end of the previous period).



Source: Prepared by FISCO from the Company's results briefing materials

**(3) Bio Medical business**

In the Bio Medical business, net sales increased 101.4% YoY to ¥375mn and operating profit was ¥81mn (compared to a loss of ¥45mn in the previous period). Based on the joint research and licensing agreement with Mitsubishi Tanabe Pharma, lump-sum payment income was recorded as sales.

In terms of topics, in April 2021, the Company used its ALAgene® technology and succeeded for the first time in the world in acquiring antibodies for PAD2 (peptidyl arginine deiminase 2), a target molecule for autoimmune diseases. Then in June 2021, it was adopted by the Japan Agency for Medical Research and Development (AMED) for its 2021 Project to Develop Drug Discovery Base Technologies to Realize Next-Generation Medical Treatments and Diagnoses (Development of Internationally Competitive Next-Generation Antibody Pharmaceutical Manufacturing Technologies). It will participate in the consortium represented by Professor Akihiko Kondo of Kobe University Graduate School of Science, Technology and Innovation and utilize its ALAgene® technology to develop a "robotics × digital" foundation on which to create and produce highly functional, next-generation antibodies.

## Results trends

## Financial condition is highly sound

### 3. Financial condition

At the end of FY7/21, total assets were up ¥10,848mn on the end of the previous period to ¥20,944mn. This was mainly because cash and deposits increased ¥6,511mn, trade notes and accounts receivable increased ¥2,681mn primarily due to the growth of sales in the Bio Value business, and finished products and merchandise increased ¥1,077mn, including due to the increased production of Bio Value business-related products. Total liabilities were up ¥7,290mn to ¥12,478mn. This was mainly because accounts payable increased ¥2,561mn including due to the rise in advertising expenses, short-term borrowings increased ¥2,500mn following the implementation of borrowing based on the commitment line agreement, and income taxes payable, etc. increased ¥1,842mn. Total net assets increased ¥3,558mn to ¥8,465mn because of the accumulation of profit attributable to owners of parent. As a result, the equity ratio fell 8.2pp to 40.4%.

Alongside the rapid increase in sales, the balance sheet as a whole expanded, and therefore the equity ratio declined. But upon considering that the “early generation of profits” and the “rise in the profit level” are continuing due to active investment, it can be said that the Company’s financial condition is highly sound. Also, despite the fact that it has continued to actively invest, return on equity (ROE) was 57.5% (15.0% at the end of the previous period), which can be evaluated as demonstrating the correctness of its active investment strategy.

#### Consolidated balance sheet

	(¥mn)			
	FY7/19	FY7/20	FY7/21	Increase/ decrease
<b>Total assets</b>	8,731	10,096	20,944	10,848
<b>Current assets</b>	6,887	7,437	17,933	10,496
<b>Non-current assets</b>	1,843	2,659	3,010	351
<b>Total liabilities</b>	4,415	5,188	12,478	7,290
<b>Current liabilities</b>	2,337	2,837	10,978	8,141
<b>Non-current liabilities</b>	2,077	2,350	1,499	-851
<b>Total net assets</b>	4,315	4,907	8,465	3,558
<b>Equity ratio</b>	49.4%	48.6%	40.4%	-8.2pt
<b>ROE</b>	12.2%	15.0%	57.5%	42.5pt

Source: Prepared by FISCO from the Company’s financial results

#### Consolidated statement of cash flows

	(¥mn)	
	FY7/20	FY7/21
<b>Cash flows from operating activities</b>	-547	5,938
<b>Cash flows from investing activities</b>	-860	-442
<b>Cash flows from financing activities</b>	375	1,030
<b>Balance of cash, deposits, and cash equivalents at the end of the period</b>	3,282	9,794

Source: Prepared by FISCO from the Company’s financial results

## ■ Outlook

**The FY7/22 forecasts are for sales to increase by double digits as the Bio Value business will maintain its strong performance, but profits to be unchanged YoY due to active investment in each business**

### 1. Outlook for FY7/22

For the FY7/22 consolidated results, the Company is forecasting net sales to increase 29.7% YoY to ¥60,631mn, operating profit to grow 1.8% to ¥5,773mn, ordinary profit to rise 0.4% to ¥5,788mn, and profit attributable to owners of parent to increase 4.7% to ¥4,021mn. Also, for the 1H results, it is forecasting that the profit-loss condition will improve considerably, as net sales will increase 36.6% YoY to ¥27,850mn, operating profit will be ¥1,108mn (compared to a loss of ¥81mn in the same period in the previous fiscal year), ordinary profit will be ¥1,119mn (a loss of ¥49mn), and profit attributable to owners of parent will be ¥535mn (a loss of ¥446mn). It is focusing investment in advertising expenses in the 1H, while in the 2H, it expects regular customers to increase and to rein in advertising expenses, and therefore results are forecast to be concentrated in the 2H.

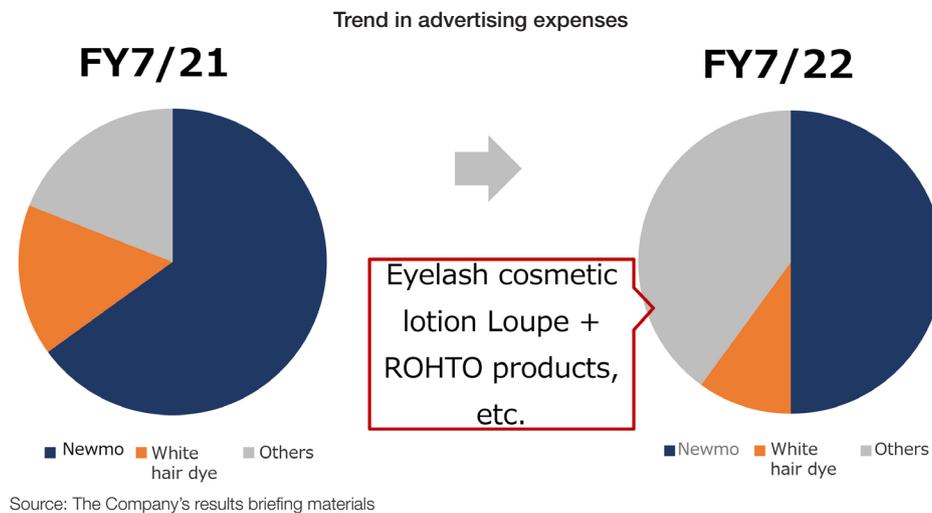
#### Consolidated outlook for FY7/22

	FY7/21			FY7/22 E			YoY
	1H	Full fiscal year	% of sales	1H	Full fiscal year	% of sales	
Net sales	20,393	46,752	100.0%	27,850	60,631	100.0%	29.7%
Bio Seeds business	1,158	2,852	6.1%	-	2,900	4.8%	1.7%
Bio Value business	18,902	43,524	93.1%	-	51,400	84.8%	18.1%
Bio Medical business	332	375	0.8%	-	100	0.2%	-73.3%
Meiji Yakuhiin	-	-	-	-	6,000	9.9%	-
Cross-border EC	-	-	-	-	230	0.4%	-
Operating profit	-81	5,673	12.1%	1,108	5,773	9.5%	1.8%
Ordinary profit	-49	5,767	12.3%	1,119	5,788	9.5%	0.4%
Profit attributable to owners of parent	-446	3,841	8.2%	535	4,021	6.6%	4.7%
Earnings per share (EPS) (¥)	-15.39	132.21	-	18.41	138.36	-	-

Note: For Meiji Yakuhiin and cross-border EC, the Company is considering adding and changing segments toward business expansion in the future  
 Source: Prepared by FISCO from the Company's financial results and results briefing materials

The Bio Value business is expected to continue to perform well, and Meiji Yakuhiin Co., Ltd., a consolidated subsidiary newly acquired in August 2021, will also contribute, so sales are forecast to increase by double digits. Conversely, profits are expected to be basically unchanged YoY, as the Company will continue to actively invest in advertising and R&D. Advertising expenses of around ¥30bn are expected, mainly for the internet, paper media, and television. Its policy is not to solely rely on Newmo® Hair Growth Formula, but also to develop the next period's large-scale products and to focus on CRM. But it plans to boldly change the allocation of advertising expenses between media and between products, depending on trends in CPO and LTV.

Outlook



As FY7/22 is the first fiscal year of Medium-Term Management Plan 2026, the Company is positioning it as a seeding stage. Therefore, it expects the profit increase rate to be smaller than the sales increase rate. But as in FY7/22, there will be no change to the trend in earnings growth, so at FISCO we think it is highly likely that results will exceed the forecasts.

2. Outlook by business segment

(1) Bio Seeds business

In the Bio Seeds business, net sales are forecast to increase 1.7% YoY to ¥2,900mn. Sales of the mainstay PharmaGABA® will be steady, while the Company will also continue to focus on the OEM business.

In order to strengthen overseas sales, the Company will quickly acquire the necessary authorizations and approvals in each country. Also, alongside the sales growth, it is building an overseas production system in order to stably supply the overseas markets. To build a sales structure, it is aiming to strengthen recruitment of human resources who can respond to overseas markets, while in addition to the main markets of North America and China, it's policy is to conduct business development for the South East Asia region, whose market is expected to grow in the future.

(2) Bio Value business

In the Bio Value business, net sales are forecast to increase 18.1% YoY to ¥51,400mn. Sales of Newmo® Hair Growth Formula and HAIR BEAUTE® ECLAT Botanical Air Color Foam will continue to be strong, while sales of new products, including the eyelash beauty lotion, are also expected to contribute.

Scheduled market launches of new products

Market launch schedule period	Product name	Remarks
Shipped end of September 2021	MATSUGE★DELUXE WMOA	Double care for eyelash roots and hair tips. The Newmo brand is expanding
Around October 2021	Plicenta	Beauty jelly formulated with the proprietary ingredient Egg Placenta®
Around November 2021	Tamahada EGP beauty fluid	Proprietary ingredient Egg Placenta® beauty fluid
Around February 2022	Novel Q (temporary/brain function supplement)	Supplement formulated using GABA (brain functions), DHA/EPA (reduction in neutral fat) and long pepper (reduces cooling)

Note: the scheduled market launch periods may change depending on the manufacturing and marketing policies.  
Source: Prepared by FISCO from the Company's results briefing materials

## Outlook

**(3) Bio Medical business**

In the Bio Medical business, lump-sum payment income will fall, so net sales are forecast to decline 73.3% YoY to ¥100mn. The Company will focus on R&D for anti-PAD2 antibodies and to produce next generation antibodies.

**(4) Others**

Meiji Yakuin's net sales are forecast to be ¥6,000mn. It expects ¥5,000mn from outsourced manufacturing for pharmaceutical companies and from sales to drug stores. In addition, by incorporating the Company's expertise in e-commerce, it is aiming for sales of ¥1,000mn from repeat e-commerce sales. The Company has hardly any business duplications with Meiji Yakuin, such as for sales channels and facilities, and it will be easy for them to generate synergies. Therefore, the intention is to create a capital investment plan within three years and to have the new facilities operational within five years.

Cross-border EC net sales are forecast to be ¥230mn. The Company launched cross-border EC for China and Vietnam in June 2021. At the present time, its policy is to gradually expand the operations of advertising on Tmall Global and advertisements by influencers, and to progress the construction of a sales foundation. Shipments were excellent in August 2021, increasing 6.7 times compared to in the previous month, and the Company is currently expanding the shipments volume and improving PDCA toward China's Singles' Day (November 11).

Note: for Meiji Yakuin and cross-border EC, the Company is considering adding to and changing the segments toward business expansion in the future.

## Growth strategy

### Is aiming for net sales of ¥100bn in FY7/26 through initiatives to create new value

The Company has newly formulated Medium-Term Management Plan 2026. In the plan, it has set the medium-term management target of "Aiming to be 1K (a company with net sales of ¥100bn) through initiatives to create new value (new products, new markets, and a new organization)," and its numerical target for five years' time in FY7/26 is net sales of ¥100bn (¥70bn from the growth of existing businesses and ¥30bn from the creation of new value). Other than this, it is stated its commitment to targeting a net sales' compound annual growth rate (CAGR) of at least 20% and a total shareholder payout ratio, including acquisitions of treasury shares, of 20% by FY7/26. For the profit level, it is aiming to build a structure that can secure an average operating profit margin of 10%. Up to FY7/26, its policy is to develop businesses without fear of the profit margin declining in single fiscal year and to aim to expand scale while boldly taking on risks.

The FY7/21 results were strong, driven by Newmo® Hair Growth Formula that has become a hit product. Although there are some in the market voicing concerns about a rebound and a slowdown of growth from FY7/22 onwards, at FISCO, we think that the Company has the potential to achieve even further growth through creating new products and new markets and by actively developing its businesses.

## Growth strategy

**1. Creation of new products**

For the creation of new products, toward creating the next hit products to follow on from products such as PharmaGABA®, Newmo® Hair Growth Formula, and Derma QII®, the Company is progressing R&D including to develop new ingredients (wine ceramide, Lipi Smart®, sialo sugar chains, egg placenta, and eggshell membrane peptides), to develop new applications and effects (a brain function cocktail theory drink, Moringa, Wellmune, Banafine, and collagen eggshell membrane peptides), and to develop next generation antibodies. It is also developing products for the scalp & skin field (creating non-pharmaceutical products' active components, hair restorer formulas, wrinkle improvers, egg placenta, and ELLE brand cosmetics), the pharmaceuticals e-commerce field, and the oral care field.

In July 2021, the Company concluded a sales agreement with Mitsui Sugar Co., Ltd., of the Mitsui DM Sugar Holdings <2109> Group for Lipi Smart®, which is a functional foods ingredient that suppresses absorption of triglycerides and contains sesame as a raw ingredient. Through joint development with Mitsui Sugar, the Company has developed a proprietary technology (patent pending) to manufacture Lipi Smart® from sesame. Through this, it will launch a product onto the metabolic market for the first time.

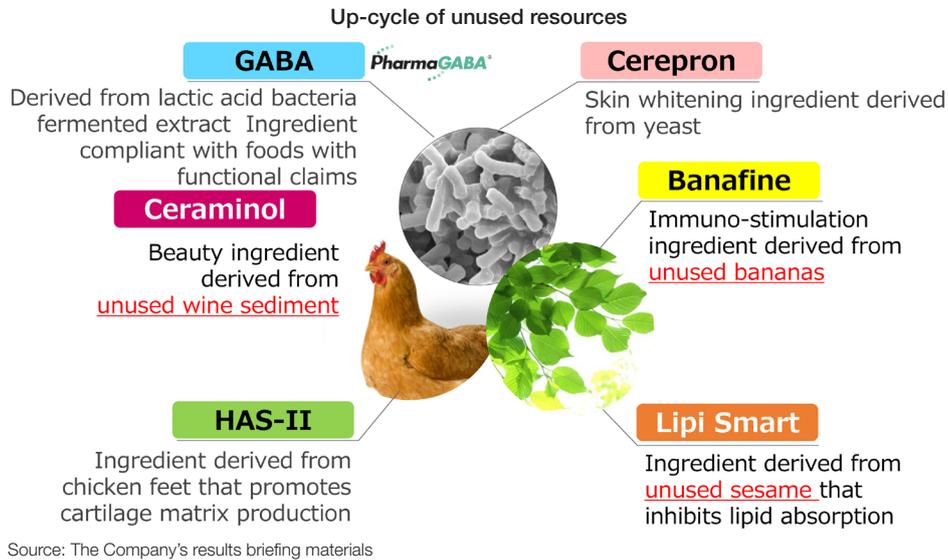
**2. Creation of new markets**

For the creation of new markets, the Company will progress initiatives for the expanding health market, including to strengthen brands and to develop overseas markets (develop the US market, develop the China market through cross-border EC, and develop the South East Asia market through Halal certification), deepen the e-commerce business in the domestic market (develop new products and services that utilize the D2C platform of 800,000 people), shift the business orientation from B-to-B to B-to-C (develop the Company's own brand products for the distribution networks of drug stores and convenience stores), conduct initiatives for SDGs (create up-cycle markets for unused resources), and enter-into the health support devices and medical devices fields (health devices, facial beauty devices, measuring devices, and hearing aids).

Of these initiatives, to develop the US market, the Company is aiming to acquire GARS (Generally Recognized as Safe) certification from the FDA (the US Food and Drug Administration) for PharmaGABA®. By acquiring the FDA's GARS certification, it will widen the targets from the current target of supplements to food and feed in general. This will lead to its adoption by major food and feed manufacturers in the US, which can be expected to result in its rapid growth in the US market.

Also, for the creation of up-cycle markets for unused resources, the Company will utilize unused raw ingredients derived from nature, while it is also aiming to utilize its technologies for agriculture to create new value from natural products. Specifically, in September 2021, it formulated the Agriculture and Nutrition Basic Plan with Sanyo Chemical Industries, and the plan combines both companies' development and technological capabilities toward resolving the global agriculture crisis. In the plan, the aims are that in 2022, they will start a demonstration experiment in Shintomi Town, Miyazaki Prefecture, toward building a new agricultural system; in 2024, they will develop high-value-added crops with enhanced high-yield capability, resistance and functionality through a bio-stimulant that integrates the technologies of both companies; in 2025, they will start sales of highly functional health foods and cosmetics derived from the unused portion of the high-value-added crops over the Company's e-commerce sales channel; in 2026, they will expand the target crops, progress sixth sector industrialization, and create brands; and in 2030, they will develop a sustainable agriculture system.

Growth strategy



**3. Creation of a new organization**

For the creation of a new organization, the Company will progress initiatives including conducting reforms for the organizational, personnel, and hiring aspects, such as providing salary levels enabling employees to work with peace of mind and incentives for growth; developing and strengthening the Global Solution Team, including building overseas manufacturing and overseas sales bases; and conducting M&A and entering-into alliances.

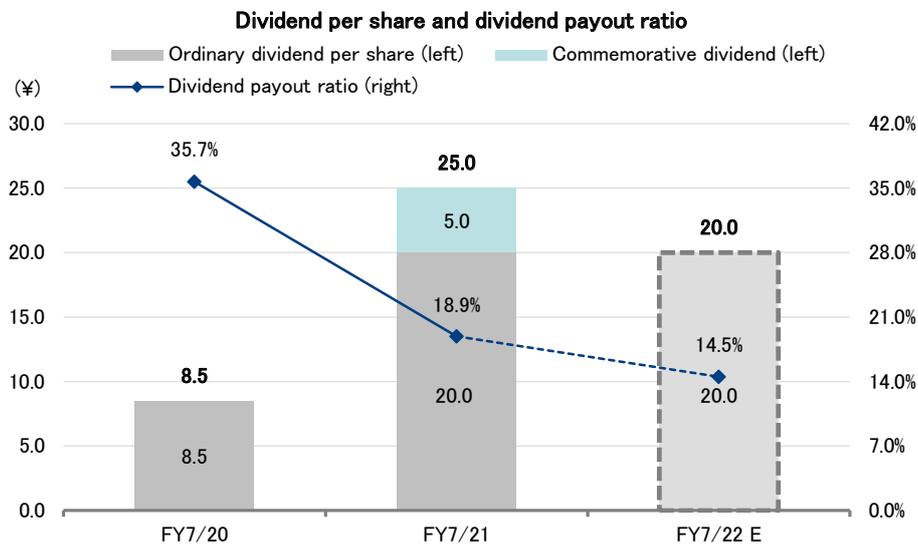
Within these initiatives, for M&A and alliances, the Company will utilize its cash on hand and financing framework, and it has in its sights companies with a sales scale of ¥10bn in relation to new products and new markets.

## Shareholder return policy

The Company's basic policy for returning profits to shareholders is, based on its business policy of achieving both corporate growth potential and profitability, to actively return profits to shareholders through dividends and other means, while also actively expanding investment for aspects such as R&D, advertising and M&A. Based on this policy and on considering maintaining a balance between investing in growth, securing financial soundness, and strengthening returns to shareholders, it targets a total shareholder return ratio, including acquisitions of treasury shares, of 20%.

In FY7/21, the Company paid an annual dividend per share of ¥25.0, including a commemorative dividend of ¥5.0 (dividend payout ratio, 18.9%). In FY7/22, it plans to reduce the annual dividend per share by ¥5.0 YoY to ¥20.0 (dividend payout ratio 14.5%, total shareholder return ratio 21.9%). Other than this, in FY7/22 it intends to spend ¥300mn to acquire treasury shares.

Shareholder return policy



Source: Prepared by FISCO from the Company's financial results

## Initiatives for ESG and SDGs

In terms of initiatives for ESG (Environment, Society, Governance) management and for SDGs (Sustainable Development Goals), at the current time the Company has not established specific initiatives or targets that have materiality. But as its business itself involves the development and sales of food and cosmetic functional ingredients and products made from raw ingredients derived from nature that relate to people's life activities and health maintenance, its business is consistent with the SDGs. It also prioritizes creating a workplace culture and designing systems that enable women to work more easily.

In September 2021, the Company was highly evaluated as a progressive diversity company in the Sankei Shimbun Awards, where it was awarded the Grand Prize in the 4th Awards of Companies Offering Job Satisfaction that We Want to Teach Students About.

Going forward also, the Company's policy is to work to contribute to the creation of a sustainable society, including by promoting the creation of up-cycle markets for unused resources.



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