

## 8. INDUSTRY OVERVIEW

F R O S T  S U L L I V A N

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Date: 30 MAY 2022

The Board of Directors

**DXN Holdings Bhd.**

Wisma DXN

213, Lebuhraya Sultan Abdul Halim,

05400 Alor Setar,

Kedah Darul Aman

Dear Sirs / Madams,

**Independent Market Research on the Fortified Food and Beverages, Health and Dietary Supplements and Personal Care and Cosmetics Products in the Direct Selling Industry for DXN Holdings Bhd. ("DXN")**

We, Frost & Sullivan GIC Malaysia Sdn Bhd ("**Frost & Sullivan**"), have prepared this Independent Market Report on the Fortified Food and Beverages, Health and Dietary Supplements and Personal Care and Cosmetics Products in the Direct Selling industry ("**IMR Report**") for inclusion in DXN's prospectus in conjunction with the listing of and quotation for the entire enlarged issued ordinary shares in DXN on the Main Market of Bursa Malaysia Securities Berhad ("**Prospectus**").

We are aware that this IMR Report will be included in the Prospectus and we further confirm that we are aware of our responsibilities under Section 215 of the Capital Markets and Services Act, 2007.

We acknowledge that if we are aware of any significant changes affecting the content of this IMR Report between the date hereof and the issue date of the Prospectus, we have an ongoing obligation to either cause this IMR Report to be updated for the changes and, where applicable, cause DXN to issue a supplementary prospectus or withdraw our consent to the inclusion of this IMR Report in the Prospectus.

Frost & Sullivan has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of this IMR Report. We believe that this IMR Report presents a true and fair view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in the industry. Frost & Sullivan shall not be held responsible for the decisions and/or actions of the readers of this IMR Report. This IMR Report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies as mentioned in this IMR Report or otherwise.

For and on behalf of Frost &amp; Sullivan GIC Malaysia Sdn Bhd:


**June Liang Pui San**

Country Head, Malaysia

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**Methodology**

*For the purpose of preparing this report, Frost & Sullivan has conducted primary research encompassing interviews with industry experts and industry players, and secondary research, which included reviews of company reports, official websites/social media pages, independent research reports, information from industry associations/authorities/international organisations, and information from Frost & Sullivan research database. Unless being made available in the publicly available sources, projected data was derived by Frost & Sullivan using historical data analysis with the consideration of the social, economic, and political environments for the forecasted period.*

*Comparable key direct selling companies identified in this report have been selected from a long list of companies developed by screening directories in each respective country as well as discussing with industry players. Subsequently, the list was presented and discussed with industry players and experts<sup>1</sup> that agreed to be interviewed for the purpose of the analysis. Information were further validated via public information through secondary research (which covers reviews of company reports, official websites/social media pages, independent research reports, information from industry associations/authorities/internal organisations, and information from Frost & Sullivan research database) and fine-tuned by contacting identified companies (e.g., telephonic method, official social media platforms, among others).*

**Profile of Frost & Sullivan GIC Malaysia Sdn Bhd**

*FROST & SULLIVAN is a global independent industry research and consulting organisation headquartered in the United States of America with over 60 years of establishment. In Malaysia, FROST & SULLIVAN's subsidiary, Frost & Sullivan GIC Malaysia Sdn Bhd, operates two offices (Selangor and Iskandar Malaysia) with more than 200 employees offering market research, marketing and branding strategies and business advisory services across 12 industries. FROST & SULLIVAN is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other related fund-raising and corporate exercises.*

**Profile of the IMR Report signee, June Liang Pui San ("June Liang")**

*June Liang is the Country Head for Frost & Sullivan GIC Malaysia Sdn Bhd. June Liang possesses over 24 years of experience in market research and consulting, including over 15 years in independent market research and due diligence exercises for capital markets across the Asia Pacific region. June Liang holds a LLB (hons) from University of Wales, Cardiff and MBA from Imperial College.*

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<sup>1</sup> Industry players are individuals currently or previously working for direct selling companies. Industry experts are individuals with in-depth knowledge on the industry (e.g. industry analysts).

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## F R O S T &amp; S U L L I V A N

## 1 INTRODUCTION

The demand for health and wellness and other products via direct selling is growing fast. It continues to be driven, among other factors, by the growing ageing population, urbanisation trend, rising household income, changing consumer preferences towards natural/herbal products that are safe to consume and have attributed health benefits, and the increasing propensity to self-medicate and adopt preventive solutions. On the supply side, the industry is driven, among other factors, by product innovations, higher consumer penetration, the expansion of distribution channels, and the opportunity for self-employment and additional income that the direct selling industry provides to its independent representatives.

## 2 MARKET SIZE

## 2.1 THE DIRECT SELLING INDUSTRY

Direct selling means the person-to-person sale of a product or service by independent representatives<sup>2</sup>. The global direct selling industry grew at a compounded annual growth rate ("CAGR") of 2.2% from 2016 to 2018. However, the market declined by 5.4% in 2019 compared to 2018 due to lower sales in China (one of the largest markets globally). In 2020, the market grew by 2.3% compared to 2019 notwithstanding the impact from the novel coronavirus disease ("COVID-19") and continued to grow by 4.5% in 2021. The global market of direct selling is forecasted to grow in the forecasted period up to 2026, driven by various factors, including the expanding base of independent representatives and the greater e-commerce penetration. The demand for direct selling is expected to grow fast between 2021 to 2026 in Latin America and Asia Pacific. The demand from these regions will also be supported by the rapid urbanisation and the changes of the lifestyle among populations with a fast-growing income.

Table 2-1: Retail Sales via Direct Selling (USD million), Selected Countries, 2016-2026F

	2016	2019	2020	2021E	2026F	CAGR 2016-2021E	CAGR 2021E-2026F
<b>Global</b>	<b>150,705.9</b>	<b>148,989.7</b>	<b>152,400.0</b>	<b>159,258.0</b>	<b>186,420.1</b>	<b>1.1%</b>	<b>3.2%</b>
<b>Peru</b>	<b>1,844.2</b>	<b>2,272.3</b>	<b>1,810.9</b>	<b>1,835.3</b>	<b>2,579.9</b>	<b>-0.1%</b>	<b>7.0%</b>
<b>Mexico</b>	<b>7,783.8</b>	<b>8,414.9</b>	<b>7,366.5</b>	<b>8,075.2</b>	<b>8,575.8</b>	<b>0.7%</b>	<b>1.2%</b>
<b>India</b>	<b>1,996.0</b>	<b>2,478.1</b>	<b>2,715.2</b>	<b>3,000.6</b>	<b>3,847.2</b>	<b>8.5%</b>	<b>5.1%</b>
<b>Bolivia</b>	<b>361.8</b>	<b>420.5</b>	<b>459.5</b>	<b>521.6</b>	<b>783.3</b>	<b>7.6%</b>	<b>8.5%</b>
<b>Philippines</b>	<b>1,385.7</b>	<b>1,629.1</b>	<b>1,566.0</b>	<b>1,514.7</b>	<b>1,918.5</b>	<b>1.8%</b>	<b>4.8%</b>
<b>Malaysia</b>	<b>2,809.6</b>	<b>4,322.0</b>	<b>5,115.5</b>	<b>6,049.6</b>	<b>9,887.5</b>	<b>16.6%</b>	<b>10.3%</b>
<b>Middle East</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>US</b>	<b>25,233.4</b>	<b>24,294.9</b>	<b>27,669.0</b>	<b>29,135.5</b>	<b>33,235.6</b>	<b>2.9%</b>	<b>2.7%</b>
<b>Thailand</b>	<b>2,858.5</b>	<b>3,342.2</b>	<b>3,246.6</b>	<b>3,144.0</b>	<b>4,045.4</b>	<b>1.9%</b>	<b>5.2%</b>
<b>Colombia</b>	<b>2,739.5</b>	<b>2,835.7</b>	<b>2,487.9</b>	<b>2,593.9</b>	<b>3,166.7</b>	<b>-1.1%</b>	<b>4.1%</b>

Note: Retail sales value at current prices. Countries and region namely Peru, Mexico, India, Bolivia, Philippines, Malaysia, the United States of America ("US"), Thailand, Colombia, and the Middle East region respectively, are the top sources of revenue for DXN and its subsidiaries' (the "Group"). These ten selected countries and region totalled to 87.9% of the Group's revenue for the financial year ended ("FYE") 28 February 2021. The data on the retail sales value for the Middle East is not available ("NA").

Source: Frost & Sullivan

## 2.2 DIRECT SELLING OF FORTIFIED FOOD AND BEVERAGES ("FFB")

The FFB segment accounted for 8.4% of the global direct selling industry in 2021. The direct selling of FFB products is growing, driven by the higher awareness of consumers towards a healthy lifestyle and diet, and the greater availability of innovative products to fit the local consumption demand. The direct selling of FFB is forecasted to grow at a CAGR of 10.5% between 2021 and 2026.

<sup>2</sup> Independent representatives refer to individuals that have entered into independent contractor agreements with direct selling companies, to purchase products and services from the companies and be compensated for the sales and for the marketing and promotional services. Sometimes also referred to as distributors, members, consultants or other titles.



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Table 2-2: Retail Sales via Direct Selling of FFB (USD million), Selected Countries, 2016-2026F

	2016	2019	2020	2021E	2026F	CAGR 2016-2021E	CAGR 2021E-2026F
<b>Global</b>	<b>8,010.6</b>	<b>10,477.2</b>	<b>11,598.9</b>	<b>13,331.4</b>	<b>21,946.2</b>	<b>10.7%</b>	<b>10.5%</b>
<b>Peru</b>	217.3	249.7	257.1	253.3	326.0	3.1%	5.2%
<b>Mexico</b>	370.9	454.4	427.3	476.4	583.2	5.1%	4.1%
<b>India</b>	75.8	116.5	135.8	168.3	339.3	17.3%	15.1%
<b>Bolivia</b>	62.6	106.4	119.0	146.0	216.2	18.5%	8.2%
<b>Philippines</b>	100.3	117.8	105.2	119.3	180.5	3.5%	8.6%
<b>Malaysia</b>	88.7	137.9	179.0	222.2	420.0	20.2%	13.6%
<b>Middle East</b>	NA	NA	NA	NA	NA	NA	NA
<b>US</b>	1,464.5	2,173.3	2,064.7	2,399.1	3,831.3	10.4%	9.8%
<b>Thailand</b>	202.2	217.7	207.4	233.9	333.1	3.0%	7.3%
<b>Colombia</b>	73.0	64.9	60.5	63.8	73.7	-2.7%	2.9%

Note: Retail sales value at current prices.

Source: Frost & Sullivan

## 2.3 DIRECT SELLING OF HEALTH AND DIETARY SUPPLEMENTS ("HDS")

HDS comprised 16.0% of the global direct selling industry in 2021. HDS has proven to be popular in 2020 and 2021 due to consumers opting for supplements to boost their immune system pursuant to the COVID-19 pandemic. The direct selling of HDS will continue to grow due to the greater awareness on the benefit of these products for the prevention of diseases. The development and introduction of new products with natural herbal ingredients, probiotics and known health benefits continue to attract consumers. The direct selling of HDS is forecasted to expand at a CAGR of 4.1% between 2021 and 2026.

Table 2-3: Retail Sales via Direct Selling of HDS (USD million), Selected Countries, 2016-2026F

	2016	2019	2020	2021E	2026F	CAGR 2016-2021E	CAGR 2021E-2026F
<b>Global</b>	<b>22,159.7</b>	<b>22,321.1</b>	<b>23,976.9</b>	<b>25,487.4</b>	<b>31,095.1</b>	<b>2.8%</b>	<b>4.1%</b>
<b>Peru</b>	131.8	199.0	210.1	208.0	309.5	9.6%	8.3%
<b>Mexico</b>	521.0	629.8	635.0	748.1	970.0	7.5%	5.3%
<b>India</b>	274.0	384.1	431.7	554.2	778.5	15.1%	7.0%
<b>Bolivia</b>	28.3	32.6	43.2	54.2	82.1	13.9%	8.7%
<b>Philippines</b>	122.8	128.0	160.2	190.5	259.4	9.2%	6.4%
<b>Malaysia</b>	154.7	246.4	349.0	467.3	934.4	24.7%	14.9%
<b>Middle East</b>	NA	NA	NA	NA	NA	NA	NA
<b>US</b>	3,312.1	3,612.1	4,123.9	4,474.5	5,206.5	6.2%	3.1%
<b>Thailand</b>	297.8	388.6	453.4	505.7	728.8	11.2%	7.6%
<b>Colombia</b>	46.6	40.4	42.0	46.2	57.0	-0.2%	4.3%

Note: Retail sales value at current prices.

Source: Frost & Sullivan

## 2.4 DIRECT SELLING OF PERSONAL CARE AND COSMETICS ("PCC")

PCC represented approximately 27.5% of the global direct selling industry in 2021. In 2020, the demand for cosmetics declined as consumers stayed at home due to the lockdown measures implemented as a result of the COVID-19 pandemic. Nevertheless, the sales of PCC were supplemented by the higher demand for personal hygiene products. Moving forward, the direct selling of PCC is forecasted to be driven by continuous product innovations by industry players and greater preference for natural ingredients and chemical-free products. The direct selling of PCC is forecasted to expand at a CAGR of 5.3% between 2021 and 2026.

Table 2-4: Retail Sales via Direct Selling of PCC (USD million), Selected Countries, 2016-2026F

	2016	2019	2020	2021E	2026F	CAGR 2016-2021E	CAGR 2021E-2026F
<b>Global</b>	<b>42,595.3</b>	<b>43,337.1</b>	<b>42,728.1</b>	<b>43,842.8</b>	<b>56,858.1</b>	<b>0.6%</b>	<b>5.3%</b>
<b>Peru</b>	891.8	1,208.7	919.1	900.8	1,338.9	0.2%	8.2%
<b>Mexico</b>	2,359.2	2,703.9	2,361.7	2,598.1	2,701.4	1.9%	0.8%
<b>India</b>	469.2	596.4	646.2	716.1	872.9	8.8%	4.0%

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	2016	2019	2020	2021E	2026F	CAGR 2016-2021E	CAGR 2021E-2026F
<b>Bolivia</b>	143.9	179.9	163.0	173.7	245.2	3.8%	7.1%
<b>Philippines</b>	417.2	422.9	382.7	366.1	523.4	-2.6%	7.4%
<b>Malaysia</b>	481.9	735.8	906.2	1,088.9	1,829.2	17.7%	10.9%
<b>Middle East</b>	NA	NA	NA	NA	NA	NA	NA
<b>US</b>	4,779.4	5,686.6	6,544.7	6,864.6	8,308.9	7.5%	3.9%
<b>Thailand</b>	809.7	994.8	1,025.9	1,002.9	1,274.3	4.4%	4.9%
<b>Colombia</b>	934.6	909.2	771.5	787.2	981.7	-3.4%	4.5%

Note: Retail sales value at current prices.

Source: Frost & Sullivan

### 2.5 USE OF NATURAL INGREDIENTS FOR THE PRODUCTION OF FFB, HDS AND PCC

FFB, HDS and PCC products can be produced with natural and/or synthetic ingredients. Natural ingredients, including those which are herbal-based, may contain various active compounds that are beneficial to individuals. Companies with in-house integrated research and development ("R&D") processes develop innovative products to differentiate their offering from that of competitors. Companies also benefit from having greater control over the cultivation and manufacturing processes by ensuring the original form of the natural ingredient is preserved across the value-chain without losing its efficacy.

The Group is involved in the cultivation of various natural ingredients, including but not limited to Ganoderma and Spirulina. The global market of Ganoderma is forecasted to grow at a CAGR of 9.3% from USD4.3 billion in 2021 to USD6.7 billion in 2026<sup>3</sup>. Meanwhile, the global market of Spirulina is forecasted to grow at a CAGR of 9.5% from USD419.0 million in 2021 to USD660.3 million in 2026. Both market growths are driven by the application in end products, such as FFB, HDS and PCC.

Some of the benefits of these products include the following: **Ganoderma** contains natural constituents, including polysaccharides, adenosine, triterpenoids, protein, fibre, minerals and vitamins, that improve body functions and general well-being<sup>4&5</sup>. **Spirulina** contains a variety of nutrients, including protein, lipids (high level polyunsaturated fatty-acids), antioxidants (beta-carotene), chlorophyll, phycocyanin, vitamins and minerals (iron). In general, it is used to promote an alkaline body condition and to keep people healthy and energetic<sup>6</sup>; **Cordyceps** contains cordycepin acids, amino acid, glutamic acid and polysaccharides. Although not scientifically proven, it is used in Chinese medicine to promote better stamina, energy, libido, sleeping patterns, longevity and maintain a healthy respiratory system<sup>7</sup>.

### 3 DEMAND DRIVERS

**Consumers' Preference for Products with Natural Ingredients:** Consumers increasingly opt for safer products with natural ingredients that involve minimal processing, with no artificial preservatives or colouring, due to the lower risk of negative side effects<sup>8</sup>. The understanding of the efficacy of natural ingredients and the proven positive effect build trust and create stickiness among consumers. Besides, plant-based, organic and vegan products are also gaining popularity as consumers become more aware and concerned about the impact on the environment brought about by certain synthetic ingredients. Google searches relating to sustainable goods increased by 71% between 2016 and 2020<sup>9</sup>. The number of businesses in the food, cosmetic and natural pharmaceutical industries globally committed to sourcing

<sup>3</sup> Frost & Sullivan analysis

<sup>4</sup> The Functional Medicine Center. (n.d.). *Ganoderma Lucidum*. Retrieved from the Functional Medicine Center: <https://fxmedicinecenter.com/ganoderma/>.

<sup>5</sup> Ahmad, M. F. (2018). *Ganoderma lucidum: Persuasive biologically active constituents and their health endorsements*. *Elsevier*, 107, 507-519. <https://doi.org/10.1016/j.biopha.2018.08.036>.

<sup>6</sup> Japan Algae Co., Ltd. (n.d.). *For a healthy daily life superfood spirulina*. Retrieved from Japan Algae Co., Ltd: <http://www.sp100.com/pdf/Spirulina%20Leaflet.pdf>.

<sup>7</sup> Kumar, R., Negi, P.S., Singh, B., Ilavazhagan, G., Bhargava, K., & Sethy, N.K. (2011). *Cordyceps sinensis promotes exercise endurance capacity of rats by activating skeletal muscle metabolic regulators*. *Journal of Ethnopharmacology*, 136(1), 260-266. <https://doi.org/10.1016/j.jep.2011.04.040>.

<sup>8</sup> US National Library of Medicine National Institutes of Health "Cosmetic benefits of natural ingredients", 2014.

<sup>9</sup> The Economist Intelligence Unit, *An Eco-Wakening: Measuring Global Awareness, Engagement and Action for Nature*, 2021.

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practices that protect biodiversity increased by 45% between 2016 and 2020. These trends will likely continue moving forward driven by consumers and responsible businesses.

**Growing Awareness on Health and Wellness Products and Propensity for Self-Medication:** The health and wellness sector is a large and growing global market on the back of favourable demand and supply dynamics. The total retail sales of health and wellness products (across different channels, including via direct selling) grew at a CAGR of 5.1% between 2016 and 2021<sup>10</sup>. In 2020 alone this market grew by 4.8% year-on-year, and it continued to grow by 6.5% year-on-year in 2021 due to the increasing awareness and demand for products to boost the immune system following the spread of the COVID-19 pandemic.

Due to the increasing prevalence of chronic diseases and rising healthcare costs, consumers are taking a preventive approach and seeking products with health benefits. Consumers also actively seek health-related information and are increasingly capable of understanding it. They are generally prone to continue purchasing a product if proven to be effective and make it part of their daily diet. Besides prevention, consumers increasingly adopt self-medication practices for mild illnesses based on previous experiences in treating similar illnesses. This propensity is also driven by the inability to access healthcare centres due to travel restrictions and the avoidance of high risks areas, among other reasons, during the outbreak of COVID-19. These factors continue to drive the consumption of health and wellness products. This market is estimated to grow at a faster CAGR of 6.2% between 2021 and 2026 as compared to the period between 2016 and 2021.

**Ageing Population:** The world's population aged 65 years old and above grew at a CAGR of 3.6% from 629.7 million in 2016 to 752.6 million in 2021<sup>11</sup>. This age group accounted for 8.4% of the total population of the world in 2016 and 9.6% in 2021. By 2026, the elderly population is forecasted to be 880.3 million people and contribute to 10.7% of the world's population<sup>12</sup>. The elderly population growth positively correlates with the rising demand for FFB and HDS. The elderly is encouraged to take more vitamins and minerals than younger adults to prevent deficiencies due to reduced metabolism and declined organs' functions. In addition, the rising emphasis on physical appearance is likely to drive the demand for selected PCC products for anti-aging, starting at a young age<sup>13</sup>.

**Urbanisation and Rising Income:** In mid-2021, 56.6% of the world population was estimated to reside in urban areas. Urban population is forecasted to reach 58.8% of total by mid-2026<sup>14</sup>. The urbanisation process, with citizens relocating from rural to urban areas seeking a higher standard of living, better job prospects and salaries, leads to a higher average income. However, lifestyle changes related to the urbanisation process, such as longer working hours, unhealthy eating habits and stress, may lead to the higher demand for packaged food which can be fortified with key nutrients. The category of packaged food includes ready-to-eat products which can be conveniently consumed on-the-go and ready-to-cook products which can be easily prepared in and out from home. A higher income indicates higher purchasing power, which leads consumers to seek healthier options (and natural products) including HDS products.

**Expanding Personal Care Products Range:** The growth of social media raised both the awareness on the availability of various personal care products and the demand for these products. Consumers are increasingly looking for personalised products that fit their needs, budget and lifestyle. They are increasingly following a multi-step skin care routine and practicing a proactive approach towards skin care<sup>15</sup>.

<sup>10</sup> Frost & Sullivan analysis

<sup>11</sup> United Nations ("UN") World Population Prospects 2019.

<sup>12</sup> Percentage calculated on elderly population by UN World Population Prospects 2019 using total population and elderly population data.

<sup>13</sup> Social Standards, Anti-Aging Data – July 2020.

<sup>14</sup> United Nations, World Urbanisation Prospects: The 2018 Revision.

<sup>15</sup> Skin Care in Asia Pacific, "Key Trends and Opportunities, In-Cosmetics Asia Presentation Summary", 12 April 2018.



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**Government Support and Acceptance in Complementary Medicine:** The use of natural herbal ingredients with medicinal value by the traditional and complementary medicine ("T&CM") industry received encouraging responses around the world. This is proven by 88% of World Health Organization's ("WHO") Member States acknowledging the use of T&CM as at 2018, which is in line with the WHO's Traditional Medicine Strategy 2014-2023<sup>16</sup>.

**Demand of Personalised Services through Direct Selling:** Consumers find value through personalised services, such as recommendations of products tailored to their needs. To understand customer needs, independent representatives usually build a relationship with their customers, provide usage instructions and collect after-sales feedback. This may lead to a satisfactory and positive experience associated with the brand and the company. Additionally, independent representatives are usually users of the products who can provide first-hand testimonials, thus increase the acceptance of products and credibility for the new users.

### 4 COVID-19 IMPACT

During the outbreak of COVID-19, the production and distribution of FFB, HDS and PCC products were affected by the movement restrictions of workers and closure of production facilities. However, with the global rollout and uptake of COVID-19 vaccines as at April 2022 contributing to a gradual re-opening of business operations, the overall production and distribution of consumer products is gradually normalising. The April 2022 release of the Global Sector Purchasing Managers' Index from IHS Markit revealed higher output across 19 out of 21 sectors monitored, including household and personal use products<sup>17</sup>.

The direct selling industry was impacted as COVID-19 restricted person-to-person physical meetings, leading to challenges in closing sales. Nevertheless, direct selling companies and independent representatives are increasingly building their online presence. Physical meetings are gradually replaced by instant messaging, online meetings, virtual product demonstrations and home deliveries. Social media platforms are increasingly used for member engagement and community-building initiatives (e.g. sharing tips, stories, product launches). Online shopping may become habitual even after the economic activity returns to a new normality as consumers become familiar and comfortable transacting online.

The COVID-19 pandemic caused an economic downturn, leading to higher unemployment or pay cuts. Accordingly, more people seek ways to generate additional income. Direct selling is an attractive alternative to generate a side income besides having a full-time job, leveraging on the flexible working hours or to be dedicated fully as entrepreneurs. The COVID-19 pandemic accelerated the growth of independent representatives from 120.2 million in 2019 to 125.4 million in 2020<sup>18</sup>. As representatives of a direct selling company, they also benefit from related company policies, including purchasing products at reduced prices. The benefits attract more independent representatives in the direct selling industry which expand and drive the growth of this industry. This direct selling industry becomes a mutually beneficial distribution channel for all stakeholders, including industry players (that can grow sales), members (that can earn a side income) and customers. Customers ultimately benefit from the availability of products at affordable prices due to the lower costs across the whole distribution system and from the after-sales customer service directly by members.

### 5 VALUE CHAIN

A simplified version of the value chain of the direct selling industry includes four main steps, comprising (i) R&D, (ii) cultivation / raw material supply, (iii) manufacturing, and (iv) distribution and sales. Integrated industry players have presence across all these four steps of the value chain, while non-integrated players are generally only involved in manufacturing and distribution and sales via direct selling. The Group has presence across the value chain.

<sup>16</sup> WHO, WHO Global Report On Traditional And Complementary Medicine 2019.

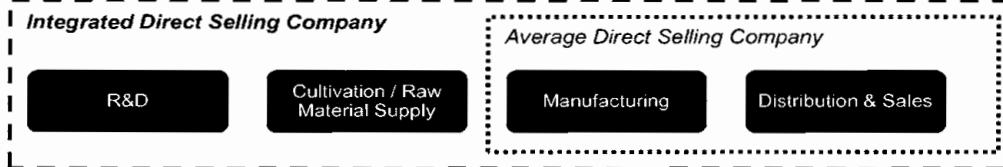
<sup>17</sup> Markit Economics: IHS Markit Global Sector PMI™, April 2022.

<sup>18</sup> World Federation of Direct Selling Association("WFDSA"), Statistical Database, 2017-2020.

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Chart 5-1: Simplified Value Chain of FFB, HDS, PCC Products through Direct Selling



Note: The dashed line box indicates the operations of integrated direct selling companies.

Source: Frost & Sullivan

A balanced mix of in-house cultivation and supply from external parties has its benefits. It helps to provide greater control, build competencies and achieve efficient cultivation volumes of a few selected products (optimising land cost and staff availability), while sourcing externally from trusted partners for products that other industry players are able to produce more efficiently and at a lower cost.

To penetrate new markets, some industry players partner with external distribution agencies that have the advantage of local market know-how, better knowledge of the customers' needs, demand forecasts and better networks with local stakeholders. For sales activities, industry players increasingly rely on digital platforms that help direct selling companies and their members to stay connected, grow sales and widen the customer base.

## 6 KEY SUCCESS FACTORS AND BARRIERS TO ENTRY

**Integrated Business Model / Economies of Scale / Scalability:** Fully-owned operations and the integration along the value chain allow industry players to control processes and reduce costs, thus operate efficiently and achieve better margins. For instance, the ownership of production facilities in strategic locations allows industry players to leverage local resources including land and labour, and different climatic characteristics which can reduce the risk of disruptions in the supply-chain, while ensuring production reliability, cost-efficiency with proximity to the target markets and minimising the impact of exchange rate fluctuations, among other advantages. Integrated players may also benefit from incentives provided by local authorities. In addition, it is easier for integrated players with vast localised operations to comply with regulatory requirements. Integrated players can make the relevant adjustments or modifications to the product across the different stages of the value chain and ensure its compliance with the requirements of the local authorities. New market entrants may take longer to achieve scale and compete with integrated players. Direct selling companies also have generally lower fixed costs (e.g. advertising and marketing, management overhead, salaries and compensation) compared to the physical traditional retailers. With an asset-light structure, direct selling companies are able to leverage the extra savings for investments or incentives to their members. Due to the lower fixed costs, direct selling companies benefit from a greater degree of flexibility to scale-up and scale-back their production and operations based on the latest sales figures and changes in demand from consumers.

**Strong Distribution Network through a Large Global Base of Highly-Engaged Members:** A large global base of highly-engaged members allows companies to reach end consumers fast and build brand visibility through different channels. It also allows for an effective and cost-efficient distribution network across geographies to counter cyclical downturns. To ensure that members are engaged and to create a sense of belonging to the community, direct selling companies may support their outreach and help them in achieving sales targets. Some of the key approaches include assisting the members to create personal websites with the latest and coherent marketing content. Key industry players also generally set aside a portion of the revenue/profit for events and training programs for products (retailing), network marketing (recruitment) and recognition and motivation (retention). A large diversified global distribution network also allows industry players to mitigate their financial exposure to any particular market.

**Quality Assurance through Accreditation and Certifications:** Accreditations and certifications increase consumers' confidence in purchasing a product. Companies that have solid track records are in a better position to attract new and retain existing customers.

**Smart Operations Driven by Intelligence and Information Technology ("IT") Solutions:** Successful integrated players leverage on market intelligence and insights, gathered via IT solutions, such as integrated business platforms, to make informed decisions and grow their



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business. These players invest in automated processes that gather real-time information across the various steps of the value chain, from cultivation to sales, and can trigger cross-functional activities between departments. This information helps with the internal planning (human resource management), optimise the procurement of raw materials and the production volume (based on sales and inventories), optimise logistics (sourcing and delivery) and selling processes (invoicing and collection), track recruitment and auto calculate the member's rewards and bonuses, among others. Companies operating in multiple geographies benefit from a solid IT system that integrates and standardises different sets of information across countries (due to different tax reporting standards, different product registration requirements, etc.).

**Technological Advancement in Cultivation and Production:** The adoption of technological advancements in cultivation and production activities creates opportunities to improve the harvesting yield and pull nutrients out of base ingredients to be further used for product innovation, among other benefits. Companies that have in-house R&D can better reap the full potential of biotechnological advancements. In addition, the adoption of machinery for production at scale improves the speed and efficiency of the operations, and minimises wage costs, thus supporting healthy profit margins. Some of the machinery offers the flexibility to manufacture different range of products to enhance the efficiency of production.

**Product Innovation:** Companies with a diverse and evolving portfolio of new high-quality products sold at different price-points are able to constantly build excitement among consumers and satisfy their ever-changing needs, while meeting different local regulatory requirements, and accordingly grow the addressable market. Product innovations include the enhancement of existing products or the development of new products. Innovations related to natural ingredients, backed by science-based product development approaches, are able to enhance the credibility of a product while meeting consumer demand. Generally, industry players choose to selectively roll out products when entering new markets to collect feedback from customers and have a higher success rate. New product launches are vital for member and customer engagement / excitement, and provide companies with ongoing future revenue streams.

**Sustainable Strategies:** Direct selling companies offer different compensation or incentive models to attract, engage and retain members. The key to success is to strike the right balance between members' sales and recruitments. Attractive compensation plans offered by direct selling companies motivate the members to be actively involved in promoting and selling the products, while expanding the network. Generally, direct selling companies that do not require an upfront membership fee, that have transparent marketing plans with clear incentives and career-path structures for the members, and that incentivise sales to customers rather than inventory loading may have an advantage in attracting new members and expanding the distribution network sustainably while building a strong reputation. These practices allow direct selling companies to build a business that can sustain over the long-term, do not exploit members in generating "inflated" sales figures and nurture them with the proper incentives and support to generate tangible revenue opportunities.

**Adoption of Modern Marketing Tools:** Direct selling companies continuously look for new and innovative ways to promote their products and brands following the latest trends in consumer habits and preferences. For instance, influencer marketing via social media platforms and the use of recommendations or endorsements from influencers or content creators are increasingly gaining traction to attract and engage customers. Due to the higher internet and smartphone penetration, industry players are also adopting technological solutions to support their members and engage their customers, such as virtual make-up applications and nutrition apps or supplement trackers that trace health data and provide personalised recommendations.

**Experienced Management Team:** The experience and diverse capabilities of the management team are crucial for a company to be successful. A long list of various certifications and industry awards gathered over the years by an organisation testifies the capabilities of a management team in building a successful business.

**Strong Brands and Established Customer Relationship:** Direct selling companies build their brand by selling quality products that are suitable for local consumption at an acceptable price. To achieve this, direct selling companies build a strong network of members and partners that understand the products and the target customers, building customers relationship and loyalty. This creates customer stickiness and strong barriers to entry for new market players.

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## 7 COMPETITIVE LANDSCAPE

The direct selling market of FFB, HDS and PCC products is highly fragmented. It comprises both small localised and large multinational companies, with different product offerings and geographical presence. In this fragmented market, the Group has positioned itself with innovative differentiated products which are manufactured in-house with level of capital expenditure similar to that of comparable direct selling companies. Its success is demonstrated by high profit margins and a substantial market share in selected products and countries. The analysis below provides information on key direct selling players comparable with the Group, covering FFB, HDS and PCC products and having a broad geographical presence.

## 7.1 PROFILE OF KEY INDUSTRY PLAYERS

All selected players comparable with the Group sell all three of the product categories (FFB, HDS and PCC) covered in this report. Among the selected players, three of the players are vertically integrated with presence across the value chain. The Group has more cultivation and manufacturing facilities than these selected players. Among the selected players, the Group has the largest percentage of in-house manufactured product (about 90% of the products sold (based on gross sales) for the FYE 28 February 2021).

Most of the key selected players require a payment for members to join, either a one-off fee or an annual fee, except for the Group and Nu Skin. The Group has the same compensation model and marketing plan across different countries while other selected players have localised compensation model and marketing plan. The Group's total member count is growing fast at a CAGR of 13.6% from 2019 to 2021. The Group has among the largest number of active members in 2021 compared to the other key selected players.

Table 7-1: Operational Details of Selected Direct Selling Players <sup>(1)</sup>

Company	Geographical presence/distribution footprint 2019 (# countries) <sup>(3)</sup>	Geographical presence/Distribution footprint 2021 (# countries) <sup>(3)</sup>	R&D <sup>(4)</sup>	Cultivation <sup>(4)</sup>	Manufacturing <sup>(4)</sup>	Indicative % of products produced in-house (% of sales value in 2021)
DXN	43	48	Yes (2)	Yes (5)	Yes (9)	~90%
Amway Corporation	>100	>100	Yes (11)	Yes (4)	Yes (6)	~15%
Herbalife Nutrition Ltd ("Herbalife")	94	95	Yes (6)	Yes (1)	Yes (4)	~60% <sup>(5)</sup>
Nu Skin Enterprises Inc ("Nu Skin")	~50	~50	Yes (2)	NA	Yes (4)	10-20%
Oriflame Holdings AG ("Oriflame")	>60	>60	Yes (2)	No	Yes (6)	>70% <sup>(6)</sup>
USANA Health Sciences, Inc ("USANA")	24	24	Yes (2)	No	Yes (4)	~65%

Notes: The information is provided for reference only and is indicative in nature. The information provided is based on a best effort basis of publicly available information as at April 2022 and interviews with industry players / stakeholders. Information available may be limited and not available in a standardised form. Accordingly, Frost & Sullivan makes no warranties, expressed or implied, on the accuracy and/or on the comprehensiveness of the information in this table.

(1) The list of players may not be comprehensive. (2) The players are selected based on the presence in the three main product categories (FFB, HDS and PCC) of the Group, based on a global presence in more than 20 countries, and based on the availability of selected financial information. (3) Geographical presence/ distribution footprint refers to where the players have branches or subsidiaries. (4) "Yes" denotes the presence in the value chain. The number in bracket denotes the number of facilities owned. (5) Products produced in-house for Herbalife is based on the "Inner Nutrition" product line. (6) Products produced in-house for Oriflame is based on the percentage (%) of manufactured products in 2021.

Source: Frost & Sullivan; key selected players' websites, annual reports, publicly available sources

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Table 7-2: Members Details of Selected Direct Selling Players

Company	Membership Fee <sup>(1)</sup>	Total Members 2019 <sup>(2)</sup>	Total Members 2021 <sup>(2)</sup>	Total Members CAGR 2019-2021	Details of Members 2021	Unified Compensation Model and Bonus Structure
DXN	No	9.3 mil	12.0 mil	13.6%	3.4 mil active members (purchased in the preceding calendar year)	Yes
Amway Corporation	Yes	~10 mil	~10 mil	NA	~1.5 mil active members (purchased in the preceding calendar year)	No
Herbalife	Yes	4.7 mil	6.3 mil	15.8%	~0.6 mil active members (purchased in the preceding calendar year)	No
Nu Skin	No	NA	NA	NA	1.4 mil active customers <sup>(3)</sup> (purchased in the previous 3 months period)	No
Oriflame	Yes	3.0 mil	2.5 mil	-8.7%	~1.0-1.5 mil active members (based on purchases in campaigns in the preceding calendar year)	No
USANA	Yes (for associate)	NA	NA	NA	560,000 Associates and Preferred Customers (members who purchased in the recent 3 months period)	No

Notes: The information is provided for reference only and is indicative in nature. The information provided is based on a best effort basis of publicly available information as at April 2022 and interviews with industry players / stakeholders. Information available may be limited and not available in a standardised form. Accordingly, Frost & Sullivan makes no warranties, expressed or implied, on the accuracy and/or on the comprehensiveness of the information in this table.

(1) Refer to a monetary membership fee. It excludes registration packages with products. The US has been used as a benchmark country for the membership fee comparison, except for Oriflame in United Kingdom. (2) Total member denotes overall membership number. (3) "Customers" for Nu Skin refer to the number of persons who purchased products directly from the company during the previous 3 months. (4) NA indicates that the data is not available.

Source: Frost & Sullivan; key selected players' websites, annual reports, publicly available sources

Compared to the average financial results of selected publicly listed players with manufacturing capabilities, the Group recorded the fastest revenue growth and consistently higher gross margins in the latest financial years. Overall, the Group also recorded higher earnings before interest, tax, depreciation and amortisation ("EBITDA") margin, while manufacturing in-house innovative differentiated products with capital expenditure similar to that of comparable publicly listed players with manufacturing capabilities.

Table 7-3: Financial Benchmarking of the Group and Selected Publicly Listed Direct Selling Players

Company	Revenue CAGR FYE 2021 vs FYE 2019	Gross Margin (%) FYE 2019	Gross Margin (%) FYE 2021	EBITDA Margin (%) FYE 2021	Depreciation and Amortisation/ Revenue (%) FYE 2021
DXN <sup>(1)</sup>	7.6%	83.9%	82.9%	31.5%	3.0%
Average of selected companies with in-house manufacturing capabilities <sup>(2)</sup>	2.6%	76.7%	75.8%	15.1%	2.7%
Selected company without in-house manufacturing capabilities <sup>(3)</sup>	5.5%	25.2%	17.9%	4.5%	1.1%

Notes: Information based on the latest financial statements publicly available as at April 2022. (1) The financial information for DXN is based on the FYE 28 February 2021 and FYE 28 February 2019, while the financial information for other selected publicly listed players is based on the FYE 31 December 2021 and FYE 31 December 2019; (2) Analysis based on Herbalife, Nu Skin, Oriflame, USANA. Oriflame Holding AG was delisted from the Nasdaq Stockholm Exchange in July 2019; (3) Analysis based on Amway (Malaysia) Holdings Berhad.

Source: Frost & Sullivan; key selected players' websites, annual reports, publicly available sources



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## 7.2 MARKET SHARE

The Group has a stronger presence in the direct selling of FFB as compared to HDS and PCC. Based on total retail sales of FFB via direct selling, the Group ranked among the top 3 players respectively in Bolivia and Peru, and among the top 5 players in the Philippines in 2021. In the same year, the Group also ranked among the top 10 players, based on retail sales of HDS via direct selling in the Philippines. Overall, the Group ranked among the top 10 players based on total sales in the direct selling industry in Peru and Bolivia in 2021.

**Table 7-4: Indicative market share of the Group on the Direct Selling of FFB, HDS and PCC, Based on Sales Value, Global and Selected Countries, 2019 and 2021**

Country	FFB		HDS		PCC	
	2019	2021E	2019	2021E	2019	2021E
Global	2%	2%	<1%	<1%	<1%	<1%
Peru	29%	29%	2%	4%	<1%	<1%
Mexico	8%	9%	1%	1%	<1%	<1%
India	13%	9%	6%	3%	1%	1%
Bolivia	38%	37%	3%	2%	Not present	Not present
Philippines	13%	13%	7%	6%	<1%	<1%
Malaysia	7%	3%	7%	3%	1%	<1%
Middle East	NA	NA	NA	NA	NA	NA
US	<1%	<1%	<1%	<1%	<1%	<1%
Thailand	1%	<1%	1%	1%	<1%	<1%
Colombia	5%	5%	4%	2%	<1%	<1%

*Note: The market share is provided for reference only and is indicative in nature. It is based on a best effort basis of primary interviews with industry players / stakeholders and publicly available information. Estimation based on the sales data provided by the Group to Frost & Sullivan. The estimated market share for the Middle East is not available due to the lack of the market data on the total retail sales value.*

Source: The Group; Frost & Sullivan

## 8 SUMMARY PROSPECTS AND OUTLOOK FOR THE GROUP

The Group is positioned with a portfolio of innovative differentiated products, manufactured in-house with capital expenditure similar to that of comparable publicly listed players with manufacturing capabilities. Its success is demonstrated by high profit margins and a substantial market share in selected products and countries. The Group has the potential to further penetrate the market for FFB, HDS, PCC and other products within the direct selling industry.

Leveraging on its established presence across the value chain, with integrated and majority-owned production facilities, the Group has full control on the quality of its products. This aids in obtaining and retaining relevant certifications, and ultimately enhances trust among its members and customers. The R&D capabilities allow the Group to be innovative in expanding its product offerings with natural ingredients. Its cultivation capability with facilities located in different countries also allows it to have a stable supply of raw materials and be less affected by exchange rate fluctuations. The combined capability to cultivate and manufacture, coupled with technological advancements, enable the Group to produce the majority of its innovative products in-house. Drawing on its extensive experience in cultivating and manufacturing health and wellness products, the construction of a wellness and retreat centre gives the Group another avenue to serve and sell its natural products to its members, further strengthening the brand.

The sustainable membership model adopted by the Group allows it to expand the base of members while keeping them active and engaged with reasonable income and rewards. The large base of active members helps to build a strong global distribution network for the Group and focused on sales. The members of the Group are supported by digital tools, such as the members' messaging app, the eWorld web and DXN mobile application, and the possibility to build a personalised website for marketing initiatives. The direct selling activities allow the Group to have a scalable and asset-light business model, which can be easily replicated in new geographical markets, driven by a founder-led and experienced management team.