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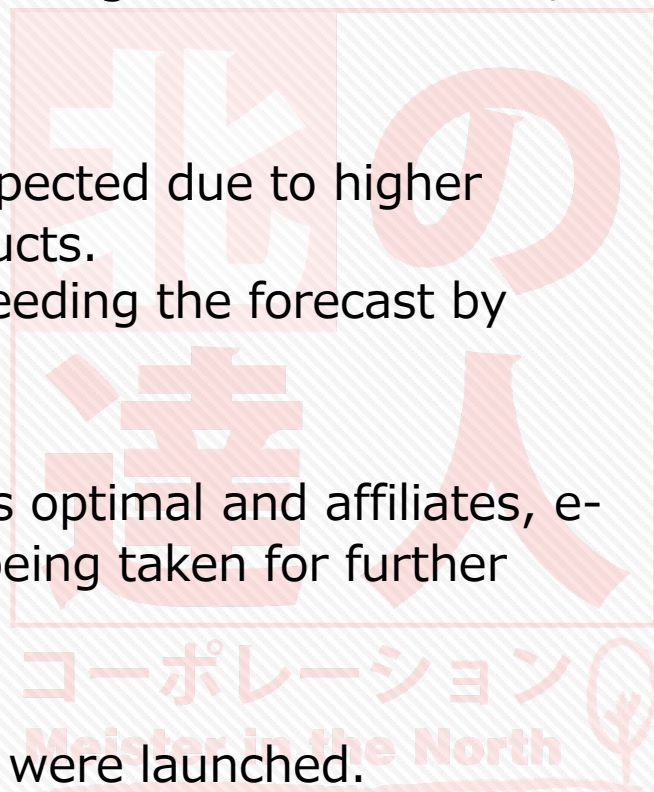
# Supplementary Material for the Second Quarter of the Fiscal Year Ending February 28, 2022

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Stock code: 2930  
Kitanotatsujin Corporation  
October 15, 2021

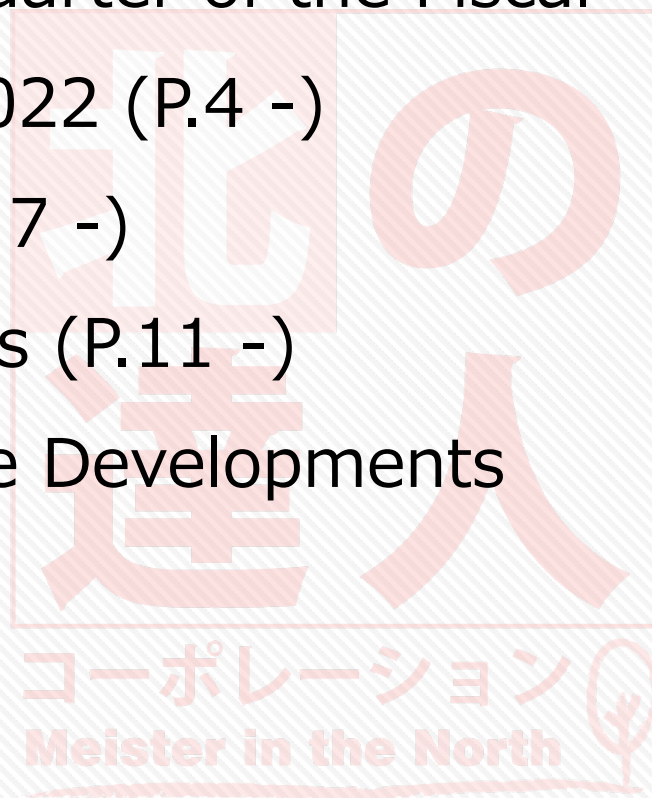
# Executive Summary

- 
 The number of new customer acquisitions was higher than expected, with an increase of +14% year on year, resulting in net sales of ¥4,937 million, exceeding the forecast by 4.9%.
- 
 Gross profit margin improved more than expected due to higher proportion of sales from low cost rate products. Operating profit was ¥983 million, also exceeding the forecast by 10.9%.
- 
 Efficiency of advertising investment remains optimal and affiliates, e-commerce malls, and other measures are being taken for further growth.
- 
 The Company's first mass-market products were launched.



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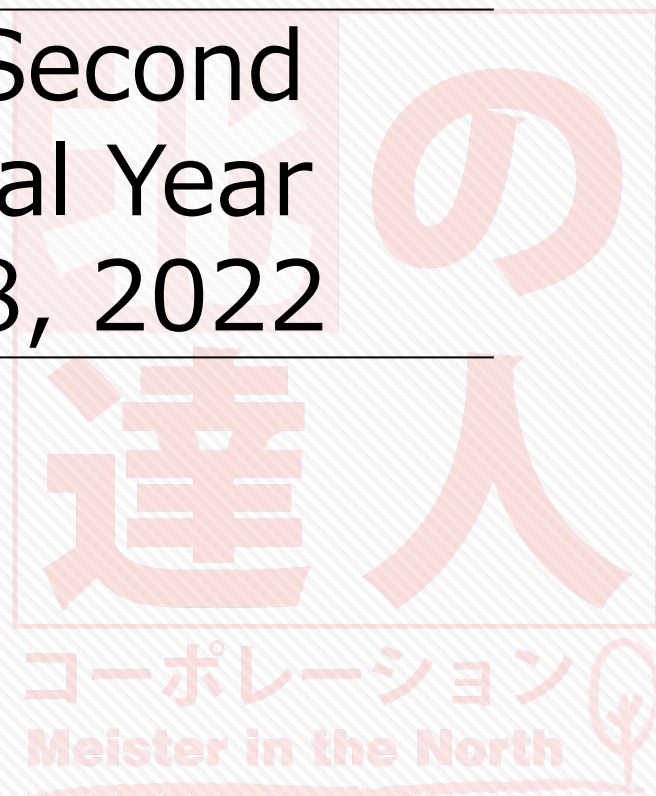
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# Highlights for the Second Quarter of the Fiscal Year Ending February 28, 2022

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## Key Performance Highlights [Compared with Forecasts (Plan)]

\* Transitioned to consolidated accounting from the fiscal year ending February 28, 2022.

(Millions of yen)

	Consolidated forecast (plan) for the second quarter	Results for the second quarter	Changes	Changes (%)
Net sales	<b>4,708</b>	<b>4,937</b>	<b>+228</b>	<b>+4.9%</b>
Gross profit	<b>3,516</b>	<b>3,755</b>	<b>+238</b>	<b>+6.8%</b>
Selling, general and administrative expenses	<b>2,629</b>	<b>2,771</b>	<b>+141</b>	<b>+5.4%</b>
Advertising expenses	<b>1,234</b>	<b>1,400</b>	<b>+165</b>	<b>+13.4%</b>
Operating profit	<b>887</b>	<b>983</b>	<b>+96</b>	<b>+10.9%</b>
Operating profit margin	<b>18.8%</b>	<b>19.9%</b>	<b>+1.1pt higher</b>	
Ordinary profit	<b>889</b>	<b>995</b>	<b>+106</b>	<b>+11.9%</b>
Profit attributable to owners of parent	<b>614</b>	<b>684</b>	<b>+69</b>	<b>+11.3%</b>

- The number of new customer acquisitions increased 14% year on year, a significantly higher increase than expected, and net sales and profit at each level were higher than the forecast.
- To prevent opportunity losses, advertising investment was strategically and aggressively executed.

## Key Performance Highlights [Year on Year]

\* Transitioned to consolidated accounting from the fiscal year ending February 28, 2022.

(Millions of yen)

	<Reference> Results (non-consolidated) for the second quarter of the fiscal year ended February 28, 2021	Results (consolidated) for the second quarter of the fiscal year ending February 28, 2022	Changes	Changes (%)
Net sales	4,592	<b>4,937</b>	<b>+345</b>	<b>+7.5%</b>
Gross profit	3,462	<b>3,755</b>	<b>+292</b>	<b>+8.4%</b>
Selling, general and administrative expenses	2,432	<b>2,771</b>	<b>+338</b>	<b>+13.9%</b>
Advertising expenses	1,355	<b>1,400</b>	<b>+44</b>	<b>+3.3%</b>
Operating profit	1,030	<b>983</b>	<b>-46</b>	<b>-4.5%</b>
Operating profit margin	22.4%	<b>19.9%</b>	<b>-2.5pt</b>	
Ordinary profit	1,033	<b>995</b>	<b>-38</b>	<b>-3.7%</b>
Profit (attributable to owners of parent)	717	<b>684</b>	<b>-33</b>	<b>-4.7%</b>

- Personnel and other related expenses increased due to ongoing efforts to strengthen recruitment.
- Advertising expenses also increased as the number of new customer acquisitions increased 14% year on year.

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# New Product Information

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## Products launched in the fiscal year ending February 28, 2022

The Company's first mass-market product

シンピスト  
shinpist

- Developed targeting the mass market, i.e., the "anti-aging" and "all-in-one gel" markets
- Active ingredient that penetrates to the dermis works both to reduce wrinkles and prevent discoloration
- Japan's first\*<sup>1</sup> all-in-one dermis care gel (quasi-drug)
- Sold out in 58 seconds in advance sales ahead of the general release\*<sup>2</sup>

New release in August 2021

Pre-orders were accepted for existing customers only, ahead of the general release, showing a strong start



\*1 First sale in Japan of a quasi-drug all-in-one gel with the active ingredient niacinamide that uses three-phase emulsification and shape-restoration gel to reduce wrinkles and reduce skin darkening (limit the formation of melanin and prevent discoloration and freckles). (As of March 2021; Source: Toyo Shinyaku research)

\*2 On July 15, 2021, the time between starting of limited advance sales and selling out (Source: the Company's research)



## Products launched in the fiscal year ending February 28, 2022

Deeply penetrating rich placenta essence

ザ・プラセンタクイーン

# THE PLACENTA QUEEN



- Developed with special attention to ensure that customers can understand the high quality of the Company's products
- ◆ Commitment to materials, freshness, and production method
- Utilizes rare placenta extract taken from thoroughbred Hokkaido horses
- Safe collection of placenta materials and thorough management implemented to preserve freshness
- Utilizes a cold press production method, enabling optimum extraction of placenta vitamins

New release in August 2021

Pre-orders were accepted for existing customers only, ahead of the general release, showing a strong start

## Other product information

Medicated skin disinfectant that kills bacteria deep inside the nail  
 クリアストロングショット アルファ

### CLEAR STRONG SHOT α

Approved as a (medicated) quasi-drug, its effects can now be directly expressed with terms such as “disinfect” and “sterilize,” allowing the creation of commercials that are easier to understand for customers struggling with nail issues such as spots or discoloration.

Relaunched in May 2021

そのつこい爪トラブルに!

爪の中の菌まで殺菌

「浸透力特化型」外皮消毒剤 爪にしっかり浸透 殺菌・消毒

アイキララ 『EYE KIRARA II』にバージョンアップしました!

ハリ・弾力をさらにサポート  
レチノール誘導体

MGAとの相乗効果でハリアップ  
MGAブースター

Anti-aging cream exclusively for under the eyes  
 アイキララ

### EYE KIRARA II

An enhanced version of the Company’s mainstay product, which has sold more than 2.50 million units in total. On top of further strengthening the current product’s commitment to “address dark circles and lack of firmness under the eyes,” it also contains new ingredients essential for treating dry, fine wrinkles under the eyes and redesigned packaging.

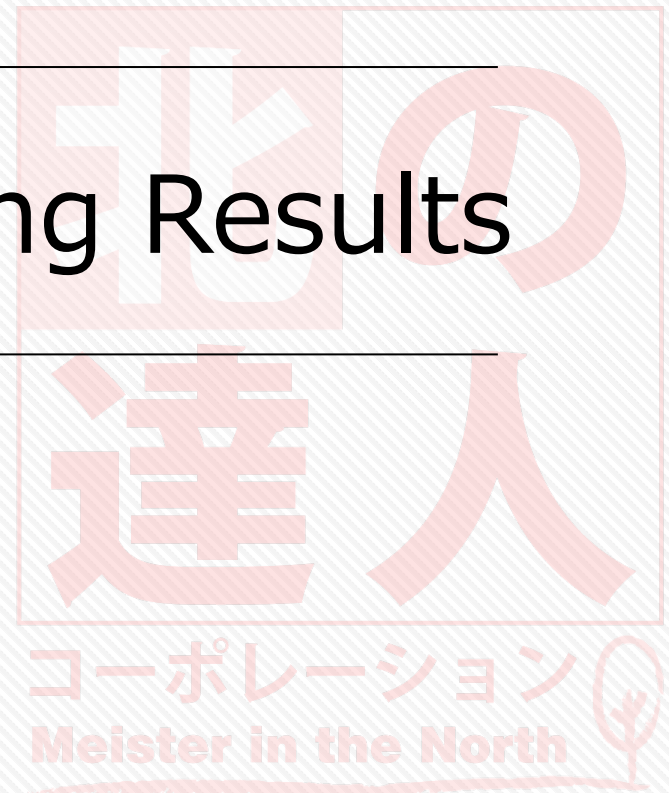
Relaunched in June 2021

In addition, 13 products received the Grand Gold Award and other accommodations at the international quality competition Monde Selection 2021.

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# Analysis of Operating Results

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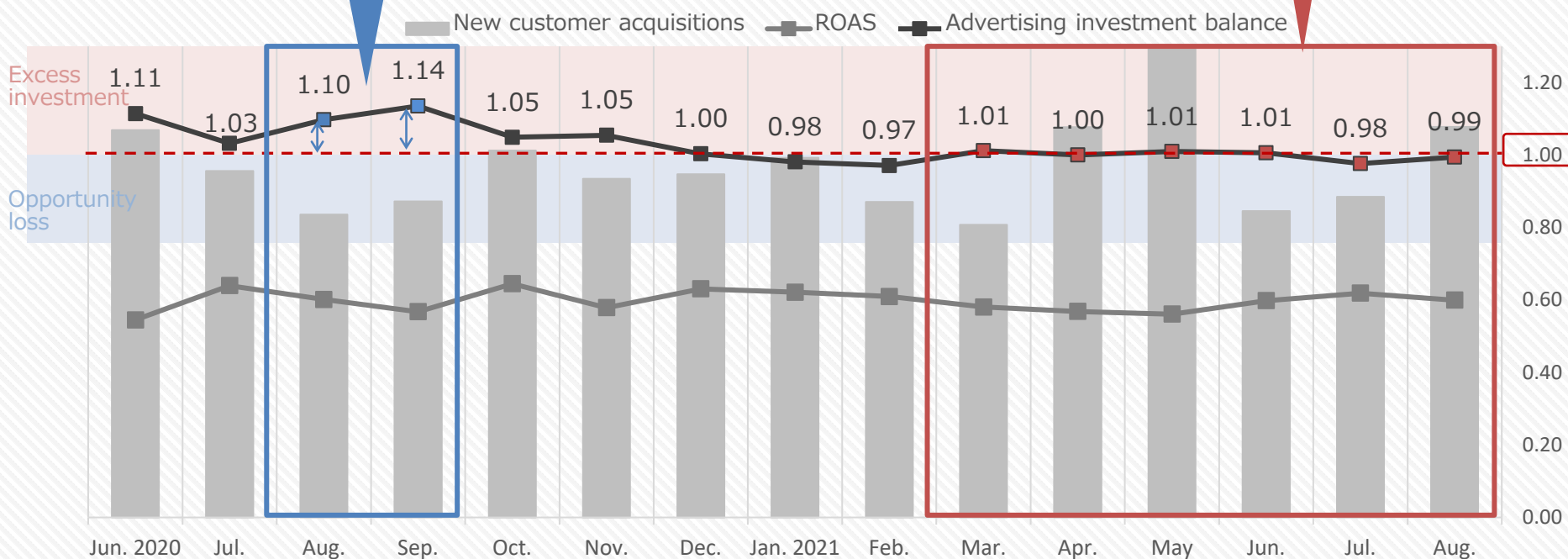


# Advertising investment efficiency and advertising expenses

Companies must pay close attention to the **advertising investment balance**\*1, an indicator for checking opportunity loss and unprofitability in advertising.

The advertising investment balance is higher than 1.00, exceeding the CPO\*2 limit and **resulting in excess investment.**

The advertising investment balance remains at an optimal level



Maintaining optimal advertising investment balance + expanding number of new customer acquisitions  $\Rightarrow$  Profit maximization

\*1 A unique indicator that measures opportunity loss and unprofitability in advertising. Advertising investment indicates how much CPO was obtained with respect to the CPO limit. If it is less than 1.00, there is opportunity loss, and if it higher than 1.00, there is excess investment. Therefore, 1.00 is the optimal value. If the CPO limit is set to ¥10,000 and the CPO result is ¥9,000, the advertising investment balance is 0.90.

\*2 CPO stands for Cost Per Order, which is the amount of advertising expenses per order.

For example, if advertising expenses are ¥1 million and the number of new customer acquisitions is 100, the CPO is ¥10,000.

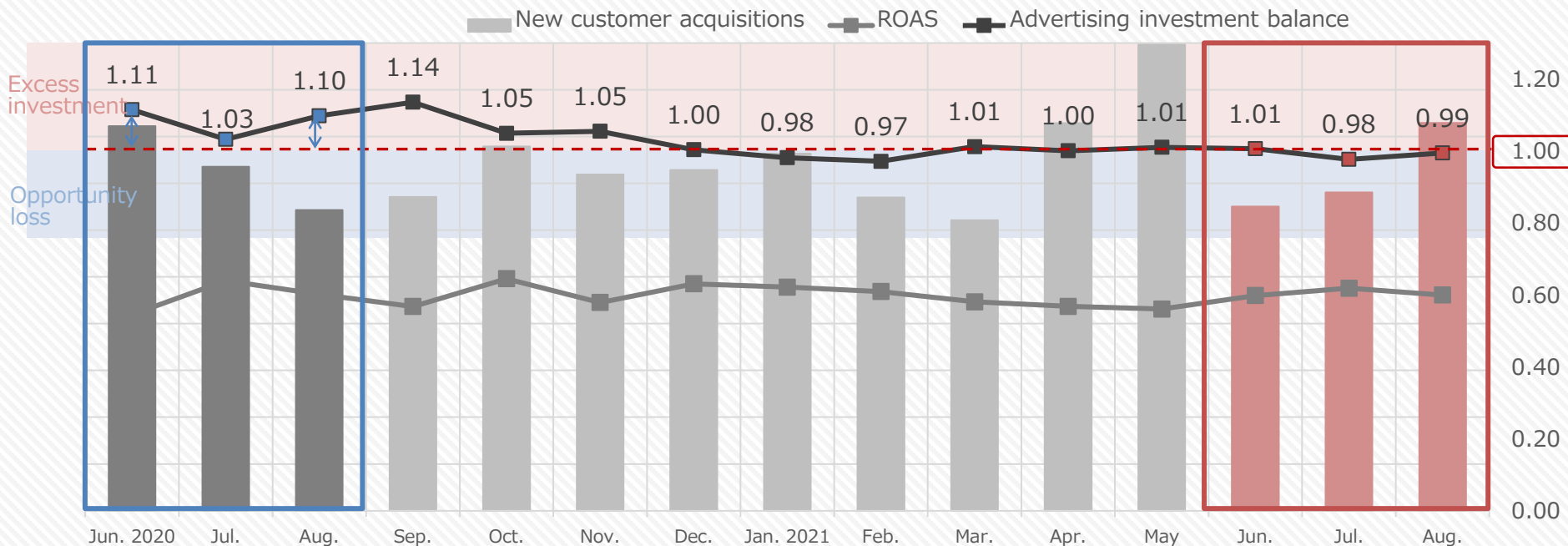
\*3 ROAS stands for Return On Advertising Spend, which is an indicator of advertising investment efficiency that measures how much sales are generated from advertising. If ¥1 million was used for advertising expenses, and sales was ¥900 thousand, the ROAS is 0.90. If ROAS is 1.00 or less, the balance of income and expenditure at the first purchase will be negative. Meanwhile, if it is a subscription purchase, the balance will become positive as products are purchased continuously.

## Status of number of new customer acquisitions [compared to the same period (second quarter) of the previous fiscal year]

[Number of new customer acquisitions] Almost flat at 98% of that for the same period of the previous fiscal year

[Advertising investment balance] Close to the optimal value of 1.00 for the second quarter, versus over 1.00 for the same period of the previous fiscal year

This second quarter was in a condition that "compared to the same period of the previous year, the efficiency of advertising investment has been optimized, while new customer acquisitions were maintained at the same level."



## Status of number of new customer acquisitions [compared to the immediately prior quarter (first quarter)]

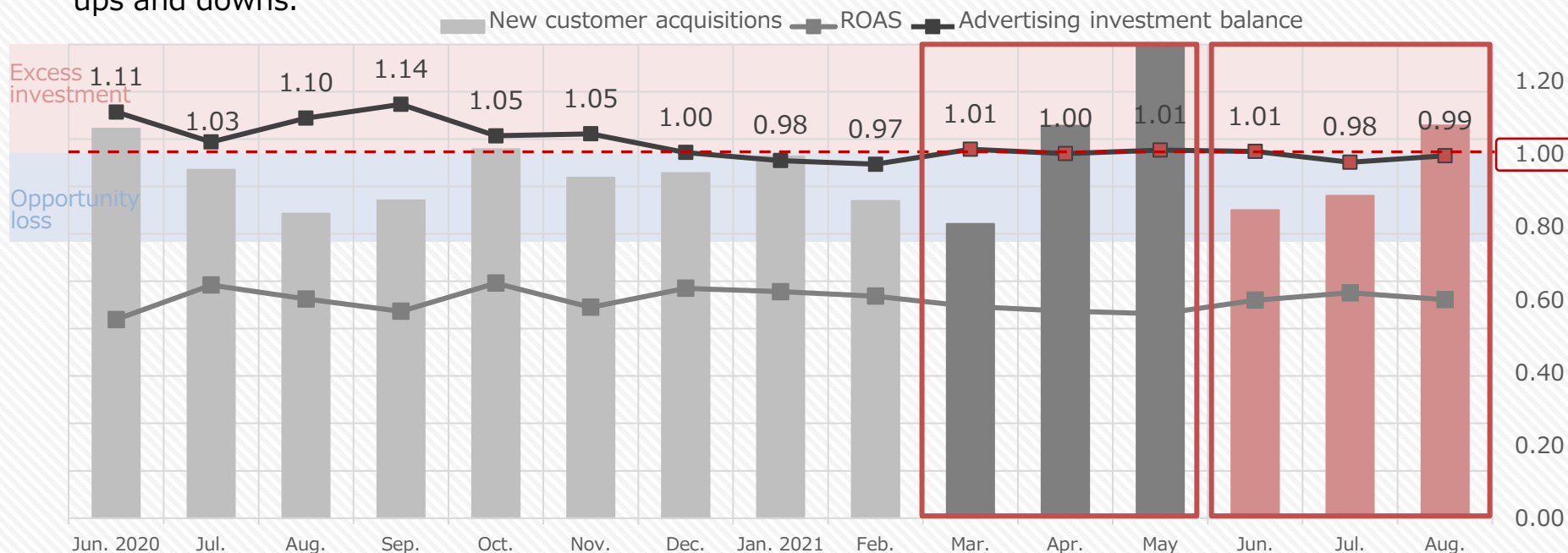
[Number of new customer acquisitions] Dropped to 88% of that for the immediately prior quarter

[Advertising investment balance] Close to the optimal value of 1.00 for both periods

The number of new customer acquisitions greatly varies as it is impacted by various measures.

→Strong in May 2021, particularly because acquisitions through affiliates exceeded the assumption.

→In June 2021 and afterward, the measures have progressed in a solid manner, though there are some ups and downs.



Aims to maximize the number of new customer acquisitions, maintaining an advertising investment balance of 1.00 in the third quarter and afterwards.

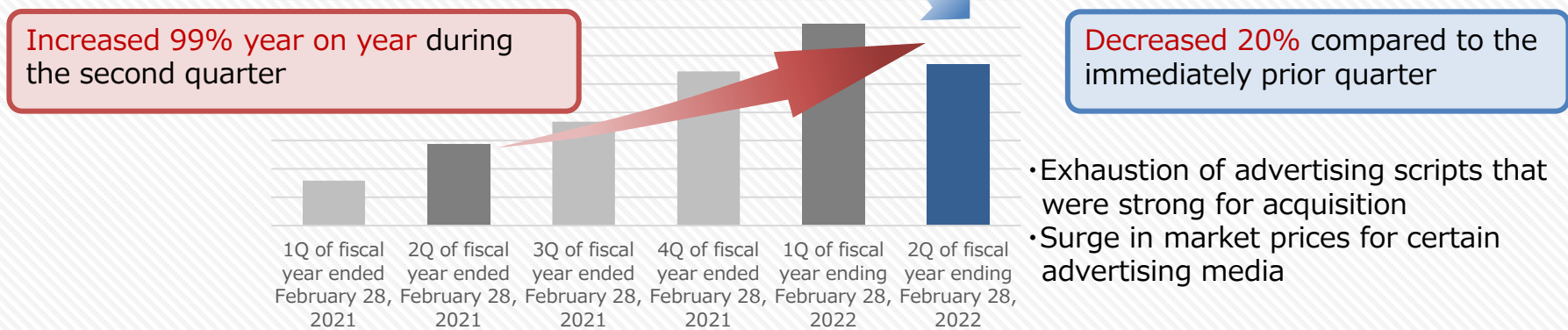
# Number of new customer acquisitions and various measures

## 1 Strengthening cooperation with affiliate\* businesses

### ◆ Initiatives to strengthen cooperation undertaken by the dedicated team

- Regular exchanges of opinions on advertising contents and measures to increase the number of new customer acquisitions.
- Making efforts to create better understanding of products by sharing product characteristics and appeal points at product information sessions for affiliates.

[Number of new customer acquisitions]



- Exhaustion of advertising scripts that were strong for acquisition
- Surge in market prices for certain advertising media

- Making efforts for new acquisition through multiple products and media in response to risks caused by dependence on certain products or advertising media

- Reflecting customers' real voices in a creative manner through round-table talks involving existing customers held jointly with affiliates

Continue to increase the number

\* An online advertising method, where an affiliate posts advertisements about an advertiser's products and services on its blogs, websites, or other media. The advertiser pays a fee (commission) to the affiliate, if a viewer purchases the product through the link.

# Number of new customer acquisitions and various measures

## 2 Expanding sales channels through e-commerce malls

The subscription purchase type business is our pillar.

→Less priority has been placed on e-commerce malls (Amazon, Rakuten Ichiba, etc.) where most shopping behavior is focused on single purchases.

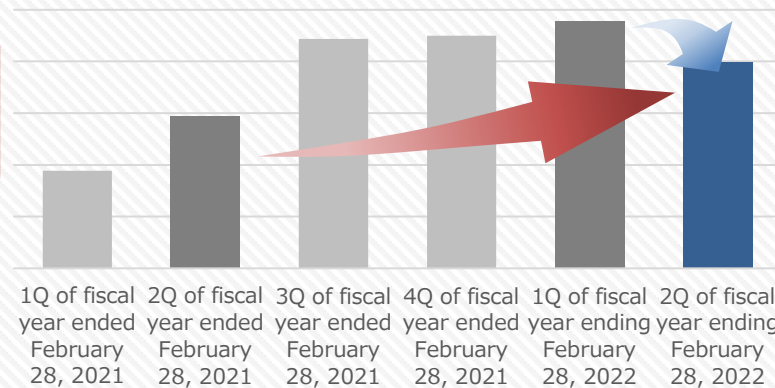


Rapid increase in users who buy products only in e-commerce malls  
→Strengthen sales in e-commerce malls

### [Number of new customer acquisitions]

- Increased +35% year on year during the second quarter
- Steadily gaining customers belonging to a customer base different from before, who purchase products on the Internet

Decreased 17% compared to the immediately prior quarter



- External factors, such as an increase in sales in a sale month and pullbacks before and after the sale month, have greatly impacted purchasing behavior of consumers.

→It is urgently necessary to obtain expertise to expand business in e-commerce malls in a stable manner.



- ◆ Continue efforts to increase sales at e-commerce malls
- ◆ **Amazon**: Recognized as an important sales channel for capturing overseas markets
  - Started test sales on Amazon U.S. to advance into the much larger market scale of Amazon U.S.
  - Utilized the expertise of ASHIGARU Co., Ltd., which is a group company



# Number of new customer acquisitions and various measures

## 3 Initiatives with infomercials

Also engaging in advertisement distribution through methods that differ from previous online advertising.

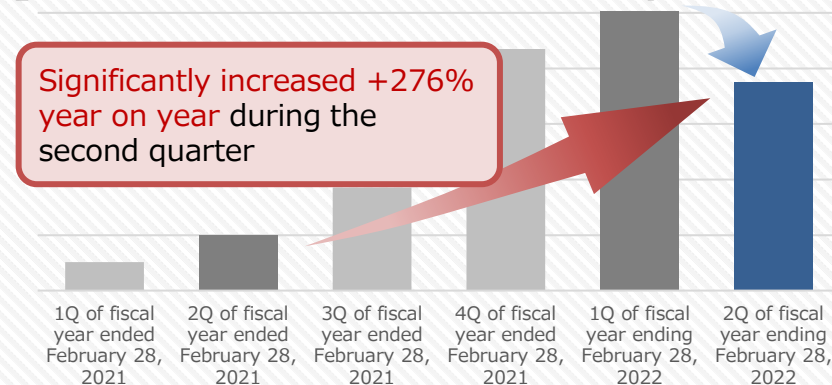
### ◆ Strong new customer acquisitions from infomercial advertising (BS broadcasting, etc.)

While the Company has been working on this measure for several fiscal years, due to its difference from customer acquisitions through the Internet, which is the main method for new customer acquisitions, results have not been readily apparent...



- Through continuing these initiatives, the Company has accumulated production expertise for infomercial advertising and improved its skills in selecting advertising distribution programs.
- During the first quarter, the Company increased the number of call centers that can accept orders 24 hours a day, improving cases in which calls were not received despite being placed resulting in orders being missed out on.
- Started infomercial advertising on FM radio broadcasts by FM NORTH WAVE CO., LTD. (a group company).

### [Number of new customer acquisitions]



Significantly increased +276% year on year during the second quarter

Decreased 25% compared to the immediately prior quarter


- Impacted by large events such as the Olympics and Paralympics and the Koshien summer high school baseball tournament
- Going forward, make aggressive efforts to expand the number of new customer acquisitions

➡ Going forward, the Company will seek to expand the number of customers who do not purchase products over the Internet

# Business foundation

## Reinforcing the organizational structure and governance

Recruitment of **middle positions, experienced staff and specialist staff**, which is our long-standing issue, has successively succeeded, thanks to efforts focused on human resource development



- Person with experience in advertising contents for EC and mail orders
- Person with experience in controlling a customer division
- Person from the Japan Fair Trade Commission
- Person with qualification as a lawyer and a patent attorney
- Person with experience in formulation development of cosmetics

Highly-experienced persons with ability to serve as a middle position in each department have decided to join the Company in future.

 **The Company will build stronger business foundations by reinforcing the organizational structure and improving governance**

## Net sales by segment and brand

(Millions of yen)

Segment	Brand name	First quarter ended May 31, 2021	Second quarter ended August 31, 2021
E-commerce business	J NORTH FARM	2,306	2,355
	SALONMOON	-	113
Others	-	65	96
Total		2,372	2,565

\* As the main business of the Company's group is the E-commerce business and the other business segments are insignificant, a description of the segment information is omitted.

### [Operational results of ASHIGARU Co., Ltd.]

Major efforts during six months ended August 31, 2021

- Handover of business and operations
- Established an internal structure to further expand sales channels in future
- Planning new products in the beauty appliance category

# Group Companies

## ASHIGARU Co., Ltd.

- Sells own “SALONMOON” hair iron developed for selling on e-commerce malls
- This high quality, low price product has been designed for selling on e-commerce malls where sales promotion expenses can be relatively limited and thereby sales costs which would be incurred in brick-and-mortar stores can be used for production costs.



[\(https://www.ashigaru-slm.com/\)](https://www.ashigaru-slm.com/)



Aim to **expand** business and performance as the **Kitanotatsujin Group**

### “SALONMOON” hair iron



- Providing highly functional hair irons at affordable price
- The main customer base is women in their 20s to 40s.
- 100% of sales come from e-commerce malls.
- Greatly successful as **150 thousand units were sold in total only in two years** from the foundation
- Highly rated in customer reviews** on major e-commerce malls

# Group Companies

## FM NORTH WAVE CO., LTD.

FM radio station with a broadcast area covering Hokkaido

<Business content>

- Main station broadcast and advertising broadcast via VHF radio
- Production and sales of broadcast programs
- Sales of broadcast time, etc.



### Media

- ▶ Increase sales by producing mail-order programs
  - J NORTH FARM
  - SALONMOON
- ▶ Expand existing advertising business

### Audio content

- Develop expertise for creating strong fans
  - ▶ Horizontal expansion into audio media
- Develop audio mail-order content
  - ▶ Expand to other stations

### Brand

- Utilize brand power as a brand that everyone in Hokkaido knows about
  - ▶ Other business development using the NORTH WAVE brand



Aim to **expand** business and performance as the **Kitanotatsujin Group**

## Consolidated Balance Sheets

(Millions of yen)

Subject/Section	<Reference> Fiscal year ended February 28, 2021 (non-consolidated)	Second quarter ended August 31, 2021
(Cash and deposits)	3,612	4,601
Current assets	5,857	6,145
Non-current assets	343	884
Total assets	6,201	7,030
Current liabilities	1,022	1,187
Non-current liabilities	—	179
Total liabilities	1,022	1,366
Total net assets	5,179	5,663
Total liabilities and net assets	6,201	7,030

Through the preparation of consolidated balance sheets from the first quarter, the Company has included the assets and liabilities of subsidiaries. In addition, goodwill of ¥313 million has been recorded on the consolidated balance sheets.

## Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	<Reference> Six months ended August 31, 2020 (non- consolidated) March 1, 2020 to August 31, 2020	Six months ended August 31, 2021 March 1, 2021 to August 31, 2021
Cash flows from operating activities	81	942
Cash flows from investing activities	-15	214
Cash flows from financing activities	-305	-173
Effect of exchange rate change on cash and cash equivalents	-1	5
Net increase (decrease) in cash and cash equivalents	-240	988
Cash and cash equivalents at beginning of period	4,088	3,612
Cash and cash equivalents at end of period	3,847	4,601

The main factors for the changes during the six months ended August 31, 2021 were an increase in profit before income taxes of ¥1,002 million, a decrease in payment of income taxes of ¥248 million, and an increase in proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥262 million.

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# Current Situation and Future Developments

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# Current Situation and Future Developments

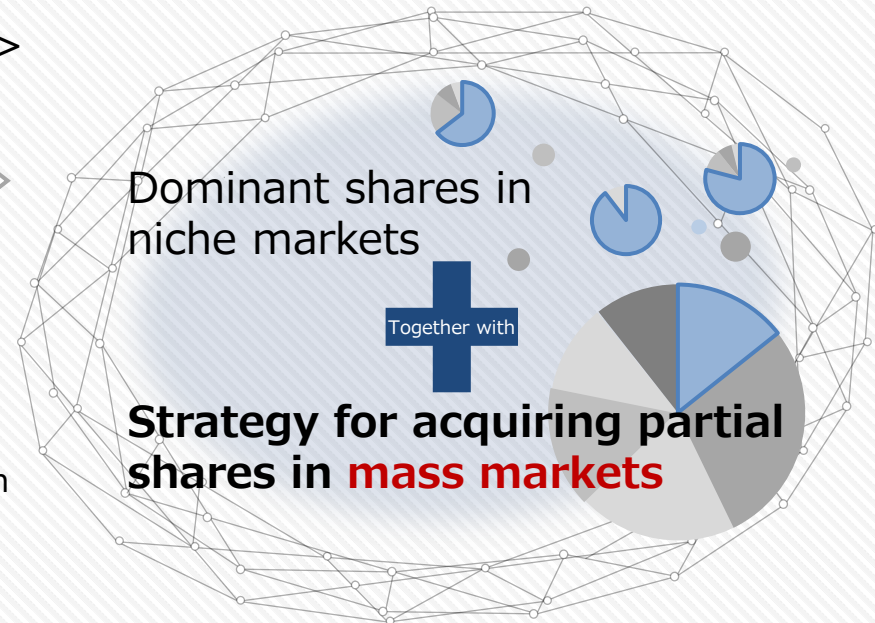
◆ Shifting strategies from dominating niche markets to **acquiring partial shares in mass markets**

<Previously>



- Increased amount of information due to increased use of the Internet from the spread of mobile devices (smartphones, tablets, etc.)
- Purchasing behavior in which consumers select products by comparing and reviewing multiple products

<Future>

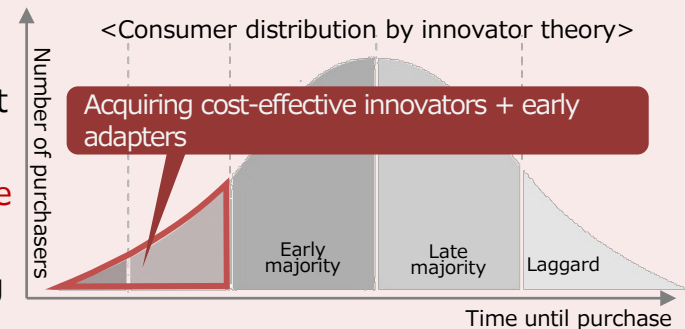


Develop a **sales strategy that does not rely on brand power or name recognition** by delivering high quality products that appropriately capture the needs of target customers and deliver them with pinpoint accuracy.

- Similar sales strategies are possible **regardless of market scale**



Focus on acquiring a **highly cost-effective customer base** by utilizing expertise on highly profitable and efficient advertising



# Current Situation and Future Developments

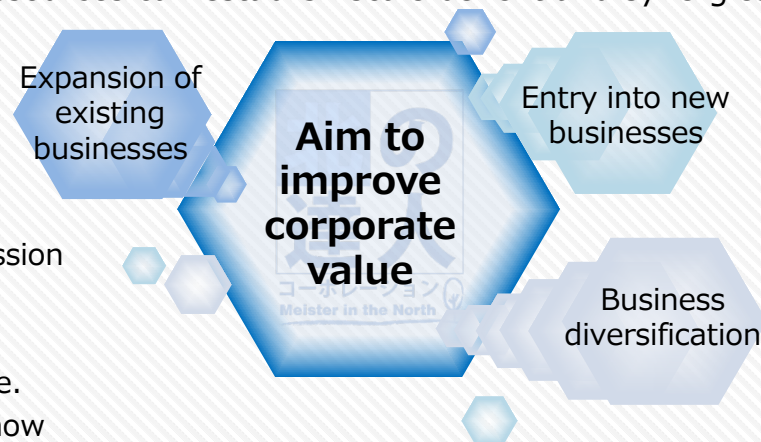
◆ Diversification of revenue base and acceleration of growth through **aggressive M&As**

Our policy is to aggressively engage in M&A of companies that operate the same D2C\* and E-commerce businesses as the Company that offer high-quality products but are limited on funds and personnel, and where the introduction of the Company's expertise and management resources can establish scale benefit and synergies.

◆ **Solicitation of aspiring entrepreneurs** who want to start new D2C businesses

Expand business scale while developing multiple businesses with net sales over ¥10.0 billion

- Actively hire personnel who possess excellent business plans and passion for entrepreneurship.
- Founder and current Representative Director & President, Katsuhisa Kinoshita, provides a first-hand account of his own personal expertise.
- Launch new businesses by supporting aspiring entrepreneurs who show promise and share the Company's vision and purpose.



## <Current>

- Actively collect information and evaluate M&A of D2C and E-commerce companies that meet the Company's conditions.
- Several aspiring entrepreneurs have joined the company and are in the process of launching businesses within the fiscal year ending February 28, 2022.

## <Future>

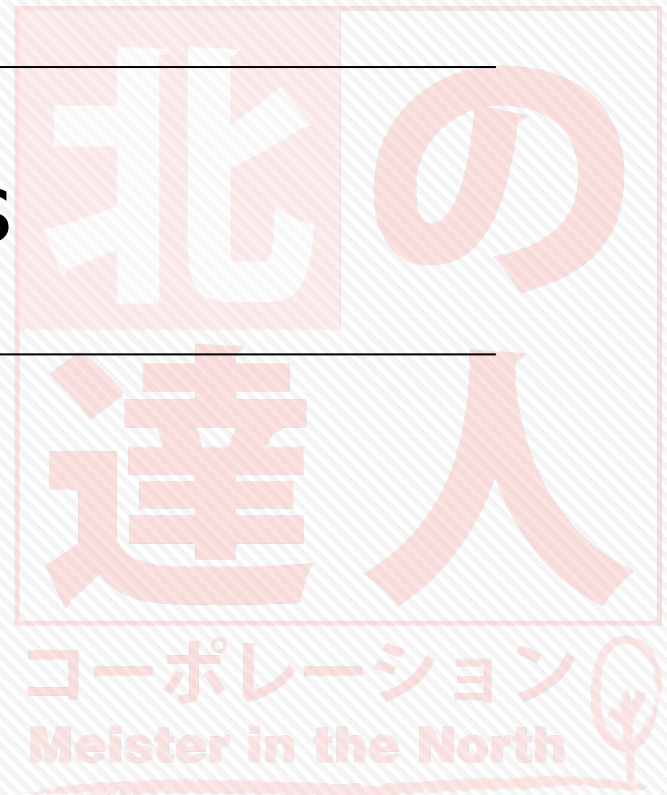
Continue to actively engage in the early achievement of medium- and long-term targets of net sales of ¥100.0 billion in net sales and ¥30.0 billion in operating profits.

\* D2C stands for Direct to Consumer, which is a system to sell our products directly to consumers through e-commerce sites.

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# References

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# Company Overview

Company Name	Kitanotatsujin Corporation	
Representative	Katsuhisa Kinoshita, Representative Director & President	
Incorporated	May 2002 (Founded in May 2000)	
Head Office	Sapporo, Hokkaido	
Bases	Tokyo Branch Office, Taiwan Branch Office, Korea Representative Office	
Listing	TSE 1st Section Market	SSE Main Market
	May 2012	Listed on Sapporo Securities Exchange, Ambitious Market
	March 2013	Upgraded to Main Market on Sapporo Securities Exchange
	November 2014	Listed on the Tokyo Stock Exchange, Second Section
	November 2015	Assigned to the Tokyo Stock Exchange, First Section
Officers and Employees, etc.	213 people (As of August 31, 2021)	
E-commerce site	"J NORTH FARM" "SALONMOON"	<a href="https://www.kaitekikobo.jp/">https://www.kaitekikobo.jp/</a> <a href="https://www.ashigaru-slm.com/">https://www.ashigaru-slm.com/</a>

# Product Strategy

## ◆ Product development specifically designed for the E-commerce business

- Develop the E-commerce business that sells a total of 34 **original products** on the Internet to meet specific customer needs, including **cosmetics and health foods**
- Only commercialize products that bring solid satisfaction, under the policy, **“A product will only be commercialized when an astonishingly fine product is created”**
- **Established original product development standards with 750 items** specifically designed for online sales and conduct a thorough monitor survey
- **Only 2% of development projects** meet these standards to be **commercialized**, thereby pursuing dominant customer satisfaction and quality maintenance



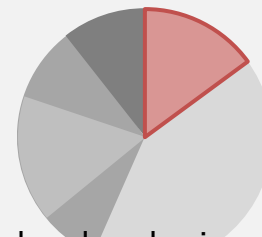
◆ Featured in the NIKKEI TRENDY (August 2018 issue)

## ◆ Market

Dominant shares in **niche markets**



Adopt strategy for acquiring partial shares in **mass markets**



Design a sales strategy that does not depend on brand power or name recognition by developing high-quality products that appropriately capture customer needs regardless of the market scale

# Product Strategy

## ◆ Products for men

- Increase demands for products from men
- Growth potential of the men's cosmetics market, the scale of which has grown approximately ¥120.0 billion, and further growth is expected going forward\*



Focus on **development of products for men that specialize in men's skin types and constitution** (three products have been launched as of the current point)

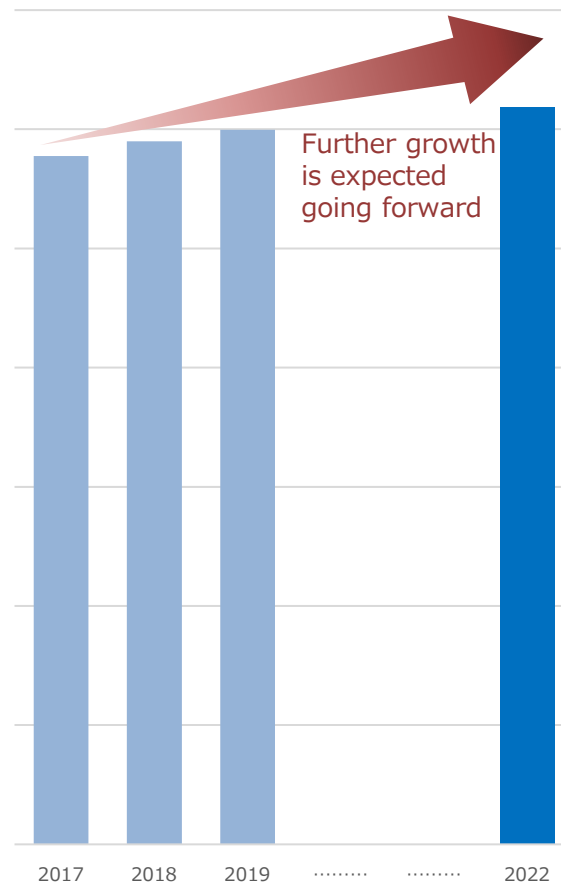


Aging care mist lotion for men  
**HARISHU**

[Quasi-drug] Spots prevention peeling gel for men  
**PEEL SHOT**

Cream specialized for under the eyes of men  
**MEN'S EYEKIRARA**

Domestic market scale of men's cosmetics



Prepared by the Company based on "Marketing Handbook of Cosmetics 2020 No. 2" published on March 26, 2020 by FUJI KEIZAI CO., LTD.

\* "Marketing Handbook of Cosmetics 2020 No. 2" published on March 26, 2020 by FUJI KEIZAI CO., LTD.

# Sales Strategy

## ◆ Performance evaluation indicators

We place more emphasis on **profits** than on net sales.  
As the E-commerce business can generate more net sales by increasing advertising investment (increasing advertising placement volume), we cannot evaluate our performance by net sales alone.

➡ **The law of sales minimization, profit maximization**  
(Explained in the figure on the right)

1-year LTV	CPO limit	1-year target profit
11,000	10,000	1,000

Content	Amount	CPO	Advertising expenses (millions of yen)	1-year net sales (millions of yen)	1-year profit (millions of yen)
Ad A	500	8,000	4.00	5.50	1.50
Ad B	500	12,000	6.00	5.50	-0.50
Total	1,000	10,000	10.00	11.00	1.00

Net sales: ¥11.00 million  
Profit: ¥1.00 million  
→ Profit margin: 9%

↓ Upon suspending advertisement B that exceeds the CPO limit...

Content	Amount	CPO	Advertising expenses (millions of yen)	1-year net sales (millions of yen)	1-year profit (millions of yen)
Ad A	500	8,000	4.00	5.50	1.50
Ad B	500	12,000	6.00	5.50	-0.50
Total	500	8,000	4.00	5.50	1.50

Net sales: ¥5.50 million  
Profit: ¥1.50 million  
→ Profit margin: 27%

Net sales is halved, but profit is 1.5 times higher and the profit margin is 3 times higher

## ◆ Advertising optimization system

- (1) Analyze daily accumulated data and calculate LTV\*
- (2) Set a CPO limit for each product as the upper limit for advertising expenses
- (3) Calculate and manage CPO on a daily basis by subdividing approximately 5,000 advertisements presented regularly into various segments
- (4) Automatically suspend advertisements that exceed the CPO limit
- (5) The Company develops and operates a system that manages the above process.

➡ **Develop system where only highly profitable advertising remains**



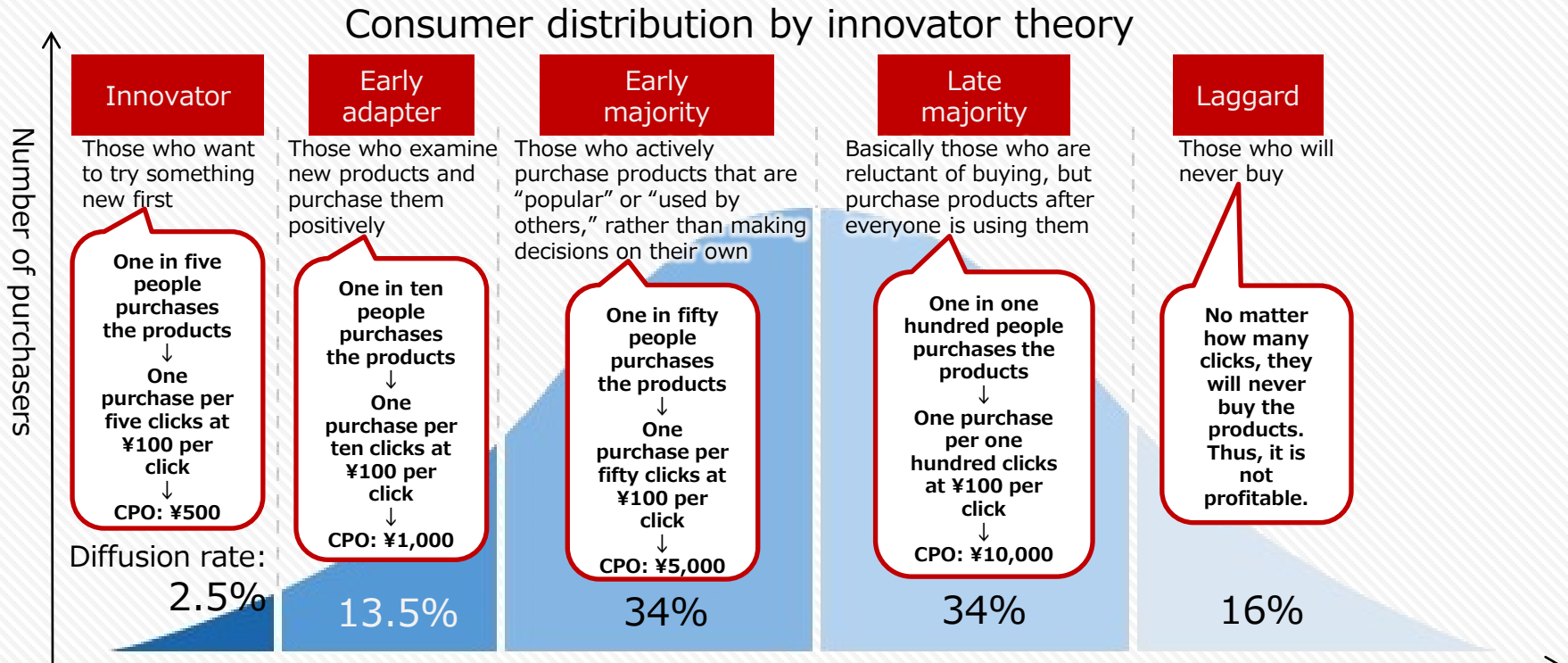
\* LTV stands for Life Time Value, which is the amount of lifetime net sales a customer will bring.

# Sales Strategy

## ◆ Correlation between CPO and the number of new customer acquisitions

$$\text{Profit} = \text{Number of new customer acquisitions} \times \text{Profit per customer (LTV - CPO)}$$

Advertising expenses and the number of new customer acquisitions fall under the "law of diminishing returns."\* CPO (acquisition cost per order) tends to increase as the number of new customer acquisitions increases.



The more you expand your customer base, the greater the CPO will be. Time until purchase

\*A theory in which, under a certain condition, an additional production factor will increase overall production volume, but the increase will gradually diminish



# Sales Strategy

◆ **Five level profit management** Visualize profits on five levels for “each product”  
(Millions of yen)

	Total of all products	Product (1) ×	Product (2) △	Product (3) ◎
Net sales	100.00	60.00	30.00	10.00
Cost	56.00	35.00	18.00	3.00
<b>Profit (1) Gross profit or loss</b>	44.00	25.00	12.00	7.00
<b>Gross profit margin</b>	44%	42%	40%	70%
Order-linked costs (enclosures, accessories, settlement charges, shipping fees, packaging materials, etc.)	5.00	3.00	1.50	0.50
<b>Profit (2) Net gross profit</b>	39.00	22.00	10.50	6.50
<b>Net gross profit margin</b>	39%	37%	35%	65%
Sales promotion expenses (primarily advertising expenses)	19.90	16.00	3.50	0.40
<b>Profit (3) Sales profit</b>	19.10	6.00	7.00	6.10
<b>Sales profit margin</b>	19%	10%	23%	61%
ABC (Activity Based Costing)	1.90	0.50	1.20	0.20
<b>Profit (4) ABC profit</b>	17.20	5.50	5.80	5.90
<b>ABC profit margin</b>	17%	9%	19%	59%
Operating expenses (rent expenses and indirect operating personnel expenses, etc.)	7.00	4.20	2.10	0.70
<b>Profit (5) Operating profit for each product</b>	10.20	1.30	3.70	5.20
<b>Operating profit margin for each product</b>	10%	2%	12%	52%

Gross profit by product

Mandatory cost per order

Gross profit – order-linked costs = net gross profit (coined term)

Net gross profit – sales promotion expenses = sales profit (coined term)

Personnel expenses for each product

- Although sales of Product (1) are increasing, this is due to spending more on sales promotion expenses, and profit is not as high.
- Sales of Product (3) are low, but it has a high gross profit margin as a result of less spending on sales promotion expenses and ABC. However, it is easy to overlook this matter, since a product with low ABC is not often discussed in the Company.

# Sales Strategy

## ◆ Calculation method of the optimal CPO limit and the benefits of LTV improvement

Profit = Number of new customer acquisitions × Profit per customer (LTV – CPO)

- Lowering the CPO increases the profit per customer, but decreases the number of new customer acquisitions
- Higher the CPO increases the number of new customer acquisitions, but decreases the profit per customer

➔ It is important to find the most profitable CPO

<In the case of LTV of ¥10,000>

CPO	¥3,000	¥4,000	¥5,000	¥6,000	¥7,000	¥8,000	¥9,000
Number of new customer acquisitions	100	120	150	200	250	270	300
Sales	¥1,000,000	¥1,200,000	¥1,500,000	¥2,000,000	¥2,500,000	¥2,700,000	¥3,000,000
Profit per customer	¥7,000	¥6,000	¥5,000	¥4,000	¥3,000	¥2,000	¥1,000
Profit	¥700,000	¥720,000	¥750,000	¥800,000	¥750,000	¥540,000	¥300,000

↓ Diminishing returns begin from here

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

Largest sales

➔ If we are to maximize sales, we should set the CPO at ¥9,000, but because we are aiming to maximize profits, it is most desirable to set the CPO limit at ¥6,000.

<In the case of LTV of ¥12,000>

CPO	¥3,000	¥4,000	¥5,000	¥6,000	¥7,000	¥8,000	¥9,000
Number of new customer acquisitions	100	120	150	200	250	270	300
Sales	¥1,200,000	¥1,440,000	¥1,800,000	¥2,400,000	¥3,000,000	¥3,240,000	¥3,600,000
Profit per customer	¥9,000	¥8,000	¥7,000	¥6,000	¥5,000	¥4,000	¥3,000
Profit	¥900,000	¥960,000	¥1,050,000	¥1,200,000	¥1,250,000	¥1,080,000	¥900,000

↓ Diminishing returns begin from here

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

Largest sales

➔ If LTV increases by 1.2 times, profit will increase even with the same CPO limit of ¥6,000. It is also possible to raise the CPO limit setting to ¥7,000, which is the optimal limit CPO.

**LTV improvement: Makes it possible to increase profit with the same CPO and raise the CPO limit setting**

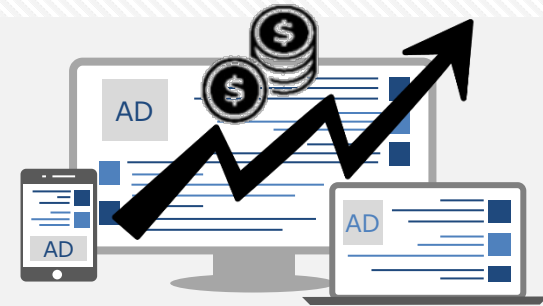
# Sales Strategy

◆ Identify “excess investment” and “opportunity loss” with the advertising investment balance indicator

How much sales are generated from products newly acquired through invested advertising expenses:

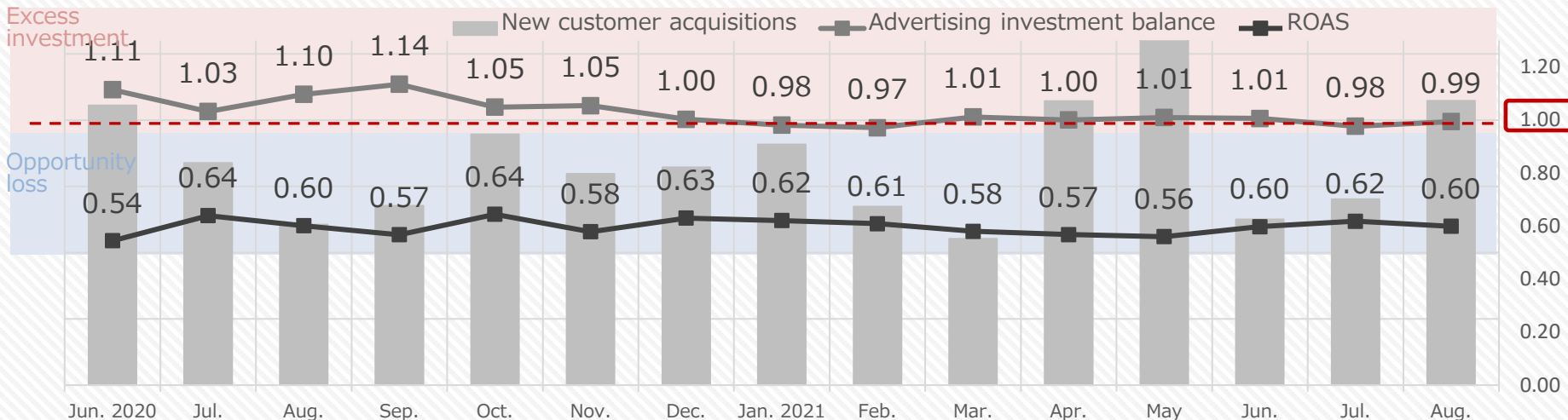
## ROAS

$$= \frac{\text{Sales via advertising}}{\text{Advertising expenses}}$$



- No optimal value exists for comparing responses to each ad or the same ad at different times
- We have changed our calculation method from this consolidated fiscal year to more accurately show the actual situation\*

➔ Check “excess investment” and “opportunity loss” by using the **advertising investment balance indicator** with an optimal value of 1.00 (calculated by CPO result/CPO limit)



\* The subscription purchase-driven business model, in which the balance of income and expenditure at the first purchase will be negative but will become positive as products are purchased continuously, and the business model, a major purchasing system in e-commerce malls in which a single purchase results in a positive addition to the balance, are models with fundamentally different profit-making mechanisms and the ROAS differs greatly. In addition, there are a considerable number of sales from new customer acquisitions (via search engines, etc.) that do not require advertising expenses generated when increasing product name recognition and advertising placement volume. These sales were previously included when calculating ROAS, but have been excluded from calculations in order to measure the efficiency of investment in attracting customers for subscription purchases in a more accurate manner.

### <Product strategy>

- Product development specifically designed for the E-commerce business
- Strict product development standards
- Development of mass-market products
- Focus on the development of products for men as well

### <Sales strategy>

- Basic policy that places an emphasis on profits
- Advertising optimization system developed by the Company
- Calculation of the optimal CPO limit based on the correlation between CPO and the number of new customer acquisitions
- Profit management fine-tuned for each product
- Advertising placement management through advertising investment balance indicators

Together with

## Adoption of **D2C × Subscription-driven** business model

- Direct feedback on customer data and products is available
- High-precision marketing backed by the feedback is realizable
- A steadily growing business model



**Realize a profit structure that enables stable growth**

# Information on the Company's strategies

In addition to the product and sales strategies explained in this document, we also disclose our strategies related to the Company's management, including our personnel strategy, etc.

## Videos

Videos explaining our business model/business overview  
<https://www.kitanotatsujin.com/aboutus/media-performance/>



## Books

The Law of Sales Minimization,  
 Profit Maximization  
 —Management Secrets for a  
 29% Profit Margin

Released on June 16, 2021



# Major Products

## “DEEP PATCH Series” were recognized by the Guinness World Records™ for two consecutive years as the world’s best-selling\*1 products

- Apply the microneedle technology, which is also used in medical treatments
- A new concept of cosmetic products to directly inject needle-shaped beauty ingredients into the skin

[No. 1] “HYALO DEEP PATCH” for wrinkles under the eyes and smile lines

[No. 2] “MIKEN DEEP PATCH” for the area between the eyebrows

[No. 3] “ODEKO DEEP PATCH” for the forehead

[No. 4] “CHEEK PORE PATCH” for the cheek pore zones\*2



## Food with functional claims “KAITEKI OLIGO”

Our sales of oligosaccharide food for household use is the highest in Japan.\*3

Improves bowel movements for people with constipation tendency (increase stool volume and frequency of bowel movements)

- Awarded the Monde Selection 10 times (Awarded the Grand Gold Award eight times and the Gold Award two times between 2012 and 2021)
- The registration as a food with functional claims was accepted in May 2019.
- “OKOSAMAYOU KAITEKI OLIGO,” a product for children, was launched in February 2019.



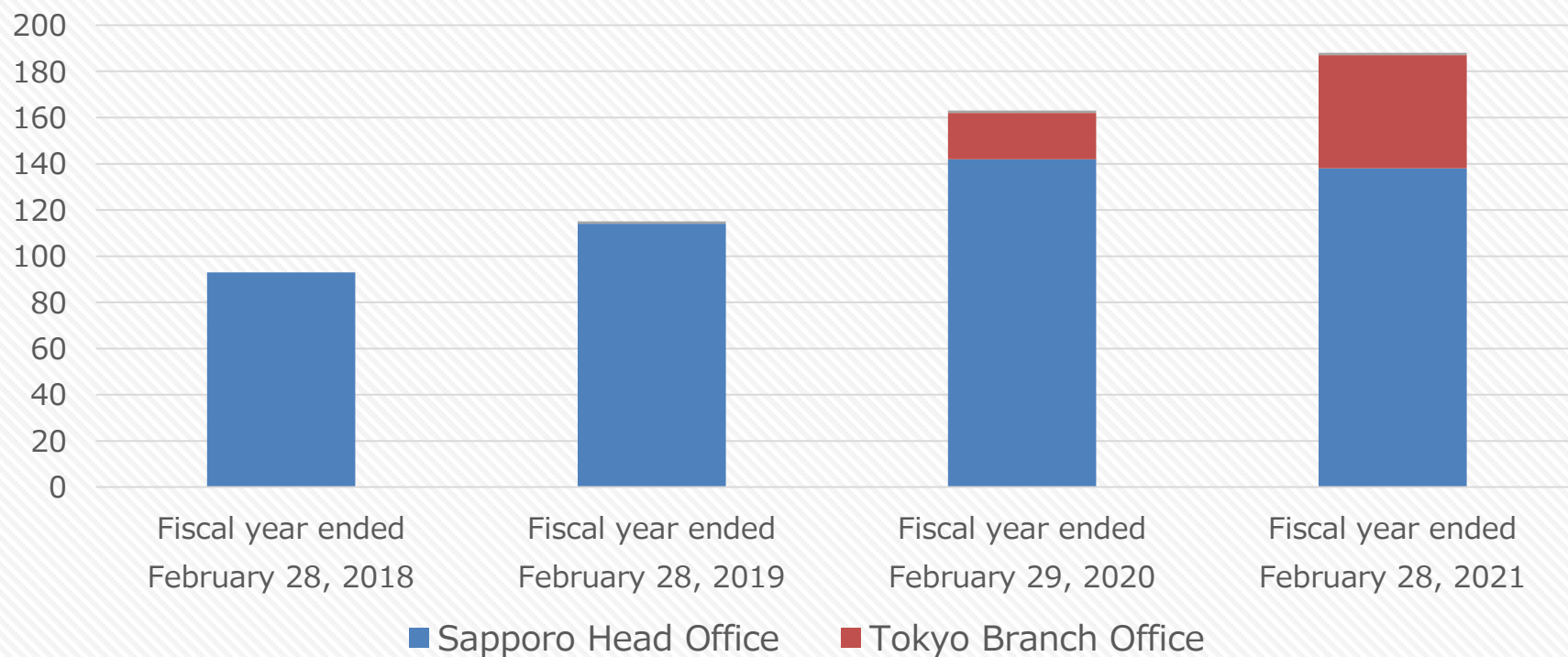
\*1 Global survey by TFCO Co., Ltd. The largest micro-needle cosmetic skin patch brand (DEEP PATCH Series), with sales amount of \$45,082,226 for the one-year period from March 2019 to February 2020 and sales amount of \$43,127,256 for the one-year period from March 2020 to February 2021

\*2 Area where cheek pores are concentrated

\*3 Research by JMA Research Institute Inc. (May 2016). The annual sales up to the previous fiscal year of home use products sold in Japan, such as powder, granules and syrup products containing “oligos and oligosaccharides”

# Personnel Changes

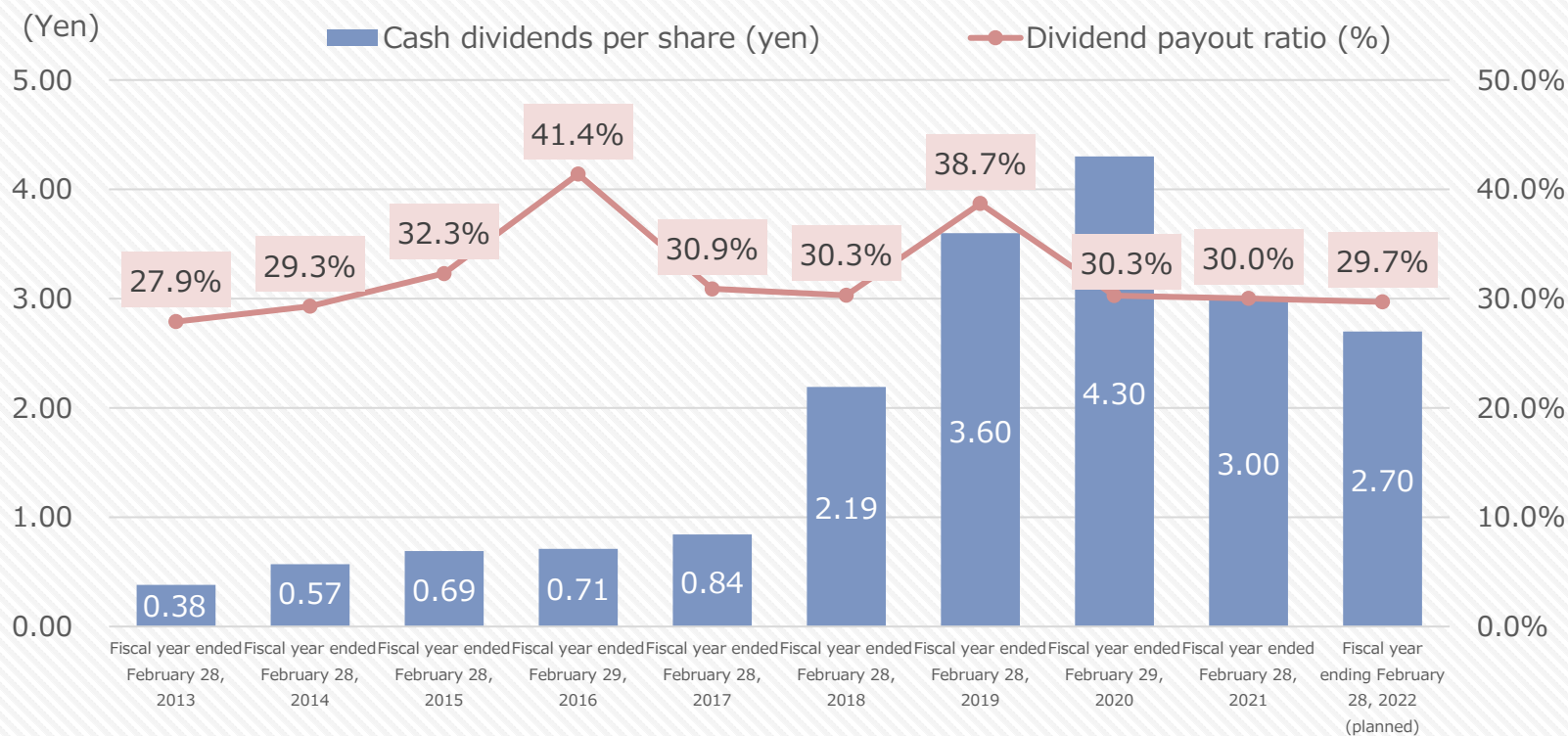
## Changes in Officers and Employees



\* Tokyo Branch Office was established in April 2019 at Nihonbashi, Chuo-ku, Tokyo

## Actual and Projected Dividends

The Company is working to return profits to shareholders by paying dividends, taking into consideration the strengthening of its business foundation and the enhancement of its internal reserves. The Company expects to pay an interim dividend of ¥1.30, a year-end dividend of ¥1.40, and an annual dividend of ¥2.70 per share for the fiscal year ending February 28, 2022.



(Note) Cash dividends per share are translated based on the impact of the following six stock splits. (Fractions less than one sen are rounded up.)

- A 4-for-1 stock split for common shares as of February 9, 2013
- A 2-for-1 stock split for common shares as of January 3, 2014
- A 2-for-1 stock split for common shares as of June 1, 2015
- A 2-for-1 stock split for common shares as of April 1, 2017
- A 2-for-1 stock split for common shares as of November 6, 2017
- A 3-for-1 stock split for common shares as of February 15, 2018



## Other Indicators

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
ROE (%) (return on equity)	18.0	24.8	48.8	48.9	54.2	29.1
ROA (%) (return on assets)	14.4	18.6	32.9	33.5	38.9	22.9
Equity ratio (%)	86.5	67.4	67.3	69.4	73.7	83.5
Dividend payout ratio (%)	41.4	30.9	30.3	38.7	30.3	30.0
Cash dividends per share (yen)	0.71	0.84	2.19	3.60	4.30	3.00
Number of shareholders	8,128	8,926	31,667	47,978	54,307	47,042

(Note) Cash dividends per share are translated based on the impact of the following stock splits:  
(Fractions less than one sen are rounded up.)

A 2-for-1 stock split for common shares as of June 1, 2015

A 2-for-1 stock split for common shares as of April 1, 2017

A 2-for-1 stock split for common shares as of November 6, 2017

A 3-for-1 stock split for common shares as of February 15, 2018

## Major Awards Received

- November 2020: Awarded the “Asia’s 200 Best Under A Billion” in Forbes Asia
- September 2019: Awarded the Internet Shopping Award in the “Asia Direct Marketing Vision 2019”
- February 2017: Special E-Commerce Promotion Award Recipient at “Japan Venture Awards 2017” hosted by the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (backed by The Small and Medium Enterprise Agency, Ministry of Economy, Trade and Industry, etc.)
- September 2015: Japanese Representative Candidates Finalist for EY Entrepreneur of the Year 2015, an international award program for entrepreneurs
- February 2014: Awarded the Minister of Economy, Trade and Industry Award at the “2014 IT Management Awards for Small and Medium Enterprises”



# Protection of intellectual property rights

- <The Company's initiatives>
- Mainly the "Office of Competition and Imitation Countermeasures" respects the intellectual property rights of the Company and other companies and promotes business activities in a fair competitive environment.
  - Our policy is to continue the Company's initiatives to optimize the industry over the long term.

As a corporation that focuses on protecting consumers, the Company monitors for imitation products and false information in order to prevent harm to customers.

Protect customers to improve and optimize the industry as a whole.

**Eliminate inferior products**

If no initiatives are undertaken...

Products claiming false statements are released onto the market.

Consumers have an increased risk of obtaining inferior products and suffering harm.

Leads to loss of trust in the industry and shrinkage of market scale.

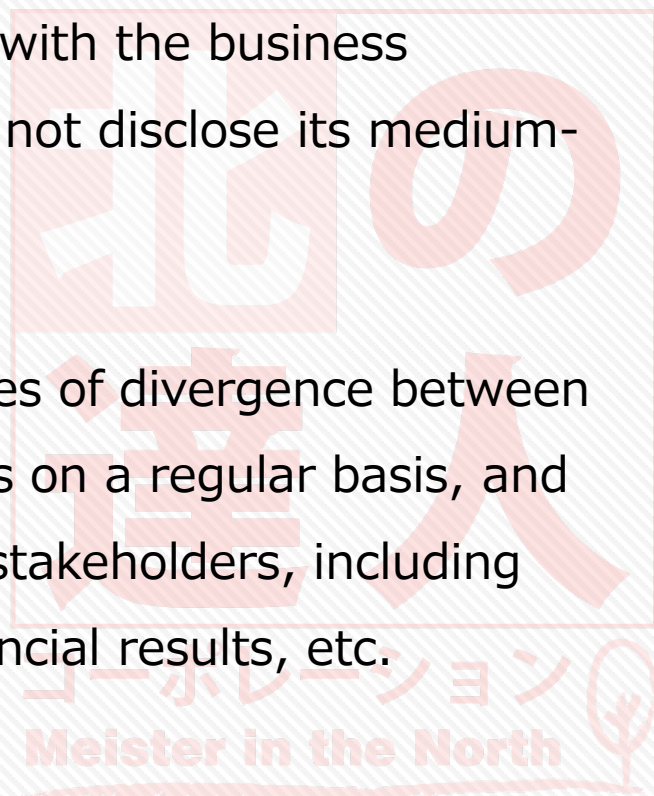
## <Status of specific initiatives>

Case seeking an injunction for unfair competition	<ul style="list-style-type: none"> <li>• Competitor of the Company's product "KAITEKI OLIGO" was displaying that the product was 100% pure oligosaccharides.</li> <li>• Compared their product with the Company's product "KAITEKI OLIGO" and listed false facts.</li> </ul>	Misrepresentation of product quality	<Judgement in the first instance> Opposing party ordered to pay damages →Appeal pending
Case seeking compensation for damages for unfair competition	<ul style="list-style-type: none"> <li>• Competitor of the Company's product "EYE KIRARA" was displaying multiple "1st place rankings," etc. without any rational basis.</li> <li>• Dissemination of false facts on affiliate sites comparing against the Company's product "EYE KIRARA."</li> </ul>	Misrepresentation of product quality Damaging reputation	Pending
Case seeking an injunction for design right infringement	Sales of microneedle cosmetics with a design similar to the Company's registered design (registration number: No. 1657009).	Infringement of design rights	Pending

## Medium-term Management Plan

In the Internet industry in which the Company operates, the business environment is rapidly changing, and it is necessary to make swift and flexible management decisions in accordance with the business environment. Accordingly, the Company does not disclose its medium-term management plan.

The Company carries out the analysis of causes of divergence between the plans for a single fiscal year and its results on a regular basis, and discloses and explains the analysis results to stakeholders, including shareholders, through announcements of financial results, etc.



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