



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

Stock code: 2930
Kitanotatsujin Corporation
January 14, 2022

Executive Summary

- ☞ Forecast for the full year was revised.
 Net sales were revised downward on both consolidated and non-consolidated basis.
 Meanwhile, profits at each level were revised upward.
- ☞ As advertising placement volume decreased due to revised Pharmaceuticals and Medical Devices Act, the number of new customer acquisitions was lower than expected, resulting in net sales of ¥7,296 million, falling short of the forecast by 1.6%.
- ☞ Advertising expenses decreased due to lower advertising placement volume.
 In addition, gross profit margin improved more than expected due to higher proportion of sales from low cost rate products, resulting in profits at each level higher than the forecast, with operating profit of ¥1,600 million, or 20.9% higher than the forecast
- ☞ The Company is reinforcing the organizational structure with an increase of highly-experienced persons with ability to serve in middle positions in each department through efforts to strengthen recruitment.

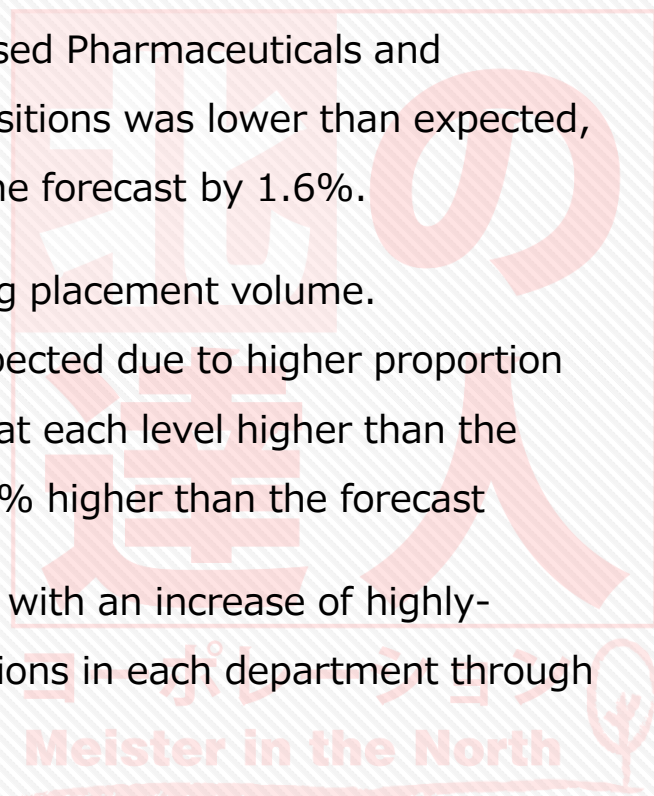
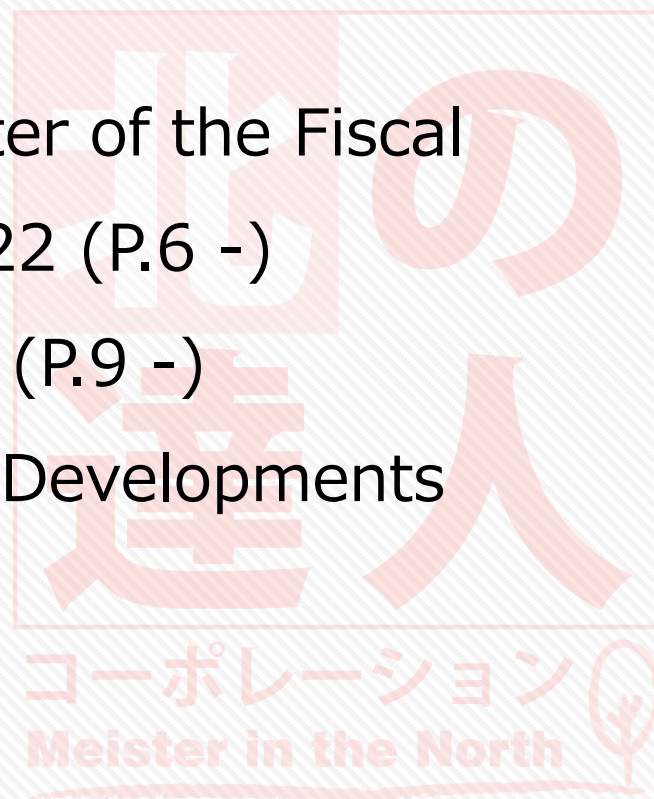
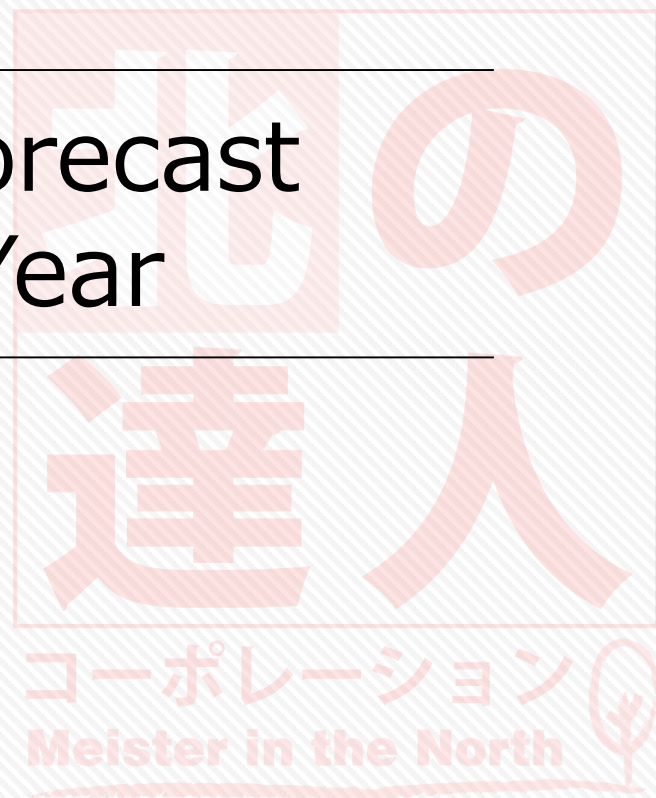


Table of Contents

1. Revision in the Forecast for the Fiscal Year
(P.4 -)
2. Highlights for the Third Quarter of the Fiscal
Year Ending February 28, 2022 (P.6 -)
3. Analysis of Operating Results (P.9 -)
4. Current Situation and Future Developments
(P.27 -)
5. References (P.30 -)



Revision in the Forecast for the Fiscal Year



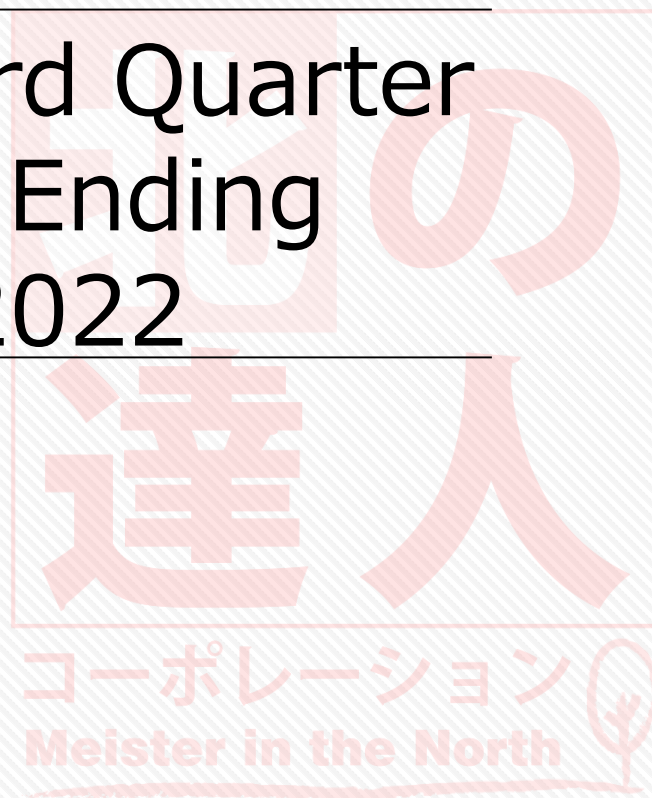
Revision in the forecast for the fiscal year

- As advertising placement volume decreased due to the revised Pharmaceuticals and Medical Devices Act, the number of new customer acquisitions has been sluggish. Considering this current situation, net sales were revised downward.
- As advertising expenses decreased, selling, general and administrative expenses also decreased, and profit at each level was revised upward.

(Millions of yen)

<Consolidated>	Consolidated forecast for the fiscal year ending February 28, 2022 (Previous forecast)	Consolidated forecast for the fiscal year ending February 28, 2022 (Revised forecast)	Changes	Changes (%)
Net sales	10,657	9,486	-1,170	-11.0%
Operating profit	1,871	2,036	+165	+8.8%
Ordinary profit	1,873	2,054	+181	+9.7%
Profit attributable to owners of parent	1,262	1,404	+141	+11.2%
<Non-consolidated>	Non-consolidated forecast for the fiscal year ending February 28, 2022 (Previous forecast)	Non-consolidated forecast for the fiscal year ending February 28, 2022 (Revised forecast)	Changes	Changes (%)
Net sales	9,847	8,699	-1,148	-11.7%
Operating profit	1,812	2,051	+239	+13.2%
Ordinary profit	1,815	2,090	+274	+15.1%
Profit	1,232	1,415	+182	+14.8%

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



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 third quarter	Results for the third quarter	Changes	Changes (%)
Net sales	7,417	7,296	-120	-1.6%
Gross profit	5,532	5,512	-20	-0.4%
Selling, general and administrative expenses	4,209	3,911	-297	-7.1%
Advertising expenses	2,032	1,819	-212	-10.4%
Operating profit	1,323	1,600	+276	+20.9%
Operating profit margin	17.8%	21.9%	+4.1pt higher	
Ordinary profit	1,325	1,619	+293	+22.1%
Profit attributable to owners of parent	908	1,102	+193	+21.3%

- The number of new customer acquisitions was lower than expected due to decreased advertising placement volume, resulting in lower net sales
- Advertising expenses were significantly lower than planned. In addition, gross profit margin improved due to higher proportion of sales from low cost rate products, and profit at each level was higher than the forecast

Key Performance Highlights [Year on Year]

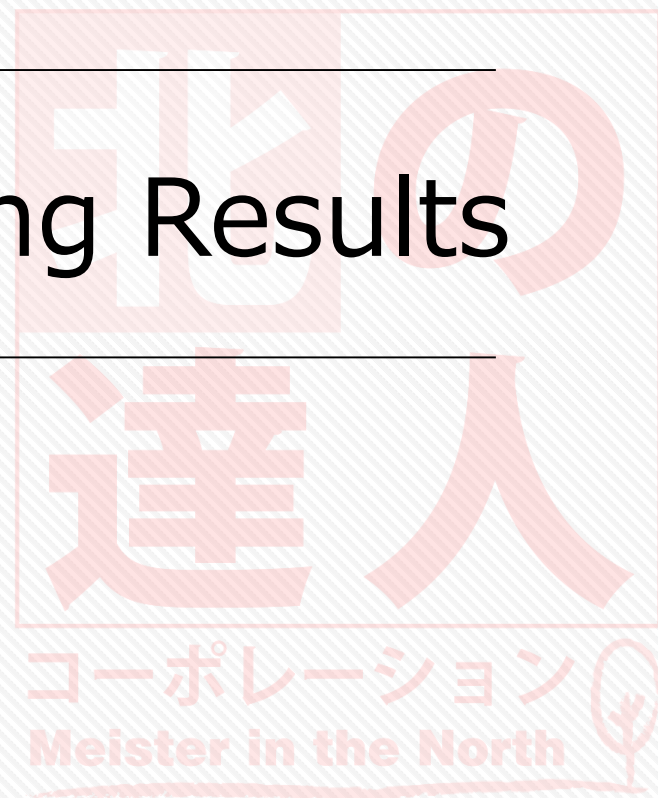
* Transitioned to consolidated accounting from the fiscal year ending February 28, 2022.

(Millions of yen)

	<Reference> Results (non-consolidated) for the third quarter of the fiscal year ended February 28, 2021	Results (consolidated) for the third quarter of the fiscal year ending February 28, 2022	Changes	Changes (%)
Net sales	7,012	7,296	+284	+4.1%
Gross profit	5,292	5,512	+219	+4.1%
Selling, general and administrative expenses	3,719	3,911	+192	+5.2%
Advertising expenses	2,023	1,819	-203	-10.1%
Operating profit	1,573	1,600	+26	+1.7%
Operating profit margin	22.4%	21.9%	-0.5pt	
Ordinary profit	1,582	1,619	+36	+2.3%
Profit (attributable to owners of parent)	1,086	1,102	+15	+1.5%

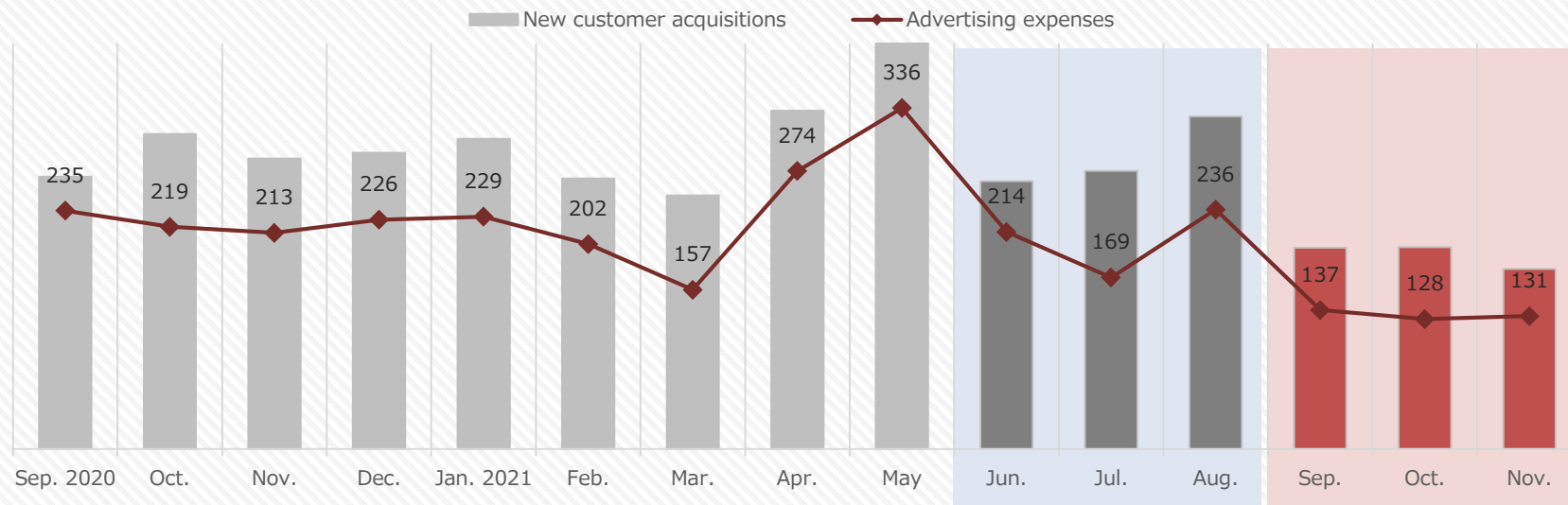
- Personnel and other related expenses increased due to ongoing efforts to strengthen recruitment
- As advertising placement volume decreased, advertising expenses also decreased

Analysis of Operating Results



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

[Number of new customer acquisitions] Dropped to 66% of that for the immediately prior quarter as advertising placement volume decreased due to the revised Pharmaceuticals and Medical Devices Act



<Main factor> Advertising expenses dropped to 64% of that for the immediately prior quarter

August 2021
Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (Pharmaceuticals and Medical Devices Act) WAS partially revised
Administrative monetary penalty system, etc. was newly added

<Monetary penalty is imposed on> Advertising media, etc., in addition to advertisers
Advertising media companies are tightening their standards for posting advertisements

Even advertisements without any problem in description according to Pharmaceuticals and Medical Devices Act are failing to pass screenings, making it impossible for us to present advertisements
(Heavily affected the standards of examination departments of media companies that undertake advertising placement. E.g., advertisements are presented when re-examination is requested.)

- We were unable to place advertisements in a timely and appropriate manner, resulting in a significant decrease in advertising placement volume
- Another factor was insufficient development and education of the Creative Department, which is our long-standing issue

Based on an understanding of the trends and characteristics of each advertising media, we aim to recover and expand again the number of new customer acquisitions

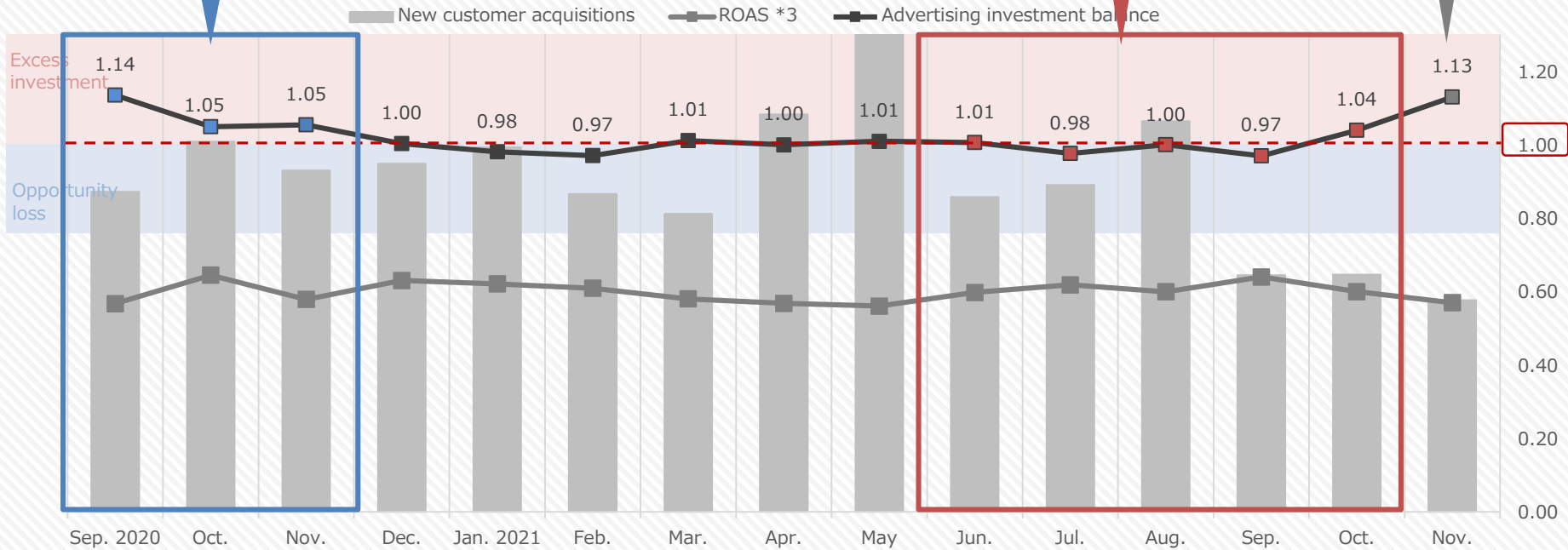
Advertising investment efficiency

<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

Planned excess investment (temporary) to validate new products



The number of new customer acquisitions decreased, but **maintain optimal advertising investment balance** instead of making excess investment to gain immediate sales



Strive for 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.

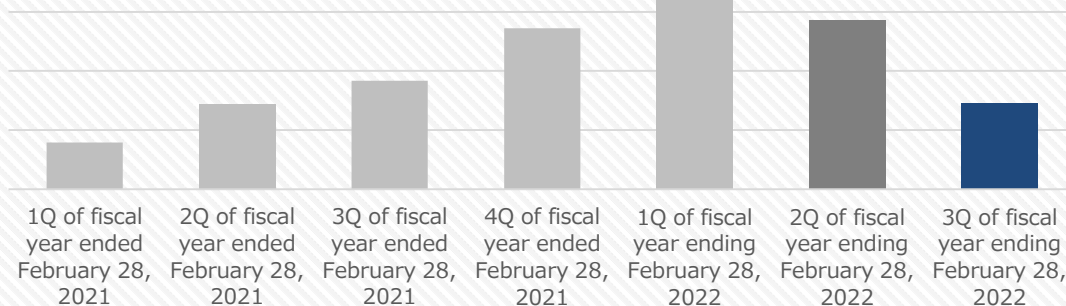
Number of new customer acquisitions and various measures

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]



Decreased 49% compared to the immediately prior quarter

- Exhaustion of advertising scripts that were strong for acquisition
- Surge in market prices for certain advertising media
- Lower advertising placement volume due to the revised Pharmaceuticals and Medical Devices Act
- Making efforts for **new acquisition through multiple products and media** in response to risks caused by dependence on certain products or advertising media
- **Establish multiple points for order taking**, including acceptance of telephone orders, in addition to the current internet orders
- Reflecting customers' real voices in a creative manner through round-table talks involving existing customers held jointly with affiliate businesses

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.

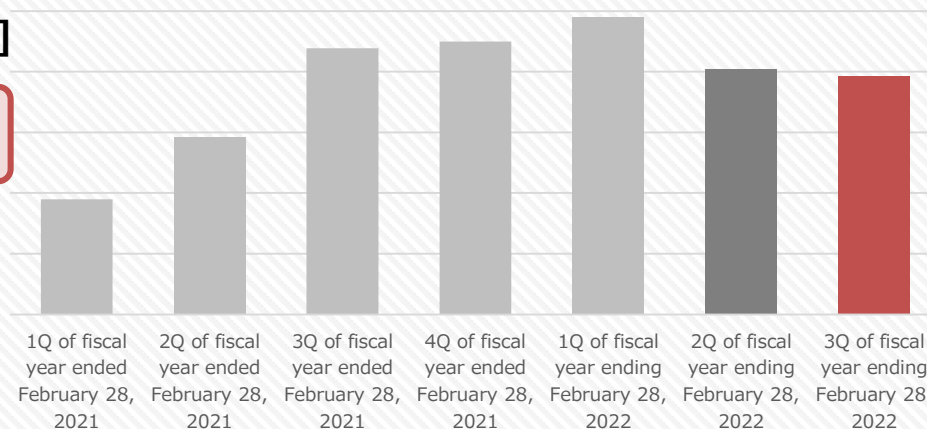


Rapid increase in users who buy products only in e-commerce malls
 →Strengthen sales in e-commerce malls

[Number of new customer acquisitions]

Almost flat at 97% of that for the immediately prior quarter

- Start development of products exclusively on offer at certain malls
- Continue efforts to increase sales at e-commerce malls



Amazon : Recognized as an **important sales channel** for capturing overseas markets

- Started product development for and 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.

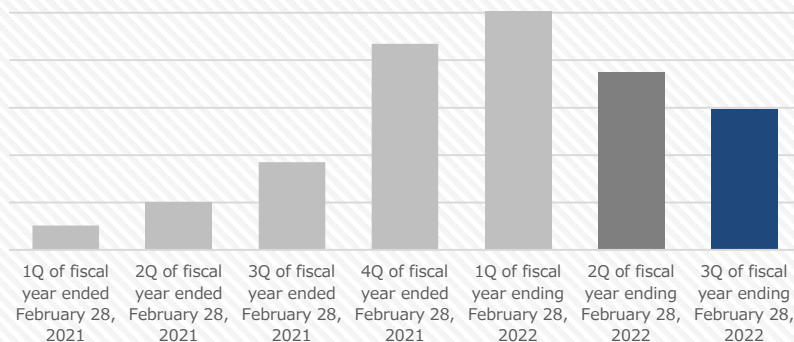
◆ Infomercial advertising (BS broadcasting, etc.)

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.

[Number of new customer acquisitions]



Decreased 21% compared to the immediately prior quarter

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



Going forward, the Company will seek to acquire customers who do not purchase products over the Internet

Number of new customer acquisitions and various measures

4 Mass-market products

The number of new customer acquisitions for mass-market products is lower than expected

◆ Previous niche market products

- Products that appropriately capture the niche needs of consumers
- Market size is small with fewer users

What is important → "How to inform only the target customer base of the products with pinpoint accuracy"

◆ Mass-market products

- Gaining product awareness is easy as the market scale is large
- Red ocean

What is necessary → Advertise "what makes our products different from other products"

We recognize that measures and methods required for new customer acquisitions will be different from the previous ones. Efforts were made to develop a system of Customer attraction departments and prepare measures, but it is taking more time than expected

After the end of the current third quarter, from December 2021,

◆ Changed the system of Customer attraction departments, such as the Creative Department, which is our long-standing issue

- Raise the level of creative capability and focus on new customer acquisitions for mass-market products
- Through e-commerce malls and infomercials, etc., step up efforts to acquire customers belonging to a customer base different from before, who purchase products on the Internet, as well as those belonging to a customer base coming via advertisements other than online advertising

➡ **Aim to recover and expand again the number of new customer acquisitions**

Products launched in the fiscal year ending February 28, 2022

The hair regrowth stimulants currently sold only adopt a subset of 13 types of actions*1 that have officially been confirmed to have a hair regrowth stimulating effect. But there were no products that offer all of these 13 actions...

Differentiation

Developed a medicinal hair regrowth stimulant that covers all the actions that promote hair regrowth (hair growth), the only one of its kind in Japan*2

MOUDAS MOUDAS HAIR GROWTH LOTION

HAIR GROWTH LOTION

• The second product for the mass market

• Contains five active ingredients that cover all the 13 actions*1 that have been confirmed in Japan to have a hair regrowth stimulating effect.

• Contains Redensyl®*3, an ingredient attracting attention in the hair growth industry

• “Stem Builder*4,” the Company’s proprietary ingredient that combines four plant-derived ingredients, helps ensure healthy scalp conditions

New release in October 2021

*1 Refers to the direct and indirect actions of active ingredients that have been approved for hair growth products (quasi-drugs), which can be categorized into the following 13 types: (1) stimulating hair regrowth, (2) protecting hair growth, (3) enhancing hair papillae, (4) extending the hair growth period, (5) supporting hair growth, (6) supporting hair follicles, (7) providing nutrients for promoting blood circulation, (8) stimulating hair growth, (9) maintaining scalp conditions, (10) providing an anti-inflammatory effect, (11) normalizing the hair growth cycle, (12) reducing the secretion of sebum, and (13) stimulating hair.

*2 Based on the results of a survey by TFCO Co., Ltd. as of October 2021 on hair growth products (quasi-drugs), including OEM products, sold in Japan by 67 companies engaged in the manufacture and sale of hair growth products (quasi-drugs).

*3 Redensyl® is a registered trademark of Givaudan S.A.

*4 An ingredient made of green tea extract (1), hops extract, Eugenia caryophyllus (clove) flower extract, and Citrus unshiu peel extract, and helps ensure healthy scalp and hair conditions



Products launched in the fiscal year ending February 28, 2022



Medicinal amino acid-based shampoo that improves scalp conditions to help the penetration* of hair regrowth stimulant

MOUDAS MOUDAS MEDICATED SHAMPOO

MEDICATED SHAMPOO

- Contains the five hair regrowth stimulating active ingredients contained in MOUDAS Medicinal Hair Regrowth Stimulant
- Offers a penetration sensing function, which provides a sense of refreshing coolness and allows users to feel improved scalp conditions
- Also offers the function of helping hair to stay up and adding additional volume



*As far as the horny layer.

Supplement that provides support from inside the body to stay in peak physical condition

MOUDAS MOUDAS SUPPLEMENT

SUPPLEMENT

- Contains 15 selected ingredients such as banana extract, millet seed extract, and kelp roots
- Taking MOUDAS Supplement is a simple way to ensure balanced nutrition and maintain health



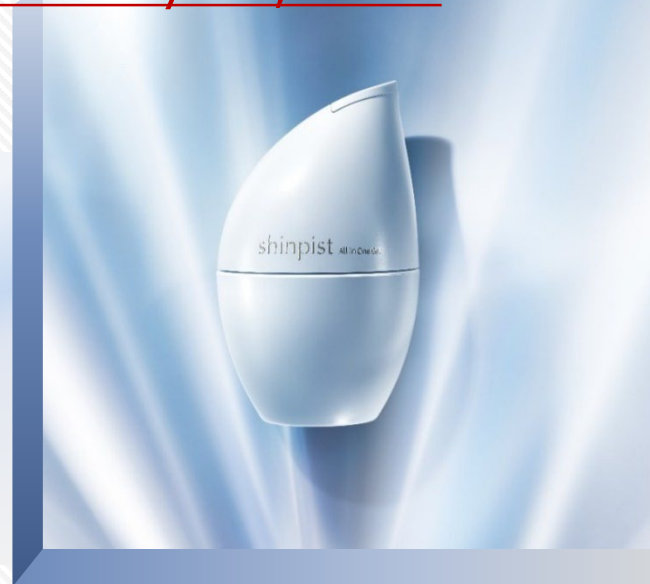
- ◆ The market for scalp care and hair regrowth products, which address long-term male hair concerns, has grown significantly
- ◆ Demand has gathered momentum amid the COVID-19 pandemic, with an increase in video conferencing resulting in people seeing their own hair more frequently on computer monitors
- ◆ The market reached approximately ¥85.0 billion in 2020*

*According to "Market Trends Survey on Scalp Care and Hair Regrowth Products," January 19, 2021; Fuji Keizai Group Co., Ltd.

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^{*1} all-in-one dermis care gel (quasi-drug)
- Sold out in 58 seconds in advance sales ahead of the general release^{*2}
- New release in August 2021



◆ 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



*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)

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.

New Business Planning Office released SPADE, the first brand

New Business Planning Office: Its policy is to launch new D2C* businesses by actively hiring personnel who possess excellent business plans and passion for entrepreneurship



SPADE is an acronym of "Save People And Diffuse Electronic-cigarette" with the meaning of "save people by popularizing electronic cigarettes"

Its ultimate mission is to reduce to as close to zero those who die from smoking or second-hand smoke, as well as their grieving families

Promote Good Health and Well-Being, one of the targets under SDGs

- ◆ Added CIGANITIN (patent pending), a next-generation ingredient developed by the Company to add strength
- ◆ A nicotine- and tar-free e-cigarette that produces no secondhand smoke

- Promote the shift to e-cigarettes for people who are accustomed to breathing smoke or sticking a cigarette in mouth
- Share as a new pastime for purely enjoying a smell or enjoying a smoke

Advance sales at Makuake crowd funding website in October 2021
General release in December 2021



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

<Group company>
ASHIGARU Co., Ltd.



- Providing highly functional hair irons at affordable price under its own hair care brand SALONMOON

- The main customer base is women in their 20s to 40s
- 100% of sales come from 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.

<Efforts undertaken in the nine months ended November 30, 2021>

- Operation and business transfer, which has been underway since the second quarter

- Full-scale launch of various initiatives to expand sales

- ◆ Advertisement distribution at e-commerce malls

- ◆ Scrupulous advertising initiatives to optimize search engines

→ Ranked as No.1 bestseller in the selling ranking of Amazon hair irons category

→ Received Cosmetics of the Year for its high quality in the straight hair irons category in a cosmetics magazine LDK the Beauty January 2022 issue



Explore sales channels for further business expansion and develop new products as well as consumer goods with high affinity with beauty appliances

<Group company>
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.

<Business strategy>

- ◆ Media
 - Increase sales by producing mail-order programs (J NORTH FARM)
 - 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)

Through joint investment with ASK GATE Co., Ltd., established a joint venture NORTH WAVE JOB CO., LTD.

ASK GATE that is well versed in the employment environment and recruiting activities in Hokkaido, and FM NORTH WAVE popular in Hokkaido jointly released Northwave Puchibai on November 1, 2021, a part-time work matching service that matches job seekers who want to work immediately with business operators needing workers immediately



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

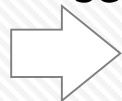
Person with experience in controlling a customer division

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



Our policy is to continue recruiting highly-experienced persons with ability to serve in middle positions in each department.



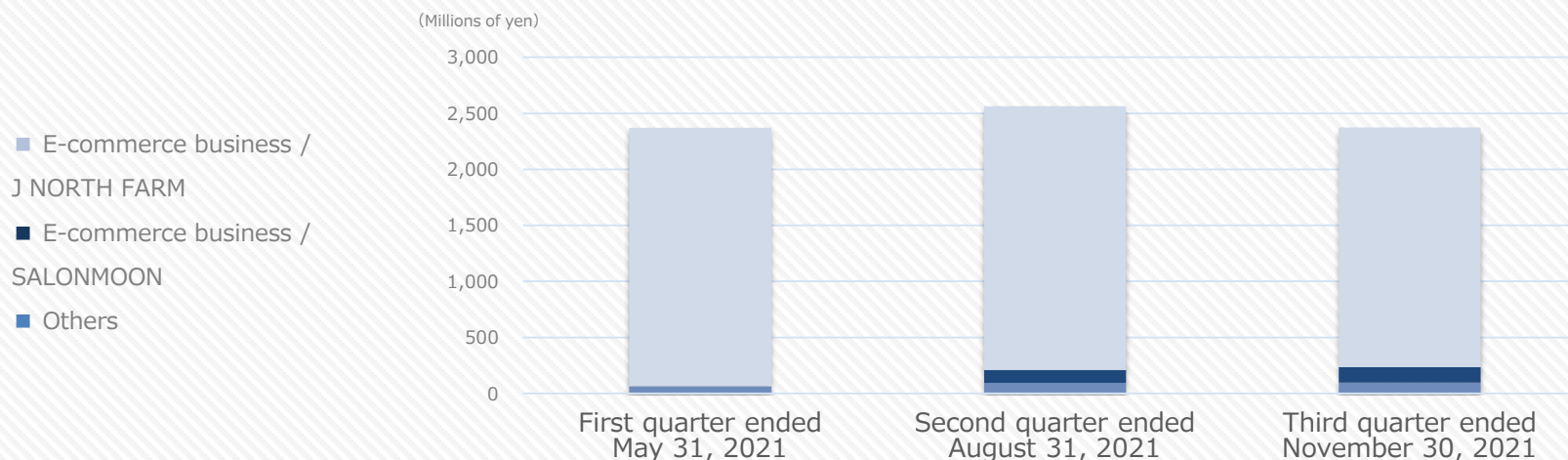
The Company will build stronger business foundations by reinforcing the organizational structure and improving governance

Net sales by segment and brand

(Millions of yen)

Segment	Brand name	First quarter ended May 31, 2021	Second quarter ended August 31, 2021	Third quarter ended November 30, 2021
E-commerce business	 北の快適工房 J NORTH FARM	2,306	2,355	2,123
	 SALON MOON ^{Pro}	-	113	137
Others	-	65	96	98
Total		2,372	2,565	2,359

- 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.



Consolidated Balance Sheets

(Millions of yen)

Subject/Section	<Reference> Fiscal year ended February 28, 2021 (non-consolidated)	Third quarter ended November 30, 2021
(Cash and deposits)	3,612	4,616
Current assets	5,857	6,181
Non-current assets	343	861
Total assets	6,201	7,043
Current liabilities	1,022	964
Non-current liabilities	—	175
Total liabilities	1,022	1,139
Total net assets	5,179	5,903
Total liabilities and net assets	6,201	7,043

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 ¥296 million has been recorded on the consolidated balance sheets.

Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	<Reference> Nine months ended November 30, 2020 (non-consolidated) March 1, 2020 to November 30, 2020	Nine months ended November 30, 2021 March 1, 2021 to November 30, 2021
Cash flows from operating activities	251	1,141
Cash flows from investing activities	-26	208
Cash flows from financing activities	-548	-355
Effect of exchange rate change on cash and cash equivalents	2	8
Net increase (decrease) in cash and cash equivalents	-320	1,003
Cash and cash equivalents at beginning of period	4,088	3,612
Cash and cash equivalents at end of period	3,767	4,616

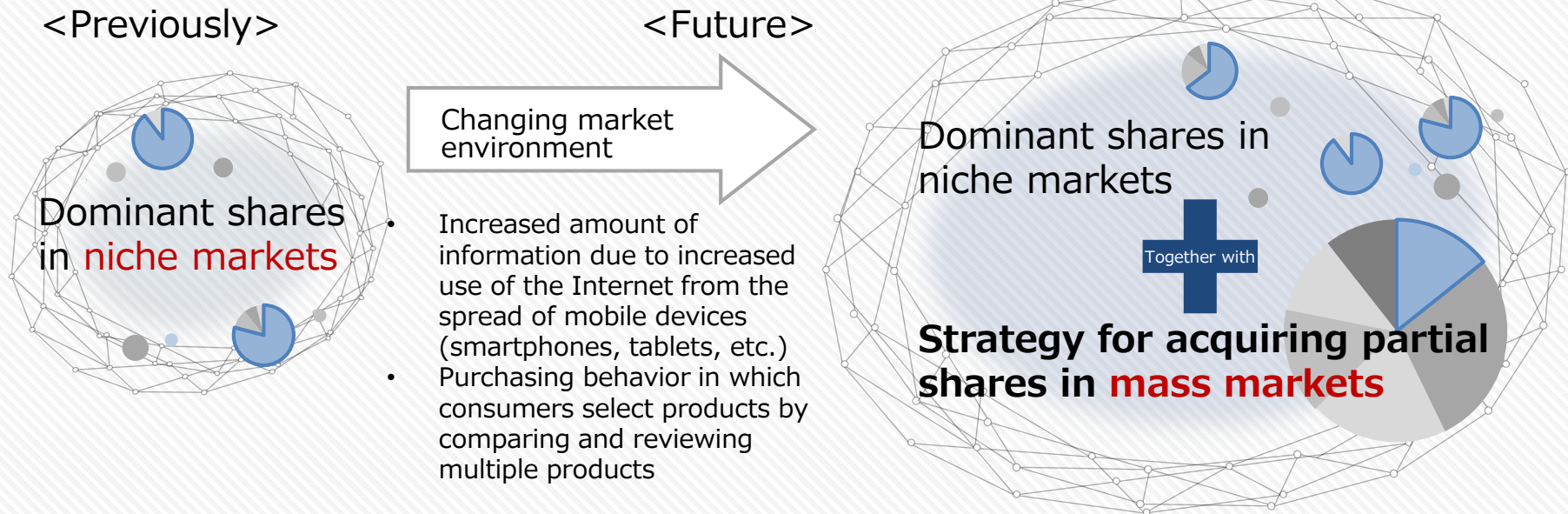
The main factors for the changes during the nine months ended November 30, 2021 were an increase in profit before income taxes of ¥1,625 million, a decrease in payment of income taxes of ¥610 million, a decrease in payment of dividends of ¥343 million, and an increase in proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥262 million.

Current Situation and Future Developments



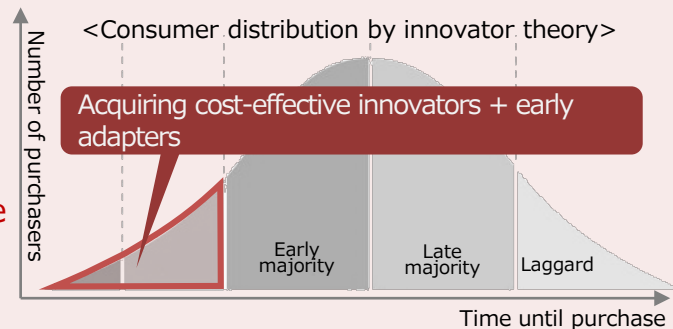
Current Situation and Future Developments

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



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 customer base 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

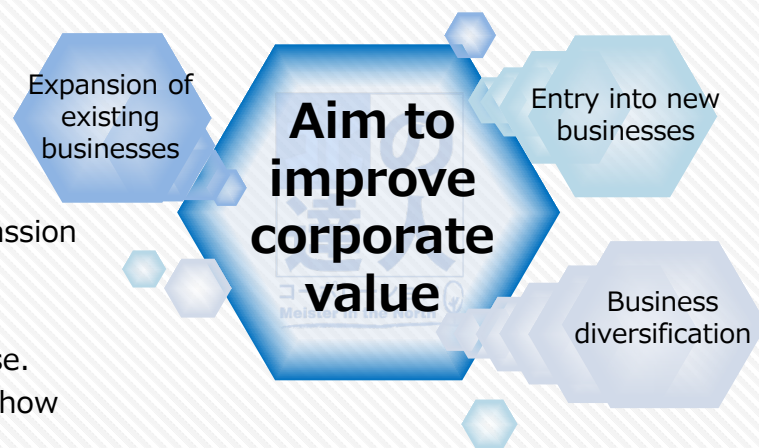
◆ Diversification of revenue base and acceleration of growth through **aggressive M&As**

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>

- Established New Business Planning Office in the current fiscal year
- Released SPADE, the first brand
- Actively collect information and evaluate M&A of D2C and E-commerce companies that meet the Company's conditions.
- Aspiring entrepreneurs who joined the company are continuously launching businesses

<Future>

Continue to actively engage in further business expansion and profitability improvement

References



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.	219 people (As of November 30, 2021)

Product Strategy

◆ Product development specifically designed for the E-commerce business

- Develop the E-commerce business that sells a total of 36 **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



北の快適工房
J NORTH FARM



北の快適工房
J NORTH FARM
BEAUTY



北の快適工房
MEN

◆ 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

◆ Products for men

- Increase demands for products from men
- Growth potential of the men's cosmetics market, the scale of which has grown approximately ¥150.0 billion, and further growth is expected going forward*



Focus on **development of products for men that specialize in men's skin types and constitution**

* "Marketing Handbook of Cosmetics 2021 No. 2" published on May 26, 2021 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.

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

➡ The law of sales minimization, profit maximization

(Explained in the figure on the right)

◆ 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.



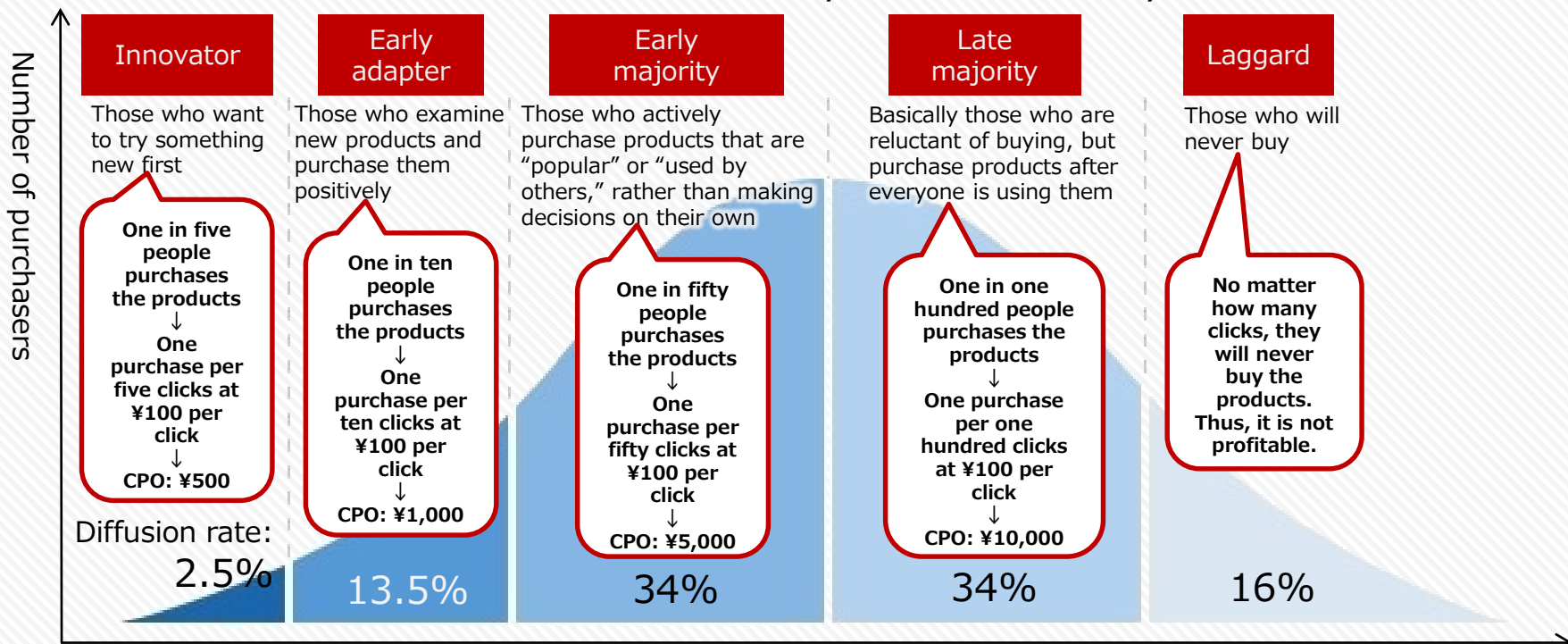
Sales Strategy

◆ Correlation between CPO and the number of new customer acquisitions

Profit = Number of new customer acquisitions × 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.

Consumer distribution by innovator theory



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

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

- 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>

↓ Diminishing returns begin from here

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

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>

↓ Diminishing returns begin from here

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

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

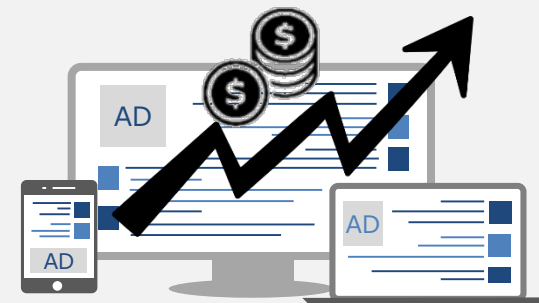
Sales Strategy

- ◆ 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:

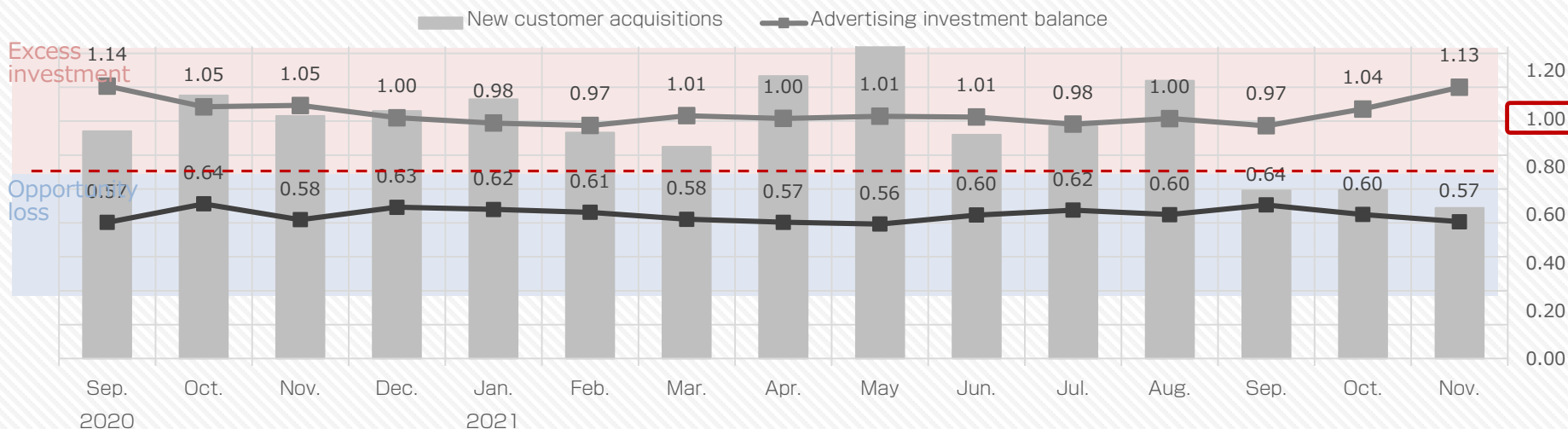
ROAS

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



- No optimal value exists for comparing responses to each ad or the same ad at different times
- We have changed our calculation method 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 single-purchase 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, the main foundation of the E-commerce business.

<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



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

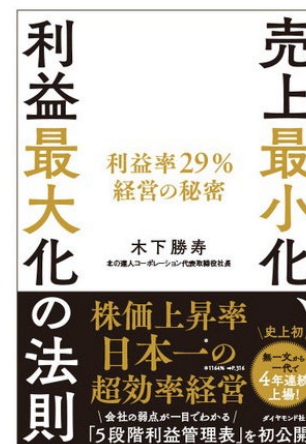
Videos explaining our business model/business overview
<https://www.kitanotatsujin.com/aboutus/media-performance/>



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.



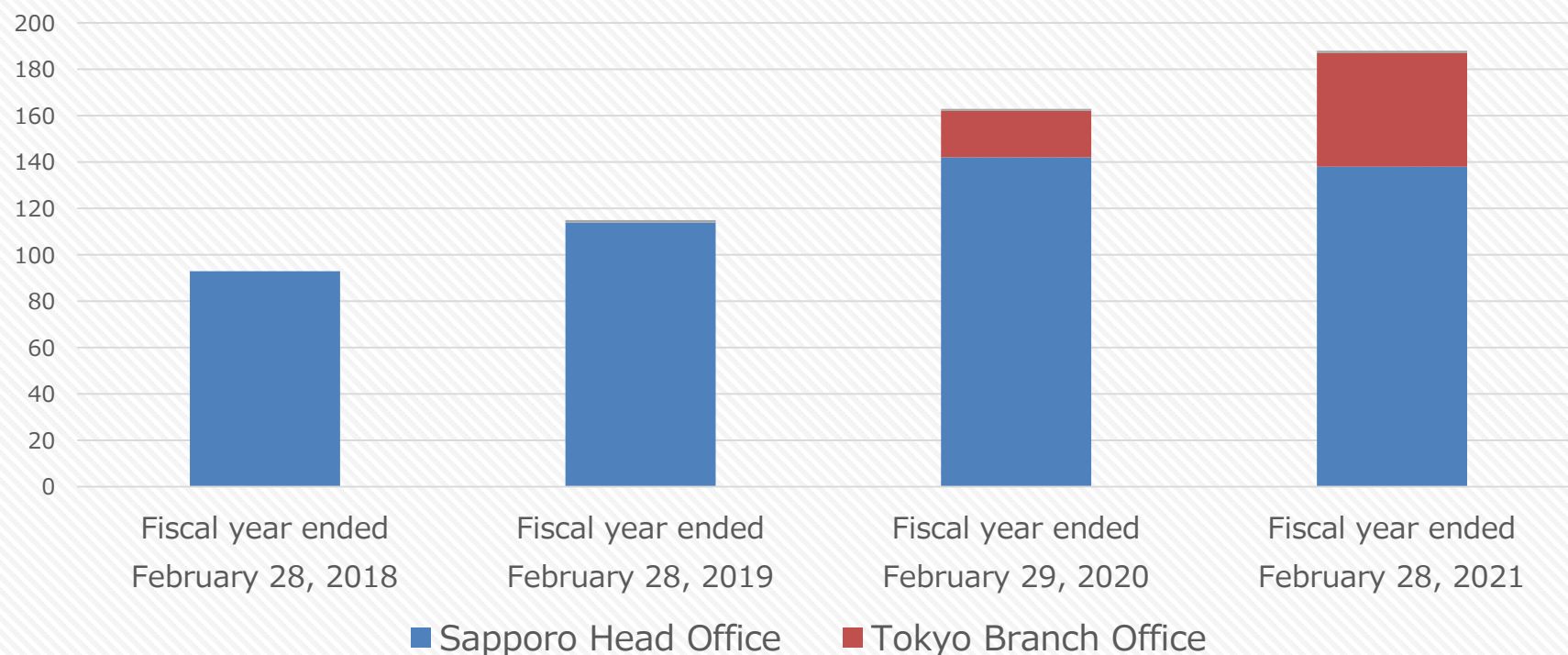
*1 Global survey by TFCO Co., Ltd. The largest micro-needle cosmetic skin patch brand (DEEP PATCH Series), with sales amount of \$45,082,226 for the one-year period from March 2019 to February 2020 and sales amount of \$43,127,256 for the one-year period from March 2020 to February 2021

*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



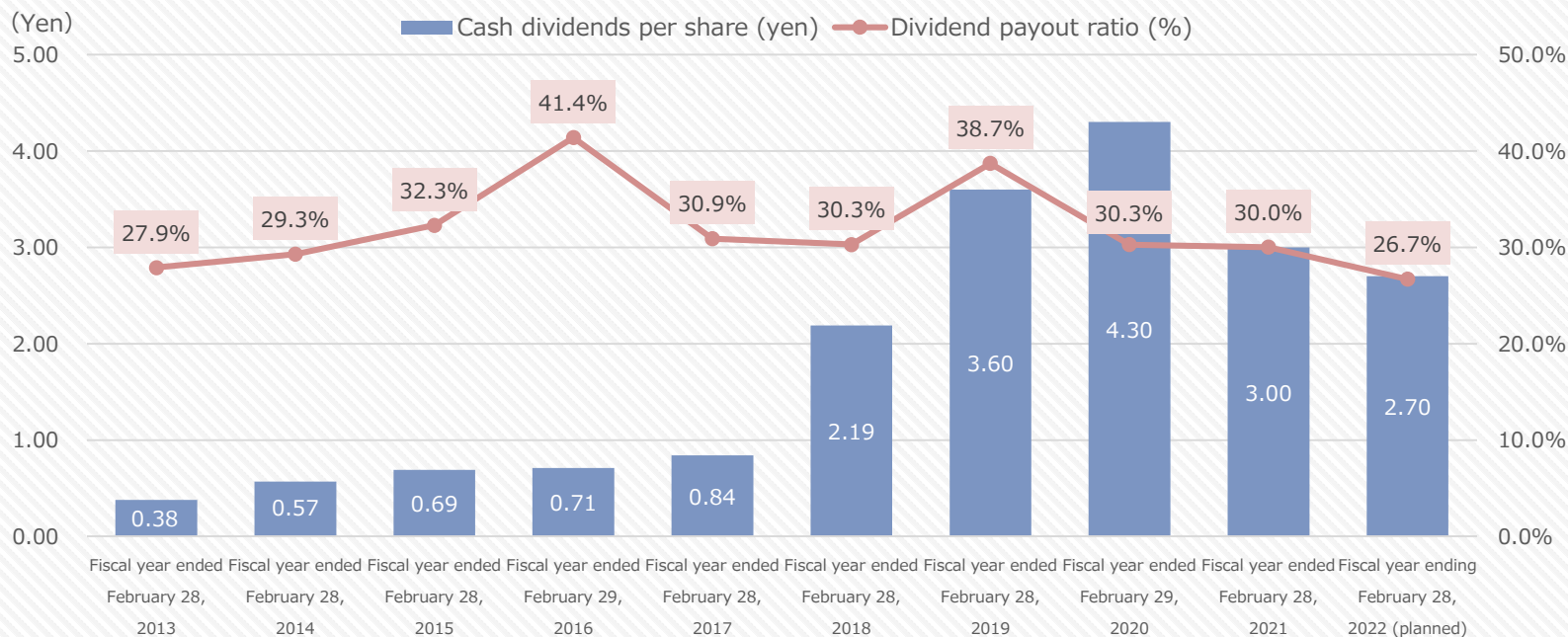
* Tokyo Branch Office was established in April 2019 at Nihonbashi, Chuo-ku, Tokyo

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.

Full-year forecast for the consolidated fiscal year ending February 28, 2022, was revised and profit attributable to owners of parent was revised upward, but the dividend payout ratio stands at 26.7% as the dividend forecast remains unchanged.



(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

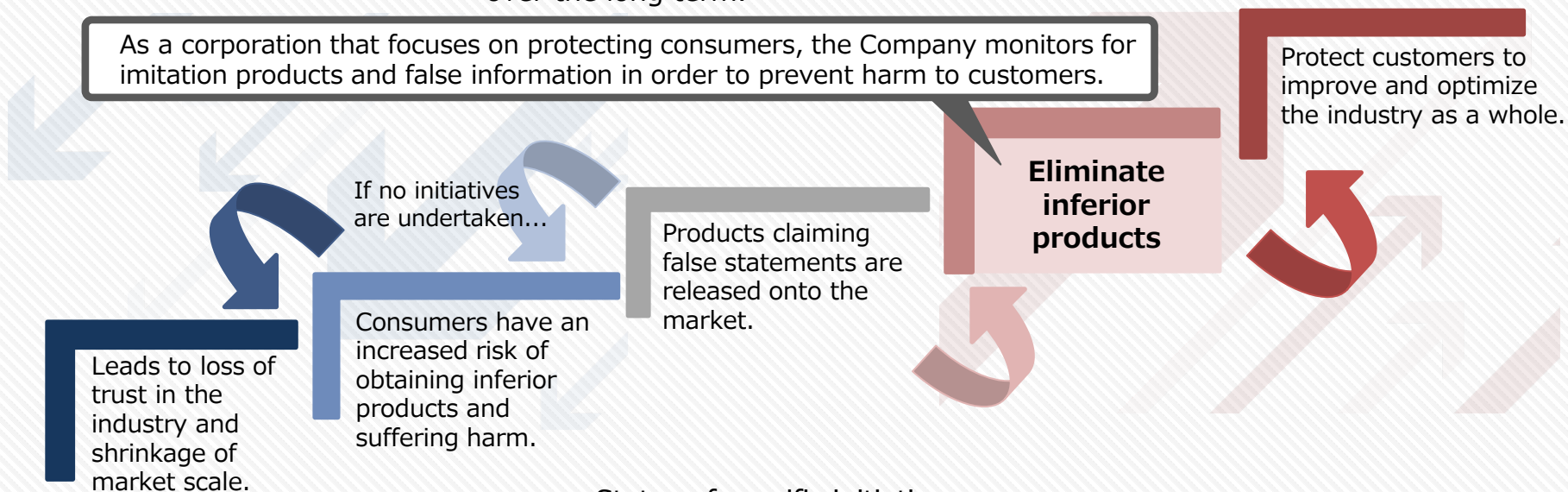
Major Awards Received

- 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.



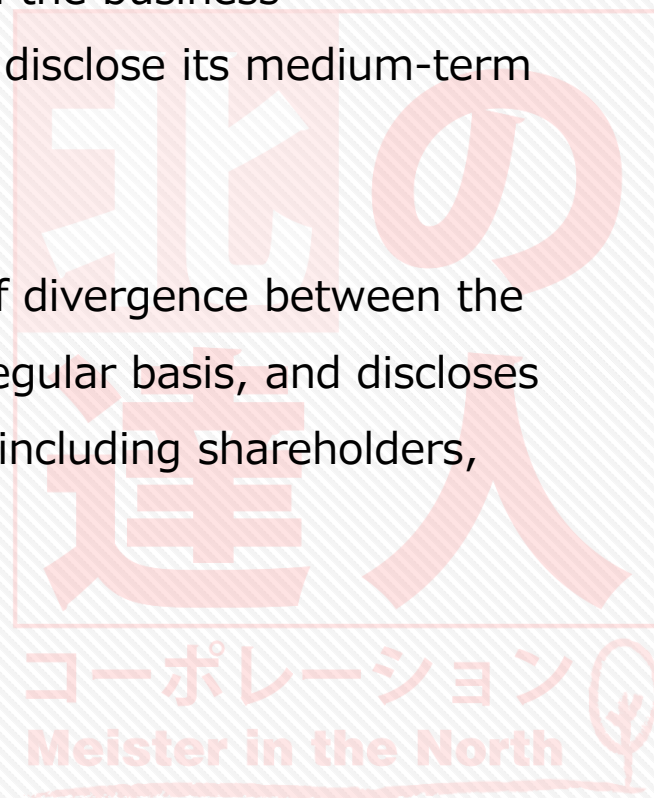
<Status of specific initiatives>

Case seeking an injunction for unfair competition	<ul style="list-style-type: none"> • Competitor of the Company's product "KAITEKI OLIGO" was displaying that the product was 100% pure oligosaccharides. • Compared their product with the Company's product "KAITEKI OLIGO" and listed false facts. 	Misrepresentation of product quality Damaging reputation	<Judgement in the first instance> Opposing party ordered to pay damages → Appeal pending
Case seeking compensation for damages	<ul style="list-style-type: none"> • Competitor of the Company's product "EYE KIRARA" was displaying multiple "1st place rankings," etc. without any rational basis. • Dissemination of false facts on affiliate sites comparing against the Company's product "EYE KIRARA." 	Misrepresentation of product quality Damaging reputation	Pending
Litigation 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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