



Supplementary Material for the Fiscal Year Ended February 28, 2022

Stock code: 2930
Kitanotatsujin Corporation
April 14, 2022

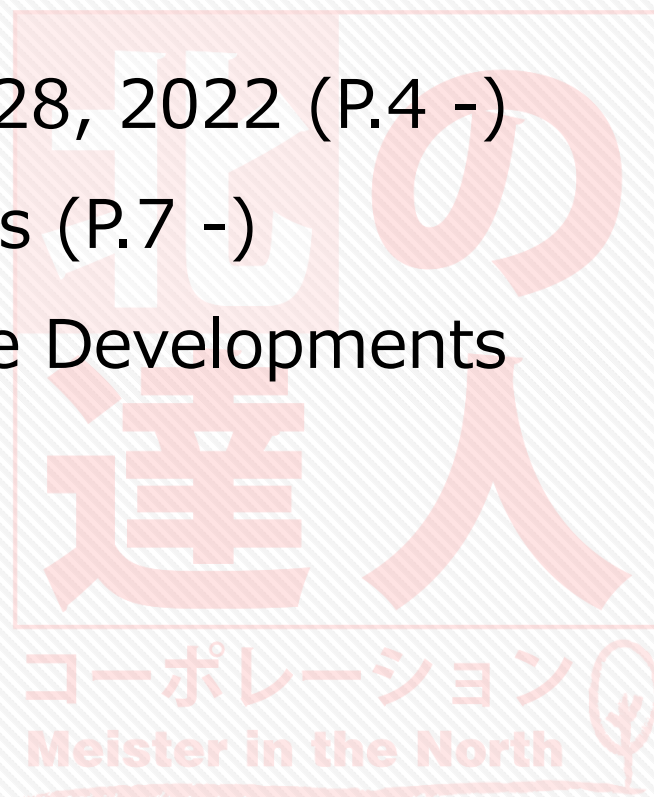
Executive Summary

- 👉 Net sales and operating profit were higher than the revised forecast announced on January 14, 2022.
- 👉 While the number of new customer acquisitions on our website decreased due to lower advertising placement volume, new acquisitions at e-commerce malls were favorable. We will further strengthen this area.
- 👉 Changed our policies for developing and releasing new products.
- 👉 Return to niche market dominating strategies from mass-market strategies.

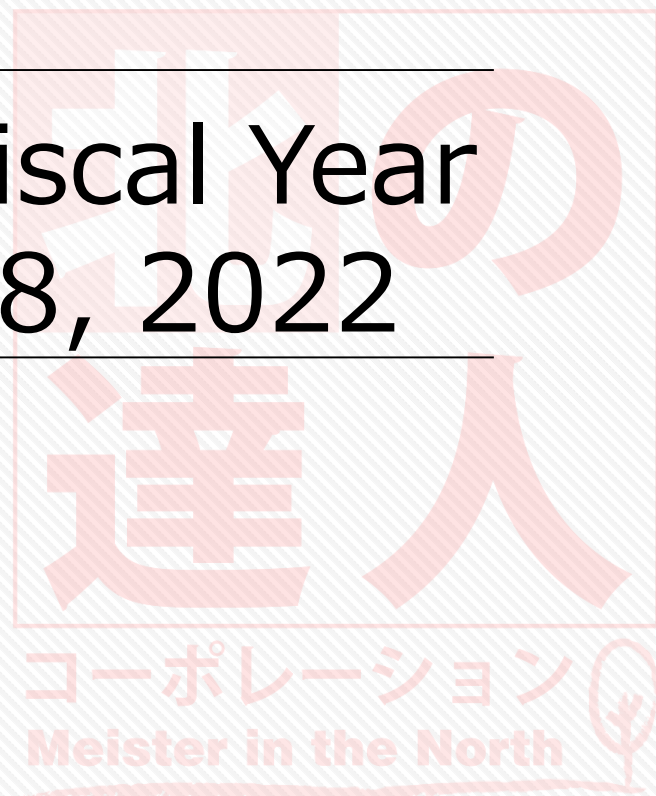


Table of Contents

1. Highlights for the
Fiscal Year Ended February 28, 2022 (P.4 -)
2. Analysis of Operating Results (P.7 -)
3. Current Situation and Future Developments
(P.18 -)
4. References (P.26 -)



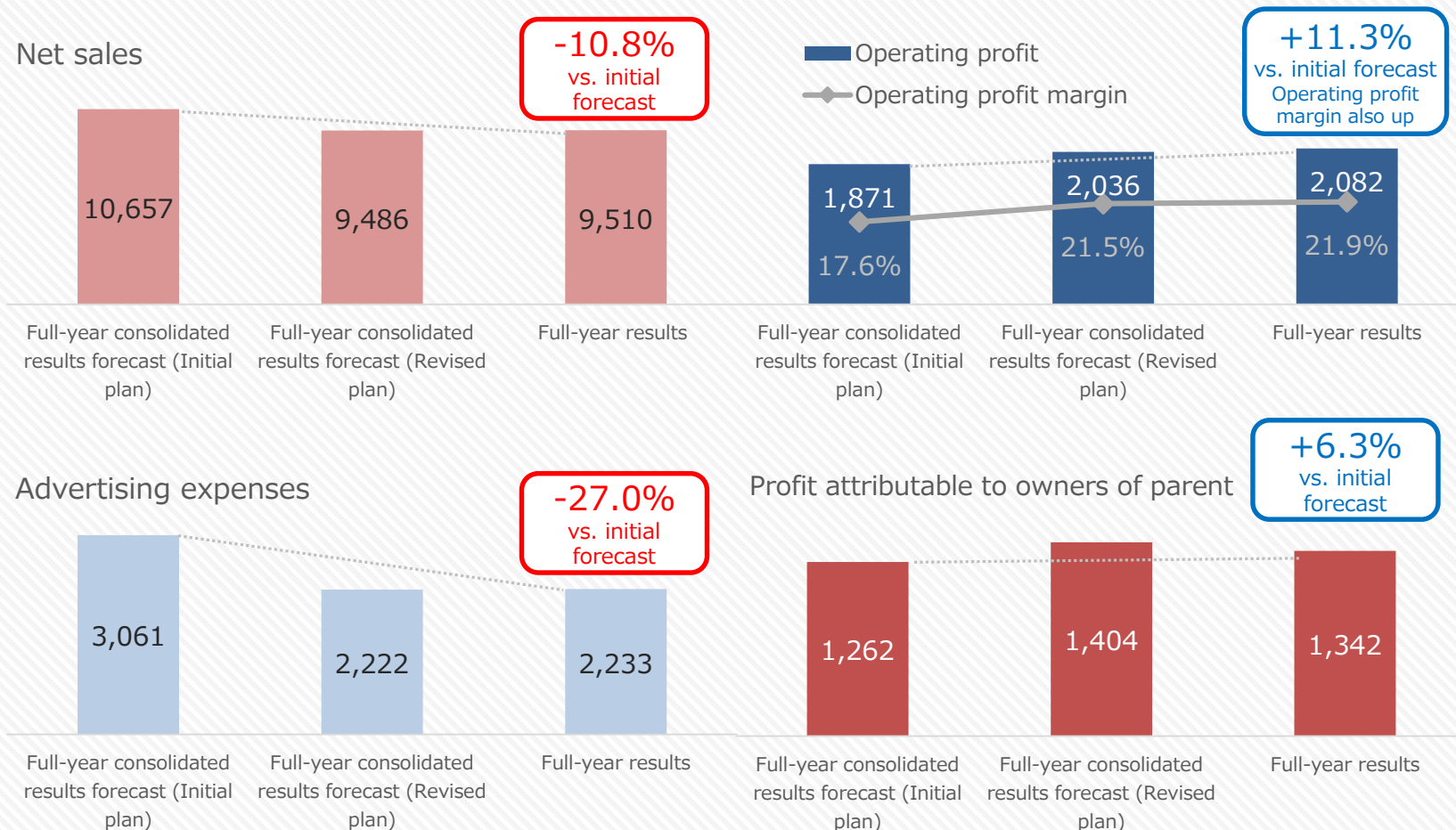
Highlights for the Fiscal Year Ended February 28, 2022



Key Performance Highlights [Compared with Forecasts (Plan)]

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

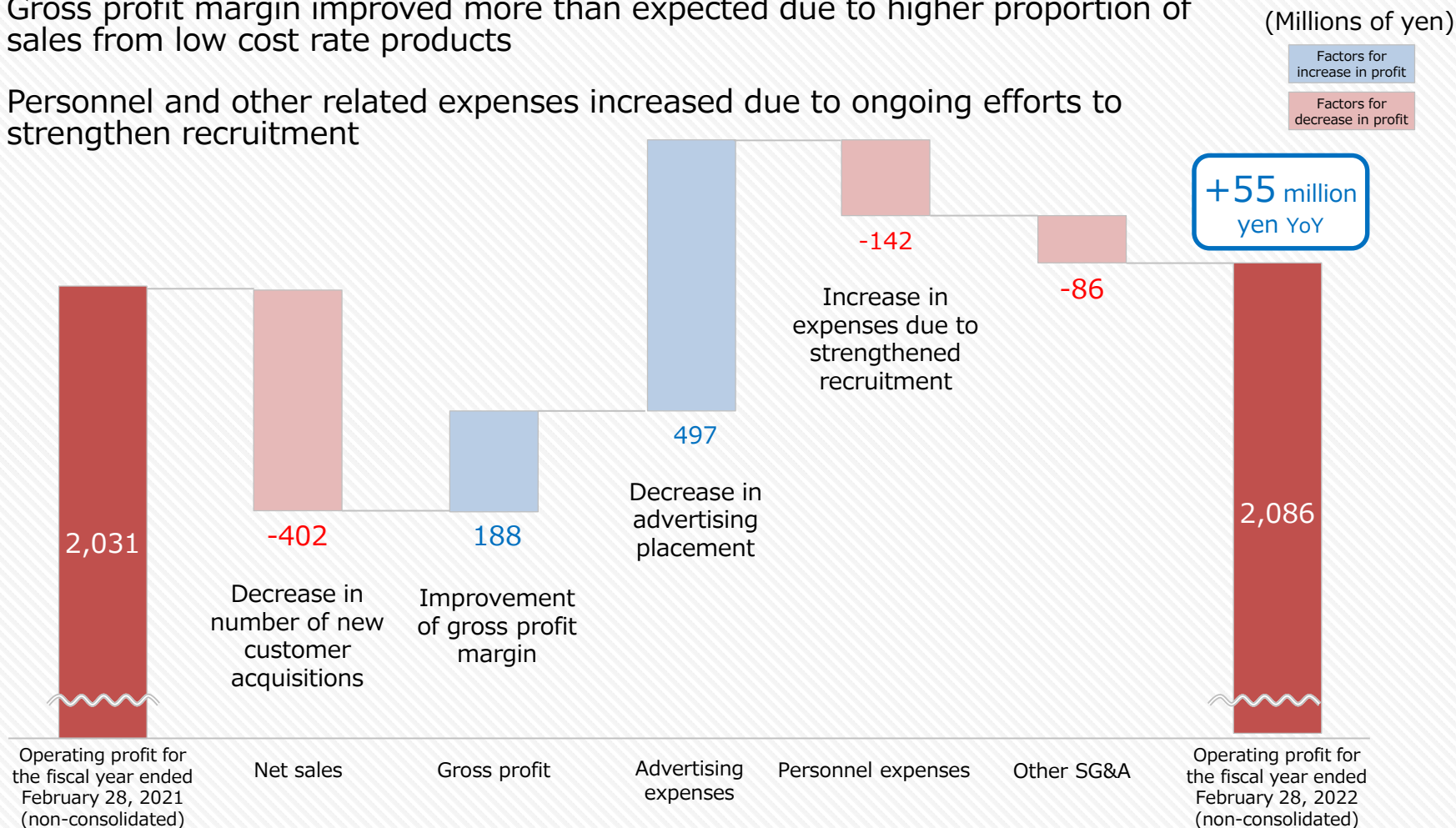
(Millions of yen)



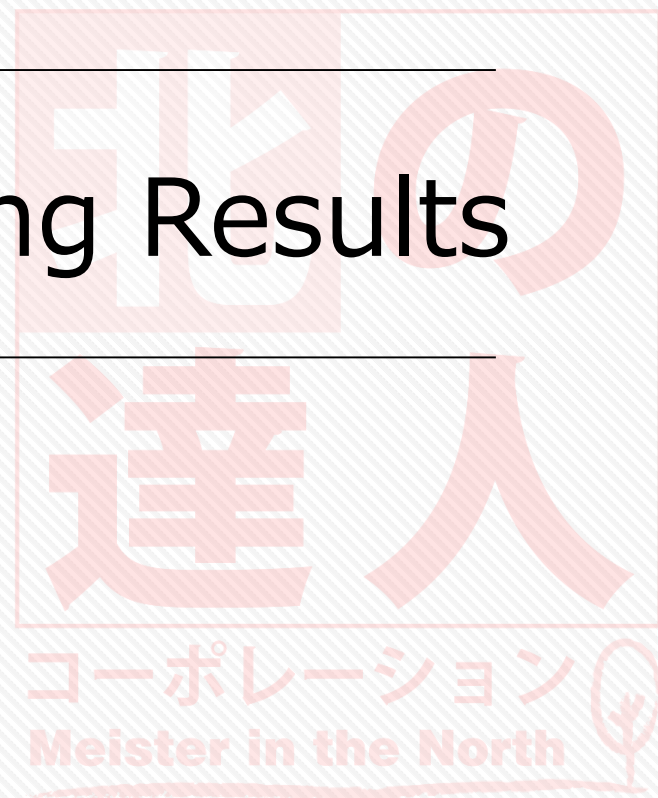
- The full-year forecast was revised at the announcement of third quarter results. Net sales and operating profit were higher than the revised forecast.
- Due to the recording of extraordinary losses, profit attributable to owners of parent fell short of the revised plan.

Analysis of factors for increase/decrease in operating profit (Year on Year on a non-consolidated basis)

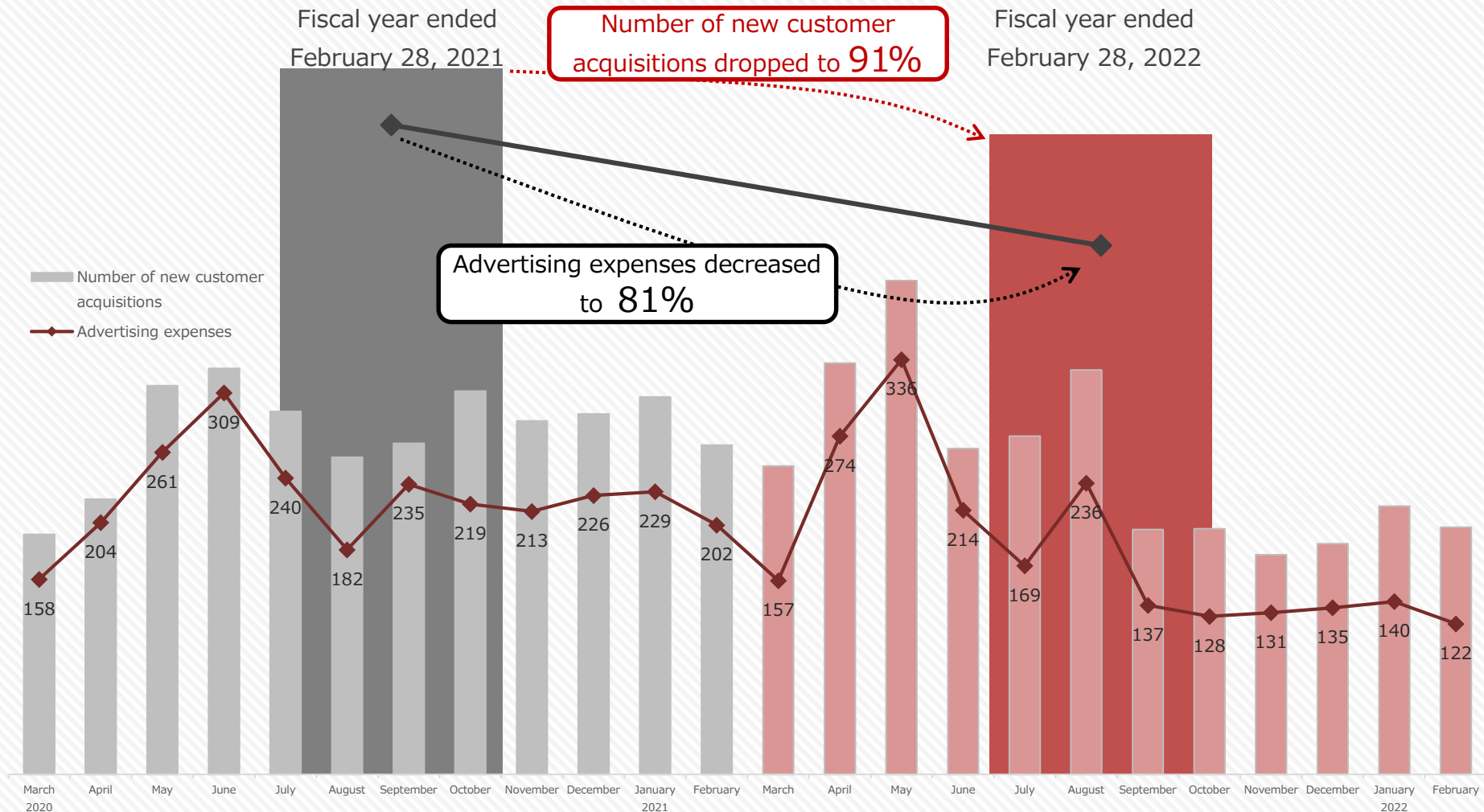
- As advertising placement volume decreased, advertising expenses also decreased
- Gross profit margin improved more than expected due to higher proportion of sales from low cost rate products
- Personnel and other related expenses increased due to ongoing efforts to strengthen recruitment



Analysis of Operating Results



Number of new customer acquisitions and advertising expenses



Factors for decrease in the number of new customer acquisitions

◆ External factor 1: Soaring Internet advertising rates

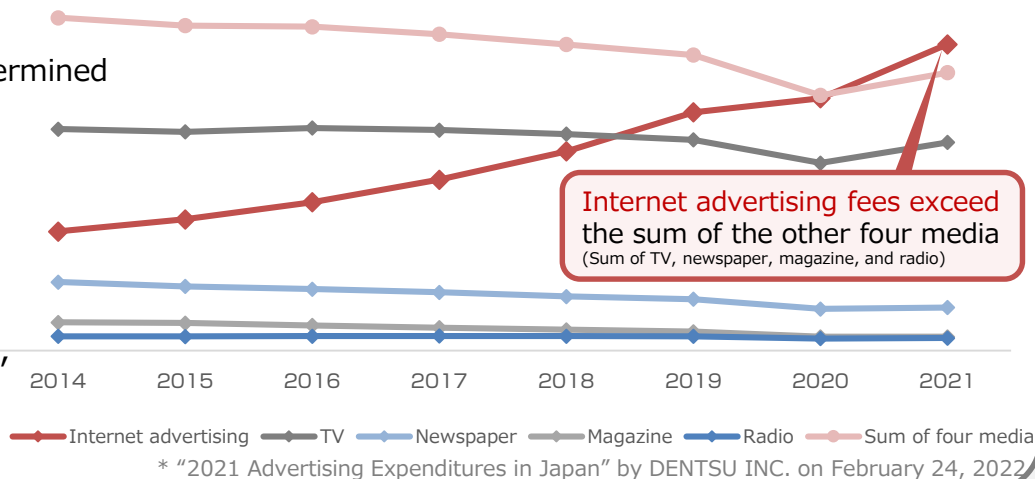
<Internet advertisement>

Advertisements to be posted are determined via auctions with bidding

Now that companies that used to advertise on TV and radio have entered the Internet, the advertising rates have skyrocketed

The more companies enter the Internet advertising market, the higher the cost of advertising

[Advertising fees by media type]



<Companies in general>

Raise the advertising expenses to maintain advertising placement volume and secure sales

"To maintain sales, increase advertising investment further and sacrifice profit"

<The Company>

Set the CPO limit

When CPO rates soar

Stop advertisements that exceed the CPO limit

As a result, profit is secured although advertising placement volume decreases

"To maintain profit, slash advertising investment and sacrifice sales"
 → We place greater emphasis on profit than on net sales as a performance evaluation indicator

* 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.

Factors for decrease in the number of new customer acquisitions

- ◆ External factor 2: The revised Pharmaceuticals and Medical Devices Act narrowed the scope of descriptions permitted in advertisements and sales pages

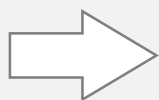
The Company had strictly controlled descriptions pertaining to the Pharmaceuticals and Medical Devices Act based on internal standards



August 2021
Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (Pharmaceuticals and Medical Devices Act) WAS partially revised



Advertising media companies tightened their standards for posting advertisements beyond our expectation



Even advertisements without any problems in the description according to Pharmaceuticals and Medical Devices Act failed to pass screenings, making it impossible for us to present timely and appropriate advertisements, which led to a significant decrease in advertising placement volume

- ◆ Internal factor 1: Effect from prioritization of internal resources

<From the current third quarter onwards>

Resources of Customer attraction departments were spent on a priority basis to increase the number of new customer acquisitions for mass-market products, but the acquisitions were lower than anticipated



Focused less on niche market products, which drove down the overall number of new customer acquisitions

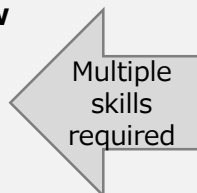
When new products are released, internal resources for attracting customers tend to focus on the new products. If projected sales cannot be earned, the resources may end up wasted

Factors for decrease in the number of new customer acquisitions

◆ Internal factor 2: Insufficient “development and education of the Creative Department”

<What it takes to increase the number of new customer acquisitions>

- Creation of advertisements getting high click-through rates
- Creation of sales pages with a high purchase rate



- Understanding of users and products
- Creation of advertisements from various angles
- Consistency between advertisements and sales page

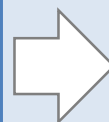
<Recruiting strategy>

- ◆ Kinoshita, our Representative Director & President, began disseminating information via social media, lectures, and book publication, etc., two years ago
 - Raise our profile and bolster our image in the web marketing industry to recruit experienced persons
- ◆ Expand the office of the Tokyo Branch Office and recruit persons working remotely from home

Achieved some success in recruiting high-experienced staff

- **Headcount of customer attraction departments was up approx. 30%** in recent two years
- Recruit persons with experience in advertising contents for EC and mail orders, and those from the Japan Fair Trade Commission

On the other hand, development and education of the Creative Department, as well as business handover, remained insufficient



Failed to create many advertisements capable of attracting customers within the CPO limit

Factors for decrease in the number of new customer acquisitions

◆ Internal factor 3: Failed to increase the number of new product releases

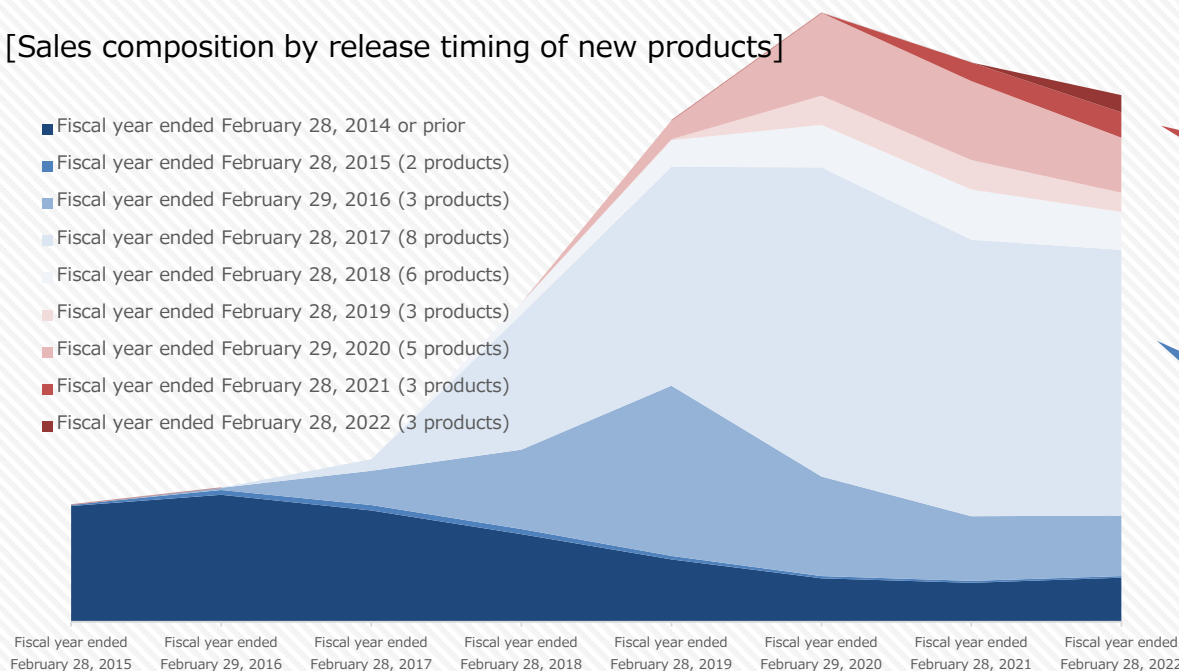
- **Subscription purchase type business**

→ It is **essential to acquire new customers** who bring in future sales and profit

- **“Skin care cosmetics,”** our current mainstay, **are influenced by trends** to a certain extent

→ **It is necessary to launch new products continuously to stimulate new demand** with trends in mind

[Sales composition by release timing of new products]



Only 3 products were launched in the fiscal years ended February 28, 2021 and 2022

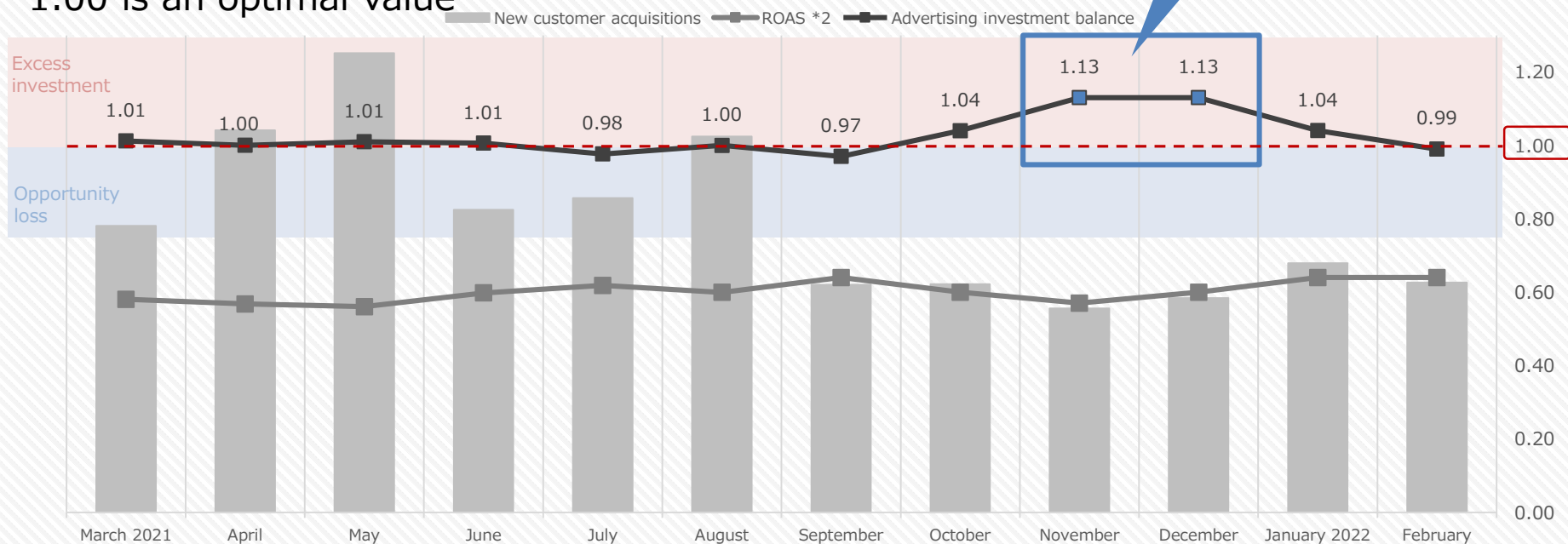
The number of new releases have been decreasing after peaking at 8 products in the fiscal year ended February 28, 2017

Advertising investment efficiency

<Advertising investment balance*1>

An indicator for checking opportunity loss and unprofitability in advertising
1.00 is an optimal value

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



Strove for profit maximization, which resulted in operating profit higher than the forecast and the year-earlier result

*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 is 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 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.

New customer acquisitions at 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

At e-commerce malls, customers purchase products upon comparing them with other companies' products on their own. Therefore, the impact from soaring Internet advertising rates will be limited

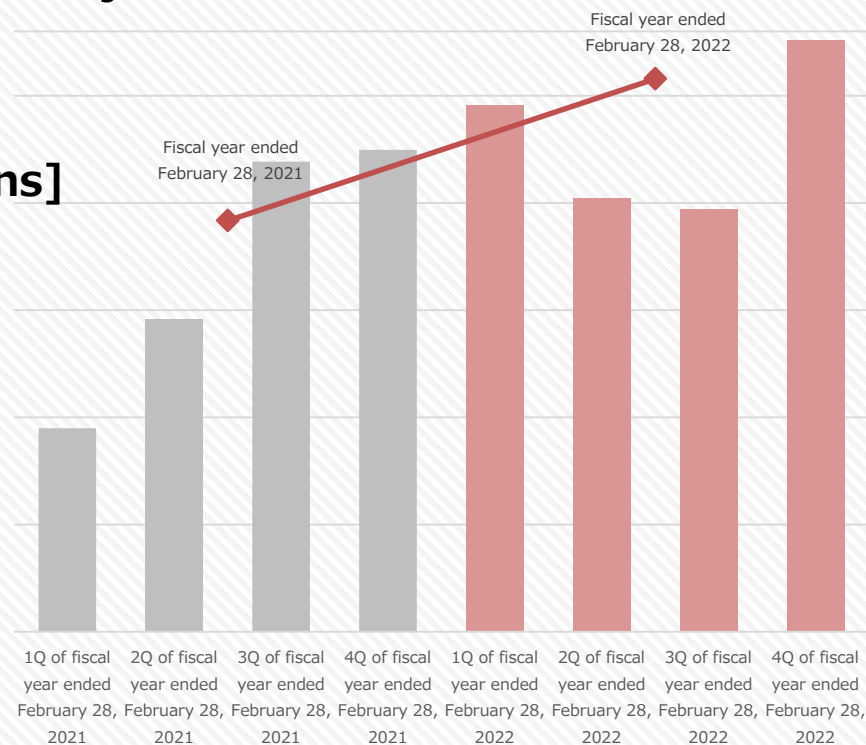


[Number of new customer acquisitions]

- Rose to 134% of the previous fiscal year
- Marked the highest monthly sales at Rakuten in May 2021 and Amazon in January 2022
- Rose to 140% of the immediately preceding period



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

■ Quarterly number of new customer acquisitions
 ◆ Annual number of new customer acquisitions

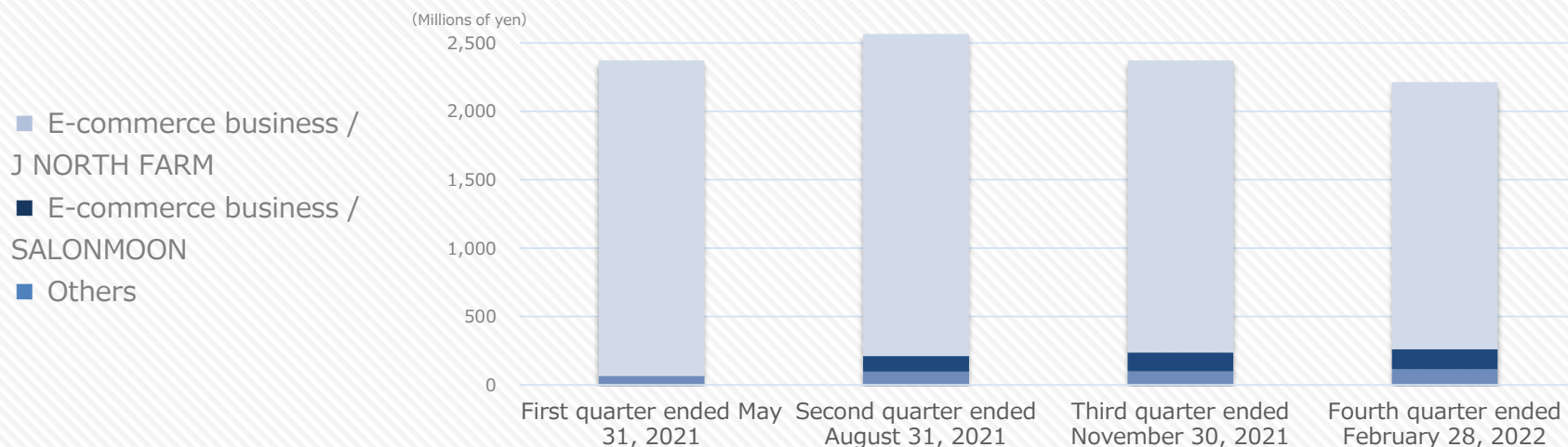


Net sales by segment and brand

(Millions of yen)

Segment	Brand name	First quarter ended May 31, 2021	Second quarter ended August 31, 2021	Third quarter ended November 30, 2021	Fourth quarter ended February 28, 2022
E-commerce business	 北の快適工房 J NORTH FARM	2,306	2,355	2,123	1,953
		-	113	137	145
Others	-	65	96	98	115
Total		2,372	2,565	2,359	2,214

* 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.
Net sales of J NORTH FARM for the fourth quarter ended February 28, 2022 include net sales from other brands, but the amount is insignificant.



Consolidated Balance Sheets

(Millions of yen)

Subject/Section	<Reference> Previous fiscal year ended February 28, 2021 (non-consolidated)	Current fiscal year ended February 28, 2022 (consolidated)
(Cash and deposits)	3,612	5,210
Current assets	5,857	6,808
Non-current assets	343	747
Total assets	6,201	7,555
Current liabilities	1,022	1,235
Non-current liabilities	—	174
Total liabilities	1,022	1,409
Total net assets	5,179	6,146
Total liabilities and net assets	6,201	7,555

Through the preparation of consolidated balance sheets from the current fiscal year, the Company has included the assets and liabilities of subsidiaries. In addition, goodwill of ¥280 million has been recorded on the consolidated balance sheets.

Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	<Reference> Previous fiscal year (non-consolidated) March 1, 2020 to February 28, 2021	Current fiscal year (consolidated) March 1, 2021 to February 28, 2022
Cash flows from operating activities	682	1,753
Cash flows from investing activities	-609	197
Cash flows from financing activities	-555	-363
Effect of exchange rate change on cash and cash equivalents	7	9
Net increase (decrease) in cash and cash equivalents	-475	1,597
Cash and cash equivalents at beginning of period	4,088	3,612
Cash and cash equivalents at end of period	3,612	5,210

The main factors for the changes during the period were an increase in profit before income taxes of ¥2,071 million, a decrease in payment of income taxes of ¥610 million, a decrease in payment of dividends of ¥347 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

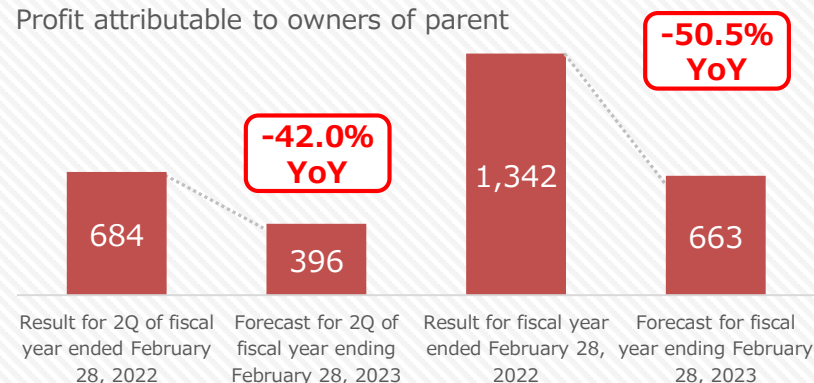
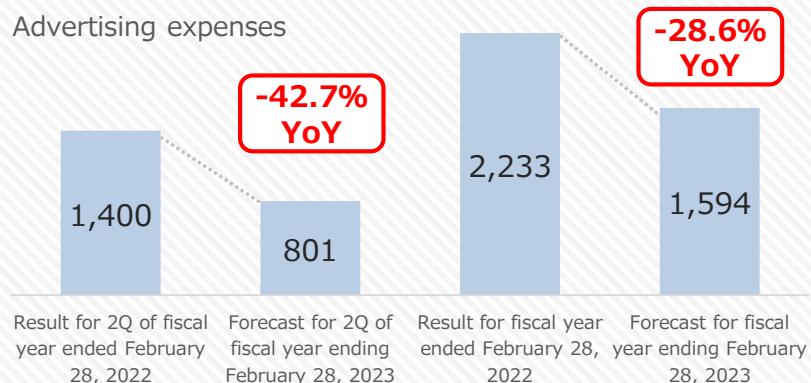
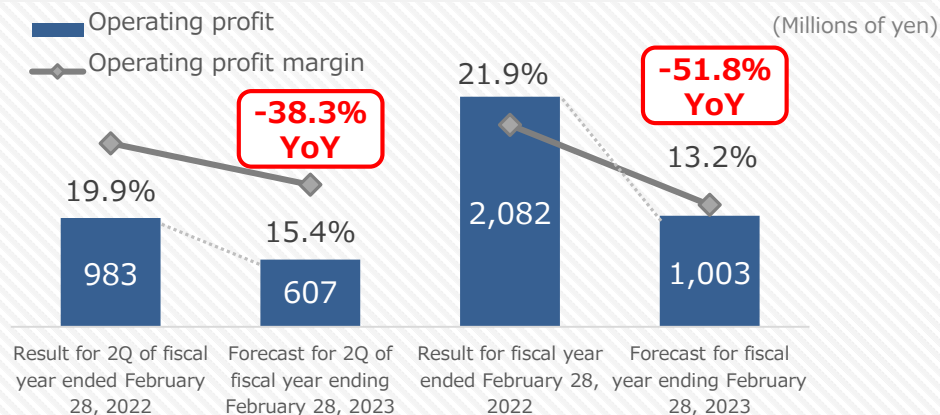
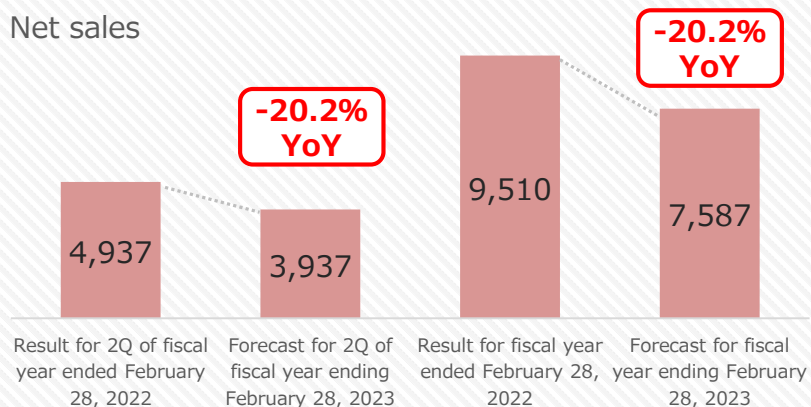


Current Situation and Future Developments

◆ Forecast for the fiscal year ending February 28, 2023

“Change policies for developing and releasing new products,” “Return to niche market dominating strategies,” “Actively expand e-commerce malls,” and take other measures to recover and expand the number of new customer acquisitions in our mainstay e-commerce business

➡ The impact from the strategies, initiatives, and measures are uncertain and cannot be quantified.
The forecast is therefore based on the premise of the continuation of current trends in new customer acquisitions.



Current Situation and Future Developments

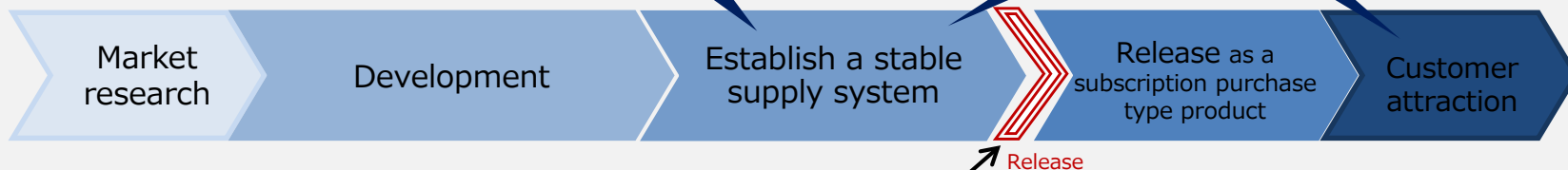
◆ Change policies for developing and releasing new products

<Previous>

Due to the heavy workload required for each product release, **we were unable to release many products**

It is time-consuming to prepare a production system that can keep supplying products using the same ingredients and same manufacturing process over the long term in order to **stably supply** products as "subscription purchase type" products

Some products did not reach projected sales and resources were wasted...



<Future>

Release new products as a "single-purchase type product"

→ Only products passing certain sales criteria will become available as "subscription purchase type products"

Shorten by 1-1.5 years
→ **Able to address changing trends**

Mitigate the workload for product release and **spend internal resources only when we know the product sells well**

Internal resources can be spent only on products that sell well



Release as a "single-purchase type product" → Only products passing certain sales criteria will become available as "subscription purchase type products"

More products can be launched with the same overall workload

(We keep the subscription purchase type business by adding the release as a single-purchase type product during the development phase of subscription purchase type products.)

Current Situation and Future Developments

- ◆ Increase the number of product development projects



北の快適工房
J NORTH FARM

<Current> The number of new product releases remained sluggish in recent fiscal years
→ Sales accumulation slowed

<Future> • **Launch new products continuously** to stimulate new demand

- ◆ Improve the ratio of products that reach actual release after planning stage

- Strengthen recruitment in Product development departments
- Expand the development genres
- Select OEM manufacturers, including those overseas, etc.

- ◆ Establish a system where more development projects can be undertaken concurrently

• Focus resources on products that sell well

- ◆ More products can be launched with the same workload in total

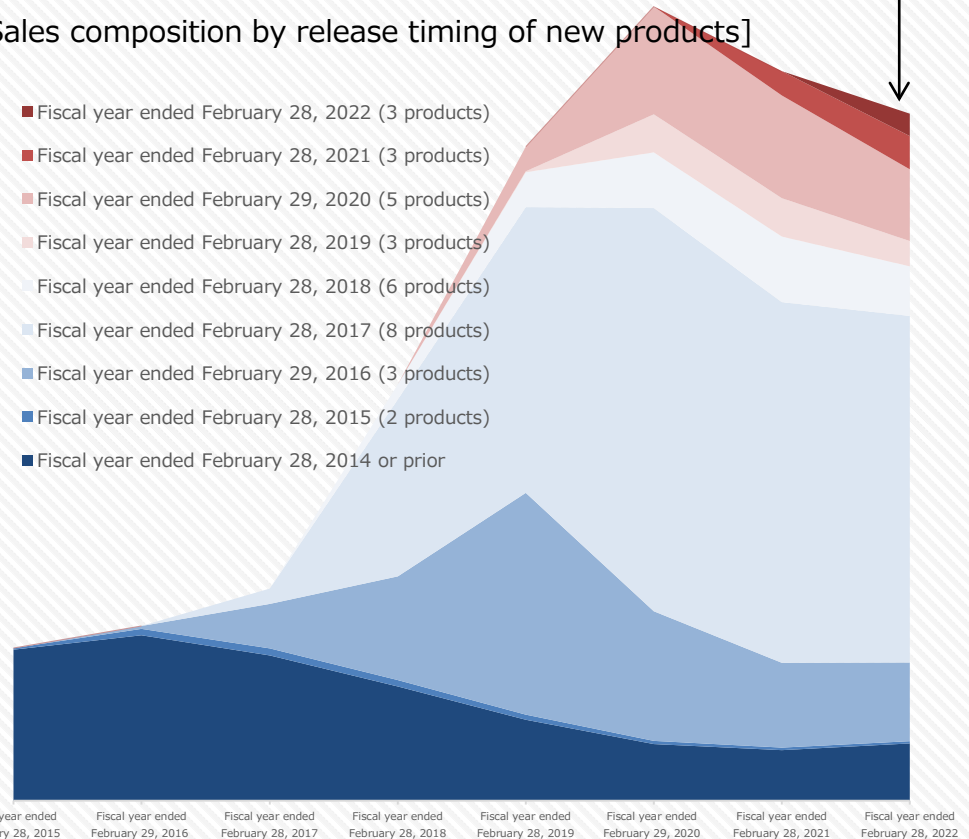
Mitigate workload required to prepare for product releases

Increase new products × Focus resources on products that sell well



Lead to higher sales and stable growth

[Sales composition by release timing of new products]



Current Situation and Future Developments

◆ Actively expand e-commerce malls

With the spread of COVID-19, consumers' purchasing behavior notably shifted away from conventional brick-and-mortar stores to e-commerce malls such as Amazon and Rakuten

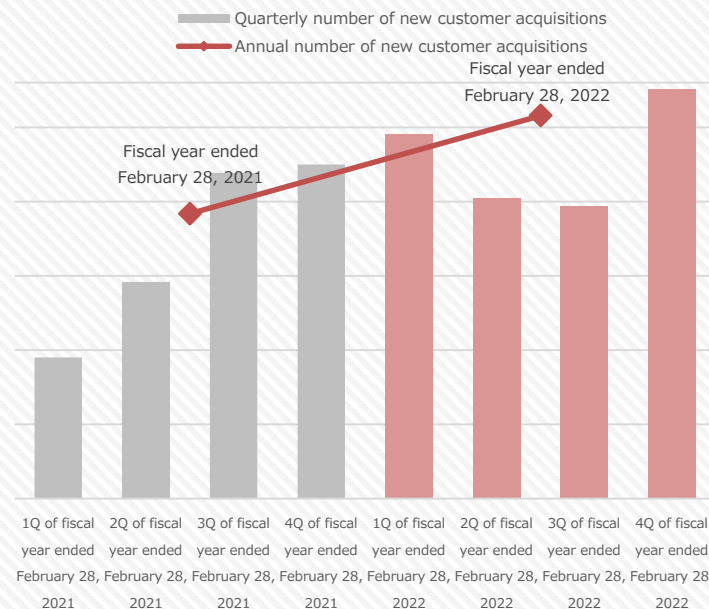


E-commerce malls market growing rapidly

Strengthen sales at e-commerce malls

→ Focus more resources on e-commerce malls than ever to actively capture the growth in "e-commerce malls" trading zone

At e-commerce malls, customers purchase products by comparing them with other companies' products on their own without relying on advertisements. Therefore, the impact from soaring Internet advertising rates will be limited.



◆ Amazon

We continue efforts, recognizing it 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.

→ The result was unfavorable. We did not reach full-scale operation in the current fiscal year

◆ Strengthen overseas development, including a new store opening at an e-commerce mall exclusively for Taiwan and consideration of a store opening at an e-commerce mall in Singapore

Current Situation and Future Developments

◆ Return to our initial strategies

<Mass-market products>

Struggled in new customer acquisitions

The Company's skills did not match

Well-received by existing customers

- Mass-market products feature more versatility
- Customers with a certain level of loyalty are apt to purchase



We learned that certain profit increases are possible with mass-market products

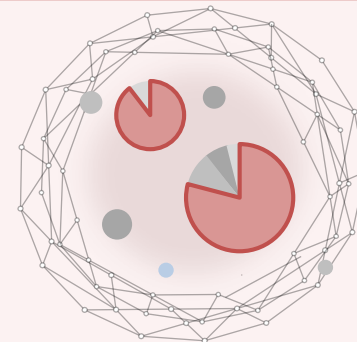
But no more than several hundred million yen per year

Return to our initial strategies

To achieve profit of several billion yen and expansion to a scale of tens of billion yen...

It is more important to increase the number of new customer acquisitions

- ◆ In light of the current environment and the Company's skills and expertise, **place priority on developing niche market products that can more easily attract new customers**
- ◆ **Promote again the niche market dominating strategies in which the Company excels** to "provide products that appropriately capture the niche needs of consumers, offer them only to those who need it and establish a firm position in the market," aiming to forge solid footing again



Current Situation and Future Developments

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

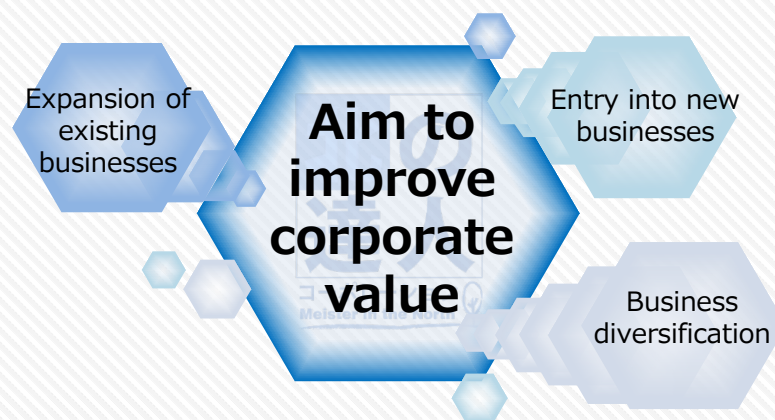
Our policy is to aggressively engage in M&A of companies that operate the same D2C* and E-commerce businesses as the Company that offer high-quality products but are limited on funds and personnel, and where the introduction of the Company's expertise and management resources can establish scale benefit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

Genres of new businesses will be limited to fields where the Company's expertise can be applied (mail orders, online sales, beauty and health, etc.)

◆ **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 new SPADE and MENVE brands
- Actively collect information and evaluate M&A of D2C and E-commerce companies that meet the Company's conditions

<Future>

Continue to actively engage in the further business expansion and profitability improvement

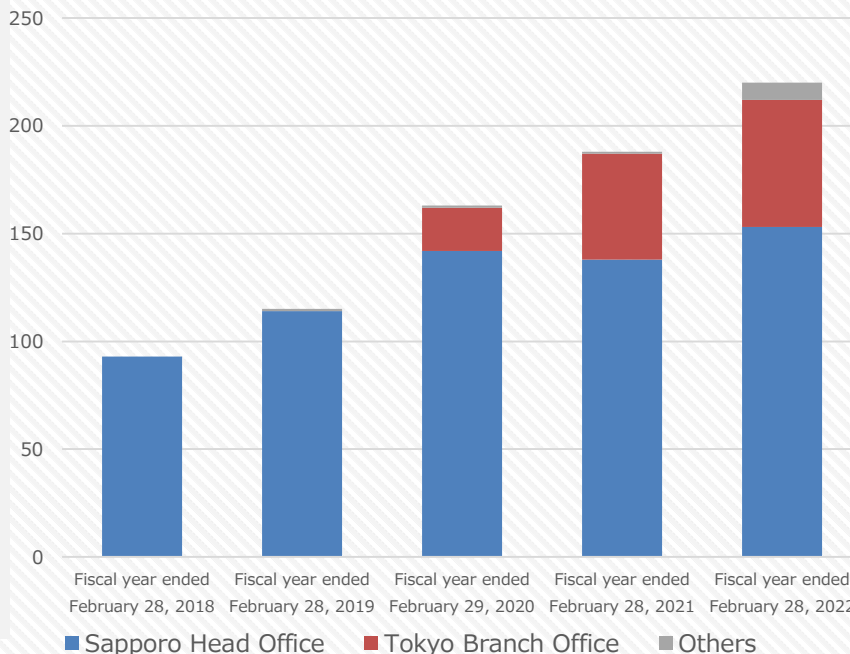
Current Situation and Future Developments

◆ Strengthen recruitment by making the Tokyo Branch Office into a Head Office

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

[Changes in employees]



July 2022 **Make the Tokyo Branch Office into a Head Office**

Shift to a double headquarters system: Sapporo Head Office and Tokyo Head Office

→ **Further strengthen recruitment to acquire personnel with a focus on experienced persons**

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 Prime 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 April 2022 Transferred to the Tokyo Stock Exchange, Prime Market
Officers and Employees, etc.	220 people (As of February 28, 2022)

Products launched in the fiscal year ended 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
- Simultaneous release of cross-selling products (shampoo, supplements)
- 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 ended 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



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 2 products

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, a nicotine- and tar-free e-cigarette that produces no secondhand smoke

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

- 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
- Released in October 2021



MENVE medical skin covering cream

◆ Men's cosmetic product to care for men's skin problems, such as rough skin, acne, spots, and dark circles with the concept of "concealing skin problems and caring for them"

- A formula playing 4 roles: skin tone corrector, concealer, beauty serum, and sunscreen
- Just apply it to the face; simple use completed in 10 seconds. It is easy to use even for men who are not familiar with daily skin care and cosmetics
- Launched in March 2022

The developer of the product had long been suffering from his own skin problems, but an encounter with a skin covering cream made him feel confident in himself. Based on this experience, he launched the project, wishing to reduce the number of those who have the same problems as himself.
The missions are to "popularize men's cosmetics which are not yet common" and "foster a culture where men's cosmetics use becomes common practice"



*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.

SALON
MOON^{Pro}



- 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

<Efforts undertaken in the current fiscal year>

- Operation and business transfer
- Full-scale launch of various initiatives to expand sales
 - ◆ New store opening at PayPay mall to expand sales channels
 - ◆ 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

- ◆ Launched the first consumer good, SALONMOON Hair Oil Mist
- Focused on heat that is applied for hair styling, a cause for hair damage
 - Contains ingredients activated by the application of heat*.
 - Repairs damage and achieves glossy hair
- Hair care product combining a moisturizing effect, repairing power, ease of use, and ability to hold hairstyles
- Launched on April 1, 2022
- ◆ Hair irons become available at stores (home electronics stores, etc.)



* Gamma-Docosalactone



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

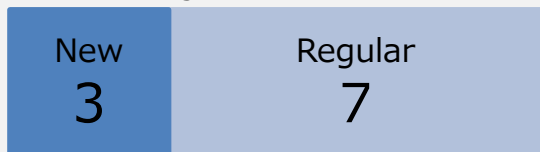


Business Model

◆ Customers and products

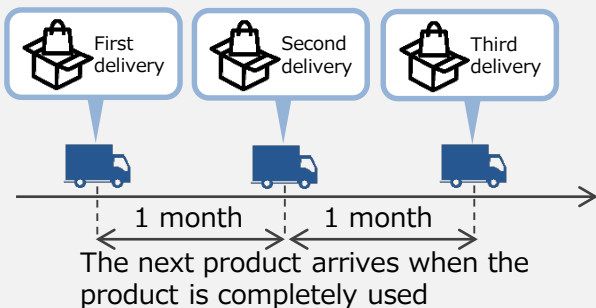
- The main customer base is men and women in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

[Ratio between new customers and regular customers]



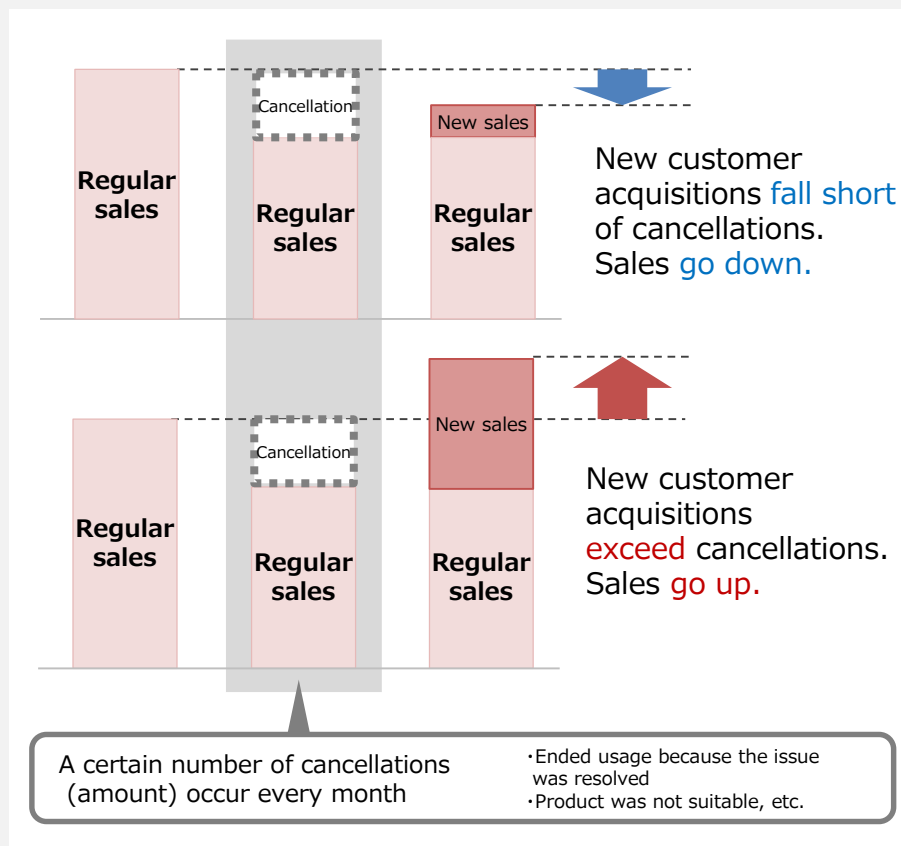
- All products are generally designed and developed to be completely used in one month

[Product delivery example]



◆ Profit structure

A certain number of cancellations (amount) occurs every month. Sales and profit will not grow without acquiring new customers that exceed the number of cancellations

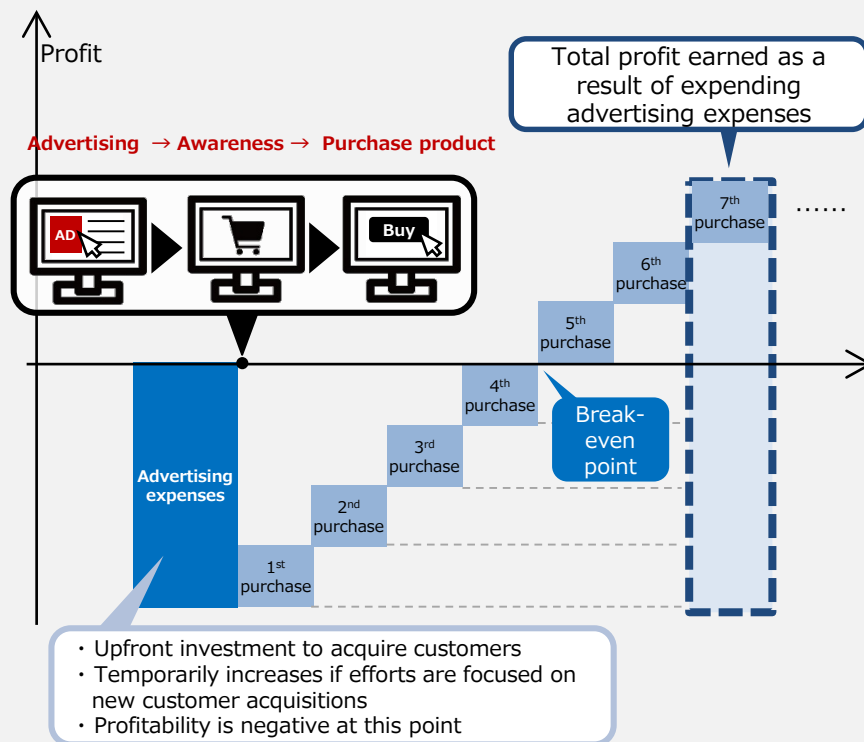


Business Model

Monetization schemes are fundamentally different depending on the business model

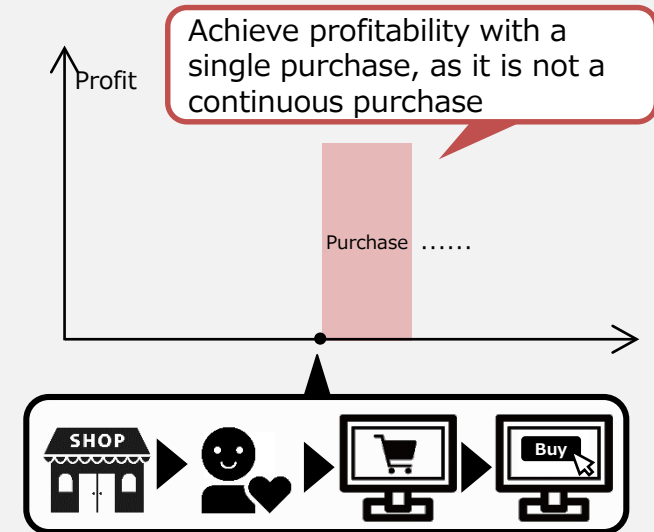
◆ Subscription purchase type (other than e-commerce malls)

Product awareness is gained via advertisements. Unable to acquire new customers without enough advertising opportunities



◆ E-commerce malls

Customers reach the sales page after viewing products on the shelves or via comparative information page, recognize the product, and then purchase. (Awareness is not gained via advertisements)



<Product strategy>

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

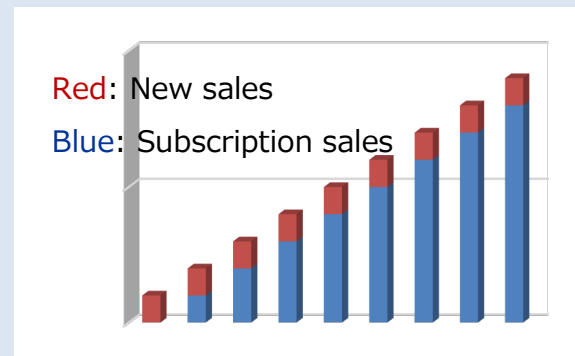
<Sales strategy>

- 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

Product Strategy

◆ Product development specifically designed for the E-commerce business

- Develop the E-commerce business that sells a total of 37 **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”**



◆ Stringent product development standards

- **Established original product development standards with approximately 800 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

◆ 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.

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”

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)

◆ 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.

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

↓ 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: ¥11.00 million
Profit: ¥1.00 million
→ Profit margin: 9%

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



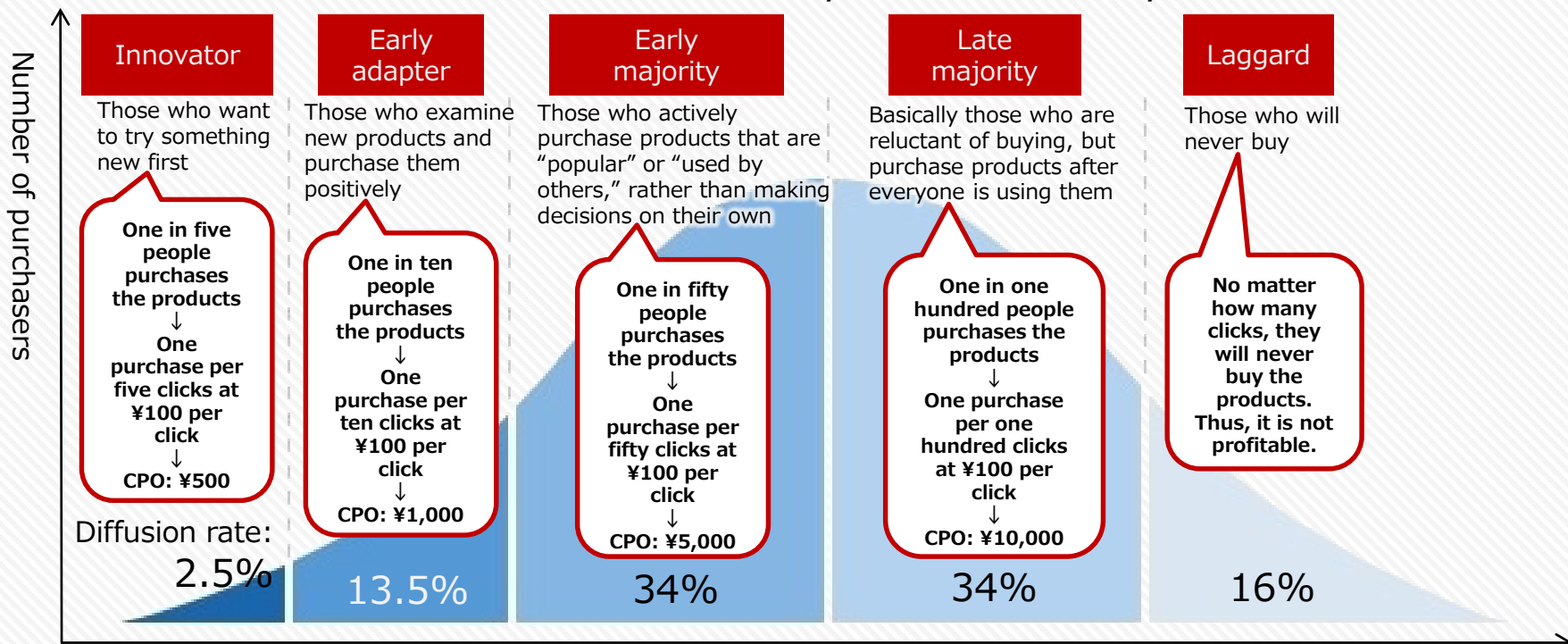
Sales Strategy

◆ 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

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>

↓ 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

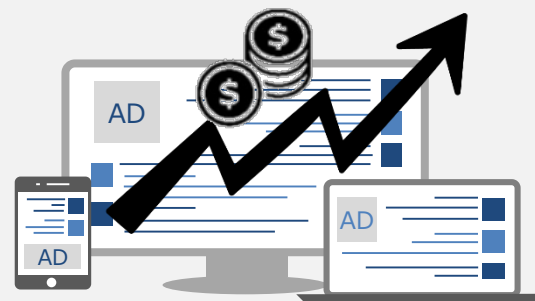
Sales Strategy

- ◆ 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

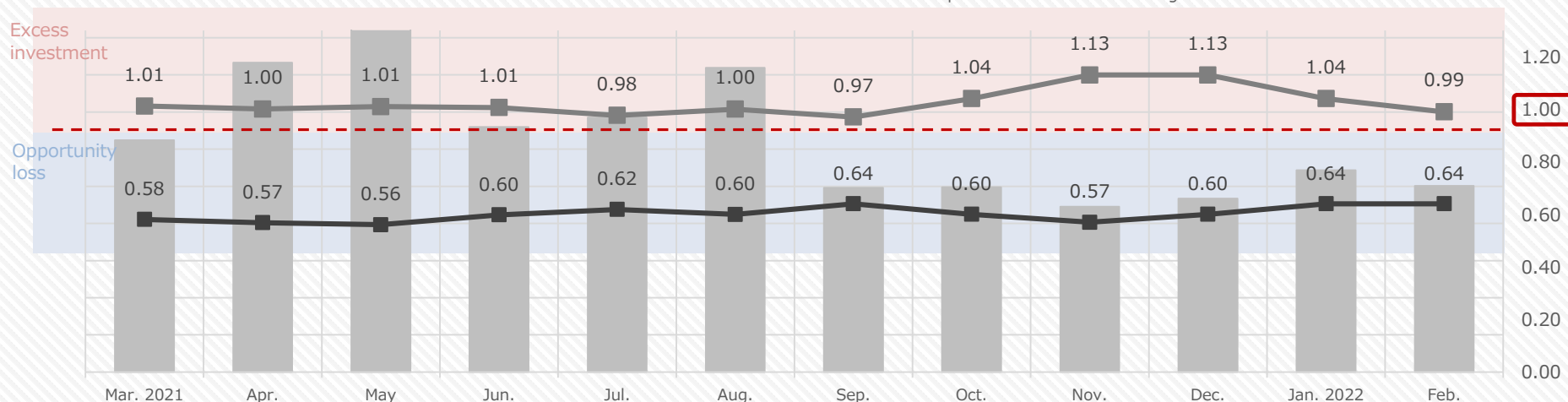
$$= \frac{\text{Sales via advertising}}{\text{Advertising expenses}}$$



- 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)

■ New customer acquisitions ■ Advertising investment balance ■ ROAS *3



* 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.

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

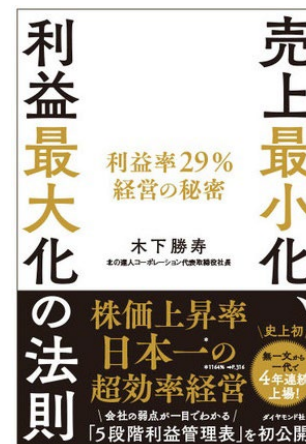
Videos explaining our business model/business overview
<https://www.kitanotatsujin.com/aboutus/media-performance/>



Books

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

Released on June 16, 2021

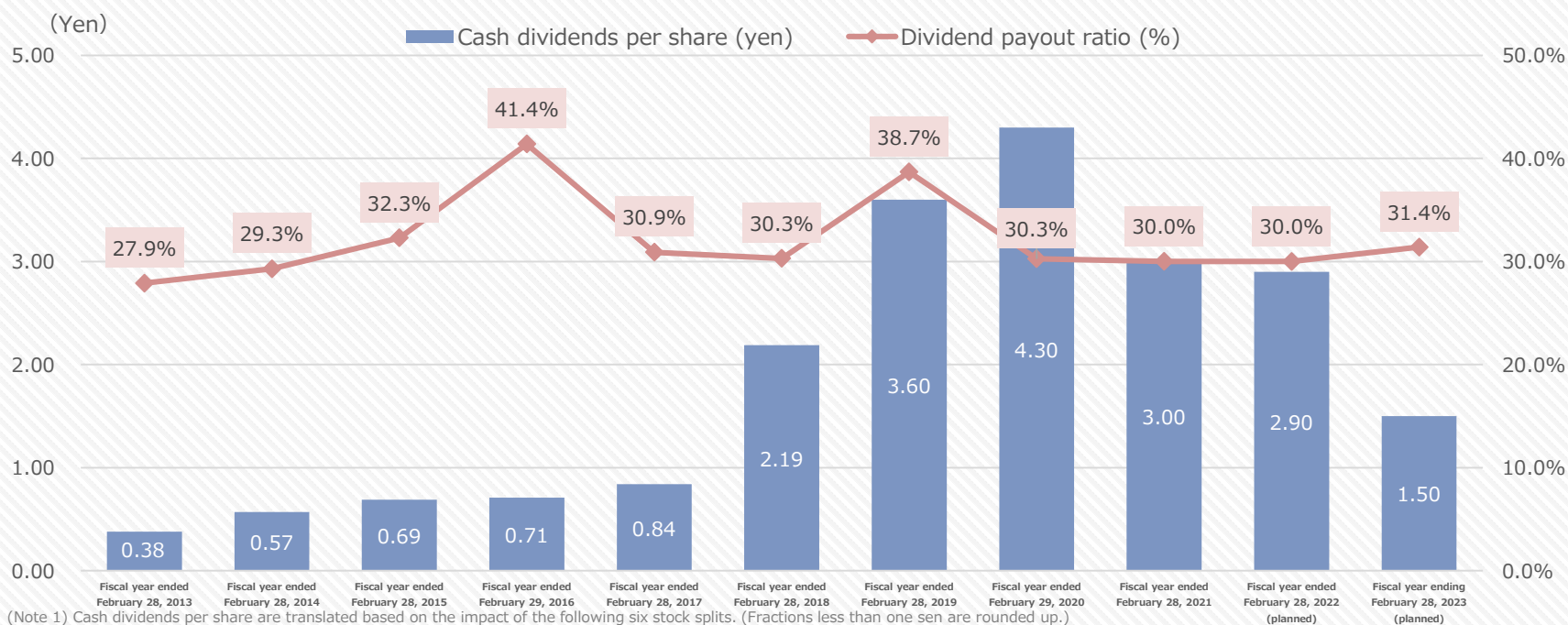


Actual and Projected Dividends

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.

Plan to increase the year-end dividend to ¥1.60, and combined with the interim dividend of ¥1.30 already paid, the Company plans to pay an annual dividend of ¥2.90 per share for the fiscal year ended February 28, 2022.

The Company expects to pay an interim dividend of ¥0.90 and a year-end dividend of ¥0.60, for an annual dividend of ¥1.50 per share for the fiscal year ending February 28, 2023.



(Note 1) 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

(Note 2) The Company transitioned to consolidated accounting from the fiscal year ended February 28, 2022. The graph above indicates consolidated figures.

To show trends in results, non-consolidated figures are presented until the fiscal year ended February 28, 2021.

Other Indicators

	Fiscal year ended February 29, 2016 (non- consolidated)	Fiscal year ended February 28, 2017 (non- consolidated)	Fiscal year ended February 28, 2018 (non- consolidated)	Fiscal year ended February 28, 2019 (non- consolidated)	Fiscal year ended February 29, 2020 (non- consolidated)	Fiscal year ended February 28, 2021 (non- consolidated)	Fiscal year ended February 28, 2022 (consolidated)
ROE (%) (return on equity)	18.0	24.8	48.8	48.9	54.2	29.1	21.8
ROA (%) (return on assets)	14.4	18.6	32.9	33.5	38.9	22.9	17.8
Equity ratio (%)	86.5	67.4	67.3	69.4	73.7	83.5	81.3
Dividend payout ratio (%)	41.4	30.9	30.3	38.7	30.3	30.0	30.0 (planned)
Cash dividends per share (yen)	0.71	0.84	2.19	3.60	4.30	3.00	2.90 (planned)
Number of shareholders	8,128	8,926	31,667	47,978	54,307	47,042	67,843

(Note 1) 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

(Note 2) As this is the first year of consolidated accounting, ROE and ROA were calculated based on equity and total assets as of fiscal year-end

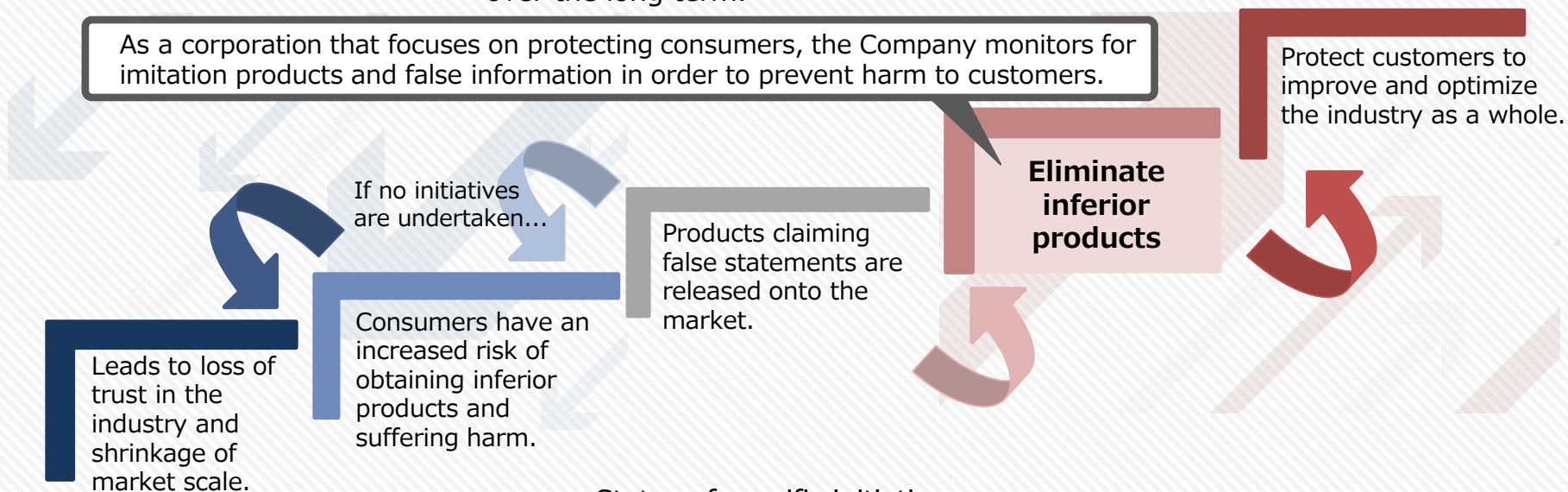
Major Awards Received

- 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.



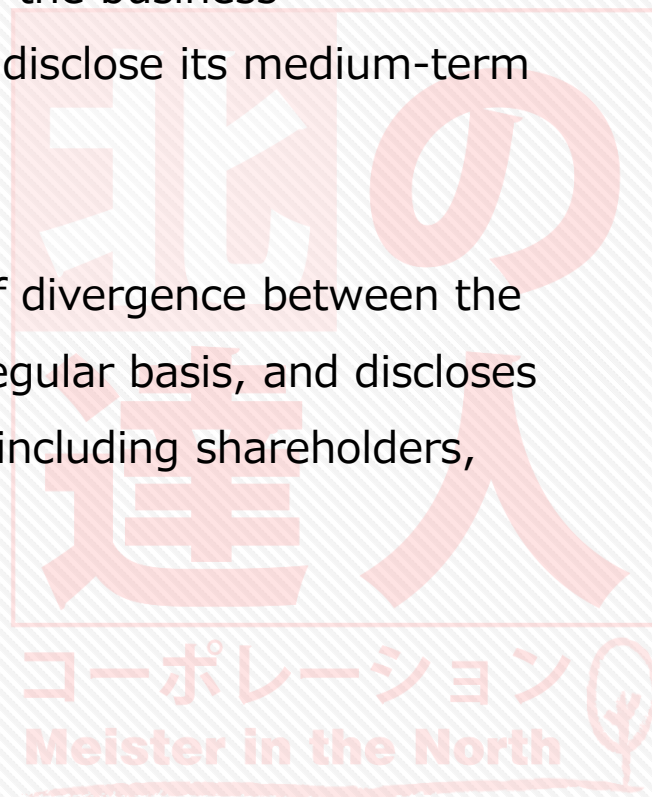
<Status of specific initiatives>

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	<Appeal court conclusive judgment> Opposing party ordered to pay damages higher than that from the first instance judgment
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.



Disclaimer and Handling of This Document

- This document is provided for informational purposes only and is not intended to be a public offering, investment solicitation, marketing or other activities in respect of specific products such as the Company's shares.
- The contents of this document, and opinions and forecasts described herein are based on the judgment of the Company at the time of preparing this document, and the Company does not guarantee the accuracy of the information. Please note that actual performances and results may differ significantly due to changes in various factors.
- While all information provided in this document has been carefully prepared, the accuracy and completeness of such information are not guaranteed. Please note that the content may be changed or discontinued without prior notice.
- In no event shall the Company be liable for any use of the document by investors, since this document was provided on the assumption that its use is at the discretion and responsibility of investors.
- Please refrain from repurposing materials and data without permission.

