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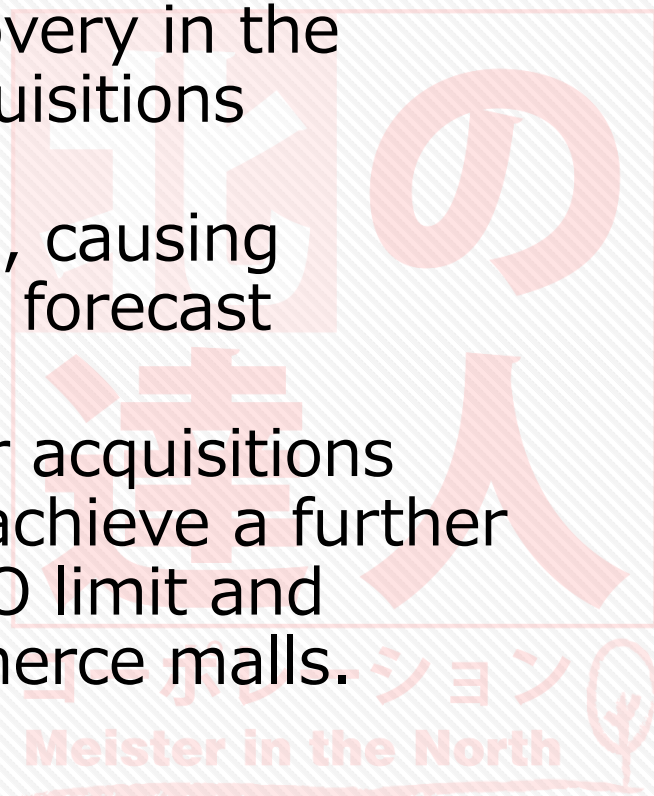
# Supplementary Material for the First Quarter of the Fiscal Year Ending February 28, 2023

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Stock code: 2930  
Kitanotatsujin Corporation  
July 15, 2022

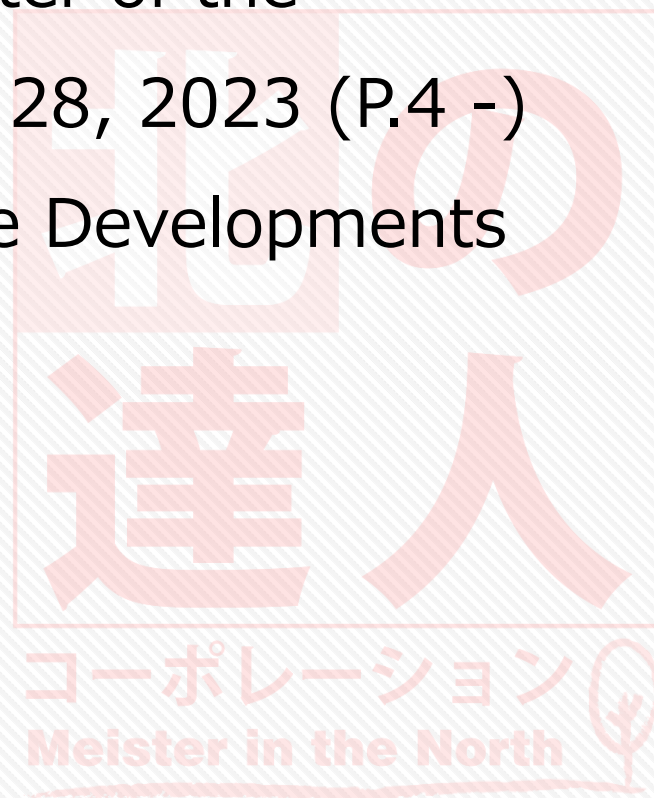
# Executive Summary

- ☞ Net sales were higher than the forecast due to greater than expected recovery in the number of new customer acquisitions
- ☞ Gross profit margin improved, causing operating profit to exceed the forecast
- ☞ The number of new customer acquisitions trended toward recovery. To achieve a further increase, we will raise the CPO limit and strengthen efforts on e-commerce malls.



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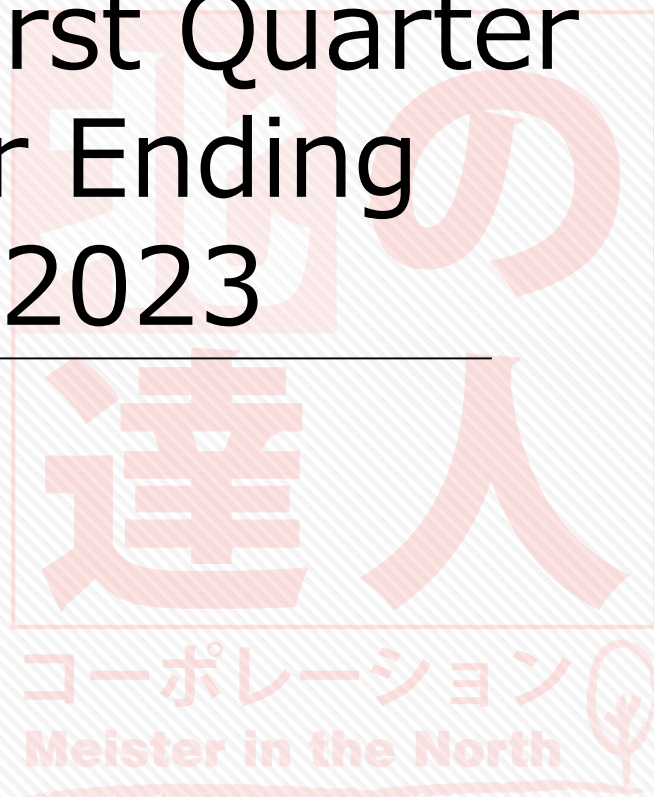
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# Highlights for the First Quarter of the Fiscal Year Ending February 28, 2023

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

(Millions of yen)

	Consolidated forecast (plan) for the first quarter	Results for the first quarter	Changes	Changes (%)
Net sales	<b>2,039</b>	<b>2,103</b>	<b>+63</b>	<b>+3.1%</b>
Gross profit	<b>1,508</b>	<b>1,575</b>	<b>+67</b>	<b>+4.5%</b>
Selling, general and administrative expenses	<b>1,168</b>	<b>1,204</b>	<b>+35</b>	<b>+3.0%</b>
Advertising expenses	<b>398</b>	<b>429</b>	<b>+30</b>	<b>+7.8%</b>
Operating profit	<b>339</b>	<b>371</b>	<b>+32</b>	<b>+9.6%</b>
Operating profit margin	<b>16.6%</b>	<b>17.7%</b>	<b>+1.1pt</b>	
Ordinary profit	<b>339</b>	<b>385</b>	<b>+46</b>	<b>+13.6%</b>
Profit attributable to owners of parent	<b>221</b>	<b>257</b>	<b>+35</b>	<b>+16.1%</b>

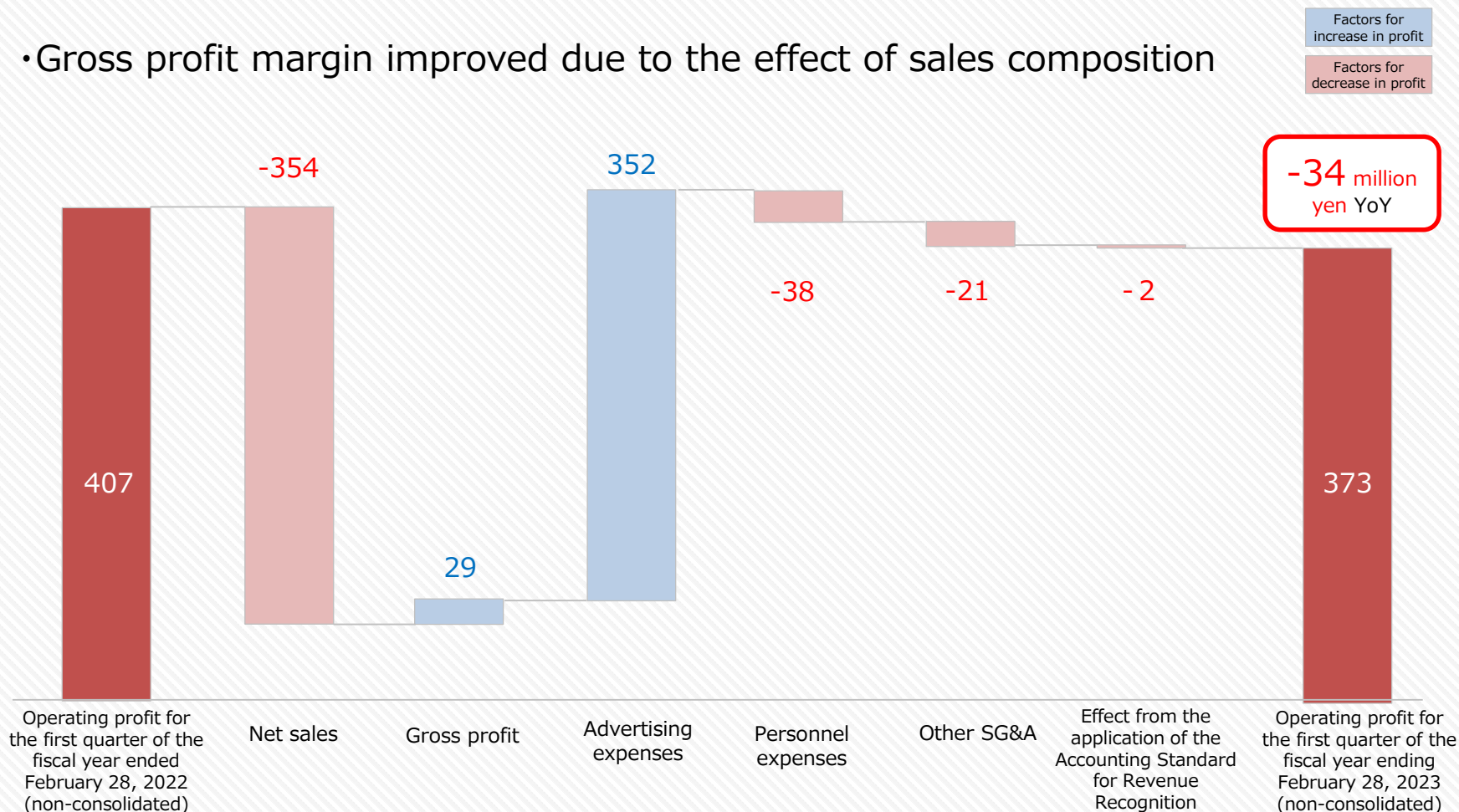
- As the number of new customer acquisitions showed greater than expected recovery, net sales were higher than the forecast.
- In line with the increase in the number of new customer acquisitions, advertising expenses were higher than the plan, but operating profit exceeded the forecast. This was because net sales were higher than the forecast and gross profit margin improved due to the effect of sales composition.

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

- Greatly influenced by decreases in the number of new customer acquisitions and advertising placement

(Millions of yen)

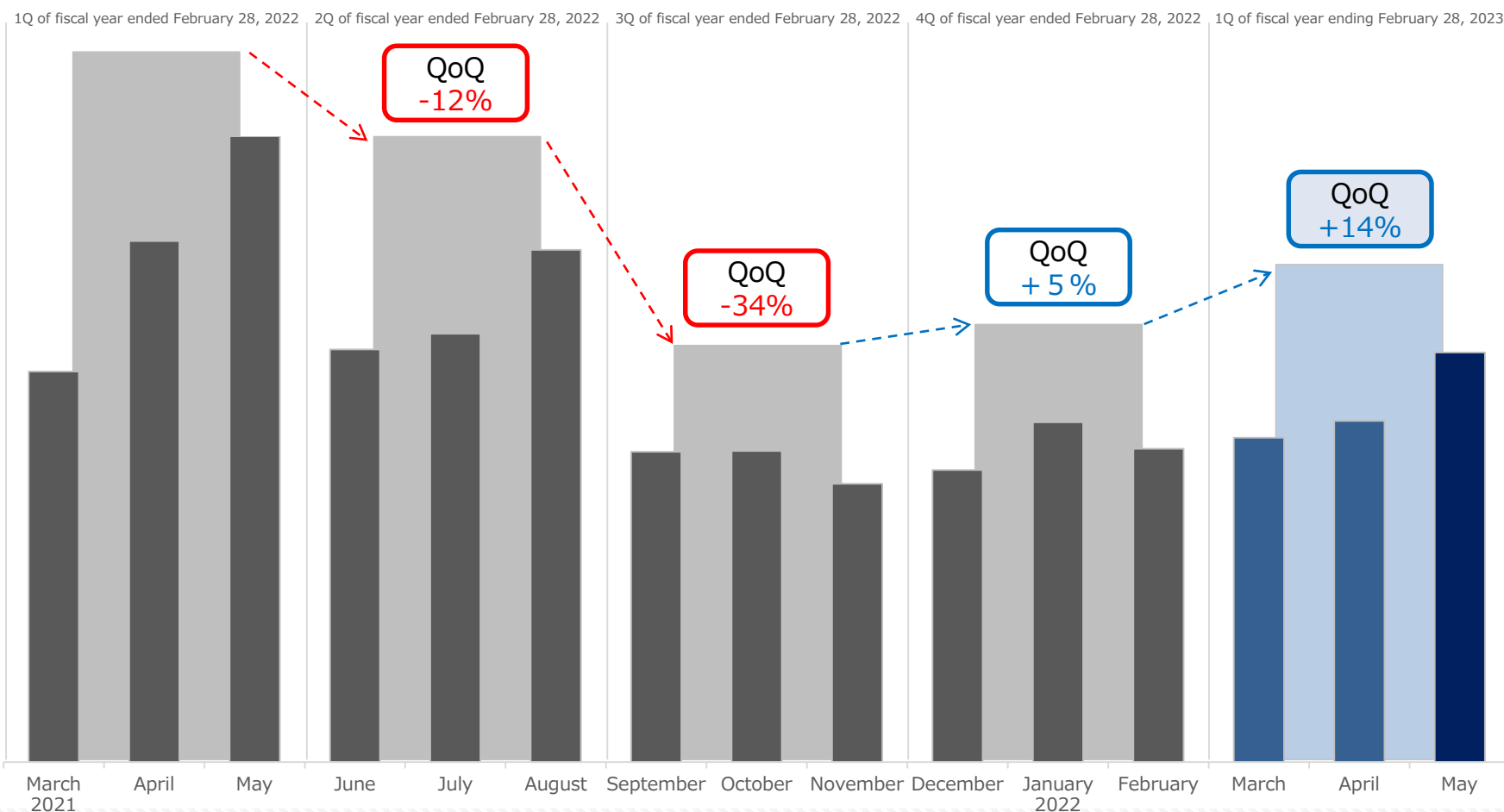
- Gross profit margin improved due to the effect of sales composition



**-34 million yen YoY**

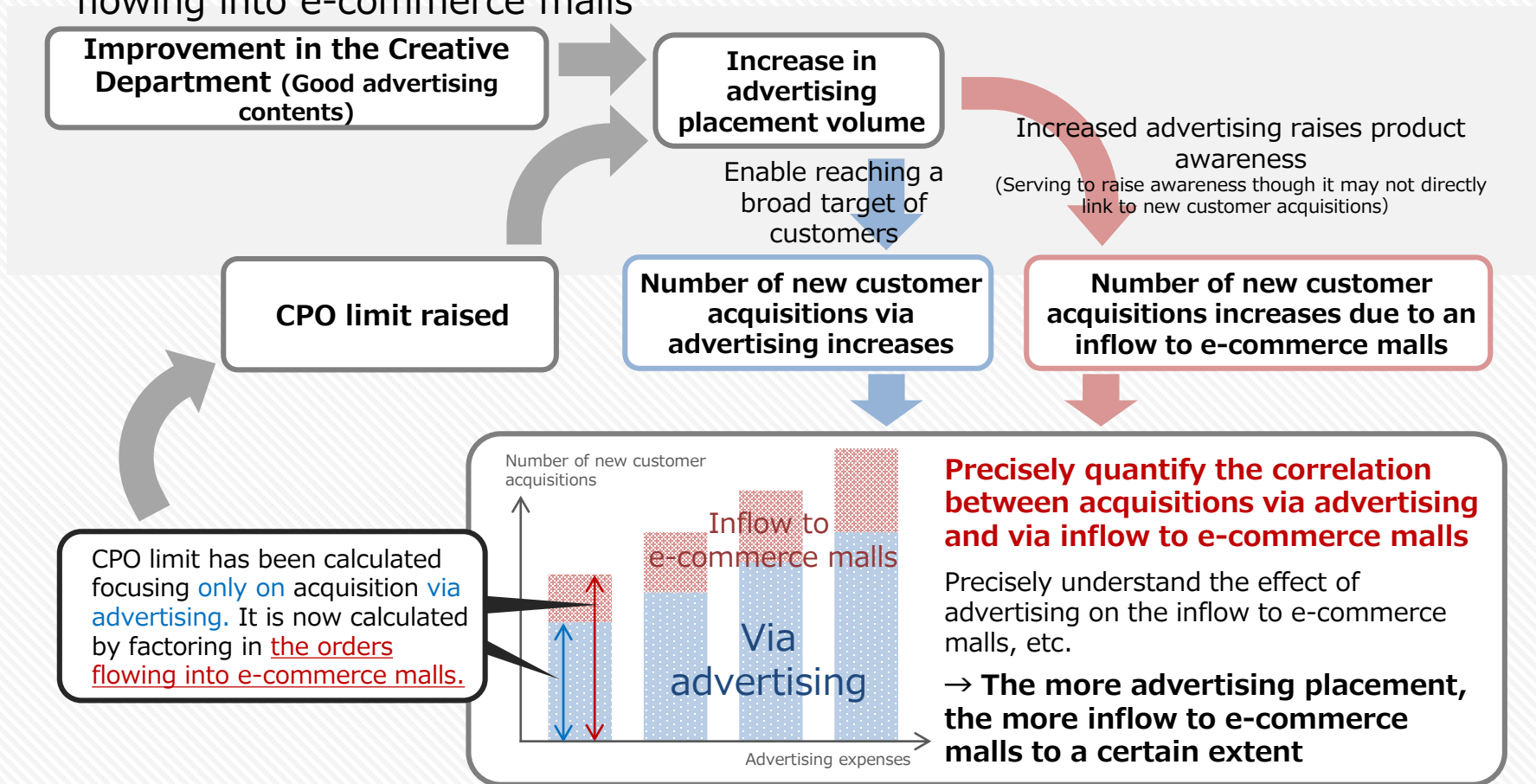
## Changes in number of new customer acquisitions

- The number of new customer acquisitions is trending toward recovery following signs of a pickup seen in the first quarter
- Marked a record high in May 2022 for the first time since September 2021, when it turned to a significant downward trend



# Initiatives to raise the CPO limit

- ◆ Set a CPO limit\* by factoring in the number of new customer acquisitions flowing into e-commerce malls



A virtuous cycle where the number of new customer acquisitions increases on our website (via advertising)

\* The maximum amount of advertising expenses expendable per order, which is back calculated from required profit by using the correlation between CPO, which is the amount of advertising expenses per order, and LTV, which is the projected amount of lifetime net sales a customer will bring.



# 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 fell far below 1.00 and caused opportunity loss



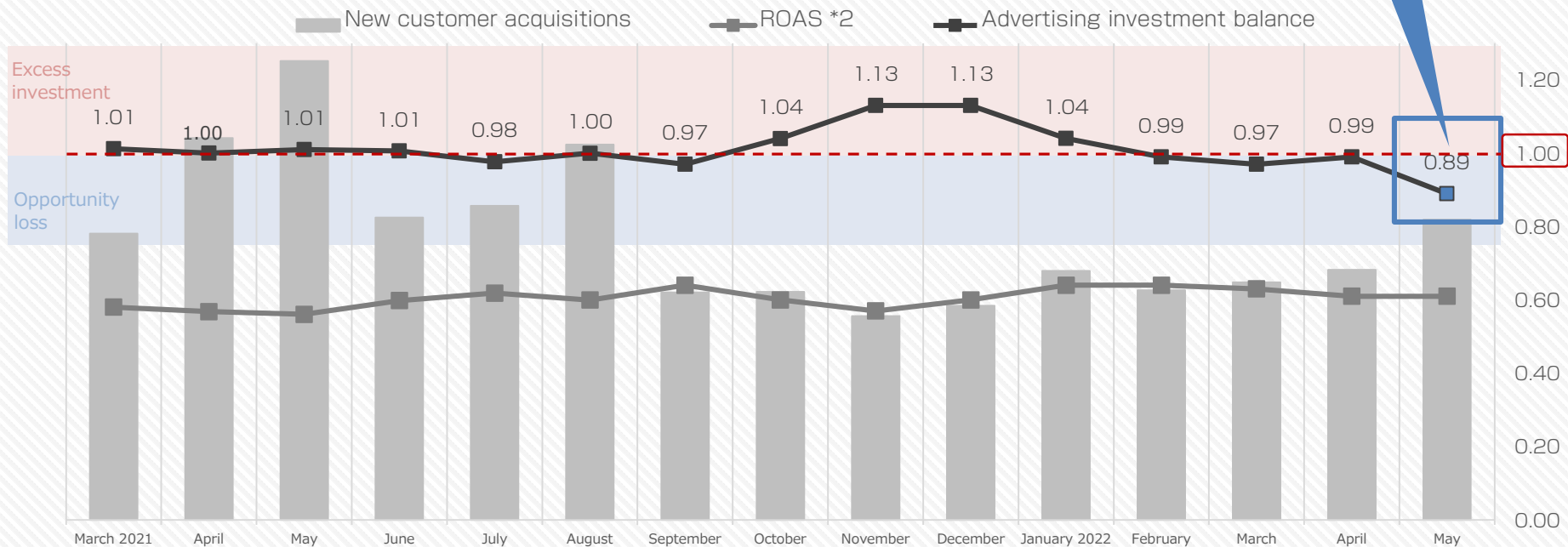
- ◆ Factor (1) **Raised the CPO limit** (see slide 8)
- ◆ Factor (2) **Created good advertising contents, resulting in higher efficiency**

Supposed to expand investment now that efficiency was increased. Investment, however, was not made in May and caused opportunity loss.

Effect from "a phenomenon where the number of new customer acquisitions increases while CPO goes down"

It is a temporary phenomenon. We will accelerate investment.

Projected to return to the optimal value by eliminating opportunity loss and expanding the number of new customer acquisitions.



\*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

(Previous) The subscription purchase type business was our pillar.

→ Less priority was placed on e-commerce malls (Amazon, Rakuten Ichiba, etc.) given their scale, customer characteristics and shopping behavior focused on single purchases.

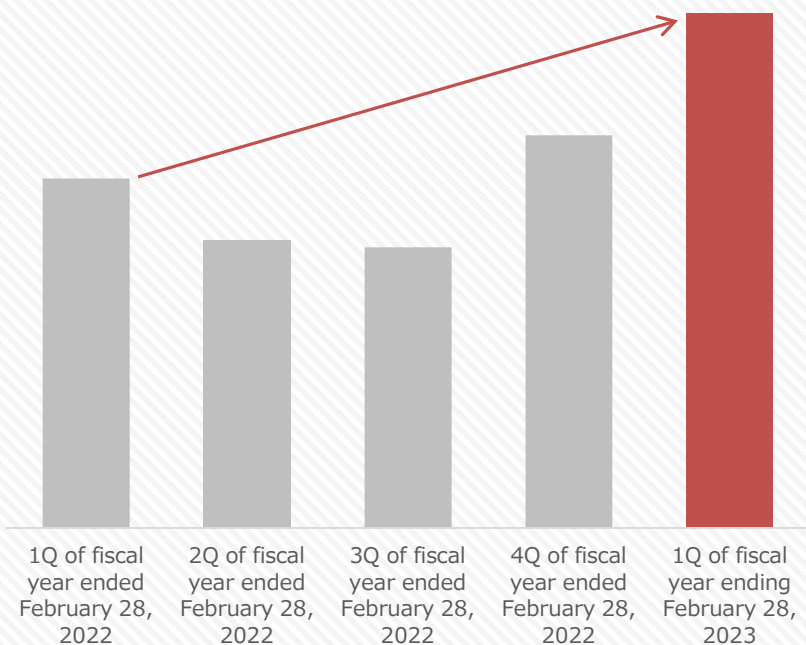


(Current) **Strengthen sales in e-commerce malls**

- Consumers' purchasing behavior switched from brick-and-mortar stores to e-commerce
- Particularly in our business, there is a notable inflow to e-commerce malls
- Rapid increase in consumers who buy products only in e-commerce malls

[Number of new customer acquisitions]

**+47%**  
YoY



- Advertising by utilizing expertise on advertisement optimization which was accumulated through continued efforts
- Sales promotion activities and advertising contents creation specialized for e-commerce malls
- Increase dedicated staff
- Inflow to e-commerce malls in line with an increase in the placement volume of advertisement for our website

- **Rose 47% YoY**
- Marked the highest monthly sales at Rakuten Ichiba and Amazon in May 2022
- **Rose 31% QoQ**

## Product launched in the fiscal year ending February 28, 2023

Anti-aging care\*<sup>1</sup> beauty essence for hands

P I N T E

ピンテ

- Combat issues with aging skin on the hands by promoting collagen production, which becomes insufficient and declines in quality with age
- Improves wrinkles by promoting collagen growth. In addition to the discoloration-preventing\*<sup>2</sup> active ingredient niacinamide, it also combines beauty ingredients
- Anti-aging product leading to skin on the hands which are firm and elastic
- New release in March 2022



\* 1 Age-appropriate care

\* 2 Limits the formation of melanin and prevent discoloration and freckles

# Net sales by segment and brand

(Millions of yen)

Segment	Brand name	First quarter ended May 31, 2021	First quarter ended May 31, 2022
Health & Beauty Care business		2,306	1,845
		-	138
	Others	-	3
Others	-	65	116
Total		2,372	2,103

\* From the first quarter ended May 31, 2022, the segment name previously reported as E-commerce business was changed to Health & Beauty Care business. The change in the segment name has no impact on the segment information.

\* As the main business of the Company's group is the Health & Beauty Care business and the other business segments are insignificant, a description of the segment information is omitted.

<Group company>  
SALONMOON Co., Ltd.

(Trade name changed from ASHIGARU Co., Ltd. on May 31, 2022)

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
- ◆ More than 90% of sales come from e-commerce malls



<First quarter ended May 31, 2022>

- Advertisement distribution at e-commerce malls
- Scrupulous advertising initiatives to optimize search engines
- Focus on sales promotion at Qoo10 e-commerce mall
- Develop new beauty appliances
- Focus on development of cosmetic products with high affinity with beauty appliances
  - ◆ Launched the first cosmetic product SALONMOON Hair Oil Mist
  - ◆ Hair irons became available at stores (home electronics stores, etc.)
  - ◆ Trade name changed to SALONMOON Co., Ltd. from ASHIGARU Co., Ltd.

Our policy is to launch various initiatives to continue expanding performance

## <Group company> FM NORTH WAVE CO., LTD.

FM radio station with a broadcast area covering Hokkaido



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

### <Business strategy>

- ◆ Media
  - Established the Media Development Office
    - Strive to recreate the value of media from the customers' perspective
- ◆ Explore new customers
  - Explore a new customer base by enhancing white papers
  - Actively publicize the effectiveness of radio advertisement and best practices of advertising projects, etc., to promote acquisition and nurturing\* of potential customers
- ◆ Non-broadcasting business
  - Held Hokkaido Souvenir Grand Prix North Wave Selection 2022-2023
    - Utilizing the brand power that everyone in Hokkaido knows, boost the souvenir industry in Hokkaido, enhance the attractiveness of Hokkaido, and vitalize its sight-seeing sector

\* A marketing initiative to get potential and existing customers interested in the Company's products and services, increase their appetite for buying, and lead to future orders

## Consolidated Balance Sheets

(Millions of yen)

Subject/Section	Previous fiscal year ended February 28, 2022	First quarter ended May 31, 2022
(Cash and deposits)	5,210	4,934
Current assets	6,808	6,464
Non-current assets	747	774
Total assets	7,555	7,238
Current liabilities	1,235	859
Non-current liabilities	174	161
Total liabilities	1,409	1,020
Total net assets	6,146	6,217
Total liabilities and net assets	7,555	7,238

The main factors for the changes from the previous fiscal year-end were a decrease in cash and deposits of ¥276 million under assets, and an increase in accounts payable - other of ¥110 million and a decrease in income taxes payable of ¥317 million under liabilities.

## Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	Three months ended May 31, 2021 March 1, 2021 to May 31, 2021	Three months ended May 31, 2022 March 1, 2022 to May 31, 2022
Cash flows from operating activities	457	9
Cash flows from investing activities	133	-77
Cash flows from financing activities	-162	-213
Effect of exchange rate change on cash and cash equivalents	5	5
Net increase (decrease) in cash and cash equivalents	434	-276
Cash and cash equivalents at beginning of period	3,612	5,210
Cash and cash equivalents at end of period	4,047	4,934

The main factors for the changes during the three months ended May 31, 2022 were an increase in profit before income taxes of ¥385 million, an increase in accounts payable – other of ¥98 million, a decrease in payment of income taxes of ¥431 million, and a decrease in payment of dividends of ¥209 million.



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# Current Situation and Future Developments

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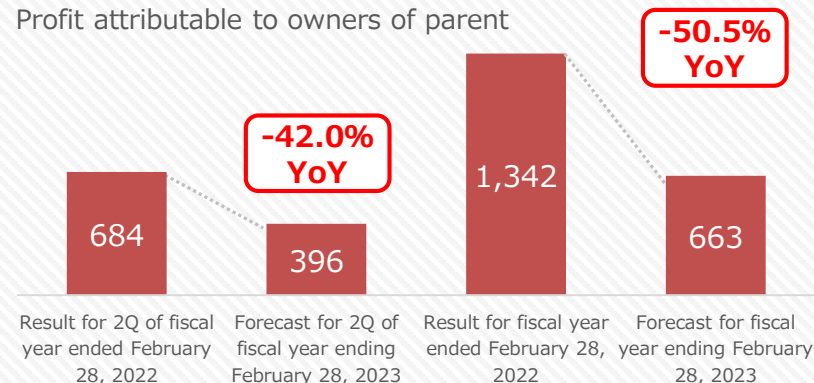
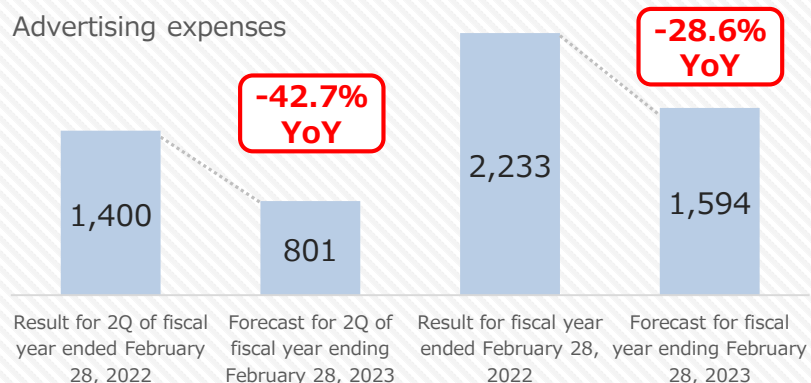
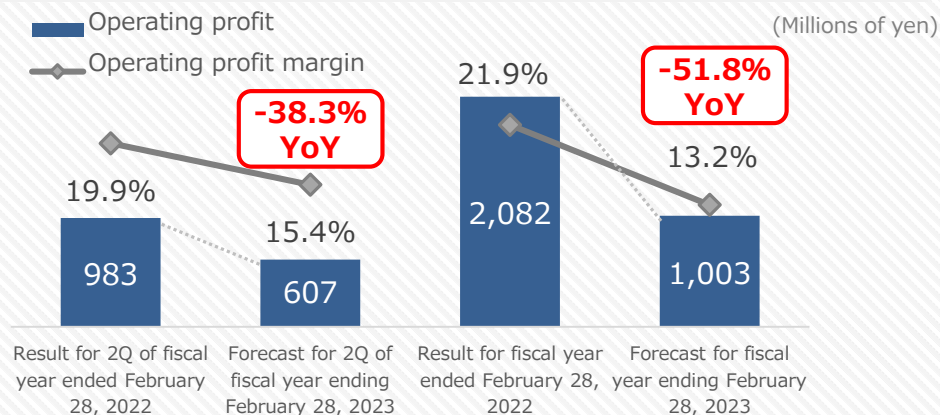
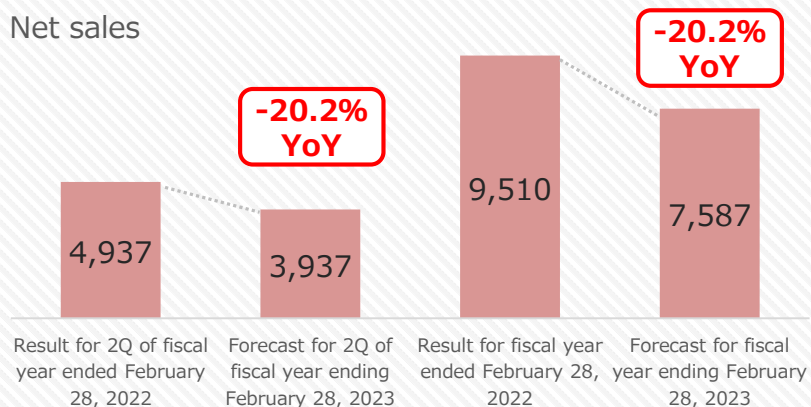


# Current Situation and Future Developments

## ◆ 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

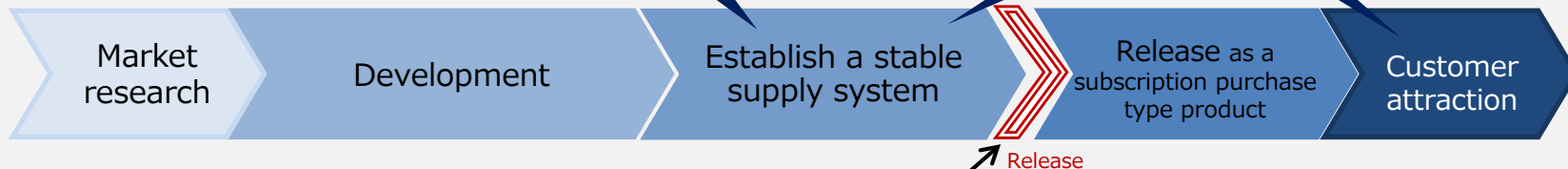
## ◆ Change policies for developing and releasing new products

### <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

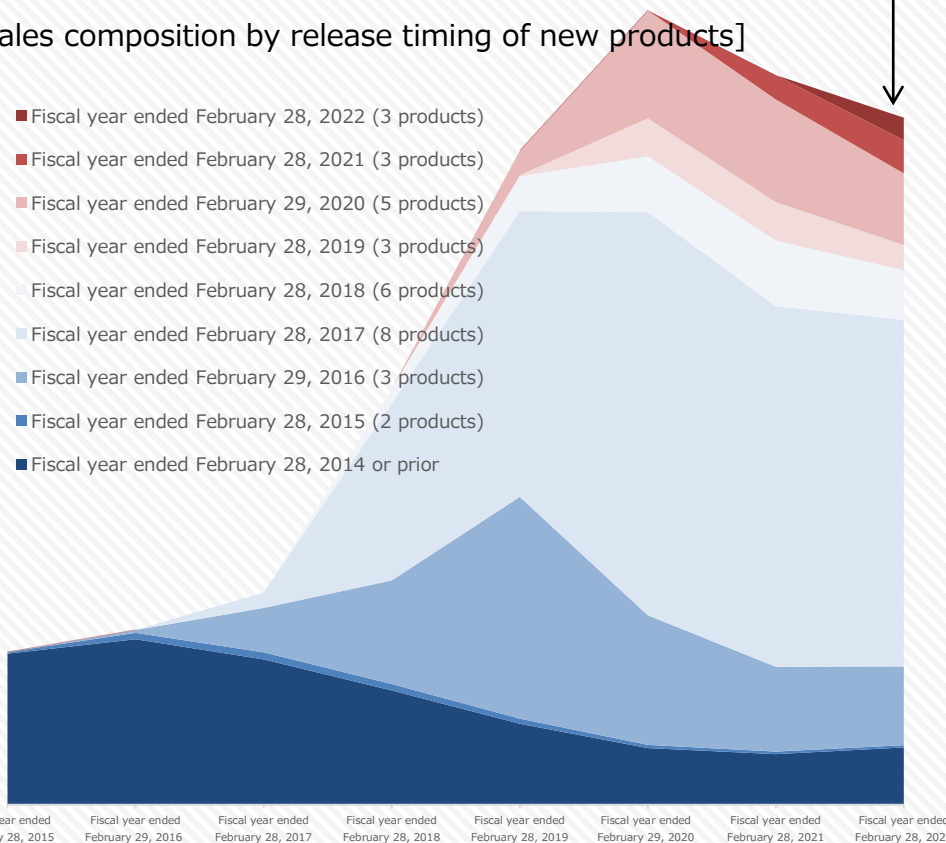
Mitigate workload required to prepare for product releases

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

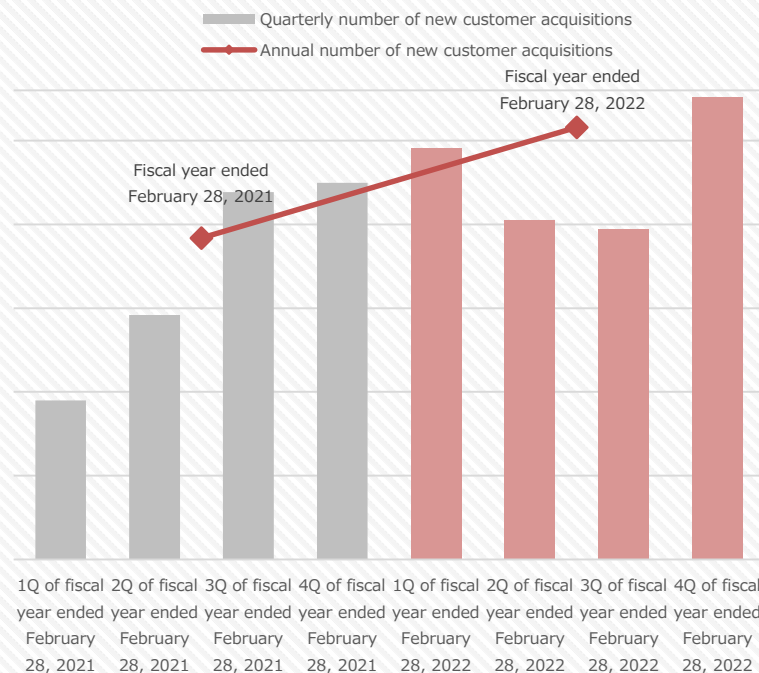
With the spread of COVID-19, consumers' purchasing behavior notably shifted away from conventional brick-and-mortar stores to e-commerce malls such as Amazon and Rakuten



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



## ◆ 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.

- ◆ 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

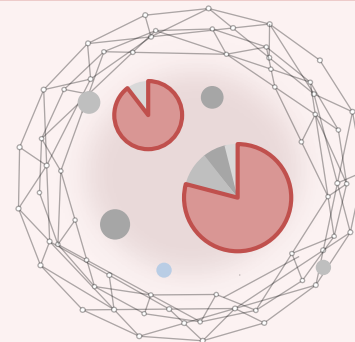
But no more than several hundred million yen per year

**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 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**

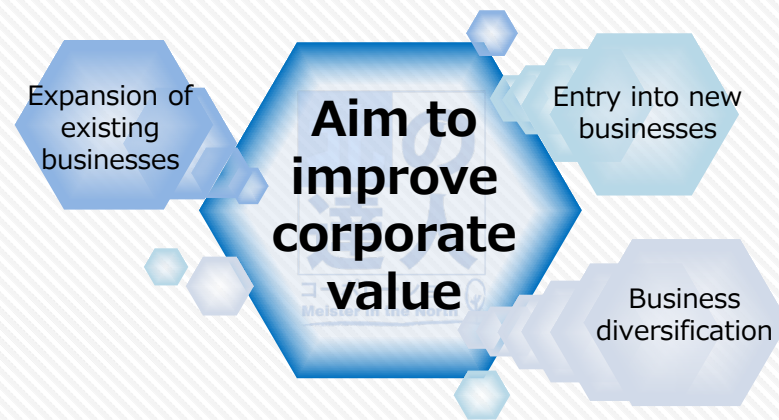
Our policy is to aggressively engage in M&A of companies that operate the same D2C\* and E-commerce businesses as the Company that offer high-quality products but are limited on funds and personnel, and where the introduction of the Company's expertise and management resources can establish scale benefit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

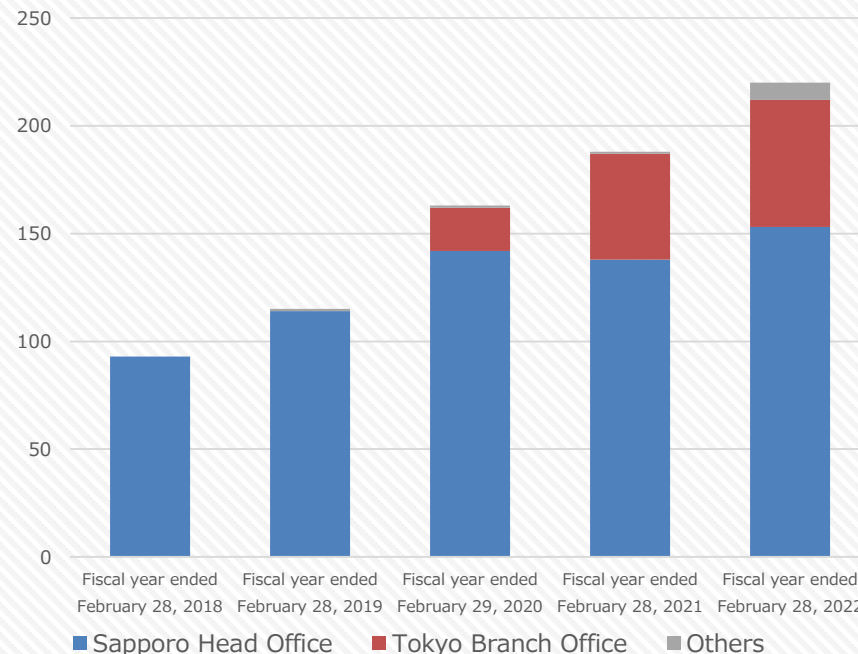
# Current Situation and Future Developments

## ◆ 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**



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# References

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# Company Overview

Company Name	Kitanotatsujin Corporation	
Representative	Katsuhisa Kinoshita, Representative Director & President	
Incorporated	May 2002 (Founded in May 2000)	
Head Office	Sapporo, Hokkaido	
Bases	Tokyo Branch Office, Taiwan Branch Office, Korea Representative Office	
Listing	TSE 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.	226 people (As of May 31, 2022)	

# Business Model

## ◆ Customer characteristics

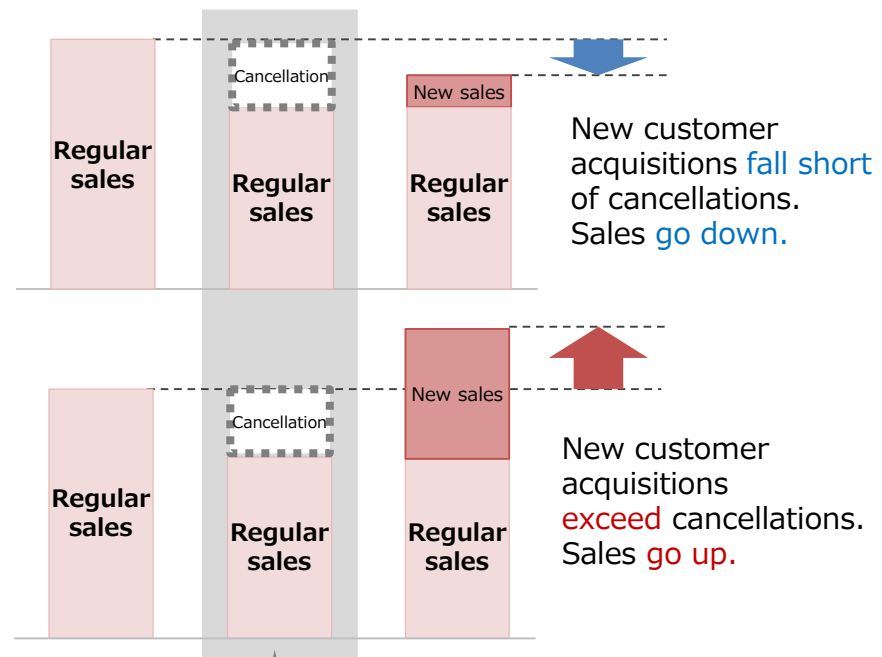
- The main customer base is men and women in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

[Ratio between new customers and regular customers]



## ◆ Profit structure

Although a certain number of cancellations (amount) occurs every month, sales will grow by acquiring new customers that exceed the number of cancellations



A certain number of cancellations (amount) occur every month

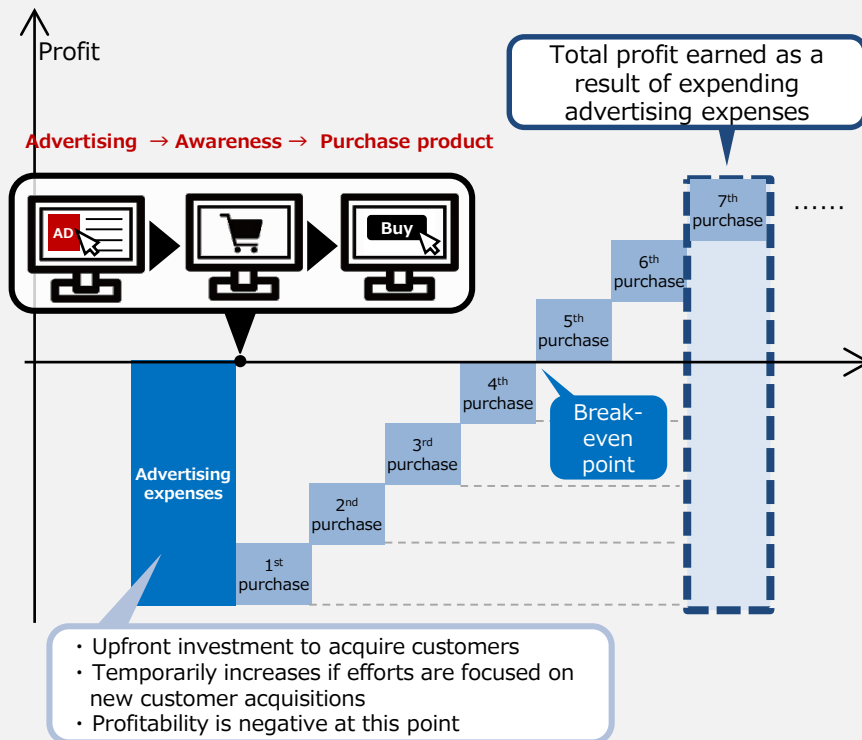
- Ended usage because the issue was resolved
- Product was not suitable, etc.

# E-commerce channels

There are various channels in e-commerce and monetization schemes are fundamentally different depending on the channel

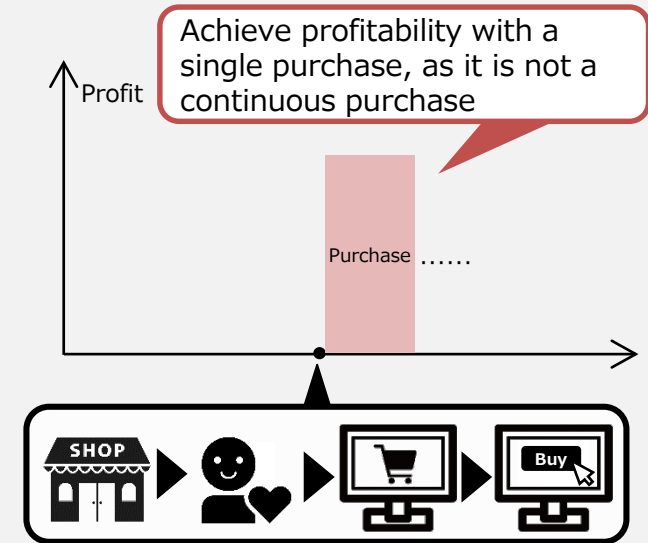
## ◆ Own website

- Product awareness is gained via advertisements, which leads to new customer acquisitions
- Stimulates subscription purchases due to the structure of the shopping cart and follow-ups. Good at fostering repeat customers.



## ◆ 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.



## <Product strategy>

- Product development specifically designed for the E-commerce business
- Strict product development standards
- Products designed for delivery at fixed periods

## <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**
- **Products** specialized for solving customers' concerns for health and beauty



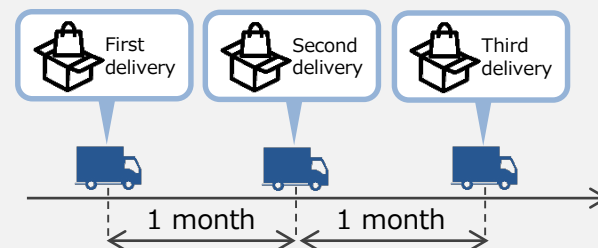
## ◆ Stringent product development standards

- 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 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

## ◆ Product design

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

[Product delivery example]



The next product arrives when the product is completely used

# Major Products

## “DEEP PATCH Series” were recognized by the Guinness World Records™ for three 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



[No. 2] [No. 4] [No. 1] [No. 3]

## 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 11 times  
(Awarded the Grand Gold Award eight times and the Gold Award three times between 2012 and 2022)
- 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 for the one-year period from March 2019 to February 2022

\*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)

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

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

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

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

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

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

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

## ◆ Advertising optimization system

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

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



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



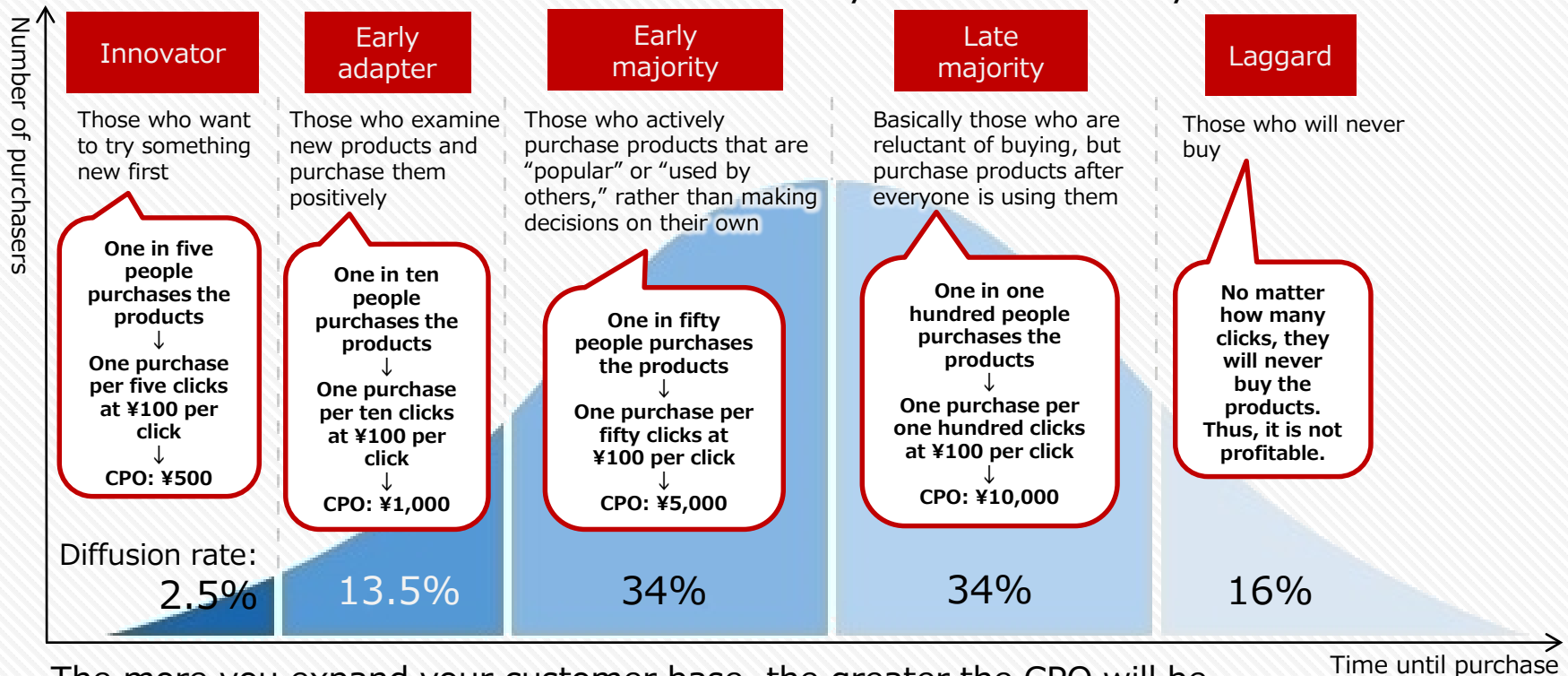
# Sales Strategy

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

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.

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

# Sales Strategy

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

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

Gross profit by product

Mandatory cost per order

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

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

Personnel expenses for each product

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

# Sales Strategy

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

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

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

➡ It is important to find the most profitable CPO

<In the case of LTV of ¥10,000>

↓ 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**

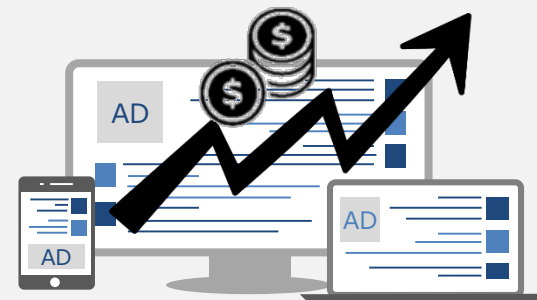
# Sales Strategy

- ◆ 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:

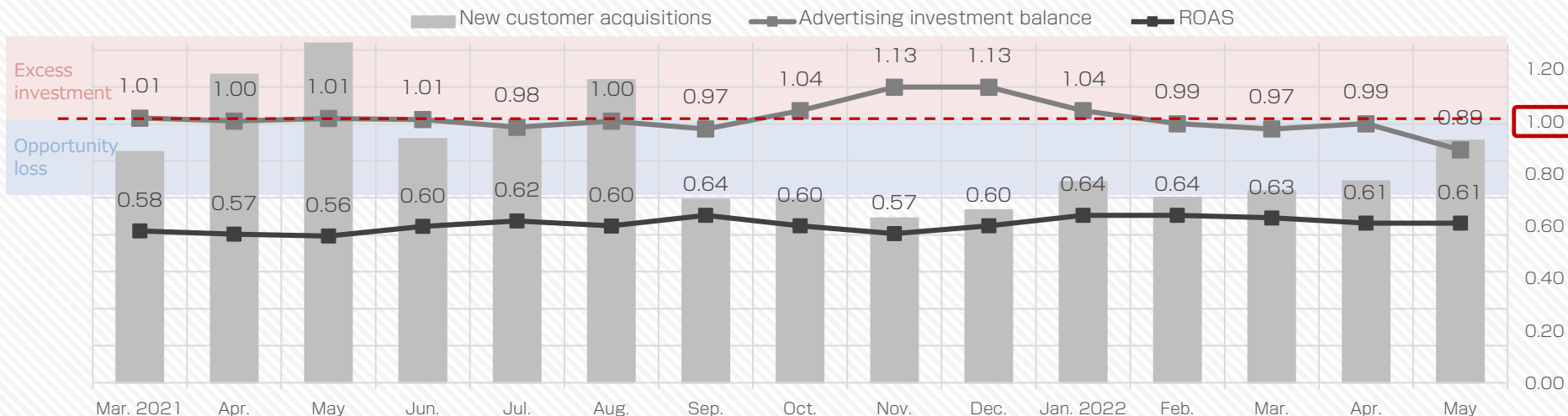
## ROAS

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



- 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)



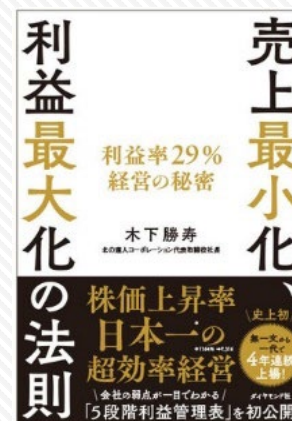
\* The subscription purchase-driven business model, in which the balance of income and expenditure at the first purchase will be negative but will become positive as products are purchased continuously, and the single-purchase business model, a major purchasing system in e-commerce malls in which a single 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.

# 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.

## <Books>

- ◆ The Law of Sales Minimization, Profit Maximization  
—Management Secrets for a 29% Profit Margin  
(Released on June 16, 2021)



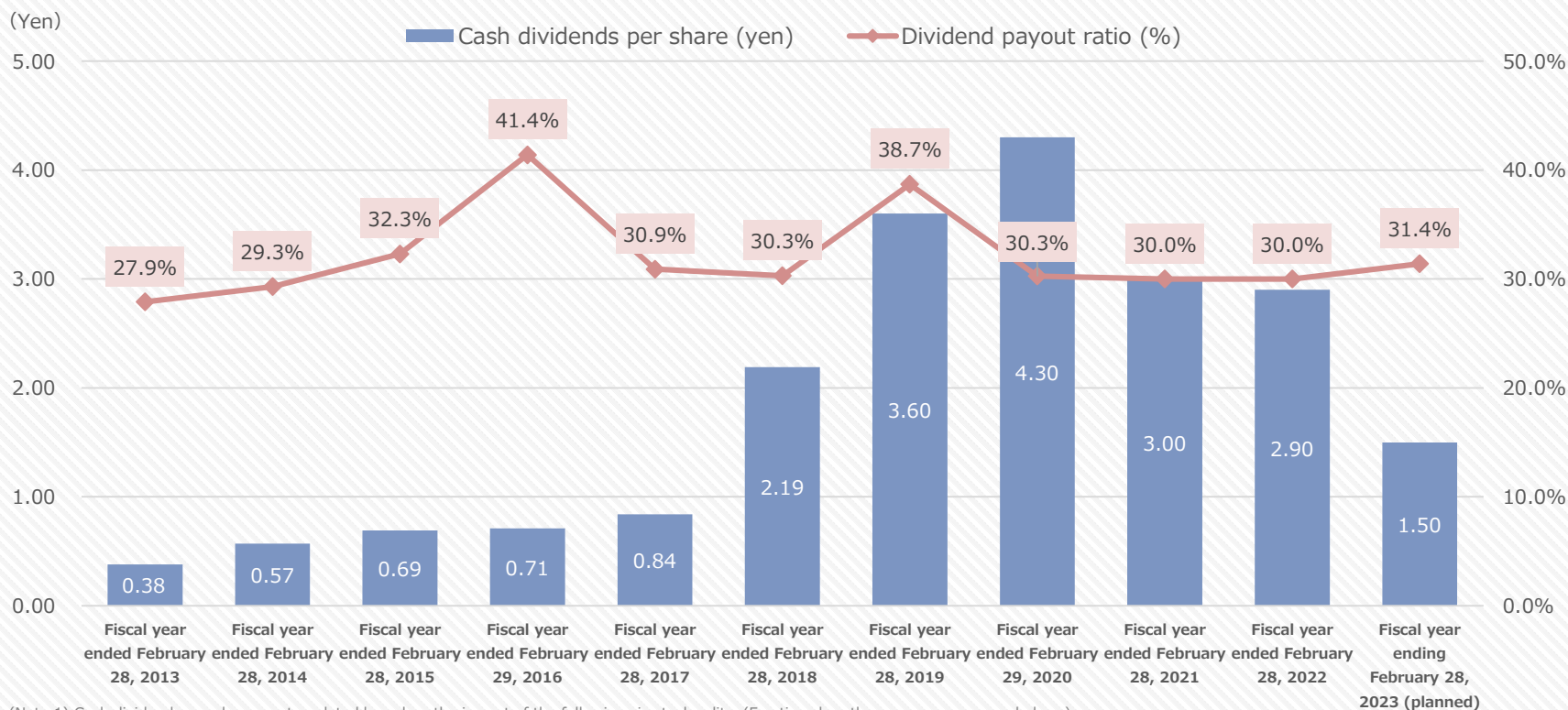
- ◆ FUNDAMENTALS X TECHNICAL MARKETING  
—83 ways to Maximize the Results of Web Marketing  
(Released on April 28, 2022)



# 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 ¥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 ending February 28, 2022. The graph above indicates consolidated figures.

To show trends in results, non-consolidated figures are presented until the fiscal year ending 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
Cash dividends per share (yen)	0.71	0.84	2.19	3.60	4.30	3.00	2.90
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”

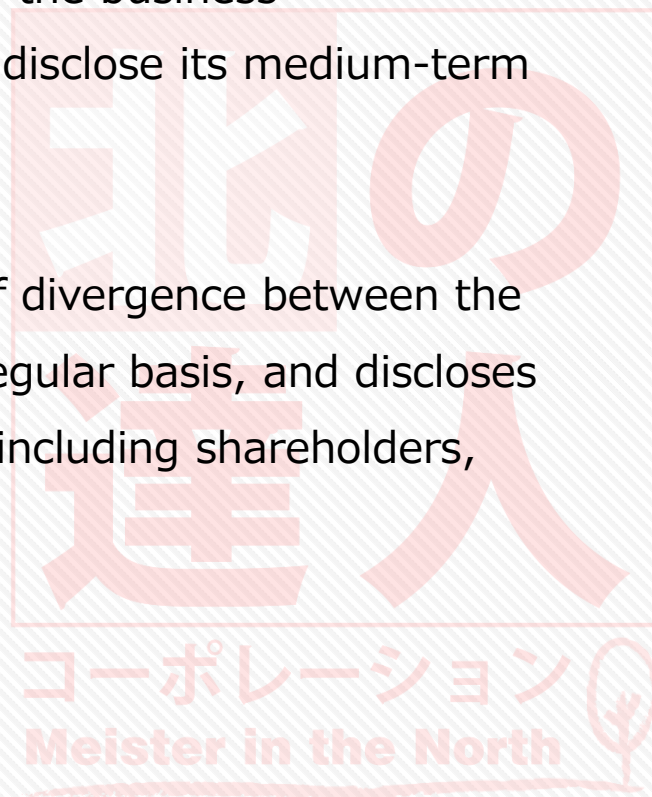




## Medium-term Management Plan

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

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