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

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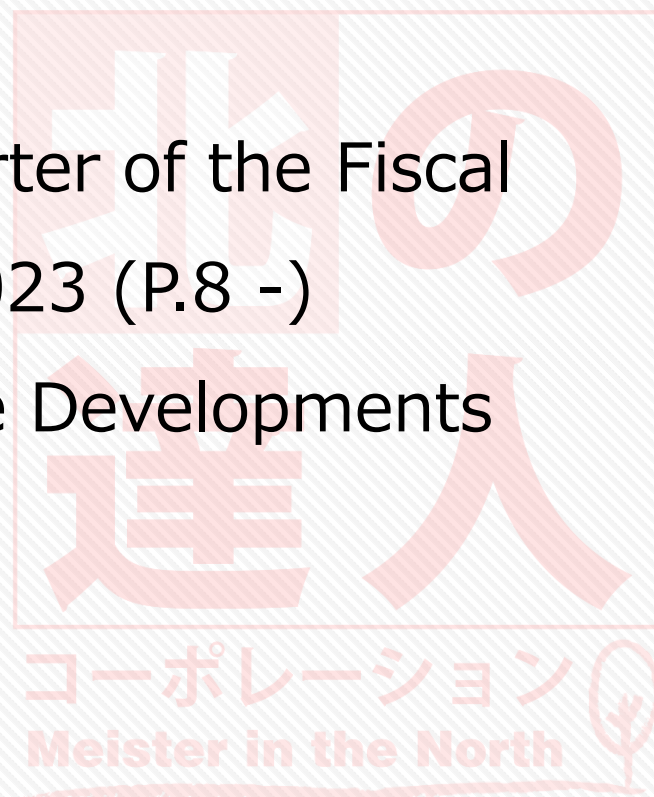
Stock code: 2930  
Kitanotatsujin Corporation  
January 13, 2023

# Executive Summary

- 
 The full-year consolidated financial results forecast has been revised from the previously announced forecast:
  - Net sales to ¥9,825 million (up 8.4%)
  - Operating profit to ¥773 million (down 37.7%) due to an increase in advertising expenses of ¥1,004 million from the previous plan
- 
 Net sales for the nine months ended November 30, 2022 was ¥6,909 million, 2.9% higher than the forecast, as the number of new customer acquisitions increased more than expected.
- 
 Main factors that contributed to the increase in new customer acquisitions were “increase in the number of new customer acquisitions through our website” and “expansion of e-commerce malls.”
- 
 Operating profit for the nine months ended November 30, 2022 was ¥718 million, 21.0% lower than the forecast, due to an increase in advertising expenses.

# Table of Contents

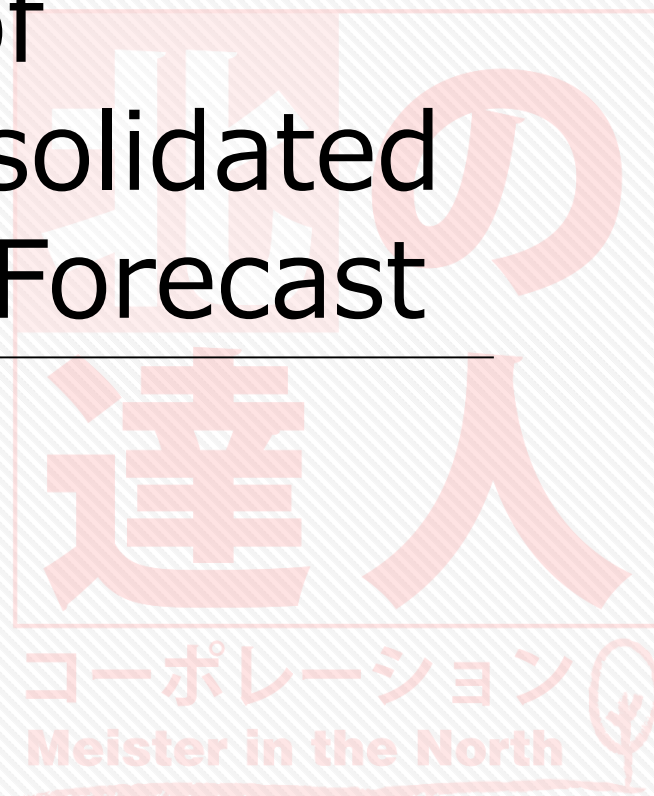
1. Revision of the Full-Year Consolidated Financial Results Forecast (P.4 -)
2. Highlights for the Third Quarter of the Fiscal Year Ending February 28, 2023 (P.8 -)
3. Current Situation and Future Developments (P.28 -)
4. References (P.35～)



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# Revision of the Full-Year Consolidated Financial Results Forecast

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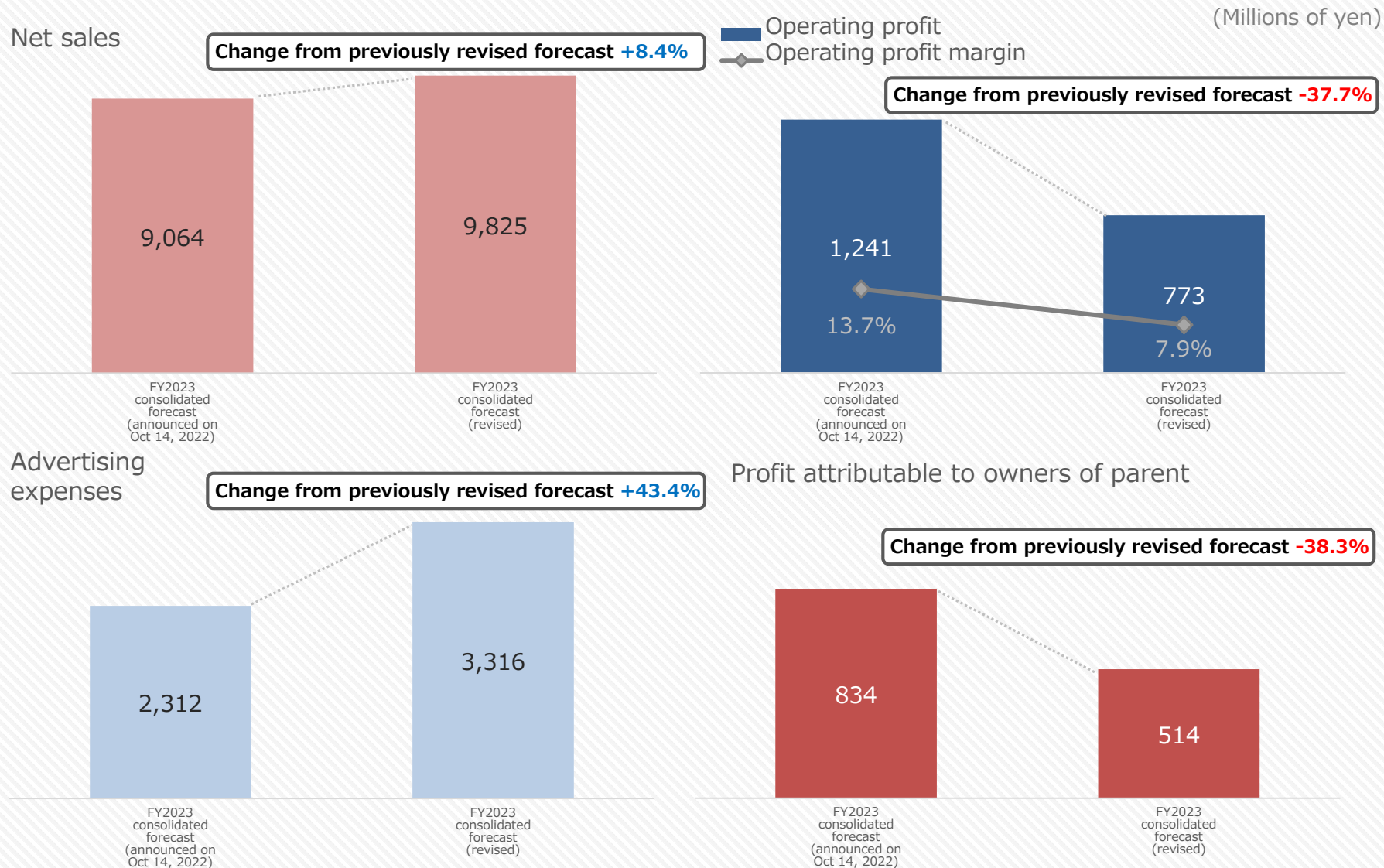
# Revision of the Full-Year Consolidated Financial Results Forecast

- The full-year consolidated net sales forecast for FY2023 has been revised upward to ¥9,825 million, taking account of more than expected new customer acquisitions.
- Forecasts for profits have been revised downward as advertising expenses are projected to increase by ¥1,004 million from the previous plan due to continued active strategic advertising investment.
- **The number of new customer acquisitions hit a record high in December 2022**, after the close of the third quarter of FY2023.

(Millions of yen)

	FY2023 full-year consolidated financial results forecast (previously announced)	FY2023 full-year consolidated financial results forecast (revised)	Changes	Changes (%)
Net sales	<b>9,064</b>	<b>9,825</b>	<b>+760</b>	<b>+8.4%</b>
Operating profit	<b>1,241</b>	<b>773</b>	<b>-468</b>	<b>-37.7%</b>
Ordinary profit	<b>1,260</b>	<b>795</b>	<b>-465</b>	<b>-36.9%</b>
Profit attributable to owners of parent	<b>834</b>	<b>514</b>	<b>-319</b>	<b>-38.3%</b>

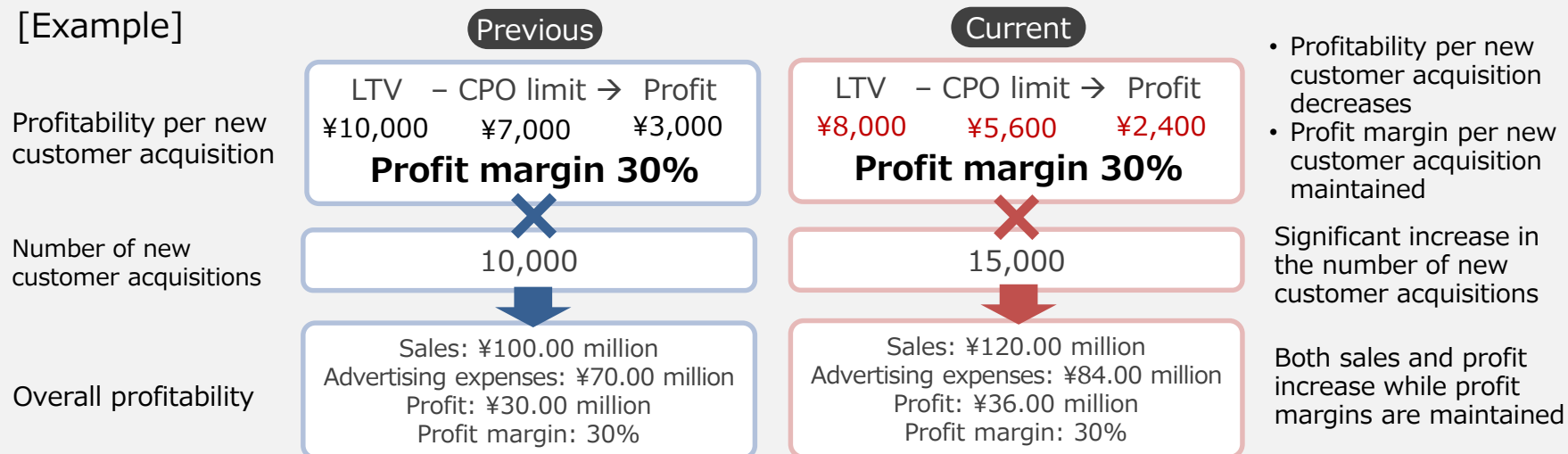
# Revision of the Full-Year Consolidated Financial Results Forecast



# Revision of the Full-Year Consolidated Financial Results Forecast

Newly launched measures to strategically lower hurdles for potential customers to buy, including first-time purchase discounts, lead to higher purchase rates and a significant increase in the number of new customer acquisitions. Meanwhile, LTV\*<sup>1</sup> decreases as a result of the discounted amount and a decline in the repeat purchase rate after the initial purchase, however, the profit margin per new customer acquisition is expected to be maintained as the CPO limit\*<sup>2</sup> has been lowered in line with the decrease in LTV.

[Example]



[Expected risk] Figures for LTV used in composing these expectations are estimated based on projected amounts derived from simulations that take into account various conditions while referencing actual repeat purchase rates that resulted from similar measures, etc. implemented in the past, and the Company may find it necessary to revise these measures if LTV is lower than projected due to the repeat purchase rate falling below expectations as a result of these measures

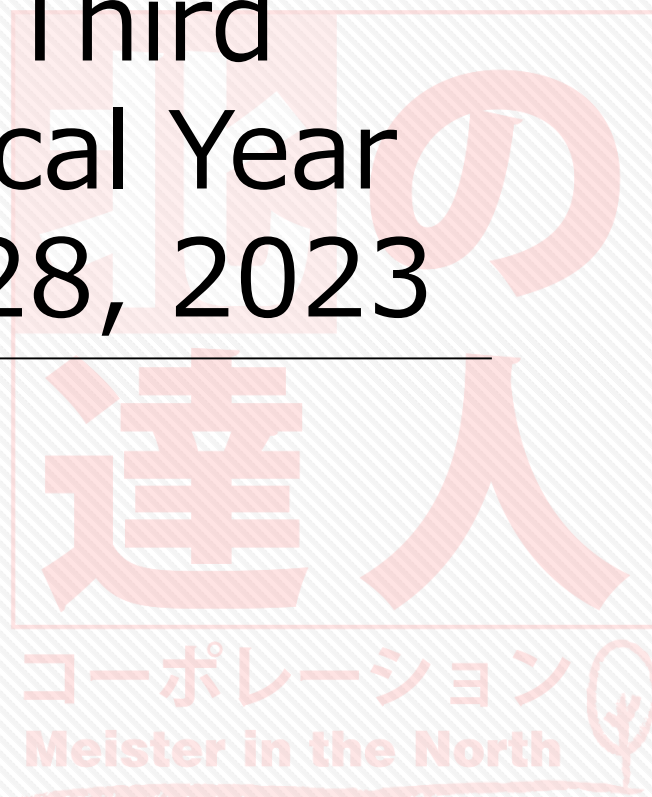
\*1 LTV stands for Life Time Value, which is the amount of lifetime net sales a customer will bring (lifetime net sales earned per new customer acquisition).

\*2 Upper limit of advertising expenses that can be used per order, calculated backward from the required profit, using the relationship between "CPO," which is the amount of advertising expenses required per order, and LTV.

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

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

(Millions of yen)

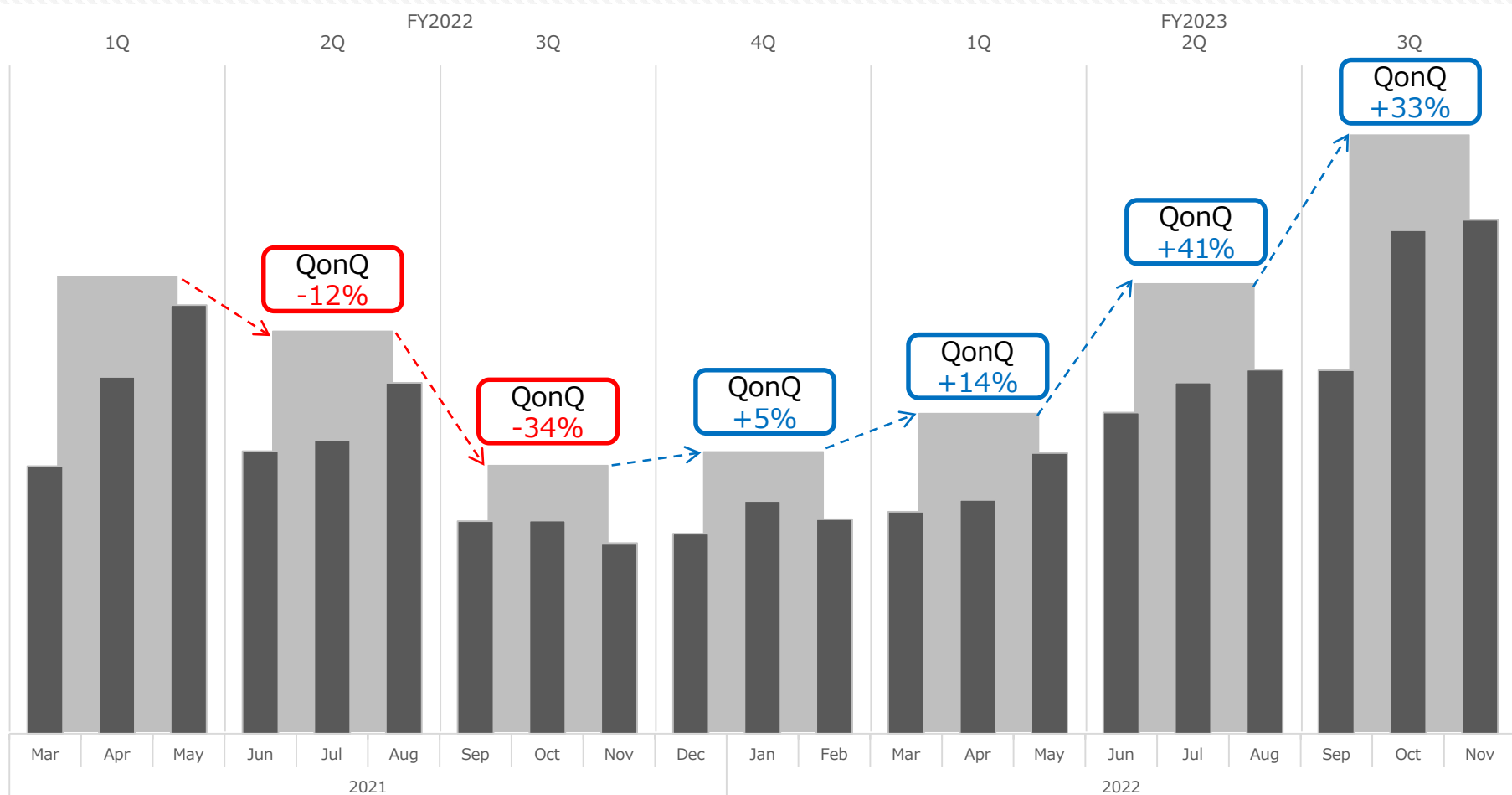
	Consolidated forecast for the third quarter (previously revised plan)	Results for the third quarter	Changes	Changes (%)
Net sales	<b>6,714</b>	<b>6,909</b>	<b>+195</b>	<b>+2.9%</b>
Gross profit	<b>4,976</b>	<b>5,144</b>	<b>+167</b>	<b>+3.4%</b>
Selling, general and administrative expenses	<b>4,067</b>	<b>4,425</b>	<b>+358</b>	<b>+8.8%</b>
Advertising expenses	<b>1,742</b>	<b>2,068</b>	<b>+326</b>	<b>+18.7%</b>
Operating profit	<b>909</b>	<b>718</b>	<b>-190</b>	<b>-21.0%</b>
Operating profit margin	<b>13.5%</b>	<b>10.4%</b>	<b>-3.1 pts</b>	
Ordinary profit	<b>928</b>	<b>740</b>	<b>-187</b>	<b>-20.2%</b>
Profit attributable to owners of parent	<b>614</b>	<b>484</b>	<b>-130</b>	<b>-21.2%</b>

- Net sales were higher than the forecast due to strong new customer acquisition.
- Operating profit was lower than the forecast due to increased investment in advertising expenses, but going forward, profits are projected to increase as advertisement expenses for new customer acquisition stand below the CPO limit\*.

\* The amount of advertising expenses per order

# Changes in number of new customer acquisitions

- The number of new customer acquisitions for the three months ended November 30, 2022 showed strong growth with a 33% quarter-on-quarter increase.
- In the second quarter, the financial results forecast was revised upward as the number of new customer acquisitions increased significantly more than expected. Since then, the number has been growing beyond the revised projection.



# Factors contributing to the increase in new customer acquisitions

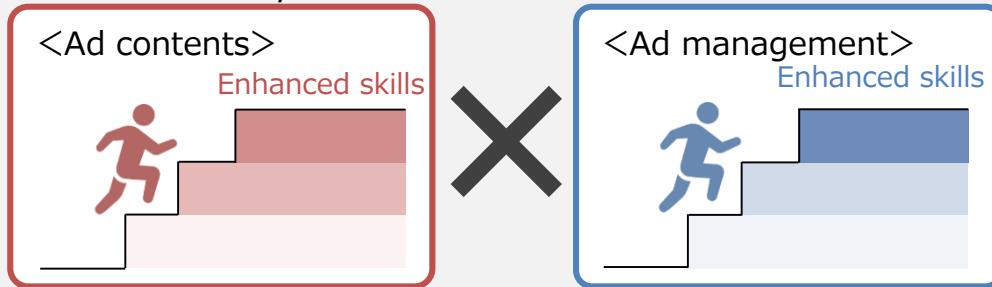
## 1. Our website\*

Effective web-marketing requires...

**Right ad contents** × **Right ad management**



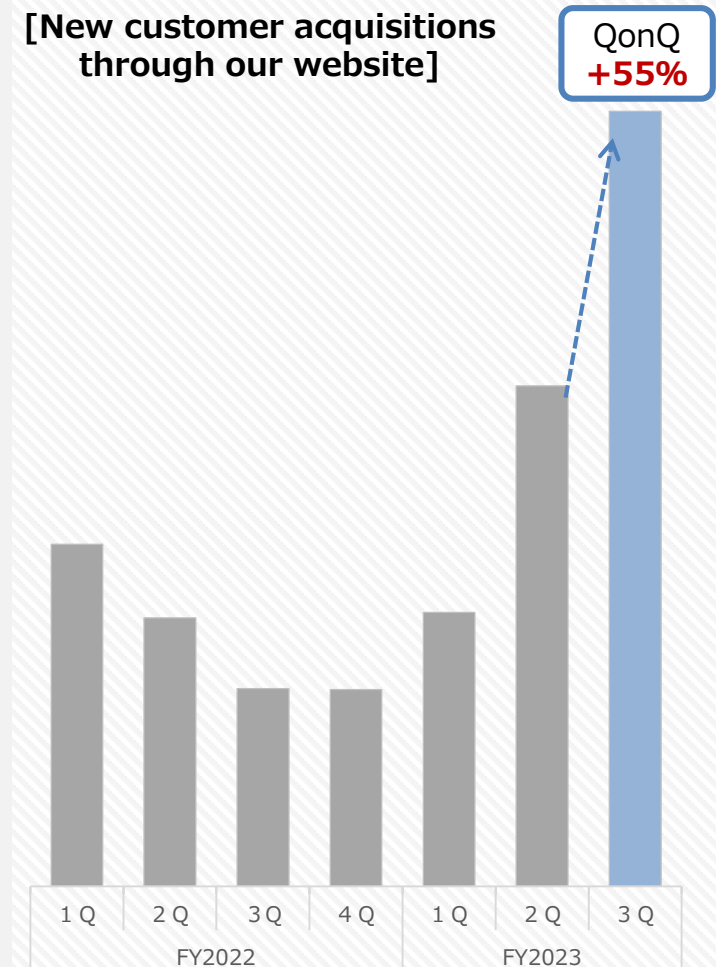
With **skills in both departments enhanced**, the number of new customer acquisitions through our website increased in the nine months ended November 30, 2022



Number of new customer acquisitions through our website in 3Q:

YonY **+292%**    QonQ **+55%**

[New customer acquisitions through our website]



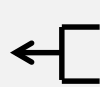
\* Referring only to those of new customer acquisitions from our independently operated e-commerce sites that were achieved through our customer attraction departments

# Factors contributing to the increase in new customer acquisitions

## 1. Our website

### ◆ Ad contents

Increased new customer acquisitions



Product competitiveness

Good ad contents required

- Advertisements with high click-through rates
- Sales pages with a high purchase rate



Multiple skills required

- Accurately identifying distinctive strengths of the product
- Creating advertisements from various angles
- Consistency between advertisements and sales pages

[Our initiatives]

Enhancement of skills



Now able to continuously create ad contents with high customer acquisition efficiency

Establishment of flows that make it possible to leverage the full potential of our products

The major issue: most creation activities placed too much emphasis on efficiency...

- Real deepening of understanding about products and users
- Accelerated onboarding of new recruits; more opportunities for trial and error
- Ensuring ad contents are created based on distinctive strengths of our products

Long-term initiatives for system development and education:

- Establishment of a dedicated training team
- Recruitment of experienced staff with advanced skills and a wealth of experience
- Development of **an evaluation system**
- Development of systems best suitable for repeating the PDCA cycle at the highest speed



# Factors contributing to the increase in new customer acquisitions

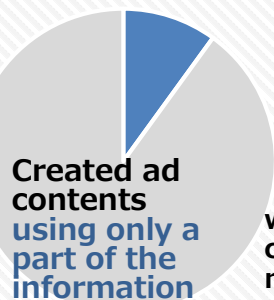
## 1. Our website

### ◆ Ad contents

#### <How to create ad contents>

**Product A**  
(Information amount 100%)

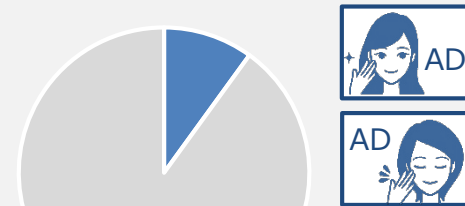
- Product information
- User traits
- Market environment
- Competing products



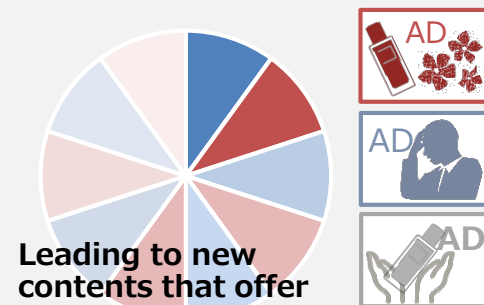
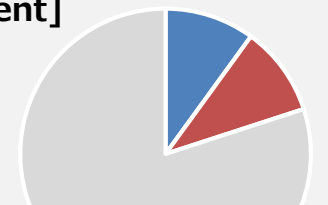
when creating new ad contents



[Previous]



[Current]



Now able to leverage the full potential of our products

# Factors contributing to the increase in new customer acquisitions

## 1. Our website

### ◆ Ad management

- Spending billions of yen annually on advertising
- Running over 30,000 advertisements continuously



Generally, as the scale of advertising operations grows, ad management becomes more complicated and more difficult to do in house

### [Our initiatives]



Targets and achievements are now quantified and visible based on data accumulated in in-house ad management, while a rigorous, highly challenging environment is promoting the enhancement of our member's skills.

Enhancement of skills

With "appropriate targets" and "precise evaluation" in place, trial and error has increased and the quality of ad management has improved

Generally, ad management is wholly or in-part contracted out to ad agents...



- Development of **an evaluation system** leveraging in-house data
- Target setting and progress rate calculation based on in-house system data
  - Including the process of identifying negative developments, such as going over the CPO limit and failing to achieve targets



- In-house ad management using our internally developed system
- Multi-dimensional segmentation and daily CPO calculation and management for all ads we place
  - Now able to calculate profitability accurately and in a timely manner for all ads placed

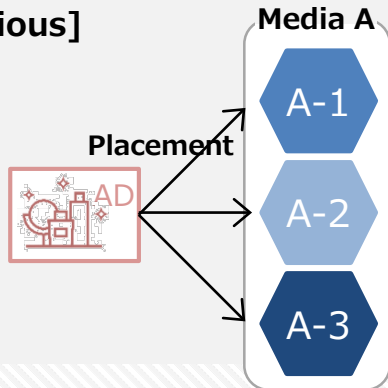
# Factors contributing to the increase in new customer acquisitions

## 1. Our website

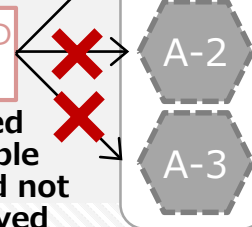
### ◆ Ad management

#### <Improvement of advertisement placement>

[Previous]



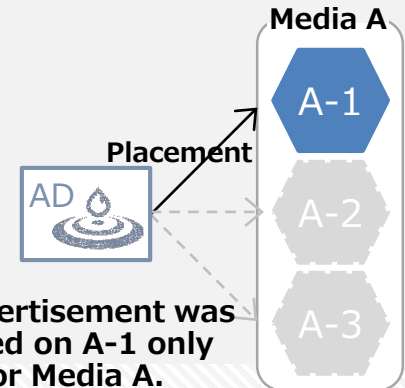
Suspended if a favorable outcome had not been achieved



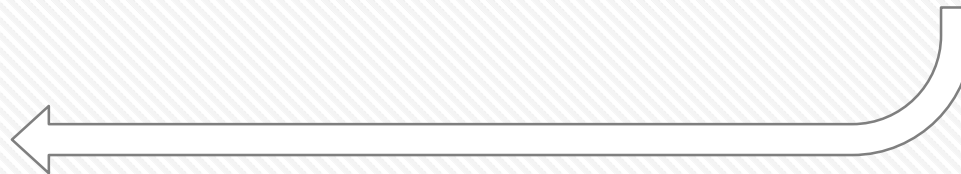
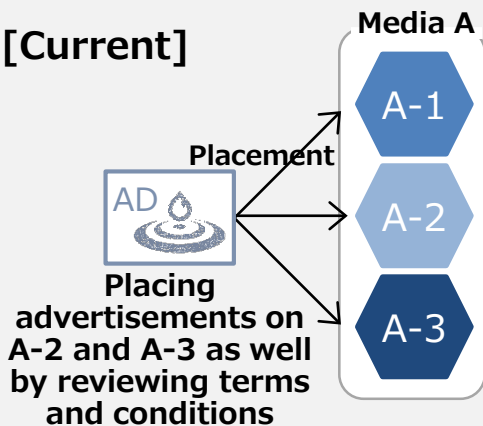
...only to find that...



... advertisement was placed on A-1 only for Media A.



[Current]



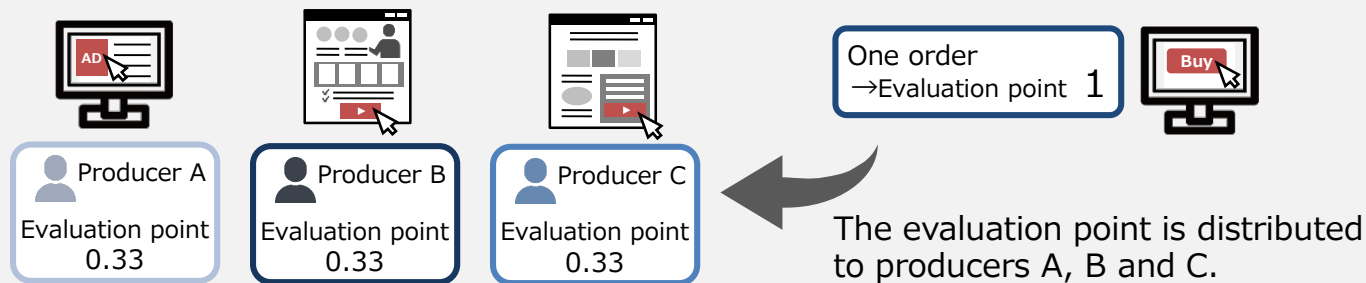
Reviewing terms and conditions for suspended advertisements, such as page contents and composition, and exploring affordable ways of placing them to restore the full potential of our advertisements

# Factors contributing to the increase in new customer acquisitions

## 1. Our website

- ◆ Synergies generated by the evaluation system
  - In the new evaluation system, those who have contributed to new customer acquisition are properly rewarded based on information about our ads and sales pages accurately managed by our internally developed system
  - Established not only an evaluation system for those doing ad management but also one for those creating ad contents

E.g., when a new customer made a purchase after moving from our ad to BLP to HLP:

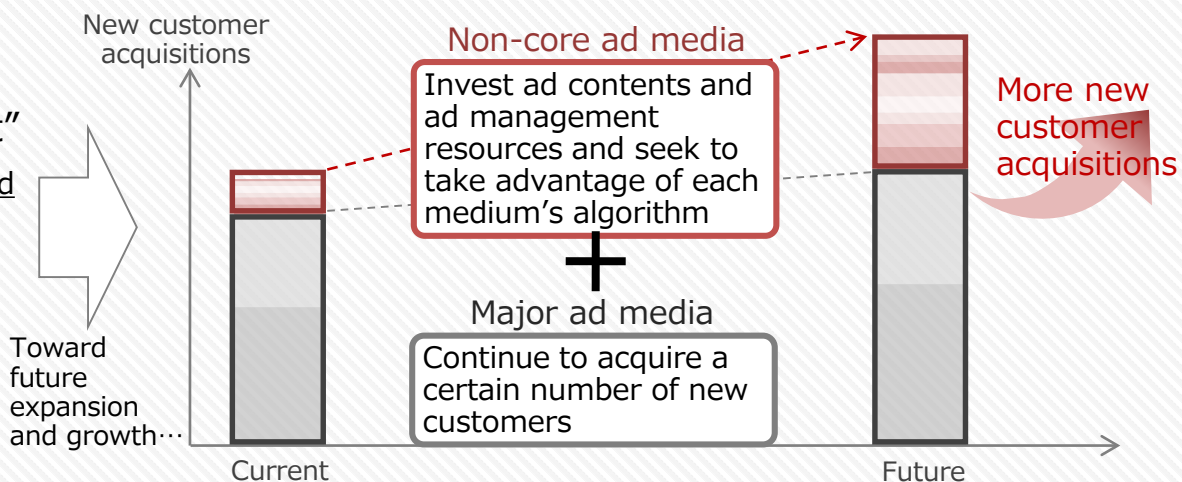


The evaluation system **accelerates the collaboration**  
 “Ad contents x Ad management”

Boosted information sharing and reduced opportunity loss

- Newly created ad contents
- Successful campaigns and ad deliveries
- New functions of ad media, etc.

Contributing to taking our web-marketing skills to a higher level





# Factors contributing to the increase in new customer acquisitions

## 2. 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.

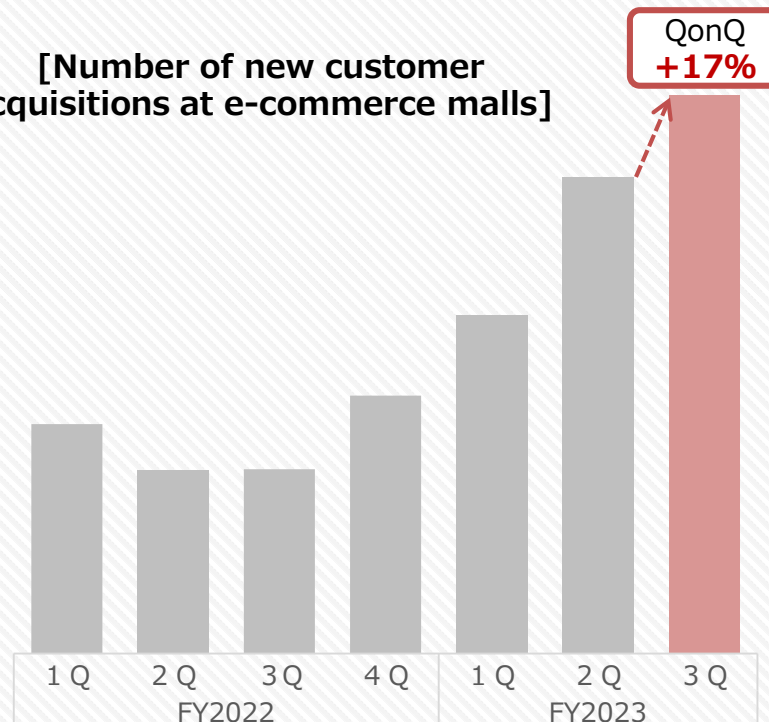


(Current) **Strengthen sales in e-commerce malls**

- 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

- ◆ Sales promotion activities, advertising contents creation, and advertisement optimization targeted at e-commerce malls
- ◆ Engagement in sales at e-commerce malls
- ◆ Increase of dedicated staff
- ◆ Inflow to e-commerce malls in line with an increase in the placement volume of advertisement for our website

**[Number of new customer acquisitions at e-commerce malls]**

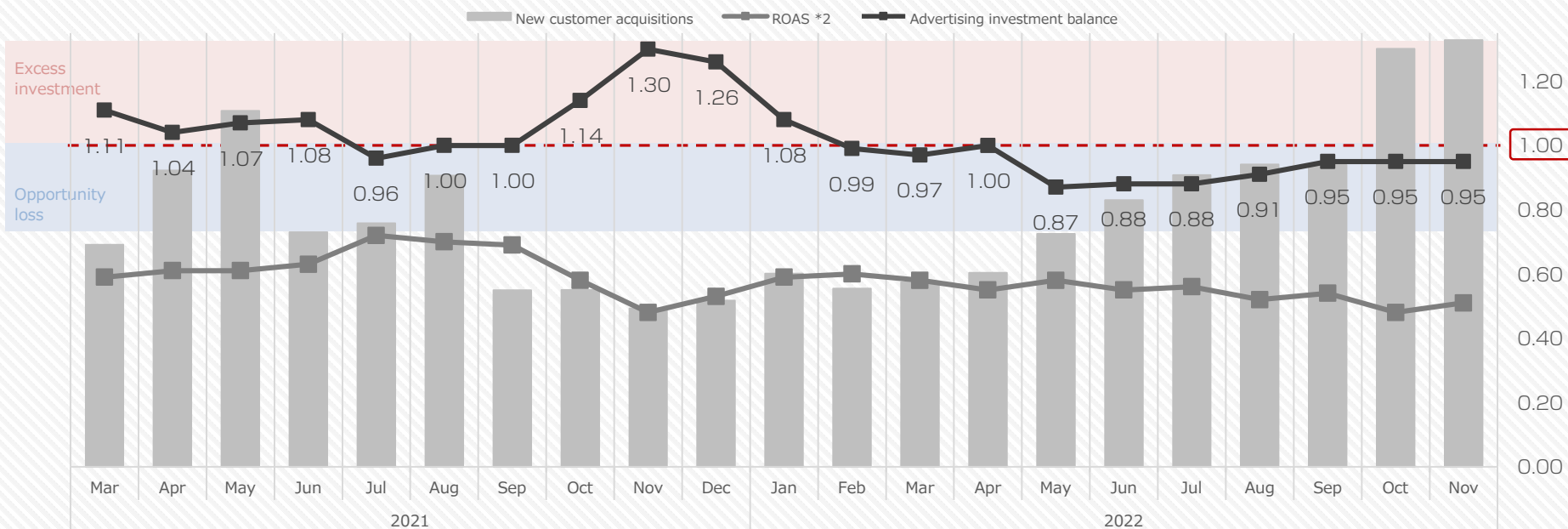


- Increased **17% QonQ** and **203% YonY**
- Marked the highest monthly sales at Amazon in October 2022 and at Rakuten Ichiba in September 2022
- Overall monthly sales at e-commerce malls continued to exceed ¥100 million in the third quarter.

# 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 19)
- ◆ Factor (2) **Created good advertising contents, resulting in higher efficiency**

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

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

The phenomenon has occurred successively at multiple times over recent quarters.

The phenomenon is what happens in the initial phase only. We will expand investment.

We will strive to eliminate opportunity loss, expand the number of new customer acquisitions and strike an optimal advertising investment balance.

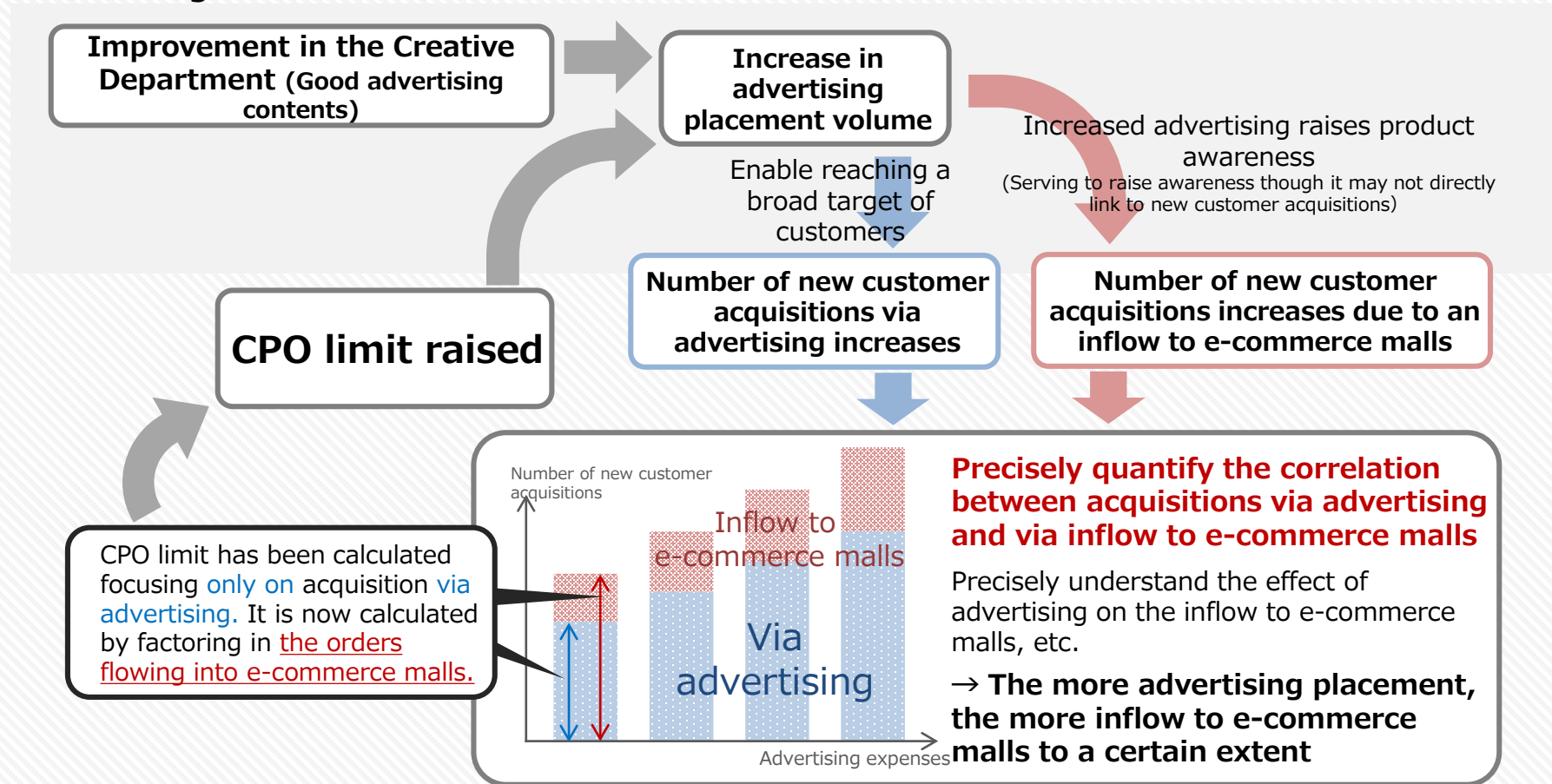
\*1 A unique indicator that measures opportunity loss and unprofitability in advertising. Advertising investment indicates how much CPO was obtained with respect to the CPO limit. If it is less than 1.00, there is opportunity loss, and if it is higher than 1.00, there is excess investment. Therefore,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

\*3 To measure advertising investment efficiency for subscription purchase on our website more accurately, we show in the above graph the data on new customer acquisitions, ROAS and advertisement investment through our website only from the three months ended November 30, 2022 while, for the period up to August 2022, presenting those data recalculated on the same basis.

## Advertising investment efficiency



- ◆ 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)

# Net sales by segment and brand

(Millions of yen)

Segment	Brand name	FY2023		
		1Q	2Q	3Q
Health & Beauty Care business	 北の快適工房 J NORTH FARM	1,845	1,901	2,297
	 SALON MOON <sup>Pro</sup>	138	187	164
	Others	3	7	19
Others	-	116	107	119
Total		2,103	2,204	2,601

\* From the first quarter of FY2023, 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.**

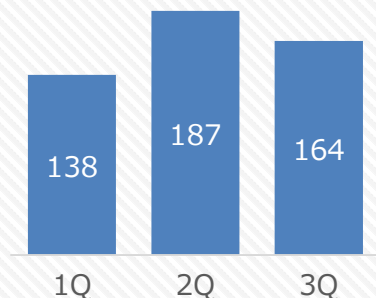
(Trade name changed from ASHIGARU Co., Ltd. on May 31, 2022)

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
- Sales come primarily from e-commerce malls



**FY2023**  
quarterly sales  
(millions of yen)



**<Nine months ended November 30, 2022>**

- ◆ Focus on sales promotion measures to expand each e-commerce mall
  - Ranked first in the overall home appliance sales ranking of Rakuten Ichiba, one of the major e-commerce malls
  - Driven by successful sales promotion at the e-commerce mall Qoo10, which is overwhelmingly favored by our main customer base, this business has grown into what is now expected to become a new major source of revenue.
  - Ranked first in the number of units sold ranking for home appliances, PCs and games at the large-scale event “Qoo10 Mega Discount”
- ◆ Launched the first cosmetic product SALONMOON Hair Oil Mist  
Focusing on the development of new beauty appliances as well as cosmetic products that have a high affinity with beauty appliances
- ◆ Developing sales channels through radio advertisement campaign in the Hokkaido region
  - Launched sales at home appliance mass merchandizers’ stores on April 28, 2022
  - Seek to increase revenue from sales at stores, for which mass media advertisement (using radio and television channels) is particularly effective, while measuring the effect of radio advertisement
- ◆ Revised selling prices and reduced costs by improving efficiency in importing and inventory management  
To address a decline in profit margins resulting from the surge in purchase prices due to successive price hikes for supplies, raw materials, transportation, etc., as well as depreciation of the Japanese yen at a record-setting pace

We will continue to launch various initiatives to expand businesses while also striving to improve profitability.

## <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
- Invited the business manager who developed from scratch the "HOT PEPPER" business of Recruit Co., Ltd., a community-based media business operating nationwide, to reconstruct the sales team, management metrics, etc.

#### ◆ Explore new customers

##### **Enhance nurturing\* initiatives**

- 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 of potential customers

#### ◆ Advertisement creation leveraging unique characteristics

##### **Initiatives to attract customers to SALONMOON**

- Contents that promote the "recognition" of and the "interest" in our products and brands
  - Offer real-world information, including the feedback from DJs and their families using our products
  - Introduce the beauty salons using our products to let listeners know that those products are used by professionals and thereby increase their product reliability
  - Also introduce the stores where customers can touch and try the products
- Contents that lead customers who have an interest to shopping sites (e-commerce malls and stores)
  - Develop a scheme to increase sales by promoting inflow from radio advertisements and develop products as sales packages

\* 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

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

Marketing funnel and characteristics of mass media and Internet advertisements

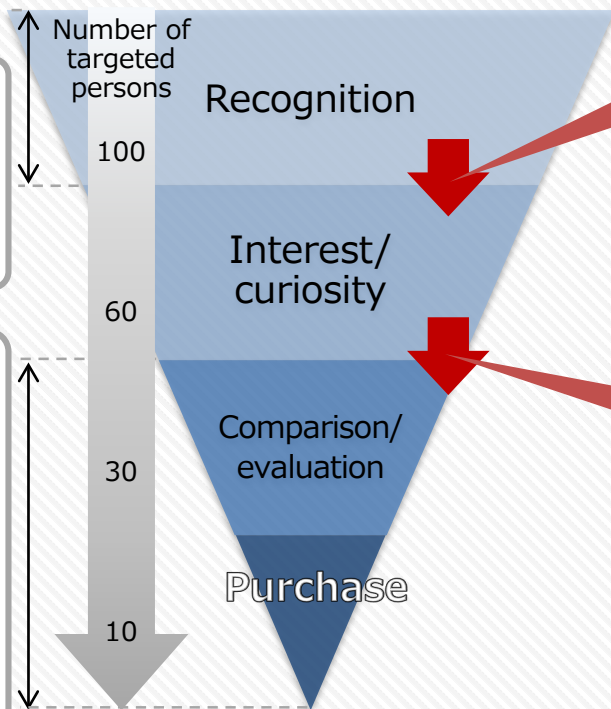
Marketing funnel: the flow from when the customer recognizes a product or service to when the customer buys it

Mass media (radio etc.) advertisements

- + Effective in winning customer **recognition**
- A long way to purchasing, an effect difficult to see, becoming unpopular

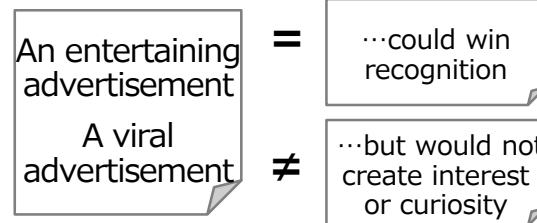
Internet advertisements

- + Effective in **approaching the group of customers who already have interest or curiosity**
- + Popular among clients because of efficiency
- Only targeted at those who already have interest or curiosity and not helpful in developing new markets
- Not effective in newly generating interest



FM NORTH WAVE's future radio advertising initiatives

**Design contents that create interest and curiosity, not just winning recognition**



An advertisement is placed to achieve the desired effect. Unlike radio programs, an advertisement cannot serve its purpose if it is merely fun.

**“Connect to the Internet” those who have interest or curiosity**

Increase radio advertisements for the products and services that have an inlet from the Internet and lead potential customers from radio advertisements to the Internet

- Develop success cases of mixed media projects with radio and the Internet
- Strengthen the outreach to those companies that are feeling the limitations of Internet advertisements

## Product launched in FY2023

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





## Product launched in FY2023

### Revision of sales policy for product releases

Revised our sales policy for products to be launched after PINTE

#### ◆ Purpose

- Mitigate workload required to prepare for product releases
- Direct our internal resources only to new products with high sales potential

#### ◆ Revised sales policy

Previous

Release all products for “subscription purchase”



Revised

Release all products for “single purchase” and sell for “subscription purchase” only those products that have met certain sales revenue criteria

Decided to sell for subscription sale one of the three products released for subscription purchase in the nine months ended November 30, 2022



Hyaluronic acid gel sheet

# HYALO AID

ヒアロエイド

- Just apply this gel sheet of hyaluronic acid, a highly popular moisturizing content for knee problems, to an affected area
- This hyaluronic acid (moisturizing content) gel sheet enables easy care and supports your active everyday life
- Scheduled to be launched in early February 2023

Planning to launch two single-purchase type products after the close of 3Q of FY2023 and about two more single-purchase type products by the end of FY2023

## Consolidated Balance Sheets

(Millions of yen)

Subject/Section	FY2022/4Q end February 28, 2022	FY2023/3Q end November 30, 2022
(Cash and deposits)	5,210	5,031
Current assets	6,808	6,754
Non-current assets	747	825
Total assets	7,555	7,579
Current liabilities	1,235	1,033
Non-current liabilities	174	220
Total liabilities	1,409	1,254
Total net assets	6,146	6,325
Total liabilities and net assets	7,555	7,579

The main factors for the changes from FY2022/4Q end were an increase in notes and accounts receivable – trade, and contract assets of ¥233 million and a decrease in cash and deposits of ¥178 million under assets and an increase in accounts payable – other of ¥311 million and a decrease in income taxes payable of ¥451 million under liabilities.

# Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	Nine months ended November 30, 2021 March 1, 2021 to November 30, 2021	Nine months ended November 30, 2022 March 1, 2022 to November 30, 2022
Cash flows from operating activities	1,141	302
Cash flows from investing activities	208	-134
Cash flows from financing activities	-355	-355
Effect of exchange rate change on cash and cash equivalents	8	7
Net increase (decrease) in cash and cash equivalents	1,003	-178
Cash and cash equivalents at beginning of period	3,612	5,210
Cash and cash equivalents at end of period	4,616	5,031

The main factors for the changes during the nine months ended November 30, 2022 were profit before income taxes of ¥740 million, an increase in accounts payable – other of ¥306 million, income taxes paid of ¥768 million, and dividends paid of ¥343 million.

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# Current Situation and Future Developments

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# Current Situation and Future Developments

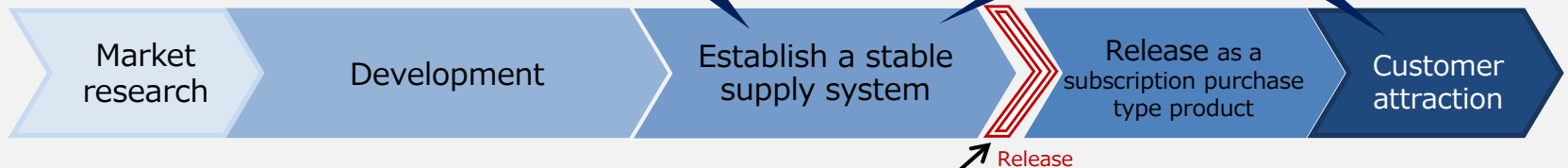
## ◆ Change policies for developing and releasing new products

### <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>

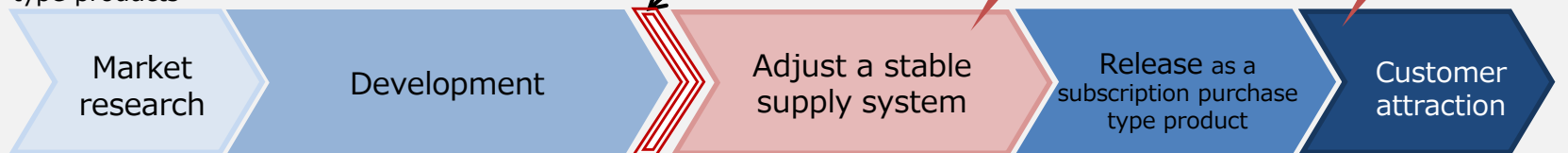
Release new products as a "single-purchase type product"

→ 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

<Current> As 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]



<In the nine months ended November 30, 2022> Released three products for single sale and decided to release one product for subscription sale

# 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

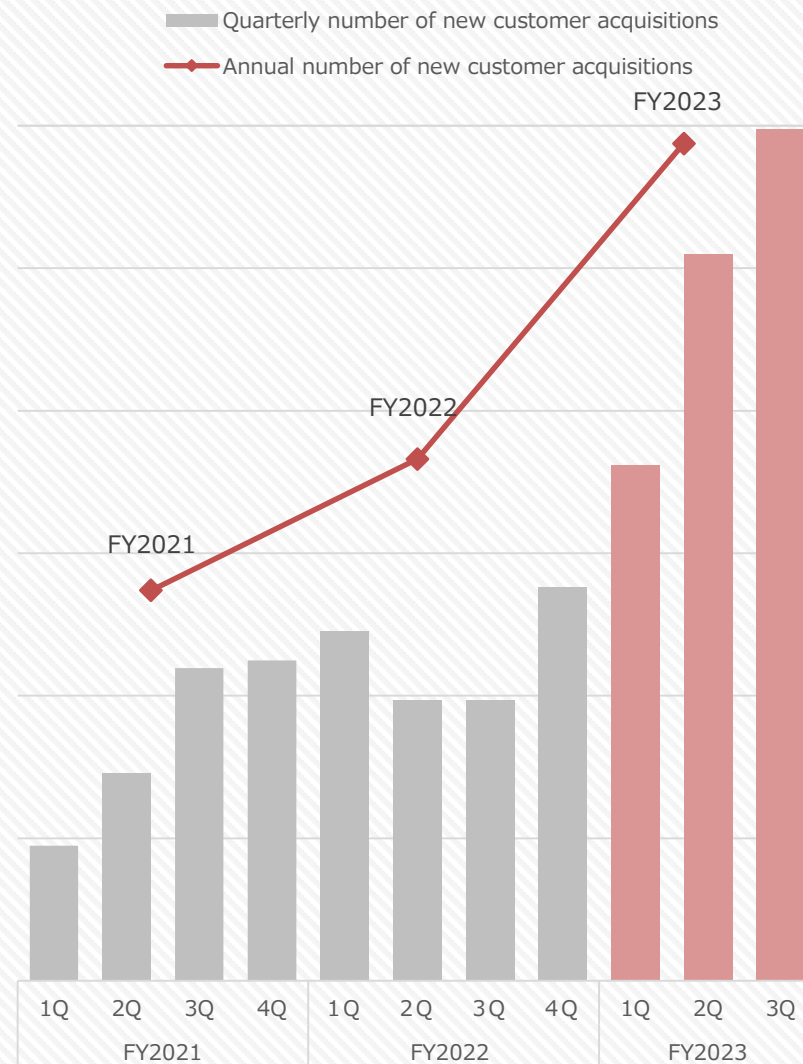
### Strengthen sales at e-commerce malls

→ 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

- ◆ 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

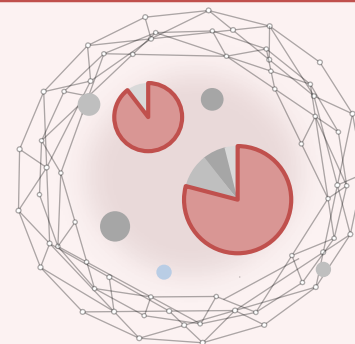
But no more than several hundred million yen per year

**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**

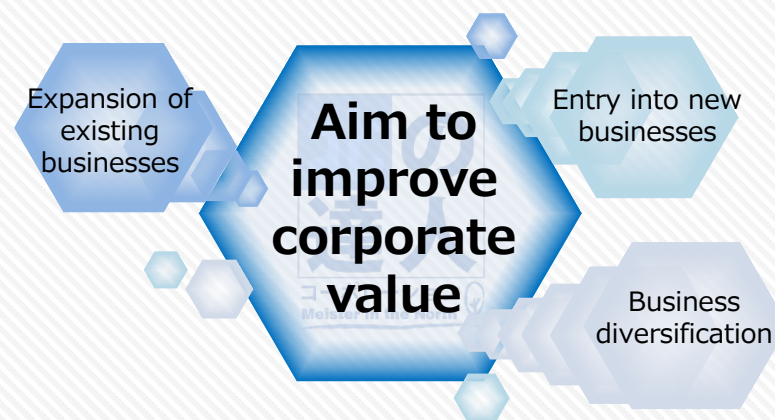
Our policy is to aggressively engage in M&A of companies that operate the same D2C and E-commerce businesses as the Company that offer high-quality products but are limited on funds and personnel, and where the introduction of the Company's expertise and management resources can establish scale benefit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

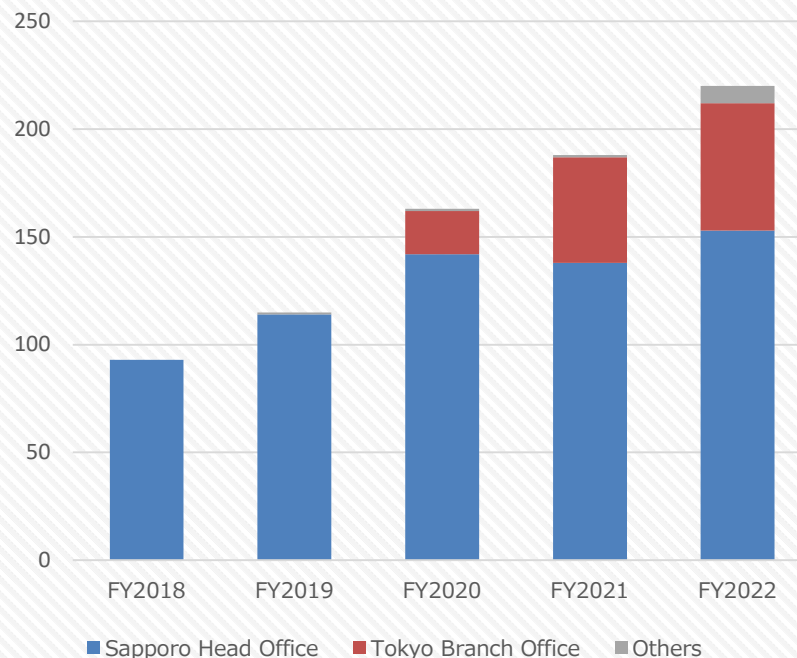
# Current Situation and Future Developments

## ◆ 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

[Change in employees]



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

Shift to a double headquarters system: Tokyo Head Office and Sapporo 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	Chuo-ku, Tokyo and Sapporo, Hokkaido	
Bases	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.	236 people (As of November 30, 2022)	

# Business Model

## ◆ Customer characteristics

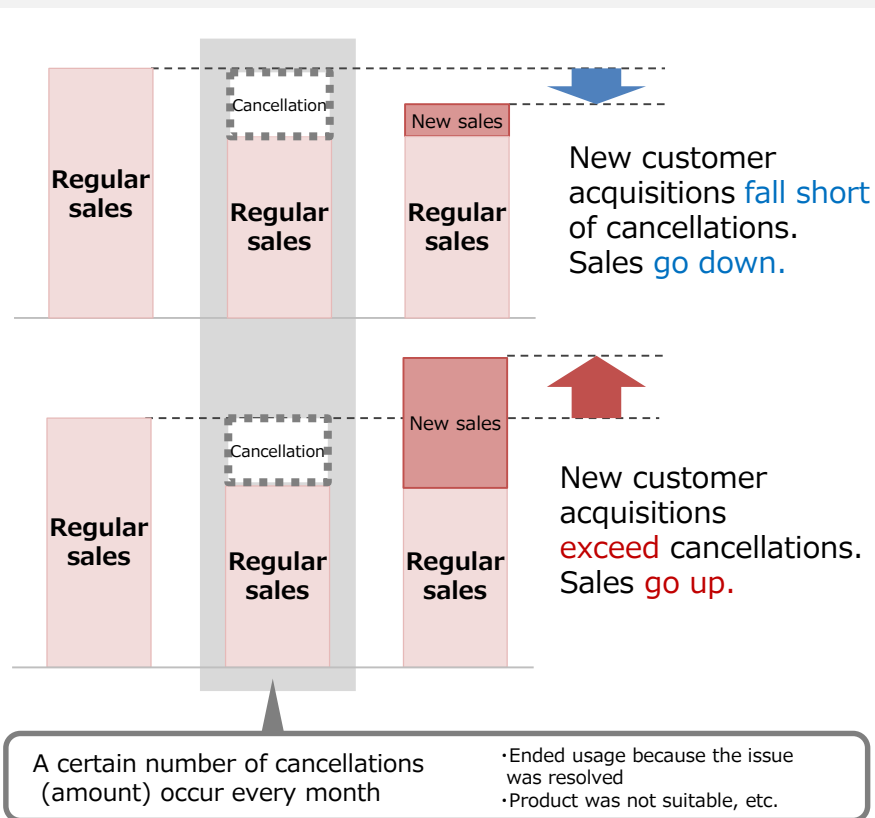
- The main customer base is men and women in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

[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

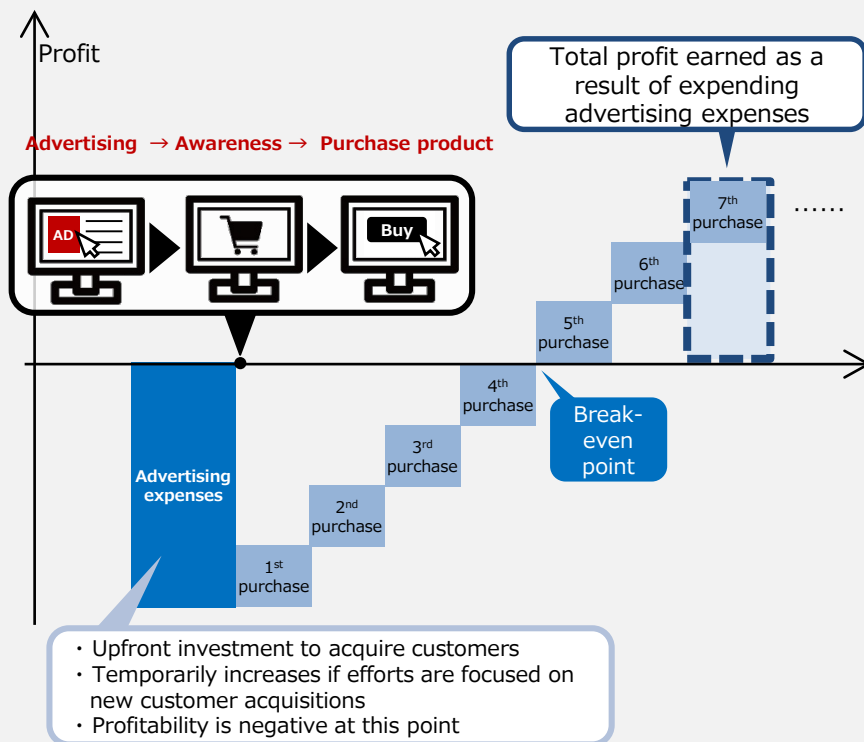


# E-commerce channels

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

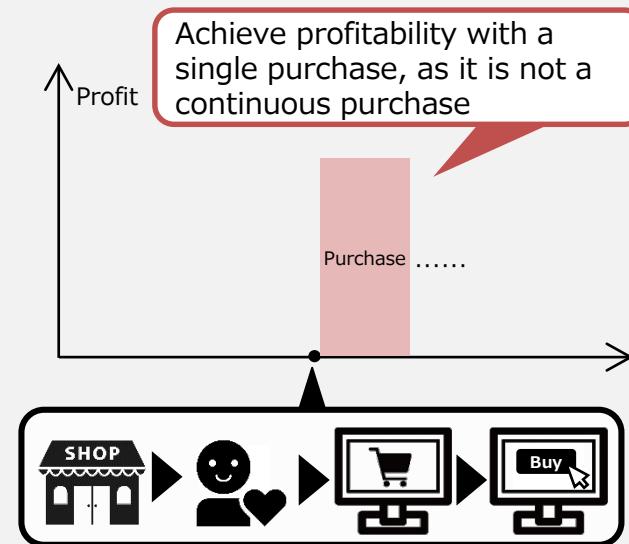
## ◆ Own website

- 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

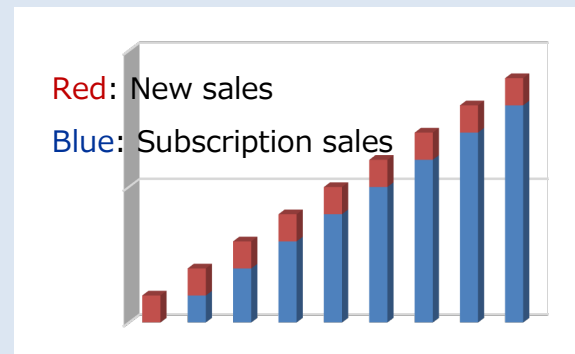
## <Sales strategy>

- 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 36 **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



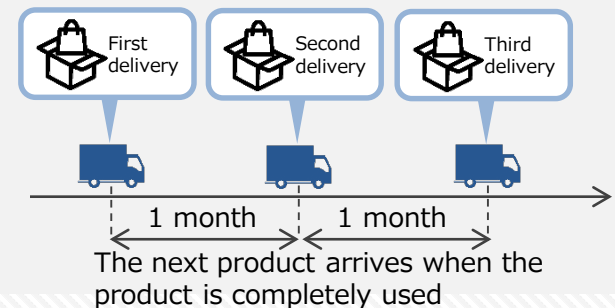
## ◆ Stringent product development standards

- 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]





# 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 30,000 advertisements presented regularly into various segments
- (4) Automatically suspend advertisements that exceed the CPO limit
- (5) The Company develops and operates a system that manages the above process.

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



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

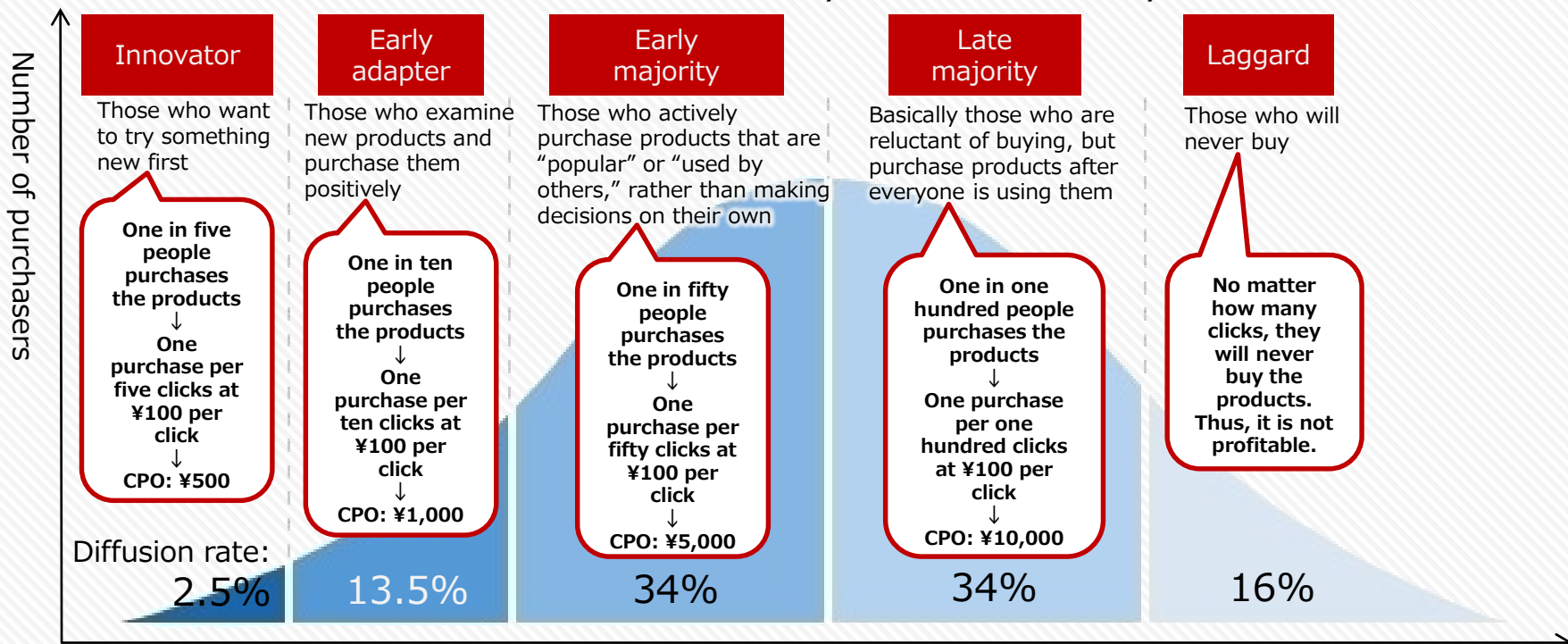
# Sales Strategy

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

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

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

### Consumer distribution by innovator theory



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

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

# Sales Strategy

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

	Total of all products	Product (1) ×	Product (2) △	Product (3) ◎
Net sales	100.00	60.00	30.00	10.00
Cost	56.00	35.00	18.00	3.00
<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**

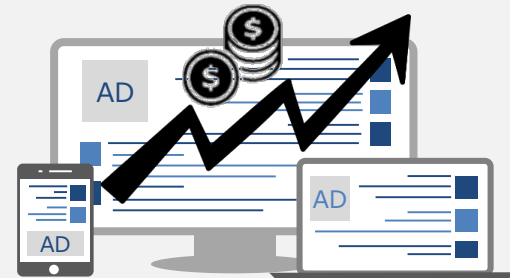
# Sales Strategy

- ◆ 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:

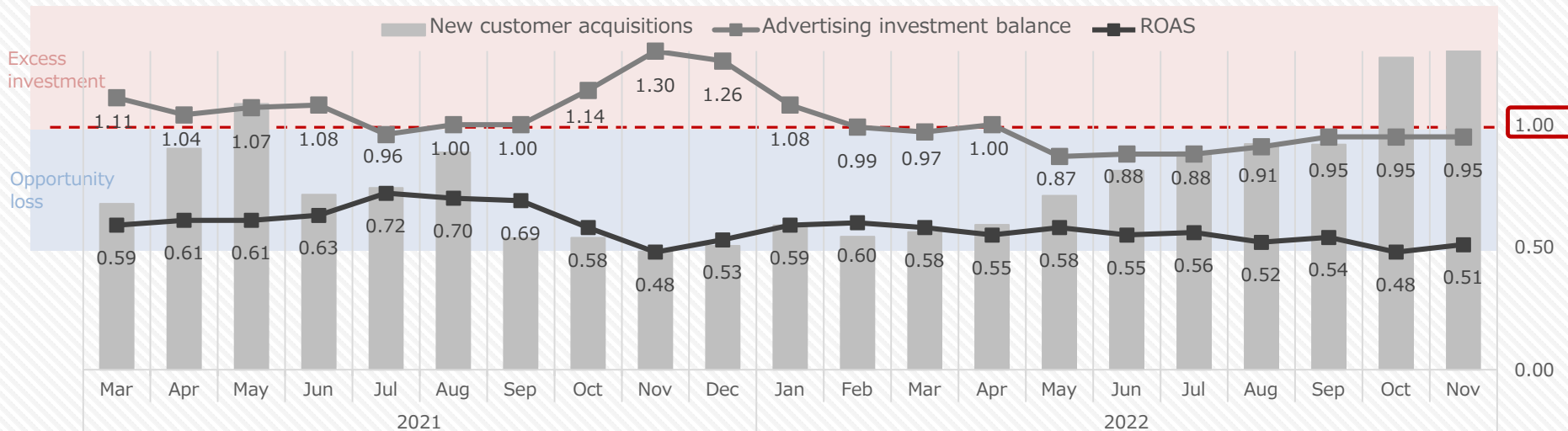
## ROAS

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



- 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\*1

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)



\*1 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.

\*2 To measure advertising investment efficiency for subscription purchase on our website more accurately, we show in the above graph the data on new customer acquisitions, ROAS and advertisement investment through our website only from the three months ended November 30, 2022 while, for the period up to August 2022, presenting those data recalculated on the same basis.

# 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



- More than 50,000 copies sold
- The Taiwanese edition published
- The Chinese edition and the Vietnamese edition to be published

**FUNDAMENTALS X  
TECHNICAL MARKETING**  
—83 Ways to Maximize the  
Results of Web Marketing

Released on April 28, 2022



- More than 30,000 copies sold
- The Taiwanese edition to be published

**The Law of Time  
Minimization, Result  
Maximization**  
—“A Capable Person's  
Thinking Algorithm,”  
Installing One Story a Day

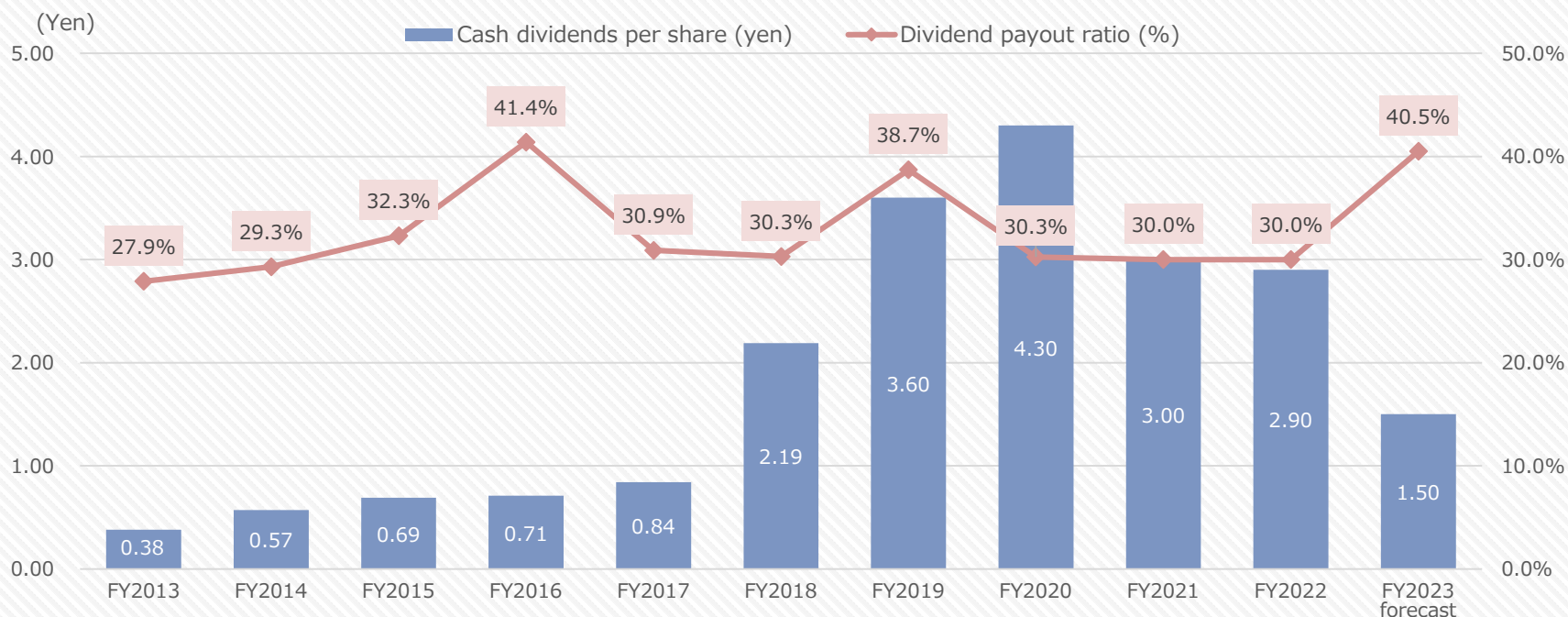
Released on November 16, 2022



# 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 FY2023.



(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 FY2022. The graph above indicates consolidated figures, while non-consolidated figures are presented for the period up to FY2021.



# Other Indicators

	FY2016 (non-consolidated)	FY2017 (non-consolidated)	FY2018 (non-consolidated)	FY2019 (non-consolidated)	FY2020 (non-consolidated)	FY2021 (non-consolidated)	FY2022 (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

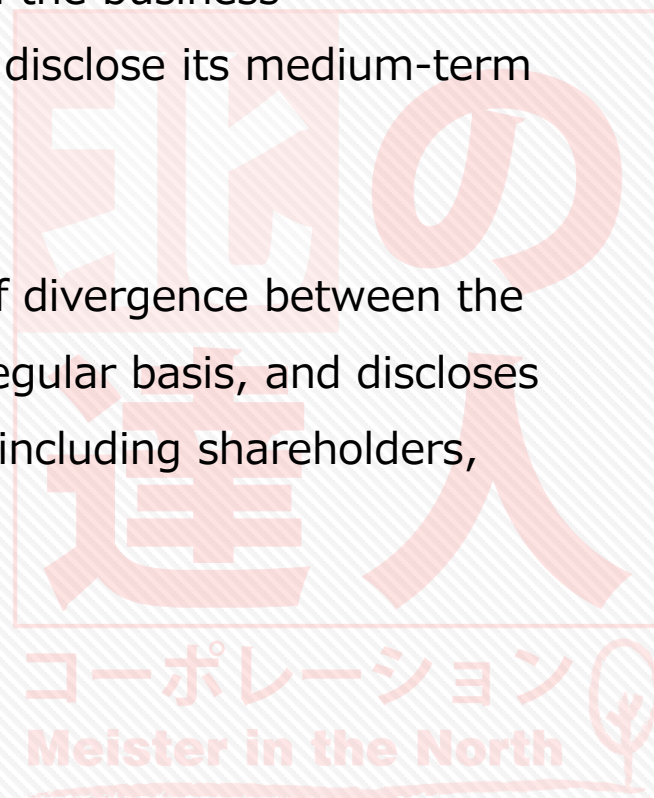
- November 2020: Awarded the “Asia’s 200 Best Under A Billion” in Forbes Asia
- September 2019: Awarded the Internet Shopping Award in the “Asia Direct Marketing Vision 2019”
- February 2017: Special E-Commerce Promotion Award Recipient at “Japan Venture Awards 2017” hosted by the Organization for Small & 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.



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