



Supplementary Material for the Fiscal Year Ended February 28, 2023

Stock code: 2930
Kitanotatsujin Corporation
April 14, 2023

Executive Summary

- ☞ Net sales were at the same level as the revised forecast announced on January 13, 2023.
- ☞ Operating profit was ¥510 million (down 34.0%) due to sales and profits for delayed deliveries yet to be recorded and increased advertising investment.
- ☞ The enhancement of advertising investment, however, produced a positive result, driving the number of new customer acquisitions to a record high.
- ☞ We will accelerate the implementation of our product and sales strategies and strive to further increase new customer acquisitions by building up our workforce and strengthening our organizational capabilities.

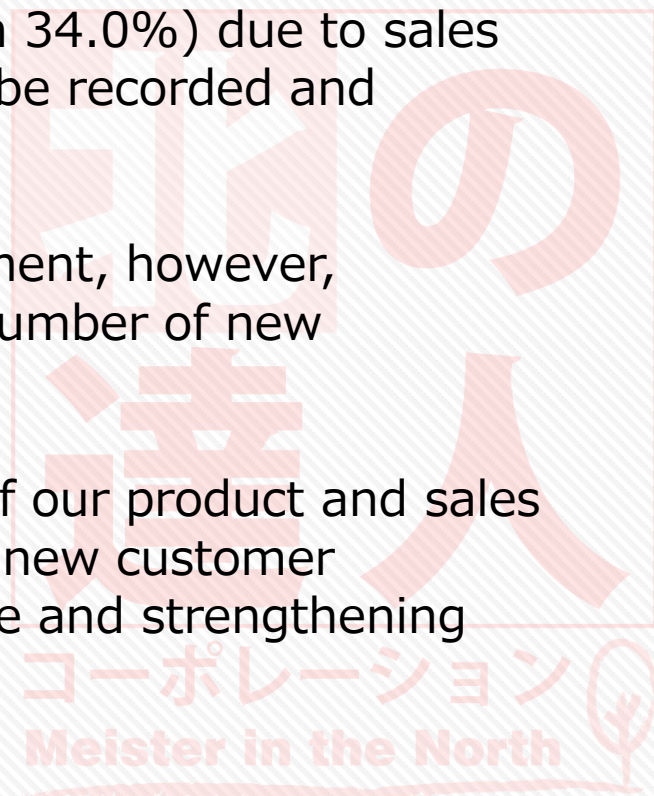
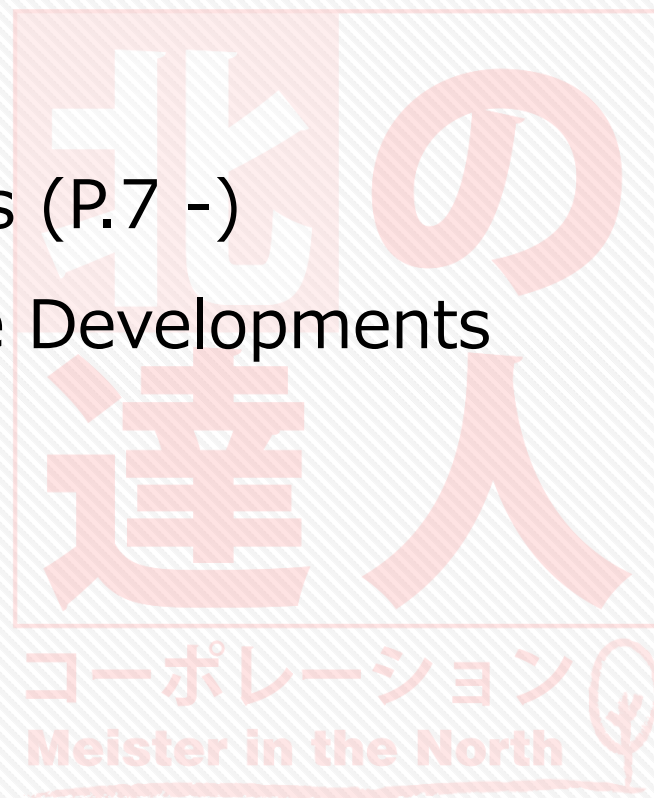
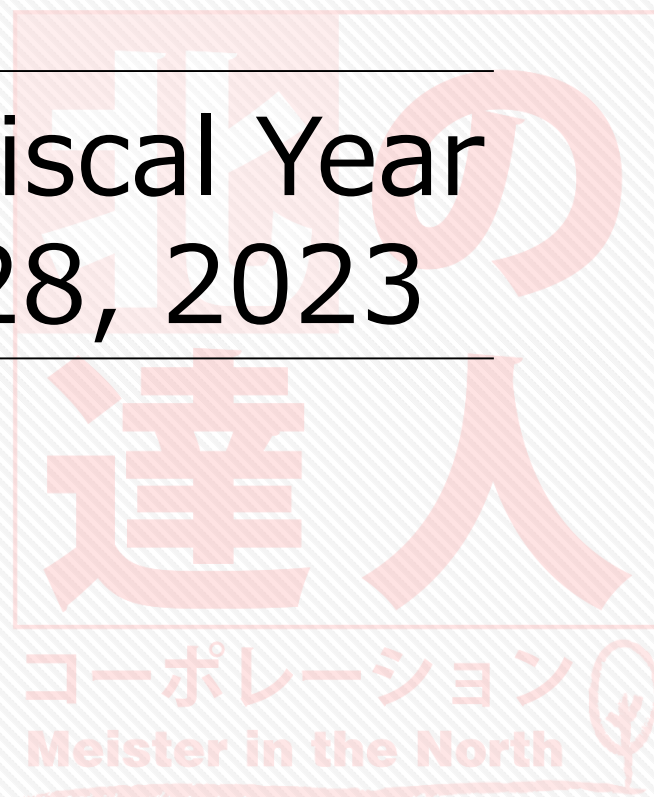


Table of Contents

1. Highlights for the Fiscal Year Ended
February 28, 2023 (P.4 -)
2. Analysis of Operating Results (P.7 -)
3. Current Situation and Future Developments
(P.27 -)
4. References (P.32～)



Highlights for the Fiscal Year Ended February 28, 2023



<Consolidated> Key Performance Highlights [Compared with Forecasts (Plan)]

(Millions of yen)

	Full-year consolidated financial results forecast (revised plan)	Full-year consolidated financial results	Estimates excluding the effect of delayed deliveries	Changes excluding the effect of delayed deliveries	Changes (%) excluding the effect of delayed deliveries
Net sales	9,825	9,831	10,009	+184	+1.9%
Gross profit	7,325	7,303	7,442	+116	+1.6%
Selling, general and administrative expenses	6,552	6,793	6,802	+250	+3.8%
Advertising expenses	3,316	3,556	3,556	+240	+7.2%
Operating profit	773	510	639	-133	-17.3%
Operating profit margin	7.9%	5.2%	6.4%	-1.5 pts	
Ordinary profit	795	541	-	-	-
Profit attributable to owners of parent	514	343	-	-	-

- Net sales were higher than the forecast due to strong 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 required to acquire one new customer

<Non-Consolidated> Key Performance Highlights [Compared with Forecasts (Plan)]

Delayed deliveries resulting from taking orders over production capacity

A rush of orders resulting from successful sales promotion activities for some products has led to undersupplies and delayed deliveries, generating a few months of backlogs. (Millions of yen)

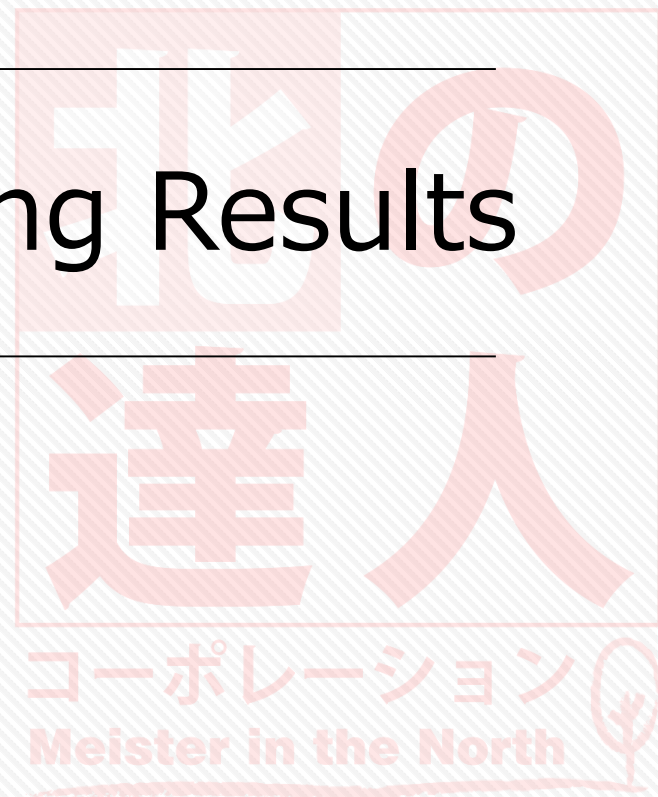
	Full-year non-consolidated financial results forecast (revised plan)	Full-year non-consolidated financial results	Estimates excluding the effect of delayed deliveries	Changes excluding the effect of delayed deliveries	Changes (%) excluding the effect of delayed deliveries
Net sales	8,735	8,725	8,904	+168	+1.9%
Gross profit	6,867	6,833	6,972	+104	+1.5%
Advertising expenses	3,253	3,487	3,487	+233	+7.2%
Operating profit	796	520	650	-146	-18.4%

<Factors contributing to results lower than the forecast>

- Advertising expenses incurred to win those orders were already recorded in the current fiscal year.
- Meanwhile, sales of ¥178 million and operating profit of ¥129 million for those delayed deliveries, which could have already been recorded, are to be recorded in or after the fiscal year ending February 29, 2024.



* Those delayed deliveries are expected to be settled by the end of the fiscal year ending February 29, 2024.

Analysis of Operating Results



Net sales by segment and brand

(Millions of yen)

Segment	Brand name	FY2023			
		1Q	2Q	3Q	4Q
Health & Beauty Care business		1,845	1,901	2,297	2,624
		138	187	164	151
	Others	3	7	19	25
Others	-	116	107	119	119
Total		2,103	2,204	2,601	2,921

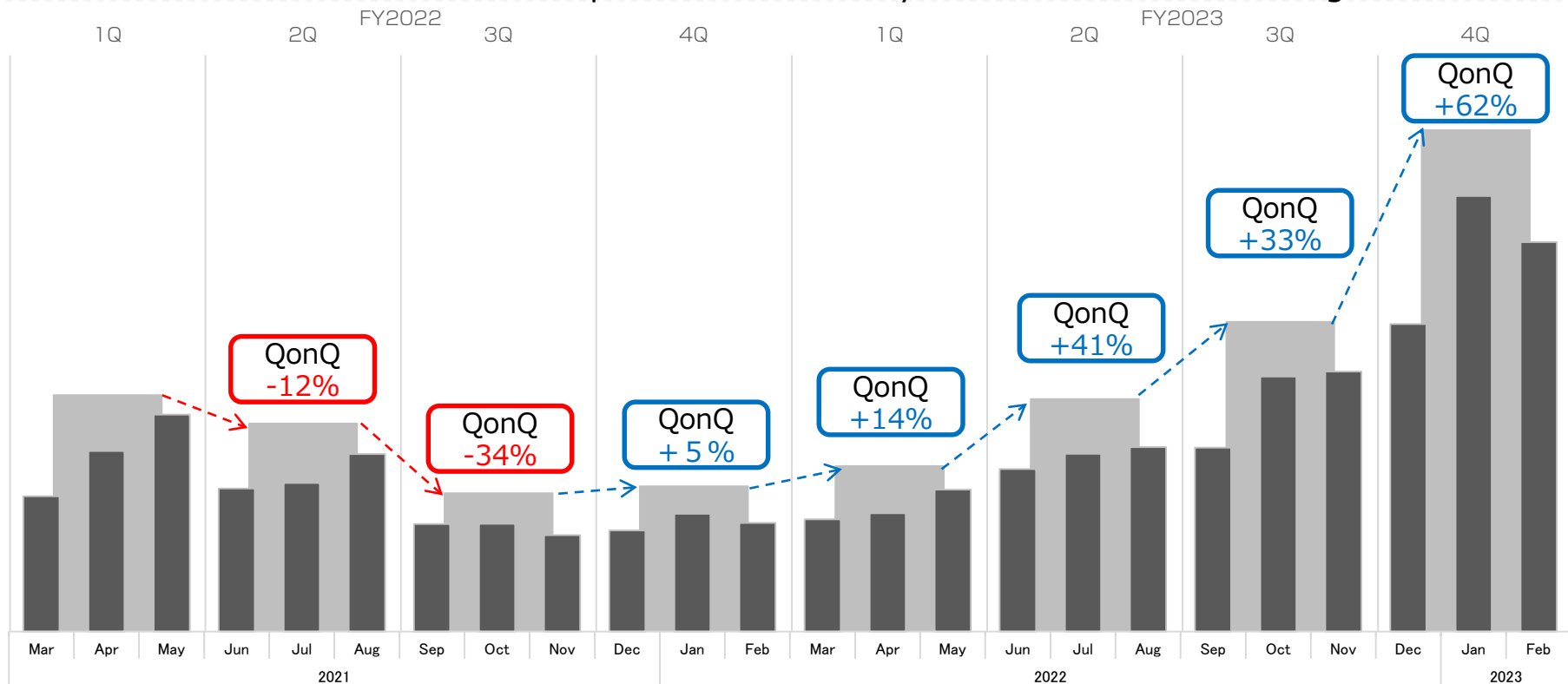
* From the first quarter of FY2023, the segment name previously reported as E-commerce business was changed to Health & Beauty Care business. The change in the segment name has no impact on the segment information.

* 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.

J NORTH FARM

Changes in number of new customer acquisitions*

- The number of new customer acquisitions for the three months ended February 28, 2023 showed strong growth, an increase of 62% quarter on quarter and 166% year on year.
- The financial results forecast was revised upward in the second and third quarters, as the number of new customer acquisitions increased significantly more than expected. Since then, the number has been growing beyond the revised projection.
- The number of new customer acquisitions for January 2023 reached a record high.



* Starting the three months ended February 28, 2023, the indicator of the “number of new acquisitions” has been renamed as the “number of new customer acquisitions” for clarity. The number of new customer acquisitions means the number of customers newly acquired and is recorded for each of our products. If a customer purchased more than one of our products, the same customer is recorded as a new customer acquisition for each of those products. This change to the term has no effect on the data because both indicators represent the same notion.

J NORTH FARM

Enhancement of Advertising Investment

For online sales, the amount of advertising investment and sales correlate

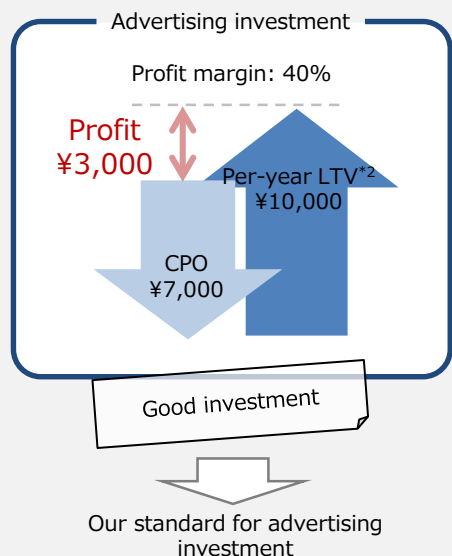


Prevent a decline in profitability due to excess advertising investment

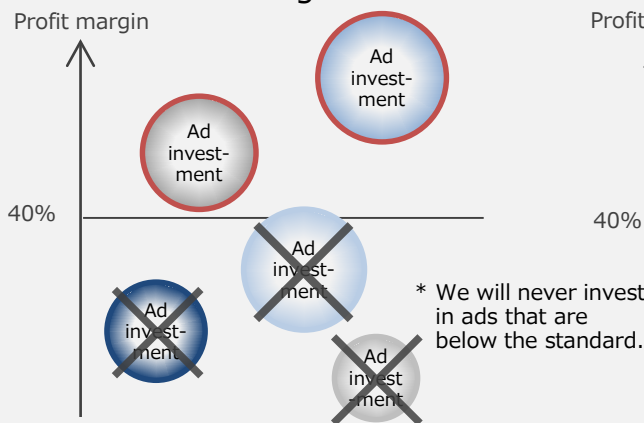
Set the CPO limit*1 to secure the required profit

It becomes possible to increase sales by enhancing advertising investment while maintaining profitability

Our method of setting the CPO limit and our advertising investment policy



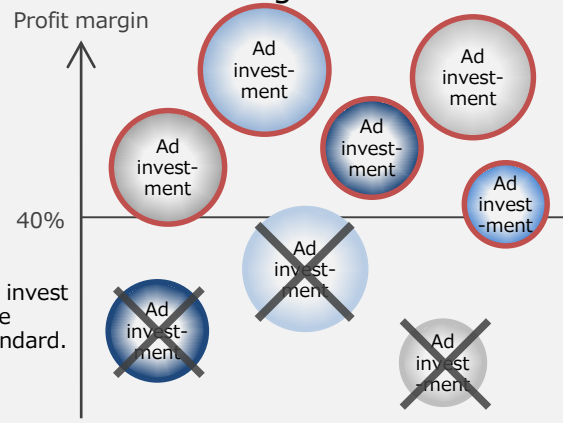
If there are only a few ads that are above the standard, we reduce the total amount of advertising investment



Our basic approach

- If we exceed the CPO limit, we reduce advertising investment and dial down promotion to acquire new customers.
- If new customer acquisitions continue to be achieved within the CPO limit, we enhance advertising investment in order to avoid opportunity loss and strive to increase future profit.

If there are many ads that are above the standard, we increase the total amount of advertising investment



Advertising expenses are the expenses arising from **upfront investments** to acquire customers. A loss due to **advertising expenses temporarily increases** as advertising investment increases.

*1 Upper limit of advertising expenses that can be used to acquire one new customer, calculated backward from the required profit, using the relationship between "CPO," which is the amount of advertising expenses required to acquire one new customer, and LTV.

*2 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).

J NORTH FARM

Enhancement of Advertising Investment

New customer acquisitions achieved below the COP limit far exceeded our expectations.

We revised our financial results forecast twice in the current fiscal year.

We updated our advertising investment plan.

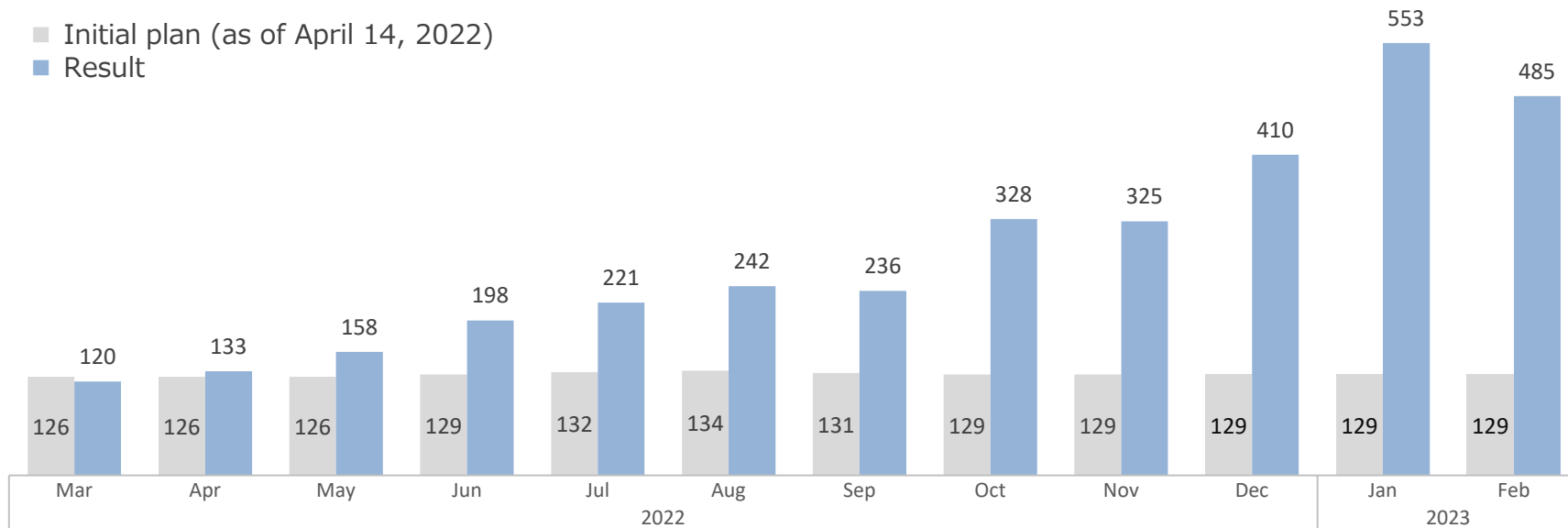
New customer acquisitions have grown beyond the revised projection.

The advertising expenses were ¥3,414 million, ¥1,859 million higher than the initial plan.

[Changes in advertising expenses]

(Millions of yen)

- Initial plan (as of April 14, 2022)
- Result



We enhanced advertising investment only when new customer acquisitions continued to be achieved within the CPO limit.



We consider the enhancement of advertising investment in the current fiscal year to be **positive** because it is expected to generate profit in the future.

J NORTH FARM

Factors contributing to the increase in new customer acquisitions

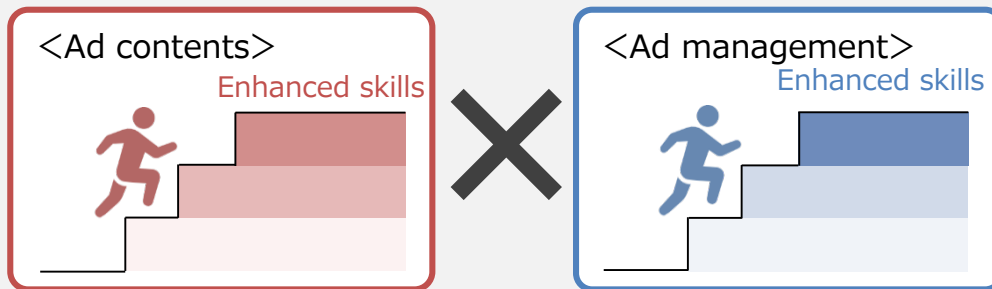
1. Our website*

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 current fiscal year

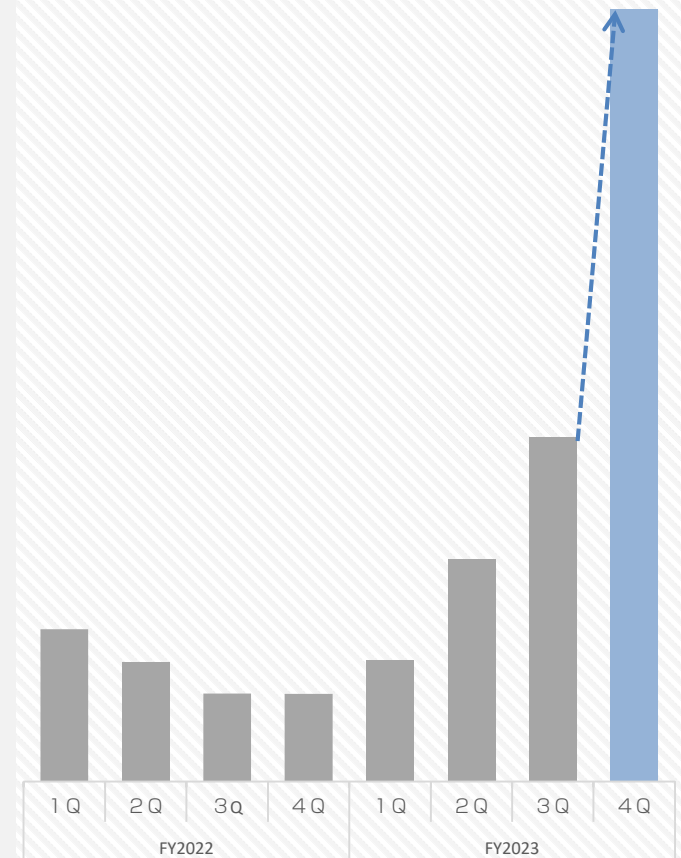


Number of new customer acquisitions through our website in 4Q:

YonY **+783%** QonQ **+124%**

[New customer acquisitions through our website]

QonQ **+124%**



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

1. Our website

◆ Ad contents

Increased new customer acquisitions

← [Product competitiveness
Good ad content 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



J NORTH FARM

Factors contributing to the increase in new customer acquisitions

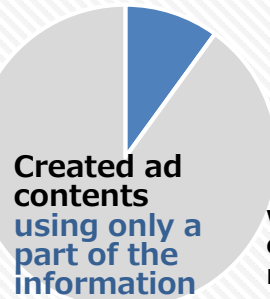
1. Our website

◆ Ad contents

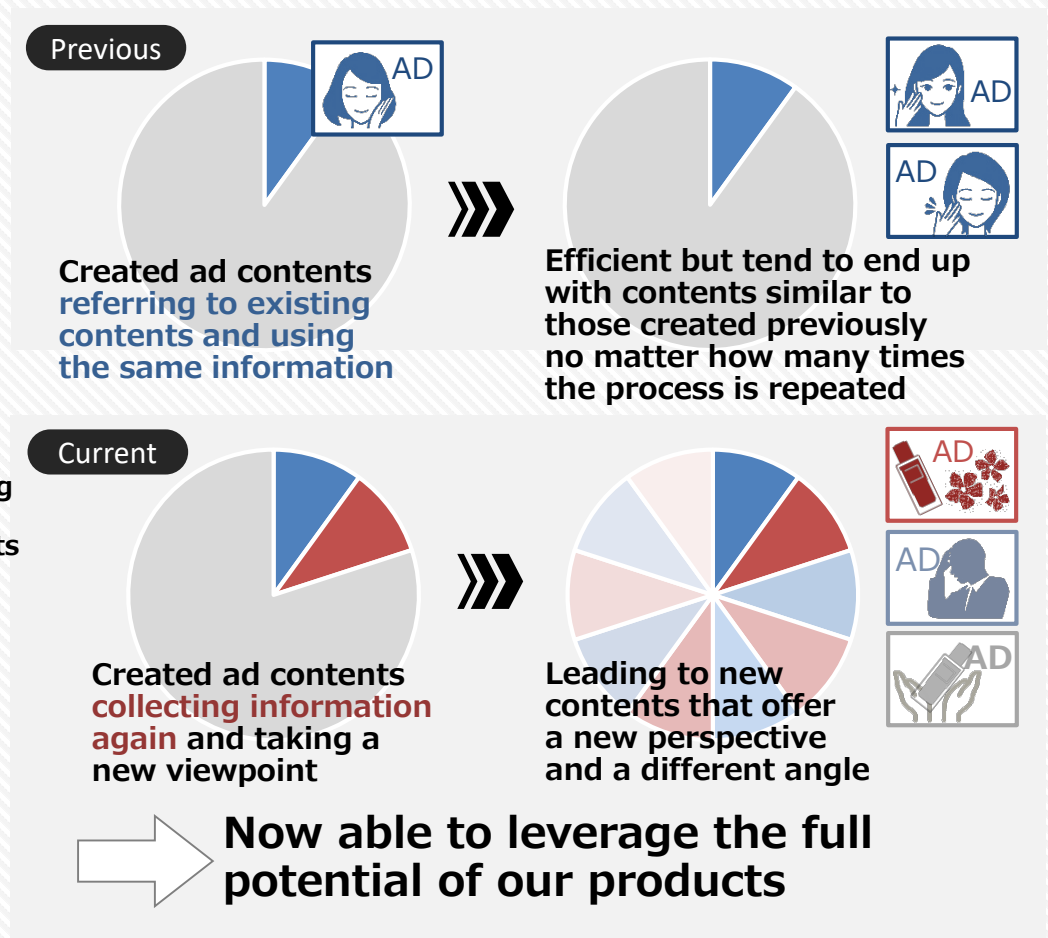
<How to create ad contents>

Product A (Information amount 100%)

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



when creating new ad contents



1. Our website

◆ Ad management

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

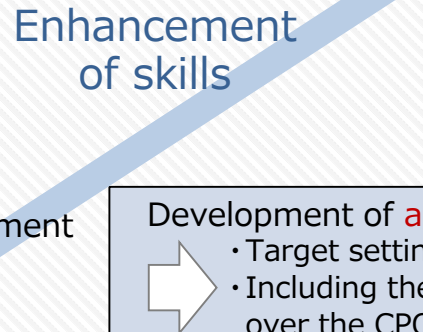


Generally, as the scale of advertising operations grows, ad management becomes more complicated and more difficult to do in house

[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.



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



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

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

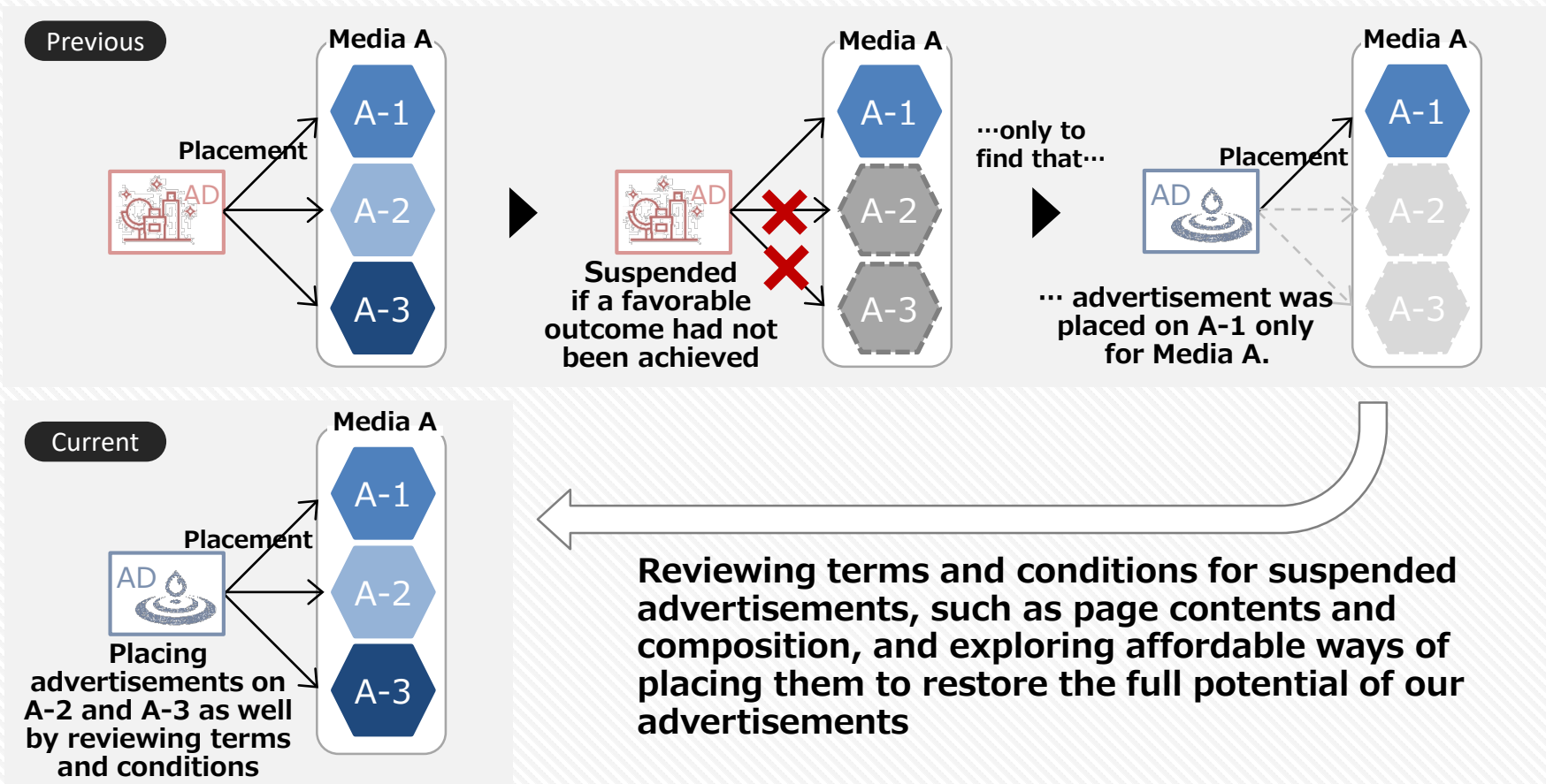
J NORTH FARM

Factors contributing to the increase in new customer acquisitions

1. Our website

◆ Ad management

<Improvement of advertisement placement>



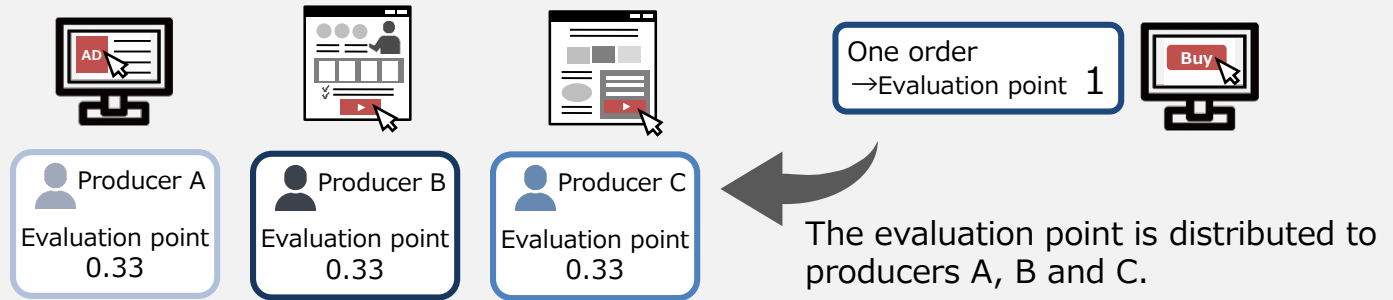
J NORTH FARM

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:

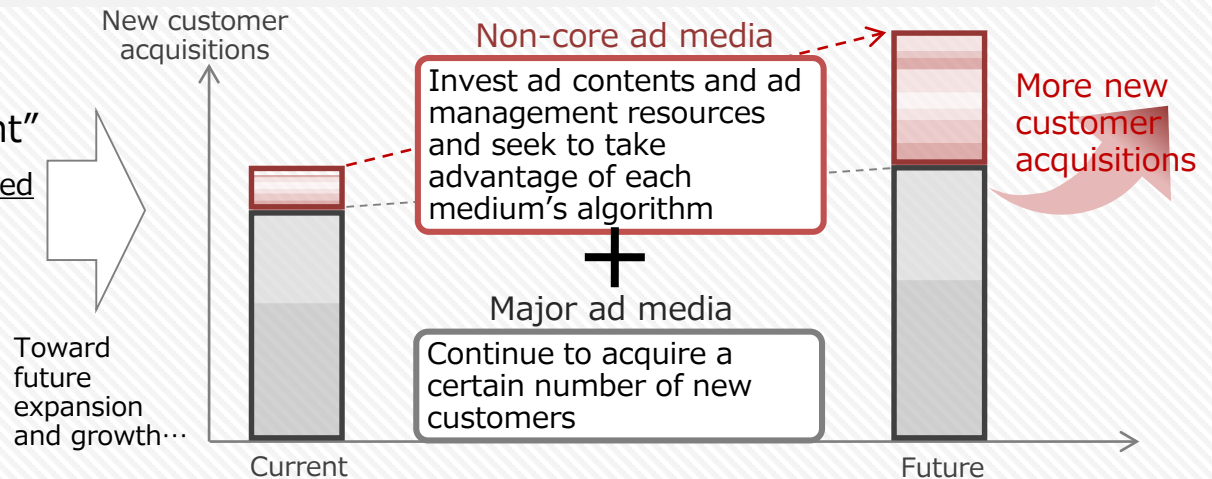


The evaluation system **accelerates the collaboration** "Ad contents x Ad management"

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



J NORTH FARM

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.

- ◆ 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

- **The number of new customer acquisitions increased 11% QonQ and 140% YonY**
- Marked the highest monthly sales at Amazon in January 2023 and at Rakuten Ichiba in February 2023

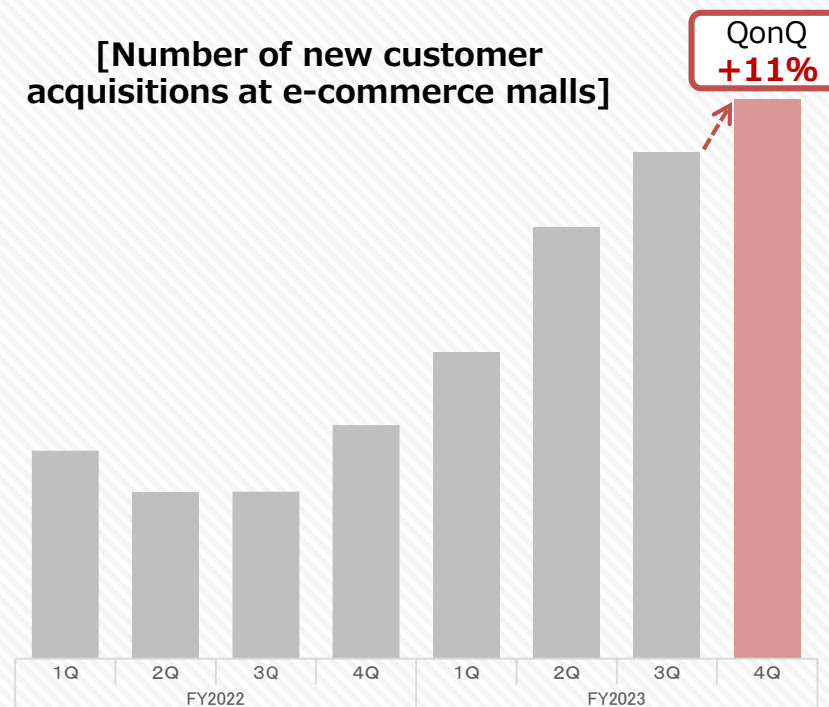
We will continue to strive to increase sales.

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 at e-commerce malls]

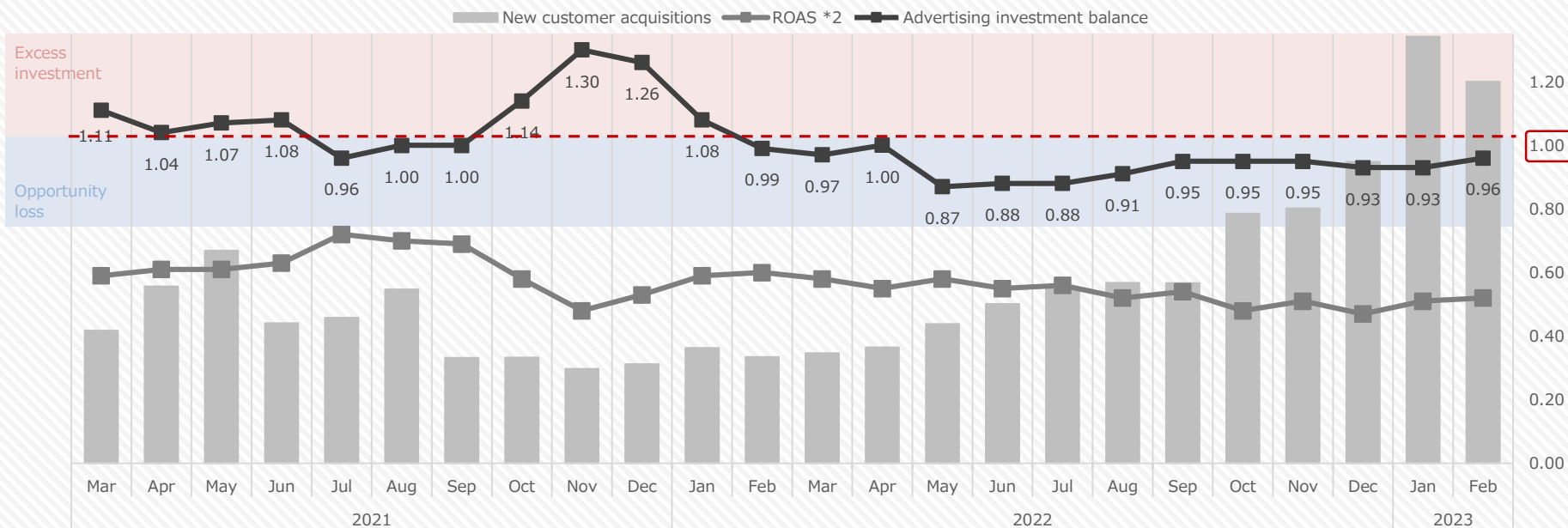


J NORTH FARM

Advertising investment efficiency

<Advertising investment balance*1>

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



ROAS is on a downward trend because the share of the products to which a high CPO limit can be assigned due to their high LTV, despite their low unit price, has increased. This trend is not an indication of decreased profitability.

We will continue to invest in advertising, aiming to achieve the advertising investment balance of 1.00, which is the optimal value of the indicator.

*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.

J NORTH FARM

Product launched in FY2023

Anti-aging care*¹ 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*² 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

J NORTH FARM

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



Revised

Release all products for “subscription purchase”

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 two of the seven products released for single purchase in the current fiscal year. One of these two products was launched in March 2023.

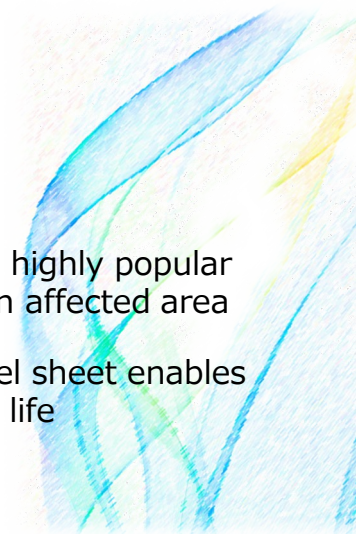


Hyaluronic acid gel sheet

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
- Launched in March 2023



<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



<New products launched in FY2023>



Mirror Double Ion Straight Hair Iron

- We have received a large number of orders for this product since the period of advance sales. This product was ranked first in Rakuten Ichiba's Rakuten overall real-time ranking.
- Launched on February 1, 2023



SALONMOON Hair Oil Mist

- The brand's first cosmetic product.
- Focusing on the development of cosmetic products that have a high affinity with beauty appliances
- Launched on April 1, 2022

We will continue to expand the portfolio of hair irons, one of our major product categories, and upgrade those products by making changes to their specifications, while also developing products in new categories of beauty appliances as we avoid narrowing our focus to hair irons alone.

<Group company>
SALONMOON Co., Ltd.

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

<Initiatives implemented in the current fiscal year>

◆ 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”

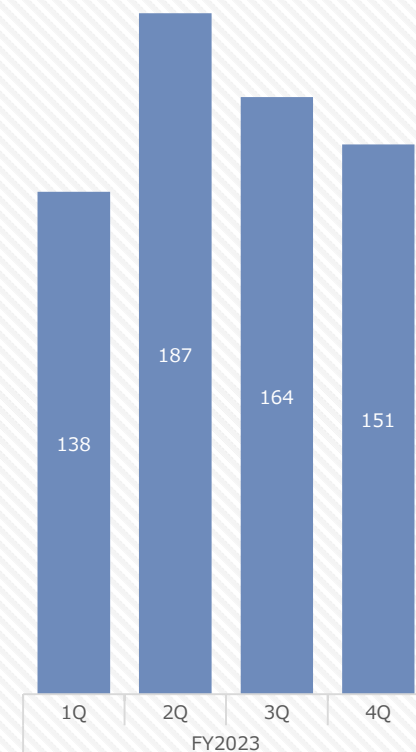
◆ Developed sales channels by starting store sales

Launched sales at home appliance mass merchandizers’ stores on April 28, 2022

◆ 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

[FY2023 quarterly sales]
 (millions of yen)



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

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

Consolidated Balance Sheets

(Millions of yen)

Subject/Section	FY2022 As of February 28, 2022	FY2023 As of February 28, 2023
(Cash and deposits)	5,210	4,828
Current assets	6,808	6,991
Non-current assets	747	787
Total assets	7,555	7,779
Current liabilities	1,235	1,375
Non-current liabilities	174	216
Total liabilities	1,409	1,592
Total net assets	6,146	6,187
Total liabilities and net assets	7,555	7,779

The main factors for the changes from the end of FY2022 were an increase in notes and accounts receivable – trade, and contract assets of ¥204 million and a decrease in cash and deposits of ¥382 million under assets and an increase in accounts payable – other of ¥493 million and a decrease in income taxes payable of ¥450 million under liabilities.

Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	FY2022 March 1, 2021 to February 28, 2022	FY2023 March 1, 2022 to February 28, 2023
Cash flows from operating activities	1,753	113
Cash flows from investing activities	197	-141
Cash flows from financing activities	-363	-363
Effect of exchange rate change on cash and cash equivalents	9	7
Net increase (decrease) in cash and cash equivalents	1,597	-382
Cash and cash equivalents at beginning of period	3,612	5,210
Cash and cash equivalents at end of period	5,210	4,828

The main factors for the changes during the fiscal year ended February 28, 2023 were profit before income taxes of ¥530 million, an increase in accounts payable – other of ¥492 million, income taxes paid of ¥768 million, and dividends paid of ¥347 million.

Current Situation and Future Developments

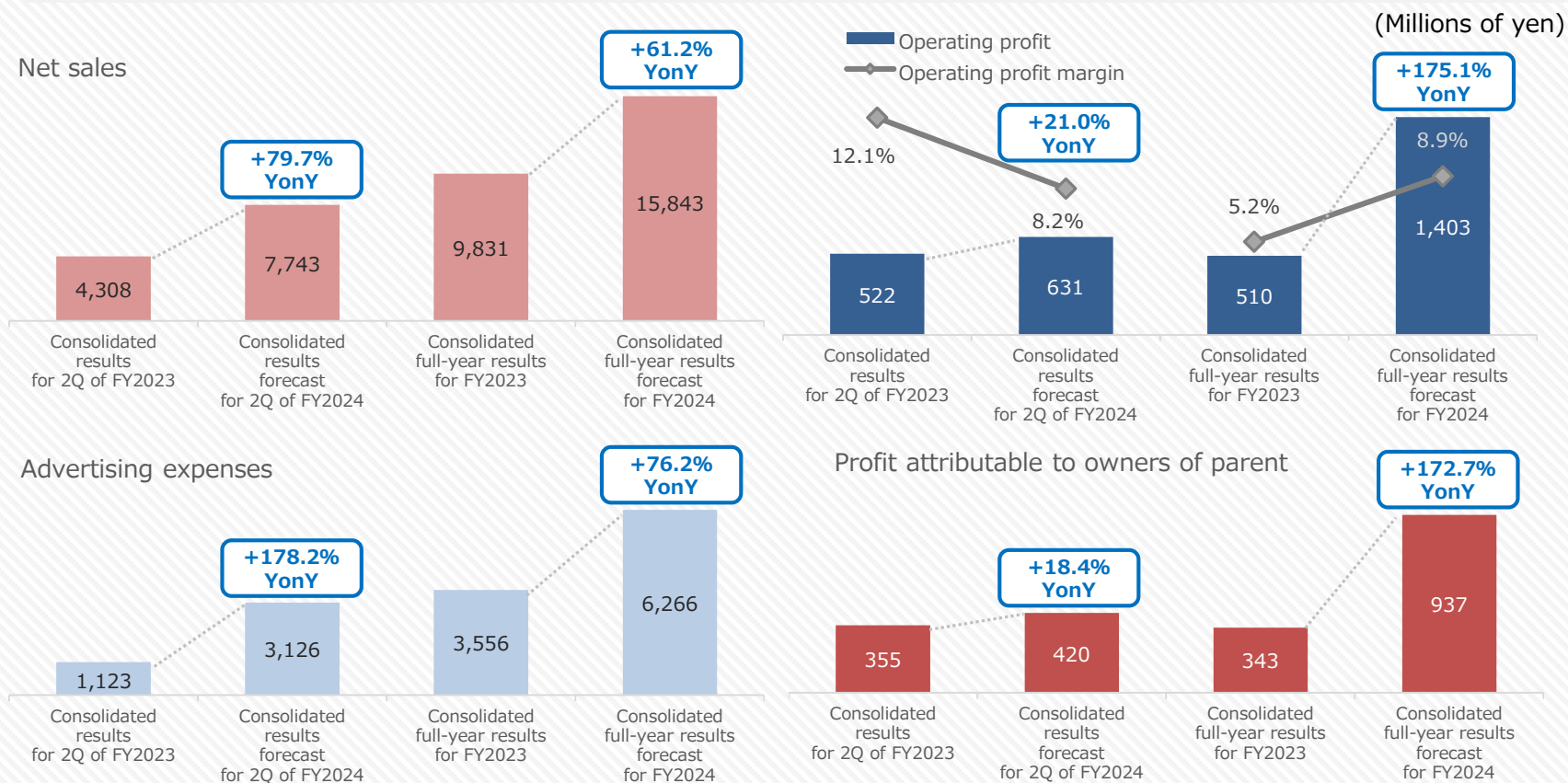


<Consolidated> Current Situation and Future Developments

◆ Forecast for FY2024

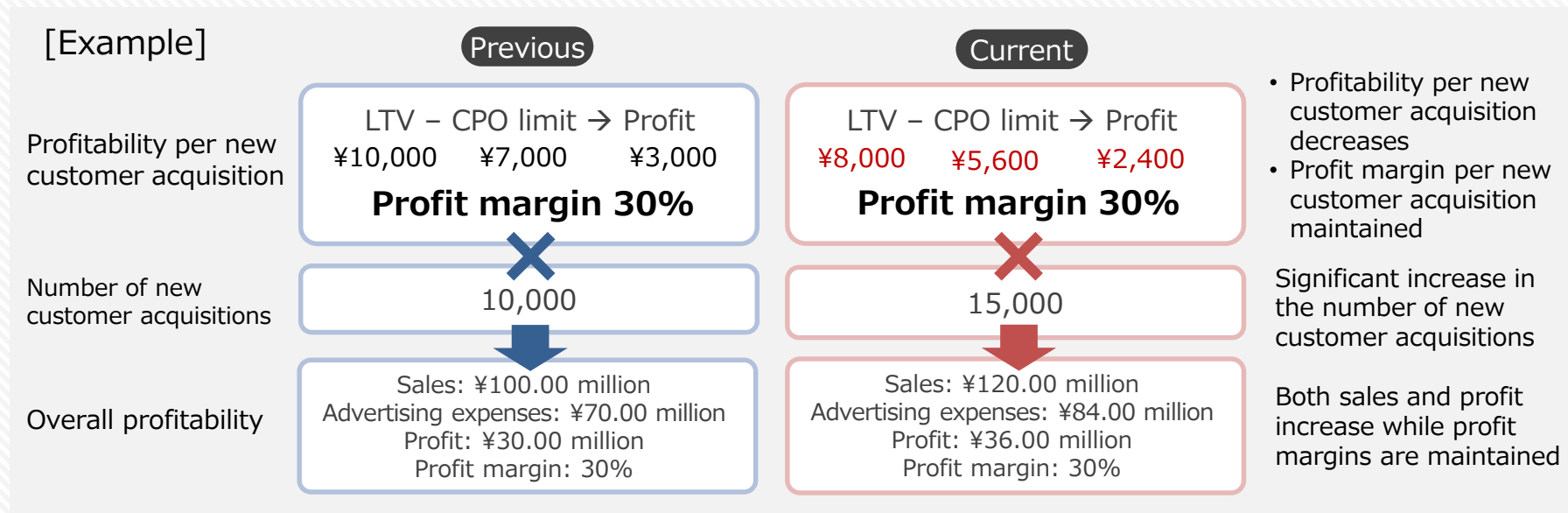
We will accelerate the implementation of our product and sales strategies and strive to increase new customer acquisitions by building up our workforce significantly and strengthening our organizational capabilities.

* This financial results forecast was prepared based on the assumption that the current state of new customer acquisition will remain unchanged. A future change in this state may impact financial results.



<Non-consolidated> Current Situation and Future Developments

- 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 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 has been lowered in line with the decrease in LTV.



[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

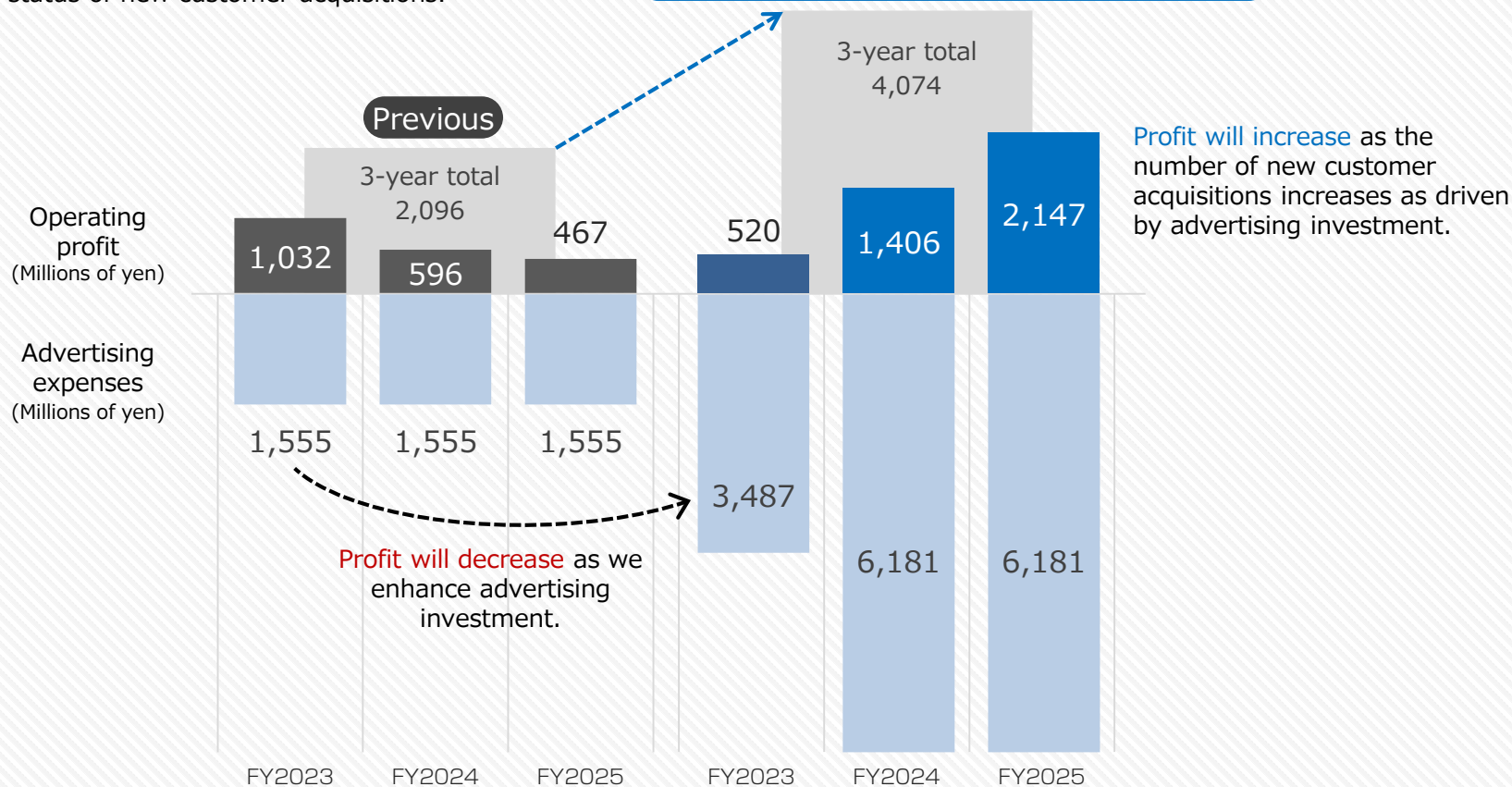
<Non-consolidated> Current Situation and Future Developments

<Profit simulation>

* These figures for FY2024 and FY2025 are the results of an updated simulation that is based on the current situation. They may vary depending on future changes in the status of new customer acquisitions.

Updated

An updated simulation shows that, as a result of the advertising investment we made in the current fiscal year, the total amount of profit for the three years through FY2025 would double.



If the pace of the acquisition of new customers achieved within the CPO limit is found to be greater than the current level, we will aggressively enhance advertising investment in expectation of future profit growth, and as a result, advertising expenses could be higher than the plan and profits lower than the forecast.

<Non-consolidated> Current Situation and Future Developments

◆ Building up workforce significantly and strengthening organizational capabilities

Product strategy

Continuously launch new products to create new demand

- Expand target categories for product development
- Designate OEMs in Japan as well as abroad
- Improve the success rate in the process from product planning to release
- Establish a system that enables us to implement multiple product development projects at the same time
- Consider strengthening our quality control system and production management system in addition to increasing our logistics centers



Sales strategy

Strive to increase new customers, while strictly managing profitability of advertising using our internally developed advertisement optimization system

- Further enhance sales promotion activities for our priority products
- Promote more products for sales expansion



Other

Step up workforce buildup and recruitment efforts for Customer Service Department, which is responsible for order taking and after-sales support services, as well as the back office divisions

We plan to increase our total workforce by approximately 20%.
The FY2024 non-consolidated financial results forecast predicts that personnel expenses will be ¥1,379 million, 37.2% higher year on year.

References



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.*	200 (18) people (As of February 28, 2023)

* The number of personnel. The number of temporary workers (including part-time workers) is shown in parenthesis, on an annual-average basis, and is not included in the number of officers and employees, etc.

Business Model

◆ Customer characteristics

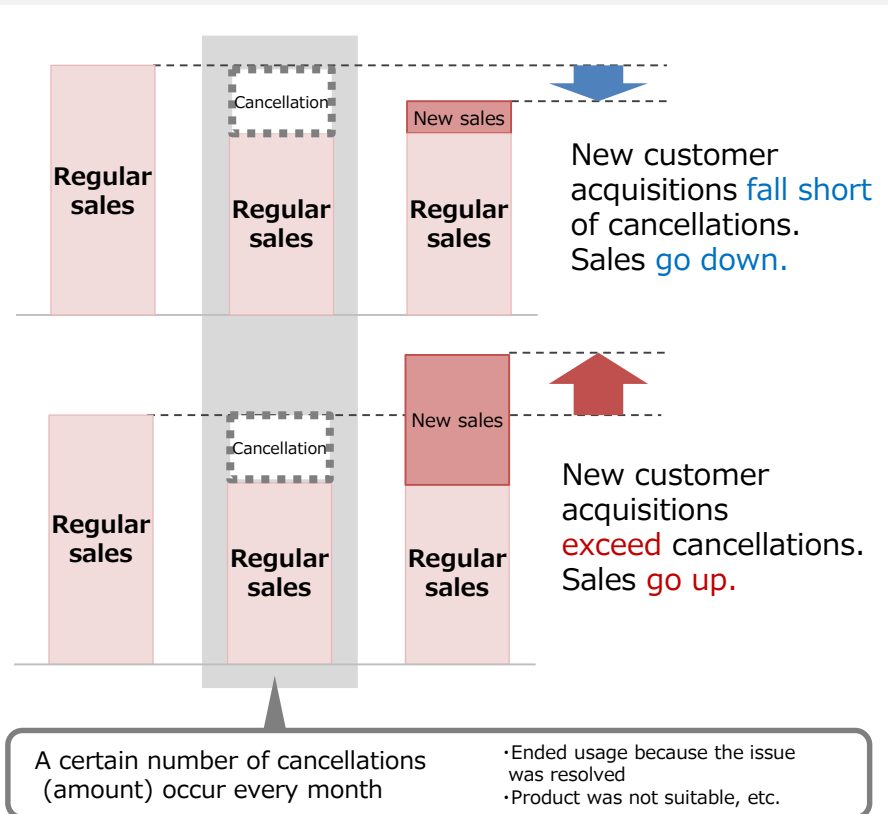
- The main customer base is men and women in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

[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

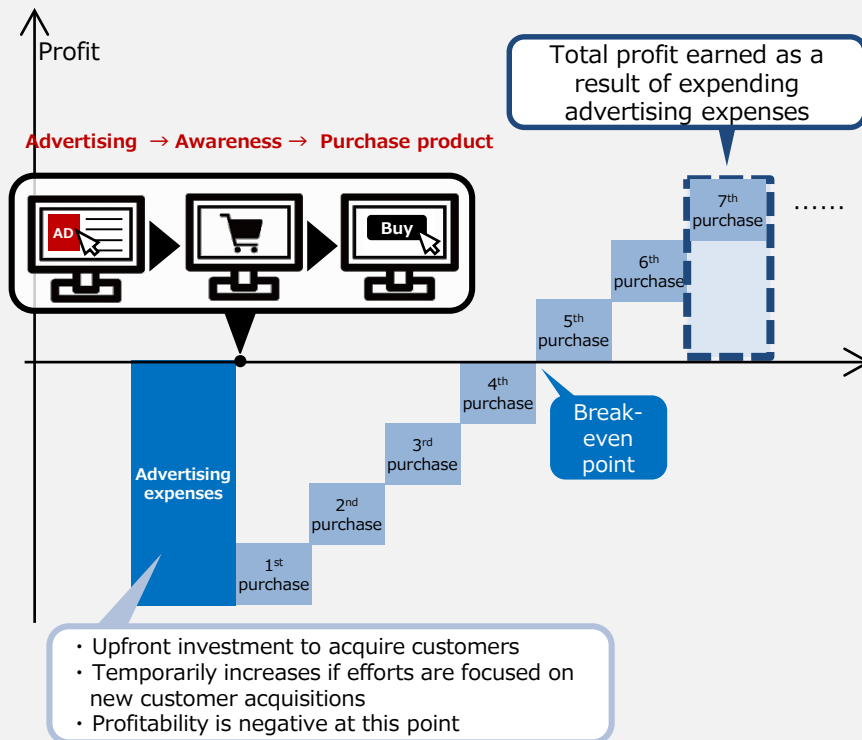


E-commerce channels

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

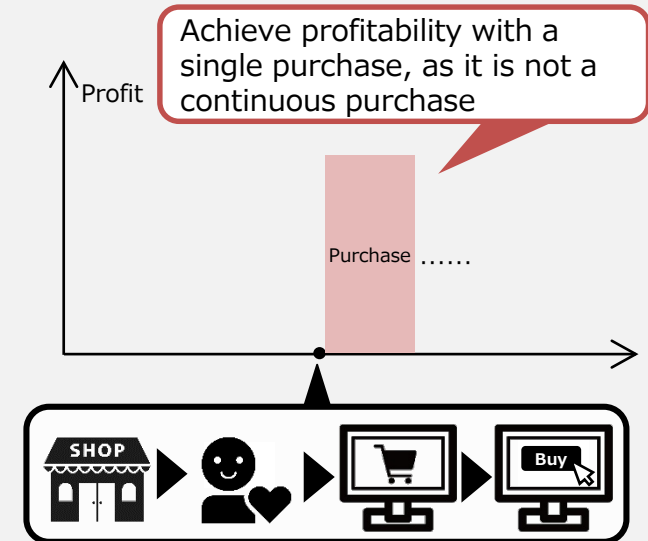
◆ Own website

- 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 35 **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



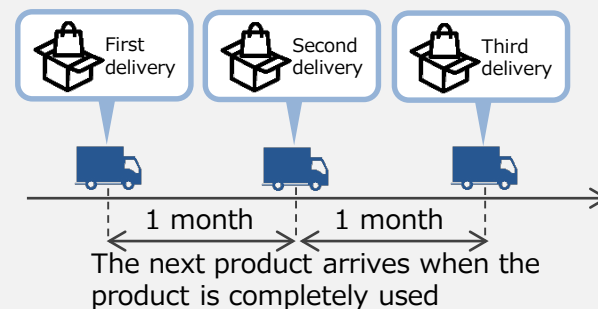
◆ Stringent product development standards

- 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]



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**



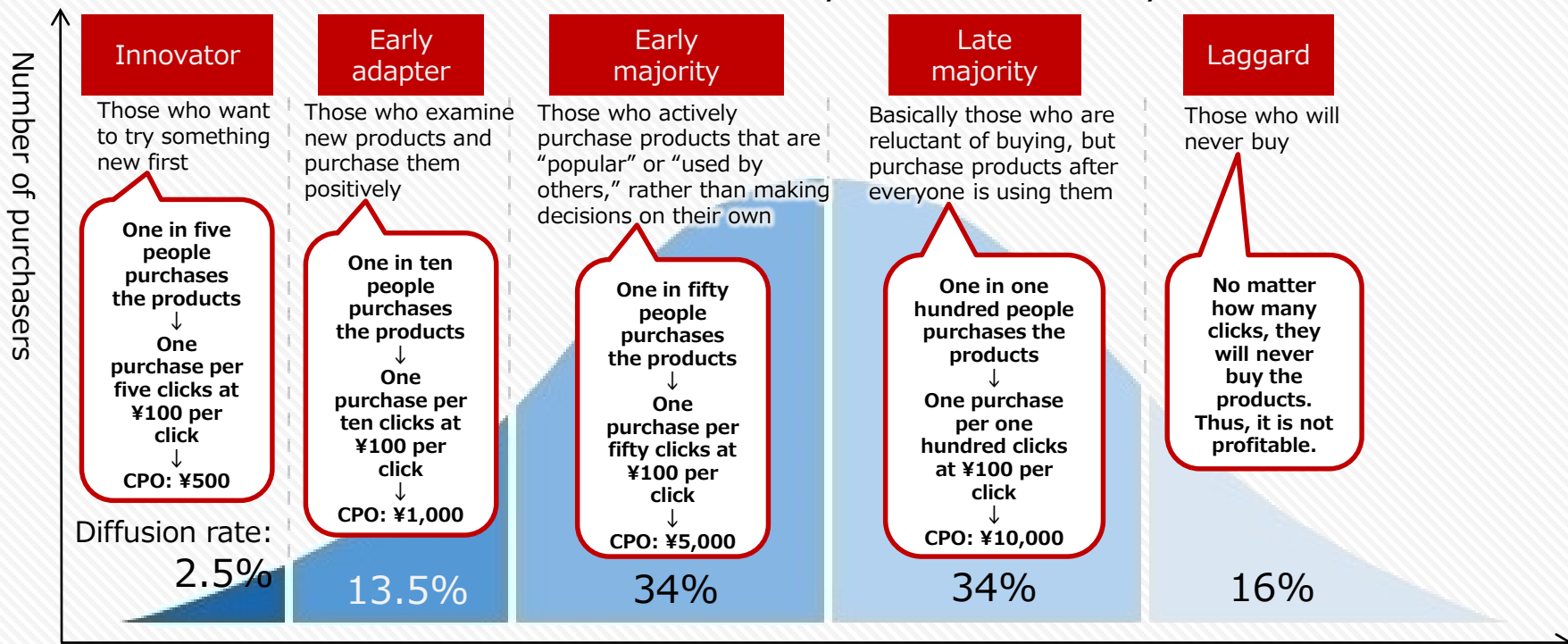
Sales Strategy

◆ Correlation between CPO and the number of new customer acquisitions

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

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

Consumer distribution by innovator theory



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

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

Sales Strategy

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

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

Gross profit by product

Mandatory cost per order

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

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

Personnel expenses for each product

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

Sales Strategy

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

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

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

➡ It is important to find the most profitable CPO

<In the case of LTV of ¥10,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer
Most profitable
Largest number of new customer acquisitions
Largest sales

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

<In the case of LTV of ¥12,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer
Most profitable
Largest number of new customer acquisitions
Largest sales

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

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

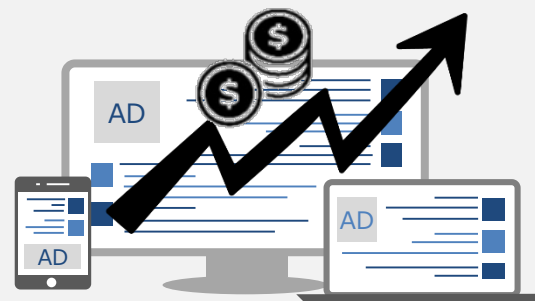
Sales Strategy

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

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

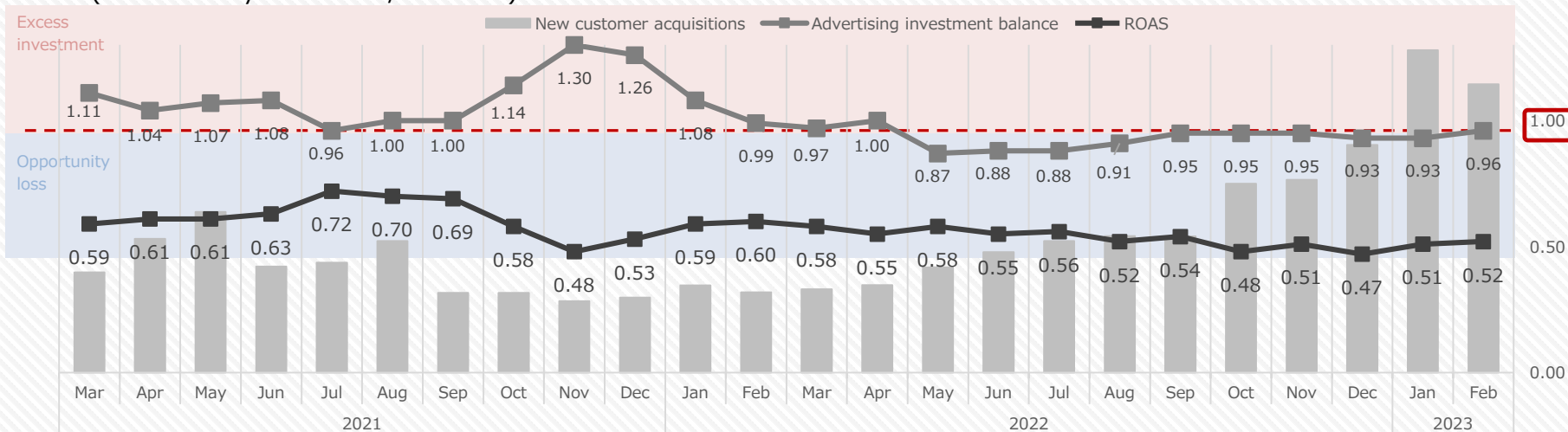
ROAS

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



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

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”

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>

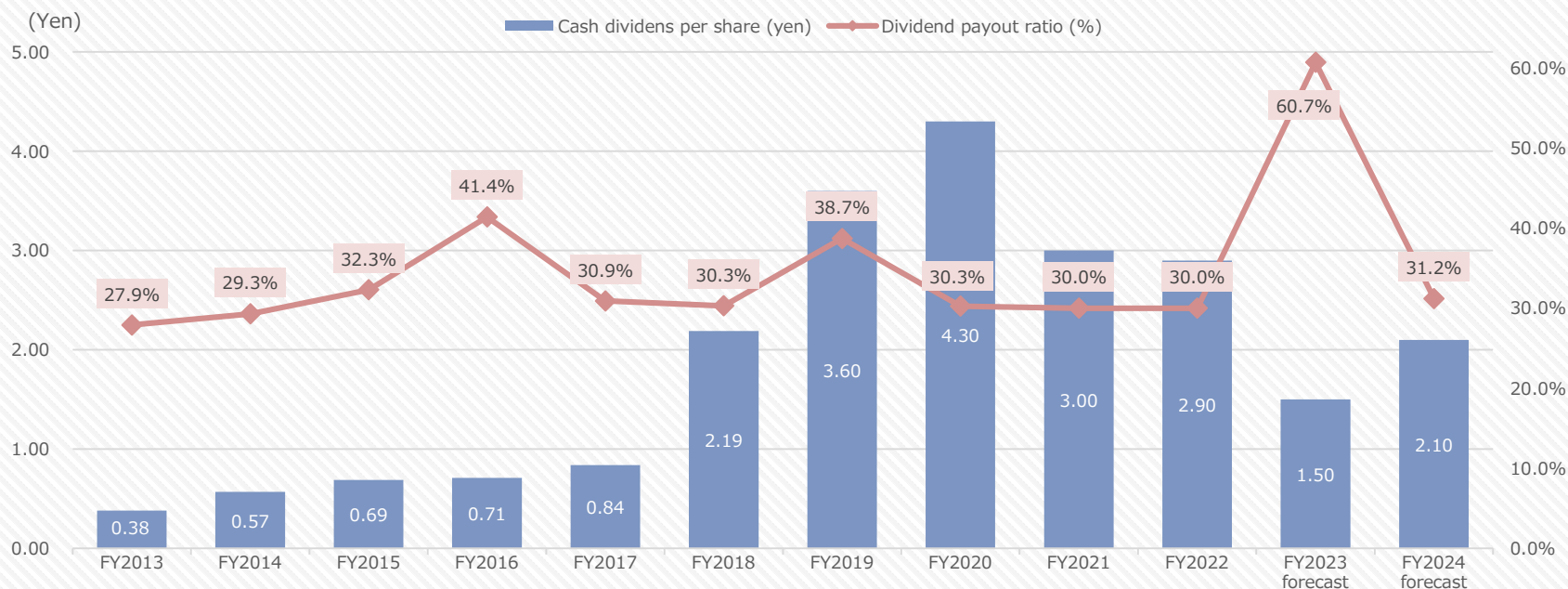
<p>The Law of Sales Minimization, Profit Maximization —Management Secrets for a 29% Profit Margin</p>	<p>FUNDAMENTALS X TECHNICAL MARKETING —83 Ways to Maximize the Results of Web Marketing</p>	<p>The Law of Time Minimization, Result Maximization —“A Capable Person’s Thinking Algorithm,” Installing One Story a Day</p>
<p>Released on June 16, 2021</p>	<p>Released on April 28, 2022</p>	<p>Released on November 16, 2022</p>
		

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.

The Company expects to pay an interim dividend of ¥0.90 and a year-end dividend of ¥1.20, for an annual dividend of ¥2.10 per share for FY2024.



(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 non-consolidated figures for the period up to FY2021 and consolidated figures for FY2022 and thereafter.

Other Indicators

	FY2016 (non-consolidated)	FY2017 (non-consolidated)	FY2018 (non-consolidated)	FY2019 (non-consolidated)	FY2020 (non-consolidated)	FY2021 (non-consolidated)	FY2022 (consolidated)	FY2023 (consolidated)
ROE (%) (return on equity)	18.0	24.8	48.8	48.9	54.2	29.1	21.8	5.6
ROA (%) (return on assets)	14.4	18.6	32.9	33.5	38.9	22.9	17.8	4.5
Equity ratio (%)	86.5	67.4	67.3	69.4	73.7	83.5	81.3	79.5
Dividend payout ratio (%)	41.4	30.9	30.3	38.7	30.3	30.0	30.0	60.7 (planned)
Cash dividends per share (yen)	0.71	0.84	2.19	3.60	4.30	3.00	2.90	1.50 (planned)
Number of shareholders	8,128	8,926	31,667	47,978	54,307	47,042	67,843	74,809

(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 FY2022 was 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

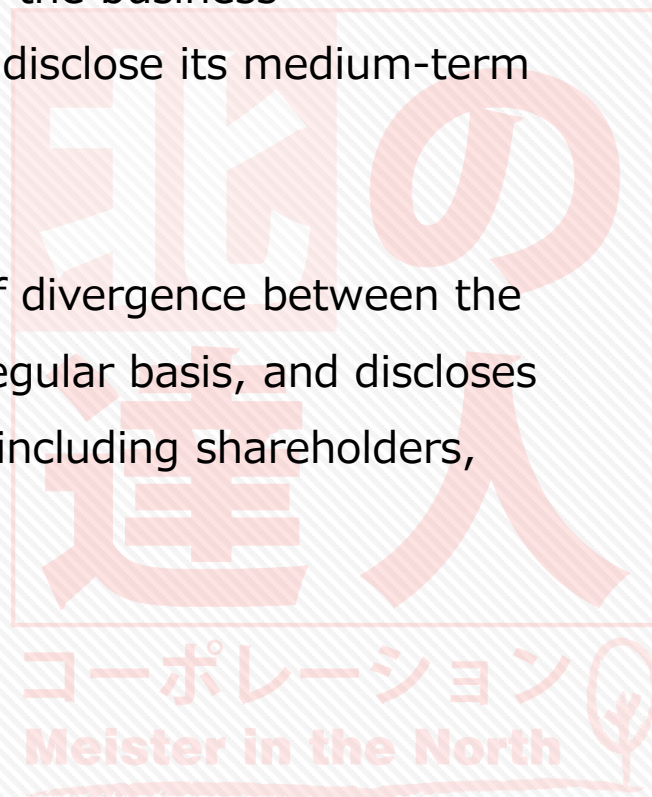
- November 2020: Awarded the “Asia’s 200 Best Under A Billion” in Forbes Asia
- September 2019: Awarded the Internet Shopping Award in the “Asia Direct Marketing Vision 2019”
- February 2017: Special E-Commerce Promotion Award Recipient at “Japan Venture Awards 2017” hosted by the Organization for Small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

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

