



Supplementary Material for the First Quarter of the Fiscal Year Ending February 28, 2024

Stock code: 2930
Kitanotatsujin Corporation
July 14, 2023

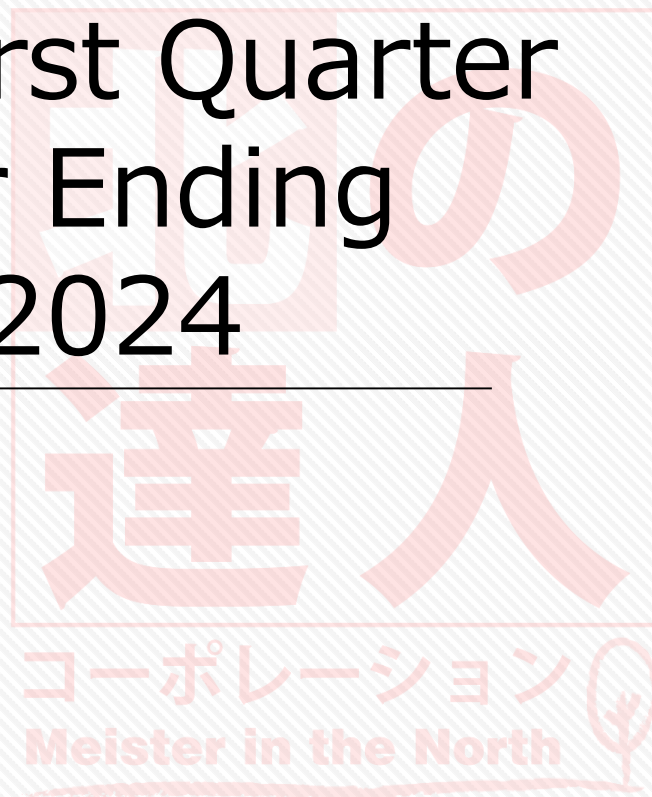
Executive Summary

- 👉 Quarterly net sales reached a record high with the number of new customer acquisitions showing steady growth and net sales for the first quarter coming in at ¥3,931 million (up 86.9% year on year).
- 👉 The enhancement of upfront advertising investment went forward as planned in order to increase future profit.
- 👉 Operating profit for the first quarter was -¥26 million (-109.0% change compared to the financial results forecast) due to a significant increase in advertising expenses as driven by increased advertising investment.

Table of Contents

1. Highlights for the First Quarter of the Fiscal Year Ending February 28, 2024 (P.4 -)
2. Analysis of Operating Results (P.7 -)
3. Consolidated Financial Results Forecast (P.27 -)
4. References (P.29 -)

Highlights for the First Quarter of the Fiscal Year Ending February 28, 2024



Consolidated
Key Performance Highlights [Compared with Forecasts]

(Millions of yen)


	Consolidated forecast for the first quarter	Results for the first quarter	Changes	Changes (%)
Net sales	3,835	3,931	+96	+2.5%
Gross profit	2,848	2,905	+56	+2.0%
Selling, general and administrative expenses	2,551	2,932	+380	+14.9%
Advertising expenses	1,561	1,882	+320	+20.5%
Operating profit	297	-26	-323	-109.0%
Operating profit margin	7.7%	-0.7%	-8.4 pts	
Ordinary profit	297	-21	-318	-107.1%
Profit attributable to owners of parent	197	-24	-222	-112.6%

- Quarterly net sales reached a record high with the number of new customer acquisitions showing steady growth.
- Operating profit, etc. fell into the red due to the significant increase in advertising expenses as driven by increased advertising investment.
- Three factors are involved in the decrease in operating profit contrasted with the increase in net sales (detailed on slides 11 and 15).

Consolidated

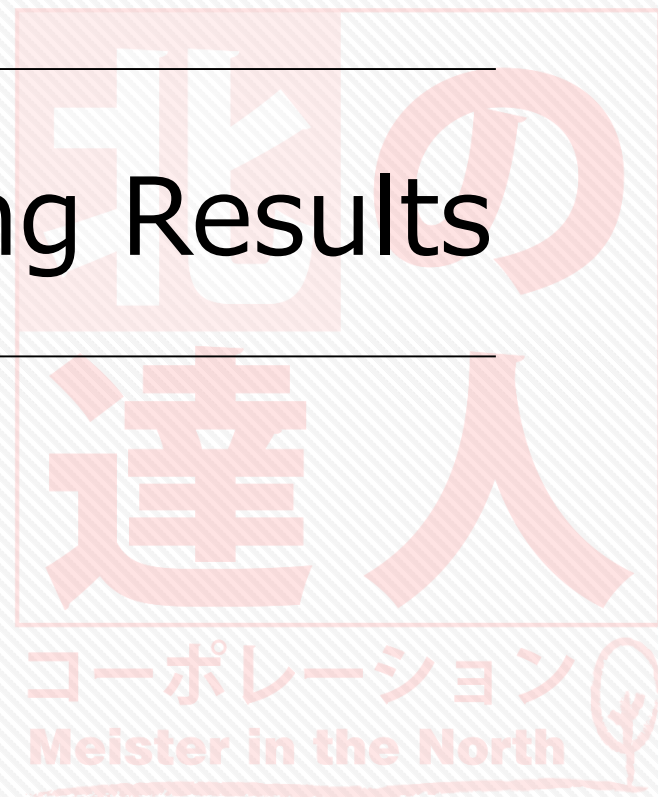
Net sales by segment and brand

(Millions of yen)

Segment	Brand name	Net sales		
		FY2023 1Q	FY2024 1Q	Changes (Changes (%))
Health & Beauty Care business	 北の快適工房 J NORTH FARM	1,845	3,558	+1,712 (+92.8%)
	 SALON MOON ^{Pro}	138	226	+88 (+63.9%)
	Other brands	3	37	+34 (+1,093.3%)
Others	-	116	108	-8 (-7.1%)
Total		2,103	3,931	+1,827 (+86.9%)

* 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.

Analysis of Operating Results



Non-consolidated

Sales profit and operating profit

Our own unique management accounting method allows us to identify the factors behind changes in profit for each product, and we have focused in on **sales profit** and **operating profit** as important performance evaluation indicators.

Sales profit

Sales profit = gross profit – sales promotion expenses, etc.

$$\left(\text{Order-linked costs}^{*1} + \text{New customer acquisition expenses}^{*2} \right)$$

- **Significantly impacted by the status of new customer acquisitions** as new customer acquisition expenses vary based on changes in the number of new customer acquisitions.
- Decrease in sales profit due to increase in new customer acquisition expenses is a positive factor.

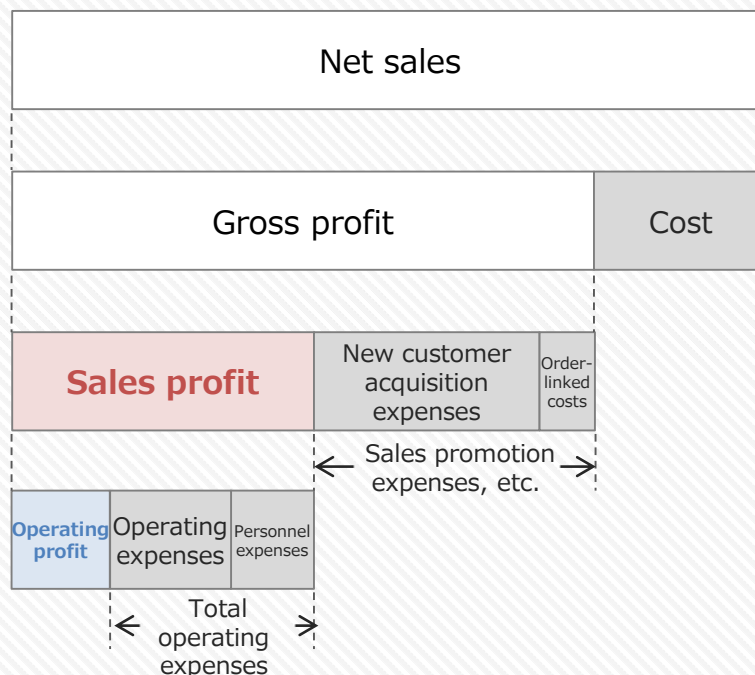
Operating profit

Operating profit = sales profit – total operating expenses

$$\left(\text{Personnel expenses} + \text{Operating expenses} \right)$$

Impacted by investments for future business expansion in addition to recent business results.

Management accounting structure to visualize profits for "each product"

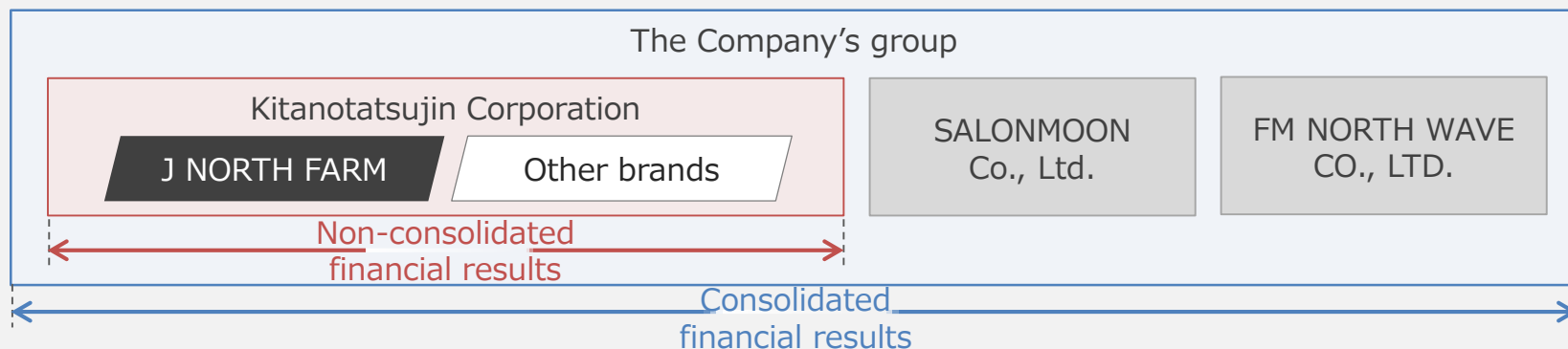


*1 Expenses that must be incurred for orders, including credit card transaction fees, shipping, packaging materials costs, enclosures and accessories, etc. Generally, these expenses remain at a certain ratio in relation to overall sales.
 *2 Expenses involved in the acquisition of new customers; primarily advertising expenses.

Non-consolidated

Key Performance

Non-consolidated financial results occupy a significant portion of our consolidated financial results.



(Millions of yen)

	Non-consolidated financial results		
	Forecast for the first quarter	Results for the first quarter	Changes
Net sales	3,554	3,596	+41
Gross profit	2,727	2,752	+25
Sales promotion expenses, etc.	1,758	2,128	+370
Sales profit	969	624	-344
Operating profit	304	-38	-342

<First quarter>

Operating profit was lower than the financial results forecast

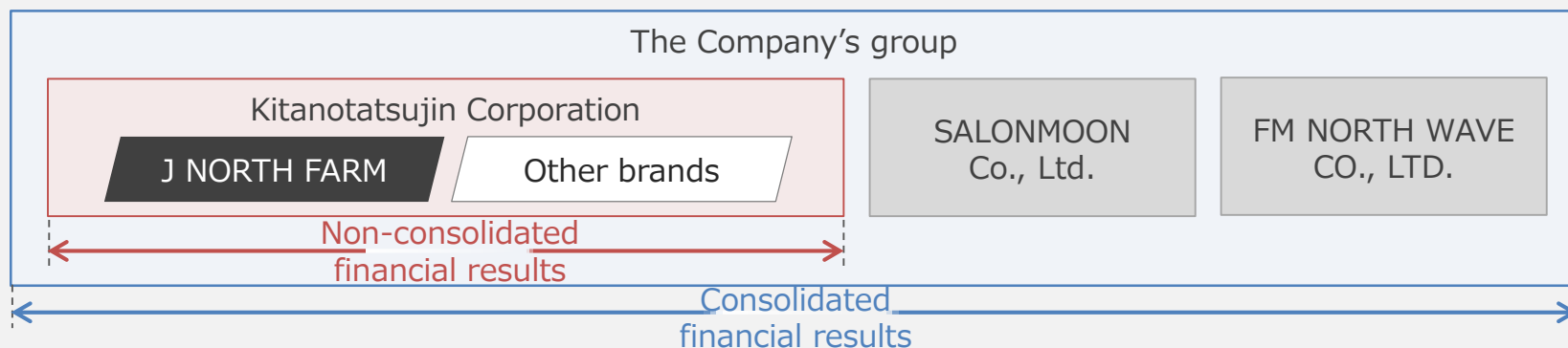
- Sales profit falling lower than the forecast was one factor behind this result
- Total operating expenses remained at the same level as projected

The difference in sales profit served as the main factor for failing to achieve the forecast for operating profit

Non-consolidated

Key Performance

Non-consolidated financial results consist of “J NORTH FARM” and “Other brands”



(Millions of yen)

	J NORTH FARM			Other brands		
	Forecast for the first quarter	Results for the first quarter	Changes	Forecast for the first quarter	Results for the first quarter	Changes
Net sales	3,510	3,558	+48	44	37	-6
Gross profit	2,702	2,731	+29	25	20	-4
Sales promotion expenses, etc.	1,715	2,032	+316	42	96	+53
Sales profit	986	699	-286	-17	-75	-58

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

(Millions of yen)

	Forecast for the first quarter	Results for the first quarter	Changes
Net sales	3,510	3,558	+48
● Difference resulting from the effect of delayed deliveries on the financial results forecast → Factor #1			
Net sales	320	188	-132
Gross profit	246	144	-102
Sales promotion expenses, etc.	19	18	-0
Sales profit	227	125	-101
● Difference in regular and other sales			
Net sales	2,289	2,297	+7
Gross profit	1,762	1,763	+1
Sales promotion expenses, etc.	137	143	+6
Sales profit	1,625	1,620	-4
● Difference in new sales → Factor #2			
Net sales	900	1,073	+173
Gross profit	692	823	+130
Sales promotion expenses, etc.	1,559	1,870	+310
Sales profit	-866	-1,046	-179
ROAS*	59.8%	60.8%	-
Sales profit	986	699	-286

- Difference resulting from including an incorrect amount in the forecasts representing sales that were expected to be recorded for the current fiscal year for some products that had delayed deliveries.

- Net sales and sales profit were both lower than the financial results forecasts.

- Difference in values projected for regular and other sales.

- Minimal impact and within the margin of error.

- New customer acquisition was strong, with investment in new customer acquisition expenses that exceeded projections and new sales that were 19% higher than the forecast.

- Despite increased new customer acquisition expenses, **the situation was positive as ROAS remained in line with expectations and we were able to enhance upfront investment while maintaining advertising investment efficiency.**

* ROAS stands for Return On Advertising Spend, which is an indicator of advertising investment efficiency that measures how much sales are generated from advertising. In this case, this figure is calculated using "sales from new customer acquisitions" and "new customer acquisition expenses" included under sales promotion expenses, etc. If ¥1 million was used for new customer acquisition expenses, and ¥900 thousand of sales was generated, the ROAS is 0.90 (90.0%). 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.

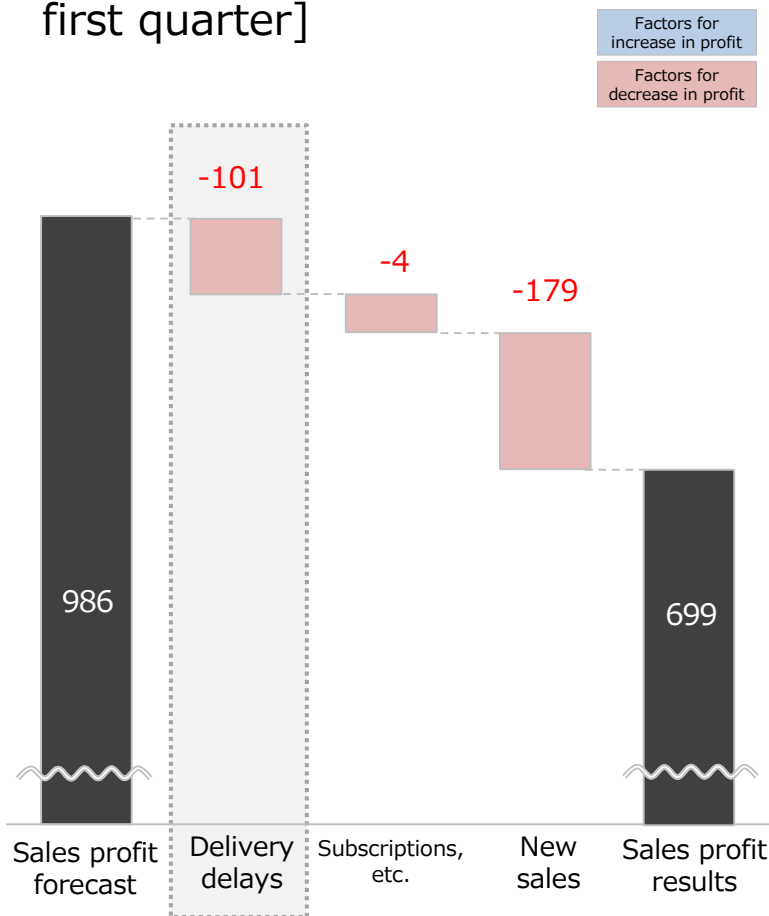
Non-consolidated

J NORTH FARM

Factors behind change in sales profit

[Results for the first quarter]

(Millions of yen)



- Difference resulting from the effect of delayed deliveries on the financial results forecast → **Factor #1**
- This difference was a result of including an incorrect amount in the financial results forecasts representing sales that were expected to be recorded for the current fiscal year for some products that had delayed deliveries (formulation error).
- Net sales and sales profit were lower than the financial results forecasts by ¥132 million and ¥101 million, respectively.

(Millions of yen)

	Forecast for the first quarter	Results for the first quarter	Changes
Net sales	320	188	-132
Gross profit	246	144	-102
Sales promotion expenses, etc.	19	18	-0
Sales profit	227	125	-101

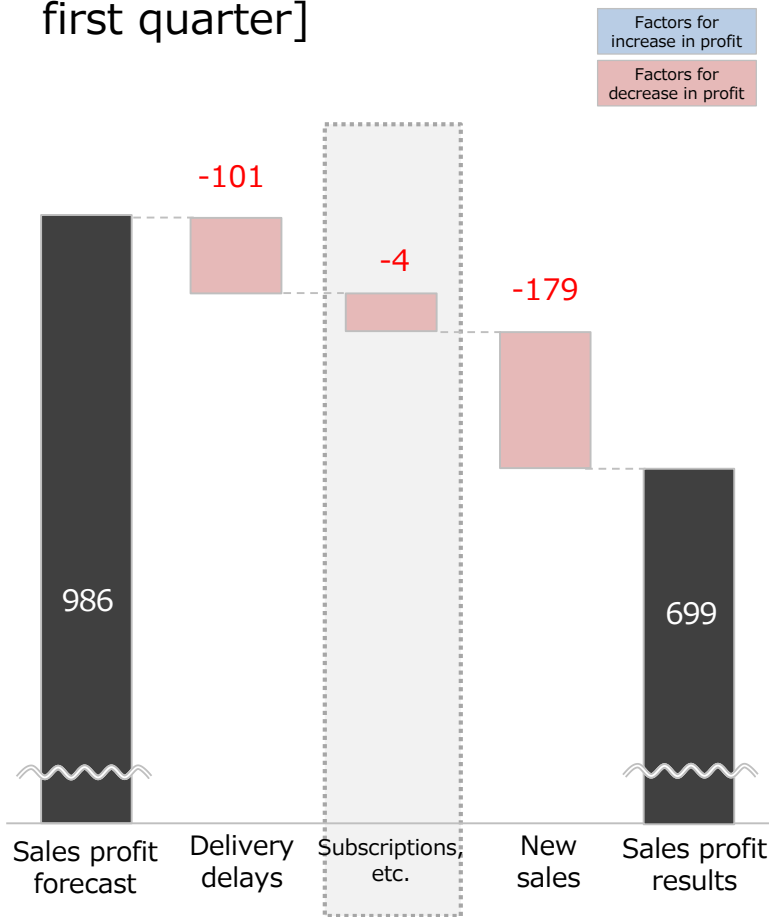
Non-consolidated

J NORTH FARM

Factors behind change in sales profit

[Results for the first quarter]

(Millions of yen)



● Difference in regular and other sales

- There were differences in the projections for regular and other sales.
- Sales profit was lower than the forecast, but the financial impact was minimal.

(Millions of yen)

	Forecast for the first quarter	Results for the first quarter	Changes
Net sales	2,289	2,297	+7
Gross profit	1,762	1,763	+1
Sales promotion expenses, etc.	137	143	+6
Sales profit	1,625	1,620	-4

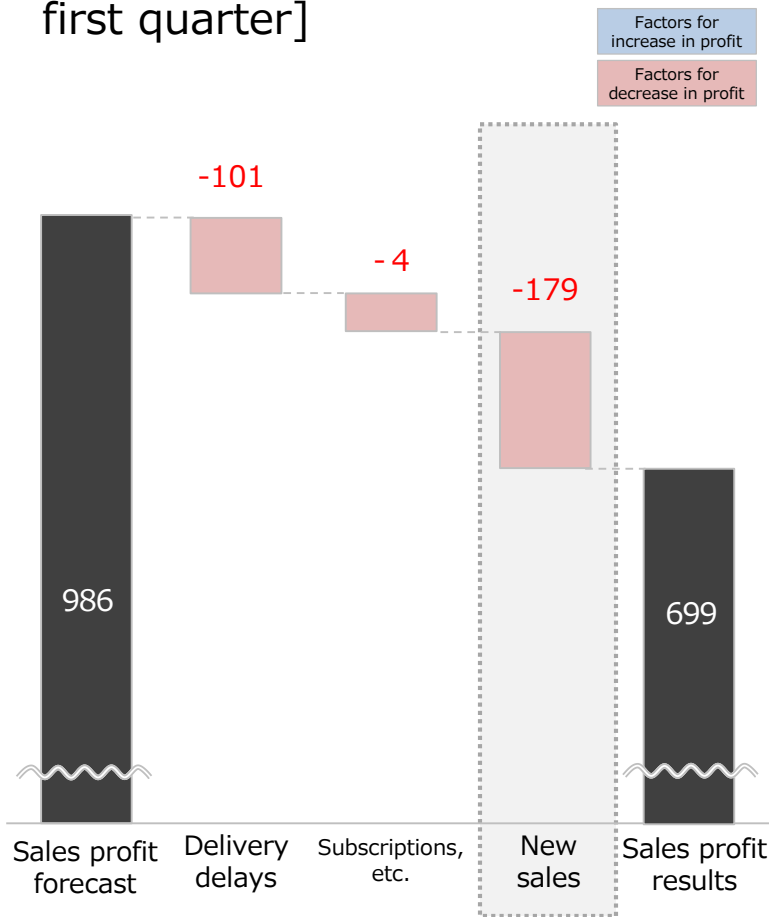
Non-consolidated

J NORTH FARM

Factors behind change in sales profit

[Results for the first quarter]

(Millions of yen)



● Difference in new sales → Factor #2

- New customer acquisition was strong, with investment in new customer acquisition expenses that exceeded projections and new sales that were 19% higher than the forecast.
- Although gross profit increased due to increased sales, the difference with the amount of increase in sales promotion expenses, etc. was lower than the forecast for sales profit.
- Despite increased new customer acquisition expenses, the situation was positive as ROAS remained in line with expectations and we were able to enhance upfront investment while maintaining advertising investment efficiency.

(Millions of yen)

	Forecast for the first quarter	Results for the first quarter	Changes (Changes (%))
Net sales	900	1,073	+173 (+19.2%)
Gross profit	692	823	+130 (+18.9%)
Sales promotion expenses, etc.	1,559	1,870	+310 (+19.9%)
Sales profit	-866	-1,046	-179 (-20.7%)
ROAS	59.8%	60.8%	-

Non-consolidated

Other brands

New Business Planning Office

Established to create major brands following J NORTH FARM and SALONMOON

- Program for launching new brands and D2C businesses
- Recruitment of multiple staff members who possess excellent business plans and passion for entrepreneurship

<Results of other brands> (Millions of yen)

	Forecast for the first quarter	Results for the first quarter	Changes
Net sales	44	37	-6
Gross profit	25	20	-4
Sales promotion expenses, etc.	42	96	+53
Sales profit	-17	-75	-58



SPADE, a brand launched in October 2021

- Handles a nicotine and tar-free e-cigarette that produces no secondhand smoke
- Starting to get on the track forward as the number of new customer acquisitions in the first quarter significantly exceeded expectations

◆ Device, etc. updates

- Joint development with a company that is responsible for manufacturing devices for major e-cigarette manufacturers is expected to have the effect of significantly shortening lead times involved in the manufacturing process, improving cost rates, etc.
- Delivery of devices to customers was scheduled to roll out in May 2023, but has been postponed to start in or after June 2023

→ In order to prevent opportunity loss, only pre-orders will be accepted for the first quarter

→ Although sales which should have already been recorded in the first quarter were not actually recorded, advertising expenses were already recorded, bringing in sales profit that was lower than the financial results forecast

Factor #3

- ◆ Ban lifted on advertisements for e-cigarette related products in major ad media sources where promoting these products had been prohibited
- ◆ Improvement of investment efficiency through the expertise accumulated from our long-standing ad media

Non-consolidated

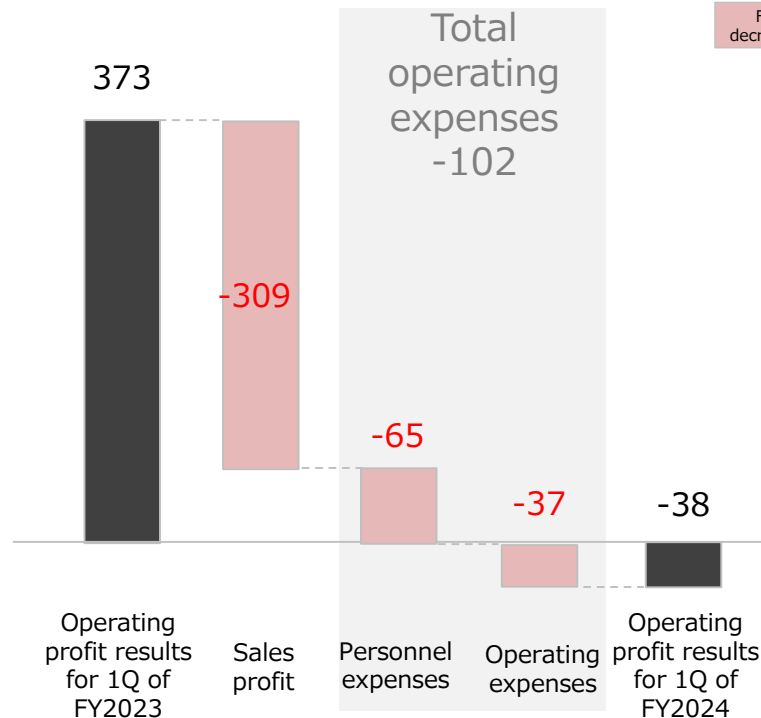
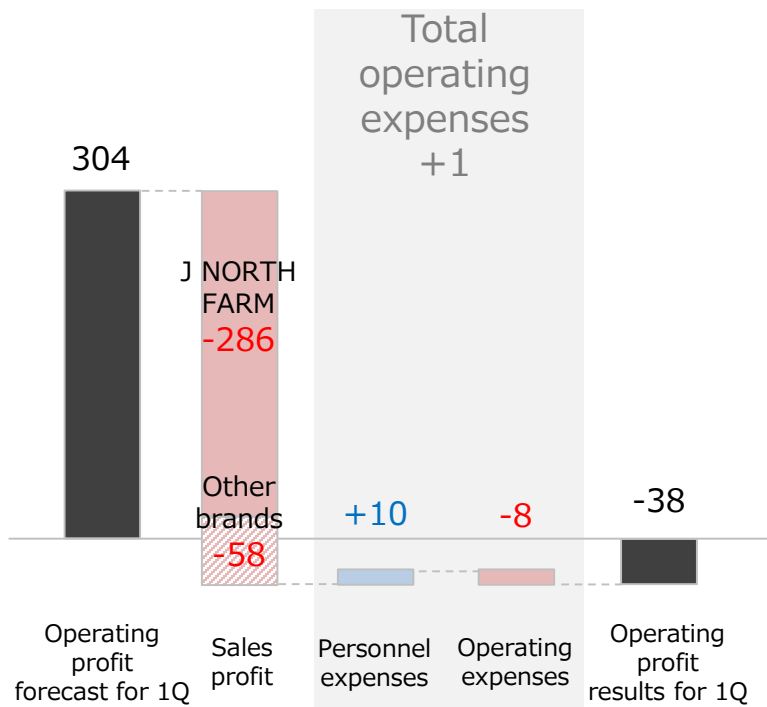
Factors behind change in operating profit

[Compared with financial results forecast: -342]

[Compared year on year: -411]

(Millions of yen)

Factors for increase in profit
Factors for decrease in profit



<Total operating expenses>
Investment in business expansion

- (Year on year) Increased workforce in line with strengthened recruitment
- System improvements to increase sales

Non-consolidated

J NORTH FARM

Each indicator and main customer acquisition channels

<Main acquisition channels>



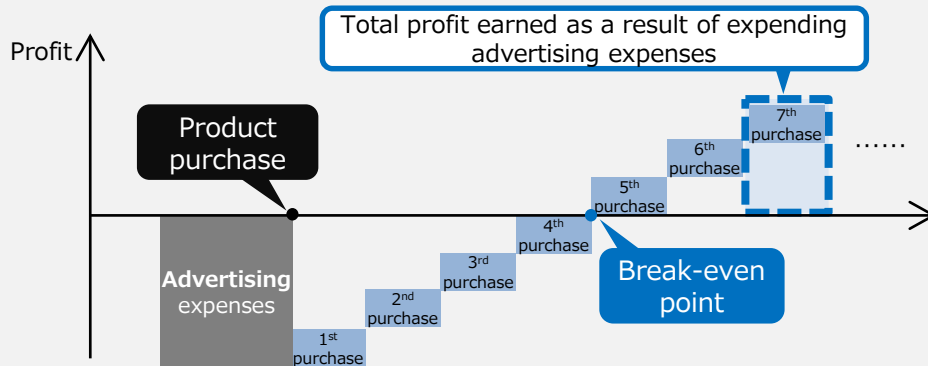
•Ratio of customer acquisitions from our own ads has increased
 •Ability to accurately measure investment efficiency in the Company

➔ **Advertising investment efficiency indicators only include data on customer acquisitions from our own ads**

<Difference between monetization schemes by channel>

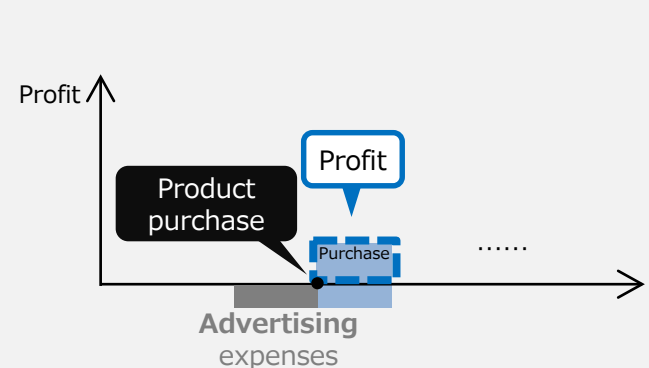
Our website

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



E-commerce malls

Unit-purchase business model in which profitability is achieved with a single purchase, not a continuous purchase



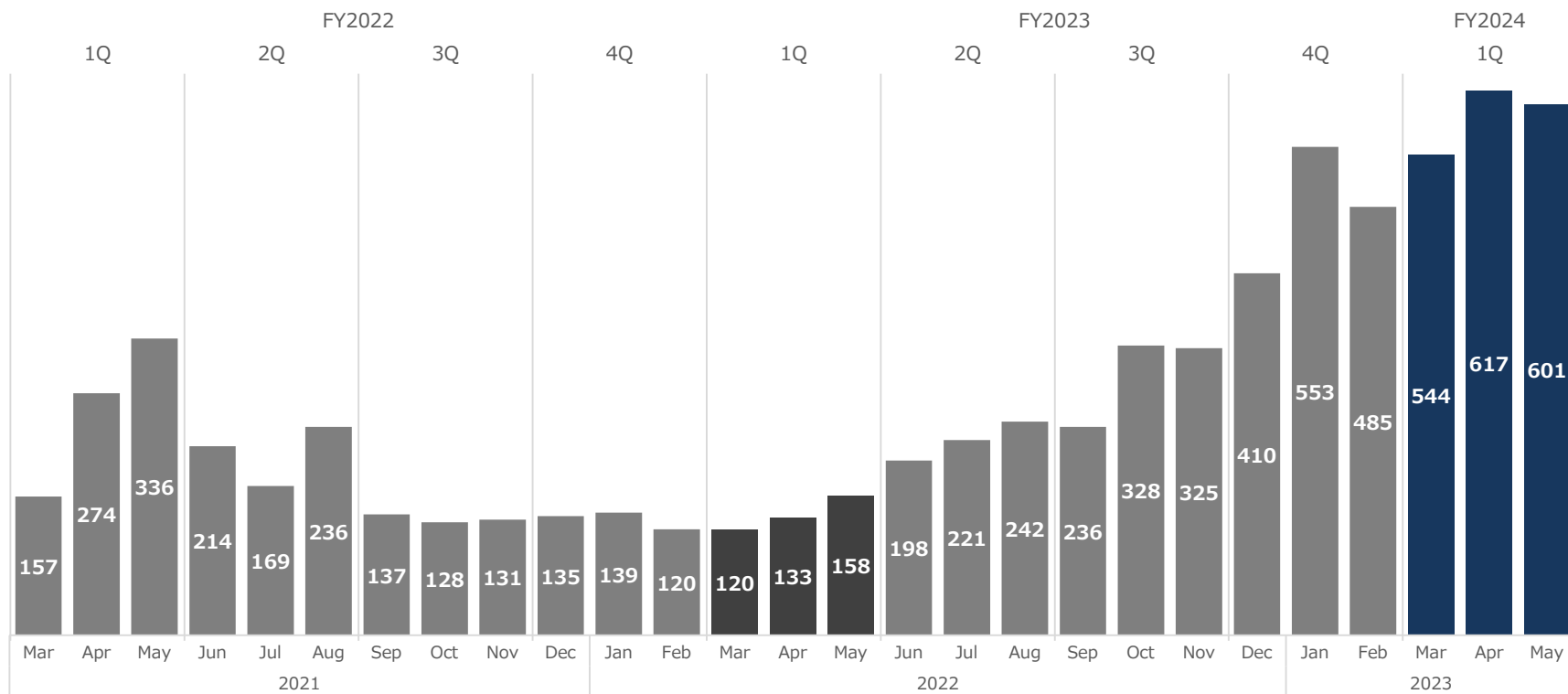
* "Our website, etc." includes the number of new customer acquisition (as well as a portion of orders made by phone, etc.) from all e-commerce websites operated by the Company, excluding e-commerce malls.

Non-consolidated

J NORTH FARM

Changes in advertising expenses

(Millions of yen)



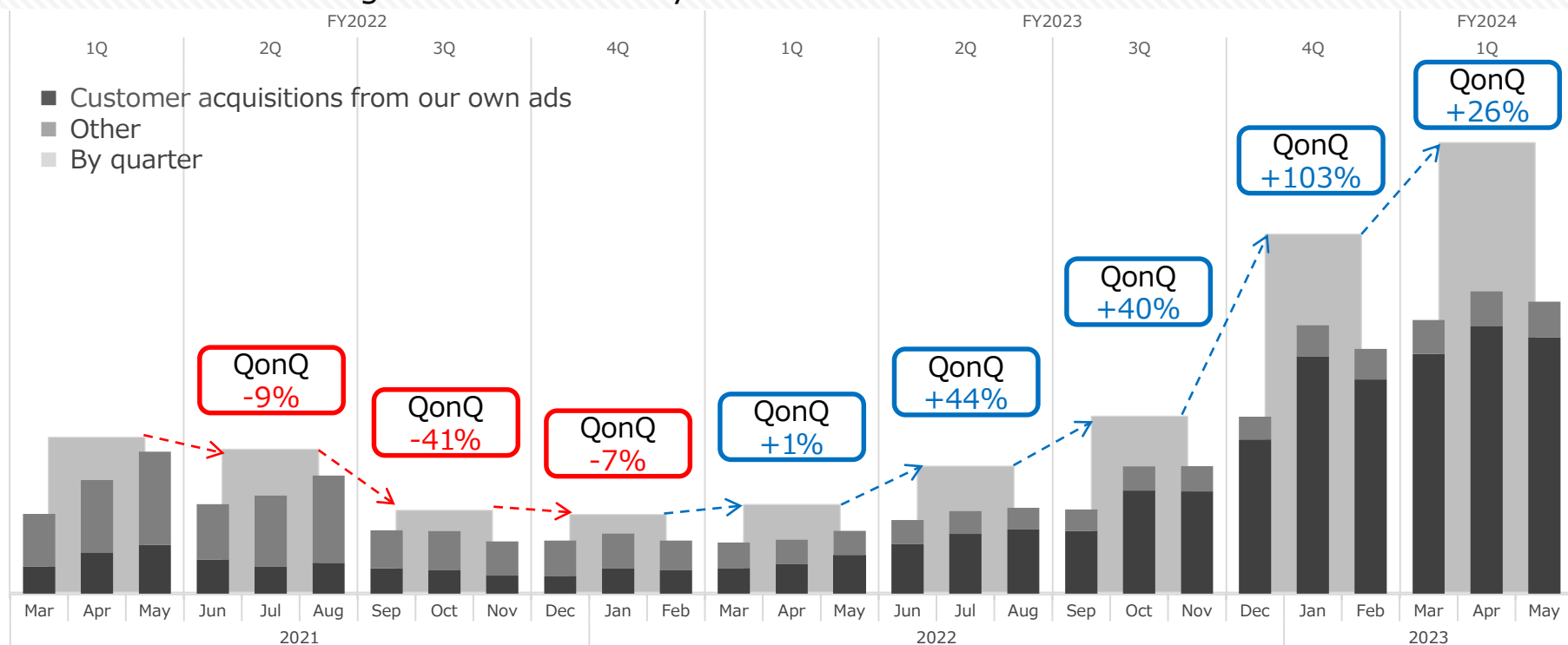
- Most advertising expenses are incurred through customer acquisitions from our own ads.
- Advertising investment in the first quarter of FY2024 was increased by 4 times or more compared to the first quarter of FY2023, while maintaining the same level of investment efficiency (detailed on slide 20).

Non-consolidated

Our website, etc.

Changes in number of new customer acquisitions

- The number of new customer acquisitions for the first quarter increased 411% year on year and 26% quarter on quarter.
- Customer acquisitions from our own ads continued to increase as a result of efforts to take our customer attraction departments to a higher level and the success of newly-launched measures, etc. from FY2023.
- The number of new customer acquisitions for April 2023 reached a record high.
- The number of subscription members also showed steady growth, and the population reached a record high at the end of May 2023.



Non-consolidated

Customer acquisitions from our own ads

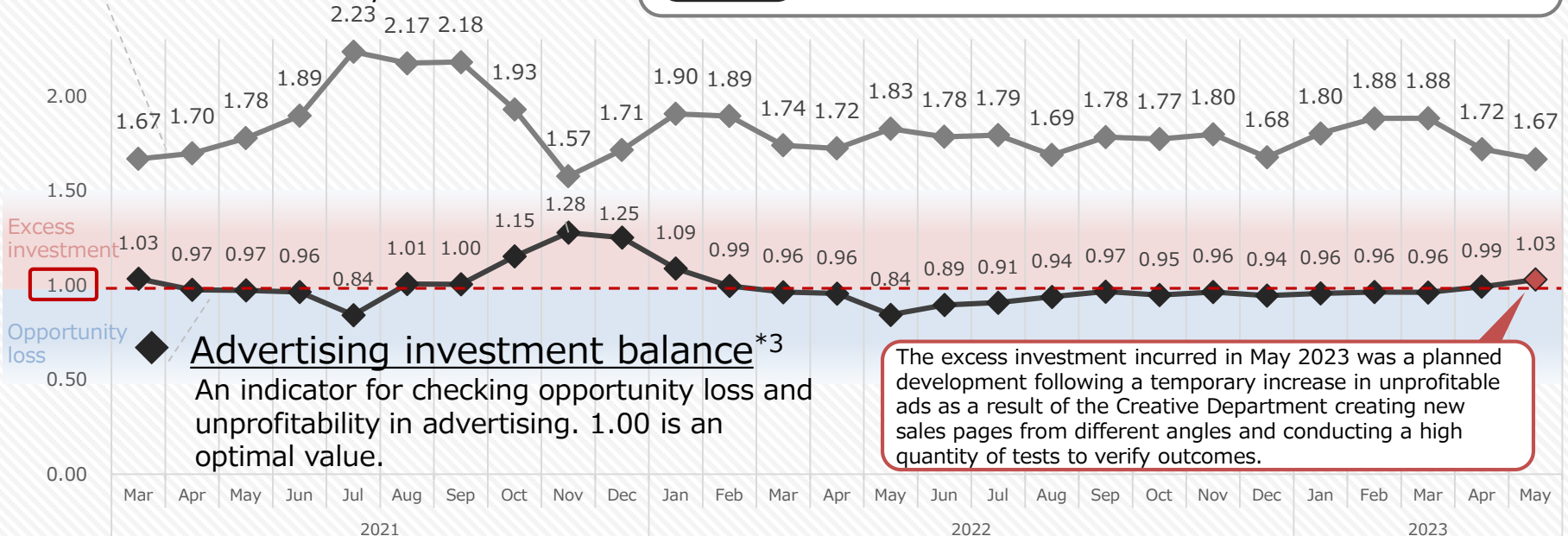
Advertising investment efficiency

1-year ROAS

Amount of sales expected to result from advertising investment in one year

“Initial ROAS” used up to FY2023 changed to “1-year ROAS*1” from 1Q*2

- Previous** Initial sales (results) ÷ advertising expenses (results)
- Current** 1-year sales (projection) ÷ advertising expenses (results)



Advertising investment balance*3

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

The excess investment incurred in May 2023 was a planned development following a temporary increase in unprofitable ads as a result of the Creative Department creating new sales pages from different angles and conducting a high quantity of tests to verify outcomes.

We will continue to strive to enhance the number of new customer acquisitions while maintaining the optimal advertising investment balance of 1.00.

*1 Used as a projection of how much sales are expected to result from advertising in one year. If ¥1 million was used for advertising, and sales of ¥1.5 million are expected to be generated, the projected 1-year ROAS is 1.50.
 *2 “Initial ROAS” is an indicator for measuring how much initial sales are generated from advertising investment that was used up to FY2023. However, even though profitability may not be decreasing, ROAS values will trend downward when the share of the products to which a high CPO limit⁵ can be assigned due to their high LTV⁴, despite their low unit price, has increased, meaning that there were cases in which this indicator was not an accurate depiction of investment efficiency. As it is necessary to factor in these aspects when evaluating advertising investment efficiency in the subscription purchase model, which is based on continued purchases, this indicator was changed from the first quarter. The figures for sales over a period of one year are simulated projections derived from massive amounts of data, including past results and repeat purchase rates, etc., and these same projections are used in actual ad management to set CPO limits.
 *3 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.
 *4 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).
 *5 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.
 *6 In FY2022, new customer acquisitions through affiliates, etc. were strong and product awareness increased, which led to enhancing the efficiency of customer acquisitions from our own ads and temporarily raising ROAS for the following year. In addition, the simultaneous release of multiple new products resulted in an increase in unprofitable advertising expenses required for verifying outcomes, producing a period during which the advertising investment balance was significantly higher than the optimal value of 1.00. However, these influences were both temporary and irregular.

Non-consolidated

E-commerce
malls

Changes in net sales

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, and we are also strengthening sales in e-commerce malls
- Rapid increase in consumers who buy products only in e-commerce malls



We will expand further into e-commerce malls to actively engage in the commercial sphere presented by that growing market.

<Initiatives implemented in the first quarter>



Assignment of multiple dedicated staff members



Sales promotion activities, advertising contents creation, and advertisement optimization targeted at e-commerce malls



Engagement in sales at e-commerce malls



Expand line of products sold exclusively at e-commerce malls

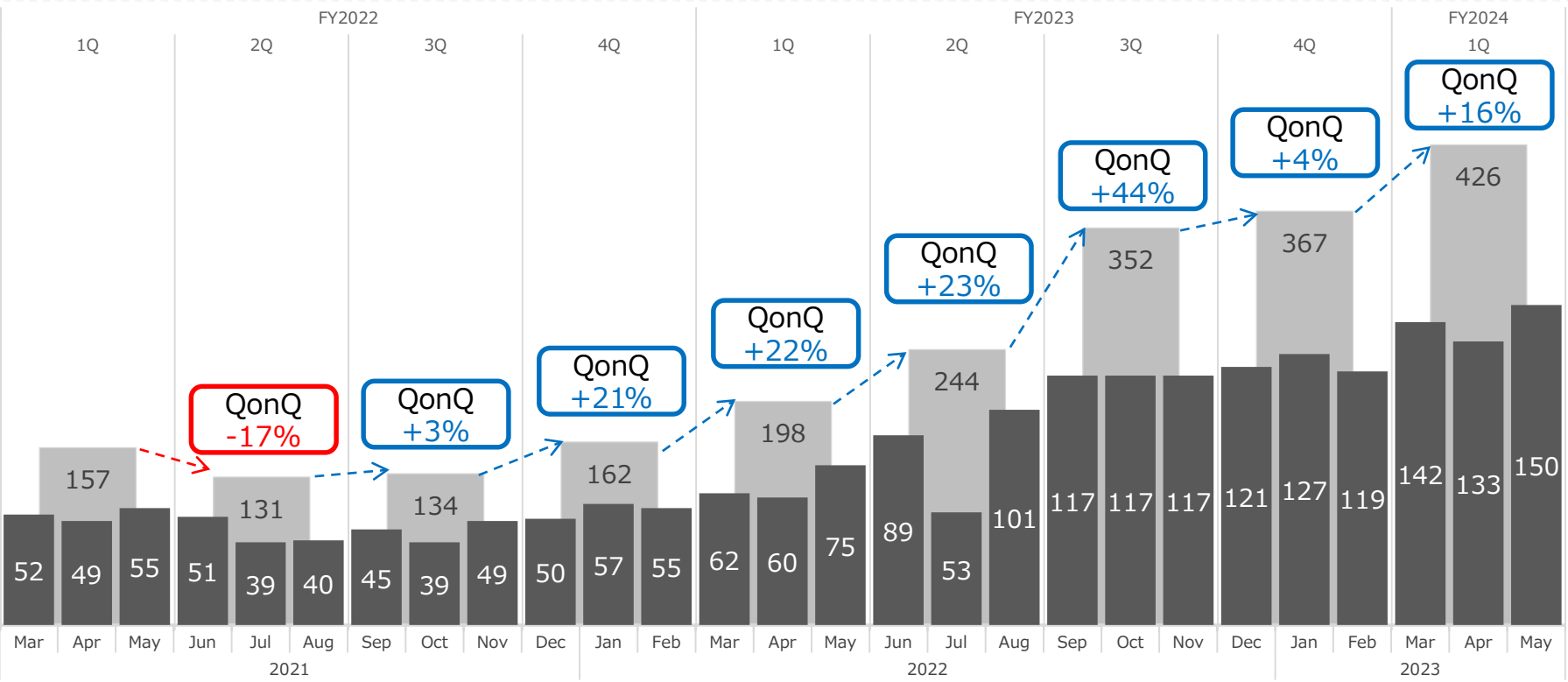
Non-consolidated

E-commerce malls

Changes in net sales

- ◆ Marked the highest monthly sales at Rakuten Ichiba in May 2023.
- ◆ Net sales for e-commerce malls overall in the first quarter also reached a record high.

(Millions of yen)



We will continue to strive to increase sales.

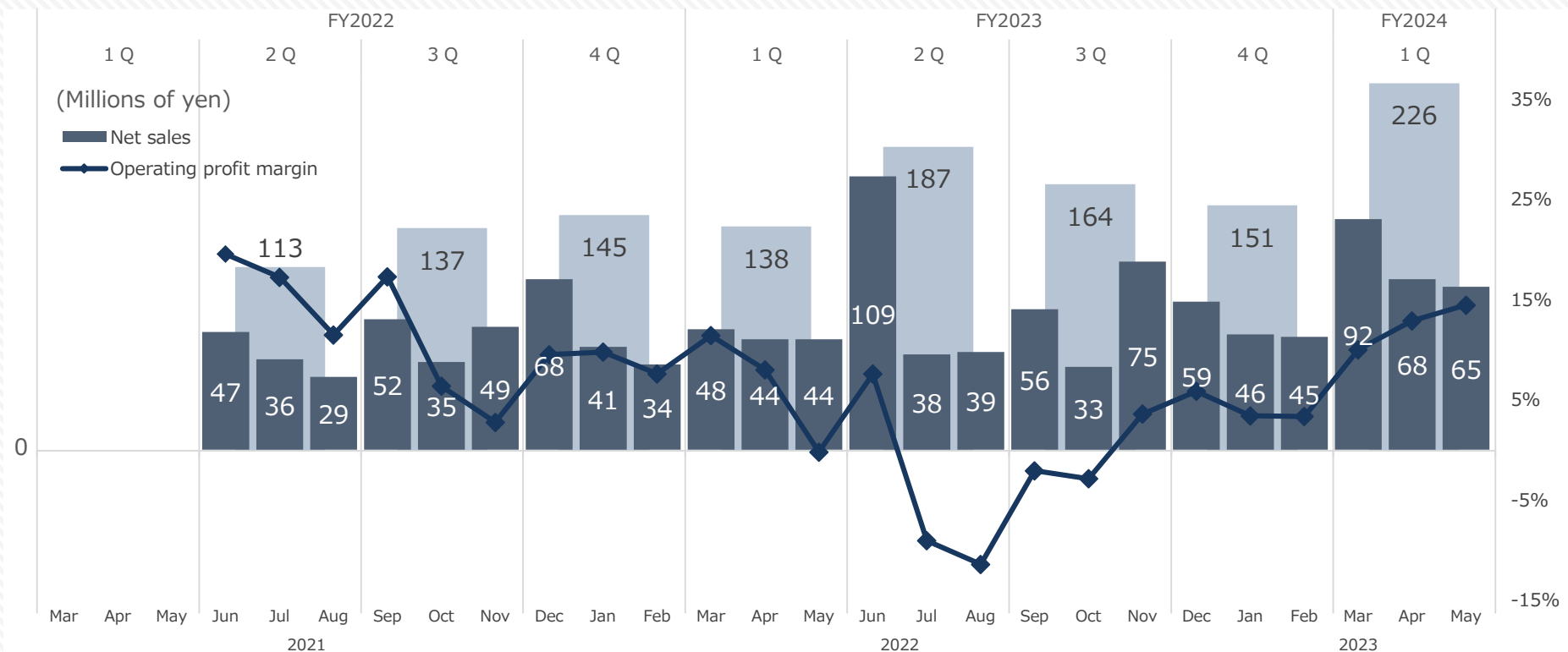
SALONMOON Co., Ltd.

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

- The main customer base is women in their 20s to 40s
- Sales come primarily from e-commerce malls, with the new addition of storefront sales at home appliance mass merchandisers' stores

<Changes in financial results>

Since the second quarter of FY2023, the Company has been operating at a loss due to the impact of the depreciation of the Japanese yen. However, we are currently in a position that will allow us to expand while returning the operating profit margin to previous levels.



* The stock acquisition date of SALONMOON Co., Ltd. was May 31, 2021, and as such, net sales and operating income from SALONMOON Co., Ltd. are not included in 1Q of FY2022.

* The increase in net sales for June 2022 resulted from the concentration of wholesale demand following the launch of storefront sales at home appliance mass merchandisers' stores.

SALONMOON Co., Ltd.

<Initiatives implemented in the first quarter>

- ◆ Sales promotion measures for major e-commerce malls (Amazon, Rakuten Ichiba, Qoo10, etc.)
- Scrupulous advertising initiatives to optimize search engine results on each e-commerce mall
- Implement our own campaigns with measures for cash-back rewards, etc.
- Reevaluate our unique characteristics and user base to create optimized ad content for each e-commerce mall
- ◆ Focus on releasing new products
- ◆ Started storefront sales at major variety shop LOFT from June 2023



The total amount of shipments of SALONMOON's hair iron series surpassed 780,000 units as the brand continues to steadily expand, and we will seek to further enhance brand value and awareness.

FM NORTH WAVE CO., LTD.

FM radio station with a broadcast area covering Hokkaido

- Established the Media Development Office
- Strengthened the exploration of a new customer base by enhancing nurturing* initiatives

* 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

Consolidated Balance Sheets

(Millions of yen)

Subject/Section	FY2023/4Q end As of February 28, 2023	FY2024/1Q end As of May 31, 2023
(Cash and deposits)	4,828	4,177
Current assets	6,991	7,403
Non-current assets	787	777
Total assets	7,779	8,181
Current liabilities	1,375	1,885
Non-current liabilities	216	213
Total liabilities	1,592	2,099
Total net assets	6,187	6,082
Total liabilities and net assets	7,779	8,181

The main factors for the changes from the end of FY2023 were an increase in inventories of ¥660 million and a decrease in cash and deposits of ¥650 million under assets, and an increase in accounts payable – other of ¥279 million under liabilities.

Consolidated

Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	Three months ended May 31, 2022 March 1, 2022 to May 31, 2022	Three months ended May 31, 2023 March 1, 2023 to May 31, 2023
Cash flows from operating activities	9	-563
Cash flows from investing activities	-77	-4
Cash flows from financing activities	-213	-83
Effect of exchange rate change on cash and cash equivalents	5	1
Net increase (decrease) in cash and cash equivalents	-276	-650
Cash and cash equivalents at beginning of period	5,210	4,828
Cash and cash equivalents at end of period	4,934	4,177

The main factors for the changes during the first quarter were an increase in trade payables of ¥188 million, an increase in accounts payable – other of ¥268 million, an increase in trade receivables of -¥330 million, and an increase in inventories of -¥660 million.

Consolidated Financial Results Forecast

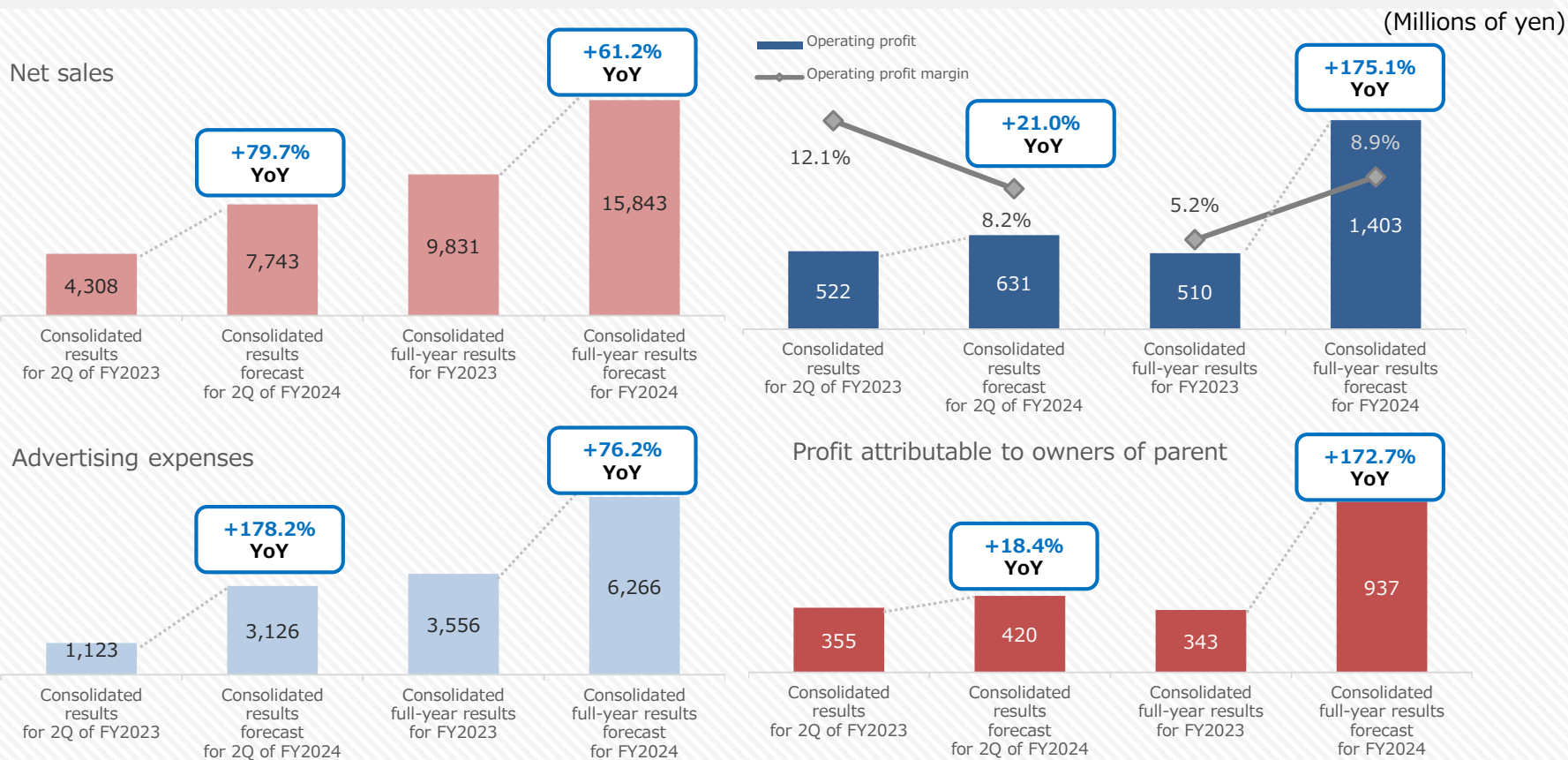


Consolidated

Financial Results Forecast

◆ Forecast for FY2024

- While the number of new customer acquisitions at J NORTH FARM exceeded expectations in the first quarter, the increase in new customers has been limited by the planned allocation of resources to the Creative Division from the second half. Therefore, we have determined that it is not necessary to revise our financial results forecast at the current point in time.
- Under the new measures implemented from FY2023, there is the risk that LTV (lifetime net sales earned per new customer acquisition) will fall below the expected figures. However, it is not possible to accurately measure LTV at the current point in time as a result of delayed deliveries. These measures shall be revised if the LTV of these products falls below expectations, which may impact financial results moving forward.



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

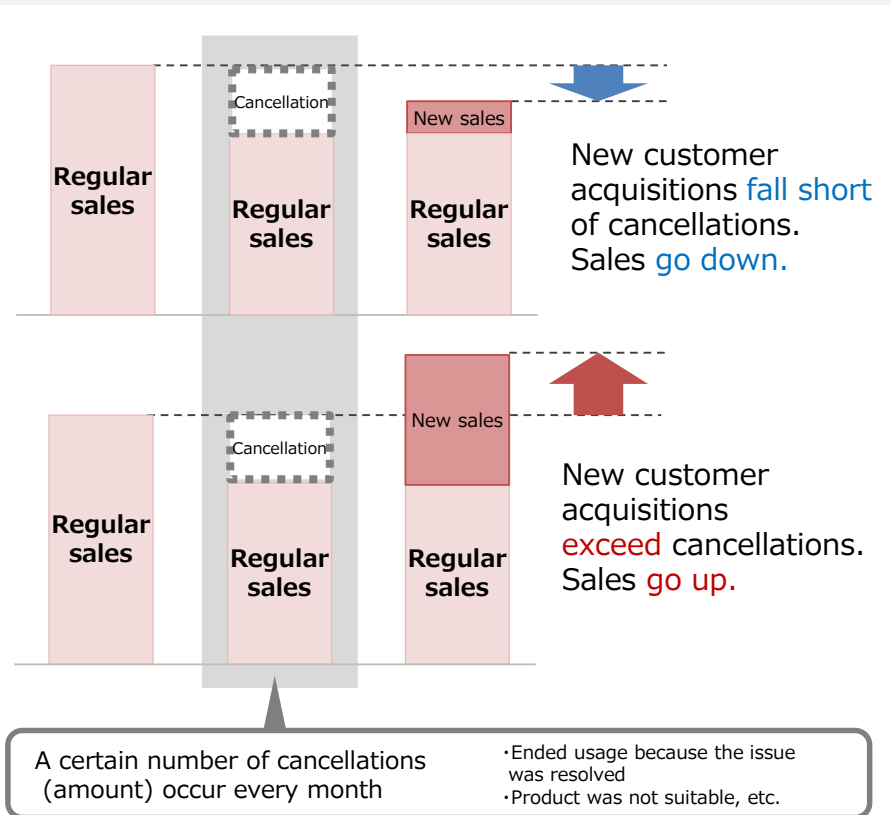
- The main customer base is men and women in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

[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



<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



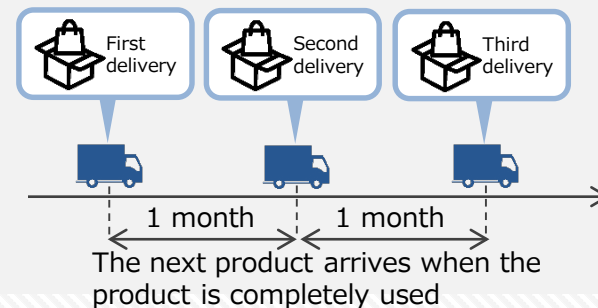
◆ Stringent product development standards

- 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.

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

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

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

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

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

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

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

⇒ The law of sales minimization, profit maximization

(Explained in the figure on the right)

◆ Advertising optimization system

- (1) Analyze daily accumulated data and calculate LTV*
- (2) Set a CPO limit for each product as the upper limit for advertising expenses
- (3) Calculate and manage CPO on a daily basis by subdividing approximately 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.

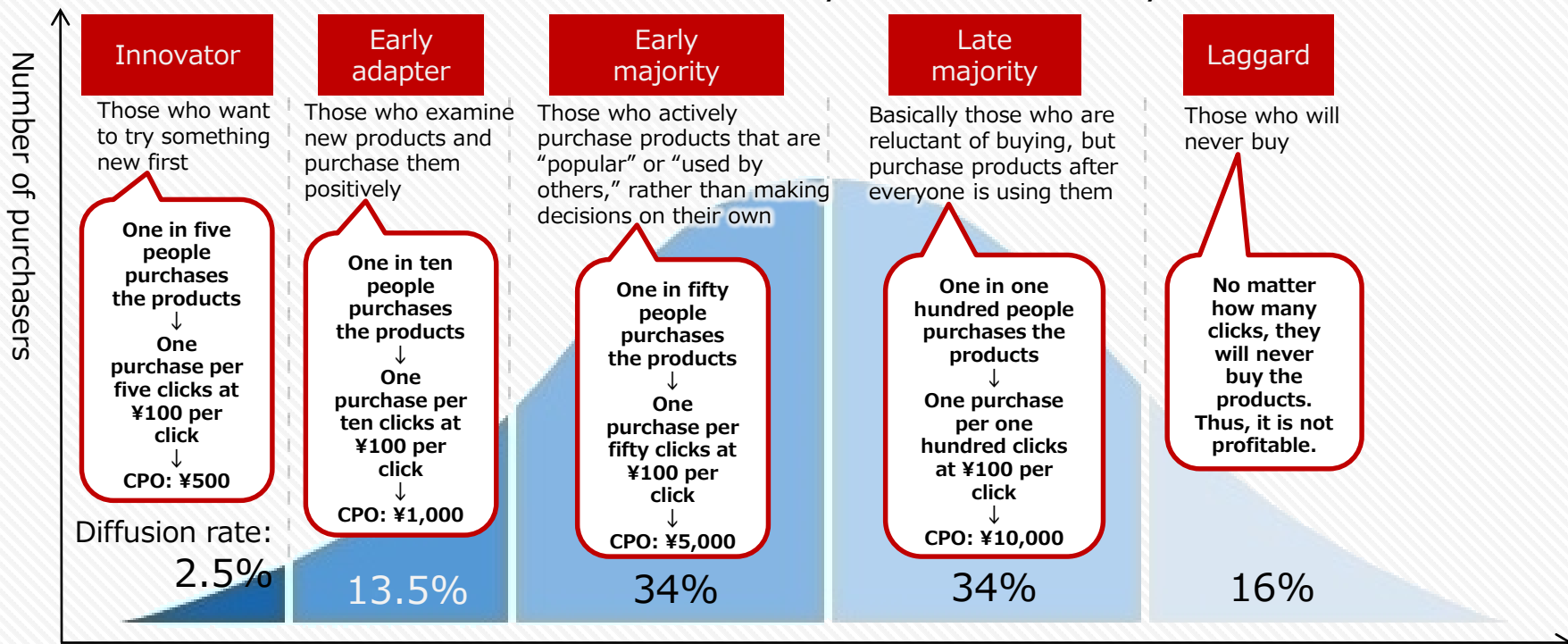
Sales Strategy

◆ 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
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%
New customer acquisition 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%
Personnel expenses (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 – new customer acquisition expenses = sales profit (coined term)

Personnel expenses for each product

- Although sales of Product (1) are increasing, this is due to spending more on new customer acquisition 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 new customer acquisition and personnel expenses. However, it is easy to overlook this matter, since a product with low personnel expenses 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

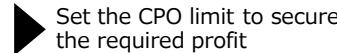
Sales Strategy

◆ Enhancement of advertising investment and relationship to profit

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

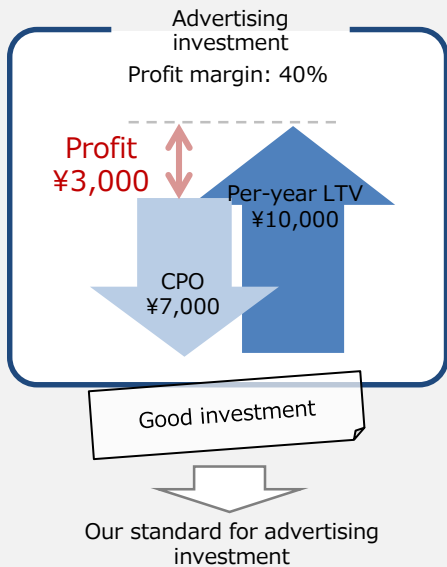


Prevent a decline in profitability due to excess advertising investment

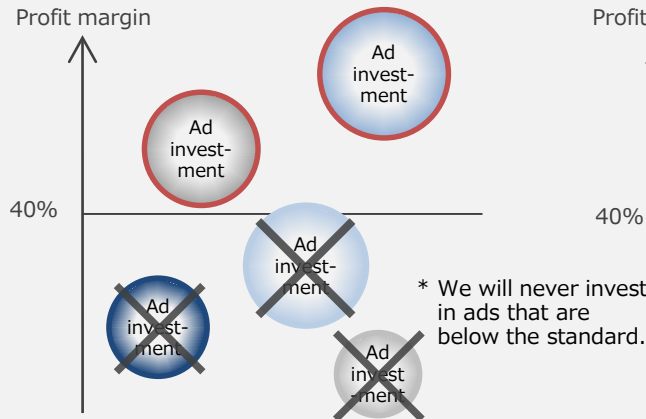


It becomes possible to increase sales by enhancing advertising investment while maintaining profitability

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

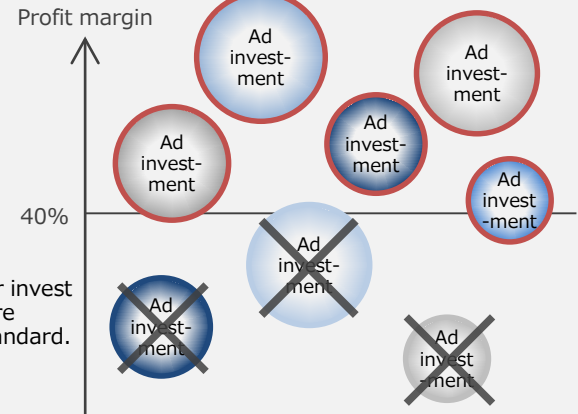


If there are only a few ads that are above the standard, we reduce the total amount of advertising investment



Our basic approach

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



- 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.

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

Major Products

“DEEP PATCH Series” were recognized by the Guinness World Records™ for four 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 12 times
(Awarded the Grand Gold Award eight times and the Gold Award four times between 2012 and 2023)
- 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 period from March 2019 to February 2023

*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.

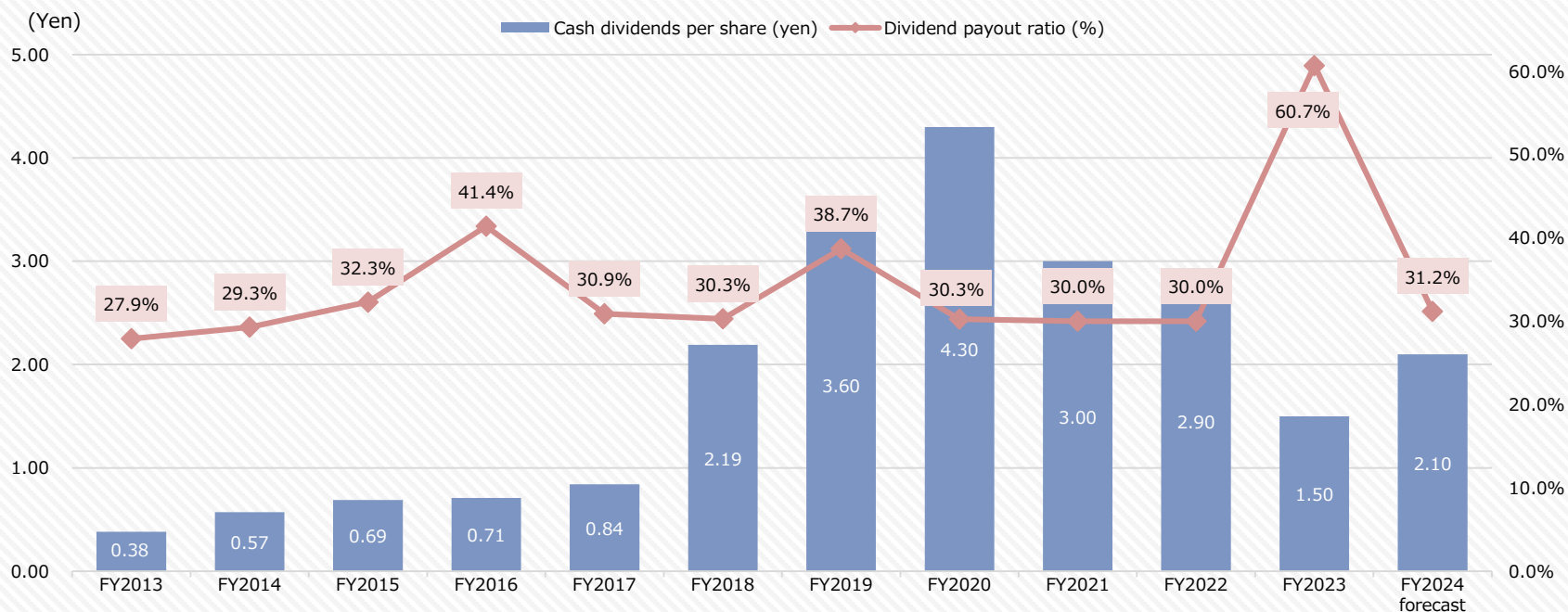
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<p>The Law of Sales Minimization, Profit Maximization —Management Secrets for a 29% Profit Margin</p>	<p>FUNDAMENTALS X TECHNICAL MARKETING —83 Ways to Maximize the Results of Web Marketing</p>	<p>The Law of Time Minimization, Result Maximization —“A 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 ¥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
Cash dividends per share (yen)	0.71	0.84	2.19	3.60	4.30	3.00	2.90	1.50
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

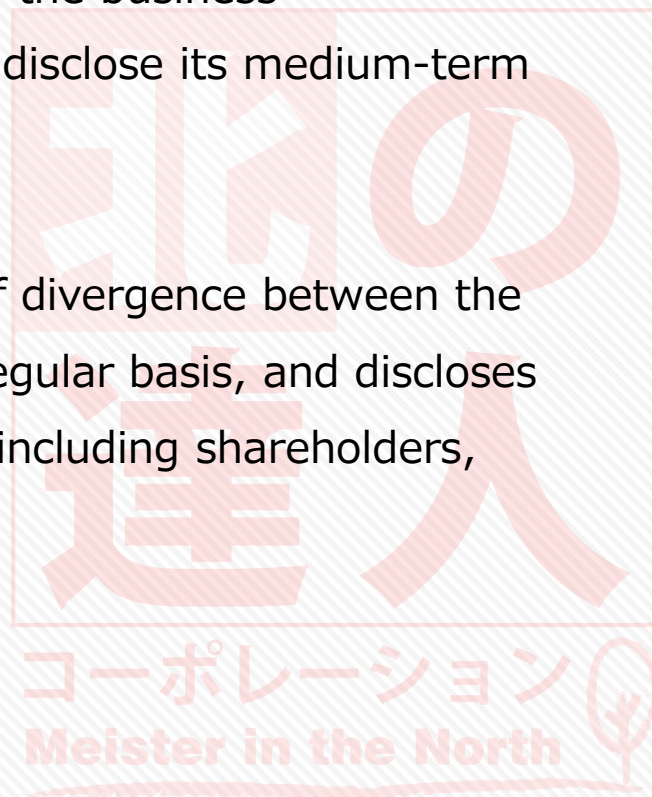
- November 2020: Awarded the “Asia’s 200 Best Under A Billion” in Forbes Asia
- September 2019: Awarded the Internet Shopping Award in the “Asia Direct Marketing Vision 2019”
- February 2017: Special E-Commerce Promotion Award Recipient at “Japan Venture Awards 2017” hosted by the Organization for Small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



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