



Supplementary Material for the Fiscal Year Ended February 29, 2024

Stock code: 2930
Kitanotatsujin Corporation
April 12, 2024

Important Note

- ◆ The Company employs a business model that reaps profits over three to four months from advertising expenses, a form of upfront investment
- ◆ The financial results forecast has been prepared based on the assumption that the pace of new customer acquisitions (upfront investment in advertising expenses) at the time of preparation will continue

Therefore, please understand the following when looking at quarterly forecasts:

- When profit is projected to **fall below** the forecast due to an increase in advertising expenses:
 - **Positive** from a long-term perspective since upfront investment is progressing steadily
- When profit is projected to **exceed** the forecast due to an increase in advertising expenses:
 - **Negative** from a long-term perspective since upfront investment is not progressing steadily

Executive Summary

- ☞ Net sales came in at ¥14,665 million (down 7.4%), falling below the financial results forecast.
- ☞ As the number of new customer acquisitions declined more than expected in FY2024, operating profit increased due to lower-than-expected advertising investment.
- ☞ Performance in SALONMOON remained steady in comparison to the financial results forecast.

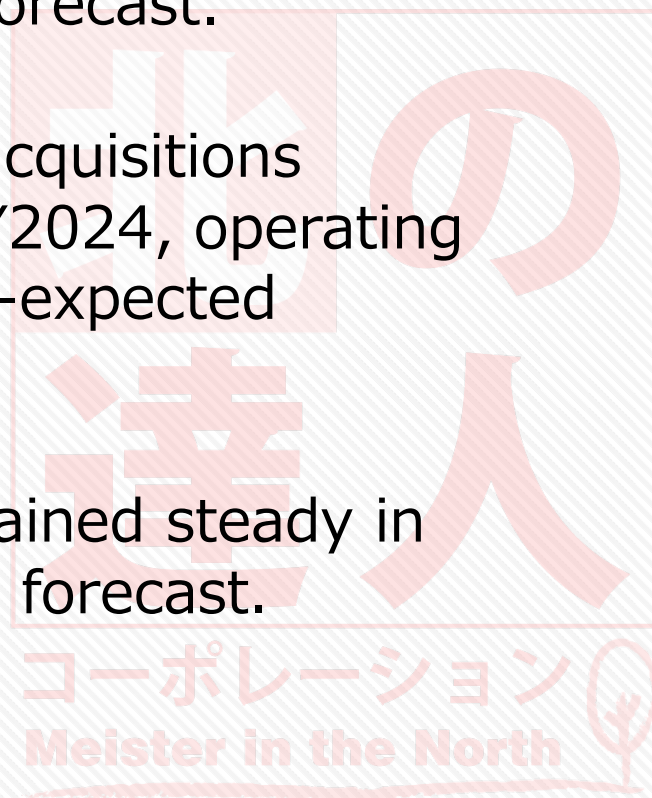
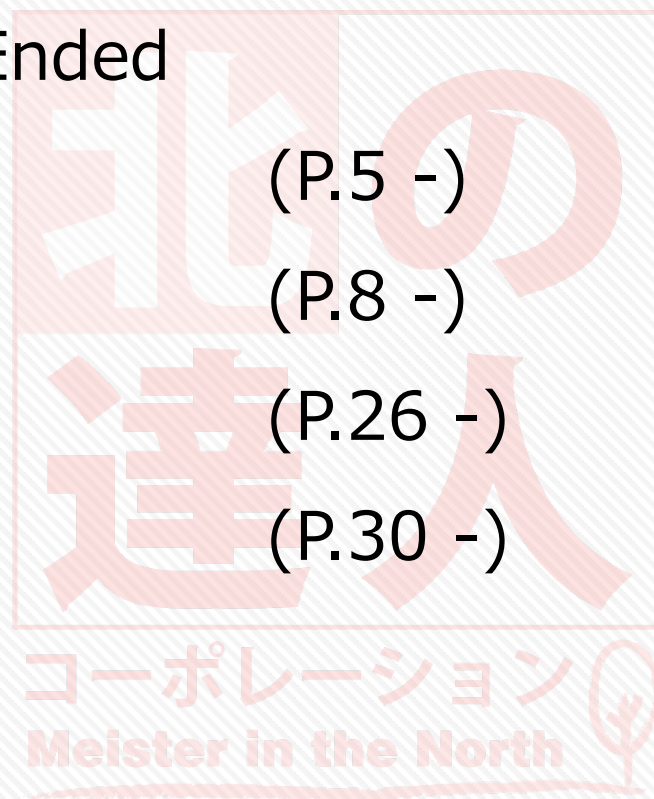
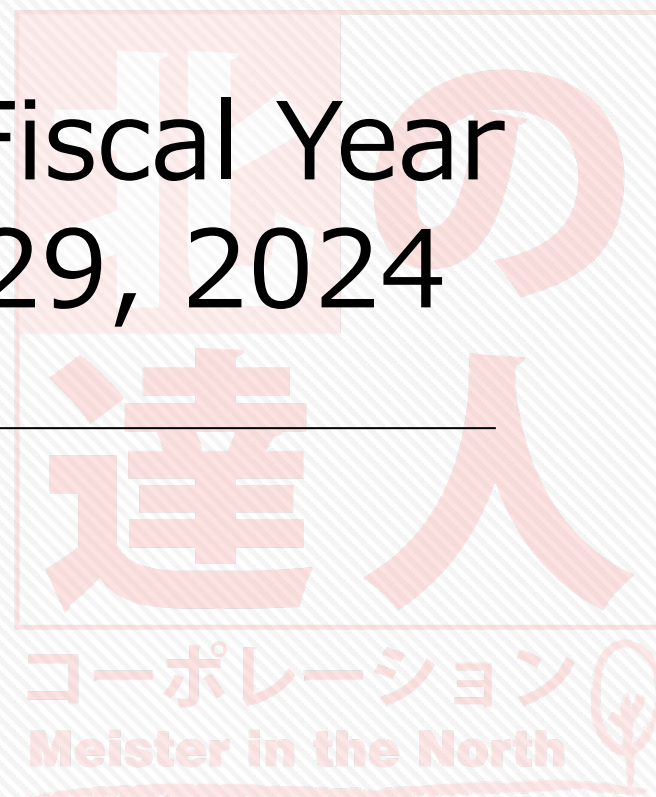


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Highlights for the Fiscal Year Ended February 29, 2024



Consolidated
Key Performance Highlights [Compared with Forecasts]



(Millions of yen)

	Consolidated forecast	Results	Changes	Changes (%)
Net sales	15,843	14,665	-1,177	-7.4%
Gross profit	11,771	10,832	-939	-8.0%
Selling, general and administrative expenses	10,368	9,383	-985	-9.5%
Advertising expenses	6,266	5,175	-1,090	-17.4%
Operating profit	1,403	1,449	+45	+3.3%
Operating profit margin	8.9%	9.9%	+1.0 pt	
Ordinary profit	1,405	1,480	+75	+5.4%
Profit attributable to owners of parent	937	994	+57	+6.1%

- Net sales were below the forecast due to the impact of new customer acquisitions for J NORTH FARM falling below expectations.
- Operating profit and ordinary profit were higher than the forecast due to investment in advertising expenses as upfront investment for new customer acquisitions not progressing as expected and the results of consolidated subsidiaries exceeding the forecast.

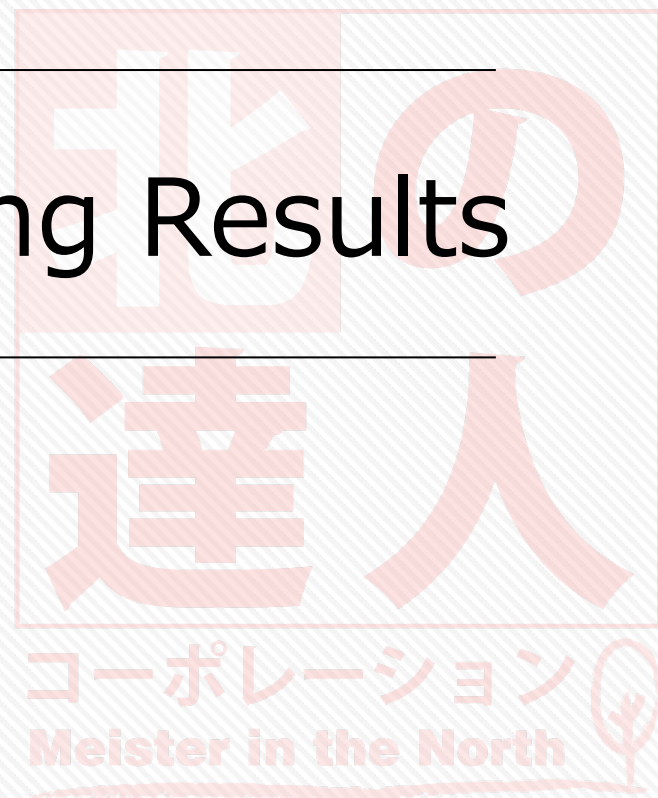
Consolidated Financial results by segment and brand

(Millions of yen)

Segment	Brand name	FY2024				
		1Q	2Q	3Q	4Q	Total
Health & Beauty Care business	 北の快適工房 J NORTH FARM	3,558	3,431	3,041	2,988	13,019
	 SALON MOON ^{Pro}	226	195	199	179	801
	Other brands	37	158	94	59	349
Others	-	108	116	131	138	495
Total net sales		3,931	3,902	3,466	3,366	14,665
Operating profit		-26	469	632	373	1,449

*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

Explanation of Financial Results

<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.

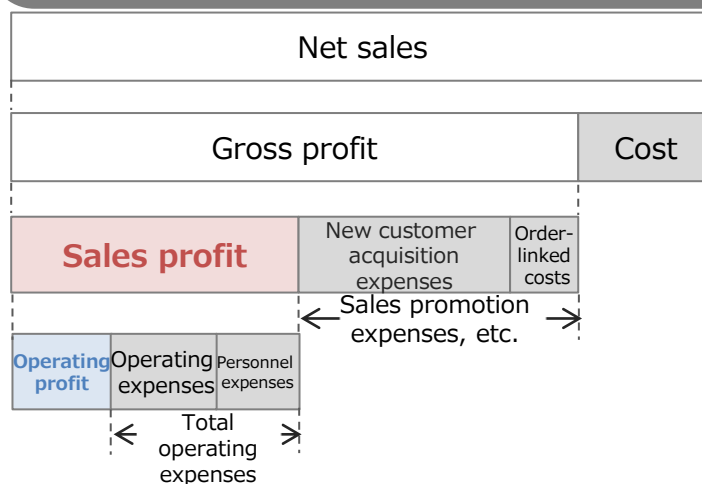
Sales profit = gross profit – sales promotion expenses, etc.
 (Order-linked costs*1 + New customer acquisition expenses*2)

Indicator that is significantly impacted by new customer acquisitions and directly reflects recent business conditions as new customer acquisition expenses vary based on changes in the number of new customer acquisitions.

Operating profit = sales profit – total operating expenses
 (Personnel expenses + Operating expenses)

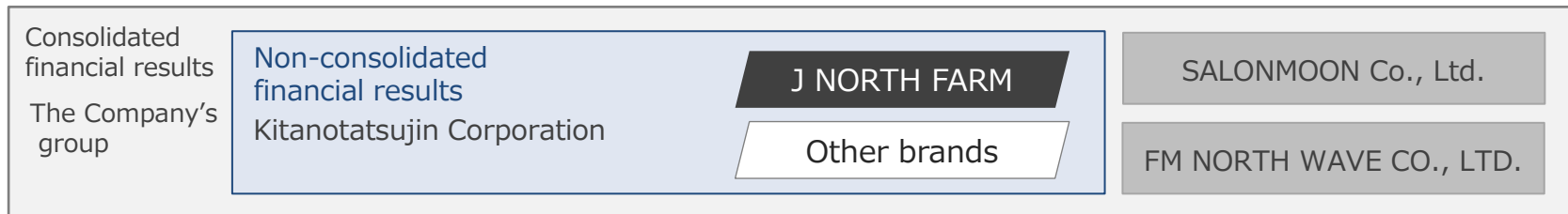
Impacted by investments for future business expansion in addition to recent business results.

Management accounting structure to visualize profits for “each product”



<Segments of financial results>

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



*1 Expenses that must be incurred for orders, including credit card transaction fees, shipping, packaging materials costs, enclosures and accessories, etc.
 *2 Expenses involved in the acquisition of new customers; primarily advertising expenses.

Non-consolidated Key Performance

<Compared with financial results forecast for the full year>

(Millions of yen)

	Non-consolidated		
	Forecast	Results	Changes
Net sales	14,617	13,369	-1,248
Gross profit	11,229	10,260	-969
Sales promotion expenses, etc.	7,080	6,151	-929
Sales profit	4,149	4,109	-39
Operating profit	1,406	1,397	-9

J NORTH FARM

- Sales from new customers and resulting subscription purchases decreased due to the number of new customer acquisitions falling below expectations.
- An increase in returns after product shipment also made an impact.
- Sales profit increased due to reduced advertising investment.

Other brands

- Sales profit was lower than the forecast due to advertising investment that exceeded expectations as new customer acquisitions remained strong.

(Millions of yen)

	J NORTH FARM			Other brands		
	Forecast	Results	Changes	Forecast	Results	Changes
Net sales	14,322	13,019	-1,302	295	349	+54
Gross profit	11,027	10,049	-977	202	211	+8
Sales promotion expenses, etc.	6,887	5,878	-1,008	193	272	+79
Sales profit	4,139	4,170	+30	9	-60	-70

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the full year>
(Millions of yen)

	Forecast	Results	Changes
Net sales	14,322	13,019	-1,302
(1) Difference resulting from the effect of delayed deliveries on the financial results forecast (only applicable in the first quarter)			
Net sales	320	188	-132
Gross profit	246	144	-102
Sales promotion expenses, etc.	19	18	-0
Sales profit	227	125	-101
(2) Difference in regular and other sales			
Net sales	9,560	8,638	-921
Gross profit	7,501	6,720	-780
Sales promotion expenses, etc.	468	456	-12
Sales profit	7,032	6,264	-767
(3) Difference in new sales			
Net sales	2,990	2,627	-362
Gross profit	2,073	1,871	-201
Sales promotion expenses, etc.	6,036	4,980	-1,056
Sales profit	-3,963	-3,109	+854
ROAS*1	50.8%	55.7%	-
(4) Difference in e-commerce mall sales			
Net sales	1,450	1,565	+114
Gross profit	1,205	1,313	+107
Sales promotion expenses, etc.	362	424	+61
Sales profit	843	889	+45
Sales profit	4,139	4,170	+30

- ◆ Regular sales were lower than expected.
 - Regular sales decreased due to decrease in new customer acquisitions.
 - Unexpected amount of returns after product shipment. Although the appeal of ad content increased, impulse purchases and mistaken orders by new customers also increased, which led to an increase in returns and cancellations.
 - Optimize ad wording to avoid impulse purchases or mistaken orders, taking into consideration reviews by external consultants, etc.
- ◆ Sales profit was also lower than expected due to a decline in net sales.

New customer acquisitions were lower than expected in FY2024. Although ROAS improved 4.9 points, advertising investment did not progress as expected. → Sales from new customer acquisitions were lower than expected. Sales promotion expenses, etc., also decreased primarily due to reduced advertising expenses. → Sales profit exceeded the forecast. **Although sales profit exceeded the forecast, upfront investment in new customer acquisition for gaining regular sales in the future has decreased, which is not a positive factor for increasing profit.**

- Start handling new products
- Resume sales of products that had been suspended due to taking orders over production capacity
- Utilize mall fulfillment services*2
 - Sales and sales profit both exceeded the forecast

*1 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.

*2 Services provided by each e-commerce mall to cover a sequence of operations including product storage, order processing, packaging, and shipping.

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



SPADE, a brand launched in October 2021

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

- Investment in new customer acquisition expenses exceeded projections; sales profit was lower than the forecast as a result
- Despite an increase in new customer acquisition expenses, **ROAS exceeded initial projections and the brand was able to enhance upfront investment while maintaining advertising investment efficiency**

<Initiatives implemented in FY2024>

◆ **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.

◆ **Ban lifted on advertisements for e-cigarette related products in major ad media sources where promoting these products had been prohibited**

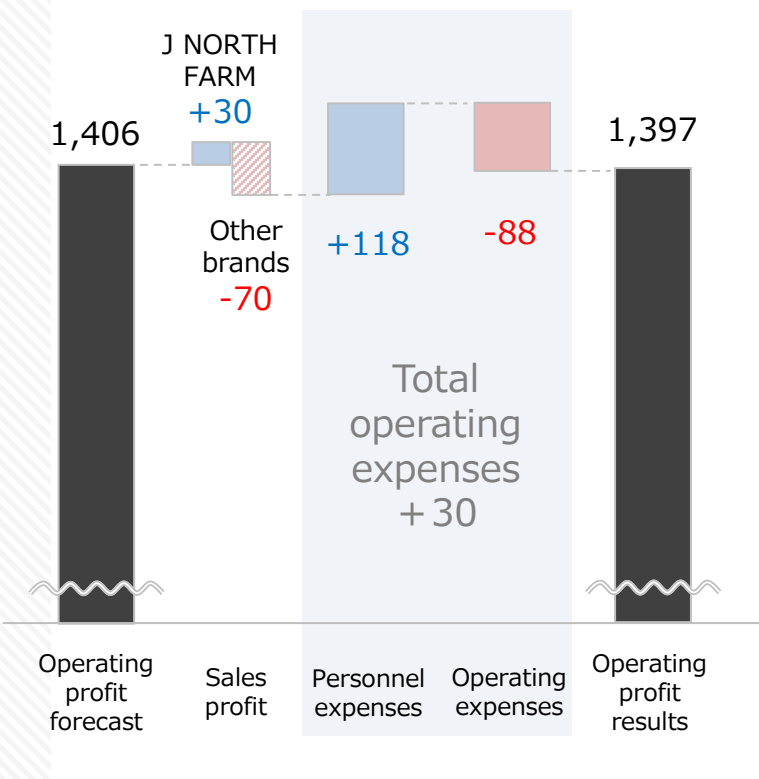
◆ **Improvement of investment efficiency through the expertise accumulated from our long-standing ad media**

◆ **New ad placements for video content**

Non-consolidated

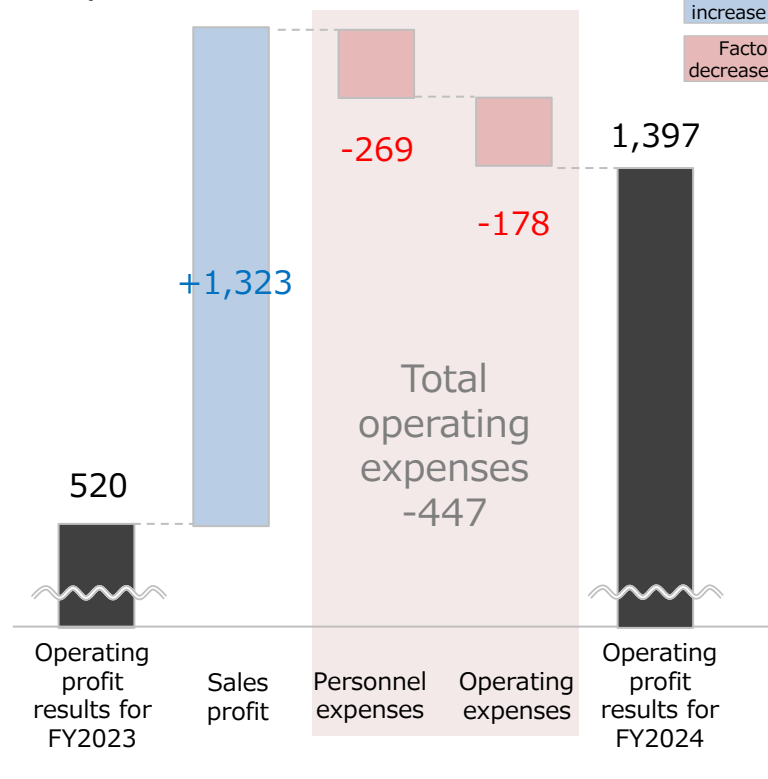
Factors behind change in operating profit

[Compared with financial results forecast: -9]



[Compared year on year: +876]

(Millions of yen)



<Total operating expenses>
Investment in business expansion

- (Year on year) Increased workforce in line with strengthened recruitment
- System expenses due to an increase in orders
- Increase in running costs due to building of new logistics facilities

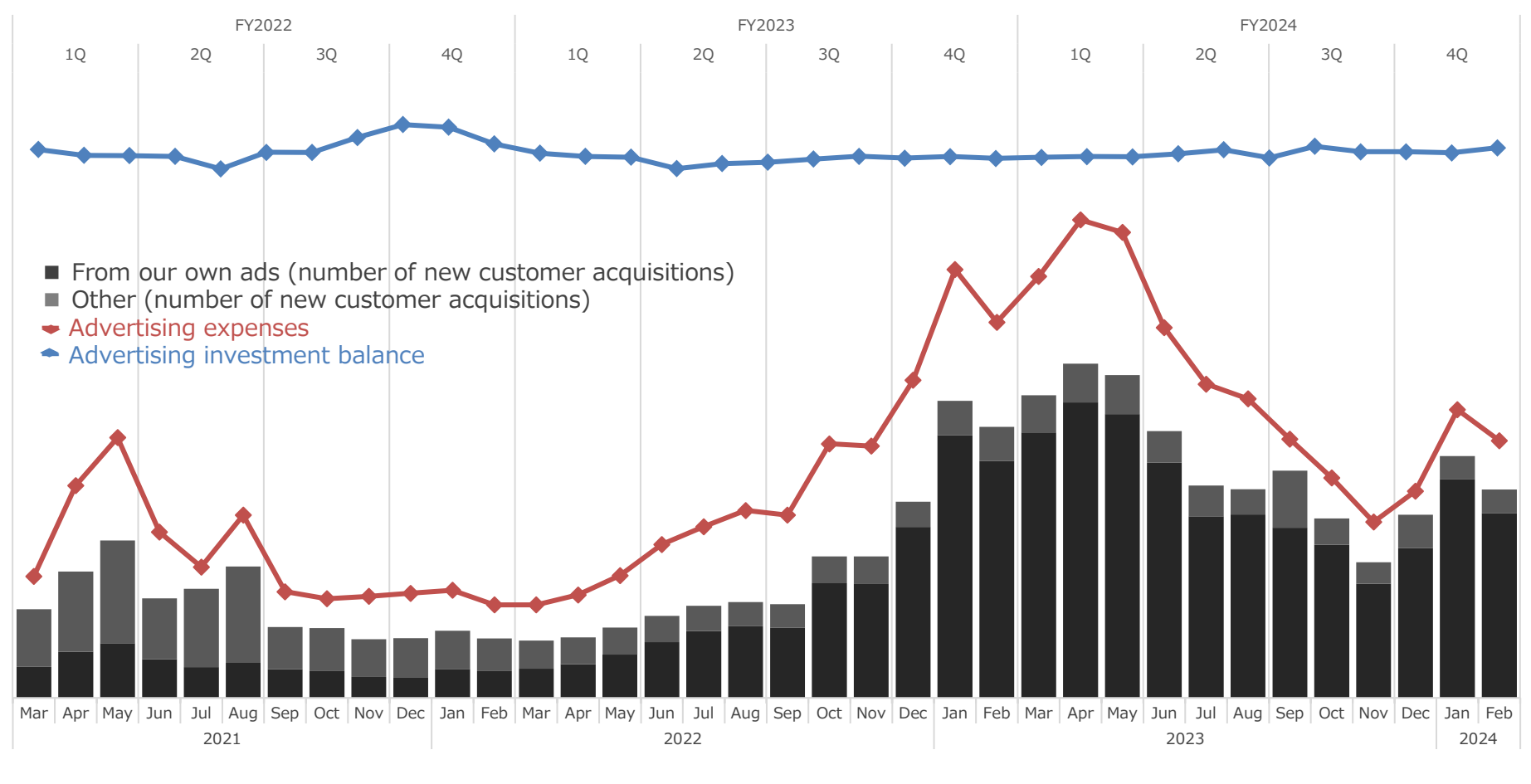
Non-consolidated

J NORTH FARM

Relationship between number of new customer acquisitions and advertising expenses

- Changes in the number of new customer acquisitions is directly linked to changes in advertising expenses.
- The advertising investment balance is maintained at a constant level.

(Millions of yen)

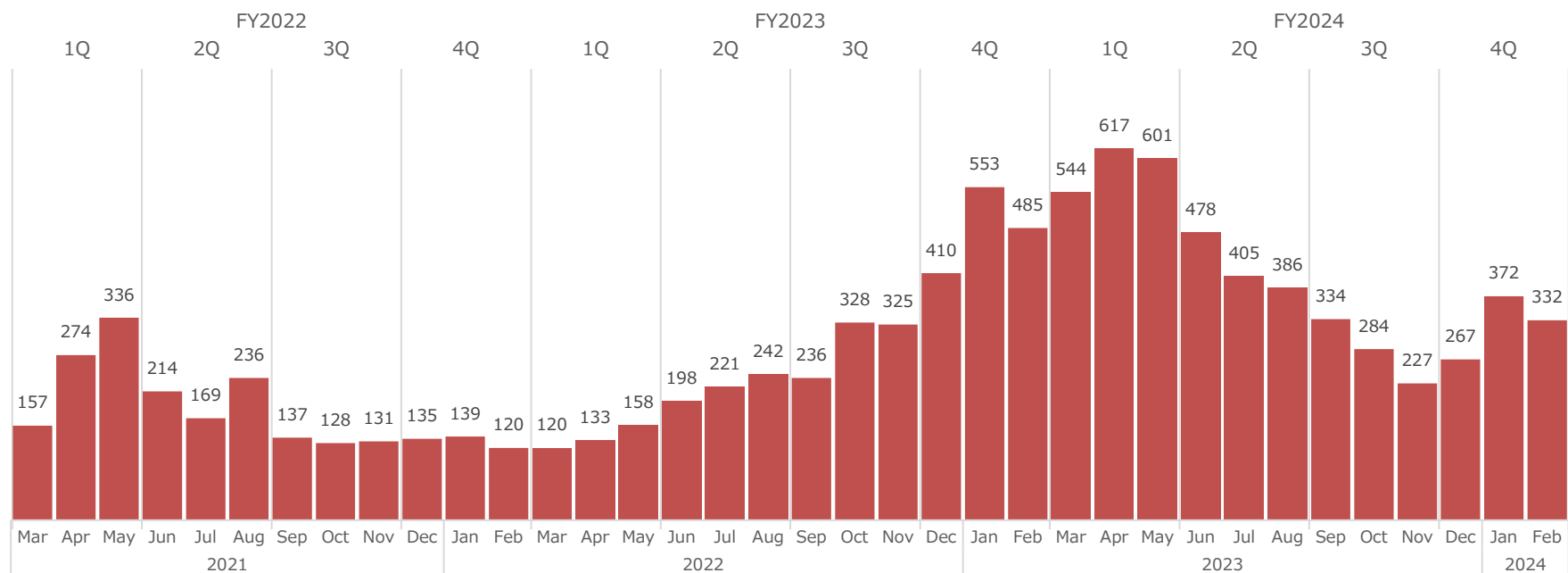


Non-consolidated

J NORTH FARM

Changes in advertising expenses

Most advertising expenses are incurred through customer acquisitions from our own ads. (Millions of yen)



<Main acquisition channels>



* "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

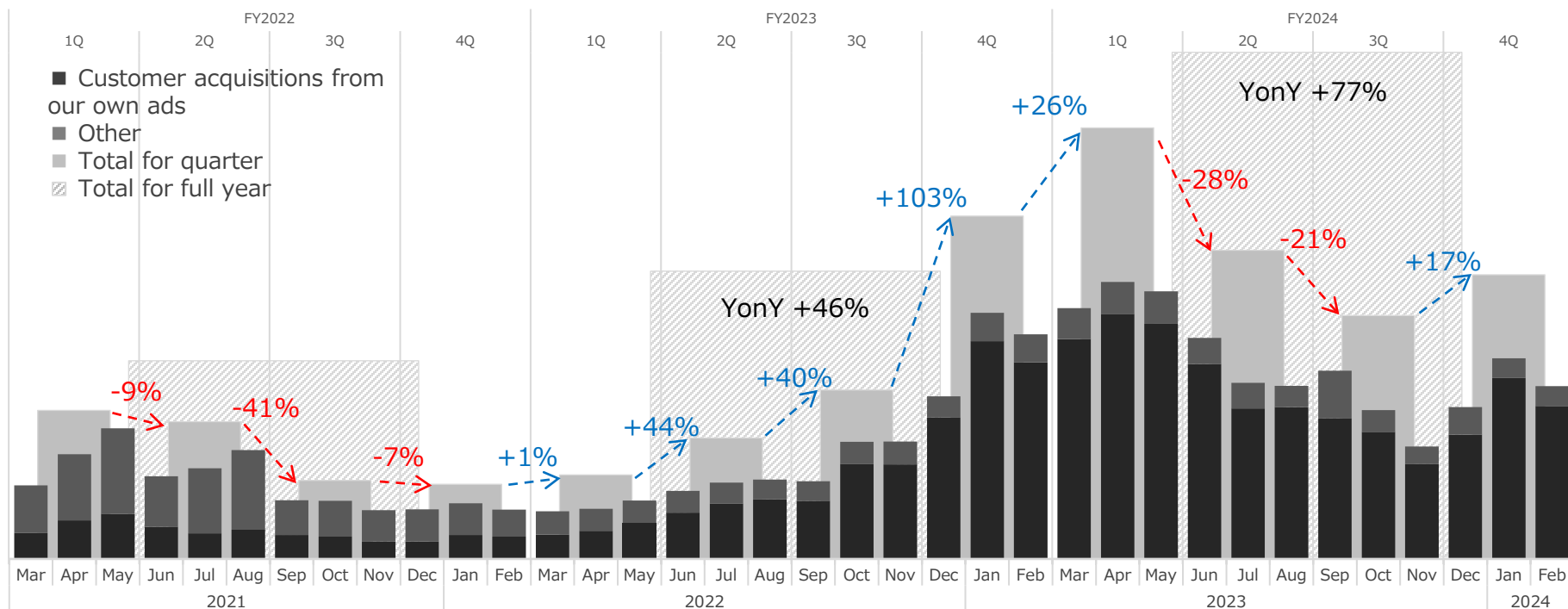
Non-consolidated

Our website, etc.

Changes in number of new customer acquisitions

The number of new customer acquisitions for FY2024 increased 77% YonY.

- Customer acquisitions from our own ads increased until the first quarter of FY2024 due to efforts to take our customer attraction departments to a higher level and the success of newly-launched measures, etc.
- The number of new customer acquisitions for April 2023 reached a record high.



New customer acquisitions increased YonY and skills in creating ad contents have steadily improved.

→For “continuing to create a higher level of ad contents,” we will continue to focus on improving the Creative Department by employing experienced staff, providing in-house training, and building an organizational foundation in order to increase the number of new customer acquisitions in a stable manner.

Non-consolidated

Customer acquisitions from our own ads

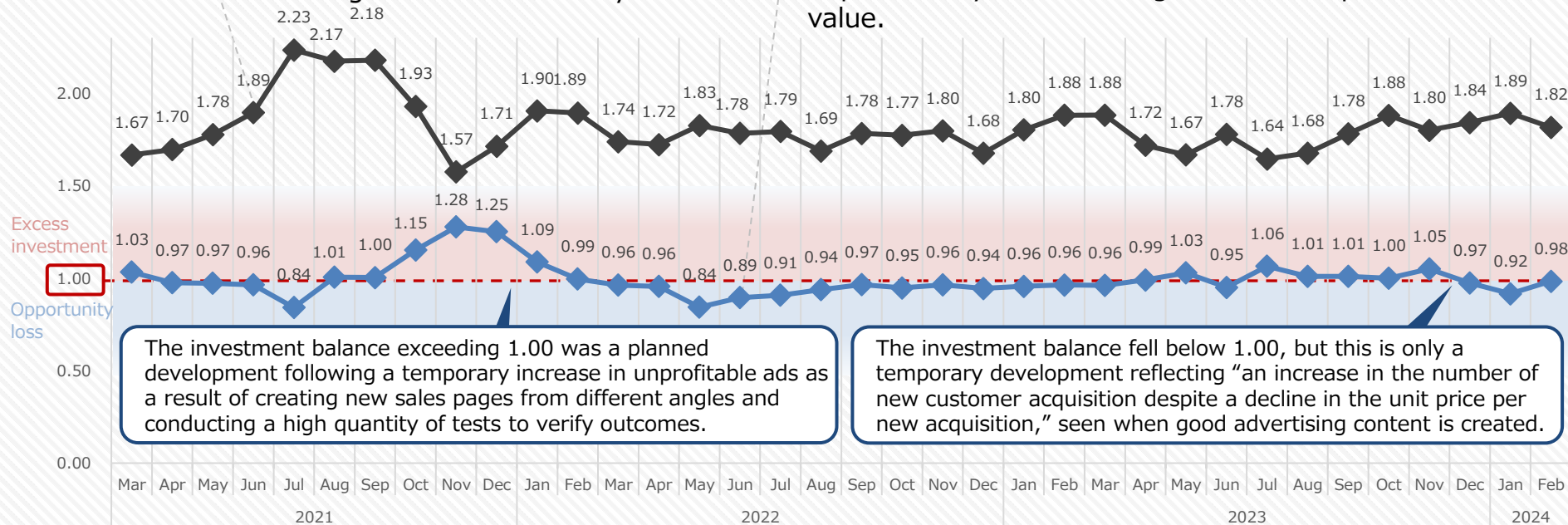
Advertising investment efficiency

1-year ROAS *1*2

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

Advertising investment balance*3

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



The investment balance exceeding 1.00 was a planned development following a temporary increase in unprofitable ads as a result of creating new sales pages from different angles and conducting a high quantity of tests to verify outcomes.

The investment balance fell below 1.00, but this is only a temporary development reflecting "an increase in the number of new customer acquisition despite a decline in the unit price per new acquisition," seen when good advertising content is created.

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 limit*5 can be assigned due to their high LTV*4, 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. While initial ROAS was calculated as "initial sales (results) ÷ advertising expenses (results)," 1-year ROAS is calculated as "1-year sales (projection) ÷ advertising expenses (results)." 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 FY2024>



Assignment of multiple dedicated staff members



Engagement in sales at e-commerce malls



Resume sales of products that had been suspended due to taking orders over production capacity



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



Start handling new products



Utilize mall fulfillment services

Non-consolidated

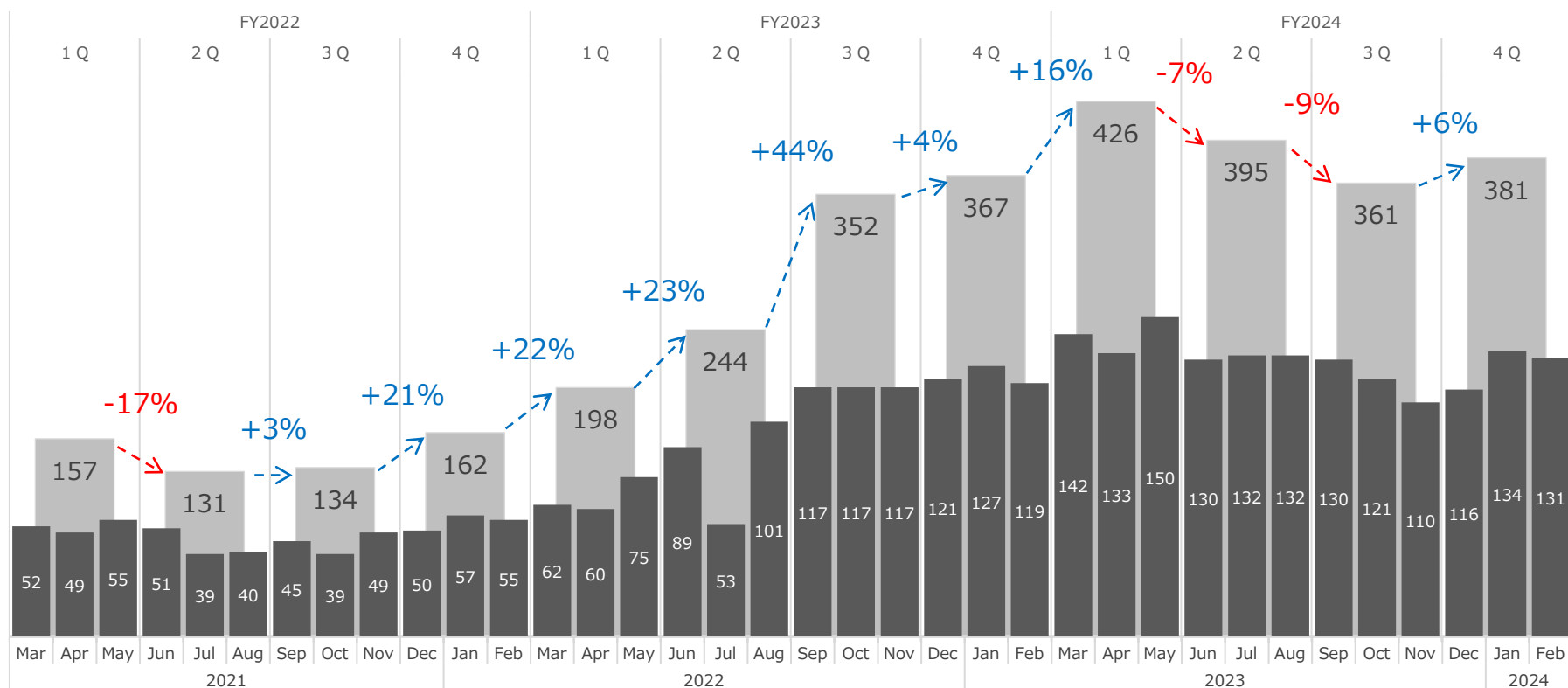
E-commerce malls

Changes in net sales

Although sales from new customers and repeat purchases are interconnected in the net sales for e-commerce malls, new customers tend to be linked to the number of new customer acquisitions from our website, etc.

Net sales for e-commerce malls in FY2024 are increasing 34% year on year.

(Millions of yen)



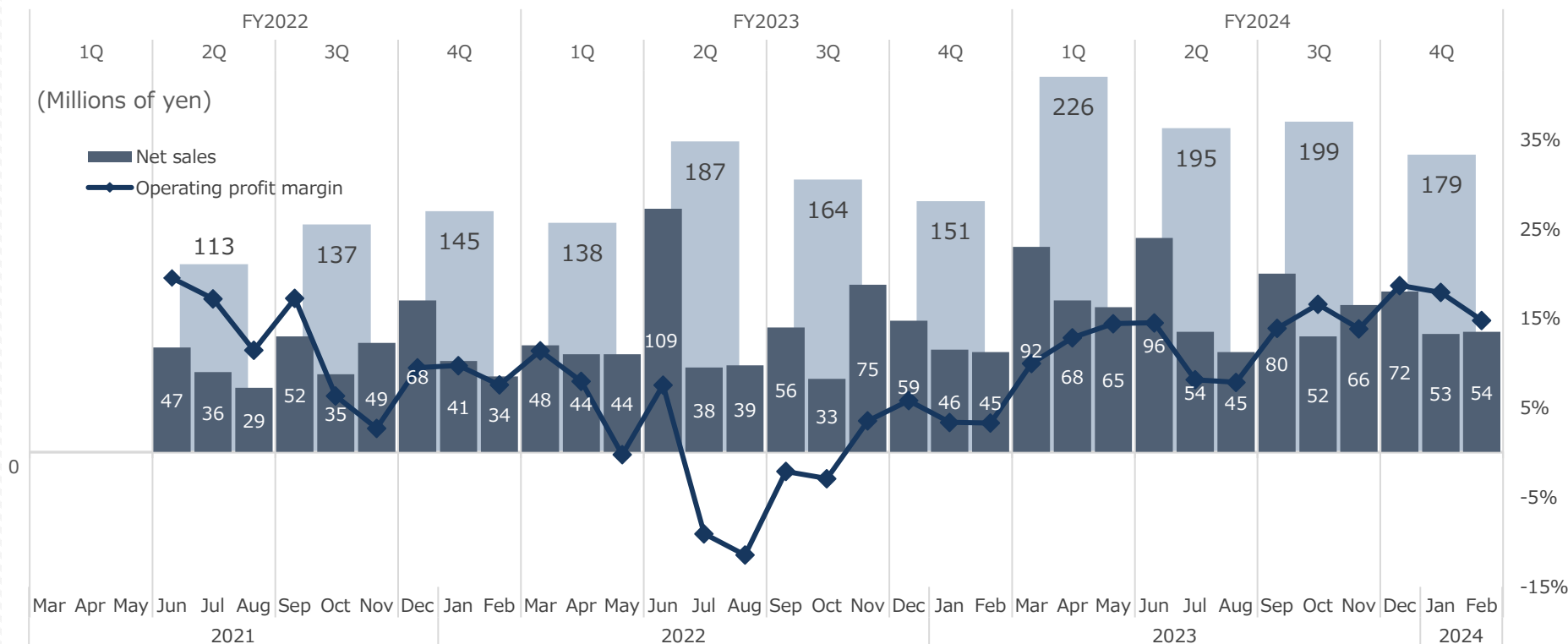
SALONMOON Co., Ltd.

Providing highly functional hair irons at affordable prices 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>

- Although the Company operated at a loss for some months in the second quarter of FY2023 mainly due to the impact of the depreciation of the Japanese yen, the operating profit margin has recovered to previous levels.
- The decline in the operating profit margin in July-August 2023 was a temporary event resulting from new measures and expanding sales channels.



* The stock acquisition date of SALONMOON Co., Ltd. was May 31, 2021, and as such, net sales and operating profit 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 FY2024>

- ◆ 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, expanded to stores nationwide in August 2023
- ◆ Started handling products at variety discount store Don Quijote in October 2023



The total amount of shipments of SALONMOON's hair iron series surpassed 940,000 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

- Strive to recreate the value of media from the customers' perspective
- Strengthen 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	FY2024/4Q end As of February 29, 2024
(Cash and deposits)	4,828	4,783
Current assets	6,991	7,709
Non-current assets	787	940
Total assets	7,779	8,649
Current liabilities	1,375	1,515
Non-current liabilities	216	136
Total liabilities	1,592	1,652
Total net assets	6,187	6,996
Total liabilities and net assets	7,779	8,649

The main factors for the changes from the end of FY2023 were an increase in inventories of ¥853 million under assets, an increase in income taxes payable of ¥476 million and a decrease in accounts payable - trade of ¥328 million under liabilities, and an increase in retained earnings of ¥786 million under net assets.

Consolidated

Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	Full year for 2023 March 1, 2022 to February 28, 2023	Full year for 2024 March 1, 2023 to February 29, 2024
Cash flows from operating activities	113	453
Cash flows from investing activities	-141	-277
Cash flows from financing activities	-363	-223
Effect of exchange rate change on cash and cash equivalents	7	2
Net increase (decrease) in cash and cash equivalents	-382	-44
Cash and cash equivalents at beginning of period	5,210	4,828
Cash and cash equivalents at end of period	4,828	4,783

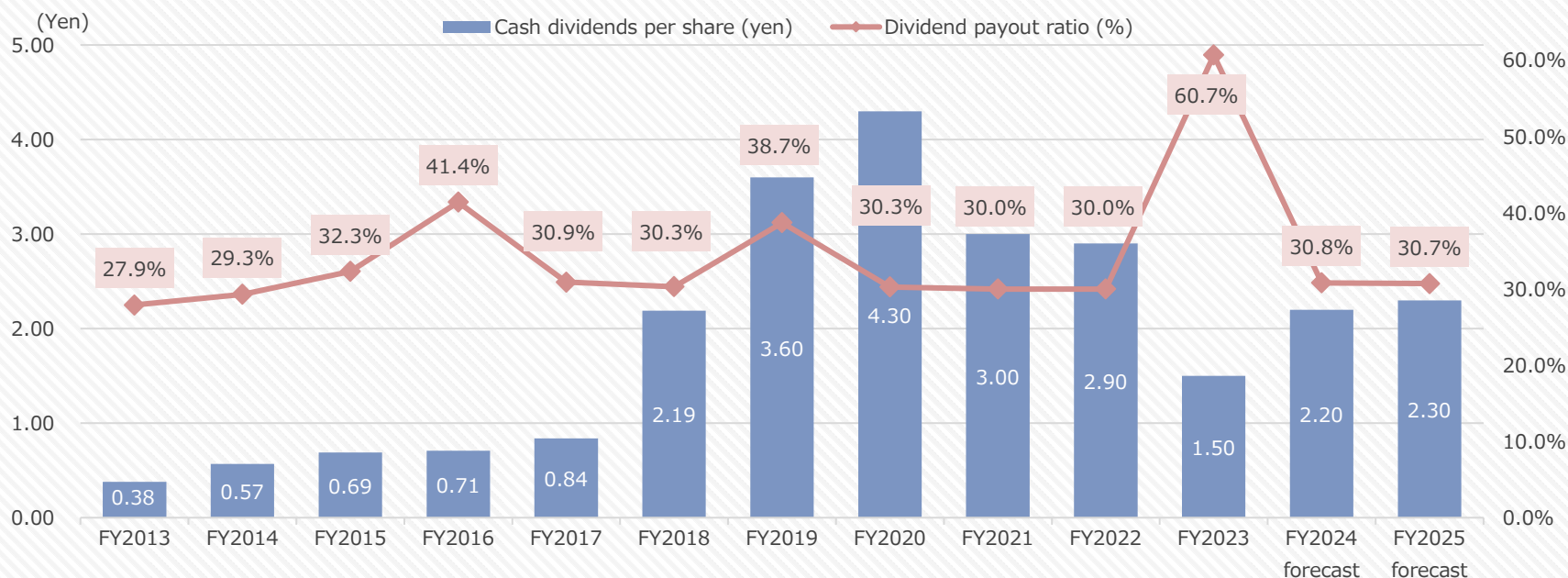
The main factors for the changes were profit before income taxes of ¥1,498 million, an increase in inventories of -¥853 million, and a decrease in trade payables of -¥328 million.

Consolidated 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 will pay an interim dividend of ¥0.90 and a year-end dividend of ¥1.30 (planned), for an annual dividend of ¥2.20 (planned) per share for FY2024.

The Company will pay an interim dividend of ¥1.20 (planned) and a year-end dividend of ¥1.10 (planned), for an annual dividend of ¥2.30 (planned) per share for FY2025.



*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

*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.

Consolidated

Other Indicators

	FY2016 (non-consolidated)	FY2017 (non-consolidated)	FY2018 (non-consolidated)	FY2019 (non-consolidated)	FY2020 (non-consolidated)	FY2021 (non-consolidated)	FY2022 (consolidated)	FY2023 (consolidated)	FY2024 (consolidated)
ROE (%) (return on equity)	18.0	24.8	48.8	48.9	54.2	29.1	21.8	5.6	15.1
ROA (%) (return on assets)	14.4	18.6	32.9	33.5	38.9	22.9	17.8	4.5	12.1
Equity ratio (%)	86.5	67.4	67.3	69.4	73.7	83.5	81.3	79.5	80.9
Dividend payout ratio (%)	41.4	30.9	30.3	38.7	30.3	30.0	30.0	60.7	30.8 (planned)
Cash dividends per share (yen)	0.71	0.84	2.19	3.60	4.30	3.00	2.90	1.50	2.20 (planned)
Number of shareholders	8,128	8,926	31,667	47,978	54,307	47,042	67,843	74,809	87,841

*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

*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

Financial Results Forecast



Non-consolidated

Financial Results Forecast

<FY2025 Key performance>

(Millions of yen)

	Results for FY2024	Forecast for FY2025	Changes	Changes (%)
Net sales	13,369	12,155	-1,213	-9.1%
Gross profit	10,260	9,482	-778	-7.6%
Sales promotion expenses, etc.	6,151	4,836	-1,314	-21.4%
Sales profit	4,109	4,646	+536	+13.0%
Total operating expenses	2,712	3,095	+382	+14.1%
Operating profit	1,397	1,550	+153	+11.0%
Operating profit margin	10.5%	12.8%	+2.3 pt	
Ordinary profit	1,435	1,539	+104	+7.3%
Profit	1,005	1,073	+68	+6.8%

Non-consolidated

Financial Results Forecast

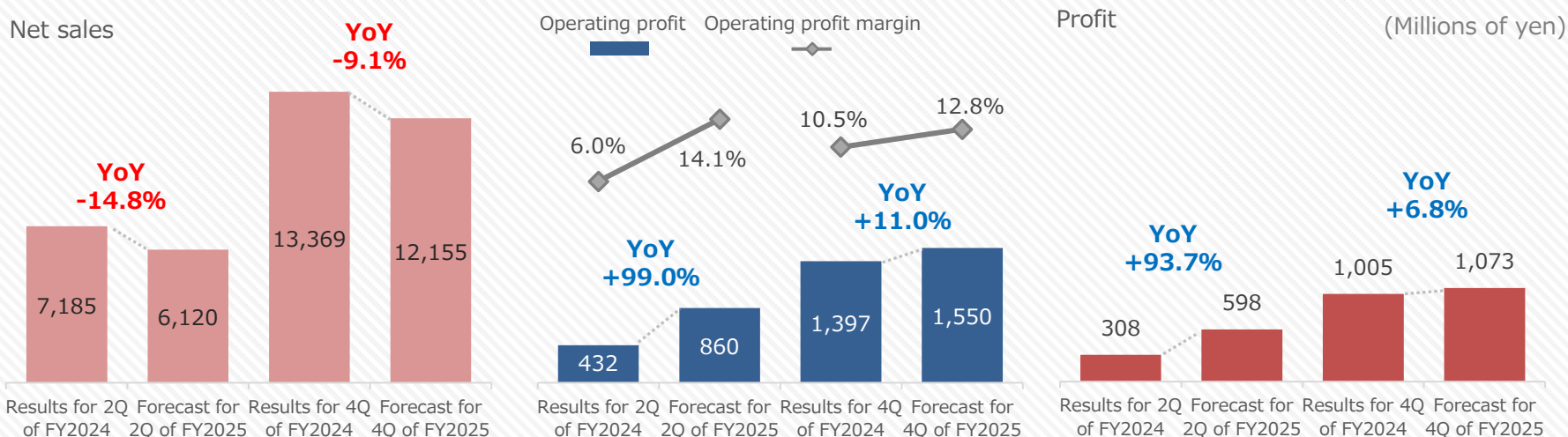
FY2025: Positioned as a period for strengthening the internal organizational structure to achieve stable growth in the medium to long term

- ◆ In our core brand “J NORTH FARM,” we will strengthen our organizational strength by further improving creative skills and increasing the workforce.

We plan to increase our total workforce by approximately 20% year on year.

- Develop and improve in-house education and training systems and ramp up recruitment at our customer attraction departments.
 - Focus on acquiring staff members with creative skills and good design sense, along with leadership skills.
 - With the customer base expanding, we will also ramp up recruitment at the Customer Service Department and back office divisions.
 - With the workforce expanding, we plan to relocate the Tokyo Head Office to a different floor of the same building in June 2024.
- Total operating expenses, including personnel and rent expenses, are expected to increase.

- ◆ We incorporate conservative estimates based on the assumption that new customer acquisitions will remain at the current pace, and expect that sales promotion expenses, etc., which mainly consist of advertising expenses, will decrease and the profits at each level will increase.

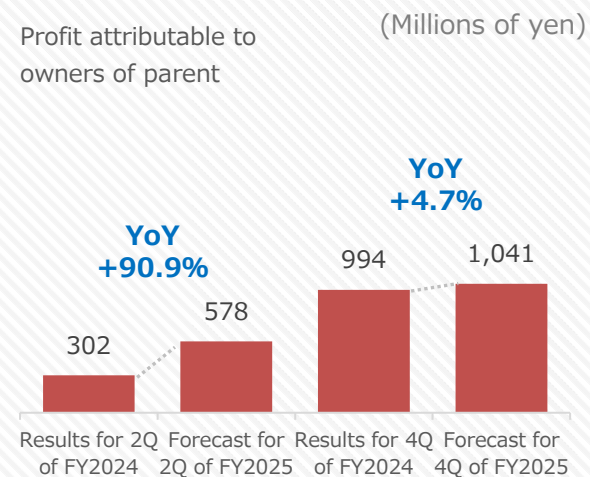
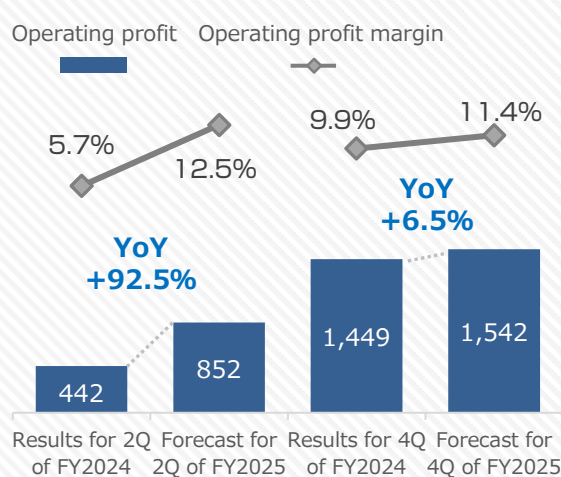
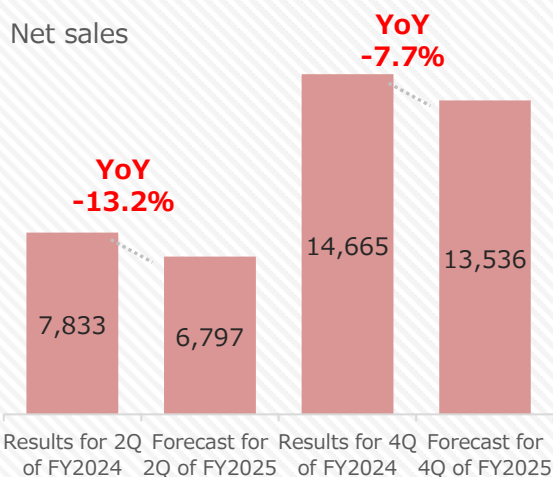


Consolidated Financial Results Forecast

<FY2025 Key performance>

(Millions of yen)

	Results for FY2024	Forecast for FY2025	Changes	Changes (%)
Net sales	14,665	13,536	-1,129	-7.7%
Operating profit	1,449	1,542	+93	+6.5%
Operating profit margin	9.9%	11.4%	+1.5 pt	
Ordinary profit	1,480	1,557	+76	+5.2%
Profit attributable to owners of parent	994	1,041	+46	+4.7%



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	
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.*	238 (21) people (As of February 29, 2024)	

* 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.

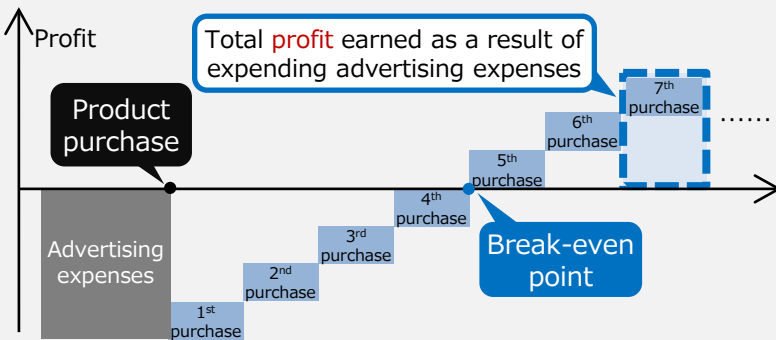
Business Model

◆ Customer characteristics

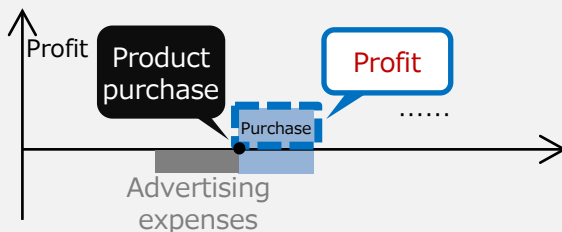
- The main customer base is men and women in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

◆ 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

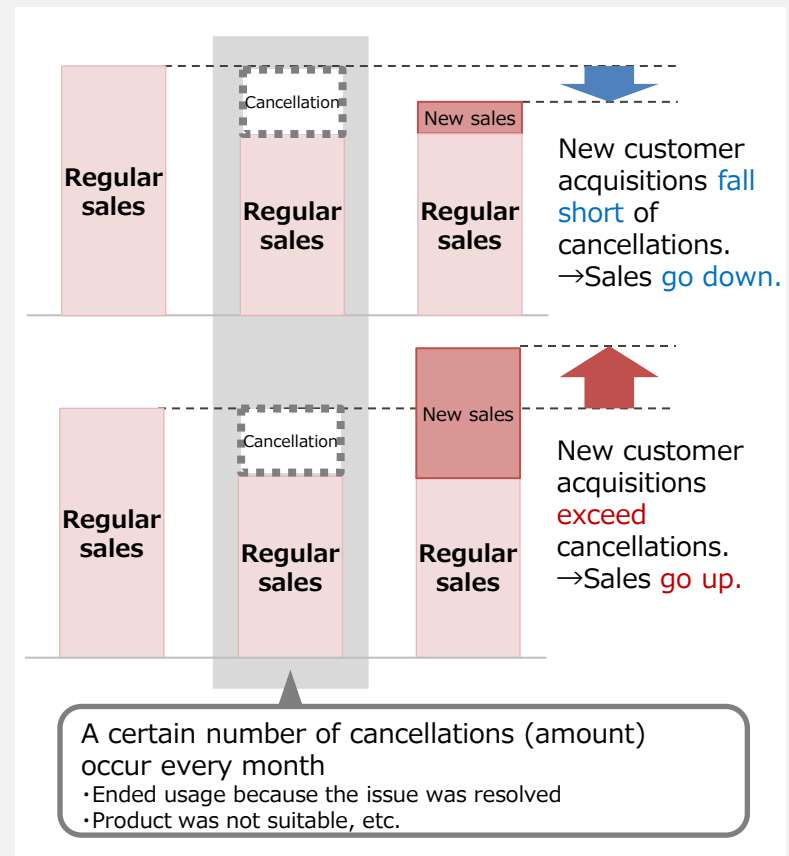


<E-commerce malls> Unit-purchase business model in which profitability is achieved with a single purchase, not a continuous purchase



◆ 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



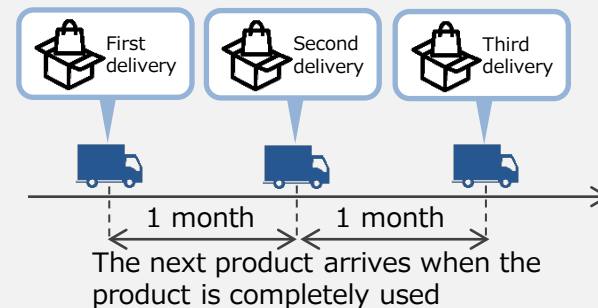
◆ Stringent product development standards

- 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



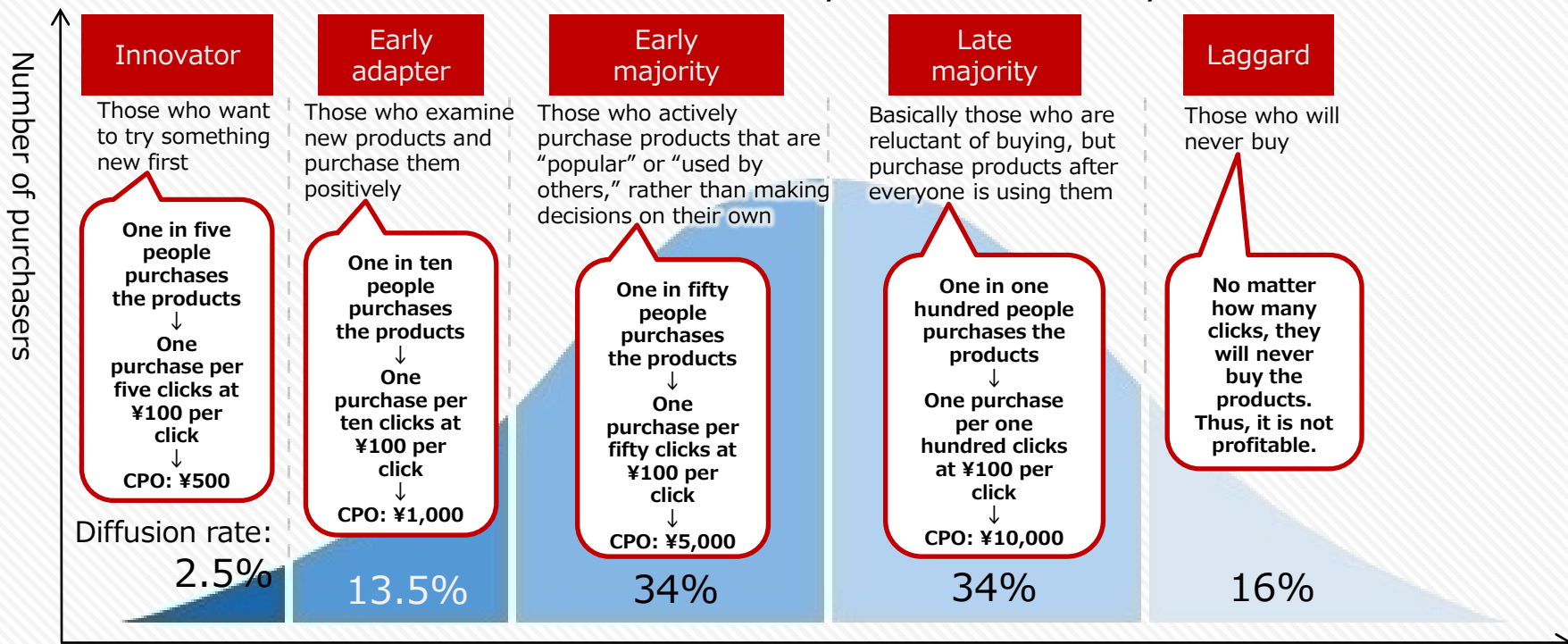
Sales Strategy

◆ Correlation between CPO and the number of new customer acquisitions

$$\text{Profit} = \text{Number of new customer acquisitions} \times \text{Profit per customer (LTV - CPO)}$$

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

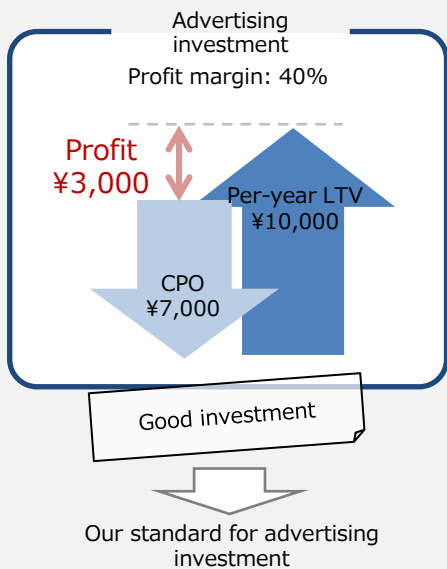


Prevent a decline in profitability due to excess advertising investment

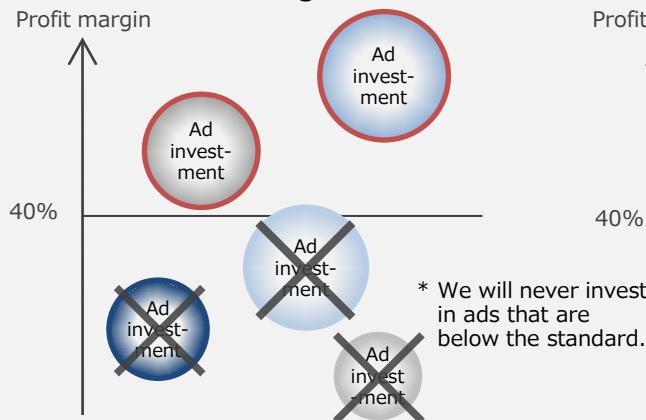


It becomes possible to increase sales by enhancing advertising investment while maintaining profitability

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

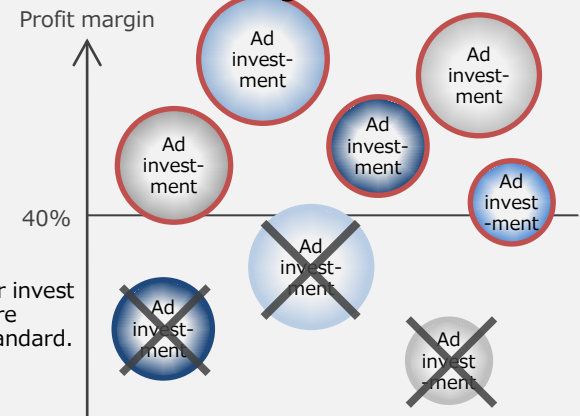


If there are only a few ads that are above the standard, we reduce the total amount of advertising investment



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.

Information on the Company's strategies

In addition to the product and sales strategies explained in this document, we also disclose our strategies related to the Company's management, including our personnel strategy, etc.

<Books>

The Law of Sales Minimization, Profit Maximization

—Management Secrets for a 29% Profit Margin



Released on June 16, 2021

FUNDAMENTALS X TECHNICAL MARKETING

—83 Ways to Maximize the Results of Web Marketing



Released on April 28, 2022

The Law of Time Minimization, Result Maximization

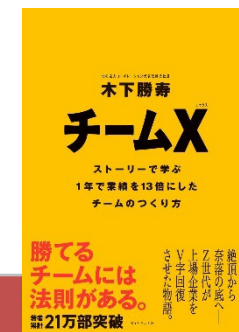
—“A Capable Person's Thinking Algorithm,” Installing One Story a Day



Released on November 16, 2022

Team X

—The Story Behind Building a Team that Improved Performance 13x in a Single Year



Released on November 15, 2023

Major Awards Received

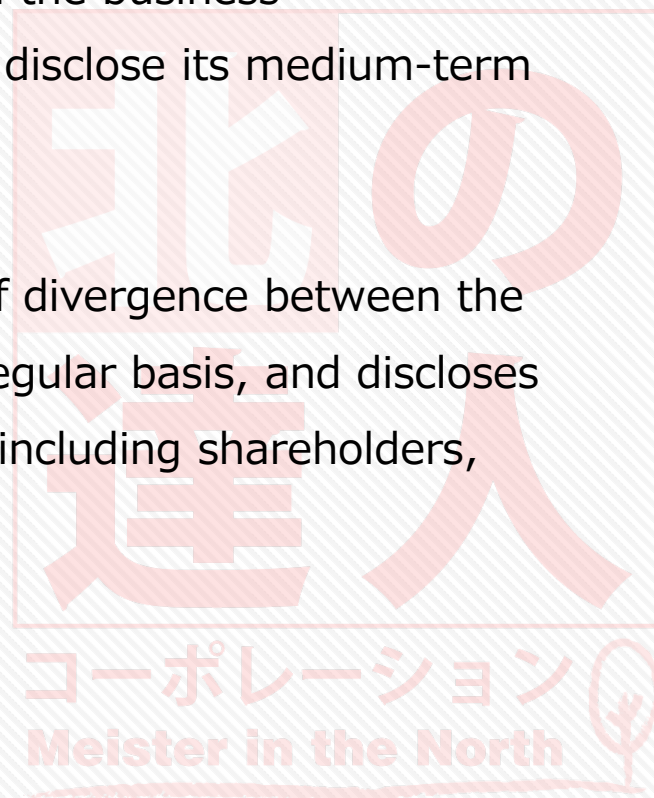
- November 2020: Awarded the “Asia’s 200 Best Under A Billion” in Forbes Asia
- September 2019: Awarded the Internet Shopping Award in the “Asia Direct Marketing Vision 2019”
- February 2017: Special E-Commerce Promotion Award Recipient at “Japan Venture Awards 2017” hosted by the Organization for Small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