



Supplementary Material for the Fiscal Year Ended February 28, 2021

Stock code: 2930
Kitanotatsujin Corporation
April 14, 2021

Executive Summary

- ☞ Exceeded forecasts for both net sales and profits at each level, resulting in net sales of ¥9,270 million (+12.7% compared with the initial forecast) and operating profit of ¥2,031 million (+1.2% compared with the forecast).
- ☞ New customer acquisitions through affiliates, Amazon, etc. were strong.
- ☞ Aim to expand business and performance as the Kitanotatsujin Group through the implementation of two M&As.

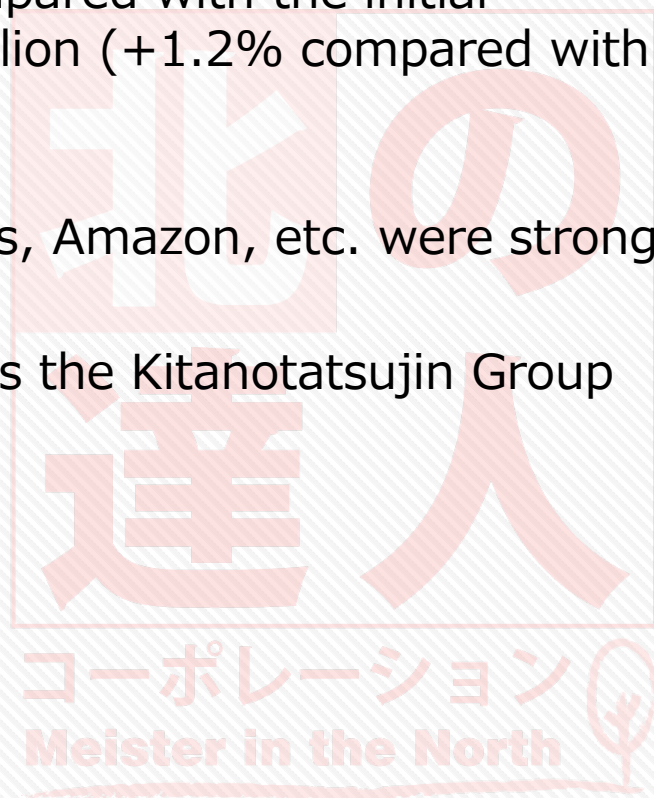
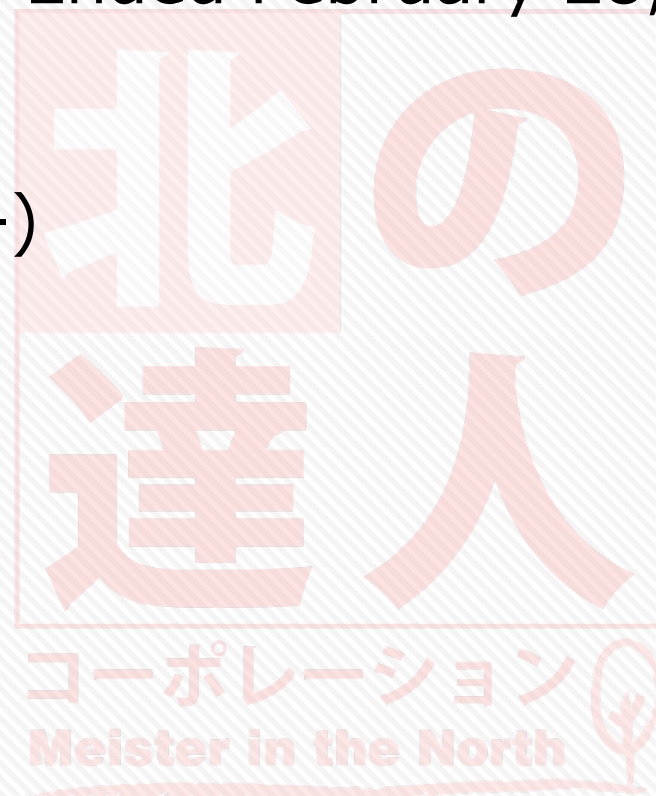


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Highlights for the Fiscal Year Ended February 28, 2021



Key Performance Highlights [Compared with Forecasts for the Quarter (Plan)]

(Millions of yen)

	Initial forecast (plan) for the fourth quarter	Results for the fourth quarter	Changes	Changes (%)
Net sales	1,894	2,258	+364	+19.2%
Gross profit	1,393	1,730	+336	+24.2%
Selling, general and administrative expenses	1,067	1,273	+205	+19.3%
Advertising expenses	505	658	+152	+30.3%
Operating profit	326	457	+131	+40.1%
Operating profit margin	17.2%	20.3%	+3.1pt	
Ordinary profit	326	466	+140	+42.9%
Profit	220	301	+80	+36.3%

- Although net sales and profits at each level were much higher than the forecast due to an unexpected increase in the number of new customer acquisitions and an increase in subscription sales, net sales and operating profit resulting from shipping delays for some products are expected to be included from the next fiscal year.

Key Performance Highlights [Compared with Forecasts for the Fiscal Year (Plan)]

(Millions of yen)

	Initial forecast (plan) for the fiscal year ended February 28, 2021	Results for the fiscal year ended February 28, 2021	Changes	Changes (%)
Net sales	8,227	9,270	+1,042	+12.7%
Gross profit	6,133	7,023	+889	+14.5%
Selling, general and administrative expenses	4,126	4,992	+865	+21.0%
Advertising expenses	2,020	2,681	+661	+32.7%
Operating profit	2,006	2,031	+24	+1.2%
Operating profit margin	24.4%	21.9%	2.5pt short	
Ordinary profit	2,007	2,048	+41	+2.1%
Profit	1,357	1,387	+30	+2.2%

- Net sales significantly exceeded the initial forecast due to an increase in the number of new customer acquisitions.
- Profits at each level increased slightly as a result of active investment through advertising expenses that was much higher than planned.

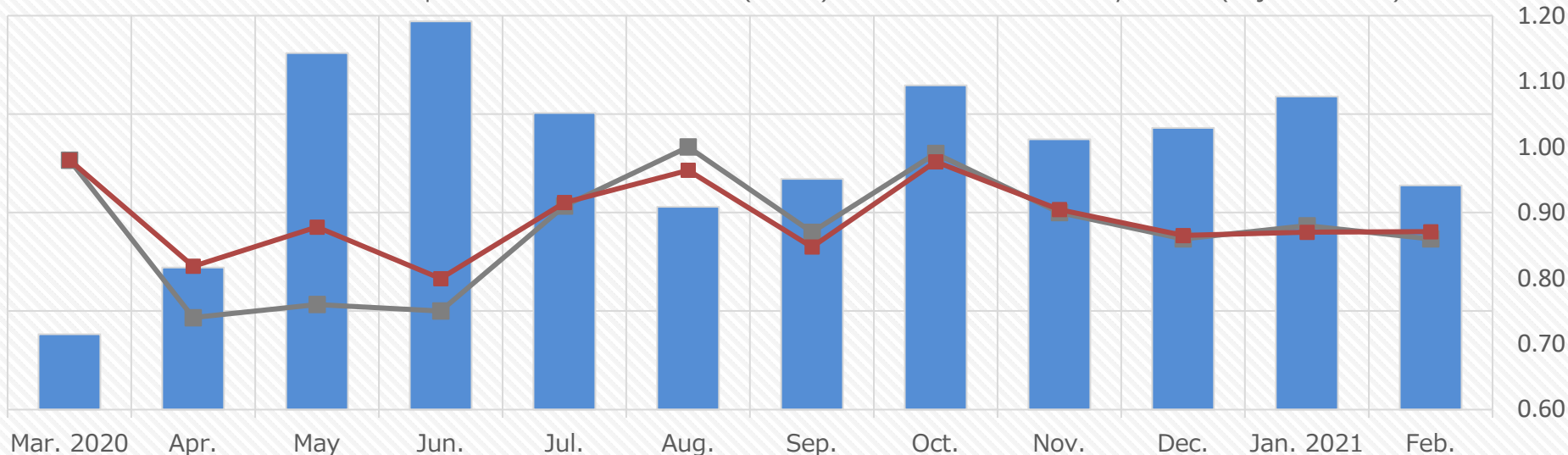
Analysis through Advertising Investment Efficiency and number of new customer acquisitions

ROAS*1: How much new products sales are acquired through the invested advertising expenses.

Assumed 1-year ROI*2: How much profit is expected to be generated in one year's time for invested advertising expenses.

- The assumed 1-year ROI for advertising expenses is calculated using accurate LTV*3 calculation skills based on a vast amount of data to date.
- **Emphasis on gaining an understanding of profit-based investment efficiency**, considering factors such as product profit margins and repeat rates.
- Divergence from April to June 2020 due to the unit price of products with strong new customer acquisitions and characteristics of measures (see P.37).

■ New customer acquisitions*4 ■ ROAS (Actual)*4 ■ Assumed 1-year ROI (Adjusted value)*5



From December 2020 to February 2021, the number of new customer acquisitions remained nearly flat compared to the previous quarters.

*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. 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.

*2 ROI stands for Return On Investment, which is a benchmark for advertising investment efficiency that measures the amount of profit made on advertising placements. We use the assumed 1-year ROI as an indicator of how much net gross profit (a proprietary indicator calculated by subtracting order-linked costs such as product cost, shipping, and settlement fees from 1-year LTV) can be expected to be earned from advertising in one year.

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

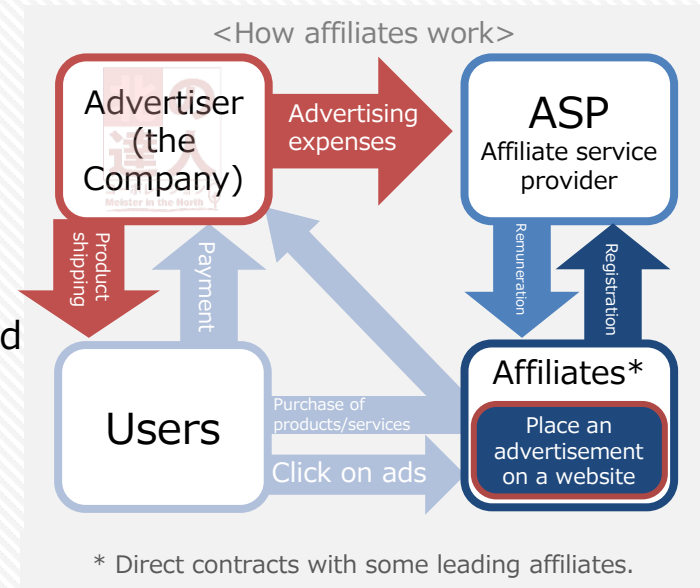
*4 The numbers of new customer acquisitions and ROAS are based on the order date, taking into account shipping delays for some products.

*5 The assumed 1-year ROI is a figure adjusted so that the ROAS (0.98) is the same as the assumed 1-year ROI (not disclosed) from March 2020. The figures have been adjusted to facilitate comparison with ROAS and are not actual numbers.

Measures to increase the number of new customer acquisitions

1 Approach to affiliate* businesses

- Affiliates were the main source of acquisition of new customers several fiscal years ago. At the time, SEO (Search Engine Optimization) was a major means. However, Google's update has slowed it down.
- Current affiliates are mainly "performance-based advertising agencies," where affiliates advertise using their own funds (ad-affiliates).
- Since the number of highly skilled affiliates has increased the Company has once again reinforced efforts for affiliates.



■ Measures that produced the best results in the fiscal year under review

The number of new customer acquisitions through affiliates has grown every quarter, having **increased by 3.8 times** when comparing the first quarter of the fiscal year ended February 28, 2021, to the fourth quarter.



Aim to expand the number of products handled and advertising media, and utilize the strengths and characteristics of affiliates to increase the number of new customer acquisitions

* An online advertising method, where an affiliate posts advertisements about an advertiser's products and services on its blogs, websites, or other media. The advertiser pays a fee (commission) to the affiliate, if a viewer purchases the product through the link.

Measures to increase the number of new customer acquisitions

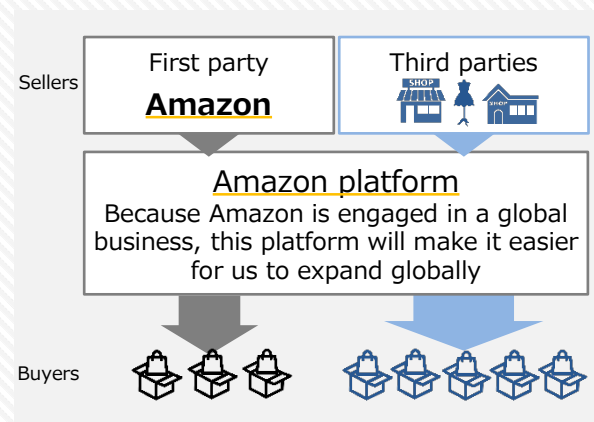
2 Strengthening sales through e-commerce malls

- Strengthen sales through **Amazon, Rakuten Ichiba** and other e-commerce malls. The number of new customer acquisitions increased **2.2 times** compared to the first quarter.
- Aim at **gaining customers belonging to a customer base different from before, who purchase products on the Internet.**

<Analysis>

- The amount of Amazon distribution transactions will grow more for third parties (Marketplace), sellers outside of Amazon, than for first party, which is Amazon.
- It has changed from a place where people search for and purchase major well-known brand products, to **a place where people search by product category and compare products from well-known and unknown brands.**
- It will be a place where sales can be greatly increased not by brand power but by product power.

→ **There is a lot of room for growth by our company**



<Currently>
Listing existing products



<In the future>
Analyze buyer characteristics and trends, and focus on **developing Amazon exclusive products**



We will work to capture the global common platform of Amazon in order to gain a foothold for future overseas expansion

Measures to increase the number of new customer acquisitions

3 Sales channels other than the Internet

- Advertisements and articles in magazines, including men's fashion magazines.
- Utilization of TV advertisement on terrestrial channels in some parts of Hokkaido and other regions.
- **Strong new customer acquisitions from infomercial advertising (BS broadcasting, etc.).**

While the Company has been working on this initiative for several fiscal years, results have not been readily apparent. However, through continuing this initiative, the Company has accumulated production expertise and improved its skills in selecting advertising distribution programs.

New customer acquisitions has grown each quarter, and in the fourth quarter **increased 8.4 times** compared to the first quarter.



Approach to customers who do not purchase products on the Internet.

4 Holding meetings with customers to receive feedback

- Hold meetings with customers who are currently purchasing the Company's products, those who used to purchase the Company's products in the past but have canceled their regular purchases, those who know about the Company's products but have not bought any, etc.
- Receive **feedback directly from customers** regarding motivation for purchases, reasons for cancellation, reasons for not buying, etc.
- The customer feedback will be used for **improving advertising contents** and **customer satisfaction**.

LTV improvement measures

The Company also actively took measures to improve LTV in the fiscal year under review. Improvement in LTV will lead to an increase in the number of new customer acquisitions. (See P.34 for details)

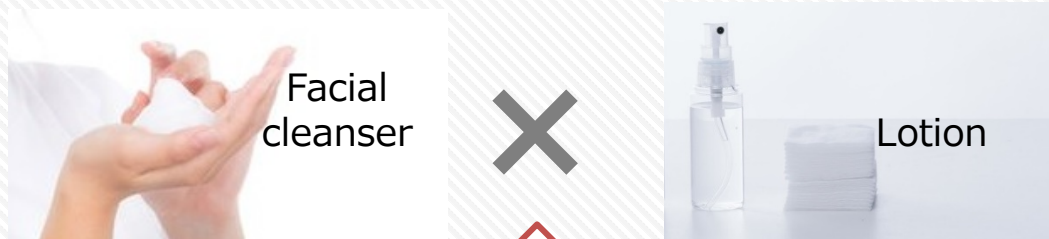
→ LTV improved by 10% or more for some products

Specific measures (1) Cross-selling*2 and up-selling*3



Cross-selling measures showed an increase in the success rate from 1.5% to 8.9% and contributed to achieving a certain level of improvement in LTV.

Illustration of cross-selling as reference



(Example) Would you like some lotion as well?

- *1 CPO stands for Cost Per Order, which is the amount of advertising expenses per order. For example, if advertising expenses are ¥1 million and the number of new customer acquisitions is 100, the CPO is ¥10,000.
- *2 A sales method to ask customers to purchase not only the products they are currently purchasing, but also other products. In addition to improving LTV, customers will benefit from lower settlement charges and shipping fees.
- *3 A sales method to ask customers to purchase products with a higher unit price than products they are currently purchasing, or to shift to another regular course which offers a larger number of products than the course that they currently subscribe to. In addition to improving LTV, customers will benefit from higher discount rates offered for regular courses.

LTV improvement measures

Specific measures (2)

Establishment of a dedicated contact point to improve the rate of continued subscription purchases

There is a certain number of cases of incorrect usage, such as usage amounts and frequency of usage, with respect to reasons for cancellation, including "cannot feel any positive effect," "receiving new products before using up previous ones," etc.

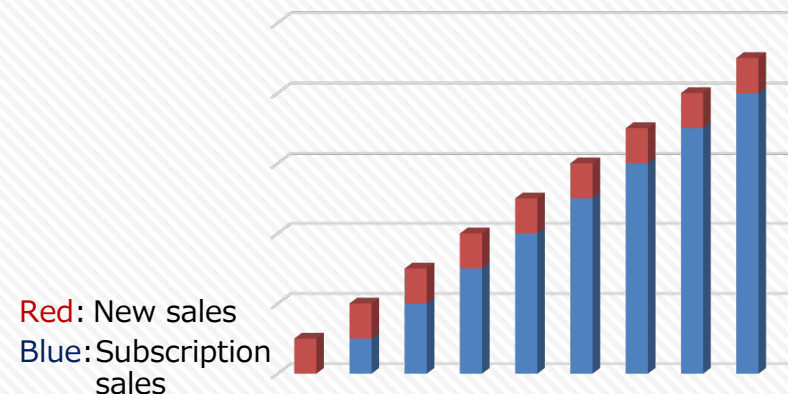
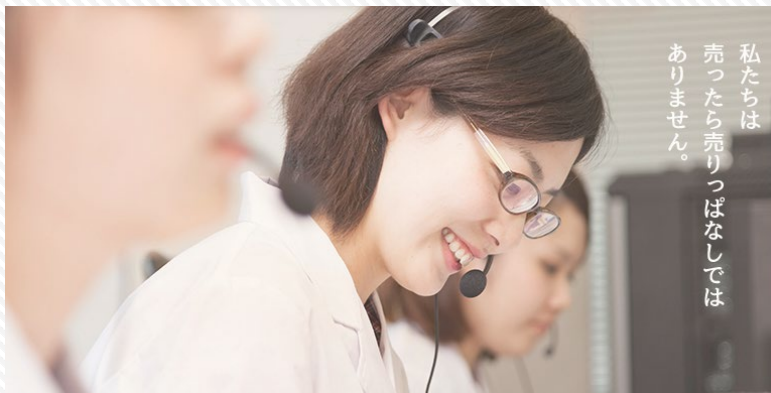
<Previously>

Did not specifically ask for feedback from customers, and processed cancellations

<Initiatives>

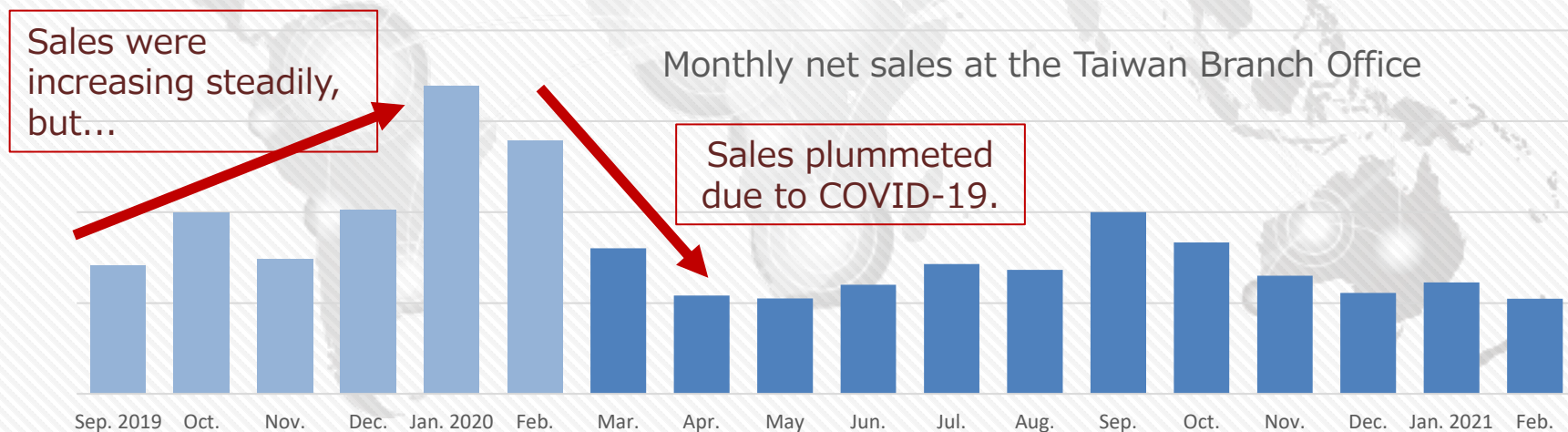
Established a dedicated contact point, after improving knowledge of in-house professional staff based on their expertise as developers, as well as improving the service quality of telephone support

➔ Increase in the rate of customers who wish to continue subscription purchases from 8.0% before the establishment of the contact point to 18.0%. Continue efforts to improve customer satisfaction and the rate of continued subscription purchases of customers who are regularly buying products.



Overseas Business Development

- At the Taiwan Branch Office, which steadily increased sales during the previous fiscal year, **net sales growth slowed** due to a decline in consumer sentiment caused by the spread of COVID-19, which were **more severe than in Japan**.
- However, net sales of the Taiwan Branch Office account for only a small portion of total sales and have a minor impact on the Company's overall business performance.
- During the fiscal year ended February 28, 2021, we have **begun developing a system to expand our Taiwan Branch Office**, such as **increasing the number of products handled, hiring and training full-time staff from Taiwan, and researching new advertising media**.



→ Focus on expanding overseas business while paying attention to the spread of COVID-19 and timing of it being contained

Launched new products in the fiscal year ended February 28, 2021

ついに、毛穴ケアは**刺す時代へ!** Fourth in the "DEEP PATCH Series"
 チークポアパッチ
CHEEK PORE PATCH
 Launched in March 2020



[Quasi-drug] Spots prevention peeling gel for men
PEEL SHOT
 Launched in May 2020

頑固な「男ジミ」を
 ピーリングで本格対策!



ハリがなくなり
 緩み・下がった顔に
グイッ!と「ハリ」
 たるみ引き上げ*ミスト
 *物理的皮膚効果

Aging care mist lotion for men
HARISHU
 Launched in August 2020



Establishment of a new logistics base

In addition to the existing logistics base in Sapporo, Hokkaido, a new base was established in Soja, Okayama

<Purpose>

- Avoiding geographic risks from concentrating on a single location
- Reduction of shipping and handling costs and other expenses

New base
Soja, Okayama

Existing base
Sapporo, Hokkaido



Corporate Governance System

- Mr. Shigeatsu Shimizu, Senior Managing Director, resigned at the conclusion of the Ordinary General Meeting of Shareholders in the previous fiscal year.
- Increased the number of Directors in order to strengthen the management system, and elected three Directors (including one Outside Director) at the said Ordinary General Meeting of Shareholders.

<After the end of the fiscal year under review>

- Establishment of a Nomination and Remuneration Committee
Deliberate and provide replies in response to questions from the Board of Directors concerning the election and dismissal of Directors and Audit & Supervisory Board Members, the remuneration of Directors, etc.
- Transition to a Company with an Audit and Supervisory Committee

Composition of Directors

Before conclusion of the Ordinary General Meeting of Shareholders for fiscal year ended February 29, 2020
Total of four Directors (including one Outside Director)



After conclusion of the Ordinary General Meeting of Shareholders for fiscal year ended February 29, 2020
Total of six Directors (including two Outside Directors)



After conclusion of the Ordinary General Meeting of Shareholders for fiscal year ended February 28, 2021 (planned)
Total of nine Directors (including two Outside Directors and three Outside Directors who are Audit and Supervisory Committee Members)

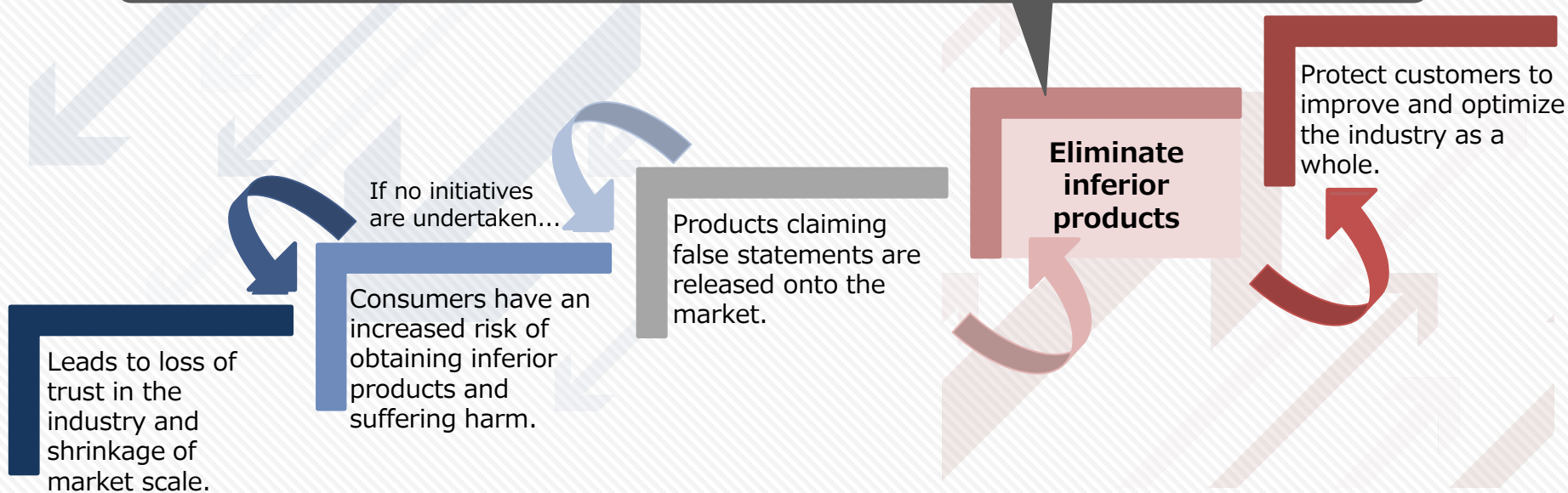


Protection of intellectual property rights

<The Company's initiatives>

Mainly the "Office of Competition and Imitation Countermeasures" respects the intellectual property rights of the Company and other companies and promotes business activities in a fair competitive environment.

As a corporation that focuses on protecting consumers, the Company monitors for imitation products and false information in order to prevent harm to customers.



Our policy is to continue the Company's initiatives to optimize the industry over the long term

Protection of intellectual property rights

<Specific initiatives in the fiscal year under review>

Case seeking an order of provisional disposition	Competitor of the Company's product "KAITEKI OLIGO" was displaying in their SNS advertising that the product could "fight off coronavirus by improving immunity from within your body."	<ul style="list-style-type: none"> • Misrepresentation of product quality 	Settlement
Case seeking an injunction for unfair competition	<ul style="list-style-type: none"> • Competitor of the Company's product "KAITEKI OLIGO" was displaying that the product was 100% pure oligosaccharides. • Compared their product with the Company's product "KAITEKI OLIGO" and listed false facts. 	<ul style="list-style-type: none"> • Misrepresentation of product quality 	<p><Judgement in the first instance> Opposing party ordered to pay approximately ¥18.35 million in damages → Appeal filed</p>
Case seeking an injunction for trademark infringement	<ul style="list-style-type: none"> • Sales of competing product with product name similar to the Company's product "MINNA NO HADAJUNTO." • Use of images, illustrations, etc. that are substantially similar to the images, illustrations, etc. posted on the Company's website. 	<ul style="list-style-type: none"> • Trademark infringement, etc. 	Settlement
Case seeking compensation for damages	<ul style="list-style-type: none"> • Competitor of the Company's product "EYE KIRARA" was displaying multiple "1st place rankings," etc. without any rational basis. • Dissemination of false facts on affiliate sites comparing against the Company's product "EYE KIRARA." 	<ul style="list-style-type: none"> • Misleading practices • Damaging reputation 	Pending

Balance Sheets

(Millions of yen)

Subject/Section	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021	Changes	Changes (%)
(Cash and deposits)	4,088	3,612	-475	-11.6%
Current assets	5,521	5,857	336	+6.1%
Non-current assets	380	343	-36	-9.7%
Total assets	5,902	6,201	299	+5.1%
Current liabilities	1,554	1,022	-532	-34.2%
Non-current liabilities	—	—	—	—
Total liabilities	1,554	1,022	-532	-34.2%
Total net assets	4,347	5,179	831	+19.1%
Total liabilities and net assets	5,902	6,201	299	+5.1%

The main factors for the changes were a decrease in “Current liabilities” due to the payment of income taxes payable and an increase in “Net assets” due to the recording of profit.

Statements of Cash Flows

(Millions of yen)

Subject/Section	Fiscal year ended February 29, 2020 March 1, 2019 to February 29, 2020	Fiscal year ended February 28, 2021 March 1, 2020 to February 28, 2021	Changes
Cash flows from operating activities	2,142	682	-1,460
Cash flows from investing activities	-100	-609	-509
Cash flows from financing activities	-643	-555	+88
Effect of exchange rate change on cash and cash equivalents	1	7	+5
Net increase (decrease) in cash and cash equivalents	1,400	-475	-1,876
Cash and cash equivalents at beginning of period	2,687	4,088	+1,400
Cash and cash equivalents at end of period	4,088	3,612	-475

The main factors for the changes during the period were an increase in profit before income taxes of ¥2,044 million, a decrease in payment of income taxes of ¥1,114 million, a decrease in deposits for the acquisition of stock of affiliated companies of ¥582 million, and a decrease in payment of dividends of ¥555 million.

Future Developments



Future Developments

■ Forecast for the fiscal year ending February 28, 2022

(Millions of yen)

	[Results for the fiscal year under review] (non-consolidated) Fiscal year ended February 28, 2021	[Forecasts] (non-consolidated) Fiscal year ending February 28, 2022	Changes	Changes (%)
Net sales	9,270	9,847	+577	+6.2%
Operating profit	2,031	1,812	-219	-10.8%
Ordinary profit	2,048	1,815	-232	-11.4%
Profit	1,387	1,232	-154	-11.2%

- Increased revenue expected from the launch of mass-market products and an increase in the number of new customer acquisitions through various measures.
- Temporary profit decrease expected from increase in advertising expenses for new customer acquisitions and increase in operating expenses to strengthen organizational foundation.

<Consolidated forecast for the fiscal year ending February 28, 2022>

Net sales	¥10,657 million
Operating profit	¥1,871 million
Ordinary profit	¥1,873 million
Profit attributable to owners of parent	¥1,262 million

Future Developments

<Fiscal year ended February 28, 2021>

Period for improving internal organizational structure to grow future net sales and profit



<Fiscal year ending February 28, 2022>

Position as period for sowing seeds for the future and full-scale development of strategies and measures

- Full-scale operation of measures continuing from the previous fiscal year
 - Further expansion of sales channels in e-commerce malls.
 - Expand on Amazon's domestic platform, develop into the large market scale offered by Amazon overseas. (See P.9 for details)
 - Active operating activities for affiliate businesses. (See P.8 for details)
 - Utilizing the expertise of subsidiaries to increase the number of new customer acquisitions.
 - Increase selling, general and administrative expenses in addition to advertising expenses
 - Impact throughout the fiscal year of increased personnel expenses associated with the increase in personnel to improve the organizational structure which was put into operation in the fiscal year ended February 28, 2021.
 - Increased operating expenses, etc. due to business expansion.
- Excluding advertising expenses, our selling, general and administrative expenses will increase by approximately ¥380 million from the fiscal year ended February 28, 2021.

Future Developments

■ Initiatives for product development and market share acquisition

Focus on the product development that can deploy multiple **mass-market products** for net sales of ¥5.0 billion to ¥10.0 billion from a single product in large mass markets.



Launch multiple new products in the second half of the fiscal year ending February 28, 2022, due to strengthening the Product Department in the fiscal year ended February 28, 2021.

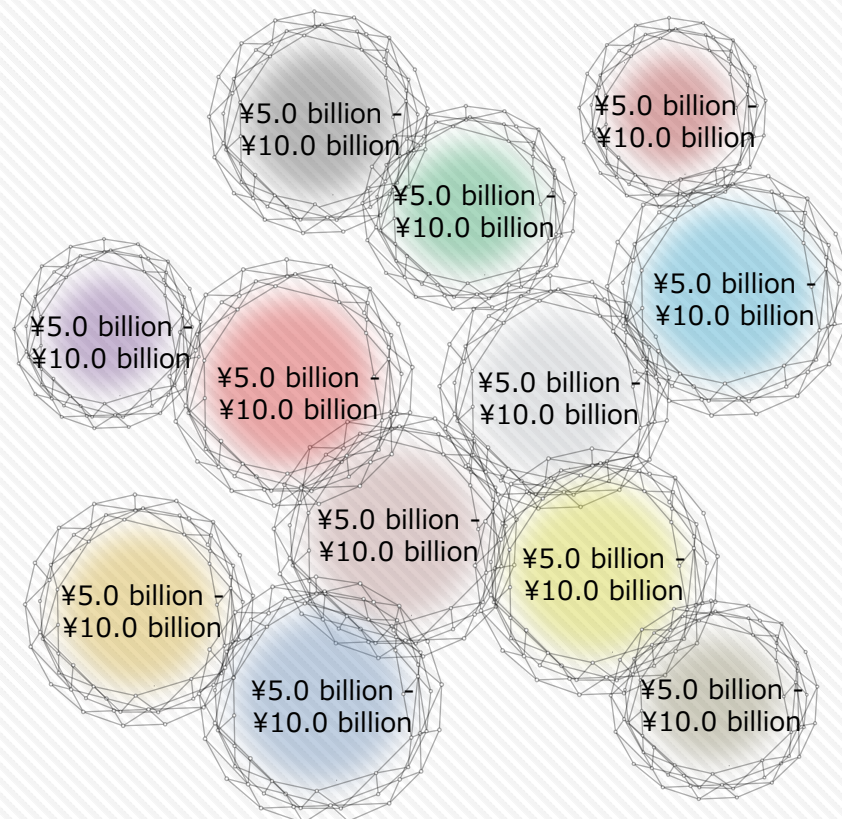


Active investment in advertising after launch

- Market scale differs greatly from the products handled to date.
- Build up future base of regular customers.



Continue initiatives to strengthen the Product Department from the fiscal year ending February 28, 2023, onward so that it can launch multiple mass-market products every year



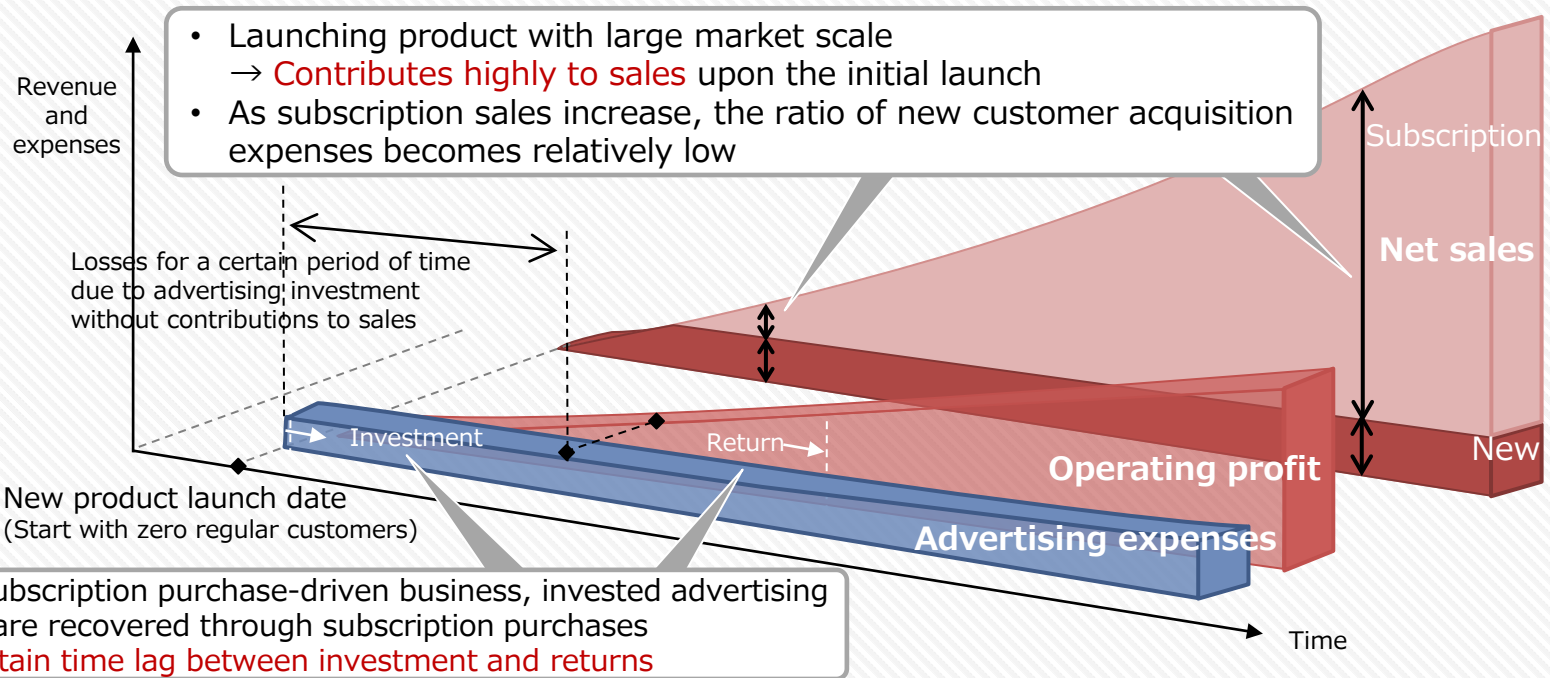
While focusing on sales promotion activities in Japan, we consider overseas expansion other than Taiwan and utilize platforms such as Google, Facebook, Twitter, Amazon, etc.

Future Developments

■ Launch of mass-market products

The launch of new mass-market products will **stimulate new demand and have a significant impact on future performance.**

<Illustration of profit from launch of new product>



Launching a product with a large market scale contributes highly to net sales upon the initial launch, but also has a high ratio of advertising expenses that is a main factor in lowering the profit margin.

<Ratio of advertising expenses to net sales>

Fiscal year ended February 28, 2021 = 28.9% → Fiscal year ending February 28, 2022 (projected) = 31.1%

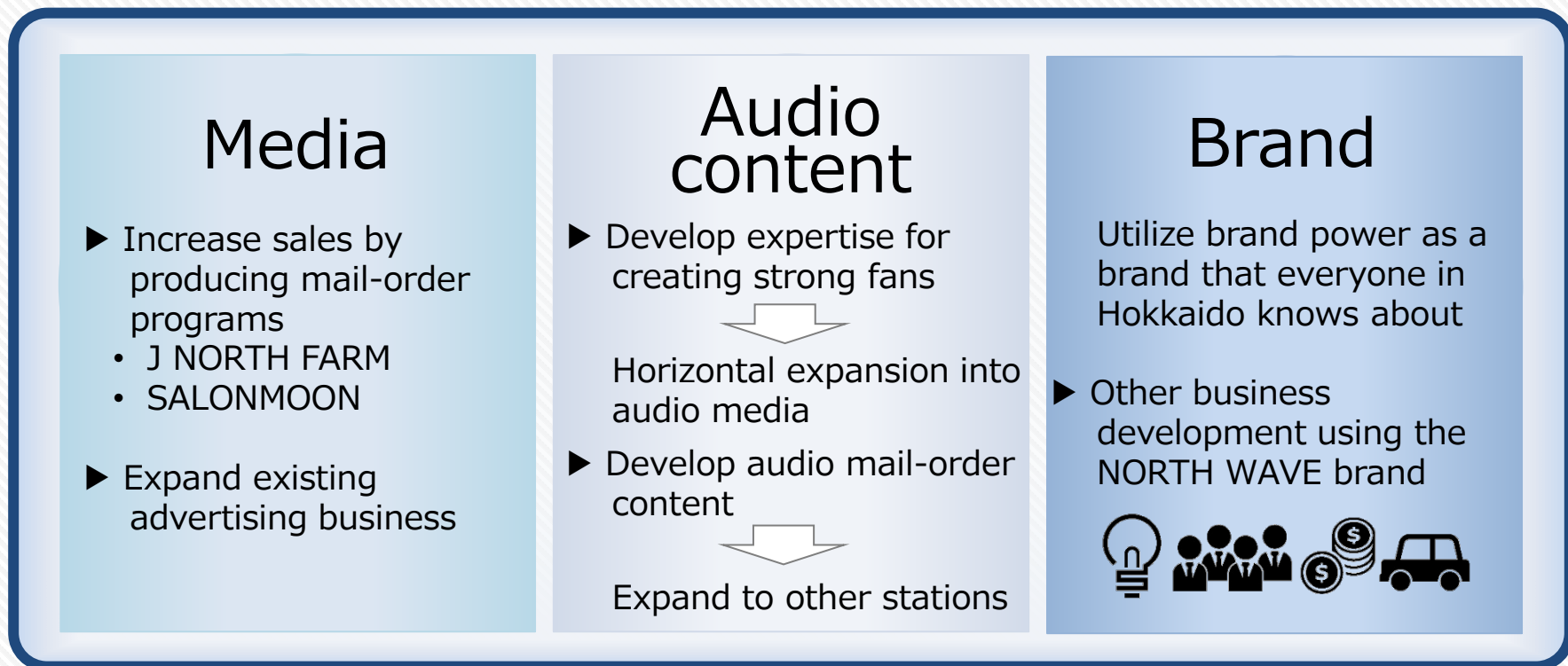
Future Developments

■ Business strategy for FM NORTH WAVE CO., LTD.

(Stock transfer agreement concluded in the fiscal year ended February 28, 2021, to make FM NORTH WAVE into a subsidiary from the fiscal year ending February 28, 2022.)



FM radio station with a broadcast area covering Hokkaido



➔ Aim to **expand** business and performance as the **Kitanotatsujin Group**.

Future Developments

■ Business strategy for ASHIGARU Co., Ltd.

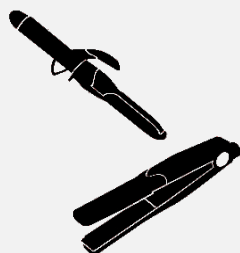
(Stock transfer agreement concluded in the fiscal year ended February 28, 2021, to make ASHIGARU into a subsidiary from the fiscal year ending February 28, 2022.)

- Continue expansion of beauty home appliance market owing to popularization of in-home beauty salon products* in line with recent diversification in beauty needs.
- Highly compatible with the Company's existing products and e-commerce malls.

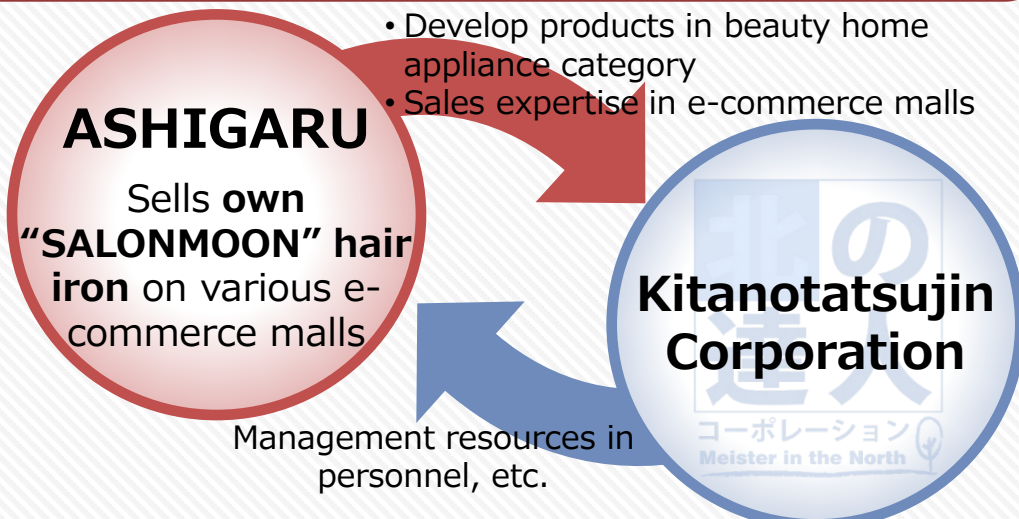


- Expand sales channels in e-commerce malls.
- Develop products in new categories, including beauty home appliances.

"SALONMOON" hair iron



- Breakout success with a total of over 150 thousand units sold in the two years since the company was founded.
- Reviews on main e-commerce sites show high levels of customer satisfaction.



Further business expansion by growing sales and entering new markets in the product development category



Aim to **expand** business and performance as the **Kitanotatsujin Group**.

* Products that enable consumers to achieve results at home, on their own, for procedures commonly performed at beauty salons, beauty parlors, etc.)

Future Developments

■ Diversification of revenue base and acceleration of growth through aggressive M&As

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



■ Solicitation of aspiring entrepreneurs who want to start new D2C businesses

Expand business scale while developing multiple businesses with net sales over ¥10.0 billion

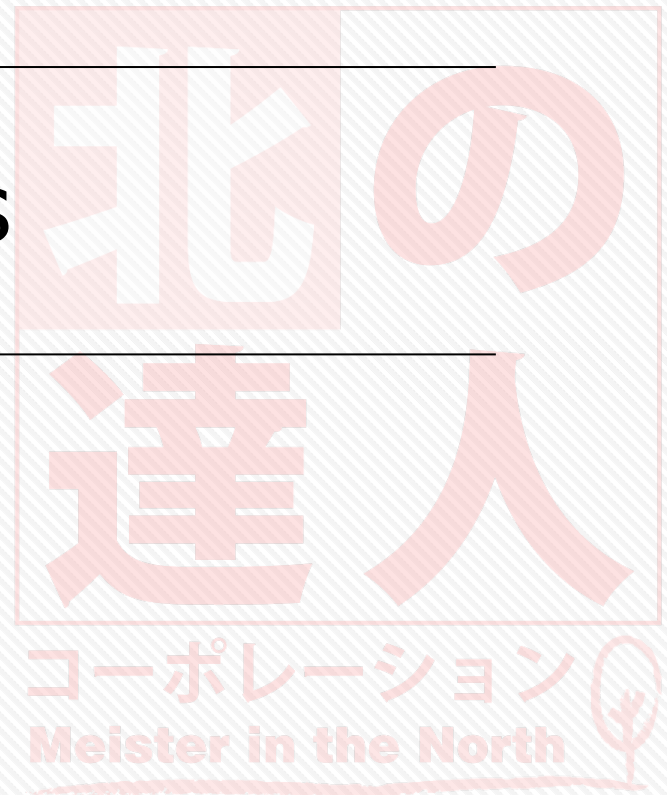
- Actively hire personnel who possess excellent business plans and passion for entrepreneurship.
- Founder and current Representative Director & President, Katsutoshi Kinoshita, provides a first-hand account of his own personal expertise.
- Launch new businesses by supporting aspiring entrepreneurs who show promise and share the Company's vision and purpose.

→ Several prospective candidates have been selected and multiple businesses are scheduled to be launched within the fiscal year ending February 28, 2022.

➡ **Early achievement of medium- and long-term targets of ¥100.0 billion in net sales and ¥30.0 billion in operating profits**

* D2C stands for Direct to Consumer, which is a system to sell our products directly to consumers through e-commerce sites.

References



Product Strategy

Product development specifically designed for the E-commerce business

- Develop the E-commerce business that sells a total of 32 **original products** on the Internet to meet specific customer needs, including **cosmetics and health foods**
- 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 750 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



北の快適工房
J NORTH FARM



北の快適工房
J NORTH FARM
BEAUTY



北の快適工房
MEN



◆ Featured in the NIKKEI TRENDY (August 2018 issue)

Product Strategy

Products for men

Looking to increasing demands for products from men and growth potential of the men's cosmetics market (its scale has grown to approximately ¥120.0 billion, and further growth is expected going forward*), we are also focusing on the **development of products for men that specialize in men's skin types and constitution.**

Two products were launched in the fiscal year ended February 28, 2021.



Market

<Current>

We are mainly developing niche market products that can generate net sales of ¥1.0 billion to ¥2.0 billion from a single product.

<Future>

We will mainly develop **mass-market products** that can generate net sales of **¥5.0 billion to ¥10.0 billion** from a single product.

* "Marketing Handbook of Cosmetics 2020 No. 2" published on March 26, 2020 by FUJI KEIZAI CO., LTD.

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 only by net sales.

Advertising optimization system

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



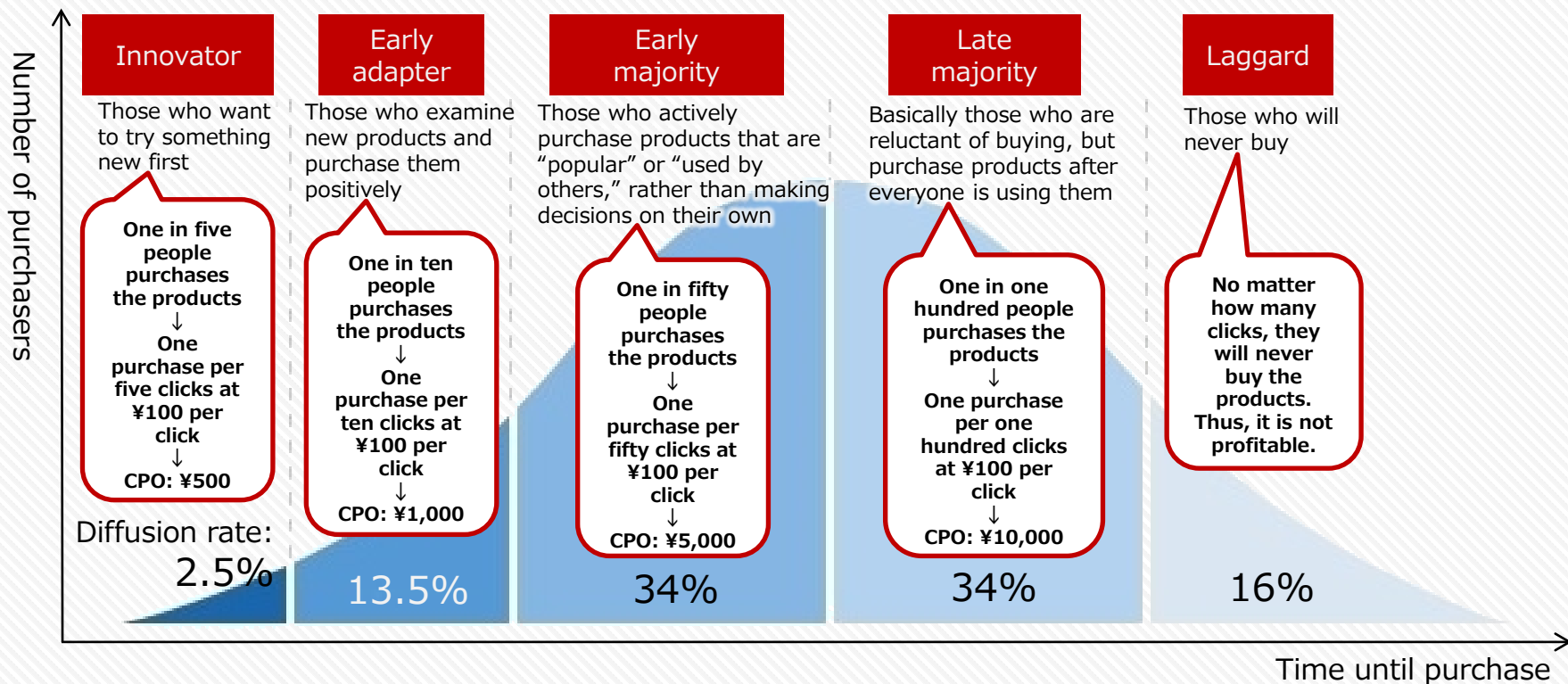
⇒ **Develop a system where only highly profitable advertising will remain**

Correlation between CPO and the number of new customer acquisitions

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

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

Consumer distribution by innovator theory



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

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

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	10,000	6,000	3,000	1,000
Cost	5,600	3,500	1,800	300
Profit (1) Gross profit or loss	4,400	2,500	1,200	700
Gross profit margin	44%	42%	40%	70%
Order-linked costs (enclosures, accessories, settlement charges, shipping fees, packaging materials, etc.)	500	300	150	50
Profit (2) Net gross profit	3,900	2,200	1,050	650
Net gross profit margin	39%	37%	35%	65%
Sales promotion expenses (primarily advertising expenses)	1,990	1,600	350	40
Profit (3) Sales profit	1,910	600	700	610
Sales profit margin	19%	10%	23%	61%
ABC (Activity Based Costing)	190	50	120	20
Profit (4) ABC profit	1,720	550	580	590
ABC profit margin	17%	9%	19%	59%
Operating expenses (rent expenses and indirect operating personnel expenses, etc.)	700	420	210	70
Profit (5) Operating profit for each product	1,020	130	370	520
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.

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

<Product strategy>

- Product development specifically designed for the E-commerce business
- Strict product development standards
- Focus on the development of products for men as well
- Development of mass-market products

<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

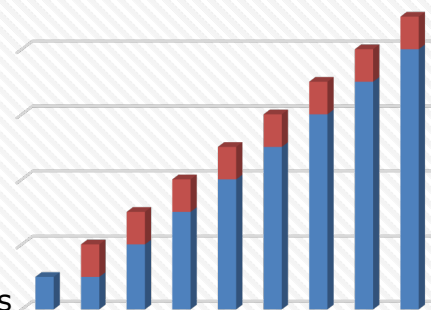
Together
with

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

Red: New sales

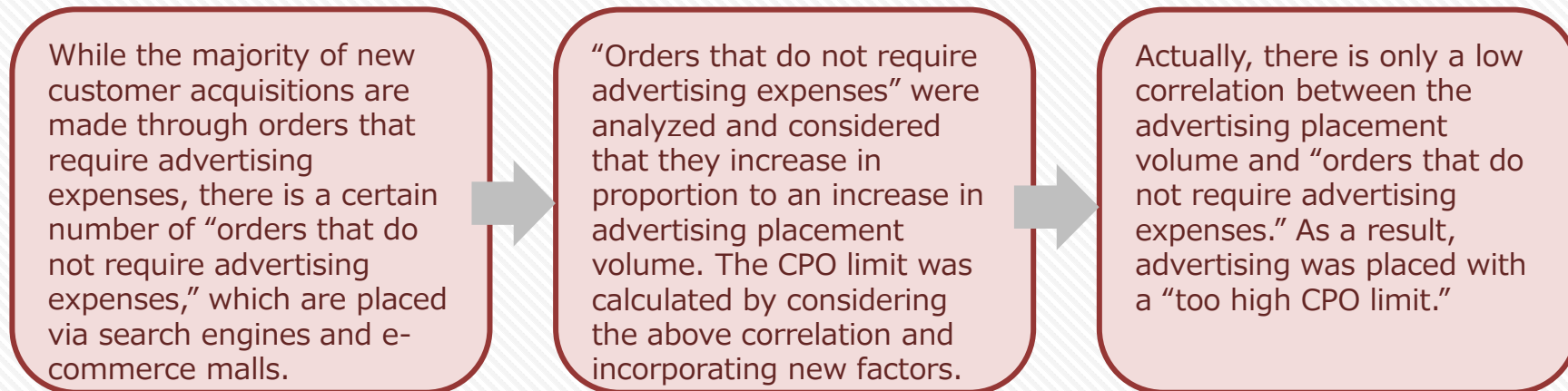
Blue: Subscription sales



→ Realize a profit structure that enables stable growth

Raising the CPO limit

- The CPO limit was raised to increase the number of new customer acquisitions.



A factor for the deterioration of ROAS in April to June 2020

Return the calculation method of the CPO limit to the previous one from July 2020 onward

Unit price of products with strong new customer acquisitions and characteristics of measures

- The CPO limit is calculated based on the LTV of the products.

	Unit price	Average number of purchases	LTV
Product A	¥5,000	9 times	¥45,000
Product B	¥6,000	7 times	¥42,000
Product C	¥7,000	5 times	¥35,000

- LTV differs depending on product genre and characteristics.
- There are products with a low unit price but a large average number of purchases, which yield higher LTV.
- The unit price of Product C is higher than that of Product A, but the CPO limit can be set higher for Product A.
- As Product A yields a high LTV and a sufficient return on investment can be expected, discounts and other measures can be deployed to increase the number of new customer acquisitions.



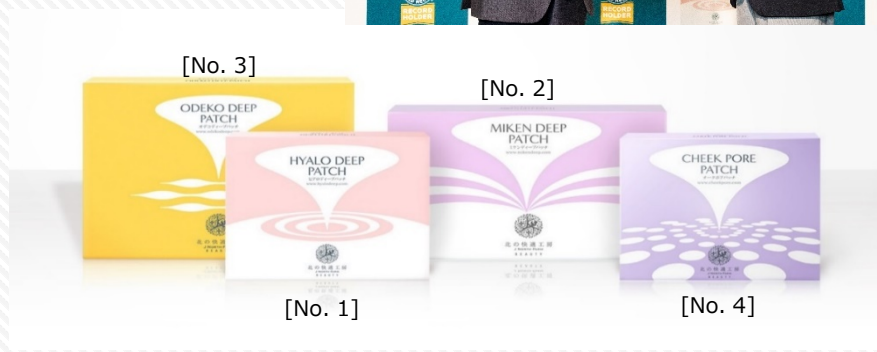
If new customer acquisitions are strong for Product A, the unit price for new sales will decline and ROAS will drop temporarily. However, **since its LTV is high, the contribution to profits can be expected over the long term.**

→ New customer acquisitions were strong for these products in April to June 2020.

Major Products

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



*1 The largest micro-needle cosmetic skin patch brand, with aggregated sales amount of \$45,082,226 for the one-year period from March 2019 to February 2020 (including HYALO DEEP PATCH, MIKEN DEEP PATCH, and ODEKO DEEP PATCH)

*2 Area where cheek pores are concentrated

Major Products

Food with functional claims "KAITEKI OLIGO"

Our sales of oligosaccharide food for household use is the highest in Japan.*1

Improves bowel movements for people with constipation tendency (increase stool volume and frequency of bowel movements)

*1 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"

- Awarded the Monde Selection nine times (Awarded the Grand Gold Award eight times and the Gold Award one time between 2012 and 2020)
 - **The registration as a food with functional claims was accepted** in May 2019.
- Japan's first food with functional claims containing five types of functional ingredients
Expecting an increase in sales going forward through an expansion of the extent of advertising expressions
- **"OKOSAMAYOU KAITEKI OLIGO," a product for children,** was launched in February 2019.



"EYE KIRARA," one product sells every 27 seconds.*2

- Awarded the Gold Award of the Monde Selection for five consecutive years (2016 to 2020)
- Run in medical journals, representing a rare achievement for cosmetic products
- **"MEN's EYE KIRARA" for men was also launched** in January 2019.

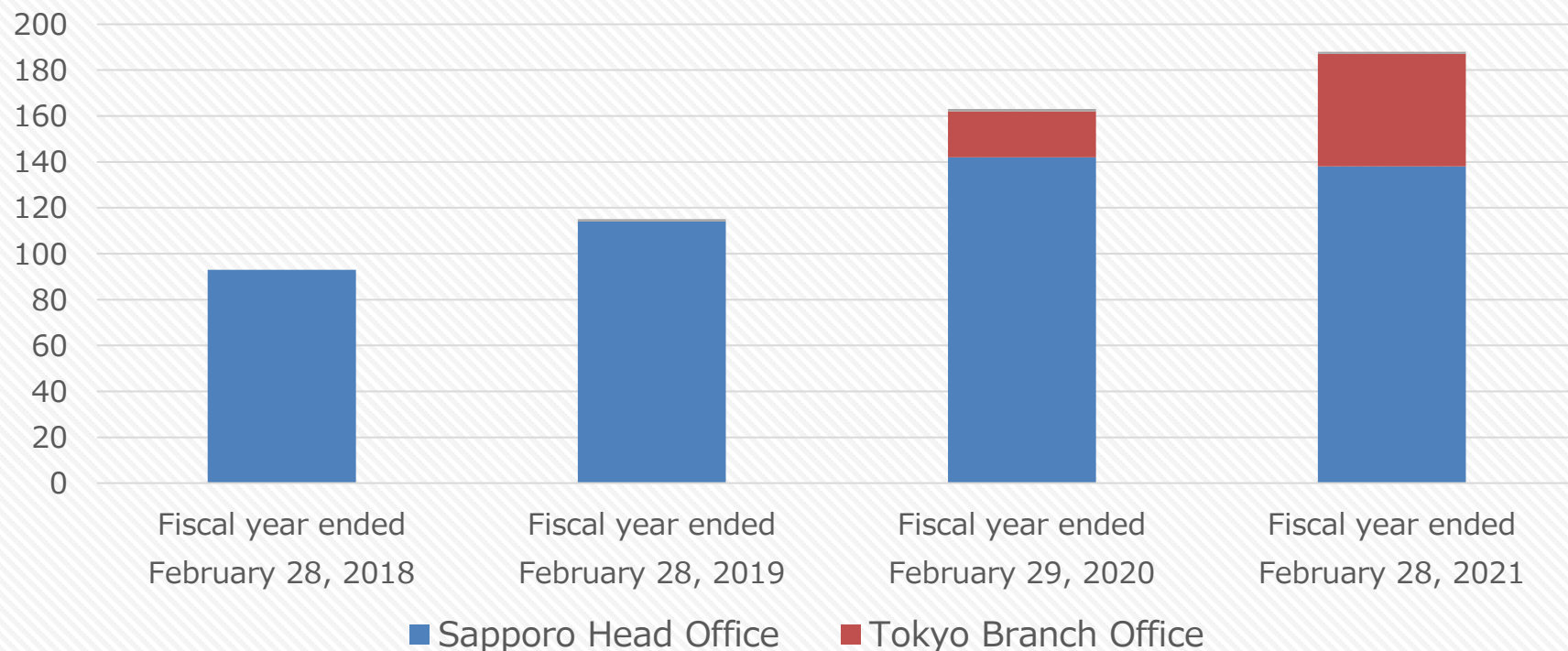


*2 As of September 7, 2018 (research by the Company)



Personnel Changes

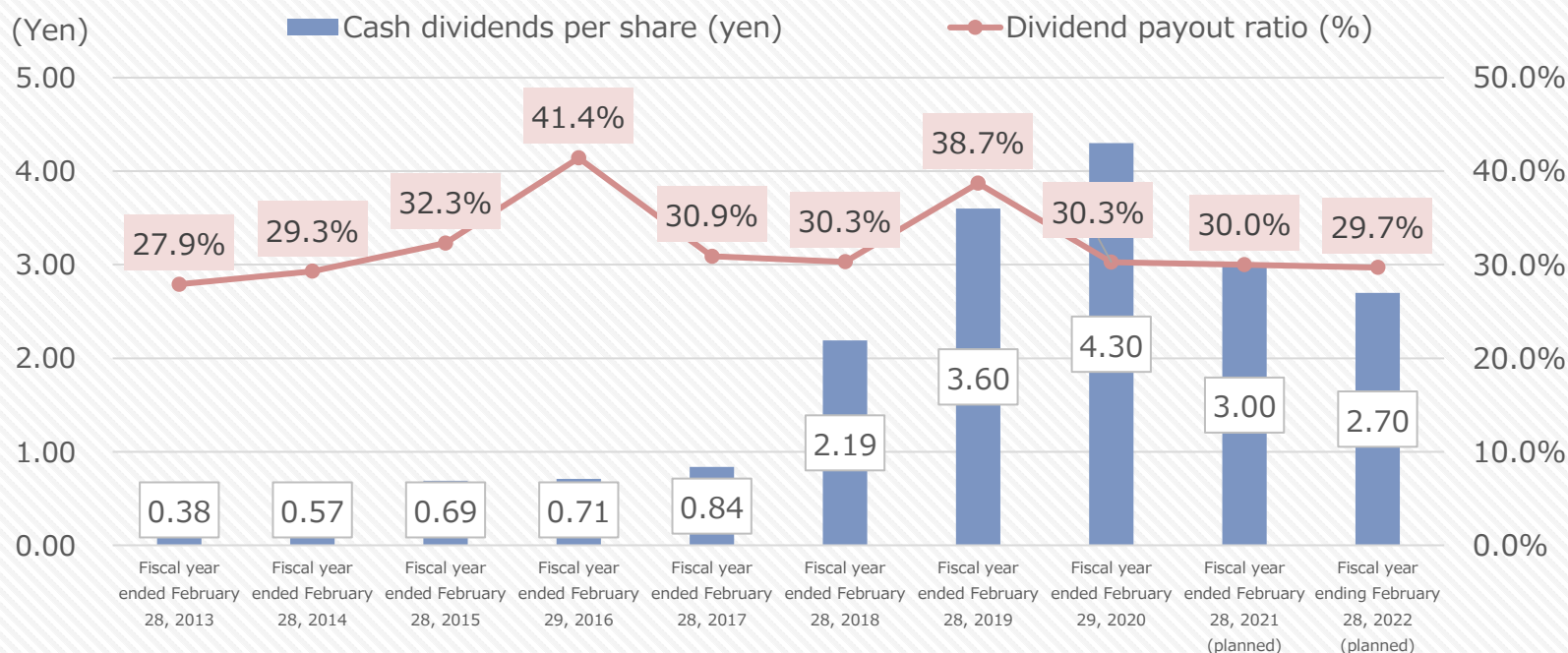
Changes in Officers and Employees



* Tokyo Branch Office was established in April 2019 at Nihonbashi, Chuo-ku, Tokyo

Actual and Projected Dividends

The Company is working to return profits to shareholders by paying dividends of approximately 30% of dividend payout ratio, 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 ¥1.80, a year-end dividend of ¥1.20, and an annual dividend of ¥3.00 per share for the fiscal year ended February 28, 2021, and an interim dividend of ¥1.30, a year-end dividend of ¥1.40, and an annual dividend of ¥2.70 per share for the fiscal year ending February 28, 2022.



(Note) 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 June 1, 2015

A 2-for-1 stock split for common shares as of November 6, 2017

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 April 1, 2017

A 3-for-1 stock split for common shares as of February 15, 2018

Other Indicators

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Equity ratio (%)	86.5	67.4	67.3	69.4	73.7	83.5
Dividend payout ratio (%)	41.4	30.9	30.3	38.7	30.3	30.0 (planned)
Cash dividends per share (yen)	0.71	0.84	2.19	3.60	4.30	3.00 (planned)
Number of shareholders	8,128	8,926	31,667	47,978	54,307	47,042

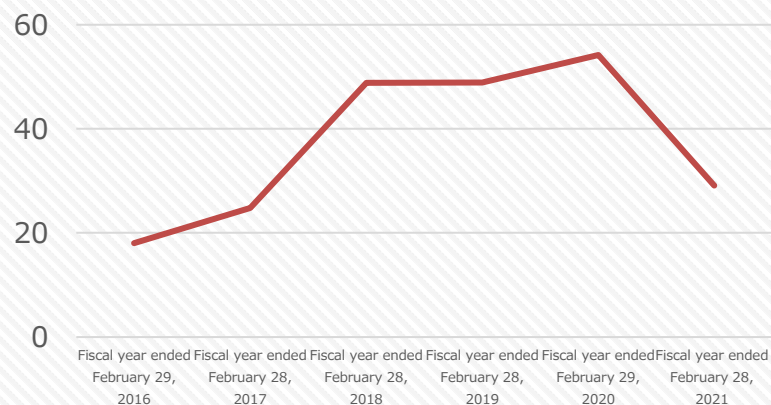
(Note) Cash dividends per share are translated based on the impact of the following stock splits:
(Fractions less than one sen are rounded up.)

- 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

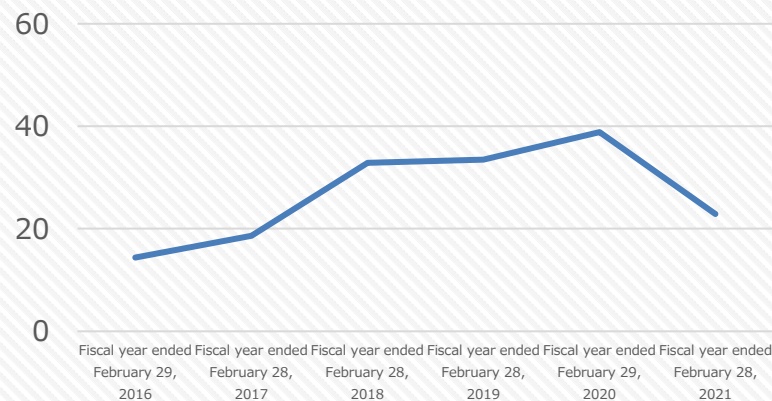
Changes of ROE and ROA

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
ROE (return on equity)	18.0%	24.8%	48.8%	48.9%	54.2%	29.1%
ROA (return on assets)	14.4%	18.6%	32.9%	33.5%	38.9%	22.9%

Changes of ROE



Changes of ROA



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 IT Management Award of the Minister of Economy, Trade and Industry Award



External evaluations and media publications

November 9, 2020

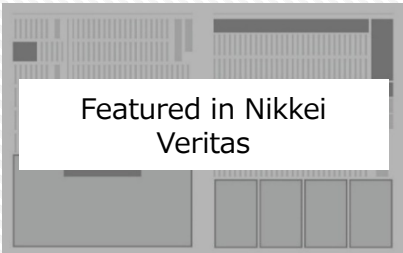
Selected as a constituent stock of the “JPX-Nikkei Mid and Small Cap Index” jointly calculated by the Tokyo Stock Exchange and Nikkei Inc. for three consecutive years.



Selected as a constituent stock of JPX-Nikkei Mid and Small Cap Index

October 25, 2020

“NIKKEI VERITAS,” a weekly investment and financial information newspaper published by Nikkei Inc. ranked our Representative Director & President, Katsutoshi Kinoshita, first in the “ranking of stock price appreciation during the president's tenure,” in recognition of his management ability.



Featured in Nikkei Veritas

September 10, 2020

“DEEP PATCH Series,” which are sold through our own brand “J NORTH FARM,” were recognized by the Guinness World Records™ as the world’s best-selling* products in the microneedle cosmetics market. The certification ceremony was held.



August 28, 2020

Selected for the fourth time and for three consecutive years as one of the “Asia’s 200 Best Under A Billion (Good-standing Small-size Listed Companies)” in the August 2020 issue of Forbes Asia, an Asian edition of the U.S. economic magazine Forbes.



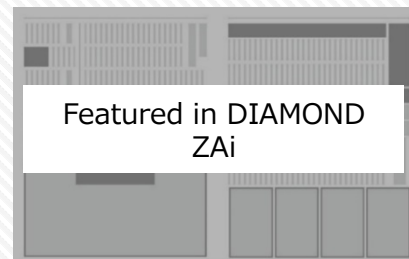
Asia's 200
BEST UNDER A BILLION
2020

*The largest micro-needle cosmetic skin patch brand, with aggregated sales amount of \$45,082,226 for the one-year period from March 2019 to February 2020 (including HYALO DEEP PATCH, MIKEN DEEP PATCH, and ODEKO DEEP PATCH)

External evaluations and media publications

August 21, 2020

Featured as one of the recommended stocks by analysts in the article "Japan's Strongest Stock: Summer 2020" in the October 2020 issue of the financial information magazine "DIAMOND ZAi."



July 3, 2020

327 people participated in the Japan Management Consultants Association's "Kitanotatsujin Seminar on Five Strategies to Surpass Competitors" (Participation fee: ¥45,000).
Became a topic as the "Authority in Online Marketing."



May 12, 2020

Published on the web media, "ShinR25," which targets young business people with high motivation for growth, as "The Expert in Overcoming Recessions."



March 24, 2020

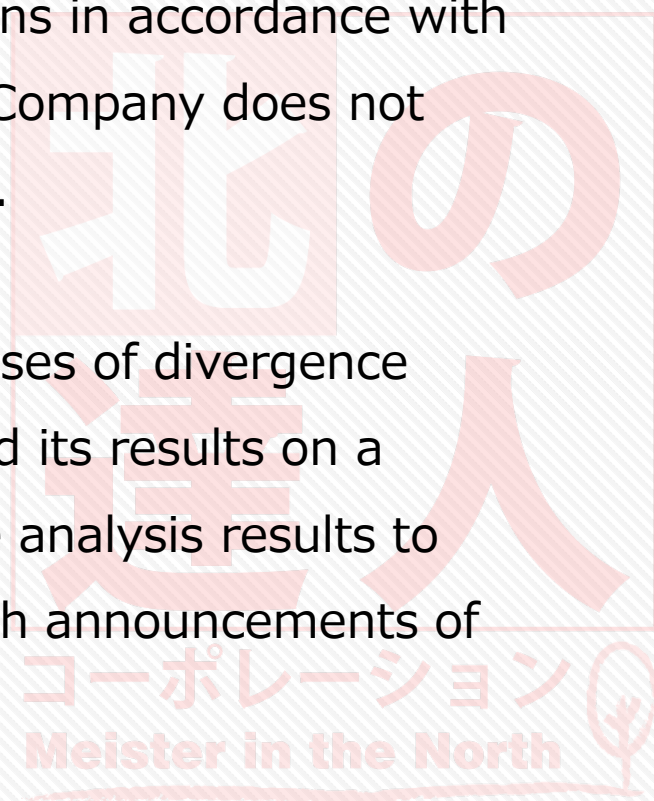
Ranked fourth in the "Medium-sized Listed Companies (NEXT 1000) with High Five-year Average Operating Profit Per Employee" in The Nikkei nationwide edition.



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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