Supplementary Material for the Second Quarter of the Fiscal Year Ending February 29, 2024

Stock code: 2930
Kitanotatsujin Corporation
October 13, 2023

Executive Summary

- ☞ For the six months ended August 31, 2023, compared to the financial results forecast, net sales reached ¥7,833 million (up 1.2%) and operating profit came in at ¥442 million (down 29.9%).
- ☞ Although the number of new customer acquisitions in the second quarter declined in comparison to the first quarter, there was a significant increase in sales profit due to the stable accumulation of regular sales.
- ☞ In comparison to the financial results forecast, performance in other brands was strong and SALONMOON remained steady.

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Highlights for the Second Quarter of the Fiscal Year Ending February 29, 2024

Consolidated

Reflecting on the first quarter

- ☞ The number of new customer acquisitions showed steady growth, and net sales for the first quarter came 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.

- ☞ Advertising expenses exceeded the financial results forecast by ¥320 million due to a significant increase in advertising expenses as driven by increased advertising investment.

- ☞ Net sales exceeded the financial results forecast by ¥96 million to reach ¥3,931 million (up 2.5%) while operating profit was lower by ¥323 million to -¥26 million (down 109.0%).

Consolidated Key Performance Highlights [Compared with Forecasts]

(Millions of yen)

	Consolidated forecast for the second quarter	Results for the second quarter	Changes	Changes (%)
Net sales	7,743	7,833	+90	+1.2%
Gross profit	5,739	5,768	+28	+0.5%
Selling, general and administrative expenses	5,107	5,325	+217	+4.3%
Advertising expenses	3,126	3,257	+130	+4.2%
Operating profit	631	442	-188	-29.9%
Operating profit margin	8.2%	5.7%	-2.5 pts	
Ordinary profit	632	454	-178	-28.1%
Profit attributable to owners of parent	420	302	-117	-28.0%

- The main factor contributing to net sales was the expanded performance by other brands and SALONMOON.
  <Non-consolidated: +¥34 million (J NORTH FARM: -¥45 million, other brands: +¥80 million)><SALONMOON: +¥49 million><Other: +¥5 million>*1
- Selling, general and administrative expenses increased overall due to a significant increase in order-linked costs*2 in addition to advertising expenses coming in higher that the forecast.

*1 Actual amounts without adjustments for elimination of intersegment transactions, etc.
*2 Expenses that must be incurred for orders, including credit card transaction fees, shipping, packaging materials costs, enclosures and accessories, etc.

Consolidated

Net sales by segment and brand

(Millions of yen)

Segment	Brand name	FY2024		
		1Q	2Q	Six months ended August 31, 2023 (total)
Health & Beauty Care business	北の快適工房 J NORTH FARM	**3,558**	**3,431**	**6,989**
	SALON MOON Pro	**226**	**195**	**422**
	Other brands	**37**	**158**	**195**
Others	-	**108**	**116**	**225**
Total		**3,931**	**3,902**	**7,833**

* 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.

(Order-linked costs + New customer acquisition expenses*)

- 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.

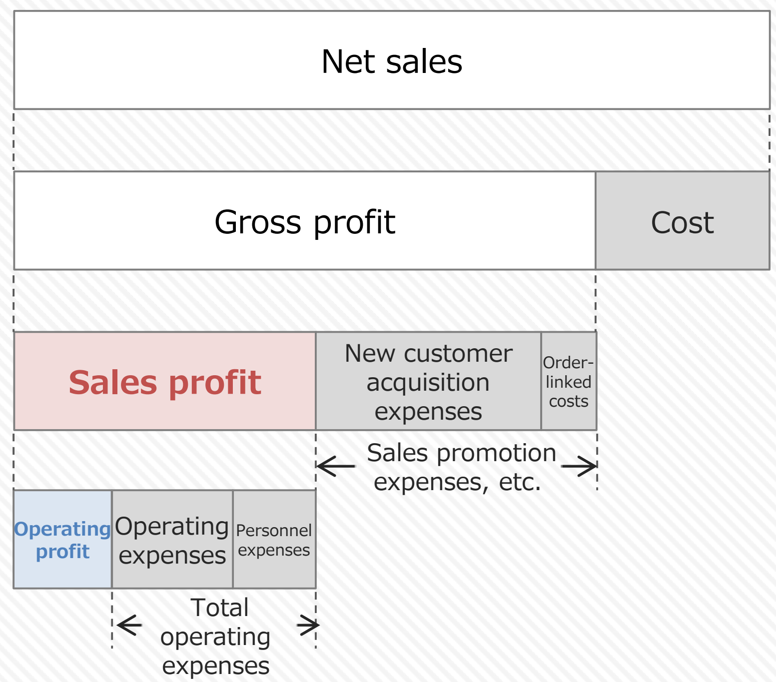
Operating profit

Operating profit = sales profit − total operating expenses

(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" 〉



* Expenses involved in the acquisition of new customers; primarily advertising expenses.

Non-consolidated

Explanation of Financial Results

<Segments of financial results>

- Non-consolidated financial results occupy a significant portion of our consolidated financial results.
- Non-consolidated financial results are comprised of “J NORTH FARM” and “other brands.”

The Company’s group

Kitanotatsujin Corporation

J NORTH FARM

Other brands

SALONMOON Co., Ltd.

FM NORTH WAVE CO., LTD.

Non-consolidated financial results

Consolidated financial results

<Change in breakdown of difference analysis>

New addition of “e-commerce mall sales”

E-commerce mall sales have been separated from “regular and other sales” and “new sales” in order to enable more detailed analysis.

[First quarter]

Net sales

Difference resulting from the effect of delayed deliveries on the financial results forecast

Difference in regular and other sales

Difference in new sales

Sales profit

[Second quarter]

Net sales

Difference resulting from the effect of delayed deliveries on the financial results forecast

Difference in regular and other sales

Difference in new sales

Difference in e-commerce mall sales

Sales profit

Non-consolidated

Key Performance

<Compared with first quarter>

(Millions of yen)

	Non-consolidated		
	Results for the first quarter	Results for the second quarter	Changes
Net sales	3,596	3,589	-6
Gross profit	2,752	2,730	-21
Sales promotion expenses, etc.	2,128	1,625	-502
Sales profit	624	1,104	+480
Operating profit	-38	470	+508

J NORTH FARM

- The number of new customer acquisitions was strong in the first quarter but declined in the second quarter, while there was a stable accumulation of regular sales.
- Although net sales decreased, there was also a significant decrease in sales promotion expenses, etc. and an increase in sales profit.

Other brands

- Growth of net sales significantly exceeded expectations and sales profit increased as well.

(Millions of yen)

	J NORTH FARM			Other brands		
	Results for the first quarter	Results for the second quarter	Changes	Results for the first quarter	Results for the second quarter	Changes
Net sales	3,558	3,431	-127	37	158	+120
Gross profit	2,731	2,643	-88	20	87	+66
Sales promotion expenses, etc.	2,032	1,531	-500	96	94	-1
Sales profit	699	1,112	+412	-75	-7	+68

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

<Compared with first quarter>

(Millions of yen)

		Results for the first quarter	Results for the second quarter	Changes
Net sales		3,558	**3,431**	-127
● Difference resulting from the effect of delayed deliveries on the financial results forecast				
	Net sales	188	-	-188
	Gross profit	144	-	-144
	Sales promotion expenses, etc.	18	-	-18
	Sales profit	125	-	-125
● Difference in regular and other sales				
	Net sales	2,035	**2,394**	+359
	Gross profit	1,576	**1,848**	+271
	Sales promotion expenses, etc.	98	**128**	+29
	Sales profit	1,477	**1,720**	+242
● Difference in new sales				
	Net sales	909	**640**	-268
	Gross profit	654	**460**	-194
	Sales promotion expenses, etc.	1,806	**1,305**	-501
	Sales profit	-1,152	**-844**	+307
	ROAS*1	52.7%	**51.7%**	-
● Difference in e-commerce mall sales				
	Net sales	426	**395**	-30
	Gross profit	356	**334**	-21
	Sales promotion expenses, etc.	108	**98**	-9
	Sales profit	248	**236**	-12
Sales profit		699	**1,112**	+412

Difference occurred in the second quarter due to this situation being recorded in the first quarter.
An incorrect amount was included in the forecasts, representing sales that were expected to be recorded for the current fiscal year for some products that had delayed deliveries.

Steady accumulation of regular sales due to strong new customer acquisition from the first quarter.
→ Net sales and profit both increased

The number of new customer acquisitions fell below expectations and sales decreased.
Sales profit increased as sales promotion expenses, etc. also decreased due to the reduction of advertising investment.
→ Decreased upfront investment in new customer acquisition for gaining regular sales in the future; not a positive factor for increasing profit

- "New customers from e-commerce malls" and "repeat purchases" are interconnected, and new sales from e-commerce malls are also linked to the above new sales.
- "Start handling new products"
  "Resume sales of products that had been suspended due to taking orders over production capacity"
  "Utilize mall fulfillment services*2," etc.

→ While new sales landed at -30%, **e-commerce mall sales remained at -7%**

*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

Key Performance

<Compared with financial results forecast for the second quarter>

(Millions of yen)

	Non-consolidated		
	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	3,596	3,589	-7
Gross profit	2,762	2,730	-32
Sales promotion expenses, etc.	1,766	1,625	-140
Sales profit	996	1,104	+108
Operating profit	338	470	+132

J NORTH FARM

- Sales from new customers decreased due 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 financial results forecast due to advertising investment that exceeded expectations as new customer acquisitions remained strong.

(Millions of yen)

	J NORTH FARM			Other brands		
	Forecast for the second quarter	Results for the second quarter	Changes	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	3,525	3,431	-94	71	158	+87
Gross profit	2,714	2,643	-70	48	87	+38
Sales promotion expenses, etc.	1,717	1,531	-185	49	94	+45
Sales profit	997	1,112	+114	-0	-7	-6

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the second quarter>

(Millions of yen)

	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	3,525	**3,431**	-94
● Difference resulting from the effect of delayed deliveries on the financial results forecast			
Net sales	-	-	-
Gross profit	-	-	-
Sales promotion expenses, etc.	-	-	-
Sales profit	-	-	-
● Difference in regular and other sales			
Net sales	2,414	**2,394**	-19
Gross profit	1,894	**1,848**	-45
Sales promotion expenses, etc.	118	**128**	+9
Sales profit	1,775	**1,720**	-54
● Difference in new sales			
Net sales	748	**640**	-107
Gross profit	518	**460**	-58
Sales promotion expenses, etc.	1,508	**1,305**	-203
Sales profit	-989	**-844**	+145
ROAS	50.8%	**51.7%**	-
● Difference in e-commerce mall sales			
Net sales	362	**395**	+32
Gross profit	301	**334**	+32
Sales promotion expenses, etc.	89	**98**	+8
Sales profit	211	**236**	+24
Sales profit	997	**1,112**	+114

◆ Regular sales were 0.8% lower than the financial results forecast.

- "Regular sales in the second quarter from customers acquired in the first quarter" exceeded the financial results forecast, and there was a stable accumulation of regular sales due to upfront investments.
- New sales in the second quarter were lower than the financial results forecast and "regular sales in the second quarter from customers acquired in the second quarter" fell below expectations.
- Unexpected amount of returns after product shipment
  Enhancing the skills of the Creative Department in FY2023 contributed to increasing the appeal of created ad content, but this in turn also resulted in an increase in impulse purchases and mistaken orders by new customers which led to an increase in returns and cancellations.

→ Reevaluate the results of ad content and optimize wording to avoid impulse purchases or mistaken orders

◆ Sales profit was also lower than the financial results forecast as a result of recording unplanned appraisal and retirement losses.

New customer acquisitions decreased in the second quarter.

Although ROAS improved 0.8%, advertising investment did not progress as expected.

→ Sales from new customer acquisitions were lower than the financial results forecast

Sales promotion expenses, etc., also decreased primarily due to reduced advertising expenses.

→ Sales profit exceeded the financial results forecast

Although sales profit exceeded the financial results 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

→ Sales profit exceeded the financial results forecast

Non-consolidated

Key Performance

<Compared with financial results forecast for the six months ended August 31, 2023>

(Millions of yen)

	Non-consolidated		
	Forecast for the six months ended August 31, 2023	Results for the six months ended August 31, 2023	Changes
Net sales	7,150	7,185	+34
Gross profit	5,490	5,483	-7
Sales promotion expenses, etc.	3,524	3,754	+229
Sales profit	1,965	1,729	-236
Operating profit	642	432	-210

Sales profit of both “J NORTH FARM” and “Other brands” was lower than the financial results forecast due to an increase in advertising expenses as upfront investment for new customer acquisitions.

(Millions of yen)

	J NORTH FARM			Other brands		
	Forecast for the six months ended August 31, 2023	Results for the six months ended August 31, 2023	Changes	Forecast for the six months ended August 31, 2023	Results for the six months ended August 31, 2023	Changes
Net sales	7,035	6,989	-45	115	195	+80
Gross profit	5,416	5,375	-41	73	107	+34
Sales promotion expenses, etc.	3,433	3,563	+130	91	190	+99
Sales profit	1,983	1,812	-171	-17	-82	-65

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the six months ended August 31, 2023>

(Millions of yen)

	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	7,035	6,989	-45
● Difference resulting from the effect of delayed deliveries on the financial results forecast			
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	4,505	4,430	-75
Gross profit	3,539	3,425	-113
Sales promotion expenses, etc.	219	226	+7
Sales profit	3,319	3,198	-120
● Difference in new sales			
Net sales	1,490	1,550	+59
Gross profit	1,033	1,114	+81
Sales promotion expenses, etc.	3,018	3,111	+93
Sales profit	-1,984	-1,997	-12
ROAS	50.6%	52.2%	-
● Difference in e-commerce mall sales			
Net sales	718	821	+103
Gross profit	596	690	+94
Sales promotion expenses, etc.	175	206	+30
Sales profit	420	484	+63
Sales profit	1,983	1,812	-171

Only applicable in the first quarter.

- Although new customer acquisitions from the first quarter exceeded expectations in addition to the stable accumulation of regular sales, there was a significant impact from increases in returns and cancellations.
  → Sales were lower than the financial results forecast
- As a result of recording unplanned appraisal and retirement losses,
  → Sales profit was also lower than the financial results forecast

- Although the number of new customer acquisitions slowed in the second quarter, results in the six months ended August 31, 2023 exceeded expectations due to strong performance in the first quarter, and ROAS improved 1.6% compared to initial plans.
  → Sales exceeded the financial results forecast
- Advertising investment for new customer acquisitions is increasing, and order-linked costs have increased as well.
  → Sales profit was lower than the financial results forecast

Performance was stronger than expected, resulting in net sales and sales profit both exceeding the financial results forecast.

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the three months ended May 31, 2023>

(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			
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	2,091	2,035	-56
Gross profit	1,645	1,576	-68
Sales promotion expenses, etc.	100	98	-1
Sales profit	1,544	1,477	-66
● Difference in new sales			
Net sales	742	909	+166
Gross profit	514	654	+139
Sales promotion expenses, etc.	1,509	1,806	+297
Sales profit	-994	-1,152	-157
ROAS	50.4%	52.7%	-
● Difference in e-commerce mall sales			
Net sales	355	426	+70
Gross profit	295	356	+61
Sales promotion expenses, etc.	86	108	+21
Sales profit	208	248	+39
Sales profit	986	699	-286

＊ Reference

Since the breakdown of the difference analysis has changed from the second quarter, comparisons with the financial results forecast for the first quarter have been arranged in the same format.

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

・Marked its highest monthly sales in July 2023

・New customer acquisition was strong in the six months ended August 31, 2023, with investment in new customer acquisition expenses that exceeded projections; sales profit was lower than the financial results forecast as a result
(Upfront investment is increasing; not a negative factor for decreasing profit)

・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**

Continued monthly sales profit loss due to small business scale and high ratio of net sales occupied by sales promotion expenses with the recent launch of the brand.

▽

Increase number of regular customers, improve ratio of regular sales

▽

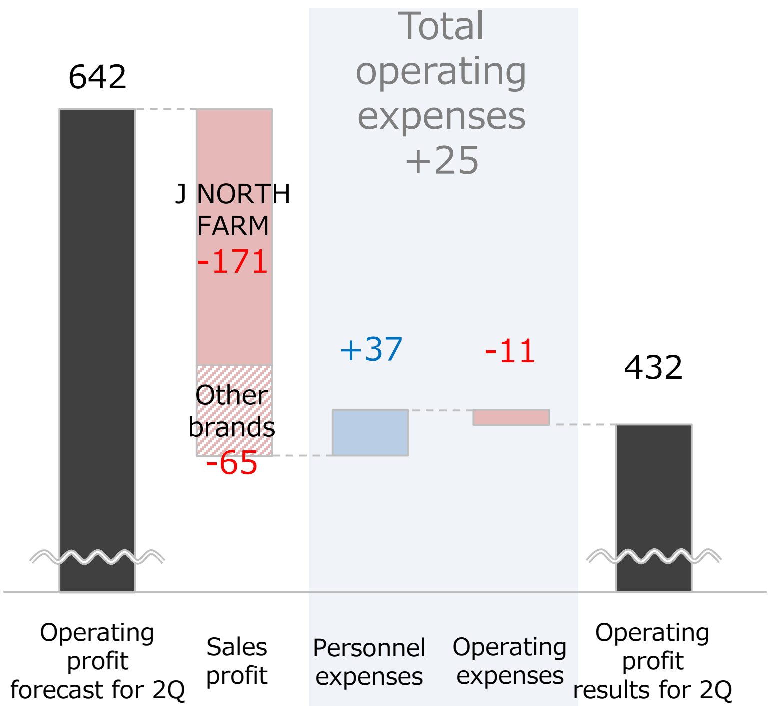
August 2023 Achieved positive monthly sales profit

→ **Stable revenue base projected for the future**

Non-consolidated

Factors behind change in operating profit

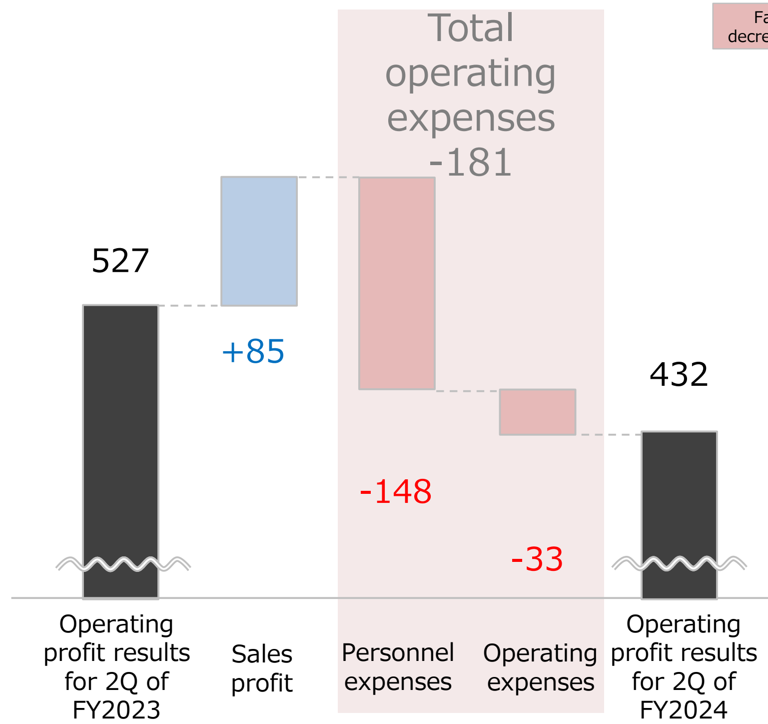
[Compared with financial results forecast: -210]



[Compared year on year: -95]

(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>

J NORTH FARM

- **Our website, etc.***
  Through e-commerce websites operated by the Company, etc.
  - **Customer acquisitions from our own ads**
  - **Other**
    Through affiliates, etc.
- **E-commerce malls**
  Amazon, Rakuten Ichiba, etc.

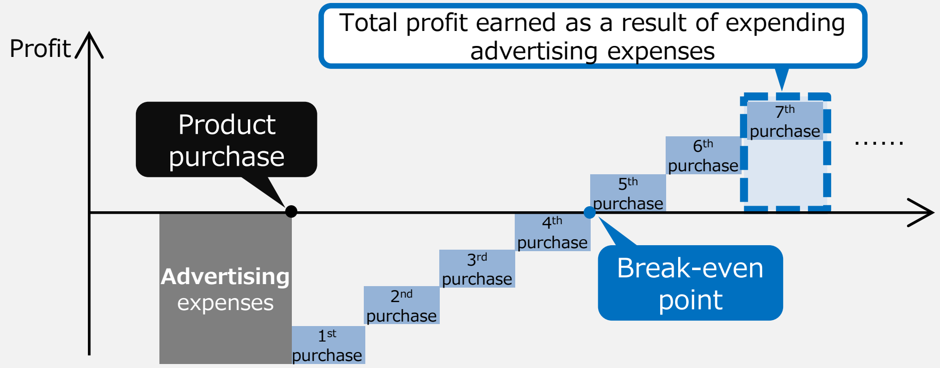
・Ratio of customer acquisitions from our own ads has increased
・Ability to accurately measure investment efficiency in the Company

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

<Difference between monetization schemes by channel>

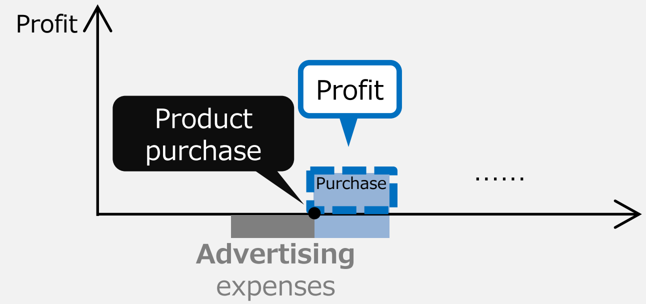
Our website

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



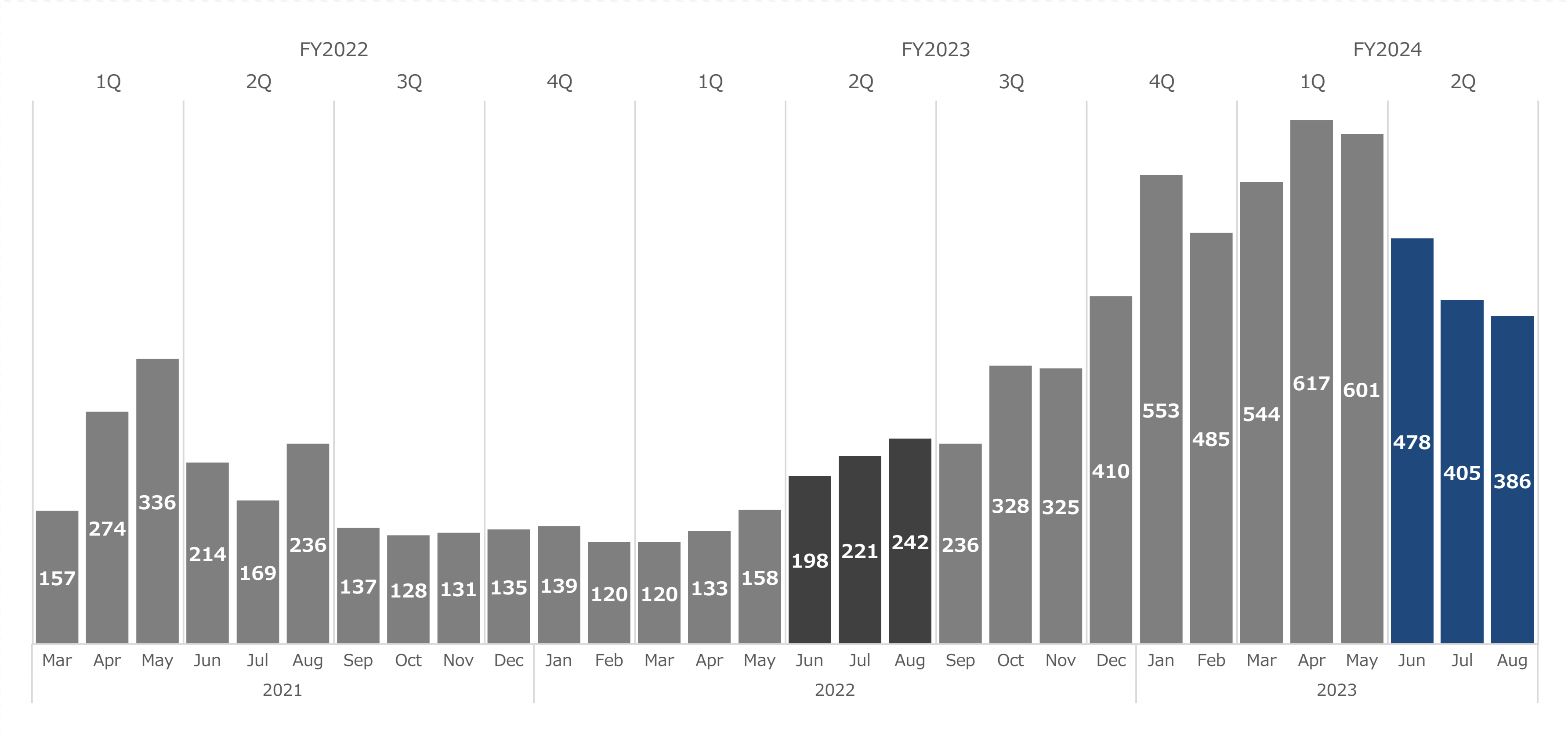
* "Our website, etc." includes the number of new customer acquisition (as well as a portion of orders made by phone, etc.) from all e-commerce websites operated by the Company, excluding e-commerce malls.

Non-consolidated

J NORTH FARM

Changes in advertising expenses

(Millions of yen)



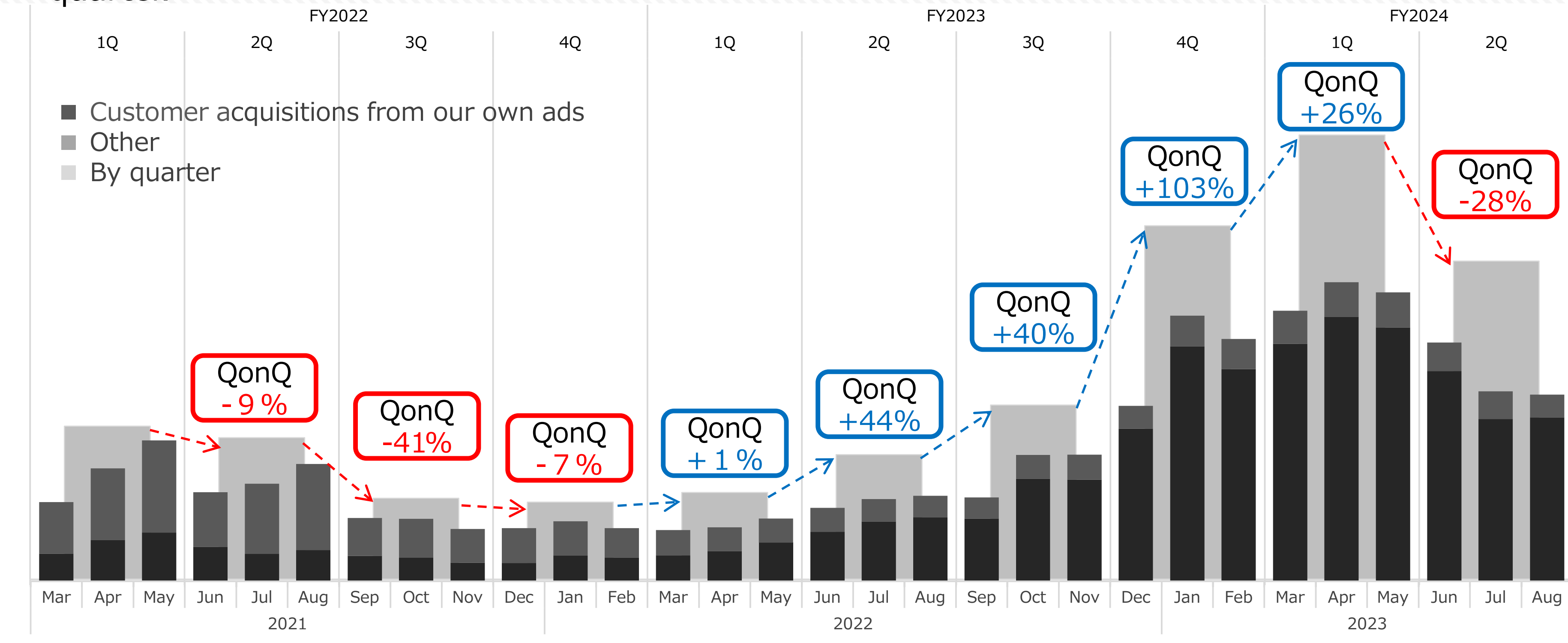
- Most advertising expenses are incurred through customer acquisitions from our own ads.
- Advertising investment in the second quarter was increased by 3 times or more compared to the second quarter of FY2023, while maintaining the same level of investment efficiency (detailed on slide 22).

Non-consolidated

Our website, etc.

Changes in number of new customer acquisitions

- The number of new customer acquisitions for the second quarter increased 155% year on year and decreased -28% quarter on quarter.
- 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. from FY2023.
- The number of new customer acquisitions for April 2023 reached a record high.
- New customer acquisitions fell as measures to improve sales pages lagged behind in the second quarter.



Non-consolidated

Customer acquisitions from our own ads

Advertising investment efficiency

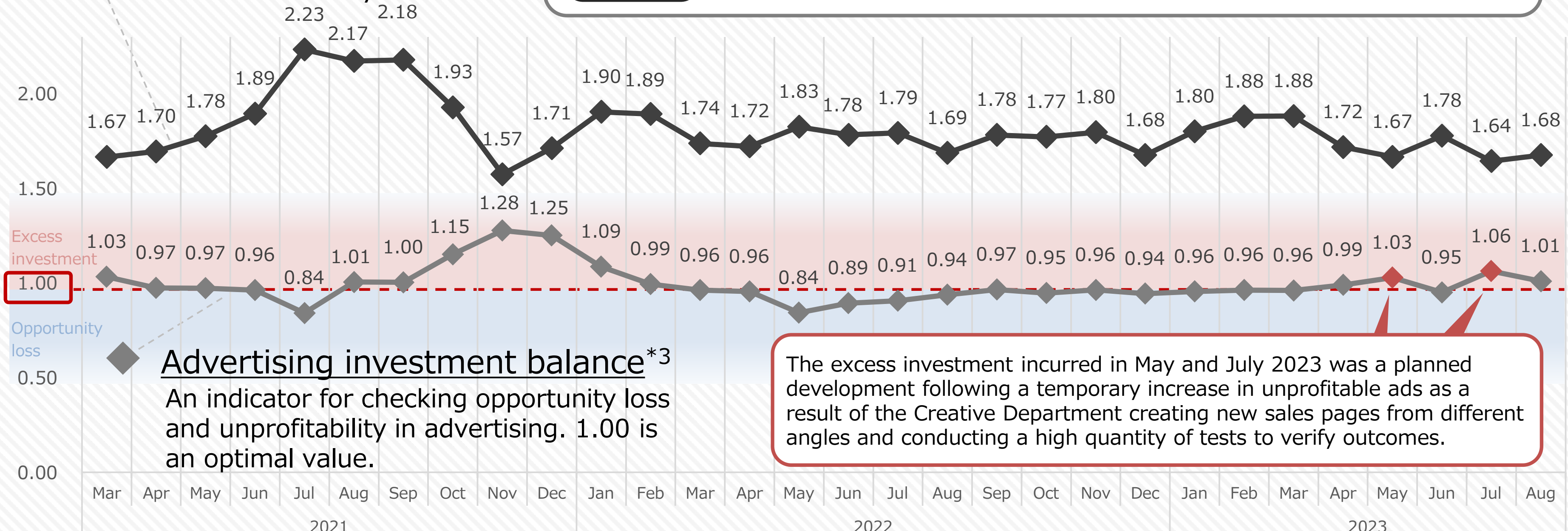
1-year ROAS

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 and July 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 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. 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
- 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

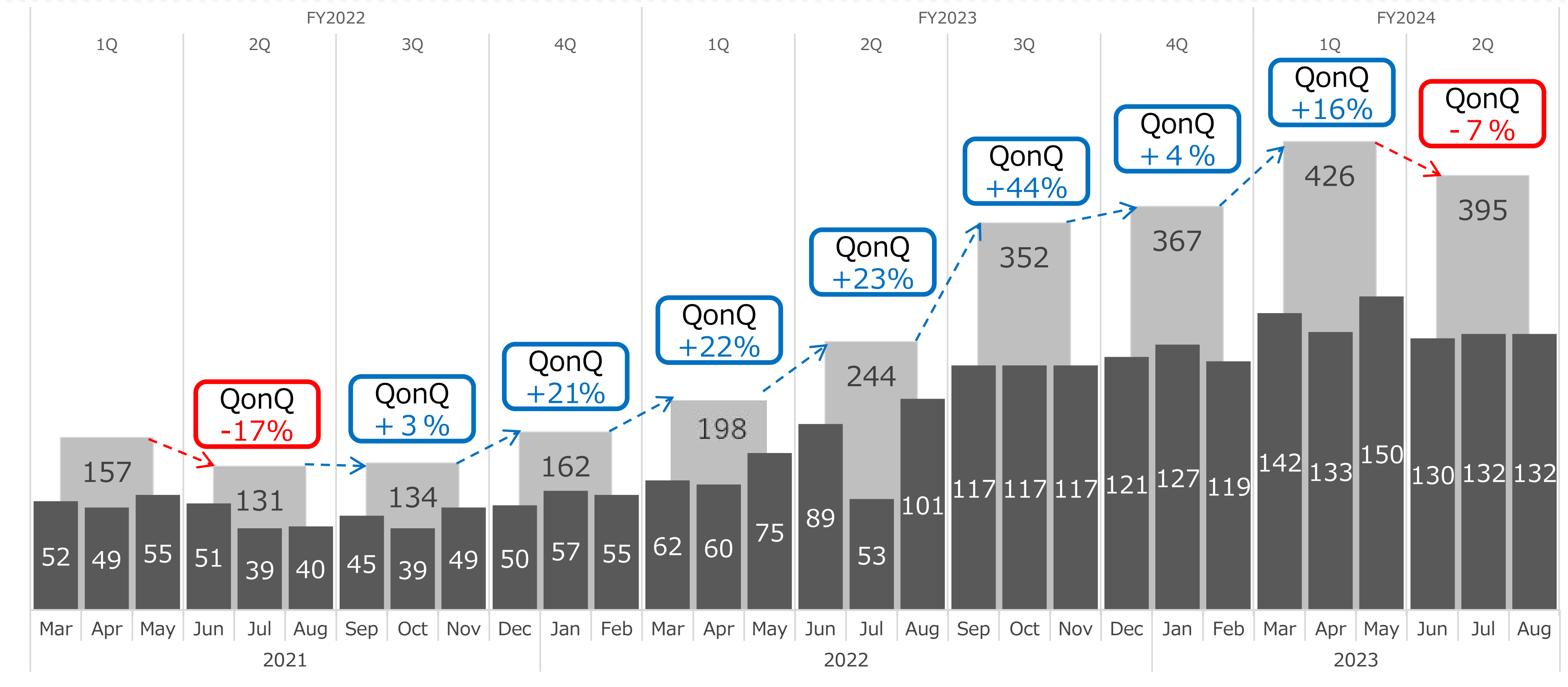
Non-consolidated

E-commerce malls

Changes in net sales

- Marked the highest monthly sales at Amazon in August 2023.
- Net sales for e-commerce malls overall in the second quarter also remained steady.

(Millions of yen)



We will continue to strive to increase sales.

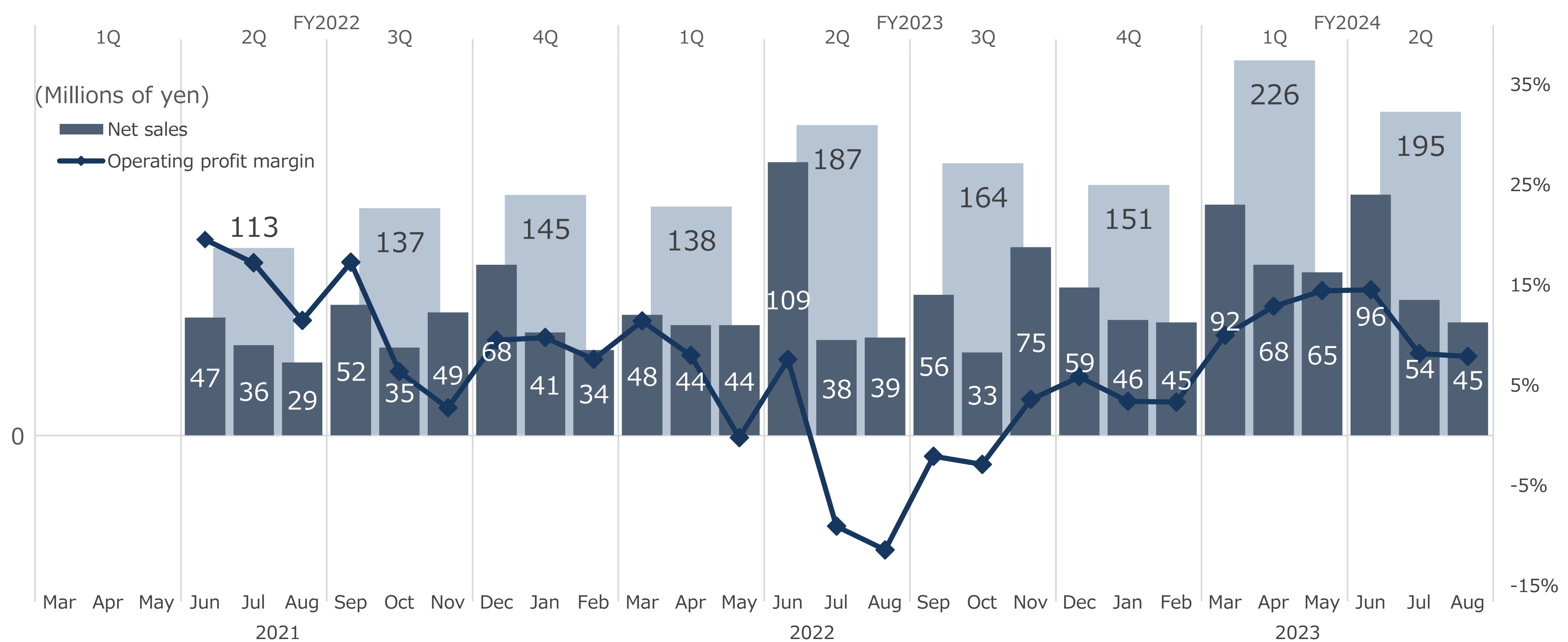
SALONMOON Co., Ltd.

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 has been operating at a loss since the second quarter of FY2023 due to the impact of the depreciation of the Japanese yen, the operating profit margin has maintained at 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 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 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.
  - Revaluate 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

The total amount of shipments of SALONMOON's hair iron series surpassed 840,000 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	FY2024/2Q end As of August 31, 2023
(Cash and deposits)	4,828	4,151
Current assets	6,991	7,362
Non-current assets	787	817
Total assets	7,779	8,180
Current liabilities	1,375	1,546
Non-current liabilities	216	210
Total liabilities	1,592	1,757
Total net assets	6,187	6,423
Total liabilities and net assets	7,779	8,180

The main factors for the changes from the end of FY2023 were an increase in inventories of ¥1,263 million and a decrease in cash and deposits of ¥676 million under assets, and an increase in accounts payable – other of ¥161 million under liabilities.

Consolidated

Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	Six months ended August 31, 2022 March 1, 2022 to August 31, 2022	Six months ended August 31, 2023 March 1, 2023 to August 31, 2023
Cash flows from operating activities	425	-550
Cash flows from investing activities	-158	-36
Cash flows from financing activities	-229	-91
Effect of exchange rate change on cash and cash equivalents	6	1
Net increase (decrease) in cash and cash equivalents	43	-676
Cash and cash equivalents at beginning of period	5,210	4,828
Cash and cash equivalents at end of period	5,254	4,151

The main factors for the changes during the second quarter were profit before income taxes of ¥454 million, income taxes refund of ¥207 million, an increase in trade receivables of -¥112 million, and an increase in inventories of -¥1,263 million.

Consolidated Financial Results Forecast

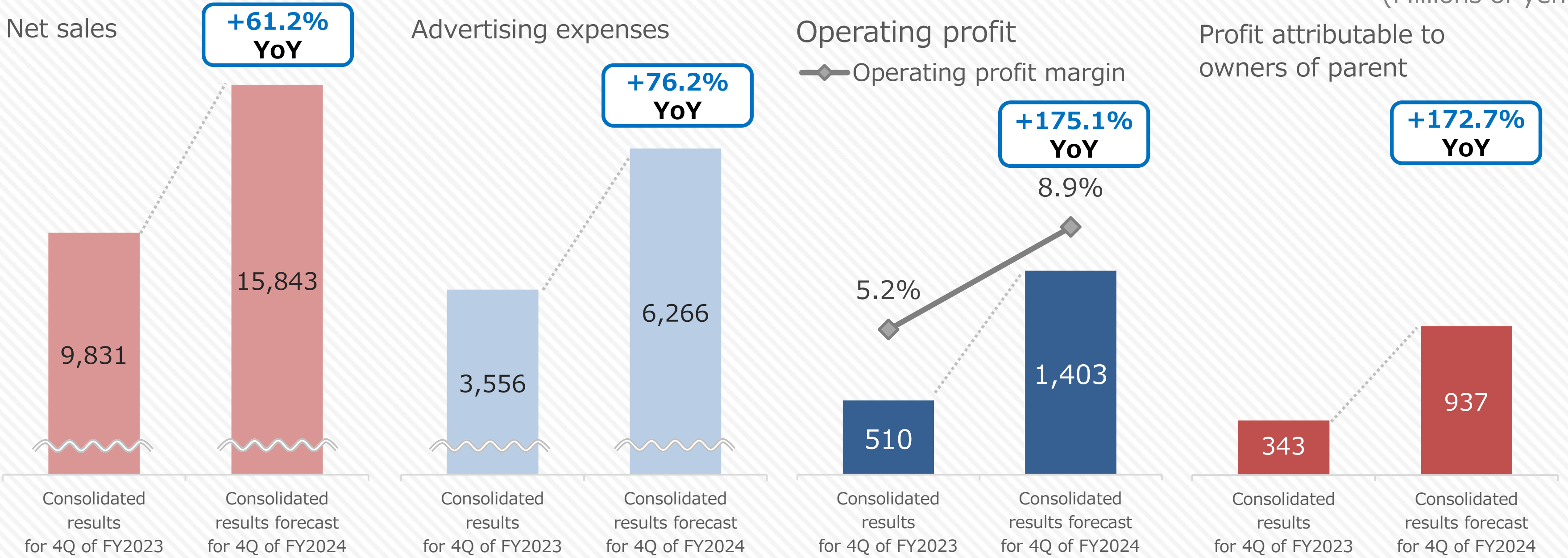
Consolidated

Financial Results Forecast

◆ Forecast for FY2024

- There are no changes to the financial results forecast.
- The number of new customer acquisitions exceeded expectations in the six months ended August 31, 2023, but were significantly lower than expected in the second quarter alone.
- As financial results may vary significantly depending on the status of new customer acquisitions from the third quarter, we will carefully consider the status of new customer acquisitions and provide prompt disclosure in the case that revisions are required.

(Millions of yen)



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

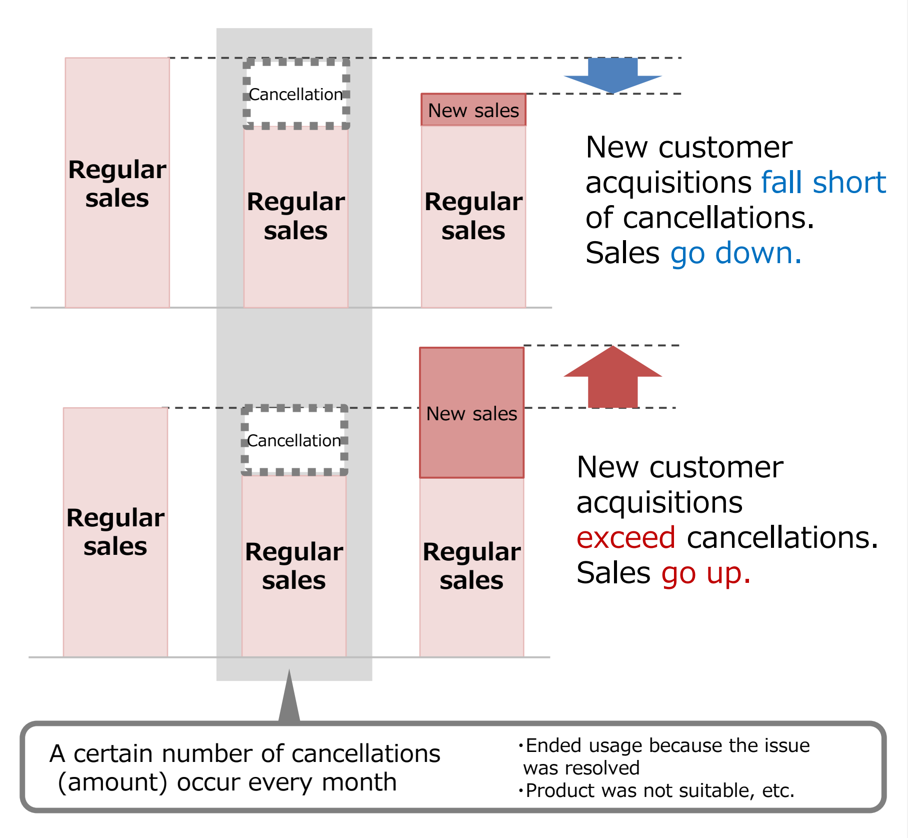
・The main customer base is men and women in their 40s and over

・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

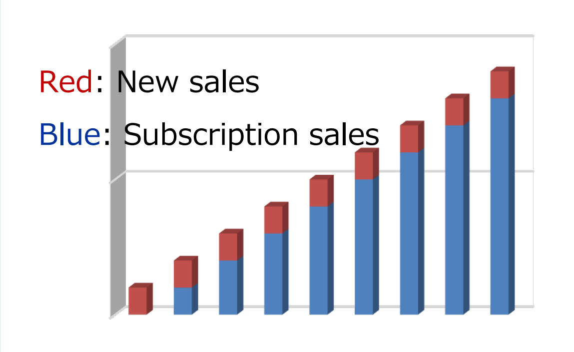
<Sales strategy>

- 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

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



Realize a profit structure that enables stable growth

Product Strategy

◆ Product development specifically designed for the E-commerce business

- Develop the E-commerce business that sells a total of 36 original products on the Internet to meet specific customer needs, including cosmetics and health foods
- Products specialized for solving customers' concerns for health and beauty

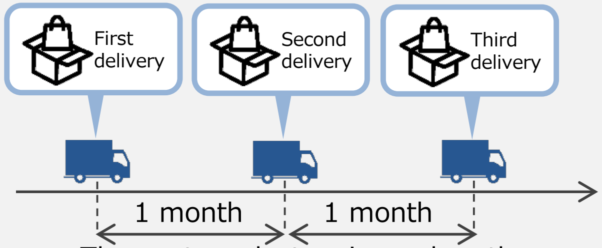
◆ Stringent product development standards

- Only commercialize products that bring solid satisfaction, under the policy, "A product will only be commercialized when an astonishingly fine product is created"
- Established original product development standards with approximately 800 items specifically designed for online sales and conduct a thorough monitor survey
- Only 2% of development projects meet these standards to be commercialized, thereby pursuing dominant customer satisfaction and quality maintenance

◆ Product design

All products are generally designed and developed to be completely used in one month

[Product delivery example]



The next product arrives when the product is completely used

Sales Strategy

◆ Performance evaluation indicators

We place more emphasis on profits than on net sales.
As the E-commerce business can generate more net sales by increasing advertising investment (increasing advertising placement volume), we cannot evaluate our performance by net sales alone.

⇨ The law of sales minimization, profit maximization
(Explained in the figure on the right)

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

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

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

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

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

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

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

◆ Advertising optimization system

(1) Analyze daily accumulated data and calculate LTV
(2) Set a CPO limit for each product as the upper limit for advertising expenses
(3) Calculate and manage CPO on a daily basis by subdividing approximately 30,000 advertisements presented regularly into various segments
(4) Automatically suspend advertisements that exceed the CPO limit
(5) The Company develops and operates a system that manages the above process.

⇨ Develop system where only highly profitable advertising remains

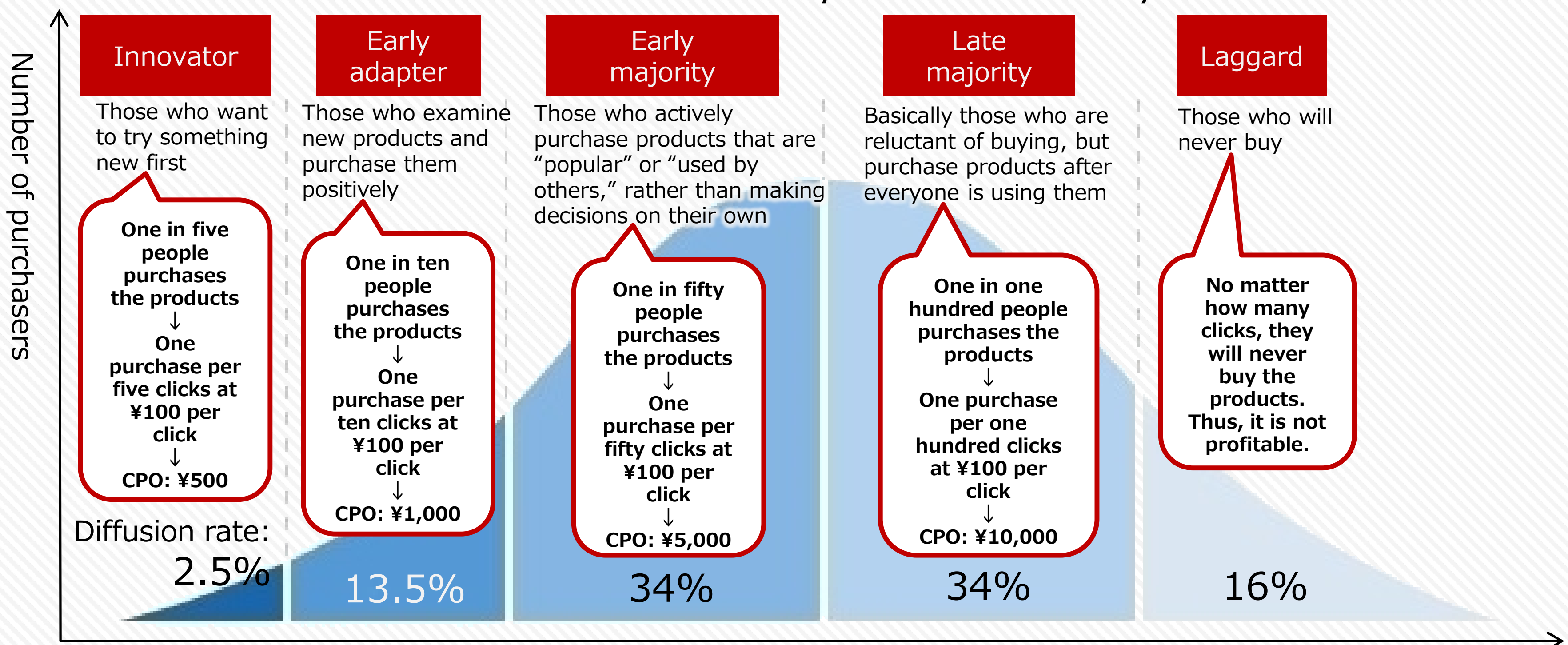
Sales Strategy

◆ Correlation between CPO and the number of new customer acquisitions

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

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

Consumer distribution by innovator theory



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

*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 (¥6,000)

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 (¥7,000) / Most profitable (¥800,000) / Largest number of new customer acquisitions (300) / Largest sales (¥3,000,000)

→ **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 (¥7,000)

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 (¥9,000) / Most profitable (¥1,250,000) / Largest number of new customer acquisitions (300) / Largest sales (¥3,600,000)

→ **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

Enhancement of advertising investment ▶ Increase in sales

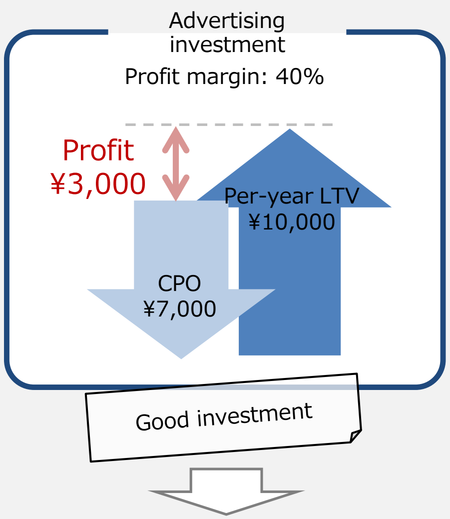
＋

Prevent a decline in profitability due to excess advertising investment

▶ Set the CPO limit to secure the required profit

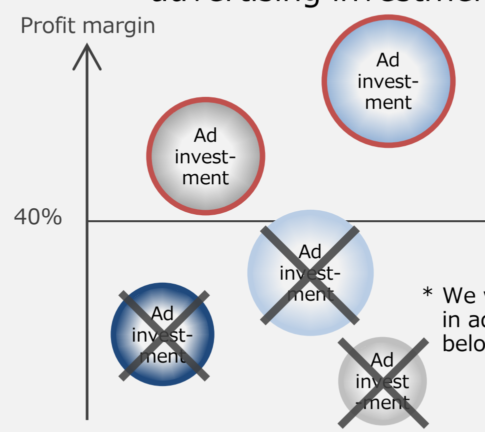
⇒ It becomes possible to increase sales by enhancing advertising investment while maintaining profitability

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



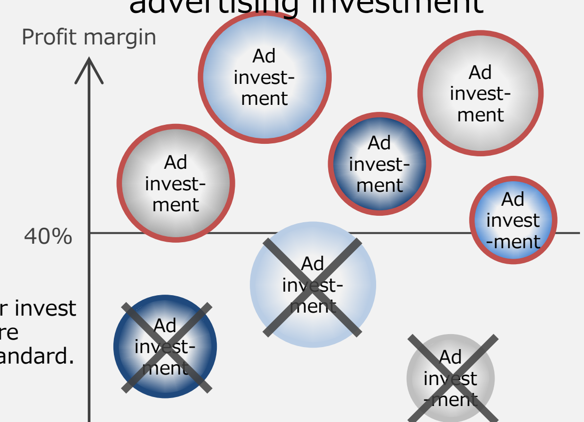
Our standard for advertising investment

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



* We will never invest in ads that are below the standard.

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



Our basic approach

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

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.

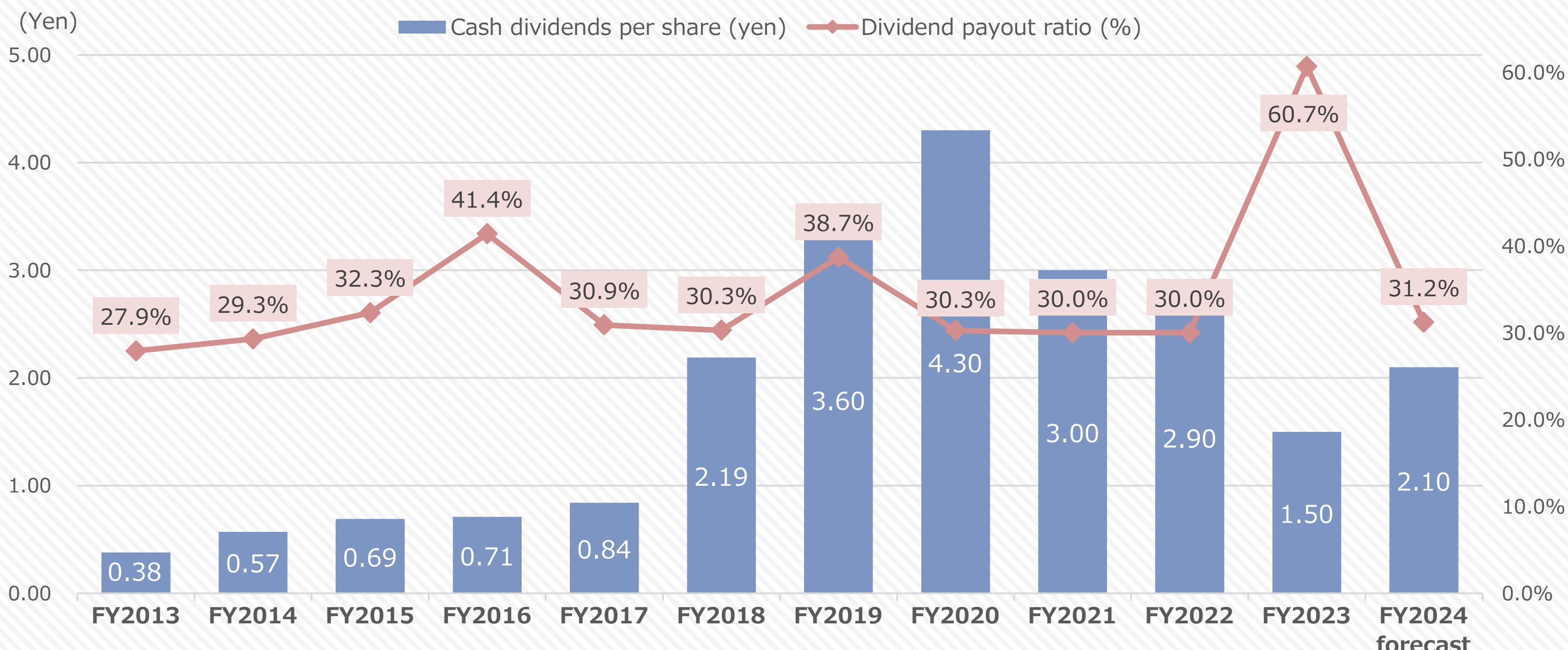
<Books>

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

Actual and Projected Dividends

The Company is working to return profits to shareholders by paying dividends, taking into consideration the strengthening of its business foundation and the enhancement of its internal reserves.

The Company will pay an interim dividend of ¥0.90 and a year-end dividend of ¥1.20 (planned), for an annual dividend of ¥2.10 (planned) 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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