



Supplementary Material
for the First Quarter of the
Fiscal Year Ending
February 28, 2025

Stock code: 2930
Kitanotatsujin Corporation
July 12, 2024


Important Note


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


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

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

Executive Summary

- 
 Net sales came in at ¥3,269 million (down 5.3%), falling below the financial results forecast.

- 
 As the number of new customer acquisitions declined more than expected, advertising investment was lower than expected, causing operating profit to exceed the financial results forecast.

- 
 Performance in SALONMOON remained steady in comparison to the financial results forecast.


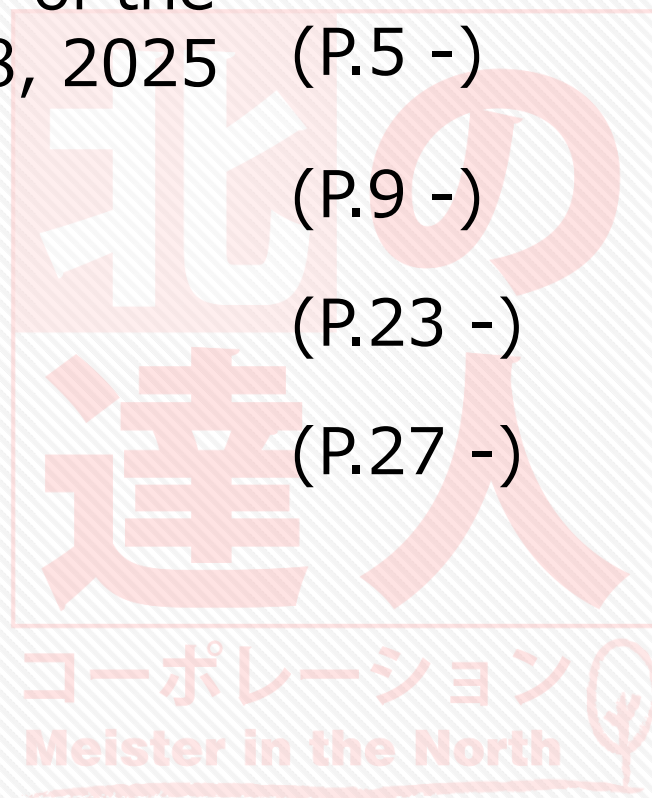
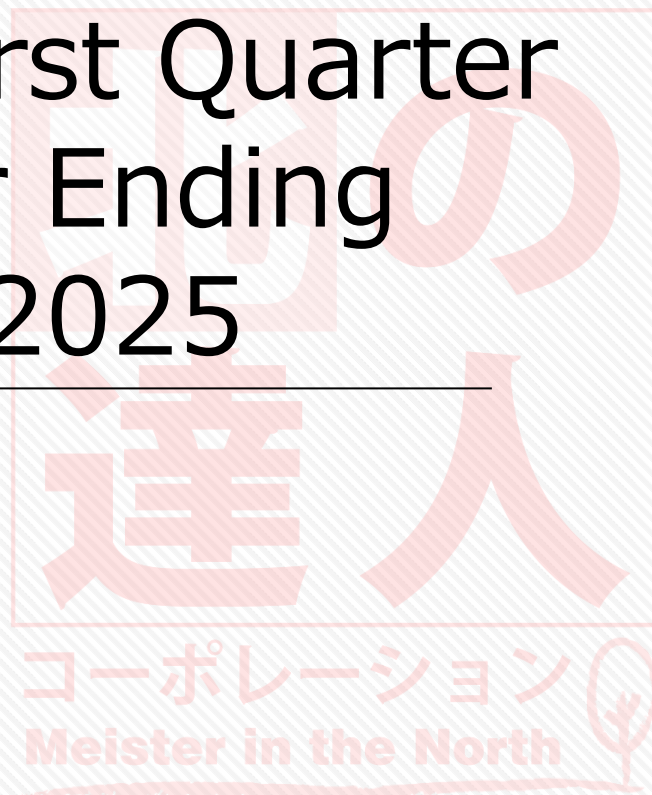
- 
 After the end of the first quarter, we concluded a share transfer agreement of our consolidated subsidiary FM NORTH WAVE CO., LTD., which is to be excluded from the scope of consolidation at the end of July.

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Highlights for the First Quarter of the Fiscal Year Ending February 28, 2025



Consolidated Key Performance Highlights [Compared with Forecasts]

(Millions of yen)

	FY2025 1Q forecast	FY2025 1Q results	Changes	Changes (%)
Net sales	3,452	3,269	-182	-5.3%
Gross profit	2,564	2,458	-106	-4.1%
Selling, general and administrative expenses	2,181	2,069	-112	-5.2%
Advertising expenses	1,014	909	-104	-10.3%
Operating profit	383	389	+6	+1.6%
Operating profit margin	11.1%	11.9%	+0.8 pt	
Ordinary profit	386	394	+8	+2.2%
Profit attributable to owners of parent	259	266	+6	+2.5%

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

Consolidated
(Reference) Key Performance Highlights [Compared Year on Year]

(Millions of yen)

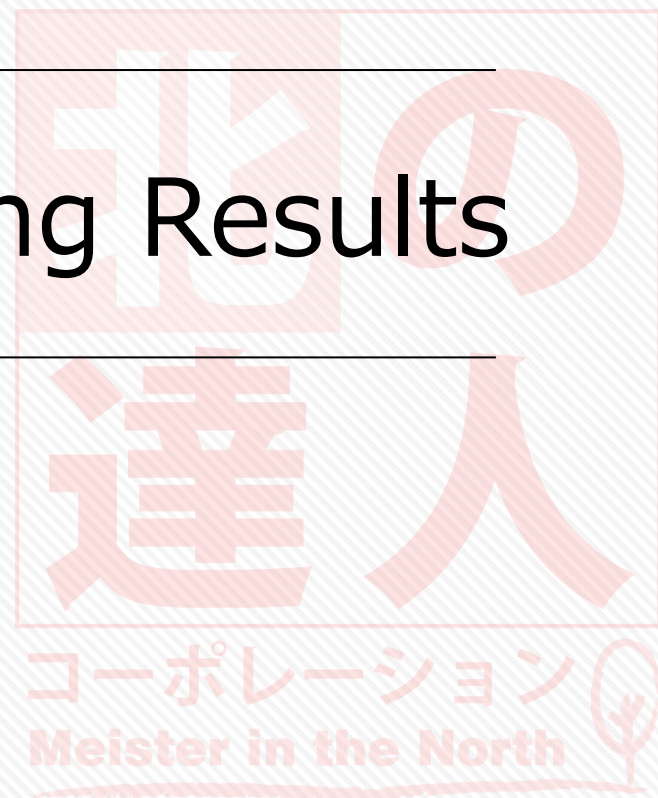
	FY2024 1Q results	FY2025 1Q results	Changes	Changes (%)
Net sales	3,931	3,269	-661	-16.8%
Gross profit	2,905	2,458	-447	-15.4%
Selling, general and administrative expenses	2,932	2,069	-863	-29.4%
Advertising expenses	1,882	909	-972	-51.7%
Operating profit	-26	389	+416	-
Operating profit margin	-0.7%	11.9%	+12.6pt	
Ordinary profit	-21	394	+416	-
Profit attributable to owners of parent	-24	266	+290	-

Consolidated Financial results by segment and brand

(Millions of yen)

Segment	Brand name	FY2024 1Q results	FY2025 1Q results
Health & Beauty Care business		3,558	2,873
		226	232
	Other brands	37	49
Others	-	108	115
Total net sales		3,931	3,269
Operating profit		-26	389

Analysis of Operating Results



Non-consolidated

Explanation of Financial Results

<Sales profit and operating profit>

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

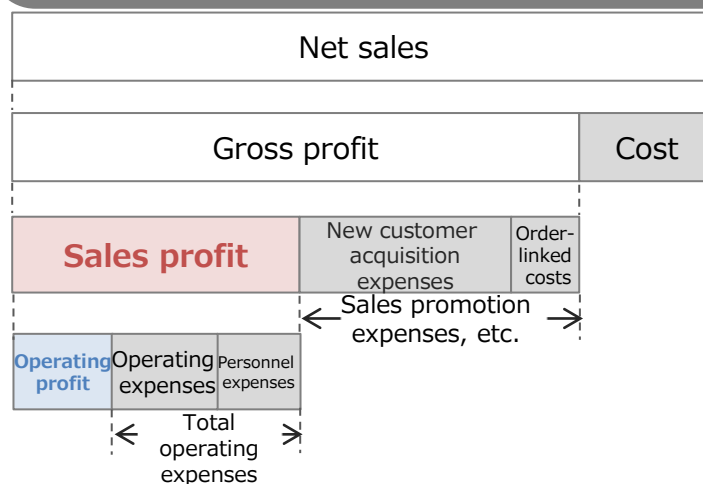
Sales profit = gross profit - sales promotion expenses, etc. (Order-linked costs*1 + New customer acquisition expenses*2)

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

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

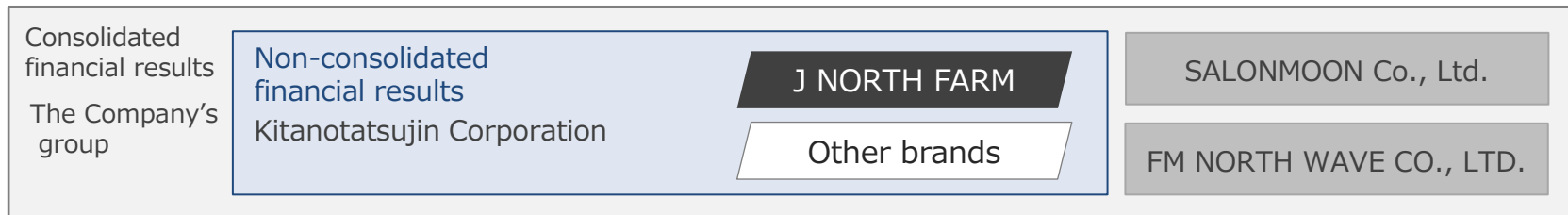
Impacted by investments for future business expansion in addition to recent business results.

Management accounting structure to visualize profits for “each product”



<Segments of financial results>

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



*1 Expenses that must be incurred for orders, including credit card transaction fees, shipping, packaging materials costs, enclosures and accessories, etc.

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

Non-consolidated Key Performance

<Compared with financial results forecast for the three months ended May 31, 2024>

(Millions of yen)

	Non-consolidated		
	Forecast	Results	Changes
Net sales	3,105	2,922	-183
Gross profit	2,417	2,310	-107
Sales promotion expenses, etc.	1,247	1,144	-102
Sales profit	1,170	1,165	-5
Operating profit	382	381	-1

J NORTH FARM

- Sales from new customers and resulting subscription purchases decreased with the number of new customer acquisitions falling below expectations.
- Sales profit increased with reduced advertising investment.

Other brands

Various measures for our core brand "SPADE" were taken, such as those to acquire new customers through advertising media, improve LTV*, and upsell to existing regular customers. However, the expected effects were not obtained.

(Millions of yen)

	J NORTH FARM			Other brands		
	Forecast	Results	Changes	Forecast	Results	Changes
Net sales	3,018	2,873	-145	86	49	-37
Gross profit	2,356	2,277	-79	61	32	-28
Sales promotion expenses, etc.	1,199	1,110	-88	47	34	-13
Sales profit	1,157	1,166	+9	13	-1	-14

* 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).

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the three months ended May 31, 2024>

	Forecast	Results	Changes
(Millions of yen)			
Net sales	3,018	2,873	-145
(1) Difference in new sales			
Net sales	530	427	-103
Gross profit	398	316	-81
Sales promotion expenses, etc.	992	889	-102
Sales profit	-593	-573	+20
Initial ROAS*	57.7%	53.5%	-
(2) Difference in regular and other sales			
Net sales	2,081	2,031	-49
Gross profit	1,633	1,604	-28
Sales promotion expenses, etc.	89	98	+9
Sales profit	1,544	1,506	-37
(3) Difference in e-commerce mall sales			
Net sales	406	413	+7
Gross profit	324	355	+30
Sales promotion expenses, etc.	118	122	+3
Sales profit	206	233	+26
Sales profit	1,157	1,166	+9

- ◆ The number of new customer acquisitions was lower than expected in the first quarter.
- ◆ Initial ROAS was 4.2 pt lower than expected.
 - The percentage of products with lower initial ROAS increased.
 - The investment efficiency deteriorated due to the exhaustion of advertising content creation
- Sales from new customer acquisitions were lower than expected.
- ◆ Sales promotion expenses, etc. decreased primarily due to reduced advertising expenses.
- Sales profit exceeded the forecast.
- ◆ As some products were shifted to pre-orders, ¥32 million of net sales and ¥21 million of sales profit were not recorded in the first quarter.
 - As successful sales promotions resulted in a flood of orders, we responded to orders from new customers through pre-orders, in which products are shipped once ready.

- ◆ The accumulation of regular sales was lower than expected due to a decrease in the number of new customer acquisitions.
- Sales decreased, causing sales profit to also fall below the forecast.

- ◆ Net sales increased more than expected
- ◆ The cost to sales ratio was lower than the initial plan
- Both net sales and sales profit exceeded forecasts.

* 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 ¥500 thousand of sales was generated, the ROAS is 0.50 (50.0%). If ROAS is 1.00 or less, the balance of income and expenditure at the first purchase will be negative. Meanwhile, if it is a subscription purchase, the balance will become positive as products are purchased continuously.

Non-consolidated

J NORTH FARM

(Reference) FY2024 financial results

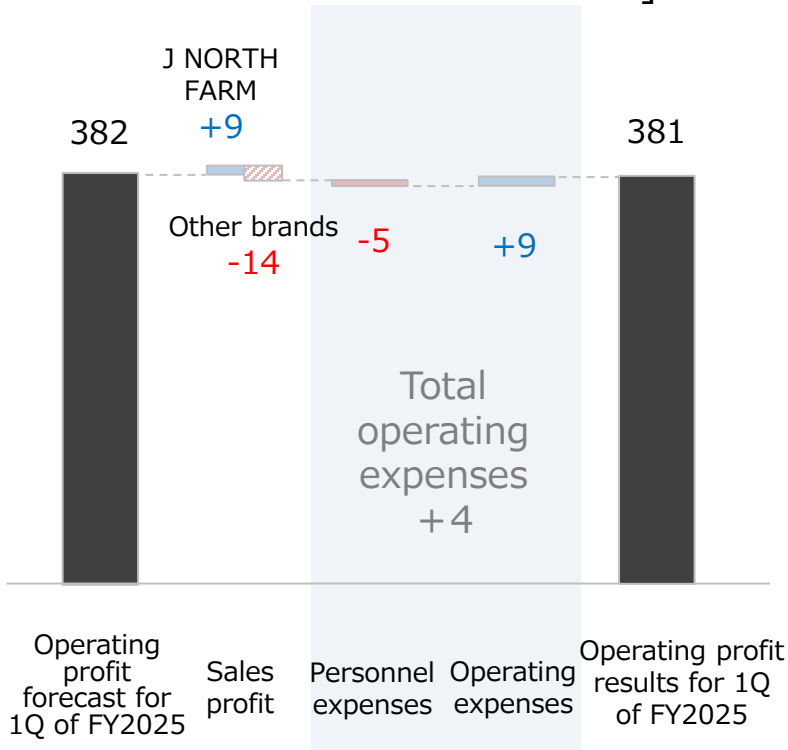
Due to the categorization of results being changed from the first quarter in FY2025, results for FY2024 were arranged in the same format.

Part of adjustment items had been collectively deducted from “regular and other.” However, in order to explain operating results in a more detailed manner, adjustment items are divided into “new customer acquisitions” and “regular and other sales” by causes and deducted from the respective categories.

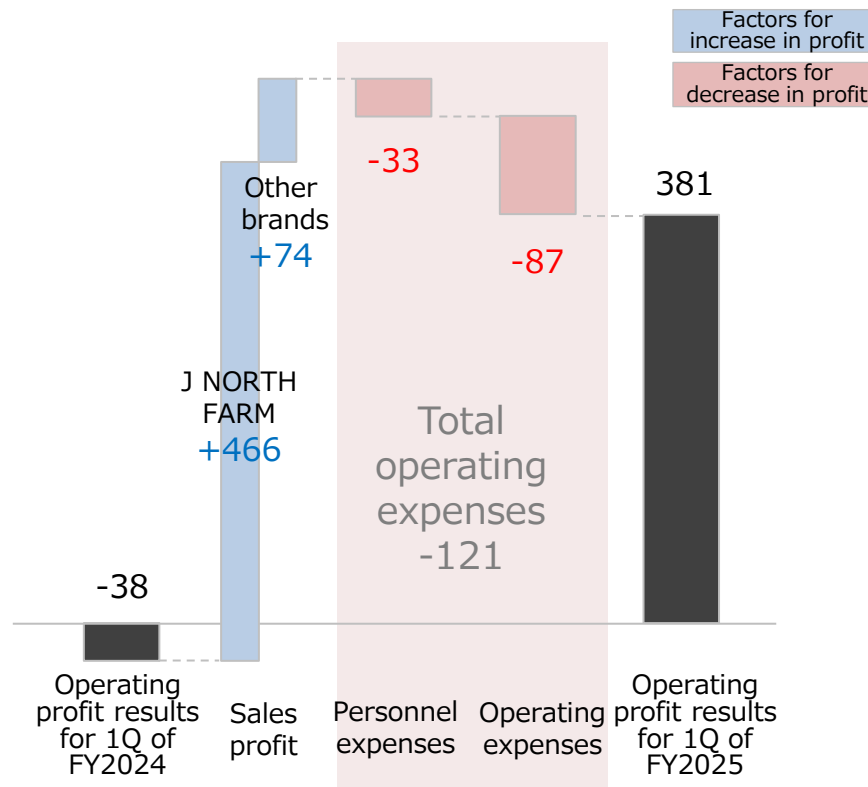
	1Q	2Q	3Q	4Q	(Millions of yen) Total for full year
Net sales	3,558	3,431	3,041	2,988	13,019
(1) Recording for a portion of delayed deliveries					
Net sales	188	-	-	-	188
Gross profit	144	-	-	-	144
Sales promotion expenses, etc.	18	-	-	-	18
Sales profit	125	-	-	-	125
(2) New sales					
Net sales	857	602	470	549	2,480
Gross profit	602	421	310	389	1,723
Sales promotion expenses, etc.	1,808	1,303	868	1,000	4,980
Sales profit	-1,205	-881	-558	-611	-3,256
Initial ROAS	49.6%	48.6%	57.6%	58.7%	52.6%
(3) Regular and other sales					
Net sales	2,087	2,433	2,208	2,056	8,786
Gross profit	1,628	1,887	1,742	1,609	6,868
Sales promotion expenses, etc.	97	129	115	113	456
Sales profit	1,531	1,757	1,627	1,496	6,412
(4) E-commerce mall sales					
Net sales	426	395	361	381	1,565
Gross profit	356	334	301	320	1,313
Sales promotion expenses, etc.	108	98	103	114	424
Sales profit	248	236	198	206	889
Sales profit	699	1,112	1,267	1,091	4,170

Non-consolidated Factors behind change in operating profit

[Compared with financial results forecast: -1]



[Compared year on year: +419] (Millions of yen)



(Compared with financial results forecast)
No significant increase or decrease

(Year on year)

- Decrease in advertising expenses
- Increase in personnel expenses due to a workforce increase aimed at business expansion
- Increase in expenses due to relocating the Tokyo Head Office floor and constructing new logistics facilities

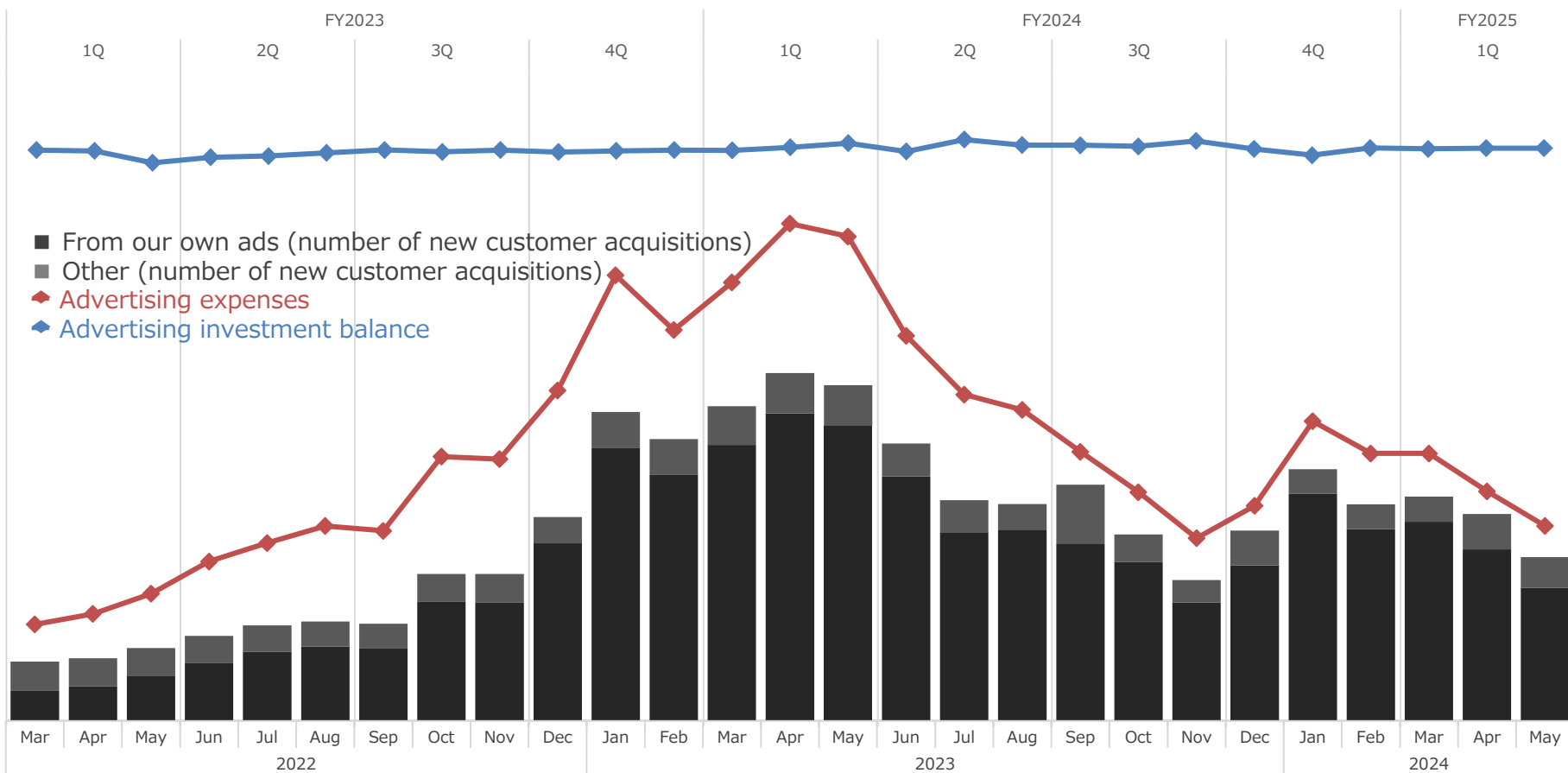
Non-consolidated

J NORTH FARM

Relationship between number of new customer acquisitions and advertising expenses

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

(Millions of yen)



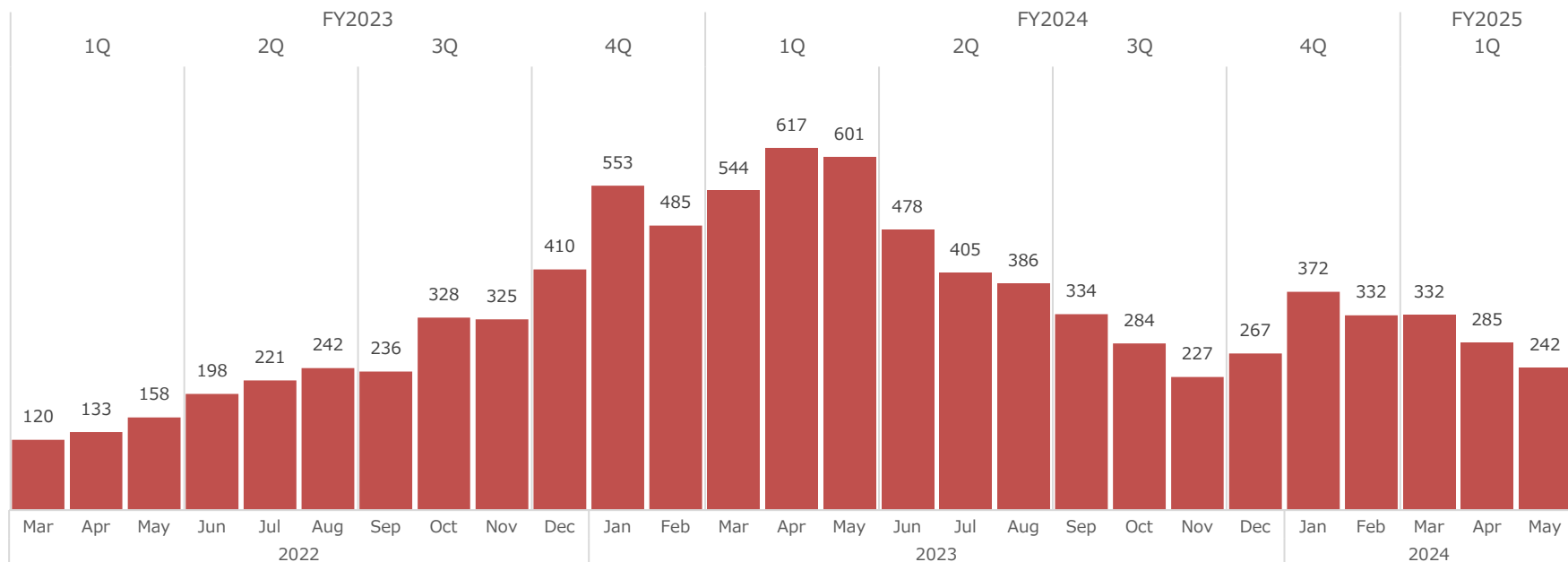
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J NORTH FARM

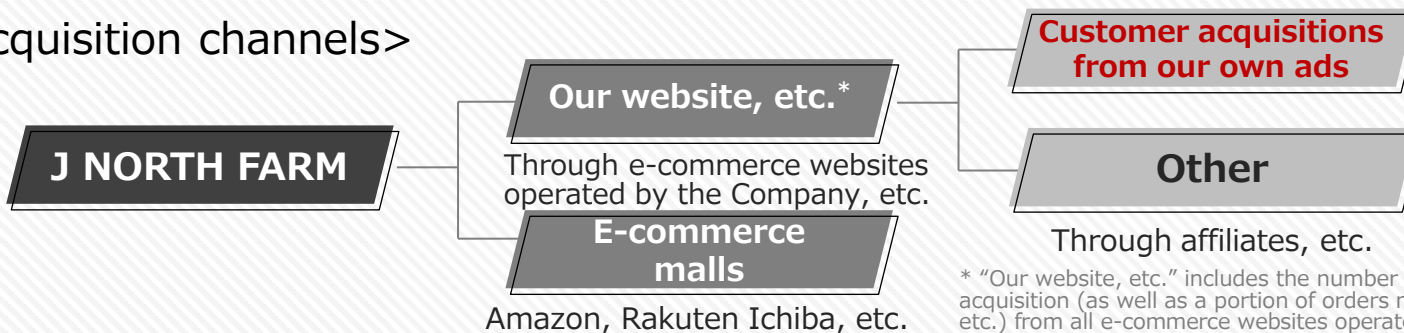
Changes in advertising expenses

Most advertising expenses are incurred through customer acquisitions from our own ads.

(Millions of yen)



<Main acquisition channels>



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

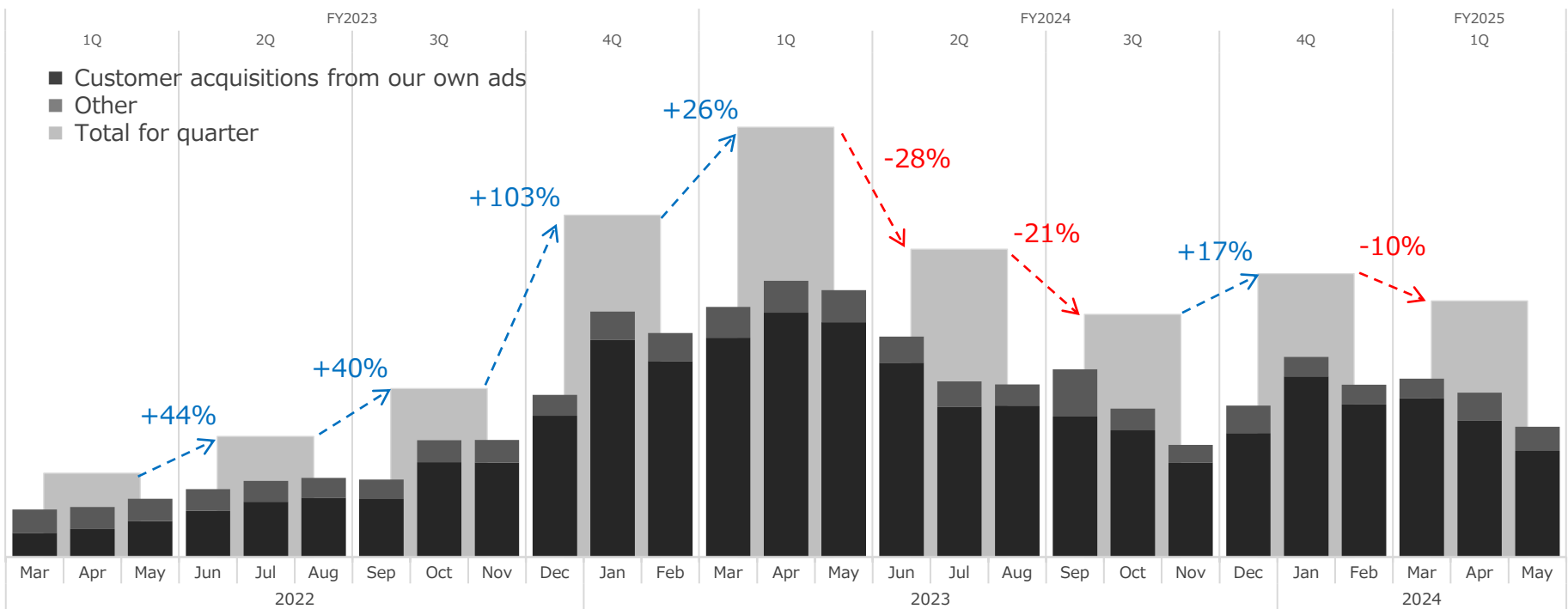
Non-consolidated

Our website, etc.

Changes in number of new customer acquisitions

The number of new customer acquisitions for the first quarter of FY2025 decreased 10% QonQ.
 →Measures are unable to keep up with the exhaustion of advertising content creation.

- Advertising content, after a certain period of time, becomes “exhausted” (phenomenon in which consumers are tired of watching it), causing reactions from users to deteriorate. Therefore, the creation of new advertising content using different viewpoints and approaches becomes necessary.
- A higher level of creative skills is also necessary for maintaining the expanded customer base and achieving further growth.



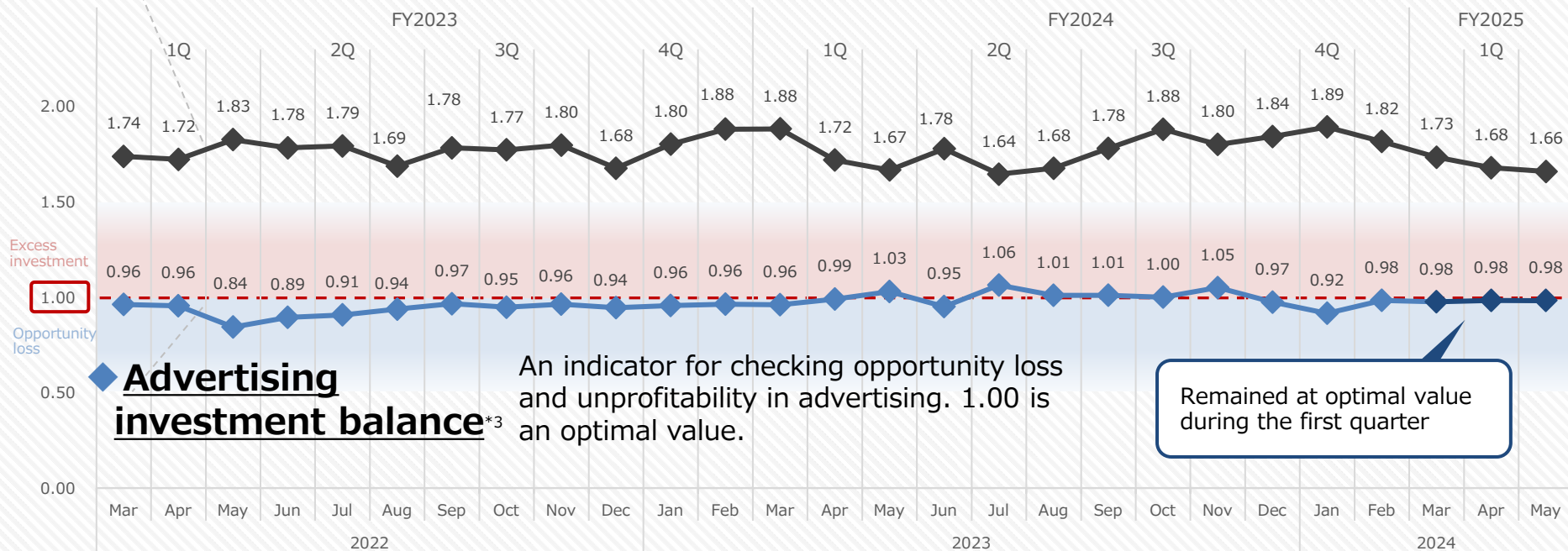
For “continuing to create a higher level of ad contents,” we will continue to focus on improving the Creative Department by employing experienced staff, providing in-house training, and building an organizational foundation in order to increase the number of new customer acquisitions in a stable manner.

Non-consolidated

Customer acquisitions from our own ads

Advertising investment efficiency

◆ **1-year ROAS***1*2 Amount of sales expected to result from advertising investment in one year



◆ **Advertising investment balance***3

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

Remained at optimal value during the first quarter

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. However, even though profitability may not be decreasing, ROAS values will trend downward when the share of the products to which a high CPO limit⁴ can be assigned due to their high LTV, 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, 1-year ROAS is used for calculation. While initial ROAS is calculated as "initial sales (results) ÷ advertising expenses (results)," 1-year ROAS is calculated as "1-year sales (projection) ÷ advertising expenses (results)."
 The figures for sales over a period of one year are simulated projections derived from massive amounts of data, including past results and repeat purchase rates, etc., and these same projections are used in actual ad management to set CPO limits.
 *3 A unique indicator that measures opportunity loss and unprofitability in advertising. Advertising investment indicates how much CPO was obtained with respect to the CPO limit. If it is less than 1.00, there is opportunity loss, and if it is higher than 1.00, there is excess investment. Therefore, 1.00 is the optimal value. If the CPO limit is set to ¥10,000 and the CPO result is ¥9,000, the advertising investment balance is 0.90.
 *4 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.

Non-consolidated

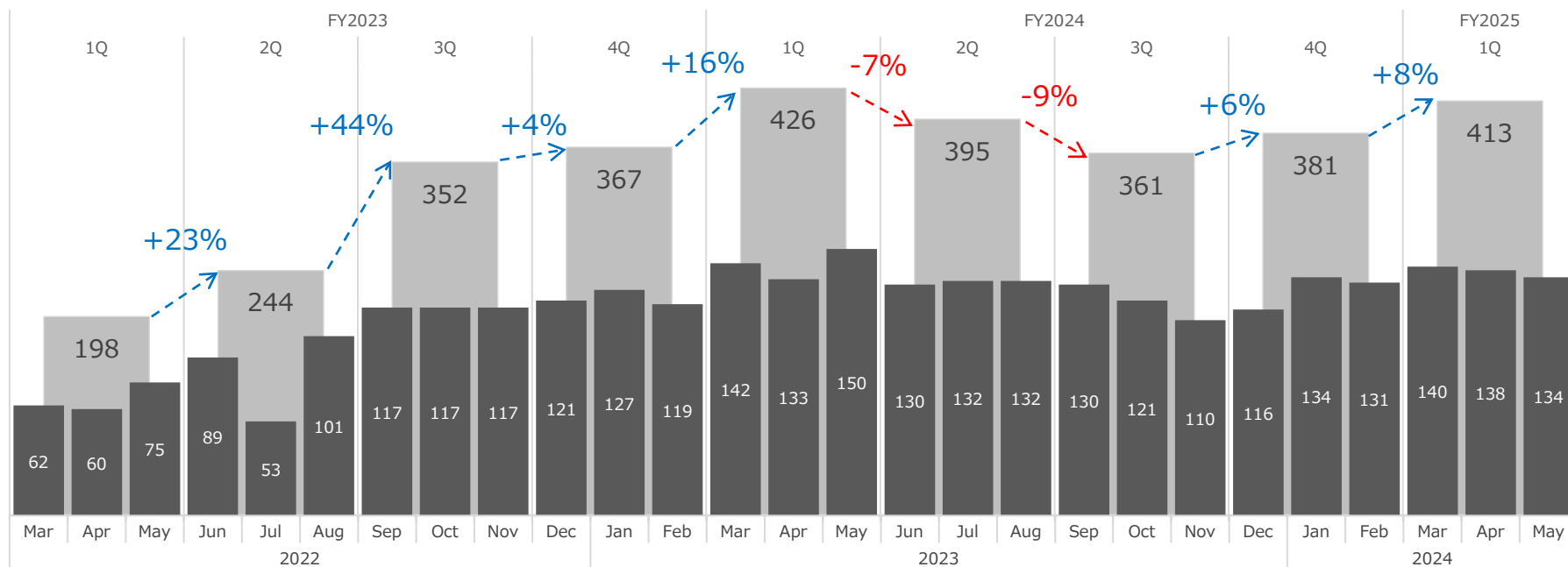
E-commerce malls

Changes in net sales

Net sales for e-commerce malls in the first quarter of FY2025 are increasing 8% quarter on quarter.

Monthly sales on Amazon reached a record-high in March 2024.

(Millions of yen)



<Initiatives implemented in FY2025>

- Sales promotion activities, advertising contents creation, and advertisement optimization targeted at e-commerce malls
- Reduced costs by reviewing delivery methods

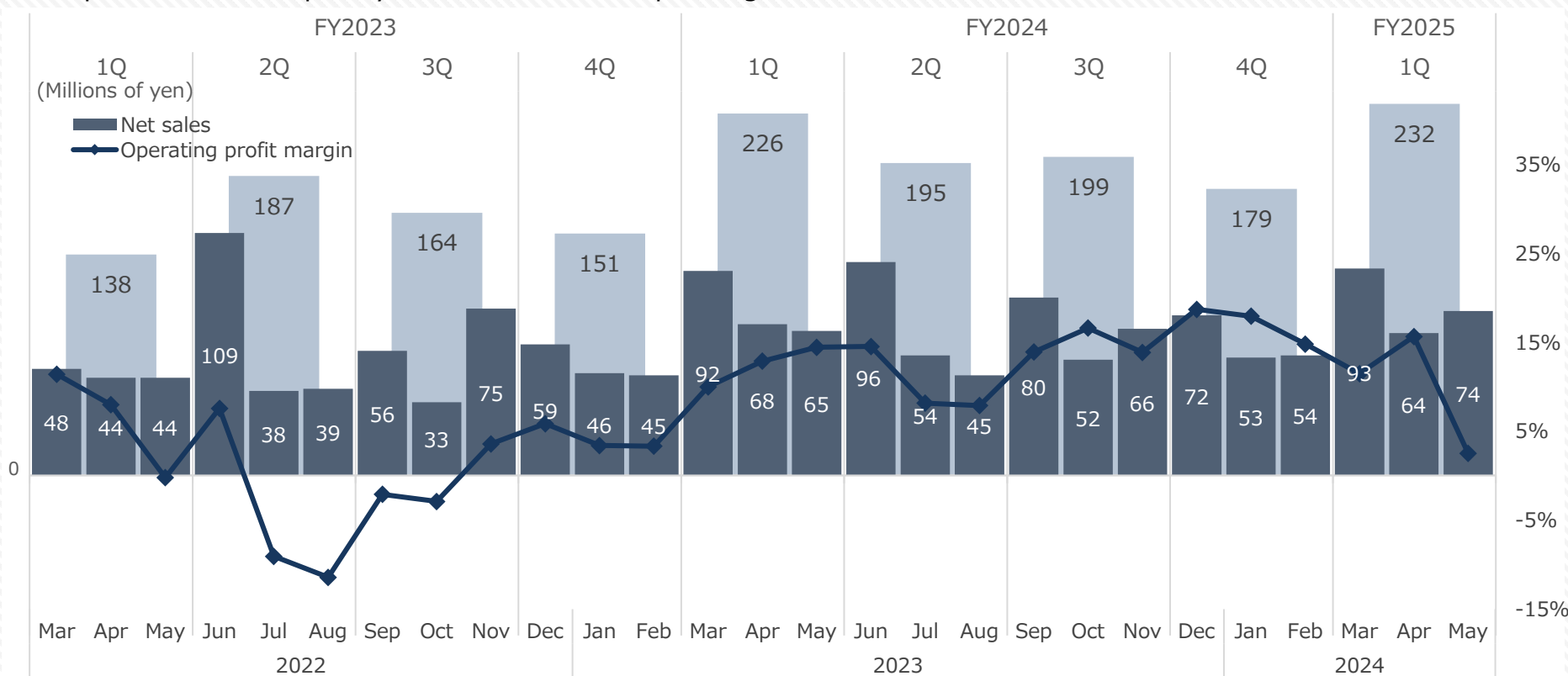
SALONMOON
Co., Ltd.

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

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

<Changes in financial results>

- Although the Company operated at a loss for some months in the second quarter of FY2023 mainly due to the impact of the depreciation of the Japanese yen, the operating profit margin has recovered to previous levels.
- The decline in the operating profit margin in May 2024 was due to factors such as a change in the sales channel composition and temporary costs incurred in expanding sales channels.



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

SALONMOON Co., Ltd.

<Initiatives implemented in the first quarter of FY2025>

- ◆ 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
 - Reevaluate our unique characteristics and user base
 - Created optimized ad content for each e-commerce mall
- ◆ Released new products and developed series products
- ◆ Expanded storefront sales and expected to sell at more than 1,000 stores

The total amount of shipments of SALONMOON's hair iron series surpassed one million units.

We will seek to further enhance brand value and awareness.



FM NORTH WAVE CO., LTD.

FM radio station with a broadcast area covering Hokkaido

We decided to transfer all shares in FM NORTH WAVE CO., LTD. to Yamachi United Co., Ltd.

<Main timeline> June 14, 2024: Share transfer agreement concluded
July 31, 2024: Share transfer date (scheduled)

Consolidated

Consolidated Balance Sheets

(Millions of yen)

Subject/Section	FY2024/4Q end As of February 29, 2024	FY2025/1Q end As of May 31, 2024
Current assets	7,709	7,375
(Cash and deposits)	4,783	4,696
Non-current assets	940	1,035
Total assets	8,649	8,411
Current liabilities	1,515	1,143
Non-current liabilities	136	183
Total liabilities	1,652	1,327
Total net assets	6,996	7,084
Total liabilities and net assets	8,649	8,411

<Main factors for the changes from the end of FY2024>

-¥145 million of notes and accounts receivable – trade, and contract assets of under assets

-¥342 million of income taxes payable under liabilities

+¥85 million of retained earnings of under net assets

Financial Results Forecast

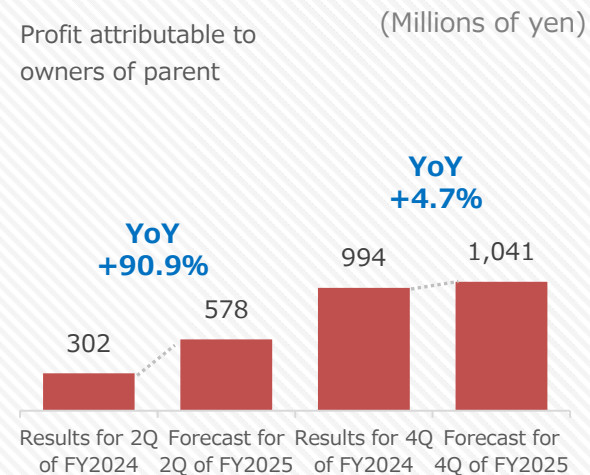
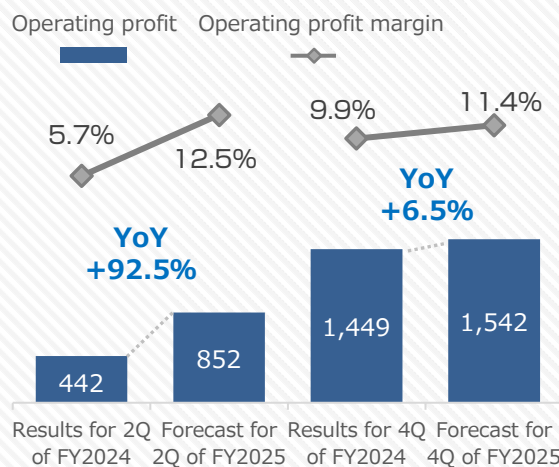
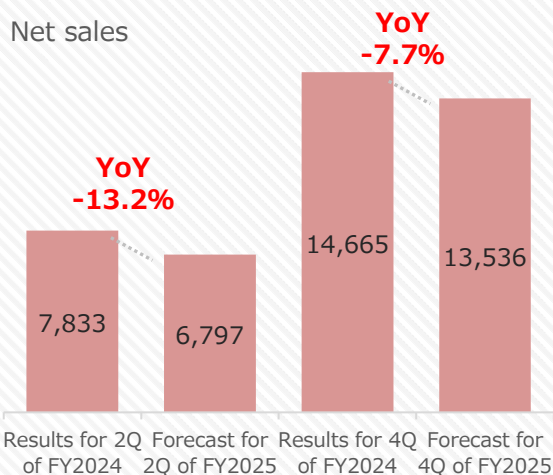


Consolidated Financial Results Forecast

<FY2025 Key performance>

(Millions of yen)

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



Non-consolidated

Financial Results Forecast

<FY2025 Key performance>

(Millions of yen)

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

Non-consolidated

Financial Results Forecast

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

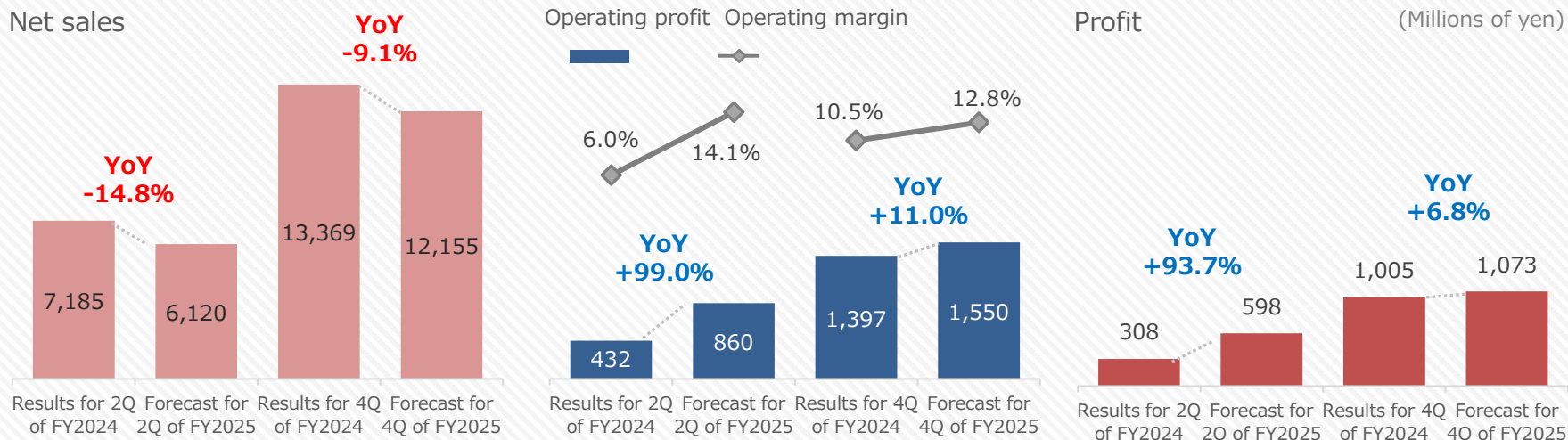
- ◆ In our core brand "J NORTH FARM," we will strengthen our organizational strength by further improving creative skills and increasing the workforce.

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

- Develop and improve in-house education and training systems and ramp up recruitment at our customer attraction departments.
- Focus on acquiring staff members with creative skills and good design sense, along with an entrepreneurial mindset
- With the customer base expanding, we will also ramp up recruitment at the Customer Service Department and back office divisions.
- With the workforce expanding, we relocated the Tokyo Head Office to a different floor of the same building in June 2024.

→ Total operating expenses, including personnel and rent expenses, are expected to increase.

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



References



Company Overview

Company Name	Kitanotatsujin Corporation	
Representative	Katsuhisa Kinoshita, Representative Director & President	
Incorporated	May 2002 (Founded in May 2000)	
Head Office	Chuo-ku, Tokyo and Sapporo, Hokkaido	
Listing	TSE Prime Market	SSE Main Market
	May 2012	Listed on Sapporo Securities Exchange, Ambitious Market
	March 2013	Upgraded to Main Market on Sapporo Securities Exchange
	November 2014	Listed on the Tokyo Stock Exchange, Second Section
	November 2015	Assigned to the Tokyo Stock Exchange, First Section
April 2022	Transferred to the Tokyo Stock Exchange, Prime Market	
Officers and Employees, etc.*	238 (21) people (As of February 29, 2024)	

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

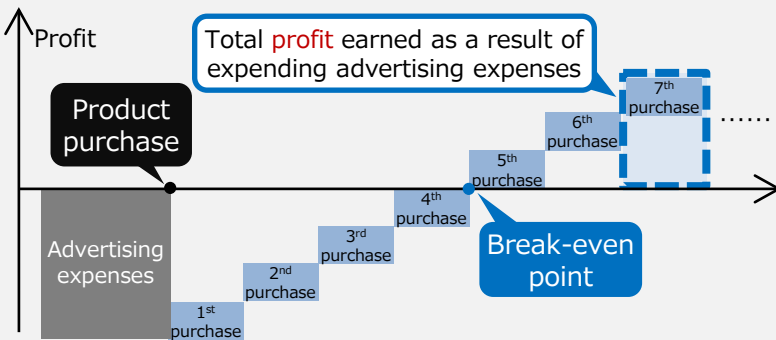
Business Model

◆ Customer characteristics

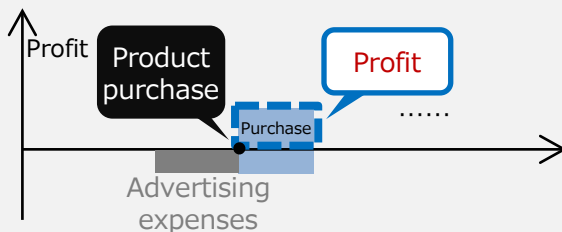
- The main customer base is in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

◆ Monetization schemes by channel

<Our website> Subscription purchase-driven business model in which the balance of income and expenditure at the first purchase will be negative but will become positive as products are purchased continuously

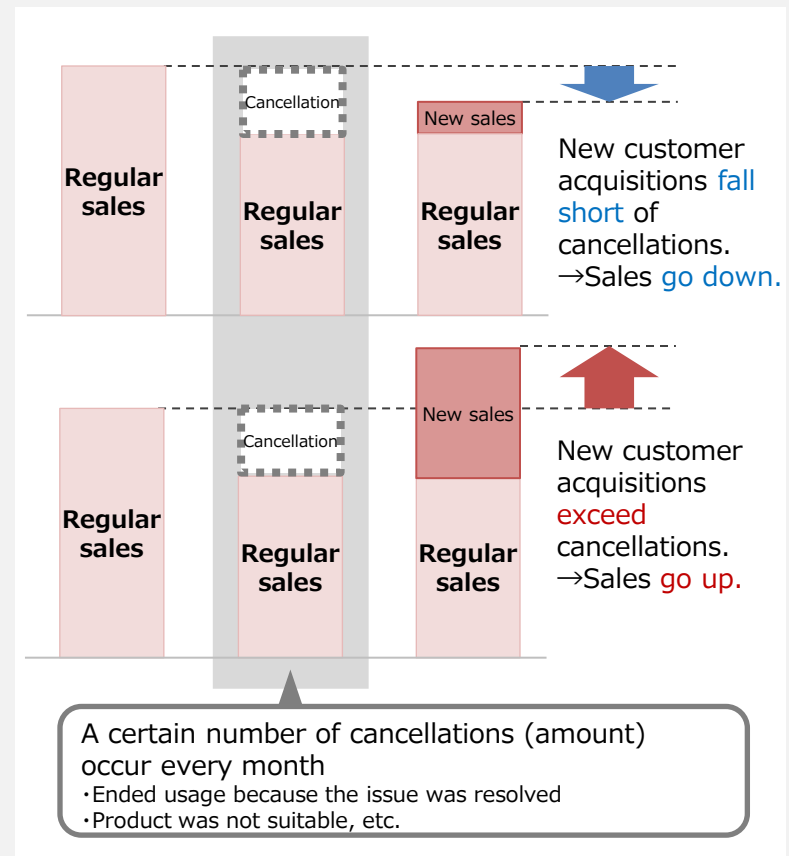


<E-commerce malls> Unit-purchase business model in which profitability is achieved with a single purchase, not a continuous purchase



◆ Profit structure

Although a certain number of cancellations (amount) occurs every month, sales will grow by acquiring new customers that exceed the number of cancellations



<Product strategy>

- Product development specifically designed for the E-commerce business
- Strict product development standards
- Products designed for delivery at fixed periods

<Sales strategy>

- Basic policy that places an emphasis on profits
- Advertising optimization system developed by the Company
- Calculation of the optimal CPO limit based on the correlation between CPO and the number of new customer acquisitions
- Profit management fine-tuned for each product
- Advertising placement management through advertising investment balance indicators



Adoption of **D2C × Subscription-driven** business model

- Direct feedback on customer data and products is available
- High-precision marketing backed by the feedback is realizable
- A steadily growing business model



Realize a profit structure that enables stable growth

Product Strategy

◆ Product development specifically designed for the E-commerce business

- Develop the E-commerce business that sells a total of 35 **original products** on the Internet to meet specific customer needs, including **cosmetics and health foods**
- Products specialized for solving customers' concerns for health and beauty



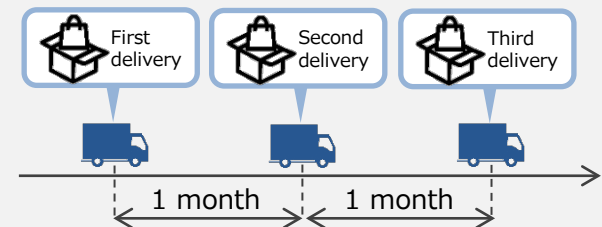
◆ Stringent product development standards

- Only commercialize products that bring solid satisfaction, under the policy, **"A product will only be commercialized when an astonishingly fine product is created"**
- **Established original product development standards with approximately 800 items** specifically designed for online sales and conduct a thorough monitor survey
- **Only 2% of planned 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	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 several thousands to tens of thousands of advertisements presented regularly into various segments
- (4) Automatically suspend advertisements that exceed the CPO limit
- (5) The Company develops and operates a system that manages the above process.

➡ **Develop system where only highly profitable advertising remains**



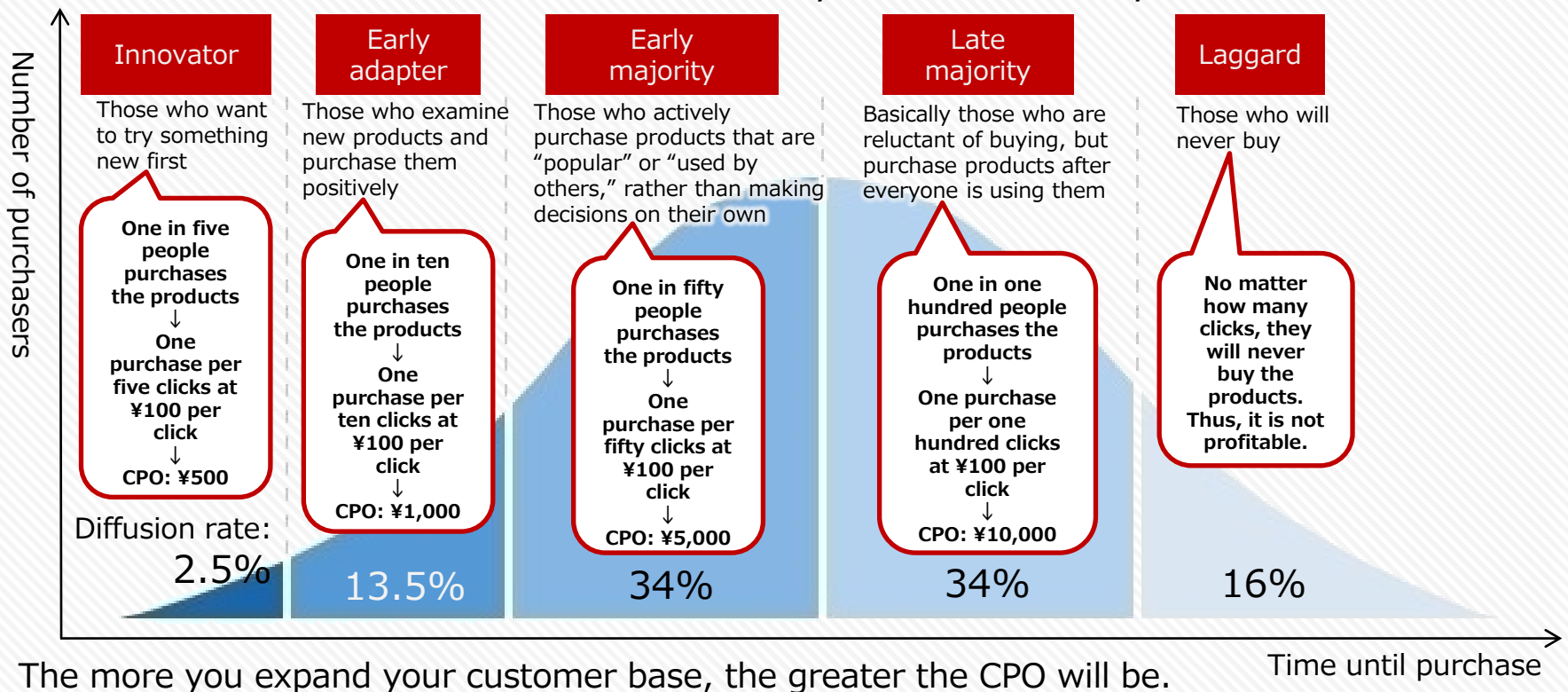
Sales Strategy

◆ Correlation between CPO and the number of new customer acquisitions

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

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

Consumer distribution by innovator theory



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

Sales Strategy

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

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

Gross profit by product

Mandatory cost per order

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

Net gross profit – new customer acquisition expenses = sales profit (coined term)

Personnel expenses for each product

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

Sales Strategy

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

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

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

➡ It is important to find the most profitable CPO

<In the case of LTV of ¥10,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

Largest sales

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

<In the case of LTV of ¥12,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

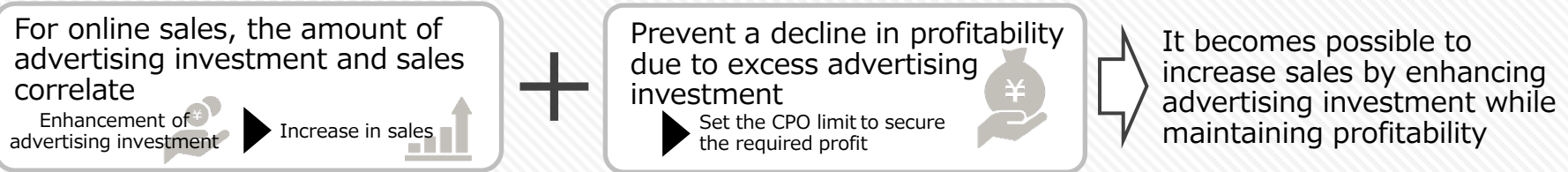
Largest sales

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

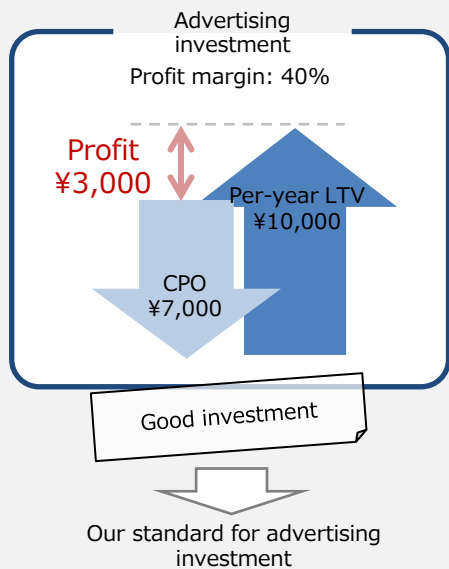
LTV improvement: Makes it possible to increase profit with the same CPO and raise the CPO limit setting

Sales Strategy

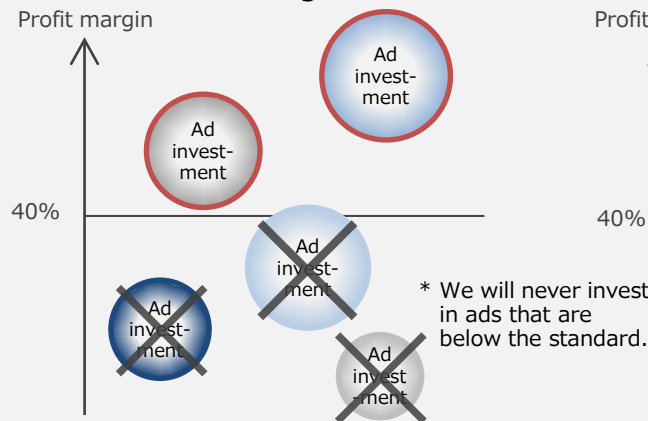
◆ Enhancement of advertising investment and relationship to profit



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



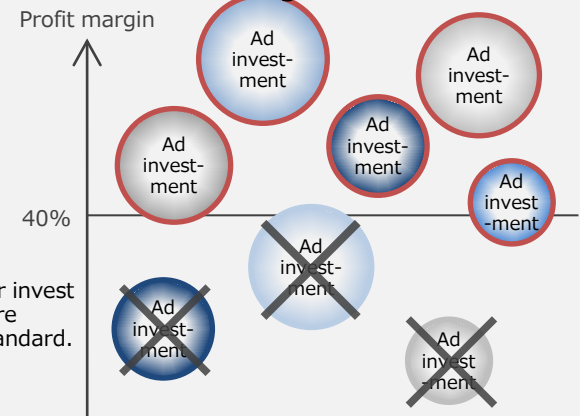
If there are only a few ads that are above the standard, we reduce the total amount of advertising investment



Our basic approach

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

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



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

Major Products

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

Oligosaccharide food for household use which improves bowel movements for people with constipation tendency (increases stool volume and frequency of bowel movements)

- Awarded the Monde Selection 13 times (Awarded the Grand Gold Award eight times and the Gold Award five times between 2012 and 2024)
- 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 2024

*2 Area where cheek pores are concentrated

Information on the Company's strategies

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

<Books>

The Law of Sales Minimization, Profit Maximization

—Management Secrets for a 29% Profit Margin



Released on June 16, 2021

FUNDAMENTALS X TECHNICAL MARKETING

—83 Ways to Maximize the Results of Web Marketing



Released on April 28, 2022

The Law of Time Minimization, Result Maximization

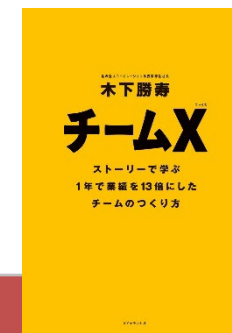
—“A Capable Person's Thinking Algorithm,” Installing One Story a Day



Released on November 16, 2022

Team X

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



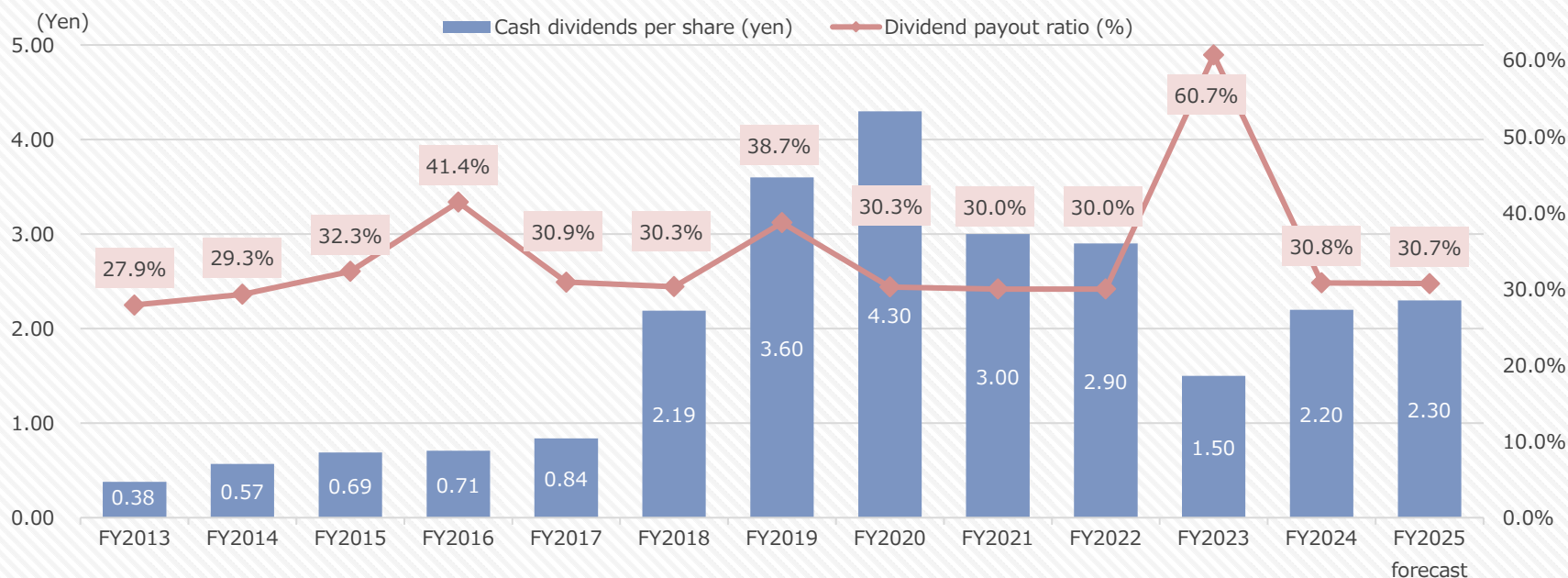
Released on November 15, 2023

Consolidated

Actual and Projected Dividends

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

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



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

A 4-for-1 stock split for common shares as of February 9, 2013 A 2-for-1 stock split for common shares as of January 3, 2014 A 2-for-1 stock split for common shares as of June 1, 2015

A 2-for-1 stock split for common shares as of April 1, 2017 A 2-for-1 stock split for common shares as of November 6, 2017 A 3-for-1 stock split for common shares as of February 15, 2018

*2 The Company transitioned to consolidated accounting from FY2022. The graph above indicates non-consolidated figures for the period up to FY2021 and consolidated figures for FY2022 and thereafter.

Consolidated

Other Indicators

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

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

A 2-for-1 stock split for common shares as of June 1, 2015

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

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

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

*2 As FY2022 was the first year of consolidated accounting, ROE and ROA were calculated based on equity and total assets as of fiscal year-end

Major Awards Received

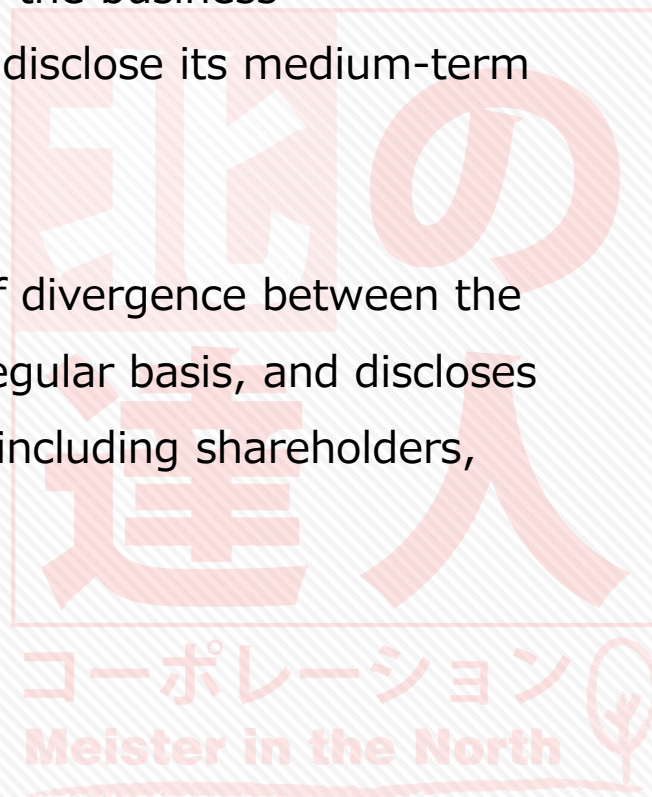
- November 2020: Awarded the “Asia’s 200 Best Under A Billion” in Forbes Asia
- September 2019: Awarded the Internet Shopping Award in the “Asia Direct Marketing Vision 2019”
- February 2017: Special E-Commerce Promotion Award Recipient at “Japan Venture Awards 2017” hosted by the Organization for Small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