



October 18, 2024

To whom it may concern:

Company name	Kitanotatsujin Corporation
Representative	Katsuhisa Kinoshita Representative Director & President Stock code: 2930 Prime Market, Tokyo Stock Exchange SAPPORO SECURITIES EXCHANGE
Inquiries	Maki Iimori, Managing Director, General Manager of Administration Department and General Manager of Human Resources and General Affairs Department
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Financial Results Meeting for Institutional Investors and Analysts Held

Kitanotatsujin Corporation (the “Company”) provides notice that it held a financial results meeting for the Second Quarter of the Fiscal Year Ending February 28, 2025 where Representative Director & President Katsuhisa Kinoshita provided a presentation as follows.

<Thursday, October 17, 2024, from 3:30 p.m. to 4:30 p.m. (Japan time)>

1. Revision of the Full-Year Consolidated Financial Results Forecast
2. Highlights for the Second Quarter of the Fiscal Year Ending February 28, 2025
3. Analysis of Operating Results, etc.
4. Financial Results Forecast
5. Q&A session

Please refer to the attached document for materials for the financial results meeting and Q&A session (summary).

End



Financial Results Meeting for the Second Quarter of the Fiscal Year Ending February 28, 2025

Stock code: 2930
Kitanotatsujin Corporation
October 17, 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

-  Revision of the Full-Year Consolidated Financial Results Forecast
 Revised net sales to ¥11,555 million (-14.6% from the previous forecast)
 Revised operating profit to ¥1,672 million (+8.4% from the previous forecast)
-  As the number of new customer acquisitions declined more than expected in the second quarter, net sales came in at ¥6,482 million (down 4.6%) in comparison to the financial results forecast.
-  Advertising investment was lower than expected, causing operating profit to exceed the financial results forecast.
-  We continued to focus on improving the Creative Department and expanding our product lineup to increase new customer acquisitions.

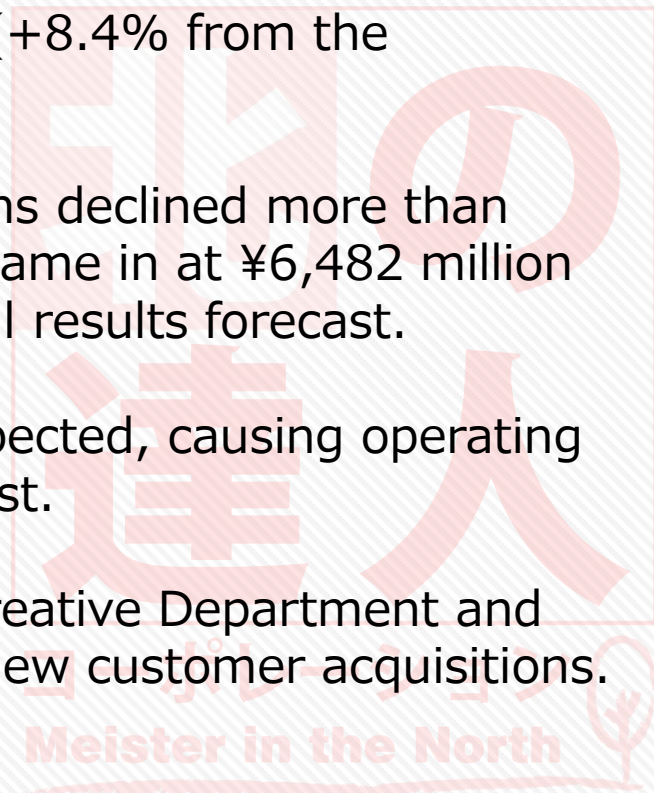
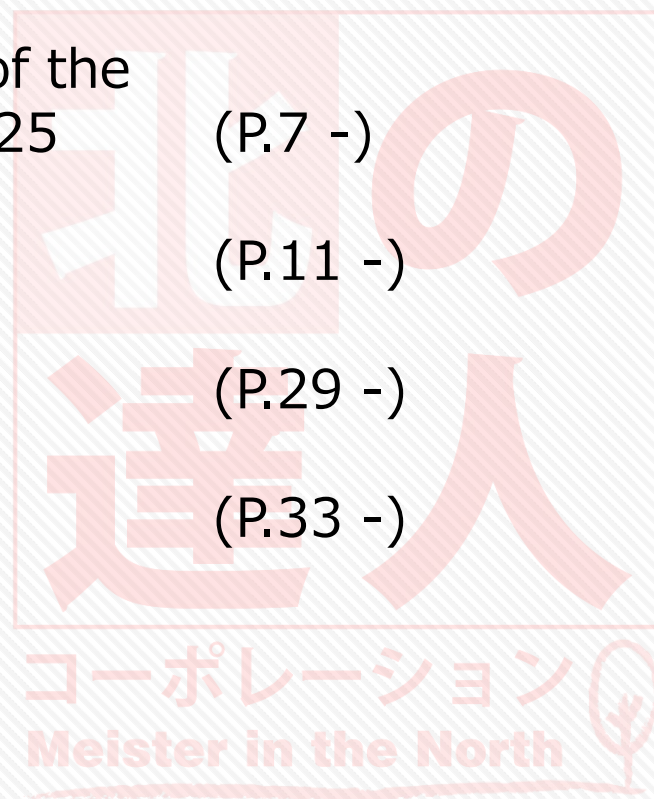


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Revision of the Full-Year Consolidated Financial Results Forecast



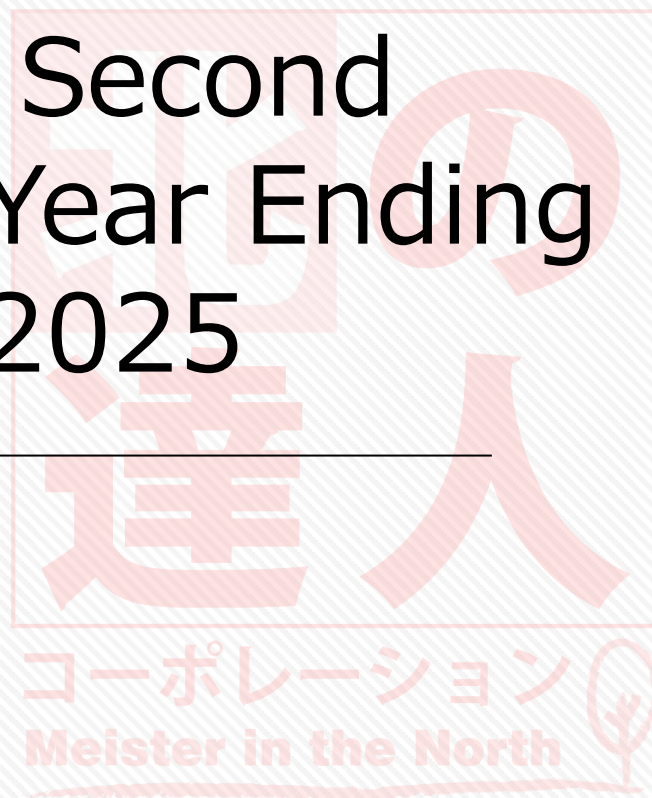
Consolidated Revision of the full-year consolidated financial results forecast

- Net sales in the second quarter fell short of expectations due to lower-than-expected new customer acquisitions, mainly caused by the exhaustion of sales pages, and lower-than-expected accumulation of regular sales, etc., as a result of reduced new customer acquisitions.
 - Operating profit, ordinary profit and profit attributable to owners of parent in the second quarter all exceeded forecasts due to lower-than-expected advertising expenses.
- Since our policy is to prepare financial results forecasts based on the assumption that new customer acquisitions at the time of preparation will continue, we have revised the full-year consolidated forecast and full-year non-consolidated forecast for FY2025 based on the current status of new customer acquisitions (see pages 31-32 for details).
- Net sales in the full-year consolidated financial results forecast for FY2025 were revised to ¥11,555 million.
 - All kinds of profits are expected to exceed the forecast, as sales promotion expenses, etc., which mainly consist of advertising expenses, are expected to decrease.

(Millions of yen)

	Initial forecast for FY2025	Revised forecast for FY2025	Changes	Changes (%)
Net sales	13,536	11,555	-1,980	-14.6%
Operating profit	1,542	1,672	+129	+8.4%
Operating profit margin	11.4%	14.5%	+3.1 pt	
Ordinary profit	1,557	1,694	+137	+8.8%
Profit attributable to owners of parent	1,041	1,143	+102	+9.9%

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



Consolidated

Key Performance Highlights [Compared with Forecasts]

(Millions of yen)

	FY2025 2Q forecast	FY2025 2Q results	Changes	Changes (%)
Net sales	6,797	6,482	-314	-4.6%
Gross profit	5,057	4,925	-132	-2.6%
Selling, general and administrative expenses	4,204	4,023	-181	-4.3%
Advertising expenses	1,950	1,754	-196	-10.1%
Operating profit	852	902	+49	+5.8%
Operating profit margin	12.5%	13.9%	+1.4 pt	
Ordinary profit	859	910	+50	+5.9%
Profit attributable to owners of parent	578	608	+30	+5.3%

- 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 2Q results	FY2025 2Q results	Changes	Changes (%)
Net sales	7,833	6,482	-1,350	-17.2%
Gross profit	5,768	4,925	-843	-14.6%
Selling, general and administrative expenses	5,325	4,023	-1,302	-24.4%
Advertising expenses	3,257	1,754	-1,503	-46.1%
Operating profit	442	902	+459	+103.6%
Operating profit margin	5.7%	13.9%	+8.3 pt	
Ordinary profit	454	910	+455	+100.1%
Profit attributable to owners of parent	302	608	+305	+101.0%

Consolidated

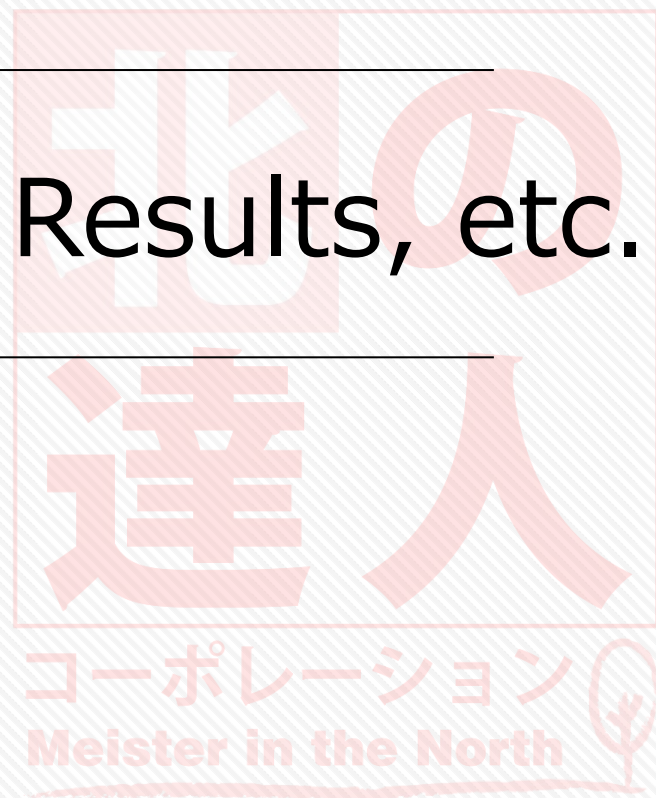
Financial results by segment and brand

(Millions of yen)

Segment	Brand name	FY2025		
		1Q	2Q	Six months ended August 31, 2024 (total)
Health & Beauty Care business	 北の快適工房 J NORTH FARM	2,873	2,851	5,724
	 SALON MOON ^{Pro}	232	229	461
	Other brands	49	45	94
Others*	-	115	87	202
Total net sales		3,269	3,212	6,482
Operating profit		389	512	902

* We transferred all shares in FM NORTH WAVE CO., LTD. on July 31, 2024, and excluded the company from the scope of consolidation. Accordingly, results in "Others" are included in the scope of consolidation up to the date of deconsolidation.

Analysis of Operating Results, etc.



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.

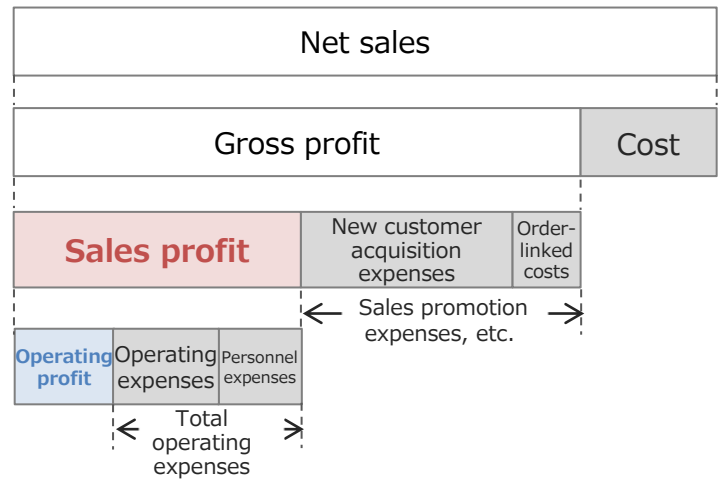
Sales profit = gross profit – sales promotion expenses, etc.
 (Order-linked costs*₁ + New customer acquisition expenses*₂)

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)

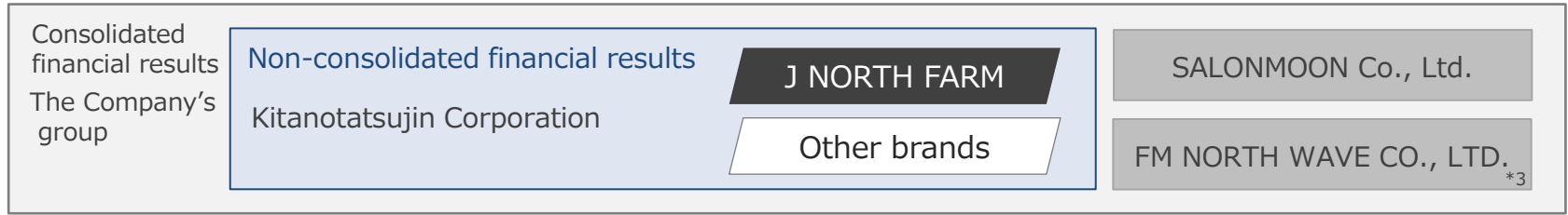
Impacted by investments for future business expansion in addition to recent business results.

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.

*3 Transferred all shares in FM NORTH WAVE CO., LTD. on July 31, 2024, and excluded the company from the scope of consolidation.

Non-consolidated

Key Performance

<Compared with financial results forecast for the six months ended August 31, 2024>

(Millions of yen)

	Non-consolidated		
	Forecast	Results	Changes
Net sales	6,120	5,818	-301
Gross profit	4,777	4,642	-134
Sales promotion expenses, etc.	2,407	2,258	-149
Sales profit	2,369	2,384	+15
Operating profit	860	881	+20

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 due to reduced new customer acquisition expenses.

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	5,924	5,724	-200	195	94	-101
Gross profit	4,638	4,581	-56	138	61	-77
Sales promotion expenses, etc.	2,310	2,195	-115	96	62	-34
Sales profit	2,327	2,386	+58	41	-1	-43

* 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 six months ended August 31, 2024>
(Millions of yen)

	Forecast	Results	Changes
Net sales	5,924	5,724	-200
(1) Difference in new sales			
Net sales	1,026	891	-134
Gross profit	766	690	-76
Sales promotion expenses, etc.	1,903	1,748	-154
Sales profit	-1,136	-1,058	+78
Initial ROAS*	58.2%	54.1%	-
(2) Difference in regular and other sales			
Net sales	4,109	3,950	-158
Gross profit	3,241	3,125	-115
Sales promotion expenses, etc.	176	187	+10
Sales profit	3,064	2,938	-126
(3) Difference in e-commerce mall sales			
Net sales	788	881	+93
Gross profit	630	766	+135
Sales promotion expenses, etc.	230	259	+29
Sales profit	400	506	+106
Sales profit	2,327	2,386	+58

- ◆ The number of new customer acquisitions was lower than expected.
- ◆ Initial ROAS was 4.1 pt lower than expected due to an increase in the percentage of products with lower initial ROAS (not due to deterioration in investment efficiency).
 - Sales from new customer acquisitions were lower than expected.
- ◆ Sales promotion expenses, etc. decreased primarily due to reduced new customer acquisition expenses.
 - Sales profit exceeded the forecast.
- ◆ Pre-orders for some products that occurred in the first quarter were shipped by the second quarter.

- ◆ 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

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



Main brand SPADE

- Nicotine and tar-free e-cigarette that produces no secondhand smoke, unlike paper cigarettes and heated tobacco products
- Launched in October 2021



In the second quarter, net sales and sales profit were ¥94 million and -¥1 million, respectively, both below the forecast

Factor 1

Limited media available for advertising

- Possible gateway to smoking of paper cigarettes, heated tobacco, etc.
- Concerns about negative effects on minors

→ Restrictions on advertisements in many advertising media

Significantly affected by external factors, such as time-limited advertising placements in major media

Factor 2

LTV remained lower than expected

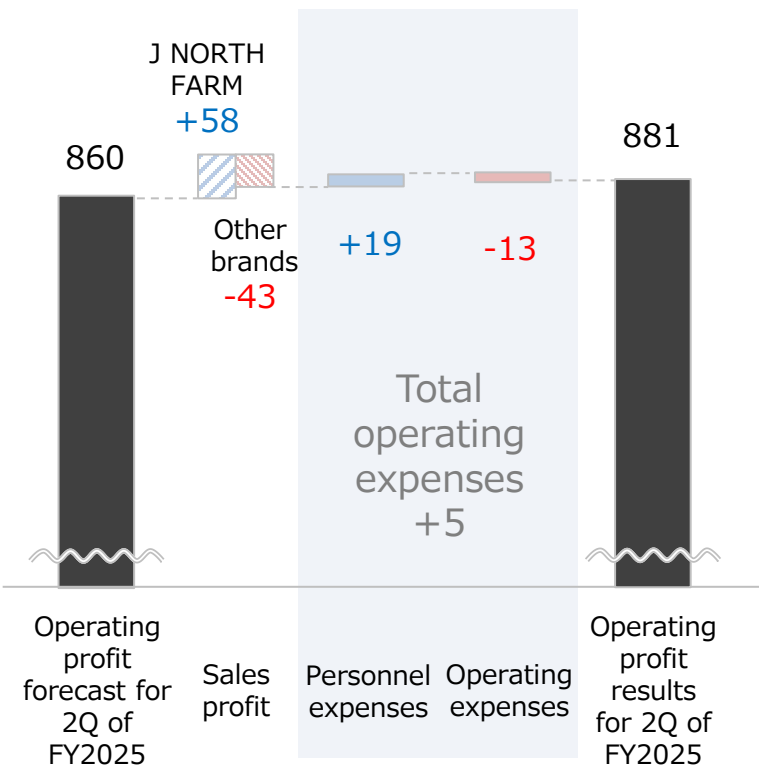
- Used to adopt a management method that is different from the existing management system adopted by J NORTH FARM, such as incorporating outside knowledge to break free from established concepts

→ Actual LTV remained lower than expected, resulting in lower-than-expected accumulation of regular sales

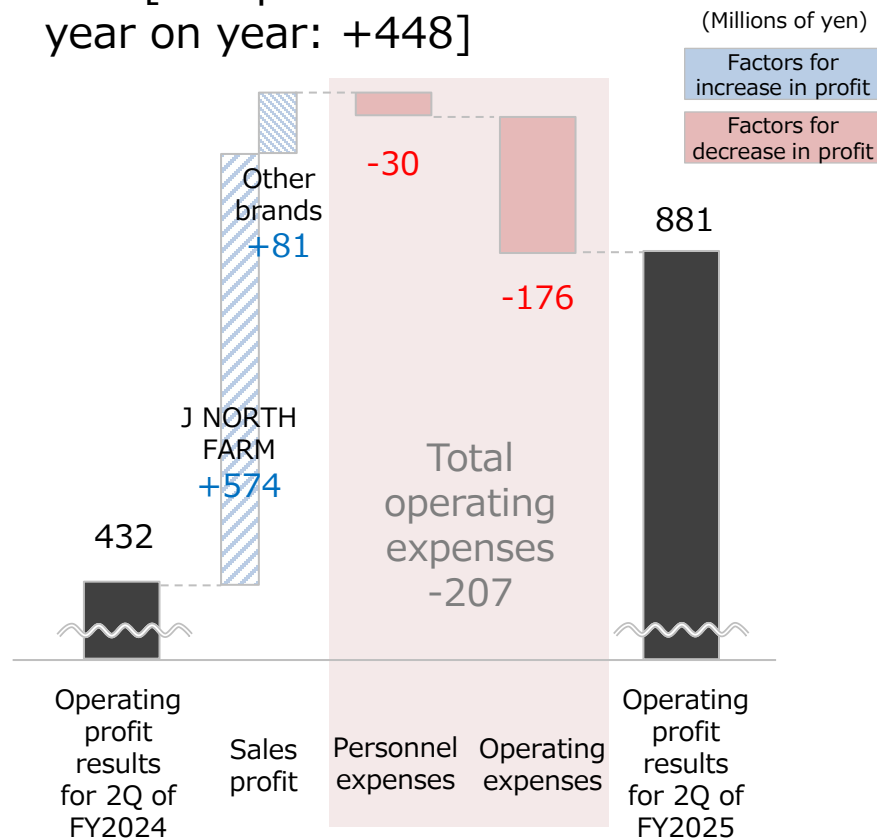
Non-consolidated

Factors behind change in operating profit

[Compared with financial results forecast: +20]



[Compared year on year: +448]



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

(Year on year)

- Decrease in advertising expenses
- Increase in expenses due to relocating the Tokyo Head Office floor and constructing new logistics facilities

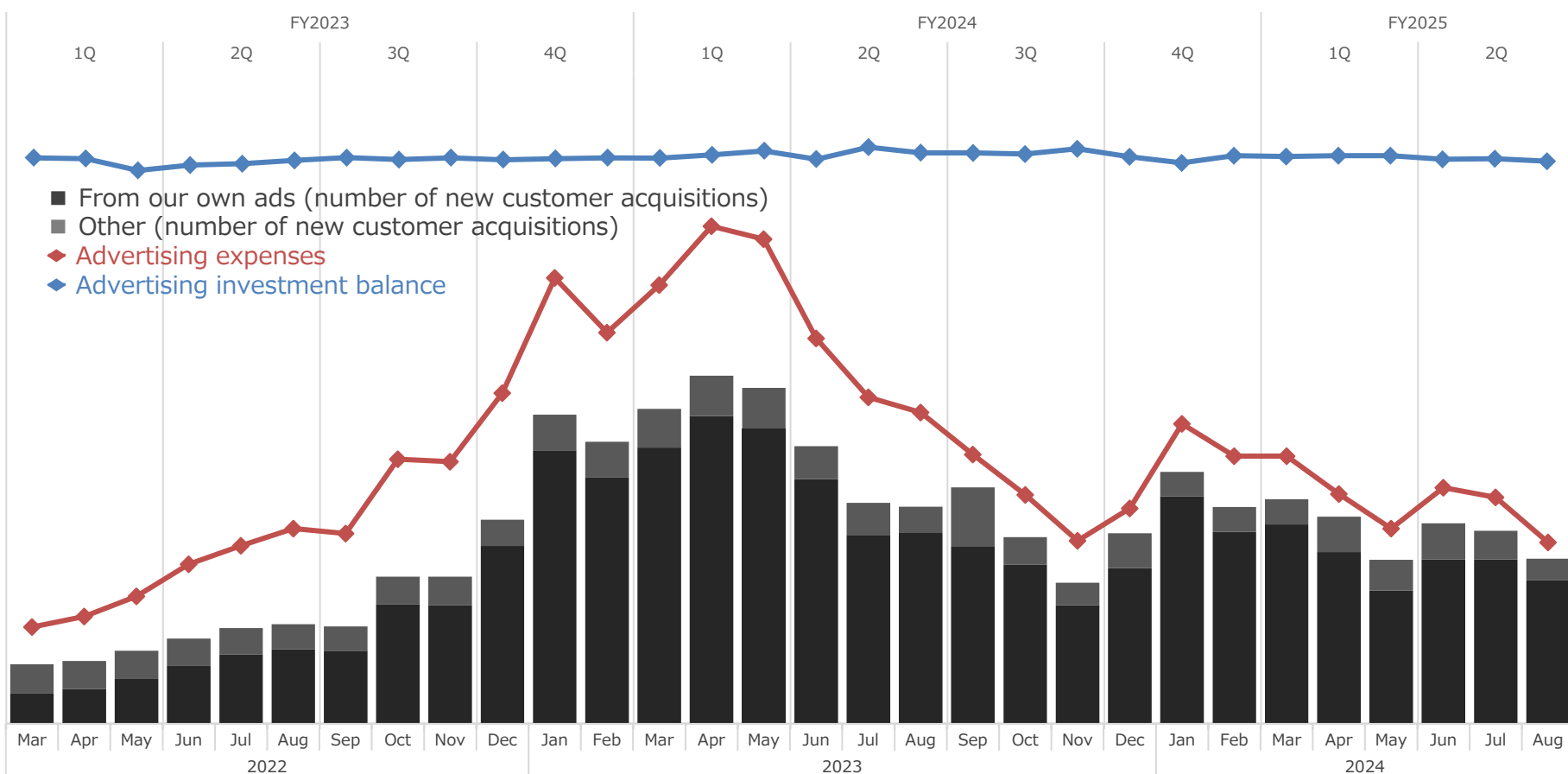
Non-consolidated

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)

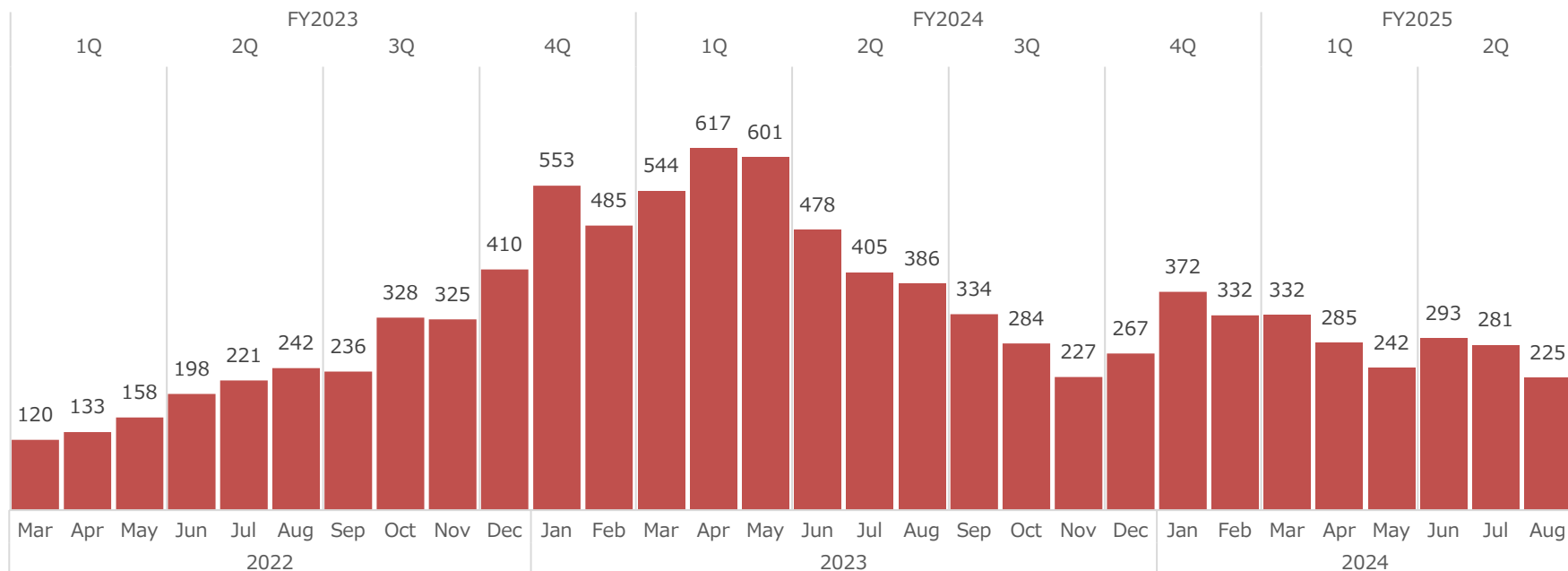


Non-consolidated

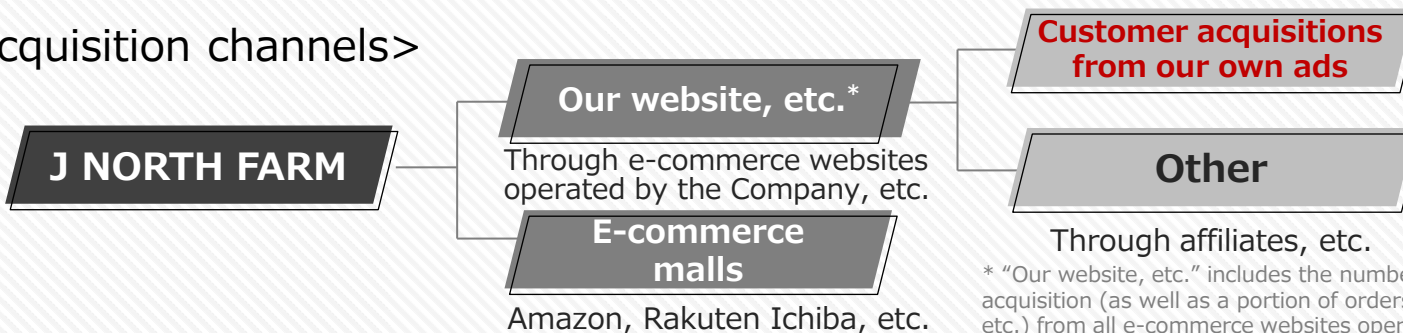
J NORTH FARM

Changes in advertising expenses

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



<Main acquisition channels>



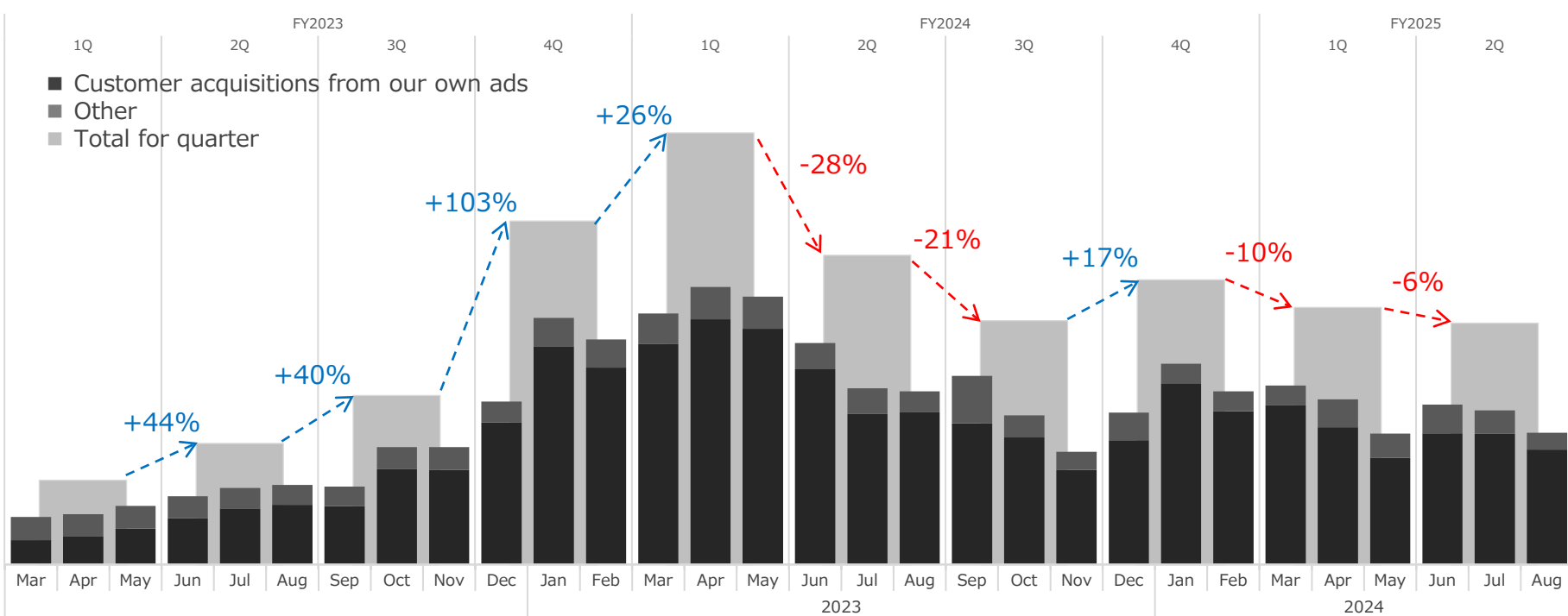
* "Our website, etc." includes the number of new customer acquisition (as well as a portion of orders made by phone, etc.) from all e-commerce websites operated by the Company, excluding e-commerce malls

Non-consolidated

Our website, etc.

Changes in number of new customer acquisitions

The number of new customer acquisitions for the second quarter of FY2025 decreased 6% QonQ.



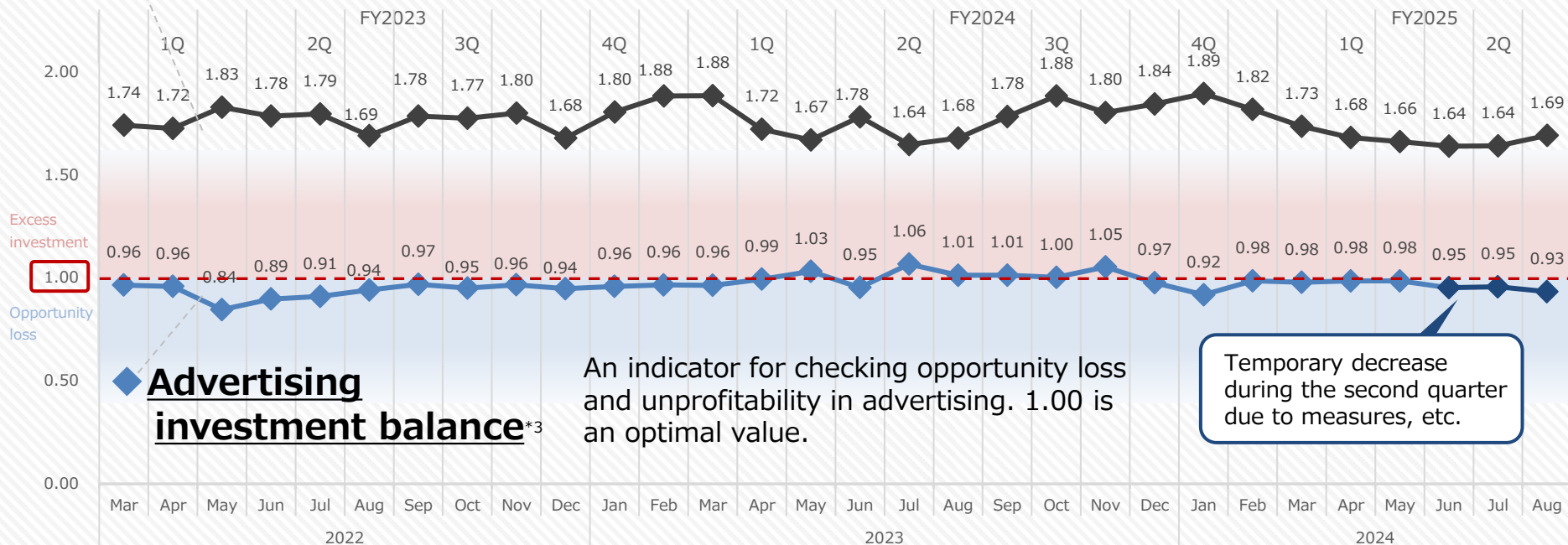
While ongoing efforts to improve advertising content creation skills have raised them to a certain level, measures for landing sales pages have not kept up. As a result, the exhaustion of advertising content (phenomenon in which consumers are tired of watching it) became pronounced, causing the number of new customers acquired to shrink.

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.

Temporary decrease during the second quarter due to measures, etc.

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 limit*4 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.

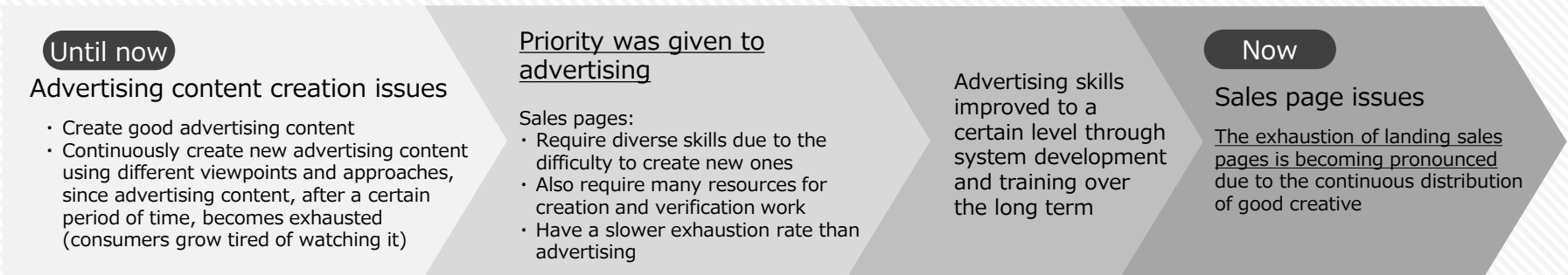
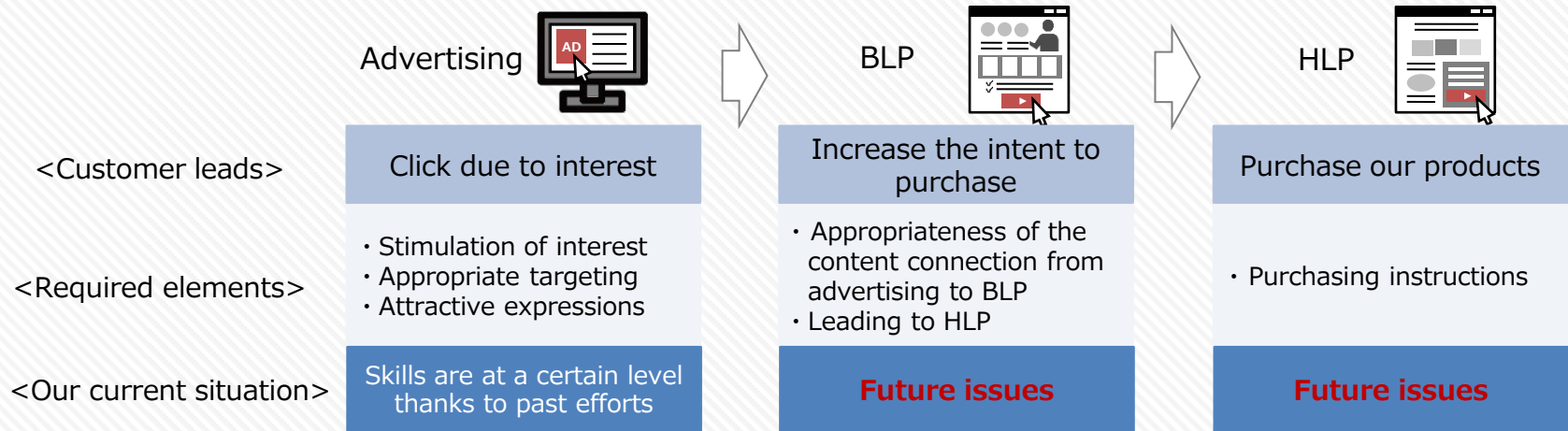
*4 Upper limit of advertising expenses that can be used to acquire one new customer, calculated backward from the required profit, using the relationship between "CPO," which is the amount of advertising expenses required to acquire one new customer, and LTV.

Non-consolidated

Our website, etc.

Measures to increase new customer acquisitions

1 Focus on improving the Creative Department



- Building an organizational foundation
- Develop and improve in-house education and training systems
 - Ramp up recruitment at our customer attraction departments
- Staff members with creative skills and good design sense, along with an entrepreneurial mindset and leadership skills
(talent able to lead strategic planning, planning execution as a product manager)

Non-consolidated

Our website, etc.

Measures to increase new customer acquisitions

2 Expand product lineup

Until now Limit focus on new product development

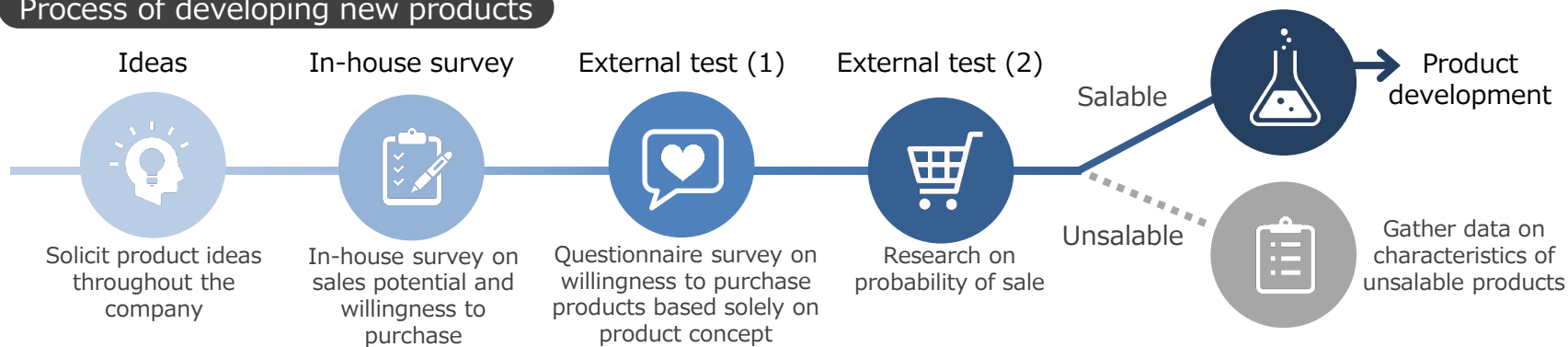
- Advertising content quickly becomes exhausted and sluggish after launching new products
- Launch 2 to 4 new products per year

Partial improvement in customer attraction skills

Now Accelerate development and launch of new products

- Determined that the minimum skills to attract customers have been acquired
- New product launches will be important to stimulate new demand
- Aim to build a system capable of launching 10 or more new products per year while maintaining current uncompromising stance on quality

Process of developing new products



- Established a product planning and marketing team under the direct control of the President
- A specialized team developed and sold products; products that were only officially marketed when certain conditions were met have steadily grown
- “Numerical conditions for post-launch success” were clarified and incorporated as criteria for product development standards
- We expect that the expansion of our product lineup will contribute to business performance in the fiscal year ending February 28, 2026 at the earliest, since it takes 1-2 years on average from planning to actual sales of a new product.

Non-consolidated

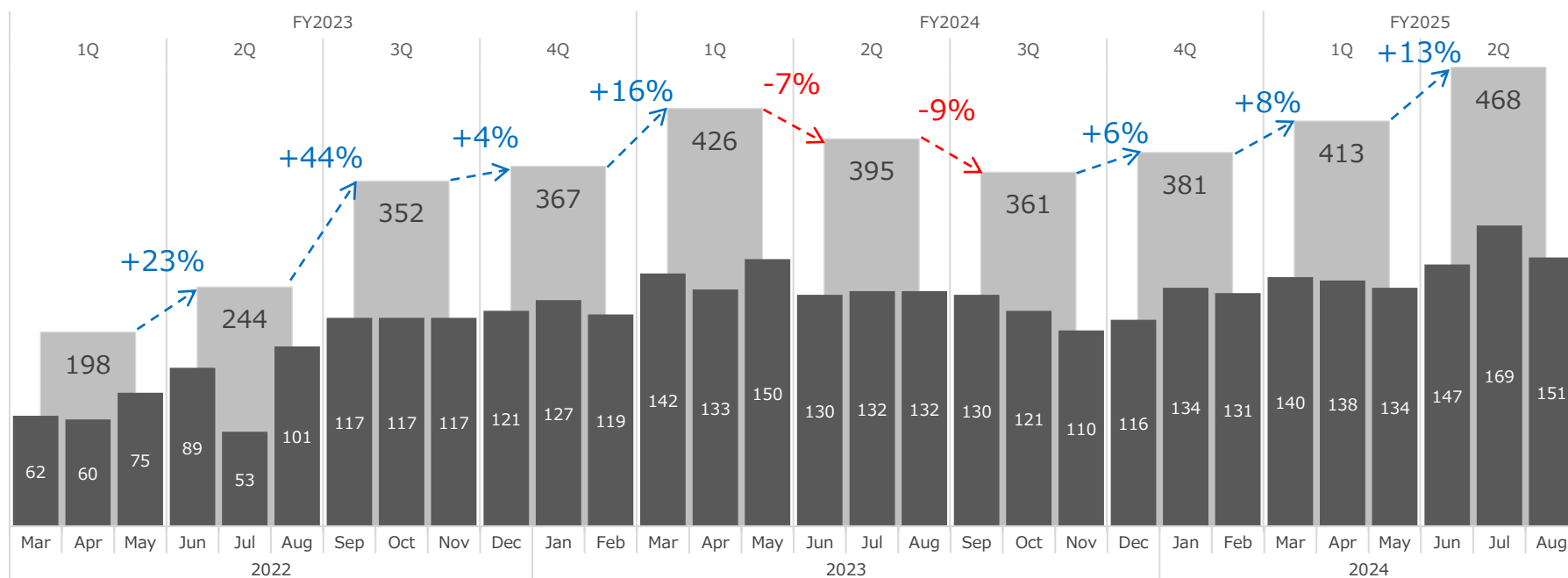
E-commerce malls

Changes in net sales

Net sales for e-commerce malls in the second quarter of FY2025 are increasing 13% quarter on quarter.

Monthly sales on Amazon exceeded ¥100 million in July 2024, reaching a record high.

(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

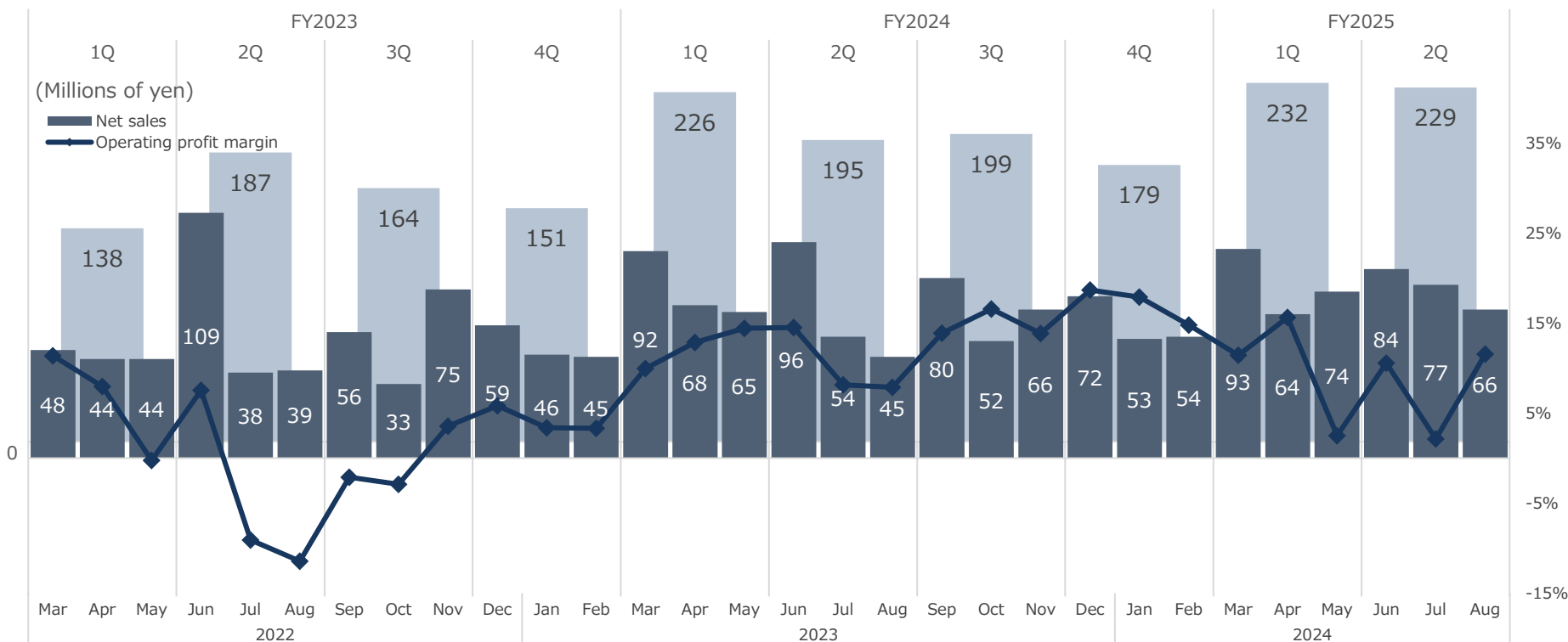
SALONMOON Co., Ltd.

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, etc.

<Changes in financial results>

- Although the Company operated at a loss for some months in 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 and July 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 second 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
- ◆ Storefront sales to increase brand awareness and attract new customer base



The total amount of shipments of SALONMOON's hair iron series surpassed 1.09 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

All shares in FM NORTH WAVE CO., LTD. were transferred to Yamachi United Co., Ltd. on July 31, 2024, and the former was excluded from the scope of consolidation.

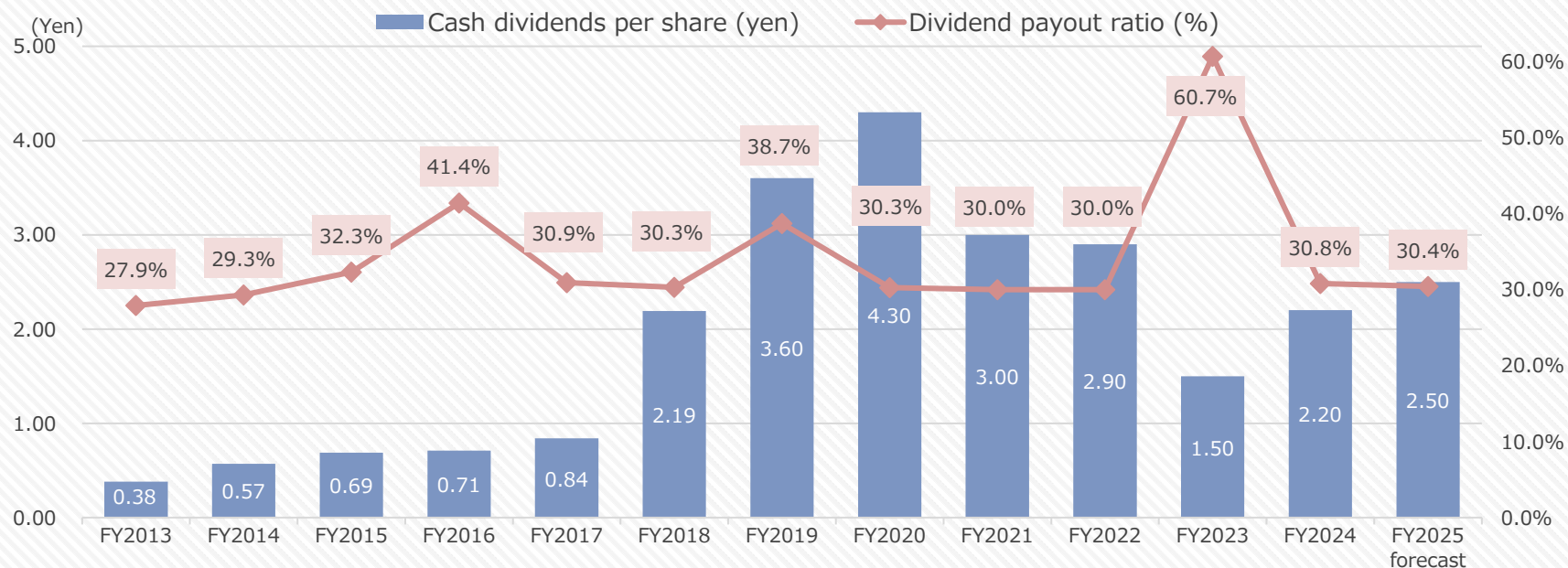
Financial results in "Others (see page 10)" are included in the scope of consolidation up to the date of deconsolidation.

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 ¥1.30 (planned) and a year-end dividend of ¥1.20 (planned), for an annual dividend of ¥2.50 (planned) per share for FY2025, increasing interim and year-end dividends by ¥0.1 and ¥0.1, respectively.



*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

Consolidated Balance Sheets

(Millions of yen)

Subject/Section	FY2024/4Q end As of February 29, 2024	FY2025/2Q end As of August 31, 2024
Current assets	7,709	7,491
(Cash and deposits)	4,783	5,131
Non-current assets	940	1,230
Total assets	8,649	8,721
Current liabilities	1,515	1,220
Non-current liabilities	136	56
Total liabilities	1,652	1,276
Total net assets	6,996	7,445
Total liabilities and net assets	8,649	8,721

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

¥348 million increase in cash and deposits, ¥301 million decrease in inventories under assets

¥179 million decrease in income taxes payable under liabilities

¥427 million increase in retained earnings under net assets

Consolidated

Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	Six months ended August 31, 2023 March 1, 2023 to August 31, 2023	Six months ended August 31, 2024 March 1, 2024 to August 31, 2024
Cash flows from operating activities	-550	1,051
Cash flows from investing activities	-36	-516
Cash flows from financing activities	-91	-186
Effect of exchange rate change on cash and cash equivalents	1	-0
Net increase (decrease) in cash and cash equivalents	-676	348
Cash and cash equivalents at beginning of period	4,828	4,783
Cash and cash equivalents at end of period	4,151	5,131

The main factors for the changes during the second quarter were profit before income taxes of ¥903 million, income taxes paid of -¥454 million, and payments of guarantee deposits of -¥400 million.

Financial Results Forecast



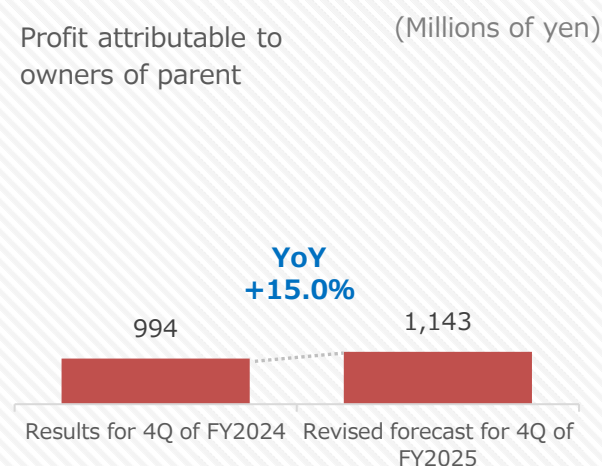
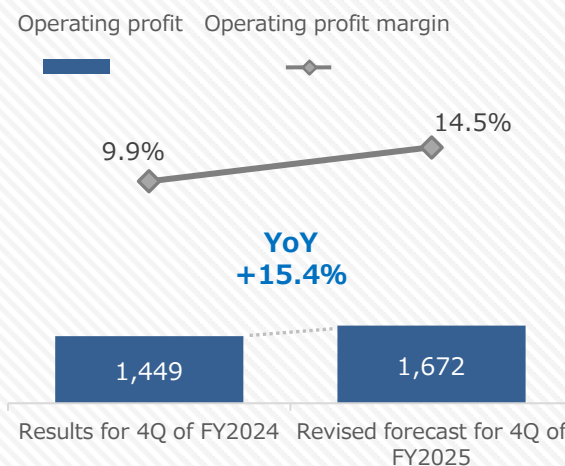
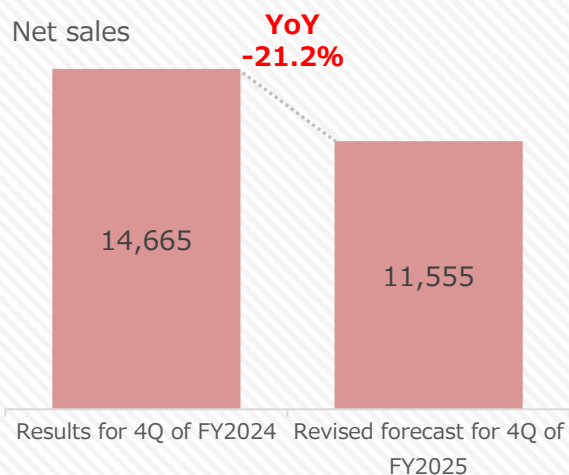
Consolidated

Financial Results Forecast

<FY2025 Key performance>

(Millions of yen)

	Results for FY2024	Revised forecast for FY2025	Changes	Changes (%)
Net sales	14,665	11,555	-3,110	-21.2%
Operating profit	1,449	1,672	+223	+15.4%
Operating profit margin	9.9%	14.5%	+4.6 pt	
Ordinary profit	1,480	1,694	+213	+14.5%
Profit attributable to owners of parent	994	1,143	+149	+15.0%



(Millions of yen)

Non-consolidated

Financial Results Forecast

<Comparison with initial forecast for FY2025>

(Millions of yen)

	Initial forecast for FY2025	Revised forecast for FY2025	Changes	Changes (%)
Net sales	12,155	10,411	-1,743	-14.3%
Gross profit	9,482	8,322	-1,160	-12.2%
Sales promotion expenses, etc.	4,836	3,639	-1,197	-24.8%
Sales profit	4,646	4,683	+37	+0.8%
Total operating expenses	3,095	3,069	-25	-0.8%
Operating profit	1,550	1,613	+63	+4.1%
Operating profit margin	12.8%	15.5%	+2.7 pt	
Ordinary profit	1,539	1,648	+108	+7.1%
Profit	1,073	1,149	+75	+7.0%

Non-consolidated

Financial Results Forecast

<Comparison with results for FY2024>

(Millions of yen)

	Results for FY2024	Revised forecast for FY2025	Changes	Changes (%)
Net sales	13,369	10,411	-2,957	-22.1%
Gross profit	10,260	8,322	-1,938	-18.9%
Sales promotion expenses, etc.	6,151	3,639	-2,512	-40.8%
Sales profit	4,109	4,683	+573	+14.0%
Total operating expenses	2,712	3,069	+357	+13.2%
Operating profit	1,397	1,613	+216	+15.5%
Operating profit margin	10.5%	15.5%	+5.0 pt	
Ordinary profit	1,435	1,648	+213	+14.8%
Profit	1,005	1,149	+144	+14.4%

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.

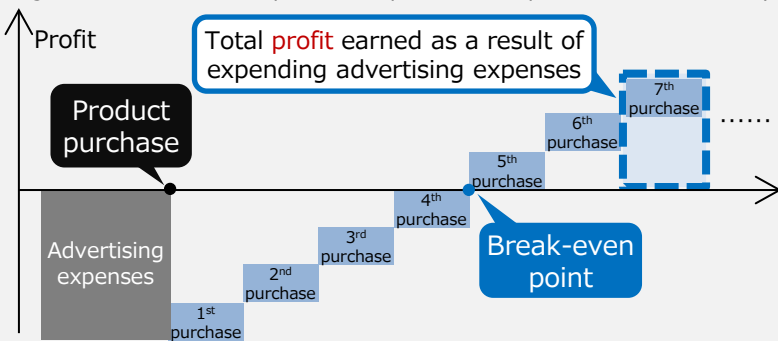
Business Model

◆ Customer characteristics

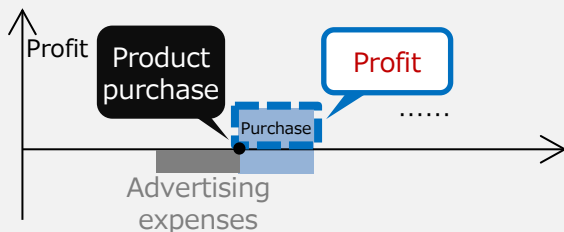
- The main customer base is in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

◆ 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

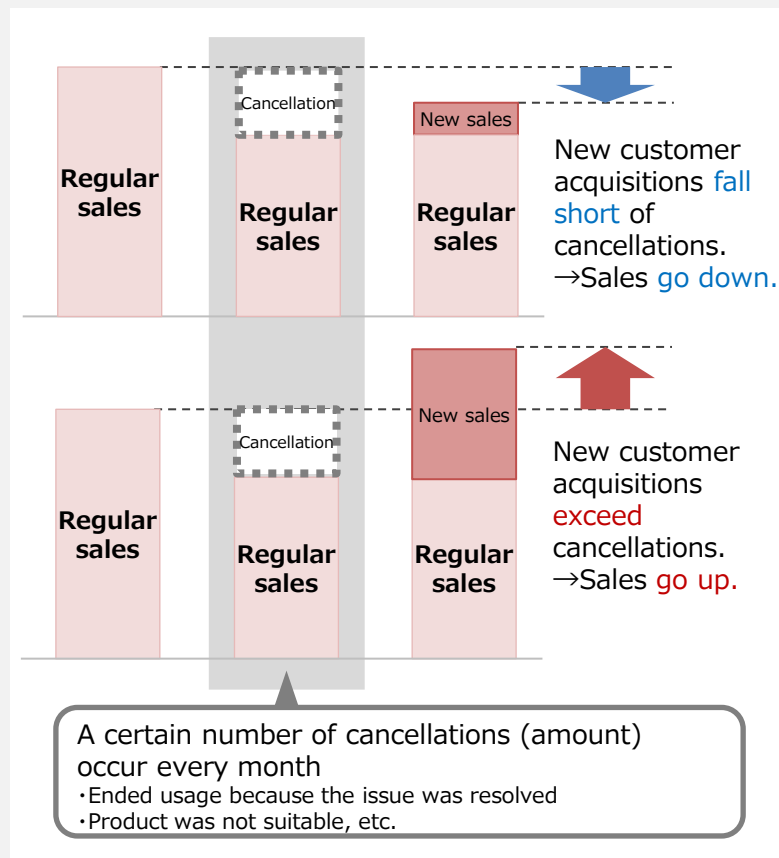


<E-commerce malls> Unit-purchase business model in which profitability is achieved with a single purchase, not a continuous purchase



◆ 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



Business Model

<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 37 **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



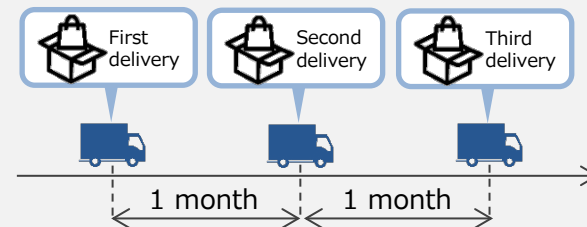
◆ Stringent product development standards

- 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**



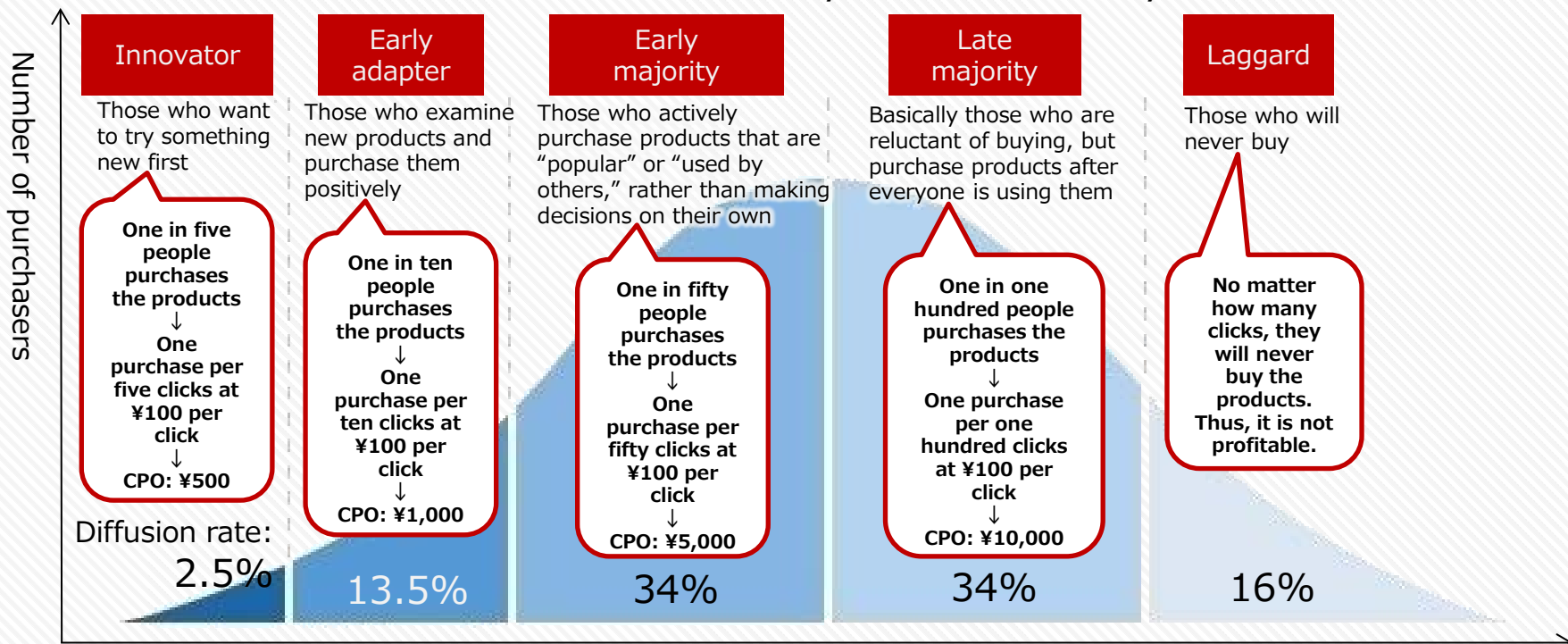
Sales Strategy

◆ 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



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

Time until purchase

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

Sales Strategy

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

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

Gross profit by product

Mandatory cost per order

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

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

Personnel expenses for each product

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

Sales Strategy

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

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

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

➡ It is important to find the most profitable CPO

<In the case of LTV of ¥10,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

Largest sales

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

<In the case of LTV of ¥12,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

Largest sales

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

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

Major Products

“DEEP PATCH Series” were recognized by the Guinness World Records™ for five consecutive years as the world’s best-selling*1 products, being the first in the world to achieve five consecutive Guinness World Record™ wins in the same category of the cosmetics section

- 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.



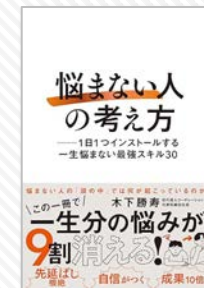
*1 Global survey by TFCO Co., Ltd. The largest micro-needle cosmetic skin patch brand (DEEP PATCH Series) with sales amount for the period from March 2019 to February 2024

*2 Area where cheek pores are concentrated

Information on the Company's strategies, etc.

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

Books	Release date
The Law of Sales Minimization, Profit Maximization —Management Secrets for a 29% Profit Margin	June 16, 2021
FUNDAMENTALS X TECHNICAL MARKETING —83 Ways to Maximize the Results of Web Marketing	April 28, 2022
The Law of Time Minimization, Result Maximization —“A Capable Person’s Thinking Algorithm,” Installing One Story a Day	November 16, 2022
Team X —The Story Behind Building a Team that Improved Performance 13x in a Single Year	November 15, 2023
The Way of Thinking of a Positive-minded Person —30 Most Effective Skills for a Worry-free Life, Installing One a Day	September 3, 2024



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”



Difference between general e-commerce stores and D2C stores

	A. General e-commerce stores	B. D2C (Direct sales from manufacturers)
Examples	Amazon, ZOZO	The Company, BULK HOMME, FABIUS, RANKUP (MANARA), Premier Anti-Aging (Duo)
Main sales style	On-demand sales	Regular purchase, subscription
Main product category	Mainly national brand items including furniture, interior decoration, home appliances, and apparel	Mainly private brand items including health food and cosmetics
Product lineup	Items procured from other company's brands (retailer)	Original products of each company (manufacturer)
How to obtain sales, the quantity of items	For obtaining 1,000 cases of sales, purchasing by 1,000 people is required. Therefore, in order to attract interest of 1,000 people, a wide variety of items are handled with wider target setting (over several thousands of or several tens of thousands of items).	For obtaining 1,000 cases of sales, 100 times of purchasing by ten people are required. Highly repeatable products responding to niche needs are introduced.
Ease of obtaining sales	If there are many items available, some will inevitably sell. Sales are easily made as all the only requirement is the procurement of popular items.	Difficult as companies must make a small number of original products successful on their own.
Competitiveness	Items for sale are procured from other sources. Therefore, as competitors may sell the same items, price competition is likely to occur. (Particularly, price comparison is easy between online shopping sites.)	Competition with other companies is unlikely to occur as original products are sold.
Stock control	Work processes such as inventory control and product shipment are complicated.	Work processes such as inventory control and product shipment are simple.
Dead stock	More products remain unsold.	Fewer products remain unsold.
Core skill	IT (recommendation functions to find existing needs and backyard functions to control a large quantity of items)	Marketing (ad creatives to create market need)
Overall	Although it is easy to make sales, generating profit is difficult due to price competition and significant backyard costs.	It is difficult to make sales. However, if successfully sold, profit is easily generated owing to less likelihood of price competition and lower backyard costs.

Difference between cosmetics sold via e-commerce and in stores

	Commonly sold products in stores (and legacy mail order brands originating from non-e-commerce business such as FANCL, DHC, and Saishunkan Pharmaceutical)	E-commerce products
Line-up	Line products, released as a series (Full line-up strategy of the Lanchester Strategy)	One-off products (Differentiation strategy of the Lanchester Strategy)
Similar needs	Needs similar to those for fashion items	Needs similar to those for drugs and quasi-drugs
Advertisement content	Brands	Individual products
USP	Brand image, brand concept	Efficacy, feel, and immediate efficiency of individual products
Price range	Department stores: ¥5,000 or higher Drug stores: ¥2,000 or lower	¥3,000 to ¥4,000
Volume of contents	For three months	For one month
Packaging	Design for catching people's eyes in a showcase (display)	Design for attracting attention in sales pages, protection of quality and in shipping, sizes corresponding to courier shipping fee standards
Product explanations	Explained by sales personnel	Detailed explanations can be provided with a landing page and attached documents
Accelerated aging test	Tests based on the assumption that products are placed in storefronts	Test items in consideration of delivery processes such as "a product is left in a postbox for a long period of time in extremely cold Hokkaido or an extremely hot metropolitan area" and "courier mishandling packages."

* The left-side strategy is applied to national brand products to be sold via e-commerce as they are recognized in the real market. The right-side strategy aims to "catch customers on the internet by increasing awareness via the internet."

Difference of the “ratio of advertising expenses” between mail order and in-store sales

When comparing the “ratio of advertising expenses” in net sales, even if the same products are sold, the basic definitions of “net sales” and “advertising expenses” are different between mail order and in-store sales and therefore, simple comparisons are not possible.

The following is an appropriate method for comparing “sales promotion costs” incurred to obtain sales.

* The blue part shows a simple comparison and the bottom is a comparison as a result of adjusting the red part.

	Mail order	In-store sales
Market distribution amount	100	160
Distribution margin	0	60
Net sales for accounting	100	100
Advertising expenses	30	20
Ratio of “advertising expenses” to “net sales for accounting”	$30/100=30\%$	$20/100=20\%$
Ratio of “advertising expenses + distribution margin” to “market distribution amount”	$30/100=30\%$	$80/160=50\%$

Simple comparison

(2) The actual market distribution amount is the amount of net sales for accounting plus distribution margin.

(1) In the case of in-store sales, distribution margin for retailers and wholesalers is incurred.

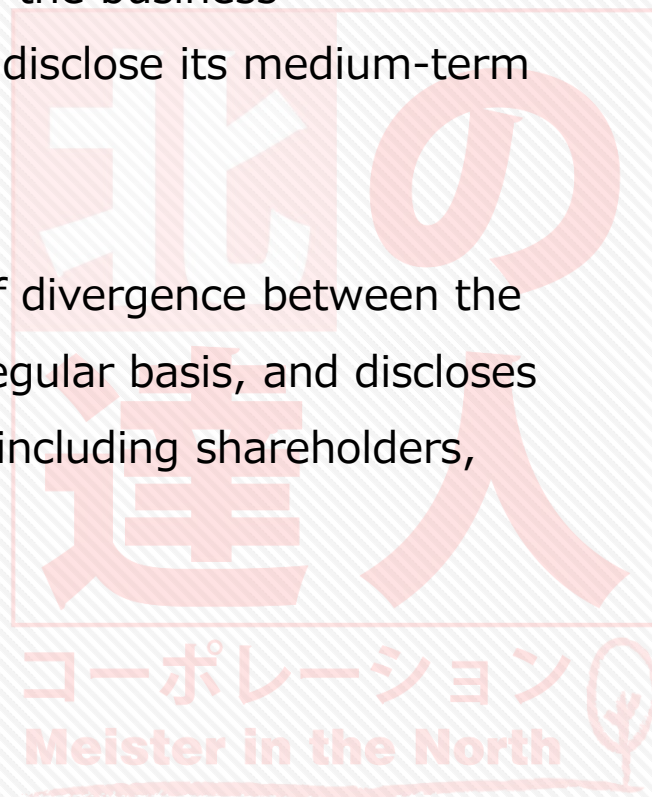
(3) Advertising expenses for mail order are deemed virtually the same as distribution margin for in-store sales.

(4) An appropriate comparison is made with the market distribution amount as a denominator and advertising expenses + distribution margin as a numerator.

Medium-term Management Plan

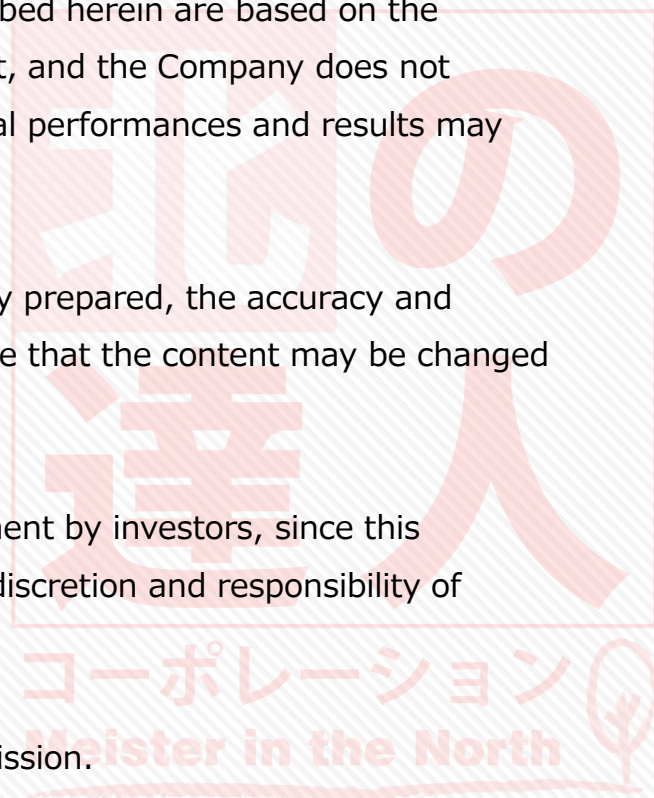
In the Internet industry in which the Company operates, the business environment is rapidly changing, and it is necessary to make swift and flexible management decisions in accordance with the business environment. Accordingly, the Company does not disclose its medium-term management plan.

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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Financial Results Meeting for the Second Quarter of the Fiscal Year Ending
February 28, 2025
Q&A Session (Summary)
(Held on October 17, 2024)

[Question] What are the reasons why the number of new customers acquired by J NORTH FARM decreased in May 2024 and increased in June 2024?

[Answer] There are no major reasons, and it is within the normal range of fluctuation.

[Question] Regarding the development and improvement of in-house education and training systems and a ramp-up of recruitment to improve the Creative Department, how will these measures improve BLP and HLP?

[Answer] The purchase rate fluctuates depending on the quality of BLP and HLP, and even good content can become exhausted (a phenomenon in which numbers deteriorate as people grow tired of viewing it). Therefore, it is necessary to continuously create good content, but skills are dependent on the creator, and there are few staff members capable of creating content. Increasing the number of such staff members through recruitment and training will lead to an increase in the amount of content created and enable switching to new BLP and HLP according to the degree of exhaustion.

[Question] As for improving the Creative Department, when is the issue expected to be resolved?

[Answer] We are unable to provide a specific time for resolving the issue.

[Question] Could you be more specific about “numerical conditions for post-launch success?”

[Answer] We conduct an external test in the form of a questionnaire in which subjects answer on a five-point scale their willingness to purchase the target product. When the percentage of positive responses to a purchase exceeds a certain level, we deem the product as having high sales potential. We have judged that product lines that have been launched and have been growing steadily in the past few years have a certain degree of certainty in their sales potential, given that the previously mentioned figures are outstandingly high.

[Question] I understand that two phases of tests are conducted in product development, consisting of external test (1) and external test (2). How many items have progressed to the respective phases?

[Answer] There are 20-30 items in progress in the external test (1) phase and about 10 items in external test (2) phase.

[Question] Why does it take one to two years for product lineup expansion to contribute to business performance?

[Answer] The previously mentioned external tests are in the planning phase of the product, and only after passing these tests does the product move into the development phase. Since the product must meet strict and numerous product development criteria to ensure high quality, it takes at least one year to launch a product.

[Question] What is the reason for the increase in gross profit margin in the first half?

[Answer] This was due to the high sales ratio of products with a high gross profit margin.

(Note)

This document is not a direct transcript of the Q&A session held at the meeting.

Please note that partial corrections and revisions have been made based on the judgement of the Company to improve understanding.