



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

We renewed the corporate logo on
November 25, 2024.
https://www.kitanotatsujin.com/logo_renewal/

Stock code: 2930
Kitanotatsujin Corporation
January 14, 2025

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 ¥9,235 million (+0.8% from the previous forecast), in line with the revised forecast.
- 👉 Operating profit was also almost in line with the revised forecast at ¥1,473 million (+4.2% from the previous forecast).
- 👉 We continue to focus on solving sales page issues, as the number of new customer acquisitions remained as expected in the third quarter.
- 👉 Product planning is underway toward expanding our product lineup.
- 👉 We will improve returns to shareholders through increases in dividends, enhancement of the shareholder benefit program, etc.

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

Key Performance Highlights [Compared with Revised Forecasts]

(Millions of yen)

	FY2025 3Q Revised forecast	FY2025 3Q results	Changes	Changes (%)
Net sales	9,166	9,235	+69	+0.8%
Gross profit	6,997	7,047	+50	+0.7%
Selling, general and administrative expenses	5,582	5,574	-8	-0.1%
Advertising expenses	2,243	2,279	+35	+1.6%
Operating profit	1,414	1,473	+59	+4.2%
Operating profit margin	15.4%	16.0%	+0.5 pt	
Ordinary profit	1,432	1,495	+63	+4.5%
Profit attributable to owners of parent	967	1,009	+42	+4.4%

- Results are largely in line with the forecast revised on October 15, 2024.
- New customer acquisitions of J NORTH FARM were largely as expected and both net sales and operating profit remained in line with the revised forecast.

Key Performance Highlights [Compared Year on Year]



(Millions of yen)

	FY2024 3Q results	FY2025 3Q results	Changes	Changes (%)
Net sales	11,299	9,235	-2,063	-18.3%
Gross profit	8,333	7,047	-1,285	-15.4%
Selling, general and administrative expenses	7,257	5,574	-1,683	-23.2%
Advertising expenses	4,161	2,279	-1,882	-45.2%
Operating profit	1,075	1,473	+397	+36.9%
Operating profit margin	9.5%	16.0%	+6.4 pt	
Ordinary profit	1,098	1,495	+396	+36.1%
Profit attributable to owners of parent	753	1,009	+256	+34.1%

- Net sales were below the previous year due to the impact of a year on year decrease in new customer acquisitions for J NORTH FARM.
- Each profit below operating profit was higher than the previous year due to investment in advertising expenses as upfront investment for new customer acquisitions being lower than the previous year.

Financial results by segment and brand

(Millions of yen)

Segment	Brand name	FY2025			
		1Q	2Q	3Q	Nine months ended November 30, 2024 (total)
Health & Beauty Care business	 北の快適工房 J NORTH FARM	2,873	2,851	2,467	8,191
	 SALON MOON ^{PRO}	232	229	243	704
	Other brands	49	45	42	137
Others	※ —	115	87	—	202
Total net sales		3,269	3,212	2,753	9,235
Operating profit		389	512	571	1,473

*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.

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.

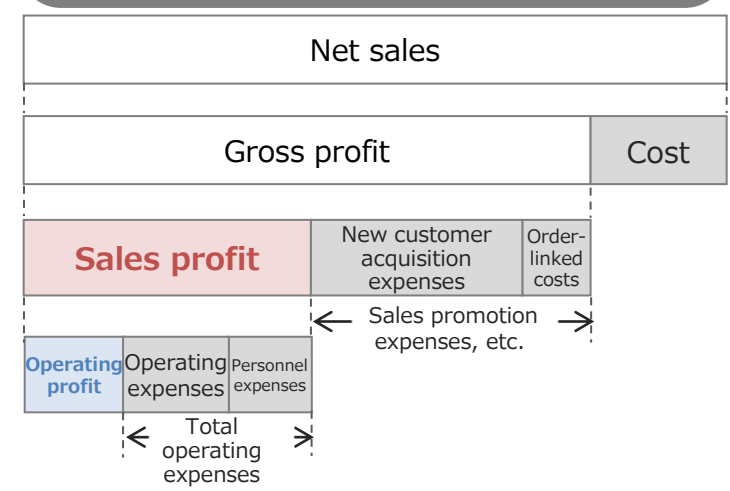
Sales profit = gross profit–sales promotion expenses, etc. (Order-linked costs*₁+ New customer acquisition expenses*₂)

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)

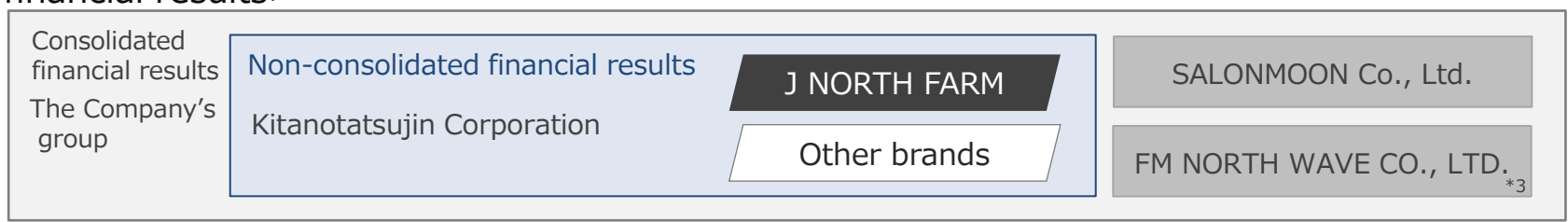
Impacted by investments for future business expansion in addition to recent business results.

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.

Key Performance

<Compared with revised financial results forecast for the nine months ended November 30, 2024>
(Millions of yen)

	Non-consolidated		
	Revised forecast	Results	Changes
Net sales	8,255	8,329	+73
Gross profit	6,594	6,649	+54
Sales promotion expenses, etc.	2,966	2,989	+23
Sales profit	3,628	3,659	+31
Operating profit	1,377	1,423	+45

J NORTH FARM

No major factors exist, though both net sales and sales profit slightly exceeded the revised forecast.

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		
	Revised forecast	Results	Changes	Revised forecast	Results	Changes
Net sales	8,117	8,191	+74	138	137	-0
Gross profit	6,501	6,558	+56	92	90	-2
Sales promotion expenses, etc.	2,889	2,910	+20	76	79	+2
Sales profit	3,611	3,648	+36	16	11	-5

* 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).

Factors behind change in sales profit

<Compared with revised financial results forecast for the nine months ended November 30, 2024>

(Millions of yen)

	Revised forecast	Results	Changes	Changes (%)
Net sales	8,117	8,191	+74	+0.9%
(1) Difference in new sales				
Net sales	1,166	1,167	+1	+0.1%
Gross profit	898	887	-11	-1.3%
Sales promotion expenses, etc.	2,251	2,274	+23	+1.0%
Sales profit	-1,352	-1,387	-34	-2.6%
Initial ROAS*	56.0%	55.0%	-	-
(2) Difference in regular and other sales				
Net sales	5,683	5,762	+79	+1.4%
Gross profit	4,519	4,582	+62	+1.4%
Sales promotion expenses, etc.	262	272	+9	+3.8%
Sales profit	4,256	4,309	+52	+1.2%
(3) Difference in e-commerce mall sales				
Net sales	1,267	1,261	-5	-0.5%
Gross profit	1,083	1,088	+5	+0.5%
Sales promotion expenses, etc.	375	362	-12	-3.5%
Sales profit	707	726	+18	+2.6%
Sales profit	3,611	3,648	+36	+1.0%

- ◆ Net sales slightly increased, as the number of new customer acquisitions was slightly higher than expected.
- ◆ As we were able to make outlays for new customer acquisitions, sales promotion expenses, etc. increased, resulting in sales profit coming below the forecast.

- ◆ The accumulation of regular sales was higher than expected.
- ◆ Sales increased, causing sales profit to exceed the forecast.

- ◆ Net sales slightly lower than expected.
- ◆ As the cost to sales ratio was lower than the revised forecast due to impact of the product share, sales profit was slightly higher.

* 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.

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 third quarter, net sales and sales profit were ¥137 million and ¥11 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

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

It is expected that the stable and continued acquisition of new customers will remain difficult going forward due to limited advertising placements. For allocating limited management resources in an optimal manner, we will scale down the focus on this business in future.

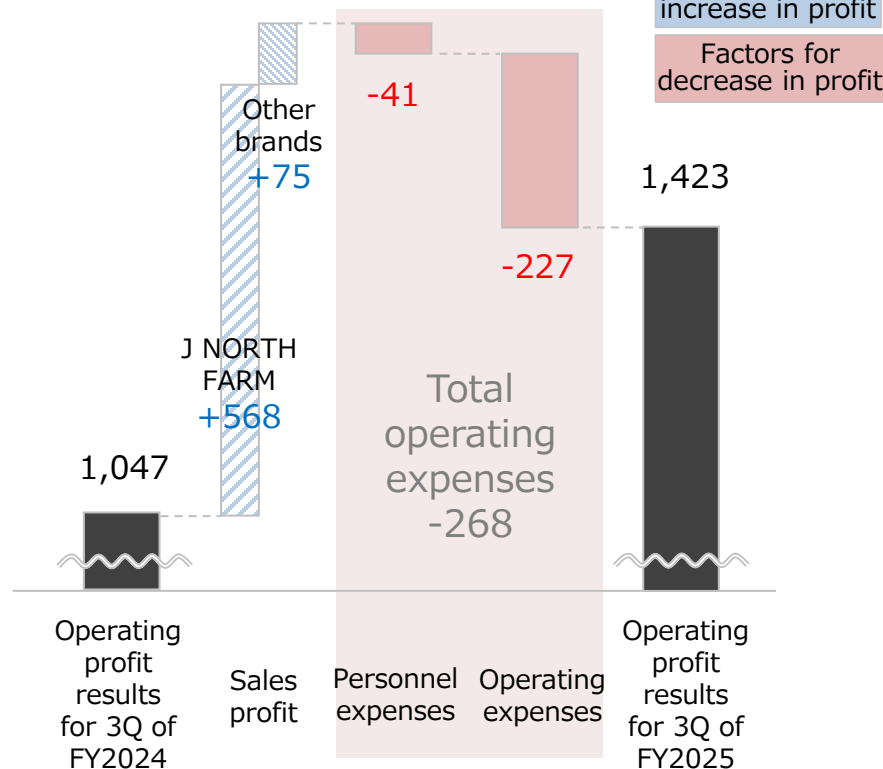
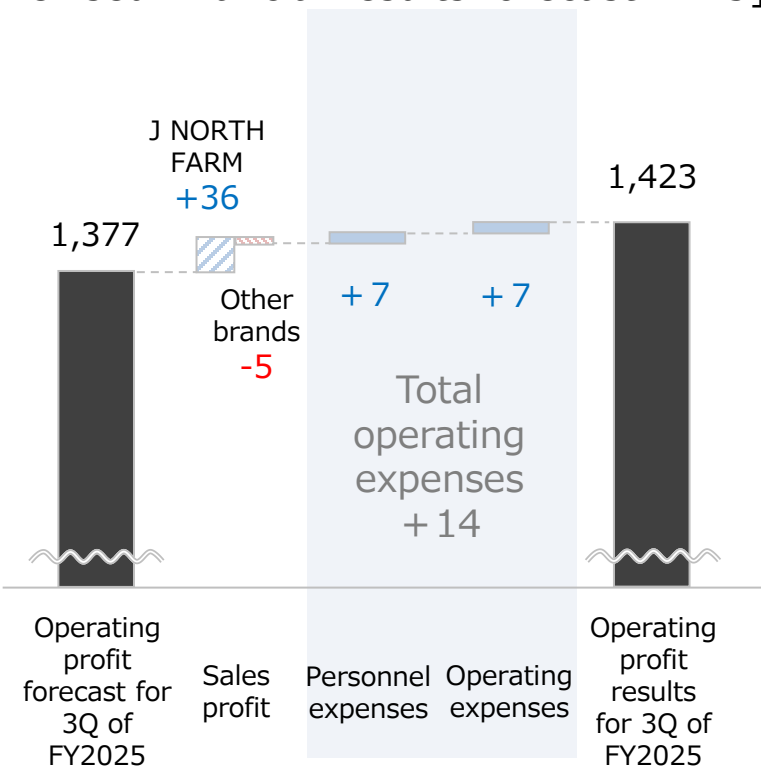
However, as “other brands” including SPADE account for a small portion of the overall performance, the impact on results is minor.

Factors behind change in operating profit

(Millions of yen)

[Compared with revised financial results forecast: +45]

[Compared year on year: +375]



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

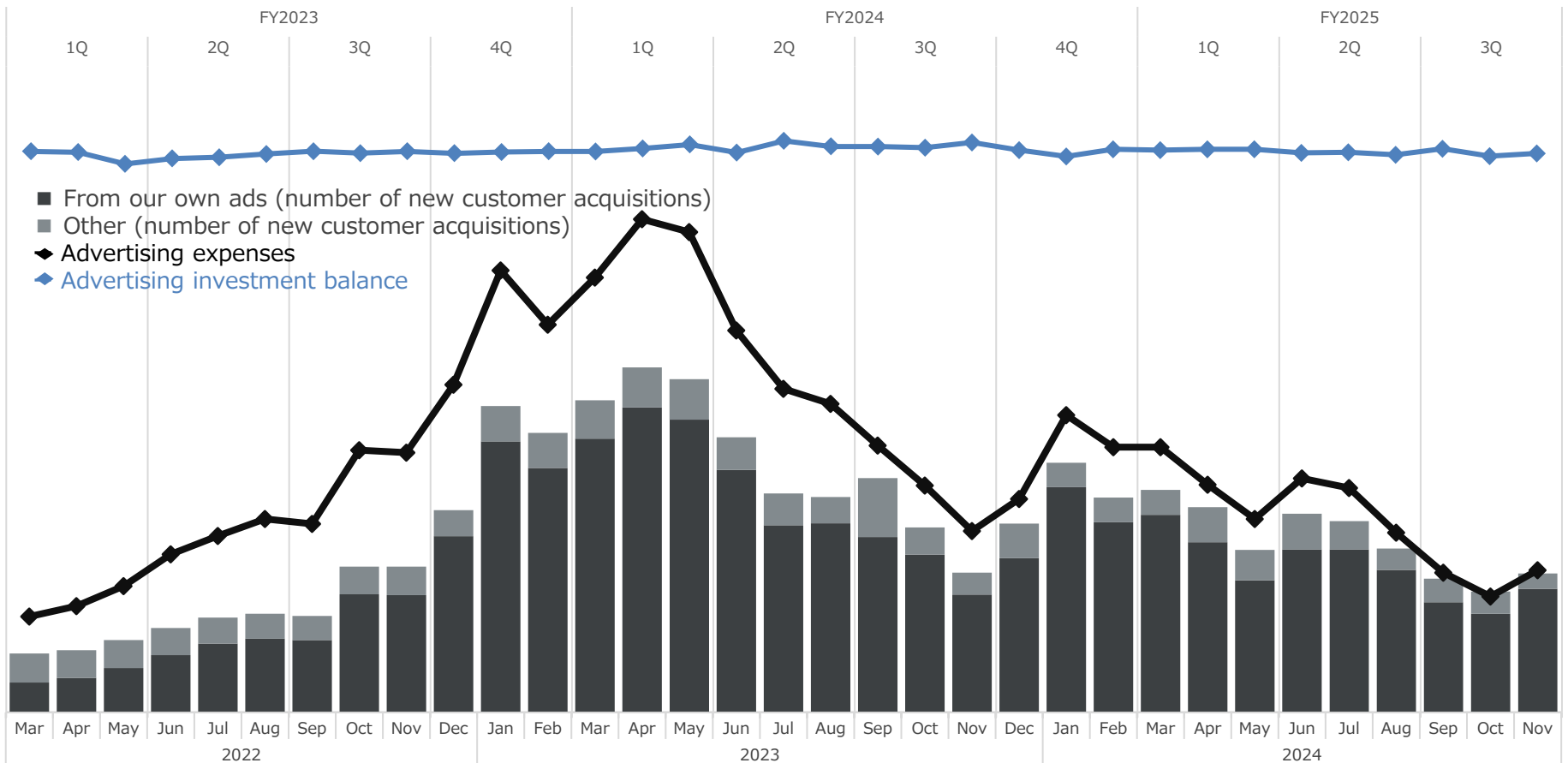
(Year on year)

- Decrease in advertising expenses
- Relocation of the Tokyo Head Office floor and an increase in system-related expenses

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.

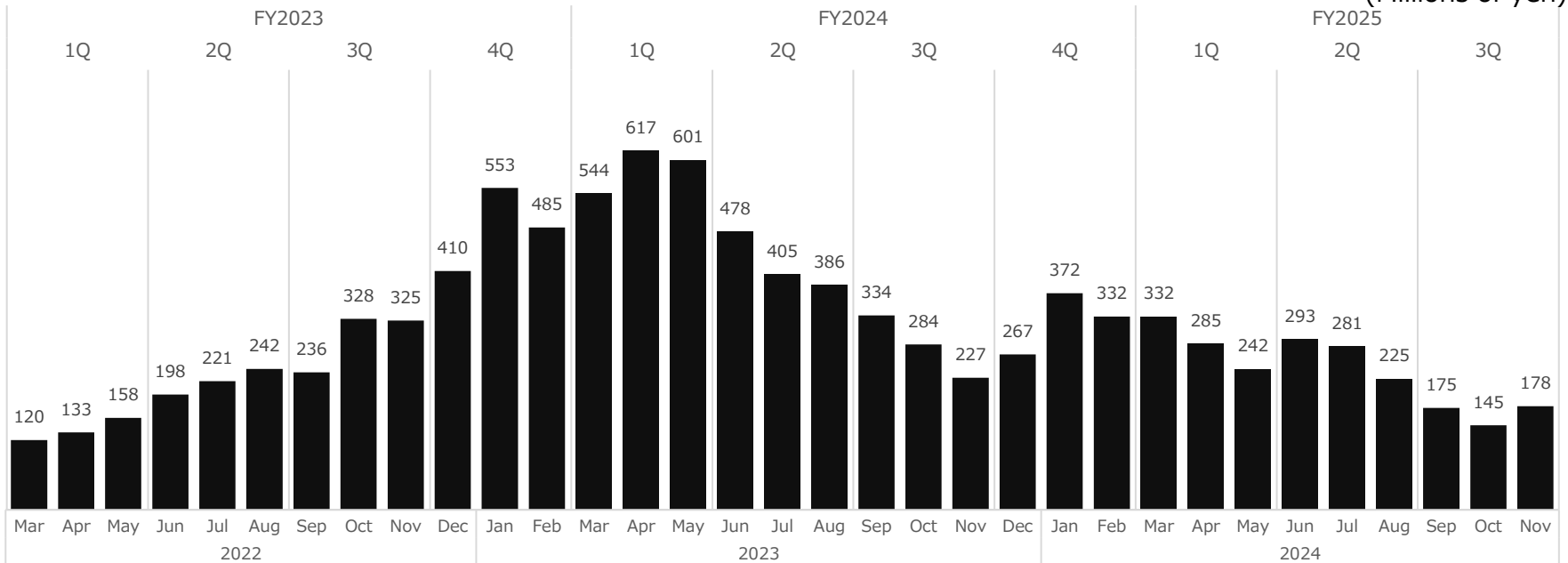
(Millions of yen)



Changes in advertising expenses

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

(Millions of yen)



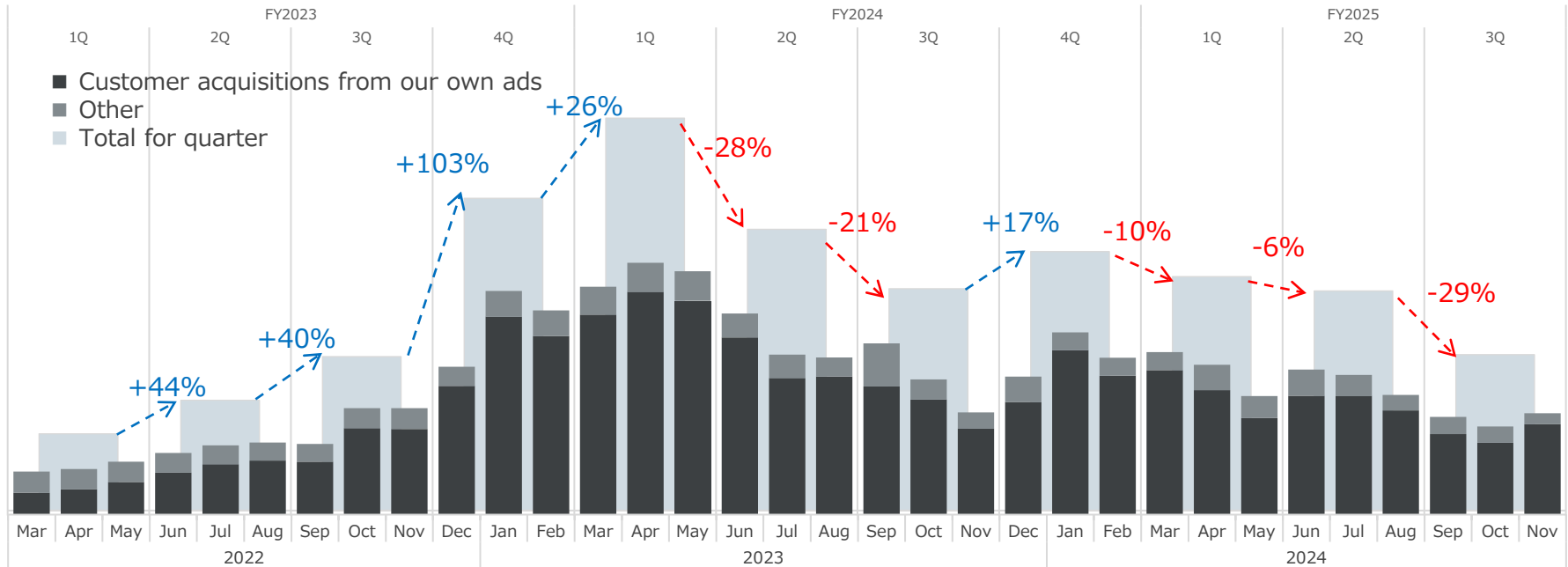
<Main acquisition channels>



* "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

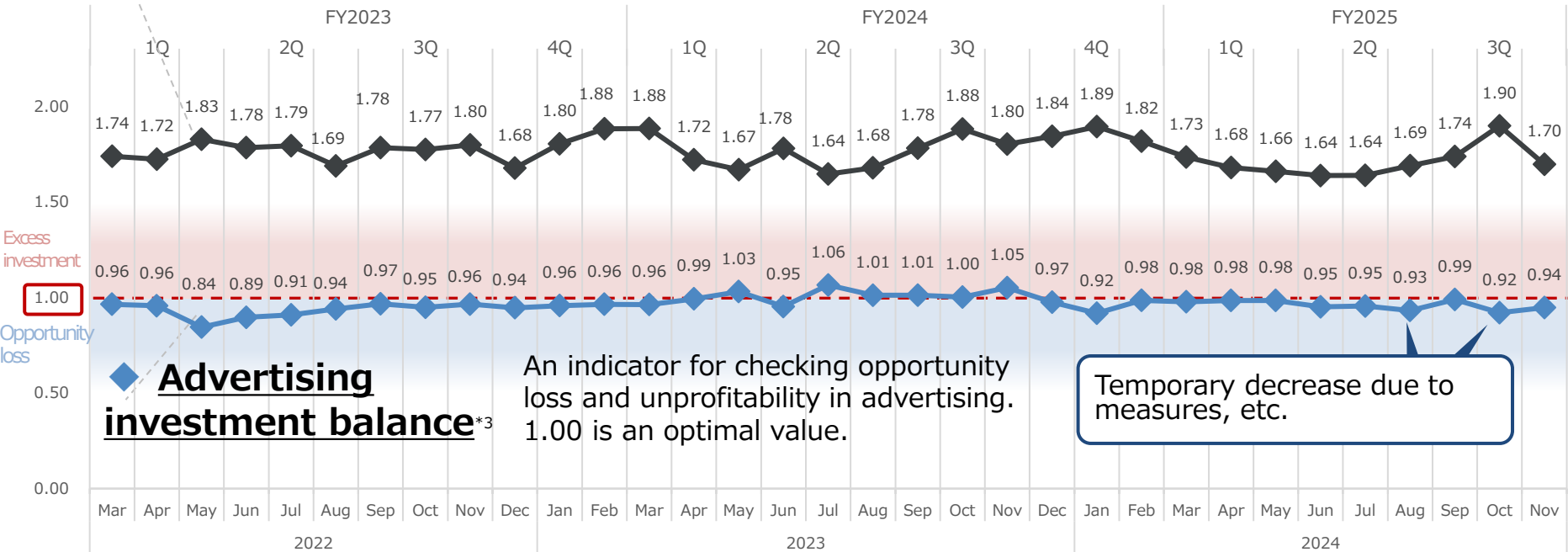
Changes in number of new customer acquisitions

The number of new customer acquisitions for the third quarter of FY2025 decreased 29% QonQ.



- ◆ The number of new customer acquisitions for some products increased in the third quarter. As the period of time from their release is shorter than other mainstay products, the exhaustion of advertising content in sales pages (phenomenon in which consumers are tired of watching it) is limited. However, new acquisitions became possible without changing sales pages as destination sites, by creating advertising with a higher click-through rate.
 - Advertising content creation skills improved to a certain extent, continuing to create quality advertising.
- ◆ The number of new customer acquisitions for many mainstay products and that for overall products decreased.
 - Measures for landing sales pages have not kept up. After a certain period of time passed, the exhaustion of advertising content became pronounced.

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 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.

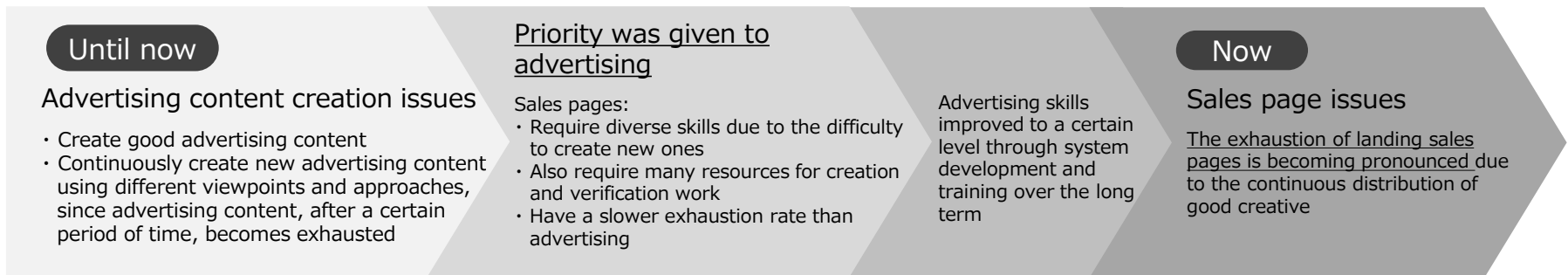
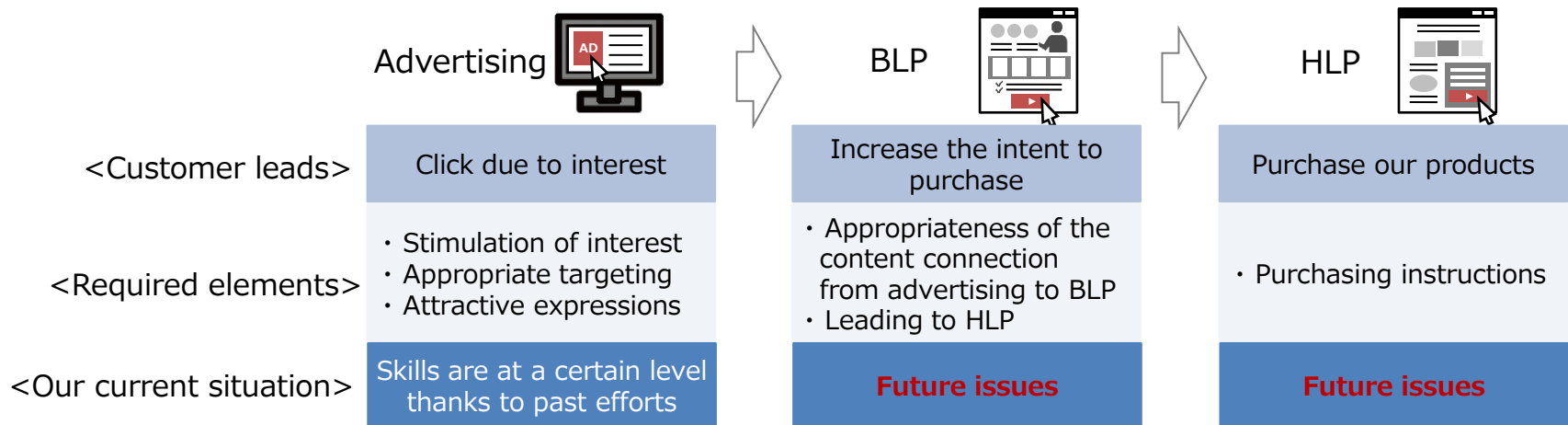
*2 "Initial ROAS" is an indicator for measuring how much initial sales are generated from advertising investment. However, even though profitability may not be decreasing, ROAS values will trend downward when the share of the products to which a high CPO limit*4 can be assigned due to their high LTV, 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.

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)

Measures to increase new customer acquisitions

2 Expand product lineup

Until now Limit focus on new product development

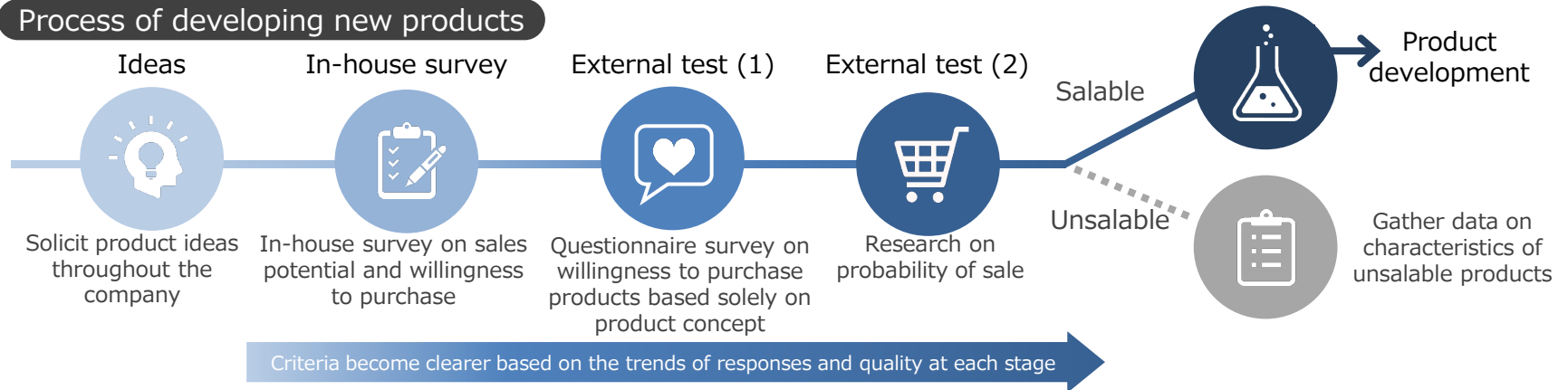
- Advertising content quickly becomes exhausted and sluggish after launching new products
- Launch 2 to 4 new products per year

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



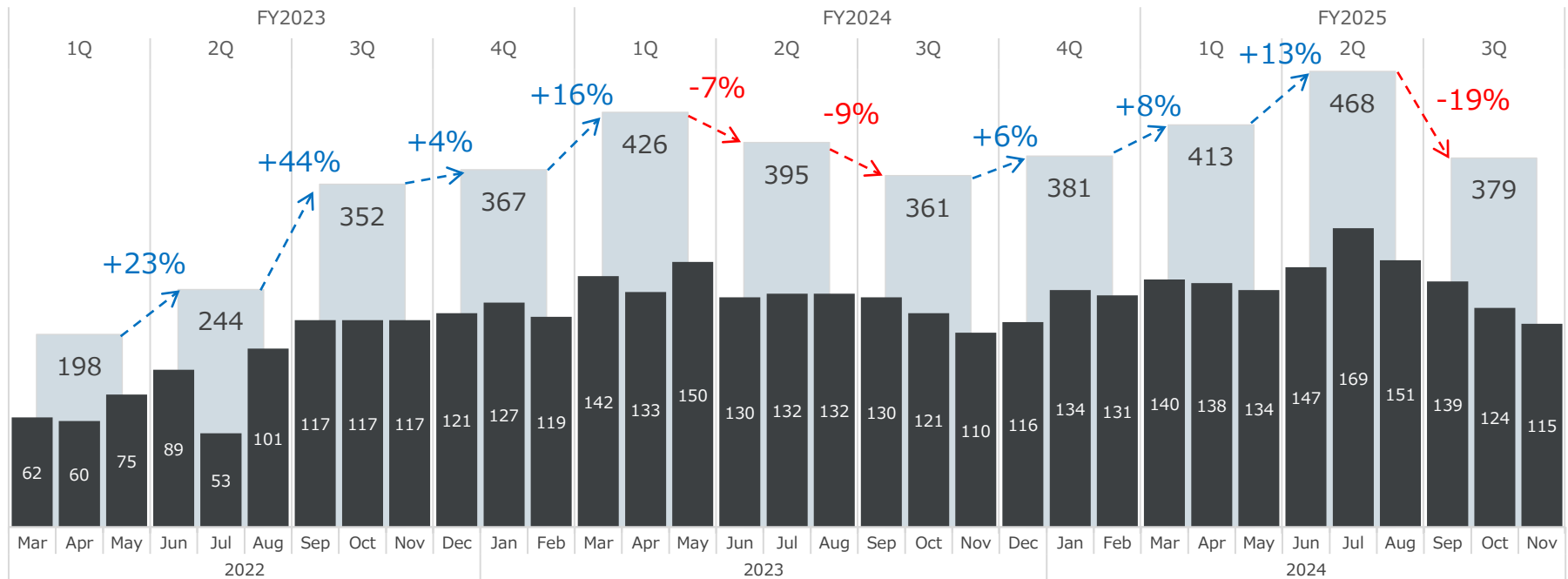
- Conducted by a product planning and marketing team under the direct control of the President
- A specialized team developed and sold products; products that were only officially marketed when certain conditions were met have steadily grown
- “Numerical conditions for post-launch success” were clarified and incorporated as criteria for product development standards
- As of the end of the third quarter, we conducted external test (1) for approx. 50 products and external test (2) for approx. 10–20 products.

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.

Changes in net sales

Net sales for e-commerce malls in the third quarter of FY2025 were -19% quarter on quarter.

(Millions of yen)



<Initiatives implemented in FY2025>

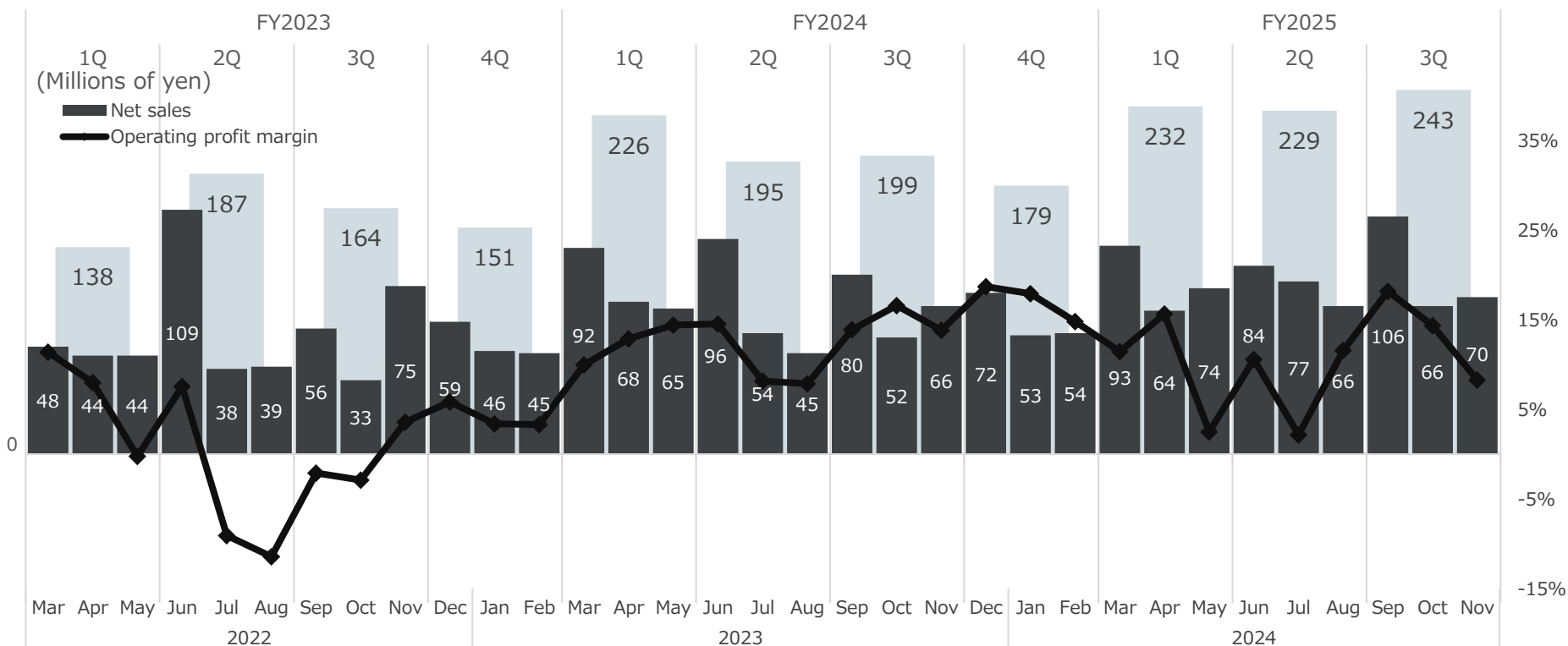
- Sales promotion activities, advertising contents creation, and advertisement optimization targeted at e-commerce malls
- Reduced costs by reviewing delivery methods

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.

<Initiatives implemented in the third quarter of FY2025>

- ◆ Sales promotion measures for major e-commerce malls (Amazon, Rakuten Ichiba, Qoo10, etc.)
 - Coupon initiatives and participation in sales
 - Scrupulous advertising initiatives to optimize search engine results
 - Reevaluate our unique characteristics and user base
 - Created optimized ad content for each e-commerce mall
- ◆ Released new products and developed series products
 - Launched the Booster Ion Dryer on December 20, 2024
 - Introduced dryers as a new beauty appliance category
- ◆ Storefront sales to increase brand awareness and attract new customer base

SALON
MOON^{Pro}



The total amount of shipments of SALONMOON's hair iron series surpassed 1.16 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 8)" are included in the scope of consolidation up to the date of deconsolidation.

Consolidated Enhancement of Returns to Shareholders [Dividends]

1 Increase of ¥1.00 in the year-end dividend for FY2025

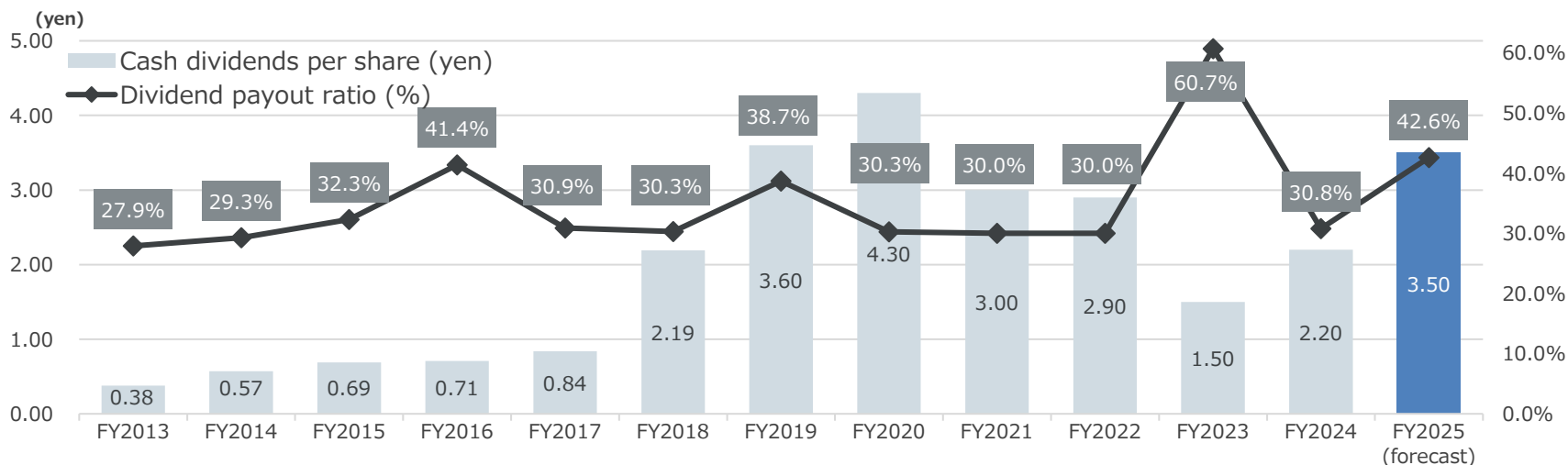
- The Company determined that it is important to further enhance the return of profit to our shareholders in light of the current share price level, as a result of thorough consideration of business result and financial position trends and opinions in the shareholder questionnaire survey.
- As securing growth capacity is also important, the Company has decided to implement a dividend increase of ¥1.00 with 2.44%, the expected average dividend yield of all stocks listed on the Tokyo Stock Exchange Prime Market, as a reference.

(Based on Nikkei Online Edition “Domestic Stock Indices, TSE (30th)” as of December 31, 2024)

→The Company revised the year-end dividend for FY2025 to ¥2.20 per share with the dividend yield of 2.43%, increasing from ¥1.20 announced on October 15, 2024.

(Plan; calculated based on the average share price (closing price) of 144 yen during December 2024)

The Company will pay an annual dividend of ¥3.50 (planned) per share for FY2025 with an interim dividend of ¥1.30 and a year-end dividend of ¥2.20 (planned).



*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.

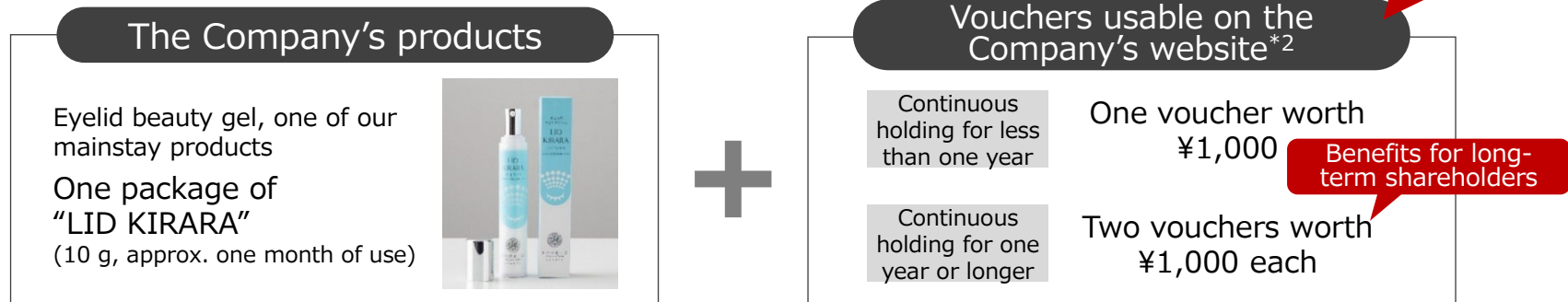
Enhancement of Returns to Shareholders [Shareholder Benefit Program]

2 Enhancement of the program and additional benefits for long-term shareholders

The Company has introduced a shareholder benefit program to thank our shareholders for their ongoing support and deepen their understanding of the Company's business.

- In order to promote “[unifying shareholders and consumers](#)” to further raise the attractiveness of investing in shares of the Company and make our shareholders fans of the Company's products, the Company will **change and enhance the program** in light of opinions received about the existing shareholder benefit program and requests found in the shareholder questionnaire survey.
→“Shareholders also being consumers of products and services” represents an ideal relationship between companies and shareholders, as it brings about further growth of the business and ultimately, helps to enhance corporate value by raising brand loyalty, deepening understanding of the business, and providing constructive and practical feedback, among others.
- The Company will offer **additional benefits for long-term shareholders***¹ with the purpose of encouraging a greater number of shareholders to continue holding shares.

<Description of benefits>



<Eligible shareholders>

The new program will be applied starting from shareholders who are listed or recorded in the shareholder register as of the end of February 2025 and hold at least one unit (100 shares).

*1 The holding period for benefits for long-term shareholders will be determined retrospectively from the end of February 2025 (record date).

*2 The vouchers can only be used for our products under our brand “J NORTH FARM” (excluding some products) on the online store exclusively for our shareholders.

Consolidated Consolidated Balance Sheets

(Millions of yen)

Subject/Section	FY2024/4Q end As of February 29, 2024	FY2025/3Q end As of November 30, 2024
Current assets	7,709	7,726
(Cash and deposits)	4,783	5,359
Non-current assets	940	1,218
Total assets	8,649	8,944
Current liabilities	1,515	1,220
Non-current liabilities	136	56
Total liabilities	1,652	1,276
Total net assets	6,996	7,667
Total liabilities and net assets	8,649	8,944

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

¥576 million increase in cash and deposits, ¥240 million decrease in inventories under assets

¥272 million decrease in income taxes payable under liabilities

¥647 million increase in retained earnings under net assets



Financial Results Forecast

Consolidated Financial Results Forecast

We revised both the full-year consolidated forecast and full-year non-consolidated forecast on October 15, 2024.

<Comparison with initial forecast for FY2025>

(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%

As 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 forecast in the second quarter of FY2025 based on the current status of new customer acquisitions.

- Net sales are lowered 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 are all raised, as sales promotion expenses, etc. mainly consisting of advertising expenses have decreased.

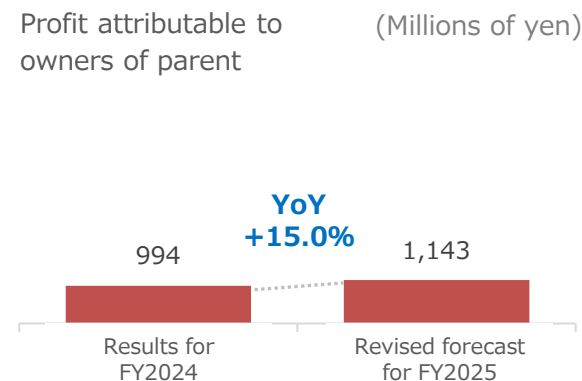
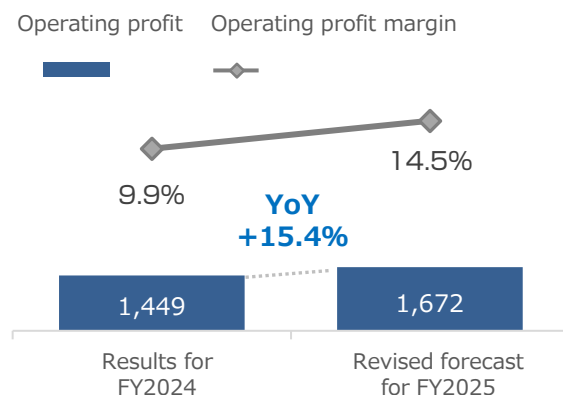
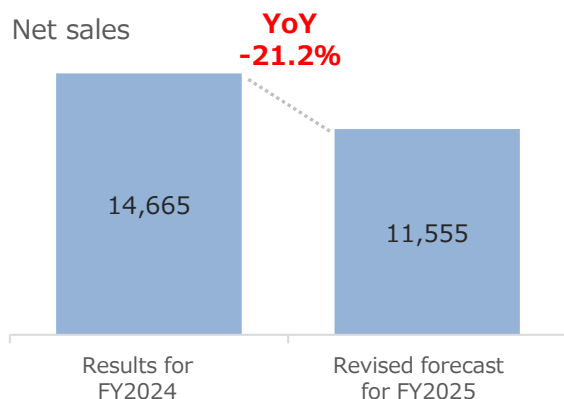
Consolidated Financial Results Forecast

We revised both the full-year consolidated forecast and full-year non-consolidated forecast on October 15, 2024.

<Comparison with results for FY2024>

(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%



Consolidated Financial Results Forecast

We revised both the full-year consolidated forecast and full-year non-consolidated forecast on October 15, 2024.

<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%

Consolidated Financial Results Forecast

We revised both the full-year consolidated forecast and full-year non-consolidated forecast on October 15, 2024.

<Comparison with results for FY2024>

(Millions of yen)

	Initial forecast for FY2025	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

会社概要

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.

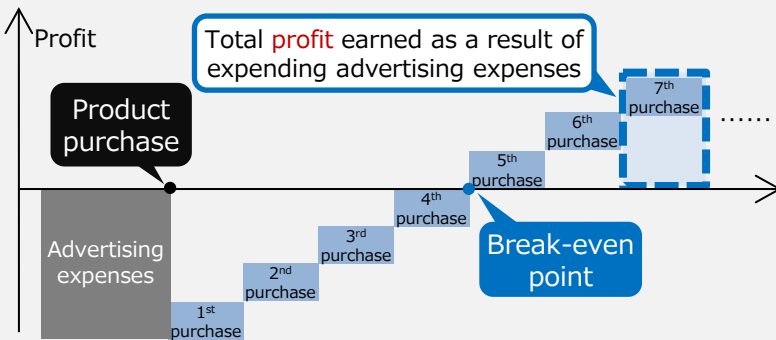
Business Model

◆ Customer characteristics

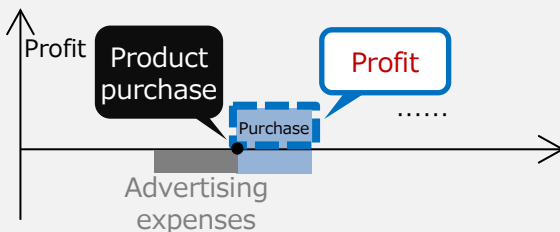
- The main customer base is in their 40s and over
- Sales from regular customers account for approx. 70% of overall sales

◆ 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

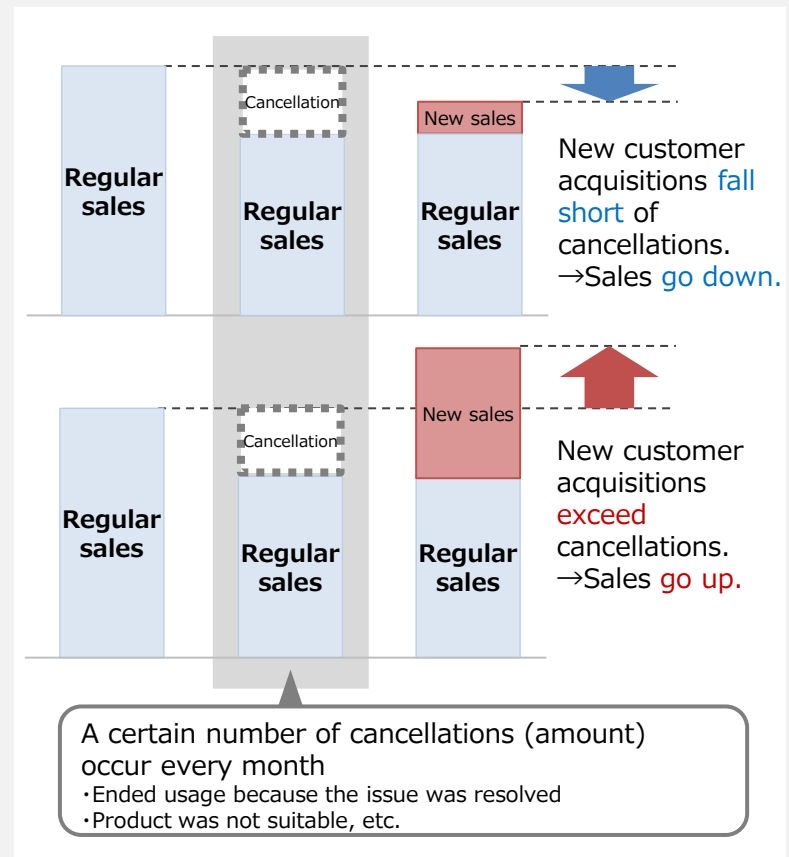


<E-commerce malls> Unit-purchase business model in which profitability is achieved with a single purchase, not a continuous purchase



◆ 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

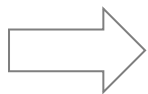
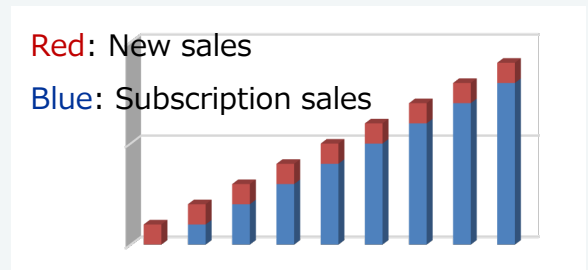
<Sales strategy>

- 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



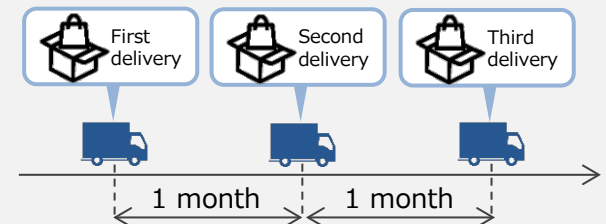
◆ Stringent product development standards

- 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 1,476 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**

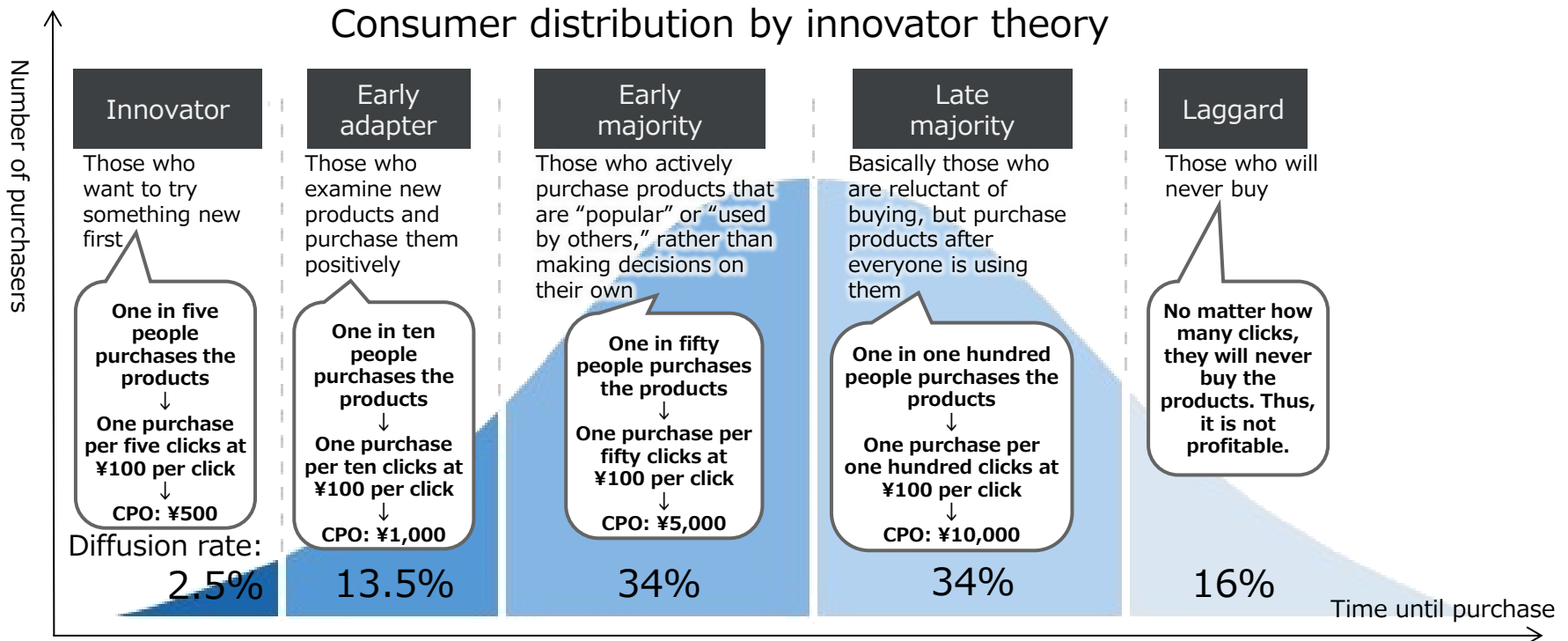


Sales Strategy

◆ 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.



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

→ We target the point at which profit is maximized without deterioration in profitability.

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

Sales Strategy

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

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

Gross profit by product

Mandatory cost per order

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

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

Personnel expenses for each product

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

Sales Strategy

◆ Calculation method of the optimal CPO limit and the benefits of LTV improvement
 Profit = Number of new customer acquisitions × Profit per customer (LTV – CPO)

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

➔ It is important to find the most profitable CPO

<In the case of LTV of ¥10,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

Largest sales

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

<In the case of LTV of ¥12,000>

↓ Diminishing returns begin from here

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

Most profitable profit per customer

Most profitable

Largest number of new customer acquisitions

Largest sales

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

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

Sales Strategy

◆ Enhancement of advertising investment and relationship to profit

For online sales, the amount of advertising investment and sales correlate

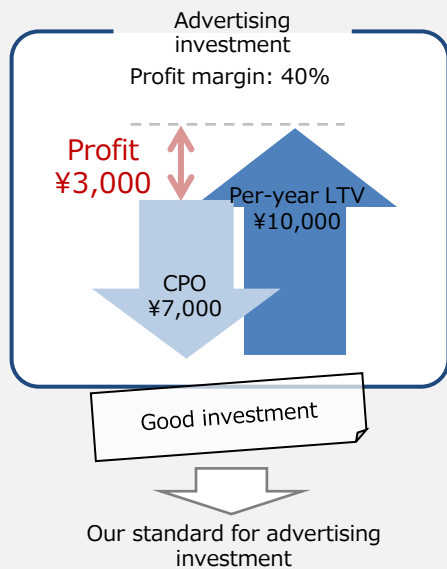
Enhancement of advertising investment → Increase in sales

Prevent a decline in profitability due to excess advertising investment

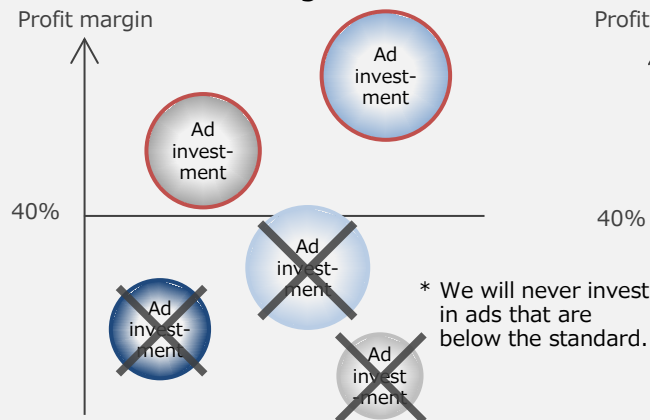
Set the CPO limit to secure the required profit

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

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

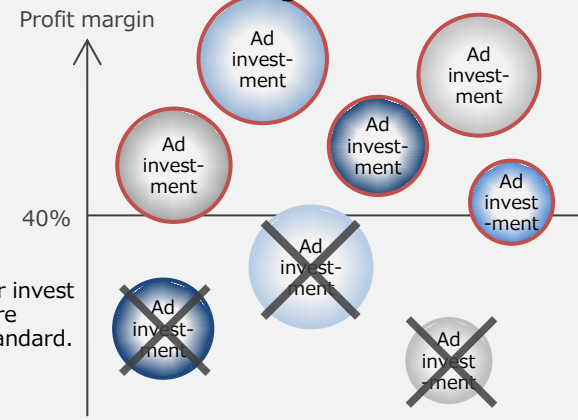


If there are only a few ads that are above the standard, we reduce the total amount of advertising investment



Our basic approach

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



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

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

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. 1]

[No. 2]

[No. 3]

[No. 4]

◆ 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.



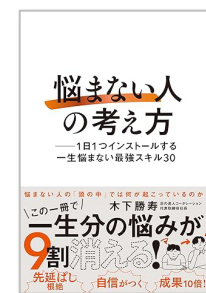
*1 Global survey by TFCO Co., Ltd. The largest micro-needle cosmetic skin patch brand (DEEP PATCH Series) with sales amount for the period from March 2019 to February 2024

*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”



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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