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To whom it may concern:

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Notice of Strengthening the Roll-up M&A Strategy

Kitanotatsujin Corporation (the “Company”) hereby announces that it will strengthen its M&A strategy as part of its measures aimed at contributing to increasing corporate value by diversifying its revenue foundations and accelerating growth.

1. Background of strengthening the roll-up M&A strategy

The Company operates the Health & Beauty Care business that sells health and beauty products and beauty appliances under its original brands, mainly on the Internet.

The main products include cosmetics and health food for resolving specific health and beauty problems that our customers face, and when such products are developed, the Company establishes strict quality standards for online sales to sell high-quality products that can be continuously used.

In addition, the Company has developed an advertising optimization system which incorporates its advertising knowhow in order to acquire new customers effectively while keeping advertising expenses down, and through measures such as accurately calculating “LTV,” which is the amount of lifetime net sales a customer will bring, from an enormous amount of data, and from there, controlling and managing the advertising expenses set for each product based on LTV, the Company will strive to make appropriate advertising investments while measuring the cost-effectiveness of advertising expenses. Furthermore, the Company has built its own systems such as an ordering and shipping processing system and inventory management and projection system, through which efficient and effective responses have been achieved.

Moreover, the Company calculates overhead costs including personnel expenses based on Activity Based Costing (ABC), in addition to cost of sales and advertising expenses, and manages profits using its unique five-level profit management method (see Attachment (1)) for each product. In this way, the Company has established a system to promptly determine which product has a problem at which level when the profit margin narrows.

As mentioned above, the Company sells and manages high-quality products under its unique systems including an advertising optimization system and management accounting method (hereinafter, the “Company’s Infrastructure”); however, it recognizes that it is necessary to expand and improve its lineup of high-quality products for further business expansion.

For this purpose, the Company has launched a product planning and marketing team under the direct control of the Representative Director & President to accelerate the development and introduction of new products. Also, in order to further accelerate the expansion and improvement of its product lineup, the Company has decided to strengthen its M&A activity. Under this M&A strategy, the Company will focus on the roll-up M&As that increase corporate value by improving management efficiency and creating synergies through the acquisition and integration of multiple companies in the same industry, rather than diversification of the business. A certain percentage of companies engaged in the D2C and EC business do not have sufficient capabilities to thoroughly manage profitability and profits, resulting in lower profitability, even though they have high-quality products and services. If cost optimization, profitability improvement, or other synergy effects are expected through the incorporation of such companies into the Company’s Infrastructure, the Company will proactively consider the M&A.

With regards to the M&A scheme, the Company will also consider “business acquisitions” to operate a business under the Company’s Infrastructure by acquiring part of the business or products of a target company, in addition to gaining a controlling interest in a target company through the acquisition of issued shares.

Particularly in the case of business acquisitions, since the Company can select and obtain only necessary assets, some merits including risk reduction, maximization of profitability improvement effects (see Attachment (2)), and simplification of PMI processes are expected. Sellers can also expect to see some benefits, such as the optimization of the business portfolio due to an exit from part of the business, and the evaluation of business value based on the assumption of incorporation of a low-profitability business into the Company’s Infrastructure. Accordingly, the Company will proactively consider business acquisitions.

2. Impact on business performance

Although five to six projects are currently under consideration, no decisions have been made at this point. Accordingly, this will not impact the consolidated financial results and non-consolidated financial results for the fiscal year ending February 28, 2025.

If any matters requiring disclosure arise in the future, the Company will promptly make an announcement.

End

北の達人 KITANO TATSUJIN

Five level profit management

The Company manages profits by visualizing them on five levels for "each product."

(Millions of yen)

	Total of all products	Product (1) ×	Product (2) △	Product (3) ◎
Net sales	10,000	6,000	3,000	1,000
Cost	5,600	3,500	1,800	300
Profit (1) Gross profit or loss	4,400	2,500	1,200	700
Gross profit margin	44%	42%	40%	70%
Order-linked costs (enclosures, accessories, settlement charges, shipping fees, packaging materials, etc.)	500	300	150	50
Profit (2) Net gross profit	3,900	2,200	1,050	650
Net gross profit margin	39%	37%	35%	65%
New customer acquisition expenses (primarily advertising expenses)	1,990	1,600	350	40
Profit (3) Sales profit	1,910	600	700	610
Sales profit margin	19%	10%	23%	61%
Personnel expenses (ABC: Activity Based Costing)	190	50	120	20
Profit (4) ABC profit	1,720	550	580	590
ABC profit margin	17%	9%	19%	59%
Operating expenses (rent expenses and indirect operating personnel expenses, etc.)	700	420	210	70
Profit (5) Operating profit for each product	1,020	130	370	520
Operating profit margin for each product	10%	2%	12%	52%

Gross profit by product

Mandatory cost per order

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

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

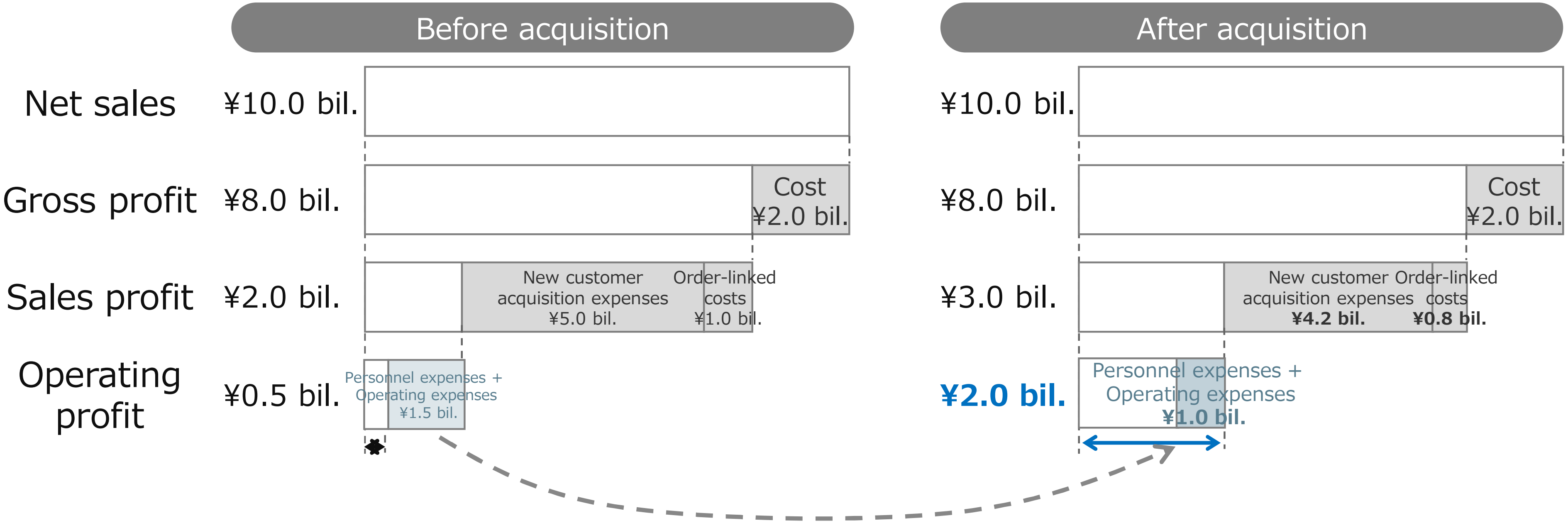
Personnel expenses for each product

- 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.

Profitability improvement model in business acquisition

■ Business acquisition: acquiring only part of the business or products of a target company and operate the business under the Company's infrastructure

For example, if acquiring a business from a D2C company as below…



Integrating infrastructure into the Company lowers costs of ordering, distribution, response to customers, office rent, etc. as well as reduces other costs such as new customer acquisition expenses and order-linked costs.

Operating profit increased from ¥0.5 billion to ¥2.0 billion, achieving great improvement in profitability