



Kitanotatsujin Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending February 2023

October 17, 2022

Event Summary

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[Participants]		
[Number of Speakers]	2	
	Katsuhisa Kinoshita	Representative Director and President
	Takahito Kudo	Director, General Manager of Administration Department

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Presentation

Moderator: We will now begin the financial results briefing of Kitanotatsujin Corporation for Q2 of the fiscal year ending February 2023.

I would like to introduce two of today's speakers.

Mr. Katsuhisa Kinoshita, Representative Director & President.

Kinoshita: Thank you very much.

Moderator: Mr. Takashi Kudo, Director and General Manager of the Administration Department.

Kudo: Thank you very much.

Moderator: Now then, President Kinoshita, please begin.



Executive Summary

- ☞ The full-year consolidated financial results forecast has been **revised upward** from the previously announced forecast:
 - Net sales to ¥9,064 million (up 19.5%)
 - Operating profit to ¥1,241 million (up 23.8%)
- ☞ Net sales for the second quarter was ¥4,308 million, 9.4% higher than the forecast, as the number of new customer acquisitions recovered more than expected.
- ☞ Main factors that contributed to the increase in new customer acquisitions were “enhancement and training of the Creative Department” and “expansion of e-commerce malls.”
- ☞ Operating profit for the second quarter was ¥522 million, 14.0% lower than the forecast, due to delayed deliveries of some products resulting from strong growth in orders.

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Kinoshita: Once again, I am Katsuhisa Kinoshita, President of Kitanotatsujin. I would now like to begin the presentation of the financial results for Q2 of the fiscal year ending February 2023.

Now, this will be today's executive summary.

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Upward revision of full-year consolidated earnings forecast: we had net sales of JPY9,064 million, up 19.5% from the previous forecast. Operating profit is revised to JPY1,241 million, up 23.8% from the previous forecast.

And the better-than-expected recovery in the number of new acquisitions led to Q2 sales of JPY4,308 million, 9.4% above forecast.

The main reasons for the increase in the number of new acquisitions are the development and training of the creative department and the expansion of the e-commerce malls.

Q2 operating profit was JPY522 million, 14% below forecast, due to shipping delays for some products caused by strong orders.

Upward Revision of the Full-Year Consolidated Financial Results Forecast

- The full-year consolidated net sales forecast for the fiscal year ending February 28, 2023 has been revised upward to ¥9,064 million, taking account of more than expected new customer acquisitions.
- Forecasts for profits have also been revised upward while advertising expenses are projected to increase due to continued strategic advertising investment.

Full-year consolidated financial results forecast for the fiscal year ending February 28, 2023

(Millions of yen)

	Previously announced	Revised	Changes	Changes (%)
Net sales	7,587	9,064	+1,477	+19.5%
Operating profit	1,003	1,241	+238	+23.8%
Ordinary profit	1,003	1,260	+256	+25.6%
Profit attributable to owners of parent	663	834	+170	+25.7%

First, we would like to discuss the upward revision of the full-year consolidated earnings forecast.

Based on the higher-than-expected number of new acquisitions, we have revised upward our full-year consolidated earnings forecast for the fiscal year ending February 2023, to JPY9,064 million in net sales.

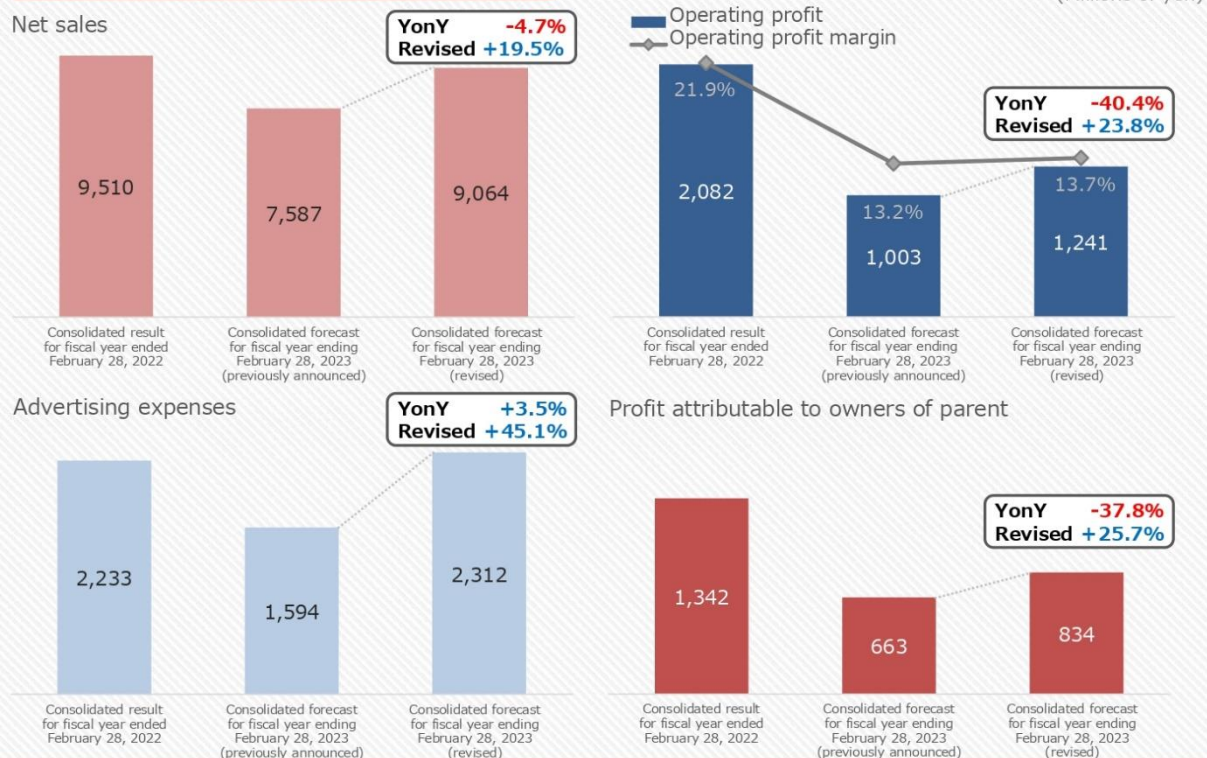
Although we will continue to invest strategically in advertising and expect advertising expenses to increase, we have also revised upward our forecasts for each stage of income.

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Upward Revision of the Full-Year Consolidated Financial Results Forecast



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Regarding the details about the upward revision of the full-year consolidated earnings forecast, the previous fiscal year ended February 2022 had net sales of JPY9,510 million. For the current fiscal year ending February 2023, we had estimated the amount to be lower than JPY7,587 million, but as I mentioned earlier, new acquisitions have been strong, and we now forecast sales at JPY9,064 million.

The business model is basically centered around customers who purchase on a subscription basis. A certain percentage of subscription customers come in and a certain percentage cancel their subscriptions, and if we can make up for these cancellations with new subscriptions, we can maintain sales for a long time. However, the trend of new acquisitions, which had been declining especially in H2 of the previous fiscal year, has returned to normal earlier than expected, and sales are considerably higher than expected, although not as much as in the previous period.

The advertising expenses forecast also increased from its original JPY1,594 million to JPY2,312 million. Our business model is such that advertising expenses are different from those of a typical manufacturer, and can be thought of as almost the same as distribution expenses.

In the case of mail-order sales, advertising expenses are almost entirely distribution expenses because the Company sells directly to the public without using stores or other means of distribution. As for distribution expenses, detailed data on mail-order sales shows that the number of new acquisitions, acquired sales, and advertising expenses are virtually equal. We had assumed that advertising costs would be JPY1,594 million, where the number of new acquisitions would be low, but in fact, the number of new acquisitions has been very strong, which means that advertising costs can be raised from this level.

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In conjunction with this, there is a portion of upfront investment in advertising expenses, so operating profit will not recover to the level of the previous year.

Advertising costs in our case are usually about four months upfront investment. Roughly at the fourth month is where they reach a break-even point, and around the fifth month is where they start to become profitable. Since advertising expenses will continue to increase due to the stronger-than-expected performance, we expect to recover this cost in the next fiscal year onward. In the current term, we estimate to recover roughly this amount.

				
Key Performance Highlights [Compared with Forecasts (Plan)]				
	Consolidated forecast (plan) for the second quarter	Results for the second quarter	Changes	(Millions of yen) Changes (%)
Net sales	3,937	4,308	+370	+9.4%
Gross profit	2,911	3,197	+285	+9.8%
Selling, general and administrative expenses	2,304	2,675	+370	+16.1%
Advertising expenses	801	1,123	+322	+40.2%
Operating profit	607	522	-84	-14.0%
Operating profit margin	15.4%	12.1%	-3.3pts	
Ordinary profit	607	540	-66	-11.0%
Profit attributable to owners of parent	396	355	-41	-10.4%

・ Net sales were higher than the forecast as the number of new customer acquisitions recovered more than expected.
 ・ Operating profit was lower than the forecast as the delivery of some products were delayed due to a rush of orders resulting from successful sales promotion activities.

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These are the highlights of the performance, versus the plan, which is the forecast.

In sales, the forecast of JPY3,937 million was actually JPY4,308 million, an increase of JPY370 million or 9.4%.

On the other hand, advertising expenses, planned at JPY801 million, are JPY1,123 million, a plus of JPY322 million or 40.2%.

Operating profit was expected to be JPY607 million, but it was actually JPY522 million.

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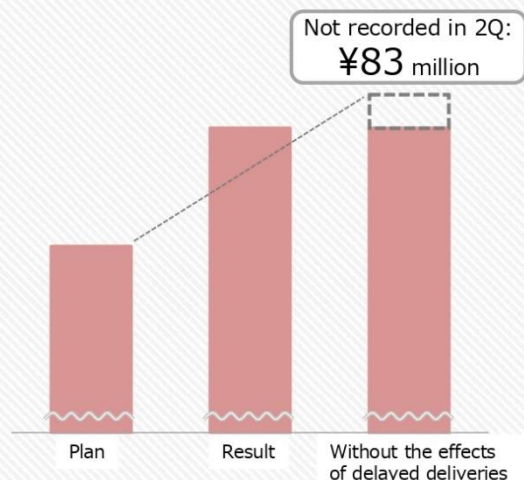
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Key Performance Highlights [Effects of Delayed Deliveries]

Sales and profits for delayed deliveries of some products have yet to be recorded.

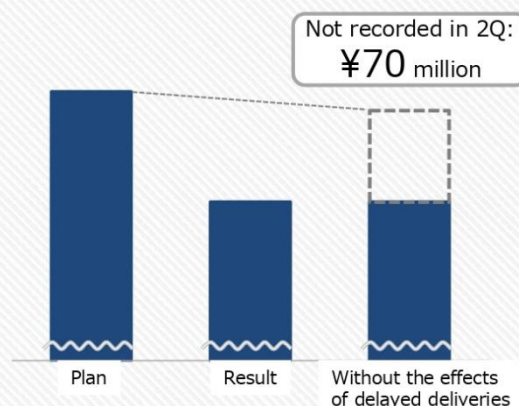
[Net sales for the six months ended August 31, 2022]

Without the effects, net sales would have largely exceeded the plan.



[Operating profit for the six months ended August 31, 2022]

Without the effects, operating profit would have been about the same as the plan, due to active advertising investment associated with strong new customer acquisitions.



- Advertising expenses incurred to win orders were already recorded in the six months ended August 31, 2022.
- Sales and operating profit for the delayed deliveries are expected to be recorded in or after the third quarter of the fiscal year ending February 28, 2023.

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Advertising investment was increased due to a better-than-expected recovery in the number of new acquisitions.

On the other hand, the acquisition of more new customers than expected led to shortages in some products. Since shipping has been delayed for a while, we have decided to take pre-orders instead of regular orders, and ship when stock is replenished.

In Q2, only advertising expenses for new orders were recorded in this quarter, and the portion of sales for these orders was shifted to Q3, resulting in a slightly lower-than-expected profit.

Specifically, approximately JPY83 million is about to be booked in Q3. As for profits, approximately JPY70 million worth of profits are being passed on to Q3.

Our sales consist of two main categories: new orders and subscription orders, as well as regular repeat orders. We must never run out of products for our subscription-order customers, so when new orders start to increase, we stop accepting new orders just before it becomes a problem for our subscription-order customers if we continue to do so. We ensure that no delays occur at all for subscription customers.

Instead, we will stop taking orders from new customers and switch all of these orders to a form of reservation. Although the order has already been placed, the product will be shipped to the customer as soon as it arrives.

If a product becomes very popular, there may be an increase in orders, so we may not be able to deliver the product immediately after receiving an order. So, although we may not be able to serve orders immediately to customers, we do not lose that many opportunities. The fact that a product is so popular that it is out of

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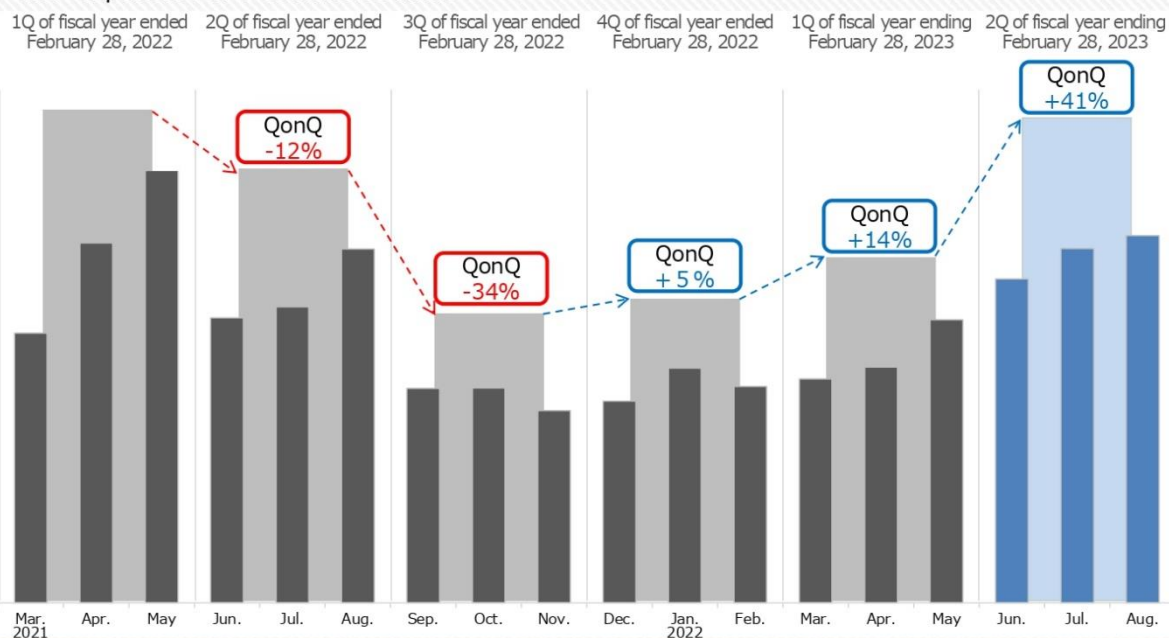
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stock may lead to an increase in extra orders or pre-orders. This of course should not happen frequently, but it is not necessarily a loss of opportunity.

Changes in number of new customer acquisitions

- The number of new customer acquisitions for the six months ended August 31, 2022 was at the same level as for the previous corresponding period.
- The number for August 2022 recovered to the level before September 2021, when a severe downturn began.
- Strong progress in the major initiatives of “enhancement and training of the Creative Department” and “expansion of e-commerce malls”



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These are the number of new acquisitions.

As I mentioned earlier, this is how it has been gradually declining ever since Q2 of FY2021. We have been recovering gradually, and now in Q2 of FY2022, we have seen a considerable recovery.

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Factors contributing to the recovery in new customer acquisitions

◆ Enhancement and improvement of training of the Creative Department

Increased new customer acquisitions

← Product competitiveness
← Good ad contents required

- Advertisements with high click-through rates
- Sales pages with a high purchase rate

← Multiple skills required

- Accurately identifying distinctive strengths of the product
- Creating advertisements from various angles
- Consistency between advertisements and sales pages

<Issues>

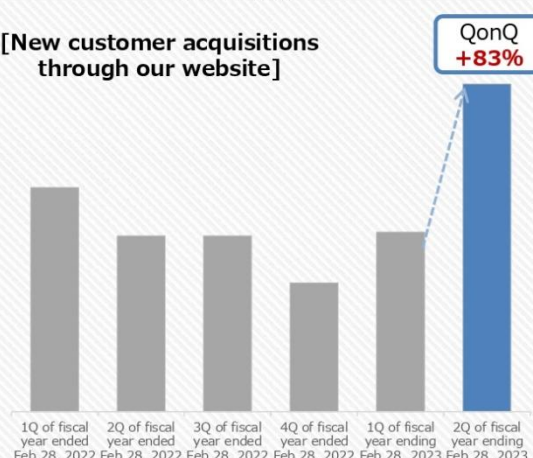
Most creation activities place too much emphasis on efficiency

- ◆ Recruitment of experienced staff with advanced skills and a wealth of experience
- ◆ Development of a training system
- ◆ Launch of a dedicated training team
- ◆ Review of the evaluation system



Elevated capacity level of the Creative Department
Strong new customer acquisitions for multiple products and through multiple advertising media

[New customer acquisitions through our website]



This is one factor in the recovery of the number of new acquisitions.

I now talk about the improvement in the development and training of the creative department. What is needed to increase the number of new acquisitions is, first of all, having a strong product. This is a major prerequisite. Bad products will, of course, not attract new customers and sales will not increase, but another important factor is the creative department.

The point is, no matter how good the product is, if we cannot tell our customers about it, it won't work. Normally, in the world of sales and marketing, if you don't have a certain level of sales ability, it wouldn't work even you have a good product. In the case of mail order, this is a task for the creative department. Products will not sell well unless the creative department is able to convey the advantages of the product in a creative way.

Specifically, in terms of online advertising, it is difficult to acquire new customers unless advertisements with a high click-through rate or sales outlets with a high purchase rate are available. To do this properly, multiple skills are needed. Various skills are needed, such as accurately recognizing the unique strengths of the product, creating ads from different angles, and ensuring consistency between the ad and the sales page.

And then there were the challenges our company was facing. When you advertise online, the results all come back to you in numbers. Based on those numbers, we tune our advertisement. One benefit of online advertisements is that they can get efficient easily. However, if we try to be too efficient, we will see a shrinkage in these advertisements.

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If we eliminate the parts that didn't work, of course waste will decrease. For example, if we imitate an advertisement that seems to be successful and duplicate it more and more, the probability of success will increase, but it will be difficult to create a new type of advertisement with a new approach.

In fact, our company's continued emphasis on efficiency has resulted in a shrinkage of new creative advertisements. In part, this led to fewer and fewer new acquisitions.

To address this, we hired highly skilled and experienced personnel, improved our training system, set up a dedicated training team, and reviewed our evaluation system. This ultimately raised the overall level of the creative department and led to strong new acquisitions in multiple products and advertising media. This is how we have improved our results.

Therefore, the increase in the number of new acquisitions this time is not due to the launch of a new product, but rather due to an improvement in creative advertisements of existing products. So, the employees on site worked extremely hard, and that is a big part of it. Rather than some strategic aspect, the results of the Company have been growing as a result of the efforts of each and every one of its employees.

Factors contributing to the recovery in new customer acquisitions

◆ Enhancement and improvement of training of the Creative Department

With enhanced skills, it has become possible to bring out the potential of the products and media.

<How to create ad contents>

Product A (Information amount 100%)

- Product information
- User traits
- Market environment
- Competing products

Created ad contents
using only a
part of the
information

when
creating
new ad
contents



[Until 1Q]

Created ad contents
referring to existing
contents and using
the same information



Efficient but tend to end up
with contents similar to
those created previously
no matter how many times
the process is repeated

[2Q]

Created ad contents
collecting information
again and taking a
new viewpoint



Leading to new
contents that offer
a new perspective
and a different angle



Now able to leverage the full
potential of our products

To be a little more specific, there is a way to create advertisements. For example, if the amount of information for product A was about 1,000, this amount of information is 100%. We will create some advertisements from here.

Up to Q1, this creative, or advertisement, is going to get tiresome after a certain amount of constant showing. To a certain extent, the response rate gets worse as people get tired of looking at it, so they tune it up more

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and more here. In doing so, we used to tune it up while looking at existing creatives. It was less likely to fail and more efficient, but the advertisements were gradually becoming similar and shrinking.

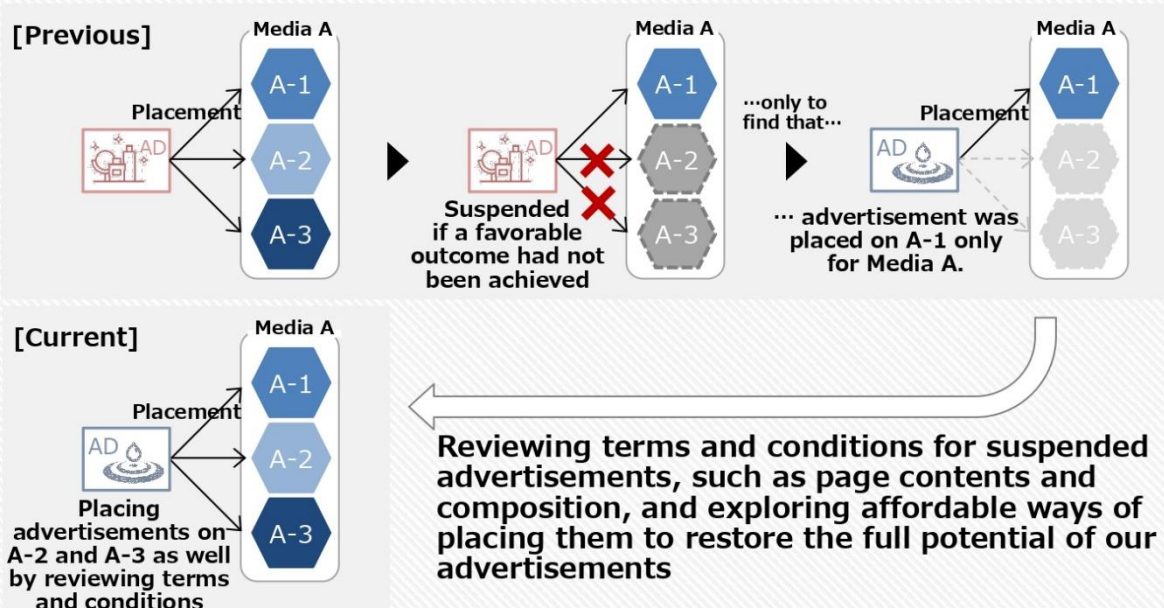
From Q2 onward, we did not use the first advertisement as a base, but rather studied the product and its users again, and tried to create advertisement from a new angle. This has enabled us to develop the potential of our products more and more through advertisements, with creative ideas from various angles.

Factors contributing to the recovery in new customer acquisitions

◆ Enhancement and improvement of training of the Creative Department

With enhanced skills, it has become possible to bring out the potential of the products and media.

<Improvement of advertisement placement>



On the other hand, when placing advertisements, in the past, for example, we placed advertisements in three different campaigns for advertising medium A. However, when the results of A-1 were positive, but A-2 and A-3 were not so profitable, the Company used to decide to stop the A-2 and A-3 projects, and concentrated only on A1.

This will increase profitability, but this is where it will shrink again. Instead, we brought back A-2 and A-3 through a new approach and a new campaign structure. We actively did these things.

This has enabled us to maximize the potential of the product itself and the market itself. It took about two and a half years of work to create a system that would allow us to do this, and I believe that it is finally bearing fruit.

As those of you who have been following our company for a long time know, I have been saying for the past two years that the development and training of the creative department was a real challenge, and I believe that we are finally starting to see results.

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I myself have always been able to do the kind of creative work and advertising management that I just mentioned as an individual skill, but it was difficult for my employees to do the same as me. So while we train our employees, we started to recruit people from all over Japan who were interested in this kind of work and who wanted to do it. We established a base in Tokyo for recruiting two and a half years ago, and we also tried to show our presence through Twitter, lectures, and publications.

In short, by sending out more and more information about how Kitanotatsujin is a strong web marketing company, we are now receiving almost all applications for our company by appointment. In the past, we would try to get the people we hired through the usual process to do this kind of work, but now we are getting more and more people who specifically want to do this job. These people have been able to do this by studying and working harder and harder.

So now, especially in the web marketing industry, Kitanotatsujin has become quite well known, and evaluations are circulating that the members there are very skilled. Although it is not yet complete, we are gradually building an image that the web marketing department of Kitanotatsujin is strong in this industry, and once we have a system in place to bring in more and more people like this, I believe that we will be able to increase sales through our own creative abilities.

What I am saying now is actually quite difficult for an advertising agency. To create really good advertisements, it is necessary to have knowledge and understanding of the product, but advertising agencies inevitably handle multiple products from multiple companies, so it is difficult for them to go that deep. Therefore, we did not hire an advertising agency, but rather did it ourselves, and I believe that this has been very successful and has enabled us to create a truly strong organizational structure.

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Factors contributing to the recovery in new customer acquisitions

◆ Expansion of e-commerce malls

(Previous) The subscription purchase type business was our pillar.

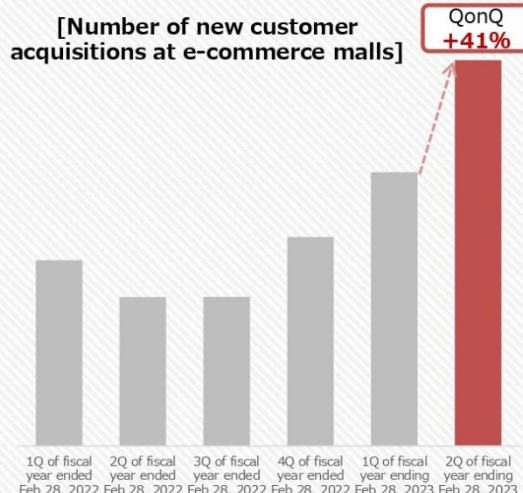
→ Less priority was placed on e-commerce malls (Amazon, Rakuten Ichiba, etc.) given their scale, customer characteristics and shopping behavior focused on single purchases.

(Current) **Strengthen sales in e-commerce malls**

- Consumers' purchasing behavior switched from brick-and-mortar stores to e-commerce
- Particularly in our business, there is a notable inflow to e-commerce malls
- Rapid increase in consumers who buy products only in e-commerce malls

- ◆ Sales promotion activities, advertising contents creation, and advertisement optimization targeted at e-commerce malls
- ◆ Engagement in sales at e-commerce malls
- ◆ Increase of dedicated staff
- ◆ Inflow to e-commerce malls in line with an increase in the placement volume of advertisement for our website

- **Increased 41% QonQ**
- **Increased as much as +159% YonY**
- Marked the highest monthly sales at Rakuten Ichiba and at Amazon in August 2022
- Overall monthly sales at e-commerce malls exceeded ¥100 million for the first time.



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On the other hand, during the expansion of e-commerce malls, we had been focusing on a subscription-based business model, so e-commerce malls such as Amazon and Rakuten Market had a low priority in our business, since they were dominated by buyout sales. However, the positioning of e-commerce malls themselves has changed considerably, especially since COVID-19.

We believe that more and more people are using e-commerce malls to buy things that they would buy through general distribution on a daily basis, so we have been focusing on e-commerce malls since COVID-19 in order to capture more and more of this market.

Compared to the previous quarter, it expanded by 41%. Compared to the previous year, there is an expansion of 159%. Overall sales of e-commerce malls surpassed JPY100 million per month for the first time.

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Advertising investment efficiency <Advertising investment balance*1>

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

The advertising investment balance fell far below 1.00 and caused opportunity loss

- ◆ Factor (1) Raised the CPO limit*2 (See slide 16)
- ◆ Factor (2) Created good advertising contents, resulting in higher efficiency

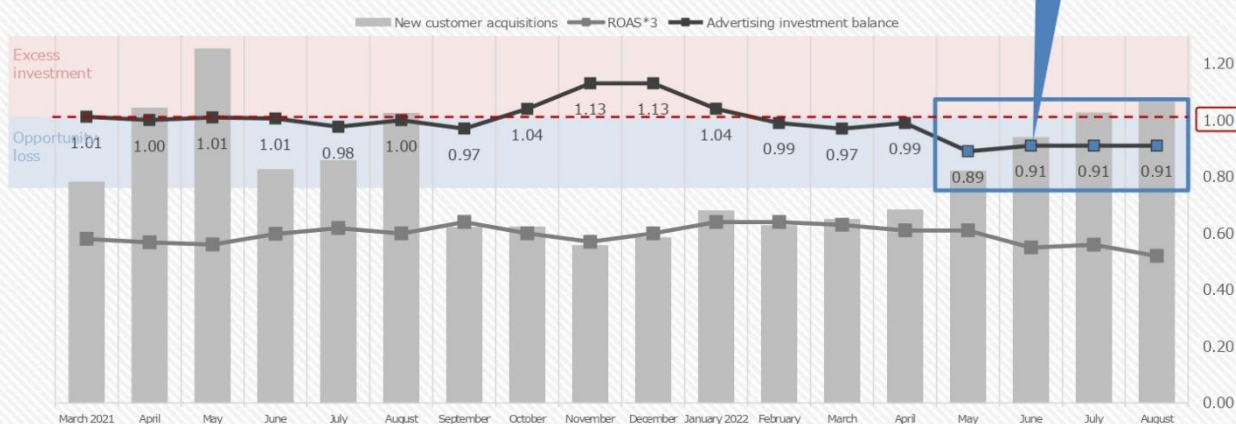
Supposed to expand investment now that efficiency was increased. Investment, however, was not made since May and caused opportunity loss.

Effect from "a phenomenon where the number of new customer acquisitions increases while CPO goes down"

The phenomenon has occurred successively at multiple times over recent quarters.

The phenomenon is what happens in the initial phase only. We will expand investment.

We will strive to eliminate opportunity loss, expand the number of new customer acquisitions and strike an optimal advertising investment balance.



*1 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.
*2 The maximum amount of advertising expenses expendable per order, which is back calculated from required profit by using the correlation between CPO, which is the amount of advertising expenses per order, and LTV, which is the projected amount of lifetime net sales a customer will bring.
*3 ROAS stands for Return On Advertising Spend, which is an indicator of advertising investment efficiency that measures how much sales are generated from advertising. If ¥1 million was used for advertising expenses, and sales was ¥900 thousand, the ROAS is 0.90. 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.

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On the other hand, there is an advertising investment balance. It's an indicator of how well advertising investments are doing. First of all, we set a maximum cost per order (CPO) to acquire one customer.

If we exceed this upper limit CPO to acquire a customer, we are losing profitability. If not, we are losing opportunities. So we look at the actual CPO, the number divided by the upper limit CPO, and if this is above 1.00, we are overinvesting, and if it is below 1.00, we are losing opportunities. We invest in advertisement to make this figure to be just 1.00.

The current situation is slightly below 1.00, an opportunity loss. There are two factors: one is that the upper CPO was raised. I will explain how this was raised later. Another thing is that we were able to improve our efficiency. As we were able to produce good advertisement, we managed to acquire one customer at the cost of about JPY8000, while we previously needed about JPY10,000.

However, if we are able to get one with JPY8,000, we will have to pile up another 10,000 yen to get more cases, but we have not yet reached that point, so we are losing some opportunities.

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Net sales by segment and brand

(Millions of yen)

Segment	Brand name	First quarter ended May 31, 2022	Second quarter ended August 31, 2022
Health & Beauty Care business	 北の快適工房 J NORTH FARM	1,845	1,901
	 SALON MOON ^{Pro}	138	187
	Others	3	7
Others	-	116	107
Total		2,103	2,204

* From the first quarter ended May 31, 2022, the segment name previously reported as E-commerce business was changed to Health & Beauty Care business. The change in the segment name has no impact on the segment information.

* As the main business of the Company's group is the Health & Beauty Care business and the other business segments are insignificant, a description of the segment information is omitted.

Here are the sales by segment and by brand.

The main focus is still mostly on the J North Farm. Then there is SALONMOON, and others.

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<Group company>
SALONMOON Co., Ltd.

(Trade name changed from ASHIGARU Co., Ltd. on May 31, 2022)

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

- ◆ The main customer base is women in their 20s to 40s
- ◆ Sales come primarily from e-commerce malls



<Six months ended August 31, 2022>

- ◆ Focus on sales promotion at Qoo10
Driven by successful sales promotion at the e-commerce mall Qoo10, which is overwhelmingly favored by our main customer base, this business has grown into what is now expected to become a new major source of revenue.

- ◆ Launched the first cosmetic product SALONMOON Hair Oil Mist

Focusing on the development of new beauty appliances as well as cosmetic products that have a high affinity with beauty appliances

- ◆ Sale of hair irons at stores (home electronics stores, etc.)

Launched on April 28, 2022

- ◆ Launched a radio advertisement campaign

Seek to increase revenue from sales at stores, for which mass media advertisement (using radio and television channels) is particularly effective, while measuring the effect of radio advertisement

- ◆ Revised selling prices

Revised selling prices to address the decrease in profitability due to surging purchasing prices resulting from price hikes for supplies, raw materials, logistics services, etc., as well as the rapid depreciation of the Japanese yen at a record pace.



We will continue to launch various initiatives to expand businesses while also striving to improve profitability.

Next, I would like to talk about the progress of our group companies, such as SALONMOON.

The original hair care brand SALONMOON is mainly engaged in hair irons. The main focus is on e-commerce malls.

Until now, Rakuten and Amazon were the center of e-commerce malls, but in Q2, there is a mall called Qoo10 which has become very popular, especially among young women. This mall is increasing its sales considerably.

Then we launched our first cosmetic product, SALONMOON Hair Oil Mist, a hair oil mist to be used with hair irons.

On the other hand, we sell our hair irons to electronics mass merchandisers such as Yodobashi Camera and Bic Camera. We have also started a radio campaign in the Hokkaido region, using our group company FM Northwave.

In addition, we are in the process of revising our selling prices. Currently, we are purchasing products from China, and we are in the process of raising prices due to the extremely weak yen. We are somewhat concerned about the extent to which this area will be affected in the future.

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<Group company>
FM NORTH WAVE CO., LTD.

FM radio station with a broadcast area covering Hokkaido

- ◆ Main station broadcast and advertising broadcast via VHF radio
- ◆ Production and sales of broadcast programs
- ◆ Sales of broadcast time, etc.



<Business strategy>

◆ Media

Established the Media Development Office

- Strive to recreate the value of media from the customers' perspective
- Invited the business manager who developed the "HOT PEPPER" business of Recruit Co., Ltd. from scratch, a community-based media business operating nationwide, to reconstruct the sales team, management metrics, etc.

◆ Explore new customers

Enhance nurturing* initiatives

- Explore a new customer base by enhancing white papers
- Actively publicize the effectiveness of radio advertisement and best practices of advertising projects, etc., to promote acquisition of potential customers

◆ Advertisement creation leveraging unique characteristics

Initiatives to attract customers to SALONMOON

- Contents that promote the "recognition" of and the "interest" in our products and brands
 - Offer real-world information, including feedback from DJs and their families using our products
 - Introduce the beauty salons using our products to let listeners know that those products are used by professionals and thereby increase their product reliability
 - Also introduce the stores where customers can touch and try the products
- Contents that lead customers who have interest to shopping sites (e-commerce malls and stores)
 - Develop a scheme to increase sales by promoting inflow from radio advertisements and develop products as sales packages

* A marketing initiative to get potential and existing customers interested in the Company's products and services, increase their appetite for buying, and lead to future orders.

Our group company, FM NORTH WAVE, an FM radio station in Hokkaido, Japan.

As a business strategy, we have created a media development office to re-create media value from the customer's point of view, and since we are a regional FM radio station, we are also working on regional media. We have invited the person in charge of the Hot Pepper business from Recruit, who started the business from scratch in Sapporo and Hokkaido, and are now rebuilding the sales organization team structure, management guidance, and so on.

This is Mr. Yoshida, my old boss, who is a very powerful person; I have asked him to rebuild our sales department. I myself attend the meetings once a week, and I feel that the organization is changing rapidly in a very positive way. We are also working on new clients.

Additionally, in terms of advertising production that makes the most of its characteristics, we are now using FM NORTH WAVE to attract customers for SALONMOON, as mentioned earlier. In the area of product/brand awareness and interest, it is difficult to achieve results with radio, TV, and mass advertising for products on the Company's website, but with products on Amazon, Rakuten, or general distribution at electronics retailers, mass media is a very good match. We are currently experimenting with various ways to produce results by combining FM NORTH WAVE and SALONMOON.

We are obtaining data on the results of these advertisements, and over the course of about a year, we will be able to package the sales figures for both general products and radio advertisements that will not only increase SALONMOON's sales, but will also help other companies increase their sales. We are now thinking of creating this scheme and marketing it to other companies as well.

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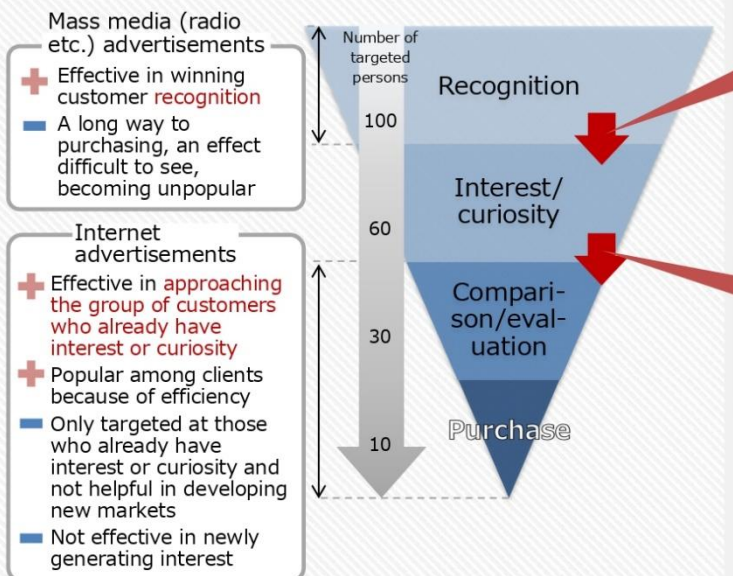
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<Group company>
FM NORTH WAVE CO., LTD.

Marketing funnel and characteristics of mass media and Internet advertisements

Marketing funnel: the flow from when the customer recognizes a product or service to when the customer buys it



FM NORTH WAVE's future radio advertising initiatives

Design contents that create interest and curiosity, not just winning recognition

An entertaining advertisement = ...could win recognition
A viral advertisement ≠ ...but would not create interest or curiosity

An advertisement is placed to achieve the desired effect. Unlike radio programs, an advertisement cannot serve its purpose if it is merely fun.

"Connect to the Internet" those who have interest or curiosity

Increase radio advertisements for the products and services that have an inlet from the Internet and lead potential customers from radio advertisements to the Internet

- Develop success cases of mixed media projects with radio and the Internet
- Strengthen the outreach to those companies that are feeling the limitations of Internet advertisements

Let me explain a little bit about the marketing funnel, which I am sure many of you are familiar with. In marketing, first there is awareness, then there is interest, and then there is comparison and purchase. When 100 people become aware of a product, about 60 people become interested, and about 30 people compare and buy it.

Since J North Farm is almost entirely Internet-centric, Internet advertising has become very good at efficiently reaching people who have entered the comparison stage. It's highly effective, and easy to understand the profitability. However, there is a disadvantage to this approach: it only targets people who are already interested in the product. Internet advertising is not very good at generating new interest.

On the other hand, mass advertising on radio and television is very good at making people aware. People who were not interested originally may be made aware through advertisements on radio or TV, but the traffic line for this process, from getting interested to comparing and buying, is not clear, and without a large budget, it is difficult to achieve this goal.

We ourselves have a certain amount of knowledge about Internet advertising, so what we are working on now as FM NORTH WAVE is to design content that will not only make people aware of the site, but also bring them to the point of interest.

We were involved in the management of a radio station called NORTH WAVE, and I think that very few companies are capable of or aware of designing a radio station that moves from awareness to interest, both for the station itself and for the client.

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There is a tendency to think that all you have to do is create ads that are interesting or that become a topic of conversation, but even if they are interesting or become a topic of conversation, if they do not lead to interest, they will not lead to sales. We are designing advertisements that will not only gain recognition, but also generate interest. From there, we will try to increase our client's sales by connecting them to the Internet, especially by advertising on the radio to generate interest, and then lead them to the Internet.

A local company called FM NORTH WAVE would like to create a scheme that makes good use of marketing in this world of radio advertising and launch it nationwide.



Product launched in the fiscal year ending February 28, 2023

Anti-aging care*¹ beauty essence for hands

P I N T E

ピンテ

- Combat issues with aging skin on the hands by promoting collagen production, which becomes insufficient and declines in quality with age
- Improves wrinkles by promoting collagen growth. In addition to the discoloration-preventing*² active ingredient niacinamide, it also combines beauty ingredients
- Anti-aging product leading to skin on the hands which are firm and elastic
- New release in March 2022

* 1 Age-appropriate care
* 2 Limits the formation of melanin and prevent discoloration and freckles




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Other products launched include Pinte, a beauty essence that reduces the wrinkles on hands.

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 **SCRIPTS**
Asia's Meetings, Globally

Consolidated Balance Sheets

(Millions of yen)

Subject/Section	Previous fiscal year ended February 28, 2022	Second quarter ended August 31, 2022
(Cash and deposits)	5,210	5,254
Current assets	6,808	6,613
Non-current assets	747	888
Total assets	7,555	7,501
Current liabilities	1,235	960
Non-current liabilities	174	223
Total liabilities	1,409	1,183
Total net assets	6,146	6,318
Total liabilities and net assets	7,555	7,501

The main factors for the changes from the previous fiscal year-end were an increase in property, plant and equipment of ¥105 million and a decrease in inventories of ¥178 million under assets and an increase in accounts payable - other of ¥172 million and a decrease in income taxes payable of ¥254 million under liabilities.

Next is the balance sheet.

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Consolidated Statements of Cash Flows

(Millions of yen)

Subject/Section	Six months ended August 31, 2021 March 1, 2021 to August 31, 2021	Six months ended August 31, 2022 March 1, 2022 to August 31, 2022
Cash flows from operating activities	942	425
Cash flows from investing activities	214	-158
Cash flows from financing activities	-173	-229
Effect of exchange rate change on cash and cash equivalents	5	6
Net increase (decrease) in cash and cash equivalents	988	43
Cash and cash equivalents at beginning of period	3,612	5,210
Cash and cash equivalents at end of period	4,601	5,254

The main factors for the changes during the six months ended August 31, 2022 were profit before income taxes of ¥540 million, a decrease in inventories of ¥191 million, income taxes paid of ¥390 million, and dividends paid of ¥221 million.

Next is the cash flow.

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 **SCRIPTS**
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Current Situation and Future Developments

◆ Change policies for developing and releasing new products

<Previous>

Due to the heavy workload required for each product release, **we were unable to release many products**



<Future>

Release new products as a "single-purchase type product"

→ Only products passing certain sales criteria will become available as "subscription purchase type products"



More products can be launched with the same overall workload

(We keep the subscription purchase type business by adding the release as a single-purchase type product during the development phase of subscription purchase type products.)

Regarding the current situation and the future, there is a change to our product development and launch policy.

We have changed to this policy since the last quarter. In the past, when we had many subscription products, the burden of preparing in advance for the launch of a product was very high, and we were unable to launch many products.

The reason why the launch load is so high for subscription purchases is that once a subscription is launched, it is important to maintain a stable supply for a long time, so it is very necessary to establish a stable supply system when creating the product. In short, the Company or OEM Company needs to have a system that can continue to produce semi-permanently; they should have a certain scale, or be able to hold down the production line tightly. Also, since it is important to have a stable supply of each raw material, there are a great many conditions that must be met to ensure a stable supply.

We launched a product after all these preparations. After launching the product, we would advertise and sell it, but even though we had prepared and launched it, sometimes it did not sell well, and we often ended up discontinuing it. So even though the pre-launch preparation was extremely burdensome, there were quite a few places where there was a pattern of it not bearing fruit.

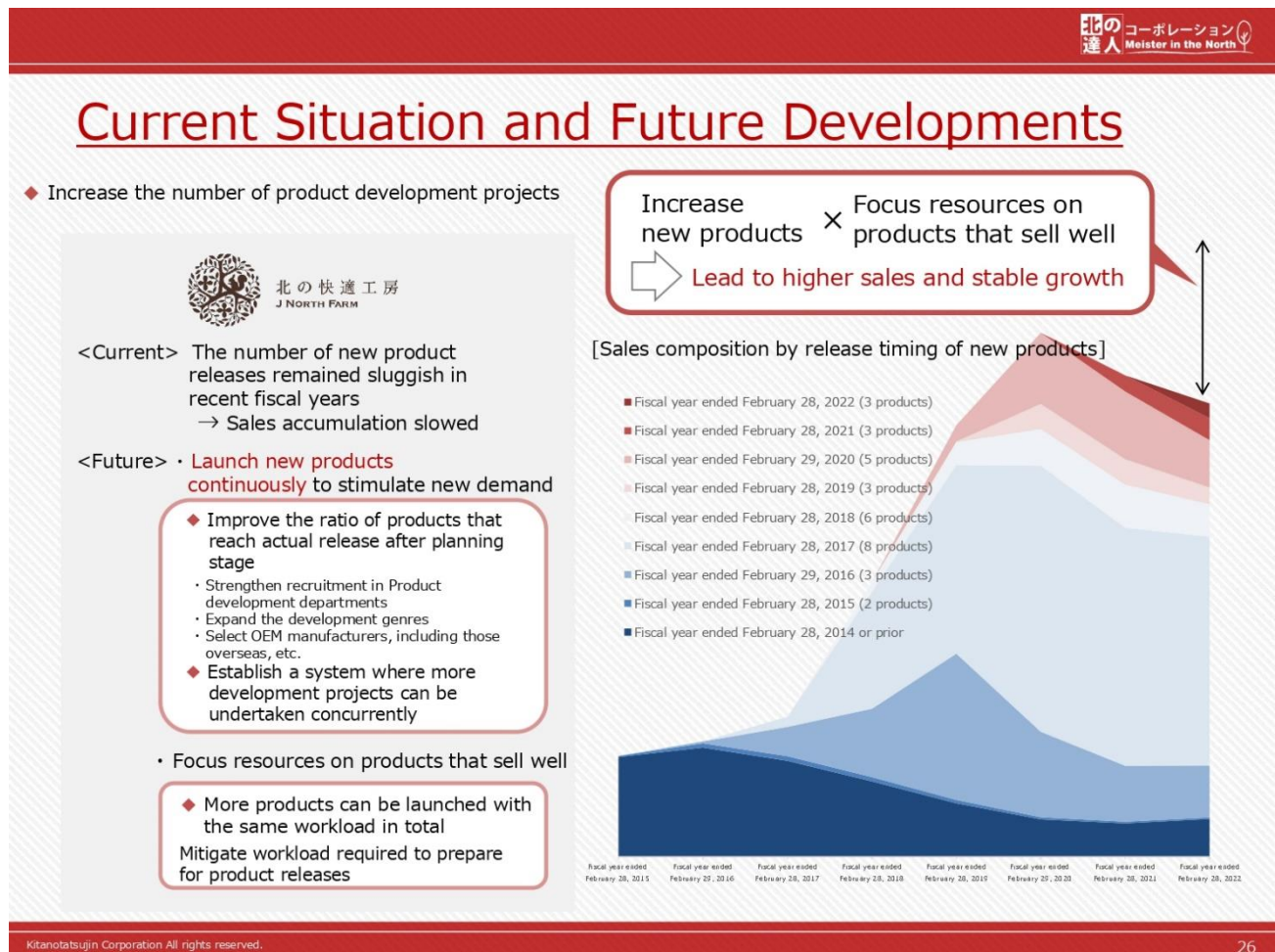
That is why we have started to change it from now on: when we first launch the product, we will sell it as a one-off rather than on the premise of a subscription. Then, we will sell one-off products, and only those that prove to be very sellable will be made into a stable supply.

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Therefore, compared to the past, the time it takes to launch a product has been reduced by about one year or 1.5 years in the extreme. We are changing to this format because we know that products which become available for regular purchase after launch will sell to some extent, so the sales department can focus on products that we already know will sell.



This is about the increase in the number of product development projects.

Regarding the current situation, the number of new product releases has been low for the last several fiscal years, and the accumulation of sales has slowed down, but we believe that we will continue to release new products and stimulate new business.

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Current Situation and Future Developments

◆ Actively expand e-commerce malls

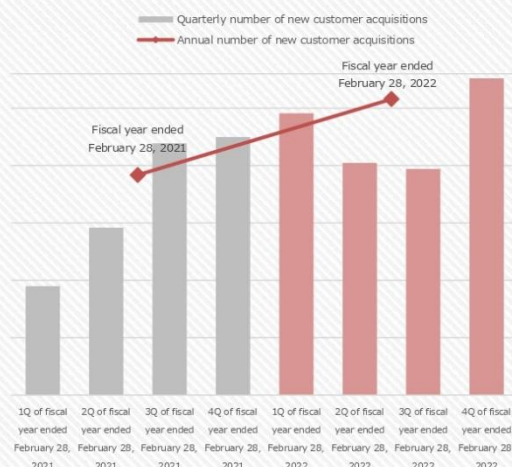
With the spread of COVID-19, consumers' purchasing behavior notably shifted away from conventional brick-and-mortar stores to e-commerce malls such as Amazon and Rakuten



E-commerce malls market growing rapidly

Strengthen sales at e-commerce malls

→ Focus more resources on e-commerce malls than ever to actively capture the growth in "e-commerce malls" trading zone



◆ Amazon

We continue efforts, recognizing it as an **important sales channel** for capturing overseas markets

Started product development for and test sales on Amazon U.S. to advance into the much larger market scale of Amazon U.S.

- ◆ Strengthen overseas development, including a new store opening at an e-commerce mall exclusively for Taiwan and consideration of a store opening at an e-commerce mall in Singapore

This is about the aggressive expansion of e-commerce malls.

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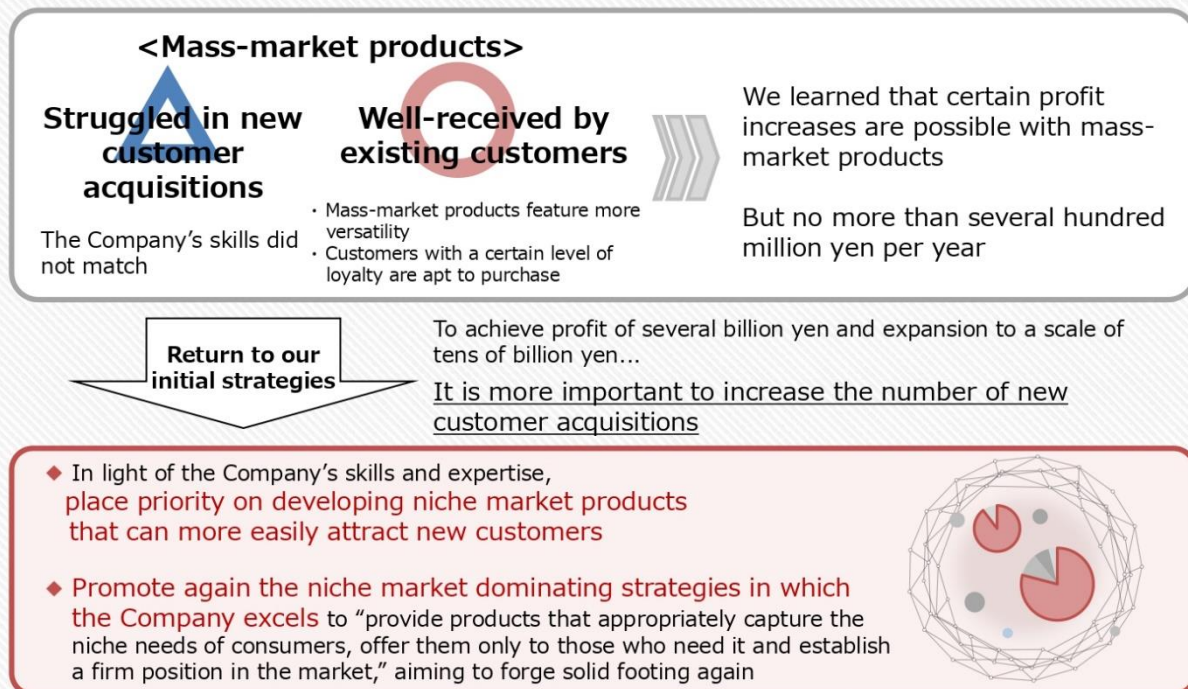
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Current Situation and Future Developments

◆ Return to our initial strategies



This is the part where we are trying to regress our strategy.

About a year ago, we launched products aimed at the mass market, and we were planning to shift our focus to the mass market, but as a result, we have had a very difficult time attracting new customers. I don't think mass market products were bad at all, but they didn't match the skills we have.

We ourselves were originally working to be efficient in niche markets. Although we were able to acquire new customers for the mass market, the cost of acquiring these new customers was much higher than expected.

We were doing well with existing customers, so we thought mass-marketing products would sell to existing customers very well without the cost of attracting customers, because of the wide target audience. However, although I felt a certain increase in profit from mass-market products, I thought that the limit for existing customers alone, not new ones, would be about several hundred million a year.

We decided that increasing the number of new customers was important for future expansion, and changed our policy to once again prioritize the development of niche market products that will easily bring in new customers based on our skills and know-how.

In order to regain our footing, we are restating our strategy, saying that we will once again promote our niche-top strategy, which is what we do best, in order to deliver products that accurately meet the niche needs of those who need them, and to build our position within the market.

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Current Situation and Future Developments

◆ Diversification of revenue base and acceleration of growth through aggressive M&As

Our policy is to aggressively engage in M&A of companies that operate the same D2C and E-commerce businesses as the Company that offer high-quality products but are limited on funds and personnel, and where the introduction of the Company's expertise and management resources can establish scale benefit and synergies.

Genres of new businesses will be limited to fields where the Company's expertise can be applied (mail orders, online sales, beauty and health, etc.)

◆ Solicitation of aspiring entrepreneurs who want to start new D2C businesses

Expand business scale while developing multiple businesses with net sales over ¥10.0 billion

- Actively hire personnel who possess excellent business plans and passion for entrepreneurship.
- Founder and current Representative Director & President, Katsuhisa Kinoshita, provides a first-hand account of his own personal expertise.
- Launch new businesses by supporting aspiring entrepreneurs who show promise and share the Company's vision and purpose.



<Current>

- Established the New Business Planning Office in the previous fiscal year and released the new SPADE and MENVE brands
- Actively collect information and evaluate M&A of D2C and E-commerce companies that meet the Company's conditions

<Future>

Continue to actively engage in the further business expansion and profitability improvement

We will also proactively diversify our earnings base and accelerate growth through M&A. We intend to aggressively pursue M&A of companies that can achieve economies of scale and generate synergies by investing our know-how and management resources in companies that, like us, have high-quality products in the D2C and EC businesses, but have limited financial and human resources. New business genres will be developed only to the extent that our know-how can be applied.

And where we are looking for aspiring entrepreneurs who want to start new D2C businesses, we will aim to expand the scale of our business by developing multiple businesses with sales of JPY10 billion or more. At this point, we have already released an electronic cigarette called SPADE and a men's cosmetic called MENVE.

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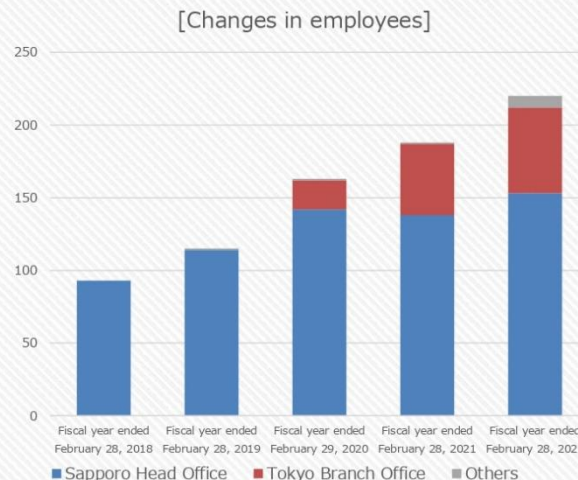
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Current Situation and Future Developments

- ◆ Strengthen recruitment by making the Tokyo Branch Office into a Head Office

Recruitment of middle positions, experienced staff and specialist staff, which is our long-standing issue, has successively succeeded, thanks to efforts focused on human resource development

- ◆ Person with experience in advertising contents for EC and mail orders
- ◆ Person with experience in controlling a customer division
- ◆ Person from the Japan Fair Trade Commission
- ◆ Person with qualification as a lawyer and a patent attorney
- ◆ Person with experience in formulation development of cosmetics



July 2022 **Make the Tokyo Branch Office into a Head Office**

Shift to a double headquarters system: Sapporo Head Office and Tokyo Head Office

→ **Further strengthen recruitment to acquire personnel with a focus on experienced persons**

Additionally, with the strengthening of recruitment by making the Tokyo branch office the head office, the Tokyo branch office was upgraded to the Tokyo head office this past July. We have a two-head office system: the Tokyo head office and the Sapporo head office. The Tokyo headquarters is located at the Kabukiza Tower in the middle of Ginza. The main objective is recruitment. This has greatly enhanced our ability to recruit, and the number of applicants has increased greatly. The quality of applicants is just beginning to improve, and we believe our strategy has worked.

The following slides are for reference only. We hope you will take a look at them.

That's all from me. Thank you very much.

Moderator: Thank you, President Kinoshita.

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Question & Answer

Moderator [Q]: Okay, I will read the first question.

What was the reason that the number of new clients acquired exceeded expectations?

Please answer the question.

Kinoshita [M]: I thought I explained it well, but was it hard to get the message across? I would appreciate it if you could be a little more specific in your question. I wonder if this is going to be a chat only.

Kudo [M]: Yes, chat only. We received this question quite early, so if you still have any additional questions now that you have listened to the explanation, please ask us.

Moderator [Q]: We will now move to the next question: whether the development and training of the creative department that has been undertaken to date has reached the targeted state.

Kinoshita [A]: I wouldn't say it's perfect, but it's coming along pretty well. The hiring part is going very well, and we are getting quite a few applications from people with experience. We have been able to recruit new employees, and although our training system is not yet perfect, it has been improved considerably, and I believe that we have been able to provide better training than in the past, and have considerably improved the level of our workforce.

I also think that the evaluation system we have put in place has been very effective. It is difficult to evaluate each individual in attracting new customers through advertising, and I don't think there are many other companies that are able to evaluate each individual.

For example, in the actual situation of mail-ordering, you have an advertisement on the Internet. When you click on an ad, you usually go to a page, but nowadays mainstream Internet users usually go to a bridge page, read a description of the product on the bridge page, and then click again to reach a sales page, where they make a purchase.

When we received one new order for a product, we created an evaluation system in which everyone who created this ad, the bridge page, and the sales page would receive 1/3 of the total number of orders, or 0.33 points each.

So, until then, someone made an ad, placed it, and improved a result. But we were not able to tell who produced what and how it led to results, so we made it possible for each individual to see the results of what he or she produced and how much was achieved.

Then there is the ad management team; after we actually place the ads, we tune them up to get the best results. For example, if we want to maximize the number of acquisitions, we can acquire more and more if they exceed the maximum CPO limit while ignoring the budget. However, we ourselves manage not to exceed the maximum budget limit, but it is not something that can be limited in real time, and we inevitably rely on the personnel in charge of ad management.

When the evaluation indicator here was changed to the number of cases acquired within the maximum CPO budget minus the number of cases acquired in excess of the maximum CPO, there were no more cases that exceeded the maximum CPO, and the number of cases acquired within the maximum CPO was expanding rapidly.

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By establishing a system in which each person's work can be evaluated numerically, we can now see what each person should do and in what order of priority, and we can see who is really the most active and who is contributing the most.

This has made things much easier for staff members, and in some cases, the more detailed the structure is, the better the results from staff members. We are in the process of establishing this kind of organization system. So, I would not say that we have reached completion, but I think that we are getting very close to completion.

Moderator [Q]: Thank you very much. I will now read the next question.

It seems that existing products such as Clear Nail Shot and Hyalo Deep Patch performed well from June to August. Were there any transitory factors such as seasonal factors or reopening of the market?

Kinoshita [A]: Almost never. As I mentioned earlier, it is almost entirely an internal factor, where there are not many seasonal factors in the first place. This is where the growth is really due to internal factors rather than seasonality. That's all from me.

Moderator [Q]: Thank you very much. The following question will be read.

The number of new clients acquired from June to August has been increasing each month; do you expect a similar trend to continue?

Kinoshita [A]: I can't say for sure, but I think it is mostly an internal factor. We have just released a very new advertisement, yes. But at a certain rate, this will be exhausted, so there is a need to keep coming up with new things.

I don't think we will see a sudden decline, but in a sense, this is an industry that is quite changeable. So I can't say it won't happen at all, but for now, I think it will continue as it is, and I hope it will. But I will avoid making any assurances.

Moderator [Q]: Thank you very much.

The next question is whether the subscription customer retention and churn rates from new customers would remain the same as in the past.

Kinoshita [A]: We are measuring data every month, but if we are too reckless in acquiring new customers, the data may drop. So far, however, there has been no drop, so I think we are doing okay in that respect.

Moderator [Q]: Thank you very much.

Let me read out the following question.

What is the percentage of mall sales in H1 of this fiscal year?

Kinoshita [M]: How much will this be? Mr. Kudo, would you know?

Kudo [A]: About 10% of all sales are through malls.

Moderator [Q]: Thank you very much.

The following question will be read.

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You have revised your financial results upward. Will you be increasing the dividend from JPY1.5 for the full year?

Kudo [A]: We are considering that as well, and we will continue to examine it while looking at the full-year results.

Moderator [Q]: Thank you very much.

I will now move on to the next question.

You mentioned that you are going to take action to raise prices in response to the cost increase due to the weak yen. Can you cover the cost increase even with the current level of yen depreciation, and avoid an increase in the cost ratio?

Kinoshita [A]: To be honest, it is difficult to say. Even in the last few days, the yen has weakened considerably. If we raise prices, the cost ratio itself can be maintained, but too high price rises can affect sales. Therefore, I think there is a choice between maintaining the cost to sales ratio and not raising the price to that level out of fear that it will lower sales, but I honestly cannot say at this point.

However, the impact of the weaker yen is almost exclusively on SALONMOON. The J North Farm itself is hardly affected, so we do not expect the impact on the whole to be that great.

Moderator [M]: Thank you very much.

Those are all the questions we have now, but does anyone have any additional questions?

Since there seem to be no additional questions at this time, this concludes the presentation of the financial results for Q2 of the fiscal year ending February 28, 2023 of Kitanotatsujin Corporation. Thank you for taking time out of your busy schedule to join us today.

Kinoshita [M]: Thank you.

Kudo [M]: Thank you very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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