Kitanotatsujin Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending February 2024

October 17, 2023

Event Summary

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[Venue]	Webcast	
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[Participants]		
[Number of Speakers]	2 Katsuhisa Kinoshita Takahito Kudo	 Representative Director & President Managing Director, General Manager of Administration Department
[Analyst Names]*	Katsuro Hirozumi	Daiwa Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: The time has arrived, and we will now begin the presentation of the financial results of Kitanotatsujin Corporation for Q2 of the fiscal year ending February 28, 2024.

Prior to the start of the session, I would like to inform you that questions will be answered during the Q&A session following the presentation. We will accept your questions in audio and text, but only text questions can be sent in the middle of an explanation. Text questions can be sent by clicking the Q&A button at the bottom of the screen. Please note that we will not read out the names of those who have asked questions via text.

Instructions on how to ask questions via audio will be provided during the Q&A session. Due to time constraints, we may not be able to answer all questions, but we will be accepting questions in a questionnaire after the event, and all questions, including answers, will be posted on the official company website at a later date. Please note that the chat function is not available. This briefing is scheduled to end at 4:30 PM.

Next, I would like to introduce the two attendees for today's meeting. Katsuhisa Kinoshita, President and Representative Director. Takahito Kudo, Managing Director and General Manager of the Administration Department.

Mr. Kinoshita will give you a presentation.

Executive Summary

- For the six months ended August 31, 2023, compared to the financial results forecast, net sales reached ¥7,833 million (up 1.2%) and operating profit came in at ¥442 million (down 29.9%).
- Although the number of new customer acquisitions in the second quarter declined in comparison to the first quarter, there was a significant increase in sales profit due to the stable accumulation of regular sales.
- In comparison to the financial results forecast, performance in other brands was strong and SALONMOON remained steady.

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Kinoshita: I would like to begin the presentation of financial results for Q2 of the fiscal year ending February 2024.

I am Katsuhisa Kinoshita, President and Representative Director of Kitanotatsujin Corporation. Thank you.

Here is an executive summary.

For the six months ended August 31, 2023, net sales were JPY7.83 billion, up 1.2% from the forecast, and operating profits were JPY442 million, down 29.9% from the forecast.

Although the number of new acquisitions in Q2 was lower than in Q1, operating profits increased significantly due to a strong accumulation of regular sales.

Compared to the forecasts, other brands performed well and SALONMOON remained strong.

Consolidated

Reflecting on the first quarter

- The number of new customer acquisitions showed steady growth, and net sales for the first quarter came in at ¥3,931 million (up 86.9% year on year).
- The enhancement of upfront advertising investment went forward as planned in order to increase future profit.
- Advertising expenses exceeded the financial results forecast by ¥320 million due to a significant increase in advertising expenses as driven by increased advertising investment.
- Net sales exceeded the financial results forecast by ¥96 million to reach ¥3,931 million (up 2.5%) while operating profit was lower by ¥323 million to -¥26 million (down 109.0%).

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Now, the highlights of Q2 of the fiscal year ending February 28, 2024.

First of all, I would like to reflect on the results of Q1 here.

Q1 and Q2 are, of course, connected. In Q1, the number of new clients acquired increased steadily, and the Q1 sales increased 86.9% over the previous year to JPY3.93 billion.

We expanded our advertising investment, an upfront investment, for future profit growth according to our plan. Thus, advertising expenses increased significantly and exceeded the forecast by JPY320 million. Net sales for the quarter were JPY3.93 billion, JPY96 million above the forecast, and operating profit was lower by JPY323 million to JPY26 million below the forecast.

In Q1, we increased up-front investment as the number of new customers increased, and as a result, profits decreased. As we invested more in advertising, sales in Q1 and Q2 increased.

Consolidated Key Performance Highlights [Compared with Forecasts]

(Millions of yen)

	Consolidated forecast for the second quarter	Results for the second quarter	Changes	Changes (%)
Net sales	7,743	7,833	+90	+1.2%
Gross profit	5,739	5,768	+28	+0.5%
Selling, general and administrative expenses	5,107	5,325	+217	+4.3%
Advertising expenses	3,126	3,257	+130	+4.2%
Operating profit	631	442	-188	-29.9%
Operating profit margin	8.2%	5.7%	-2.5 pts	
Ordinary profit	632	454	-178	-28.1%
Profit attributable to owners of parent	420	302	-117	-28.0%

- The main factor contributing to net sales was the expanded performance by other brands and SALONMOON.
  <Non-consolidated: +¥34 million (J NORTH FARM: -¥45 million, other brands: +¥80 million)><SALONMOON: +¥49 million><Other: +¥5 million>*1
- Selling, general and administrative expenses increased overall due to a significant increase in order-linked costs*2 in addition to advertising expenses coming in higher that the forecast.

*1 Actual amounts without adjustments for elimination of intersegment transactions, etc.
*2 Expenses that must be incurred for orders, including credit card transaction fees, shipping, packaging materials costs, enclosures and accessories, etc.

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The actual results for the two quarters, sales were JPY7.83 billion, up JPY90 million from the forecast.

Advertising expenses increased by JPY130 million, which increased high in Q1, but not as much as in Q2. So, there was only a slight increase as a total.

Operating profit was slightly lower at JPY442 million versus the forecast of JPY631 million. The impact of the Q1 result continued, but the result of Q2 has improved as I mentioned earlier. I would say the differences here are decreasing.

The same applies to ordinary profit.

Consolidated

Net sales by segment and brand

(Millions of yen)

Segment	Brand name	FY2024		
		1Q	2Q	Six months ended August 31, 2023 (total)
Health & Beauty Care business	北の快適工房 J NORTH FARM	3,558	3,431	6,989
	SALON MOON Pro	226	195	422
	Other brands	37	158	195
Others	-	108	116	225
Total		3,931	3,902	7,833

* 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.

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Next, net sales by segment and by brand.

Health and beauty care and other businesses. Other businesses mainly refer to FM NORTH WAVE, the management of the radio stations.

Health and beauty care includes a business brand of J NORTH FARM and other brands, both are run by Kitanotatujin Corporation.

SALONMOON is a brand run by our subsidiary, SALONMOON, and these are sales figures in Q1 and Q2. I can say that other brands have been growing significantly.

Non-consolidated

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

Sales profit = gross profit – sales promotion expenses, etc.

(Order-linked costs + New customer acquisition expenses*)

- Significantly impacted by the status of new customer acquisitions as new customer acquisition expenses vary based on changes in the number of new customer acquisitions.
- Decrease in sales profit due to increase in new customer acquisition expenses is a positive factor.

Operating profit

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"

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

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Let's move on to the analysis of operating results.

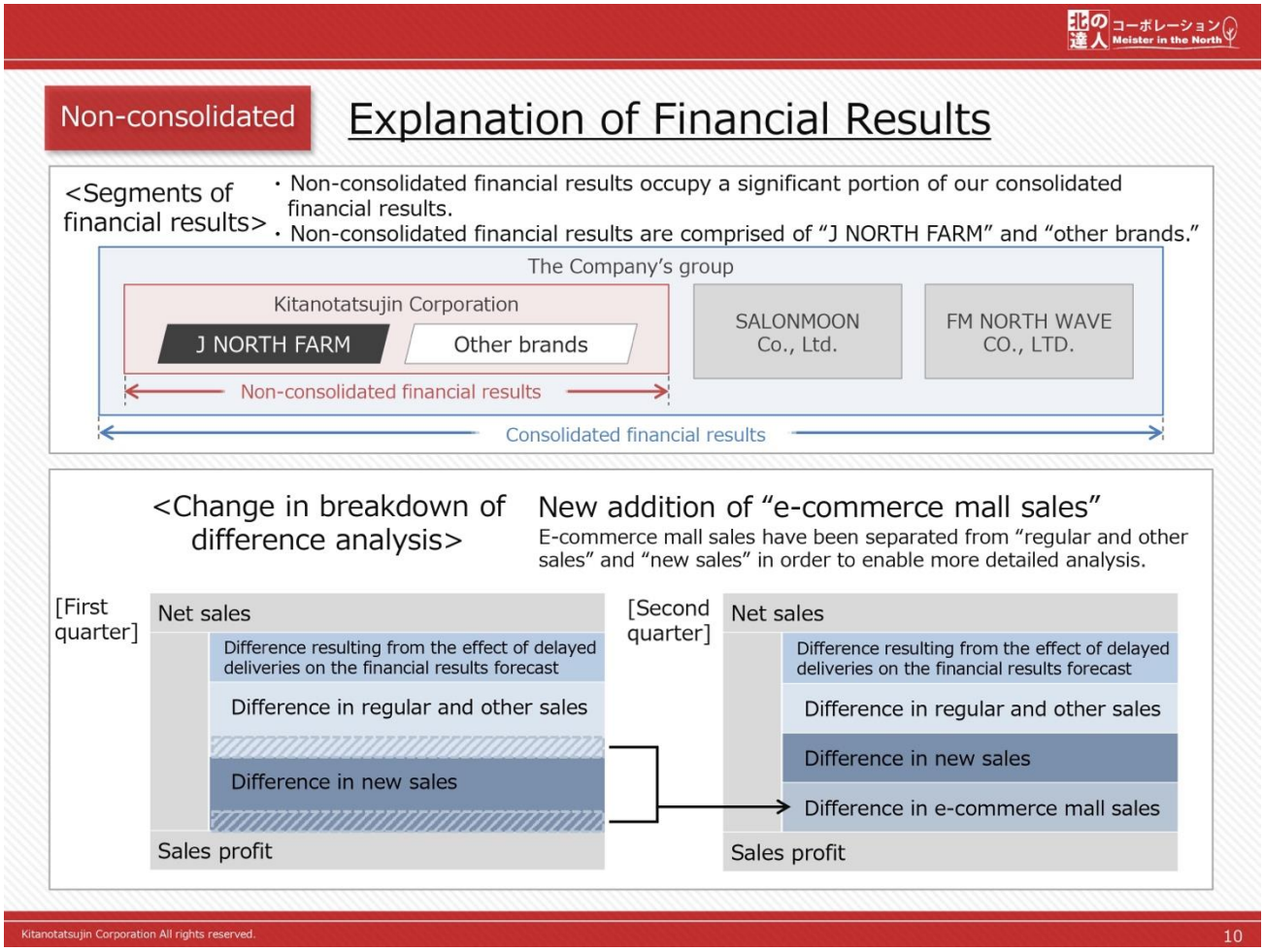
First of all, we have our own unique management accounting method for better understanding of our business. Rather than focusing on operating profit, which is of course related to this method, we focus on sales profit.

Sales profit is obtained by subtracting gross profit excluding costs such as sales promotion from sales from net sales, as shown in the table here.

In the mail order business, the more we spend on sales promotion, the more sales we can increase. We focus on this sale profit to carefully watch the relationships between sales promotion expenses and net sales. We implement this method to avoid the risk of a sales increase with no profit increase.

Operating profit is obtained by subtracting management expenses such as operating, personnel, and other expenses from sales profit.

So we are looking at these figures separately from SG&A expenses, which includes all of the costs such as personnel, operating, and sales promotion expenses.



Let's move on to the non-consolidated results.

Kitanotatsujin Corporation operates J NORTH FARM and other brands as well as SALONMOON and FM NORTH WAVE as subsidiaries. Since the business scale of FM NORTH WAVE is minor, I would like to explain about these three businesses.

I would also like to talk about our businesses in terms of these four categories. Let me explain sales recorded by dividing them into four categories: differences resulting from the effect of delayed delivers on the financial results forecast, difference in regular and other sales, differences in new sales, and differences in e-commerce mall sales.

Non-consolidated

Key Performance

<Compared with first quarter>

(Millions of yen)

	Non-consolidated		
	Results for the first quarter	Results for the second quarter	Changes
Net sales	3,596	3,589	-6
Gross profit	2,752	2,730	-21
Sales promotion expenses, etc.	2,128	1,625	-502
Sales profit	624	1,104	+480
Operating profit	-38	470	+508

J NORTH FARM

- The number of new customer acquisitions was strong in the first quarter but declined in the second quarter, while there was a stable accumulation of regular sales.
- Although net sales decreased, there was also a significant decrease in sales promotion expenses, etc. and an increase in sales profit.

Other brands

- Growth of net sales significantly exceeded expectations and sales profit increased as well.

(Millions of yen)

	J NORTH FARM			Other brands		
	Results for the first quarter	Results for the second quarter	Changes	Results for the first quarter	Results for the second quarter	Changes
Net sales	3,558	3,431	-127	37	158	+120
Gross profit	2,731	2,643	-88	20	87	+66
Sales promotion expenses, etc.	2,032	1,531	-500	96	94	-1
Sales profit	699	1,112	+412	-75	-7	+68

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First, the comparison with Q1.

Q2 result was JPY3.58 billion, slightly lower than JPY3.60 billion in Q1.

As sales promotion expenses decreased by JPY502 million and sales did not increase. The decrease in sales promotion expenses resulted in an increase in sales profit of JPY480 million. Less promotional spending on an area where upfront investment has decreased means that it is not a positive profit increase compared to Q1. The lower costs contributed to the profit in the area where the upfront investment was not successful enough.

Non-consolidated | J NORTH FARM

Factors behind change in sales profit

<Compared with first quarter> (Millions of yen)

	Results for the first quarter	Results for the second quarter	Changes
Net sales	3,558	**3,431**	-127
● Difference resulting from the effect of delayed deliveries on the financial results forecast			
Net sales	188	-	-188
Gross profit	144	-	-144
Sales promotion expenses, etc.	18	-	-18
Sales profit	125	-	-125
● Difference in regular and other sales			
Net sales	2,035	**2,394**	+359
Gross profit	1,576	**1,848**	+271
Sales promotion expenses, etc.	98	**128**	+29
Sales profit	1,477	**1,720**	+242
● Difference in new sales			
Net sales	909	**640**	-268
Gross profit	654	**460**	-194
Sales promotion expenses, etc.	1,806	**1,305**	-501
Sales profit	-1,152	**-844**	+307
ROAS*1	52.7%	**51.7%**	-
● Difference in e-commerce mall sales			
Net sales	426	**395**	-30
Gross profit	356	**334**	-21
Sales promotion expenses, etc.	108	**98**	-9
Sales profit	248	**236**	-12
Sales profit	699	**1,112**	+412

Difference occurred in the second quarter due to this situation being recorded in the first quarter.
An incorrect amount was included in the forecasts, representing sales that were expected to be recorded for the current fiscal year for some products that had delayed deliveries.

Steady accumulation of regular sales due to strong new customer acquisition from the first quarter.
→ Net sales and profit both increased

The number of new customer acquisitions fell below expectations and sales decreased.
Sales profit increased as sales promotion expenses, etc. also decreased due to the reduction of advertising investment.
→ Decreased upfront investment in new customer acquisition for gaining regular sales in the future; not a positive factor for increasing profit

- "New customers from e-commerce malls" and "repeat purchases" are interconnected, and new sales from e-commerce malls are also linked to the above new sales.
- "Start handling new products"
  "Resume sales of products that had been suspended due to taking orders over production capacity"
  "Utilize mall fulfillment services*2," etc.

→ While new sales landed at -30%, **e-commerce mall sales remained at -7%**

*1 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 ¥900 thousand of sales was generated, the ROAS is 0.90 (90.0%). 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.

*2 Services provided by each e-commerce mall to cover a sequence of operations including product storage, order processing, packaging, and shipping.

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We have J NORTH FARM and other brands as business segments. These are the figures here.

I would like to explain about our main business, J NORTH FARM.

Net sales in Q1 here for the difference resulting from the effect of delayed deliveries includes those for reservations received at the end of the last fiscal year despite product shortages (promotion expenses not recorded in the last fiscal year). In Q2, the shortages resolved and there are no figures recorded there. Due to no sales in this segment resulted in lower profit by JPY125 million, and sales decreased by JPY188 million.

Sales of regular purchases and other repeat sales have increased by JPY359 million. As I mentioned earlier, we saw strong new customer attraction in Q1. We saw an increase in subscription purchases in Q2 from the higher- than-expected-number of new customers gained in Q1. As a result, we achieved a sales gain of JPY359 million, and sales profit was up JPY242 million.

New sales were JPY909 million in Q1 of the last fiscal year, but were JPY640 million in Q2, which means that new customer attraction itself was a little lower than expected and has been on a declining trend.

Sales profit was up by JPY307 million because the advertising and sales promotion expenses were lower than the previous year's amount by JPY501 million. As I mentioned earlier, this is not a positive factor, as it is due in part to the fact that we have reduced advertising expenses, our upfront investment.

In Q1, profit decreased due to higher-than-expected advertising expenses, but this decrease was due to a positive factor, whereas profit increased in Q2 due to a negative factor. Please understand that the sales profit

of this new sales is often increased from a forecast or compared to a previous period due to this negative factor.

Here is the difference in e-commerce mall sales. In e-commerce malls, there is a certain degree of linkage with new sales. We run a lot of ads for our own site and a certain percentage of which will flow to the e-commerce mall, so there is a linkage to some extent. So, since sales have decreased by this amount from here to here, sales at e-commerce malls have also decreased slightly.

Anyway, the e-commerce malls have both new and fixed customers, so sales have not dropped to this level, but have fallen slightly. New sales were down 30%, while e-commerce mall sales were down only 7%. As a result, sales profit was up by JPY412 million.

Non-consolidated

Key Performance

<Compared with financial results forecast for the second quarter>

(Millions of yen)

	Non-consolidated		
	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	3,596	3,589	-7
Gross profit	2,762	2,730	-32
Sales promotion expenses, etc.	1,766	1,625	-140
Sales profit	996	1,104	+108
Operating profit	338	470	+132

J NORTH FARM

- Sales from new customers decreased due the number of new customer acquisitions falling below expectations.
- An increase in returns after product shipment also made an impact.
- Sales profit increased due to reduced advertising investment.

Other brands

- Sales profit was lower than the financial results forecast due to advertising investment that exceeded expectations as new customer acquisitions remained strong.

(Millions of yen)

	J NORTH FARM			Other brands		
	Forecast for the second quarter	Results for the second quarter	Changes	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	3,525	3,431	-94	71	158	+87
Gross profit	2,714	2,643	-70	48	87	+38
Sales promotion expenses, etc.	1,717	1,531	-185	49	94	+45
Sales profit	997	1,112	+114	-0	-7	-6

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These are the actual results of Q2 compared to the forecasts.

Non-consolidated | J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the second quarter>

(Millions of yen)

	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	3,525	**3,431**	-94
● Difference resulting from the effect of delayed deliveries on the financial results forecast			
Net sales	-	-	-
Gross profit	-	-	-
Sales promotion expenses, etc.	-	-	-
Sales profit	-	-	-
● Difference in regular and other sales			
Net sales	2,414	**2,394**	-19
Gross profit	1,894	**1,848**	-45
Sales promotion expenses, etc.	118	**128**	+9
Sales profit	1,775	**1,720**	-54
● Difference in new sales			
Net sales	748	**640**	-107
Gross profit	518	**460**	-58
Sales promotion expenses, etc.	1,508	**1,305**	-203
Sales profit	-989	**-844**	+145
ROAS	50.8%	**51.7%**	-
● Difference in e-commerce mall sales			
Net sales	362	**395**	+32
Gross profit	301	**334**	+32
Sales promotion expenses, etc.	89	**98**	+8
Sales profit	211	**236**	+24
Sales profit	997	**1,112**	+114

◆ Regular sales were 0.8% lower than the financial results forecast.

・"Regular sales in the second quarter from customers acquired in the first quarter" exceeded the financial results forecast, and there was a stable accumulation of regular sales due to upfront investments.
・New sales in the second quarter were lower than the financial results forecast and "regular sales in the second quarter from customers acquired in the second quarter" fell below expectations.
・Unexpected amount of returns after product shipment
Enhancing the skills of the Creative Department in FY2023 contributed to increasing the appeal of created ad content, but this in turn also resulted in an increase in impulse purchases and mistaken orders by new customers which led to an increase in returns and cancellations.

→ Reevaluate the results of ad content and optimize wording to avoid impulse purchases or mistaken orders

◆ Sales profit was also lower than the financial results forecast as a result of recording unplanned appraisal and retirement losses.

New customer acquisitions decreased in the second quarter.
Although ROAS improved 0.8%, advertising investment did not progress as expected.
→ Sales from new customer acquisitions were lower than the financial results forecast

Sales promotion expenses, etc., also decreased primarily due to reduced advertising expenses.
→ Sales profit exceeded the financial results forecast

Although sales profit exceeded the financial results forecast, upfront investment in new customer acquisition for gaining regular sales in the future has decreased, which is not a positive factor for increasing profit.

・Start handling new products
・Resume sales of products that had been suspended due to taking orders over production capacity
・Utilize mall fulfillment services
→ Sales profit exceeded the financial results forecast

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I would like to go into some of the details.

As for sales, the difference is JPY94 million. And as for the business forecast, it was not originally incorporated into the forecast. No figures are included. Sales of subscriptions were slightly lower by JPY19 million, or 0.8%, but there are very complicated factors involved here, so I would like to explain them one by one.

First, as I mentioned earlier, we had a very large number of new customers acquired in Q1, which means that regular sales in Q2 were higher than expected for new customers who we acquired during Q1. On the other hand, we attracted fewer new customers than expected in Q2, which means that sales of the Q2 subscriptions from newcomers in Q2 were lower than expected. This is a factor behind the negative result.

We had expected to some extent that the number of new customers would be strong. We were also able to attract new customers because we were able to produce a lot of creative and appealing work and showed products in an attractive way or motivated customers to buy our products.

On the other hand, we have seen a certain percentage of impulse purchases or orders. Many of them had no intention of buying the product, but bought it unexpectedly, and the number of returns and cancellations by such customers increased more than expected. On the other hand, there were a few unplanned valuation losses and disposal losses, which resulted in a slight negative sales profit. The figures were higher than our expectation.

As for new sales, as I mentioned earlier, the number of new customers decreased. The number was down in Q2 after the strong trend in Q1. Compared to Q1, the number was down about 30%, which was the same level

as the original forecast. But actually, it was a little below than the forecast. On the other hand, ROAS itself has improved somewhat.

The advertising investment to attract customers was not fully used, resulting in lower investment than the budget by JPY203 million and positive sales profit of JPY145 million. Again, as I mentioned earlier, we were able to achieve a positive result, but not able to make full investment.

On the other hand, the result of e-commerce mall has been strong, exceeding the forecast for Q2, which is an increase of JPY114 million.

Non-consolidated

Key Performance

<Compared with financial results forecast for the six months ended August 31, 2023>

(Millions of yen)

	Non-consolidated		
	Forecast for the six months ended August 31, 2023	Results for the six months ended August 31, 2023	Changes
Net sales	7,150	7,185	+34
Gross profit	5,490	5,483	-7
Sales promotion expenses, etc.	3,524	3,754	+229
Sales profit	1,965	1,729	-236
Operating profit	642	432	-210

Sales profit of both "J NORTH FARM" and "Other brands" was lower than the financial results forecast due to an increase in advertising expenses as upfront investment for new customer acquisitions.

(Millions of yen)

	J NORTH FARM			Other brands		
	Forecast for the six months ended August 31, 2023	Results for the six months ended August 31, 2023	Changes	Forecast for the six months ended August 31, 2023	Results for the six months ended August 31, 2023	Changes
Net sales	7,035	6,989	-45	115	195	+80
Gross profit	5,416	5,375	-41	73	107	+34
Sales promotion expenses, etc.	3,433	3,563	+130	91	190	+99
Sales profit	1,983	1,812	-171	-17	-82	-65

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Non-consolidated | J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the six months ended August 31, 2023>

(Millions of yen)

	Forecast for the second quarter	Results for the second quarter	Changes
Net sales	7,035	6,989	-45
● Difference resulting from the effect of delayed deliveries on the financial results forecast			
Net sales	320	188	-132
Gross profit	246	144	-102
Sales promotion expenses, etc.	19	18	-0
Sales profit	227	125	-101
● Difference in regular and other sales			
Net sales	4,505	4,430	-75
Gross profit	3,539	3,425	-113
Sales promotion expenses, etc.	219	226	+7
Sales profit	3,319	3,198	-120
● Difference in new sales			
Net sales	1,490	1,550	+59
Gross profit	1,033	1,114	+81
Sales promotion expenses, etc.	3,018	3,111	+93
Sales profit	-1,984	-1,997	-12
ROAS	50.6%	52.2%	-
● Difference in e-commerce mall sales			
Net sales	718	821	+103
Gross profit	596	690	+94
Sales promotion expenses, etc.	175	206	+30
Sales profit	420	484	+63
Sales profit	1,983	1,812	-171

Only applicable in the first quarter.

- Although new customer acquisitions from the first quarter exceeded expectations in addition to the stable accumulation of regular sales, there was a significant impact from increases in returns and cancellations.
  → Sales were lower than the financial results forecast
- As a result of recording unplanned appraisal and retirement losses,
  → Sales profit was also lower than the financial results forecast

- Although the number of new customer acquisitions slowed in the second quarter, results in the six months ended August 31, 2023 exceeded expectations due to strong performance in the first quarter, and ROAS improved 1.6% compared to initial plans.
  → Sales exceeded the financial results forecast
- Advertising investment for new customer acquisitions is increasing, and order-linked costs have increased as well.
  → Sales profit was lower than the financial results forecast

Performance was stronger than expected, resulting in net sales and sales profit both exceeding the financial results forecast.

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Next, I would like to explain financial results for the six months.

Shipping delay occurred only in Q1. The difference between the forecast and actual result for the total of two quarters is JPY101 million. As I explained for Q1, this is recorded due to our mistake. The figure that should not have been included in the calculation originally was weighted in the calculation. JPY101 million was higher than expected, which has been corrected, resulting in a decrease of JPY101 million.

As for regular sales and other sales, as I mentioned earlier, new sales were higher than expected from Q1, and regular sales also were stronger than expected. On the other hand, Q2 was negatively affected by the failure to attract new customers and by cancellations and returns. So, the result were slightly below the forecast.

New sales faced a difficult situation in Q2. The Q1 was originally better than expected, and the cumulative total for new sales for Q1 exceeded the forecast.

As a result, the total sales amount was an increase of JPY103 million, and sales profit was a decrease of JPY171 million.

Of JPY171 million, JPY100 million is generated due to our incorrect calculation, and the rest is the result of the accumulation of these other factors.

Non-consolidated

J NORTH FARM

Factors behind change in sales profit

<Compared with financial results forecast for the three months ended May 31, 2023>

(Millions of yen)

	Forecast for the first quarter	Results for the first quarter	Changes
Net sales	3,510	3,558	+48
● Difference resulting from the effect of delayed deliveries on the financial results forecast			
Net sales	320	188	-132
Gross profit	246	144	-102
Sales promotion expenses, etc.	19	18	-0
Sales profit	227	125	-101
● Difference in regular and other sales			
Net sales	2,091	2,035	-56
Gross profit	1,645	1,576	-68
Sales promotion expenses, etc.	100	98	-1
Sales profit	1,544	1,477	-66
● Difference in new sales			
Net sales	742	909	+166
Gross profit	514	654	+139
Sales promotion expenses, etc.	1,509	1,806	+297
Sales profit	-994	-1,152	-157
ROAS	50.4%	52.7%	-
● Difference in e-commerce mall sales			
Net sales	355	426	+70
Gross profit	295	356	+61
Sales promotion expenses, etc.	86	108	+21
Sales profit	208	248	+39
Sales profit	986	699	-286

* Reference

Since the breakdown of the difference analysis has changed from the second quarter, comparisons with the financial results forecast for the first quarter have been arranged in the same format.

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For your information, here is a comparison of the forecasts and actual results for Q1.

Non-consolidated | Other brands

New Business Planning Office

Established to create major brands following J NORTH FARM and SALONMOON

- Program for launching new brands and D2C businesses
- Recruitment of multiple staff members who possess excellent business plans and passion for entrepreneurship

SPADE, a brand launched in October 2021

Handles a nicotine and tar-free e-cigarette that produces no secondhand smoke

- Marked its highest monthly sales in July 2023
- New customer acquisition was strong in the six months ended August 31, 2023, with investment in new customer acquisition expenses that exceeded projections; sales profit was lower than the financial results forecast as a result
  (Upfront investment is increasing; not a negative factor for decreasing profit)
- Despite an increase in new customer acquisition expenses, ROAS exceeded initial projections and the brand was able to enhance upfront investment while maintaining advertising investment efficiency

<Initiatives implemented in FY2024>

- **Device, etc. updates**
  Joint development with a company that is responsible for manufacturing devices for major e-cigarette manufacturers is expected to have the effect of significantly shortening lead times involved in the manufacturing process, improving cost rates, etc.
- **Ban lifted on advertisements for e-cigarette related products in major ad media sources where promoting these products had been prohibited**
- **Improvement of investment efficiency through the expertise accumulated from our long-standing ad media**
- **New ad placements for video content**

Continued monthly sales profit loss due to small business scale and high ratio of net sales occupied by sales promotion expenses with the recent launch of the brand.

Increase number of regular customers, improve ratio of regular sales

August 2023 Achieved positive monthly sales profit

→ **Stable revenue base projected for the future**

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These are other brands.

Here is a brand we launched in October 2021, called SPADE, which is a so-called electronic cigarette.

I think those who don't know much about e-cigarettes probably can't tell the difference between e-cigarettes and heated cigarettes. So-called normal cigarettes are called paper cigarettes. JT and others are offering heated cigarettes, which use electricity to actually inhale nicotine.

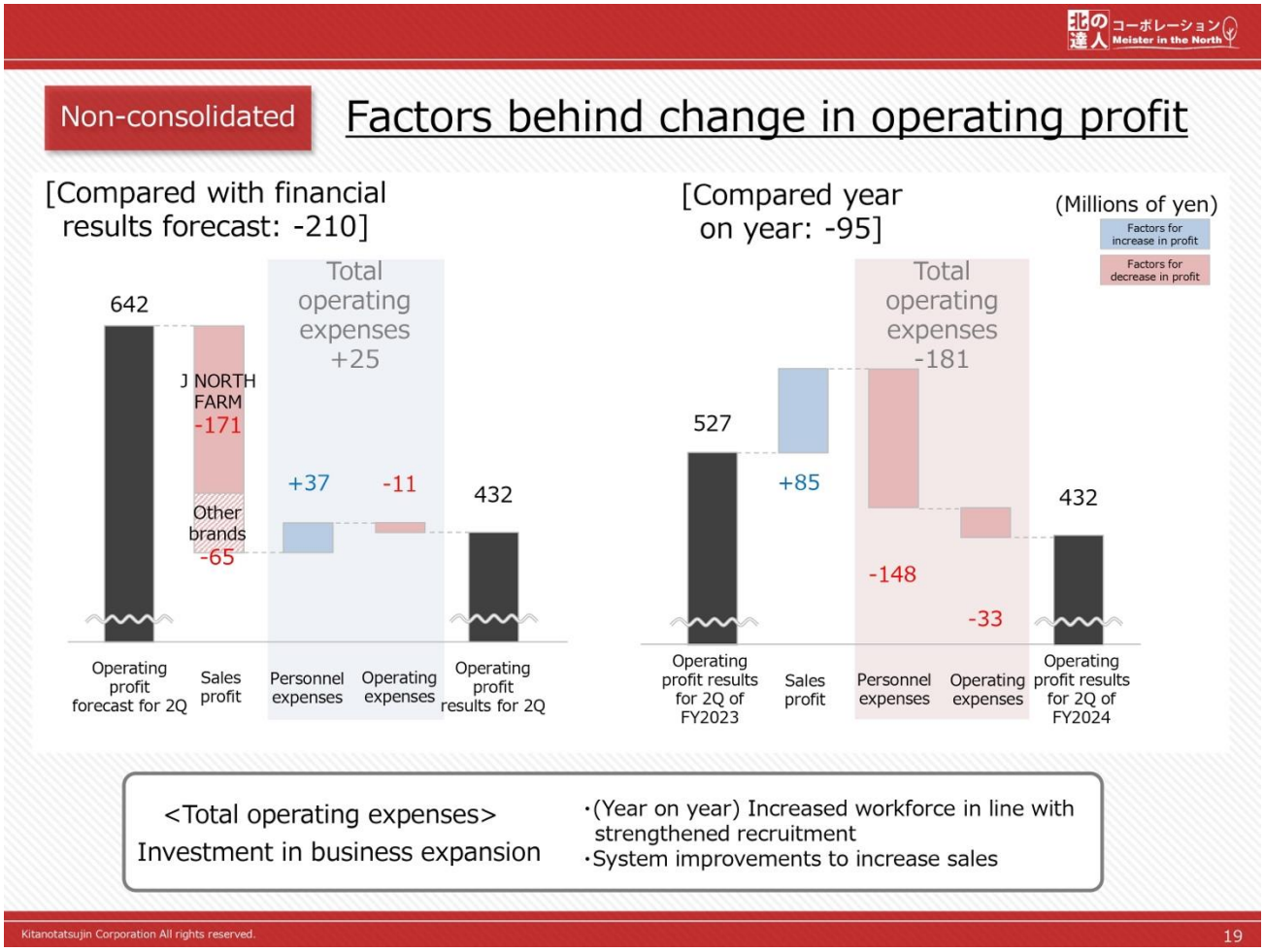
These e-cigarettes are different from so-called conventional cigarettes, which do not contain nicotine. It is an electronic cigarette, which does not contain nicotine, but tastes like nicotine. There are many people who use this product because they want to quit smoking, or because they really like it.

It has been about two years now since we have launched the product. Finally, it showed strong growth, recording our highest monthly sales in July 2023. As a total of two quarters, new acquisitions were strong, and the Company invested more in new acquisition than expected.

Sales profit was lower than the forecast, but as I mentioned earlier, new sales lower than a forecast means a positive factor for a profit loss as we are able to successfully invest on advertising.

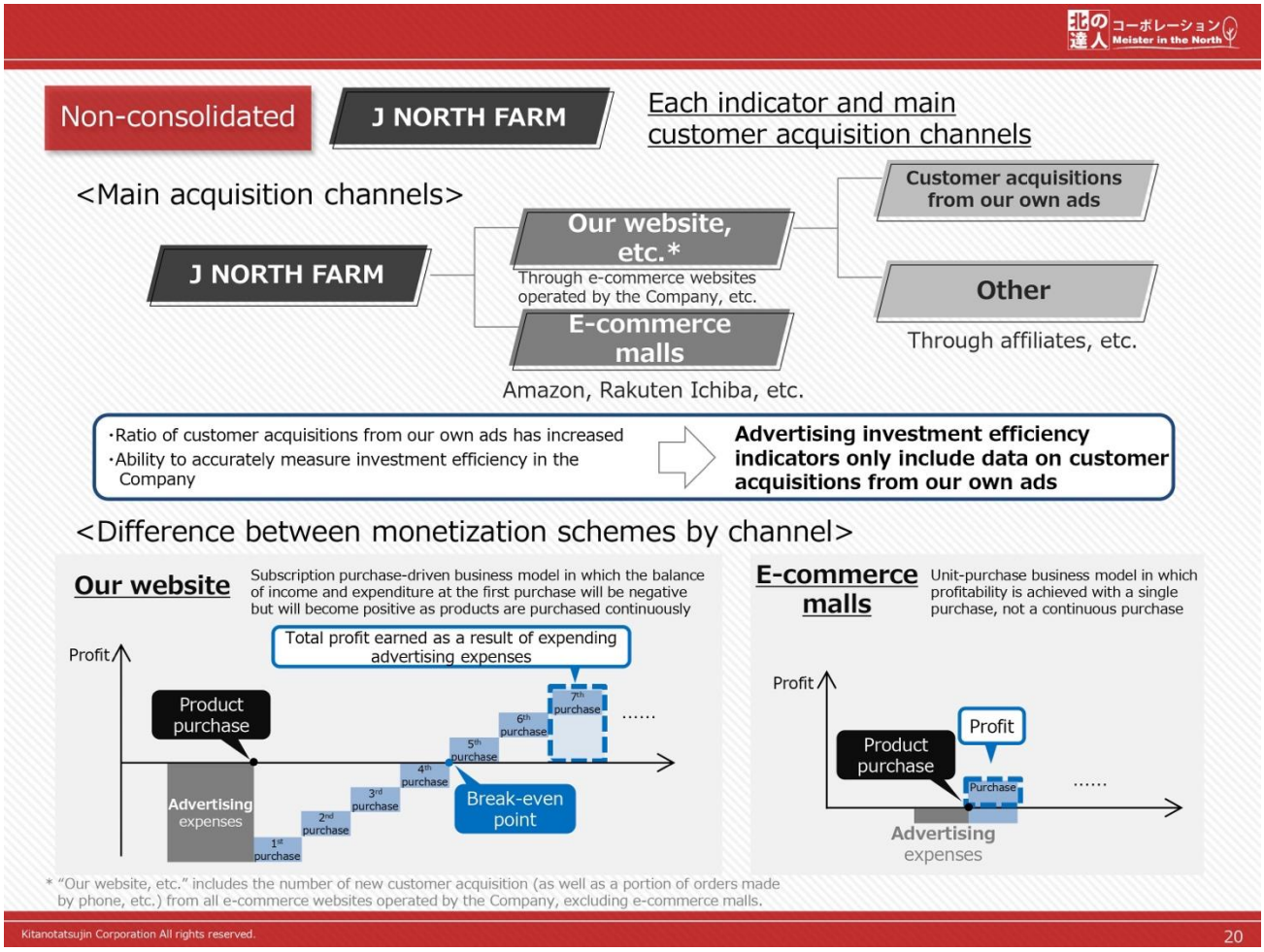
Although we increased the cost of new acquisitions, ROAS, which refers to sales recovered in relation to advertising expenses, exceeded our initial expectations, and we were able to expand our upfront investment while maintaining advertising investment efficiency.

In a single month of August 2023, we were able to achieve profitability in sales profit, we expect the business will achieve a stable profit structure in the future.



Here are factors behind an increase or decrease in operating profit.

Please see this slide. Colored factors are those that reduce profit, and these are the factors that increase profit. Here is the YoY comparison.



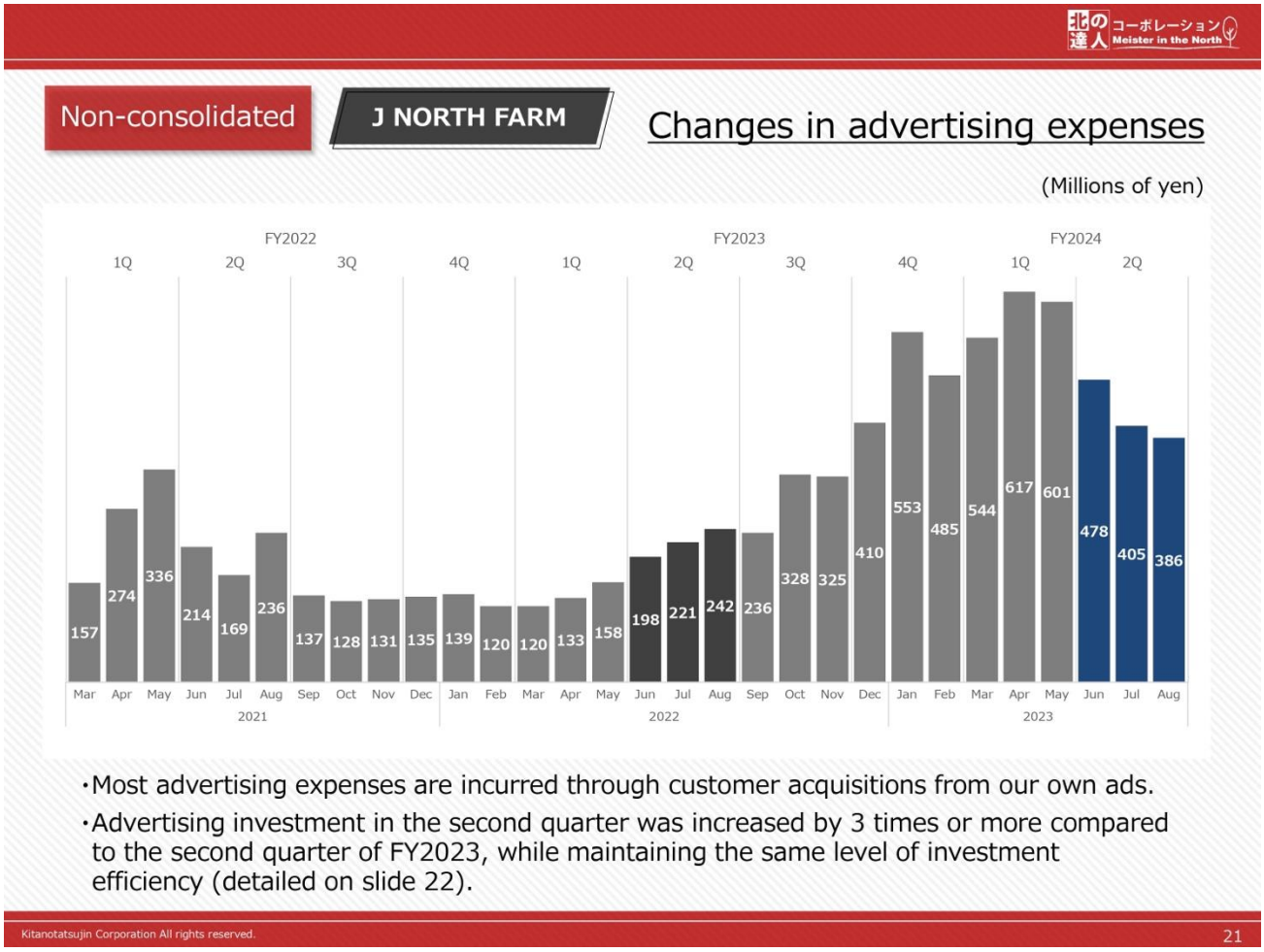
The next slide describes indicators of J NORTH FARM and other main acquisition channels.

J NORTH FARM attracts customers through its own website and e-commerce malls. For our own website, we focus on regular purchases, so our business model has a very high repeat rate for regular purchases. For example, even if we invest in advertising at the beginning and make a loss on the first order, the business model allows us to accumulate a profit later when customers regularly make purchases.

So, for example, if a product is sold at JPY3,000 and it costs JPY10,000 per customer to attract customers, the first order costs JPY7,000 (in the red), but this business model will become profitable later on as more and more people make regular purchases. Therefore, as I mentioned earlier, when the number of new customers is strong, the costs are significantly higher at that time. However, once up-front investment has been made, we can receive a positive return later.

At e-commerce malls, many customers make a single purchase. It is difficult to make a profit by spending so much on advertising, since the same customer will not order repeatedly. On the other hand, e-commerce malls themselves are places where customers visit to buy things, so the cost of acquiring a single customer is very low.

Simply put, our own website and e-commerce malls are totally different business models: we can spend a large amount of advertising for our own website owing to large LTV, or a purchase amount per customer, but for e-commerce malls where only a small purchase amount per customer is expected, advertising costs are low.



This shows changes in advertising expenses of J NORTH FARM.

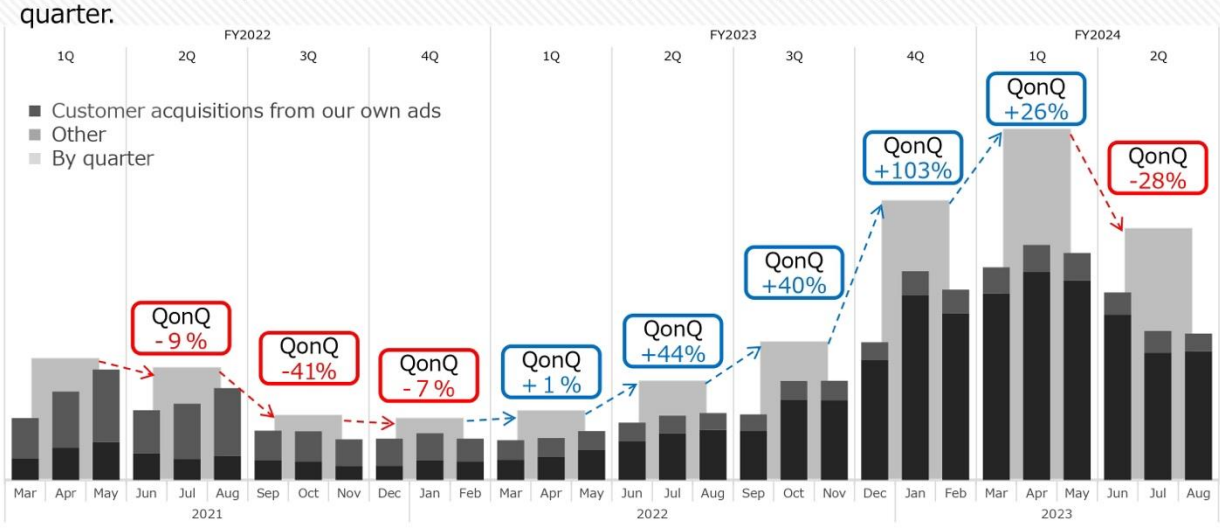
The more you spend on advertising, the more you can assume that you are doing well in attracting new customers. In terms of short-term profit, the business may be in the red, but we have been successful in some investments. The expenses were slightly lower in Q2 compared to Q1.

Non-consolidated

Our website, etc.

Changes in number of new customer acquisitions

- The number of new customer acquisitions for the second quarter increased 155% year on year and decreased -28% quarter on quarter.
- Customer acquisitions from our own ads increased until the first quarter of FY2024 due to efforts to take our customer attraction departments to a higher level and the success of newly-launched measures, etc. from FY2023.
- The number of new customer acquisitions for April 2023 reached a record high.
- New customer acquisitions fell as measures to improve sales pages lagged behind in the second quarter.



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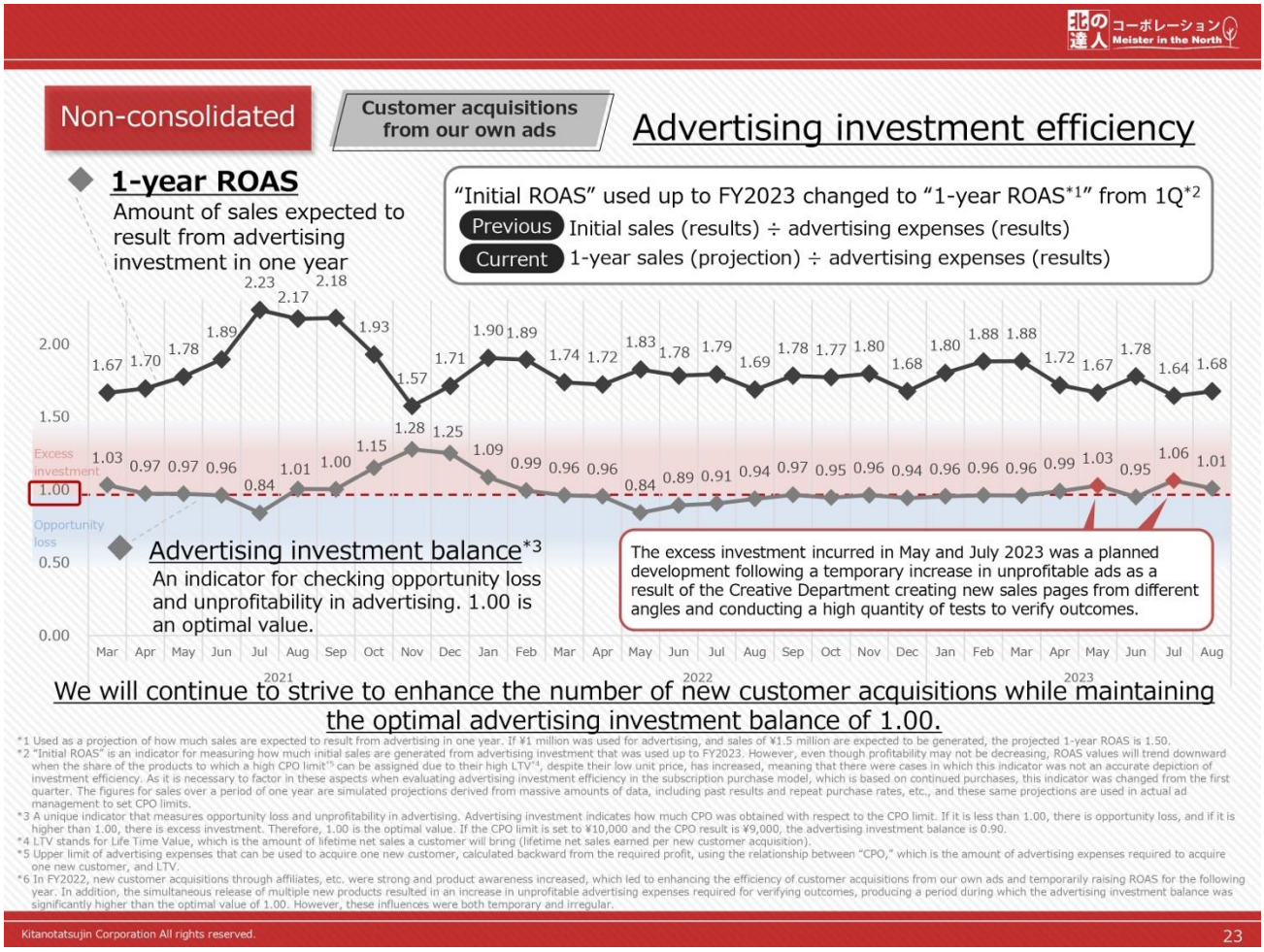
Here, you can see that the curve is almost the same as the number of customers acquired, the number of new customers attracted, and the number of sales mentioned earlier.



Advertising investment efficiency.

To attract new customers, we know that if we run a lot of advertising, sales will increase. We have to consider the advertising cost per customer. When the balance of investment in advertising becomes one, which is an index we have created, we are very profitable and are not losing any opportunities.

We ourselves have been maintaining this level of one while acquiring customers. Therefore, we are able to continue to do what we do without any loss of profit per customer.

Non-consolidated | E-commerce malls

Changes in net sales

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, and we are also strengthening sales in e-commerce malls
- Rapid increase in consumers who buy products only in e-commerce malls

We will expand further into e-commerce malls to actively engage in the commercial sphere presented by that growing market.

<Initiatives implemented in FY2024>

- Assignment of multiple dedicated staff members
- Sales promotion activities, advertising contents creation, and advertisement optimization targeted at e-commerce malls
- Engagement in sales at e-commerce malls
- Expand line of products sold exclusively at e-commerce malls

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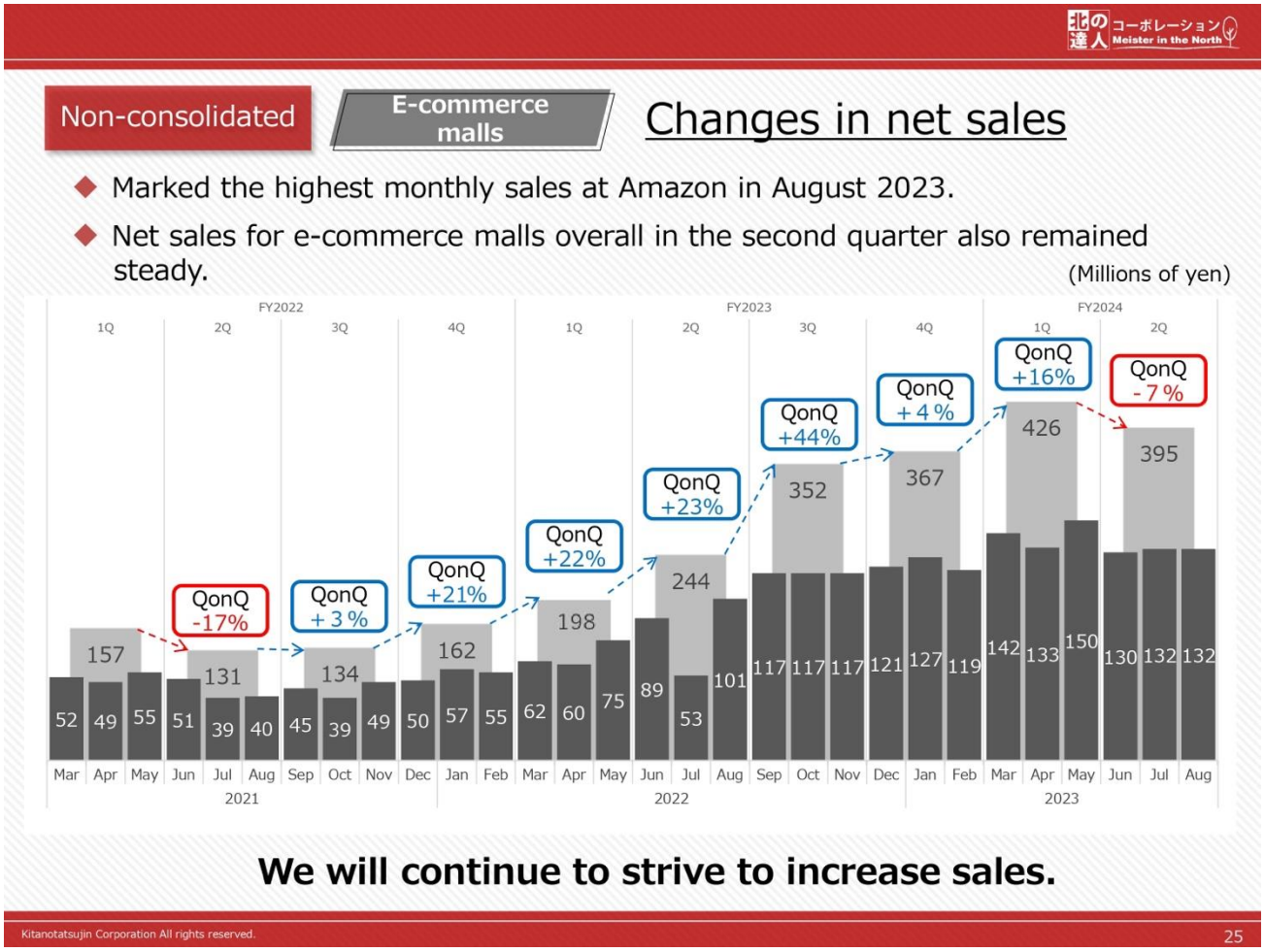
As for the e-commerce mall, as mentioned earlier, sales have been increasing. We have assigned dedicated staff members and actively involved in sales of each e-commerce mall. We conduct e-commerce mall-specific sales promotion activities, and expand the number of products sold exclusively through e-commerce malls.

In this way, the sales of e-commerce malls are growing very much, albeit a little bit at a time.



In August, we saw our highest monthly sales ever on Amazon.

SALONMOON Co., Ltd.

Providing highly functional hair irons at affordable prices 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, with the new addition of storefront sales at home appliance mass merchandisers' stores

<Changes in financial results>

- **Although the Company has been operating at a loss since the second quarter of FY2023 due to the impact of the depreciation of the Japanese yen, the operating profit margin has maintained at previous levels.**
- **The decline in the operating profit margin in July-August 2023 was a temporary event resulting from new measures and expanding sales channels.**

* The stock acquisition date of SALONMOON Co., Ltd. was May 31, 2021, and as such, net sales and operating income from SALONMOON Co., Ltd. are not included in 1Q of FY2022.

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

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Our subsidiary company, SALONMOON.

This is a hair care brand, mainly selling what are called hair irons. This line graph, which is going up and down, indicates the operating profit margin.

We purchase products from China. The profit margin dropped significantly even when sales were strong due to the weakening of the yen. We are gradually improving the profit margin by adjusting selling prices and purchasing, while returning the profit margin to the original level. The profit margin has also returned to almost the same level as when we acquired the company two years ago. I think we are back on track quite well.

SALONMOON Co., Ltd.

<Initiatives implemented in FY2024>

- Sales promotion measures for major e-commerce malls (Amazon, Rakuten Ichiba, Qoo10, etc.)
  - Scrupulous advertising initiatives to optimize search engine results on each e-commerce mall
  - Implement our own campaigns with measures for cash-back rewards, etc.
  - Revaluate our unique characteristics and user base to create optimized ad content for each e-commerce mall
- Focus on releasing new products
- Started storefront sales at major variety shop LOFT from June 2023, expanded to stores nationwide in August 2023

The total amount of shipments of SALONMOON's hair iron series surpassed 840,000 units as the brand continues to steadily expand, and we will seek to further enhance brand value and awareness.

FM NORTH WAVE CO., LTD.

FM radio station with a broadcast area covering Hokkaido

- Strive to recreate the value of media from the customers' perspective
- Strengthen the exploration of a new customer base by enhancing nurturing* initiatives

* 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

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In the current fiscal year, we are conducting various campaigns, introducing many new products, and selling products only on the Internet, starting storefront sale in stores at lofts, and expanding stores throughout Japan.

FM NORTH WAVE CO., LTD. is an FM radio station. I do not have anything particular to comment on this.

Consolidated

Consolidated Balance Sheets

(Millions of yen)

Subject/Section	FY2023/4Q end As of February 28, 2023	FY2024/2Q end As of August 31, 2023
(Cash and deposits)	4,828	4,151
Current assets	6,991	7,362
Non-current assets	787	817
Total assets	7,779	8,180
Current liabilities	1,375	1,546
Non-current liabilities	216	210
Total liabilities	1,592	1,757
Total net assets	6,187	6,423
Total liabilities and net assets	7,779	8,180

The main factors for the changes from the end of FY2023 were an increase in inventories of ¥1,263 million and a decrease in cash and deposits of ¥676 million under assets, and an increase in accounts payable – other of ¥161 million under liabilities.

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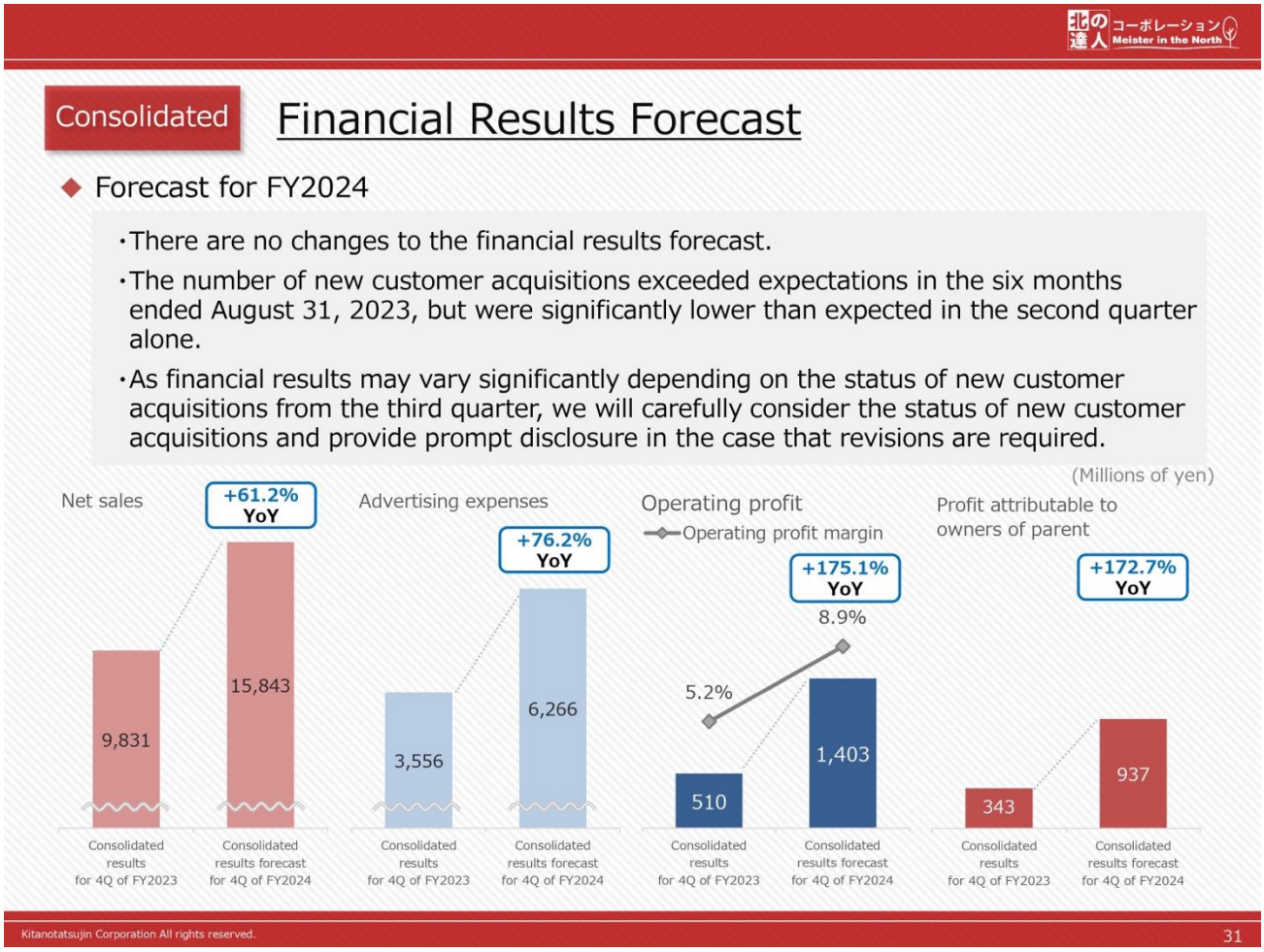
This is the consolidated balance sheet.



This is the forecast of consolidated financial results.

As of now, we believe that we can achieve the initial forecast. As for Q2, when we look at the cumulative total for Q1 and Q2, it is summarized that the increased investment in advertising significantly reduced profits in Q1.

Sales profits will be collected from the new customers attracted in Q1, Q2, Q3, and Q4. So, there was the investment made in Q1 but not fully made in Q2. The number of new customers in Q2 fell a little, resulting in a difference. In the end, we are in a situation where our forecast for Q2 is not much different from the original forecast.

Q1 was good for upfront investment, Q1 was bad for profits, and Q2 was not so good for upfront investment and good for profits.

So, for Q3 and Q4, negative factors will be offset and we will be in the good situation. I think things will continue as expected. Currently, we are not doing anything to change our forecast.

That is all I have to say.

Moderator: Thank you, President Kinoshita.

Question & Answer

Moderator [M]: I will now move on to the question-and-answer session.

Let me begin by answering your questions in audio. Mr. Hirozumi, please.

Hirozumi [Q]: I am Hirozumi of Daiwa. I have two questions.

I would like to know why the number of new customers slowed down in this Q2 or three months. On page 22, the fourth point says that new acquisitions have shrunk because the measures to improve sales pages lagged behind. Including this point, please tell us how you analyze the reasons for the slowdown in new acquisitions in the three months of Q2 compared to Q1. This is the first point.

Kinoshita [A]: Those of you who have been following our company throughout the year may know this to some extent, but there was a time when we were making great progress in attracting new customers, and at that time, in general, our creativity itself was declining considerably. Web marketing itself involves creating creative while analyzing data, so there was a tendency to create ads by following the same ads that had been successful in the past. This may have made us to be lagged behind.

It took us about two years to establish an educational system to solve this problem, and it worked well in the previous quarter or two quarters before—Q1 or Q4.

"Creative" includes advertisements and LP. Small advertisements appear on the Internet and there is a page for sale. In Q1, one advertisement worked well. This advertisement was really good. But in fact, the landing page from there was not high quality.

The quality of the advertisement was getting better and better, but after that, the pages for sale themselves become boring. We have yet to catch up in terms of our skills in this area, and we are still losing new customers because we have not been able to improve our skills in this area.

Hirozumi [Q]: As written here, the slowdown in new sales and landing pages is a factor.

As a second question, you said the forecast did not change for the year this time. But I would like to ask you how you are improving the situations for the immediate future or toward September.

Kinoshita [A]: To put it simply, the items I just mentioned are completely internal factors, so the only thing we can do now is to improve our own skills.

As for the current situation, we have been working on the organizational structure while establishing a general creative training system. We are now in the process of improving the skills of those who were only able to improve their skills in the actual process of creating advertisements. Currently, it is important to educate people so that they can create what is called LP. Also, we originally have people who are good at making LP, so we are currently making improvements by moving those people into a separate organization and changing the work flow itself.

Hirozumi [Q]: Is it correct to say that you are now moving toward improvement? Do you feel that you are improving skills?

Kinoshita [A]: I would say that you can count on us.

Hirozumi [Q]: So you will not change your annual plan?

Kinoshita [A]: That is how we see it at present.

Hirozumi [M]: Let me update you again. Thank you very much. That is all.

Moderator [M]: Thank you very much. Since there do not seem to be any audio questions, I will now answer your questions in text.

Participant [Q]: The number of new acquisitions in Q2 decreased compared to Q1. Do you have any plans to do anything to strengthen the creative skills of your sales pages in the future? For example, utilizing the Selling D2C School service from Ureru Net Advertising, Co. Ltd.

Kinoshita [A]: Sounds like quite an expert. As I mentioned earlier, we have currently adjusted an internal system. Ureru Net Advertising's D2C School is for beginners and is designed to make it easy for those who have never done this kind of business before. Honestly, the service is not something we can seek, so we are creating advertisements by ourselves.

Moderator [M]: Thank you very much. We have received three questions from one person, and we would like to ask you to answer one question at a time.

Participant [Q]: As a first point, new acquisitions in Q2 were slow and fell short the forecast. What was different from your expectation and what are your recovery measures for the future? I would appreciate if you give me an explanation including specific products and brands, as you mentioned that there was an increase in returns and aborted products.

Kinoshita [A]: I say this again, but one of the reasons for this is that we have not yet caught up with the creative power to attract customers. We are working on education, but it takes time. We are now changing the structure of the Company itself. We have established separate teams for those who are good at creating advertisements and for those who are good at creating LP.

As for the increase in returns and cancellations, we are currently checking all of our own creative and our descriptions on each page. In particular, in the case of our company, there are many customers who are 45 years old or older, and probably in their 55s to 60s, so we have discovered that some of the wording is a little difficult to understand, and we are in the process of making thorough corrections.

We have an outside consultant checking everything in order to reduce wrong purchases, etc. We are trying to eliminate the parts that are not understood by insiders, by checking all the expressions that are not understood by outsiders.

As for the write-downs, the products we planned two fiscal years ago were not a good fit for the so-called "big market" where we were creating various products at the time. Some of you may remember that we changed our policy, but we have some products that were made at that time that are currently in inventory and have been written down, so we think it is unlikely that this will happen again in the future.

Participant [Q]: Thank you. Secondly, about SPADE, electronic cigarettes. What is a scale of sales in H1? Please tell us your full-year sales and profit forecasts for the year. Also, please tell us the repeat rate.

Kinoshita [A]: This is what we had in H1, and sales amounted to JPY195 million. We have a forecast of JPY300 million for the full year, but from the way we feel now, we think it will be a little more or a lot more than that.

As for profit, when the number of new customers is very strong, there will be a slight decrease, but we believe that the current situation is strong.

Participant [Q]: Thank you. Thirdly and finally, SALONMOON has been against the headwind of the weak yen but has started to generate profits. What measures, such as forward exchange contracts and price increases, have been effective in this regard? Please tell us about your future prospects.

Kinoshita [A]: In this case, there were quite a few price adjustments. We sell on Amazon, Rakuten, etc. We sell in e-commerce malls, so in the case of e-commerce malls, customers can compare prices. We were in an environment where it was very difficult to raise prices because of price comparisons.

On the other hand, when the yen depreciated to such an extent, all the competitors were also raising their prices in the same way, so we raised our prices to match the market. Since needs themselves are not decreasing, we are now in a position to make a solid profit compared to the time when the yen was weak but prices did not increase.

On the other hand, in addition to adjusting prices, we also actively worked on new malls, such as Qoo10, and this has resulted in an increase in sales. This is owing to our employees' efforts.

Moderator [M]: Thank you very much. Now, since Mr. Hirozumi seems to have a question, Mr. Hirozumi, please.

Hirozumi [Q]: Yes, I am Hirozumi of Daiwa. I would like to confirm one more time about products sold. Please tell us what kind of products sold well or did not sell in Q2, for example, HYALO DEEP PATCH, KAITEKI ORIGO or other products.

Kinoshita [A]: We are not disclosing this information for each individual product, if we do, such information can cause competitors to be [inaudible]. However, there is no particular change in the product range, especially from Q1 to Q2, and three or four main products continue to sell well.

Hirozumi [Q]: I wasn't going to ask specific amounts. You can say that products such as HYALO DEEP PATCH, KAITEKI ORIGO, and other products that work for tinea cruris were sold well?

Kinoshita [A]: Generally, you can take it that way.

Hirozumi [M]: I understand. Thank you very much.

Moderator [M]: Thank you very much. We have received audio questions. Mr. Yoshida, please.

Yoshida [Q]: Please tell me one point. Next to J NORTH FARM, other brands are described, and it says that SPADE was strong. What do you think is going to happen in the future in terms of the presence of other brands, whether you are going to launch various other brands besides SPADE, and I would like to know more about its position in comparison to the J NORTH FARM for the New Business Planning Office.

Kinoshita [A]: This New Business Planning Office is currently working substantially only on SPADE. When we started the brand, we had another brand, but it didn't work out so well and we discontinued it.

SPADE itself is doing very well, but one factor behind this is that the person who launched SPADE was an e-cigarette specialist. I think it would be difficult to launch a new business in the same way.

We are aware that SPADE itself will grow and become our core business, but rather than launching new businesses and brands other than J NORTH FARM, we plan to expand J NORTH FARM, SPADE, and SALONMOON.

We do not attach that much significance to the classification of brands. We are thinking about products themselves including launching a new product, so it does not really matter if there are 100 products and they are divided into three brands or 10 brands. We currently do not think about increasing the number of brands.

Yoshida [Q]: I have the impression that the number of other brands has increased considerably from Q1 to Q2. It took about two years after its launch to grow, and I think the background of this is that something in particular happened in the last two quarters to improve the efficiency of advertising investment, but can you tell us something more, what triggered the growth here?

Kinoshita [A]: This is also very much an internal factor. For example, the device itself, which is an e-cigarette, consists of a machine for smoking and a liquid has been updated. This renewal has lowered the cost of sales significantly, which has led to a slight increase in the investment in advertising, which is spent to acquire one customer.

As for e-cigarettes, this may be temporary, but there are various restrictions on advertisements for regular cigarettes as well. Some media do not allow to run advertisements of e-cigarettes, but the number of media that can run advertisements of e-cigarettes is increasing.

The other thing is that the creative had a big impact. After all of these things had been accumulated, I feel that Q2 was the time when the business finally began to move forward.

Yoshida [M]: I understand very well. Thank you very much.

Kinoshita [M]: Thank you very much.

Moderator [M]: Thank you very much. Does anyone have any other questions?

It seems like there are no further questions. We will close the presentation of the financial results of Kitanotatsujin Corporation for Q2 of the fiscal year ending February 28, 2024.

Thank you very much for taking time to join us today.

Kinoshita [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.*
4. *This document has been translated by SCRIPTS Asia.*

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