

Kitanotatsujin Corporation

(2930, TSE 1st Section/Sapporo Securities Exchange)

February 15, 2021

New customer acquisitions recovered and full-year operating profit forecast for the fiscal year ending February 28, 2021 revised upward

Update Report

QUICK Corp.

Daisuke Harada

Key benchmarks as of

February 10, 2021

Share price	¥629
High since last year	¥777 (January 10, 2020)
Low since last year	¥388 (March 13, 2020)
Shares outstanding	141,072,000 shares
Trading units	100 shares
Market capitalization	¥88,734 million
Projected dividend (Company)	¥3.00
Projected EPS (Analyst)	¥10.07
PBR (Results)	17.92

Issuance date of preceding reports

Basic	June 24, 2020
Update	November 19, 2020

Revenue for the three months of the third quarter increased quarter-on-quarter for the second consecutive quarter.

Net sales decreased by 7% year-on-year to ¥7,012 million, and operating profit declined by 28% to ¥1,573 million in the non-consolidated financial results for the nine months ended November 30, 2020. The number of new customer acquisitions decreased mainly in the first quarter, resulting in a drop in net sales. Weak consumer sentiment due to the spread of COVID-19 and the delay of new product launches in the first half adversely affected results. Meanwhile, quarterly net sales are in a recovery trend. New customer acquisitions recovered, partly thanks to the effective utilization of affiliate advertising. Net sales for the three months of the third quarter increased quarter-on-quarter for the second consecutive quarter.

The Research Center expects the Company's net sales and operating profit will begin to increase in the next fiscal year ending February 28, 2022.

The QUICK Corporate Valuation Research Center ("the Research Center") has revised its forecast of the non-consolidated full-year financial results for the fiscal year ending February 28, 2021. The Research Center revised its forecast of net sales upward by ¥500 million to ¥9,500 million, a 6% year-on-year decrease from the previous fiscal year. This is based on the fact that new customer acquisitions exceeded expectations in the third quarter, as well as our view that new customer acquisitions will continue to increase at a steady pace in the fourth quarter, partly thanks to the utilization of affiliate advertising. Meanwhile, the Research Center revised its forecast of operating profit downward by ¥200 million to ¥2,000 million, which represents a 31% decrease. In addition to the fact that advertising expenses exceeded expectations through the third quarter, we also increased our forecast for advertising expenses in the fourth quarter. The Research Center also revised its forecast of the Company's full-year results for the fiscal year ending February 28, 2022. It revised its forecast of net sales to ¥10,200 million, a 7% year-on-year rise, and also revised the operating profit forecast upward to ¥2,300 million, a 15% year-on-year increase. At present, the Company has been able to improve cost efficiency while keeping advertising at a certain level, and at the same time, new customer acquisitions have recovered. For these and other reasons, we forecast that net sales and operating profit will begin increasing in the next fiscal year. As the Company looks to accelerate growth, we expect investors to focus on reforms in the customer acquisition department, an ongoing issue for the Company, in addition to efforts to bolster sales on Amazon and other e-commerce malls.

Results			Net sales Millions of yen	YoY %	Operating profit Millions of yen	YoY %	Ordinary profit Millions of yen	YoY %	Profit Millions of yen	YoY %	EPS Yen
FY2019	3rd quarter (March to November)	Results	7,547	26.7	2,182	49.2	2,186	49.5	1,487	47.3	10.70
FY2020	3rd quarter (March to November)	Results	7,012	-7.1	1,573	-27.9	1,582	-27.7	1,086	-26.9	7.82
FY2019	Full year	Results	10,093	21.4	2,915	56.6	2,923	57.1	1,974	52.7	14.21
FY2020	Full year	Company estimates (Announced in April 2020)	8,227	-18.5	2,006	-31.2	2,007	-31.4	1,357	-31.2	9.77
		Company estimates (Announced in January 2021)	9,100	-9.8	2,006	-31.2	2,007	-31.4	1,357	-31.2	9.77
		Analyst estimates (Announced in November 2020)	9,000	-10.8	2,200	-24.5	2,200	-24.8	1,500	-24.0	10.79
		Analyst estimates (Announced in February 2021)	9,500	-5.9	2,000	-31.4	2,000	-31.6	1,400	-29.1	10.07
FY2021	Full year	Analyst estimates (Announced in November 2020)	9,600	6.7	2,100	-4.5	2,100	-4.5	1,400	-6.7	10.07
		Analyst estimates (Announced in February 2021)	10,200	7.4	2,300	15.0	2,300	15.0	1,600	14.3	11.51

Performance

A 28% decrease in operating profit for the nine months ended November 30, 2020. New customer acquisitions decreased.

- Results for the nine months ended November 30, 2020 (March 1, 2020 to November 30, 2020)

Net sales decreased by 7% year-on-year to ¥7,012 million, while operating profit decreased by 28% to ¥1,573 million in the non-consolidated financial results for the nine months ended November 30, 2020. Revenue fell off, affected by a decrease in the number of new customer acquisitions mainly in the first quarter. In addition to weak consumer sentiment due to the spread of COVID-19, the delay of new product launches in the first half adversely affected results. In terms of profit, an increased focus on advertising through the second quarter in an aim to boost the number of new customer acquisitions resulted in a temporary worsening of the cost effectiveness of advertising and a decline in the profit margin (see Table 1).

Table 1. Non-consolidated business results

	(Millions of yen)			
	Nine months ended November 30, 2019	Nine months ended November 30, 2020		
	Results	Results	YoY Changes / %	
Net sales	7,547	7,012	-535	-7%
Gross profit	5,739	5,292	-447	-8%
<i>(Ratio to net sales)</i>	<i>(76.1%)</i>	<i>(75.5%)</i>	<i>(-0.6pt)</i>	-
Selling, general and administrative expenses	3,557	3,719	+162	+5%
<i>(Ratio to net sales)</i>	<i>(47.1%)</i>	<i>(53.0%)</i>	<i>+5.9pt</i>	-
Operating profit	2,182	1,573	-609	-28%
<i>(Ratio to net sales)</i>	<i>(28.9%)</i>	<i>(22.4%)</i>	<i>(-6.5pt)</i>	-
Ordinary profit	2,186	1,582	-605	-28%
<i>(Ratio to net sales)</i>	<i>(29.0%)</i>	<i>(22.6%)</i>	<i>(-6.4pt)</i>	-
Profit	1,487	1,086	-400	-27%
<i>(Ratio to net sales)</i>	<i>(19.7%)</i>	<i>(15.5%)</i>	<i>(-4.2pt)</i>	-

(Note 1) The nine months are from March 1 to November 30.

(Note 2) Amounts less than one million yen are rounded down. Ratios to net sales and year-on-year changes are calculated in thousands of yen.

(Note 3) Gross profit includes provision for sales returns.

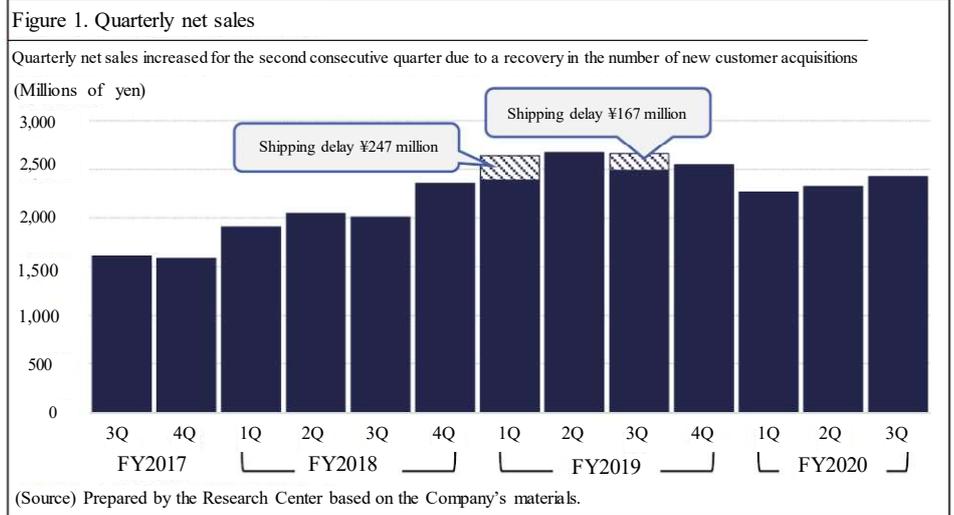
(Source) Prepared by the Research Center based on the Company's materials.

Quarterly net sales are in a recovery trend

Although revenue and operating profit for the nine months ended November 30, 2020 decreased compared with the same period of the previous year, quarterly net sales are in a recovery trend. Quarterly net sales (after adjustments for the effect of shipping delays of HYALO DEEP PATCH*) remained in a sluggish trend, with a 4% quarter-on-quarter decrease in the fourth quarter of the previous fiscal year ended February 29, 2020, and an 11% quarter-on-quarter decrease in the first quarter of the fiscal year ending February 28, 2021. However, quarterly net sales grew in the second quarter, with a 2% quarter-on-quarter increase, and quarterly net sales in the third quarter also increased for the second consecutive quarter, with a 4% quarter-on-quarter increase (see Figure 1).

*Shipping delays of the hit product HYALO DEEP PATCH occurred in the first and third quarters of the fiscal year ended February 29, 2020. Sales for products that were ordered by new customers, but not shipped and therefore not recorded in these quarters amounted to ¥247 million and ¥167 million in the first quarter and third quarter, respectively (the Company's estimates). Quarterly net sales were adjusted, assuming that these orders were processed and shipped normally.

Performance



The number of new customer acquisitions recovered

Cost effectiveness of advertisement was also improved

Behind the growth in the quarterly net sales in the second quarter, the Company raised the upper limit for advertising expenses per new customer acquisition (i.e., relaxed the standards for advertisement placement), in order to boost the number of new customer acquisitions. This initiative helped to energize advertisement in May and June. The number of new customer acquisitions also recovered, resulting in a quarter-on-quarter increase in net sales in the second quarter. However, ROAS*, an indicator that shows the cost effectiveness of advertisement, and which the Company places an emphasis on, declined temporarily for this initiative.

In light of the above, the Company once again lowered the upper limit for advertising expenses per new customer acquisition (i.e., tightened the standards for advertisement placement) in the third quarter. In addition, the Company also began utilizing affiliate advertising again, after previously reducing its focus on this type of advertising. Thanks to the success of these and other measures, the Company achieved an improvement in ROAS while keeping advertising at a certain level. New customer acquisitions in the third quarter were on par with the second quarter, and at the same time, the Company achieved a quarter-on-quarter increase in net sales for the second consecutive quarter (see Figures 1 and 2).

*ROAS, an abbreviation for Return On Advertising Spend, is an indicator that measures the amount of sales resulting from advertising. If ¥1 million of advertising expenses generates sales of ¥0.9 million, the ROAS is 0.9. In the case of the Company, although many first-time purchases result in negative revenue (ROAS is less than 1), the continued generation of sales from regular purchases moves revenue into positive territory.

Performance

Figure 2. Advertising expenses and ROAS



Success of affiliate advertising

Affiliate advertising is a type of online advertising in which affiliates show products, etc. on websites and blogs they operate. When audience members purchase products through that blog or website, the advertiser pays the affiliate. Previously, most affiliates, the people providing affiliate advertisements, were individuals, but an increasing number of affiliates are “turning pro,” as it has recently become mainstream for companies to offer affiliate advertising. Taking these changes in the business environment into consideration, the Company bolstered its dedicated affiliate advertising department and strengthened efforts to utilize such “pro” affiliates. Thanks to the success of these efforts, affiliate advertisements reclaimed their place as a key component of the Company’s marketing efforts from the second half of the current fiscal year.

In addition, the Company’s difficulties acquiring new customers in the previous and current fiscal year were impacted by weak consumer sentiment and the delay of new product launches, as well as the Company’s inability to implement active advertising, due to the underdeveloped system in the customer acquisition department, resulting in a lack of appropriate production and updating of advertisement content (products such as advertisements and sales promotion websites that can raise users’ appetites for purchases). With affiliate advertising, affiliates are responsible for the creative production, thus offloading these responsibilities from the Company’s customer acquisition department and allowing it to deploy numerous highly cost-efficient advertising campaigns.

Performance

The Company's plan for net sales revised upward

- The Company's plan for the fiscal year ending February 28, 2021 (March 1, 2020 to February 28, 2021)

Partly in view of the fact that new customer acquisitions outpaced expectations through the third quarter, the Company revised its plan for the non-consolidated full-year financial results for the fiscal year ending February 28, 2021 announced in April 2020, the beginning of the fiscal year. The forecast of net sales is up from ¥8,227 million, an 18% year-on-year decrease, to ¥9,100 million, a 10% year-on-year decrease. Meanwhile, the Company maintained its forecast of operating profit at the beginning of the fiscal year of ¥2,006 million, a 31% year-on-year decrease, because it expects an increase in advertising expenses as it looks to acquire new customers.

Increased net sales forecast and lowered operating profit forecast

- The Research Center's forecast for the fiscal year ending February 28, 2021

The QUICK Corporate Valuation Research Center has also revised its forecasts of the Company's non-consolidated full-year financial results for the fiscal year ending February 28, 2021, which it released in November 2020. We revised the forecast of net sales up by ¥500 million from ¥9,000 million, an 11% year-on-year decrease, to ¥9,500 million, a 6% year-on-year decrease. This is based on the fact that new customer acquisitions exceeded expectations in the third quarter, as well as our view that new customer acquisitions will continue to increase at a steady pace in the fourth quarter, partly thanks to the utilization of affiliate advertising. Meanwhile the Research Center revised its forecast of operating profit downward by ¥200 million from ¥2,200 million, a 25% year-on-year decrease, to ¥2,000 million, a 31% year-on-year decrease. In addition to the fact that advertising expenses exceeded expectations through the third quarter, we also increased our forecast for advertising expenses in the fourth quarter. The Company's profit structure relies on continued sales from regular purchases, in order to recover advertising expenses. Advertising expenses therefore tend to increase ahead of net sales.

Table 2. Forecast of non-consolidated financial results for the full year

Results	(Millions of yen)										
	FY2019 full year			FY2020 full year			FY 2021 full year				
	The Company's plan			Forecast			Forecast				
	Beginning of the fiscal year April 2020	Revision in 3Q January 2021	Previous forecasts November 2020	Current forecasts February 2021	YoY Changes / %		Previous forecasts November 2020	Current forecasts February 2021	YoY Changes / %		
Net sales	10,093	8,227	9,100	9,000	9,500	-593 -6%	9,600	10,200	+700 +7%		
Gross profit	7,645	-	-	6,700	7,100	-546 -7%	7,100	7,700	+600 +8%		
(Ratio to net sales)	(75.7%)	-	-	(74.4%)	(74.4%)	(-1.0pt) -	(74.0%)	(75.5%)	(+0.8pt) -		
Selling, general and administrative expenses	4,730	-	-	4,500	5,100	+370 +8%	5,000	5,400	+300 +6%		
(Ratio to net sales)	(46.9%)	-	-	(50.0%)	(53.7%)	(+6.8pt) -	(52.1%)	(52.9%)	(-0.7pt) -		
Operating profit	2,915	2,006	2,006	2,200	2,000	-915 -31%	2,100	2,300	+300 +15%		
(Ratio to net sales)	(28.9%)	(24.4%)	(22.0%)	(24.4%)	(21.1%)	(-7.8pt) -	(21.9%)	(22.5%)	(+1.5pt) -		
Ordinary profit	2,923	2,007	2,007	2,200	2,000	-924 -32%	2,100	2,300	+300 +15%		
(Ratio to net sales)	(29.0%)	(24.4%)	(22.1%)	(24.4%)	(21.1%)	(-7.9pt) -	(21.9%)	(22.5%)	(+1.5pt) -		
Profit	1,974	1,357	1,357	1,500	1,400	-575 -29%	1,400	1,600	+200 +14%		
(Ratio to net sales)	(19.6%)	(16.5%)	(14.9%)	(16.7%)	(14.7%)	(-4.8pt) -	(14.6%)	(15.7%)	(+0.9pt) -		

(Note 1) The full year (fiscal year) is from March 1 to the end of February of the following year.

(Note 2) Amounts less than one million yen are rounded down. Ratios to net sales and year-on-year changes are calculated in thousands of yen.

(Note 3) Gross profit includes provision for sales returns.

(Source) Prepared by the Research Center based on the Company's materials. Forecasts by the Research Center.

Performance

Net sales expected to exceed the Company's target

We expect net sales to exceed the Company's target by approximately ¥400 million, and operating profit to be in line with the Company's target. In the fourth quarter, the Company expects net sales and operating profit to decline 14% and 20% respectively, quarter-on-quarter. By contrast, the Research Center expects net sales to increase on the back of a steady increase in new customer acquisitions from increased advertising, although as in the Company's plan, we expect operating profit to decline, partly owing to increased advertising expenses.

Net sales and operating profit are expected to increase in the next fiscal year

- The Research Center's forecast for the fiscal year ending February 28, 2022 (March 1, 2021 to February 28, 2022)

The Research Center has also revised its forecasts of the Company's non-consolidated full-year financial results for the fiscal year ending February 28, 2022: up from net sales of ¥9,600 million, a 7% year-on-year increase, to ¥10,200 million, a 7% year-on-year increase; and up from operating profit of ¥2,100 million, a 5% year-on-year decrease, to ¥2,300 million, a 15% year-on-year increase. This is based on the fact that, at present, the Company has been able to improve ROAS while keeping advertising at a certain level, the recovery in new customer acquisitions at the same time, and other factors. The percentage increase in net sales is expected to remain in the single digits, but we expect net sales to begin increasing and the Company to post an operating profit in the next fiscal year as new customers acquired in the current fiscal year contribute through regular purchases and the Company acquires more new customers.

Promoting reform by making the struggling customer acquisition department report directly to the President

Looking ahead, the Company intends to further promote the utilization of affiliate advertising in an effort to accelerate growth, while continuing to implement reforms in the customer acquisition department, where the strengthening of creative capabilities and other reforms are ongoing issues for the Company. At present, the Company is focusing on bolstering its training and talent acquisition systems, including moving to a structure whereby the customer acquisition department reports directly to Mr. Kinoshita, the Company's Representative Director & President.

Also investing management resources in strengthening sales at e-commerce malls

In addition, the Company is also implementing new initiatives related to sales channels. Thus far, the Company's main sales channel has been its own webstore, but it is also promoting the utilization of e-commerce malls (online sales), namely Amazon and Rakuten Ichiba. The Company intends to broaden its customer base through these e-commerce malls, as they possess wide and varied userbases, including potential customers that the Company would not be able to market to if relying solely on its own webstore. In particular, sales on Amazon are expanding rapidly, and are one factor behind the increase in the quarterly net sales. Looking ahead, the Company's policy will be to allocate management resources to strengthening sales on Amazon, including developing special products tailored to Amazon users' characteristics. In addition to reforms to the customer acquisition department, the Research Center expects increased sales from e-commerce malls to help accelerate the Company's growth, and will be closely following developments in this area.

Performance

Table 3. Products available on the online shopping site, “J NORTH FARM” (as of August 31, 2020, excluding discontinued products)

Launch	Item	Description
Before FY2013	KAITEKI OLIGO	A food with functional claims, which contains five types of ingredients that improve bowel movements
	MINNANO HADAJUNTO~ATO CARE TYPE~	A 100% plant-derived moisturizing-care product, with sugar made from sugar beet produced in Hokkaido as its main ingredient
	KOJUKAN	A health food containing low molecular weight polyphenols as its main ingredient, and supplemented with hyaluronic acid, vitamin C, and L-citrulline (the Company’s first food with functional claims)
	KAITEKI DOKA SLIM CHA	A health food formulated using a unique blend of natural herbs developed by researching the peristaltic motion of the intestine, along with other natural plant-derived ingredients
	20NEN HOIPPU	A facial cleanser that removes skin dullness, with whey as the moisturizing compound; Made using a manufacturing method called direct flame pot kneading.
	MINNANO HADAJUNTO~CLEAR TYPE~	An acne-prevention skin care product with sugar made from sugar beet produced in Hokkaido as its main ingredient, and coated with plant oils including lavender oil
	EZOSHIKI SU-SU-CHA	A tea leaf-containing health food made by blending <i>kuma</i> bamboo grass and red perilla, which have long been used as traditional herbal remedies, with tea leaves of <i>tian cha</i> , a family of rose
	KITANO DAICHINO YUMESHIZUKU	A food with functional claims that increases sleep-enhancing hormones and improves sleep quality
FY2014	ZUKI SHIRAZUNO MI	A health food with a blend of feverfew, giant knotweed, and bitter as ingredients
	MINNANO HADAJUN LOTION	A lotion with sugar made from sugar beet produced in Hokkaido as its main ingredient, with a blend of moisturizing compounds such as lipidure
FY2015	MINNANO HADAJUNBURO	A moisture-care bath additive made with an extract of the <i>yunohana</i> hot spring component, sugar made from sugar beet, and <i>Saji</i> sea buckthorn as its main ingredients
	EYE KIRARA	A cream for under the eyes made from a blend of ingredients including MGA, a derivative of vitamin C, and plant oil rich in natural vitamin K
FY2016	NO ! NO ! SMELL !	A deodorant cream that addresses foot odor (the Company’s first quasi-drug)
	CLEAR FOOT VEIL	A foot care product for those who suffer from athlete’s foot, formulated as a blend of CPL (cyclic poly lactate), which protects and smooths the skin, and bamboo pyrolygneous acid
	KUROUMEBIYORI	A health food for those who have loose passage, with <i>ume</i> plum extract, zedoary, and aronia extract as its main ingredients
	CLEAR NAIL SHOT α	A foot nail care oil with bamboo pyrolygneous acid and polyamine (which includes soybean germ extract) as its main ingredients
	CARE NANO PACK	A face pack for treating pores by simply applying a cream to the skin
	HYALO DEEP PATCH	A patch with microneedles containing hyaluronic acid, which helps to intensively replenish moisture to fine wrinkles around the eyes (injectable cosmetics series)
	MAYME WHITE 60	A skin whitening cream-type pack containing a water-soluble placenta extract (quasi-drug)
	LUMINAPEEL	An anti-spot peeling gel for whitening the back of the hand (quasi-drug)
FY2017	WRINKY FLAT	An anti-wrinkle beauty gel
	LID KIRARA	A beauty gel exclusively for the upper eyelids
	BUILD MAKE 24	Protein containing HMB (3-Hydroxy 3-MethylButyrate)
	RIMO SAVON	A laundry detergent that makes pet hair easy to remove, and also makes it difficult for pet hair to stick to clothes
FY2018	HANDPURENA	A care cream for aging hands, formulated with ingredients that enhance skin firmness
	NECK ESTHE MIST	An aging-care mist for the neck that enhances skin tightness and firmness
	MEN’s EYE KIRARA	A cream for under the eyes for men
	OKOSAMAYOU KAITEKI OLIGO	KAITEKI OLIGO with ingredients adjusted for children
FY2019	MIKEN DEEP PATCH	An aging-care cosmetic specifically for the area between the eyebrows, which softens stiff skin and enhances skin rejuvenation (second product from injectable cosmetics series)
	ODEKO DEEP PATCH	An aging-care cosmetic specifically for the forehead, which enhances skin firmness and radiance (third product from injectable cosmetics series)
	ASESUCARE	A supplement product specifically for men who are troubled with dripping sweat that keeps running, made from ingredients that support autonomic nerve balance
FY2020	CHEEK PORE PATCH	A microneedle cosmetic product that focuses on problems in area where cheek pores are concentrated, made from ingredients that refine the pores (fourth product from injectable cosmetics series)
	PEEL SHOT	An anti-spot peeling gel focusing specifically on men’s skin type (quasi-drug)
	HARISHU	An aging care mist lotion for men, specifically intended for sagging facial skin

(Source) Prepared by the Research Center based on news releases and other materials.



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			FY2017	FY2018	FY2019	FY2020 forecast (Analyst)
Share price	Share price (52-week high)	Yen	1,021.7	1,105	794	-
	Share price (52-week low)	Yen	50.9	315	400	-
	Average monthly volume	Hundreds of shares	975,544	317,366	339,709	-
Results	Net sales	Millions of yen	5,292	8,312	10,093	9,500
	Operating profit	Millions of yen	1,403	1,861	2,915	2,000
	Ordinary profit	Millions of yen	1,403	1,861	2,923	2,000
	Profit	Millions of yen	948	1,293	1,974	1,400
	EPS	Yen	7.21	9.30	14.21	10.07
	ROE	%	48.8	48.9	54.2	28.9
Main items of balance sheets	Total current assets	Millions of yen	3,406	3,958	5,521	-
	Total non-current assets	Millions of yen	74	281	380	-
	Total assets	Millions of yen	3,481	4,240	5,902	-
	Total current liabilities	Millions of yen	1,060	1,298	1,554	-
	Total non-current liabilities	Millions of yen	74	0	0	-
	Total liabilities	Millions of yen	1,135	1,298	1,554	-
	Total shareholders' equity	Millions of yen	2,344	2,942	4,347	-
	Total net assets	Millions of yen	2,345	2,942	4,347	-
Main items of statements of cash flows	Cash flows from operating activities	Millions of yen	1,035	1,193	2,142	-
	Cash flows from investing activities	Millions of yen	-2	-184	-100	-
	Cash flows from financing activities	Millions of yen	-281	-829	-643	-
	Cash and cash equivalents at end of period	Millions of yen	2,508	2,687	4,088	-

Risk Analysis

Business risks

- System risks

The Company's business utilizes computer systems and the Internet, and may suffer a system failure due to a temporary overload of the Company's server, etc., for any reason, unauthorized access to its server from outside of the Company, or errors made by its officers and employees. Such failures, if they occur, may affect the Company's financial results.

- Personal information management

The leakage of personal information held by the Company to outside of the Company for any reason may directly lead to a decline in creditworthiness, triggering cancellations of membership by existing customers and a decrease in the number of newly acquired customers. A leakage of personal information may also result in claims for damages and affect the Company's financial results.

Industry risks

- Intensification of competition

The online sales business is facing intensifying competition due to lower barriers to entry. The Company has been selling its own brand of products in order to avoid competition. If competitors handling similar products follow the Company's business model, as well as its product and sales strategies, the Company's financial results may be affected.

- Safety of foods and beauty products

Troubles regarding the safety, etc., of foods and beauty products, and inadequate responses to such troubles may affect the Company's financial results. In addition, a chain of reputational damage caused by the inadequacies of other companies, consumer distrust of the quality and safety of materials, and various hygiene and quality issues in society, in general may affect the Company's financial results.

- Health foods and cosmetics

Claiming effects on diseases or physical functions in product labels and advertisements of a health product is considered to represent the sale of an unapproved and unauthorized pharmaceutical under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (former Pharmaceutical Act), and may become subject to penalty. In the future, an incident such as a case that raises doubts regarding the appropriateness of articles and advertisements for a health product, as well as media reporting of such doubts may lead to a decline in creditworthiness, and affect the Company's business development and financial results.

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<Explanation regarding benchmarks>

The explanation regarding benchmarks stated in the Original Report is posted on the TSE’s website.
For further details, visit: <https://www.jpix.co.jp/listing/ir-clips/analyst-report/index.html>