Financial Results Meeting for the Second Quarter of the Fiscal Year Ending February 28, 2026
Q&A Session (Summary)
(Held on October 15, 2025)

[Question] I would like to confirm the progress and results of the medium-term management plan announced three months ago. In particular, are the schedule and performance for the launch of new products proceeding smoothly? Also, is there any need to revise your outlook on the medium-term management plan?

[Answer] We have established a specialized team for the development of new products, and overall, the progress has been quite favorable. Although it takes around one to two years for a product to move from planning to actual release, and therefore it will still take some time before results materialize, we believe that development is currently proceeding in an excellent state.

One factor behind this is the utilization of generative AI. By applying generative AI to analyses in the product planning process, we have seen roughly a 10% improvement in external test survey scores compared with cases where it was not used. This is likely to accelerate the pace of development, and we recognize that the medium-term management plan is progressing as planned.

[Question] According to the medium-term management plan, both net sales and operating profit are projected to increase significantly in FY2028 compared with FY2027. How do you assess your prospects for FY2028? Is it correct to assume that your outlook and plan remain unchanged?

[Answer] The products currently under development are scheduled for release in FY2028. As long as we can launch them as scheduled, we believe that it will be possible to achieve the plan. At this point in time, there are no changes to our outlook or plan.

[Question] Aside from product planning, are there any other areas, such as advertising, where you are utilizing AI?

[Answer] We have been actively using generative AI in the advertising production workflow. For example, we analyze the factors behind successful ads and then use generative AI to create new ads based on those factors.

In recent months, our approach to AI utilization has evolved. Previously, we would provide ideas created by humans and have AI generate the ad. However, with today's more advanced generative AI, we can now assign even the initial concept planning stage to AI, which often yields ideas beyond the range of human imagination. That said, we are not using AI indiscriminately. We only input ads that have proven successful within the Company for AI to learn from, and generate new ads based on that data.

[Question] You launched several new products this fiscal year. Could you share specific trends in their sales performance?

[Answer] We divide our products into "priority products" and "non-priority products." While all of them are disclosed in our IR materials, our main focus is on "LIFIST." Other products are primarily aimed at existing customers and are not expected to become major hits. As for "LIFIST," we feel confident that it has the potential to grow into a mainstay product going forward.

[Question] Regarding the advertising investment balance, will you continue to prioritize maintaining the current indicators and balance?

[Answer] Our basic policy is to make advertising investments after careful calculation in order to safeguard profitability. We always consider the point at which profit is maximized, and accordingly, we have no intention of disrupting the current balance.

[Question] Overall, how does the Company evaluate the results of this quarter?

[Answer] As results were generally in line with or slightly above our initial forecasts, we evaluate the results positively.

[Question] In achieving the medium-term management plan, what processes or factors do you see as potential bottlenecks?

[Answer] The core of the medium-term management plan is to continuously launch new products. As we have conducted extensive numerical simulations, we do not expect large deviations in sales forecasts. However, whether we can produce and release products according to schedule remains a potential risk, and establishing a system that enables smooth execution will be key.

[Question] This time, you included product photos and descriptions, which made it easier to visualize your mainstay products and markets. Is there a particular reason you decided to include these products?

[Answer] Until now, our policy was to limit the disclosure of product information to avoid imitation by competitors. However, under the medium-term management plan, we have adopted a policy of driving business expansion through proactive product development. To help better visualize this direction, we decided to introduce specific products.

[Question] As sales through e-commerce malls increase, do you expect any changes in your channel mix?

[Answer] The customer base for e-commerce malls differs significantly from that of our own website, and thus our sales strategies also differ. Previously, our sales were primarily through our own website, but as we have accumulated know-how in navigating e-commerce malls, we plan to actively develop this as an additional sales channel. Our aim is to build incremental net sales on top of those from our own site.

[Question] For gross profit or loss, the gross profit margin for the second quarter of FY2026 appears to have improved slightly compared with your performance forecast. What factors contributed to this?

[Answer] Generally, when the sales ratio of products with higher gross profit margins increases, it rises accordingly.

[Question] On page 6, gross profit exceeded the plan by a greater margin than net sales. What drove this increase, and which products were particularly strong? While new products are a key part of the medium-term management plan, could you also share your thoughts on enhancing and expanding existing products?

[Answer] Gross profit exceeded the plan because the sales ratio of products with higher gross profit margins was slightly higher than expected. As for specific product names, we must refrain from disclosure due to confidentiality reasons.

[Question] Regarding the factors behind the year-on-year increase in operating profit on page 20, are the gains from “Other brands” and “Operating expenses” expected to continue?

[Answer] “Other brands” refers to sales from electronic cigarette–related products that were launched several years ago. Although we are no longer focusing on this segment, profits continue to be generated from subscriptions by past customers. However, we expect these profits to decline gradually over time. As for other items, we do not anticipate any major fluctuations.

[Question] The number of new customer acquisitions in August decreased compared with July. What caused this? Also, could you comment on the situation in September?

[Answer] In August, due to the impact of the Obon holidays, advertising-driven customer acquisitions tend to decrease slightly month on month as personnel resources cannot be allocated, and the same applies to months with long holidays; it is a temporary phenomenon. There were no particular issues in September.

[Question] Sales of beauty products make up an overwhelming share of total net sales. Will you continue to focus on developing products in this category? If you have a specific target demographic, please share.

[Answer] Our fundamental product development theme is “to solve customers’ concerns,” which takes the form of cosmetics, health foods, and quasi-pharmaceutical products. However, as these products are subject to strict advertising regulations under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices and the Act against Unjustifiable Premiums, while continuing to develop products aimed at addressing such concerns, we are also considering expanding into the pharmaceutical category, where the advertising of effects and benefits is relatively less restricted. Additionally, leveraging our past experience in selling specialty products from Hokkaido, we are exploring categories such as gourmet foods. Ultimately, our policy is to create products that enrich consumers' daily lives, expanding our product planning within a reasonable scope without overstretching operations.

[Question] What were the main factors behind the year-on-year decreases in net sales and profit in the six months ended August 31, 2025?

[Answer] The decline in net sales is primarily related to the number of subscription purchase customers. Our sales consist of new customer sales and subscription purchase sales. Since the number of new customers decreased in the previous fiscal year and the fiscal year before that, this led to lower subscription purchase sales in the current fiscal year. Currently, new customer acquisitions are recovering, and we expect this positive effect to contribute to results from the latter half of this fiscal year into the next.

The decline in profit mainly reflects the decrease in sales profit accompanying lower net sales. Since fixed costs remain constant, a decline in sales compresses profits. Conversely, since fixed costs do not change significantly even when sales increase, the profit margin improves substantially during periods of increase in sales.

[Question] What specific measures are being implemented to prevent the decline of regular customers, that is, to reduce customer attrition?

[Answer] Until recently, we had not conducted telephone follow-ups, etc., with subscription purchase customers, but we have now started telephone follow-ups. As a result, we have started to see gradual improvements in continuation rates, as well as increases in upselling to higher-tier products and cross-selling, etc., of related products.

[Question] Overall, is it correct to understand that while new customers are increasing, the number of regular customers is decreasing?

[Answer] New customer acquisitions are increasing. For regular customers, by nature, a certain percentage of cancellations occur each month. Our business model is such that overall sales grow when the number of new customers exceeds cancellations and decline when cancellations exceed new acquisitions.

[Question] Regarding factors in the recent decline in net sales, you previously mentioned issues with advertising content. Are there any external factors, such as market conditions, rising advertising costs, or changes in product trends, that you find challenging?

[Answer] We have not observed any significant external factors. The principle that good advertising content leads to strong advertising results remains unchanged. Although advertising costs have risen in general, we have been able to maintain our CPO at a relatively low level, so we do not feel a major impact.

[Question] Regarding new products, is it correct to assume that you are prioritizing products that can be offered as subscription purchases, and not focusing as much on others?

[Answer] That is correct. In our "J NORTH FARM" business, the development of subscription purchase products is a fundamental condition of our business model. While we may eventually consider developing non-subscription purchase products exclusively for e-commerce malls such as Amazon or Rakuten, for the time being, our top priority remains on developing products that can be linked to subscription purchases.

(Note)

This document is not a direct transcript of the Q&A session held at the meeting.

Please note that partial corrections and revisions have been made based on the judgement of the Company to improve understanding.