

# Kitanotatsujin Corporation

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

June 24, 2020

## Re-energize Growth through Further Reforms of the Customer Acquisition and Product Development Systems

### Basic Report

QUICK Corp.  
Daisuke Harada

### Company outline

Location	Sapporo, Hokkaido
Representative	Katsuhisa Kinoshita
Establishment	May 2002
Capital	¥273 million (as of February 29, 2020)
Date of listing on stock exchange	May 29, 2012
URL	<a href="https://www.kitanotatsujin.com">https://www.kitanotatsujin.com</a>

### Key benchmarks as of June 22, 2020

Share price	¥588
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	¥82,950 million
Projected dividend (Company)	¥3.00
Projected EPS (Analyst)	¥11.51
PBR (Results)	18.80

E-commerce company specializing in health foods and cosmetics that support health and beauty concerns.

Kitanotatsujin Corporation is an E-commerce company that handles health foods and cosmetics. The Company develops products that focus on supporting people with health and beauty issues and sells them online through its shopping site, “J North Farm.” Its mainstay products include “KAITEKI OLIGO,” a health food with an original blend of high-purity oligosaccharide, and “HYALO DEEP PATCH,” a cosmetic product with microneedles containing hyaluronic acid. The Company has achieved a high profit margin through a business strategy of focusing on niche and less competitive markets, as well as data analysis-based marketing. As customer loyalty to the Company’s products is high, regular purchases account for approximately 70% of net sales, which has brought management stability to the Company.

“HYALO DEEP PATCH”



Despite a sharp increase in operating profit in FY2019 new customer acquisition experienced struggles.

Net sales grew by 21% year-on-year to ¥10,093 million, while operating profit rose by 57% to ¥2,915 million in the non-consolidated full-year financial results for the fiscal year ended February 29, 2020. This increase in revenue and operating profit was mainly due to the contribution of regular purchases by customers acquired through active advertising in the fiscal year ended February 28, 2019. Meanwhile, the Company struggled to acquire new customers, which resulted in a gradual slowdown in quarter-to-quarter sales growth. Factors behind this slowing growth included shipping delays of popular products, as well as issues surrounding the customer acquisition department that is responsible for advertisement, which hindered active advertising.

Decrease in operating profit expected for FY2020. COVID-19 will also impact profit.

Regarding the non-consolidated full-year financial results for the fiscal year ending February 28, 2021, the QUICK Corporate Valuation Research Center (“the Research Center”) expects net sales of ¥9,000 million, an 11% year-on-year decrease from the previous fiscal year, and an operating profit of ¥2,400 million, an 18% decrease. The Research Center forecasts a decrease in both revenue and profit due to the impact of weak consumer sentiment caused by the spread of COVID-19, in addition to struggles with new customer acquisition. Although the Center expects revenue to increase by 7% year-on-year in the following fiscal year ending February 28, 2022, operating profit is expected to decrease by 13%, assuming that advertising expenses will be required prior to the sales increase. In order to re-energize growth, the Company needs to further reform the customer acquisition department, and shift its structure for growth from the current reliance on sales expansion of only certain products, to one that enables growth by expanding sales of more products.

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	Results	10,093	21.4	2,915	56.6	2,923	57.1	1,974	52.7	14.21
FY2020	Company estimates (Announced in April 2020)	8,227	-18.5	2,006	-31.2	2,007	-31.4	1,357	-31.2	9.77
	Analyst estimates (Announced in June 2020)	9,000	-10.8	2,400	-17.7	2,400	-17.9	1,600	-19.0	11.51
FY2021	Analyst estimates (Announced in June 2020)	9,600	6.7	2,100	-12.5	2,100	-12.5	1,400	-12.5	10.07

## Company Outline

### Company outline

Kitanotatsujin Corporation is an E-commerce company that handles health foods and cosmetics. Based in Hokkaido, Kitanotatsujin develops products that specifically support people with health and beauty concerns, such as constipation, atopy, and acne, and sells those products through its online shopping website, “J North Farm.” Its mainstay products include KAITEKI OLIGO, a health food with an original blend of high-purity oligosaccharides, and HYALO DEEP PATCH, a cosmetic product that directly injects hyaluronic acid hardened into needles and other beauty ingredients into the skin. Kitanotatsujin does not own a manufacturing base, and outsources production to OEM companies.

### Corporate manager

Katsuhisa Kinoshita, Representative Director & President

Mr. Katsuhisa Kinoshita was born in 1968. He joined Recruit Co., Ltd. in 1992 and engaged primarily in sales of job advertisements. Mr. Kinoshita left the company in 1999 and set up a limited partnership company Saimart in Higashi-Yodogawa, Osaka, to operate an online shopping website, “hokkaidou.co.jp” that sold products from Hokkaido. In 2002, he established hokkaidou.co.jp, Ltd. (currently Kitanotatsujin Corporation) mainly for the purpose of transferring the management of the website “hokkaidou.co.jp,” and became the Representative Director & President of the Company.

### Management philosophy

Kitanotatsujin’s philosophy is “A team of Meisters giving fun a shape and making the world more pleasant.” This philosophy represents the aim of becoming Meisters who “enjoy making new efforts that other companies cannot, in meaningful forms, to offer products and services that make the world more pleasant.”

### History

The Company was established in 1999 as the limited partnership company, Saimart. In 2000, the Company started the operation of “hokkaidou.co.jp,” an online shopping website for products from Hokkaido, and was reorganized into a stock company in 2002. In 2007, with the aim of differentiating itself, the Company launched online shopping websites, “Kaiteki Friend Club” (currently “J North Farm”), for health and beauty products, and “Hokkaido Wakeari Ichiba,” which focuses on specialized outlet food products. While “Hokkaido Wakeari Ichiba,” which focused on the sale of non-standard food products was highlighted by the media and garnered attention, the number of similar websites increased dramatically, and competition became fierce. In 2011, the Company sold two websites “hokkaidou.co.jp” and “Hokkaido Wakeari Ichiba,” and shifted its focus to the development and sales of health and beauty products through J North Farm. In 2015, it established a branch office in Taiwan to strengthen online sales in local markets in Asia, and in 2019, the Company established both a representative office in South Korea to promote production outsourcing at overseas OEM companies, and a Tokyo Branch Office to strengthen human resources by enhancing recruitment.

## Company Outline

1999	Dec.	Established a limited partnership company Saimart in Osaka, to operate the online shopping website, "hokkaidou.co.jp," which sold products from Hokkaido.
2002	May	Established Hokkaidou.co.jp, Ltd. in Osaka, primarily for the purpose of transferring the website "hokkaidou.co.jp."
	Sept.	Relocated Head Office to Sapporo to enhance product development
2006	Nov.	Launched a dedicated website for the health food Kitano Daichi no Natural Oligosaccharide (current KAITEKI OLIGO).
2007	Jul.	Launched an online shopping website for health and beauty products, "Kaiteki Friend Club" (current J North Farm).
	Sept.	Launched an online shopping website focused on specialized outlet foods, "Hokkaido Wakeari Ichiba."
2009	Mar.	Changed trade name to Kitanotatsujin Corporation.
2011	Feb.	Sold "hokkaidou.co.jp," "Hokkaido Wakeari Ichiba" and "Wakeari Gourmet News."
	Mar.	Launched a dedicated online shopping website for the skin care product Kaiteki Scrub (current MINNANO HADAJUNTO~ATO CARE TYPE-).
2012	May	Listed on the Ambitious Market of the Sapporo Securities Exchange (upgraded to the Main Market in March 2013).
	Aug.	Launched a dedicated online shopping site for the facial soap 20NEN HOIPPU.
2013	Jun.	Established a subsidiary Order Cosme Japan.
2014	Nov.	Cross-listed on the Second Section of the Tokyo Stock Exchange.
2015	Nov.	Launched a dedicated online shopping website for the skin care product EYE KIRARA.
	Dec.	Listed on the First Section of the Tokyo Stock Exchange.
2019	Jan.	Began operations at Taiwan Branch Office.
	Apr.	Established Korea Representative Office.

## Major Shareholders

	Shareholder	Number of shares held (shares)	Ownership ratio (%)
1	Katsuhisa Kinoshita	72,055,400	51.85
2	Japan Trustee Services Bank, Ltd.	5,595,500	4.03
3	THE BANK OF NEW YORK MELLON 140051 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	4,375,100	3.15
4	THE BANK OF NEW YORK 133652 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	2,574,200	1.85
5	The Master Trust Bank of Japan, Ltd.	1,875,600	1.35
6	Hiroko Kinoshita	1,756,800	1.26
7	SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: Custody Service Section, Tokyo Branch, The Hongkong and Shanghai Banking Corporation)	646,600	0.47
8	Asako Horikawa	564,000	0.41
9	Masayoshi Hirayama	537,000	0.39
10	Trust & Custody Services Bank, Ltd.	514,300	0.37

Note: The numbers of shares and ownership ratios are as of February 29, 2020.

Source: Prepared by the Research Center based on the Annual Securities Report for the fiscal year ended February 29, 2020.

## Business Overview

### Business details

Business development focused on niche markets and profitability

The online shopping website, J North Farm sells 31 health foods and cosmetics (as of February 29, 2020; see Table 1). Kitanotatsujin's strategy focuses on products that support consumers with serious bodily concerns, such as constipation and atopy, and aims for the top share in their respective niche markets. While products with a large-scale market offer the prospect of large sales, competition is fierce and achieving a greater market share is costly. In contrast, Kitanotatsujin does not seek market scale, but instead places a priority on profit margin, and has developed multiple less competitive and profitable markets. Its ratio of operating profit to net sales in recent years exceeds 20%. In addition, rather than relying on bursts of popularity, which tend to be short-lived, the Company strives to capture long-lived demand in its respective markets, with the aim of achieving a stable growth in performance.

**Table 1. Products available on the online shopping site, "J NORTH FARM" (as of February 29, 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
FY2014	KITANO DAICHINO YUMESHIZUKU	A food with functional claims that increases sleep-enhancing hormones and improves sleep quality
	ZUKI SHIRAZUNO MI	A health food with a blend of feverfew, giant knotweed, and bitter as ingredients
FY2015	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
	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
FY2016	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
	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 pyrolytic 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 pyrolytic 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)
FY2017	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)
	WRINKY FLAT	An anti-wrinkle beauty gel
	LID KIRARA	A beauty gel exclusively for the upper eyelids
FY2018	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
	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
FY2019	OKOSAMAYOU KAITEKI OLIGO	KAITEKI OLIGO with ingredients adjusted for children
	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

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

### Business Overview

Regular purchases that account for approximately 70% of net sales brings management stability.

Customer loyalty to products is high, as the Company focuses on products that support those with health and beauty concerns. In addition, the repeat purchase rate is also high, as the products are packaged to be consumed in about a month, assuming continuous use by customers. Currently, regular purchases account for approximately 70% of overall net sales, which gives the Company management stability. Under the regular purchase program, the same product is automatically delivered at intervals of one or three months. While a certain percentage of customers cancel the regular purchase program, the Company's profit structure is made to build up sales month by month, when the number of newly acquired customers exceeds the number of customers who have canceled the program.

Efficient marketing based on in-depth data analysis

In-depth data analysis-based marketing supports these strategies of the Company. Kitanotatsujin's marketing mainly comprises online advertising utilizing keyword-triggered advertising and social media. The Company acquires data, such as which advertising media sold how many products for how much, the annual average profit from new customers, and the recovery cycle for the cost of new customer acquisition, as necessary, and accurately invests in advertising by measuring its cost effectiveness.

Furthermore, the Company analyzes the timing of repeat orders made by new customers, as well as the timing of losses of heavy users, in order to conduct timely follow-up marketing and achieve high repeat purchase rates. On the other hand, even in cases where the Company can expect a temporary rise in the number of customers and net sales by investing in advertising it sometimes foregoes the investment, depending on the expected post-investment customer retention rate. Such efficiency-oriented marketing activity leads to high profit margins.

Sales composition

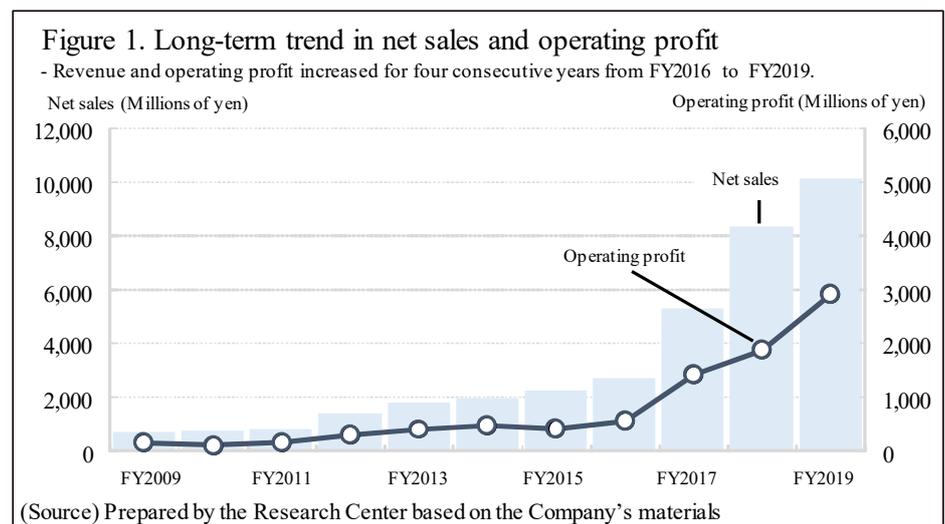
Kitanotatsujin is engaged in a single business segment, the "E-commerce business." Due to competition, the Company does not disclose sales by product.

## Financial Analysis

Increased revenue and operating profit for four consecutive years

The Company's medium-term business results show net sales hovering around a few hundred million yen until the fiscal year ended February 29, 2012, with sales of KAITTEKI OLIGO accounting for more than 80% of total net sales in the fiscal year ended February 29, 2012. Due to the Company's strategy of aiming for the top share in niche markets, there were only a few products, with each targeting a small-scale market, and sales growth was limited after the completion of customer development.

However, as sales of MINNANO HADAJUNTO~ATO CARE TYPE~, a skin care product launched in March 2011 grew, and with the launch of the face cleanser, 20NEN HOIPPU in August 2012, profit began to expand from the fiscal year ended February 28, 2013. While growth in operating profit stalled in the fiscal year ended February 29, 2016, this was due to a strengthening of human resources and a large increase in base salaries, as well as advertising expenses, all of which targeted further growth. The Company developed multiple less competitive niche markets that essentially required no substantial capital investment, and was back on the path toward higher profits after the fiscal year ended February 28, 2017. From the fiscal year ended February 28, 2018 onward in particular, the Company made reforms to the customer acquisition system, including making the online advertising management in-house, and enabled more efficient advertisement placement. As a result, the Company created multiple hit products, including EYE KIRARA, a cream for under the eyes, and HYALO DEEP PATCH, a cosmetic product containing hyaluronic acid. These products have driven, leading to an increase in both revenue and operating profit for four consecutive years from the fiscal year ended February 28, 2017 to the fiscal year ended February 29, 2020. Operating profit for the fiscal year ended February 29, 2020 expanded by roughly 20 fold over that for the fiscal year ended February 29, 2012, before the Company entered a high growth trajectory (See Figure 1).

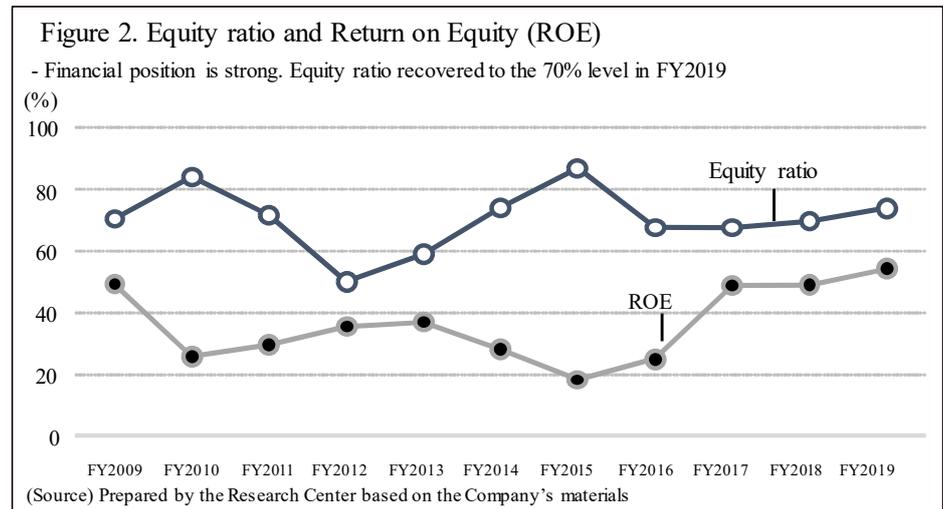


## Financial Analysis

Solid financial foundation with high-level ROE

The equity ratio, which is an indicator for financial foundation stability, stands at 73.7% as of February 29, 2020. The trend over the past years shows a decrease in equity ratio to 50.0% in the fiscal year ended February 28, 2013, due to an increase in advances received associated with the launch of the annual purchase program and loans from three banks to prepare for initial investments, but this was followed by a rapid recovery in the following few years. The equity ratio dropped to the 60% level from the fiscal year ended February 28, 2017, due to an effort to secure short-term liquidity through long-term loans to prepare for business expansion, but recovered to the 70% level in the fiscal year ended February 29, 2020 due to the establishment of internal reserves. There are no concerns regarding the stability of the Company's financial foundation.

Furthermore, ROE (return on equity), which is an indicator for capital efficiency, also briefly dropped to 18.0% in the fiscal year ended February 29, 2016 due to initial investments and impairment loss. However, the Company's business development, which prioritizes profit margin over sales scale has boosted ROE levels, which climbed to 54.2% in the fiscal year ended February 29, 2020. The Company's financial condition can be evaluated as healthy (See Figure 2).



## Strategy Analysis

Aiming to become a company with net sales of ¥100.0 billion

Since the listing of its stock in 2012, Kitanotatsujin has striven toward the goal of becoming a company with net sales of ¥10.0 billion while maintaining high profitability, and achieved that goal in the fiscal year ended February 29, 2020. Going forward, over the medium- to long-term, the Company aims for net sales of ¥100.0 billion and an operating profit of ¥30.0 billion, with the growth strategy for achieving that goal shown in Table 2.

Table 2. Outline of the growth strategy

Initiatives	Outline
Product development	<p>[Until FY2019]</p> <ul style="list-style-type: none"> <li>- Launched roughly five new products suitable for regular purchase every year, targeting niche markets with an <u>annual sales potential of ¥1.0 to 2.0 billion</u></li> </ul> <p>[From FY2020]</p> <ul style="list-style-type: none"> <li>- Launch new products suitable for regular purchase, targeting mass markets with an <u>annual sales potential of ¥5.0 to 10.0 billion</u></li> </ul>
Marketing (advertising)	<ul style="list-style-type: none"> <li>- Implement advertising with high customer acquisition efficiency by operating online advertising in-house</li> </ul>
Cost reduction	<ul style="list-style-type: none"> <li>- Review materials and outsourcing manufacturers to reduce cost</li> </ul>

Source: Prepared by the Research Center using the Company's materials and by conducting interviews with the Company

### ■ Product development

Partial change to the product development strategy to target mass markets

Kitanotatsujin previously launched roughly five new products suitable for regular purchase every year, for less competitive niche markets. Having the top share in niche markets has enabled the Company to achieve both growth and a high profit margin. However, as most of those products were for small-scale niche markets, even sales of hit products achieved annual sales of only ¥1.0 to ¥2.0 billion. As the scale of the Company's sales has grown, these products have become insufficiently powerful to contribute to sales growth.

Meanwhile, the recent hit product, HYALO DEEP PATCH, including products from the series are now boosting annual sales with the potential to reach ¥5.0 to ¥10.0 billion. Based on the product's success, the Company is planning to make a partial change to the product development strategy from the fiscal year ending February 28, 2021. Specifically, the strategy added the launch of products for the mass market with an annual sales potential of ¥5.0 to ¥10.0 billion, while there will be no change in the development of products suitable for regular purchase with a focus on supporting health and beauty concerns. Generally, larger markets come with fiercer competition, and the cost for achieving a larger share is higher. However, the Company aims to achieve growth while maintaining a high profit ratio, by following product development and marketing based on the success of HYALO DEEP PATCH. In the fiscal year ending February 28, 2021, based on this change in strategy, the Company will review its product planning process and employ human resources with work experience at major cosmetics manufacturers, in order to promote reform in the product development system.

## Strategy Analysis

Reinforce the customer acquisition system. Focus on strengthening advertisement production capability in FY2020

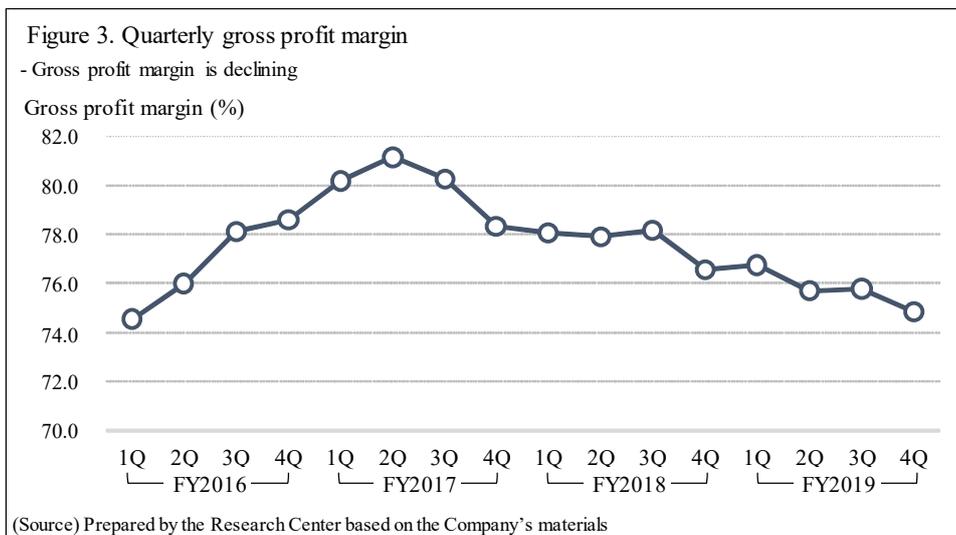
### ■ Marketing

Kitanotatsujin will continue to strengthen the customer acquisition system, which is responsible for advertising, while making a partial change to the product strategy and implementing a reform of the product development system. The previous initiatives have brought the operation of online advertising, which was previously outsourced to an advertising agency, in-house. In general, when an advertising agency is outsourced with advertisement operations by an advertiser, it does not actively pursue further optimization of advertisement, after a certain impact level has been achieved. Therefore, Kitanotatsujin has reinforced its customer acquisition department, and transferred the online advertisement system to an in-house operation that covers advertisement production as well as review and coordination of the media, cost, and time slots for advertising. As a result, the Company states that it is now able to achieve a higher customer acquisition rate than ever before. In addition, it promoted the development and introduction of a system that enabled an automated analysis of advertisement effectiveness and operations from the fiscal year ended February 28, 2019. Although some issues were encountered initially, operation of the system proceeded smoothly in the fiscal year ended February 29, 2020 and a new system was established that enabled unexperienced staff members to efficiently operate advertising. In the fiscal year ending February 28, 2021, the Company will focus on the current issue of strengthening the production of advertisement contents (such as images and messages for advertisements, and websites for selling products).

Review outsourcing companies to reduce cost

### ■ Cost reduction

In addition to those initiatives, the Company is working to reduce costs in order to increase the profit margin. The ratio of products with a relatively higher cost ratio in sales has increased recently, and the gross profit margin has been declining (See Figure 3). The Company will therefore review raw materials and outsourcing manufacturers, to reduce cost while maintaining product quality. Specifically, it established a representative office in South Korea in the fiscal year ended February 28, 2019 to review outsourcing manufacturers. Going forward, the Company will review outsourcing manufacturers including those overseas in order to reduce costs.



## Performance

Operating profit for FY2019 increased 57%, but new customer acquisition struggled

Fewer new products and a decline in advertising expenses affected performance

- Results for the fiscal year ended February 29, 2020 (March 1, 2019 to February 29, 2020)

Net sales grew by 21% year-on-year to ¥10,093 million, while operating profit rose by 57% to ¥2,915 million in the non-consolidated full-year financial results for the fiscal year ended February 29, 2020. Despite struggling with new customer acquisition, regular purchases by new customers acquired through active advertising in the previous fiscal year ended February 28, 2019 contributed to an increase in revenue. In profits, although the gross profit margin deteriorated due to a higher sales composition ratio of products with a relatively higher cost ratio, the decline in advertising expenses helped improve the ratio of selling, general and administrative expenses significantly, pushing the operating profit margin higher. Sales growth and a higher profit margin led to a sharp rise in operating profit (See Table 3).

Meanwhile, compared to the Company's initial plan at the beginning of the fiscal year ended in February 29, 2020, net sales ended below the plan due to struggles with the new customer acquisition. Although operating profit exceeded the plan, this was due to an underspending of the budget for advertising expenses as the Company was unable to implement active advertisement.

The quarterly net sales trend shows a 1% quarter-to-quarter rise in the first quarter, a 12% rise in the second quarter, a 7% decline in the third quarter, and a 2% rise in the fourth quarter. The first and third quarters were affected by shipping delays for the hit product HYALO DEEP PATCH. Sales for products that were ordered by new customers but not shipped and therefore not recorded in these quarters were ¥247 million and ¥167 million in the first quarter and the third quarter, respectively (the Company's estimates). Assuming that these orders were processed and shipped as usual, and continued under the regular purchase program in the following quarter, and that quarterly net sales were adjusted accordingly, net sales would have posted a 12% rise in the first quarter, a 1% rise in the second quarter, no change in the third quarter, and a 4% drop in the fourth quarter, indicating a slowdown in sales growth (See Figure 4).

Table 3. Non-consolidated business results

	(Millions of yen)								
	Results						The Company's plan		
	FY2018 full year	FY2019 full year				FY2019 full year			
	(Ratio to net sales)	(Ratio to net sales)	YoY Change %	Progress in the Company's plan	(Ratio to net sales)				
Net sales	8,312	(100.0%)	10,093	(100.0%)	+1,781	+21%	92%	10,939	(100.0%)
Gross profit	6,451	(77.6%)	7,645	(75.7%)	+1,194	+18%	-	-	-
Selling, general and administrative expenses	4,590	(55.2%)	4,730	(46.9%)	+140	+3%	-	-	-
(Of which, advertising expenses)	3,077	(37.0%)	2,748	(27.2%)	-329	-11%	76%	3,614	(33.0%)
Operating profit	1,861	(22.4%)	2,915	(28.9%)	+1,054	+57%	108%	2,702	(24.7%)
Ordinary profit	1,861	(22.4%)	2,923	(29.0%)	+1,062	+57%	108%	2,703	(24.7%)
Profit	1,293	(15.6%)	1,974	(19.6%)	+682	+53%	104%	1,890	(17.3%)

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

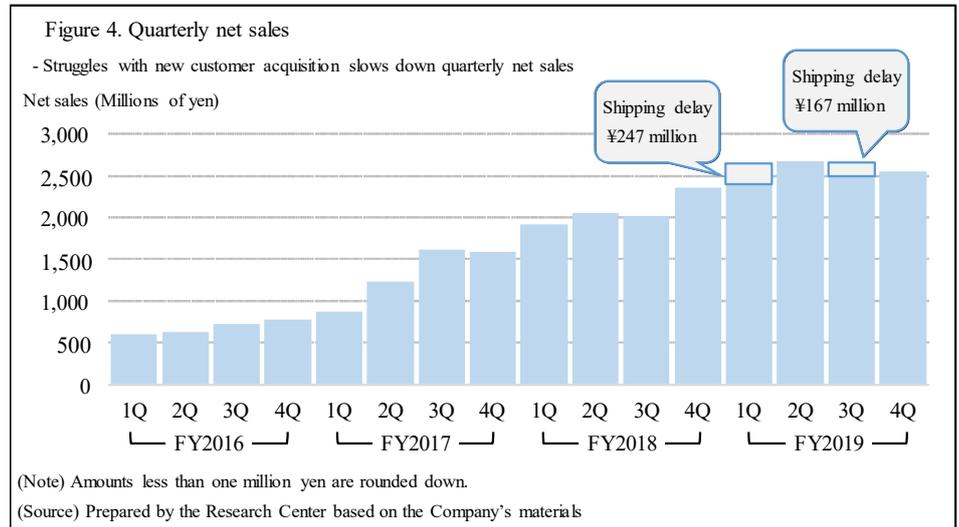
(Note 2) Amounts less than one million yen are rounded down. Ratios to net sales and year-on-year changes are calculated in thousands of yen.

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

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

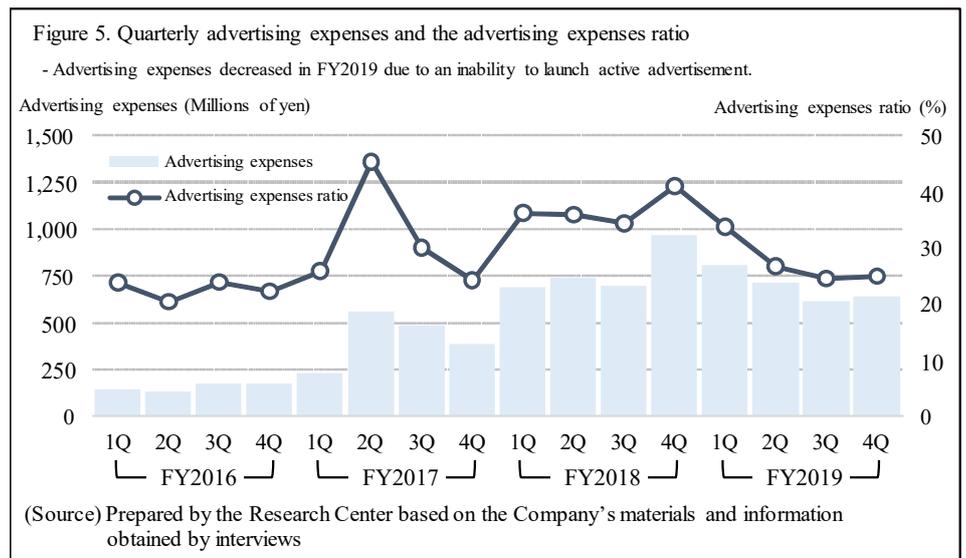
## Performance

The slowing sales growth is attributable to a slow increase in product development speed, resulting in fewer new products compared with the previous fiscal year (three products in the fiscal year ended February 29, 2020 vs. five products in the fiscal year ended February 28, 2019), as well as struggles with new customer acquisition due to inactive advertisement.



Shipping delays of hit products revealed issues surrounding the customer acquisition department

The quarterly trend in advertising expenses shows a continued decrease since the fourth quarter of the fiscal year ended February 28, 2019 (See Figure 5). The shipping delay of “HYALO DEEP PATCH,” which forced a reduction in advertising of the product, among other factors, adversely affected results. The shipping delay also revealed issues surrounding the customer acquisition department that is responsible for advertising, which also had an impact.



## Performance

Underdeveloped advertisement production system and insufficient human resource development

In order to conduct effective advertisement, it is necessary to constantly update advertisement contents (images and messages to be used for advertisement, and websites for selling products) and maintain novelty, in addition to advertising operations such as coordinating media and time slots for advertisement. Kitanotatsujin has recently been pursuing an increase in the number of staff at the customer acquisition department, which is responsible for advertising, and the systemization of advertising operations, but has not placed a priority on the system and human resource development for the production of advertisement content. As a result, although the Company needed to actively advertise other products in the wake of the shipping delay of HYALO DEEP PATCH, it was unable to do so due to a lack of production and updating of advertisement content.

### Performance

Decrease in profit forecasted for FY2020, affected by weak consumer sentiment

Pursue reforms in the customer acquisition and product development departments in FY2020

The Research Center also forecasts a decreased operating profit due to struggles regarding new customer acquisition

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

Kitanotatsujin's plan for the non-consolidated full-year financial results for the fiscal year ending February 28, 2021 is an 18% year-on-year decrease in net sales to ¥8,227 million and a 31% decrease in operating profit to ¥2,006 million (See Table 4). The Company reversed its plan of sales and profit expansion, which had been set until the previous fiscal year, to a plan that foresees significant declines in revenue and operating profit. Under the impact of a decline in consumer confidence due to the spread of COVID-19, the number of new customer acquisitions recently decreased by roughly 20%, a trend which the Company assumes will continue until the end of the first half of the fiscal year ending February 28, 2021. In addition, without taking into account the effects of reforms to be implemented in the fiscal year ending February 28, 2021 and the contribution from new products at this time, the Company expects decreases in both revenue and profit.

In light of the struggles experienced with new customer acquisition, the Company will press forward with reforms of the customer acquisition and product development departments in the fiscal year ending February 28, 2021. The customer acquisition department will accelerate improvement of the system and development of human resources, in order to strengthen the production capabilities for advertisement content, which has become an issue for the Company. The product development department will accelerate the review of its product development process and the increase in the number of staff in order to reinforce its product development structure, in light of the development of fewer new products than planned in the fiscal year ended February 29, 2020, and with the aim of launching products that target larger markets.

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

The QUICK Corporate Valuation Research Center expects the Company's non-consolidated full-year financial results for the fiscal year ending February 28, 2021 to be an 11% year-on-year drop in net sales to ¥9,000 million, and an 18% drop in operating profit to ¥2,400 million (See Table 4). The Research Center also forecasts decreases in both revenue and operating profit due to the adverse effect of weak consumer sentiment, in addition to struggles with new customer acquisition, which have continued from the previous fiscal year.

Table 4. Forecast of non-consolidated financial results for the full year (Millions of yen)

	Results	The Company's plan		The Research Center's forecast			
	FY2019 full year	FY2020 full year	(YoY %)	FY2020 full year	FY2021 full year		
Net sales	10,093	8,227	-18%	9,000	-11%	9,600	+7%
Gross profit	7,645	-	-	6,700	-12%	7,100	+6%
(Gross profit margin)	(75.7%)	-	-	(74.4%)	-	(74.0%)	-
Selling, general and administrative expenses	4,730	-	-	4,300	-9%	5,000	+16%
(Ratio of selling general and administrative expenses)	(46.9%)	-	-	(47.8%)	-	(52.1%)	-
Operating profit	2,915	2,006	-31%	2,400	-18%	2,100	-13%
(Operating profit margin)	(28.9%)	(24.4%)	-	(26.7%)	-	(21.9%)	-
Ordinary profit	2,923	2,007	-31%	2,400	-18%	2,100	-13%
Profit	1,974	1,357	-31%	1,600	-19%	1,400	-13%

(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

The Research Center expects both the impact on sales of the spread of COVID-19 and the decrease in advertising expenses to continue throughout the first half. It expects the average monthly sales in the first half of the fiscal year ending February 28, 2021 to decrease to approximately ¥730 million compared with approximately ¥840 million in the second half of the fiscal year ended February 29, 2020. In the second half, it expects that the spread of COVID-19 will begin to subside, and economic activity will gradually return to normal. The Research Center expects the speed of new customer acquisition to recover to a certain extent on the back of improving consumer sentiment, and the average monthly sales in the second half to rise to approximately ¥770 million.

In profit, the ratio of products with a relatively higher cost ratio in sales is expected to continue to increase, pushing down the gross profit margin. While advertising expenses are expected to decrease in selling, general and administrative expenses, personnel expenses will increase in association with system reinforcement, and the ratio of selling, general and administrative expenses is expected to remain unchanged, compared to the fiscal year ended February 29, 2020. The Research Center expects that operating profit will consequently decrease by a double-digit percentage, due to a decrease in sales and a lower gross profit margin.

Compared with the Company's plan, the Research Center's forecast is approximately ¥800 million higher in net sales and approximately ¥400 million higher in operating profit. Similar to the Company, the Research Center did not take into account the effect of the reform to be promoted in the fiscal year ending February 28, 2021 in this forecast. However, the Research Center reflected the contribution from new products in net sales in the forecast as new products have already been launched in the fiscal year ended February 29, 2020.

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

The Research Center expects the Company's non-consolidated full-year financial results for the fiscal year ending February 28, 2022 to be a 7% year-on-year rise in net sales to ¥9,600 million and a 13% drop in operating profit to ¥2,100 million. It expects that the recovery in new customer acquisition from the second half of the fiscal year ending February 28, 2021 will continue to a certain extent, and revenue will begin to increase on a full-year basis. Meanwhile, in expenses, operating profit is expected to continue to decrease due to an increase in advertising expenses. While the Research Center does not reflect effects of the reform in the customer acquisition department at present, it expects advertisement to increase as the speed of new customer acquisition increases on the back of improvements in consumer sentiment. Kitanotatsujin's profit structure relies on continued sales from regular purchases, in order to recover advertising expenses. Advertising expenses are therefore first necessary when beginning to activate advertisement, which may tend to decrease operating profit.

The Research Center believes that, in order to re-energize the speed of growth in the future, Kitanotatsujin needs to shift its growth structure from the current reliance on the sales expansion of certain products, to one that enables growth through the expansion of sales of more products. Although one factor behind the current slowdown in growth is a decline in consumer sentiment, another major factor is that the Company was unable to actively advertise other products, when shipping delays occurred for the hit product HYALO DEEP PATCH. The Research Center expects a sales recovery, to a certain extent on the back of an improvement in consumer sentiment as the spread of COVID-19 begins to subside; however, it will not recover to its previous high growth trajectory.

Recovery of new customer acquisition expected in FY2021, but advertising expense comes first

A subsiding of COVID-19 will not be sufficient for a return to high growth

### Performance

Reform in the customer acquisition department is key to accelerating growth

The Company has pursued reforms in the customer acquisition department, such as increasing staff and introducing a new system, in order to advertise more products. However, this reform is still a work in progress, as indicated by the fact that the Company was unable to actively advertise other products after the shipping delay of HYALO DEEP PATCH in the first half of the fiscal year ended February 29, 2020. In light of this situation, the Company plans to further advance reform centering on system development and the production of advertisement content, for which human resource development has been lagging behind, in the current fiscal year ending February 28, 2021. Going forward, the key to the speed of its re-energized growth is whether the Company will actually be able to make active advertising for more products and diversify hit products.

The focus to be placed on medium- to long-term progress in product development reforms

The Research Center also did not reflect the impact of a partial change to the product development strategy and a strengthening of the development structure in the business results forecast. This is because the impact of these reforms cannot be evaluated, as new product launches aimed at annual sales of ¥5.0 to ¥10.0 billion are expected in the second half of the fiscal year ending February 28, 2021 or later. However, the Research Center will closely monitor the progress of these reforms on a medium- to long-term basis, as it views improving per-product sales as an unavoidable issue, along with the diversification of hit products, in order for Kitanotatsujin to achieve net sales of ¥100.0 billion.



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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	9,000
	Operating profit	Millions of yen	1,403	1,861	2,915	2,400
	Ordinary profit	Millions of yen	1,403	1,861	2,923	2,400
	Profit	Millions of yen	948	1,293	1,974	1,600
	EPS	Yen	7.21	9.30	14.21	11.51
	ROE	%	48.8	48.9	54.2	32.4
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.

### Business operation 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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