

RACCOON CO.,LTD.

3031 Tokyo Stock Exchange
 First Section

5-Aug.-16

Important disclosures
 and disclaimers appear
 at the end of this document.

FISCO Ltd. Analyst
 Yuzuru Sato

■ FY4/16 Sales up 8.4% YoY, Operating Profit up 17.1%, Both to Record Highs

RACCOON CO., LTD. (3031) engages in three businesses. For its electronic commerce (e-commerce) business, the company operates a website called Super Delivery, which facilitates wholesale sales and purchases between businesses, mainly of apparel and miscellaneous goods. The Company's second business, which derives from the e-commerce business, is a service called Paid, which settles credit sales between businesses. Its third business is an accounts receivable guarantee service that continues steadily growing and is conducted by subsidiary Trust & Growth Co., Ltd. In June 2016, Japan's Ministry of Economy, Trade and Industry bestowed the first Nihon Service Award. The Super Delivery service received an award for supporting business activity in rural areas of Japan.

In the fiscal year through April 2016, i.e., in FY4/16, Raccoon's consolidated sales grew 8.4% year on year (YoY) to ¥2,229mn and its operating profit rose 17.1% to ¥393mn. Both figures were record highs, continuing the trend of record-breaking performance that has lasted over the last few years. The mainstay Super Delivery business segment's value of transactions handled increased by only 0.6% YoY in FY4/16, but revenue generated by both the Paid credit sales settlement business and the accounts receivable guarantee business grew by more than 10% YoY, contributing to an increase in net profit. In August 2015, Raccoon started an e-commerce service called SD Export, a version of the Super Delivery service dedicated to exports from and imports to Japan, although the Super Delivery service also handles exports. In FY4/16, the value of international transactions handled by both services together increased by 60% YoY, mainly due to an increase in transactions for Asia. Although international transactions accounted for only 5% of total transaction value in FY4/16, they are expected to grow.

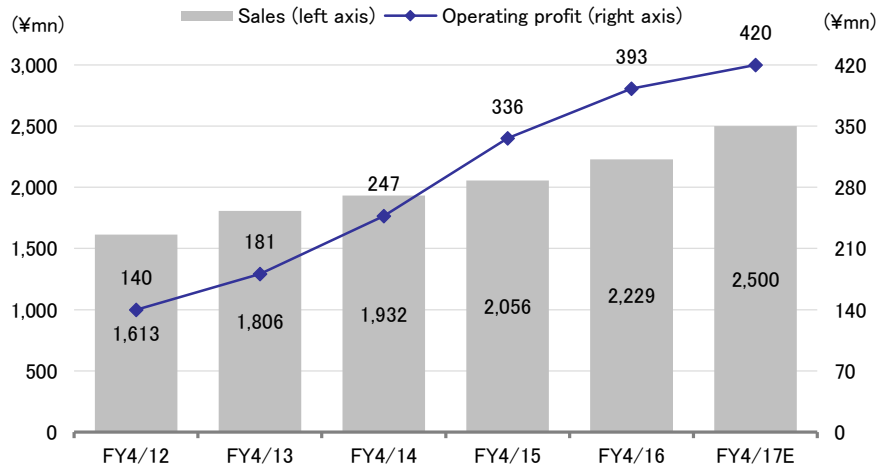
For FY4/17, Raccoon projects a 12.1% YoY rise in its consolidated sales to ¥2.5bn and a 6.7% increase in operating profit to ¥420mn. The Company expects sales by the Paid credit sales settlement business and the accounts receivable guarantee business to grow by at least 10% each YoY again, and it foresees sales growth for the e-commerce business as domestic transactions on the Super Delivery website recover and export transactions are expected to continue rising. To accelerate the growth of the SD Export service, the Paid credit sales settlement business, and the accounts receivable guarantee business, the company will invest in the development of an advanced computer system and spend more heavily on marketing than it did in FY4/16. Therefore, it projects a decline in profitability in FY4/17. However, the Company anticipates a return to double-digit YoY operating profit growth from FY4/18.

Raccoon has not yet decided its dividends per share for FY4/17, but if it achieves its profit forecasts, it may increase its dividends per share from FY4/16's ¥4.5 to maintain a dividend payout ratio of 30%. In March 2016, the Company's share listing was upgraded from the Mothers Market of the Tokyo Stock Exchange to the First Section of the exchange.

■ Check Point

- With the management philosophy of "improving the efficiency and convenience of business", Raccoon engages in e-commerce, the Paid credit sales settlement business, and an accounts receivable guarantee business
- Profit growth may accelerate from FY4/18 following heavy investment in FY4/17
- The Company is likely to raise its dividends per share annually

Consolidated sales and operating profit, FY4/12 – FY4/17E

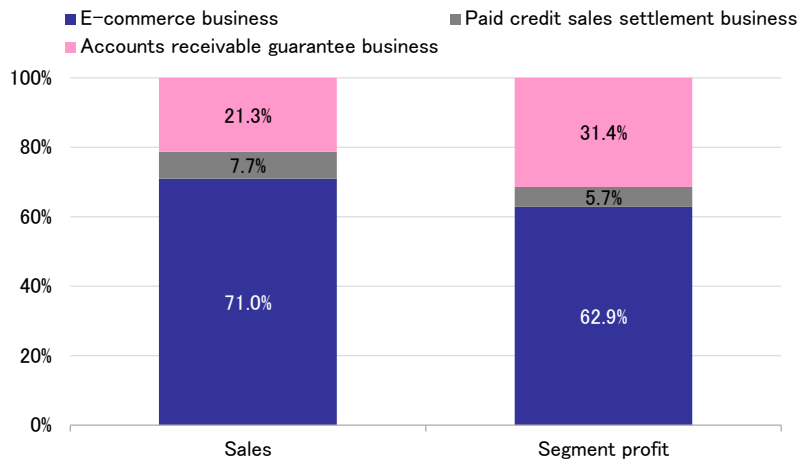


■ Description of Businesses

With the management philosophy of “improving the efficiency and convenience of business”, Raccoon engages in e-commerce, the Paid credit sales settlement business, and an accounts receivable guarantee business

Raccoon engages in e-commerce, the Paid credit sales settlement business, and an accounts receivable guarantee business. With the management philosophy of “improving the efficiency and convenience of business”, it has been expanding all three businesses efficiently by generating synergy between its businesses and by sharing resources between them. The e-commerce business is the main business, providing more than 60% of total sales and profit.

Breakdown of FY4/16 sales and segment profit by segment



Note: before elimination of inter-business transactions

(1) E-commerce business

The e-commerce business connects wholesalers with corporate buyers through websites. The main website is Super Delivery. A version of this service specializing in exports and imports is the SD Export website. In addition, the company operates a cloud-based website called COREC.

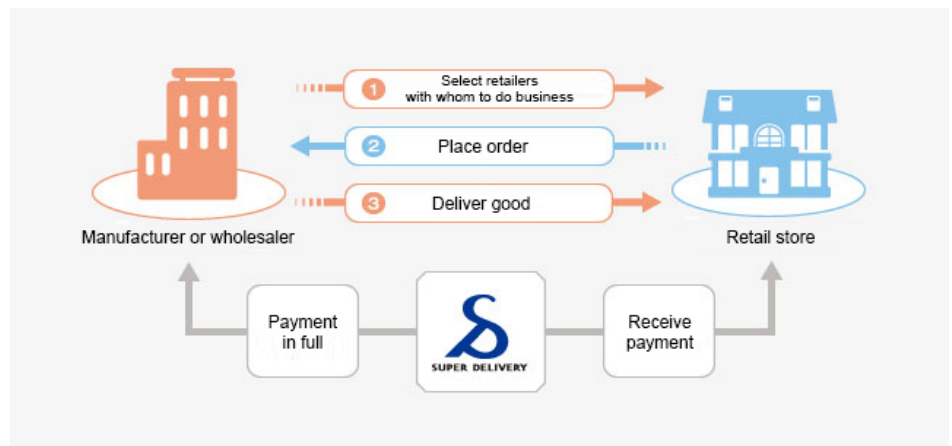
a) Super Delivery

The Super Delivery is a wholesale website in which the main business is to link apparel and miscellaneous goods manufacturers with retailers. At the end of FY4/16, 52,372 retailers subscribed to one or more of the e-commerce website services, 1,138 manufacturers and wholesalers sold through these sites, and 559,272 items were traded on the sites, making them the largest business-to-business specialization website group in Japan.

Retailers subscribing to the Super Delivery service can acquire goods from afar that they may not have the opportunity to buy otherwise because of distance from the supplier. Manufacturers and wholesalers using the service can increase the number of their customers at low cost for sales and payment receipt. More than 70% of the retailers subscribing to the Super Delivery service are located outside Tokyo and Osaka. Thus, the Super Delivery service received an award for supporting business activity in rural areas of Japan in June 2016, when Japan's Ministry of Economy, Trade and Industry held the first Nihon Service Award* and recognition is clearly rising.

In the balanced Super Delivery business model, manufacturers and wholesalers pay a basic monthly fee of ¥40,000 and retailers pay a monthly subscription fee of ¥2,000 as stable revenue. Furthermore, as unstable revenue, manufacturers and wholesalers pay 10% of the value of their sales to cover the cost of Raccoon's computer system. The manufacturers and wholesalers ship their goods directly to retailers, with no intervention by Raccoon.

Flow chart of Super Delivery service



Source: Company materials

Competitors to the Super Delivery service in handling wholesale sales of apparel include Rakuten, Inc. (4755) and a subsidiary of Aucfan Co., Ltd. (3674), but these services are offered to a wide range of manufacturers, wholesalers and retailers, so their business concept differs from the concept of the Super Delivery service. Raccoon considers wholesalers not using one of its services to be the main competitors for the Super Delivery service. The Service Productivity & Innovation for Growth (SPRING) Council offers Japan's first awards recognizing outstanding service for manufacturers and wholesalers offering creative services or services that contribute to regional activity based on an appraisal according to a universal scale.

In August 2015, Raccoon started offering a version of its Super Delivery service to handle exports from and imports to Japan. This service is called SD Export. It was launched as a new dedicated site to cater to the growing number of Japanese retailers which wanted to purchase goods overseas and to small Japanese manufacturers wishing to export their goods without undertaking complicated procedures. Manufacturers and wholesalers pay a monthly fee of ¥40,000 and a computer system fee of 10% of their sales to use the SD Export service, identical to their fees for the Super Delivery service. However, manufacturers and wholesalers that already subscribe to the Super Delivery service can use the SD Export service with no additional charge. Retailers buying through the SD Export service pay no fees. Currently, the SD Export website is in English only. At the end of FY4/16, about 5,000 retailers subscribed to the SD Export service, 500–600 manufacturers and wholesalers sold their goods through this service, and about 150,000 items were traded on the service. Taiwan had the largest number of registered users of the SD Export service, followed by Hong Kong, the US, the UK, and India. In terms of transaction amount in FY4/16, Hong Kong and Taiwan together accounted for about 70% of the total.

b) COREC

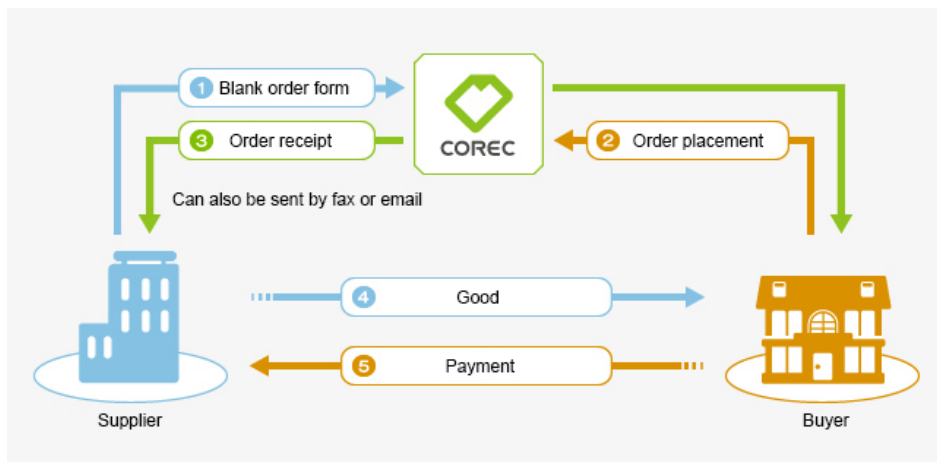
In March 2014, Raccoon began offering the COREC cloud-based internet service through which companies can send and receive cost estimates and orders. Currently, more than 70% of companies use many means of communication to send cost estimates and orders, including fax and emails, depending on the client. By using the COREC service, they can communicate more efficiently and more cheaply.

Buyers who have had to place orders by different means depending on the supplier can use the COREC service to place all orders on the website according to formats prescribed by each supplier (suppliers that do not use the COREC service receive orders by fax or email). Thus, the COREC service is easy to use, even for companies that do not subscribe to the service.

Another characteristic of the COREC service is that it uses a gimmick to self-propagate. The blank order forms submitted by sellers subscribing to the service contain advertisements for the service, as do the completed order forms sent by buyers to suppliers. Therefore, buyers and sellers who do not subscribe to the service become aware of the service, and the Company can increase the number of service subscribers without incurring large advertising costs. At the end of FY4/16, 5,903 companies subscribed to the COREC service, which was 3,613 more companies than had subscribed at the end of FY4/15. More than 30% of this increase resulted from the advertisements shown on the order forms. The ratio of buyers to sellers on the COREC service was 6 to 4 at the end of FY4/16.

For the first six months that Raccoon offered the COREC service, the service was free as part of a strategy to gain more members. The Company started charging suppliers for the service in September 2014. The COREC service contributes little to sales, but from the performance aspect, it also incurs few fixed costs. In March 2016, Raccoon began offering the COREC API service. Among the external partners with this service are Yahoo! Shopping, Square Regi, and Air Market. Following the business relationship concluded with Yahoo! Shopping, the Company expects the number of subscribers to the COREC API service to grow. Raccoon has applied for a patent on the process it uses for the COREC service.

Flow chart of COREC service



Source: Company materials

COREC fee plan

	Free plan	Paid plan
Buyer		
Fee	¥0/month	¥980/month
Number of orders placed	Unlimited	
Batches of data on orders placed can be downloaded on smartphones, and stock (goods received) can be processed on smartphones	Possible	
Usable by many people in charge	Not possible	Possible
Bulk orders can be placed by convenience stores	Not possible	Possible
Number of goods that can be ordered on one form	One	Unlimited
Temporary saving of orders placed	One order overall	One order per supplier
Records of recipients	One	100
Free fax uses	30/month	200/month (a fee of ¥15 per use is charged for more than 200 uses per month)
Report of aggregate value of orders placed	Only monthly	All time periods
Supplier		
Fee	¥0/month	¥9,800/month
Number of orders received	Unlimited	
Batches of order received can be downloaded, cost estimates prepared	Possible	
Number of order forms available	4	200
Number of shipment receipts that can be produced	20/month	Unlimited
Bulk HTML email transmissions	100/month	1,000/month
Many people in charge within a company can use the service	Not possible	Possible
Possible to designate a person in charge within a company for each client	Not possible	Possible
Original URL use	Not possible	Possible

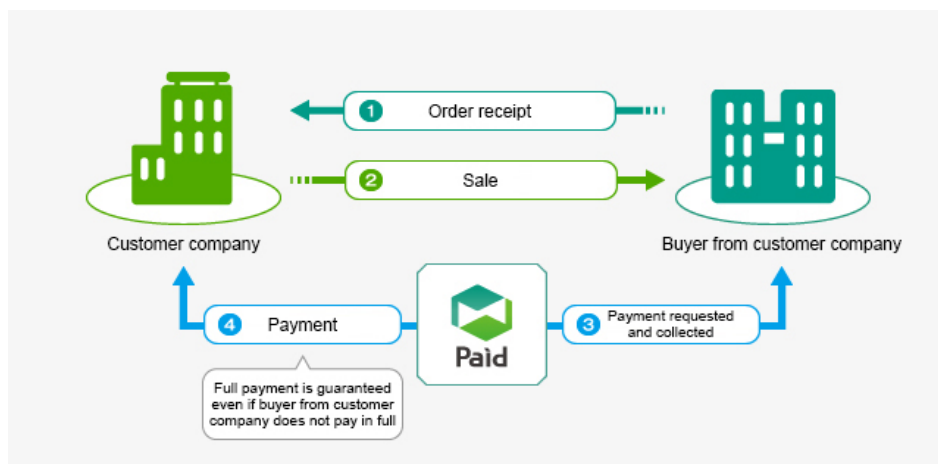
Source: Company materials

More than 1,700 companies now subscribe to the Paid credit sale collection business, a YoY increase of about 300

(2) Paid credit sale collection business

Raccoon started the Paid credit sale collection business in October 2011. This business manages the credit of companies buying from customer companies, requests and collects payments from these buyers on behalf of the customer company, and guarantees payment of invoiced amounts not paid by the buyers. The business charges its customer companies a fixed guarantee fee equivalent to 3.0% of the value of the transactions between the customer companies and buyers from the customer companies.

Flow chart of Paid credit sale collection business



Source: Company materials

Ordinarily in Japan, more than 90% of transactions between businesses are credit transactions. However, only about 10% of transactions between companies on the internet are credit transactions. To use the Paid business, a selling company must subscribe to its service, i.e., become a registered member, and a buying company must also be a registered member of the service. The credit sale guarantee business operated by Raccoon subsidiary Trust & Growth Co., Ltd. guarantees the payments by buying companies to the Paid business.

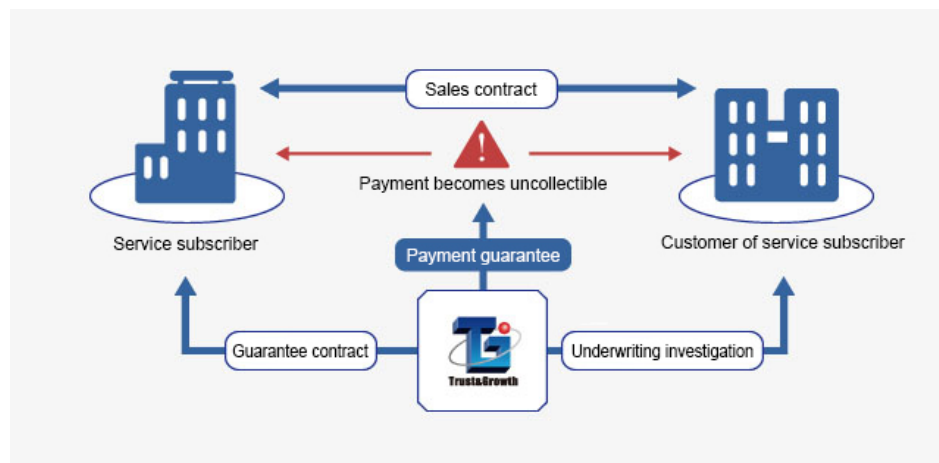
When Raccoon started its Paid credit sale collection business, most of the customers for the business were customers of the Super Delivery service, or intra-company customers. However, as more companies not using a Raccoon service became aware of the Paid credit sale collection business, they began to use this service. Currently, about half of the customers of the Paid credit sale collection business are external, i.e., do not use another Raccoon service. Most customers of the Paid credit sale collection business are early stage venture capital companies, which have a great need for the service. More than 1,700 companies now subscribe to the Paid business, a YoY increase of about 300.

A recurring revenue business yielding an operating profit margin of 10% or more

(3) Accounts receivable guarantee business

In November 2010, Raccoon subsidiary Trust & Growth Co., Ltd. started its accounts receivable guarantee business. This business pays a preset amount to a service subscriber if a customer of the subscriber is unable to pay the subscriber. The service subscriber hedges against possible losses on its accounts receivable by paying a fixed guarantee fee of less than 1% of the guaranteed amount per month. The guarantee fees are the sales of the accounts receivable guarantee business and are recognized in monthly installments over the guarantee period. Thus, the business generates recurring sales based on the balance of its total guarantees, and barring the occurrence of several large subscriber customers becoming overburdened by debt in a short period of time, the business yields an operating profit margin of 10% or more.

Flow chart of accounts receivable guarantee business

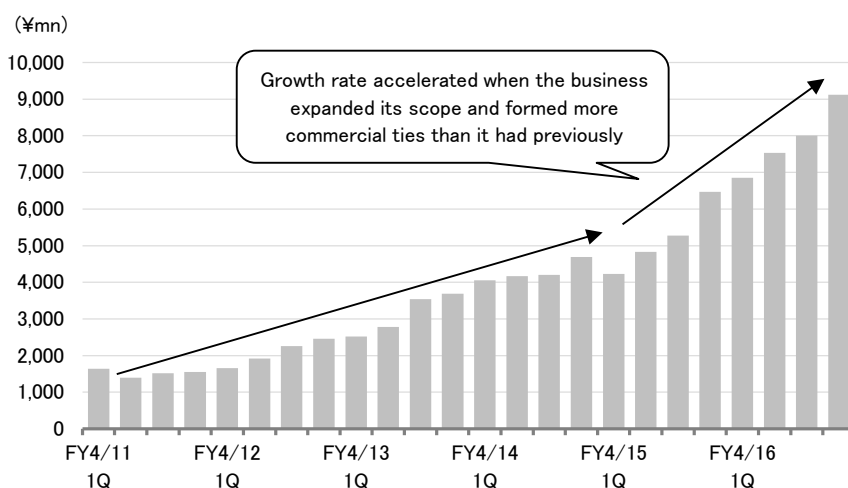


Source: Company materials

The balance of accounts receivable guarantees made by this business has risen steadily, hitting ¥9,123mn at the end of FY4/16. The rate of growth of this balance accelerated in FY4/15, when the scope of the business was expanded and the business concluded more commercial relationships than it had previously. About 40% of the companies whose payments are guaranteed by this business are wholesalers or retailers, about 30% are involved in other service industries, and about 30% engage in industries other than services. Most of the companies whose payments are guaranteed are small, with annual sales of ¥5.0bn or less, and most of the payment guarantees are also small, at ¥2–3mn each.

Sales channels are divided into direct sales and agency sales. Currently, about 40% of sales come from direct sales and 60% from agencies. Direct sales are made by sales offices in Tokyo, Osaka, Nagoya, and Fukuoka, as well as through the internet. Affiliated agencies include regional banks, insurance agencies, credit clearing houses, and other organizations. When an affiliated agency introduces a client, the business pays a commission to the agency.

Competitors of the accounts receivable guarantee business include eGuarantee, Inc. (8771), property insurance companies, and factoring companies affiliated with banks. However, few competitors guarantee accounts receivable for small companies, so there are still opportunities for this business to expand.

Balance of accounts receivable guarantees, FY4/11–FY4/16


■ Business Trends

Profit growth may accelerate from FY4/18 following heavy investment in FY4/17

(1) FY4/16 results

On June 10, 2016, Raccoon announced its consolidated results for FY4/16. Sales grew 8.4% YoY to ¥2,229mn, operating profit rose 17.1% to ¥393mn, recurring profit advanced 12.2% to ¥367mn, and profit attributable to owners of parent climbed 18.7% to ¥239mn. All of these figures were consecutive record highs. Sales were slightly below the company's forecast, mainly because the transaction value handled by the Super Delivery website in the e-commerce business increased by only 0.6% YoY. However, strong sales and profit growth in the Paid credit sale collection business and the accounts receivable guarantee business supported increases in overall sales and profits.

The operating profit margin increased by 1.4ppts YoY to 17.7% in FY4/16. The ratio of the cost of goods sold to sales grew by 1.7ppts YoY, but the ratio of SGA costs to sales fell by 3.0ppts, contributing to the upturn in the operating profit margin. Of SGA costs, the main increase was in personnel costs (salaries and directors' remuneration rose by ¥57mn YoY). During FY4/16, the Company's shares were elevated in listing from the Mothers Market of the Tokyo Stock Exchange to the First Section of the same exchange. The Company incurred a non-operating expense of ¥22mn in relation to this listing upgrade.

Consolidated results, FY4/15–FY4/16

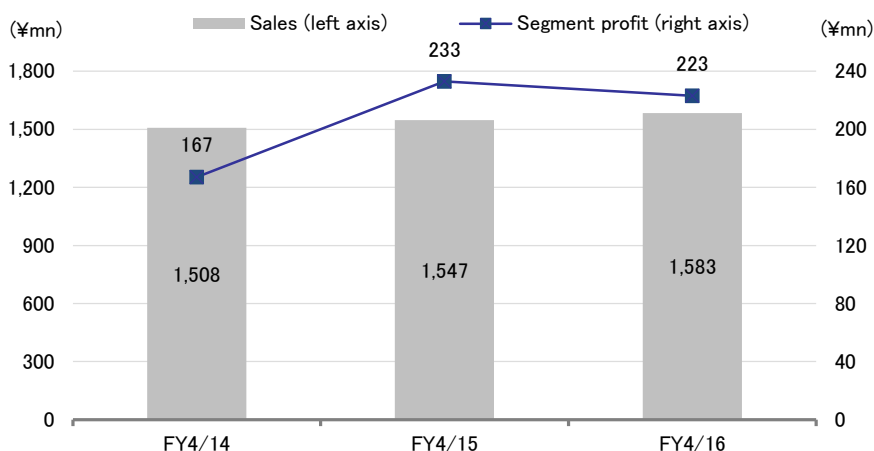
	FY4/15		Co. f	FY4/16			
	Result	Ratio to sales		Result	Ratio to sales	YoY	Result/Co. f
Sales	2,056	-	2,270	2,229	-	+8.4%	-1.8%
Cost of sales	314	15.3%	-	377	17.0%	+20.2%	-
SGA costs	1,405	68.4%	-	1,457	65.4%	+3.7%	-
Operating profit	336	16.3%	415	393	17.7%	+17.1%	-5.1%
Recurring profit	327	15.9%	410	367	16.5%	+12.2%	-10.3%
Profit attributable to owners of parent	201	9.8%	260	239	10.7%	+18.7%	-7.9%

(2) Business trends by segment

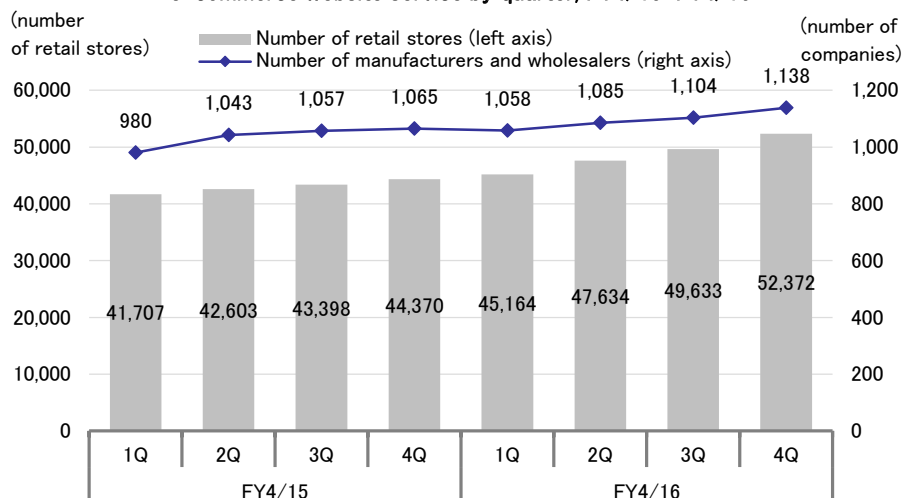
a) E-commerce business

In the e-commerce business, sales rose 2.3% YoY to ¥1,583mn in FY4/16, but segment operating profit declined by 4.5% to ¥223mn. Although the transaction value handled by the Super Delivery website grew by only 0.6% YoY to ¥9,587mn, segment sales grew by more than this rate because the number of retailers subscribing to one of the e-commerce website services increased, as did the number of manufacturers and wholesalers using one of these services. Thus, monthly subscription fees paid by the retailers and basic monthly fees paid by the manufacturers and wholesalers rose. Raccoon acquired new customers for its e-commerce business in FY4/16. Thus, the number of retailers subscribing to one of the e-commerce websites grew by 8,002 in FY4/16 to 52,372, including about 5,000 retailers subscribing to the SD Export service, who pay no monthly fees. The number of manufacturers and wholesalers using one of the website services in the Company's e-commerce business increased by 73 to 1,138 at the end of FY4/16. The costs of building the SD Export service and a YoY rise in overall business promotion costs led to the YoY decline in operating profit in the e-commerce sector.

Sales and segment operating profit in the e-commerce business, FY4/14-FY4/16

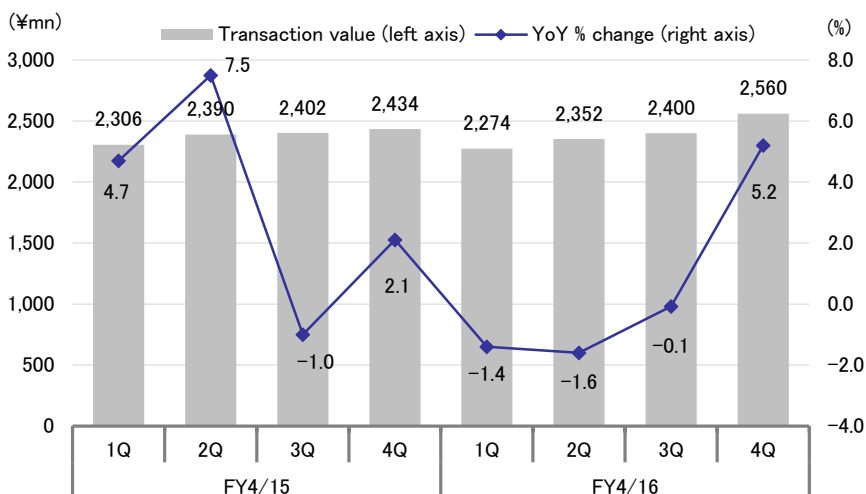


Number of retail stores, manufacturers and wholesalers using an e-commerce website service by quarter, FY4/15-FY4/16

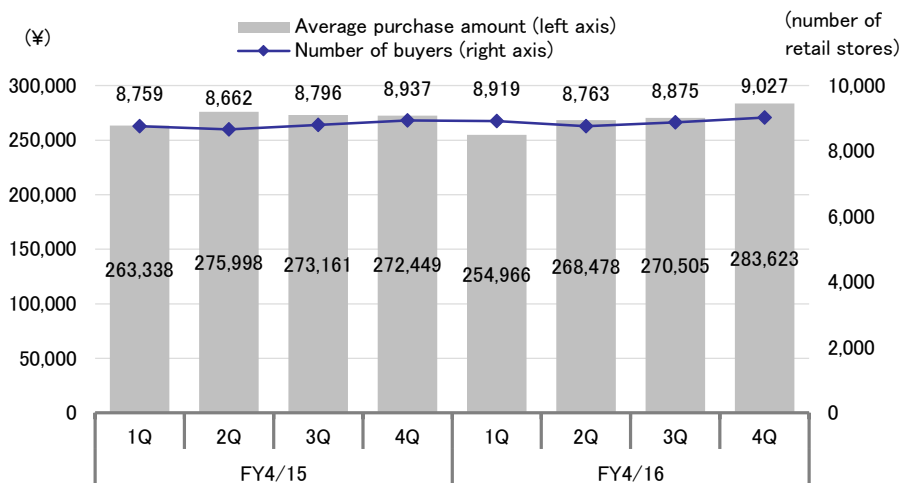


As shown in the graph below, the transaction value handled by the e-commerce business declined YoY in each of the first three quarters of FY4/16, mainly because some large retailers subscribing to one of the services offered by the business reduced their purchases, resulting in an average decrease of about 3%. However, in the final quarter of FY4/16, the transaction value grew by 5.2% YoY as the value of domestic transactions returned to positive growth by 2% YoY and the value of international transactions increased. The return to YoY growth of transaction value in the final quarter was due to two factors. First, the business acquired new manufacturers and wholesalers that offered attractive goods. Second, the business developed an internet site where manufacturers can market new products on sale a half year before the products are officially launched.

Value of transactions handled by the e-commerce business and YoY rates of change in this value by quarter, FY4/15–FY4/16

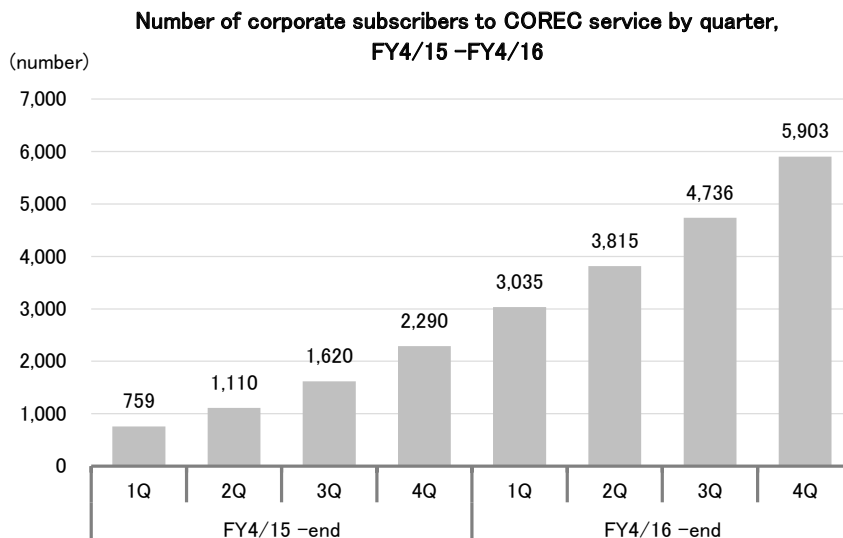


Number of retail stores making purchases on an e-commerce website service and average purchase amount by quarter, FY4/15–FY4/16



The value of transactions handled by the SD Export website service combined with the value of shipments of Japanese goods to overseas buyers by the Super Delivery website service grew by 60% YoY in FY4/16. The value of transactions handled by the SD Export website service is increasing notably, mainly because the service improved its convenience by adding the PayPal settlement service to its means of payment in March 2016. From the same month, the service also provided the low-cost air and ship transport service provided by Japan Post Co., Ltd. However, most of the purchases of goods from Japan by overseas buyers are made through the Super Delivery website service because the SD Export service handles only about 150,000 items, or about one-fourth the number of items handled by the Super Delivery service. Although most of the items exported from Japan through these services are apparel and miscellaneous goods, exports of Japanese dinnerware and cooking appliances are increasing. Stationery items, such as pens and masking tape, are also selling well.

The COREC cloud-based internet service started a paid plan of operations in September 2014, but since then, it has been concentrating on increasing its brand recognition and the number of companies subscribing to the service. To increase the number of subscribers, the service is promoting commercial ties with other companies, and in March 2016, it started its COREC API service. At the end of FY4/16, the COREC service had 5,903 corporate subscribers, which was 3,613 more than it had a year earlier. The service is likely to acquire more than 10,000 subscribers soon.



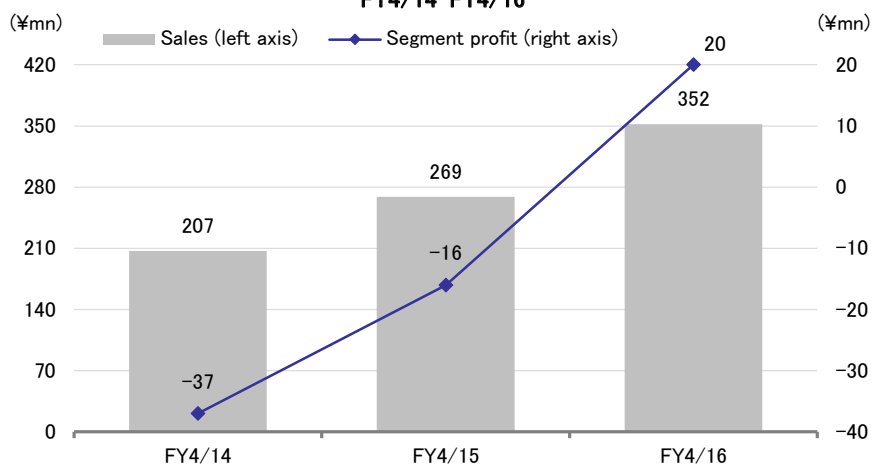
b) Paid credit sales collection business

Sales in the Paid credit sales collection business increased 30.9% YoY to ¥352mn in FY4/16, and the business earned an operating profit of ¥20mn, its first profit, reversing an operating loss of ¥16mn in FY4/15. As a settlement service for the e-commerce website services, this business has gained recognition among businesses each year. As a result, the number of companies subscribing to the business increased by about 300 in FY4/16, to more than 1,700. The transaction value handled by this service grew by 27.7% YoY to ¥13,404mn in FY4/16. The transaction value handled for companies that were not customers of the Super Delivery service increased by 74.4% YoY to ¥6,465mn, or about half of the total transaction value.

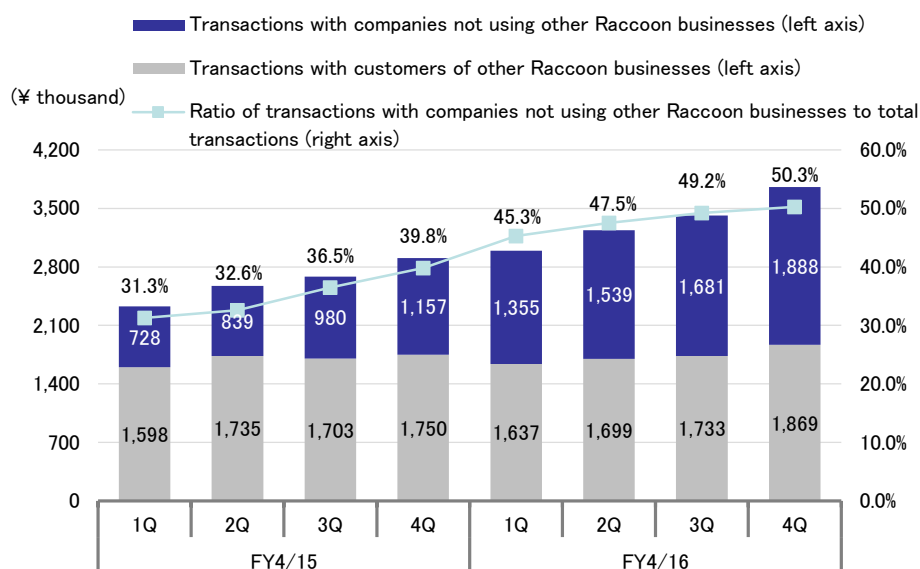
The Paid credit sales collection business has been promoting commercial relationships with other companies that can support its growth. In June 2015, it established ties with Lockon Co., Ltd. (3690), and in September of that year, it formed ties with EC-Rider Inc. The Paid credit sales collection business has presented services to users of e-commerce support services (companies operating e-commerce sites for transactions between businesses) introduced by these partner companies. In November 2015, the business started serving the Shiirekan website operated by Yume no Machi Souzou linkai (2484), and in December, it started offering its services on the LINE@ advertising service. These initiatives have helped to increase the transaction value handled by the business.

To accumulate information about the latest technology and services in the field of financial technology, Raccoon has invested ¥25mn in the FinTech Fund operated by SBI Investment Co. (The maximum investment possible in this fund is ¥100mn.)

Sales and segment operating profit in the Paid credit sales collection business, FY4/14–FY4/16



Breakdown of transaction value in Paid credit sales collection business by quarter, FY4/15–FY4/16

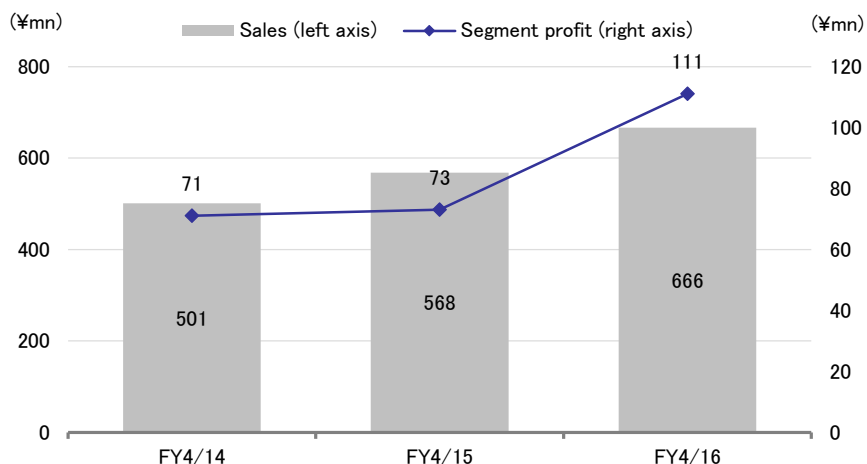


c) Accounts receivable guarantee business

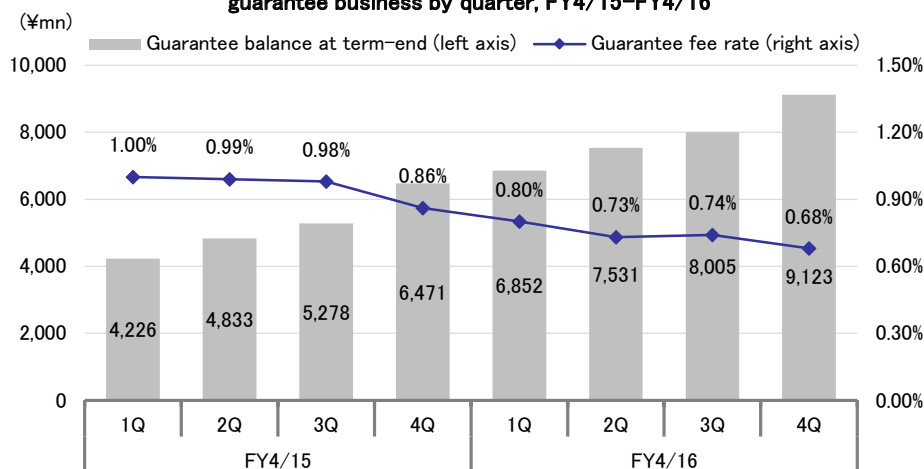
In the accounts receivable guarantee business, sales climbed by 17.3% YoY to ¥666mn in FY4/16, and segment operating profit grew by 50.7% to ¥111mn. The balance of guarantees by the business continued to expand in FY4/16, reflecting several factors. The business continued to improve its sales capability. For example, it opened a new branch office in Fukuoka. The business expanded the scope of its services, and its service of guaranteeing rental or lease payments for commercial facilities grew briskly. The large rise in segment operating profit in FY4/16 was due in part to a normalization of guarantee payments. In the fourth quarter of FY4/15, the business saw a large increase in these payments, which depressed profit growth that year. As a result of the Kumamoto earthquake in April 2016, the business made guarantee payments of ¥1mn, which had a minor adverse impact on profit growth in FY4/16.

At the end of FY4/16, the balance of guarantees extended by the accounts receivable guarantee business was ¥9,123mn, which was 41.0% larger than the balance at the end of FY4/15. The balance of guarantees for companies with no business with other Raccoon businesses grew by 43.2% YoY in FY4/16 to ¥7,899mn, or more than 80% of the total balance. Sales in the accounts receivable guarantee business grew at a smaller rate than the guarantee balance in FY4/16 for two reasons: 1) many of the guarantees extended during the year were based on a package discount plan, which carries a low guarantee fee rate, and 2) many of the guarantees extended were for the service guaranteeing payments of rent for commercial facilities, which also charges a low guarantee fee rate. The service guaranteeing payments of rent for commercial facilities was started in April 2014. The balance of guarantees extended by this service grew from ¥380mn at the end of FY4/15 to more than ¥1.6bn at the end of FY4/16, a YoY rise of more than four times. This service charges a guarantee fee rate of only 0.2–0.3%, but it is an extremely low-risk service with few guarantee payments.

Sales and segment operating profit in the accounts receivable guarantee business, FY4/14–FY4/16



Guarantee balance and guarantee fee rate in the accounts receivable guarantee business by quarter, FY4/15–FY4/16



Note: guarantee fee rate = quarterly sales ÷ average quarterly guarantee balance

■ Business Prospects

Profit growth may accelerate from FY4/18 following heavy investment in FY4/17

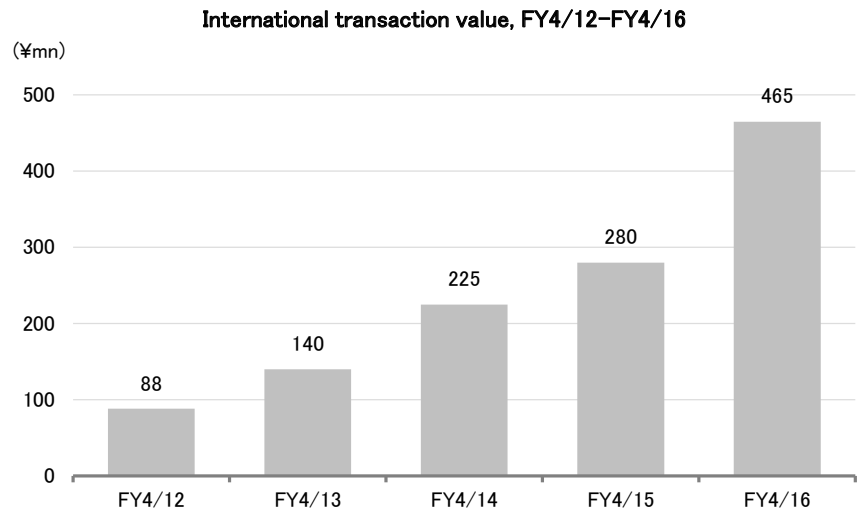
(1) Company forecasts for FY4/17

For FY4/17, the Company projects a 12.1% YoY rise in consolidated sales to ¥2.5bn, a 6.7% increase in operating profit to ¥420mn, a 14.2% upturn in recurring profit to ¥420mn, and a 4.4% rise in profit attributable to owners of parent to ¥250mn. Management foresees slower operating profit growth for FY4/17 than in FY4/16 mainly because it plans to invest heavily in the development of a computer system and in advertising to expedite the growth of the SD Export service, the Paid credit sales collection business, and the accounts receivable guarantee business. From FY4/18, the Company projects a return to a higher rate of operating profit growth as the investments of FY4/17 yield positive results. The Company's projections for each business segment in FY4/17 are as follows.

a) E-commerce business

The Company expects sales and operating profit in the Super Delivery service to grow by less than 10% each in FY4/17. Raccoon forecasts that this service should be able to increase its domestic transactions by almost 3% YoY and its international transactions by almost 30% YoY. Domestic transaction growth should be possible as the service continues to attract more high-quality retail stores, manufacturers and wholesalers in Japan. The service plans to extend the range of its purchasers beyond just retailers, to include hotels and other organizations. It also plans to increase the range of goods handled to include goods promoted by advertising agencies.

The SD Export service will continue to improve the convenience of international transactions, and it will increase its advertising expenditures by about ¥10mn YoY in FY4/17 to increase its brand recognition. The service has recently placed ads on the Korean internet browser NAVER and the Chinese internet browser Baidu. Thus, it is likely to attract more retail stores as subscribers. The service also plans to expand the number of items it trades in to about 200,000, from about 150,000 now. International transactions can be extended in both the Super Delivery service and the SD Export service, and both intend to improve the convenience of their websites.



The COREC cloud-based service will continue to prioritize increasing the number of its subscribers and enhancing its capabilities. Thus, the Company expects it to remain profitless in FY4/17. However, the service has recently discovered a means of advertising itself while incurring little or no expense and it has recently started the COREC API service. Thus, it is likely to attract more subscribers. After attracting more subscribers and expanding its capabilities, the service intends to concentrate on contributing to profit.



RACCOON CO.,LTD.

3031 Tokyo Stock Exchange
First Section

5-Aug.-16

b) Paid credit sales collection business

In FY4/17, the Paid credit sales collection business will invest heavily to expedite its growth and to establish a base as the de facto inter-company credit sales collection business in Japan. It will increase its advertising expenditure by about ¥30mn YoY, and it will accept three employees from the e-commerce business, bringing its staff up to eight employees and strengthening its sales capability. It will also expand the scope of its services to satisfy diverse customer needs.

Through these efforts, the Paid credit sales collection business should increase its transaction value with companies using other Raccoon businesses and greatly expand its transaction value with companies not using another Raccoon business. Thus, the Company projects a large YoY rise in sales by the Paid credit sales collection business in FY4/17. However, the increases in advertising and personnel costs should limit sector operating profit growth to less than 10%.

In June 2016, Raccoon announced that its Paid credit sales collection business would start providing its services to the inter-company wholesale marketplace website NETSEA, which is operated by NETSEA Co., a subsidiary of Aucfan Co., Ltd. This website is a competitor of the Super Delivery website that generates an annual transaction value of about ¥8.0bn. In recent years, the Paid credit sales collection business has underwritten about 70% of the transaction value of the Super Delivery service. If this ratio were applied to the transaction value of the NETSEA service, the Paid credit sales collection business would receive an additional ¥5-6bn of underwritings per year. Assuming that the business earns a commission of 3% on its underwritings, its sales would increase by ¥150–180mn per year. The NETSEA website service also uses credit cards and other means to collect credit sales, so the Paid credit sales collection business would probably not lift its underwriting ratio for the NETSEA website service to 70% soon. However, the Paid credit sales collection business is convenient for buyers to use, as it can be applied for on the internet, and its services can be used within about three working days from application, sometimes on the day of application. If combined with the accounts receivable guarantee business, the Paid credit sales collection business is also attractive to suppliers of goods. Thus, the Paid credit sales collection business is likely to increase its underwriting ratio for the NETSEA website service. By forming business ties with other wholesale website operators, the Paid credit sales collection business will probably grow.

c) Accounts receivable guarantee business

The Company expects sales and segment operating profit in the accounts receivable guarantee business to grow by at least 10% each YoY in FY4/17, reflecting the expansion of the balance of guarantees. The balance of guarantees for companies using the Paid credit sales collection business should grow as the Paid business expands, while the balance of guarantees for companies not using another Raccoon business is likely to rise substantially. The accounts receivable guarantee business is investing in new products, and its balance of guarantees of commercial facility rent will probably advance.

The rise in the balance of guarantees in the commercial facility rent guarantee service should support YoY increases in sales and profits in the accounts receivable guarantee business. In March 2016, this service modified its offerings, making them more convenient, which should contribute to an increase in the number of service users. Specifically, it lowered the minimum initial guarantee amount from ¥70,000 to ¥50,000, and it extended to properties used as stores two cost guarantees that had previously been offered only for properties used as offices: the costs required to return the property to its original state and the costs to dispose of refuse left in a vacated property. To date, the commercial facility rent guarantee service has been offered only in Tokyo, the area of operations for Takken Brains Co., the business partner for this service. However, the accounts receivable guarantee business plans to offer the commercial facility rent guarantee service in other large cities of Japan and it is seeking other companies with which to form business ties toward this end.

The accounts receivable guarantee business plans to increase its advertising expenditures by ¥10mn YoY in FY4/17 to promote the sale of new products to segments of customers that differ from its customers to date.

The accounts receivable guarantee business generates recurring sales based on its guarantee balance. As long as payment defaults by buyers from the customers of the business do not exceed expectations, the business earns a sector operating profit of 10% or more. Thus, the business is likely to lead sales and profit growth for Raccoon.

(2) New business initiatives

Raccoon has taken two steps to increase its domestic transaction value. In November 2015, it started a website service derived from the Super Delivery service called SD Factory, which connects apparel plants in Japan with apparel makers other than the plant owners and with other potential business partners. The SD Factory service helps apparel makers selling through the Super Delivery service to increase the added value of their goods. Labor costs in China have risen to the point that some Japanese manufacturers that had moved their production bases to China are returning their production to Japan. Apparel plants in Japan are therefore interested in the SD Factory service. In addition to apparel makers supplying their goods through the Super Delivery service, the SD Factory service can be used to provide added value to retail stores wishing to produce original apparel and to designers seeking to develop a new brand.

The SD Factory service is currently free, so it does not contribute to profits in the e-commerce business, but it could introduce the Paid credit sales collection business to its customers, contributing to profit growth of the Paid business. At the end of June 2016, 83 apparel makers and potential business partners had registered for the SD Factory service, almost four times the 22 companies that had registered for the service at the end of 2015.

In February 2016, Raccoon started offering its SD Selection website service on an experimental basis to retail stores subscribing to its Super Delivery service. The SD Selection service offers high value-added goods, such as those prized in the international or domestic sales route and highly differentiated goods. The service then collects orders from its subscribing retail stores and buys the desired goods on behalf of the stores. The first attempt at this service was in the sale of Italian men's fashion brands. The Company will monitor the progress of this attempt to decide whether to offer other kinds of goods. If this service helps subscribing retail stores to increase their sales, the transaction value of the Super Delivery service should grow, creating a mutually beneficial business cycle.

■ Financial Position and Shareholder Return Policy

Profits and profitability growing

(1) Financial position

At the end of FY4/16, the Company's assets totaled ¥4,969mn, which was ¥641mn more than the total at the end of FY4/15. The main factors contributing to this increase were a ¥214mn rise in cash and deposits and a ¥409mn upturn in sales credits.

Liabilities at the end of FY4/16 totaled ¥3,191mn, which was ¥408mn more than the total a year earlier. The main reason for this increase was a ¥458mn rise in accounts payable. Interest-bearing debt declined by ¥70mn during FY4/16. Net worth grew by ¥233mn during FY4/16 to ¥1,777mn. Although dividend payments came to ¥38mn, capital stock and additional paid-in capital grew by ¥33mn, the former due to the exercise of stock acquisition rights. Furthermore, profit attributable to owners of parent came to ¥239mn.

The equity ratio of 35.7% in FY4/16 was basically unchanged YoY, but interest-bearing debt continued to decrease, so the company's net cash (cash and deposits less interest-bearing debt) totaled ¥1,734mn at the end of FY4/16, up from ¥619mn in FY4/13. Thus, the Company has improved its financial base while expanding its profits. ROA declined slightly YoY in FY4/16, reflecting an increase in total assets. However, ROE and the operating profit margin rose to recent record highs, indicating that the company has raised its profitability as it has increased its profits.



RACCOON CO.,LTD.

3031 Tokyo Stock Exchange
First Section

5-Aug.-16

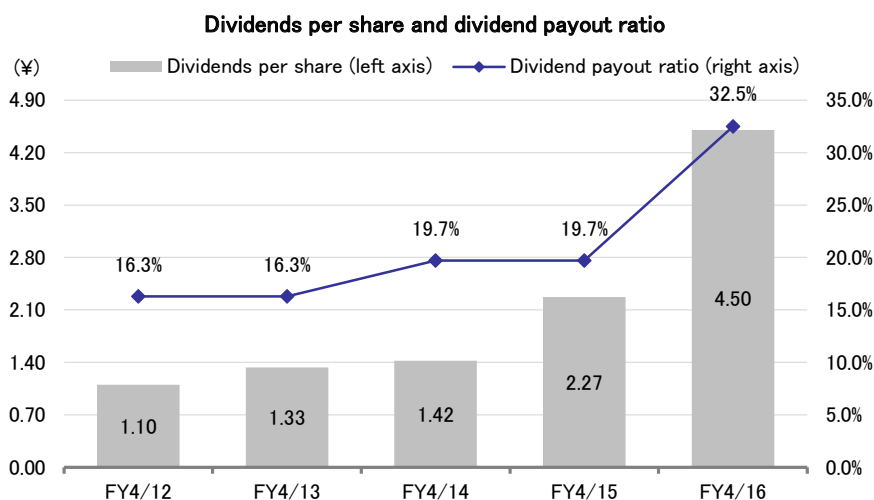
Consolidated balance sheet, FY4/15-end and FY4/16-end

	FY4/15-end	FY4/16-end	Change	(¥mn)
Current assets	3,982	4,615	632	
(Cash and deposits)	1,645	1,859	214	
Fixed assets	344	353	9	
Total assets	4,327	4,969	641	
Current liabilities	2,634	3,087	453	
Fixed liabilities	148	104	-44	
(Interest-bearing debt)	195	125	-70	
Total liabilities	2,783	3,191	408	
Net worth	1,543	1,777	233	
(Stability)				
Equity ratio	35.6%	35.7%	-	
Interest-bearing debt ratio	12.7%	7.0%	-	
(measures of profitability)				
ROA (recurring profit ÷ total assets)	8.7%	7.9%	-	
ROE (net profit ÷ total equity)	13.1%	14.4%	-	
Operating profit margin	16.3%	17.7%	-	

Consecutive increases in dividends per share likely

(2) Shareholder return policy

Management’s basic policy toward shareholder returns is to pay dividends reflecting the company’s profit growth, while also maintaining enough funds to develop business in the future and to strengthen the management structure. In line with this policy, the Company raised its dividend payout ratio to 32.5% for FY4/16 from 19.7% for FY4/15, and it intends to maintain a dividend payout ratio of about 30% for FY4/17, although it has not yet announced planned dividends per share for FY4/17. If its net profit continues to grow, the Company is likely to raise its dividends per share in coming years.



Note: In August 2015, the company made a 3-for-1 share split. Dividends per share have been adjusted for this split.

Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.