COMPANY RESEARCH AND ANALYSIS REPORT

Syuppin Co., Ltd.

3179

Tokyo Stock Exchange First Section

5-Aug.-2020

FISCO Ltd. Analyst

Ikuo Shibata

FISCO

FISCO Ltd.

http://www.fisco.co.jp

Index

We encourage readers to review our complete legal statement on “Disclaimer” page.

Summary

Profits increased significantly in FY3/20 from the improvement in the gross profit margin of used cameras and the strong performance of used items. In FY3/21, sales and profits are forecast to decrease due to the impact of the spread of the coronavirus disease 2019 (COVID-19), but the policy is to continue to invest toward accelerating the growth of EC

Syuppin Co., Ltd. <3179> (hereafter, also "the Company") is an e-commerce (EC) enterprise specializing in "valuable items," such as cameras and luxury watches. Utilizing the different customer needs and product characteristics between used and new items, the Company has realized an expansion of the membership base and results growth, while having used and new items interact to support the other's sales. Recently, it has been working on initiatives including proprietary EC purchases, one-to-one marketing, and the utilization of CGM, and it continues to evolve its platform-type business model.

1. Overview of FY3/20 results

In the FY3/20 results, sales rose slightly but profits increased significantly, with net sales rising 0.1% year-on-year (YoY) to ¥34,658mn and operating income increasing 21.5% to ¥1,754mn. Total net sales increased only slightly, as although they grew in the Watches business, the Stationery business, and the Bicycles business, they declined in the mainstay Cameras business. Sales of used items for both cameras and watches were particularly strong, but sales of new items trended at a low level due to factors including the slowdown in consumption following the consumption-tax hike, and that they are not eligible for point rebates (described in detail below). In particular, sales of new cameras slumped due to external factors, mainly that the launches of new products have been postponed and the impact of the spread of the COVID-19 (a reduction in inbound demand). Conversely, for profits, the Company improved the gross profit margin of used cameras by strengthening its utilization of one-to-one marketing and purchasing functions, and the gross profit margin as a whole rose by 1.8 percentages points (pp) from the previous period. In addition, the percentage of sales provided by used items remains high, so operating income increased significantly.

2. Main activities and achievements

The one-to-one marketing that the Company has been conducting up to the present time is on track. In addition, through utilizing CGM* and other measures, it has started implementing a platform-type business model and the number of Web members steadily increased to approximately 456,000 people (up 12.2% on the end of the previous fiscal period). The active rate was also maintained at a high level. For the Watches business, which has been positioned as the growth driver together with the Cameras business, the Company has put in place a structure toward realizing growth in the future, including launching a website specializing in ladies' watches and conducting global business development.

* Consumer Generated Media refers to media with contents involving general users, including bulletin boards and word-of-mouth sites.

We encourage readers to review our complete legal statement on "Disclaimer" page.

3. Outlook for FY3/21

For the FY3/21 results, the Company is forecasting decreases in sales and profits, with net sales to decline 9.1% YoY to ¥31,509mn and operating income to fall 29.6% to ¥1,228mn. Sales of EC used items, of cameras and watches, are expected to continue to trend steadily. However, the reasons for the forecast of a decline in sales is that the Company had to temporarily close its physical stores due to the declaration of a state of emergency following the spread of the COVID-19 (from April 11 to May 25), and also that only a gradual increase in stores sales is expected following the re-openings of the physical stores, so it is anticipated that store sales will decline particularly significantly. While profits will also decline due to the lower sales, it is considered that the Company is continuing to invest to sustain growth in the medium- to long-term. In particular, in order to accelerate the growth of EC, it plans to introduce three frameworks; AIMD x one-to-one, 1 Category = 1 Office, and EC + CGM.

4. Growth strategy

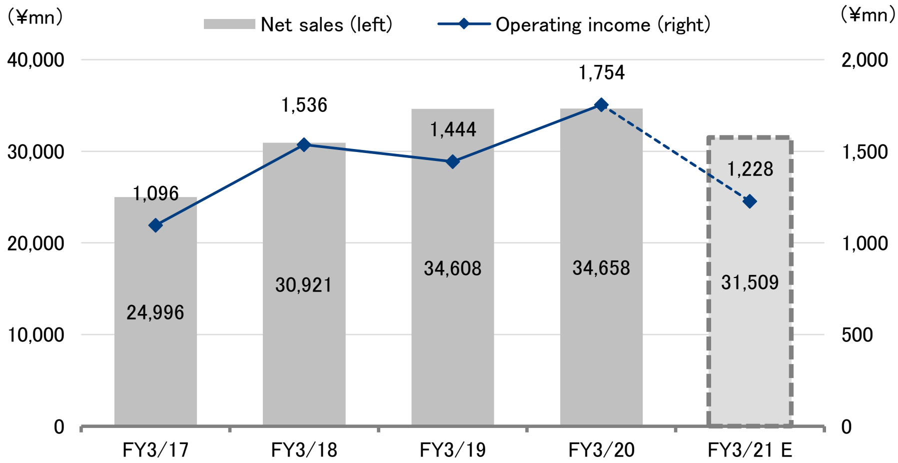
The Company updates the (rolling) three-year medium-term management plan each year, but because of the sense of uncertainty about the future due to the impact of the spread of the novel coronavirus, at the current time it has not disclosed the new three-year medium-term management plan. However, it has not significantly revised its direction for the future. Its strategy continues to be to accelerate growth on the EC axis in the Cameras business and the Watches business. In particular, it is increasing market share through implementing the platform, and also by strengthening the ladies' watches business and working on global business development.

Key Points

- Although results in FY3/20 were impacted by the consumption-tax hike and other factors, operating income still increased significantly due to the improvement in the gross profit margin of used cameras and the strong performance of used items. In particular, due to the improvement in used cameras' gross profit margin, the Company was able to solidify a business model that makes possible profit growth greater than sales growth.
- Achieved a certain level of results, including the fully fledged operations of one-to-one marketing and the implementation of the platform using CGM
- For FY3/21, is forecasting declines in sales and profits due to the impact of the spread of the COVID-19 (especially a decline in store sales)
- Toward accelerating the growth of EC, plans to introduce three frameworks; AIMD x one-to-one, 1 Category = 1 Office, and EC + CGM

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends



Source: Prepared by FISCO from the Company's financial results

Business overview

Is developing an EC business specializing in "valuable new and used items," such as cameras and luxury watches

Syuppin Co., Ltd. <3179> is an e-commerce (EC) enterprise specializing in "valuable items," such as cameras and luxury watches. Benefitting from the expansion of the EC market and other factors, it has realized high growth through establishing a proprietary business model that utilizes its positioning, of specializing in highly specialist goods, and the Internet (described in detail below).

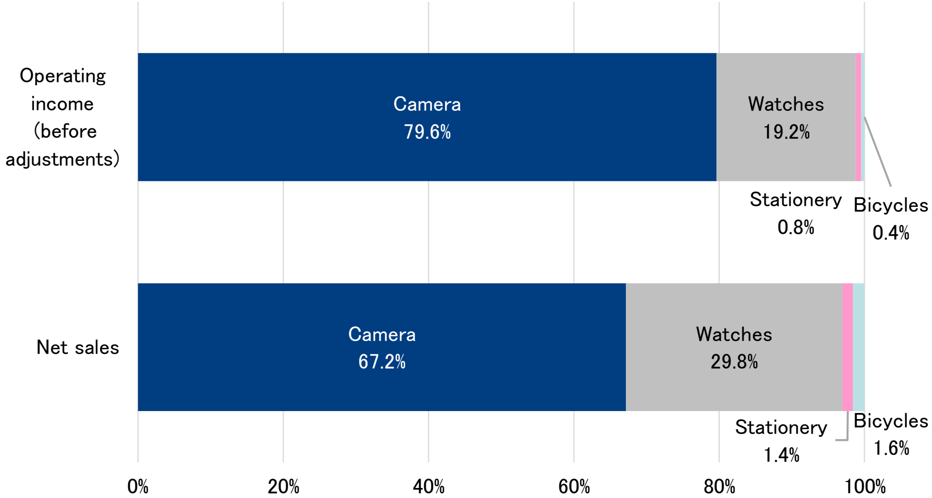
The Company currently has approximately 456,000 Web members (as of the end of March 2020). This number has been steadily increasing through the acquisition of around 4,000 new members every month. On the other hand, it has established a physical store network of four stores in the Tokyo metropolitan area, with its basic policy being one store for one item. The sales ratio of EC and physical stores is around 60% to 40%, and the stores are positioned as functioning to supplement the EC business. Also, the sales percentages of new items and used items is stable at around 50% to 50%, and they each play important roles, generating synergies while mutually interacting to increase the other's sales.

There are four business segments; the Cameras business, the Watches business, the Stationery business, and the Bicycles business. The mainstay Cameras business provides 67.2% of net sales and 79.6% of operating income (before adjustments)*. But the Watches business is also growing at the present time, including due to the strengthening of sales of ladies' luxury watches and the global business development.

* The Cameras business is conducted under the Map Camera brand, the Watches business under the GMT and BRILLER brands (launched a website specializing in ladies' watches in December 2019), the Stationery business under the KINGDOM NOTE brand, and the Bicycles business under the CROWN GEARS brand.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Percentages by business



Source: Prepared by FISCO from the Company's results briefing materials

The Company's features

Strengths include its proprietary EC purchases, one-to-one marketing, and platform-type business model

1. The growth model

The Company's sales have grown alongside the increase in the number of Web members. In other words, it can be said to have a stock-type business, in which alongside the acquisition of new customers through effective EC marketing, it captures members and promotes continuous purchases, which leads to sales growth. Therefore, in addition to the number of newly acquired members and the total number of members, the number of purchasing members (the number of members continuously making purchases from among the existing members) is an important KPI. Currently, member numbers have grown to approximately 456,000 people, but there remains plenty of room for the number of newly acquired members (and total members) to further increase in the future through its proprietary business model, including from strengthening measures for young and female members and business development for regional areas. Also, increasing the number of purchasing members through raising the active rate* can be expected to be beneficial for improving results and costs. Moreover, the accumulation of "merchandise" (the inventory of used items) is an important KPI that will lead to sales increasing in the future. The Company is focusing on collecting "valuable inventory items," which is its core value, including through its proprietary mechanism for EC purchases and powers of discernment, and it can be said that this will lead to acquisitions of new members and continuous purchases.

* The number of members who make a purchase in a fiscal quarter in relation to the total number of members at the start of that quarter.

2. The Company's features (strengths)

(1) A proprietary model specializing in EC

Since its foundation, the Company has focused on a model specializing in EC that is limited to "valuable items." In other words, it can be said to have established a unique position through specializing in high value-added items and the convenience of EC. In particular, it is able to respond flexibly to economic fluctuations as it does not incur fixed costs. In addition, it benefits from having few bottlenecks for increasing sales and from being able to focus on achieving high profitability alongside the growth of sales. However, the percentages of total net sales provided by EC and the stores are approximately 60% and 40% respectively, so the stores also contribute to results to a reasonable extent, benefiting from factors such as inbound demand (duty free sales). Going forward, the Company's policy is to develop its business centered on EC (particularly with its own website as the platform).

(2) Synergies between new items and used items

The percentages of total net sales provided by new items and used items trend at approximately 50% and 50%. For the Company, both play important roles and have contributed to expanding its customer base and its results growth, while mutually interacting to boost the other's sales. In other words, compared to high profit-margin used items, for which there are many single items, the significance of handling new items, for which competition is fierce, is not only their contribution to results, but also that they provide opportunities to acquire new members (to capture new customers) and to acquire used items. In particular, when the Company sells a new item, as well as having a major impact on results, it provides it with the biggest opportunity to acquire a new member. Therefore, the handling of new items functions as a catalyst in order to increase sales of used items. Conversely, for sales of new items as well, the Company is able to differentiate itself through trade-ins of the used items owned by customers (by indicating purchase prices that are acceptable to customers), which generates synergies.

(3) Mechanism for collecting "valuable items"

As previously explained, the Company's growth depends on how it collects valuable items (used items). Preparing a high-quality inventory not only raises the value of the Company's brand and attracts buyers, it also creates a virtuous circle through building trust with sellers, which in turn leads to the collection of more high-quality inventory items. It has been able to differentiate itself from other companies by working to enhance functions, including by 1) indicating purchase prices that are acceptable to customers and that correspond to the item's value determined by detailed assessment standards, 2) responding to trade-in needs by handling new items, and 3) enabling the estimated purchase prices to be easily searched on the Internet. It has also started its own mechanism for EC purchases, including one-price buying*1 and the receive-first, send-later service*2, further raising convenience for the seller, which causes the EC purchases amount to increase. Recently, it has been working on improving efficiency (reducing opportunity losses) through developing AIMD*3 and on other measures, and it continues to evolve in a way unique to the Company.

*1 A service to guarantee the fixed-price purchase amount of items specified by the Company (launched in July 2013)
*2 A service that enables the customer to receive the item in advance when trading-in (exchanging) a camera that they own and purchasing a new item (launched in September 2014)
*3 An automated assist system that utilizes AI for the purchases prices and sales prices of used cameras. Currently, the Company decides prices manually for all the items its handles, of more than approximately 20,000 items. However, it can conduct timely pricing only for some items, and as a result, there are many cases of opportunity loss. This system will assist with the work done manually and it is expected to reduce opportunity losses through determining prices appropriately and in a timely manner.

We encourage readers to review our complete legal statement on "Disclaimer" page.

(4) A platform-type business model

Also, in the last few years the Company has built a platform-type business model to encourage continuous purchases by providing valuable information within the sequence of pre-purchase → time of purchase → post-purchase. In other words, its strategy is to create a virtuous circle, of information to enjoy cameras (pre-purchase) → a service to make purchases easier (time of purchase) → a service to enjoy the item after purchasing it (post-purchase). By making this circle bigger, it can expand and activate its membership base, which in turn leads to further results growth. In particular, for the service at the time of purchase, it realizes one-to-one marketing through the personalization of its EC website (including a wish list, an email notifying of product arrivals, and personal recommendations). It is also working on utilizing CGM, with aims including to supplement information and to cultivate fans.

Summary of results

In FY3/20, sales increased slightly but profits increased greatly. The gross profit margin as a whole improved 1.8pp YoY due to the improvement in used cameras' gross profit margin. Sales of new items declined, including due to the consumption-tax hike, but used items performed strongly

1. FY3/20 results summary

(1) Results summary

In the FY3/20 results, sales increased slightly but profits increased greatly, with net sales rising 0.1% YoY to ¥34,658mn, operating income growing 21.5% to ¥1,754mn, ordinary income climbing 21.1% to ¥1,735mn, and net income increasing 21.5% to ¥1,193mn. Compared to the initial forecasts, net sales were below forecast, but all the profit items were above forecast.

Sales grew in the Watches business, the Stationery business, and the Bicycles business. But they fell in the mainstay Cameras business, and therefore total net sales increased only slightly. Sales of used items were particularly strong for both cameras and watches, but sales of new items trended at a low level due to factors including the slowdown in consumption following the consumption-tax hike and that they are not eligible for point rebates*. Sales of new cameras slumped because various external factors overlapped, including that the launches of new products have been postponed and the impact of the spread of the COVID-19 (reduction in inbound demand).

* From October 1, 2019, alongside the consumption-tax hike, a system was introduced to support point rebates from using cashless methods for medium-to-small scale businesses and small-scale businesses (until the end of June 2020), but the Company is not eligible for this system. Therefore, although it responded by issuing its own point rebates, its competitiveness was reduced for its stores in the shopping malls of other companies that did not implement its points-rebate measure. As a result, sales declined greatly of new items, in which price is especially important as the deciding factors (on its own website, it secured a 7.8% increase in sales YoY, but sales on other companies' shopping malls declined 33.2%).

In profits, the gross profit margin of used cameras improved*1, while the percentage of total net sales provided by used items trended at a high level. Therefore, the total gross profit margin improved greatly to 18.0% (16.2% in the previous period). So, it can be said that the Company is solidifying a business-model structure that enables profit growth that is higher than sales growth. Conversely, the SG&A expenses ratio deteriorated to 12.9% (12.0% in the previous period), including due to the increase in the point card certificates amount*2. But this was covered by the improvement in the gross profit margin, and the operating margin rose significantly to 5.1% (4.2% in the previous period). Also, a noteworthy point is that the Bicycles business achieved profitability, including by expanding sales channels.

*1 The active EC purchasing measures, etc., contributed to the improvement in the gross profit margin.
*2 As previously stated, from October 1, as a response to the points-rebate policy for cashless payments following the consumption-tax hike, costs increased as the Company issued its own points (point card certificates through strengthening its own points measure for its own website and stores).

Financially, the Company has been preparing for the impact of the spread of the COVID-19, including by securing sufficient cash on hand and steadily accumulating “merchandise” (inventory of used items), as a result of its purchasing measures. Therefore, total assets increased 21.6% on the end of the previous fiscal period to ¥12,008mn. Shareholders’ equity rose 16.2% to ¥5,698mn due to the accumulation of internal reserves, so the equity ratio declined slightly to 47.5% (49.7% at the end of the previous fiscal period).

FY3/20 results summary

(¥mn)

	FY3/19		FY3/20		Change		FY3/20				Vs. revised forecast
							Initial forecast		Revised forecast (as of Feb. 6)		
	Result	%	Result	%	Amount	%	Amount	%	Amount	%	
Net sales	34,608	-	34,658	-	50	0.1%	37,672		35,282		
Camera	23,776	68.7%	23,274	67.2%	-502	-2.1%	-	-	-	-	-
Watches	9,860	28.5%	10,330	29.8%	470	4.8%	-	-	-	-	-
Stationery	491	1.4%	502	1.4%	11	2.2%	-	-	-	-	-
Bicycles	480	1.4%	551	1.6%	71	4.8%	-	-	-	-	-
Costs	28,995	83.8%	28,416	82.0%	-579	-2.0%	-	-	-	-	-
Gross profit	5,612	16.2%	6,241	18.0%	629	11.2%	-	-	-	-	-
SG&A expenses	4,168	12.0%	4,487	12.9%	319	7.7%	-	-	-	-	-
Operating income	1,444	4.2%	1,754	5.1%	310	21.5%	1,574	4.2%	1,744	4.9%	100.6%
Camera	1,886	7.9%	2,305	9.9%	419	22.2%	-	-	-	-	-
Watches	543	5.5%	555	5.4%	12	2.2%	-	-	-	-	-
Stationery	16	3.3%	22	4.4%	6	37.5%	-	-	-	-	-
Bicycles	-5	-	13	2.4%	18	-	-	-	-	-	-
Adjustment	-997	-	-1,142	-	-145	14.5%	-	-	-	-	-
Ordinary income	1,433	4.1%	1,735	5.0%	302	21.1%	1,564	4.2%	1,730	4.9%	100.3%
Net income	982	2.8%	1,193	3.4%	211	21.5%	1,023	2.7%	1,185	3.4%	100.7%

Source: Prepared by FISCO from the Company’s financial results

We encourage readers to review our complete legal statement on “Disclaimer” page.

Financial condition at the end of March 2020

(¥mn)

	End of March 2019 Result	End of March 2020 Result	Change	
			Amount	%
Current assets	8,656	10,810	2,154	24.9%
Cash and deposits	1,403	3,528	2,125	51.5%
Accounts receivable - trade	1,916	1,690	-226	-11.8%
Merchandise	4,781	5,292	511	10.7%
Non-current assets	1,214	1,198	-16	-1.3%
Property, plant and equipment	156	139	-17	-10.9%
Intangible assets	377	330	-47	-12.5%
Investments and other assets	680	728	48	7.0%
Total assets	9,871	12,008	2,137	21.6%
Current liabilities	3,943	3,633	-310	-7.9%
Accounts payable - trade	1,206	749	-457	-37.9%
Interest-bearing debt	1,831	1,754	-77	-4.2%
Provision for point card certificates	225	350	125	55.6%
Non-current liabilities	1,018	2,671	1,653	62.4%
Long-term loans payable	1,018	2,671	1,653	62.4%
Net assets	4,909	5,703	794	16.2%
Shareholders' equity	4,903	5,698	795	16.2%
Total liabilities and net assets	9,871	12,008	2,137	21.6%

Source: Prepared by FISCO from the Company's financial results

(2) SG&A expenses

In FY3/20, SG&A expenses increased greatly, up 7.7% YoY to ¥4,487mn (+¥319mn), so the SG&A expenses ratio also deteriorated to 12.9% (12.0% in the previous fiscal period). Breaking it down, in addition to increases in personnel expenses (+¥86mn) and outsourcing expenses (+¥59mn), the increase in the provision amount for point card certificates (+¥172mn) stood out, but expenses other than these trended basically unchanged YoY. The reason for the particularly large increase in the provision amount for point card certificates was that, as previously explained, the Company strengthened its own points measure it implemented in response to the cashless payments points-rebate measure (until the end of June 2020), so this is considered to be a temporary increase. Also, the reasons for the increase in outsourcing expenses included analysis expenses (upfront expenses), alongside the development of AIMD.

On the other hand, commissions paid declined against the backdrop of the fall in the percentage of sales from the shopping malls of other companies, because the Company strengthened sales on its own website. However, the ability of other companies' shopping malls to attract customers remains attractive, and there has been no change to their importance in terms of maintaining and improving the Company's name awareness and for branding. Therefore, it is thought that they will maintain a certain percentage of sales in the future also.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Breakdown of SG&A expenses

(¥mn)

	FY3/19		FY3/20		Change	
	Result	Ratio to net sales	Result	Ratio to net sales	Amount	%
SG&A expenses	4,168	12.0%	4,487	12.9%	319	7.7%
Personnel expenses	1,248	3.6%	1,334	3.8%	86	6.9%
Advertising expenses	54	0.2%	54	0.2%	0	0.0%
Sales promotion expenses	712	2.1%	732	2.1%	20	2.8%
Outsourcing expenses	205	0.6%	264	0.8%	59	28.8%
Commissions paid	839	2.4%	824	2.4%	-15	-1.8%
Depreciation and amortization	214	0.6%	213	0.6%	-1	-0.5%
Land rent	263	0.8%	269	0.8%	6	2.3%
Provision for point card certificates	108	0.3%	280	0.8%	172	159.3%
Other	523	1.5%	512	1.5%	-11	-2.1%

Source: Prepared by FISCO from the Company's financial results

2. Results by business

(1) Cameras business

Sales decreased but profits increased, with net sales declining 2.1% YoY to ¥23,274mn and segment income rising 22.2% to ¥2,305mn. Within the sales amount, both EC and store sales decreased, with EC sales declining 1.9% to ¥17,193mn and store sales falling 2.7% to ¥6,080mn. Rather than focusing on sales growth, the Company is working to improve the gross profit margin as the priority issue, and in this situation, various external factors overlapped, including 1) the cooling-down of consumption due to the consumption-tax hike, 2) it was not eligible for points rebates, 3) the decline in inbound demand (duty free sales in stores) and the delays in the supply of some products due to the impact of the spread of the COVID-19 from mid-February onwards, and 4) that the launches of new products have been postponed. Therefore, sales of new items in both stores and via EC declined significantly. In particular, it seems that sales declined greatly in the stores on the shopping websites of other companies. Conversely, sales of used items maintained their strong performance, increasing 6.5% YoY. This was because the Company succeeded in various measures, such as enhancing the proprietary functions and services on its own website and its one-to-one approach and product lineup, and this increase was driven by the growth of sales of used items on its own website. In profits as well, the gross profit margin of used cameras improved from strengthening the utilization of one-to-one marketing and of purchasing functions, while the segment gross profit margin also improved greatly because the percentage of sales from used items rose. As a result, segment income increased significantly.

We encourage readers to review our complete legal statement on "Disclaimer" page.

(2) Watches business

Sales and profits increased, with net sales rising 4.8% YoY to ¥10,330mn and segment income growing 2.2% to ¥555mn. The same as the Cameras business, this business was affected by factors including the consumption-tax hike and the impact of the spread of the COVID-19. But the Company's active investment in inventory and product development proved successful, and in particular, sales of used items grew greatly, up 18.6% YoY. However, most watches are single items and many customers focus on the condition of the product as a decorative item. Therefore, the percentage of watch sales in stores is high and this trend is not changing. EC sales increased 1.7% to ¥3,503mn, while stores sales rose 6.4% to ¥6,826mn, so store sales are growing alongside the rise in the ratio of used items. On the other hand, in profits, the gross profit margin improved due to the rise in the percentage of sales from used items. But the segment income margin remained basically unchanged YoY at 5.4% (5.5% in the previous period), because the Company conducted upfront investment to promote cross-border EC (global strategy)*1 and strengthened the ladies' watches business*2.

*1 It opened a store on Chrono24, an online marketplace for watch enthusiasts from around the world to gather, with the aims of increasing sales opportunities and improving name awareness.
*2 In conjunction with the expansion of the production lineup for ladies, it opened the BRILLER specialist website, which focuses on displaying photographs of beautiful watches that are intuitively appealing to female customers (opened on December 9, 2019).

(3) Stationery business

Sales and profits increased, with net sales rising 2.2% YoY to ¥502mn and segment income growing 37.5% to ¥22mn. Results are steadily increasing, including as the Company is working to improve the convenience of and enhance information on the EC website, and also that following on from the Cameras business, it has launched its proprietary service, the receive-first, send-later service, and that it is promoting the original products it is focusing on (planning and sales of innovative fountain pens and inks through a collaboration with a major manufacturer).

(4) Bicycles business

Sales and profits increased and this business became profitable, with net sales growing 5.8% YoY to ¥551mn and segment income of ¥13mn (compared to a loss of ¥5mn in the same period in the previous fiscal year). The Company worked to enhance sales channels and supplement information on the smartphone app, while it also promoted its development as an information portal website that can be enjoyed by everyone, from beginners to professional users. These efforts led to sales of items with high unit prices. It also worked to increase customer-attraction effects and capture new customers by actively conducting sales measures for popular products and new products that have become topics of conversation. Conversely, for profits, it aimed to improve the gross profit margin by enhancing the lineup of used items and reviewing appropriate sales prices, and these efforts enabled this business to become profitable.

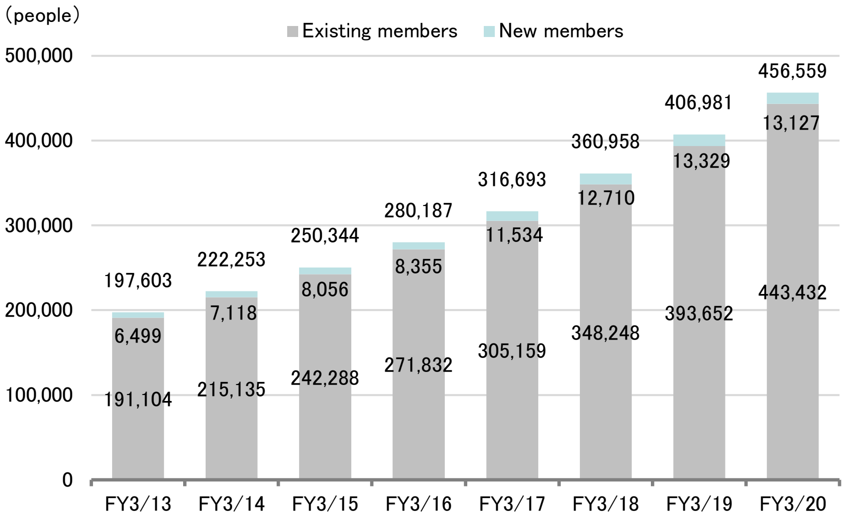
We encourage readers to review our complete legal statement on "Disclaimer" page.

3. KPI trends

(1) Number of Web members

At the end of FY3/20, the number of Web members had steadily grown by 12.2% on the end of the previous fiscal period to 456,559 people (+49,578 people on the end of the previous fiscal period). The number of monthly newly acquired members was 4,131 people (3,835 people in the previous period), and the pace of the increase is accelerating. This can be evaluated as a result of the success of the fully fledged launch of the one-to-one marketing and the completion of the platform. By age group, there has been no major changes to the composition of a wide range of age groups, but growth of the thirties-to-fifties age group was comparatively large. Also, a point worth noting is that female members are increasing significantly and their percentage of the total has risen to 16% (14% at the end of the previous period). In particular, due to the spread in the use of Instagram and other SNS, the young age group of female members (twenties and younger, and thirties) is growing greatly, and they are expected to be a new target group. Conversely, in the distribution of members by area, a comparatively large percentage of members are in Kanto (especially Tokyo), and there have been no major changes to this structure, although it can be said that the Company is extending its approach to enthusiasts in regional areas.

Trend in number of Web members

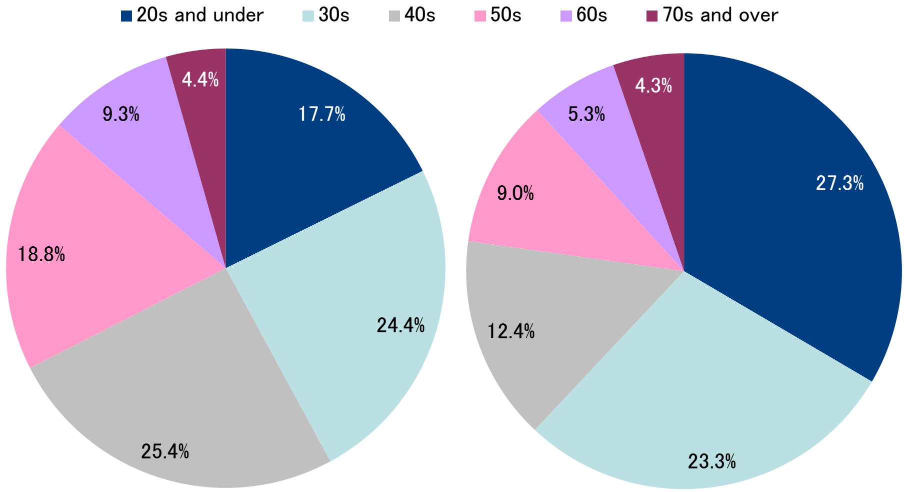


Source: Prepared by FISCO from the Company's results briefing materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

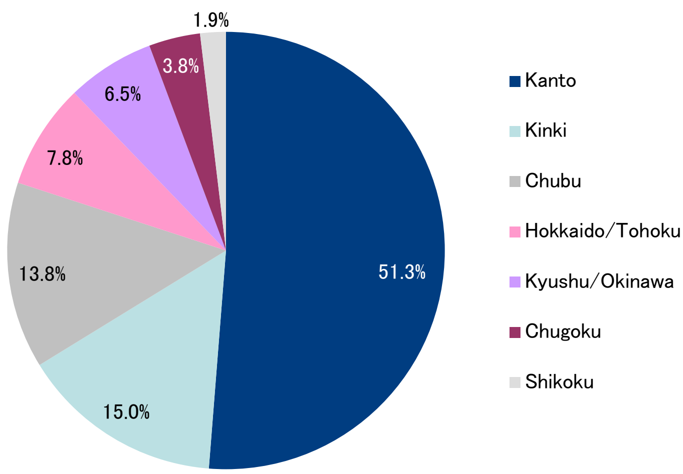
Distribution of customers by age

Percentages of female customers by age



Source: Prepared by FISCO from the Company's results briefing materials

Regional distribution



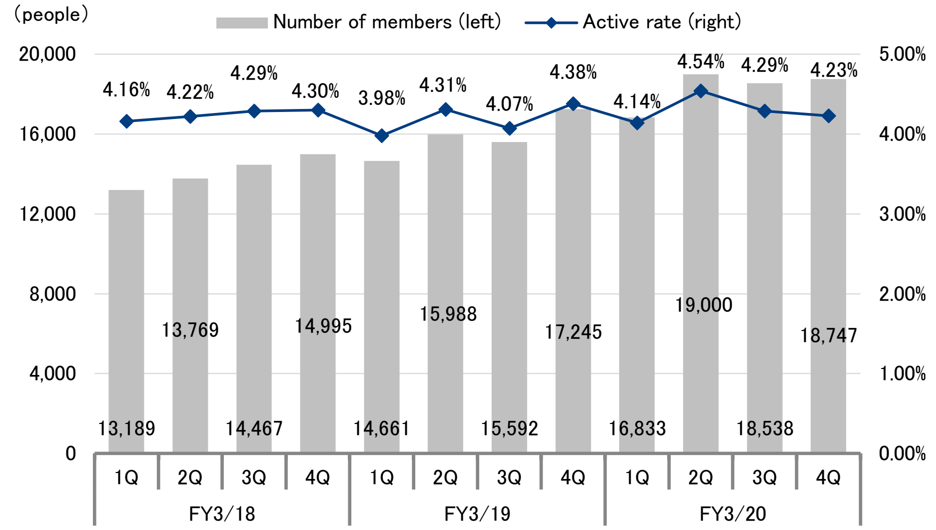
Source: Prepared by FISCO from the Company's results briefing materials

(2) Member numbers and the active rate

From the effects of the measures up to the present time, in 2Q FY3/20, the number of purchasing members and the active rate were new record highs (on a quarterly basis). In particular, it is considered that the steady increases in the number of people registering for the wish list and the email notifying of product arrivals contributed. Although this can be viewed as overlapping with the effects of demand increasing in advance of the consumption-tax hike, the fact that this high level has been maintained from the 3Q onwards can be said to be a point worthy of a positive evaluation.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Trends in no. of members and active rate

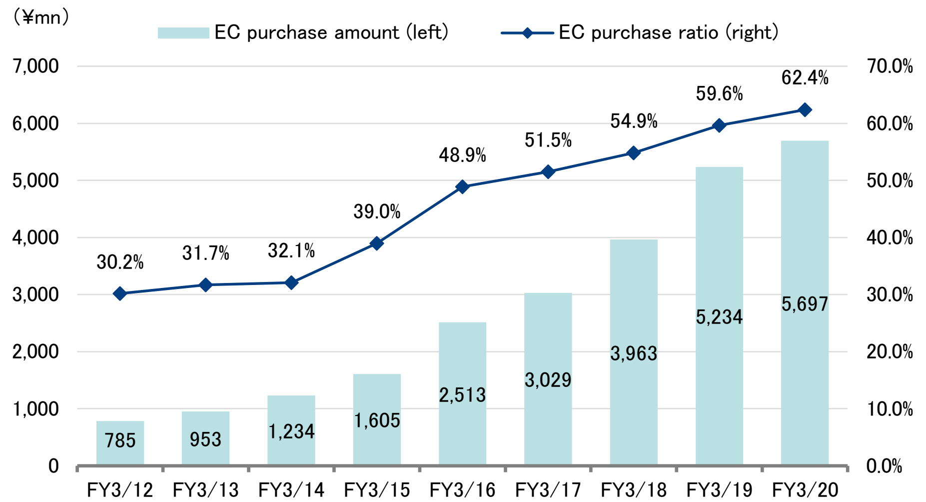


Source: Prepared by FISCO from the Company's results briefing materials

(3) Used cameras purchase amount

In FY3/20, the used cameras EC purchase amount (annual) increased 8.8% YoY to ¥5,697mn, while the EC ratio also rose to 62.4% (59.6% in the previous fiscal period). In particular, the amount grew greatly in the 4Q (on a quarterly basis), up 15.3% on the same quarter in the previous fiscal year to ¥1,511mn (EC ratio, 65.0%). In addition to the measures that the Company has been working on up to the present time, including one-price buying and the receive-first, send-later service, it seems likely that the effects of these measures are being pushed-up by the completion of the platform (including activating the members base). For purchase prices as well, it has been able to maintain procurement at reasonable prices, which has had the effect of improving the gross profit margin.

Trends in the EC purchase amount and the EC purchase ratio



Source: Prepared by FISCO from the Company's results briefing materials

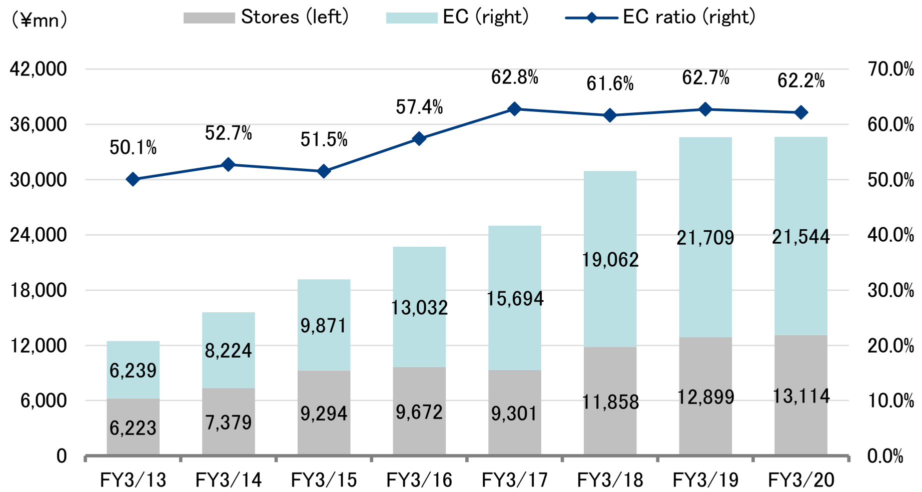
We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

Is realizing rising growth through increasing the number of Web members

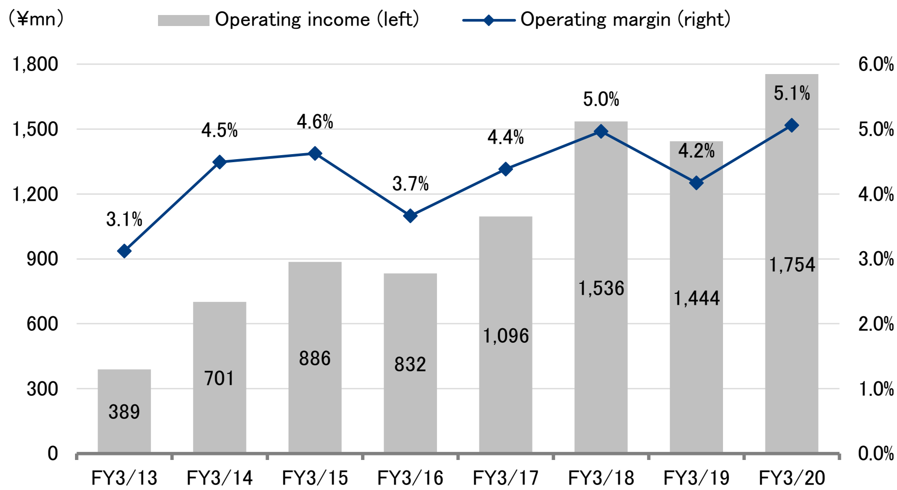
On looking back on results in the past, we see that the Company has realized rising sales growth alongside the increase in the number of Web members and the growth of EC sales. In FY3/20, rather than focusing on sales growth, it worked on improving the gross profit margin as the priority issue, while sales growth was also sluggish due to the consumption-tax hike and the impact of the spread of the COVID-19. But the average sales growth rate in the 6 years from its stock market listing in FY3/13 to FY3/19 exceeded 18% (of which, the EC sales average growth rate was 23%). Profits (operating income) have also basically increased alongside the growth in sales, while the operating margin has trended in a range of 4% to 5% in the last few years. For the operating margin, in addition to the product mix at the various times (the profit margin improves when the percentage of sales from used items increases), it is necessary to be aware of the effects of upfront costs for the future (strengthening of human resources, development of various types of functions and services, securing logistics and spaces for used items, etc.), and costs relating to the points measure and other measures. But in terms of the actual situation, the earnings structure is that the profit margin improves alongside the increase in sales.

Trends in net sales (stores/EC) and the EC ratio



Source: Prepared by FISCO from the Company's results briefing materials

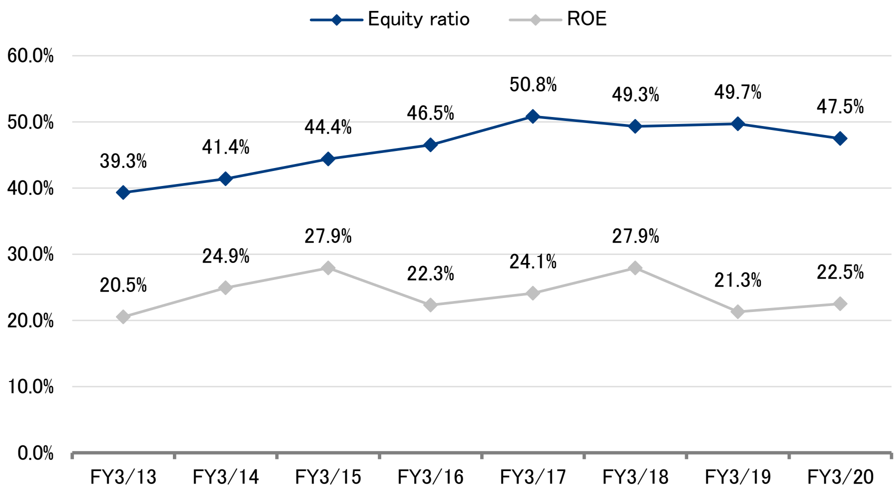
Trends in the operating income and operating margin



Source: Prepared by FISCO from the Company's financial results and results briefing materials

Financially, the equity ratio has trended stably around the 50% level, while ROE is also being maintained at a level above 20%. So, the Company can be highly evaluated for firmly maintaining excellent financial ratios even while expanding its business scope.

Trends in the equity ratio and ROE



Source: Prepared by FISCO from the Company's financial results and results briefing materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business forecast

For FY3/21, sales and profits are forecast to decrease due to the impact of the spread of the COVID-19. Is continuing to work on accelerating the growth of EC

1. FY3/21 forecasts

For the FY3/21 results, the Company is forecasting* that net sales will decrease 9.1% YoY to ¥31,509mn, operating income will decline 30.0% to ¥1,228mn, ordinary income will fall 28.8% to ¥1,236mn, and net income will decrease 32.4% to ¥807mn.

* The FY3/21 results forecasts announced on June 17, 2020.

The outlook for net sales is that EC sales of used cameras and watches will continue to trend steadily. However, the reasons for the forecast of a decline in sales include that 1) due to the declaration of a state of emergency following the spread of the COVID-19, physical stores had to be temporarily closed (April 11 to May 25), 2) the weekly holidays for employees was set at 3.5 days during this period in order to reduce the risk of infection for employees, and therefore personnel constraints occurred in the EC product supply system, 3) following the re-opening of the stores, store sales are expected to rise only gradually, and 4) for the time being, duty free sales from inbound demand are expected to be limited. It is anticipated that the decline in store sales will be particularly great.

For profits also, although the gross profit margin will be maintained at the same level as in the previous fiscal year, the operating margin is forecast to decline to 3.9% (5.1% in the previous fiscal period) due to the increase in the SG&A expenses ratio because of the lower sales. It seems that on the one hand the Company is working to reduce costs, while on the other hand it is continuing with investment and measures to sustain growth in the medium- to long-term.

FY3/21 forecasts

(¥mn)

	FY3/20		FY3/21		Change	
	Result	%	Forecast	%	Amount	%
Net sales	34,658	-	31,509	-	-3,149	-9.1%
Operating income	1,754	5.1%	1,228	3.9%	-526	-30.0%
Ordinary income	1,735	5.0%	1,236	3.9%	-499	-28.8%
Net income	1,193	3.4%	807	2.6%	-386	-32.4%

Source: Prepared by FISCO from the Company's financial results and press release

We encourage readers to review our complete legal statement on "Disclaimer" page.

At FISCO, we think that although the sense of uncertainty remains about the impact of the spread of the COVID-19, including the possibility of a second wave, the Company's results forecasts are at rational levels when premised on the information that is available at the present time. According to the current monthly information*, EC sales (and acquisitions of Web members) are trending solidly, but store sales have fallen greatly from the impact of the temporary store closures. Therefore, going forward it seems it will be necessary to follow-up on both how store sales will recover and how EC sales will grow. In particular, it can be said that there are positive factors toward the recovery of sales of new items, including that the June 2020 end of the points-rebate measure, which was a factor that negatively affected results in the previous period, and that the postponed releases of new products will once again be scheduled. On the other hand, for store sales (particularly inbound demand), which have contributed to results in no small way up to the present time, it seems highly likely that the road to recovery will be limited. But precisely in this sort of environment, the Company needs to immediately steer a path toward accelerating EC growth, which is the focus of its strategy, so we shall be paying attention to its measures to strengthen it (the details are given below) and the specific results.

* In 2020, April sales were 59.3% compared to in the same month in the previous fiscal year (of which, EC sales were 86.6%), May sales were 65.4% (EC sales, 101.6%), and June sales were 82.8% (EC sales, 112.1%). The decreases were especially large in April and May due to the impact of the temporary closures of the physical stores (April 11 to May 25).

2. Activities policy for the current period

In order to further accelerate the growth of EC, the Company's policy is to introduce the following three policies for the parts in which costs are increasing.

(1) AIMD x one-to-one

Through combining AIMD with the one-to-one marketing it has progressed up to the present time, the Company plans to fully launch a service in which sales and purchase prices are determined by AI and customers are notified of favorable sales and purchase prices in real time. This can not only prevent opportunity losses, it is also expected to have other effects, including keeping down the increase in personnel costs and improving the accuracy of AI through accumulating expertise in sales and purchases at appropriate prices (improving the gross profit margin).

(2) 1 Category x 1 Office

Alongside the office relocation (the relocation scheduled for the summer of 2020), the Company is aiming to improve its functions as the information-transmission base and to further strengthen EC by having the store and EC office on 1 floor (1 category = 1 office). Customers will be able to purchase expensive items with a sense of security just like visiting a store, but without having to leave their own home. In addition, the development of hybrid human resources that can work on both EC and the stores is expected to have the effect of improving operating efficiency for aspects like the movement of goods and inventory management.

(3) EC + CGM

By utilizing CGM, the Company intends to establish services that can be used while having fun (including increasing the numbers of reviews and postings of photos) and strengthening the infrastructure as a platform (such as supplementing the overwhelmingly large volume of information and increasing the number of active users).

(4) Other measures

In addition to the above, the Company has introduced online individual identification using face authentication into all categories, and it has launched a framework (June 2020) so that online purchases can be made more smoothly from smartphones and PCs. It is also working on enhancing convenience and information for the customer, including consolidating four blogs managed by Map Camera into the Stock Shot information website that is optimized for smartphones.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Medium- to long-term strategy

At the current time, has not yet announced the new medium-term management plan (three years). However, no major revisions to the direction for the future

1. Medium-term management plan

The Company updates the (rolling) three-year medium-term management plan each year. But because of the sense of uncertainty about the future due to the impact of the spread of the COVID-19, it has temporarily withdrawn the medium-term management plan that was announced in May 2019, and furthermore at the current time, it has not disclosed the new three-year medium-term management plan. However, it has not significantly revised its direction for the future. Its strategy continues to be to accelerate growth on the EC axis in the Cameras business and Watches business.

2. Direction for the future

(1) Increasing the market share of the Cameras business (improving the profit margin)

The Company intends to further increase its market share through introducing one-to-one marketing and AIMD that it has worked on up to the present time, and also from the start of the fully fledged operations of the platform (a framework for using services while having fun) that utilizes CGM. In addition, as previously stated, it is working to prevent opportunity losses and to improve the profit margin by combining one-to-one marketing and AIMD.

(2) Growth of the Watches business (entry into new markets)

For the Watches business also, while basing measures on the fact that watches have different product characteristics to cameras (such as the strong aspect of their colors as decorative items), the Company is progressing the implementation of the platform through horizontally developing the expertise and systems it has accumulated in the Cameras business. It is also working to strengthen the ladies' watches business. The watches market is approximately five times the scale of the cameras market (¥886.7bn). Up to the present time, the Company has developed this business by focusing on men's luxury mechanical watches. But needs for ladies' watches are also present to a certain extent, and on looking at the population-composition ratios as well, there is considerable room for growth for ladies' watches. In December 2019, it launched the BRILLER specialist website in the form of a spin-out from GMT. In order to convey the appeal of ladies' luxury watches in a more intuitive manner, it has strengthened collaborations with SNS, mainly for beautiful photographs, and it created the website assuming that it will be viewed on a smartphone. It seems that the Company is working to organize a team mainly comprised of women, including vendors.

(3) Overseas initiatives

The Company is also ambitious about overseas business development through cross-border EC. For the Cameras business, in August 2017 it opened an eBay store (the North American EC mall major) and currently it has expanded its sales areas to 20 countries*1. For the Watches business as well, in May 2019 it opened a store on Chrono24*2, the world's largest marketplace for luxury watches. In anticipation of fully fledged business development in the future, its policy at the current time is to conduct measures that emphasize branding (improving name awareness and image), rather than on measures that will contribute to earnings.

*1 Net sales in the overseas business (cross-border EC) in FY3/20 were ¥688mn.
*2 Chrono24 has listings of more than 400,000 watches and has around 7 million users in 110 countries.

We encourage readers to review our complete legal statement on “Disclaimer” page.

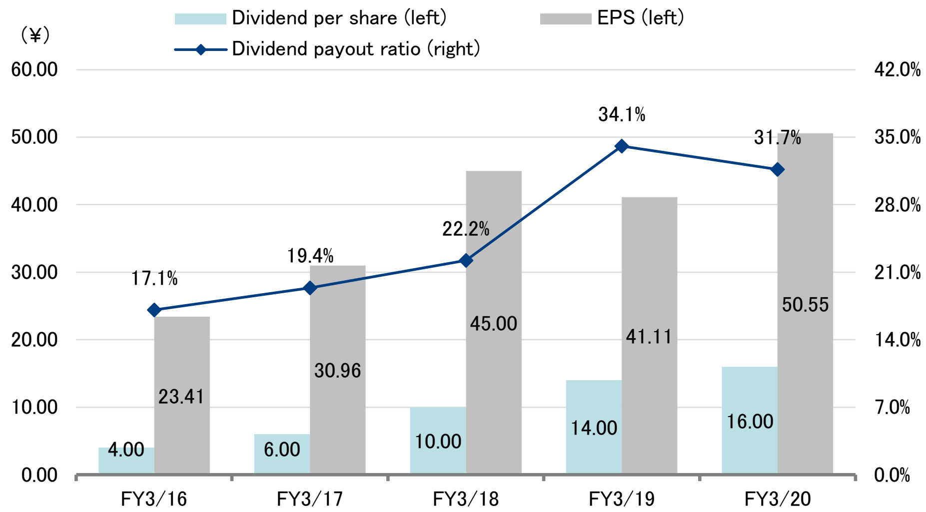
Shareholder returns

In FY3/20, increased the dividend ¥2 YoY to ¥16. Is forecasting a dividend of ¥11 for FY3/21, for the same level of dividend payout ratio as in the previous fiscal year

The Company sees shareholder returns as a management issue and has a basic policy of returning profits to shareholders through dividends. Previously, it had continuously paid a stable dividend, but from FY3/17 it changed its dividend policy to being based on the dividend payout ratio. It currently targets a dividend payout ratio in a range of 25% to 35%.

In FY3/20, profits increased above the initial forecast, so the Company upwardly revised the dividend from the initial forecast (¥14 per share) and paid a period-end dividend per share of ¥16, an increase of ¥2 YoY (dividend payout ratio, 31.7%). This was the fourth consecutive period it had increased the dividend. For FY3/21, it is forecasting a dividend of ¥11, for a dividend payout ratio on the same level as in the previous fiscal year.

Trends in EPS, the dividend, and the dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

FISCO

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp