

**Treasure Factory
Co., LTD.**3093 Tokyo Stock Exchange
First Section

28-May-15

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Yuzuru Sato**■ Brisk sales by existing stores lead growth**

Treasure Factory Co., Ltd. (3093) operates Treasure Factory stores, which handle many types of second-hand goods, and other stores that specialize in buying and selling limited kinds of second-hand goods, including apparel, fashion goods, sporting goods, and outdoor goods. It operates 79 directly managed stores and has 4 franchise stores, located mainly in the Greater Tokyo area. The company's sales and profits continue to grow notably, reflecting several strengths: a strategy of matching goods handled to the characteristics of a geographical market, an ability to purchase on a regular basis many kinds of goods for many uses, and an ability to accurately appraise the marketability of used items.

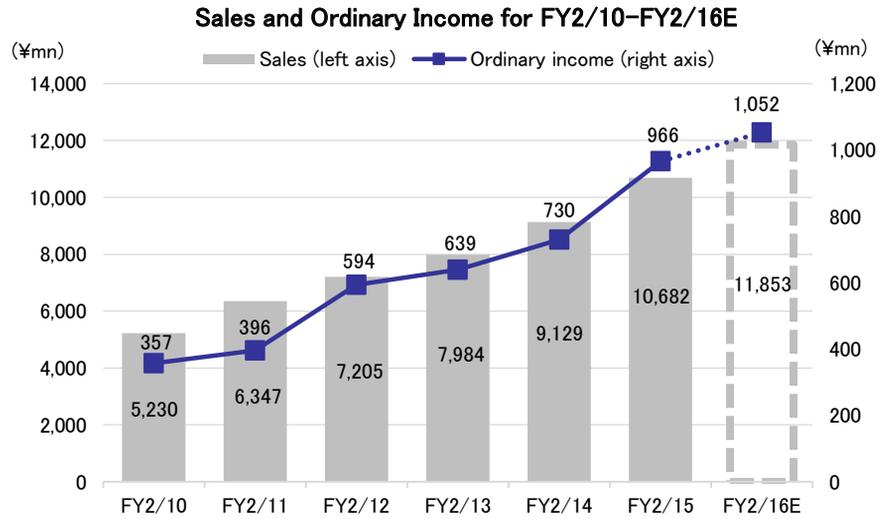
On April 10, 2015, the company announced its business results for the fiscal year through February, i.e., for FY2/15. Sales rose 17.0% year on year (YoY) to ¥10,682mn, while ordinary income advanced 32.4% YoY to ¥966mn. This growth was led by a 7.9% YoY increase in existing-store sales, i.e., sales by stores in operation for more than a year. By choosing goods handled more selectively than in the past, the company raised its average selling price, and by offering appropriate prices, it stabilized its purchases. Sales of all categories of goods, including mainline apparel and fashion items, as well as electric appliances and furniture, grew by more than 15% YoY. The ordinary income ratio exceeded 9% in FY2/15 for the first time because the upturn in existing-store sales more than offset increases in personnel costs and other costs.

For FY2/16, the company projects an 11.0% YoY increase in sales to ¥11,853mn and an 8.8% rise in ordinary income to ¥1,052mn. These forecasts are based on the conservative assumptions that existing-store sales and the gross profit ratio just match their levels in FY2/15. The company plans to open 11-13 new stores in FY2/16, mainly in the Greater Tokyo and Kansai areas, including more shops that specialize in the sale of a limited number of types of second-hand goods. It is also considering opening new stores and developing new businesses in the Chubu and northern Kanto areas.

Over the medium term, the company aims to maintain double-digit YoY sales growth and to lift its ordinary income ratio to 10% at an early stage. While opening more stores in Japan, the company plans to strengthen its operational base by expanding its business into Asian countries other than Japan. It also intends to continue to raise its annual dividend per share, thereby increasing its dividend payout ratio to 25%. For FY2/16, the company plans to pay a dividend of ¥11 per share, after allowing for a two-for-one share split planned for June 1, 2015. This would be ¥2 more than its adjusted dividend for FY2/15. Furthermore, for each shareholder at the end of each fiscal year, the company presents a ¥1,000 QUO card, a Treasure Loto raffle ticket, and a purchase price booster coupon.

■ Check Point

- Sales and profits hit record highs in FY2/15 and the ordinary income ratio exceeded 9% for the first time
- The company continues to open several new stores per year, and store renovations are improving profitability
- The company could surpass its conservative forecasts for FY2/16



Operational Overview

Developing Treasure Factory stores and other reuse stores

(1) Businesses

Treasure Factory's main business is the operation of stores in Greater Tokyo and Greater Osaka that trade in second-hand goods, such as apparel, electric appliances, furniture, brand-name goods, and miscellaneous items. It has five business lines: Treasure Factory stores deal in many kinds of goods, Treasure Factory Style stores handle ordinary apparel and fashion items, Brand Collect stores sell brand-name apparel, Treasure Factory Sports stores handle sporting and outdoor goods, and UseLet stores deal in outlet sales of used clothing.

The company also rents fashion items, such as brand handbags and accessories, but this business supplies less than 1% of total sales and marginal profits.

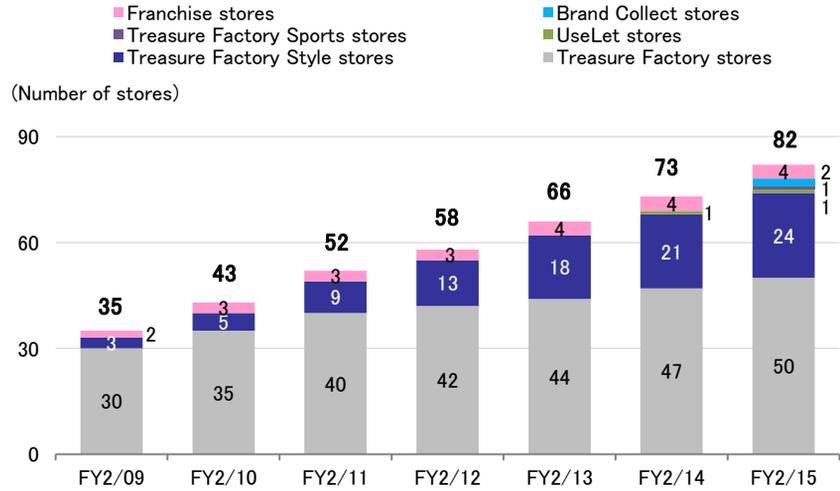
In recent years, the company has opened 5-9 new stores per year. At the end of FY2/15, it operated 78 stores directly and had 4 franchise stores. Of these, 50 were Treasure Factory stores, but in the past few years, the company has been opening more Treasure Factory Style stores and other specialty reuse stores. Of the total stores, 72 are located in Greater Tokyo, including one in Ibaraki Prefecture, while six are in Greater Osaka, a region the company entered in 2013. All four franchise stores are in Fukushima Prefecture. The company plans to increase the number of its directly managed stores.



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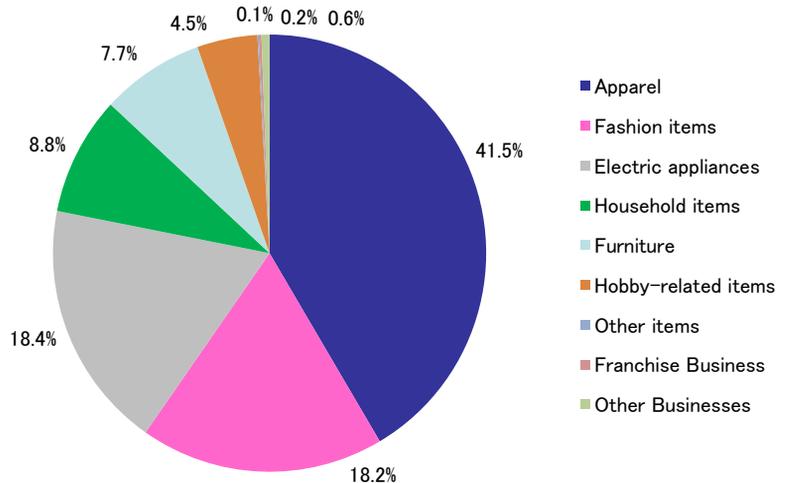
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Number of Stores by Type at the End of the Fiscal Year for FY2/09–FY2/15



In FY2/15, the company derived 41.5% of its sales from apparel and slightly more than 18% each from electric appliances and fashion items. The company purchases just over 70% of its goods from individuals and just over 20% from companies that deal in new and used goods. Most of the goods purchased from individuals are brought to company stores by the sellers. However, the company also picks up goods from homes and has goods picked up by delivery services. Goods purchased from individuals tend to be sold more profitably than goods purchased from dealers.

Breakdown of FY2/15 Sales by Product



Purchasing, appraisal, and business management are main strengths

(2) Strengths and Store Traits

The company has three main strengths: an ability to regularly acquire a large number of goods for many purposes, an ability to appraise goods accurately in order to assign an appropriate price, and an ability to manage store operations effectively, supported by the real-time monitoring of various measures of business performance. It is difficult to assign an appropriate price to each reuse item, so it is important to control the variability of appraisal of these items. The company uses an appraisal support system, based on a POS system developed in-house, to control appraisal variability between staff and expedite staff training. This appraisal support system is a source of competitiveness.

The company stocks a range of goods that fit the characteristics of a commercial area and the customers in it. It also builds stores that exhibit individuality. These stores display goods in a manner that beckons customers to examine the goods as if they were searching for a treasure. Because of their ability to buy goods regularly, the stores present a sales atmosphere of fresh turnover. Such stores appeal to many customers and contribute to a rise in the repeat sales rate.

Business Trends

Sales and profits hit record highs in FY2/15 and the ordinary income ratio exceeded 9% for the first time

(1) Summary of FY2/15 Results

In FY2/15, sales grew 17.0% YoY to ¥10,682mn, and ordinary income rose 32.4% YoY to ¥966mn. The sales increase was the 19th straight rise, ever since the company was founded. The upturn in ordinary income was the 11th in a row of record highs. Sales and profits surpassed the company's forecasts, and the ordinary income ratio exceeded 9% for the first time.

Results for FY2/14–FY2/15

	FY2/14		FY2/15				(¥mn)
	Result	vs. sales	Company forecast	Result	vs. sales	YoY	vs. Company forecast
Sales	9,129	–	10,449	10,682	–	17.0%	2.2%
Gross profit	5,947	65.1%	–	6,984	65.4%	17.4%	–
SG&A expenses	5,237	57.4%	–	6,028	56.4%	15.1%	–
Operating income	709	7.8%	888	955	8.9%	34.6%	7.6%
Ordinary income	730	8.0%	912	966	9.1%	32.4%	6.0%
Net income	417	4.6%	509	566	5.3%	35.7%	11.2%

Sales growth was led by a 7.9% YoY rise in existing-store sales. Many retailers in Japan suffered sales declines after the country's consumption tax was raised from 5% to 8% as of April 1, 2014, but Treasure Factory's sales advanced YoY for every month of FY2/15, going beyond company expectations. The company's gross profit ratio rose 0.3ppt in FY2/15, reflecting proper pricing without discounts. Accompanying the opening of new stores, the company's personnel cost increased by ¥383mn and its rental cost rose by ¥167mn. Thus, its overall SG&A expenses increased, but this increase was more than offset by the rise in existing-store sales, so the ratio of SG&A expenses to sales declined by 1.0ppt YoY.

Sales growth was balanced in FY2/15, as the sales of every main product category, including apparel, fashion items, electric appliances, and furniture, grew by more than 15% YoY. The rise in sales of electric appliances and furniture was supported by the expansion of a distribution center and an improvement in purchasing capability in FY2/14.

Breakdown of Sales by Business and Product Category for FY2/13–FY2/15

	(¥mn)			
	FY2/13	FY2/14	FY2/15	YoY
Direct Management Business	7,914	9,048	10,596	+17.1%
Household items	790	828	936	+13.1%
Apparel & fashion items	4,638	5,374	6,376	+18.6%
Apparel	–	–	4,437	+19.3%
Fashion items	–	–	1,938	+17.1%
Electric appliances	1,412	1,656	1,963	+18.5%
Furniture	608	702	825	+17.6%
Hobby-related items	439	470	485	+3.1%
Other items	24	16	8	–44.2%
Franchise Business	21	16	20	+24.8%
Other Businesses	47	64	65	+1.4%
Total	7,984	9,129	10,682	+17.0%

The company continues to open several new stores per year, and store renovations are improving profitability

(2) New Store Openings

In FY2/15, the company opened or acquired nine new stores, five in Greater Tokyo and four in Greater Osaka. Three of the new stores were Treasure Factory stores, three were Treasure Factory Style stores, and one was the first Treasure Factory Sports store. In October 2014, the company bought a business which trades in brand-name used apparel, which had only one Brand Collect store, and the company then added another store. The Brand Collect stores also sell through the Brand Collect site on the internet.

The company's initial Treasure Factory Sports store has been generating more sales than management had foreseen because it can offer a wide range of goods, including highly specialized goods, and thereby satisfy the needs of many customers.

The initial Brand Collect store is in the fashionable Harajuku area of Tokyo. After acquiring this store, the company renovated it, overhauled its offering of goods, and installed the company's system for operational management. Therefore, the store's profitability is improving. About half of the store's customers are foreigners due to its location, so it is benefiting from the increase in foreign visitors to Japan.

The company also raised its profitability in FY2/15 by renovating its Treasure Factory Style store in Inage, Chiba Prefecture. In November 2014, the company relocated this store temporarily and renovated the existing store, doubling its sales area. This greatly expanded the store's sales and profits. The company intends to renovate other existing stores to further lift sales and profits.

Business Outlook

The company could surpass its conservative forecasts for FY2/16

(1) Company Forecasts for FY2/16

The company forecasts that FY2/16 sales will rise 11.0% YoY to ¥11,853mn, operating income will climb 8.7% to ¥1,039mn, ordinary income will grow 8.8% to ¥1,052mn, and net income will advance 11.4% to ¥631mn. These forecasts are based on the conservative assumptions that FY2/16 existing-store sales and gross profit ratio will remain the same as in FY2/15. In March 2015, the company's existing-store sales grew 4.0% YoY for the 13th straight month of YoY rises. Consequently, there appears to be ample opportunity for the company to overshoot its forecasts.

Monthly YoY Sales Growth for Jan. 2014–Apr. 2015



The company plans to open 11–13 new stores in FY2/16 (of which, three stores have already been determined), including 3–4 Treasure Factory stores, 3–4 Treasure Factory Style stores, and 1–2 stores each of the new Brand Collect store, Treasure Factory Sports store, and UseLet store businesses. It also aims to develop other new businesses.

To strengthen its specialty stores, the company intends to expand its purchases and sales through the internet in FY2/16, mainly through Treasure Factory Style online and the Brand Collect site. In the future, the company plans to construct a distribution center in Greater Osaka, where it is opening more new stores.

For H1 FY2/16, the company projects an 11.2% YoY rise in sales but a 9.7% YoY decrease in ordinary income, reflecting a concentration of costs for opening new stores and other costs in H1.



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Targeting double-digit sales growth and an ordinary income ratio of 10%

(2) Medium-Term Strategies

Over the medium term, the company plans to maintain double-digit YoY sales growth and to achieve an ordinary income ratio of 10% at an early stage. To achieve these goals, it will implement the following three strategies.

○Accelerate the opening of general and specialty stores in Japan

At the end of FY2/15, the company directly operated only 78 stores, mainly in Greater Tokyo. Since 2013, it has been opening stores in Greater Osaka, but it had only six stores there at the end of last fiscal year. There is ample room to increase the number of its stores, and the company intends to open more General Reuse Stores and profitable specialty reuse stores in Greater Tokyo, Greater Osaka, and other metropolitan areas of Japan. Treasure Factory competitor Hard Off Corporation (2674) has more than 700 stores, suggesting the scope of expansion available to Treasure Factory.

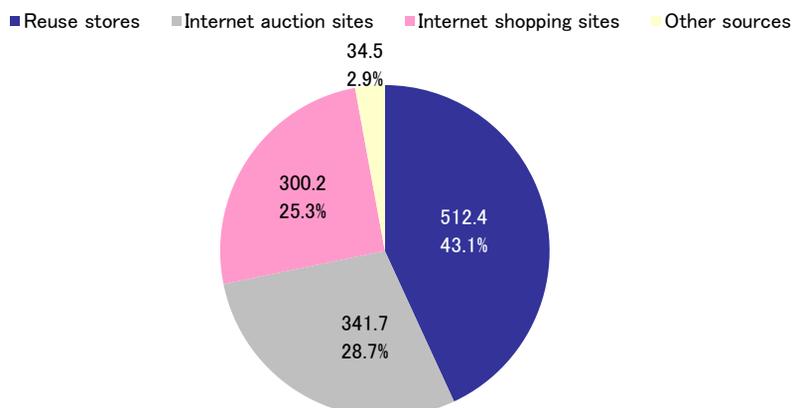
○Develop new businesses

The company plans to continue to develop new businesses. Having launched many successful specialty goods stores, the company will accumulate know-how in handling specialty goods and improve its ability to purchase them, thereby expanding the range of goods offered. It also hopes to expand the range of customer categories served by offering new businesses. It intends to develop new businesses using goods it currently handles.

○Strengthen internet business

Currently, the company derives only 2-3% of its sales through the internet and purchases the same proportion of its goods through the internet, which are retrieved by delivery services. Japan's market for second-hand goods was valued at about ¥1.2 trillion in the government's report for fiscal 2012, i.e., the year through March 2013. More than half of the second-hand goods purchases were made through the internet that year. Thus, it is important for the company to expand its transactions through the internet in order to grow. The company provides a point service and information about its stores through the Treasure Factory smartphone app. It is considering the development of an internet shopping capability and plans to strengthen its internet business by linking it to its stores.

Japanese Market (¥bn) for Second-Hand Goods by Source for FY2012



Source: Ministry of the Environment, Fiscal 2012 Report of the Committee to Promote the Reuse of Goods

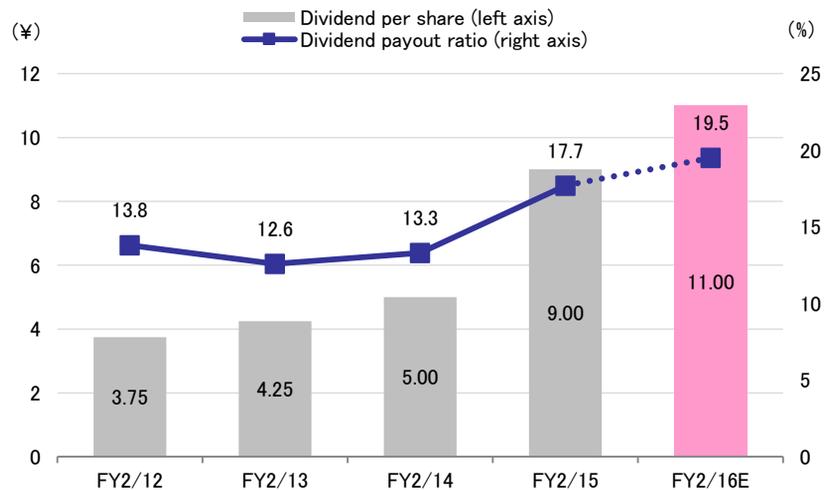
Shareholder Return Policy

The company plans to start paying an interim dividend and to raise its full-year dividend by ¥2 per share

The company policy is to pay a regular dividend reflecting its profit growth, and the company aims to achieve a dividend payout ratio of 25% in the near term. Treasure Factory plans to start paying an interim dividend in FY2/16. It also plans to offer a two-for-one stock split on June 1, 2015. Adjusted for this stock split, it plans to pay a full-year dividend of ¥11 per share for FY2/16, which is ¥2 higher than its adjusted dividend for FY2/15. Based on the company's earnings per share forecast for FY2/16 and its planned dividend, its dividend payout ratio will rise to 19.5%. In order to lift this ratio to 25%, the company is likely to increase its dividend in the coming years if its profits continue to grow.

At the end of each fiscal year, the company also awards each shareholder with a ¥1,000 QUO card, a Treasure Loto raffle ticket, and a purchase price booster coupon.

Dividend per Share and Dividend Payout Ratio for FY2/12–FY2/16E



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