

Syuppin Co., Ltd.

3179

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<https://www.fisco.co.jp>

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■ Summary

Posted lower sales and profits in FY3/21 due to COVID-19 impact At the same time, mainstay EC sales rose steadily and sales reached an all-time high (quarterly basis) in 4Q

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. Store sales are falling at the current time due to the impact of the COVID-19 pandemic (hereafter, COVID-19). But the mainstay EC sales are steadily growing from the effects of the measures up to the present time, and from this point, it can be said that the Company has entered a new growth stage.

1. Overview of FY3/21 results

The Company posted lower sales and profits in FY3/21 due to COVID-19 impact with ¥33,960mn in net sales (-2.0% YoY) and ¥1,613mn in operating income (-8.1%). Nevertheless, sales and profits substantially beat period-start targets due to growth in EC sales. While weaker store sales amid COVID-19 pandemic conditions was the main cause of the setback in net sales, this largely stemmed from downturn in 1Q when the government issued the first state of emergency declaration. From 2Q, meanwhile, EC sales climbed considerably thanks to stay-at-home demand related to the pandemic and overall sales reached an all-time high (on a quarterly basis) in 4Q. In profits, despite a decline because of reduced store sales, increased costs related to the pandemic, and ongoing investments to strengthen EC business, the result was higher than planned on improved gross margin for used cameras and gross-profit contributions by new products.

2. Main activities and achievements

In the COVID-19 environment, the number of new web members and the active rate steadily grew from 2Q, due to the measures implemented up to the present time and the further progress made in the measures to strengthen EC (including shifting personnel resources and supplementing the number of product listings and content). The Company was able to achieve other major results, including increasing the EC purchase amount, such as by launching a personal identification service using AI facial authentication. Moreover, it is making steady progress with the three frameworks to accelerate EC growth, which are 1 Category = 1 Office, EC + CGM, and AIMD × One to One.

3. Outlook for FY3/22

The Company expects higher sales and profits in FY3/22 at ¥38,230mn in net sales (+12.6% YoY) and ¥1,849mn in operating income (+14.7%). This outlook envisions growth in all businesses with EC sales continuing as the driver. In particular, the Company wants to significantly expand Watches Business with build-up of strategic product inventories. In store sales, meanwhile, it only anticipates moderate recovery. Even though the Company intends to work toward improving gross margin for each business area, guidance indicates weakening of overall gross margin because of change in product mix (rise in the share of Watches Business). Operating margin should stay at the FY3/21 level due to a decline in the SG&A expenses ratio, and the boost from higher sales supports the target for double-digit increase in operating income.

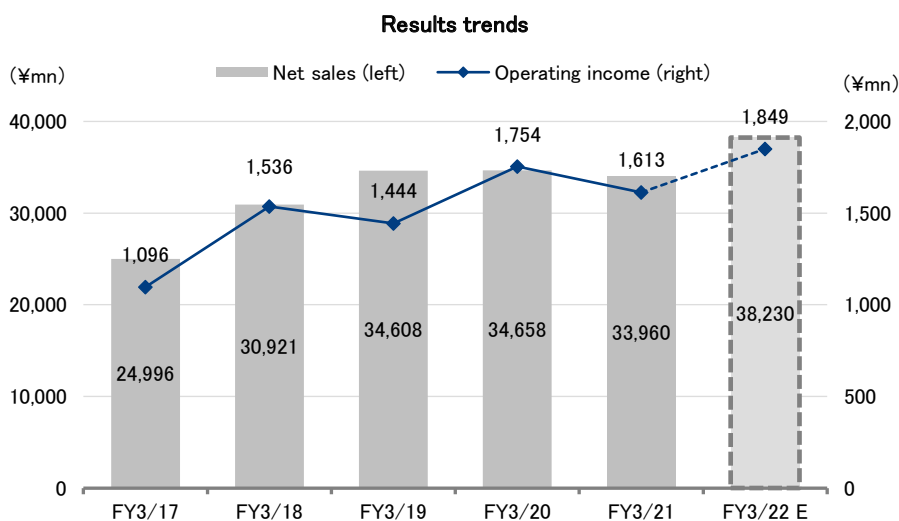
Summary

4. Strategy for Future Growth

The Company updates the three-year medium-term management plan annually in a rolling manner. It aims to reinforce No.1 shares in the EC market for used cameras and watches and further lift its presence (as the price leader) and positions sustainable growth in EC sales through expansion of market shares as the main driver. Additionally, it intends to emphasize profit growth that outpaces the sales trend with improved gross margin and reduction of the SG&A expenses ratio. Final-year (FY3/24) goals are ¥47,844mn in net sales (12.1% three-year CAGR) and ¥2,624mn in operating income (5.5% operating margin). The Company advocates pursuit of four types of value (advancement, depth, authenticity, novelty) to realize longer-term goals. In FY3/22, it plans to implement one-to-one marketing (AIMD, content recommendations), broaden the line-up of watches, and reinforce sales channels.

Key Points

- In FY3/21, sales and profits decreased due to the fall in store sales because of COVID-19, but exceeded the forecast
- Steady expansion of EC sales from 2Q and realization of all-time high overall sales too in 4Q (quarterly basis); healthy progress in building the framework to accelerate EC growth
- Targets higher sales and profits in FY3/22 led by continued growth in EC sales and factors in substantial gains in Watches Business through build-up of strategic product inventory
- Disclosed the three-year medium-term management plan that seeks to bolster No.1 share in the EC market for used cameras and further increase presence and also pursues the four types of value



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. 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.

The Company currently has approximately 514,000 web members (as of the end of March 2021). This number has been steadily increasing through the acquisition of around 5,000 new members every month (since July 2020). 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. Stores contribute to results to a certain extent, but their main function is to complement the EC business as bases to disseminate information. Also, the composition of sales broken down by new items and used items is stable at around 1:1, and they each play important roles, generating synergies while mutually interacting to increase the other's sales.

There are four business segments: Cameras business, Watches business, Stationery business, and Bicycles business. The mainstay Cameras business provides approximately 70% of net sales and approximately 86% of operating income (before adjustments) *. In Watches Business too, despite current impact from COVID-19 pandemic conditions, the Company hopes to expand through build-up of strategic product inventory and global initiatives.

* 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.

■ 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 recurring-revenue business model, 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 514,000 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 strengthening measures for young and female members and expanding its market share in areas outside the Kanto region. 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 in addition to utilization of AI, 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) 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. Although stores have been affected by the impact of COVID-19, they have also contributed a certain amount to results, having benefitted from factors such as inbound demand (duty-free sales), and served as bases to disseminate information. 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 composition of total net sales provided by new items and used items trend at around 1:1. 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 used items with high profit margins, 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 (capture new customers) and amass 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 used items owned by customers (by indicating purchase prices that are acceptable to customers), which generates synergies.

The Company's features

(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 cycle 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 estimated purchase prices to be easily obtained on the internet. It is also introducing 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 has led to increases in the EC purchase amount. Recently, it has been working on improving efficiency (reducing opportunity losses) through a personal identification service using AI facial authentication*3 and development of AIMD*4 and 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 The Company previously needed users to mail in a personal identity confirmation document (original certified copy of the resident's certificate) to authenticate their identity, but installation of a system capable of matching the user's face and image on an identification card allows authentication online (an ID and password then are sufficient to complete the authentication procedure for second and subsequent purchases).
- *4 An automated assist system that utilizes AI for the purchase and sales prices of used cameras. Currently, the Company decides prices manually for all the items its handles, 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.

(4) 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 cycle of information about enjoying cameras (pre-purchase) → services to make purchases easier (time of purchase) → services to enjoy an item after purchasing (post-purchase). By making this cycle bigger, it can expand and activate its membership base, which in turn leads to further results growth. In particular, for the services 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 cultivate fans.

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

Summary of results

Posted lower sales and profits in FY3/21 due to COVID-19 impact, though had upbeat momentum in mainstay EC sales Posted an all-time high in 4Q (quarterly basis)

1. FY3/21 results summary

(1) Results summary

In the FY3/21 results, sales and profits declined due to the impact of COVID-19, with net sales decreasing 2.0% YoY to ¥33,960mn, operating income declining 8.1% to ¥1,613mn, ordinary income falling 6.4% to ¥1,623mn, and net income decreasing 10.6% to ¥1,067mn. However, the Company still made progress, as net sales and each profit item have managed to exceed the initial forecasts due to growth in EC sales.

In net sales, despite a decline on the slump in store sales because of COVID-19 impact, the overall result recovered to almost on par with the previous fiscal year with a considerable increase in EC sales driven by stay-at-home demand accompanying the pandemic. Store sales fell by a hefty 35.8% YoY due to setbacks from temporary closures and shortened business hours after reopening related to the state of emergency declarations and decline in duty-free sales from reduced inbound demand. These conditions weighed heavily on business in 1Q. EC sales, meanwhile, were healthy amid the pandemic environment and exceeded the plan with an 18.5% YoY increase. In particular, new Web members signed up at a pace in the range of 5,000 people a month from July, surpassing the level prior to COVID-19, and the company-site share of EC sales climbed sharply to 80.8% (vs. 60.0% in the previous fiscal year). With tailwinds from stay-at-home demand related to the pandemic and the effect of new camera products, existing EC reinforcement measures took off, and core KPI steadily advanced (details explained below).

Declines in store sales and other factors caused a setback in profits as well. However, the reasons why they were significantly higher than forecast was the improvement in the gross profit margin of used cameras and the major contribution to profits of new products, in addition to that EC sales exceeded the forecast. On the other hand, SG&A expenses rose due to the increases in costs associated with COVID-19 and ongoing investments to strengthen EC business. However, this was covered by the improvement in the gross profit margin, so the Company was able to secure profits higher than forecast.

In the financial situation, gross assets increased 5.0% YoY to ¥12,613mn due to drawing down some of the surplus cash boosted at the end of FY3/20 in preparation for COVID-19 impact and investing strategically in inventories and store moves. However, it has still secured cash on hand of approximately ¥1.8bn and the current ratio is at a high level of 280.2%, so there are no concerns about its financial stability. The equity ratio climbed 50.7% (vs. 47.5% at end-FY3/20) through increases in shareholders' equity to ¥6,399mn (+12.3% YoY) with accumulation of internal reserves.

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Summary of results

FY3/21 results summary

	FY3/20		FY3/21		Change		(¥mn)		
	Result	%	Result	%	Amount	%	FY3/21 initial forecasts	Achievement	rate
Net sales	34,658		33,960		-698	-2.0%	31,509		107.8%
Cameras	23,274	67.2%	24,022	70.7%	748	3.2%	-	-	-
Watches	10,330	29.8%	8,681	25.6%	-1,649	-16.0%	-	-	-
Stationery	502	1.4%	408	1.2%	-94	-18.7%	-	-	-
Bicycles	551	1.6%	848	2.5%	297	53.9%	-	-	-
Costs	28,416	82.0%	27,663	81.5%	-753	-2.6%	-	-	-
Gross profit	6,241	18.0%	6,296	18.5%	55	0.9%	-	-	-
SG&A expenses	4,487	12.9%	4,683	13.8%	196	4.4%	-	-	-
Operating income	1,754	5.1%	1,613	4.8%	-141	-8.0%	1,228	3.9%	131.4%
Cameras	2,305	9.9%	2,324	9.7%	19	0.8%	-	-	-
Watches	555	5.4%	357	4.1%	-198	-35.7%	-	-	-
Stationery	22	4.4%	-30	-	-52	-136.4%	-	-	-
Bicycles	13	2.4%	40	4.7%	27	307.7%	-	-	-
Adjustment	-1,142	-	-1,078	-	64	-	-	-	-
Ordinary income	1,735	5.0%	1,623	4.8%	-112	-6.5%	1,236	3.9%	131.3%
Net income	1,193	3.4%	1,067	3.1%	-126	-10.6%	807	2.6%	132.2%
EC sales	21,544		25,535		3,991	18.5%			
Store sales	13,114		8,425		-4,689	-35.8%			

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

Financial condition at the end of March 2021

	End of March 2020 Result	End of March 2021 Result	Change	
			Amount	%
Current assets	10,810	11,178	368	3.4%
Cash and deposits	3,528	1,827	-1,701	-48.2%
Accounts receivable - trade	1,690	2,104	414	24.5%
Merchandise	5,292	6,826	1,534	29.0%
Non-current assets	1,198	1,434	236	19.7%
Property, plant and equipment	139	359	220	258.3%
Intangible assets	330	358	28	8.5%
Investments and other assets	728	715	-13	-1.8%
Total assets	12,008	12,613	605	5.0%
Current liabilities	3,633	3,989	356	9.8%
Accounts payable - trade	749	1,154	405	54.1%
Interest-bearing debt	1,754	1,747	-7	-0.4%
Provision for point card certificates	350	350	0	0.0%
Non-current liabilities	2,671	2,218	-453	-17.0%
Long-term loans payable	2,671	2,182	-489	-18.3%
Net assets	5,703	6,404	701	12.3%
Shareholders' equity	5,698	6,399	701	12.3%
Total liabilities and net assets	12,008	12,613	605	5.0%

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

Summary of results

(2) SG&A expenses

SG&A expenses rose 4.4% YoY to ¥4,683mn (+¥196mn) and the SG&A expenses ratio expanded to 13.8% (vs. 12.9% a year earlier) in FY3/21. Main increases were rent expenses on land and buildings (+¥75mn), promotion expenses (+¥71mn), personnel expenses (+¥70mn), and commission expenses (+¥55mn). Rent expenses on land and buildings climbed because of the relocation and expansion of offices based on the “1 Category = 1 Office” approach (details explained below). These are upfront investments targeting strategic effects. Extra “promotion expenses” and “commission expenses” were related to reinforcement of EC business and EC sales growth, and personnel expenses climbed on measures that target reduction of COVID-19 pandemic risk*.

* During the declaration of a state of emergency, in order to reduce the risk of infection among employees, the Company allocated special holidays with guaranteed employment wages and established a system of 3.5 days of holiday per week. It also made the end-of-work time earlier and guaranteed overtime work.

Breakdown of SG&A expenses

	FY3/20		FY3/21		Change	
	Result	Ratio to net sales	Result	Ratio to net sales		
					Amount	%
SG&A expenses	4,487	12.9%	4,683	13.8%	196	4.4%
Personnel expenses	1,334	3.9%	1,404	4.1%	70	5.2%
Advertising expenses	54	0.2%	56	0.2%	2	3.7%
Promotion expenses	732	2.1%	803	2.4%	71	9.7%
Outsourcing expenses	264	0.8%	291	0.9%	27	10.2%
Commission expenses	824	2.4%	879	2.6%	55	6.7%
Depreciation	213	0.6%	161	0.5%	-52	-24.4%
Rent expenses on land and buildings	269	0.8%	344	1.0%	75	27.9%
Other	793	2.3%	741	2.2%	-52	-6.6%

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

2. Results by business

(1) Cameras business (EC ratio: 86%)

Both sales and profits improved with gains of 3.2% in sales to ¥24,022mn and 0.8% in segment income to ¥2,324mn. Store sales declined greatly due to the impact of COVID-19, down 46.4% YoY to ¥3,260mn, but an increase in EC sales was secured, up 20.8% to ¥20,762mn. Store sales fell greatly because stores were temporarily closed due to the declaration of a state of emergency, business hours were shortened after reopening, and inbound sales decreased. EC sales, meanwhile, benefited from tailwinds of stay-at-home demand related to the COVID-19 situation and new product effect from 2Q. The Company's own site sales grew substantially on the tailwinds and successful EC reinforcement measures. Profit improved even with the dip in store sales, and segment margin was roughly unchanged at 9.7% (vs. 9.9% in the previous fiscal year). Results beat plan targets on improved gross margin for used cameras and a healthy contribution from gross profit on new products.

Summary of results

(2) Watches business (EC ratio: 42%)

Sales and profits decreased, with net sales declining 16.0% YoY to ¥8,681mn and segment income falling 35.7% to ¥357mn. In the COVID-19 environment, store sales fell greatly, down 26.1%, because sales were conducted through a complete reservation system with a small number of sales staff, while inbound demand declined due to the restrictions on people entering the country from overseas. Looking just at 4Q, sales recovered substantially on the effect of strategic investments in inventory*. EC sales surpassed the year-ago level with a 3.7% gain thanks to the success of various sales measures and increase in the average purchase price. Profit declined because of the impact of weaker store sales and costs related to store relocations and renovations, and segment margin slipped to 4.1% (vs. 5.4% a year earlier).

* Strategic inventory investments from 3Q lifted watches inventory by ¥2bn versus end-September at the end of December and thereby supported higher sales in 4Q. In particular, it reached the highest-level volume of Rolex web listings in Japan due to reinforcing purchases of Rolex watches that attract strong demand in EC business. Monthly sales also set an all-time high.

(3) Stationery business (EC ratio: 85%)

Sales and profits decreased, with net sales declining 18.7% YoY to ¥408mn and a segment loss of ¥30mn (compared to a profit of ¥22mn in the same period in the previous fiscal year). Although EC sales were maintained at around the same level YoY, store sales fell greatly, down 52.6% to ¥63mn, mainly due to the impact of the temporary store closures. In profits, a segment loss was recorded, mainly due to the impact of a drop in store sales and expenses relating to store relocations and renovations.

(4) Bicycles business (EC ratio: 94%)

Sales and profits increased, with net sales growing 53.9% YoY to ¥848mn and segment income rising 307.7% to ¥40mn. As seen in the other businesses, store visitor numbers declined greatly, so store sales fell 27.4% to ¥53mn. However, EC sales were strong particularly on the Company's own site, including training equipment and various parts, due to stronger customer appeal due to enhanced brand recognition, and they contributed to results growth.

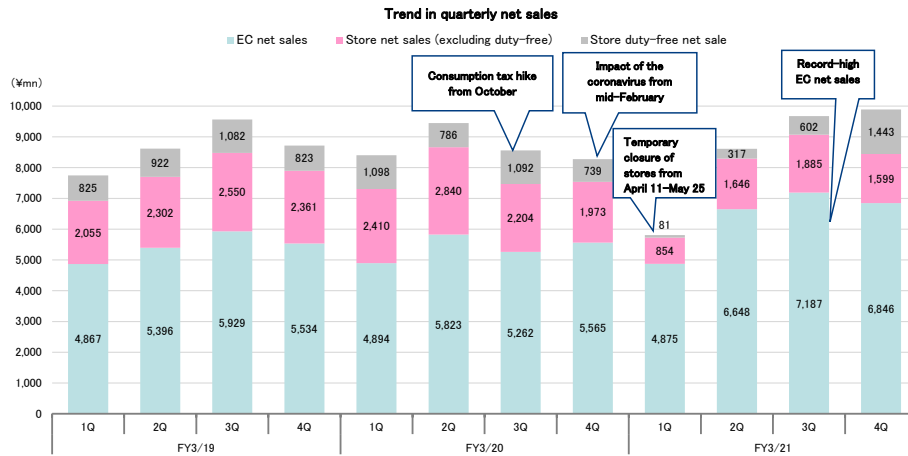
The overall sales ratio on the Company's own EC site moved above 80% in FY3/21 because of success with initiatives to accelerate EC growth, such as "1 Category = 1 Office," "EC + CGM," and "AIMD + One-to-One."

3. Trends in quarterly results and KPI

(1) Trends in quarterly results

Looking at how net sales trended on a quarterly basis, after reaching the second highest level ever in 2Q in the previous fiscal year (FY3/20), sales slowed over the remainder of the year due to the consumption tax hike in 3Q and the impact of COVID-19 in 4Q. Furthermore, they fell greatly at the start of this year, mainly due to the temporary closures of stores in 1Q following the declaration of a state of emergency. However, from 2Q FY3/21, they returned to the same level as before COVID-19 due to the growth in EC sales (on the Company's own website). In particular, after EC sales reached an all-time high in 3Q, growth in duty-free sales facilitated all-time highs in overall sales as well (quarterly basis) in 4Q. These trends demonstrated EC-led recovery in results and the path to restoring a growth trajectory.

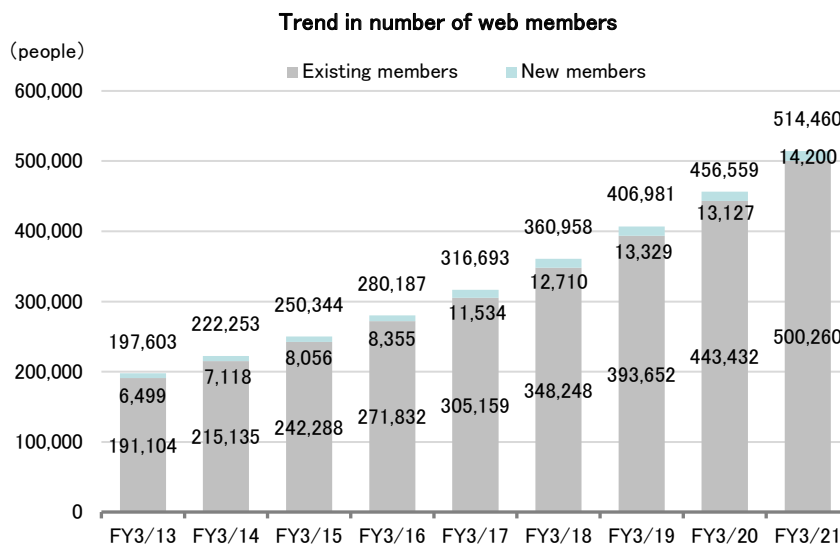
Summary of results



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

(2) Number of web members

At the end of March 2021, the number of web members had steadily grown, rising 12.7% YoY to 514,460 people. In particular, since July, monthly acquisitions of new members has continued at a pace of around 5,000 people (4,131 people in the previous period), and we can see that the Company's measures to strengthen EC are well underway. Looking at the composition of new members by age group, while it is a wide age group, the percentage of those aged from 10 years to 39 years was 41.9%. Also, due to the spread in the use of Instagram and other SNS, the percentage of women aged 10 years to 39 years was high, at 22.3%, and they have become a new target group. In addition, in a situation in which the percentage of members in the young generation is increasing, the fact that the use average unit price was still maintained can be said to be a development worthy of note.

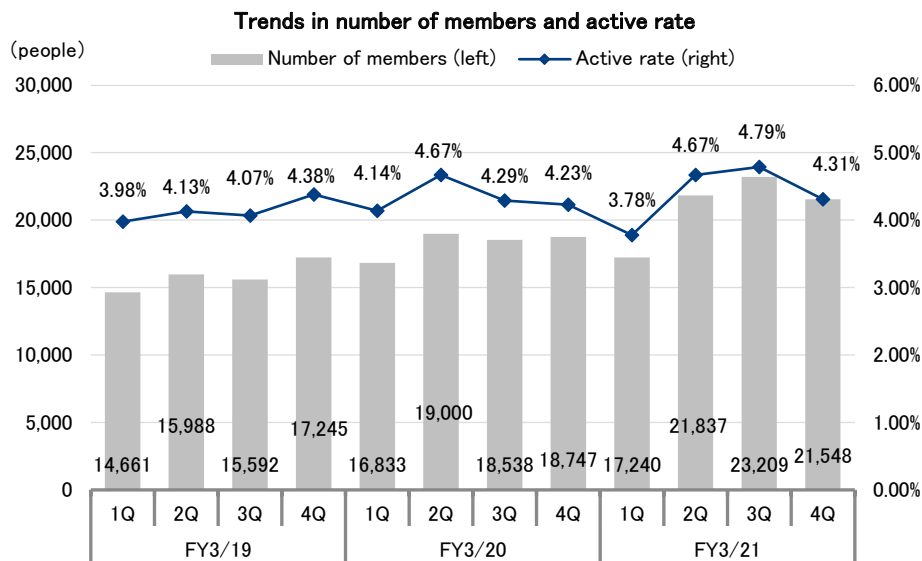


Source: Prepared by FISCO from the Company's results briefing materials

Summary of results

(3) Member numbers and the active rate

The number of purchasing members and the active rate both fell in 1Q. However, they increased between 2Q and 3Q to set new record highs for the second fiscal year in a row due to the measures to strengthen EC (including shifting personnel resources and supplementing the number of product listings and content) and the effects of new cameras. The numbers of registrations for wish lists and email notifications for product arrivals also steadily grew, and it is thought that these one-to-one marketing measures were also a factor causing the active rate to increase.

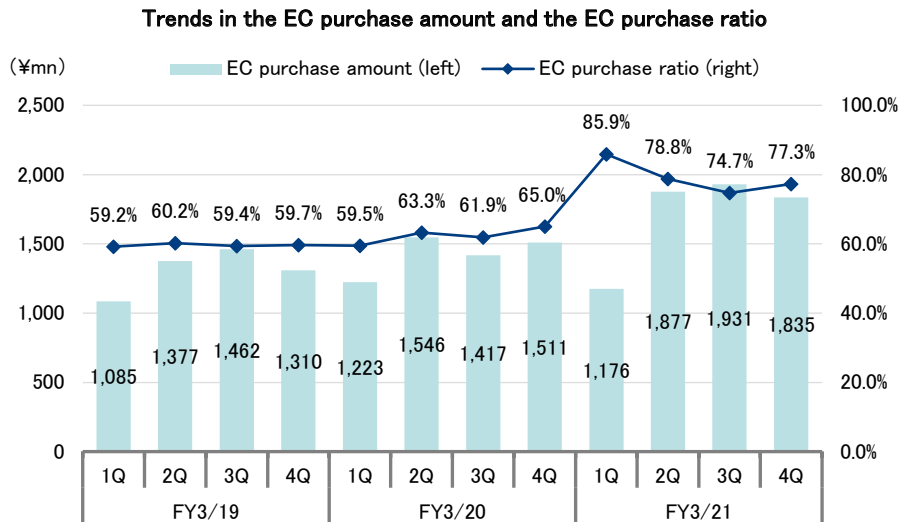


Source: Prepared by FISCO from the Company's results briefing materials

(4) Used cameras purchase amount

Used camera purchase value, meanwhile, was healthy from 2Q and increased substantially at +121.4% YoY in 4Q. In addition to the measures conducted up to the present time, including the receive-first, send-later service, it can be considered that the launch of personal identification service using AI facial authentication in June and the effects of new products are interacting synergistically. In particular, the numbers of trade-in sales and receive-first, send-later sales both increased greatly from the measures to strengthen EC and the effects of new products for full-size mirrorless, single-lens reflex cameras.

Summary of results



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

4. Summary of the FY3/21 results

Despite major setback in 1Q on sharp decline in store sales due to COVID-19 pandemic impact and the need for some time to shift resources to EC business, the Company readied its operations for the EC shift and subsequently acquired stay-at-home demand. It attained all-time high sales in 4Q (quarterly basis), and it is fair to say that full-year results are healthier than indicated by the values (sustaining growth). In particular, stronger growth in mainstay EC sales and related KPI than expected on tailwind from the COVID-19 pandemic has positive implications for future growth prospects too. As explained below, the Company continued to invest in reinforcing EC business, and this provided some basis for future accelerated growth.

Main activities and achievements

Continues to invest in strengthening EC capabilities amid the pandemic Introduced personal identification service using AI facial authentication ahead of the industry

1. Introduction of online personal identification service using AI facial authentication

In June 2020, the Company introduced online personal identification service using AI facial authentication and thereby started a mechanism for smoother online purchases from smartphones and PCs ahead of the industry. The Company previously needed users to mail in a personal identity confirmation document (original certified copy of the resident's certificate) to authenticate their identity, but installation of a system capable of matching the user's face and image on an identification card allows for completed authentication online (an ID and password then are sufficient to complete the authentication procedure for second and subsequent purchases). This capability appears to be boosting the re-usage rate (purchase repeaters).

Main activities and achievements

2. Completion of “1 Category = 1 Office”

The Company is aiming to improve the function of bases to disseminate information and to strengthen EC by having the store and the EC office on one floor. Customers will be able to purchase expensive items with a sense of security, just like visiting a store, but without having to leave their home. Also, for the Company, in addition to training hybrid human resources able to carry out both EC and store work, operating efficiency is expected to improve for aspects such as the movement of goods and inventory management. In the Watches and Stationery businesses, one store was relocated and reopened*1 on August 7, and in the Cameras business, Map Camera was consolidated into one main building, Map Camera Tower*2, and reopened.

*1 It newly allocated KINGDOM NOTE, a stationery specialty store, to 1F, and GMT, a watch specialty store, and BRILLER, a ladies' watch specialty store, to 2F. It also started handling brand bags and other products.

*2 The renovated Leica Boutique Map Camera Shinjuku, which has a branding function, was opened on 1F. Also, from B1F-4F, floors have been separated according to manufacturer, while 5F is the purchase and trade-in center. Therefore, it has become possible to complete every action, from making a purchase through to trade-ins and replacement purchases, in a single building.

3. EC + CGM rollout

By utilizing CGM, the Company is aiming to establish an environment that all members can use while having fun (including increasing the number of reviews and postings of photos), and to strengthen the infrastructure as a platform (such as supplementing the overwhelmingly large volume of information and increasing the number of active users). On October 20, it improved the guidance to lead visitors to post content. Specifically, visitors are guided to product pages (including SOLDOUT items) via a variety of events in which Syuppin points can be collected, including a camera specialist review function Comurevi and a photo contest with the photo sharing site EVERYBODY × PHOTOGRAPHER.com. We can expect that the Company will not merely sell individual used items, but that the large number of visitors who gather there will further stimulate activity as a result of creating guidance to direct them to the point program. Also, as the second phase, the Company released EVERYBODY Concierge on November 25. In addition to shopping, it will be a venue where camera enthusiasts can exchange knowledge and opinions, and concierges, members who actually use the products, will offer their knowledge and experience to solve problems and answer questions related to cameras and lenses*.

* During the period from November 25, 2020 to end-March 2021, 152 question submissions prompted 765 response submissions.

4. AIMD × one-to-one rollout

In March 2021, by combining AIMD with the one-to-one marketing it has progressed up to the present time, the Company launched 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 minimizing the increase in personnel expenses and improving the accuracy of AI through accumulating expertise in sales and purchases at appropriate prices (improving the gross profit margin).

5. Release of the StockShot web magazine

The Company released the StockShot web magazine that consolidates four types of content with over 1mn monthly page views operated by Map Camera. This format lets users see all of the information at once and greatly improved viewability and usability from smartphone devices.

Main activities and achievements

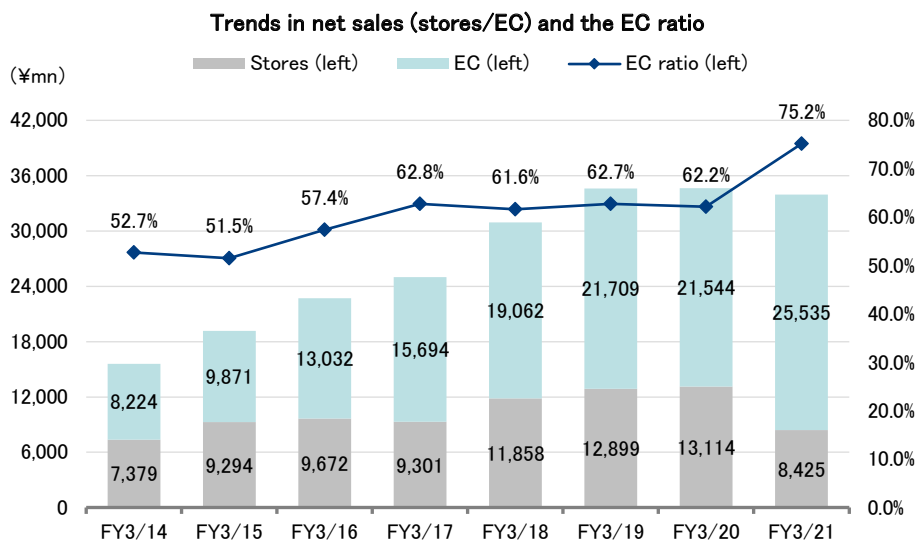
6. Expansion of sales area to other countries (progress in cross-border EC)

The Company opened a GMT (Watches Business) store on eBay, one of the world’s largest online marketplaces, in July 2020. GMT already launched a store on Chrono24, one of the world’s largest luxury wristwatch marketplaces, in May 2019 and took as further step in building operations to expand business. Map Camera (Cameras Business) opened an eBay store in August 2017 and has received 99.9% positive feedback as user volume steadily increases. Management seems to have confidence in this approach. The Company hopes to attain at least ¥1bn in FY3/22 sales following solidification of overseas brand clout with initiatives that emphasize service quality.

Results trends

Is realizing rising growth through increasing the number of web members

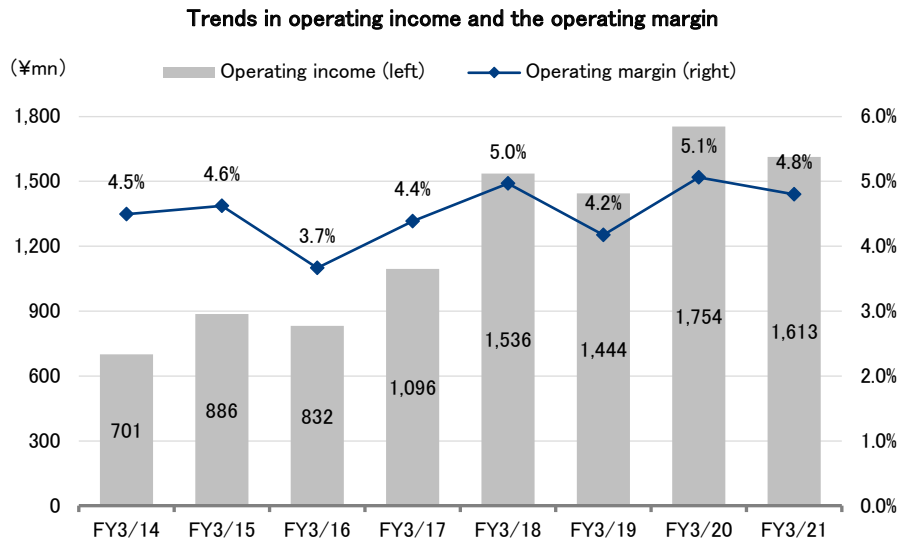
Looking back at results up to now, the Company achieved steady growth in sales on expansion of web member volume and growth in EC sales. While sales stalled in two straight fiscal years from FY3/20 because of an effort to improve gross margin as a priority issue with more emphasis than sales growth, impact by the consumption tax hike, and the dip in store sales due to COVID-19 impact, sales rose at an average rate of over 18% in the six years from FY3/13 when the Company listed its stock through FY3/19 (including a 23% average growth rate in EC sales). 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 changes in the product mix at various times (such as the ratio of used to new items and category sales ratio), 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 point system and other measures. But in terms of the actual situation, the earnings structure is that the profit margin improves alongside the increase in sales.



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

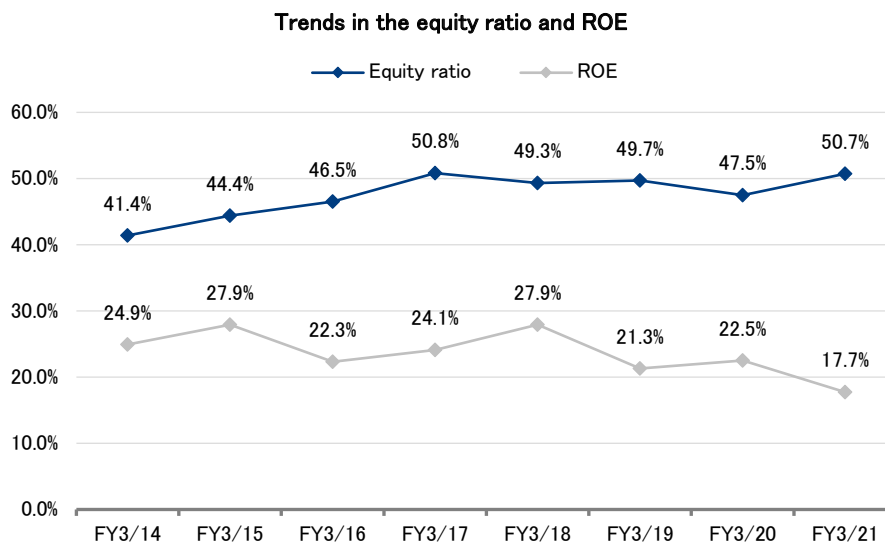
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Results trends



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.



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

Business forecasts

Targets higher sales and profits in FY3/22 on continued growth in EC sales

● FY3/22 forecasts

The Company expects higher sales and profits in FY3/22 at ¥38,230mn in net sales (+12.6% YoY), ¥1,849mn in operating income (+14.7%), ¥1,825mn in operating income (+12.4%), and ¥1,241mn in net income (+16.3%).

This outlook envisions growth in all businesses with EC sales continuing as the driver. In particular, the Company wants to significantly expand Watches Business with build-up of strategic product inventories. In store sales, it only anticipates moderate recovery.

In earnings, meanwhile, even though the Company intends to work toward improving gross margin for each business area, guidance indicates weakening of overall gross margin by 9ppt because of change in product mix (rise in the share of Watches Business). Operating margin should be flat at 4.8% on decline in the SG&A expenses ratio by 1ppt, and the boost from higher sales supports the target for double-digit increase in operating income.

FY3/22 forecasts

	FY3/21		FY3/22		Change	
	Result	%	Forecast	%	Amount	%
Net sales	33,960		38,230		4,270	12.6%
Cameras	24,022	70.7%	26,489	69.3%	2,467	10.3%
Watches	8,681	25.6%	10,310	27.0%	1,629	18.8%
Stationery	408	1.2%	504	1.3%	96	23.5%
Bicycles	848	2.5%	925	2.4%	77	9.1%
Cost	27,663	81.5%	31,504	82.4%	3,841	13.9%
Gross profit	6,296	18.5%	6,726	17.6%	430	6.8%
SG&A expenses	4,683	13.8%	4,876	12.8%	193	4.1%
Operating income	1,613	4.8%	1,849	4.8%	236	14.7%
Ordinary income	1,623	4.8%	1,825	4.8%	202	12.4%
Net income	1,067	3.1%	1,241	3.2%	174	16.3%
EC sales	25,535		29,568		4,033	15.8%
Store sales	8,425		8,662		237	2.8%

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

■ Medium- to long-term strategy

Aiming for sustainable growth by solidifying its No.1 share in the used camera market, utilizing AI, and pursuing further value

1. Disclosed a new medium-term management plan

The Company updates the three-year medium-term management plan annually in a rolling manner and disclosed a new plan in May 2021. It aims to reinforce the No.1 share in the EC market for used cameras and further boost its presence (as the price leader) and positions sustainable growth in EC sales through expansion of market shares as the main driver. Additionally, it intends to emphasize profit growth that outpaces the sales trend with improved gross margin and reduction of the SG&A expenses ratio. In gross margin, it wants to raise gross margin on used cameras by 0.5ppt annually through full-fledged utilization of AIMD. In SG&A expenses, despite increase in some logistics-related costs due to higher transaction volume, the Company hopes to lower the SG&A expenses ratio with the sales increase effect and curtailment of overall spending. It also budgets IT investments that target improvements in productivity and efficiency with a goal of raising sales per employee. Resulting final-year (FY3/24) goals are ¥47,844mn in net sales (12.1% three-year CAGR) and ¥2,624mn in operating income (5.5% operating margin).

Overview of the new medium-term management plan

	FY3/21		FY3/22		FY3/23		FY3/24		Average growth rate
	Result	%	Forecast	%	Forecast	%	Forecast	%	
Net sales	33,960		38,230		42,718		47,844		12.1%
Cameras	24,022	70.7%	26,489	69.3%	28,984	67.9%	31,712	66.3%	9.7%
Watches	8,681	25.6%	10,310	27.0%	12,069	28.3%	14,186	29.7%	17.8%
Stationery	408	1.2%	504	1.3%	602	1.4%	719	1.5%	20.8%
Bicycles	848	2.5%	925	2.4%	1,061	2.5%	1,217	2.5%	12.8%
Cost	27,663	81.5%	31,504	82.4%	35,158	82.3%	39,336	82.2%	12.5%
Gross profit	6,296	18.5%	6,726	17.6%	7,560	17.7%	8,508	17.8%	10.6%
SG&A expenses	4,683	13.8%	4,876	12.8%	5,415	12.7%	5,884	12.3%	7.9%
Operating income	1,613	4.8%	1,849	4.8%	2,145	5.0%	2,624	5.5%	17.6%
Ordinary income	1,623	4.8%	1,825	4.8%	2,121	5.0%	2,600	5.4%	17.0%
Net income	1,067	3.1%	1,241	3.2%	1,443	3.4%	1,768	3.7%	18.3%
Number of employees*	256		280		291		302		5.7%
Sales per person	132		136		146		158		6.2%

* Includes dispatched and part-time workers

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

2. Future initiatives

The Company intends to promote the following four values to support attainment of longer-term goals. Specifically, it cites advancement (value from progressing), depth (value from deeper understanding), authenticity (value of being authentic), and novelty (new value). It presented detailed measures for each of the value types and anticipated impact on future income (sales and profits).

Medium- to long-term strategy

1) Four values and impacts on income

a) Advancement (value from progressing)

This value refers to application of AI and other cutting-edge technologies in new services and formats that typify the Company. In particular, the Company wants to become the price leader in the reuse market through further advancement of one-to-one marketing and increased market share. It also hopes to raise gross margin by setting suitable sales and purchase prices via AI.

b) Depth (value from deeper understanding)

This value aims to create loyal customers (lock in customers) through improvement in staff specialization, further enhancement of EC site convenience, and reinforcement of content and CGM. The Company also wants to deepen one-to-one marketing and implement premium auction live events. It sees potential to expand sales with increase in member volume and higher average purchase prices and curtail sales fees through further increase in the ratio of transactions conducted on the Company's own site to over 80%.

c) Authenticity (value of being authentic)

This value seeks improvement in the accuracy of the product line-up, pricing, response to customers, after-sale service, and information provision and further reinforcement of the customer-centric branding. The Company wants to be the top domestic handler of used Rolex watches. It also hopes to improve the quality of one-to-one marketing and thereby achieve sales growth driven by increase in member volume and higher average customer purchase prices and curtail sales fees on a rise in transaction ratio for the Company's own site to over 80%, similar to the depth value.

d) Novelty (new value)

This value aims to create new value by constantly cultivating creativity and taking on challenges. In particular, it wants to generate new types of recurring income by utilizing overseas M&A (global initiatives), expansion of new channels, and EC membership (about 510,000 people) and to fuel sales growth with this income.

In FY3/22, the Company plans to focus on 1) "One-to-One marketing (phase 4)" as a measure related to advancement, depth, and authenticity, 2) "expansion of the watches line-up" related to authenticity, and 3) "reinforcement of sales channels" related to novelty.

2) One-to-One marketing (phase 4)

The Company intends to further refine one-to-one marketing and AIMD (setting suitable sales and purchase prices via AI) implemented up to now and deploy a format that delivers recommended information tailored to individual customer needs using AI from not only pricing but also a wide range of content information and product information (content recommendations), encourage registration on a "wish list," and increase paths to a purchase.

3) Reinforcement of the watches product line-up

The Company will continue to strategically invest in inventories as it has been doing since 3Q in the previous fiscal year and will leverage this position to expand sales of used Rolex watches, a focus area.

4) Reinforcement of sales channels

The Company intends to open LINE official accounts for the four businesses as a way of further improving convenience and bolstering content. In particular, it will implement online customer interaction (live sales), store visit reservations, and LINE purchase estimates in all business areas. In the Map Camera official account, based on a concept of enjoying photography, it plans to post photos customized to the monthly seasons and conduct other activities and fully establish guidance that leads to "sales or purchases."

Medium- to long-term strategy

3. SDGs initiatives

Regarding SDGs (sustainable development goals) that have been receiving strong interest from investors, the Company wants to leverage initiatives aimed at resolving social issues in boosting its own enterprise value, just as it has done up to now, through “newly created businesses for important products with value” *1 and “development of an easy-to-work environment” *2. It cited replacement of product packaging to eco-friendly materials as an example of an effort in “newly created businesses for important products with value.”

*1 This effort addresses “responsible consumption and production” from SDGs.

*2 This effort addresses “gender equality,” “decent work and economic growth,” and “sustainable cities and communications” from SDGs. The Company intends to foster an environment that supports communications (such as site consolidation), adopt a shorter working-hour program, provide a hotline for mental and life concerns, install a suggestion box, and roll out an SNS communication tool only for internal use.

4. FISCO’s focus points

FISCO thinks the Company’s strategy of further boosting presence in designated areas by using AI and pursuing various types of value and placing emphasis on profit growth is reasonable. Potential upside drivers, meanwhile, are full-fledged overseas activity, including M&A, and creation of new income sources. Regarding overseas efforts that are already in test marketing, the Company has received positive feedback from customers and is likely to establish a new growth pillar through solidification of overseas (local) purchase formats, similar to Japan. In particular, FISCO expects further increase in feasibility from integration of the Company’s success model based on collaboration with local companies that possess a customer base. In creation of new income sources too, the key point is the extent to which the Company is capable monetizing a membership base with high loyalty and enhanced quality and quantity, and a format for gathering content information that is attractive to enthusiasts. FISCO will closely monitor the Company’s progress in solidifying a unique business model.

Shareholder returns

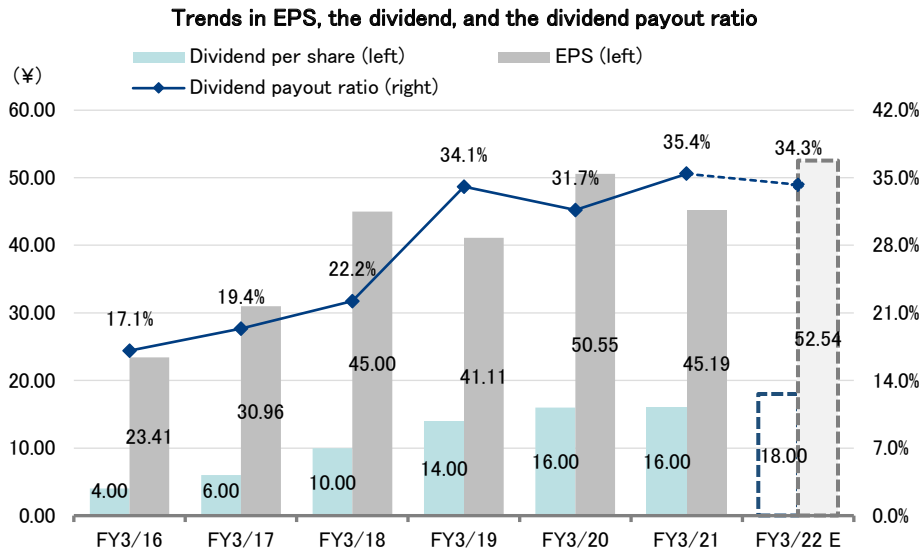
Plans to pay an ¥18 dividend in FY3/22 (+¥2 YoY)

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%.

The Company paid a ¥16 dividend in FY3/21 (35.4% dividend payout ratio), on par with FY3/20. In FY3/22, it plans to pay an ¥18 dividend (estimated 34.3% payout), an increase of ¥2 YoY.

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Shareholder returns



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



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