

Syuppin Co., Ltd.

3179

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst

Ikuo Shibata



FISCO Ltd.

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

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■ Summary

In the 1H FY3/22, achieved major increases in sales and profits that were higher than forecast
EC sales trended strongly, while the Watches business also grew significantly
Has applied to be selected in the Prime Market as a new market segment

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. Although store sales are being affected at the current time due to the impact of the COVID-19 pandemic (hereafter, COVID-19), 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. In September 2022, it applied to be selected for the Prime Market as a new market segment.

1. Overview of 1H FY3/22 results

In the 1H FY3/22 results, net sales increased 31.8% year-on-year (YoY) to ¥18,972mn, and operating income rose 147.7% to ¥1,315mn, so both sales and profits increased significantly and moreover were higher than the upwardly revised forecasts (announced on August 4, 2021). For net sales, EC sales are growing steadily due to the favorable external environment (such as the expansion of the EC market) and the effects of various measures. In particular, if looking only at the 2Q, results reached record-high levels (based on a comparison of the same periods). Even store sales, which continue to be affected by COVID-19, recovered significantly from the decline in the same period in the previous fiscal year. By business, in the Watches business, the growth of both EC sales and store sales (particularly duty-free sales) contributed greatly due to the strategic enhancing of the product lineup (strengthening purchases of used Rolex watches) implemented since the previous 3Q. In the Cameras business, sales trended strongly, mainly EC sales. Profits also increased significantly, because the higher sales pushed-up profits, and also from factors such as the improvement to used cameras’ gross margin and as SG&A expenses were kept down.

2. Main activities and achievements

In terms of activities, the introduction of a framework that combines AIMD and one-to-one marketing is strengthening push communication to another level and is contributing to increasing transaction opportunities and to improving the gross margin. Also, due to the series of measures to strengthen EC, including opening official LINE accounts and YouTube channels, and utilizing CGM, each of the KPI are trending strongly, such as the number of Web members, the active rate, and the EC purchase amount. In the Watches business as well, which is conducting strategic inventory investment, it has secured the largest inventory volume in the country, mainly of used Rolex watches, and this business has been driving the results growth.

Summary

3. Outlook for FY3/22

On August 4, 2021, the Company upwardly revised the FY3/22 full-year results forecasts. The results forecasts after the upward revisions are for higher sales and profits, of net sales to increase 14.3% YoY to ¥38,831mn and operating income to grow 23.7% to ¥1,996mn. The outlook is for net sales to continue to grow in every business, centered on EC sales. Profits are also expected to increase significantly due to the effects of the higher sales, and also from the measures in each business to improve the gross margin and to keep down SG&A expenses. The reason why the Company has left the (upwardly revised) full fiscal year results forecast unchanged despite the 1H results exceeding the forecast, is thought to be it is viewing the uncertainties in the future cautiously, including the arrival of the sixth wave of COVID-19. Therefore, in order to achieve the full fiscal year results forecast, in the 2H net sales of ¥19,859mn and operating income of ¥681mn would be sufficient, which can be said to clearly be low hurdles to clear, particularly for profits. Therefore, it is necessary to be aware that the forecast may be upwardly revised a second time, depending on the progress made in the 3Q.

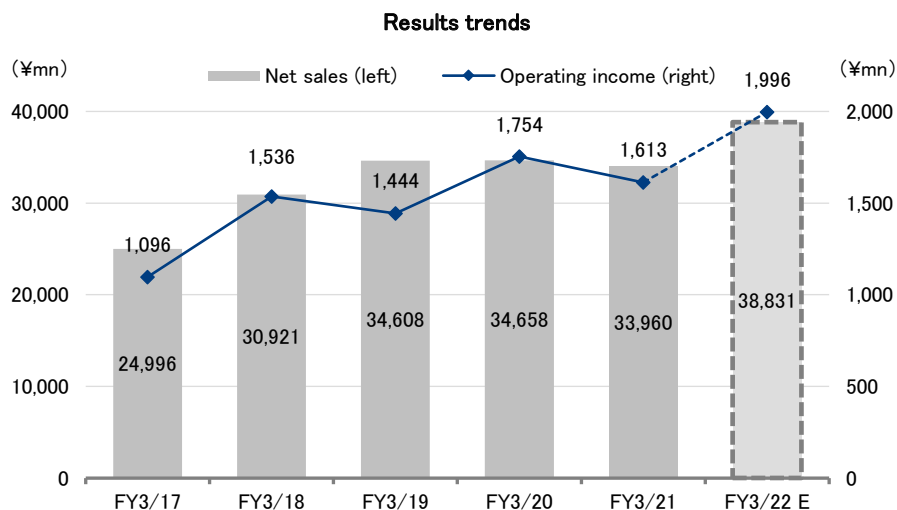
4. Strategy for Future Growth

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 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. It plans to implement one-to-one marketing (AIMD, content recommendations), broaden the line-up of watches, and reinforce sales channels.

Key Points

- In 1H FY3/22, achieved major increases in sales and profits that were also higher than the forecasts
- EC sales are growing steadily, while the Watches business has expanded significantly due to the strategic inventory investment
- The forecasts for the FY3/22 full-year results are for sales and profits to increase significantly (also necessary to be aware that they may be upwardly revised again)
- In the medium-term management plan, has set the direction of further solidify its No.1 share of the used cameras EC market and further increasing its presence, and it is working on pursuing the four types of value.

Summary



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. Benefiting 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 540,000 web members (as of the end of September 2021). This number has been steadily increasing through the acquisition of over 4,000 new members every month. On the other hand, it has established a physical store network of five 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 64% of net sales and approximately 77% of operating income (before adjustments)*. Meanwhile, in Watches Business as well, 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 is an important KPI. Currently, member numbers have grown to approximately 540,000 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 Company defines the active rate as the number of members who make a purchase in a fiscal quarter (excluding new purchasing members) 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 inventory items”

As previously explained, the Company's growth depends on how it collects “valuable inventory 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. Originally, the Company decided prices manually for all the items its handles, which exceed 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). Also, with aims including supplementing information and cultivating fans, it is working on utilizing CGM*1 and communication via the Web magazine*2, with the goal of being Japan's largest portal site specializing in cameras.

- *1 An abbreviation of Consumer Generated Media, which refers to media with contents involving general users, including bulletin boards and word-of mouth sites.
- *2 A magazine that can be viewed online. The Company distributes the Web magazine StockShot that brings together 4 types of content, and it has more than 1mn PV per month.

■ Summary of results

In the 1H FY3/22, achieved increases in sales and profits that were higher than forecast

EC sales are growing steadily, while the Watches business has expanded significantly due to the strategic inventory investment

1. Summary of the 1H FY3/22 results

(1) Results summary

In the 1H FY3/22 results, net sales increased 31.8% YoY to ¥18,972mn, operating income rose 147.7% to ¥1,315mn, ordinary income grew 146.3% to ¥1,351mn, and net income increased 157.7% to ¥933mn. As a result, sales and profits increased significantly and moreover were higher than the upwardly revised forecasts (announced on August 4, 2021)* In addition, net sales and operating income were both at levels higher than in the period two fiscal periods previously, before COVID-19 (1H FY3/20).

* At the time it announced the 1Q results (August 4, 2021), the Company also announced the upwardly revised 1H and full fiscal year results forecasts, because results in the Watches business and the gross margin improved more than expected.

For net sales, EC sales are growing steadily due to the favorable external environment (such as the expansion of the EC market) and the effects of various measures. In particular, if looking only at the 2Q, results reached record-high levels. Even store sales, which have continued to be affected by COVID-19, recovered significantly from the decline in the same period in the previous fiscal year. By business, in the Watches business, the growth of both EC sales and store sales (particularly duty-free sales) contributed greatly due to the strategic enhancing of the product lineup (strengthening purchases of used Rolex watches) implemented since the previous 3Q. In the Cameras business, sales trended strongly, mainly EC sales. Therefore, it can be understood that the success of the series of measures to strengthen EC implemented up to the present time and also the enhancement of the strategic product lineup in the Watches business, drove the growth of results that were higher than forecast.

Profits also increased significantly, because the higher sales pushed-up profits, and also from factors such as the improvement to used cameras' gross margin and as SG&A expenses were kept down. The operating margin improved to 6.9% (3.7% in the same period in the previous fiscal year).

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Summary of results

For the financial conditions, total assets increased 6.1% on the end of the previous fiscal year to ¥13,382mn, mainly due to the strategic inventory investment in the Watches business. Conversely, shareholders' equity decreased significantly, down 34.5% to ¥4,190mn because of the acquisition of treasury shares*1, and the equity ratio fell to 31.3% (50.7% at the end of the previous period). Also, the total of long-term and short-term interest-bearing debt increased 70.0% on the end of the previous fiscal year to ¥6,678mn and the net D/E ratio*2 rose to 1.3 times (0.3 times at the end of the previous period). Therefore, it is necessary to be aware that the capital structure has changed significantly, including due to the acquisition of treasury shares. However, when considering the Company's ability to create cash flow*3, there are no concerns about its repayment capabilities.

*1 The Company's founder, Chairman and Representative Director Kei Suzuki was asked if he intended to sell some of the Company's shares he held, in conjunction with his retirement as director announced on June 14, 2021. As a result, the Company acquired 2,661,200 treasury shares (total acquisition amount, ¥2,812,888,400), and its policy for these acquired treasury shares is to consider how it will deal with them in the future, including extinguishing them or utilizing them for M&A.

*2 Calculated as (interest-bearing debt – cash and deposits) ÷ net assets. It can be understood as showing that as the ratio rises, on the one hand financial stability decreases, but on the other hand capital efficiency improves.

*3 With EBITDA (operating income + depreciation= ¥1,774mn) in the previous period as the standard, the EBITDA to interest-bearing debt multiplier was kept down to approximately three times.

Summary of the 1H FY3/22 results

	1H FY3/21		1H FY3/22		Change		(¥mn)			
	Result	%	Result	%	Amount	%	1H FY3/22 initial forecasts		Revised forecasts (August 4, 2021)	
							Result	%	Result	%
Net sales	14,396		18,972		4,576	31.8%	18,094		18,696	
Cameras	10,355	71.9%	12,133	64.0%	1,778	17.2%	-	-	-	-
Watches	3,422	23.8%	6,242	32.9%	2,820	82.4%	-	-	-	-
Stationary	211	1.5%	183	1.0%	-28	-13.3%	-	-	-	-
Bicycles	407	2.8%	412	2.2%	5	1.2%	-	-	-	-
Costs	11,633	80.8%	15,435	81.4%	3,802	32.7%	-	-	-	-
Gross profit	2,763	19.2%	3,536	18.6%	773	28.0%	-	-	-	-
SG&A expenses	2,232	15.5%	2,220	11.7%	-12	-0.5%	-	-	-	-
Operating income	531	3.7%	1,315	6.9%	784	147.6%	838	4.6%	1,165	6.2%
Cameras	917	6.4%	1,353	7.1%	436	47.5%	-	-	-	-
Watches	111	7.7%	371	2.0%	260	234.2%	-	-	-	-
Stationary	-15	-0.1%	-1	-	14	-93.3%	-	-	-	-
Bicycles	18	0.1%	25	0.1%	7	38.9%	-	-	-	-
Adjustment	-500	-	-432	-	68	-	-	-	-	-
Ordinary income	548	3.8%	1,351	7.1%	803	146.5%	826	4.6%	1,186	6.3%
Net income	362	2.5%	933	4.9%	571	157.7%	561	3.1%	806	4.3%
EC sales	11,502		13,766		2,264	19.7%				
Store sales	2,894		5,205		2,311	79.9%				

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

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Summary of results

Financial condition at the end of September 2021

(¥mn)

	End of March 2020 Result	End of September 2021 Result	Change	
			Amount	%
Current assets	11,178	12,000	822	7.4%
Cash and deposits	1,827	1,215	-612	-33.5%
Accounts receivable - trade	2,104	1,921	-183	-8.7%
Merchandise	6,826	8,326	1,500	22.0%
Non-current assets	1,434	1,382	-52	-3.6%
Property, plant and equipment	359	333	-26	-7.2%
Intangible assets	358	405	47	13.1%
Investments and other assets	715	643	-72	-10.1%
Total assets	12,613	13,382	769	6.1%
Current liabilities	3,989	5,064	1,075	26.9%
Accounts payable - trade	1,154	1,368	214	18.5%
Interest-bearing debt	1,747	2,591	844	48.3%
Provision for point card certificates	350	0	-350	-
Non-current liabilities	2,218	4,123	1,905	85.9%
Interest-bearing debt	2,182	4,087	1,905	87.3%
Net assets	6,404	4,195	-2,209	-34.5%
Shareholders' equity	6,399	4,190	-2,209	-34.5%
Total liabilities and net assets	12,613	13,382	769	6.1%

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

(2) Gross margin and SG&A expenses conditions

In the 1H FY3/22, the gross margin (Company-wide) declined slightly to 18.6% (19.2% in the same period in the previous fiscal year) due to the growth of the Watches business (effects of the sales mix). However, the improvement of used cameras' gross margin following the introduction of AIMD contributed, and it can be understood that the Company was able to maintain the previous high level. For SG&A expenses also, although there were increases in costs for the measures to strengthen EC (including depreciation and systems management costs following the introduction of AIMD), and costs due to the growth of EC sales (commission expenses), costs decreased due to a special factor (change to the method of recording the points provision) and in addition costs were kept down because of the improved productivity. Therefore, the SG&A expenses ratio decreased significantly to 11.7% (15.5% in the same period in the previous fiscal year).

Breakdown of SG&A expenses

(¥mn)

	1H FY3/21		1H FY3/22		Change	
	Result	Ratio to net sales	Result	Ratio to net sales	Amount	%
SG&A expenses	2,232	15.5%	2,220	11.7%	-12	-0.5%
Personnel expenses	619	4.3%	632	3.3%	13	2.1%
Advertising expenses	25	0.2%	21	0.1%	-4	-16.0%
Promotion expenses	382	2.7%	421	2.2%	39	10.2%
Outsourcing expenses	134	0.9%	153	0.8%	19	14.2%
Commission expenses	423	2.9%	481	2.5%	58	13.7%
Depreciation	71	0.5%	92	0.5%	21	29.6%
Rent expenses on land and buildings	161	1.1%	173	0.9%	12	7.5%
Other	413	2.9%	245	1.3%	-168	-40.7%

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

Summary of results

2. Results by business**(1) Cameras business (EC ratio: 89%)**

Both sales and profits grew steadily with gains of 17.2% in sales to ¥12,133mn and 47.5% in segment income to ¥1,353mn. AIMD operations became fully fledged and the one-to-one marketing that utilizes the Company's proprietary mechanism (AI facial authentication, the Web magazine, CGM, etc.) became functional, so EC sales trended strongly. Even store sales, which continue to be impacted by COVID-19, appear to be recovering to some extent at the present time. In terms of profit and loss, due to the effects of AIMD, used cameras' gross margin improved and profits increased significantly, while the segment income margin also improved greatly to 11.2% (8.9% in the same period in the previous fiscal year).

(2) Watches business (EC ratio: 39%)

Results grew greatly, with net sales increasing 82.4% YoY to ¥6,242mn and segment income rising 231.6% to ¥371mn. The strategic enhancement of the product lineup implemented since the previous 3Q (strengthening purchases of used Rolex watches) was successful, and both EC sales and store sales grew greatly. In particular, store sales grew significantly even during the COVID-19, with the growth of duty-free sales, such as to foreigners residing in Japan for short periods and Japanese nationals returning to Japan, contributing. Therefore, the Company was able to secure the largest inventory volume in Japan through strengthening purchases of used Rolex watches, and it was also able to increase its name awareness overseas, including through listing items on Chrono24, the world's largest luxury watches marketplace, and these can be cited as the success factors. It also seems that BRILLER, which is a store specializing in ladies watches, was able to gradually increase its name awareness through disseminating information, mainly on SNS. In terms of profit and -loss, profits increased significantly because they were pushed-up by the higher sales, and also as the gross margin improved due to the strong performance of used items.

(3) Stationery business (EC ratio: 83%)

Net sales decreased 13.0% YoY to ¥183mn and the segment loss was ¥1mn (compared to a loss of ¥15mn in the same period in the previous fiscal year), so although sales declined, the extent of the loss contracted. EC sales decreased, but store sales trended strongly, including due to the effects of refurbishments. In terms of profit and -loss, the extent of the loss contracted due to the improvement to the profit margin and the reduction in costs.

(4) Bicycles business (EC ratio: 93%)

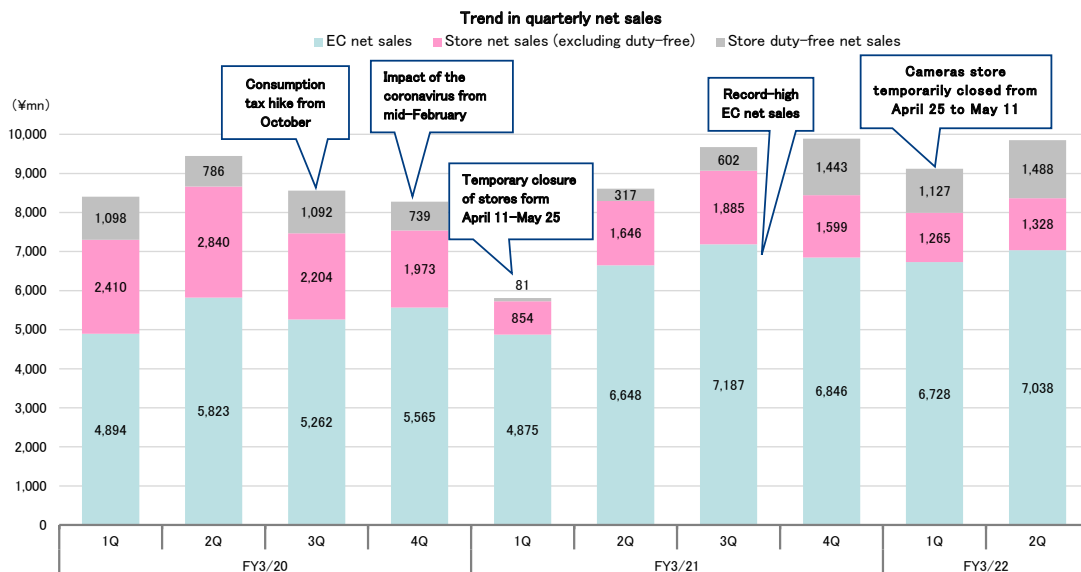
Sales and profit increased, with net sales rising 1.2% YoY to ¥412mn and segment income growing 37.4% to ¥25mn. Sales of finished former models and battery assisted models were strong, as were sales of indoor training bikes due to COVID-19 and Shimano product parts. In terms of profit and -loss, the profit margin improved due to the rise in the ratio of sales on the Company's own website, and profits increased significantly.

Summary of results

3. Trends in quarterly results and KPI

(1) Trends in quarterly results

Looking at the quarterly trend in net sales, sales fell greatly in the 1Q of the previous period (FY3/21) due to COVID-19, but from the 2Q onward, sales benefitted from the tailwinds of nesting demand and the effects of various measures, so EC sales (on the Company's own site) were strong and even grew to above the level of before COVID-19. On entering FY3/22 as well, although COVID-19 continued to have an impact, EC sales remained strong, while sales in the Watches business grew greatly due to the strategic enhancement of the product lineup, and the results in the 2Q set a new record-high for a 2Q period.

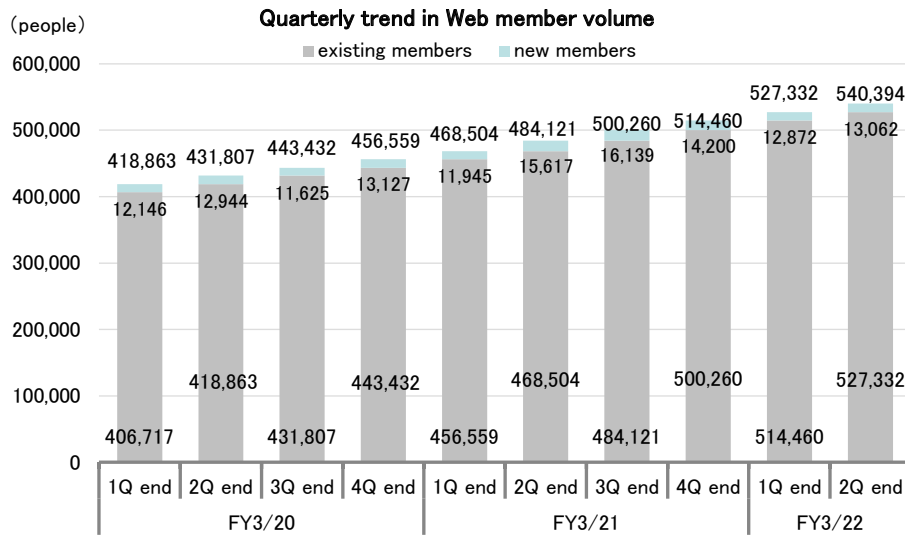


Prepared by FISCO from the Company's results briefing materials

(2) Number of web members

At the end of September 2021, the number of Web members had continued to steadily increase to 540,394 people (up 25,934 people on the end of the previous fiscal year). The factors in the background to this are considered to be that, in a situation of the continuing stay-at-home orders due to COVID-19, an increasing number of people are purchasing cameras as a hobby that is affordable and familiar, and that in addition, the measures implemented up to the present time to strengthen EC are proving successful and awareness is rising of the Company's brand and the websites it operates. Looking at the percentages of sales by age group, the percentage from the group aged from 10 to 39 is 41.7%, while due to the spread of Instagram and other SNS, the percentage from females aged 10 to 39 is high at 22.5% and they have become a new target group. Also, the percentage from the young generation is increasing, and it can be said that a noticeable trend is that even in this situation, the average use unit price is being maintained.

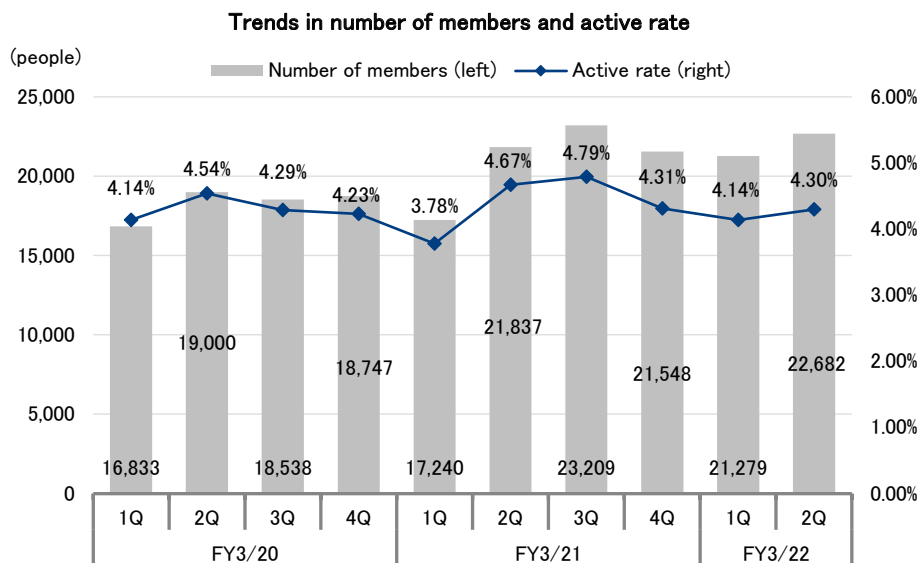
Summary of results



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

(3) Member numbers and the active rate

In the situation of the increase in the number of new members, both the number of purchasing members and the active rate are trending strongly. The number of registrations for wish lists and email notifications for product arrivals are also both growing steadily, and it seems that a factor for this is that these one-to-one marketing measures are increasing the active rate. In particular, through combining one-to-one marketing and AIMD, the number of push communications sent at the time that the price of a product registered on a wish list is lowered has the potential to increase by approximately 6 times compared the previous number, to around 1mn communications a month, which is contributing to expanding transaction opportunities.

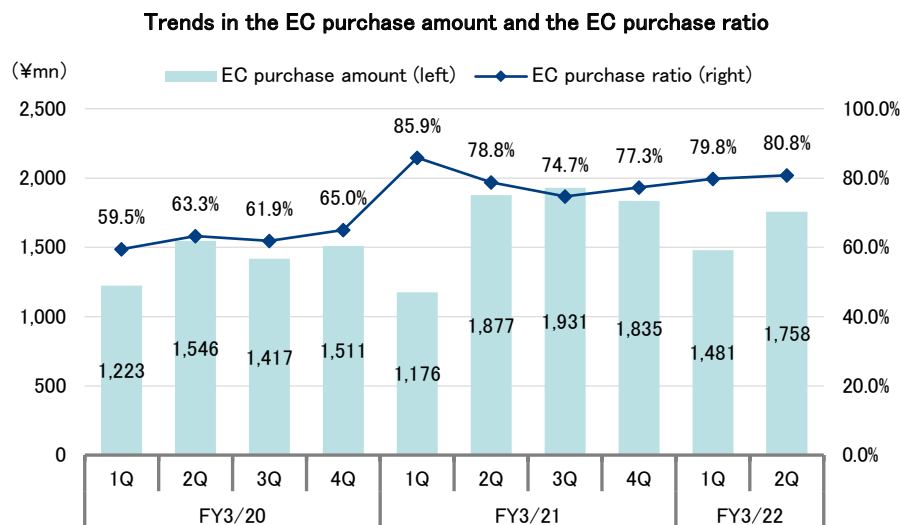


Source: Prepared by FISCO from the Company's results briefing materials

Summary of results

(4) Used cameras purchase amount

For the used cameras purchase amount also, the measures intended to strengthen EC implemented from the previous period, including introducing an AI facial authentication system and AIMD, are proving successful, and the EC purchase ratio is steadily growing. The receive-first, send-later service and the trade-in exchange service, which are two of the various differentiation factors, are also both performing well and contributing to the increase in the EC purchase ratio.



Prepared by FISCO from the Company's results briefing materials

4. Summary of the 1H FY3/22

To summarize the 1H FY3/22 from the above, the major increases in both sales and profits that moreover were higher than even the upwardly revised forecasts can of course be highly evaluated on many points and can be said to confirm that the strategic measures implemented up to the present time are steadily connecting to results. In particular, the measures conducted so far, including the series of one-to-one marketing measures and the strategic inventory investment in the Watches business, are proving successful, which can be understood as indicating the height of the Company's management focus on targets and its ability to execute measures as an organization. Also, the path being taken toward improving the gross margin, as set out in the medium-term management plan described below, has also demonstrated that it can achieve specific outcomes.

Main activities and achievements

Opened official LINE accounts and YouTube channels Applied to be selected for the Prime Market as a new market segment

1. Progress made in the various measures

(1) Enhancing sales and information channels

With the aims of acquiring new sales and information channels, all businesses have opened official LINE accounts and YouTube channels, and moreover the Group is working to further improve convenience and to enhance content. The plan is for the staged implementation of online customer points of contact (live sales), reservations for store visits, and LINE purchase estimates for all businesses. Through push communication* and listing content via LINE and YouTube, which are often set as the first page on customers' smartphones and are the sites they are most familiar with in their daily lives, it seems that the aim is to further increase the accuracy of the one-to-one marketing that the Group is focusing on. For the Company, which has enhanced the foundation of the one-to-one marketing, it can be understood to signify its long-awaited entry.

* The timely dissemination of information on newly arrived used products and articles picked-up from the Web Magazine. Features include displaying a timeline of information on bargains.

(2) Strengthening EC websites + CGM

Through utilizing CGM to establish an environment not simply for EC, but also in which services can be used while being enjoyed by all members (increases in the numbers of reviews, photographs posted, etc.), and toward strengthening the foundations as a platform (enhancing the overwhelming volume of information, expanding active users, etc.), the aim is to become Japan's largest portal website specializing in cameras. In the EVERBODY Concierge released in November of last year, questions on cameras and lenses are answered with high levels of reliability and quality in a framework in which only people who have actually used the product can answer, with the aim of differentiating the site from those of other companies. It seems that currently it has amassed more than 10,000 word-of-mouth comments. Also, on the photo sharing website EVERYBODY x PHOTOGRAPHER.com, due to the holding of various events and the improved convenience, the total number of photographs posted has exceeded 200,000.

(3) The development of one-to-one marketing

In March 2021, through combining AIMD with the one-to-one marketing conducted up to that time, the Company started a service in which sales and purchase prices are determined by AI and customers are notified of advantageous sales and purchase prices. As previously stated, push communications may exceed 1mn a month, which is around 6 times the previous number, and starting with the increase in transaction opportunities (preventing opportunity loss) and the contribution to the active rate, effects have already started to appear, including optimizing sales and purchase prices through matching demand and supply (improving the gross margin), and keeping down the increase in personnel expenses. As the next phase going forward, in addition to prices being determined by AI, the plan is to introduce a framework that delivers recommendation information (AI recommended content) to each individual customer from within the large amount of information on content and products.

Main activities and achievements

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

For the global strategy (cross-border EC), in August 2017 Map Camera (the Cameras business) opened a store on eBay, the world's largest online marketplace. In addition, GMT (the Watches business) opened a store on Chrono24, the world's largest luxury watches marketplace, in May 2019, and on eBay in July 2020. In addition to establishing a structure toward business expansion, it has established brand power overseas as well through development that prioritizes service quality. Alongside this, in 1H FY3/22 overseas sales, although still only small scale, steadily grew, to ¥504mn in the Cameras business and to ¥105mn in the Watches business.

2. Applied to be selected for the Prime Market as a new market segment

After being confirmed as being eligible for the Prime Market in the results of the primary resolution on July 9, 2021, at the Board of Directors' meeting held on September 16, 2021, it was decided to submit an application to be selected for the Prime Market and the application documents have been submitted to the Tokyo Stock Exchange. The schedule is to transfer to the new market segment from April 4, 2022. Using this opportunity, the Company's policy is to conduct management that prioritizes ESG, and as well as for investors in Japan, it intends to further strengthen its approach to overseas investors and to hold constructive dialogue with investors toward achieving sustainable growth and improving corporate value in the medium- to long-term while taking a global perspective.

Business forecasts

The forecasts for the FY3/22 full-year results are for major increases in sales and profits

Although there are uncertainties due to COVID-19, it is necessary to be aware that the Company may further upwardly revise the forecasts

1. FY3/22 forecasts

As previously stated, on August 4, 2021, the Company announced its upwardly revised forecasts for the FY3/22 full-year results. The revised forecasts are for higher sales and profits, with net sales to increase 14.3% YoY to ¥38,831mn (extent of revision + ¥601mn), operating income to grow 23.7% to ¥1,996mn (+ ¥147mn), ordinary income to rise 23.5% to ¥2,005mn (+ ¥180mn), and net income to increase 27.6% to ¥1,363mn (+ ¥122mn).

In net sales, growth is expected in all businesses with EC sales continuing as the driver. However, as 1H results indicate, the Watches Business in particular is scheduled to expand significantly through strategic inventory investment. In store sales, it only anticipates moderate recovery as the impact of COVID-19 continues.

Meanwhile, profits are also expected to increase significantly due to the effects of the higher sales and also from the measures to improve the gross margin and to keep down SG&A expenses in each business.

The reason why the Company has left the (upwardly revised) full fiscal year results forecast unchanged despite 1H results exceeding the forecast is thought to be that it is viewing the uncertainties in the future cautiously, including the arrival of the sixth wave of COVID-19. Therefore, in order to achieve the full fiscal year results forecast, in the 2H net sales of ¥19,859mn and operating income of ¥681mn would be sufficient, which can be said to clearly be low hurdles to clear, particularly for profits.

Business forecasts

FY3/22 forecasts

	FY3/21		FY3/22				Change (compared to revised forecasts)	
	Result	%	Initial forecasts	%	Revised forecasts (August 4, 2021)		Amount	%
Net sales	33,960	-	38,230	-	38,831	-	4,871	14.3%
Operating income	1,613	4.8%	1,849	4.8%	1,996	5.1%	383	23.7%
Ordinary income	1,623	4.8%	1,825	4.8%	2,005	5.2%	382	23.5%
Net income	1,067	3.1%	1,241	3.2%	1,363	3.5%	296	27.7%

Prepared by FISCO from the Company's results briefing materials and press release

2. FISCO's outlook

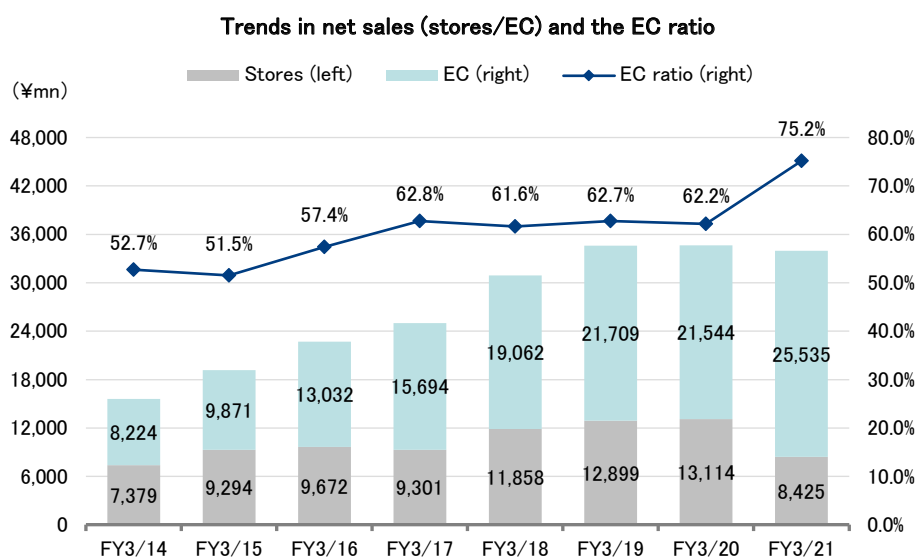
At FISCO, we think that while it will be necessary to continue to pay attention to the impact of COVID-19, as EC sales are steadily growing and the Company is not planning any large-scale upfront investment, it is highly likely that the forecasts (particularly the profit forecasts) will be upwardly revised for a second time, depending on the progress made in the 3Q. Also, with regards to the progress made in the various measures in the 2H, and alongside this changes to the Company's growth potential and earnings structure, this will be important information on which to make decisions in relation to the growth of results from the next period onwards, so it would seem necessary to follow trends in the future from these viewpoints. In particular, towards the sustainable growth of EC sales, based on factors such as the trends in the various KPI and the improvement to the gross margin, including from the introduction of AIMD, we shall be paying attention to issues such as how long can the Watches business, centered on used Rolex watches, sustain its momentum (to what extent can it grow even further), and what will be the timing of the breakthrough for the global strategy.

Results trends up to the present time

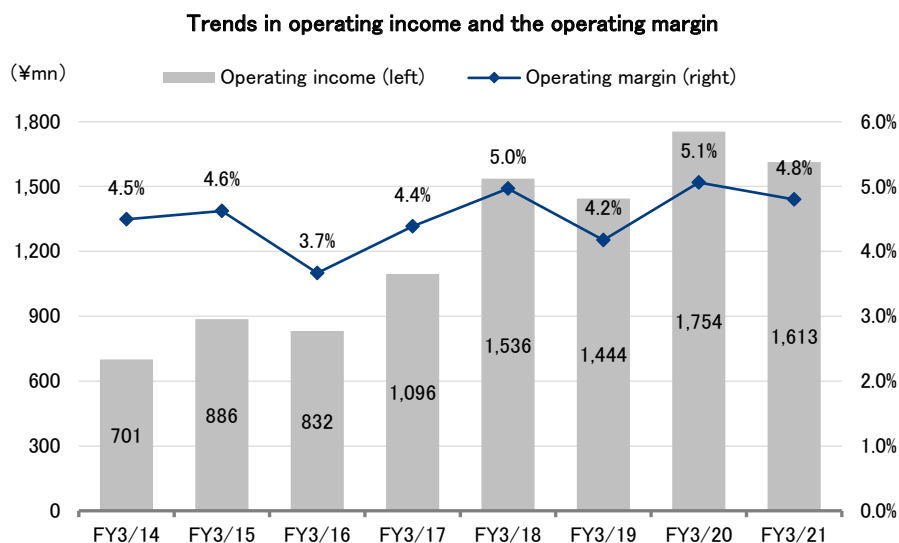
Realized upward growth through the increase in the number of Web members.

Looking back on results up to the previous period, net sales had realized upward growth alongside the increase in the number of Web members and the growth of EC sales. From FY3/20, growth was sluggish for 2 consecutive period due to the impact of the fact that the Company worked more on improving the gross margin than on sales growth and the hike in consumption tax, and moreover as store sales declined because of COVID-19. However, the average growth rate for the 6 periods from FY3/13, when the Company was listed, until FY3/19 exceeded 18% (of which, the EC sales average growth rate was 23%). In addition, profits (operating income) have also basically trended upward alongside the sales growth, while in the last few years, the operating margin has trended in a range of 4% to 5%. Although it is necessary to be aware that the operating margin is affected by factors like changes to the product mix at various times (such as the used items / new items ratio and the category sales ratio), and also upfront costs for the future (to strengthen human resources, develop various functions and services, and secure space for distribution and used items, etc.), and other costs, such as relating to points systems, in fact, the earnings structure is that the profit margin improves as sales increase.

Results trends up to the present time



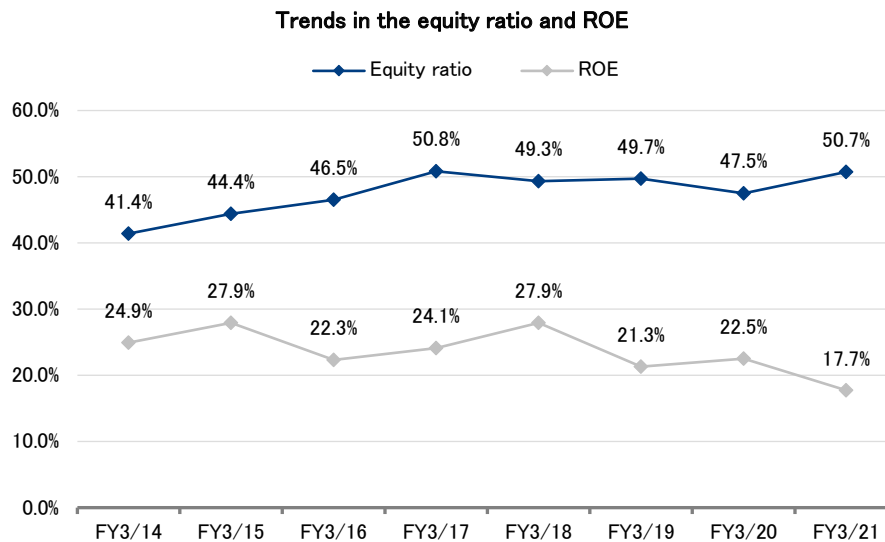
Prepared by FISCO from the Company's results briefing materials



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

Financially, the equity ratio is trending stably around the 50% level, while ROE is being maintained close to 20%. As a result, the Company can be highly evaluated for maintaining excellent financial ratios even while it works to expand its business scope.

Results trends up to the present time



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

■ 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. Direction of the 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 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). However, the 1H FY3/22 results greatly exceeded the forecasts, and progress is also being made in improving the gross margin ahead of schedule. As a result, the situation is that it is highly likely that these targets will be upwardly revised in the (rolling) medium-term management plan as well.

Medium- to long-term strategy

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

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 1) advancement (value from progressing), 2) depth (value from deeper understanding), 3) authenticity (value of being authentic), and 4) novelty (new value). It presented detailed measures for each of the value types and anticipated impact on future income (sales and profits).

1) 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.

2) 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. 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%.

3) 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.

Medium- to long-term strategy

4) 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 and to fuel sales growth with this income.

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. In particular, as one concrete example of an effort in “newly created businesses for important products with value,” it replaced all the paper used in items like product packaging and name cards with eco-friendly materials*3. Going forward, its policy is also to change the original goods and the novelty goods in consideration of the environment*4.

*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.

*3 For product packaging, it will use cardboard that uses recycled paper, biomass-mark certified packaging tape and emollient, and bubble wrap that uses recycled materials, etc. Also, it will use FSC® certified paper for name cards.

*4 For example, to celebrate the 25th anniversary of the foundation of Map Camera, it gave a present of stojo, which is a tumbler incorporating an original design. stojo is a portmanteau of “stow” and “joe” (a slang word for coffee), and it can be used many times even after washing so it is kind to the environment, and it is also foldable and compact so can be carried easily.

4. FISCO's focus points

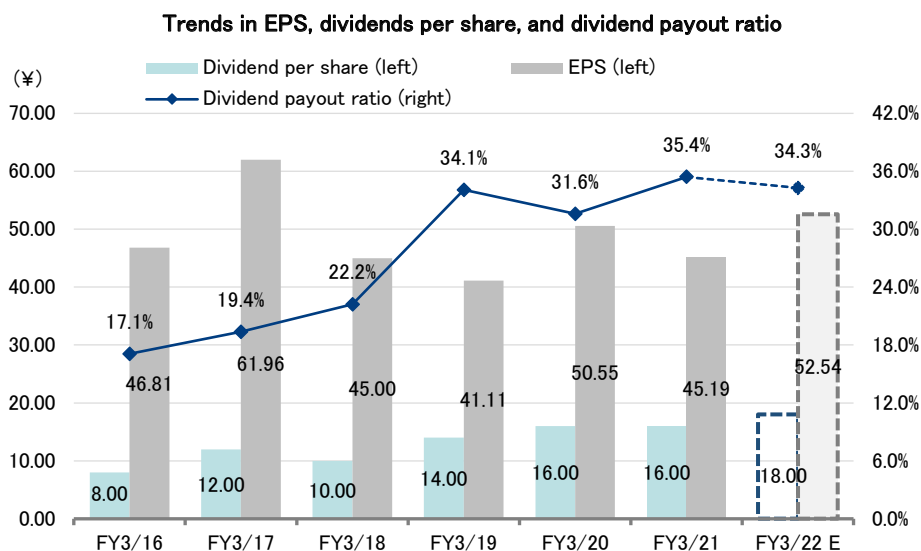
FISCO thinks the Company's strategy of further boosting presence in designated areas by using AI and pursuing various types of value and placing emphasis on profit growth is reasonable. Potential upside drivers, meanwhile, are full-fledged overseas activity, including M&A, and creation of new income 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 as well, 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%.

For the FY3/22 dividend, at the current time the Company has not changed the initial forecast and plans to increase the dividend per share by ¥2 YoY to ¥18. At FISCO, based on the fact that results are currently progressing at a pace above even the upwardly revised forecasts, we think it is necessary to be aware that the dividend may also be upwardly revised.



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



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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp