COMPANY RESEARCH AND ANALYSIS REPORT

Syuppin Co., Ltd.

3179

Tokyo Stock Exchange Prime Market

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Index

Summary

In FY3/22, achieved major increases in sales and profits that were significantly higher than forecast
Steady progress being made in utilizing AI and strategic inventory investment in the Watches business

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. In the past two years, although store sales have been affected by the COVID-19 pandemic (hereafter, COVID-19), the mainstay EC sales are steadily growing from the effects of measures that have been conducted up to the present time, and the Watches business has expanded tremendously due to the success of strategic inventory investment, so it can be said that the Company has entered a new growth stage. On April 4, 2022, it transferred to a new market segment known as the TSE Prime Market.

1. Overview of FY3/22 results

In FY3/22, the Company's net sales grew 28.0% year-on-year to ¥43,453mn, while operating income increased 94.7% to ¥3,140mn, further exceeding the second upward revision to the Company's forecast announced on January 17, 2022. Even during the COVID-19 pandemic, demand for the Company's merchandise remained unchanged, and both EC and store sales grew. Mainstay EC sales have been particularly strong, especially in the Cameras Business, thanks to a favorable external environment (expansion of the EC market, etc.) and the effects of various measures, reaching a record high in 4Q on a quarterly basis. Meanwhile, store sales, which continue to be affected by COVID-19, have recovered from their decline, with the Watches Business growing significantly due to a strategic product lineup expansion (including stronger purchasing of used Rolex watches), and the Cameras Business maintaining the same levels as the previous fiscal year as resources were shifted to EC, and sales seem to be on a recovery trajectory. In terms of profit, in addition to a boost in earnings from increased revenue, the introduction of AIMD improved the gross profit margin of used camera sales and helped control SG&A expenses, resulting in a significant increase in operating income, with the operating margin improving to 7.2% (from 4.8% in the previous fiscal year).

2. Main activities and achievements

In terms of activities, the introduction of a system combining one-to-one marketing with AIMD has significantly enhanced distribution of push notifications and contributed to opportunity gains and an improvement in gross profit margins. A series of efforts to strengthen EC, including the establishment of an official LINE account and YouTube channel, along with the use of CGM, resulted in strong KPIs for the number of web members, active rate, EC purchase amounts and others. In addition, the Watches Business, which is engaged in strategic inventory investments, successfully grew earnings by securing one of the largest inventories in Japan, primarily consisting of used Rolex watches, and by increasing its global visibility through cross-border EC and other means. With an eye on the future, the Company has also launched AI-based content recommendations and has entered into a capital and business alliance with Fukui Camera Service, Ltd., a camera repair firm.

3. Outlook for FY3/23

The Company expects to continue to see higher sales and profits in FY3/23, with ¥48,260mn in net sales (up 11.1% YoY) and operating income of ¥3,507mn (up 11.6%). The figure for net sales assumes growth across all businesses, driven by EC sales. Store sales are also expected to recover nearly to pre-pandemic levels as COVID-19 subsides (particularly with the resumption of inbound travel). In terms of profit, gross profit margin is expected to improve by 0.5ppt due to the continued impact of the introduction of AIMD. Meanwhile, SG&A expenses will rise for a time as staffing is increased to support business expansion going forward, but by absorbing these costs through gross profit growth, the Company expects to achieve an increase in operating income.

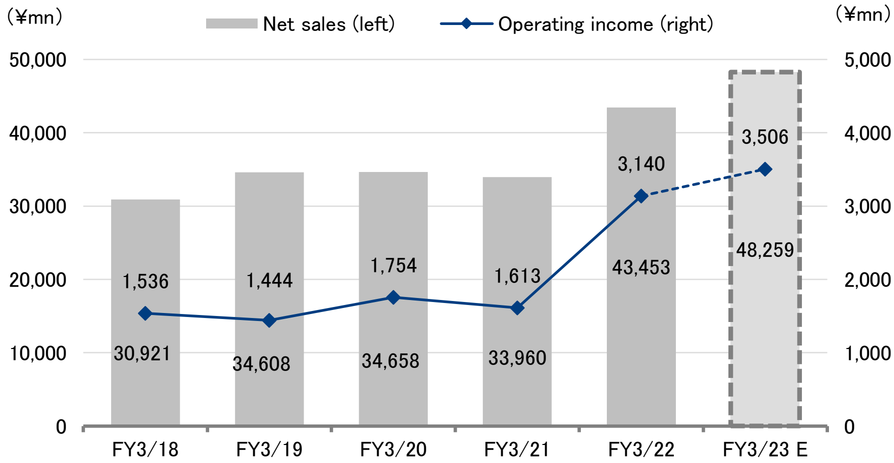
4. Strategy for Future Growth

The Company updates its three-year medium-term management plan annually on a rolling basis. It intends to further grow its mainstay Cameras and Watches businesses and revitalize its global expansion through cross-border EC, positioning sustainable growth in EC sales through expansion of market share as the main driver. The Company also plans to emphasize profit growth over growth in sales by continuing to utilize AI to improve profit margins and reducing its SG&A expense ratio through lean management. For FY3/25, the final year of the current plan, it aims to achieve net sales of ¥60,385mn (a three-year average annual growth rate of 11.6%) and operating income of ¥5,091mn (an operating margin of 8.4%). In FY3/23 in particular, in addition to one-to-one marketing and AIDM, the Company will work to achieve its medium to long-term goals by launching AI-based content recommendations and strengthening its ability to provide information via LINE. By doing so, it intends to further expand the cycle of information it provides to make purchases more enjoyable and convenient in every situation, from pre-purchase to the time of purchase as well as post-purchase.

Key Points

- In FY3/22, achieved major increases in sales and profits that were also significantly higher than the forecasts
- EC sales are growing steadily, while the Watches business has expanded significantly due to the strategic inventory investment
- Expects increased sales and profits in FY3/23 due to growth in EC sales and a recovery in store sales
- In its new medium-term management plan, the Company intends to achieve sustainable growth in EC sales and improve profit margins through by use of AI by working to further grow its Cameras and Watches businesses as well as revitalizing global expansion through cross-border EC.

Results trends



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

Business overview

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

The Company 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 570,000 web members (as of the end of FY3/22). 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 73% 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 570,000 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. Unlike other companies in the same industry (such as those involved in reusing and recycling) that collect used items by paying high advertising costs, 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. Additionally, it benefits from having few bottlenecks for increasing sales and from being able to focus on achieving high profitability alongside the growth of sales. Another strength is that the Company has increased the ratio of transactions from its own website to more than 80% by providing its own services, in contrast to the high dependence of competitors on other companies' malls. This has enabled its platform-type business model, as well as a reduction in the burden of fees. Meanwhile, although stores have been affected by COVID-19 in the near term, they have been making a certain contribution to business performance and serving as a base for disseminating information, driven by factors including inbound demand (tax-free sales). The Company intends to continue developing its business based around EC, especially by using its own website as a 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.

(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 customers to sell, 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 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 website specializing in cameras.

*1 An abbreviation of Consumer Generated Media, which refers to media with content involving general users, including bulletin boards and word-of mouth websites.
*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 FY3/22, achieved increases in sales and profits that were higher than forecast
In addition to steady growth of EC sales, the Watches business has expanded significantly due to the strategic inventory investment

1. Summary of the FY3/22 results

(1) Results summary

In the FY3/22 results, net sales increased 28.0% YoY to ¥43,453mn, operating income rose 94.7% to ¥3,140mn, ordinary income grew 96.3% to ¥3,187mn, and net income increased 106.8% to ¥2,207mn. As a result, the Company achieved increased sales and profits even higher than the second upwardly revised forecasts (announced on January 17, 2022)*

* The Company made a second upward revision to its forecast at the time it released its 3Q financial results (announced on January 17, 2022), following an earlier revision announced on the release of its 1Q financial results (on August 4, 2021). The second revision was mainly due to an upswing in the Watches Business and a higher-than-expected gross profit margin.

In net sales, both EC and store sales grew as demand for the products offered by the company (cameras, luxury watches) remained unchanged even during the COVID-19 pandemic. Mainstay EC sales have been particularly strong, especially in the Cameras Business, thanks to a favorable external environment (which included expansion of the EC market) and the effects of various measures, and reached a record high in 4Q on a quarterly basis. Meanwhile, store sales, which continue to be affected by COVID-19, have recovered significantly from their decline in the previous fiscal year due to growth in the Watches Business. By business segment, the Watches Business achieved significant growth in both EC and store sales thanks to a strategic expansion of the product lineup (including stronger purchasing of used Rolex watches). Particularly, the Company has seen steady growth not only domestically but also globally through inbound and cross-border EC sales. The Cameras Business is also performing well, primarily in EC sales, as the industry as a whole is gaining momentum with a full-scale shift to full-frame mirrorless cameras from various manufacturers.

Operating profits also increased significantly, because the higher sales pushed-up profits, in addition to factors such as the improvement to used cameras' gross profit margin through the introduction of AIMD and control of SG&A expenses. The operating margin largely improved to 7.2% (4.8% in the previous fiscal year).

In terms of financial conditions, total assets increased 14.2% YoY to ¥14,407mn through the impact of strategic inventory investments in the Watches Business and other factors. Meanwhile, shareholders' equity shrank 14.6% YoY to ¥5,465mn due to repurchase of treasury shares*1, resulting in a decline in the equity ratio to 37.9% (50.7% at the end of the previous fiscal year). As a result, long- and short-term interest-bearing debt increased 41.5% from the end of the previous fiscal year to ¥5,560mn, and the net D/E ratio*2 increased 0.8 times (0.3 times at the end of the previous fiscal year). Considering the Company's ability to generate cash flow*3, however, there are no concerns about its repayment capacity. At the same time, ROE—an indicator of capital efficiency—improved significantly to 37.2% (17.7% at the end of the previous fiscal year). It should be noted that the Company's capital structure has changed significantly as a result of share buybacks and other factors.

*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 cancelling 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= ¥3,327mn) in the previous period as the standard, the EBITDA to interest-bearing debt multiplier was kept down to approximately 1.7 times.

Summary of the FY3/22 results

(¥mn)

	FY3/21		FY3/22		Change		FY3/22 Initial forecasts		Revised forecasts Second time (January 17)	
	Result	%	Result	%	Amount	%	Amount	%	Amount	%
Net sales	33,960		43,453		9,492	28.0%	38,230		41,576	
Cameras	24,022	70.7%	27,904	64.2%	3,881	16.2%	-	-	-	-
Watches	8,681	25.6%	14,364	33.1%	5,683	65.5%	-	-	-	-
Stationary	408	1.2%	391	0.9%	-16	-4.1%	-	-	-	-
Bicycles	848	2.5%	792	1.8%	-55	-6.5%	-	-	-	-
Costs	27,663	81.5%	35,418	81.5%	7,754	28.0%	-	-	-	-
Gross profit	6,296	18.5%	8,035	18.5%	1,738	27.6%	-	-	-	-
SG&A expenses	4,683	13.8%	4,894	11.3%	210	4.5%	-	-	-	-
Operating income	1,613	4.8%	3,140	7.2%	1,527	94.7%	1,849	4.8%	2,966	7.1%
Cameras	2,324	9.7%	3,154	11.3%	830	35.7%	-	-	-	-
Watches	357	4.1%	1,129	7.9%	772	216.2%	-	-	-	-
Stationary	-30	-	5	1.4%	36	-	-	-	-	-
Bicycles	40	4.8%	40	5.2%	0	1.0%	-	-	-	-
Adjustment	-1,078	-	-1,189	-	-111	-	-	-	-	-
Ordinary income	1,623	4.8%	3,187	7.3%	1,563	96.3%	1,825	4.8%	3,005	7.2%
Net income	1,067	3.1%	2,207	5.1%	1,140	106.8%	1,241	3.2%	2,073	5.0%
EC sales	25,535		31,350		5,815	22.8%				
Store sales	8,425		12,103		3,678	43.7%				

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

Financial condition at the end of March 2022

(¥mn)

	End of March 2021 Result	End of March 2022 Result	Change	
			Amount	%
Current assets	11,178	12,820	1,642	14.7%
Cash and deposits	1,827	1,173	-653	-35.8%
Accounts receivable - trade	2,104	2,601	497	23.6%
Merchandise	6,826	8,329	1,502	22.0%
Non-current assets	1,434	1,586	151	10.6%
Property, plant and equipment	359	311	-48	-13.4%
Intangible assets	358	450	91	25.4%
Investments and other assets	715	824	108	15.1%
Total assets	12,613	14,407	1,793	14.2%
Current liabilities	3,989	6,124	2,134	53.5%
Accounts payable - trade	1,154	1,485	331	28.7%
Interest-bearing debt	1,747	2,783	1,035	59.2%
Provision for point card certificates	350	0	-350	-
Non-current liabilities	2,218	2,813	594	26.8%
Interest-bearing debt	2,182	2,777	594	27.3%
Net assets	6,404	5,469	-935	-14.6%
Shareholders' equity	6,399	5,465	-934	-14.6%
Total liabilities and net assets	12,613	14,407	1,793	14.2%

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

(2) Gross profit margin and SG&A expenses conditions

Gross profit margin (overall) for FY3/22 was 18.5%, ending on a level on par with the previous fiscal year. While the growth of the Watches Business (impact of the product mix*) worked to lower gross profit margin, an improvement in the gross profit margin of used camera products resulting from the introduction of AIMD helped gross profit margin levels to remain at a level that exceeded expectations. SG&A expenses rose due to an increase in personnel expenses (including an increase in performance bonuses, etc.) and expenses associated with EC enhancement measures and growth in EC sales. However, SG&A expenses fell significantly to 11.3% (13.8% in the previous fiscal year) thanks to efforts to curb expenses, including a decrease in expenses due to special factors (a change in the method of recording provision for point card certificates) and efforts to improve productivity (greater systemization through system deployment and job rotations). Of particular note is the fact that even as have net sales grown, advertising and promotion expenses have not increased, a likely indication of the uniqueness of the Company's business model.

* Because the gross profit margin in the Watches Business is relatively low compared to the Cameras Business, growth in the Watches Business (increase in its composition ratio) works to lower overall gross profit margins.

Breakdown of SG&A expenses

(¥mn)

	FY3/21		FY3/22		Change	
	Result	Ratio to net sales	Result	Ratio to net sales	Amount	%
SG&A expenses	4,683	13.8%	4,894	11.3%	211	4.5%
Personnel expenses	1,404	4.1%	1,545	3.6%	140	10.0%
Advertising expenses	56	0.2%	47	0.1%	-9	-15.8%
Promotion expenses	803	2.4%	895	2.1%	92	11.5%
Outsourcing expenses	291	0.9%	354	0.8%	63	21.8%
Commission expenses	879	2.6%	1,001	2.3%	121	13.8%
Depreciation	161	0.5%	187	0.4%	25	15.8%
Rent expenses on land and buildings	344	1.0%	349	0.8%	4	1.4%
Other	741	2.2%	512	1.2%	-228	-30.8%

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

2. Results by business

(1) Cameras business (EC ratio: 88%)

Both sales and profits saw solid growth, with gains of 16.2% in net sales to ¥27,904mn and a 35.7% increase in segment profit to ¥3,154mn. Camera manufacturers made progress in their full-scale shift to full-frame mirrorless models, giving a lift to the industry as a whole. One-to-one marketing utilizing AIMD and proprietary mechanisms (AI facial recognition, web magazines, CGM, etc.) also functioned effectively, resulting in strong EC sales. Meanwhile, store sales seem to be on a recovery trajectory, maintaining the same level as the previous year even as resources are shifted to EC. In terms of profit, used camera gross profit margins improved due to the effect of AIMD and the segment saw a significant increase in profit, as segment margin also improved to 11.3% (9.7% in the previous fiscal year).

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

Sales and profits increased significantly, with net sales rising 65.5% to ¥14,364mn and segment profit growing significantly 216.2% to ¥1,129mn. Strategic efforts to expand the product lineup (enhanced purchasing of used Rolexes) and soaring prices for Rolex watches also provided a boost, resulting in tremendous growth in both EC and store sales. In particular, growth in duty-free sales to foreign visitors on short-term stays and to Japanese nationals on temporary trips home contributed to a significant recovery in store sales, even during the COVID-19 pandemic. Cross-border EC (overseas malls) also saw major growth, and combined with duty-free sales, global sales reached about ¥7,300mn (2.2 times the previous fiscal year), including cameras. Therefore, we believe that the Company's stronger purchases of used Rolexes has contributed to earnings growth by enabling it to secure one of the largest domestic inventories in Japan and increasing its visibility overseas through its presence on eBay, one of the world's largest online marketplaces, as well as Chrono24, a marketplace for luxury watches. The ladies' wristwatch specialty store "BRILLER" also seems to be gradually gaining recognition through information disseminated primarily on social media sites. In addition to a boost in earnings from higher sales, gross profit margins improved on strong sales of used products, resulting in a significant increase in profit. Segment profit also improved to 7.9% (4.1% in the previous fiscal year).

(3) Stationery business (EC ratio: 84%)

Sales fell 4.1% to ¥391mn, but segment profit was ¥5mn (a loss of ¥30mn in the previous fiscal year), and the segment moved to profitability despite lower sales. Both EC and store sales were sluggish during COVID-19, due in part to reduced business hours based on sales strategy as well as supply chain disruptions. That said, the business worked to improve profits through improved profit margins and cost reductions.

(4) Bicycles business (EC ratio: 92%)

Sales declined 6.5% YoY to ¥792mn, while segment profit was largely unchanged from the previous fiscal year at ¥40mn. Demand driven by COVID-19 (for use as a mode of transportation or to alleviate a lack of exercise) stagnated, and sales fell YoY, but profit margins improved as EC ratio from the Company's own website rose, allowing it to secure the same level of profit as in the previous fiscal year.

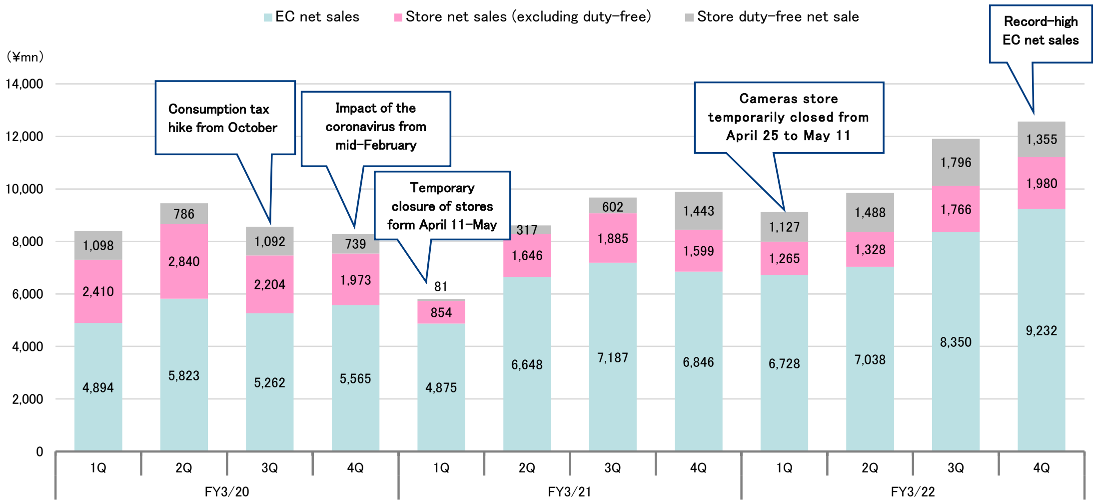
3. Trends in quarterly results and KPI

(1) Trends in quarterly results

Looking at the quarterly trend in net sales from FY3/20 (prior to COVID-19), sales fell greatly in the 1Q of 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 website*) 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 have been gradually expanding, while tax-free sales in the Watches business also made significant contributions due to the strategic enhancement of the product lineup, and the results in the 4Q set a new record-high (on a quarterly basis).

* The overall sales ratio (full-year) on the Company's own EC website, including overseas sales, remained high at 81.3% (80.8% in the previous fiscal year) even with the increase in cross-border EC (overseas malls).

Trend in quarterly net sales

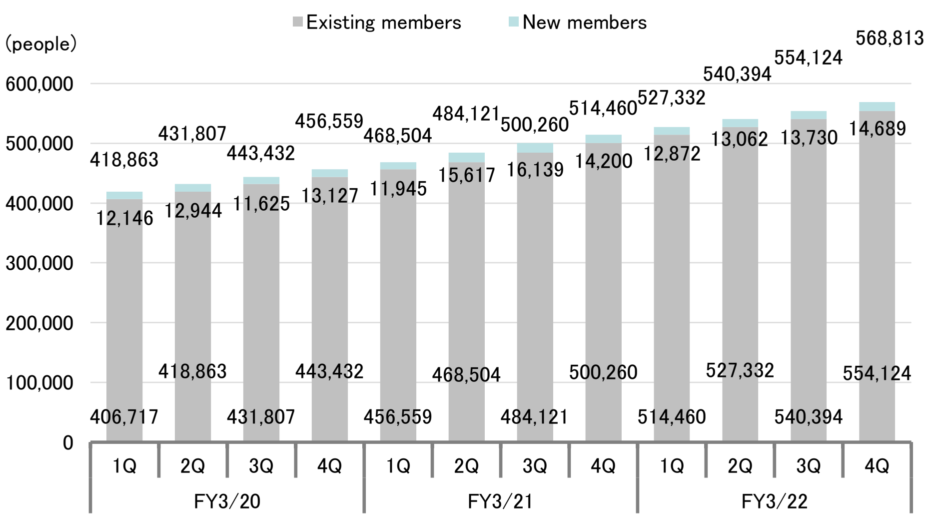


Prepared by FISCO from the Company's results briefing materials

(2) Number of web members

At the end of March 2022, the number of Web members had continued to steadily increase to 568,813 people (up 54,353 people from 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 of the group aged from 10 to 39 is 41.4%, while due to the spread of Instagram and other SNS, the percentage of females aged from 10 to 39 is high in comparison to other age groups at 22.6%, making them a new target group. Also, the percentage of 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.

Quarterly trends in the number of Web members



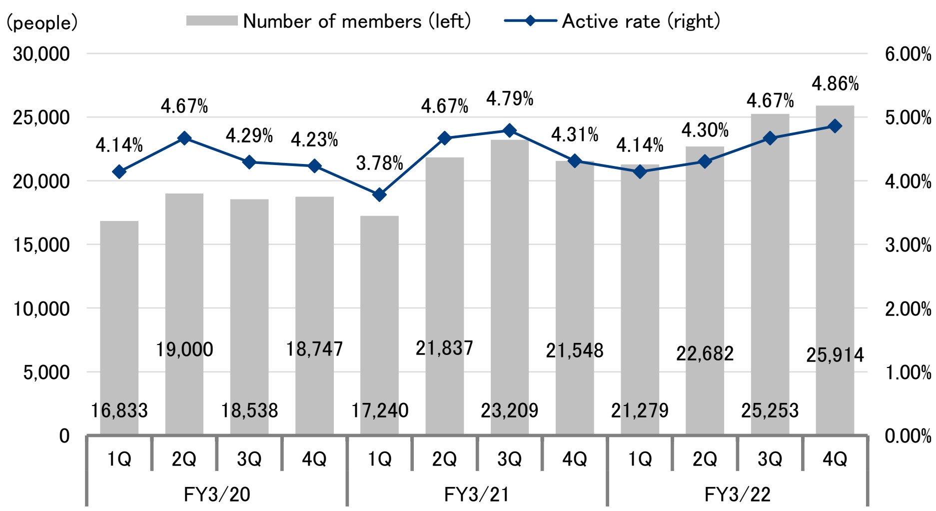
Source: Prepared by FISCO from the Company's results briefing materials

(3) Purchasing numbers and the active rate

Both the number of purchasing members and the active rate are trending strongly, along with the number of new members. 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, by 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 drops has the potential to increase by approximately 6 times compared to the previous number, to around 1mn communications a month, which is contributing to expanding transaction opportunities.

* The number of products registered on wish lists grew to 1,702,028 items (up 218,019 from the end of the previous fiscal year) with the launch of new products and the effects of special sales events. The introduction of AIMD also appears to have increased the number of requests sent out when registered products drop in price. In addition, the number of registrations for email notifications of product arrivals increased to 101,688 (up 21,483 from the end of the previous fiscal year), and the monthly average number of emails sent out in 4Q amounted to 380,000, contributing to maintaining and improving the active rate.

Trends in number of members and active rate

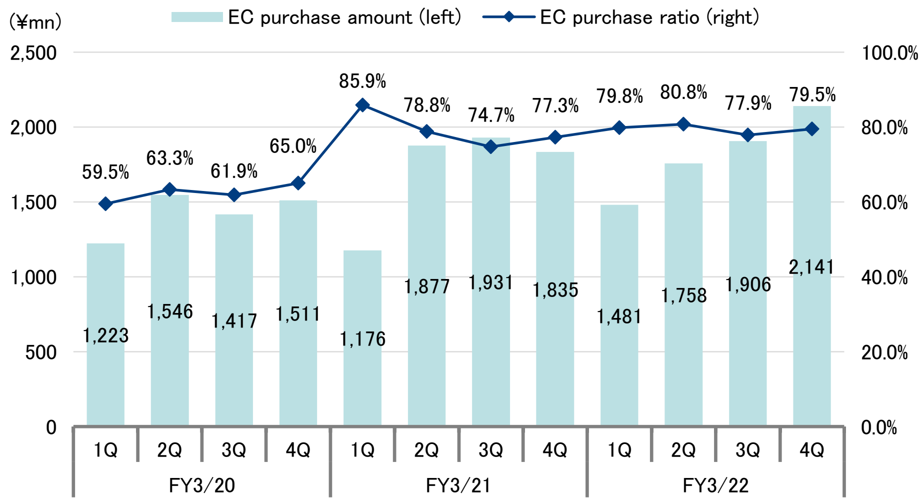


Source: Prepared by FISCO from the Company's results briefing materials

(4) Used cameras purchase amount

For the used cameras purchase amount also, the measures intended to strengthen EC, including introducing an AI facial authentication system and AIMD, are proving successful, and the EC purchase ratio is trending at a high level. 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.

Trends in the EC purchase amount and the EC purchase ratio



Prepared by FISCO from the Company's results briefing materials

4. Summary of the FY3/22

In summary, the Company's performance in FY3/22 not only achieved growth significantly above plan but delivered solid results with the introduction of AIMD and other EC measures it has worked to implement as well as other actions it has taken, such as strategic inventory investments, a point for which the Company should be highly commended. It has turned the past two years of COVID-19 into an opportunity, and its use of AI in the Cameras Business and an increase in the visibility of the Watches Business, including overseas, has led a rise in overall earnings. This is not just a one-time improvement, but a structural evolution, and the Company can be seen as having clearly moved up to a higher stage. The introduction of AIMD in March 2021, in particular, has been as effective as expected, generating about 80% of net sales and improving gross profit margins as the Company effectively captured the sweet spot (a balanced agreement with the customer) between purchases and sales. In terms of the impact on future results, this is a significant achievement.

Main activities and achievements

Opened official LINE accounts and YouTube channels Progress in introducing AI-based content recommendations and expanding globally

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, in addition to expanding its trading area.

* 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 2020, 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. 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 1 million a month, which is around six 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 profit margin), and keeping down the increase in personnel expenses.

Further, in March 2022, the Company launched AI-based content recommendations, the second phase of its utilization of AI. Using an AI engine, the service automatically distributes recommended StockShot articles* via LINE, email newsletters and app pushes, based on customers' browsing and purchasing histories. The Company will be able to leverage the 25,000 contents related to cameras and watches that it has accumulated since its founding. Customers, in turn, will be able to obtain information to determine not only whether a price is high or low, but also whether the price is commensurate with the functions, performance and preferences they seek. This allows the Company to not only differentiate itself from competitors and promote purchasing, but through a link with AIMD, to set prices more accurately and stabilize margins.

* "StockShot" is a daily web magazine published by the staff of Map Camera. StockShot contains not only photo previews of the latest equipment, but also blogs of the staff's own everyday photography using their favorite equipment; about 25,000 articles have been produced to date. For used equipment, the value can be found in archival articles as well, as past equipment articles do not simply become outdated over time.

(4) Introduction of one-price buying in the Watches Business

For the Watches Business, which is strategically expanding its product lineup (through stronger purchasing of used Rolexes), the Company has launched "Unlimited," a system similar to the one-price buying system introduced earlier in the Cameras Business. Although global demand for luxury mechanical watches, especially Rolexes, has soared and buying competition with other stores has intensified, this system has made more stable purchasing possible. As a first in the industry, it has been a success, with 2,106 web listings for Rolex as of the end of December 2021—making it one of the largest in Japan.

(5) Global expansion

With regard to cross-border EC, the Company opened the Map Camera (the Cameras Business) on eBay, one of the world's largest online marketplaces, in August 2017. GMT (the Watches Business) opened stores on Chrono24, the world's largest luxury watch marketplace, in May 2019, and on eBay in July 2020. In doing so, the Company has put in place a structure for business expansion, and has established its brand power overseas through its emphasis on quality of service. This is particularly true of the Watches Business, which, coupled with the expansion of its product lineup and the worldwide popularity of Rolex, has gained increased recognition overseas. This also seems to have led to an increase in duty-free sales to short-term foreign visitors and Japanese nationals returning to Japan temporarily, even given the entry restrictions imposed by COVID-19. Global sales in FY3/22 expanded significantly to approximately ¥7,300mn (by 2.2 times compared to the previous fiscal year).

2. Capital and business alliance with a camera repair firm

On January 26, 2022, the Company concluded a capital and business alliance* with Fukui Camera Service, a camera repair firm that boasts some of the finest technology and experience in Japan. The alliance calls for 1) cooperation in the business of checking camera condition and making repairs; 2) consideration of business cooperation and joint business implementation to ensure a stable supply of products; and 3) efforts to share expertise and develop human resources through personnel exchanges. The companies have done business with one another for the past seven years, and intend to further deepen their collaboration and generate synergies through this transaction. Fukui Camera Service can be seen as an important partner for expanding market share, particularly since repair is such an essential part of dealing with used products, and companies that can repair all manufacturers' cameras are rare.

* Acquiring 35% of the outstanding shares issued by Fukui Camera Service

Business forecasts

Expecting sales and profits to increase in FY3/23 due to growth in EC sales and recovery in store sales

1. FY3/23 forecasts

The forecasts for the consolidated results ofFY3/23 are for continual higher sales and profits, with net sales to increase 11.1% YoY to ¥48,260mn, operating income to grow 11.6% to ¥3,507mn, ordinary income to rise 9.1% to ¥3,477mn, and net income to increase 8.6% to ¥2,399mn.

Net sales are expected to grow across all businesses, driven by EC sales. Store sales are also expected to recover nearly to pre-pandemic levels (FY3/20) as COVID-19 subsides (and especially with the resumption of inbound travel).

In terms of profit, gross profit margin is expected to improve to 19.0% (18.5% in the previous fiscal year), due to the ongoing effect of AIMD. On the other hand, SG&A expenses are expected to increase temporarily due to an increase in staffing in anticipation of future business expansion, but this will be absorbed by the growth in gross profit, resulting in an increase in operating income and an improvement in the operating income margin to 7.3% (7.2% in the previous fiscal year).

FY3/23 forecasts

(¥mn)

	FY3/22		FY3/23		Change	
	Result	%	Forecasts	%	Amount	%
Net sales	43,453		48,260		4,807	11.1%
Cameras	27,904	64.2%	30,770	63.8%	2,866	10.3%
Watches	14,364	33.1%	16,000	33.2%	1,636	11.4%
Stationary	391	0.9%	515	1.1%	124	31.6%
Bicycles	792	1.8%	975	2.0%	183	22.9%
Cost	35,418	81.5%	39,111	81.0%	3,693	10.4%
Gross profit	8,035	18.5%	9,149	19.0%	1,114	13.9%
SG&A expenses	4,894	11.3%	5,643	11.7%	749	15.3%
Operating income	3,140	7.2%	3,507	7.3%	367	11.6%
Ordinary income	3,187	7.3%	3,477	7.2%	290	9.1%
Net income	2,207	5.1%	2,399	5.0%	192	8.6%
EC sales	31,350		35,179		3,829	12.2%
Store sales	12,103		13,081		978	8.1%

Prepared by FISCO from the Company's results briefing materials

2. FISCO's outlook

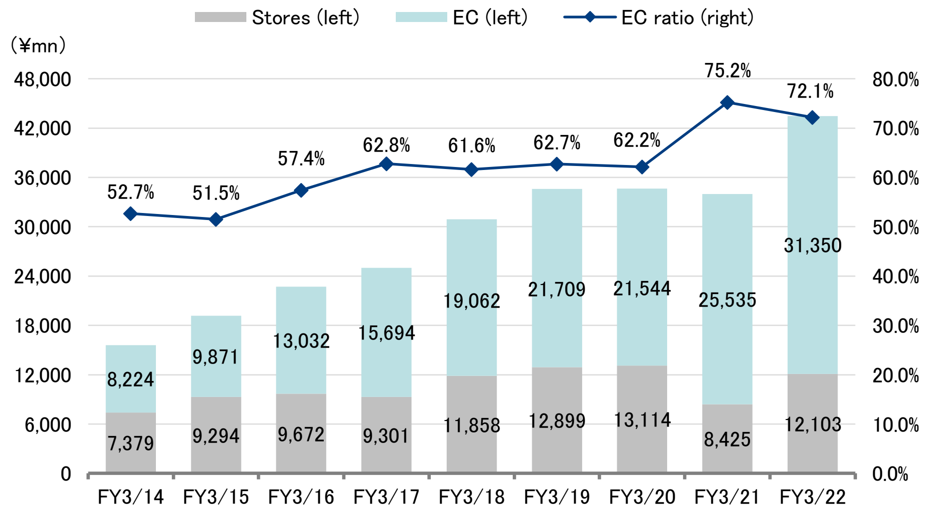
FISCO also believes that building around its strong EC sales, the Company is fully capable of a sustained boost in performance, given that it has successfully expanded its membership base and maintained and improved its active rate through its one-to-one marketing mechanism, use of AI, and other measures. The most important issues to focus on are 1) how the resumption of inbound tourism will work to the benefit of the expansion of the Watches Business (duty-free sales), and 2) whether the improvements to the gross profit margin through AIMD will proceed as expected. Particular attention will be given to how the Watches Business will grow with the resumption of inbound tourism and the Company's strategic inventory investments (including the introduction of one-price purchasing), especially as global demand for luxury watches soars, as well as the Company's progress in cross-border EC.

Results trends up to the present time

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

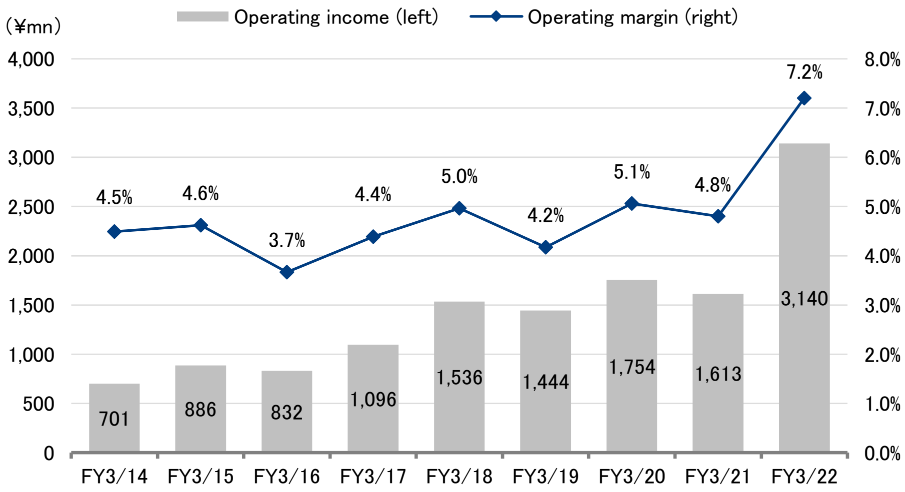
Looking back at the Company's results through the previous fiscal year, net sales have achieved steady growth along with an increase in web members and growth in EC sales. Although sales growth was sluggish for two consecutive fiscal years from FY3/20 onward due to the Company's focus on improving gross profit margins over sales growth, the impact of the consumption tax hike, and a drop in store sales due to COVID-19, in FY3/22, the Company achieved a significant increase in sales with the impact of a variety of EC measures (including the introduction of AIMD) and growth in the Watches Business resulting from strategic inventory investments. Average annual growth rate over the nine years from FY3/13, when the Company went public, to FY3/22, is 15% (of which the average annual growth rate of EC sales was 20%). Profits (operating income) have also generally increased along with sales growth. While operating profit margin has been in the 4%-5% range for the past several years, the introduction of AIMD improved gross profit margins and helped curb SG&A expenses, resulting in a significant improvement in the profit margin in FY3/22.

Trends in net sales (store and EC) and EC ratio



Prepared by FISCO from the Company's results briefing materials

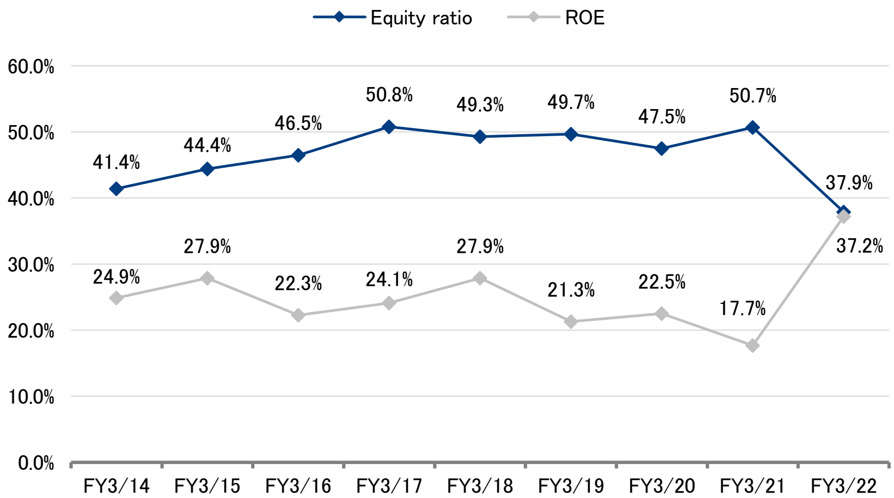
Trends in operating income and the operating margin



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

Meanwhile, in terms of finances, while the shareholders' equity ratio remained stable at the 50% level for some time, it fell to 37.9% in FY3/22 due to the acquisition of treasury shares from the founder. Nevertheless, ROE, an indicator of capital efficiency, remained high at 37.2%.

Trends in the equity ratio and ROE



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

Medium- to long-term strategy

Work toward further growth in Cameras and Watches businesses and on cross-border EC, while aiming to grow profits beyond sales growth through the use of AI and lean management

1. Announcement of a new medium-term management plan

Each year, the Company updates its three-year medium-term management plan on a rolling basis, and in May 2022, it announced a new medium-term plan. The previous medium-term management plan has been revised upward overall due to the fact that the previous fiscal year's performance was significantly higher than planned.*

* Compared to the medium-term management plan announced last year, the company has revised its forecast significantly upward. For FY3/23, net sales and operating income will increase from ¥42,718mn to ¥48,260mn and from ¥2,145mn to ¥3,507mn, respectively; for FY3/24, from ¥47,844mn to ¥53,936mn and from ¥2,624mn to ¥4,500mn, respectively.

The Company intends to further grow its mainstay Cameras and Watches businesses, and to revitalize its global expansion through cross-border EC, positioning sustainable growth in EC sales as a driver in conjunction with increased market share. In addition, the Company intends to continue focusing on profit growth even more than sales growth by improving profit margins through the continued use of AI and by reducing SG&A expenses through lean management. With regard to gross profit margin in particular, the gross profit margins of used camera sales will be improved with the full-scale launch of AIMD. At the same time, with regard to SG&A expenses, while some logistics-related expenses may increase with growth in transaction volume, the Company will work deploy systems to promote a structured workflow, curbing fixed costs and reducing variable costs. In addition, while the Company plans to increase the number of employees to expand its business, it also expects to invest in IT* to improve productivity and efficiency, which will lead to higher sales per employee. As a result, the Company aims to achieve sales of ¥60,385mn (a three-year average annual growth rate of 11.6%) and operating income of ¥5,091mn (an operating margin of 8.4%) in FY3/25, the final year of the plan.

* Planned capital investments over three years total about ¥1,020mn

Overview of the new medium-term management plan

(¥mn)

	FY3/22		FY3/23		FY3/24		FY3/25		Average growth rate
	Result	%	Forecast	%	Forecast	%	Forecast	%	
Net sales	43,453		48,260		53,936		60,385		11.6%
Cameras	27,904	64.2%	30,770	63.8%	33,844	62.7%	37,249	61.7%	10.1%
Watches	14,364	33.1%	16,000	33.2%	18,253	33.8%	20,862	34.5%	13.2%
Stationery	391	0.9%	515	1.1%	632	1.2%	779	1.3%	25.8%
Bicycles	792	1.8%	975	2.0%	1,206	2.2%	1,495	2.5%	23.6%
Gross profit	8,035	18.5%	9,149	19.0%	10,375	19.2%	11,606	19.2%	13.0%
SG&A expenses	4,894	11.3%	5,643	11.7%	5,876	10.9%	6,515	10.8%	10.0%
Operating income	3,140	7.2%	3,507	7.3%	4,500	8.3%	5,091	8.4%	17.5%
Ordinary income	3,187	7.3%	3,477	7.2%	4,476	8.3%	5,067	8.4%	16.7%
Net income	2,207	5.1%	2,399	5.0%	3,088	5.7%	3,496	5.8%	16.6%
Number of employees*	253		291		296		319		8.0%
Sales per person	172		177		184		196		4.5%

* Includes dispatched and part-time workers
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Initiatives in FY3/23

(1) Further expansion of the three cycles (proactive use of LINE)

To date, the Company has worked to create a system that offers an enjoyable, convenient shopping experience, whether pre-purchase, at time of purchase, or post-purchase. By combining this three-part cycle with one-to-one marketing and AIMD, it has increased the value of this system as a platform. In FY3/23, it intends to enhance its ability to provide information with the launch of AI content recommendations and the use of LINE, further expanding the reach of the three-part cycle.

(2) Pursuing four values

The Company will continue its pursuit of the four values (all known as “shinka” in Japanese, but each expressed with different characters) set out in the previous medium-term management plan. In short, these are: 1) Advancement (value from progressing), 2) Depth (value from deeper understanding), 3) Authenticity (value of being authentic), and 4) Novelty (new value). These values are tied to all of the Company’s initiatives and the action goals of all employees. The Company intends to leverage these values in strengthening employee training and engagement and in operational reviews, leading to improved productivity in the form of higher sales per employee.

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” and “development of an easy-to-work environment.” 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. Its policy is also to change the original goods and the novelty goods in consideration of the environment. In addition, the Company has updated its corporate website, and created a new page titled “Sustainability.” It is also making efforts to disclose information based on the recommendations of the Task Force on Climate-related Disclosures (TCFD).

SDGs initiatives

Source: The Company’s results briefing materials

4. FISCO's focus points

FISCO thinks the Company's strategy of further boosting its presence in designated areas by using AI, 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 in which the Company has already carried out test marketing and increased its visibility centered on the Watches business, 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 (such as the development of paid services), 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.

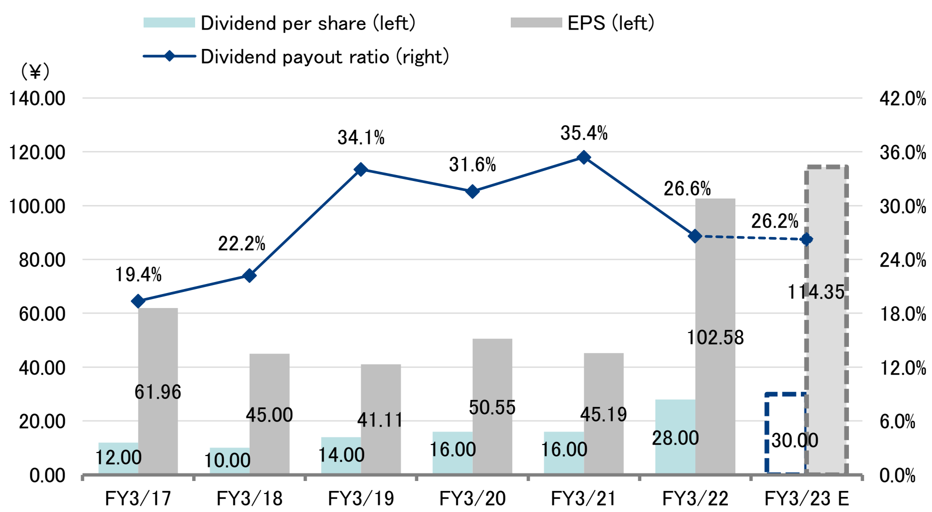
Shareholder returns

Plans to pay an ¥30 dividend in FY3/23 (up ¥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%.

Due to a significant increase in profit in FY3/22, the Company has revised its initial forecast for its year-end dividend upward by a significant margin, to ¥28 per share (a payout ratio of 26.6%), an increase of ¥12 from the previous fiscal year. For FY3/23, the Company plans to pay a year-end dividend of ¥30 per share, an increase of ¥2 per share over the previous fiscal year (for a projected payout ratio of 26.2%).

Trends in EPS, the dividend, and dividend payout ratio



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

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