

## Syuppin Co., Ltd.

3179

Tokyo Stock Exchange Prime Market

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FISCO Ltd.

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

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## Summary

### **In 1H FY3/23, net sales and profit ahead of target, with Watches business hurt by weak duty-free sales, but Cameras business performing well. Maintained initial company forecast, targeting net sales and profit growth over full year**

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 have grown steadily due to the effects of measures implemented so far, such as introducing new AI-based features\*, and solid progress of global business expansion through cross-border EC, so it can be said that the Company has entered a new growth stage.

\* AIMD (merchandising system that uses AI technology), AI-based content recommendations (using an AI engine that analyzes customer preferences and distributes a large number of content articles created and owned by the Company), etc..

#### 1. Overview of 1H FY3/23 results

In 1H FY3/23, the Company’s net sales grew 15.4% year-on-year (YoY) to ¥21,885mn and operating income was up 23.8% to ¥1,628mn, posting net sales and profit growth ahead of the initial forecast and record highs on a 1H basis. Duty-free sales were weak in the Watches business, affected by circumstances overseas such as lockdowns in China, but the Camera business grew strongly and contributed to overall earnings growth as a result of various EC initiatives taking effect, such as AI-based one-to-one marketing, and brisk market conditions. It is a point worth noting that cross-border EC has grown steadily with the help of yen depreciation in contrast with sluggish duty-free sales. Operating profit rose sharply on the net sales growth effect, improved gross profit margin on used cameras thanks to stable operation of AIMD, and SG&A expense control, with the operating profit margin improving to 7.4% from 6.9% a year earlier.

#### 2. Main activities and achievements

Activities include adding AI-based content recommendations\* to one-to-one marketing and AIMD, which began in FY3/22, and starting a notification feature on LINE to expand push notifications, thereby strengthening its ability to communicate information and customer contact points. In its global strategy, which is a focus area, the Company opened stores on the world’s largest online marketplace eBay as well as Chrono24, a luxury watch marketplace, followed by uptake of Buyee Connect, a purchase support service for overseas customers. This allows the Company’s approximately 3.3mn web members in 118 countries to purchase all items listed on its website, including road bikes and writing instruments. The Company also opened a revamped BRILLER (ladies brand salon), expanding the luxury brand bags floor and starting sales of luxury brand jewelry as well. In this way, the Company plans to continue a hybrid approach that combines EC with physical retail stores.

\* As well as timely price information, this feature made it possible for customers to obtain information that helps them determine whether the price of an item reflects its features and performance, and whether it matches their preferences.

## Summary

### 3. Outlook for FY3/23

The Company maintained its forecasts for the FY3/23 consolidated results, which call for continued net sales and profit growth, with net sales to increase 11.1% YoY to ¥48,260mn and operating income to grow 11.6% to ¥3,507mn. Robust performance of the Cameras business is expected to make a large contribution to net sales growth. Although duty-free sales are still weak in the Watches business, the Company expects growth of the Cameras business to compensate, and looks for net sales to recover more or less to the pre-pandemic level (FY3/20). In terms of profit, the Company forecasts a 0.5pp improvement in the gross profit margin thanks to the effect of using AIMD. The Company forecasts operating profit growth despite expecting higher SG&A expenses for a time due to an expanded head count, which will be offset by higher growth profit.

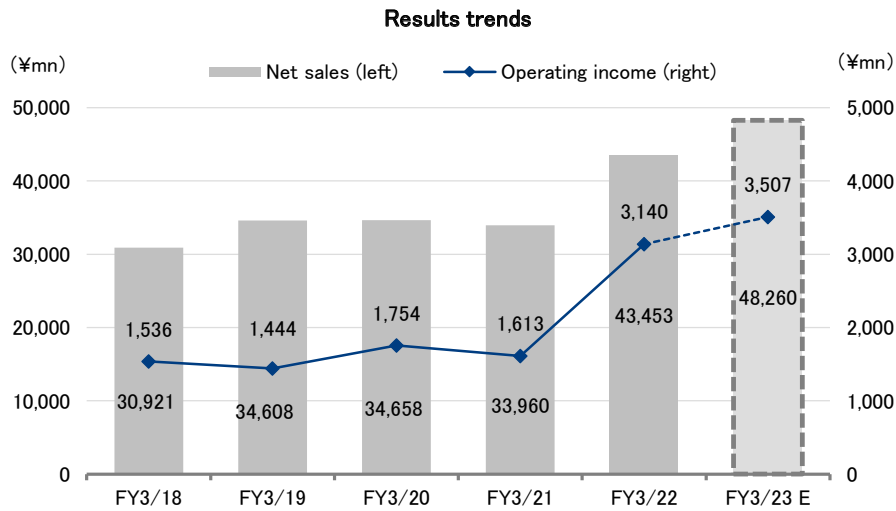
### 4. Strategy for Future Growth

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 (the first year of the current plan) 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 1H FY3/23, achieved major increases in sales and profits that were also higher than the forecasts
- Watches business weak due to slump in duty-free sales, but steady expansion of Cameras business, mainly in EC
- Maintained full-year FY3/23 forecast, which calls for net sales and profit growth
- In its medium-term management plan, the Company intends to achieve sustainable growth in EC sales and improve profit margins through AI utilization by working to further grow its Cameras and Watches businesses as well as revitalizing global expansion through cross-border EC

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. Continued unique evolution through aggressive use of AI technology

The Company is an e-commerce (EC) business specializing in valuable “new and used items.” It achieved strong growth by establishing its own business model that harnesses the Internet and its positioning as a business dealing with highly specialized items, capitalizing on the expansion of the EC market. It continues to evolve into a specialist EC site that harnesses the latest technologies by introducing AIMD (merchandising system that uses AI technology) and AI-based content recommendations (using an AI engine, the service automatically distributes recommended articles selected from its broad collection by analyzing customers’ preferences).

The Company currently has approximately 600,000 web members (as of the end of September 2022). 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.

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Business overview

There are four business segments: Cameras business, Watches business, Writing Instruments business, and Bicycles business. The mainstay Cameras business provides approximately 70% of net sales and approximately 83% of operating income (before adjustments)\*. Meanwhile, in Watches Business as well, the Company hopes to accelerate growth 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 (ladies' brand salon), the Writing Instruments 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 net 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, web numbers have grown to approximately 600,000 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 has led 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.

The Company's features

## 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 past two years, they have been making a certain contribution to business performance and serving as a base for disseminating information, driven by factors including inbound demand (duty-free sales), although recent duty-free sales have been weak. 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, it has a major impact on results and also 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 customers to sell, which has led to increases in the EC purchase amount. It also aggressively uses AI, 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.

\*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 it 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. More recently, it continues to evolve in its own way by harnessing AI to introduce unique features such as AIMD and AI-based content recommendations\*3.

\*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.

\*3 A service that uses an AI engine to analyze customers' browsing and purchase histories to distribute recommended StockShot articles by LINE, e-zine, and push notifications in the app automatically. This gives customers access to information that not only gives them an idea of whether a price is high or low, but also whether it reflects the features, performance, and preferred attributes that they are looking for.



## Summary of results

**In 1H FY3/23, achieved net sales and profit increases that were higher than forecast. Cameras business performed strongly due to effects of EC initiatives materializing, although Watches business was weak due to lower duty-free sales**

### 1. Summary of the 1H FY3/23 results

#### (1) Results summary

In the 1H FY3/23 results, net sales increased 15.4% YoY to ¥21,885mn, operating income rose 23.8% to ¥1,628mn, ordinary income grew 21.8% to ¥1,645mn, and net income increased 20.6% to ¥1,125mn. As a result, the Company achieved increased sales and profits even higher than the second upwardly revised forecasts to mark record highs on a 1H basis.

Duty-free sales were weak in the Watches business, affected by world affairs such as lockdowns in China, but the Cameras business grew strongly and contributed to overall earnings growth as a result of various EC initiatives taking effect, such as AI-based one-to-one marketing. Brisk trends in the camera market as a whole due to the release of new products were also a contributing factor. The Company posted modest but stable earnings growth in the Writing Instruments and Bicycles businesses due to a strategy of maintaining its position in niche markets that focus on specific attributes and rarity value. The Cameras and Watches businesses made solid progress with the Company's global strategy (cross-border EC), which is a focus area.

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 stable operation of AIMD and control of SG&A expenses. Despite the weak performance of the Watches business, the Company posted record-high operating profit and operating margin for 1H with the operating profit margin improving to 7.4% from 6.9% a year earlier.

In terms of financial condition, total assets contracted just 0.5% from the end of FY3/22 to ¥14,338mn, because accounts receivable – trade decreased. Shareholders' equity increased 4.8% from the end of FY3/22 to ¥5,727mn because of higher retained earnings, resulting in an equity ratio of 39.9%, up from 37.9% at the end of FY3/22.

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Summary of results

Summary of the 1H FY3/23 results

	1H FY3/22		1H FY3/23		Change	
	Result	%	Result	%	Amount	%
	(¥mn)					
Net sales	18,972		21,885		2,913	15.4%
Cameras	12,133	64.0%	15,341	70.1%	3,207	26.4%
Watches	6,242	32.9%	5,871	26.8%	-370	-5.9%
Writing instruments	183	1.0%	214	1.0%	30	16.5%
Bicycles	412	2.2%	458	2.1%	46	11.2%
Cost of sales	15,435	81.4%	17,769	81.2%	2,333	15.1%
Gross profit	3,536	18.6%	4,116	18.8%	580	16.4%
SG&A expenses	2,220	11.7%	2,488	11.4%	267	12.0%
Operating income	1,315	6.9%	1,628	7.4%	312	23.8%
Cameras	1,353	11.2%	1,763	11.5%	410	30.3%
Watches	371	5.9%	320	5.5%	-50	-13.7%
Writing instruments	-1	-	15	7.3%	17	-
Bicycles	25	6.1%	30	6.6%	5	20.4%
Adjustment	-432	-	-501	-	-69	-
Ordinary income	1,351	7.1%	1,645	7.5%	294	21.8%
Net income	933	4.9%	1,125	5.1%	192	20.6%
EC sales	13,766		17,009		3,243	23.6%
Store sales	5,205		4,875		-329	-6.3%

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

Financial condition at the end of September 2022

	End of March 2022		End of September 2022		Change	
	Result		Result		Amount	%
	(¥mn)					
Current assets	12,820		12,701		-119	-0.9%
Cash and deposits	1,173		1,556		382	32.6%
Accounts receivable - trade	2,601		2,167		-434	-16.7%
Merchandise	8,329		8,620		291	3.5%
Non-current assets	1,586		1,637		51	3.2%
Property, plant and equipment	311		305		-5	-1.9%
Intangible assets	450		504		54	12.1%
Investments and other assets	824		827		2	0.3%
Total assets	14,407		14,338		-68	-0.5%
Current liabilities	6,124		5,116		-1,008	-16.5%
Accounts payable - trade	1,485		1,343		-142	-9.6%
Interest-bearing debt	2,783		2,350		-433	-15.6%
Contract liabilities	244		228		-15	-6.2%
Non-current liabilities	2,813		3,490		677	24.1%
Interest-bearing debt	2,777		3,451		674	24.3%
Net assets	5,469		5,731		262	4.8%
Shareholders' equity	5,465		5,727		262	4.8%
Total liabilities and net assets	14,407		14,338		-68	-0.5%

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

Summary of results

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

Gross profit margin (overall) for 1H FY3/23 was 18.8%, higher than the 18.6% of a year earlier. With the profitable Cameras business increasing its share of net sales, and stable operation of AIMD, which was introduced in FY3/22, it further improved the gross profit margin of used cameras. SG&A expenses rose due to sales-linked promotion expenses and credit usage fees, operational expenses associated with investing in new system development, an increase in personnel expenses (including higher basic salaries and head count), and one-time expense arising from the start of stock-based compensation. However, the SG&A expense ratio improved to 11.4% from 11.7% a year earlier due to higher gross profit and cost reduction through productivity improvements. Even as net sales have grown, advertising and promotion expenses have not increased—a likely indication of the uniqueness of the Company's business model.

### Breakdown of SG&A expenses

	1H FY3/22		1H FY3/23		Change	
	Result	Ratio to net sales	Result	Ratio to net sales	Amount	%
	(¥mn)					
SG&A expenses	2,220	11.7%	2,488	11.4%	266	12.0%
Personnel expenses	632	3.3%	693	3.2%	61	9.7%
Advertising expenses	21	0.1%	19	0.1%	-2	-9.5%
Promotion expenses	421	2.2%	447	2.0%	26	6.2%
Outsourcing expenses	153	0.8%	185	0.8%	32	20.9%
Commission expenses	481	2.5%	592	2.7%	111	23.1%
Depreciation	92	0.5%	96	0.4%	4	4.3%
Rent expenses on land and buildings	173	0.9%	176	0.8%	3	1.7%
Other	245	1.3%	277	1.3%	32	13.1%

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

## 2. Results by business

### (1) Cameras business (EC ratio: 87.1%)

Both net sales and profits recorded strong growth, with gains of 26.4% YoY in net sales to ¥15,341mn and 30.3% YoY in segment profit to ¥1,763mn. One-to-one marketing utilizing proprietary mechanisms and services that harness AI, such as AIMD and AI-based content recommendations functioned effectively, resulting in robust EC sales. In May 2022, the Company began notifications using LINE (push notifications) in addition to mail and app notifications to make its service more convenient for smartphone users. The brisk performance of the camera market as a whole due to manufacturers releasing new products also contributed to earnings growth. Store sales made a steady recovery too, due in part to the new products effect. In terms of profit, the gross profit margin for used cameras improved thanks to stable operation of AIMD, which led to a sharp increase in segment profit. The segment profit margin also maintained a high level at 11.5%, up from 11.2% a year earlier.

### (2) Watches business (EC ratio: 54.1%)

Net sales and profits declined YoY, with net sales down 5.9% to ¥5,871mn and segment profit down 13.7% to ¥320mn. Strategic efforts to expand the product lineup by strengthening Rolex purchases continued, which boosted EC sales, but duty-free sales at physical stores contracted sharply in response to the overseas business environment such as COVID 19-related immigration restrictions. It appears that the lockdowns in China in particular had a severe negative impact. As well, domestic used Rolex watch prices have been somewhat weak, due in part to the slump in duty-free sales. The Company plans to maintain its strategic investment in inventories as a source of future profit, because weak duty-free sales are due to one-time factors and demand remains solid in Japan and overseas. In contrast, cross-border EC is recording steady growth as the Company raises its profile, showing potential as a new sales channel (see below). Although profit declined YoY because of lower net sales, the segment profit margin was a solid 5.5% (5.9% a year earlier) as a result of pricing that reflected market trends.

Summary of results

**(3) Writing Instruments business (EC ratio: 81.8%)**

Net sales grew 16.5% YoY to ¥214mn and segment profit went into the black at ¥15mn after a ¥1mn loss a year ago. The Company increased its sales through the planning and sale of original products in collaboration with manufacturers, enhancing its own product lineup by offering a large selection of rare model fountain pens and other products, and expanding sales of used products by strengthening the purchase of used products. Profit improved substantially on setting appropriate sales prices and reducing expenses.

**(4) Bicycles business (EC ratio: 66.2%)**

Net sales and profit increased YoY. Net sales rose 11.2% to ¥458mn and segment profit grew 20.4% to ¥30mn. Although the one-time demand boost related to the pandemic ran its course, net sales rose in response to sending out information regularly via the Company's smartphone app and the effect of various sales initiatives on its EC website. A boost in demand for duty-free Japanese parts (which are popular worldwide) also contributed to sales growth. Profitability continued to improve steadily as a result of prioritizing efficiency in operations.

**3. Global expansion**

In cross-border EC, Map Camera (Cameras business) opened a store on eBay, the world's largest online marketplace, in August 2017. GMT (Watches business) also opened a store in May 2019 on Chrono24, a leading global luxury watches marketplace, as well as one on eBay in July 2020 to establish a structure for business expansion. As well, the Company has established its brand overseas by running a business that prioritizes the quality of services. The Watches business in particular has raised its profile overseas as a result of expanding its product range as well as the rising popularity of Rolex worldwide. Although duty-free sales have been struggling recently because of circumstances overseas, cross-border EC sales recorded robust 2.1x YoY growth to ¥1.34bn in 1H FY3/23. As well, the Company introduced Buyee Connect (a purchase support service for overseas customers)\* on November 7, 2022. This allows the Company's approximately 3.3mn web members in 118 countries to purchase all items listed on its website, including road bikes and writing instruments.

| \* A purchase support service for overseas customers provided by tenso, inc., a consolidated subsidiary of BEENOS <3328>. |

**4. Trends in quarterly results and KPI**

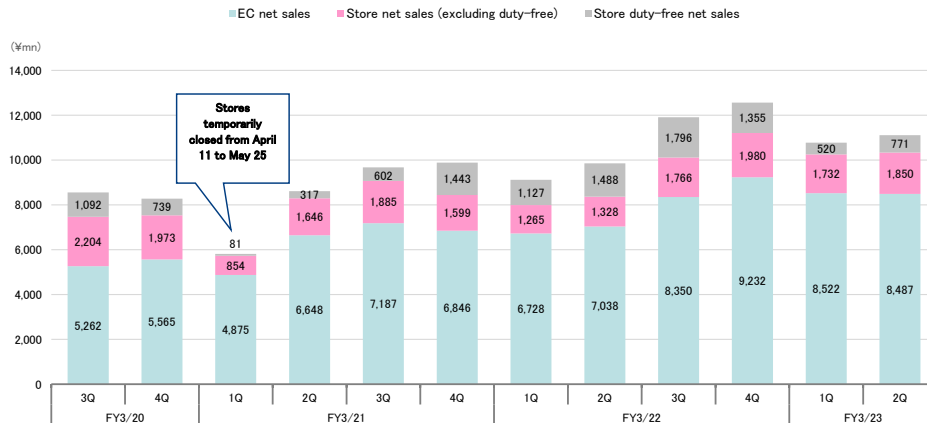
**(1) Trends in quarterly results**

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 the pandemic but from 2Q onward, sales benefited from the tailwind of nesting demand and the effect of various measures. Consequently, EC sales were brisk and even exceeded prepandemic levels. In FY3/22, although COVID-19 continued to have an impact, EC sales expanded steadily, while tax-free sales in the Watches business also made a significant contribution due to strategic enhancement of the product lineup. As a result, results in the 4Q set a new record high on a quarterly basis. On entering FY3/23, duty-free sales declined due to the impact of lockdowns in China and other factors, but EC sales have remained brisk, marking record highs for 2Q and 1H.

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Summary of results

**Trend in quarterly net sales**

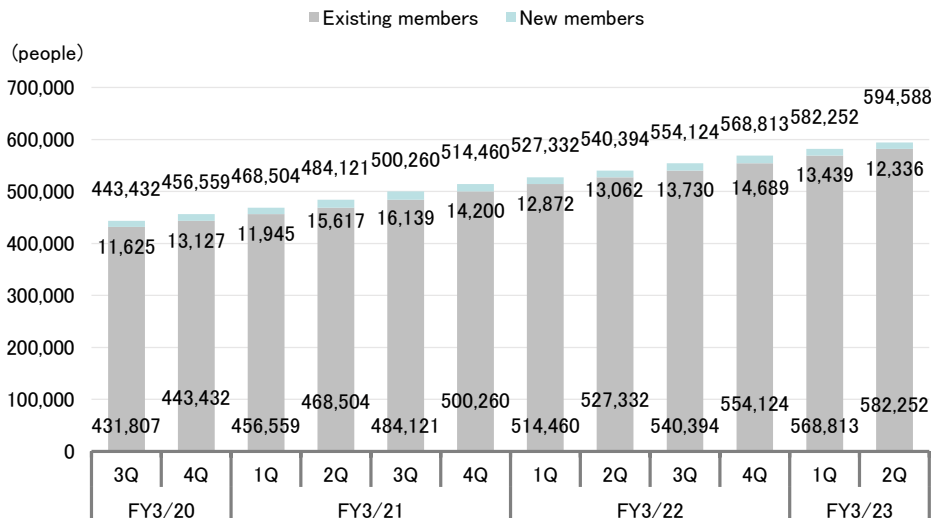


Source: Prepared by FISCO from the Company's results briefing materials

**(2) Number of web members**

The number of Web members had continued to steadily increase to 594,588 people (up 25,775 people from the end of the previous fiscal year) at the end of September 2022 and exceeded 600,000 as of the end of November 2022. 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 41.1%, 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 22.9%, 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

Summary of results

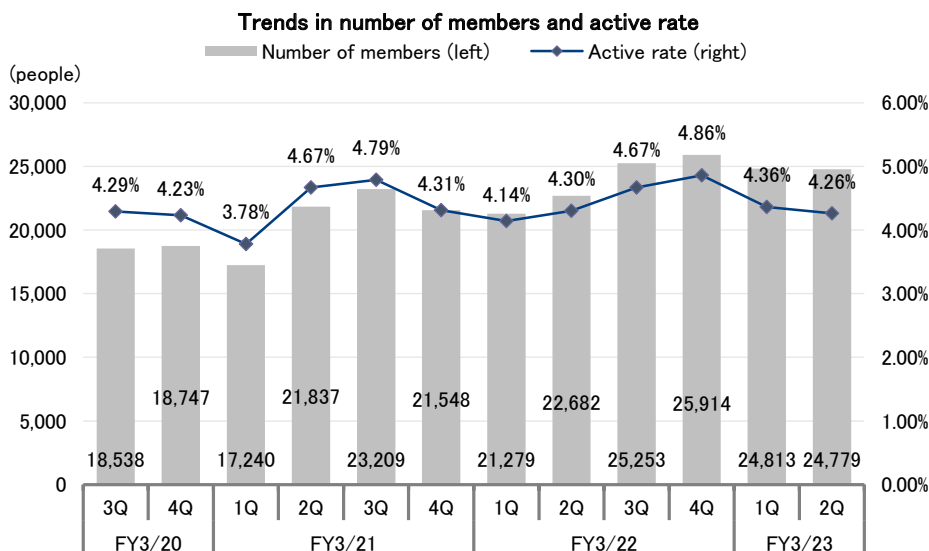
**(3) Purchasing numbers and the active rate**

Both the number of purchasing members and the active rate continue to trend strongly, along with a net increase in the number of new members. The number of registrations for wish lists\*1 and email notifications of 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, the Company began providing product arrival notifications using LINE in addition to email and app notifications in May 2022, which resulted in a big increase in the number of communications\*2. Further, combining one-to-one marketing, AIMD, and AI-based content recommendations has also increased the number of requests sent out when registered products drop in price\*3, which is contributing to the expansion of transaction opportunities.

\*1 The number of products registered on wish lists grew to a monthly average of 60,000 items for a total of 1,829,120 items (up 127,092 from the end of the previous fiscal year).

\*2 The number of registrations for email notifications of product arrivals increased to 113,159 (up 11,471 from the end of the previous fiscal year), and the monthly average number of emails sent out amounted to 400,000, contributing to maintaining and improving the active rate.

\*3 The Company sends a monthly average of 4mn smartphone notifications. Assuming each store has a monthly average of 30,000 visitors, this corresponds to the information delivery capability and customer contact points of over 130 stores.

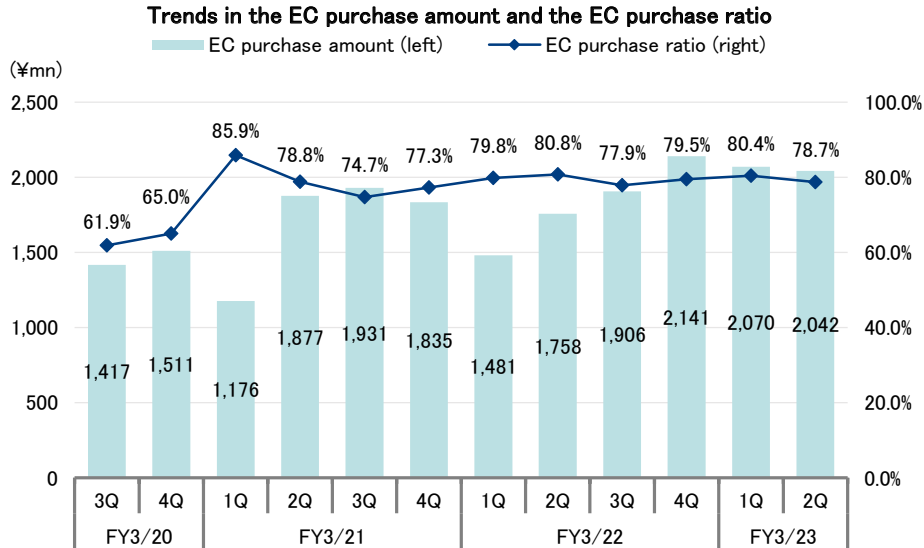


Source: Prepared by FISCO from the Company's results briefing materials

**(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 (June 2020), AIMD (March 2021), and AI-based content recommendations (March 2022) are proving successful, and the EC purchase ratio continues to trend 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.

Summary of results



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

5. Summary of the 1H FY3/23

In summary, the Company's performance in 1H FY3/23 was generally strong despite the sharp decline in retail store sales of the Watches business due to weak duty-free sales. EC sales in particular grew faster than expected (by 23.6% YoY), mainly in the Cameras business as a result of various EC initiatives taking effect, which can be said to be significant evidence of the strength of the Company's business model and strategic evolution. While it is important to assess both positive and negative factors, the decline in duty-free sales (a negative) does not stem from structural supply and demand deterioration, but mainly from a one-time factor. We do not consider this to be a major risk factor, because the Company can compensate for any lasting negative impact by cultivating persistent domestic demand and expanding sales channels in cross-border EC. Meanwhile, FISCO sees a significantly positive contribution to sales growth and profit margin improvement by EC purchasing and one-to-one marketing, which have become far more precise with AI utilization. FISCO is also positive on the Company's global strategy (cross-border EC) gaining traction with yen depreciation as a tailwind, as well as a bigger profile overseas and pioneering new sales channels.

## ■ Main activities and achievements

### Some gains in expanding overseas sales channels by opening of revamped BRILLER (ladies' brand salon) and introduction of Buyee Connect

#### 1. Renewal and opening of BRILLER

On November 1, 2022, the Company opened BRILLER redefined as a ladies' brand salon, expanding the luxury brand bags floor and starting sales of luxury brand jewelry as well. In this way, the Company plans to continue with a hybrid approach that combines EC with physical retail stores. Although a latecomer to the market, the Company aims to attract demand for high-end products by mainly selling luxury brand jewelry made by the world's top five jewelers (HARRY WINSTON, Cartier, Van Cleef & Arpels, TIFFANT & Co., and BVLGARI) by leveraging the high affinity with its Watches business and its brand power, especially the high reputation of its used items.

#### 2. Expanding overseas sales channels by introduction of Buyee

On November 7, 2022, the Company began using Buyee Connect to expand its overseas sales channels. Buyee Connect makes it far more convenient for overseas customers to use the Company's services, because it provides all the functions that they need on its online shopping sites, such as opening a dedicated cart for new overseas users, multilingual customer service, overseas delivery, and payment. So far, the Company has mainly pioneered markets in North America by opening stores on eBay and Chrono24. Now the Company's roughly 3.3mn members in 118 countries can purchase all products listed on its EC site including road bikes and writing instruments.

#### 3. Established restricted stock units (RSU) scheme for employees

On May 18, 2022, the Company resolved to establish a restricted stock units (RSU) scheme for employees that awards common shares to eligible personnel on the condition that they remain employed by the Company for a certain period of time. The scheme is part of the Company's efforts to improve employee engagement, with the aim of contributing to earnings expansion in the longer term, sustained enhancement of enterprise value, and improving employees' motivation to stay with the Company, as well as further sharing value with shareholders.

## ■ Business forecasts

### Initial full-year forecast for the FY3/23 unchanged; looks for net sales and profit growth for full year

#### 1. FY3/23 forecasts

The Company maintained its initial forecasts for the consolidated results of FY3/23, which 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.



Business forecasts

The Company assumes the strongly performing Cameras business will continue to drive net sales growth over the full year. Its outlook is for overall net sales to recover more or less to prepandemic levels (FY3/20), with the Cameras business absorbing the drop in duty-free sales in the Watches business.

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 introducing 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**

	FY3/22		FY3/23		Change	
	Result	%	Forecasts	%	Amount	%
	(¥mn)					
Net sales	43,453		48,260		4,807	11.1%
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%

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

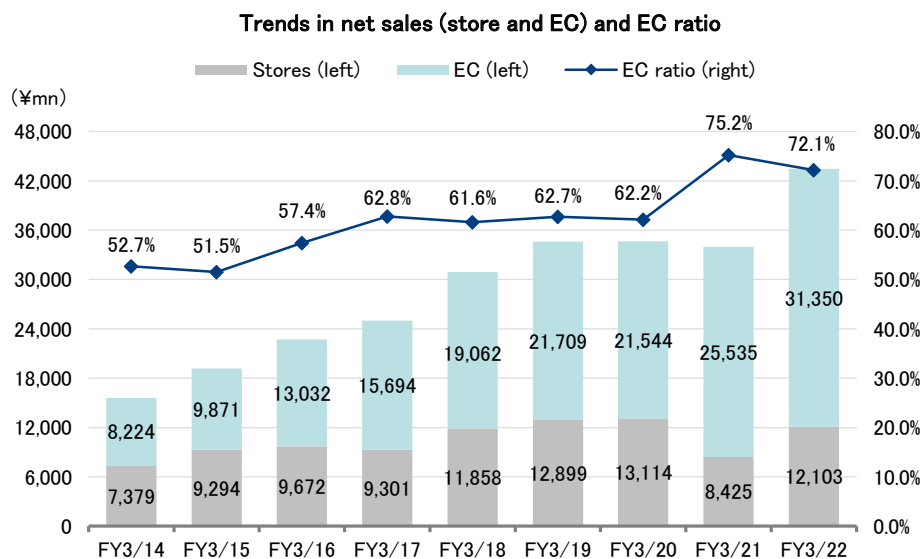
## 2. FISCO's outlook

FISCO also believes that the Company is fully capable of attaining its forecasts despite concerns of the slump in duty-free sales continuing for a while, given progress of its earnings performance in 1H and growth of the Cameras business, which remains upbeat. Downside risk appears limited, considering the success of various EC initiatives, which has strengthened its communication capability and customer contact points, leading to an expanded membership base and improved active rate. Seasonal factors (performance during the holiday shopping season, which is a peak earnings period) will likely have a significant impact. Noteworthy are the moves to expand business from FY3/24 onward. Particular attention on global expansion will be given to the impact of introducing Buyee (and yen depreciation) on the growth of cross-border EC, which will be indicative of future growth potential. FISCO will also explore the potential of BRILLER, (revamped and redefined as a ladies' brand salon) as a business that has scope for cultivating new markets.

## Results trends up to the present time

### Realized upward growth through the increase in the number of Web members resulting from unique EC initiatives, including those harnessing AI

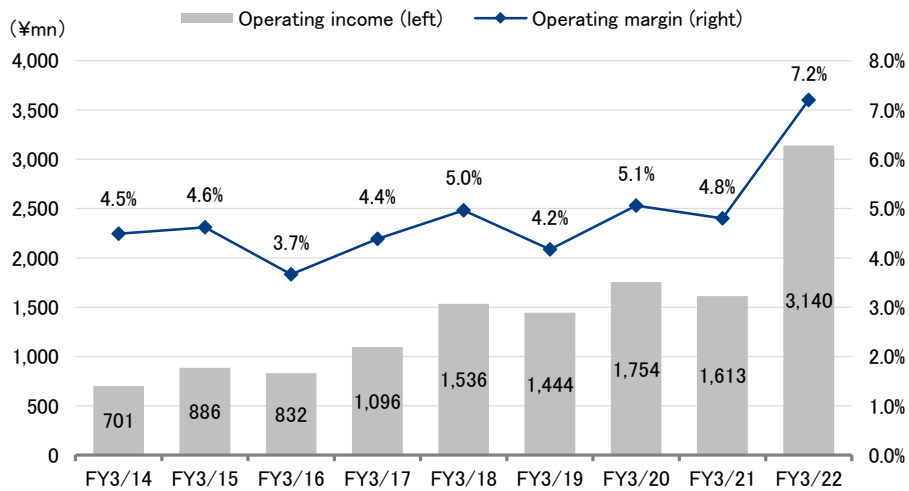
Looking back at the Company’s results through the previous fiscal year, net sales have achieved steady growth along with an increase in web members and growth in EC sales. Although sales growth was sluggish for two consecutive fiscal years from FY3/20 onward due to the Company’s focus on improving gross 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.



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

Results trends up to the present time

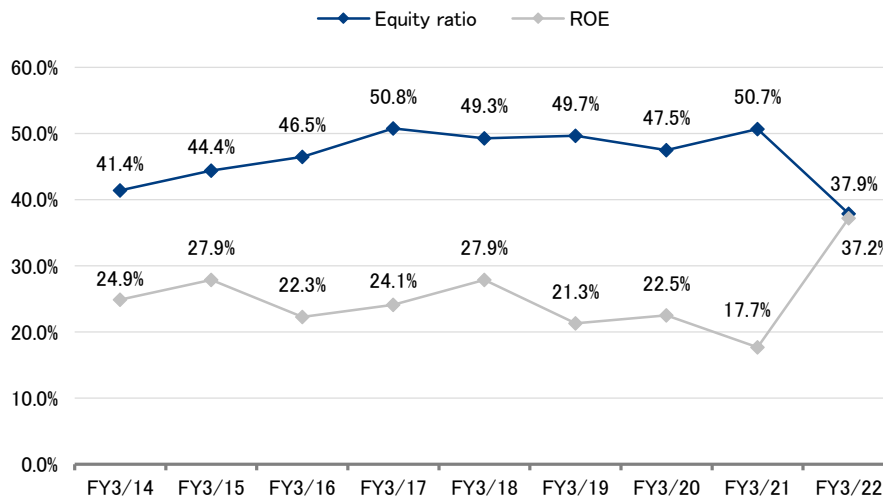
**Trends in operating income and the operating margin**



Source: Prepared by FISCO from the Company's 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

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## ■ 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. Business environment

##### (1) Cameras market

The camera market contracted for some years amid the spread of smartphones, but has picked up since FY2020, when the transition to full-size mirrorless cameras began in earnest and companies all began releasing new products, which has been a boon for specialty camera stores. The number of people taking up photography seriously as a hobby and engaging in video-related work is on an upward trend, which has led to a shift in camera buying activity from volume retail stores to specialty camera stores in the quest for more “professional” equipment. The used camera market is also expected to remain brisk for some time, because products that are replaced by the latest model go on sale as used items. The Company estimates that its market share is around 8–10% in the new camera market and around 20–23% in the used camera market. It is one of the top companies in the used camera market.

##### (2) Watches market

The imported watch market in Japan is estimated to be worth ¥585.7bn\*, of which the Company has only around 2–3% share. It succeeded in increasing its Rolex listings to one of the largest in Japan at the end of 2021 by investing strategically in inventory after announcing in September 2021 that it aimed to become the top Rolex store in Japan. Expanding its product lineup centered on Rolex has also raised its profile in Japan and overseas. Rolex remains one of the world’s favorite brands despite recent weakness in duty-free sales, which had been a driver of earnings growth, due in part to the impact of lockdowns in China.

| \* Source: Excerpt from Japan Clock & Watch Association January–December 2021 data. |

#### 2. 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 (unveiled in 2021) was revised upward overall due to the fact that the FY3/22’s performance was significantly higher than planned. Six months have passed since the upward revision, but there has been no major change in strategic direction.

Medium- to long-term strategy

**Overview of the new medium-term management plan**

	FY3/22		FY3/23		FY3/24		FY3/25		Average growth rate
	Result	%	Forecast	%	Forecast	%	Forecast	%	
<b>Net sales</b>	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%
Writing instruments	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%
<b>Gross profit</b>	8,035	18.5%	9,149	19.0%	10,375	19.2%	11,606	19.2%	13.0%
<b>SG&amp;A expenses</b>	4,894	11.3%	5,643	11.7%	5,876	10.9%	6,515	10.8%	10.0%
<b>Operating income</b>	3,140	7.2%	3,507	7.3%	4,500	8.3%	5,091	8.4%	17.5%
<b>Ordinary income</b>	3,187	7.3%	3,477	7.2%	4,476	8.3%	5,067	8.4%	16.7%
<b>Net income</b>	2,207	5.1%	2,399	5.0%	3,088	5.7%	3,496	5.8%	16.6%
<b>Number of employees*</b>	253		291		296		319		8.0%
<b>Net sales per employee</b>	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

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 to 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 net sales per employee. As a result, the Company 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 FY3/25, the final year of the plan.

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

### 3. 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 net sales per employee.

Medium- to long-term strategy

4. 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 July 2022, the Company concluded an official partner agreement with Shougaisha Jiritsu Suishin Kikou Association\* to take part in Paralymp Art, a program that supports disabled artists. It is also making efforts to disclose information based on the recommendations of the Task Force on Climate-related Disclosures (TCFD).

\* The Association offers the use of art works such as paintings and designs to help disabled artists become financially independent.

**SDGs initiatives**

**A new creative business handling valuable products**

- Creation of original novelty goods that are environmentally friendly
- Use of environmentally friendly product packaging materials
- Use of environmentally friendly business cards, envelopes, and other office supplies

**New SDG Initiatives**

**New initiatives for the SDGs in 1H**

**SYUPPIN** **Paralymp Art**

**The Organization for the Promotion of Self-Reliance of the Disabled** (the Shougaisha Jiritsu Suishin Kikou Association) is engaged in activities to promote the economic independence of artists with disabilities through the use of their artwork (paintings, designs, etc.).

As an official partner, Syuppin participates in the Paralymp Art project.

Source: The Company's results briefing materials

5. 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 business alliances, 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. The recent introduction of Buyee Connect is a highly logical strategy, because it will help to expand overseas sales channels through its own website, and suggests that the Company intends to prioritize cultivating the market and raising its profile. In creation of new income sources as well (such as the development of paid services that leverage its information capability and membership base and expanding into the media business), 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, including the use of outside resources.

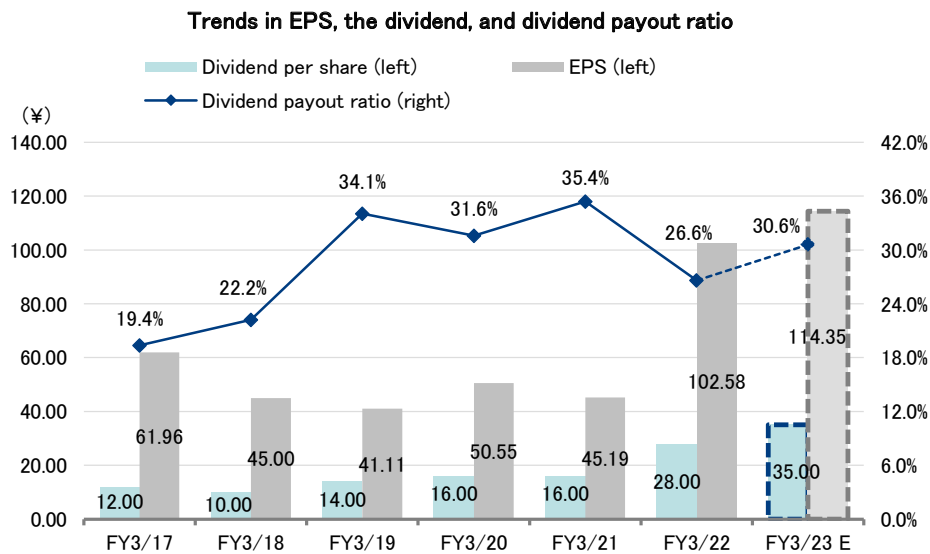
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## Shareholder returns

### Plans to pay an ¥35 dividend in FY3/23 (up ¥7 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%.

Plans to pay a ¥35 dividend in FY3/23 (up ¥7 YoY) for a projected payout ratio of 30.6%.



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



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