

Nousouken Corporation

3541

TSE Mothers

22-Feb.-2018

FISCO Ltd. Analyst

Toru Fukuda



FISCO Ltd.

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

■ Index

■ Summary	01
■ Company profile and history	03
1. Company profile	03
2. History	03
■ Business description	04
1. Consignment sales system	05
2. Outright purchase-consignment sales	06
3. Wholesaling	07
■ Strengthens & Business Risks	07
1. Strengthens and Competition	07
2. Business risks	09
■ Results trends	09
1. FY8/17 results	09
2. Financial position	11
3. Major events during FY8/17	12
4. Outlook for FY8/18	13
■ Overview of medium-to-long-term business plan	13
■ Shareholder returns	16

Summary

Venture company engaged in building up network of direct sales outlets for farm-fresh produce both domestically and overseas; aiming for ¥360mn in operating profit in FY8/20

Founded in Wakayama City in October 2007. Guided by its vision of sustainable agribusiness that will enrich the lives of consumers, Nousouken Corporation <3541> (hereafter, also “the Company”) is working to create a business structure that will help ensure agriculture does not disappear from Japan or the rest of the world and, towards this end, is striving to make agriculture an attractive business.

Nousouken began reporting on a consolidated basis in FY8/17. The Company released consolidated results for the full fiscal year on October 12, 2017, reporting sales of ¥1,659mn, operating profit of ¥131mn, and net profit attributable to owners of parent of ¥84mn. Focusing on direct sales of farm-fresh produce, the Nousouken Group continued working hard to expand its relationships with supermarkets and other retail outlets, and by the end of FY8/17 had grown its retail store distribution network to 996 stores, including 992 in Japan and 4 in Hong Kong.

For FY8/18, the Company is forecasting full-year sales of ¥2,270mn (+36.8% YoY) but, because of heavy investment spending to support future business expansion, expects to report an operating loss of ¥100mn and net loss attributable to owners of parent of ¥70mn. This year the Company is looking to lay the groundwork for medium-to-long-term growth in the value of goods distributed through its distribution network that connects producers (i.e. farmers) with supermarkets and other retailers. It will be focusing especially on reconfiguring its distribution network, but will also be investing heavily in new personnel to support its national network of producers and retail outlets, and making substantial investments new IT systems that will help increase productivity.

Nousouken put together a medium-to-long-term business plan at the beginning of FY8/17. As this is a rolling plan, the performance targets have changed with the start of a new fiscal year. Looking back at its performance under the plan put together at the beginning of FY8/17, the Company noted that there was plenty of demand on the demand side (as usual), but the supply side and the business structure of the Company could not handle all of the demand and that is why sales and earnings did not grow as much as expected. With this problem having now come to the fore, the Company has put together a new capital spending plan aimed at alleviating the problem and revised its medium-to-long-term business plan accordingly.

The timing of the Company’s move to revise its medium-to-long-term business plans reflects its recognition that large investments are needed to resolve its current problems with operations. Because the main emphasis under the current medium-to-long-term plan is expanding the value of goods distributed, this year the Company is making investments aimed at resolving operational problems in three key areas. First, on the distribution front, the Company will put money into reconfiguring its distribution network and expand the capacity of its distribution centers. Second, on the IT front, the Company will direct investments towards enhancements of its IT platform and an upgrade its core system. And third, on the personnel front, the Company will allocate more money so it can expand hiring and reconfigure its personnel system and organizational structure.

Nousouken Corporation | 22-Feb.-2018
 3541 TSE Mothers | <http://www.nousouken.co.jp/ir/news.html>

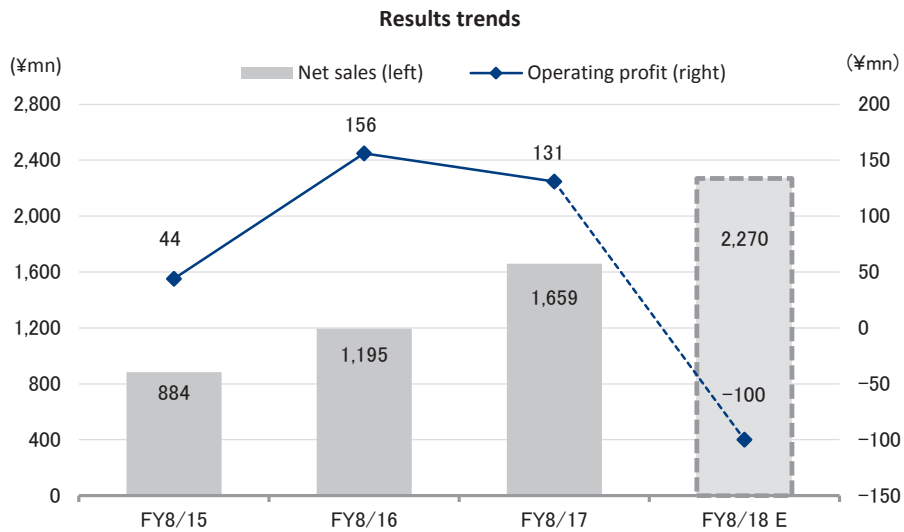
Summary

With regard to returns to shareholders, because the Company is still in the growth stage, management believes the greatest returns to shareholders will come not from paying dividends but from building up internal reserves and putting these funds towards investments that will increase operational efficiency and growth the business. For that reason, the Company has chosen not to pay a dividend and will instead retain all earnings and build up internal reserves to help finance investments that will strengthen its business structure and grow the business. The Company has said that it does intend to pay a dividend out of retained earnings at some point in the future, but that it has not yet made a decision as to when.

Key Points

- Begin reporting on consolidated basis in FY8/17, but has reported four straight years of higher sales and earnings at the parent
- Value of goods distributed* at new record high on quarterly basis
- Now distributing to 992 domestic stores for a six-fold increase over the last four years
- During the three-year period starting in FY8/17, will once again be entering investment phase in order to further expand the value of goods distributed

* Value of goods distributed as measured by total sales through supermarkets and other retailers based on the final sales price to the final consumer



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

Company profile and history

Main business: Direct Sales of farm-fresh produce

1. Company profile

The main companies in the Nousouken Group are Nousouken Corporation, which manages the Direct Sales business in Japan, and Global Ichiba Corporation, which manages the Group's Direct Sales business overseas. The Company's mainstay Direct Sales business involves picking up shipments of fresh produce from registered producers (farmers) at designated transshipment terminals that are run by Nousouken or one of its subcontractors, then delivering the goods to be sold through in-store displays for direct sales of farm-fresh produce at supermarkets and other venues. (As a general rule, deliveries are made the following day). In other words, Nousouken has created a distribution network that connects registered producers with supermarkets and other retailers, and allows consumers to purchase farm-fresh produce at supermarkets and other local retailers that they would not otherwise have been able to purchase without traveling outside the city to where they could find a stand operated by the producer himself at a Michi-no-Eki roadside rest area.

Under the Nousouken's Direct Sales business, transactions are split between consignment sales through supermarkets and other retail outlets conducted under standing contracts, and simple wholesaling. Under its consignment sales system, Nousouken may also make outright purchases of fresh produce from registered producers then turn around and sell the goods on consignment for its own account. The Company calls this type of transaction an outright purchase-consignment sale.

Overview of main group companies

Name	Business	Date established
Nousouken Corporation	Supervises group operations, manages Direct Sales business in Japan	October 2007
Global Ichiba Holdings Corporation	Holding company for Global Ichiba Corporation Manages Direct Sales business operated by Global Ichiba Corporation outside Japan	June 2017
Global Ichiba Corporation	Exports Japanese agricultural products	September 2015
Nippon Ichiba Hong Kong Limited	Imports and sells Japanese agricultural products in Hong Kong	August 2016

Source: Prepared by FISCO from the securities report and Company website

2. History

Founded in Wakayama City in October 2007. Guided by its vision of sustainable agribusiness that will enrich the lives of consumers, Nousouken Corporation is working to create a business structure that will help ensure agriculture does not disappear from Japan or the rest of the world.

History

Date	Summary
October 2007	Established Nousouken Corporation
June 2011	Relocated headquarters to Kuroda district of Wakayama City, Wakayama Prefecture
July 2012	Opened Tokyo sales office in Tokyo's Shinagawa Ward
June 2016	Listed on the Mothers market of the Tokyo Stock Exchange
August 2016	Opened Osaka sales office in Osaka's Yodogawa Ward
August 2016	Make Global Ichiba Corporation a consolidated subsidiary
June 2017	Establish subsidiary Global Ichiba Holdings Corporation through share exchange

Source: Prepared by FISCO from the securities report and Company website

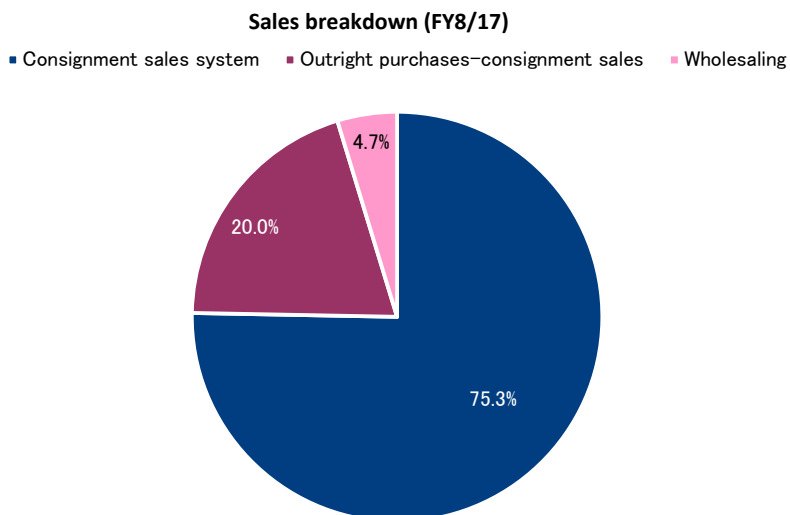
Company profile and history

Global Ichiba Holdings Corporation was established in conjunction with the receipt of funding from the Cool Japan Fund Inc. (a public-private fund created to support and promote the development of overseas demand for Japanese products and services). After being approved for up to ¥366mn in funding from the Cool Japan Fund (including up to ¥316mn in capital and a ¥50mn in loans), the existing shareholders of Global Ichiba (Nousouken and three other companies) used a share transfer to bring their ownership together under Global Ichiba Holdings Corporation, which would serve as an interim holding company. After Global Ichiba Holdings was established, Global Ichiba raised ¥85mn in new capital through a private placement of shares with the Cool Japan Fund. With Global Ichiba expected to play a more important role in the future from the perspective of providing worthwhile information to investors, Nousouken decided to include Global Ichiba in its consolidated accounts. In addition strengthening Global Ichiba's capital base, the company will make use of the Cool Japan Fund's network and coordinate efforts with government ministries, local public entities, and producers to help increase the number of Japanese farmers exporting fruits and vegetables to Hong Kong.

Business description

Specializing in direct sales of farm-fresh produce in three different areas: consignment sales system, outright purchases-consignment sales, and wholesaling

Nousouken's Direct Sales operations are all reported under a single segment, but the segment includes sales made through the Company's consignment sales system, outright purchases-consignment sales, and wholesaling. In FY8/17, consignment sales system accounted for 75.3% of sales, outright purchases-consignment sales 20.0%, and wholesaling 4.7%.



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business description

1. Consignment sales system

Under its consignment sales system, Nousouken accepts shipments of agricultural goods from registered producers and provide them with a distribution channel through which they can make consignment sales to supermarkets and other retailers (where their crop is sold through special in-store displays for direct sales of farm-fresh produce). Because this is a consignment sale, neither Nousouken or the retailer actually buys the goods and all of the inventory risk remains with the registered producer. In return for accepting inventory risk, the registered producer retains the right to determine what goods are sold, where the goods are sold and the price at which the goods are sold. Under this system, the registered producer is free to sell whatever types of produce he likes, in whatever quantities he likes, at whatever prices he likes, through what retail outlets he likes. This is possible because the retailers provide their in-store barcode scanning data for the sales of that producer's goods at their stores and Nousouken has the information system at its transshipment terminals so registered producers can label the barcode from different retail outlets. Each registered producer has a special barcode of his own that will be affixed to the products that he wants to ship to designated retailers from Nousouken's transshipment terminal. In those cases where registered producers cannot ship goods because they are too far away from a transshipment terminal, Nousouken has established a workaround by lending these producers tablet computers and barcode labeling equipment so they can create barcode labels on their own premises and ship to retailers directly.

When a consumer purchases something at their local supermarket or other retailer that was supplied by one of Nousouken's registered producers, the registered producer would receive the sales price less the sales commissions paid to both the retailer and Nousouken. Registered producers receive the daily sales data that Nousouken receives from retailers by mail. Because the sales are made on consignment and the producer retains all of the inventory risk, Nousouken's registered producers generally earn more than they would by going through the regular markets for agricultural products. For their part, retailers do not take any inventory risk on these sales because they do not actually buy the goods outright, but they do earn sales commissions in return for selling the goods through special in-store displays for direct sales of farm-fresh produce. Because Nousouken serves as an intermediary for registered producers, retailers do not need to make payment to each and every producer and is therefore able to reduce the laborious task of making individual payments.

Part of commission income Nousouken collects from registered producers under its consignment sales system goes towards covering the cost of transporting the consigned goods from its transshipment terminal to the retailer. Another part of Nousouken's commission is compensation for the barcode labeling. And a sales commission is paid in line with sales at the retail store. In those cases where the registered producers use tablet computers and ship directly from their farms, Nousouken does not receive a commission to cover the cost of shipping but does charge rental fees for the tablet computer and barcode labeling equipment. Nousouken also charges a registration fee when producer register at one of its transshipment terminals, and thereafter collects members' dues once a year.

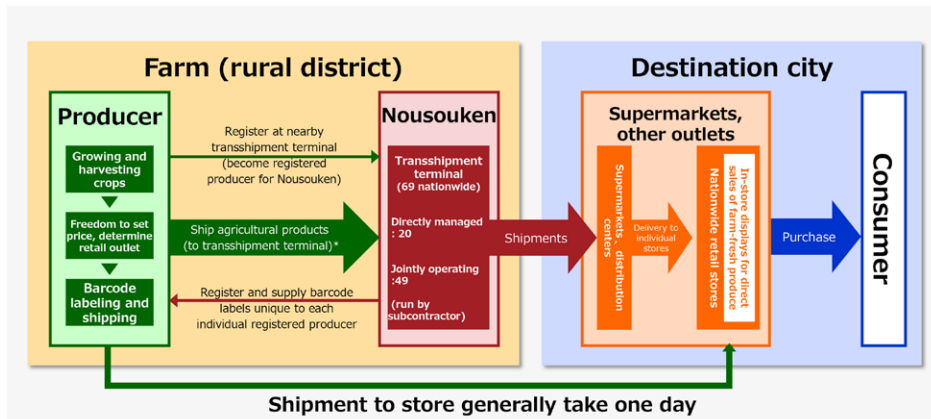
In those cases where Nousouken subcontracts the operations of one of its transshipment terminals to another company, the subcontractor is responsible for transporting the goods from registered producers' farms to the designated retailers. In return, Nousouken pays part of the commission it earns from consignment sales originating from that terminal to the subcontractor.

Because most of the Nousouken's revenues are commissions earned on sales under its consignment sales system and these commissions are booked as sales, the profit margin for this part of the business is much higher than it is for either outright purchases-commission sales or wholesaling.

Business description

To help realize the Group's vision for sustainable agribusiness, the Company believes it is essential for its producers to be conscientious managers, and also promotes this consignment sales system in which the producers are able to take the lead in actively growing their own business and increasing sales.

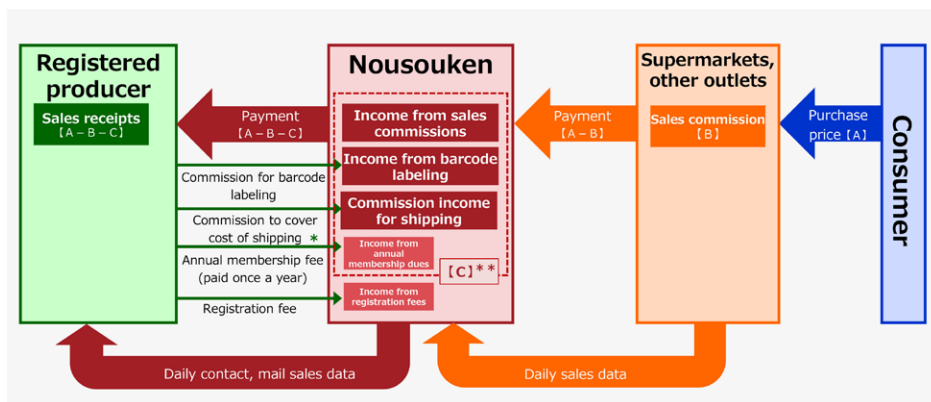
Distribution of agricultural products



* : In cases where registered producers cannot ship goods because they are too far away from a transshipment terminal, Nousouken lends them tablet computer and barcode labeling equipment so they can create barcode labels on their own premises and ship to retailers directly.

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

Commissions & data flow



* : In cases where registered producers cannot ship goods because they are too far away from a transshipment terminal, commissions are not collected but Nousouken does charge fees debited from bank accounts for rental of tablet computers and barcode labeling equipment.
** : For jointly operated transshipment terminals, part of the sales commission goes to the subcontractor that operates the terminal

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

2. Outright purchase-consignment sales

Nousouken will make outright purchases of set quantities of produce from registered producers then resell the items on a consignment basis to the retailer in cases where the available supply of fruits and vegetables is not steady because of intemperate weather conditions or when retailers simply want to buy a set amount for their store event. Because Nousouken takes the inventory risk in such cases, it determines the price it will pay the registered producer, setting the price at roughly the same level or perhaps a bit higher than the price the producer could expect if he shipped his crop to the market. The retailer and the consumer get the same benefit as if the sale were made under the Company's regular consignment sales system.

Nousouken Corporation

3541 TSE Mothers

22-Feb.-2018

<http://www.nousouken.co.jp/ir/news.html>

Business description

For outright purchase-consignment sales, Nousouken books to sales the amount received by the retailer from the sale of the goods less the retailer's sales commission. However, the profit margin on this is much lower than the revenues received under its regular consignment sales system because from these sales it must also subtract the cost of goods sold, i.e., the amount originally paid to the registered producer for his crop.

3. Wholesaling

Under its wholesaling operations, Nousouken makes outright purchases of fresh produce from registered producers then resells the goods to a supermarket or other outlet in the regular pattern of the standard wholesaler. And, just as it does when it makes an outright purchase-consignment sale, Nousouken records its purchasing cost as the cost of goods sold and the amount received from selling the goods as sales. The difference is the retailer takes all the inventory risk, so the price at which Nousouken can sell the goods under a standard wholesale transaction is roughly the same or even a bit less than the market price. This means the Company's profit margin under wholesaling is less than it is under either consignment sales or outright purchases-consignment sales.

That said, because consignment sales, outright purchases-consignment sales, and wholesaling are all reported under a single segment (Direct Sales), the Company does not disclose detailed sales and earnings for these individual areas.

Nousouken has a total of three consolidated subsidiaries, Global Ichiba Holdings, Global Ichiba, and Nippon Ichiba Hong Kong Limited. From last fiscal year (FY8/17), Global Ichiba and Nippon Ichiba Hong Kong Limited were included in consolidated results both having become more important and Global Ichiba Holdings was included due to its establishment. Nippon Ichiba Hong Kong Limited is in charge of direct sales of Japanese agricultural products in Hong Kong.

Strengthens & Business Risks

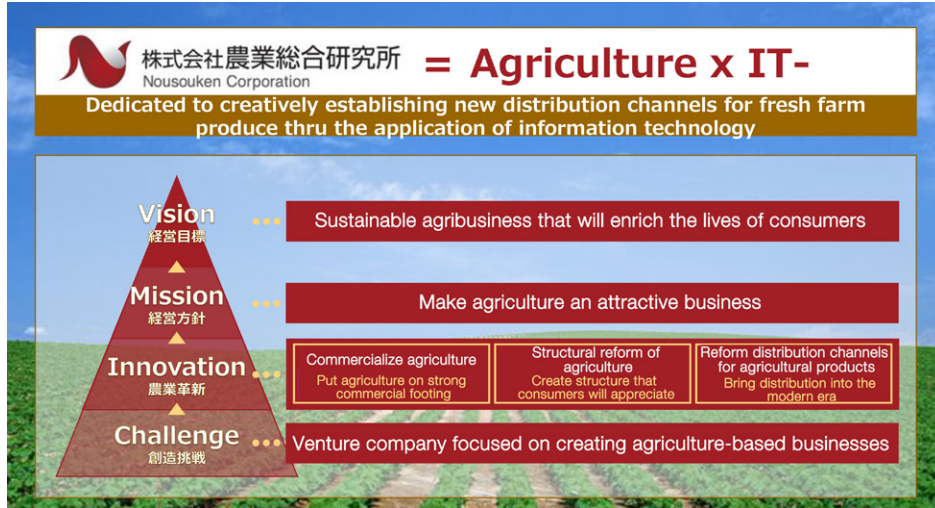
Steady-growth business model plus ability to expand operations with M&A bode well for future growth potential

1. Strengthens and Competition

The Company's strengths include its astute use of modern information technology, its creativity in establishing a new distribution channel for agricultural goods, and its ability to connect farmers with urban retailers to sell fresh-farm produce in a manner that allows consumer to get a feel of the care with which the individual farmer has raised his crop.

Strengthens & Business Risks

Company Philosophy



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

Compared with other companies currently distributing agricultural products and (large-scale) market distribution, the direct sales network that Nousouken has created for farm-fresh produce cannot compete in terms of sales volume. Nevertheless, it is a reliable medium-sized supply channel that supermarkets and others can count on year-round thanks to the wide geographic distribution of Nousouken's registered producers (stretching from all the way Southern to Northern Japan) and the short time the goods spend in transit. While farmers could bring their crops to sell at nearby Michi-no-Eki roadside rest areas immediately after harvesting and the produce there would be the freshest a consumer could possibly buy because it had been picked that very day, the amount of produce a farmer could sell this manner is limited both in terms of volume and geographic reach, since sales would never go beyond the immediate area where the crops were grown.

From the perspective of producers, dealing with Nousouken as opposed to JA (Japan Agricultural Co-operative) gives the producer the right to decide what prices their goods are sold at the in-store display for direct sales of farm-fresh produce, the right to decide what kind of crops, the volume, and what stores to ship to, and the right to make their own production decisions. While registered producers will have to accept the inventory risk when they sell through Nousouken's consignment sales system, Nousouken offers producers the chance to earn more from their crop sales based on their own personal initiative and ability.

From the perspective of retailers, dealing with Nousouken (on a consignment sales basis) as opposed to JA has the advantage of eliminating introduction costs and inventory risk. With shorter introduction times also possible when going through Nousouken, retailers will also be in a better position that can generate more customers without having inventory risk. Finally, from the perspective of consumers, buying produce that has been delivered through Nousouken's distribution network as opposed to JA's assures a high degree of freshness that is hard to come by in urban markets with all the convenience of their local neighborhood supermarket and the assurance that they know where the produce comes from and how it was grown.

2. Business risks

Among the business risks faced by Nousouken, we must first note that further growth in the business depends on the Company's ability to increase the number of registered producers and the number of retail stores it does business with. At this time the Company also has a substantial customer concentration risk, as three big retail chain operators—HANKYU OASIS Co. LTD, SUMMIT, INC., and AEON RETAIL CO., LTD—account for roughly 40% of its total transaction volume.

Outside of these business risks, Nousouken is also subject to the risk that are unique to agricultural goods, including food safety concerns and the ups and downs of prices in the produce market stemming from inclement weather.

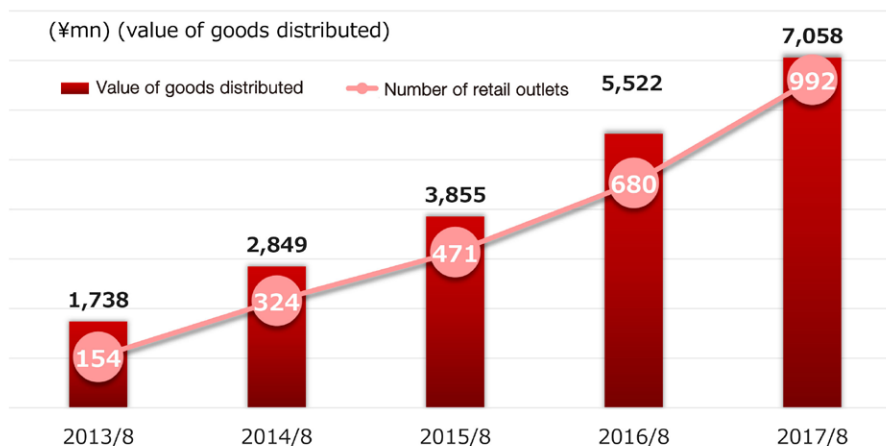
Results trends

Four consecutive years of rising sales and earnings at parent company

1. FY8/17 results

Nousouken began reporting on a consolidated basis in FY8/17 4Q, posting consolidated sales of ¥1,659mn and operating profit of ¥131mn. The results included not only the Direct Sales business in Japan, but also the business it had launched overseas. The Company keeps a close eye on three key performance indicators: the value of goods distributed, the number of retail stores served, and the number of registered producers. (The value of goods distributed being measured as total sales through supermarkets and other retailers based on the value of sales to the final consumer.) At the end of FY8/17, Nousouken was delivering to a total of 996 retail outlets and had 6,830 registered producers. The total value of goods distributed during the year was ¥7,089mn.

Value of goods distributed and number of retail outlets (parent company basis)



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

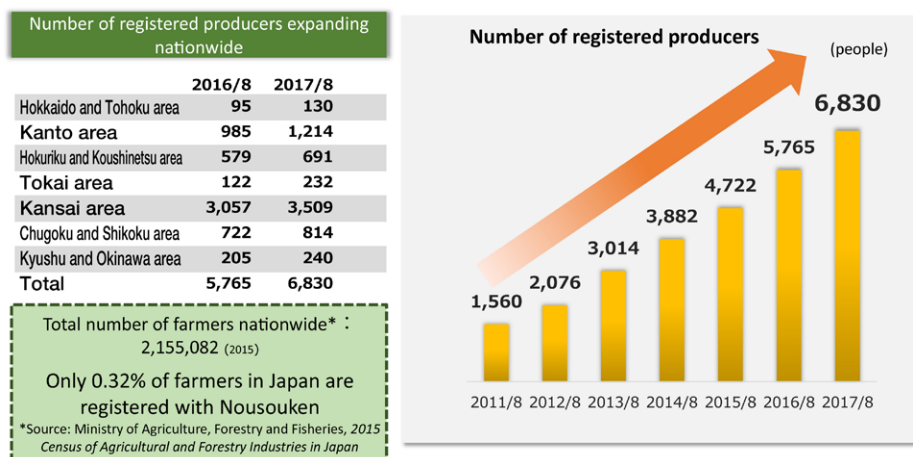
Results trends

At the parent company level, Nousouken reported a 34.2% YoY increase in sales and a 2.7% increase in operating profit to mark its fourth consecutive year of positive growth in sales and earnings. The three key performance indicators also show strong growth with the value of goods distributed rising 27.8% YoY to ¥7,058mn, the number of retail outlets increasing by 312 stores to 992, and the number of registered producers increasing by 1,065 to 6,830. Over the last four years the value of goods distributed by Nousouken has quadrupled, and the Company plans call for still more growth going forward as it moves into another investment phase during the three-year period from FY8/17 through FY8/19. And, because the value of goods distributed by the Company tends to increase when the Company adds staff, it plans to continue adding staff during FY8/18.

The number of retail outlets Nousouken delivers to has risen to 992 stores as of the end of FY8/17 for a six-fold increase over the last four years. The increase in the number of retail outlets was especially large in FY8/17, thanks in part by the higher profile of the Company following its stock exchange listing. With demand from consumers for direct-from-the-farm vegetables still running strong, the Company expects to continue adding stores to its distribution network in the years ahead.

Nousouken had a total of 6,830 registered producers as of the end of FY8/17, with registrations rising especially fast during the second half of the year as it made a concerted push to register new producers starting in 3Q. The Company now draws produce from farmland located in 27 different prefectures. The number of transshipment terminals in operation at the end of FY8/17 was 69, of which 49 were jointly operated by subcontractors

Number of registered producers at fiscal year-end



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

From the overview of parent company results it is evident that sales this past year were driven by the increase in outright purchase-consignment sales, which is attributable to the addition of new retail outlets and registered producers to the Company's distribution network. The gross profit margin declined, however, precisely because outright purchases-consignment sales accounted for a larger proportion of sales. Still, even with the increase in spending on new personnel and other investments, Nousouken managed to report a modest increase in operating profit over the previous year.

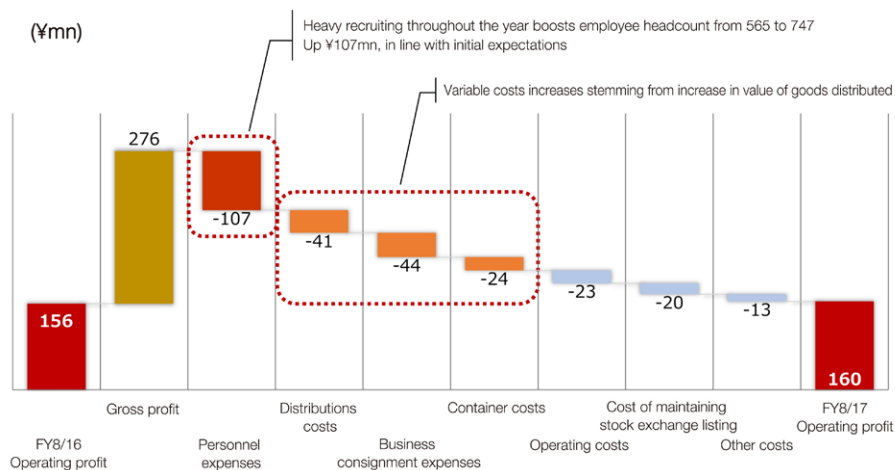
Results trends

Overview of sales and earnings

(\$mn)	FY8/17 actual		FY8/16 actual		YoY		Versus plan	
	Full year	% of sales	Full year	% of sales	Change	Change rate	Full year	Progress rate
Value of goods distributed	7,058		5,522		1,537	127.8%	7,500	94.1%
Net sales	1,603		1,195		409	134.2%	1,560	102.7%
Consignment sales	1,207		956		251	126.2%	1,297	93.1%
Outright purchases: consignment sales	320		156		164	205.3%	168	190.5%
Wholesaling	75		82		-7	91.8%	95	78.9%
Gross profit	1,285	80.2%	1,009	84.4%	276	127.4%	1,362	94.3%
Consignment sales	1,196	99.1%	954	99.8%	242	125.3%	1,294	92.4%
Outright purchases: consignment sales	70	21.9%	36	23.4%	34	192.6%	44	159.2%
Wholesaling	18	24.9%	17	21.7%	1	105.1%	23	78.5%
SG&A expen:	1,124	70.1%	852	71.3%	272	131.9%	1,192	94.3%
Operating pr	160	10.0%	156	13.1%	4	102.7%	170	94.5%

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

Breakdown of factors contributing to change in operating profit



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

2. Financial position

The Company's consolidated balance sheet at the end of FY8/17 shows an increase total assets, the increase stemming mainly from the expansion of transaction volume and the accompanying rise in cash and deposit balances (to ¥880mn) and trade accounts receivable (to ¥401mn).

Balance Sheets

	non-consolidated		(\$mn)	
	End of FY8/16	End of FY8/17	YoY	Reason for increase/decrease
Current assets	1,033	1,138	105	Rise in transaction volume
Non-current assets	66	95	28	Addition of assets related to Tokyo office
Total assets	1,100	1,234	133	
Current liabilities	536	587	51	Rise in transaction volume
Non-current liabilities	88	64	-23	Loan repayment
Total liabilities	624	651	27	
Net assets	475	582	106	Book net profit

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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

3. Major events during FY8/17

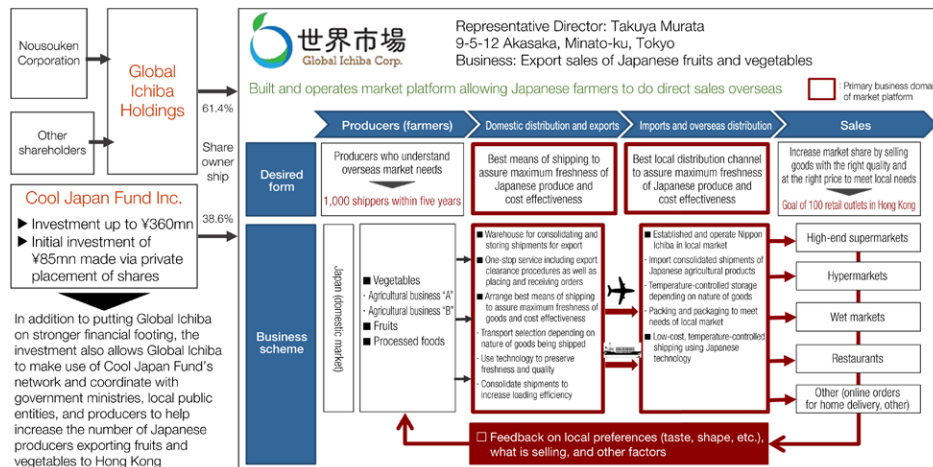
(1) Business cooperation agreement signed between Nousouken, Global Ichiba, and Japan Airlines in July 2017

Nousouken and its subsidiary Global Ichiba signed a business cooperation agreement with Japan Airlines (JAL) in July 2017. The agreement covered plans for the air-freighting of Japanese agricultural goods using JAL's domestic flight network as well as exports using JAL's international flight network. As Nousouken expands its network of transshipment terminals, it is looking link with JAL's domestic flight network (based at Haneda Airport) as well as its international flight network in an effort to facilitate the broader distribution of Japanese agricultural products within the domestic market and provide overseas consumers with access to fresh Japanese produce at affordable prices. Under this agreement, in August 2017, Nousouken began air-freighting Japanese produce from its transshipment terminal in Hokkaido all the way to Hong Kong. Once in Hong Kong, the resources of Nippon Ichiba were used to begin selling through local, joint-venture supermarket. In the future, the Company is looking to expand international distribution to Singapore and Taiwan.

(2) Global Ichiba raises new capital thru private placement of shares with Cool Japan Fund in June 2017

The Cool Japan Fund agreed to make a maximum of ¥366mn in Nousouken subsidiary Global Ichiba in support of Global Ichiba's efforts to establish a business in Hong Kong that would sell fresh fruits and vegetables exported from Japan. By giving the many local food supermarkets in Hong Kong access to fresh Japanese fruits and vegetables at affordable prices, the Company is looking to increase both the number of local customers and the volume of Japanese fruits and vegetables sold, thereby creating an overseas market for Japanese agricultural products profitable enough to be worthwhile for domestic producers. At the same time, the Company is also looking to build on this platform and expand exports into other overseas markets, thereby facilitating the further expansion of sales channels for Japanese agricultural products.

Global Ichiba: Business structure



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

Results trends

(3) Pursuing business partnerships with regional banks across Japan

Nousouken is also working to create business partnerships with regional banks all around Japan. Specific examples include management assessment services, business consulting services, business succession planning, support services for new business entrants, constructing business models, support for creating business strategies, business matching, and support services for sixth-sector industrialization for companies that are regional bank customers. Nousouken has received requests from regional banks all over Japan and has already inked partnership agreements with seven banks. With this approach, the Company aims to establish deeper connections with businesses that utilize its regional network while contributing to the revitalizing the region.

(4) Share split implemented for shareholders of record as of August 31, 2017

The company implemented a two-for-one split of its common stock with the aim of lowering its stock price to a level where there would be more trading and this would lead to an expansion of its shareholder base.

4. Outlook for FY8/18

The Company is looking for strong growth again in FY8/18 as the value of goods distributed continues to expand with help from full-year contributions from the new retail outlets and registered producers signed up last year, aggressive marketing to bring in new supermarket clients, and new business partnerships.

As will be discussed in more detail later in this report, the Company plans to do a lot of investing during FY8/18. Investment will include reconfiguring its distribution network that links producers with supermarkets and other retailers to facilitate the expected growth in the value of good distributed over the medium to longer term. For FY8/18, the Company is forecasting consolidated sales of ¥2,270mn (+36.8% YoY), an operating loss of ¥100mn, and a net loss attributable to owners of parent of ¥70mn.

■ Overview of medium-to-long-term business plan

Changes to medium-to-long-term business plan created at beginning of FY8/17

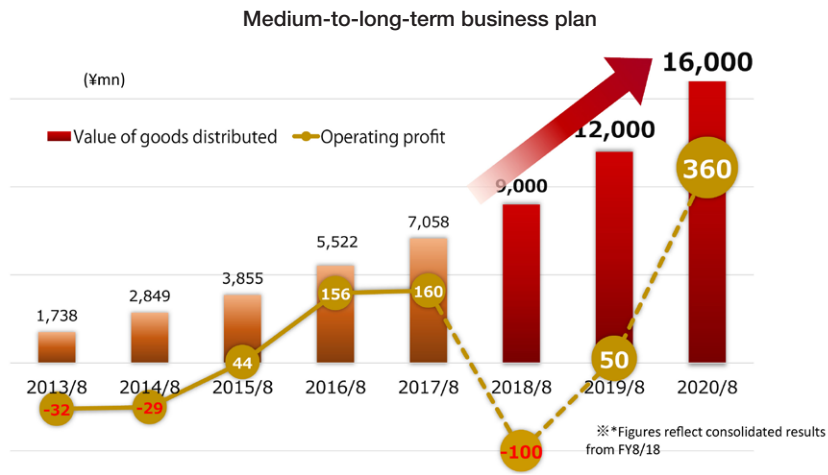
Nousouken has made some major changes to the medium-to-long-term business plan it put together at the beginning of FY8/17. The changes are being made because, although the Company met its target for sales, it finished short of its target of the value of goods distributed (one of its key performance indicators). The Company noted that there was plenty of demand on the demand side (as usual), but on the supply side and the business structure of the Company could not handle all of the demand and that is why sales and earnings did not grow as much as expected. With this problem having now come to the fore, the Company has put together a new capital spending plan aimed at alleviating the problem and revised its medium-to-long-term business plan accordingly.

Nousouken Corporation | 22-Feb.-2018
 3541 TSE Mothers | <http://www.nousouken.co.jp/ir/news.html>

Overview of medium-to-long-term business plan

The medium-to-long-term business plan the Company has put together this year addresses the need to undertake restructuring on the distribution, IT, and personnel fronts to facilitate rapid business expansion and even faster growth rate. The aggressive capital spending plans place the highest priority on expanding the value of goods distributed. Specific projects on the distribution front include reconfiguring the Company's distribution network and expanding the capacity of its distribution centers. On the IT front, new investments will be aimed at enhancing the Company's IT platform and upgrading its core system. On the personnel front, the Company will be stepping up hiring while at the same time reconfiguring its personnel system and organizational structure. The increased spending on these initiatives reflects the Company's recognition that it needs to quickly fortify its business base and do more to develop its supply side capabilities while there was still plenty of demand on the demand side. Anticipating that producers will be larger in the future, the Company wants to bring ambitious producers into its distribution network early on. By investing heavily in FY8/18, the Company is looking to increase the growth rate of its business base in the years ahead.

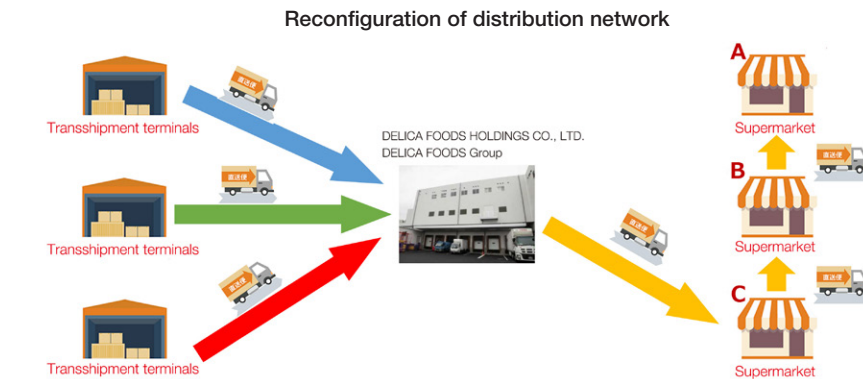
Having declared that the three-year period from FY8/17 through FY8/19 will be an major investment phase with investments focused on sustaining growth in the value of goods distributed, the Company rolled over medium-to-long-term business plan to encompass another year. FY8/18 will be the second year under the plan but, due to even heavier investment spending this year, the Company expects to report an operating loss. Because the groundwork laid by all the investments made this year is expected to yield an operating profit of ¥360mn come FY8/20, the Company thinks of the losses it expects to report this year as "healthy losses" made for the benefit of future earnings. The Company's budget for FY8/18 also includes ¥194mn in additional spending on personnel. With the additional budget for personnel, the Company expects to add 25 to 30 more employees, giving it enough staff to cover all of Japan through FY8/20.



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

Overview of medium-to-long-term business plan

During the current investment phase, the Company will be reconfiguring its distribution network. As things stand now, each transshipment terminal delivers goods to the client supermarket's distribution center, though shipments to some supermarkets cannot be made depending on the location of the transshipment terminal. Each time a new supermarket client is added, it is necessary to put together a new distribution route; unfortunately, the speed with which this has been accomplished has been lacking. To address this problem, on October 12, 2017, Nousouken entered into a business alliance with DELICA FOODS HOLDINGS CO., LTD. <3392>. Under the agreement Nousouken will reconfigure its distribution network by establishing distribution facilities on the grounds of the cold storage centers operated by DELICA FOODS HOLDINGS. Because the two companies operate in different business areas, the alliance is expected to yield synergistic benefits in the future. Plans for FY8/18 call for simplifying distribution routes by establishing Nousouken distribution centers on the grounds of the cold storage centers operated by DELICA FOODS HOLDINGS and bringing all of the shipments from Nousouken's transshipment terminals to those distribution centers so they can be consolidated before final delivery to supermarket distribution centers. This will make it easier to put together new distribution routes when new supermarket clients are added, and should lead to an increase in the total value of goods distributed as well as the value of goods distributed per employee.



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

During the current investment phase the Company will also be enhancing its IT platform and developing its own software application (dubbed "Nochoku") for exclusive use by registered producers selling through Nousouken's network of direct sales outlets. Using the Nochoku app, registered producers will be able to check sales data, sales ratio, rankings, and payment information, check the basic data from stores and check on other products that were shipping, check product price data, recommended prices, and retail prices, check online event calendars to find out date of different retail store fairs, manage labeling functions for the barcode labels that are attached to their products, and also manage crop cultivation records. In addition to the software application for producers, the Company also plans to develop and release an application for consumers and for customers on the buy side.

■ Shareholder returns

Company plans to build up internal reserves to fund future growth investments

With regard to returns to shareholders, because the Company is still in the growth stage, management believes the greatest returns to shareholders will come not from paying dividends but from building up internal reserves and putting these funds towards investments that will increase operational efficiency and growth the business. For that reason, the Company has chosen not to pay a dividend and will instead retain all earnings and build up internal reserves to help finance investments that will strengthen its business structure and grow the business.



Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.