

# Nousouken Corporation

**3541**

TSE Mothers

6-Mar.-2019

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FISCO Ltd.

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## ■ Summary

### **A venture company developing a network of Farmer's Direct Sales Outlet for farm-fresh produce. Has a capital alliance with the JAPAN POST Group**

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. The Company is an agricultural start-up firm that has listed its shares on the TSE Mothers market in June 2016.

In the FY8/18 consolidated results announced on October 12, 2018, net sales were ¥2,310mn, the operating loss was ¥96mn, the ordinary loss was ¥47mn, and loss attributable to owners of parent was ¥29mn. Looking back on FY8/18, there were many natural disasters, but the Company worked to overcome the impact of these disasters and focused on the Farmer's Direct Sales Outlet business. Consignment sales increased, and the percentage of outright purchase consignment sales also rose, while it actively negotiated with supermarkets and other retailers and progressed the introductions of its outlets. Therefore, at the end of FY8/18, the network had grown to as many as 1,197 outlets (1,185 outlets in Japan and 12 outlets overseas). Although net sales exceeded the Company forecast, it progressed investment as planned based on the medium-term business plan, and therefore it recorded an operating loss, as expected.

The forecasts for FY8/19 are for net sales to increase 38.5% year-on-year (YoY) to ¥3,200mn, operating profit of ¥50mn, and profit attributable to owners of parent of ¥60mn. In particular, in FY8/19, with an eye to the growth in the value of goods distributed in the medium- to long-term, the Company is aiming to further expand its earnings base by utilizing the distribution platform that connects producers with supermarkets and other retailers, which it strengthened and rebuilt based on the FY8/18 investment plan. At the same time, it will continue its active investment, including to recruit human resources who will support nationwide producers and supermarkets and other retailers, and in systems to improve productivity.

On October 19, 2018, the Company announced the “Conclusion of a capital alliance agreement in order to strengthen the relationship with the JAPAN POST Holdings Co., Ltd. <6178>, the sale of shares, and the change of major shareholder.” Previously, it had established transshipment terminals and facilities to enhance transshipment terminals within post offices in Chiba and Shikoku. But toward realizing further growth, it decided it was necessary to open transshipment terminals nationwide, to expand the registered producers, and to provide a highly convenient system to the registered producers. So the Company entered into this capital alliance in order to establish a distribution network that increases the distribution efficiency of the transshipment terminals. the Company will utilize the strengths of the JAPAN POST Group, of its brand power, functions, and network, for the nationwide-use of a farm produce distribution system Farmer's Direct Sales Outlet, and supplement its services to further enhance convenience for registered producers. In January 2019, it announced a “Business alliance with the JAPAN POST Kyushu Branch,” and the effects of the alliance with the JAPAN POST Group are already appearing. Jointly with the JAPAN POST Kyushu Branch, it will open the Tosu Center as a transshipment and distribution terminal, which is expected to improve the efficiency of distribution services and to reduce its costs.

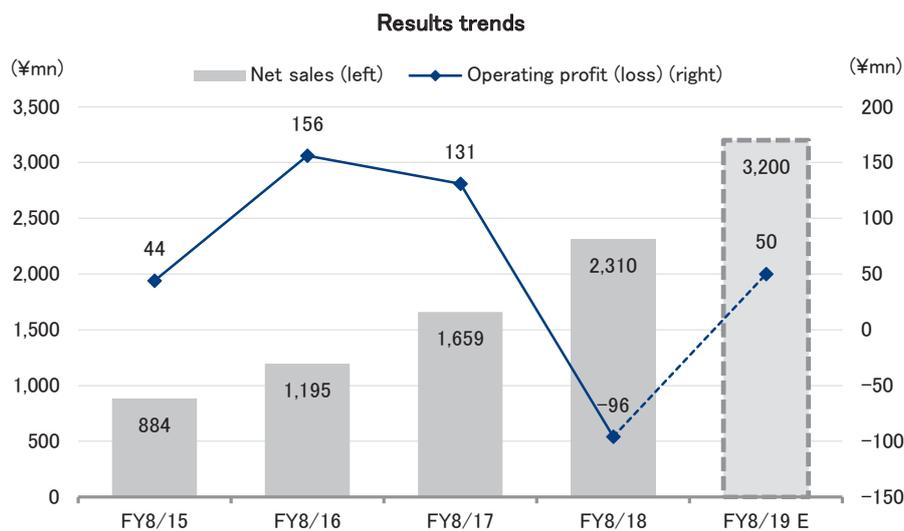
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Summary

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 of the business. For that reason, the Company has chosen not to pay a dividend. Going forward, the Company will continue to follow its basic policy of retaining internal reserves in order to strengthen its business structure and expand its businesses. The Company intends 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

- For the Company’s key performance indicators (KPI) in FY8/18, the number of outlets increased by 201, the number of registered producers rose by 1,015, and the number of transshipment terminals grew by 17
- In the final year of the three-year plan from FY8/17 is aiming to further increase the value of goods distributed
- The Company is aiming for value of goods distributed to exceed ¥10bn in FY9/19, covering investment costs and regaining operating profitability



Note: consolidated results from FY8/17  
 Source: Prepared by FISCO from the Company’s financial results

## Company profile and history

### Main business: Farmer's Direct Sales Outlet business

#### 1. Company profile

Nousouken Group operates its business centered on Nousouken Corporation in Japan and Global Ichiba Corporation. The Company's mainstay Farmer's Direct Sales Outlet business involves picking up fresh produce from producers (registered producers) at designated transshipment terminals that are run by the Company or one of its subcontractors, then delivering them to be sold at the direct sales outlet located within supermarkets and other venues. As a general rule, deliveries are made the following day. In other words, it created a distribution network that connects registered producers with supermarkets and other retailers, and allows consumers to purchase traceable farm produce at supermarkets and other local retailers that they would not otherwise have been able to purchase without traveling to direct-sales stand or Michi-no-Eki outside the city.

Under the Farmer's Direct Sales Outlet business, the Company provides a consignment sales system and wholesaling depending on the contract signed with the supermarket. The Company also undertakes outright purchase consignment sales, in which it makes outright purchases of fresh produce from registered producers, then turns and sells the goods on consignment for its own account.

#### 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 realizing sustainable agribusiness to enrich the lives of consumers, 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.

#### 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

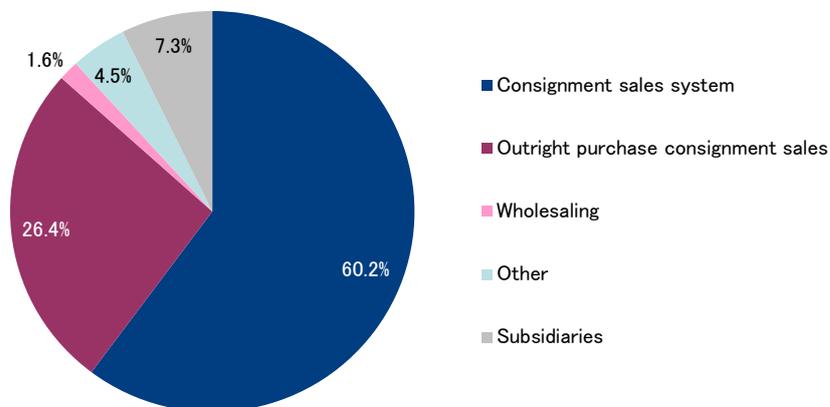
In the background to the establishment of Global Ichiba Holdings Corporation is the receipt of an investment and loan framework of ¥366mn (investment framework of ¥316mn and loan framework of ¥50mn) from Cool Japan Fund, Inc., and in consideration of the arrangement of shareholders and the investment ratio, it was decided to consolidate the Company, which was previously Global Ichiba, and three other companies through a share transfer, to establish Global Ichiba Holdings as an intermediary company, and it became a shareholder of Global Ichiba. After the establishment of Global Ichiba Holdings, Global Ichiba raised funds of ¥85mn from Cool Japan Fund through a third-party allocation from the issue of new shares. As a result, the Global Ichiba investment ratio became 61.4% for Global Ichiba Holdings, while the Cool Japan Fund investment ratio became 38.6%. Due to this, Global Ichiba is expected to become more important, so from the viewpoint of providing useful information to investors, it transitioned to consolidated results. In addition to 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 Farmer’s Direct Sales Outlet under three different contracts: consignment sales system, outright purchase consignment sales, and wholesaling

Its reporting segment consists solely of Farmer’s Direct Sales Outlet business, but the segment includes sales made through the Company’s consignment sales system, outright purchase consignment sales, and wholesaling. In FY8/18, consignment sales system accounted for 60.2% of sales, outright purchase consignment sales 26.4%, wholesaling 1.6%, other 4.5%, and subsidiaries 7.3%. From FY8/18, part of sales previously included in the consignment sales system have been being disclosed separately in others.

Sales breakdown (FY8/18)



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

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## Business description

### 1. Consignment sales system

The Company provides a distribution channel under its consignment sales system. It picks up fresh produce from registered producers to sell at the direct sales outlets located within supermarkets and other venues. Because this is a consignment sale, neither the Company nor the retailer actually buys the produce, and all of the inventory risk remains with the registered producer. In return for accepting inventory risk, the registered producer retains the right to decide what is sold, where it is sold and at what price it is sold. Under this system, the registered producer is free to sell whatever types of produce, in whatever quantities, at whatever prices, through whichever retail outlets they choose. This was made possible by linking the in-store barcode data that retailers provide with the data that registered producers provide. The Company has the barcode issuing system at its transshipment terminals so that registered producers can add information to the barcode data provided from different retail outlets. Each registered producer can issue his own barcodes that will be affixed to the produce that he wants to ship to designated retailers from the Company's transshipment terminal. In those cases where registered producers are located far from a transshipment terminal, the Company lends tablet computers and barcode issuing equipment so they can issue barcodes and deliver the produces to retailers directly on their own.

When a consumer purchases something at their local supermarket or other retailer that was supplied by one of the Company's registered producers, the registered producer would receive the sales price less the sales commissions paid to both the retailer and the Company. Registered producers receive the daily sales data that the Company receives from retailers by mail. Because the sales are made on consignment and the producer retains all of the inventory risk, its registered producers generally earn more than they would by going through the regular markets for agricultural products. Meanwhile, retailers don't have to take any inventory risk on these sales because they do not actually buy the goods outright, but they still earn sales commissions in return for selling the goods. Because the Company 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 the Company collects from registered producers covers the distribution costs it bears delivering the consigned goods from its transshipment terminal to the retailer. Another part of the Company's commission is compensation for issuing barcode. 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 deliver directly to retailers, the Company does not receive a commission to cover the distribution costs but does charge sales fee for the tablet computer and barcode issuing equipment. The Company 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 the Company 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, the Company pays part of the commission it earns from consignment sales originating from that terminal to the subcontractor.

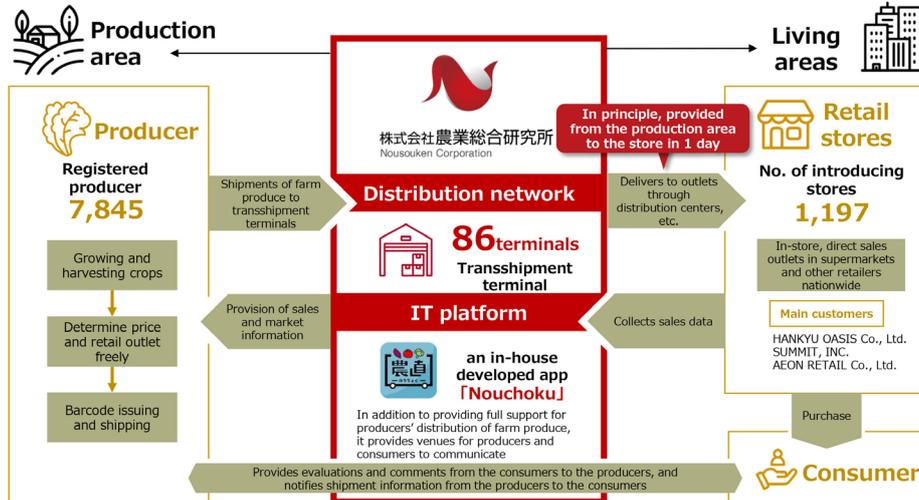
Because most of the Company's revenues are commissions earned on sales under its consignment sales system and these commissions are booked as sales, the profit margin for this part of the business is much higher than it is for either outright purchase consignment sales or wholesaling. In other words, within the value of goods distributed, the Company's commissions are recorded in net sales, and in principle, cost of sales is not recorded.

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

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Business description

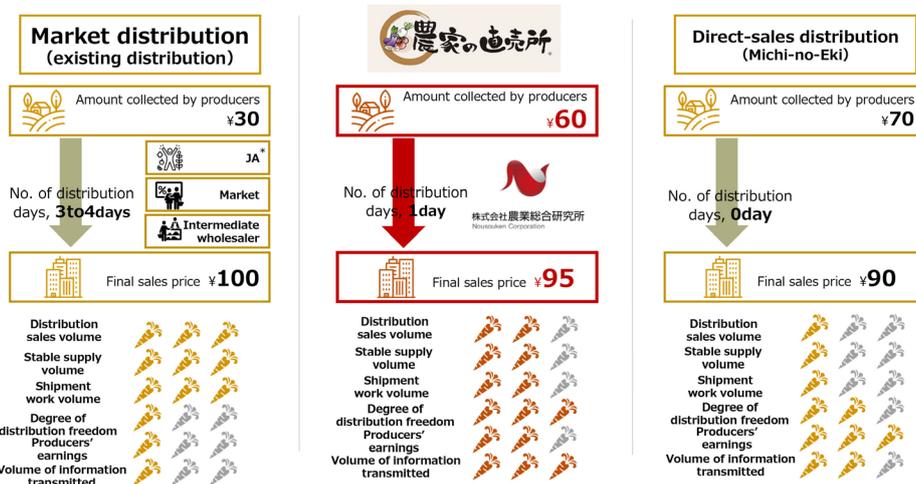
A new “distribution” x “IT” farm produce distribution platform



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

Producers deliver farm produce to the transshipment terminals that the Company has established, and the farm produce collected at the transshipment terminal is distributed to outlets nationwide via the distribution centers. The farm produce is displayed at the retailers' direct sales outlets and sold to consumers

The network of Farmer's Direct Sales Outlet occupies an intermediate position between market distribution and direct-sales distribution



\*The formal name for JA is Japan Agricultural Cooperatives . It is a business cooperative for farmers.

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

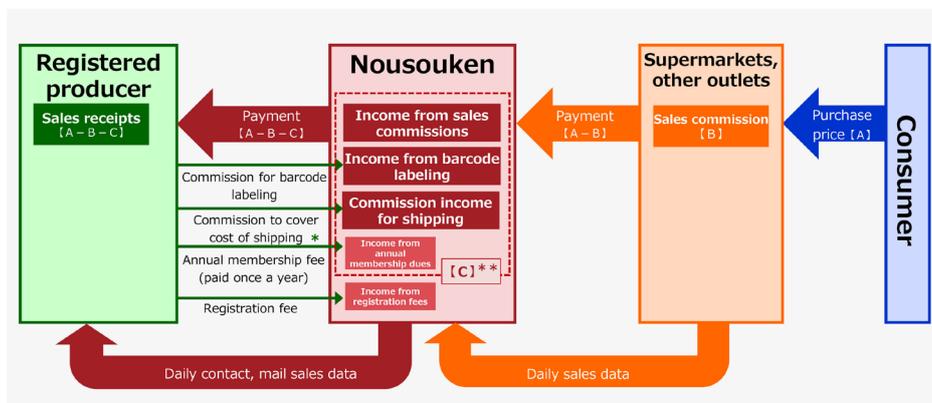
The network of Farmer's Direct Sales Outlet is comprised of a framework that incorporates market distribution, like JA, and excellent locations for direct-sales distribution, such as Michi-no-Eki. One of its features is that it directly connects producers with supermarkets and other retailers.

Business description

In terms of the flow of commissions and information, the registered producers can receive sales fees and the supermarkets and other retailers and the Company can receive sales commissions through consumers purchasing farm produce at supermarkets and other retailers. Also, by receiving daily sales data from the supermarkets and other retailers, the Company communicates sales conditions to the registered producers through its in-house developed app and by email. The Company receives commissions corresponding to distribution costs according to the shipment amount and also commissions alongside issuing barcodes, while the supermarkets and other retailers receives commissions according to the sales amount.

The flow of commissions and information is as shown below.

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

In the event that the volume of farm produce supplied is unstable due to unseasonable weather or other factors, or in the event that there is a request for a certain supply volume from supermarkets and other retailers, such as when they are holding a food fair, the Company buys farm produce from registered producers and others to secure the supply volume and conducts consignment sales with supermarkets and other retailers. Recently, alongside the expansion in transactions with large- and medium-sized producers, these sales have been trending upward in the form of responding to the purchasing needs from these producers. Since the Company incurs inventory risk, it determines the purchase price, setting the price around the same level or a bit higher than the price the producer could expect if he shipped his produce to market and then the Company determines the selling price. The retailer and the consumer get the same benefit as if the sale were made under the Company's regular consignment sales system. However, it is characterized by a small loss rate through pricing that anticipates consumer demand.

For outright purchase consignment sales, the Company books the sales price of the goods less the retailer's sales commission as sales. 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.

## Business description

### 3. Wholesaling

Under its wholesaling operations, the Company 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, the Company 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 the Company 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 purchase consignment sales.

That said, because consignment sales, outright purchase consignment sales, and wholesaling are all reported under a single segment (Farmer's Direct Sales Outlet business), the Company does not disclose detailed results for these individual areas.

### 4. Group companies

There are three consolidated subsidiaries; Global Ichiba Holdings, which is a holdings company; Global Ichiba, which is a specified subsidiary that exports Japanese farm produce overseas; and Nippon Ichiba Hong Kong Limited, which imports and conducts sales of Japanese farm produce in Hong Kong.

The Group company Global Ichiba is responsible for the overseas network of Farmer's Direct Sales Outlet. The value of goods distributed is steadily growing and it has relocated its own centers and established a consignment sales platform and wholesales model. The value of goods distributed is increasing, and in FY8/18 Q4, it had grown to around 10 times the value in FY8/17 Q1.

## Strengths and business risks

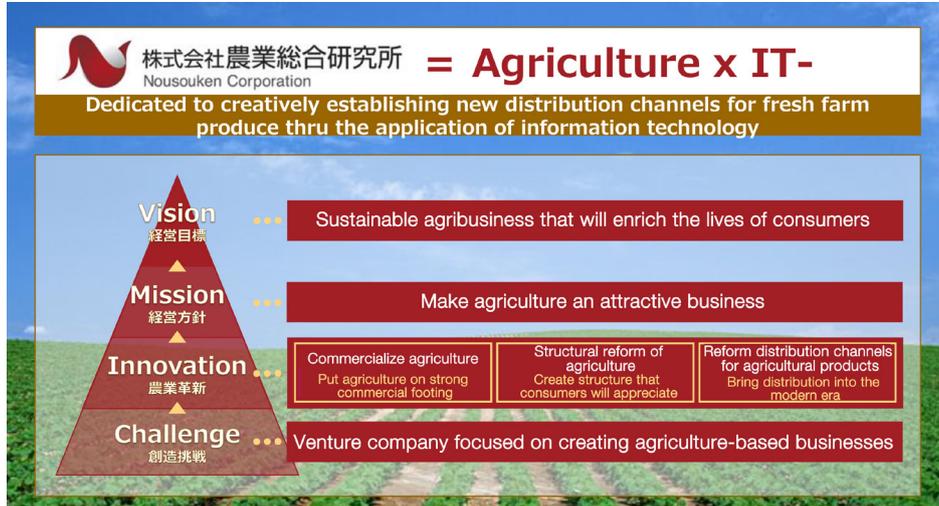
### Holds solid growth potential with its ability to expand business through its steady-growth business model and M&As

#### 1. Strengths and competition

The Company's strengths include its creativity in establishing a new distribution channel for agricultural goods utilizing IT, and its ability to connect farmers with urban retailers to sell fresh traceable farm produce.

Strengths and business risks

Company Philosophy



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

Compared with other companies currently distributing agricultural products, the Farmer's Direct Sales Outlet network that the Company has created cannot compete with large-scale market distributors 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 the Company's registered producers stretching from all the way Southern to Northern Japan and the short time the goods spend in transit. While nearby Michi-no-Eki provides the freshest produce the volume and geographic reach are limited.

Compared with JA from the producer's perspective, the Farmer's Direct Sales Outlet allows producers to make their own production decisions including price and shipments. While registered producers bear inventory risks, they could earn a higher degree of sales revenue depending on their efforts.

Compared with JA from the retailer's perspective, the Company allows the retailers to introduce the system in a short period of time without inventory risk and the retailers will be in a better position to attract more customers. Finally, from the consumer's perspective, the Company provides fresh farm produce, that is hard to come by in urban areas, conveniently at local supermarket and with sense of security with its traceable farm produce.

**2. Business risks**

The business risks include that to expand the business, it is necessary to increase both the number of outlets within supermarkets and other retailers, and the number of registered producers it conducts transactions with. If these prerequisites are not smoothly achieved, it is possible that this could impact the Company Group's results.

Also, in the Company Group's Farmer's Direct Sales Outlet business, in FY8/18 the extent of its reliance on specific customers increased, with AEON RETAIL Co., Ltd., accounting for 13% of total sales and HANKYU OASIS Co., Ltd., for 11.7%.

Outside of these business risks, the Company is also subject to the risk that are unique to agricultural goods, including food safety, effects of unseasonal weather, fluctuations in the agricultural products market and seasonal variation .

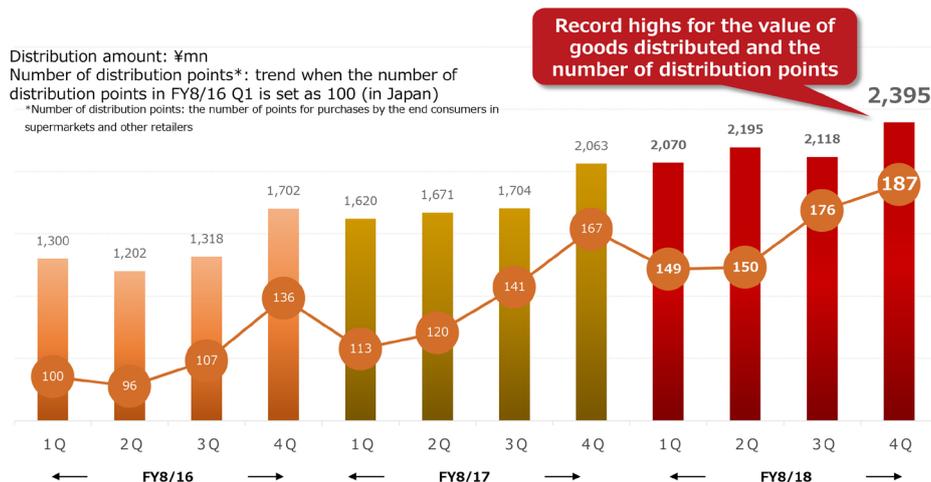
## Results trends

### The KPI are trending strongly and the value of goods distributed increased 23.8% YoY

#### 1. FY8/18 results

In the FY8/18 consolidated results, net sales increased 39.2% YoY to ¥2,310mn. The KPI the Company uses are the number of outlets, the number of producers, and the number of transshipment terminals, and it aims to grow the value of goods distributed through increasing these numbers. The value of goods distributed refers to the total for the final sales prices purchased by the end consumers at supermarkets and other retailers. At the end of FY8/18, the number of outlets had increased by 201 on the end of the previous fiscal year to 1,197, the number of producers had risen by 1,015 to 7,845, and the number of transshipment terminals had increased by 17 to 86. As a result, the value of goods distributed also steadily grew, rising 23.8% YoY to ¥8,778mn.

The value of goods distributed (trend by quarter)



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

#### (1) The number of outlets

Among the 1,197 outlets, there are 12 overseas outlets. The Company has established a system toward expanding distribution through the operations of its own centers. Its main customers include AEON RETAIL, HANKYU OASIS, and SUMMIT, INC. The introduction rate at customers has reached 26.4%. Also, the introduction rate at the 20,480 supermarkets nationwide (Supermarket White Paper, 2018) is 5.8%, so there remains plenty of room for further expansion, and the number of inquiries from supermarkets continues to increase.

#### (2) The number of registered producers

The number of registered producers at the end of FY8/18 was 7,845 producers, and the Company is aiming to increase this number, including through the operations of its own centers and by strengthening the IT platform. Registered producers are developing nationwide and out of the 2,155,082 farms nationwide (as of 2015), the registration rate is still only 0.36%. So this rate is expected to increase in the future, and basically the expansion is continuing through word of mouth. Looking by region, there are 3,903 producers in the Kansai area and 1,450 producers in the Kanto area.

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Results trends

**(3) The number of transshipment terminals**

At the end of FY8/18, there were 86 transshipment terminals, of which 62 were FC transshipment terminals. In FY8/18, subcontracting with the Shikoku Branch of JAPAN POST Co., Ltd., contributed to the increase in the number of terminals. Also, in some areas, the Company consolidated the terminals. Currently, they have been established in 31 prefectures. Looking by region, there are 24 terminals in the Kansai area, 16 in the Kanto area, and 15 in the Chugoku and Shikoku areas, and the effects of the subcontracting with the JAPAN POST Shikoku Branch are appearing.

**(4) Trends in the KPI**

From the results summary, it is evident that for sales, there is strong demand from supermarkets and other retailers, and that alongside this, outright purchase consignment sales are driving sales. For gross profit, the gross profit margin fell by 6.3 percentage points YoY, as it was affected by the change to the sales composition ratio alongside the increase in outright purchase consignment sales. However, for operating profit, the subsidies for subsidiaries were fixed at ¥43mn, and this contributed to reducing the loss. The reason why outright purchase consignment sales increased in FY8/18 was because during this fiscal year, there were many disasters causing damage, such as heavy snow, heavy rain, summer heatwaves and typhoons, so farm-produce harvests were small and the Company made purchases to secure a stable supply. It is aiming to realize a stable supply by securing a certain amount of goods so that it can respond not only to natural disasters that may occur in the future, but also to the increasing number of outlets (which the Company calls “platform stabilization”). So going forward also, outright purchase consignment sales are expected to increase. In addition, the initial forecast was for an operating loss of ¥100mn, but the result was ¥4mn less, of ¥96mn.

**Trends in the number of transshipment terminals, the number of outlets, and the number of registered producers in the Farmer's Direct Sales Outlet business**

	FY8/14	FY8/15	FY8/16	FY8/17	FY8/18
Transshipment terminal	43	51	57	69	86
The number of outlets	324	471	680	996	1,197
Number of registered producers	3,882	4,722	5,765	6,830	7,845

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

**FY8/18 results analysis**

(\$mn)	FY8/18 results		FY8/17 results		YoY	
	Full year	% of sales	Full year	% of sales	Change	% change
Value of goods distributed	8,778		7,089		1,689	123.8%
Net sales	2,310		1,659		650	139.2%
Consignment sales	1,391		1,113		278	125.0%
Outright purchase consignment sales	609		321		289	190.1%
Wholesaling	37		75		△ 39	48.8%
Other	105		86		18	120.9%
Subsidiaries	168		64		104	262.5%
Gross profit	1,672	72.4%	1,305	78.7%	366	128.1%
Consignment sales	1,391	100.0%	1,113	100.0%	278	125.0%
Outright purchase consignment sales	135	22.2%	70	21.9%	65	192.3%
Wholesaling	8	23.3%	18	24.9%	△ 10	45.8%
Other	87	83.2%	80	92.0%	7	109.3%
Subsidiaries	51	30.2%	24	37.8%	26	209.6%
SG&A expenses	1,769	76.6%	1,174	70.8%	595	150.6%
Operating profit	△ 96	△4.2%	131	7.9%	△ 227	-
Ordinary profit	△ 47	△2.0%	130	7.9%	△ 178	-

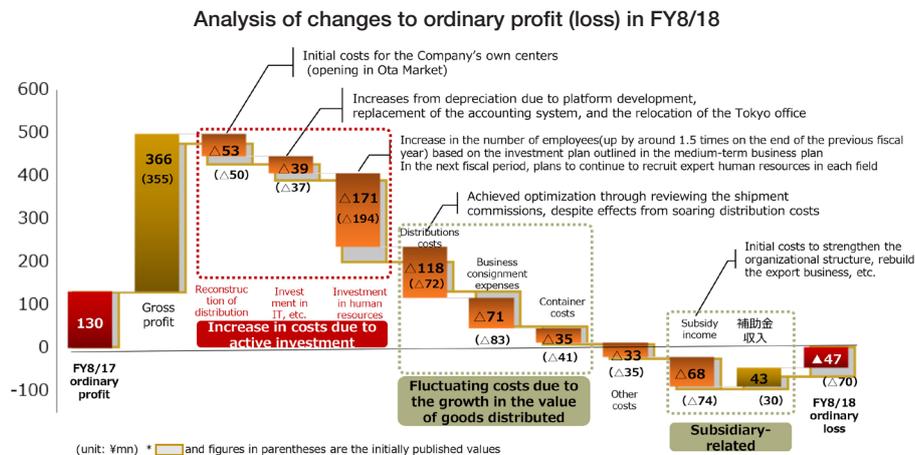
Source: Prepared by FISCO from the Company's results briefing materials

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Results trends

(5) Analysis of changes to ordinary profit

In FY8/18, the ordinary loss was ¥47,286mn. The main items in the breakdown of non-operating profit were subsidy income of ¥43mn and guarantee commission received of ¥4mn, while the main items in the breakdown of non-operating expenses were rent expenses of ¥15mn and a foreign exchange loss of ¥1mn. In FY8/18, the Company steadily implemented its plan to invest in distribution, IT, and human resources, toward solidifying the structure in the future. Distribution costs rose sharply, but this was absorbed by the review of shipment commissions (commissions corresponding to distribution costs collected at the time of shipment), while subsidy income was higher than forecast, and these factors contributed to the reduction in the ordinary loss.



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

2. Financial position

For the financial position, current assets increased ¥76mn on the end of the previous fiscal year to ¥1,372mn due to the growth in the transaction volume. Non-current assets rose ¥79mn on the end of the previous fiscal year to ¥143mn. In liabilities, there were increases in accounts payable, accrued liabilities, provision for bonuses, and long-term loans payable, so total liabilities increased ¥172mn on the end of the previous fiscal year to ¥847mn. In net assets, retained earnings declined ¥29mn due to the recording of loss attributable to the parents, and as a result, net assets were down ¥17mn on the end of the previous fiscal year to ¥668mn.

### 3. The main topics

#### **(1) On April 18, 2018, announced a subcontracting agreement with the JAPAN POST Shikoku Branch**

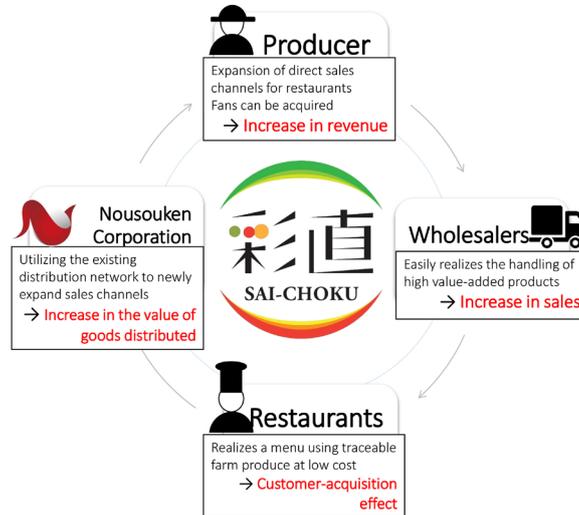
The Company had begun partial collaborative work with JAPAN POST in Chiba Prefecture in 2015, but it has concluded a subcontracting agreement with the Shikoku Branch in April 18, 2018. Under this agreement, it aims to newly recruit producers (registered producers) who will ship farm produce and other items in order to expand shipments of vegetables, fruits, and other farm produce, and also products processed from these produce, and to promote farm produce distribution. Specifically, the work to recruit producers and the work required when registering them as registered producers will be subcontracted to the JAPAN POST Shikoku Branch, and in order to carry out this subcontracting work, the Company will establish transshipment terminal and facilities to enhance the transshipment terminals (hereafter, transshipment terminals, etc.) in the post offices owned or rented by the JAPAN POST Shikoku Branch. In other words, under this business alliance, that Company subcontracts shipments of vegetables and fruits to post offices, and the farm produce will be shipped to the supermarkets and other retailers utilizing the distribution capabilities of the JAPAN POST Shikoku Branch. Through this agreement, producers will be able to sell their produce at supermarkets and other retailers nationwide by bringing farm produce and other produce to post offices near to them. It will contribute to providing producers nationwide with expanded sales channels and enable them to stably acquire earnings. Due to this agreement, at the end of FY8/18 there were already an increase of 10 FC transshipment terminals in JAPAN POST Shikoku Branch post offices.

#### **(2) On September 11, 2018, started the Saichoku service, an EC membership system for fruits and vegetables for restaurants**

The Company judged that it can connect producers and restaurants by utilizing the distribution network it has reconstructed (with its own center in the Ota Market) and launched an innovative EC service Saichoku in FY8/19 in order to improve its future earnings capability. This was done in anticipation that the value of goods distributed would exceed ¥10bn. Saichoku is an EC membership system for fruits and vegetables for restaurants that will utilize the 86 transshipment terminals nationwide and the center within the Ota Market, and it is a new service that will conduct direct sales of approximately 8,000 registered producers' fruits and vegetables to restaurants. Through Saichoku, the registered producers receiving orders will make shipments along with their regular daily shipments to the Company's transshipment terminals. The shipped fruits and vegetables will be delivered, via the Company's own center in Ota Market, to the stores of wholesalers that supply the restaurants in Ota Market (at the start of the service, it was targeting approximately 15,000 stores in the Tokyo area). It is a service never seen before, and advancing into the restaurant industry that covers a wide area can be expected to contribute to the Company's earnings in the future.

Results trends

Business model of “benefits for all four sides”



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

Saichoku aims to achieve “benefits for all four sides.” The four sides refer to the Company, producers, wholesalers, and restaurants. Specifically, the business model for “benefits for all four sides” is as shown in the above chart, but the following explains each four side from their point of view.

- For the Company, because it utilizes the existing distribution network, it can expand sales channels basically without having to conduct new investment or incur additional costs, and aim for increases in value of goods distributed and earnings.
- For the producers, by registering with the Company, they can expect sales channels to expand and sales to increase not only to retailers, as up to the present time, but also to restaurants. Also, as the shipment destinations are the Company’s transshipment terminals, the same as up until now, additional costs are unnecessary. Moreover, they are able to acquire their own fans and to conduct branding.
- For the wholesalers, they can provide new product proposals and conduct sales to restaurants, so they can expect sales to increase. As the service utilizes existing agreements, commercial channels, and distribution network, new investment and additional costs are not required.
- For the restaurants, they are able to purchase a minimum of one pack of fruit and vegetables from nationwide producers, and by using traceable fruits and vegetables, they can easily put high-value added dishes to their menu. Produce can be delivered to the establishment in a minimum of within 24 hours from being harvested, and highly fresh fruit and vegetables maintain their quality for a long time, which contributes to a reduction in the loss ratio. By taking full advantage of the existing distribution network of the Company and the wholesalers, they can procure high value-added fruit and vegetables at low prices and utilize the Saichoku service via the wholesalers with which the Company already conducts transactions. Therefore, they can receive the produce in bulk with other goods, and no new problems will occur. There has been no such service for restaurants up to the present time, and it is expected to grow in the future.

## Results trends

#### 4. Strengthening the relationship with the JAPAN POST Group

As a FY8/19 topic, on October 19, 2018, the Company announced the “Conclusion of a capital alliance agreement in order to strengthen the relationship with the JAPAN POST Holdings Co., Ltd., the sale of shares, and the change of major shareholder.” For the Company to grow further, it is essential to provide the registered producers with a highly convenient system by opening transshipment terminals nationwide and expanding the registered producers. But to establish transshipment terminals nationwide on its own and to establish a distribution network that will increase the delivery efficiency of the transshipment terminals, the Company faces time and financial restrictions. Therefore, it has subcontracted work to its business-alliance partners who share the same vision as the Company, and as one such partner, it concluded a subcontracting agreement with the JAPAN POST Shikoku Branch on April 18, 2018. It established transshipment terminals, etc. within the post offices owned or rented by the JAPAN POST Shikoku Branch and subcontracted the work to recruit registered producers and the work necessary when registering them. As a result, as of October 19, 2018, this work is being conducted at 10 post offices in Shikoku.

The effects of the alliance with the JAPAN POST Group are also appearing. In January 2019, the Company announced a business alliance with the JAPAN POST Kyushu Branch. In early March 2019 in Tosu City, Saga Prefecture, the Company will open the Tosu Center jointly with the JAPAN POST Kyushu Branch as a transshipment and distribution terminal. On the Company's farm produce sales platform, there were inefficient distribution deliveries as producers bring farm produce to a nearby transshipment terminal, and the produce is then delivered from each transshipment terminal to the supermarkets and other retailers. By opening the Tosu Center, it can consolidate the deliveries from transshipment terminals within Kyushu, which will increase the efficiency of deliveries and reduce distribution costs.

The partner, JAPAN POST Capital Co., Ltd., belongs to the JAPAN POST Group, the same as the JAPAN POST Shikoku Branch, and the JAPAN POST Group has a strong shipping infrastructure from its network of approximately 24,000 post offices nationwide. In addition, it provides various product and services centered on its three businesses of post, savings, and insurance, and it also supports the lives of local people. The Company determined that by utilizing the JAPAN POST Group's strengths, such as its brand power, functions and network, for the nationwide-use of a farm produce distribution system Farmer's Direct Sales Outlet, it can increase convenience for the registered producers even more, which in turn would enable it to aim for further growth. It concluded this capital alliance agreement with JAPAN POST Capital with the main objective being strengthening the relationship with the JAPAN POST Group. In addition, in order to limit the dilution effect on existing shareholders, the leading shareholder, Plenty Co., Ltd., sold some of the shares in the Company it held and conducted a secondary distribution. The two companies agreed to the dispatch of directors from the JAPAN POST Group to the Company, with the Company accepting two people from the JAPAN POST Group as directors. The two companies will develop the business in the future while exchanging various information.

The JAPAN POST Group will receive commissions from the Company, while it is also thought that as the producers will come to the post offices, it will widen its customer base, such as for sales of the post offices' products and for payments. It is also expected to lead to the securing of local staff at post offices. For the post offices, it creates a new distribution network, and it seems that the two companies intend to jointly develop the business by using both of their resources.

#### 5. Outlook for FY8/19

In the Farmer's Direct Sales Outlet business, there is a growing awareness among producers of the need for food security and safety, and therefore its high growth is expected to continue in FY8/19 also. The outlets established and the producers registered during FY8/18 will contribute for the full year, so the value of goods distributed is forecast to grow.

Results trends

In FY8/19, the Company is aiming to establish a structural foundation with an eye to expand the value of goods distributed in the medium- to long-term, and it will further expand its earnings by utilizing the distribution platform that connects producers with supermarkets and other retailers that it strengthened and rebuilt based on the FY8/18 investment plan. On the other hand, it will continue to actively invest in human resources recruitment and in systems to improve productivity. For FY8/19, the Company expects to post operating profit while absorbing active investment costs, such as in personnel and distribution.

The forecasts for the FY8/19 consolidated results are for net sales of ¥3,200mn (up 38.5% YoY), operating profit of ¥50mn (compared to a loss of ¥96mn in the previous fiscal year), and profit attributable to owners of parent of ¥60mn (a loss of ¥29mn).

FY8/19 forecasts

(¥mn)	FY8/19 forecast	FY8/18 full year	YoY	
			Change	Growth rate
Value of goods distributed	12,000	8,778	3,222	136.7%
Net sales	3,200	2,310	890	138.5%
Operating profit (loss)	50	△ 96	146	-
Ordinary profit (loss)	60	△ 47	107	-

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

## Overview of medium-term business plan

### In its final fiscal year, aiming to further expand the value of goods distributed

The Company positioned the three-year period from FY8/17 as the investment phase to expand the value of goods distributed and formulated a medium-term business plan for this. In its second year in FY8/18, it actively conducted upfront investment, and therefore budgeted for an operating loss and implemented investments. For FY8/19, it has planned to invest in “distribution,” “IT,” and “human resources” toward the multi-layering of the top line.

As the prerequisites for formulating the medium-term business plan, with regards to the market environment, inquiries of demand from supermarkets and other retailers are strong, but on the other hand, the Company considers that establishing a business structure for supply has not been addressed, so it has set reestablishing “distribution,” “IT,” and “human resources” toward rapidly expanding the business and further accelerating growth as a management issue. In the current medium-term business plan, the 3 years from FY8/17 have been positioned as the investment phase to expand the value of goods distributed. So from the beginning, it budgeted for an operating loss in FY8/18 on the assumption that it would actively progress upfront investment. Therefore in FY8/18, in order to reestablish the business structure for the supply to supermarkets and other retailers, it implemented the plan to actively invest in “distribution,” “IT,” and “human resources toward solidifying the structure in the future

It progressed investment as expected in FY8/18 and also recorded a loss as planned, but the outcomes of the investment have been remarkable. We will be watching the progress made in the investment plan.

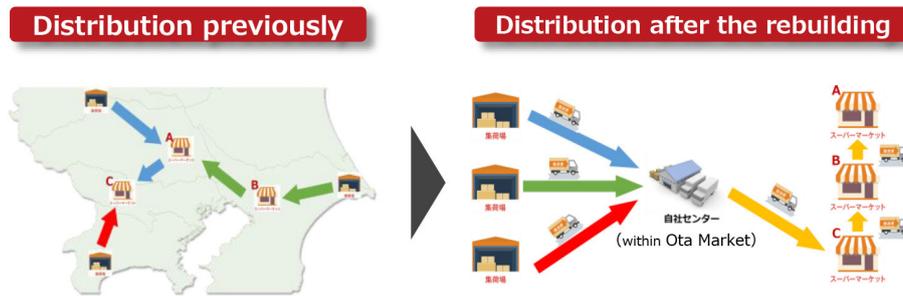
We encourage readers to review our complete legal statement on “Disclaimer” page.

Overview of medium-term business plan

1. Distribution investment

For the “distribution” investment, the Company opened its own center within Ota Market (Ota Ward, Tokyo), which started operations in May 2018. This center is able to greatly eliminate the restrictions on distribution at shipment sites in remote locations, and it is also able to dramatically reduce opportunity losses. For the future, the aims are to add packing and other functions to the centers, and to strengthen shipments from large- and medium-sized producers.

Reconfiguration of distribution network

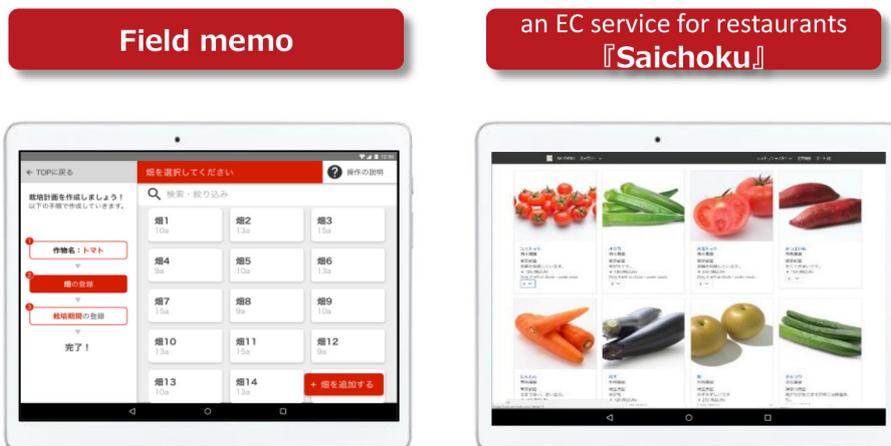


Source: Prepared by FISCO from the Company's results briefing materials

2. IT investment

The “IT” investment enabled improved traceability functions for producers and to provide farm produce with higher product value. The Company has newly launched Field Memo, which is a pesticide usage history management app. It has also started Saichoku, an EC service for restaurants. In FY8/19, it is continuing with development to upgrade the core system, and its launch is planned for the end of FY8/19. It is also advancing the development of the Chokupo app for retail buyers (a system that that can directly connect producers and retail buyers to make and receive orders), and it intends to strengthen its IT platform for retailers. For the future, it is considering sales of parts of the Company's core system, such as the demand forecast and payment functions, to other companies.

Strengthening the IT platform

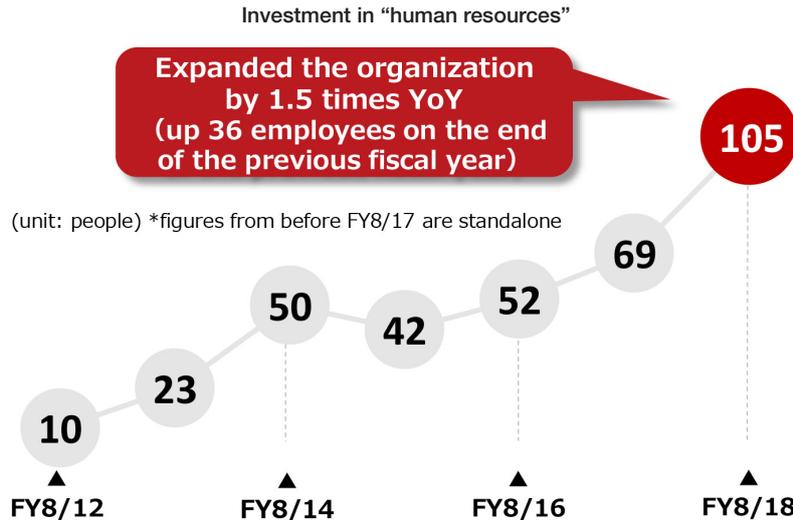


Source: Prepared by FISCO from the Company's results briefing materials

Overview of medium-term business plan

3. Human resources investment

For “human resources” investment, the Company increased the number of employees by 36 on the end of the previous fiscal year to 105 employees. Mainly focusing on recruits who are ready to work immediately in the field, it is actively recruiting for specialist positions, such as for distribution, IT, and fruit buyers. It is continuing to recruit human resources in FY8/19 also, to strengthen the structure that covers all of the country.

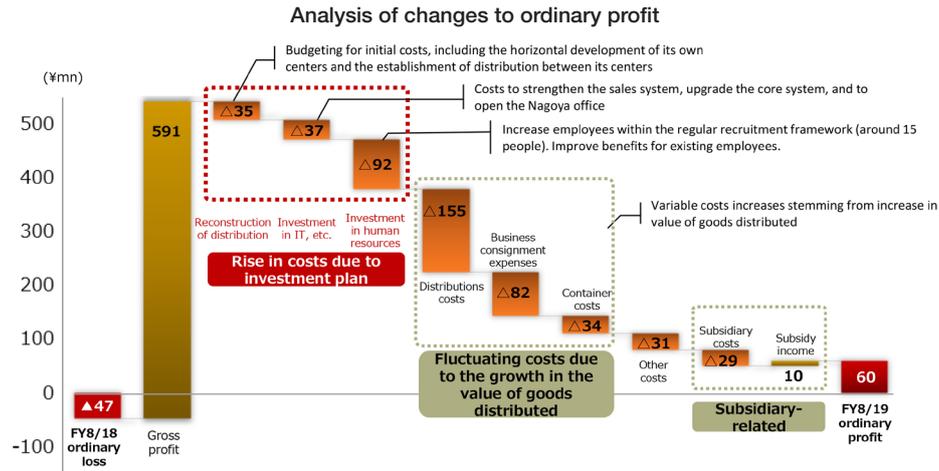


Source: Prepared by FISCO from the Company’s results briefing materials

In FY8/19, the Company will invest in “distribution,” “IT,” and “human resources” toward the multi-layering of the top line. Although various businesses alliance and new business proposals have been brought to it in the past, it did not have a business system in place to respond to them. However, as it is making steady progress in the reconstruction and also has in place a financial foundation, it is aiming for multi-layering while conducting investment based on the investment plan. Multi-layering means adding, in a multi-layered manner, businesses other than the existing businesses on the existing platform that will raise plus alpha sales. As the value of goods distributed is expected to exceed ¥10bn, it will also actively use the existing platform. The Company will evolve the distribution platform for retailers, develop businesses that go beyond the direct sales business, and build the foundation for new businesses, such as the platform for restaurants. For example, in terms of distribution, it is using its own centers to construct further business development; for IT, it is developing an app for buyers; and for human resources, it is building a network structure that covers the leading production areas nationwide. It is also considering a so-called “real Amazon” strategy, in which actual products are sold at supermarkets and other retailers using the Company’s platform. Therefore, going forward, in addition to consignment sales, it is investigating building a structure that can actively increase purchases and provide a stable supply. It also has in its sight transport-related operations and handling products other than fruit and vegetables. In fact, it added a transportation business using freight vehicles to its articles of incorporation, and plans to engage in a transportation business using the empty spaces in the trucks that it charters. It is also considering purchasing and handling from producers of proper products to increase its share of the fruit sales floors of supermarkets and other retailers.

Overview of medium-term business plan

FY8/19 is the final phase of the medium-term business plan, and while continuing to invest in distribution, IT, and human resources, the Company expects ordinary profit of ¥60mn from the monetization of the investment plan. In terms of the specific investment content, for distribution, it is horizontally developing its own distribution centers, while for IT, it is strengthening the sales system and upgrading the core system. In particular, in FY8/19, it will build systems that incorporate the increase in consumption tax. Also, for human resources, as the value of goods distributed will grow, it plans to newly recruit 15 people in FY8/19.



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

For the value of goods distributed in the medium term, as the number of outlets is expected to continue to increase, it will be ¥12,000mn in FY8/19 and ¥16,000mn in FY8/20. So as it was ¥8,778mn in FY8/18, going forward it is forecast to increase by at least 30% YoY.

## 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 of the business. For that reason, the Company has never paid a dividend since its founding. Going forward, the Company will continue to follow its basic policy of retaining internal reserves for strengthening its business structure and expanding its businesses.



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