

Nousouken Corporation

3541

TSE Mothers

28-Jan.-2020

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	07
3. Wholesaling	07
■ Strengths and business risks	08
1. Strengths and competition	08
2. Business risks	09
■ Results trends	09
1. FY8/19 results	09
2. Financial position	14
3. The main topics	14
4. Outlook for FY8/20	15
■ Shareholder returns	16

■ Summary

A venture company developing a network of Farmer's Direct Sales Outlet for farm-fresh produce. The Company moved to profitability and solidified a foundation for profit growth.

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 Company's FY8/19 consolidated results announced on October 15, 2019, net sales were ¥3,102mn (+34.3% year on year (YoY)), operating profit was ¥5mn (versus a loss of ¥96mn in the previous fiscal year), ordinary profit was ¥20mn (versus a ¥47mn loss) and profit attributable to owners of parent was ¥4mn (versus a ¥29mn loss). A warm winter in FY19/8 brought the impact of weak market prices, but the Company successfully moved to profitability behind adjustments in volume and other efforts. Key performance indicators (KPIs) have also seen solid increases, and planned investment has helped the Company steadily build a solid foundation for profit growth. On a single-segment basis, the Farmer's Direct Sales Outlet segment saw revenue increase in all areas, including the consignment sales system, outright purchase consignment sales and wholesaling. The number of domestic outlets, one of the Company's KPIs, grew to 1,416 as of the end of FY8/19, an increase of 231 outlets from 1,185 at the end of the previous fiscal year.

The Company is moving to stand-alone results forecasts beginning in FY8/20, and expects net sales of ¥3,200mn (+12.2% YoY), operating profit of ¥60mn (+34.6%), ordinary profit of ¥60mn (+30.2%) and profit attributable to owners of parent of ¥35mn (+57.7%). Notably, for FY8/20 the Company has built a structure to ensure its results are less vulnerable to market impacts, which it will tie into a medium to long-term increase in the value of goods distributed. Specifically, shipment commissions were changed from a percentage base to a fixed rate per unit, while a bulk shipment system has been introduced with the goal of starting full-scale consignment operations.

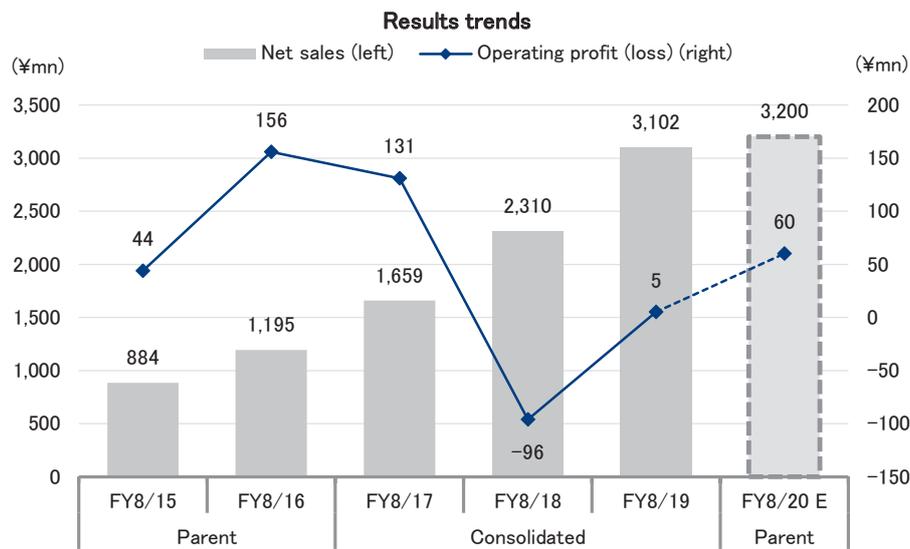
The Company has business alliances with many companies. Of particular note was the October 19, 2018 announcement of the "Conclusion of a capital alliance agreement in order to strengthen the relationship with the JAPAN POST Holdings Co., Ltd., the sale of shares and a change of major shareholder." This partnership will allow the Company to utilize JAPAN POST's network of post offices, making its Farmer's Direct Sales Outlet platform available to producers nationwide, supplementing its services and increasing convenience for its registered producers. This, in turn, is expected to result in an increase in the value of goods distributed. Meanwhile, under its business alliance with Japan Airlines Co., Ltd. <9201> the Company will open transshipment terminals at the New Chitose and Asahikawa airports, building a new network for distribution of agricultural products, including the ability to deliver corn picked in the morning for sale the same day in the Tokyo metropolitan area.

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 FY8/19, the number of domestic outlets increased by 231, the number of registered producers rose by 760, and the number of transshipment terminals grew by 6
- FY8/19 ordinary profit moves into the black. Planned investments have solidified a foundation for profit growth.
- Distribution network expanding through alliances with JAPAN POST, Japan Airlines and many other companies.



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

■ Company profile and history

Core business is the Farmer's Direct Sales Outlets, offering a distribution platform connecting producers with direct sales outlets in supermarkets.

1. Company profile

The Company's 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.

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

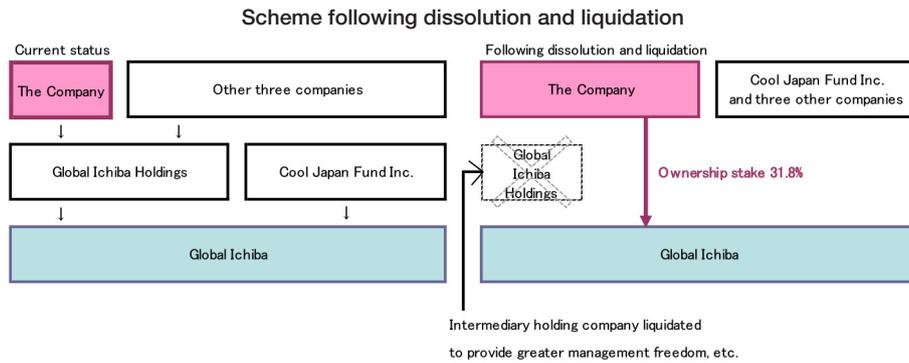
Date	Summary
October 2007	Established Nousouken Corporation
June 2011	Relocated headquarters to Kuroda district of Wakayama City, Wakayama Prefecture
July 2012	Opened Tokyo sales office in Tokyo's Shinagawa Ward
June 2016	Listed on the Mothers market of the Tokyo Stock Exchange
August 2016	Opened Osaka sales office in Osaka's Yodogawa Ward
August 2016	Made Global Ichiba Corporation a consolidated subsidiary
June 2017	Established subsidiary Global Ichiba Holdings Corporation through share exchange
October 2018	Opened Nagoya sales office in Nagoya's Nakamura Ward, Aichi Prefecture
April 2019	Made Global Ichiba Corporation an affiliate upon the liquidation of Global Ichiba Holdings

Source: Prepared by FISCO from the securities report

Note that in resolution passed by the Board of Directors on January 11, 2019, it was moved to dissolve and liquidate Global Ichiba Holdings Corporation, a specified subsidiary, resulting in the transfer of sub-subsidiaries. Global Ichiba Holdings was established as an intermediary holding company upon receipt of investment and loans from Cool Japan Fund, Inc. As a result of recent discussions with Cool Japan Fund and other Global Ichiba Holdings shareholders, it was decided to dissolve and liquidate Global Ichiba Holdings with the goal of giving management of its subsidiary, Global Ichiba, greater freedom in managing the company and accelerating decision-making. As a result, the Company's ownership stake in Global Ichiba rose to 31.8%, and Global Ichiba and its subsidiary Nippon Ichiba Hong Kong Limited are thus no longer treated as sub-subsidiaries.

Company profile and history

While the Company’s strategy of centering its worldwide strategy around Global Ichiba remains unchanged, it has reduced the degree of its influence on Global Ichiba in an effort to give management of Global Ichiba greater freedom and to accelerate decision-making. Global Ichiba will continue to procure and export agricultural products from the Company, and as its performance grows, this will lead to growth in the Company’s own value of goods distributed.



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

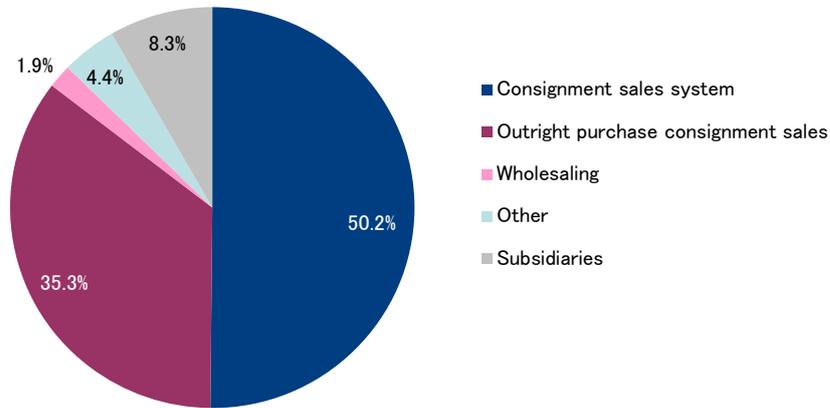
Business description

Specializing in Farmer’s Direct Sales Outlet under three different contracts: consignment sales system, outright purchase consignment sales, and wholesaling

Because the Company’s business consists solely of the single Farmer’s Direct Sales Outlet business, it does not disclose results by segment, but the segment includes sales made through the Company’s consignment sales system, outright purchase consignment sales and wholesaling. In FY8/19, the consignment sales system accounted for ¥1,557mn, outright purchase consignment sales for ¥1,094mn, wholesaling for ¥59mn, others for ¥135mn and subsidiaries for ¥256mn.

Business description

Sales breakdown (FY8/19)



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

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.

Nousouken Corporation | 28-Jan.-2020
 3541 TSE Mothers | <https://www.nousouken.co.jp/ir/>

Business description

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.

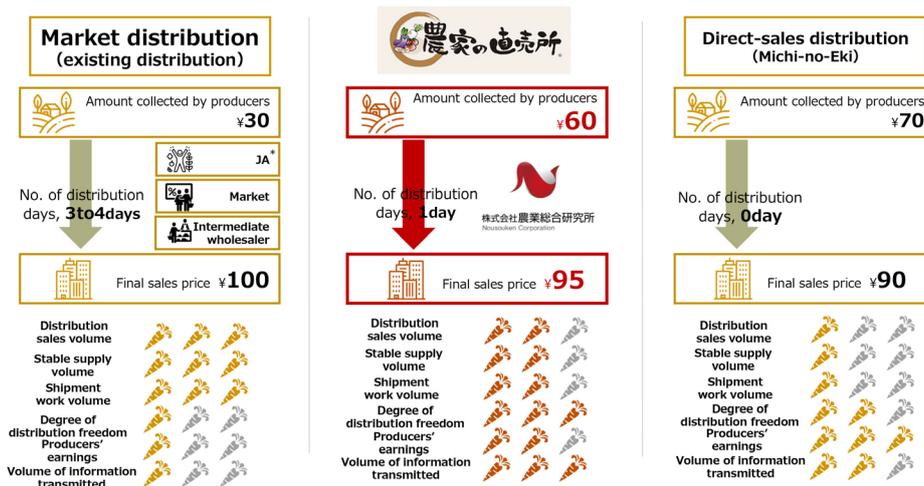
In those cases where the Company subcontracts the operations of one of its transshipment terminals to another company, the subcontractor is responsible for transporting the goods from registered producers' farms to the designated retailers. In return, the Company pays part of the commission it earns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

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.

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

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.

2. Outright purchase consignment sales

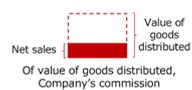
In the event that the volume of farm produce supplied is unstable due to unseasonable weather or other factors, or in the event that there is a request for a certain supply volume from supermarkets and other retailers, such as when they are holding a food fair, the Company buys farm produce from registered 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.

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.

Accounting policies by business area

	Accounting policy	Net sales	Cost of sales
Consignment sales	Offers a distribution platform for conducting consignment sales at direct sales outlets in supermarkets and other venues. Of the value of goods distributed, the Company records its commissions as sales, and as a rule does not post a cost of sales.		
Outright purchase consignment sales	The Company purchases agricultural products and sells them on consignment at supermarkets, etc. It thus bears the inventory risk. Notable for its low loss rate, achieved by pricing goods in anticipation of consumer demand. Of the value of goods distributed, the Company records an amount less sales commissions to supermarkets, etc. as sales, while the value of goods purchased is recorded as the cost of sales.		
Wholesaling	Normal purchasing and sales in which the Company purchases agricultural products and sells them to supermarkets, etc. Amounts sold to supermarkets, etc. are recorded as sales, while the value of goods purchased is recorded as the cost of sales.		

Source: The Company's results briefing materials

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

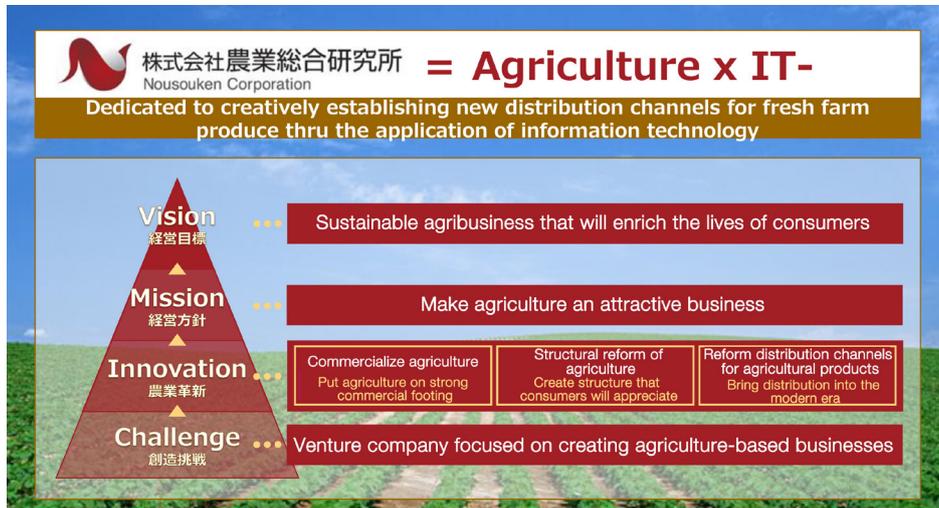
Strengths and business risks

Holds solid growth potential with its ability to expand business through its steady-growth business model and business alliances

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.

Company Philosophy



Source: 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 FY8/19 the extent of its reliance on specific customers increased, with AEON RETAIL Co., Ltd., accounting for 12.8% of total sales.

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

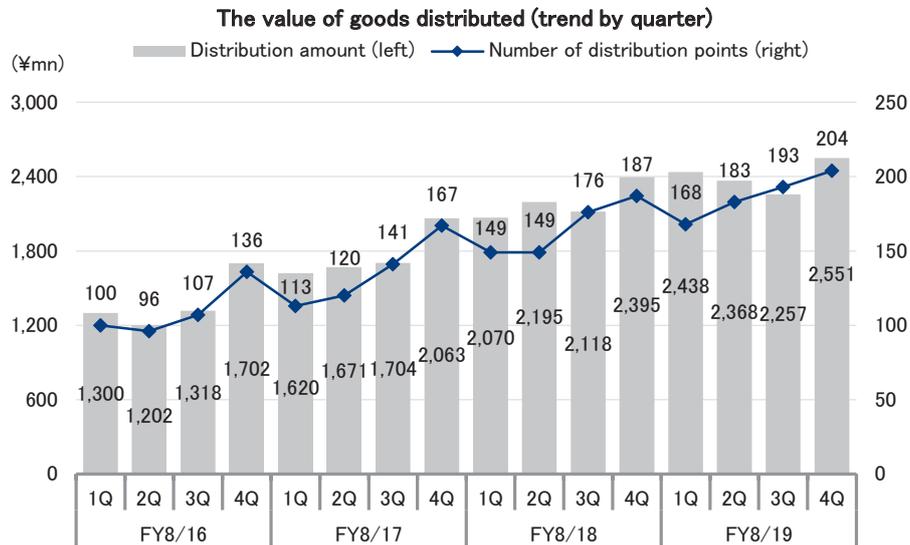
The KPI are trending strongly and the value of goods distributed increased 9.5% YoY

1. FY8/19 results

While affected by weak market prices due to a warm winter between the end of 2018 and the new year, moved to profitability behind adjustments in volume and other efforts. Key performance indicators (KPIs) have also seen solid increases, and planned investment has helped the Company steadily build a solid foundation for profit growth.

In the FY8/19 consolidated results, net sales increased 34.3% YoY to ¥3,102mn. 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 FY8/19, the number of outlets had increased by 231 on the end of the previous fiscal year to 1,416, the number of producers had risen by 760 to 8,605, and the number of transshipment terminals had increased by 6 to 92. As a result, the value of goods distributed also steadily grew, rising 9.5% YoY to ¥9,614mn.

Results trends



Note: "Distribution points" refers to the number of purchases by end consumers at supermarkets, etc. via the Farmer's Direct Sales Outlet platform.

Figures are based on an index using 100 as the base distribution points for 1Q FY8/16.

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

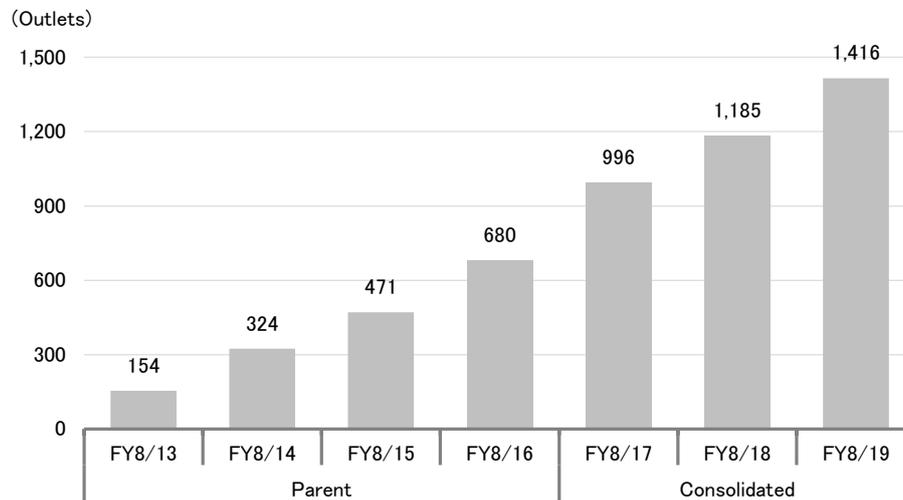
(1) The number of outlets

The number of domestic outlets grew to 1,416 as of the end of FY8/19, an increase of 231 outlets from 1,185 at the end of the previous fiscal year. 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 25.4%. Also, the introduction rate at the 20,840 supermarkets nationwide (Supermarket White Paper, 2019) is 6.8%, so there remains plenty of room for further expansion, and the number of inquiries from supermarkets continues to increase.

In FY8/19, Ito-Yokado and other major retailers are scheduled to deploy the platform, offering a strong outlook for outlet growth going forward.

Results trends

Change in number of outlets



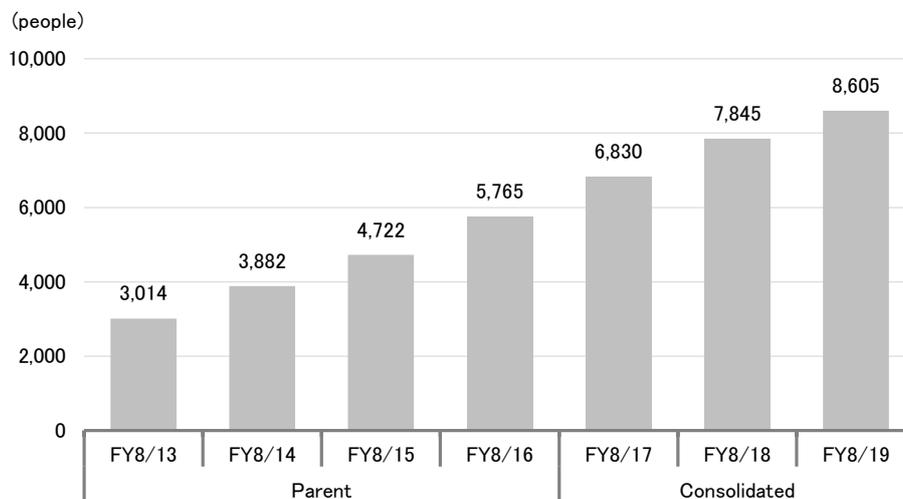
Note: FY8/17 and FY8/18 include overseas outlets
 Source: Prepared by FISCO from the Company's results briefing materials

(2) The number of registered producers

The number of registered producers rose to 8,605 as of the end of FY8/19, an increase of 760 from 7,845 at the end of the previous fiscal year. The Company is working to increase the number of registered producers by strengthening its own distribution center and IT platform. Registered producers are developing nationwide, and out of the 2,155,082 farms nationwide (as of 2015, according to a census by the Ministry of Agriculture, Forestry and Fisheries), the registration rate is still only 0.40%, this rate is expected to increase. Registrations continue to expand basically by word of mouth; by region, there are 4,126 producers in the Kansai area and 1,721 producers in the Kanto area.

While the Company emphasizes the number of registered producers, going forward it will focus on increasing the number of producers capable of providing a stable supply.

Number of registered producers



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

Results trends

(3) The number of transshipment terminals

At the end of FY8/19 there were 92 transshipment terminals, an increase of 6 over the end of the previous fiscal year. In some areas, terminals have been consolidated, and they are currently established in 33 prefectures. By region, there are 21 terminals in the Kansai area, 18 in the Kanto area and 16 in the Chugoku and Shikoku areas. A transshipment terminal was also established in Tottori Prefecture for the first time.

(4) Trends in the KPI

Demand from supermarkets and other retailers is strong, and accordingly, outright purchase consignment sales are driving overall sales. In terms of gross profit, gross profit margin against total value of goods distributed rose 1.4 points YoY, and ordinary profit moved into the black. To ensure a certain volume of goods and a stable supply in the event of natural disasters and for its growing number of outlets (which the Company refers to a “platform stabilization”), outright purchase consignment sales are expected to continue to increase going forward.

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

	FY8/15	FY8/16	FY8/17	FY8/18	FY8/19
Transshipment terminal	51	57	69	86	92
The number of outlets	471	680	996	1,185	1,416
Number of registered producers	4,722	5,765	6,830	7,845	8,605

Source: Prepared by FISCO from the Company's securities report

(5) Results

The Company emphasizes the total value of goods distributed—the total of the ultimate sales price of goods purchased by the final consumer at supermarkets and other retailers. In FY8/19, this figure was ¥9,614mn, versus ¥8,778mn in FY8/18. Net sales in FY8/19 also increased 34.4% YoY to ¥3,102mn, thanks to the contribution of outright purchase consignment sales.

FY8/19 results analysis

	FY8/18		FY8/19		YoY	
	Results	% of sales	Results	% of sales	Change	% change
Value of goods distributed	8,778		9,614		836	9.5%
Net sales	2,310		3,102		792	34.3%
Consignment sales system	1,391	60.2%	1,557	50.2%	166	12.0%
Outright purchase consignment sales	609	26.4%	1,094	35.3%	485	79.6%
Wholesaling	37	1.6%	59	1.9%	22	60.4%
Other	105	4.5%	135	4.4%	30	28.7%
Subsidiaries	168	7.3%	256	8.3%	88	52.4%
Gross profit	1,672	72.4%	1,965	63.4%	293	17.6%
Consignment sales system	1,391	100.0%	1,557	100.0%	166	12.0%
Outright purchase consignment sales	135	22.2%	218	19.9%	83	61.6%
Wholesaling	8	21.6%	10	18.0%	2	33.2%
Other	87	82.9%	110	82.1%	23	27.5%
Subsidiaries	51	30.4%	68	26.6%	17	33.3%
SG&A expenses	1,769	76.6%	1,960	63.2%	191	10.8%
Operating profit	-96	-4.2%	5	0.2%	101	-
Ordinary profit	-47	-2.0%	20	0.7%	67	-
Profit attributable to owners of parent	-29	-1.3%	4	0.1%	33	-

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

Results trends

(6) Investment

In FY8/19, distribution investments included the establishment of the Company's Tokyo processing center near the Ota Center, one of its distribution terminals, putting in place a structure for consignment-based processing operations. It also began test runs of deliveries from Kyushu, Hokkaido and elsewhere, verifying the effectiveness of single-item, large volume shipments. Trials have begun in the Nagoya area, and the Company plans to add to its own center (in the Osaka area) in FY8/20. In IT investments, system development has proceeded largely according to plan, and the Company conducted tests of its "Chokupo" app for retailers, which connects retail buyers directly to producers and allows them to place and receive orders as private-brand merchandise for supermarkets and other retailers. In terms of human resource investments, in the Chubu region the Company established its Nagoya sales office, which began full-scale operations with a staff of five. It also launched a new division responsible for distribution and new business, as it worked to enhance its organizational structure. Note that hiring has been largely according to plan, with the Company expanding to 106 employees on a stand-alone basis.

The Company will continue to move forward with investments aimed at multi-layering of both the producer and sales sides. With regards to its current shipment commission structure—an issue in FY8/19—the Company plans to implement measures in FY8/20 that will address issues such as the impact of market fluctuations on performance, and the fact that while the number of outlets is growing steadily, the total value of goods distributed has not grown due to volume restraints.

Multi-layering efforts

	FY8/19	FY8/20
Producer		
Material sales	Build site, launch service Alliance with Summit Agri-business Corporation	Expand product lineup
Seed and seedling proposals	Announcement of business alliance with Welseed Co., Ltd.	Full-scale expansion
Consignment-based processing	Trial conducted to verify effectiveness	Service launched in preparation for commercialization
Human resources support	-	Announcement of business alliance with Agrimedia Inc.
Sales side		
Sales by fixed price	Launch of direct sales section and foundation building	Full-scale expansion
Saichoku (restaurants)	Ongoing refinements	Expansion of participating outlets
Rice business	-	Announcement of business alliance with Shinmei Co., Ltd.

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

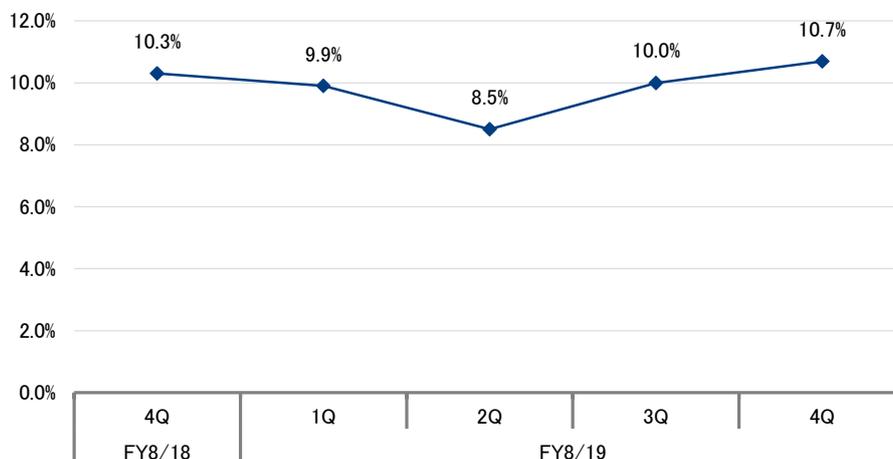
(7) Market Conditions, Prices and Results

Low prices in the market for agricultural products continued between November 2018 and May 2019, causing a drop in unit price for the Company's products. In terms of the impact on results, this affected both total value of goods distributed and profit margin. Because producers price their goods on the Company's platform with reference to market prices, when prices are low the Company's sales prices also tend to fall, putting downward pressure on total value of goods distributed. Distribution costs are determined by a measured rate per container, so if sales per container fall due to a drop in market prices or an increase in purchases of heavier vegetables, distribution cost ratios rise, causing a drop in profit margin.

Results trends

With lower market prices, the more the Company ships the more its profit margins fall, and it has responded with a change in direction, prioritizing improved profit margins even if it means curbing volume. For example, it restricted shipments to items that can be distributed efficiently based on demand (such as tomatoes and cucumbers), strengthening purchasing. It also made adjustments to supplies to new outlets where sales remained highly uncertain and curbed relatively inefficient shipments. The Company has also established an option to re-negotiate prices when market prices fluctuate significantly between purchase negotiations and the time products are actually purchased. As a result, marginal profit ratios have improved against the total value of goods distributed. Note, however, that while measures that involve curbing volume have contributed to improved profit margins, they are also a factor in a lower total value of goods distributed.

Change in marginal profit ratio against total value of goods distributed



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

2. Financial position

For the financial position, current assets increased ¥5mn from the end of the previous fiscal year to ¥1,363mn, due to growth in transaction volume and an increase in accounts receivable. Non-current assets rose ¥9mn from the end of the previous fiscal year, to ¥167mn. In liabilities, increases in accounts payable, accrued liabilities and others saw total liabilities rise by ¥86mn versus the end of the previous fiscal year, to ¥934mn. Note that net assets fell ¥71mn from the end of the previous fiscal year to ¥596mn.

3. The main topics

(1) Conclusion of capital alliance agreement with JAPAN POST CAPITAL Co., Ltd.

The Company has concluded a capital alliance agreement with JAPAN POST CAPITAL Co., Ltd., with the primary goal of strengthening its relationship with JAPAN POST Group. The Company has determined that by utilizing the brand power, functions and networks offered by the JAPAN POST Group, it can make its Farmer's Direct Sales Outlet agricultural product distribution system available to producers nationwide; supplement its existing services to provide registered producers with greater convenience; and as a result, work to promote its own growth.

Results trends

(2) Business alliance with Japan Airlines (JAL), establishment of agricultural product transshipment terminals in airport facilities

In FY8/19, the Company expanded its business alliance, establishing new transshipment terminals in the New Chitose and Asahikawa airports. It launched its “Saisoku” shipping service to deliver Hokkaido fruits and vegetables to the Tokyo metropolitan area. Same-day sales of corn picked the same morning have been well-received by consumers, and going forward, the Company will continue to utilize JAL’s air transportation network in an effort to expand distribution routes and sales channels for agricultural products shipped directly from producers.

(3) Business alliance with Shinmei, launch of joint rice shipments

The Company conclude a business alliance agreement with the goal of expanding the volume of rice, vegetables and fruits it handles. It has begun shipments of rice at its own transshipment terminals in an effort to expand rice distribution volume. By making use of shipping infrastructure owned by the Shinmei Group, the Company also hopes to improve distribution efficiency while contributing to expanded profits for producers.

(4) Business alliance with Hakuholdo DY Holdings <2433> aimed at supporting producer agricultural management

The Company conducted trials using the “Chokubai!” website released by Farmer’s Guide, Inc. a Hakuholdo DY Group company that supports agricultural management. Using Chokubai!, the Company’s registered producers will be able to offer information about their own farms and agricultural products.

(5) Business alliance with dely, Inc. to include the Company’s products on the kurashiru recipe site

In response to requests from consumers for recipes suggesting how to use its products, the Company has tied up with kurashiru, the No. 1 recipe video site in Japan, and has begun affixing seals to some of its products with recipes available on the site. This will allow the Company to offer added value in the form of providing high-quality recipes.

(6) Collaborating with Sagawa Express Co., Ltd. to add more management consignee transshipment centers

After trials of transshipment center operations using Sagawa Express facilities (sales offices), full-scale operations began in 2019. Specifically, on July 1 the Company established a new transshipment center in Fuefuki, Yamanashi Prefecture. By offering producers the opportunity to expand their sales channels, the Company expects to expand its own distribution volume.

4. Outlook for FY8/20

The Company’s core Farmer’s Direct Sales Outlet business is expected to see continued high growth in FY8/20, due in part to increased consumer awareness of food safety and security. An increase in the number of outlets established and producers registered in FY8/19 will contribute to full-year results, and by further strengthening its sales format utilizing the distribution networks its has built with supermarkets and other retailers, the Company is working to expand the value of goods distributed. In FY8/20, the Company aims to establish a structural foundation with an eye to expanding the value of goods distributed in the medium to long term. By utilizing the distribution platform launched in FY8/19 that connects producers with supermarkets and other retailers, it aims to further expand its earnings base. Note that the Company has recognized that market fluctuations beyond expectations can impact its results, and plans to implement measures to resolve this issue. The forecast for FY8/20 results calls for net sales of ¥3,200mn (+12.2% YoY), operating profit of ¥60mn (+34.6%), ordinary profit of ¥60mn (+30.2%) and profit attributable to owners of parent of ¥35mn (+57.7%).

Results trends

FY8/20 forecasts

	FY8/19		FY8/20		YoY	
	Results	% of sales	Forecast	% of sales	Change	% change
Value of goods distributed	9,497		10,500		1,002	10.6%
Net sales	2,852		3,200		347	12.2%
Operating profit	44	1.6%	60	1.9%	15	34.6%
Ordinary profit	46	1.6%	60	1.9%	13	30.2%
Profit attributable to owners of parent	22	0.8%	35	1.1%	12	57.7%

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

The Company's targets for FY8/20 are for value of goods distributed to reach ¥105mn and operating profit of ¥60mn. This target incorporates the effect of a downturn in value of goods distributed. In FY8/20, the Company will build a structure to ensure its results are less vulnerable to the impact of market prices, intended to lead to aggressive growth in the value of goods distributed in FY8/21 and beyond. The Company is currently working to address two issues. The first is the shift from shipment commissions based on a percentage rate to commissions based on a per-unit rate, ensuring it can recover its distribution costs regardless of market conditions. In other words, while it currently charges a rate of 8.5% of the value of the shipment, going forward it will charge per container. The second is aimed at maintaining profit margin by stabilizing per-container net sales, both by introducing a bulk shipment system and through a full-scale launch of consignment operations. The advantages of doing so include reduced effort for producers, who no longer need to select specific outlets, generating more producer shipments. By handling product sorting itself, the Company can also achieve optimized volumes and streamline distribution. It has already verified a rise in net sales resulting from test operations conducted in FY8/19, and plans to expand operations to Chiba, Tokyo and Osaka in FY8/20.

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.



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: support@fisco.co.jp