

# RenetJapanGroup, Inc.

**3556**

Tokyo Stock Exchange Mothers

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## ■ Summary

### Posted higher net sales and ordinary profit in FY9/18 on expansion of the Cambodia business Advancing to a new growth stage based on three businesses

#### 1. Company profile

RenetJapanGroup, Inc. <3556> (hereafter, also “the Company”) operates three businesses in its mission to “solve social issues by harnessing the power of business” – Internet reuse business, Internet recycle business, and Cambodia business. Internet reuse business, the Company’s main business since it was founded, handles buying and selling services under the Internet-specialized NET OFF brand and has about 2.76mn members, as one of the largest domestic operators. The Internet recycle business, which it started in 2014, meanwhile, provides collection service utilizing parcel delivery infrastructure under the ReNet brand with certification for the Act on Promotion of Recycling of Small Waste Electrical and Electronic Equipment. Key features are alliances with local government entities nationwide and a proprietary platform. The Company sees this area as a growth driver because of the scale of the potential market known as the “urban mine.” Additionally, the Cambodia business, which the Company has ramped up since FY9/18, offers robust growth and scale through initiatives in 1) vehicle sales, 2) Microfinance, 3) leasing, and 4) human resource arrangement. The Company is advancing to a new growth stage based on three businesses, thanks to recent growth in Internet recycle business and rapid expansion of Cambodia business.

#### 2. FY9/18 results

In FY9/18, the Company reported higher sales and ordinary profit with a 22.3% year on year (YoY) increase in net sales to ¥4,535mn and a 3.5% rise in ordinary profit to ¥48mn. Internet reuse business achieved steady growth, while the Cambodia business (vehicle sales) significantly expanded\*. Internet recycle business missed the ambitious period-start target, though still grew 2.5-fold (YoY). While gross profit climbed on stronger sales, ordinary profit only slightly improved because of one-time branding costs in the Internet recycle business and headquarters moving costs. Furthermore, the Company made substantial progress in Cambodia, which is exhibiting robust economic growth, with ramp-ups of Microfinance and Sending Technical Intern Trainee and entry into leasing business and is likely to expand results from FY9/19.

\* Regarding the Cambodia business, postponement of consolidated processing of three months of results due to not having final values ready in time means that the Company’s growth rates are even stronger if this portion is added.

Summary

**3. FY9/19 outlook**

The FY9/19 outlook calls for steep increases in sales and profits with a 54.9% rise in net sales to ¥7,028mn and a 727.3% increase in ordinary profit to ¥404mn. In particular, the Company expects a strong contribution to sales from major expansion of Cambodia business, including 1) reflection of the portion postponed from FY9/18, 2) addition of Microfinance and leasing business (planned in spring 2019) being consolidated from FY9/19, and 3) further growth in upbeat vehicle sales supported by vibrant demand. It also forecasts healthy gains in Internet recycle business with pick-up in the medal project\*. The Company projects continued steady profit growth in Internet reuse business as well as contributions to a steep rise in ordinary profit on a large boost from expansion of Cambodia business and improved income in Internet recycle business. These advances should support 5.7% ordinary profit margin (vs. 1.1% in FY9/18). We think the Company has a good chance of meeting its targets because the underlying assumptions are not excessive. The Cambodia business might actually provide upside, as it did in FY9/18, amid robust economic growth in the country. It is thus important to closely monitor results trends at the quarterly level. We see a possibility of Internet recycle business overshooting too depending on the extent of progress in the medal project (improvements in recognition and momentum).

\* This is a project to make gold, silver, and bronze medals for the Tokyo Olympic and Paralympic Games in 2020 utilizing metals recycled from small electronic equipment.

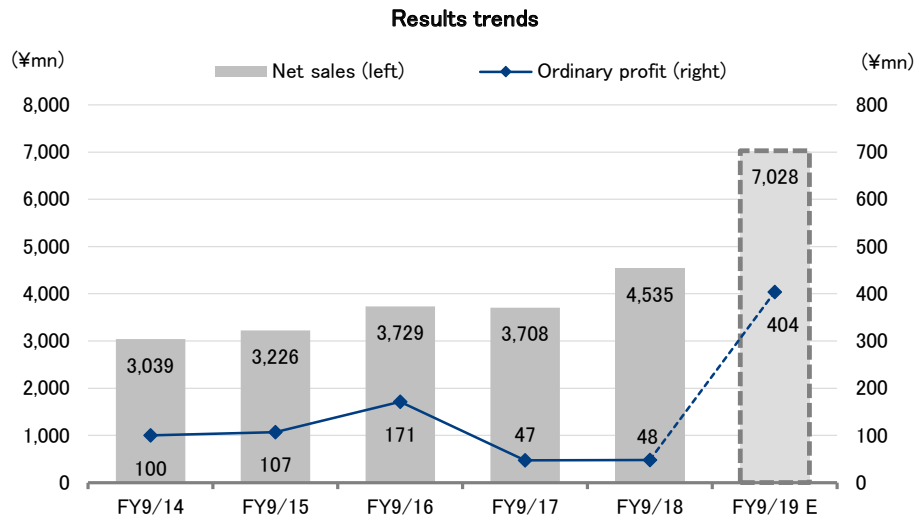
**4. Growth strategy**

Over the longer term, the Company aims to revamp its income structure and accelerate growth through significant expansion of Cambodia business, larger headcount and broader scope in Internet recycle business, and stable income in Internet reuse business. It plans to expand business and social contributions further with priority on 1) fostering ReNet as a leading Japanese corporate presence in Cambodia, 2) accelerating initiatives to help resolve manpower shortages in Japan (provision of job placement assistance in Cambodia to address Japan's manpower shortages), and 3) expanding the employment model for people with disabilities (promotion of jobs for people with disabilities at PC dismantling sites). We believe Cambodia business is likely to be a major driver of the Company's overall growth in light of strong economic growth and advantages of having its own network and knowhow in the country. Internet recycle business also has large room for growth on advances in the medal project and other initiatives, particularly because of significant potential market from the urban mine and a business model with tough entry barriers and no competition. Our primary focus is interpreting how the business expansion pace and income structure changes affect the Company's financial content. We think it is also important to closely monitor new M&A deals and new business initiatives as upside factors. On the other hand, we will be paying attention to emergence of new risks (such as credit management and forex risk) and what factors might constrain growth (bottlenecks).

**Key Points**

- Posted sharply higher sales and improved ordinary profit in FY9/18
- Ramped-up Cambodia business (vehicle sales) grew substantially and there was also healthy growth in Internet recycle business at a 2.5-fold YoY pace
- Achieved major advances in Cambodia business on launches of Microfinance and Sending Technical Intern Trainee and entry into reuse business
- Projects sharply higher sales and profits in FY9/19 driven by expansion of Cambodia business

Summary



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

## Company profile

### Offers reuse and recycle businesses that utilize Internet and parcel delivery services and handles finance business in Cambodia

#### 1. Business overview

Internet reuse business, the Company's main business since it was founded, handles buying and selling services under the Internet- specialized NET OFF brand. It has built a foundation of about 2.76mn members, as one of the largest domestic operators, with tailwinds from reuse market expansion and Internet inroads and by providing excellent convenience with a one-stop service for a wide range of items (particularly used books) and running a low-cost operation.

The Internet recycle business, which it started in 2014, meanwhile, provides collection service utilizing parcel delivery infrastructure under the ReNet brand with certification for the Act on Promotion of Recycling of Small Waste Electrical and Electronic Equipment. Key features are alliances with local government entities nationwide that include this business as part of public services and a proprietary platform supported by a variety of service revenue streams. The Company sees this area as a growth driver because of the scale of the potential market (known as the "urban mine"), tough entry barriers, and rising awareness among the general population. It expanded alliances to 175 local government entities (covering a population of 39.33mn people) through the end of November 2018.

Additionally, the Cambodia business, which the Company has ramped up since FY9/18, offers robust growth and scale through initiatives in 1) vehicle sales, 2) Microfinance, 3) leasing, and 4) human resource arrangement (Microfinance and lease businesses should begin contributions in FY9/19).

Company profile

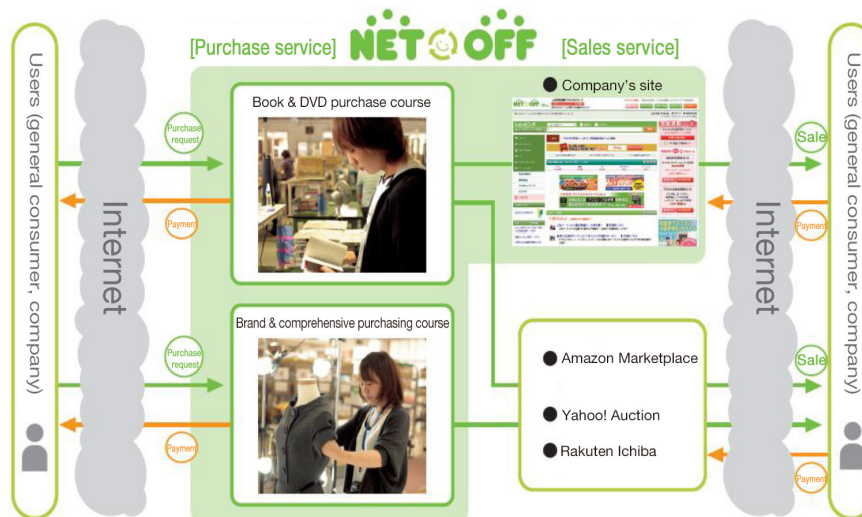
Internet reuse business generated 76.6% of sales in FY9/18, according to the breakdown of sales by segments, and is a stable income source. However, the Company's income structure is currently at a major turning point with growth in Internet recycle business and rapid expansion of the Cambodia business.

Below we review the Company's various businesses.

**(1) Internet reuse business**

The Company operates a "parcel-based purchase" service in which it receives requests to purchase a wide range of products from members, including used books, CDs, DVDs, and game software, brand products, precious metals, cameras, and model figures, through its web site under the NET OFF brand, collects the items via parcel delivery service, and pays the appraised value to a designated bank account. It also engages in e-commerce to sell purchased items through an Internet used bookstore that it operates and sites run by Amazon and other partners. This model runs exclusively on the Internet via Internet and parcel delivery services and does not have actual stores. There are two large product centers (with space totaling 4,000 tsubo) to manage the Company's massive inventory.

Overall diagram of Internet reuse business



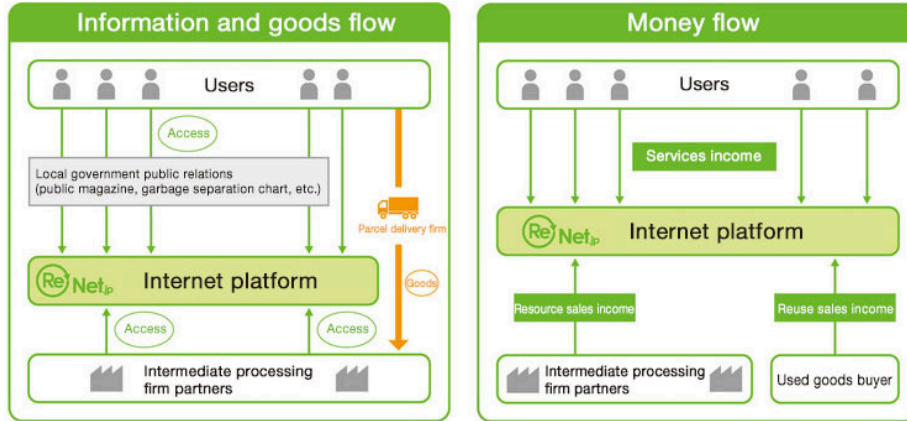
Source: From materials explaining growth potential

**(2) Internet recycle business**

In this business, the Company directly collects small electronic equipment that is no longer used for a fee in response to user requests received through its web site under the ReNet brand and also offers data elimination service for users concerned about personal information leaks when getting rid of PCs and mobile phones and other optional services. It then conducts reuse sales or platform business that involves selling rare metals contained in parts to intermediate processing firms (this business model avoids the Company's backyard by connecting various players) for the collected small electronic equipment. The Company entered this business after obtaining certification for the Act on Promotion of Recycling of Small Waste Electrical and Electronic Equipment in January 2014. It is currently the only firm with a collection scheme that utilizes parcel delivery service.

Company profile

Image of the business model for Internet recycle business



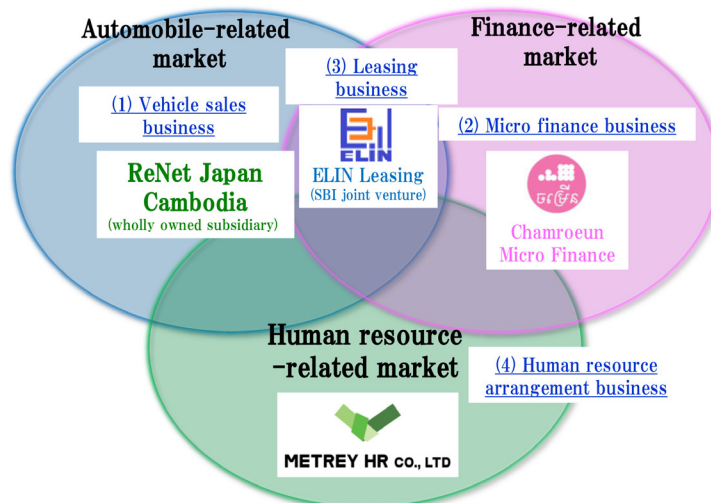
Source: Company website

(3) Cambodia business

The Company operates four businesses in automobile, finance, and human resources markets with opportunities for healthy growth and scale in Cambodia, a country making substantial economic advances – 1) vehicle sales, 2) Microfinance, 3) leasing, and 4) human resource arrangement. It is also participating in international cooperation activities in Cambodia jointly with the Cambodian government, Japanese government, and JICA, mainly in the area of human resource training. It positions Cambodia business as a new growth driver and intends to strengthen efforts aimed at further gains and social contributions.

Cambodia business portfolio

◆ Priority development of three areas with business growth and scale opportunities



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

1) Vehicle sales business

The Company began vehicle procurement and installment sales with the launch of RENET JAPAN (CAMBODIA) CO., LTD. on November 15, 2017. This business is growing rapidly amid robust demand for used vehicles and farming equipment.

Company profile

**2) Microfinance business**

The Company acquired all outstanding shares in Chamroeun Microfinance Plc., a social Microfinance entity in Cambodia operated by a French NGO, on February 13, 2018, entering the Microfinance business that caters to poor people (National Bank of Cambodia approved the purchase on June 13, 2018). Chamroeun operates 21 branches in Cambodia with 208 employees and has 25,267 borrowers, \$15.1mn in total assets, and \$12.1mn in total loans. The Company added Chamroeun to its consolidated results on October 1, 2018 (though reflected the balance sheet in consolidated numbers from the end of September 2018).

**3) Leasing business**

The Company agreed to purchase shares of Cambodia-based leasing firm ELIN Leasing Plc. (ELIN) jointly with SBI Holdings Inc. <8473> on August 14, 2018 with stakes of 51% for the Company and 49% for SBI Holdings, thereby entering the vehicle leasing business that has significant demand. It is currently applying for approval from the National Bank of Cambodia and hopes to begin this business (consolidation) in around spring 2019.

**4) Sending Technical Intern Trainee**

The Company founded METREY HR Co., Ltd. on April 12, 2018 with a local partner (the Company owns a 36.5% stake) as a local corporation to arrange Cambodian technical students for programs in Japan. Its catalyst in this business was provision of human resource training with a machinery course at job training school managed by the Cambodian government at the request of the government. The Company intends to begin training and placement for auto mechanics, an area with strong demand in Japan and Cambodia, and later develop a business model that connects to 39 schools nationwide overseen by the Ministry of Labor & Vocational Training and broadens to a wide range of job types (not only auto mechanics).

**2. Characteristics of the Company**

**(1) Growth model**

Income in Internet reuse business comes from selling used products that the Company purchased. Expansion of member volume and securing products hence drives results in this business. Efficient collection of the massive amount of products (inventory) through expansion of purchases is a major factor. Internet recycle business utilizes a multifaceted income model that consists of three methods. Specifically, this business 1) generates resource sales income by collecting small electronic equipment from users and 2) generates reused product sales income by reselling some of the collected small electronic equipment, and 3) obtains parcel collection fees from users, and also earns fee income from various optional paid services\*, such as elimination of PC data. An important strategy therefore is finding ways to increase users through alliances with local government entities nationwide. Key drivers are expansion of the number of partner local governments and improvement in the collection (usage) rate. In the platform-type Internet recycling business, high-margin service income is an important revenue source.

\* Services include PC data elimination (PC data erasure service and issuance of an erasure certificate), data moving service (transferring data found on collected PCs to USB memory or other media and returning to users), cardboard box advance delivery service (advance provision of collection cardboard boxes), and payment service (cash payment to the driver picking up the equipment).

Cambodia business, meanwhile, consists of the four businesses mentioned above. We expect vehicle sales volume (vehicle sales business), vehicle lease volume (leasing business), total loan value (Microfinance business), and the number of arranged people (Sending Technical Intern Trainee) to serve as the main growth drivers.



## Company profile

While the Company expects growth in all three businesses, it is utilizing a strategy of accelerated growth by applying profits and strengths in the Internet reuse business, a stable source of income, to Internet recycle business and Cambodia business as growth areas. In particular, it envisions strong growth momentum from the four businesses in Cambodia with robust economic growth.

**(2) Business model advantages****a) Strengths of the Internet reuse business****1) Low-cost operations**

Product center operations are important because of low prices and the need to manage massive logistics for books and media materials that are the Company's expertise. The Company conducts rigorous low-cost management using the Toyota production method and built a highly detailed operation that is unique to used items. This format creates an entry barrier that cannot be easily matched by rivals. It is also why major Internet firms have teamed up with the Company. Furthermore, alliances with other companies are fueling a beneficial cycle that further enhances efficiency through economies of scale.

**2) High inventory turnover using system assessments**

The Company has built a product database of over one million items for the books and media business and controls purchase and selling prices based on "popularity in the market" and "inventory volume." This process facilitates suitable inventory control and supports high inventory turnover of over 25 times a year\* and better purchasing prices than peers for popular items.

| \* Book and media sales ÷ average inventory value during the period |

**3) One-stop purchases**

The Company handles one-stop purchases of a wide range of genre (mainly books) as a service that accommodates room cleanup scenarios, in contrast to many Internet- specialized rivals that limit their scope to a certain category. Positive outcomes are excellent convenience for sellers and an extensive item line-up for buyers.

**b) Strengths of the Internet recycle business****1) Significant entry barrier**

Entry into this service requires acquisition of a certified operator license under the Act on Promotion of Recycling of Small Waste Electrical and Electronic Equipment, which is considered to be difficult. The Company became a certified operator in January 2014. Recycling companies in the intermediate processing business are the main certified operators (there are currently about 50 certified operators including the Company). At this point, the Company is the only entrant from a different industry with a collection scheme utilizing parcel delivery service through an alliance with Sagawa Express Co., Ltd. Furthermore, since it obtained an initial certification that covers the entire country, the Company managed to pursue economies of scale ahead of other firms utilizing wide-area collection via parcel delivery service and Internet-based collection efficiency. It does not compete with other certified operators (intermediate processing firms) because of having cooperative relationships with them (it sells collected products to these firms). The business model also poses strong entry barriers for new entrants, including acquisition of a license, collaboration with a parcel delivery firm and local government entities nationwide, and economies of scale.

| \* This certification removes the need to obtain licenses from the roughly 1,700 prefectures and municipalities nationwide for general waste and industrial waste processing. |

Company profile

**2) Collaboration with local government entities nationwide**

The Company offers this service as part of government service through collaboration with local governments nationwide. Its ability to offer information and boost awareness of parcel collection service via public gazettes, garbage separation charts, and other explanatory materials is a major advantage. It expanded collaboration to 175 local government entities with coverage of 39.33mn people (31% of Japan's overall population) as of the end of November 2018.

**3) Platform business**

Another key feature is the platform nature of this business that extends from collection to processing through connecting various players over the Internet without going through the Company's backyard. The business model receives substantial early-mover benefits because of economies of scale and network externalities required in recycling. As noted above, significant entry barriers exist for newcomers. We think this is a highly profitable business model with its framework of multiple service revenue streams.

**4) Synergies from the two businesses (mutual customer introductions, customer lifetime value enhancement, etc.)**

The Company intends to promote customer introduction synergies within the overall group by building a shared member base via integration of member IDs for NET OFF and ReNet sites. For example, it hopes to increase purchase volume and lower customer recruitment costs by sending coupons for higher purchase pricing for books and other items as a similar cleaning need to customers that are ReNet members through collaboration with local government entities nationwide. It also offers no-charge PC collection service to NET OFF members (mail magazine subscribers) to promote use of its recycling business. These synergies seek to lift customer lifetime value as a group.

**c) Strengths of the Cambodia business**

**1) Building a network with local government, etc.**

The Cambodia business goes back to around 2012 when the Company developed an automotive-related program (cooperation with a car inspection program, mechanic training, etc.) in collaboration with the local government and the Japan International Cooperation Agency (JICA) as part of fostering new business and CSR activities. This initiative led to entry into vehicle sales and leasing, Microfinance, and Sending Technical Intern Trainee. The Company's foundation for auto and other vehicle sales and leasing business, including a network with the local government and others, is a significant advantage. In Microfinance business, existing business in Cambodia works favorably and the alliance with a Grameen Bank-affiliated financial entity (ability to utilize knowhow and a broad overseas network) should contribute to further expansion of the network.

**2) Business areas with strong growth potential and profitability**

The Company's businesses are likely to achieve growth commensurate with advances in the Cambodian economy and also strategically target highly profitable automobile, finance, and human resource segments. They have robust potential and should also realize synergies\*.

\* For example, the Company could provide funds for starting a business (Microfinance) after a technical student sent to Japan for car mechanic training returns to Cambodia and arrange for a distributorship handling vehicle sales (leasing) in the new business (network building).

## Company profile

### 3. History

Current President (Representative Director) Takeshi Kuroda established Recycle Book Center Inc. (Yokkaichi, Mie), the Company's predecessor, in July 2000 for the purpose of parcel service collection and sales of books on the Internet. Mr. Kuroda, who worked at Toyota Motor Corporation <7203> until 1998, founded BOOKOFF Wave to operate a BOOKOFF franchise store as BOOKOFF Corporation's (currently BOOKOFF Group Holdings Limited <9278>) first investment in its entrepreneur assistance program. However, he decided to proceed with a new company concept in anticipation of growing demand for a highly convenient Internet-based service, rather than operating through real stores, in the reuse market amid steady inroads by the Internet and aging of society. Toyota Motor and BOOKOFF Corporation invested (capital and business alliance) in the venture.

In August 2000, he began the business with a used-book site eBOOKOFF on the GAZOO mall run by Toyota Motor (in December 2000, he changed the company name to eBOOKOFF). The site subsequently broadened the scope of handled products to used CDs (February 2001), used game software (August 2001), and used DVDs (June 2002) and benefited from the branding effect through a licensing contract for use of the emblem with BOOKOFF Corporation (this contract ended in March 2012). The Company developed the parcel service collection and Internet reuse market as a pioneer. It changed the company name to NET OFF in October 2005.

After opening the second product center (Obu, Aichi) in September 2009, the Company began parcel-based purchase service for brand products, cameras and musical instruments, sports equipment, and other items in November and evolved into a comprehensive reuse company. It received the top award at the PACT2009 venture content in Silicon Valley (US) in December 2009 on favorable assessment of its business model that generates profits from low-priced used books utilizing parcel delivery service. Furthermore, the Company obtained certification of a Guinness world record for the largest number of used books sold online in a single year in February 2012.

The Company's biggest turning point came with the establishment of RenetJapan Inc. (now a consolidated subsidiary) for the purpose of recycling small electronics equipment in March 2013 and move into the recycling market. It saw an opportunity for recycling of rare metal resources utilizing a new collection approach based on Internet and parcel delivery services following implementation of the Act on Promotion of Recycling of Small Waste Electrical and Electronic Equipment in April 2013. Key motives for entering this market were obviously the large potential market from the "urban mine," but also appeal of a higher barrier for new entrants as a licensed business compared to the reuse business where competition had been getting tougher. In January 2014, the Company acquired a license as a certified operator under the above-mentioned law from the Ministry of Environment and the Ministry of Economy, Trade and Industry and became the only firm with approval to collect equipment via parcel delivery service with nationwide coverage. We think the government reacted positively to the proposed scheme of collection through collaboration with individual local government entities. The Company concluded an exclusive contract with Sagawa Express for consignment of collection and transportation of used small electronics equipment. It cleared three major hurdles with acquisition of a license and formation of alliances with a parcel delivery operator and local government entities throughout the country. In October 2014, the Company renamed itself RenetJapanGroup, Inc. and arrived a second founding phase with the addition of Internet recycling business as a new growth driver.

The Company launched its parcel-based purchase service for small electric equipment in Aichi Prefecture in July 2014 and has accelerated the increase in collaborating local government entities since then, including Kyoto in October 2014 and Tokyo in February 2016. It began the "nationwide garbage day navigation" smartphone app in April 2016 and also engaged in activities to raise awareness of the service jointly with local government entities. Thanks to these efforts, the Internet recycle business ramped up at a steady pace. The Company listed shares on the TSE Mothers market in December 2016.

## Company profile

In May 2017, the Company decided to establish a leasing company as a joint venture with SBI Holdings in order to enter the financing business using fintech in Cambodia. In February 2018, it announced entry into the Microfinance business through collaboration with a Grameen bank-affiliated financial entity. In April 2018, it started the Sending Technical Intern Trainee to send Cambodia technical students to Japan. The Company is focusing on Cambodia business as a third pillar.

## Results trends

### Internet reuse business, the founding area, is a stable income source, while Internet recycle and Cambodia businesses are in founding phases as new growth drivers

#### 1. Past results trends

Looking back on past results, Internet reuse business, the founding area, has supported the Company's overall results as a stable source of income. The Company has arrived at a new growth phase with recent strong gains in Internet recycle business, which had grown at a moderate pace since FY9/15, and Cambodia business, which the Company fully launched in FY9/18.

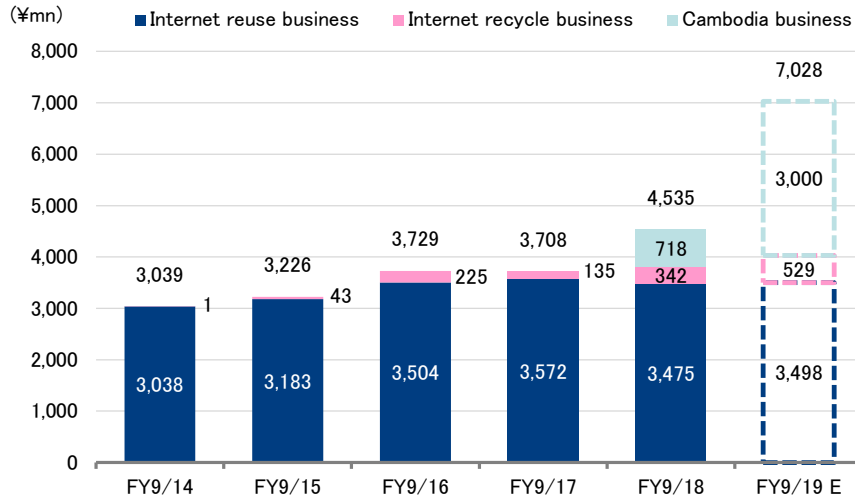
In profits, the Company leveraged unit-cost reductions in Internet reuse business achieved via low-cost operations and cutbacks in SG&A expenses (curtailing personnel costs, revising advertising and promotional costs, etc.) to secure a certain amount of profit while covering upfront spending on the Internet recycle business. The setback in FY9/17, meanwhile, occurred due to one-time misreading of purchase price controls in Internet reuse business (already resolved) and higher indirect costs accompanying the IPO. Profits were also somewhat sluggish in FY9/18 because of one-time branding costs for Internet recycle business and headquarters moving costs. Nevertheless, the Company expects a substantial boost in profitability in FY9/19 from expansion of Cambodia business.

In finances, the Company strengthened its financial base with the issuance of new shares for the IPO (it raised about ¥260mn) in December 2016. Yet the equity ratio modestly declined to 35.4% at end-FY9/17 (vs. 37.7% at end-FY9/16) because of locking in investment leeway (in-hand liquidity) to fund growth with a long-term loan. It dropped further to 19.8% at end-FY9/18 because of substantial expansion of total assets with growth in vehicle sales in the Cambodia business and consolidation of Chamroeun. However, it issued share acquisition rights (with exercise price amendment clause and exercise permission clause) through third-party allotment\* on December 10, 2018 and stands to raise about ¥2.2bn if all of the warrants (22,000) are exercised at the initial exercise price (¥1,001). (The exercise date is December 9, 2020.)

\* Placement subscribers are Morgan Stanley MUFG Securities Co., Ltd. (15,400) and SBI SECURITIES Co., Ltd. (6,600) with warrant issuance value totaling ¥9.4mn.

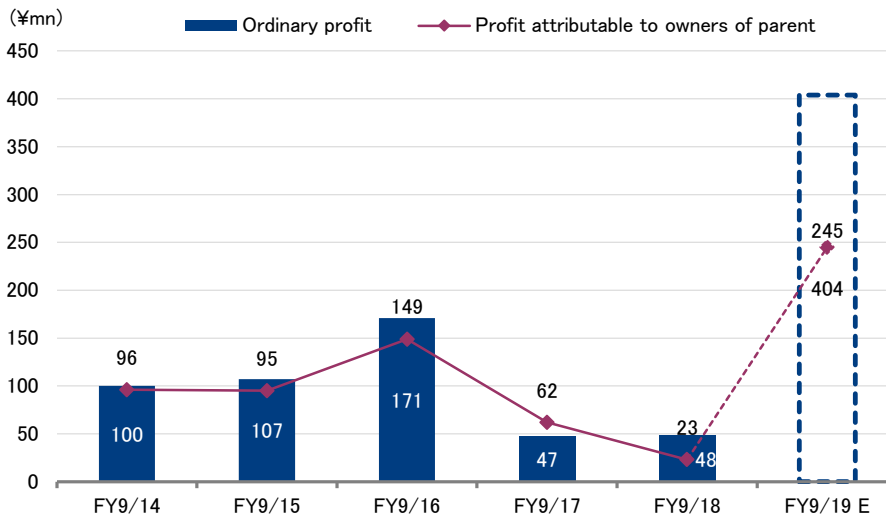
Results trends

Trend in net sales



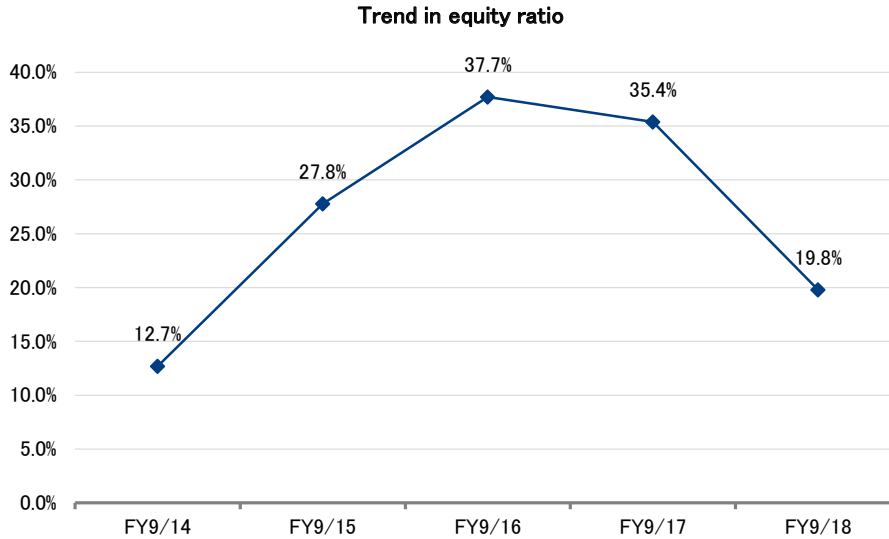
Source: Prepared by FISCO from the securities report and the Company's results briefing materials

Trends in ordinary profit and profit attributable to owner of parent



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

Results trends



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

## Posted higher sales and ordinary profit in FY9/18, ramped-up Cambodia business grew substantially

### 2. Overview of FY9/18 results

In FY9/18, the Company posted higher sales and ordinary profit with net sales up 22.3% YoY to ¥4,535mn, operating profit down 83.6% to ¥8mn, ordinary profit up 3.5% to ¥48mn, and profit attributable to owners of parent down 62.1% to ¥23mn. However, sales and profits missed the initial targets. For the Cambodia business, postponement of consolidated processing of three months of results (Jul-Sep 2018) due to not having final values ready in time\*1 means that the Company's growth rates were even stronger if this portion is added\*2.

\*1 The Company proceeded cautiously in results preparation due to delays in obtaining registration approvals and other licenses required in Cambodia for establishment and operation of RENET JAPAN (CAMBODIA) Co., Ltd. and METREY HR Co., Ltd.

\*2 Pre-audit values (for the three postponed months) are ¥418mn in net sales, ¥57mn in operating profit, ¥56mn in ordinary profit, and ¥41mn in net profit. The Company plans to report these values in FY9/19 results.

In sales, the Internet reuse business had stable growth, while vehicle sales in the Cambodia business, which was ramped up in FY9/18, climbed substantially. Internet recycling business missed the ambitious period-start target, but still increased sales at a 2.5-fold YoY pace.

In profits, despite higher gross profits driven by increased sales, ordinary profit only booked a slight gain because of one-time branding costs in the Internet recycle business and headquarters moving costs and some other expenses. Profits considerably undershot period-start targets on a rise in one-time branding costs and the impact of delayed recognition of a portion of Cambodia business results, as explained above, as well as the impact of a sales shortfall in Internet recycle business with high marginal profit ratio\*.

\* Refers to an income structure in which profit margin climbs with increased sales (because of a low variable cost ratio).

## Results trends

In financial standing, capital rose 7.5% YoY to ¥923mn thanks to build-up of retained profits. The equity ratio, however, fell substantially to 19.8% (vs. 35.4% at end-FY9/17) because of a 92.4% increase in total assets to ¥4,663mn with higher accounts receivables fueled by growth in vehicle sales from the Cambodia business and recognition of operating loans and goodwill from consolidation of Chamroeun (only added to the balance sheet).

## Overview of FY9/18 results

	FY9/17		FY9/18		Change		(¥mn)		
	Result	Composition ratio	Result	Composition ratio	Change	Change %	FY9/18		Difference
							Initial forecast	Composition ratio	Achievement ratio
<b>Net sales</b>	3,708		4,535		827	22.3%	4,762		-227 95.3%
Internet reuse business	3,432	92.6%	3,475	76.6%	43	1.2%	3,510	73.7%	-35 99.0%
Internet recycle business	135	3.6%	342	7.5%	206	152.4%	1,000	21.0%	-658 34.2%
Cambodia business	140	3.8%	718	15.8%	578	414.1%	240	5.0%	478 299.2%
<b>Cost of sales</b>	1,255	33.9%	1,763	38.9%	508	40.5%	-	-	- -
<b>SG&amp;A expenses</b>	2,403	64.8%	2,764	60.9%	360	15.0%	-	-	- -
<b>Operating profit</b>	49	1.3%	8	0.2%	-41	-83.6%	161	3.4%	-123 6.2%
<b>Ordinary profit</b>	47	1.3%	48	1.1%	1	3.5%	158	3.3%	-110 30.9%
Internet reuse business	259	7.5%	292	8.4%	33	13.0%	-	-	- -
Internet recycle business	12	8.9%	-5	-	-17	-	-	-	- -
Cambodia business	21	15.0%	77	10.7%	56	263.3%	-	-	- -
<b>Common costs</b>	-246	-	-316	-	-70	128.9%	-	-	- -
<b>Profit attributable to owners of parent</b>	62	1.7%	23	0.5%	-39	-62.1%	135	5.0%	-112 17.7%

Note: Ordinary profit breakdown shows segment margins for each business.

Source: Prepared by FISCO from the Company's financial results and the securities report (A portion uses FISCO's estimated values)

Below we review results by the Company's businesses.

**(1) Internet reuse business**

Sales rose 1.2% YoY to ¥3,475mn, and segment ordinary profit expanded by a healthy 13.0% to ¥292mn. Ordinary margin improved to 8.4% (vs. 7.5% in the previous year). This business realized steady growth amid upbeat gains in the reuse market (particularly over the Internet) due to an increase in the repeat ratio with enhanced incentives and improvements to the service site, success in expansion of sales channels, effective utilization of advertising and other product acquisition costs, stability in gross margin and other price control, and reinforced handling of higher-margin items, such as set products and hobby items.

**(2) Internet recycle business**

While sales increased sharply by 152.4% to ¥342mn, segment ordinary profit incurred a loss of ¥5mn (vs. a ¥12mn profit in the previous year). Having entered a new phase of general awareness of the program, including the official start of the "Everyone's Medal Project, Produced from the Urban Mine!"\*1, this business boosted sales on expansion of partner local governments\*2 and alliances with electronics volume resellers\*3. In profits, branding costs and other one-time costs (about ¥70mn) pressured income. Excluding this portion, however, profits climbed substantially (+441.7% YoY).

\*1 This is a project to make gold, silver, and bronze medals for the Tokyo Olympic and Paralympic Games in 2020 utilizing metals recycled from small electronic equipment. The Company is one of three major cooperating firms disclosed by the Ministry of Environment.

\*2 The Company had alliances with 175 local government entities (including 14 ordinance-designated cities) covering a population of 39.33 million people as of November 1, 2018.

\*3 This refers to alliances with electronics volume resellers (BIC CAMERA Inc. <3048>, Kojima Co., Ltd. <7513>, and Yodobashi Camera Co., Ltd.). The Company began with alliances from EC sites (selling its service usage coupons), but broadened to stores because of upbeat orders from tapping into need for "getting rid of existing products when making purchases."

Results trends

### (3) Cambodia business

This business significantly expanded to ¥718mn in sales (+414.1% YoY) and ¥77mn in segment ordinary profit (+263.3%). Growth rates are even higher with inclusion of the above-mentioned three-month delay portion that puts sales at ¥1,136mn (+741.7%) and segment ordinary profit at ¥133mn (+526.8%). Amid continued vibrant demand for used vehicles and farming equipment in Cambodia, vehicle sales rose substantially with support from RENET JAPAN (CAMBODIA), a wholly owned local subsidiary established in November 2017, to a total of 451 vehicles (from 71 vehicles in the previous year). The Company is also making smooth progress in ramp-up of Sending Technical Intern Trainee through METREY HR (it owns a 36.5% stake), which was founded in April 2018, by securing decisions to send 13 technical students to manufacturing plants in Japan, though it is not at a level of notable income additions yet. Consolidation of Microfinance business\*1, meanwhile, begins on October 1, 2018 (the Company consolidated this business on the balance sheet at end-September 2018). Leasing business\*2, which the Company is entering jointly with SBI Holdings, is currently applying for approval from the National Bank of Cambodia and should begin operations (consolidation) in around spring 2019.

\*1 Acquired 100% of Chamroeun shares on February 13, 2018 (received approval from the National Bank of Cambodia on June 13, 2018).

\*2 Agreed to acquire ELIN jointly with SBI Holdings on August 14, 2018 with stakes of 51% for the Company and 49% for SBI Holdings.

## ■ Outlook

### Expecting significant growth in Cambodia business with entries into Microfinance and leasing

In FY9/19, the Company projects sharply higher sales and profits with net sales rising 54.9% YoY to ¥7,028mn, operating profit improving to ¥282mn (vs. ¥8mn in FY9/18), ordinary profit up 727.3% to ¥404mn, and profit attributable to owners of parent up 927.8% to ¥245mn.

In particular, the Company expects a strong contribution to sales from major expansion of Cambodia business, including 1) reflection of the portion postponed from FY9/18, 2) addition of Microfinance and leasing business (planned in spring 2019) being consolidated from FY9/19, and 3) further growth in vehicle sales (already healthy in FY9/18) supported by vibrant demand. It also forecasts healthy gains in Internet recycle business with pick-up in the medal project.

The Company projects continued steady profit growth in Internet reuse business as well as contributions to a steep rise in ordinary profit on a large boost from expansion of Cambodia business and improved income in Internet recycle business. These advances should support 5.7% ordinary profit margin (vs. 1.1% in FY9/18).

We think the Company has a good chance of meeting its targets because the underlying assumptions for Cambodia, the main projected growth driver in FY9/19, are not excessive, requests through local government entities are rising in the Internet recycle business, including support from advances in the medal project, and the Internet reuse outlook is conservative. The Cambodia business might actually provide upside, as it did in FY9/18, amid robust economic growth in the country. It is thus important to closely monitor results trends at the quarterly level. We see a possibility of Internet recycle business overshooting too depending on the extent of progress in the medal project (improvements in recognition and momentum).



## Outlook

## Forecast for FY9/19

	FY9/18		FY9/19		Change	
	Results	Composition ratio	Forecast	Composition ratio	Change	Change %
Net sales	4,535		7,028		2,493	54.9%
Internet reuse business	3,475	76.6%	3,498	49.8%	23	0.7%
Internet recycle business	342	7.5%	529	7.5%	187	54.7%
Cambodia business	718	15.8%	3,000	42.7%	2,282	317.8%
Operating profit	48	0.2%	282	4.0%	274	-
Ordinary profit	48	1.1%	404	5.7%	356	727.3%
Internet reuse business	292	8.4%	249	7.1%	-43	-14.7%
Internet recycle business	-5	-	54	10.2%	59	-
Cambodia business	77	10.7%	447	14.9%	370	-
Common costs	-316	-	-346	-	-30	-
Profit attributable to owners of parent	23	0.5%	245	3.5%	222	927.8%

Note: Ordinary profit shares by business show segment margins for each business.  
 Source: Prepared by FISCO from the Company's financial results and the securities report

## Market environment (Japan)

### Sluggishness in the real-world store segment of the reuse industry, but small electronics equipment recycling offers significant potential

#### 1. Reuse market

The reuse market is steadily expanding and was worth an estimated ¥1,774.3bn in 2016 (+7.4% YoY)\*. Purchases over the Internet are at about 45% of market value and have been driving overall growth amid a slowdown in store sales. Market expansion reflects changes in consumer sentiment along with a shift of reuse activity to the Internet alongside growth in the EC market as a whole with convenience and simplicity as drivers, particularly among younger people. The Company's main segments of used books and media (books, games, and media) and hobby items and model figures is one of the largest categories at ¥264.1bn, together with brand items (¥240.1bn). As recent trends, however, shrinkage of the primary distribution market due to expansion of Internet distribution raises concern for used books and media, and tougher competition and advances by flea market app (transactions between individuals) are slowing growth in the reuse industry, especially the real-store market. However, difficult industry conditions might improve the prospect of survivor benefits by encouraging business exits and industry weeding out, and there is a possibility of further shift to the vibrant Internet market.

\* The Recycle Business Journal "Secondhand Market Data Book 2018"

Market environment (Japan)

**2. Recycling market**

The Company's target market is the market covered by the Act on Promotion of Recycling of Small Waste Electrical and Electronic Equipment, which has more than 400 items including PCs, PC peripherals, audio and video equipment, mobile phones, digital cameras, and game machines. It is estimated that the volume of small electronics no longer used is 650,000 tons a year in Japan. These products contain 280,000 tons of useful metal (worth ¥84.4bn), including rare metals. For example, Japan possesses 6,800 tons of gold which corresponds to 16% of total global reserves, and 60,000 tons of silver, which is 22% of total reserves. Since these resources are comparable to global natural mine reserves\*1, the industry refers to an "urban mine" in Japanese households. Regarding PCs, the main product handled by the Company's business, it is estimated that 46.7% of people still have PCs that are no longer being used in their homes and Japanese households hoard more than 30 million PCs nationwide\*2. Furthermore, home PC sales exceed 5 million units a year, but the collection rate with conventional methods is just 5%. PC hoarding hence is growing each year\*3. This means the Company has a very large potential market. While Japan currently has about 50 certified operators, including the Company, there is no actual competition because the Company is the only operator with a platform-type business model (it has a cooperative relationship with other certified firms).

\*1 National Research and Development Agency, National Institute for Materials Science  
 \*2 Results from a consumer questionnaire conducted by the Ministry of Economy, Trade and Industry  
 \*3 Most common reasons for hoarding are "troublesome disposal process" (39.0%) and "concern about personal information leaks" (35.9%)

## Growth strategy

### Targeting conversion to an income structure led by three businesses and faster growth

The Company has three longer-term growth drivers – rapid expansion of the Cambodia business, broader employment and business scope in Internet recycle business, and stable income generation in Internet reuse business. It aims to convert the income structure and accelerate growth through further business expansion and social contributions. In particular, it plans to give priority emphasis the following points in pursuing future growth.

**1. ReNet in Cambodia**

The Company plans to expand business and social contributions further with a goal of fostering ReNet as a leading Japanese corporate presence in fast-growing Cambodia, including potential pursuit of new businesses (such as utilizing blockchain). It wants to reach cumulative sales of 3,000 vehicles in the vehicle sales and leasing business by FY9/21 and exceed ¥4bn in total sales in Microfinance business in FY9/22.

**2. Accelerated initiatives to resolve manpower shortages**

The Company intends to quickly ramp up the Sending Technical Intern Trainee in Cambodia amid increasingly severe manpower shortages in Japan. It hopes to be a bridge between Japan and Cambodia and realize growth in its own business by helping resolve Japan's manpower shortage with job assistance anticipated by Cambodia. The Company has outlined a plan for sending 1,000 people a year to Japan by FY9/22.

## Growth strategy

### 3. Expansion of the employment model for people with disabilities

The Company hopes to contribute to resolving employment difficulties for people with disabilities and manpower shortages through promotion of jobs for disabled people at PC dismantling sites in the small electronic equipment recycling business\*

\* PC dismantling requires a high level of concentration and is thought to be suitable work for people with mental disabilities. In fact, many people with mental disabilities work in manual dismantling processes.

We believe Cambodia business is likely to be a major driver of the Company's overall growth in light of strong economic growth and advantages of having its own network and knowhow in the country. Internet recycle business also has large room for growth on advances in the medal project and other initiatives, particularly because of significant potential market for the urban mine and a business model with tough entry barriers and no competition. We also see a possibility of sharp improvement in profitability if Internet recycle business proceeds to a robust growth trajectory because of its high earnings model, in contrast to previous business. Our primary focus is interpreting how the business expansion pace and income structure changes affect the Company's financial content. Trends in FY9/19 results, which will include all four Cambodian businesses, hence are likely to offer important indications in assessing growth potential. We think it is also important to closely monitor new M&A deals and new business initiatives as upside factors. On the other hand, we will be paying attention to emergence of new risks (such as credit management and forex risk) and what factors might constrain growth (bottlenecks).

## Shareholder returns

### Likely to continue postponement of dividends for the time being, though there is a shareholder benefit program aimed at reinforcing the member base

The Company has not paid dividends in past years because of emphasis on accelerating growth in an investment phase, and it is continuing the stance of no dividends in FY9/19. We do not expect shareholder return as dividends for the time being due to being in a stage of giving priority to investments in expansion of the Cambodia business and other areas.

Nevertheless, the Company has introduced a shareholder benefits program to foster its relationship with shareholders and strengthen the member base. It gives as much as ¥11,000 in benefits (¥10,000 increase in assessment value + ¥1,000 purchase coupon) per half year for ownership of one unit (100 shares). (Further benefits are given for consecutive ownership of the shares two years or longer.)



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