COMPANY RESEARCH AND ANALYSIS REPORT

RenetJapanGroup,Inc.

3556

Tokyo Stock Exchange Mothers

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Summary

Domestic business delivered all-time high results in FY9/20 driven by stay-home demand
Aims to accelerate growth by flexibly responding to changes in the market environment while limiting risk

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": the Reuse Business, Small Household Appliance Recycling Business, and Overseas Business. The 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 3.0mn members, as one of the largest domestic operators. The Small Household Appliance Recycling Business, which it started in 2014, meanwhile, provides a collection service utilizing the ReNet brand's parcel delivery infrastructure with certification under 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 expects this area to be a new pillar of revenue because of the scale of the potential market known as the "urban mine." Additionally, the Overseas Business in Cambodia, where the Company made a full-scale entry in FY9/18, offers robust growth and scale through initiatives in vehicle sales, used vehicle leasing, microfinance and dispatching technical intern trainees. While the COVID-19 situation is favorably affecting domestic business and hurting overseas business, the Company does not plan to significantly alter its direction of pursuing three main businesses. It aims to accelerate growth by flexibly responding to changes in the market environment while limiting risk.

2. Overview of FY9/20 results

In FY9/20, the Company reported lower sales and profits on weakness in overseas business accompanying the COVID-19 outbreak with ¥6,836mn in net sales (-20.2% YoY), ¥214mn in operating profit (-50.2%), ¥241mn in ordinary profit (-37.4%), and a ¥1,602mn loss attributable to owners of parent. In net sales, the Reuse Business set an all-time high on growth driven by stay-home demand related to the COVID-19 situation and other factors, and the Small Household Appliance Recycling Business also improved substantially. However, overall value still declined due to a sharp slowdown in overseas vehicle sales business from 3Q amid the COVID-19 situation. In earnings, meanwhile, despite the downturn in profit due to weakness in overseas vehicle sales business, income contributions from domestic business and microfinance business supported operating profit (as well as ordinary profit). Nevertheless, the Company booked a hefty net loss due to recording an extraordinary loss (allowance inclusion) of about ¥1.71bn based on a conservative assessment of overseas vehicle sales business value to avoid future pressure on earnings.

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3. FY9/21 outlook

In FY9/21 guidance, the Company forecasts sales and profit improvements such as ¥7,807mn in net sales (+14.2% YoY), ¥355mn in operating profit (+65.8%), ¥310mn in ordinary profit (+28.3%), and ¥249mn in profit attributable to owners of parent (vs. a ¥1,602mn loss in the previous year). It expects continued healthy growth in the Reuse Business and Small Household Appliance Recycling Business and hopes to secure overall sales growth exceeding 14%, despite likely sluggishness in overseas vehicle sales business. In earnings, while losses should persist in overseas vehicle sales business until restructuring finishes, the Company anticipates steep increases led by profit growth in domestic business. Furthermore, it factors in profit increase of just over 50% in microfinance business and fiscal-year (FY9/21) profitability in personnel dispatching business.

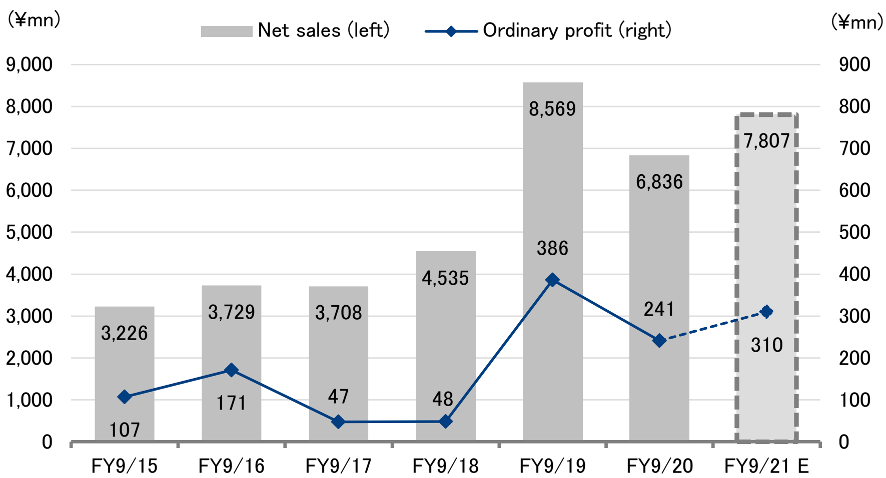
4. Growth strategy

The Company aims to transform its income structure and accelerate growth with longer-term growth drivers of sustainable growth (share expansion) in the Reuse Business, further expansion (new market creation) in the Small Household Appliance Recycling Business, and initiatives to solve societal issues (acquisition of market opportunities) in the Overseas Business. Despite recent pressure from the COVID-19 situation, we maintain our view that the Overseas Business is likely to be an important source of longer-term growth because of strong economic growth prospects and advantages in the Company's proprietary network and know-how. We also see substantial growth leeway for the Small Household Appliance Recycling Business, which has a large potential market, high entry barriers, and a business model with few rivals, facilitated by the Company's unique initiatives, including assistance for recycling programs at various companies and creation of employment opportunities for disabled people.

Key Points

- Posted lower sales and profits in FY9/20 due to setback in overseas vehicle sales business
- Reuse Business and Small Household Appliance Recycling Business reached all-time highs thanks to stay-home demand and other factors
- Forecasts higher sales and profits in FY9/21 on continued upbeat growth in the Reuse Business and Small Household Appliance Recycling Business despite ongoing sluggishness in overseas vehicle sales business
- Aims to accelerate growth premised on "profits" and "social contributions" by implementing initiatives to solve societal issues

Results trends



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

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Company profile

In addition to the Reuse Business and Small Household Appliance Recycling Business, focusing on the Overseas Business (vehicles, finance, and personnel)

1. Business overview

The 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 3.0mn 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 Small Household Appliance Recycling Business, which it started in 2014, meanwhile, provides a collection service utilizing the ReNet brand's parcel delivery infrastructure with certification under 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. Due to the scale of the potential market (known as the "urban mine"), tough entry barriers, and rising awareness among the general population, it has gradually grown as a new pillar of growth. The number of collaborating local government entities reached 283 sites as of November 2, 2020 and continues to increase.

Additionally, the Overseas Business, which the Company has ramped up since FY9/18, offers robust growth and scale through initiatives in vehicle sales, used vehicle leasing, microfinance, and dispatching technical intern trainees.

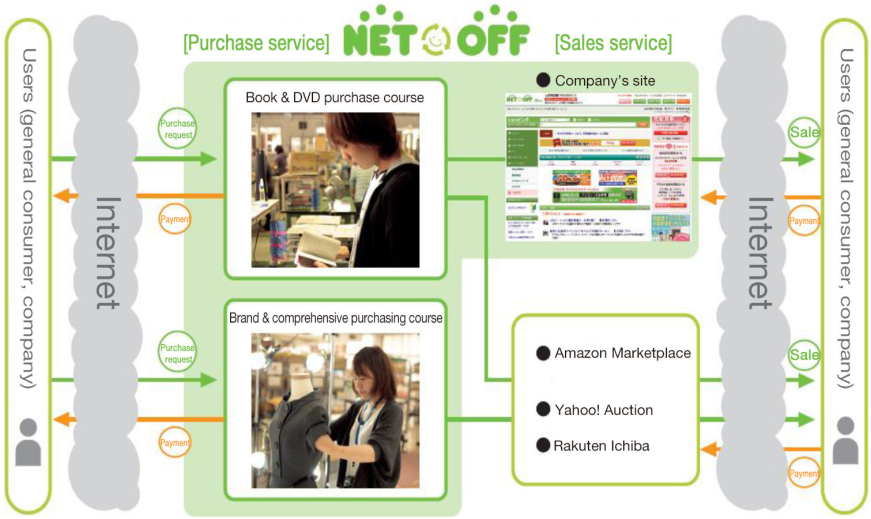
The breakdown of net sales by business area in FY9/20 was well balanced with the Reuse Business at 57.2%, Small Household Appliance Recycling Business at 17.0%, and Overseas Business at 25.8%.

Below we review the Company's various businesses.

(1) 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, game software, brand products, precious metals, cameras, and model figures, through its website under the NET OFF brand, collects the items via a 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) Small Household Appliance Recycling 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 website 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 from collected small electronic equipment to intermediate processing firms (this business model avoids the Company's backyard by connecting various players). The Company entered this business after obtaining certification under 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. This business has substantial room for expansion beyond the local government channel as seen in recent collaboration with large electronics volume resellers and electronic equipment manufacturers that are promoting development of a cyclical society. The Company launched its own PC processing center (about 1,000 tsubo) and is creating employment opportunities for people with intellectual disabilities through recycling. It aims to create jobs and promote recycling (gaining access to PC collection routes) by working together with private-sector companies and others that must meet requirements related to employing disabled people.

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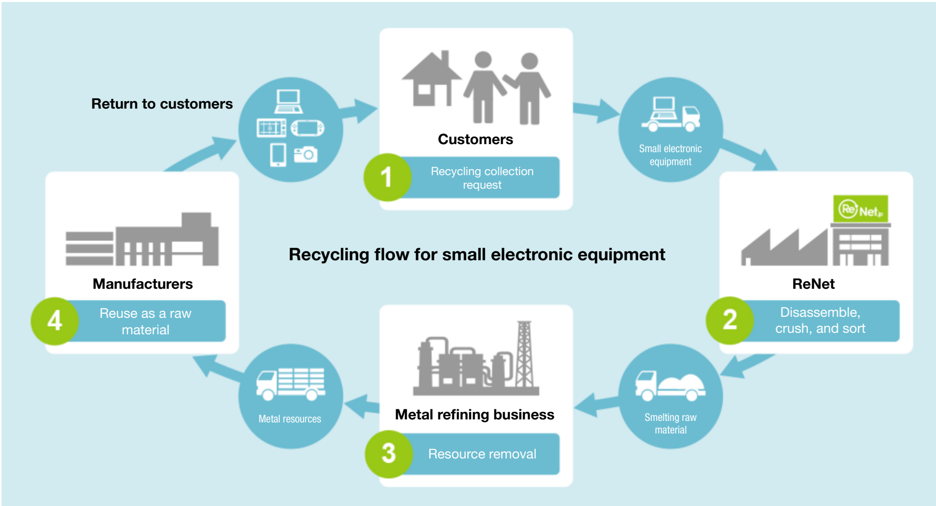
Image of the business model for the Small Household Appliance Recycling Business



Source: Company website

(3) Overseas Business

The Company operates five businesses in automobile, finance, and human resources markets with opportunities for healthy growth and scale in Cambodia, a country making substantial economic advances – vehicle sales, used vehicle leasing, microfinance, micro insurance and dispatching technical intern trainees. It is also participating in international cooperation activities in Cambodia jointly with the Cambodian government, Japanese government, and the Japan International Cooperation Agency (JICA), mainly in the area of human resource training. In Cambodian business, while recent results have dropped considerably with some impact from the COVID-19 pandemic, this business remains an important component of the Company's longer-term growth prospects. The Company intends to strengthen operations for further business expansion and social contributions by flexibly responding to market environment trends while limiting risk. Below is a review of overseas business areas.

a) Vehicle sales business

The Company began vehicle procurement and installment sales with the launch of RENET JAPAN (CAMBODIA) CO., LTD. on November, 2017. While this business expanded considerably on robust demand for used vehicles and farming equipment and tools, it has rapidly slowed amid the COVID-19 pandemic and the Company decided to freeze new sales activities for the time being.

b) Used vehicle leases

The Company agreed to purchase shares of Cambodia-based leasing firm ELIN Leasing Plc. (ELIN) jointly with SBI Holdings Inc. <8473> on October, 2019 with stakes of 51% for the Company and 49% for SBI Holdings, thereby entering the vehicle leasing business. However, it is restructuring by significantly scaling back operations on the prospect of COVID-19 pandemic impact and purchased SBI Group's 49% stake.

c) 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, 2018, entering the microfinance business that caters to poor people (consolidated since October 2018). This business has an important social role and is doing well even with the COVID-19 pandemic.

* Chamroeun has 21 branch offices and about 40,000 borrowers with outstanding loan value of roughly US$28mn.

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d) Micro insurance business

The Company concluded a stock transfer contract (100% stake) for social micro insurance provider Prévoir (Kampuchea) Micro Life Insurance Plc. (below, Prévoir) in February 2019 and consolidated this business from January 2020.

e) Dispatching technical intern trainees

The Company founded METREY HR Co., Ltd. in April 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 (NPIC) 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). The Company is also planning to build a training center and dormitory for dispatching that handles 1,500 people. While Japan temporarily halted visa issuance to foreigner workers because of the COVID-19 pandemic, the Company resumed dispatches of technical intern trainees to Japan in October 2020.

Intends to accelerate growth with upfront investment of profits from reuse business, a stable earnings source, in growth areas

2. Characteristics of the Company

(1) Growth model

Income in the 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. The Small Household Appliance Recycling 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 entities such as local governments and electronics volume resellers nationwide. Key drivers are expansion of the number of partner local governments (as well as the number of partner companies) and improvement in the collection (usage) rate. In the platform-type Small Household Appliance Recycling Business, high-margin service income is an important revenue source. Additionally, the Company strives to create jobs for people with intellectual disabilities by launching its own PC processing center. Collaboration with private-sector companies and others is an important strategy too.

> * 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).

The Overseas Business in Cambodia, meanwhile, consists of the five businesses mentioned above. We expect vehicle sales volume (vehicle sales business), vehicle lease volume (used vehicle leasing business), total loan value (microfinance business), and the number of arranged people (dispatching technical intern trainees) to serve as the main growth drivers.

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While the Company obviously intends to achieve growth in each of the three business areas, its strategy pursues an accelerated pace through a business portfolio approach of upfront investments of profits generated by the Reuse Business, which is positioned to receive survivor profits, and the Small Household Appliance Recycling Business, which has developed into a new earnings pillar, in growth areas.

(2) Business model advantages

a) Strengths of the 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 20 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 Small Household Appliance Recycling 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. At this point, the Company is the only entrant from a different industry with a collection scheme utilizing a parcel delivery service through an alliance with Sagawa Express Co., Ltd. (SG Holdings Co., Ltd. <9143>) 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 a 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.

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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. The number of collaborating local government entities reached 283 sites as of November 2, 2020 and continues to increase.

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 Overseas Business

1) Building a network with local government, etc.

Business in Cambodia 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 JICA as part of fostering new business and CSR activities. This initiative led to entry into vehicle sales and used vehicle leasing, microfinance, and dispatching 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 institution (ability to utilize know-how 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).

Developed the market as a pioneer in parcel-based purchasing and internet reuse

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-based purchasing service and sales of books on the internet. Mr. Kuroda, who worked at Toyota Motor Corporation <7203> until 1998, founded Book Off Wave Co., Ltd. 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 Co., Ltd.). 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-based purchasing service and internet reuse market as a pioneer. It changed the company name to NETOFF Co., Ltd. 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 a 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 ReNet Japan Co., Ltd. (now a consolidated subsidiary, RenetJapanRecycle,Inc.) 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 a 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 Small Household Appliance Recycling Business as a new growth driver.

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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 Small Household Appliance Recycling Business ramped up at a steady pace. The Company listed shares on the TSE Mothers market in December 2016.

Furthermore, the Company established METREY HR Co., Ltd. for personnel dispatching business in Cambodia in January 2018 and RENET JAPAN (CAMBODIA) Co., Ltd. (wholly owned subsidiary) for vehicle sales business in February 2018. It subsequently acquired shares of a social microfinance business (Chamroeun) from a Grameen-related financial institution in September 2018, purchased shares of a leasing company (ELIN) in October 2019, purchased shares of a social micro insurer (Prévoir) and added it as a consolidated subsidiary in January 2020, and established a joint venture with Soramitsu Holdings AG (headquarters in Zug, Switzerland; CEO Makoto Takemiya; below Soramitsu) (FinTech venture) aimed at entering the internet bank business in Cambodia (announced in February 2020). The Company is focusing on businesses in Cambodia, a fast-growing market, as a third pillar.

Results trends

The Reuse Business, the founding area, is a stable income source The Small Household Appliance Recycling Business as a new earnings pillar

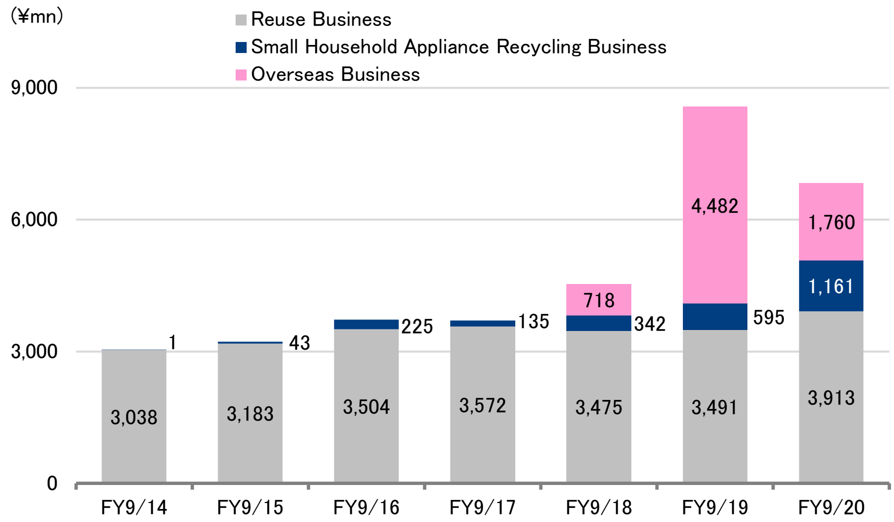
1. Past results trends

Looking back at the Company's results, its founding Reuse Business has supported profits as a stable earnings source. It also moved into the Small Household Appliance Recycling Business, which has steadily grown since FY9/15, and the Overseas Business in FY9/18. With recent COVID-19 pandemic impact, it entered a new stage.

In earnings, the Company leveraged unit-cost reductions in the 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 Small Household Appliance Recycling Business. The setback in FY9/17, meanwhile, occurred due to one-time misreading of purchase price controls in the 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 the Small Household Appliance Recycling Business and headquarters moving costs. In FY9/19, expansion of the Overseas Business and other developments provided a large boost to profitability. However, in FY9/20, despite all-time high results in the Reuse Business and Small Household Appliance Recycling Business, Overseas Business slumped significantly due to the COVID-19 pandemic.

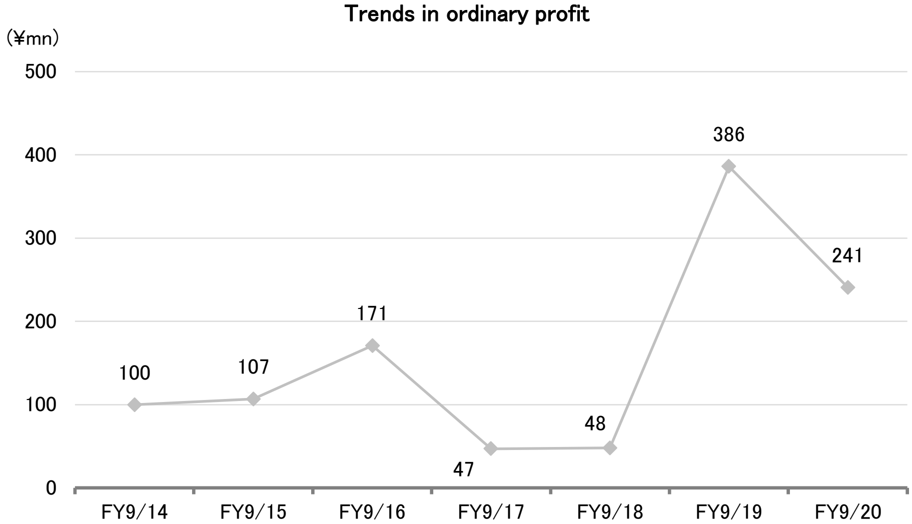
In finances, the Company strengthened its financial base with the issuance of new shares for the IPO (it raised about ¥260mn) in December 2016. Yet the equity ratio modestly declined to 35.4% at end-FY9/17 (vs. 37.7% at end-FY9/16) because of locking in investment leeway (in-hand liquidity) to fun growth 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 Overseas Business and consolidation of Chamroeun. The Company's capital ratio improved to 33.8% in FY9/19 on exercise of share acquisition rights through third-party allotment (raising about ¥1.5bn). In FY9/20, meanwhile, the capital ratio dropped back to 15.7% as a result of putting priority on obtaining liquidity and conservative asset valuation (allowance inclusions) amid COVID-19 pandemic conditions.

Trends in net sales

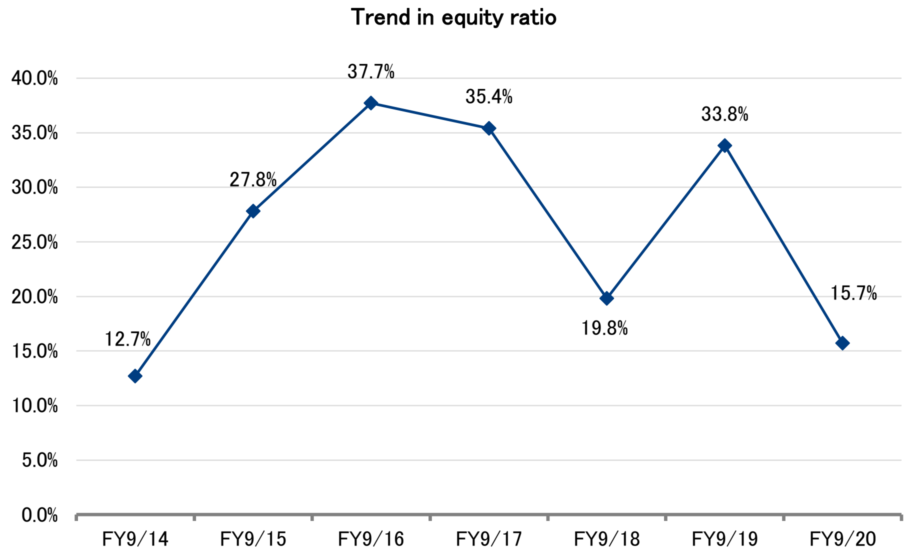


Source: Prepared by FISCO from the Company's financial results, securities report, and supplementary results materials

Trends in ordinary profit



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



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

Overseas business slowed sharply due to the COVID-19 pandemic in FY9/20. Though domestic business reached all-time highs

2. Overview of FY9/20 results

In FY9/20, the Company reported lower sales and profits on weakness in overseas business accompanying the COVID-19 outbreak at ¥6,836mn in net sales (-20.2% YoY), ¥214mn in operating profit (-50.2%), ¥241mn in ordinary profit (-37.4%), and a ¥1,602mn net loss attributable to owners of parent. Net sales and profit values missed the initial forecast. Nevertheless, profits exceeded the revised outlook (from August 14, 2020) on advances in domestic business.

In net sales, the Reuse Business set an all-time high on growth driven by stay-home demand related to the COVID-19 pandemic and other factors and Small Household Appliance Recycling Business also improved substantially. However, overall sales fell more than expected in the initial forecast, even though non-recurrence of period discrepancy income in FY9/19* was within the anticipated range, because overseas vehicle sales business slowed sharply from 3Q due to COVID-19 pandemic impact. Microfinance business, meanwhile, stayed healthy in the overseas segment.

* The Company's FY9/19 results included three-month discrepancy in overseas business income. This meant that discrepancy accounted for about ¥600mn of sales decline (roughly ¥1,700mn) and about ¥80mn of ordinary profit decline (¥144mn) in FY9/20. We think these amounts should be taken into consideration in assessing the results trend.

In earnings, despite profit downturn on weakness in overseas vehicle sales business, sales contributions from domestic business and microfinance business supported operating (and ordinary) profits. Nevertheless, the Company booked a hefty net loss due to taking an extraordinary loss (allowance inclusion) of about ¥1.71bn based on implementing conservative assessment of operating assets (accounts receivables, etc.) in overseas vehicle sales business to avoid future pressure on earnings.

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In financial conditions, the Company reported a 24.7% YoY rise in gross assets to ¥9,500mn because of a large boost in surplus cash with long-term loans and other measures as preparation for uncertainties related to the COVID-19 pandemic and increases in "products" (purchased item volume) in the Reuse Business and "operating loan value" in microfinance business. Capital, meanwhile, shrunk 42.2% YoY to ¥1,488mn, despite procurement of about ¥500mn from exercise of share acquisition rights*, because of the hefty net loss, and the capital ratio dropped to 15.7% (vs. 33.8% at end-FY9/19). However, since these setbacks stemmed from liquidity-related measures and conservative asset valuation (allowance inclusion and impairment charges) and the liquidity ratio is 224.3%, the Company is not confronting financial soundness concerns (refer below for more details).

* The Company issued share acquisition rights (26,000 units) through third-party allotment on March 9, 2020. The exercise of share acquisition rights through end-September 2020 totaled 18,061 units (1,806,100 shares). The Company decided on November 27, 2020 to suspend exercise of the remaining 7,939 units until March 2, 2021 on the basis that it already obtained sufficient surplus cash.

Overview of FY9/20 results

(¥mn)

	FY9/19		FY9/20		Change		FY9/20 Initial forecast		FY9/20 Revised outlook (From August 14, 2020)	
	Result	Composition ratio	Result	Composition ratio		Change %		Composition ratio		Composition ratio
Net sales	8,569		6,836		-1,733	-20.2%	7,568		6,899	
Reuse Business	3,491	40.7%	3,913	57.2%	422	12.1%	-	-	-	-
Small Household Appliance Recycling Business	595	6.9%	1,161	17.0%	566	95.1%	-	-	-	-
Overseas Business	4,482	52.3%	1,760	25.8%	-2,721	-60.7%	-	-	-	-
Operating unit costs	4,553	53.1%	2,398	35.1%	-2,154	-47.3%	-	-	-	-
SG&A expenses	3,586	41.8%	4,223	61.8%	637	17.8%	-	-	-	-
Operating profit	429	5.0%	214	3.1%	-215	-50.2%	383	5.1%	179	2.6%
Ordinary profit	386	4.5%	241	3.5%	-144	-37.4%	412	5.4%	208	3.0%
Reuse Business	360	10.3%	551	14.1%	191	53.1%	-	-	-	-
Small Household Appliance Recycling Business	36	6.1%	336	28.9%	300	833.3%	-	-	-	-
Overseas Business	588	13.1%	-31	-1.8%	-619	-	-	-	-	-
Common costs	-457	-	-589	-	-132	-	-	-	-	-
Forex income	-140	-	-25	-	115	-	-	-	-	-
Profit attributable to owners of parent	247	2.9%	-1,602	-23.4%	-1,849	-	259	3.4%	55	0.8%

Note: Ordinary profit breakdown shows segment margins for each business.
Source: Prepared by FISCO from the Company's financial results and supplementary results materials

Fiscal conditions at end-FY9/20 (abbreviated)

(¥mn)

	End-FY9/19	End-FY9/20	Change	
				Change %
Current assets	6,788	8,449	1,661	24.5%
Cash and deposits	1,031	2,897	1,865	180.9%
Accounts receivables	3,323	3,283	-40	-1.2%
Products	219	286	67	30.9%
Operating loans	2,036	2,893	856	42.1%
Allowance for doubtful accounts	-50	-1,487	-1,437	-
Fixed assets	822	1,032	209	25.5%
Total assets	7,621	9,500	1,879	24.7%
Capital	2,576	1,488	-1,088	-42.2%
Capital ratio	33.8%	15.7%	-18.1pt	-

Source: Prepared by FISCO from the Company's financial results and r supplementary results materials

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Below we review results by the Company's businesses.

(1) Reuse Business

Segment sales rose 12.1% YoY to ¥3,913mn, and segment ordinary profit increased 53.1% to ¥551mn. With sales and profit increases, the segment climbed to all-time highs. In particular, results expanded rapidly from 3Q on manifestation of "stay-home demand" related to the COVID-19 pandemic, and sales climbed by about 20% YoY in 2H. In earnings, profit expanded even faster than sales because of high marginal profit ratio in this business with its large product center. Segment margin improved to 14.1% (vs. 10.3% in FY9/19).

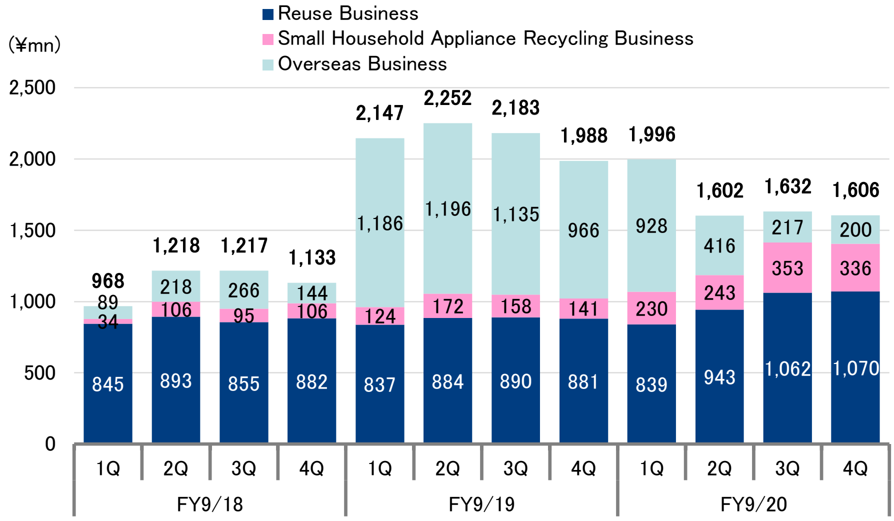
(2) Small Household Appliance Recycling Business

Segment sales were up 95.1% YoY to ¥1,161mn, and segment ordinary profit expanded about 9.3-fold to ¥336mn. Main growth drivers were wider collaboration with local government entities and electronics volume resellers thanks to recruitment activities, success in efforts to strengthen advertisements and promotions, and the lift from "stay-home demand" related to COVID-19 pandemic from 3Q. In 2H, revenue climbed by about 130% YoY. Since high marginal profit ratio is very high as a platform business, segment profit margin improved sharply to 28.9% (vs. 6.1% in FY9/19). This segment genuinely emerged as an earnings pillar.

(3) Overseas Business

Segment sales dropped 60.7% YoY to ¥1,760mn, and segment ordinary profit had a ¥31mn loss (vs. a ¥588mn profit in FY9/19). Segment results fell significantly, including a loss, because of COVID-19 pandemic impact. While non-recurrence of period discrepancy income from FY9/19 was within the anticipated range as explained above, vehicle sales business, which had contributed substantially to income, slowed sharply from 3Q because of heavy impact on Cambodia's tourism business (and related transportation business) by the pandemic and led the overall setback in overseas business. Additionally, micro insurance and personnel dispatching businesses that are currently in a ramp-up phase faced delays. Microfinance business, meanwhile, has steadily grown, despite the pandemic, and its advancement into a core business is a positive factor.

Trend in quarterly net sales by business area



Note: FY9/19 includes period discrepancy income in overseas business (three months)
Source: Prepared by FISCO from supplementary results materials

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3. Review of overseas business in the COVID-19 pandemic

(1) Cambodian economy situation

Cambodia boasts strong growth potential even compared to major ASEAN countries*1, but is likely to wind up at 2% negative growth in 2020 due to COVID-19 pandemic impact*2 with major setbacks in tourism (and related transportation) and construction industries. Despite recovery signs, mainly in construction, since August 2020, tourism still faces difficult conditions because of ongoing restrictions on travel by tourists. However, the base scenario forecasts rapid recovery at a +4.3% economic growth rate in 2021*2.

*1 Cambodia's economic growth rates were 7.0% in 2017, 7.5% in 2018, and 7.1% in 2019, outpacing average growth rates for major ASEAN countries (5.9% in 2017, 5.7% in 2018, and 5.2% in 2019).
*2 From the World Bank's "East Asia and Pacific Region Half-Year Economic Report" issued in October 2020.

(2) Overview of individual businesses and loss processing

a) Vehicle sales business

This business faced many repayment delays for vehicle installment accounts receivables in the tourism industry due to the COVID-19 pandemic. The Company halted new contracts from 3Q because of these conditions. In the absence of near-term prospects of market recovery, it intends to continue the freeze on new sales and focus on credit collection for the time being. It also booked a valuation loss and provision of allowance for doubtful accounts totaling about ¥1.65bn for vehicle sales business with conservative mark-to-market valuation of accounts receivables and inventory vehicles (totaling about ¥3.22bn) in order to alleviate burden on future earnings.

b) Used vehicle leasing business

The Company sharply scaled back this business too on the prospect of COVID-19 pandemic impact and aims to reach profitability. It acquired a 49% stake from SBI Group and intends to monitor business activities for the time being.

c) Microfinance business

Results have remained upbeat despite pandemic conditions. The business reported 40,292 customers and $28mn in loan value as of end-September 2020. Since the acquisition in 2018, outstanding loan value has grown at a very rapid 47% average annual pace, and the delinquency rate has been roughly halved and stabilized at a low level of less than 1%. With 21 sites (headquarters and branches), the business covers 16 states of Cambodia's 25 states. Focus on suburban and rural areas differentiates it from peers that compete in urban areas. Furthermore, value per loan is in the $600 range (vs. the $2,000 level at major peers) with emphasis on the poorer segment. Financing hence is highly distributed in small sums.

d) Micro insurance business

Micro insurance business has not attained the goal of profitability because COVID-19 impact curtailed sales contacts with customers. The Company abandoned an upgrade to a full-license non-life insurer premised on capital expansion. Furthermore, it plans to take impairment charges on related goodwill (about ¥34mn) and implement bold restructuring toward reaching profitability.

e) Dispatching technical intern trainees

Japan temporarily halted visa issuance to foreigner workers, delaying ramp-up of this business. However, it resumed dispatches of technical intern trainees in October 2020 and is aiming for profitability in FY9/21.

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4. Overview of FY9/20

As seen in the review of FY9/20 results presented above, overseas business weakened due to COVID-19 pandemic impact, while domestic businesses grew more than expected. Assessment of this disparity in trends is a key point. Our analyst takes the position from the standpoint of the Company's strategic business portfolio that rather than overseas business cancelling out growth in domestic business, this was a case of domestic business with a stable foundation offsetting weakness in overseas business that has strong growth prospects but also faces a high level of uncertainty. In particular, the Company's ability to secure a profit in ordinary profit, despite adverse conditions caused by a "force majeure" external factor, indicates that its build-up income model and diversified business portfolio provided valuable support. Looking ahead as well, while the slump in overseas vehicle sales business can be attributed to a temporary issue until the COVID-19 pandemic settles down, domestic business growth involved structural changes (uncovering latent markets) and is likely to result in sustainable growth (accelerated growth). Financial risk (balance sheet risk) accompanying the slump in overseas vehicle sales business, meanwhile, is a possible concern. Three potential risks are 1) risk of bad credit losses, 2) risk of funding shortfall, and 3) risk of capital erosion. For 1), the Company has allocated sufficient allowances based on conservative asset valuation and limited risk of new losses. For 2), losses from allowance inclusions (or valuation losses and impairment charges) occur in asset valuation and do not result in cash outflow. Since the Company also has obtained adequate surplus cash holdings and generates stable cash flow in domestic business, funding risk should not trigger concern at this point. For 3), decline in the capital ratio reflected surplus cash acquisition and one-time loss recognition related to allowance inclusion, and there is not much likelihood of further losses that lead to surplus liabilities. Nevertheless, it is important to closely monitor progress in restructuring efforts aimed at achieving early recovery in overseas business.

Main activity results

Preparing to establish a joint venture company for internet banking in Cambodia
Targeting initiatives related to the Bakong digital currency too

The Company reached a basic agreement on February 13, 2020 to establish a joint venture company in Cambodia with the aim of entering internet banking with Soramitsu, a venture company that develops FinTech and blockchain technologies and developed the Bakong* digital currency for the National Bank of Cambodia, which is Cambodia's central bank. While the COVID-19 pandemic delayed progress, preparations are moving forward to establish the joint venture within a few months (with investment stakes planned at 80% for the Company and 20% for Soramitsu). Through this initiative, the Company aims to launch big data business utilizing Bakong, including collaboration with its microfinance business already ramped up mainly in Cambodia's rural areas, and enter internet banking business in the future and promote financial inclusion in rural areas.

* The National Bank of Cambodia developed a digital currency payment system that utilizes blockchain ahead of the world and started operating it in October 2020. Increased use of this digital currency could boost financial inclusion by providing financial service usage opportunities to people living in rural areas who lacked access to these services up to now.

Outlook

Expects continued sluggishness in overseas business, though forecasts higher sales and profits in FY9/21 on growth in domestic business

1. Forecast for FY9/21

In FY9/21 guidance, the Company forecasts sales and profit improvements to ¥7,807mn in net sales (+14.2% YoY), ¥355mn in operating profit (+65.8%), ¥310mn in ordinary profit (+28.3%), and ¥249mn in profit attributable to owners of parent (vs. a ¥1,602mn loss in the previous year).

It expects continued healthy growth in the Reuse Business and Small Household Appliance Recycling Business driven by aggressive marketing activities and capacity enhancement, along with sluggishness in overseas vehicle sales business, and hopes to secure overall sales growth exceeding 14%.

In earnings, while losses should persist in overseas vehicle sales business until restructuring finishes, the Company anticipates steep increases led by profit growth in the Reuse Business and Small Household Appliance Recycling Business with high marginal profit ratio. Furthermore, it factors in profit increase of just over 50% in microfinance business and fiscal-year (FY9/21) profitability in personnel dispatching business due to increased loan amounts. These trends should support improvement of ordinary margin to 4.0% (vs. 3.5% in FY9/20).

Forecast for FY9/21

(¥mn)

	FY9/20		FY9/21		Change	
	Results	Composition ratio	Forecast	Composition ratio		Change %
Net sales	6,836		7,807		970	14.2%
Operating profit	214	3.1%	355	4.5%	140	65.8%
Ordinary profit	241	3.5%	310	4.0%	68	28.3%
Profit attributable to owners of parent	-1,602	-23.4%	249	3.2%	1,851	-

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

2. Analyst view

Our analyst believes that while it is important to closely monitor the extent of COVID-19 impact, the Company is sufficiently capable of attaining its guidance based on current conditions. In fact, these levels seem modestly conservative judging from the growth rate in domestic business since 3Q. Among potential scenarios of 1) healthy growth in domestic business and early recovery in the Cambodian economy and overseas business (best scenario), 2) healthy growth in domestic business but continued weakness in overseas business (second scenario), and 3) exhausted (stalled) domestic business and continued weakening of overseas business (worst scenario), the Company's guidance applies conditions similar to the third scenario. This puts focus on curtailing downside risk while pursuing upside as much as possible. Therefore, it is necessary to closely follow the situation from standpoints of domestic business growth and recovery process in overseas business.

Longer-term growth strategy

Targeting conversion to an income structure led by three businesses and faster growth
Strategy for harnessing initiatives to solve societal issue to realize growth

The Company aims to transform its income structure and accelerate growth with longer-term growth drivers of sustainable growth (share expansion) in the Reuse Business, further expansion (new market creation) in the Small Household Appliance Recycling Business, and initiatives to solve societal issues (acquisition of market opportunities) in the Overseas Business. This direction has not changed. The Company wants to achieve sustainable growth premised on "profits" and "social contributions." The following section reviews longer-term strategies in major businesses.

(1) Reuse Business

While the used books and media market as a whole has been flat, the internet reuse market is expanding, and "stay-home demand" related to the COVID-19 pandemic has accelerated the shift from real-world stores to the internet. The Company forecasts expansion of the internet reuse market from ¥50bn now to ¥100bn by 2025. With its aim of raising market share from 8% currently to 10%, the plan targets ¥10bn in net sales and ¥1bn in operating profit in 2025. In other words, the Company has depicted a strategy of realizing growth at a faster pace than the market amid rapid growth in the internet reuse market with aggressive advertising, recruitment of latent customers prompted by "stay-home demand," and expansion of product centers.

(2) Small Household Appliance Recycling Business

While the Small Household Appliance Recycling Business has moved onto a full-fledged growth trajectory thanks to results from past measures, it still offers substantial expansion room. Furthermore, the Company plans to expand capabilities with a new center to address additional growth in demand after collection request volume reached an all-time high in May 2020 and in light of current recycling centers running at full capacity. The Company aims to become a leader in PC collection by bolstering collection of commercial PCs in FY9/23 and is targeting ¥4bn in net sales and ¥1bn in ordinary profit in FY9/25 by setting up "urban mine" collection infrastructure through increased collaboration with manufacturers and retailers. It also intends to conduct activities that address employment for disabled people and help solve the issue of manpower shortages by promoting jobs for disabled people at PC disassembly sites.

(3) Micro finance business

The Company wants to develop itself further as a business that generates stable income and is highly conscious of social challenges. Specifically, its strategy targets pursuit of possibilities, such as boosting productivity with deployment of a core banking system* and collaborating with Soramitsu through a joint venture on business related to Bakong, the world's first central bank digital currency, and expansion of outstanding loan value at a pace of over 40% a year.

* It is currently in the final stage of deploying a new core banking system jointly with India-based NELTO.

(4) Dispatching technical intern trainees

Despite ramp-up delays caused by the COVID-19 pandemic, the Company aims to quickly get the personnel dispatching business in Cambodia on track amid worsening manpower shortages in Japan. Its strategy sees growth potential through having this business serves as a bridge between Japan and Cambodia and resolving Japan's manpower shortages with work assistance anticipated by Cambodia. To increase the number of dispatched interns, it plans to broaden the scope of job types covered and source countries. Regarding job types, besides the existing auto mechanic category, it envisions prepared food plants and other food processing and also restaurants, lodging, and nursing care. Regarding source countries, it is already taking steps to develop programs in Indonesia and Myanmar. In particular, it will focus on nursing care personnel with high demand in Japan, similar to auto mechanics.

FISCO believes that even though COVID-19 impact caused disparities in progress by growth strategies in the Company's business areas, it does not significantly alter the longer-term direction. In particular, we retain our view of the Overseas Business in Cambodia as a longer-term growth driver, despite disruption by the pandemic at this point, because of Cambodia's strong economic growth prospects and the Company's advantages with its proprietary network and know-how. The Small Household Appliance Recycling Business, which has significant market potential as an "urban mine," tough entry barriers, and a unique business model with no rivals, possesses robust growth opportunity too from unique initiatives, such as assistance for recycling programs that are attracting heightened social interest and job creation for intellectually disabled people. Profitability might sharply rise if the Small Household Appliance Recycling Business, a high-earnings model, advances to a growth trajectory. A key theme at this point is the extent to which the Company succeeds in building up base profits toward attaining the near-term goal of ¥1bn in ordinary profit. From a longer-term perspective, the Company's core challenge is whether it can effectively incorporate solutions to societal issues, including reutilization of resources via reuse and recycle processes, microfinance business, personnel dispatching business, and job creation for disabled people, into real-world business and thereby realize growth. We will be looking for value creation and social contributions suited to the Company through innovations that include utilizing IT.

Shareholder returns

Likely to continue postponement of dividends for the time being
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 FY9/21. We do not expect shareholder return as dividends for the time being due to being in a stage of giving priority to investments in growth areas and partial restructuring of the Overseas Business.

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 ownership of the shares for two consecutive years or longer.)

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