Syuppin Co., Ltd.
3179 Tokyo Stock Exchange
First Section

20-Jan.-17

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Returning to a sales and earnings growth trajectory by fully dispelling the impact of inbound sales

Syuppin Co., Ltd. <3179> (hereafter, also "the Company") is an e-commerce (EC) enterprise specializing in "valuable items," such as cameras and luxury watches. Making the most of the different customer needs and product characteristics of used and new goods, it has succeeded in creating a virtuous cycle in which both used and new goods reinforce each other to increase sales of both types of goods. In the process, the Company has been rapidly expanding the scope of its business.

FISCO takes the positive view that the Company delivered a strong financial performance in 1H FY3/17. In FY3/16, the Company was buffeted by large swings in demand from inbound foreign visitors to Japan, first by a rapid surge in this inbound demand and then by a sharp fall. In response, the Company set out in FY3/17 to establish an earnings structure that is not reliant on inbound demand. Various sales expansion measures proved effective. As a result, the Company completely absorbed the impact of the drop in inbound demand and achieved sales and earnings growth.

From FY3/17, the Company has fast-tracked various top-line growth measures. The main thrust has been Web marketing—the task of gathering and analyzing member information and providing appropriate information. However, other measures have included upgrading services such as review and search functions, as well as image data and other content. In this manner, the Company has implemented numerous fine-tuned measures to enhance user friendliness. It plans to steadily continue these measures in 2H FY3/17 onward. The effectiveness of these measures has started to clearly shine through in the Company's key performance indicator (KPI) figures.

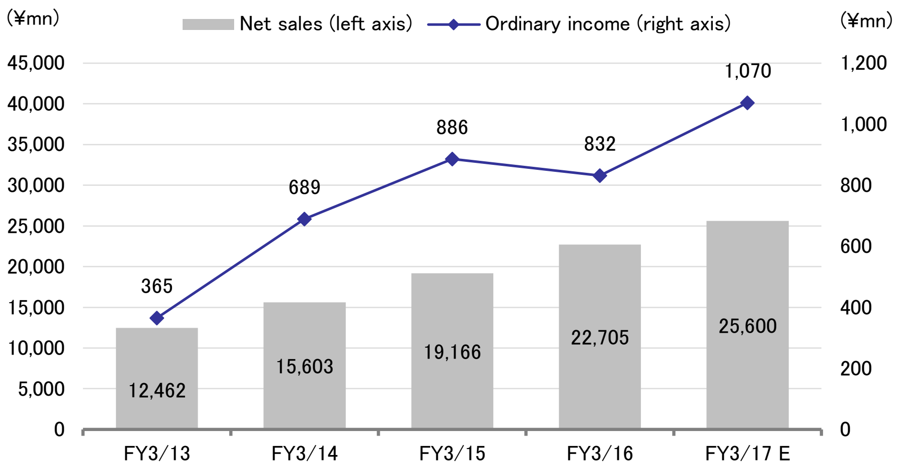
Management that does not rely on inbound demand is a theme for not just FY3/17, but also for the entirety of the current three-year Medium-term Management Plan. The Company achieved this goal in FY3/17, the plan's first year. FISCO believes this achievement gives confidence to the expectation that the business targets of the Medium-term Management Plan can be achieved in the plan's next two years. The Company's ability to completely sever its reliance on inbound demand is closely connected with the fact that the Company is essentially an EC company. The aforementioned sales expansion measures are rooted in the EC field. FISCO believes that management's unwavering stance as an EC company has heightened trust in the Company's future prospects.

In the domestic camera market, shipment volume has decreased sharply on a single-year basis. However, FISCO believes that this does not have a direct bearing on the Company's growth potential. The Company stands out for handling used goods. Involvement in the used goods trade implies that the key macro indicator for the Company is not the single-year shipment volume, but what could be referred to as "the domestic stock of cameras." Japan continues to accumulate its stock of cameras every year. The top-line growth measures taken by the Company are aimed at galvanizing the distribution of used goods. Therefore, FISCO believes that the Company continues to offer strong growth potential.

Check Point

- Delivered sales and earnings growth in 1H FY3/17, with EC net sales outweighing the drop in tax-exempt net sales
- The Company continues to grow, despite ongoing contraction in the camera market itself.
- Measures implemented in 1H FY3/17 are expected to contribute fully to business performance in 2H FY3/17

Results trends



Analysis of 1H FY3/17 results

Delivered sales and earnings growth in 1H FY3/17, with EC net sales outweighing the drop in tax-exempt net sales

Looking at 1H FY3/16 results, the Company finished the period with higher net sales and earnings. Net sales were ¥11,161mn (up 1.8% year-on-year (YoY)), operating income was ¥472mn (up 9.1%), ordinary income was ¥466mn (up 9.6%) and profit was ¥319mn (down 13.0%).

There was a shortfall of 6.1% in net sales against the initial forecast. However, the Company outperformed its initial forecasts at all levels of profit from operating income and below. The main reason for the shortfall in net sales was an opportunity loss stemming from an interruption in the delivery of new premium camera models due to the impact of the 2016 Kumamoto earthquakes. This problem was resolved by the beginning of 2H FY3/17.

1H FY3/17 results summary

(¥mn)

	FY3/16		FY3/17			
	1H	Full fiscal year	1H Initial forecast	1H Result	YoY	Vs. initial forecast
Net sales	10,961	22,705	11,888	11,161	1.8%	-6.1%
Gross profit	1,852	3,729	-	1,917	3.5%	-
SG&A expenses	1,418	2,897	-	1,444	1.8%	-
Operating income	433	832	448	472	9.1%	5.4%
Operating income margin	4.0%	3.7%	3.8%	4.2%		
Ordinary income	425	821	440	466	9.6%	5.9%
Profit	283	560	298	319	13.0%	7.1%

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

FISCO takes the positive view that the Company delivered a strong financial performance in 1H FY3/17. The reason was that the Company achieved higher earnings as EC sales largely offset the drop in inbound demand (tax-exempt net sales). In FY3/16, the Company was buffeted by the churning tides of inbound demand, notably the rapid ebb and flow of this demand during the fiscal year. In FY3/17, the Company set out to establish an earnings structure that is not reliant on inbound demand. It has steadily achieved this goal. The details will be described later in this report. Here, we note that the Company executed various sales expansion measures announced at the beginning of the fiscal year as planned. These measures have delivered results to a certain extent—results that shine through in the Company's strong financial performance.

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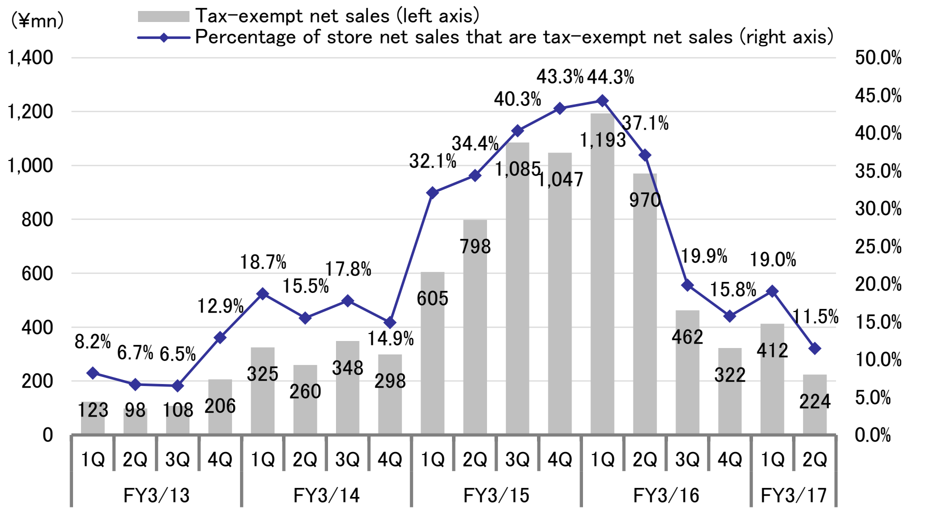
The Company's tax-exempt net sales peaked in 1H FY3/17 on a semi-annual basis (and in 1Q FY3/17 on a quarterly basis). In 1H FY3/17, tax-exempt net sales amounted to ¥636mn, down 70.6% YoY. As noted earlier, the Company set out to establish an earnings structure that is not reliant on inbound sales. It has formulated a business plan that assumes tax-exempt net sales of ¥100mn a month based on historical performance. In 1H FY3/17, tax-exempt net sales trended largely in line with this assumption. EC net sales, the core component of the Company's earnings structure, and store net sales excluding tax-exempt net sales rose 24.5% and 10.9% YoY, respectively, showing steady growth.

Trends in tax-exempt net sales



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

Trends by business segment are as follows.

(1) Cameras business

Sales were expected to grow atop the launch of a new flagship model of a major camera manufacturer. However, deliveries were interrupted by the impact of the 2016 Kumamoto earthquakes, resulting in an opportunity loss. Nonetheless, EC net sales rose 23.7% YoY, absorbing the impact of the opportunity loss. The higher EC net sales were attributable to the success of Web marketing measures initiated in FY3/17, in addition to existing sales promotion measures, such as upgrading review pages and enhancing "Mitsumori SNS" and product images. Purchasing activities in the course of procuring used goods also performed steadily owing to measures related to the "Receive-First Send-Later Service" and actions targeting repeating sellers. Store net sales declined 25.9% YoY. Excluding tax-exempt net sales, the Company seems to have been able to increase store net sales YoY. On the profit front, the gross profit margin rose to 7.9% YoY in line with an increase in the ratio of used goods sales.

(2) Watches business

EC net sales grew steadily by 34.1% YoY. Store net sales decreased by 15.5% YoY, but as with the cameras business, the impact of changes in tax-exempt net sales was mainly responsible. On the profit front, segment operating income declined 15.4% YoY mainly due to the stronger yen. The exchange rate can have both a positive and negative impact on earnings. The yen's rapid appreciation in 1H FY3/17 had the effect of reducing earnings. In the watches business, the Company is also focused on driving growth in EC net sales. To this end, in 1H FY3/17, it launched dedicated purchasing websites for each watch brand and opened a product stock information website. To ensure that consumers can confidently make purchases, the Company took steps such as using high-resolution photos in addition to increasing the number of product images.

(3) Writing materials business

EC net sales rose steadily by 17.7% YoY. In addition, store net sales also increased slightly. This strong performance was the result of successful measures to highlight how the Company stands out as a specialist writing materials retailer. Measures included enhancing the range of popular fountain pen brands and various study accessories, as well as the range of original ink and popular ink series. The launch of the KINGDOM NOTE Yahoo! Japan Shopping store in June 2016 also contributed positively to the increase in EC net sales.

(4) Bicycles business

EC net sales and store net sales both decreased YoY, by 1.6% and 44.0%, respectively. EC customer numbers rose sharply as a result of upgrading and expanding the product range in terms of official bicycle manufacturers handled and launching free ancillary insurance services, along with upgrading and expanding content and revamping the smartphone site screen. However, net sales decreased due to a drop in the customer unit price reflecting a deteriorating mix of items sold.

Detailed results by segment

(¥mn)

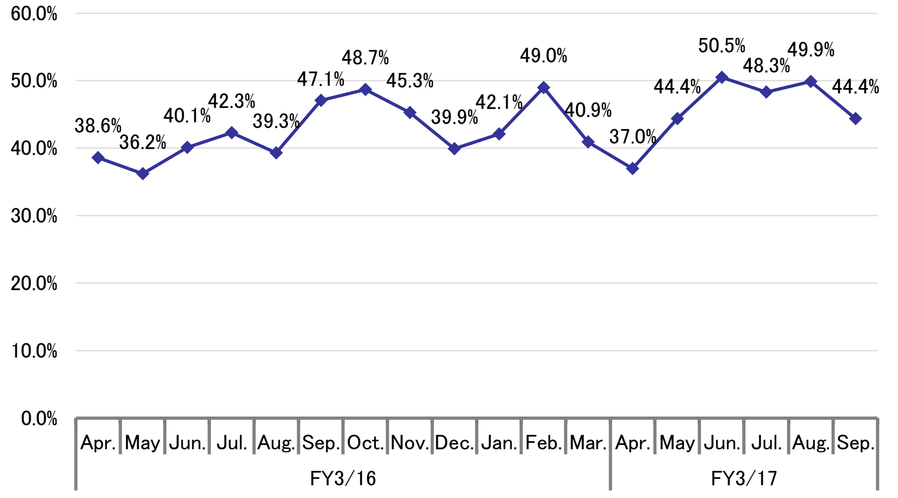
		FY3/16			FY3/17		
		1H	EC ratio	Full fiscal year	1H	YoY	EC ratio
Cameras	EC	4,576		10,609	5,660	23.7%	
	Stores	3,406		5,962	2,523	-25.9%	
	Total net sales	7,983	57.3%	16,572	8,184	2.5%	69.2%
	Segment operating income	593		1,168	640	7.9%	
	Operating income margin	7.4%		7.0%	7.8%	-	
Watches	EC	815		1,869	1,093	34.1%	
	Stores	1,746		3,431	1,475	-15.5%	
	Total net sales	2,562	31.8%	5,301	2,569	0.3%	42.5%
	Segment operating income	123		231	103	-15.4%	
	Operating income margin	4.8%		4.4%	4.0%	-	
Writing materials	EC	139		312	163	17.7%	
	Stores	75		158	77	2.7%	
	Total net sales	214	65.0%	470	240	12.4%	67.9%
	Segment operating income	24		54	24	0.0%	
	Operating income margin	11.2%		11.5%	10.0%	-	
Bicycles	EC	126		240	124	-1.6%	
	Stores	75		119	42	-44.0%	
	Total net sales	201	62.7%	360	167	-16.9%	74.3%
	Segment operating income	2		-7	-5	-	
	Operating income margin	1.0%		-1.9%	-3.0%	-	
Company-wide	EC	5,657		13,032	7,041	24.5%	
	Stores	5,303		9,672	4,119	-22.3%	
	Total net sales	10,961	51.6%	22,705	11,161	1.8%	63.1%
	Segment operating income	433		832	472	9.1%	
	Operating income margin	4.0%		3.7%	4.2%	-	

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

As noted earlier, operating income on a Company-wide basis increased 9.1% YoY and outperformed forecast. There are two points to consider when anticipating trends in the Company's operating income. The first point is the mix of new and used goods. Used goods have a higher gross profit margin. Meanwhile, new goods are relatively simple to manage, from placing orders with manufacturers to selling goods to customers. In contrast, used goods involve a greater work load, from purchasing to inspection, maintenance, offering guarantees and so forth. In other words, used goods tend to impose a higher SG&A expense ratio.

In 1H FY3/17, the ratio of used goods clearly increased YoY. This was due to the drop-off in tax-exempt net sales to a considerable extent, but a comparison with 2H FY3/16 shows that the ratio in 1H FY3/17 has also risen to a higher level against the 2H FY3/16 period. Therefore, FISCO takes the view that there is another major factor behind the change in the ratio of used goods — the Company has been able to address demand for used goods without opportunity losses as a result of making steady progress on used goods purchasing in the mainstay cameras business.

Ratio of used goods to total sales



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

The second point is the control of SG&A expenses, which is proceeding well. The ratio of SG&A expenses to net sales has been steadily tracking a downward trend. In FY3/15, the Company executed a large investment in information systems. As described earlier, item-by-item management of used goods, including maintenance, is labor intensive. However, the Company already has a system in place to curtail any increase in personnel requirements even if the number of used goods handled should increase. In 1H FY3/17, SG&A expenses were held to an increase of only 1.8% YoY, and the ratio of SG&A expenses to net sales remained flat at 12.9%. The main component of the increase was commissions paid. This component increased in line with an increase in sales via third-party sites (via the so-called EC branch sites). The higher commissions paid were partly offset by reductions in other and outsourcing expenses, enabling SG&A expenses to be held to an overall increase of 1.8% (¥25mn).

Breakdown of SG&A expenses

(¥mn)

	FY3/16		FY3/17		
	1H	Ratio to net sales	1H	YoY change	Ratio of to net sales
SG&A expenses	1,418	12.9%	1,444	25	12.9%
Personnel expenses	491	4.5%	493	1	4.4%
Advertising expenses	30	0.3%	32	2	0.3%
Sales promotions expenses	169	1.5%	177	8	1.6%
Outsourcing expenses	83	0.8%	67	-15	0.6%
Commissions paid	242	2.2%	293	50	2.6%
Depreciation and amortization	92	0.8%	97	5	0.9%
Land rent	105	1.0%	105	0.4	0.9%
Other	204	1.9%	176	-27	1.6%

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

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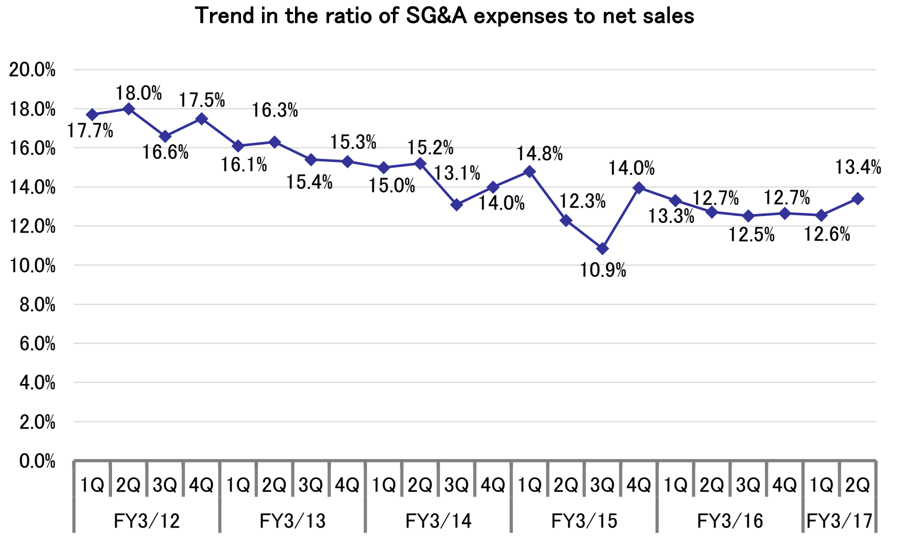


Source: Prepared by FISCO from the Company's results briefing materials

Efforts to advance various top-line growth measures and progress

Implementing measures in rapid succession to fast-track top-line growth

The Company stands out for being an EC enterprise specializing in "valuable items" and for handling used goods. Making the most of these two features, the Company is implementing various measures to drive earnings growth. Purchasing used goods is crucial to boost used goods sales. In this respect, the Company has succeeded in expanding EC-based purchasing of used goods to a certain extent by taking measures such as implementing "One-price Purchases" (launched in July 2013) and the "Receive-First Send Later Service" (launched at the end of September 2014). Currently, the Company is implementing various measures mainly focused on driving top-line growth.

In December 2015 the Company launched "Mitsumori SNS." This is a mechanism to receive proposals from the Company's staff and expert-level users (such as semi-professional users and heavy users who have launched their own blogs) for a "recommended set of products," with a view stimulating demand for combination purchases (buying multiple items at the same time). Specific examples include a proposal for a lens, tripod, and filter for photographing the night sky. From the viewpoint of ease of use, "Mitsumori SNS" offers several advantages, including the fact that shoppers seeking to purchase the proposed items can add all of the items to their shopping cart with just a single click.

Since the start of FY3/17, the Company has fast-tracked top-line growth measures all at once. Although the planning and preparation process has begun since FY3/16, the measures have been put in place at once in FY3/17. The main measures are introduced below.

(1) Measures in 1H FY3/17

a) Web marketing Phase 1 (end of March)
Phase 1 of Web marketing was initiated by the Company at the end of March 2016. The Company aims to further fine tune targets and information in step with progress in each phase, with the aim of delivering information with pinpoint accuracy to each customer. In Phase 1, the Company will group its customers based on their past purchasing history and other attributes, and will distribute targeted emails to each group.

Previously, the Company would send the same email magazine to all its registered customers. Beginning with Phase 1, it will send information tailored to the members of each group. For example, for the group of owners of Canon Inc. <7751> digital single-lens reflex cameras, it will send information about a campaign for used lenses usable with their cameras. This measure has delivered clear benefits. The percentage of people opening the Company's emails has improved dramatically, from an average of 17% for the email magazine to an average of around 40% for the emails sent according to group. In the case of one particular camera model, the percentage of people opening the Company's emails reached 83%. In these and other ways, the Company has adequately confirmed the effectiveness of this measure.

b) Improvement of product description pages of shopping websites (April)
This measure increases the number of product images posted on each website to 30, the largest amount in the industry. Given that the condition of each item is different in the used goods EC business, the supply of image-based product description information is expected to have a significant positive impact on improving the conversion rate. It is also expected to help set the Company apart from its competitors.

Looking at the benefits of this measure so far, watches are more of a "one of a kind" item than cameras. In the watches business, it is notable that the composition of net sales at the Company's shopping sites reached 69.7% in April-September 2016, a dramatic increase from 49.6% in April-September 2015.

c) Addition of a page for the "Comurevi" (product user reviews) list and a review search function (August)
Until now, the Company had published product reviews for each individual product. With the number of posted reviews increasing to around 5,600, the Company has carved out the reviews and set up an independent review page called "Comurevi." It has also made the reviews themselves easier to search. Moreover, the Company has added image posting functions and a 5-stage evaluation function for each item, in an effort to enhance user friendliness for both reviewers and the users of reviews.

Review information often serves as the final nudge for shoppers to go ahead and make a purchase. That is why FISCO believes that these sorts of measures are important, albeit not very flashy.

d) Addition of the new function "My Page Dashboard" (July)
The Company added the new function "My Page Dashboard" to the lower part of shopping websites. It allows users to save items of interest they have searched or easily check items purchased. While helping to increase user friendliness for users, "My Page Dashboard" gives the Company insights into what kinds of products each member has saved or what kinds of products they may be interested in. It is an important step that will lead to Phase 2 of Web marketing, which will be discussed later in this report.

e) Display of real-time order information on the shopping website (July)
This feature displays order information shown in real time at the bottom of shopping websites. Information such as "a customer from a certain prefecture just ordered a certain product" is shown. This measure seeks to provide customers with a sense of security by indicating that active transactions are occurring on the website.

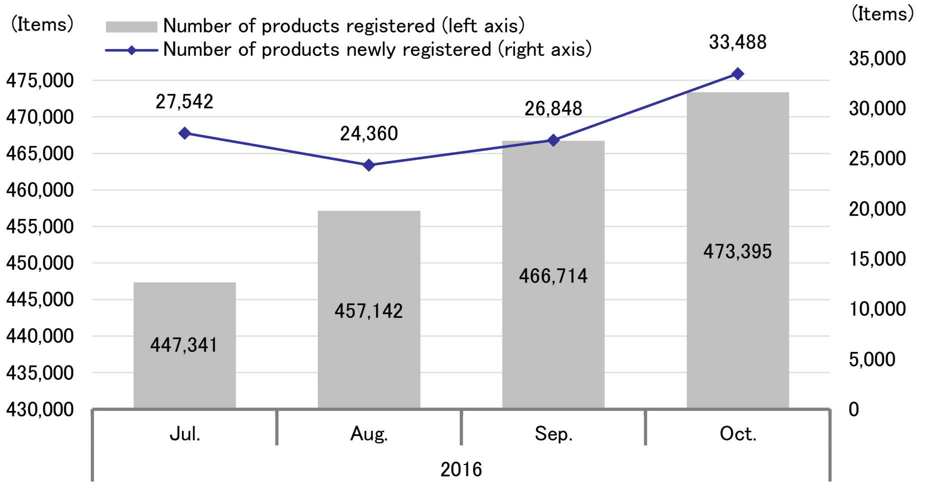
f) Preparation of homepages for each sub-segment of various merchandise
In 1H FY3/17, the Company prepared homepages for each sub-segment within various product segments. Examples include a dedicated homepage for accessories in the cameras segment, homepages for purchasing by major brand in the watches segment, and a dedicated homepage for ladies' products. The goals are to enhance the user friendliness of the sites and to thereby boost the conversion rate. A dedicated homepage was prepared for camera accessories in April. Net sales in the April-September period showed significant growth, increasing by 30% YoY.

(2) Measures in 2H FY3/17

a) Web marketing Phase 2 (October)

The Company commenced Web marketing Phase 2 in October 2016. While Phase 1 took a group-based approach to customers, Phase 2 will take a one-to-one approach to customers. Specifically, the Company will send tailored information to customers who registered products on a wish list. For the approximately 49,000 customers who registered a wish list, the information will cover approximately 470,000 products registered on the wish lists. It will include changes in prices of products on their wish list, addition of user reviews (Comurevi) to products registered on their wish list, and changes in purchase prices of products. The Company plans to continue upgrading the information sent to customers. It will also approach customers with proposals to purchase their items, with a view to capturing the business opportunity of establishing a C2B2C business model. Under this business model, the Company will act as an intermediary to match buyers and sellers.

Trends in the number of products newly registered and the number of products registered on wish lists



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

b) User participation (CGM) marketing (scheduled for March 2017)

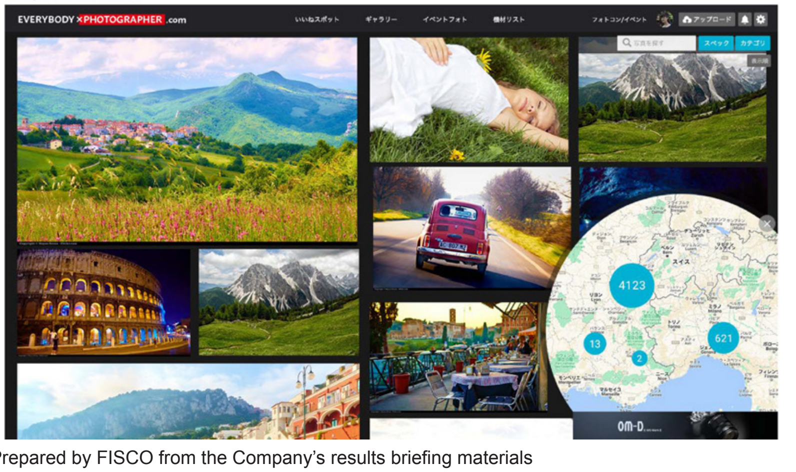
Consumer Generated Media (CGM) marketing refers to marketing activities undertaken using content generated by consumers. CGM comes in all shapes and sizes, from blogs to review sites, Q&A communities, and more.

The Company plans to launch "EVERYBODY x PHOTOGRAPHER.COM" (tentative name) as an online forum for camera enthusiasts to upload their work. This new service aims to increase the satisfaction of camera users, increase the customer loyalty of existing members, and increase the number of new members. It also aims to generate media-based earnings and introduce paid services in the future.

Image of CGM marketing

"EVERYBODY x PHOTOGRAPHER.COM" (tentative name) (English and Japanese)

Image of the website



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

FISCO believes that CGM marketing is an extremely important endeavor alongside Web marketing. The reason is that spreading the enjoyment of using a camera is crucial to continuously stimulating demand for cameras. This is all the more true of interchangeable lens cameras, the Company's forte, because these cameras have a strong hobby-and-interest dimension. Although the Company's announcements to date have been confined to news about providing an online forum for camera enthusiasts to upload their photographs, FISCO expects that the online forum will offer a wide range of possibilities for future development, including monetization (monetization for both the Company and camera enthusiasts). First, FISCO would like to see how many photographs can be accumulated by the online forum, and closely monitor the trend in the number of photographs going forward.

c) Introduction of "Itsumademo Anshin Warranty" (extended warranty service) (scheduled for the end of March 2017)

The Company also plans to introduce the "Itsumademo Anshin Warranty" service. With this service, after the warranty on products purchased with the Company expires, the Company extends the warranty for a certain fee for one year once the condition of the products has been checked in accordance with the Company's standards. The warranty is renewable every year.

Image of the "Itsumademo Anshin Warranty" service

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

FISCO believes there are two key points for this measure. The first is the direct revenue from guarantee fees. The second is that the Company will maintain relations with customers by proposing the extended guarantee service, which is a way to ensure that the relevant products and customers return to the Company, whether as trade-ins or for replacement purchases. At FISCO, rather than the business revenue aspect, we will be paying attention to the latter effect, of enabling it to maintain relations with customers and secure a channel for the return of merchandise. As the launch of this service is planned for the end of March 2017, the impact on revenue will be felt substantially from FY3/18 onwards. The Company is aiming to launch this service for cameras and watches first.

■ Current status of the camera market and the Company's growth strategy

The Company continues to grow, despite ongoing contraction in the camera market itself.

The Company handles four types of product, but cameras currently lie at the heart of its business. The market for cameras, particularly in Japan, is experiencing significant negative growth. According to statistics issued by the Camera & Imaging Products Association (CIPA), the domestic shipment value of cameras in April-September 2016 decreased 31.1% YoY for digital cameras as a whole and 24.2% YoY for interchangeable lens cameras, the Company's forte, indicating declines for both types of cameras.

Trends in domestic shipment value for digital cameras and lens cameras

(¥mn)

	2015	2016	
	April-September cumulative	April-September cumulative	YoY growth rate
Digital camera total	63,163	43,522	-31.1%
Built-in lens	24,350	14,107	-42.1%
Interchangeable lens	38,813	29,415	-24.2%
Single lens reflex	23,622	20,784	-12.0%
"Non-reflex"	15,190	8,630	-43.2%

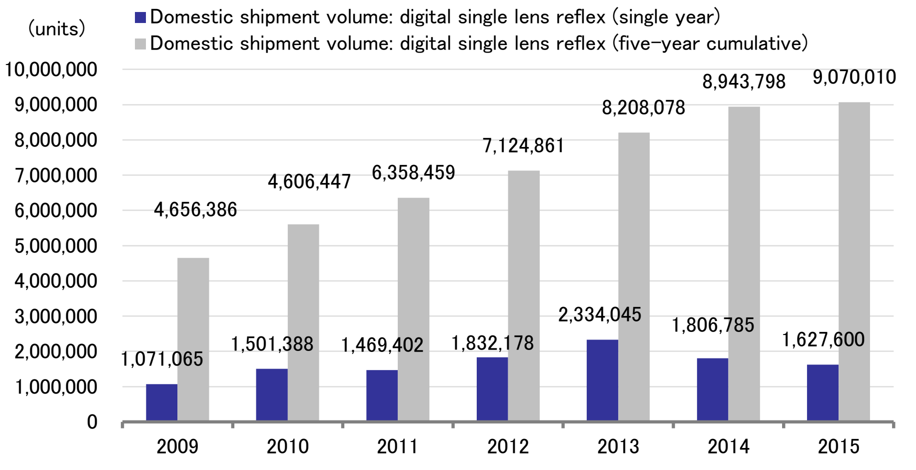
Source: Prepared by FISCO from statistics issued by the Camera & Imaging Products Association (CIPA)

To get straight to the point, FISCO believes that even in the current market for new camera markets in Japan, the Company's camera business has growth potential—it can maintain a high growth rate of around 15-20% in the near term. The reason is that the Company handles not only new products but also used products. Unlike luxury mechanical watches and related items, one feature of cameras is that their value is constantly put to test as an industrial product. This means that if a new product with a higher performance is rolled out, a certain segment of customers will purchase the new product. In the process, they will take the step of trading-in their previously owned camera. Since its founding, the Company has constantly worked on how to best incorporate these cycles into its own business model. As a result, the Company has established a business model in which new and old products generate synergies between each other and spur further sales.

FISCO believes that the important factor to consider in determining the growth potential of the Company in these respects is not the camera shipment value (or volume) in a single year, but the stock of cameras accumulated in the Japanese market. The trend in the domestic shipment volume of interchangeable lens cameras, which are handled as a core product in the Company's cameras business, particularly the trend in cumulative volume in the past five years, shows that the shipment volume has continued to increase. Although the span of five years was chosen in consideration of the pace of improvement in camera performance, the actual useful life of a camera is much longer. Therefore, FISCO estimates that the "market" for the Company's cameras business has been continuing to expand even more than is shown in the graph below.

Moreover, the impact of competition with smartphones is cited as one reason for the contraction in the camera market. However, FISCO believes that the type of camera that is directly impacted by smartphones is built-in lens compact digital cameras ("compact digital cameras"). The ratio of compact digital cameras handled by the Company is 6%, far smaller than their 20% share of the market as a whole. This reflects the Company's handling of mostly high-end compact digital camera models worth more than ¥100,000 a piece, and FISCO believes that the Company will maintain this business approach. Returning to the topic of competition between smartphones and cameras, consumers often purchase interchangeable lens cameras to make up for the aspects of smartphone cameras they are not fully satisfied with. In other words, FISCO believes that interchangeable lens cameras will continue to co-exist with smartphones.

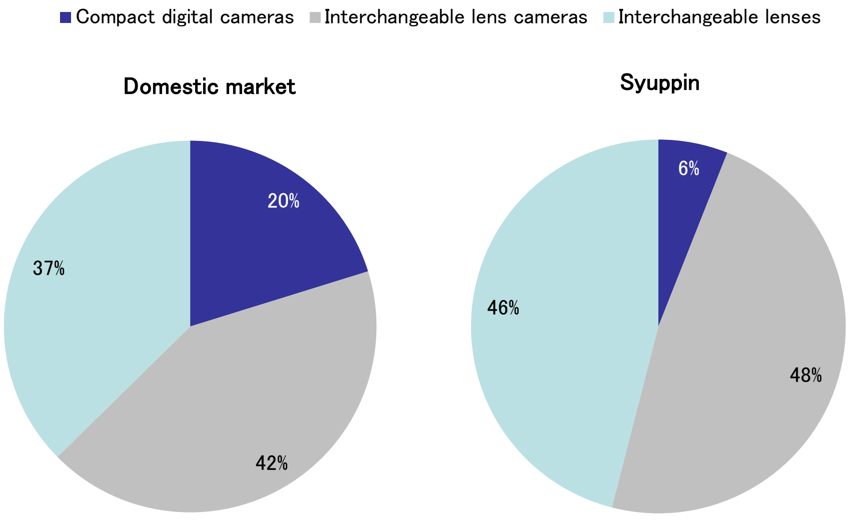
Trend in shipment volume of interchangeable lens digital cameras (single year and five-year cumulative)



Source: Prepared by FISCO from statistics issued by the Camera & Imaging Products Association (CIPA)

Additionally, the Company is completely devoted to implementing top-line growth measures, including strengthening Web marketing, enhancing the supply of information and improving the user friendliness of its sites. As a result of these efforts by management, combined with the expansion of the markets for both new and used cameras, the Company achieved the aforementioned 2.5% YoY increase in net sales in the cameras business in 1H FY3/17. The top-line growth rate for EC net sales, which are not affected by tax-exempt net sales, reached 23.7%. FISCO believes that it is this figure that more closely reflects the Company's true strength.

Composition of new products by type of product (April-September 2016 cumulative)



Source: Prepared by FISCO from Company materials

Business forecasts

Measures implemented in 1H FY3/17 are expected to contribute fully to business performance in 2H FY3/17

(1) FY3/17 full-year business outlook

For FY3/17, the Company is forecasting full-year net sales of ¥25,600mn (up 12.8% YoY), operating income of ¥1,085mn (up 30.4%), ordinary income of ¥1,070mn (up 30.4%), and profit of ¥724mn (up 29.2%). There has been no change in the initial forecasts.

Outlook for FY3/17

(¥mn)

	FY3/16	FY3/17	
	Full-year result	Full-year forecast	YoY
Net sales	22,705	25,600	12.8%
Operating income	832	1,085	30.4%
Operating income margin	3.7%	4.2%	-
Ordinary income	821	1,070	30.4%
Profit	560	724	29.2%

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

FISCO believes that the Company's full-year business forecasts for FY3/17 are well within reach. The operating income forecast for 2H FY3/17 is ¥613mn, which represents large increases of 29.7% versus 1H FY3/17 and 53.5% YoY. Needless to say, earnings is normally larger in 2H than in 1H due to demand emerging at the end of the calendar year and the fiscal year-end. FY3/16 was the exception to this rule. The profit level on a Company-wide basis was lower than usual due to the impact of a sharp drop-off in tax-exempt net sales in 2H FY3/16 following a large expansion in these sales in 1H FY3/16. In FY3/17, tax-exempt net sales returned to an ordinary pace for the Company from the start of the fiscal year. Therefore, FISCO's understanding is that trends in 2H FY3/16 have merely inflated the YoY earnings growth rate for 2H FY3/17.

As noted earlier, following on from 1H FY3/17, the Company plans to continue implementing various measures to achieve top-line growth in 2H FY3/17. There are certainly a number of measures planned for implementation in 2H FY3/17 that will effectively start contributing to earnings in FY3/18. However, Phase 2 of Web marketing is already up and running and measures implemented in 1H FY3/17 are expected to contribute fully to business performance in 2H FY3/17. Therefore, FISCO believes that the Company should derive benefits from these measures in 2H FY3/17 compared to 1H FY3/17.

In addition, the impact of the Kumamoto earthquakes seen in 1H FY3/17 has been completely resolved. The models that were negatively impacted were the flagship single lens reflex camera models of Nikon Corporation <7731> and Canon. Both of these models are priced at over ¥600,000 per unit for the main camera, so the impact on net sales cannot be overlooked. Since the gross profit margin for new cameras is lower than that for used cameras, there may be some concerns about a reduction in the gross profit margin. However, FISCO believes that more customers will seek to trade-in their used cameras to purchase these sorts of high-end models, and that this will ultimately benefit the Company by increasing the value of the used goods it distributes.

Another key point of FY3/17 is putting goods on sale. One of the main differences between FY3/16 and FY3/17 is that the gross profit margin decreased in FY3/16 because the sales events undertaken in FY3/16 were too excessive. In FY3/17, the Company has so far effectively controlled sales events. If the Company is able to control sales events in 2H FY3/17, FISCO believes that sales growth will be steadily accompanied by profits.

(2) Rolling Medium-term Management Plan and business outlook

The Company has formulated a Medium-term Management Plan for the next three years that is rolled over (revised) each year. In FY3/17, the Company is working to implement the current three-year Medium-term Management Plan ending in FY3/19. Looking at the plan's business targets, it is clear that the Company is targeting growth of 15% a year in net sales and 30% a year in operating income.

FISCO's understanding is that the most important theme of the current Medium-term Management Plan is to completely free the Company of any reliance on the kind of rapid ebb and flow of tax-exempt net sales seen in FY3/16. The Company is essentially an EC company. Its operations are based on a minimal number of physical stores, with 1 store in each of 4 business fields (effectively 2 physical locations). This is partly the reason why the Company has decided at once to steer its business on a course that does not rely on tax-exempt sales. This strategy has so far paid off through 1H FY3/17. The Company has been able to completely offset the drop-off in tax-exempt net sales. FISCO believes that the Company will maintain its current momentum throughout the current Medium-term Management Plan by enhancing the top-line growth measures in the EC business described earlier.

Targets of the three-year Medium-term Management Plan from FY3/17 to FY3/19

(¥mn)

	Medium-term Management Plan (FY3/17 to FY3/19)					
	FY3/17		FY3/18		FY3/19	
	2016 targets	YoY	2016 targets	YoY	2016 targets	YoY
Net sales	25,600	12.8%	29,450	15.0%	33,850	14.9%
Cameras business	18,790	13.4%	21,832	16.2%	25,280	15.8%
Watches business	5,873	10.8%	6,535	11.3%	7,315	11.9%
Writing materials business	537	14.3%	621	15.5%	720	15.9%
Bicycles business	398	10.6%	460	15.5%	533	15.9%
Gross profit	4,389	17.7%	5,060	15.3%	5,858	15.8%
SG&A expenses	3,303	14.0%	3,648	10.4%	4,044	10.9%
Operating income	1,085	30.4%	1,411	30.1%	1,813	28.5%
Ordinary income	1,070	30.4%	1,400	30.8%	1,805	29.0%
Profit	724	29.2%	947	30.8%	1,221	29.0%

Source: Prepared by FISCO from Company materials

FISCO believes that if the Company is able to achieve 15% growth in net sales, then it will naturally be able to achieve 30% growth in operating income as well. There are two main reasons. The first reason is that the Company, as an EC company, can be expected to have a relatively low ratio of cost increases to sales growth. The second reason is that the sales mix of used goods is anticipated to increase in the mainstay cameras business. Conversely, unless the Company steadily increases used goods sales, it may be unable to achieve its initial targets in the cameras business. This much is suggested by the aforementioned trends in the market for new cameras. In any case, FISCO takes the view that achieving initial targets in the cameras business means attaining growth in used goods sales—this growth will pave the way for an increase in the gross profit margin.

With regard to SG&A expenses, the Company has completed the introduction of an operations system. As a result, the Company is now able to minimize any increase in personnel in the course of dealing with growth in business handling volume in the near term. Moreover, the commissions paid component of SG&A expenses has been increasing in the past few years. This increase has been driven by higher sales via EC branch sites opened at third-party EC shopping malls. The sales promotion measures and site improvements undertaken by the Company pertain to the Company's own sites (main stores). If these measures are successful and the sales mix of main store sites increases in the future, this can be expected to inhibit growth in commissions paid. In this manner, the Company's SG&A expenses as a whole are likely to be curtailed. FISCO believes that the ratio of SG&A expenses to net sales still has scope to be reduced further.

Simplified non-consolidated income statements

(¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17	
				1H	Full fiscal year (E)
Net sales	15,603	19,166	22,705	11,161	25,600
YoY	25.2%	22.8%	18.5%	1.8%	12.8%
Cameras business	11,333	13,758	16,572	8,184	18,790
Watches business	3,640	4,680	5,301	2,569	5,873
Writing materials business	309	363	470	240	537
Bicycles business	320	363	360	167	398
Gross profit	2,926	3,348	3,729	1,917	4,389
Gross profit margin	18.8%	17.5%	16.4%	17.2%	17.1%
SG&A expenses	2,225	2,461	2,897	1,444	3,303
Ratio of SG&A expenses to net sales	14.3%	12.8%	12.8%	12.9%	12.9%
Operating income	701	886	832	472	1,085
YOY	80.0%	26.4%	-6.1%	9.1%	30.4%
Operating income margin	4.5%	4.6%	3.7%	4.2%	4.2%
Ordinary income	689	870	821	466	1,070
YOY	88.4%	26.2%	-5.6%	9.6%	30.4%
Profit	390	563	560	319	724
YOY	68.3%	44.5%	-0.6%	13.0%	29.2%
After adjustment					
EPS (¥)	32.90	47.08	46.81	26.72	60.50
DPS (¥)	5.00	7.00	8.00	-	7.00
BPS (¥)	147.58	189.66	229.47	-	-

Balance sheets

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	1H FY3/17
Current assets	2,952	3,475	4,024	4,905	4,984
Cash and deposits	571	441	492	506	562
Notes and accounts receivable	844	1,049	917	1,327	1,073
Inventories	1,362	1,790	2,222	2,757	3,142
Non-current assets	533	787	1,085	1,001	990
Property, plant and equipment	109	101	159	137	136
Intangible assets	120	210	607	530	496
Investments and other assets	304	476	318	333	357
Total assets	3,487	4,263	5,110	5,907	5,975
Current liabilities	1,495	1,906	2,260	2,585	2,466
Notes and accounts payable	510	727	656	940	902
Short-term loans payable, etc.	610	650	871	1,215	1,123
Non-current liabilities	620	589	579	568	531
Long-term loans payable, bonds payable	612	584	577	568	531
Shareholders' equity	1,371	1,766	2,270	2,746	2,970
Capital stock	485	508	508	508	508
Capital surplus	385	408	408	408	408
Retained earnings	500	849	1,352	1,829	2,053
Subscription rights to shares	-	-	-	6	6
Total net assets	1,371	1,766	2,270	2,753	2,977
Total liabilities and net assets	3,487	4,263	5,110	5,907	5,975

FISCO

Syuppin Co., Ltd.
3179 Tokyo Stock Exchange First Section

20-Jan.-17

Cash Flow Statements

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	1H FY3/17
Cash flows from operating activities	85	79	157	90	367
Cash flows from investing activities	-129	-225	-262	-333	-86
Cash flows from financing activities	234	16	154	257	-224
Change to cash and deposits at start of period	190	-130	51	14	56
Balance of cash and deposits at start of period	380	571	441	492	506
Balance of cash and deposits at end of period	571	441	492	506	562

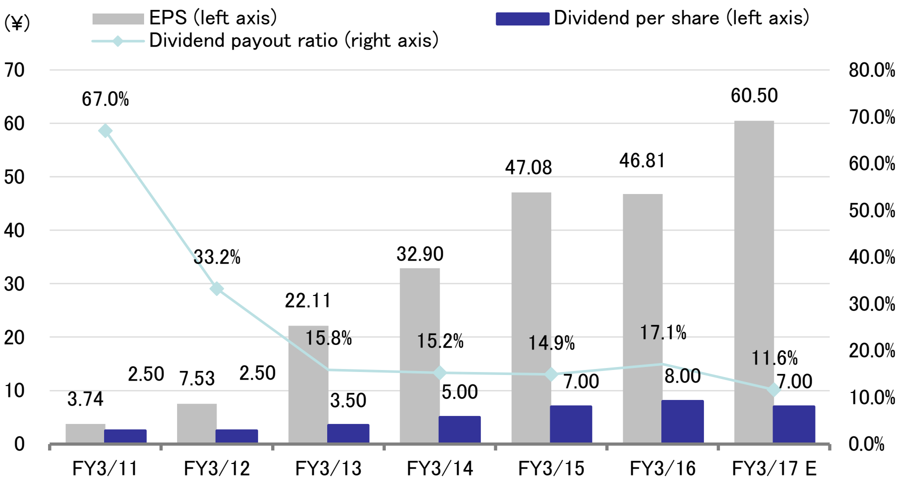
■ Returning profits to shareholders

Stably and continuously paying dividends, based on comprehensive factors

The Company considers returning profits to shareholders to be an important management issue, and its basic policy is to do so through dividends. However, it does not publically set dividend targets, including for the dividend payout ratio, and its approach is to focus on stably and continuously paying dividends while comprehensively taking into account factors such as business forecasts and the amount required for internal reserves for business expansion.

For FY3/17, the Company is forecasting an annual dividend of ¥7.00 per share. For FY3/16, the Company paid an annual dividend of ¥8.00 per share, comprising an ordinary dividend of ¥7.00 and a commemorative dividend of ¥1.00. Therefore, the annual dividend appears to have been reduced by ¥1.00 per share. For FY3/17, the Company is forecasting an EPS of ¥60.50, and based on this, a dividend payout ratio of 11.6%. The Company has not adopted a scheme for setting dividends based on the dividend payout ratio. However, at FISCO we expect that if the Company steadily achieves its business forecasts, the dividend will increase commensurate with the improved results.

Trends in EPS, the dividend, and the dividend payout ratio



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

FISCO

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