

# Syuppin Co., Ltd.

**3179**

Tokyo Stock Exchange First Section

11-Jul.-2017

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## ■ Summary

### Sustaining growth through reinforcement of one-to-one marketing, currently in a phase of full-fledged expansion by the watches business

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.

#### 1. Upbeat FY3/17 results, signs of full-fledged income expansion in the watches business

Syuppin reported FY3/17 results with ¥24,996mn in net sales (+10.1% YoY) and ¥1,096mn in operating income (+31.8%). Sales and profits increased. Syuppin pursued growth by expanding EC sales, due to weak prospects for inbound demand, and was successful. EC ratios improved in all areas amid efforts to deepen EC business as an EC firm. We think the rise in Syuppin’s own-site ratio in the watches business was an important sign of having entered a stage of full-fledged income expansion led by EC activity.

#### 2. Focus on three measures from the growth strategy, goals in the rolling medium-term management plan unchanged

We focus on three measures from the medium-to-long term growth strategy of 1) promoting one-to-one marketing, 2) launching EVERYBODY X PHOTOGRAPHER.com, and 3) starting cross-border EC. One-to-one marketing is important for realization of goals in the rolling medium-term management plan. We expect the other two measures to contribute substantially to whether Syuppin sustains growth over a long period. The rolling medium-term management plan through FY3/20 announced this time targets average growth rates of about 15% in net sales and 25% in earnings, sticking with the previous plan.

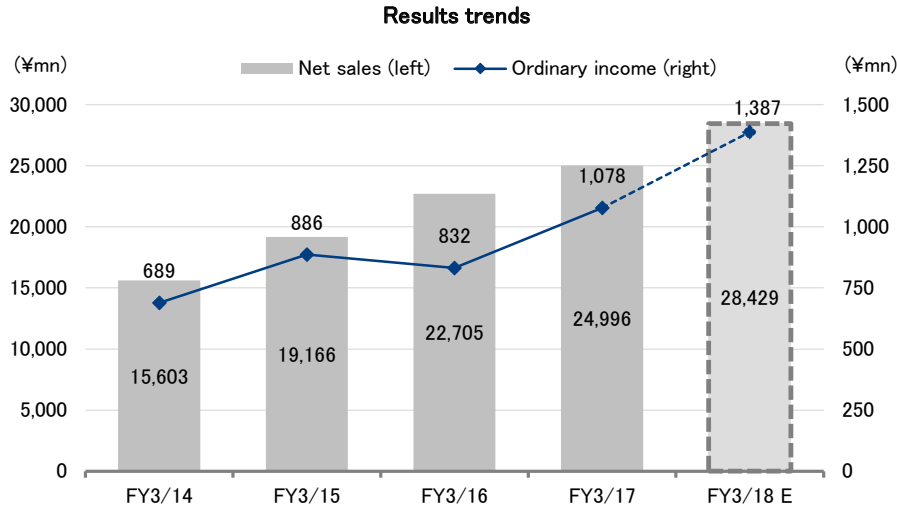
#### 3. Camera and lens accumulated volume offers a growth source, likely to maintain high growth with measures to promote movement

Syuppin’s income model leverages camera and lens accumulated volume in Japan as a growth source. We think Syuppin should be capable of sustaining growth over the longer term if it can boost movement of used cameras and lenses accumulated in Japan and thereby build a mechanism for conducting transactions on its site. Syuppin’s measures extending from past actions to planned Phase 4 in one-to-one marketing and cross-border EC are integrated from this perspective. Syuppin should remain unaffected by impacts from shrinkage of the digital camera market and apps for direct transactions among individuals.

#### Key Points

- Starting new measures, such as personal requests and recommendations, in one-to-one marketing
- Camera accumulated volume is important rather than single-year growth in shipment volume; boosting movement is the driver of Syuppin’s growth
- Capable of attaining FY3/18 guidance; focus on progress with growth strategy measures

Summary



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

## Company profile

### Established by Sofmap founder Kei Suzuki utilizing his experience

#### 1. History

The Company traces its roots to the start of the current camera business as Map Camera in August 1994 by current representative director and chairman Kei Suzuki. Syuppin was established as the corporate organization in August 2005. Mr. Suzuki was the founder of Sofmap, a PC shop, and fostered the EC-specialized Syuppin business model leveraging experience and lessons from the Sofmap era to the fullest extent.

In the 2000s, it added watches, high-end writing materials, and high-end sporting bicycles to product scope and has been promoting four businesses since then. Syuppin listed shares on the TSE Mothers market in December 2012 and moved to the TSE-1 market in December 2015.

In March 2016, Syuppin strengthened executive operations by switching to two representative directors and appointed Mr. Suzuki as representative director and chairman and Naohiko Ono as representative director and president with the aim of boosting executive action speed.

Company profile

**History**

|                |  |
|----------------|--|
| August 1994    | Camera business set up under the specialty shop name of Map Camera                           |
| August 2005    | Syuppin Co., Ltd. established  |
| June 2006      | Watch purchase and sales business started under the specialty shop name of GMT               |
| April 2008     | Stationery purchase and sales business started under the specialty shop name of KINGDOM NOTE |
| November 2008  | Sports bicycle purchase and sales business started   |
| December 2012  | Listed on the Mothers Market of the Tokyo Stock Exchange                                     |
| July 2013      | Changed the bicycle business name to CROWN GEARS   |
| July 2013      | “One-price Buying” launched  |
| December 2013  | “Smooth Buying” launched   |
| September 2014 | “Receive-First Send Later Service” launched  |
| March 2015     | Surpassed 250,000 web members  |
| December 2015  | Listing changed to the First Section of the Tokyo Stock Exchange                             |
| March 2016     | Web marketing initiated  |
| November 2016  | Surpassed 300,000 web members  |
| April 2017     | “EVERYBODY x PHOTOGRAPHER.COM” launched  |

Source: Prepared by FISCO from Company materials

## Three sources of strength are EC specialization, “valuable products,” and handling used and new products

### 2. Features and strengths of the business

Key themes for understanding Syuppin’s business model characteristics and strengths are 1) specializing in e-commerce (EC), 2) specializing in “valuable products,” and 3) handling used and new products.

#### (1) Specialization in EC

Syuppin specializes in EC for products sales and purchases of used items. This stance reflects the conviction of Mr. Suzuki from his experience running Sofmap that the downside of operating stores outweighs benefits. The EC approach eliminates the need for store investments and inventories and also curtails personnel requirements. It improves the flexibility of working hour shifts as well. These advantages have enabled Syuppin to realize an income structure that keeps growth in expenses low relative to sales increase and enables sales growth to steadily drive profit gains (while Syuppin actually operates one small-scale store for each product category to accommodate customers who want to engage in store transactions, it explains that there is absolutely no plan to expand the store presence).

#### (2) Specialization in “valuable products”

This is also the result of Mr. Suzuki’s experiences from Sofmap. He dealt with a rapid pace of decline in PC prices. Previous model prices drop considerably when new products are released if product value only relies on functions and performance. Mr. Suzuki decided to limit products handled by Syuppin to those that offer value through ownership and provide resilient value with subjective assessment of functionality and performance. Products with these characteristics are cameras (though mainly high-end ILCs), watches (mainly foreign mechanical luxury watches), high-end writing materials (such as high-end fountain pens), and bicycles (primarily high-end road sports models).

## Company profile

## List of Syuppin's products and EC brands

| Business division | Store brand  | Business content  | FY3/17 net sales (¥mn) |        | Share of total net sales |
|-------------------|--------------|---|------------------------|--------|--------------------------|
| Cameras           | Map Camera   | Buying, new/used product sales, and consignment sales of digital cameras, film cameras, interchangeable lenses, and accessories | EC                     | 12,802 | 72.5%                    |
|                   |              | Store: 1-12-5 Nishi-Shinjuku, Shinjuku Ward   | Store                  | 5,328  |                          |
| Watches           | GMT          | Buying, new/used product sales, and consignment sales of mainly luxury overseas mechanical watches                              | EC                     | 2,288  | 24.1%                    |
|                   |              | Store: 1-12-5 Nishi-Shinjuku, Shinjuku Ward   | Store                  | 3,725  |                          |
| Writing materials | KINGDOM NOTE | Buying, new/used product sales, and consignment sales of mainly fountain pens and ballpoint pens                                | EC                     | 348    | 2.0%                     |
|                   |              | Store: 1-12-5 Nishi-Shinjuku, Shinjuku Ward   | Store                  | 163    |                          |
| Bicycles          | CROWN GEARS  | Buying, new/used product sales, and consignment sales of sports bicycles, parts, and related items                              | EC                     | 255    | 1.4%                     |
|                   |              | Store: 3-12-15 Sendagaya, Shibuya Ward  | Store                  | 83     |                          |

Source: Prepared by FISCO from Company materials

### (3) Handles used products and new products

We think this point is a key source of Syuppin's strength. Stable growth is difficult with just used products because of uncertainty in procurement. Just carrying new products, meanwhile, often leads to price and store presence competition as an ordinary retail business. Syuppin does more than simply handle used products and new products. Its differentiation and strength come from solidifying a business model that utilizes used products as a catalyst to accelerate sales of new products. The combination of this model with specializing in "valuable products" described above mutually amplifies strength and creates a totally different business model from other firms. Used product buying businesses, particularly those with a store format, have been confronting a major backlash from wider use of smartphones and the emergence of person-to-person transaction apps. Syuppin's business, however, has not seen any impact from these developments.

## Results trends

### Likely to realize profit growth in line with the period-start outlook thanks to healthy expansion of EC sales and a rise in the used product ratio

#### 1. Overview of the FY3/17 results

Looking at FY3/17 results, the Company finished the period with higher net sales and earnings. Net sales were ¥24,996mn (up 10.1% year on year (YoY)), operating income was ¥1,096mn (up 31.8%), ordinary income was ¥1,078mn (up 31.3%) and profit was ¥741mn (up 32.2%).

Net sales modestly undershot period-start guidance, while operating income and other profit items exceeded initial targets. The sales shortfall stemmed from disruptions to deliveries of new high-end models in 1H because of the Kumamoto Earthquake impact. Results, including sales, were on track with guidance in 2H thanks to removal of this factor.

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## Results trends

## FY3/17 results summary

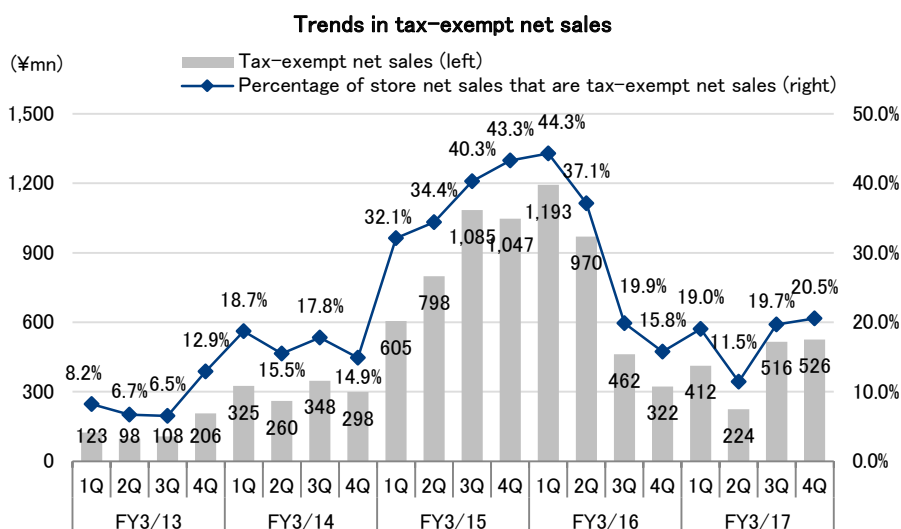
|                         | FY3/16    |                    | FY3/17           |       |              |
|-------------------------|-----------|--------------------|------------------|-------|--------------|
|                         | Full year | Full-year forecast | Full-year result | YoY   | Vs. forecast |
| Net sales               | 22,705    | 25,600             | 24,996           | 10.1% | -2.4%        |
| Gross profit            | 3,729     | -                  | 4,202            | 12.7% | -            |
| SG&A expenses           | 2,897     | -                  | 3,105            | 7.2%  | -            |
| Operating income        | 832       | 1,085              | 1,096            | 31.8% | 1.1%         |
| Operating income margin | 3.7%      | 4.2%               | 4.4%             | -     | -            |
| Ordinary income         | 821       | 1,070              | 1,078            | 31.3% | 0.8%         |
| Profit                  | 560       | 724                | 741              | 32.2% | 2.3%         |

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

We focused on establishment of an income structure that does not depend on inbound demand in FY3/17. This meant emphasis on whether Syuppin could expand EC sales at a healthy rate. EC sales climbed 20.4% YoY to ¥15,694mn in FY3/17, contrasting with a 3.8% decline in store sales to ¥9,301mn. We attribute the increase in EC sales to benefits of one-to-one marketing that Syuppin implements and upturn in watches EC transactions to a stronger growth stage than previously (we give a detailed explanation of these trends below).

Store sales, meanwhile, dropped because of backlash decline in inbound sales (inbound sales are defined as tax-exempt sales to foreigners visiting Japan). Syuppin projected about ¥100-150mn in monthly inbound sales in FY3/17 following the FY3/16 result. In fact, FY3/17 tax-exempt sales totaled ¥1,678mn (-43.1% YoY), slightly exceeding guidance.

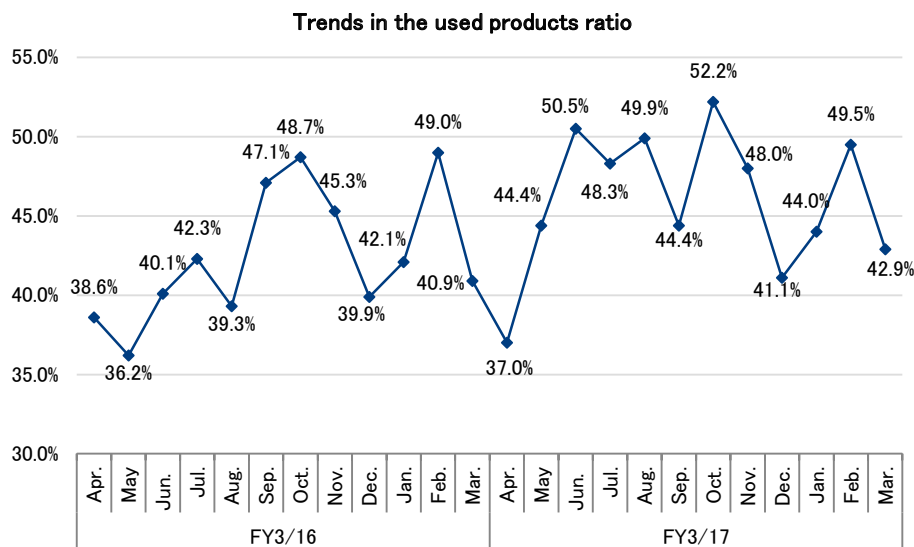
Store sales value excluding tax-exempt sales amounted to ¥7,623mn in FY3/17, versus FY3/16's ¥6,725mn, an increase of 13.4% YoY. We think this indicates steady growth in demand for new and used products mainly from domestic residents.



Source: Prepared by FISCO from Company materials

Results trends

Another topic of interest was the 3.4pp rise in the used product ratio on a companywide basis from 42.3% in FY3/16 to 45.7% in FY3/17. Syuppin took steps to bolster EC activity by lifting the number of product listed images to 30 frames and improving comments. Healthy progress in purchases that expanded inventory also helped in raising the used product ratio. It is worth noting that the used product ratio for watches, which had been lower than cameras previously, increased to 42.9% in FY3/17 (from FY3/16's 36.8%). We think better explanations with the above-mentioned enhancement of images and comments boosted trust, thereby lifting used product sales.



Source: Prepared by FISCO from Company materials

SG&A expenses are an important point in Syuppin's income structure. The ratio of SG&A expenses to sales has been smoothly trending lower and Syuppin is succeeding in its income model with EC specialization targeted since its founding.

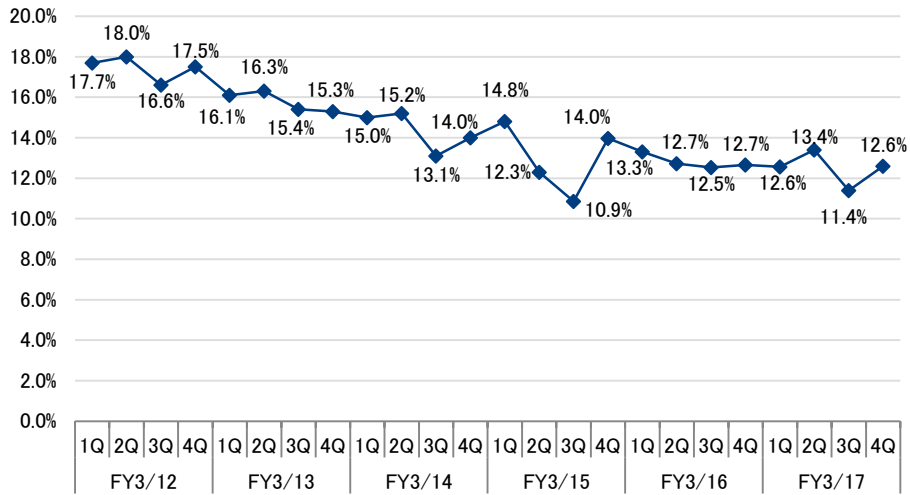
Syuppin posted ¥3,105mn in SG&A expenses in FY3/17, a 7.2% (¥208mn) YoY increase. While personnel costs added ¥93mn, this appears to have largely been performance-based bonuses. The next largest increase was fees paid that are linked to increase in EC mall sales. The third biggest item was the ¥48mn rise in sales promotion costs. These increases are all tied to sales (income) growth and other expenses were flat. This type of cost structure is contributing to sustained decline in the ratio of SG&A expenses to sales.



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Results trends

**Trend in the ratio of SG&A expenses to net sales**



Source: Prepared by FISCO from Company materials

## Results trends

## Healthy expansion in mainstay cameras and watches, upturn in the own-site ratio for watches

### 2. Trends by business segment

#### Details by business segment

|                   |                          | FY3/16    |        |          | FY3/17    |        |          |
|-------------------|--------------------------|-----------|--------|----------|-----------|--------|----------|
|                   |                          | Full year | YoY    | EC ratio | Full year | YoY    | EC ratio |
|                   |                          | (¥mn)     |        |          |           |        |          |
| Cameras           | EC                       | 10,609    | 35.9%  | 64.0%    | 12,802    | 20.7%  | 70.6%    |
|                   | Stores                   | 5,962     | 0.2%   |          | 5,328     | -10.6% |          |
|                   | Total net sales          | 16,572    | 20.5%  |          | 18,131    | 9.4%   |          |
|                   | Segment operating income | 1,168     | -3.4%  |          | 1,442     | 23.4%  |          |
|                   | Operating income margin  | 7.0%      | -      |          | 8.0%      | -      |          |
| Watches           | EC                       | 1,869     | 19.0%  | 35.3%    | 2,288     | 22.4%  | 38.1%    |
|                   | Stores                   | 3,431     | 10.3%  |          | 3,725     | 8.6%   |          |
|                   | Total net sales          | 5,301     | 13.3%  |          | 6,013     | 13.4%  |          |
|                   | Segment operating income | 231       | 6.5%   |          | 307       | 33.0%  |          |
|                   | Operating income margin  | 4.4%      | -      |          | 5.1%      | -      |          |
| Writing materials | EC                       | 312       | 39.9%  | 66.4%    | 348       | 11.5%  | 68.1%    |
|                   | Stores                   | 158       | 13.7%  |          | 163       | 2.8%   |          |
|                   | Total net sales          | 470       | 29.5%  |          | 511       | 8.6%   |          |
|                   | Segment operating income | 54        | 157.1% |          | 46        | -14.4% |          |
|                   | Operating income margin  | 11.5%     | -      |          | 9.0%      | -      |          |
| Bicycles          | EC                       | 240       | -11.4% | 66.7%    | 255       | 6.1%   | 75.2%    |
|                   | Stores                   | 119       | 30.8%  |          | 83        | -29.9% |          |
|                   | Total net sales          | 360       | -0.8%  |          | 339       | -5.8%  |          |
|                   | Segment operating income | -7        | -      |          | -14       | -      |          |
|                   | Operating income margin  | -1.9%     | -      |          | -4.1%     | -      |          |
| Company-wide      | EC                       | 13,032    | 32.0%  | 57.4%    | 15,694    | 20.4%  | 62.8%    |
|                   | Stores                   | 9,672     | 4.1%   |          | 9,301     | -3.8%  |          |
|                   | Total net sales          | 22,705    | 18.5%  |          | 24,996    | 10.1%  |          |
|                   | Segment operating income | 832       | -6.1%  |          | 1,096     | 31.8%  |          |
|                   | Operating income margin  | 3.7%      | -      |          | 4.4%      | -      |          |

Source: Prepared by FISCO from Company materials

#### (1) Cameras business

Cameras business booked ¥18,131mn in sales (+9.4% YoY) and ¥1,442mn in operating profit (+23.4%). Syuppin expected a boost in sales of new products from the release of flagship models by major camera firms at the start of the fiscal year, but it incurred opportunity losses due to delivery disruptions by the Kumamoto Earthquake impact. While this setback disappeared in 2H, the 1H opportunity losses remained and sales only grew 9.4% YoY. EC sales were up 20.7% YoY. Positive factors for EC sales were enhanced review pages and product images (increase to 30 frames) plus the addition of one-to-one marketing. Store sales slipped on backlash from inbound demand (tax-exempt sales) in the previous fiscal year, while domestic user business steadily improved.

#### (2) Watches business

Watches business recorded ¥6,013mn in sales (+13.4% YoY) and ¥307mn in operating profit (+33.0%). EC sales grew at a healthy pace with a 22.4% gain. Activity benefited from adding brand-specific purchasing and delivery in 2Q as well as enhanced images and comments and expanded inventory, just as with cameras. These measures also boosted the own-site ratio in EC sales from FY3/16's 50.4% to 70.1% in FY3/17. The higher own-site ratio improved profits by reducing feeds paid to EC malls and played a role in the steep rise in operating income.

Results trends

### (3) Writing materials business

Writing materials business reported ¥511mn in sales (+8.6% YoY) and ¥46mn in operating profit (-14.4%). Profit fell on higher sales. Syuppin took steps to strengthen sales by reinforcing original inks and popular-series inks and expanding the line-up of miscellaneous study items that highlight its expertise as a specialty store. EC sales increased 11.5% YoY thanks to success with the KINGDOM NOTE Yahoo! Shopping Store opened in June 2016. Higher costs to promote increased sales resulted in the 14.4% drop in earnings.

### (4) Bicycles business

Bicycles business had ¥339mn in sales (-5.8% YoY) and a ¥14mn operating loss (vs. a ¥700mn loss from a year earlier). Sales declined and the operating loss widened. While EC sales recovered with a 6.1% YoY increase, higher fees linked to growth in sales on the portal sites of other companies weighed on earnings. Store sales slumped at a 29.9% decline with dips in customer volume and unit prices.

## ■ Growth strategy

### Aiming for sustainable growth at annual growth rates of about 15% in sales and 25% in profit led by reinforcement of one-to-one marketing and other measures

#### 1. Overall image of the growth strategy and the rolling medium-term management plan

Business content consists of a simple formula of “providing a venue for safe, reliable transactions of new and used valuable products with specialization in EC” (other firms cannot easily copy Syuppin because of the mechanisms and adjustments explained above). This is a classic EC model for the income model. The growth strategy hence depends on expanding and growing sales (particularly EC sales). Profit grows at a faster pace than growth in sales due to the cost structure of the EC model in which increases in fixed costs are slower than sales growth.

Syuppin implements a wide range of measures aimed at driving sales growth from large to small. It is currently putting effort into one-to-one marketing. Another notable new measure is the launch of “EVERYBODY X PHOTOGRAPHER.com.” The former has been realizing clear results since starting at end of March 2016 (it effectively began at the start of FY3/17). We think the latter possesses significant potential in not only marketing, but also business development over the medium term.

Syuppin prepares a three-year medium-term management plan as a specific plan and rolls (updates) the plan annually. The three-year plan announced at the start of FY3/18 calls for growth rates of about 15% in net sales and about 25% in operating income. These trends have not changed in recent years. While Syuppin lowered FY3/18 and FY3/19 sales targets by roughly ¥1,000mn each versus targets from the rolling plan a year ago, profit targets are around the same. The sales revisions reflect planning that factored in the FY3/17 result. Nevertheless, we have not altered our view of the growth potential of EC sales, which are a core source of income, at all.

Growth strategy

**Medium-term management plan: FY3/18-20**

(¥mn)

|                            | FY3/18 |       | 2017 rolling medium-term plan (FY3/18-20) |       |        |       |        |       |
|----------------------------|--------|-------|---|-------|--------|-------|--------|-------|
|                            | Result | YoY   | FY3/18                                    |       | FY3/19 |       | FY3/20 |       |
|                            |        |       | Forecast                                  | YoY   | Target | YoY   | Target | YoY   |
| Net sales                  | 24,996 | 10.1% | 28,429                                    | 13.7% | 32,620 | 14.7% | 37,575 | 15.2% |
| Cameras business           | 18,131 | 9.4%  | 20,400                                    | 12.5% | 23,654 | 16.0% | 27,517 | 16.3% |
| Watches business           | 6,013  | 13.4% | 7,016                                     | 16.7% | 7,794  | 11.1% | 8,696  | 11.6% |
| Writing materials business | 511    | 8.6%  | 618                                       | 20.9% | 713    | 15.3% | 825    | 15.8% |
| Bicycles business          | 339    | -5.8% | 395                                       | 16.5% | 460    | 16.4% | 537    | 16.8% |
| Gross profit               | 4,202  | 12.7% | 4,930                                     | 17.3% | 5,671  | 15.0% | 6,548  | 15.5% |
| SG&A expenses              | 3,105  | 7.2%  | 3,527                                     | 13.6% | 3,848  | 9.1%  | 4,305  | 11.9% |
| Operating income           | 1,096  | 31.8% | 1,402                                     | 27.9% | 1,822  | 30.0% | 2,243  | 23.1% |
| Ordinary income            | 1,078  | 31.3% | 1,387                                     | 28.7% | 1,811  | 30.6% | 2,235  | 23.4% |
| Profit                     | 741    | 32.2% | 950                                       | 28.2% | 1,241  | 30.6% | 1,531  | 23.4% |

Source: Prepared by FISCO from Company materials

## Personal requests, personal recommendations, and other new measures

### 2. Key initiative: One-to-one marketing

Syuppin started one-to-one marketing (previously known as Web marketing) from the end of March 2016. This method seeks to stimulate transactions, mainly for EC, through marketing using e-mail and more effective websites. Specifically, Syuppin plans to steadily enhance its marketing methods and content over a two-year period during FY3/17 to FY3/18 in four stages from Phase 1 to Phase 4.

#### One-to-one marketing roadmap

| Fiscal year ended March 31, 2017   |   | Fiscal year ending March 31, 2018  |   |
|--|---|--|---|
| Phase 1.0<br>Groupings of targets  | Phase 2.0<br>Personal requests  | Phase 3.0<br>Personal recommendations  | Phase 4.0<br>Merchandising  |
| Customers are grouped based on big data related to transaction histories. Information on events is sent by e-mail to the groups in accordance with their needs.  | Syuppin responds to customers' obvious needs. Syuppin sends them information on products on their wish list, including changes in prices and product arrivals.                              | Syuppin will respond to customers' potential needs. Syuppin will send information on related products and will recommend popular products to help customers find what they want more easily. | Syuppin will match sellers and buyers. Syuppin will buy out-of-stock items from users and sell them to other users.   |
| Syuppin can send information that customers need instead of e-mailing, without any specific reasons, information in which customers are not very interested. Syuppin can <b>negotiate with manufacturers and strengthen purchases effectively.</b> | Syuppin do not need to conduct excessive sales. When Syuppin purchase products, Syuppin can <b>set fair transaction prices</b> , taking supply and demand relationships into consideration. | Syuppin will display products in accordance with each customer's priority to <b>raise the "conversion ratio."</b>  | Syuppin will be able to <b>create transaction opportunities</b> by automatically informing customers with out-of-stock items to purchase from customers having the stock items. |

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

#### Growth strategy

Syuppin implemented Phases 1-2 in FY3/17. In Phase 1, it placed members in groups by themes and sent notices of products and events suited to each group by e-mail. The effort produced clear results through improvement of the e-mail opening rate.

In Phase 2 that started in 2H FY3/17 (October 2016), it began the one-to-one approach with “personal” emphasis. Specific actions include automatically sending notices of price changes and other aspects for products registered in the “wish list” on the customer’s personal page and giving notification via e-mail of deliveries of products that meet conditions set by the user ahead of time in the personal page.

The Phase 2 effect surfaced as an increase in product registrations. It also naturally boosted member volume because of the need to be a member to register products. Being a member was roughly equivalent to being a buyer of products prior to the start of this service (because there was not much value in becoming a member prior to making a purchase). The launch of this service, however, creates benefits in membership for the consumer prior to actually making a purchase. Syuppin hence achieved progress in building the base of potential customers.

Syuppin plans to begin Phases 3-4 in FY3/18. In Phase 3, it intends to go further in one-to-one marketing content with a personal recommendations function. This feature recommends products to customers through the accumulation and analysis of customer page views and other information with AI-based machine learning. Provision of information along the lines of “people who purchase this product are also looking at this item” often seen on shopping sites encourages “extra purchases” of related products. An important characteristic of Syuppin’s function is the “customer interaction recommendation” (similar to advice from a sales staff at a store) that prods customers with the aim of raising the conversion rate.

Syuppin aims to introduce Phase 3 at the end of 2Q FY3/18. We will be paying close attention to the effect. Syuppin is developing this software on its own (though consigns actual work to an external vendor), and it might blossom into further business if proven effective.

## Launched a “venue” for enjoying cameras after camera purchases

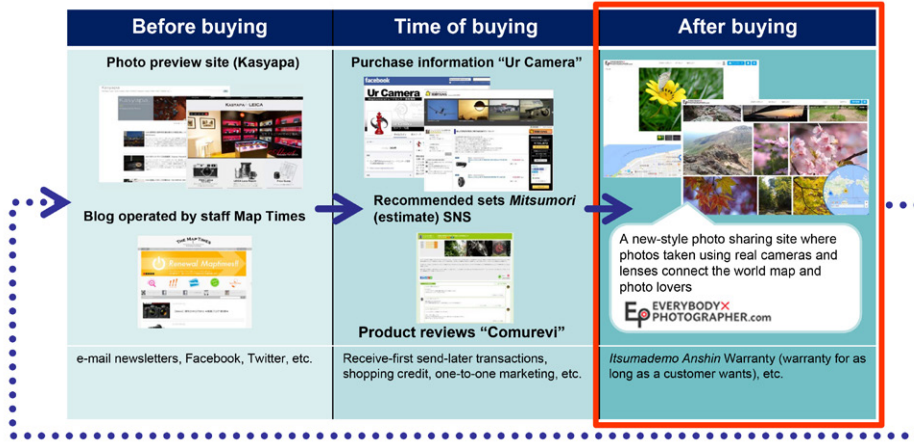
### 3. Key initiative: EVERYBODY X PHOTOGRAPHER.com

Syuppin launched EVERYBODY X PHOTOGRAPHER.com in April 2017 as it previously planned. This is a site for camera enthusiasts to upload their photos and offers a venue for Syuppin’s customers to utilize in enjoying photographs after the purchase of cameras and lenses.

Syuppin develops and supplies a variety of services for users of Map Camera, its camera EC shop, prior to and at the time of purchases. The provision of EVERYBODY X PHOTOGRAPHER.com as a post-purchase service is the final piece of the puzzle.

Growth strategy

List of services provided by Syuppin to camera buyers



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

We are particularly interested in the "pre-purchase, purchase, post-purchase, pre-purpose" flow solidified by the EVERYBODY X PHOTOGRAPHER.com launch. Syuppin is keenly aware of this point too, as evidenced by its use of EVERYBODY X PHOTOGRAPHER.com in information marketing.

Information marketing involves using information contained in photos (such as position information and photography data) to kindle interest among site viewers and stimulate the market by increasing camera enthusiasts and usage frequency, thereby lifting Syuppin's sales. We think various methods exist for specific usage of the information, but Syuppin has not clarified the details yet.

Syuppin is primarily putting effort into enhancement of the content of photos uploaded to the site for EVERYBODY X PHOTOGRAPHER.com. The first step is gathering many high-quality photos and boosting the site's brand value and recognition. The next stage is improving user satisfaction with app development (increasing usage convenience and accessibility), photo contests, and corporate member functionality. Main aims are increase in new member volume, advertising income from growth in site PV volume, and ultimately introduction of paid services.

We think Syuppin might monetize photos uploaded to EVERYBODY X PHOTOGRAPHER.com for commercial use and other purposes and return some income to users as a measure to solidify the above-mentioned flow more directly. We expect further expansion of the above-mentioned flow if Syuppin can create a mechanism for utilizing money and points obtained from this activity within Map Camera (for example, using points to buy cameras and lenses).

## Beginning cross-border EC, possibility of considerable significance over the long term

### 4. Key initiative: Cross-border EC

Syuppin stated that it will begin cross-border EC as a new measure in FY3/18. It appears to have concluded that cross-border EC is feasible for cameras, watches, and other high-priced products too based on a conviction that demand exists for “valuable products” around the world as well as the improved quality of EMS international mail service. In the near term, Syuppin plans to start service from the end of 2Q FY3/18 mainly in North America. This will involve opening stores to sell products on Amazon, eBay, and other malls, a strategy that reflects the advantage of using EC malls, compared to its own site, in attracting customers.

Syuppin cites maintaining the market for variable used products and sales promotion as reasons for its entry into cross-border EC. It can sell the more than one million used Leica lenses without having to lower prices or conduct sales campaigns by appealing to wealthy Leica fans worldwide, rather than just selling to domestic customers.

We believe cross-border EC is likely to be extremely important over the very long term besides for the purpose of maintaining the market. While more details are given below, our view is that the “accumulated stock of cameras and lenses” in Japan is the source of Syuppin’s growth. We do not expect physical decline in the stock, but it could become entrenched and fixed. Decline in enthusiasts might lead to lack of movement in camera and lens assets, thereby interfering with Syuppin’s business model. The ability to access the overseas market (camera enthusiasts) hence is likely to increase the fluidity of camera and lens assets in Japan and fuel growth at Syuppin. Furthermore, the business model that Syuppin employs in Japan can be implemented outside of the country (“exporting the business model”). We see considerable potential in Syuppin’s cross-border EC from this perspective and will be closely monitoring developments.

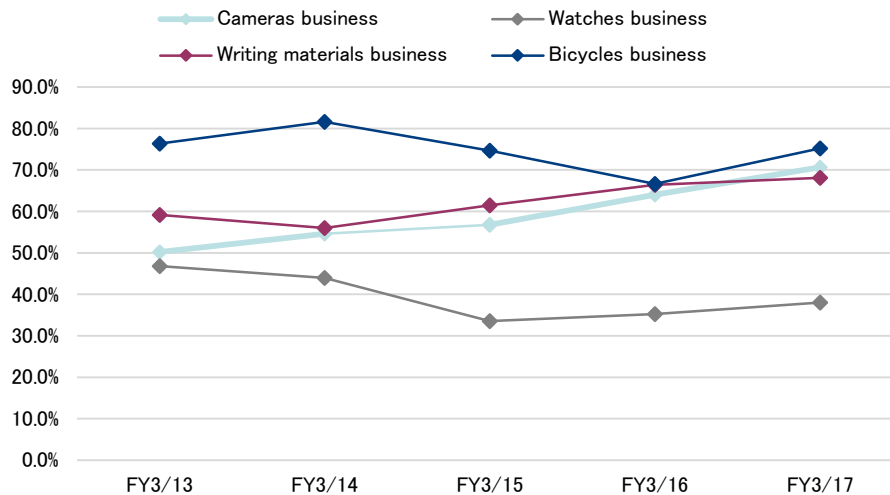
## Rise in the own-site EC sales ratio to the same level as cameras, increased expectations for watches business growth from ramp-up in EC transactions

### 5. Growth potential for watches business

Watches are a major component of Syuppin’s business along with cameras, but the income structure differed to some extent for watches and cameras up to now. Watches had a lower EC ratio (the store sales ratio was higher) and purchasing also consisted of more store and face-to-face transactions (the high ratio and large value of store sales are notable in a different meaning given that Syuppin only has the one store in Shinjuku).

Growth strategy

**Comparison of EC ratios in the watches business and other businesses**



Source: Prepared by FISCO from Company materials

The reason can be explained with relative ease. Cameras are industrial products and many customers are not concerned about exterior nicks or other minor defects if functionality is guaranteed. With watches (particularly high-end mechanical watches handled by Syuppin), however, a large portion of the customer base cares about the exterior, in addition to functionality, because they see watches as craft products and accessories. This tendency is not limited to Syuppin. Watch sales worldwide are more likely to take place at stores, than cameras.

We think efforts to break through the existing consumer mentality and foster understanding that “high-end watches can be reliably and safely purchased through EC transactions” hence represent a growth strategy in the watches business. Important advances occurred in this respect during FY3/17. One was a sharp rise in the own-site ratio of EC sales from FY3/16’s 50.4% to 70.1%. The other was an increase in the used product ratio for watches from FY3/16’s 36.8% to 42.9%.

**Changes in EC-related indicators for the watches business**

|                                    |                  | FY3/16    | FY3/17    |
|------------------------------------|------------------|-----------|-----------|
| Own-site ratio in the EC business  | Watches business | 50.4%     | 70.1%     |
|                                    | Cameras business | about 70% | about 70% |
| Ratio of used goods to total sales | Watches business | 36.8%     | 42.9%     |
|                                    | Company average  | 42.3%     | 45.7%     |

Source: Prepared by FISCO from Company materials

Improved contents on Syuppin’s website fueled these increases, in our view. Syuppin introduced high-precision images and expanded photos per item to 30 frames, enabling customers to sufficiently confirm item conditions and exterior defects on the website. We also believe listing on the TSE-1 market in December 2015 further boosted recognition and trust as a company. The combined impact of these various factors appears to have built a reputation that EC transactions (buying and selling) of high-end watches on Syuppin (GMT) are reliable and safe.



#### Growth strategy

EC sales in the watches business climbed 22.4% YoY in FY3/17, as noted above, the fastest pace among the four businesses. We expect early arrival at Syuppin's near-term goal of ¥10,000mn in sales if it smoothly expands EC transactions.

## Camera accumulated stock is more important than single-year shipment volume growth, moving this stock is the source of Syuppin's growth

### 6. Camera market trends and Syuppin's growth potential

Domestic shipments of digital cameras in Japan dropped 28.1% YoY to 3,520,377 units in 2016, including a 21.2% decline in interchangeable lens digital cameras (ILCs) that Syuppin mainly handles to 1,283,243 units. Some observers worry about the growth potential of Syuppin's business because of this trend. We maintain our existing view that the concerns are totally unnecessary and the camera business can maintain a strong growth rate in the 15-20% range for the time being.

We base our assessment on Syuppin's handling of used products in addition to new ones. Value as industrial products is an important aspect of cameras. A certain segment purchases new products with higher performance once they are released, triggering sales of existing cameras. Syuppin had been seeking ways to tap into business from this cycle since its founding. The solution was setting up a framework to promote sales of new and used cameras with a synergy effect.

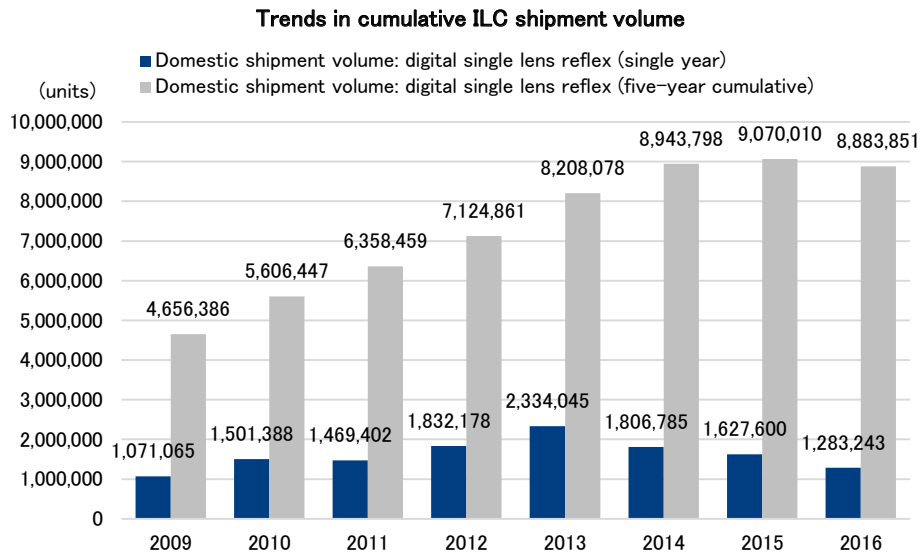
Another key point is that Syuppin fundamentally handles ILCs. This means that not only cameras, but also lenses occupy a sizeable portion of business. While precise statistics are not available, we believe that ILC enthusiasts spend more on lenses than the camera itself because they own multiple lenses for a single camera.

We conclude from these consumption behaviors of ILC camera users that all products are "new" to the individual person, regardless of whether they are actually used or new items. Syuppin has already established Map Camera's recognition and brand clout as a venue to safely and reliably engage in EC transactions of "products that are new to the individual." We hence think the assessment of Syuppin's growth potential needs to factor in "camera and lens stock" in the market, rather than single-year growth.

Cumulative ILC shipments in Japan in the past five years remained at about 9mn units. We used a five-year framework in light of the pace of performance improvements in cameras, but the actual usage lifespan is longer. Camera and lens stock targeted by Syuppin therefore is even larger than suggested by the graph.

Syuppin promotes a growth strategy that stimulates and moves "camera and lens stock" through transactions on its EC site. It is engaged in developing various frameworks and implementing measures to foster these conditions and see the effect in its numbers, as explained above. We do not find any reason to question Syuppin's growth potential in light of progress up to now.

## Growth strategy



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

## Business outlook

### Capable of realizing the FY3/18 forecast, focus on progress with growth strategy measures

For FY3/18, the Company is forecasting higher sales and profits again with full-year net sales of ¥28,429mn (up 13.7% YoY), operating income of ¥1,402mn (up 27.8%), ordinary income of ¥1,387mn (up 28.6%), and profit of ¥950mn (up 28.2%).

#### Outlook for FY3/18

|                         | FY3/17    |                  | FY3/18      |       |                    |       |
|-------------------------|-----------|------------------|-------------|-------|--------------------|-------|
|                         | 1H result | Full-year result | 1H forecast | YoY   | Full-year forecast | YoY   |
| Net sales               | 11,161    | 24,996           | 12,913      | 15.7% | 28,429             | 13.7% |
| Operating income        | 472       | 1,097            | 586         | 23.9% | 1,402              | 27.8% |
| Operating income margin | 4.2%      | 4.4%             | 4.5%        | -     | 4.9%               | -     |
| Ordinary income         | 466       | 1,078            | 579         | 24.2% | 1,387              | 28.6% |
| Profit                  | 319       | 741              | 396         | 23.8% | 950                | 28.2% |

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

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Business outlook

We believe Syuppin is capable of realizing targets in its FY3/18 forecast. It should benefit from Phase 2 of one-to-one marketing rolled out in 4Q FY3/17 from the outset of FY3/18, and the start of Phase 3 recommendations is scheduled from the end of 2Q. Syuppin also launched EVERYBODY X PHOTOGRAPHER.com, a venue that can be used after buying a camera, and this effort is likely to stimulate activity among camera enthusiasts in the camera business. Furthermore, Syuppin has entered a stage of robust expansion of EC sales in the watches business on improved recognition of its GMT site and heightened trust in its operations. We expect sales growth in the 10-15% YoY range again in FY3/18 led by cameras and watches.

In earnings, increased sales readily show up in earnings because costs grow at a more moderate pace than sales owing to the income structure with EC specialization described above. We think 25-30% profit growth is naturally attainable if sales grow by 10-15%.

Our focus points in FY3/18 are one-to-one marketing, EVERYBODY X PHOTOGRAPHER.com, and cross-border EC progress and user reaction covered in the growth strategy section. We expect a further rise in certainty of longer-term growth over the next 3-5 years depending on these conditions.

Income statements

|                                     | FY3/15 | FY3/16 | FY3/17 | FY3/18 |               |
|-------------------------------------|--------|--------|--------|--------|---------------|
|                                     |        |        |        | 1H (E) | Full year (E) |
| Net sales                           | 19,166 | 22,705 | 24,996 | 12,913 | 28,429        |
| YoY                                 | 22.8%  | 18.5%  | 10.1%  | 15.7%  | 13.7%         |
| Cameras business                    | 13,758 | 16,572 | 18,131 | -      | -             |
| Watches business                    | 4,680  | 5,301  | 6,013  | -      | -             |
| Writing materials business          | 363    | 470    | 511    | -      | -             |
| Bicycles business                   | 363    | 360    | 339    | -      | -             |
| Gross profit                        | 3,348  | 3,729  | 4,202  | -      | -             |
| Gross profit margin                 | 17.5%  | 16.4%  | 16.8%  | -      | -             |
| SG&A expenses                       | 2,461  | 2,897  | 3,105  | -      | -             |
| Ratio of SG&A expenses to net sales | 12.8%  | 12.8%  | 12.4%  | -      | -             |
| Operating income                    | 886    | 832    | 1,096  | 586    | 1,402         |
| YoY                                 | 26.4%  | -6.1%  | 31.8%  | 23.9%  | 27.8%         |
| Operating income margin             | 4.6%   | 3.7%   | 4.4%   | 4.5%   | 4.9%          |
| Ordinary income                     | 870    | 821    | 1,078  | 579    | 1,387         |
| YOY                                 | 26.2%  | -5.6%  | 31.3%  | 24.2%  | 28.6%         |
| Profit                              | 563    | 560    | 741    | 396    | 950           |
| YoY                                 | 44.5%  | -0.6%  | 32.2%  | 23.8%  | 28.2%         |
| After adjustment                    |        |        |        |        |               |
| EPS (¥)                             | 47.08  | 46.81  | 61.91  | 33.08  | 79.36         |
| DPS (¥)                             | 7.00   | 8.00   | 12.00  | -      | 18.00         |
| BPS (¥)                             | 189.66 | 229.47 | 283.38 | -      | -             |

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

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## Business outlook

**Balance sheets**

|   | (¥mn)  |        |        |        |        |
|---|--------|--------|--------|--------|--------|
|   | FY3/13 | FY3/14 | FY3/15 | FY3/16 | FY3/17 |
| <b>Current assets</b>                   | 2,952  | 3,475  | 4,024  | 4,905  | 5,727  |
| Cash and deposits                       | 571    | 441    | 492    | 506    | 644    |
| Notes and accounts receivable           | 844    | 1,049  | 917    | 1,327  | 1,612  |
| Inventories                             | 1,362  | 1,790  | 2,222  | 2,757  | 3,209  |
| <b>Non-current assets</b>               | 533    | 787    | 1,085  | 1,001  | 949    |
| Property, plant and equipment           | 109    | 101    | 159    | 137    | 123    |
| Intangible assets                       | 120    | 210    | 607    | 530    | 468    |
| Investments and other assets            | 304    | 476    | 318    | 333    | 356    |
| <b>Total assets</b>                     | 3,487  | 4,263  | 5,110  | 5,907  | 6,676  |
| <b>Current liabilities</b>              | 1,495  | 1,906  | 2,260  | 2,585  | 2,954  |
| Notes and accounts payable              | 510    | 727    | 656    | 940    | 823    |
| Short-term loans payable, etc.          | 610    | 650    | 871    | 1,215  | 1,428  |
| <b>Non-current liabilities</b>          | 620    | 589    | 579    | 568    | 322    |
| Long-term loans payable, bonds payable  | 612    | 584    | 577    | 568    | 322    |
| <b>Shareholders' equity</b>             | 1,371  | 1,766  | 2,270  | 2,746  | 3,392  |
| Capital stock                           | 485    | 508    | 508    | 508    | 508    |
| Capital surplus                         | 385    | 408    | 408    | 408    | 408    |
| Retained earnings                       | 500    | 849    | 1,352  | 1,829  | 2,474  |
| Subscription rights to shares           | -      | -      | -      | 6      | 6      |
| <b>Total net assets</b>                 | 1,371  | 1,766  | 2,270  | 2,753  | 3,399  |
| <b>Total liabilities and net assets</b> | 3,487  | 4,263  | 5,110  | 5,907  | 6,676  |

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

**Cash flow statements**

|   | (¥mn)  |        |        |        |        |
|---|--------|--------|--------|--------|--------|
|   | FY3/13 | FY3/14 | FY3/15 | FY3/16 | FY3/17 |
| Cash flows from operating activities            | 85     | 79     | 157    | 90     | 388    |
| Cash flows from investing activities            | -129   | -225   | -262   | -333   | -122   |
| Cash flows from financing activities            | 234    | 16     | 154    | 257    | -128   |
| Change to cash and deposits at start of period  | 190    | -130   | 51     | 14     | 137    |
| 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    | 644    |

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

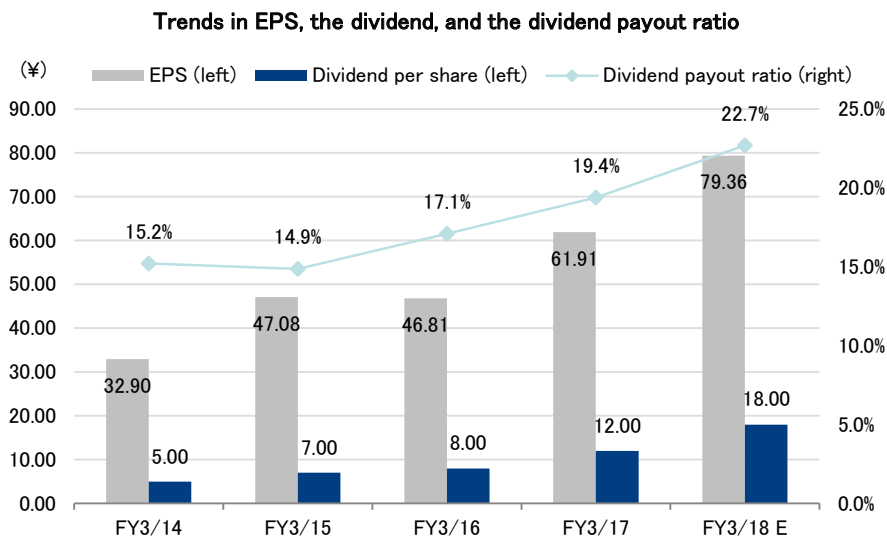
## Shareholder return policy

Syuppin addresses shareholder return as an important management topic and adheres to a core policy of return through dividends. It updated the policy on March 14, 2017.

Syuppin switched from a policy of sustaining stable dividends to setting a target dividend payout ratio and paying dividends accordingly to the ratio from FY3/17. It began with a target ratio range of 20-30% in this change and noted plans to ramp up shareholder returns further in the future.

The policy update resulted in a steep increase of the FY3/17 dividend from the previous ¥7 target to ¥12, a ¥4 YoY gain. The dividend payout totaled ¥143mn, or 19.4% of the ¥741mn in profit.

Syuppin presented an ¥18 dividend target (+¥6 YoY) for FY3/18, a 22.7% payout ratio on ¥79.36 EPS.



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



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