COMPANY RESEARCH AND ANALYSIS REPORT

Syuppin Co., Ltd.

3179

Tokyo Stock Exchange Prime Market

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Contents

Summary

In 1H FY3/25, steady growth in the Camera Business for new record-high results. Full-year forecasts maintained; expecting higher revenue and profit

Syuppin Co., Ltd. <3179> (hereafter, also “the Company”) is an e-commerce (EC) enterprise specializing in valuable items, such as cameras and luxury watches. Utilizing the different customer needs and product characteristics between used and new items, the Company has realized an expansion of the membership base and results growth, while having used and new items interact to support the other’s sales. Recently, it has been working on initiatives including proprietary EC purchases, one-to-one marketing*1, and the utilization of CGM*2, and it continues to evolve its platform-type business model. During the past few years, store sales have been affected by the COVID-19 pandemic, and the Watch Business, which has been engaged in strategic inventory investment, has temporarily lost steam as prices have fallen globally. In contrast, the mainstay Camera Business has been steadily growing led by EC with the introduction of new AI-based features*3, etc., so it can be said that the Company has entered a new stage in terms of business model evolution. In May 2024, the Company updated its medium-term management plan (rolling), and declared its “transformation from an EC retailer to an EIC*4 company, continually leveraging cutting-edge technology,” thereby setting out to further advance combining re-value with technology.

*1 Marketing tailored to each customer based on information such as their purchase and activity histories.
*2 An abbreviation of Consumer Generated Media, which refers to media with content involving general users, including bulletin boards and word-of-mouth websites.
*3 AI-driven merchandising system (AIMD) and AI-driven content recommendations (using an AI engine that analyzes customer preferences and distributes articles from a large volume of content created and owned by the Company), etc.
*4 An abbreviation of Electronic Intelligent Commerce, which is a term the Company coined for combining intelligence with electronic commerce (EC).

1. Overview of 1H FY3/25 results

In 1H FY3/25 results, net sales increased 13.4% year on year (YoY) to ¥26,521mn, and operating profit increased by 24.3% YoY to ¥2,020mn, as the Company set new record-high results. In the mainstay Camera Business, e-commerce and store sales both steadily increased, driving the growth in results overall. At the same time, in the Watch Business, results were firm until July, but turned soft starting in August as inbound tourism decreased on yen appreciation. On the profit front, along with growth in the Camera Business, which has high profitability, improved gross profit in the Watch Business through continuing sales with an emphasis on profit absorbed upfront costs associated with increasing personnel and system investment, which led to a large increase in operating profit that exceeded expectations. As for activities, the Company established new video content studios and renewed the ladies’ brand salon BRILLER. These initiatives were taken with an eye on the future.

2. Outlook for FY3/25

For FY3/25 results, the Company has maintained its initial forecasts. It is projecting net sales to rise 15.9% YoY to ¥56,617mn and operating profit to increase by 15.3% to ¥3,854mn, so the Company is forecasting continued revenue and profit growth. With regard to net sales, though the Watch Business is trending below expectations, growth in the recently buoyant Camera Business (particularly e-commerce sales) is expected to cover for it. Regarding profit, despite making upfront investments to renew BRILLER and establish new content studios, thanks to growth in the highly profitable Camera Business and improved profitability in the Watch Business from deploying an AI support MD* and other measures, the Company is expecting an increase in operating profit.

* Using AI to predict watch price trends.

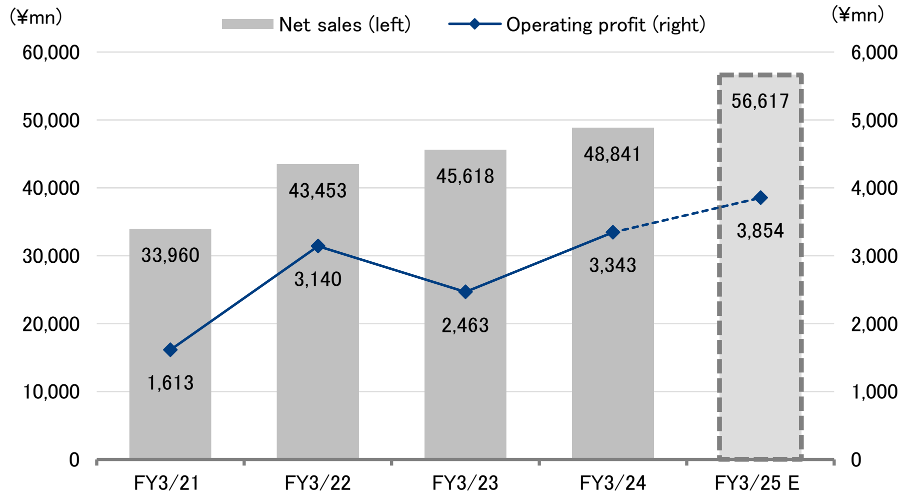
3. Strategy for future growth

The Company updates its three-year medium-term management plan annually, and in May 2024, it announced a new medium-term plan. It intends to continue to further grow its Camera and Watch businesses and revitalize its global expansion through cross-border EC, positioning sustainable growth in EC net sales through expansion of market share as the main driver. It also still plans to emphasize profit growth over sales growth by utilizing AI to improve profit margins and reducing its SG&A expense ratio through lean management. For FY3/27, the final year of the current plan, it aims to achieve net sales of ¥73,514mn (a three-year average annual growth rate of 14.6%) and operating profit of ¥5,598mn (an operating margin of 7.6%).

Key Points

- In 1H FY3/25, the Company achieved record-high results (1H basis) amid steady growth persisting in the mainstay Camera Business
- In the Watch Business sales turned soft on the impact of yen appreciation starting in August, but the profit margin increased by selling with an emphasis on profit
- FY3/25 results forecasts were maintained, and the Company is expecting continued growth in revenue and profit
- In its medium-term management plan, the Company intends to achieve sustainable growth in EC net sales and improve profit margins through AI utilization by working to further grow its Camera and Watch businesses as well as revitalizing global expansion through cross-border EC

Results trends



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

Business overview

Developing an EC business specializing in valuable new and used items, such as cameras and luxury watches. Continued unique evolution through aggressive use of AI technology

The Company is an e-commerce (EC) enterprise specializing in valuable items (used and new items), such as cameras and luxury watches. It achieved strong growth by establishing its own business model that harnesses the Internet and its positioning as a business dealing with highly specialized items, capitalizing on the expansion of the EC market. It continues to evolve into a specialist EC site that harnesses technologies by introducing AIMD and AI-driven content recommendations.

The Company currently has over 700,000 Web members (as of the end of September 2024). This number has been steadily increasing through continued net growth of over 4,000 new members every month. On the other hand, it has established a physical store network of five stores in the Tokyo metropolitan area, with its basic policy being one store for one item. Stores contribute to results to a certain extent, but their main function is to complement the EC business as bases to disseminate information. At the Company, new items and used items each play important roles, generating synergies while mutually interacting to increase the other's sales.

There are four business segments: Camera Business, Watch Business, Stationery Business, and Bicycle Business*. The mainstay Camera Business provides approximately 77% of net sales. The Watch Business had struggled temporarily with impact from falling global prices for luxury watches, but is already recovering now, and the Company looks to accelerate growth by strategically enhancing the product lineup and expanding globally, while promoting a framework for enabling appropriate procurement and inventory investment.

* The Camera Business is conducted under the Map Camera brand, the Watch Business under the GMT and BRILLER brands BRILLER (ladies' brand salon) brands, the Stationery Business under the KINGDOM NOTE brand, and the Bicycle Business under the CROWN GEARS brand.

The Company's features

Strengths in platform-type business model, including its proprietary EC purchases, one-to-one marketing, and AI utilization

1. The growth model

The Company's net sales have grown alongside the increase in the number of Web members. It can be said to have a recurring-revenue business model, in which alongside the acquisition of new customers through effective EC marketing, it captures members and promotes continuous purchases, which leads to sales growth. Therefore, in addition to the number of newly acquired members and the total number of members, the number of purchasing members and the active rate* are important KPIs. Currently, Web members have grown to over 700,000 people, but there remains plenty of room for the number of newly acquired members (and total members) to further increase in the future through its proprietary business model, including strengthening measures for young and female members and expanding its market share in areas outside the Kanto region. Also, increasing the number of purchasing members through maintaining and raising the active rate can be expected to be beneficial for improving results and costs. Moreover, the accumulation of merchandise (the inventory of used items) is an important KPI that will lead to sales increasing in the future. Whereas similar industries (reuse, recycling, etc.) spend large amounts on advertising to collect a wide range of used items, the Company collects valuable inventory items, which are its core value, through 1) its proprietary mechanism for EC purchases, 2) its powers of discernment and brand power as a specialty store, and 3) the utilization of AI, which have led to acquisitions of new members and continuous purchases. The enhancement of merchandise inventory helps make advertising more effective, thereby creating a virtuous cycle.

* The Company defines the active rate as the number of members who make a purchase in a fiscal quarter (excluding the number of purchases at malls) in relation to the total number of members at the start of that quarter.

2. The Company's features (strengths)

(1) Proprietary model specializing in EC

Since its foundation, the Company has focused on a model specializing in EC that is limited to valuable items. It can be said to have established a unique position through specializing in high-value-added items and the convenience of EC. In particular, it is able to respond flexibly to economic fluctuations as it does not incur fixed costs. Additionally, it benefits from having few bottlenecks for increasing sales and from being able to focus on achieving high profitability alongside the growth of net sales. Another strength is that the Company has increased the percentage of sales on the Company's website (approximately 86.0% as of the end of September 2024) by providing its own services, in contrast to the high dependence of competitors on other companies' malls. This has enabled its platform-type business model described later, as well as a reduction in the burden of fees. Meanwhile, stores have been making a certain contribution to business performance and serving as bases for disseminating information, driven by factors including inbound demand (duty-free sales) and other tailwinds over the past several years. The Company intends to continue developing its business based around EC, especially by using its own website as a platform.

(2) Synergies between new items and used items

The Company perceives the composition of total net sales provided by new items and used items trend to be around 1:1. For the Company, both play important roles and have contributed to expanding its customer base and its results growth, while mutually interacting to boost the other's sales. Compared to used items with high profit margins, for which there are many single items, competition for new items is fierce. However, the significance of handling new items for the Company is not only their contribution to results but also that they provide opportunities to acquire new members (capture new customers) and trade in used items. In particular, when a new item is sold, it has a major impact on results and also provides the biggest opportunity to acquire a new member. Therefore, the handling of new items functions as a catalyst in order to increase sales of used items. Conversely, for sales of new items as well, the Company is able to differentiate itself through trade-ins of used items owned by customers (by indicating purchase prices that are acceptable to customers), which generates synergies.

(3) Mechanism for collecting valuable inventory items

As previously explained, the Company's growth depends on how it collects valuable inventory items (used items). Preparing a high-quality inventory not only raises the value of the Company's brand and attracts buyers, it also creates a virtuous cycle through building trust with sellers, which in turn leads to the collection of more high-quality inventory items. It has been able to differentiate itself from other companies by working to enhance functions, including by 1) indicating purchase prices that are acceptable to customers and that correspond to the item's value determined by detailed assessment standards, 2) responding to trade-in needs by handling new items, and 3) enabling estimated purchase prices to be easily obtained on the internet. It is also introducing its own mechanism for EC purchases, including one-price buying and the receive-first, send-later service*1, further raising convenience for the customers to sell, which has led to increases in the EC purchase amount. It also aggressively uses AI, working on improving efficiency (reducing opportunity losses) through an online personal identification service using AI facial authentication*2 and deployment of AIMD and other measures. Recently, it has also begun deploying and operating mechanisms utilizing AI and data to make purchase decisions and price decisions in the Watch Business.

*1 A service that enables the customer to receive the item in advance when trading-in (exchanging) a camera that they own and purchasing a new item (launched in September 2014).

*2 The Company previously needed users to mail in a personal identity confirmation document (original certified copy of the resident's certificate) to authenticate their identity, but installation of a system capable of matching the user's face and image on an identification card allows authentication online (an ID and password are sufficient to complete the authentication procedure for second and subsequent purchases).

(4) Platform-type business model

Another feature of the Company is that it has built a platform-type business model to encourage continuous purchases by providing valuable information within the sequence of pre-purchase → time of purchase → post-purchase. Its strategy is to create a virtuous cycle of information about enjoying cameras (pre-purchase) → services to make purchases easier (time of purchase) → services to enjoy an item after purchasing (post-purchase), expand and invigorate its membership base by enlarging that cycle, and tie that to further results growth. For services at the time of purchase in particular, it incorporates one-to-one marketing by personalizing its EC website (including with wish lists, email notifications of product arrivals, and personal recommendations). It is also working on communicating via the Web magazine* and utilizing CGM to enhance information and cultivate fans, aiming to be Japan's largest portal website specializing in cameras. In the past few years, it has continued to evolve in its own way by harnessing AI to introduce unique features, such as AIMD and AI-driven content recommendations, and enhancing content creation features. The Company is strengthening its YouTube content and LINE communications, and in April 2023 established a new dedicated department. In January 2025, it planned to establish three new studios within the Company, and by further increasing quality and creativity, it is reinforcing sales promotions for the EC business. In addition, for LINE, as a result of strengthening communications, the number of communications increased by 17 times. The Company is increasing touch points with customers to raise brand recognition and further promote sales growth.

* The Company distributes the Web magazine StockShot that brings together four types of content, and it has more than 1mn PV per month.

Results overview

In 1H FY3/25, the Camera Business grew steadily, leading to new record-high results (1H basis)

1. Overview of 1H FY3/25 results

(1) Results summary

In the 1H FY3/25 results, net sales increased 13.4% YoY to ¥26,521mn, operating profit rose 24.3% to ¥2,020mn, ordinary profit grew 22.8% to ¥2,003mn, and net income rose 22.9% to ¥1,365mn. The Company achieved double-digit net sales and profit growth for record-high results (1H basis).

The mainstay Camera Business steadily expanded sales, both EC and store sales, and drove the growth in overall results. With the market expanding to women and young people, one-to-one marketing using AI and content centered on video distribution performed well. In addition, sales of the successor to a popular model also provided a tailwind. At the same time, the Watch Business saw steady sales through July, but starting in August, sales turned soft on the decrease in inbound tourism related to yen appreciation.

On the profit front, along with growth in the highly profitable Camera Business, improved gross profit in the Watch Business through continuing sales with emphasis on profit led to a gross margin of 19.2% (18.8% in 1H FY3/24). Although upfront costs increased, including personnel expenses related to a scheduled increase in personnel and operating expenses related to strengthening systems, this was absorbed by growth in gross profit, leading to operating margin of 7.6% (7.0% in 1H FY3/24) that exceeded forecasts by a large margin.

With regard to its financial condition, total assets increased by 13.3% compared to the end of the previous fiscal year to ¥18,206mn as cash and deposits increased, merchandise inventory went up and software in progress associated with system investment increased. In particular, merchandise inventory, a source of growth, increased by 17.8% YoY to ¥10,918mn, as a sufficient level was achieved. Equity increased by 14.9% to ¥9,498mn on an increase in internal reserves and other factors, so the equity ratio improved slightly to 52.2% (51.5% at the end of the previous fiscal year). At the same time, interest-bearing debt went up by 15.9% to ¥5,377mn.

Summary of 1H FY3/25 results

(¥mn)

	1H FY3/24		1H FY3/25		YoY	
	Result	%	Result	%	Amount	%
Net sales	23,381		26,521		3,139	13.4%
Cameras	17,591	75.2%	20,412	77.0%	2,820	16.0%
Watches	5,154	22.0%	5,450	20.6%	295	5.7%
Stationery	207	0.9%	236	0.9%	28	13.9%
Bicycle	427	1.8%	421	1.6%	-5	-1.4%
Cost of sales	18,983	81.2%	21,419	80.8%	2,435	12.8%
Gross profit	4,398	18.8%	5,102	19.2%	704	16.0%
SG&A expenses	2,772	11.9%	3,081	11.6%	309	11.2%
Operating profit	1,625	7.0%	2,020	7.6%	394	24.3%
Cameras	2,072	11.8%	2,493	12.2%	421	20.4%
Watches	187	3.6%	289	5.3%	102	54.5%
Stationery	25	12.2%	39	16.7%	14	56.3%
Bicycle	18	4.3%	14	3.3%	-4	-23.7%
Adjustment	-677	-	-816	-	-138	-
Ordinary profit	1,632	7.0%	2,003	7.6%	371	22.8%
Net income	1,111	4.8%	1,365	5.1%	254	22.9%
EC net sales	17,853	76.4%	19,730	74.4%	1,877	10.5%
Store net sales	5,528	23.6%	6,791	25.6%	1,263	22.8%

Note: For profits by segment, “%” is the ratio to that segment’s net sales
Source: Prepared by FISCO from the Company’s financial results and results briefing materials

Financial condition at the end of September 2024

(¥mn)

	End of March 2024 Result	End of September 2024 Result	Change	
			Amount	%
Current assets	13,961	15,952	1,990	14.3%
Cash and deposits	1,321	1,709	388	29.4%
Accounts receivable - trade	2,733	2,613	-119	-4.4%
Merchandise	9,265	10,918	1,652	17.8%
Non-current assets	2,101	2,253	152	7.3%
Property, plant and equipment	290	341	50	17.5%
Intangible assets	893	947	54	6.1%
Investments and other assets	917	965	47	5.2%
Total assets	16,063	18,206	2,143	13.3%
Current liabilities	5,979	5,871	-108	-1.8%
Accounts payable - trade	1,463	1,662	199	13.6%
Interest-bearing debt	2,549	2,218	-330	-13.0%
Contract liabilities	333	389	55	16.6%
Non-current liabilities	1,817	2,836	1,018	56.1%
Interest-bearing debt	1,754	2,768	1,014	57.8%
Net assets	8,266	9,499	1,232	14.9%
Shareholders’ equity	8,264	9,498	1,233	14.9%
Total liabilities and net assets	16,063	18,206	2,143	13.3%

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

(2) Gross margin and SG&A expenses conditions

In 1H FY3/25, the gross margin (overall) improved to 19.2% (18.8% in 1H FY3/24). Along with steady growth from the highly profitable Camera Business, AIMD effects further increased the Camera Business's profitability, and in the Watch Business as well, continued sales with an emphasis on profit performed well. Regarding SG&A expenses, along with increases in personnel expenses from adding personnel and business outsourcing expenses for system investment, sales promotion expenses linked to net sales and credit usage fees went up, though this was absorbed by the growth in sales and the SG&A expense ratio went down to 11.6% (11.9% in 1H FY3/24).

Breakdown of SG&A expenses

(¥mn)

	1H FY3/2		H FY3/25		Compared to end of last fiscal year	
	Result	Ratio to net sales	Result	Ratio to net sales	Amount	%
SG&A expenses	2,772	11.9%	3,081	11.6%	309	11.1%
Personnel expenses	797	3.4%	880	3.3%	83	10.4%
Advertising expenses	30	0.1%	42	0.2%	12	40.0%
Promotion expenses	530	2.3%	550	2.1%	20	3.8%
Outsourcing expenses	184	0.8%	251	0.9%	66	36.4%
Commission expenses	630	2.7%	734	2.8%	104	16.5%
Depreciation	88	0.4%	88	0.3%	0	0.0%
Rent expenses on land and buildings	176	0.8%	186	0.7%	9	5.7%
Other	334	1.4%	347	1.3%	13	3.9%

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

2. Results by business

(1) Camera Business (EC ratio: 82.8%)

Net sales increased by 16.0% YoY to ¥20,412mn, while segment profit went up by 20.4% to ¥2,493mn, as the Company continued to set record highs (1H basis). With the market expanding for women and young people, one-to-one marketing using AI, specifically AIMD and AI content recommendations, and enhancing content centered on video streaming performed well. Launching sales of the successor to a popular model also served as a tailwind. With regard to YouTube in particular, short videos and videos introducing featured products like the successor to a popular model led to a YoY increase in new viewers by around two times, as the Company seems to be making progress in acquiring new viewers. Also, LINE communications have grown by 17 times since strengthening measures in 2022.On the profit front as well, profit increases were secured, with rising personnel expenses being offset by higher revenue and the effects of AIMD. The segment profit margin was 12.2% (11.8% in 1H FY3/24), setting a new record high.

(2) Watch Business (EC ratio: 41.6%)

Net sales increased 5.7% YoY to ¥5,450mn, and segment profit went up 54.5% to ¥289mn, so there were increases in both revenue and profit. Market prices for high-end mechanical watches were relatively stable through July, so Watch Business results started off steady. In addition, with yen deprecation as a tailwind, duty-free net sales grew. However, beginning in August, sales turned soft due to the decrease in inbound tourism related to the appreciating yen, so sales finished lower than planned. On the profit side, a major increase in profit was secured by continuing sales with an emphasis on profit, including the effects of AIMD, and the segment profit ratio improved to 5.3% (3.6% in 1H FY3/24).

(3) Stationery Business (EC ratio: 70.3%)

Net sales increased by 13.9% YoY to ¥236mn, while segment profit went up 56.3% to ¥39mn, so both revenue and profit increased. Sales were steady for both new and used items and both EC and stores, as sales and profit both achieved double-digit growth.

(4) Bicycle Business (EC ratio: 91.7%)

Net sales declined by 1.4% YoY to ¥421mn, and segment profit decreased 23.7% to ¥14mn. Sales and profit declined due to the impact of lower duty-free sales, among other factors. However, increased purchases of new products resulted in double-digit growth in EC sales, and even though the market is cooling, the Company was able to maintain segment profitability.

3. Global expansion

As for cross-border EC, the Company has steadily established a structure for business expansion. In the Camera Business, it opened a Map Camera store in August 2017 on eBay, one of the world's largest online marketplaces. In the Watch Business, it opened a GMT store in May 2019 on Chrono24, a leading global luxury watches marketplace, and one on eBay in July 2020. In 2022, it introduced Buyee Connect*1, an overseas sales support service. The Company's emphasis on quality of service is also helping it to gain widespread brand recognition overseas. Notably, Map Camera received Seller of the Year at the eBay Japan Awards 2023*2, marking the second straight year of receiving this award granted to the seller with the best overall evaluation of sales and other performance. Cross-border EC has been steadily expanding net sales through such initiatives, reaching a record high in 1Q FY3/25 (quarterly basis). Although the appreciation of the yen since August has slowed this growth, 1H cross-border EC net sales grew 12.9%YoY to ¥17,355mn.

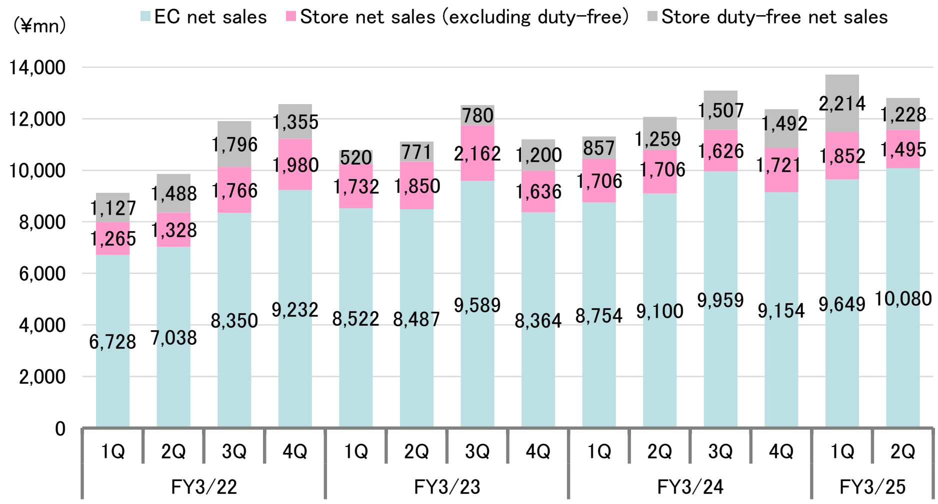
*1 A purchase support service for overseas customers provided by BeeCruise inc., a consolidated subsidiary of BEENOS <3328>.
*2 An award granted to sellers in Japan with top sales and other performance on the eBay site operated by eBay Japan Co., Ltd.

4. Trends in quarterly results and KPI

(1) Trends in quarterly results

Looking at quarterly results from FY3/22 to the present, there was a tailwind from stay-at-home demand during COVID-19 and the results of other measures led to major growth in EC sales, and by expanding the lineup of strategic products, duty-free sales in the Watch Business contributed greatly, and 4Q set a new record high (quarterly basis). In FY3/23 duty-free sales stagnated due to the lockdowns in China, and globally market prices fell, causing the Watch Business to decline, but the Camera Business continued to grow, and overall sales maintained a high level led by EC sales. Entering FY3/25 as well, in 1Q sales were brisk and set a new record high (quarterly basis), but in 2Q the Watch Business slumped due to the impact of yen appreciation that started in August. However, the Camera Business continued to see steady sales.

Trend in quarterly net sales



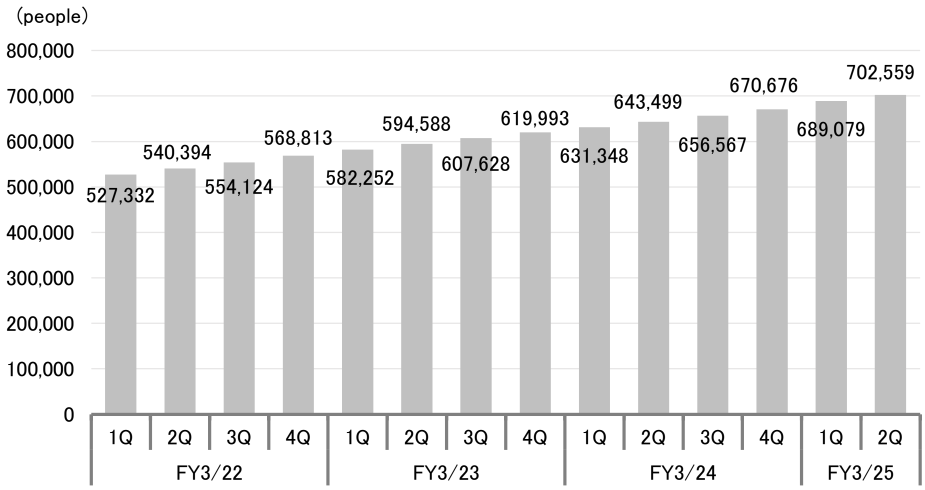
Source: Prepared by FISCO from the Company's results briefing materials

(2) Number of Web members

The number of Web members continues to steadily increase. It topped 700,000 to reach 702,559 people at the end of September 2024, up 31,883 people from the end of FY3/24. In addition to the spread of Instagram and other social media spurring more people to take up photography as an affordable, familiar hobby, this is likely because the Company's brand and websites it operates have gained increased recognition as its initiatives to strengthen EC so far are proving successful. Looking at the breakdown of Web members by generation, there is a wide range of age groups. However, 40% are aged 10 to 39, and the ratio of females within that is higher than for other age groups at 24%, making them a new target group*. Also, that the average use unit price is being maintained even though the percentage of younger Web members is increasing is a trend worth noting.

* Women account for 17% of all Web members, but since entering FY3/25 they account for over 20% of new members.

Quarterly trends in the number of Web members



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

(3) Purchasing numbers and the active rate

Both the number of purchasing members and the active rate continue to trend strongly, along with a net increase in the number of new members. The number of registrations for wish lists*1 and email notifications of product arrivals*2 are also both growing steadily, and it seems that a factor for this is that these one-to-one marketing measures are maintaining a high active rate. In particular, the Company began providing product arrival notifications using LINE in addition to email and app notifications in May 2022, which resulted in a big increase in the number of communications*2. Further, combining one-to-one marketing, AIMD, and AI-driven content recommendations has also increased the number of requests sent out when registered products drop in price*3, which is contributing to the expansion of transaction opportunities. Moreover, with the Company having been focusing on enhancing content centered on video streaming, it has apparently been making progress in attracting viewers from the previously untapped younger demographic*4.

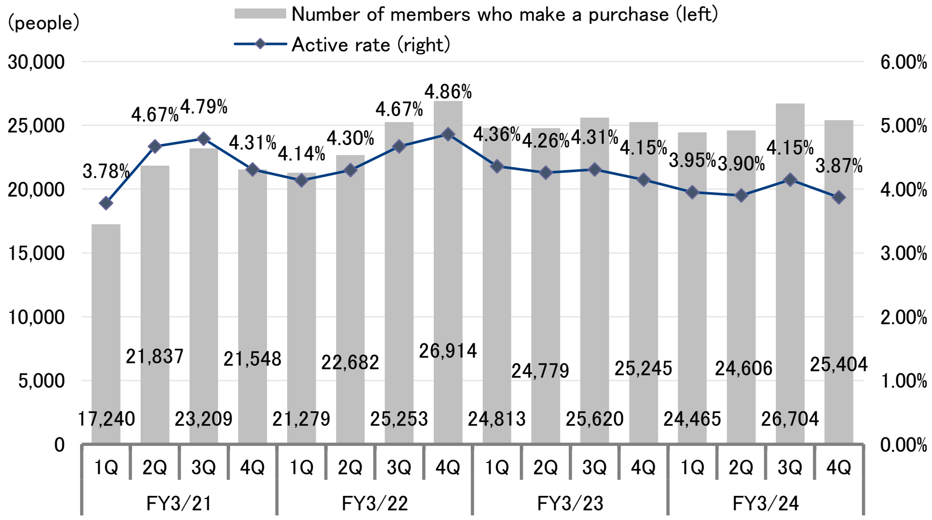
*1 The number of new registrations for wish lists trend at around 70,000 per month, and had risen to 2.43 million as of the end of September 2024 (increase of 160,000 from the end of the previous fiscal year).

*2 The number of registrations for email notifications of product arrivals exceeded 160,000 to reach 166,000 at the end of September 2024 (up 26,000 from the end of the previous fiscal year), and the monthly average number of emails sent out surpassed 550,000. In particular, the number of notifications sent using LINE have increased 17-fold over 2 years.

*3 The Company sends a monthly average of over 5mn smartphone notifications. This combined with the aforementioned email notifications of product arrivals equates to a total of 17.82mn notifications on a quarterly basis, which thereby gives rise to information delivery capability and customer contact points equivalent to approximately 400 brick-and-mortar stores in terms of number of customers visiting stores.

*4 The Company established the Content Creation Department to which it has assigned numerous professionals with practical experience in video production. Going forward, the Content Creation Department will focus on producing and streaming video content through the establishment of new video content studios.

Trends in number of members who make a purchase and active rate

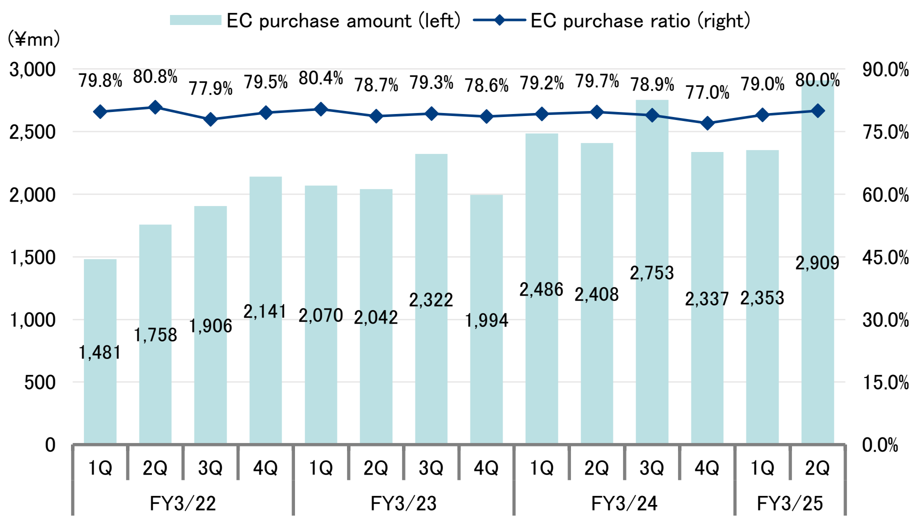


Source: Prepared by FISCO from the Company's results briefing materials

(4) Used cameras purchase amount

For the used cameras purchase amount also, the measures intended to strengthen EC, including introducing an AI facial authentication system, AIMD, and AI-driven content recommendations are proving successful, and the EC purchase ratio is trending at a level close to 80%. The receive-first, send-later service and the trade-in exchange service, which are two of the various differentiation factors, are also both performing well and it can be said that these are contributing to the increase in the EC purchase ratio.

Trends in the EC purchase amount and the EC purchase ratio



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

5. Summary of 1H FY3/25

Summing up 1H FY3/25, due to the impact of yen appreciation from August, the Watch Business has seen soft sales, but except for this, it is fair to say overall performance remained steady, led by the mainstay Camera Business. In particular, in the Camera Business, along with the effects of initiatives taken thus far, strengthening communications on LINE and enriching video content on YouTube have become new drivers (driving the creation of touch points), and it is laudable that the Company has worked to continue its ceaseless evolution. In addition, in profits, much better than expected performance might be called proof that gross profit is improving through the use of AI in both the Camera and Watch businesses. At the same time, in the Watch Business, which is highly susceptible to the impact of outside factors, results show once again its high volatility. That is to say, compared to cameras, whose enthusiasts have increased for the purpose of consuming something, purchase behavior for watches is partly speculative; purchases react sensitively to market conditions and asset effects, and even though the market is cooling off from a temporary bubble, speculative behavior remains to a certain extent. Having said this though, there has been no change in the fact that the market scale is over ¥1tn, that at its core is a highly passionate mania and the presence of consumers with specific expectations for watches as fashion items, and that these consumers remain an attractive target for the Company. It could be said that the issue going forward is establishing a business model that generates stable earnings and its own unique positioning. In addition, with regard to activities, the Company opened new video content studios and renewed the ladies' brand salon BRILLER, as it has taken steps with an eye on the future (details to follow).

Topics

Strengthening content creation and renewing its ladies' brand salon

1. Establishment of new video content studios

In April 2023, the Company established a new dedicated department to strengthen its activities on YouTube, and by enhancing content creation the number of viewers has steadily risen. It has already created around 1,000 items of video content and viewership numbers have doubled YoY, which is contributing to acquiring new members, including young people. Now, at its next stage, the Company will establish three studios in-house and further evolve as an EIC company that has a unique content creation function with the aim of accelerating EC reforms ahead of the times.

2. Renewal of ladies' brand salon

In October 2024, the ladies' brand salon BRILLER was opened after being renovated to add floor space. The Company is working to enhance the product lineup and is planning to further strengthen its role as information provider on the Web and social media. The floor was expanded for staff to be authentic and know authenticity, and the lineup was expanded with an emphasis on quality. Through this, it will be possible to also further strengthen content distribution. The Company aims to increase touch points with customers by increasing synergies with EC.

3. Replacement of core systems

The Company is planning to replace its core systems in FY3/27. This will involve inventory and ordering systems, POS, and accounting systems. Big data linked to the Company's site will be utilized and the site's foundation will be reinforced while security is strengthened as well. At the same time, for management analysis and marketing strategy, use of AI will be further accelerated, as the Company aims for increased efficiency by working to optimize business processes thorough system integration.

Business forecasts

Maintaining results forecasts for FY3/25; expected higher revenue and profits

1. Outlook for FY3/25

For FY3/25 results, the Company has maintained its initial forecasts. It is projecting net sales to rise 15.9% YoY to ¥56,617mn, operating profit to grow 15.3% to ¥3,854mn, ordinary profit to rise 14.4% to ¥3,824mn, and net income to increase 13.6% to ¥2,639mn.

Regarding net sales, although the Watch Business is trending below expectations, this is expected to be covered by the strong Camera Business (particularly EC sales).

On the profit front, although the Company is making upfront investments for the renewal of BRILLER and to establish a new video content studio, the gross margin is expected to set a new record high at 18.8% (18.7% last fiscal year) thanks to growth in the highly profitable Camera Business and improved profitability of the Watch Business from the introduction of AI support MD, so the Company is projecting higher operating profit.

Outlook for FY3/25

(¥mn)

	FY3/24		FY3/25		YoY	
	Result	Ratio to net sales	Forecast	Ratio to net sales	Amount	%
Net sales	48,841		56,617		7,775	15.9%
Gross profit	9,127	18.7%	10,663	18.8%	1,535	16.8%
SG&A expenses	5,783	11.8%	6,808	12.0%	1,024	17.7%
Operating profit	3,343	6.8%	3,854	6.8%	510	15.3%
Ordinary profit	3,344	6.8%	3,824	6.8%	479	14.4%
Net income	2,322	4.8%	2,639	4.7%	316	13.6%

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

2. FISCO's outlook

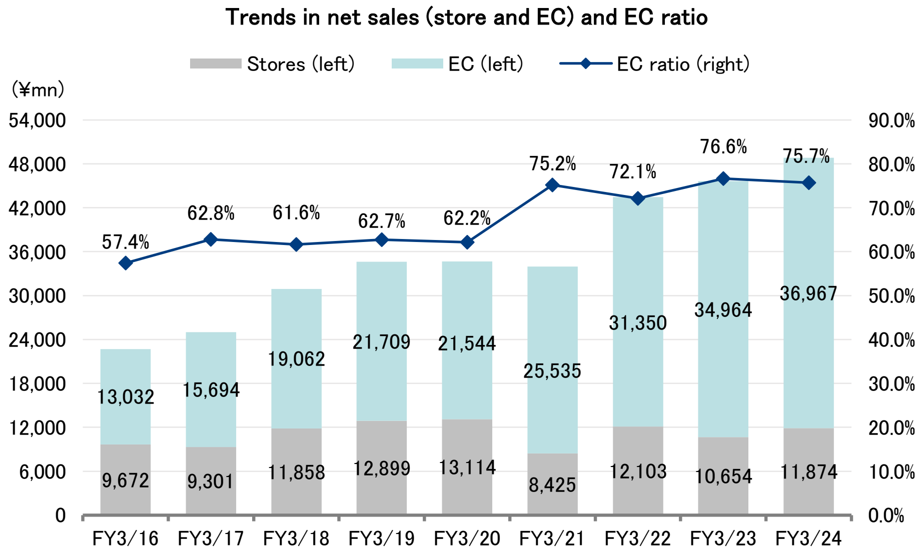
Although the impact of unstable economic conditions and market changes needs to continue to be watched, considering 1) 1H progress rates (net sales at 47% and operating profit at 52%), 2) sufficient merchandise inventory has been secured, 3) 2H includes the peak season in the New Year's holiday period, and 4) various measures are making steady progress in the Camera Business, we at FISCO believe that there is a sufficient possibility that full-year forecasts will be achieved. At the same time, in the Watch Business, whose sales have been soft since August, the factors behind changes in results will need to continue to be monitored. The Watch Business has always been susceptible to market conditions, exchange rates, and economic trends, and includes speculative behavior. The Company is repeatedly learning while addressing various outside factors and is in the process of evolving into a platform-type business model like the Camera Business by firmly capturing its core target. Accordingly, future initiatives should be followed from that perspective. On this point, we can expect to see synergies created with the ladies' brand salon BRILLER, which has a strong affinity with the Watch Business. Also, from a medium- to long-term perspective, we will be monitoring initiatives aimed at evolving into an EIC company as defined by the Company, including further AI and data utilization and enhancing its content creation function.

Results trends up to the present time

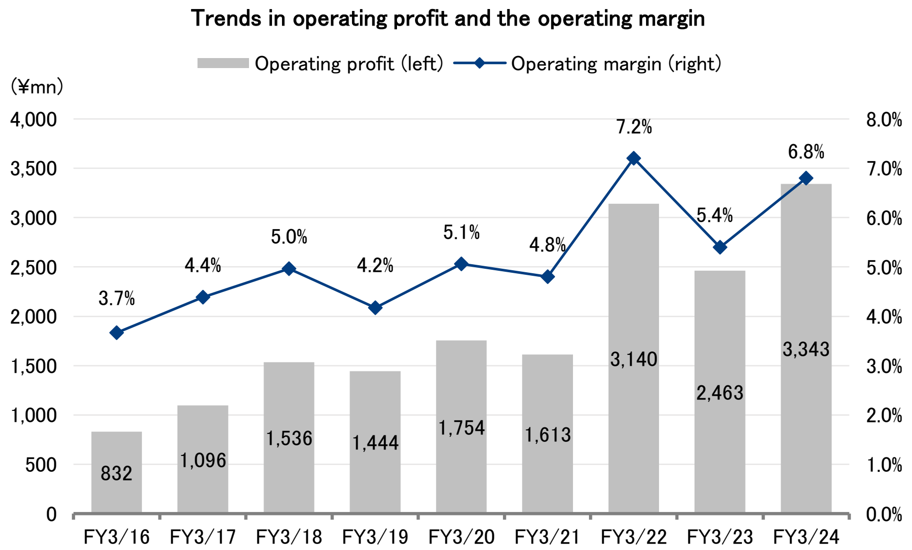
Realized upward growth through the increase in the number of Web members resulting from unique EC initiatives, including those harnessing AI

Looking back at the Company's results through FY3/24, net sales have achieved steady growth along with an increase in Web members and growth in EC net sales. Although sales growth was sluggish for two consecutive fiscal years from FY3/20 onward due to the Company's focus on improving gross margins over sales growth, the impact of the consumption tax hike, and a drop in store sales due to COVID-19, in FY3/22, the Company achieved a significant increase in sales with the impact of a variety of EC measures (including the introduction of AIMD) and growth in the Watch Business resulting from strategic inventory investments. Average annual growth rate over the 11 years from FY3/13, when the Company went public, to FY3/24, is 13.2% (of which the average annual growth rate of EC net sales was 17.6%). Profits (operating profit) have also generally increased along with sales growth. While operating margin has been in the 4%–5% range for some time, the introduction of AIMD improved gross margins and helped curb SG&A expenses, resulting in a significant improvement in the profit margin in FY3/22. In FY3/23, there was a temporary slump in the Watch Business and the operating margin came to 5.4%. However, the operating margin recovered to the 6.8% level in FY3/24, demonstrating the effectiveness of the Company's steps to increase its real earnings capacity.

Results trends up to the present time

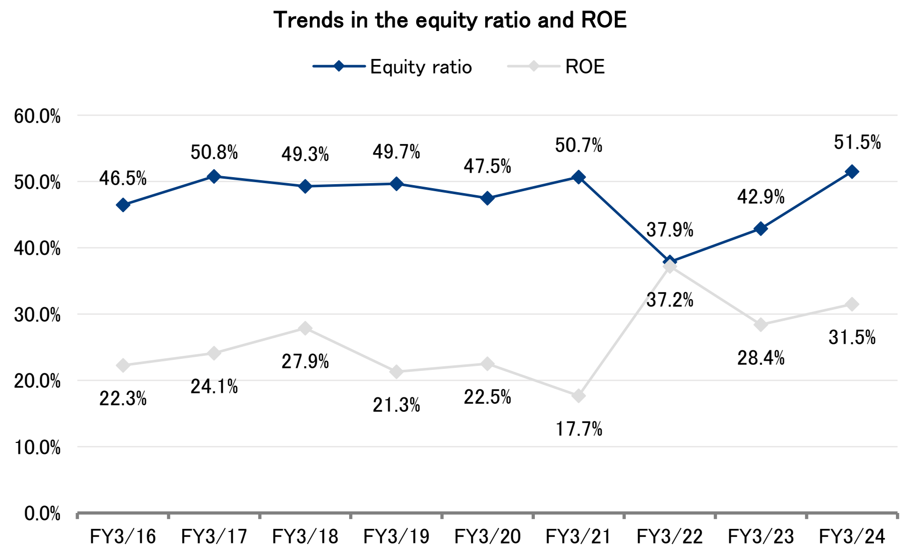


Source: Prepared by FISCO from the Company's results briefing materials



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

In terms of finances, the equity ratio has remained stable at the 50% level for some time. While it fell to 37.9% in FY3/22 due to the acquisition of treasury shares from the founder, it returned to a level exceeding 50% again in FY3/24. Meanwhile, ROE, an indicator of capital efficiency, rose to 37.2% in FY3/22 and stayed above the 30% level in FY3/24.



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

Medium- to long-term growth strategy

No change in the Company's direction of aiming for profit growth through the use of AI and lean management while working toward further growth in Camera and Watch businesses and on cross-border EC

1. The Company's business environment

(1) Camera market

The camera market contracted for some years amid the spread of smartphones, but has picked up since FY2020, when the transition to full-size mirrorless cameras began in earnest and companies all began releasing highly anticipated new products, which has been a boon for specialty camera stores. Full-fledged migration to full-size mirrorless cameras is especially expected to gain steam accompanying the resolution of the semiconductor shortages through the first half of 2022, and total domestic shipments*1 will continue to grow, with increases of 131.9% YoY in 2022 (163.3% YoY in value) and 120.4% in 2023 (106.8% in value). High growth is also expected in 2024*2. The number of people taking up photography seriously as a hobby and engaging in video-related work is on an upward trend, which has led to a shift in camera buying activity from volume retail stores to specialty camera stores in the quest for more professional equipment. The used camera market is also expected to remain brisk for some time, because products that are replaced by the latest model go on sale as used items.

*1 The source is the Camera & Imaging Products Association.
*2 Total shipments to Japan from January to October 2024 (cumulative) were 109.1% of the same period in the previous fiscal year (111.0% on a monetary basis compared to the same period).

(2) Watch market

The imported watch market in Japan has approached the ¥1tn mark*. It grew 26% YoY to ¥738.1bn in 2022, partly because of strong motivation to sell products even if it meant lowering prices amid weak inbound demand (duty-free sales) due to COVID-19 and falling global prices for luxury watches. It expanded 29% YoY to ¥955.7bn in 2023, continuing to grow briskly amid relatively stable market prices. It is a market with significant room for growth for the Company, which has a roughly 2% share. The Company has been investing strategically in inventory since announcing in September 2021 its aim to become the top Rolex store in Japan. It expanded its Rolex listings to one of the largest in Japan at the end of December 2021 and has worked to further enhance its product lineup, but that proactive approach was affected by falling market prices, which led to temporary struggles. Since the beginning of 2023, however, market prices have been stable and the Company's earnings have recovered temporarily. In 2024, although the domestic market has been soft, results in November have recovered, and recently the market has been recovering.

* The source is the Japan Clock & Watch Association.

2. Medium-term management plan

Each year, the Company updates its three-year medium-term management plan, and in May 2024, it announced a new medium-term plan. The Company revised its forecast upward for top-line growth compared with the previous medium-term management plan, and raised its gross margin target. On the other hand, it also slightly raised its forecast for investments to generate profit (such as development of system personnel, system investment to bolster AI measures, and establishment of new content studios), That said, the Company is still headed in the same direction. It intends to continue to focus on EC by utilizing new technology, further grow the mainstay Camera Business, take the Watch Business from recovery to expansion, and to revitalize its global expansion through cross-border EC. In particular, it is emphasizing profit growth over sales growth by advancing the two measures of 1) using AI to maximize sales and profits and 2) reducing SG&A expenses through lean management. For FY3/27, the final year of the plan, it targets net sales of ¥73,514mn (a three-year average annual growth rate of 14.6%) and operating profit of ¥5,598mn (an operating margin of 7.6%).

Overview of the new medium-term management plan

(¥mn)

	FY3/24		FY3/25		FY3/26		FY3/27		Average growth rate
	Result	Ratio to net sales	Forecast	Ratio to net sales	Forecast	Ratio to net sales	Forecast	Ratio to net sales	
Net sales	48,841		56,617		64,505		73,514		14.6%
Cameras	36,664	75.1%	41,972	74.1%	47,972	74.4%	54,841	74.6%	14.4%
Watches	10,974	22.5%	13,177	23.3%	14,855	23.0%	16,754	22.8%	15.1%
Stationery	433	0.9%	509	0.9%	580	0.9%	660	0.9%	15.1%
Bicycle	769	1.6%	958	1.7%	1,098	1.7%	1,259	1.7%	17.9%
Gross profit	9,127	18.7%	10,663	18.8%	12,171	18.9%	13,895	18.9%	15.0%
SG&A expenses	5,783	11.8%	6,808	12.0%	7,558	11.7%	8,297	11.3%	12.8%
Operating profit	3,343	6.8%	3,854	6.8%	4,612	7.2%	5,598	7.6%	18.7%
Ordinary profit	3,344	6.8%	3,824	6.8%	4,582	7.1%	5,568	7.6%	18.5%
Net income	2,322	4.8%	2,639	4.7%	3,162	4.9%	3,842	5.2%	18.3%

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

3. Medium- to long-term focus points

We at FISCO think the Company's strategy of further boosting its presence in designated areas by using AI, pursuing various types of value, and emphasizing profit growth is reasonable. The Watch Business, with respect to which the Company has taken a strategic approach thus far, has been temporarily affected by unforeseen market fluctuations and yen appreciation. However, that could present an opportunity for the Company to come to a significant turning point in terms of differentiating itself from its competitors under a scenario where the Watch Business enhances precision of its business model by embracing the use of AI and other technologies, in a manner akin to the approach that has spurred progress of the Camera Business. With scope for the Company, a latecomer to the market, to increase its share in the ¥1tn market, there are high expectations for progress going forward. Also, potential long-term upside drivers are full-fledged overseas activity, including M&A and business alliances, and creation of new income sources. Regarding overseas efforts, the Company has already carried out test marketing and increased its visibility centered on the Camera Business, and is steadily receiving positive feedback from customers through cross-border EC. If it can establish brand power and purchase formats overseas like it has in Japan, that is likely to become a new growth pillar. There is also potential for creation of further new income sources (such as the development of paid services that leverage its information capability and membership base and expanding into the media business). Keys to realizing that potential are Company's ability to monetize a membership base with high loyalty and enhanced quality and quantity, and a format for gathering content information that is attractive to enthusiasts. FISCO will closely monitor the Company's progress in solidifying a unique business model, including the use of outside resources.

SDGs initiatives

Aims to contribute to a sustainable society through "newly created businesses for important products with value" and "development of an easy-to-work environment"

Regarding sustainable development goals (SDGs) that have been receiving strong interest from investors, the Company wants to leverage initiatives aimed at resolving social issues in boosting its own enterprise value, just as it has done up to now, through "newly created businesses for important products with value" and "development of an easy-to-work environment." In particular, as one concrete example of an effort in "newly created businesses for important products with value," it replaced all the paper used in items like product packaging and name cards with eco-friendly materials. Its policy is also to change the original goods and the novelty goods in consideration of the environment. In addition, the Company enhanced its information disclosure in 2022, including by starting to disclose information based on the recommendations of the Task Force on Climate-related Disclosures (TCFD)*1 and responding to the CDP questionnaire*2. It also concluded an official partner agreement in July 2022 with Shougaisha Jiritsu Suishin Kikou Association*3 to take part in Paralym Art, a program that supports disabled artists. Since the outset of 2023, the Company has also become a signatory to the United Nations Global Compact and has raised its target for reducing greenhouse gas emissions*4.

*1 This organization was established by the Financial Stability Board to promote understanding and disclosure of the financial impacts on companies brought about by climate change. It published a final report compiling recommendations regarding information disclosure in June 2017.
*2 This questionnaire is sent out to obtain companies' environmental information based on requests from major purchasing companies that are enthusiastic about supply chain engagement, institutional investors that make ESG investments, and so forth.
*3 The Association offers the use of art works such as paintings and designs to help disabled artists become financially independent.
*4 The Company raised its Scope 1 and 2 emissions target from a 27% reduction in emissions by 2030 relative to its emissions in 2020 to a target of net zero emissions by 2030.

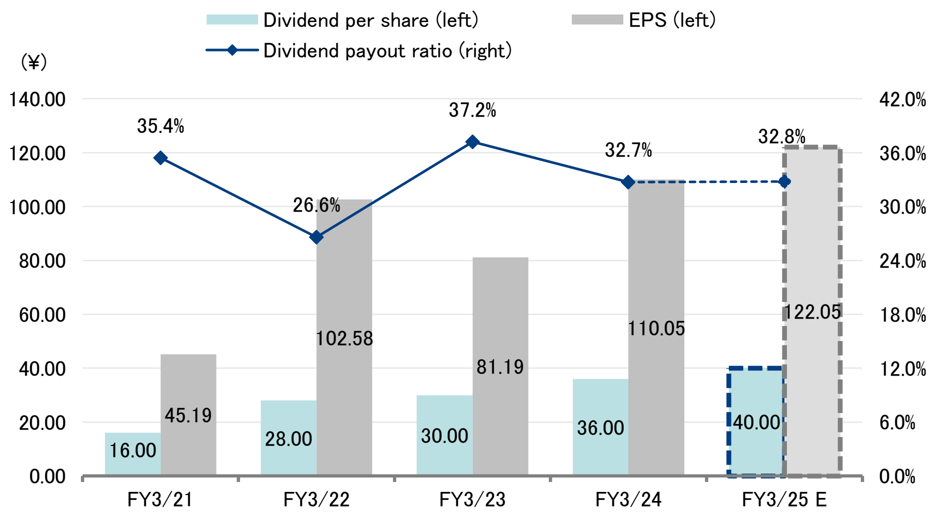
Shareholder returns

Plans to pay a ¥40 dividend in FY3/25 (up ¥4 YoY)

The Company sees shareholder returns as a management issue and has a basic policy of returning profits to shareholders through dividends. Previously, it had continuously paid a stable dividend, but from FY3/17, it changed its dividend policy to being based on the dividend payout ratio. It currently targets a dividend payout ratio in a range of 25% to 35%.

For FY3/25, the Company plans to pay a year-end dividend of ¥40 per share, an increase of ¥4 from the previous fiscal year. If realized, that would mark the fourth straight year of dividend growth.

Trends in EPS, the dividend, and dividend payout ratio



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

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