

Syuppin Co., Ltd.

3179

Tokyo Stock Exchange First Section

6-Jan.-2021

FISCO Ltd. Analyst

Ikuo Shibata



FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. Overview of 1H FY3/21 results	01
2. Main activities and achievements	01
3. Outlook for FY3/21	02
4. Growth strategy	02
■ Business overview	03
■ The Company's features	04
1. The growth model	04
2. The Company's features (strengths)	04
■ Summary of results	06
1. 1H FY3/21 results summary	06
2. Results by business	08
3. Trends in quarterly results and KPI	09
4. Summary of the 1H FY3/21 results	12
■ Main activities and achievements	12
1. Introducing three frameworks to strengthen EC	12
2. Other measures	13
■ Business forecasts	13
1. FY3/21 forecasts	13
2. FISCO's outlook	14
■ Results trends	15
■ Medium- to long-term strategy	17
1. Medium-term management plan	17
2. Direction for the future	17
■ Shareholder returns	19

Summary

In the 1H results, sales and profits declined due to the coronavirus, but they were significantly higher than forecast. Mainstay EC sales steadily grew and the main EC indicators set new record highs in 2Q

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, and the utilization of CGM, and it continues to evolve its platform-type business model. Store sales are falling at the current time due to the impact of the novel coronavirus pandemic (hereafter, the coronavirus). But the mainstay EC sales are steadily growing from the effects of the measures up to the present time, and from this point, it can be said that the Company has entered a new growth stage.

1. Overview of 1H FY3/21 results

In the 1H FY3/21 results, sales and profits declined, with net sales decreasing 19.4% year on year (YoY) to ¥14,396mn and operating income falling 52.8% to ¥531mn. However, the Company still made progress, as net sales and each profit item were significantly higher than their initial forecasts. Store sales fell greatly due to the coronavirus, and therefore sales declined in the three businesses of Cameras, Watches, and Stationery. Looking at store sales as a whole, they were negatively impacted by the temporary closures of stores due to the declaration of a state of emergency and shortened business hours after reopening, while they also receded significantly because of the fall in inbound sales. Conversely, EC sales steadily grew and achieved a new record high in 2Q (on a quarterly basis). In addition, from July onwards, the number of new web members increased by more than before the coronavirus. This can be understood as indicating that the measures to strengthen EC implemented up to the present time are on track, while being supported by “nesting (stay-at-home) demand” and the effects of new cameras. Profits declined due to the fall in sales, but because of the improvement in the gross profit margin of used cameras and the major contribution to gross profit of new products, the Company was still able to secure profits higher than forecast. Looking at the gross profit margin in both quarters in 1H FY3/21, it was 19.7% in 1Q and 18.9% in 2Q, higher than in the same quarters in the previous fiscal year and the forecasts.

2. Main activities and achievements

In the coronavirus environment, the number of new web members and the active rate steadily grew from 2Q, due to the measures implemented up to the present time and the further progress made in the measures to strengthen EC (including shifting personnel resources and supplementing the number of product listings and content). The Company was able to achieve other major results, including increasing the EC purchase amount, such as by launching an individual verification service via facial recognition that uses AI. Moreover, it is making steady progress with the three frameworks to accelerate EC growth, which are 1 Category = 1 Office, EC + CGM, and AIMD × One to One.

Summary

3. Outlook for FY3/21

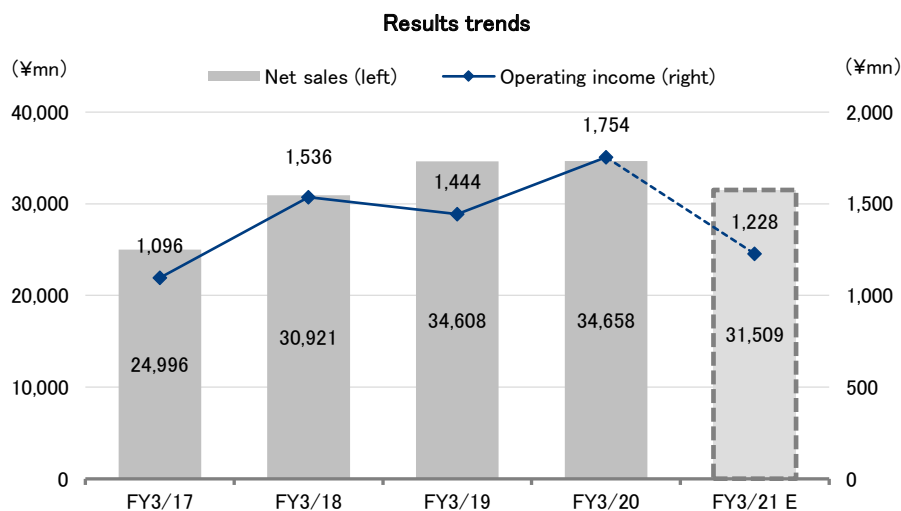
For the FY3/21 results, the Company has left the initial forecasts unchanged from the time of the 2Q results announcement, which include net sales to decrease 9.1% YoY to ¥31,509mn and operating income to decline 30.0% to ¥1,228mn. The outlook is for total net sales to decline, as although EC sales will steadily grow throughout the year in the Cameras and Watches businesses, store sales will slump due to the impact of the coronavirus. In profits, although the Company is continuing to work to improve the gross profit margin, profits will decrease due to the decline in sales. Although the 1H results were higher than forecast, the Company has left the full-year forecasts unchanged amid the ongoing coronavirus environment as it has decided to revise them after observing trends in the year-end shopping season, which has a strong impact on results.

4. Growth strategy

The Company updates the (rolling) three-year medium-term management plan each year, but because of the sense of uncertainty about the future due to the impact of the coronavirus, it has not disclosed the new three-year medium-term management plan at the current time. However, it has not significantly revised its direction for the future. Its strategy continues to be to accelerate growth on the EC axis in the Cameras and Watches businesses. In particular, it is increasing market share through implementing the platform, strengthening the ladies' watch business and working on global business development (cross-border EC).

Key Points

- In 1H FY3/21, sales and profits decreased due to the fall in store sales because of the coronavirus, but they were higher than forecast
- EC sales steadily grew from 2Q to set a new record high (on a quarterly basis)
- Although sales and profits are forecast to decline for the full year of FY3/21, it is necessary to be aware that results may be higher than forecast depending on the year-end shopping season
- -Aiming to accelerate EC by initiating the three frameworks of 1 Category = 1 Office, EC + CGM, and AIMD x One to One, and growing share by implementing the platform



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

■ Business overview

Is developing an EC business specializing in “valuable new and used items,” such as cameras and luxury watches

Syuppin Co., Ltd. <3179> is an e-commerce (EC) enterprise specializing in “valuable items,” such as cameras and luxury watches. Benefitting from the expansion of the EC market and other factors, it has realized high growth through establishing a proprietary business model that utilizes its positioning of specializing in highly specialist goods, and the internet (described in detail below).

The Company currently has approximately 484,000 web members (as of the end of September 2020). This number has been steadily increasing through the acquisition of around 5,000 new members every month (since July). On the other hand, it has established a physical store network of four 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. Also, the composition of sales broken down by new items and used items is stable at around 1:1, and they each play important roles, generating synergies while mutually interacting to increase the other's sales.

There are four business segments: Cameras business, Watches business, Stationery business, and Bicycles business. The mainstay Cameras business provides 71.9% of net sales and 88.9% of operating income (before adjustments)*. Meanwhile, the Watches business is also tending toward growth, due to such factors as the strengthening of sales of ladies' luxury watches and global business development.

* The Cameras business is conducted under the Map Camera brand, the Watches business under the GMT and BRILLER brands (launched a website specializing in ladies' watches in December 2019), the Stationery business under the KINGDOM NOTE brand, and the Bicycles business under the CROWN GEARS brand.

■ The Company's features

Strengths include its proprietary EC purchases, one-to-one marketing, and platform-type business model

1. The growth model

The Company's sales have grown alongside the increase in the number of web members. In other words, 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 (the number of members continuously making purchases from among the existing members) is an important KPI. Currently, member numbers have grown to approximately 484,000 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 from strengthening measures for young and female members and business development for regional areas. Also, increasing the number of purchasing members through 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. The Company is focusing on collecting "valuable inventory items," which is its core value, including through its proprietary mechanism for EC purchases and powers of discernment, and it can be said that this will lead to acquisitions of new members and continuous purchases.

* The number of members who make a purchase in a fiscal quarter 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." In other words, 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. In addition, it benefits from having few bottlenecks for increasing sales and from being able to focus on achieving high profitability alongside the growth of sales. So the stores also contribute to results to a reasonable extent, benefiting from factors such as inbound demand (duty-free sales). Going forward, the Company's policy is to develop its business centered on EC (particularly with its own website as the platform).

(2) Synergies between new items and used items

The composition of total net sales provided by new items and used items trend at 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. In other words, compared to used items with high profit margins, for which there are many single items, the significance of handling new items, for which competition is fierce, is not only their contribution to results, but also that they provide opportunities to acquire new members (capture new customers) and amass used items. In particular, when the Company sells a new item, as well as having a major impact on results, it provides it with 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.

The Company's features

(3) Mechanism for collecting “valuable items”

As previously explained, the Company's growth depends on how it collects “valuable 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 has also started its own mechanism for EC purchases, including one-price buying*1 and the receive-first, send-later service*2, further raising convenience for the seller, which has led to increases in the EC purchase amount. Recently, it has been working on improving efficiency (reducing opportunity losses) through developing AIMD*3 and on other measures, and it continues to evolve in a way unique to the Company.

- *1 A service to guarantee the fixed-price purchase amount of items specified by the Company (launched in July 2013).
- *2 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).
- *3 An automated assist system that utilizes AI for the purchase and sales prices of used cameras. Currently, the Company decides prices manually for all the items its handles, more than approximately 20,000 items. However, it can conduct timely pricing only for some items, and as a result, there are many cases of opportunity loss. This system will assist with the work done manually and it is expected to reduce opportunity losses through determining prices appropriately and in a timely manner.

(4) Platform-type business model

Also, in the last few years, the Company 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. In other words, 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). By making this cycle bigger, it can expand and activate its membership base, which in turn leads to further results growth. In particular, for the services at the time of purchase, it realizes one-to-one marketing through the personalization of its EC website (including a wish list, an email notifying of product arrivals, and personal recommendations). It is also working on utilizing CGM*, with aims including to supplement information and cultivate fans.

- * Consumer Generated Media refers to media with contents involving general users, including bulletin boards and word-of-mouth sites.

■ Summary of results

In the 1H results, sales and profits decreased due to the impact of the coronavirus. However, the mainstay EC sales steadily grew and were significantly higher than forecast

1. 1H FY3/21 results summary

(1) Results summary

In the 1H FY3/21 results, sales and profits declined due to the impact of the coronavirus, with net sales decreasing 19.4% YoY to ¥14,396mn, operating income declining 52.8% to ¥531mn, ordinary income falling 50.9% to ¥548mn, and net income decreasing 52.2% to ¥362mn. However, the Company still made progress, as net sales and each profit item were significantly higher than the initial forecasts.

Sales declined in the three businesses of Cameras, Watches, and Stationery, because of the major decrease in store sales due to the coronavirus. Looking at store sales as a whole, they fell greatly, down 59.4% YoY, which impacted the overall results. This was because they were affected by the temporary closures of stores (April 11–May 25) due to the declaration of a state of emergency, shortened business hours after reopening, and a decline in duty-free sales following the contraction of inbound demand. However, the decline in store sales was within the expected range. Conversely, EC sales were strong in the coronavirus environment and an increase in sales was secured, rising 7.3% YoY, which is the main reason why sales were higher than forecast. In particular, from July onwards, the number of new web members increased by 5,000 people a month (higher than prior to the coronavirus), and on looking only at 2Q, EC sales on the Company's own website grew by 18.2% YoY. They are benefitting from "nesting demand" due to the coronavirus and the effects of new cameras, and this result can be understood as indicating that the measures to strengthen EC implemented up to the present time are on track. The KPIs that the Company prioritizes were also at new record-high levels (details below).

Profits declined, because they were pushed down by the decrease in sales. However, the reasons why they were significantly higher than forecast was the improvement in the gross profit margin of used cameras and the major contribution to profits of new products, in addition to that EC sales exceeded the forecast. On the other hand, SG&A expenses rose due to the increases in costs associated with the coronavirus and the provision of point card certificates*. However, this was covered by the improvement in the gross profit margin, so the Company was able to secure profits higher than forecast.

* From October 1, 2019, alongside the consumption tax hike, a system was introduced to support point rebates for using cashless methods at small and medium-sized businesses (until the end of June 2020), but the Company is not eligible for this system. Therefore, as a measure in response to this, the Company strengthened its own point system, which caused an increase in costs (recording of a provision for point card certificates) and a decline in competitiveness of its stores on the shopping malls of other companies that did not implement the point system. In particular, the struggle to sell new products, for which price is an important deciding factor, persisted until the end of June 2020.

Syuppin Co., Ltd. | 6-Jan.-2021
 3179 Tokyo Stock Exchange First Section | <https://www.syuppin.co.jp/en/ir/>

Summary of results

Regarding its financial condition, the Company wrote-off a portion of its cash on hand, which had increased up to the end of the previous period, in preparation for the coronavirus, and conducted investment to strengthen the product inventory and for store relocations. As a result, total assets fell 3.7% compared to the end of the previous fiscal period to ¥11,569mn. However, it has still secured cash on hand of approximately ¥2bn and the current ratio is at a high level of 303.4%, so there are no concerns about its financial stability. Furthermore, shareholders' equity was unchanged YoY at ¥5,694mn, as the increase in internal reserves basically covered dividend payments, while the equity ratio rose slightly to 49.2% (47.5% at the end of the previous fiscal period).

1H FY3/21 results summary

	1H FY3/20		1H FY3/21		Change		1H FY3/21 initial forecasts		Achievement rate
	Result	%	Result	%	Amount	%	Amount	%	
Net sales	17,852		14,396		-3,456	-19.4%	13,619		105.7%
Cameras	11,776	66.0%	10,355	71.9%	-1,421	-12.1%	-	-	-
Watches	5,537	31.0%	3,422	23.8%	-2,115	-38.2%	-	-	-
Stationery	250	1.4%	211	1.5%	-39	-15.7%	-	-	-
Bicycles	288	1.6%	407	2.8%	119	41.4%	-	-	-
Costs	14,676	82.2%	11,633	80.8%	-3,043	-20.7%	-	-	-
Gross profit	3,176	17.8%	2,763	19.2%	-413	-13.0%	-	-	-
SG&A expenses	2,051	11.5%	2,232	15.5%	181	8.8%	-	-	-
Operating income	1,124	6.3%	531	3.7%	-594	-52.8%	344	2.5%	154.4%
Cameras	1,261	10.7%	917	8.9%	-344	-27.3%	-	-	-
Watches	332	6.0%	111	3.2%	-221	-66.4%	-	-	-
Stationery	13	5.2%	-15	-	-29	-218.9%	-	-	-
Bicycles	5	-	18	4.4%	13	-	-	-	-
Adjustment	-488	-	-500	-	-12	2.5%	-	-	-
Ordinary income	1,118	6.3%	548	3.8%	-885	-61.8%	364	2.7%	150.5%
Net income	758	4.2%	362	2.5%	-620	-63.1%	215	1.6%	168.4%
EC sales	10,717		11,502		785	7.3%			
Store sales	7,135		2,894		-4,240	-59.4%			

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

Financial condition at the end of September 2020

	End of March 2020		End of September 2020		Change	
	Result		Result		Amount	%
Current assets	10,810		10,129		-681	-6.3%
Cash and deposits	3,528		2,068		-1,460	-41.4%
Accounts receivable - trade	1,690		1,828		138	8.1%
Merchandise	5,292		5,940		648	12.2%
Non-current assets	1,198		1,440		242	20.2%
Property, plant and equipment	139		386		247	177.7%
Intangible assets	330		330		0	0.0%
Investments and other assets	728		723		-5	-0.7%
Total assets	12,008		11,569		-439	-3.7%
Current liabilities	3,633		3,338		-296	-8.1%
Accounts payable - trade	749		1,311		562	75.0%
Interest-bearing debt	1,754		1,097		-657	-37.5%
Provision for point card certificates	350		382		32	9.1%
Non-current liabilities	2,671		2,532		-139	-5.2%
Interest-bearing debt	2,671		2,496		-175	-6.5%
Net assets	5,703		5,699		-5	-0.1%
Shareholders' equity	5,698		5,694		-5	-0.1%
Total liabilities and net assets	12,008		11,569		-439	-3.7%

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

Syuppin Co., Ltd. | 6-Jan.-2021
 3179 Tokyo Stock Exchange First Section | <https://www.syuppin.co.jp/en/ir/>

Summary of results

(2) SG&A expenses

In 1H FY3/21, SG&A expenses increased 8.8% YoY to ¥2,232mn (+¥180mn compared to the same period in the previous fiscal year), and the SG&A expenses ratio deteriorated to 15.5% (11.5% in the same period in the previous fiscal year). Looking at the breakdown, the increases that stand out are provision for point card certificates (+¥88mn), rent expenses on land and buildings (+¥29mn), commission expense (+¥29mn), and personnel expenses (+¥18mn). As previously explained, the provision for point card certificates was in order to strengthen the Company's own point system implemented in response to the point rebate system for cashless payments, which is only temporary (up to the end of June 2020). Also, rent expenses on land and buildings was due to the relocations and expansion of offices in the Watches and Stationery businesses based on 1 Category = 1 Office (details below), and it can be understood to be upfront investment targeting strategic effects. Commission expenses was due to the growth of EC sales, while personnel expenses was the result of measures to reduce the risk of coronavirus infection*.

* During the declaration of a state of emergency, in order to reduce the risk of infection among employees, the Company allocated special holidays with guaranteed employment wages and established a system of 3.5 days of holiday per week. It also made the end-of-work time earlier and guaranteed overtime work.

Breakdown of SG&A expenses

	1H FY3/20		1H FY3/21		Change	
	Result	Ratio to net sales	Result	Ratio to net sales	Amount	%
SG&A expenses	2,051	11.5%	2,232	15.5%	180	8.8%
Personnel expenses	600	3.4%	619	4.3%	18	3.2%
Advertising expenses	23	0.1%	25	0.2%	2	8.7%
Promotion expenses	368	2.1%	382	2.7%	14	3.8%
Outsourcing expenses	133	0.8%	134	0.9%	0.7	0.8%
Commission expenses	394	2.2%	423	2.9%	29	7.4%
Depreciation	105	0.6%	71	0.5%	-34	-32.4%
Rent expenses on land and buildings	131	0.7%	161	1.1%	29	23.0%
Other	293	1.6%	413	2.9%	120	41.0%

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

2. Results by business

(1) Cameras business

Sales and profits declined, with net sales decreasing 12.1% YoY to ¥10,355mn and segment income falling 27.3% to ¥917mn. Store sales declined greatly due to the impact of the coronavirus, down 62.2% YoY to ¥1,249mn, but an increase in EC sales was secured, up 7.5% to ¥9,106mn. Store sales fell greatly because stores were temporarily closed due to the declaration of a state of emergency, business hours were shortened after reopening, and inbound sales decreased. Conversely, in EC sales, the results of mall stores (stores on the shopping sites of other companies) struggled due to the impact of the point rebate system for cashless payments up to the end of June. But from 2Q onwards, they benefitted from "nesting demand" due to the coronavirus and the effects of new products, and in this situation, the measures to strengthen EC up to the present time* proved successful and sales on the Company's own site increased significantly (the percentage of sales from the Company's own site rose to 80.4%). Profits were pushed down by the lower sales, while they also decreased due to the increase in SG&A expenses following the strengthening of the Company's own point system, so the segment income margin fell to 8.9% (10.7% in the same period in the previous fiscal year). However, profits were still higher than forecast because of the improvement in the gross profit margin of used cameras and the major contribution to gross profit of new products.

* The Company's measures included enhancing the contents of its own website, conducting one-to-one marketing that utilizes its proprietary functions and services, holding a photo contest in collaboration with the photo sharing site EVERYBODY × PHOTOGRAPHER.com, and strengthening the comments function for listings of used products.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Summary of results

(2) Watches business

Sales and profits decreased, with net sales declining 38.2% YoY to ¥3,422mn and segment income falling 66.4% to ¥111mn. In the coronavirus environment, store sales fell greatly, down 57.1%, because sales were conducted through a complete reservation system with a small number of sales staff, while inbound demand declined due to the restrictions on people entering the country from overseas. Conversely, EC sales were maintained at about the same level YoY, including due to the success of various types of sales measures and increases in purchase prices per product. Profits declined, mainly because they were pushed down by the decrease in sales and due to costs relating to store relocations and renovations, and the segment income margin fell to 3.2% (6.0% in the same period in the previous fiscal year).

(3) Stationery business

Sales and profits decreased, with net sales declining 15.7% YoY to ¥211mn and a segment loss of ¥15mn (compared to a profit of ¥13mn in the same period in the previous fiscal year). Although EC sales were maintained at around the same level YoY, store sales fell greatly, down 60.6% to ¥26mn, mainly due to the impact of the temporary store closures. In profits, a segment loss was recorded, mainly as profits were pushed down by the fall in sales and expenses relating to store relocations and renovations.

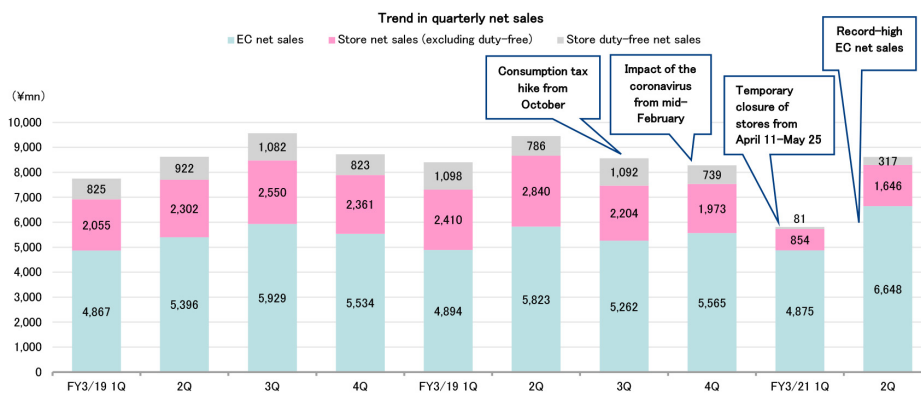
(4) Bicycles business

Sales and profits increased, with net sales growing 41.4% YoY to ¥407mn and segment income rising 208.9% to ¥18mn. As seen in the other businesses, store visitor numbers declined greatly, so store sales fell 42.2% to ¥26mn. However, EC sales were strong on both the Company's own site and for mall sales (on other companies' shopping sites), including of training equipment and various parts, due to stronger customer appeal due to enhanced brand recognition, and they contributed to results growth.

3. Trends in quarterly results and KPI

(1) Trends in quarterly results

Looking at how net sales trended on a quarterly basis, after reaching the second highest level ever in 2Q in the previous fiscal year (FY3/20), sales slowed over the remainder of the year due to the consumption tax hike in 3Q and the impact of the coronavirus in 4Q. Furthermore, they fell greatly at the start of this year, mainly due to the temporary closures of stores in 1Q following the declaration of a state of emergency. However, from 2Q FY3/21, they returned to the same level as before the coronavirus due to the growth in EC sales (on the Company's own website). In particular, if looking only at EC sales, they set a new record high in 2Q FY3/21.

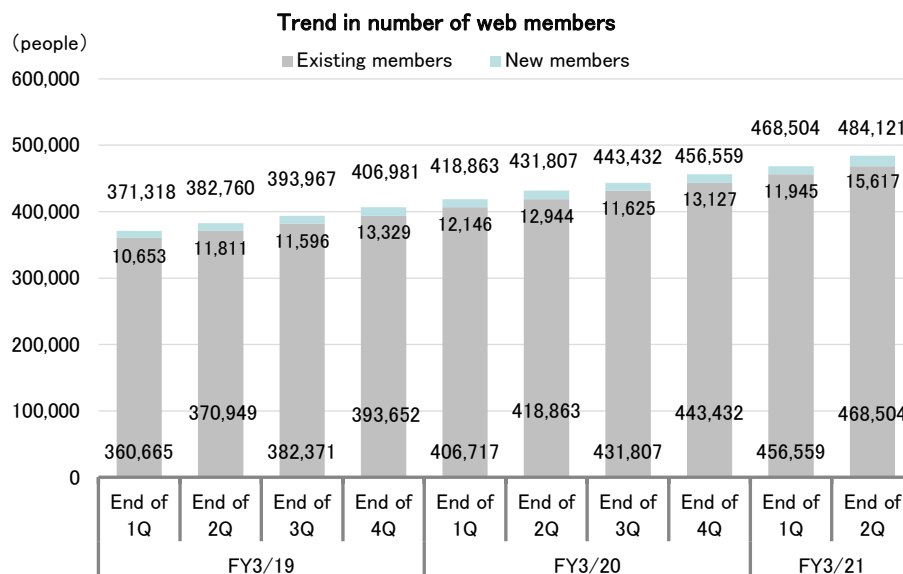


Source: Prepared by FISCO from the Company's results briefing materials

Summary of results

(2) Number of web members

At the end of February 2020, the number of web members had steadily grown, rising 12.1% YoY to 484,121 people. In particular, since July, monthly acquisitions of new members has continued at a pace of around 5,000 people (4,131 people in the previous period), and the Company can be said to have moved up a gear as a result of its measures to strengthen EC up to the present time getting on track. Looking at the composition of new members by age group, while it is a wide age group, the percentage of those aged from 10 years to 39 years was 42.0%. Also, due to the spread in the use of Instagram and other SNS, the percentage of women aged 10 years to 39 years was high, at 22.2%, and they have become a new target group. In addition, in a situation in which the percentage of members in the young generation is increasing, the fact that the use average unit price was still maintained can be said to be a development worthy of note.

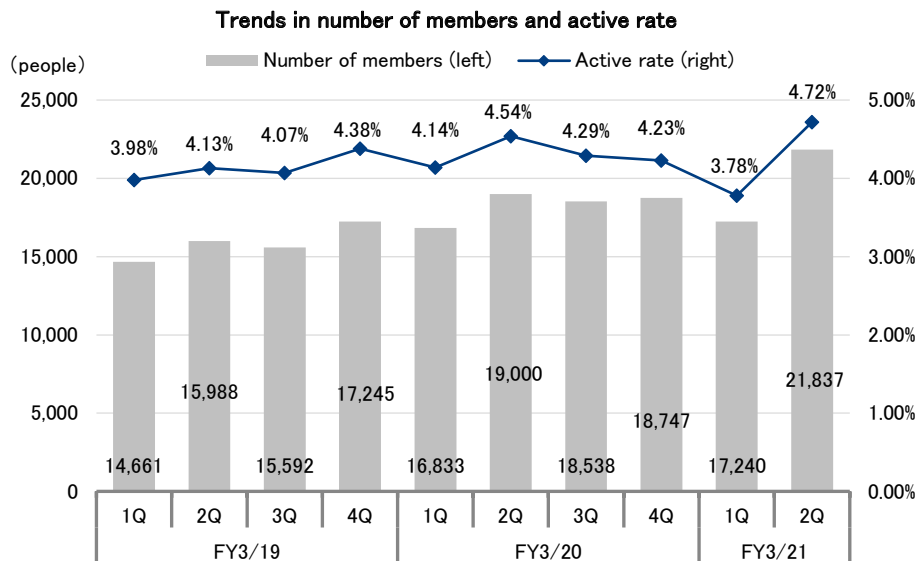


Source: Prepared by FISCO from the Company's results briefing materials

(3) Member numbers and the active rate

The number of purchasing members and the active rate both fell in 1Q. But in 2Q, they increased greatly to set new record highs due to the measures to strengthen EC (including shifting personnel resources and supplementing the number of product listings and content) and the effects of new cameras. The numbers of registrations for wish lists and email notifications for product arrivals also steadily grew, and it is thought that these one-to-one marketing measures were also a factor causing the active rate to increase.

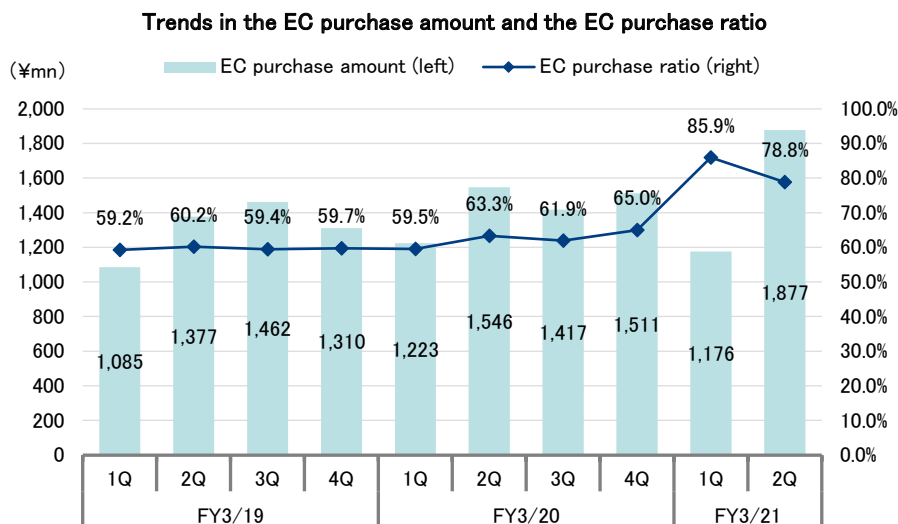
Summary of results



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

(4) Used cameras purchase amount

On the other hand, the used cameras purchase amount increased greatly in 2Q, rising 121.4% YoY. In addition to the measures conducted up to the present time, including the receive-first, send-later service, it can be considered that the launch of the individual verification service via facial recognition that uses AI in June and the effects of new products are interacting synergistically. In particular, the numbers of trade-in sales and receive-first, send-later sales both increased greatly from the measures to strengthen EC and the effects of new products for full-size mirrorless, single-lens reflex cameras.



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

Summary of results

4. Summary of the 1H FY3/21 results

To summarize the 1H FY3/21 results from the above, 1) store sales fell significantly due to the coronavirus and 2) the mainstay EC sales grew steadily from the effects of measures conducted up to the present time. So it can be said that the key point is how to evaluate this situation, in which there is both good news and bad news. At FISCO, we view 1 to be a temporary factor that will last only until the coronavirus situation has settled down, but conversely that 2 is a structural change alongside the Company's deployment of its strategy. Therefore, we judge that the focus should be placed on 2 in terms of its importance for growth potential in the future. So while overall the results were declines in sales and profits, on looking at the content of the results from 2Q onwards, as the EC-related KPIs steadily grew, it seems reasonable to evaluate the Company as having entered a new growth stage. Also, as explained below, even during the coronavirus, it can be understood to have achieved results to a certain extent by firmly progressing activities with an eye to the future.

■ Main activities and achievements

In addition to introducing three frameworks to strengthen EC, other achievements included launching an individual verification service via facial recognition that uses AI

To further accelerate the growth of EC the Company is moving forward on the introduction of frameworks in advance for the following three parts, for which costs will increase in the future, and has achieved a certain level of results.

1. Introducing three frameworks to strengthen EC

(1) 1 Category = 1 Office

The Company is aiming to improve the function of bases to disseminate information and to strengthen EC by having the store and the EC office on one floor. Customers will be able to purchase expensive items with a sense of security, just like visiting a store, but without having to leave their home. Also, for the Company, in addition to training hybrid human resources able to carry out both EC and store work, operating efficiency is expected to improve for aspects such as the movement of goods and inventory management. In the Watches and Stationery businesses, one store was relocated and reopened*1 on August 7, and in the Cameras business, Map Camera was consolidated into one main building, Map Camera Tower*2, and reopened, marking the first concrete results achieved by the Company.

*1 It newly allocated KINGDOM NOTE, a stationery specialty store, to 1F, and GMT, a watch specialty store, and BRILLER, a ladies' watch specialty store, to 2F. It also started handling brand bags and other products.

*2 The renovated Leica Boutique Map Camera Shinjuku, which has a branding function, was opened on 1F. Also, from B1F-4F, floors have been separated according to manufacturer, while 5F is the purchase and trade-in center. So it has become possible to complete every action, from making a purchase through to trade-ins and replacement purchases, in a single building.

Main activities and achievements

(2) EC + CGM

By utilizing CGM, the Company is aiming to establish an environment that all members can use while having fun (including increasing the number of reviews and postings of photos), and to strengthen the infrastructure as a platform (such as supplementing the overwhelmingly large volume of information and increasing the number of active users). On October 20, it improved the guidance to lead visitors to post content. Specifically, visitors are guided to product pages (including SOLDOUT items) via a variety of events in which Syuppin points can be collected, including a camera specialist review function Comurevi and a photo contest with the photo sharing site EVERYBODY × PHOTOGRAPHER.com*. We can expect visitor activity to be further stimulated as a result of creating guidance to direct them to the point program. Also, as the second phase, the Company released EVERYBODY Concierge on November 25. In addition to shopping, it will be a venue where camera enthusiasts can exchange knowledge and opinions, and concierges, members who actually use the products, will offer their knowledge and experience to solve problems and answer questions related to cameras and lenses.

* A photo sharing site that links the photos taken and posted by users to locational information. In May 2020, the number of posted photographs exceeded 100,000.

(3) AIMD × One-to-One

Through combining AIMD with the one-to-one marketing it has progressed up to the present time, the Company plans to fully launch a service in which sales and purchase prices are determined by AI and customers are notified of favorable sales and purchase prices in real time. This can not only prevent opportunity losses, it is also expected to have other effects, including minimizing the increase in personnel costs and improving the accuracy of AI through accumulating expertise in sales and purchases at appropriate prices (improving the gross profit margin). Preparations are being progressed toward its introduction in the current 4Q.

2. Other measures

In addition to the above, as previously explained, the Company has introduced online individual verification via facial recognition into all categories, and it has launched a framework (June 2020) so that online purchases can be made more smoothly from smartphones and PCs. It is also working on enhancing convenience and information for the customer, including consolidating four blogs managed by Map Camera into the Stock Shot online magazine that is optimized for smartphones.

Business forecasts

For the FY3/21 results, has left the forecasts unchanged from the 2Q results announcement

1. FY3/21 forecasts

For the FY3/21 results, the Company has left the initial forecasts unchanged from the time of the 2Q results announcement, which include net sales to decrease 9.1% YoY to ¥31,509mn, operating income to decline 30.0% to ¥1,228mn, ordinary income to fall 28.8% to ¥1,236mn, and net income to decrease 32.4% to ¥807mn.

In net sales, EC sales will steadily grow throughout the year in the Cameras and Watches businesses, but conversely, store sales will slump due to the impact of the coronavirus, so the outlook is for total net sales to decline.

Business forecasts

For profits also, although the Company is continuing to work to improve the gross profit margin, the operating margin is forecast to decline to 3.9% (5.1% in the previous fiscal period) due to the increase in the SG&A expenses ratio because of the lower sales. It seems that on the one hand the Company is working to reduce costs, while on the other hand it is continuing with investment and measures to sustain growth in the medium to long term.

Although the 1H net sales and each profit item were higher than forecast, the Company has left the full-year forecasts unchanged amid the ongoing coronavirus environment as it has decided to revise them after observing trends in the year-end shopping season, which has a strong impact on results.

FY3/21 forecasts

	FY3/20		FY3/21		Change	
	Result	%	Forecast	%	Amount	%
	(¥mn)					
Net sales	34,658	-	31,509	-	-3,149	-9.1%
Operating income	1,754	5.1%	1,228	3.9%	-526	-30.0%
Ordinary income	1,735	5.0%	1,236	3.9%	-499	-28.8%
Net income	1,193	3.4%	807	2.6%	-386	-32.4%

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

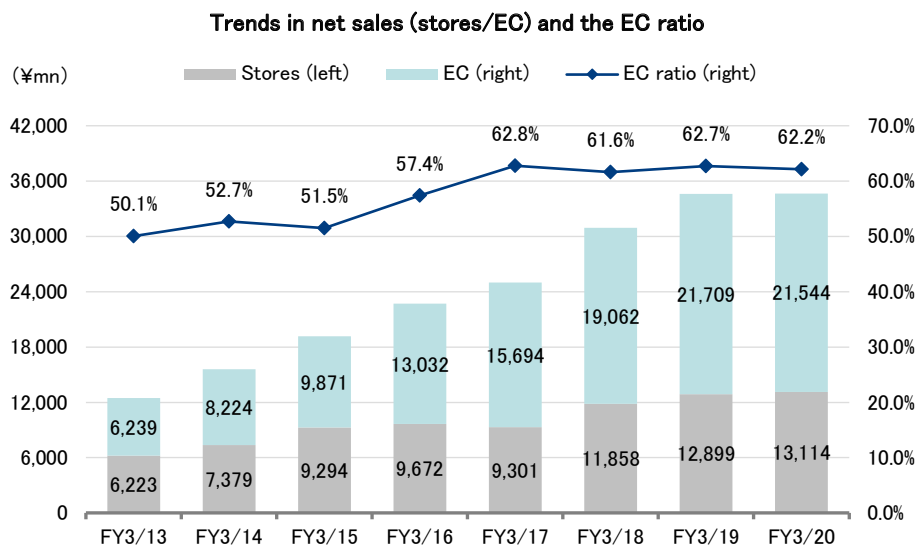
2. FISCO's outlook

At FISCO, we think that although it will be necessary to pay attention to the impact of the coronavirus and the developments in the year-end shopping season, it is fully possible that the Company will upwardly revise the results forecasts. This is considering the success of its measures to strengthen EC and the steady growth of EC sales, and that KPIs, which are indicators of the future, are increasing at a pace higher than before the coronavirus. It is also factoring in the progress made in improving the gross profit margin and that the point rebate system, which has been a burden on the Company, ended in June 2020. In a situation in which the impact of the coronavirus remains uncertain, it is highly likely that the recovery of store sales will be limited. But precisely in this sort of uncertain environment, the Company should immediately steer a course toward accelerating EC growth, which is the main axis of its strategy, and we shall be paying attention to its continuing measures to strengthen EC and their specific results.

Results trends

Is realizing rising growth through increasing the number of web members

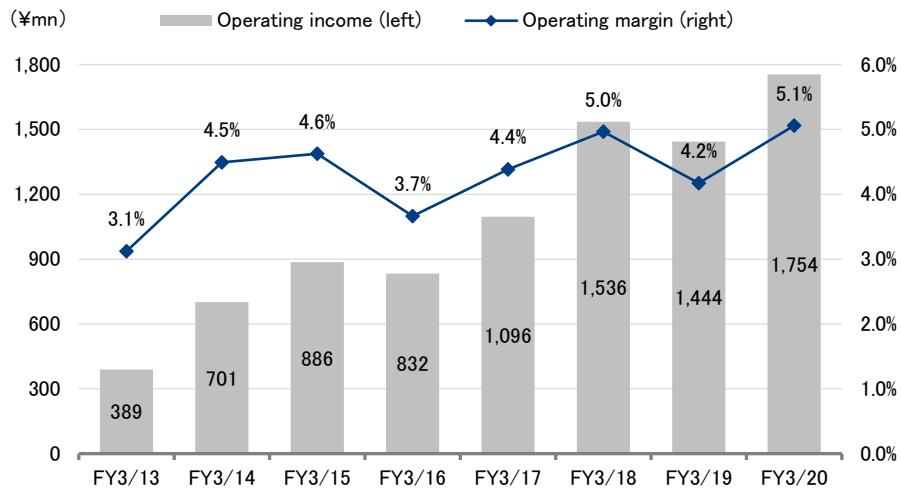
On looking back on results in the past, we see that the Company has realized rising sales growth alongside the increase in the number of web members and the growth of EC sales. In FY3/20, rather than focusing on sales growth, it worked on improving the gross profit margin as the priority issue, while sales growth was also sluggish due to the consumption tax hike and the impact of the coronavirus. But the average sales growth rate in the six years from its stock market listing in FY3/13 to FY3/19 exceeded 18% (of which, the EC sales average growth rate was 23%). Profits (operating income) have also basically increased alongside the growth in sales, while the operating margin has trended in a range of 4% to 5% in the last few years. For the operating margin, in addition to the product mix at various times (the profit margin improves when the percentage of sales from used items increases), it is necessary to be aware of the effects of upfront costs for the future (strengthening of human resources, development of various types of functions and services, securing logistics and spaces for used items, etc.) and costs relating to the point system and other measures. But in terms of the actual situation, the earnings structure is that the profit margin improves alongside the increase in sales.



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

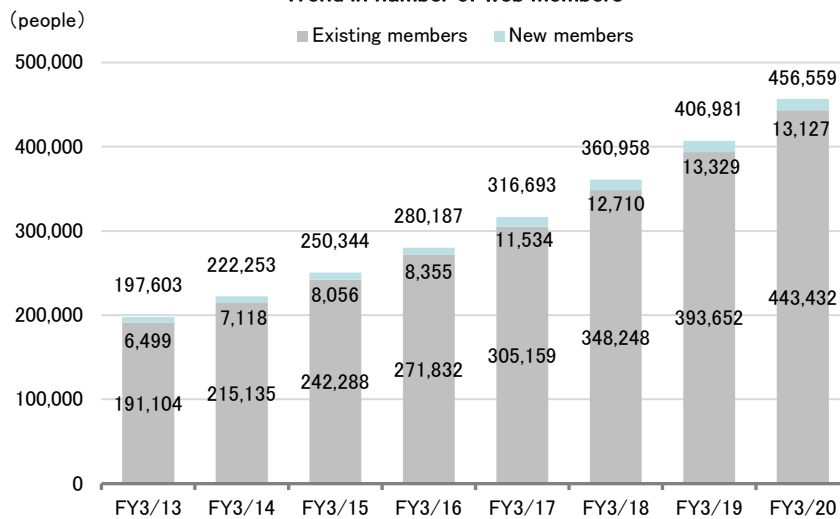
Results trends

Trends in the operating income and operating margin



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

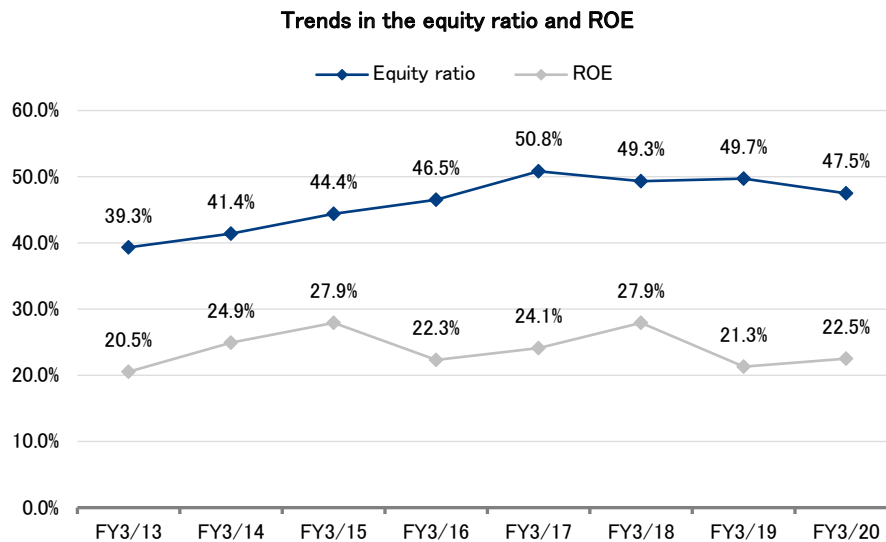
Trend in number of web members



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

Financially, the equity ratio has trended stably around the 50% level, while ROE is also being maintained at a level above 20%. So, the Company can be highly evaluated for firmly maintaining excellent financial ratios even while expanding its business scope.

Results trends



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

Medium- to long-term strategy

At the current time, the Company has not yet announced the new medium-term management plan (three years). However, no major changes to the direction for the future

1. Medium-term management plan

The Company updates the (rolling) three-year medium-term management plan each year, but it has temporarily withdrawn the medium-term management plan announced in May 2019 due to the sense of uncertainty about the future resulting from the coronavirus. Furthermore, at the current time, it has not disclosed the new three-year medium-term management plan. However, it has not significantly revised its direction for the future. Its strategy continues to be to accelerate growth on the EC axis in the Cameras and Watches businesses.

2. Direction for the future

(1) Increasing the market share of the Cameras business (improving the profit margin)

The Company intends to further increase its market share through introducing the one-to-one marketing and AIMD that it has worked on up to the present time, and from the start of the fully fledged operations of the platform (a framework for using services while having fun) that utilizes CGM. In addition, as previously stated, it is working to prevent opportunity losses and to improve the profit margin by combining one-to-one marketing and AIMD.

Medium- to long-term strategy

(2) Growth of the Watches business (entry into new markets)

For the Watches business also, while basing measures on the fact that watches have different product characteristics to cameras (such as the strong aspect of their colors as decorative items), the Company is progressing the implementation of the platform through horizontally developing the expertise and systems it has accumulated in the Cameras business. It is also working to strengthen the ladies wristwatch business and cross-border EC. The watch market is approximately five times the scale of the cameras market (¥886.7bn). Up to the present time, the Company has developed this business by focusing on men's luxury mechanical watches. But demand for ladies' watches is also present to a certain extent, and the population composition shows there is considerable room for growth in ladies' watches. In December 2019, it launched the BRILLER specialist website in the form of a spin-off from GMT. In order to convey the appeal of ladies' luxury watches in a more intuitive manner, it has strengthened collaborations with SNS, mainly for beautiful photographs, and it created the website assuming that it will be viewed on a smartphone. In addition to ladies' watches, it has also started handling brand bags, and it intends to further enhance the product lineup.

(3) Overseas initiatives

The Company is also ambitious about overseas business development through cross-border EC. For the Cameras business, it opened an eBay*1 store in August 2017 and has currently expanded its sales areas to 20 countries, and it continues to steadily accumulate results*2. In the Watches business, it opened a store on Chrono24*3, the world's largest marketplace for luxury watches, in May 2019 and an eBay store in July 2020. At the current time, duty-free sales in stores are struggling due to the impact of the coronavirus, but cross-border EC sales are trending steadily. In 1H FY3/21, net sales increased 28.8% compared to in the same period in the previous fiscal year. In anticipation of fully fledged business development in the future, the Company's policy at the current time is to conduct measures that emphasize branding (improving reputation and image), rather than pursuing earnings.

*1 The world's largest online marketplace, with approximately 174 million active users (buyers) in around 190 countries.

*2 Continues to acquire 99.9% positive feedback (number of reviews: 7,699).

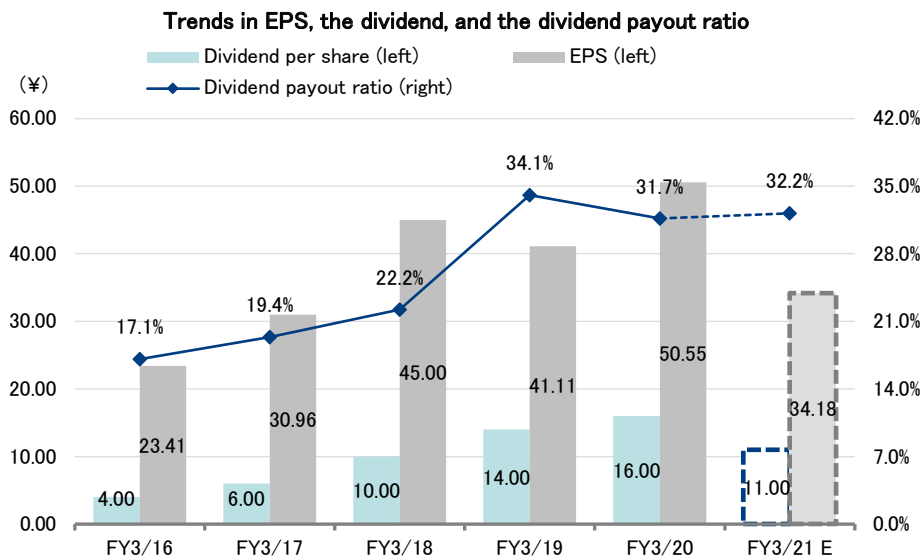
*3 Lists more than 470,000 watches in more than 100 sales countries.

Shareholder returns

For FY3/21, is currently forecasting a dividend of ¥11, down ¥5 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 the FY3/21 dividend, the Company is currently forecasting a dividend per share of ¥11, down ¥5 YoY, due to the forecast of a decline in profits. However, this is premised on securing a dividend payout ratio of 32%, the same level as in the previous fiscal year.



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



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: support@fisco.co.jp