

**Market Enterprise Co., Ltd.,**

**Q&A of Earnings Results Briefing for FY2019 2Q**

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Ticker: TSE 3135

Speaker: Mr. Yasushi Kobayashi President & CEO, Mr. Kenichi Imamura Director & CEO

**Q & A Asset Purchase of "OUTLET JAPAN"**

Questioner 1 : I'm Fukuda at Toyo Keizai. Glad to meet you. And I have three questions.

First, regarding the asset purchase of "OUTLET JAPAN", would you tell me purchase price, annual sales, and gross profit.

Kobayashi : That's private, but I've recognized its impact on our entity company as not much.

Questioner 1 : Uh-hum, planned to make it a consolidated subsidiary?

Kobayashi : Regarding it, it's assets purchase.

Kenichi Imamura : It's just a merger of the corporation, so not another subsidiary.

Questioner 1 : And, on page 34, as for "oikura.jp", would you mind explaining the outline a little further?

Kobayashi : I see, and this has been transferred from PROTO CORPORATION had developed "Goo-net", an online service for searchers for used car information. Initially, DeNA had started the service, which has been a longstanding platform in the second-hand market.

This is a matching service, where customers send their buying requests to this platform, and then multiple participating stores submit an estimate. In other words, the customers will receive some assessed prices such as "this store will buy it at this price" and "or another store will purchase it at this price", and then they can choose one of those store estimates.

Questioner 1 : Are there 1,400 entries of a brick-and-mortar store in this service?

Kobayashi : Yes, it has 1,400 entries of participating stores.

Questioner 1 : What does "participating stores" mean?

Kobayashi : This means entity participating stores as not only brick-and-mortar stores but also door-to-door buying service providers mainly.

Questioner 1 : How do you make good use of that service?

Kobayashi : Although there are about 40,000 buying requests monthly, some of them are almost impossible in an area-wise sense, for example from Okinawa, we cannot have bought because of the absence of our centers in Okinawa.

These 40,000 requests had included about 16,000 we could not have come to buy. Although there had been such unhappy cases to our company, the 1,400 participating stores could find some worth-considering requests.

We will transfer those requests that we have to turn down to the platform "oikura.jp" integratedly.

Questioner 1 : Will the participating stores have entries on "oikura.jp" pick up those requests your company could not have bought?

Kobayashi : Yes, but that's just one of visions. Despite the spread of entity C to C market, customers have numerous merchandises impossible to sell or buy between individuals.

For example, as difficulties of impersonal selling and buying, they would like to buy guaranteed expensive goods, to sell their smartphones to a trader with integrity to erase data, and to save time and effort to entry their goods because of close -approaching of business trip and moving at the end of that week.

Under such a situation, despite this expansion of C to C reuse needs, I think such needs will be left with a certain level. We are going to catch up with such needs with participating stores firm.

Questioner 1 : When did it started?

Kobayashi : We announced it on December 19, 2018, and participation was on January 2, 2019.

Questioner 1 : This is my last question. Would you tell me your plan on the establishment of new centers in this fiscal year?

Kobayashi : Regarding this fiscal year, no establishments are planned.

#### **Q & A How are The Current Circumstances and Visions of Each Business?**

Questioner 2 : How do you think about current situations and visions of existing businesses such as selling of agricultural machines, telecommunication, and online services the first half and the full year? Would you please if it is possible to explain?

Kobayashi : I would like to answer you as possible as I can. First, as for agricultural machines, it's significantly increasing because we already reached the number of annual sales in 2018 of June within the first half.

Regarding online media, as those traffics and PVs that I've shown before, I can say like this, "without problems access number is increasing, and they are coming to contribute to revenue".

Also, about telecommunication, we can acquire customers smoothly.

Questioner 2 : Understood. And you said merchandises like agricultural machines are not for impersonal selling and buying, but in case of corporates, could they participate in and threaten you?

Kobayashi : It could be, but despite that the field has been longstanding, almost no companies have participated in. Because of the character of the machinery, buying requests are here and there; not concentrated on urban areas but spreaded around various sites. Characteristically, there are little traders that "can manage a wide range around Japan" in the agricultural market.

We've built a network with partner corporations based on reuse center at ten locations around Japan. After we receive the requests, we use this logistics network. Each partner corporation goes to receive goods, and then we sell and send them as a partner strategy. So, I think other nationwide buying businesses of agricultural machines merely appears.

#### **Q & A Is There Any Possibility to Expand Your Business Overseas?**

Questioner 3 : I'm Maeda at SMBC NIKKO SECURITIES INC.. Thank you for your presentation.

Kobayashi : Thank you, too.

I have two questions.

With respect to his last question, you said: "there is no establishment of new centers". How about the possibility to expand your business overseas? This is the first thing to ask.

Another question is, with consideration of your analysis as "very high profits of agricultural machines", for the possibility to deal with larger merchandise such as bikes and cars.

Kobayashi : Thank you for your question. Regarding the first point of establishment, it's mainly because we were preparing for "oikura.jp". Including renewal of its system, we've planned to make an advertorial investment from now.

In other words, as the main reason, we prioritize a synergic effect with participating stores of "oikura.jp" with a prior commitment rather than expansion of any centers.

Regarding the global market, we had been forced to realize the difficulty of overseas business through the agency business of selling to eBay in over 30 nations.

With such experience, we are sure that there are needs of merchandises such as agricultural machines, construction machinery, and medical instruments in B to B reuse overseas. So, it's not unrealistic to sell them for overseas especially in the specialty rather than expansion of centers directly.

And you've asked about our plan of dealing with different categories such as bikes and cars. We've dealt with agricultural machines, construction machinery, and medical instruments, and they are all "having each market of reuse without businesses". And we are sure that there are such little-known but good fields, where we are going to participate in.

## **Q & A About Using AI and Big Data**

Questioner 4 : I'm Kawarazaki at TMAC and have two questions.

First of all, as for C to B, although there are your competitors, users may be concerned about prices any traders suggest. In order to show (attractive price) to them and make your profit, what are you preparing for as IT system such as AI and Big Data?

Another is for B to B, I think there are some elements including assessment, maintenance, and logistics in the field such as construction machinery and medical instruments different from C to B. So, for the success of such business, what do you prioritize as the significant management challenge?

I would like to ask you about these two questions.

Kobayashi : Thank you. As I've mentioned continuously as the whole, regarding reuse business, it is universal and indispensable that consumers are concerned about buying price as "how much can it be?" However, the pricing is only a part of the reuse business.

As I mentioned just before, customers prioritize the elements of services as integrity to erase data, guaranteed, and shipping data like "which will it arrive today or tomorrow?" Moreover, there are many other elements in the reuse market. We are basically considering both as important.

Basically, regarding data in C to B, or buying from customers, we have very large amounts of data, approximately 600,000 buying requests per year as a whole.

So, including automation, we are going to use our all data positively such as "these kinds of goods will be about this price".

"Pricing is only a price" which I just said before means various data we should make sure such as automated optimization of directions for door-to-door buying and the law of secondhand dealer license. Doing "iPadization" of such data, we've made efforts to build a system to entry merchandises with ease.

In such a part, now also purchase data, also while actively utilizing the sales data of products, automatically and the part that pricing can be provided to customers, as can be simplified also for other accompanying parts too, I would like to build something that can provide a highly productive service.

In such a sense, widening of other elements but pricing is large-scale merchandise in itself. As logistics, there are some parts that we have to solve with participating stores or partner corporations. Applying IT to the way to sell, without selling in person, how could we build systems. We are considering and investing it.

Since there are more challenges in the logistics of the B to B market, the more our business expands, the more they become essential. The model number of merchandises itself is less than general. So, playing hardball of pricing is not so difficult, but other elements such as status and location of merchandises are considered as important. We are sure to create more competitiveness by using such an IT power.

Questioner 4 : Who will judge the status of merchandises including validation of agricultural machines and medical instruments that buyers may be concerned about?

Kobayashi : Regarding it, we ask about the model number and status of merchandises after receiving buying requests. And then, we can understand the market price, referring to have-to price data of B to B market.

Based on it, we can come to there, take a photo, and offer a partner corporate to picture. In other words, we make them purchasable by collecting every needed data to buy.

#### **Q & A: Existing Business and Potentially Great Business**

Questioner 5 : I am Nara at KOKORO trade lab. May I ask two questions?

The first thing what I want to ask is the percentage of sales and profit of existing business and potentially great business.

I doubt that the potential of the existing business is declining, and the results of the first half year seemed to be showing.

Would you please if there is a possibility that the growth of existing business could not be expected as it was?

This is the second question for the breakdown of inventory on page 44. The inventory may be increasing in growing agricultural machines filed. I'm concerned about the capacity of the warehouse for increasing inventories to a certain scale. And I would like to know the forecast for inventory situation in the future.

Kobayashi : I will answer the first question of existing reuse business. After it was listed, we have accelerated to increase our centers up to 10. Also, we are investing positively to establish contact centers, so, our foundation is thought to be completed.

As a current situation, we are improving productivity selectively. Regarding buying of other potential growing merchandises, we've started just with agricultural machines, construction machinery, and medical instruments. As a whole, I think it's not that reuse is declining.

We are going to focus on the ungrown market except for high-class brand goods as the core. In such a sense, let me

say we are advancing to willful and sustainable growth.

Imamura : Regarding the second, I will answer it. The counting is private and I have no choice but to leave it to your imagination. However, as you know, we've added(achieved) last year's annual results until the 2019 year ending June 30, it must be better.

As for inventory risk, last year, we could have eliminated our mounting negative legacy as write-downs, in the first half of the previous fiscal year. The timing was the end of last year in the first half. And as Kobayashi explained just before, we've tuned up and fixed data.

In short, risks of write-downs has been reduced by building an ability to assess such as "not buying things that would not be sold" and "improvement of pricing accuracy".

Currently, we established those rules and apply it to our new business such as agricultural machines, medical instruments, and construction machinery. So, to proceed them, we can not be thoughtless and ignore the swelling number of inventory which might be a bad debt.

Questioner 5 : Is the basic foundation business will be more focused on profits than the revenue?

Kobayashi : That's right. For now, it will be as you said.

Questioner 5 : Understood, thank you.

Including the synergic effect with "oikura.jp", there are really many ways to expand the existing business. Therefore, we are going to do so.

I got it.