

MarketEnterprise Super Landing Beyond the Two Upward Revisions Operating Profit Are 4.7 Higher Than the Previous Year

This is the transcript of the 2019 financial results ending June briefing of MarketEnterprise Co., Ltd. held in the Security Analysts Association of Japan hosted on August 21, 2019.

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Outlines

Kobayashi Thank you for coming to our financial results briefing today. Let's get started.

First of all, this is our company outline. This company was established on July 7th, 2006. Now we have just started the 14th fiscal year, it is about 4 years since our company was listed with TSE Mothers on June 27th, 2015.

What's MarketEnterprise?

Our company name MarketEnterprise is originated in two words. Market and enterprise. Enterprise has the meaning of adventurous creations. It expresses that we will be the company to create the market.

We are a company engaged in various businesses to aim to be an "Optimized trading company" based on second-hand. Let me give you an illustration of what is Optimized trading company. It's a highly condensed expression that means to make our company thus; the company can offer various options to the consumer seek to be smart.

We've defined smart consumption as highly satisfied and relative-valued consumption activities. I think the mass production and consumption era has ended; it's taken granted for to buy some merchandise after well comparing with prices. And, more than ever before, smart consumption such as sharing, and rental will be diversified. We are going to be the company to deliver many options to consumers.

Our Business Portfolio

Our business portfolio is shown as this slide. We've built the needed portfolio to provide our service for smart consumers.

There are three domains: second-hand online, media, and telecommunication. Regarding second-hand online, there are two services: for individuals, for professional, the platform business, and rental business. As to media, we are expanding 5 media.

Overview of second-hand Online Business

This is the overview of second-hand-online business.

Basically, this flow is C to B to C: buying some goods from consumers, using some traders like us, and selling to consumers.

We've developed 30 categories of field-specific type purchase web media, where we've acquired over 40,000 requests per month. Our contact center assessed them. This is primary -assessment.

Conventionally, in second-hand business, users could not get the pricing in advance. Even if they could know it and were disappointed by it, they often sold their goods because they didn't want to go back with it.

So, we've started primary assessment service first; using database of a result of auctions and data of price comparison websites.

Consumers can sell their goods by home delivery kit, with never going out. This is a model that they can sell without a disappointing experience.

Although we prepared 3 types of purchasing methods of home delivery, door-to-door, and over-the-counter, over 50 percent of them chose to use home delivery.

All the merchandises are not sold on over-the-counter sales but e-commerce, online shopping such as Yahuoku!, Rakuten, Amazon, and our ReRe. We use sharing-stock-system to sell one-of-a-kinds in a various online shopping store and obtain many views. These all our in-house-invented system, and its high inventory turnover business flow allows the negation of sold inventory in online stores.

Second-hand Online Business: Purchasing Vertical Website

As the features, we are developing 30 online purchasing sites. These are vertical sites. We will catch up 30 categories centered to niche merchandises and have received over 40,000 purchasing requests per month. Our company's strong point is trading overall niche goods thus that other traders are hard to deal with.

Second-hand Online Business: Business Strengths

There are 4 strengths. Firstly, we have a primary assessment at our own contact center. And we prepared method to purchase various goods with three channels: purchasing with the home delivery, over-the-counter, and door-to-door.

Also, 10 purchasing bases are developed all over Japan. As to purchase second-hand goods, having any centers in the nation makes the speed of purchasing faster. And, shorter distance means cheaper shipping costs, so we can lower the price. We've built such a structure.

Furthermore, we standardize our operation called "STANDARD BOOK" with 1,000 pages. We've established such structure with the online system for our freshmen to handle their job.

Media Business: Possessing Media

This is media business.

What the slide shows are our possessing media. We have these media in the keenly interested field to supply information for smart consumers.

Magazine of Takakureru.com provides information about purchasing such as some ways not only to offer but also to sell and discard.

iPhone, Budget SIM, Info and SIMCHANGE are in the field of telecommunication. I'll explain SIMCHANGE later that we've acquired on August 2019. These media supply information about the way to buy iPhone, budget SIM, and telecommunication things.

Regarding the consumption, BEGINNERS is a media-centered to the way to start a new hobby with second-hand and rental. OUTLET JAPAN is specialized in general information about outlet malls.

Media Business: Business Model

As to the business model of the media business, we've supported the users for matching by providing some contents about the highly interesting field.

Variations of monetization are roughly divided into two types; advertising revenue that we send accessing users to advertiser company, and owned media that we send them to our services.

Telecommunication Business: Business Description

The third business is telecommunication.

This slide says "developing budget SIM service and WiMAX, high-speed telecommunication service, as an option to realize smart consumption in telecommunication necessary in everyday life". This is our service of KASHIMO.

KASHIMO is our brand and abbreviation of Kashikoi (means smart in English) Mobile service.

Telecommunication Business: Percentage of Telecommunication Cost in Household Expense

This slide shows the percentage of telecommunication cost in each household expense. Nowadays, the total cost comes to approximately 120,000 yen per year, that is, over 10,000 yen per month. It means 4.15 percent in household expense and will increase more.

This cost includes using the internet and cell phone, but it is obvious that the trend in high cost is unchanged for a long time.

Financial Highlights FY 2019

Now, let me talk about the overview of FY 2019 financial results. First, there are highlights of results.

These two terms were for investment. Through it, there was a better landing than two upward revisions with the growth of operating profit increased by 4.7 times (YoY). Also, the market of the main field of Second-hand online business was still strong. Strategy fields such as agricultural, construction, and medical equipment were going up in sales, too.

Moreover, sales in media business had a radical growth and increased by 71.8 times thanks to the acceleration of page views. Revenue in telecommunication business increased by 3.7 times with increasing acquisitions well.

Financial Highlights FY 2019 2

In June 2018 fiscal year, revenue was 6,333 million yen, operating income was 96 million yen, ordinary profit was 94 million yen, and profit attributable to owners of parent were 31 million yen. In June 2019 fiscal year, revenue was 8,472 million yen and increased by 33.8 percent (YoY). Operating profit was 452 million yen and increased by 4.7 times (YoY). Ordinary profit was 455 million yen and increased by 4.8 times (YoY). Profit attributed to the owner of parent was 203 million yen and increased by 6.4 times (YoY).

Financial Highlights FY 2019 3

This is the final trend through two upward revisions of the original forecast.

In the original estimation, revenue was 7,700 million yen, operating profit was 160 million yen, ordinary profit was 162 million yen, and profit attributed to the owner of parent was 80 million yen. There were two revisions on February and May 2019. As a result, we've passed over the final revision with all businesses making a profit than expected.

The trend of Consolidated Operating profit 1

As to the trend of consolidated operating income, these two periods had been seen as the period of investment. Regarding the June 2019 fiscal year, we've made our best record of profit: 452 million yen.

Change in Operating profit

This is an analysis of fluctuation in 6 months of June 2019 Fiscal Year.

The previous year's operating profit was 96 million yen, and this increasing factor is 930 million yen. And, decreasing of gross profit rate was 247 million yen. There was a little decreasing in gross profit because of dealing with little high-price items.

Also, as to June 2018 Fiscal Year, inventory valuation loss was 98 million yen. On the other hand, as to June 2019 Fiscal Year, it was only 1 million yen. This is the factor of increasing profit in 97 million yen.

And, increasing of SG&A expenses was 423 million yen. As a result, operating profit was 452 million yen.

Balance Sheet and The Comparison with The Previous Fiscal Year

As to balance sheet, the feature is a part of the product inventory.

While inventory at the end of June 2018 was 218 million yen, that at the end of June 2019 was 368 million yen. We've landed the term with inventory increased by 69 percent. We've seen it as a positive event.

June 2018 Fiscal Year: Sales Result by Business

This is the result of sales by the business. Media business increased by 71.8 times, and sales in telecommunication business increased by 3.7 times. The new embarked business has been going well.

Second-hand Online Business: Overview

From now, I would like to go on to the overview by the business. I'll start with the second-hand online business.

In Takakuureru.com for individuals, there are various niche purchasing requests. Adding to it, we've developed purchasing service of agricultural, construction, medical equipment for professional. furthermore, we operate PRIVATE BUYER for the wealthy.

Also, we have the platform "Oikura", which we had acquired in February 2019. And there are other rental services.

Online Reuse Business: Net Sales

Net sales in second-hand online business is 6,359 million yen and increased by 10 percent to the previous year.

The growth rate of this business was on the trade paper, The Reuse Business Journal, and we surely surpassed that number.

Second-hand Online Business: Fluctuation of Sales by Field

We calculated the fluctuation of sales by field.

Although there was increasing in each category, the notable items were agricultural, construction, and medical equipment. Especially agricultural equipment was important since it increased by 89 percent compared with 2018. Buying of them has been active because so many farms gave up with their average age is 67 in Japan.

Also, as to brand and watch, it decreased by 54 percent, but this is just our strategy. In June 2018 fiscal year, I explained valuation loss, especially in the high brand and watch. So, we've reduced tradings of them as a strategy.

That goes well as we expected.

Second-hand Online Business: Average Selling Price

I'll touch on the average selling price in reuse.

Average selling price per good is 32,000 yen in FY 2019 and increased by about 7 percent compared with June 2018 fiscal year (little less than 30,000 yen).

Now, although online selling of second-hand business has many variations such as online auction and C to C free market, they say average selling price per an item in C to C trading is about 2,000 yen. Although main trading items in C to C are clothing and knick-knacks, we specialized in other very high-price goods they hardly deal with.

Second-hand Online Business: Trend of purchasing requests

The trend of purchasing requests increased by 21 percent compared with the previous year and 466,000 in FY 2019.

Inventory Turnover Period

As to inventory turnover period, both inventory amount and turnover ratio increased. Now, with 21 days, an item can rotate. Or, there are 17 turnovers in a year. In second-hand business industry, people say the limit of turnover in a year is four or six times. We are proud of this business model of high turnover efficiency of 17 turnovers.

From now on, we plan to ensure gross profit ratio rather than increase turnover ratio, sell in a planned way, and handle it.

The Trend of Inventory by Quarter

This is a trend of inventory by quarter.

Although we realized very high turnover ratio, inventory increased by 69 percent, 150 million yen compared with the previous year. I am glad to go to this quarter with such a very good condition.

Second-hand Online Business: Market Scale

I'll talk about the market scale of second-hand business.

There is data from the Ministry of Economy, Trade and Industry that is related to those who consider selling their items but cars and bikes within a year. According to this data, that potential market may be equal to 7.6 trillion yen.

Second-hand Online Business: Market Scale 2

I categorized targets by our strengthening.

There are electronic products, cameras, PCs, and smartphones. I'm sure people want to buy more expensive items from not individuals but secured business, especially as to PCs and smartphones, they'll choose business traders with data deletion and guarantee.

Second-hand Online Business: Market Scale 3-1

Although such targets are the core, we've reached the professional market in addition to it.

I believe there are many unexamined fields such as medical, construction, agricultural equipment, and others. I'm sure there are very huge market included those fields.

Second-hand Online Business: Market Scale 3-2

Summing that up, our target market scale will be 4.5 trillion yen and extra.

Second-hand Online Business: Market Scale for Professional

This is a topic of the professional market of 1.3 trillion yen and extra.

Regarding agricultural, construction, and medical equipment, we estimated 30 percent of the domestic market scale as an estimated second-hand market. Considering the used ratio of the car market, this percentage is reasonable.

About the Platform Oikura 1

This is our platform Oikura.

We acquired this business in February 2019. This site is matching platform, where selling-side users offer to Oikura, and buying traders centering to nationwide second-hand stores estimate it.

About the Platform Oikura 2

Now, the site has about 1,400 member stores all over Japan. That's a very large number.

Important Strategies: Purchase Request Linkage to Oikura

This is request linkage.

Although we have over 460,000 requests in a year, unfortunately, there are numerous items we cannot estimate. For example, when users wanted us to come to Okinawa for purchasing, we cannot handle it because we did not have a purchasing base there.

Of course, desks, sofas, and tables are valuable as merchandise, but most of its shipping and packing cost get higher than its price at e-commerce regardless of the online auction or free-market application. And, unfortunately, there were many cases that we could not estimate such items.

As to these cases, we accept that we can generate higher synergy by sending users to the nearby second-hand store that can estimate with linkage to Oikura.

As a result, we think we can reduce users' disappointing experience by matching seller and nationwide second-hand stores can take more purchasing requests. And we can gain advertorial income. The reason why we acquired the business is such a business model by matching.

The Trend of Customer Referrals by Oikura

We acquired it on February 2019 and started the linkage to Takakuureru.com in July 2019. The customer referrals number drastically increased by 67 percent in the same month for July.

The expand and promotion of linkage system will be continuous.

Second-hand Online Business: Rental

Let me talk about other activities and strategies.

As to rental business in second-hand online business, we are going to expand the range of items we can deal with and promote to start another service for corporate.

Second-hand Online Business: Alliance Cases

This is an alliance case.

We're now expanding support to purchasing service, membership service, and alliance network to makers and retail stores.

For example, we've tied up with Yahoo Japan Corporation. as Yahoo purchasing Service and Amazon as Amazon Purchasing. All their door-to-door purchasing are in charge of us. Also, there is an alliance with Rakuten.

Moreover, we have an alliance with each company having membership service for increase purchasing price and customer satisfaction.

And, as to support of maker purchasing, we've tied up with Panasonic Store. I'm sure to increase such alliance with makers directly for buying.

That's direct commerce called D2C in this e-commerce industry. Without distributors or distribution channel, makers are likely to sell their merchandises to consumers directly.

The other day, Tesla, Inc. sold Model X in the U.S. I was very surprised at that selling price and guaranteed price for buying after a few years.

From now, makers will try D2C sales, and then they'll consider direct buying and trade-in.

Under such circumstance, since we can deal with purchasing in the whole nation uniformly, I'm sure we can expand the range of dealing variously by an alliance with makers with D2C things.

Also, we've begun to tie up with each company as various services such as rentals, wholesales, and purchasing support.

Second-hand Online Business: SDGs

I'll explain our activities related to SDGs that we released on our home page.

This slide says we reduced 7,820-ton CO2 by second-hand trades. This means we estimated such reduced effect since 2014 by second-hand trading of four major household appliances such as television, air conditioner, refrigerator, and washing machine.

Of course, we are dealing with wider items. Considering that, I'm sure we've achieved a drastic reduction of CO2 by our second-hand service.

And, regarding agricultural, construction, and medical equipment, an extraordinarily large number of items has been shipped overseas as re-utilization in developing countries. We're able to contribute to these lists of SDGs: 2nd, 3rd, 6th, and 12th.

I'll explain the detail of the system of Instrument Donation "Furusato nozei". "Furusato nozei" is a tax reduction given to taxpayers who donate to local municipalities.

Otherwise, as to the reduction of illegal trades with linkage to law enforcement agencies, we've cooperated with police and helped crime eradication since we've been a company with many purchasing requests in the reuse buying business.

Most recently, we've received a letter of thanks from Chiba and Miyagi prefectural police. We are going to continue such activities. Also, we've participated with cleaning Mt. Fuji annually thorough Japan Reuse Affairs Association.

Second-hand Online Business: Contribution to Community

This is the system of Instrument Donation “Furusato nozei”.

We've cooperated with Inabe City, Mie and Higashikagura Town, Hokkaido. Recently, Kitamoto City, Saitama and Tomiya City, Miyagi have taken part in that linkage.

Originally, the project started when we listened to a story of lacking instruments in a brass band in junior high school from the government. They were hard to budget for it, and they cannot get what they wanted by donation. Also, they said that assorting donated goods were difficult.

Then, we suggested the project of Instrument Donation “Furusato nozei” with our assessment system. We can receive donation requests and tell government like that we estimate this trumpet and that horn would be valuable at this price. With the system of “Furusato nozei”, donors receive a tax refund in that, and each school can have instruments they need.

I'm glad to come to provide value that there are so many places to assess. We'll expand that.

Second-hand Online Business: Future Strategies

This is our strategies for the future. We are planning to promote furthermore strengthening of linkage with our platform, considering expansion of new fields in the professional market, establishment of new purchasing base, standardization of operation, and improvement of inner by IT introduction.

As to investment in IT, for example, we are promoting to improve productiveness by iPadization of all door-to-door purchasing and to automate inquiry from customers who want an assessment. It has become more efficient.

And, we are going to expand inventory purchasing of makers and alliance.

Media Business: Sales

Regarding the media business, as I mentioned before, sales increased by 71.8 times. We've achieved very large growth.

Media Business: Trend of Performance by Quarter

As to performance by quarter, income by referrals with increasing of page views goes up steadily.

Media Business: Trend of Page View

The slide says radical expansion centering to telecommunication field. Here are page views of each media: 3,900,000 views per month in FY 2019 compared with 680,000 views in FY 2018 growth compared to last year's views increased by 6 times.

Media Business: Acquisition of SIMCHANGE

Since August 2019, we've started SIMCHANGE business with the acquisition.

You can use the SIM unlock since September. Until now, second-hand cell phone market in Japan has not been lively at all compared to those of North America and Europe. The current second-hand market in Japan is seemed to be much less than its real potential market.

After SIM unlock, you can change easily second-hand cell phones regardless of each mobile company you made a contract. And then, the market will be lively. At the same time, the Budget SIM market must expand.

Under such circumstance, there is a very good trend of customer attraction in a media, iPhone, Budget SIM, Info, that we've run. And we are going to face this strong market with these media as the strategy of multi-domain.

Also, as a content, we've acquired "Budget SIM Speed Checker", a checker of bps of Budget SIM providers, and a diagnosis service of an optimal Budget SIM.

Media Business: Future Strategy

This is the future strategy of the media business.

As this slide, our plan is strengthening the basis of business with expanding market of telecommunication field. We are going to catch up needs with SIM unlock trend by cooperating with SIMCHANGE, expand some fields, and strengthen the competitiveness of our media.

Telecommunication Business: Sales

As to telecommunication business, sales increased by 3.7 times as the previous comparison. It changed to 2,065 million yen from 560 million yen.

Telecommunication Business: Trend of Performance by Quarter

As to the trend of performance by quarter, it changed radically by aggressive marketing strategy.

Telecommunication Business: Trend of Number of Possessing Lines

The number of our possessing lines went over 30,000 on June 2019, and monthly stock income increased over 100 million yen.

Telecommunication Business: Future Strategy

We'll extend the strategy to acquire new customers with media business and strengthen the business basis with the drastic growth.

After 2023, ADSL will end sequentially. Also, as I mentioned the percentage of telecommunication cost in household expense before, the field of telecommunication will be essential to smartphone-based society centering to single-person households.

Moreover, the needs for cheap service have been increasing radically. We'll catch up with such needs.

And, we are going to strengthen marketing and branding and expand the service KASHIMO. Also, we are planning to build the business core by improving the operation.

FY 2020 Earnings Forecast

This is the earnings forecast for FY 2020.

Sales will increase in all three businesses. As to profit, we plan to make an up-front investment in things connecting to growth since the next year and to break our best record of profit.

As our forecast, sales in FY 2020 will be 10,000 million yen, and it will increase by 18 percent (YoY). Operating profit will be 600 million yen, and it will increase by 32.7 percent (YoY). Ordinary profit will be 602 million yen, and it will increase by 32.2 percent (YoY). Profit attributable to owners of the parent will be 270 million, and it will increase 32.5 percent (YoY).

The Trend of Consolidated Sales

In our forecast, sales will reach 10,000 million yen and continue to increase for 14 years since founding.

The Trend of Consolidated Operating Profit

This is the trend of operating profit.

Through the period of investment, it was 452 million yen in FY 2019, breaking our best record of profit. We forecast it will be 600 million yen in the period of progress. In this plan, we will increase it to 6 percent from 5.3 percent, investing firmly.

About Our IR Activity

At last, as to our IR activity, we showed the trend of several meetings with institutional investors. We've begun to strengthen communication with investors aggressively.

There were 26 meetups in 4th quarter of June 2019 fiscal year as this slide. This will increase.

Becoming Optimized trading company based on second-hand

We are now building up Optimized trading company based on second-hand, making our best record of profit and carrying out our original intention. That's all our result briefings. Thank you.