

Market Enterprise Co., Ltd.,

Transcript of Earnings Results Briefing for FY2019 2Q

This is a transcript of the Market Enterprise Co., Ltd. FY 2019 1H Results Briefing held on February 20, 2019.

Ticker: TSE 3135

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Briefing of 2019 second quarter results ending June

Yasushi Kobayashi : Thank you for coming to our results briefing. Today is for the 2019 year ending June 30 of the medium-term results briefing of Market Enterprises.

Agendas

Here are agendas, but its contents have been revised unlike ordinary.

We'll give you an explanation of Growth Strategy such as our corporate vision and promotions for that story. After that, we'll touch on the current situation, the future of the strategy, the highlight of 2019 June medium-term financial results, and forecast of achievement in order.

What is Market Enterprises?

First, here is our corporate story, our company was established on 7 May 2006.

We've gotten our company name from two words: "MARKET" and "ENTERPRISE".

"MARKET" means just a market, and there is a will to make our market. On the other hand, "ENTERPRISE" does etymologically undertaking challenges, so this message implies we'll do adventurous creations, So we've established our company named as Market Enterprise.

We are now developing various businesses in pursuit of "Optimal-Choice major company" concentrated on reuse.

What is "optimization trading company"?

Let me give you an illustration of "What's "optimization trading company". It's a highly condensed expression that means to make our company thus; the company can deliver a wide variety of choices that smart consumers demand.

I think the mass production and consumption era has ended, and the new era has been coming; it's taken granted for to buy some merchandises after well comparing with each price and the consumers try to sell and buy cheaper and prioritized "smartness" such as rental and sharing services.

So, we are going to deliver various choices in such an era.

What is Smart Consumption?

I'll explain "What's Smart Consumption?" Including a change in consumers' sense of value.

Change of Consumers' Sense of Value 1

Here are four reasons. First, "Feeling of Hesitation to Reuse Goods is Fading".

This is according to a questionnaire of the Consumer Affairs Agency; he asks "How do you feel like using second-hand goods?", and respondents answer their closest.

As this data shows, much of young people feel not weird about the use of second-hand merchandises (depending on the situation). It reveals clearly fewer people would not like to use them, and I think this sense of value will be more ordinary.

Change of Consumers' Sense of Value 2

Next, this is a data for "Not Satisfaction by Possession But Contentment by Using".

The source of this data is from Nomura Research Institute; "A" indicates an answer of "no hesitation to rental and leasing activities", and "B" does another one of "want to own things to use myself as much as". Alongside 1985, it's very closing to A, or this data says clearly more people have not hesitated to use rental and leasing services.

Change of Consumers' Sense of Value 3

Next, here is another data for "To Consumption Style Reform Fits You".

This data is also according to Nomura Research Institute. The amount of consumers with "Buying something cheapest and economical" has decreased a bit in comparing to in 2000. On the other hand, thoughts of "Buying higher-quality goods despite a little expensive" and "Choosing merchandises concentrated on my lifestyle" are spreading.

Change of Consumers' Sense of Value 4

Finally, I'll touch on "Highly-needed Cashing, and Increasing of Amount of Consumers Prioritize Resale Value can be Expected".

This shows "Reasons to Sell Your Discarded Items to Second-hand Store".

34.8 percent of respondents answered the cashing need matter such as "want to encash them even a little". Besides that, they said like these: "a waste of discarding", "want to clean up the room", and "it's a social good deed".

As I expected, it is really needed, and such thoughts are spreading mainly because the information society is advancing and they've been used to reuse.

What are Smart Consumers in our definition?

Under such a situation, I would like to explain "What are Smart Consumers in our definition?".

That's "Consumers Pays Attention to Both Absolute Value and Relative Value".

Once Consumers Paid Attention to Relative Value were Minor, But ...

Originally, consumers paid attention to relative value were minor, but the segment of those who prioritize the value has been being widened significantly.

The "absolute value" means that goods you bought can make you satisfied, and the "relative value" does that goods you bought can have resale value, or which for society.

These consumers are increasing

We've recognized that the segment is expanding day by day.

Moreover, we think the number of such smart consumers is increasing, and we are planning to expand the amount through our online services.

Target Segment of Smart Consumers is Expanding

Initially, in a smart-consumptive sense, something with resale value was about investments.

But, in this situation, we could recognize smart consumers in other segments such as "luxury goods" and "high-class items and expensive-hobbies".

Changes in Smartphone Penetration Rate

Next, I will talk about changes in smartphone penetration rate.

Probably, due to "it's easy to search for goods and compare to prices", such the number of smart consumers is increasing. Also, in the mid of 2020, DoCoMo will abolish the 3G network, and feature phones will have been useless day by day. So, the rate will increase more, and "Smart Consumption" will be advanced.

Providing Online Services for Increasing Smart Consumers

Regarding this "Providing Online Services for Increasing Smart Consumers", we've created our business portfolio.

Required Elements to Business Portfolio

Roughly speaking, there are these elements: "Platform", "Merchandises and Measures", "Information Media" and "IT as the foundation".

Our Business Portfolio until 2014

At first, our core business was concentrated on the flea market, and we sold the business out in 2013. After that, in 2014, we embarked on the online used buying services business based on "Takakuureru.com" (roughly translated in English, You Can Sell at High Price), our core online service of C to B purchase of general merchandises.

Our Business Portfolio from 2015 to 2016

Regarding 2015 to 2016, in addition to this Takakuureru.com, we started our e-commerce service named as "ReRe" and established a subsidiary of "ME Mobile" dealing with used mobile phones and telecommunication field.

Our Business Portfolio in 2017

In 2017, we began "ReRe Rental", home delivery rental service, and "Noukigu.Takakuureru.com" (You Can Sell Agricultural Machines at High Price) as an agricultural machine specialty used buying service; also, "Magazine of Takakuureru.com", "BEGINNERS", and "Cheap SIM iPhone Info".

Our Business Portfolio in 2018

In 2018, regarding the specialty, we launched two online services of "Kenki.Takakuureru.com" (dealing with construction machinery) and "Medical.Takakuureru.com" (dealing with medical instruments).

Our Business Portfolio at the end of 2018 to the beginning of 2019

A few days ago, at the end of 2018 and beginning of 2019, as our platform, we've acquired "oikura.jp" (roughly translated, How Much Is It?), the online matching service for second-hand goods.

And regarding media, an asset purchase, we've gotten "OUTLET JAPAN", the portal site specialized in outlet mall including detailed store information.

Concentrating on IT, it is the foundation of the development of our entity business, and we are concentrating on data-driven marketing for the promotion of businesses.

Our Business Portfolio

Along with the above-described background, in summary, our core business portfolios like these: C to B Platform, C to B to C reuse business, B to B reuse business such as agricultural machines, construction machinery, and medical instruments for small-scale businesses and corporations, and portal site to delivery some information.

C to B to C reuse business 1

I'll explain the comprehension of the current situation and future strategies.

First of all, this shows the size of the reuse market. Although the latest data is a version of 2016, this said the average annual growth rate of 107 percent, 1 trillion 7,743 billion yen. According to the indicator of "going to reach 2 trillion yen in 2020", you could get this market firm and expand. In our overview, the growth of the market is sustainable.

C to B to C reuse business 2

First of all, we are aiming to steady growth, improvement of productivity, expansion of business concentrated on reuse.

C to B Platform 1

Our breaking down trends of reuse market, regarding the headline of the Internet, it's increasing 18 percent year average including C to C and online section. On the other hand, regarding second-hand store with the actual location, it's decreasing 2 percent annual average. Although I talked like "entity reuse business is expanding", where the market is slowing, and there is a little difference in this business scene.

C to B Platform 2

So, this is "Commercial Statistics" Ministry of Economy, Trade, and Industry has taken. Whereas the market of B & M (Brick and mortar) business looks down a little, the number of reuse stores is increasing.

C to B Platform 3

As a result, in the current structure, despite the increase, B & M reuse store companies have some difficulty to take on many buying requests or attract their customers.

This time, as one of C to B platformers, we've gotten the transfer of the business of "oikura.jp" from PROTO CORPORATION. That platform has (about) to 1,400 participating second-hand stores nationwide. And, we've planned to generate a synergic effect with both that platform and our high-traffic and attractive online used buying services.

As current counting, there are monthly about 40,000 buying requests from the general public. Regarding this "oikura.jp", it's about 12,000 buying requests from the general public. By summing them, monthly offerings are about 52,000, and annual offerings are over about 600,000.

Although there are some areas where we could not have gone to buy goods despite offerings and there are merchandises with which we could not have dealt physically, our 1400 participating stores can deal with much of them in the whole country. We can expect to produce a synergic effect on the expansion of areas.

B to B Reuse (for Small-scaled Businesses and Corporations)

This shows "B to B reuse for small-scale businesses and corporations". In this market, E-commercialization implementation rate is low including logistics physically, so it's hard to deal with C to C buying and selling. Alongside that, we've taken participation in the market with B to B reuse business model.

Especially regarding agricultural machines, with consideration in the average age of 67-year-old farmer, due to many farm exit and expansion of the scale of agriculture, selling needs of reuse machines are increasing.

Regarding this, we are going to build a market like our recent construction machinery and medical instruments.

Changes in Our Owned Media Page Views

It's our owned media, and we have four such as "BEGINNERS" we started in May 2017, the most recent acquisition of "OUTLET JAPAN".

Compared with page views in January 2018, increasing of traffics and PVs is about 7 times larger in January 2019. Since it's great, we will promote such a smart-consumptive service development.

We are going to focus on the expansion of both our transfer customers to online services and new sources of income.

Owned Media

I believe owned media will be divided roughly in half, one is "consumption-wise" media, and another is "how-to dealing" media.

I would like to touch on "Cheap SIM iPhone Info", one of our online media. Now, (amount of) traffics are increasing with stability, really wide noticed market these days. Until September 2019, it'll have been the law to unlock SIM of used smartphones.

Regarding this, until now, in the case of used smartphones, you do not have to make SIM unlocked. On the other hand, since September 2019, mainly in used mobile phones market, you can choose them more smartly. In our forecast, that market will be greatly expanding.

And this is about "Outlet Malls". Regarding it, too, the size of the market is significantly increased to 800 billion yen. In 2018, the number of Japan-bound tourists has been over 30 million people, so some of them often visit outlet malls.

Having provided online services for second-hand goods, we've promoted "smart consumption". So, I think it becomes profitable to expand our online media with such a new style of consumption activities.

"BEGINNERS" is an online media for beginners of rental services. Value-based consumption infiltrates in public day by day. That's not just consumption but "valued-base" consumption. Moreover, regarding reuse, we've created "Magazine of Takakuureru.com", an online magazine media to spread information on how to sell and dispose of your goods.

Search Service for the Market price of Used Smartphones Released on September 2018

This is an extract from the contents of "Cheap SIM iPhone Info".

We released a search service for the market price of used smartphones. This also lists the dealt numbers and prices of smartphones from main online services such as Yahoo! Auction, Mercari, Rakuma, and "Musubi". I suppose its needs would be widened from now on.

Investment Strategy

This is our whole Investment Strategy.

We started a new business with business incubation and M&A at first, then willing to widen the investment. We are going to invest positively on current lively markets including the specialty field.

In the right side is about continuous innovation. In the market having the potential of reusability, we are planning to recover our profits with stable growth and increasing production.

Financial Highlights FY2019 2Q

We will go on to the medium-term results of June 2019 (fiscal year).

Sales of last year (numbers from medium-term results of June 2018) was 2,914 million yen. This medium-term, we have 3,832 million yen for it, and it will be 31.5 percent higher growth in contrast.

Also, although the amount was very small, the gross profit is 150 million which is 30 times larger than last year(5 million).

Changes in Operating profit

This is our Analysis of Changes in Operating profit.

The reason for 0.7 drops of sales gross margin is 2,800 thousand yen.

Although it is influenced by 206 million increase in sales, general, and administrative expenses, the increase of revenue to 918 million covered it.

As a result, its leverage effect becomes 380 million and achieved significant growth.

Transition of Quarterly Inventory

This is our transition of quarterly merchandise inventory.

As the background of that increasing buying of more 36 percent compared to 1,300 yen in 2018, since we recognize inventories as things contribute to the next quarter of the revenue, the graph is accumulated.

In spite of such an accumulate inventory, our balance sheet has been like this. We think it's a cool change in our perspective.

Balance Sheets Summary

This is the counting of balance sheet summary.

Total Regarding debt has increased 49 percent, it's used as working capital and cost of M&A of "oikura.jp" and "OUTLET JAPAN" at the end of 2018 in and the beginning of 2019.

Earning Forecast

At last, we'll touch on the forecast of achievement.

As you've viewed, it has been revised upward; sales are 80,065 million yen, and the gross profit is 245 million yen.

Annual Sales

This is sales trends to date. It's forecast to be rising 13 quarters in a row.

Changes in Ordinary Profit

This is changes in ordinary profit.

We've been increasing profit steadily as growth period until listed on Mothers, and then established the reuse center and contact center as a new center and made an aggressive investment for our new businesses.

Thanks to that, just now, some contributions to this profit have started to be seen.

For this 2019 year ending June 30, our in-house corporate slogan is "RISING", which means "let's advance". So, we are going to build a foundation to grow sustainably.

That's all our briefing. Thank you.