

MarketEnterprise Co., Ltd. FY2020 Financial Results Briefing

We would like to begin the Financial Results Briefing of MarketEnterprise Co., Ltd.

for the fiscal year ended June 30th, 2020. Thank you very much for joining this briefing despite your busy schedule. My name is Kenichi Imamura, director and CFO of MarketEnterprise and today's briefings moderator.

Hello, I am Yasushi Kobayashi, the company's president, and CEO.

On this occasion, as you are all aware, to prevent the spread of Covid 19 we are going to have this briefing session online, for the first time. Since it is the first time, some inconveniences might occur, but we hope for your understanding and that you will stay with us until the end.

I will start today's briefing with the announcement of the results of the fiscal year ended June 30th, 2020, and then, the company's president and CEO Kobayashi will follow up with an explanation of the management strategy for the fiscal year ending June 2021.

< Results for Fiscal Year Ended June 30, 2020 >

Without further ado, I would like to explain our financial results.

【Impact of Novel Coronavirus on Performance】

Firstly, we begin with the impact of Covid 19 on the company's performance. I would like to briefly explain the impact of each segment. Starting with the second-hand online business, which is our core business, we consider that the Covid-19 impact was almost flat. As shown in the overview, we had to temporarily reduce the office hours and refrain from doorstep purchases, which is our main purchase method, so as result, the purchase activities were sluggish during the March-May period. But, after the state of emergency was lifted, demand has been steadily recovering. Agricultural equipment, on which we have been focused in recent years, continued to perform well.

Regarding the 2nd segment, media business, perhaps a slightly improper choice of words, but Covid 19 had a tailwind effect. As you are all aware, due to the Covid-19, the needs for the so-called "stay-home" lifestyle have increased significantly and we have been releasing more and more online service introductory articles, mainly about communications & hobbies. So, regarding the media business, the needs have grown significantly.

Finally, the mobile & telecommunications business, here we experienced the tailwind effect as well and it positively contributed to the results. An increase in teleworking, which was triggered by Covid 19, resulted in special demand for improvements in the communication environment during the 4th quarter from April to June.

This was a summary of the impact of covid 19 on our company's performance.

【Consolidated Statement of Income】

Moving on to the consolidated statement of income, based on the just mentioned information, we achieved a record high in net sales and all profit categories. In addition to that, operating profit increased significantly on the back of improved SG&A expenses ratio. The operating profit ratio has improved as high as 6%.

【Factors for Changes in Consolidated Operating Profit】

Regarding the factors for changes in consolidated operating profit, despite the temporal increase in expenses due to business growth, operating profit increased by 45% year on year. From previous fiscal years operating profit, which can be seen on the far left, 452 million yen, the gross profit has increased to 809 million yen, due to increased revenue from business growth. As a result of the mentioned business growth AG & sales expenses, labor costs, advertisement costs slightly increased, but the ratio of the cost to the revenue shrank. The amount is higher, but the ratio is lower overall. And the goodwill amortization increased due to the implementation of 4 M&A's in the previous fiscal year. Also, due to the subsidiary establishment, & M&A's due diligence, initial costs of 21 million yen were incurred, but when they are deducted from the increased revenue, operating profit results in a 45% increase year on year, in total 655 million yen.

【Consolidated Balance Sheet】

Moving on to the Consolidated Balance Sheet, as can be seen on the slide, on the year on year basis, a big change occurred on the account receivable-trade.

From approximately 500 million yen in the previous fiscal year, it has increased significantly to 1,283 million yen at the end of June 2020. This reflects the remarkable growth in the 4th quarter performance by the mobile & communications business, which I mentioned earlier, and that, a big amount of account receivable trade remained at the fiscal year-end. In the non-current assets, an increase can be seen in the building and lands section, due to business acquisitions. In addition, borrowings have increased from last year by approximately 768 million yen to a total of 1,324 million yen. The main reason for this is business acquisitions & the need to secure ready liquidity in the fourth quarter due to the high uncertainty of the economic situation during the corona stagnation. The degree of growth differs by business & segment, and there is an increase in accounts receivable, but overall, we believe that the company's reasonable financial health has been maintained.

【Consolidated Statements of Cash Flows】

Following with Cash Flow. First and foremost, I would like to explain why cash flow from operating activities fell into the negative area, despite the increase in revenue and profit. If you look at the second item in this section, accounts receivable trade, it might be easier to understand. Accounts receivable trade have increased by about 500 million yen, resulting from higher sales towards the year-end, so the cash flow operating activities had to be posted in a negative figure due to the cut out at the end of the term.

<Results by Segment>

Now moving on to the results by segment

【Second-Hand Online Business - Performance Overview】

Second-hand online business. Although performance remained steady up to the third quarter, in the 4th quarter, the state of emergency was declared, and we had to reduce business hours. In addition to that, the inventory adjustments involved in M&As reduced the volume of products to be allocated for sales in the 4th quarter, therefore both net sales and segment profit in the 4th quarter showed the lowest amount

among all quarters in the year. However, we have accumulated the inventory to make up for it, and made a good start in the current period, ending June 2021. So, we hope, that you will recognize, that the above figures in the 4th quarter indicate only a temporary state.

【Second-Hand Online Business - Net Sales Ratio By Product】

Next, the breakdown of sales. In addition to the existing focus categories, which are displayed, it can be seen that the agricultural equipment has been steadily increasing its importance. It increased by about 67.8% year on year.

【Second-Hand Online Business - Number of Purchase Requests and Inventory Transitions by Quarter】

Now you can see the Number of Purchase Requests and Inventory Transitions by Quarter, the KPI part for the online second-hand business. Firstly, the left section shows that the number of monthly purchase requests stayed around 40,000. Traditionally the 4th quarter was a profitable business season, but due to shorter business hours, 4th quarter sales declined. However, the inventory on the right side, shows excellent results in the 4th quarter, 384 million-yen, way above the level of the previous year.

【Second-Hand Online Business - Inventory Turnover and Average Unit Sales Price】

Continuing the online business, with inventory turnover and average unit price slide. The inventory turnover can be seen on the left and compared to the previous fiscal year ending June 2020, the turnover fell about three points. This is due to a decline in sales volume, caused by delays in sales in the 4th Quarter. It dropped to 10.3 rotations, however, we considered that this was only a temporary factor. The average sales price on the right side of the slide, hit a high level of 32,000 yen, thanks to the Handling of large, high-priced products.

【Media Business - Performance Overview】

Moving on to the second segment, media business. As you can see in the graph at the bottom of the slide, the company sales increased significantly towards the 4th quarter, despite Covid-19. This is due to the launch of new iPhones from March to April and stay-home lifestyle, essentially due to a special demand under an extraordinary environment in which net sales continued to move upward in the 4th quarter.

【Media Business – Average Monthly Page-View by Quarter】

Next, you can see the Average Monthly Page-View by Quarter, which is the KPI for the Media business. It has been growing steadily each quarter. In the 4th quarter, it grew to as much as 12.5 million page views.

【Mobile & Telecommunications Business - Performance Overview】

For the last business segment, the Mobile & telecommunication business, I may repeat the same explanation as I did for the media business. In the 4th quarter, thanks to the extraordinary demand under Covid-19, as shown in the graph, both net sales and segment profit expanded rapidly.

【Mobile & Telecommunications Business - Transitions in Number of Retained Lines】

This is a bar graph, which compares data from the fiscal year ending June 2019 and fiscal year ending

2020. The number of retained lines owned has doubled from 33,000 at the end of June 2019 to 63,000 at the end of June 2020. Our group company expects that this will further contribute to our business in terms of stock-type earnings. We consider that this will enable us to achieve stable earnings, which have been difficult to secure substantively.

I have explained our financial data in respect of each business segment, now based on that we would like to explain our management strategy for the fiscal year, ending June 30th. We have Kobayashi, our representative CEO to explain.

Management Strategy for Fiscal Year Ending June 30, 2021

Hello again, I am Kobayashi. Thank you for staying

I would like to explain management strategy for the fiscal year ending June 30th, 2021 & Focus business areas and earnings forecast for the fiscal year ending June 2021

【Management Strategy】

P.19 【MarketEnterprise Co., Ltd. Origin of Name】

Please allow me to explain the meaning of our company name once again: MarketEnterprise.

"Market" in English is self-explanatory, and the word "enterprise" also entails the meaning of "adventurous creation". We established this company with a vision to create new markets. Currently, we are aiming to become an optimized trading company with second-hand as its core, through developing new various businesses.

【Expanding Target Customers and Business Model】

Until now, our target customers and business model were the features described on the left side, but from the current fiscal year, there has been a slight shift and some expansion about which I want to explain further on.

Previously we were pursuing to be a company that can offer various options to smart consumers, mainly individuals residing in Japan. As for the business model we have been based on in-house purchases and sales, a self-contained model.

From the fiscal year ending June 2021, domestic and overseas corporate partners will be added as target customers. For our self-contained, self-purchasing, and self-selling business model we have made a new addition, which is a partner co-creation model that is created by sending advertisements to partner companies and developing marketplaces.

【MarketEnterprise Group - Goals】

It is an expanded form of a traditional business concept.

We would like to set the following goal: an optimized trading company for the creation of a sustainable society. As always, we are going to strive to become a company that can offer various options to smart consumers and establishes a second-hand circulation business with domestic and overseas corporate partners. Japan is a developed country that also faces many challenges, such as a falling birthrate, an aging society, and environmental issues. We are planning to address these challenges as an optimized trading company.

【MarketEnterprise Group - Policy】

The slide shows you the 17 SDGs established by the United Nations. We are going to advocate those goals as principles for our management.

【Connections between SDGs and Businesses】

There are three major initiatives for the realization of a sustainable society. One of them is the promotion of second-hand oriented culture. Since the foundation, we have been engaged in developing a second-hand online business, in which we purchase goods from customers and resell them so that we can contribute to the creation of a sustainable society.

In addition to that, concerning the 2nd, 3rd, 6th, and 12th SDGs, we will circulate used equipment lying dormant in Japan, internationally. We would like to create a more sustainable society by re-selling overseas, often unused, undistributed products, such as agricultural machinery, construction equipment & medical equipment.

In addition, as can be seen on the right side of the slide, we would like to contribute to the 8th SDG Decent Work and Economic Growth. We would like to support the growth of small and medium-sized enterprises through DX promotion by utilizing the know-how and resources that we have cultivated so far.

【MarketEnterprise Group - How We View DX】

In the first place, how do we defy DX? “Enabling companies to respond to rapid changes in the business environment by using data and digital technologies to transform products, services, and business models based on customer and societal needs, as well as transforming their operations, organizations, processes, and corporate culture to establish a competitive advantage. This is a guideline issued by the Government Ministry of Economy, Trade, and Industry, but we believe that it should be given top priority by companies as well, for sustainable development and growth

【Our Foundation for Supporting DX Promotion】

Our company was established on the foundation of web-based marketing. In 2006, when the company was established, we were engaged in e-commerce sales of second-hand electric parts and attracted customers on the Web by expanding the flea market nationwide. In addition to that, in 2008 we started an online second-hand business and currently, we receive over five hundred thousand purchase requests annually and are proud of our ability to attract customers via web marketing.

Regarding the accumulation of EC knowledge, we have been developing EC purchasing and sales since the establishment of the second-hand business. Currently, we have accumulated a lot of experience by becoming the number one company in terms of most sales in domestic online auctions and we have also set up 10 distribution sales offices nationwide. In terms of system development capabilities, we are currently developing an all in one built-in system for online distribution fully in-house. In addition to such technological development capabilities, this time we have also established an offshore development system. With these three mentioned strengths combined, we are going to support the government's DX promotion.

【MarketEnterprise Group - DX Promotion Support】

For the main supporting structures for DX promotions support, first of all, the platform. To provide a fair and safe place to trade, the second-hand online business platform [Oikura] has been established and since then, almost a thousand shops have joined it and we believe the platform will serve as a good marketing tool.

In the media platform, you can also see the "used machine market" or "UMM" and "Saiyasushuri.com", or the "lowest price repair". This service is a platform to sell second-hand agricultural equipment and to offer repair services to such machines. Here we will attract the market to support our partner companies. For online marketing support, as shown in the middle, we are developing article type based media that will serve in raising customer awareness and supporting sales promotion through internet media. In this way, in addition to attracting customers to our company, we would also like to accelerate efforts to support various partner companies through the media.

We also provide internet infrastructure and construct an affordable and secure internet environment through our "Smart mobile" or in Japanese "Cashimo".

By expanding the options for smart consumption, since our establishment, and by developing a second-hand oriented business together with domestic and overseas, individuals and companies, MarketEnterprise Group will be supporting the promotion of DX and will be an optimized trading company for the creation of a sustainable society.

<Current Status of Businesses and Growth Businesses>

I will proceed with explaining each businesses current Status and Growth

【Growth Stages by Business, previous year (2019.6~2020.6)】

Growth Stages by Business from the previous fiscal year.

Blue boxes show the performance in the previous year, driven by media, mobile & telecommunications businesses. While the red boxes describe the acquisition of necessary business resources through M&A. Media and Mobile & telecommunications businesses grew significantly in the previous year and were a major factor in business performance.

【Growth Stages by Business, Current】

This slide shows the current growth stage for each business. In this fiscal year, second-hand online business will drive the companies' performance. As shown in the blue boxes, agricultural equipment, and Oikura are in the business expansion and sales growth period respectively, so we would like to drive sales comparing each business, in the stable growth period.

<Agricultural Equipment>

Next, I would like to talk about agricultural equipment

【Transitions in agricultural equipment sales】

This slide shows a transition in agricultural equipment sales. Purchase and sales have been expanding steadily as compared with previous quarters. Year on Year basis the business expanded 1.7 times in the 4th quarter. The 3rd quarter showed a downward trend due to being offseason, but recovery is apparent

in the 4th quarter.

【About ME Trading Co., Ltd.】

As we reported in the 3rd quarter briefing on April 28th, 2020, newly established subsidiary ME Trading Co., Ltd. acquired agricultural equipment business from OHO TRADING CORP., an overseas exporter of used agricultural equipment. Through the bases located in Tottori City, Tottori Prefecture, and Oyama City, Tochigi Prefecture, we are now able to have a system for cross-border EC and overseas export in containers. This company sells in 80 countries and 70% of sales consist of overseas export. It is one of the largest agricultural equipment export companies in Japan and we are expecting a good synergy effect.

【About UMM】

We also announced on May 15th, a 2020 newly established subsidiary UMM acquired JUM, one of Japan's largest marketplace in used agricultural equipment. UMM stands for Used Machine Market and it mainly specializes in used agricultural equipment. Gross Merchandise Volume was 1.2-billion-yen last year. The total of registered agricultural machinery dealers is 726 and the number of farmer members stands at 4,849. Thus, a marketplace that focuses on agricultural trade has joined our company.

【Agricultural Equipment: Effects of Acquiring (1)】

Regarding the effects of the 2 acquisitions, first, in terms of purchasing, direct purchase from equipment dealers became possible. As for sales, the range has expanded, due to exports through our channels and our marketplace. To explain it simply, although before we were only able to purchase from individual farmers, currently the range has expanded to include purchases from each business owner as well. Besides, due to the overseas export and cross border EC functions, starting from being only able to handle equipment which can be distributed in Japan, we became able to purchase equipment, which can't be sold in Japan, but is in demand overseas.

【Agricultural Equipment: Effects of Acquiring (2)】

Concerning the second effect of acquisition: In addition to our original 10 sales offices, we have added Tottori and Oyama ones, thus expanding the sales target area. Before the acquisition, we have managed logistics with 12 partner companies and now 135 equipment dealers have joined our business. In ME Trading there are additional 200 purchased companies, so we have established a structure for purchasing and selling with each business owner.

【Agricultural Equipment: Future Strategies】

For purchase, now that we have more sales offices, we will focus on expanding purchasing channels. In addition to focusing on increasing purchasing through our equipment dealers, we will work to build relationships with manufacturers and JA's.

As for sales, we will work to expand exports through our capacity for processing exports and developing overseas brokers. We will furthermore prioritize improving recognition of our marketplace, and in the fiscal year ending June 2021, building the infrastructure.

<Oikura>

Moving on to Oikura business

【Oikura - Overview】

Oikura is a nationwide matching platform for buyers and sellers of second-hand products. When a general consumer registers on Oikura and tries to sell a product, a maximum of up to 20 second-hand shops nearby will send estimates. We are planning to expand this system.

【Oikura - Previous Year's Measures (FY2020)】

In the previous fiscal year, we focused on solving two described issues. Originally, there was a problem when customers were sent to partner stores which were unmotivated to buy. To address such issues, we improved matching logic through system renewal. In addition to the distance between clients and Second-Hand shops, past purchasing performance was added to parameters that are used when matching customers. This way, we were able to improve matching accuracy. In addition to that, although we didn't have many contacts with partner stores, a partner store support team was created and we build a system that would distribute knowledge content online, via websites like Youtube.

【Oikura - Transitions in Numbers of Purchase Requests】

Moving on, the number of purchase requests via Oikura has been rising since the business was acquired in February 2019. We started the collaboration in the first quarter of the fiscal year ending June 2020, but because there were cases when supply-demand mismatch happened between sellers and partners, we revamped the matching logic which I mentioned earlier. Although we stopped sending customers from our company temporarily after the matching engine was renewed the performance began to rise again and we have had good results in the 3rd and 4th quarters.

【Issues and Measures for Oikura this Fiscal Year (FY2021)】

Now Issues and Measures for Oikura this Fiscal Year, in this fiscal year we will begin working to resolve the issues shown, with an eye toward full-scale expansion. Firstly, we only had a small number of purchase requests via Oikura, so we will take measures to increase purchase requests. The first measure is to expand the collaboration with Takakuureru.com. The second is to start partner collaboration programs. I will come back to these points later. The second issue is that there was a varied number of purchase requests and offers, depending on the location of partner stores and our solution is to plan to upgrade to a region independent matching system.

【Oikura - The measure to increase Purchase Requests】

Now returning to the previous measures 1 and 2. Originally, we had 30 purchase-specialized web sites, but first, we started to cooperate with customers of the core site called Takakuureru.com. In addition, from July 7th, 2020, we started full-scale cooperation with 22 purchasing sites. Specifically, we started cooperating with Oikura, by using products which were difficult for us to purchase or quote, or products which are not suitable for e-commerce, such as large equipment scattered all over the country or difficult for individual owners to deliver and matched them with customers. We also started partner collaboration programs to increase the number of customers. This time, not only using products that are difficult to

purchase but a program that would connect affiliated companies directly with Oikura. Last week we released a joint business announcement on the program, with a local real estate company. We would like to start collaborating with each company in the future. In this way, we plan to increase purchase requests.

【Oikura - Region-Independent Matching System】

In addition to expanding the number of purchase requests, we would like to improve the region-Independent Matching System. Currently, quotations are received from up to 20 recycle shops that are close to the customer's location, but depending on the area, many recycling shops are very motivated, but also in other areas there a lot of inactive ones. Under such circumstances, by building a system that allows active and accurate recycling shops to participate in estimations, we plan to modify the current system so that customers' purchase requests receive offers from Second-Hand shops across the country. By improving the region depended, as well, as region independent response, we are going to build a region independent matching system.

【Image of Oikura's Growth】

If we manage to implement the earlier mentioned measures during this fiscal year, we will start looking toward a full-scale expansion through TV commercials and other forms of mass marketing as well as aim to increase the current number of purchase requests to 1 million at the earliest date possible. We plan to increase the number of requests from just over 200,000 in the previous fiscal year to just over 40000 this fiscal year and aim for 1 million as soon as possible.

【FY Ending June 30, 2021 - Strategies by Segment】

Now, Strategies by Segment. For Second-Hand online business, in addition to the Oikura platform and agricultural equipment, we are going to improve the ability to attract customers by further improving the precision of online marketing. Furthermore, we are planning to promote operational efficiency through digitization and standardization of business processes. By using Oikura, for cases that were difficult to purchase, we believe that we can increase the efficiency of second-hand usage by individuals and further promote second-hand online business.

In the media business, we would like to continue expanding the content in operated media to increase the domain value. Furthermore, we would like to improve both the number of customers sent and the cost per customer sent.

Regarding the Mobile & telecommunications business, we are going to enhance online marketing and expand the service line-up, by focusing on an increasing number of new subscribers.

< Earnings Forecast for FY Ending June 2021 >

Moving on to Earnings Forecast for FY Ending June 2021

【Earnings Forecast for this Fiscal Year】

The Net Sales we have stated as between 13,5 to 14,5 billion yen, a 23.8% to 33% increase year on year, but In FY ending June 30, 2021, we expect double-digit revenue and profit growth, and are forecasting record-high earnings.

Under the Covid-19 pandemic environment, the outlook is uncertain therefore we are announcing a

range of sales and earnings, but at the median, we expect double-digit sales and profit growth of 14 billion yen and operating income of 815 million yen. This is all for the forecast for the fiscal year ending June 2021.