

## **MarketEnterprise, 1H Net Sales Hit Record High, Up 35.1% Year-over-Year Expand to 5.17 Billion Yen**

This is a transcript of the 2nd quarter financial results briefing for the fiscal year ending June 2020, Market Enterprises Co., Ltd., held by the Securities Analysts Association of Japan on February 18, 2020.

President & CEO of MarketEnterprise Co., Ltd. Yasushi Kobayashi

### **FY2020 2Q Financial Results Briefing for the Fiscal Year Ended June 2020**

Kobayashi : Thank you for coming to our company's financial results briefing today. We will now begin to explain our interim results for the fiscal year ending June 2020.

As for today's agenda, I'd like to start with a company outline and a business outline. As I mentioned before many times, I think some of you are new, so let me explain.

### **Company Overview**

MarketEnterprise was established on July 7, 2006, and has now entered its 14th term. Our corporate philosophy has been "We will continue to develop a business to build a Win-Win relationship and remain as a core group of people who truly enjoy business." since our founding.

The business is divided into three segments: second-hand online business, media business, and mobile & telecommunications business. A total of 363 people are involved in the business.

### **What is MarketEnterprise**

As for the origin of the company name, in addition to the word "market," the word "enterprise" includes the meaning of "adventurous creation". We established this company to continue to create markets. Currently, we are developing various businesses to become an optimized trading company with second-hand as its core.

The aim of "optimized trading company" is to become a company that can provide consumers with a wide range of options in an age when the era of mass production and mass consumption is over and smart consumption including rental and sharing is diversifying, such as price comparison and mutual buying and selling.

### **Company History and Change in Net Sales**

Now in its 14-year term, we have been operating in a smart consumer's market centered on second-hand since its establishment in July 2006.

At the time of our founding, we started our business with "Kakuyasu denchi.com" and flea markets "Rakuichi Rakuza", and in October 2008, we started the second-hand online business with "Takakuureru.com".

Subsequently, we were listed on the Tokyo Stock Exchange Mothers in June 2015, launched our mobile & telecommunications business in September 2016, and launched our media business in January and March in 2018.

Sales have increased for the 13 consecutive fiscal years since its establishment and are expected to increase in the 14 fiscal years.

## **Business Portfolio**

This is our company's business portfolio. It is divided into three businesses: second-hand online business, media business, and mobile & telecommunications business. We are developing multiple business portfolios to provide optimal services to the many people who desire smart consumption.

## **Financial Highlights of FY2020 2Q**

Let's move on to the topic of financial summary. As for the consolidated financial highlights for the interim period to June 2020, net sales were 5179 million yen, up 35.1% year-over-year, a record high for the first half.

Operating income rose 2.1 times to 309 million yen, marking the highest record for the first half of the year. The operating profit ratio rose by 2.1%, from 3.9% to 6.0%.

## **Net sales by Segment: First half of the fiscal period ending June 30, 2020**

This represents net sales by segment for the first half of the fiscal year ended June 2020. From this fiscal year, we will explain the three business segments. As a result of the profitability of the two new businesses, the second-hand online business recorded a steady growth of 14.1% year-over-year.

Also, sales in the Media business increased 6.1 times and those in the mobile & telecommunications business increased two times. After a two-year strategic investment period, two new businesses grew rapidly.

## **Changes in Net sales (in the last 3 years by quarter)**

As for the sales transition, here is the record for three years by quarterly results. In the media and mobile & telecommunications businesses, we achieved the highest quarterly sales in the first quarter, due in part to a special demand for increased media traffic accompanying the launch of the new iPhone in September, 2019.

In the second quarter, sales in the mainstay second-hand online business were lower than in the first quarter due to a temporary decline in sales due to the impact of a typhoon in October. However, in the 2nd quarter, sales exceeded 2.5 billion yen consecutively and remained strong, resulting in an increase of 22.8% year-over-year.

## **Changes in Net sales (in the last 3 years by half period)**

It is divided into the first half and the second half of the year, and there are three-year results. In our mainstay second-hand online business, we purchase a large number of goods for life-changing terms such as March, April, and May. As a result, sales time is concentrated in the fourth quarter, so net sales tend to be biased toward the second half of each year.

At this point, we have decided not to change our full-year earnings forecast, but we expect the same outlook as in previous years.

## **Changes in Operating Profit and Operating Profit Ratio (in the last 3 years by quarter)**

These are the operating profit and the operating profit ratio is shown quarterly over the last three years. This represents a significant improvement over the previous second quarters, following a two-year strategic investment period.

As with net sales, the media and mobile & telecommunications businesses posted record operating income for the first quarter due to special orders in September. Although it decreased in the

second quarter due to a reactionary decline in the media business and mobile & telecommunications business, it increased by 7% year-over-year.

Since the second quarter of last year, this was also the time when we achieved results in media and mobile & telecommunications businesses. So, compared to that, the growth rate appears to be low at 7%, but I think we have completed the first half at a very good level.

### **Changes in Operating Profit and Operating Profit Ratio (in the last 3 years by half period)**

This is the operating profit for the first and second halves of the fiscal year. Operating profit tends to be more biased than sales in the second half of each year. A large number of materials were purchased from March to May when our mainstay second-hand online business is undergoing a transition, and sales will be concentrated in the fourth quarter from April to June.

### **SG&A Expenses and Changes in the Number of Employees**

I will explain about selling, general and administrative expenses and transition of the number of employees. Although labor costs are on the rise due to increased hiring, internal productivity is increasing as a result of increased operational efficiency and IT adoption.

The ratio of SG&A expenses to net sales is steadily decreasing, and the ratio is steadily improved.

### **Changes in Consolidated Balance Sheet**

This is the change in the consolidated balance sheet. As goodwill was raised due to the acquisition of the "SIMCHANGE" in the 1st quarter, non-current assets increased by 26.9% from the end of the previous fiscal year.

Borrowings increased by 48.4% due to the implementation of loans for satisfying for the transfer of business and working capital.

### **Second-hand Online Business: Overview (1)**

We will now review our business by segment. In the second-hand online business, in addition to second-hand products for individuals, we are also focusing on large-scale commercial products for corporate customers, such as agricultural equipment, construction machinery, and medical equipment.

Besides, we acquired the "Oikura" in February 2019 which is a matching platform for buyers and sellers of second-hand goods across Japan. We have been trying to strengthen synergies since we started working with "Takakuureru.com" at the end of June 2019.

Here, too, is the general outline of the second-hand online business. The business model of our company is C to B to C, where individual consumers purchase the products and we sell them to individuals.

### **Second-hand Online Business: Overview (2)**

We are requested to purchase from 30 websites that specialized in purchasing. Formerly, the second-hand industry was that they did not tell customers the purchase price in advance and did not know how much it would cost. However, our company implemented for the first time the "primary assessment" in which all the database of successful bids and price comparison data from past auctions are taken in and the purchase price is announced in advance.

We inform customers of the price in advance and then use our network of 10 locations nationwide to purchase and can select purchase methods of home delivery, door-to-door, and over-the-counter.

Also, we provided a system to link the inventory of second-hand products. The model realizes very high turnover by the system to sell products at the same time through YAHUOKU!, Rakuten, Amazon, and our own EC "ReRe".

### **Second-hand Online Business: Purchasing Vertical Websites**

Currently, we have 30 buying-only vertical websites. We receive approximately 40,000 purchase requests per month.

### **Second-hand online Business: Strengths of the Business**

There are four strong points. These include primary assessment by the contact center mentioned earlier, three purchasing channels, a nationwide network of purchasing bases, and standardized operations. Our company have the highest sales volume on auction site in Japan.

### **Second-hand online Business: Changes in Net sales (in the last 3 years by half period)**

The trend in net sales for the second-hand online business is shown every quarter over three years. Net sales rose 14.1 percent to 3.454 billion yen, marking a half-year record.

We will receive a lot of purchase requests from March to May on the second half of the fiscal year, so we expect this to happen again this fiscal year.

### **Second-hand Online Business: Net Sales and Segment Profit (Quarterly Comparison)**

Quarterly comparison of net sales and segment profit in the second-hand online business. Both net sales and segment profit increased from the first quarter to absorb the partial impact of the typhoon in October of the second quarter.

### **Second-hand Online Business: Net Sales Ratio by product**

This is the composition of sales by product. Our major categories are shown in orange; home appliances, audio equipment, musical instruments, cameras, and personal computers are growing steadily. In particular, personal computers sales increased 40% compared to the previous year.

We also focused on large-scale products, mainly agricultural equipment. The strategic field of agricultural equipment has increased 85.8% over the previous year. We are receiving a great deal of demand.

The overall growth is well-balanced. The proportion of brands and luxury watches that we've been reducing strategically is decreasing as planned.

### **Second-hand online Business: Inventory / Inventory Turnover**

This is the inventory turnover of our products. The average inventory turnover in the second-hand industry is said to be about 4. A company with a high turnover ratio is said to have about 6 turnovers. Our inventory turnover ratio is 15.4 turnover Our business is managed in a financially efficient manner.

As for the future policy, rather than further increasing the turnover, we will implement measures to sell products at a planned and well-anticipated price. Therefore, we would like to make further efforts to develop our business in the handling process of our company.

By the way, inventory increased by 1.7% to 370 million yen. We were able to increase our inventory with good quality.

### **Second-hand online Business: Number of Purchase Requests**

This is a change in the number of purchase requests for the second-hand online business. As I mentioned earlier, the number of monthly requests was about 40,000, total 239 thousand purchase requests in the first half of the year, an increase of 8.7% from the same period last year.

As for the number of them, it tends to increase in the period from March to May, which is the season of personnel changes and employment are concentrated in Japan.

### **Second-hand online Business: Average unit sales price**

This is the average unit selling price. The price was 31,000 yen in the first half. Our characteristics of second-hand online business is that it handles many high-priced items.

### **Second-hand Online Business: Topics in the First half of FY2020**

This is our activities in the first half of the second-hand online business. On the left, we are strengthening business alliance to purchase second-hand products.

POLARIS is the world's largest company in the United States in the field of powersports centering on snowmobiles. We have allied with the Japanese subsidiary.

We also formed an alliance with the Nousouken Corporation for the purchase of agricultural equipment. Excellent Club is a service offered by Mitsubishi UFJ Trust and Banking Corporation for the wealthy. Similar to what we call "Dan-shari", wealthy people ask our company to buy back their properties when they need to be cleaned up.

SunCity is a high-class nursing home, and we made a partnership to ask our company to buy their goods when people move in. The Panasonic Store has formed an alliance centered on electric assisted bicycles, in which the company trades in when it is sold directly to individuals as a "Direct to Consumer".

The "Hometown Tax Program through donating musical instrument" on the right side is a system that has been expanded to six administrations, with the addition of two new local government. This is an initiative that has a function that allows us to evaluate musical instruments. Musical instruments in the public school brass band may not be able to buy new ones, even if they are old and want to replace them.

First, please list the instruments that the local government wants. When a donation applicant appears, you will be asked to evaluate the instruments to be donated. Then, we make an assessment and inform the local government of the value of the instrument. For example, if the assessed value is 40,000 yen, the user does not receive the purchase price but receives the tax benefit such as 40,000 yen tax reduction.

There are so many needs because the products can be used by local students. We can assess the value of used goods. Taking advantage of this, partnerships with companies and initiatives with the government are progressing.

## **Potential Market Size of the Second-hand**

This is the potential size of the second-hand market. The market size is generally said to be 7.6 trillion yen.

We have many products with a very high unit price of over 30,000 yen per 1 item. Therefore, we firmly focus on the 3.2 trillion yen market in the center of the slide, not the region with high affinity for CtoC.

We will expand the field where the transactions are easier for companies to mediate, such as those that are big, expensive or require the deletion of personal information. The market for corporate customers is formulated by ourselves. The size of the second-hand market has not yet been clearly investigated, and there are many potential markets.

The size of the our target is calculated by multiplying the market size of agricultural equipment, construction machinery, medical equipment by the ratio of used cars to new cars in the used car market: 3.2 trillion yen and 1.3 trillion yen, and plus alfa. We believe that our target market is 4.5 trillion yen.

## **Strengthening Second-hand goods Purchase: Expanding Alliance with Manufacturers**

I talked about alliances with some manufacturers. In recent years, the feeling of resistance to second-hand goods has decreased, and People are starting to use reused products and sharing services.

Manufacturers are not only selling products to wholesalers and distributors but also selling products directly to consumers. This is now widespread among them.

When Tesla Motors released Model X, I feel very shocking that they offered a buyback price guarantee on their website. An increasing number of manufacturers are showing trade-in prices as well as selling products directly.

We have purchasing bases throughout Japan, and can assess any product. In the future, when a variety of manufacturer sell products directly to individuals via the Internet as Direct to Consumer, we would like to promote alliances with various companies in this part of trade-ins. We also believe that this market will grow significantly in the future.

## **Revenue Structure of "Takakuureru.com"**

This is the revenue structure of "Takakuureru.com". Currently, we have received a large number of purchase requests. Products with a unit selling price of 30,000 yen or more accounted for 21% of all buying transactions and accounted for 86% of segment profits.

In this sense, controversy, 79% of the total purchase requests at 30,000 yen or less level marked the low record of 14%.

## **About second-hand matching platform "Oikura"**

The key to solving this problem is the "Oikura" service, which we acquired in February 2019. It has 1,400 stores nationwide, paid members are more than 900 stores. It is a matching platform where you can get estimates directly from second-hand shops all over Japan when you request an estimate.

## **Connecting "Takakuureru.com" and "Oikura": Structure reform for second-hand item purchase**

The buying structure is being reformed through cooperation between "Takakuureru.com" and "Oikura". Even if we received 40,000 purchase requests, we were unable to do so due to geographical reasons, and it was difficult to deal with the price.

We aim to further increase the number of purchase by sending high-priced products to "Takakuureru.com" and low-priced products to "Oikura" member stores.

Also, as I said low price products, a product of 30,000 yen or less per 1 product is a very high unit price for a regular second-hand shop. We send products with high unit prices to "Oikura". However, to match the price range for our company, we expressed it as a low price.

### **Mechanism how we refer our customers from "Takakuureru.com" to "Oikura"**

In fact, from among the requests that we receive, we are moving forward with a flow of sending those that our company cannot purchase to "Oikura". Currently, there are 1,431 member shops and more than 900 paid shops that pay for advertising. We are forming alliances with such shops.

### **Number of customers sent to member stores via "Oikura"**

This is the change in the number of customers sent to second-hand shops from "Oikura". Monthly trends show a significant increase in the number of customers since July 2019, following the launch of the partnership with "Takakuureru.com". However, we temporarily stopped sending customers in October, November, and December due to the complaint that matching did not go smoothly from member shops.

We started sending customers again in January 2020, and the result has been 1.9 times compared to the previous year, so we have high expectations that we will be able to expand the synergy effect by cooperation.

### **Media Business: Media Ownership**

As to media business, currently we own five medias. In the 1st Quarter, there was a transfer of "SIMCHANGE", and in this way, we are developing it separately for second-hand, telecommunication, and consumption.

### **Media Business: Business Model**

We create a lot of attractive and interesting content gaining access by many users. This business has two types of models: one is for receiving advertising expenses from the advertiser's company by sending customers from our medias, and another is an element as "own media" which is sent to each of our services.

### **Media Business: Acquisition of "SIMCHANGE" business**

One of the topics is the "SIMCHANGE" acquisition in Q1. The purpose of the business transfer is described on the slide. On the left side, there is the distribution of used smartphones. Compared to other countries, the number of used smartphones in Japan is very low.

From the SIM-unlock, the number of SIM-free devices will increase, and the era of choosing low-cost SIMs will come. So, I thought that the media that can be used as a reference when choosing an appropriate SIM would fit into this part.

The multi-domain strategy is on the right. Our media "iPhone KAKUYASU SIM TSUSHIN" makes a lot of money. The acquisition of the "SIMCHANGE" is intended to increase exposure while diversifying risks by developing different content.

### **Media Business: Changes in Net Sales (in the last 2 Years by half period)**

This is the change in net sales in the media business. On a semiannual basis, net sales rose by 6.1 times to 263 million yen, marking a record high for the first half. This business indicates rapid growth from the previous fiscal year due to an increase in the number of operating media.

### **Media Business: Net Sales and Segment Profit (quarterly comparison)**

This is a quarterly comparison of net sales and segment profit. This shows a slight drop from the first quarter to the second quarter.

This reason is that the first quarter was very strong in terms of historical performance, and this was a reaction.

Compared to last year, it has been growing very much, but due to the special demand of increased traffic caused by the launch of new iPhone, it has been decreasing after the increase in the first quarter.

### **Media Business: Changes in the Number of Monthly PV (Page View)**

This is the breakdown of traffic for the five our medias. Including the release of the new iPhone in September, traffic increased significantly, and the total number of monthly PV exceeded 10 million.

However, except for September, it has been performing very well. Currently, in January 2020, it will exceed 10 million PV again. We will continue to aim for stable growth.

### **Media Business: Topics in the First Half of FY2020**

I will explain about two contents in the media business. We have focused two special fields: Second-hand Mobile Market Analysts and second-hand Evangelists transmit information through the media.

On the left side, our company discloses all smartphone transaction data in major second-hand markets such as YAHUOKU! and Mercari etc. We compile research reports on these issues and send information on how the second-hand smartphone market is changing based on overwhelming data.

On the right side, we provide information as analyst reports of trends in refrigerators and washing machines. It is based on a number of purchase requests and our data from online auctions which is number one sales in Japan.

### **Media Business: Acquired "Saiyasu-Syuuri.com"**

The latest addition is a new media called "Saiyasu-Syuuri.com" which we acquired in February 2020. This is a site that provides information on repair services using the nationwide network of repair shops.

At present, 19,000 stores are listed, and the network of paid stores that pay for advertising is approximately 300. As for this repair shop, there are many repair shops for smartphones and mobile phones as a percentage of the total.

Our company has a large number of traffic accesses through "iPhone Kakuyasu SIM Tsushin" and "SIMCHANGE" so I think we can achieve synergy with "Saiyasu-Syuuri.com".

In the long run, I believe that we can use our network of repair shops to provide after-sales and access to the after-market.



### **Mobile & Telecommunications Business: Business Contents**

Finally, it's the mobile & telecommunications business. As to "Kashimo", it deals with SIM and WiMAX.

### **Mobile & Telecommunications Business: The Ratio of Telecommunication Costs in Household Expenses**

It is a chart of the ratio of mobile & communication expenses to the household budget. It is the structure of Japan that the ratio of the mobile & communication cost to the household budget remains high.

Under such circumstances, our Kashimo develops a low-price thing with plain intentions.

### **Mobile & Telecommunication Business: Changes in Net Sales (in the last 3 years by half period)**

Here is the trend in net sales. The past three years have been reported on a semiannual basis. Net sales rose by 2 times to 1.6 billion yen, marking a half-year record. It means that the traffic from our media was very good.

### **Mobile & Telecommunications Business: Net Sales and Segment Profit (Quarterly Comparison)**

This is a quarterly comparison of net sales and segment profit. The first quarter was very strong, but the second quarter seems to be slightly down instead. However, net sales in the first quarter were the best record in the past quarter, and we think that its trend is very well.

### **Mobile & Telecommunications Business: Total Number of subscriptions**

The number of subscriptions is steadily increasing, with 45,000 people using our service. Currently, we are not acquiring new budget SIM customers, so we are developing our business focusing on WiMAX.

### **Mobile & Telecommunications Business: Strengthen Optional Services**

We are also strengthening optional services. For cross-selling, we added repair options that start at 300 yen per month and unlimited video viewing options for 980 yen per month.

### **【Through Our 3 Businesses】 We will make our customers' consumption activities better**

I explained three segments. In the age of that diverse consumers are looking for smart consumption, we want to build "Optimized trading company focusing on second-hand" by developing multiple services that match smart consumption in the future; their needs such as "I want to get information", "I want to sell", "I want to buy a new one", "I want to repair it", and "I want to cut down on living expenses".

### **Forecast for the Full Fiscal Year Ending June 2020**

This is the financial forecast. Net sales are expected to increase in all three segments. Net sales were 10 billion yen from 8.472 million yen, and operating income was 600 million yen. We intend to achieve record-high profits while making up-front investments as needed.

**Full-year Forecast and Progress rate comparison**

This is the progress of the current full-year forecast. Our company tends to be biased toward the second half of the fiscal year and the rate of progress in the first half of the fiscal year tends to be less than 50% every year. In this first half of the fiscal year, progress was more than 50%, significantly higher than in the previous fiscal year.'

**Changes in Consolidated Net Sales**

Once again, net sales have increased for the 14 consecutive years since our founding, and we intend to steadily exceed 10 billion yen on this term.

**Change in Consolidated Operating profit**

We are also targeting an operating profit of over 600 million yen and an ordinary profit ratio of 6%.

**Status of Our IR Activities**

Finally, the status of IR activities. We won awards for IR sites such as Daiwa Investor Relations Co., Ltd. and Nikko IR Inc. in succession. We have made steady progress in disseminating information in English and expanding the amount of information on our website.

We also met with 35 investors in Q1, the timing of our full-year results last year. We spoke with many investors in the second quarter, although not for the full year.

We would like to continue our activities so that people can actively learn about the situation in our company.