

Results of Operations for the Second Quarter of the Fiscal Year Ending June 30, 2022

Thank you for taking time out of your busy schedule today to listen to our results of operations briefing for the second quarter of the fiscal year ending June 30, 2022. I am Imamura, Director of MarketEnterprise. Thank you for joining us. Hello, I am Kobayashi, President and CEO. Thank you for your kind attention.

I would like to start by explaining today's outline. First, an overview of the results of operations for the second quarter of the fiscal year ending June 2022. Next is the progress of the medium-term management plan by business segment. And lastly, forecasts for the fiscal year ending June 2022. These are the three main points of today's briefing.

Our president Kobayashi will proceed with the explanation according to the agenda. President Kobayashi, please take over.

1H FY6/22 Results of Operations-Executive Summary

I will now present an overview of the results of operations for the second quarter of the fiscal year ending June 30, 2022. As indicated in the executive summary on the slide, the second quarter results showed an improvement in both net sales and operating profit compared to the previous quarter. We believe that our business performance has bottomed out and that we are making steady progress in line with the medium-term management plan.

Regarding the summary of each business segment, the second-hand online business is performing well in terms of purchases. Sales are slightly down due to inventory buildup. The second-hand online business is divided into services for individuals, machinery(agricultural equipment), and "Oikura," but as I mentioned earlier, second-hand purchases for individuals have been steady, and inventory has been built up in line with demand.

In the Machinery(agricultural equipment) business, while the previous quarter was affected by the launch of the new base location, the second quarter saw a recovery in purchases and strong shipments, which led to a year-on-year increase in sales. The number of participating stores for "Oikura" is on the rise. While strengthening collaboration with local governments, we are continuing to move forward to contribute to earnings in the next fiscal year and beyond.

As for media business, the number of PVs, especially for telecommunications media, has returned to record high levels and is performing well. In mobile & telecommunications, the acquisition of "WiMAX 5G" lines has been strong, and the number of lines owned is increasing. In general, the situation is in line with our forecast.

Consolidated Income Statement Summary (1H)

Next is the Consolidated Income Statement Summary. The contents are for the first half of the year in comparison to last year. You can see the details on the slide.

Consolidated Income Statement Components

Next are the Consolidated Income Statement Components.

This is a breakdown of the consolidated statement of income. Gross profit decreased due to inventory buildup despite an increase in purchases. In addition, operating profit decreased due to an increase in SG&A expenses resulting from aggressive investment in advertising and personnel.

Quarterly Sales and Operating Profit

Next are the quarterly sales and operating profit. In the second quarter, both sales and operating profit recovered from the previous quarter, confirming that performance has bottomed out. It happened despite the building up of inventory and increasing advertising expenses.

Second-hand Online Business Quarterly Performance

I will now explain the progress of the medium-term management plan for each business segment.

First, I will discuss the Second-hand Online Business. The bar graph on the slide shows the total amount for individuals, Machinery (agricultural equipment), and Oikura. You can also see the quarterly performance trends. Overall, both net sales and segment profit have begun to increase quarter-on-quarter.

Progress in Second-hand Services for Individuals: Purchase Request Trends

Next is the status of Second-hand Services for Individuals. We have proposed two measures in our medium-term management plan: increasing the number of purchase requests and increasing the purchase capacity. As in the first quarter, we are actively increasing advertising expenses in order to increase the purchase requests, and as a result, the number of purchase requests has remained at a high level.

Progress in Second-hand Services for Individuals: Purchase Amount Trends

The purchase amount is shown on the slide. The purchase amount has remained at a high level in line with the increase in the number of purchase requests.

Second-hand Services for Individuals: Quarterly Sales and Inventory Levels

Next are the quarterly sales and inventory levels. Sales increased QoQ, confirming the bottoming out of the market. Purchases continue to be steady, and as we enter the demand season in March, April, and May, we will continue to increase the number of purchase requests and increase purchase capacity while securing inventory in time for the demand season.

Progress in Second-hand Services for Individuals: Started Purchases from Seniors

As a measure to increase the number of purchase requests in the mid-term business plan, we have been promoting the launch of purchases targeting senior class. We have so far been expanding in our areas of expertise, such as home appliances, musical instruments, cameras, and audio equipment, but in September 2021, we opened a page dedicated to seniors, and we are now moving forward with full-fledged efforts to launch purchases targeting this demographic.

Progress in Second-hand Services for Individuals: Number of Purchase Requests from Seniors

I will refrain from giving a breakdown of the number of purchase requests, but as the bar graph on the slide shows, the number of purchase requests from seniors is increasing steadily, and we intend to focus our efforts firmly on this area from this point forward.

Progress in Machinery (Agricultural Equipment): Establishment of Kita Kanto Purchasing Base

Next I will focus on the Machinery (agricultural equipment) or Agricultural equipment. On October 1, 2021, we opened the Kita-Kanto purchasing base. The base was opened in Yuki City, Ibaraki Prefecture, providing us with more space than our previous base and allowing us to ship for cross-border e-commerce from this location as well. We have also enhanced our shipping capabilities so that we can expect both increased purchasing and increased sales. On the slide you can see the picture of the opening ceremony and we believe that with the cooperation of the local government, everything went smoothly from the opening to the start of the operation.

Progress in Machinery (Agricultural Equipment): Purchase Amount Trends

Purchases have recovered to nearly the previous year's level. Although the opening of the Kita-Kanto purchasing base had some impact, such as the halting of operations from the first to the second quarter due to the relocation of inventory, we are finally at the point where we can begin to enter an upward trend.

Machinery (Agricultural Equipment): Quarterly Sales and Inventory Levels

Next are the quarterly sales and inventory levels. We believe that both domestic sales and cross-border e-commerce are progressing well in the second quarter, and since March and April are the peak season for farming, we are currently, in February and March, building up inventory to meet the strong demand for sales before the busy season arrives. As I mentioned earlier, we have increased our purchase and sales capacity with the opening of the Kita-Kanto purchasing base, and we hope to once again enter an expansionary trend from this point on.

Progress of the Oikura Platform: Collaboration with Local Public Bodies

In the "Oikura" business, collaboration with local governments is progressing. In the first quarter financial results briefing material, we discussed the collaboration agreement with Kawasaki City, and in January 2022, we will start a demonstration experiment with Sumida-ku, Tokyo. If you visit the Sumida-ku website on the disposing of oversized garbage page, you will see a link to the "Oikura" website, which is a very exciting initiative that is currently being expanded.

Progress of the Oikura Platform: Number of Incentive-based Partner Stores

The number of Incentive-based Partner Stores, which is an important KPI, bottomed out in August and has continued to increase. Since we are in a situation where the level of Partner Stores as well as cooperation with new vendors is rising, we have positioned this fiscal year as an investment period, and we are determined to produce solid results for the next fiscal year and beyond.

Media Business: Quarterly Monthly Average Media Page Views

The chart on the slide shows quarterly monthly average number of media PVs in the media business. In the second quarter, media PVs reached a record high level thanks to the contribution of the communication media, with an average of 13.82 million PVs per month in the second quarter.

Google's update had a major impact on SEO for a period, but as a result of diversifying our media and products, both for internal and external use, we believe that the trend has gradually stabilized.

Media Business Results

Next is an overview of our business results. Net sales recovered to the level of the second quarter of the previous year, and segment profit increased year-on-year as well. We are now in a situation where we can firmly conclude that we are on a recovery trend.

Media Business: Sales Composition

Regarding sales composition, there are two types of sales revenues: sales from directing customers to internal services or our owned media, and sales from directing customers to external sources who receive advertising fees. First, visitor sales to our own services have clearly bottomed out and have increased 2.2 times, with a recovery trend particularly in the telecommunications field.

In addition, we can see a slight recovery in the telecommunications area as well as a solid recovery in other areas of external customer sales. Overall, while diversified, the strongest telecommunication-related areas are also on the road to recovery.

Mobile & Telecommunications Business Strategies: Revise the Profit Structure

(Excerpt from the Medium-term Management Plan Presentation Material)

As for the Mobile & Telecommunications Business, which started in April of this fiscal year, we have switched our product lineup from "WiMAX 2+" to "WiMAX 5G". Until now, earnings have been unstable due to a situation in which the sales incentive or one-time portion was large and subscription fee income or recurring fee was comparatively small.

With "WiMAX 5G," the one-time portion of sales incentives will be smaller, while the recurring portion of subscription fee income will be larger. We are working to increase future revenues that are expected to be generated from existing line subscriptions.

Progress in Mobile & Telecommunications Business: New Service Subscriptions

As a result, at the end of the second quarter, most new "WiMAX 2+" subscriptions have been eliminated, with the majority being centered on "WiMAX 5G".

Mobile & Telecommunications Business Results

As a result of the turnaround due to the clear bottoming out of the market, both sales and segment profit increased in the second quarter, with some subscription plan changes starting in September, and the sales incentive portion is accumulating, while subscription fee revenues are also increasing.

Progress in Mobile & Telecommunications Business: Future Earnings

Due to strong acquisition of recurring-revenue 5G subscriptions, future earnings have increased by 240 million yen compared to the beginning of the fiscal year when the medium-term management plan was released.

FY6/22 Forecasts

The consolidated forecast for the fiscal year ending June 30, 2022 remains unchanged as indicated on the slide.

FY6/22 Business Strategies by Segment

Our business strategy by segment for the fiscal year ending June 30, 2022, is to promote the strategies targeted in the medium-term management plan. With regard to Second-hand online services for Individuals, we will strengthen our ability to attract customers while diversifying methods of acquiring the number of requests, and following the first and second quarters, we will move toward the prosperous third and fourth quarters.

In the area of resource expansion in pick-up purchasing, we intend to further increase our network of locations and personnel. In terms of machinery (agricultural equipment), we intend to invest aggressively by continuing to increase the volume of purchases, including the opening of a base in the Kita Kanto region.

Regarding "Oikura," we will work to increase the number of partner stores and strengthen the development of systems, starting with UI & UX, so that we can expect a return on our investment.

As for media, we will aim for average annual sales growth of 15% while diversifying by establishing multiple media revenues.

In Mobile & Telecommunications, we will focus on building up future revenues while securing sales of "WiMAX 5G," which is a recurring-revenue business model and currently in demand.

Medium term Performance Target

(Excerpt from the Medium term Management Plan Presentation Material)

On the slide, we present the same information as in the previous presentation of the medium-term management plan. This fiscal year, as planned, will result in a temporary deficit. However, by confidently converting future earnings and proceeding in the current fiscal year, we hope to develop while securing an average annual sales growth rate of 22.5% in the next fiscal year and the year after that.

Second-hand Market for Individuals (1)

This will be all for the overview, but as we have expanded the Appendix, I would like to explain a few points that are worth noting and that I would like you to be aware of.

First, let me explain the situation in the Second-hand Market. Although "Oikura" does have some influence, the environment surrounding online second-hand business, in other words, the second-hand market, continues to steadily expand. According to data provided by Recycle Tsushin, the market is expected to grow from ¥2,416.9 billion in FY2020 to ¥3 trillion by 2022, and to ¥3.5 trillion by 2025.

This is the result of consumers becoming even more aware of second-hand usage. Those who had not previously participated in second-hand usage have begun to do so, especially among younger consumers. The data also shows that second-hand usage is becoming more accessible, including through increased environmental awareness.

With regard to the existing second-hand market, we will continue to expand our business in areas where we are well positioned, such as musical instruments, home appliances, cameras, and audio equipment, as well as expanding the market itself.

Second-hand Market for Individuals (2)

The buy-sell market that we have been focusing on, is the potential second-hand market and it is a huge market of 44 trillion yen, referred to as "hidden assets".

The chart on the slide shows that the second-hand market in 2022, as reported earlier, is worth 2.4 trillion yen. The market for unwanted goods that will be sold is as displayed under the note 2, and is approximately worth 7.6 trillion yen. As for note 3 the latest press release from the "Consumer Hidden Assets Survey Committee" serves as a source and names the figure of approximately 44 trillion yen.

We recognize that the so-called aging society will provide opportunities to sell various hidden assets in the future. Based on estimates from the press release of the "Consumer Hidden Assets Survey Committee," we know that 65 percent of all hidden assets are held by people aged 50 and over, and we believe there is a large market for hidden assets among seniors, with a very high percentage of those aged 60 and over.

Second-hand Market for Individuals (3)

The graph on the slide shows the percentage of personal financial assets by generation, which shows that the financial assets held by those aged 60 and over have doubled since 1989. The percentage of personal financial assets in 2020 is trending at 68.5 percent for those aged 60 and older and 83.8 percent for those aged 50 and older.

As for the needs of the latent segment, especially seniors, which have been apparent but have been overlooked in practice, we intend to further explore them in depth while strengthening our on-site purchase activities.

Agricultural Equipment Market (1)

Next, I will talk about the agricultural equipment. Likewise, concerning this market, there are no listed second-hand companies here.

As noted on the left side of the slide, the overall size of the domestic market for automobiles is 10 trillion yen, while the ratio of used cars is 32 percent. Since the size of the domestic market for agricultural equipment is approximately 320 billion yen, if we apply the same ratio to used equipment, we can estimate that there is a market of approximately 100 billion yen.

Agricultural Equipment Market (2)

While the actual percentage may be a bit lower due to durability, we recognize that there is a large market potential. This market likewise consists of an aging population. The average age of farmers is getting older every year, with the current average age being 67.8 years old. A very large number of farmers are leaving the farming industry and used farm machinery (agricultural equipment) is coming on to the market in increasing numbers.

Additionally, when we consider not only the apparent needs of farmers but also their latent needs, we realize that there is a very large potential market, and we would like to grow further within it.

Machinery (Agricultural Equipment) Business Flow

On the slide you can see the business flow. As explained earlier, we have the same strength in purchasing as we do in online second-hand services for individuals, and we buy from farm equipment stores as well as from farmers via the media. We purchase products not only through our own on-site purchases, but also by expanding our partner network and selling through domestic and cross-border e-commerce channels.

Machinery (Agricultural Equipment) Performance

As our performance has been successful since our launch, we believe it is the right time to expand our purchase capacity while also expanding our base of operations.

Made in Japan Used Machinery (Agricultural Equipment)

The overseas market for used agricultural equipment is in Asia, Europe, and the U.S. Used in Japan agricultural equipment is active in many regions, and demand for it remains strong.

Machinery (Agricultural Equipment) Exports

We have successfully shipped to more than 80 countries, and we continue to expand our overseas sales channels.

Social Significance of Machinery (Agricultural Equipment)

As mechanization continues to advance, agricultural equipment that is no longer active in Japan continues to be shipped out to various countries. As shown in the photo on the slide, various embassy officials also visit our company. We believe that this style of business will continue, with items used domestically reintroduced to the domestic market and items in demand overseas exported to foreign countries because they can be sold at higher prices.

Oikura Business Flow and Award History

The "Oikura" business was selected as the No. 1 site for "Purchase price comparison website with a sense of price satisfaction " and the No. 1 site for "Purchase price comparison website with a sense of speed" in a survey of "Purchase Price Comparison Websites" conducted by the research company Shoppers Eye. While firmly maintaining our business as a platform for matching sellers and buyers, we will continue to strengthen its foundation for full-scale expansion in the next fiscal year and beyond.

The next slides describe the various strengths of "Oikura". These initiatives have recently been strengthened with local governments, and we intend to accelerate our collaboration once again in order to achieve a sustainable society.

As for online second-hand service, we will develop a market for individuals which specializes in emerging needs with respect to high-value items, and as for machinery (agricultural equipment), we will develop new markets with our one-of-a-kind business model in areas of expertise. In addition, as with "Oikura," we will continue to promote our three main initiatives to solve issues throughout Japan through DX in cooperation with each participating store. We will also continue to expand our alliances.

Musical Instrument Donation for Hometown Tax Payment (1)

I would like to describe our social contribution activities that we have pursued in the context of SDGs. There is an initiative called "Musical Instrument Donation for Hometown Tax Payment". Market Enterprise is participating in this initiative as the only business cooperating in the assessment. We have received the Local Government Commendation of the Hometown Creation Award given by the Ministry of Internal Affairs and Communications. We would like to continue to further strengthen cooperation between the second-hand business and the government and related municipalities in order to realize a sustainable society.

Musical Instrument Donation for Hometown Tax Payment (2)

In addition to "Oikura," various initiatives are also being promoted under the "Musical Instrument Donation for Hometown Tax Payment " program, which is currently being developed together with 19 cities, wards, towns and villages.

This concludes my explanation of the results of operations for the second quarter of the fiscal year. Thank you for your participation.