

One Step Ahead: Principal Focus is on Oikura, Advancing to the Next Stage.

▷ 1H FY6/21 Financial Results: Sales +9% YoY, OP -33% due to growth investments.

—*Highlights*: Actively promoted diversification of business, e.g. through M&A with focus on second-hand business. Agricultural equipment sales continued to grow steadily.

—*1H results*: sales ¥5.62bn (+8.7% YoY), OP ¥200mn (-33.2% YoY).

—*Second-hand online business*: Focused on improving profitability in in-house purchases and sales. Sales down 2.8% YoY, OP up 3.6% YoY, as agricultural equipment and second-hand platform Oikura sales continued to grow.

—*Media business*: Sales up 15.6%, driven by expansion in external sales. Achieved growth despite negative impact from search engine algorithm changes. OP down 11.3% YoY, due to uptick in personnel expenses.

—*Mobile & Telecommunications business*: Communication fee revenue rose significantly, thanks to increase in the number of owned lines. OP fell 18.5% YoY, due to decrease in sales incentive revenue (resulting from decline in number of new lines acquired).

▷ Full-year FY6/21 guidance: Maintained forecast range. Expects to increase sales by around 30% (¥13.5bn to ¥14.5bn), OP by around 11% to 37% (¥730mn to ¥900mn).

—The Company left its initial forecast range unchanged citing ongoing uncertainties due to the COVID-19 pandemic.

—*Segment outlook*: [Second-hand online business] Looking to capture busy-season demand for personal purchases/sales and agricultural equipment in 2H. [Media business] Focusing on expanding external sales to meet increased demand. [Mobile & Telecommunications business] Intends to roll out 5G-compatible Wi-Fi services and develop corporate market in order to achieve the initial target.

▷ Principal focus is on Oikura

—The Company thinks Oikura could play a crucial role for society by contributing to the SDGs. Management intends to focus even more on Oikura, targeting the latent second-hand market (approx. ¥5.5trn annually, hidden asset of approx. ¥37trn).

—Ever since the Company acquired Oikura in 2019, it has been working on strengthening the infrastructure. Going forward, management looks to improve the brand profile, expand customer contact points, and reinforce alliances to turn Oikura into the company's growth driver. Ultimately, management's aim is to make Oikura a backbone platform for a recycling-oriented society.

▷ Share price trends: Falls after posting profit decline, but future moves bear watching

—On February 10, the Company's share price rose 10% after investors digested news out a day earlier about the stock being bumped up to TSE:1. But the share price fell thereafter, in response to a profit decline posted in 1H results. Management stated they will announce a medium-term plan during the full-year FY6/21 results briefing. We will be paying attention to how the market reacts to this plan.

FY	Net Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	Rec. Profit (¥ mn)	YoY (%)	Profit ATOP (¥ mn)	YoY (%)	EPS (¥)
2017/6	5,630	-	(7)	-	4	-	(19)	-	(3.80)
2018/6	6,333	12.5	96	-	94	-	31	-	6.28
2019/6	8,472	33.8	452	368.6	455	379.4	203	538.0	39.87
2020/6	10,904	28.7	656	45.0	664	45.9	291	43.1	55.90
2021/6 (CE)	13,500 ~14,500	23.8 ~33.0	730 ~900	11.3 ~37.2	733 ~903	10.4 ~36.0	360 ~450	23.4 ~54.3	68.88 ~86.10
2020/6 2Q	5,179	35.1	309	105.1	308	106.1	167	151.4	32.16
2021/6 2Q	5,628	8.7	206	-33.2	195	-36.7	93	-44.3	17.85

Source: compiled by SESSA Partners from company materials

FOLLOW-UP



Focus points

Posted 14 straight years of sales growth since its founding, driven by takakuuru.com (a fully-online second-hand goods purchases and sales website) and other reliable services for consumers. It aims to be an "Optimized Trading Company for the creation of Sustainable Society" by focusing on the second-hand business as the core, entering the B2B second-hand business, and diversifying service areas (e.g., media, mobile & telecommunications).

Key Indicators

Share price (3/26)	1,640
YH (2/10)	2,320
YL (3/9)	1,522
10YH (19/11/19)	3,650
10YL (16/11/9)	461
Shares out. (mn shrs)	5.287
Mkt cap (¥ bn)	8.672
EV (¥ bn)	8.443
Equity ratio (12/31)	39.7%
FY6/21 P/E (CE)	23.83x
FY6/20 P/B (act)	5.54x
FY6/30 ROE (act)	22.5%
FY6/21 DY (CE)	0.0%

Share price chart (1 year)



Source: SPEEDA

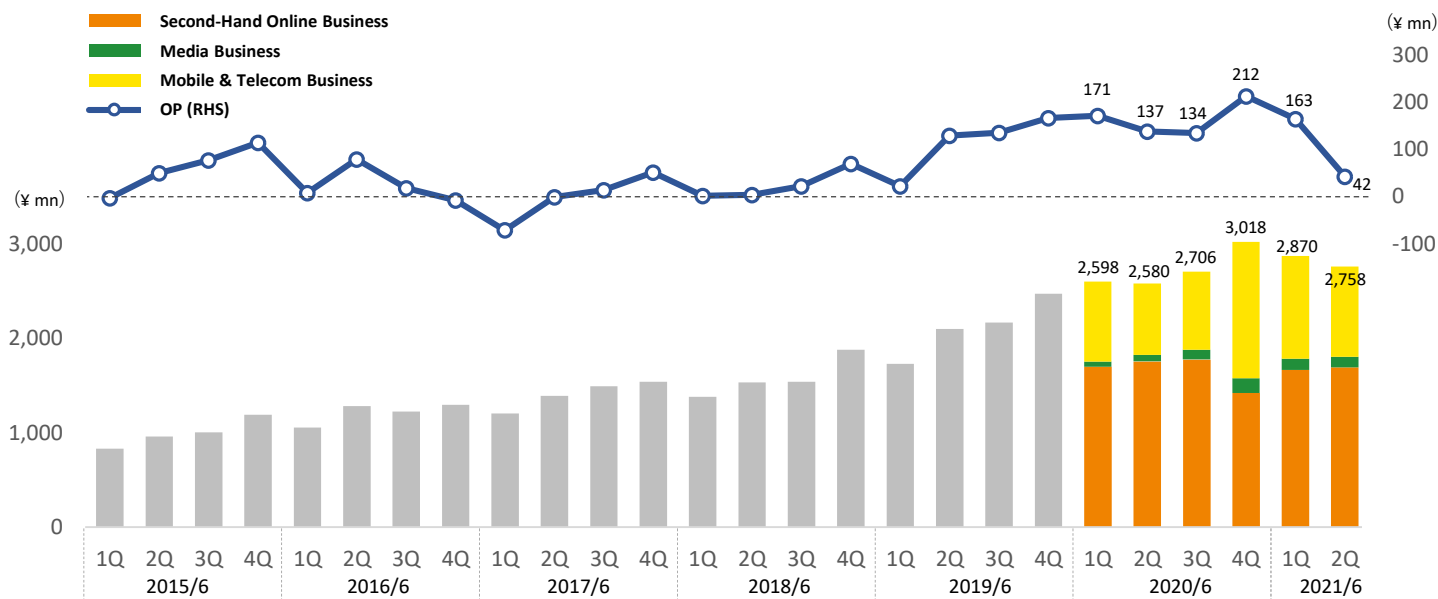
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Quarterly Consolidated Results Trend: Sales by Segments and Total OP



Source: compiled by SESSA Partners from company IR materials

1. 1H FY6/21 results

1) Sales increased but profit decreased owing to growth investments, amid an uncertain business environment due to COVID-19.

-In 1H FY6/21, sales were ¥5,628mn (+8.7% YoY), OP was ¥206mn (-33.2% YoY), RP was ¥195mn (-36.7% YoY), and net income attributable to parent shareholders was ¥93mn (-44.3% YoY).

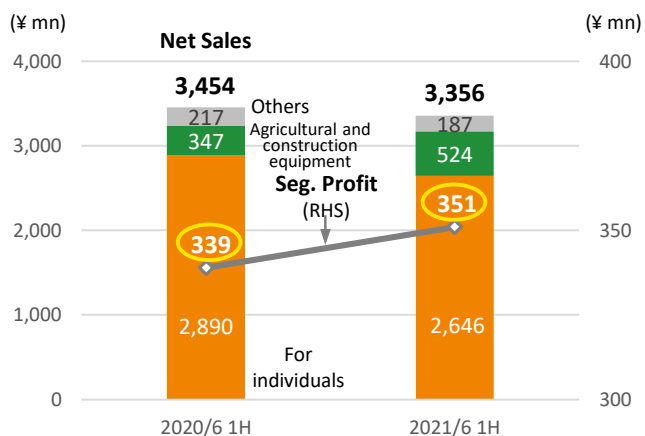
-Factors behind the change in OP included the following. Positive: Increased sales led to higher profit (+¥172mn). Negatives: Pullback in new line acquisitions compared to strong results LY in the Mobile & Telecommunications business (¥95mn). Uptick in SG&A expenses centered on strategic investments to build the structure of a newly established subsidiary handling offshore development and cross-border e-commerce management for agricultural equipment (-¥180mn).

2) Segment performance trends

a) Second-hand online business: Sales -3.0% YoY (¥3,356mn), segment profit +3.6% YoY (¥351mn).

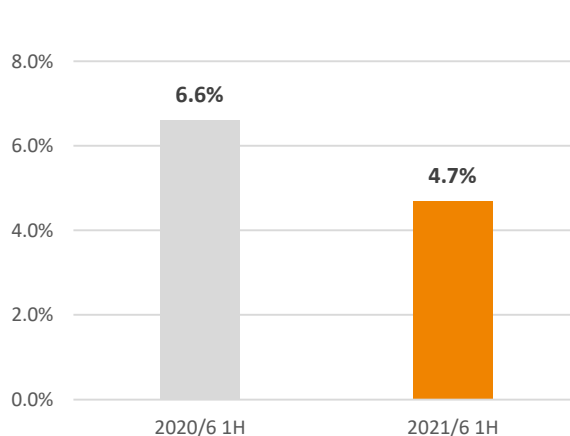
-The Company shifted focus to purchasing high unit price items such as agricultural

Second-Hand Online Business Results

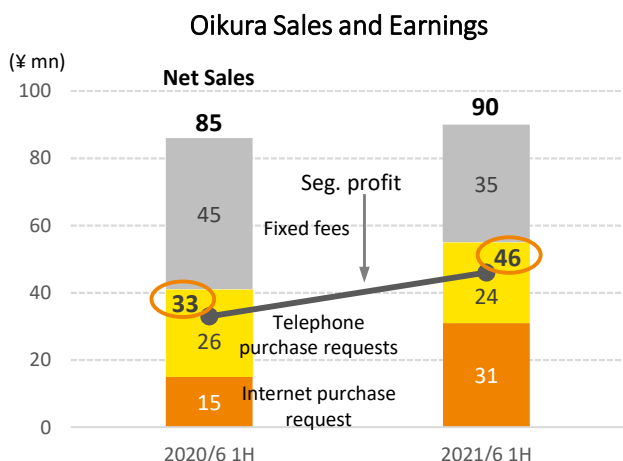


Source: compiled by SESSA Partners from company IR materials

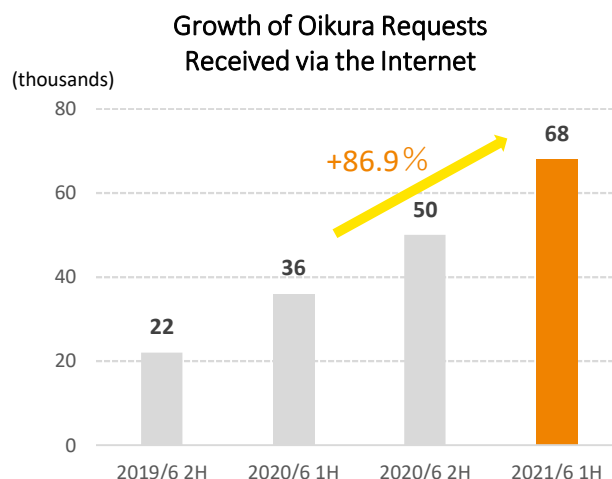
Advertising expense to sales ratio



Source: compiled by SESSA Partners from company IR materials



Source: compiled by SESSA Partners from company IR materials



Source: compiled by SESSA Partners from company IR materials

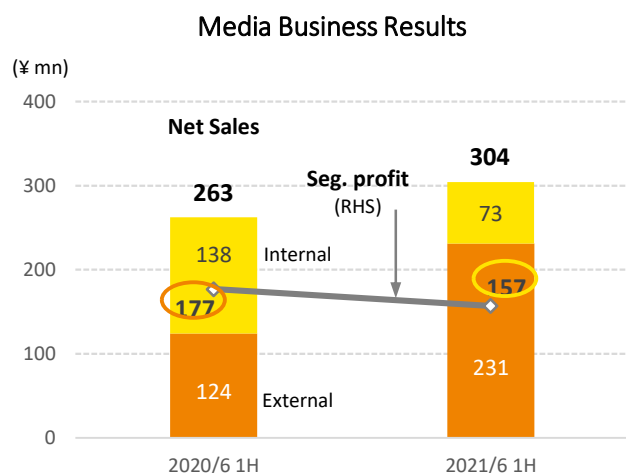
equipment, while working to improve efficiency of advertising expenses. As a result, sales remained on par with a year earlier, but the company succeeded in significantly reducing the advertising expenses ratio.

–In recent years, management has been focusing on agricultural equipment sales, which maintained robust growth at +51.2% YoY. Ongoing expansion can be expected in the second-hand agricultural equipment market both domestically and overseas, and the Company is continuing to receive many inquiries.

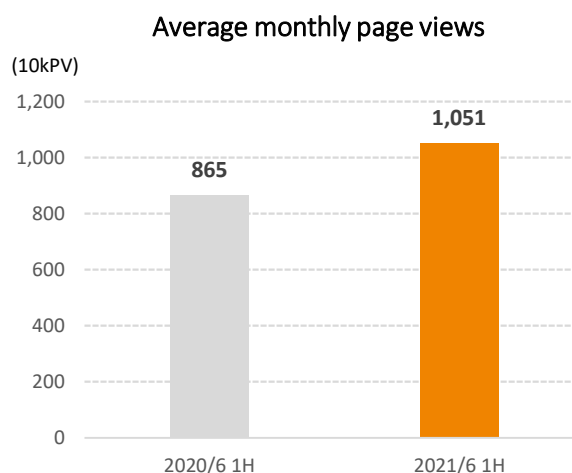
–Ever since acquiring the second-hand matching platform, Oikura, management has been focusing on strengthening its foundation to bolster future growth, such as by repairing and improving the database, server, and matching logic. Furthermore, the Company started to integrate Oikura with its core service, Takakuureru.com. The number of requests via the Web has expanded sharply, up 86.9% YoY. Although Oikura’s sales are still small, we continue to focus on this business as a key component of the company’s future growth strategy (see the second half for details).

b) Media business: Sales +16% YoY (¥304mn), segment profit -11% YoY (¥157mn)

–Internal sales decreased as a result of a decline in PVs on the company’s communication-related media outlets, due to a negative impact from a Google’s Core Update in May and December 2020. On the other hand, external sales posted steady gains especially on hobby-related media outlets. PVs also increased.

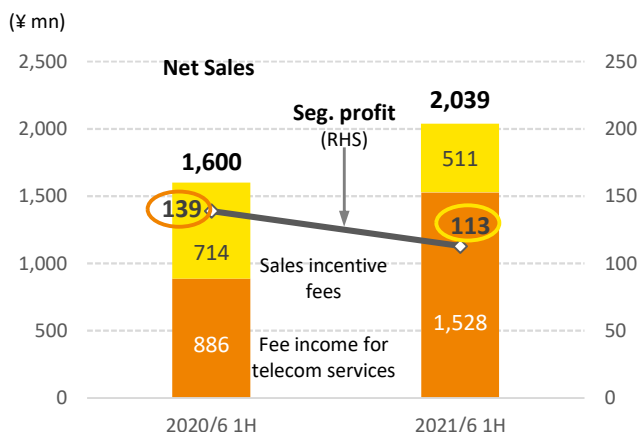


Source: compiled by SESSA Partners from company IR materials



Source: compiled by SESSA Partners from company IR materials

Mobile & Telecommunication Business Results



Source: compiled by SESSA Partners from company IR materials

Kashimo WiMAX products



Source: Company materials

–Segment profit declined due to an uptick in personnel expenses stemming from increased hiring, which were aimed at reinforcing the future income structure.

c) Mobile & Telecommunications business: Sales +27% YoY (¥2,039mn), segment profit -18% YoY (¥113mn)

–The number of newly acquired subscriptions declined due to a decrease in referrals from its in-house media, in addition to the abatement of demand related to improving the communication environment (accompanying an increase in companies adopting telework and more time spent working from home). On the other hand, a buildup in the number of owned subscriptions led to a sharp increase in communication fees. The business is contributing to a stable inflow of cash.

–As a result, sales were up 27.5% YoY, but profit was down 18.5%, chiefly due to a negative impact from a decline in sales incentive fees.

2. Full-year FY6/21 forecast: Maintains forecast range. Expects sales to increase 23% to 33% (¥13.5bn-¥14.5bn), OP to increase 11% to 37% (¥730mn to ¥900mn).

–The Company maintained its initial forecast range: sales of ¥13.5bn to ¥14.5bn (+23.8% to +33.0% YoY), OP of ¥730mn to ¥900mn (+11.3% to +37.2% YoY), RP of ¥733mn to ¥903mn (+10.4% to +36.0% YoY), and net income attributable to parent shareholders of ¥360mn to ¥450mn (+23.4% to +54.3% YoY).

–In 2H, management looks to promote the three focal points described below, aiming to achieve the above-mentioned targets.

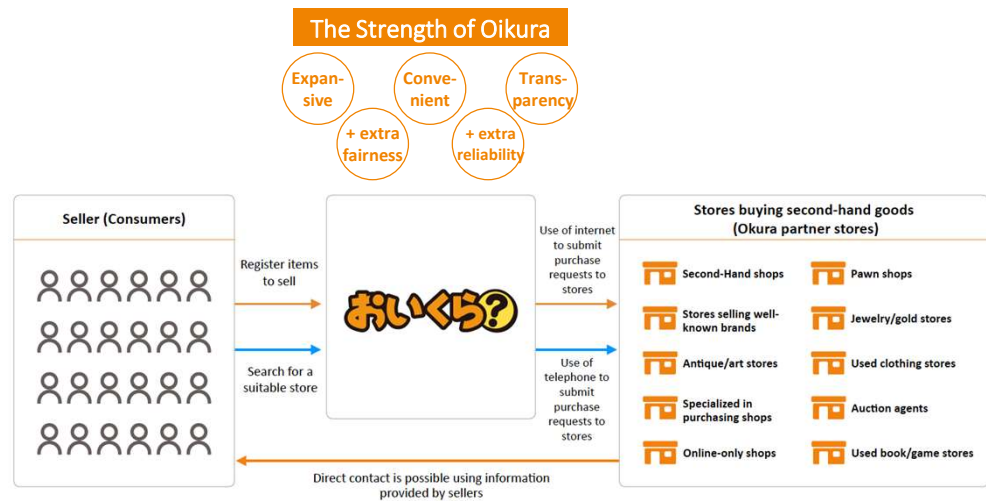
i) *Second-hand online business*: Focus on capturing demand during the busy season for personal purchases/sales from March to May. Also, strengthen purchases of agricultural equipment ahead of the busy season in the spring.

ii) *Media business*: Recover profits by focusing on capturing demand in areas where demand is expected to grow in addition to strengthening SEO through a swift response to the new search engine algorithm standards slated to be released by Google in May 2021.

iii) *Mobile & Telecommunications business*: Strengthen the ability to acquire subscriptions by developing the corporate market in addition to rolling out 5G-compatible Wi-Fi services.

The Oikura Business Model

Oikura is an internet platform that assists about 2,000 second-hand brick and mortar stores throughout Japan to attract customers.



Source: compiled by SESSA Partners from company IR materials

3. Medium-term focus business: Oikura positioned as top priority

–The Company has established a unique business model focused on reliability and convenience for customers in the second-hand market, based on the corporate mission to become an “Optimized Trading Company for the creation of Sustainable Society.” In recent years, it has actively expanded the range of products, such as second-hand agricultural equipment. At the 1H FY6/21 briefing, President Kobayashi announced his intention to make Oikura the medium-term priority area. (The Company is currently formulating a medium-term plan and said it aims to release the plan at the full-year FY6/21 briefing.)

–Management is focused on cultivating the Oikura business in three addressable markets (TAM): i) Realized second-hand market (approx. ¥2,200.0bn), ii) estimated value of products that became unnecessary over the past year (¥7,625.4bn; does not include automobiles, motorcycles, and mopeds), and iii) total estimated value of “hidden assets,” which are dormant within Japanese households (over ¥37,000.0bn, per-capita hidden assets worth ¥281,277) (see Figure below).

Potential Growth of the Second-hand Market



*1 2020 Used Product Market Data Book, Recycle Tsushin

*2 Infrastructure for a Data-driven Society in Japan (E-commerce Market Survey), Ministry of Economy, Trade and Industry (2017)

*3 Consumer Hidden Assets Survey Committee press release (November 2018)

Source: Company IR materials

–By providing a platform that connects sellers (general individuals) with reliable buyers (quality guaranteed by the Company, a publicly listed entity), management aims to uncover this latent market (¥5.5trn/year, hidden assets of over ¥37trn), making it possible to access an even larger market that couldn't be reached by the company in the past.

–In addition, it is expected that promoting second-hand products would contribute to reducing the government waste disposal costs, thereby playing a pivotal role in advancing a recycling-oriented society (reduction of government waste disposal costs).

–Ever since acquiring Oikura in 2019, the Company has taken various steps to reinforce the service. As part of *STEP 1* until now, it promoted the strengthening of infrastructure (more reliable functionality in system aspects, e.g., database repairs and server redundancy) and integration with in-house services. Going forward, as *STEP 2*, the Company aims to focus on building brand awareness, increasing customer contact points (air TV commercials, develop apps), and strengthening alliances (corporate alliances, co-sponsored seminars with Yahoo! Auctions, government alliances, etc.). Finally, in *STEP 3*, it aims to realize a platform that serves as an infrastructure for a recycling-oriented society.

4. Share price trends

–On February 10, the Company's share price rose 10%, after investors digested news released after the market close a day earlier about the stock being moved to TSE:1. However, the shares declined thereafter, in response to the profit decline in 1H results. Management has made it clear about their intention to announce a medium-term policy during the full-year FY6/21 results briefing. The core part of the plan will likely be an announcement of their business growth trajectory centered on Oikura. We will keep our attention on how the market responds to this new medium-term plan.

3-Year Weekly Share Price Trend



Source: compiled by SESSA Partners from SPEEDA data

Quarterly Consolidated Results Trend

	2019/6				2020/6				2021/6	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	1,731	2,101	2,168	2,473	2,598	2,581	2,706	3,019	2,870	2,758
YoY	25.5%	37.0%	40.7%	15.0%	50.1%	22.8%	24.9%	22.1%	10.5%	6.9%
Second-Hand Online Business	-	-	-	-	1,699	1,755	1,775	1,474	1,666	1,691
YoY	-	-	-	-	-	-	-	-	-1.9%	-3.7%
% of sales	-	-	-	-	65.4%	68.0%	65.6%	48.8%	58.0%	61.3%
Media Business	-	-	-	-	54	69	101	154	118	113
YoY	-	-	-	-	-	-	-	-	115.3%	62.8%
% of sales	-	-	-	-	2.1%	2.7%	3.7%	5.1%	4.1%	4.1%
Mobile & Telecom Business	-	-	-	-	844	755	829	1,443	1,086	953
YoY	-	-	-	-	-	-	-	-	28.6%	26.2%
% of sales	-	-	-	-	32.5%	29.3%	30.7%	47.8%	37.8%	34.6%
Segment OP										
Second-Hand Online Business	-	-	-	-	166	172	193	14	228	123
YoY	-	-	-	-	-	-	-	-	36.9%	-28.6%
OPM	-	-	-	-	9.8%	9.8%	10.9%	1.0%	13.7%	7.3%
Media Business	-	-	-	-	101	75	108	196	95	61
YoY	-	-	-	-	-	-	-	-	-5.7%	-18.9%
OPM	-	-	-	-	71.7%	62.0%	65.5%	73.2%	56.4%	45.4%
Mobile & Telecom Business	-	-	-	-	83	55	48	201	75	38
YoY	-	-	-	-	-	-	-	-	-9.7%	-31.7%
OPM	-	-	-	-	9.9%	7.4%	5.8%	14.0%	7.0%	4.0%
COS	1,020	1,254	1,293	1,473	1,595	1,603	1,688	1,776	1,767	1,803
YoY	29.1%	36.6%	48.0%	34.2%	56.3%	27.9%	30.6%	20.6%	10.8%	12.5%
Gross Profit	711	847	875	999	1,004	978	1,039	1,222	1,103	955
YoY	20.3%	37.6%	31.2%	28.1%	41.1%	15.4%	18.7%	22.3%	9.9%	-2.3%
GPM	41.1%	40.3%	40.4%	40.4%	38.6%	37.9%	38.4%	40.5%	38.4%	34.6%
SG&A expenses	690	718	740	833	832	840	904	1,010	939	912
YoY	17.0%	17.4%	14.7%	17.2%	20.7%	16.9%	22.2%	21.2%	12.8%	8.7%
Ratio to sales	39.8%	34.2%	34.1%	33.7%	32.0%	32.5%	33.4%	33.4%	32.7%	33.1%
OP	22	129	135	167	171	138	134	213	163	42
YoY	1187.0%	3584.6%	522.6%	139.2%	683.9%	7.0%	-0.6%	27.7%	-4.2%	-69.2%
OPM	1.3%	6.1%	6.2%	6.7%	6.6%	5.3%	5.0%	7.0%	5.7%	1.5%
Recurring profit	21	128	134	172	171	138	135	221	160	34
YoY	-	2743.1%	585.9%	116.9%	699.4%	7.3%	0.9%	28.5%	-6.2%	-74.6%
Ratio to sales	1.2%	6.1%	6.2%	6.9%	6.6%	5.3%	5.0%	7.3%	5.6%	1.3%
Profit attrib. to owners of parent	(1)	68	69	68	93	75	79	45	84	9
YoY	-	6163.1%	4830.0%	86.2%	-	10.1%	14.7%	-34.0%	-9.4%	-87.7%
Ratio to sales	-0.1%	3.2%	3.2%	2.8%	3.6%	2.9%	2.9%	1.5%	2.9%	0.3%

Source: compiled by SESSA Partners from company IR materials. Segment Information disclosed from FY6/20. Slight difference with company reported figures due to rounding.

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