

BASIC



Focus points

Posted 14 straight years of sales growth since its founding with a focus on online second-hand business. Making steady progress in entering second-hand business for corporate customers. Diversifying business centering on second-hand goods, such as media business and Mobile & Telecommunication business.

Key Indicators

Share price (10/5)	2,474
YH (20/1/14)	3,100
YL (20/3/23)	1,469
10YH (19/11/19)	3,650
10YL (16/11/9)	461
Shrs out. (mn, shrs)	5.226
Mkt cap (¥bn)	12.70
EV (¥bn)	13.22
Shr eqty ratio	35.8%
FY6/20 P/E (act)	44.3x
FY6/20 ROE (act)	20.5%
FY6/20 P/B (act)	8.86x
FY6/20 DY (CE)	0.0%

Share Price Chart 52 weeks



Source: SPEEDA

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High Level of ROE Among Second-Hand Businesses Looking to Cultivate Enormous Potential Market

Executive Summary

- MarketEnterprise (ME) commands the highest level of ROE in the second-hand goods industry (22.5%, FY6/20). The share price bakes in high expectations, trading at 44x earnings, 8.9x book value. Whether the firm can maintain its high ROE over the medium-to long-term will likely hold sway over share price performance. The firm has delivered consecutive years of sales growth since its founding in 2006, demonstrating robust top-line growth momentum, with a CAGR of +28% over the last six years. Net sales (TTM) over the past year have increased by +30-40%.
- ME boasts a very high inventory turnover of 10.3 times per year (FY6/20) in the Second-Hand Online business, and this contributes significantly to its ROE. The high inventory turnover is attributable to the use of an integrated core business system developed in-house that is designed to streamline and accelerate operations, and its business model centered on online purchase and sale.
- ME differentiates itself from peers by specializing in a second-hand online business, with a business model that stands in contrast to existing businesses that operate multiple directly-managed and franchise stores. The firm's steady cultivation of the second-hand market has been by virtue of the following: strength in efficient web marketing that drives customer traffic targeting conscious consumers who aim to shop wisely; swift and convincing price assessments; and warranties and other services that give peace of mind to the buyers of second-hand items.
- The average selling unit price is high at over ¥30,000, because ME mainly handles high-priced products (e.g., home appliance, audio, camera, musical instrument) rather than books or clothing. Furthermore, the reuse of specialized equipment for corporate use (e.g., agricultural machinery, construction machinery, medical equipment), in which overseas exports are anticipated, is shaping into a new earnings driver.
- Management aims to step up the distribution of unused items in households and offices to tap the ¥4.5trn target market (¥3.2trn in C2C, particularly large goods difficult to package/deliver; ¥1.3trn in B2B), out of ¥7.6trn total demand for disposal of unused goods. ME is diversifying its business through operations, such as a matching platform that connects people who want to sell second-hand goods with second-hand shops across Japan, a Media business, and a Mobile & Telecommunication business.

MarketEnterprise: Consolidated Earnings Trend

JPY mn, %	Net sales	YoY	Oper.	YoY	Ord.	YoY	Profit	YoY	EPS
		%	Profit	%	Profit	%	ATOP	%	(¥)
FY6/16*	4,863	21.9	96	-59.3	93	-58.9	49	-63.7	9.79
FY6/17	5,630	—	-7	—	4	—	-19	—	-3.80
FY6/18	6,333	12.5	96	—	94	—	31	—	6.28
FY6/19	8,472	33.8	452	368.6	455	379.4	203	538	39.87
FY6/20	10,904	28.7	656	45.1	664	45.9	292	43.9	55.9

Note: Non-consolidated earnings in FY6/16

This report was prepared by Sessa Partners on behalf of MarketEnterprise Co., Ltd. Please refer to the legal disclaimer at the end for details.

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Key Questions

- Will MarketEnterprise outperform the remarkable growth of the second-hand market?
- Will MarketEnterprise be able to sustain its high ROE and profit momentum?
- How should the firm's governance be evaluated, given that management owns 60+% of shares?

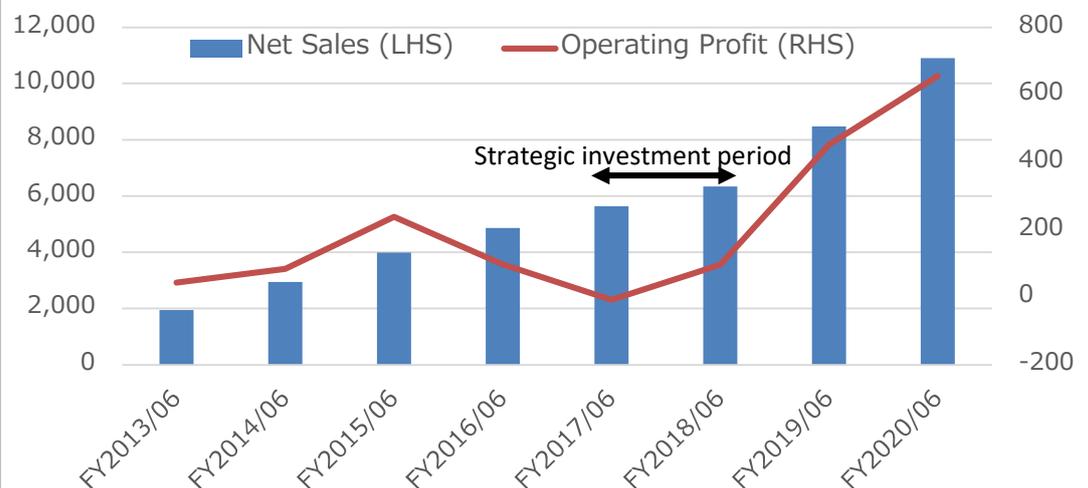
① Breakthrough in Earnings Structure Following Strategic Investment Period

In FY6/20, MarketEnterprise (ME) achieved an ROE of 22.5%, outshining the industry standard, and its shares are traded at an elevated P/B ratio of 8.9x.

Although the firm recorded 14 straight years of sales growth since its founding, its journey has by no means been smooth sailing. After being listed on TSE Mothers in 2015, it revised down guidance for two consecutive years since the second year of listing.

In response, ME took measures, designating the two years from FY6/17 to FY6/18 as a strategic investment period. These measures included setting up fulfillment centers ("reuse centers") across Japan that serve as the purchasing base for the Second-Hand Online business, opening a contact center in Tokushima to respond to the rising number of purchase requests, expanding product categories, and developing new businesses. In addition, it actively invested in IT and personnel to further reinforce the integrated core business systems used in its existing Second-Hand Online business. ROE had fallen to 5.5% in FY6/16, but recovered to 22.5% in FY6/20.

Net Sales and Operating Profit (JPY mn)



Source: Sessa Partners from company data (summary of financial results)

② High Management Shareholding Ratio

ME has been strengthening and enhancing its corporate governance by inviting two highly independent outside directors and having two out of three auditors be outside auditors.

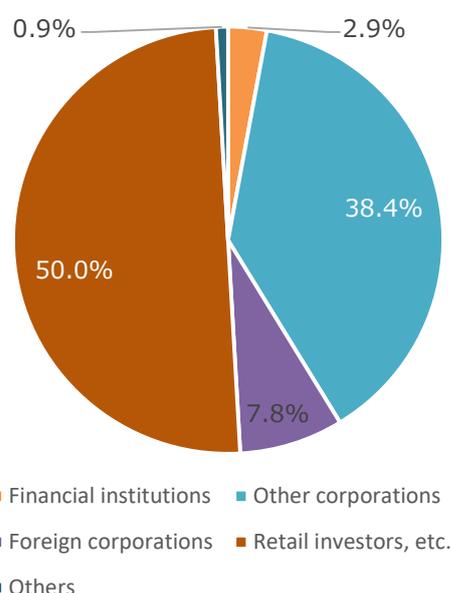
As for the shareholder composition as of end-FY6/20, the current management team owns more than 60% of shares, with founder and president Yasushi Kobayashi owning a majority in real terms. Shareholdings of financial institutions and foreign corporations are both low at 2.9% and 7.8%, respectively.

From the perspective of protecting minority shareholders, the situation in which the founder holds the reins of decision-making including the appointment and dismissal of directors appears to be a concern for governance. On the other hand, even though it has been 14 years since its founding, ME is still in an early stage of building a new business model centered on the second-hand online business. Thus, the founder's leadership can also be seen positively, as it enables the speedy execution of the necessary management decisions to promote business reforms driven by strategic investments as explained above. In this context, the management team's thoughts on how it intends to shape the shareholder composition will bear watching. CCC

Major shareholders

(As of June 30, 2020)

Rank	Shareholder	No. of shares (thous)	Holding ratio (%)
1	WWG KK	1,600	30.61
2	Yasushi Kobayashi	1,140	21.8
3	Tomoyuki Kamo	540	10.33
4	YJ Capital, Inc.	400	7.65
5	Bank of New York (GCM)	201	3.85
6	MSIP CLIENT SECURITIES	84	1.6
7	Japan Trustee Services Bank	72	1.38
8	Goldman Sachs International	65	1.24
9	Kohei Maruo	55	1.06
10	Trust & Custody Services Bank	47	0.89
—	Others	1,022	19.59
	Total	5,226	100.00



Source: SPEEDA

③ Overview of Core Businesses

ME was founded in 2006 by current president Yasushi Kobayashi. It started out by selling used discount batteries online, then launched a flea market and other businesses before transitioning to a Second-Hand Online business. The firm was listed on TSE Mothers in June 2015.

From FY6/17 to FY6/18, it implemented strategic investments to set up reuse centers (purchasing/distribution centers) in 10 locations across Japan and launch a Media business and Mobile & Telecommunication business. The Media business operates online media aimed at providing beneficial information to conscious consumers, while the Mobile & Telecommunication business provides mobile data communication services. ME is diversifying its business through business acquisition and the establishment of new companies.

In FY6/20, the sales weighting broke down as 59.5% Second-Hand Online, 34.4% Mobile & Telecommunication and 6.1% Media (incl. intra-group sales).

In FY6/20, ME saw a rise in transactions of second-hand agricultural equipment that was started in 2017. In May 2020, it acquired Oho Trading's second-hand agricultural equipment business (purchasing, sales, exports). ME looks set to accelerate the expansion of its second-hand online business through overseas exports fueled by strong overseas demand for large-sized second-hand products such as made-in-Japan agricultural equipment and construction machinery.

Second-hand online business: Growth driven by core ops and M&A

- ME posted 14 consecutive periods of sales growth (as of August 2020), ever since its founding on July 7, 2006, with the second-hand online business at the core. The distinctive feature of the business is that it specializes in conducting both purchasing and sales online, unlike brick-and-mortar second-hand stores. It supports a diverse range of purchase methods, including home delivery, door-to-door, and over-the-counter by setting up reuse centers (i.e., purchasing base) in 10 cities across Japan. ME leverages a proprietary “assessment database” that realizes speedy and highly accurate pre-assessment of second-hand products conducted at its contact centers.
- ME not only uses its own websites to sell second-hand products, but also actively uses leading e-commerce websites, such as major e-commerce auction services. It utilizes a “centralized inventory management system,” which manages simultaneous listings on multiple websites. By listing goods on multiple e-commerce websites at the same time, the firm realized an inventory turnover of 17.2 times per year in FY6/19, a very high level for a second-hand business operator.
- Key products handled (e.g., home appliance, audio, camera, musical instrument, PC) account for 60% of total sales, while ME does not target books, apparel, or other low-priced products, as well as brand products, for which there are many competitors. By focusing on high-priced products, it not only offers the added value of security and warranty services attributable to second-hand products offered by a listed company but also distinguishes itself from C2C second-hand businesses such as flea market apps.
- From FY2018, the firm broadened its offerings beyond consumer products by launching a second-hand business for specialized equipment (e.g., agricultural equipment, construction machinery, medical equipment) whose second-hand market has not fully taken shape. In FY6/20, net sales increased by 67.8% YoY, with the sales composition ratio growing to exceed 12%.
- ME offers three types of warranties: initial warranty, extended warranty (up to three years), and purchase warranty (within 30 days of purchase). Second-hand products usually do not come with a warranty because each item differs in price and condition. The firm possesses a sales advantage by attaching these three major warranty services.
- In February 2019, ME acquired Oikura, a second-hand matching platform that connects sellers with second-hand shops across Japan. The firm is enhancing customer satisfaction by extending support beyond its covered areas and referring sellers of products it doesn’t handle. It is also using Oikura to promote the digital shift of brick-and-mortar second-hand shops nationwide. It aims for the early achievement of one million purchase requests per year, with eyes set on full-fledged expansion driven by mass marketing, including TV commercials.

Second-hand online business: Business flow

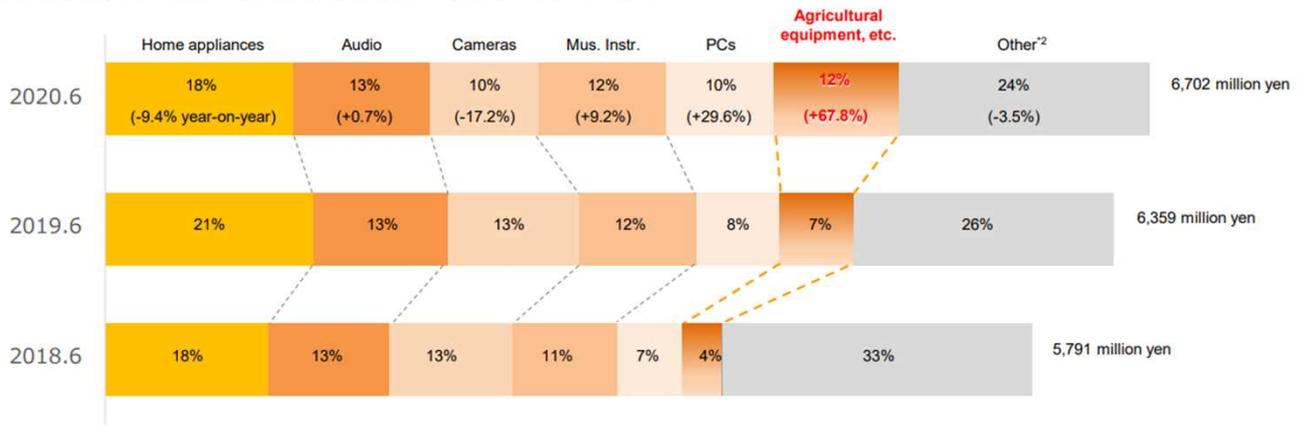


Both purchases and sales are available through multiple channels. ME responds to various customer needs. Operations are based mainly on “C2B2C,” but ME also handles large corporate transactions.

Source: Company materials (earnings presentation for FY6/20)

- ME is entrusted with purchasing operations for large e-commerce platforms such as Amazon and Yahoo!, and trade-ins on the direct e-commerce platforms of major manufacturers. The firm has established a solid position amidst a shift to e-commerce in the second-hand industry.

Second-hand online business: Net sales ratio by product



*1. Sales of agricultural equipment, etc. include sales of construction machinery and medical equipment.
 *2. "Other" includes sales from "Oikura", "ReRe Rental", and sales of brand goods, luxury watches, etc. due to downsizing.

Source: Company materials (earnings presentation for FY6/20)

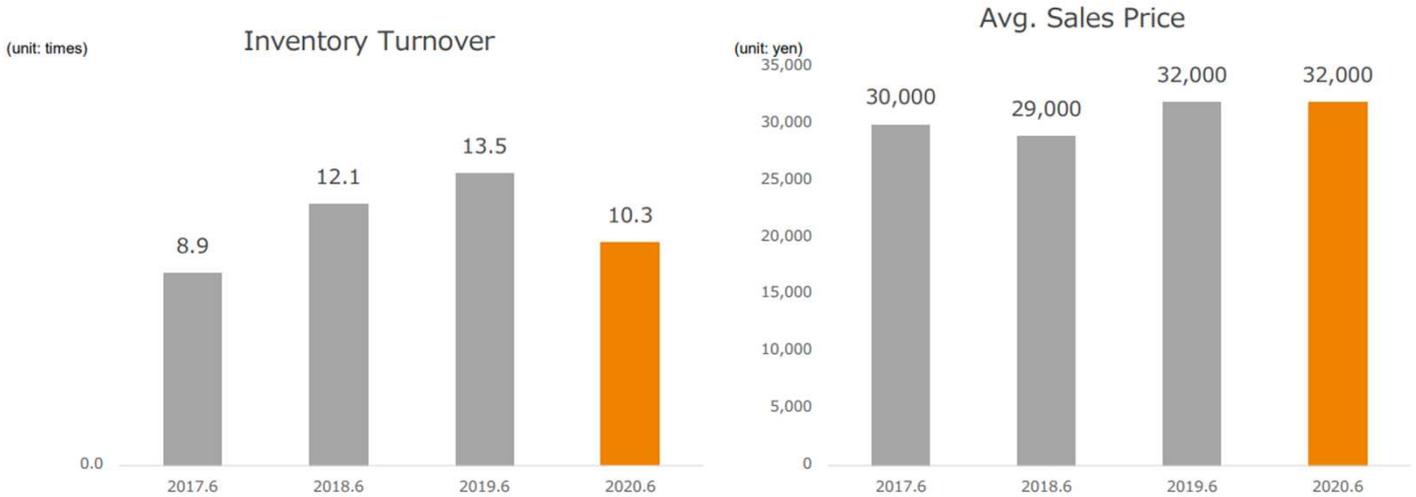
Differentiation strategy in second-hand online business

ME has differentiated itself from peers by focusing on high-priced products with an average price of ¥30,000 or higher, instead of targeting low-priced products often traded through C2C channels like flea market apps, and by refraining from emphasizing purchases of brand products, for which there are many competitors.

ME doesn't rely on a mere price appeal, but rather, it offers three types of warranties: initial warranty, extended warranty (up to three years), and purchase warranty (within 30 days of purchase). Typically, it is difficult to attach warranties to second-hand products, due to differences in price and condition depending on each item. However, ME creates an environment for consumers to buy second-hand products with peace of mind, because they have a purchase warranty even if they were to be dissatisfied with the item they buy. Meanwhile, ME doesn't turn away sellers who bring low-priced products. It employs an astute approach of referring these sellers to partnering second-hand shops on its online service, Oikura (described later), to receive referral commissions without bearing any operational or capital burden.

ME's strength lies not only in its know-how in handling second-hand products, but also in promoting the adoption of IT and independently building integrated core business systems and mechanisms. It leverages the following to enhance its business efficiency: a product assessment system based on past purchase data and transaction status on auction sites, and a centralized inventory management system that manages simultaneous listings on multiple e-commerce websites. Also, ME has an operation manual that even enables staff with little expertise to perform inspections and maintenance. The firm is expanding business not only by handling a wider range of second-hand products, but also by utilizing its accrued know-how in IT. ME's competitive advantage is that it operates a service platform allowing consumers to use second-hand items with peace of mind, rather than simply pursuing trade margins. By creating a setting where consumers can buy second-hand items with peace of mind, the firm looks to activate the distribution of unused items stored in homes and offices across Japan, and thereby augment the second-hand market.

Second-hand online business: Inventory turnover and average unit sales price



*We began disclosing information by multiple segments starting in FY ended June 30, 2020, and thus since the announcement of these financial results, the inventory balance figures disclosed on page 11 have changed, and the inventory turnover has therefore also changed.

Source: Company materials (earnings presentation for 1H FY6/20)

Potential market size of second-hand online business: ¥4.5trn or more



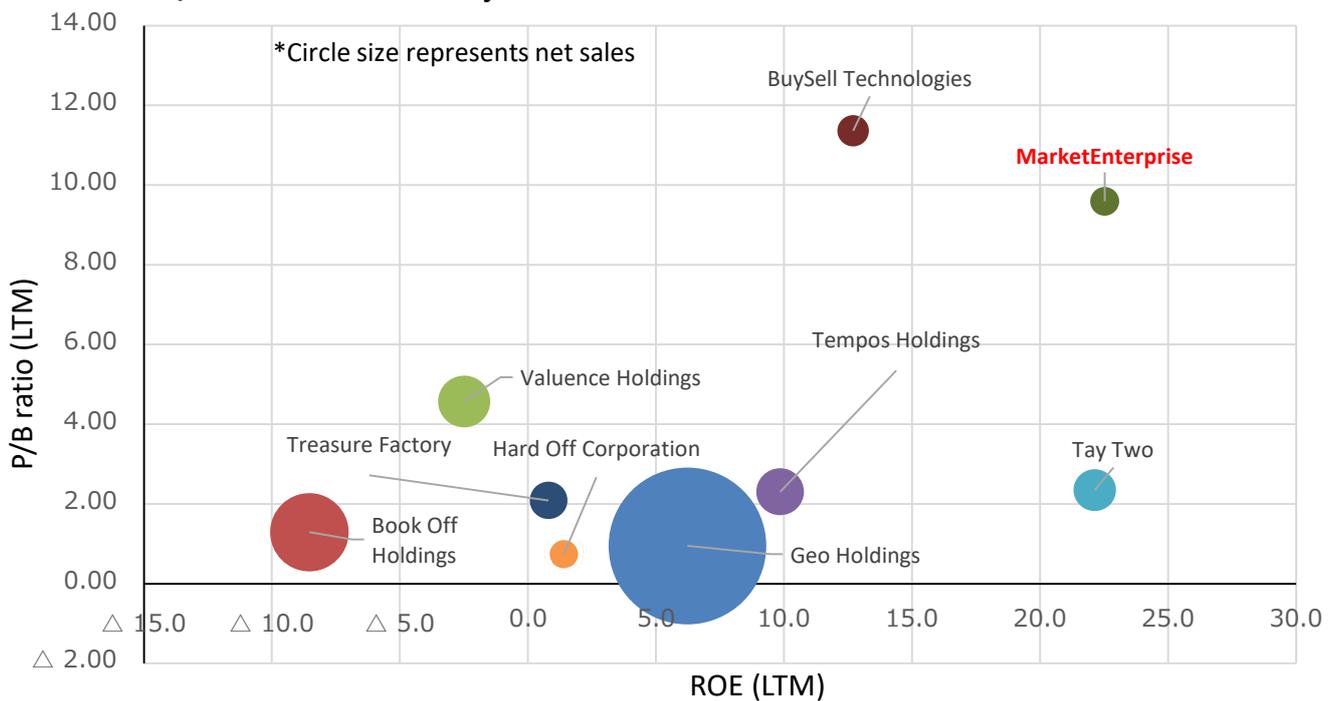
*Source: METI (Ministry of Economy, Trade and Industry) FY2016 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey)
 *Source: Agriculture equipment: Ministry of Agriculture, Forestry and Fisheries, Construction Machinery: Japan Construction Equipment Manufacturers Association, Medical Devices: Statistics of Production by Pharmaceutical Industry (Annual Report): Calculated by multiplication by the future reuse ratio of 30%.

Source: Company materials (earnings presentation for 2Q FY6/20)

④ Comparison with Competitors

Based on FY6/20 figures, ME's shares are trading at a high P/B ratio (LTM) of 8.9x. The firm's significant improvement in earnings subsequent to the strategic investment period is reflected in the current share price. The firm's policy is to pay zero dividend for the time being, as it considers to be in a growth expansion phase and enhancing internal reserves would allow it to fund the strengthening of the management base and actively develop the business. ROE is also at an elevated level of 22.5%, but the share price has likely priced in expectations for the firm to continue to maintain a high ROE and increase its equity capital.

P/B ratio and ROE of major second-hand businesses



Note: LTM refers to the last four quarters.
Source: SESSA Partners from SPEEDA data

Let's compare ME's ROE and P/B ratio with peers in the second-hand industry. Early movers in the industry expanded earnings by operating multiple directly-managed and franchise stores. In the market expansion phase, an increase in the number of stores was directly linked to higher earnings. However, this strategy can deteriorate management efficiency if the scope for further store openings is limited, or if changes in the market environment diminish demand for second-hand products. While the second-hand market is currently expanding, this does not mean that sales are expanding for all products. We believe the requirements for a second-hand business to receive a favorable market evaluation are as follows:

- Possesses a unique sales channel
- Focuses more heavily on online second-hand business, in which the market is growing faster than brick-and-mortar stores

Competitors meet either of the two requirements. For instance, BuySell Technologies mainly handles high-priced products (e.g., kimono, stamps) while specializing in online second-hand business. Valence Holdings excels in the purchase of antiques and art as well as B2B sales of second-hand goods.

Conventionally, second-hand businesses have focused on low-priced goods (e.g., game software, books, clothing), which were mainstream among second-hand goods. But future growth in the low-priced market is unpromising, due to lower prices of new products owing to the spread of online shopping, the shift to digital content sales, and the expansion of C2C services as exemplified by Mercari and Jimoty. Companies that position low-priced goods as their main products will thus unavoidably face a lower market evaluation. ME fulfills both requirements above. Not only does it handle high-priced products that consumers cannot buy on C2C channels with confidence, it meets the consumer demand to buy valuable products from a reliable vendor at a competitive price. It also handles agricultural equipment and construction machinery, which are highly specialized products in which corporate demand and overseas exports can be expected. Above all, it specializes in online transactions. Indeed, ME embraces a second-hand business model that benefits from the second-hand market's growth, and this is being viewed positively by the market. Going forward, attention will be paid on whether ME can maintain a high ROE above 20%. By utilizing IT rather than relying on trade margins, the firm can make a "value proposition" in the second-hand business. We believe this is the firm's strength that will help it realize a high management efficiency, even if the business were to expand. In this context, we expect the accelerated growth of Oikura, the reuse matching platform which it focuses on, will be a key factor to the firm going forward.

⑤ Other Segment Trends

Media Business

- ME's media business started with the "iPhone Low-priced SIM Communication" launched in June 2017 to refer customers to the Mobile & Telecommunication business, and "Beginners" aimed at providing information to users looking to start a new hobby. The firm has eight online media, such as those related to second-hand, communication, and consumption, developed internally or acquired through M&A, to provide useful information to consumers conscious of consuming wisely.
- The main feature of ME's online media is that it started out as an "owned media" (i.e., to refer customers to its own service), but recently it has also functioned as an "affiliate media" (i.e., earns advertising income by referring customers to other services). The firm's media stands out for the high originality of published articles, superior content quality, and highly-skilled SEO that boosts their ranking in search engines by using frequently searched words. Against this backdrop, ME's media has steadily increased page views (PV), hitting a record 14.48mn PV per month in April 2020 when many people stayed at home to curb the spread of COVID-19.
- As for advertising revenue, the increased PV of its media has propelled their value, and a growing number of clients outside of the Group have contacted ME about advertisement placements. In 3Q FY6/20, external sales measured up to intra-group sales. Previously, online media were positioned as a sales promotion tool to prompt the use of the Second-Hand Online and Mobile & Telecommunication businesses. However, external client sales have been expanding due to the increased exposure of each media.

Media business: Business model

Source: Company materials
(supplementary materials for
3Q FY6/20)

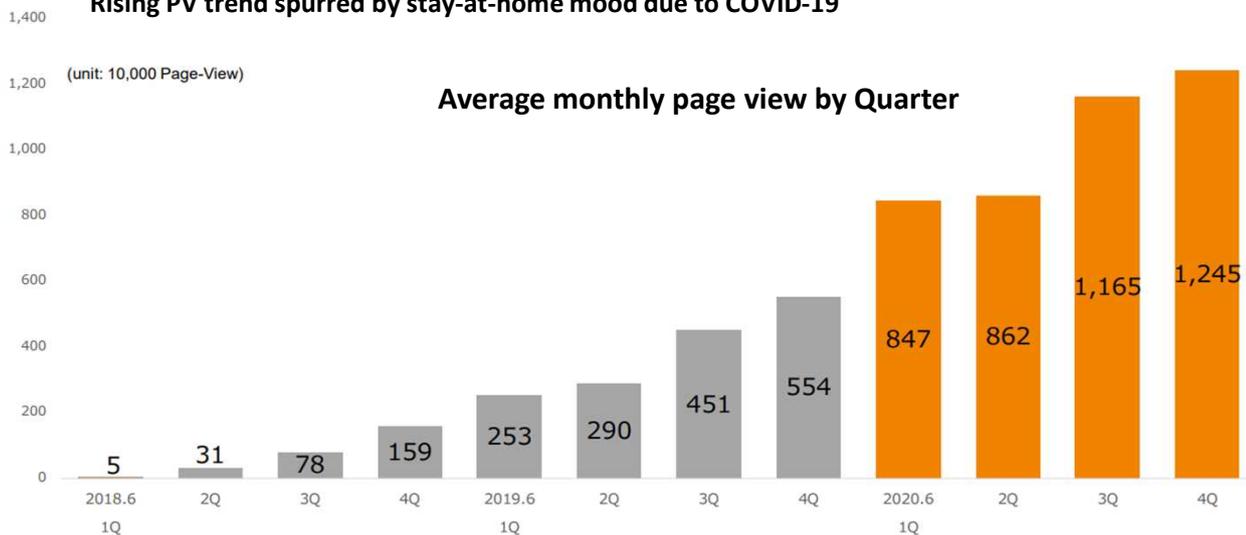


Outlook on the Media business

The Media business is focused on areas where there are a relatively few competitors, such as communication, hobbies, and second-hand goods. Not only are these areas affected very little by COVID-19, but the firm's Second-Hand Online and Mobile & Telecommunication businesses function as a conduit to consumption, thus helping generate revenues in the Media business. One of ME's strengths is its ability to create steady profits even when acquiring media let go by other companies, given that its content creation (e.g., articles) and media marketing (e.g., SEO) are done internally.

COVID-19's spread caused people to stay at home, creating an opportunity for people to spend more time on digital media. If first-time users become repeat users leading to more referrals to its Second-Hand and Mobile & Telecommunication businesses, ME may be able to further demonstrate its strength of being specialized in online channels.

Rising PV trend spurred by stay-at-home mood due to COVID-19

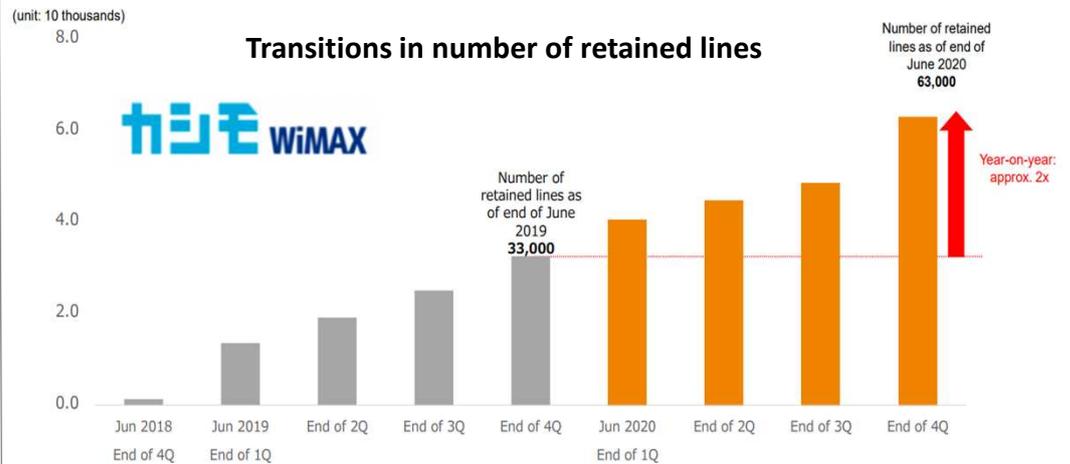


Source: Company materials (earnings presentation for FY6/20)

Mobile & Telecommunications business

- The Mobile & Telecommunication business offers a mobile data communication service called Kashimo WiMAX. This service is provided through Memobile Co., Ltd., established as a JV with Hikari Tsushin, Inc. in July 2016 (65% stake).
- There is little synergy between its mobile router business and core second-hand online business, because most routers are lent out by carriers and second-hand routers do not get distributed. But management focuses on this business as a source of stable revenues in the form of monthly fees.
- In Japan, communication charges are said to be higher than in other countries, and rising communication costs in households have become a major social problem. The Mobile & Telecommunication business targets smart consumers looking to reduce communication costs.
- The Mobile & Telecommunication business mainly provides an MVNO service, which is offered under its private brand called Kashimo WiMAX that operates on the SIM bandwidth of UQ Communications. Specializing in online sales has helped enhance its cost competitiveness, by reducing operational and personnel costs.
- Stay-at-home directives due to COVID-19 helped accelerate Japan's slow adoption of teleworking. Demand for communication lines are on the rise, and likewise, Kashimo WiMAX contracts have seen rapid growth since April 2020.

Jump in demand for WiMAX service due to expansion of teleworking promoted by COVID-19 measures



Source: Company materials (earnings presentation for FY6/20)

Outlook on Mobile & Telecommunication business

In the near term, the growth rate of new contracts for Kashimo WiMAX will likely slow, due to the dropout of COVID-related demand, as the government has lifted the emergency declaration and the spread of infections has been subdued. Meanwhile, cumulative contracts reached 63,000 retained lines as of June 30, 2020, indicating an increase in recurring revenues from retained lines. Not only will this revenues stream aid management stability, retained lines may be used in proposing ancillary products in the future. In addition to increasing retained lines steadily, whether the firm can secure additional products to further increase recurring revenues will bear watching.

⑥ M&A Strategy for Further Business Expansion

ME's core business, the Second-Hand Online business, has been a solid source of earnings. Meanwhile, there is a limit to increasing the growth rate merely by broadening the product range. To drive growth, ME has been aggressively conducting M&As.

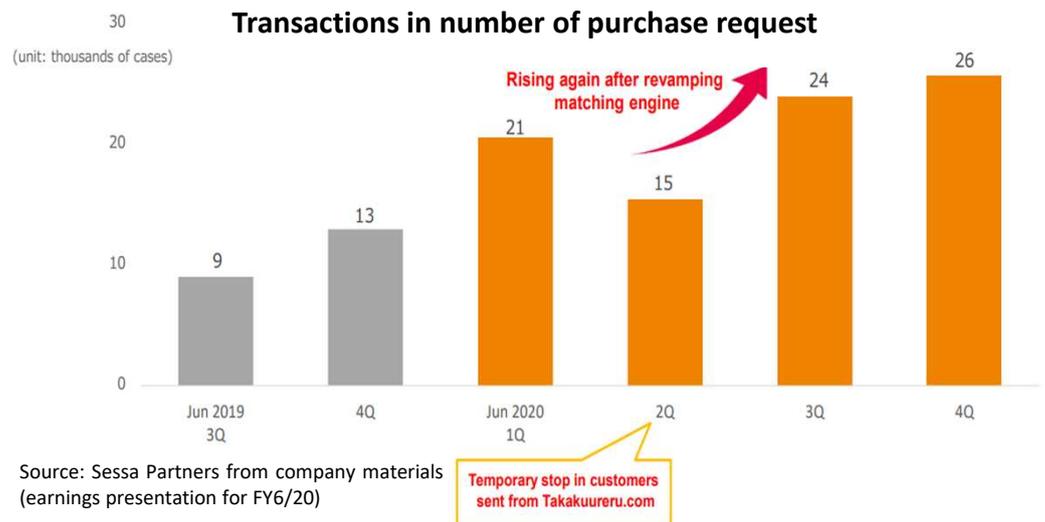
In recent years, it has been acquiring businesses at a rapid pace, including Oikura (second-hand platform), SIMCHANGE (budget SIM/smartphone information site), the used agricultural equipment business of ME Trading Co., Ltd., and the JUM All Japan Used Machine Market of UUM Co., Ltd.

Would the rapid expansion of business fields adversely affect the firm's earnings? Essentially, the businesses that ME acquires are all related to its core Second-Hand Online business or the Mobile & Telecommunication business, rather than businesses in completely new domains. The firm's aim in acquiring the business of existing services is to gain new customers while building its brand awareness. Acquisitions have led to a significant reduction in the time and cost required to put businesses on a profitable basis. It is also accelerating the growth of purchased businesses by leveraging its wealth of experience in SEO measures.

For example, the second-hand matching platform Oikura has seen a sharp rise in the number of customers since starting cooperation with ME's own comprehensive purchasing website Takakuureru.com in July 2019. Customer referrals were temporarily stopped from October to December 2019 to improve the matching rate.

However, since restarting referrals, the number of customers rose significantly by 1.9x YoY in January 2020, and the uptrend has continued since February. In addition, the platform business functions to refer customers via online channels, resulting in a very high operating margin. Moreover, successful customer attraction its own media have led to reduced advertising expenses.

Dramatic rise in use of Oikura's price comparison service after linking with own service



The size of the domestic market for agricultural equipment was ¥536.3bn in 2019 based on actual shipments (Japan Agricultural Machinery Manufacturers Association). But the firm estimates only 2.0% of purchases were through e-commerce, leaving plenty of room for cultivating the used agricultural equipment market. In fact, in FY6/20, ME's net sales for second-hand agricultural equipment grew by an impressive 81% YoY, indicating the strong demand for trading used agricultural equipment in Japan. Further growth can be expected by the recent acquisition of two businesses through M&A.

At first glance, it appears the firm embraces an aggressive M&A strategy, but most are sound deals in line with the expansion track of the core Second-Hand Online business.

Management has been quick to review businesses that fall short of expectations. It suspended services of ReRe Rental, a comprehensive service for the home delivery of rental products (e.g., home appliances, musical instruments, cameras) as of July 2020. The need to foresee market trends will inevitably lead to some decisions for expansion that run aground. Management's swift decisions to review businesses will be crucial in the firm's growth strategy going forward.

⑦ Financial Results in FY6/20

In FY6/20, ME posted growth in net sales of +29% YoY, operating profit of +45% YoY, ordinary profit of +46% YoY, and profit attributable to owners of parent of +43% YoY. Results exceeded the forecast, despite concerns around the impact of the government's state-of-emergency declaration and stay-at-home directives due to COVID-19. In the Second-Hand Online business, shorter store hours slowed sales growth to 5.7% YoY. However, in the Media business, PV grew in 4Q, driven by a surge in stay-at-home demand, resulting in a drastic rise in sales by 3.5x (reference value) over the full year. Moreover, in the Mobile and Telecommunication business, a boost in demand spurred by teleworking led to 2x growth in both the number of retained lines and profits.

Notably, the operating margin rose to 6.0% from 5.3%. This was in part attributable to an increased sales weighting of the higher-margin Media and Mobile & Telecommunication businesses, but also owed to an effective strategy of maintaining or expanding high prices in its Second-Hand Online business. The firm was successful in referring low-priced goods to second-hand shops on its Oikura platform, while handling high-priced goods on its own. The downturn in operating cash flows from positive ¥224mn a year earlier to negative ¥64mn this year might catch attention, but the main reason for this was a delay in payment receipts in its Mobile business.

Earnings Trends

Fiscal Year	FY6/16	FY6/17	FY6/18	FY6/19	FY6/20
Net sales	4,863	5,631	6,333	8,471	10,804
Operating profit	97	-7	96	452	656
Ordinary profit	93	4	95	455	664
Profit attributable to owners of parent	50	-19	32	204	292
EPS	9.79	-3.80	6.28	39.87	55.90
Dividend	0.00	0.00	0.00	0.00	0.00
Operating CF	-61	27	246	224	-65
Investing CF	-92	-20	-149	-155	-603
Financing CF	157	74	17	159	760

Results by Segment

Fiscal Year	FY6/20	
Segment sales	YoY (Unit: JPY mn)	Composition ratio (%)
Second-Hand Online	4,702	5.4%
Sales composition ratio (%)		
Home appliances	18%	-9.4%
Audio equipment	13%	0.7%
Camera	10%	-17.2%
Musical instrument	12%	9.2%
PC	10%	29.6%
Agricultural machinery, etc.	12%	67.8%
Other	24%	-3.5%
Media	696	3.5x*
Mobile & Telecommunication	3,873	1.9x*
Elimination	-369	-2.6%
Segment profit		
Second-Hand Online	547	38.6%
Media	481	33.9%
Mobile & Telecommunication	390	27.5%
Adjustments	-763	

Note: Segment sales for FY6/20 are unaudited, so the YoY figures are only for reference.
Source: SESSA Partners from summary of financial results and earnings presentation

Forecast for FY6/21

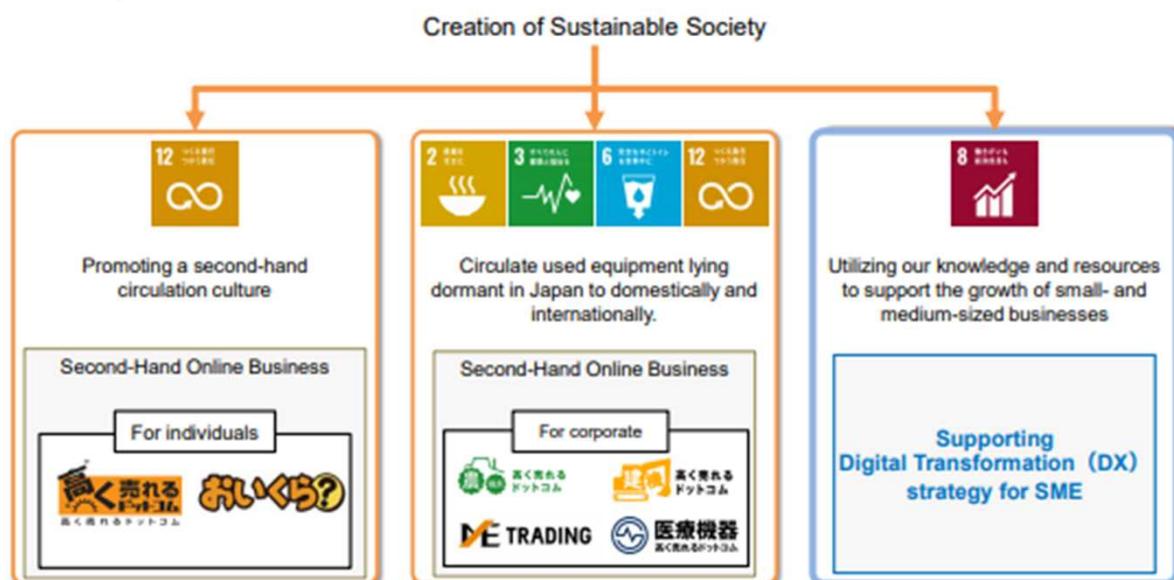
ME issued guidance in a range format, as shown in the table below, given the difficulty in formulating estimates based on reasonable grounds, due to the economic uncertainty caused by COVID-19. Sales are expected to be sluggish due to COVID-19, as seen during the emergency declaration in 4Q FY6/20, since restrictions on face-to-face contact will reduce door-to-door and in-store purchases, which are the main methods of purchase in the Second-Hand Online business, and business hours will likely be shortened at partner companies.

(Unit: JPY mn)	Lower bound	YoY	Upper bound	YoY
Net sales	13,500	23.8%	14,500	33.0%
Operating profit	730	11.3%	900	37.2%
Ordinary profit	733	10.4%	903	36.0%
Profit (AOP)	360	23.4%	450	54.3%

Source: Sessa Partners from summary of financial results

Meanwhile, the scheme would remain the same, whereby longer hours spent at home would be a boon for the Media and Mobile & Telecommunication businesses. That said, in the Mobile business, teleworking has become normalized at many companies, and this is expected to cause the ratio of high-margin new memberships to peak out, while the ratio of lower-margin but stable monthly communication fee revenue would increase. In FY6/21, the above-mentioned Oikura is expected to contribute fully. Oikura was acquired in February 2019, and it has continued to post strong growth since January 2020 after revamping the matching engine. In terms of business related to second-hand agricultural equipment, the firm only recently acquired the export business and marketplace, between May and June 2020, so measures to create synergies with existing businesses will be taken going forward. There are no competitors in this market that comprehensively handles the full range of operations, including exports, and it will be exciting to watch the firm’s growth in this business.

ME recently incorporated the 17 sustainable development goals (SDGs) into its management targets. This is a natural course of events, given that its second-hand business has a business model that contributes to a cyclical economy, but it bears attention that management has firmly underscored this point. This is an especially crucial point in investment decisions due to the increased importance placed on ESG evaluation of investment targets over the years, especially by overseas institutional investors. Although the foreign shareholding ratio currently stands at 5.9%, if the firm’s management philosophy were to gain broader awareness in the market, investors may be prompted to reappraise the shares.



Source: Sessa Partners from company materials (earnings presentation for FY6/20)

Income Statement

	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19	FY6/20
(Unit: JPY mn, %)	Parent	Parent	Consolidated	Consolidated	Consolidated	Consolidated
Net sales	3,989	4,863	5,631	6,333	8,473	10,904
Total cost of sales	2,090	2,647	3,190	3,679	5,040	6,662
Cost of sales	2,090	2,647	3,190	3,679	5,040	6,662
Gross profit	1,898	2,217	2,441	2,654	3,433	4,242
Gross profit margin	47.6	45.6	43.3	41.9	40.5	38.9
SG&A expenses	1,661	2,120	2,448	2,557	2,981	3,586
Operating profit	238	97	-7	96	452	656
Operating profit margin	6.0	2.0	-0.1	1.5	5.3	6.0
Non-operating profit	3	3	16	13	9	13
Non-operating expenses	13	6	5	14	6	5
Interest expense discount	2	2	2	2	3	4
Ordinary profit	228	93	4	95	455	664
Ordinary profit margin	5.7	1.9	0.1	1.5	5.4	6.1
Extraordinary profit/loss		-9	-7		-19	-41
Extraordinary loss		9	7		19	41
Pretax profit/loss	228	85	-3	95	437	623
Profit margin before income taxes	5.7	1.7	-0.1	1.5	5.2	5.7
Income taxes	91	35	18	38	171	243
Income taxes - current period	89	42	21	46	188	246
Income tax adjustments - deferred	1	-7	-3	-8	-18	-3
Profit attributable to owners of parent	137	50	-19	32	204	292
Net profit			-22	57	266	381
Profit attributable to non-controlling interests			-2	25	62	89
Profit margin attributable to owners of parent	3.4	1.0	-0.3	0.5	2.4	2.7
Total other comprehensive income						-4
Foreign currency translation adjustment - Statement of comprehensive profit						-4
Comprehensive profit			-22	57	266	377
Comprehensive profit attributable to owners of parent			-19	32	204	288
(Supplementary data)						
EBIT	230	87	-1	97	440	627
EBITDA	250	121	10	117	493	747
EBITDA margin	6.3	2.5	0.2	1.8	5.8	6.9
(Cost details)						
Total personnel expenses	444	576	672	666	750	
Personnel expenses	444	576	672	666	750	
Labor cost						
Rent (including leasing fee)						
Advertising expenses	306	316	377	434	517	
Packing/transportation/storage costs	171	198				
Travel/transportation/communication expenses						
R&D expenses						
Enterprise tax/taxes and dues						
Depreciation & amortization	12	24	17	20	31	37

Source: SPEEDA

Balance Sheet

J-GAAP	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19	FY6/20
(Unit: JPY mn, %)	Parent	Parent	Consolidated	Consolidated	Consolidated	Consolidated
Total assets	1,301	1,500	1,537	1,829	2,617	4,023
Current assets	1,182	1,319	1,365	1,495	2,118	3,069
Cash equivalents and short-term investment in securities	740	744	826	939	1,167	1,256
Cash and cash equivalents	740	744	826	939	1,167	1,256
Trade receivables	103	115	107	223	504	1,284
Inventories	311	373	358	225	376	417
Finished goods/merchandise	309	367	352	218	368	405
Other inventories	2	6	6	7	9	12
Advance payments - trade		10				
Prepaid expenses	21	34				
Deferred tax assets - current	6	9	15	23		
Non-current assets	119	181	172	334	500	954
Property, plant & equipment	31	72	60	132	145	359
Land	0	0	0	0	0	85
Intangible assets	0	1	5	22	109	314
Goodwill				14	87	281
Investments and other assets	88	108	108	180	246	281
Investment securities (incl. affiliated companies)	10	1	1	61	52	12
Investment securities	10	1	1	61	52	12
Long-term prepaid expenses	5	6				
Deferred tax assets - non-current	0	4	0	0	41	44
Total liabilities	418	568	619	852	1,373	2,398
Current liabilities	337	400	404	598	1,000	1,507
Trade payables	4	0	1	57	176	370
Accounts payable and accrued expenses	175	238	218	270	350	389
Short-term debt	50	125	145	166	234	480
Short-term borrowings (incl. lease obligations)				0	0	15
Current portion of long-term debt	50	125	145	166	234	465
Current portion of long-term borrowings	50	125	145	166	234	465
Advances received	2	1				
Non-current liabilities	82	168	215	254	373	891
Long-term debt	82	168	215	254	368	882
Long-term borrowings (incl. lease obligations)	82	168	215	254	368	882
Total net assets	883	932	918	977	1,245	1,625
Total shareholders' equity	883	932	913	947	1,153	1,441
Shareholders' equity	883	932	913	946	1,151	1,444
Common stock	305	305	305	305	306	307
Capital surplus	285	285	285	285	286	286
Retained earnings	293	343	324	356	559	851
Legal retained earnings	2	2				
Treasury shares		0	0	0	0	0
Valuation and translation adjustments						-4
Foreign currency translation adjustments						-4
Share acquisition rights				1	1	1
Non-controlling interests			5	30	92	184
(Supplementary data)						
Shareholders' equity ratio	67.87	62.13	59.40	51.78	44.06	35.82
ROE	25.85	5.51		3.44	19.43	22.51
ROA	14.34	3.57		1.90	9.18	8.80
ROIC	21.40	5.54		4.34	17.32	17.09
Interest-bearing debt	132	293	360	420	602	1,362
D/E ratio	0.15	0.31	0.39	0.44	0.52	0.95
Net D/E ratio	-0.69	-0.48	-0.51	-0.55	-0.49	0.07
Interest-bearing debt/EBITDA	0.53	2.42	36.00	3.59	1.22	1.82
Net interest-bearing debt/EBITDA						0.14
Accumulated depreciation of property, plant and equipment	39	60	43	59	86	115

Source: SPEEDA

Cash Flow Statements

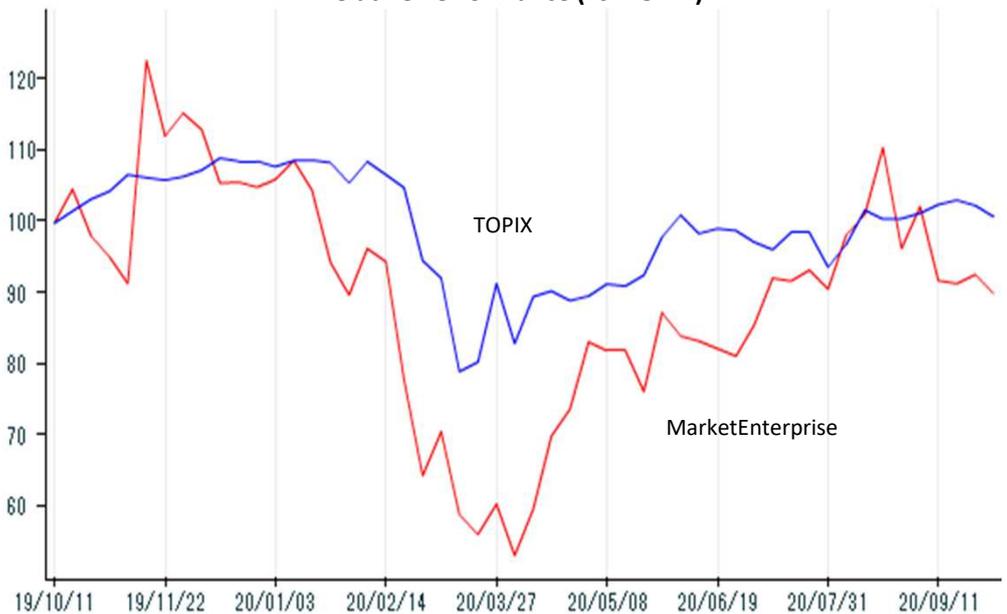
J-GAAP (Unit: JPY mn, %)	FY6/15 Parent	FY6/16 Parent	FY6/17 Consolidated	FY6/18 Consolidated	FY6/19 Consolidated	FY6/20 Consolidated
Operating activities	-32	-61	27	246	224	-65
Depreciation and positive goodwill amortization-CF	12	24	17	21	41	91
Depreciation-CF	12	24	17	20	31	37
Positive goodwill amortization-CF				1	10	54
Valuation gains/losses on securities and investment securities		9			19	40
Interest and dividends received-Operating CF	0	0	0	0	0	0
Interest paid-Operating CF	-2	-2	-2	-2	-3	-4
Investing activities	-67	-92	-20	-149	-155	-603
Acquisition of securities and investment securities	-10			-60	-10	
Acquisition of investment securities	-10			-60	-10	
Acquisition and sale of property, plant and equipment	-26	-61	-8	-54	-12	-35
Acquisition of property, plant and equipment	-26	-61	-14	-54	-12	-35
Sale of property, plant and equipment			6			
Acquisition and sale of intangible fixed assets			-4	-5	-14	-7
Acquisition of intangible fixed assets			-4	-5	-14	-7
Financing activities	513	157	74	17	159	760
Increase in long-term debt		250	220	200	400	1,100
Proceeds from long-term debt		250	220	200	400	1,100
Repayment of long-term debt	-50	-89	-153	-172	-232	-331
Repayment of long-term borrowings	-50	-89	-153	-172	-232	-331
Issuance of shares	569		7			
Redemption and retirement of shares		0				
Effect of exchange rate change on cash and cash equivalents						-4
Net increase in cash and cash equivalents	414	5	81	113	228	89
Cash and cash equivalents, beginning of period	325	740	744	826	939	1,167
Cash and cash equivalents, end of period	740	744	826	939	1,167	1,256
Free cash flow	-99	-153	7	97	69	-668

Source: SPEEDA

Share Price Chart (52 Weeks)



Relative Performance (vs. TOPIX)



Source: SPEEDA

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