

Syuppin (3179, JP)

Exchange: Tokyo Stock Exchange 1

Sector: Retail

Market Cap: JPY17.2 billion

P/B: 5.8x (3/16 act)

Recommendation: BUY

Share Price: JPY1,439 (12/26/2016)

Target Price: JPY1,906

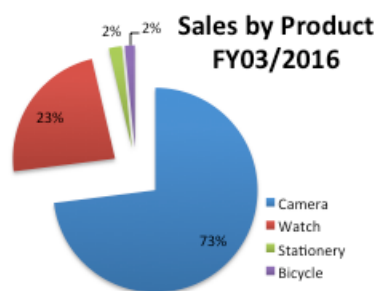
P/E: 23.8x (3/17 CE)

Div. Yield: 0.5% (3/17 CE)



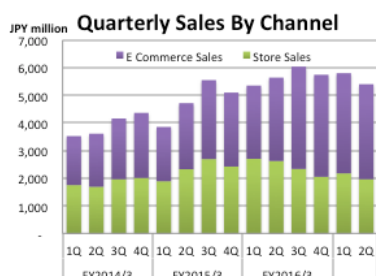
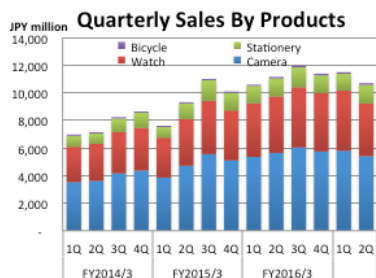
Highlight

Titlis initiates BUY recommendation of Syuppin (3179, JP) at this time. 'Reuse' market of 18 large operators grew 7.4% YoY to JPY393 billion for FY03/2016 and is expected to keep growing at solid rate. Increasing number of consumers are shopping in Internet year by year and used Camera market is expanding at faster of all reused items. Those are tailwinds for the company that focuses on Internet channel and 4 categories such as Camera, Watch and Stationery. For ongoing full year outlook, the earnings of the company is very likely to achieve company's guidance buoyed by favorable growth of e-Commerce sale. In mid-term, the earnings are expected to continue solid growth due to e-Commerce channel, although Internet flea market on smartphones is a threat. The share price is very likely to move higher on its solid growth in e-Commerce sale at +30% YoY. The solid topline growth will reduce SGA/Sales and hence increase its earnings. The share price has positive correlation with EBITDA. On this analysis, the share price will go up to JPY1,906. For FY03/2017 its free cash flow is likely to turn positive and this will result in further improvement in its balance sheet.



Business Description

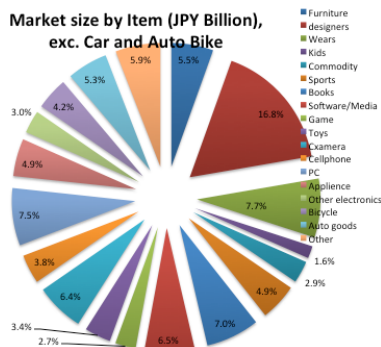
Syuppin is a reused items retailer, using Internet channel and a real store of each product category. The company was established in August 2005 as a Camera retailer and added Watch, Stationery and Sport-Bicycle. Sale by product, Camera is the largest of 73% of total sale, Watch is the 2nd largest sale of 23%, Stationery is 2% and Bicycle is 2%. Sales by channel, e-Commerce is expanding rapidly to 63.7% of total sales as of 2Q FY03/2017 from 50% in 1Q FY03/2014. The company runs 1 real outlet in Shinjuku for Camera, Watch and Stationery and 1 small outlet in Yoyogi for Bicycle, both of which are near by its head office.



Industry Overview and Competitive Positioning

Industry Overview

Brand-new camera and peripheral market is estimated to be JPY195.5 billion and watch is JPY693.8 billion for FY2015 (data source: Camera & Imaging Products Association, CIPA). According to survey by Ministry of the Environment (MOE), used Camera market grew 53.2% to JPY71.4 billion for FY2015 from JPY46.6 billion for FY2012. Although used Camera market is growing very fast, the difference of market size between new and used would



be potential growth for reuse market of Camera. Another data from the Ministry shows rapid growth of Internet channel (Internet auction, Internet shopping and Internet flea market) of used Camera. Of JPY71.4 million used Camera market, JPY52.0 billion was Internet channel and JPY17.5 billion was real store for FY2015. 75% of users used Internet channel and 25% used real store. For FY2012, Internet channel was 66.7% and real store was 28.8%. Internet based used Camera market is expanding, too.

Competitive Positioning: SWOT Analysis

Strength

Internet based reuse retailer

As on the above Industry Overview, used Camera market is accelerating to Internet channel. This is a tailwind for Syuppin that is strengthening e-Commerce business and raised Internet sale to 63.7% for 2Q FY03/2017.

Quality of customer service

Syuppin focuses on selective goods that are relatively expensive goods (i.e. Watch's average sale price is JPY0.8 million). For expensive goods, quality of customer service would increase customer satisfaction. The company offers experts and real store for each specialty goods. Running real store is costly but store staff takes care of customers politely with adequate advice when I visited. This would lead to a value of the company.

Synergy with sale of brand-new items

Syuppin sells not only used camera but also brand-new camera. This brings synergy to the sale. A customer who wants to sell his used camera is more likely to buy a brand-new camera at Syuppin and vice versa. A customer who wants to buy a new camera is more likely to sell his camera at Syuppin. The company also offers frequent buyer program, encouraging loyal customers to buy more often items.

Weakness

Shrinking brand-new market under soggy consumer spending

As consumer expenditure is growing at slower due to decrease in population, slower brand-new market will result in decrease in used market. This would be a negative factor for the growth of the company, as expansion of used market is the key.

Slower pace of new model entry

If new model enters into marketplace at slower pace or fewer attractive new models comes to consumers, used market will not grow at faster and the sale of the company will hardly increase.

Opportunity

Focusing Internet channel

As on the above Industry Overview, Internet channel of used Camera is accelerating to 75% from 66.7% from 3 years ago. Internet channel. This is a

tailwind for Syuppin that is strengthening e-Commerce business and raised Internet sale to 63.7% for 2Q FY03/2017.

Higher growth and potential of used Camera

Used Camera market grew 53.2% to JPY71.4 billion for FY2015 from JPY46.6 3 years ago. In addition, brand-new Camera's market is quite large of JPY195.5 billion. There is still huge potential for the market and the company, as its Camera sale for FY03/2016 remained at JPY16.5 billion.

Threat

C to C business of smartphone flea market

As increasing number of young generation uses smartphone appli, Internet flea market operators are growing business. 10 agers and 20 agers are more likely to use smartphone appli than PC based web shopping. Furthermore, Such a flea market is C to C business and lower cost than B to C operators like Shuppin. Those C to C flea market site is popular among them. If this trend strengthens, it would be thereat for the company, although the company plans to release smartphone appli in next year.

Investment Summary

Business Outlook

Due to sharp increase of inbound sale for 1H of FY03/2016, the sale in this year looks soft, but its solid growth is really maintained other than such an extraordinary demand. Total sale is expected to keep double-digit growth led by solid expansion of e-Commerce channel for mid-term.

Competitive Positioning and Risks

On a SWOT analysis above, the company is in strong position in the industry. The company focuses on higher growth market of Internet channel and used Camera. Consumers are more likely to shop in Internet and used Camera expanded 53.2% fir 3 years. Brand-new Camera market is much larger than used market and this implies large potential of this item. Quality of customer service with well-knowledgeable sale staff and a real store would be advantages. Younger generation such as 10 agers and 20 agers are more often uses flea market sites on smartphones. This would be a threat for the company for the mid-term.

Valuation

The share price is very likely to move higher on expectations of positive outlook for mid-term. On a correlation between share price and EBITDA, there is upside potential for the share price to JPY1,906 for FY03/2017(E). Sum-of-the-parts NAV will increase from JPY1,302 for FY03/2017(E) to JPY1,995 for FY03/2020 on its positive growth outlook. EV/EBITDA is likely to come down on higher cash flows.

Financial Stability

Turning positive free cash flow for FY03/2017(E), financial stability of the company is very likely to improve.

Business Outlook

Monthly Store Sale

Due to sharp increase of sale to foreign visitors in 2Q of the previous year, sale softened YoY for 2Q in this year, but was likely to hit bottom in August and recover growth in 3Q buoyed by e-Commerce Sale. (see table below).

| FY2016/3 | Total Sales | YoY | EC Sales | YoY | FY2017/3 | Total Sales | YoY | EC Sales | YoY |
|----------|-------------|--------|----------|--------|----------|-------------|--------|----------|--------|
| 4 | 1,602 | 137.6% | 763 | 127.4% | 4 | 2,076 | 129.6% | 1,268 | 166.2% |
| 5 | 1,848 | 143.9% | 906 | 137.3% | 5 | 1,969 | 106.5% | 1,208 | 133.3% |
| 6 | 1,899 | 135.3% | 984 | 139.2% | 6 | 1,752 | 92.3% | 1,149 | 116.8% |
| 7 | 2,062 | 135.3% | 1,105 | 142.0% | 7 | 1,840 | 89.2% | 1,202 | 108.8% |
| 8 | 1,815 | 114.2% | 923 | 116.7% | 8 | 1,662 | 91.6% | 1,035 | 112.1% |
| 9 | 1,760 | 110.1% | 990 | 120.3% | 9 | 1,896 | 107.7% | 1,200 | 121.2% |
| 10 | 1,775 | 106.5% | 1,066 | 116.8% | 10 | 2,020 | 113.8% | 1,223 | 114.7% |
| 11 | 1,880 | 109.6% | 1,146 | 134.0% | 11 | 2,114 | 112.4% | 1,341 | 117.0% |
| 12 | 2,378 | 109.9% | 1,489 | 136.7% | 12 | 3,057 | 128.6% | 2,117 | 142.2% |
| 1 | 1,794 | 103.8% | 1,129 | 132.7% | 1 | 2,196 | 122.4% | 1,559 | 138.1% |
| 2 | 1,773 | 113.4% | 1,173 | 149.6% | 2 | 2,341 | 132.0% | 1,819 | 155.1% |
| 3 | 2,173 | 120.7% | 1,391 | 133.5% | 3 | 3,027 | 139.3% | 1,932 | 138.9% |
| 1Q | 5,349 | 138.9% | 2,653 | 134.9% | 1Q | 5,797 | 108.4% | 3,625 | 136.6% |
| 2Q | 5,637 | 119.6% | 3,018 | 126.2% | 2Q | 5,398 | 95.8% | 3,437 | 113.9% |
| 3Q | 6,033 | 108.8% | 3,701 | 129.5% | 3Q | 7,191 | 119.2% | 4,681 | 126.5% |
| 4Q | 5,740 | 112.7% | 3,693 | 138.0% | 4Q | 7,565 | 131.8% | 5,310 | 143.8% |
| YR | 22,759 | 118.5% | 13,065 | 132.1% | YR | 25,951 | 114.0% | 17,053 | 130.5% |

(Source) Syuppin, titlis

Company Outlook for Full Year FY03/2017

The company kept on hold its full year outlook. Sale will be up 12.8% YoY to JPY25,600 million and OP, RP and NP are expected to gain 30.4% YoY to JPY1,085 million, 30.3% YoY to JPY1,070 million, 29.3% YoY to JPY724 million respectively.

Titlis forecast for FY03/2017

Based on monthly sale forecast shown on the table above, earnings for the full year will be close to the company forecast. Sales are expected to rise 14.1% YoY to JPY25,906 million and OP, RP and NP are expected to gain 30.4% YoY to JPY1,082 million, 30.6% YoY to JPY1,072 million, 30.6% YoY to JPY730 million respectively (see table below).

| FY2016/3 | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit |
|----------------|--------|---------|--------|--------------|--------|--------|-------|------|-------|-------|------|----------|------------|
| 1Q (act) | 5,337 | -4,438 | -83.2% | 899 | -710 | -13.3% | 189 | 3.5% | 185 | 185 | -61 | 0 | 124 |
| 2Q (act) | 5,624 | -4,671 | -83.1% | 953 | -708 | -12.6% | 244 | 4.3% | 240 | 239 | -80 | 0 | 159 |
| 3Q (act) | 6,017 | -5,027 | -83.5% | 990 | -754 | -12.5% | 236 | 3.9% | 232 | 232 | -78 | 0 | 154 |
| 4Q (act) | 5,727 | -4,840 | -84.5% | 887 | -725 | -12.7% | 163 | 2.8% | 164 | 164 | -41 | 0 | 123 |
| Full Year | 22,705 | -18,976 | -83.6% | 3,729 | -2,897 | -12.8% | 832 | 3.7% | 821 | 820 | -260 | 0 | 560 |
| 46.81 | | | | | | | | | | | | | 29.56 |
| FY2017/3 (E) | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit |
| 1Q (act) | 5,779 | -4,801 | -83.1% | 978 | -725 | -12.5% | 253 | 4.4% | 248 | 248 | -77 | 0 | 171 |
| 2Q (act) | 5,382 | -4,443 | -82.6% | 939 | -719 | -13.4% | 219 | 4.1% | 218 | 217 | -68 | 0 | 149 |
| 3Q (E) | 7,186 | -5,953 | -83.0% | 1,234 | -901 | -12.5% | 333 | 4.6% | 327 | 327 | -106 | 0 | 221 |
| 4Q (E) | 7,559 | -6,324 | -84.0% | 1,235 | -957 | -12.7% | 278 | 3.7% | 279 | 279 | -90 | 0 | 189 |
| Full Year (E) | 25,906 | -21,520 | -83.1% | 4,386 | -3,302 | -12.7% | 1,082 | 4.2% | 1,072 | 1,071 | -341 | 0 | 730 |
| 61.01 | | | | | | | | | | | | | 23.59 |
| Full Year (CE) | 25,600 | -21,211 | -82.9% | 4,389 | -3,303 | -12.9% | 1,085 | 4.2% | 1,070 | 1,071 | -341 | 0 | 724 |
| 60.50 | | | | | | | | | | | | | 23.79 |

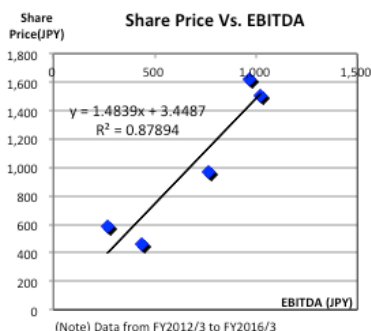
Mid-Term Outlook

Syuppin posted its mid-term projection in its MTP. Due to upbeat e-Commerce of +30% YoY, Titlis assumes total sale is expected to grow +11.3% for FY03/2018, +9.6% YoY for FY03/2019 and +8.7% YoY for FY03/2020. Gap

between company and Titlis projection will be widening from FY03/2019 (see the table below). Titlis does not assume further recovery of Bicycle segment, as the nature of product and lower benefit from e-Commerce sale. Consumers are more likely to buy and try real item at store than just look at pictures in web site. The company plans to enter into cross border e-Commerce in FY03/2018 and extra sale from the new business would fill the gap. Mid-term projection by Titlis should hold the current forecast until we find how the new business is going.

| | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | | |
|---------------------|--------|---------|--------|--------------|--------|--------|-------|------|-------|-------|------|----------|------------|--------|-------|
| FY2017/3 (E) | | | | | | | | | | | | | | | |
| 1Q (act) | 5,779 | -4,801 | -83.1% | 978 | -725 | -12.5% | 253 | 4.4% | 248 | 248 | -77 | 0 | 171 | | |
| 2Q (act) | 5,382 | -4,443 | -82.6% | 939 | -719 | -13.4% | 219 | 4.1% | 218 | 217 | -68 | 0 | 149 | | |
| 3Q (E) | 7,186 | -5,953 | -83.0% | 1,234 | -901 | -12.5% | 333 | 4.6% | 327 | 327 | -106 | 0 | 221 | | |
| 4Q (E) | 7,559 | -6,324 | -84.0% | 1,235 | -957 | -12.7% | 278 | 3.7% | 279 | 279 | -90 | 0 | 189 | | |
| Full Year (E) | 25,906 | -21,520 | -83.1% | 4,386 | -3,302 | -12.7% | 1,082 | 4.2% | 1,072 | 1,071 | -341 | 0 | 730 | 61.01 | 23.59 |
| Full Year (CE) | 25,600 | -21,211 | -82.9% | 4,389 | -3,303 | -12.9% | 1,085 | 4.2% | 1,070 | | | | 724 | 60.50 | 23.79 |
| FY2018/3 (E) | | | | | | | | | | | | | | | |
| 1Q (E) | 6,423 | -5,322 | -83.1% | 1,100 | -799 | -12.4% | 301 | 4.7% | 297 | 297 | -96 | 0 | 201 | | |
| 2Q (E) | 5,914 | -4,853 | -82.6% | 1,061 | -784 | -13.3% | 277 | 4.7% | 273 | 273 | -88 | 0 | 185 | | |
| 3Q (E) | 8,020 | -6,616 | -83.0% | 1,405 | -998 | -12.4% | 407 | 5.1% | 403 | 403 | -130 | 0 | 273 | | |
| 4Q (E) | 8,527 | -7,107 | -84.0% | 1,421 | -1,072 | -12.6% | 349 | 4.1% | 345 | 345 | -112 | 0 | 234 | | |
| Full Year (E) | 28,884 | -23,898 | -82.7% | 4,986 | -3,652 | -12.6% | 1,334 | 4.6% | 1,319 | 1,319 | -426 | 0 | 892 | 74.55 | 19.30 |
| Full Year (CE) | 29,450 | -24,390 | -82.8% | 5,060 | -3,648 | -12.4% | 1,411 | 4.8% | 1,400 | | | | 947 | | |
| FY2019/3 (E) | | | | | | | | | | | | | | | |
| 1Q (E) | 7,040 | -5,830 | -83.1% | 1,210 | -844 | -12.0% | 365 | 5.2% | 362 | 362 | -117 | 0 | 245 | | |
| 2Q (E) | 6,470 | -5,305 | -82.6% | 1,165 | -829 | -12.8% | 337 | 5.2% | 333 | 333 | -108 | 0 | 225 | | |
| 3Q (E) | 8,792 | -7,249 | -83.0% | 1,543 | -1,054 | -12.0% | 489 | 5.6% | 486 | 486 | -157 | 0 | 329 | | |
| 4Q (E) | 9,357 | -7,798 | -84.0% | 1,559 | -1,134 | -12.1% | 426 | 4.5% | 422 | 422 | -136 | 0 | 285 | | |
| Full Year (E) | 31,659 | -26,181 | -82.7% | 5,478 | -3,861 | -12.2% | 1,617 | 5.1% | 1,602 | 1,602 | -518 | 0 | 1,084 | 90.54 | 15.89 |
| Full Year (CE) | 33,850 | -27,992 | -82.7% | 5,858 | -4,044 | -12.2% | 1,813 | 5.4% | 1,805 | | | | 1,221 | | |
| FY2020/3 (E) | | | | | | | | | | | | | | | |
| 1Q (E) | 7,652 | -6,335 | -83.1% | 1,317 | -883 | -11.5% | 433 | 5.7% | 430 | 430 | -139 | 0 | 291 | | |
| 2Q (E) | 7,072 | -5,797 | -82.6% | 1,275 | -874 | -12.4% | 401 | 5.7% | 397 | 397 | -128 | 0 | 269 | | |
| 3Q (E) | 9,568 | -7,889 | -83.0% | 1,679 | -1,104 | -11.5% | 575 | 6.0% | 572 | 572 | -185 | 0 | 387 | | |
| 4Q (E) | 10,203 | -8,507 | -84.0% | 1,696 | -1,190 | -11.7% | 506 | 5.0% | 502 | 502 | -162 | 0 | 340 | | |
| Full Year (E) | 34,495 | -28,528 | -82.7% | 5,967 | -4,052 | -11.7% | 1,916 | 5.6% | 1,901 | 1,901 | -615 | 0 | 1,286 | 107.44 | 13.39 |
| Full Year (CE) | | | | | | | | | | | | | | | |

(Source) Syuppin, titlis



Valuation

The share price seems to have upside potential on its earnings growth in mid-term. The relationship between the share price and EBITDA shows correlation from FY03/2012 and FY03/2016. Using this correlation, the share price is estimated to rise to JPY1,906 for FY03/2017. EV/EBITDA will fall to 13.4x for this year from 17.5x from the previous year, and the share price will rise on upbeat EBITDA in mid-term. Regarding breakup value based on business value adding to net cash, the share price is traded at 10.5% higher than NAV for FY03/2017(E). But NAV for FY03/2020(E) is estimated to increase to JPY1,995, which shows 28% upside potential.

EBITDA and Share Price

There is highly correlation between the share price and EBITDA. Examining historical share price and EBITDA of the company from FY03/2012 to FY03/2016, the relationship is 89% explained (see scatter chart on the left). Applying this result to project share price on EBITDA forecast by Titlis, the share price would be JPY1,906 for FY03/2017(E), JPY2,280 for FY03/2018(E). Based on this analysis, there would be more room of upside potential for the share price.

| | EBIT | DA | EBITDA | EPS | High | Low | Share Price |
|----------|-------|-----|--------|--------|-------|-------|-------------|
| FY2012/3 | 211 | 55 | 266 | | 688 | 492 | 590 |
| FY2013/3 | 389 | 49 | 438 | 44.22 | 570 | 358 | 464 |
| FY2014/3 | 701 | 65 | 766 | 65.79 | 1,540 | 400 | 970 |
| FY2015/3 | 886 | 84 | 970 | 47.08 | 1,960 | 1,277 | 1,619 |
| FY2016/3 | 832 | 189 | 1,021 | 46.81 | 2,148 | 873 | 1,511 |
| FY2017/3 | 1,082 | 200 | 1,282 | 61.01 | 1,296 | 972 | 1,906 |
| FY2018/3 | 1,334 | 200 | 1,534 | 74.55 | | | 2,280 |
| FY2019/3 | 1,617 | 200 | 1,817 | 90.54 | | | 2,699 |
| FY2020/3 | 1,916 | 200 | 2,116 | 107.44 | | | 3,143 |

EV/EBITDA

EV/EBITDA for FY03/2017(E) is estimated to be 13.4x and will come down to 7.3x for FY03/2020(E). Considering business outlook in particular prospective expansion of e-Commerce, mid-term growth of EBIDA is very likely. In this point, it would be reasonable for the share price to go up.

| | Mar-14 | Mar-15 | Mar-16 | Mar-17(E) | Mar-18(E) | Mar-19(E) | Mar-20(E) |
|---------------|-----------|------------|------------|------------|------------|------------|------------|
| Avg. Mkt. Cap | JPY 5,750 | JPY 15,044 | JPY 18,087 | JPY 17,225 | JPY 17,225 | JPY 17,225 | JPY 17,225 |
| EV | JPY 6,543 | JPY 16,000 | JPY 19,364 | JPY 18,311 | JPY 17,765 | JPY 16,999 | JPY 16,039 |
| EV/EBITDA | 7.70 | 15.18 | 17.52 | 13.40 | 10.98 | 8.94 | 7.29 |
| EV/EBIT | 9.33 | 18.06 | 23.27 | 16.92 | 13.32 | 10.51 | 8.37 |
| EV/FCF | -44.82 | -61.07 | -58.15 | 63.75 | 28.19 | 20.00 | 15.37 |

Breakup Value

Assessing breakup value of business value (normalizing EBIT, EBITDA and FCF for FY03/2013-FY03/2017(E) or FY03/2020(E)) adding to net cash (plus long-term investment), the sum of the parts NAV is estimated to be JPY1,302 a share for FY03/2017(E), which is 10.5% lower than closing price of December 26th 2016. Current share price is likely to discount further growth of earnings beyond ongoing fiscal year of FY03/2017. The NAV based on future earnings for FY03/2020 is estimated to be JPY1,995 a share, which is 28% higher than the closing price (see the table below).

| NAVs: | | | NAVs: | | |
|------------------------------------|------------------|---------------|-------------------------|------------------|--------------|
| Sum of the parts NAV FY2017/3 (E): | | | Future NAV 2020/3 (E): | | |
| Camera | 1,654 | 25x FCF | Camera | 2,044 | 25x FCF |
| Watch | 287 | 25x FCF | Watch | 294 | 25x FCF |
| Stationery | 48 | 25x FCF | Stationery | 58 | 25x FCF |
| Bicycle | (17) | 15x EBITDA | Bicycle | (8) | 15x EBITDA |
| Adjustment | (579) | 15x EBITDA | | (491) | 15x EBITDA |
| Cash | 58 | 1x Book | Cash | 248 | 1x Book |
| Investment | - | 0.75x Book | Investment | - | 0.75x Book |
| Land | - | 0.75x Book | Land | - | 0.75x Book |
| Debt | (149) | 1x Book | Debt | (149) | 1x Book |
| Minority Interest | - | 1x Book | Minority Interest | - | 1x Book |
| Total SOTP NAV | JPY 1,302 | 110.5% | Total Future NAV | JPY 1,995 | 72.1% |

Financial Analysis

As shown higher return on equity, Syuppin focuses on its main business with light assets. OP margin are likely to gain at solid pace in line with expansion of e-Commerce sale. In particular, FCF is expected to turn positive for this fiscal year and will increase year by year. This will improve its balance sheet further.

| Financial Ratios: | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17(E) | Mar-18(E) | Mar-19(E) | Mar-20(E) |
|------------------------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|
| ROE | | 24.94% | 27.91% | 22.31% | 23.85% | 23.22% | 22.20% | 21.01% |
| Gross Margin | 18.86% | 18.75% | 17.47% | 16.42% | 16.93% | 17.26% | 17.30% | 17.30% |
| EBITDA Margin | 4.19% | 5.45% | 5.50% | 4.87% | 5.27% | 5.60% | 6.00% | 6.38% |
| EBIT Margin | 3.12% | 4.49% | 4.62% | 3.66% | 4.18% | 4.62% | 5.11% | 5.55% |
| Return on Assets | 6.64% | 9.15% | 11.02% | 9.48% | 10.87% | 11.38% | 11.85% | 12.07% |
| Return on Fixed Assets | 211.93% | 382.35% | 354.09% | 408.76% | 533.10% | 651.39% | 791.14% | 938.77% |
| Revenue / Assets | 358.31% | 366.10% | 375.22% | 384.37% | 385.58% | 368.33% | 346.17% | 323.75% |
| Depreciation / Capex | 37.98% | 28.89% | 32.06% | 56.76% | 100.00% | 100.00% | 100.00% | 100.00% |
| Depn / Sales | 0.39% | 0.42% | 0.44% | 0.83% | 0.77% | 0.69% | 0.63% | 0.58% |
| Capex / Sales | 1.04% | 1.44% | 1.37% | 1.47% | 0.77% | 0.69% | 0.63% | 0.58% |
| Depn / Net FA | 44.95% | 63.73% | 52.83% | 137.96% | 145.99% | 145.99% | 145.99% | 145.99% |
| Asset / Equity | 2.55 | 2.41 | 2.25 | 2.15 | 1.99 | 1.82 | 1.68 | 1.57 |
| Equity / Asset | 39.16% | 41.44% | 44.40% | 46.61% | 50.18% | 55.03% | 59.61% | 63.72% |
| Total Debt / EBITDA | 2.34 | 1.45 | 1.37 | 1.61 | 1.30 | 1.10 | 0.94 | 0.81 |

Investment Risks

To increase used market of items such as Camera, Watch, Stationery and Bicycle is a key of sales growth for Syuppin. The risk would be lower at this moment, as used market of such items are growing in particular Internet channel. Another risk on C to C based flea market sites would be higher risk as they are likely offer at lower sale price and young generation use more smartphone flea market sites. But quality of customer service of the company would reduce some of the risk.

Slower brand-new market (Less Likely, Low Risk)

Key of growth for the company is how much attractive items are provided to customers at reasonable price. Therefore, procurement of used items that customers need is important. New model market is unlikely to grow at faster due to anemic consumer spending in Japan. However the potential of used items such as Camera is much smaller than new models and used market is rapidly growing led by fast growing Internet channel. Also, Camera makers are providing new models added value yearly basis to attract customers and increase revenue. This is one of the company's advantages, but brand-new market is likely to soft due to decreasing population in Japan.

As market of brand-new items decreases, market of used items will decrease in near future. Retail sales and consumer spending in Japan has been flat for a decade and will decrease alongside in further decrease in population.

Slower consumer spending (Less Likely, Less Risk)

Consumer spending has been flat for more than a decade and is unlikely to grow at faster on the decrease of population. However, budget-mind and environmental-mind are spreading over consumers and they are more likely to buy used items. These mind of consumers are a tailwind for the company. If overall consumer spending remains flat or slower or another consumption hike will hurt retail sales in this country, reuse market or e-commerce market is less likely to suffer.

C to C based business (Likely, Mid Risk)

Smartphone based Internet shopping is accelerating in the world. Flea market operators on such devices are growing rapidly. This is a mid-term risk for the company. Flea market operators on smartphone focuses on C to C business many of which offer at lower price than B to C operators. The new Internet channel is popular among 10 agers and 20 agers and will expand at rapid pace. This trend will not be a marginal risk for the company, although the company plans to release smartphone appli in the next year. However, the company's advantage includes sale staff with expertise about products and a real store. Knowledgeable advice and display at real store are costly but would deliver value to customers.

Aki Matsumoto, CFA
akimatsumoto@titlisgroup.com

Titlis Group

corporate governance, investment research & solutions

Appendix

| FY2013/3 | JPY million | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | EPS | P/E |
|----------------|-------------|--------|---------|--------|--------------|--------|--------|-------|------|-------|-------|------|----------|------------|--------|-------|
| 1Q (act) | | | | | | | | | | | | | | | | |
| 2Q (act) | | 5,664 | -4,587 | -81.0% | 1,076 | -917 | -16.2% | 159 | 2.8% | 148 | 158 | -60 | 0 | 98 | | |
| 3Q (act) | | 3,333 | -2,714 | -81.4% | 619 | -513 | -15.4% | 105 | 3.2% | 95 | 95 | -37 | 0 | 58 | | |
| 4Q (act) | | 3,465 | -2,811 | -81.1% | 655 | -531 | -15.3% | 125 | 3.6% | 122 | 122 | -46 | 0 | 76 | | |
| Full Year | | 12,462 | -10,112 | -81.1% | 2,350 | -1,961 | -15.7% | 389 | 3.1% | 365 | 375 | -143 | 0 | 232 | 44.22 | 10.49 |
| FY2014/3 | | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | | |
| 1Q (act) | | 3,510 | -2,812 | -80.1% | 697 | -525 | -15.0% | 172 | 4.9% | 168 | 167 | -64 | 0 | 103 | | |
| 2Q (act) | | 3,598 | -2,923 | -81.2% | 675 | -546 | -15.2% | 129 | 3.6% | 125 | 121 | -46 | 0 | 75 | | |
| 3Q (act) | | 4,145 | -3,384 | -81.6% | 762 | -544 | -13.1% | 217 | 5.2% | 214 | 214 | -82 | 0 | 132 | | |
| 4Q (act) | | 4,350 | -3,558 | -81.8% | 792 | -610 | -14.0% | 183 | 4.2% | 182 | 128 | -48 | 0 | 80 | | |
| Full Year | | 15,603 | -12,677 | -81.2% | 2,926 | -2,225 | -14.3% | 701 | 4.5% | 689 | 630 | -240 | 0 | 390 | 65.79 | 14.74 |
| FY2015/3 | JPY million | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | EPS | P/E |
| 1Q (act) | | 3,844 | -3,154 | -82.0% | 689 | -569 | -14.8% | 119 | 3.1% | 115 | 115 | -41 | 0 | 74 | | |
| 2Q (act) | | 4,703 | -3,900 | -82.9% | 803 | -581 | -12.4% | 223 | 4.7% | 218 | 214 | -77 | 0 | 137 | | |
| 3Q (act) | | 5,535 | -4,589 | -82.9% | 947 | -601 | -10.9% | 346 | 6.3% | 342 | 342 | -122 | 0 | 220 | | |
| 4Q (act) | | 5,084 | -4,174 | -82.1% | 909 | -710 | -14.0% | 198 | 3.9% | 195 | 195 | -62 | 0 | 133 | | |
| Full Year | | 19,166 | -15,817 | -82.5% | 3,349 | -2,461 | -12.8% | 886 | 4.6% | 870 | 866 | -302 | 0 | 564 | 47.08 | 26.69 |
| FY2016/3 | | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | | |
| 1Q (act) | | 5,337 | -4,438 | -83.2% | 899 | -710 | -13.3% | 189 | 3.5% | 185 | 185 | -61 | 0 | 124 | | |
| 2Q (act) | | 5,624 | -4,671 | -83.1% | 953 | -708 | -12.6% | 244 | 4.3% | 240 | 239 | -80 | 0 | 159 | | |
| 3Q (act) | | 6,017 | -5,027 | -83.5% | 990 | -754 | -12.5% | 236 | 3.9% | 232 | 232 | -78 | 0 | 154 | | |
| 4Q (act) | | 5,727 | -4,840 | -84.5% | 887 | -725 | -12.7% | 163 | 2.8% | 164 | 164 | -41 | 0 | 123 | | |
| Full Year | | 22,705 | -18,976 | -83.6% | 3,729 | -2,897 | -12.8% | 832 | 3.7% | 821 | 820 | -260 | 0 | 560 | 46.81 | 29.56 |
| FY2017/3 (E) | | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | | |
| 1Q (act) | | 5,779 | -4,801 | -83.1% | 978 | -725 | -12.5% | 253 | 4.4% | 248 | 248 | -77 | 0 | 171 | | |
| 2Q (act) | | 5,382 | -4,443 | -82.6% | 939 | -719 | -13.4% | 219 | 4.1% | 218 | 217 | -68 | 0 | 149 | | |
| 3Q (E) | | 7,186 | -5,953 | -83.0% | 1,234 | -901 | -12.5% | 333 | 4.6% | 327 | 327 | -106 | 0 | 221 | | |
| 4Q (E) | | 7,559 | -6,324 | -84.0% | 1,235 | -957 | -12.7% | 278 | 3.7% | 279 | 279 | -90 | 0 | 189 | | |
| Full Year (E) | | 25,906 | -21,520 | -83.1% | 4,386 | -3,302 | -12.7% | 1,082 | 4.2% | 1,072 | 1,071 | -341 | 0 | 730 | 61.01 | 23.59 |
| Full Year (CE) | | 25,600 | -21,211 | -82.9% | 4,389 | -3,303 | -12.9% | 1,085 | 4.2% | 1,070 | | | | 724 | 60.50 | 23.79 |
| FY2018/3 (E) | | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | | |
| 1Q (E) | | 6,423 | -5,322 | -83.1% | 1,100 | -799 | -12.4% | 301 | 4.7% | 297 | 297 | -96 | 0 | 201 | | |
| 2Q (E) | | 5,914 | -4,853 | -82.6% | 1,061 | -784 | -13.3% | 277 | 4.7% | 273 | 273 | -88 | 0 | 185 | | |
| 3Q (E) | | 8,020 | -6,616 | -83.0% | 1,405 | -998 | -12.4% | 407 | 5.1% | 403 | 403 | -130 | 0 | 273 | | |
| 4Q (E) | | 8,527 | -7,107 | -84.0% | 1,421 | -1,072 | -12.6% | 349 | 4.1% | 345 | 345 | -112 | 0 | 234 | | |
| Full Year (E) | | 28,884 | -23,898 | -82.7% | 4,986 | -3,652 | -12.6% | 1,334 | 4.6% | 1,319 | 1,319 | -426 | 0 | 892 | 74.55 | 19.30 |
| Full Year (CE) | | 29,450 | -24,390 | -82.8% | 5,060 | -3,648 | -12.4% | 1,411 | 4.8% | 1,400 | | | | 947 | | |
| FY2019/3 (E) | | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | | |
| 1Q (E) | | 7,040 | -5,830 | -83.1% | 1,210 | -844 | -12.0% | 365 | 5.2% | 362 | 362 | -117 | 0 | 245 | | |
| 2Q (E) | | 6,470 | -5,305 | -82.6% | 1,165 | -829 | -12.8% | 337 | 5.2% | 333 | 333 | -108 | 0 | 225 | | |
| 3Q (E) | | 8,792 | -7,249 | -83.0% | 1,543 | -1,054 | -12.0% | 489 | 5.6% | 486 | 486 | -157 | 0 | 329 | | |
| 4Q (E) | | 9,357 | -7,798 | -84.0% | 1,559 | -1,134 | -12.1% | 426 | 4.5% | 422 | 422 | -136 | 0 | 285 | | |
| Full Year (E) | | 31,659 | -26,181 | -82.7% | 5,478 | -3,861 | -12.2% | 1,617 | 5.1% | 1,602 | 1,602 | -518 | 0 | 1,084 | 90.54 | 15.89 |
| Full Year (CE) | | 33,850 | -27,992 | -82.7% | 5,858 | -4,044 | | 1,813 | 5.4% | 1,805 | | | | 1,221 | | |
| FY2020/3 (E) | | Sales | COGS | COGS/S | Gross Profit | SGA | SGA/S | OP | OPM | RP | EBT | Tax | Minority | Net Profit | | |
| 1Q (E) | | 7,652 | -6,335 | -83.1% | 1,317 | -883 | -11.5% | 433 | 5.7% | 430 | 430 | -139 | 0 | 291 | | |
| 2Q (E) | | 7,072 | -5,797 | -82.6% | 1,275 | -874 | -12.4% | 401 | 5.7% | 397 | 397 | -128 | 0 | 269 | | |
| 3Q (E) | | 9,568 | -7,889 | -83.0% | 1,679 | -1,104 | -11.5% | 575 | 6.0% | 572 | 572 | -185 | 0 | 387 | | |
| 4Q (E) | | 10,203 | -8,507 | -84.0% | 1,696 | -1,190 | -11.7% | 506 | 5.0% | 502 | 502 | -162 | 0 | 340 | | |
| Full Year (E) | | 34,495 | -28,528 | -82.7% | 5,967 | -4,052 | -11.7% | 1,916 | 5.6% | 1,901 | 1,901 | -615 | 0 | 1,286 | 107.44 | 13.39 |
| Full Year (CE) | | | | | | | | | | | | | | | | |

(Source) Syuppin, titlis

| Cash Flow Analysis: | Mar-13 | Mar-14 | Mar-15 | Mar-16 | Mar-17(E) | Mar-18(E) | Mar-19(E) | Mar-20(E) |
|------------------------|-------------|--------------|--------------|--------------|------------|------------|--------------|--------------|
| Net Income | 231 | 390 | 563 | 560 | 730 | 892 | 1,084 | 1,286 |
| Dep. | 49 | 65 | 84 | 189 | 200 | 200 | 200 | 200 |
| Amortization | 0 | 0 | 0 | 0 | 0 | 150 | 150 | 150 |
| Other non-cash charges | 54 | 41 | (121) | 2 | 0 | 0 | 0 | 0 |
| Changes in WC | (249) | (417) | (369) | (661) | (443) | (412) | (384) | (393) |
| Op. Cash Flow | 85 | 79 | 157 | 90 | 487 | 830 | 1,050 | 1,244 |
| Per share | JPY 16.22 | JPY 13.33 | JPY 13.12 | JPY 7.52 | JPY 40.70 | JPY 69.35 | JPY 87.70 | JPY 103.88 |
| Capex | (129) | (225) | (262) | (333) | (200) | (200) | (200) | (200) |
| Free Cash Flow | (44) | (146) | (262) | (333) | 287 | 630 | 850 | 1,044 |
| Per share | (JPY 8.40) | (JPY 24.63) | (JPY 21.89) | (JPY 27.82) | JPY 24.00 | JPY 52.64 | JPY 70.99 | JPY 87.18 |
| Beginning Cash | 380 | 571 | 441 | 492 | 506 | 697 | 1,244 | 2,010 |
| Net cash used | 191 | (130) | 51 | 14 | 191 | 546 | 766 | 960 |
| Ending cash | 571 | 441 | 492 | 506 | 697 | 1,244 | 2,010 | 2,969 |

Titlis Group Inc.

Suite 3113, 28-10 Ebisu 2 chome, Shibuya-Ku, Tokyo 150-0013 Japan

Phone: +81-3-4405-6223 Email: akimatsumoto@titlisgroup.com

http://www.titlisgroup.com/

Titlis Group

corporate governance, investment research & solutions

| | 2013/3 | 2014/3 | 2015/3 | 2016/3 | 2017/3 (E) | 2018/3 (E) | 2019/3 (E) | 2020/3 (E) |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Assets | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and Cash Equivalents | 571 | 441 | 492 | 506 | 697 | 1,244 | 2,010 | 2,969 |
| Short-Term Investments | - | - | - | - | - | - | - | - |
| Notes and Accounts Receivable, | 844 | 1,049 | 917 | 1,327 | 1,514 | 1,688 | 1,850 | 2,016 |
| Allowance for Doubtful Receivables | - | (1) | (1) | (1) | (1) | (1) | (1) | (2) |
| Inventories | 1,362 | 1,790 | 2,222 | 2,757 | 3,146 | 3,507 | 3,844 | 4,189 |
| Deferred Income Taxes | 52 | 81 | 75 | 61 | 70 | 78 | 85 | 93 |
| Other Current Assets | 123 | 115 | 319 | 255 | 291 | 324 | 356 | 387 |
| Total Current Assets | 2,952 | 3,475 | 4,024 | 4,905 | 5,717 | 6,840 | 8,144 | 9,653 |
| Property, Plant and Equipment | | | | | | | | |
| Land | - | - | - | - | - | - | - | - |
| Buildings | 129 | 114 | 138 | 139 | 225 | 311 | 397 | 483 |
| Machinery and Equipment | 136 | 144 | 176 | 184 | 298 | 412 | 526 | 640 |
| Construction in Progress | - | - | - | - | - | - | - | - |
| Total | 265 | 258 | 314 | 323 | 523 | 723 | 923 | 1,123 |
| Accumulated Depreciation | (156) | (156) | (155) | (186) | (301) | (416) | (532) | (647) |
| Net Property, Plant and Equipment | 109 | 102 | 159 | 137 | 222 | 307 | 391 | 476 |
| Software & Other intangible assts | 120 | 210 | 607 | 530 | 530 | 530 | 530 | 530 |
| Goodwill | - | - | - | - | - | - | - | - |
| | 120 | 210 | 607 | 530 | 530 | 530 | 530 | 530 |
| Other Assets | | | | | | | | |
| Investments in and Advances to | - | - | - | - | - | - | - | - |
| Investment Securities | - | - | - | - | - | - | - | - |
| Software & Others | - | - | - | - | - | - | - | - |
| Deferred Income Taxes | - | - | 7 | 6 | 6 | 6 | 6 | 6 |
| Other | 305 | 475 | 311 | 329 | 329 | 329 | 329 | 329 |
| Total Other Assets | 305 | 475 | 318 | 335 | 335 | 335 | 335 | 335 |
| Differed Assets | 1 | 1 | 2 | - | - | - | - | - |
| Total | 3,487 | 4,263 | 5,110 | 5,907 | 6,803 | 8,012 | 9,400 | 10,994 |
| Liabilities and Stockholders' Equity | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Bank Loans | 150 | 150 | 250 | 500 | 500 | 500 | 500 | 500 |
| Notes and Accounts Payable, Trade | 510 | 727 | 656 | 940 | 1,073 | 1,196 | 1,311 | 1,428 |
| Accrued Expenses | 41 | 34 | 38 | 47 | 54 | 60 | 66 | 71 |
| Income Taxes | 137 | 215 | 177 | 120 | 137 | 153 | 167 | 182 |
| Other Current Liabilities | 197 | 280 | 518 | 263 | 300 | 335 | 367 | 400 |
| Current Portion of Long-Term Debt | 460 | 500 | 621 | 715 | 715 | 715 | 715 | 715 |
| Total Current Liabilities | 1,495 | 1,906 | 2,260 | 2,585 | 2,778 | 2,958 | 3,125 | 3,296 |
| Long-Term Debt | 612 | 584 | 577 | 568 | 568 | 568 | 568 | 568 |
| Deferred Income Taxes | - | - | - | - | - | - | - | - |
| Termination and Retirement Benefits | - | - | - | - | - | - | - | - |
| Other Long-Term Liabilities | 9 | 6 | 3 | 1 | 1 | 1 | 1 | 1 |
| | 1,222 | 1,234 | 1,448 | 1,783 | 1,783 | 1,783 | 1,783 | 1,783 |
| Total Liabilities | 2,116 | 2,496 | 2,840 | 3,154 | 3,347 | 3,527 | 3,694 | 3,865 |
| Stockholders' Equity | | | | | | | | |
| Common Stock | 485 | 508 | 508 | 508 | 508 | 508 | 508 | 508 |
| Additional Paid-in Capital | 385 | 408 | 408 | 408 | 408 | 408 | 408 | 408 |
| Legal Reserve | 500 | 849 | 1,352 | 1,829 | 2,559 | 3,452 | 4,536 | 5,822 |
| Retained Earnings | 1 | 1 | 2 | 1 | 1 | 1 | 1 | 1 |
| Treasury Stock | - | - | - | - | - | - | - | - |
| Total Stockholders' Equity | 1,371 | 1,766 | 2,270 | 2,746 | 3,476 | 4,369 | 5,453 | 6,739 |
| Accumulated other Comprehensive | | | | | | | | |
| Income | - | 1 | - | 1 | (26) | 110 | 247 | 384 |
| Warrant | 0 | 0 | 0 | 6 | 6 | 6 | 6 | 6 |
| Minority Interests in Subsidiaries | - | - | - | - | - | - | - | - |
| Total Stockholders' Equity | 1,371 | 1,767 | 2,270 | 2,753 | 3,456 | 4,485 | 5,706 | 7,129 |
| Total | 3,487 | 4,263 | 5,110 | 5,907 | 6,803 | 8,012 | 9,400 | 10,994 |

Titlis Group Inc.

Suite 3113, 28-10 Ebisu 2 chome, Shibuya-Ku, Tokyo 150-0013 Japan

Phone: +81-3-4405-6223 Email: akimatsumoto@titlisgroup.com

<http://www.titlisgroup.com/>