



Financial Results Presentation for the Fiscal Year Ended August 31, 2018

**October 18, 2018
SOU Inc.
(TSE Mothers: 9270)**

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Key points for the fiscal year ended August 31, 2018



Achieved continuous revenue growth for seven consecutive years since its founding
Asset efficiency maintained high levels, with steady growth in the number of buying offices



■ About sales

- The overseas sales ratio was over 10% (compared with 5.5% in the previous year), primarily due to the growth in high-valued items, an area of focus, in overseas auctions.
- An increase in the number of items purchased in line with steady growth in the number of buying offices also contributed.

■ About profits

- Although the gross profit margin declined 2.2pts, net sales and gross profit increased due to our focus on growing sales and profit, and the increase in purchasing of high-value items.
- The amount of selling, general and administrative expenses increased, but its ratio versus net sales decreased significantly by 3.7pts due to productivity improvements.

1. Corporate profile





**A luxury reuse company specializing in
providing services for luxury goods, antiques, and arts,
with fresh perspectives
by combining the digital realm and real world.**

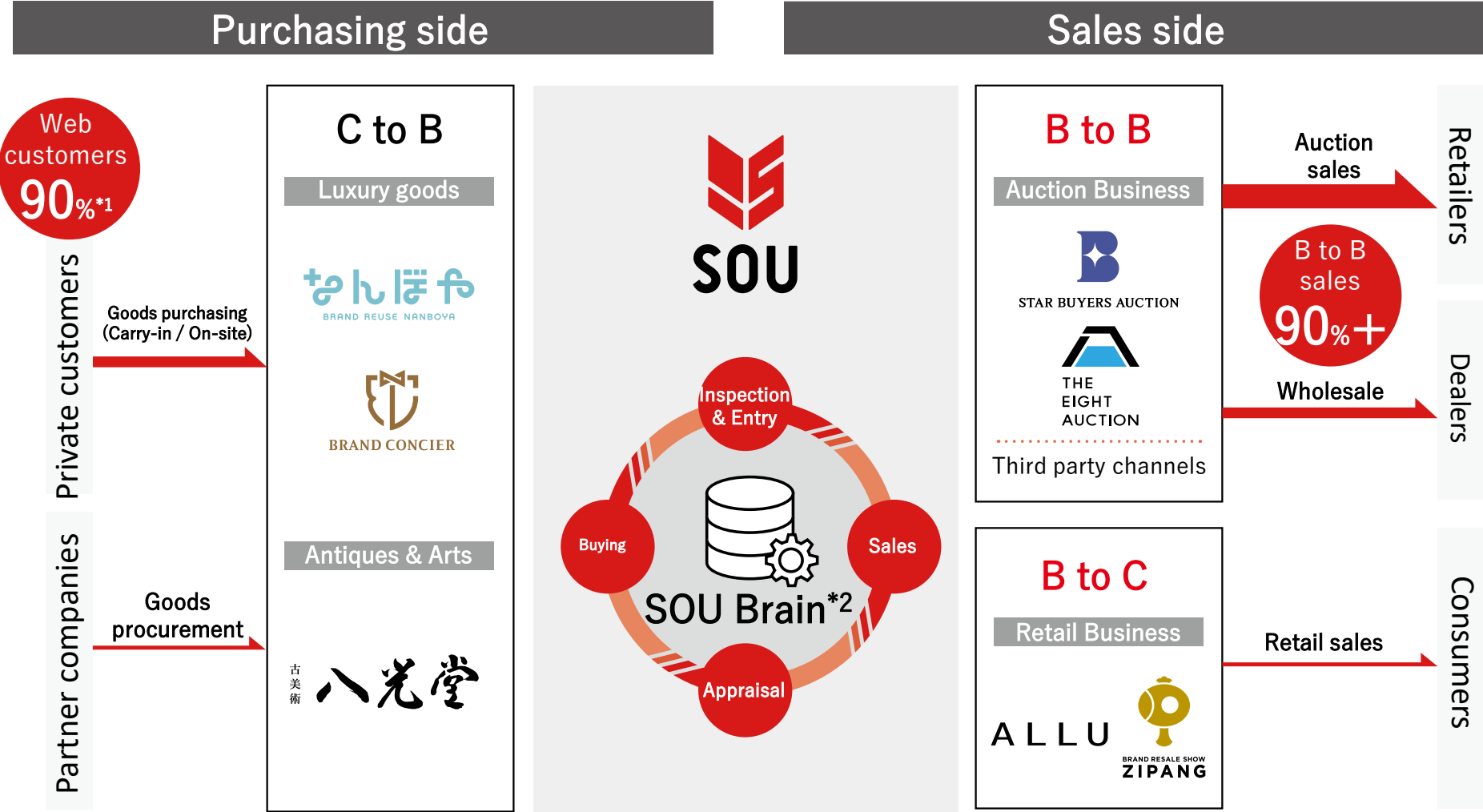
Vision

Increase transparency in pricing around the world
and create smarter ways of selling and buying.

Policy

Capture a leading domestic market share and drive globalization
through continuous opening of buying offices
and greater transparency of data.

Current business model



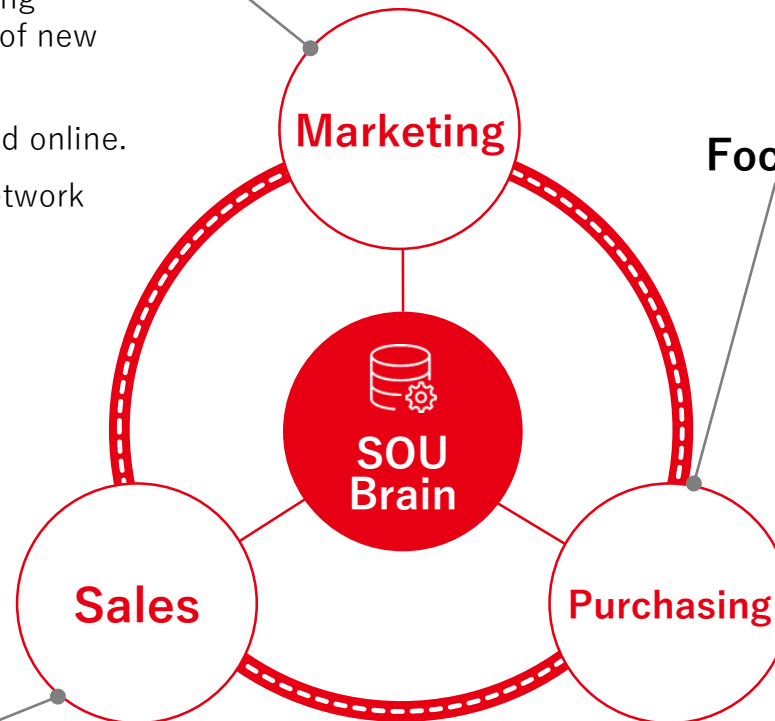
*1 Survey figures

*2 SOU Brain: Name for internal systems and databases

Our three core competencies

“O2O” marketing model adapted for buying

- O2O (Online to Offline) marketing model assuring a stable inflow of new customers through the web.
- **90%** of customers are acquired online.
- Solid nationwide purchasing network (63 offices)



Focus on high-value items

- Avg. unit price of approx. **50,000 yen**
- Purchase **500,000 items** per year
- Focus on items requiring sophisticated appraisal skills which results in high profitability
- Highly accurate pricing by databases and support from specialists at headquarters

Stable and strong sales channels

- Purchased goods are sold with stability at B-to-B auctions
- Our appropriate pricing converts purchased goods to cash in **2.0 months** on average



Powerful targeted advertising to consumers ("Online-to-Offline" model adapted for buying)



Our O2O purchasing model

Online

90% of customers are acquired online

Offline

SEO / Ad listings

- Handled internally with speed & flexibility
- Advertising expense is limited to approx. **2.4%** of net sales



LINE appraisals

- Provide roughly estimated appraisal value before customers visit our buying offices
- Approx. 20% of the users come to our offices (which is approx. 10% of all customers acquired)



63 buying offices

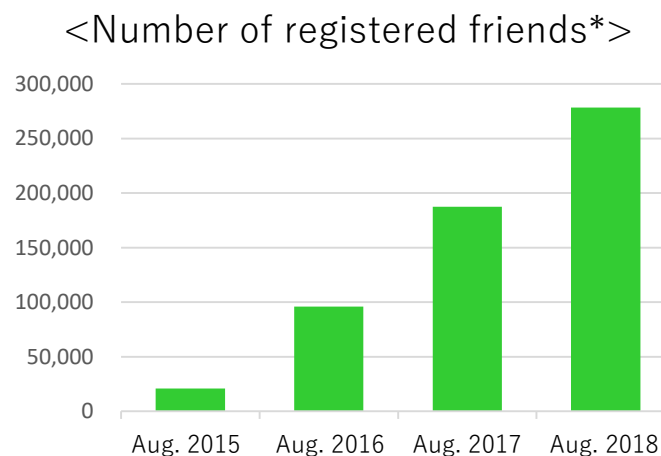
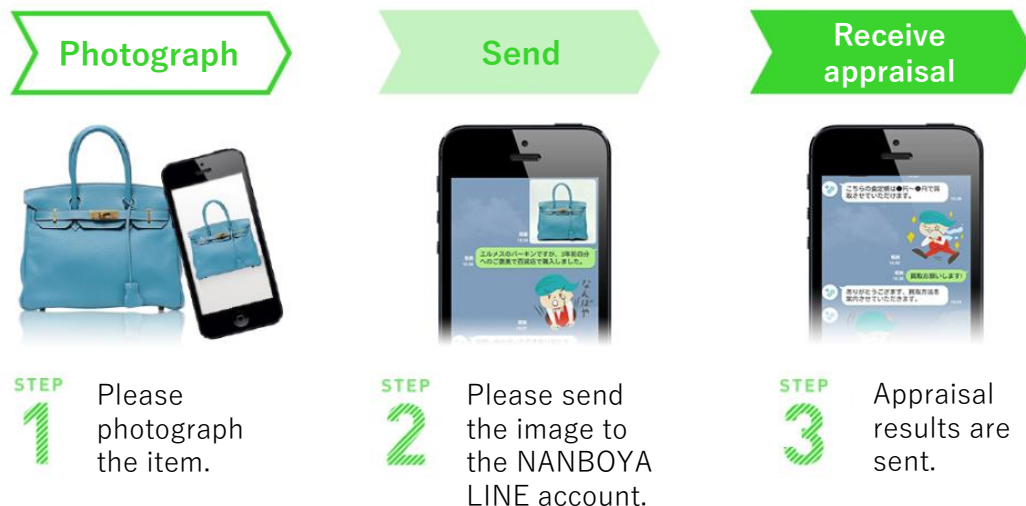
(For the fiscal year ended August 31, 2018)

- Primarily in major metropolitan areas near train stations
- Play an important gateway role for purchasing high-value items
- Key growth driver**



LINE Appraisal

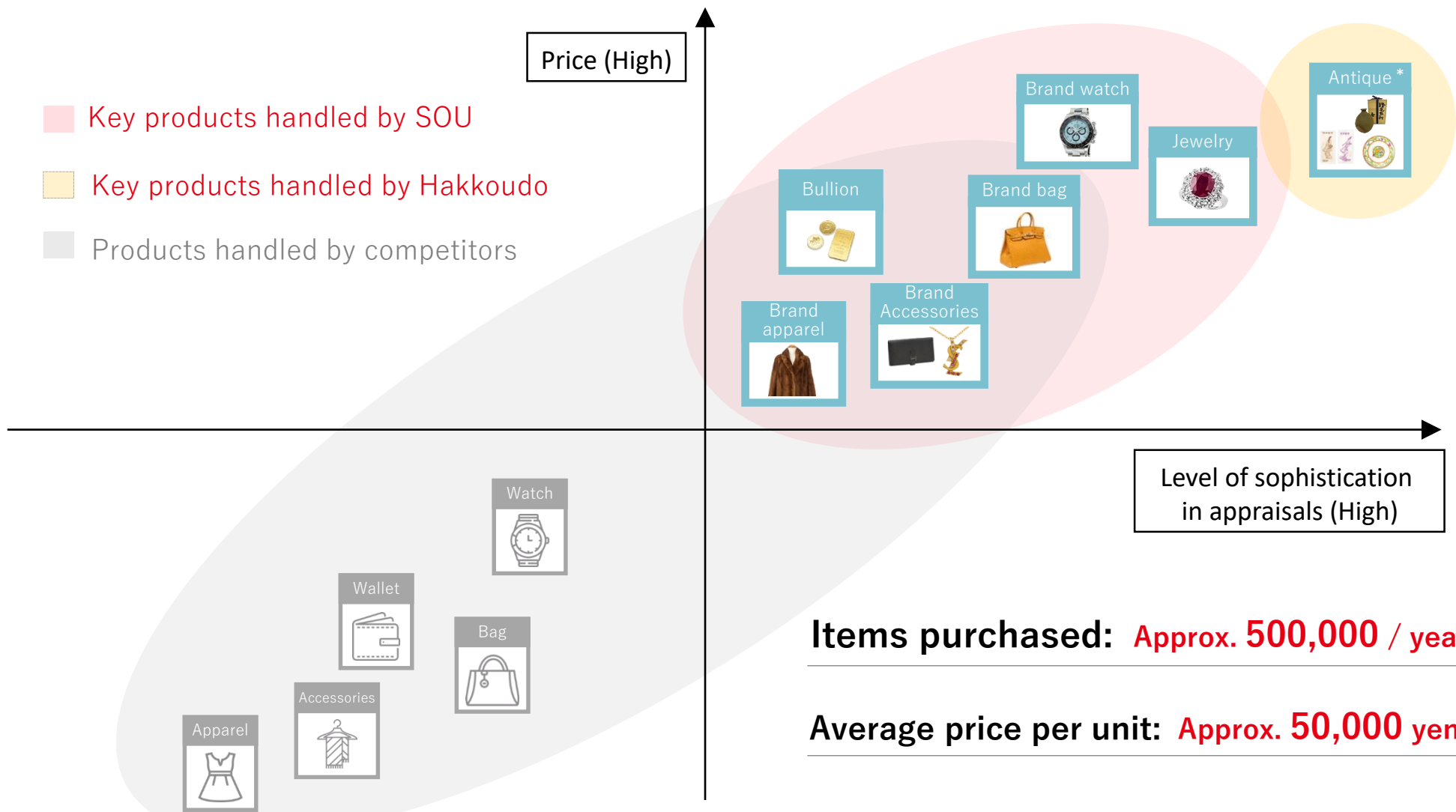
- Released as the first service in the industry to use LINE Business Connect in March 2015.
- Roughly estimated appraisal value is provided within 10 minutes after sending a product photo.
- Monthly appraisals: Approx. 8,500 cases; monthly appraisal values: Approx. 1.0 billion yen
- Approx. 20% of users actually visit our buying offices.



*Number of monthly appraisals, monthly appraisal values, and percentage of customers making office visits are calculated based on results from the fiscal year ended August 31, 2018.



Focusing on items that require sophisticated appraisal skills



Items purchased: **Approx. 500,000 / year**

Average price per unit: **Approx. 50,000 yen**

*Antiques and fine arts are handled by subsidiary Hakkoudo (Acquired in 2017 to increase appraisal competencies in antiques and fine arts)



For luxury goods, precious metals, etc.



(Nanboya)



- Specialist buyer with 48 offices across Japan that serves as the flagship brand for the purchasing side of our business
- Unique concierge service that listens to how customers met and parted ways with their possessions and a kind of salon atmosphere provide customers with high satisfaction



- As a sister brand to NANBOYA, its offices are expanding to department stores, etc.
- Introduced the industry's first appointment system



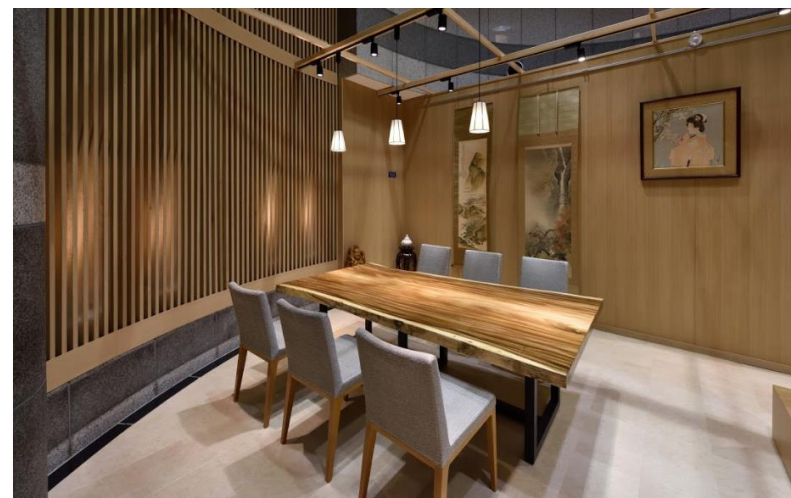


For antiques, antique arts, and modern arts



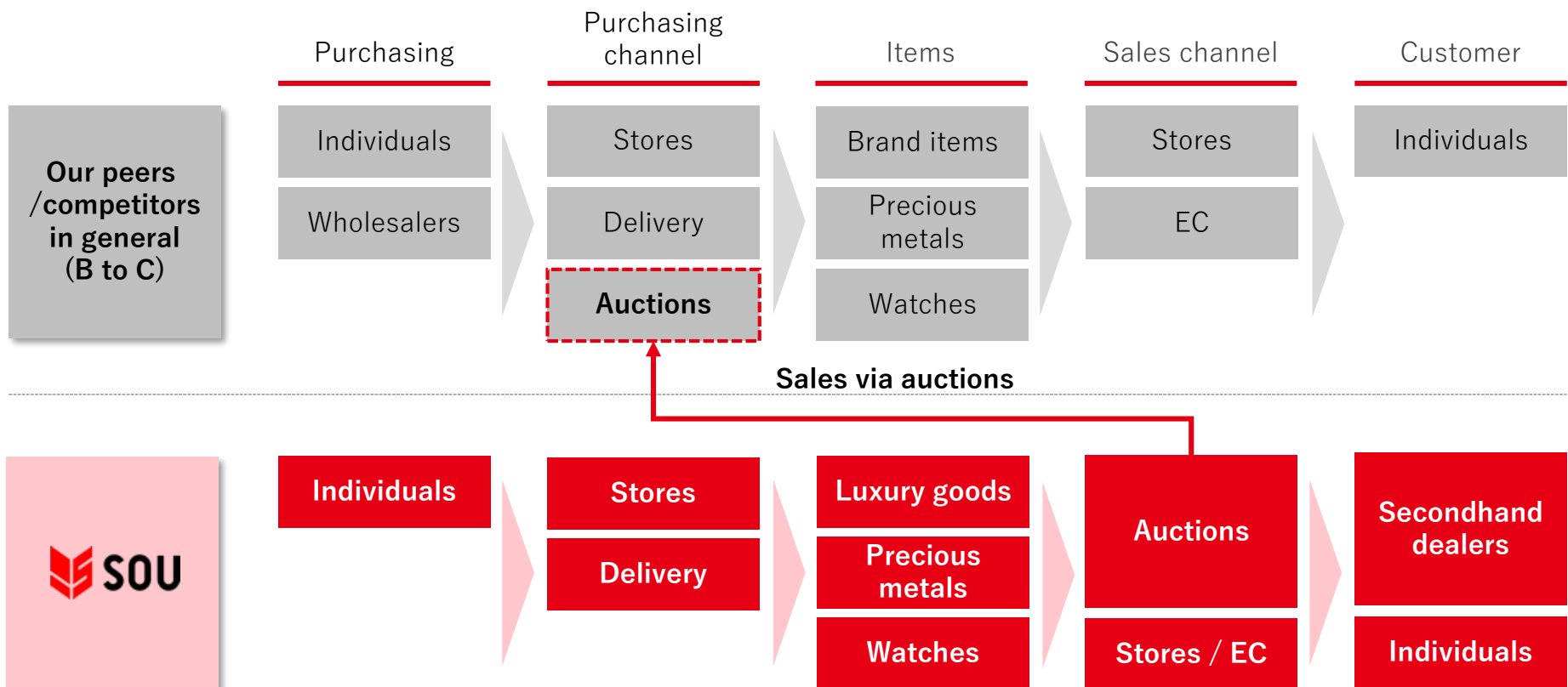
古美術
八光堂

- Acquired 100% ownership in February 2017
- Specialist buyer in the fields of antiques, antique arts, and modern arts
- With approximately 40 specialist antique appraisers on staff, mainly focused on on-site purchases, including estate sales both before and after death
- Works with tax accounting firms for inheritance related cases, and holds related seminars at event halls



Advantages of supplying goods to peers (C-to-B-to-B model)

- Stable demand from regular business buyers
- Selling through auctions to dealers on a large scale generates fair B-to-B market values.



STAR BUYERS AUCTION

[Domestic]

- Physical dealer auctions for luxury goods, watches, and other items, launched in December 2013
- Consistently listing 16,000 or more items per month over four days, total volume is 1.47 billion yen per month
- 11th of every month: Apparel; 12th: Watches; 13th: Jewelry; 14th: Bags
Totally 48 times per year

[Overseas]

- Launched Hong Kong session in March 2017 featuring loose diamonds
- Test sales for watches began in 2018, with plans for about eight sessions per year



*Number of listed items and sales volume are calculated based on results from the fiscal year ended August 31, 2018.

 THE EIGHT AUCTION

- Dealer auction for antiques, fine arts, and other items, launched in August 2018 as an independent sales channel for Hakkoudo Inc.
- Physical action to sell products, purchased via on-site and carry-in buying services
- Even-numbered months: 8th (antiques), 9th (tea ceremony equipment)
Odd-numbered months: 8th (paintings), 9th (calligraphic works)



ALLU

- Flagship store opened in Ginza in October 2016, and the second store opened in Shinsaibashi in September 2018
- Large selection of vintage goods that remain attractive throughout the times
- E-Commerce site in operation has also opened on the Wandou Gongzhu cross-border shopping app
- Average sales per customer is approximately 370,000 yen



*Average customer spend is calculated based on results from the fiscal year ended August 31, 2018.

2. Financial results for the fiscal year ended August 31, 2018



Key points for the fiscal year ended August 31, 2018



Achieved continuous revenue growth for seven consecutive years since its founding
Asset efficiency maintained high levels, with steady growth in the number of buying offices



■ About sales

- The overseas sales ratio was over 10% (compared with 5.5% in the previous year), primarily due to the growth in high-valued items, an area of focus, in overseas auctions.
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■ About profits

- Although the gross profit margin declined 2.2pts, net sales and gross profit increased due to our focus on growing sales and profit, and the increase in purchasing of high-value items.
- The amount of selling, general and administrative expenses increased, but its ratio versus net sales decreased significantly by 3.7pts due to productivity improvements.

Financial results for the fiscal year ended August 31, 2018



(Million yen)	Fiscal year ended August 31, 2016	Fiscal year ended August 31, 2017	Fiscal year ended August 31, 2018		Difference		
	Results	Results	Forecasts (As of June 2018)	Results	Vs. previous fiscal year		Vs. forecasts
					Change	Change	
Net sales	21,980	22,685	29,732	31,529	+8,844	+39.0%	+1,796
Gross profit	5,632	6,667	8,500	8,570	+1,902	+28.5%	+69
Gross profit margin	25.6%	29.4%	28.6%	27.2%	-2.2pts	-	-1.4pts
Selling, general and administrative expenses	5,070	5,637	6,807	6,693	+1,056	+18.7%	-113
Operating profit	562	1,030	1,693	1,876	+846	+82.2%	+183
Ordinary profit	449	1,139	1,710	1,806	+666	+58.5%	+95
Ordinary profit margin	2.0%	5.0%	5.8%	5.7%	+0.7pts	-	-0.1pts
Profit attributable to owners of parent	67	570	1,122	1,242	+671	+117.7%	+120

Financial position as of August 31, 2018



(Million yen)	Fiscal year ended August 31, 2016	Fiscal year ended August 31, 2017	Fiscal year ended August 31, 2018	Difference
Current assets	5,155	6,879	8,808	+1,929
Cash and deposits	2,743	2,994	3,650	+655
Inventories	2,183	3,430	4,610	+1,179
Other assets	228	453	547	+94
Non-current assets	2,415	3,213	3,449	+236
Total assets	7,570	10,092	12,258	+2,165
Liabilities	4,884	6,826	6,461	-365
Interest-bearing debt	3,357	5,108	4,722	-373
Other liabilities	1,527	1,718	1,739	+20
Net assets	2,686	3,265	5,796	+2,530
Total liabilities and net assets	7,570	10,092	12,258	+2,165

- Secured products for Hakkoudo auctions and ALLU Shinsaibashi store opening

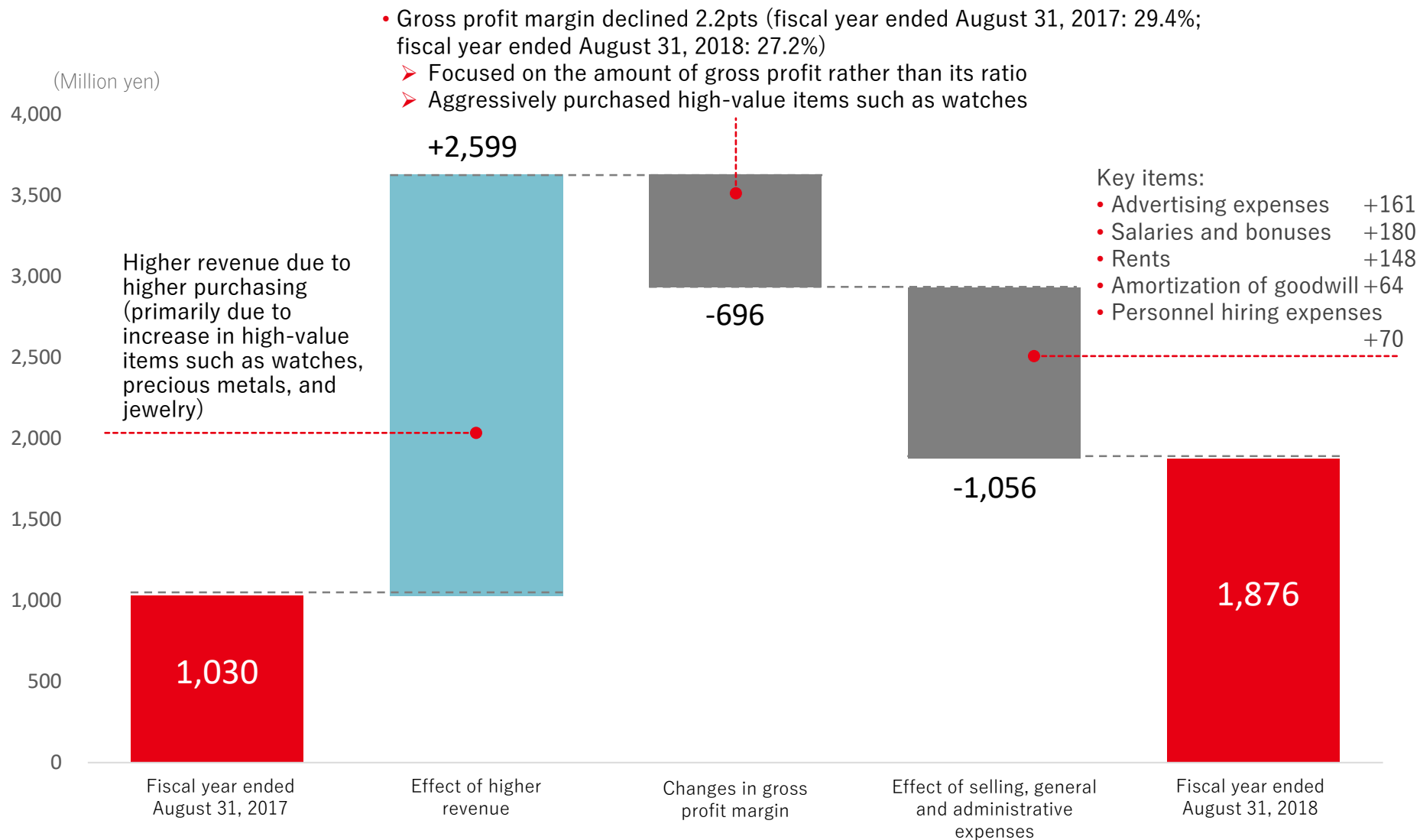
- Inventory turnover period of 63.9 days (63.9 days during the previous fiscal year)

- Total asset turnover period of 177.7 days (201.2 days during the previous fiscal year)

Procured short-term debt as working capital ahead of increase in purchasing volume (However long-term debt has decreased)

- Shareholders' equity grew due to raising 1.4 billion yen in capital

Analysis of changes in operating profit



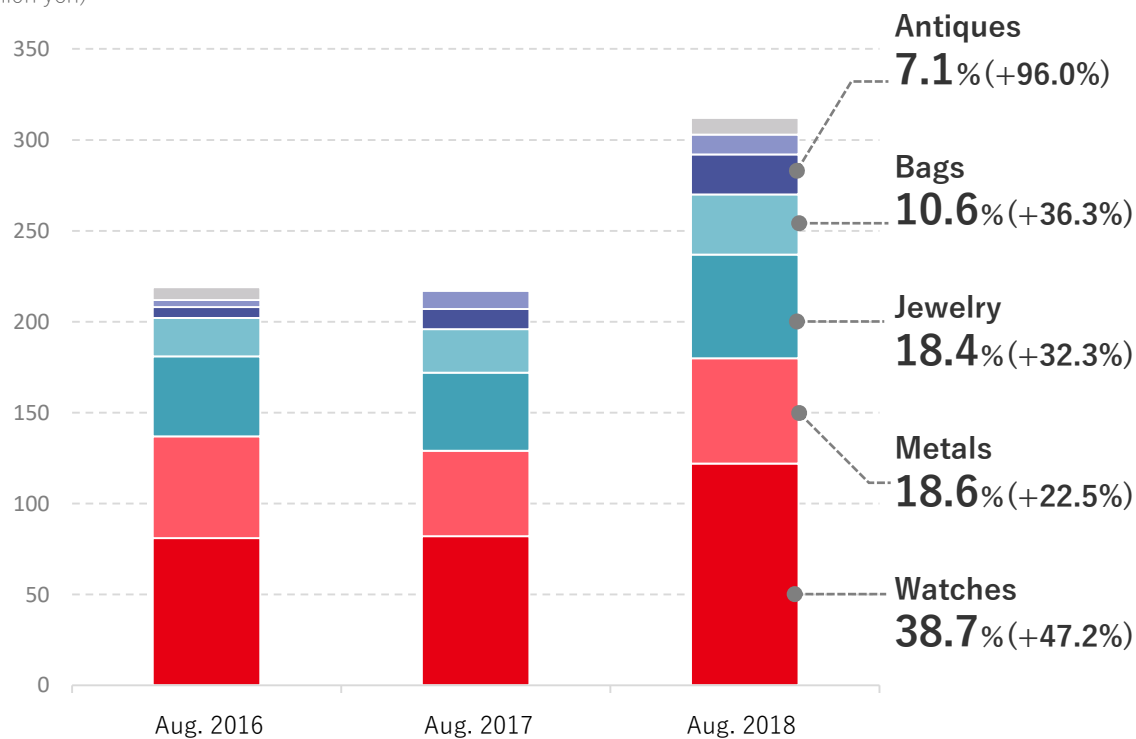
Net sales



- Net sales grew 8.8 billion yen year-over-year, setting a historic high
- By product, higher revenue was led by watches, an area of focus.
- Jewelry also showed growth in line with holding auctions in Hong Kong
- By quarter, a growth trend has continued since bottoming in 4Q of the fiscal year ended August 31, 2017. Revenue was up approximately 30% year-over-year in 4Q of the fiscal year ended August 31, 2018.

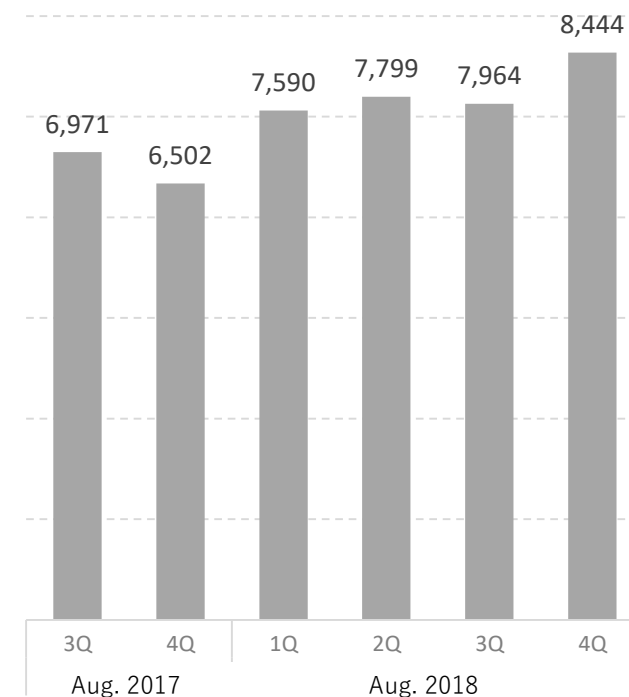
Net sales by product

(Million yen)



Net sales by quarter

(Million yen)

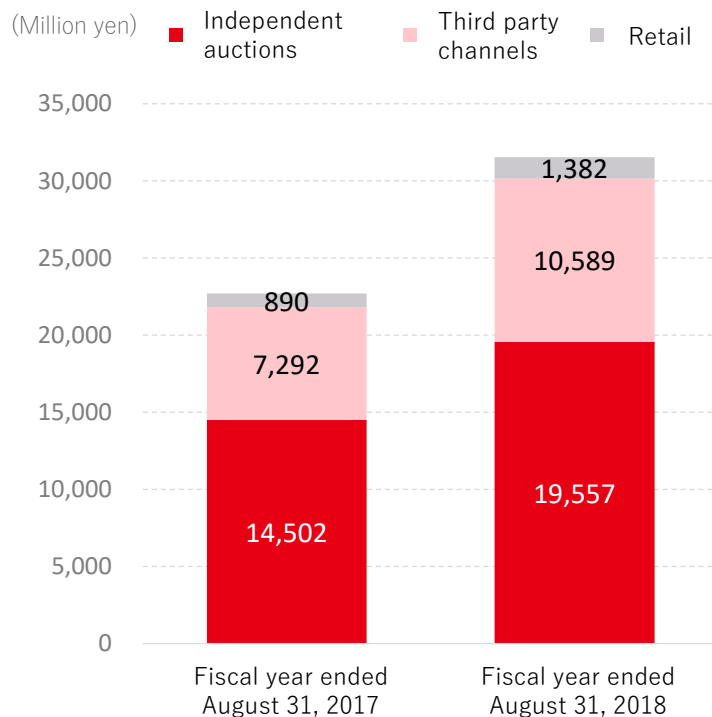


Net sales by channel (to-B, to-C)

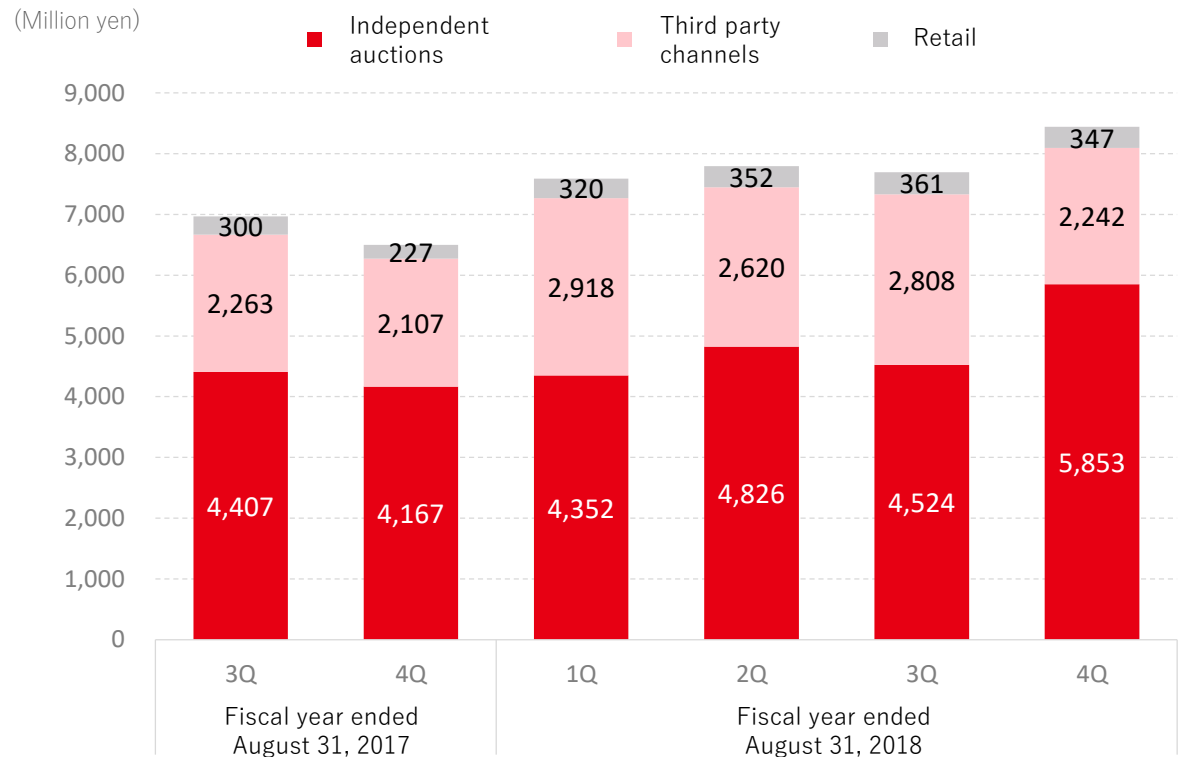


- Owing to favorable purchasing, independent auction sales were up approximately 35% year-over-year, wholesale sales were up approximately 45%, and retail sales were up 55%, achieving significant revenue gains in each sales channel

Year-over-year net sales by sales channel



Net sales by sales channel

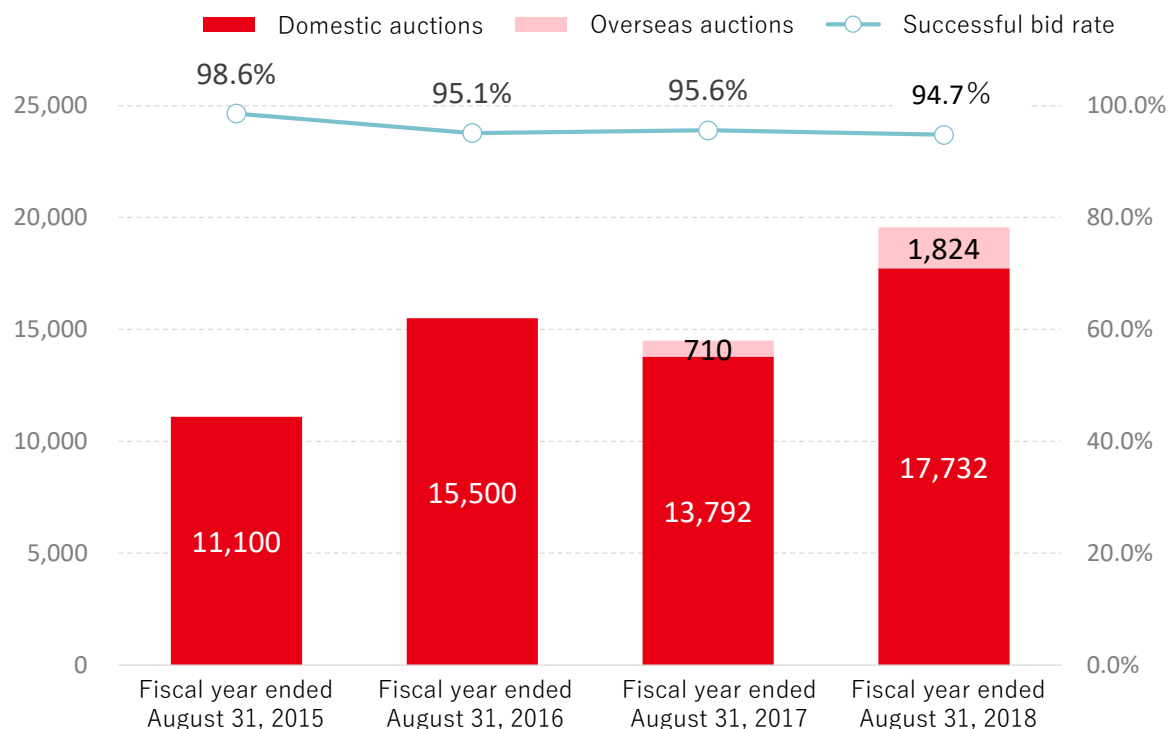


Auction results

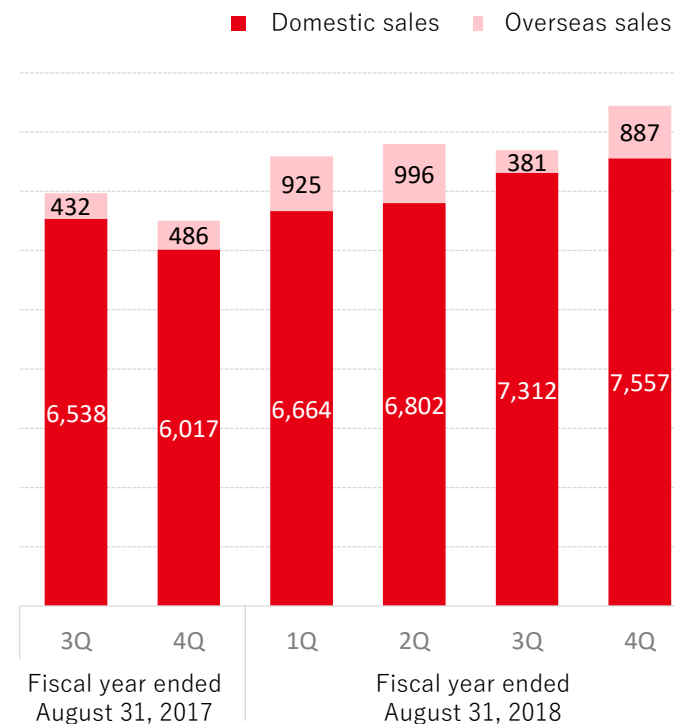


- In the fiscal year ended August 31, 2018, held diamond auctions 48 times in Japan and four times overseas (also held two overseas test sales for watches)
- Year-over-year, auction sales grew 28.6% in Japan and 156.9% overseas, resulting in the overseas sales ratio for auctions to grow to 9.3%
- By quarter, although the overseas sales ratio declined during 3Q of the fiscal year ended August 31, 2018 as there were no overseas auctions held, the overseas sales ratio grew steadily

Auction sales



Net sales by sales channel



<Reference> Quarterly results for the fiscal year ended August 31, 2018



(Million yen)	Fiscal year ended August 31, 2017		Fiscal year ended August 31, 2018			
	3Q	4Q	1Q	2Q	3Q	4Q
Net sales	6,971	6,502	7,590	7,799	7,694	8,444
Gross profit	2,134	1,846	2,215	2,186	2,030	2,137
Gross profit margin	30.6%	28.4%	29.2%	28.0%	26.4%	25.3%
Selling, general and administrative expenses	1,498	1,587	1,616	1,594	1,763	1,719
Operating profit	635	259	598	592	267	418
Ordinary profit	634	278	601	572	221	409
Ordinary profit margin	9.1%	4.3%	7.9%	7.3%	2.9%	4.9%
Profit attributable to owners of parent	380	68	391	475	90	284

3. Forecasts for the fiscal year ending August 31, 2019

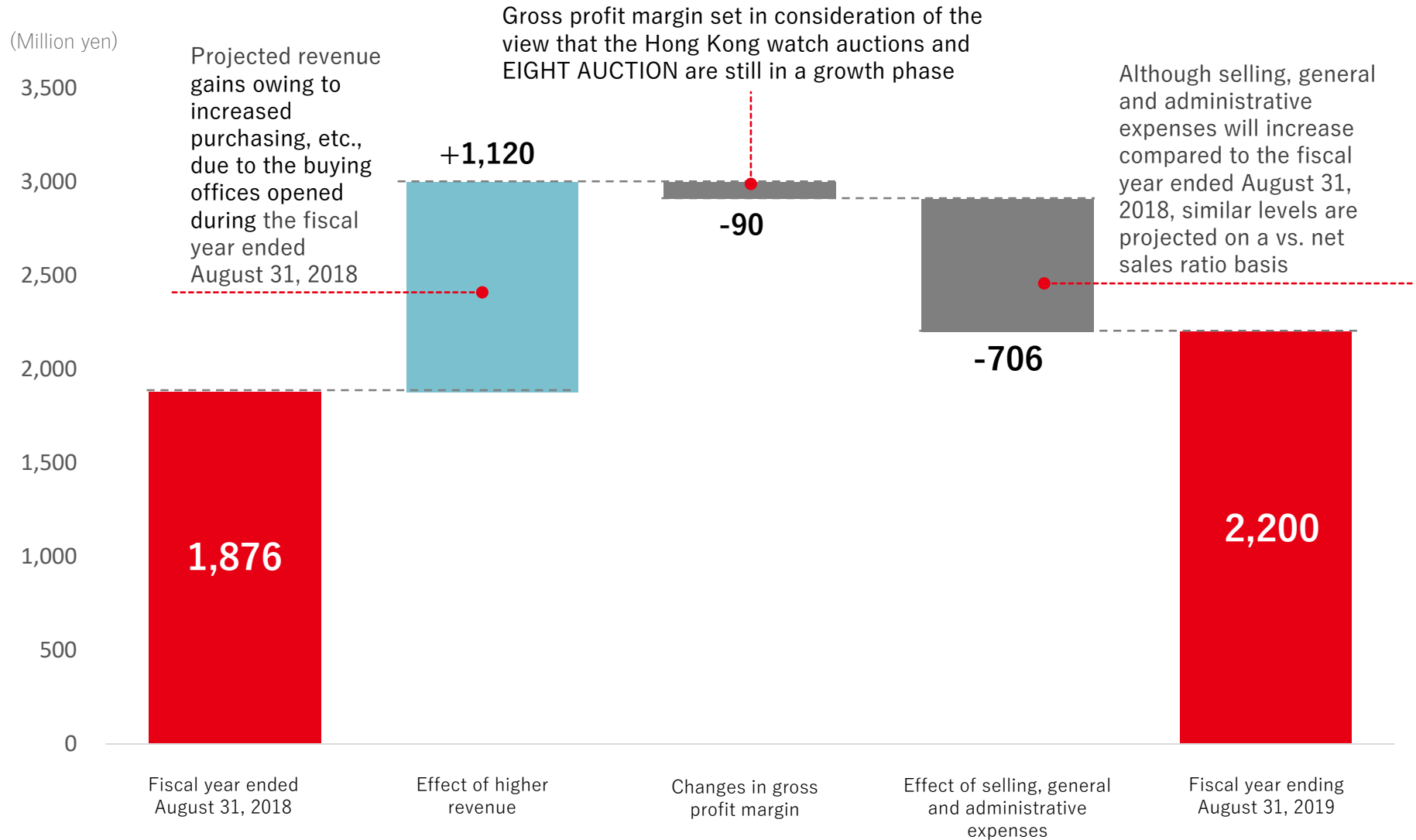


Financial results forecasts for the fiscal year ending August 31, 2019



(Million yen)	Fiscal year ended August 31, 2017	Fiscal year ended August 31, 2018	Fiscal year ending August 31, 2019	Difference	
	Results	Results	Forecasts	Change	Change
Net sales	22,685	31,529	35,650	+4,120	+13.1%
Gross profit	6,667	8,570	9,600	+1,029	+12.0%
Gross profit margin	29.4%	27.2%	26.9%	-0.3pts	-
Selling, general and administrative expenses	5,637	6,693	7,400	+706	+10.6%
Operating profit	1,030	1,876	2,200	+323	+17.2%
Ordinary profit	1,139	1,806	2,130	+323	+17.9%
Ordinary profit margin	5.0%	5.7%	6.0%	+0.3pts	-
Profit attributable to owners of parent	570	1,242	1,450	+207	+16.7%

Analysis of projected changes in operating profit



4. Key initiatives for the fiscal year ending August 31, 2019



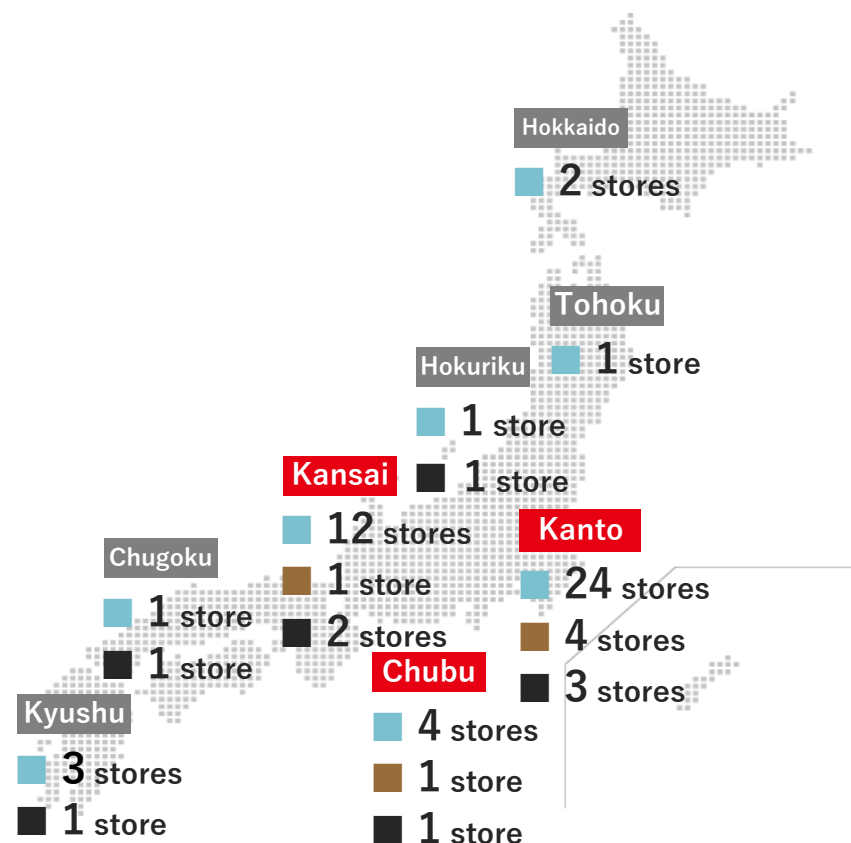
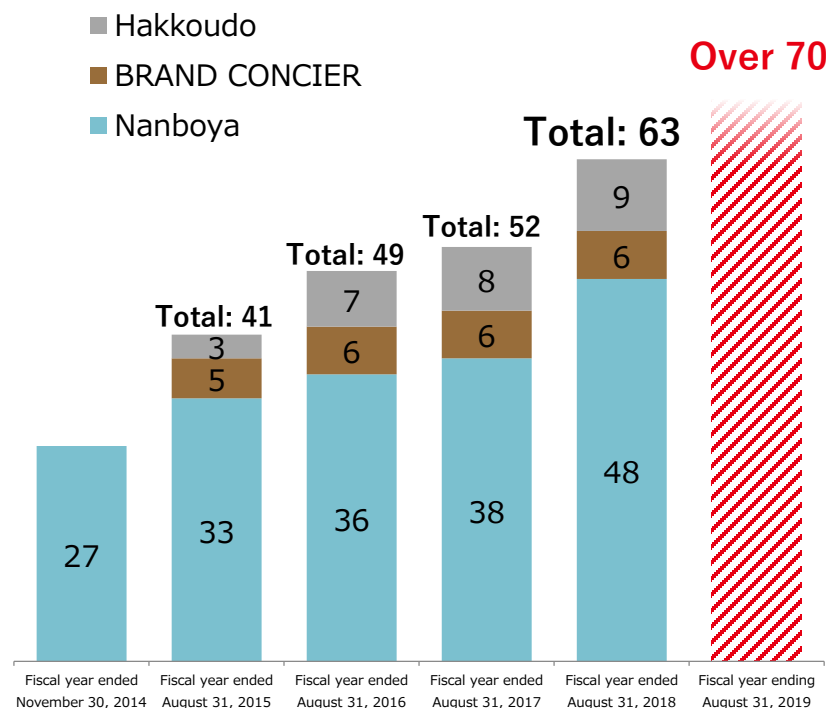
Key initiatives



		Fiscal year ended August 31, 2018 results	Fiscal year ending August 31, 2019 plans
Measures to strengthen existing businesses	Buying	<ul style="list-style-type: none"> Expand network by 11 new buying offices (63 offices in total) 	<ul style="list-style-type: none"> Open new offices at the same rate as the previous period, aiming at having over 70 outlets
	Auction	<p>[Hong Kong]</p> <ul style="list-style-type: none"> Held more diamond auctions (Four times in the fiscal year ended August 31, 2018 compared with twice in the fiscal year ended August 31, 2017) 	<p>[Domestic]</p> <ul style="list-style-type: none"> Start online bidding for STAR BUYERS AUCTION customers Hakkoudo auctions is about to move into top gear <p>[Hong Kong]</p> <ul style="list-style-type: none"> Watch auctions to be held 10 times in total in addition to diamond auctions.
	Retail	<ul style="list-style-type: none"> ALLU started selling products on cross-border EC shopping app 	<ul style="list-style-type: none"> ALLU opens a new store in Shinsaibashi, Osaka.
Extra Growth Measures	Apps	<ul style="list-style-type: none"> Released “miney” and linked with other companies’ services 	<ul style="list-style-type: none"> Add new lines of service <ul style="list-style-type: none"> ➢ Seek tie-ups with external partners
	M&A		<ul style="list-style-type: none"> Already signed a LOI with U.M.E. <ul style="list-style-type: none"> ➢ Actively seek acquisition opportunities
	Overseas expansion		<ul style="list-style-type: none"> Establish sales channels besides Hong Kong Develop a business model suited for overseas markets

- The 11 newly added offices during the previous fiscal year will contribute to earnings over the full year
- Increase the number of outlets from the current 63 to over 70 by the end of August 2019
 - Openings planned primarily in commercial facilities, the greater Tokyo metropolitan area, and urban areas

Change in the number of buying offices over the past five years



*Fiscal year-end changed from the fiscal year ended August 31, 2015 *Acquired 100% ownership of Hakkoudo in February 2017

STAR BUYERS AUCTION

Adding online bidding days

Began in September 2018 to cope with increased purchasing volume

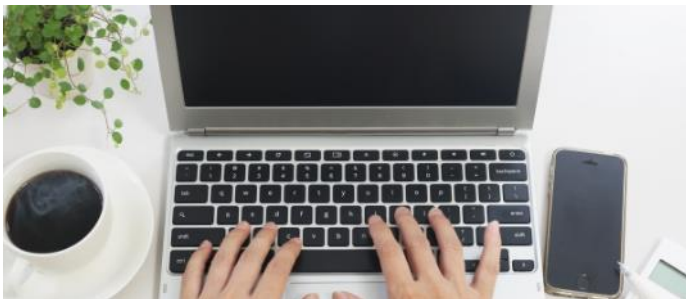
Four days of onsite days

- 11th: Luxury apparel and accessories
- 12th: Luxury watches
- 13th: Branded designer jewelry
- 14th: Luxury bags



Online bidding days

23rd: All genres



THE EIGHT AUCTION

Independently held auction for antiques, antique arts, and modern arts, hosted by Hakkoudo

Shifting the sales channel from third parties' auctions to self-produced auctions

Aims to improve future profitability

Two days of onsite auctions

- Even months, 8th: Antiques
- Even months, 9th: Tea ceremony equipment
- Odd months, 8th: Paintings
- Odd months, 9th: Calligraphic works



Fiscal year ended August 31, 2018

Held four diamond auctions at the STAR BUYERS AUCTION Hong Kong session and began test operations of watch auctions

Percentage of sales overseas for the fiscal year ended August 31, 2018

10.1%

(Fiscal year ended August 31, 2017: 5.5%)

Fiscal year ending August 31, 2019

STAR BUYERS AUCTION Hong Kong session will continue holding diamond auctions, and its watch auctions will grow full-scale.

Scheduled to hold a total of 10 sessions

Aim to increase the overseas sales and profitability

Schedule for sales events in Hong Kong for the fiscal year ending August 31, 2019

		Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
STAR BUYERS AUCTION		Total of 10 including the diamond sessions and watch sessions											
Overseas wholesale	Jewelry show	●			●			●			●		
	Watch guild	●	●	●	●	●	●			●	●	●	●



In September 2018, opened second store in Shinsaibashi, Osaka, following the Ginza, Tokyo store

- Increase brand awareness in the Kansai region and attract tourist customers from overseas
- Make efforts to distinguish itself from retail competitors
 - Aim to increase gross profit margin

Ongoing since the previous fiscal year



Official store on the “Wandou Gongzhu” EC shopping app

Strong sales in high-value items of 100,000 yen or more, primarily in bags and watches

5. Extra growth measures

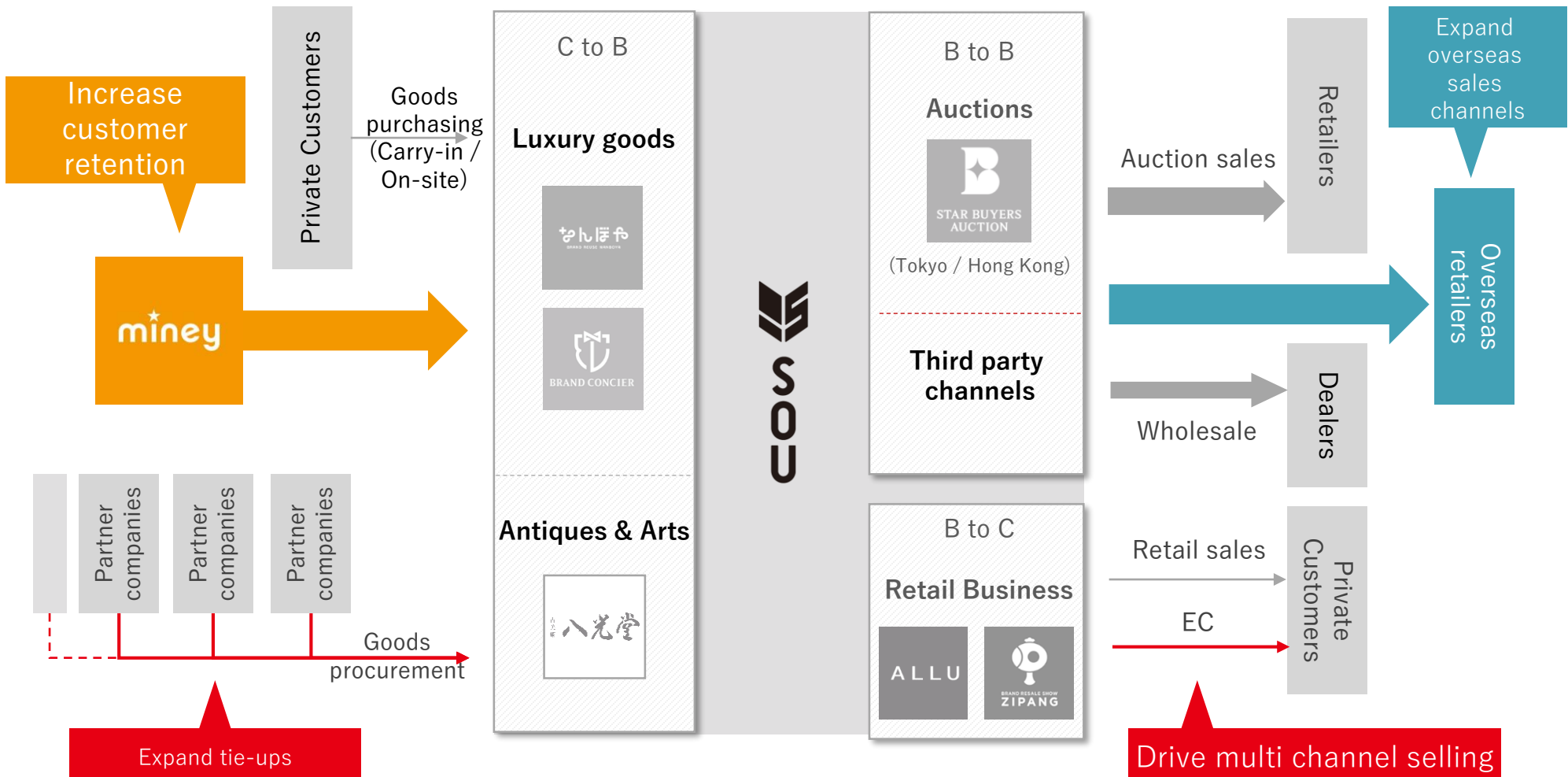


Targeted business model



Purchasing side

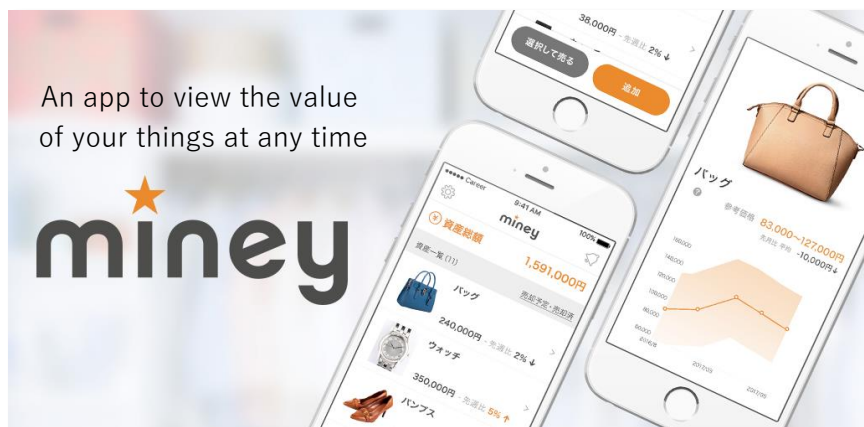
Sales side



Extra growth measures



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	M&A		<ul style="list-style-type: none"> Already signed a LOI with U.M.E. <ul style="list-style-type: none"> ➤ Actively seek acquisition opportunities
	Overseas expansion		<ul style="list-style-type: none"> Establish sales channels besides Hong Kong Develop a business model suited for overseas markets



- Asset management app released in October 2017
- Users can view not only the items' present values, but also its historic prices and the total value of all registered items.
- Available lines of service:
Watches, branded designer jewelry, bags, and branded accessories such as wallets



See historic prices
of each of your belongings



View the present value
of all your belongings



Receive push alerts on
the best time to sell



Sell them for cash any time!

*Through our carry-in or on-site buying services

User numbers / Registered asset amount

Numbers are growing without major promotions

- Number of users: Approx. 18,000
- Total amount of registered assets:
Approx. 2.9 billion yen

Cooperation with other companies

- Dec. 2017: Tie-up with Money Forward APP
- Oct. 2018: Tie-up with the “ONE” photo buying app

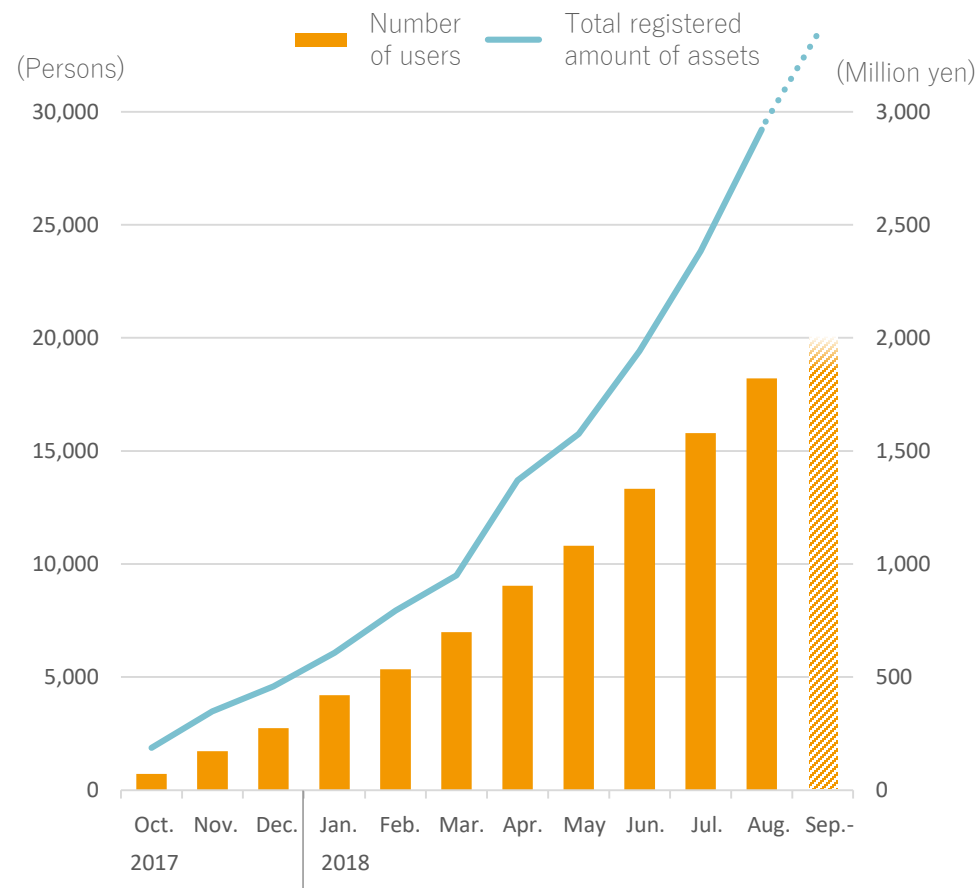


*The above are all links between apps

Moving forward

- **Seek tie-ups with more external partners**
- **Add new lines of service**
 - Such as real estate, antiques (paintings), wines, etc., that will deliver positive synergies to existing lines
 - Tie-ups with various experts are also likely

Number of users and total registered amount of assets



Until now: Articles \div Disposables



Buy



Use



Dispose

OR



Save

I might use it someday...

From now on: Articles = assets



Buy



Use



Change to “Assets”



Through  **miney**
from a “cost” to an “asset”

Some of these will enter the secondary market in due course

M&A

- Have signed a Lol with U.M.E. toward acquiring the ownership of the company in Sep. 2018
- Actively seek new acquisition opportunities for growing further and faster

Objective of making U.M.E. a subsidiary	<ul style="list-style-type: none"> • Strengthen diamond sales in Hong Kong • Strengthen diamond procurement channels in Japan • Open overseas sales channels for diamonds
Number of shares to be acquired	<ul style="list-style-type: none"> • Although a 100% acquisition is a possibility, undecided at this time
Acquisition cost	<ul style="list-style-type: none"> • Undetermined
Funds for acquisition	<ul style="list-style-type: none"> • Funds on hand
Schedule	<ul style="list-style-type: none"> • To conclude stock transfer agreement during December 2018
Effect on business	<ul style="list-style-type: none"> • Under evaluation

Overseas

- Have established Overseas Business Division in Sep. 2018
- Implement measures to develop new sales channels other than Hong Kong and create locally-sourced and locally-consuming business models



An auction in Hong Kong

*Diamond specialist company founded in 1992. Sells both domestically and overseas, and holds auctions

6. Toward further growth



Personal Wealth Management

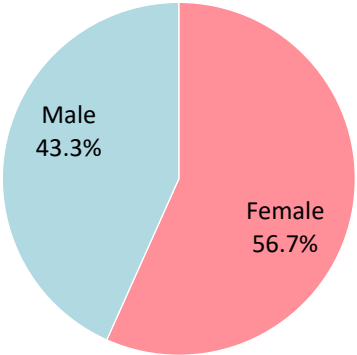
In addition to providing the latest information for customers' tangible assets, we provide solutions in areas such as management, maintenance, and disposal both in the digital realm and in the real world

— References —

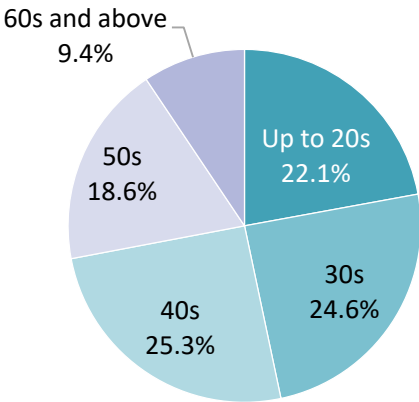
*All figures are results for the fiscal year ended August 31, 2018



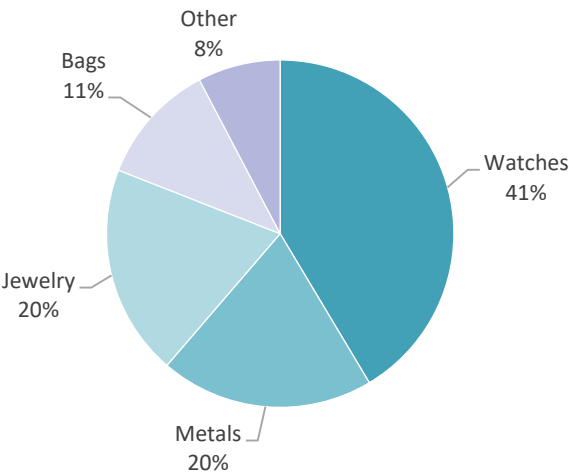
Use by gender



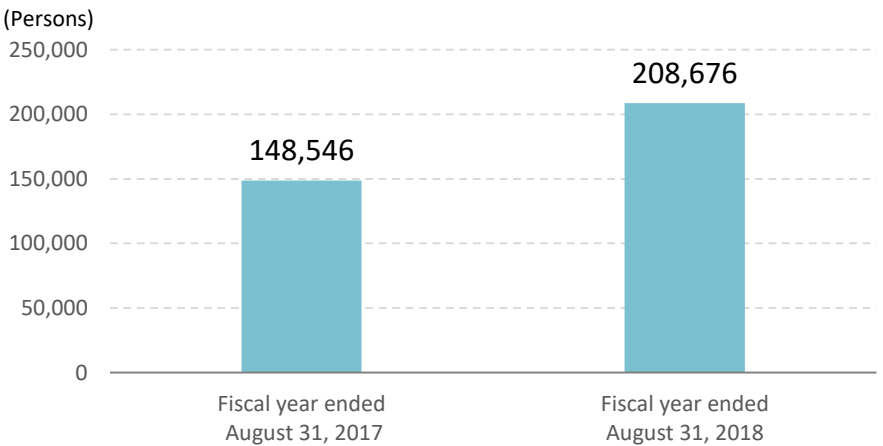
Use by age



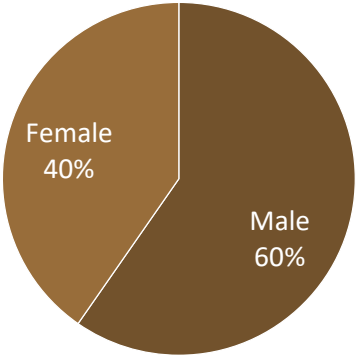
Sales by genre



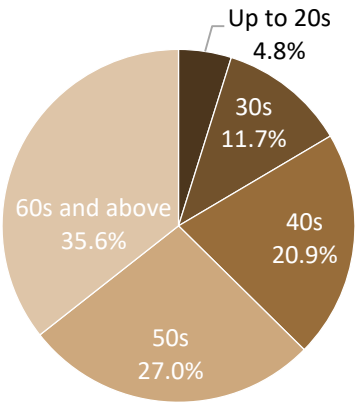
Number of users



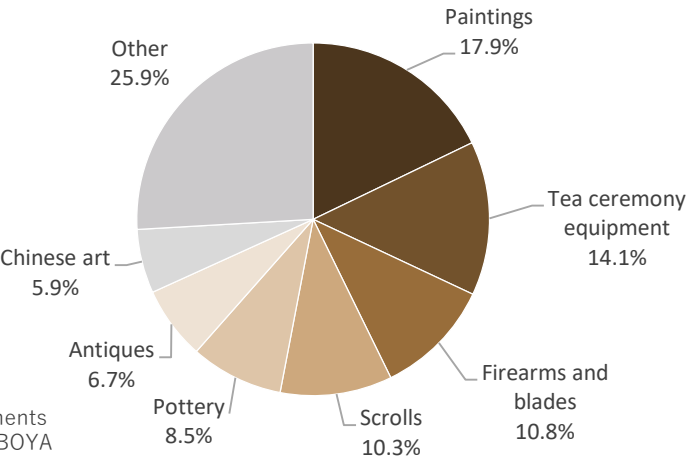
Use by gender



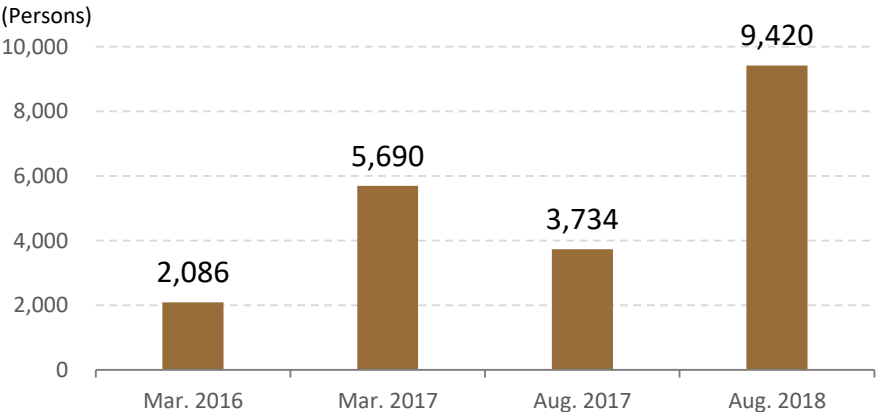
Use by age



Sales by genre

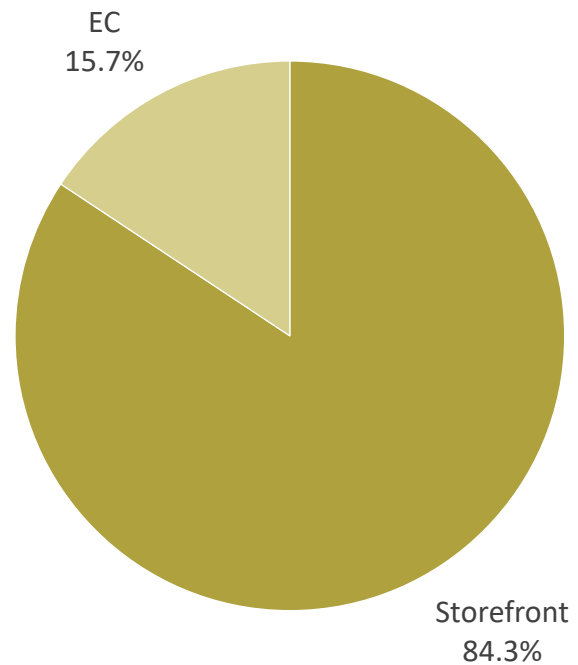


Number of users

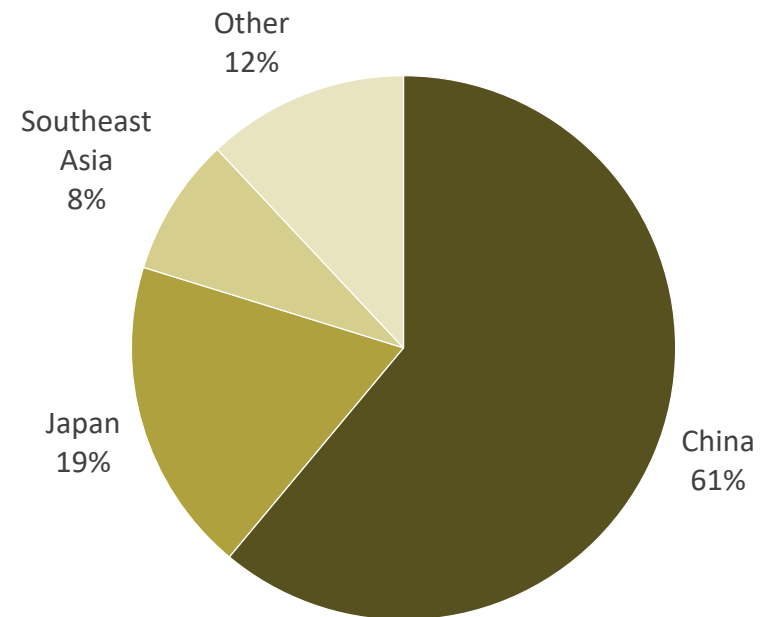


*Results for the fiscal year ended August 31, 2017 are results for five months due to a change in the fiscal year-end.

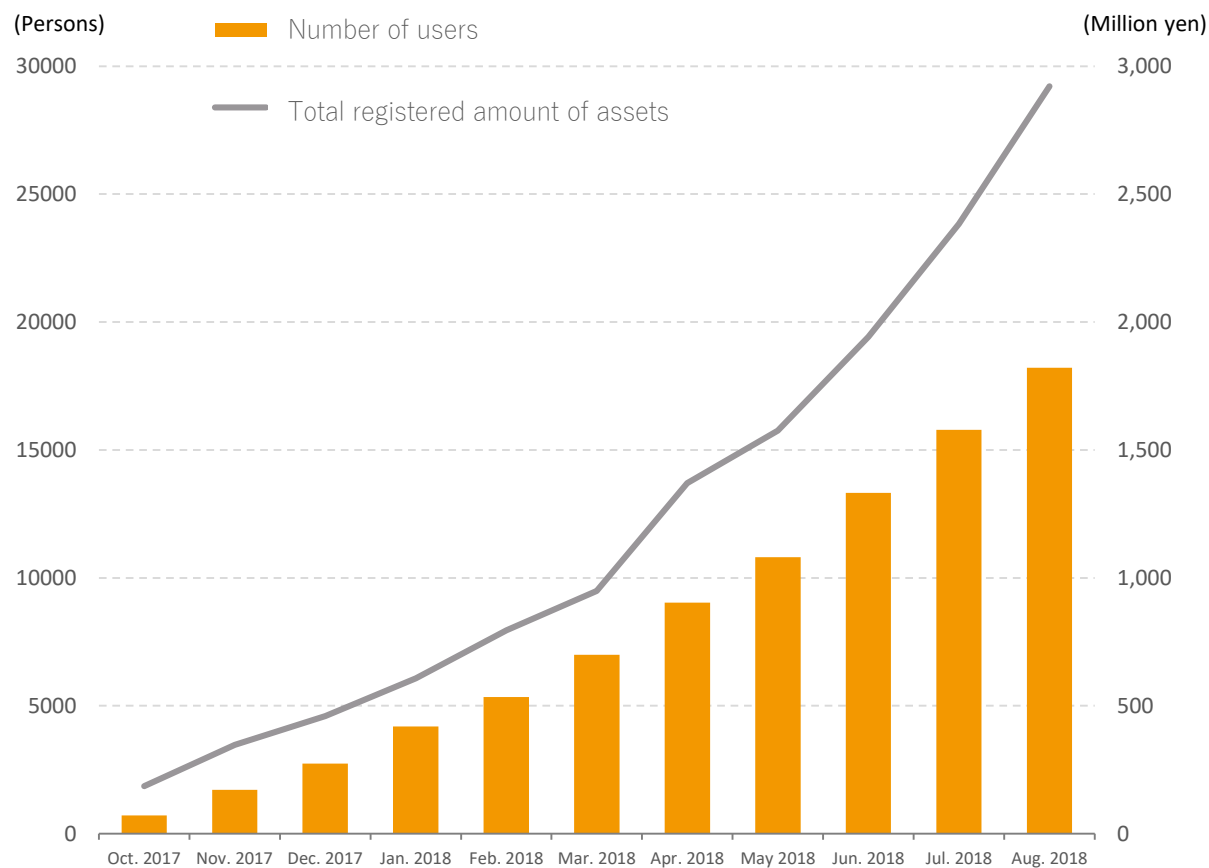
Storefront / EC sales ratio



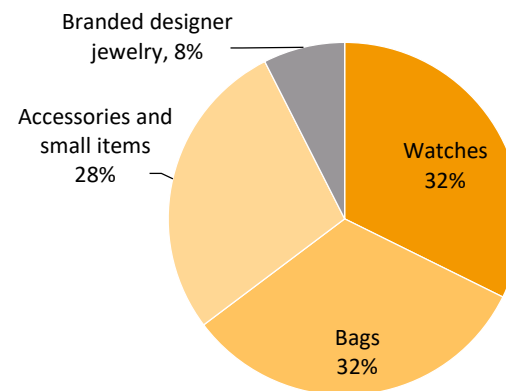
Purchasers by country



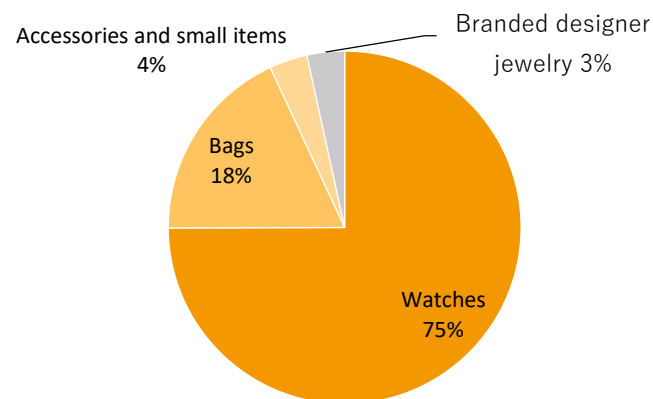
Number of users and total registered amount of assets



Item composition



Value composition





- Figures provided in this document for the fiscal years ended August 31, 2016, 2017, and 2018, sales channel breakdowns for net sales, and breakdowns for auction results are reference figures and have not been subject to audit by an audit corporation.
- Business results forecasts and other forward-looking statements are based on information currently available to the Company as of the publication of this document and on certain assumptions deemed reasonable by the Company. Actual business results may differ due to various risks and other uncertain factors.
- This document was prepared based on the “Financial Results for the Fiscal Year Ended August 31, 2018.”

[IR Inquiries]

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