



# **Financial Results Presentation for the Six Months Ended February 28, 2019**

**April 15, 2019  
SOU Inc.**

*Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect, or any other forms of damages arising from this translation.*

# Contents

<b>Corporate Profile</b>	<b>03</b>
<b>Financial Results for the Six Months Ended February 28, 2019 and Fiscal Year Forecast</b>	<b>07</b>
<b>FY8/2019 Major Milestones</b>	<b>18</b>
<b>Medium-Term Strategies <i>For Greater Growth</i></b>	<b>23</b>
<b>Appendix</b>	

# Corporate Profile

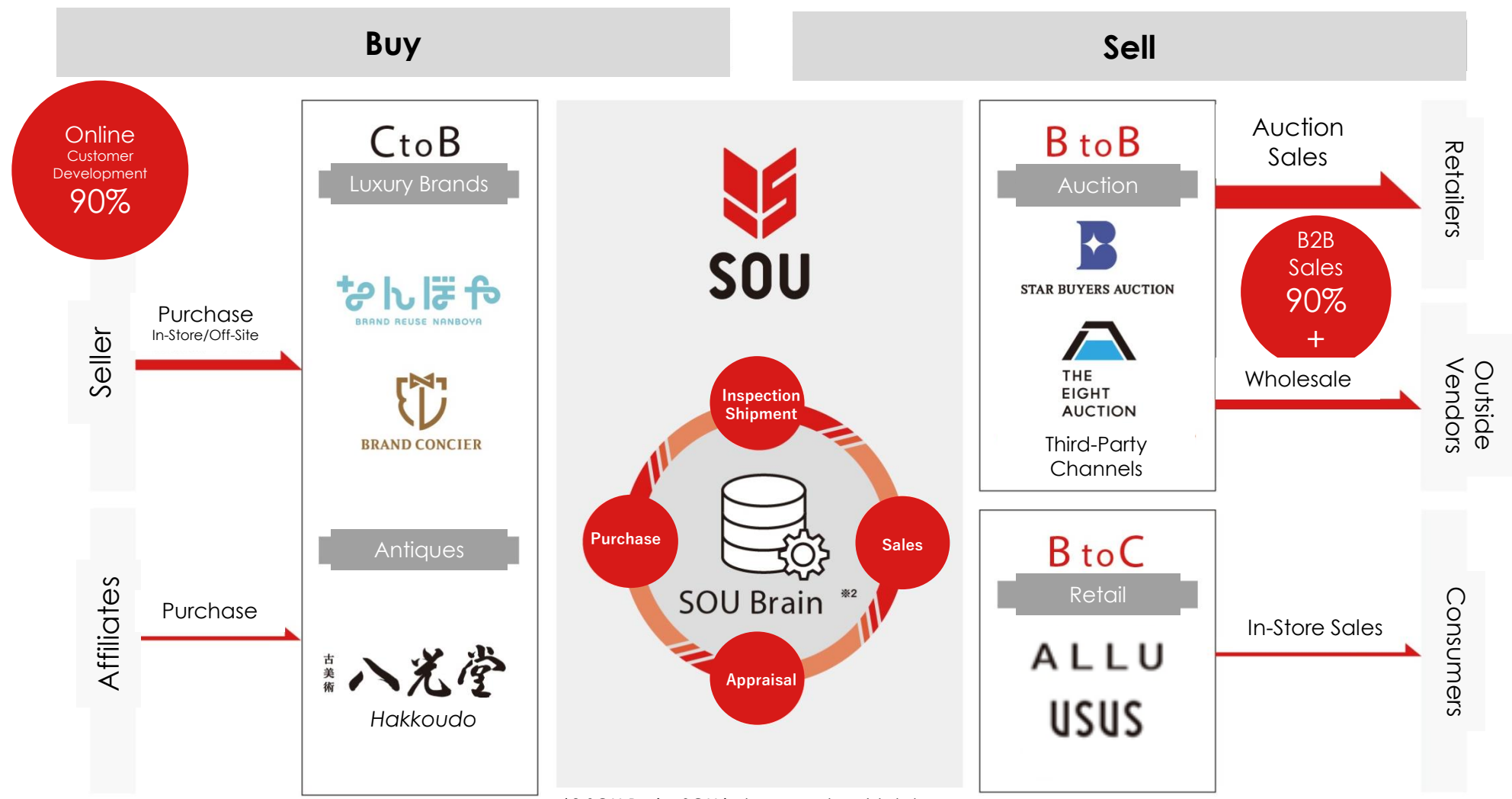


## Company Overview



**SOU specializes in the reuse of high-end luxury items,  
including brand-name goods, antiques, and art.  
We integrate the digital and the real world to offer a unique  
sensory experience to our customers.**

# Business Model



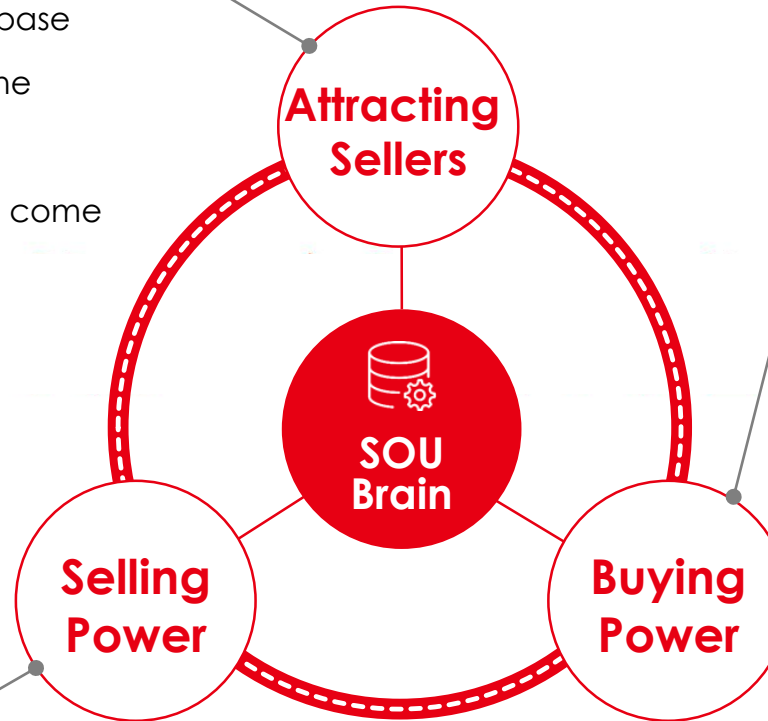
\*1 Based on questionnaire results

\*2 SOU Brain: SOU in-house system/database

# Core Competencies and Three Strengths

## Acceptance of O2O in the Buying Market

- Wider acceptance of attracting customer base online for O2O (online-to-offline) model in the buying market
- Nearly **90 percent** of in-office customers come from online
- Strong national network of buying offices (63 locations as of Feb. 2019)



## Mainly High-Ticket Items

- Unit prices nearly **JPY50,000**
- **500,000** items annually
- Focus on items that are difficult to appraise, high-profit goods
- Highly accurate pricing via database and support from headquarters office

## Stable, Strong Sales Channels

- Items purchased in-house sold to businesses through stable in-house auction channel
- Appropriate buying prices result in converting items to cash in **2.0 months** on average

# Financial Results for the Six Months Ended February 28, 2019 and Fiscal Year Forecast



# Key Points for the Six Months Ended February 28, 2019

Lower profits due to temporary factors;  
continued growth trajectory, driven by significant increase in revenues



## ■ Sales

- ✓ Ongoing revenue growth, mainly due to increased number of buying offices and item purchases
- ✓ Overseas revenues from more frequent overseas auctions (from three to five) pushed group sales higher

## ■ Profits

- ✓ High yen valuation in Dec/Jan resulted in 3.2-point decrease in gross profit margin year on year
- ✓ One-time expenses included M&A-related expenses (M&A MOU ultimately cancelled) and costs related to TOB of SOU stock
- ✓ Net profit decline of 11.2 points mainly due to lower tax burden in prior year stemming from tax-effect accounting

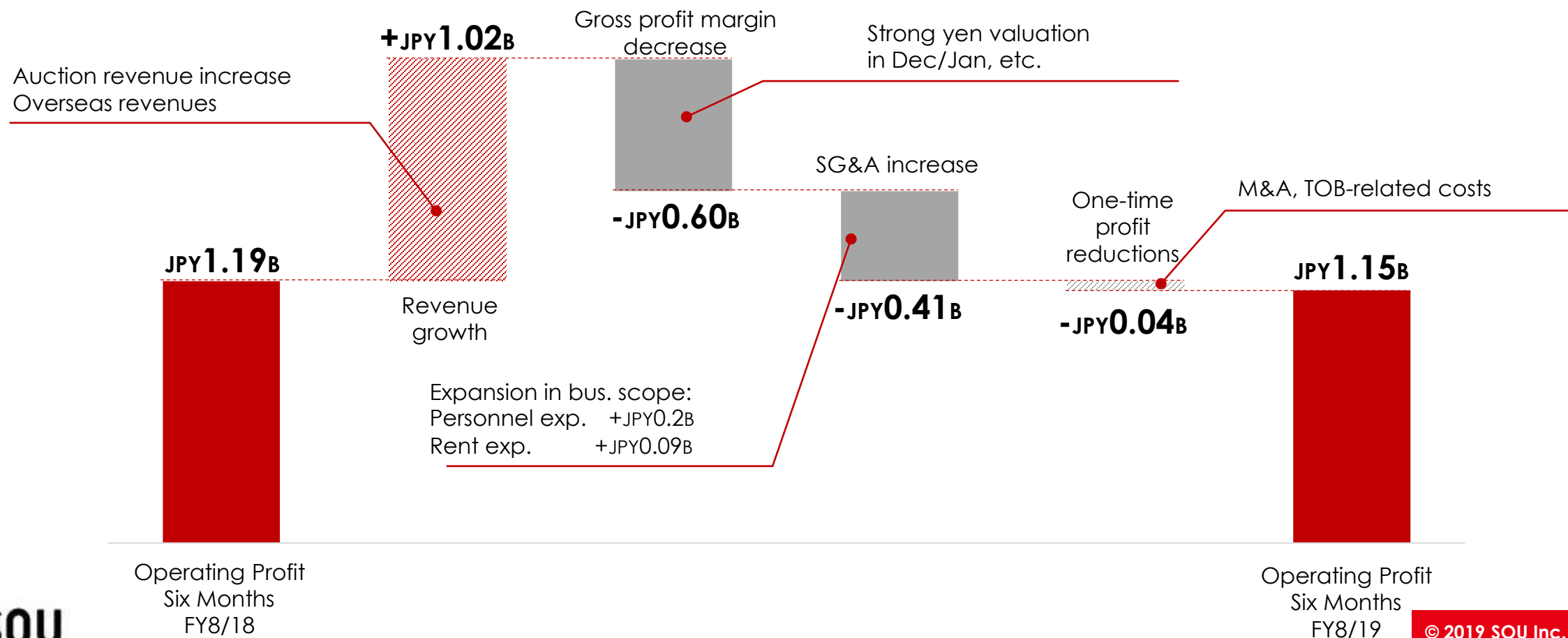
# Operating Results

(Millions of yen)

	Six Months Ended Feb 2018	Six Months Ended Feb 2019	FY2019 Forecast	Vs. PY	Progress vs. Plan
Net sales	15,390	<b>18,956</b>	35,650	+23.2%	53.2%
Gross profit	4,401	<b>4,817</b>	9,600	+9.4%	50.2%
Gross profit margin	28.6%	<b>25.4%</b>	26.9%	-3.2pt	-
Operating profit	1,191	<b>1,152</b>	2,200	-3.3%	52.4%
Operating profit ratio	7.7%	<b>6.1%</b>	6.2%	-1.6pt	-
Ordinary profit	1,174	<b>1,149</b>	2,130	-2.1%	54.0%
Ordinary profit ratio	7.6%	<b>6.1%</b>	6.0%	-1.5pt	-
Profit attributable to owners of parent	867	<b>770</b>	1,450	-11.2%	53.1%
Net profit ratio	5.6%	<b>4.1%</b>	4.1%	-1.5pt	-

# Operating Profit Change, Year on Year

- Higher revenues from increased auction frequency in Japan and overseas compensated for lower gross profit margin and rise in SG&A (due to expanded scope of businesses)
- Despite recording operating profit in real terms, temporary costs (foreign exchange and SG&A) resulted in 40 million decrease in operating profit year on year.



# Operating Results by Quarter

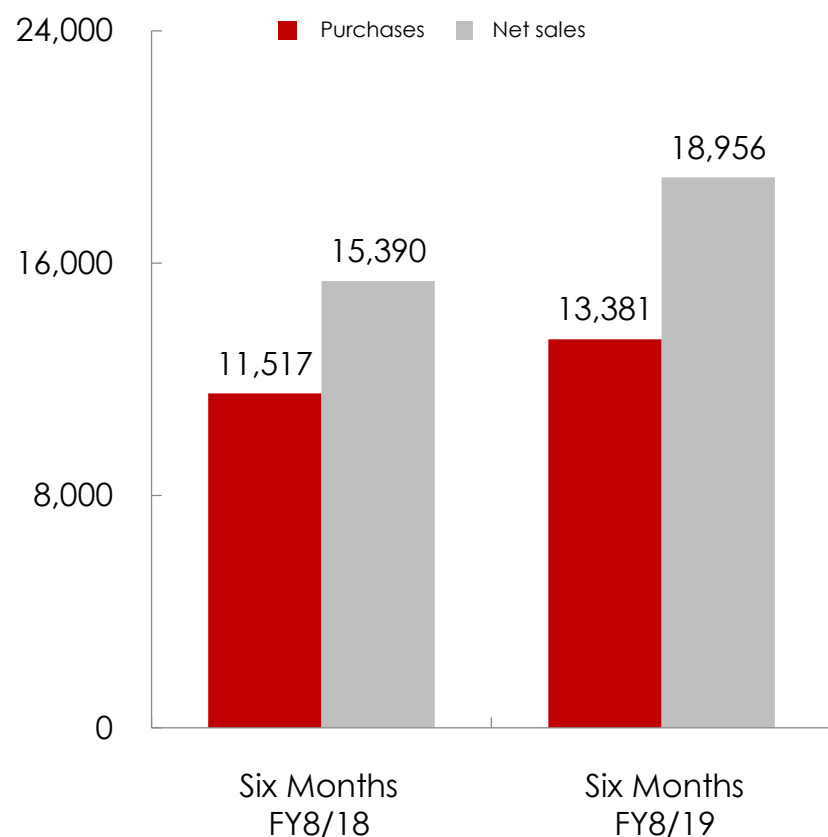
(Millions of yen)

	FY8/2018				FY8/2019	
	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	7,590	7,799	7,694	8,444	8,961	<b>9,995</b>
Gross profit	2,215	2,186	2,030	2,137	2,441	<b>2,375</b>
Gross profit margin	29.2%	28.0%	26.4%	25.3%	27.2%	<b>23.8%</b>
SG&A	1,616	1,594	1,763	1,719	1,821	<b>1,843</b>
Operating profit	598	592	267	418	620	<b>532</b>
Operating profit margin	7.9%	7.6%	3.5%	5.0%	6.9%	<b>5.3%</b>
Ordinary profit	601	572	221	409	627	<b>522</b>
Ordinary profit margin	7.9%	7.3%	2.9%	4.9%	7.0%	<b>5.2%</b>
Profit attributable to owners of parent	391	475	90	284	422	<b>348</b>
Net profit margin	5.2%	6.1%	1.2%	3.4%	4.7%	<b>3.5%</b>

# Purchases and Net Sales

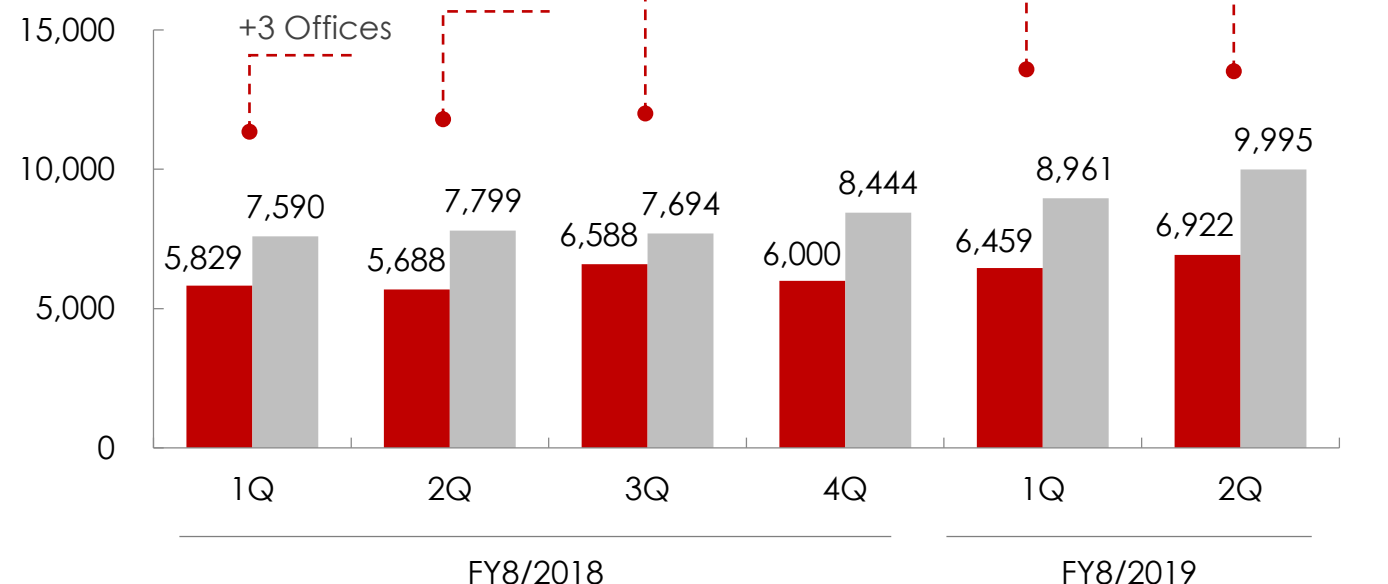
- Contributions of new buying offices resulted in 16.2% higher purchases year on year
- Quarterly purchases rose to nearly JPY7.0B as of Q2, marking a record high. Buying offices showing improving capacity utilization.

(Millions of yen)



## ■ By Quarter

(Millions of yen)



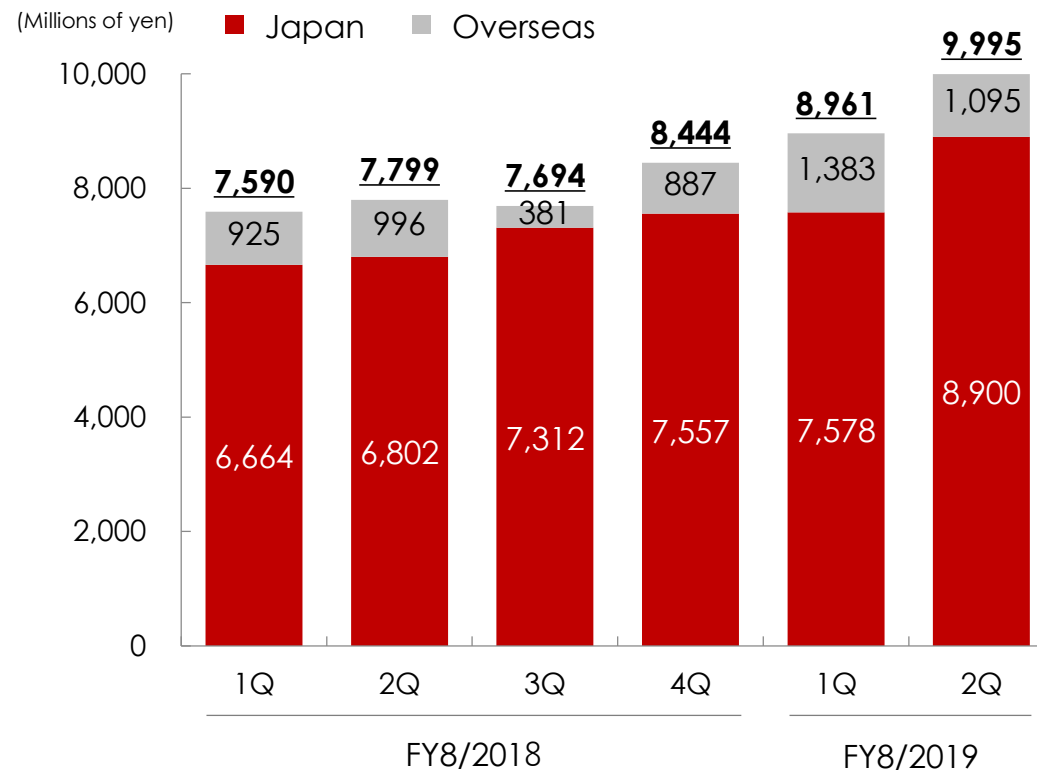
# Net Sales by Channel (Japan, Overseas)

- Increase in purchases drove ongoing growth in Japan and overseas.
- Overseas sales growth outpaced Japan. Sign of customer base generation overseas.

(Millions of yen)

	Six Months FY8/2018	Six Months FY8/2019	Vs. PY
Japan	13,467	16,478	+22.4%
Sales ratio	87.5%	86.9%	-0.6pt
Overseas	1,922	2,478	+28.9%
Sales ratio	12.5%	13.1%	+0.6pt

## ■ By Quarter



# Net Sales by Channel (BtoB, BtoC)

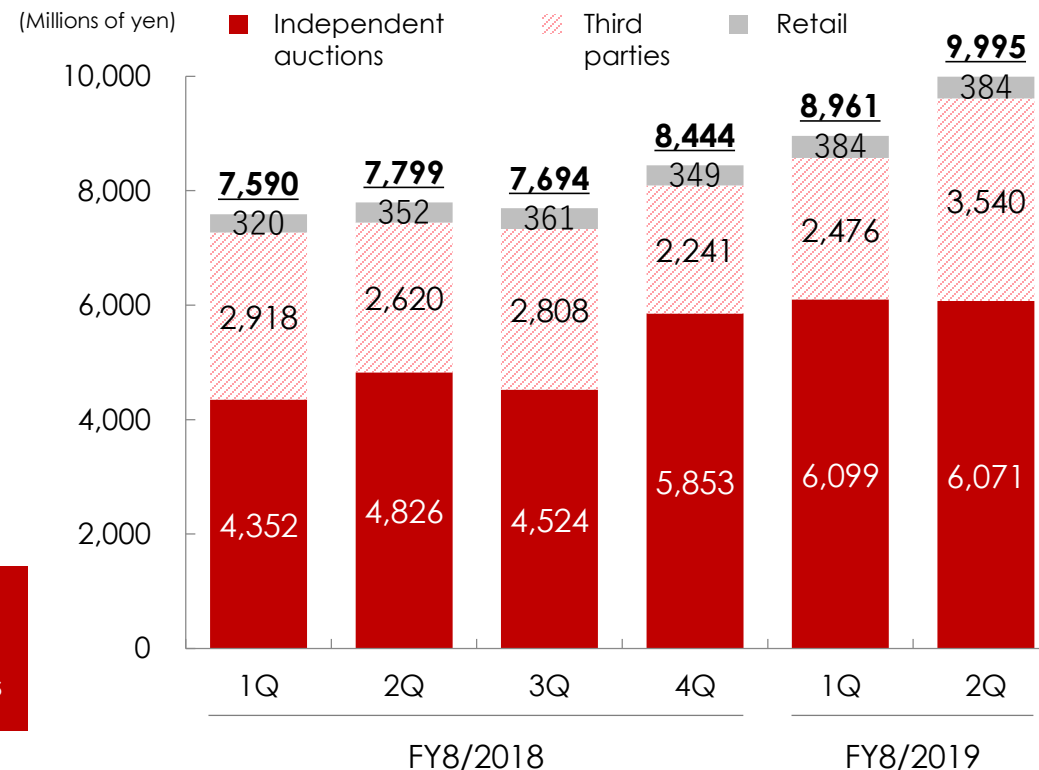
- More frequent independent auctions result in 32.6% sales increase, driving growth.
- Retail sales (BtoC) show double-digit sales growth in connection with online channel expansion.

(Millions of yen)

	Six Months FY8/2018	Six Months FY8/2019	Vs. PY
Independent auctions	9,178	12,171	+32.6%
Sales ratio	59.6%	64.2%	+4.6pt
Third parties	5,538	6,016	+8.6%
Sales ratio	36.0%	31.7%	-4.3pt
Retail	673	768	+14.2%
Sales ratio	4.4%	4.1%	-0.3pt
No. of auctions	27x	47x	+74.1%
SBA (JP, live)	24x	24x	
SBA (JP, online)	—	6x	
SBA (Hong Kong)	3x	5x	
THE EIGHT AUCTION	—	12x	

Mainly  
increase in  
retail auctions

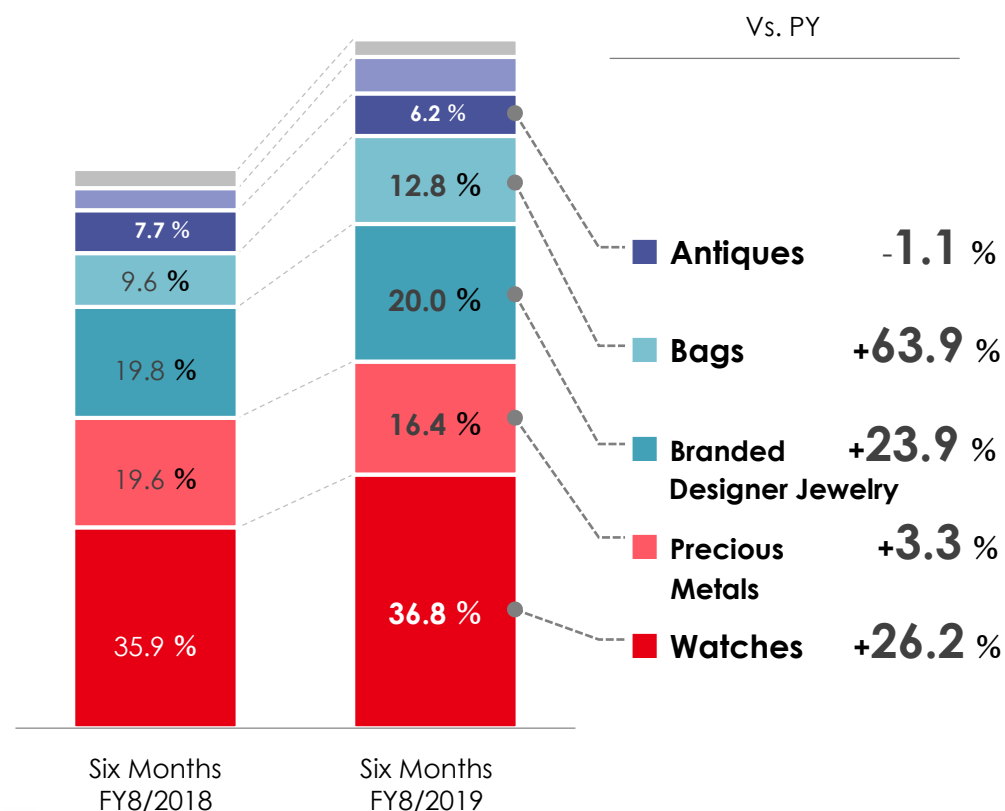
## ■ By Quarter



# Product Details, Worldwide Auction Results

- Bags, apparel, and accessories sales up sharply with increase in purchases. Watches and branded designer jewelry remain core sellers.
- Auction sales up 30% year on year in Japan and overseas. Start of online auctions results in 8.2-point decline in bid rates, but signs of recovery noted.

## ■ Sales by Product Type



## ■ Auction Results

(Millions of yen)

	Sales		Vs. PY
	FY8/2018 2Q	FY8/2019 2Q	
Japan auctions	8,001	10,597	+32.4%
Sales ratio	87.2%	87.1%	-0.1pt
Overseas auctions	1,177	1,574	+33.7%
Sales ratio	12.8%	12.9%	+0.1pt
Total	9,178	12,171	+32.6%
Bid rate	97.3%	89.1%	-8.2pt
(live auctions)	(97.3%)	(94.7%)	(-2.6pt)

# Balance Sheet

- Ample liquidity on hand due to increase in auction frequency.
- However, inventory decline in response to a strategic increase at the end of the prior fiscal year.

	FY8/2018	Feb. 28 FY8/2019	Change	(Millions of yen)
Current assets	8,615	10,930	+2,315	
Cash and deposits	3,650	5,695	+2,044	Impact of overseas auctions at end of February
Accounts receivable-trade	131	1,220	+1,088	
Merchandise	4,606	3,859	- 747	Strategically higher inventory in preparation for increase in auctions.
Other	226	155	- 70	
PPE	3,642	3,870	+227	
Total assets	12,258	14,800	+2,542	
Liabilities	6,461	8,545	+2,084	Higher due to gross-up with cash and deposits. Response to increase of liquidity on hand for more frequent auctions.
Interest-bearing debt	4,722	6,540	+1,818	
Other	1,739	2,005	+265	Equity ratio of 42.3%
Total liabilities	5,796	6,255	+458	
Total liabilities and net assets	12,258	14,800	+2,542	

# FY8/2019 Earnings Forecast

Pursuing original plan based on favorable progress to date.  
We view forecasts at present to be conservative.



## ■ Sales

- ✓ We intend to open at least 10 buying offices and move certain offices during the second half of the fiscal year.
- ✓ We expect to hold the same number of auctions as the first half in Japan and overseas.

## ■ Profits

- ✓ We project improved gross profit margin for the second half of the year as the high yen valuation from the first half cycles lower. However, we will leave our plan unchanged for operating profit due to uncertain factors.

## FY8/2019 Major Milestones



# Sales BtoB: Strengthen Auction Business

## STAR BUYERS AUCTION

### ■ Japan

#### Added Online Auction Bidding

Launched in Sep. 2018 in response to higher purchase volume

#### Four-Day Live Auction

- 11<sup>th</sup>: Apparel/Accessories
- 12<sup>th</sup>: Watches
- 13<sup>th</sup>: Brand Designer Jewelry
- 14<sup>th</sup>: Bags

+

#### Online Bid Auction

23<sup>rd</sup>: All Product Types



### ■ Overseas

#### Five Hong Kong Auctions

Three Diamond Auctions (Sep, Nov, Feb) /  
Two Watch Auctions (Nov, Feb)

#### Full-Scale Watch Session



## THE EIGHT AUCTION

### ■ Japan

#### Full-Scale Launch of Hakkoudo Independent Auctions

Sales Channel Via Other Co's ⇒ Direct Sales Channel

Aim to Improve Future Profit Margins

#### Two-Day Live Auction

Even No. Months  
8<sup>th</sup>: Antiques 9<sup>th</sup>: Tea Ceremony Items

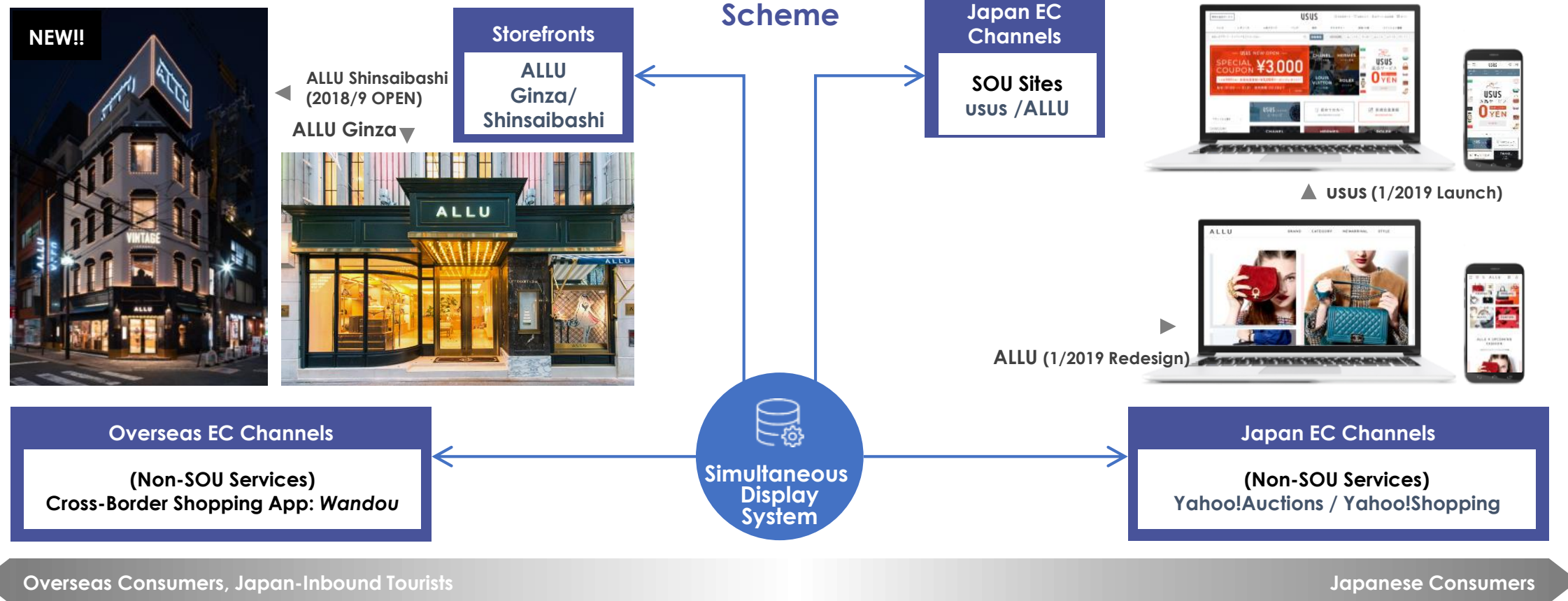
Odd No. Months  
8<sup>th</sup>: Art 9<sup>th</sup>: Calligraphy



# Sales BtoC: Omnichannel Sales

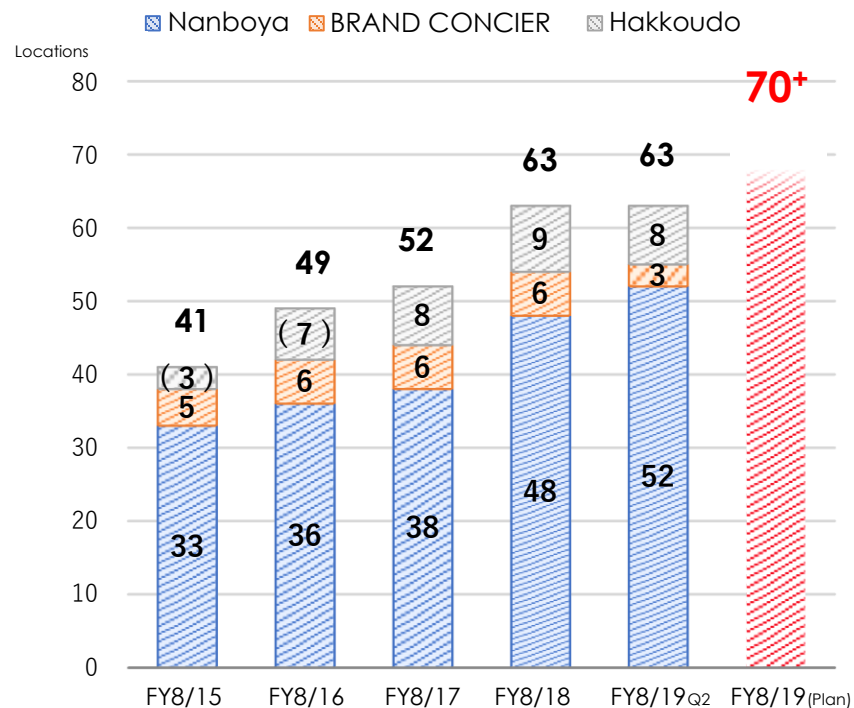
- Link a variety of channels to increase interactions with consumers

## Omnichannel Scheme



# Specialty Purchaser Nanboya (New Locations, Moves)

## ■ Buying Offices



\*Hakkoudo became a subsidiary in Feb 2017

\*Closed 3 BRAND CONCIER locations (Namba, Omiya, Ikebukuro) and 1 Hakkoudo location (Ginza) in Q2 FY8/2019 upon conclusion of lease agreements. BRAND CONCIER Namba rebranded to Nanboya NAMBA Nannan and moved to new location.

## ■ Q2 FY8/2019 Openings



## ■ New Locations in 3Q and Later

\*including scheduled openings

- March 1, 2019  
: Nanboya Kinshicho  
: Nanboya Chofu Parco  
: Nanboya Shinbashi
- March 8, 2019  
: Nanboya Fuchu Le Signe
- March 14, 2019  
: Nanboya Tenmabashi Keihan City Mall\*
- March 20, 2019  
: Nanboya Urawa CORSO
- March 22, 2019  
: Nanboya Fujisawa ODAKYU Shounan GATE\*
- April 15, 2019 (scheduled)  
: Nanboya Tokyu Plaza Akasaka  
: Hakkoudo Daimaru Umeda
- April 2019 (scheduled)  
: Nanboya Shinjuku Nishiguchi ...and more

\* Location move

## Other Topics

### ■ Due diligence re: acquisition of U.M.E. Co., Ltd.

Although we announced the acquisition of U.M.E. Co., Ltd. on September 27, 2018, we were unable to settle on the final terms of agreement with the company. Accordingly, we have abandoned plans for making U.M.E. a subsidiary.

### ■ Share buyback via take-over bid

We conducted a take-over bid in response to a notice from major shareholder SF Property Management LLC\*1. This bid was designed to ensure fairness and transparency for and among our shareholders. We acquired these shares as treasury stock.

Overview and Results of Share Buyback		
Overview	No. of shares planned to be purchased	215,000 shares
	Tender Offer Price	JPY5,600
	No. of shares subscribed	179,000 shares
	Purchase period	Jan 15, 2019 to Feb 12, 2019
	Settlement commencement date	March 6, 2019
Results	No. of shares subscribed	179,000 shares
	No. of shares acquired	179,000 shares
	Acquisition cost	Approximately JPY1.0 billion

### Disposition of Acquired Shares

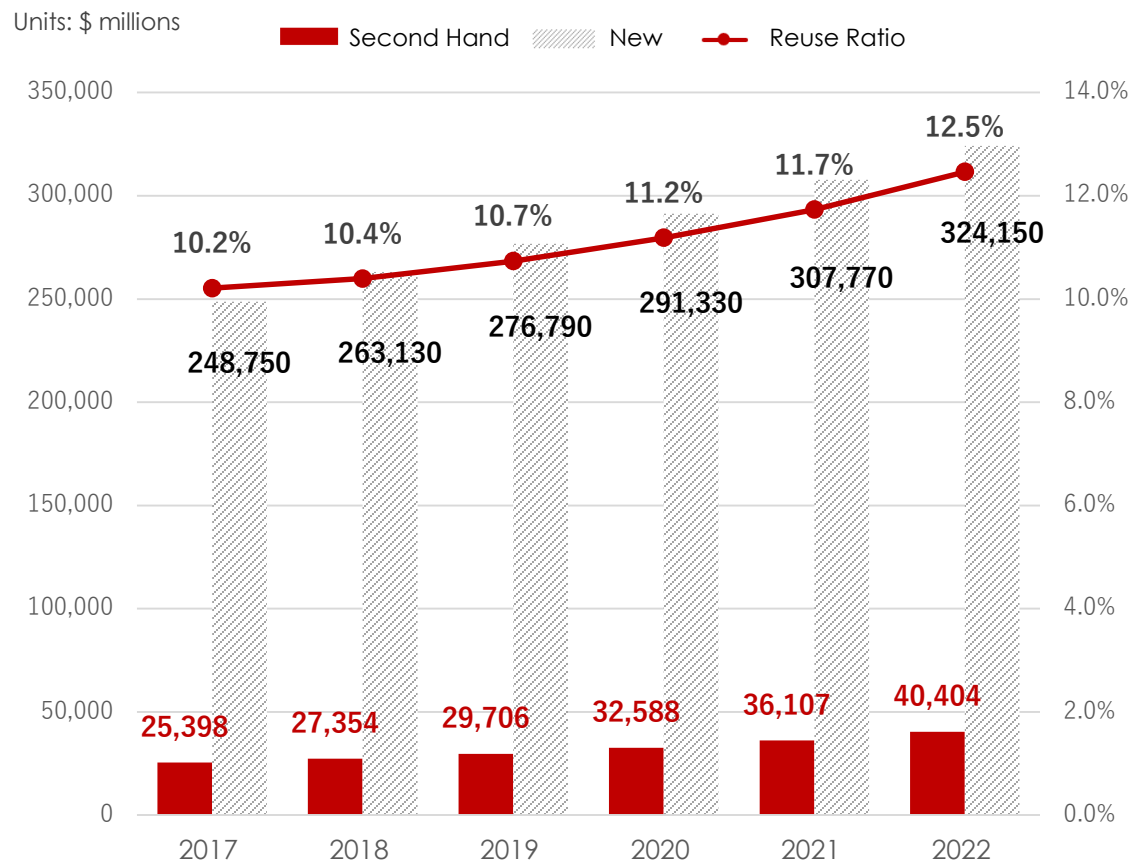
- ✓ Acquired shares will be treated as treasury stock
- ✓ Shares may be used as incentives for SOU employees, for M&A or other strategic growth, or other purposes

# Medium-Term Strategies *For Greater Growth*

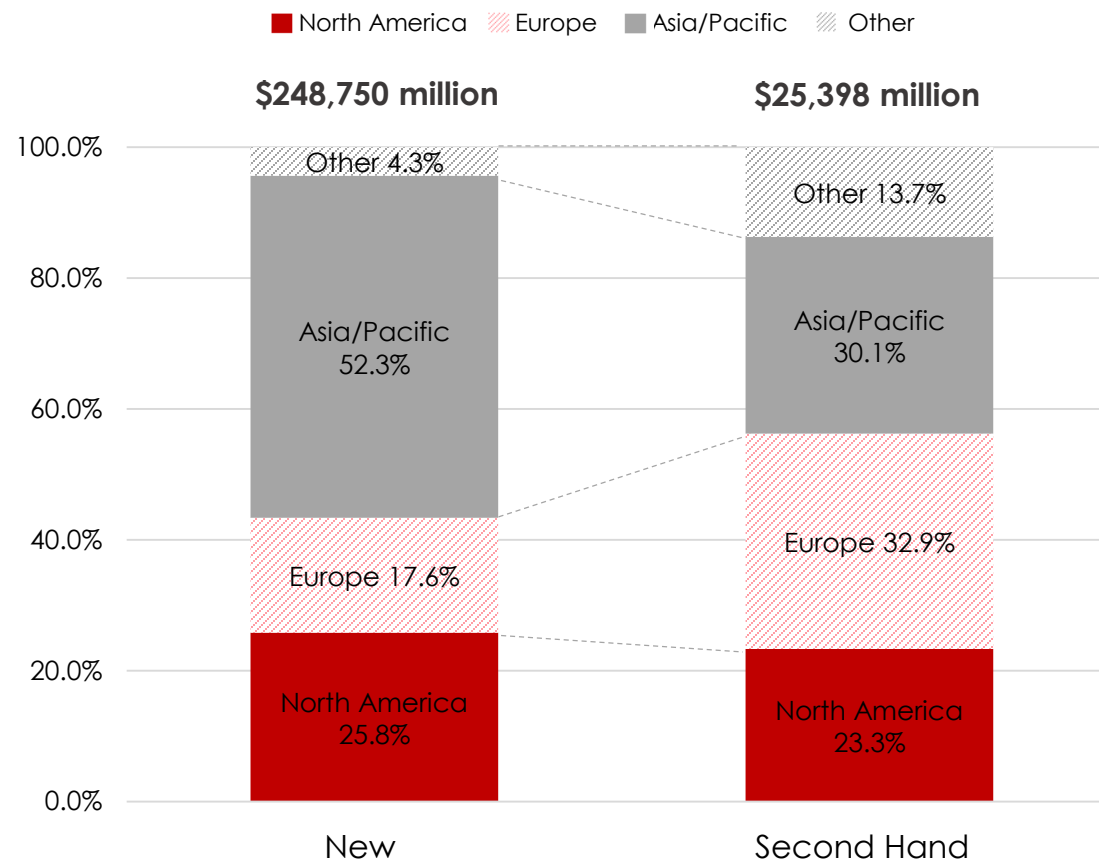


# The Global Luxury Brand Item Market

## Global luxury brand new, second-hand markets; reuse ratio



## Luxury brand new, second-hand item market size by region (2017)



\* New: Luxury Apparels, Jewelry, Premium watches, Luxury Accessories (eyewear, bonnet, handbags, cravet etc.)

\* Second Hand: Luxury Apparels, Jewelry, Watches, Bags, Accessories, Footwear

Source: (New) Daedal Research / (Second Hand) Kay Dee Market Insights

# Global Luxury Brand Second-Hand Market (Top 10 Countries)

Units: \$ millions

Country	2018		2023		Change	CAGR
		Share		Share		
United States	5,997.4	21.9%	9,676.8	21.2%	4,069.4	10.0%
Japan	2,061.4	7.5%	3,539.0	7.7%	1,635.4	11.4%
China	1,710.2	6.3%	3,367.7	7.4%	1,831.1	14.5%
England	2,010.7	7.4%	3,316.0	7.3%	1,444.3	10.5%
France	1,665.9	6.1%	2,716.9	5.9%	1,162.7	10.3%
Germany	1,537.1	5.6%	2,480.1	5.4%	1,042.9	10.0%
India	1,259.0	4.6%	2,315.3	5.1%	1,168.6	13.0%
Italy	1,297.5	4.7%	1,839.1	4.0%	594.1	7.2%
Spain	1,161.7	4.2%	1,802.9	3.9%	708.3	9.2%
Mexico	826.8	3.0%	1,505.3	3.3%	750.8	12.7%

Relatively high growth compared to global markets

Japan/U.S./EU/China markets accounted for \$17 billion in 2018

Over the next five years, the Japan/U.S./EU/China markets will grow to \$30 billion

# Toward Greater Growth (1)

## More Effective Luxury Data Collection

- **Add More Locations**

- Japan: Grow from 63 locations to 70-plus by FY8/2019 (major cities/commercial facilities; consider M&A in the future)
- Overseas: Leverage activity in Hong Kong to begin buying (purchasing) across numerous countries

⇒ **Collect consumer data (demographic info, interests, preferences)**

- **Expand Sales Overseas**

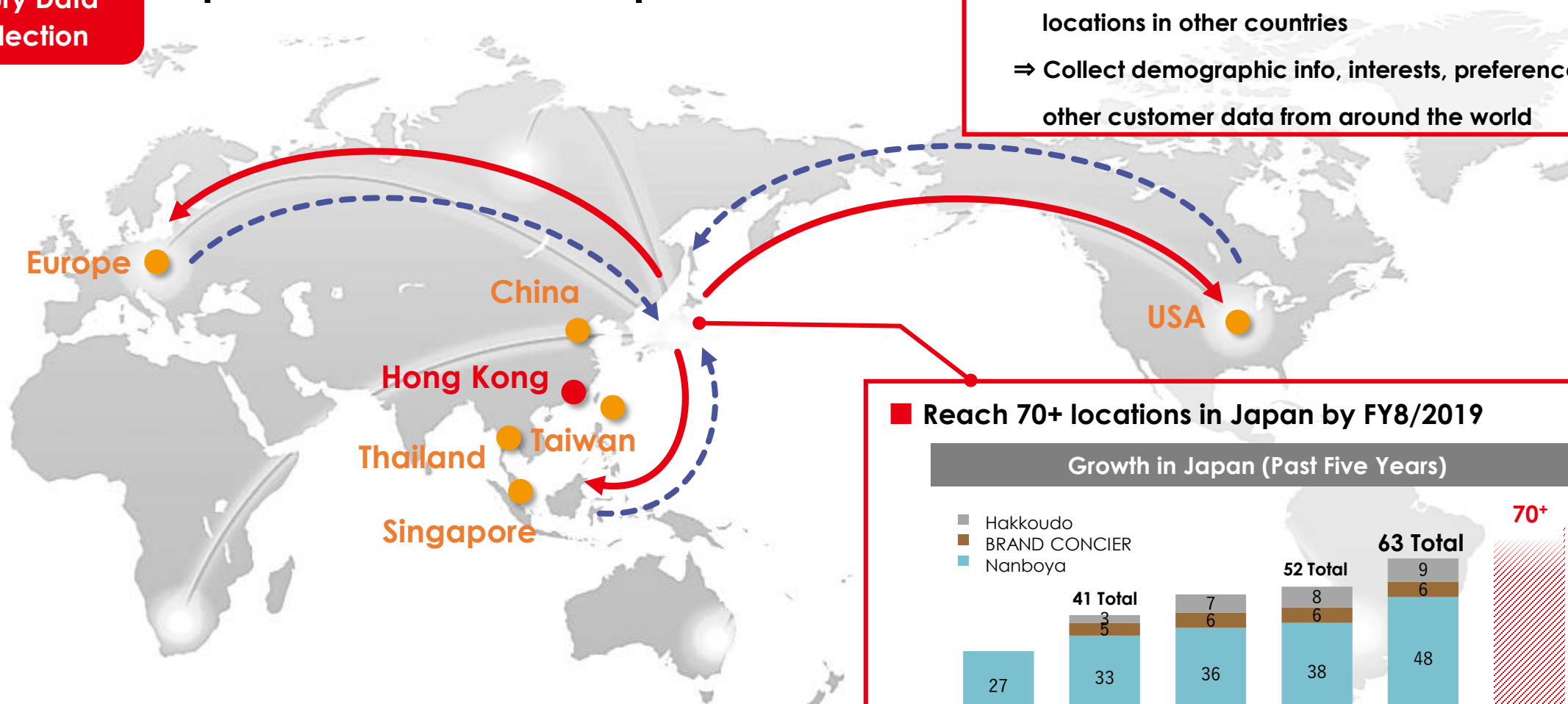
- Wholesale: Strengthen reuse product sales in Hong Kong, other countries (wholesale)
- Auctions: Move online, aiming for sales efficiencies in other countries

⇒ **Collect global market price data**

More Effective  
Luxury Data  
Collection

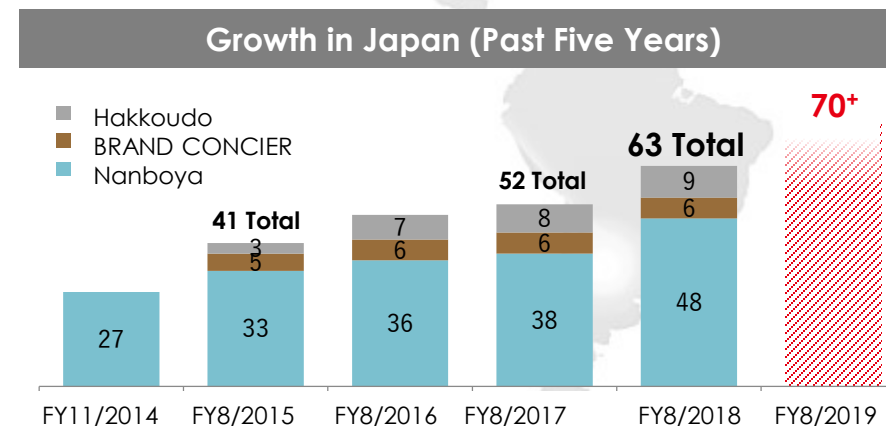
## Expand Locations in Japan, Overseas

- Expand and operate buying offices overseas
  - ⇒ Leverage experience in Hong Kong to study adding locations in other countries
  - ⇒ Collect demographic info, interests, preferences and other customer data from around the world



→ Expand locations  
- - - Data

### ■ Reach 70+ locations in Japan by FY8/2019



\*Changed FYE in August 2015 \*Converted Hakkoudo Inc. to a subsidiary in February 2017

More Effective  
Luxury Data  
Collection

## Strengthen, Expand Overseas Sales Channels

Global Expansion of  
High-Quality Reuse Reputation  
**Guaranteed Japanese Quality**



■ Shift from live auctions (Japan, Hong Kong) to online auctions



⇒ Access global market prices through sales across many countries

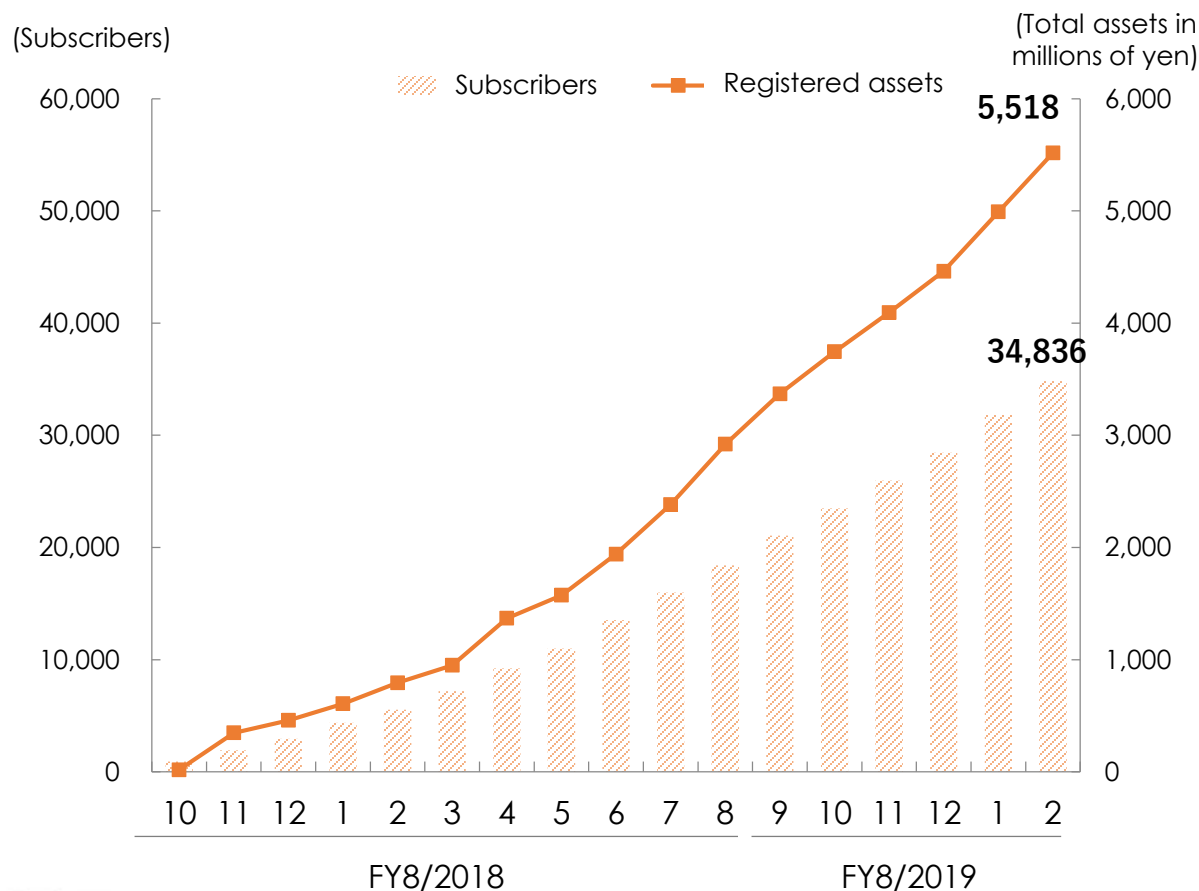
## Toward Greater Growth (2)

### Promote Personal Wealth Management

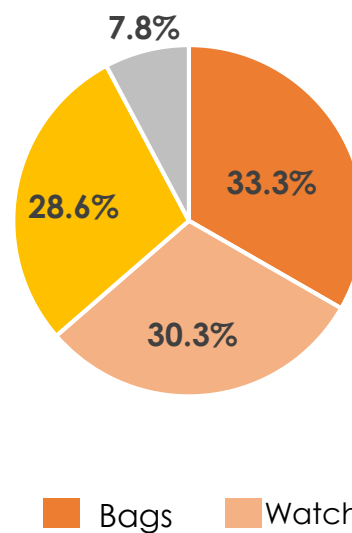
- **Improve asset management app functionality**
    - Study expansion across more segments, from watches, bags, luxury brand jewelry to antiques, real estate, automobiles, etc.
    - Consider alliances with companies in other industries; actively study service-service links as another option
- ⇒ **Use luxury brand data collected across many countries to promote all types of asset management and investing**

# Asset Management App *miney*

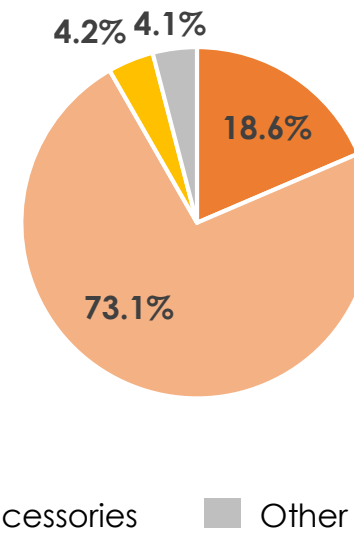
- During FY8/2019, *miney* grew organically at an average 10% monthly in total assets managed and subscribers
- Total of 37k registered items, total registered value of JPY5.5 billion. About 5% of total registered assets presented for purchase



**Registered Assets (Units)**  
37k



**Registered Assets (JPY)**  
JPY5.5B



## miney Service Improvements

### ■ Android Version Released

Dec 2018: miney Android version released  
⇒ Access to more potential subscribers and assets



(iOS/Android)

### ■ Expanding Categories

Preparing to add antiques as a category in addition to watches, bags, luxury designer jewelry, etc.



Watches



Bags



Wallets



Designer Jewelry



Accessories



Antiques/Art



Autos



Real Estate

*Coming Soon*

# Asset Management App *miney*

*miney* converts consumables into assets

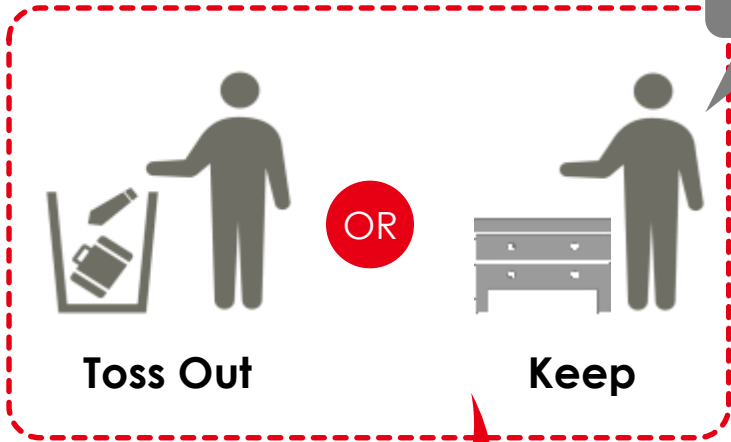
The PAST  
Goods  $\doteq$  Consumables



Purchase



Use



"Maybe I'll  
use it again  
someday."

The FUTURE  
Goods = Assets



Purchase



Use



Convert to assets



*miney* turns costs  
into assets



The FUTURE:  
Place certain items  
on the reuse market

# The Future of SOU

## Our Mission

---

**Provide Global Access to Pricing  
and Value Data for Smarter Lifestyles**

## Our Vision

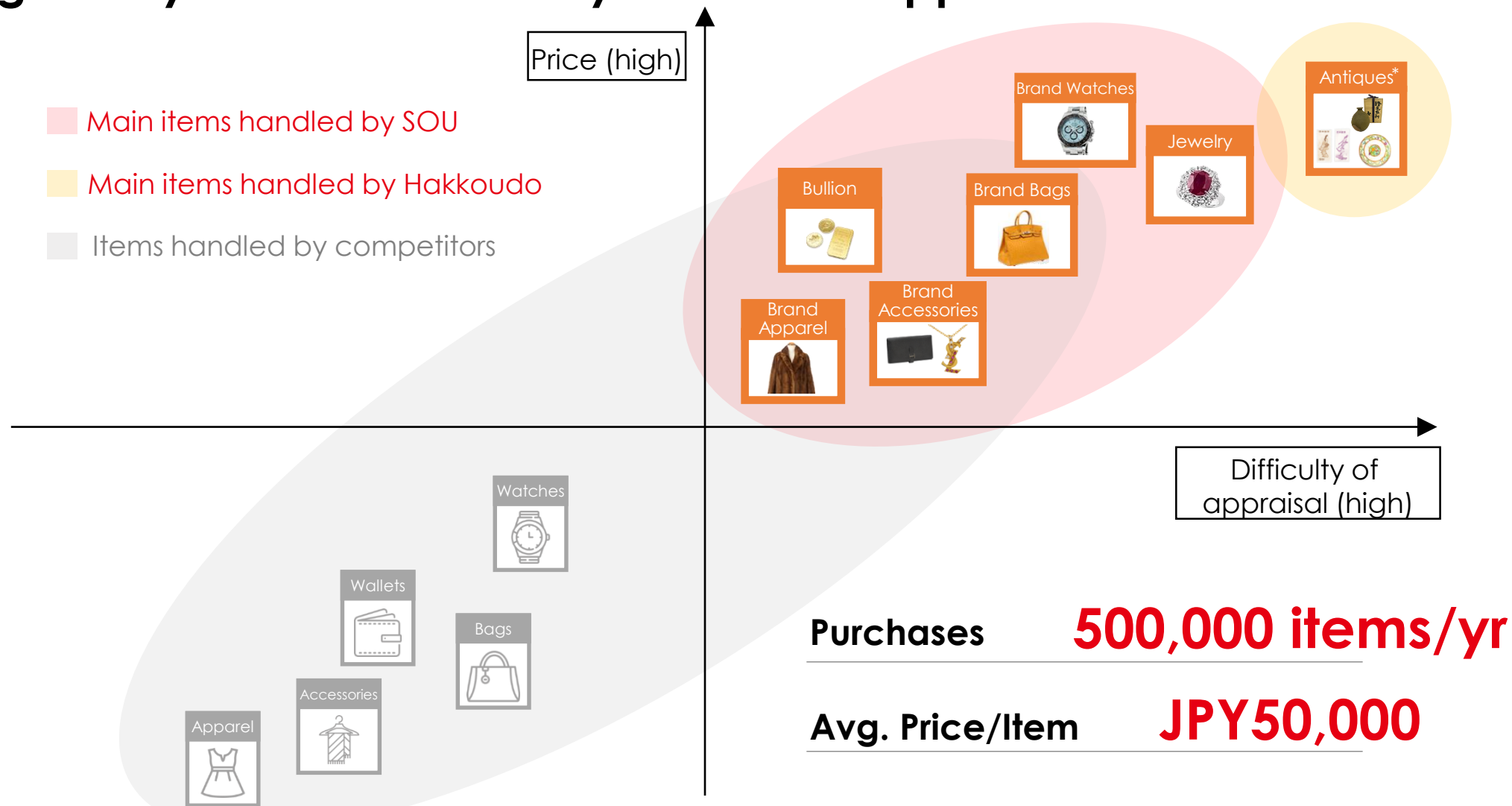
---

**Transition From a Luxury Reuse Company to  
a Luxury Market Data Company**

# Appendix



# Valuing Luxury Items Traditionally Difficult to Appraise



\*Antiques, art handled by subsidiary Hakkoudo (converted to subsidiary in 2017 to build strength in appraising antiques and art)

# Industry Position

Top 10 in Reuse Sales

Rank	Company	Reuse Sales (JPY100M)	Total Sales (JPY100M)
1	GEO HOLDINGS CORPORATION	994.2	2992.6
2	BOOKOFF GROUP HOLDINGS LIMITED	787.8	800.5
3	DAIKOKUYA, Inc. (*tickets)	446.0	446.0
4	Komehyo Co.,Ltd.	390.0	455.0
<b>5</b>	<b>SOU</b>	<b>315.3</b>	<b>315.3</b>
6	KOUNAN Ticket Corporation.	249.9	249.9
7	Daikokuya Holdings Co., Ltd.	201.0	205.0
8	BIKE O & COMPANY Ltd.	175.4	182.5
9	A-too Inc.	170.2	224.0
10	HARD OFF CORPORATION Co, Ltd.	169.4	185.2

Top 10 in Luxury Brand Jewelry Sales

Rank	Company	Luxury Brand Jewelry Sales (JPY100M)	Ratio to Total Sales
1	Komehyo Co.,Ltd.	335.4	86.0%
<b>2</b>	<b>SOU</b>	<b>271.8</b>	<b>86.2%</b>
3	Daikokuya Holdings Co., Ltd.	201.0	100.0%
4	HappyPrice	126.2	100.0%
5	EcoRing Inc.	125.3	87.5%
6	Okura	106.7	100.0%
7	Brand off Co.,Ltd.	99.2	97.0%
8	RK Enterprise co.,Ltd	98.3	95.0%
9	K-GOLD INTERNATIONAL CORPORATION.	85.0	100.0%
10	GALLERY RARE Ltd.	73.8	94.0%

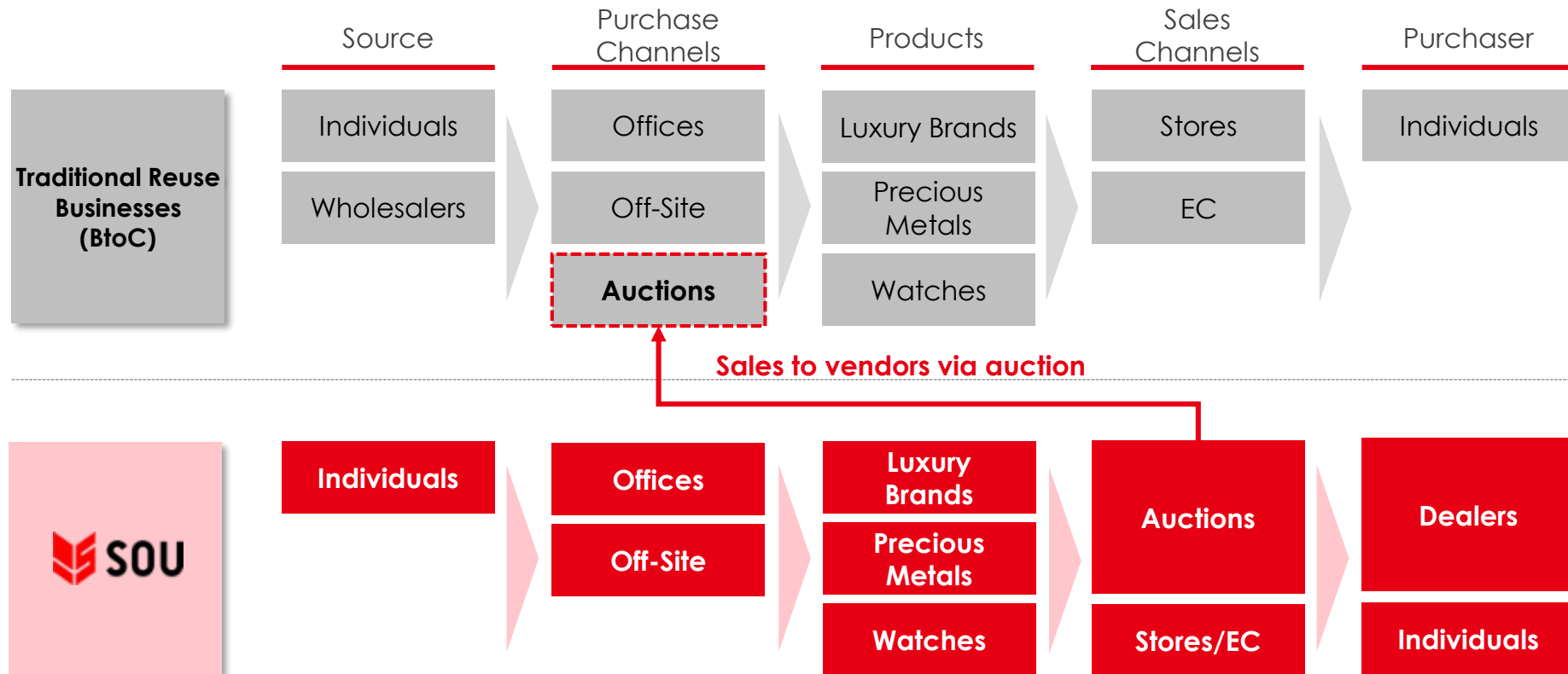
Source: Secondhand Market Databook No.455, No.456, Japan Journal of Remodeling

- Net sales ranks among the top in the industry just seven years after founding
- SOU business systems and positioning have built a solid base in Japan; next phase is to accelerate development overseas

# Providing Merchandise to Competitors

## Providing merchandise to competitors in a CtoBtoB model

- Purchasers are vendors/dealers, which provide a certain stability in volume
- Large-volume sales of a variety of merchandise provides an understanding of proper market prices





- Financial information, details of sales channels, and auction results presented for FY8/2015 and FY8/2016 are for reference. This information has not been audited by an independent financial statement auditor.
- Earnings forecasts and other statements are based on information available at the time and certain assumptions deemed rational by company management. Actual earnings may differ from forecasts due to various risks, uncertainties, and other factors that may arise in the future.
- This document has been prepared in conformance with information presented in *Consolidated Financial Results for the Six Months Ended February 28, 2019*, published April 12, 2019.

Investor Relations Inquiries:  
Office of the President  
SOU Inc.