



Financial Results Presentation for the Nine Months Ended May 31, 2019

July 12, 2019
SOU Inc.
(TSE Mothers: 9270)

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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.**

Corporate Profile

Company Name	SOU Inc.
Representative	Shinsuke Sakimoto
Head Office	1 Minato Minami, Minato-ku, Tokyo
Founded	December 2011
Capital	¥1,005 million (May 2019)
Employees	459 (May 2019) *Consolidated, full-time only
Business	Purchase and sales of luxury brand items, precious metals, antiques, and other products
Segment	Luxury brand items, antiques, art, and other reuse businesses (stand-alone)
Consolidated Subsidiaries	Hakkoudo Inc., STAR BUYERS LIMITED

Group Businesses and Brands

Purchasing



Auctions (toB)



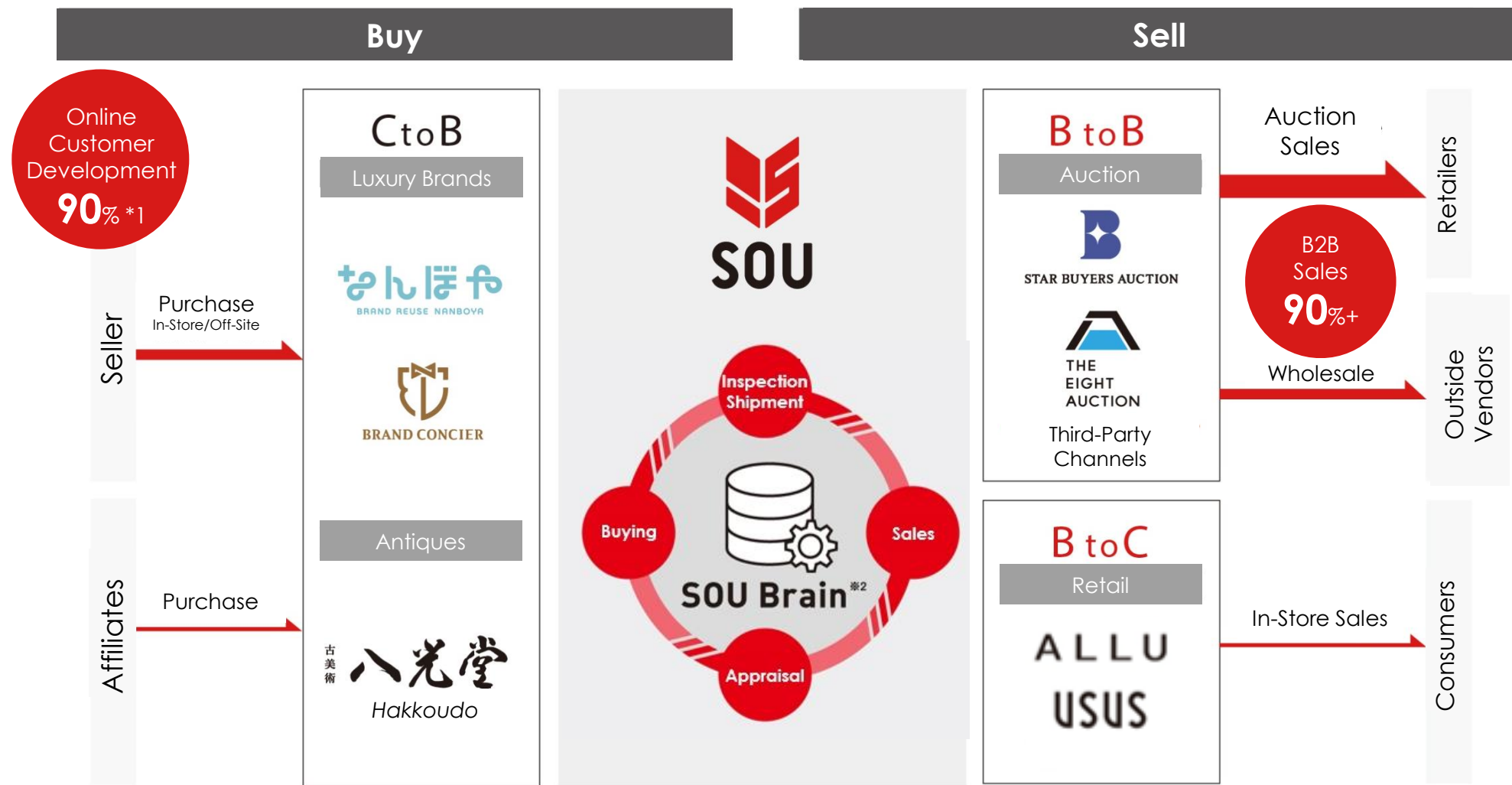
Retail (toC)



Apps



Business Model



*1 Based on questionnaire results

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

Financial Results for the Nine Months Ended May 31, 2019



Key Points for the Nine Months Ended May 31, 2019

Favorable purchasing supports rising sales and profits

*YoY

■ Sales

- ✓ Purchases rose 12.0% year on year, mainly due to increased purchasing stemming from growth in buying office locations
- ✓ Sales up 19.3% year on year, mainly due to higher volume in Japanese live auctions (stemming from increased purchases) and additional online bid auctions

■ Profits

- ✓ After temporary decline in Q2, gross profit margin began a recovery, mainly due to stronger management during item purchasing
- ✓ Operating profit, ordinary profit, and profit attributable to owners of parent higher year on year

Financial Results for the Nine Months Ended May 31, 2019

(Millions of yen)

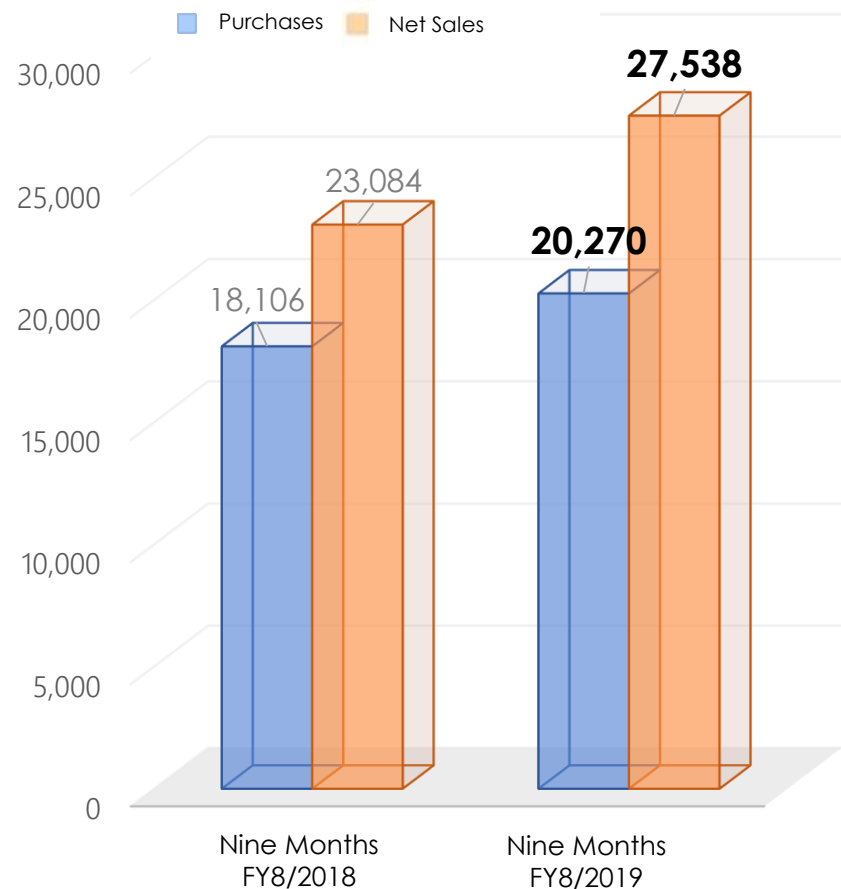
	Nine Months Ended May 2018	Nine Months Ended May 2019	vs. PY
Net sales	23,084	27,538	+19.3%
Gross profit	6,432	7,074	+10.0%
Gross profit margin	27.9%	25.7%	—
SG&A	4,974	5,537	+11.3%
Operating profit	1,458	1,537	+5.4%
Ordinary profit	1,396	1,537	+10.1%
Ordinary profit ratio	6.0%	5.6%	—
Profit attributable to owners of parent	958	1,015	+6.0%

FYE August 2019 Forecast	Progress vs. Plan
35,650	77.2%
9,600	73.7%
26.9%	—
7,400	74.8%
2,200	69.9%
2,130	72.2%
6.0%	—
1,450	70.1%

Purchases and Net Sales

□ YoY (Cumulative)

(Millions of yen)



Purchases

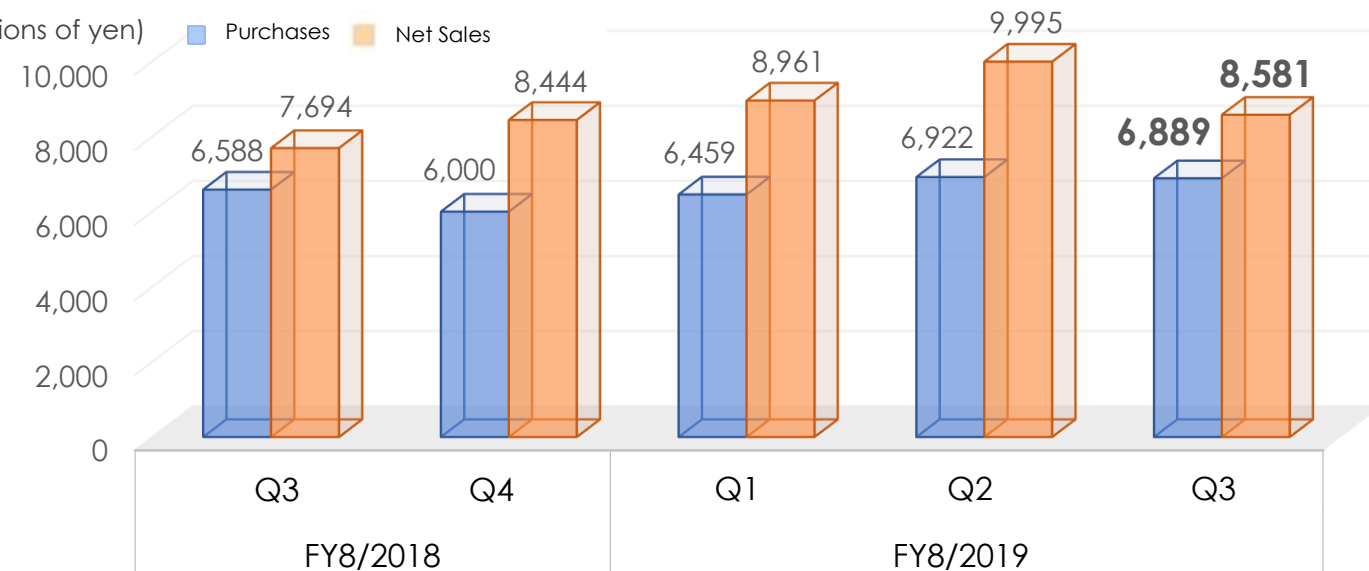
- Increase of 12.0% year on year, mainly due to higher purchase volume stemming from new office openings

Net Sales

- Increase of 19.3% year on year, mainly due to higher auction volume and more frequent auctions
- Lower net sales versus the previous quarter, mainly due to Q2 sales promotions and lack of auctions in Hong Kong during Q3

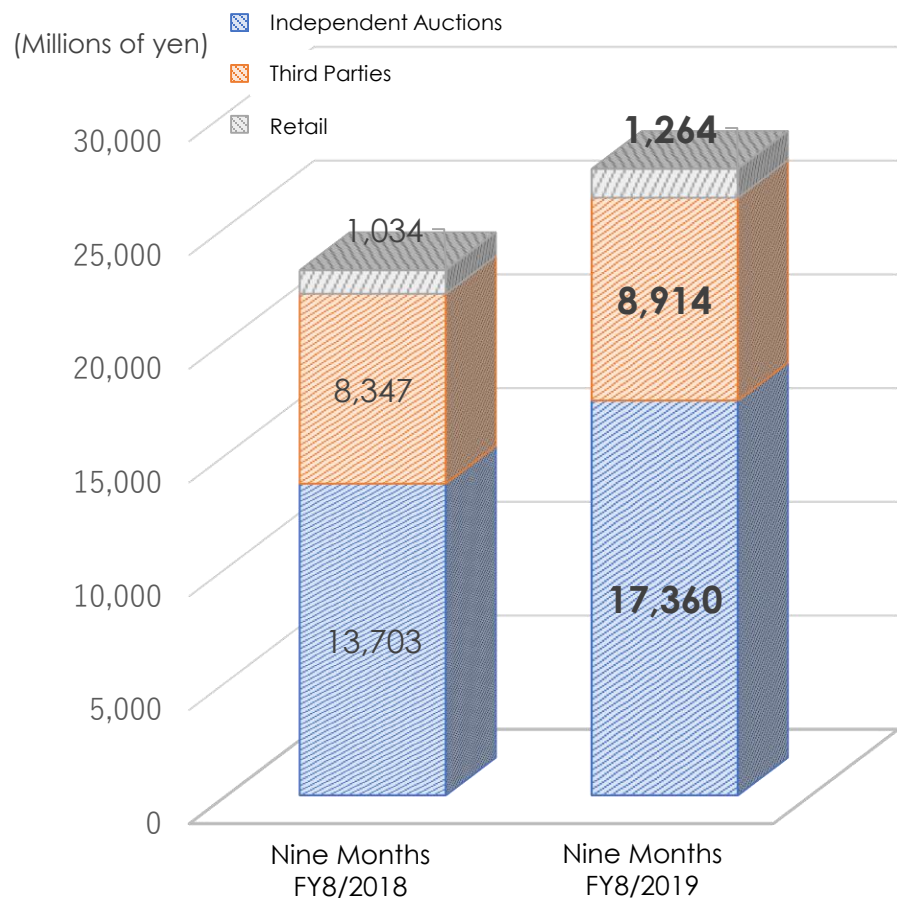
□ By Quarter

(Millions of yen)



Net Sales by Channel (toB, toC)

YoY (Cumulative)



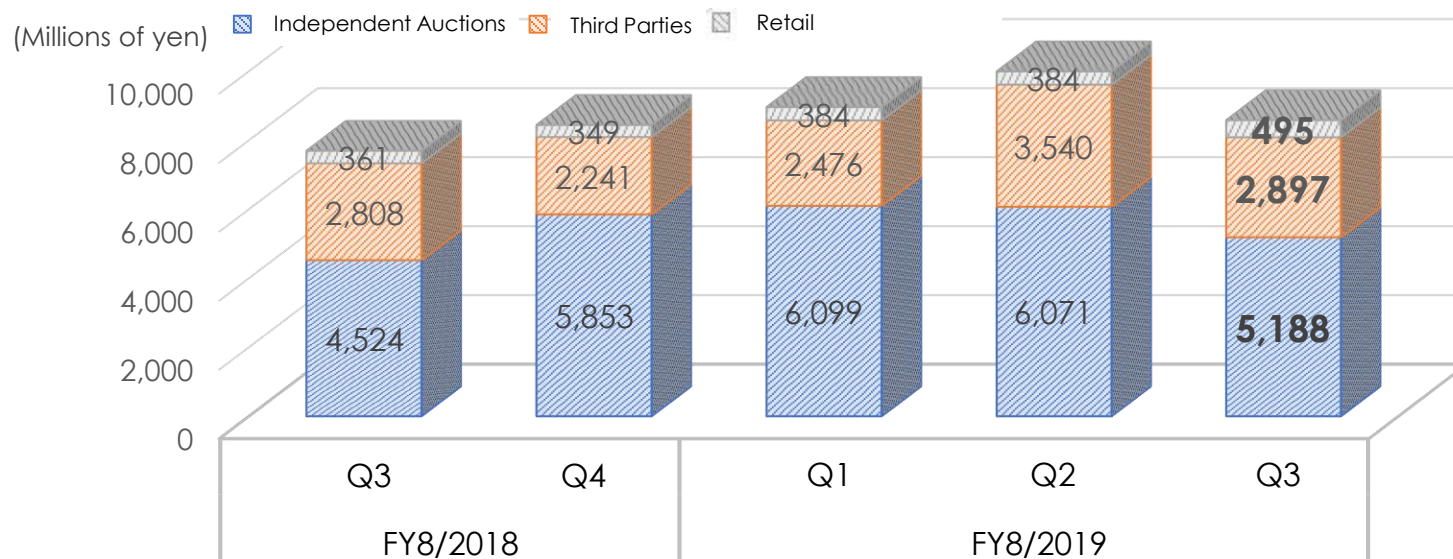
Independent Auctions (toB)

- Net sales increase of 26.7% year on year, mainly due to more frequent auctions
- Lower net sales versus the previous quarter, mainly due to lack of auctions in Hong Kong during Q3

Third Parties (toB)

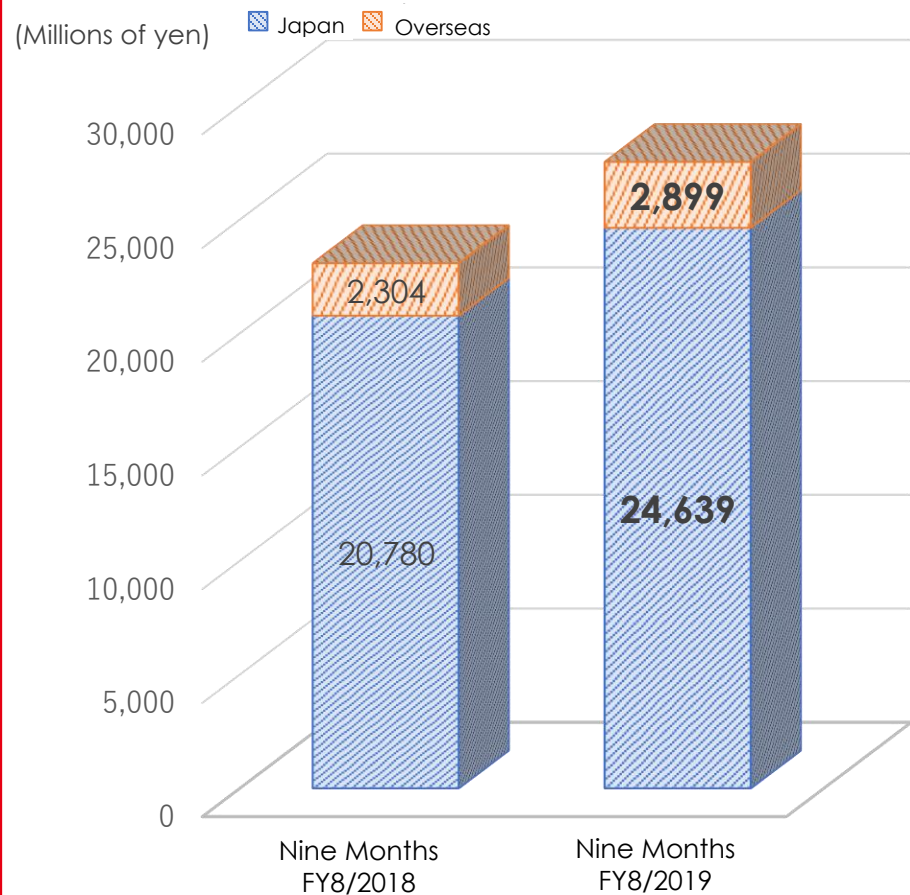
- Increase of 6.8% through third parties, mainly due to higher wholesales to overseas vendors

By Quarter



Net Sales by Channel (Japan, Overseas)

YoY (Cumulative)



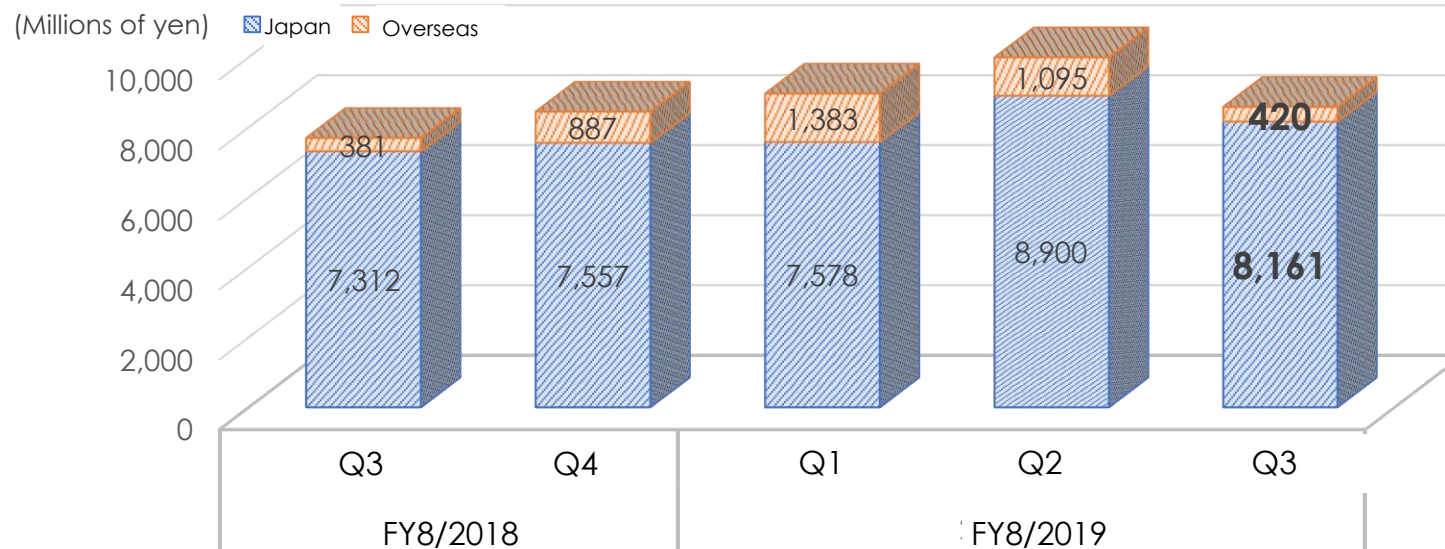
Japan

- Net sales increase of 18.6% year on year, mainly due to online bid auctions and higher retail sales

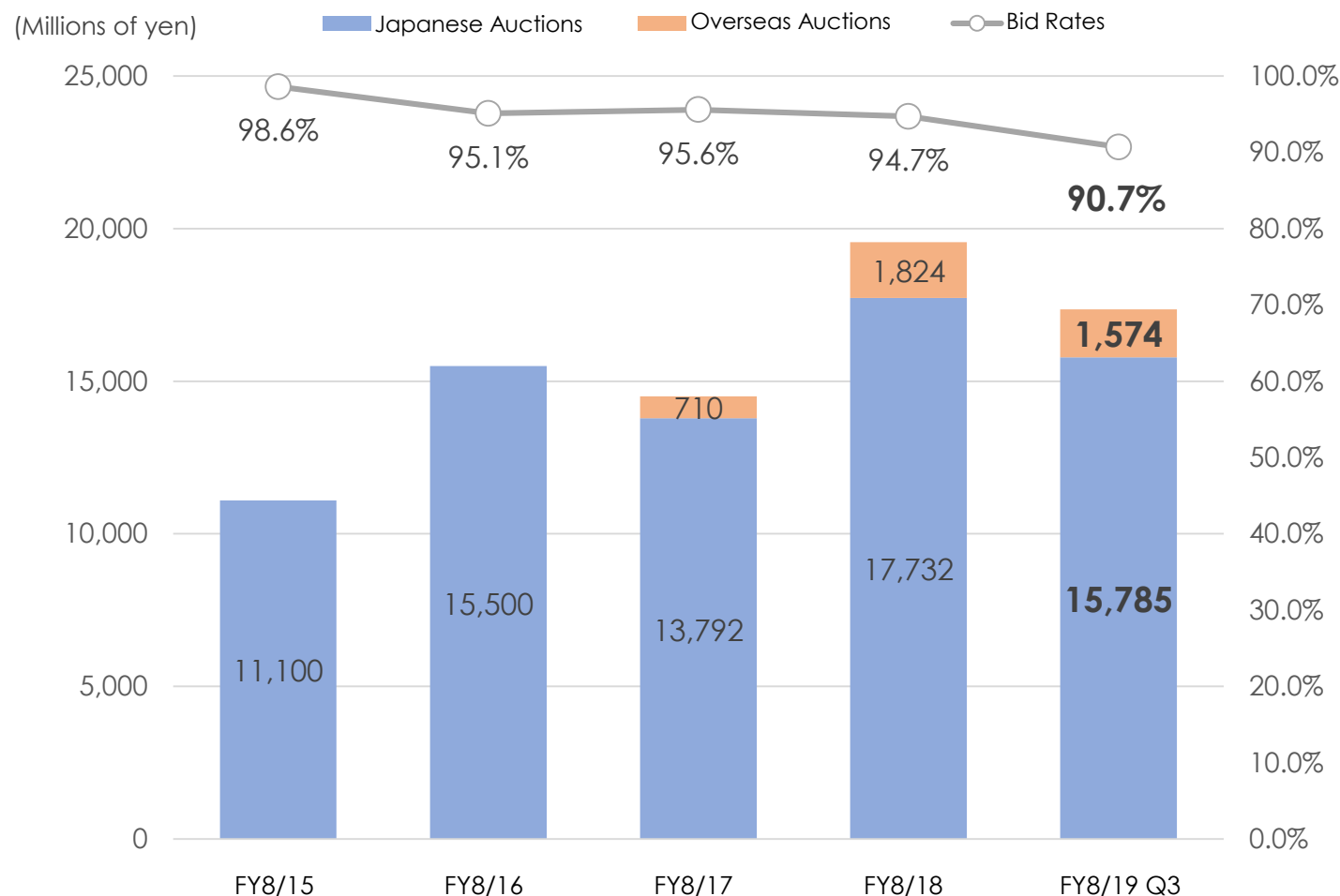
Overseas

- Net sales increase of 25.8% year on year (overseas sales at 10.5% of total sales through Q3 FY8/2019), mainly due to more frequent Hong Kong auctions and higher wholesale sales to overseas vendors

By Quarter



Auctions



Japanese Auctions

- Net sales for Japanese auctions increased 26.0% year on year, mainly due to launch of online bid auctions and regular auctions for Hakkoudo

Overseas Auctions

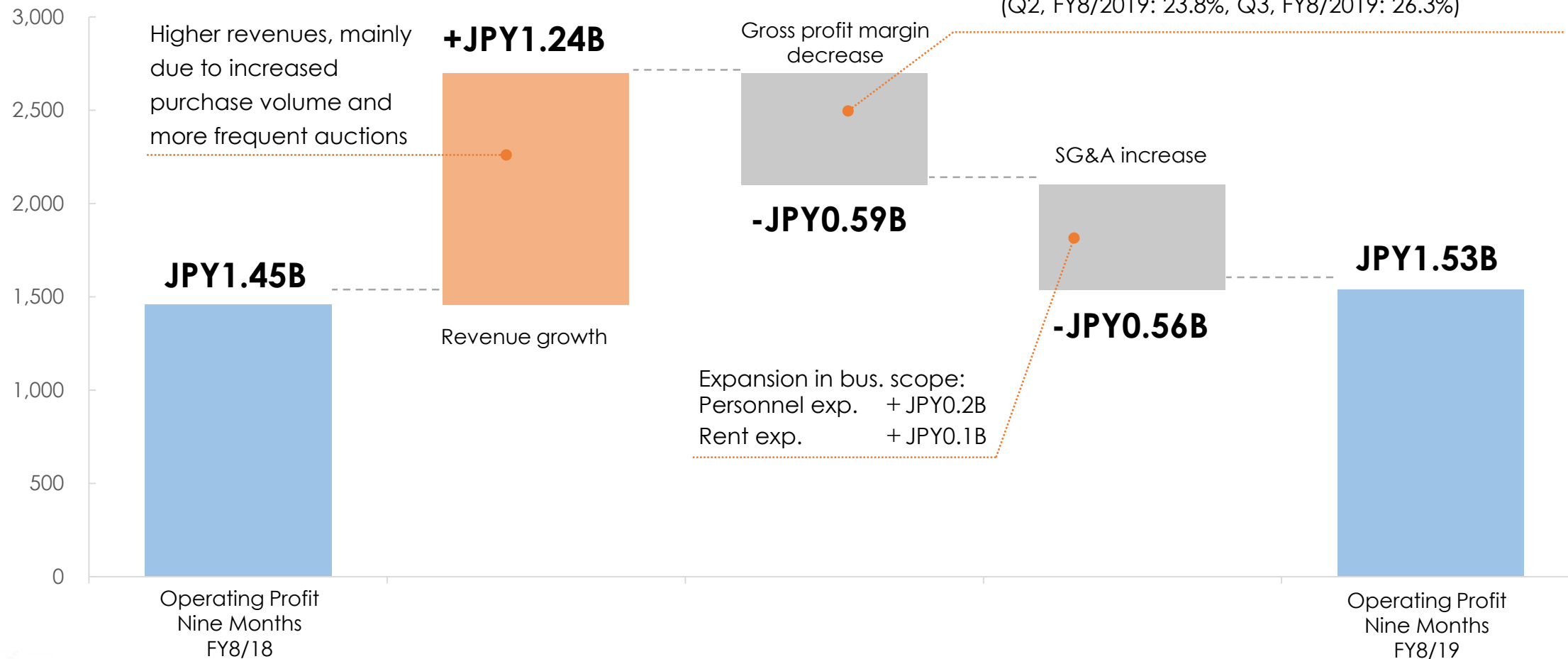
- Increase of 33.7% year on year as we held five auctions in Hong Kong during Q3 of FY8/2019 (three diamond, two watch), compared to three auctions during Q3 of FY8/2018 (three diamond)

Bid Rates

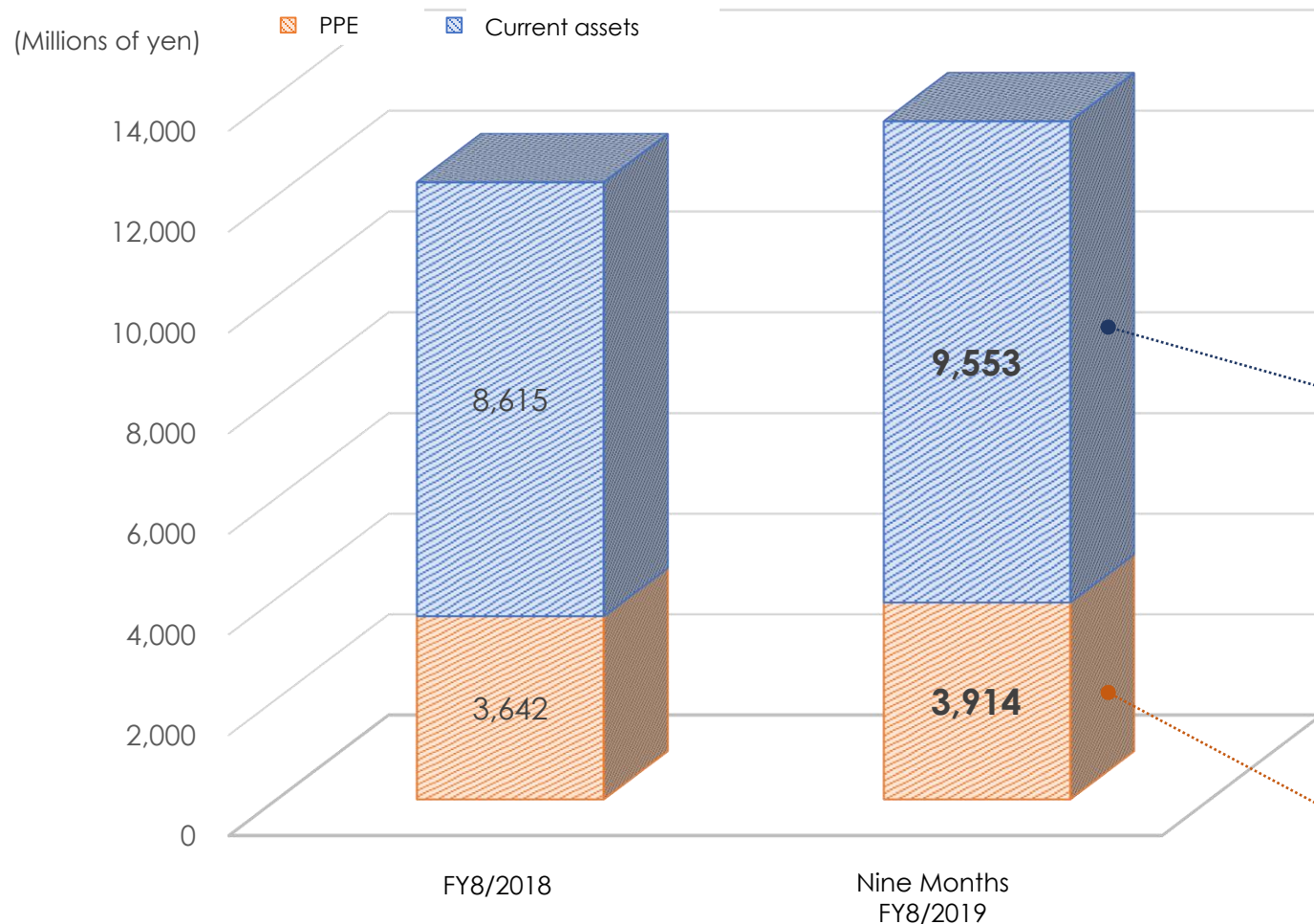
- While overall bid rates declined to 90.7%, bid rates for live auctions (stand-alone) remained high at 95.0%.
- Bid rates for online bid auctions improving
-YoY Comparison
Q1: 72.9% Q2: 85.8% Q3:92.8%

Operating Income Change

(Millions of yen)



Balance Sheet (Assets)



✓ **Decrease in merchandise: -¥181 million**

- Progress in sales due to Hakkoudo auctions and sales of stocked goods held in anticipation of retail store openings
- Asset turnover at a high 60.3 days (FY8/2018: 63.9 days)

✓ **Cash and deposits: +¥1,022 million**

- Due to increased purchase volume stemming from new buying office openings

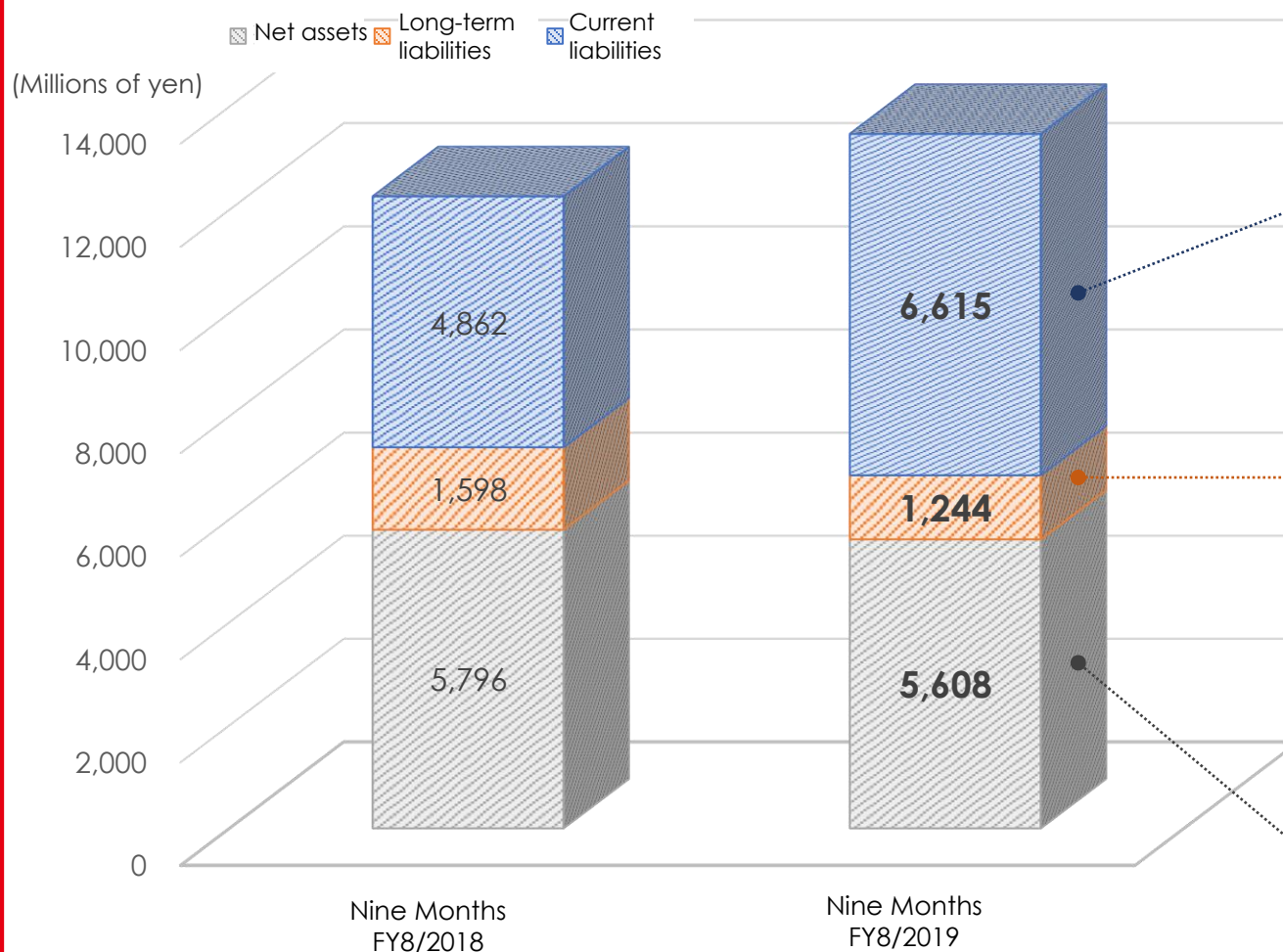
✓ **Decrease in goodwill: -¥110 million**

✓ **Increase in buildings and structure (net): +¥311 million**

✓ **Increase in guarantee deposits: +¥77 million**

- Due to ALLU Shinsaibashi location, new buying office openings, and move of STAR BUYERS LIMITED Hong Kong office

Balance Sheet (Liabilities and Net Assets)



✓ Increase in short-term loans payable: +¥2,010 million

- Due to increase in working capital stemming from increase in purchases and other factors related to business expansion

✓ Decrease in bonds: -¥160 million

✓ Decrease in long-term loans payable: -¥194 million

✓ Increase in capital stock and capital surplus: +¥57 million each

- Due to exercise of subscription warrants

✓ Increase in retained earnings: +¥703 million

✓ Decrease in treasury stock: -¥1,002 million

- Due to acquisition of 179,000 shares of treasury stock

Highlights for the Nine Months Ended May 31, 2019



Buying Office Relocations, New Openings

□ New openings during Q3 (March-May), FY8/2019



March Chofu Parco



March Shinbashi



March Urawa CORSO



April Daimaru Umeda



March Kinshicho



March Fuchu Le Signe



April Tokyu Plaza Akasaka

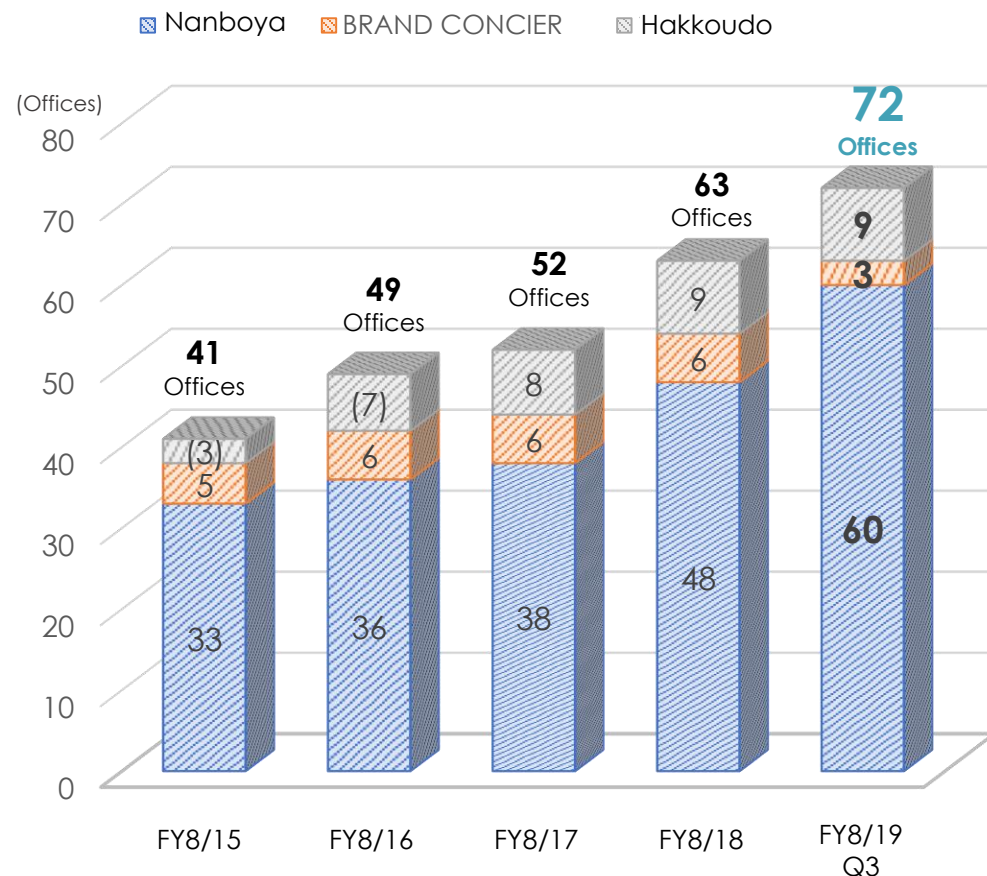
(Relocation)

- March Tenmabashi Keihin City Mall
- March Fujisawa ODAKYU Shonan Gate
- April Shinjuku West Exit (*)

*Relocating old offices as of May 2019
(Scheduled to close during Q4, FY8/2019)

Buying Office Relocations, New Openings

□ No. of buying offices



※ Hakkoudo transitioned to subsidiary in February 2017

□ Q4, FY8/2019 and beyond

New Locations

- June 21, 2019: Nanboya Edion Hiroshima Honten West Annex
- June 26, 2019: BRAND CONCIER Matsuzakaya Ueno
- June 28, 2019: Nanboya ATRE Matsudo
- July 26, 2019: Nanboya Amu Plaza Kokura

Closings

- June 2019: Nanboya Shinjuku South Exit
*Relocation to Nanboya Shinjuku West Exit, opened in April 2019
- August 2019 (tentative): Nanboya Fujisawa OPA
*Relocation to Nanboya Fujisawa ODAKYU Shonan Gate, opened in March 2019

We expect to achieve plan of 70-plus offices in FY8/2019

BtoB: Strengthen Auction Business/Japan

❑ STAR BUYERS AUCTION (Luxury Brand Items)

- Additional online bid auctions
⇒ Launched in September 2018 with increased in purchase volume

Four-Day Live Auctions

11th: Apparel, accessories
12th: Watches
13th: Luxury brand jewelry
14th: Bags



+

Online Bid Auctions

23rd: All categories



❑ THE EIGHT AUCTION (antiques, art)

- Hakkoudo Full implementation of independent auctions (shift from third-party to in-house)
⇒ Aiming for future profit improvement

Two-Day Live Auctions

Even Months (8th): Antiques (9th):
Tea ceremony accessories
Odd Months (8th): Paintings (9th):
Calligraphy



BtoB: Strengthen Auction Business/Overseas

❑ STAR BUYERS AUCTION Hong Kong Auction (Diamonds, Watches)

- Five auctions total: diamonds (auctions in Sep, Nov, Feb); watches (auctions in Nov, Feb)



- Changed from planned ten auctions (four diamond, six watch auctions) in FY8/2019 to seven (four diamond, two watch auctions)
 - ⇒ Watches: Changed to sales within Japan, considering participation of Japan/overseas vendors in the Japanese watch auction market
 - ⇒ Jewelry: Conducted test for potential full-scale implementation

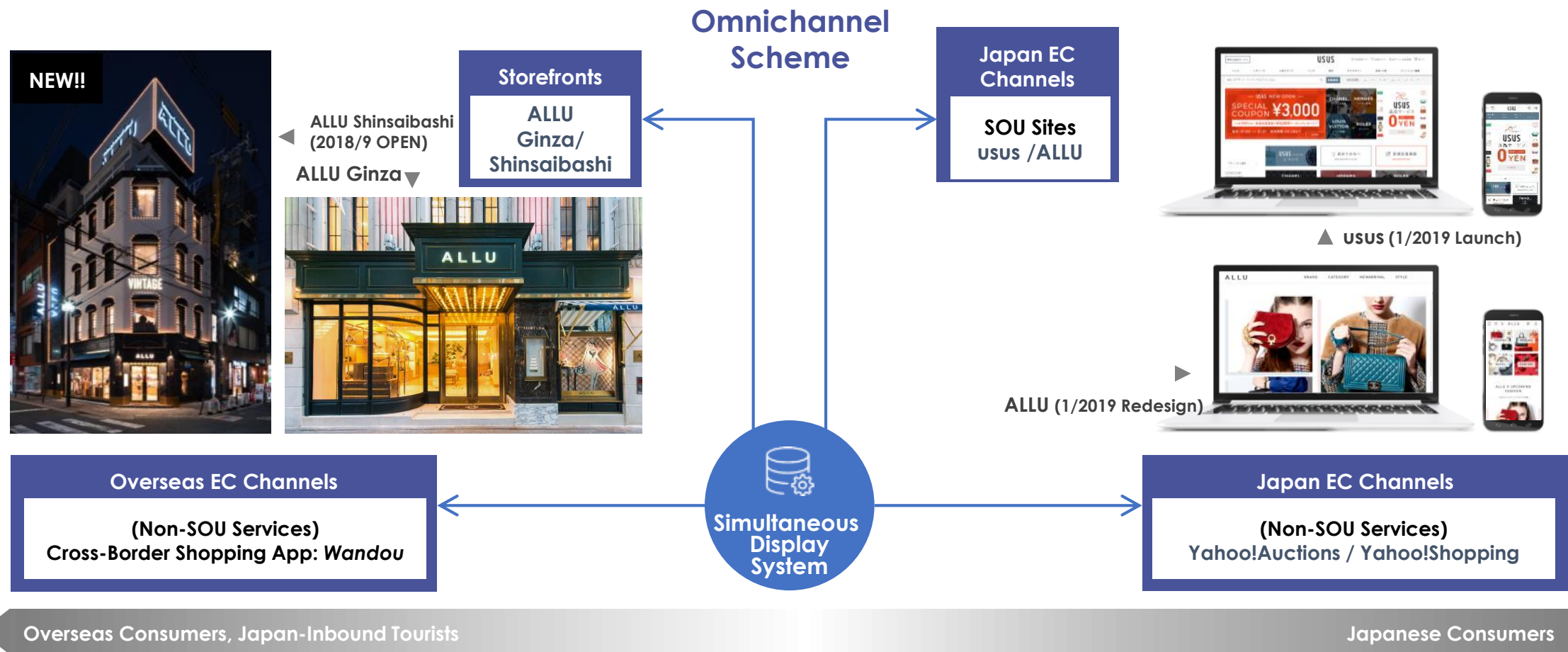
❑ Expand and relocate Hong Kong STAR BUYERS LIMITED offices

- Relocate and expand offices (including auction area) to leverage Hong Kong as footing for an overseas sales channel (April)



BtoC: Omnichannel Sales

- Link a variety of channels to increase interactions with consumers



❑ Treasury Stock as Restricted Stock Compensation

SOU allocated treasury stock for use as restricted stock compensation to encourage SOU Group director and employee motivation for improving share prices and corporate value.

*Of 179,000 treasury shares acquired on March 6, 2019, 170,170 shares were allocated as described above on August 1, 2019.

Eligible Persons	Restricted Stock Type	Restricted Period
SOU directors	Restricted Stock I	August 1, 2019 to October 31, 2021
SOU subsidiary directors		
SOU Group senior management	Restricted Stock II	August 1, 2019 to July 31, 2021
SOU Group employees		

❑ Consideration of Transition to Holding Company

To ensure greater business efficiency and flexibility in adapting to changes in the market environment, SOU is investigating a transition to a holding company structure. The aim of this structure would be greater group-wide growth through more clearly defined responsibilities and roles for each company acting independently.

*Schedule, transition method, post-transition structure, etc. to be determined.

Initiatives for Q4, FYE August 2019



Toward Greater Growth (1)

More Effective Luxury Data Collection

● Add More Locations

- Japan: Grow to 70-plus locations 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

Start purchasing in Hong Kong on July 2, 2019
Expand Locations in Japan, Overseas

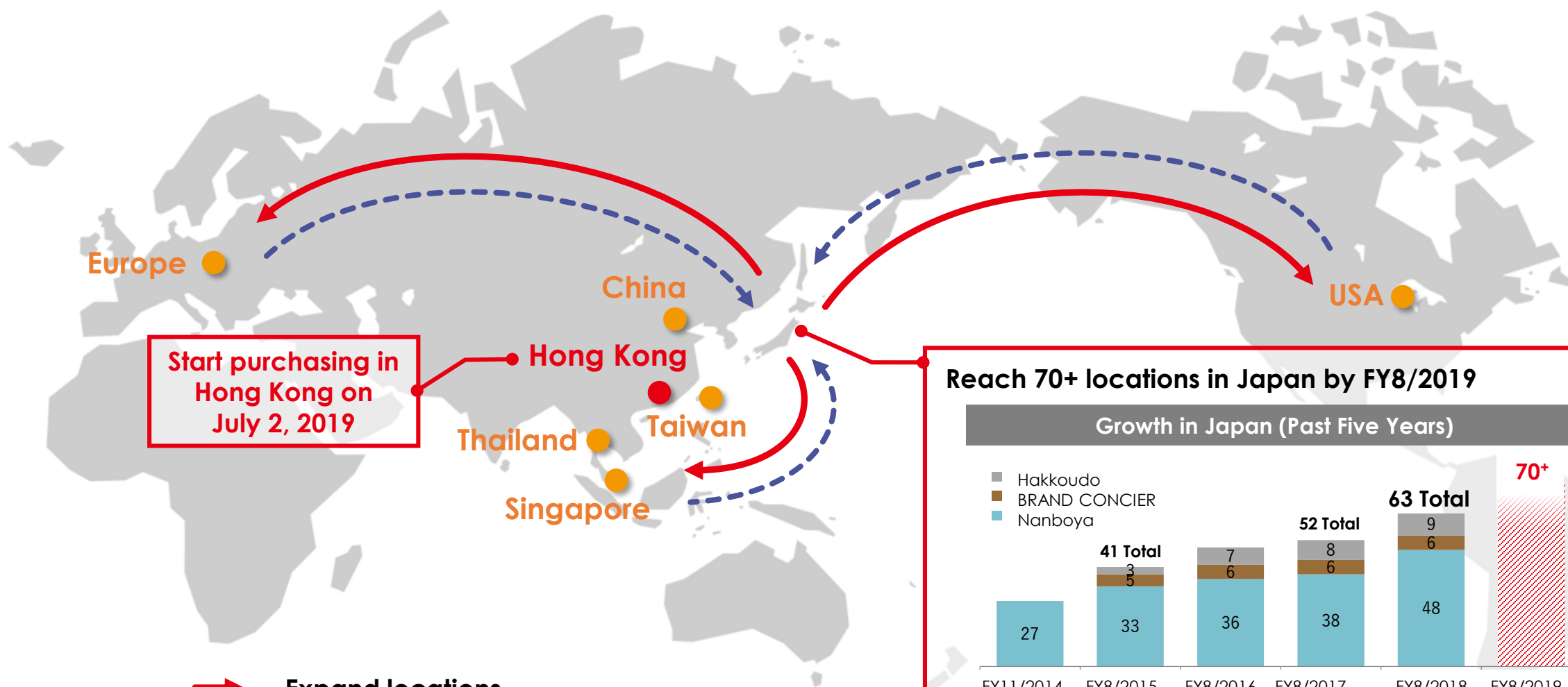
⇒ **Collect consumer data (demographic info, interests, preferences)**

● Expand Sales Overseas

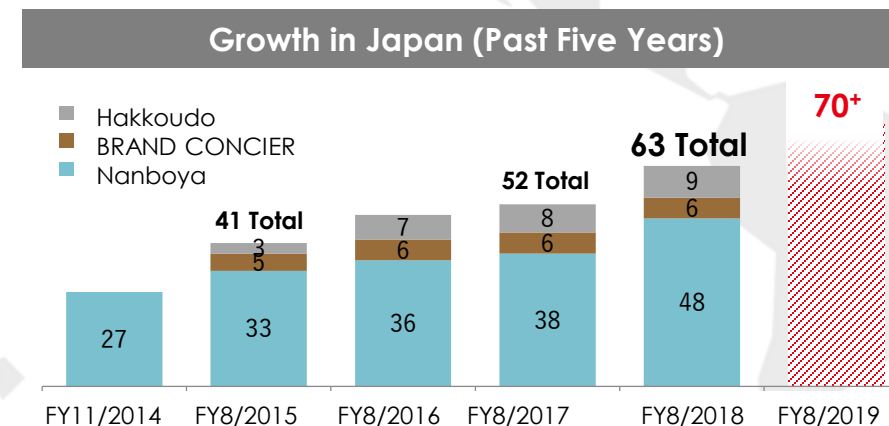
- Wholesale: Strengthen reuse product sales in Hong Kong, other countries
- Auctions: Move online, aiming for sales efficiencies in other countries

⇒ **Collect global market price data**

Expand Locations in Japan, Overseas



Reach 70+ locations in Japan by FY8/2019



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

Strengthen, Expand Overseas Sales Channels

Global Expansion of
High-Quality Reuse Reputation
Guaranteed Japanese Quality



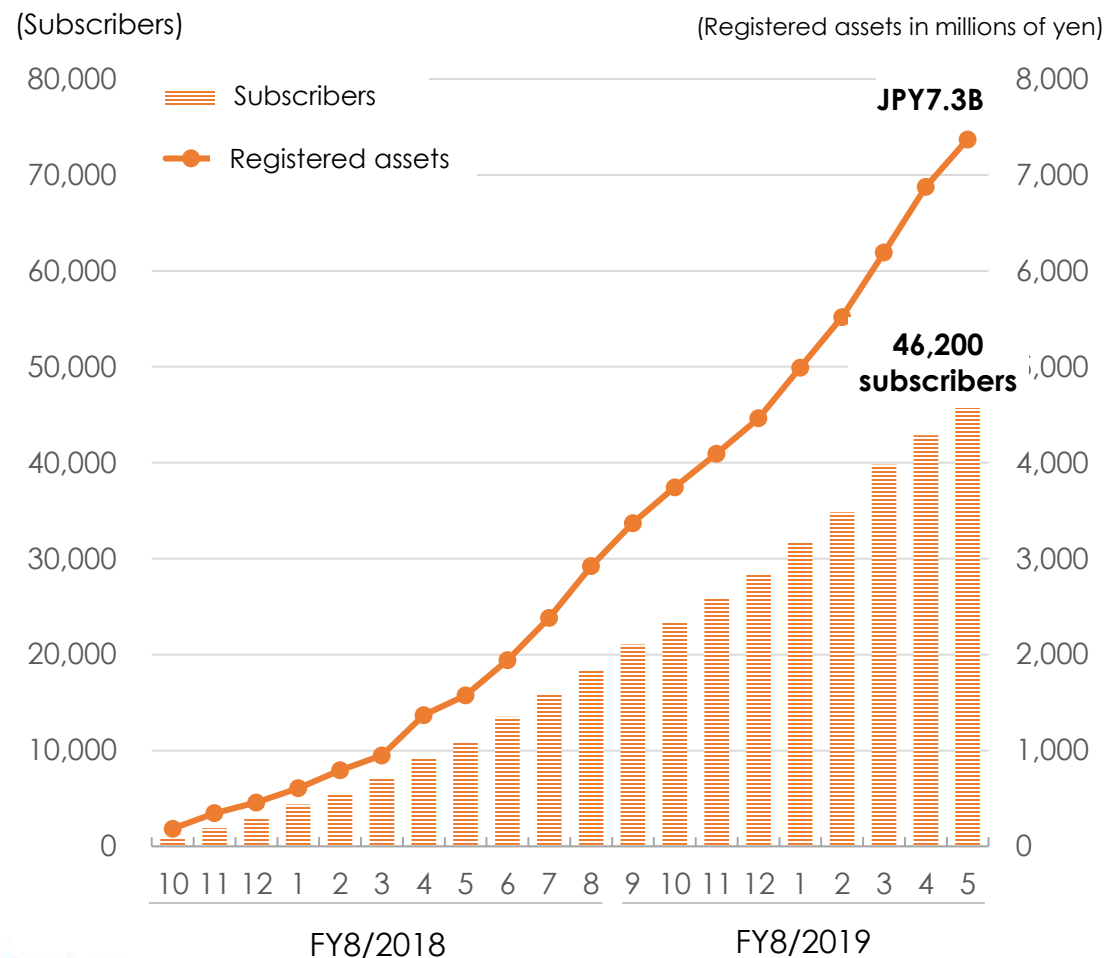
Toward Greater Growth (2)

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*

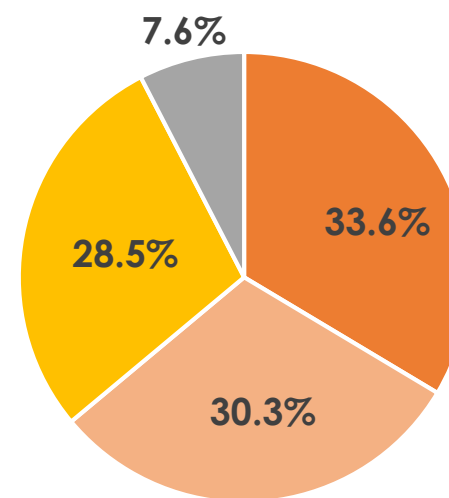
Subscribers and Registered Assets



By Category

Registered Assets (Units)

49k



Bags

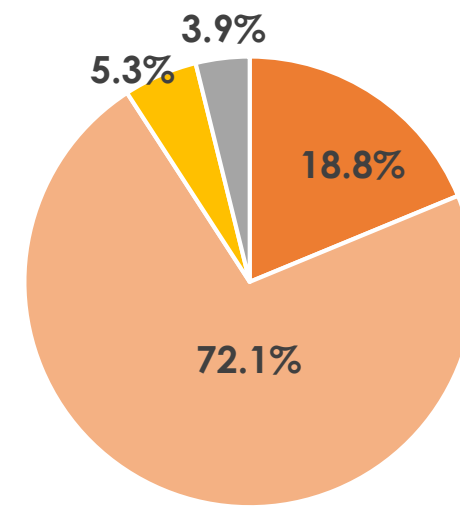
Watches

Accessories

Designer Jewelry

Registered Assets (JPY)

JPY7.3B



miney Service Improvements

■ Android Version Released

Dec 2018: miney Android version released

⇒ Access to more potential subscribers and assets



■ 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



Toss Out

OR



Keep

"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**



- 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 Nine Months Ended May 31, 2019, published July 12, 2019.*

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