

Nousouken Corporation (3541)

Fiscal Year (Unconsolidated) (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY08/2014		858	(29)	(23)	(26)	(15.2)	0.0	1.0
FY08/2015		884	44	44	52	29.4	0.0	30.4
FY08/2016CoE		1,051	149	155	100	55.1	0.0	-
FY08/2015	YoY	2.9%	-	-	-	-	-	-
FY08/2016CoE	YoY	18.9%	234.0%	246.7%	93.4%	-	-	-
Q1 to Q3 (Unconsolidated) (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY08/2015		-	-	-	-	-	-	-
Q1 to Q3 FY08/2016		831	104	113	71	-	-	-
Q1 to Q3 FY08/2016	YoY	-	-	-	-	-	-	-

Source: Company Data, WRJ Calculation (Per share data: based on average number of shares during fiscal year, including those of public offering, while current number of shares outstanding: 2,095,500, including third-party allotment)

1.0 Executive Summary (20 September 2016)

VegetaRO

Nousouken Corporation, which is described as “a company to persistently create new distribution of agricultural products based on new concept by means of use of IT”, is planning to beef up its total distribution amount (collective value in terms of retailing prices) of agricultural products, mainly fruit and vegetables through its proprietary distribution platform in a long-term view. FY08/2016 Company forecasts are going for total distribution amount of ¥5,201m (up 34.9% YoY), while the Company suggests CAGR of almost 40% in upcoming several years. At the moment, the Company sees gross profit equating to 18% to 19% of total distribution value. As far as this ratio persists, future absolute value of gross profit should increase in line with total distribution amount.

Said distribution platform, developed by the Company to directly connect between suppliers of agricultural products based in rural areas and retailing stores based in urban areas (“Farmers’ Direct Sales Place”, set up in supermarket stores, etc.), makes it possible to provide consumers with fresh and reliable agricultural products at reasonable prices by means of removing intermediate margin being generated on a multilayered basis in existing distribution system. As far as we could gather, suppliers of agricultural products see profit margin relatively higher than existing distribution system in this new scheme. Meanwhile, this new scheme is superior to existing direct sales scheme represented by “Michinoeki (to exclusively sell locally procured agricultural products at each local region)” in a respect that agricultural products basically can be sold anywhere. The Company has strengths of being well familiar with logic on the supplier side and that of the retailing side at the same time, making it possible to steadily and consistently increase the number of suppliers and retailers with appropriate balance between them.

In order to get it done in reality going forward, it is indispensable for the Company to consistently expand own human resources. Now, this looks possible as the Company implies that it has recently become able to hire new personnel more in the number and better in disposition, driven by improving awareness on the Company through diverse media, etc. after IPO on Mothers of Tokyo Stock Exchange on 16 June 2016. Meanwhile, we find resemblances for the Company's business model with that of a company to have seen high growth of sales and earnings for years in its business to sell tools, etc. through shopping on the Internet by means of removing inefficiency of distribution between manufacturers and final users. This is to say, both of them are seeing growth by means of removing inefficiency of distribution, while each of them is the forerunner in each domain. In regards to the Company, it appears that nobody has followed suit in said domain to date.

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2.0 Company Profile

Running "Farmers' Direct Sales Place"

Company Name	Nousouken Corporation Company Website (Japanese only) IR Information (Japanese only) Share Price	 株式会社農業総合研究所 Nousouken Corporation
Established	25 October 2007	
Listing	16 June 2016: Tokyo Stock Exchange Mothers (Ticker: 3541)	
Capital	¥42m (As of the end of May 2016), ¥199m (Currently, as of 20 September 2016)	
No. of Shares	1,770,000 shares (As of the end of May 2016), public offering: 270,000 shares, third-partly allotment: 55,500 shares	
Main Features	<ul style="list-style-type: none"> ● Agriculture & IT venture company ● Management objective: realize sustainable agriculture industry, while enriching people's life ● Management policy: establish attractive agricultural industry as a business domain 	
Businesses	. Operations of "Farmers' Direct Sales Place" (Consignment Sale System, Purchase Consignment Sale and Wholesaling)	
Top Management	President & CEO: Tomomasa Oikawa	
Shareholders	Plenty Co.,Ltd.46.3%, Tomomasa Oikawa 20.9%, Hiroshi Horiuchi 18.6% (As of the end of February 2016)	
Headquarters	Wakayama-city, Wakayama-prefecture (Shinagawa-ku, Tokyo), JAPAN	
No. of Employees	Unconsolidated: 50 (As of the end of May 2016)	

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q3 FY08/2016 Results

In Q1 to Q3 FY08/2016, sales came in at ¥831m, operating profit ¥104m and operating profit margin 12.6%. Out of full-year Company forecasts, the Company has achieved 79.1% in sales and 70.1% in operating profit, implying recent trading is in line. Meanwhile, compared with sales of ¥831m, total distribution amount came in at ¥3,820m and gross profit ¥705m, i.e., sales equating to 21.8% of total distribution amount and gross profit to 18.5% of total distribution amount.

Meanwhile, as of the end of Q3, the number of retailing bases, i.e., supermarket stores where “Farmers’ Direct Sales Place” is set up stood at 644 (up 173 from the end of FY08/2015) and the number of registered suppliers 5,482 (up 760), implying steady increases for both of them. More importantly, the Company finds massive room to expand, going forward. According to the Company, the penetration rate is only 3.7% on the retailing side, when compared with total number of supermarket stores in Japan, i.e., 17,463, while no more than 0.25% of farmers in Japan (out of 2,155,082: the number of farmers in Japan, based on MAFF’s 2015 survey) have been registered as the Company’s suppliers. On top of this, total distribution amount for fruit and vegetables at supermarket stores as a whole in Japan exceeds ¥3.0 trillion pa.

FY08/2016 Company Forecasts

FY08/2016 Company forecasts are going for prospective sales of ¥1,051m (up 18.9% YoY), operating profit of ¥149m (up 234.0%) and operating profit margin of 14.2% (up 9.2% points). Meanwhile, Company forecasts assume total distribution amount of ¥5,201m (up 34.9%), gross profit margin of 89.8% (up 11.3% points) and the ratio of SG&A expenses to sales of 75.6% (up 2.1% points). In regards to the mainstay Consignment Sale System, Company forecasts assume sales of ¥914m (up 38.0%) and sales composition ratio of 87.0% (up 12.1% points), which is the key driver for increasing sales as a whole for the Company and improving sales mix at the same time.

In Q1 to Q3 results, Consignment Sale System accounted for 80.9% of sales as a whole for the Company and 95.0% of gross profit, while gross profit margin was 99.6%. Meanwhile, SG&A expenses are exposed to expenses to operations of “Farmers’ Direct Sales Place” and logistics to a large extent and thus are inclined to be in line with total distribution amount. On top of this, the Company sees expenses associated with new listing onto the stock market, including those of one-off. Nevertheless, improving sales mix is expected to be more than compensating, resulting in sharp increases of earnings over the previous year. Meanwhile, in FY08/2017, the Company is to aggressively hire new personnel, looking to long-term growth, which is likely to lead to booking of some expenses to be generated as frontloaded investment.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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