May 14, 2020

Financial results of the fiscal year ended March 31, 2020 (FY03/20)—A message from Koji Obuchi, president and CEO of the CROOZ Group

I am Koji Obuchi, president and CEO of the CROOZ Group. Earlier today, on May 14, 2020, we announced our financial results for full-year FY03/20. Now, as the representative of the Group, I would like to share with you my thoughts and impressions to give you a better understanding of the current situation.

Full-year consolidated sales increased by 12.3% YoY to approximately JPY33.9bn. The main reason for the increase was that full-year sales of the Advertising Agency Businesses were approximately JPY3.9bn, an increase of 198.1% YoY. We were unable to achieve full-year profitability; consolidated full-year operating loss was roughly JPY97mn. However, we made significant progress in narrowing operating loss as the figure in FY03/19 was roughly JPY1.02bn. The main reason for this improvement was restoring profitability in the mainstay SHOPLIST Business from an operating loss of approximately JPY335mn in FY03/19 to an operating profit of approximately JPY359mn in FY03/20. Another main reason for the improvement was that operating loss narrowed in group subsidiaries as the initially planned investment periods for these companies have been completed.

Looking at consolidated operating profit in standalone Q4, versus an operating loss of roughly JPY892mn in Q4 FY03/19, the Group greatly improve performance to achieve a consolidated operating profit of JPY253mn in FY03/20. Most recently the operating profit margin showed solid improvement: it improved from 0.4% in Q3 to 3.6% in Q4. This concludes my discussion of consolidated results. Now I will explain the performance of each segment in detail.

First, I would like to address the SHOPLIST Business. Full-year sales were roughly JPY24.6bn, down 1.5% YoY. However, the segment moved out of the red, achieving full-year operating profit of approximately JPY359mn from a year-earlier operating loss of JPY335mn. In Q4 FY03/19, operating loss was JPY544mn and the operating profit margin was -10.6% (negative), but these metrics improved significantly in Q4 FY03/20 to operating profit of JPY160mn and operating profit margin of 2.1%.

Now allow me to explain the substantial rise in operating profit. As I mentioned in my message in Q3, we have been focusing most on improving the operating profit margin of SHOPLIST in the current fiscal year. In FY03/19, there were external factors that affected the entire e-commerce industry, such as higher shipping charges in the transportation industry. In addition, we expanded and relocated the logistics warehouse in anticipation of future growth. These factors caused the logistics cost-to-sales ratio to rise in Q4 FY03/19 and the operating profit margin fell to -10.6% (negative). This caused us to focus on quickly returning the operating profit margin back to its original level as our first priority, and we implemented several initiatives toward that end. As a result, we were able to greatly improve the operating profit margin so that it reached 2.1% in Q4 FY03/20.

One of the areas in which the effects were most evident was the reduction of logistics costs. We implemented measures such as sharing warehouse space with CROOZ EC Partners, a group subsidiary, and offering some logistics services to external parties, while also minimizing empty warehouse space to improve efficiency. These initiatives succeeded in lowering the logistics cost-to-sales ratio from 18.7% in Q4 FY03/19 to 15.3% in Q4 FY03/20.

In addition to the above, we have implemented various measures to improve the operating profit margin. For example, there was previously a relatively high ratio of free shipping offered through promotional campaigns. Upon reviewing the ideal ratio, we lowered the ratio of free versus paid shipping to achieve a suitable balance, which has led to reduced costs. In addition, we set up a new promotional space on the product search page of SHOPLIST to effectively promote products that our partner brands want to recommend. This strategy increased advertising revenue and contributed to operating profit. Through these measures, we were able to rapidly improve the operating profit margin from -10.6% (negative) in Q4 FY03/19 to 2.1% (positive) in Q4 FY03/20.

Now that the operating profit margin has been dealt with, all that remains is to increase sales. Unfortunately, full-year sales fell by 1.5% YoY. Q4 sales were down as well, falling 2.5% YoY. The main reason for the drop in sales was that the number of visits per user decreased. However, sales in the retail industry overall had trended downward YoY since Q3 due to a deteriorating market environment caused by external factors such as the consumption tax hike and the warm winter. It also is possible that the novel coronavirus affected sales in Q4, and in April and May.

As presented in the financial results briefing materials, we simply pursue SHOPLIST's medium- to long-term goal of annual sales of JPY100.0bn based on two important indicators: 1) annual unique purchasers (target: 5mn), and 2) average annual per user (target: JPY20,000). There are many things to be done to achieve these targets, but what we are most focusing on right now is reducing the number of users who visit SHOPLIST and leave without making a purchase, and those who make a single purchase but do not become a repeating customer. In particular, we are placing great emphasis on having users who have made their first purchase make a second purchase immediately. As one of the key drivers toward that end, it is important to strengthen the product lineup of each company brand, and we continue to focus on this area. As a result of aggressively pursuing our goal of opening 50 shops with exceptional user recognition in FY03/20, we were able to open 47 shops from a total of 36 companies by the end of Q4. In addition, from FY03/21, we plan to expand our product lineup by providing products in categories which we have not previously handled, such as sports and outdoor apparel brands and cosmetics. While expanding product categories and brands, we will enhance our UI/UX and step up promotional measures so that customers will make multiple visits to the site and continue to purchase products. This concludes my discussion of SHOPLIST.

Turning to new businesses, full-year sales of CROOZ Media Partners, which is disclosed under the Advertising Agency Businesses segment, were approximately JPY3.9bn, an increase of 198.1% YoY. Q4 sales, however, did not fare well compared to Q3, falling to roughly JPY310mn versus the previous-year level of approximately JPY1.1bn. The main reason for the decrease was the loss of a major client in Q3, and we are currently working to recover sales by pursuing orders from several other clients, but this has not been enough to bring sales back to the original level. Since CROOZ Media Partners is a new business that is less than two years old, we expect some volatility in performance in the short run as we tune the business so that it can grow steadily in the medium to long term.

In the Investment Businesses, which began reporting as an independent segment in FY03/20, Sevenwoods Investment completed three exits in Q4, and the business achieved profitability in same quarter with sales of roughly JPY269mn and operating profit of roughly 171mn. It is generally said that it takes about three years to make an exit in the investment business, but Sevenwoods Investment was able to record several exits within the first year of operation. Several investees have their sights on going public within several years, and I expect they will be able to break the JPY1.0bn profit mark in a few years' time.

The Media business, previously part of the Other Businesses segment, also began reporting as an independent segment in Q4 FY03/20 after meeting the criteria for segment disclosure (see financial results for details). The Media business is in the process of taking on challenges as a new business, and there are no particularly noteworthy points at the moment. However, like the Advertising Agency Businesses and Investment Businesses, we aim to grow the business so that it contributes to sales and profits in the future.

Regarding the impact of the novel coronavirus on the Group, we began to see effects at several subsidiaries in March and April. At present, we are scrutinizing the impact on business results on a weekly basis for all subsidiaries and all businesses within the Group, and we will continue to pay close attention to future trends and report the impact on our performance as appropriate.

Finally, in FY03/21, the Group as a whole will of course continue to avoid wasteful and unnecessary investment, instead following the principle of “investing to maximize sales while maintaining profitability.” In line with this policy, overall group sales and operating profit have been on an uptrend, resulting in the achievement of quarterly profitability in Q4 FY03/20 as originally expected. Moreover, the consolidated operating loss almost disappeared in full-year FY03/20. The novel coronavirus is a highly uncertain external factor, but considering performance without this factor, it is my personal opinion that the Group would have been able to achieve profitability in Q1 FY03/21, and I believe it is highly probable that we would have swung into the black in full-year FY03/21 and secured growth in sales and profits. Although it is predicted that highly uncertain external factors will increase, even under such special circumstances, we will thoroughly implement further cost reductions and review of sales methods to minimize the impact of the novel coronavirus. We strive to maximize sales and operating profit, and to achieve profitability and growth in sales and profits in full-year FY03/21, so we hope you continue to look forward to our results.

May 14, 2020
Koji Obuchi