CROOZ

August 11, 2020

Q1 financial results for the fiscal year ending March 31, 2021 (FY03/21)—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 August 11, 2020, we announced financial results for Q1 FY03/21. I would like to share with you my thoughts and impressions to give you a better understanding of the current situation. To put it simply, I believe that results for Q1 can be straightforwardly regarded as indicative of good performance, as implied by the numbers.

In Q1 FY03/21, consolidated sales were about JPY8.7bn, up 6.9% YoY, and consolidated operating profit was approximately JPY625mn. Profit improved considerably, even when compared to the consolidated operating loss of approximately JPY347mn in Q1 FY03/20. We have been posting quarterly consolidated operating profit on a Groupwide basis since Q3 FY03/20 and are no longer facing concerns of operating loss.

The key driver of the improvement in Q1 consolidated operating profit was substantially higher operating profit in the SHOPLIST Business segment (more details below). Other reportable segments also continue to become businesses that steadily produce results within the scope of the 24 companies[*1] we cultivated since FY03/19. Now allow me to explain the results of each segment in detail:

In the SHOPLIST Business segment, Q1 sales were approximately JPY6.6bn, and operating profit was about JPY585mn. In Q1 FY03/20, we recorded operating loss of roughly JPY17mn. However, directors at CROOZ headquarters helped implement measures focused on addressing several immediate issues from FY03/20, and these measures led to substantial improvement in profit.

As I have mentioned previously, we have primarily focused on improving operating profit in the SHOPLIST Business segment since FY03/20. In FY03/19, higher shipping charges in the transportation industry and other external factors had an overall impact on the e-commerce industry and also we conducted expansions and relocations of our distribution warehouses to secure future growth. As a result of these factors, our logistics cost-to-sales ratio rose and we posted operating loss of about JPY544mn in Q4 FY03/19. In FY03/20, we drafted and implemented a variety of measures while prioritizing an immediate return to a cost structure based on our original standards. Consequently, we were able to record operating profit of approximately JPY585mn, a substantial improvement, in Q1 FY03/21.

Our curtailment of logistics costs has had a marked impact on results. We have limited open space within our warehouses as much as possible and increased efficiency by collaborating with Group subsidiary CROOZ EC Partners to share warehouse space and implementing a variety of initiatives that include handling logistics operations for external clients. As a result of these efforts, our Q1 logistics cost-to-sales ratio fell from 16.5% in Q1 FY03/20 to 14.3%.

We also reduced our Q1 promotional cost-to-sales ratio from 13.3% in Q1 FY03/20 to 8.1%. The ratio decreased primarily because a director in charge of the CROOZ Group's advertising area participated in thorough investigations regarding promotional costs and measures and because the Company accelerated its PDCA cycle and conducted efficient advertising investment. Q1 sales grew 5.3% YoY as we simultaneously curtailed costs and grew sales, which resulted in improving our cost structure.

Having improved our cost structure, it is essential that we expand sales moving forward. To achieve our medium- to long-term target of JPY100bn in annual SHOPLIST sales, we are simply pursuing two key indicators included in our results briefing materials: 1) 5 million annual unique purchasers and 2) an annual purchase per user of JPY20,000. Among other measures we need to implement to achieve these two key indicators, we continue to most focus on encouraging users who visit the SHOPLIST website to make purchases before leaving and on increasing the number of repeat users who make a second or more purchases through the website. We believe that strengthening the lineup of each company brand will be a key driver contributing to the achievement of these key indicators and, accordingly, continue to focus on bolstering this lineup.

In Q1, we actively engaged in activities aimed at meeting our FY03/21 goal of opening 150 shops with especially high user awareness. Consequently, we were able to open a cumulative total of 37 shops from 28 companies by the end of Q1 FY03/21. Additionally, from FY03/21, we plan to expand our selection of products from other categories that we have not previously offered, including sports and outdoor apparel brands and cosmetics, and strengthen our product lineup. While expanding product categories and brands, we will also make improvements in terms of services, encouraging customers to make repeated and continuous purchases by steadily upgrading user interfaces and experiences (UI/UX) through thorough data analysis and strengthening sales promotion measures.

As indicated in one of our recent press releases[*2], we have adjusted the management structure of CROOZ SHOPLIST, Inc., an operator of SHOPLIST to speed up business growth in accordance with the core CROOZ strategy to “make SHOPLIST a brand that represents fast fashion e-commerce.” Details are included in the press release, but, in short, we aim to begin dramatically expanding SHOPLIST sales from FY03/21 and resolve several pertinent issues in a short period of time by assigning CROOZ directors to their respective areas of expertise, implementing all relevant initiatives, and accelerating our PDCA cycle.

In terms of new businesses, CROOZ Media Partners, a reportable component of the Advertising Agency Businesses segment, generated Q1 sales of approximately JPY723mn and operating profit of about JPY40mn. We will fine-tune this business to ensure that it can achieve stable growth over the medium- to long-term while acknowledging that a degree of short-term performance volatility is all but inevitable for a business that is less than three years old.

In the Media Businesses segment, Q1 sales were approximately JPY298mn (up 165.2% compared to roughly JPY112mn in Q1 FY03/20) and operating profit was about JPY41mn.

Having generated Q1 profit of just under JPY40mn, Rank King, Inc. drove both sales and profit in the Media Businesses segment, and we project that it could post full-year profit of JPY200mn. Established in September 2019, Rank King, an e-commerce-related media operator, has already launched a new business despite it being less than one year old, and its earnings results are expanding rapidly, especially when considering that they have already reached a level at which Rank King could publicly list its shares, despite its identity as a brand-new venture company that has just begun operating. Rank King has successfully generated results by consolidating knowledge, expertise, and other corporate resources (including transferred personnel) it cultivated through Candle, Inc.’s Media Business. Having judged that we can expect Rank King to achieve further growth moving forward, we sold Candle, Inc. Although we recorded an extraordinary loss in accordance with this sale, we will build upon the successful and rapid expansion that Rank King achieved by consolidating expertise and corporate resources.

As I mentioned above, in Q1 FY03/21, operating profit expanded substantially as we cut logistics costs associated with SHOPLIST and reduced promotional costs through efficient promotion-related investment. Through short-term cost cutting, we have established a management structure that allows us to generate profit, but we believe that reinvesting this profit and expanding our businesses are essential as we move forward and we plan to implement them as such. During Q1, we prioritized cost-related issues and are aware that this strategy resulted in less-than-adequate investment in sales expansion. In the future, we will invest in sales expansion while continuing to generate profit and will make adjustments to ensure an optimal balance between our top and bottom lines. We will mainly use our Q1 profit to conduct promotional investment while aiming to maximize sales along with partner companies that are selling through SHOPLIST. Starting in Q2 FY03/21, executives at CROOZ SHOPLIST, Inc., which has adopted a new framework, will design and implement profit reinvestment measures aimed at putting SHOPLIST sales back on a path toward growth.

In closing, although we benefitted from a variety of positive effects in Q1 FY03/21, including improved profit, we plan to make even further improvements moving forward. I myself took front-line command at actual worksites at SHOPLIST as CROOZ directors who have previously contributed to the growth of several businesses also actively involved in on-the-ground work. Together, we identified issues based on feedback from users, partner companies who are selling through SHOPLIST, and internal workplaces, and we created 70 projects focused on resolving these issues. We will resolve even the most minute issues with fast-paced and instantaneous decision-making. At the same time, we will take on projects that will generate tremendous sales and profit thanks to contributions from CROOZ's team of directors.

Due to participation from the team of directors at CROOZ headquarters in SHOPLIST, we do not believe we would benefit from involving our entire team of directors if we continue implementing prior methods as we work to resolve business issues. Accordingly, we will instead achieve breakthroughs by decisively altering our approach.

August 11, 2020

Koji Obuchi

*1 Number of Group companies as of June 30, 2020. This figure indicates the number of Group companies that reflect actual conditions of the Company's operations and does not include funds or other entities that are considered to be accounting subsidiaries.

*2 https://crooz.co.jp/ir/8859.html