

## Daikokuya Holdings (6993)

Initiating coverage: Convergence

20<sup>th</sup> August 2024

Share price: ¥32

Market cap: ¥4.4bn

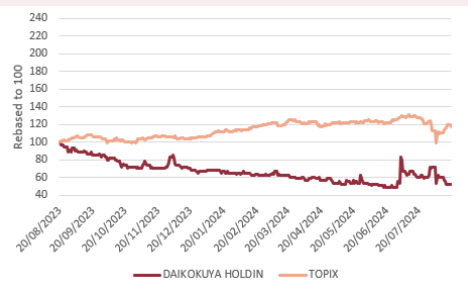
**The convergence of booming inbound tourism, the weak yen & a shift towards sustainability presents a major opportunity for Daikokuya.**

## Company sector

Retail

## Stock data

Price (¥)	32
Mkt cap (¥bn)/(\$m)	4.4 / 30.1
52-week range (¥)	29 - 64
Shares O/S (m)	137.7
Average daily value (\$m)	2.8
Free float (%)	81.3
Foreign shareholding (%)	2.5
Ticker	6993
Exchange	Tokyo
	Standard
Net Debt/Equity (%)	636%



Source: Bloomberg

## BUSINESS OVERVIEW

Daikokuya Holdings operates secondhand shops & trades used, branded goods such as bags, watches & jewellery.

## Next event:

1H results in November 2024.

Storm Corporate: +44 (0) 121 288 3402

[info@stormresearch.co.uk](mailto:info@stormresearch.co.uk)[Storm Corporate profile page](#)

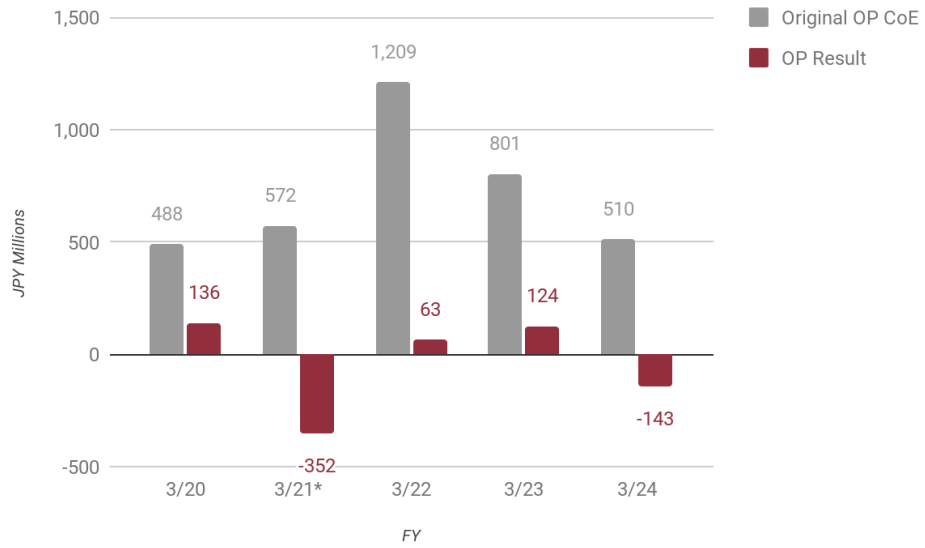
**Daikokuya Holdings is a research client of Storm Research**

- **Daikokuya's core business is the purchase & resale of high-value, used branded goods at its 25-strong store network, online or via auction. It also operates a stable, cash cow, pawnbroking business, acting as a lender to individuals.**
- **Sales in the core business are determined by inventory x turnover, & peaked pre-COVID at approx. ¥20bn. Daikokuya subsequently reduced inventory & halted store openings in response to the pandemic, with the disappearance of key inbound customer traffic resulting in a sharp earnings decline.**
- **Whilst factors such as the Russia-Ukraine war & luxury goods restrictions in China ensured earnings remained tough in FY 3/23 & FY 3/24, prospects for FY 3/25 & the medium term are improving alongside robust growth in inbound tourists, the prospect of a rebound in Chinese visitors & continued yen weakness.**
- **In response, Daikokuya's ambitious MTP to FY 3/29 targets an 8-fold increase in sales & GP. It aims to rapidly expand its store network & promote alliances in various industries to facilitate physical store purchasing. It also plans to deploy in-house developed AI valuation tool Otegaru AI, accelerating product valuation & authentication - including via a LINE Yahoo! business alliance - & eliminating the need for house visits.**
- **The recent fundraising has alleviated a degree of balance sheet pressure at the cost of dilution. The net debt to equity ratio remains elevated, albeit mainly matched with current assets, underlining the need to accelerate growth & fully capitalise on favourable & improving conditions.**
- **In context of Japan's significant & largely untapped hidden asset market, allied to increasing emphasis on becoming a circular economy based on recycled assets, Daikokuya has the potential to grow earnings in the long-term, whilst simultaneously revamping its balance sheet. For a meeting with senior management, please get in touch: [here](#).**

Year end	3/2023	3/2024	1Q 3/2025	3/2025E
Sales (¥bn)	12.5	11.0	2.7	15.9
OP (¥bn)	0.1	-0.1	-0.2	0.6
NP (¥bn)	-0.3	-0.5	-0.2	0.0
EPS (¥)	n/a	n/a	-1.6	0.1
Sales growth YoY (%)	-27.6	-11.9	-7.3	+44.9
OP growth YoY (%)	+103	n/a	n/a	n/a
NP growth YoY (%)	n/a	n/a	n/a	n/a
EPS growth YoY (%)	n/a	n/a	n/a	n/a
PER (x)	n/a	n/a	n/a	n/a
EV/EBITDA (x)	57.2	n/a	n/a	n/a
EV/Sales (x)	0.9	0.8	0.8	0.9
PBR (x)	16.2	146.0	n/a	n/a
ROE (%)	n/a	n/a	n/a	n/a
ROIC (%)	n/a	n/a	n/a	n/a
FCF yield (%)	3.4	n/a	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a

Financial metrics source: Bloomberg.

**RESULTS VERSUS FORECAST HISTORY**



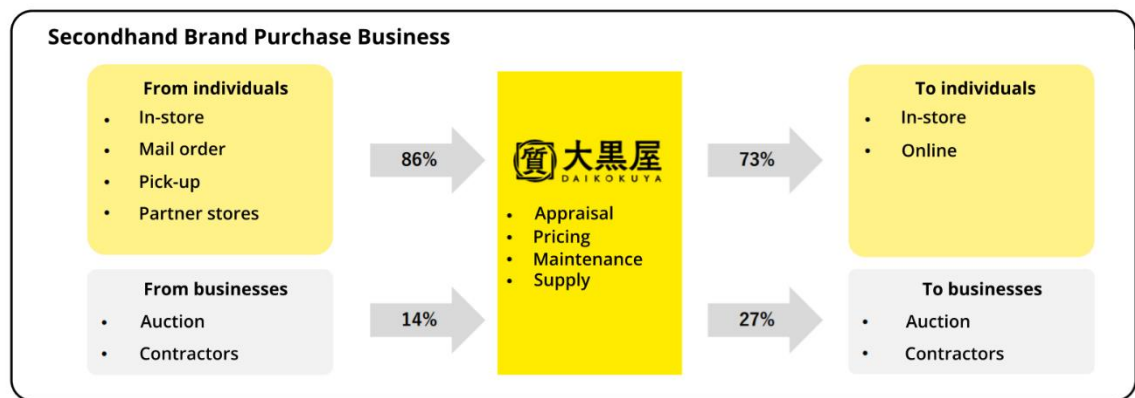
**BUSINESS OVERVIEW**

Founded in 1947, Daikokuya buys & sells high-priced used brand items (such as handbags, watches, jewellery, precious metals, etc.) whilst also operating as a pawnbroker. It has 25 stores nationwide generating annual sales of approx. ¥15bn.

**BUSINESS MODEL**

89% of Daikokuya's sales are derived from secondhand branded luxury goods, including handbags, jewellery, watches & apparel. 8% of sales are generated by the pawnbroking business & the remaining 3% from the electrical appliances business.

**i. Secondhand Brand Purchase Business:** Daikokuya authenticates & values branded goods, purchases them & sells them on at a margin. Inventory & turnover are key to both sales growth & maintaining a high GPM.



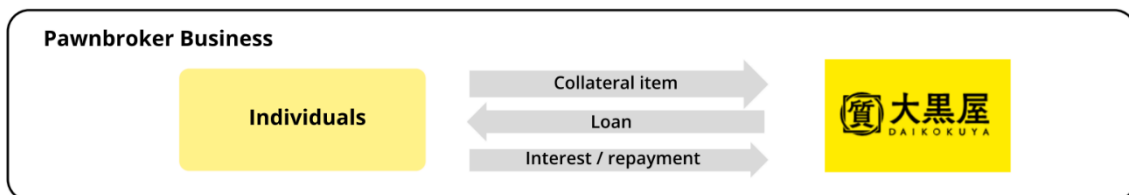
Source: Company.

The ability to buy & build inventory is key to growth. Daikokuya believes annual inventory turnover of approx. 4x is optimal, & by using data-based pricing & judging the best-selling items, it is able to maximise both gross profit & the turnover ratio.

As of the end of FY 3/24, the inventory level had shrunk to ¥1.4bn from a peak of ¥4.2bn in FY 3/18 when annual turnover was 5.5x. As it raises inventory in the medium term, Daikokuya believes it can maintain high turnover.

**ii. Pawnbroker business:**

The Pawnbroker business is a stable cash cow expected to continue posting steady growth. It lends to individuals (average loan size approx. ¥50,000-¥100,000) using individuals' valuables as collateral, receiving monthly interest of 5%. The business has a 100% GPM & Daikokuya has the top domestic market share.



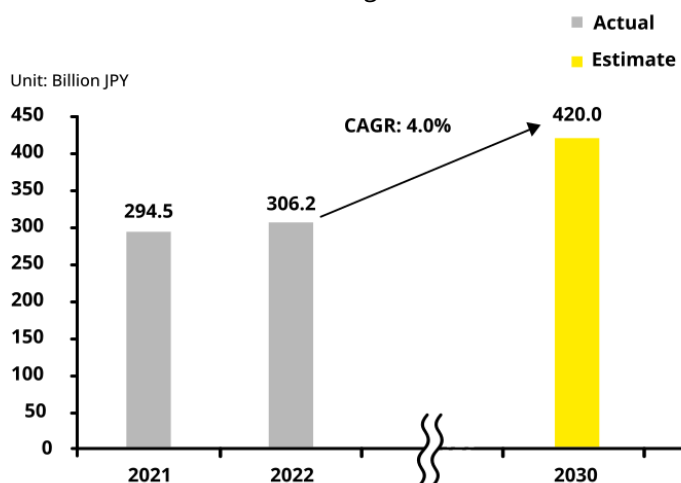
Source: Company

- Consolidated GPM: The consolidated FY 3/24 GPM was 29.9% which, while lower than the FY 3/17 peak of 35.5%, remains high due to the Pawnbroker revenue contribution (which has a GPM of 100%). The aggregate GPM is also boosted by the high level of secondhand brand purchase sales to individuals, which command a GPM of approx. 30%, versus corporates at approx. 20%.

**MARKET**

The **domestic secondhand goods market is growing at approx. +4% per year** & is expected to accelerate as brand-name goods manufacturers start to properly dispose of inventory, influenced by the growing trend toward SDGs, as well as lower demand for new brand name goods - especially among Gen Z consumers - due to price. Demand is also forecast to accelerate as yen weakness renders branded goods cheap for inbound customers.

- Domestic secondhand branded goods market size:



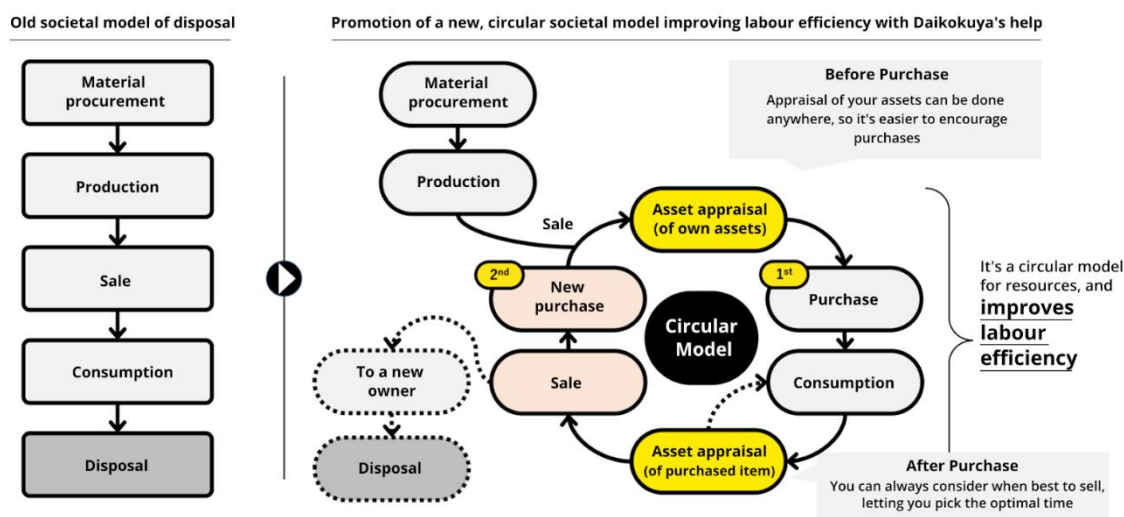
Source: Company.

Consumers are being made increasingly aware of the recycling market & its importance, with the purchase of secondhand goods becoming more popular due to increasing recognition of the environment & its importance.

The 2023 Mercari ‘Hidden Assets in Japanese Homes’<sup>1</sup> survey revealed that Japanese people own unused possessions worth ¥67trn. Japanese people are renowned for looking after their possessions well, resulting in a significant potential stockpile of saleable secondhand luxury goods. The key is to educate & persuade hidden asset owners that it is worthwhile recycling the assets.

Daikokuya believes efforts to expand the secondhand market will help revitalise the Japanese economy. It therefore proactively promotes the formation of a recycling-oriented society which improves labour productivity & contributes to a circular economy & the realisation of SDGs.

- The circular economy model:



Source: Company.

As of FY 3/23, Daikokuya had an approx. 4% share of the domestic used branded goods market. Its main competitors are Valence (9270, 20.7% share) & Komehyo (2780, 28.1%).

Daikokuya differentiates itself through its pawnbroking business. It also mainly serves higher margin individuals as opposed to corporations. In concert, these factors generate a higher GPM, & as of FY 2023 Daikokuya achieved a GPM of 29.8% versus 26.3% at Valence & 24.8% at Komehyo.

- Store numbers: As of FY 3/24, Daikokuya had 25 stores nationwide of which 10 were specialist purchasing stores & 15 were for buying & selling secondhand branded goods. **The company targets +132 store openings between FY 3/24-FY 3/29.**

<sup>1</sup> Mercari, 'Hidden Assets in Japanese Homes Survey 2023' [Japanese]. 16<sup>th</sup> Nov 2023.

## EARNINGS HISTORY

- *Pre-COVID:* Pre-COVID, secondhand branded goods demand in Japan was stable, with demand from inbound consumers strong, led by Chinese consumption which remained robust even after the Chinese 'Bakugai' boom of 2015, when the Chinese yuan was strong versus the yen & Japanese consumption was also relatively strong.

During this pre-COVID period, Daikokuya was able to increase inventory & sell it with a suitable turnover, generating secondhand branded goods sales of approx. ¥20bn.

- *COVID:* When COVID struck, inbound traffic disappeared due to travel restrictions & domestic customer footfall also declined as consumption shifted to more practical nesting demand & away from branded luxury goods.

In response to weaker demand, Daikokuya shrank its inventory & stopped store openings.

- *Post-COVID:* Domestic demand subsequently recovered sharply in FY 3/22, driven by pent-up post-COVID demand, with consumers having saved money following reduced spending on luxury goods, entertainment & travel during the COVID period. To capitalise on the demand rebound, Daikokuya targeted volume growth & high turnover to maximise sales growth, but this resulted in a lower GPM.

The start of the Russia-Ukraine war in Feb 2022 resulted in a decline in luxury goods market prices & a deterioration in profits. The tough macro environment, combined with global issues such as Chinese President Xi Jinping's restrictions on luxury goods, resulted in a further decline in inventory, leading to tough earnings in FY 3/23 & FY 3/24.

## EARNINGS

- *1H FY 3/24 & revision:* At 1H results, Daikokuya marginally raised its FY 3/24 sales forecast but lowered its OP forecast from ¥510m to ¥311m +141.1%YoY.

- *1H sales:* 1H sales were slightly below plan due to a slower than expected rebound in inbound demand following the late lifting of the ban on group tours from China, but the FY sales forecast was increased on expectation of a 2H recovery in both inbound & domestic sales.

- *1H OP:* 1H OP was below plan due to the sales shortfall, although it posted an improvement in both GPM & EBITDA margin of +4.5ppt YoY to 30.1% & +0.4ppt YoY to 0.45% respectively. The 1H 3/24 operating loss also shrank from -¥32m to -¥8m.

As a result of below plan 1H OP, Daikokuya revised down its FY 3/24 OP forecast from ¥510m to ¥311m due to an expected 2H GPM deterioration caused by rising purchasing costs & higher card & other sales commissions.

FY 3/24 RP was revised down from the initial forecast of ¥366m to -¥86m due to a one-off refinancing charge of ¥200m.

- **FY 3/24 results:** FY 3/24 sales & OP finished below the company forecast, with sales declining -11.9%YoY to ¥11bn as the recovery in Chinese inbound tourist numbers was slower than expected due to Chinese economic weakness, resulting in **75% fewer Chinese tourists visiting Japan versus pre-COVID levels in 2019.**

Daikokuya had also reduced its inventory during COVID, & working capital declined due to scheduled finance repayments, resulting in inventory of ¥1.2bn at the end of FY 3/24 versus ¥3.2bn pre-COVID, & therefore opportunity loss.

- FY 3/24 sales breakdown:

- Brick & mortar store sales: -0.9%YoY to ¥5.8bn.
- HQ sales (to antique dealers): -27.6%YoY to ¥2.5bn.
- Online store sales: -27.9%YoY to ¥1.3bn due to lower inventory levels.
- Pawn loan interest income: +4%YoY to ¥880m.
- The balance of operating loans secured by pawned items: flat YoY at ¥2.1bn, suggesting future increases in interest income.

Cross-border sales, including cross-border e-commerce & live shopping, declined -54.4% to ¥374m, but Chrono24 sales, which started in July 2021, were steady at ¥255m.

- GPM: The consolidated FY 3/24 GPM improved +1.8ppt to 29.8% due to the review of purchase & sales prices. The breakdown as follows:

- Core business Daikokuya GP: -6.5%YoY to ¥3.2bn.
- Brick & mortar store GP: +0.4%YoY to ¥1.35bn.
- Pawnbroker (interest on loans) sales & GP (GPM 100%): +4%YoY to ¥880m.
- Online store GP: -23%YoY to ¥316m.
- HQ GP: -23.3%YoY to ¥578m.

- OP: FY 3/24 SG&A increased +2.2%YoY to ¥2.9bn, driven by proactive advertising in anticipation of a post-COVID demand recovery following the LINE Yahoo! alliance. The addition of goodwill amortisation & fees associated with loan refinancing resulted in an operating loss of -¥143m.

- RP: The FY 3/24 recurring loss was -¥446m versus -¥36m in FY 3/23 due to the decline in OP & increased fees associated with loan refinancing.

Following a tax audit by the Tokyo Regional Taxation Bureau for FY 3/22 & FY 3/23, Daikokuya submitted amended tax returns related to tax-exempt export transactions. This resulted in an extraordinary loss of -¥55m due to additional taxes. Consequently, the Pre-Tax Net Loss increased to -¥552m.

Daikokuya anticipates a tax refund for corporate tax due to the adjustments in historic sales, resulting in a net tax refund of ¥48m. As a result, the net loss attributable to the parent company's shareholders increased to ¥539m (+¥260m YoY).

- **1Q FY 3/25 results:** 1Q sales declined -7.3%YoY to ¥2.7bn & the company posted an operating loss of -¥163m. Weakness was led by the core Daikokuya business where sales declined -7.7%YoY to ¥2.6bn as a result of lower inventory levels YoY. 1Q EBITDA was -¥31m versus ¥166m in 1Q 3/24.

Brick & mortar store 1Q sales increased +6.2%YoY to ¥1.5bn due to economic normalisation post COVID, but internet-based store sales declined -52.9%YoY to ¥253m due to lower inventory levels. HQ sales to antique dealers declined -3.4%YoY to ¥595m.

- *Sales by channel*: 1Q domestic sales increased +52.5%YoY to ¥468m, but duty-free sales declined -6.9%YoY to ¥1bn as Chinese inbound sales remained at 70% of pre COVID levels. Sales from cross-border e-commerce also declined -24.3%YoY to ¥53m.

- *Pawnbroker*: 1Q Pawnbroker (interest on loans) sales & GP (GPM 100%) were broadly flat YoY at ¥220m -0.6%YoY & the balance of operating loans receivable was flat YoY at ¥2bn. Pawnbroker earnings are expected to remain steady as the business has become established as a form of finance for the general public.

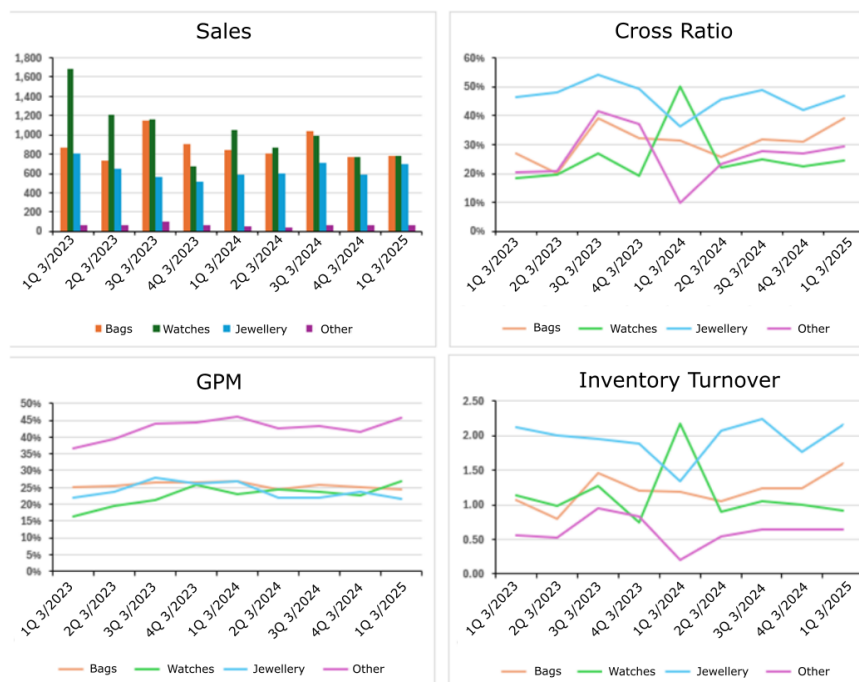
- *OP & GP*: Daikokuya posted a 1Q consolidated operating loss of -¥163m (versus 1Q 3/24 OP of ¥43m), versus 1Q GP which declined -8.6%YoY to ¥786m. We note inventory turnover improved +0.04ppt YoY to 2.19 months & the GPM remained high at 30.4% (-0.3ppt YoY).

- *GPM*: The consolidated 1Q GPM of 30.4% declined -0.3ppt YoY. The GPM remained high as Daikokuya continued to review purchase & sales prices & turnover of high margin bags remained short.

1Q GP breakdown:

- Brick & mortar store GP: +4.1%YoY to ¥354m.
- Pawnbroker (interest on loans) sales & GP (GPM 100%): -0.6%YoY to ¥220m.
- Online store GP: -54.5%YoY to ¥61m.
- HQ GP: -8.7%YoY to ¥141m.

The charts below highlight that although 1Q sales & inventory have declined slightly YoY, inventory turnover & the GPM, particularly for core high margin bag sales, have improved.



Source: Company

- SG&A: 1Q SG&A increased +17.6%YoY to ¥830m due to one-off upfront investment costs for new services & advertising for the Otegaru 'Easy Brand' Purchase campaign.

- **FY 3/25 outlook:** Daikokuya forecasts FY 3/25 sales of ¥15.9bn +44.9%YoY, & OP of ¥648m generating an OPM of 4.1%. Sales are expected to be driven by growth in used goods sales by raising 1H inventory to normal levels using funds from the exercise of stock acquisition rights, with 2H sales accelerating.

It targets inventory of ¥3-5bn by FY 3/27, with a longer term target of ¥14bn in FY 3/29 as part of its MTP, & **expects a gradual ongoing recovery of Chinese tourist numbers, coupled with the weak yen, to be tailwinds for sales strength.**

Daikokuya's main aim is to maximise GPM & inventory turnover according to the market environment, by maximising inventory & selling at the right price. Its model is based on C2B product purchases, but by developing B2C product sales through AI Daikokuya can efficiently purchase high value goods, minimise inventory risk, & maximise inventory turnover to avoid product risk.

- *Store network:* Daikokuya continues to operate its store network, which has capacity to double sales to pre-COVID levels & anticipates strong growth in FY 3/25 as a result of positive macro tailwinds coupled with the use of its online buying & selling infrastructure. The latter uses a chatbot based on an LLM (Large Language Model), image recognition by Google Vision AI & automatic appraisal systems.

- *Overseas:* Longer term, **Daikokuya plans to expand overseas, likely targeting SE Asia & the US.** Overseas expansion is likely to be relatively quick given the AI technology.

- *LINE Yahoo! JV:* The Daikokuya & LINE Yahoo! joint initiative 'Easy Brand Purchase' (further details below under 'Business Alliance') uses Daikokuya's know-how in purchasing & selling used brand items, image appraisal technology based on AI technology & dynamic pricing know-how, as well as chatbots & its global e-commerce database & an inventory linkage system based on AI technology.

Daikokuya has assumed only a small impact from the alliance in its FY 3/25 forecast as the system was still in the POC (Proof-Of-Concept) stage when formulating the forecast.

Daikokuya also expects that expansion of its in-house developed AI purchase appraisal to other stores & partner companies with EC will lead to diversification of buying options & contribute to long term growth but has assumed minimal contribution in FY 3/25.

It assumes a strong FY 3/25 market, driven by **increased awareness of reuse due to the promotion of SDGs**, strong demand from inbound tourists due the weak yen & rising prices due to inflation. As a result, it is strengthening its EC site, focusing on making advertising more efficient, increasing the number of products listed & making it easier to use.

Inbound tourist numbers have surpassed pre-COVID levels, with the number of international travellers to Japan having exceeded 3 million for 3 consecutive months in Mar/Apr/May 2024, boosted by the weak yen. Coupled with tax free shopping for overseas tourists, it has

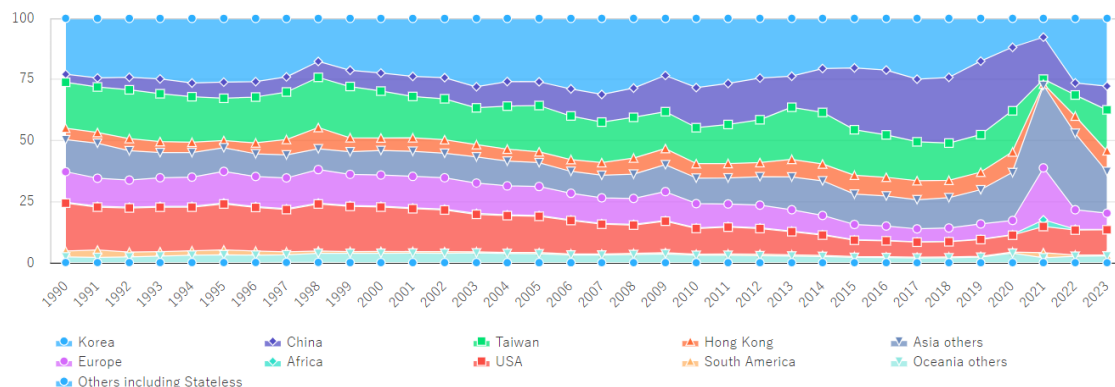


**resulted in the price of luxury secondhand goods in Japan becoming extremely attractive, in turn driving increased demand.**

Pre-COVID, inbound tourists accounted for approx. 50% of total secondhand branded goods sales, driven by Chinese consumers. Although Chinese tourists have yet to fully return, the weak yen is fuelling demand from other SE Asian consumers such as HK Chinese, Thai & Koreans.

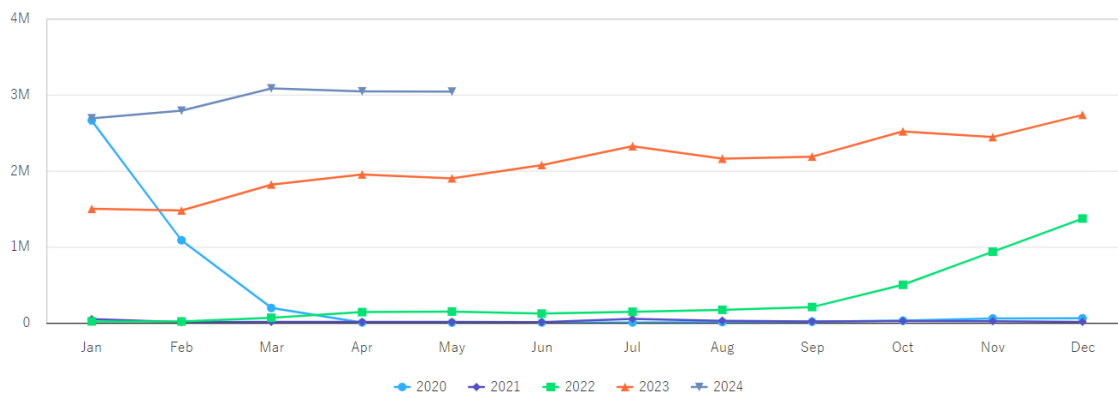
In FY 3/24, inbound sales accounted for approx. 40% of total secondhand branded sales. Daikokuya anticipates rising Chinese tourist numbers & Chinese consumption of Japanese products to drive a recovery in FY 3/25, boosted by Chinese yuan strength versus the weak yen. Longer term, the increasing number of middle & high income earners in China is also likely to generate strong demand.

- Overseas residents' visits to Japan by region:



Source: [JTB Tourism Research & Consulting](#).

- Overseas residents' visits to Japan by month:



Source: [JTB Tourism Research & Consulting](#).

Domestic consumer demand is also strong, as purchasing secondhand goods is becoming more socially acceptable & yen weakness has dictated less overseas travel & a higher level of disposable income.

## ARTIFICIAL INTELLIGENCE

The introduction of Daikokuya's in-house developed AI valuation & authentication tool, Otegaru AI, is forecast to drive increased purchasing by enabling instant asset valuation via brand identification & model data per individual item. It also has appraisal & chat functions with dynamic pricing. The AI instant appraisal & purchase system enables online appraisal, avoiding the need for house visits, cutting costs & accelerating purchasing.

Otegaru AI is set to cover the entire process - from appraisal to purchase decision - using chatbots, & **is expected to reduce store, personnel, & logistics costs, thereby improving productivity.**

Otegaru AI was released in Nov 2023. A chatbot & avatar are also set for release in due course.

- Otegaru AI:



Source: Company

- *Daikokuya's AI technology:* Image recognition requires learning from a huge amount of pixel data. Daikokuya has accumulated a wealth of image data (data of products from various angles for sale) from approx. 500,000 products over the past 7 years, & data analysts & engineers have been steadily cleaning & pre-processing the data, the most important aspect of AI technology.

By combining Google Vision AI with its branded product data, the company can instantly identify brands & product categories with a high degree of accuracy based on the input product image data.

It was one of the first to develop a labelling system for used brand-name goods. Within image recognition product data, labelling (mapping unique product attribute data to enable data analysis) is particularly time-consuming, labour-intensive, & product knowledge intensive, making it difficult for competitors to enter the market.

Daikokuya's AI image recognition can also help eliminate the risk of listing & exchange fraud. In addition, by integrating the customer data held by potential alliance platformers with Daikokuya's product attribution data, **it is possible to identify potential customers who are likely to buy & sell used items** & develop services that meet customer needs. Daikokuya anticipates this will be an area of potential growth.

## BUSINESS ALLIANCE

On 30<sup>th</sup> Nov 2023, Daikokuya signed a business alliance agreement with LINE Yahoo! under the provisional name 'Easy Brand Purchase'. The system allows for instant appraisals by AI &, through interactions with the chatbot, **everything from simple appraisals to purchase applications can be completed entirely on the LINE app**.

Brand-name items purchased by Daikokuya through LINE will be put up for auction on Yahoo! Auctions, with a percentage of the winning bid returned to the customer if a successful bid is made.

By listing items on well-known platforms LINE & Yahoo! Auctions, Daikokuya is hoping any reluctance around purchasing secondhand brand name items will be alleviated, thereby encouraging behavioural change.

The development & release of chatbots through LINE Yahoo! differentiates Daikokuya, further enabling the efficient buying of goods. Daikokuya developed its technology in-house & believes barriers to entry are high given the huge amount of data required on used branded goods, as well as market price data & advanced AI technology. It contends its partnership with LINE Yahoo! is testament to its superior technological capability.

The company is also in talks with other potential alliance partners to provide secondhand goods appraisal & sales services to C2C platform operators & luxury brand makers, which it expects to expand the market & accelerate growth. Alliances with partner companies in various industries are forecast to enable purchasing in physical stores, thereby accelerating the purchase potential.

## PAWN SHOP & SECONDHAND BRANDED GOODS:

(JPY Millions)	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 Results	YoY	1Q 3/25 Results	YoY
Secondhand branded goods sales	4,938	-19.5%	7,561	-17.2%	9,791	-13.5%	2,364	-8.3%
Pawnshop Sales	439	4.8%	674	4.7%	880	4.0%	220	-0.5%
Other	1	0.0%	1	-25.0%	1	-65.0%	n/a	n/a
<b>Sales</b>	<b>5,378</b>	<b>-17.9%</b>	<b>8,236</b>	<b>-15.7%</b>	<b>10,672</b>	<b>-12.3%</b>	<b>2,584</b>	<b>-7.7%</b>
<b>OP</b>	<b>179</b>	<b>11.2%</b>	<b>258</b>	<b>-35.2%</b>	<b>193</b>	<b>-57.9%</b>	<b>-52</b>	<b>n/a</b>
<b>OPM</b>	<b>3.3%</b>	<b>0.9%</b>	<b>3.1%</b>	<b>-0.9%</b>	<b>1.8%</b>	<b>-2.0%</b>	<b>n/a</b>	<b>n/a</b>

## SEGMENT BREAKDOWN

FY 3/24 sales & OP declined -12.3%YoY to ¥10.7bn & -57.9%YoY to ¥192m respectively, mainly due to the reduction in inventory levels detailed above.

#### ELECTRICAL BUSINESS:

(JPY Millions)	1H 3/24 Results	YoY	1-3Q 3/24 Results	YoY	3/24 Results	YoY	1Q 3/25 Results	YoY
<b>Sales</b>	136	0.7%	220	7.3%	295	6.5%	70	11.1%
<b>OP</b>	32	10.7%	57	26.7%	77	22.2%	12	9.1%
<b>OPM</b>	22.8%	2.1%	25.9%	4.0%	26.1%	3.4%	17.1%	-0.3%

Products consist of industrial lighting fixtures, control equipment & electrical construction materials, which are sold through local agents & distributors. The control equipment is sold mainly as OEM products.

FY 3/24 sales & OP increased +6.5%YoY to ¥295m & +22.7%YoY to ¥77m respectively. Demand has remained fairly subdued & new installation & inspection work has been weak, but Daikokuya worked on securing appropriate margins by constantly reviewing sales prices, switching suppliers, & strengthening cooperation with existing customers to mitigate the impact of rising raw material prices & a shortage of small subcontractors.

1Q FY 3/25 sales increased +9.9%YoY to ¥70m & OP +10.6%YoY to ¥12m. Electrical machinery industry customer capex has remained subdued as expected & raw material costs continue to rise but Daikokuya has continued to offset this with ongoing price adjustments.

#### MTP

(JPY Millions)	FY 3/24	FY 3/25	FY 3/26	FY 3/27	FY 3/28	FY 3/29
<b>Sales</b>	10,671	15,666	26,522	41,682	63,189	87,421
<i>Growth</i>	-12.3%	46.8%	69.3%	57.2%	51.6%	38.3%
<b>GP</b>	3,164	4,533	7,734	12,610	19,361	26,996
<i>GPM</i>	29.6%	28.9%	29.2%	30.3%	30.6%	30.9%
<b>OP (excl. amortisation)</b>	226	1,081	1,966	4,102	7,354	11,049
<i>OPM</i>	2.1%	6.9%	7.4%	9.8%	11.6%	12.6%
<b>EBITDA</b>	273	1,134	2,030	4,188	7,483	11,229
<i>EBITDA margin</i>	2.6%	7.2%	7.7%	10.0%	11.8%	12.8%
<b>NP</b>	-452	199	817	2,827	5,065	7,691
<b>Assets</b>	14,867	15,240	17,043	22,273	31,015	32,744
<b>Liabilities</b>	5,385	5,559	6,545	8,948	12,624	6,662
<b>Net assets</b>	9,482	9,681	10,498	13,325	18,391	26,082
<b>Operating CF</b>	-88	265	-433	-340	1,019	3,739
<b>Investing CF</b>	-55	2	-153	-351	-586	-524
<b>Financing CF</b>	190	-590	877	1,961	3,086	-6,625
<b>Total CF</b>	47	-324	292	1,271	3,519	-3,409

Daikokuya believes it has the building blocks in place from pre-COVID to drive its MTP earnings growth. It has started to rebuild inventory by strengthening purchasing efforts using funds from the exercise of stock acquisition rights. As a result, it expects to rapidly return to pre-COVID levels & as the next step is opening new stores.

As of FY 3/24, Daikokuya had 25 stores, but is targeting openings of +132 to total 157 by FY 3/29.

	FY 3/25	FY 3/26	FY 3/27	FY 3/28	FY 3/29
<b>New purchasing stores</b>	0	9	32	40	39
<b>New purchasing/selling stores</b>	0	1	1	6	4
<b>Cumulative new stores total</b>	<b>0</b>	<b>10</b>	<b>43</b>	<b>89</b>	<b>132</b>

## BALANCE SHEET

Daikokuya's high GPM & effective inventory management, allied to the reliable earnings stream generated by the pawnshop business, are the foundations for improving its financial stability.

As of FY 3/24, total assets were ¥6.5bn -2.8%YoY, with current assets of ¥5.2bn -3.8%YoY, due to the decline in inventory & fixed assets of ¥1.3bn. Total liabilities were ¥5.9bn +3.7%YoY, with current liabilities of ¥4.8bn -13.1%YoY due to the decrease in long-term loans payable within 1 year.

Fixed liabilities were ¥1bn versus ¥96m in FY 3/23 due to a ¥850m increase in long term borrowings & ¥100m in bonds with stock acquisition rights. Net assets totalled ¥635m -38.5%YoY & the equity ratio was 0% (versus 6% in FY 3/23).

Following the exercise of stock acquisition rights, net assets are set to increase & the equity ratio is expected to improve.

As of 1Q FY 3/25, total assets were ¥6.2bn -4.9% YoY, with current assets at ¥4.85bn -6.1%YoY, mainly due to a ¥297m decrease in cash & deposits & a ¥94m decrease in operating loans receivable. Inventory on the balance sheet declined -0.3%YoY to ¥1.31bn.

1Q total liabilities were ¥5.8bn -1.8% YoY as fixed liabilities shrank ¥148m to ¥891m due to a decline in long term loans payable of -¥150m & a small increase in current liabilities.

As a result, the 1Q equity ratio was -3.46%.

- *CB issue:* On 30<sup>th</sup> Nov 2023, Daikokuya issued 1 million unsecured convertible bonds (CBs) priced at ¥100 per bond, with an initial conversion price of ¥52, raising ¥100m through a third-party allotment to President Kohei Ogawa. It also issued 444,445 stock acquisition rights at ¥12 per warrant, totalling ¥5.3m. These were split between Mr Ogawa (41,111,100 shares) & Koji Kodaka (3,333,400 shares). Gross proceeds from these activities amounted to ¥105.3m.

The zero-interest bonds are redeemable on 19<sup>th</sup> Dec 2025, & the stock acquisition rights are convertible into 44,444,500 shares at an initial exercise price of ¥45 per share, implying maximum dilution of approx. 37%.

On 28<sup>th</sup> June 2024, the conversion price was revised from ¥52 to ¥28. After the reset, the warrants are worth approximately ¥1.6bn.

As of FY 3/24, Daikokuya had negative retained earnings of -¥3.1bn, a net debt to equity ratio of 636% & a negative tangible equity ratio of -4.8%. The company has ¥3.9bn in short-term debt & an additional ¥150m maturing within one year.

Daikokuya has a loan-to-value (LTV) ratio of 0.8. This leverage is achievable due to the company's cash flow, which Daikokuya expects will enable it to flexibly use current liabilities as EBITDA increases.

## COMPANY INFORMATION

Company Timeline	
<b>Oct 1912</b>	Shinjiro Mori founded Shinjiro Mori Stores, selling and manufacturing lighting fixtures
<b>Dec 1935</b>	Reorganised into Mori Denki
<b>Aug 1946</b>	Begin production with ¥1m in capital after the war
<b>Oct 1961</b>	Listed on the Second section of the Tokyo Stock Exchange, increasing capital to ¥95m
<b>July 2009</b>	Acquired 38.6% of Daikokuya Global Holdings (then D-Wonderland), making an equity method affiliate of Daikokuya, its second-hand luxury goods retailer and pawnshop
<b>Dec 2012</b>	Changed company name to Asia Growth Capital
<b>Nov 2013</b>	Acquired an additional 4.1% of Daikokuya Global Holdings (then D-Wonderland) through a tender offer, making the company and its wholly owned subsidiary Daikokuya into consolidated subsidiaries
<b>Sep 2015</b>	Founded Racks-Wise
<b>Oct 2015</b>	Daikokuya Global Holdings (then D-Wonderland) acquired shares in AU 79 Limited, making AU 79 Limited, AG 47 Limited, Speedloan Finance Limited and Chantry Collections Limited into subsidiaries
<b>Dec 2015</b>	Entered a business partnership with Citic Xinbang Asset Management and signed a memorandum of understanding to establish a joint venture company
<b>Aug 2016</b>	Changed company name to Daikokuya Holdings
<b>March 2021</b>	Established the 100% subsidiary Shanghai Daiku Commercial in Shanghai, China
<b>April 2022</b>	Moved from the Second section of the Tokyo Stock Exchange to the Standard market after the TSE restructure

### Company Contact Details

4-1-8 Konan, Minato-ku, Tokyo  
Japan, 108-0075

Website: <https://www.daikokuyajp.com/>

TEL: +81 36451 4300

Major Shareholders (as of FY 3/24)	Stake (%)
Kohei Ogawa	11.84
Tokyo Tanshi Co	2.50
Nomura Securities	1.15
SBI	1.04
Uozu Kairiku Transport and Warehouse	0.95
Toshio Tamura	0.54
Kiyohisa Arai	0.53
Hokkaido Kairic	0.52
Mikiharu Takahashi	0.45
Hiroki Koga	0.42

Source: Company

## MANAGEMENT

<b>President &amp; Representative Director</b>		<b>Kohei Ogawa</b>
<b>Year of Birth</b>		1956
<b>Career History</b>		
<b>March 1979</b>		Graduated from Keio University Faculty of Economics
<b>April 1979</b>		Joined Tomen Corporation
<b>June 1987</b>		Completed a Masters at Columbia University Graduate School of Business
<b>Sep 1987</b>		Joined Goldman Sachs
<b>Nov 1994</b>		Joined Far East Consortium International
<b>Dec 1994</b>		Appointed Representative Director
<b>May 1997</b>		Appointed Advisor of Daikokuya Holdings
<b>June 1997</b>		Appointed Representative Director and President of Daikokuya Holdings (current position)
<b>Dec 2009</b>		Appointed Director of D-Wonderland (currently Daikokuya Global Holdings)
<b>July 2010</b>		Appointed Director of Daikokuya
<b>Dec 2010</b>		Appointed President and Director of D-Wonderland (currently Daikokuya Global Holdings) (current position)
<b>Aug 2012</b>		Appointed Representative Director and President of Daikokuya (current position)
<b>Oct 2015</b>		Appointed Director of Speedloan Finance
<b>March 2021</b>		Appointed Chairman of Shanghai Daiku Commercial (current position)

<b>Director</b>		<b>Luolin Xin</b>
<b>Year of Birth</b>		1949
<b>Career History</b>		
<b>1980</b>		Graduated from Peking University Graduate School
<b>1980</b>		Appointed Special Research Fellow at Australian National University; Visiting Research Fellow at Waseda University
<b>1983</b>		Appointed Honorary Research Fellow at the University of British Columbia, Canada
<b>1985</b>		Appointed Senior Finance Advisor at Potter Warburg
<b>1991</b>		Appointed Advisor to the Chairman and Vice Chairman at Yaohan International
<b>1992</b>		Appointed Special Advisor at Mitsui & Co
<b>1993</b>		Appointed Honorary Chairman of Hambros, Australia
		Asian Capital Holdings (HKSE) (current position)
		Appointed Director of Oriental Technologies Investment (ASX)
		Appointed Director of Sinolink Worldwide Holdings (HKSE) (current position)
		Appointed Director of Enerchina Holdings (HKSE)
		Appointed Justice of the Peace, New South Wales, Australia (current position)
<b>June 2004</b>		Appointed Director of Daikokuya Holdings
<b>June 2006</b>		Resigned as Director of Daikokuya Holdings
<b>June 2007</b>		Appointed Director of Daikokuya Holdings (current position)
<b>Dec 2010</b>		Appointed Director of D-Wonderland (currently Daikokuya Global Holdings) (current position)
<b>June 2016</b>		Appointed Director of Daikokuya (current position)
<b>2023</b>		Appointed Director at Beijing Sports and Entertainment Industry Group (HKSE) (current position)
<b>2023</b>		Appointed Director at Central China Real Estate (HKSE) (current position)

<b>Director</b>		<b>Norimichi Kurakake</b>
<b>Year of Birth</b>		1949
<b>Career History</b>		
<b>March 1973</b>		Graduated from the Faculty of Economics, Tokyo Metropolitan University



April 1973	Joined Japan Real Estate Bank (currently Aozora Bank)
June 2000	Appointed Executive Officer and Head of Investment Banking Department
April 2002	Appointed Managing Executive Officer in charge of the Credit Department and Research Department
April 2004	Appointed Managing Executive Officer and Head of Head Office Sales Division
Sep 2005	Appointed Head of the Real Estate Investment Advisory Office, Urban Development Headquarters, at Mori Building
July 2007	Appointed Chairman of the Board of Directors of SMG Partners
Nov 2008	Appointed President and CEO of Tokyo Debt Collection
Oct 2010	Appointed Auditor of gumi
Nov 2011	Appointed Director of the same
Aug 2012	Appointed Director of Daikokuya (current position)
Dec 2012	Appointed Director of D-Wonderland (currently Daikokuya Global Holdings) (current position)
June 2013	Appointed Director of Daikokuya Holdings (current position)

<b>Director</b>	<b>Kenji Tomono</b>
<b>Year of Birth</b>	1944
<b>Career History</b>	
<b>March 1967</b>	Graduated from Keio University Faculty of Economics
<b>April 1967</b>	Joined Yamaichi Securities
<b>June 1994</b>	Appointed Director and Head of Europe (London-based) at Yamaichi Securities
<b>June 1996</b>	Appointed Managing Director and Head of Capital Markets
<b>Jan 2000</b>	Appointed Director and Vice President at Transsearch International
<b>July 2009</b>	Appointed Advisor
<b>June 2011</b>	Appointed Auditor at Daikokuya Holdings
<b>Dec 2012</b>	Appointed Auditor at D-Wonderland (currently Daikokuya Global Holdings)
<b>June 2015</b>	Left the Auditor role at Daikokuya Holdings; appointed Director at Daikokuya Holdings (current position)

<b>Director</b>	<b>Kuniaki Nakaoka</b>
<b>Year of Birth</b>	1957
<b>Career History</b>	
<b>March 1980</b>	Graduated from the Faculty of Commerce, Keio University
<b>April 1980</b>	Joined Shikoku Bank
<b>Sep 1997</b>	Joined S-System
<b>Nov 2000</b>	Appointed Representative Director of Vanette
<b>May 2001</b>	Appointed External Auditor at D-Wonderland (currently Daikokuya Global Holdings)
<b>June 2001</b>	Appointed External Auditor at Square
<b>Aug 2005</b>	Appointed Director at Smart Community (current position)
<b>June 2016</b>	Appointed Director at Daikokuya Holdings (current position)

<b>Full-Time Auditor</b>	<b>Taku Nagai</b>
<b>Year of Birth</b>	1956
<b>Career History</b>	
<b>April 1980</b>	Joined Kawada Kogyo
<b>Jan 1981</b>	Joined Asuka General Planning and Design Department
<b>Dec 1989</b>	Founded A-Art as Representative Director and CEO
<b>March 2000</b>	Appointed Auditor at Tokai Kanko
<b>June 2001</b>	Appointed Auditor at Daikokuya Holdings
<b>March 2002</b>	Appointed Director at Tokai Kanko
<b>April 2004</b>	Appointed Advisor at Daikokuya Holdings

<b>June 2004</b>	Appointed Director
<b>June 2010</b>	Appointed Full-Time Auditor (current position)
<b>Dec 2011</b>	Appointed Auditor at D-Wonderland (currently Daikokuya Global Holdings) (current position)
<b>Aug 2012</b>	Appointed Auditor at Daikokuya (current position)

<b>Auditor</b>	<b>Toshiaki Tochigi</b>
<b>Year of Birth</b>	1949
<b>Career History</b>	
<b>April 1979</b>	Registered as a lawyer with the Dai-ni Tokyo Bar Association
<b>May 1995</b>	Founding partner of Nozomi Sogo Law Office (current position)
<b>April 1998</b>	Appointed Vice President of Dai-ni Tokyo Bar Association
<b>Sep 2006</b>	Appointed Auditor of Juroku Bank
<b>April 2010</b>	Appointed President of Dai-ni Tokyo Bar Association
	Appointed Vice President of the Japan Federation of Bar Associations
<b>May 2011</b>	Appointed Vice President of the Japan Political Federation of Bar Associations
<b>June 2011</b>	Appointed Auditor at Daikokuya Holdings (current position)
<b>June 2014</b>	Appointed External Auditor at Yokoo (current position)

<b>Auditor</b>	<b>Shigeru Kasui</b>
<b>Year of Birth</b>	1952
<b>Career History</b>	
<b>March 1974</b>	Graduated from the Department of Sociology at Doshisha University
<b>April 1974</b>	Joined a general trading company
<b>Feb 1977</b>	Joined Japan Marketing Center (currently Funai Sogo Research)
<b>Dec 1984</b>	Appointed Head of Organizational Management Department
<b>Dec 1990</b>	Appointed Head of Tokyo 2nd Development Department
<b>Dec 1997</b>	Appointed Head of President's Office
<b>Jan 2000</b>	Appointed Representative Director of Cosmo Development and General Manager of the President's Office of Funai Research Institute
<b>Nov 2001</b>	Established Profit Partners (a group company of Funai Research Institute)
<b>Feb 2012</b>	Retired from the company
<b>Feb 2014</b>	Established Kasui General Research Institute
<b>June 2015</b>	Appointed Auditor at Daikokuya Holdings (current position)
<b>June 2021</b>	Appointed Auditor at Daikokuya Global Holdings (current position)

## J GAAP Financial statements

Income statement (¥bn)	FY 3/22	FY 3/23	FY 3/24
Sales	17.2	12.5	11.0
COGS	13.8	9.0	7.7
<b>Gross profit</b>	<b>3.4</b>	<b>3.5</b>	<b>3.3</b>
Gross profit margin (%)	19.9	28.0	29.8
Operating expense	3.5	3.4	3.4
<b>Total OP</b>	<b>-0.1</b>	<b>0.1</b>	<b>-0.1</b>
OP margin (%)	-0.7	1.0	-1.3
Non-Op Income (Loss)	0.2	0.2	0.4
<b>Pretax Income</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.6</b>
Tax	0.2	0.2	0.0
Effective tax rate (%)	n/a	n/a	n/a
<b>Net income</b>	<b>-0.5</b>	<b>-0.3</b>	<b>-0.5</b>

Balance sheet (¥bn)	FY 3/22	FY 3/23	FY 3/24
Cash & equivalents	0.4	0.4	0.3
Accounts & notes receivable	0.4	0.4	0.4
Inventories	2.3	1.6	1.4
Other short-term assets	2.8	3.0	3.1
<b>Current assets</b>	<b>5.9</b>	<b>5.4</b>	<b>5.2</b>
Property, plant & equipment (net of depreciation)	0.2	0.2	0.2
Long term investments & receivables	0.0	0.0	0.1
Other long-term assets	1.2	1.1	1.0
<b>Total non-current assets</b>	<b>1.4</b>	<b>1.3</b>	<b>1.4</b>
<b>Total assets</b>	<b>7.4</b>	<b>6.7</b>	<b>6.5</b>
Payables & accruals	0.2	0.7	0.6
Short-term debt	3.9	4.7	4.0
Other short-term liabilities	0.7	0.2	0.2
<b>Total current liabilities</b>	<b>4.8</b>	<b>5.6</b>	<b>4.8</b>
Long term debt	1.2	0.0	1.0
Other long-term liabilities	0.1	0.1	0.1
<b>Total non-current liabilities</b>	<b>1.3</b>	<b>0.1</b>	<b>1.0</b>
<b>Total liabilities</b>	<b>6.1</b>	<b>5.7</b>	<b>5.9</b>
Share capital & APIC	4.0	4.0	4.2
Treasury stock	0.0	0.0	0.0
Retained earnings	-2.3	-2.5	-3.1
Other equity	-1.0	-1.0	-1.1
<b>Equity before minority interest</b>	<b>0.7</b>	<b>0.4</b>	<b>0.0</b>
<b>Total equity</b>	<b>1.3</b>	<b>1.0</b>	<b>0.6</b>
<b>Total liabilities &amp; equity</b>	<b>7.4</b>	<b>6.7</b>	<b>6.5</b>

Source: Bloomberg.

Cash flow statement (¥bn)	FY 3/22	FY 3/23	FY 3/24
Net income/pre-tax profit	-0.5	-0.3	-0.5
Depreciation/amortization	0.1	0.1	0.1
Other non-cash items	0.1	0.1	-0.2
Changes in working capital	0.7	0.4	0.3
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Operating Activities</b>	<b>0.4</b>	<b>0.3</b>	<b>-0.4</b>
Change in fixed & intangible assets	0.0	0.0	-0.1
Net change in long-term investments	0.0	0.0	0.0
Net cash from acquisitions & divestitures	0.0	0.0	0.0
Other investing activities	0.0	0.0	0.1
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Investing Activities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Dividends paid	0.0	0.0	0.0
Cash from (repayment) debt	-0.4	-0.4	0.3
Cash from (repurchase) of equity	0.0	0.0	0.2
Other financing activities	0.0	0.0	0.2
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>-0.4</b>	<b>-0.4</b>	<b>0.5</b>
FX impact	0.0	0.0	0.0
<b>Net cash flow</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>
<b>Free cash flow</b>	<b>0.4</b>	<b>0.2</b>	<b>-0.5</b>
<b>EBITDA</b>	<b>0.0</b>	<b>0.2</b>	<b>-0.1</b>

Key metrics	FY 3/22	FY 3/23	FY 3/24
<b>Profitability</b>			
Gross margin (%)	19.9	28.0	29.8
Operating margin (%)	-0.7	1.0	-1.3
Net margin (%)	-2.7	-2.2	n/a
ROIC (%)	-4.6	-1.4	-4.4
<b>Liquidity</b>			
Current ratio (x)	n/a	1.0	1.1
Quick ratio (x)	0.2	0.1	0.1
<b>Leverage</b>			
Net Debt/Equity ratio	314.5	367.3	636.0

**DISCLAIMER**

*This report has been commissioned by Daikokuya Holdings & prepared & issued by Storm Corporate in consideration of a fee payable by Daikokuya Holdings. All information and data used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. To the fullest extent allowed by law Storm Corporate shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this report. The information that we provide should not be construed in any manner whatsoever as personalised advice or investment opinions. This report is for informational purposes only and under no circumstances should it be considered or intended as Storm Corporate's solicitation to effect, or attempt to effect, any transaction in a security. Storm Corporate and its employees may have engaged in, or may have the possibility of engaging in transaction of securities issued by the concerned companies. The copyright of this report belongs to Storm Corporate & any distribution, transmission, modification or manipulation of this report is strictly prohibited.*

**This report is freely available on Bloomberg, Factset, Refinitiv & S&P Capital. If you would like to subscribe directly to Storm Corporate reports, please click [here](#).**