Financial Results Presentation for the Third Quarter Ended May 31, 2020

July 15, 2020
Valuence Holdings Inc.
(Securities Code: TSE Mothers 9270)

Valuence

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Valuence

Corporate Profile

Financial Results Presentation for the Third Quarter Ended May 31, 2020



Valuence

Value × Intelligence
Experience

Leverage our expertise gained to offer experiences
of life-changing value through our business activities
to those with whom we interact

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Corporate Philosophy

Mission

Encouraging people to live in a way that is true to themselves.

Vision

Providing life-changing value to the world.

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Corporate Profile

Company Name	Valuence Holdings Inc.
Representative	Shinsuke Sakimoto
Head Office	1 Konan, Minato-ku, Tokyo
Founded	December 2011
Capital	¥1,109 million (as of May 2020)
Employees	542(as of May 2020)　*Consolidated, full-time only
Segments	Luxury brand items, antiques, art, and other reuse businesses
Subsidiaries (as of May 2020)	Valuence Japan Inc. Valuence Art & Antiques Inc. Valuence Technologies Inc. Valuence Real Estate Inc. Valuence International Limited Valuence International USA Limited Valuence International Europe S.A.S.

Group Businesses and Brands

Purchasing

なんぼや BRAND REUSE NANBOYA

BRAND CONCIER

古美術 八光堂

Auctions (toB)

STAR BUYERS AUCTION

THE EIGHT AUCTION

Retail (toC)

ALLU

Apps

Miney

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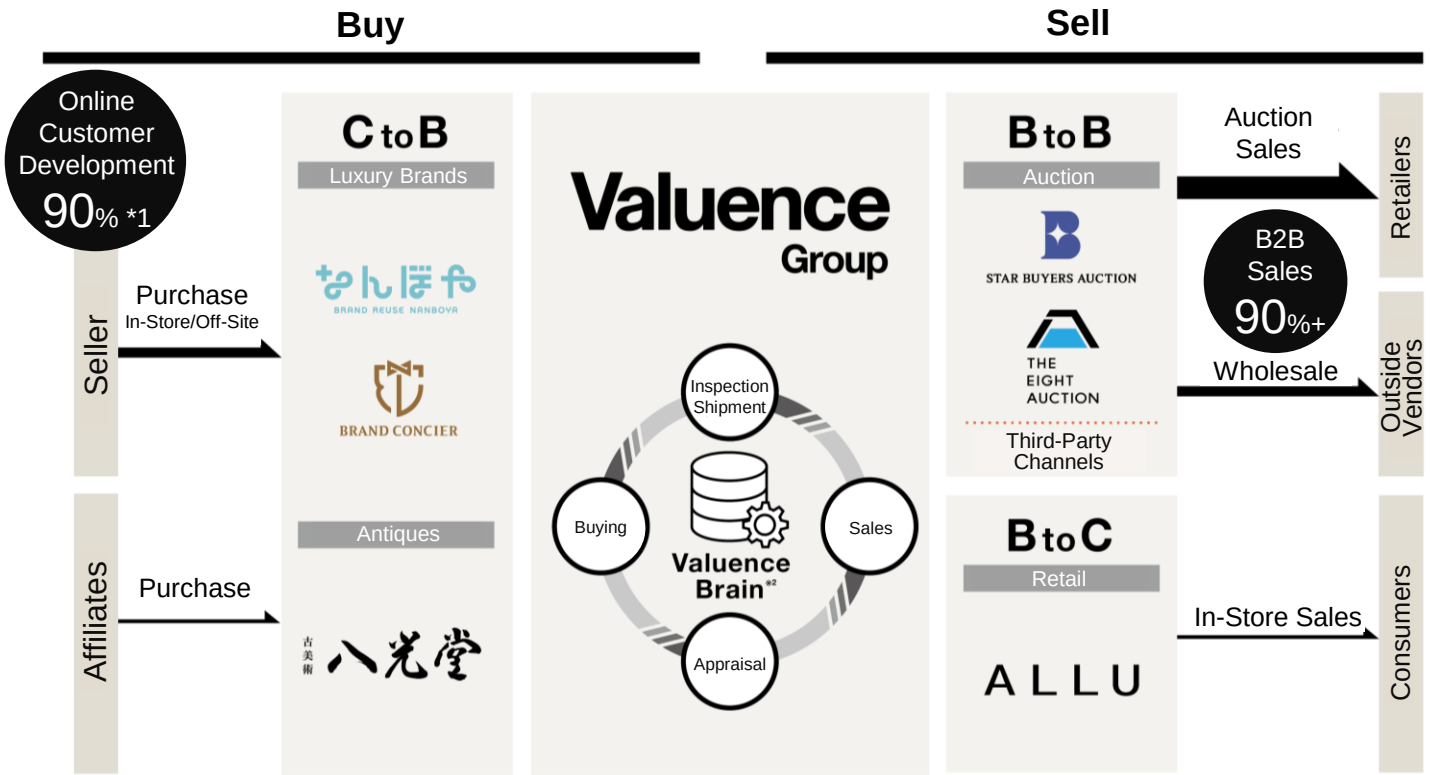
Business Model



*1 Based on questionnaire results

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

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Financial Results

Financial Results Presentation for the Third Quarter Ended May 31, 2020



Highlights for the Third Quarter Ended May 31, 2020

With an eye on a post-COVID world, accelerating the pace of digital transformation (DX) and moving forward to invest in growth amid the challenges posed by COVID-19

Financial results: impact of COVID-19

- In response to the state of emergency and other factors, some buying offices closed temporarily, while offline auctions were suspended.
- We recorded the first loss since our IPO. Both purchases and sales decreased markedly.

DX promotion and growth investment in preparation for the post-COVID world and the potential second wave of the pandemic

- Originally slated for September 2020, the transition of STAR BUYERS AUCTION (SBA) to an online platform was completed early, in April.
- A Quick Sell buying service based on videoconferencing technologies was launched May 15.
- We adopted a system of working from home. (Some personnel were asked to remain on standby at home after the state of emergency was declared.)
- We expanded our line of credit by 5.7 billion yen (including an increase in June).
- New buying offices continued to open. Four new offices opened during Q3.

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Financial Results for the Third Quarter Ended May 31, 2020

- ✓ Due to the impact of COVID-19, net sales were down 8.3% YoY to 25,242 million yen.
- ✓ Operating losses totaled 315 million yen, as investment in growth continued. The gross profit margin fell significantly, reaching a point at which gross profit proved insufficient to cover SG&A.

(Millions of yen)

	Nine months ended May 31, 2019	Nine months ended May 31, 2020	Change
Net sales	27,538	**25,242**	-8.3%
Gross profit	7,074	**6,044**	-14.6%
Gross profit margin	25.7%	**23.9%**	-1.8pts
SG&A	5,537	**6,359**	+14.9%
Operating profit	1,537	**-315**	-
Ordinary profit	1,537	**-368**	-
Ordinary profit ratio	5.6%	**-**	-
Profit attributable to owners of parent	1,015	**-585**	-

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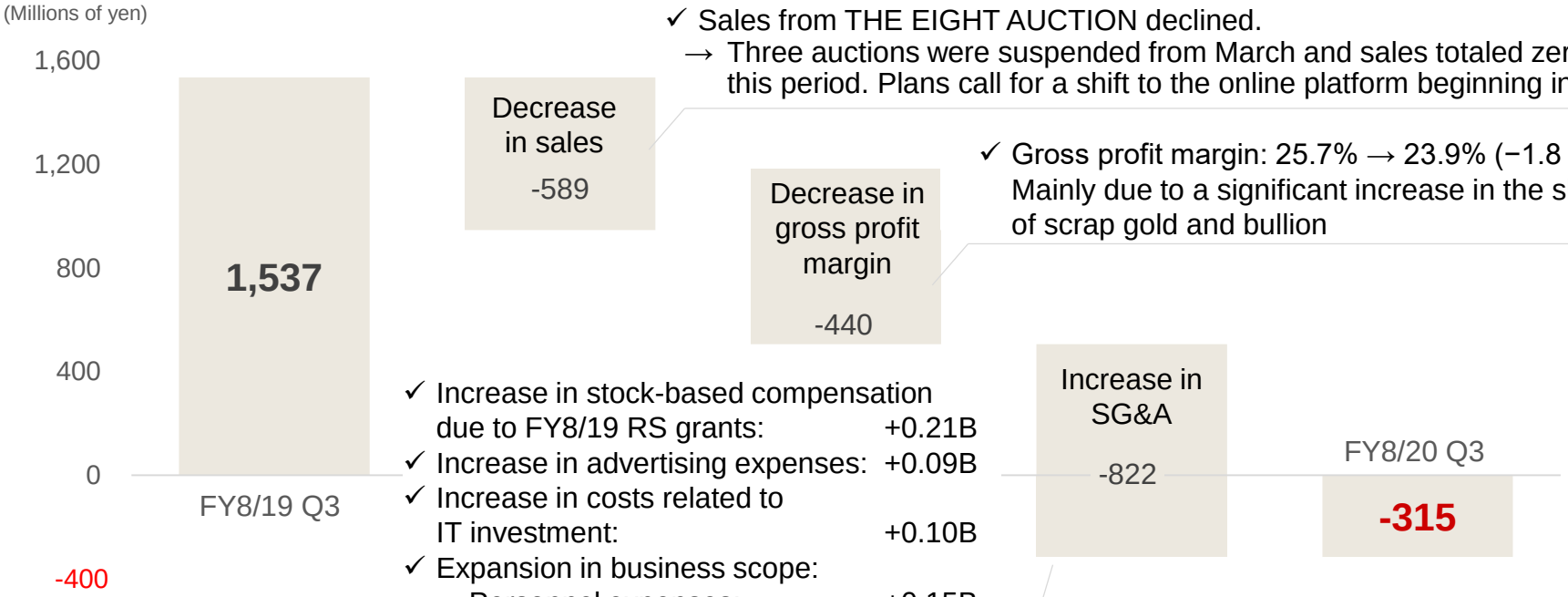
Operating Profit Change

✓ Domestic SBA sales declined.
→ The shift to an online platform began with small-scale auctions during the April-May migration period.
DX moved ahead of schedule, with restrictions imposed on the numbers of items listed.

✓ Sales from THE EIGHT AUCTION declined.
→ Three auctions were suspended from March and sales totaled zero for this period. Plans call for a shift to the online platform beginning in July.



✓ Gross profit margin: 25.7% → 23.9% (−1.8 pts)
Mainly due to a significant increase in the share of scrap gold and bullion

✓ Increase in stock-based compensation due to FY8/19 RS grants: +0.21B
✓ Increase in advertising expenses: +0.09B
✓ Increase in costs related to IT investment: +0.10B
✓ Expansion in business scope:
- Personnel expenses: +0.15B
- Rent expenses: +0.07B

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Balance Sheet

(Millions of yen)

	FY8/19	FY8/20 Q3	Change
Current assets	9,874	**12,809**	+2,935
Cash and deposits	4,103	**5,847**	+1,744
Merchandise	4,863	**6,037**	+1,174
Other	907	**924**	+16
PPE	4,237	**4,031**	-205
Total assets	14,111	**16,841**	+2,729
Liabilities	7,416	**11,008**	+3,592
Interest-bearing debt	5,435	**9,570**	+4,135
Other	1,981	**1,437**	-543
Net assets	6,695	**5,832**	-862
Total liabilities and net assets	14,111	**16,841**	+2,729

Increase in cash on hand in preparation for state of emergency

Increase in inventory due to the small scale of independent auctions and postponements and cancellations of certain auctions

While buildings and structures (net) increased with the opening of new buying offices, other factors included a decrease in goodwill.

Increase in short-term loans payable to stabilize Group management and purchasing in light of the impact of COVID-19 on financial results

Decrease in retained earnings due to the recording of net losses attributable to owners of parent

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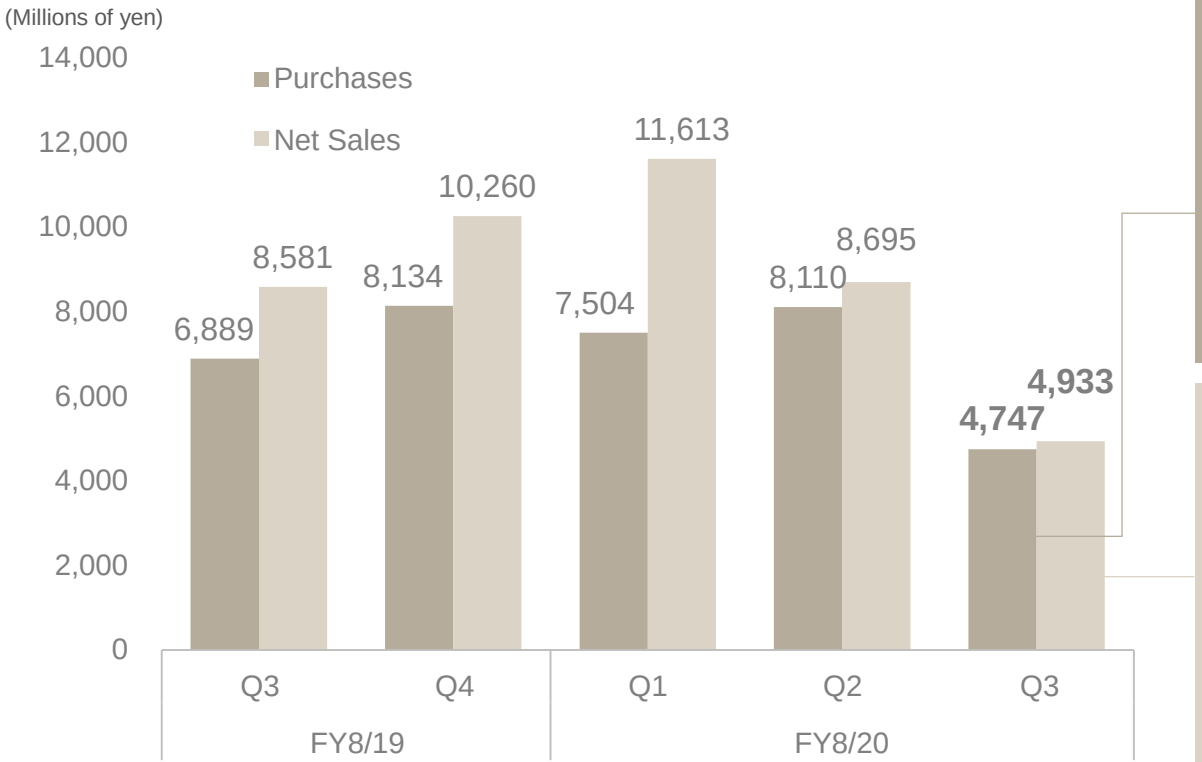
Quarterly Purchases and Net Sales



Purchases

- A 41.5% decline quarter on quarter due to the temporary closure of as many as 59 buying offices in April and May
- While the actual numbers were low, stay-at-home orders expanded the share of in-home purchases.

Net Sales

- Net sales fell 43.3% quarter on quarter. Fewer items were listed in domestic SBA sales due to the shift to the online platform. THE EIGHT AUCTION was suspended.
- No auctions were held in Hong Kong in Q2 or Q3.

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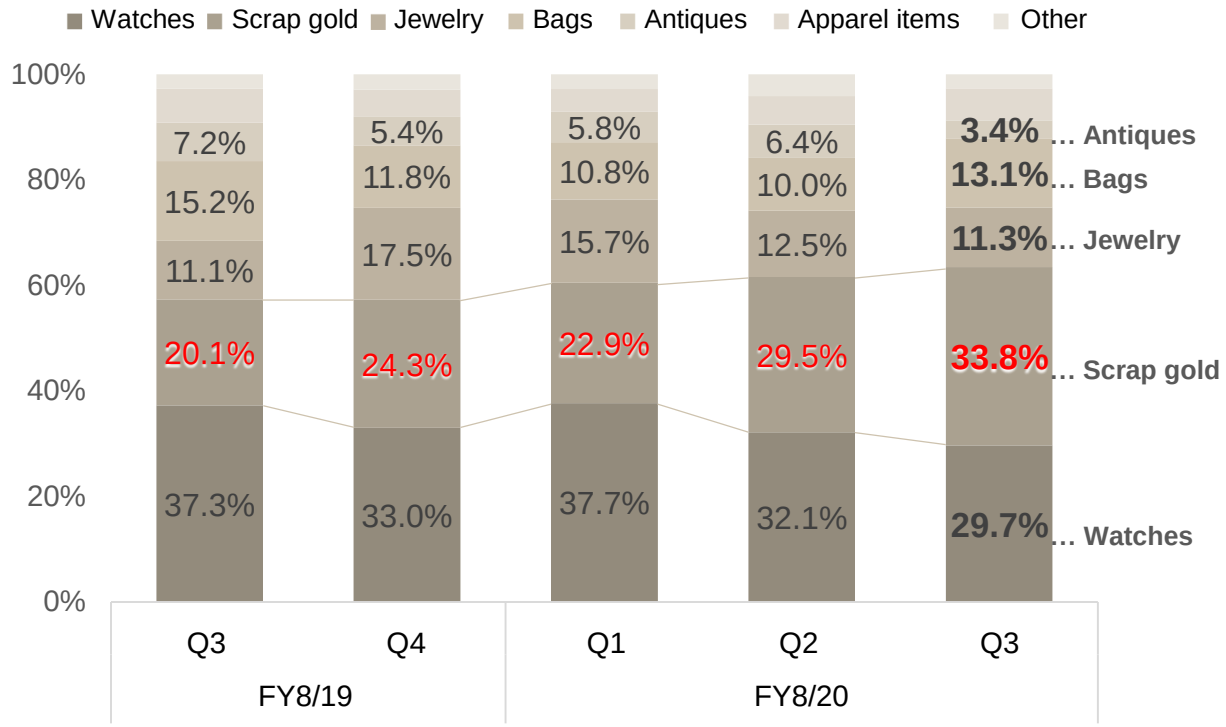
Quarterly Net Sales by Category



Net Sales by Category

Sales in the major categories were slow for various reasons, including a rise in the share of purchases accounted for by scrap gold and bullion in April and May and the difficulty of organizing standard auctions. The share of scrap gold and bullion rose higher still from the previous quarter.

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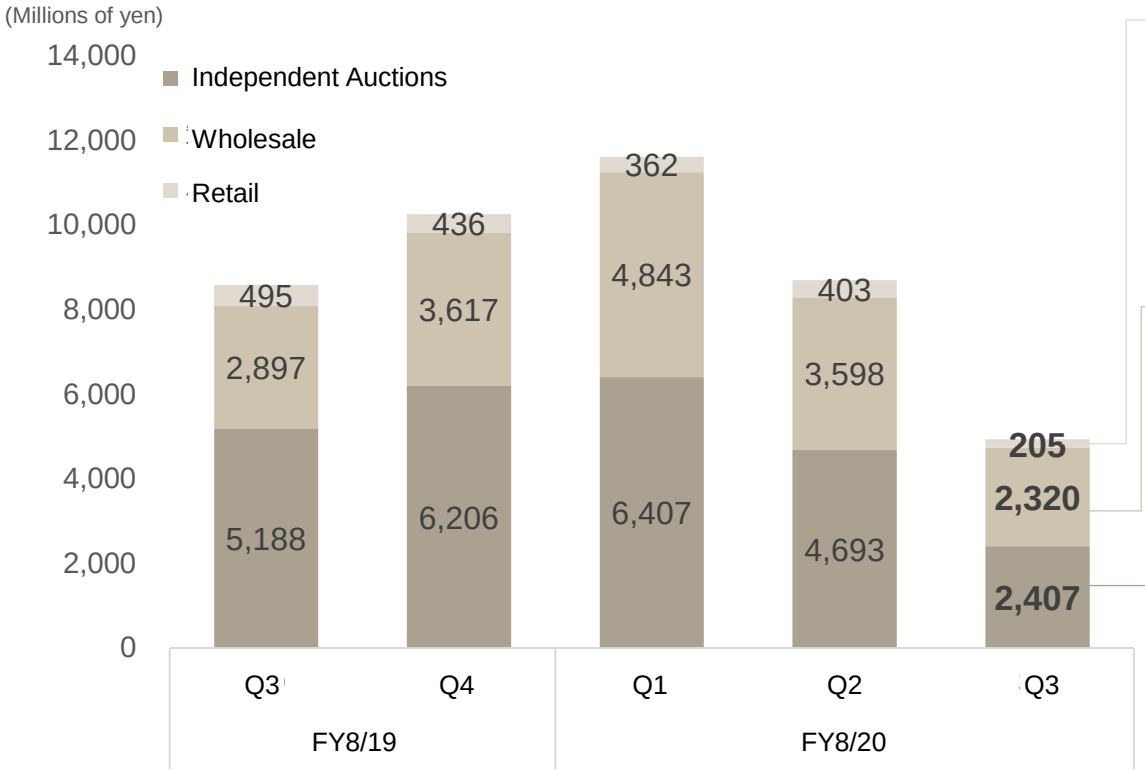
Quarterly Net Sales by Channel (to B, to C)



Retail

- Down 49.0% quarter on quarter due to the impact of temporary store closures
- Growth in e-commerce

Wholesale

- Down 35.5% quarter on quarter due to decreased purchasing
- Lower domestic SBA volume led to lower overseas sales.*

Independent Auctions

Down 48.7% quarter on quarter due to restrictions imposed on numbers of items listed in domestic SBA auctions as a result of the shift to the online platform and suspension of THE EIGHT AUCTION

* The portion of domestic SBA sales to overseas partners is included under Wholesale.

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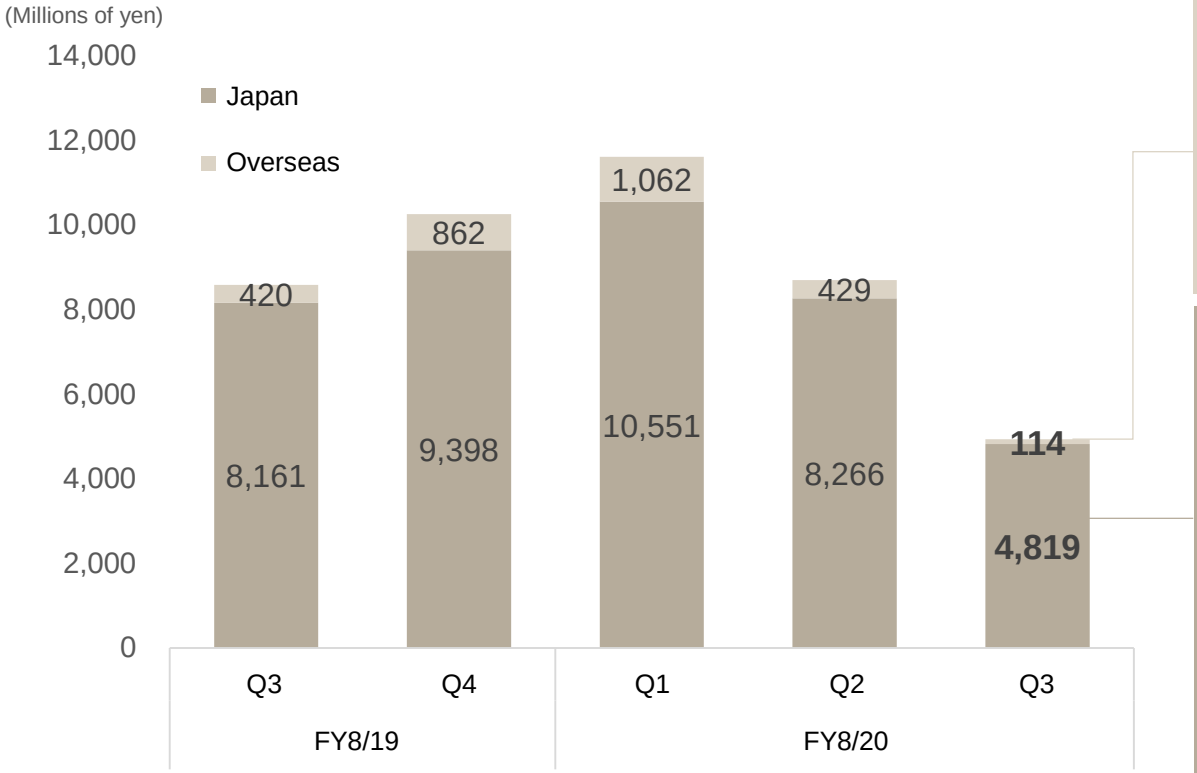
Quarterly Net Sales by Channel (Japan, Overseas)



Overseas

Down 73.4% quarter on quarter attributed to the smaller share accounted for by overseas limit-bid sales due to restrictions imposed on numbers of items listed in domestic SBA auctions

Japan

- Independent auction sales were down due to restrictions imposed on the numbers of items listed in domestic SBA auctions and the suspension of THE EIGHT AUCTION.
- Sales fell for all wholesale and retail channels, resulting in a quarter-on-quarter decline of 41.7%

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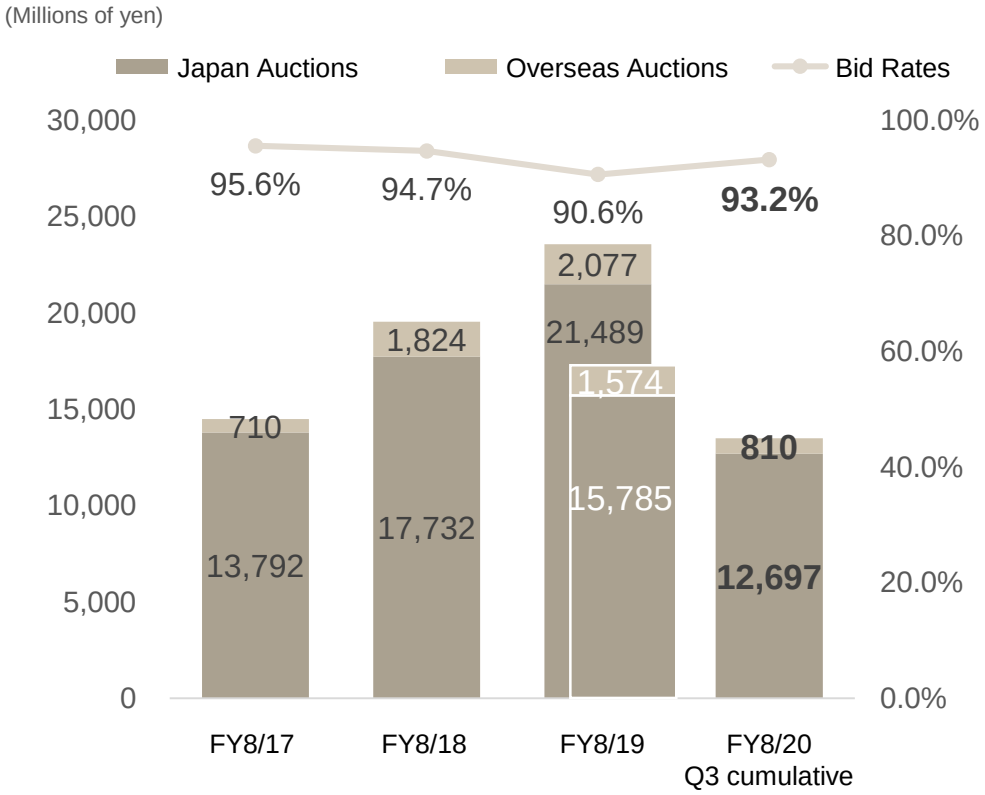
Auctions



Overseas Auctions

Down 48.5% year on year as a result of auctions postponed due to the effects of demonstrations in Hong Kong and COVID-19 and to the effects of differences in category on the scale. (Auction category last year was watches; auction category this year was jewelry.)
[Auctions held]
Diamond auctions: two events (September, November 2019)
Jewelry auctions: two events (September, November 2019)

Japan Auctions

- Down 19.6% year on year due to auction postponements, auction cancellations, and other factors

[Auctions held]
SBA: Online auctions began in March. The transition to the online platform was completed in April. Volumes fell for several reasons, including restrictions imposed on numbers of items listed.
THE EIGHT AUCTION: Suspended from March

- SBA bid rates remain high, even after moving SBA entirely online.

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Our Response to COVID-19

Financial Results Presentation for the Third Quarter Ended May 31, 2020



Our Response to COVID-19

Purchases	**In-office buying**	**Nanboya/BRAND CONCIER** • Of 71 total offices, 57 closed temporarily. At one time (April 18-May 6), only 14 offices were open and operating. • We launched the Quick Sell online buying service on May 15. **Hakkoudo**: Operated by appointment only during the state of emergency (Daimaru Umeda and Sendai offices were closed temporarily)	
	In-home/offsite buying	**In-home buying**: Operating as usual	**Offsite buying**: Adapting to circumstances
Sales	**Auctions**	**Japan SBA** • Online auctions began in March (conducted simultaneously with offline auctions). • Auctions on an experimental basis went completely online in April and May (with restrictions on the numbers of items listed). **SBA Hong Kong**: Planned February auctions were delayed to July (due in part to the effects of demonstrations) **THE EIGHT AUCTION**: Suspended March–June	
	Retail	**ALLU** • Both Ginza and Shinsaibashi stores closed temporarily. • The frequency of order shipments from the e-commerce site was reduced to twice weekly.	
Other	**Employees**	• In general, employees worked from home, including standby at home, in regions subject to the state of emergency.	
	Finances	• Overdraft limit increased by 5.7 billion yen*. *Including June increase Line of credit of more than 10 billion yen secured, counting existing commitment lines	

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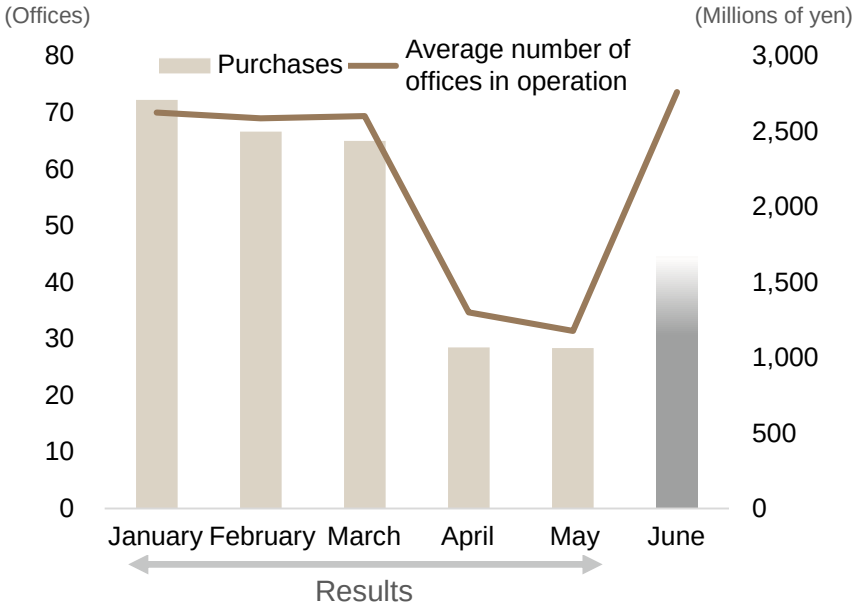
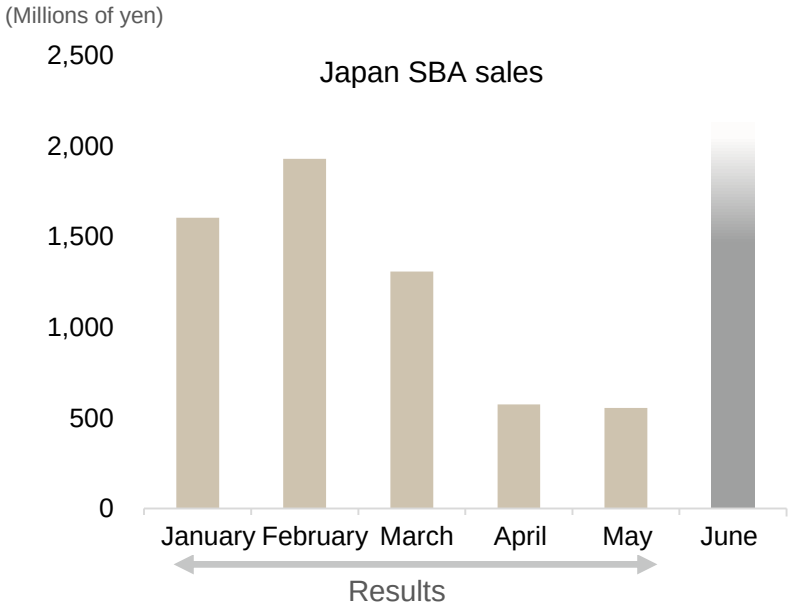
COVID-19's impact

- ✓ Due to the state of emergency, at one time (April 18–May 6), only 14 Nanboya and BRAND CONCIER offices were open and operational.
- ✓ Japan SBA moved entirely online in April. Sales fell, due in part to restrictions imposed on numbers of items listed during the migration period.
- ✓ **Both purchases and auction sales in June showed signs of recovery.**

* Monthly figures are for reference only.



* Figures for Nanboya and BRAND CONCIER



* Japan SBA sales (excluding overseas vendor sales from limit bids)

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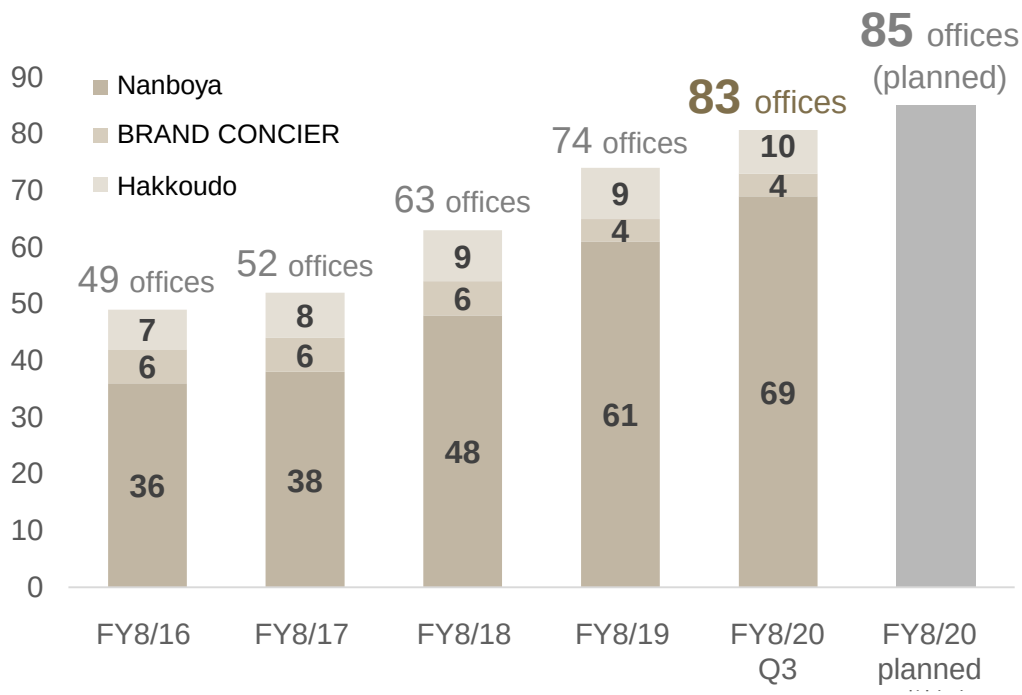
Topics

Financial Results Presentation for the Third Quarter Ended May 31, 2020



Purchasing

New Buying Office Openings



☐ New office openings through Q3 FY8/2020

Nanboya: 11
BRAND CONCIER: 1
Hakkoudo: 1

* Three Nanboya offices and one BRAND CONCIER office closed for various reasons, including expired term of contract.
* Excludes Hong Kong offices.

☐ Q4 planned store openings

- Nanboya Okayama Ekimae (opened in June)
- Nanboya Melsa Sakae (relocation of Nagoya Sakae Office), etc.

▶ Proceeding according to plan, despite minor delays in openings due to the temporary closure of commercial facilities

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Growth in Buying Facilities: Overseas

☐ Overseas subsidiaries (sub-subsidiaries)

Valuence International USA Limited
Location: United States
Established October 2019; investment completed January 2020

Valuence International Europe S.A.S
Location: France
Established March 2020; investment completed March 2020

Valuence International Singapore Pte. Limited
Location: Singapore
Established December 2019; investment completed June 2020

▶ Key roles: Development of business partners taking part in auctions including consignments
+
Development of local buying offices

☐ Status of Nanboya Hong Kong

- Buying began in July 2019.
- Steady increase in customers through marketing, primarily on social media
- Number of customers and amount of purchases increased rapidly due to a strong demand for cash driven by COVID-19.
- Operating income projected to move into positive territory about one year after opening

▶ In response to the success of the first office, plans call for opening a second office to capture new customers.

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Purchasing

Expansion and enhancement of buying services

Changing consumer needs and behaviors due to COVID-19

- ✓ Growing need for cash flow to cover living expenses, company operating expenses
- ✓ Reluctance to venture out, etc.

▶

Responding through existing services and the launch of new services

- ✓ Supporting individuals and businesses through buying services
  An opportunity to secure high-quality inventory

☐ Continued in-office buying

In-home buying: normal operations
Offsite buying: case by case decisions
In-office buying: certain offices continuing to operate in accordance with national and local government policies

▼

Operating under a structure that balances employee health and customer cash flow needs

☐ Launching Quick Sell



- Enables customer appraisal and sales from home
- Peace of mind secured through videoconferencing with concierges

☐ Corporate buying



- Enhancing structures for buying corporate inventory and office assets, such as works of art
- Enables payments as fast as same-day.

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Selling

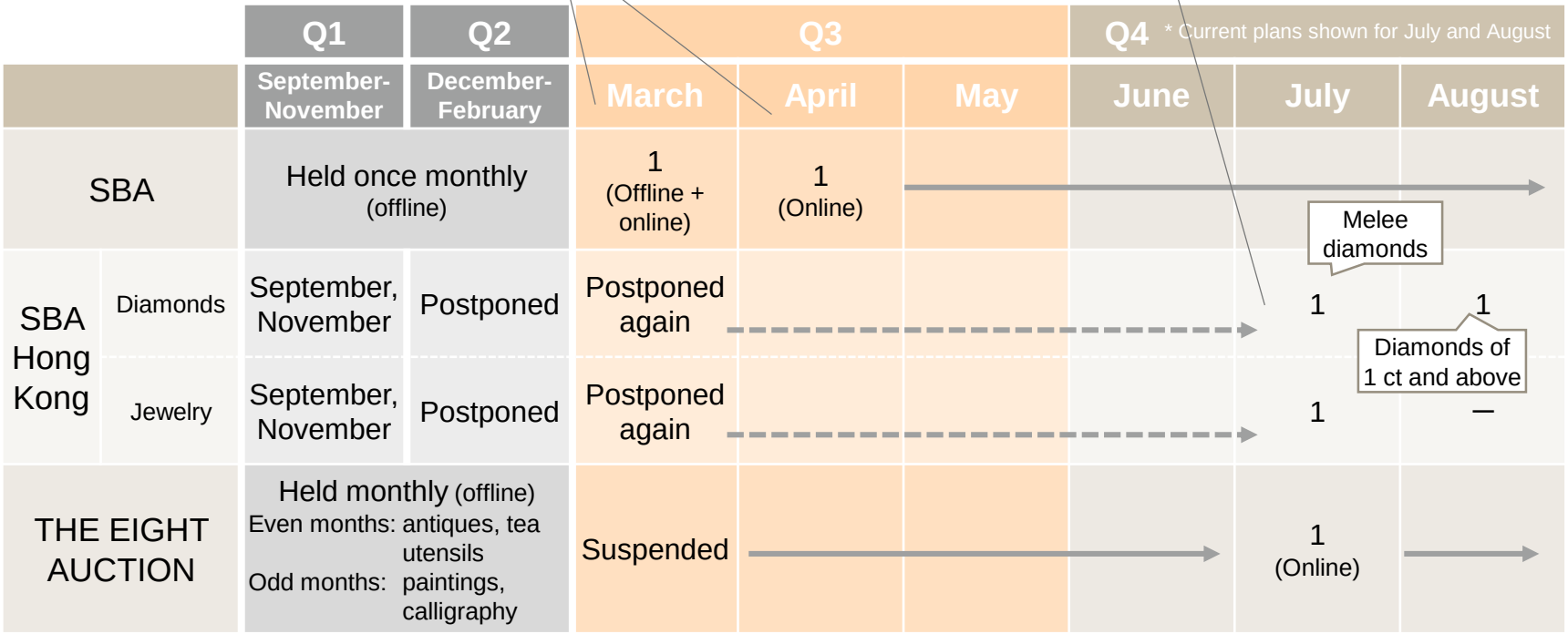
Auctions

Auctions held/planned

Online platform launched
Offline and online auctions held simultaneously

Full migration online, starting at a small scale/restrictions on numbers of items listed

To mitigate the effects of COVID-19, plans call for eliminating all offline activity except viewing (in Japan and Hong Kong) and holding auctions based on the advance limit bid method.



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Auctions

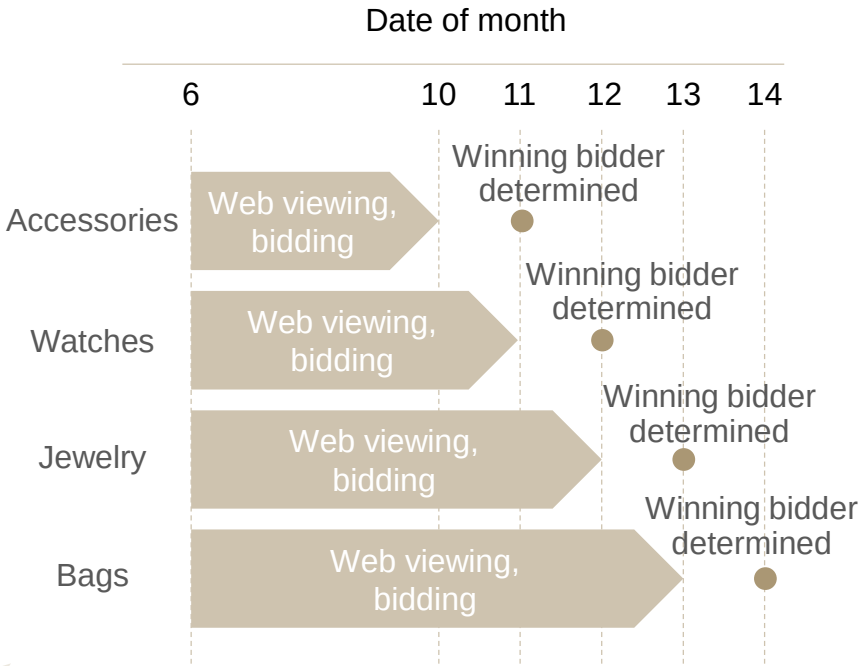
Japan SBA

☐ Full migration to online starting April 2020

- Conducted simultaneously with offline auctions in March and moved completely online from April
  ⇒ Allowed auctions even during the COVID-19 pandemic
- The migration proved smooth, due in part to the rapid shift toward online services throughout society.
- Acceptance of consignment sales from domestic and overseas partners has begun.
- Domestic and overseas partners have been able to participate in auctions under the same conditions since June. (Schedule moved up from September)

Moving online makes it possible to expand the volume of items listed.

⇒ Goal of holding auctions multiple times a month in the future



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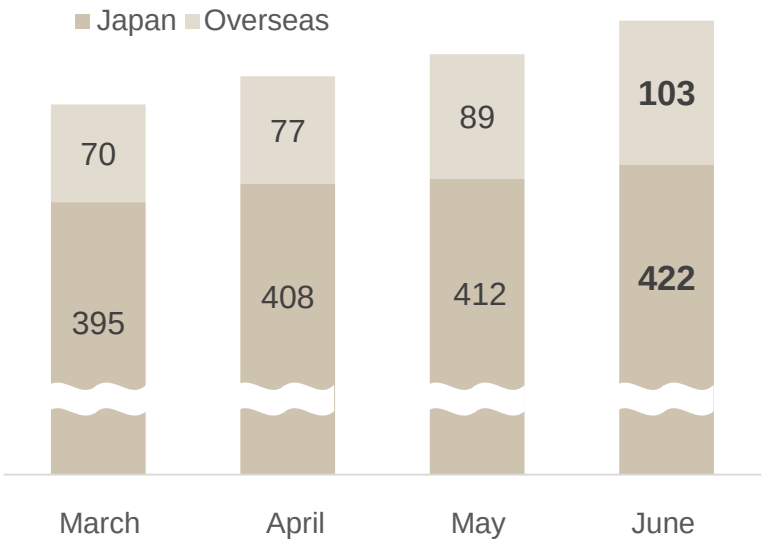
Auctions

Japan SBA

☐ Numbers of partner members

- Steady growth in numbers of partners despite restrictions on sales activities due to COVID-19
- More members means more auction participants.

Trends in numbers of partner members



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Auctions

SBA Hong Kong

✓ Postponed due to Hong Kong demonstrations and COVID-19
⇒ Planned for July and August

* Jewelry auction
Finished in July; handled since then through SBA online auctions in Japan

* Diamond auctions
Implemented in light of immigration restrictions imposed due to COVID-19

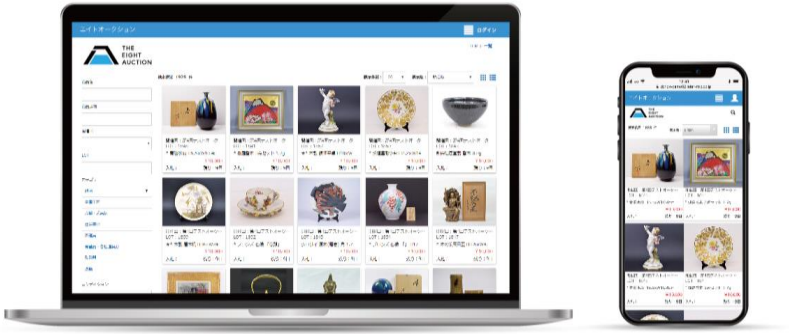
- July: Melee diamonds listed for Chinese partners
- August: Diamonds of 1 ct and above listed for Indian partners residing in Japan and Hong Kong

THE EIGHT AUCTION

✓ Suspended in March–June due to COVID-19
⇒ Fully resumed online in July

✓ Acceptance and sale of consignment articles have also begun.

▶ Targeting global sales channel expansion through merger with STAR BUYERS AUCTION



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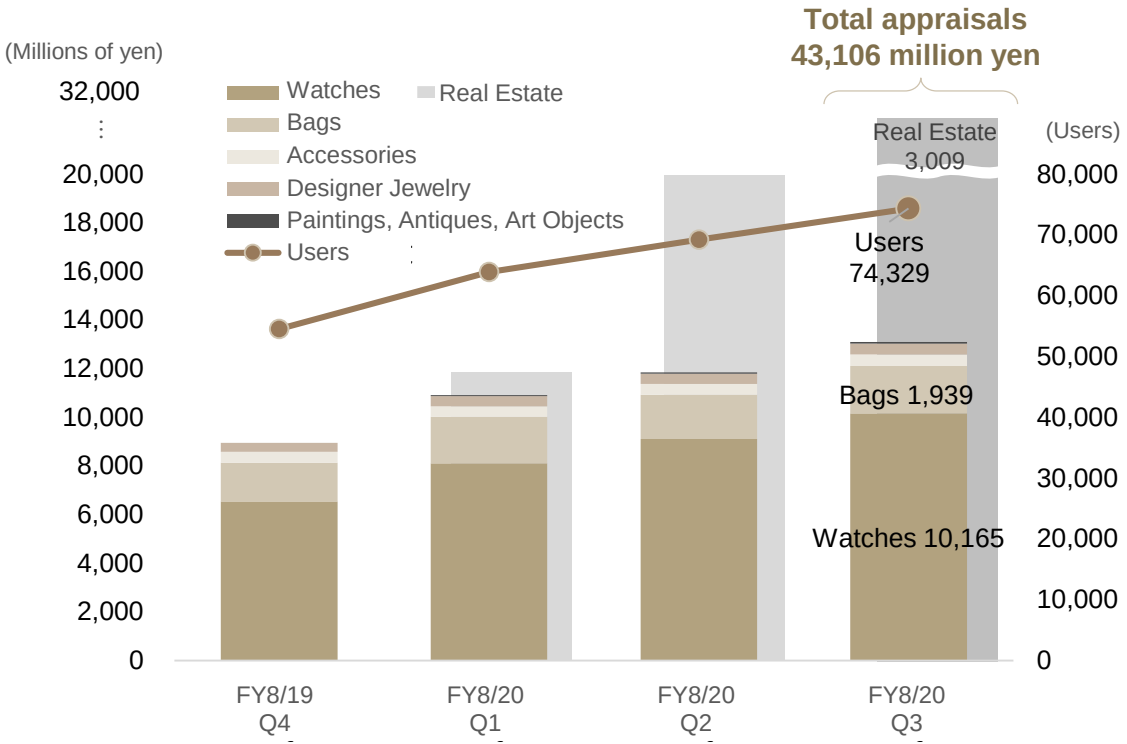
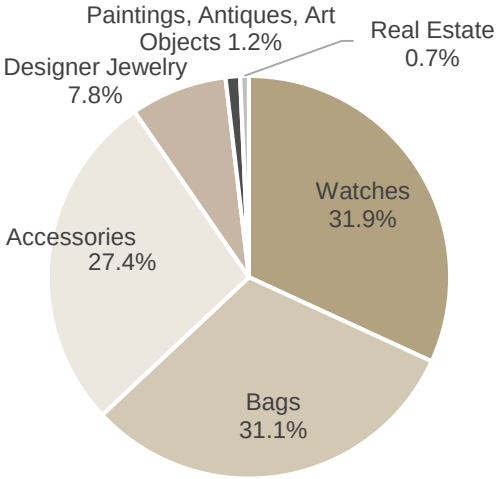
Efforts to improve LTV

Trends related to Miney, the Asset Management App

Downloads and Total Appraisals



Total number of appraised items reaches approx. 75,000.



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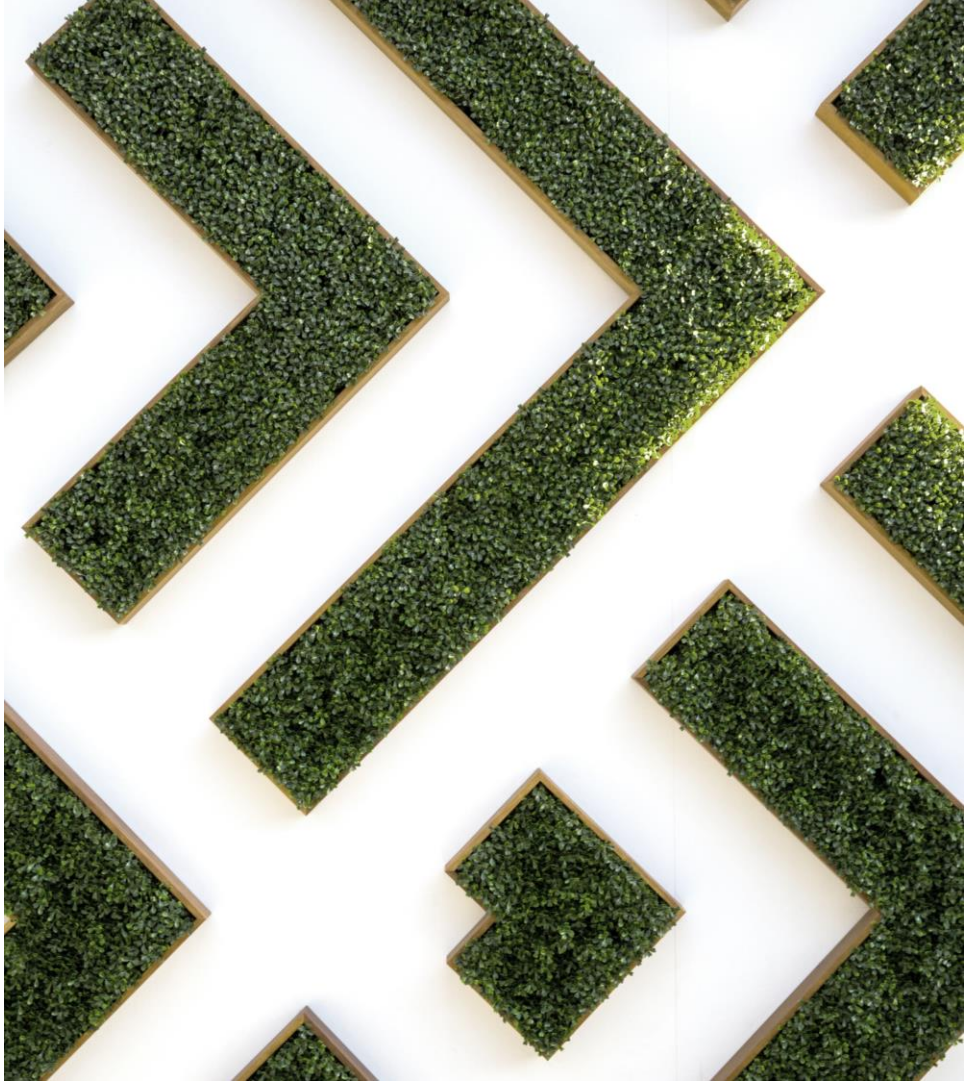
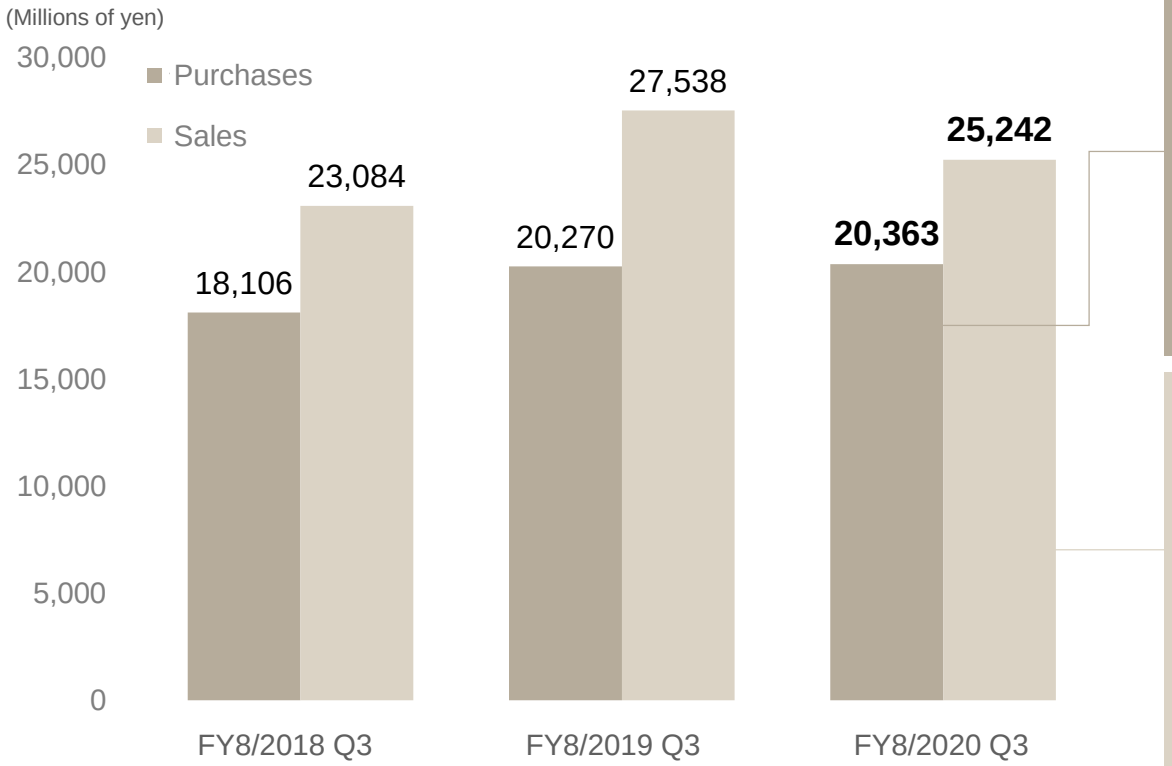
Appendix

Financial Results for FY8/2020 Q3 (Cumulative)



Purchases and Net Sales



Purchases

- Grew 0.5% year on year due to various factors, including increased purchases of scrap gold and bullion accompanying rising gold prices
- Slow growth due to the appreciable impact of temporary closure of some buying offices in April and May

Sales

- Declined 8.3% year on year for various reasons, including decreased purchases in major categories and postponement, suspension, or reduced scale of independent auctions
- However, sales of scrap gold and bullion increased (wholesale).

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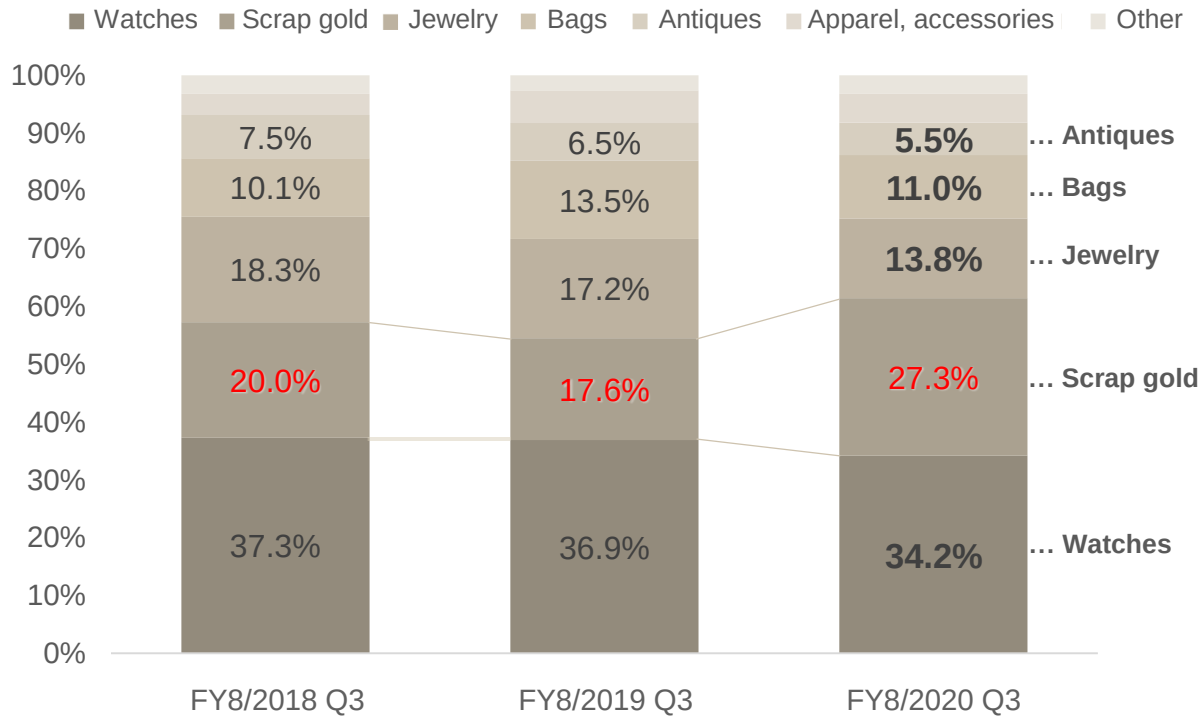
Net Sales by Category



Net Sales by Category

- The share of scrap gold grew 9.7 pts. due to expanded sales of scrap gold and bullion accompanying rising gold prices and decreased auction sales in other major categories.
- Due to various factors, including postponed auctions in Hong Kong, jewelry accounted for a lower share of sales.

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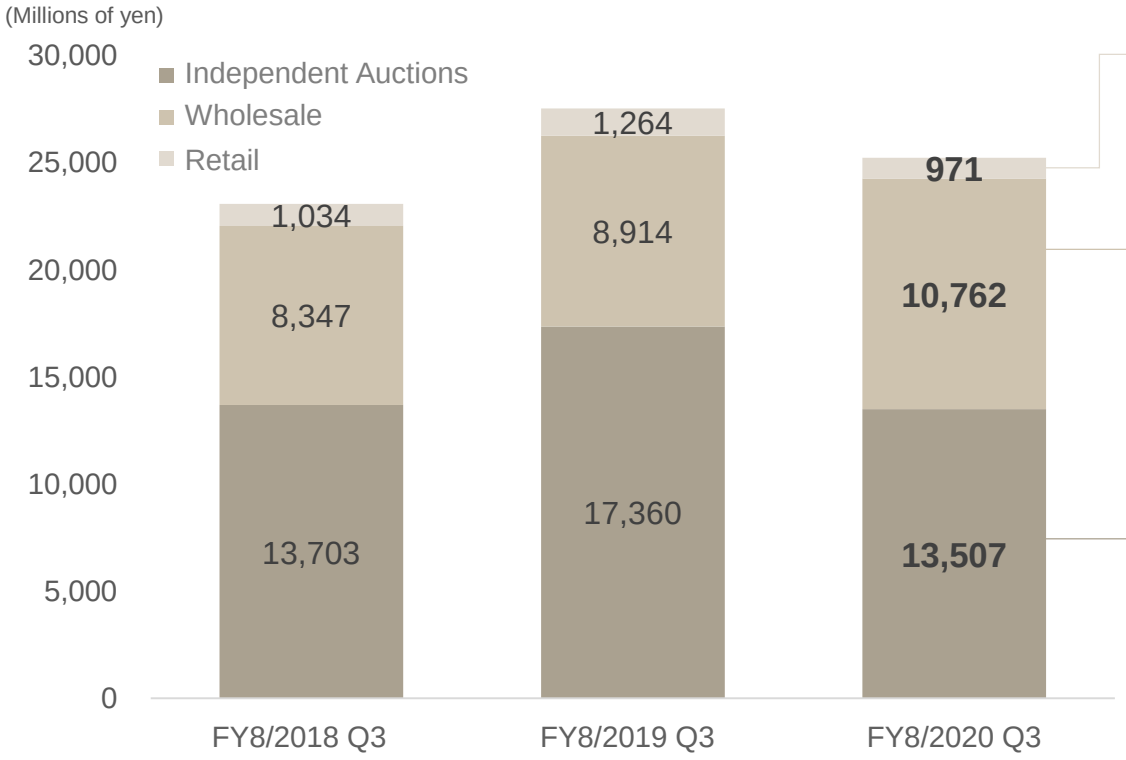
Net Sales by Channel (to B, to C)



Retail

- Declined 23.1% year on year due to the appreciable impact of temporary office closures in April and May.

Wholesale

Grew 20.7% year on year due to a dramatic increase in sales of scrap gold and bullion.

Independent Auctions

Declined 22.2% year on year due to the effects of various factors, including decreased purchases in major categories, suspension of THE EIGHT AUCTION, and restrictions imposed on numbers of items listed accompanying the migration of SBA online in Japan.

* The portion of domestic SBA sales to overseas partners is included under Wholesale.

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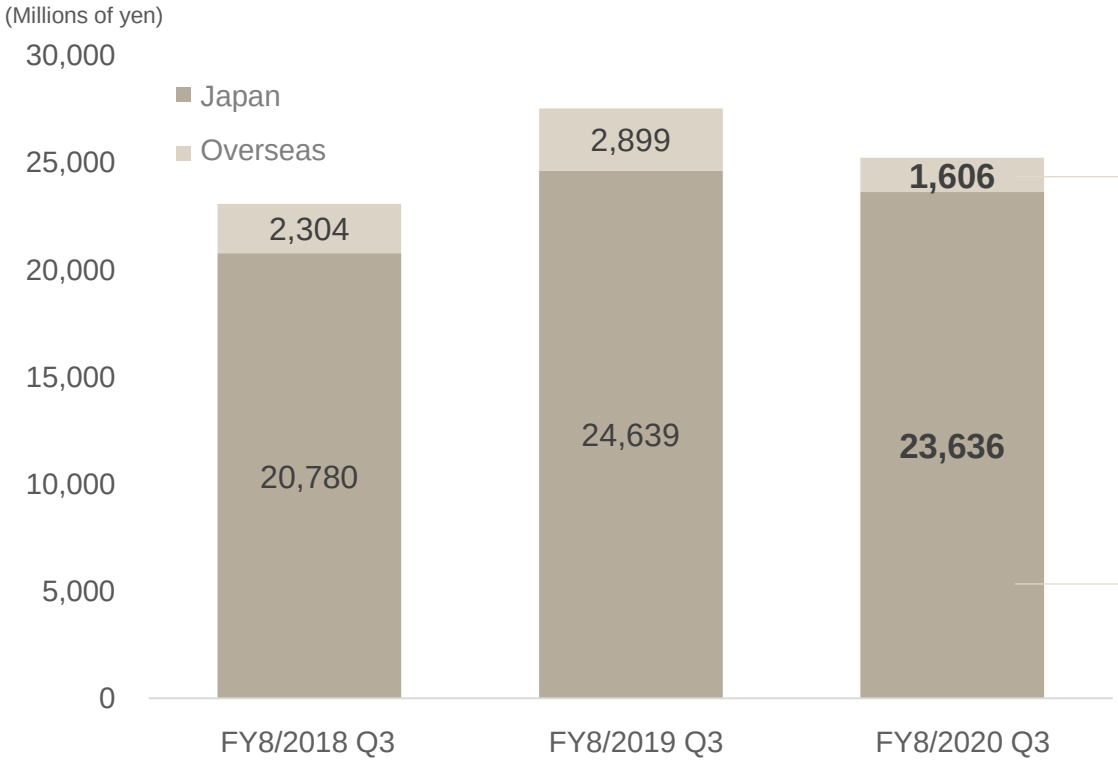
Net Sales by Channel (Japan, Overseas)



Overseas

- Declined 44.6% year on year due to various factors, including fewer auctions held in Hong Kong and the smaller sales scale of jewelry auctions held this year compared to watch auctions held last year.
- Lower exhibition sales due to COVID-19 also had an impact.

Japan

- Fell 4.1% year on year due to the appreciable impact of decreased auction sales, despite growth in sales of scrap gold and bullion.

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- Financial information, sales composition by category, sales by channel, and auction results presented for FY8/2017 are for reference purposes. 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 and plan implementation may differ from forecasts due to developments in global conditions, 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 Presentation for the Six Months Ended February 29, 2020.

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Valuence

Valuence
Group

Encouraging people to live in a way that is true to themselves.

