

Business Plan and Growth Potential

Vega corporation Co., Ltd. / Securities code: 3542

May 2022



VEGA corporation

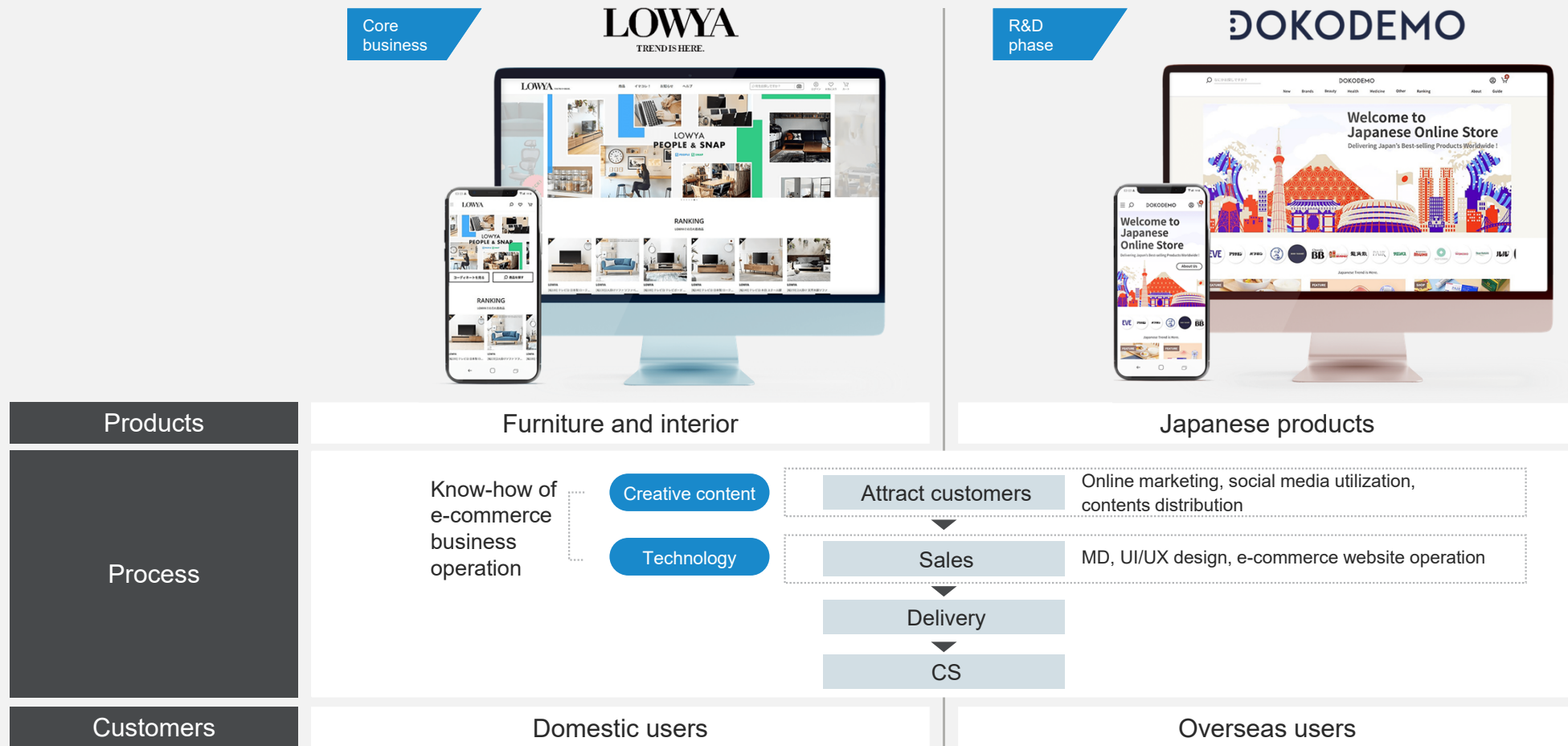
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1

Business Description

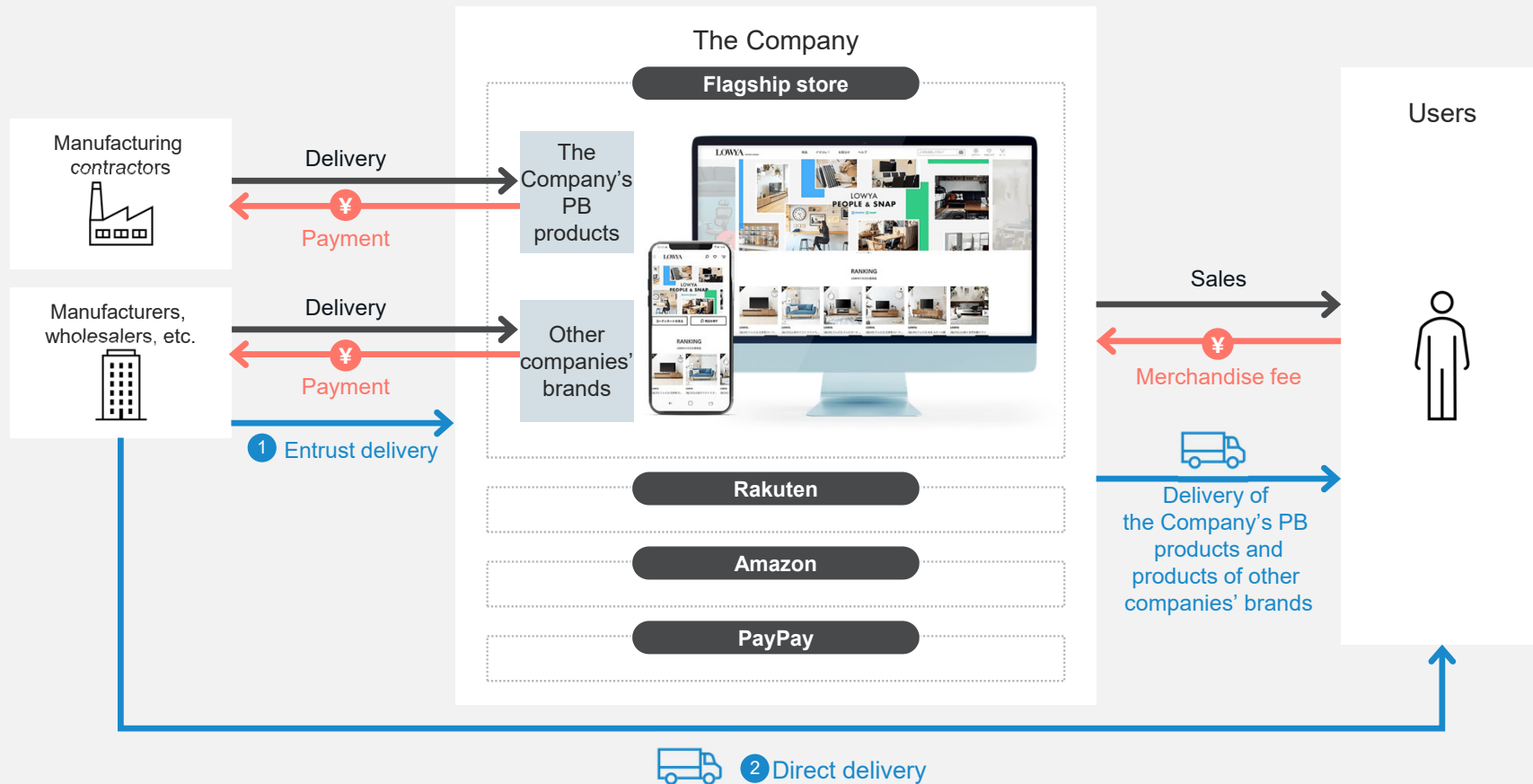
Overview of Business

Promote the two businesses by exercising the power of creative content and technological know-how acquired through LOWYA's D2C* business

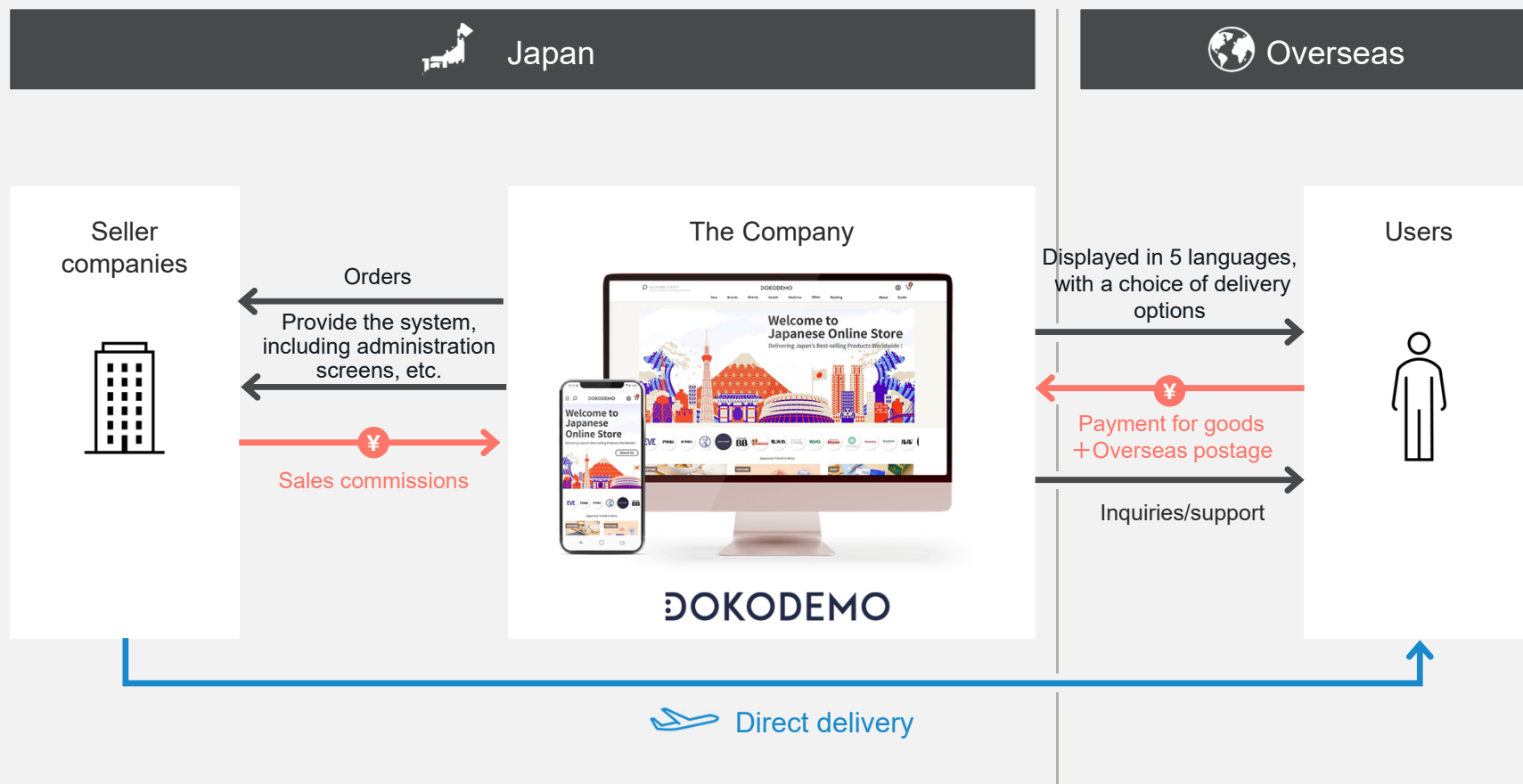


* D2C (Direct to Consumer) is a format of business that involves direct sales exclusively online.

In addition to offering private brand (PB) products at the flagship store (the Company's e-commerce website) and other e-commerce marketplace stores, products of other companies' brands are offered at the flagship store



Operate a cross-border e-commerce platform with all functions including settlement, logistics and CS, which enables seller companies to offer Japanese products to overseas users

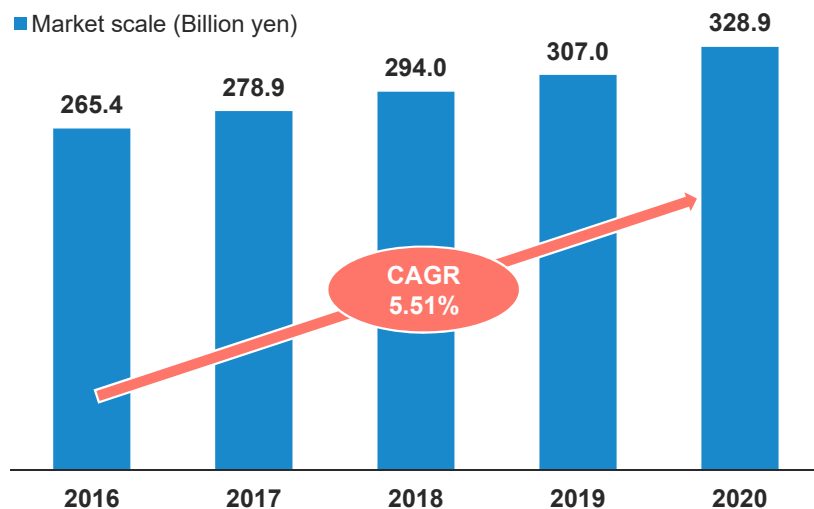


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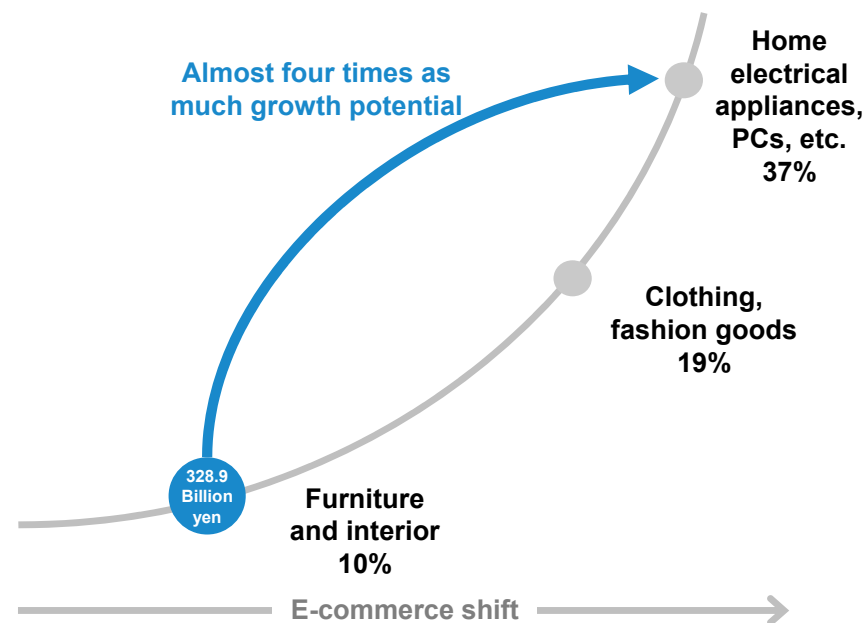
Market Environment

The furniture and interior e-commerce market is a growth market, expanding with a CAGR of 5.51% (2016-2020)
 The rate of e-commerce shift remains relatively low compared to other products, and the further progress of e-commerce shift is forecast

E-commerce market (furniture and interior)

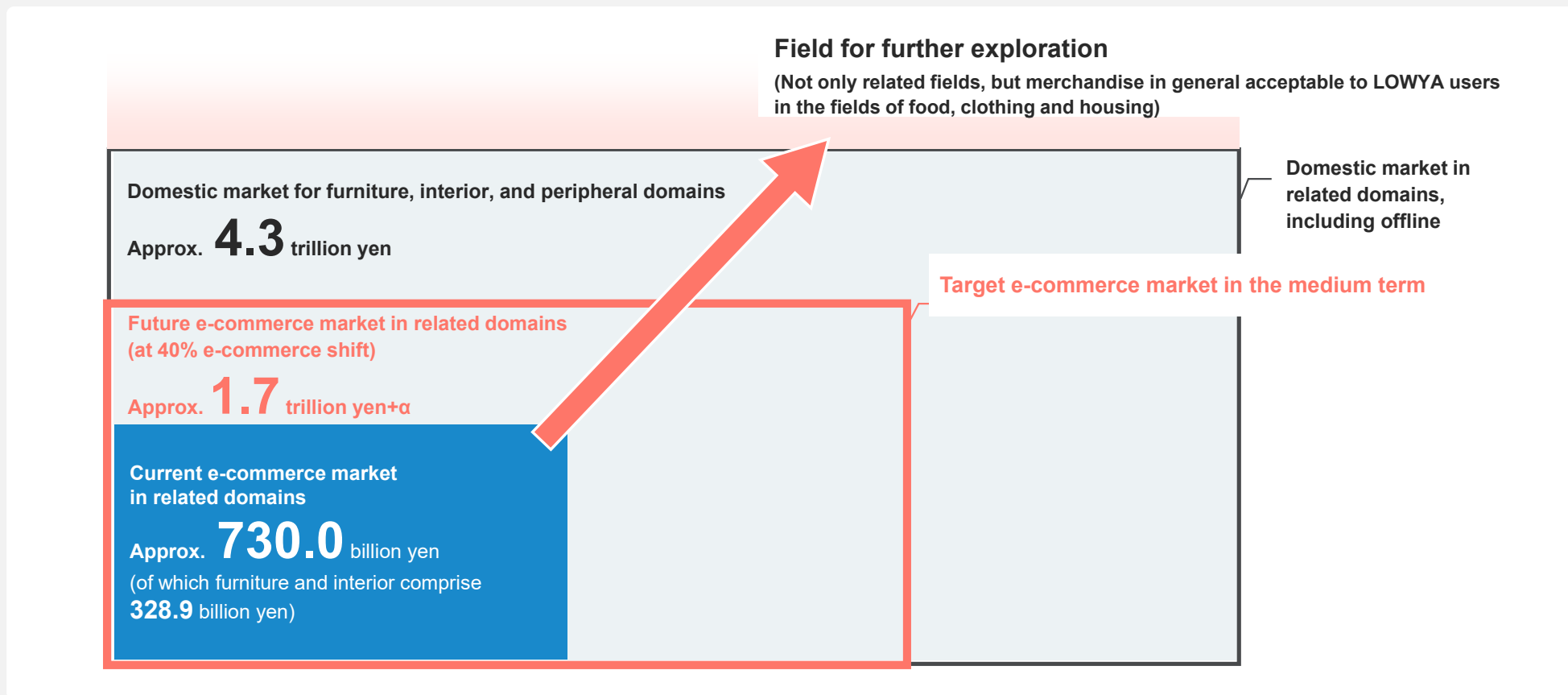


Comparison of the rate of e-commerce shift by product (2020, Japan)



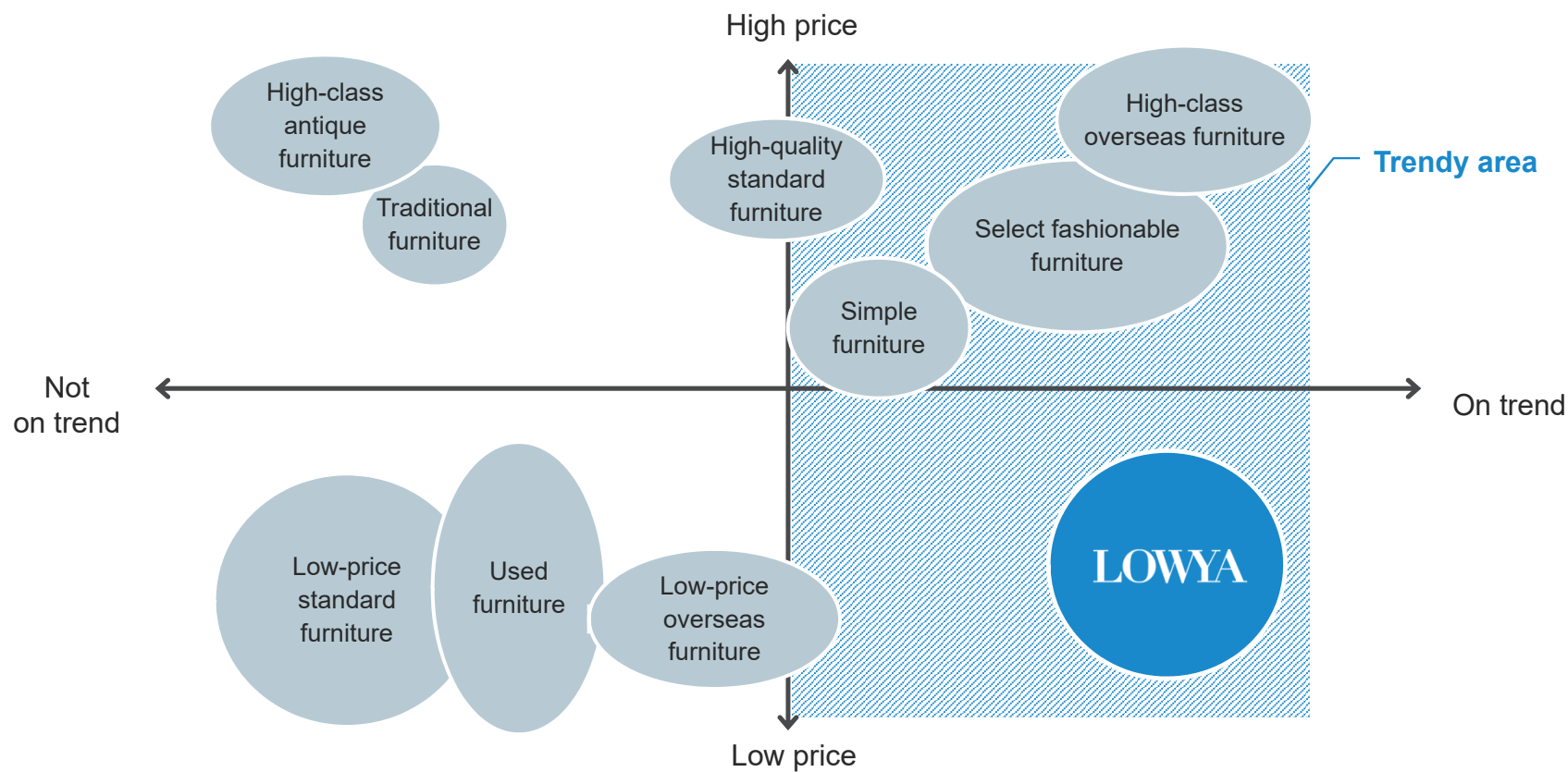
* Source: Figures for furniture and interior products were prepared by the Company, based on "Home Furnishings in Japan, May 2021" issued by Euromonitor.
 Figures for other products were prepared by the Company, based on "FY2020 E-Commerce Market Survey" issued by the Ministry of Economy, Trade and Industry.

Target market is set to expand, driven by a greater range of products offered and an increasing shift to e-commerce, which presents significant room for growth



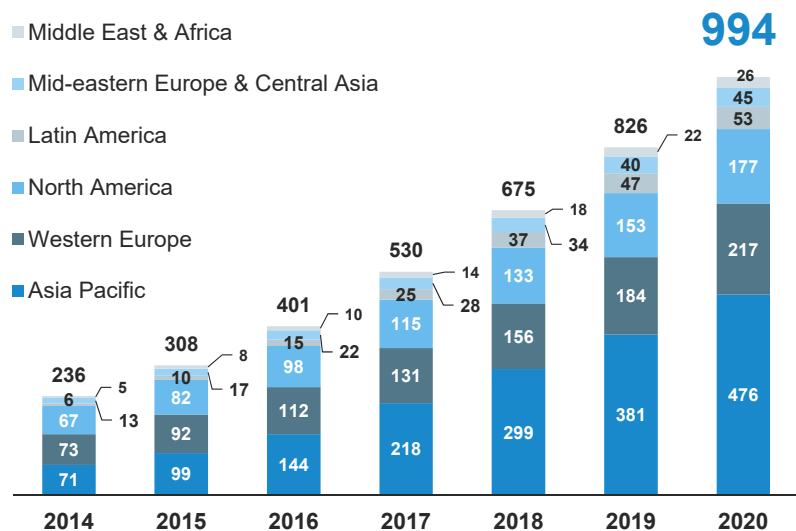
* Source: Related domains include the furniture and interior market, home appliances excluding large home electric appliances, plastic goods for daily use and sundries. Figures for the furniture and interior market and e-commerce shift were estimated by the Company, based on "Home Furnishings in Japan, May 2021" issued by Euromonitor. Figures for home electrical appliances were prepared based on "FY2020 Electrical Machinery Outlook" issued by the Japan Electrical Manufacturers' Association with the exception of room air-conditioners, electric refrigerators, and electric washing machines. Figures for plastic goods for daily use and sundries were prepared based on "2019 Yearbook of Current Production Statistics - Paper, Printing, Plastics Products and Rubber Products Statistics" issued by the Ministry of Economy, Trade and Industry. Figures for e-commerce shift for home electrical appliances, plastic goods for daily use and sundries were estimated by the Company, based on "FY2020 Industrial Economic Research Commissioned Project (E-Commerce Market Survey)" issued by the Ministry of Economy, Trade and Industry.

Establishing a position in the “trendy & low price” space of the furniture and interior products market



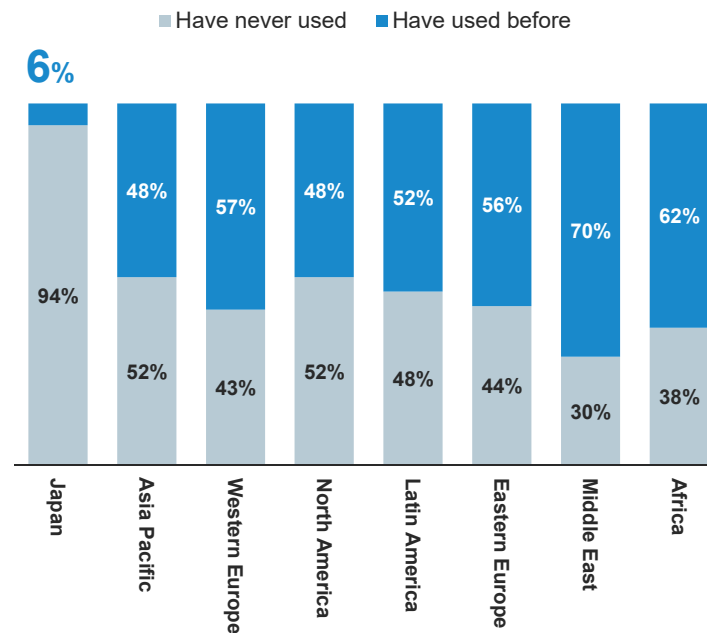
Even with a platform specialized for seller companies in Japan, massive markets present abundant opportunities in the cross-border e-commerce business

BtoC cross-border e-commerce market scale (billion dollars) *1



BtoC cross-border e-commerce is a giant, trillion-dollar market

Cross-border e-commerce usage by region (2018) *2



Only around 6% of Japanese have experience using cross-boarder e-commerce, but in other regions it is used by more than half the population

Sources: *1 Prepared by the Company, based on "Global Cross Border B2C e-commerce Market 2020: Report highlights & methodology sharing (2016)" issued by AliResearch

*2 Prepared by the Company, based on "PayPal Cross-Border Consumer Research 2018 Global Summary Report (2018)." Japan is included in "Asia Pacific."

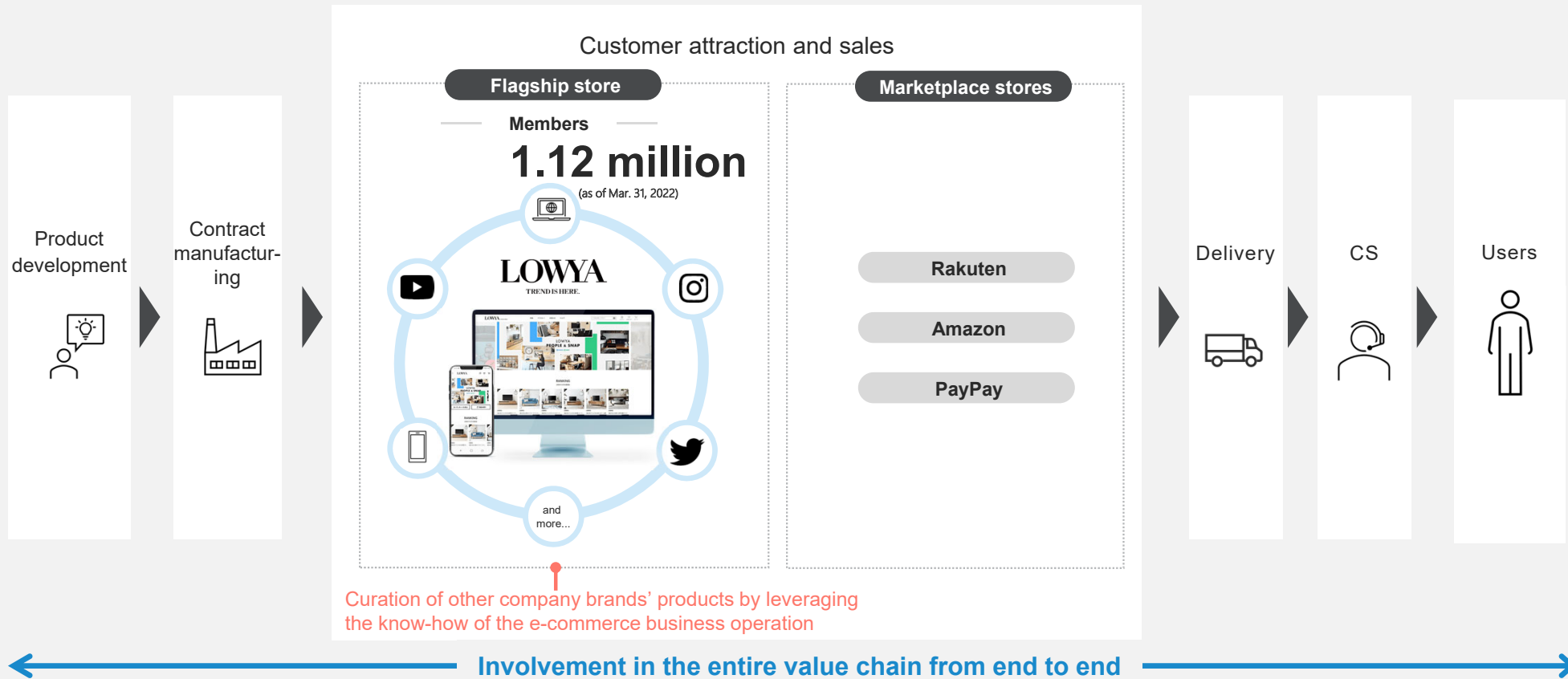
3

Competitive Advantages

LOWYA Business

End-to-End Business Model

D2C model in which the Company handles everything from planning to sales and attracts customers mainly through its flagship store
Expanding the offering of other company brands' products by leveraging the flagship store's customer attraction capabilities



Continue to release design- and trend-conscious new products while expanding product categories primarily of other companies' brands

Products of the Company's PB



Products of other companies' brands



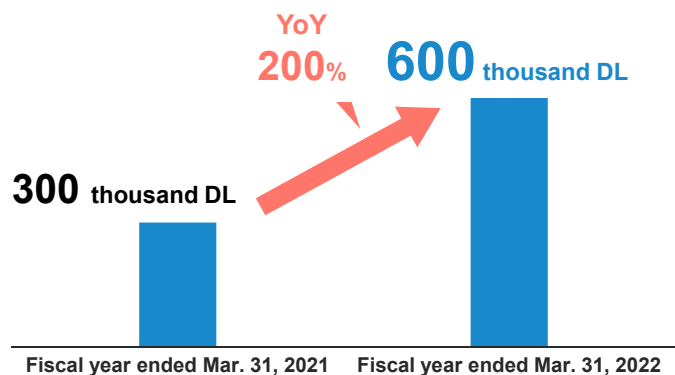
The in-house official apps and social media operation function as the key to attracting customers

Official apps



Over **600** thousand downloads

(As of Mar. 31, 2022)

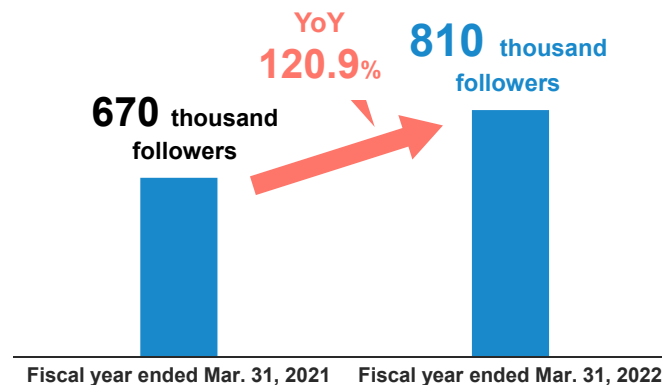


Instagram



Over **810** thousand followers

(As of Mar. 31, 2022)



With focus on AR/VR, the Company is internally developing services one after another that change the furniture purchasing experience

LOWYA AR

- Support comparison and consideration in e-commerce by using AR
- Recreate the texture of fabrics and the back side of products by using the 3D model generated by the in-house developed system



LOWYA360

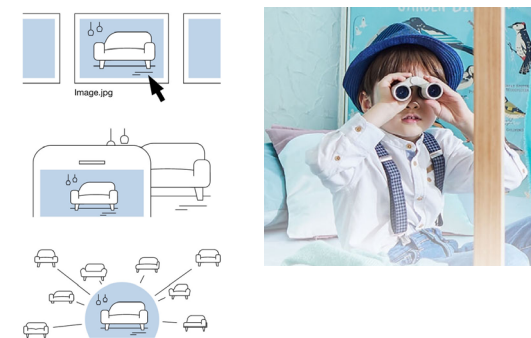
- A new coordination proposal that enables users to have a 360-degree view of an entire 3D space with the 3D model of LOWYA AR
- Support VR mode



* Everything in the image is a 3D model

LOWYA Search by Appearance

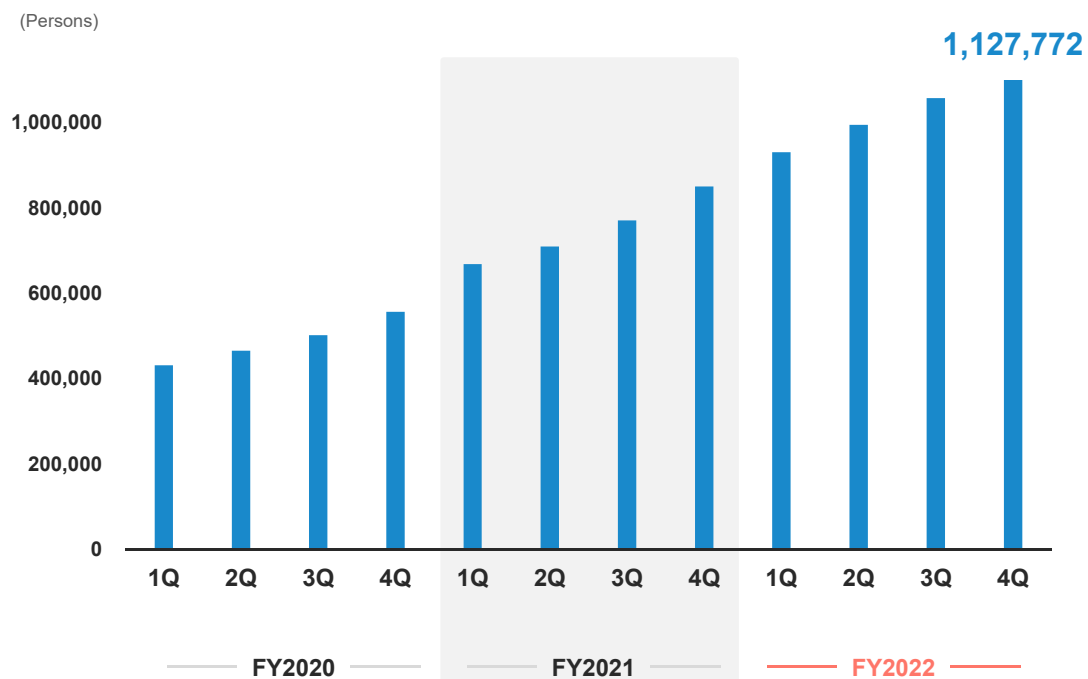
- Image search function using deep learning that identifies the shape and color of interior design in an image and recommends similar products from LOWYA



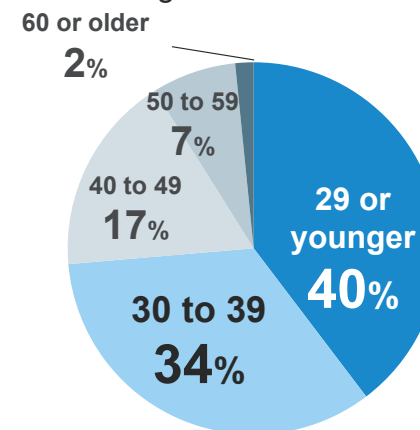
LOWYA Business **Increase in Flagship Store Members**

The total number of members of the flagship store is steadily increasing, with strong support of those in their 20s and 30s, which is the main target group

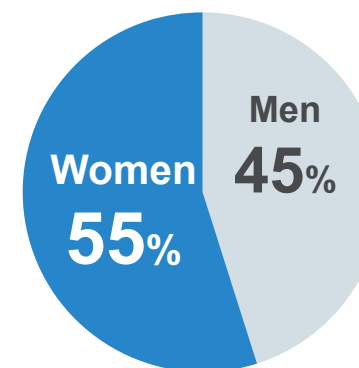
Total membership of the flagship store



Age distribution



Ratio of men to woman



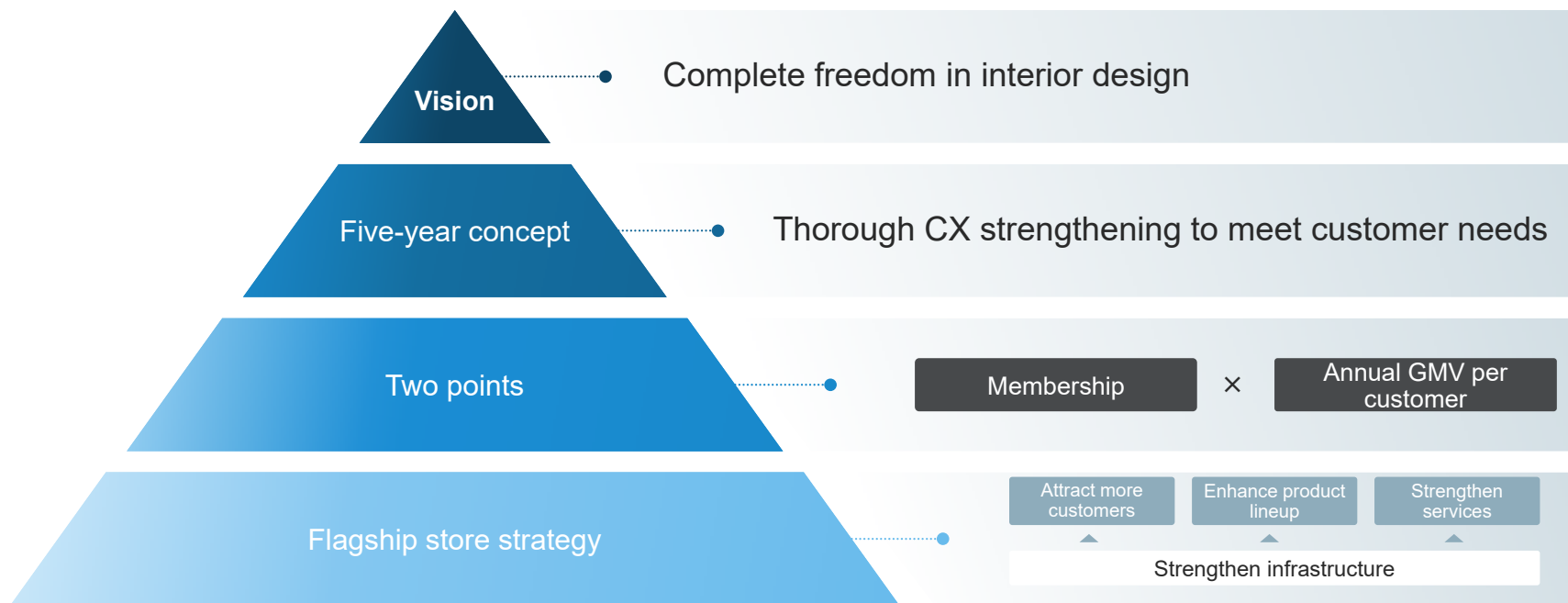
* The total number of members reflects all members who enrolled at the flagship store. Age distribution and the ratio of men to women are based on the data of members who made purchases at the flagship store for the 12 months ended in the most recent quarter and answered their attributes.

4

Business Plan

Thorough strengthening of customer experience (CX) at the flagship store based on “membership” and “annual GMV per customer” as points

LOWYA
TREND IS HERE.



Attract more customers

Step up promotional activities and increase recognition to expand the number of visitors and members



SEO

Enhance the influx of organic search



Social media

Acquire new followers



Online advertising

Approach new users

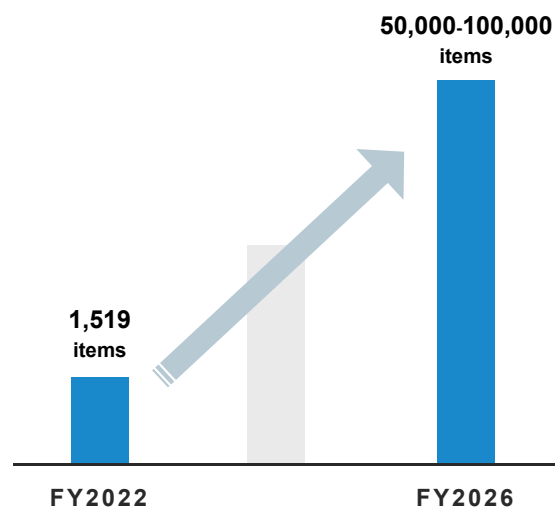


TV commercial trial

Scale-up approach to increase recognition

Enhance product lineup

Enhance the lineup of other companies' brands and enrich the assortment of sundries to expand the number of items and categories (pilot test already started from the fiscal year ended March 2021)



* The number of items is for illustrative purposes only and may differ from the actual number.

Strengthen services

Realize LOWYA's ideal customer experience to improve the ratio of repeat purchasing and maximize annual GMV per customer

Strengthen UI/UX

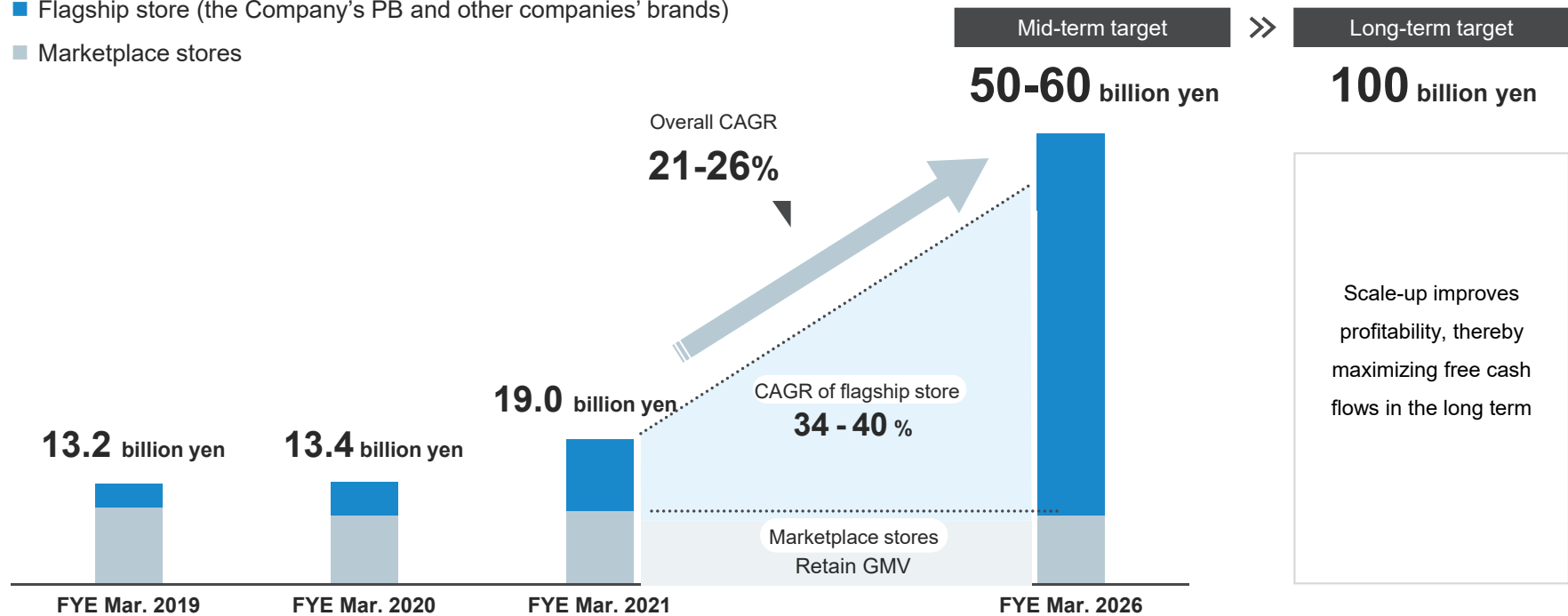
Strengthen delivery

Strengthen innovative services (AR)

Strengthen CX to increase “membership” and “annual GMV per customer” at the flagship store and achieve high GMV growth rates over a medium term

Changes in GMV

- Flagship store (the Company’s PB and other companies’ brands)
- Marketplace stores



Leverage cash flows arising from marketplace stores and the flagship store (the Company's PB) and interest-bearing debts to execute active investments for the flagship store strategy

Financing methods

1. Operating CF

- Operating CF from marketplace stores, a steady source of revenue with no need for additional investments
- Operating CF from the Company's PB products sold at the flagship store shifting from a launch phase to a revenue increase phase

2. Interest-bearing debts

- Interest-bearing debts amount to 1.0 billion yen
- Shareholders' equity amounts to 5.2 billion yen, sufficient borrowing capacity
- * As of March 31, 2022

3. Equity

- Not excluded as an option

Investment areas

**Strengthen CX of the flagship store
(the Company's PB + other companies' brands)**

Attract more customers

Enhance product lineup

Strengthen services

Strengthen infrastructure

- Strengthen SCM and fulfillment
- Improve systems

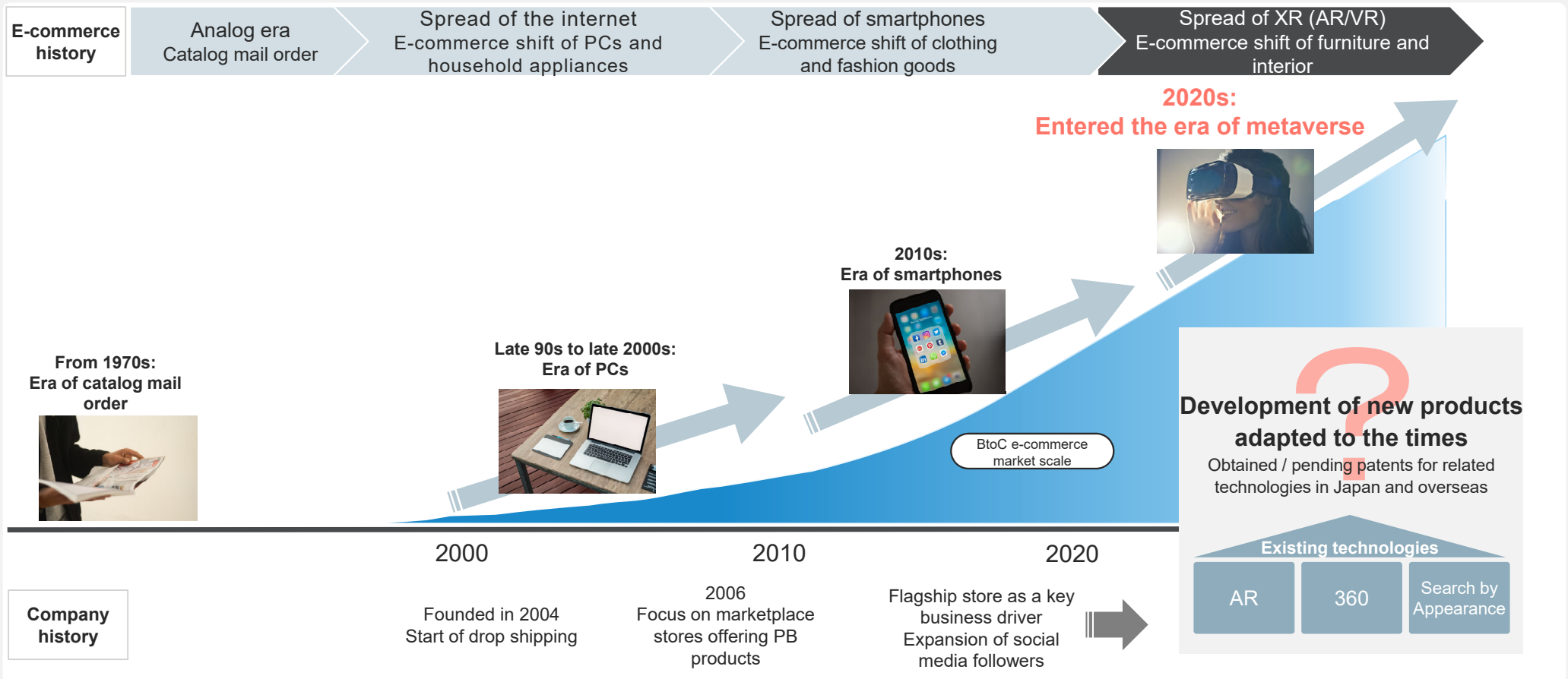
Complement strategies

External collaboration

- Startup investment
- Capital and business alliance
- M&A, etc.

Changes in Key Battlefield for Mail Order and E-Commerce

As we have entered the metaverse era, and the momentum for full-scale e-commerce shift is rising even in the furniture and interior domain where real-life perspectives are important, the Company will evolve into a platformer by developing products that adapt to changes



5

Earnings Structure

5-1

Company-wide

Difference in Sales Recognition Methods

LOWYA business is a D2C business of furniture and interior sundries*

DOKODEMO business is a cross-border e-commerce platform business that has a model that earns commissions according to the value of merchandise sold

LOWYA
TREND IS HERE.



* In the current trial phase, the above calculation formula is used to recognize sales of products of other companies' brands as well, in principle, though the method for recognizing sales of products of other companies' brands may be changed.

DOKODEMO



* D2C (Direct to Consumer) is a format of business that involves direct sales exclusively online.

* Due to the application of a new Revenue Recognition Standard, starting in the fiscal year ended March 31, 2022, net sales are recognized at a value obtained by subtracting the value of coupons used, marketplace points granted, etc. from the value of merchandise sold.

Net Sales

Net sales for the fiscal year ended March 31, 2022 grew higher than the pre-pandemic level, despite a reactionary decline from the previous year

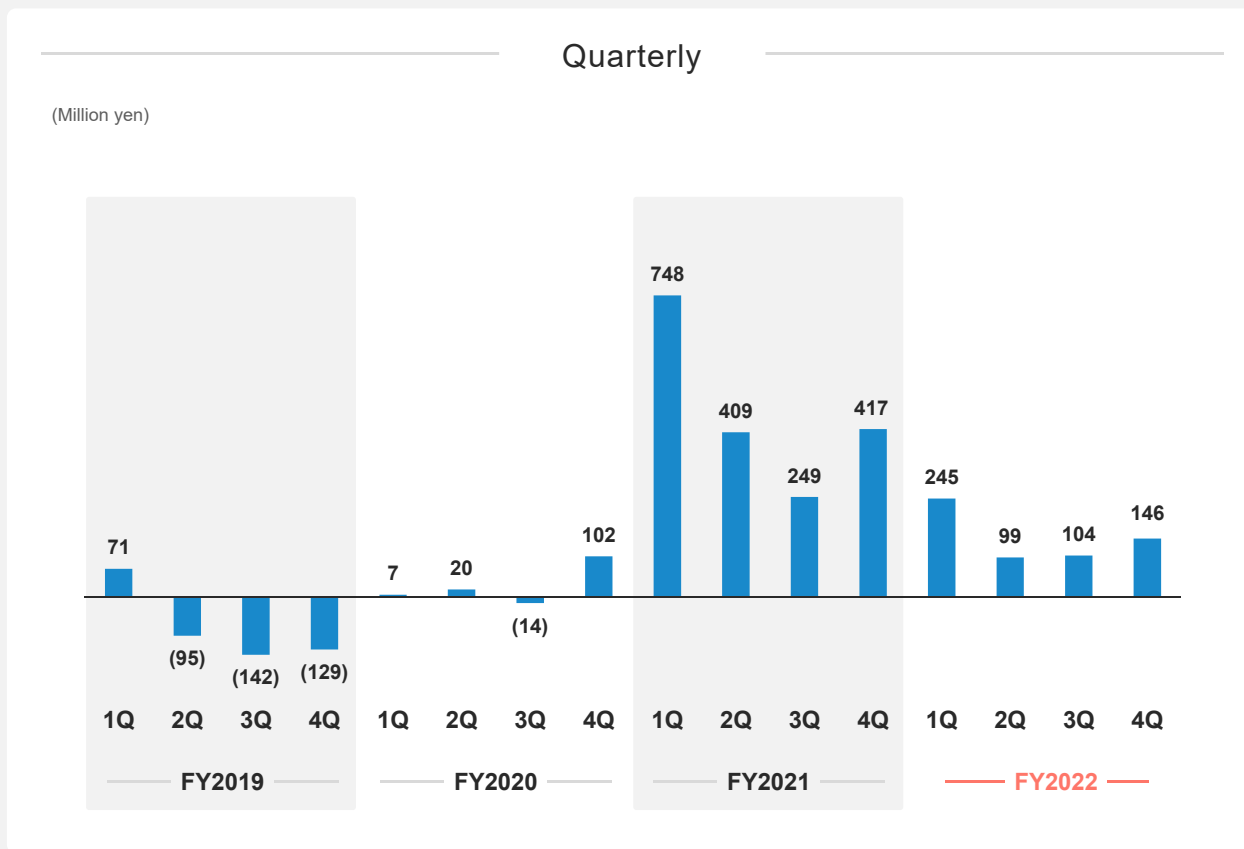
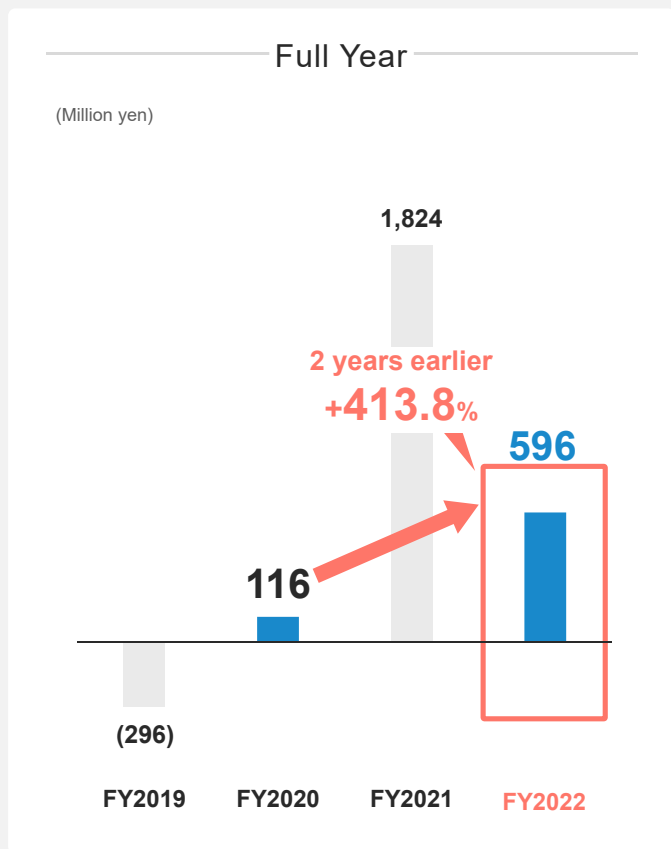


* Due to the application of the new Revenue Recognition Standard from the fiscal year ended March 31, 2022, net sales for the fiscal year ended March 31, 2021 and prior periods have been restated by retrospectively applying the new Revenue Recognition Standard.

* Due to the impact of the application of the new Revenue Recognition Standard for the DOKODEMO business, net sales for the three months ended June 30, 2021 have been partially revised.

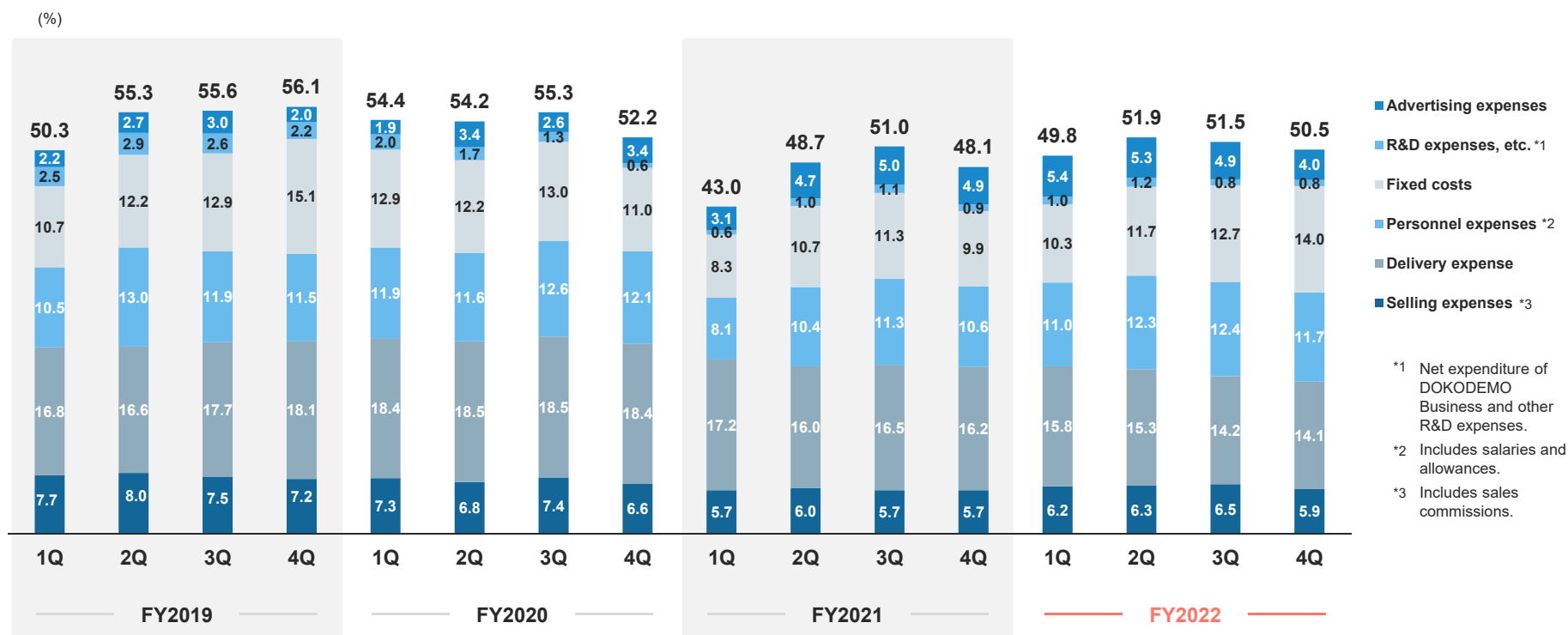
Operating Profit

Operating profit for the fiscal year ended March 31, 2022 landed above the pre-pandemic level, despite a reactionary decline from the previous year



Quarterly SG&A Expenses Ratio (against Net Sales)

The SG&A expenses ratio progressed steadily overall due to a decrease in both the selling expenses ratio and delivery expenses ratio, despite a rising fixed costs ratio and advertising expenses ratio resulting mainly from investment in the flagship store, compared to pre-COVID-19 pandemic levels



* The SG&A expenses ratio shows the ratio against net sales. Due to the application of the new Revenue Recognition Standard from the fiscal year ended March 31, 2022, net sales for the fiscal year ended March 31, 2021 and prior periods have been restated by retrospectively applying the new Revenue Recognition Standard. Furthermore, revenue related to DOKODEMO Business and to research and development expenses is excluded from net sales used as the basis for the calculation of the SG&A expense ratio, and therefore this data does not match the SG&A expense ratio on the statement of income.

5-2

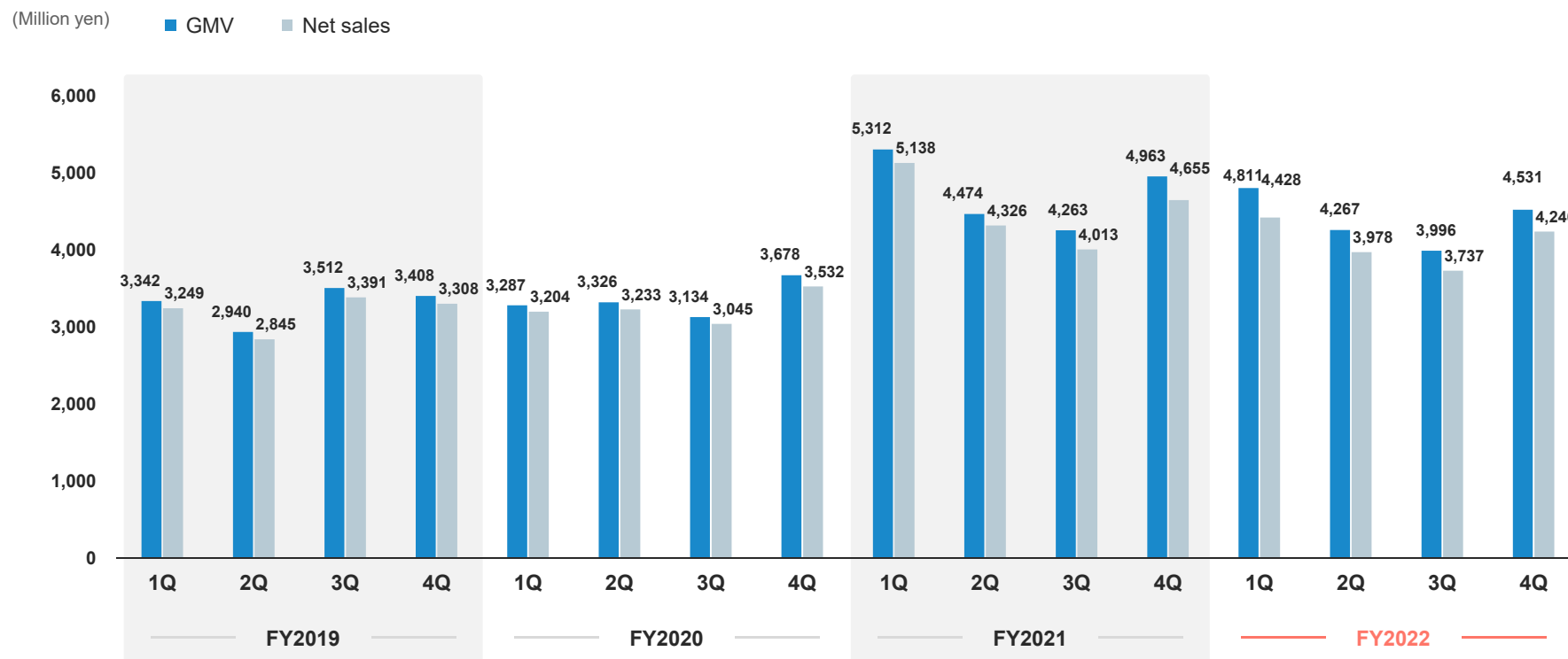
LOWYA Business

Membership of the flagship store has grown steadily, and the ratio of sales to repeat customers has increased solidly, indicating progress in our efforts to accelerate GMV growth

(Million yen)

Scope	Item	Timeframe used for calculation	Three months ended Mar. 31, 2021	Three months ended Mar. 31, 2022	YoY
Company-wide	Company-wide GMV (million yen)	Quarter	4,963	4,531	91.3% (-431)
Flagship store	Flagship store GMV (million yen)	Quarter	2,574	2,347	91.2% (-227)
	Membership (thousand people)	As of the end of the quarter	845	1,127	133.3% (+281)
	Ratio of repeat customers (based on GMV) (%)	LTM	18.6	23.1	124.2% (+4.5)
	Members: Average basket value (yen)	LTM	23,168	22,946	99.0% (-222)
	Guests: Average basket value (yen)	LTM	19,978	20,091	100.6% (+113)

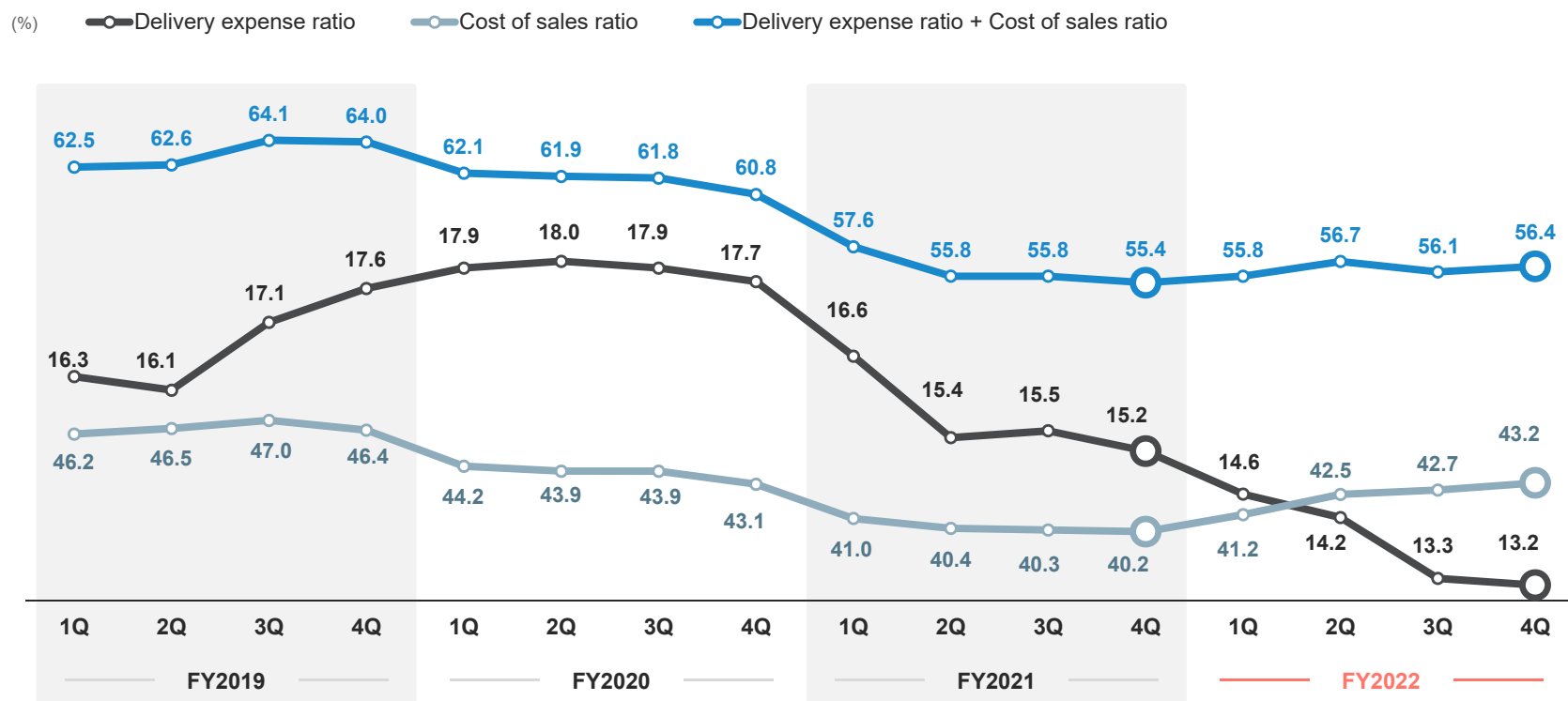
Although we confirmed growth in our capacity for attracting customers in the fiscal year ended March 31, 2022, we fell short of the previous year's results, which were a high hurdle



* Due to the application of the new Revenue Recognition Standard from the fiscal year ended March 31, 2022, net sales for the fiscal year ended March 31, 2021 and prior periods have been restated by retrospectively applying the new Revenue Recognition Standard.

Cost of Sales Ratio and Delivery Expense Ratio (vs. GMV)

Cost of sales ratio increased due to a combination of rising costs for marine container transportation and raw material procurement, coupled with yen depreciation. However, further reduction in delivery expenses continued to offset the impact, minimizing the rise in the total of the cost of sales ratio and the delivery expense ratio



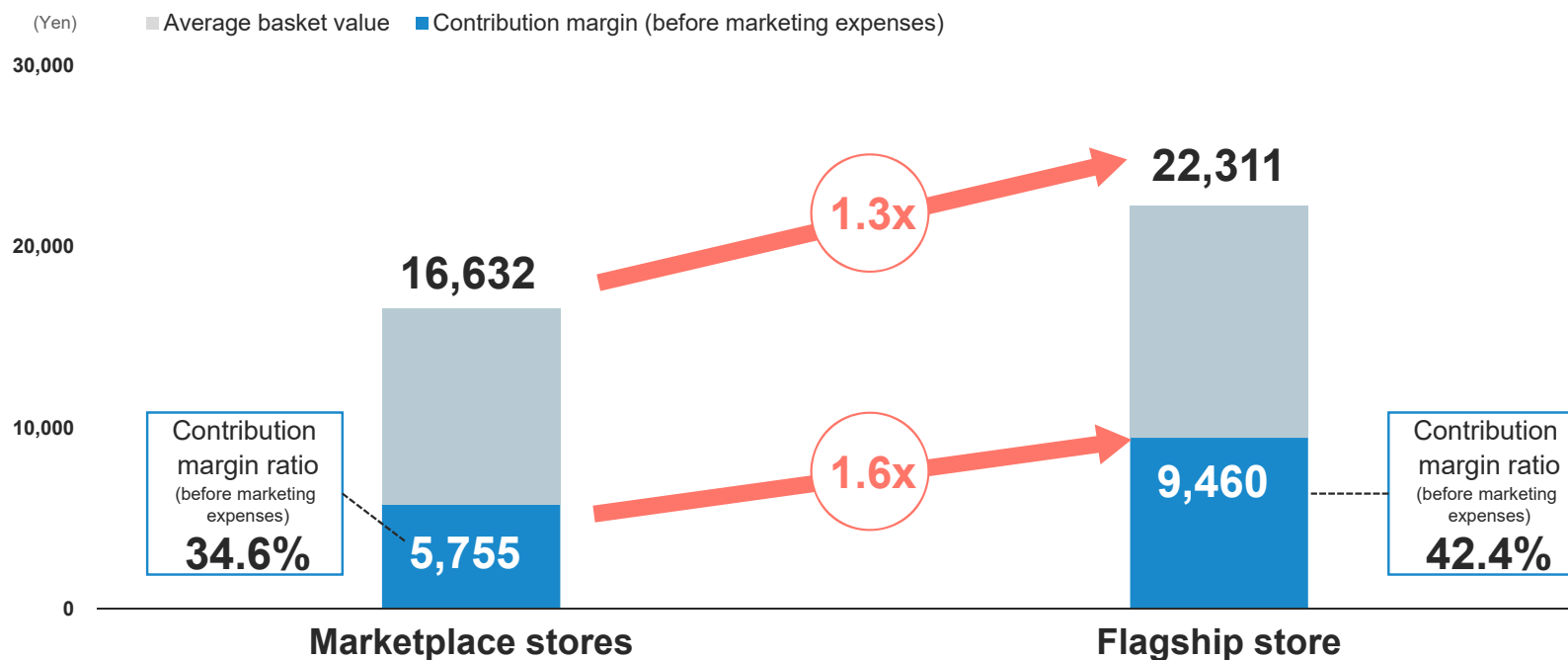
* Due to the application of the new Revenue Recognition Standard from the fiscal year ended March 31, 2022, the ratios are those of cost of sales and shipping costs relative to net sales under the previous accounting standard for the periods prior to the fiscal year ended March 31, 2021, while those are relative to GMV for the fiscal year ended March 31, 2022 onward.

Profit Structure by Sales Channel

The average value per order and the contribution margin (before marketing expenses)* are 1.3 times and 1.6 times larger at the flagship store than at marketplace stores

The business structure is designed to improve profit margin by expanding GMV through the concentration of resources on the flagship store

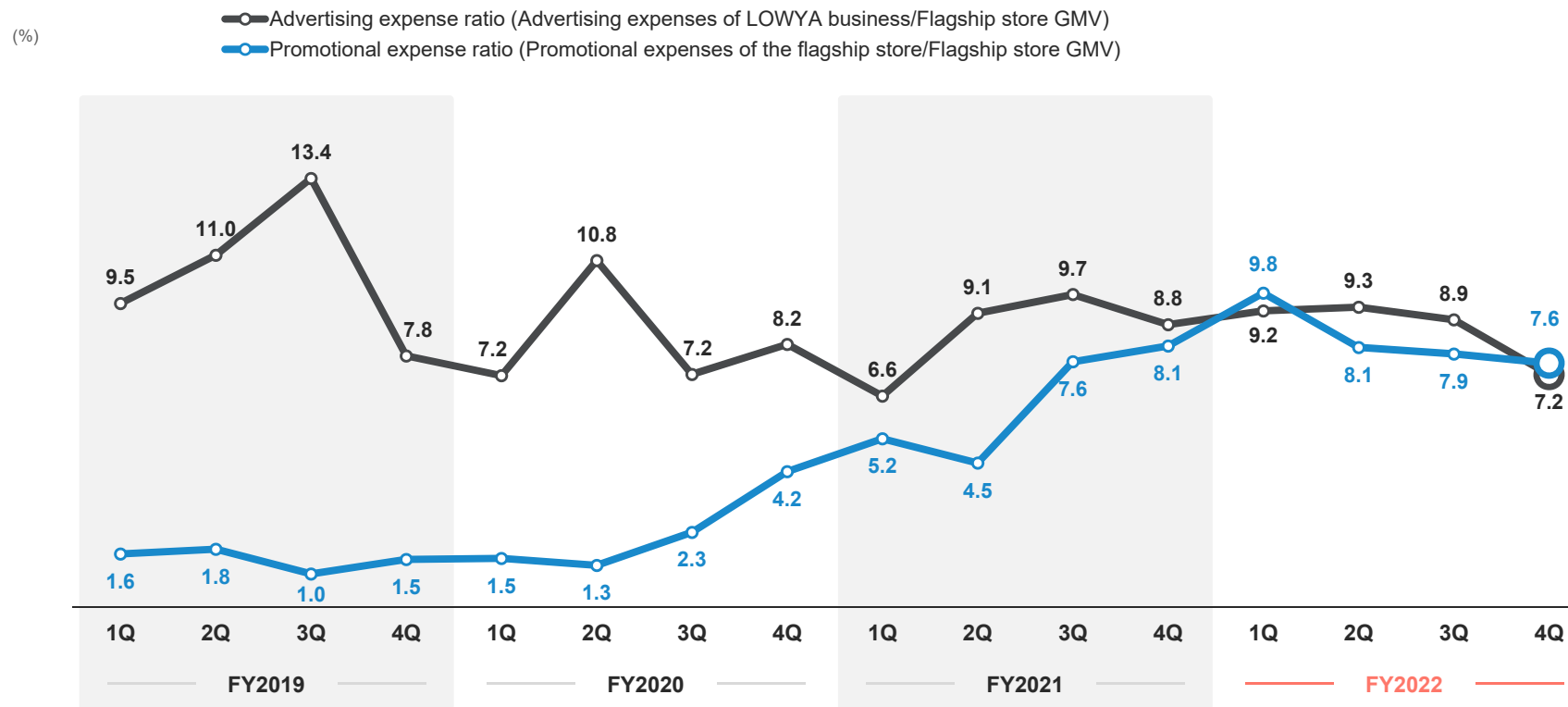
Average basket value and contribution margin by sales channel (4Q results)



* Contribution margin (before marketing expenses) is defined as: Average basket value – (Cost of sales + Delivery expenses + Selling expenses)
 Contribution margin ratio (before marketing expenses) is defined as: Contribution margin (before marketing expenses) / Average basket value
 Average basket value is order value before promotion expenses (defined as a difference between GMV and net sales under the new Revenue Recognition Standard).
 Marketing expenses include promotion expenses and advertising expenses.

Marketing Investment Ratio (vs. Flagship Store GMV)

At present, our focus is on GMV growth by acquiring and energizing members at our flagship stores, and continuing to invest aggressively in marketing while being careful to not invest excessively



* Promotion expenses are defined as a difference between the flagship store's GMV and net sales under the new Revenue Recognition Standard.

5-3

DOKODEMO Business

While memberships and the number of app DLs increased smoothly,
average basket value grew and GMV continued to show a high growth rate

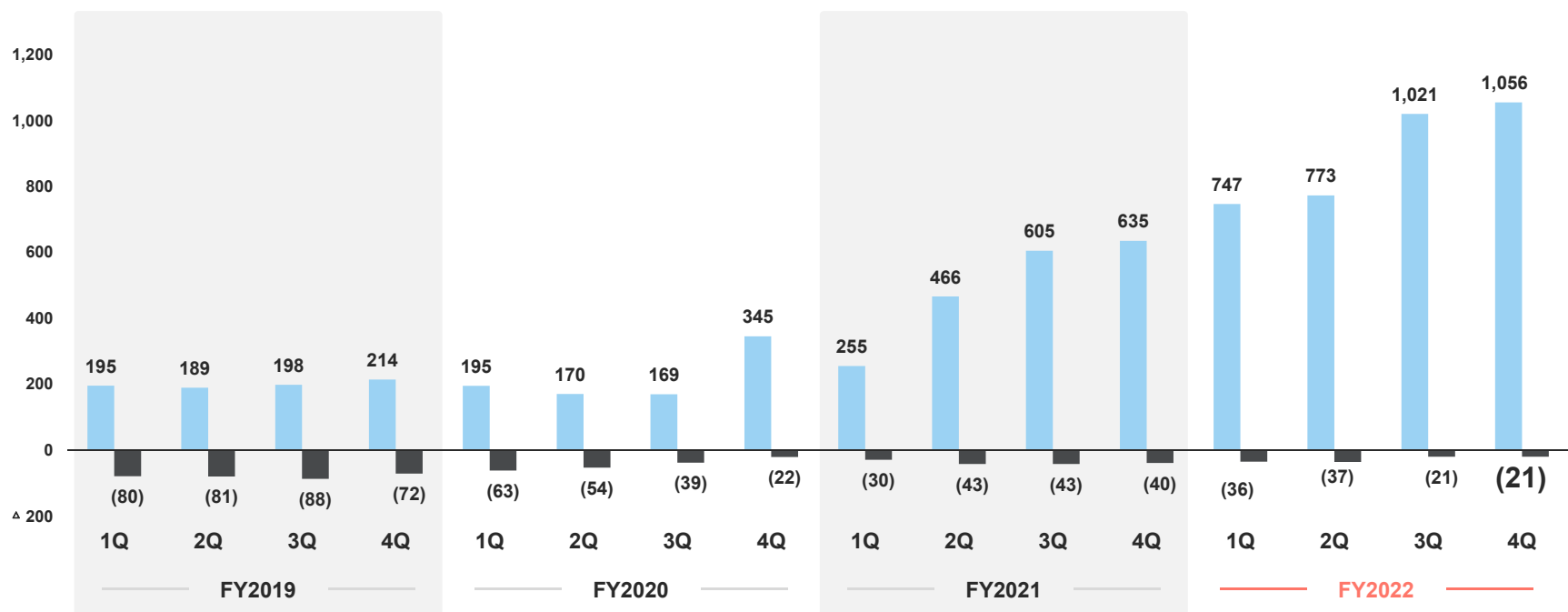
Item	Three months ended Mar. 31, 2021	Three months ended Mar. 31, 2022	YoY
GMV (million yen)	635	1,056	166.1% (+420)
Net sales (million yen)	102	130	127.0% (+27)
Membership (thousand people)	725	878	121.0% (+152)
Number of app DLs (thousand)	1,187	1,342	113.0% (+154)
Average basket value (yen)	10,749	12,576	117.0% (+1,827)
Number of products (thousand)	44	44	99.5% (-0)
Number of brands	1,120	1,123	100.3% (+3)
Deliveries * Number of countries and regions to which deliveries were made	100	109	109.0% (+9)

DOKODEMO Business

Upfront Investment Amount

GMV has been steadily expanding, keeping the upfront investment level (net expenditure of this business) under control
 Transactions are projected to rise further by continuing to retain repeat customers while efficiently acquiring new customers

(Million yen) ■ GMV ■ Upfront investment (net expenditure of this business)



6

Risks

Business Risks (1/3)

We have identified and will continue to address the following major risks related to our business.

Material risks in business execution	Probability / timing / impact of manifestation	Countermeasures
<p>Foreign exchange</p> <p>Most of the products the Company offers are imported from overseas and paid for in foreign currencies. To avoid the exchange rate fluctuation risk, the Company uses hedging instruments such as foreign exchange contracts and settlement through foreign currency deposits within the range of actual demand. However, if there are significant fluctuations in exchange rates, the Company's business results and financial position may be greatly affected.</p>	<p>Medium Short- to long-term High</p>	<p>In addition to reviewing the hedging policy from time to time and upgrading it, the Company focuses its efforts on the growth of the LOWYA flagship store, which has lower price elasticity than the stores in online malls operated by other companies, with a view to having the option of price revision while suppressing sales fluctuations even in an emergency.</p>
<p>Response to search engines</p> <p>Many users of the stores on the Company's operating site in the e-commerce business are lured by search results from specific search engines (such as Google and Yahoo! JAPAN). To secure the number of customers from those search engines, the Company plans to continue to implement search engine optimization (SEO) measures. However, if the existing SEO measures do not work effectively due to factors including changes in the search algorithms of search engines, and customer inflows to the Company are less than what the Company anticipated, resulting in insufficient customer acquisition, the Company's business results and financial position may be affected.</p>	<p>Medium Unclear Medium</p>	<p>In addition to gathering information to respond in a timely manner to any changes such as those in a search algorithm, the Company aims to reduce the impact of algorithm changes on specific search engines by expanding traffic from the mobile app developed in-house and via social media.</p>

The Company discloses information on matters deemed important for investors' investment decisions from the perspective of proactive information disclosure. The information contained in this section does not cover all risks related to the investment in the Company's shares. Although it is the Company's policy to fully recognize the possibility of these risk events actually occurring and avoid such events and take actions when they do occur, the Company believes that investment decisions regarding the Company's shares should be made after careful consideration of the matters described in this section and elsewhere in this document as well as the "business risks" described in the annual securities report. Forward-looking statements in this section are based on the current views of the Company as of the date of the filing of this document and do not cover all risk events that may occur in the future.

Business Risks (2/3)

We have identified and will continue to address the following major risks related to our business.

Material risks in business execution	Probability / timing / impact of manifestation	Countermeasures
<p>Impact of online malls</p> <p>The Company sets up its stores mainly in Rakuten Ichiba, Amazon and PayPay Mall to sell products. Therefore, the Company's business results and financial position may be greatly affected by any deterioration in the relationships with online mall operating companies, cancellation of store opening agreements due to violations of terms, problems such as online mall system failures, mall closures, and other similar events.</p>	<p>Medium Unclear Medium</p>	<p>The Company will continue to focus its efforts on the growth of the LOWYA flagship store in order to mitigate the impact on the Company caused by online malls operated by other companies.</p>
<p>Competition</p> <p>The Company believes that it holds a competitive advantage by providing unique services as an e-commerce operator through efforts to further strengthen in-house planned products and improve site usability and brand value. However, the e-commerce business has few barriers to entry, and if the Company's competitive advantage deteriorates or price competition occurs as a result of new value-added services offered by competitors, etc., the Company's business results and financial position may be affected.</p>	<p>Medium Short- to long-term High</p>	<p>The Company strives to strengthen its competitive advantage by implementing measures to raise recognition, expanding products at the LOWYA flagship store, enhancing services, and taking other measures. In addition, the Company continues to carry out R&D investments to provide high-value-added services ahead of other companies.</p>
<p>Increase in delivery expenses</p> <p>The Company outsources all shipping of products to customers to delivery companies. From the perspective of risk diversification, the Company strives to maintain good business relationships and explore new delivery companies. However, the Company's business results and financial position may be affected due to the nature of its business to deal with large furniture if delivery companies withdraw from large-scale deliveries or request price increases.</p>	<p>Medium Unclear Medium</p>	<p>The Company strives to create an earnings structure that is not easily affected by rising delivery expenses, through efforts such as reducing delivery expenses by reviewing packaging sizes and properly arranging inventories, and expanding the handling of interior sundries, which have lower delivery expenses compared to large furniture.</p>

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Business Risks (3/3)

We have identified and will continue to address the following major risks related to our business.

Material risks in business execution	Probability / timing / impact of manifestation	Countermeasures
<p>Intellectual property rights</p> <p>The Company seeks to safeguard its interests by securing intellectual property rights to protect its own products and maintain its advantage over competitors. However, infringement may occur due to counterfeit products, etc.</p> <p>Furthermore, in the event of any unintentional infringement of the intellectual property right of a third party in the course of its product development, the Company may be held liable for damages or restricted from selling products, affecting the Company's business results and financial position.</p>	<p>Low Short- to long-term Low</p>	<p>The Company obtains various intellectual property rights as necessary to prevent imitation by other companies. In addition, the Company has built a system to confirm no infringement of the intellectual property rights of third parties (e.g., investigations using tools, consultation with corporate patent attorneys and lawyers), and properly operates the system.</p>
<p>Information security and system troubles</p> <p>In the event of any unexpected natural disasters and accidents (including those caused by internal and external human factors), server overload due to a surge in the number of users and traffic, software malfunctions, unauthorized access via networks, computer virus infections, and other troubles, the stable provision of services may become difficult and recovery and so on may take time, greatly affecting the Company's business results and financial position.</p>	<p>Low Short- to long-term High</p>	<p>In addition to regular data backup and systems dispersed across multiple data centers, the Company aims to strengthen security by holding regular meetings of the Information Security Committee.</p>

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VEGA corporation

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Matters concerning the business plan and growth potential described in this document will be updated and disclosed at the same time as the disclosure of the briefing materials on the full-year financial results for the fiscal year ending March 31, 2023, which is scheduled for May 2023.