

BEENOS Inc.

3328

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FISCO Ltd.

<http://www.fisco.co.jp>

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Summary

E-Commerce Business growing again after they bottomed out in 4Q FY9/16

BEENOS Inc. <3328> (hereafter, also “the Company”) operates the E-Commerce Business and Incubation Business. The E-Commerce Business consists of the Cross Border Business (Overseas Forwarding and Proxy Purchasing Business, Global Shopping Business), Value Cycle Business (purchase and sale of used brand products through the Internet), and Retailing and Licensing Business (Producing and Licensing Business, Internet Shopping Business). Subsidiary Defactostandard, Ltd. <3545>, which runs the Value Cycle Business, listed on the TSE Mothers market in August 2016.

1. Gross merchandising value (GMV) in the E-Commerce Business growing again after they bottomed out in 4Q FY9/16

Consolidated results in 1H FY9/17 (October 2016 to March 2017) were ¥10,019mn in net sales (up 9.0% year-on-year (YoY)) and ¥398mn in operating income (down 16.8%). While profit declined in the Incubation Business because of the absence of gains on sales of operational investment securities, mainstay E-Commerce Business expanded to all-time highs for a half year at ¥10,016mn in sales (up 11.1% YoY) and ¥681mn in operating income (up 37.5%). Key drivers were the Cross Border Business and Value Cycle Business. GMV slightly declined to ¥20,574mn (down 1.4%) due to the impact of yen appreciation with the average forex rate dropping from ¥118/\$ a year ago to ¥110/\$. At the quarterly level, however, GMV switched to increases QoQ from the bottom in 4Q FY9/16 and climbed 1.5% YoY to ¥10,498mn in 2Q, recovering to almost the all-time high (¥10,526mn from 1Q FY9/16).

2. Aims to set all-time highs in net sales, operating income, and ordinary income in FY9/17

The Company maintained FY9/17 period-start guidance of ¥20,000mn in net sales (up 4.0% YoY), ¥1,400mn in operating income (up 16.6%), and ¥1,400mn in ordinary income (up 15.6%). In 2H, it expects to post about ¥800mn in gains on sales of operational investment securities in the Incubation Business and achieve steady growth in E-Commerce Business. Continuation of the current forex rate offers an upside factor for Cross Border Business because the Company’s 2H forex rate assumption is ¥95/\$. While Internet Shopping Business in Japan continues to struggle, we think the Company is capable of reaching its forecast as a whole.

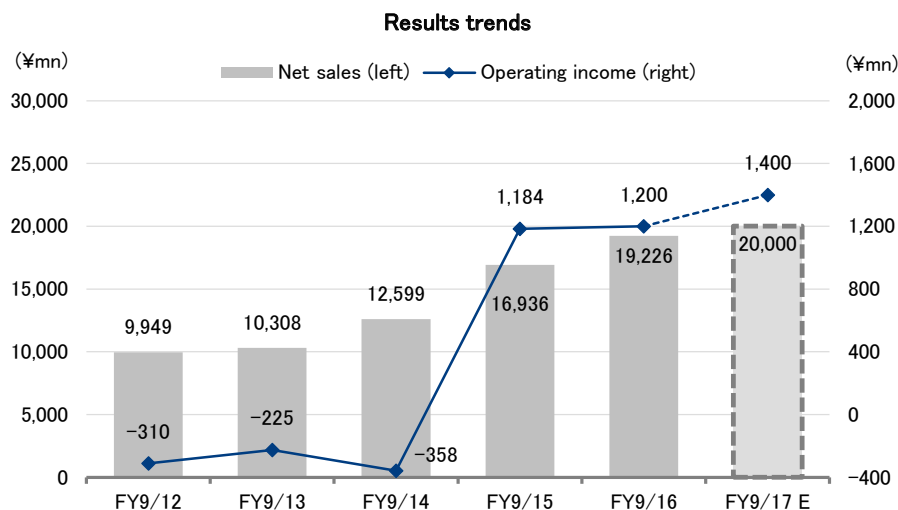
3. Aggressively pursuing E-Commerce with a goal of ¥100bn in GMV

The Company is targeting double-digit annual growth in the E-Commerce Business as a medium-term strategy and has set ¥100bn in GMV as its goal for the time being. We see opportunities for sustaining strong growth in the Cross Border Business with support from the expansion of the cross-border EC market. In the Overseas Forwarding and Proxy Purchasing Business, the Company intends to realize further growth by expanding domestic partner sites and bolstering promotions that target overseas users. In the Incubation Business, meanwhile, it plans to continue making investments in Internet ventures mainly in Asian emerging countries outside of China and utilizing some of the capital gains to invest in creation of its own new businesses as well.

Key Points

- Operates the E-Commerce Business and Incubation Business
- Aims to set all-time highs in net sales, operating income, and ordinary income in FY9/17
- Pursuing ¥100bn in GMV with support from expansion of the cross-border EC market

Summary



Source: Prepared by FISCO from the Company's financial results

Business overview

Operates the E-Commerce Business and Incubation Business

The Company operates the E-Commerce Business and Incubation Business. The E-Commerce Business consists of the Cross Border Business (Overseas Forwarding and Proxy Purchasing Business, Global Shopping Business), Value Cycle Business (purchase and sale of used brand products through the Internet), and Retailing and Licensing Business (Producing and Licensing Business, Internet Shopping Business), which are handled by subsidiaries. Subsidiary Defactostandard, Ltd. <3545>, which runs the Value Cycle Business, listed on the TSE Mothers market in August 2016. The Incubation Business, meanwhile, covers new businesses launched internally and investment cultivation business for Internet ventures in Japan and other countries. Below we review the content of each of the businesses.

Major group companies

Company	Investment ratio	Business
E-Commerce Business		
tenso, inc.	100.0%	Overseas Forwarding and Proxy Purchasing Business (has subsidiaries in the UK and Taiwan)
Shop Airlines, Ltd.	100.0%	Global Shopping Business (has subsidiaries in Japan, the US, and the Netherlands)
Defactostandard, Ltd.	57.8%	Apparel Reuse Business
monosense, Ltd.	100.0%	Producing and Licensing Business
netprice, Ltd.	100.0%	Online Shopping Business
Incubation Business		
BEENOS Partners, Inc.	100.0%	Startup Studio, Venture Capital and Incubation Business
BEENOS Asia Pte. Ltd.	100.0%	Investment and Incubation Business Specialized in emerging countries
Equity method affiliate		
BEENOS Plaza Pte. Ltd.	33.3%	Investment and Incubation Business Specialized in Indonesia
Open Network Lab, Inc.	30.0%	Entrepreneurship Support/Investment Business

Source: Prepared by FISCO from Company website

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Business overview

1. Cross Border Business

This business is comprised of two consolidated subsidiaries; tenso, Inc., and Shop Airlines, Ltd. tenso, Inc. operates tenso.com, an overseas forwarding operation (proxy shipping of goods) and Buyee.jp, a proxy purchasing operation for consumers residing overseas. Shop Airlines, Ltd. operates the “sekaimon” global online shopping site. The sales of both subsidiaries are from handling fees based on transaction values.

(1) Overseas Forwarding and Proxy Purchasing Business

tenso.com overseas forwarding operations by tenso offer a service for foreign and Japanese consumers residing overseas whereby when they purchase an item on an e-commerce (EC) site in Japan but the operator of that site does not ship goods overseas, tenso will, for a fee, ship (forward) the goods to the users on their behalf. Users are able to select the shipment method from among Japan Post’s Express Mail Service (EMS), regular airmail, Japan Post’s Surface Air Lifted (SAL) economy airmail service, and surface mail, with forwarding fees for the service provided starting from as low as ¥50 (depending on total shipment weight).

It also operates the Buyee site for proxy purchasing and proxy auctioning for online-sales products and Internet auctions in Japan. GMV through Buyee has been growing recently because Buyee utilizes PayPal and Alipay as payment methods, provides multi-language support of buying procedures, and automatically translates product details into multiple languages. It has a broad range of partner sites from large marketplaces, such as Amazon, Rakuten Ichiba, Yahoo! Shopping, and ZOZOTOWN, to small EC sites and also partners with Yahoo! Auction and other auction sites. Buyee receives a purchase fee of 0-5% (¥150 flat fee for product purchases worth less than ¥3,000 and a ¥200 payment fee per auction purchase on Yahoo! Auction). It also obtains transfer fees and delivery fees.

The service currently handles shipping to 84 countries and regions and has customer support operations that cover four languages. It is steadily growing with overseas user members at over 1.16mn people and domestic partner EC sites at over 1,550 sites as of the end of March 2017 and holds an industry No.1 position in overseas shipping handling volume.

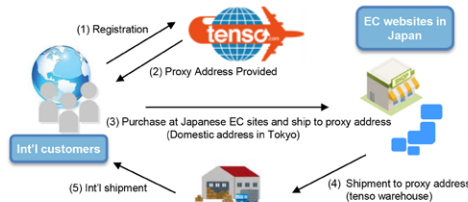
Two services provided by tenso

Providing a shopping system allowing overseas shoppers to buy Japanese products

tenso Overseas Forwarding Business

Overseas customers use the provided address from tenso.com to ship their purchases and to have their goods forwarded to their home.

Recommended for EC sites that want to expand sales channel overseas immediately.

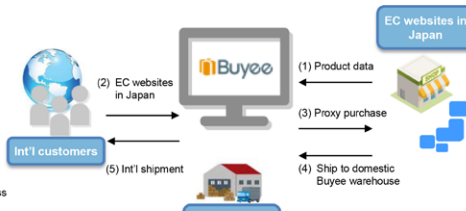


- (1) Registration at tenso.com
- (2) tenso.com provides proxy address
- (3) Customers shop and send goods to proxy address
- (4) Goods shipped to proxy address (tenso.com warehouse)
- (5) tenso.com ships internationally to customer

Buyee Proxy Purchasing Service

Service that makes it possible for overseas users who cannot read Japanese to purchase goods on Japanese EC sites. It retrieves product data from EC sites to “Buyee” and provides translation and proxy purchasing services.

Recommended for EC sites that want to be used by customers who cannot read Japanese.



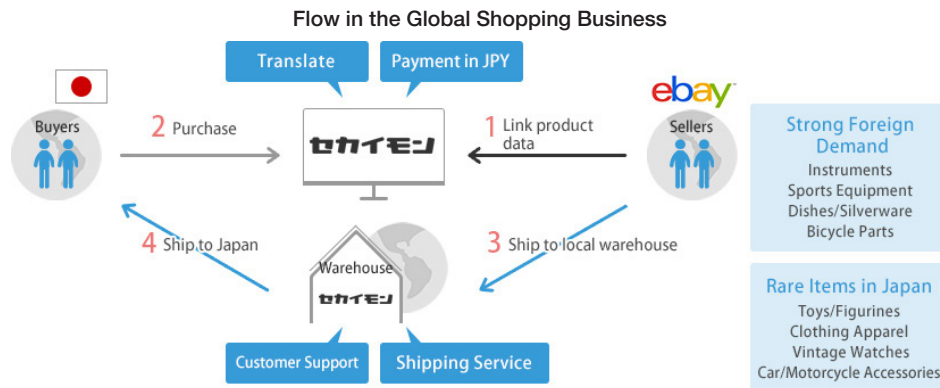
- (1) Buyee service banner appears on their websites. By clicking the banner, customers can start using our service.
- (2) Customers make their purchases via Buyee’s proxy webpage.
- (3) Order processed via our proxy service.
- (4) Order will be sent to Buyee’s domestic warehouse.
- (5) Buyee ships the items to customer’s address.

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Business overview

(2) Global Shopping Business

The sekaimon site operated by subsidiary Shop Airlines, Ltd. is an overseas shopping site with Japanese language support that is certified by eBay, which is one of the world’s largest online marketplaces. sekaimon currently handles products submitted in four countries – the United States, the United Kingdom, Germany, and Austria. It charges a fee of 15% of the auction price (it adjusted the minimum fee from ¥500 to ¥800 in February 2016). The site has about 590,000 members as of March 2017 with a high ratio of male members. Top-selling items are hobby products, car and motorcycle goods, vintage watches, and other products with low transaction volume in Japan.



Source:

2. Value Cycle Business

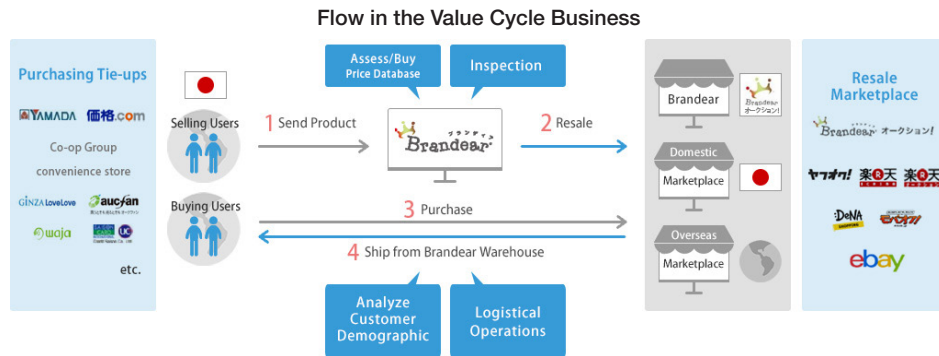
This business covers purchasing and selling used brand products over the Internet by subsidiary Defactostandard. It is the industry leader in purchase and sale transactions over the Internet (with cumulative users at about 1.5mn people*). Business flow consists of buying products utilizing home delivery firms through Brandear, an Internet-based operational site, as the first point of contact and selling products on Internet auction sites in Japan and other countries.

* As of May 2016

Defactostandard seeks to expand purchasing volume by using multiple channels for purchases with its own site as well as partner sites, including Yamada Denki’s <9831> Yamada Kaitori and related sites of various CO-OP entities. The business handles brand products for over 7,000 items, such as clothing, bags, precision metals, and watches, with emphasis on fashion areas. Defactostandard has developed a unique system for purchasing a wide range of products quickly and at suitable appraisal prices. Its strengths are its purchasing and appraising capabilities.

Conversely, from a sales perspective, its strength is that it has developed its own proprietary system that facilitates efficient sales by simultaneously offering goods through multiple channels, including most major domestic auction sites such as Yahoo! Auctions and Rakuten Auction, its own proprietary auction site, and through overseas auction sites such as eBay. Moreover, on the largest domestic auction site, Yahoo! Auctions, Defactostandard was awarded its “Annual Best Store Overall Grand Prix” for the eighth straight year in fiscal year 2016.

Business overview



Source:

3. Retailing and Licensing Business

The Retailing and Licensing Business consists of the Producing and Licensing Business at monosense, Ltd. and the Internet Shopping Business at netprice, Inc.

The Producing and Licensing Business plans and develops products based on licensing contracts with various celebrities and well-known people and provides one-stop support for selling and promotions on EC sites, licensing activities, and other services. It also handles item sales at event venues for popular idol groups through licensing contracts and manages and operates official EC sites. This business receives selling fees that reflect a certain percentage of item sales as revenue.

The Internet Shopping Business operates the netprice EC site that employs a gathering (joint buying) system whereby the selling price declines as the number of buyers increases. It was the first service to adopt this format in Japan. The business promotes unique product line-ups and selling methods, such as 24-hour limited-sale products, original products developed jointly with manufacturers, and jointly planned and developed products with well-known people and celebrities. Cumulative membership has risen to over 2.2mn people of which about 78% are women and more than 70% are in the 30s-40s age range.

4. Incubation Business

The Incubation Businesses are comprised of investing in and nurturing Internet venture businesses in Japan and overseas, and developing new businesses in-house prior to the stage they become profitable.

In its investing and nurturing operations, subsidiary BEENOS ASIA PTE. LTD., headquartered in Singapore, invests in Internet venture businesses in countries that show the potential to develop as rapidly as China has, taking stakes of up to 20%. It targets companies offering, for example, online settlement services and online marketplaces and has made investments in India, Indonesia, Turkey, the Philippines, Vietnam, Malaysia, and Africa. To nurture these businesses, BEENOS ASIA PTE. encourages the exchange of personnel and technologies among investee companies.

BEENOS Partners, Ltd., based in Japan, invests mainly in US start-up companies engaged in Internet businesses, taking stakes of less than 1%. Through these investments, BEENOS gains information about the latest Internet services and technologies. It applies this information to establish new businesses in Japan and overseas, and it eventually realizes capital gains on its investments. This company also invests in start-up companies engaged in Internet businesses in Japan.

Results trends

Posted all-time high half-year results in the E-Commerce Business

1. 1H FY9/17 results summary

Consolidated 1H FY9/17 results were ¥10,019mn in net sales (up 9.0% YoY), ¥398mn in operating income (down 16.8%), ¥453mn in ordinary income (down 10.9%), and ¥104mn in profit attributable to owners of parent (down 65.3%). Profit fell in the Incubation Business because of an absence of gains on sales of operational investment securities in 1H. The E-Commerce Business, meanwhile, improved to all-time highs on a half-year basis at ¥10,016mn in sales (up 11.1%) and ¥681mn in operating income (up 37.5%). While the Company does not disclose half-year plans, progress by the E-Commerce Business toward FY9/17 targets was 53.6% in net sales and 71.7% in operating income, modestly outpacing guidance.

SG&A expenses increased 11.9% YoY to ¥4,802mn. Primary sources were an extra ¥134mn in personnel costs mainly in the Value Cycle Business and an additional ¥318mn in development costs and other fixed expenses. The steep decline in profit attributable to owners of parent stemmed from a reduction in deferred tax assets and an increase in net income attributable to non-controlling shareholders from ¥37mn a year earlier to ¥89mn due to the listing of Defactostandard shares.

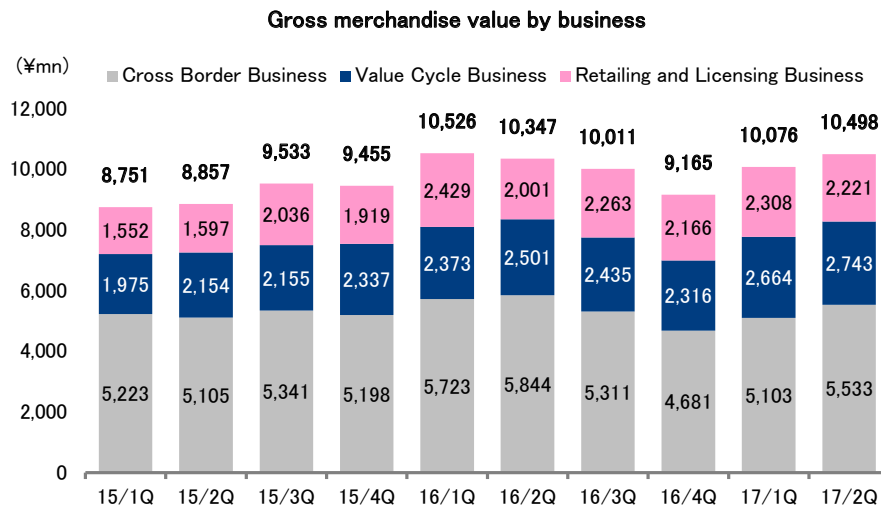
1H FY9/17 Consolidated Results

	(¥mn)				
	FY9/16 1H		FY9/17 1H		YoY
	Results	% of sales	Results	% of sales	
Gross merchandise value	20,874	-	20,574	-	-1.4%
Net sales	9,195	-	10,019	-	9.0%
E-commerce Business	9,015	98.0%	10,016	100.0%	11.1%
Incubation Business	179	2.0%	3	0.0%	-98.2%
Cost of sales	4,424	48.1%	4,818	48.1%	8.9%
SG&A expenses	4,292	46.7%	4,802	47.9%	11.9%
Operating income	479	5.2%	398	4.0%	-16.8%
E-Commerce Business	495	5.5%	681	6.8%	37.5%
Incubation Business	141	78.8%	-79	-	-
Adjustments	-158	-	-202	-	-
Ordinary income	508	5.5%	453	4.5%	-10.9%
Profit attributable to owners of parent	300	3.3%	104	1.0%	-65.3%

Source: Prepared by FISCO from the Company's financial results

E-Commerce Business GMV, which the Company focuses on as a KPI, was down 1.4% YoY to ¥20,574mn. The main setback was an 8.0% YoY decline in Cross Border Business GMV because of the impact from yen appreciation (as the average forex rate in the period moved from ¥118/\$ a year ago to ¥110/\$). Nevertheless, this was a healthy pace with GMV reaching 55.6% of FY9/17 target. Looking at the quarterly trend in GMV, the result improved in two straight quarters from a bottom at ¥9,165mn in 4Q FY9/16 and the YoY growth rate turned positive for the first time in three quarters in 2Q at a 1.5% increase. We think GMV has returned to a growth trajectory.

Results trends



*Transaction values of products, etc., sold via the Internet.

Source: Prepared by FISCO from the Company's results briefing materials

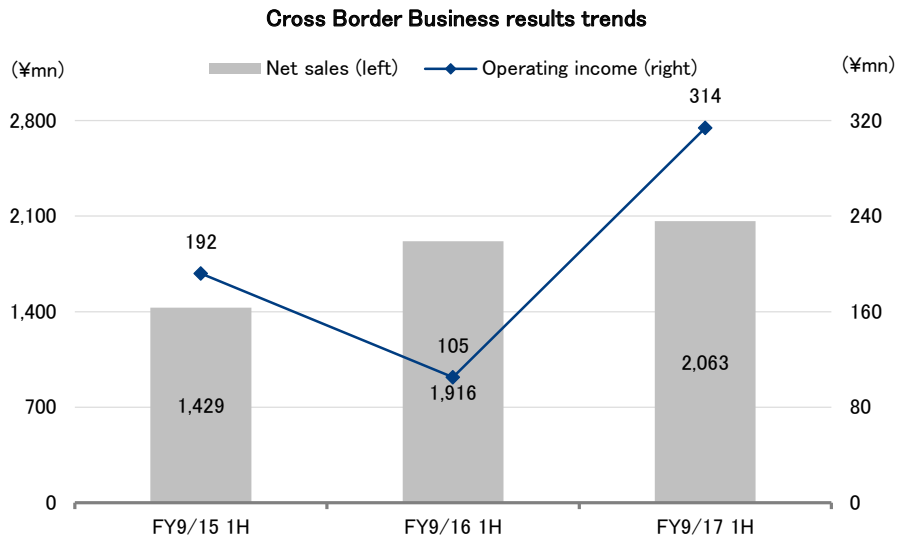
Cross Border Business and Value Cycle Business driving income growth

2. Segment results

(1) Cross Border Business

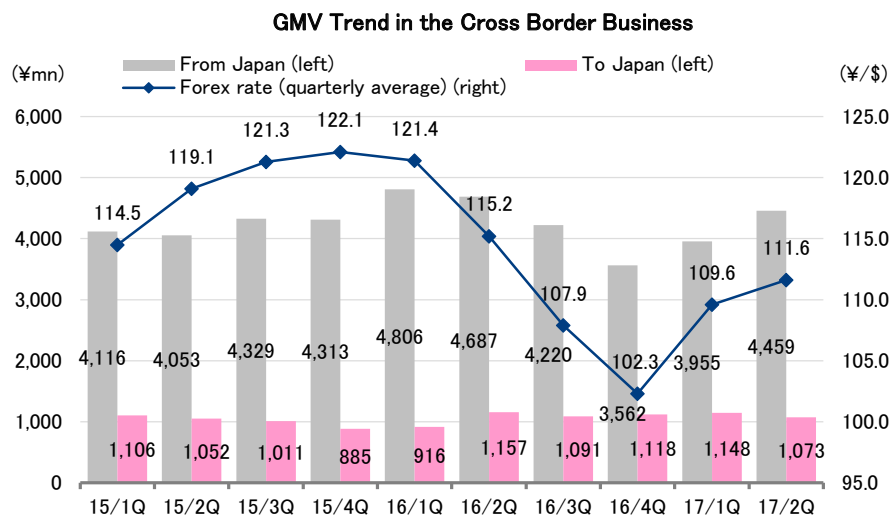
Cross Border Business booked ¥10,637mn in GMV (down 8.0% YoY), ¥2,063mn in net sales (up 7.7%), and ¥314mn in operating income (up 199.0%) in 1H FY9/17. Sales and profit improved, despite lower GMV, thanks to a higher take rate on GMV supported by fee revisions and related service additions, higher forex spread profit owing to adoption of multi-currency settlements and reduction in logistics costs per item from opening a warehouse site in the Kansai area in the Overseas Forwarding and Proxy Purchasing Business, and improved productivity due to a switch to internal warehousing in the US in the Global Shopping Business.

Results trends



Source: Prepared by FISCO from the Company's financial results

Forex fluctuations strong affect this segment because it handles cross-border EC business. Looking at quarterly GMV trends, Overseas Forwarding and Proxy Purchasing GMV moved lower due to yen appreciation while Global Shopping GMV recovered from 2Q FY9/16 and then Overseas Forwarding and Proxy Purchasing GMV started rising QoQ as well after a bottom in 4Q FY9/16 thanks to a return to yen depreciation.



*Transaction values of products, etc., sold via the Internet.

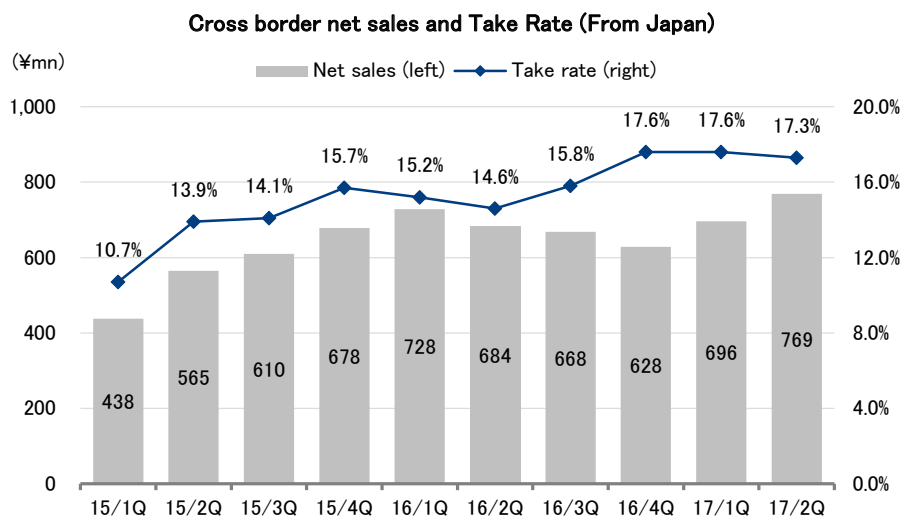
Source: Prepared by FISCO from the Company's results briefing materials

Results trends

a) Overseas Forwarding and Proxy Purchasing Business

The Overseas Forwarding and Proxy Purchasing Business posted ¥8,415mn in GMV (down 11.4% YoY) and ¥1,465mn in net sales (up 3.8%) in 1H FY9/17. While GMV declined in 1H as the strong-yen impact reduced handling of high-priced products, sales strengthened due to a rise in the take rate (sales ÷ GMV) from about 15% a year earlier to the 17% range owing to the launch of delivery option services (such as delivery guarantee and inspection services) from 4Q FY9/16 and decline in the high-priced product ratio. Key factors lifting profit were a boost from higher sales, increase in forex spread profit due to adoption of multi-currency settlements, cost savings from moving the customer support center to an offshore location, and a 13.7% YoY decline in costs per item from opening a warehouse site in Kansai in 2Q.

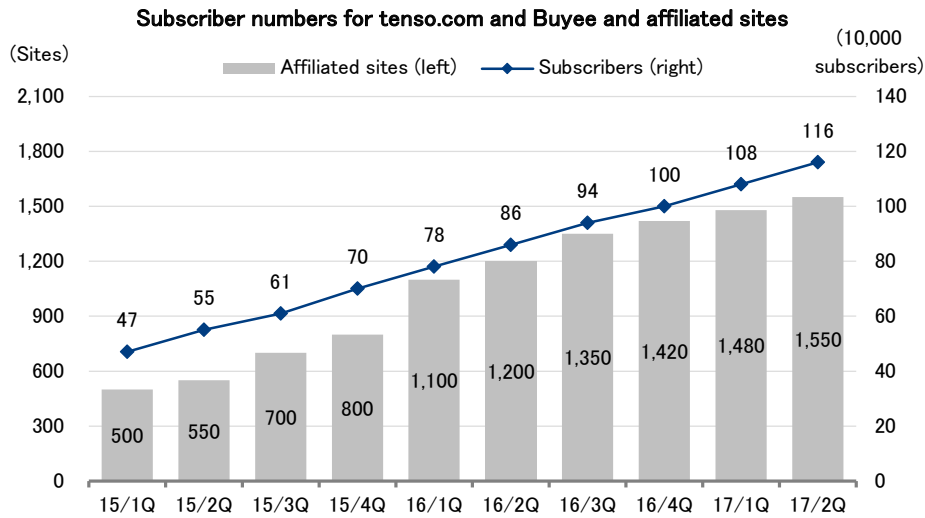
Looking at quarterly trends, GMV climbed 12.7% QoQ in 2Q for the second straight quarterly gain and sales reached an all-time high for the first time in five quarters. Business strengthened on the shift to yen depreciation, aggressive promotional measures (such as a campaign with shipping fee discounts), and broadening of alliance partners in Japan. To enhance Buyee (proxy purchasing service) convenience, the Company began provision of the “Add to Buyee” browsing feature that enables simple handling of orders placement and settlement processing within the Buyee cart on partner EC sites and expanded supporting EC sites from 35 sites at end-December 2016 to 60 sites at end-March 2017.



Source: Prepared by FISCO from the Company's results briefing materials

The Overseas Forwarding and Proxy Purchasing Business continued to expand with partner sites at over 1,550 sites and overseas members exceeding 1.16mn people as of the end of March 2017. While China is still the main destination, its ratio is trending lower and GMV has been rising for other countries, such as Taiwan, Hong Kong, the US, and Australia.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

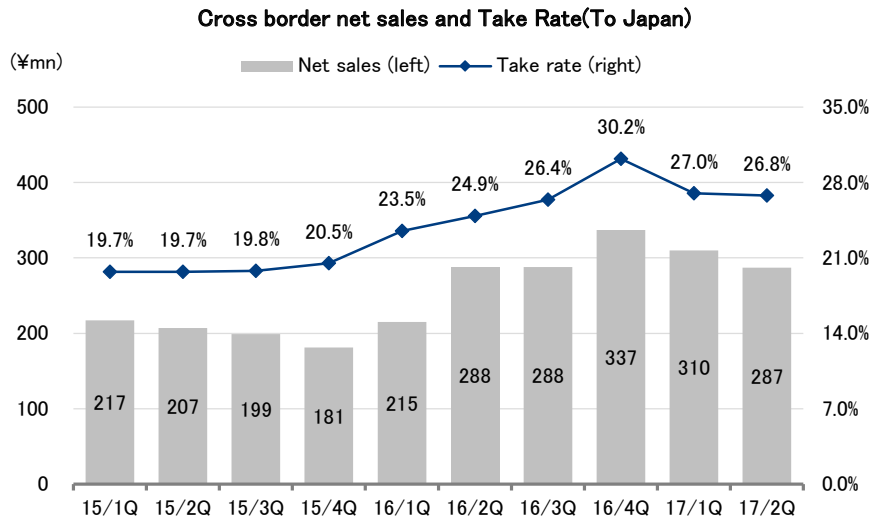
b) Global Shopping Business

The Global Shopping Business reported ¥2,222mn in GMV (up 7.2% YoY) and ¥597mn in sales (up 18.7%) in 1H. GMV expanded on support from a stronger yen than in the previous year and initiatives to bolster promotions and broaden sales channels. Additionally, sales realized a double-digit increase with assistance from a higher take rate (up from the 24% range in the previous year to about 27%), including the positive effect of updating minimum fee prices in February 2016.

This business restored profitability from 3Q FY9/16 and continued to generate profit in 1H FY9/17 thanks to the boost from higher sales and cost reduction through conversion of US warehouse and customer center functions to internal operations and revisions to forwarders. The ability to handle products that require oil cleaning (such as motorcycle parts) supported the switch to internal warehousing contributed to larger GMV as well.

At the quarterly level, however, sales slipped to QoQ declines after a peak in 4Q FY9/16 because of reversal to yen depreciation. The Company needs to find ways to expand GMV, including acquisition of female members.

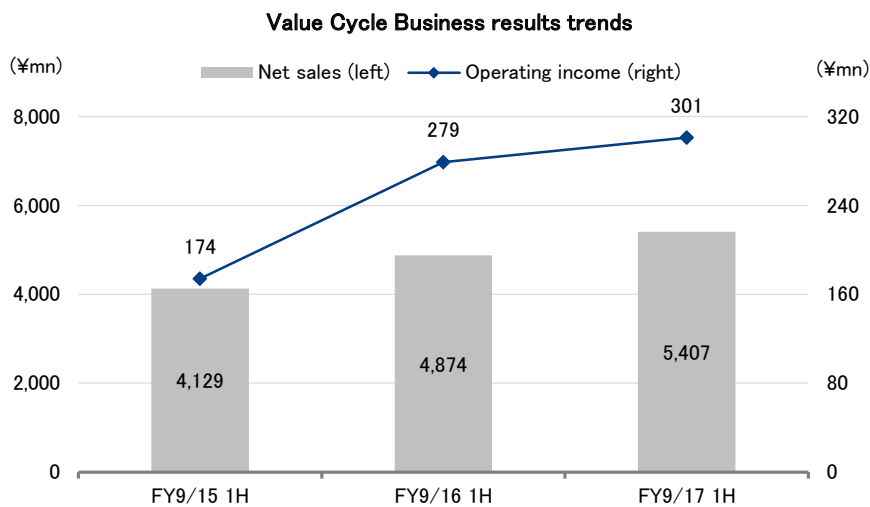
Results trends



Source: Prepared by FISCO from the Company's results briefing materials

(2) Value Cycle Business

The Value Cycle Business recorded ¥5,407mn in sales (up 10.9% YoY; GMV equals sales for this segment) and ¥301mn in operating income (up 7.9%) in 1H. These were the Company's highest results ever on a half-year basis. Profitability modestly declined because of continued airing of television commercials and higher personnel costs related to reinforcement of system development capabilities. However, purchase volume climbed sharply with a 31.8% YoY increase due to aggressive buying efforts, mainly for second-tier brands, including the launch of a buying service through alliances with fashion EC sites, amid vibrant demand for used brand products over the Internet. The Company also launched a store on Wowma!, which is operated by KDDI Commerce Forward Co., Ltd., in March 2017, broadening its sales channel.



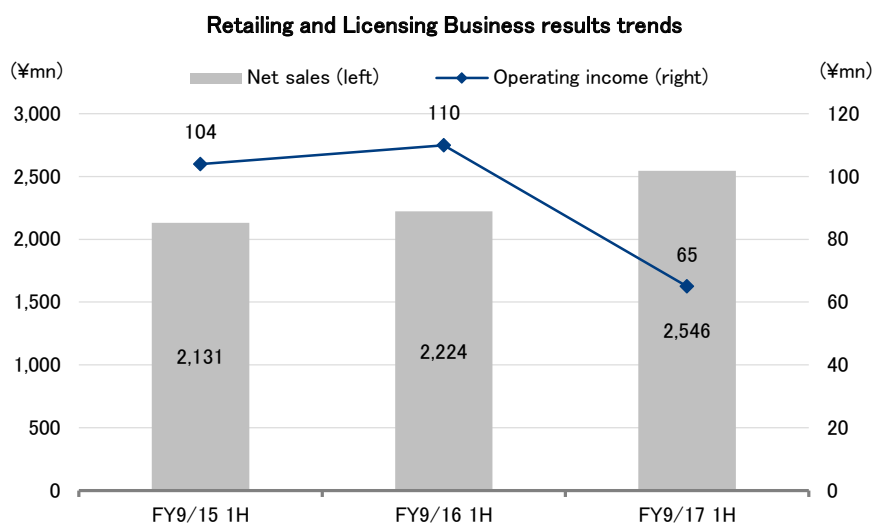
Source: Prepared by FISCO from the Company's financial results

Results trends

(3) Retailing and Licensing Business

The Retailing and Licensing Business posted ¥4,529mn in GMV (up 2.2% YoY), ¥2,546mn in sales (up 14.5%), and ¥65mn in operating income (down 40.9%) in 1H. Sales and profits climbed in the Producing and Licensing Business run by subsidiary monosense on healthy sales of goods via EC sites of popular idol groups thanks to broadening item scope and upbeat activity for the popular ECONECO brand, which is managed through a master license, including the start of trial sales at a Japanese department store in Taiwan. Furthermore, the Company acquired SWATi Inc. as a wholly owned subsidiary at the end of December 2016. SWATi designs and sells original goods that target women in their 20s and 30s and possesses robust product planning capabilities. While sales are low at this point and this business should only have a minor impact on segment income, the Company intends to establish positioning as a “stylish gift item brand” and expand this business by capitalizing on sales knowhow from monosense.

In the Internet Shopping Business, meanwhile, GMV declined YoY, despite development of original fashion and beauty goods and efforts to improve sales, and operating income slipped to a loss due to decline in gross margin related to inventory disposal. This business hence contributed negatively to segment profit.



Source: Prepared by FISCO from the Company's financial results

(4) Incubation Business

The Incubation Business reported just ¥3mn in sales (down 98.2% YoY) and a ¥79mn operating loss (vs. a ¥141mn profit in the previous year) in 1H because of the absence of gains on sales of operational investment securities.

The main investment in 1H FY9/17 was Metro Engines Inc. (established in October 2016), which supplies a centralized management tool for private home rentals in Japan. The Company acquired a stake of just over 10% in December 2016 and is the second largest shareholder after the founder. It sees opportunity in future expansion of the private home rentals market in Japan.

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Results trends

Key investee companies are Internet venture firms in India and Southeast Asia with rapidly growing Internet markets and start-ups in Japan and the US. In this group, Indonesia-based Tokopedia reportedly has a market cap of ¥100bn and Clues Network, which operates Shop Clues in India, has grown to a market cap of over ¥100bn. Droom, which handles online automobile sales in India, is also rapidly expanding and currently might have a valuation of a few ten billion yen. While the Company owns less than 1% of Instacart, which operates a food shopping assistance service in the US, this business is currently valued at \$3.4bn and expects to conduct an IPO during 2017. The Company intends to sell shares in investee companies and utilize proceeds as funding for new investees or creation of its own new businesses.

Main companies invested in and their investment ratios

Investment ratio	Company	Headquarter location	Business description	
10% or more	akakce.com	Turkey	Price comparison service	
	Paynatics Technologies	The Philippines	Online payment service	
	Metro Engines	Japan	Big data analysis and consulting for private home rentals and accommodations	
	Droom	India	Operates Droom, an online marketplace for secondhand cars	
	Buyhatke	India	Price comparison service	
5 to 10%	Sendo Technology	Vietnam	Operates Sendo, an online marketplace	
	Nearex	Multiple African countries	Mobile money	
	CaSy	Japan	Cloud-based agency service for handling household chores	
	Quan	Japan	Plans and develops web and app services for mobile equipment	
	Clues Network	India	Operates ShopClues, a B2C online marketplace	
	Voonik	India	Operates voonik.com, a mobile fashion marketplace	
	Nobroker	India	Operates NoBroker, an online C2C real estate marketplace	
	Healthians	India	In-home physical examination marketplace	
	1 to 5%	Midtrans	Indonesia	Online payment service
		Ralali	Indonesia	B2C marketplace for indirect materials
Tokopedia		Indonesia	Operates tokopedia, a C2C online marketplace	
iyzi Payments		Turkey	Online payment service	
Ayannah		The Philippines	Online remittance service	
Increments		Japan	Operates Qiita, a service for software programmers to exchange technical information	
Big Foot Retail Solutinos		India	Operates KARTROCKET, a service for opening an online store	
Less than 1%	Maplebear	US	Operates instacart, an online delivery service for food and daily necessities	
	Kamcord	US	Operates a video sharing platform for mobile games	
	Other			

Source: Prepared by FISCO from the Company's results briefing materials and website

Operational investment securities held by the Incubation Business headed for the ¥2bn range

3. Financial position and management indicators

Total assets at end of 1H FY9/17 rose by ¥368mn from the previous fiscal year-end to ¥13,481mn. Main changes were an increase of ¥585mn to ¥2,190mn in operational investment securities and declines of ¥176mn in notes and account receivable - trade, ¥134mn in products, ¥108mn in deferred tax assets, and ¥51mn in cash and deposit under current assets and increases of ¥99mn in investment account securities, ¥40mn in tangible fixed assets, ¥50mn in goodwill, and ¥25mn in software under fixed assets.

Results trends

Total liabilities dropped by ¥4mn from the previous fiscal year-end to ¥5,065mn. Main changes were increases of ¥249mn in deposits received, ¥128mn in accounts payable, and ¥35mn in short-term loans and declines of ¥372mn in accounts payable - other and ¥75mn in income taxes payable under current liabilities and an increase of ¥22mn in long-term loans under fixed liabilities.

Net asset value climbed by ¥390mn from the previous fiscal year-end to ¥8,416mn. Main additions were ¥162mn in the exchange conversion adjustment account, ¥115mn in minority stockholder equity interest, and ¥106mn in earned surplus.

Looking at key management indicators, the capital ratio increased by 0.7pp from 51.1% to 51.8% and the interest-bearing debt ratio rose by 0.3pp from 15.1% to 15.4%. We think the Company remains in sufficiently healthy financial shape.

Consolidated balance sheet and business indicators

	(¥mn)				
	FY9/14	FY9/15	FY9/16	FY9/17 1H	Change
Current assets	6,692	8,745	11,787	11,906	119
Cash and deposit	2,433	3,276	6,307	6,255	-51
Operational investment securities	1,563	1,663	1,605	2,190	585
Fixed assets	1,014	1,273	1,308	1,575	267
Total assets	7,706	10,019	13,095	13,481	368
Current liabilities	3,078	4,183	4,830	4,793	-36
Fixed liabilities	69	155	238	271	32
Interest-bearing debt	1,034	919	1,009	1,075	66
Total liabilities	3,148	4,339	5,069	5,065	-4
Net assets	4,557	5,679	8,025	8,416	390
Management indicators					
Stability					
Equity ratio	57.5%	54.5%	51.1%	51.8%	
Interest-bearing debt ratio	23.3%	16.8%	15.1%	15.4%	

Source: Prepared by FISCO from the Company's financial results

Business outlook

Aims to set all-time highs in net sales, operating income, and ordinary income in FY9/17

1. FY9/17 results outlook

The Company maintained period-start forecast for FY9/17 consolidated results at ¥20,000mn in net sales (up 4.0% YoY), ¥1,400mn in operating income (up 16.6%), ¥1,400mn in ordinary income (up 15.6%), and ¥750mn in Profit attributable to owners of parent (down 20.3%). Cross Border Business is likely to exceed its sales and profit targets if the forex rate stays at the current level of about ¥110/\$ because the 2H forex assumption is ¥95/\$. The decline in profit attributable to owners of parent reflects reduction in deferred tax assets and an increase in profit attributable to non-controlling interests because of a decline in the Company's stake due to listing of Defactostandard shares. The Company expects to eliminate all loss brought forward for tax accounting in FY9/17.

Business outlook

Segment targets are E-Commerce Business at ¥18,700mn in sales (up 3.8% YoY) and ¥950mn in operating income (up 27.9%) and Incubation Business at ¥1,300mn in sales (up 8.1%) and ¥800mn in operating income (up 3.4%). We expect the E-Commerce Business to exceed forecast if the yen does not appreciate significantly because of healthy progress through 1H and the ¥95/\$ 2H forex assumption. The Incubation Business, meanwhile, depends on selling trends for operational investment securities. We think forecast is attainable considering expansion of unrealized profit as investees grow.

FY9/17 Consolidated Outlook

	FY9/16		FY9/17			
	Results	% of sales	Plan	% of sales	YoY	Progress rate up 2Q
Gross merchandise value	40,050	-	37,000	-	-7.6%	55.6%
Net sales	19,226	-	20,000	-	4.0%	50.1%
E-Commerce Business	18,023	93.7%	18,700	93.5%	3.8%	53.6%
Incubation Business	1,203	6.3%	1,300	6.5%	8.1%	0.3%
Operating income	1,200	6.2%	1,400	7.0%	16.6%	28.4%
E-Commerce Business	742	4.1%	950	5.1%	27.9%	71.7%
Incubation Business	773	64.3%	800	61.5%	3.4%	-
Adjustments	-315	-	-350	-	-	-
Ordinary income	1,211	6.3%	1,400	7.0%	15.6%	32.4%
Profit attributable to owners of parent	940	4.9%	750	3.8%	-20.3%	13.9%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

E-Commerce Business likely to continue growing the Cross Border Business as the main driver

2. Segment outlooks

(1) Cross Border Business

The outlook targets ¥17,500mn in GMV (down 18.8% YoY) and ¥3,450mn in sales (down 10.1%) for Cross Border Business. Progress toward full-year targets through 2Q was 60.8% in GMV and 59.8% in sales. While the Company has not disclosed operating income, we think income generated through 2Q was slightly above the FY9/17 target. Sales and profits are likely to exceed plan targets if the forex rate stays at about ¥110/\$ in 2H.

The Overseas Forwarding and Proxy Purchasing Business is likely to perform well again in 2H considering the recovery trend in GMV. Efforts to expand GMV include broadening partner sites in Japan and strengthening promotional capabilities in other countries.

The Company announced a business alliance with Minimal Technologies, inc., which operates the WOVN.io tool for development of multi-lingual Web sites, in February 2017. Provision of WOVN.io to EC businesses considering overseas initiatives enables them to realize multi-lingual Web sites in a short amount of time and at low cost. It also offers product delivery to overseas users and multi-lingual customer support at no charge (handled by tenso) by setting the "overseas transfer service" shown on the management screen to ON. This alliance should help in further expansion of partner sites.

Business outlook

The Company is also striving to broaden EC sites that support “Add to Buyee” and has a goal of supplying this tool to the top 400 companies in terms of transaction value. Addition of this tool improves convenience and contributes to larger transaction value. Efforts to bolster promotions to overseas users, meanwhile, include continued banner collaboration with Japanese EC sites and SEO measures as well as collaboration with retailers, including real-world stores, and media sources.

The Company projects higher sales and profits for the full year in the Global Shopping Business too. This business raises sales efficiency by providing individual members with suitable product information by deploying a personalizing function based on a proprietary recommendation engine and by building a mechanism that detects the latest trends and other developments for use in effective promotional activities. Additionally, the Company started product data collaboration with a major domestic auction site in August 2016 and submits some eBay product to this site via sekaimon. It intends to expand GMV by broadening submitted item volume and increasing partner sites.

(2) Value Cycle Business

The outlook targets ¥10,850mn in sales (up 12.7% YoY) and ¥430mn in operating profit (up 29.9%) for Value Cycle Business. Progress toward full-year targets through 2Q was 49.8% in sales and 71.7% in operating income, on track with the plan. This business aims to expand the number of purchased items further from 2H by continuing advertising and promotions (mainly television commercials), expanding purchasing partners, and improving service functions using smartphones. On the selling side, it utilizes a strategy of maximizing income through the addition of sales channels in Japan and other countries to increase selling opportunities. The main cost initiative is reduction of business personnel costs. The Company hopes to lower the total personnel cost ratio by shifting from higher-priced dispatched personnel to part-time workers.

The C2C market, which includes mercari and other flea-market apps, has been growing over the past 1-2 years in the Internet-based used goods purchasing and selling market and is increasing transaction scale for brand items too. However, we do not expect an impact on the Company’s business for the time being. This is because flea-market apps mainly handle casual brands with an average selling price of less than ¥1,000 for reuse items versus Brandear’s emphasis on second-tier brands with an average selling price in the ¥1,000-10,000 range for reuse items. The business also caters to the demand of people who want to dispose of numerous used goods at a single time. Competition might intensify over the medium term, and the Company hence intends to continue developing added-value services, expanding sales channels, and implementing measures that raise awareness in order to maintain its competitive advantage.

(3) Retailing and Licensing Business

The outlook targets ¥8,650mn in GMV (down 2.4% YoY), ¥4,400mn in sales (down 3.5%), and a slight rise in operating income for Retail and Licensing Business. Progress toward full-year targets through 2Q was healthy at 52.4% in GMV and 57.9% in sales. Operating income, however, appears to have been less than 30%, partly due to weakness in the Internet Shopping Business. Profit might miss targets depending on the income trend in this business from 2H.

In the Producing and Licensing Business, the Company aims for higher sales and profits by promoting acquisition of attractive contents that fuel expansion of GMV and pursuing reinforcement of distribution network operations (adding people, etc.) in Japan and improvement in business efficiency.

Business outlook

In the Internet Shopping Business, the Company hopes to increase sales by expanding unique product line-ups and developing original products and revive earnings through measures that leverage e-commerce knowhow accumulated in the 17 years since beginning the business. Specific efforts include ramping up promotions to new customers, strengthening periodic purchase items (mainly in the beauty field), and expanding premium service benefits.

(4) Incubation Business

The outlook targets ¥1,300mn in sales (up 8.1% YoY) and ¥800mn in operating profit (up 3.5%) for Incubation Business. The Company expects to book gains on the sales of shares of some investee companies during 2H. Key events in making decisions to sell investee shares are the next round of investee financing, discovery of a new partner to accelerate growth, and an IPO.

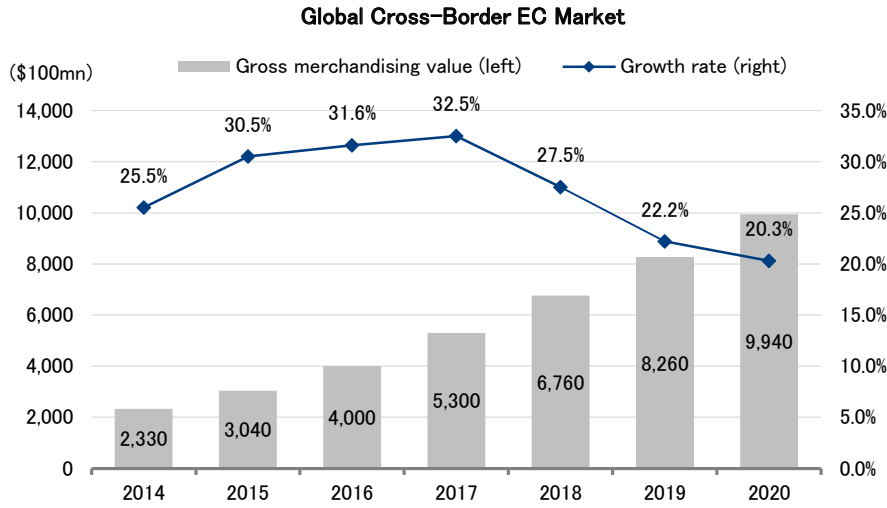
■ Medium-to-long-term growth strategy

Pursuing ¥100bn in GMV with support from expansion of the cross-border EC market

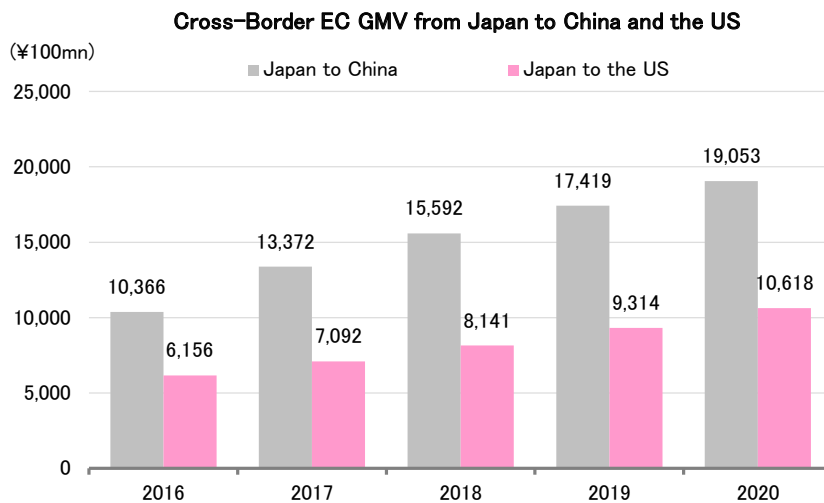
As its medium-to-long-term vision, the Company is aiming to be the “Neo-General Trading Company” that opens-up new markets and creates new industries based on IT technologies and the Internet. In addition to distributing Japanese products and content to marketplaces throughout the world, it intends to increase its enterprise value by building a global commerce platform to distribute products and contents from throughout the world in Japan and other Asian countries.

The global cross-border EC market is likely to continue growing at a 20-30% annual rate from an estimated \$400bn in 2016 to \$994bn in 2020 according to the “Market Survey on E-Commerce Transactions” report released by METI in April 2017. The survey forecasts annual growth rates in cross-border EC GMV from Japan through 2020 of 16.4% to China and 14.6% to the US. These trends should expand the respective markets by 1.8 times and 1.7 times compared to 2016 levels. We see significant business opportunities for the Company, which is involved in cross-border EC as a core business.

Medium-to-long-term growth strategy



Source: METI “Market Survey on E-Commerce Transactions” report (April 24, 2017)



Source: METI “Market Survey on E-Commerce Transactions” report (April 24, 2017)

The Company believes it is necessary to create a market worth a few hundred billion yen in GMV in order to realize the medium-to-long-term vision and has set a near-term target of ¥100bn in GMV with cross-border EC (Cross Border Business) driving this growth as the first step. It also aims to expand scale in the Retailing and Licensing Business by widening the domestic distribution network, developing attractive products and content, and expanding business to overseas markets. The Company will similarly promote growth in the Value Cycle Business through expansion of purchasing and selling channels. In overseas business, the Company will utilize the existing network with partners and investees that it has already built, pursue further expansion of the network, and increase business scale and create new businesses that utilize big data obtained from these activities.

■ Shareholder return policy

Plans to pay an ¥18 dividend in FY7/19 that includes a ¥5 commemorative dividend for the TSE-1 listing

The Company started paying a dividend from FY9/15 as a shareholder return measure. It plans to pay an ¥18.0 dividend in FY9/17 with a ¥5.0 commemorative dividend for the TSE-1 listing at the interim timing and a ¥13.0 ordinary dividend at period-end. The Company retains its existing dividend policy of paying a dividend that reflects earnings growth while taking into account financial standing, investment funding needs, and business results.



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