

**Estore Corporation**  
4304 JASDAQ

11-Mar.-15

Important disclosures  
and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
Hiroyuki Asakawa

## ■ Driving Further Expansion and Higher Profitability Through a Comprehensive eCommerce Support Producer Strategy

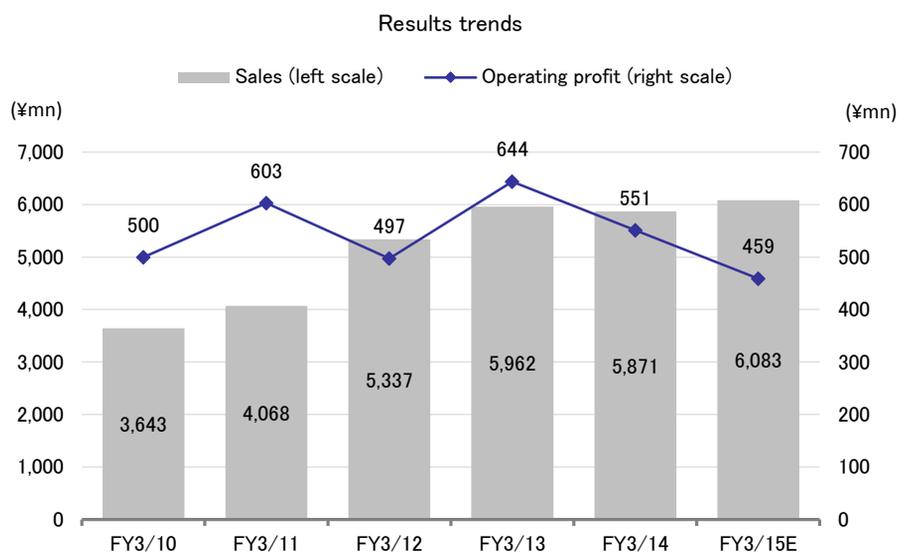
Estore Corporation (4304) has attained growth by providing Application Service Provider (ASP) services designed to support the eCommerce (EC) activities, with a focus on specialty stores such as private shops and certain small and medium-sized retailers. These ASP services make up the Systems Business, Estore's core earnings driver at present. However, given the large number of entrants into the ASP EC support service space, the earnings growth potential for individual corporate entrants is actually slowing, despite the high growth potential of the market as a whole. In response, Estore has embraced a policy of enhancing its medium to long-term growth prospects by evolving into a "Comprehensive EC Producer." This will entail extending its operations in the EC support field to marketing support activities, such as consulting on marketing and providing marketing agency services. Estore has positioned the Marketing Business as the segment responsible for developing this new business field. Estore is currently implementing business structure reforms focused on two priorities: (1) Structurally enhance the Systems Business and (2) Nurture the Marketing Business.

With around 50-60% of its business structure reforms now complete, Estore has set a firm direction for the future. In the Marketing Business, Estore has expanded its target customers to middle-tier companies with sales of up to around ¥10bn. Although this target extends beyond Estore's existing customer base, it is a market segment that has compelling needs for the Company's marketing services. Estore's Marketing Business stands out for the Company's expertise in marketing methods specific to specialty stores and in applying different marketing methods depending on the products handled. The Company has amassed expertise in this area over the past 15 years. Estore plans to drive business expansion by leveraging this expertise in the Marketing Business. At present, competitors are unable to match Estore's expertise in this area.

Looking at business performance in Q3 FY3/15, we note that the Systems Business is starting to show signs of bottoming out after experiencing persistent declines in the number of customers and sales hitherto. As the aforementioned Marketing Business comes fully online, we expect to see a more solid turnaround in the Systems Business. At the same time, we believe that this turnaround is a necessary precondition for the Marketing Business to succeed. FY3/16 will be a key year for putting the finishing touches on business structure reforms, and progress on both businesses will be watched closely. Thereafter, Estore is expected to return to a growth stage in terms of business performance. In the process, we believe that Estore's growth could accelerate in combination with initiatives such as M&As.

## ■ Check Point

- Entry into the fast-growing Internet advertising market with a unique strategy to support customers
- Initial full-year forecasts were maintained, factoring in investments in business structure reforms
- Shifting to the final stage of business structure reforms in FY3/16



## ■ Progress on Business Structure Reforms and Future Policies

### Targeting Evolution by Capturing Synergies Between the Founding Business and the Marketing Business

#### (1) Overview of Business Structure Reforms

Of Estore's two business segments, the Systems Business is the core earnings driver at present. As the Company's founding business, the Systems Business consists of the provision of ASP services to support EC, with a focus on specialty stores such as private shops and certain small and medium-sized retailers. In ASP EC Support services, there is the "specialty store" model and an opposing concept known as the "shopping mall" model, of which major examples are Amazon and Rakuten (4755). Estore's strengths lie in its focus on the "specialty store" model, and the expertise it has developed over the past 15 years in EC for specialty stores. More specifically, Estore provides individual services such as shopping cart and settlement functions, as well as the development and operation of EC websites, either separately or as an integrated package via the cloud. Behind the scenes, however, Estore has developed expertise on marketing methods unique to specialty stores and honed the application of different marketing methods for each type of product.

The core product of Estore's Systems Business is a comprehensive support service marketed under the product name Shopserve. Estore is working to drive earnings growth by increasing the number of Shopserve subscriptions. As of March 31, 2012, the number of Shopserve subscriptions alone reached 21,340. However, Estore is working to achieve structural improvements in terms of profitability by reshaping and integrating ASP services, notably Shopserve. And by nurturing the Marketing Business, its other operation, Estore has set a clear policy of evolving into a Comprehensive EC Support Producer.



Estore Corporation  
4304 JASDAQ

11-Mar.-15

Outline of Systems Business

	Service Provided	Service Description & Operating Strategy		
Systems Business (Formerly EC Business)	"storetool"	Shopping cart service		
	"Siteserve"	Rental server operations		
	"Shopservice"	ASP eCommerce support service		
		Core service, including storetool & Siteserve functions		
	Sales method	Content	Cumulative number of subscriptions*	Stance
Direct sales	Directly subscribe with Estore	9,984	Maintain & strengthen as a "core business"	
Agency sales	Subscribe via agent	3,140	Maintain & strengthen as a "core business"	
OEM sales	Back office & Estore support for business alliance partners	0	Work to reduce due to low margins ⇒ Attained zero subscriber target by end FY3/14	

\* Cumulative number of subscriptions is as of December 31, 2014.

Estore embarked upon this shift in policy because of a change in the business environment faced by the Systems Business. In other words, in the ASP EC Support service market, competition has continued to intensify, fueled by a notable increase in the number of competitors entering the market. In addition, the growth model for this business is basically premised on increasing the number of subscriptions. However, capital investment and other outlays are needed to support subscriber growth. Therefore, Estore runs the risk of falling into a negative cycle where cost effectiveness deteriorates as more and more investment is needed to win new subscribers. Estore is a pioneering EC support services company, but it undeniably faces these sorts of risks beneath the surface.

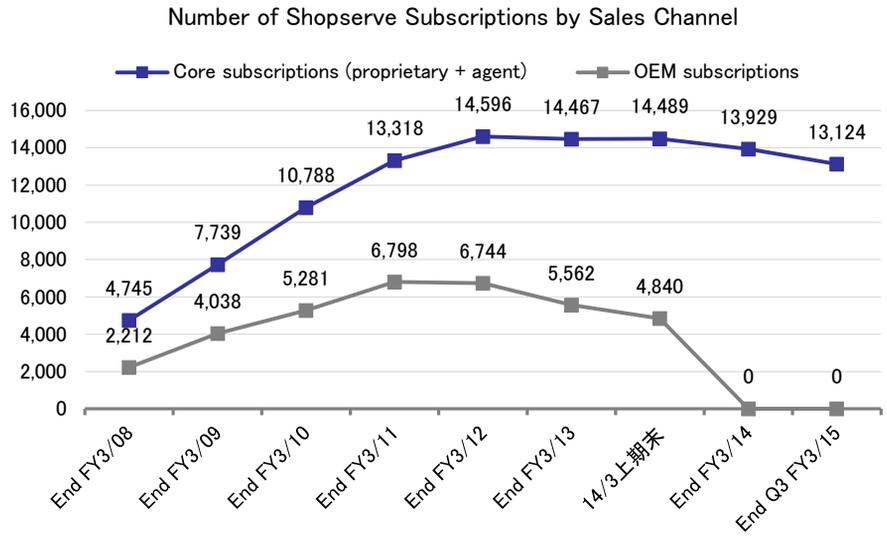
On the other hand, as mentioned above, Estore possesses a wide breadth of experience and expertise in EC support developed by focusing on specialty stores over the past 15 years since its founding. In addition to the Systems Business, where it has primarily offered ASP services, Estore has built up a solid track record in the Customer Attraction Business, another operation designed to help subscribers attract customers to their EC websites and to help them boost their sales. The main thrust of Estore's business structure reforms is to reposition the Customer Attraction Business as the Marketing Business and to generate earnings by deepening relationships with its subscribers. The goal is to attract even more customers to its subscribers' EC websites and improve rates of purchase by leveraging Estore's expertise in specialty stores. Specifically, Estore intends to get even more closely involved with the frontlines of its subscribers' businesses by providing consulting and marketing agency services, with the view to providing a full-range of services encompassing advertising agency services as necessary.

The driving force behind structural improvements in the Systems Business is simply to improve profitability. Previously, many of Estore's customer subscriptions were OEM subscriptions entered into with business alliance partners at the time of Estore's founding under their proprietary brands. Although one issue with the OEM subscriptions was their low profitability, they initially fulfilled the role of underpinning Estore's earnings in the initial founding period. Thereafter, however, Estore established its own presence and competitiveness by making Shopservice its core product, in tandem with steadily increasing the number of highly profitable proprietary subscriptions. At this time, Estore has decided to proactively dissolve these OEM subscriptions as the underlying business alliances are now coming to an end. This forms the essence of structural improvements in the Systems Business.



Estore Corporation  
4304 JASDAQ

11-Mar.-15



## Entry into the fast-growing Internet advertising market with a unique strategy to support customers

### (2) Description of the Marketing Business

The aim of the Marketing Business, a key priority for Estore, is to attract customers on behalf of client companies and to thereby boost their sales. This is a field where Estore has long been active. Specifically, Estore’s business to support customer attraction and sales growth can be traced back to the launch in November 2006 of Shoppingfeed, a tool designed to help client companies attract customers. This business fully came into its own with the conversion in June 2011 of advertising agency Precision Marketing Inc. into an Estore consolidated subsidiary. Precision Marketing conducts an Internet advertising business targeting customers in fields other than e-commerce.

As part of business structure reforms, Estore is strengthening its hand in the Marketing Business. Our understanding is that what makes these reforms different than those in the past is that Estore itself is carrying out the reforms. Although the details will be discussed later, Estore has EC expertise amassed over the past 15 years as an EC support company focused on specialty stores. By effectively utilizing this expertise for the sake of its customers, Estore intends to help customers attract more customers and boost their sales, but the planned course extends beyond the advertising business carried out by its subsidiary. The Estore Parent plans to win new customers by putting consulting and its marketing agency services front and center, even ahead of its other services. Needless to say, the Internet advertising agency business is positioned as a crucial means of achieving Estore’s goals. In fact, Estore has said that it could very well conduct an advertising agency business itself in certain situations.

In light of these differences in approaches, Estore sometimes explains marketing operations at the Estore Parent by referring to them as the “New Marketing Business,” thereby distinguishing them from operations at Precision Marketing, which are referred to as the “Existing Marketing Business.”



Estore Corporation  
4304 JASDAQ

11-Mar.-15

Outline of the Marketing Business

	Target customers	
	Corporate Subscribers in the Systems Business	General External Corporates
Customer attributes Operating entity	eCommerce companies Estore Parent	eCommerce companies Estore Parent Bricks & mortar shops/companies Precision Marketing Inc.
Earnings acquisition model	○Advertising agency fees ○Consulting fees ○Marketing agency fees ○Increase in sales-linked commissions in the Systems Business	○Advertising agency fees ○Consulting fees ○Marketing agency fees
Size of customer's business	Private shops to SMEs	Middle-tier companies
Growth potential	Limited	Unlimited for Estore

(a) the size of the target market and (b) the Company's unique business strategy for entering the market.

**(a) Size of the Target Market**

In the Marketing Business, Estore is targeting companies with sales of around ¥100mn to ¥10bn. In comparison with the target customers in the Systems Business, which includes private shops and startup companies, the Marketing Business has a targeted base of customers whose businesses are one or two orders of magnitude larger. Because Estore has extended the scope of potential customers while focusing on a particular type of customer, the number of customers in the Marketing Business will obviously be smaller than in the Systems Business. However, even after focusing on a particular type of customer, we believe that there is still an immense number of potential customers, making the size of the market enormous.

For reference, we estimated the number of Estore's potential customers. According to the "2012 Economic Census for Business Activity" by the Ministry of Internal Affairs and Communications, there were 4,128,215 companies in Japan. Of the total, around 2.7 million companies fall into the category of companies with 1 to 4 employees. Assuming that the targeted companies with net sales of ¥100mn to ¥10bn fall into the categories of companies with 10-19 employees and 300-999 employees, the number of companies in these categories would be 697,675, as shown in Table 3. The reason we say there is an immense number of potential customers is that we believe that Estore has in fact seen that there is a huge number of customers, as the above statistics suggest, through its marketing and other activities.

Even with this vast potential target customer base, the most important question is whether Estore can actually win customers over as planned. Considering that companies with net sales of around ¥10bn are different from the customer base of the Systems Business, Estore will need to find new customers. In this regard, Estore is strongly confident about its prospects for winning new customers, given the strong potential demand for the Marketing Business services that Estore intends to provide. In light of research and fact-finding inquiries we have undertaken at Estore's peer companies, we believe that the Company indeed makes a persuasive case.



Estore Corporation  
4304 JASDAQ

11-Mar.-15

**Estimated Number of Potential Customers in each Estore business**

(Companies)	Number of companies, etc.	Estore's potential customer base
1~4 employees	2,691,725	4,117,613 companies: Potential customer base of the Systems Business
5~9 employees	728,213	
10~19 employees	367,907	
20~29 employees	121,795	
30~49 employees	89,055	
50~99 employees	64,502	
100~299 employees	41,544	
300~999 employees	12,872	
1,000~1,999 employees	2,269	
2,000~4,999 employees	1,207	
5,000 employees or more	579	697,675 companies: Companies with net sales of ¥100mn to ¥10.0bn = Potential customer base of Estore's Marketing Business
Employees on assignment and temporary employees only	6,547	
Total	4,128,215	

Source: Prepared by FISCO based on the "2012 Economic Census for Business Activity" by the Ministry of Internal Affairs and Communications

**(b) The Company's Unique Business Strategy for Entering the Market**

The essence of Estore's unique business strategy, i.e. the factors that differentiate the Company, can be summarized in the following two points: (1) Estore is well versed in marketing methods unique to specialty stores and in applying different marketing methods depending on the products handled by each specialty store based on its 15 years of experience as an EC support company, and (2) Very few companies are able to provide consulting and agency services spanning the whole marketing process (customer attraction, website production, e-mail magazine initiatives, etc.), although some companies are able to provide consulting on a specific part of the whole. Estore is one of only a handful of companies that possesses expertise spanning the whole marketing process.

Specifically, Estore analyzes the characteristics of the products and markets of its client companies and proactively provides consulting services on topics such as initiatives to boost sales and how to run advertisements to this end. After the advertising is placed, Estore analyzes the results and uses this analysis to provide in-depth consulting that extends all the way to revising advertising methods and modifying EC websites. Furthermore, in cases where companies other than Estore are involved as advertising agencies, Estore also envisions serving as a contact point with the advertising agency on behalf of the advertising manager at the client company. These tasks are considered to be labor-intensive on-site work, and are often undertaken by employees in the relevant departments of client companies. By taking on this type of on-site work, Estore plans to differentiate itself from specialized Internet advertising agencies in an effort to increase subscriptions.

**Providing One-Stop Solutions Spanning EC WebSite Development and Operation, and Internet Advertising Agency Services**

**(3) Sales Strategy: "Estore" as the Core Product**

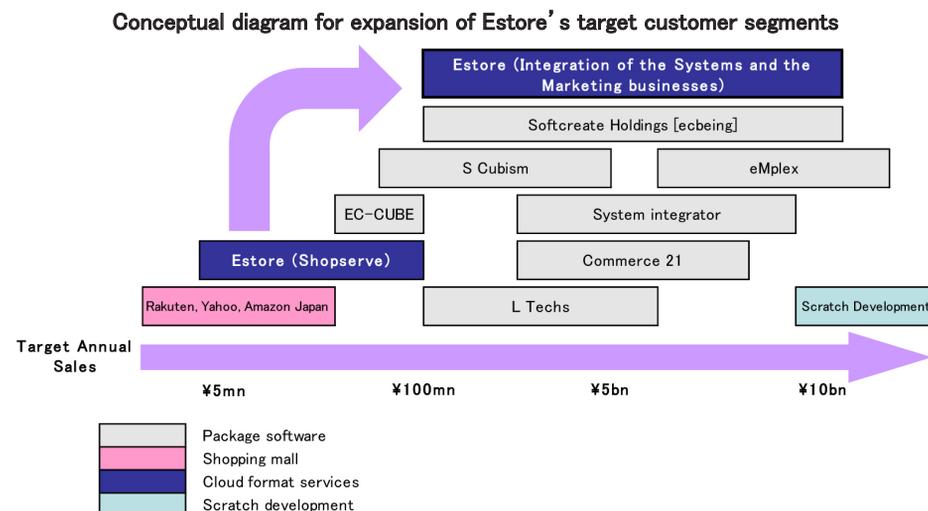
The main thrust of the business structure reforms advanced by Estore is to market services that are designed to develop strong-selling online shops, not services needed to open an online shop such as the ASP EC Support service (Shopservice). In this sense, Estore must now market the Company itself as its "core product." Put differently, the Company's core product is now "Estore" itself. The essence of Estore is embodied by a focus on applying expertise amassed in the Systems Business to marketing and thereby boosting the sales of client companies.



Estore Corporation  
4304 JASDAQ

11-Mar.-15

It is important to note that Estore targets different customers in the Systems Business and the Marketing Business. Whereas most customers in the Systems Business are small and medium-sized retailers and private shops, the main customer base of the Marketing Business consists of middle-tier companies with net sales of ¥100mn to ¥10bn, as shown in the diagram below. For this reason, there are limits to how far Estore can succeed with a sales strategy premised on winning Marketing Business contracts on top of business from existing Systems Business customers. However, winning new customers remains vital to fulfilling Estore’s growth aspirations. In this respect, we believe that there have long been unmet needs for the services that Estore is trying to provide in the Marketing Business, and therefore investors have no need to be unduly concerned about the Company’s prospects for winning new customers in this business.



As we have looked at so far, the essence of the Company’s business structure reforms lies in rigorously adhering to a marketing approach that promotes “Estore as the core product.” This will entail integrating the Systems Business and the Marketing Business. At present, the Company’s management is focusing on drumming this mindset into the frontline sales teams. At the same time, management is giving top priority to the recruitment and training of sales representatives, even at the cost of slowing efforts to win new customers, in order to bolster the sales teams. In the course of recruiting new sales representatives, Estore appears to be focusing on bringing in human resources with strong communication skills and career backgrounds in the industries of its potential customers, rather than emphasizing experience in the advertising agency business. We highly commend these recruitment policies based on our belief that they make good sense in light of Estore’s strategies.

### Q3 FY15/3 Business Performance Largely in Line With Progress on Business Structure Reforms

#### (4) Progress Update: Q3 FY15/3 Business Performance

In Q3 FY3/15 (nine-month results), sales were ¥4,316mn (down 0.8% y-o-y), operating profit was ¥473mn (up 3.0% y-o-y), recurring profit was ¥474mn (up 2.8% y-o-y) and net profit was ¥298mn (up 6.2% y-o-y). Comparisons against initial forecasts are not available as Estore did not disclose its initial forecasts for Q3 FY3/15. That said, based on Estore’s initial full-year forecasts, the seasonality of its earnings and other factors, we believe that Estore outperformed its initial forecasts for Q3 FY3/15. By segment, the Systems Business reported sales of ¥2,913mn (down 6.6% y-o-y), operating profit of ¥627mn (down 8.9% y-o-y). The Marketing Business reported sales of ¥1,403mn (up 13.9% y-o-y; Existing Marketing Business: ¥1,083mn and New Marketing Business of ¥319 million) and an operating loss of ¥151mn (compared with an operating loss of ¥226mn in Q3 FY03/14). Business performance was largely in line with progress on the business structure reforms advanced by the Company.



Estore Corporation  
4304 JASDAQ

11-Mar.-15

## Overview of Q3 FY3/15 Business Performance

(Units: ¥mn)

		FY3/13	FY3/14		FY3/15
			Q3	Full year	Q3
Systems Business	Sales	4,236	3,119	4,136	2,913
	Y-o-Y change	-	-1.9%	-2.4%	-6.6%
	Operating profit	797	688	851	627
	Y-o-Y change	-	10.5%	6.8%	-8.9%
Marketing Business	Sales	1,726	1,232	1,734	1,403
	Y-o-Y change	-	-4.2%	0.5%	13.9%
	Existing Marketing Business (Precision Marketing Inc.)	1,469	958	1,344	1,083
	Y-o-Y change	-	-	-8.5%	13.0%
	New Marketing Business	256	273	389	319
	Y-o-Y change	-	-	51.9%	16.8%
	Operating profit	-148	-226	-296	-151
Consolidated Total	Sales	5,962	4,351	5,871	4,316
	Y-o-Y change	11.7%	-2.6%	-1.5%	-0.8%
	Operating profit	644	459	551	473
	Y-o-Y change	29.6%	-13.8%	-14.4%	3.0%
	Operating profit margin	10.8%	10.6%	9.4%	11.0%
	Recurring profit	659	462	554	474
	Y-o-Y change	31.0%	-14.3%	-15.9%	2.8%
	Net profit	389	281	323	298
Y-o-Y change	38.9%	-12.1%	-17.0%	6.2%	

In the Systems Business, the number of low-margin Shopserve OEM subscriptions was reduced to zero as of March 31, 2014. In Q3 FY3/15, Estore worked to shift from quantity to quality, or in other words to shift gears from “increasing the number of subscriptions” to “increasing the sales of client subscribers.” As a result, sales per store increased 7% y-o-y, indicating a steady shift to this new priority.

In the Marketing Business, Estore itself has noted that “monetization is running behind schedule.” As Estore has explained previously, this merely reflects the fact that the New Marketing Business was launched around one year behind the initial schedule drawn up by Estore management. Estore cites the time needed to prepare for marketing activities targeting corporations as the reason for this delay. Business performance during the nine-month period of Q3 FY3/15 seems to have progressed largely as initially planned. The Company is said to have around several dozens of subscribing customers in the New Marketing Business as of December 31. These customers include large corporations. It appears that Estore has successfully developed services, contract details and other business parameters in line with its target business model. For example, Estore is providing marketing consulting services to those large corporate clients.

In our view, the most commendable aspect of Estore’s business performance in Q3 FY3/15 is that the Systems Business is showing signs of bottoming out. The Systems Business is not only the Company’s current earnings driver, but it is also expected to remain a crucial earnings driver alongside the Marketing Business for the foreseeable future. Therefore, we believe that any continued decline in the number of subscriptions in the Systems Business is a significant negative factor for the Company. Although the number of subscriptions decreased considerably in Q3 FY3/15, Estore has successfully retained the subscribers that it considers to be key customers. As stated earlier, Estore has set a clear policy of focusing on finding new customers by integrating subscriptions in the Systems Business with subscriptions in the Marketing Business. For this reason, we believe that the bottoming out of the Systems Business, which serves as the driving force behind the Company, and success in the Marketing Business are two sides of the same coin. That is why we believe that the confirmed bottoming out of the Systems Business is immensely significant.

We encourage readers to review our complete legal statement on “Disclaimer” page.

## ■ Performance Outlook and Medium and Long-Term Growth Scenario

### Initial full-year forecasts were maintained, factoring in investments in business structure reforms

#### (1) FY3/15 Performance Outlook

For FY3/15, Estore forecasts sales of ¥6,083mn (up 3.6% y-o-y), operating profit of ¥459mn (down 16.6% y-o-y), recurring profit of ¥459mn (down 17.0% y-o-y) and net profit of ¥268mn (down 17.2% y-o-y). Estore has not revised its initial forecasts.

Estore is making investments to shift from EC support to advertising services and consulting. The Company notes that the timing and speed of those investments have fallen slightly behind schedule.

Nonetheless, we believe that Estore's performance in both the Systems Business and the Marketing Business is returning to a growth stage. In FY3/15, we see the Company as laying the groundwork for accelerating future growth by allocating surplus earnings capacity to investment. Therefore, we believe that Estore will show a steady turnaround in its full-year business results for FY3/15 while bearing its investment burden for the future.

#### Profit & Loss Statement

(Units: ¥mn)

	FY3/13	FY3/14		FY3/15	
		Q3	Full year	Q3	FY3/15E
Sales	5,962	4,351	5,871	4,316	6,083
Y-o-Y Change	11.7%	-2.6%	-1.5%	-0.8%	3.6%
Gross profit	1,849	1,377	1,847	1,325	-
Gross profit margin	31.0%	31.7%	31.5%	30.7%	-
SG&A	1,204	918	1,295	852	-
SG&A margin	20.2%	21.1%	22.1%	19.7%	-
Operating profit	644	459	551	473	459
Y-o-Y Change	29.5%	-13.8%	-14.5%	3.0%	-16.6%
Operating profit margin	10.8%	10.6%	9.4%	11.0%	7.5%
Recurring profit	659	462	554	474	459
Y-o-Y Change	30.9%	-14.3%	-16.0%	2.8%	-17.0%
Net profit	389	281	323	298	268
Y-o-Y Change	38.8%	-12.1%	-16.9%	6.2%	-17.2%



Estore Corporation  
4304 JASDAQ

11-Mar.-15

## Balance Sheet

(Units: ¥mn)

	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	Q3 FY3/15
Current assets	2,054	2,274	2,595	3,326	3,695	2,847	3,377
Cash & deposits	1,558	1,708	1,973	2,327	2,874	2,005	2,573
Accounts receivable	378	427	456	749	645	722	695
Other current assets	118	139	166	250	176	119	108
Fixed assets	760	928	787	687	739	620	529
Tangible fixed assets	181	247	214	187	198	159	117
Intangible fixed assets	167	271	292	310	282	216	156
Investments & other	760	410	280	189	258	244	255
<b>Total Assets</b>	<b>2,814</b>	<b>3,202</b>	<b>3,383</b>	<b>4,013</b>	<b>4,434</b>	<b>3,468</b>	<b>3,907</b>
Current liabilities	1,338	1,631	1,753	2,178	2,293	2,291	2,642
Accounts payable	89	118	123	276	411	412	361
Short-term borrowings	0	0	0	6	7	106	104
Deposits held	897	1,090	1,204	1,465	1,388	1,395	1,834
Other current liabilities	352	423	426	431	487	378	341
Fixed liabilities	0	0	10	26	20	139	62
Long-term borrowings	0	0	0	15	9	127	49
Other liabilities	0	0	10	11	11	12	13
Shareholders' equity	1,486	1,580	1,612	1,795	2,087	996	1,149
Paid-in capital	523	523	523	523	523	523	523
Capital surplus	539	539	539	539	539	539	539
Retained earnings	1,084	1,300	1,541	1,724	2,016	2,221	2,426
Treasury stock	-661	-782	-992	-992	-992	-2,287	-2,339
Other accumulated comprehensive income	-10	-10	5	-1	5	0	4
Stock subscription rights	0	1	2	2	2	0	0
Minority interests	0	0	0	13	27	41	46
<b>Total net assets</b>	<b>1,476</b>	<b>1,571</b>	<b>1,619</b>	<b>1,809</b>	<b>2,121</b>	<b>1,037</b>	<b>1,201</b>
<b>Total Net Assets &amp; Liabilities</b>	<b>2,814</b>	<b>3,202</b>	<b>3,383</b>	<b>4,013</b>	<b>4,434</b>	<b>3,468</b>	<b>3,907</b>

## Final Stages of Business Structure Reforms in FY3/16

### (2) Approach to Business Performance from FY3/16 Onward and Medium and Long-term Growth Scenario

Estore initiated business structure reforms three years ago in FY3/12. The Company's current assessment is that it has completed 50-60% of the entire process. During this time, Estore's business performance has remained mostly flat since peaking out in FY3/13.

As looked at earlier, Estore now has a clearer picture of its future growth scenario and this is also starting to reflect in its business performance. In an interview with us, Representative Director Kenichi Ishimura of Estore said, "We now expect to complete all of the remaining business structure reform processes in half to one-third of the time taken so far." Mr. Ishimura is clearly stating his intention to speed up the pace of business structure reforms going forward. This means that FY3/16 will be a key year for putting the finishing touches on business structure reforms.

Estore has not currently made clear whether or not the final-stage year will be one that will also entail investment, or a year for reaping returns. If it is the former, then performance is highly likely to remain mostly the same for one more year, whereas if it is the latter, we can expect Estore to return to an earnings growth trajectory. Based on interviews conducted with the Company so far, we have the impression that Estore puts stronger emphasis on solid medium and long-term growth than on short-term profits. Accordingly, our present view is that the former scenario is more likely than the latter.

As Estore returns in earnest to a high growth trajectory over the medium term, we believe that the Company could choose to take steps to expand business through M&As and other actions, in addition to driving the growth of the Marketing Business. One reason for this belief is Estore's purchase of treasury stock from Yahoo Japan Corporation (4689) (2,198,500 shares for ¥2,339mn as of September 30, 2014). In addition, if Estore is able to build confidence by restoring growth to the Systems Business and making a success of the Marketing Business, we believe that this confidence will embolden the Company to take on more financial risk. Many different scenarios are conceivable in the event that Estore were to conduct an M&A deal. Examples include deals that strengthen the Marketing Business and acquisitions of platforms that assist with the sales promotions of client companies. Because Estore conducts two types of businesses, namely EC systems and Internet advertising agency operations, we believe that its businesses cover an expansive range of fields and are able to easily capture synergies. It is well within Estore's reach to restore its standing as a high-growth enterprise with its two existing businesses alone. Combined with additional initiatives such as M&As, we believe that Estore offers all the more the potential for faster acceleration of growth.

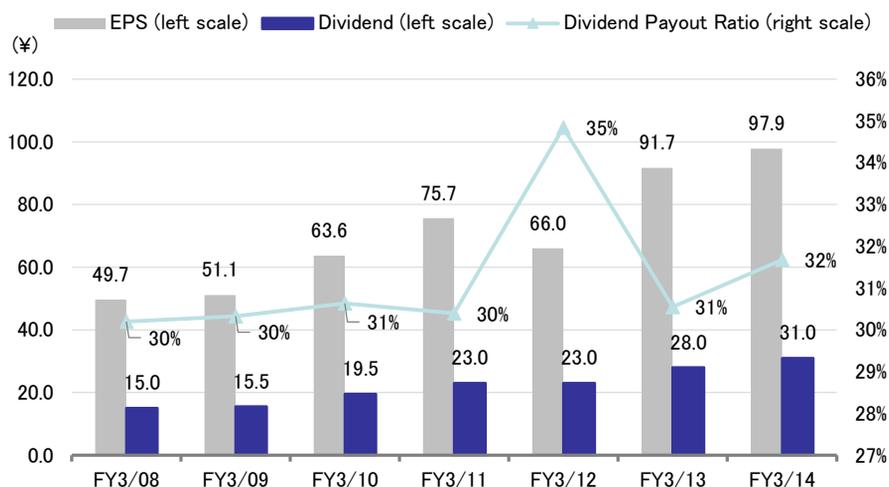
## ■ Shareholder Returns

**The dividend payout ratio is likely to be maintained at the same level as the previous fiscal year, although dividend forecasts have not yet been announced**

Estore basically provides shareholder returns through dividends. The Company issues dividends after taking into account a comprehensive range of factors, including business results, financial position and the need to retain ample internal reserves for investment in growth. While no official dividend payout ratio has been formulated, the foundation of Estore's thinking on the distribution of profits is its basic philosophy of "dividing profits between 3 groups: shareholders, customers and staff." The Company has a track record of setting dividends in line with this basic philosophy.

At present there has been no announcement in respect of the FY3/15 earnings per share (EPS) and dividend forecasts. Estore is forecasting net income of ¥268mn, a decrease of 17.2% y-o-y. Based on this forecast, we estimate Estore's EPS to be ¥88.8, factoring in the effect of the Company's acquisition of a large amount of treasury stock. The estimated dividend payout ratio, based on our EPS estimate and last year's actual annual dividend of ¥31 per share, is 35%. This value falls within the range of the Company's dividend payout ratio for the past seven fiscal years.

Trend in EPS, Dividend Per Share and Dividend Payout Ratio



## ■ Corporate Profile

### Business Platform Established with Shopserve in the Course of Developing EC Support Expertise

Established in February 1999, Estore started out in business by providing the storetool shopping cart service and the Siteserve webhosting service. Initially after its founding, Estore entered into marketing alliances with, among others, USEN Corp. (4842) (then called USEN Broad Networks Corp.), So-net Entertainment Corp. (then called Sony Communication Network Corp.) and the GMO Internet Group (9449) (then called Global Media Online, Inc.) and expanded its operations. Subsequently, the Company redesigned its service content and formed more alliances, entering into business alliances with Yahoo Japan Corporation (4689) and Kakaku.com, Inc. (2371).

In 2006, Estore launched its current core product Shopserve, a comprehensive EC support service provided as an ASP service. With Shopserve, Estore established a platform as an EC support services provider. The Company then entered the advertising business by converting Precision Marketing Inc. into a consolidated subsidiary in 2011. Estore had long been conducting activities based on the theme of determining how to boost the sales of its clients. One answer was the acquisition of the aforementioned subsidiary. Thereafter, the Estore Parent became actively involved in the Marketing Business to help its clients attract customers and increase sales, and set a clear policy of strengthening its hand in this field, leading up to the present day.



Estore Corporation  
4304 JASDAQ

11-Mar.-15

### Company History

February 1999	Founded Estore
July 1999	Started providing the shopping cart service storetool
September 1999	Started providing the web hosting service Siteserve
March 2000	Entered into a marketing alliance with USEN Corp. (then USEN Broad Networks Corp.)
June 2000	Entered into a marketing alliance with So-net Entertainment Corp. (then Sony Communication Network Corp.)
May 2001	Entered into a marketing alliance with GMO Internet, Inc. (then Global Media Online, Inc.)
June 2003	Changed name to Estore Corporation
July 2004	Established a business and capital tie-up with iFLAG Co., Ltd. (then Telewave Inc.)
November 2005	Established a business alliance with Yahoo Japan Corp.
November 2005	Established a business alliance with Kakaku.com, Inc.
January 2006	Started providing the Shopperserve comprehensive eCommerce support service under its proprietary domain
July 2006	Entered into a capital and business alliance with EC Holdings, Inc., and started providing the EC Omakase service
November 2006	Launched the product search site Shoppingfeed
November 2006	Number of corporate users surpasses 40,000
July 2010	Established the EC Partners business through joint investment with Intelligence, Ltd.
October 2010	Signed a partnership agreement with Google Shopping
June 2011	Converted Precision Marketing Inc. into a consolidated subsidiary
July 2012	Established the Sapporo Marketing Factory
October 2012	Established the shopping site PARK, featuring shopping recommendations issued by “curators” in 34 genres
April 2013	Started providing the product data feed service PARK Marketplace
October 2013	Started providing the Single Hand simple customer acquisition service

Estore is currently made up of two business divisions. The Systems Business is a business division that provides ASP EC support services, notably Shopperserve. Its earnings model is based on the collection of monthly system usage fees from corporate subscribers, in addition to collecting a fixed percentage of sales as commissions such as settlement agency fees.

The Marketing Business helps clients to attract customers and increase their sales, and is run primarily by Estore subsidiary Precision Marketing and the Estore Parent. At present, Precision Marketing serves customers in fields other than EC, while the Estore Parent serves EC companies. Leveraging expertise amassed over the years, the Marketing Business seeks to establish a business model that helps customers to achieve their goals by combining a variety of methods such as consulting, marketing agency services, and Internet advertising.

## Disclaimer

FISCO Ltd. (the terms "FISCO", "we", mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the "JASDAQ INDEX" are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of this report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.