Estore Corporation
4304 JASDAQ

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Concentrating investment in the Promotions Business and implementing fully fledged measures to strengthen profitability

Estore Corporation <4304> (hereafter, also "the Company") is a comprehensive provider of eCommerce (EC) support services. It develops two businesses as its "framework" for EC; the Systems Business for the provision of ASP services, and the Marketing Business, of (EC) services to support revenue growth in client companies.

Over the last few years, the Company has been focusing on strengthening its Marketing Business. It further advanced this approach in FY3/16 and its policy of concentrating investment in and strengthening the Promotions Business within the Marketing Business has become clear. This strategy is presumably based on the confidence that the Company gained from its achievement of a certain level of results in its business activities over the last few years, and the possibilities it sees for further growth in the future.

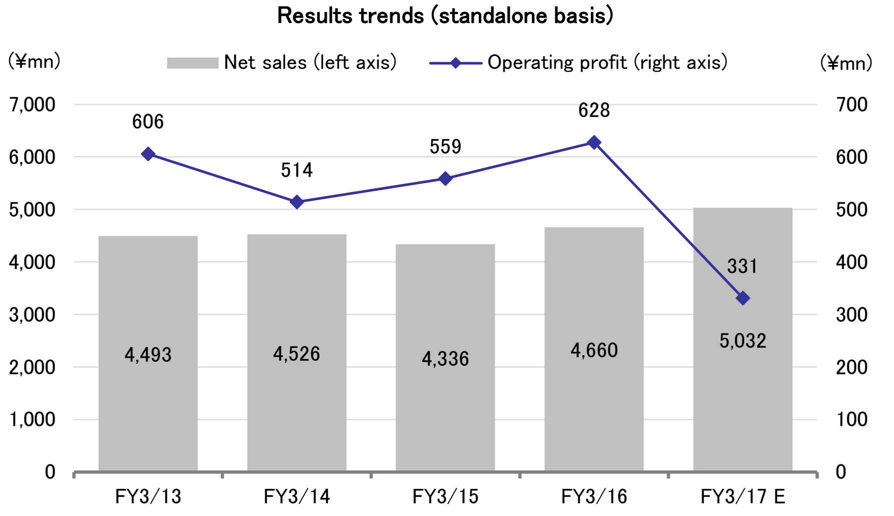
The aim of the Promotions Business is to increase customer visits to clients' EC websites and thereby increase sales, and toward this, it provides services to handle a wide range of operations, including research and analysis, consulting, customer-attraction agency services including advertising, and management agency services for EC operations. The Company is utilizing the knowledge, experience, and expertise in specialty store-type EC acquired in the 15 years since its establishment, and its policy is to provide services not only for its existing ASP service clients, but also targeting medium- and large-size companies with sales ranging from a few billions of yen to a hundred billion yen.

On the one hand there are few powerful competitors in the business area of the Promotions Business, but on the other hand the number of potential client companies is thought to be as many as about 700,000. So for the time being, there is little risk of the market falling into a state of excessive competition, and the Company's new service, of EC support one-stop solutions, will lead to a market expansion while it competes with its industry peers. What will be most important to realize this expansion is human resources, and the approach shown by the Company is to not neglect prior investment for this aspect. But there are few human resources that satisfy its requirements, so the situation is that there has been a delay in establishing a personnel system.

The financial results have been solid, with a decrease in sales but an increase in profits in FY3/16. The decrease in sales was due to the change in the consolidation period of a subsidiary, and in actual terms sales increased. The increase in profits was because of the postponement of the planned prior investment. A major fall in profits is forecast in FY3/17 based up the same assumption as up to the present time of the recording of prior investment costs, but this will mainly be to acquire personnel for the Promotions Business. The best scenario for the Company at the present time can be said to be that it able to acquire personnel as forecast, even if, for example, profits decline.

Check Point

- Business is comprised of the Systems Business and the Marketing Business
- Is focusing investment in the Promotions Business within the Marketing Business
- Its support business for specialty store-type EC websites is a strength



Description of Business

Business is comprised of the Systems Business and the Marketing Business

Overview of the two businesses

As its business segments, the Company has a two business system; the Systems Business and the Marketing Business. The Systems Business was the business on the Company's establishment, and it entails the provision of IT services to clients engaged in eCommerce (EC). Initially, it started as a shopping cart service, then passed through the provision of rental servers that are needed to launch a website, then in 2006 changed to the provision of the Shopserve EC service, and it has now been completed as the current system of services. Shopserve is an ASP service that integrates into a single service aspects such as a store's website, domain, email, payments, ordering, and customer management in a so-called Internet sales system.

In the Systems Business revenue model, revenue is classified into two main types; the collection of monthly ASP service usage fees from clients, and the collection of a fixed percentage of customer net sales under the name of payment agency commissions (via the stores' websites on Estore's Shopserve). The Company, separates and manages the Systems Business net sales into "stock-type revenue (net sales)," of monthly usage fees and other revenue that has the same quality as these fees, and "flow-type revenue (net sales)," which is revenue linked to the net sales of the latter.

The growth model naturally changes from the stock and flow revenue. As the stock-type revenue is determined by the number of subscribing companies and the monthly unit price, revenue growth requires the expansion of one or both of these two elements. Conversely, flow-type revenue is determined by the clients' net sales multiplied by the Company's commission percentages, and as there is an upper limit to the increase in this percentage, the primary growth scenario for the Company is to expand its clients' net sales.

The Company created the Marketing Business to support its clients to increase their sales. It started it in 2006 with the provision of Shopping Feed, a product search site. Subsequently, in 2011 it made a subsidiary of Precision Marketing Inc., an Internet advertising agency, and began the fully fledged deployment of the Marketing Business. Also in 2012, the Company launched the PARK shopping mall website for its own clients. Further, since 2014, the Company has been utilizing its knowledge, experience, and expertise in specialty store-type EC operations that it has accumulated over 15 years and providing services to handle a wide range of operations, such as research and analysis, consulting, customer-attraction agency services including advertising, and management agency services for EC operations.

As a result of this sequence of events, based on the business itself and the contents of its services, the Marketing Business now contains three businesses; the Customer Attraction Business (Precision Marketing's business), the Media Business (management of the PARK shopping mall website), and the Promotions Business (provision of services for operations to increase clients' sales, including research and analysis, consulting, and agency services). This describes the situation up to FY3/16.

In this way, the Company's Systems Business and Marketing Business are the two main axes of its business, and they in turn lead to the axis of "increasing flow-type revenue." In terms of the outlook for the structural reforms the Company will advance and its business development in the future, at FISCO we think that in many cases there might be a tendency to feel entirely satisfied with an analysis and interpretation of them focused on this point.

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 Osaka Yusen Hososha)
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.)
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 Shopserve 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
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	Launched Shopping Feed Market Place, a product data feed service
October 2013	Started providing the Single Hand simple customer acquisition service
January 2016	Removed Precision Marketing from the scope of consolidation
April 2016	Strengthened the Promotions Business sales force

Source: prepared by FISCO

The Direction of and Progress Made in the Structural Reforms

Structural reforms under the slogan of quality over quantity

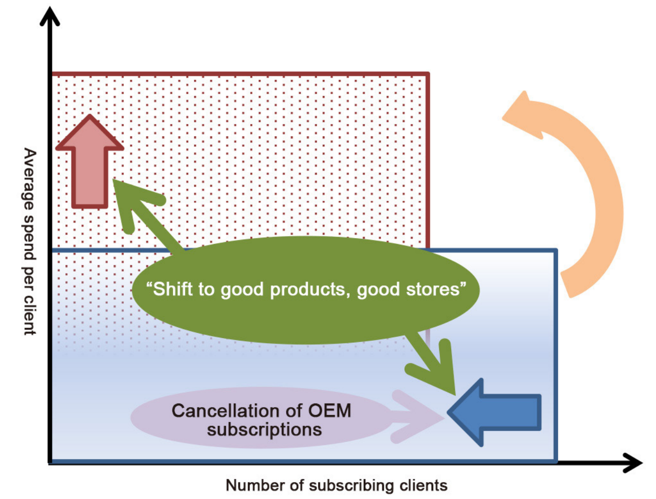
(1) Systems Business structural reforms and their progress

The Company embarked on structural reforms in the Systems Business at the comparatively early stage of around 2013. At that time, it had begun in earnest to develop the Marketing Business, but the Systems Business had the presence of supporting the Company as its source of revenue.

The structural reforms in the Systems Business mainly relate to the stock revenue. The background to the Company embarking on the structural reforms in this business is that it saw limits to the growth scenario from increasing the number of EC support service clients. Among the abundance of services of a similar type, the cost of acquiring clients no longer matched the actual costs of acquisition and the revenue unit price.

Therefore, the Company took two major steps. The first was to cancel OEM subscriptions, whose profitability had fallen, from among the clients with subscriptions to the mainstay Shopserve service. These were client subscriptions acquired through business partnerships with external companies in the period soon after the Company's establishment. As the business partners were placed between the Company and its clients, there was an imbalance for the Company between its revenue and costs, so it actively worked to cancel these OEM subscriptions

The structural reforms of the Systems Business stock revenue



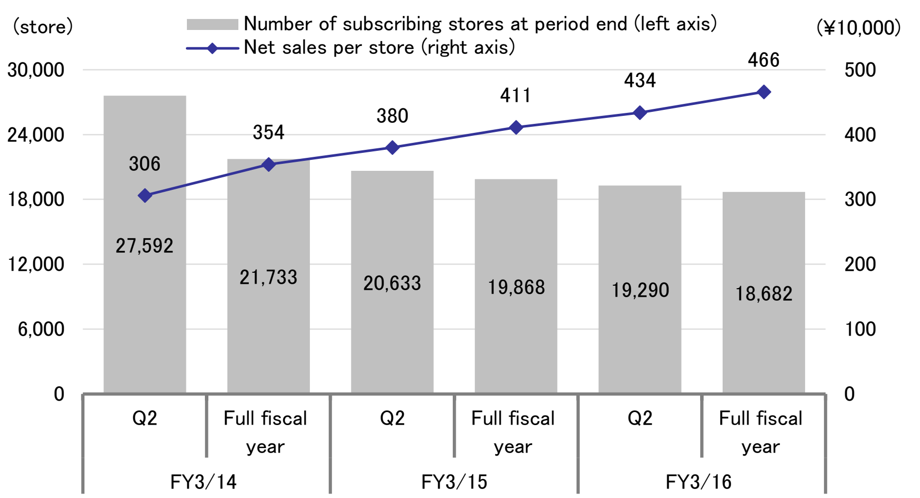
Source: prepared by FISCO

One more reform the Company took in a positive direction was to raise-up the average spend per client. Under the slogan of "quality over quantity," it shifted toward acquiring "good products, good store" as new clients, and it has been thoroughly focusing on stores that handle competitive products and with high profit growth, and also on medium-sized companies for which large sales volumes and high monthly unit prices are expected.

The effects of these measures are clearly appearing. Looking at the trends in the number of subscribing clients and nets sales per client store, as a result of the steps taken, of cancelling OEM subscriptions and shifting to good products, good stores, while on the one hand the number of subscribing stores has decreased, on the other hand net sales per store have risen 31.6% in the 2 year period from FY3/14 to FY3/16 (comparison on a full fiscal year basis).

Upon analyzing in more detail the factors behind the rise in net sales per store, we find that the decrease in store numbers had practically no effect (the denominator for the division becomes smaller) and in actual terms, store net sales have been increasing. This can be estimated to be from the fact that flow-type revenue is rising. The following reasons can be considered as the factors behind the actual increase in net sales; 1) the effects of the change in the client structure resulting from the shift to good products, good stores, and 2) the effects from the Promotions Business (described in more detail below) within the Marketing Business. It is not possible to precisely separate the contributions from both, but based on the results up to the present time, at FISCO we think that the effects from 1) are larger, but in the future, that flow-type revenue from the effects of 2) will increase.

Trends in the number of subscribing clients and net sales per store in the Systems Business



Note: Q2 store net sales have been doubled to calculate the annual rate This only makes sense if Q2 means 1H.

Source: prepared by FISCO from Company materials

(2) Marketing Business structural reforms and their progress

a) Details of the structural reforms and the progress made

The Marketing Business was initially launched in order to increase the sales of clients (with subscriptions to the Shopserve ASP services) in the Systems Business, and subsequently more measures were added. At the stage of entering FY3/16, as was previously described it had come to consist of 3 sub-segments, of the Customer Attraction Business, the Media Business, and the Promotions Business.

Breakdown of the Marketing Business sub-segments

	Marketing Business		
	Customer Attraction Business	Media Business	Promotions Business
Targeted clients	Areas other than eCommerce	eCommerce companies	eCommerce companies
	Medium-sized to large companies	SMEs, private stores, Medium-sized companies	Annual sales of hundreds of millions of yen to several billion yen
Business agent	Precision Marketing	Estore itself	
Business description	Internet advertising (companies' publicity entity)	Management of PARK, a market place website	Research and analysis, consulting, customer attraction, operations management agency services, etc.
Service name		PARK	Management Agency Services, Production Agency Services
Market scale	Scale is unlimited for the Company		
Competitors	Internet advertising agencies	Rakuten, Amazon	Soft Create Holdings, etc.

Source: prepared by FISCO

Up to FY3/15, the 3 sub-segment business were each expanding, but on entering FY3/16, the Company made a major decision. Briefly stated, it decided to narrow down the contents of the Marketing Business to focus specifically on the Promotions Business.

As previously explained, the Media Business involves the management of PARK, the Company's shopping mall website, and it supports the acquisition of sales by the client companies that open stores within it. The competition includes Amazon and Rakuten <4755>. The Company was spending in the region of ¥100mn a year on advertising and publicity in order to attract customers to PARK, the majority of which was converted unchanged into an operating loss, but it has severely cut this spending. It explored to what extent the attraction of customers to PARK would fall if it carried out absolutely no advertising and confirmed that the extent of the decline in sales would be less than 50%. Therefore, from FY3/16, the Company has changed to a policy of reducing its investment in PARK, and instead shifting these funds into finding good products, good stores for the Promotions Business and the Systems Business.

The Customer Attraction Business was carried out by the subsidiary Precision Marketing. In January 2016, the Company reduced its shareholding ratio in Precision Marketing and thereby removed it from the scope of consolidation. Precision Marketing provides support for customer-attraction through Internet advertising in non-EC areas. It is considered that the Company judged that, based on the basic principle that EC support was its own business area, Precision Marketing's business for non-EC areas was not consistent with its own core business, so it decided to remove it from the scope of consolidation. As a result, it ceased to be the Company's consolidated subsidiary and from FY3/17, it will shift to reporting non-consolidated (standalone) financial results.

As a result of these policies, in actual terms, "the Marketing Business equals the Promotions Business," but in order to continue with the Media Business, the Marketing Business and Promotions Business will be classified and disclosed separately in the same way as up until now.

Transformation of the Marketing Business

FY3/13 Start of shift	FY3/14 Verifying the commercialization	FY3/15 Determining the revenue portion	FY3/16 Deciding to concentrate on the Promotions Business
Partnership with Precision Marketing Starting to benefit from the expertise Developing Single Hand and constructing the Solutions Business (currently, the Promotions Business)	Launching external sales of Single Hand Trialing the content effects of PARK Launching solutions business targeting new clients ⇒ launch failure Strengthening providing promotions to existing clients	Switching Single Hand sales to internal sales Withdrawal from PARK contents Confirming the market for new client solutions, increasing personnel Clarifying effects of promotions for existing clients ⇒ strengthening	Reducing the investment in PARK Removed Precision Marketing Inc. from the scope of consolidation Steadily acquiring clients from new client solutions ⇒ Promotions Business net sales increase 66% Effects of promotions for existing clients ⇒ Promotions Business net sales increase 66%

Source: prepared by FISCO

b) Current conditions in the Promotions Business

From FY3/17, the Company has essentially made the Marketing Business equivalent to the Promotions Business. As previously described, the Promotions Business aims to attract more customers and to increase sales for clients through providing services for a wide range of operations, such as research and analysis, consulting, customer attraction agency services including advertising, and management agency services for EC operations. The background to the Company's decision to concentrate on the Promotions Business would seem to be that this business has been steadily producing results in terms of generating revenue, and that the Company is confident of its business development in the future.

The Company has been developing the Promotions Business through two teams for two types of client groups. The first stage was for existing clients in the Systems Business undertaken by the sales force of this business. It received revenue from Systems Business existing clients in the form of ASP service monthly fees (stock) and a fixed percentage of net sales (flow), and from this sold overlapping operations services as the Promotions Business; namely, consulting and operations management agency services. Developing this business for existing clients can be said to have been an extremely efficient business approach because it enabled double revenue to flow into the Company, of the service provider fees and also from the resulting increases in net sales. However, originally the Systems Business was developed while targeting small-sized companies with net sales in the region of millions of yen to less than a hundred million yen, or private stores, so it seems that while the framework was highly efficient, in many cases the absolute amount provided per store was not all that high.

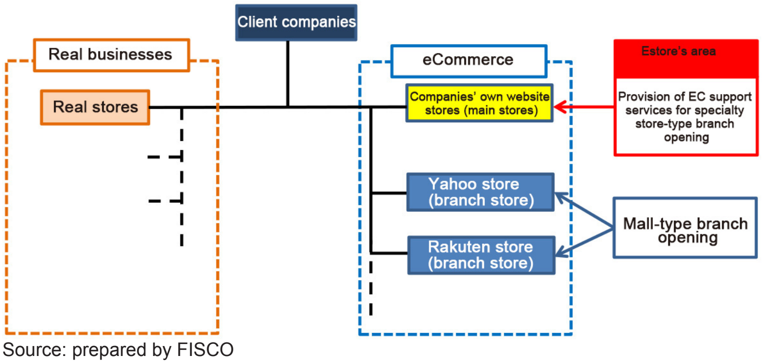
Development of the Promotions Business

	Existing clients in the Systems Business	New clients
Targeted clients	Private stores, recently established eCommerce companies	eCommerce companies handling specific specialty merchandise
	Annual sales of millions of yen to hundreds of millions of yen	Annual sales of hundreds of million yen to billions of yen
Business entity	Estore main company	
Sales entity	The Systems Business sales team	Specialist team
Business content	Overlapping sales of Promotion Business services to clients of Shopserve, the EC management ASP service	Targeting medium-size to major companies, the aim is to attract more customers and increase sales at the EC main store websites through providing services such as research and analysis, website production agency services, and management agency services.
Revenue model	Service provider fee, fixed percentage of net sales	Service provider fee
Market scale	For the Company, the scale can be said to be unlimited (approximately 700,000 companies are potential clients) ASP services: limited	

Source: prepared by FISCO

The second stage was for sales in the Promotions Business for completely new clients. Here, there was a major difference compared to the previous stage in terms of the sizes of the new clients being targeted, with the main targets being medium-sized to major companies with net sales in the range of hundreds of million yen to billions of yen. In addition to companies operating their own EC stores (main store websites), in many cases the companies engaged in EC of this size were those opening their own branch stores, such as Amazon, Rakuten, and Yahoo! Attracting customers through opening a branch store in a shopping mall website is largely determined by the ability of the mall itself to attract customers. In contrast, on their own sites, companies can attract more customers and increase sales through their own efforts. So for its Promotions Business, the Company first aims to improve the ability of its main store websites to attract customers and increase client sales, and toward this, provides EC support services in the Promotions Business. In the current revenue model in the Promotions Business, revenue is limited to service provider fees targeting these new clients. But as these client companies are larger in size, at FISCO we think that the absolute amount will also be larger compared to that from the existing clients in the Systems Business.

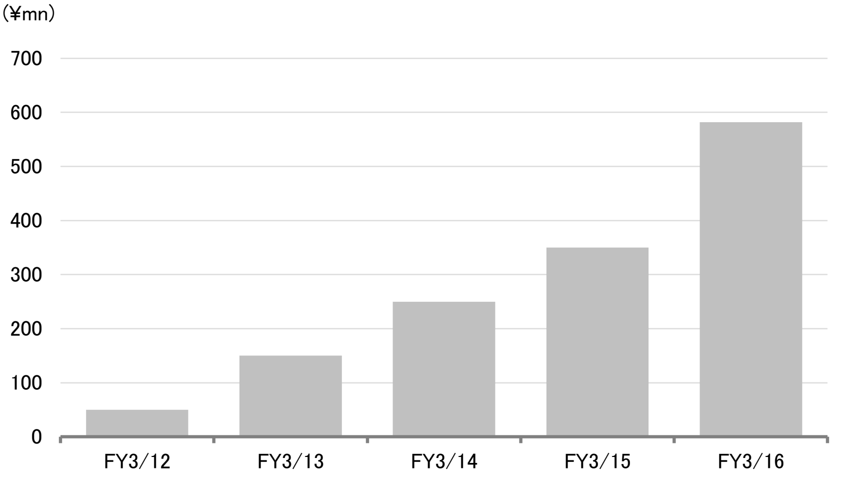
Business area of the Marketing Business



Source: prepared by FISCO

In FY3/16 in the Promotions Business, net sales increased 66% year-on-year (y-o-y) to ¥582mn. As net sales in FY3/12, which was the fiscal year the business was launched, were approximately ¥50mn, over a period of 4 years they have grown rapidly by nearly 12 times. Up to the present time, Promotions Business net sales have mainly been from sales to existing clients in the Systems Business, and sales to new clients have remained small. However, the Company's policy since April 2016 has been to strengthen the sales team targeting new clients and launch fully fledged measures to capture new clients. The Company's prior investment would seem to be centered on it supplementing its human resources for this field. There are not necessarily that many human resources in the industry as a whole that can meet the Company's criteria for its personnel to carry out the operations of the Promotions Business, and the fact that it has been unable to capture a sufficient number of these human resources would seem to be the reason why it postponed the prior investment.

Trends in the Promotions Business net sales



Source: prepared by FISCO from Company materials

Its support business for specialty store-type EC websites is a strength

(3) Promotions Business' potential and Estore's strengths

At FISCO, we think that the Promotions Business has enormous potential. The question is whether or not the Company can actually convert this growth potential into results, but we are confident that this will be possible. The reasons we think so are the Company's two strengths, described below.

a) Has accumulated expertise over 15 years of specializing in specialty stores
The other parties in the Company's development of its Promotions Business are both existing clients and new clients, and it is targeting stores opened as specialty stores. More specifically, this means "the main store websites of specialist companies that specialize in merchandise for a particular field." Practically all of the Company's existing clients are these sorts of specialist companies and stores.

Since its establishment in 1999, the Company's business has been providing support for specialty store-type EC websites. Specialty stores have their own unique methods of sales and of producing websites that are clearly different to those of branch stores in malls. In the case of mall-type stores, the mall itself has the ability to attract customers, and it can utilize this ability and the method of producing websites will reflect this. However, there are also many concealed risks associated with this, and at the same time there is the risk of falling into price competition. In contrast, in the case of specialty store-type stores (own-company sites), independent efforts are required to attract customers, and there are not many companies that can do this by themselves. Moreover, there are even not that many EC consultants with sufficient experience and track records to enable them to provide consulting. However, if a company can build a store (build a website) with its own characteristics, it can also build a brand for itself and cultivate repeat clients and word-of-mouth clients. On these points, these stores can be said to have greater potential than mall-based branch stores.

The Company, for example for customer attraction, has accumulated experience on where and on what timing to best use the variety of customer attraction methods available, including listing advertising and affiliate advertising. There is also the aspect of this expertise being different depending on the merchandise being handled, and the Company additionally has the ability to fully respond to this aspect.

b) Providing truly one-stop solutions
On more of the Company's strengths is that it can provide one-stop solutions for the operations of online stores, from research and analysis through to customer attraction, website production, and client management. While there are many companies claiming to offer one-stop solution services, they tend to provide solutions only in the area in which they specialize, and in many cases they are unable to provide the optimum solution. For example, a company that specializes in advertising tends to offer advertising as the solution to all problems, while if a company started-out in website production, it usually seeks to solve a client's problem by modifying its website. Since its establishment, "EC support" itself has been the DNA of the Company, and it positions operations such as advertising and website production simply as the means of realizing its objective of EC support, providing clients with optimized proposals based on analysis. It is not difficult to imagine that compared to dividing-up the EC process and outsourcing various improvements to different companies, relying on a single company that can provide services for a truly one-stop solution enables excellent efficiency improvements to be achieved.

The Company is using these strengths as weapons and is expanding the Promotions Business, while it itself recognizes that competition in this area is limited to no more than a few companies. At FISCO, our understanding is that based on the size of the targeted clients and the service content, the Company's business overlaps in many places with that of Soft Create Holdings <3371>. More details are given below, but when considering the size of the potential market, we do not think an image appears of a future in which the Company and Soft Create are competing for share of the market pie. Rather, at FISCO we think that both companies will compete in the good sense; namely, in the sense that through them competing with each other, awareness will spread of the advantages of utilizing eCommerce consulting and operations agency services, and also outsourcing for a one-stop solution, which will stimulate demand and lead to the early expansion of the market that the Company is targeting. In this sense, it would seem that establishing a personnel structure at an early stage is the most important issue at the present time.

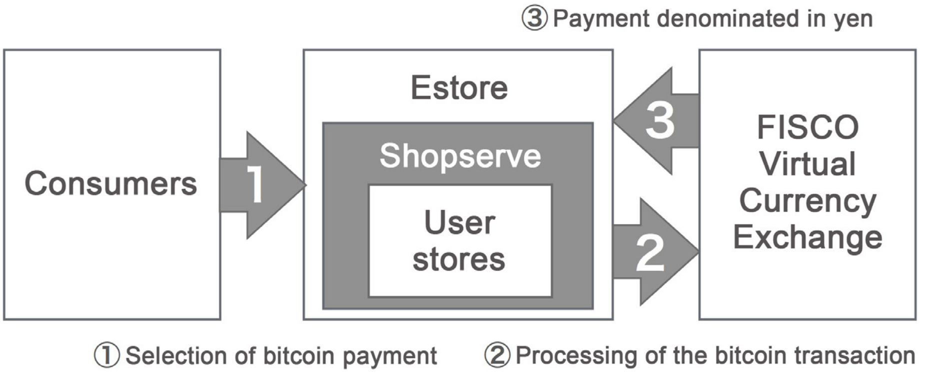
The size of the net sales of the clients the Company is targeting range from a few hundred million yen to a few billion yen. If we were to convert this range into employee numbers, it can considered to be correspond to from more than 10 employees to under 1,000 employees. This can be said to in turn correspond to the framework of employee-number categories of "From 10 to 19 employees" up to "From 300 to 999 employees" in the 2012 Economic Census Survey of Activities by the Ministry of Internal Affairs and Communications. According to the same survey, there are 697,675 companies within these employee-number categories, which for the Company can be thought to be a basically unlimited number. Therefore, at FISCO we think that even if there are competitors aiming to capture the same clients, this will not be a major problem.

Introducing bitcoin payments into the online sales system

On June 24, the Company announced partnerships with the FISCO Virtual Currency Exchange and SJI Inc. <2315> for the standard implementation on Shopserve, the Company's main product, of EC payments by bitcoin. Until recently, the options the Company provided to purchasers to pay included by various types of credit card, at convenience stores, by various types of electronic payments, and via payment-service providers (including by Yahoo! Wallet payments and Rakuten ID payments), but it has now added bitcoin to these options.

More specifically, the consumer is simply able to select bitcoin from among the various options for payment, the same as previously. Also, for the user stores within Shopserve, individual subscriptions are not required, the same as for the existing payment methods, and they can use bitcoin payments as a standard specification for Shopserve. They convert the bitcoins they receive into yen at the FISCO Virtual Currency Exchange. The development and costs of the system for this will be undertaken by SJI. The Company began demonstration testing in June and plans to launch the service during FY3/17.

Payments by bitcoin



Source: reprinted from press releases

At FISCO, we think that the introduction of bitcoin payments will have an extremely limited impact on the Company's results in the short term. However, the following two points should be noted: 1) from the characteristics of bitcoin, such as that it possesses a mechanism essentially the same as the Internet and that it is highly safe, we can expect to see an increase in public awareness and popularity going forward, and 2) the Company, which provides the largest EC platform in Japan, is the first company in Japan to embark on the large-scale introduction (usable at all stores) of this sort of new currency. Based on these two points, this initiative is worthy of attention and we will be keeping a watch on the increasing use of bitcoin payments in the future.

Results Trends

Contribution to improved profits of investment that casts a light on the businesses it is focusing on and not focusing on

(1) Analysis of the FY3/16 results analysis

In the FY3/16 consolidated results, net sales were ¥5,723mn (down 0.8% y-o-y), operating profit was ¥619mn (up 8.3%), recurring profit was ¥620mn (up 7.7%), and net profit was ¥403mn (up 21.1%), for a decrease in sales but increases in profits. Net sales were 3.3% below the previous Company forecast, but each of the profit items, from operating profit downward, were roughly 90% above the previous forecast.

To summarize the FY3/16 results, while on the one hand revenue steadily grew and improved in the business that the Company wants to grow (the Promotions Business), on the other hand prior investment for the next generation of growth did not proceed as anticipated and as a result, profits greatly exceeded their initial forecasts. The Company also invested in and incurred costs for operations that cast a light on the businesses it is focusing on and not focusing on, which also contributed to Company-wide improvement in profits. The delay in the prior investment can be viewed as a negative from a long-term perspective. But the Company is steadily implementing one part of it and at FISCO, we think it will be able to fully recover the delayed part from FY3/17 onwards.

Summary of the FY3/16 results

(¥mn)

	FY3/15			FY3/16					
						Full fiscal year			
	Q2	2H	Full fiscal year	Q2	2H	Revised forecast	Result	y-o-y	vs. forecast
Net sales	2,857	2,913	5,771	2,971	2,752	5,921	5,723	-0.8%	-3.3%
Operating profit	302	269	571	357	261	329	619	8.3%	88.2%
Operating profit margin	10.6%	9.3%	9.9%	12.0%	9.5%	5.6%	10.8%	-	-
Recurring profit	303	273	576	358	262	329	620	7.7%	88.7%
Net profit	189	143	332	225	177	206	403	21.1%	95.7%

Source: prepared by FISCO from Company materials

Net sales were down compared to the previous fiscal year and also the previous forecast, which was due to the effects of consolidated subsidiary Precision Marketing being removed from the scope of consolidated in January 2016. The impact of this in Q3 on the consolidated results was from the removal of Precision Marketing's contribution to net sales of ¥1,063mn. On a standalone basis, the Company's net sales increased 7.5% y-o-y to ¥4,660mn, and this figure can be said to better reflect the Company's actual situation.

Details of the FY3/16 standalone results

(¥mn)

	FY3/15	FY3/16		
	Result	Result	Change	y-o-y
Total net sales	4,336	4,660	324	7.5%
Systems Business	3,850	3,976	126	3.3%
Stock	2,112	2,060	-52	-2.5%
Flow	1,737	1,915	178	10.2%
Marketing Business	486	684	198	40.7%
Promotions Business	351	582	231	66.3%
Media Business	136	103	-34	-24.3%
Operating profit	559	629	70	12.5%
Other than the Media Business (estimate)	679	623	-56	-8.2%
Media Business (estimate)	-120	6	126	-

Source: prepared by FISCO from the Company's FY3/16 financial results briefing materials

We will describe in more detail the Company's standalone results, as the results became non-consolidated in Q4. The FY3/16 net sales were ¥4,660mn (up 7.5% y-o-y) and operating profit was ¥629mn (up 12.5%), for increases in both sales and profits.

The factor behind the higher sales was the success of concentrating resources and investment in sales promotions for clients. On a standalone basis, net sales in the Promotions Business were ¥582mn, up ¥231mn y-o-y.

There are two points to pay attention to with regards to profits. The first point is that the main reason for the increase in profits y-o-y was the major reduction in investment in the Media Business. As a result of this investment reduction, operating profit in the Media business improved ¥126mn. The second point is that the results greatly exceeded the initial forecasts. The Company had planned prior investment, particularly to invest in personnel with the objective of strengthening the Promotions Business, but in the end this investment was not carried out as planned. This is the main reason why profits greatly exceeded the targets.

As previously explained, at FISCO we evaluate as essentially positive the increase in sales from the steady expansion of the Promotions Business. The reason why prior investment was not carried out as planned was due to the Company's pursuit of quality, and we think this is a stance it should resolutely maintain in the future. The fact it is steadily achieving sales growth even in the context of the limited availability of human resources can actually be said to further increase expectations for the future.

The Systems Business (flow-type revenue) and Marketing Business (Promotions Business) are expected to steadily expand

(2) FY3/17 results outlook

The Company will shift to standalone results for the Estore main company from FY3/17. Below is the forecast for results on a standalone basis compared to the previous fiscal year.

The FY3/17 forecasts are for net sales of ¥5,032mn (up 8.0% y-o-y), operating profit of ¥331mn (down 47.3%), recurring profit of ¥331mn (down 47.3%), and net profit of ¥229mn (down 45.6%), for an increase in sales but decreases in profits.

Overview of the FY3/17 results outlook

(¥mn)

Full fiscal year	FY3/16	FY3/17	
		Full fiscal year (E)	y-o-y
Net sales	4,660	5,032	8.0%
Operating profit	628	331	-47.3%
Operating profit margin	13.5%	6.6%	-
Recurring profit	628	331	-47.3%
Net profit	420	229	-45.6%

Note: The Company has only disclosed full fiscal year forecasts for FY3/17
Source: prepared by FISCO from the financial results summary

At FISCO, we think net sales in the Systems Business will steadily increase from the stock-type revenue based on monthly membership fees and flow type revenue based on success-based fees linked to sales. While the number of subscribing stores has continued to fall over the last few years, the shift to companies with larger sales per store is also continuing, so for example even if store numbers continue to decline, we can expect the upward trend in Systems Business net sales to be maintained.

In the Marketing Business, at FISCO we think the Company will continue to focus on the Promotions Business and as a result, sales will naturally increase. In the initial stage of the Promotions Business, the Company mainly conducted sales activities for existing clients in the Systems Business. But in April 2016, it newly formed a separate sales team and launched fully fledged sales for services such as consulting and operations management agency services. But it is not targeting existing clients, and instead is targeting as new clients companies that are larger than the client base it targets in the Systems Business. These are the reasons why we think sales will increase in the Marketing Business in this fiscal year.

The Company is forecasting major decreases in profits, because these forecasts incorporate the costs for the prior investment that it has been planning over the last few years. It had planned spending on prior investment on a level of ¥300mn to ¥400mn annually, but up to the present time it has only been able to spend in a range of tens of millions of yen up to a hundred million yen annually. This is because this prior investment was mainly to recruit new personnel, and the Company's stance on recruitment is not to simply fill the positions but to only recruit staff that meets its criteria, which is the reason for the delay in progressing the recruitment.

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17-Aug.-16

While it is hard to forecast the extent to which prior investment costs will be generated, it is difficult to say that it is likely the Company's results forecasts are conservative and that there is room for upside. However, if excluding the prior investment, at FISCO we think the Company is fully capable of achieving increases in sales and profits in FY3/17.

Simplified income statement and the main indicators

(¥mn)

	FY3/13 Full fiscal year	FY3/14 Full fiscal year	FY3/15 Full fiscal year	FY3/16 Full fiscal year	FY3/17 Full fiscal year (E)
Net sales	4,493	4,526	4,336	4,660	5,032
y-o-y	5.7%	0.7%	-4.2%	7.5%	8.0%
Gross profit	1,727	1,728	1,649	1,769	-
Gross profit margin	38.4%	38.2%	38.0%	38.0%	-
SG&A expenses	1,120	1,214	1,090	1,140	-
SG&A margin	24.9%	26.8%	25.1%	24.5%	-
Operating profit	606	514	559	628	331
y-o-y	17.5%	-15.3%	8.7%	12.5%	-47.4%
Operating profit margin	13.5%	11.4%	12.9%	13.5%	6.6%
Recurring profit	621	516	562	628	331
y-o-y	18.6%	-17.0%	8.9%	11.9%	-47.4%
Net profit	380	314	330	420	229
y-o-y	35.6%	-17.4%	5.0%	27.3%	-45.6%
EPS after adjustment for share-split (¥)	44.78	47.56	55.27	78.66	44.37
BPS after adjustment for share-split (¥)	244.84	162.04	197.18	196.74	-
Dividend after adjustment for share-split (¥)	14.00	15.50	17.00	24.00	-

Standalone balance sheet

(¥mn)

	FY3/13 Full fiscal year	FY3/14 Full fiscal year	FY3/15 Full fiscal year	FY3/16 Full fiscal year
Current assets	3,395	2,562	2,797	3,058
Cash and deposits	2,737	1,910	2,155	2,385
Accounts receivable	517	544	528	553
Other	140	108	113	119
Fixed assets	691	589	511	447
Tangible fixed assets	197	159	100	82
Intangible fixed assets	268	207	116	108
Investments & other	225	223	293	256
Total assets	4,087	3,152	3,308	3,505
Current liabilities	1,991	2,036	2,098	2,471
Accounts payable	169	178	180	173
Deposits held	1,385	1,392	1,393	1,559
Other	436	464	524	738
Fixed liabilities	11	136	40	18
Long-term borrowings	-	124	24	-
Other	11	11	15	18
Shareholders' equity	2,078	978	1,162	1,012
Paid-in capital	523	523	523	523
Capital surplus	539	539	539	539
Retained earnings	2,007	2,203	2,439	2,759
Treasury stock	-991	-2,287	-2,339	-2,810
Other accumulated comprehensive income	3	0	6	3
Stock subscription rights	2	0	0	-
Non-controlling interests	0	0	0	0
Total net assets	2,084	978	1,170	1,015
Total net assets & liabilities	4,087	3,152	3,308	3,505

Shareholder Returns

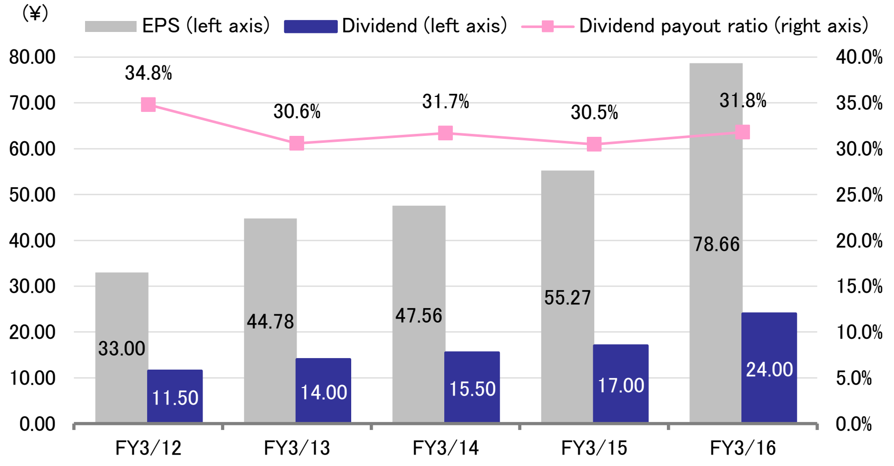
Basic philosophy is to "divide profits between three groups; shareholders, customers, and staff."

The Company basically returns profits to shareholders through dividends. It pays dividends after taking into account a comprehensive range of factors, including business results, financial position, and the need to retain sufficient internal reserves to invest in growth. While it does not formulate an official dividend payout ratio, the foundation of Estore's thinking on the distribution of profits is its basic philosophy of "dividing profits between three groups; shareholders, customers, and staff." In the past also, it has a track record of determining the dividend based on this basic philosophy.

In FY3/16, the Company decided on a dividend of ¥24. As it conducted a 1:2 share-split in March 2016, after adjusting for this split the FY3/15 dividend was ¥17, so in actual terms the dividend increased ¥7 y-o-y. As the FY3/16 consolidated earnings per share were ¥75.37, the dividend payout ratio was 31.8%.

The Company has not announced a dividend forecast for FY3/17. Since it is expected to maintain its basic philosophy described above, of "dividing profits between three groups," it is possible it will substantially decrease the dividend if the results are in accordance with its initial forecasts. But this will be as a result of it conducting prior investment for the next generation of growth, so at FISCO we do not think that this should necessarily be viewed as negative. As previously described, the Company does not always implement prior investment as planned, so it is possible that in FY3/17 also, it will not incur prior investment costs to the extent anticipated and as a result, profits may exceed the forecasts.

Trends in EPS, dividend per share, and dividend payout ratio
(results on a standalone basis)



Source: prepared by FISCO from the financial results summary

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