COMPANY RESEARCH AND ANALYSIS REPORT

Estore Corporation

4304

TSE JASDAQ

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Index

Summary — 01

1. The marketing business expanded steadily, recording growth in sales and profits. The profit target fulfillment rate exceeded 100% 01
2. New marketing system product launched. Focus on high profit margin and synergies 01
3. Large-scale selection of young people for roles in a focus on earnings growth from FY3/19 onward 01

Business overview — 02

1. Company history and shifts in the focus business 02
2. The shift of the business segments and the current revenue structure 04

Results trends — 05

- Summary of the FY3/17 3Q results 05

Medium-Term Growth Strategy and Progress — 07

1. Overall image of the growth strategy 07
2. Growth strategy in the marketing business 07
3. Large-scale reorganization mainly aimed at rejuvenation 09
4. Stock business growth strategy 10
5. Flow revenue growth strategy 12

Outlook — 13

1. Overview of the FY3/18 forecasts 13
2. Approach for FY3/19 14

Shareholder returns — 17

Information security — 18

Summary

Marketing business expanding steadily. The impact of the new sales promotion systems and selection of young people for roles is fueling expectations for growth acceleration

Estore Corporation <4304> (hereafter, also "the Company") is a comprehensive provider of e-commerce (EC) support services. After starting from the Systems Business for the provision of ASP services as a "framework" for EC, it is currently focusing on consulting and operations management agency services to support revenue growth at customer companies. Going forward, it plans to further strengthen sales of sales promotion systems.

1. The marketing business expanded steadily, recording growth in sales and profits. The profit target fulfillment rate exceeded 100%

The Company's FY3/18 3Q results showed growth in sales and profits, with net sales of ¥3,815mn (up 6.8% year on year (YoY)) and operating profit of ¥419mn (up 27.4%). Within net sales, the Company's primary focus is on marketing revenue, which increased significantly by 49.0% YoY and led the Company's overall performance. In profits, the Company's profit through to FY3/18 3Q exceeded the full-year forecast as well as grew significantly YoY. This was mainly due to investment in human resources and so forth not proceeding as planned, and a reduction in expenses resulting from bold selection of young employees for roles.

2. New marketing system product launched. Focus on high profit margin and synergies

The Company has grown by repeatedly focusing on business providing the next generation of earnings in a seven-year cycle. Currently, the Company is focusing on developing the marketing business. As described above, revenue to 3Q in this business increased nearly 50% YoY and is expected to comfortably exceed ¥1.0bn for the full year. Against this background for the current fiscal year, the Company has launched a new marketing system product in the marketing business. Traditionally, the marketing business has involved a business model with low revenue potential reflecting high dependence on human input due to the nature of consulting and operations management agency services. By contrast, the marketing system has the potential to achieve high profit margins due to a low dependence on human input, and its future development will be followed with interest.

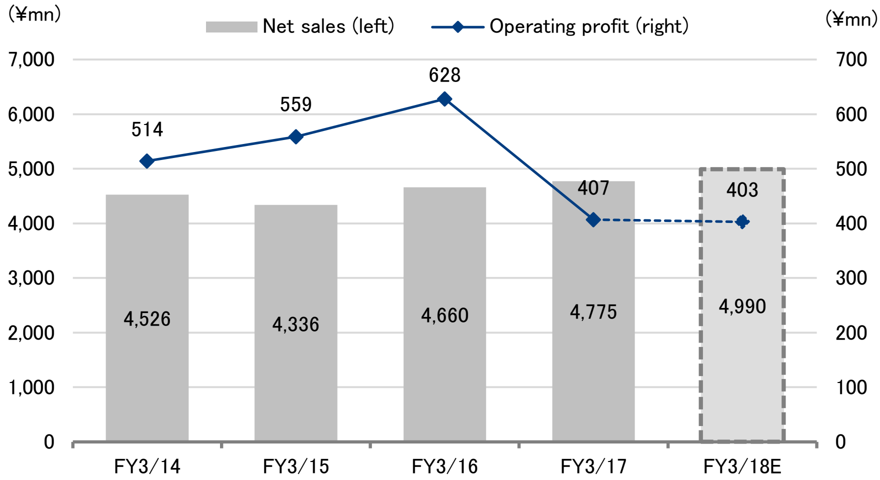
3. Large-scale selection of young people for roles in a focus on earnings growth from FY3/19 onward

Another focus point for FY3/18 is the Company's bold reorganization. The Company reorganized at the end of August 2017 by selecting young employees in their 30s for key management positions throughout the Company. This measure has unexpectedly boosted profits through to FY3/18 3Q by saving on expenses (personnel, advertising, etc.), contributing to immediate profit. However, the real target of the reorganization was the top line (sales expansion). Many will be watching to see how the selection of younger employees from the smartphone native generation will lead to growth in the top line and profits while leveraging new products and services.

Key Points

- The marketing systems business started with the launch of a highly profitable sales promotion system
- Wide-ranging election of young employees in their 30s for roles. A major impact on expenses is already apparent. Impact on sales growth is expected going forward
- Increasing expectations for growth in flow revenue driven by synergies with the marketing business

Results trends (standalone basis)



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

Business overview

Steadily strengthening the revenue base and customer base by shifting the focus business every seven years. It is currently focusing on increasing marketing revenue

1. Company history and shifts in the focus business

Since the Company was established in 1999, it has shifted its focus business roughly every seven years. As each business hit its stride and reached the stage of establishing an earnings base, the Company would use these earnings to expand into creating a new business to contribute to earnings in a repeated cycle. The process is described in detail below. As of 2018, the Company is approaching the very middle of its third cycle counting from its foundation business.

Estore's history and the shifts in its business development

Date	Event	Revenue type	Business segment
February 1999	Founded Estore		
July 1999	Started providing the shopping cart service storetool	Stock revenue	Systems Business
September 1999	Started providing the web hosting service Siteserve	Stock revenue	Systems Business
March 2000	Sales partnership with Osaka Yusen Broadcasting Co., Ltd. (currently, USEN Corporation)	Stock revenue	Systems Business / OEM subscriptions
June 2000	Sales partnership with Sony Communication Network Corporation (currently, So-net Entertainment Corporation)	Stock revenue	Systems Business / OEM subscriptions
July 2004	Business and capital partnership with TELEWAVE, INC. (currently, iFLAG Co., Ltd.)	Stock revenue	Systems Business / OEM subscriptions
November 2005	Established a business alliance with Yahoo Japan Corp. <4689>	Stock revenue	Systems Business / OEM subscriptions
November 2005	Established a business alliance with Kakaku.com, Inc. <2371>	Stock revenue	Systems Business / OEM subscriptions
January 2006	Started providing the Shopserve comprehensive eCommerce support service under its proprietary domain	Stock revenue	Systems Business
November 2006	Launched the product search site Shoppingfeed	Flow revenue	Systems Business
June 2011	Converted Precision Marketing, Inc. into a consolidated subsidiary	Flow / marketing revenue	Marketing Business
July 2012	Established the Sapporo Marketing Factory	Flow / marketing revenue	Marketing Business
October 2012	Established the shopping site PARK, featuring shopping recommendations issued by "curators" in 34 genres	Flow / marketing revenue	Marketing Business
October 2013	Started providing the Single Hand simple customer acquisition service	Flow / marketing revenue	Marketing Business
January 2016	Removed Precision Marketing from the scope of consolidation		Marketing Business
April 2016	Strengthened the Promotions Business sales force	Marketing revenue	EC Business
August 2016	Shopserve is compliant with Amazon Pay	Flow revenue	EC Business
March 2017	Shopserve includes bitcoin payments as standard (provided to 12,500 stores)	Flow revenue	EC Business

Source: Prepared by FISCO from Company materials

(1) 1999-2006

The Company's business first started from shopping cart services. After that, it started the provision of rental servers that are needed in order to establish a website, and the rental server business became the main support for the Company's early days. While retaining the rental server business as its core operation, the Company rolled out a series of services needed for conducting e-commerce in addition to its shopping cart services. These paved the way for the Shopserve ASP service providing comprehensive EC support, launched in 2006.

(2) 2006-2012

Over the seven years from 2006, the EC systems business in the form of the Shopserve ASP service providing comprehensive EC support became an earnings source for the Company. Shopserve is an ASP service that provides, as a single service, management of elements such as the store's website, domain, email, payments, ordering, and customers. In terms of its revenue model, the Company collects monthly fees for the usage of the ASP service from customers, so it can be said to be a so-called stock-type model. Stock revenue is very effective for stabilizing the management foundation. The Shopserve customer base has steadily expanded and contributed significantly to the Company's growth and management stabilization.

Once the EC systems business hit its stride, the Company began a parallel project of supporting the growth in sales at customer companies and expanding revenue by collecting a fixed percentage of net sales from customers as payment agency commissions (via store websites on Estore's Shopserve). This type of revenue is described as flow-type revenue and is distinguished from the monthly fees from Shopserve (stock revenue) in revenue management, even though the revenue comes from the same customers.

(3) From 2012 to the present day

The net sales from existing customers (EC system customers) expanded steadily, with a good compositional balance between stock revenue and flow revenue. Meanwhile, the Company began strengthening the Marketing Business with an eye to developing it as the core business for contributing to earnings. This involved commercializing the Company's sales promotion support expertise for effectively expanding customers' net sales. The two main points were 1) "commoditizing" its sales promotion support expertise and policies and acquiring fees from consulting and operations management agency services, and 2) selling these services to customers other than existing customers (EC system customers).

The Marketing Business initially consisted of two businesses, the "sales promotions business," which provides consulting and operations management agency services, and the "media business," which manages the PARK EC shopping mall. Currently, the business area that the Company is focusing on the most is the sales promotions business, and it has changed its name to the marketing business (narrowly defined). On the other hand, it has positioned the media business as a non-focus business, because it has powerful rivals, like Amazon, and it has fulfilled a certain purpose.

Based on the single EC business segment, it manages its business by four revenue types

2. The shift of the business segments and the current revenue structure

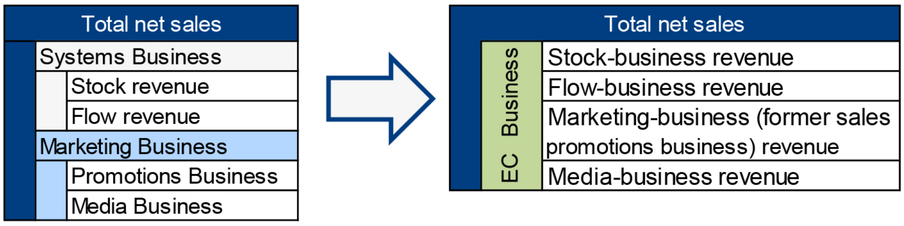
As previously explained, the Company has changed its business segments and its methods of disclosing information, reflecting the shift in the business field that it is focusing on.

The Company previously adopted a dual business structure comprising the System Business, which included the rental server business and the EC systems business, and the Marketing Business, which supported expansion of customers' sales. However, in FY3/17, the Company merged the two businesses and shifted instead to a single EC Business segment. The reason for this change was that the objectives of these two previous businesses were the same, of supporting the growth in sales at customers, so the significance of distinguishing between them had diminished.

While the Company has shifted to a single business segment, it discloses net sales according to revenue type, of the four fields of "stock," "flow," "marketing," and "media." As defined above, stock consists of EC system monthly usage fees, flow consists of a fixed percentage of customers net sales, marketing consists of commission revenue related to sales promotion support, and media consists of revenue related shopping mall management. These four categories simultaneously represent revenue-type and business categories.

If the Company's businesses are considered in terms of objectives and means, the shift to a single business segment seems like a natural progression. Although the single segment means that disclosure of segment information has ceased, the Company discloses a breakdown of its net sales by revenue type based on the four categories. Furthermore, there is a sense of consistency with the past, so the Company certainly does not seem to have regressed from a perspective of information disclosure.

Changes in business segments



Source: Prepared by FISCO from Company materials

Results trends

Growth in sales and profits.
Profit fulfillment rate against full-year forecasts has exceeded 100%

● Summary of the FY3/17 3Q results

Estore reported higher profits and sales in FY3/17 3Q with ¥3,815mn in net sales (up 6.8% YoY), ¥419mn in operating profit (up 27.4%), ¥446mn in recurring profit (up 38.1%), and ¥305mn in net profit (up 38.3%).

The fulfillment rate on the full-year target for net sales was slightly above three quarters at 76.5%. It exceeded 100% for operating profit and all profit items below that, indicating that the Company has already surpassed its full-year forecast and is making extremely good progress.

Summary of the FY3/18 3Q results

(¥mn)

	FY3/17		FY3/18			
	3Q cumulative	Full year	3Q cumulative results	YoY	vs. forecast	Full-year forecast
Net sales	3,574	4,775	3,815	6.8%	76.5%	4,990
Operating profit	329	407	419	27.4%	104.1%	403
Operating profit margin	9.2%	8.5%	11.0%	-	-	8.1%
Recurring profit	323	401	446	38.1%	112.6%	397
Net profit	221	285	305	38.3%	111.7%	274

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

As explained above, the 3Q fulfillment rate on the full-year operating profit target has already exceeded 100%. However, the Company has not given itself over to celebration. It has calmly assessed the three main factors for profit growth in 3Q to be 1) delayed progress on planned investment (mainly expenses for acquiring human resources and personnel expenses after recruitment), 2) a temporary drop in personnel expenses due to the impact of a large-scale reorganization, and 3) lower-than planned advertising expenses after reviewing them in conjunction with the large-scale reorganization. As will be explained in the section on growth strategies, the large-scale reorganization prominently involved the decisive human resources initiative of rejuvenating key management positions across a wide range.

On the other hand, in net sales, the Company itself is by no means satisfied. The Company announces net sales broken down into the abovementioned four revenue type categories: stock, flow, marketing, and media. In FY3/18 3Q, stock revenue was ¥1,405mn (down 5.4% YoY), flow revenue was ¥1,543mn, (up 4.2%), marketing revenue was ¥842mn (up 49.0%), and media and other revenue was ¥26mn (down 40.1%).

Currently, the Company focuses mainly on marketing revenue. Since this has grown by nearly 50% YoY, and full-year net sales are expected to exceed ¥1.0bn, the Company is in fact progressing as expected. However, it appears that flow revenue and stock revenue have not reached the levels anticipated by the Company.

Breakdown of net sales by revenue type

(¥mn)

	FY3/17		FY3/18	
	3Q cumulative results	Full-year results	3Q cumulative results	YoY growth rate
Total net sales	3,574	4,775	3,816	6.8%
Stock	1,484	1,967	1,405	-5.4%
Flow	1,481	1,967	1,543	4.2%
Marketing	565	788	842	49.0%
Media	44	54	26	-40.1%

Note: Rounded to the nearest million yen
Source: Prepared by FISCO from the Company's results briefing materials

We consider that the 3Q result can be taken simply as a favorable result. In net sales, the growth in marketing revenue amply compensated for the decline in stock revenue. Furthermore, the increase in flow revenue is the result of synergy effects (or ripple effects) from the marketing business and, considering the business structure, they can be expected to continue going forward. Looking at profits, the Company itself describes factors 2) and 3) above to be temporary, but there is the potential for these to become permanent, structural factors, as detailed below. The favorable results for FY3/18 3Q derive from a change in the earnings base business under the aforementioned seven-year cycle and the internal development of human resources. Moreover, they include various elements that will lead to future growth. We consider them to be strong results that provide much food for thought.

Medium-Term Growth Strategy and Progress

Aiming for growth through revenue increase in the stock, flow, and marketing businesses

1. Overall image of the growth strategy

The Company's revenue is categorized by business and type into four businesses/types as described above; namely, stock, flow, marketing, and media. In essence, the Company's growth strategy is to expand the revenues of its three mainstay businesses, which are the stock, flow, and marketing businesses. Naturally, the specific details of the actual growth strategies differ for each business.

As described above, the Company has grown by changing the focus business contributing to its earnings every seven years. From around 2012, the Company's main focus was on developing the marketing business. Now, in FY3/18, the Company has reached a turning point.

The main progress and changes to be observed in FY3/18 have been 1) the start of the marketing systems business (sales promotion system business) in the marketing business with the launch of two specific products and 2) a large-scale Companywide reorganization mainly aimed at "rejuvenation."

In the stock business and flow business, the Company is quietly striving to make progress based on its prior growth strategy. The media business has been positioned as a non-focus business and investment has been scaled back. It continues to shrink as before.

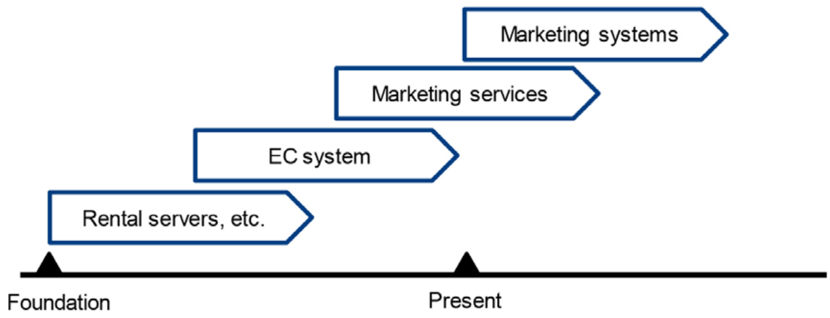
In the marketing systems business, the Company launched two sales promotion systems. With their high profit margin, their future development will bear watching.

2. Growth strategy in the marketing business

The business model of the marketing business involves providing customers with consulting and operations management agency services for sales promotion (marketing), for which the Company receives consideration in the form of fees. The target customer segment naturally includes existing customers of the Shopserve ASP service providing EC support, but the Company is also developing new customers for the marketing business alone.

A major change in FY3/18 is the start of the "marketing systems business" in the marketing business. The marketing systems business is broadly included within the marketing business, but its substance and revenue model are very different from the marketing business to date. Below, the traditional consulting and operations management agency services will be referred to as the "marketing services business," and the marketing services business and marketing systems business will be collectively referred to as the "marketing business."

Changes in business



Source: Prepared by FISCO from Company materials

The marketing systems business refers to the development and sales of sales promotion support systems, which is to say software. Since the objective of the business is to expand customers' sales, it is included within the marketing business; however, the revenue model is made up of fixed basic monthly fees and a pay-for-use charge according to the number of times the services is used. In other words, it is a hybrid of stock and flow revenue.

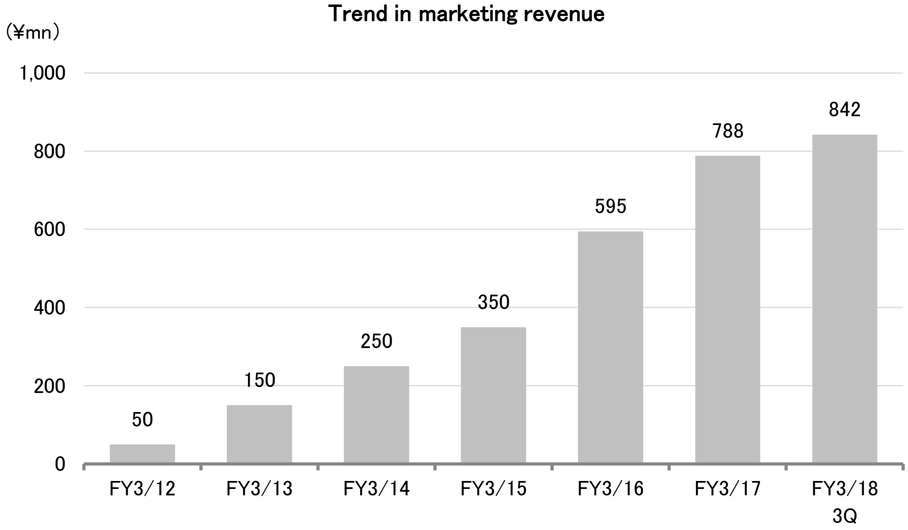
By autumn of 2017, the Company launched two tools: Estore Compare ("Compare") and Estore Query ("Query"). Compare is a tool that helps to increase EC website sales by using A/B comparison testing for an EC website to determine in real-time which has the higher conversion ratio (CVR), number of conversions, and life time value (LTV). On the other hand, Query is an email marketing tool for business operators who already have an existing customer base of a certain size. The main feature of the tool is that it can refine customer characteristics and distribute personalized email.

The marketing services business and the marketing systems business both aim to promote customers' sales; as businesses however, they have significantly different revenue potential characteristics. The productivity of marketing services business has a high dependence on human input due to the nature of consulting and operations management agency services. By contrast, the marketing systems business has a low dependence on human input and is therefore expected to become extremely profitable once the number of subscribing customers exceeds a certain level.

The marketing systems business has only just launched and has only a very few customers. The systems themselves are also being improved daily at this stage. The business has not yet contributed to sales or profits. However, we consider the start of the marketing systems business to be an extremely significant step. One of the main reasons is that it provides products and services that compensate for the low revenue potential of the marketing services business. Furthermore, it is very significant in terms of providing products and services that are in step with the trends of the times, such as personnel shortages and work style reforms. Finally, the function of the marketing systems seems to be highly useful to the Company's consultants working in marketing services. In other words, the products and services lend themselves to pursuing synergies between the two businesses. A future merging of the marketing services and marketing systems may hold potential for significant revenue growth for both.

The Company plans to launch new products in the marketing systems business, and these future developments will bear watching.

Trend in marketing revenue



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

Decisive large-scale reorganization selecting young employees in their 30s for roles across a wide range. Emerging impact on personnel expenses and advertising expenses. Focus on whether the Company will make the effects permanent and structural

3. Large-scale reorganization mainly aimed at rejuvenation

As of August 31, 2017, the Company conducted its largest ever restructuring. It was not a restructure in the sense of laying off employees, but rather a literal changing the business structure. The main focus of the initiative was a wide-ranging rejuvenation of the personnel occupying key management positions. In short, employees in their 30s were selected for positions across the Company that had been occupied by employees in their 40s to 50s.

The reason for this wide-ranging selection of young employees for roles was that the Company has spent the past 5-10 years nurturing these human resources and aims to allow them to exercise their abilities to the full extent and make use of them over the coming 10-15 years. From another perspective, the move can be seen as a shift from the PC generation (40s-50s) to the smartphone generation (20s-30s). The mainstream device for using various services today is the smartphone, rather than the PC, so this may be a response to the reality that those who are not of the smartphone generation are finding it increasingly difficult to provide customer service. We find this selection of young employees for roles to be a most rational management decision.

The selection of young people for roles appears to be having various impacts. Specifically, it has contributed to the 3Q results in the form of reduced personnel expenses and advertising expenses. In the background, as the large-scale personnel changes exposed personnel shortages and caused a temporary halt in advertising, the young leaders were instrumental in the return of operating performance to pre-personnel change levels by not executing expenditures (on personnel recruitment and restarting advertising, etc.), or making more efficient expenditures. It was a serendipitous effect then, but we feel that the most important point is that it has shown the potential for permanently adopting the streamlined personnel structure and slimmed-down advertising expense budget from FY3/19 onwards.

For FY3/19, in addition to a reduction in the expense base, the most important point is whether the selection of young personnel for roles will produce an effect in terms of top-line growth (net sales growth). As mentioned above, we expect the smartphone generation to produce unique strategies that can realize top-line growth, and we will observe their future developments closely.

Aiming for growth by increasing average spend per customer in stock revenue

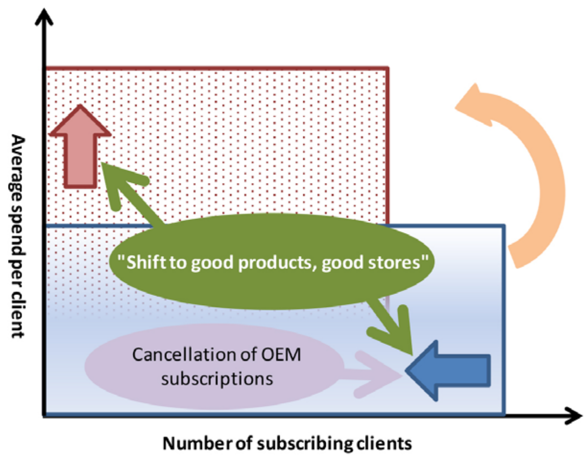
4. Stock business growth strategy

In stock business revenue, the Company is currently taking several measures to increase average spend per customer. Two conceivable approaches to increasing average spend per customer are changing the composition of the customers (increasing the ratio of large-scale customers) to increase the average spend and raising the level of monthly fees by expanding the services used by the existing customers.

The Company is working on both strategies but is focusing on the former. Under a slogan of “shift to good products, good stores,” the Company is approaching the acquisition of new customers by thoroughly focusing on stores that handle competitive products, stores with high profit growth potential, or medium-sized companies with large sales revenue and high monthly fees.

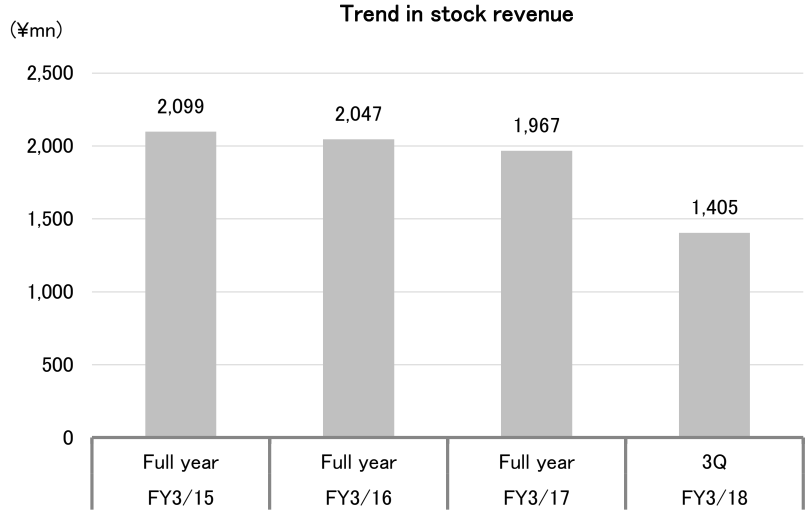
These measures have gradually borne fruit, with the average spend per customer steadily increasing. However, the declining trend in the number of customers continues. Stock revenue is calculated as “average spend per customer × number of customers.” The negative impact of the decline in customer numbers outweighs the positive effect of the increase in the average spend per customer. Therefore, stock revenue remains on a downward trend.

Structural reforms of stock-type revenue



Source: Prepared by FISCO from Company materials

Trend in stock revenue



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

Increased expectations for growth of flow revenue due to synergies with the marketing business

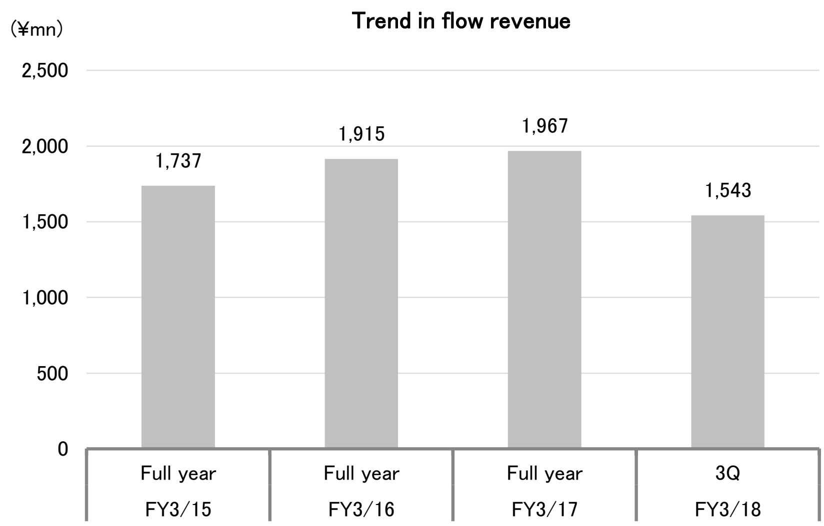
5. Flow revenue growth strategy

The Company collects flow revenue via Shopserve for the ASP services in the form of payment agency commissions as a fixed percentage of net sales. It has several approaches to its growth strategy for flow revenue, depending on customer attributes. Its two main initiatives at present are 1) supporting the marketing of existing customers and realizing their higher sales and 2) changing the customer company mix and increasing the percentage of customers with large sales.

In approach 1) the Company has made marketing service (sales promotion consulting, operations management agency services, and so forth) provision agreements with existing Shopserve customers. The result has been an increase in customers' net sales, which has led to expansion of the Company's flow revenue. In essence, this approach is to pursue synergies between flow revenue and marketing revenue.

Approach 2) involves a compositional change by company scale in the Shopserve subscriber companies by advancing the stock revenue structural reform initiative "shift to good products, good stores." With this initiative the Company is able to improve both stock revenue and flow revenue together.

The total amount of flow revenue is steadily increasing. While factors 2) above appears to have had a major impact in this regard, our expectations for growth going forward are focused mainly on approach 1) – the synergy between marketing revenue and flow revenue.



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

Outlook

Based on progress through to 3Q, the potential to exceed the forecast has increased

1. Overview of the FY3/18 forecasts

Estore forecasts for a slight profit decline on increased sales in FY3/18 with ¥4,990mn in net sales (up 4.5% YoY), ¥403mn in operating profit (down 1.0%), ¥397mn in recurring profit (down 1.1%), and ¥274mn in net profit (down 3.8%). The Company has not changed its forecast from this initial outlook.

Overview of the FY3/18 forecasts

(¥mn)

	FY3/17			FY3/18				
	3Q cumulative	4Q	Full year	3Q cumulative	4Q E	YoY	Full year E	YoY
Net sales	3,574	1,201	4,775	3,815	1,174	-2.2%	4,990	4.5%
Operating profit	329	78	407	419	-16	-	403	-1.0%
Operating profit margin	9.2%	6.5%	8.5%	11.0%	-1.4%	-	8.1%	-
Recurring profit	323	77	401	446	-50	-	397	-1.1%
Net profit	221	64	285	305	-32	-	274	-3.8%

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

The fulfillment rate through to 3Q was very high. As a result, in 4Q the Company only needs a 2.2% YoY decline in net sales and an operating loss of ¥16mn to achieve its full-year target. Considering the fulfillment rate to 3Q and the recent trends, we consider it extremely unlikely that the Company will report a 4Q operating loss. Therefore, it is extremely likely that the Company's full-year operating results will exceeded its initial forecasts.

On the other hand, we are cautious about whether the degree by which the operating results exceed the forecast will actually reach the standard for announcing a revision (fluctuation of 10% or more for net sales, 30% or more for profits). For operating profit to reach this standard, 4Q operating profit would need to be up 34% YoY. As discussed before, the Company carried out a large-scale reorganization at the end of August 2017, but the new structure does not yet appear to be completely consolidated and related expenses may increase. Moreover, the Company constantly needs to acquire personnel for consultants and other roles in its marketing business, in addition to which there will be a voracious demand for funds for growth investments, such as new product development expenses and advertising expenses to increase awareness and recognition of the products in the marketing systems business. If the trend through to 3Q continues for the full-year, we see a scenario where full-year operating profits may exceed the initial forecast by around 10%.

Main focus on top-line growth, in particular marketing revenue

2. Approach for FY3/19

For FY3/19, we believe the following points should be observed closely.

With regard to net sales, the Company is certainly aiming to increase sales, and we regard a 10% increase as a benchmark. Looking at individual business/revenue types, the progression of the marketing business is naturally the most important focus point. Marketing business net sales in FY3/18 could certainly exceed the ¥1bn level. Meanwhile, we see the Company as likely to aim for the same level of growth in FY3/19; that is, an increase of around 50% YoY. Starting from a base level of ¥1.0bn, a 50% increase in the marketing business net sales would substantially achieve a 10% increase in overall net sales for the Company.

For now, the specific target value for marketing business revenue is ¥2.0bn and achieving this target at an early stage is the Company's biggest challenge. The target ¥2.0bn is equivalent to about half of the previous EC systems business net sales; that is, the total of stock revenue and flow revenue. For marketing revenue to reach ¥2.0bn would signify the establishment of a three-pillar earnings structure together with stock and flow revenue. This is also a level that would begin to make a visible contribution to profits. A 50% increase in revenue for FY3/19 would be an important milestone on the road to achieving revenue of ¥2.0bn at an early stage.

Another focus point in the marketing business is the trend in the marketing systems business. As discussed before, this is the business that has an inherently higher profit margin and is also expected to produce synergies with the marketing services business. We believe that the further development of the marketing systems business, including expansion of the service menu, will be an extremely important point for the Company over the next two to three years.

Turning to other revenues, flow revenue is also looking likely to continue increasing, partly due to synergies with the marketing business. Meanwhile, stock revenue may decline if the number of Shopserve subscribers continues to fall. However, the decline in revenue appears to be diminishing and even if stock revenue does experience a drop in revenue, this will be offset by the increase in flow revenue.

On the profit front, the Company decreased its personnel expenses and advertising expenses realized in FY3/18 as a result of a large-scale reorganization, and the point to watch is whether this decrease can occur again in a permanent form in FY3/19. If it can, then there is a good chance that FY3/19 operating profit will exceed ¥0.5bn by a large margin.

However, even in personnel expenses and advertising expenses to return to their former levels, we certainly wouldn't consider this grounds for pessimism. As we mentioned above, the most important challenge for the Company is expanding its marketing revenue. The Company has long planned to make upfront investments to achieve this, and the reduction in expenses itself was an unanticipated result of the large-scale reorganization.

Simplified income statement and main indicators

(¥mn)

	FY3/14 full year	FY3/15 full year	FY3/16 full year	FY3/17		
				Full year	3Q cumulative	Full year (E)
Net sales	4,526	4,336	4,660	4,775	3,815	4,990
YoY	0.7%	-4.2%	7.5%	2.5%	6.8%	4.5%
Gross profit	1,728	1,649	1,769	1,548	1,104	-
Gross profit margin	38.2%	38.0%	38.0%	32.4%	28.9%	-
SG&A expenses	1,214	1,090	1,140	1,141	685	-
SG&A margin	26.8%	25.1%	24.5%	23.9%	18.0%	-
Operating profit	514	559	628	407	419	403
YoY	-15.3%	8.7%	12.5%	-35.2%	27.4%	-1.0%
Operating profit margin	11.4%	12.9%	13.5%	8.5%	11.0%	8.1%
Recurring profit	516	562	628	401	446	397
YoY	-17.0%	8.9%	11.9%	-36.1%	38.1%	-1.1%
Net profit	314	330	420	285	305	274
YoY	-17.4%	5.0%	27.3%	-32.1%	38.3%	-3.8%
EPS after adjustment for share split (¥)	47.56	55.27	78.66	55.32	59.28	53.09
BPS after adjustment for share split (¥)	162.04	197.18	196.74	227.30	-	-
Dividend after adjustment for share split (¥)	15.50	17.00	24.00	24.00	-	

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

Non-consolidated balance sheet

(¥mn)

	FY3/14 full year	FY3/15 full year	FY3/16 full year	FY3/17 full year	FY3/18 3Q cumulative
Current assets	2,562	2,797	3,058	3,012	3,986
Cash and deposits	1,910	2,155	2,385	2,312	3,106
Accounts receivable	544	528	553	575	698
Other	108	114	120	125	182
Fixed assets	589	511	447	480	422
Tangible fixed assets	159	100	82	129	102
Intangible fixed assets	207	116	108	103	82
Investments & other	223	293	256	247	236
Total assets	3,152	3,308	3,505	3,492	4,408
Current liabilities	2,036	2,098	2,471	2,296	3,028
Accounts payable	178	180	173	190	261
Short-term borrowings	106	102	324	-	-
Deposits held	1,392	1,393	1,559	1,740	2,444
Other	360	423	415	366	323
Fixed liabilities	136	40	18	22	21
Long-term borrowings	124	24	-	-	0
Other	12	16	18	22	21
Shareholders' equity	978	1,162	1,012	1,173	1,356
Paid-in capital	523	523	523	523	523
Capital surplus	539	539	539	539	539
Retained profits	2,203	2,439	2,759	2,921	3,103
Treasury stock	-2,287	-2,339	-2,810	-2,810	-2,810
Total valuation and conversion difference	0	6	3	-0	1
Stock subscription rights	0	0	-	-	-
Net assets	978	1,170	1,015	1,173	1,358
Total net assets & liabilities	3,152	3,308	3,505	3,492	4,408

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

Cashflow Statement

(¥mn)

	FY3/14 full year	FY3/15 full year	FY3/16 full year	FY3/17 full year	FY3/18 2Q cumulative
Cashflow from operating activities	443	678	613	465	122
Cashflow from investment activities	283	-122	-163	-88	-62
Cashflow from financial activities	-1,197	-252	-376	-449	-124
Cash & deposits translation adjustment	3	1	0	-0	-0
Change in cash & deposits	-468	305	74	-72	-64
Cash a& deposits at the beginning of the term	2,473	2,005	2,310	2,385	2,312
Cash & deposits at term end	2,005	2,310	2,385	2,312	2,248

Note: Results for Fy3/14-FY3/16 are consolidated
Source: Prepared by FISCO from the Company's financial results

Shareholder returns

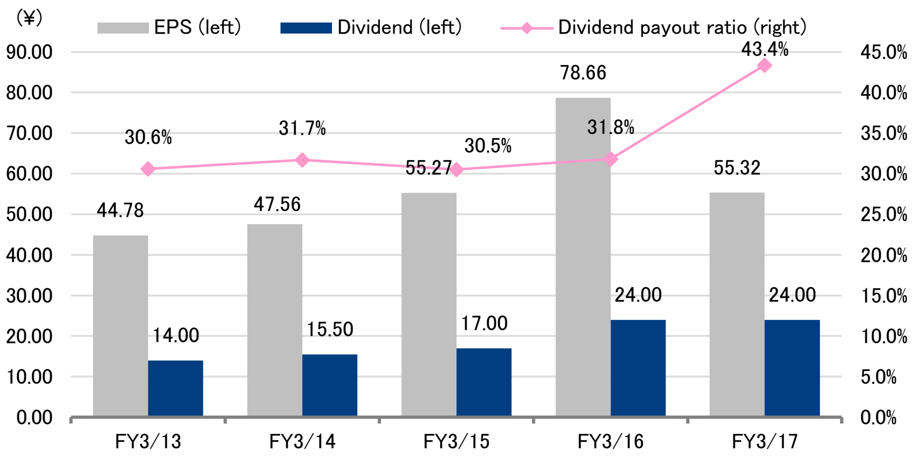
The dividend for FY3/18 is expected to be unchanged from the previous fiscal year

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.

The Company has not yet disclosed a dividend forecast as usual. This year as in previous years, the determination and forecast of the dividend seems likely to be announced at the stage of confirming the full-year financial results. As explained above, the fulfillment rate for the 3Q profits was high, so the full-year financial results are now more likely to come in higher than the forecast. Having given careful consideration to the year-end dividend in this case, we believe the basic scenario will be a ¥24, level with the previous fiscal year.

The Company has paid dividends targeting a dividend payout ratio of around 30% in line with its basic philosophy of "dividing profits between three groups." However, in FY3/17 the Company's dividend payout ratio reached 43% as it continued to pay a dividend of ¥24 in line with the previous fiscal year, despite a YoY decline in net profit, from a perspective of paying stable dividends. By contrast, we believe that the Company is likely to return to its baseline of 30% in FY3/18. If earnings per share (EPS) grows significantly and pushes the dividend payout ratio far below 30%, the Company might look at increasing its dividend; however, in the current situation it seems appropriate to take a cautious view.

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



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

Information security

In addition to undergoing regular external checks, the Company has already obtained PCI DSS certification for card payments

Based on its in-house development of various systems for EC support, the Company is constantly aware of constructing systems with high levels of security. Conversely, it has in place a system of checks by third parties for the level of security of its in-house systems.

The Company also provides a card payment service within its EC support ASP service. As it functions as a payment-receipt agency for this service, it holds consumers' credit card information. To ensure the security of this information, it has achieved the "PCI DSS" global security standard, which was jointly established by five international credit card companies and is operated and managed by PCI SSC and acquired the certification for it (the Company is a member of the Japan Card Data Security Consortium, which is the group managing PCI DSS in Japan).

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