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■ Operates Japan's largest word-of-mouth portal site for cosmetics and beauty products, raising growth potential by diversifying profit sources

istyle Inc. operates the “@cosme” portal site for cosmetics and beauty, which is the largest such site in Japan, having gained the greatest recognition and trust of women in Japan, particularly women in their 20's and 30's. The company recently completed the assignment of identification numbers to all users of its websites. At the end of June 2013, the number of members of all company websites totaled 2.54 million people, 31.6% more than the number at the end of June 2012. The company's main source of sales and profit is advertising fees paid by cosmetics companies.

In the fiscal year through June 2013, i.e., in FY6/13, istyle Inc.'s consolidated sales grew by 43.9% year-on-year (y-o-y) and its consolidated operating profit increased by 20.1%. The company's media business, which derives most of its sales and profits from advertising fees paid by corporate customers, prospered in FY6/13. As the number of members of the “@cosme” portal site grows, the value of this site as an advertising media increases each year. The company's store business and e-commerce business also fared well in FY6/13. Thus, sales grew enough to more than offset increases in the costs of personnel and software system development, and the company earned respectable profits.

For FY6/14, the company projects a 16.7% y-o-y rise in its consolidated sales, but a 20.5% y-o-y fall in its consolidated operating profit. It foresees a profit decline because it will invest heavily in creating a beauty platform. Thus, the costs of personnel and software system development will rise again. The company will also build up its overseas business.

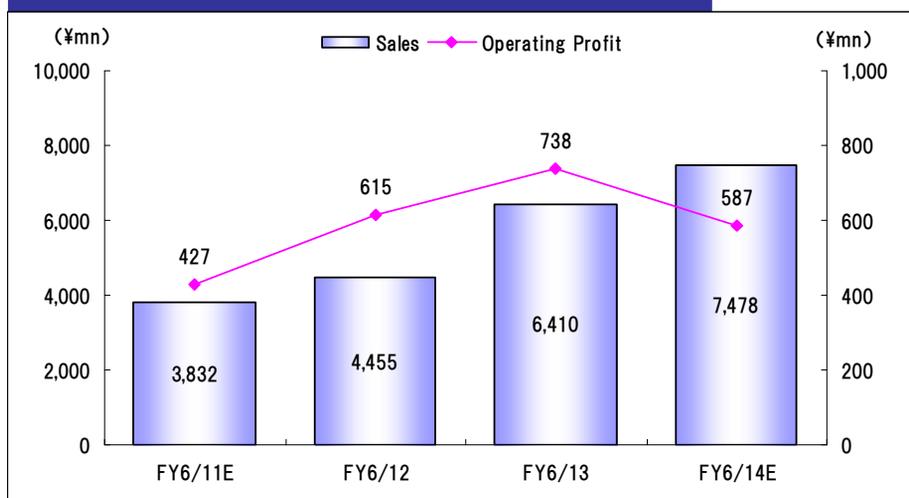
In FY6/15, however, the company foresees profit growth. It projects continued double-digit sales growth for its media business, and it foresees a substantial profit contribution from its “ispot” website. The business model for the “ispot” site will be revamped in FY6/14, which should enable it to expand its share of the Japanese market for hair salon services.

In October 2013, istyle Inc. plans to start offering a service for “prosumer” (professionals + consumers) or freelancers, thereby diversifying its sources of profit in the beauty market and achieving greater synergy among its businesses. This initiative should increase the company's growth potential over the medium-to-long term.

■ Check Points

- With dominant customer reach, the “@cosme” portal site is gaining in value as an advertising media
- In FY6/13, the company achieved record-high consolidated profits, as sales in each main business grew by double digits
- The company aims to increase its share of Japan's Internet advertising market, which has ample room to achieve further growth

Consolidated Sales and Operating Profit (¥mn), FY6/11-FY6/14E



Business Outline

With dominant customer reach, the “@cosme” portal site is gaining in value as an advertising media

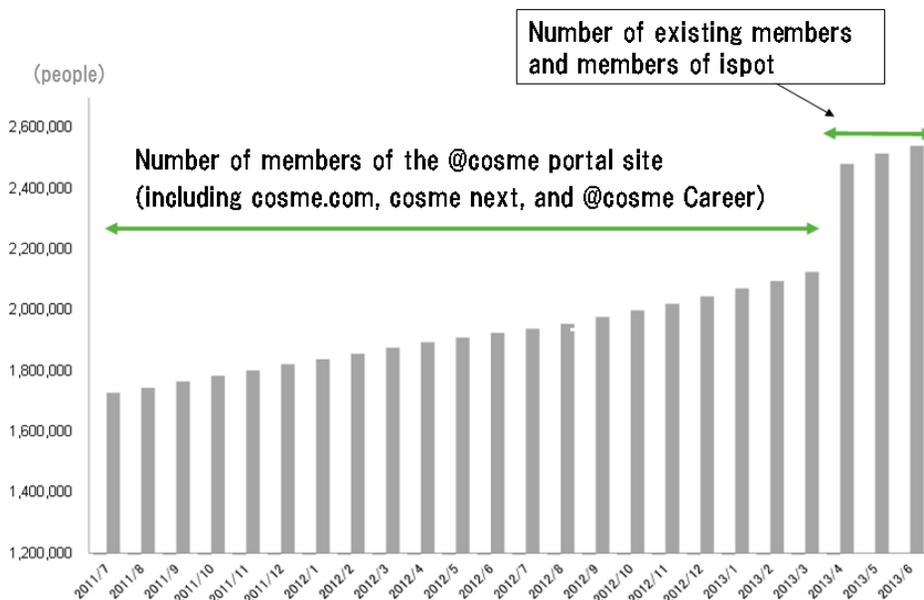
Founded in 1999, istyle Inc. operates the “@cosme” portal site, where members can post their opinions about cosmetics and other beauty products. The company also compiles databases of these opinions and provides this information to users of the site who are non-members free of charge.

Users of the “@cosme” portal site cherish the opinions expressed on the site as more objective than information provided by makers of cosmetics and other beauty products. They use this information to guide their purchases of such goods. istyle Inc. was the first Japanese company to implement this concept, and it has benefited from its leadership position. At the end of June 2013, the number of members of all company websites totaled 2.54 million people, 31.6% more than the 1.93 million members at the end of June 2012. The company is therefore Japan’s largest operator of portal sites, such as “@cosme”.

In FY6/13, the “@cosme” portal site attracted an average of about 7.91 million unique users per month, up from 6.14 unique users per month in FY6/12. Approximately 76% of the site users are women in their 20’s or 30’s. Of Japanese women in their 20’s, 48.3% use this site, while 34.5% of all Japanese women in their 30’s use it. Thus, the site has unrivaled customer reach as an advertising media, and its value as such a media is growing each year.

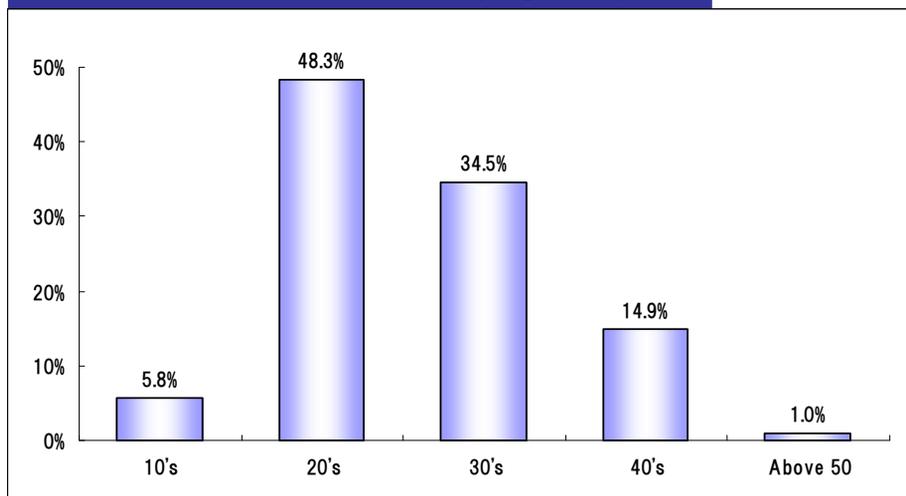
Business Outline

Monthly Number of Members of All istyle Websites, July 2011-June 2013



Source: Company

Proportions of Japanese Women Who Used the @cosme Portal Site in June 2013 by Age Group



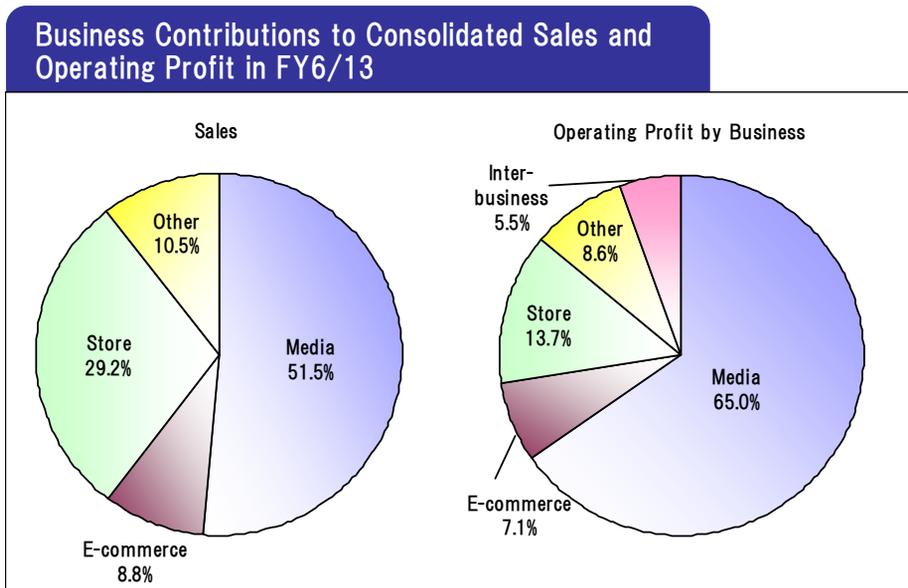
Source: Calculated by istyle Inc. based on the number of unique user visits to the @cosme portal site in June 2013 and on population statistics compiled by Japan's Ministry of Internal Affairs and Communications

istyle Inc. operates the media business, which mainly comprises the sale of advertisements on the “@cosme” portal site, and subsidiaries operate the e-commerce business, the store business, and other businesses. On a consolidated basis, therefore, the company operates four businesses. The e-commerce and store businesses sell cosmetics and other goods, but their main role is to enhance the value of the “@cosme” portal site as an advertising media. The business currently included in the category of other businesses is the operation of the “ispot” website, on which to search for and make reservations at esthetic salons. This business is conducted by ispot Co. Ltd., which was made a subsidiary in May 2012. In 2012, istyle Inc. established four overseas subsidiaries, one each in Shanghai, Hong Kong, Singapore, and Indonesia. These subsidiaries are part of the media business, and all but the Hong Kong subsidiary are consolidated.



■ Business Outline

In FY6/13, the media business supplied main sources of sales and profit for istyle Inc. with 51.5% of consolidated sales and 65.0% of its consolidated operating profit. Although, e-commerce business, store business, and other businesses were profitable, this is one of a characteristic business model of istyle Inc.



Sells advertising space on the “@cosme” portal site and provides solution services

(1) Media Business

The media business has three subdivisions: media services (Internet advertising), solution services, and services for premium members. Media services provide most sales, which are advertising fees paid by corporate clients. Sales in the media services subdivision and in the media business overall tend to be larger in the October-December quarter and the April-June quarter than in other quarters because sales of new seasonal goods peak during these quarters, eliciting strong advertising demand.

Media services

The media services subdivision sells space on the “@cosme” portal site, primarily for brand ads, but also for response (display) ads and affiliate ads.

The brand ad service supplies visuals, such as graphs, illustrations and photographs, to improve the images of client brands in tie-up ads (*1). This service also uses the results of member surveys and of analyses of word-of-mouth data to produce highly distinctive ads. The fee charged for a brand ad is based on the cost of producing it and the time period it is run.

Banner ads, text ads and mail ads are all response ads. The fee for a response ad reflects many factors, including the location of the ad space, its size, its impression number and the number of times it is sent by email. Affiliate ads direct Internet users to the e-commerce sites for cosmetics or other beauty products.

(*1) Tie-up ad
Tie-up ads are ads produced by advertisement writers, the operator of an advertising medium and other parties to introduce the products or services of a client company in language that is easy to understand.



Business Outline

Data on the @cosme Portal Site for June 2013



- Page views: 240 million
- Unique users: 7.9 million
- Cumulative no. of premium members: 2.2 million
- Cumulative mail magazine circulation: 450,000 copies for computers
60,000 copies for mobile
- Cumulative no. of product opinions posted: about 10.7 million
- Cumulative no. of brands discussed: 25,000

Source: Company

Solution services

The solution services subdivision provides services to assist the marketing efforts of companies producing cosmetics and other beauty products. These services include a “brand fan club” service, previously called a “brand community service”, a research and consulting service, and a data application service. All of these solution services use the databases derived from the “@cosme” portal site.

For a fixed fee, the brand fan club service allows client brands to customize their top pages on the “@cosme” portal site. These pages can contain the latest information about each brand, blogs operated by each brand, store information, and other public relations information, thereby establishing direct, long-term communications with customers or potential customers. This service also charges a monthly usage fee based on the number of functions applied. The service aims to facilitate the formation of fan clubs for each brand and is one of the leading “@cosme” portal site services being promoted by the company.

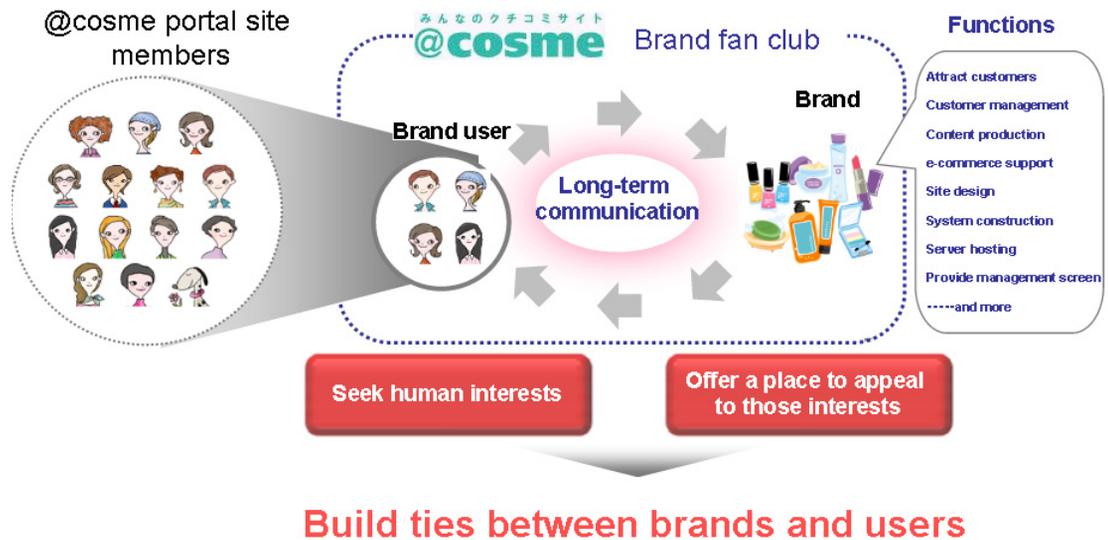
The research and consulting service provides big data analysis utilizing the “@cosme” databases and application service provider (ASP) analysis. It also conducts customized market research.

For a fee, the data application service provides clients the right to use the company’s previously released ranking information, product reviews on the “@cosme” portal site, and the copyrighted “@cosme” logo for use in advertising on media other than the “@cosme” portal site.



Business Outline

Outline of Brand Fan Club Service



Source:Company

Services for premium members

For a monthly fee, plus tax, of ¥294, premium members of the “@cosme” portal site can receive several services. Every month, these members receive a premium coupon worth ¥500 for purchases through the e-commerce site, “cosme.com”, or at a “@cosme store”. The rate at which they can redeem points is increased, and they can view detailed product rankings and conduct advanced searches for information using a smartphone.

Sells goods that rank highly on the “@cosme” portal site

(2) e-commerce Business

Online sales are conducted by subsidiary cosme.com Inc. over a website called “cosme.com”. This subsidiary sells cosmetics, health products other than medicines, health foods, and other beauty products. It uses the product evaluations posted on the “@cosme” portal site to determine which products are likely to sell well, purchases such products, and sells them. It also jointly develops item kits of beauty products with makers of these products for exclusive sale on the “cosme.com” website. Thus, it serves as a retailer of select goods. Consequently, it maintains an operating profit margin of 6-9%, while many other e-commerce companies struggle for profitability.



Outline of the cosme.com Service



PC site (sample)



Mobile site (sample)



Smartphone



E-commerce sites utilizing the customer attracting ability of @cosme

Product lineup based on extensive database information possessed by @cosme



Source:Company

Operates six stores, drawing attention as a successful model of the online-to-offline marketing

(3) Store Business

Subsidiary cosme next Co. Ltd. operates “@cosme store”. These stores use the “@cosme” databases to transmit information on various brands, enabling customers to choose goods that satisfy their personal needs. At the end of June 2013, this business operated five “@cosme store” and one “@cosme store switch”, which is located inside a railway station. Through its store business, istyle Inc. has succeeded in implementing the online-to-offline marketing model that has used the Internet to attract more customers in recent years.

An @cosme Store, based on the concept of fun choice



Source:Company



Expanding its beauty business by opening a recruitment website for the beauty shop industry

(4) Other Businesses

The only other business is the operation of the “ispot” website for searching for and making appointments at esthetic salons. This business is conducted by subsidiary ispot Co. Ltd. The business collects monthly fees from esthetic salons for displaying information about the salons. It also receives a success fee for every salon customer who makes an appointment through the “ispot” website.

In June 2013, istyle Inc. transferred its online recruitment website for the cosmetics industry, “@cosme Career” , from the media business to ispot Co. Ltd., and in August 2013, ispot Co. Ltd. launched a similar recruitment website for the beauty shop industry, “@cosme Career Salon” . istyle Inc. transferred its online recruitment website to ispot Co. Ltd. to improve operational efficiency because many industries in which istyle Inc. foresees customer growth, such as esthetic salons and beauty shops, were already handled by ispot Co. Ltd.

Diagram of ispot Website to Search for Products for Beauty, Health and Comfort



Source:Company

Business Trends

Record-high profits each year since started reporting consolidated results

(1) FY6/13 Results

On July 26, 2013, istyle Inc. announced its consolidated results for FY6/13. Sales grew by 43.9% y-o-y to ¥6,410mn, operating profit increased by 20.1% to ¥738mn, recurring profit advanced by 16.7% to ¥713mn, and net profit rose by 15.9% to ¥429mn. These results were close to the company's original forecasts, as detailed in the table below. Sales have increased every year since the company was established, and profits have hit new highs each year since the company started reporting consolidated results in FY6/10.

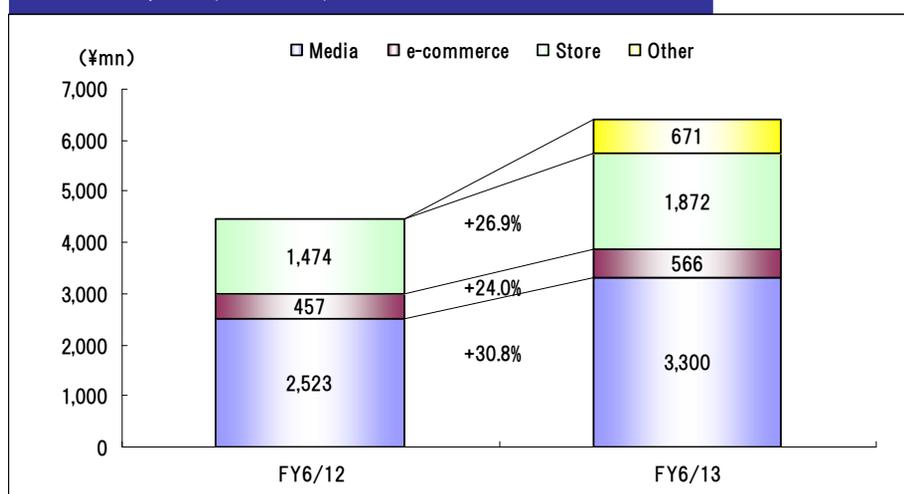
Consolidated Results (¥mn) in FY6/12 and FY6/13 versus Company Forecasts for FY6/13

	FY6/12	FY6/13	y-o-y	FY6/13 Estimates	Achievement rate
Sales	4,455	6,410	43.9%	6,426	99.8%
Operating profit	615	738	20.1%	726	101.7%
Recurring profit	611	713	16.7%	702	101.6%
Net profit	370	429	15.9%	424	101.2%

Sales in the media business grew by 30.8% y-o-y in FY6/13, while sales in the e-commerce business advanced by 24.0%, and sales in the store business increased by 26.9%. In its first year of operation, subsidiary ispot Co. Ltd. had an impact on sales approximately ¥600mn and earned an operating profit of a double digit million yen.

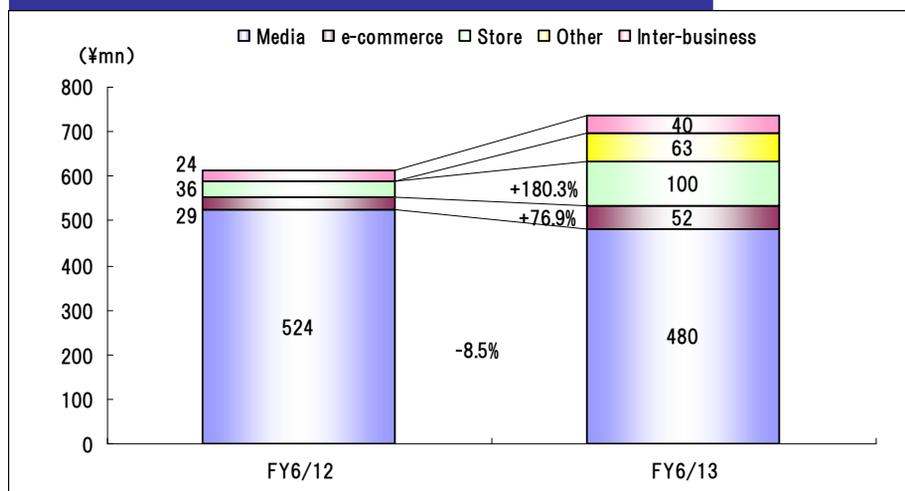
The operating profit margin in FY6/13 was 11.5%, which was 2.3ppts lower than the margin in FY6/12. The margin fell in FY6/13 mainly because of increases in SGA costs to set up ispot Co. Ltd. as a consolidated subsidiary and to establish overseas subsidiaries. For example, personnel costs increased by ¥676mn y-o-y, the cost of developing the software system rose by ¥111mn, and the cost of leasing facilities grew by ¥133mn. However, gross profit increased accompanying the strong sales rise, and operating profit grew by 20.1% to ¥738mn.

Breakdown of Consolidated Sales (¥mn) by Business, FY6/12-FY6/13



Business Trends

Breakdown of Consolidated Operating Profit (¥mn) by Business, FY6/12-FY6/13



Number of clients and their average advertising expenditure increased

FY6/13 results for each business were as follows.

Media Business

In the media business, sales grew by 30.8% y-o-y in FY6/13 to ¥3,300mn, but operating profit declined by 8.5% to ¥480mn. The number of members of the “@cosme” portal site increased by about 30%, increasing the value of the site as an advertising media. Thus, corporations placed more ads on the site.

At the end of FY6/13, the media business had 775 corporate clients, 44 more than it had at the end of FY6/12. The average advertising expenditure by corporate clients in FY6/13 was ¥4.18mn, which was 27.8% more than the average expenditure in FY6/12. Therefore, advertising revenue received by the media business in FY6/13, excluding premium membership fees and reward sales, rose by 35.5% y-o-y to ¥3,240mn. The top 15 clients supplied 46.5% of this revenue, 0.7ppt higher than the proportion they supplied in FY6/12. Advertisements placed by foreign-affiliated companies and by Japanese companies from industries other than the cosmetics and beauty product industries, such as pharmaceutical companies, grew especially strongly.

In December 2012, istyle Inc. organized the largest beauty event in Japan of 2012, entitled “BEAUTY STYLE COLLECTION by @cosme 2012”. Seventeen companies displayed 30 brands of beauty products at this event. The event was covered by 450 newspaper and magazine articles, and the company estimates that this coverage raised its recognition among the general public as much as ¥200mn of advertising would have. In April 2013, istyle Inc. finished assigning identification numbers to the members of all its websites, including “ispot”. Thus, each site was optimized for use with smartphones and for the assignment of points, greatly improving the convenience of use.

The media business bore the cost of developing the software system for all company websites to handle identification numbers. It also paid for establishing overseas subsidiaries, and its personnel cost rose. For these reasons, operating profit in the media business decreased. However, all these costs were in line with company expectations, and if the costs were discarded as temporary, operating profit would have continued double-digit growth in FY6/13.



■ Business Trends

Customer referrals from the “@cosme” portal site contributed to strong growth

e-commerce Business

In the e-commerce business, sales increased by 24.0% y-o-y in FY6/13 to ¥566mn and operating profit grew by 76.9% to ¥52mn. Following the modification of the software system to allow the assignment of identification numbers to site members and the allocation of points to members, it became possible for websites from other businesses to refer customers to the e-commerce business. The e-commerce business received a particularly large number of referrals from the “otokude @cosme” site, a sub-site of the “@cosme” portal site. The e-commerce business also promoted its own point system. These factors supported the business’ s strong sales and profit growth.

Introduction of digital signage reinforced growth

Store Business

In the store business, sales advanced by 26.9% y-o-y in FY6/13 to ¥1,872mn and operating profit jumped by 180.3% to ¥100mn. In April 2012, the business opened a new store in the Lumine Ikebukuro Building, and in September 2012, it renovated its store in the Marui Ueno Department Store and increased its floor space by about 70%. The media business issued more coupons to members of the “@cosme” portal site to be used for purchases at “@cosme store” , and the stores aggressively carried out promotions and stocked their shelves with goods that ranked highly with consumers according to data from the “@cosme” portal site. Because of these developments, the number of customers at “@cosme store” increased and the store business improved its profitability.

As mentioned previously, istyle Inc. has developed its store business based on the online-to-offline marketing model. The “@cosme” portal site collects and analyzes data on consumer preferences which is used by the stores to stock their shelves. The “@cosme” portal site also issues coupons to its members that can be used to buy goods at the stores. In FY6/13, the store business integrated this online-to-offline marketing model by introducing digital signage, into each of its stores.

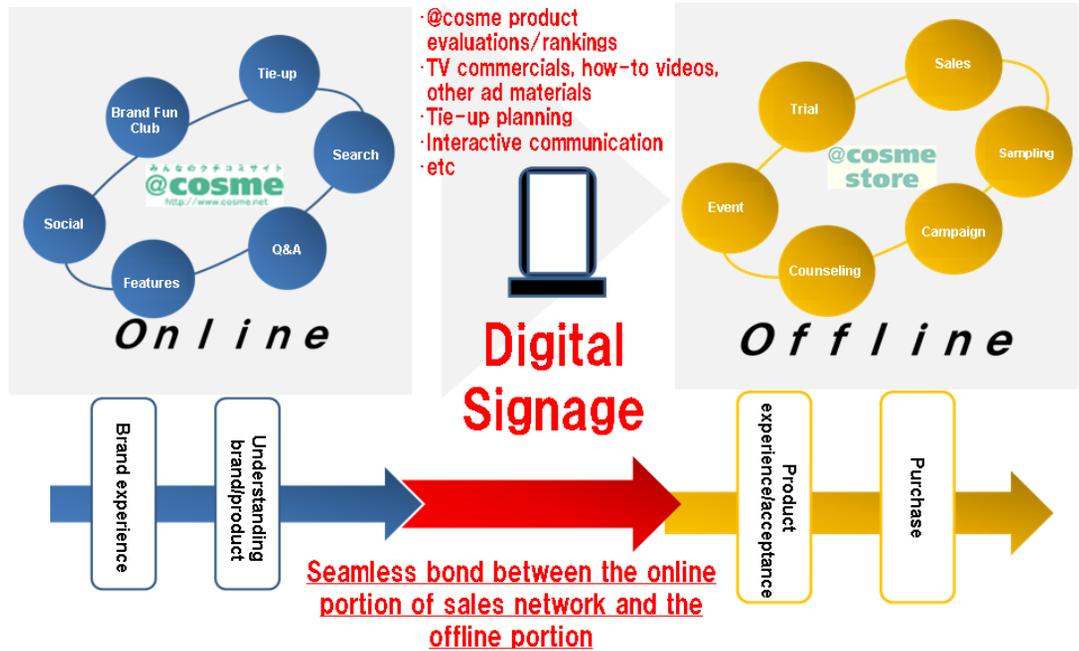
Using these digital signage or monitors, customers can view TV commercials, how-to videos and other advertising materials for the products available at “@cosme store” , and using the touch panel of the monitor, search for desired brands and products, participate in campaigns and otherwise communicate with customers and suppliers interactively.

The introduction of interactive digital signage into the stores created a seamless bond between the online portion of the sales network and the offline portion. This supported the increases in customer number and sales.



Business Trends

Diagram of Digital Signage



Source:Company

ispot Co. Ltd. turned profitable after becoming a subsidiary of istyle Inc.

Other Businesses

This business was created in FY6/13. istyle Inc. bought the predecessor of ispot Co. Ltd. in May 2012, and changed its name to ispot Co. Ltd. in July. This is the only company in the other businesses category. ispot Co. Ltd. operates the “ispot” website, which allows users to search for esthetic salons and to make reservations at them. ispot Co. Ltd. also places advertisements on this website. As mentioned above, in June 2013, istyle Inc. transferred its online recruitment website for the cosmetics industry, “@cosme Career”, from the media business to ispot Co. Ltd., and in August 2013, ispot Co. Ltd. launched a similar recruitment website for the beauty shop industry, “@cosme Career Salon”. Thus ispot Co. Ltd. is now in charge of istyle Inc.’s recruitment services. In FY6/13, the advertisement placement service prospered, and the number of companies using the “@cosme Career” website increased. Therefore, ispot Co. Ltd. recorded sales of ¥671mn and an operating profit of ¥63mn in its first year as a unit of istyle Inc.

In its last fiscal year, through October 2011, ispot Co. Ltd.’s predecessor generated sales of ¥547mn but suffered an operating loss of ¥27mn. After becoming a subsidiary of istyle Inc., this company saw a marked improvement in its profitability. Most likely, it benefited from the “@cosme” portal site’s overwhelming access to young Japanese women.

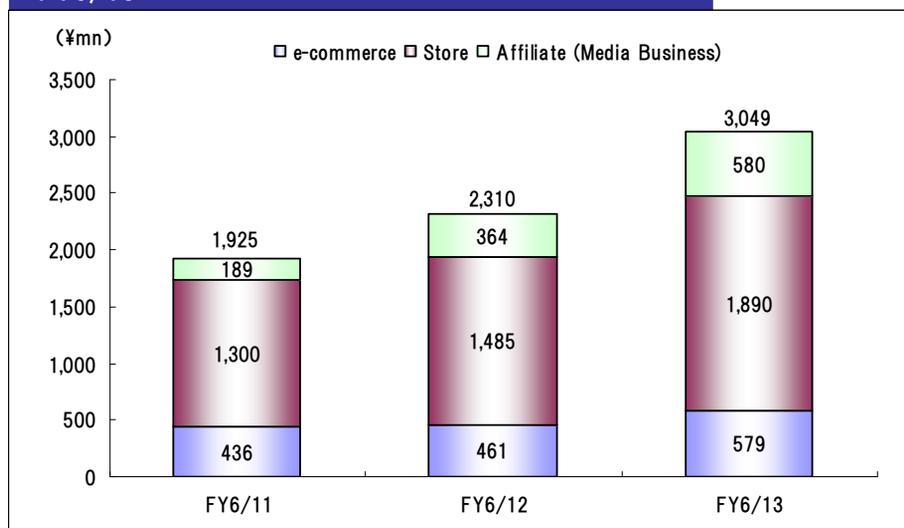
In FY6/13, retail sales (*2) of cosmetics and beauty products by the store business, the e-commerce business and the affiliate service of the media business grew by 32.0% y-o-y to ¥3,049mn. As shown in the following bar chart, all three of these units increased their sales.

(*2) Retail sales included gross sales of affiliate service by the media business



Business Trends

Retail Sales (¥mn) by Units of istyle Inc., FY6/11-FY6/13



Improved due to profit growth and capital increase

(2) Financial Condition

Istyle Inc.'s balance sheet improved in FY6/13. For example, cash and deposits grew strongly y-o-y, reflecting profit growth and the issuance of new shares. The company's current ratio and equity ratio increased y-o-y. Interest-bearing debt increased y-o-y because the company added several new consolidated subsidiaries. However, the debt-to-equity ratio remained low at 16%. Net cash (cash and deposits minus interest-bearing debt) expanded by ¥685mn y-o-y to a comfortable level.

ROA, ROE and the operating profit margin all declined y-o-y in FY6/13. The drops in ROA and ROE reflected the impact of the capital increase, while the downturn in the operating profit margin was largely due to the fall in the margin in the media business.

Summary Consolidated Balance Sheet (¥mn)
at FY6/12 and FY6/13

	FY6/12	FY6/13	Change	Reasons for change
Current assets	2,597	4,009	1,412	Increase in cash and deposits (+294)
Cash and deposits	1,653	2,707	1,054	Stock issuance (+1,258)
Fixed assets	792	1,513	721	Increase in software (+164), Securities investments (+283)
Total assets	3,389	5,523	2,133	
Current liabilities	986	1,135	148	Short-term borrowings (+107)
Fixed liabilities	138	403	264	Long-term borrowings (+261)
Interest-bearing debt	261	630	369	
Total liabilities	1,125	1,538	413	
Total equity	2,263	3,984	1,720	
Shareholders' equity	2,233	3,936	1,703	Stock issuance (+1,258), Retained earnings (+430)
Total liabilities & equity	3,389	5,523	2,133	
Financial stability ratios				
Current ratio (current assets ÷ current liabilities)	263.2%	353.1%		
Equity ratio (total equity ÷ total assets)	65.9%	71.6%		
Debt-to-equity ratio (Interest-bearing debt ÷ total equity)	11.7%	16.0%		
Profitability ratios				
ROA	21.2%	16.0%		
ROE	19.8%	13.9%		
Operating profit margin	13.8%	11.5%		



Company Forecasts

Double-digit sales growth, led by media business

(1) Company Forecasts for FY6/14

For FY6/14, istyle Inc. forecasts a 16.7% y-o-y increase in consolidated sales to ¥7,478mn, but a 20.5% fall in operating profit to ¥587mn, a 20.2% drop in recurring profit to ¥569mn, and a 40.8% plunge in net profit to ¥254mn.

Consolidated Results (¥mn), FY6/10-FY6/14E

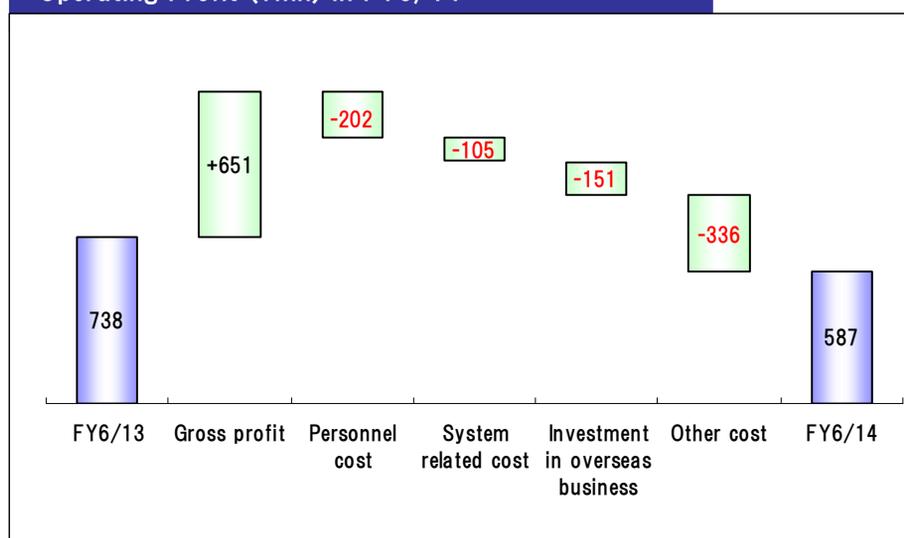
	FY6/10	FY6/11	FY6/12	FY6/13	FY6/14E	y-o-y
Sales	3,257	3,832	4,455	6,410	7,478	16.7%
Operating profit	238	427	615	738	587	-20.5%
Recurring profit	240	432	611	713	569	-20.2%
Net profit	156	259	370	429	254	-40.8%
EPS (¥)	2,755.30	23.15	32.50	32.26	17.58	-
DPS (¥)	0.00	0.00	0.00	0.00	0.00	-

Note: The company made a 100-for-1 stock split in December 2011 and a 2-for-1 split in July 2012. The EPS figures for all years except FY6/10 have been adjusted to reflect these splits.

The company foresees double-digit sales growth in FY6/14, led by the media business. However, it projects profit declines stemming from several factors. It forecasts another increase in cost of developing its software system as new capabilities are added to its various websites. It sees another rise in personnel cost, reflecting the staff increase in FY6/13. In FY6/13, the company hired more engineers to increase its in-house production and reduce its reliance on subcontractors. The company foresees a modest increase in its total personnel cost in FY6/14, i.e., in its own personnel cost plus its outsourcing cost. The other businesses segment will invest in business expansion and in the development of a new service, and the media business will build up its overseas business.

In the first quarter of FY6/14, i.e., in the July-September 2013 quarter, the company relocated its head office, incurring estimated costs of ¥50mn. Thus, the company foresees losses that quarter. For the full fiscal year, the company estimates the cost of this move at ¥100mn.

Company Forecasts of Factors Contributing to Operating Profit (¥mn) in FY6/14



Planning to increase number of premium members and launch a new service

For FY6/14, istyle Inc. has three main objectives: 1) to increase the number of premium members of the “@cosme” portal site, 2) to strategically change the business model for the “ispot” site, and 3) to launch a “prosumer” service.

Increase the number of premium members of the “@cosme” portal site

To increase the number of premium members of the “@cosme” portal site, the company will overhaul its processes for the enrollment and disenrollment of smartphone users and improve the content of the “@cosme” portal site.

To improve the content, in June 2013, the company concluded a business and equity agreement with an unlisted Japanese company called byBirth inc., which operates the GODMake. website, the largest site in Japan offering information on makeup through videos. istyle Inc. took a 33.4% stake in byBirth inc. Now, istyle Inc. and byBirth inc. are jointly developing and using videos.

New business model for “ispot” website

Until recently, most of the revenue collected for the use of the “ispot” website came from fixed monthly fees. Most of the companies using this site are small, employing about 10 people. For small companies, fixed fees are a burden, prompting some companies to stop using the site. Therefore, over the course of FY6/14, the website will increase its revenue from customer referrals, thereby lowering the revenue weighting of fixed fees.

The “ispot” website has been collecting success fees for customer referrals, but in order to receive these fees, the salons and shops had to complete a form verifying that the customer had been referred by the “ispot” website. Sometimes, the salons and shops failed to complete these forms, so success fees collected were smaller than expected. Consequently, ispot Co.Ltd. has developed an online appointment registry system for users of the “ispot” website that can also be used for customer referrals. This system facilitates customer management for the salons and shops using the “ispot” site, so these salons and shops will probably adopt the system enthusiastically.

ispot Co. Ltd. also plans to increase the number of users of the “ispot” website. At the end of FY6/13, about 3,800 shops used the site. Of these, about 3,000 were esthetic salons, and the remaining 800 or so were hair salons or other kinds of beauty business. The site therefore serves about 30% of the esthetic salons in Japan, with a higher share in western Japan, but it serves less than 1% of the hair salons in Japan. Hereafter, ispot Co. Ltd. plans to use external sales resources to increase the number “ispot” website users, particularly the number of hair salons using the site.

■ Company Forecasts

isport Co. Ltd.’ s two main competitors are Recruit Lifestyle Co. and Starts Publishing Corp. (7849). Recruit Lifestyle Co. is strong in serving hair salon proprietorships, while Starts Publishing Corp. is strong in serving esthetic salons in hotels. To increase the number of users of the “isport” website, isport Co. Ltd. plans to target hair salons with 10 or fewer employees, especially those in Greater Tokyo.

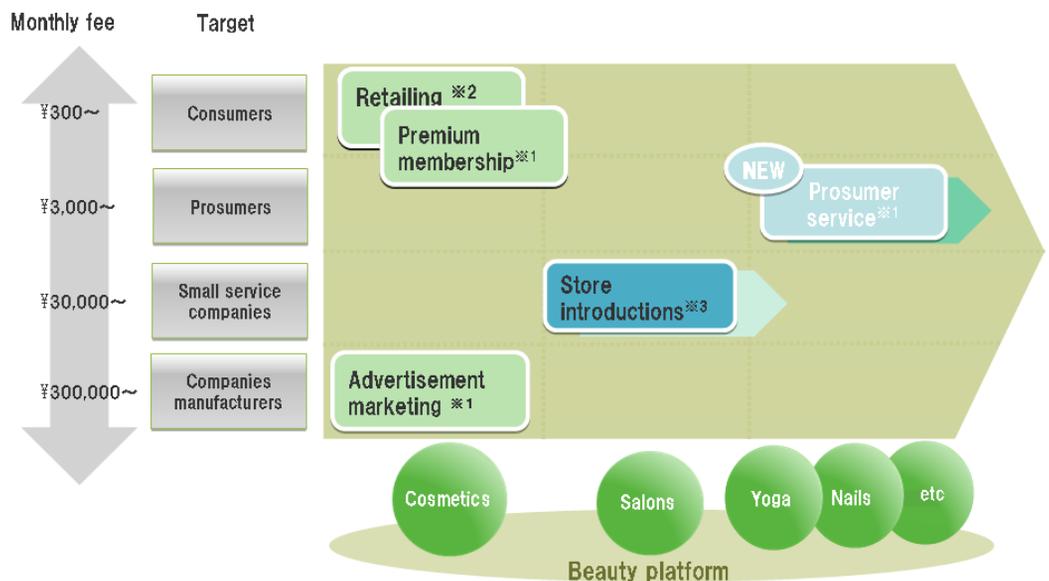
To change the fee structure of the “isport” website and to attract more users to this site, isport Co. Ltd. estimates that it will have to increase its operating costs by about ¥100mn in FY6/14, relative to costs in FY6/13. Therefore, the company foresees profit declines in FY6/14, even though it projects sales growth. From FY6/15, however, isport Co. Ltd.’ s profitability should improve substantially.

New “prosumer” service

In autumn 2013, istyle Inc. plans to start offering a new “prosumer” service in the media business. “Prosumer” is a word derived from the words producer and consumer. The term “prosumer” here, service being planned by istyle Inc. will target independent proprietorships offering beauty services such as nail treatments and yoga. Initially, this service will offer a schedule management tool to these proprietorships for a fee. In the future, the service may refer customers to these proprietorships from istyle Inc.’ s service sites.

As shown in the diagram below, based on istyle Inc.’ s beauty platform, the company currently targets manufacturers, small and medium-sized service companies, and individual consumers for its services. Among the services offered by istyle Inc. are advertisement marketing, store introductions, customer referrals, retailing, and premium memberships. The “prosumer” service will target proprietorships, which have not been targeted previously. This service is expected to yield monthly fees of about ¥3,000 per customer, which would fall between the monthly fee of about ¥300 for individual consumers and the fee of about ¥30,000 for small and medium-sized service companies. Led by the “@cosme” portal site, istyle Inc.’ s websites attract about 8.13 million unique user visits per month. Access to such a large potential customer base should appeal to many proprietorships providing beauty services.

Diagram of istyle Inc.’ s Businesses

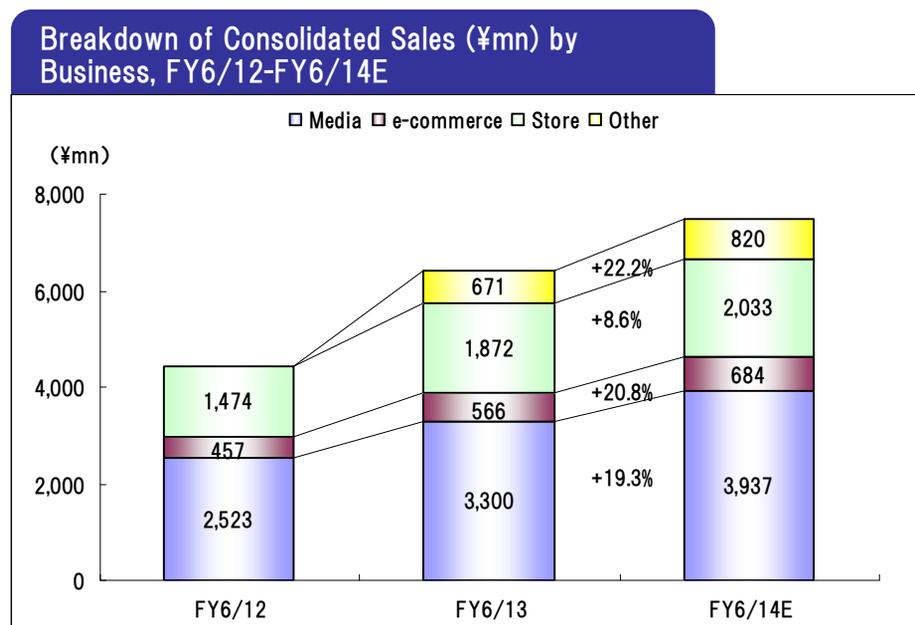


Source:Company



(2) Company Forecasts for FY6/14 by Businesses

The company’s FY6/14 sales forecasts for each business are highlighted in the following bar chart and discussed below.



To invest heavily in overseas business

Media Business

For FY6/14, the company projects a 19.3% y-o-y rise in sales at its media business, but it foresees profit declines for the business stemming from two factors: 1) an increase in the cost of software system development to improve its premium membership business, and 2) the build-up of operations in China, Singapore and Indonesia.

Overseas operations are seen increasing their aggregate sales by ¥168mn in FY6/14, but increasing their operating loss by ¥151mn, which is the operating profit decline projected for the entire company. However, the business plans to target companies that are expanding their beauty platforms in Asian countries other than Japan. Therefore, the heavy investment in overseas business in FY6/14 is considered strategic.

istyle China Co., Ltd., based in Shanghai, supports the exports, sales and promotions of Japanese cosmetics companies. In FY6/13, this subsidiary started terrestrial TV broadcasts and video channel presentations in China of a program on beauty products, “Taozui cosme”. This program is aired every evening for 15 minutes for 260 days a year and highlights popular product rankings by “@cosme”. It is supported financially by sponsors. This subsidiary also opened a Chinese version of the “@cosme” portal site on China’s largest miniblog site, “Sina Weibo”. At the end of July 2013, this site had been operational for about eight months and had more than 330,000 followers.



■ Company Forecasts

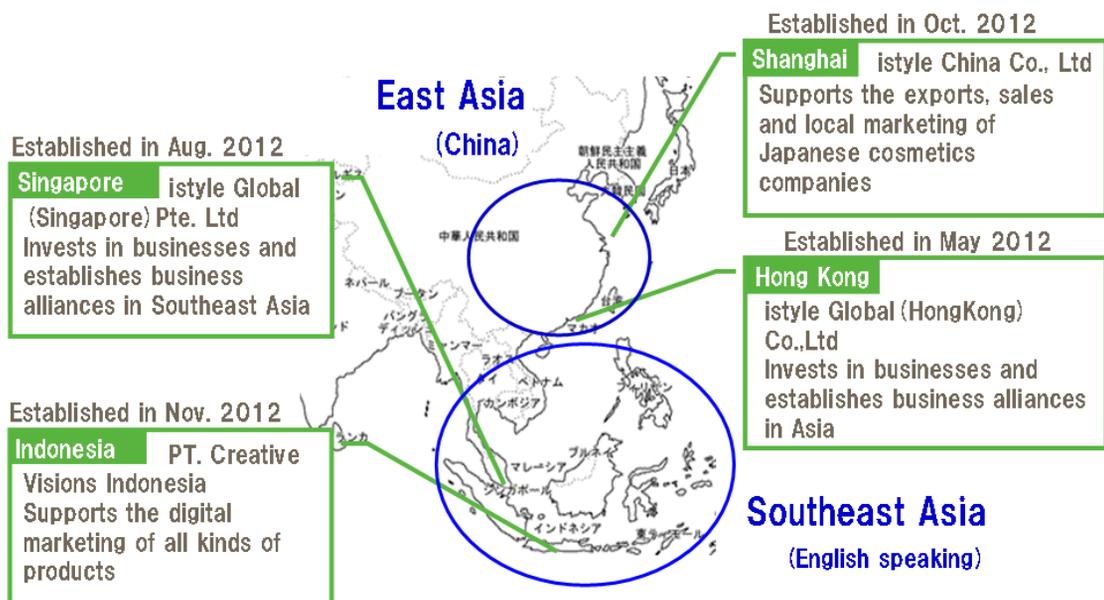
(*3) LPO
 Landing page optimization (LPO) or conversion rate optimization (CRO) is an Internet marketing method to improve the percentage of visitor' s / customer' s actions such as purchase or registration in order to increase revenue of website.

PT. Creative Visions Indonesia engages in the digital marketing of all kinds of products, not just cosmetics. The local staff of this subsidiary markets through social media and undertakes active advertising practices, such as landing page optimization (LPO, *3). In Indonesia, the use of mobile devices is spreading, the Internet market is growing rapidly, and the demand for marketing through Facebook and for operating advertising networks is expanding. Thus, this subsidiary has bright growth prospects.

istyle Global (Singapore) Pte. Ltd. contracts with engineering companies in Singapore and nearby countries to develop new services for istyle Inc.' s global operations. It is expected to play an important role in expanding these operations.

istyle Inc. expects the losses suffered by its overseas operations to gradually decline, and it expects these operations to turn profitable on a monthly basis sometime in FY6/15.

Outline of Overseas Operations



Source:Company

Excluding the ¥168mn sales increase which istyle Inc. projects for its overseas operations in FY6/14, sales in the media business are seen growing by only 14% y-o-y. Sales growth will probably be relatively muted because there will be no event in FY6/14 comparable to the “BEAUTY STYLE COLLECTION by @cosme 2012” event, which increased sales in FY6/13 by an estimated ¥150mn.

However, the media value of the “@cosme” portal site is growing in Japan, and the company expects corporate clients to continue to increase their advertising on this site. Thus, the company foresees double-digit sales growth for the media business for many years.



Select goods strategy to support sales and profit growth

e-commerce Business

For the e-commerce business, the company projects a 20.8% y-o-y increase in sales in FY6/14 to ¥684mn and a double-digit profit increase. The business will continue to offer goods which rank highly in the “@cosme” portal site and select goods developed in tie-ups with manufacturers. The application of identification numbers to members of all istyle Inc.’s websites has facilitated the use of points for purchases, which should benefit the e-commerce business.

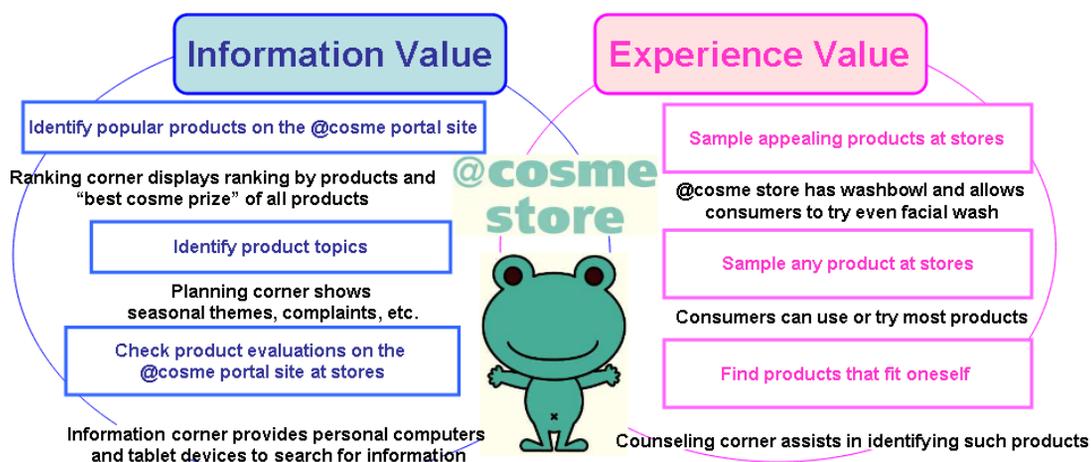
To improve advertising effectiveness by linking store campaigns to campaigns on the “@cosme” portal site

Store Business

For the store business, the company projects an 8.6% y-o-y increase in sales in FY6/14 to ¥2,033mn and a profit increase. The business does not plan to open any new stores in FY6/14, but it plans to continue to modify its existing stores to increase their appeal to customers based on information obtained from the “@cosme” portal site. It also expects to sell more products as a result of coupons issued by the “@cosme” portal site.

The store business plans to raise the effectiveness of its advertising by conducting store campaigns in conjunction with campaigns conducted on the “@cosme” portal site. It also plans to improve profitability by raising the sales weighting of promotion revenue.

Producing Distinctive Stores



Source:Company

Recruitment websites to contribute to sales growth

Other Businesses

For the other businesses segment, the company projects a 22.2% y-o-y increase in sales in FY6/14 to ¥820mn but a profit decline. As mentioned previously, the “isport” website will be revamped and will seek new customers. Thus, it should increase its sales. Furthermore, the recruitment websites “@cosme Career” and “@cosme Career Salon” will contribute to sales. However, operating costs in the other businesses segment will increase, causing a drop in operating profit.

Sales, Operating Profit (¥mn) and Operating Profit Margin (%) by Business, FY6/11-FY6/14E

	FY6/11	FY6/12	FY6/13	FY6/14E	y-o-y
Sales					
media business	2,105	2,523	3,300	3,937	19.3%
e-commerce business	432	457	566	684	20.8%
store business	1,294	1,474	1,872	2,033	8.6%
other businesses	-	-	671	820	22.2%
Total	3,832	4,455	6,410	7,478	16.7%
Operating profit					
Media business	344	524	480		
e-commerce business	39	29	52		
Store business	12	36	100		
Other businesses	-	-	63		
Inter-business	30	24	40		
Total	427	615	738		
Operating profit margin					
Media business	16.4%	20.8%	14.6%		
e-commerce business	9.1%	6.5%	9.3%		
Store business	1.0%	2.4%	5.4%		
Other businesses	-	-	9.5%		
Total	11.2%	13.8%	11.5%		

Internet advertising market to grow, and company should raise its share of this market

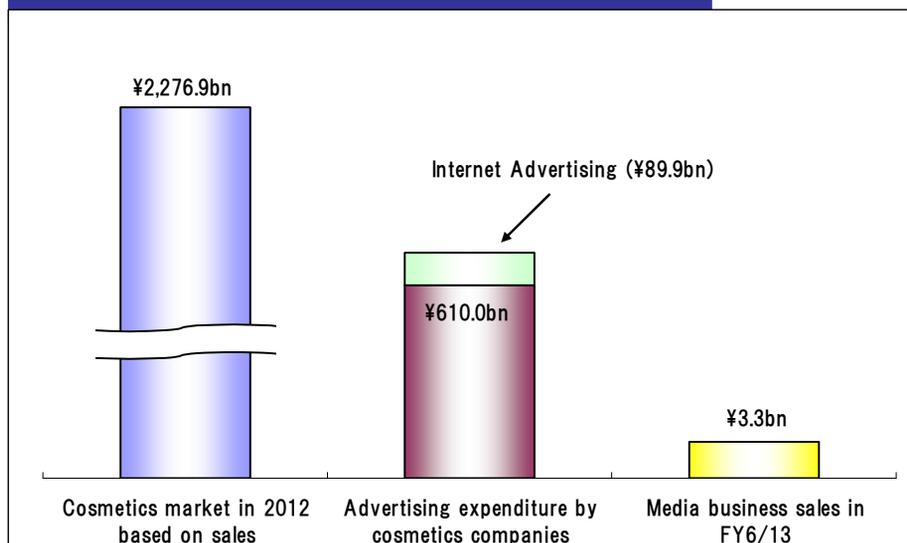
(3) Medium-term Prospects

Although istyle Inc. projects profit declines for FY6/14 stemming from one-time expenses, including heavy investments in new businesses and the cost of relocating the head office, it foresees a return to profit growth in FY6/15. It forecasts continued double-digit growth of domestic sales by the media business and smaller losses in the overseas media business. It also projects a return to profit growth in the other businesses segment, reflecting the segment's initial sales policy, and contributions by the "prosumer" service of the media business newly launch in autumn 2013.

As the company diversifies profit sources in its beauty platform, it is likely to realize synergy among its businesses, contributing to higher growth potential over the medium-to-long term. The overseas business could remain a drag on profits, but the company should be able to expand its domestic operations enough to maintain overall profit growth.

In 2012, Japan's cosmetics industry spent about ¥610bn on advertising. Of that, ¥89.9bn was spent on Internet advertising. Internet advertising is expected to raise its share of the overall advertising market, and istyle Inc.'s media business will probably raise its share of the market for Internet advertising by the cosmetics industry from 3.7% as its advertising value increases. Already, one in three Japanese women in their 20's or 30's use the "@cosme" portal site each month.

Illustration of Media Business' s Growth Potential in Japanese Market



Sources: Fuji Keizai Management Co., Dentsu Inc.

Note: Amount of Internet advertising is estimated by istyle Inc.

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