

istyle Inc.3660 Tokyo Stock Exchange
First Section

24-Sept.-14

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Yuzuru Sato

■ Company is radically improving its services to attain its FY6/16 targets

istyle Inc. operates the “@cosme” word-of-mouth portal site for cosmetics and beauty, which is the largest such site in Japan and is called the media business. Subsidiaries operate the electronic commerce (e-commerce) business, the store business, the “ispot” website, on which to search for and make reservations at esthetic salons, and marketing in Asia. At the end of June 2014, the number of members to all company websites totaled 2.86 million people, and these websites attracted 10.39 million unique users per month.

In the fiscal year through June 2014, i.e., in FY6/14, istyle Inc.’s consolidated sales grew by 11.4% year-on-year (y-o-y) and its consolidated operating profit decreased by 35.9%. Operating profit declined because of the cost of developing overseas subsidiaries, a deterioration of profit from the “ispot” website business accompanying strategic changes in the business, and increased investment in systems development.

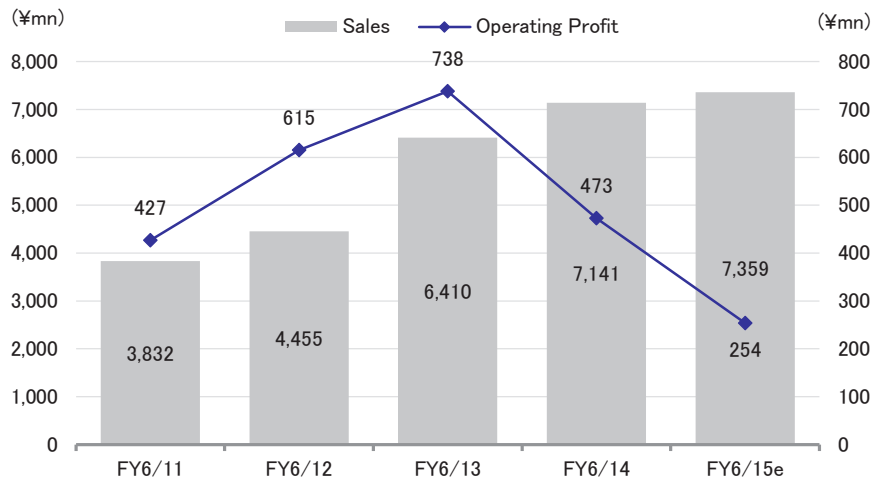
For FY6/15, the Company projects a 3.1% y-o-y rise in its consolidated sales, but a 46.3% y-o-y fall in its consolidated operating profit. It does not foresee large sales increases from its existing services, and it projects an increase in the costs of personnel to strengthen its services and a peaking of the depreciation cost of its systems development. These forecasts are probably conservative as the Company missed its forecasts for FY6/14. In FY6/14, the Company changed its strategy for its ispot website business, which suffered an operating loss that term. The Company expects this business to break even in FY6/15.

The Company’s current medium-term business plan targets consolidated sales of ¥10bn and consolidate operating profit of ¥1.5bn for FY6/16. To achieve these targets, the Company intends to radically improve its services. In the third quarter (Q3) of FY6/15, it will launch a new, expanded version of its “@cosme” portal site to provide a broad range of information on beauty and to display information chronologically, thereby increasing the frequency of site usage. It will develop services that can be provided by all its businesses, and it may enter new fields of service, perhaps through alliances.

■ Check Point

- About half of all women members in their 20s or 30s use the “@cosme” portal site monthly
- In FY6/15, the Company will invest for future growth
- The Company plans to launch the a “@cosme” portal site that allows the chronological display of information in Q3 FY6/15

Consolidated Sales and Operating Profit (¥mn), FY6/11-FY6/15e



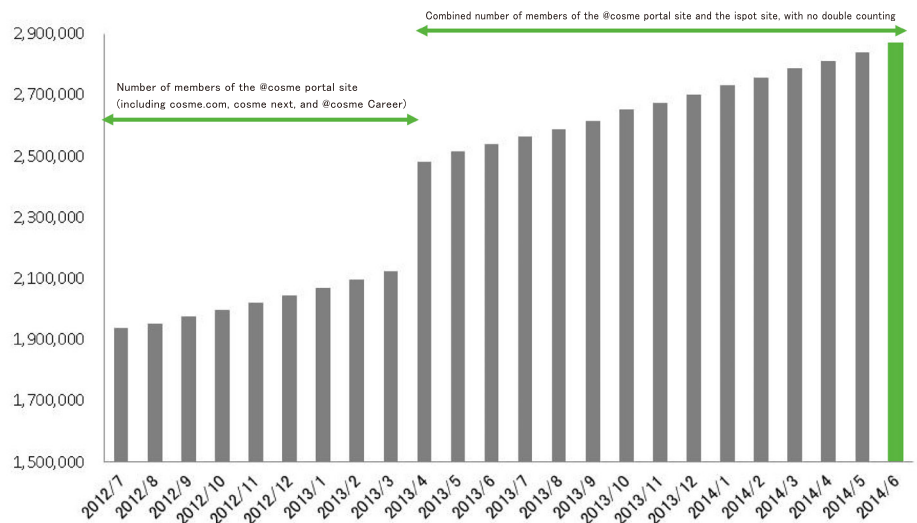
Business Outline

About half of all women members in their 20s and 30s use the “@cosme” portal site monthly

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.

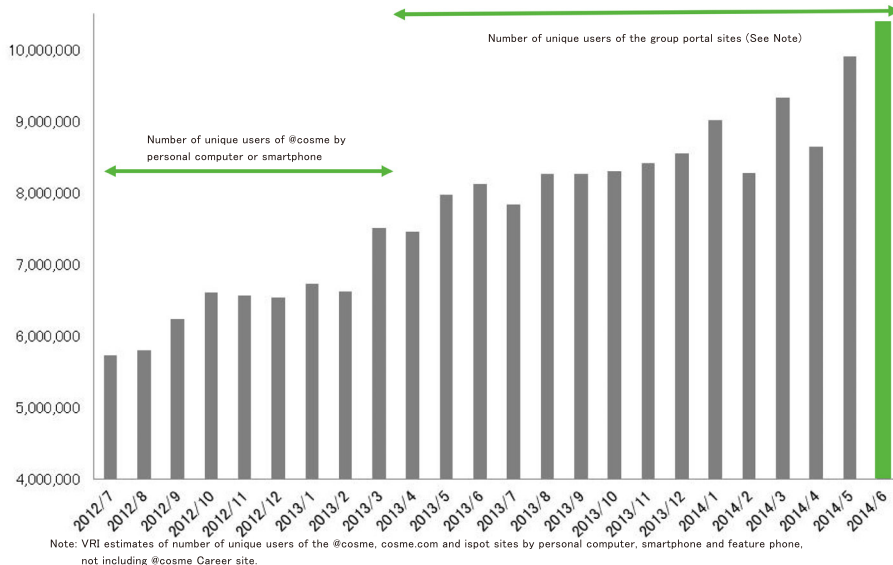
At the end of June 2014, the number of members of all Company websites totaled 2.86 million up from 2.54 million a year earlier. The Company is therefore Japan’s largest operator of portal sites providing information about cosmetics. In June 2014, the “@cosme” portal site attracted about 9.8 million unique users per month. At least 70% of the site users are women in their 20’s or 30’s, and about half of these women use the site monthly. Thus, the site has unrivaled customer reach as an advertising medium.

Monthly Number of Members of All istyle Websites, July 2012-June 2014



Source: Company materials

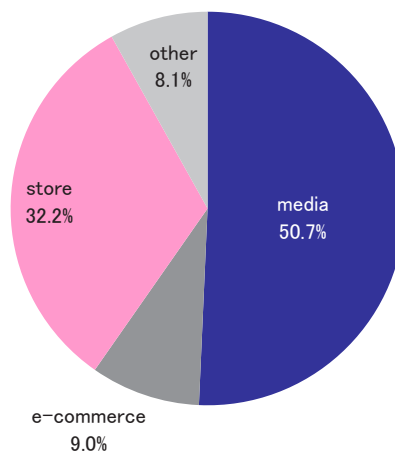
Monthly Number of Unique Users, July 2012–June 2014



Source: Company materials

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. In FY6/14, the media business supplied 50.7% of istyle’s consolidated sales, the e-commerce business provided 9.0%, the store business accounted for 32.2%, and other businesses supplied 8.1%.

Business Contributions to Consolidated Sales in FY6/14



Provides services to companies and site users

(1) Media Business

The media business has three subdivisions: media services (Internet advertising), solution services, and services for premium members. Business by overseas subsidiaries, begun in FY6/13, is also included in this business. Media services provide most sales, which are advertising fees paid by corporate clients.

○Media services

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

The brand advertisement service supplies visuals, such as graphs, illustrations and photographs, to improve the images of client brands in tie-up advertisements. This service also uses the results of member surveys and of analyses of word-of-mouth data to produce highly distinctive advertisements.

○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 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. At the end of FY6/14, 420 brands used this service.

The research and consulting service provides information from the “@cosme” databases and 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 other than the “@cosme” portal site.

○Services for premium members

For a monthly fee of ¥280 (consumption tax excluded), premium members of the “@cosme” portal site can receive several services. Every month, these members receive a premium coupon for purchases through the “cosme.com” or “@cosme store” site. The rate at which they can redeem points is increased, and they can view detailed product rankings and conduct advanced searches for information.

○Overseas business

istyle Inc. has been developing marketing business overseas since 2012. It now pursues this business through four subsidiaries, one each in China, Hong Kong, Singapore, and Indonesia. The subsidiaries in China and Singapore have been consolidated since Q4 FY6/13, and the subsidiary in Indonesia has been consolidated since Q1 FY6/14.

More profitable than most e-commerce businesses

(2) e-commerce Business

Online sales are conducted by subsidiary cosme.com Inc. over a website called “cosme.com”. This subsidiary sells cosmetics, quasi-pharmaceutical products, health foods, and other beauty products. Its high ability to attract customers together with product selection utilizing the database backed by word-of-mouth information enable this business to maintain an operating profit margin of about 10%, which is higher than the margins achieved by most other e-commerce companies in Japan.



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Combines virtual and real approach to retailing

(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. Thus, they combine the virtual and real approach to retailing. The stores allow customers to choose their products pleasantly as though they were meeting cosme personally. At the end of June 2014, this business operated five “@cosme store”, one each in the Shinjuku, Ueno, Shibuya, Ikebukuro and Yurakucho districts of Tokyo.

“Chijimaru” business of supporting independent proprietorships offering beauty services was launched in January 2014

(4) Other Businesses

Other businesses offer solution services for other beauty service providers. These businesses are now conducted by subsidiary istyle Beauty Solutions, which was called ispot Co., Ltd. until July 2014. They include the operation of the “ispot” website for searching for and making appointments at esthetic salons, the operation of the “@cosme Career” website for online recruitment for the beauty industry, and since January 2014, the “Chijimaru” service of supporting the businesses of “prosumers”. “Prosumer” is a word derived from the words professional and consumer. In this case, it means independent proprietorships offering beauty services, such as nail treatments and yoga.

The “ispot” business generates most of the sales from other businesses. It collects monthly fees from esthetic salons for displaying information about the salons and receives a success fee for every salon customer who makes an appointment through the ispot website. At the end of June 2014, about 3,900 salons had contracted to use the ispot service. Thus, the “ispot” business holds a high market share, particularly in western Japan.

■ Business Trends

Sales grew and profits fell, but all exceeded the Company’s revised forecasts announced in May

(1) FY6/14 Results

On July 29, 2014, istyle Inc. announced its consolidated results for FY6/14. Sales grew by 11.4% y-o-y to ¥7,141mn, but operating profit fell by 35.9% to ¥478mn, recurring profit decreased by 35.5% to ¥460mn, and net profit dropped by 96.7% to ¥14mn. Sales have grown every year since the Company was founded.

The Company had originally forecasted a sales increase but large profit declined for FY6/14 because it planned to invest heavily in its overseas business, to relocate its head office, and to hire more personnel. Sales and profits for FY6/14 were lower than originally forecast, mainly because a major client cut back on its advertising in H2 FY6/14 and the “ispot” business deteriorated temporarily when the Company changed the strategy for this business. However, FY6/14 results were better than the Company’s revised forecasts, announced in May, reflecting a spike in the number of advertisements placed in June.



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Consolidated Results in FY6/13 and FY6/14 versus Company Forecasts for FY6/14

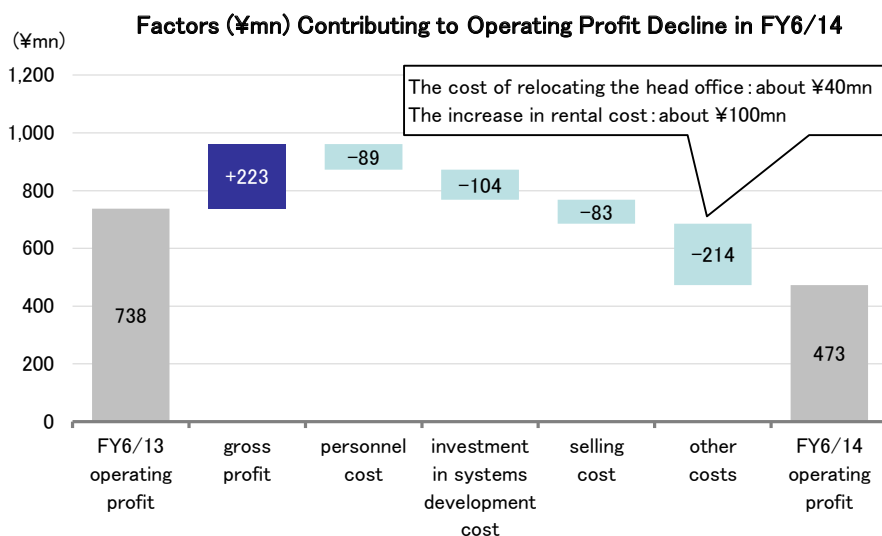
(Unit: ¥mn)

| | FY6/13 | | FY6/14 | | | | |
|-----------------------------------|----------------|-------|------------------|-----------------|----------------|-----------|--------|
| | FY6/13 results | y-o-y | FY6/14e original | FY6/14e revised | FY6/14 results | vs. sales | y-o-y |
| Sales | 6,410 | - | 7,478 | 6,914 | 7,141 | - | 11.4% |
| Cost of services sold | 2,051 | 32.0% | - | - | 2,559 | 35.8% | 24.8% |
| SGA costs | 3,620 | 56.5% | - | - | 4,108 | 57.5% | 13.5% |
| Operating profit | 738 | 11.5% | 587 | 245 | 473 | 6.6% | -35.9% |
| Recurring profit | 713 | 11.1% | 569 | 232 | 460 | 6.4% | -35.5% |
| Net extraordinary gains or losses | -61 | - | - | - | -193 | - | - |
| Net profit | 429 | 6.7% | 254 | 0 | 14 | 0.2% | -96.7% |

Note: Company revised forecasts as of May 2014

The main factors causing a decline in operating profit in FY6/14 were an ¥89mn rise in personnel costs, a ¥104mn increase in investment in systems development, an ¥83mn increase in selling costs, and ¥214mn of other additional costs. The Company invested more in systems development to launch the “Chijimaru” service in Q3 FY6/14 and to round out the services for premium members. Of the other additional costs, about ¥40mn was the cost of relocating the head office and ¥100mn was the increase in rental cost accompanying this move.

Net profit fell by a larger rate than recurring profit in FY6/14 for a couple reasons. First, the Company claimed ¥140mn of extraordinary asset impairment losses, primarily on write-offs of software. Second, the overseas subsidiaries, which do not use tax-effective accounting, declared an aggregate operating loss of ¥142mn, larger than the ¥26mn operating loss they suffered in FY6/13.



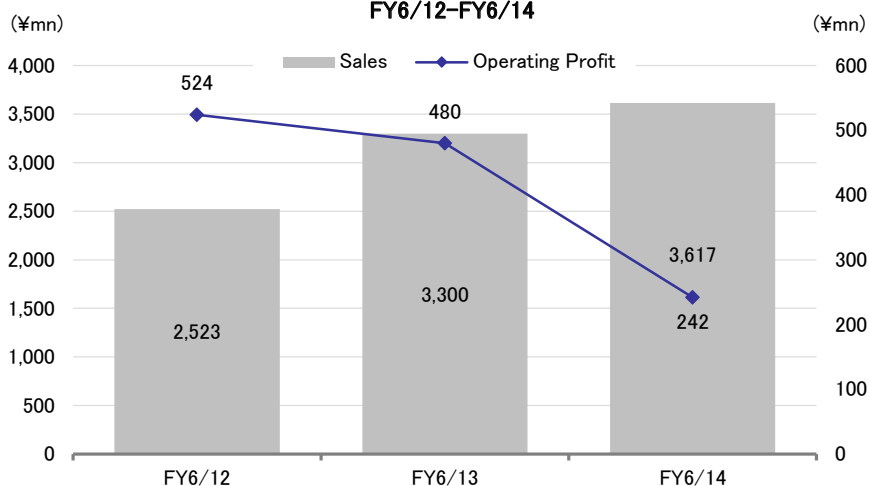
e-commerce business and store business recorded double-digit rises in sales and profits

(2) FY6/14 Results by Business

Media Business

In the media business, sales grew by 9.6% y-o-y in FY6/14 to ¥3,617mn, but operating profit declined by 49.6% to ¥242mn. Domestic sales increased by 4.7% y-o-y to ¥3,455mn, but operating profit from these sales before eliminations fell by 24.1% to ¥384mn. Overseas sales came to ¥162mn, but the operating loss suffered by overseas operations increased to ¥142mn in FY6/14 from ¥26mn in FY6/13.

Sales and Operating Profit (¥mn) in the Media Business, FY6/12-FY6/14



In recent years, the “@cosme” website has attracted far more individual consumers of beauty products than competing websites. Thus, the number of corporate clients for the media business has grown. At the same time, by diversifying its product portfolio, offering such services as the “brand fan club”, the business has also increased the average advertising expenditure by its corporate clients. Thus, sales in the media business have grown by double digits y-o-y. However, in H2 FY6/14, some corporate clients curtailed their advertising, and the average advertising expenditure per corporate client declined y-o-y in FY6/14. Therefore, the rate of sales growth in the media business slowed in FY6/14.

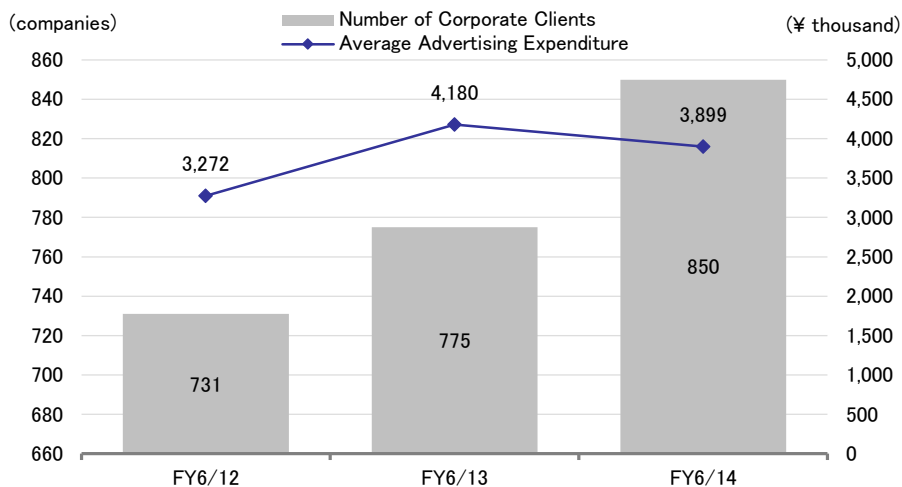
However, as noted previously, the number of registered members of the “@cosme” website continued to increase in FY6/14, as did the number of unique users per month, and at the end of FY6/14, the media business had 850 corporate clients, up from 775 at the end of FY6/13. Thus, the value of the site as an advertising medium did not decline. The drop in the average advertising expenditure per corporate client in FY6/14 may have reflected a wider distribution of advertising budgets by companies that have diversified their digital marketing strategies in response to such factors as the diffusion of social networks. The average advertising expenditure by the top 20 corporate clients of the media business decreased slightly y-o-y in FY6/14, and these clients accounted for 43.1% of the business’s total sales during the year, down from 51.9% in FY6/13. Consequently, the business became less reliant on these clients in FY6/14.



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Number of Corporate Clients in the Domestic Media Business and Average Advertising Expenditure per Client (¥ thousand), FY6/12-FY6/14



In the domestic media business, operating profit before eliminations declined in FY6/14 mainly because the business paid for the development of the “Chijimaru” service and for services for premium members, and its personnel and rent costs increased. The number of premium members of the “@cosme” site approximately tripled y-o-y in FY6/14 resulting from mutual customer introduction with other similar website operators, but this was slower growth than the Company had planned.

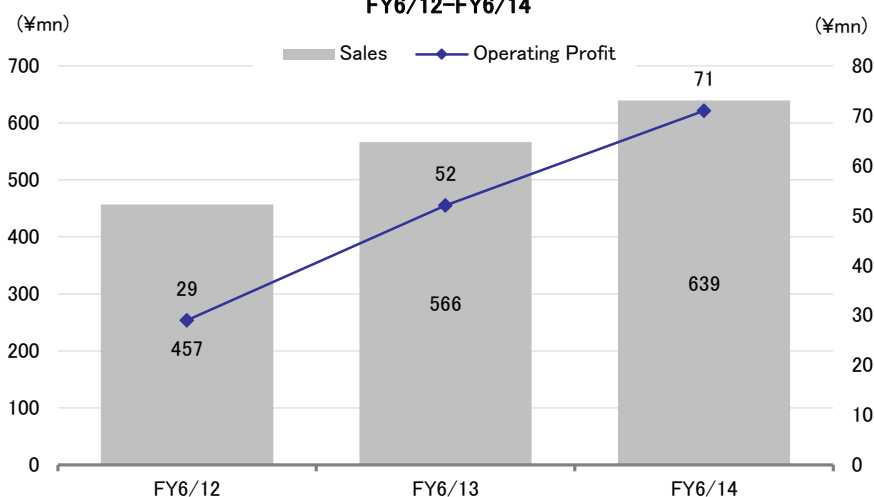
The marketing subsidiaries in China and Indonesia increased their sales y-o-y in FY6/14. In China, the subsidiary expanded its support services for marketing through TV broadcasting and social networks. In Indonesia, the subsidiary promoted advertising through Google for local businesses. Both subsidiaries remained unprofitable in FY6/14, but both may turn profitable on a monthly basis in FY6/15.

At the end of March 2014, the media business acquired the online advertising business of mixi marketing, Inc.. and the personnel operating this business, including system engineers. This contributed to the increase in personnel costs in the media business.

○e-commerce Business

In the e-commerce business, sales increased by 12.9% y-o-y in FY6/14 to ¥639mn and operating profit before eliminations grew by 35.0% to ¥71mn. The modification of the software system in FY6/13 to allow the assignment of identification numbers to site members and the allocation of points to members enabled websites from other businesses to refer customers to the e-commerce business. The e-commerce business also promoted its own point system. These factors supported the business’s sales growth in FY6/14. The business controlled its personnel costs and rationalized its distribution to lower costs, contributing to profit growth and an operating profit margin of 11.1%.

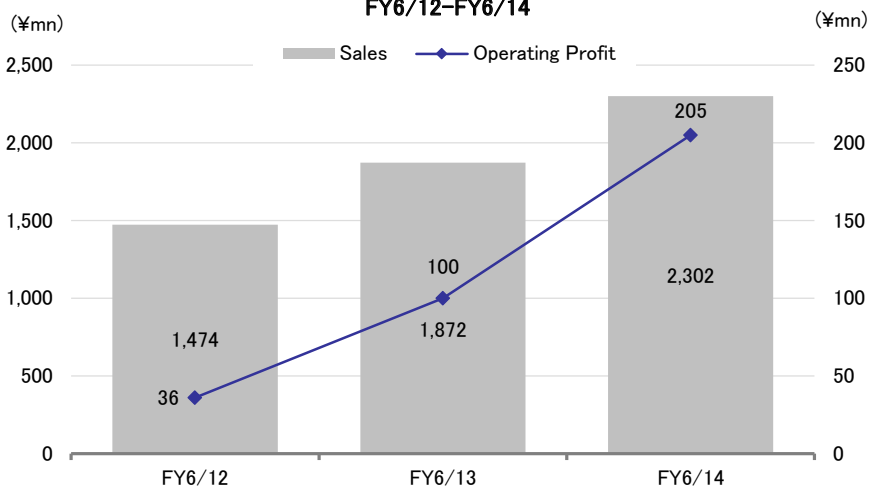
Sales and Operating Profit (¥mn) in the e-commerce Business, FY6/12-FY6/14



○Store Business

In the store business, sales advanced by 23.0% y-o-y in FY6/14 to ¥2,302mn and operating profit before eliminations jumped by 103.7% to ¥205mn. This business operated five stores in FY6/14, unchanged from the number operated in FY6/13. However, it renovated its Ueno store in September 2013, increasing its selling space, and in February 2014, it closed its small store in Ginza and replaced it with a larger store in Yurakucho. The Company's unique store management such as merchandise display in line with ranking at "@cosme" portal site and store promotions using digital signage were favorably accepted by customers. All five stores increased their sales in FY6/14. Sales growth supported increased profitability, and the operating profit margin in the store business rose by 3.5ppts y-o-y to 8.9% in FY6/14.

Sales and Operating Profit (¥mn) in the Store Business, FY6/12-FY6/14





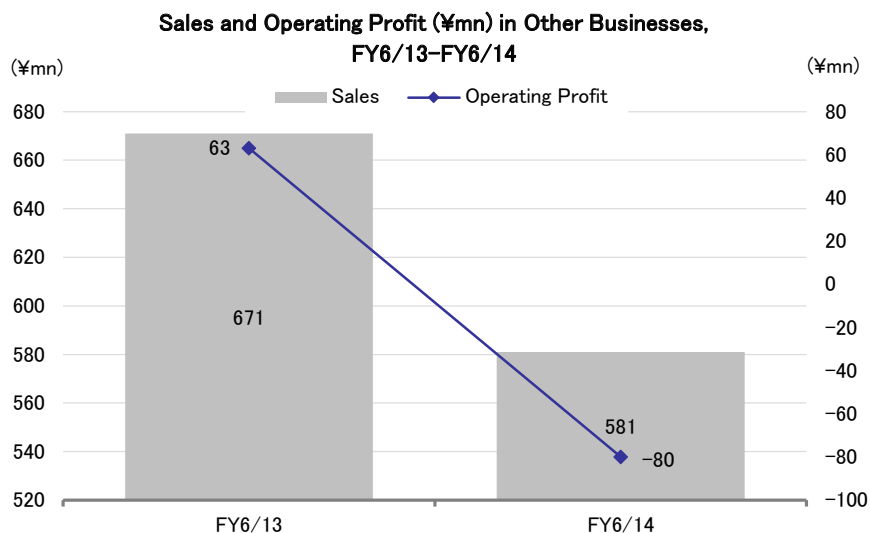
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Other Businesses

The other businesses category was created in FY6/13. istyle Inc. bought the predecessor of CyberStar Inc. (now istyle Beauty Solutions Inc.) in May 2012. istyle Beauty Solutions Inc. operates the “ispot” website, which allows users to search for esthetic salons and to make reservations at them. istyle Beauty Solutions Inc. also operates the online recruitment service for the beauty industry, “@cosme Career”. In FY6/14, sales in the other businesses category declined by 13.3% y-o-y to ¥581mn and the business suffered an operating loss before eliminations of ¥80mn, reversing an operating profit of ¥63mn in FY6/13. The Company changed the business model for “ispot” during FY6/14, causing a temporary drop in its sales and profits.

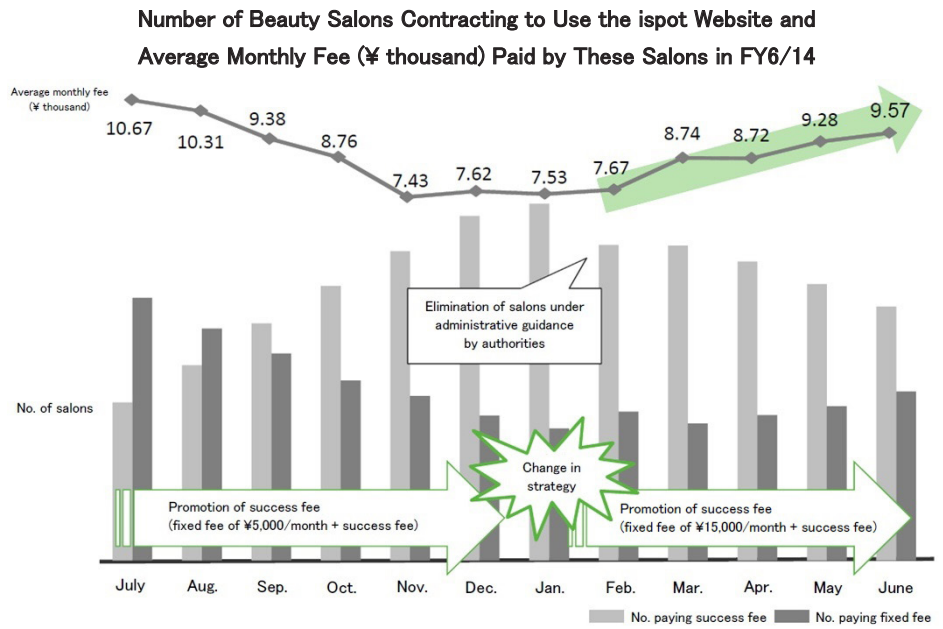
During FY6/14, ispot Co. changed its fee system for displaying information about esthetic salons. At the beginning of the fiscal year, it increased the proportion of success fees from salon customers who made appointments through the “ispot” website while lowering fixed monthly fees. As a result, the number of salons using the “ispot” website increased in H1 FY6/14, but the average fee paid monthly by salons fell, weakening profits. In order to turnaround such a trend in January 2014, the Company revised the fee structure of this service, raising the fixed monthly fee and decreasing the success fee. Consequently, the number of salons using the “ispot” website decreased somewhat, but the average monthly fee paid by salons recovered, reaching an almost to a profitable monthly level in June 2014.





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Source: Company materials

Remained strong despite profit declines

(3) Financial Condition

During FY6/14, istyle's current assets declined by ¥558mn accompanying a drop in cash and deposits. However, fixed assets grew by ¥793mn, primarily reflecting a ¥236mn increase in tangible fixed assets due mainly to the move to a new company head office, an ¥85mn increase in software assets, and a ¥656mn rise in long-term investments in securities. As a result, total assets expanded by ¥235mn to ¥5,758mn.

Total liabilities shrank by ¥26mn in FY6/14 to ¥1,512mn, as interest-bearing debt decreased by ¥89mn to ¥541mn. Shareholders' equity increased by ¥16mn to ¥3,953mn, and total equity grew by ¥261mn to ¥4,246mn, mainly because valuation gains on securities holdings increased by ¥216mn upon the listing of Allied Architects, Inc. (6081).

The Company's current ratio, equity ratio and debt-to-equity ratio remained high. However, its profitability ratios fell sharply, due to the profit declines in the media business and other businesses discussed above.

Summary Consolidated Balance Sheet at FY6/11-FY6/14

(Unit: ¥mn)

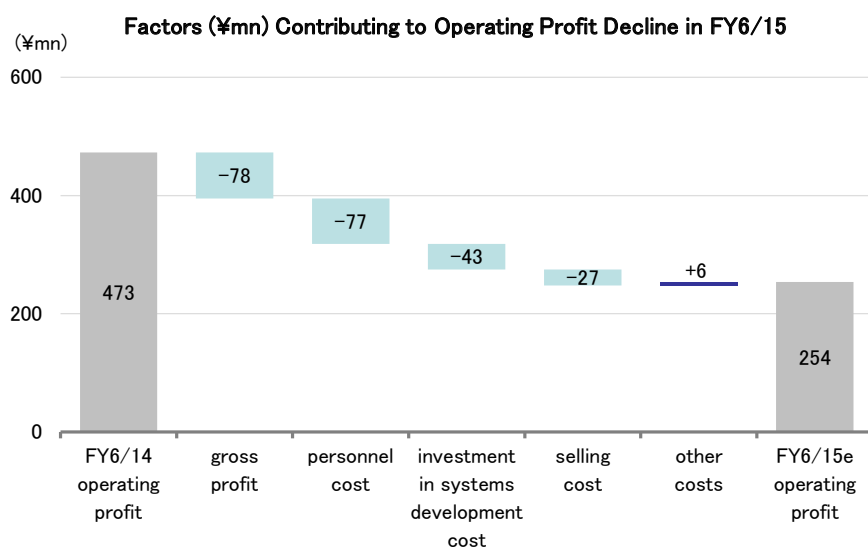
| | FY6/11 | FY6/12 | FY6/13 | FY6/14 | absolute change |
|--|--------|--------|--------|--------|-----------------|
| Current assets | 1,861 | 2,597 | 4,009 | 3,450 | -558 |
| (Cash and deposits) | 1,130 | 1,653 | 2,707 | 1,950 | -757 |
| Fixed assets | 516 | 792 | 1,513 | 2,307 | 793 |
| Total assets | 2,378 | 3,389 | 5,523 | 5,758 | 235 |
| Current liabilities | 683 | 986 | 1,135 | 1,150 | 15 |
| Fixed liabilities | 180 | 138 | 403 | 361 | -41 |
| (Interest-bearing debt) | 275 | 261 | 630 | 541 | -89 |
| Total liabilities | 1,514 | 2,263 | 3,984 | 4,246 | 261 |
| (Total equity Shareholders' equity) | 1,514 | 2,233 | 3,936 | 3,953 | 16 |
| Total liabilities & equity | 2,378 | 3,389 | 5,523 | 5,758 | 235 |
| Financial stability ratios | | | | | |
| Current ratio | | | | | |
| (current assets ÷ current liabilities) | 272.5% | 263.2% | 353.1% | 299.9% | |
| Equity ratio (total equity ÷ total assets) | 63.7% | 65.9% | 71.6% | 73.1% | |
| Debt-to-equity ratio | | | | | |
| (Interest-bearing debt ÷ total equity) | 18.2% | 11.7% | 16.0% | 13.7% | |
| Profitability ratios | | | | | |
| ROA (recurring profit ÷ total assets) | 19.9% | 21.2% | 16.0% | 8.2% | |
| ROE (net profit ÷ average equity) | 18.4% | 19.8% | 13.9% | 0.4% | |
| Operating profit margin | 11.2% | 13.8% | 11.5% | 6.6% | |

Business Forecasts

Company will invest for future growth

(1) Company Forecasts for FY6/15

For FY6/15, istyle forecasts a 3.1% y-o-y increase in consolidated sales to ¥7,359mn, a 46.3% fall in operating profit to ¥254mn, a 43.9% drop in recurring profit to ¥258mn, and a 685.7% surge in net profit to ¥110mn. These forecasts are probably conservative, as the Company failed to meet its forecasts for FY6/14 and prospects for the domestic media business are unclear after H1 FY6/15. Still, the Company plans to continue to invest in systems and personnel in FY6/15 to achieve growth in the future. The Company estimates that its operating profit will decline in FY6/15 due to the factors shown in the following chart.



Every business will strengthen investment and organization; higher profits foreseen for e-commerce and store businesses

(2) FY6/15 Forecasts by Business

○Media Business

For FY6/15, the Company projects a 3.2% y-o-y drop in sales in its media business to ¥3.5bn and an operating loss before eliminations of ¥82mn. Some main clients continue to curtail their advertising on the “@cosme” website, so prospects for advertising revenue in H2 FY6/15 are unclear, and the Company projects a decline in revenue from the business’s main product, brand advertisements, in FY6/15. Operating profit will be adversely affected by the projected sales decline and by continued investment in systems and other resources needed for growth. The Company expects sales from its overseas subsidiaries to approximately double y-o-y in FY6/15, led by sales growth at the subsidiaries in China and Indonesia and therefore, its loss is expected to decrease. Indeed, quarterly result is projected to turn profitable from Q4 FY6/15. In Q1 FY6/15, the media business will, as did in the previous year, host large events that should boost sales significantly.

○e-commerce Business

For the e-commerce business, the Company projects a 10.0% y-o-y increase in sales in FY6/15 to ¥735mn and a 2.8% rise in operating profit before eliminations to ¥73mn. The business will continue to develop new services, and the costs to strengthen organization for the new services are projected to reduce its profitability, but it is still expected to increase its profits.

○Store Business

For the store business, assuming the business operates its five current stores, the Company projects a 6.2% y-o-y increase in sales in FY6/15 to ¥2,471mn. The business may open new stores in FY6/15 if an opportunity to do so develops, but it does not plan to as of now. The business will continue to improve its ability to develop new services, limiting the growth in its operating profit before eliminations to ¥208mn in FY6/15 from ¥205mn in FY6/14.

○Other Businesses

For the other businesses segment, the Company projects a 12.0% y-o-y increase in sales in FY6/15 to ¥654mn and the breakeven point in operating profit before eliminations, after an ¥80mn loss in FY6/14. The “ispot” business will invest in improving the content of its services to increase the number of consumers sent to beauty salon customers. Thus, it is likely to remain unprofitable in H1 FY6/15, but it should turn profitable in H2 FY6/15.

The “Chijimaru” service is being transferred from the media business to other businesses from FY6/15. The “Chijimaru” business has not taken off as rapidly as the Company had planned, so it is likely to contribute little to sales and profits in FY6/15. However, as more than 200 yoga and nail beauty instructors have registered with the service, it plans to strengthen its service to introduce customers and workplace to them.

■ Growth Strategy

Given the Company's unmatched access to consumers seeking beauty products, it offers great growth potential

(1) Medium-term Plan

istyle Inc.'s medium-term management plan targets consolidated sales of ¥10bn and operating profit of ¥1.5bn for FY6/16. These forecasts look challenging to accomplish, based on the Company's forecasts for FY6/15. However, the Company believes that it could still accomplish them. Cosmetics companies in Japan spend about ¥13,943 per year per cosmetics user in advertising. Through its "@cosme" website, istyle generates annual advertising revenue of ¥338 per user, or less than 3% of the total advertising spending of cosmetics companies. As istyle has a dominant access to consumers using beauty products, it should be able to growth substantially.

However, as noted above, sales growth in the domestic media business have slowed substantially. Therefore, from FY6/15, the Company intends to seriously identify, analyze and rectify problems in the business with the aim of returning it to a growth path.

A "@cosme" website that can show content chronologically to be launched in Q3 FY6/15

(2) Management Issues and Problem-solving

Management has identified three main problems, as summarized in the table below. Firstly, site visitors to "@cosme" tend to view only word-of-mouth information and rankings about cosmetics, which discourages them from migrating within the site. To overcome this weakness, the Company plans to introduce a version of the website with a push display that allows users to view information in chronological order, as Facebook and other social media do. Smartphones are becoming the dominant means of website communication. The classical portal style of the site might have discouraged migration within the site as its structure is not well fit to smartphones.

The Company intends to start operating this new version of the "@cosme" website in Q3 FY6/15. The new site will be an improved version of the current website and will offer increased functions. It will offer a broader range of information about beauty and make it visible chronologically. The goal is to increase site traffic and advertising volume on the site. The Company also expects the new site to increase the usage of group coupons and sales in the e-commerce, store and "ispot" businesses. The Company also plans to develop a more effective way to display its brand advertisements.

The second problem identified by management is a decline in average advertising expenditure accompanying a shift to smartphones from personal computers, which command a relatively higher advertising fee than smartphones. To overcome this problem, the Company plans to shift its advertising service from media advertising to a service that offers economical solutions to client companies. Sales promotion would be included in this service.



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On July 30, 2014, istyle announced that it had purchased Beauty Trend Japan Co. and made it a subsidiary. Beauty Trend Japan has been offering a service called “GLOSSYBOX” which distributes 4–5 samples of beauty products to homes for a fixed monthly fee of ¥1,500 (consumption tax excluded). The Company started this service in Japan in December 2011 and has distributed samples of about 300 brands of cosmetics. istyle intends to offer this service as part of its advertising solution service to its approximately 850 cosmetic company clients.

The third problem recognized is the inefficient development of computer systems. Accompanying the Company’s business expansion, its computer systems have been upgraded to expand site capacity and they have been developed to accommodate many devices, primarily personal computers. Thus, the software and the databases have become extremely complicated, reducing the efficiency of system development. To remedy this problem, the Company intends to renovate its software architecture and to streamline the data structure with the introduction of the new “@cosme” website. Therefore, it expects to expedite system development in the future and lower its cost.

Planned Actions to Resolve Problems

| Problem | Problem Background | Problem Resolution |
|--|---|---|
| Fixed way of using “@cosme” website discourages users from migrating within the site | <ul style="list-style-type: none"> •traffic relies on word-of-mouth information about cosmetics •most content is offered in a portal format | Provide a wide range of information on beauty other than word-of-mouth enable users to view information in chronological order, encouraging a large increase in viewing frequency |
| As traffic has shifted to smartphones, profitability has deteriorated | <ul style="list-style-type: none"> •Advertising through smartphones is cheaper than advertising through personal computers | Shift from offering advertising through media to offering advertising more economical to clients |
| System development has been slow, making resource use inefficient | <ul style="list-style-type: none"> •Systems are designed for use on many devices, mainly personal computers •After years of site growth, software and data bases are patchworks | Renew software architecture, streamline data structure |

Planning to develop current business areas and considering the development of new areas

(3) Improve service development, expand into new service areas

The Company plans to use its extensive database to develop new services for its clients, which include cosmetics companies, salon operators, entrepreneurs in the beauty industry, and individual consumers. The service development division reports directly to the Company president.

The Company is also considering entering new fields of business. These would be fields in which it could use its databases and know-how in the media business. It may join with other companies to develop new businesses.

(4) Business risks

istyle may fail to improve its profitability in FY6/15 for a number of reasons. For example, the cost of systems development in the media business may exceed the planned amount, and the number of salons contracting for the “ispot” business may decline. However, as we have noted earlier, the company’s forecasts for FY6/15 appear conservative, and we believe there is little likelihood that it will undershoot these forecasts.



istyle Inc.

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First Section

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Summary Consolidated Income Statement , FY6/11-FY6/15e

(Unit: ¥mn)

| | FY6/11 | FY6/12 | FY6/13 | FY6/14 | FY6/15e |
|--------------------------------------|--------|--------|--------|--------|---------|
| Sales | 3,832 | 4,455 | 6,410 | 7,141 | 7,359 |
| y-o-y | 17.6% | 16.3% | 43.9% | 11.4% | 3.1% |
| Cost of sales | 1,379 | 1,479 | 2,051 | 2,559 | - |
| vs. sales | 36.0% | 33.2% | 32.0% | 35.8% | - |
| SGA costs | 2,024 | 2,360 | 3,620 | 4,108 | - |
| vs. sales | 52.8% | 53.0% | 56.5% | 57.5% | - |
| Operating profit | 427 | 615 | 738 | 473 | 254 |
| y-o-y | 79.0% | 43.8% | 20.1% | -35.9% | -46.3% |
| vs. sales | 11.2% | 13.8% | 11.5% | 6.6% | 3.5% |
| Recurring profit | 432 | 611 | 713 | 460 | 258 |
| y-o-y | 79.8% | 41.5% | 16.7% | -35.5% | -43.9% |
| vs. sales | 11.3% | 13.7% | 11.1% | 6.4% | 3.5% |
| Pretax profit | 412 | 644 | 652 | 267 | - |
| y-o-y | 112.3% | 56.1% | 1.2% | -59.0% | - |
| vs. sales | 10.8% | 14.5% | 10.2% | 3.7% | - |
| Income tax | 153 | 274 | 214 | 260 | - |
| Effective tax rate | 37.1% | 42.5% | 32.8% | 97.5% | - |
| Minority interests | - | - | 8 | -7 | - |
| Net profit | 259 | 370 | 429 | 14 | 110 |
| y-o-y | 65.9% | 42.7% | 15.9% | -96.7% | 685.7% |
| vs. sales | 6.8% | 8.3% | 6.7% | 0.2% | 1.5% |
| No. of shares outstanding (thousand) | 11,370 | 12,270 | 14,659 | 14,873 | 14,873 |
| EPS (¥) | 23.15 | 32.50 | 32.26 | 0.97 | 7.49 |
| DPS (¥) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BPS (¥) | 136.40 | 185.55 | 273.14 | 286.83 | - |

Sales, Operating Profit and Operating Profit Margin by Business, FY6/11-FY6/15e

(Unit: ¥mn)

| | FY6/11 | FY6/12 | FY6/13 | FY6/14 | FY6/15e |
|-------------------------|--------|--------|--------|--------|---------|
| Sales | | | | | |
| media business | 2,105 | 2,523 | 3,300 | 3,617 | 3,500 |
| e-commerce business | 432 | 457 | 566 | 668 | 735 |
| store business | 1,294 | 1,474 | 1,872 | 2,327 | 2,471 |
| other businesses | 0 | 0 | 671 | 584 | 654 |
| Total | 3,832 | 4,455 | 6,410 | 7,141 | 7,359 |
| Operating profit | | | | | |
| media business | 344 | 524 | 480 | 242 | -82 |
| e-commerce business | 39 | 29 | 52 | 71 | 73 |
| store business | 12 | 36 | 100 | 205 | 208 |
| other businesses | 0 | 0 | 63 | -80 | 0 |
| eliminations | 30 | 24 | 40 | 35 | 55 |
| Total | 427 | 615 | 738 | 473 | 254 |
| Operating profit margin | | | | | |
| media business | 16.4% | 20.8% | 14.6% | 6.7% | -2.3% |
| e-commerce business | 9.1% | 6.5% | 9.3% | 10.6% | 9.9% |
| store business | 1.0% | 2.4% | 5.4% | 8.8% | 8.4% |
| other businesses | - | - | 9.5% | -13.7% | 0.0% |
| Total | 11.2% | 13.8% | 11.5% | 6.6% | 3.5% |

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