

netprice.com Ltd.
3328 TSE Mothers

11-Aug.-14

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and disclaimers appear
at the end of this document.

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■ While incurring prior costs for business expansion in FY9/14, the company's results are expected to improve from FY9/15

netprice.com (3328) engages in various electronic commerce (e-commerce) and incubation businesses. There are three main e-commerce businesses: the value cycle business (trading used brand goods via the Internet), the retailing and licensing business (Internet shopping and the planning and promotion of goods licensed by celebrities), and the cross-border business (operating a global Internet shopping site, acting as an agent to purchase goods in Japan, and forwarding goods to residents of other countries). The company name will be changed to BEENOS on October 1, 2014.

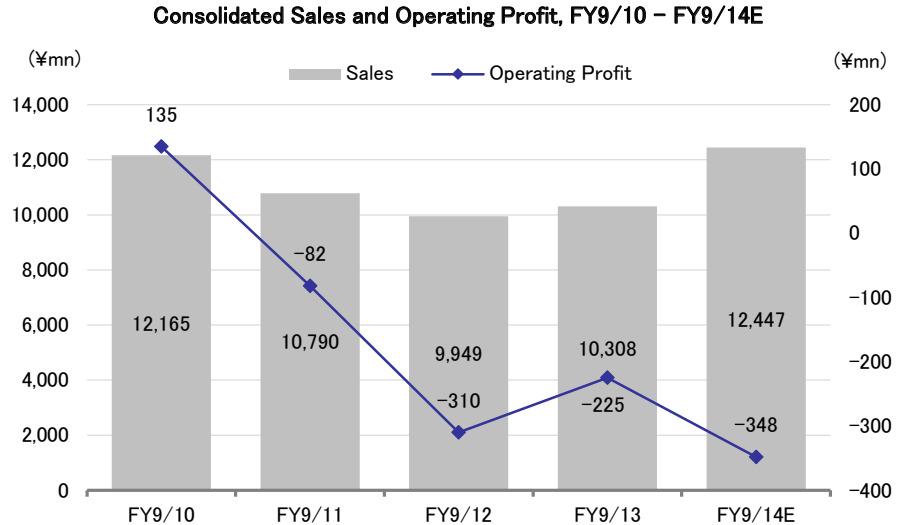
On July 24, netprice.com announced its consolidated results for the third quarter (April to June 2014) of the fiscal year ending September 2014. Sales remained at almost the same level as the previous quarter, at ¥3,192mn. Operating profit and loss declined from operating profit of ¥2mn to operating loss of ¥129mn. There was no change in the fundamental direction, with the value cycle business and the cross-border business continuing to be brisk. However, it appears that a rise in prior costs for business expansion and a decline in the Internet shopping business had adverse effects. A loss is expected in the fourth quarter because investments will continue to strengthen the service function, although sales will rise on track.

From the fiscal year ending September 2015, the value cycle business and the cross-border business will become a driving force, and the company's results are expected to improve. In the value cycle business, which ranks first in the industry in terms of trading via the Internet, it will aim to establish the overwhelming top position through business tie-ups with other companies. Its sales are expected to increase 60% from the forecast for the current fiscal year, to the level of ¥10bn. Meanwhile, the cross-border business will aim for an increase in the value of transactions for forwarding goods to residents of other countries and acting as an agent to purchase goods in Japan by 90% from the forecast for the current fiscal year, to the level of ¥15bn, and a 50% increase in the transaction value at its global Internet shopping site to the level of ¥7bn

The incubation businesses face an uphill battle in the in-house development of new businesses. The corporate value of Internet venture companies of emerging nations, in which the company recently invested, is rising and appears to have increased three to four times from the amount of the initial investment, reflecting market expansion. The company will build up its financial base by selling part of its holding shares and, simultaneously, use the proceeds to make investments in promising Internet venture companies. As to new in-house businesses, the company is pursuing the development of two to three new businesses. netprice.com plans to form companies after firmly establishing a system for earning money. netprice.com will work actively on the development of new businesses by making the most of its Internet technologies.

Check Point

- Ended up with businesses showing mixed results in Q3 FY9/14; value cycle and cross-border businesses fared well
- Expects double-digit sales growth in FY9/14, incurring the expenses in a bid to secure the overwhelming number-one position in the industry
- Projects the transaction value to expand to ¥32bn in FY9/15, positioning the value cycle and cross-border businesses as core businesses



Description of Businesses

Operates e-commerce businesses and incubation businesses

netprice.com's undertakings can be divided into e-commerce businesses and incubation businesses. There are three main e-commerce businesses: the value cycle business (trading used brand goods via the Internet), the retailing and licensing business (Internet shopping and the planning and promotion of goods licensed by celebrities), and the cross-border business (operating a global Internet shopping site, acting as an agent to purchase goods in Japan, and forwarding goods to residents of other countries). The incubation businesses include new businesses developed in house and the business of investing in and nurturing Internet venture businesses in Japan and abroad. The details of each business will be introduced briefly as follows:

Aiming to expand sales by increasing sale marketplaces in the value cycle business

○Value Cycle Business

The value cycle business is a used brand goods trading business using the Internet, in which subsidiary Defactostandard, Ltd. engages. Defactostandard is by far the leading company in Japan in terms of the number of items purchased through the Internet. The accumulated number of users exceeded 800,000 as of June 2014.

Defactostandard buys used brand goods through its own Brandear auction site via delivery companies and sells those goods through its auction site and affiliated auction sites. Affiliated auction sites for purchases include the Yahoo! Purchase site operated by Yahoo! Japan (4689), the Yamada Purchase site operated by Yamada Denki Co. (9831), and sites operated by various cooperative associations. A strategy of increasing the number of purchased items is employed by securing multiple channels through tie-ups with other companies, including the above sites.

Defactostandard handles about 6,000 brands of items ranging from clothing to handbags, precious metals, and cell phones. Defactostandard independently developed a system for purchasing a variety of such items rapidly at properly appraised prices, which is a strength in its purchasing and appraising.

The sales channel of this business includes not only domestic auction sites, such as YahooAuc! and Rakuten Auction, but also overseas auction sites, such as eBay and its own auction site. Defactostandard simultaneously offers goods through multiple sales channels. It also began operating the Brandear Rakuten Market Shop to sell goods at fixed prices on the Rakuten Market (used goods market) from May. Defactostandard gained the “Annual Best Store” award in YahooAuc! for five consecutive years and aims to further expand sales by increasing sale marketplaces, making the most of its performance.



Source: Company

netprice online shopping site rebuilt as the smartphone-based platform

○Retailing and Licensing Business

The retailing and licensing business consists of the Internet shopping business, the planning and promotion of goods licensed by celebrities, and the licensing business.

Subsidiary netprice, Ltd. operates the netprice Internet shopping site, which sells distinctive goods, such as goods discounted only for 24 hours, original goods developed with producers, and goods jointly planned and developed with famous people. The netprice Internet shopping site has more than 2.2 million registered users. Women make up about 78% of the netprice online shopping site membership, and people in their 30s and 40s account for somewhat more than 70% of the membership. netprice, Ltd. optimized its PC site using the smartphone site as a base, rebuilt the smartphone-based platform in July 2014., and terminated its feature phone site service, for which demand fell.

Subsidiary monosense, Ltd. provides a one-stop service for the licensing of rights to produce goods endorsed by celebrities and other famous people, the planning and development of such goods, the promotion of their sales, the management of licensing, and the sales of these goods through e-commerce sites. The subsidiary started selling official goods from popular girl singing groups at event sites and through public e-commerce sites. Its sales derive from sales commissions.

Value of transactions via Buyee has increased recently in the cross-border business

○Cross-Border Business

In the cross-border business, subsidiary Tenso.com, Inc. serves as a purchasing agent and an agent for forwarding goods purchased through an e-commerce site in Japan to buyers living overseas. Subsidiary Shop Airlines, Ltd. operates the “sekaimon” global online shopping site. The sales of both subsidiaries are commissions based on their transaction value.

Tenso.com serves residents of foreign countries, including Japanese business people working overseas and students studying abroad. If these people purchase an item on an e-commerce site in Japan and the operator of the site does not ship goods overseas, Tenso.com will ship the goods for a fee of ¥490–¥3,980, depending on the weight of the goods. Tenso.com also operates Buyee, a bidding agent and purchasing agent site for mail-order goods and auctions in Japan. PayPal and credit cards can be used for making payments to Buyee, which has meant that the value of transactions via Buyee has increased recently. The commission for Buyee is 10% of the price of the goods.

Tenso.com, Inc. forwards goods to 84 countries using the Express Mail Service (EMS) of Japan Post. The company ranks first in Japan in terms of the number of goods purchased through e-commerce sites that are forwarded overseas.

“sekaimon” is the Japanese-language site authorized by eBay Inc., the largest auction site in the world. It currently handles goods offered in the US, the UK, Germany, and Austria.

Invested in domestic and foreign Internet venture companies in Incubation Businesses

○Incubation Businesses

The incubation businesses consist of the development of new in-house businesses and the investment and incubation of domestic and overseas Internet venture companies. New businesses include the distribution by subsidiary FORii, Inc. of software content to smartphones and tablet devices through intellectual stimulation application software.

Subsidiary Beenos Asia Pte, headquartered in Singapore, invests in Internet venture businesses in emerging countries in areas such as Asia to develop domestic and foreign Internet venture companies. As detailed in the following table, it has invested in Internet platform businesses such as online settlement and market places in Indonesia, India, Turkey, the Philippines and African nations since 2012.

Beenos Partners Inc., based in Japan, invests in US startup companies engaged in Internet businesses. As of the end of June 2014, it had invested in 40 companies. Through these investments, netprice.com gains information about the latest Internet services and technologies. It applies this information to establish its own new businesses in Japan and overseas and to reap gains on its investments. netprice.com also invests in Internet venture companies in Japan.

Companies Invested in by Beenos Asia

Company	Operating country	Investment date	Business
PT MIDTRANS	Indonesia	January 2012	Online payment service provider in Indonesia
Tokopedia	Indonesia	April 2012	Online marketplace provider in Indonesia (C to C model)
shopclues	India	January 2013	Online marketplace provider in India (B to C model)
Citrus	India	December 2013	Online payment service provider in India
akakce	Turkey	May 2013	Online price comparison service provider in Turkey (B to C Model)
iyzi Payments	Turkey	June 2013	Online payment service provider in Turkey
Ayannah	the Philippines	July 2014	Online remittance and payment service provider in the Philippines
Nearex Pte Ltd	African countries	January 2014	Mobile money service for emerging countries (Office in Singapore)

Companies Invested in by Beenos Partners

Company	Co-Investor	Business
Instacart	Sequoia Capital	Daily Goods Instant Delivery Service
Kamcord	Tencent	Mobile Game Recording App
APPTIMIZE	Google Ventures	Mobile A/B Testing Tool
FundersClub	First Round Capital	PE Crowd Funding Platform

■ Business Trends

Ended up with businesses showing mixed results in Q3 FY9/14; value cycle and cross-border businesses fared well

(1) Q3 FY9/14 Results Overview

On July 24, 2014, netprice.com announced its consolidated results for Q3 FY9/14 (April to June 2014). As detailed in the table below, sales increased by 0.5% q-o-q to ¥3,192mn; the company suffered an operating loss of ¥129mn after an operating profit of ¥2mn in Q2 FY9/14; a recurring loss of ¥120mn after a recurring loss of ¥6mn in Q2 FY9/14; and a net loss of ¥149mn after a net loss of ¥100mn in Q2 FY9/14. The value of e-commerce transactions, which is an important performance indicator of the company, stood at ¥6,025mn, slightly lower than the company's projection of ¥6,300–6,500mn.

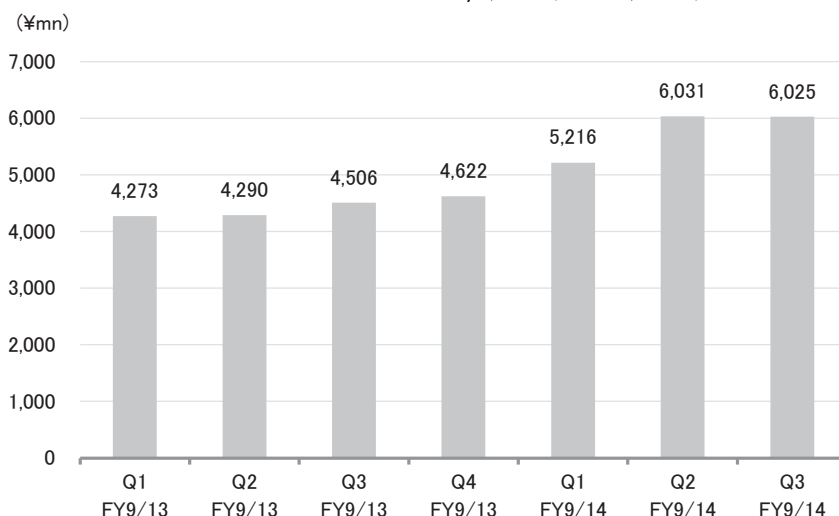
Transaction values in the value cycle and cross-border businesses in Q3 FY9/14 continued their solid performance, while areas including the retailing and licensing business as well as in-house development of new businesses (FORii, Inc.) suffered, ending up with businesses within the group showing mixed results.

Quarterly Consolidated Results, Q1–Q3 FY9/14

	Q1 FY9/14		Q2 FY9/14		Q3 FY9/14			
	Result	vs. sales	Result	vs. sales	Co. forecast	Result	vs. sales	q-o-q
Sales	2,779	–	3,175	–	3,400 ~3,600	3,192	–	0.5%
Operating profit	-157	-5.6%	2	0.1%	▲140 ~0	-129	-4.0%	–
Recurring profit	-128	-4.6%	-6	-0.2%	▲150 ~0	-120	-3.8%	–
Net extraordinary gain	92	3.3%	3	0.1%	–	15	0.5%	–
Net profit	-18	-0.7%	-100	-3.2%	▲190 ~▲90	-149	-4.7%	–

(¥mn)

Consolidated Transaction Value, Q1 FY9/13 – Q3 FY9/14



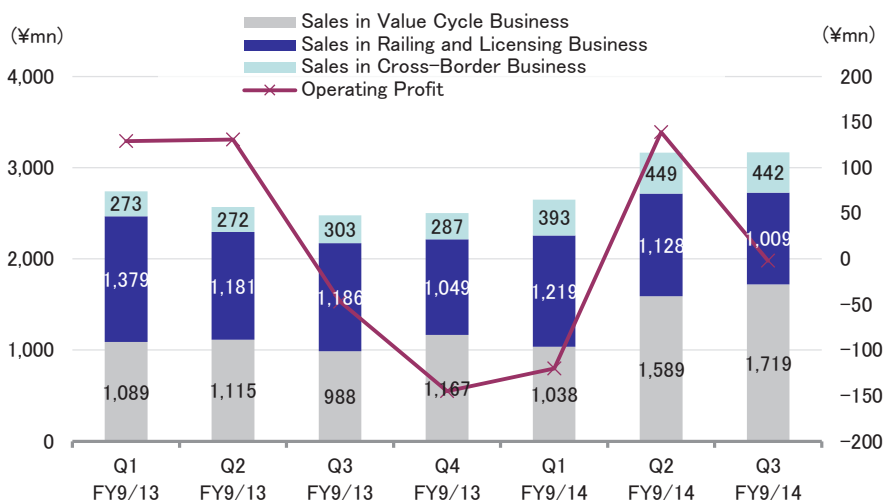
Favorable business environment due to robust demand for used brand goods and growing interest in Japanese products

(2) Q3 FY9/14 Segment Results

OE-commerce Business Domain

In the e-commerce business domain, sales remained unchanged q-o-q at ¥3,171mn in Q3 FY9/14, and the business domain suffered an operating loss of ¥2mn, posting a loss after a profitable quarter of Q2 FY9/14. The results for each business are detailed in the following table.

E-commerce Business Results, Q1 FY9/13 – Q3 FY9/14

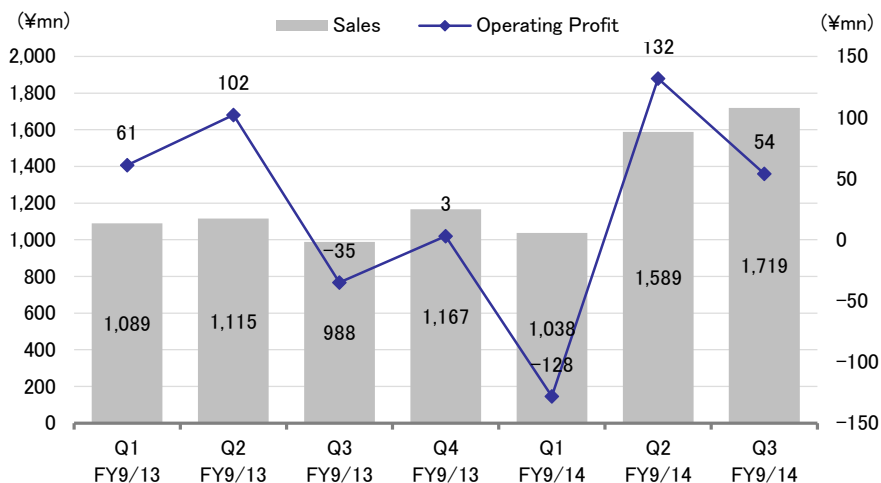


OValue Cycle Business

Sales in the value cycle business in Q3 FY9/14 increased by 8.1% q-o-q to ¥1,719mn, but the business recorded only an operating profit of ¥54mn, down 59.0% q-o-q. Demand for clothing and miscellaneous items, centered on used brand goods, was robust, with sales growth expanding steadily and pushing above 70% y-o-y.

In the meantime, the factors that kept profits down were primarily due to aggressive purchases of goods in a bid to secure the top spot in the industry and funding advertising expenses, such in television commercials. The company's recent trend has been to aggressively purchase goods in Q1 and Q3 and then show sales and profits in Q2 and Q4, and Q3 was in line with this trend. Also, as was the case in sales, the number and amount of goods purchased set record highs.

Value Cycle Business Results, Q1 FY9/13 – Q3 FY9/14

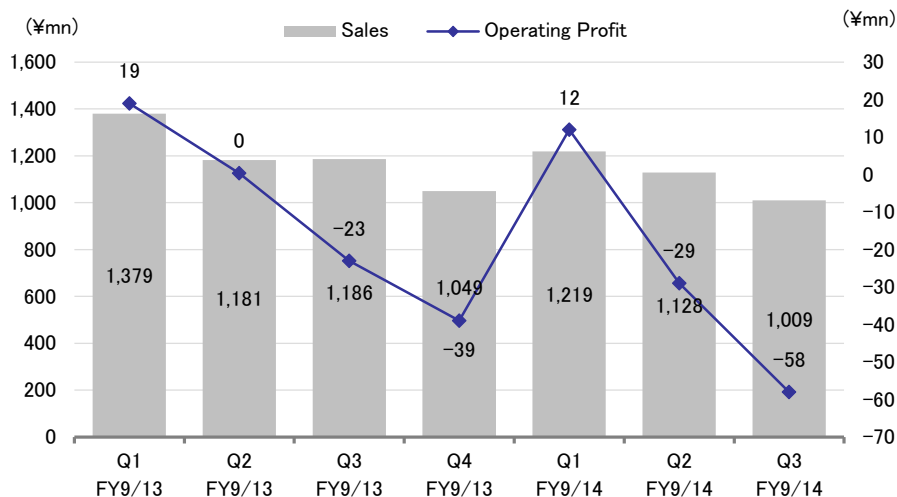


ORetailing and Licensing Business

In the retailing and licensing business, sales declined by 10.5% q-o-q to ¥1,009mn and the business posted an operating loss of ¥58mn, after suffering an operating loss of ¥29mn in Q2 FY9/14. Sales in the core Internet shopping business were sluggish, and losses were extended as a result of expenses having been incurred on rebuilding platforms. The company has positioned Q3 as the last stage of its transitional period for its business continuity, as seen in the overhauled netprice smartphone application and the PC site – unveiled in July as noted earlier – and the termination of a site for feature phones.

In the meantime, the scale of the producing and licensing business is still small, but is expanding steadily. The number of official EC sites of popular artist groups the company manages increased by two groups q-o-q, bringing the total to five groups (two sites being managed). The transaction value on the Internet, such as related goods, continues to break above the ¥100mn mark on a quarterly basis.

Railing and Licensing Business Results, Q1 FY9/13 – Q3 FY9/14





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○Cross-border Business

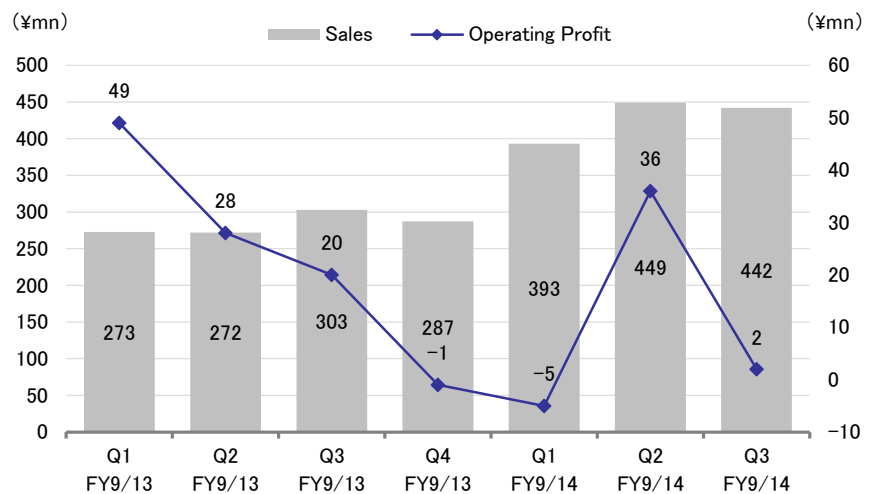
In the cross-border business, sales remained unchanged q-o-q at ¥442mn in Q3 FY9/14, while the business suffered an operating income of ¥2mn, falling by 94.4% from Q2 FY9/14.

Regarding the global shopping business in this area, while the headwind in the form of a weak yen continued, the transaction value, centered on core clientele, was more or less unchanged from Q2 FY9/14.

In the meantime, in the international forwarding and Japanese buying business, the transaction value remained more or less unchanged q-o-q due to a reaction to the sales campaign conducted by a business affiliate in Q2, but growth was high y-o-y, rising by more than 50%. The company's services, which allow easy purchases of Japanese products from overseas, are increasingly popular, as interest in Japanese products, services and culture gains momentum and the number of visitors to Japan increases. Specifically for this year the Buyee service that allows participation in YahooAuc! has been growing rapidly.

The factors behind the q-o-q profit decline were the reduction in April in the fee Tenso.com charges for acting as an agent to purchase products in Japan in the international forwarding and Japanese buying business (from 15% to 10% of the total value of purchase products; minimum fee from ¥1,500 to ¥500) and the company pushing forward with strengthening its service functionality, such as launching a site exclusively for smartphones.

Cross-border Business Results, Q1 FY9/13 – Q3 FY9/14



○Incubation Business

In the incubation business, sales stood at ¥21mn, while the business suffered an operating loss of ¥77mn. This was because fees associated with development of in-house new business weighed on results in the absence of exit of the existing investments, as was also the case in Q2 FY9/14.

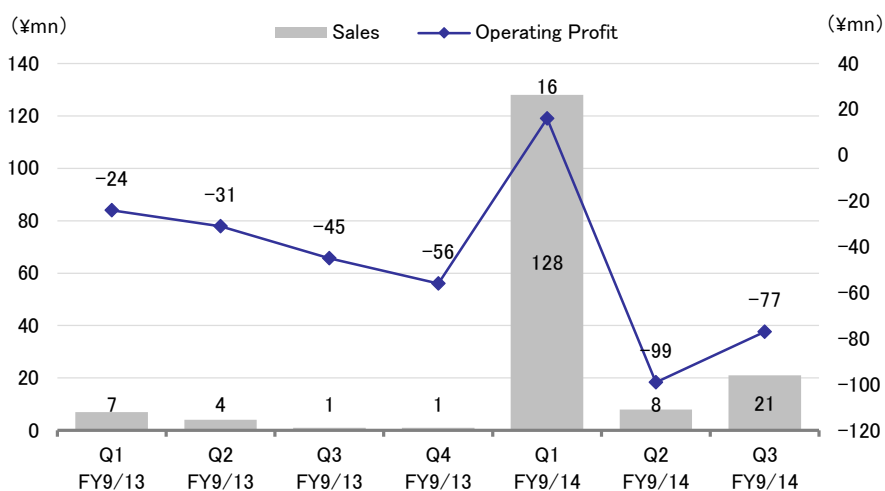
The total cumulative number of downloads broke above 500,000 (as of July 1) as a result of the March 2014 release of the English-language version of “Let’s Play with Picture Books – dah, dah, dah, dah!,” an intellectually stimulating application program for children to use on smartphones and tablet devices released by FORii. However, the company posted a loss of ¥40mn in Q3 FY9/14 because of the delay in monetizing the business.



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Incubation Business Results, Q1 FY9/13 – Q3 FY9/14



Expects double-digit sales growth in FY9/14, incurring the expenses in a bid to secure the overwhelming number-one position in the industry

(3) Company Forecasts for FY9/14

The company forecasts FY9/14 consolidated sales of ¥12,347 to 12,547mn, up 19.8% to 21.7% y-o-y, an operating loss of ¥413 to 283mn, a recurring loss of ¥395 to 255mn and a net loss of ¥457 to 327mn. As such, while sales are expected to grow, the forecast calls for a loss on a recurring account basis for the first time in two fiscal years. Sales are expected to expand as a result of growth in the value cycle and cross-border businesses, but this is to be weighed down by the retailing and licensing business, deteriorating profitability of new businesses, in addition to the front-loading of expenses incurred in a bid to secure the overwhelming number-one position in the industry. The Q4 forecast for each business is as shown below.

Value Cycle Business

The company expects its value cycle business to increase both its sales and profits in Q4 FY9/14, with sales projected to reach a record high level on a quarterly basis. Also, the company plans to continue its policy of pushing up the number of business affiliates as a way to expand the number of goods purchased. The company will continue to prioritize its objective of securing an overwhelming position within the industry by expanding the range of its purchases. As a result, consolidated sales are expected to rise by 40% y-o-y to ¥6,200 to 6,300mn.

Retailing and Licensing Business

Internet shopping, which is part of the retailing and licensing business, will see a continued declining trend in sales, but the size of losses is expected to narrow as a result of cuts in fixed costs. The ratio of sales via smartphones rose to the 50% level in July with the overhaul of the smartphone site (at the 30% level last year). The company plans to strengthen its services that target smartphone users going forward, and intends to raise the smartphone ratio to 70-80% by December. Sales are projected to drop by 10% and a slight increase in the operating loss is expected for the full fiscal year.

○Cross-Border Business

International forwarding and Japanese buying within the cross-border business is expected to continue staging strong growth on the back of a favorable market environment. The transaction value for FY9/14 is expected to increase by 90% y-o-y to ¥8,000mn. Profits are not expected to grow tremendously as investments will continue in Q4 FY9/14 aimed at improving customers' convenience, such as by reinforcing the company's logistics service functionality.

In the meantime, in the global shopping site business, the management's challenge for the foreseeable future is to realize an expansion of user clientele during trying times characterized by a weaker yen, and thus the company is at a stage of implementing initiatives aimed at creating a platform that makes its sites user-friendly, such as by simplifying the current registration process for users. As a result, both sales and profits in Q4 FY9/14 are expected to remain at around the same levels as in Q3 FY9/14. The company plans to launch a full-fledged promotion and get itself back on a growth track after the platform rebuilding is completed.

○Incubation Business

As noted earlier, losses in Q4 FY9/14 are expected to narrow as a result of a cut in fixed costs associated with the business on software content to smartphones and tablet devices through intellectual stimulation application software.

The investment business can be characterized as trending extremely well. The corporate value of Internet venture businesses in developing countries that the company has been investing in the past two years or so has been on the rise across the board, putting the company in a position to easily reap profits upon a sale. The amount of investments injected in companies in rapidly developing countries totals around ¥1,100mn, and it is calculated to have tripled or quadrupled based on data, such as stock prices recorded at the time of the most recent financing transaction.

Regarding the investment business in the United States, Instacart, a food and miscellaneous goods delivery service, is posting rapid growth. While the amount of investment is small, the corporate value is estimated to have increased by a factor that is in the dozens. The company has also invested in numerous venture companies in Japan, with Fablic, Inc., a company that operates the Fril free market application, attracting attention as a growth company, following the footsteps of aucfan Co., Ltd. (TSE 3674).

■ Growth Strategy and Shareholder Return Policy

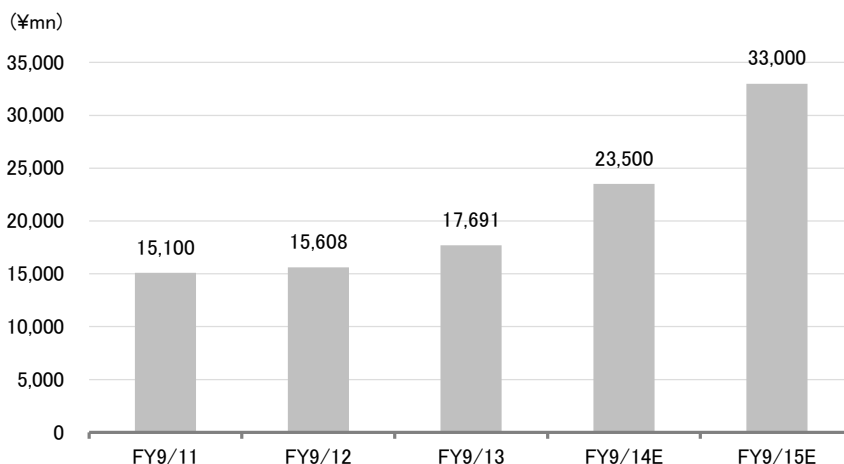
Projects the transaction value to expand to ¥32bn in FY9/15, positioning the value cycle and cross-border businesses as core businesses

(1) Growth Strategy

The company's policy is to establish continued profitability in the E-commerce business beginning in FY9/15 and promote a path of high growth by positioning the value cycle and cross-border businesses as core businesses.

The transaction value, which the company focuses on as a management indicator, is projected to expand from around ¥12bn in FY9/13 to ¥32bn in FY9/15 for the value cycle and cross-border businesses. The company has struggled over the past several years in the face of sluggish Internet shopping – a business it started at the time it was established – but it is expected to transform into a growth company once again by shifting its focus to the value cycle and cross-border businesses as core areas.

Consolidated Transaction Value, FY9/11 – FY9/15E



Note : Forecast for FY9/14 and FY9/15 are estimated by FISCO.

○Value Cycle Business

In the value cycle business, sales in FY9/15 are expected to total ¥10bn, a 60% rise compared with the forecast for FY9/14. As a sales target for the foreseeable future, the company intends to aim for the ¥35bn level posted by Komehyo, Co., Ltd. (TSE 2780; brand and fashion business), which is the industry leader in brick and mortar stores.

The gist of the company's business expansion would be to augment its buying capabilities, and the company's policy, as mentioned earlier, is to push forward with increasing the number of business affiliates. Also, as for the actual business, the company employs 600 people in a 2,400-tsubo space that it uses as its base at the Tokyo Ryutsu Center, but also uses cloud sourcing for a portion of its operational process in order to respond to the recent shortage of workers. There are no other companies in the Internet-based business of buying used goods that has this many personnel, making a custodial business within the actual business operations a possibility going forward.

Regarding business profitability, the operating margin can be seen to be at around 15% without taking advertising expenses into account, but the company has positioned the current phase as one in which it is focusing on front-loaded investments to expand its business. Since the company also plans to be aggressive with spending on promotional activities in FY9/15, the operating margin is expected to be at 2 to 3%, but this number is expected to rise along with an expansion in the scale of business.

○Cross-Border Business

The international forwarding and Japanese buying business by Tenso.com is projected to continue its strong growth going forward, given the headwind from events such as Cool Japan, which is promoted by the Japanese government, and Tokyo being selected to be the venue for the Olympics. This is because demand is expected to strengthen for outstanding products and contents from Japan.

Around 90% of the current user client base consists of foreigners, and by country China is the greatest destination for exports at around 70%. The company plans to continue promoting its policy of globally expanding its client base by reinforcing initiatives aimed at improving user friendliness, such as enhancing logistics services functionality (introduce bulk shipping, express deliveries, among others).

In the international forwarding and Japanese buying business, the translation value in FY9/15 is expected to increase by 90% y-o-y to ¥15bn, with the company aiming to post an operating profit of around ¥200 to 500mn. It is currently at the top of the industry, but competitors have emerged, prompting the company to formulate a strategy aimed at securing an overwhelming lead in the industry by strengthening business affiliates and expanding the scale of its business.

○Incubation Business

Regarding the investment business in emerging countries and the United States beginning next fiscal year, the company plans to apply itself to reinvestments, aim at reaping profits from selling its current shareholdings as well as bolstering its financial base with the funds gained from the sales.

On the other hand, the new businesses that were launched as the group's subsidiaries continue to struggle. As a result, the company changed the launching process that it has used for new businesses. Specifically, it changed to a policy of creating a subsidiary by first launching a new business as an in-house project and then setting up a subsidiary once its monetization structure has been established. This change in the process makes it possible for the company to keep subsidiaries' risks of incurring greater-than-expected losses in check.

Three new projects are currently being carried out, and these projects are now generating losses of around ¥10mn per month, but they appear to be showing the potential to be monetized, so transitioning them into a company going forward is being considered. The company's policy is to continue to proceed aggressively toward creating new businesses by utilizing Internet technology going forward.

Plans to pay a dividend when profits allow

(2) Shareholder Return Policy

netprice.com has yet to pay dividends because it has prioritized bolstering business investment funds and its internal reserves, but management has recently become more amenable to paying dividends if the company's profits reach a level where the company can function effectively and still pay dividends.

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