

FIRSTLOGIC,INC.6037 Tokyo Stock Exchange
First Section

21-Nov.-16

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hiroyuki Asakawa

■ The trend of high growth in the medium to long term is continuing

FIRSTLOGIC, INC. <6037> (hereafter, also “the Company”) is an information service company managing a portal site specializing in real estate investment. This portal site, called “Rakumachi,” holds a share of approximately 50% of the total number of property listings. In July 2015, the Company launched “Oyasan no Mikata” as a new portal site for the management and renovation of real estate, thereby establishing a system that covers all profit opportunities in the entire real estate investment cycle.

“Rakumachi” is a portal site specializing in real estate investment that has an approximately 50% share of the total number of property listings, but the top priority for the Company is to increase this share to 73.9%. The policy going forward is to maintain the policy of having only a small number of exceptionally talented employees, with only 40 staff (as of the end of July 2016). In this situation, at FISCO we evaluate that its strategy of focusing on expanding its share of the number of properties as its method of attack is reliable and low risk.

The Company’s specific measure for increasing share are securing and improving the quality of its sales force. The potential demand can be said to be huge for an enterprise on the scale of the Company, but it has analyzed that insufficient manpower is the major reason why it is not yet actually capturing contracts from this potential demand. On the other hand, its policy is to prioritize the recruitment of young employees, typically new university graduates. In addition, to succeed in its cross-sales strategy for various types of services, it prioritizes securing excellent human resources who possess abilities above a certain level. Up to the present time, it has been making steady progress in terms of both the quantity and quality of the human resources it recruits.

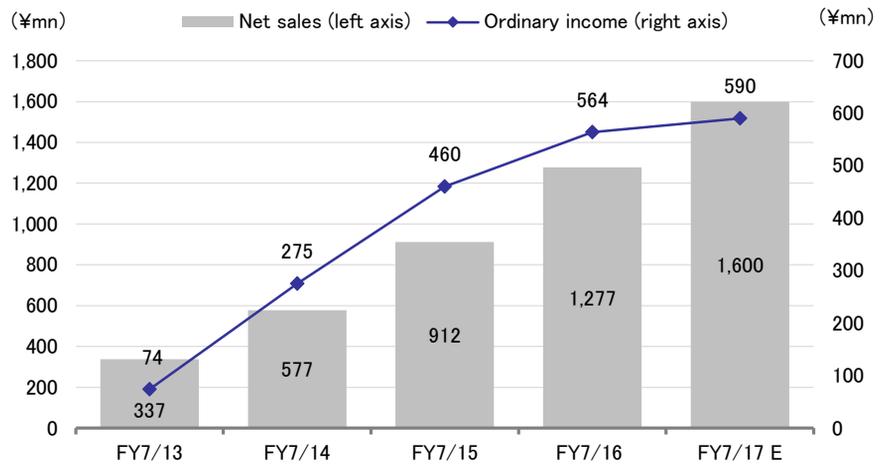
The targets for FY7/17 are for net sales to increase 25.3% y-o-y, but an operating income growth rate of only 1.0%. This is due to spending on various costs, including to secure human resources as previously described, and also on advertising and publicity to increase visibility of the Company and on other costs. The Company has positioned FY7/17 as a period to “solidify footholds,” and once it returns to its normal mode after the period, the operating income margin can be expected to return to its usual level. So while the Company’s growth will appear to temporarily slow down, essentially it is continuing to achieve high growth.

“Rakumachi” is still developing and at FISCO we think there remains considerable room for growth. As previously explained, the Company’s strategy for the time being is to prioritize the expansion of share within its existing framework. But in the future, it can be expected to utilize its “Rakumachi” asset and develop new services and overseas business. In terms of new services, at FISCO we think that there might be room for candidate services in the topical field of private property vacation rentals, which is a development we will be paying attention to in the medium to long term.

■ Check Point

- The leading company with around 50% share, but intends to establish superiority by further increasing its share
- Sales and profits increased significantly in FY7/16, with the positive results exceeding the initial forecasts
- The sales growth rate is currently trending in the region of 20% to 25%

Results trends



■ Investment key points

The leading company with around 50% share and intends to establish superiority by further increasing its share

(1) At FISCO, we consider the following to be the key points for investing in the Company.

a) The Company is steadily increasing its share of the total number of property listings

It is clear that the Company, as its top priority for growth, is prioritizing securing an overwhelming share of the total number of property listings. Currently, it is the leading company with share of around 50%, but it is aiming to increase this to as high as 73.9%. It would appear the Company's share of the number of property listings is steadily growing, increasing on a seemingly daily basis.

b) Absolutely no loss of growth potential

The forecasts for FY7/17 are for an operating income growth rate of only 1.0% and for the operating income margin to decline for the second consecutive fiscal year to 36.9%. Yet it is too early to judge that based on this, the Company's high growth period has ended. Rather, the low growth in FY7/17 is nothing more than the result of profits temporarily being kept down due to its planned prior spending on costs to acquire and train human resources and on advertising and publicity. The causal relationship of "increase in sales personnel → profit growth" has been demonstrated in its past performance, and the investment that it is currently planning is absolutely essential for the future. To summarize, while the profit margin will temporarily fall, it can be expected to subsequently return to its former level.

c) The launch of "Oyasan no Mikata" is contributing to the activation of the website

"Oyasan no Mikata," which targets renovation projects, was launched in July 2015. There are four categories on its renovation menu, and while the number of member renovation companies is below the initial target, our impression at FISCO is that it is still making a major qualitative contribution by activating the "Rakumachi" website. Previously on "Rakumachi," the tendency was for demand on the site to decrease once the buying and selling of the property was completed. But "Oyasan no Mikata" generates demand for site users to constantly visit the site throughout the period that they own their property. On whatever the website, being "active" is the greatest value it can have, and on this point we think that the contribution of "Oyasan no Mikata" is considerable.

(2) Our views on the main questions facing the Company are as follows.

a) Will the Company's profit be affected by a slump in conditions in the real estate market?

The business model of "Rakumachi" that the Company manages is not affected by real estate market conditions, because in it profit is not linked to the properties' contract-completion conditions or prices. Rather, a slump in conditions in the real estate market is actually likely to lead to an improvement in the yield from real estate investments, as it lowers their acquisition costs. Therefore, a slump can be expected to stimulate investments by real estate investors and lead to an increase in the number of property listings that they are aiming to acquire. In other words, a slump in real estate market conditions actually prove to be beneficial for the Company.

b) Does "Rakumachi" compete with the major portal sites, such as SUUMO, at home, and HOME'S?

The information on "Rakumachi" is not limited to real estate properties and it also aims to provide a variety of other information relating to real estate investment. On this point, it is clearly distinguished from portal sites that specialize in residential properties. While there are cases of properties appearing on both "Rakumachi" and the sites of these other companies, this in itself does not signify competition between these portal sites as they have different business areas, so segregation in the future is possible.

■ **Company outline and business model**

Listed on the Mother's Market in February 2015, and in February 2016 was reassigned to the Tokyo Stock Exchange First Section

(1) Company outline

The Company was founded in August 2005 by current President and Representative Director Naohiro Sakaguchi. President Sakaguchi previously worked as a systems engineer, but on researching real estate investment, he found out that there was essentially no real estate investment market for individuals. Therefore, he established the Company with the idea of creating a fair market, like the stock market, in which anyone could participate.

The Company's business is the management of "Rakumachi," a real estate investment portal site (the business model is explained in detail below). That is to say, the Company is an information services provider and it handles information relating to real estate investment (property information and information on peripheral services, including on various types of renovation), and it is not a real estate agency. Rather, real estate agencies are the Company's clients, and if the Company itself became a real estate agency, it would face a number of problems, including a conflict of interests.

As an information service provider, the Company adopts a profit model that specializes in matching real estate investors, who are mainly individuals, and real estate agencies. Its key performance indicators (KPI) include the numbers of property listings, members, and page views (PV), and essentially it is not dependent on fluctuations in real estate market conditions. Rather, as the yield on real estate investment increases during a phase when real estate prices are slumping, past performance has demonstrated that "Rakumachi" becomes more active as a portal site during these phases. So its business model is distinguished from those sites that are affected by real estate market conditions and by the confidence in the real estate industry, and it can be expected to stably improve results alongside the growth in the numbers of property listings, members, and PV. At FISCO, we evaluate this point be the Company's characteristic and strength.

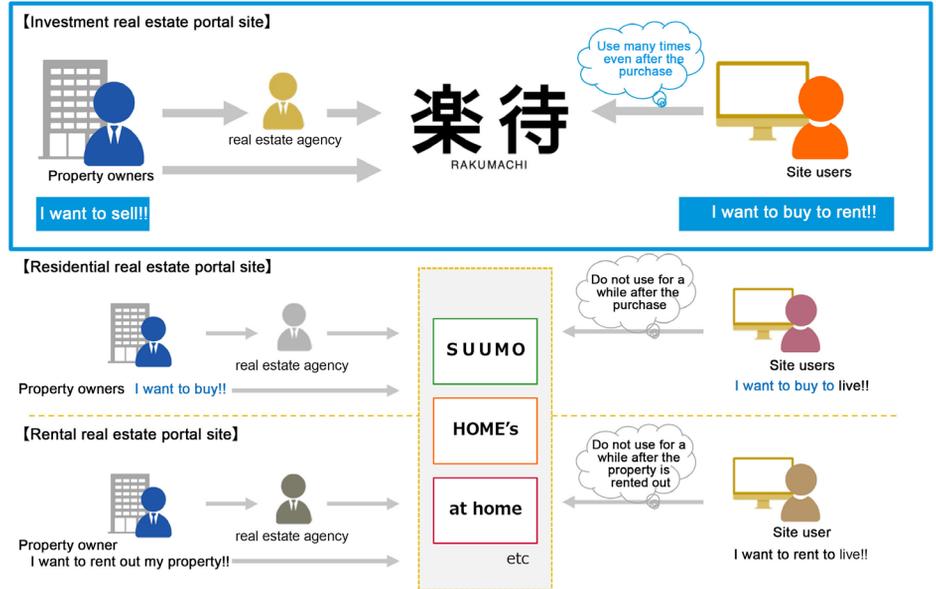
The Company was listed on the Tokyo Stock Exchange Mother's Market in February 2015, and then subsequently reassigned to the Tokyo Stock Exchange First Section in February 2016, where it continues to be currently listed.

Manages the “Rakumachi” portal site that specializes in investment real estate

(2) Overview of “Rakumachi”

The key words in order to understand the characteristics of “Rakumachi” are “individuals” and “investment.” The main objective of “Rakumachi” is to provide individuals with various types of information on investment real estate properties and on real estate investment. “Residential (personal use) real estate” is the opposite concept to investment real estate that “Rakumachi” targets, and there are already several major portal sites in that field. In contrast, as previously explained President Sakaguchi personally experienced the fact there was no comprehensive portal site for investment real estate, and he decided to launch “Rakumachi” based on this experience. It was from this background that the characteristics of “Rakumachi,” of “individuals” and “investment,” were created.

The business area targeted by “Rakumachi”

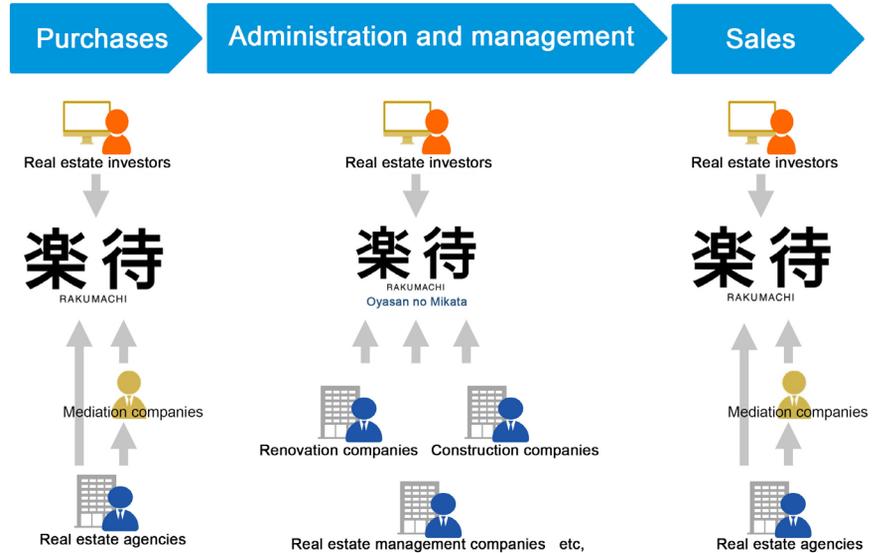


Source: reproduced from the Company's financial results briefing materials

Incidentally, there would seem to be no objection to the notion that typically, investment real estate entails the selling of one entire building for the rental of apartments. However, an individual residential apartment, for example a 2LDK apartment, is also investment real estate. Naturally, it is possible that such properties will be listed on sites other than “Rakumachi,” such as the major portal sites like SUUMO and HOME'S that specialize in residential real estate. There are considered to be quite a few such properties. But at FISCO, we think it would be premature to consider that based on this, “Rakumachi” competes directly with these major portal sites. This is because “Rakumachi” is not limited to real estate properties and it also aims to provide a variety of other information relating to real estate investment. On this point, it is clearly distinguished from portal sites that specialize in residential properties. Therefore, we think that there is no competitive relationship between “Rakumachi,” which specializes in investment, and the major residential real estate portal sites, and instead they have a coexisting relationship.

In July 2015, the Company launched the “Oyasan no Mikata” portal site that targets renovation. This is not an independent portal site and it was built to be one item on the menu of the “Rakumachi” site. “Rakumachi” focuses on the times of real estate acquisition and sales, but in reality, in many cases the potential demand for renovation is materialized as actual demand directly after the property is acquired (such as replacing the property signs and painting exterior walls). In other words, through the release of “Oyasan no Mikata,” the Company has established a system in which “Rakumachi” covers the entire life cycle of real estate investment of “acquisition → maintenance and repairs → sell.” This is contributing greatly to constantly maintaining the site's members as active users.

The areas targeted by “Rakumachi” services



Source: reproduced from the Company's financial results briefing materials

(3) The “Rakumachi” profit model

The “Rakumachi” business model involves matching the needs of both “members” (individual investors) and “member companies” (real estate agencies), and collecting the resulting fees as profit. The Company provides the following four services as the specific services to generate profit.

a) Property listing service

In the “property listing service,” member companies pay fees for listing information on real estate properties on “Rakumachi.” It has been positioned as the “Rakumachi” entry service and is used by all member real estate agencies. The fees are ¥1,000 per month per property and are listed on the unit of 10 properties. In addition, a membership fee of ¥50,000 is required to become a new member.

Overview of the “property listing service”



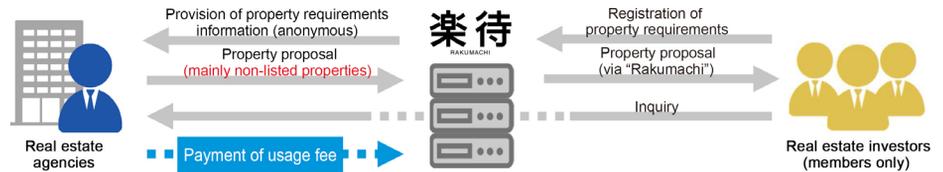
Source: reproduced from the Company's financial results briefing materials

b) Proposals service

The “proposals service” enables real estate agencies to email individual members with information on properties corresponding to their requirements. The selection of individual members and the properties they propose is carried out by the member companies themselves. The fee for the proposal email, charged per unit of 50 individual members, is ¥100,000 for sending to the first 50 members.

The Company's strength is the high percentage of email proposals that are responded to, with around 80% receiving responses from individual members. This percentage, in which approximately 80% of individual members respond in some way to emails, is overwhelmingly higher than those of other companies, which is a motivation for the real estate member companies to use this service. As the unit price of the proposal service is higher than that of the property listing service, in terms of net sales it is about on the same level as the property listing service. Going forward, if the usage rate of the proposal service increases, it is considered to have the potential to grow to be the biggest source of profit.

Overview of the “proposal service”



Source: reproduced from the Company’s financial results briefing materials

c) Ad insertion service

The “ad insertion service” entails selling banner advertising frames (space) on the “Rakumachi” site to member companies and others. The Company sells the space directly and does not use an advertising agency, so it is a highly profitable business. The prices of banner frames vary from ¥80,000 to ¥800,000, while fees are revised according to PV, and a situation has continued in which all the banner frames are being filled. Reflecting this popularity, prices are revised once every six months, and prices have continued to be upwardly revised.

Overview of the ad insertion service



Source: reproduced from the Company’s financial results briefing materials

d) Assessment service

The “assessment service” enables individual members to request a real estate agency to carry out a free assessment when they are selling real estate that they own. The framework is that the Company collects a fee from the real estate member company that carries out the assessment, from ¥5,000 to ¥50,000 depending on the price of the property. From the perspective of the real estate member companies, they are able to acquire information on the purchase properties that they assess, and in return for this, they pay the above described fee. It is said that in the real estate industry, the cost of acquiring information is in excess of ¥500,000 per single sales property, so from the perspective of the member companies, the assessment service usage fee is at a very satisfactory level.

Overview of the “assessment service”



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“Oyasan no Mikata” provides a matching service targeting renovation

(4) The “Oyasan no Mikata” profit model

In principle, the profit model of “Oyasan no Mikata,” which targets renovation, is the same as that of “Rakumachi.” In other words, it provides a service of matching individual members, who are the owners of investment real estate, to member companies (typically, renovation companies), and collects fees from these member companies. “Oyasan no Mikata” provides the following service to member companies (which are the Company’s sources of income).

Batch estimate services

The same as the assessment service in “Rakumachi,” this is a service in which individual members select a renovation company and request an estimate and the renovation company provides them with an estimate, for which the Company is paid system usage fees. The fees range from ¥1,000 to ¥100,000 depending on the estimate amount. Member companies can acquire information on potential customers and also increase their opportunities to acquire orders.

Overview of the “batch estimate service”



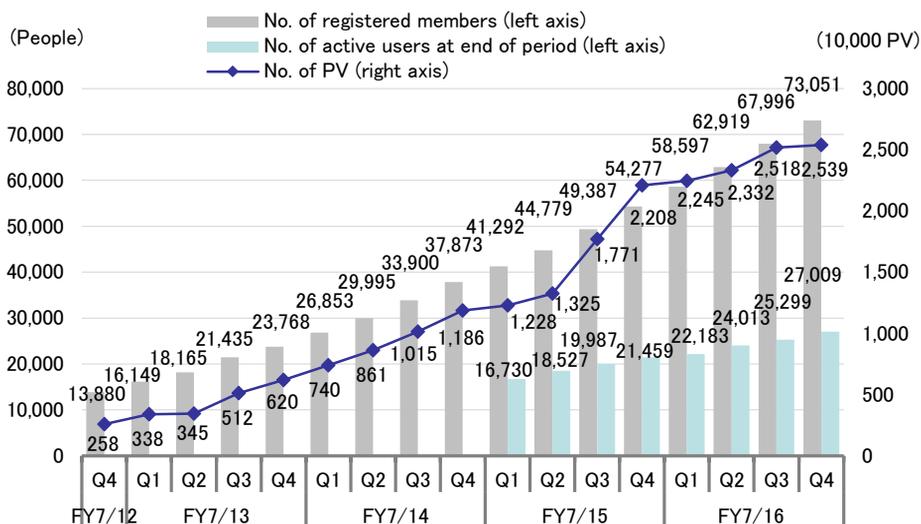
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(5) Current status of “Rakumachi”

Since it was founded, “Rakumachi” has steadily expanded, with the numbers of members, active users, and PV all continuing to consistently trend upward. This situation can be said to indicate the extremely active state of “Rakumachi.” Being active is the most important element for any portal site, as this activity leads to the formation of a positive spiral, which in this case entails increases in the number of property listings and the number of members, which in turn results in more activity. At FISCO, our understanding is that the current status of “Rakumachi” is precisely of this positive spiral.

We think that the presence of “Oyasan no Mikata” is extremely significant in terms of maintaining and expanding the active status of “Rakumachi.” As previously explained, as a result of the launch of “Oyasan no Mikata,” “Rakumachi” now covers the entire real estate investment life cycle. This alone will stimulate the activities of members and lead to an increase in the site’s value.

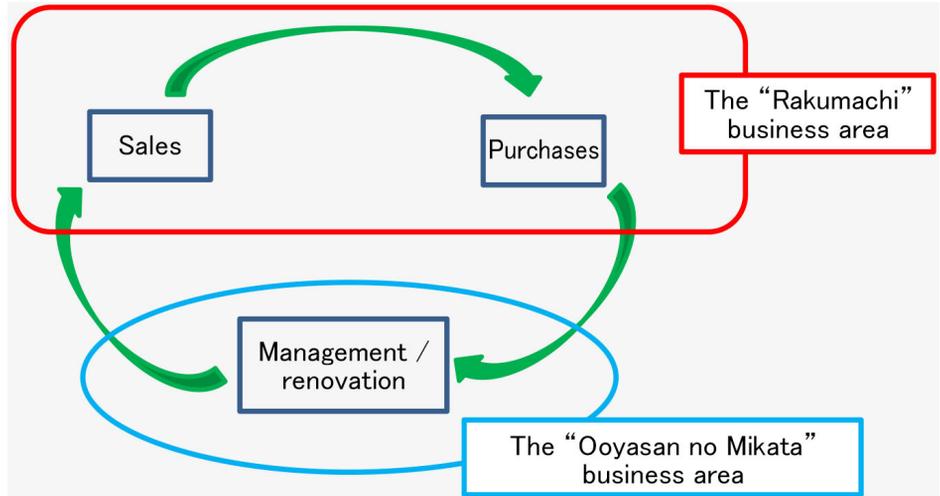
Trends in the numbers of members, PV, and active users



Source: prepared by FISCO from the Company’s financial results briefing materials

Moreover, at FISCO we think that the fact that “Rakumachi” is “unfinished” and still being developed is an important point. The objective of “Rakumachi” is not to introduce its members to investment real estate, but to comprehensively provide them with a variety of information relating to real estate investment. Through the launch of “Oyasan no Mikata,” the site now covers the entire period of “ownership,” from the purchase to the sale of the investment real estate. But when investing in real estate, financing (raising funds) constitutes an extremely important element, and in addition, for the management of the owned real estate, a variety of methods other than residential renting can be considered, including managing it as a private property vacation rental or tourist accommodation. We expect that the fact that “Rakumachi” comprehensively encompasses this sort of information will lead to the Company acquiring new sources of profit. At such times, we believe that “Rakumachi’s” current property information and member numbers will be major assets, and they will contribute significantly to the vertical launches of these new businesses.

The real estate investor cycle and FIRSTLOGIC's business areas



Source: prepared by FISCO from Company materials

■ The growth strategy and the profit growth potential

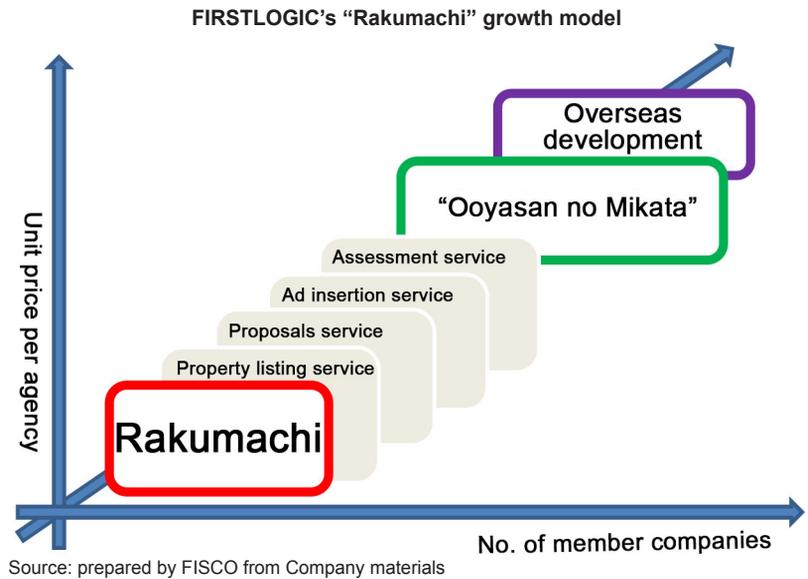
First aiming to increase the numbers of “Rakumachi” property listings, PV, individual members, and member companies

(1) Basic stance

As the Company’s current business is only the management of the “Rakumachi” real estate investment portal site, at FISCO we consider that its growth strategy can be arranged onto three axes of X, Y, and Z. The X axis is the horizontal axis on the graph and signifies quantitative growth. Here, quantitative growth mainly refers to the numbers of “Rakumachi” property listings, PV, individual members, and member companies. The Y axis is the vertical axis on the graph and is assumed to be the unit prices of each of the services and the net sales per member company. The Z axis is the depth direction of the axes, and it indicates the expansion of profit from the multi-layering of services (including adding to the services menu and developing the business overseas).

It is apparent that the Company has taken comprehensively into consideration its performance over the last few years, the current conditions, and also forecasts for the future, and based on this, the Company has decided to focus on a growth strategy of growing the X axis at the present time. Specifically, it is aiming to increase its current share of around 50% of the total number of property listings to 73.9% as soon as possible. The numerical target of 73.9% is considered to be the upper limit of the target in the Lanchester Strategy that is advocated by President Sakaguchi, and it indicates “a monopolistic position in the relevant market that is a position of absolute stability.”

Growth on the Z axis can be seen to be starting from zero at the present time. As previously mentioned, “Rakumachi” is comprised of four services on its service menu, and the addition of “Oyasan no Mikata” has provided depth to earnings, which are steadily increasing. On the other hand, the situation is that absolutely no start has been made for the overseas development of “Rakumachi.” It is not the case that the Company has shown any particular impatience on this point, as it considers that there still remains significant potential for the “Rakumachi” business (including “Oyasan no Mikata”) to grow domestically. At FISCO, we support the approach by the Company, of not overstretching itself for the Z axis for the time being and aiming for growth by deepening the “Rakumachi” business.



Actively recruiting human resources with an emphasis on quality

(2) Specific policies and their states of progress

The Company's top priority is to increase its share of the total number of property listings to 73.9%, but it is aware that in order to achieve this, it needs to urgently reinforce its personnel to supplement the absolute shortage of numbers in its sales force. Based on this awareness, in FY7/16 the Company invested in actively recruiting and training sales personnel. Specifically, in the 1 year period from July 2015 to July 2016, it increased employee numbers by 10, with the majority of this increase being assigned to sales.

When recruiting, rather than simply focusing on numbers, the Company focuses on acquiring human resources who are able to realize its sales style and techniques it is aiming for. Namely, it prioritizes quality when it recruits, which is considered to be the reason why the actual number of recruits is trending slightly below the targeted number.

At FISCO, our understanding is that the ideal sales personnel who the Company is aiming to recruit is someone who is able to strongly promote cross selling. In addition to increasing sales from "Rakumachi's" four services, they are human resources who are able to capture renovation demand in "Ooyasan no Mikata." It goes without saying that to achieve this, they will be knowledgeable about the products and understand the industry, but above all they are required to have high-level of communication skills. During FY7/17, the Company is aiming to further accelerate its recruitment for a net increase of around 25 employees.

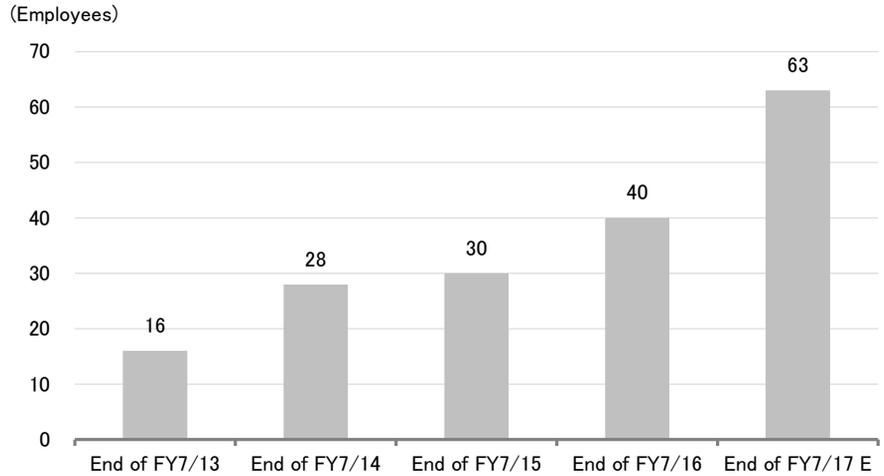


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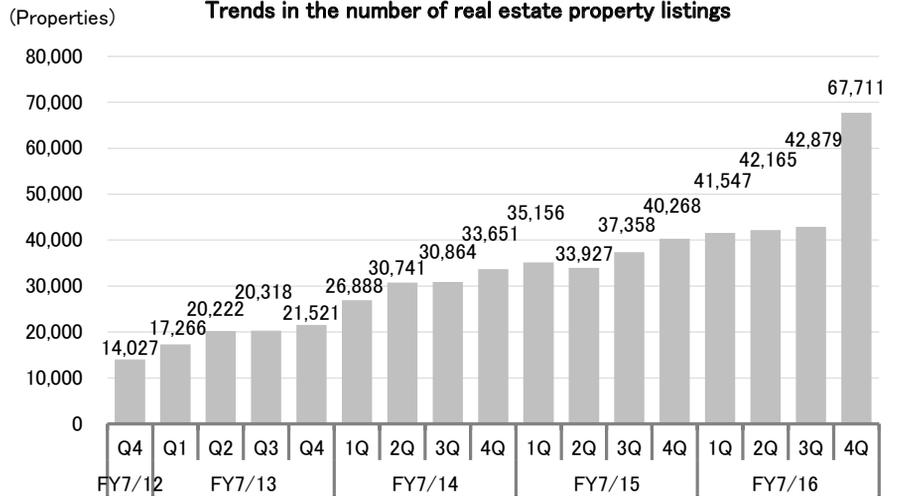
Trends in the number of employees



Source: prepared by FISCO from Company materials

At FISCO, we evaluate that the Company's acquisition of human resources will clearly lead to an increase in the number of property listings. The Company's basic policy when it recruits is to hire new graduates, although it also recruits mid-career hires as appropriate. As its fiscal year ends in July, new graduates who enter they Company in April enter it during Q3. After they enter, the receive basic training and are then assigned to actual positions in Q4. Looking at the quarterly trend in the number of property listings, we can clearly see that they increased during Q4 of FY7/16. The Company conducted a free property listing campaign during this quarter, and the effects of this campaign are difficult to discern. However, we think that the strengthening of the sales force through the assignment of the new graduates contributed to the increase in the number of property listings during this Q4.

Trends in the number of real estate property listings



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

The pace of increase of the number of property listings has been slowing since Q1 FY7/17, but at FISCO we think that in absolute terms, the number will continue to steadily increase. This is because we can expect there to be effects from employees becoming more proficient, particularly the new graduates, and in addition one more factor is likely to be the ongoing recruitment of sales personnel during the fiscal period. Another reason is that in the context of the peak-out of the real estate market, we can expect an increase in demand for listings of residential property also on "Rakumachi," the No.1 portal site for real estate investment, from sellers of such properties seeking investment demand.



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* According to the Ministry of Internal Affairs and Communication's "2006 Establishment and Enterprise Census," the number of businesses conducting real estate transactions was 247,517 establishments, while in the statistics of the Ministry of Land, Infrastructure, Transport and Tourism for fiscal 2006 to fiscal 2013, the number of businesses conducting building lots and buildings transactions declined 6.5%. Taking both of these figures into consideration, this data is basically consistent with the industry estimates of there being approximately 200,000 agencies.

As was touched upon on the previous report, at FISCO we think the following with regards to the growth potential of the number of property listings on "Rakumachi."

Within the real estate industry, there are said to be currently approximately 200,000 real estate agencies*. If we assume that among these 200,000 agencies, 10% become members and that the number of listings per agency is approximately 20, the number of listed properties would be [20,000 agencies × 20 properties = 400,000], which is close to 6 times the current amount of approximately 70,000 properties. In this case, the net sales of the property listing service would be monthly income of ¥20,000 from 20 properties, so would be [¥20,000 × 12 months × 20,000 agencies = ¥4,800mn]. But it is necessarily to consider whether it actually feasible for 20,000 agencies to become members. As it is considered that the majority of agencies are local real estate agencies that mediate primarily for residential real estate, it is necessary to be cautious, as such agencies might not necessarily be considered to be potential clients. But on the other hand, it is considered that 20 listings per member agency might be conservative, as in many cases they actually list more properties. In conclusion, although it is difficult to forecast a detailed breakdown, at FISCO we think an increase in the number of property listings of from 400,000 to 500,000 is entirely feasible.

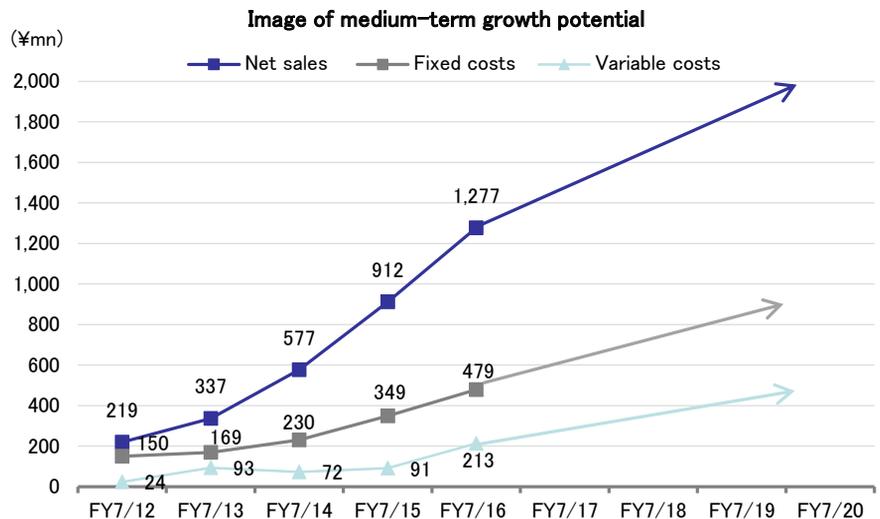
The sales growth rate is currently trending in the range of 20% to 25%

(3) Our image of the profit growth potential

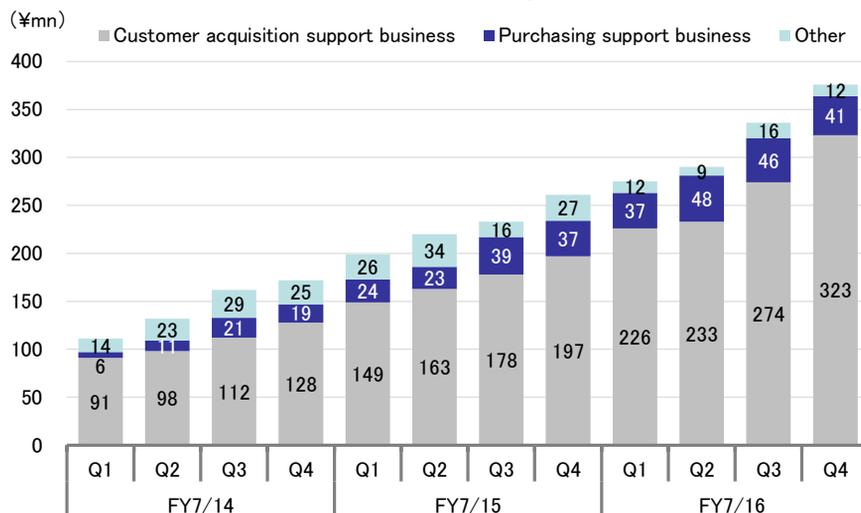
As a result of the Company's growth strategy described above, at FISCO our image of the Company's medium-term profit growth is as described below.

Net sales mainly rely on growth on the X axis – namely, growth in the numbers of property listings and member companies – and unit prices and net sales per member company are not incorporated. Therefore, we expect the sales growth rate to continue at its present pace for the time being, of in the range of 20% to 25%.

Within costs, labor costs constitute a large percentage of fixed costs. On this point, the Company has clarified that these costs will be increased up to FY7/17 as prior investment. There are many unclear factors from FY7/18 onwards, but it is assumed that once this period of prior investment ends, the pace of increase will become moderate. A factor causing variable costs to increase in FY7/16 was the rise in advertising and publicity costs, for which the Company has also indicated that it plans to continue to increase them until FY7/17. While during FY7/17 it will conduct publicity campaigns, including broadcasting a radio program, at FISCO we think that it is highly likely costs will return to their usual level from FY7/18 onwards. As a result, from FY7/18 onwards we believe that the pace of increase in costs will become more moderate compared to the pace of growth of net sales, and therefore that the increase in operating income will once again accelerate.



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

Breakdown of net sales by business


Source: prepared by FISCO from Company materials

One more important point is that the Company's profit model is a so-called stock-type model. The income base is formed by the property listing fees, to which is added the other income, including the proposal service, the assessment service, and the ad insertion service, while the income from these services is considered to be highly correlated with the number of property listings. Stock-type income is not affected by the fluctuations in the conditions in the real estate market. Instead, it can be said that the Company is in a position to benefit from a slump in conditions in this market, it causes the yield from real estate investment to improve. If the Company is able to steadily increase the number of property listings, at FISCO we think it is highly likely that it will realize the above-described image of profit growth.

■ Results trends
Sales and profits increased significantly in FY7/16, with the positive results exceeding the initial forecasts
(1) FY7/16 results

In the Company's FY7/16 results, net sales were ¥1,277mn (up 40.1% y-o-y), operating income was ¥584mn (up 24.1%), ordinary income was ¥564mn (up 22.7%), and net income was ¥371mn (up 29.3%), for increases in both sales and profits. Net sales and each of the income items were above the initial forecasts, and the results give the impression of steady progress.

Overview of the FY7/16

(Unit: ¥mn)

	FY7/15		FY7/16		
	Result	Forecast	Result	y-o-y	vs. forecast
Net sales	912	1,251	1,277	40.1%	2.1%
Operating income	470	575	584	24.1%	1.6%
Operating income margin	51.6%	46.0%	45.7%	-	-
Ordinary income	460	551	564	22.7%	2.5%
Net income	287	369	371	29.3%	0.8%

Source: prepared by FISCO from the financial results summary

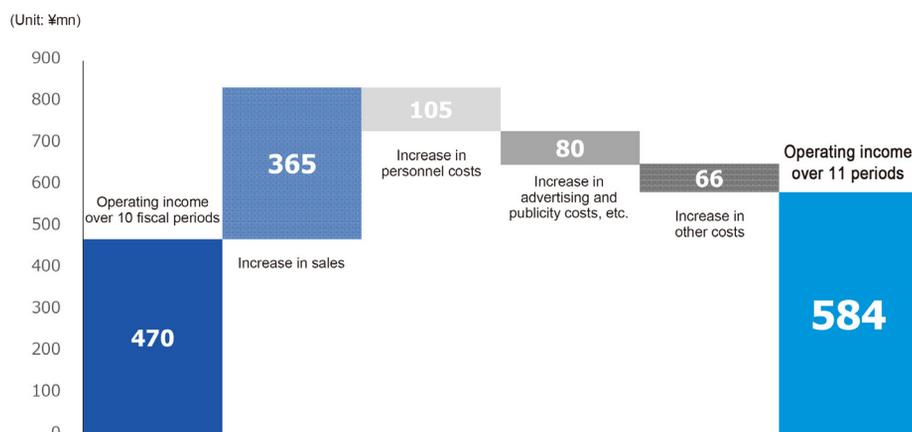
As previously described, the Company generates profit from the four “Rakumachi” services, of the property listing service, the proposal service, the ad insertion service, and the assessment service, and also from the “Oyasan no Mikata” as well as membership fees collected from new member. The Company categories and separately discloses results as the customer acquisition support business (profit from the property listing service, the proposal service, the ad insertion service, and from “Oyasan no Mikata”), the purchase support business (profit from the assessment service) and the other business (profit from membership fees.) In FY7/16, results for both the customer acquisition support business and purchase support business steadily expanded throughout the period. In particular, in the mainstay customer acquisition support business, sales greatly increased for the property listing service and the ad insertion service.

In terms of profits, operating income increased ¥113mn y-o-y (up 24.1%). Breaking this down, the increase from the higher net sales was ¥365mn, but it was offset by the increases in costs including personnel costs of ¥105mn, advertising and publicity costs of ¥80mn, and other costs of ¥66mn.

The background to the increase in personnel costs was the active recruitment of personnel to strengthen the sales force and development capabilities (there were 40 employees at the end of the fiscal period, an increase of 12 employees from previous fiscal year-end).

The higher advertising and publicity costs resulted from management’s decision to especially strategically invest during the two fiscal periods of FY7/16 and FY7/17 in increasing visibility of the Company and its name recognition.

Analysis of changes to operating income



Source: reproduced from the Company’s financial results briefing materials

Slump in real estate market conditions will prove beneficial

(2) Outlook for FY7/17 2017

For FY7/17, the Company is forecasting increases in sales and profits, of net sales of ¥1,600mn (up 25.3% y-o-y), operating income of ¥590mn (up 1.0%), ordinary income of ¥590mn (up 4.5%), and net income of ¥385mn (up 3.5%).

The main point for the FY7/17 results forecasts is the same as for FY7/16, that it will be a period to solidify footholds, or in other words, a period for prior investment. As previously explained, for the time being the Company is aiming to secure an overwhelming market share as an investment real estate information service provider, and as a result, it is creating a “mechanism” to make possible sustainable growth. For an enterprise with a type of business like the Company’s, its human resources are the greatest asset, which is why it is investing in acquiring and training human resources. This is the reason why in the FY7/17 results forecast, the extent of the increase in the income items below operating income are less than the increase in the net sales amount.

The Company is forecasting that net sales will increase 25.3% y-o-y. Up until the present time, the numbers of property listings and members on “Rakumachi” have continued to grow at an annual rate of 20% to 30%, and it is aiming to maintain this pace in FY7/17 also. However, its forecasts do not incorporate increases in unit prices for the services or a rise in net sales per member company. In terms of profits, as explained above the increases in personnel costs and advertising and publicity costs will basically cancel out the effects of the increase in profits from the higher sales. Therefore, the target for operating income is, in practical terms, basically unchanged, of an increase of 1.0% y-o-y.

At FISCO, we think it is highly possible the Company will achieve its FY7/17 results forecast for the following reasons. First is the point of the full mobilization of the human resources acquired and trained in the previous fiscal year. There is considerable potential demand for “Rakumachi,” so if the Company strengthens its sales forces, we can expect that it will capture a certain amount of this demand and that the number of property listings and member companies will increase. Its “combat strength” will also be reinforced by the personnel it recruits during the fiscal year, and therefore we think it is extremely likely that the strengthening of its sales structure will lead to higher sales.

Second is the slump in conditions in the real estate market. There is a shared recognition that conditions in the real estate market have currently peaked-out, and a fall in prices is expected to become clearly apparent from FY7/17 onwards. But the Company is an information service provider and its profit model is not affected by conditions in the real estate market. When investing in real estate, a slump in market conditions temporarily results in improved investment yield, so a slump can actually be expected to be beneficial for the Company.

Third is the contribution of “Oyasan no Mikata.” As previously explained, at FISCO we think that “Oyasan no Mikata” will act as a catalyst to activate the “Rakumachi” members and increase the speed that properties circulate. The Company invested in upgrading “Oyasan no Mikata” throughout FY7/16

(3) The thinking on FY7/18

At FISCO, our thinking on the FY7/18 results is as follows.

We expect net sales to increase in the range of 20% to 30%, the same as in the previous fiscal year. In addition, the same as in FY7/17, the main factor behind this increase will be the growth on the X axis, of increases in the numbers of property listings and member companies. We think that the elements in the background to this scenario will also be the same as in FY7/17; namely, the contribution to profit of the newly recruited human resources, and the higher demand for information on investment real estate due to the slump in conditions in the real estate market. Based on the above assumptions, we consider the standard for the Company to be the milestone mark of ¥2,000mn for net sales.

But on the other hand, it is more difficult to estimate profits. If the Company sticks to its plan and ends its policy of “solidifying footholds” in FY7/17, then the generation of costs should return to their normal pace. However, in the event of delays in acquiring human resources or in expanding and upgrading the portal site, or should there occur new investment projects for growth, it is expected that once again costs will be generated for prior investment. Even in such cases, at FISCO we do not think profits will decline y-o-y, but it is possible that once again profit growth will come under considerable downward pressure.

The FY7/18 results trends can be said to depend on the progress made during FY7/17. The Company has only prepared results forecasts for the full fiscal year, but as it discloses its financial results briefing materials on a quarterly basis, we will be paying close attention to the Company’s quarterly results in FY7/17, as to a certain extent they will make visible what the FY7/18 results trends are likely to be.

The income statement and the main indicators

	(Unit: ¥mn)				
	FY7/13	FY7/14	FY7/15	FY7/16	FY7/17 (E)
Net sales	337	577	912	1,277	1,600
y-o-y	53.9%	70.8%	58.0%	40.0%	25.3%
Gross profit	302	525	839	1,169	-
Gross margin	89.6%	91.0%	92.0%	91.6%	-
SG&A expenses	228	251	368	585	-
Ratio of SG&A expenses to net sales	67.7%	43.5%	40.4%	45.9%	-
Operating income	74	274	470	584	590
y-o-y	-	266.7%	71.8%	24.1%	1.0%
Operating income margin	22.1%	47.5%	51.6%	45.7%	36.9%
Ordinary income	74	275	460	564	590
y-o-y	64.4%	267.7%	67.2%	22.7%	4.5%
Net income	45	158	287	371	385
y-o-y	73.1%	251.7%	81.5%	29.3%	3.5%
EPS (¥)	8.44	32.54	55.95	65.75	65.47
Dividend (¥)	0.00	0.00	0.00	10.00	0.00
Book value per share (BPS, ¥)	25.31	57.85	282.61	327.36	-

Source: prepared by FISCO from the Company's financial results summary

Balance sheet

	(Unit: ¥mn)			
	FY7/13	FY7/14	FY7/15	FY7/16
Current assets	172	411	1,622	2,031
Cash and deposits	90	285	1,445	1,752
Accounts receivable	69	100	151	238
Other	12	26	24	40
Fixed assets	21	41	177	160
Tangible fixed assets	0	13	44	38
Intangible fixed assets	7	7	18	20
Investment, etc.	12	20	114	101
Total assets	193	452	1,799	2,191
Current liabilities	70	17	253	267
Shareholders' equity	123	281	1,546	1,924
Capital	80	80	80	83
Capital surplus	22	22	963	966
Retained earnings	71	230	503	875
Treasury stock	-51	-51	-	0
Net assets, total	123	281	1,546	1,924
Total liabilities and net assets	193	452	1,799	2,191

Source: prepared by FISCO from the financial results summary

Cash flow statement

	(Unit: ¥mn)			
	FY7/13	FY7/14	FY7/15	FY7/16
Cash flow from operating activities	44	230	341	325
Cash flow from investing activities	-3	-35	-147	-4
Cash flow from financing activities	-30	0	966	-13
Change in cash and deposits	11	195	1,160	306
Cash and deposits balance at start of fiscal year	79	90	285	1,445
Cash and deposits balance at end of fiscal year	90	285	1,445	1,752

Source: prepared by FISCO from the financial results summary

■ Returns to shareholders

As it is still in the initial stage of fully fledged growth, no dividend is planned

Since its foundation, the Company has prioritized investment for growth and has not paid a dividend. However, in FY7/16, it paid a commemorative dividend of ¥10 following its listing on the Tokyo Stock Exchange First Section in February 2016. We evaluate this as having a certain effect in terms of the Company appealing to investors that it is highly aware of returning profits to shareholders.

For FY7/17, the Company has clarified that it will maintain its usual policy of not paying a normal dividend. Therefore, as it will not pay a commemorative dividend as it did in the previous fiscal year, it will return to once again not paying a dividend. At FISCO we think this is a reasonable decision, because it has positioned the current time as the initial period for fully fledged growth, and it is progressing a number of investment projects for growth. As previous explained, presently the Company is strategically spending on costs for growth (including on personnel costs and advertising costs), yet even in this situation, it is realizing an operating income margin of 45.7% and ROE (return on equity) of 21.4% (both FY7/16 results). So the Company is achieving this sort of high profitability, and we consider that allocating these funds into growth projects will ultimately contribute to maximizing returns to shareholders.

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