

BEENOS Inc.

3328

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<http://www.fisco.co.jp>

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■ Summary

E-Commerce Business likely to increase profits at a double-digit pace from FY9/18 and beyond again driven by expansion of scope in Cross Border Business

BEENOS Inc. <3328> (hereafter, also “the Company”) operates various e-commerce businesses and incubation businesses in and outside of Japan. The E-Commerce Business consists of the Cross Border Business (Overseas Forwarding and Proxy Purchasing Business, Global Shopping Business), Value Cycle Business (purchase and sale of used brand products through the Internet), and Retailing and Licensing Business (Producing and Licensing Business, Internet Shopping Business). Subsidiary Defactostandard, Ltd. <3545>, which runs the Value Cycle Business, listed on the TSE Mothers market in August 2016.

1. Recovery in the Cross Border Business lifted FY9/17 to all-time high earnings

The Company posted upbeat FY9/17 consolidated results with all-time highs of ¥20,711mn in net sales (+7.7% YoY) and ¥1,507mn in operating income (+25.6%). Within these results, the E-Commerce Business provided ¥19,734mn in net sales (+9.5%) and ¥1,169mn in operating income (+57.4%), restoring a profit gain for the first time in two fiscal years. Gross merchandising value (GMV) rose 2.1% to ¥42,379mn. Main sources of higher revenue and profits were an increase in the take rate (net sales ÷ GMV) on change in the service composition share in the Overseas Forwarding and Proxy Purchasing Business, cost reductions in the Global Shopping Business, and steady income expansion in the Value Cycle Business. Additionally, the Incubation Business reported ¥737mn in operating income (-4.6% YoY) with the sale of some share holdings in 4Q. Compared to the forecast (¥20,000mn in net sales and ¥1,400mn in operating income), the actual results were higher, reflecting earnings from the Overseas Forwarding and Proxy Purchasing Business, supported in part by the yen’s depreciation to an average rate of ¥111/\$ versus assumptions of ¥103 in 1H and ¥95 in 2H.

2. FY9/18 forecast not disclosed, though the E-Commerce Business is likely to sustain rising profits

The Company did not disclose the forecast for FY9/18 on the basis that announcement of an overall forecast is unreasonable at this point amid uncertainty about the timing and scale of income in the Incubation Business. Nevertheless, it expects a 1.5% YoY increase in GMV for the E-Commerce Business to ¥43bn, assuming a ¥105/\$ forex rate. The Company announced that it would sell the netprice business, its founding area, to Aucfan Co., Ltd. <3674> in December 2017, but is still aiming for all-time high results even with this impact (¥2,409mn in net sales and an ¥88mn ordinary loss in FY9/17). It is looking to achieve a 14% YoY gain in merchandising value to ¥12bn in the Cross Border Business through aggressive promotion and sustain double-digit earnings growth in the E-Commerce Business. In the Incubation Business, it seeks to expand through the establishment of BeeCruise Inc., a new company to actively create new businesses, and robust investments in inbound-related business in Japan that targets synergies with existing businesses.

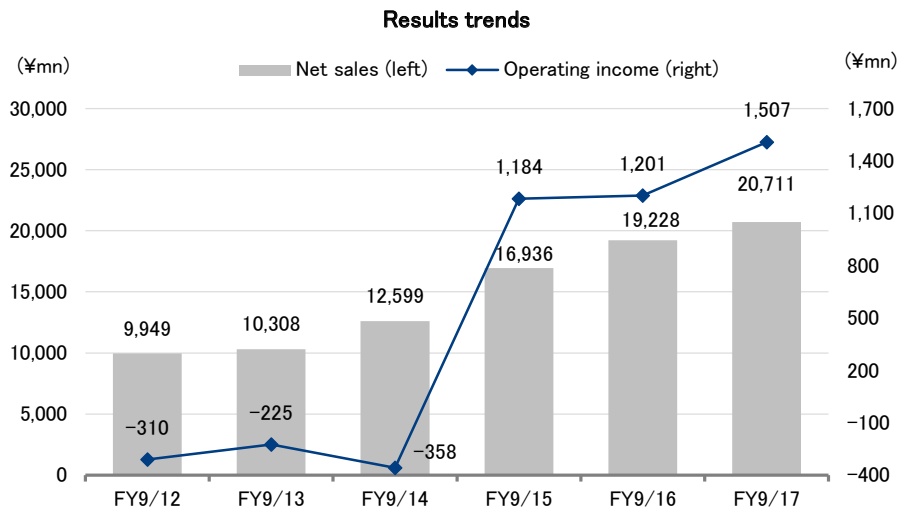
Summary

3. Aggressively pursuing global e-commerce expansion with a goal of ¥100bn in GMV

The Company has outlined a policy of aiming for ¥100bn in GMV in the E-Commerce Business as a longer-term business goal. It expects the Cross Border Business to continue strong growth on tailwind from expansion of the cross-border EC market and plans to aggressively invest in rollout to related areas as well. The Company plans to acquire subculture content that holds strong appeal in other countries too and promote sales including at real-world stores and also facilitate creation of new services through analysis of purchasing data from various countries worldwide using AI technology. Growth speed might accelerate through these global initiatives thanks to collaboration with EC-related companies in emerging countries in which the Company has invested. We will be closely watching these trends.

Key Points

- FY9/17 results exceeded forecast and set all-time highs again
- No disclosure of FY9/18 forecast, though expects further increases in sales and profits in the E-Commerce Business
- Targets prompt realization of ¥100bn in GMV by leveraging cross-border EC business market expansion via development of a global platform



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

Business overview

Operates the E-Commerce Business and Incubation Business

The Company operates the E-Commerce Business and Incubation Business. The E-Commerce Business consists of the Cross Border Business (Overseas Forwarding and Proxy Purchasing Business, Global Shopping Business), Value Cycle Business (purchase and sale of used brand products through the Internet), and Retailing and Licensing Business (Producing and Licensing Business, Internet Shopping Business), which are handled by subsidiaries. Subsidiary Defactostandard, Ltd., which runs the Value Cycle Business, listed on the TSE Mothers market in August 2016. The Incubation Business, meanwhile, covers new businesses launched internally and investment cultivation business for Internet ventures in Japan and other countries. Below we review the content of each of the businesses.

Major group companies

Company	Investment ratio	Business
E-Commerce Business		
tenso, inc.	100.0%	Overseas Forwarding and Proxy Purchasing Business (has subsidiaries in the UK and Taiwan)
Shop Airlines, Ltd.	100.0%	Global Shopping Business (has subsidiaries in Japan, the US, and the Netherlands)
Defactostandard, Ltd.	57.1%	Apparel Reuse Business
monosense, Ltd.	100.0%	Producing and Licensing Business
netprice, Ltd.	100.0%	Online Shopping Business
Incubation Business		
BEENOS Partners, Inc.	100.0%	Startup Studio, Venture Capital and Incubation Business
BEENOS Asia Pte. Ltd.	100.0%	Investment and Incubation Business Specialized in emerging countries
Equity method affiliate		
BEENOS Plaza Pte. Ltd.	33.3%	Investment and Incubation Business Specialized in Indonesia
Open Network Lab, Inc.	30.0%	Entrepreneurship Support/Investment Business

Source: Prepared by FISCO from Company website

1. Cross Border Business

This business is comprised of two consolidated subsidiaries; tenso, Inc., and Shop Airlines, Ltd. tenso, Inc. operates tenso.com, an overseas forwarding operation (proxy shipping of goods) and Buyee.jp, a proxy purchasing operation for consumers residing overseas. Shop Airlines, Ltd. operates the “sekaimon” global shopping website. The sales of both subsidiaries are from handling fees based on transaction values.

(1) Overseas Forwarding and Proxy Purchasing Business

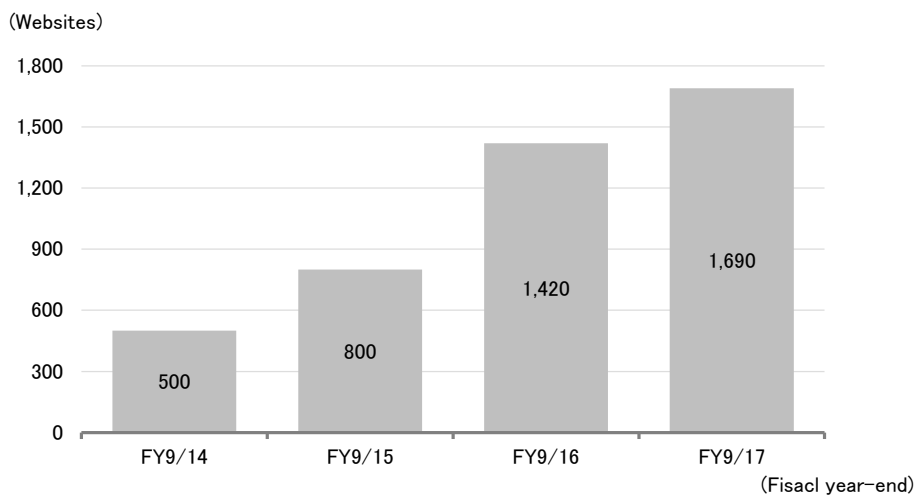
tenso.com overseas forwarding operations by tenso offer a service for foreign and Japanese consumers residing overseas whereby when they purchase an item on an e-commerce (EC) site in Japan but the operator of that website does not ship goods overseas, tenso will, for a fee, ship (forward) the goods to the buyers on their behalf. Buyers are able to select the shipment method from among Japan Post’s Express Mail Service (EMS), regular airmail, Japan Post’s Surface Air Lifted (SAL) economy airmail service, and surface mail, with forwarding fees for the service provided starting from ¥50 (depending on total shipment weight).

Business overview

It also operates the Buyee website for proxy purchasing and proxy auctioning for mail-order products and Internet auctions in Japan. Merchandising value through Buyee has been growing recently because Buyee utilizes PayPal and Alipay as payment methods, provides multi-language support of buying procedures, and automatically translates product details into multiple languages. It has a broad range of partner websites from large marketplaces, such as Amazon, Rakuten Ichiba, Yahoo! Shopping, and ZOZOTOWN, to small EC sites and also partners with Yahoo! Auction and other auction websites. Buyee receives a purchase fee of 0-5% (¥150 flat fee for product purchases worth less than ¥3,000 and a ¥200 payment fee per auction purchase on Yahoo! Auction). It also obtains transfer fees and delivery fees.

The service currently handles shipping to 86 countries and regions and has customer support operations that cover four languages. It is steadily growing with overseas user members at over 1mn people and domestic partner EC sites at over 1,690 websites as of the end of September 2017 and holds an industry No.1 position in overseas shipping handling volume.

The number of partner websites for tenso.com and Buyee

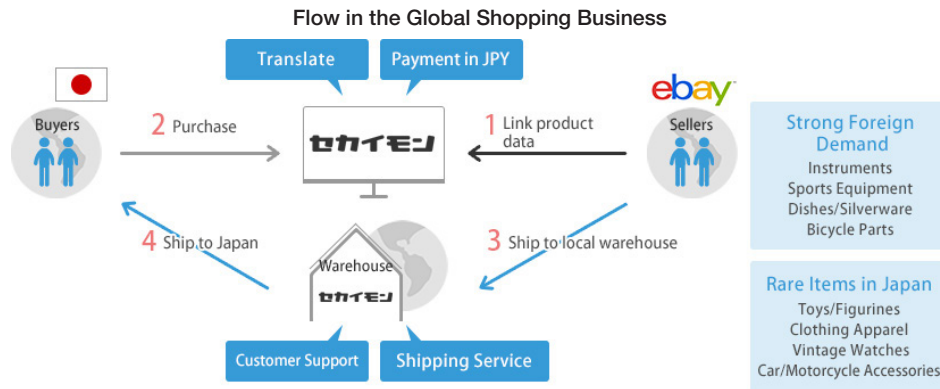


Source: Prepared by FISCO from the Company's results briefing materials

(2) Global Shopping Business

The sekaimon website operated by subsidiary Shop Airlines, Ltd. is an overseas shopping website with Japanese language support that is certified by eBay, which is one of the world's largest online marketplaces. sekaimon currently handles products submitted in five countries – the United States, the United Kingdom, Germany, Austria and Canada. It charges a fee of 15% of the auction price (it revised the minimum fee from ¥500 to ¥800 in February 2016). The website has a high ratio of male members. Top-selling items are hobby products, car and motorcycle goods, vintage watches, and other products with low transaction volume in Japan.

Business overview



Source: Company website

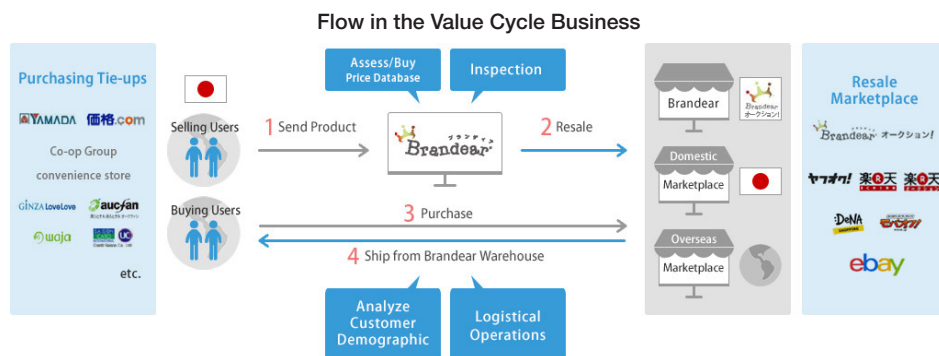
2. Value Cycle Business

This business covers purchasing and selling used brand products over the Internet by subsidiary Defactostandard. It is the industry leader in purchase and sale transactions over the Internet (with cumulative users at about 2mn people*). Business flow involves buying products through Internet-based operational website Brandear as the first point of contact, using delivery service providers to receive the products, and then selling the products on Internet auction sites in Japan and other countries.

* As of May 2017

Defactostandard seeks to expand purchasing volume by using multiple channels for purchases with its own website as well as partner websites, including Yamada Denki's <9831> Yamada Kaitori and related websites of various CO-OP entities. The business handles brand products for over 7,000 items, such as clothing, bags, jewelry, and watches, with emphasis on fashion areas. Defactostandard has developed a unique system for purchasing a wide range of products quickly and at suitable appraisal prices. Its strengths are its purchasing and appraising capabilities.

Conversely, from a sales perspective, its strength is that it has developed its own proprietary system that facilitates efficient sales by simultaneously offering goods through multiple channels, including most major domestic auction websites such as Yahoo! Auctions and Rakuten Auction, its own proprietary auction website, and through overseas auction websites such as eBay. Moreover, on the largest domestic auction website, Yahoo! Auctions, Defactostandard was awarded its "Annual Best Store Overall Grand Prix" for the eighth straight year in fiscal year 2016.



Source: Company website

Business overview

3. Retailing and Licensing Business

The Retailing and Licensing Business consists of the Producing and Licensing Business handled by monosense, Ltd. and the Internet Shopping Business operated by netprice, Ltd. Additionally, monosense acquired 100% of SWATi Inc., which develops and sells interior goods, at the end of December 2016 and converted this entity into a consolidated subsidiary. SWATi sales are still modest and only have a minor impact on consolidated results.

The Producing and Licensing Business plans and develops products based on licensing contracts with various celebrities and well-known people and provides one-stop support for selling and promotions on EC sites, licensing activities, and other services. It also handles item sales at event venues for popular idol groups through licensing contracts and manages and operates official EC sites. This business receives selling fees that reflect a certain percentage of item sales as revenue.

The Internet Shopping Business operates the netprice EC site. The business promotes unique product line-ups and selling methods, such as 24-hour limited-sale products, original products developed jointly with manufacturers, and jointly planned and developed products with well-known people and celebrities. Cumulative membership has risen to over 2.2mn people of which about 78% are women and more than 70% are in their 30s to 40s.

4. Incubation Business

The Incubation Business is comprised of investing in and nurturing Internet venture businesses in Japan and overseas, and developing new businesses in-house prior to the stage they become profitable.

In its investing and nurturing operations, BEENOS or subsidiary BEENOS ASIA PTE. LTD., headquartered in Singapore, invest in countries that show the potential to develop as rapidly as China has, taking stakes of up to 20%. They target companies offering Internet platform businesses, for example, online settlement services and online marketplaces. They have made investments in India, Indonesia, Turkey, the Philippines, Vietnam, Malaysia, and countries in Africa. To nurture these businesses, BEENOS ASIA PTE. encourages the exchange of personnel and technologies.

BEENOS Partners, Ltd., based in Japan, invests mainly in US start-up companies engaged in Internet businesses, taking stakes of less than 1%. Through these investments, BEENOS gains information about the latest Internet services and technologies. It applies this information to establish new businesses in Japan and overseas and aims eventually to realize returns on its investments. This company also invests in start-up companies engaged in Internet businesses in Japan.

Results trends

FY9/17 results exceeded forecast and set all-time highs again

1. FY9/17 results summary

The Company posted upbeat FY9/17 consolidated results with ¥20,711mn in net sales (+7.7%), ¥1,507mn in operating income (+25.6%), ¥1,552mn in ordinary income (+28.2%), and ¥1,011mn in profit attributable to owners of parent (+7.5%). Sales and earnings sustained increases in fifth and third straight fiscal years respectively and also reached all-time highs again. The E-Commerce Business fueled growth with gains of 9.5% in net sales and 57.4% in operating income (+57.4%). The results reflected earnings from the Overseas Forwarding and Proxy Purchasing Business, supported in part by the yen's depreciation in 2H to an average rate of ¥111/\$, which was weaker than the assumption of ¥95/\$ for 2H.

The cost of sales ratio dropped 1.8 percentage points YoY to 46.0%, mainly on higher margins in the Incubation Business. Although SG&A expenses climbed 9.4% to ¥9,678mn, this was mainly due to recording cost items accompanying a change in the sales recognition standard in some businesses under the Retail and Licensing Business from 3Q (switch from booking net value to gross value) and higher personnel costs.

FY9/17 consolidated results

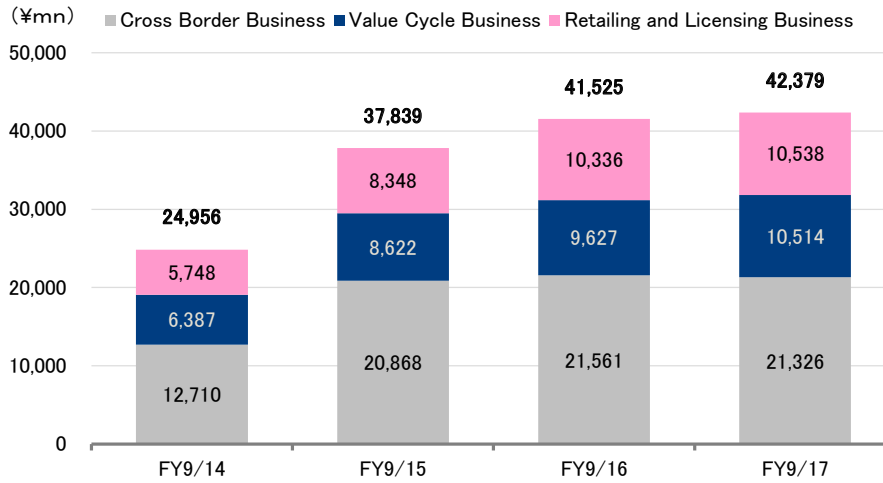
	FY9/16		Forecast	FY9/17		YoY	Vs forecast	(¥mn)
	Results	% of sales		Results	% of sales			
GMV	41,525	-	37,000	42,379	-	+2.1%	+14.5%	
Net sales	19,226	-	20,000	20,711	-	+7.7%	+3.6%	
E-Commerce Business	18,023	93.7%	18,700	19,734	95.3%	+9.5%	+5.5%	
Incubation Business	1,203	6.3%	1,300	977	4.7%	-18.7%	-24.8%	
Cost of sales	9,181	47.8%	-	9,525	46.0%	+3.7%	-	
SG&A expenses	8,844	46.0%	-	9,678	46.7%	+9.4%	-	
Operating income	1,200	6.2%	1,400	1,507	7.3%	+25.6%	+7.7%	
E-Commerce Business	750	3.9%	950	1,169	5.6%	+55.8%	+23.1%	
Incubation Business	773	4.0%	800	737	3.6%	-4.6%	-7.8%	
Joint costs	-322	-1.7%	-350	-399	-1.9%	+23.9%	+14.3%	
Ordinary income	1,211	6.3%	1,400	1,552	7.5%	+28.1%	+10.9%	
Profit attributable to owners of parent	940	4.9%	750	1,011	4.9%	+7.5%	+34.9%	

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

Merchandising value in the EC Business, which the Company targets as a KPI, increased 2.1% YoY to ¥42,379mn. Momentum slowed in 1H due to a decline in merchandising value for the Overseas Forwarding and Proxy Purchasing Business under the Cross Border Business amid yen appreciation as well as continued weakness in the netprice business. At the quarterly level, meanwhile, although seasonal factors resulted in QoQ decline from 3Q, the trend remained positive YoY from 2Q.

Results trends

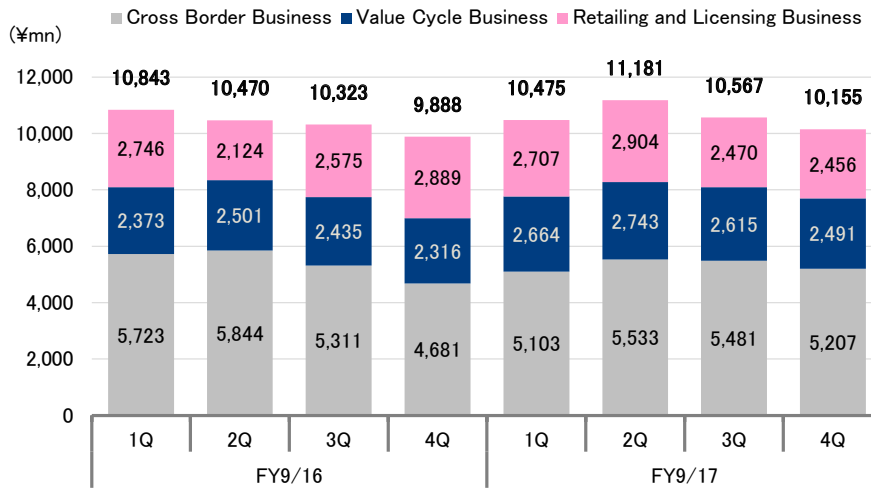
Trends in Transaction Values by Business



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

* Gross merchandising value (GMV) is defined as the total value of i) sales in businesses that book product revenue as sales, treating these as merchandising value and ii) product sales, delivery charge, fees, and consumption tax in businesses that book fees as sales, treating these as merchandising value.

Gross merchandise value by business



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

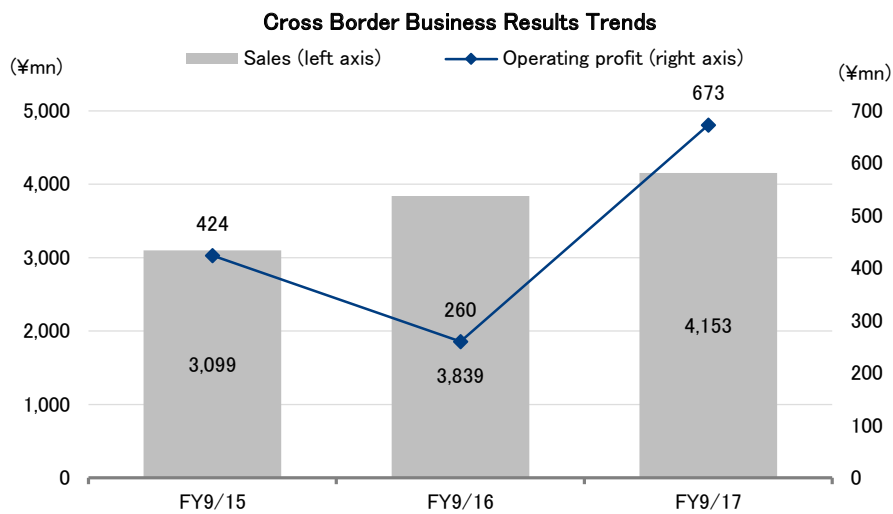
Results trends

Double-digit profit increases in Cross Border and Value Cycle businesses driving profit expansion

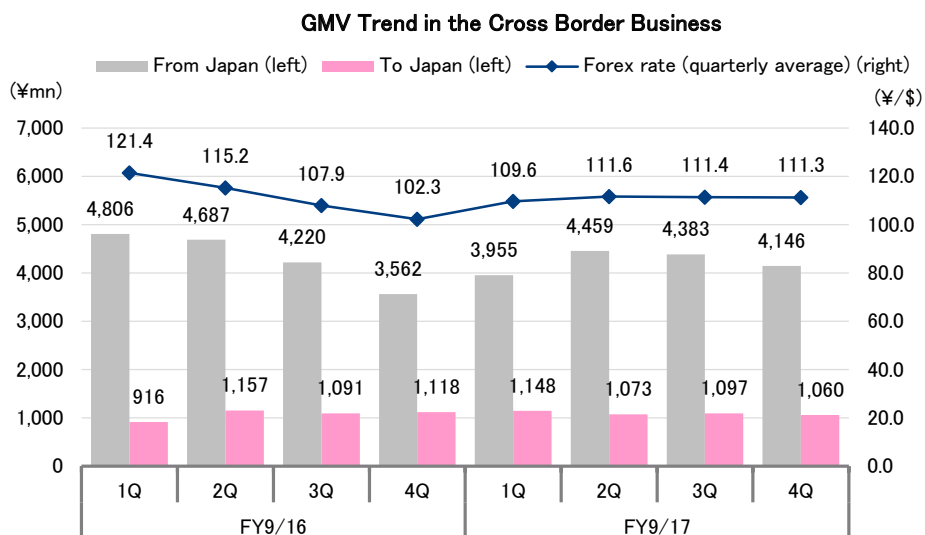
2. Segment results

(1) Cross Border Business

The Cross Border Business reported ¥21,326mn in GMV (-1.1% YoY) and all-time highs of ¥4,153mn in net sales (+8.2%) and ¥673mn in operating income (+158.6%) in FY9/17.



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

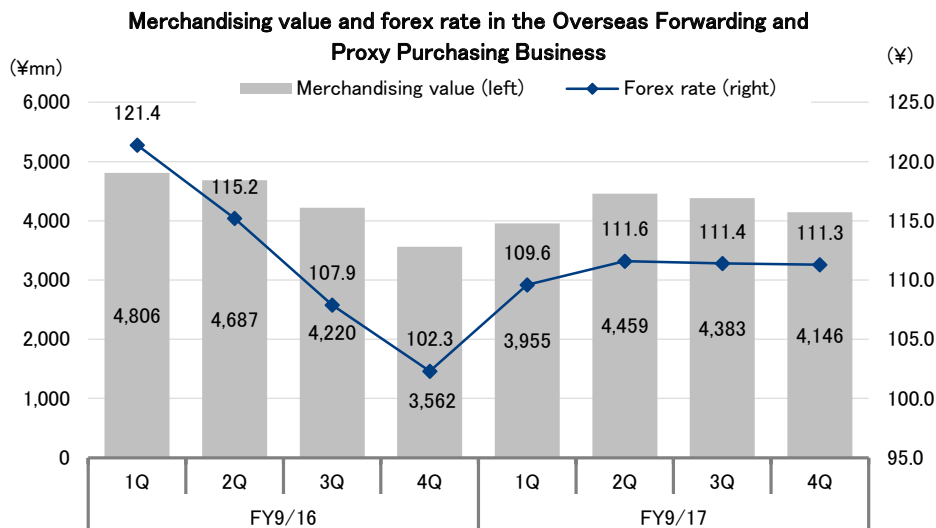


Source: Prepared by FISCO from the Company's results briefing materials

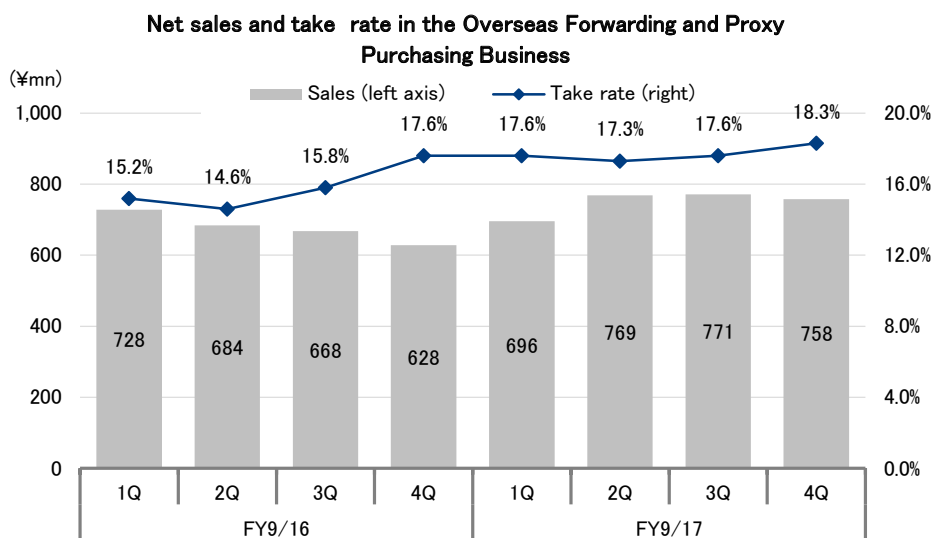
Results trends

a) Overseas Forwarding and Proxy Purchasing Business

The Overseas Forwarding and Proxy Purchasing Business had a modest decline in merchandising value to ¥16,943mn (-1.9%), but net sales were upbeat at a 10.6% increase to ¥2,994mn. GMV slipped to a decline under pressure from yen appreciation versus the previous year in 1H. Net sales, meanwhile, benefited from a rise in the GMV share of Buyee, which posted larger revenue per contract, up from 60% a year earlier to 70%. Buyee revenue covers settlement fees for product purchase plus fees for guaranteed delivery, inspections, and other related services and hence posts a larger take rate (net sales ÷ GMV) than the overseas forwarding service. Viewed quarterly, the take rate climbed from 15.2% in 1Q FY9/16 to 18.3% in 4Q FY9/17. This improvement reflected a higher Buyee share. In earnings, the sales increase effect from the higher take rate generated a majority of the gain in the Cross Border Business.



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



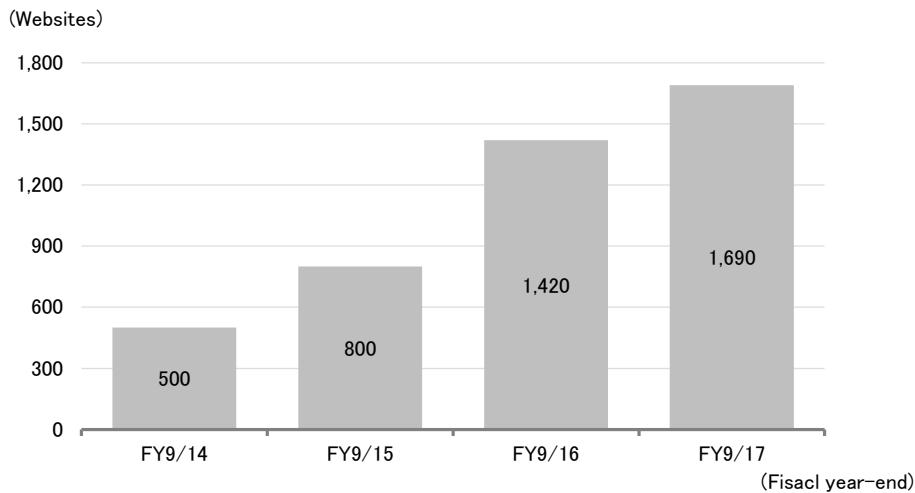
Source: Prepared by FISCO from the Company's results briefing materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

The Company is bolstering alliance partners in Japan with the aim of expansion of merchandising value, and its partner websites increased from 1,420 websites at the end of FY9/16 to 1,690 websites at the end of FY9/17. Additionally, it is strengthening promotional activities to boost recognition in other countries, such as event participation and collaboration with a major card company in Taiwan and collaboration with a leading bank in Hong Kong. These efforts have been steadily lowering reliance on China in merchandising value share by shipping destination country from 36% in FY9/15 to 25% in FY9/16 and 19% in FY9/17. We think the Company is having success in building a service network that is not affected by China.

The number of partner websites for tenso.com and Buyee

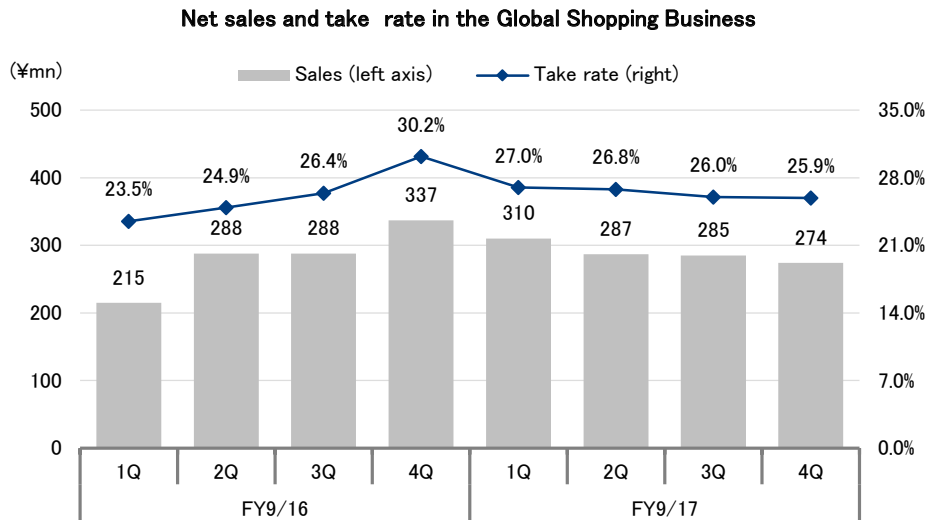


Source: Prepared by FISCO from the Company's results briefing materials

b) Global Shopping Business

The Global Shopping Business posted ¥4,378mn in merchandising value (+2.2% YoY) and ¥1,156mn in net sales (+2.5%). Improvements in usability of the “sekaimon” website and the start of handling some Canadian products with strong requests (such as winter sports items and outdoor items) from June 2017 contributed to the gain in merchandising value. Website updates include use of proprietary recommendation and personalization functions that give suitable product information to individual customers and UI revisions that enable confirmation of the estimates of delivery fees and other related costs, an important aspect in purchase decisions. In earnings, cost reductions achieved by bringing warehouse tasks in-house for US operations, a change in the forwarder (international transportation company), and other adjustments supported higher profit. However, profits slowed in 2H because of weakening in the yen compared to the previous year.

Results trends



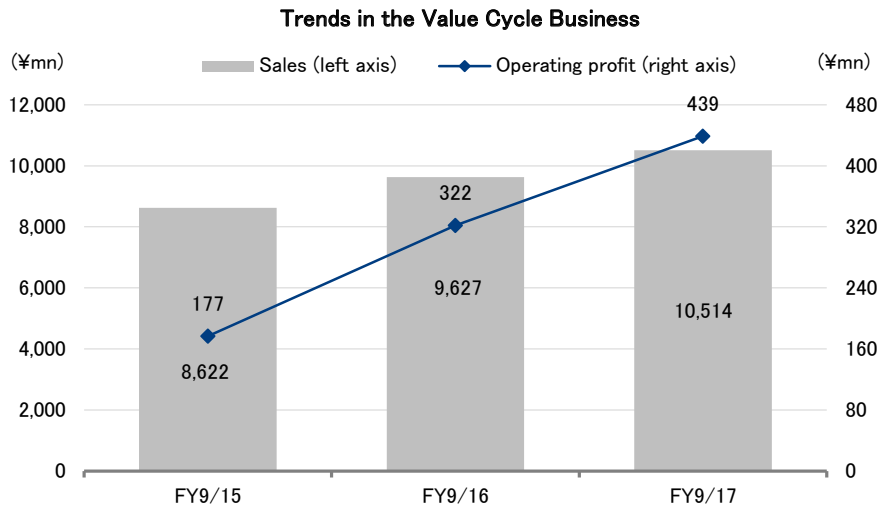
Source: Prepared by FISCO from the Company's financial results

(2) Value Cycle Business

The Value Cycle Business delivered ¥10,514mn in net sales (+9.2% YoY; GMV is the same as net sales) and ¥439mn in operating income (+36.0%) in FY9/17, roughly on par with the forecast and setting consecutive new highs. Profitability improved on expansion of purchase volume thanks to continuous allocation of promotional costs for TV commercials and other activities, healthy progress in overcoming past reliance on a single sales route and switching to direct and overseas sales routes, and further curtailment of personnel costs through promotion of outsourcing product submission tasks (utilization of people working at home).

The sales ratio on direct routes climbed from the 10% range in FY9/16 to about 20% in FY9/17. This shift contributed to lower sales fees and also establishment of operations capable of generating profits even on apparel items with low pricing. Overseas sales increased from just under 1% in FY9/16 to 2.9% in FY9/17 thanks to proprietary development of an eBay submission tool and the start of full-fledged product listings. While the sales ratio is still low, it is likely to increase further.

Results trends



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

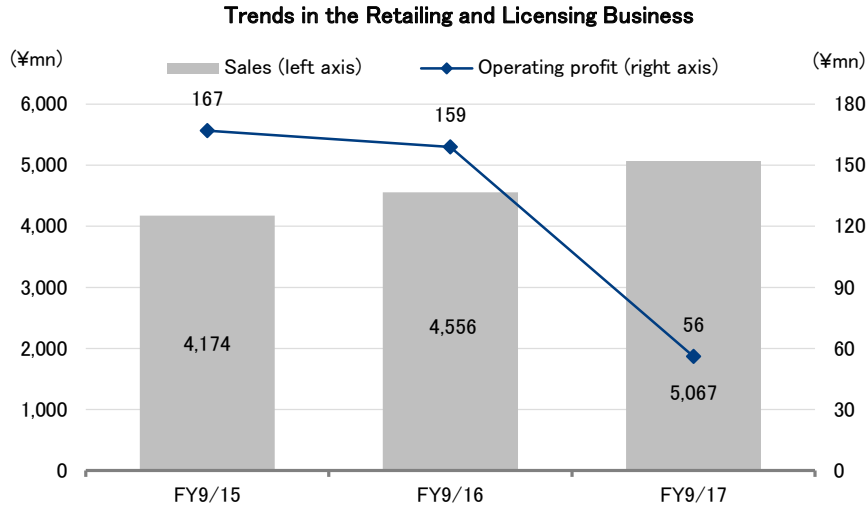
(3) Retailing and Licensing Business

The Retailing and Licensing Business booked ¥10,538mn in GMV (+2.0% YoY), ¥5,067mn in net sales (+11.2%), and ¥56mn in operating income (-64.3%) in FY9/17. Sales grew faster than GMV due to advances in product sales at event venues, shops, and other real-world sites.

The Producing and Licensing Business performed well thanks to higher sales of popular idol group goods on EC sites and at event venues and the start of trial sales for ECONECO, a popular brand to which the Company holds a master license, at Japanese department stores in Taiwan. Sales also benefited from a strong hit with collaboration product Pokemon Face Pack, which captured inbound tourism demand to sell 60,000 units in a month. SWATi, which the Company acquired as a subsidiary at the end of December 2016, launched an official website and EC site for a new brand concept in August 2017 and is currently moving forward in rebranding.

In the Internet Shopping Business, meanwhile, the Company focused on development and sales reinforcement of original fashion and beauty-related products, but inventory disposal resulted in a lower gross margin. As a result, net sales dropped 21% YoY to ¥2.4bn, and the operating loss widened slightly over the previous fiscal year to a few tens of million yen. The Company decided to sell all shares of netprice, which handles this business, to Aucfan on December 1, 2017.

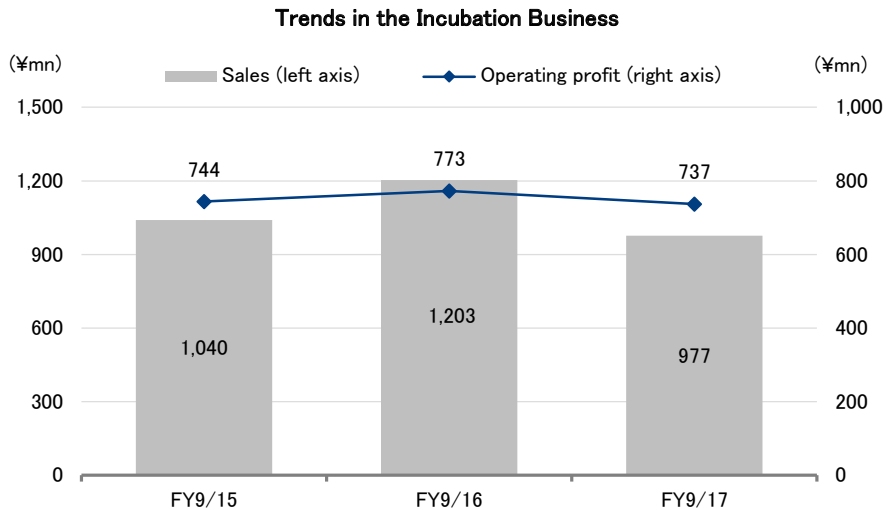
Results trends



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

(4) Incubation Business

The Incubation Business had ¥977mn in net sales (-18.7%) and ¥737mn in operating income (-4.6%) in FY9/17. It booked ¥954mn in net sales and ¥921mn in operating income from the sale of holdings in an overseas unlisted security in 4Q, but operating income declined because of allowance for other operating investment securities and valuation losses.



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

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Results trends

In FY9/17, the Company invested in Metro Engines Inc. (established in October 2016), which offers integrated management tools for private home rental hosts in Japan, Payke Inc., (established in November 2014), which supplies an app that displays product information on smartphones in the user's language by scanning the product bar code, WAmazing Inc. (established in July 2016), which distributes free SIM cards to inbound customers and provides a tourism information app, and other companies in inbound-related businesses, and SureCash, which operates a mobile settlement service in Bangladesh, and other overseas businesses. Operating investment securities value rose ¥963mn from the end of the previous fiscal year to ¥2,568mn at the end of FY9/17. The main increasing factors were ¥951mn in new investments and a ¥185mn impact from the yen's depreciation; which were partially offset by ¥25mn in share sales and ¥148mn total in allowance and valuation losses.

Key investee companies are Internet venture firms in India and Southeast Asia with rapidly growing Internet markets and start-ups in Japan and the US. In this group, Indonesia-based Tokopedia reportedly has a market cap of ¥100bn and Clues Network, which operates Shop Clues in India, has grown to a market cap of over ¥100bn. Droom, which handles online automobile sales in India, is also rapidly expanding and currently has a valuation of a few tens of billions of yen, which seems very likely to exceed ¥100bn in the near future. While the Company owns less than 1% of Instacart, which operates a food shopping assistance service in the US, this business is currently valued at \$3.4bn. The Company's strategy is to sell shares in these investee companies and utilize the proceeds to fund new investments or its own new and existing businesses.

Main investments and investment ratios

xxx	xxx	xxx	xxx
10% or more	akakce.com	Turkey	Price comparison service
	Paynatics Technologies	The Philippines	Online payment service
5 to 10%	Metro Engines	Japan	Big data analysis and consulting for private home rentals and accommodations
	Droom	India	Operates Droom, an online marketplace for secondhand cars
	Buyhatke	India	Price comparison service
	Sendo Technology	Vietnam	Operates Sendo, an online marketplace
	Nearex	Multiple African countries	Mobile money
1 to 5%	CaSy	Japan	Cloud-based agency service for handling household chores
	Quan	Japan	Plans and develops web and app services for mobile equipment
	Clues Network	India	Operates ShopClues, a B2C online marketplace
	Voonik	India	Operates voonik.com, a mobile fashion marketplace
	Nobroker	India	Operates NoBroker, an online C2C real estate marketplace
	Healthians	India	In-home physical examination marketplace
	industrybuying	India	Marketplace for indirect materials
	Midtrans	Indonesia	Online payment service
	Ralali	Indonesia	Operates Ralali.com, a B2B online marketplace
	Tokopedia	Indonesia	Operates tokopedia, a C2C online marketplace
	iyzi Payments	Turkey	Online payment service
	Ayannah	The Philippines	Online remittance service
	ZILINGO	Thailand	Operates ZILINGO, a fashion marketplace
	Progoti Systems	Bangladesh	SureCash mobile settlement service
	Payke	Japan	App for multilingual display of product information
WAmazing	Japan	Distribution of free SIM cards and tourism information app	
dely	Japan	Operates the kurashiru cooking video recipe service	
Increments	Japan	Operates Qiita, a service for software programmers to exchange technical information	
Less than 1%	Big Foot Retail Solutinos	India	Operates KARTROCKET, a service for opening an online store
	Maplebear	US	Operates instacart, an online delivery service for food and daily necessities
	Kamcord	US	Operates a video sharing platform for mobile games

Source: Prepared by FISCO from the Company's results briefing materials and website. Purple-colored cells indicate companies that received investments in FY9/17.

Financial position and management indicators

Sustaining financial health, improving stability through expansion of the EC Business

Total assets increased ¥1,654mn from the end of the previous fiscal year to ¥14,749mn at the end of September 2017 with additions of ¥963mn in operational investment securities, ¥285mn in accounts receivable, and ¥234mn in cash and deposit under current assets and ¥183mn in investment account security, ¥74mn in intangible assets, and ¥61mn in deferred tax assets under fixed assets.

Liabilities increased by ¥440mn from the end of the previous fiscal year to ¥5,509mn with additions of ¥532mn in deposits received and ¥203mn in short-term loans under current liabilities, an ¥832mn decline in accounts payable – other, and a ¥15mn rise in fixed liabilities. Net assets expanded by ¥1,214mn from the end of the previous fiscal year to ¥9,240mn. Main sources were a ¥1,011mn increase in earned surplus due to booking net profit and a ¥206mn rise in the exchange conversion adjustment account.

Looking at management indicators, the equity ratio, a measure of financial soundness, rose from 51.1% at the end of FY9/16 to 53.2%. The interest-bearing debt ratio slightly increased from 15.1% to 15.7% because of additional interest-bearing debt, but remains low. We think the Company is sustaining financial health. Furthermore, while it is difficult to offer current valuation of operational investment securities because target companies are unlisted, many companies receiving funds have grown since the investment timing and we believe they may be worth several times their book value is a few times higher. In profitability, the Company has kept ROA and ROE at 10% or above and operating margin has been stable at over 6% since FY9/15. We attribute these levels to successful establishment of operations in which the Cross Border, Value Cycle, and other EC businesses generate stable earnings.

Consolidated balance sheet and management indicators

	(¥mn)				
	FY9/14	FY9/15	FY9/16	FY9/17	Change
Current assets	6,692	8,745	11,787	13,013	1,226
(Cash and deposit)	2,433	3,276	6,307	6,542	234
(Operational investment securities)	1,563	1,663	1,605	2,568	963
Fixed assets	1,014	1,273	1,308	1,735	427
Total assets	7,706	10,019	13,095	14,749	1,654
Current liabilities	3,078	4,183	4,830	5,255	424
Fixed liabilities	69	155	238	254	15
Total liabilities	3,148	4,339	5,069	5,509	440
(Interest-bearing debt)	1,034	919	1,009	1,230	220
Net assets	4,557	5,679	8,025	9,240	1,214
Management indicators					
(Stability)					
Equity ratio	57.5%	54.5%	51.1%	53.2%	
Interest-bearing debt ratio	23.3%	16.8%	15.1%	15.7%	
(Profitability)					
ROA (return on assets)	-5.2%	13.0%	10.5%	11.2%	
ROE (return on equity)	-10.7%	18.2%	15.5%	13.9%	
Operating margin	-2.9%	7.0%	6.2%	7.3%	

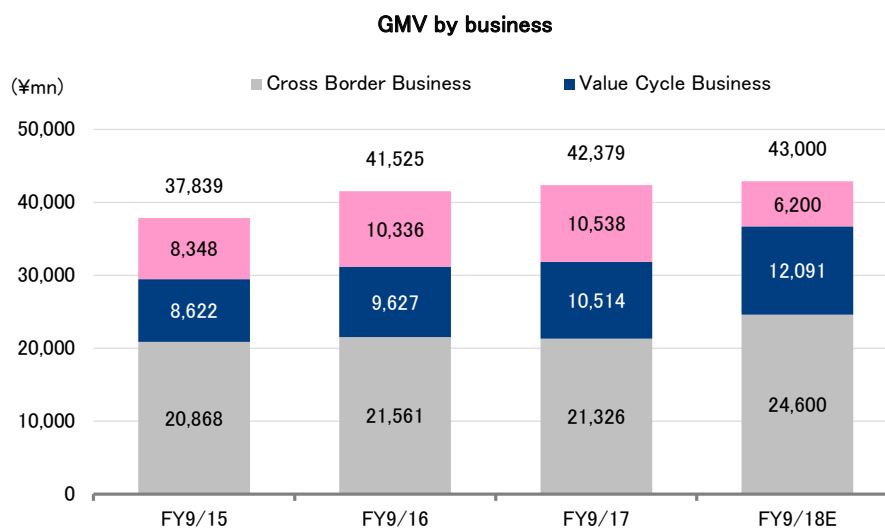
Source: Prepared by FISCO from the Company's financial results

Business outlook

FY9/18 forecast not disclosed, but the E-Commerce Business likely to continue delivering higher sales and profits

1. FY9/18 outlook

The Company decided to not disclose FY9/18 forecast and just announce GMV as a reference. This stance takes into account the unreasonableness of estimating and announcing the timing and value of selling profits in the outlook for the Incubation Business. The Company targets ¥43bn in E-Commerce Business merchandising value, an 8% increase on a real basis excluding the Internet Shopping Business that is being sold. It projects double-digit growth in the Cross Border Business to ¥24.6bn (+15%) and ¥12bn in the Value Cycle Business (+15%), but a 24% decline to ¥6.2bn in the Retailing and Licensing Business. The Company anticipates higher earnings thanks to removal of the netprice business, which was losing money, from consolidated scope from December 2017 and healthy expansion in Cross Border and Value Cycle businesses. It uses a ¥105/\$ forex rate assumption, projecting a slightly stronger yen than the current level.



* Gross merchandising value (GMV) is defined as the total value of i) sales in businesses that book product income as sales, treating these as merchandising value, and ii) "product sales, delivery charge, fees, and consumption tax" value in businesses that book fees as sales, treating these as merchandising value.

Next, we look at initiatives in each business. The Overseas Forwarding and Proxy Purchasing Business under the Cross Border Business aims to further increase merchandising value through expansion of Buyee partner EC sites and aggressive promotion of alliances with overseas media and retail companies, including real-world stores. The Global Shopping Business plans to release a "delivery fee advance confirmation service," which confirms costs including delivery fees at the time of a successful product bid, during 1H FY9/18 as a way of improving usability. It also intends to include advance confirmation of the customs tax as well. The previous format confronted usability issues because buyers only received a rough estimate of international delivery fees, customs tax, and other fees since these amounts could only be calculated after the local warehouse received the purchased product. The Company is enlisting AI technology to resolve this issue. It expects provision of this service to speed up purchase decision-making by users and thereby help increase merchandising value.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business outlook

The Value Cycle Business is targeting an increase in the ratio of business conducted on the direct sales route from 20% in FY9/17 to 30%. The Company also plans to expand transaction scale for low-priced apparel items by reducing the sales fee rate and outsourcing product submission tasks. The Retailing and Licensing Business aims to increase overseas sales by acquiring the master license to contents in the sub-culture area that also has strong appeal in other countries.

Additionally, the Cross Border Business plans to promote a new product sales arbitrage service in FY9/18. Arbitrage is a familiar term for financial transactions and refers to an investment technique of obtaining transaction spread utilizing temporary price differences in products with the same value. The Company intends to apply this technique to product sales. The initiative calls for preparing a database of global product information and purchasing trends obtained by the Cross Border Business and building a service that provides the cheapest price information globally utilizing AI technology. The Company also hopes to expand merchandising value by quickly identifying signs of products with hit potential from analysis of purchasing trends and promptly obtaining a master license and selling the products globally. It will cater to more than just general consumers and pursue cross-border B2B business by covering smaller-scale operators, including real-world stores.

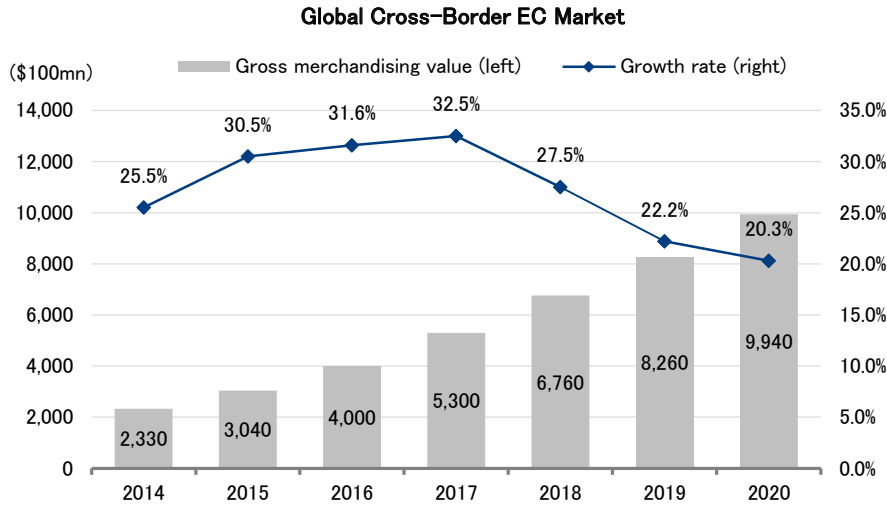
Seeks to expand cross-border EC business by building a global platform and is aiming for early realization of ¥100bn in GMV

2. Medium- to long-term vision

As its medium- to long-term vision, the Company is aiming to be the “Global Platform Frontier” that opens up new markets and creates new industries based on IT technologies and the Internet. In addition to distributing Japanese products and content to marketplaces throughout the world, it intends to increase its enterprise value by building a global commerce platform to distribute products and contents from throughout the world in Japan and other Asian countries. The above-mentioned product sales arbitrage service is a central pillar of this vision.

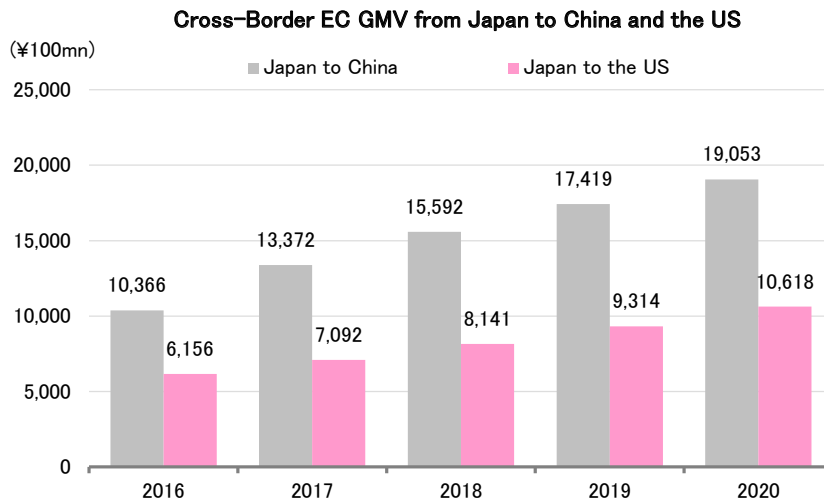
The global cross-border EC market is likely to continue growing at a 20-30% annual rate from an estimated \$400bn in 2016 to \$994bn in 2020 according to the “Market Survey on E-Commerce Transactions” report released by the Ministry of Economy, Trade and Industry in April 2017. The survey forecasts annual growth rates in cross-border EC merchandising value from Japan through 2020 of 16.4% to China and 14.6% to the US. These trends should expand the respective markets by 1.8 times and 1.7 times compared to 2016 levels. We see significant business opportunities for the Company, which is involved in cross-border EC as a core business.

Business outlook



Source: METI “Market Survey on E-Commerce Transactions” report (April 24, 2017)

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The Company believes it is necessary to create a market worth a few hundred billion yen in GMV in order to realize the medium- to long-term vision and has set a near-term target of ¥100bn in GMV with cross-border EC (Cross Border Business) driving this growth as the first step. It also aims to expand scale in the Retailing and Licensing Business by widening the domestic distribution network, developing attractive products and content, and expanding business to overseas markets. The Company will similarly promote growth in the Value Cycle Business through expansion of purchasing and selling channels. In overseas business, the Company will utilize the existing network with partners and investees that it has already built, pursue further expansion of the network, and increase business scale and create new businesses that utilize big data obtained from these activities.

■ Shareholder return policy

FY9/18 dividend target effectively flat at ¥13.0 excluding the FY9/17 commemorative dividend

The Company started paying dividends in FY9/15 as a shareholder return measure. It paid an ¥18.0 dividend, including a ¥5.0 dividend to commemorate its listing on the TSE First Section, in FY9/17. The dividend policy calls for paying a dividend that reflects earnings growth while also taking into account financial conditions, investment fund needs, and business results. The Company intends to keep the ordinary dividend at ¥13.0 per share in FY9/18.

The Company announced share buybacks too on November 1, 2017. The buyback program seeks to purchase up to 100,000 shares (0.81% of outstanding shares) or ¥150mn during November 2, 2017 to January 31, 2018.

■ Information security policy

The Group has established robust information security measures and addresses various risks because its business utilizes the Internet. It deploys antivirus software and implements rigorous gateway security to deal with cyber-attacks. It also conducts thorough education of all employees regarding information management and implements log control and other measures.



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