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FISCO Ltd. Analyst
Yuzuru Sato

■ Building the incubation businesses into the next main source of profit

netprice.com engages in various electronic commerce (e-commerce) businesses, such as online shopping and trading in used brand goods. It is currently strengthening its pure incubation business of investing in and nurturing Internet venture businesses both in Japan and overseas.

The current fiscal year, ending in September 2013, i.e., FY9/13, is the final year of transition of the group's business structure from a primary reliance for profit on the business of gathering (online shopping) to other e-commerce businesses and to incubation businesses. netprice.com is now the leading company in Japan in trading used brand goods and in sending goods purchased on Internet shopping sites in Japanese to people living overseas. These two businesses are expected to lead profit growth for the company from FY9/14.

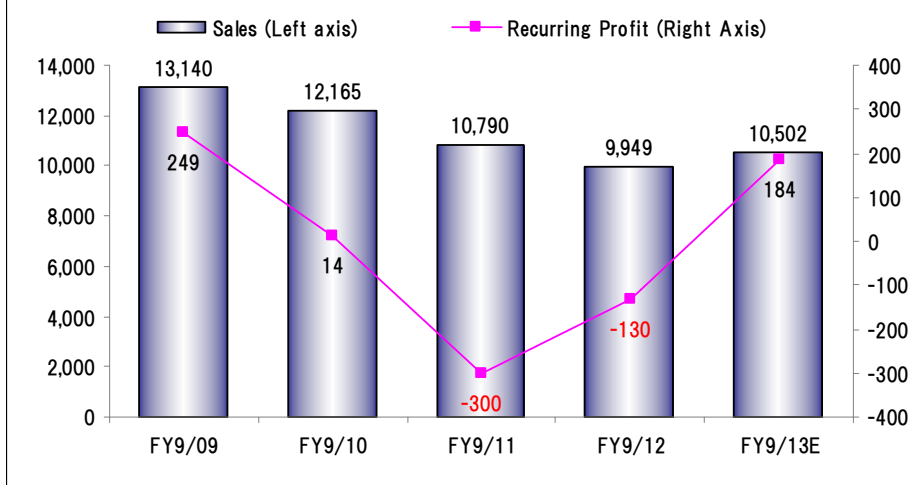
As new businesses, the company is developing services for smartphones, and in April 2013, it set up a Beenos department to specialize in the incubation business. In 2012, netprice.com invested in two young e-commerce businesses in Indonesia, and in 2013 so far, it has invested in three promising e-commerce businesses, one in India and two in Turkey. E-commerce is projected to proliferate in these emerging growth countries, so netprice.com should be able to exit from these investments profitably in coming years. Hereafter, the company plans to invest in other young but strong e-commerce businesses in emerging growth countries with the aim of earning as much profit from its incubation businesses as it does from its e-commerce businesses.

In the third quarter of FY9/13, i.e., in Q3 FY9/13, the company suffered an operating loss, for the first time in three quarters, because its e-commerce businesses faltered temporarily. However, the company earned a large non-operating profit from the sale of investment securities. Thus, it earned a recurring profit of ¥128mn. The company expects its e-commerce businesses to recover in Q4 FY9/13, so it foresees a recurring profit of ¥64-184mn for FY9/13, the first such profit in three years.

■ Check Points

- The company is building up its Beenos department, which specializes in the incubation business
- The company projects recurring and net profits for FY9/13
- The company may pay a dividend after its profits recover sufficiently

Consolidated Sales and Recurring Profit (¥mn), FY9/09-FY9/13E



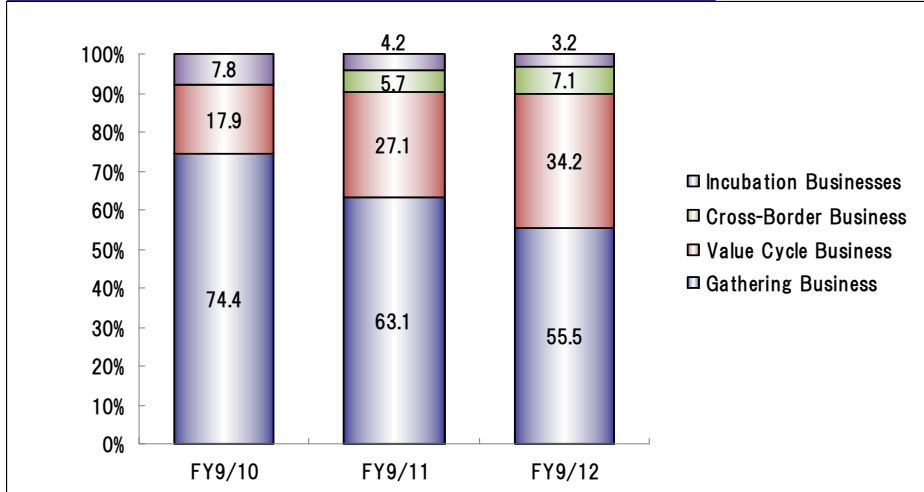
Note: The forecasts shown for FY9/13 are the upper limits of the ranges projected by the company.

Description of Businesses

E-commerce businesses and incubation businesses are main divisions

netprice.com's undertakings can be broadly divided into e-commerce businesses and incubation businesses. There are three main e-commerce businesses, each conducted by a consolidated subsidiary: the gathering business (online shopping), the value cycle business (trading used brand goods via the Internet), and the cross-border business (operating a global online shopping site). The incubation businesses include the business of forwarding goods to people living abroad and new businesses, and these incubation businesses are conducted by six consolidated subsidiaries. Brief descriptions of these businesses follow.

Sales Composition by Business, FY9/10-FY9/12



■Description of Businesses

Sales weighting has declined as other businesses have grown

Gathering Business

Consolidated subsidiary netprice, Ltd. operates the netprice online shopping site. Gathering is a method of selling goods via online shopping sites whereby the prices of the goods decline in stages as the number of prospective buyers increases above a set level. netprice, Ltd. is promoting the diffusion of gathering as one style of selling via the Internet. Gathering was the company's original business, so it still provided 55.5% of total consolidated sales in FY9/12, but the sales weighting of this business has declined as other businesses have grown.

netprice, Ltd.'s chibi-gyaza (small gathering) service allows customers to use the netprice online shopping site from mobile devices, such as cell phones and smartphones, through various applications. The netprice online shopping site has more than 2.2 million registered users and about 2,500 suppliers. In cooperation with manufacturers, netprice, Ltd. has developed original goods for sale on its shopping site, and these original goods now supply about 7% of the total sales made on the site. netprice, Ltd. basically assumes no inventory risk for these original goods.

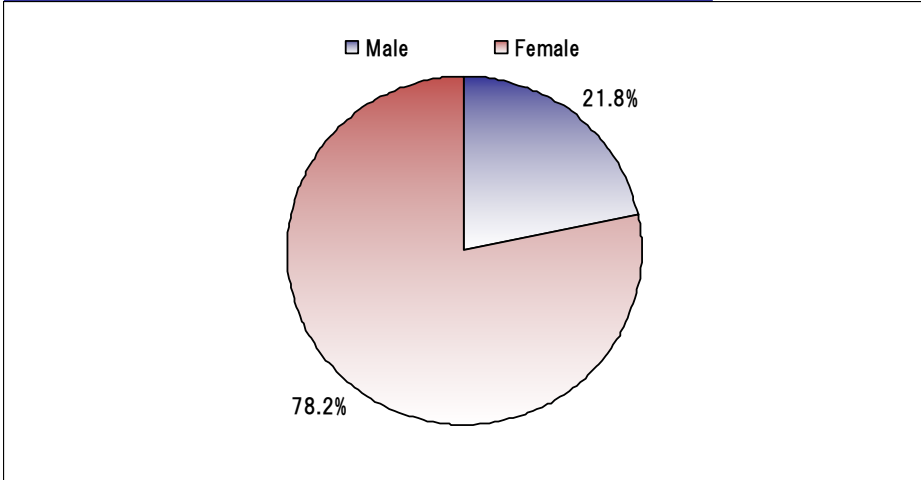
As detailed in the pie charts below, at the end of FY9/12, women made up 78.2% of the netprice online shopping site membership, people in their 30's and 40's comprised more than 70% of the membership, and the site offered a wide range of goods for sale, including brand goods, clothing, healthcare goods, miscellaneous goods for home and garden use, and cosmetics.

Famous netprice Online Shopping Site, which uses the Gathering Technique

Source: Company website

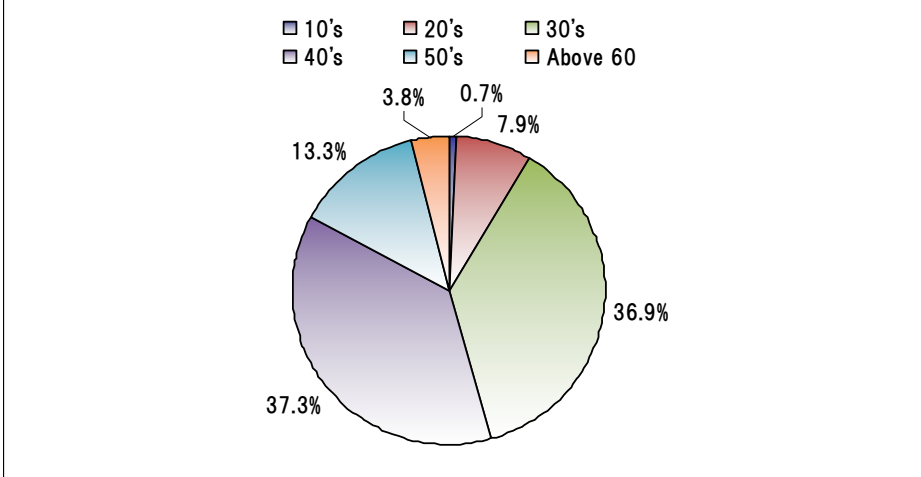
■ Description of Businesses

Composition of netprice Membership by Gender at the End of FY9/12



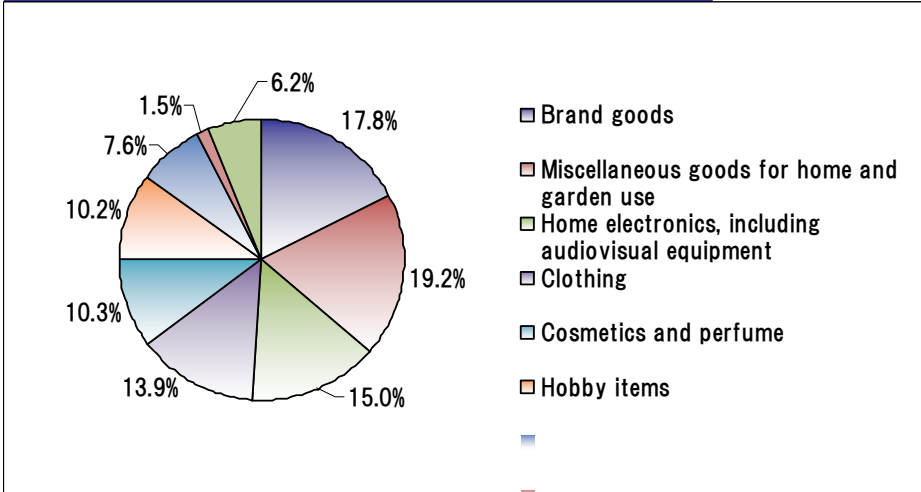
Source: Company

Composition of netprice Membership by Age at the End of FY9/12



Source: Company

Breakdown of netprice Sales by Genre of Goods at the End of FY9/12



Source: Company



■Description of Businesses

Brandear auction site for trading used brand goods supplies more than 30% of total consolidated sales

Value Cycle Business

Consolidated subsidiary Defactostandard, Ltd. operates the Brandear auction site for trading used brand goods through the Internet. netprice.com calls this its value cycle business. In FY9/12, this business supplied 34.2% of netprice.com’s consolidated sales. At the end of FY9/12, more than 500,000 people had used this service, which offered 5,700 items ranging from clothing to handbags and cell phones. Thus, Defactostandard, Ltd. is the largest company in Japan offering to buy and sell used brand goods through the Internet. Items purchased from users through the website are not only offered in its own auction site, but also offered in other auction sites, including YahooAuc! (formerly Yahoo! Auction), the largest auction site in Japan, Rakuten Auction, and overseas acution sites, such as eBay. Defactostandard, Ltd. charges no fees for appraising goods for sale, for picking up and delivering these goods, and for payment. It handles a wide variety of goods quickly, making it popular. The company received the Yahoo! Best Auction Award four years in a row, from 2009 through 2012.

Brandear Site for Trading Used Brand Goods



Source: Company website

Flow of Purchases and Sales Using the Brandear Site



Source: Company website



■Description of Businesses

Generates second largest transaction value in the company

Cross-Border Business

Consolidated subsidiary Shop Airlines, Ltd. develops the “sekaimon” global online shopping site, which is also the Japanese-language site authorized by eBay Inc., the largest auction site in the world. The “sekaimon” site enables bidding, payment, international delivery and customer support in Japanese. Originally, it offered goods made in the US and the UK, but in March 2013, it started offering goods made in Germany, and in July 2013, it started presenting goods made in Austria. Hereafter, it plans to offer goods made in other leading European countries, including Italy and France. Shop Airlines, Ltd. contracts with the Yamato Transport group to handle its warehouses and transportation companies in the US, the UK, the Netherlands, and Germany.

Commission income comprises the sales of the cross-border business, so these sales amounted to only 7.1% of total consolidated sales at netprice.com in FY9/12. However, the business handled ¥4,556mn of transactions in FY9/13, second only to the ¥5,524mn of transactions handled by the gathering business.

Sekaimon Japanese Auction Site Authorized by eBay

The screenshot shows the homepage of the Sekaimon Japanese Auction Site. At the top, there is a navigation bar with the 'sekaimon' logo and 'powered by eBay'. Below the logo, there are links for 'ワールド & オークション' and 'セカイモンとは(使い方)' (How to use Sekaimon), '会員登録(無料)' (Free Registration), and 'ヘルプ' (Help). A search bar is prominently displayed with the text '日本語でも検索できます' (You can search in Japanese). Below the search bar, there are several promotional banners and a grid of product images, primarily watches. A 'CLICK!' button is visible on the watch grid. At the bottom of the page, there is a section for '関連検索キーワード' (Related search keywords) listing various product categories like '自動車パーツ' (Car parts), 'バイクパーツ' (Motorcycle parts), 'フィルムカメラ' (Film camera), '腕時計' (Watches), and '乗り物おもちゃ' (Vehicle toys).

Source: Company website

■ Description of Businesses

tenso.com site for forwarding goods to overseas residents is top user of Japan Post Express Mail Service

Incubation Businesses

Incubation businesses include tenso.com, Inc., which forwards goods to overseas residents, other new businesses, and investing in and developing promising young e-commerce businesses. tenso.com serves residents of foreign countries, including 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 good for a fee of ¥490-3,980, depending on the weight of the good. About half the company's customers are Japanese and the other half are non-Japanese. tenso.com, Inc. offers its service through the tenso.com website.

A person desiring to use tenso.com, Inc.'s service first registers as a member of the site and provides as a virtual address the address of tenso.com, Inc.'s warehouse. If the user can find the good he or she purchased through an e-commerce site, he or she designates the address of tenso.com, Inc.'s warehouse as a shipping address. When this item arrives at tenso.com, Inc.'s warehouse, it is forwarded to the overseas address of the customer. tenso.com, Inc. forwards goods to 84 countries using the Express Mail Service (EMS) of Japan Post and claims to be the largest customer for this service.

In FY9/12, netprice.com added three other consolidated subsidiaries as incubation businesses, and in FY9/13, it added two more. All of the venture businesses invested in and developed are involved with the Internet in Japan and overseas.

Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method

| Consolidated subsidiaries | Business | Business description |
|--|--------------|---|
| netprice, Ltd. | Gathering | Operates Internet shopping sites netprice and chibi-gather |
| Defactostandard Ltd. | Value cycle | Operates the Brandear site for trading used brand goods via the Internet (Consumer to Business to Consumer, C2B2C) |
| Shop Airlines, Ltd. Shop Airlines America, Inc. Shop Airlines Europe B.V. | Cross-border | Operates the sekaimon global shopping site in cooperation with eBay Inc., the operator of the world's largest online auction site |
| tenso.com, Inc. monosense, Ltd. crec, Inc. FORii, Inc. Beenos Partners, Inc. Beenos Asia, Pte | Incubation | Forwards goods purchased on e-commerce sites in Japan to customers overseas as an agency Offers support services, such as product planning and promotion, for goods licensed by celebrities. Markets and promotes sales via smartphones Plans, produces and sells smartphone content Invests in US startup companies Based in Singapore, this subsidiary oversees investments in Southeast Asian markets |
| Equity-accounted Affiliates | | |
| Moshimo Co., Ltd. Open Network Lab, Inc. | | Engages in drop shipping (provides sales systems for operating Internet shops) Invests in and develops Internet venture businesses |

Source: Company website

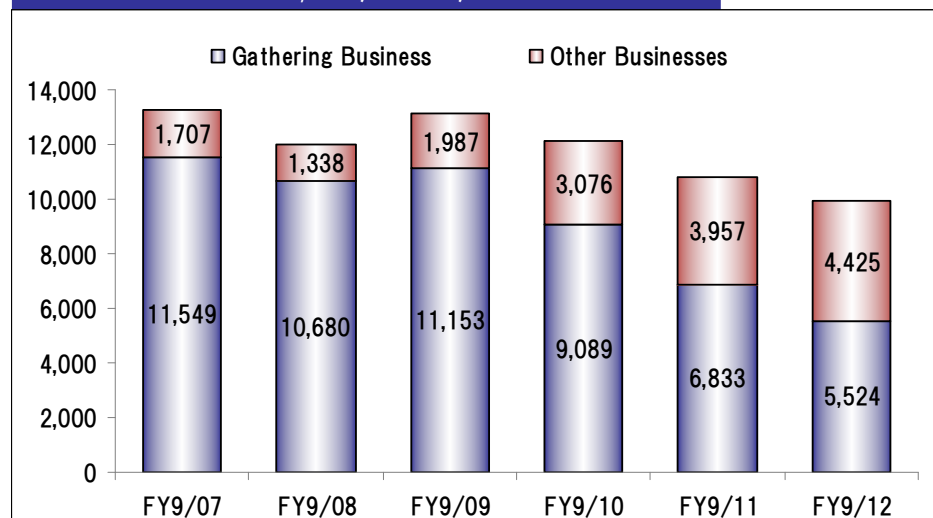
Growth Strategy

Growth to be led by e-commerce businesses other than gathering and by incubation businesses

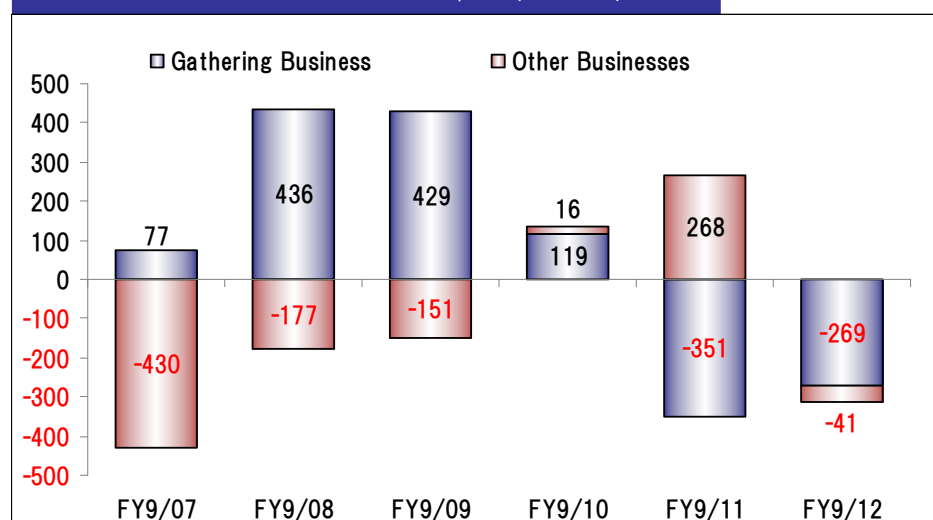
FY9/13 is the final year of change in netprice.com's business structure from a primary reliance on the gathering business to a reliance on other businesses. As shown in the bar charts below, the gathering business supplied most of the company's sales and operating profit in FY9/08-FY9/10, but over the past three fiscal years, sales from this business have declined, and in the past two fiscal years, the business has been unprofitable. Probably, the decline of this business reflects the rapid growth of leading online marketplace companies, such as Amazon.com, Rakuten (4755), and Yahoo! Japan (4689).

From FY9/14, netprice.com plans to maintain the gathering business at a scale allowing stable profits while relying on e-commerce businesses other than the gathering business and on incubation businesses for growth.

Breakdown of Sales (¥mn) from Gathering Business and from Other Businesses, FY9/07-FY9/12



Breakdown of Operating Profit (¥mn) from Gathering Business and from Other Businesses, FY9/07-FY9/12



Brandear site may grow briskly in coming years

Other e-commerce businesses

The value cycle business of trading used brand goods on the Internet undertaken by Defactostandard, Ltd. displays notable growth potential. The Brandear site operated by this business is the largest such site in Japan. The online market for used brand goods in Japan remains much smaller than the real market for these goods. Japan's Ministry of the Environment estimates that the Japanese total market for used brand goods was approximately ¥170bn in the government's fiscal 2012, which ended in March 2013. In FY9/12, the value cycle business reported sales of ¥3,405mn. Thus, this business probably held a share of less than 10% of the Japanese virtual market for used brand goods. However, the number of transactions in used brand goods via the Internet has been increasing in recent years, and Japan's population of internet users is growing. Thus, the value cycle business should be able to grow briskly in coming years.

Beenos department established to specialize in incubation business

Incubation businesses

tenso.com, Inc. has few competitors in the Japanese market for agency forwarding of goods overseas. This market is still small, which may explain the paucity of competitors, but the global demand for Japanese goods is likely to grow accompanying the globalization of markets and yen depreciation. tenso.com, Inc. already forwards goods to 84 countries and intends to take advantage of its market leadership to expand.

In the pure incubation business of investing in and developing small businesses, netprice.com has already invested in about 40 venture companies in Japan and overseas. In June 2007, Aucfan Co., Ltd. was established as a spinoff of Defactostandard, Ltd. In April 2013, Aucfan Co. Ltd. (3674) listed its shares on the Mothers Market of the Tokyo Stock Exchange, and netprice.com recorded a large non-operating gain on the sale of Aucfan shares. From FY9/14, other companies nurtured by netprice.com may list their shares if stock market conditions are favorable, providing further investment gains.

netprice.com plans to develop its incubation businesses until they supply roughly the same profit as its e-commerce businesses. Toward this end, in April 2013, the company established a Beenos department to specialize in the pure incubation business of investing in and developing venture businesses. The name Beenos derives from the English word "bee" and the Japanese words for "nest of". The name suggests the nest of a honey bee. Just as honey bees support the growth of plants by spreading the pollen of their flowers, the Beenos department aims to support the growth of venture businesses by building a network of information and human resources. In July 2013, the Beenos department set up an investment program and an inception program. The investment program invests in companies involved in Internet services in Japan and overseas, using the expertise of specialists in technology, design, information analysis, management, and other relevant fields. The inception program establishes new businesses in cooperation with promising entrepreneurs using the experience of people who have successfully set up a company. The Beenos department is pursuing a strategy of directly investing in, nurturing, and supporting startup businesses and businesses aiming to accelerate their growth, thereby activating and expediting the process of business formation and ultimately contributing to the profits of netprice.com.

Services Provided by the Beenos Team

| Service | Service Description |
|-----------------------|---|
| Advisory | Abundantly experienced managers recommend ways to resolve problems in founding a company or developing a business |
| Network | Provide access to a global network of entrepreneurs who have invested in startup companies in Japan, Indonesia, Turkey, India, and North America |
| Workshops | To raise the knowhow of companies participating in a Beenos program, convene periodic workshops on such topics as search engine optimization, data analysis, the testing of ideas and designs, and the use of human resources |
| Data analysis | Instruct about and provide support for data analysis and the setting of key performance indicators |
| CEO coaching | Periodically convene management coaching or consulting sessions for guest CEOs |
| Prototype development | Define a minimum viable product, hold hearings to obtain the opinions of product users, support the development of product prototypes |
| Design | Improve the design of a service to accelerate its growth |

Source: Company website

The scale and type of investment pursued by the incubation business varies by region. In Japan, the business normally takes a majority stake in a venture business, with the aim of eventually exiting from the investment profitably when the venture business makes an initial public offering or when the venture business is acquired by another company. In the US, the business takes a minority stake in a venture business, aiming to exit the investment when it is bought out by another investor or when the venture business makes an initial public offering. Other important objectives of investing in US venture businesses are to build a network of entrepreneurs engaged in Internet businesses and to obtain information about Internet technology, centered on mobile communications, and about trends in the market for such technology, because changes in this technology and these market trends in the US tend to lead similar technological and market changes in Japan by 9-12 months. In newly developing countries, the business takes a minority stake in a venture business, intending to exit the investment in the medium term by selling to another investor. The market for initial public offerings is usually too immature in newly developing countries to permit a profitable exit through such an offering. The incubation business invests ¥100-200mn per year in venture businesses. When the ownership stake of the business exceeds a certain level, the business forwards directors to the venture company to support its long-term growth.

A major strength of netprice.com's incubation business is that it has knowledge about all the functions needed to build a business, from constructing a business model and setting key performance indicators to structuring the company, testing the usability of its products, and raising funds. Another main strength of the incubation business is the network of key personnel developed over the years by netprice.com and its affiliate, Open Network Lab, because such a network is one of the most important needs of an entrepreneur about to start up a new business.

Investing aggressively in e-commerce platform businesses

Investment in newly developing countries

netprice.com plans to aggressively invest in venture businesses engaged in e-commerce businesses in newly developing countries. In January 2012, it set up a joint venture in Indonesia, PT MIDTRANS, which offers an online transaction settlement service. In April 2012, it invested in Tokopedia, the largest online marketplace company in Indonesia. In March 2013, it invested in ShopClues, the largest online marketplace company in India. In May 2013, it took a stake in Akakce, the operator of the largest price-comparison site in Turkey. In June 2013, it invested in iyzi Payments, which provides an online transaction settlement service in Turkey. All the companies in newly developing countries invested in by the incubation business are engaged in some platform of e-commerce, such as providers of online marketplaces, providers of online fund settlement services, and operators of price comparison sites. As the e-commerce markets in newly developing countries grow, such companies tend to gain dominant market positions and develop large profit growth potential.



■ Growth Strategy

Tokopedia now undertakes about ¥300mn of transactions per month and is growing rapidly, so it is expected to facilitate ¥100bn of transactions per month five years from now. In India, the Internet penetration rate is less than 10%, but the country has a population of about 1.2 billion people and it is expected to eventually match China’s current Internet penetration rate. Turkey has a population of about 75.6 billion people, an Internet penetration rate of 47%, and an e-commerce market that is expanding rapidly. netprice.com is the first Japanese company to invest in a Turkish company involved in e-commerce, and netprice.com plans to build long-term relationships with more Turkish companies engaged in Internet business.

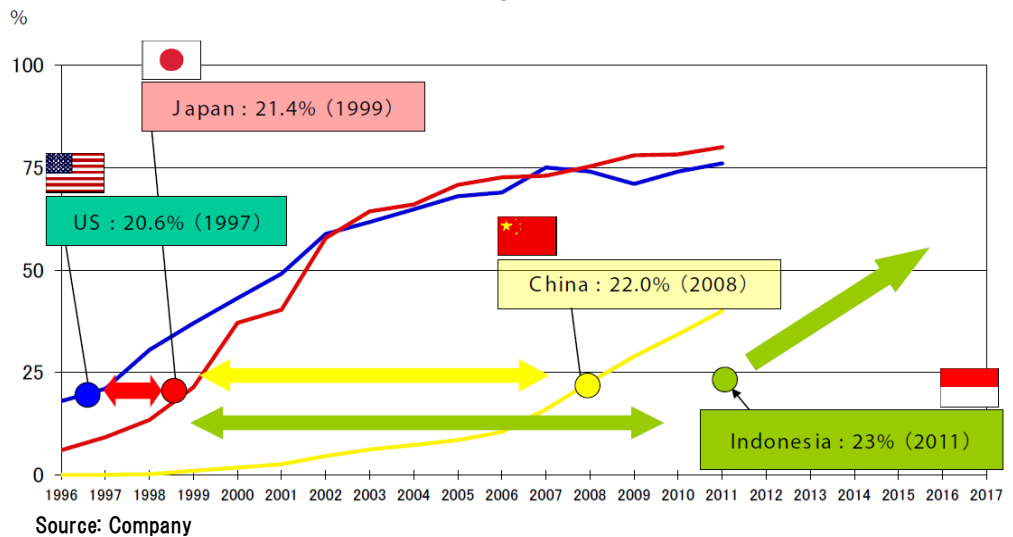
Venture Companies in Newly Developing Countries Invested In by netprice.com

| Company | Date of investment | Business description |
|---------------|--------------------|--|
| PT MIDTRANS | January 2012 | Provides an online settlement service for companies engaged in Indonesia’s e-commerce market |
| PT Tokopedia | April 2012 | Largest operator of an online consumer-to-consumer marketplace in Indonesia (C2C) |
| ShopClues | March 2013 | Operates an online business-to-consumer marketplace in India (B2C) |
| akakce | May 2013 | Operates the largest price comparison site in Turkey |
| iyzi Payments | June 2013 | Provides a comprehensive online settlement service in Turkey |

Source: Company website

netprice.com considers Vietnam to be the next most promising newly developing country for initial investment, as the country has a population of about 89 million people, an Internet penetration rate of 38% and an e-commerce market that is likely to grow strongly in coming years. If companies in other newly developing countries present attractive prospects, netprice.com is likely to invest in them.

Services Provided by the Beenos Team



As part of its growth strategy, netprice.com intends to strengthen its pure incubation business. In particular, it aims for expertise in this business in newly developing countries. Over the long term, the e-commerce markets in newly developing countries should grow with overall economic growth. An investment strategy based on this prospect should eventually contribute to the company’s profits.



Business Trends

Gain on the sale of investment shares led to recurring and net profits

Q1-3 FY9/13 Results

On July 25, 2013, netprice.com announced its consolidated results for Q1-3 FY9/13. As detailed in the table below, sales grew by 1.0% year-on-year (y-o-y) to ¥7,802mn, the company suffered an operating loss of ¥84mn, down from a loss of ¥149mn in Q1-3 FY9/12, but earned a recurring profit of ¥184mn, after a recurring loss of ¥84mn in Q1-3 FY9/12, and a net profit of ¥84mn, after a net loss of ¥203mn a year earlier. As noted, the operating loss shrank y-o-y in Q1-3 FY9/13. Still, sales and operating profit were slightly lower than the company had projected in April 2013, when it announced its H1 results. The company earned a non-operating gain of slightly more than ¥313mn on the sale of its shareholding in Aucfan Co., Ltd. in April, when Aucfan made an initial public offering. This gain supported the recurring and net profits.

In Q3 FY9/13, sales grew by 2.7% y-o-y, but SGA cost increased at a larger rate, leading to an operating loss of ¥161mn. Profit deterioration was pronounced in the e-commerce businesses, as detailed in the second table below.

Consolidated Results (¥mn) in Q1-3 FY9/12 and Q1-3 FY9/13

| | Q1-3 FY9/12 | Q1-3 FY9/13 | y-o-y | Co. forecast (4/13) of Q1-3 FY9/13 |
|-------------------------|-------------|-------------|-------|---------------------------------------|
| Sales | 7,721 | 7,802 | 1.0 | 7,822~8,022 |
| Gross profit | 3,459 | 3,664 | 5.9 | |
| Gross profit margin | 43.2 | 46.9 | | |
| SGA cost | 3,608 | 3,749 | 3.9 | |
| SGA cost ratio | 46.9 | 48.0 | | |
| Operating profit | -149 | -84 | - | -53~-6 |
| Operating profit margin | -1.9 | -1.1 | | |
| Non-operating income | 118 | 334 | | |
| Non-operating expenses | 53 | 65 | | |
| Recurring profit | -84 | 184 | - | -68~-6 |
| Recurring profit margin | -1.1 | 2.3 | | |
| Net profit | -203 | 84 | - | -146~-86 |
| Net profit margin | -2.6 | 1.2 | | |

Quarterly Consolidated Results (¥mn), Q1 FY9/12-Q3 FY9/13

| | FY9/12 | | | | FY9/13 | | | |
|-------------------------|--------|-------|-------|-------|--------|-------|-------|--|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | |
| Sales | 2,754 | 2,552 | 2,414 | 2,228 | 2,748 | 2,573 | 2,479 | |
| y-o-y | -12.5 | -6.7 | 3.7 | -13.6 | -0.2 | 0.8 | 2.7 | |
| Gross profit | 1,162 | 1,132 | 1,163 | 1,012 | 1,283 | 1,218 | 1,163 | |
| Gross profit margin | 42.2 | 44.4 | 48.2 | 45.4 | 46.7 | 47.3 | 46.9 | |
| SGA cost | 1,224 | 1,267 | 1,116 | 1,173 | 1,243 | 1,180 | 1,325 | |
| SGA cost ratio | 44.5 | 49.6 | 46.2 | 52.7 | 45.2 | 45.9 | 53.4 | |
| Operating profit | -62 | -134 | 47 | -161 | 39 | 37 | -161 | |
| Operating profit margin | -2.3 | -5.3 | 2 | -7.2 | 1.4 | 1.4 | -6.5 | |
| Non-operating income | 74 | 38 | 6 | 130 | 21 | 1 | 361 | |
| Non-operating expenses | 15 | 32 | 5 | 15 | 37 | 5 | 68 | |
| Recurring profit | -3 | -128 | 47 | -45 | 23 | 33 | 131 | |
| Recurring profit margin | -0.1 | -5.1 | 2 | -2.1 | 0.8 | 1.3 | 5.3 | |
| Net profit | -39 | -152 | -11 | -147 | -11 | -12 | 114 | |
| Net profit margin | -1.4 | -6 | -0.5 | -6.6 | -0.4 | -0.5 | 4.6 | |



■ Business Trends

Quarterly Consolidated Sales (¥mn), Q1 FY9/12-Q3 FY9/13

| | FY9/12 | | | | FY9/13 | | |
|----------------------------------|--------|-------|-------|-------|--------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| E-commerce businesses | 2,699 | 2,479 | 2,328 | 2,133 | 2,626 | 2,415 | 2,280 |
| Gathering business | 1,736 | 1,575 | 1,190 | 1,021 | 1,340 | 1,131 | 1,140 |
| Value cycle business | 767 | 718 | 960 | 959 | 1,089 | 1,115 | 988 |
| Cross-border business | 195 | 186 | 176 | 152 | 196 | 167 | 152 |
| Incubation businesses | 54 | 74 | 89 | 99 | 127 | 164 | 202 |
| Eliminations and corporate costs | 0 | -2 | -3 | -3 | -5 | -5 | -2 |
| Total operating profit | 2,745 | 2,561 | 2,414 | 2,228 | 2,748 | 2,573 | 2,480 |

Quarterly Consolidated Operating Profit (¥mn), Q1 FY9/12-Q3 FY9/13

| | FY9/12 | | | | FY9/13 | | |
|----------------------------------|--------|------|-----|------|--------|-----|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| E-commerce businesses | -31 | -122 | 91 | -106 | 115 | 103 | -65 |
| Gathering business | -75 | -86 | -39 | -68 | 22 | -3 | -33 |
| Value cycle business | -22 | -71 | 98 | -24 | 61 | 102 | -31 |
| Cross-border business | 66 | 35 | 33 | -13 | 32 | 4 | 0 |
| Incubation businesses | 0 | -3 | 4 | -12 | -10 | -4 | -12 |
| Eliminations and corporate costs | -30 | -8 | -48 | -41 | -65 | -61 | -84 |
| Total operating profit | -62 | -134 | 47 | -161 | 39 | 37 | -161 |

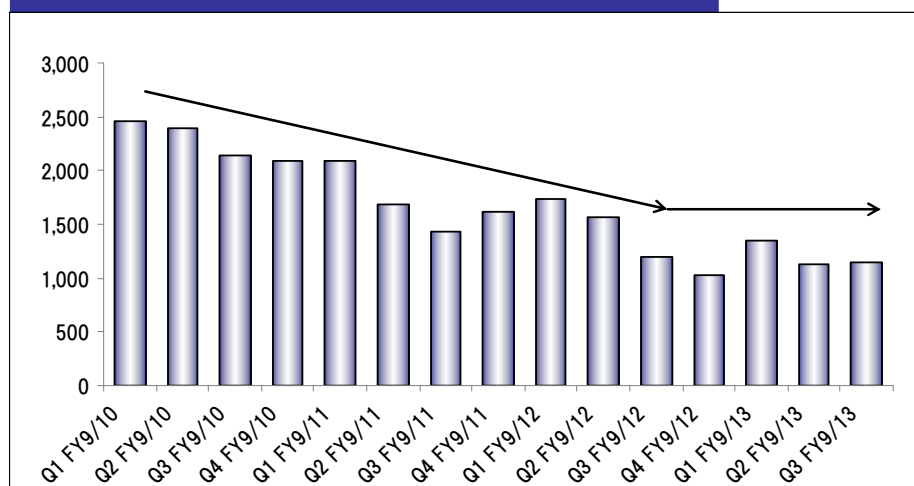
Of the e-commerce businesses, the value cycle business saw the greatest y-o-y profit deterioration in Q3 FY 9/13. Sales in this business increased by 3% y-o-y. The business has planned to strengthen purchasing activities in Q3 and sales activities in Q4, therefore, purchasing cost in Q3 was higher than previous quarters. In May 2013, the business started airing a TV commercial, leading to record-high purchases for a single quarter in Q3 FY9/13, but the cost of this advertising contributed to an operating loss of ¥31mn for the business, reversing an operating profit of ¥98mn in Q3 FY9/12. From mid-June, business sales began to grow strongly, and the company expects this growth to continue in Q4 FY9/13, enabling the business to return to profitability that quarter and in FY9/13.

The company had projected a small operating profit for the gathering business in Q3 FY9/13, but sales in this business declined by 4% y-o-y, continuing a downward trend, and the number of new customers for the business grew less than the company had forecast. Thus, the business suffered an operating loss of ¥33mn, slightly increased its operating loss of ¥3mn in Q2 FY9/13. However, the sales decline in this business is leveling off, reflecting increased sales through smartphones, greater sales of original goods, and an increase in the rate of repeat sales. Because of an increase in the sales weighting of original goods, the gross profit margin earned by the business on sales of goods rose by 1ppt y-o-y in Q3 FY9/13 to 36.3%.



■ Business Trends

Quarterly Sales (¥mn) by the Gathering Business, Q1 FY9/10-Q3 FY9/13



In the cross-border business, sales fell by 14% y-o-y in Q3 FY9/13 and the business just broke even at the operating profit level, after earning an operating profit of ¥33mn in Q3 FY9/12. The sales decline reflected the impact of a weaker yen. About half of the users of the “sekaimon” site purchase goods on auction sites and are very price sensitive. Between Q3 FY9/12 and Q3 FY9/13, the yen depreciated by more than 30% against the US dollar, which makes US dollar purchases more expensive in yen.

Sales by incubation businesses jumped by 127% y-o-y in Q3 FY9/13, but these businesses suffered an aggregate operating loss of ¥12mn, after an operating profit of ¥4mn in Q3 FY9/12. At the end of 2012, the tenso.com business announced its intention of purchasing goods as an agent, not just forwarding them. Furthermore, this business benefits from yen depreciation, making Japanese goods cheaper to residents of other countries, and from a lack of competitors. Thus, the value of goods transacted by the business increased by 40% y-o-y in Q3 FY9/13, and the business contributed substantially to the sales growth of the group and to its profits. The positive impact of yen depreciation on the sales and profits generated by tenso.com, Inc. essentially offsets the negative impact of such depreciation on the sales and profits of the cross-border business. However, the heavy initial costs of establishing new subsidiaries keep the incubation business slightly unprofitable.

Recurring and net profits projected

Company Forecasts for FY 9/13

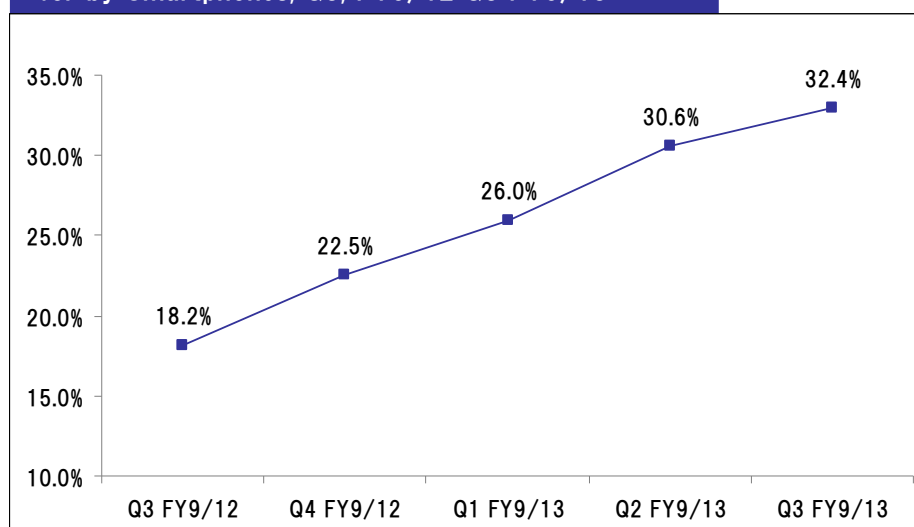
For FY9/13, the company forecasts consolidated sales of ¥10,302-10,502mn, up 3.5-5.6% y-o-y, and an operating loss of ¥74-194mn, compared with an operating loss of ¥310mn in FY9/12. However, the company projects a recurring profit of ¥64-184mn, its first such profit in three fiscal years, and a net profit of ¥84mn, reversing a net loss of ¥45mn in FY9/12.

For Q4 FY9/13, the company projects that its e-commerce businesses break even thanks to gathering business and the value cycle and cross-border businesses earn profits. However, the company expects its incubation businesses to suffer a small operating loss, despite strong sales and profit growth at tenso.com, Inc., because of the costs of establishing new businesses.

■ Business Trends

The gathering business plans to improve its sales and profits by promoting more sales via smartphones. In Q3 FY9/13, this business obtained almost 33% of its orders from smartphones, and the business aims to raise this ratio to 40% by the end of FY9/13. Orders from smartphone users will probably be a key to the growth of this business.

Proportion of Gathering Business Sales Accounted for by Smartphones, Q3, FY9/12-Q3 FY9/13



The company expects its value cycle business to earn an operating profit in Q4 FY9/13 as a result of taking a good balance on purchase and sales activities. The company also foresees an operating profit for its cross-border business in Q4 FY9/13, as a result of several factors. The business is overhauling its site to improve sales of fashion goods, which have been weaker than sales of other types of goods. The business completed its push for greater sales from smartphones in July 2013 and subsequently concentrated on increasing sales promotions, expanding the number of its customer categories, and attracting more new customers. Although sales and profits in the cross-border business are adversely affected by yen depreciation, this business reported an operating profit of about ¥50mn or more per quarter. The company hopes to quickly achieve its previous record-high operating profit in the cross-border business by increasing the number of its customers.

Among its incubation businesses, the company foresees very strong growth for tenso.com, Inc. in Q4 FY9/13. For FY9/13, the company projects an 80% y-o-y rise in sales at Tenso.com, Inc., making the business a new main source of profit. The company forecasts a continued strong rise in the number of orders received by tesco.com, Inc. in FY9/14, and projects a monthly operating profit of ¥30-40mn from this business that fiscal year.

The subsidiaries that operate new businesses are also growing briskly. monosense, Ltd., which plans goods licensed by celebrities, started selling official goods from a girl idol group in June 2012, and has seen an increase in business inquiries from other celebrities since then. For FY9/14, the subsidiary aims for an operating profit of ¥50-60mn.



■ Business Trends

crec, Inc., which markets and promotes sales via smartphones, started its β service through its online shopping magazine, recomer, in July 2013. This service uses its own algorithm to make lists of all the products viewed online by a customer and all the online articles about such products and sends these lists to its customers daily through the recomer online shopping magazine. If a customer purchases one of these goods from an online shopping site, crec, Inc. receives a success fee for the purchase. In other words, the β service is a type of affiliate service. Amazon.com is strong in such an affiliate service, but Amazon.com does not present information as clearly as crec, Inc. does.

FORii, Inc., which plans, produces and sells smartphone content, has developed a new application in the field of education and plans to start selling it in August 2013.

crec, Inc. and FORii, Inc. are still in the early stages of development, so they are not expected to contribute profits for some time. However, if these new businesses grow rapidly, they may contribute profits.

Breakdown of Consolidated Sales (¥mn) by Business, FY9/08-FY9/12

| | FY9/08 | FY9/09 | FY9/10 | FY9/11 | FY9/12 |
|----------------------------------|--------|--------|--------|--------|--------|
| E-commerce businesses | | | | 10,381 | 9,641 |
| Gathering business | 10,679 | 11,153 | 9,089 | 6,833 | 5,524 |
| Value cycle business | 1,113 | 1,477 | 2,182 | 2,934 | 3,405 |
| Cross-border business | | | | 613 | 711 |
| Incubation businesses | | | | 452 | 318 |
| Eliminations and corporate costs | -61 | -58 | -57 | -43 | -9 |
| Total operating profit | 12,017 | 13,140 | 12,165 | 10,790 | 9,949 |

Breakdown of Consolidated Operating Profit (¥mn) by Business, FY9/08-FY9/12

| | FY9/08 | FY9/09 | FY9/10 | FY9/11 | FY9/12 |
|----------------------------------|--------|--------|--------|--------|--------|
| E-commerce businesses | | | | -111 | -168 |
| Gathering business | 436 | 428 | 119 | -350 | -269 |
| Value cycle business | 20 | 8 | 67 | 90 | -20 |
| Commerce incubation businesses | -178 | -226 | -214 | | |
| Cross-border business | | | | 149 | 121 |
| Incubation businesses | | | | -85 | -12 |
| Eliminations and corporate costs | -18 | 67 | 167 | 114 | -129 |
| Total operating profit | 258 | 277 | 135 | -82 | -310 |

Note: In FY9/11, the commerce incubation business was divided into the cross-border business and incubation businesses



■ Shareholder Return Policy

The company may pay a dividend after its profits recover sufficiently

netprice.com has not paid a dividend yet because it has concentrated on building new businesses, accelerating the growth of existing businesses and responding to rapid changes in its operating environment. However, management has recently become more amenable to paying a dividend if the company's profits reach a level where the company can function effectively and still pay a dividend.

Consolidated Income Statement (¥mn), FY9/08-FY9/12

| | FY9/08 | FY9/09 | FY9/10 | FY9/11 | FY9/12 |
|---|--------|--------|--------|----------|----------|
| Sales | 12,017 | 13,140 | 12,165 | 10,790 | 9,949 |
| y-o-y | -9.3 | 9.3 | -7.4 | -11.3 | -7.8 |
| Gross profit | 4,700 | 5,105 | 4,878 | 4,696 | 4,471 |
| Gross profit margin | 39.1 | 38.9 | 40.1 | 43.5 | 44.9 |
| SGA cost | 4,441 | 4,828 | 4,743 | 4,779 | 4,782 |
| SGA cost ratio | 37 | 36.7 | 39 | 44.3 | 48.1 |
| Operating profit | 258 | 277 | 135 | -82 | -310 |
| y-o-y | - | 7.3 | -51.3 | - | - |
| Operating profit margin | 2.2 | 2.1 | 1.1 | -0.8 | -3.1 |
| Non-operating income | 36 | 48 | 32 | 20 | 249 |
| Interest and dividends received | 7 | 4 | 2 | 2 | 1 |
| Other non-operating income | 29 | 43 | 30 | 18 | 248 |
| Non-operating expenses | 105 | 76 | 153 | 238 | 68 |
| Interest and dividends paid | 3 | 4 | 8 | 12 | 12 |
| Other non-operating expenses | 102 | 71 | 145 | 226 | 56 |
| Equity-in-earnings profit/loss | -72 | 2 | -77 | -100 | -26 |
| Recurring profit | 189 | 249 | 14 | -300 | -130 |
| y-o-y | - | 31.5 | -94.3 | - | - |
| Recurring profit margin | 1.6 | 1.9 | 0.1 | -2.8 | -1.3 |
| Extraordinary profit | 94 | 368 | 193 | 406 | 2 |
| Extraordinary loss | 86 | 364 | 85 | 117 | 163 |
| Pretax profit | 198 | 253 | 122 | -10 | -291 |
| y-o-y | - | 27.9 | -51.7 | - | - |
| Pretax profit margin | 1.7 | 1.9 | 1 | -0.1 | -2.9 |
| Corporate income taxes | 184 | 197 | 103 | 103 | 26 |
| Effective tax rate | 92.8 | 77.9 | 84.4 | -957.6 | -8.9 |
| Minority interest | -10 | -9 | -25 | 10 | 34 |
| Net profit | 24 | 65 | 44 | -125 | -351 |
| y-o-y | - | 167.1 | -32.3 | - | - |
| Net profit margin | 0.2 | 0.5 | 0.4 | -1.2 | -3.5 |
| Number of shares outstanding (Thousand) | 110 | 111 | 111 | 111 | 111 |
| EPS (¥) | 221.0 | 589.9 | 399.2 | -1,129.8 | -3,159.1 |
| DPS (¥) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BPS (¥) | 37,969 | 38,782 | 39,291 | 38,276 | 34,686 |

■ Medium-to-long-term
Growth Strategy

Consolidated Income Statement (¥mn), FY9/08-FY9/12

| | FY9/08 | FY9/09 | FY9/10 | FY9/11 | FY9/12 |
|--|--------------|--------------|--------------|--------------|--------------|
| Current assets | 3,537 | 4,855 | 4,726 | 5,378 | 4,557 |
| Cash and cash equivalents | 1,944 | 3,216 | 3,129 | 4,074 | 3,060 |
| Inventories | 122 | 206 | 299 | 407 | 380 |
| Tangible fixed assets | 213 | 191 | 166 | 160 | 134 |
| Intangible fixed assets | 574 | 581 | 346 | 265 | 302 |
| Investments, etc. | 1,533 | 1,095 | 1,129 | 974 | 1,029 |
| Total assets | 5,858 | 6,724 | 6,369 | 6,778 | 6,024 |
| Current liabilities | 1,625 | 2,208 | 1,971 | 2,222 | 1,926 |
| Fixed liabilities | 19 | 210 | 334 | 304 | 239 |
| Interest-bearing debt | 2,200 | 950 | 1,750 | 1,233 | 907 |
| Total liabilities | 3,270 | 4,627 | 3,977 | 2,527 | 2,166 |
| Shareholders' Equity | 4,152 | 4,218 | 4,263 | 4,124 | 3,778 |
| Stock | 2,330 | 2,331 | 2,331 | 2,331 | 2,331 |
| Additional paid-in capital | 2,190 | 2,190 | 2,191 | 2,191 | 2,134 |
| Retained earnings | -83 | -18 | 25 | -113 | -464 |
| Treasury shares | -285 | -285 | -285 | -285 | -222 |
| Value of investment securities | 10 | -7 | -9 | -2 | -14 |
| Exchange rate translation adjustment | -1 | 7 | 18 | 22 | -6 |
| Minority interest | 45 | 73 | 70 | 76 | 62 |
| Total equity | 4,213 | 4,305 | 4,363 | 4,251 | 3,857 |
| Total liabilities & total equity | 5,858 | 6,724 | 6,369 | 6,778 | 6,024 |
| Important measures of business strength | | | | | |
| Measures of financial stability | | | | | |
| Current ratio (current assets ÷ current liabilities) | 217.6% | 219.8% | 239.7% | 242.0% | 236.6% |
| Equity ratio (total equity ÷ total assets) | 70.9% | 62.7% | 66.9% | 60.8% | 62.7% |
| Debt-to-equity ratio | 53.0% | 22.5% | 41.0% | 29.9% | 24.0% |
| (収益性) | | | | | |
| ROA (operating profit ÷ total assets) | 4.4% | 4.1% | 2.1% | -1.2% | -5.2% |
| ROE (net profit ÷ shareholders' equity) | 0.6% | 1.6% | 1.0% | -3.0% | -9.3% |
| Operating profit margin | 2.2% | 2.1% | 1.1% | -0.8% | -3.1% |



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