

May 22, 2023

FY3/23 Financial Results

Estore Corporation

Estore Group

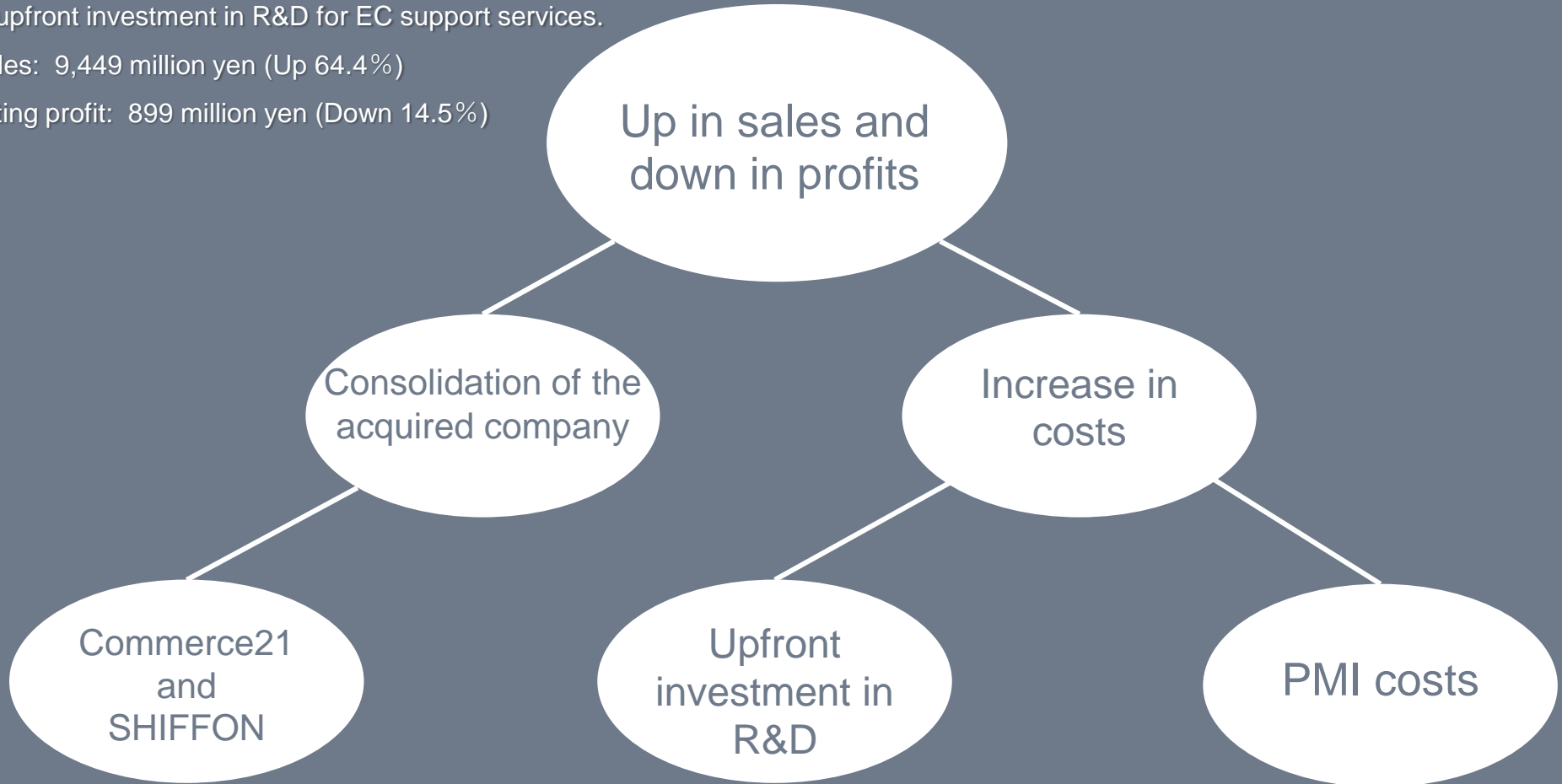


Summary

Up in sales and down in profits: Sales increased owing to the consolidation of the acquired company. Profits decreased due to the upfront investment in R&D for EC support services.

Net sales: 9,449 million yen (Up 64.4%)

Operating profit: 899 million yen (Down 14.5%)



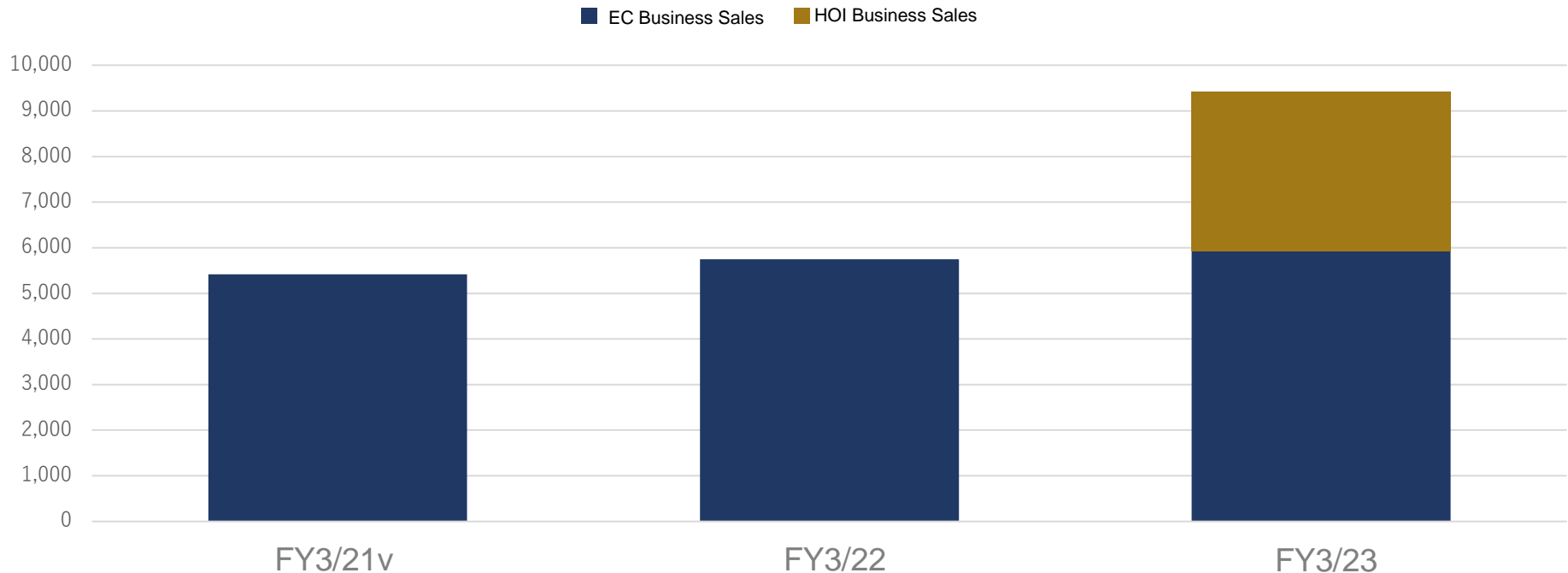
Functions for Shopserve large shops
(CRM, auto-scaling, etc.)

HOI Business: Double-digit growth in sales

Consolidated sales by segment

HOI (Hands-on Incubation) Business:

It is a joint business that focuses on M&A and aims for development through collaboration. By providing the knowledge, expertise, and funds accumulated by our company over the past 23 years in the D2C (Direct-to-Consumer) industry, we facilitate the growth of target companies.



SHIFFON

- Acquired in this period = HOI Business

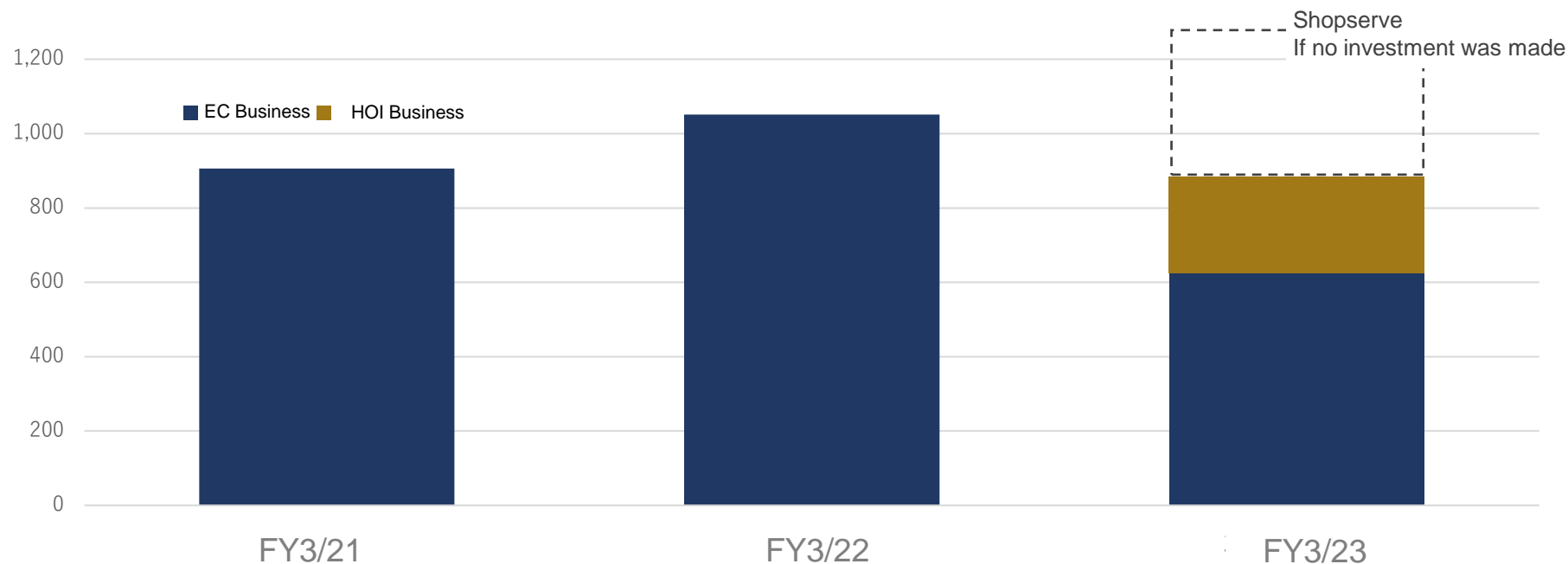
Commerce21

- Acquired in 2021 = Favorable performance

		(Million yen)		
		FY3/21	FY3/22	FY3/23
Sales		5,415	5,746	9,449
	EC Support	5,415	5,746	5,932
	HOI	—	—	3,516

Down in profits due to upfront investment in EC systems, etc. (1/2)

Consolidated operating profit by segment



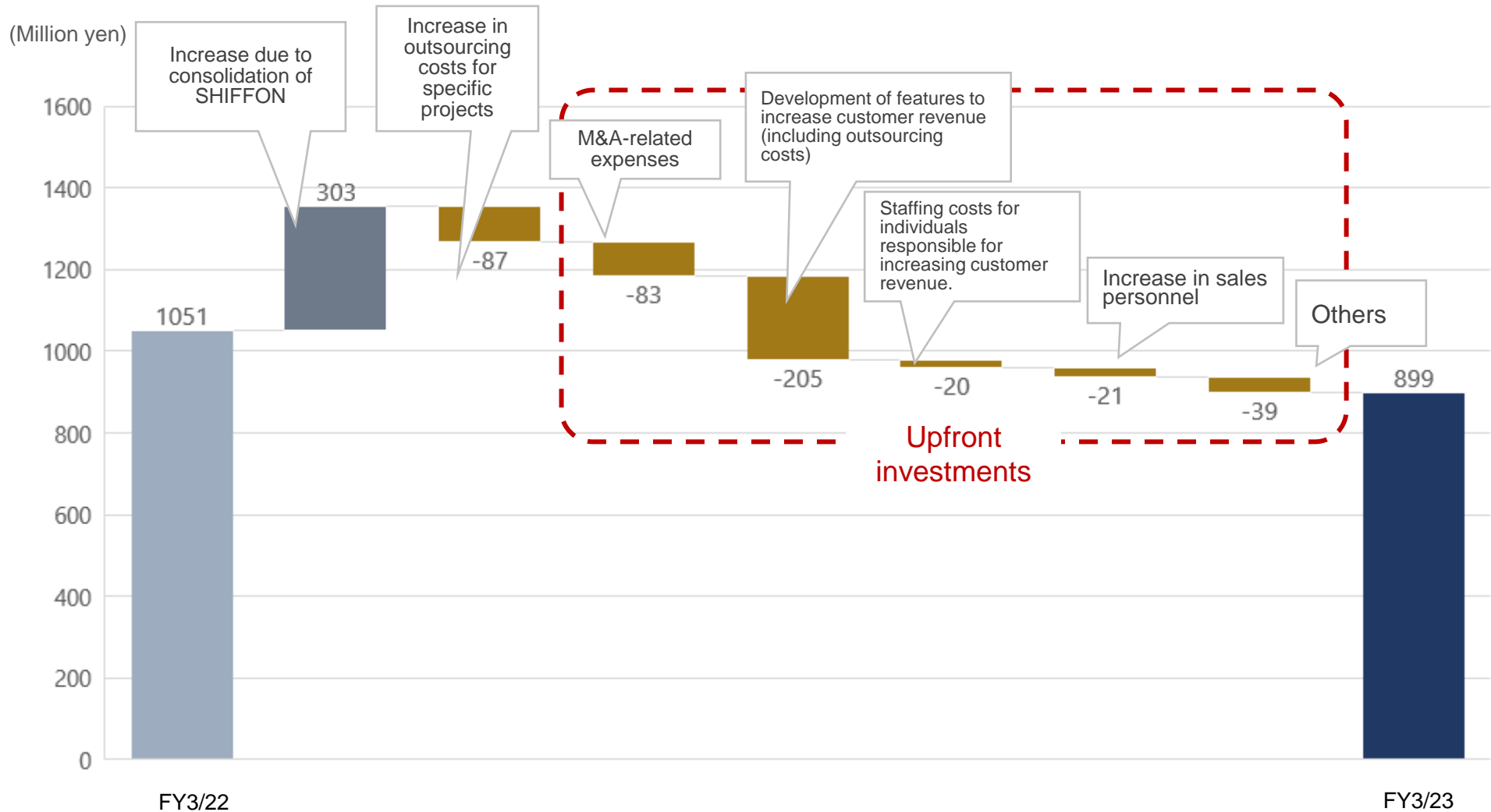
Shopservice

- Implemented a price increase for all customers (¥1,000 flat rate).
- Higher price range for new service plans.
- Implemented CRM functionality.
- Implemented TLS mail.
- Implemented auto-scaling.

(Million yen)		FY3/21	FY3/22	FY3/23
Operating profit		906	1,051	899
	EC Support	906	1,051	621
	HOI	—	—	278

Down in profits due to upfront investment in EC systems, etc. (2/2)

Operating profit analysis on changes



Up in sales thanks to the expansion of the HOI Business
Down in profits due to upfront investments

Expectation for FY3/24 results

(Million yen)	FY3/23 Results	FY3/24 Plan	YoY
Net sales	9,449	12,498	+32.3%
EC Business	5,932	6,165	+3.9 %
HOI Business	3,516	6,332	+80.0%
Operating profit	899	835	-7.2%
EC Business	621	486	-21.7%
HOI Business	278	349	+25.5%
Ordinary profit	751	Due to the difficulty in making reasonable predictions regarding factors such as exchange rate fluctuations, we have not disclosed the non-operating income and expenses at this point.	
Profit attributable to owners of parent	307		

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Review of the Medium-term Business Plan

Estore Corporation

Estore Group



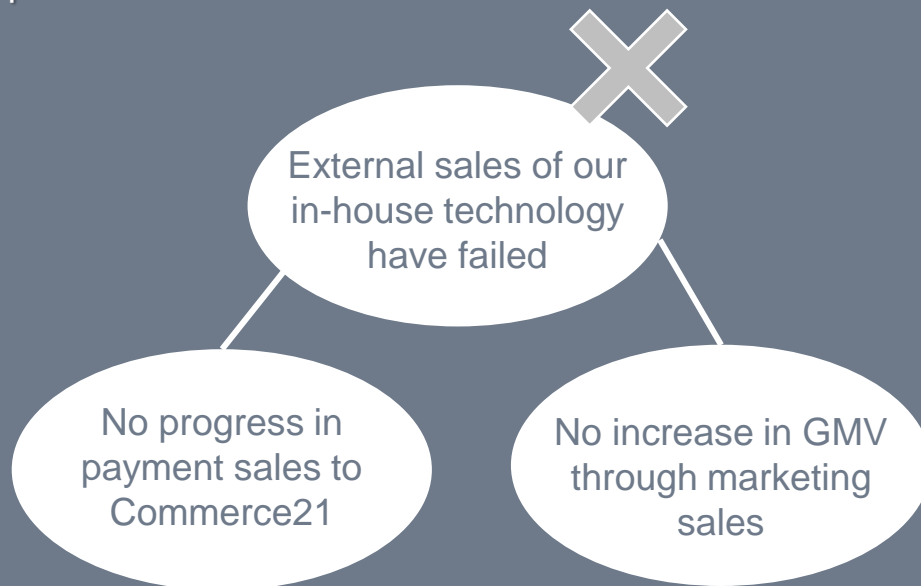
commerce21



S H I F F O N

Summary

- The methods of generating synergy after M&A have a 50-50 success rate.
- The initial strategy of cross-selling our in-house technology (payment, marketing, etc.) to external customers to expand payment revenue has failed.
- On the other hand, the strategy of providing our in-house technology to our own customers (M&A target companies) to enhance their value (Hands-on Incubation/HOI) has been successful.
- Therefore, going forward, we will steer our direction significantly towards the HOI strategy, which has a high rate of replicable success.



Defined the strategy of acquiring operating companies through M&A and supporting their digital transformation as the HOI strategy.

Failure: External sales of our in-house technology

Progress of
Medium-term Plan: 1

- In the mid-term business plan, we aimed to provide payment functionality from E-Store to Commerce21 and expand marketing support from WCA, as well as cross-selling to external customers in the EC support business. However, we did not achieve the expected results.
- The reason for the failure is that with the market expansion after COVID-19, competition in the EC support sector has intensified due to increased entry by competitors, which has hindered the provision of payment and marketing services and cross-selling efforts to external customers.
- We expect the external environment and trends to remain unchanged and further intensify in the future.
- Therefore, we are moving away from the policy of actively selling our in-house technology (payment and marketing) to external customers.

Synergy strategy in the medium-term plan:

1. Provide E-Store's payment function to Commerce21 after M&A.
2. Expand marketing support from WCA.

Material announced on May 15

Success: Internal provision of our in-house technology.

Progress of
Medium-term
Plan: 2

- On the other hand, the performance of the two companies we acquired through M&A, Commerce21 and SHIFFON, has grown significantly.
- The reason for this is that the target companies clearly lacked know-how, human resources, and management resources for EC growth, and by leveraging our know-how and resources (both personnel and funding), we were able to fill the obvious growth potential.

SHIFFON: EC support, management support.

Commerce21: Management support.

- Additionally, through this PMI (Post-Merger Integration) process, we have identified clear methods for value enhancement that are easy to replicate and have a high success rate. As a result, we have strong confidence in the success of the strategy of providing our in-house technology to our own customers and achieving value enhancement through the HOI (Hands-on Incubation) approach.

The HOI Business strategy, which accelerates growth through EC support for group companies, has achieved its plan two years ahead of schedule.

- Commerce21, which we acquired, achieved a five-fold growth in operating profit before the M&A.
- SHIFFON, a subsidiary of the HOI Business, has shown expected performance growth.

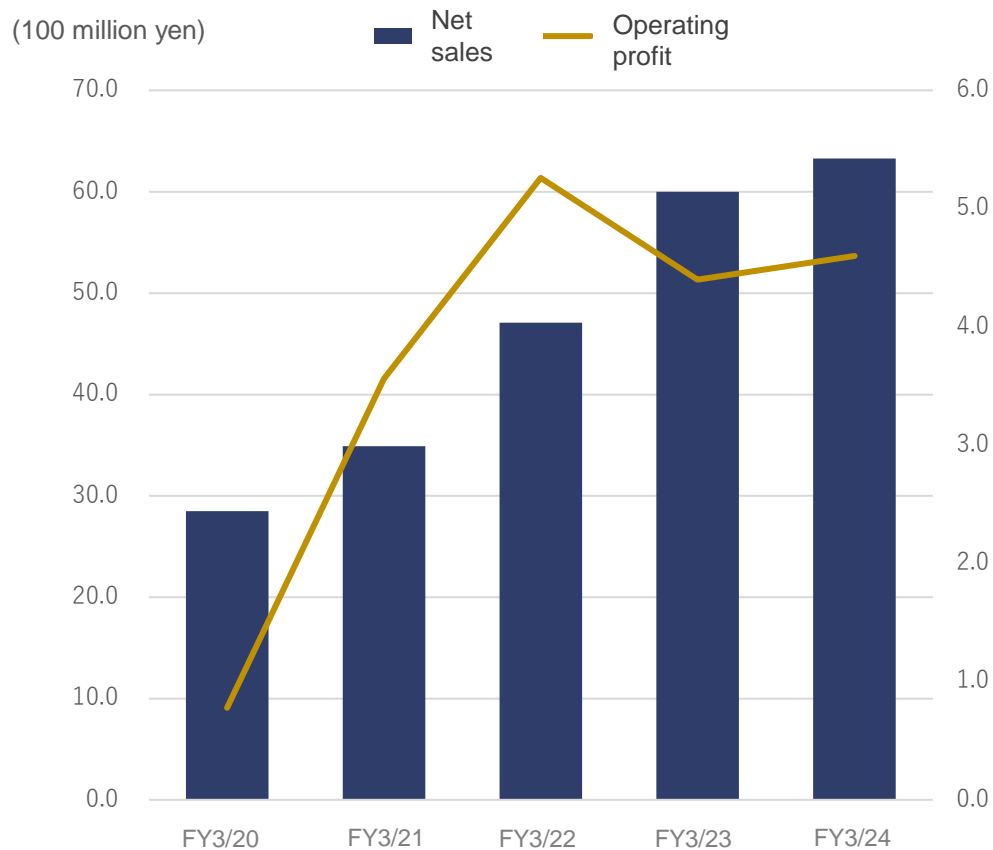
□ Material announced on
May 15

SHIFFON: shows steady growth and successful new business expansion

M&A case studies

Acquired as a subsidiary in August 2022, SHIFFON promotes new businesses related to cross-border e-commerce in addition to system development, operation, and marketing support for existing EC (e-commerce) businesses. In terms of management, support is provided for the company's organizational development aiming for an IPO.

Net sales/Operating profit



* The pre-consolidation figures are unaudited reference values.

Support details



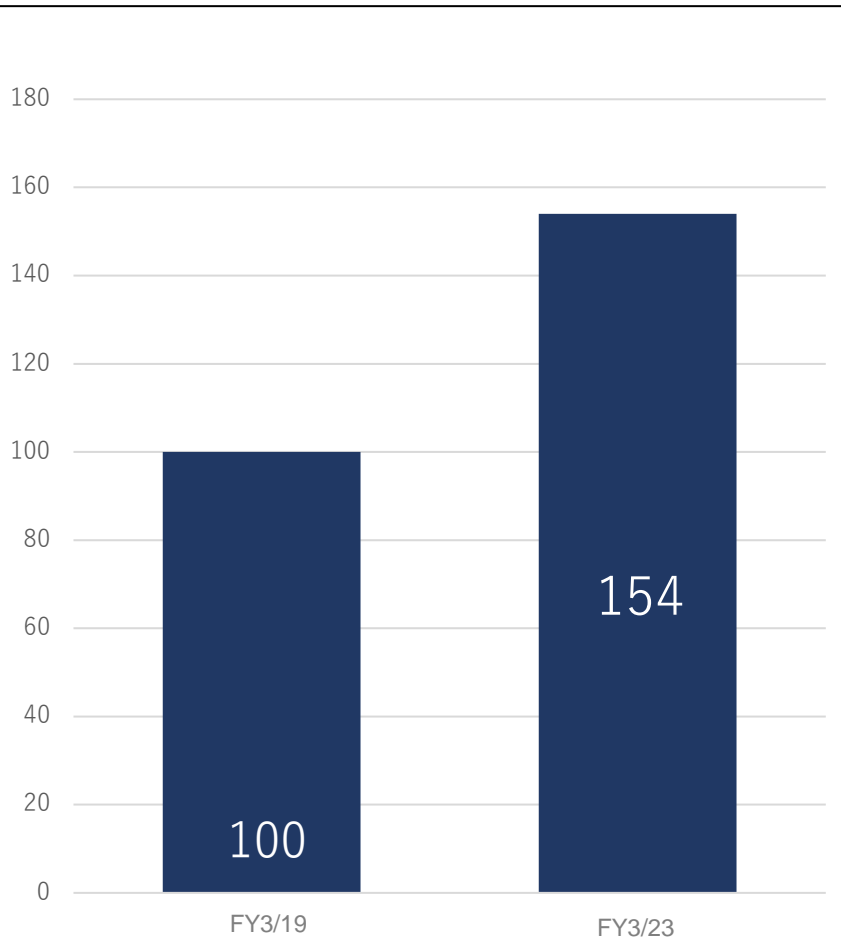
- Formation of a team to execute HOI for the company's EC Business, providing comprehensive support including EC shop construction and marketing.
- Promoting new businesses related to cross-border e-commerce. SHIFFON handles planning and procurement, while the Estore Group provides support in system development and marketing.
- Comprehensive support for the company's organizational development aiming for an IPO, including not only accounting work but also the establishment of accounting standards, internal controls, and negotiations with auditing firms and securities companies.

Commerce21: experiences rapid growth after M&A

M&A case studies

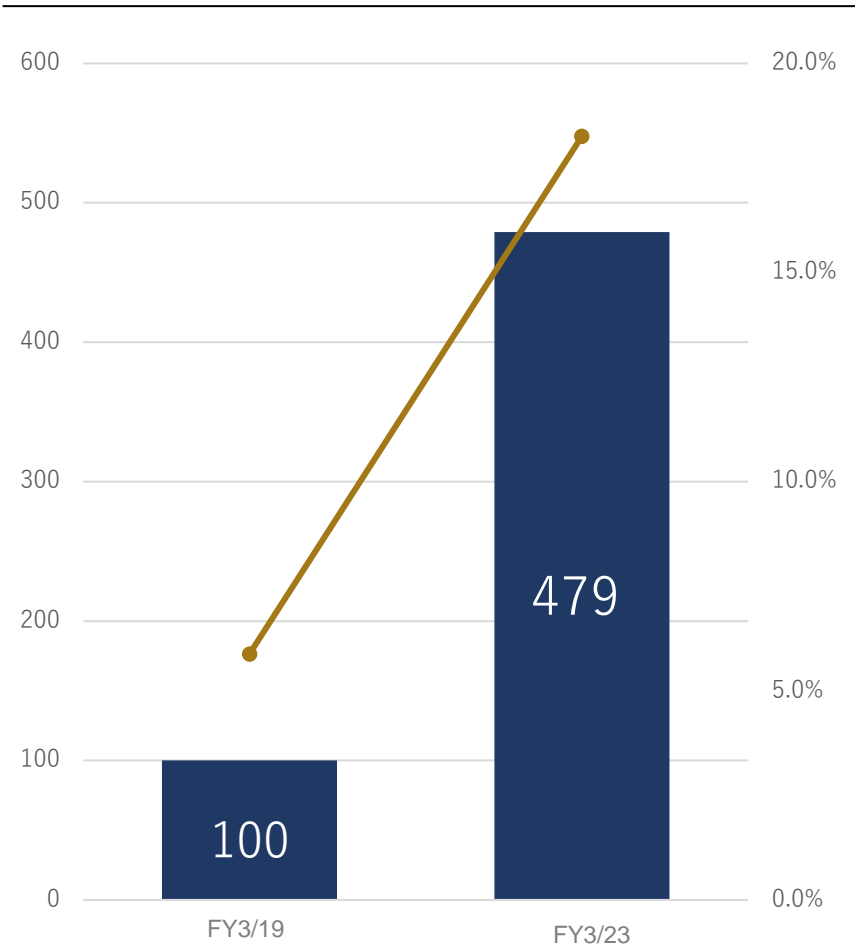
After being acquired from Yahoo in January 2020, Commerce21 underwent business strategy and operations review by the management team dispatched from our company, resulting in a 1.5-fold increase in net sales. Operating profit increased approximately five-fold through improved project management.

Net sales



* The figure for FY3/19 is set as 100

Operating profit/Operating profit margin



* The figure for FY3/19 is set as 100

May 22, 2023

Future Business Strategy and Outlook of the Medium-term Business Plan

Estore Corporation

Estore Group



commerce21



S H I F F O N

Future Business Strategy

With confidence in profit growth through the HOI Business, a shift in focus is planned.

Summary

By prioritizing management resources towards the HOI Business, we aim for significant growth as a whole company.

EC support business remains as cash cow:

While D2C (Direct-to-Consumer) is expected to accelerate in the future, the market is highly competitive, making substantial profit growth difficult.

Therefore, our company focuses on providing services to large, high-profitability customers, leveraging our strengths. The period from March 2023 to March 2024 is considered an investment period for the development of services targeting major customers.

Afterward, stable sources of income will be established.

Shifting the focus to the HOI Business:

Instead of providing support as an EC support business, we will commit to our own business and capture all business profits.

By leveraging our unique strengths, significant profit gains can be achieved while maintaining a certain level of risk control.

Investment in companies with a unique position in the market (M&A, joint ventures, revenue sharing) is prioritized.

EC support business aims for stable growth, targeting significant growth as a hands-on business:

EC Business market environment:

- The growth of the DX (Digital Transformation) demand remains, while EC support is already highly competitive.

- The CAGR (Compound Annual Growth Rate) of the IT market from 2022 to 2027 is 2.9%, indicating moderate growth.
- The number of companies entering the EC support market increased by approximately 20% from 2016 to 2021, intensifying competition.
- The average price in the EC support market decreased by approximately 10% from 2016 to 2021, leading to lower profitability.
- Shortage of IT personnel supply, with a gap of 450,000 IT personnel demand and supply by 2030, resulting in a shortage of personnel and rising labor costs.

IT Services Market Forecast, Ministry of Economy, Trade and Industry's survey on IT personnel supply and demand.



- In the future, we do not anticipate significant growth in the EC support business (assuming stability with some additional growth).
- However, we have successfully differentiated ourselves in providing EC support for large clients, and this is an area where we see potential for growth.
- The ongoing development investments we are making are essential systems for expanding payment revenue from large clients (auto-scaling: a system to prevent missed sales during peak times, CRM: strengthening email magazine distribution).
- In addition to contributing to improved customer satisfaction and preventing customer churn, this area has a high likelihood of increasing payment commission revenue through increased transaction volumes. We have determined that the investment return justifies the cost.
- After the completion of these initial investments, the EC support business will become a cash cow.

HOI, which stands for capturing the entire business profit generated from EC support.

Moving forward, we will further shift our focus to the HOI Business model, where we directly invest in companies that offer unique products and services and capture the entire business profit generated from EC support (including revenue sharing, joint ventures, M&A, etc.).

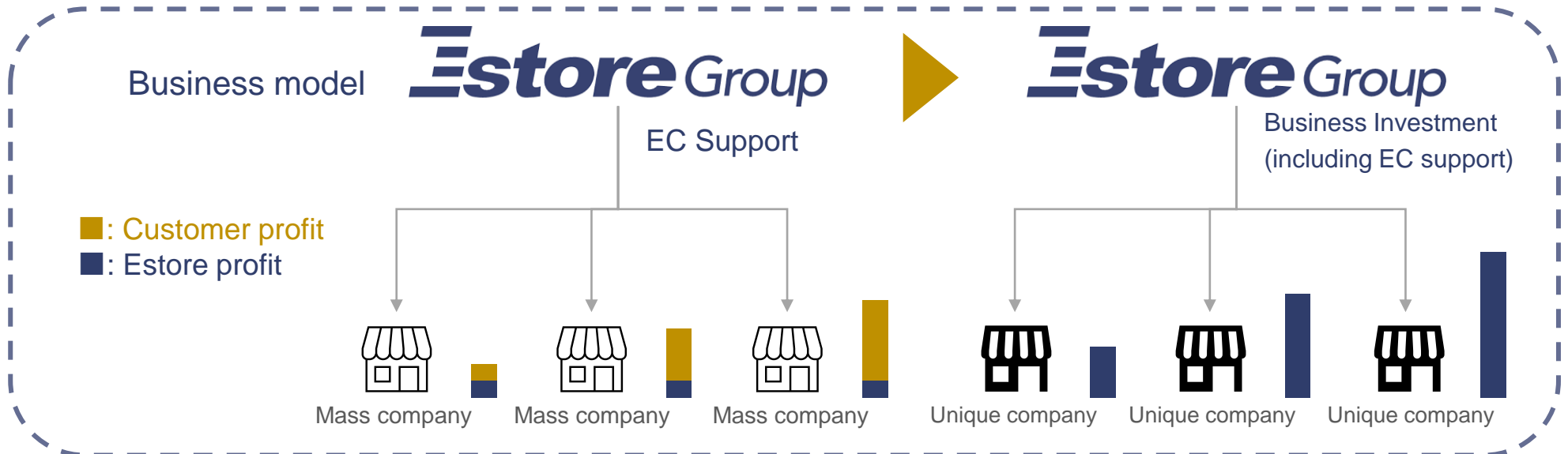
Previous state:

- We have been providing only EC support and earning a certain fee income regardless of the profitability of the supported companies. It is a **low-risk, low-return** business model.
- Although there is room for an increase in the number of cases as D2C (Direct-to-Consumer) accelerates, **it is difficult to expect significant profit growth** due to intensifying competition.



Future goals:

- We will dive into business investments in companies that offer unique products and services, **capturing all the business profits generated from EC support** through revenue sharing, joint ventures, M&A, etc.
- By leveraging our unique strengths and committing to business growth, we can **achieve significant profit gains** while mitigating risks.



We anticipate that real-world activities and consumption will become more active.

As values diversify, there is an increasing focus on unique products with distinctive technology and stories.

The era where simply purchasing and owning something represents wealth is passing, and in the future, it will be difficult to survive without being a company that deals with products that people can find value in.

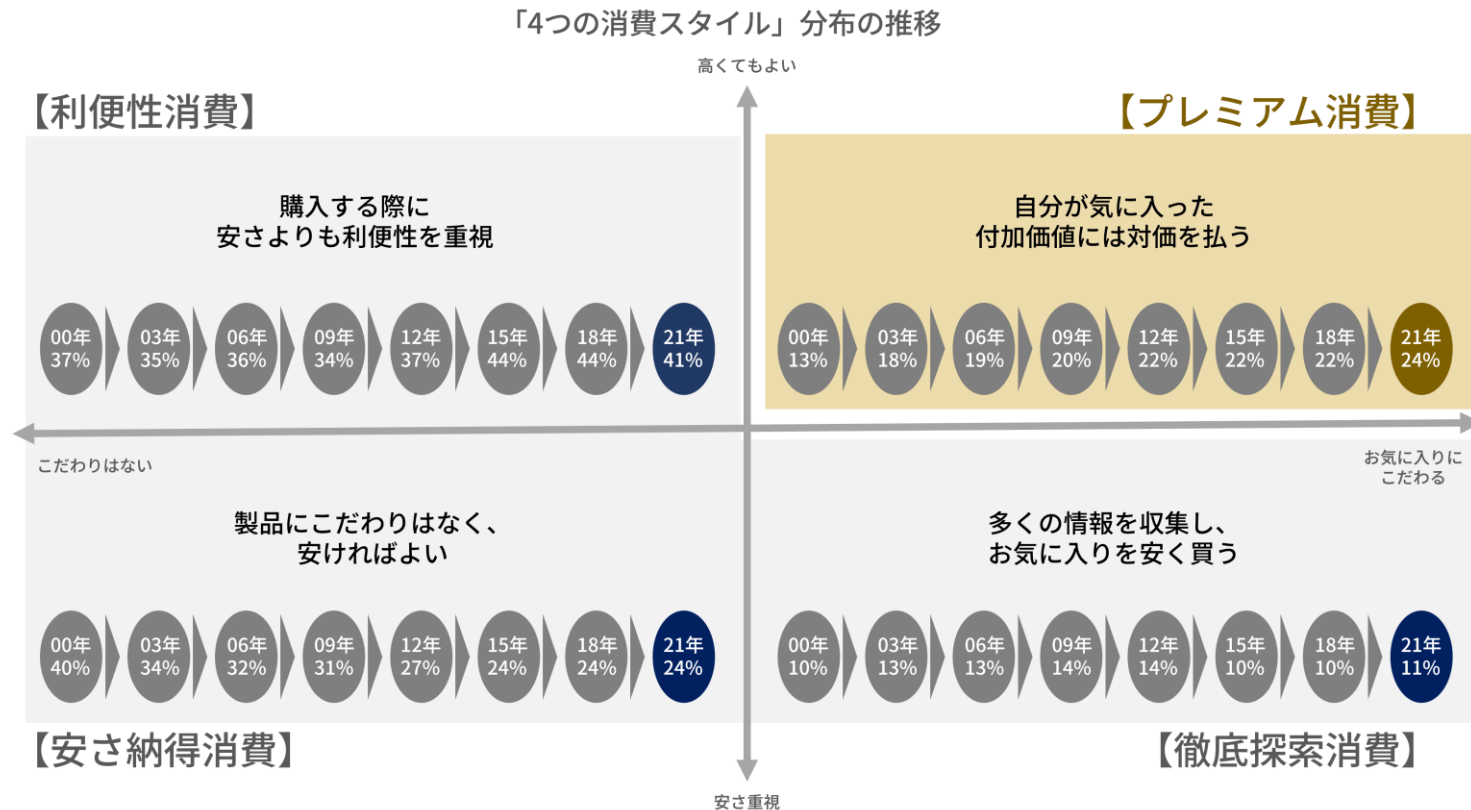
In our company, we aim to expand the revenue of target companies and simultaneously grow our own business by investing our DX knowledge and funds into companies with unique products.

We anticipate that companies with unique products that align with each individual's values will form and grow their respective markets.

Taking advantage of this situation, we will strengthen our investments in the HOI Business and promote business expansion throughout the group.

Expansion of 'premium consumption', where people pay more for added value they like, even if it is expensive.

In the HOI Business, we target companies that offer unique products, and these companies have an advantage in a market environment where premium consumption is on the rise.



Source: NRI "Survey of 10,000 Consumers" (2000, 2003, 2006, 2009, 2012, 2015, 2018, 2021) Copyright © Nomura Research Institute, Ltd. All rights reserved.

The HOI Business targets companies that will grow together as partners.

Desirable company profile:

- 1) Companies involved in manufacturing, production, or other areas related to tangible products or services.
- 2) These products or services have uniqueness and distinctiveness, aiming to be "the only one" rather than simply being the number one (which aligns well with our expertise in D2C).
- 3) They are interested in working together as partners to achieve business growth, including expanding and improving their business, performance, impact, and worldview.
- 4) They are interested in expanding their performance and business scale, rather than focusing on revival, succession, or exit (with the condition that the president and employees remain in the company).
- 5) They already have self-sustainability and consistently generate profits.
- 6) We will not pursue 100% M&A as our goal is to sweat together and share the rewards (we anticipate acquiring more than 50% up to 80% of shares).

* Existing shareholders will exit by selling a portion of their shares, and then we will work together as partners to develop the business and enjoy the fruits of success.

* If possible, we aim for an IPO, and if not, we will pursue a long-term dividend sharing model to grow and earn together.

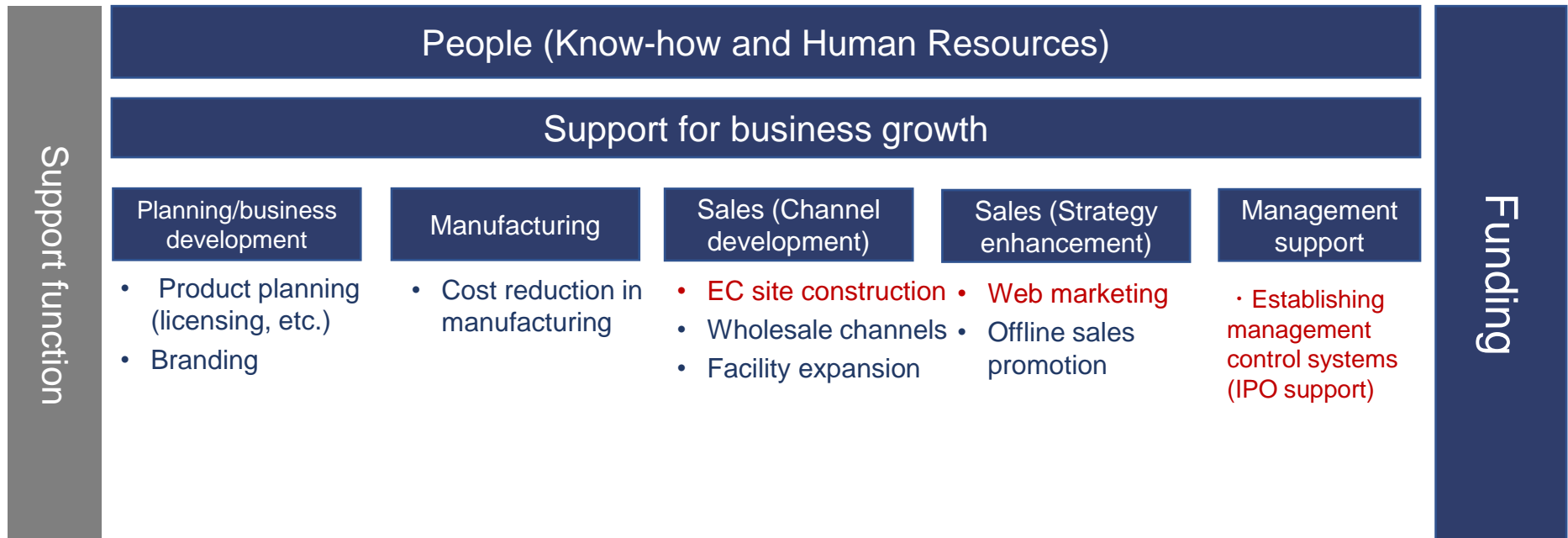
* The main image is companies with annual sales of 1 to 5 billion yen, with a profit margin of 10% or more, cash and deposits accounting for 20% or more, and interest-bearing debt accounting for less than 30%.

HOI is an extension of the EC support we have developed in the past and our strengths can be used.

HOI Business -
Our Unique
Strengths

Our mission has always been to maximize client performance through the EC Support business, and this remains unchanged to this day.

In fact, HOI Business is an extension of the EC Support business, a strategy that aims to grow the business by mobilizing all of the Group's people, goods and money.



Note: Red text represents areas where our company excels, while blue text indicates areas of cross-industry enhancement.

- **Deep understanding of the needs of target companies**

We have identified that many of our main customers in the hands-on segment, with annual sales ranging from 500 million to 5 billion yen, are struggling with a lack of expertise in EC systems and human resources. As a result, we have a high resolution of the needs of these target companies.

- **Well-established unique routes cultivated over the years in business development**

- Our customer base (over 7,000 companies)
- Strategic partners
- Business owners and advisory networks

- **Extensive sourcing networks**

- Financial institutions, advisors, funds
- Operating companies
- Our customer base

- Discerning companies based on extensive results in EC growth support

During due diligence, we focus on verifying:

- 1) Growth potential of the target company's products
- 2) Uniqueness of the products
- 3) Independence of the organization
- 4) Contribution potential of our company (synergy)

- Ability to present persuasive improvement plans based on abundant results in EC growth support

In negotiations with potential acquisition targets, we can differentiate ourselves by offering our EC support expertise and resources.

③ Value Enhancement Capability

HOI Business
- Our Unique
Strengths

- Comprehensive value enhancement that cannot be replicated by other companies, thanks to our extensive expertise from systems to marketing in EC support

Many companies have not fully implemented basic EC measures, leaving significant room for improvement through our support.

- We provide support not only for business operations but also for strengthening management systems, including IPO preparations.

By fully providing our expertise and resources to the acquired companies and committing to EC improvement, we can consistently generate an average of around 2 in profit improvement (achieving investment returns).

- Acquisition of SHIFFON provides comprehensive insights into the apparel industry. In the future, we plan to apply similar approaches in other industries such as the food industry.

By utilizing the resources of the apparel business, including branding, manufacturing, and sales channels held by SHIFFON, we can achieve value enhancement beyond EC improvement through management support for our clients and future acquisition targets.

Similar utilization of acquired expertise in other industries can also contribute to the enhancement of customer and acquisition target value.

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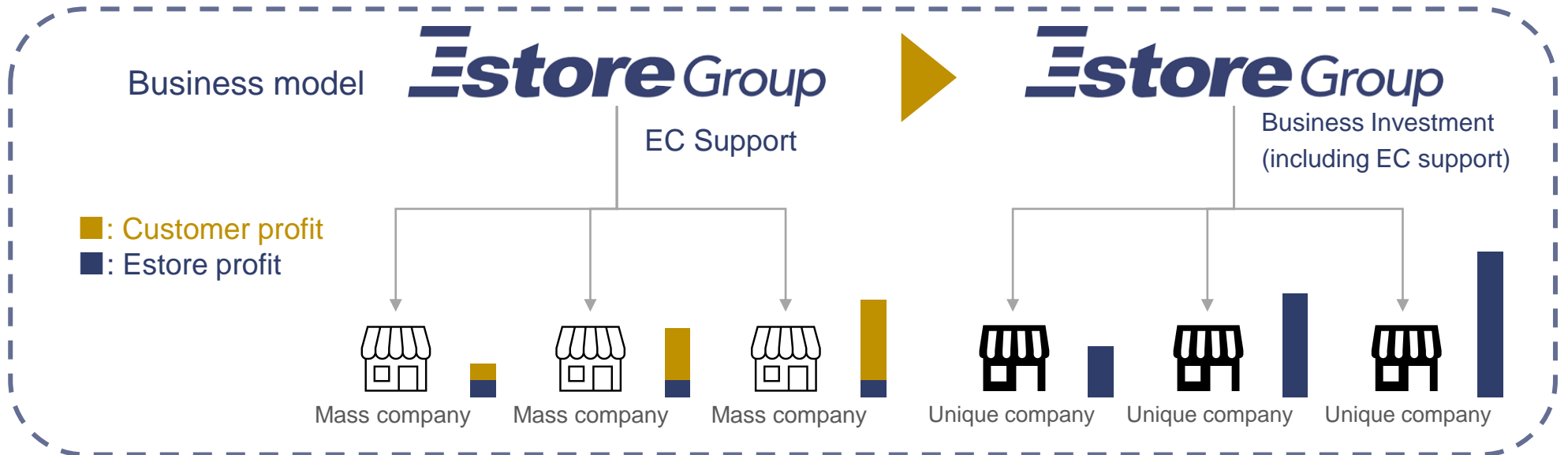
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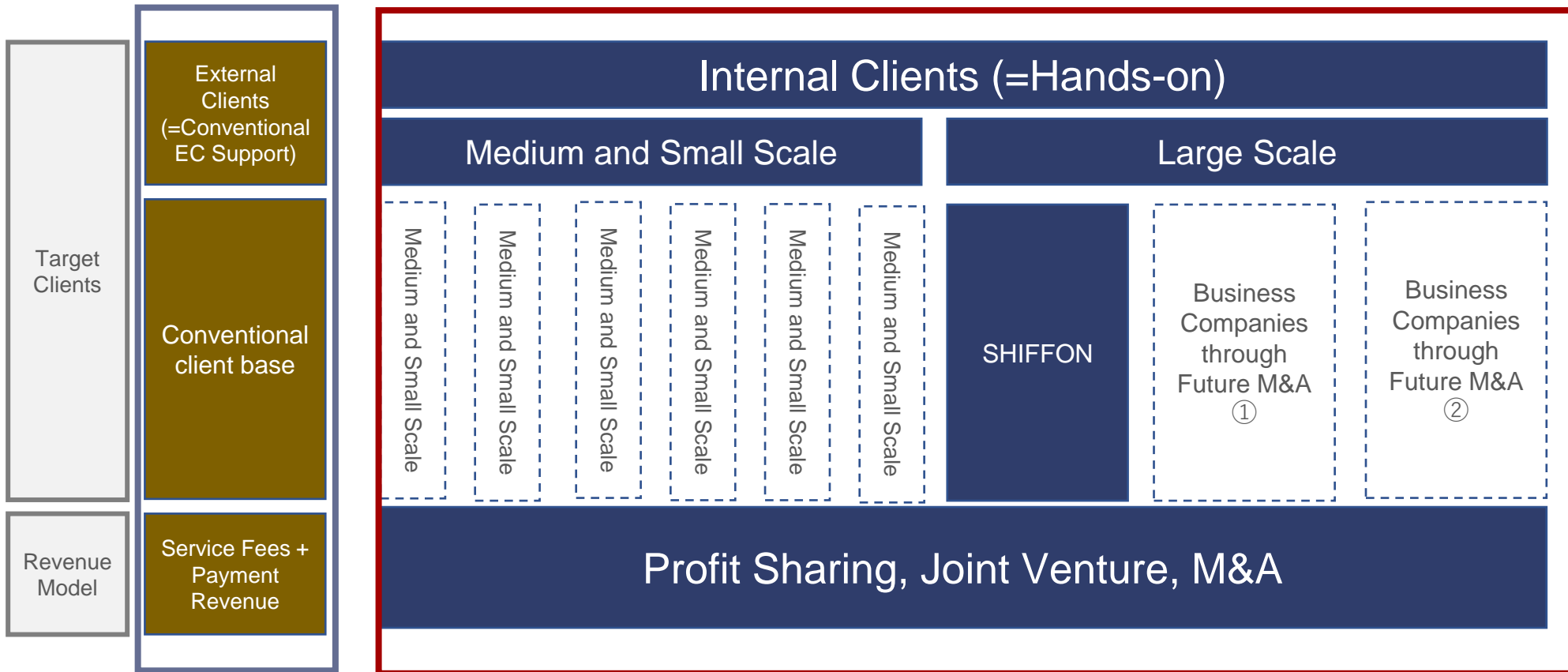
EC support as a cash cow

Significant growth expected through the HOI Business

Vision as a Group

Current major areas

Areas to be Strengthened in the Future



Outlook for Medium-term Business Plan

Operating profit of ¥2 billion achievable in the Medium-term Plan

Projected figures for Medium-term Business Plan

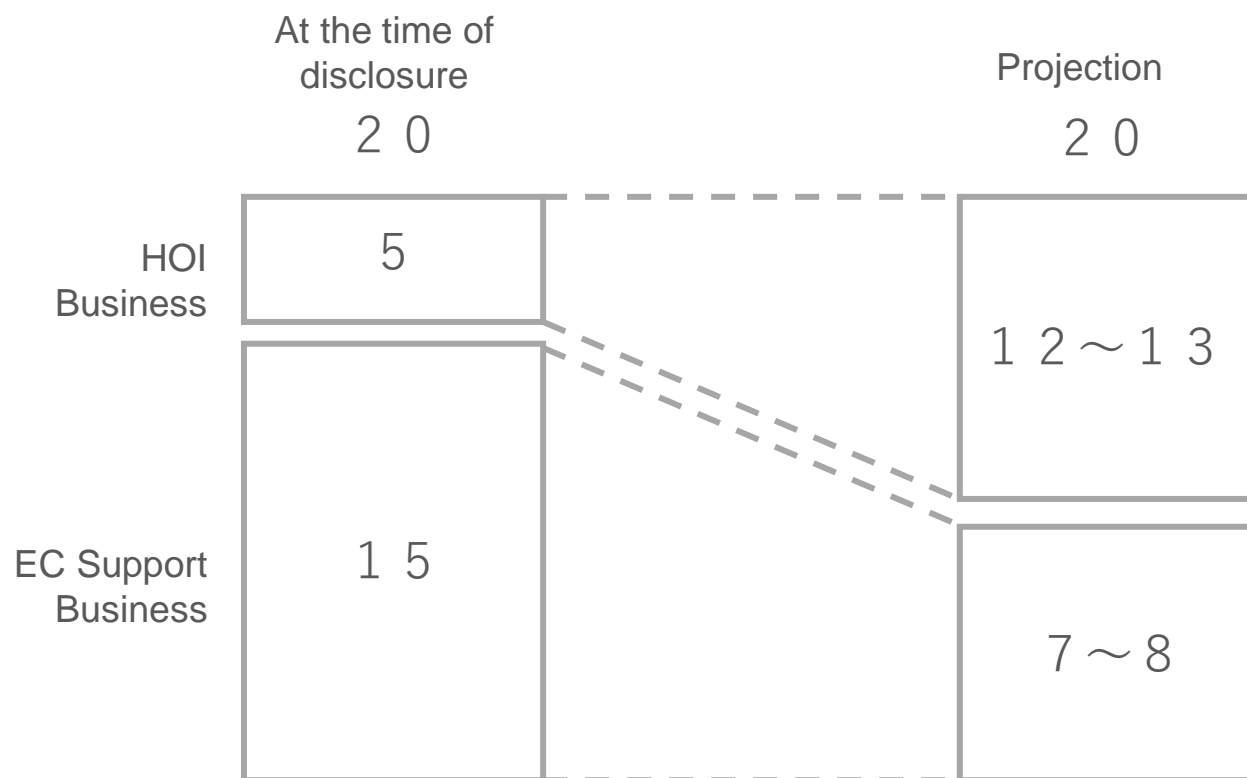
Achieving operating profit of ¥2 billion in the Mid-term Plan through the expansion of HOI Business

EC Support Business

- No significant growth expected in e-commerce support
- Preceding investments largely completed by FY3/24 → Reduction of investment costs and expansion of revenue
- Growth expected in services for large-scale clients

HOI Business

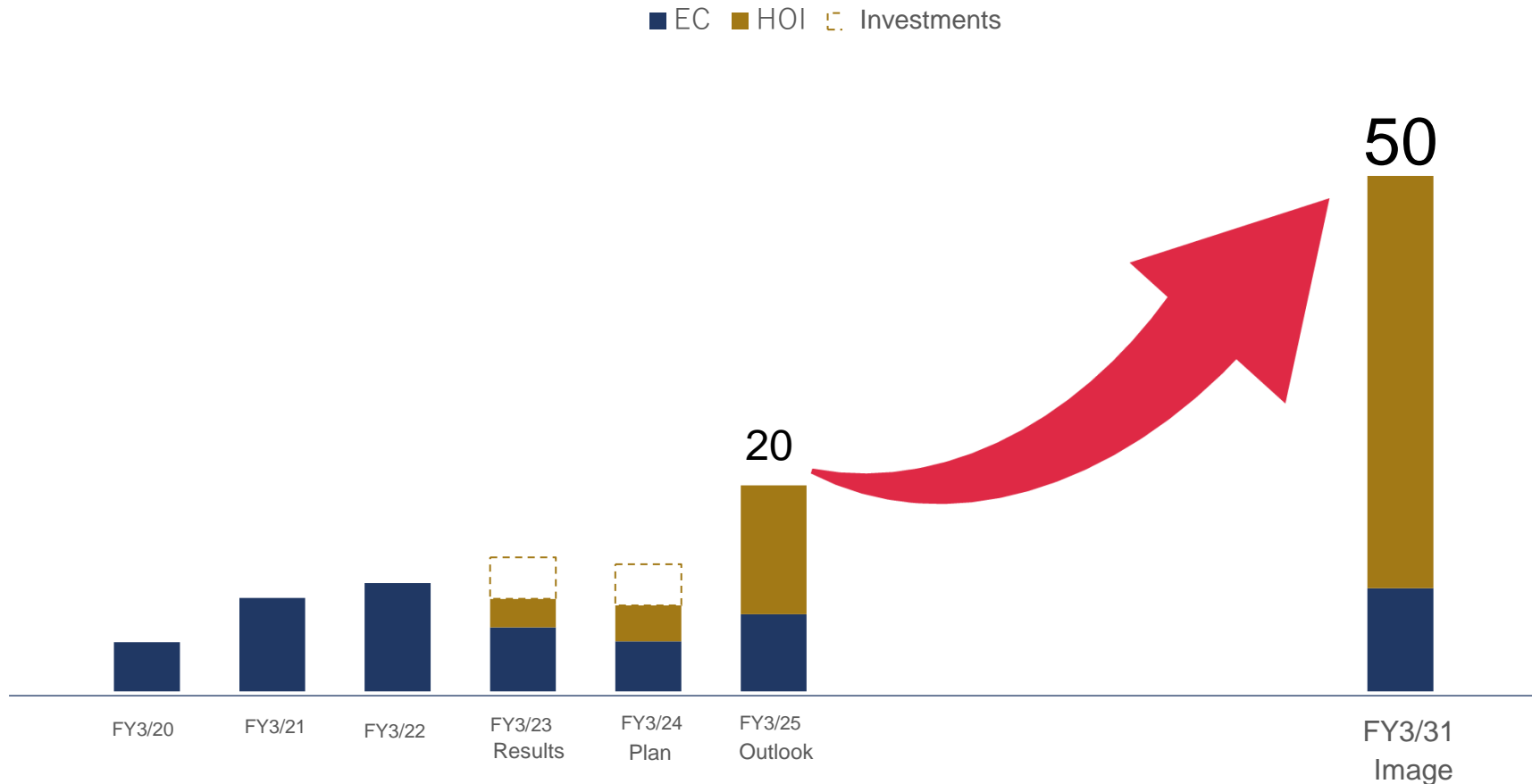
- SHIFFON is expected to achieve an operating profit of ¥600-700 million by March 2025
- Multiple M&A projects currently underway for HOI



Aiming for operating profit of ¥5 billion

Future Outlook

By further actively promoting the expansion of HOI Business, aiming for a growth to an operating profit of ¥5 billion by FY3/31



Considering shareholder returns while prioritizing HOI investments and maintaining a balance

Investment for growth through cash flow and leverage of existing businesses. Prioritizing HOI investments for long-term maximization of corporate value and considering shareholder returns through internal reserves and balance.

Fundraising

Current Situation

- ✓ Stable cash flow generated from existing businesses (E-commerce Support)
- ✓ Healthy financial structure even after large-scale acquisition of SHIFFON

Future

- ✓ Policy to address the funding needs of large-scale M&A and others through leverage-based fundraising
- ✓ With the group's growth, the overall borrowing capacity of the group is expected to improve
- ✓ Planned promotion of IPOs for group companies (SHIFFON, Commerce21, etc.)

Allocation

Investment

- ✓ Investment in HOI Business for long-term maximization of corporate value

Shareholder Returns

- ✓ Prioritize internal reserves necessary for HOI investments
- ✓ Consideration of surplus amounts based on the above

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