



Estore Corporation / 4304

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

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Executive summary

Business overview

- Estore Corporation and its group companies offer comprehensive B2B services related to the development and operations of e-commerce websites. Its business consists of E-commerce systems (37.1% revenue share in FY03/21), Payment settlement services (22.5%), and Marketing services (40.0%). The E-commerce systems business provides a service to help customers build their own e-commerce sites. The Payment settlement services business processes payments for e-commerce sites. Marketing services business supports customers' sales promotion activities. The company acquired Commerce21 Corporation, a systems development company in January 2020, and WebCrew Agency Inc., an advertising agency, in March 2020. These acquisitions enabled the company to build a customer base that ranges from SMEs with annual revenue of around JPY1.0bn to large enterprises with annual revenue of around JPY100bn.
- Earnings structure of E-commerce systems:** The business supplies shopserve (e-commerce system for SMEs), and Sell-Side Solution and ECo2 (e-commerce systems for large corporations). shopserve is a cloud-based (SaaS) e-commerce system that earns recurring revenue (number of customers x monthly fixed fees) and royalty revenue (GMV x payment settlement fee rate; see section on Payment settlement services below). Sell-Side Solution is a service for companies building e-commerce websites using their own servers. It earns royalty revenue in the form of a system integration fee (contracted revenue = number of new customers x order unit price) plus revenue from additional system development and contracted work (number of existing customers x percentage of customers that order additional system development x unit price of additional development). It also earns recurring revenue in the form of maintenance and operation fees. ECo2 is a service that supports the building of e-commerce systems that use rental servers.
- Earnings structure of Payment settlement services:** A service that processes payments of customer companies' e-commerce websites on their behalf. Revenue consists of payment settlement fees (number of customers x GMV x payment settlement fee rate). Shared Research estimates that the payment settlement fee rate based on shopserve GMV of JPY79.3bn in FY03/20 and payment settlement fee revenue (small fee linked to GMV; JPY1.9bn) was 2.4%. The company started providing a new payment settlement service to customers of Commerce21, who are mainly large corporations.
- Earnings structure of Marketing services:** The company's sales promotion services comprise survey analysis, strategy formulation, and consulting; customer acquisition outsourcing; outsourced production; and outsourced operations. The company offers highly itemized pricing options ranging from JPY10,000 to over JPY1mn. For the Full Assist Plan, a one-stop service including survey, analysis, strategy formulation, production, and customer acquisition services, the company offers pricing plans such as JPY1mn per month (six months for JPY6mn) and JPY5mn per month (six months for JPY30mn).
- Ecosystem of three Estore businesses:** The company builds and operates e-commerce websites for customer companies (E-commerce systems) and provides marketing services that help them grow their revenues (Marketing services). If the marketing services produce an increase in GMV at the customer's e-commerce site, the company provides a payment settlement service (Payment settlement services) to support customers from the payments side as well. According to Estore, customers' earnings growth starts a virtual cycle of an emerging need for further development (additional features) of e-commerce systems, which leads to attracting new customers. The parent company believes that the integration of Commerce21 and WebCrew Agency will provide access to large corporations with ample e-commerce budgets, enable upselling to customers of the parent company, and raise order unit prices.
- Shift in focus business:** The company is shifting its focus from general purpose ASP systems for small e-commerce operators (shopping carts) to dedicated converged e-commerce systems (package systems) for large corporations. In other words, it has been shifting focus from the Systems business to the Marketing business. Additionally, the company is working to strengthen its customer base of large corporations in the Marketing business. There are about 8,000 companies (stores) using Estore's shopserve e-commerce system, most of which are SMEs. The company has intentionally narrowed its focus on larger and more profitable customers. As a result, annual customer GMV per store rose from JPY5.7mn in FY03/14 to JPY12.4mn in FY03/21. In the longer term, the company expects the number of customer companies to contract to around 5,000–7,000 (stores).

Trends and outlook

- ▶ In FY03/21, Estore reported full-year revenue of JPY10.5bn (+116.5% YoY), operating profit of JPY907mn (+89.7% YoY), recurring profit of JPY1.1bn (+104.0% YoY), and net income attributable to owners of the parent of JPY483mn (+31.3% YoY). Revenue benefited from contributions from Commerce21 and WebCrew Agency, consolidated subsidiaries acquired in FY03/20, from FY03/21. In terms of profits, the COVID-19 pandemic drove companies to accelerate their digital transformation initiatives while also triggering stay-at-home demand, which in turn boosted revenue at the company group, whose business is centered on e-commerce, and led to higher operating profit YoY.
- ▶ The company will begin applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) in FY03/22. The company's full-year FY03/22 forecast (and YoY comparisons) under the new revenue recognition standard calls for revenue of JPY5.9bn (+9.0% YoY), operating profit of JPY1.0bn (+12.6% YoY), recurring profit of JPY1.1bn (-0.3% YoY), net income attributable to owners of the parent of JPY740mn (+53.5% YoY), and annual dividend per share of JPY32.00 (JPY32.00 in FY03/21). This forecast is consistent with the medium-term management plan. The company expects e-commerce consumption to remain strong in FY03/22, but believes it is unlikely to grow as rapidly as it did in FY03/21, when the company benefited from a temporary surge in demand.
- ▶ Estore on November 12, 2020 announced the formulation of Dynamic Ascension, its new, five-year medium-term management plan starting in FY03/21 with FY03/25 as its final year. The company bolstered the group's operating base as a medium- to large-scale e-commerce support provider by acquiring two companies through M&A in January and March 2020. The company aims to roughly double its revenue (based on new revenue recognition standard) from JPY5.5bn in FY03/21 to JPY10.1bn in FY03/25 and quadruple its operating profit to JPY2.0bn over the same period. Key group strategies are increasing earnings and reducing costs through group synergies and focusing on recurring revenue. The company also aims to harness the know-how it has gained over 20 years in the business to expand into hands-on DX (making partner companies' businesses its own) as well as actively engage in capital and business alliances and M&A.

Strengths and weaknesses

- ▶ Shared Research believes the company's strengths include: 1) over 20 years of experience and expertise in launching and operating e-commerce sites for small e-commerce operators; 2) attractive revenue mix in the sales systems business serving as a revenue base for the sales promotion services business; and 3) competitive advantage built on its specialized trade consulting approach as a part of its differentiation strategy.
- ▶ Weaknesses include: 1) positioning between dominant e-commerce marketplaces such as Amazon and instant e-commerce platforms with free plans; 2) slow shift toward new business and large enterprise customers amid the increasing commoditization of e-commerce systems for SMEs; and 3) lack of HR development capabilities to serve the needs of major projects for large customers.

Key financial data

Income statement (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
Consolidated	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons.	Cons. Est.
Revenue	5,337	5,963	5,871	5,772	5,724	-	-	4,932	4,853	10,505	5,900
YoY	-	11.7%	-1.5%	-1.7%	-0.8%	-	-	-	-1.6%	116.5%	-
Gross profit	1,768	1,850	1,847	1,740	1,825	-	-	1,490	1,504	2,613	
YoY	-	4.6%	-0.1%	-5.8%	4.9%	-	-	-	0.9%	73.7%	
Gross profit margin	33.1%	31.0%	31.5%	30.1%	31.9%	-	-	30.2%	31.0%	24.9%	
Operating profit	498	645	552	572	619	-	-	516	478	907	1,020
YoY	-	29.5%	-14.5%	3.7%	8.3%	-	-	-	-7.3%	89.7%	-
Operating profit margin	9.3%	10.8%	9.4%	9.9%	10.8%	-	-	10.5%	9.9%	8.6%	17.3%
Recurring profit	504	659	554	576	621	-	-	583	527	1,074	1,070
YoY	-	30.9%	-16.0%	4.0%	7.7%	-	-	-	-9.6%	104.0%	-
Recurring profit margin	9.4%	11.1%	9.4%	10.0%	10.8%	-	-	11.8%	10.9%	10.2%	18.1%
Net income	281	390	324	333	403	-	-	410	368	483	740
YoY	-	38.8%	-16.9%	2.8%	21.1%	-	-	-	-10.3%	31.3%	-
Net margin	5.3%	6.5%	5.5%	5.8%	7.0%	-	-	8.3%	7.6%	4.6%	12.5%
Per-share data (split-adjusted; JPY)											
Shares issued (year-end; '000)	10,327	10,326	10,327	20,654	20,654	-	-	5,161	5,161	5,399	
Treasury shares ('000)	9	911	2,145	4,397	5,166	-	-	387	388	388	
EPS	6,601.3	91.7	97.9	55.7	75.4	-	-	79.7	77.0	100.3	
EPS (fully diluted)	6,599.8	91.6	97.9	55.7	75.4	-	-	75.0	64.0	84.1	
Dividend per share	11.5	14.0	15.5	17.0	24.0	-	-	29.0	29.0	32.0	32.0
Book value per share	211	246	165	201	197	-	-	294	366	468	
Balance sheet (JPYmn)											
Cash and cash equivalents	2,327	2,874	2,005	2,311	2,385	-	-	2,977	3,289	4,768	
Total current assets	3,326	3,695	2,847	3,118	3,058	-	-	3,710	4,970	6,395	
Tangible fixed assets	187	198	159	103	82	-	-	107	263	315	
Investments and other assets	189	258	245	279	256	-	-	622	845	900	
Intangible assets	310	282	216	122	109	-	-	57	1,298	995	
Total assets	4,013	4,434	3,468	3,622	3,506	-	-	4,496	7,376	8,604	
Short-term debt	6	7	106	103	326	-	-	1	166	416	
Total current liabilities	2,178	2,293	2,291	2,341	2,471	-	-	2,066	3,538	4,477	
Long-term debt	26	20	139	43	19	-	-	1,026	1,943	1,634	
Total fixed liabilities	26	20	139	43	19	-	-	1,026	2,091	1,784	
Total liabilities	2,203	2,313	2,430	2,384	2,490	-	-	3,091	5,629	6,261	
Shareholders' equity	1,795	2,087	996	1,183	1,012	-	-	1,403	1,747	2,336	
Total net assets	1,809	2,121	1,038	1,238	1,015	-	-	1,404	1,747	2,344	
Total liabilities and net assets	4,013	4,434	3,468	3,622	3,506	-	-	4,496	7,376	8,604	
Total interest-bearing debt	21	15	233	127	329	-	-	1,000	2,052	1,967	
Cash flow statement (JPYmn)											
Cash flows from operating activities	593	828	444	678	613	-	-	-27	596	1,661	
Cash flows from investing activities	-82	-588	283	-122	-163	-	-	-350	-1,168	-198	
Cash flows from financing activities	-159	-104	-1,198	-252	-376	-	-	513	885	15	
Financial ratios											
ROA (RP-based)	12.6%	15.6%	14.0%	16.3%	17.4%	-	-	13.0%	8.9%	13.4%	
ROE	15.7%	20.1%	21.0%	30.5%	36.7%	-	-	29.2%	23.4%	23.7%	
Equity ratio	44.7%	47.1%	28.7%	32.7%	28.9%	-	-	31.2%	23.7%	27.1%	
Total asset turnover	133.0%	141.2%	148.6%	162.8%	160.6%	-	-	109.7%	81.8%	131.5%	
Net margin	5.3%	6.5%	5.5%	5.8%	7.0%	-	-	8.3%	7.6%	4.6%	
No. of employees (ex. temporary workers)	138	137	141	154	155	-	-	143	280		
No. of temporary workers (average)	19	28	29	28	36	-	-	38	31		

Source: Shared Research based on company data

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) in April 2021. Note that the FY03/22 company forecast is also based on this accounting standard.

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Per share metrics revised retroactively.

Income statement (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Par. Est.
Revenue	4,251	4,493	4,526	4,337	4,660	4,775	5,044	4,926	4,830	5,564	
YoY	4.5%	5.7%	0.7%	-4.2%	7.5%	2.5%	5.6%	-2.3%	-2.0%	15.2%	
Gross profit	1,725	1,727	1,729	1,649	1,769	1,548	1,449	1,490	1,504	-	
YoY	-3.2%	0.1%	0.1%	-4.6%	7.3%	-12.5%	-6.4%	2.8%	0.9%	-	
Gross profit margin	40.6%	38.4%	38.2%	38.0%	38.0%	32.4%	28.7%	30.3%	31.1%	-	
Operating profit	516	607	514	559	629	407	554	494	421	731	
YoY	-14.4%	17.5%	-15.3%	8.7%	12.5%	-35.2%	36.1%	-10.8%	-14.9%	73.6%	
Operating profit margin	12.1%	13.5%	11.4%	12.9%	13.5%	8.5%	11.0%	10.0%	8.7%	13.1%	
Recurring profit	524	622	516	562	629	402	582	524	430	903	
YoY	-11.5%	18.6%	-17.0%	8.9%	11.9%	-36.1%	44.9%	-9.9%	-18.0%	110.0%	
Recurring profit margin	12.3%	13.8%	11.4%	13.0%	13.5%	8.4%	11.5%	10.6%	8.9%	16.2%	
Net income	281	381	315	330	421	286	412	359	291	456	
YoY	-14.6%	35.6%	-17.4%	5.0%	27.3%	-32.1%	44.1%	-12.7%	-19.0%	56.7%	
Net margin	6.6%	8.5%	7.0%	7.6%	9.0%	6.0%	8.2%	7.3%	6.0%	8.2%	
Per-share data (split-adjusted; JPY)											
Shares issued (year-end; '000)	10,327	10,326	10,327	10,327	10,327	10,327	10,327	5,161	5,161	5,399	
Treasury shares ('000)	9	911	2,145	4,397	5,166	5,166	5,166	387	388	388	
EPS	33.0	44.8	47.6	55.3	78.7	55.3	79.7	79.7	77.0	100.3	-
EPS (fully diluted)	33.0	44.8	47.6	55.3	-	-	-	75.0	64.0	84.1	
Dividend per share	11.5	14.0	15.5	17.0	24.0	24.0	28.0	29.0	29.0	32.0	32.0
Book value per share	211	245	162	197	197	227	283	294	366	468	
Balance sheet (JPYmn)											
Cash and cash equivalents	2,241	2,738	1,910	2,156	2,385	2,313	2,779	2,914	2,270		
Total current assets	3,053	3,396	2,562	2,798	3,058	3,012	3,568	3,644	3,075		
Tangible fixed assets	186	198	159	101	82	129	107	107	113		
Investments and other assets	206	225	224	294	256	248	230	625	2,663		
Intangible assets	292	268	207	116	109	104	74	46	30		
Total assets	3,737	4,087	3,152	3,309	3,506	3,492	3,980	4,422	5,881		
Short-term debt	-	-	100	100	326	1	1	1	160		
Total current liabilities	1,931	1,991	2,036	2,098	2,471	2,297	2,491	2,042	2,487		
Long-term debt	11	12	137	41	19	23	27	1,026	1,889		
Total fixed liabilities	11	12	137	41	19	23	27	1,026	1,889		
Total liabilities	1,942	2,003	2,173	2,139	2,490	2,319	2,517	3,068	4,376		
Shareholders' equity	1,795	2,078	978	1,163	1,012	1,174	1,462	1,352	1,505		
Total net assets	1,796	2,085	979	1,170	1,015	1,174	1,463	1,354	1,505		
Total liabilities and net assets	3,737	4,087	3,152	3,309	3,506	3,493	3,980	4,422	5,881		
Total interest-bearing debt	11	101	237	141	345	24	28	1,026	2,049		
Cash flow statement (JPYmn)											
Cash flows from operating activities	-	-	-	-	-	466	692	-	621		
Cash flows from investing activities	-	-	-	-	-	-89	-39	-	-1,193		
Cash flows from financing activities	-	-	-	-	-	-449	-125	-	885		
Financial ratios											
ROA (RP-based)	14.7%	15.9%	14.3%	17.4%	18.5%	11.5%	15.6%	12.5%	8.3%		
ROE	16.5%	19.7%	20.6%	30.8%	38.5%	26.1%	31.2%	25.5%	20.4%		
Equity ratio	48.0%	50.9%	31.0%	35.3%	29.0%	33.6%	36.7%	30.6%	25.6%		
Total asset turnover	119.4%	114.8%	125.0%	134.2%	136.8%	136.5%	135.0%	117.3%	93.8%		
Net margin	6.6%	8.5%	7.0%	7.6%	9.0%	6.0%	8.2%	7.3%	6.0%		
No. of employees (ex. temporary workers)	126	131	133	138	155	168	143	143	151		
No. of temporary workers (average)	11	18	21	22	36	54	55	38	29		
Average age	32.8	33.0	33.0	33.1	32.6	34.4	34.5	34.1	35.7		
Average years of service	3.9	3.9	4.2	4.3	3.4	4.4	3.8	3.8	5.0		
Average annual salary (JPY'000)	5,118	4,957	4,703	4,810	4,858	4,945	5,106	5,023	4,854		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Recent updates

Highlights

On October 15, Shared Research updated the report following interviews with Estore Corporation.

On August 16, the company announced a change in the trade name of a consolidated subsidiary.

At a Board of Directors' meeting held on August 16, 2021, the decision was reached to partially revise the company statutes associated with consolidated subsidiary WebCrew Agency Inc. and make the following change to its trade name. This decision was later approved at an extraordinary shareholders meeting held on the same day.

Overview of consolidated subsidiary

- ▷ Current trade name: WebCrew Agency Inc.
- ▷ New trade name: WCA Inc.
- ▷ Date of change: September 28, 2021
- ▷ Business description: Advertising agency
- ▷ Capital: JPY30mn

Reason for change

The decision to change the subsidiary's trade name was made to illustrate the subsidiary's policy of handling a wide range of operations as a marketing company included under Estore's corporate group. This new name was chosen to demonstrate that the subsidiary will perform additional operations that fall outside the scope typically associated with a mere advertising agency.

On August 13, 2021, the company announced earnings results for Q1 FY03/22; see the results section for details.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY03/20				FY03/21				FY03/22	FY03/22	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	% of FY
Revenue	1,168	2,365	3,622	4,853	2,444	4,990	7,767	10,505	1,373	23.3%	5,900
YoY	-	-1.0%	-2.3%	-1.6%	109.3%	111.0%	114.4%	116.5%	-	-	9.0%
Gross profit	372	740	1,139	1,504	566	1,164	1,853	2,613	691		
YoY	-	1.3%	2.1%	0.9%	51.9%	57.3%	62.7%	73.7%	22.2%		
Gross profit margin	31.9%	31.3%	31.4%	31.0%	23.1%	23.3%	23.9%	24.9%	50.3%		
SG&A expenses	258	507	760	1,026	368	788	1,195	1,706	441		
YoY	-	12.1%	5.3%	5.3%	42.4%	55.3%	57.2%	66.2%	19.8%		
SG&A ratio	22.1%	21.4%	21.0%	21.1%	15.1%	15.8%	15.4%	16.2%	32.1%		
Operating profit	114	233	378	478	197	376	657	907	250	24.5%	1,020
YoY	-	-16.3%	-3.8%	-7.3%	73.4%	61.6%	73.9%	89.7%	26.7%		12.3%
Operating profit margin	9.7%	9.8%	10.4%	9.9%	8.1%	7.5%	8.5%	8.6%	18.2%		17.3%
Recurring profit	135	295	448	527	242	550	924	1,074	228	21.3%	1,070
YoY	-	-19.3%	-3.9%	-9.6%	79.2%	86.4%	106.2%	104.0%	-6.0%		-0.3%
Recurring profit margin	11.6%	12.5%	12.4%	10.9%	9.9%	11.0%	11.9%	10.2%	16.6%		18.1%
Net income	95	218	321	368	92	316	580	483	153	20.7%	740
YoY	-	-17.3%	-3.3%	-10.3%	-2.9%	45.2%	80.6%	31.3%	66.7%		53.3%
Net margin	8.1%	9.2%	8.9%	7.6%	3.8%	6.3%	7.5%	4.6%	11.1%		12.5%

Quarterly (JPYmn)	FY03/20				FY03/21				FY03/22
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	1,168	1,198	1,257	1,231	2,444	2,546	2,777	2,738	1,373
YoY	-	1.3%	-4.6%	0.4%	109.3%	112.6%	120.9%	122.5%	-43.8%
Gross profit	372	368	399	366	566	598	689	760	691
YoY	-	0.6%	3.6%	-2.4%	51.9%	62.7%	72.9%	107.8%	22.2%
Gross profit margin	31.9%	30.7%	31.7%	29.7%	23.1%	23.5%	24.8%	27.8%	50.3%
SG&A expenses	258	249	253	266	368	420	408	511	441
YoY	-	7.2%	-6.1%	5.5%	42.4%	68.6%	61.0%	92.1%	19.8%
SG&A ratio	22.1%	20.8%	20.1%	21.6%	15.1%	16.5%	14.7%	18.7%	32.1%
Operating profit	114	119	145	100	197	179	281	249	250
YoY	-	-11.0%	26.3%	-18.5%	73.4%	50.4%	93.5%	149.4%	26.7%
Operating profit margin	9.7%	9.9%	11.6%	8.1%	8.1%	7.0%	10.1%	9.1%	18.2%
Recurring profit	135	160	153	78	242	307	374	150	228
YoY	-	-28.1%	52.5%	-32.6%	79.2%	92.5%	144.3%	91.1%	-6.0%
Recurring profit margin	11.6%	13.3%	12.2%	6.4%	9.9%	12.1%	13.5%	5.5%	16.6%
Net income	95	123	104	47	92	224	264	-98	153
YoY	-	-25.5%	49.8%	-40.0%	-2.9%	82.2%	155.1%	-	66.7%
Net margin	8.1%	10.3%	8.2%	3.8%	3.8%	8.8%	9.5%	-	11.1%

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Revenue by earnings model

Cumulative (JPYmn)	FY03/21				FY03/22	FY03/22	
	Q1	Q2	Q3	Q4	Q1	% of Est.	Est.
Revenue	1,239	2,601	4,056	5,415	1,373	23.3%	5,900
YoY	6.1%	10.0%	12.0%	11.6%	10.8%		9.0%
E-commerce systems	890	1,888	2,922	3,899	1,010	23.9%	4,227
YoY	-	-	-	-	13.5%		8.4%
Payment settlement services	195	403	633	833	210	22.5%	932
YoY	-	-	-	-	7.7%		11.9%
Marketing services	153	308	498	677	151	20.4%	741
YoY	-	-	-	-	-1.3%		9.5%

Quarterly (JPYmn)	FY03/21				FY03/22
	Q1	Q2	Q3	Q4	Q1
Revenue	1,239	1,362	1,455	1,357	1,373
YoY	-	-	-	-	10.8%
E-commerce systems	890	998	1,034	977	1,010
YoY	-	-	-	-	13.5%
Payment settlement services	195	208	230	200	210
YoY	-	-	-	-	7.7%
Marketing services	153	155	190	179	151
YoY	-	-	-	-	-1.3%

The company began applying the Accounting Standard for Revenue Recognition in FY03/22. This standard has been applied retroactively to figures for FY03/21 above.

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

GMV and number of stores

Quarterly	FY03/21				FY03/22
	Q1	Q2	Q3	Q4	Q1
GMV (JPYbn)	26.1	23.3	27.6	23.1	24.2
YoY	-	-	-	-	-7.3%
Transaction value (JPYbn)	18.1	15.5	17.9	15.6	16.3
YoY	-	-	-	-	-9.9%
GMV per store (JPY'000)	3,051	2,768	3,311	2,812	2,997
YoY	-	-	-	-	-1.8%
Average number of stores using the service during period	8,580	8,432	8,350	8,243	8,090
YoY	-	-	-	-	-5.7%
Number of stores using the service at period end	8,528	8,399	8,314	8,204	8,029
YoY	-	-	-	-	-5.9%

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Q1 FY03/22 results (out August 13, 2021)

Overview

- ▷ Revenue: JPY1.4bn (+10.8% YoY; 23.3% achievement rate vs. full-year forecast; 23.3% achievement rate vs. full-year result in Q1 FY03/21)
- ▷ The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) from the start of FY03/22. YoY comparisons are company estimates if this standard was applied to FY03/21 results to ensure comparability.
- ▷ Operating profit: JPY250mn (+26.7% YoY; 24.5%; 21.8%)
- ▷ Recurring profit: JPY228mn (-6.0% YoY; 21.3%; 22.6%)
- ▷ Net income attributable to owners of the parent: JPY153mn (+66.7% YoY; 20.7%; 19.0%)
- ▷ The company made no changes to its FY03/22 full-year forecast.

Revenue by earnings model

- ▷ E-commerce systems: JPY1.0bn (+13.5% YoY)
- ▷ Payment settlement services: JPY210mn (+7.5% YoY)
- ▷ Marketing services: JPY151mn (-0.8% YoY)

YoY comparisons for revenue by earnings model are company estimates when the Accounting Standard for Revenue Recognition is applied to Q1 FY03/21 results.

Key points

E-commerce systems revenue was up 13.5% YoY. According to company materials, e-commerce consumption did not reach the levels seen in Q1 FY03/21, when online spending rose sharply on the back of stay-at-home demand. However, corporate investment in digital transformation (DX) held firm, with many companies focusing on customer marketing geared toward more efficient use of customer assets, both online and offline, which drove revenue growth. Estore sought to capture demand for the omnichannel investment that underpins such customer marketing initiatives.

- ▷ The company commented that e-commerce consumption increased around 30% from two years earlier (versus Q1 FY03/19).

By service, increased investment by customers who use Sell-Side Solution accounted for the bulk of e-commerce system revenue growth, while shopserve revenue was flat YoY and ECo2 recorded minimal earnings.

Revenue from Payment settlement services increased 7.7% YoY. In Q1 FY03/21, payment settlement fees were lower due to a cashless payment consumer rebate campaign initiated by the Ministry of Economy, Trade and Industry (METI) at the time of the consumption tax hike in October 2019. In Q1 FY03/22, although e-commerce consumption declined YoY, payment settlement fees returned to normal levels as the campaign ended.

Although revenue from Marketing services decreased 1.3% YoY, corporate advertising demand continued to recover gradually, having turned upward in autumn 2020.

Operating profit rose 26.7% YoY, but recurring profit fell 6.0% YoY as although the company booked a JPY29mn equity-method investment gain as non-operating income, it also booked a JPY46mn valuation loss on crypto-assets as a non-operating expense.

There were no extraordinary items (in Q1 FY03/21, the company booked a JPY131mn impairment charge).

For details on previous results, see the Historical performance section.

Full-year FY03/22 company forecast (announced May 14, 2021)

Consolidated (JPYmn)	FY03/21			New revenue recognition standards		
	1H Act.	2H Act.	FY Act.	FY03/21 FY Act.	FY03/22 FY Est.	YoY FY Est.
Revenue	4,990	5,515	10,505	5,415	5,900	9.0%
Cost of revenue	3,826	4,066	7,892			
Gross profit	1,164	1,449	2,613			
Gross profit margin	23.3%	26.3%	24.9%			
SG&A expenses	788	919	1,706			
SG&A ratio	15.8%	16.7%	16.2%			
Operating profit	376	531	907	906	1,020	12.6%
Operating profit margin	7.5%	9.6%	8.6%	16.7%	17.3%	
Recurring profit	550	524	1,074	1,073	1,070	-0.3%
Recurring profit margin	11.0%	9.5%	10.2%	19.8%	18.1%	
Net income	316	167	483	482	740	53.5%
Net margin	6.3%	3.0%	4.6%	8.9%	12.5%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

The company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) from the start of FY03/22. The FY03/22 forecast is based on this standard. The company disclosed FY03/21 results with this standard applied to ensure comparability. The above table and the following YoY comparisons are based on figures using the new revenue recognition standard.

- ▷ Revenue: JPY5.9bn (+9.0% YoY)
- ▷ Operating profit: JPY1.0bn (+12.6% YoY)
- ▷ Recurring profit: JPY1.1bn (-0.3% YoY)
- ▷ Net income attributable to owners of the parent: JPY740mn (+53.5% YoY)
- ▷ Dividend per share: JPY32.0 (JPY32.0 in FY03/21)

The company noted that its FY03/22 forecast is in line with its medium-term management plan.

The company expects e-commerce consumption to remain strong in FY03/22, but believes it is unlikely to grow as rapidly as it did in FY03/21, when the company benefited from a temporary surge in demand.

Initiatives in FY03/22

In FY03/22, the company plans to expand its e-commerce system offerings, modularize its payment settlement service functions to implement them in large stores, consolidate marketing services in-house, and incorporate user needs by enhancing in-house engineering.

Strengthening e-commerce system portfolio

Estore is rolling out its new ECo2 service (provided by Commerce21) in FY03/22. ECo2 covers the market segment between shopserve, a service for SMEs provided by the parent company, and Sell-Side Solution, a service for large corporations provided by Commerce21.

ECo2 is a platform as a service (PaaS), which is more scalable than shopserve, which is software as a service (SaaS). The system is developed under contract. Target users are companies with annual revenue of over JPY1bn. Sell-Side Solution is a packaged solution that is customized to the customer's business model, providing a system for e-commerce websites for companies with annual revenue of tens of billions of yen. It is the most scalable of the company's service platforms, with systems developed specifically for each customer.

The development lead time is approximately one month for shopserve, three to six months for ECo2, and six to nine months for Sell-Side Solution. Average annual revenue per customer is around JPY250,000 for shopserve, JPY12mn for ECo2, and JPY50mn for Sell-Side Solution.

Providing payment settlement services to Commerce21 customers

The company will begin offering payment settlement services to customers of Commerce21 (mainly large corporations) in FY03/22. So far, the service had mainly been for customers of the parent company. Estore does not expect this change to make much impact on FY03/22 earnings.

Strengthening contact points with customers

Estore plans to support customer companies' revenue growth by making effective proposals based on data marketing, which it has been working on for some time. It will offer marketing services that help increase the number of repeat users of customers' e-commerce websites.

Integrating marketing services in WebCrew Agency

The company decided to transfer the Marketing services functions of the parent company to WebCrew Agency to centralize resources as another way to strengthen contact points with customers.

Enhancing in-house engineering through M&A

On May 14, 2021, the company announced that it would make Irvine Systems Inc. (unlisted) a subsidiary in July 2021, with the aim of enhancing its in-house engineering capabilities. The company has been outsourcing development work to Irvine Systems for some time, and the acquisition will enable the company to quickly enhance its development capabilities, while maintaining development speed and ensuring growth in the e-commerce system and payment settlement service domains.

Medium-term management plan

Medium-term management plan (FY03/21–FY03/25)

Estore on November 12, 2020 announced the formulation of Dynamic Ascension, its new, five-year medium-term management plan starting in FY03/21 with FY03/25 as its final year. The company bolstered the group's operating base as a medium- to large-scale e-commerce support provider by acquiring two companies through M&A in January and March 2020. The company thinks that society is undergoing a rapid paradigm shift, requiring it to implement revolutionary and dynamic strategies that are not bound by conventional wisdom.

Objectives and background of the new medium-term management plan

Many companies in the industry launched digital transformation (DX) strategies in recent years, and the company thinks that expanding and strengthening e-commerce will be a key theme in these efforts, resulting ultimately in a change in how e-commerce is handled. The company believes that when building an e-commerce system, the focus should not only be on "adding up" individual processes of sales, promotion, and distribution, but also on achieving a "multiplying effect" by enhancing efficiency and optimization of the system as a whole. The Estore group's policy is to generate synergies between group companies to provide a larger, higher quality, and faster e-commerce platform to client companies.

Medium-term management plan targets

The company's medium-term management plan targets FY03/25 revenue (based on the new Accounting Standard for Revenue Recognition) of JPY10.1bn, roughly twice* the revenue level for FY03/21, with operating profit roughly quadrupling over the same period to JPY2.0bn. The company also aims for earnings and a governance structure allowing stock market listing changes and the listing of subsidiaries.

*Doubling of revenue: The introduction of the new accounting standard means a change in the way revenue is recorded. As such, FY03/21 revenue of JPY10.5bn would equal about JPY5.5bn under the new standard.

Management strategy

The company's business domain is in supporting in-house e-commerce sites. As the e-commerce market is expanding and transforming at an accelerating pace, quickly enhancing and synthesizing services is crucial. In addition, the company believes that responding to changes in consumer sentiment will be important as the elderly population increases, and the overall population continues to decline.

Anticipated behavior of consumers going forward

As society becomes more digitalized, e-commerce will be used further to streamline people's lives. Consumers will shift from spending in a wide variety of areas to spending on a few concentrated areas. Massive amounts of information will circulate, and people will be unable to digest it. As the population ages, so will the buildings. Environmental awareness will rise, and reuse and other forms of recycled consumption will increase. Consumers will focus more on the quality and reliability of products and services.

Anticipated behavior of businesses going forward

Businesses will promote e-commerce and streamline management through digital transformation (DX). The focus will be on ARPU and LTV rather than new customer acquisition. Advertising space will be depleted or become less effective as mainstream media loses its appeal, and advertising costs on search sites will soar. The use of internet will progress as a way to support the elderly. There will be a shift from mass production to small-lot and build-to-order production. Quality information and logistical bottlenecks will need to be addressed.

Estore's group strategy

The company's policy is to promote the following four group strategies: 1) demonstrate synergy among the three group companies, with each company concentrating on its area of expertise, improving quality, increasing profitability, accelerating

speed, and reducing costs; 2) redefine the Estore group as an “e-commerce infrastructure corporate group” and focus on recurring profits to maximize ARPU* and LTV**; 3) implement hands-on DX that leverages the knowledge and expertise gained over the past 20 years on e-commerce businesses hosted by the group; and 4) accelerate strategies 1) through 3) by actively and aggressively pursuing capital and business tie-ups and M&A, as well as by utilizing the balance sheet.

***ARPU**: Average Revenue Per User.

****LTV**: Life Time Value. This refers specifically to customer lifetime value, or the total value of a company’s products or services purchased by a customer over his/her lifetime, and how much the company profits as a result.

Strategy by business

E-commerce support business (extension of the existing business)

With the redefining of the entire group as an “e-commerce business platform provider,” Estore aims to rapidly develop a quality e-commerce support business by providing a comprehensive range of services, including those related to systems, marketing, fulfillment, and payments. The company also seeks to strengthen alignment with customer growth to expand payment settlement earnings. In the past ten years, systems and marketing have been supplied and utilized separately, but the company expects internet-based advertising and other IT tools to become increasingly sophisticated in the years ahead. E-commerce business operators, which are the company’s customers, are under growing pressure to integrate sales, promotion, and distribution processes to better provide quality services to consumers, and it is essential for platform providers such as the company to provide customers with advanced operations, analysis, and speedy responses to help expand customer earnings. Customers will migrate from medium-sized SaaS to large PaaS solutions as they grow. The company group aims to strengthen its team structure to better meet the needs of e-commerce business operators.

Hands-on DX business (new business)

The company believes that there are many companies with excellent products, content, and customers that are missing out on opportunities due to a lack of budget and e-commerce expertise. To address this, in addition to the e-commerce support business, the company intends to use the knowledge and expertise it has gained over the past 20 years to move into the e-commerce business as a host and develop it as its own business. The company expects ARPU* and LTV** to become key areas of management focus over the long term, and expects this new business to help prepare for that eventuality. The company will pursue a hands-on DX business involving investment in companies that are unable to fully leverage the value of their business assets due to insufficiencies in e-commerce expertise, operational personnel, or funding.

Capital and business alliance with FPC Inc.

As the first hands-on DX business, in January 2021, the Estore group entered into a capital and business alliance with FPC Inc.* FPC provides high-end table tennis-related services, including the operation of the table tennis information site Mingles**, player and tournament management, coordination services, and online product sales. Driven by the launch of T.League and the rise of promising young players, the number of table tennis players has been on the rise. FPC has built a system for coordinating and booking competitions, practice matches, and lessons across the country. Estore intends to contribute its own knowledge and expertise to jointly create and manage a comprehensive system environment that can be operated on a business level.

This business is the first step of the "Hands-on DX business" in the Estore group’s medium-term management plan. The company will underwrite a JPY100mn investment of FPC (34.6% stake), and by deploying its personnel and e-commerce expertise, it will carry out the business hands-on in terms of system operation, marketing, and project management.

*FPC Inc.: Serving as an agent for athletes, FPC negotiates with sponsor companies, arrange appearances on various media including TV programs, manage social media to increase visibility of athletes, and conduct branding and other marketing activities. It also organizes table tennis tournaments and events, operates e-commerce sites, and offers lessons to promote the sport of table tennis.

**Mingles: High-end table tennis information site: <https://www.mingles.jp/>

Group business policies

Systems infrastructure business (PaaS)

The systems infrastructure business (PaaS) will be managed by subsidiary Commerce21. The organization will be restructured to capture advanced large-scale projects. The company will expand its service lineup through aggressive business alliances. It will provide marketing and payment settlement services to customers.

Systems infrastructure business (SaaS)

The systems infrastructure business (SaaS) will be managed by Estore (parent). The company will redefine KPIs to acquire high unit price projects. It will expand its service lineup through aggressive business alliances and provide marketing and payment settlement services to customers.

Marketing business

The Marketing business will be managed by WebCrew Agency. The company will strengthen sales efforts to acquire high unit price projects. It will offer marketing services to system customers with a focus on lowering the ratio of customer acquisition advertising operations and boosting the ratio of direct marketing.

Hands-on DX business

The hands-on DX business will be executed as a three-company project. The group will develop a full hands-on alliance with a strong base of partners, and will build systems, marketing, and operations vertically.

Financial targets for FY03/25 (as of November 27, 2020)

Companywide targets

- ▷ Revenue: JPY10.1bn (FY03/21 forecast: JPY5.1bn)
- ▷ Operating profit before goodwill amortization: JPY2.1bn (FY03/21 forecast: JPY620mn), OPM: 21% (FY03/21 forecast: 12%)
- ▷ Operating profit after goodwill amortization: JPY2.0bn (FY03/21 forecast: JPY500mn), OPM: 20% (FY03/21 forecast: 10%)

The company's aim is to quadruple profits, and it envisions the following as the drivers of earnings growth: 1) a consolidated three-company structure, 2) high market growth, 3) earnings growth for each company, 4) synergies, and 5) development of new businesses.

Systems infrastructure business (PaaS)

- ▷ Revenue: JPY4.4bn (FY03/21 forecast: JPY1.9bn)
- ▷ Operating profit: JPY600mn (FY03/21 forecast: JPY120mn), OPM: 15% (FY03/21 forecast: 6%)

Systems infrastructure business (SaaS)

- ▷ Revenue: JPY2.6bn (FY03/21 forecast: JPY2.4bn)
- ▷ Operating profit: JPY800mn (FY03/21 forecast: JPY490mn), OPM: 30% (FY03/21 forecast: 20%)

Marketing business

- ▷ Revenue: JPY1.6bn (FY03/21 forecast: JPY740mn)
- ▷ Operating profit: JPY200mn (FY03/21 forecast: JPY10mn), OPM: 12% (FY03/21 forecast: 1%)

Hands-on DX business

- ▷ Revenue: JPY1.5bn (FY03/21 forecast: N/A)
- ▷ Operating profit: JPY500mn (FY03/21 forecast: N/A), OPM: 34% (FY03/21 forecast: N/A)

Financial strategy

Stock market plan

- ▷ Meet TSE Prime market criteria for Estore
- ▷ Satisfy venture market listing requirements for group companies

Equity plan

- ▷ Implement capital policies to improve performance, including alliances
- ▷ Proactively leverage debt
- ▷ Carry out M&A
- ▷ Effectively use treasury stock
- ▷ Strengthen shareholder returns

Management strategies

Seven-year growth cycle

In February 1999, back when Rakuten Ichiba had less than 100 stores, the company launched its in-house e-commerce support services business with aims to boost the number of specialty boutiques on the internet, while making clear distinctions from online marketplaces. Since then, Estore grew while adjusting to changes in the business environment, shifting its focus area every seven years or so. The company has continually repeated the cycle of establishing its revenue base in existing businesses, then either reinvesting the profits or acquiring and integrating other companies to create its next new revenue base. FY03/21 marks the beginning of the company's fourth growth cycle with the addition of Commerce21 and WebCrew Agency. A recap of the first, second, and third growth cycles are below.

First cycle (FY03/00–FY03/06)

Estore started with a shopping cart solution service. Then, it began providing rental servers for websites, which went on to become the revenue base supporting the company's early days. In addition to these two main businesses, the company prepared the groundwork for "shopserve," a comprehensive e-commerce support service provided via an application service provider (ASP) model.

Second cycle (FY03/07–FY03/13)

In January 2006, the company launched shopserve, which became its main revenue stream over the seven-year period between FY03/07–FY03/13. The recurring revenue from monthly subscription fees for ASP services helped stabilize the company's operating base. At the same time, the company started expanding its royalty revenue (GMV-linked revenue), where it collects a percentage of sales as payment settlement fees. etc.

Third cycle (FY03/14–FY03/20)

With recurring and royalty revenues growing in line with higher customer e-commerce sales, the company started investing in enhancing its sales promotion business and building its media business (made Precision Marketing a consolidated subsidiary in June 2011) with aims to make its Marketing business the next mainstay business. The sales promotion business provided outsourced business operations and consulting services, and the media business operated online marketplace "park." The company added the sales promotion systems business (offering COMPARE and QUERY software) as a store backroom support systems lineup, making it a part of the focus area along with the sales promotion services business. Meanwhile, the group discontinued its media business at end-September 2018 (Precision Marketing was deconsolidated in January 2016), as the likes of Amazon and Rakuten (TSE1: 4755) dominated the space. In August 2018, the company established CrossTrust, an electronic authentication business.

Performance trends since establishment (seven-year growth cycle)

Growth cycle	Cons. /Par.	Cons. Subsidiaries	Term	FY	Revenue	Recurring profit	Net income	Total business			Sales system (shopserve)			Total assets (JPY mn)	Net assets (JPY mn)	Medium-term business plan
								No. of customers (stores)	Total customer GMV (JPY mn)	GMV per customer (JPY mn)	No. of customers (stores)	Total customer GMV (JPY mn)	GMV per customer (JPY mn)			
0	Parent		1	03/99	0	-7	-7	-	-	-	-	-	-	4	3	
1	Parent		2	03/00	283	38	21	4,855	-	-	-	-	-	599	490	
	Parent		3	03/01	1,233	331	172	23,594	-	-	-	-	-	995	662	
	Parent		4	03/02	1,416	306	173	23,327	-	-	-	-	-	1,378	1,208	
	Parent		5	03/03	1,272	68	43	20,350	6,070	0.30	-	-	-	1,347	1,255	
	Parent		6	03/04	1,359	89	58	20,822	9,780	0.47	-	-	-	1,671	1,513	
	Parent		7	03/05	1,840	170	109	25,131	16,110	0.64	-	-	-	1,735	1,250	
	Parent		8	03/06	2,384	203	124	35,615	28,480	0.80	-	-	-	1,991	1,347	
2	Parent		9	03/07	2,809	328	145	41,651	42,180	1.01	-	-	-	2,458	1,143	
	Parent		10	03/08	2,870	422	232	44,765	63,270	1.41	-	-	-	2,502	1,326	
	Parent		11	03/09	3,257	423	238	48,426	78,950	1.63	-	-	-	2,815	1,476	
	Parent		12	03/10	3,643	506	288	48,333	89,940	1.86	-	-	-	3,203	1,571	
	Parent		13	03/11	4,069	592	329	47,262	94,590	2.00	-	-	-	3,383	1,619	
	Cons.		14	03/12	5,337	504	281	32,773	93,080	2.84	-	-	-	4,013	1,809	
	Cons.		15	03/13	5,963	659	390	28,865	92,690	3.21	-	-	-	4,434	2,121	
3	Cons.	Precision Marketing	16	03/14	5,871	554	324	21,733	89,080	4.10	13,929	76,888	5.52	3,468	1,038	
	Cons.		17	03/15	5,772	576	333	19,867	84,580	4.26	12,986	75,059	5.78	3,622	1,238	
	Cons.		18	03/16	5,724	621	403	18,681	89,640	4.80	12,591	79,575	6.32	3,506	1,015	
	Parent		19	03/17	4,775	402	286	17,018	87,860	5.16	11,590	79,739	6.88	3,492	1,173	
	Parent		20	03/18	5,044	582	412	-	-	-	10,503	79,823	7.60	3,980	1,463	Former 5-year plan (management target)
	Cons.	Cross Trust	21	03/19	4,932	583	410	-	-	-	9,432	77,531	8.22	4,496	1,404	
4	Cons.	C21, WCA	22	03/20	4,853	527	368	-	-	-	9,004	82,300	9.15	7,376	1,747	
	Cons.		23	03/21	10,505	174	483	-	-	-	8,398	103,900	12.36	8,604	2,344	

Source: Shared Research based on company data
 Note: C21 refers to Commerce21 and WCA refers to WebCrew Agency.

Previous medium-term management plan (FY03/17–FY03/21)

In 2015, the Estore group formulated a five-year medium-term management plan (FY03/17–FY03/21) with the goal of offsetting the intended decline in revenue for the Systems business (see below) with higher revenue in the Marketing business. After announcing FY03/20 results, which was the fourth-year of the medium-term plan, the company revealed its internal medium-term target of achieving JPY5.0bn in revenue. In FY03/16, when the current medium-term plan was formulated, the company deconsolidated Precision Marketing (January 2016) as results were below expectations and shifted its Marketing business investment away from the media business (operations of online marketplace “park”) and toward the sales promotion business.

Stagnant sales due to structural reform

Estore (parent) has already moved forward with its strategy of narrowing its target to quality customers, intentionally reducing customer count, and growing GMV per customer. However, the company faced challenges in formulating strategies to launch sales promotion systems and promote large-scale solutions, which prevented it from offsetting the revenue decline in the Systems business with revenue growth in the Marketing business (sales promotion services) for some time. The composition of revenue for Estore (parent) and its group companies has gradually shifted from the Systems business to the Marketing business, but revenue until FY03/20 has been stagnant at around JPY5.0bn.

M&A strategy

To overcome delays in its medium-term management plan, the company brought in investment fund Advantage Advisors and raised just under JPY1.0bn in November 2018 through a third-party allocation of convertible bonds. In January and March 2020, the company acquired all shares in Commerce21 and WebCrew Agency, making them subsidiaries and successfully incorporating the dedicated converged e-commerce systems business geared for large enterprise customers as well as the marketing and website production businesses. In other words, the acquisitions helped establish the next foundation for growth quickly, enabling the company to achieve what it was unable to do on its own.

Advantage Advisors is part of the Advantage Partners group, which has been creating markets for private equity investments in Japan since its early days. Advantage Partners specializes in majority investments (buyouts) and Advantage Advisors specializes in minority investments in public companies. While both firms are the same in terms of providing funding and management support, the main difference is whether the firm sends in new management (Advantage Partners) or supports the existing management team as shareholders (Advantage Advisors).

Synergies

Since Commerce21 provides large-scale e-commerce systems to large enterprise customers, it can offer sales promotion services as a value-added option. Meanwhile, WebCrew Agency provides sales promotion services to Commerce21, and also contributes to service improvement for Estore (parent)’s sales promotion services. In this way, the three group companies complement one another and create synergies, enabling the group to handle a wide variety of customer needs addressing companies of all sizes for both the Systems and Marketing business. Instead of operating independently of one another, the three companies need to achieve organic growth in group earnings through synergies. With the group consolidating its offices and creating a system

capable of handling large projects, the company is prepared to realize synergies such as joint marketing and cross-selling in both the sales promotion services and sales systems businesses.

Business

Business model

Overview

Supports companies building in-house e-commerce sites

The group offers comprehensive services related to the development and operations of in-house e-commerce websites for customer companies. An in-house e-commerce site is one whereby a company obtains its own domain name and operates the site itself, as opposed to using online marketplaces like Amazon, Rakuten Ichiba, and Yahoo! Shopping. Estore offers the following three services:

- ▷ E-commerce systems (FY03/21 revenue of JPY3.9bn, 37.1% revenue share): Records revenue from building customers' e-commerce sites. The company offers two systems for larger companies (Sell-Side Solution and ECo2), and one for SMEs (shopserve).
- ▷ Payment settlement services (FY03/21 revenue of JPY2.4bn, 22.5% revenue share): The company processes payments made at customers' in-house e-commerce sites on their behalf.
- ▷ Marketing services (FY03/21 revenue of JPY4.2bn, 40.0% revenue share): The company provides sales promotion services for customers' e-commerce operations.

The Estore group consists of eight companies: Estore (parent), three consolidated subsidiaries, and four affiliates (three of which are equity method affiliates). E-commerce systems are provided mainly by the parent and Commerce21, while the parent provides Payment settlement services. WebCrew Agency is the main provider of Marketing services.

- ▷ The company acquired Commerce21 in January 2020 and WebCrew Agency in March 2020, gaining access to large corporations who are customers of Commerce21 with ample budgets for building and operating e-commerce systems.
- ▷ The parent and WebCrew Agency were both operating Marketing services through FY03/21, but the company transferred the business run by the parent to WebCrew Agency in FY03/22.

Main provider of each service

Main service	Provider
E-commerce systems	Estore (parent): For SMEs Commerce21: For large corporations
Payment settlement services	Estore (parent)
Marketing services	WebCrew Agency

Source: Shared Research based on company data

Ecosystem of three Estore businesses

The company builds and operates e-commerce websites for customer companies (E-commerce systems) and provides marketing services that help them grow their revenues (Marketing services). If the marketing services produce an increase in GMV at the customer's e-commerce site, the company provides a payment settlement service (Payment settlement services) to support customers from the payments side as well. According to Estore, customers' earnings growth starts a virtual cycle of an emerging need for further development (additional features) of e-commerce systems, which leads to attracting new customers.

No involvement with building online marketplace systems

Some e-commerce websites are online marketplaces where multiple companies form one large shop (marketplace). Estore has no involvement in this business, specializing in building in-house e-commerce sites. The company builds long-term relationships with customer companies to provide solutions to individual problems. Its strength (point of difference) is the experience and know-how acquired over more than 20 years in the business of building e-commerce sites for SMEs.

Business domain

(JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Parent/Consolidated	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons.
Revenue	5,871	5,772	5,724	4,775	5,044	4,932	4,853	10,505
YoY	-1.5%	-1.7%	-0.8%	-16.6%	5.6%	-2.2%	-1.6%	116.5%
E-commerce systems							1,934	3,900
YoY							-	101.7%
% of revenue							39.9%	37.1%
Payment settlement services							1,704	2,368
YoY							-	39.0%
% of revenue							35.1%	22.5%
Marketing services							1,213	4,207
YoY							-	246.8%
% of revenue							25.0%	40.0%
[Former segments]								
Systems	4,078	3,836	3,975	3,934	3,880	3,706	3,606	
YoY	-3.9%	-5.9%	3.6%	-1.0%	-1.4%	-4.5%	-2.7%	
% of revenue			69.4%	82.4%	76.9%	75.1%	74.3%	
Small and medium: Gen. purpose ASP (Estore)	4,078	3,836	3,975	3,934	3,880	3,706	3,606	
YoY	-3.9%	-5.9%	3.6%	-1.0%	-1.4%	-4.5%	-2.7%	
% of revenue	69.5%	66.5%	69.4%	82.4%	76.9%	75.1%	74.3%	
Large: Dedicated converged system (Commerce21)								
YoY								
% of revenue								
Marketing			1,748	788	1,131	1,190	1,213	
YoY	-	-	-	-54.9%	43.6%	5.2%	2.0%	
% of revenue	0.0%	0.0%	30.5%	16.5%	22.4%	24.1%	25.0%	
Small and medium: Production and promotion (Estore)	1,735	1,889	1,748	788	1,131	1,190	1,213	
YoY	8.0%	8.9%	-7.5%	-54.9%	43.6%	5.2%	2.0%	
% of revenue	29.5%	32.7%	30.5%	16.5%	22.4%	24.1%	25.0%	
Large: Marketing and production (WebCrew Agency)								
YoY								
% of revenue								
Other	58	46	1	54	34	36	34	
YoY	-47.8%	-20.5%	-97.7%	-	-37.3%	7.5%	-5.8%	
% of revenue			0.0%	1.1%	0.7%	0.7%	0.7%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

E-commerce systems (37.1% of FY03/21 revenue)

Overview

E-commerce systems comprise shopservice, Estore's (parent) cloud-based e-commerce system, Sell-Side Solution, Commerce21's package-type e-commerce system, and ECo2, Commerce21's cloud-based e-commerce system.

The main differences between the three systems are as follows (in order of average development lead time).

- ▷ shopservice: A general-purpose SaaS system, one-month average development lead time, targets SMEs (annual revenue of a few hundred million yen)
- ▷ ECo2: A new service launched in FY03/22 using a rental server. Systems are developed to order for each customer. Three to six months' average development lead time, targets companies with annual revenue of over JPY1.0bn. More scalable than shopservice.
- ▷ Sell-Side Solution: On-premise system developed to order for each customer using an in-house server. Six to nine months' average development lead time, targets companies with annual revenue of tens of billions of yen. Most scalable of the three systems.

Shopserv

Overview

Shopserv is a shopping cart solution that automatically calculates the total amount of purchases, processes payments, and sends out order confirmation emails. It is a general-purpose e-commerce system that integrates all functions required for operating an in-house e-commerce site (store pages, domain names, emails, payment processing, order fulfillment, customer management). Shopserv features include: operational design standards focused on reducing customer time and labor costs, stability based on over 20 years of operational experience, and the scalability that comes with 150 application programming interfaces (APIs). Target companies are those with annual revenue of a few hundred million yen.

Revenue structure

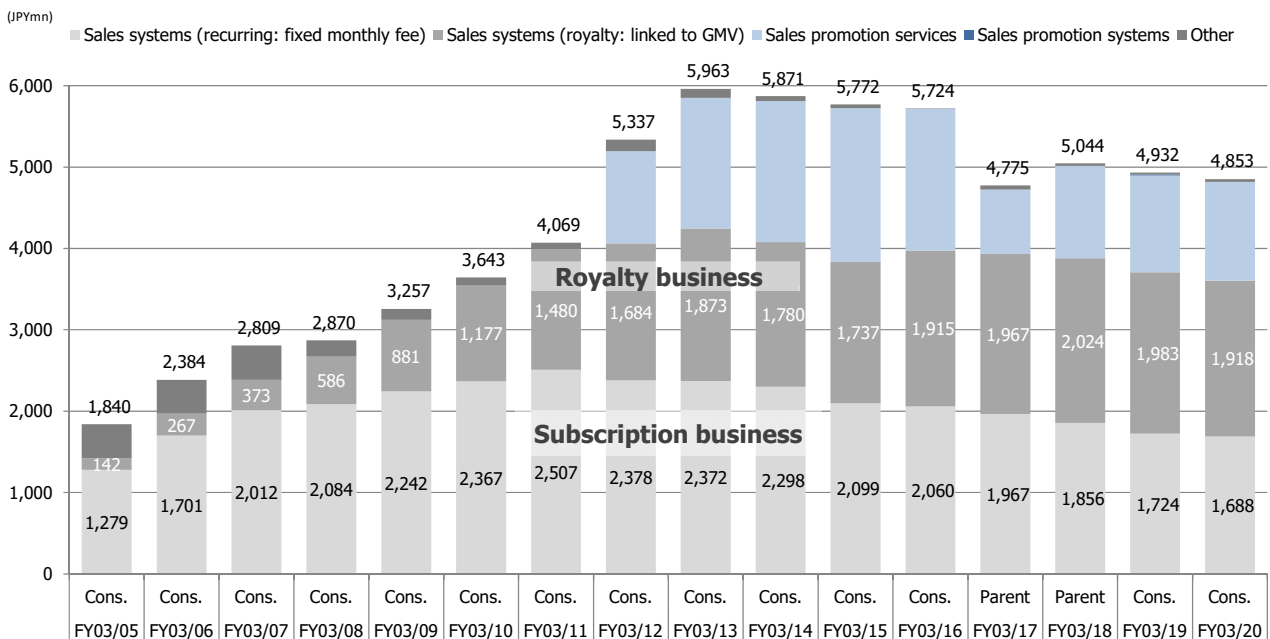
Revenue for shopserv consists of recurring revenue (monthly fixed fees) and royalty revenue (linked to gross merchandise value [GMV]). The former is collected as monthly subscription fees for ASP services, and the latter is collected as a percentage of sales made via stores on the shopserv platform as payment settlement fees (revenue source of Payment settlement services; see below). Commission rates are fixed for both revenue categories, so GPM and OPM are relatively stable as long as sales do not fluctuate drastically.

shopserv revenue trends

Both revenue streams of shopserv have contributed to Estore's growth and business stability as customer count expanded (peaked in FY03/09). As intensified competition resulted in lower profitability in recent years, Estore made a strategic shift, focusing on quality customers and intentionally reducing customer count (FY03/12: 14,596 stores, FY03/20: 8,679 stores). As a result, annual GMV per store rose from JPY5.7mn in FY03/14 to JPY9.1mn in FY03/20, with annual total GMV flat at JPY79.0bn.

In the sales systems business, recurring revenue peaked in FY03/11 and royalty revenue peaked in FY03/18, with both on a declining trend since the increase in revenue per customer has not been enough to offset the decline in customer count.

shopserv revenue (data disclosed through FY03/20)



Source: Shared Research based on company data

KPIs

shopserv's revenue as a percentage of total customer GMV* declined gradually from 5.1% in FY03/14 to 4.4% in FY03/20. This metric shows what percentage of sales systems costs is charged to the customer**. Sales systems revenue per customer store*** has risen from JPY0.29mn in FY03/14 to JPY0.42mn in FY03/20.

* Estore and its group companies' sales systems revenue divided by the total GMV of customer stores in operation
 ** Sales systems revenue for Estore parent includes rental server revenue, and excluding this yields a slightly lower figure
 *** Estore and its group companies' sales systems revenue divided by total customer store count

shopserve customer store count and GMV

Key performance indicators	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Sales systems	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons.
No. of customer stores	13,929	12,986	12,597	11,590	10,503	9,432	9,004	8,398
YoY	-3.7%	-6.8%	-3.0%	-8.0%	-9.4%	-10.2%	-4.5%	-6.7%
Customer GMV per store (JPYmn)	5.69	5.78	6.32	6.88	7.60	8.22	9.15	12.36
YoY	10.0%	1.7%	9.3%	8.9%	10.5%	8.2%	11.3%	35.1%
Total customer GMV (JPYmn)	79,200	75,059	79,613	79,739	79,823	77,531	82,300	103,900
YoY	5.9%	-5.2%	6.1%	0.2%	0.1%	-2.9%	6.2%	26.2%
Sales systems revenue as % of customer GMV	5.1%	5.1%	5.0%	4.9%	4.9%	4.8%	4.4%	
Sales systems revenue per customer store (JPYmn)	0.29	0.30	0.32	0.34	0.37	0.39	0.40	

Source: Shared Research based on company data

Pricing plans

Shopserve pricing plans include Public, Basic, Prime, and Premium. Customers can further customize their plan based on the number of registered products, number of registered customers, data disk storage size, website network traffic, and various optional plans. According to Estore, with an increase in the number of customers with relatively large e-commerce budgets, sales has been shifting from the Public plan to the higher-priced Basic plan.

Shopserve pricing plans

shopserve plans	Public	Basic	Prime	Premium
Initial fee (JPY, ex. tax)	15,000	15,000	15,000	15,000
Monthly fee (JPY, ex. tax)	DV AOSL 11,400	16,500	22,000	46,800
	OV AOSL -	19,700	25,200	50,000
No. of registered products	500	3,000	3,000	3,000
No. of registered customers	10,000	30,000	Unlimited	Unlimited
Store domain charge	Free	Free	Free	Free
Subdomain availability	N	Y	Y	Y
Smartphone site	Y	Y	Y	Y
Wide payment options	Y	Y	Y	Y
WordPress linkage	Optional	Optional	Y	Y
Regular purchase, buyers clubs	Optional	Optional	Optional	Y
LP cart (landing page with built-in form)	Optional	Optional	Optional	Y
HTML email distribution	Optional	Optional	Y	Y
No. of emails distributed	50,000	50,000	100,000	100,000
Number of email addresses available	20	50	50	50
Multiple staff login	Y	Y	Y	Y
Data disk storage size (GB)	1	3	10	10
Website data transfer volume	150GB	150GB	200GB	200GB

Note: DV: domain validated, OV: organization validated, AOSL: Always On SSL

Note: Prices are exclusive of consumption tax as of June 2021.

Source: Shared Research based on company data

Customer attributes

There are about 9,000 companies (stores) using Estore's shopserve e-commerce system, most of which are SMEs. The company has intentionally narrowed its focus on quality customers and expects customer count to decline to between 5,000 and 7,000 in the future. The company defines quality customers as large corporations and high-growth SMEs that have high GMV and revenue per store, as well as ample system development and sales promotion budgets.

Since 2009, Estore has held the Online Store GRANDPRIX Awards every year, awarding stores based on a number of criteria including sales, order count, growth rate, repeat purchase ratio, member count, and design quality. This has yielded some positive results (i.e., upselling of sales promotion services) by helping the company identify and nurture quality customers as a part of its marketing efforts.

The company selects the stores with the highest sales for the year overall and by category, and awards the overall top selling store the “Grand Prix” award, and the top-selling store in each category the “Category Top” award. Additionally, the company selects the store with the highest annual order count (including repeat orders) in a certain category as the “Category Premium” and awards the highest-selling new store (stores that have been in operation for one year) the “New Shop Award.”

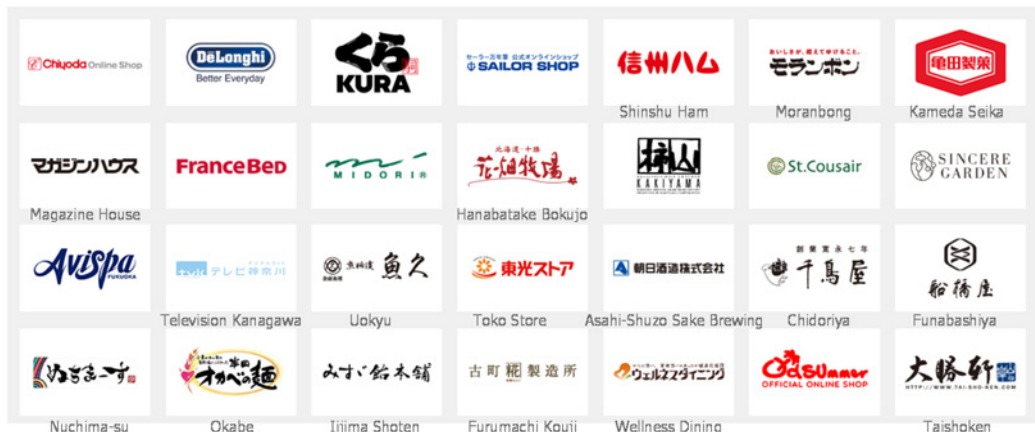
Many of the winners are specialty stores selling lifestyle improvement products for women such as jewelry and watches; beauty, healthcare and diet products; kids, baby, and maternity products. Also, in the food category, the winners are not stores selling daily necessities, but those specializing in local gourmet food and other high-end ingredients. The company stimulates its customers’ drive to expand sales, which in turn leads to higher royalty revenue and sales promotion services revenue for Estore.

Estore customer Grand Prix winning stores

Year	Grand Prix	Category
2020	Takumi Honpo	Foods
2019	GINZA RASIN	Jewelry and watches
2018	Takumi Honpo	Foods
2017	CeraLabo	Beauty and healthcare
2016	Karadanorecipe	Beauty and healthcare
2015	Takumi Honpo	Foods
2014	Sweet Mommy	Kids, babies, maternity
2013	Takumi Honpo	Foods
2012	Milk tea	Kids, babies, maternity
2011	Tansunogen Honten	Lifestyle, interior
2010	Natural Garden	Diet and healthcare
2009	Tansunogen Honten	Lifestyle, interior

Source: Shared Research based on company website

shopserve customers (partial list)



Source: Company website

Sell-Side Solution (Commerce21)

Overview

In addition to general-purpose e-commerce systems for SMEs, the company offers dedicated converged e-commerce systems for large corporations. These packaged systems can flexibly meet the needs of large corporations that require high scalability. The development, production, and maintenance of converged e-commerce systems are handled by Commerce21, which became a consolidated subsidiary in January 2020.

Commerce21 has 100 engineers with a wealth of experience in building large-scale e-commerce systems. The main development team members for each account serve as support and maintenance contact points after system deployment, providing speedy and reliable service. Additionally, Commerce 21 maintains an open package specification by disclosing the source code. This way, it can help customers with in-house development and enable other vendors to develop and maintain systems. To meet the needs of large-scale e-commerce systems (scalability, stable operations, high security), Commerce 21 flexibly responds to development of customized functions, provides comprehensive e-commerce solutions, and enables integration with external systems and ASP services. It offers e-commerce systems that operate stably, even with millions of products, billions of yen in sales,

and thousands of real-time transactions, and offers a differentiated service compared to typical e-commerce packaged systems and systems developed from scratch.

Revenue structure

Sell-Side Solution, a PaaS system, records contracted revenue (number of new customers x order unit price) as royalty revenue.

Large corporations' e-commerce websites tend to require additional development after the initial system is completed. Consequently, Sell-Side Solution records revenue from additional system development/contracted work (number of existing customers x percentage of customers that order additional system development x unit price of additional development) over the longer term.

Sell-Side Solution also records maintenance and operation fees.

According to the company, the average annual revenue per customer for large-scale e-commerce systems for Commerce21's 80 active customers is about JPY21.0mn, about 50 times higher than the average annual revenue per customer of JPY0.42mn for small-to medium-scale e-commerce systems.

Customer attributes

According to the company, the top 500 e-commerce operators by revenue combine for a total of JPY3.0tn in revenue, of which Commerce21's customers account for over a 10% share at more than JPY320bn. Twelve of the top 100 domestic e-commerce companies by revenue are Commerce21 customers. Commerce21 has implemented its systems in over 300 major domestic e-commerce companies.

Commerce21's customers range from B2C (apparel; food, beauty, and healthcare; sports and outdoors; home electronics, PC, and office supplies; CDs, DVDs, and books; DIY, auto and motorcycle parts and accessories; general merchandise; etc.) to B2B. Of the more than 300 companies that installed Commerce21's large-scale e-commerce system, there are about 80 companies with active installations.

Customers using large-scale e-commerce systems (partial list)

Vertical	Store	Operator
Apparel	OEM-based C21 to EC solution (fulfillment) operation	Magaseek
	Wacoal Web Store	Wacoal
	Pal Closet	Pal
	F. O. Online	F.O. International
	The Suit Company & Universal Language Online	Aoyama Trading
Food, beauty, and healthcare	Angeliebe official online shop	Angeliebe
	HABA Online Shop	Haba Laboratories
Sports and outdoor	Kenkou Town	Kenkou Corporation
	Alpen group online store	Alpen
	GDO Golf Shop	Golf Digest Online
Home electronics, PC, and office supplies	Mizuno Shop	Mizuno
	Sanwa Direct	Sanwa Supply
	kojima.net	Kojima
CDs, DVDs, and books	PC Depot	PC Depot Corporation
	Shinshu Otani-ha Higashi Honganji	Shinshu Otani-ha Higashi Honganji
	U-Can shop	U-Can
	Bookoff Online	Bookoff Online
DIY, auto and motorcycle parts and accessories	LEC On-line Shop	Tokyo Legal Mind
	Komeri.com	Komeri
General merchandise	DCM Online	DCM Holdings
	dinos online shop	Dinos Cecile
B2B	Market Catalogue	Biznet
	Web Maruko	Kodansha
	sign city	Trade
Other	au Online Shop	KDDI
	Toys"R"Us Babies"R"US online store	Toys"R"Us-Japan
	Komehyo Online Shop	Komehyo

Note: As of June 2021
Source: Shared Research, based on company website

Payment settlement services (22.5% of FY03/21 revenue)
Overview and earnings structure

The Payment settlement services provide payment processing services for customer companies' in-house e-commerce websites.

The service records payment settlement fees (number of customers x GMV x payment settlement fee rate). The company disclosed these fees as royalty revenue through FY03/20.

Royalty revenue was JPY1.8bn for shopserve in FY03/20. GMV was JPY79.3bn (8,679 stores x GMV per store of JPY9.1 mn) and we estimate that the average fee rate was 2.4%.

Marketing services (40.0% of FY03/21 revenue)
Overview

Marketing services were previously called sales promotion services. The company conducts e-commerce sales promotions on behalf of its customers. The outsourced operations include project strategy, survey and analysis, and advertisement production, and services are constantly being improved to help customers realize the benefits of opening an e-commerce store.

Through FY03/21, Estore (parent) and WebCrew Agency, which became a consolidated subsidiary in March 2020, offered sales promotion services, but their resources were integrated at WebCrew Agency in FY03/22.

▷ Estore (parent) previously provided sales promotion services to SMEs and WebCrew Agency provided services to large companies through FY03/21.

Overview of WebCrew Agency

WebCrew Agency is an advertising agency that provides consulting services for the latest internet advertising methods as well as proposals and operations for listing ads on Google and Yahoo!, social media ads centered around Twitter and Facebook,

proposals for traditional media such as magazines, radio, and direct mail, and production of landing pages (the first page of a website that users see), banners, and websites. WebCrew Agency serves about 100 customers with a sales-driven 30-person team.

Major customers (vendors, partners, etc.) include Yahoo (a wholly owned subsidiary of Z Holdings [TSE1: 4689]), Google, Toppan Printing (TSE1: 7911), Hakuholdo DY Holdings (TSE1: 2433), Dentsu Group (TSE1: 4324), Dai Nippon Printing (TSE1: 7912), Fan Communications (TSE1: 2461), Interspace (TSE Mothers: 2122), and ValueCommerce (TSE1: 2491).

Marketing service portfolio of WebCrew Agency (partial list)

Customer	Track record
Netz Toyota Yokohama	Landing page
Netz Toyota Higashikanagawa	Landing page
Toyota Corolla Saitama	Landing page
Jaguar Tokyo	Landing page
Yell	Landing page
Keiyo Group	Landing page
Tokyu Security	Landing page
Haseko Community	Landing page
metabolic	Landing page
The Kids	Landing page
Pac Ex	Landing page
Mitsui Kaihatsu	Landing page, website
Hirosima Kensetsu	Landing page, website
Life Cycle	Website, video ad
Japan Total Club	Website
New Otani	Video ad
Choice Hotels Japan	Video ad
Sogo & Seibu	Video ad
Intage	Video ad

Source: Shared Research, based on company website

Service content

The services include providing visual creations such as webpages and advertisements, promotional advertisements to attract customers, email newsletters to encourage repeat customers, and making distribution-related arrangements such as for warehousing. Until FY03/21, Estore (parent) provided extensive customer services through: 1) full sales management by account, 2) outsourced webpage production and promotions, and 3) inventory and logistics management consulting to prevent order loss. As a result, upselling to existing customers was steady and the order unit price for sales promotion services trended upward.

Revenue structure and customer attributes

Marketing services comprise survey analysis, strategy formulation, and consulting; customer acquisition outsourcing; outsourced production; and outsourced operations. The company offers highly itemized pricing options ranging from JPY10,000 to over JPY1mn. For the Full Assist Plan, a one-stop service including survey, analysis, strategy formulation, production, and customer acquisition services, the company offers pricing plans such as JPY1mn per month (six months for JPY6mn) and JPY5mn per month (six months for JPY30mn).

Estore's (parent) sales promotion services for SMEs had around 200 active customers and average annual revenue per customer of around JPY6mn through FY03/21. Sales activities targeted 350 or so companies (including potential customers).

Sales promotion services for large companies had average annual revenue per customer of approximately JPY36mn based on around 100 customers of WebCrew Agency, or six times the JPY6mn revenue per customer for SMEs.

Purpose of three-company structure of Estore, Commerce21, and WebCrew Agency

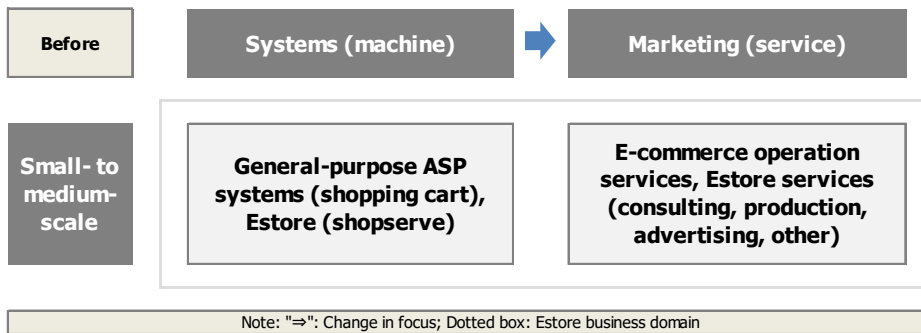
The group has been shifting its focus business area from general-purpose ASP systems for SMEs to dedicated converged e-commerce systems for large corporations. In other words, it is shifting from the Systems business to the Marketing business, from

shopping cart solutions (shopserve) to large-scale e-commerce package systems, and from machine processing to service delivery. The company is shifting away from the general-purpose shopping cart business as price competition has intensified with over 100 companies in the space, many of which are operating at a loss. The business is now in the same category as the already-commoditized rental server business, making it difficult to differentiate services with so many vendors in the space. As e-commerce system sales and operations require largely the same amount of effort and personnel for both small and large systems, the company intends to strengthen efforts to win large projects, which yield better sales and service efficiency.

Estore’s policy has been to lower its focus on the increasingly commoditized sales systems (Systems business) and shift toward sales promotion services (Marketing business), which show substantial potential demand. However, like the sales systems business, the sales promotion services business has over 1,000 production companies and advertising agencies, and competition in the e-commerce support area is intensifying. As such, the company plans to focus on pursuing large projects in the sales promotion business as well.

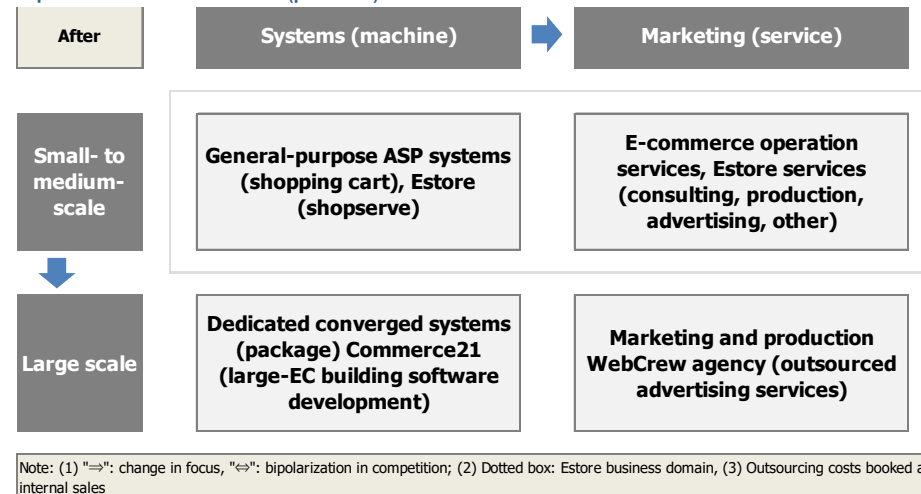
The changes in the company’s scope of business and areas of focus before and after the acquisition of Commerce21 and WebCrew Agency are shown in the table below. Prior to the merger, Estore (parent) was in the process of shifting its focus from the Systems business (small- to medium-scale) to the Marketing business (small- to medium-scale).

Scope of business and focus areas (pre--M&A)



Source: Shared Research, based on company data and interview

Scope of business and focus areas (post-M&A)



Source: Shared Research, based on company data and interview

At the time of the acquisitions, Commerce21, which was spun off (discussed below), operated its own large-scale converged e-commerce system business and WebCrew Agency had its own marketing and production business. After the acquisitions, former WebCrew Agency CEO Fujio Hino became head of the entire Marketing business, overseeing projects of all sizes and promoting cross-selling and upselling within the group. In the Systems business, Estore (parent) will focus on small- to medium-scale

projects while Commerce21 pursues large projects. This is because the company competes directly with large consulting, IT, and advertising firms for new larger projects, and the group's competitive landscape will be separated by project size.

Overview of business area (revenue, average revenue per customer, customer count, sales and development structure, competitors, etc.)

	Systems (machine)	Marketing
Small- to medium-scale	General-purpose ASP systems (shopping cart) Estore (shopserve) JPY3.6bn=JPY0.4mn x 9,000 companies Subscription and royalty Operates development Competition: more than 100 (mostly money losers)	E-commerce operation services Estore (consulting, production, advertising, other) JPY1.2bn=JPY6mn x 200 companies Royalty Operates marketing Competition: Over 1,000 (ad agencies)
	Estore (151 employees + 29 temporary workers)	
Large scale	Dedicated converged systems (package) Commerce21 (large EC building software development) JPY1.8bn=JPY2.1mn x 80+ companies Software development companies, system integrators Operates development (100 employees) Competition: ecbeing, other	Marketing and production WebCrew Agency (outsourced ad services) JPY3.6bn=JPY3.6mn x 100 companies Royalty Operates marketing (30 employees) Competition: Large ad agencies and consulting companies

Source: Shared Research, based on company data and interview
 *Revenue = average revenue per customer multiplied by customer count

Competitive landscape

With the acquisitions of Commerce21 and WebCrew Agency, the Estore group began acquiring large customers with substantial e-commerce budgets. Commerce21 was originally a system integrator in the software development industry and WebCrew Agency's main business was in advertising. The company sees ecbeing Corp., which is focused on developing large-scale e-commerce systems, as a direct competitor in this space. According to "2019 EC Solutions Market Share" published by Fuji Chimera Research Institute, ecbeing held a 47.1% share in developing e-commerce website packages for B2B transactions in 2018, and has maintained the top position for the 11th consecutive year. For Estore (parent), the main focus has been on building shopping carts for B2C e-commerce sites, but going forward the company will also focus on developing e-commerce site packages for B2B websites.

The group survived more than 20 years of intense competition with its differentiation strategy based on its "Mikawaya-san" approach, or in other words, the trade consulting approach. Mikawaya-san refers to a locally owned liquor store that understands what its customers need and makes personal recommendations for them. The store recommends only what customers need, thereby boosting customer satisfaction and building a lasting relationship. Estore believes that consumers (demand side) are feeling the effects of information overload in the digital age, and that companies (i.e., Estore's customers) would benefit from adopting an analog approach that cultivates a sense of resonance with consumers and creates the perception that they are receiving special attention. The company believes the trade consulting, or Mikawaya-san strategy, will prove effective in capturing new large B2B projects.

The company competes with major IT companies, consulting firms, and advertising agencies for large B2B e-commerce projects. Rather than directly competing with these companies that have already tapped into the market, the group plans to take a specialized trade consulting approach to uncover the underlying needs of large customers, and collaborate with other companies to approach customers depending on the circumstances.

Synergies

Effects of M&A

Since Commerce21 provides large-scale e-commerce systems to large corporations, it can offer sales promotion services as a value-added option. Meanwhile, WebCrew Agency will be able to provide sales promotion services to Commerce21 and also contribute to service improvement for Estore's sales promotion services. In addition to cross-selling, the company expects to upsell services to its existing customers, which should lead to higher order unit prices. In this way, the three group companies

can complement one another and create synergies, enabling the group to handle a wide variety of customer needs in both the Systems and Marketing business, addressing companies of all sizes.

Made Commerce21 a subsidiary (January 2020)

Previously, Commerce21 was a wholly owned subsidiary of Yahoo. Yahoo spun off the application performance management business from Commerce21 to establish B-SLASH, then transferred the business to ValueCommerce. Estore acquired Commerce21, which continued to operate its converged e-commerce package solution business after the spinoff, from Yahoo and made it a consolidated subsidiary. Commerce21 posted revenue of JPY1.8bn and operating profit of JPY100mn in FY03/20 (after the spinoff).

With the addition of Commerce21, the group is now able to respond to requests for large-scale e-commerce system development projects from customers of its sales promotion services. On the other hand, the company can provide sales promotion services to large corporations, which are Commerce21's mainstay customers. The company expects that these synergies will help improve the satisfaction of existing customers while strengthening new sales capabilities, thereby boosting group earnings.

Made WebCrew Agency a subsidiary (March 2020)

WebCrew Agency was a wholly owned subsidiary of WebCrew (subsidiary of NFC Holdings [Jasdaq: 7169]), an IT services company primarily engaged in the operation of an insurance comparison website. WebCrew Agency has a wide range of customers centering on large corporations, and is able to offer a diverse selection of planning solutions for online and real-world sales promotions. The company posted revenue of JPY4.1bn and operating profit of JPY100mn in FY03/20. The addition of WebCrew Agency strengthened the group's sales promotion services and large-project portfolio. Estore believes WebCrew Agency will help enhance both the quantity and quality of its sales promotion services.

Post-M&A annual rent reduction effect

Although the three companies will continue to operate under their existing brands for the time being following the M&A, Estore relocated its headquarters during FY03/21 to improve group-wide efficiency. With the group now capable of handling large projects, the company is prepared to realize synergies such as joint marketing and cross-selling in both the sales promotion services and sales systems businesses. In conjunction with the office relocation, the group will revise its work rules and regulations to promote teleworking, thereby reducing the size of the office. The average price per square meter will rise from JPY0.10mn to JPY0.12mn after the relocation, but the group expects to reduce annual rent by about JPY30mn, from JPY277mn to JPY248mn, due to a reduction in floor space from 2,909sqm to 2,122sqm.

M&A results

	Before consolidation				After
	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Commerce21					
(JPYmn)	Act.	Act.	Act.	Act.	Est.
Revenue	506	1,645	2,038	1,807	-
Operating profit	15	18	362	100	-
Operating profit margin	3.0%	1.1%	17.8%	5.5%	-
Recurring profit	16	17	363	-	-
Net income	16	-34	209	-	-
Total assets	1,051	1,211	1,369	-	-
Net assets	609	574	783	-	-
No. of employees (ex. temporary workers)	-	-	-	100	-
No. of temporary workers	-	-	-	2	-
WebCrew Agency					
(JPYmn)	Act.	Act.	Act.	Act.	Est.
Revenue	3,219	3,311	3,385	4,100	-
Operating profit	87	130	59	100	-
Operating profit margin	2.7%	3.9%	1.7%	2.4%	-
Recurring profit	87	130	59	-	-
Net income	67	76	38	-	-
Total assets	255	331	332	-	-
Net assets	752	792	736	-	-
No. of employees (ex. temporary workers)	-	-	-	29	-
No. of temporary workers	-	-	-	-	-
Estore (parent)					
(JPYmn)	Act.	Act.	Act.	Act.	Est.
Revenue	4,775	5,044	4,926	4,830	-
Operating profit	407	554	494	421	-
Operating profit margin	8.5%	11.0%	10.0%	8.7%	-
Recurring profit	402	582	524	430	-
Net income	286	412	359	291	-
Total assets	3,492	3,980	4,422	5,881	-
Net assets	1,174	1,463	1,354	1,505	-
No. of employees (ex. temporary workers)	168	143	143	151	-
No. of temporary workers	54	55	38	29	-
Estore (consolidated)					
(JPYmn)	Act.	Act.	Act.	Act.	Est.
Revenue	-	-	4,932	4,853	9,645
Office relocation costs (one-time)					230
Amortization of goodwill					130
Operating profit	-	-	516	478	398
Operating profit margin	-	-	10.5%	9.9%	4.1%
Before office relocation costs					628
Operating profit margin					6.5%
Before relocation costs and amortization					758
Operating profit margin					7.9%
Recurring profit	-	-	583	527	459
Net income	-	-	410	368	230
Total assets	-	-	4,496	7,238	-
Net assets	-	-	1,404	1,747	-
No. of employees (ex. temporary workers)	-	-	143	280	-
No. of temporary workers	-	-	38	31	-

Source: Shared Research based on company data

Note: FY03/17–FY03/20 earnings are pre-merger figures (however, Estore consolidated total assets, net assets, and employee count for end-FY03/20 are post-merger figures).

Reference: Old segments

Old segment reporting

The Estore group reported results through two segments between FY03/12 and FY03/16: the Marketing business and Systems business. The Marketing business consisted of the media business (online marketplace “park”) operated by Precision Marketing, which became a consolidated subsidiary in June 2011. The Group reduced its stake in Precision Marketing and deconsolidated the company in January 2016 and ceased segment reporting from FY03/17.

Reporting by service

Between FY03/17 and FY03/20, Estore (parent) and its group companies reported revenues by scope of business, which included sales promotion services, sales promotion systems (recurring and royalty revenue), and others (electronic authentication business, media business [which ended as of end-September 2018], etc.). However, figures for sales promotion systems and electronic authentication services were not disclosed in FY03/20 as revenues were minimal (about JPY30mn combined).

New segment reporting

As Commerce21 and WebCrew Agency have been fully consolidated, the Estore group plans to report through two segments in FY03/21: Systems and Marketing. In its 2019 shareholder report, the company disclosed its FY03/21 revenue forecast of JPY10.1bn, comprised of JPY5.9bn for the Systems business and JPY5.1bn for the Marketing business (the company also disclosed historical results from FY03/17 to FY03/20; see third chart below).

Since the small- to medium-scale Systems business is categorized as a non-core business, and Commerce21 and WebCrew Agency revenues are not broken down into recurring and royalty revenues, the company is undecided about continuing to disclose recurring revenue (monthly fixed fees) and royalty revenue (GMV-linked revenue) for sales systems from FY03/21 onward.

Business domains (JPYmn)	FY03/05	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13
Parent / Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	1,840	2,384	2,809	2,870	3,257	3,643	4,069	5,337	5,963
YoY		29.6%	17.8%	2.2%	13.5%	11.9%	11.7%	31.2%	11.7%
Sales promotion services								1,132	1,606
YoY								-	41.9%
% of revenue								21.2%	26.9%
Sales promotion systems									
YoY									
% of revenue									
Sales systems (recurring: fixed monthly fee)	1,279	1,701	2,012	2,084	2,242	2,367	2,507	2,378	2,372
YoY	-	33.0%	18.3%	3.6%	7.6%	5.6%	5.9%	-5.1%	-0.3%
% of revenue	69.5%	71.4%	71.6%	72.6%	68.8%	65.0%	61.6%	44.6%	39.8%
Sales systems (royalty: linked to GMV)	142	267	373	586	881	1,177	1,480	1,684	1,873
YoY	-	88.0%	39.7%	57.1%	50.3%	33.6%	25.7%	13.8%	11.2%
% of revenue	7.7%	11.2%	13.3%	20.4%	27.0%	32.3%	36.4%	31.6%	31.4%
Other	419	416	424	200	134	99	82	143	112
YoY	-	-0.8%	1.9%	-52.9%	-32.9%	-25.9%	-17.5%	74.6%	-21.8%
% of revenue	22.8%	17.4%	15.1%	7.0%	4.1%	2.7%	2.0%	2.7%	1.9%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Business domains (JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Parent/ Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.
Revenue	5,871	5,772	5,724	4,775	5,044	4,932	4,853
YoY	-1.5%	-1.7%	-0.8%	-16.6%	5.6%	-2.2%	-1.6%
Sales promotion services	1,735	1,889	1,748	788	1,131	1,190	1,213
YoY	8.0%	8.9%	-7.5%	-	43.6%	5.2%	2.0%
% of revenue	29.5%	32.7%	30.5%	16.5%	22.4%	24.1%	25.0%
Sales promotion systems					3	14	-
YoY					-	419.8%	-
% of revenue					0.1%	0.3%	-
Sales systems (recurring: fixed monthly fee)	2,298	2,099	2,060	1,967	1,856	1,724	1,688
YoY	-3.1%	-8.7%	-1.9%	-4.5%	-5.7%	-7.1%	-2.1%
% of revenue	39.1%	36.4%	36.0%	41.2%	36.8%	34.9%	34.8%
Sales systems (royalty: linked to GMV)	1,780	1,737	1,915	1,967	2,024	1,983	1,918
YoY	-5.0%	-2.4%	10.2%	2.7%	2.9%	-2.0%	-3.3%
% of revenue	30.3%	30.1%	33.5%	41.2%	40.1%	40.2%	39.5%
Other	58	46	1	54	31	22	34
YoY	-47.8%	-20.5%	-97.7%	-	-42.3%	-27.7%	52.0%
% of revenue	1.0%	0.8%	0.0%	1.1%	0.6%	0.5%	0.7%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Revenue by former segment	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Consolidated (JPYmn)	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons. Est.
Segment revenue	5,871	5,772	5,724	4,775	5,044	4,932	4,853	9,645
Systems	4,136	3,882	3,976					
Marketing	2,040	2,072	1,881					
Internal transactions or transfer	-305	-182	-133					

Composition

Systems	67.0%	65.2%	67.9%
Marketing	33.0%	34.8%	32.1%

YoY

Systems	-1.5%	-1.7%	-0.8%
Marketing	-2.4%	-6.1%	2.4%
Marketing	6.5%	1.6%	-9.2%

Revenue (external customers)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Consolidated (JPYmn)	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons. Est.
Segment revenue (external customers)	5,871	5,772	5,724	4,775	5,044	4,932	4,853	9,645
Systems	4,136	3,882	3,976	3,988	3,913	3,743	3,640	5,493
Marketing	1,735	1,889	1,748	788	1,131	1,190	1,213	5,112

Composition

Systems	70.5%	67.3%	69.5%	83.5%	77.6%	75.9%	75.0%	51.8%
Marketing	29.5%	32.7%	30.5%	16.5%	22.4%	24.1%	25.0%	48.2%

YoY

Systems	-1.5%	-1.7%	-0.8%	-	-	-2.2%	-1.6%	98.7%
Systems	-2.4%	-6.1%	2.4%	0.3%	-1.9%	-4.4%	-2.7%	50.9%
Marketing	0.5%	8.9%	-7.5%	-	-	5.2%	2.0%	321.4%

Profit by former segment	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Consolidated (JPYmn)	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons. Est.
Segment profit	552	572	619					
Systems	852	799	701					
Marketing	-296	-223	-79					
Goodwill amortization, eliminations	-4	-4	-3					

Composition

Systems	153.4%	138.8%	112.7%
Marketing	-53.4%	-38.8%	-12.7%

Segment profit margin

Systems	9.4%	9.9%	10.8%
Systems	20.6%	20.6%	17.6%
Marketing	-14.5%	-10.8%	-4.2%

YoY

Systems	-14.5%	3.7%	8.3%
Systems	6.8%	-6.2%	-12.3%
Marketing	-	-	-

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Electronic authentication and other revenues are included in System business revenue.

Media business revenue are shown for Marketing business between FY03/12 and FY03/16.

Unconsolidated FY03/16 revenue of JPY4.7bn consists of JPY4.1bn in System revenue and JPY596mn in Marketing revenue.

Figures for FY03/17-FY03/21 are calculated from revenue by service, which the company has continued to disclose since FY03/17.

Profitability

Profit margins (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.
Gross profit	1,783	1,768	1,850	1,847	1,740	1,825	1,548	1,449	1,490	1,504
Gross profit margin	43.8%	33.1%	31.0%	31.5%	30.1%	31.9%	32.4%	28.7%	30.2%	31.0%
Operating profit	604	498	645	552	572	619	407	554	516	478
Operating profit margin	14.8%	9.3%	10.8%	9.4%	9.9%	10.8%	8.5%	11.0%	10.5%	9.9%
EBITDA	791	714	849	742	747	721	492	642	598	543
EBITDA margin	19.4%	13.4%	14.2%	12.6%	12.9%	12.6%	10.3%	12.7%	12.1%	11.2%
Net margin	8.1%	5.3%	6.5%	5.5%	5.8%	7.0%	6.0%	8.2%	8.3%	7.6%
Financial ratios										
ROA (RP-based)	18.0%	13.6%	15.6%	14.0%	16.3%	17.4%	11.5%	15.6%	13.7%	9.0%
ROE	20.6%	16.5%	20.1%	21.0%	30.5%	36.7%	26.1%	31.2%	28.6%	23.4%
Total asset turnover	123.6%	144.3%	141.2%	148.6%	162.8%	160.6%	136.5%	135.0%	116.4%	82.7%
Working capital	338	478	238	315	294	385	394	385	389	397
Current ratio	148.0%	152.7%	161.1%	124.3%	133.2%	123.8%	131.1%	143.3%	179.6%	140.5%
Quick ratio	147.6%	148.0%	160.8%	123.8%	132.1%	123.4%	130.7%	143.0%	178.7%	136.6%
OCF / Current liabilities	0.38	0.30	0.37	0.19	0.29	0.25	0.20	0.29	-0.01	0.21
OCF / Total liabilities	0.36	0.27	0.36	0.18	0.28	0.25	0.20	0.27	-0.01	0.11
Cash conversion cycle (days)	21.3	21.3	12.6	5.6	8.6	13.5	23.3	22.4	22.0	11.2
Change in working capital	22	141	-240	77	-21	90	10	-9	4	8
	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.
Accounts receivable turnover	9.2	8.8	8.6	8.6	8.3	9.4	8.5	8.5	8.3	5.2
Days in accounts receivable	39.7	41.2	42.7	42.5	44.0	38.9	43.2	42.7	44.0	70.4
	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.
Inventory turnover	387.9	722.2	832.3	772.8	789.8	823.1	463.1	438.3	267.3	46.4
Days in inventory	0.9	0.5	0.4	0.5	0.5	0.4	0.8	0.8	1.4	7.9
	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.
Accounts payable turnover	18.9	17.8	12.0	9.8	10.2	14.1	17.7	17.2	15.7	5.4
Days in accounts payable	19.3	20.5	30.5	37.4	35.8	25.8	20.6	21.2	23.3	67.0
	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.
Tangible fixed asset turnover	17.6	26.6	31.0	32.8	43.9	61.7	45.2	42.8	46.2	26.3
Days in tangible fixed assets	20.7	13.7	11.8	11.1	8.3	5.9	8.1	8.5	7.9	13.9

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

With the consolidation of Commerce21 and WebCrew Agency in FY03/20, accounts receivable, accounts payable and inventories have all risen substantially on the balance sheet. On the other hand, note that revenue and profit for Commerce21 and WebCrew Agency are not consolidated for FY03/20, so the turnover rates and turnover days of accounts receivable, accounts payable, and inventories, as well as the cash conversion cycle, are irregular.

Cash conversion cycle = days of sales outstanding + days of inventories outstanding – days of payables outstanding

GPM was 43.8% and OPM was 14.8% in FY03/11 (unconsolidated), but between FY03/12–FY03/16, when Precision Marketing (operating loss, media business) was a consolidated subsidiary, GPM and OPM stagnated at around 31% and 10%, respectively. Neither GPM nor OPM improved between FY03/17–FY03/20. Profitability did not improve after service termination of the loss-making Media segment (end-September 2018) due to the company's inability to offset the decline in revenue of its mainstay small- to medium-scale e-commerce systems with increased revenue of sales promotion services and new large projects.

With the consolidation of Commerce21 and WebCrew Agency in FY03/20, accounts receivable, accounts payable, and inventories have all risen substantially on the balance sheet. On the other hand, note that revenue and profit for Commerce21 and WebCrew Agency are not consolidated for FY03/20, so the turnover rates and turnover days of accounts receivable, accounts payable, and inventories, as well as the cash conversion cycle, are irregular.

Market and value chain

Market trends

Domestic and overseas trends

The domestic e-commerce market (B2C) has grown at a CAGR of 11.4% in the ten years from 2008 to 2018, with the e-commerce adoption rate reaching 6.2%. This is a relatively high growth rate considering a GDP growth rate of 0.9% and a CAGR of -1.6% for the services market* (consumer spending) over the same period. Despite internet penetration and the number of mobile phone contracts per capita being higher than in the US or China, Japan has a low e-commerce ratio (the percent of all transactions accounted for by e-commerce; see table and details below). This indicates that, in Japan, even if consumers search for a product on the internet, they often buy it in a brick-and-mortar store. Overall, the growth potential for e-commerce in Japan is substantial.

* E-commerce market size divided by e-commerce ratio

In a comparison of e-commerce ratio by country (retail market, 2017), Japan ranks fifth among the US and 10 major Asian countries at 7.9%, behind China at 20.4%, South Korea at 18.8%, the US at 11.8%, and Taiwan at 10.4%. Japan has e-commerce ratios of roughly 10% with the exception of the daily goods and gardening/other categories. E-commerce ratios for the top four countries as well as for audio-visual equipment in India are considerably higher. With high internet penetration, South Korea has an average e-commerce ratio of more than 10 percent in every category. Meanwhile, China has a high e-commerce ratio despite its low internet penetration and networked readiness index. China's mobile phone contracts exceed its total population, and internet penetration among the middle and upper-middle classes is as high as in developed countries. With cashless payments being widely available throughout the country, mainly in urban areas, there is little resistance to paying via smartphone, which is one of the reasons for the high e-commerce ratio.

Domestic e-commerce market size and e-commerce ratio

(JPYbn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR (2008–2018)
E-commerce market size (B2C)	7,788	8,459	9,513	11,166	12,797	13,775	15,136	16,505	17,985	19,361	19,278	9.5%
YoY	16.3%	8.6%	12.5%	17.4%	14.6%	7.6%	9.9%	9.0%	9.0%	7.7%	-0.4%	
E-commerce ratio	2.8%	3.2%	3.4%	3.9%	4.4%	4.8%	5.4%	5.8%	6.2%	6.8%	8.1%	
Services market (consumers)	274,225	266,845	279,794	290,026	292,838	289,992	278,744	285,067	289,140	286,404	238,588	-1.4%
YoY	-14.0%	-2.7%	4.9%	3.7%	1.0%	-1.0%	-3.9%	2.3%	1.4%	-0.9%	-16.7%	
E-commerce ratio	54.2%	53.6%	55.9%	57.0%	56.4%	53.9%	51.2%	51.5%	52.0%	51.2%	44.3%	
GDP	505,531	497,449	500,475	508,701	518,811	538,032	544,365	553,073	556,190	559,827	538,609	0.6%
YoY	2.1%	-1.6%	0.6%	1.6%	2.0%	3.7%	1.2%	1.6%	0.6%	0.7%	-3.8%	

Source: Shared Research, based on Ministry of Economy, Trade, and Industry data

E-commerce related indices for Japan, US, and China

Key metrics	Year	(unit)	Japan	US	China
Total population	2017	mn	126.04	326.47	1,388.23
GDP per capita	2017	USD	38,428	59,532	8,827
Internet users	2017	mn	101.97	245.51	753.81
Internet usage ratio	2017	%	80.9%	75.2%	54.3%
Mobile phone contracts	2017	mn units	170.13	395.88	1,474.10
Mobile phone contracts per capita	2017	units	1.3	1.2	1.1
E-commerce market size	2018	USDbn	109.3	523.2	1,526.7
E-commerce ratio (B2C)	2017	%	7.9%	11.8%	20.4%
E-commerce spending per internet user	Annual	USD	921	1,675	1,862
Networked readiness index	2016 (139 countries)	[Ranking]	10	5	59

Source: Shared Research, based on Ministry of Economy, Trade, and Industry data
 Note: Japanese e-commerce market is based on goods sales

E-commerce ratio by country and category (2017, retail market)

Ten countries and regions	E-commerce ratio								
	Total B2C	Apparel	Cosmetics	Drugs	Electronic appliances	Audio/visual equip.	Daily goods	Gardening, other	Furniture, other
China	20.4%	28.9%	23.2%	17.8%	33.3%	35.0%	13.4%	1.1%	-
South Korea	18.8%	17.9%	11.0%	11.6%	11.4%	19.4%	10.2%	14.4%	15.3%
US	11.8%	20.4%	10.2%	10.8%	12.3%	41.3%	2.4%	4.6%	11.7%
Taiwan	10.4%	11.6%	10.8%	9.3%	7.9%	24.3%	2.0%	3.2%	4.0%
Japan	7.9%	14.9%	8.5%	7.8%	8.5%	12.4%	1.9%	5.7%	8.5%
Singapore	5.4%	8.7%	3.0%	6.0%	2.5%	3.0%	10.6%	0.9%	1.9%
India	4.9%	9.2%	1.4%	1.3%	1.3%	17.1%	0.1%	0.0%	3.0%
Malaysia	2.7%	2.7%	0.2%	1.4%	3.9%	1.8%	3.9%	2.9%	3.2%
Indonesia	2.3%	0.9%	0.7%	1.5%	0.4%	5.2%	3.7%	0.1%	0.4%
Thailand	1.8%	1.2%	0.5%	3.4%	4.2%	5.5%	2.6%	2.6%	1.2%

Source: Shared Research, based on Ministry of Economy, Trade, and Industry data

Domestic e-commerce system market categories and positioning of Estore's services

The company breaks down the in-house e-commerce system market (targeting companies that build in-house e-commerce websites) into the following five categories (company's service in parentheses; see below for details).

- ▷ Systems integration type e-commerce systems (Sell-Side Solution)
- ▷ Package type e-commerce systems (ECo2)
- ▷ Cloud-based e-commerce systems (shopserve)
- ▷ Shopping cart ASP (N/A)
- ▷ Instant cart (N/A)

Differentiating factors are the degree of freedom to design and develop systems (scope for customization). According to the company, the degree of customization determines how long it will take to build the system and how much it will cost to build and operate.

Systems integration type e-commerce systems

- ▷ Service name: Sell-Side Solution

Systems integration type e-commerce systems are fully customized systems built to order for each customer. This method is also known as from-scratch or full scratch development. The company calls this category "systems integration type" because system integration companies compete with e-commerce system specialists in this market. These systems are on-premise, using servers owned by the customer company. Each company can build an e-commerce website based its own design approach. These systems can be made very secure because they use dedicated phone lines

These systems typically take six to nine months to build, but can take over a year in some cases. The initial outlay (capital investment and cost of hiring personnel) tends to be greater than for other types of system, ranging from JPY10mn to over JPY100mn, and sometimes more. The average cost of Estore's systems is JPY50mn. Customers are mainly large corporations with annual revenue of JPY10–100bn.

Additional costs are incurred for updating and adding features after completion of the in-house e-commerce system. Sell-Side Solution does not have a feature for automatic updates by vendors, which means the system will deteriorate over time unless the owner invests in updates. Companies that opt for systems integration type e-commerce systems must employ personnel who are knowledgeable about e-commerce site production and security. However, after the system is built, it can operate at a more or less fixed cost.

- ▷ Companies that build their e-commerce sites using a SaaS-based system usually pay a fee (settlement fee) charged as a percentage of GMV to platform companies. This means that cost increases with revenue growth. However, vendors are

responsible for updating features of cloud-based systems. Unlike companies with systems integration-type systems, companies using SaaS-based systems do not need to employ people who are knowledgeable about e-commerce site production.

Competitors

Sell-side Solution is provided by Estore's subsidiary Commerce21. Estore's competitors in the system integration-type e-commerce system business include system integration companies like NTT Data (TSE1: 9613) and Nomura Research Institute (TSE1: 4307).

Package type e-commerce systems

▷ Service name: ECo2 (launched in FY03/22)

Package type e-commerce systems, like systems integration type systems, are in-house e-commerce systems that reflect each company's approach to design of e-commerce websites. It differs from systems integration type systems in using rental servers.

▷ Package type e-commerce systems are defined as shopping cart systems equipped with various features needed to build and operate e-commerce sites. By this definition, the category includes cloud-based systems (SaaS type systems) that have free initial and monthly costs, as well as systems that use rental servers. Estore's own definition is a method of building e-commerce sites using rental servers with somewhat less scope for customization than systems integration type e-commerce systems.

The company puts ECo2 into the package type e-commerce systems category. ECo2 targets mid-size companies unable to make the substantial investment needed to build a systems integration type e-commerce system, with annual revenue of JPY1.0–3.0bn.

▷ The system takes three to six months to build. The company charges customers on average JPY1mn/month for the server rental (JPY12mn/year). Customers can build these systems at a lower cost than systems integration type systems.

Competitors

ECo2 is provided by Estore's subsidiary Commerce21. Estore's competitors with similar offerings include Softcreate (service name: ecbeing) and Salesforce (service name: Commerce Cloud).

Cloud-based e-commerce systems

▷ Service name: shopserv

Cloud-based e-commerce systems are SaaS type systems that allow customers to use a platform needed to run e-commerce websites, with features such as shopping cart, payment settlement, order management, and mail delivery, in the cloud.

Customer companies' design approaches can be reflected in the cloud-based platform for customization of design, features, and API links. Companies that provide a cloud-based platform provide security and updates features on behalf of customer companies. However, cloud-based systems do not provide the scope for customization that on-premise systems have.

▷ The system takes a month or so to build, which is a shorter lead time than the two categories above. The company charges an initial fee and monthly fees of thousands to tens of thousands of yen. The company says that target customers of cloud-based systems are companies with annual revenue of a few hundred million yen.

▷ shopserv charges an initial fee of JPY15,000 (excluding tax) and monthly usage fee of JPY11,400 upward. The service is used by companies with annual revenue ranging from a few hundred million yen to over JPY10bn.

Competitors

Competitors offering cloud-based e-commerce systems like shopserv include Future Shop (service name: futuresshop) and GMO Makeshop (service name: MakeShop).

Shopping cart ASP/Instant cart

▷ The company is not involved in this category.

"Shopping cart ASP" is a SaaS type system like cloud-based e-commerce systems, and entails building an in-house e-commerce system in the cloud. System updates are provided by the platform provider (vendor, ASP). Customization is possible within the scope of the framework offered by the vendor. "Instant cart" is also a SaaS-based system for e-commerce websites used by small, private stores and individual. Shared Research understands that these two systems are limited in terms of reflecting a company's uniqueness or worldview compared with the three types of system above. However, the majority of these services are free (no initial or monthly fees).

- ▷ The system can be built in a week. It is suitable for business owners and individuals who wish to set up their own e-commerce website quickly, at low cost (free).
- ▷ Companies that use these systems have smaller annual revenue than companies that use cloud-based e-commerce systems, whose annual revenue is several hundred million yen. Estore believes that users of these services are mainly small businesses that prioritize product development, recruitment, and marketing, and wish to minimize investment in building their own e-commerce systems.
- ▷ Vendors of these systems generate earnings by charging a fixed fee (percentage of GMV) for each e-commerce site. Vendors increase their revenue if the number of stores (in-house e-commerce sites) using their platform goes up. They lower the entry barrier in terms of the cost of setting up an in-house e-commerce site by making the initial and monthly fees (such as server usage fee) free.

Market participants

Companies that run shopping cart ASP and instant cart services include BASE (TSE1: 4477, service name: BASE), GMO Pepabo (TSE1: 3633, service name: Color Me Shop), and hey (unlisted, service name: STORES).

Competition

Fierce competition for general-purpose shopping carts and advertising

The company is shifting its focus from general purpose ASP systems for SMEs to dedicated converged systems for large corporations. In other words, it is shifting the weight of its business from the Systems business to the Marketing business, from shopping cart systems (shopserve) to large-scale e-commerce package systems, and from machine processing to service delivery. Price competition in the general-purpose shopping cart business has intensified with over 100 companies in the space, many of which are operating at a loss. The business is now in the same category as the already commoditized rental server business, making it difficult to differentiate services with so many vendors in the space. Like the general-purpose shopping cart business, the Marketing business has over 1,000 production companies and advertising agencies as competitors, and competition in the e-commerce support service area is intensifying.

Directly competing with ecbeing for e-commerce development solutions

With the acquisitions of Commerce21 and WebCrew Agency, the Estore Group began acquiring large customers with substantial e-commerce budgets. Commerce21 was originally a system integrator in the software development industry and WebCrew Agency's main business is in advertising. The company sees ecbeing Corp., which is focused on developing large-scale e-commerce systems, as a direct competitor in this space. According to "2019 EC Solutions Market Share" published by Fuji Chimera Research Institute, ecbeing held a 47.1% share in developing e-commerce website packages for B2B transactions in 2018, and has maintained the top position for the 11th consecutive year. This is followed by second highest market share at 15.1%, third at 9.7%, fourth at 8.2%, and fifth at 6.6% (companies covered: Interfactory, S-cubism, Commerce21, System Integrator [TSE1: 3826], Salesforce.com, and w2solution). As a side note, Fuji Chimera Research Institute expects the e-commerce development solutions market to reach JPY26.7bn by 2023 (versus JPY16.5bn in 2018). For Estore (parent), the main focus has been on building shopping carts for B2C e-commerce sites, but going forward the company will also focus on developing e-commerce site packages for B2B websites.

Trade consulting differentiation strategy

The Estore group established its quality customer base by taking a trade consulting approach for its specialty store e-commerce support services, leveraging over 20 years of experience and expertise in the e-commerce market. Group CEO Kenichi Ishimura sometimes refers to its trade consulting approach as a “Mikawaya-san” approach.

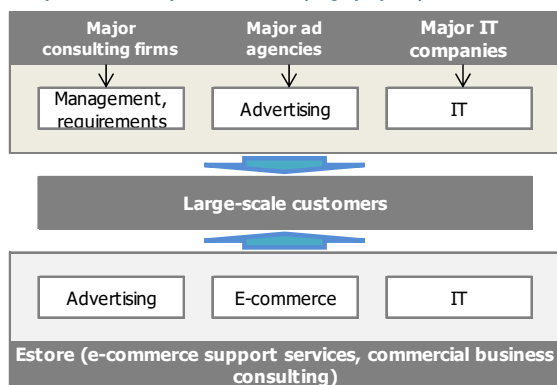
Mikawaya-san is a company engaged in door-to-door sales that appears in the popular Japanese anime “Sazae-san,” and its main business is liquor sales. The company has close ties to the community, knows its customers (existing customers), and takes orders for soy sauce, tofu, and other related products in addition to alcohol. The company takes care of its existing customers, and recommends products according to customer needs based on an intimate understanding of them. The term Mikawaya-san is used to refer to a company or person that has established a lasting relationship with its customers by increasing their satisfaction.

Estore believes that consumers (demand side) are feeling the effects of information overload in the digital age, and that companies (i.e., Estore’s customers) would benefit from adopting an analog approach that cultivates a sense of resonance with consumers and creates the perception that they are receiving special attention. The company believes the trade consulting, or Mikawaya-san strategy, will prove effective in capturing new major B2B projects. For the company’s focus area of large enterprise customers, the following major companies have already tapped into the market with expertise in their respective areas.

IT companies: IBM Japan, TIS (TSE1: 3626), NTT Data (TSE1: 9613)
Consulting firms: Accenture, Nomura Research Institute (TSE1: 4307), Funai Research Institute Holdings (TSE1: 9757)
Advertising agencies: Dentsu Group, Hakuhodo DY Holdings

Rather than directly competing with these companies, the Estore group plans to take a specialized trade consulting approach to uncover the underlying needs of large customers and make recommendations, or collaborate with other companies to approach customers depending on the circumstances.

Competitive landscape in focus area (large projects)



Source: Shared Research based on company data and interview

Domestic e-commerce store count by category

Overview

There are 2,707,000 active e-commerce sites and online stores in Japan with the following market shares by category: instant e-commerce 51.7% (Estore not involved), online marketplace 42.1% (Estore not involved), shopping cart 5.0%, package system 1.1%, and from-scratch development 0.2% (see below for an overview of each category). In terms of the number of known service providers, there are 34 package system providers, 26 shopping cart providers, nine online marketplace providers, one from-scratch development providers, and two instant e-commerce providers (source: ecclab). The two services STORES and BASE account for more than half of the total number of instant e-commerce stores (the actual number of active stores is likely to decline over time due to rapid expansion of stores on the no-upfront-cost plan). There are many service providers for shopping carts and package systems in relation to the number of stores, showing that companies are targeting specialty stores and high-end e-commerce businesses as customers (the same applies for from-scratch development providers).

Online marketplace (Estore not involved)

Similar to the way department stores work, the online marketplace model attracts customers by hosting many stores—from those operated by SMEs to those operated by large corporations—in the same place (1,139,000 stores). Stores are in fierce competition with each other, offering loyalty points and competitive prices. Building an online marketplace requires a major logistics system and massive promotional spending. The well-capitalized Yahoo! shopping, Amazon Japan, and Rakuten Ichiba are increasingly dominant in this space, accounting for a combined 96.4% market share in Japan. The Estore group launched its own online marketplace “park,” but was forced to withdraw. ZOZO (TSE1: 3092), which operates Japan’s largest online fashion mall ZOZOTOWN, also became a consolidated subsidiary of Z Holdings (TSE1: 4689), which owns Yahoo.

- ▷ Amazon operates in two ways: a vendor format where Amazon is the seller, and a marketplace format where retailers open stores on Amazon. It is easy to get started as sellers can begin by posting individual items for sale. Currently, it is the industry leader in terms of its ability to attract customers, with the largest number of monthly active users in Japan at just over 50mn, surpassing Rakuten Market’s monthly active user base of 48mn as of April 2019. The number of stores totaled 178,000 as of June 2015 (no figures disclosed thereafter).
- ▷ Rakuten Ichiba is a tenant-type online marketplace operated by the Rakuten group, and is one of the pioneers of online marketplaces in Japan. While the company has a strong support system in place, it also charges store fees, and thus is favored by store operators with a certain level of success. Leveraging Rakuten loyalty points, the company offers a variety of services (goods sales, finance, travel, etc.) as part of the Rakuten ecosystem. Monthly active users totaled 48mn and the number of stores 48,000 as of April 2019.
- ▷ Yahoo! Shopping is a tenant-type online marketplace operated by Yahoo Japan Corporation (unlisted). As it removed store fees and monthly usage fees in 2013, Yahoo! Shopping held the largest store count among the three major online marketplaces at 873,000 stores (as of March 2019), gaining tremendous popularity among cost-conscious companies. However, it ranks third behind Amazon and Rakuten Ichiba in terms of monthly active users (26mn as of June 2018).

Instant e-commerce (in-house e-commerce system; Estore not involved)

Instant e-commerce has the same basic system structure as shopping cart ASP services, but offers an easier way to open a store with lower initial costs. Therefore, it has the largest number of users (1,400,000 stores) centered around small-scale stores operated by sole proprietors. Two service providers, STORES (700,000 stores) and BASE (700,000 stores), dominate the market. Both companies offer free plans enabling users to open stores easily, which has led to a rapid rise in store count. More recently, even the free plans come with the same features as shopping cart systems such as unlimited product registrations. To compensate, however, payment and service fees are higher for free plans (5% to 6.6%) than for paid plans (about 3%).

Shopping cart (in-house e-commerce system)

The shopping cart is a system that allows users to build a basic website with a simple set-up and is used by many SMEs (134,000 stores). By category, shopping carts have the second highest number of service providers after package systems, and Estore’s shopserv has the sixth highest number of stores in the space. With the increasingly dominant major online marketplaces and the rise of instant e-commerce with no upfront costs, the number of e-commerce sites and online stores in Japan is expanding. On the other hand, shopping cart providers, including shopserv, have been narrowing their focus to quality stores, and store counts have been declining for many providers.

Package systems (in-house e-commerce system)

Package systems combine predesigned functional modules needed to operate an e-commerce store in configurations that meet the needs of e-commerce operators. Compared to shopping cart systems, there are fewer stores using package systems (29,000 stores) as it is aimed at higher-end e-commerce operators.

From-scratch development (in-house e-commerce system)

E-commerce sites in this category are developed from the ground up and come with high costs and long development times. On the other hand, from-scratch development allows for scalability and flexibility, and is aimed at the highest-end of e-commerce operators (5,000 stores).

Comparison of store count for domestic e-commerce sites (B2C)

Category	Service	(as of)	No. of stores	Share
Marketplace	Yahoo! Shopping	Mar 2019	872,889	76.6%
	Amazon Japan	Jun 2015	178,000	15.6%
	Rakuten Ichiba	Dec 2018	47,007	4.1%
	Wowma ! (DeNA Shopping)	Total by May 2019	15,000	1.3%
	Qoo10	Dec 2017	11,000	1.0%
	Ponpare Mall	Mar 2018	2,571	0.2%
	ZOZOTOWN	Dec 2018	1,255	0.1%
	47CLUB	May 2019	1,024	0.1%
	Yamada Mall	May 2019	217	0.0%
	Other malls		10,000	0.9%
	SUM		1,138,963	
Shopping cart	Color Me Shop	Mar 2019	40,000	29.8%
	MakeShop	Mar 2019	22,000	16.4%
	CS-CART	Total by May 2019	17,500	13.0%
	FC2 Shopping Cart	Total by Mar 2019	14,000	10.4%
	Ochanoko Net	Mar 2019	10,000	7.5%
	shopserve	Mar 2020	7,811	5.8%
	e-shops Cart S	Total by Mar 2019	6,000	4.5%
	futureshop	Dec 2018	2,400	1.8%
	Xcart	Total by Mar 2019	1,680	1.3%
	Tamago Repeat	Sep 2018	1,000	0.7%
	aishopR	Mar 2019	750	0.6%
	Repeat Store	Sep 2018	500	0.4%
	B Cart	Total by May 2019	400	1.4%
	Samurai Cart	Sep 2018	400	0.3%
	eTENPO MANAGER	Total by Mar 2019	400	0.3%
	CARTSTAR	Mar 2019	400	0.3%
	Color Me Repeat	Sep 2018	300	0.2%
	Repeat PLUS	Sep 2018	250	0.2%
	EC Force	Sep 2018	200	0.1%
	CraftCart	Total by Mar 2019	168	0.1%
Other including six unknown		8,000	6.0%	
	SUM		134,159	
Instant e-commerce	STORES	Oct 2016	700,000	50.0%
	BASE	Feb 2019	700,000	50.0%
	SUM		1,400,000	
Package	EC-CUBE	Total by May 2019	24,000	82.0%
	ecbeing	Total by Aug 2018	880	3.0%
	cagolab	Total by May 2019	640	2.2%
	SI Web Shopping	Total by May 2019	550	1.9%
	ebisumart	Total by May 2019	400	1.4%
	Commerce21	Total by May 2019	150	0.5%
	HIT MALL	Total by May 2019	50	0.2%
	Shuttensuru Kura	Jul 2016	50	0.2%
	RetailCube	Total by May 2019	50	0.2%
	RealPit	Total by May 2019	10	0.0%
Other including 24 unknown		2,500	8.5%	
	SUM		29,280	
Scratch	SUM		5,000	
Marketplace			1,138,963	42.1%
Shopping cart			134,159	5.0%
Instant e-commerce			1,400,000	51.7%
Package			29,280	1.1%
Scratch			5,000	0.2%
Total			2,707,402	

Source: Shared Research, based on ecclab data
 Note: Active store count estimated by ecclab based on published data of respective e-commerce sites

Strengths and weaknesses

Strengths

- Over 20 years of experience and expertise in launching and operating e-commerce sites for SMEs

Estore (parent) specializes in specialty-store e-commerce support services for SMEs, and established its customer base centered around companies with substantial e-commerce budgets by flexibly resolving to its customers' needs. With its mainstay e-commerce system "shopserve," customers can choose a pricing plan based on the number of registered products, number of registered customers, data disk storage size, website network traffic, and various optional plans. Shopserve features include: 1) operational design standards focused on reducing customer time and labor costs, 2) stability based on over 20 years of operational experience, and 3) the scalability that comes with 150 APIs. Moreover, in its focus area of sales promotion services, the company offers extensive customer services through: 1) full sales management by account, 2) outsourced webpage production and promotions, and 3) inventory and logistics management consulting to prevent order loss. As a result, upselling to existing customers progressed well, with revenue from sales promotion services (Marketing services) trending up from JPY788mn in FY03/17 to JPY1.2bn in FY03/20, and to JPY4.2bn in FY03/21 due to the acquisition of WebCrew Agency.

- Attractive revenue mix in the sales systems business serves as a revenue base for sales promotion services

Revenue for shopserve consists of recurring revenue (monthly fixed fees) and royalty revenue (linked to gross merchandise value). The former is collected as monthly subscription fees for ASP services, and the latter is collected as a percentage of sales made via stores on the shopserve platform (as payment settlement fees, etc.). Commission rates are fixed for both revenue categories, so GPM and OPM are relatively stable as long as sales fluctuations are not severe. The Estore group has been profitable every year since its founding for over 20 years, weathering through the global financial crisis with minimal impact and generating stable OPM of around 10% and flat revenues from FY03/12 onwards. Both revenue streams have contributed to Estore's growth and business stability as customer count expanded (peaked at 48,426 stores in FY03/09).

- Competitive advantage built on specialized trade consulting approach as a part of differentiation strategy

Estore has survived more than 20 years of intense competition with its differentiation strategy based on the "Mikawaya-san" approach, or in other words, the trade consulting approach. Mikawaya-san refers to a locally owned liquor store that understands what its customers need and makes personal recommendations for them. The store recommends only what customers need, thereby boosting customer satisfaction and building lasting relationships. Estore believes that consumers (demand side) are feeling the effects of information overload in the digital age, and that companies (i.e., Estore's customers) would benefit from adopting an analog approach that cultivates a sense of resonance with consumers and creates the perception that they are receiving special attention. The company believes the trade consulting, or Mikawaya-san strategy, will prove effective in capturing new large B2B projects.

Weaknesses

- Positioning between dominant e-commerce marketplaces such as Amazon and instant e-commerce platforms with free plans

Since its establishment in 1999, Estore has focused on providing comprehensive support services specializing in the launch and operations of e-commerce systems mainly for specialty stores. In recent years, however, the company has been caught between dominant online marketplaces such as Amazon Japan and Rakuten Ichiba, and instant e-commerce providers, which has forced the company on a declining path (store count declined from 13,929 in FY03/14 to 8,398 in FY03/21). Similar to department stores with multiple stores in the same location, the online marketplace model has the ability to attract customers with many stores ranging from those operated by SMEs as well as large corporations (total of 1,139,000 stores). Additionally, stores are in fierce competition with each other, offering loyalty points and competitive prices. The well capitalized Yahoo! Shopping, Amazon Japan, and Rakuten Ichiba are increasingly dominating in this space, accounting for a combined 96.4% domestic market share. Instant e-commerce has the same basic system structure as shopping cart ASP services, but offers an easier way to open a store with lower initial costs, which has led to a rapid increase in stores centered around small-scale stores operated by sole proprietors

(total of 1,400,000 stores). Shared Research believes that Estore (parent) is at a disadvantage in the in-house e-commerce support market as barriers to entry are lower than for online marketplaces and competition is fierce.

■ Slow shift toward new business and large customers amid increasing commoditization of e-commerce systems for SMEs
Estore's revenue has hovered around JPY5.0bn for nearly a decade. During this time, operating profit went from a little over JPY600mn to below JPY500mn. On the other hand, the domestic e-commerce market (B2C) has grown at a CAGR of 11.4% between 2008–2018. The company launched many new businesses during this time, but most have not contributed to profits. In 2011, Estore made Precision Marketing a consolidated subsidiary and started the media business, which operated online marketplace "park" (Precision Media deconsolidated in 2016, services in the Media business discontinued in 2018). The company thinks the launch of the sales promotion systems business (providing COMPARE and QUERY software) as a store backroom support lineup was premature. In 2018, the company established electronic authentication business CrossTrust, but demand has been sluggish.

Revenues for sales promotion systems and electronic authentication businesses accounted for a combined JPY30mn in FY03/20 (FY03/21 revenues not disclosed), and the company is considering shutting them down. Amid increasing commoditization of e-commerce systems for SMEs, Estore has been unable to offset the drop in sales systems revenue with growth in sales promotion services revenue, and Shared Research sees the slow shift to the new business model as a weakness.

Lack of HR development capabilities to serve the needs major projects for large corporations

The number of employees at Estore (parent) has remained flat at around 150 over the last five years. The company once reshuffled staff with aims to rejuvenate its senior management team, but this has not led to revenue growth. Estore's policy has been to lower its focus on the increasingly commoditized sales systems and shift toward sales promotion services, which shows substantial potential demand. In line with this, the company has made efforts to capture new major projects in the sales promotion services business. However, the company has been unable to offset the drop in sales systems revenue over the last several years due to delayed contributions from large projects stemming from the lack of new sales personnel (consultants), which resulted in lower-than-expected revenue growth in sales promotion services. Shared Research sees the lack of in-house resources to develop personnel capable of handling major projects for large corporations as a weakness.

Historical results and financial statements

Income statement

Income statement (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons.
Revenue	5,337	5,963	5,871	5,772	5,724	4,775	5,044	4,932	4,853	10,505
YoY	-	11.7%	-1.5%	-1.7%	-0.8%	-	5.6%	-	-1.6%	116.5%
Cost of revenue	3,569	4,113	4,024	4,032	3,899	3,227	3,595	3,442	3,348	7,892
Gross profit	1,768	1,850	1,847	1,740	1,825	1,548	1,449	1,490	1,504	2,613
Gross profit margin	33.1%	31.0%	31.5%	30.1%	31.9%	32.4%	28.7%	30.2%	31.0%	24.9%
SG&A expenses	1,271	1,205	1,296	1,168	1,206	1,141	895	974	1,026	1,706
SG&A ratio	23.8%	20.2%	22.1%	20.2%	21.1%	23.9%	17.7%	19.8%	21.1%	16.2%
Operating profit	498	645	552	572	619	407	554	516	478	907
YoY	-	29.5%	-14.5%	3.7%	8.3%	-	36.1%	-	-7.3%	89.7%
Operating profit margin	9.3%	10.8%	9.4%	9.9%	10.8%	8.5%	11.0%	10.5%	9.9%	8.6%
Non-operating income	14	18	6	7	4	1	38	88	51	203
Interest income	1	2	1	1	1	0	0	0	0	0
Dividend income	1	0					2			
Gain on valuation of crypto assets							28			63
Equity in earnings of affiliates								38	41	28
Other	13	16	5	5	3	0	7	50	6	112
Non-operating expenses	9	3	4	2	2	6	10	22	2	7
Interest expenses	1	0	1			0			1	
Loss on valuation of crypto assets							5	5		
Bond issuance expenses								14		
Other	8	3	3	2	2	6	5	3	1	-7
Recurring profit	504	659	554	576	621	402	582	583	527	1,074
YoY	-	30.9%	-16.0%	4.0%	7.7%	-	44.9%	-	-9.6%	104.0%
Recurring profit margin	9.4%	11.1%	9.4%	10.0%	10.8%	8.4%	11.5%	11.8%	10.9%	10.2%
Extraordinary gains	15		13		5					
Extraordinary losses	34		9	33	29					
Income taxes	214	256	221	204	196	116	171	173	159	314
Implied tax rate	44.1%	38.8%	39.6%	37.5%	32.8%	28.9%	29.3%	29.6%	30.2%	29.2%
Net income attributable to non-controlling interests				7	-3					
Net income attributable to owners of the parent	281	390	324	333	403	286	412	410	368	483
YoY	-	38.8%	-16.9%	2.8%	21.1%	-	44.1%	-	-10.3%	31.3%
Net margin	5.3%	6.5%	5.5%	5.8%	7.0%	6.0%	8.2%	8.3%	7.6%	4.6%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Income statement (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent
Revenue	4,251	4,493	4,526	4,337	4,660	4,775	5,044	4,926	4,830	5,564
YoY	4.5%	5.7%	0.7%	-4.2%	7.5%	2.5%	5.6%	-2.3%	-2.0%	15.2%
Cost of revenue	2,526	2,766	2,797	2,687	2,891	3,227	3,595	3,468	3,397	
Cost of purchased goods										
Labor costs	542	596	577	684	734	885	950	807	728	
Outsourcing costs	277	232	255	128	126	117	129	130	139	
Other costs	1,707	1,939	1,966	1,876	2,032	2,225	2,516	2,530	2,529	-
Housing	148	152	143	142	132	132	120	61	33	
Domain-related costs	45	40	38	36	34	31	27	25	23	
Depreciation	196	191	177	152	89	74	77	68	55	
Communication costs	83	81	73	74	75	76	75	67	66	
Supplies	23	27	9	11	9	10	6	6	6	
Outsourced services	909	1,022	1,003	981	1,097	1,142	1,184	1,155	1,153	
Commission fees	272	390	487	443	556	711	983	1,107	1,164	
Other	29	37	35	36	39	48	45	42	30	
Gross profit	1,725	1,727	1,729	1,649	1,769	1,548	1,449	1,490	1,504	
Gross profit margin	40.6%	38.4%	38.2%	38.0%	38.0%	32.4%	28.7%	30.3%	31.1%	-
SG&A expenses	1,209	1,120	1,215	1,090	1,140	1,141	895	964	1,026	
SG&A ratio	28.4%	24.9%	26.8%	25.1%	24.5%	23.9%	17.7%	19.6%	21.3%	-
Operating profit	516	607	514	559	629	407	554	494	421	731
YoY	-14.4%	17.5%	-15.3%	8.7%	12.5%	-35.2%	36.1%	-10.8%	-14.9%	73.6%
Operating profit margin	12.1%	13.5%	11.4%	12.9%	13.5%	8.5%	11.0%	10.0%	8.7%	13.1%
Non-operating income	15	18	4	5	2	1	38	52	51	
Non-operating expenses	8	3	3	2	2	6	10	22	2	
Recurring profit	524	622	516	562	629	402	582	524	430	903
YoY	-11.5%	18.6%	-17.0%	8.9%	11.9%	-36.1%	44.9%	-9.9%	-18.0%	110.0%
Recurring profit margin	12.3%	13.8%	11.4%	13.0%	13.5%	8.4%	11.5%	10.6%	8.9%	16.2%
Extraordinary gains	2		13		17					
Extraordinary losses	34		9	33	29					
Income taxes	212	241	206	199	196	116	171	165	159	
Implied tax rate	43.0%	38.7%	39.6%	37.6%	31.8%	28.9%	29.3%	31.5%	36.9%	0.0%
Net income attributable to owners of the parent	281	381	315	330	421	286	412	359	291	456
YoY	-14.6%	35.6%	-17.4%	5.0%	27.3%	-32.1%	44.1%	-12.7%	-19.0%	56.7%
Net margin	6.6%	8.5%	7.0%	7.6%	9.0%	6.0%	8.2%	7.3%	6.0%	8.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

SG&A expenses (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Consolidated	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons.
SG&A expenses	1,271	1,205	1,296	1,168	1,206	-	-	974	1,026	1,706
Advertising expenses	221	240	319	193	229	-	-	129	114	
Directors' compensations	110	121	133	135	126	-	-	106	105	
Salaries	165	136	165	155	164	-	-	150	226	
Rents	136	139	118	124	120	-	-	128	128	
Provision for bonuses	19	18	18	18	22	-	-			
Depreciation						-	-	13	11	
Provision for doubtful accounts	5	6	5	11	2	-	-	14	0	
Other	634	562	556	550	564	-	-	434	443	1,706
Agent commissions	159	136								

SG&A expenses (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent
SG&A expenses	1,209	1,120	1,215	1,090	1,140	1,141	895	964	1,026
Advertising expenses	230	252	339	219	248	217	144	129	114
Directors' compensations	93	93	97	114	103	88	86	106	105
Salaries	159	129	158	148	156	203	138	150	226
Rents	130	132	109	113	111	118	125	128	128
Provision for bonuses	19	18	18	18	22	26	15	0	0
Depreciation	15	13	10	17	11	10	10	13	9
Provision for doubtful accounts	5	5	5	10	2	2	1	14	0
Other	576	478	479	452	564	502	390	424	445
Agent commissions	159	136	-	-	-	-	-	-	-
Selling expenses	37%	39%	41%	33%	32%	29%	25%	22%	18%
General and administrative expenses	63%	61%	59%	67%	68%	71%	75%	78%	82%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Profitability

GPM was 43.8% and OPM was 14.8% in FY03/11 (unconsolidated). However, between FY03/12–FY03/16, when Precision Marketing (operating loss, media business) was a consolidated subsidiary, GPM and OPM stagnated at around 31% and 10%, respectively (services for Media business terminated in 2018). Neither GPM nor OPM improved between FY03/17–FY03/20.

Cost of revenue

In terms of cost of revenue, cost of outsourced services and commission fees have been rising for Estore (parent). Revenue for shopservice consists of recurring revenue (monthly fixed fees) and royalty revenue (linked to gross merchandise value). The former is collected as monthly subscription fees for ASP services, and the latter is collected as a percentage of sales made via store websites on the shopservice platform (as payment settlement fees, etc.). The company incurs outsourced service fees and commission fees when it pays ASP usage fees and payment settlement fees on behalf of its customers.

To strengthen sales activities for new large projects, the company has set aside a budget for hiring consultants each year, but the budget has not been consumed due to delays in hiring, and labor costs have not increased in recent years.

SG&A expenses

At the parent level, the company reduced SG&A expenses by cutting its advertising expenses by about two-thirds, from a peak of JPY339mn in FY03/14 down to JPY114mn in FY03/20. This is due to the company's decision to deprioritize the increasingly commoditized small to medium e-commerce system shopservice. As a result, the ratio of selling expenses (including advertising) to general and administrative expenses in SG&A expenses (unconsolidated) has shifted from 37:63 in FY03/11 to 18:82 in FY03/20.

After merging Commerce21 and WebCrew Agency, the Estore group will move to a new office in FY03/21. In conjunction with the office relocation, the company will revise its work rules and regulations to promote telework and reduce office space. The average price per sqm will rise from JPY0.10mn to JPY0.12mn after the relocation, but the group expects to reduce annual rent by about JPY30mn, from JPY277mn to JPY248mn, due to a reduction in floor space from 2,909sqm to 2,122sqm.

Balance sheet

Balance sheet (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Parent	FY03/18 Parent	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
ASSETS										
Cash and deposits	2,327	2,874	2,005	2,311	2,385	2,313	2,779	2,977	3,289	4,768
Accounts receivable	749	645	722	668	553	576	605	584	1,288	1,319
Inventories	5	5	6	5	5	9	7	18	126	64
Deferred tax assets	63	73	59	60	62	61	58			
Other	98	4	5	22	5	1	0	1	12	13
Prepaid expenses	72	64	43	41	40	47	48	57	74	64
Crypto assets							12	7	11	107
Other	21	42	13	24	12	9	63	67	172	61
Allowance for doubtful assets	-9	-10	-6	-11	-4	-3	-3	-2	-1	-1
Total current assets	3,326	3,695	2,847	3,118	3,058	3,012	3,568	3,710	4,970	6,395
Buildings	15	13	11	20	15	30	32	32	130	203
Tools, furniture, and fixtures	172	185	148	83	64	97	73	74	107	103
Lease assets					4	3	2	1	26	9
Total tangible fixed assets	187	198	159	103	82	129	107	107	263	315
Software	293	237	199	103	109	96	74	47	93	93
Goodwill	17	13	9	5			-	10	610	391
Other	0	32	8	14	0	8	0	0	595	510
Total intangible assets	310	282	216	122	109	104	74	57	1,298	995
Investment securities	42	63	55	96	99	72	69	170	199	255
Deferred tax assets	24	19	19	26	27	29	17	52	59	5
Other	141	180	170	158	131	151	145	414	603	642
Allowance for doubtful assets	-17	-4				-4	-	-14	-16	-2
Investments and other assets	189	258	245	279	256	248	230	622	845	900
Total fixed assets	687	739	621	504	447	480	411	786	2,406	2,209
Total assets	4,013	4,434	3,468	3,622	3,506	3,492	3,980	4,496	7,376	8,604
LIABILITIES										
Accounts payable	276	411	413	378	174	191	227	213	1,016	874
Short-term debt	6	7	106	103	326	1	1	1	166	416
Deposits received	1,465	1,388	1,395	1,395	1,559	1,740	1,854	1,605	1,855	2,528
Provision for bonuses	61	62	61	60	71	91	72		67	75
Other	369	426	316	405	341	274	336	247	434	584
Total current liabilities	2,178	2,293	2,291	2,341	2,471	2,297	2,491	2,066	3,538	4,477
Long-term debt	26	20	139	43	19	23	27	1,026	1,943	1,634
Asset retirement obligations	11	12	12	18	16	21	26	26	57	83
Bonds with share subscription rights							-	1,000	1,000	755
Long-term borrowings	15	9	127	25					863	788
Lease obligations					3	2	1		24	8
Other	-0	0	0	-	0	-	0	-0	10	149
Total fixed liabilities	26	20	139	43	19	23	27	1,026	1,953	1,784
Total liabilities	2,203	2,313	2,430	2,384	2,490	2,319	2,517	3,091	5,629	6,261
NET ASSETS										
Capital stock	523	523	523	523	523	523	523	523	523	646
Capital surplus	539	539	539	539	539	539	539			122
Retained earnings	1,724	2,016	2,221	2,460	2,760	2,921	3,209	1,204	1,548	1,892
Treasury stock	-992	-992	-2,287	-2,340	-2,810	-2,810	-2,810	-324	-324	-325
Shareholders' equity	1,795	2,087	996	1,183	1,012	1,174	1,462	1,403	1,747	2,336
Accumulated other comprehensive income	-2	4	-0	6	3	-1	1	1	-0	8
Subscription rights to shares	2	2	1	1						
Non-controlling interests	14	27	41	48						
Total net assets	1,809	2,121	1,038	1,238	1,015	1,174	1,463	1,404	1,747	2,344
Total liabilities and net assets	4,013	4,434	3,468	3,622	3,506	3,492	3,980	4,496	7,376	8,604
Working capital	478	238	315	294	385	394	385	389	397	509
Total interest-bearing debt	21	15	233	127	329	3	2	1,000	2,052	1,967
Net debt	-841	-1,471	-376	-788	-497	-569	-923	-372	618	-273

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Cash and deposits include deposits received on behalf of customers (money collected for payment settlement services in the sales systems business). Most of the deposits are remitted or made available for withdrawal on a predetermined date and is temporarily held by Estore. The same amount of deposits is posted under liabilities, and the amount has grown each year from JPY1.2bn in FY03/11 to JPY1.9bn in FY03/20.

Interest-bearing debt increased by JPY1.1bn YoY due to the consolidation of Commerce21 and WebCrew Agency in FY03/20. Additionally, the company brought in investment fund Advantage Advisors and raised just under JPY1.0bn in FY03/19 through a

third-party allocation of convertible bonds. With the consolidation of Commerce21 and WebCrew Agency, accounts receivable, accounts payable, and inventories have all risen substantially.

As a result, total assets were JPY5.9bn (+JPY1.5bn YoY) on an unconsolidated basis and JPY7.3bn (+JPY2.7bn YoY) on a consolidated basis at end-FY03/20.

Balance sheet (parent)

Balance sheet (JPYmm)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent
ASSETS										
Cash and deposits	1,973	2,241	2,738	1,910	2,156	2,385	2,313	2,779	2,914	2,270
Accounts receivable	457	494	517	544	528	553	576	605	584	601
Inventories	5	5	5	6	5	5	9	7	18	16
Deferred tax assets	73	63	72	58	60	62	61	58		
Advances paid	2	5	4	5	2	5	1	0	1	7
Prepaid expenses	72	71	62	42	39	40	47	48	55	55
Crypto assets								12	7	11
Other	14	183	9	3	20	12	9	63	66	115
Allowance for doubtful assets		-9	-9	-5	-11	-4	-3	-3	-2	-1
Total current assets	2,595	3,053	3,396	2,562	2,798	3,058	3,012	3,568	3,644	3,075
Buildings	19	15	13	11	18	15	30	32	32	30
Tools, furniture, and fixtures	196	171	185	148	83	64	97	73	74	84
Lease assets						4	3	2	1	
Total tangible fixed assets	215	186	198	159	101	82	129	107	107	113
Software	293	292	236	199	103	109	96	74	46	30
Goodwill								-		
Other	0	0	32	8	14	0	8	0	0	0
Total intangible assets	293	292	268	207	116	109	104	74	46	30
Investment securities	86	10	31	38	85	88	72	69	170	199
Deferred tax assets	30	23	19	19	25	27	29	17	42	50
Other	174	191	180	167	184	142	151	145	427	2,428
Allowance for doubtful assets	-10	-17	-4				-4	-	-14	-14
Investments and other assets	280	206	225	224	294	256	248	230	625	2,663
Total fixed assets	788	685	692	590	511	447	480	411	777	2,806
Total assets	3,383	3,737	4,087	3,152	3,309	3,506	3,492	3,980	4,422	5,881
LIABILITIES										
Accounts payable	124	130	170	179	181	174	191	227	218	245
Short-term debt	-	-	-	100	100	326	1	1	1	160
Short-term borrowings						300				30
Current portion of long-term borrowings				100	100	25				130
Lease obligations						1	1	1	1	-
Deposits	1,204	1,462	1,385	1,393	1,393	1,559	1,740	1,854	1,602	1,852
Provision for bonuses	54	61	62	61	60	71	91	72		-
Other	372	278	374	304	364	341	274	336	222	230
Total current liabilities	1,754	1,931	1,991	2,036	2,098	2,471	2,297	2,491	2,042	2,487
Long-term debt	10	11	12	137	41	19	23	27	1,026	1,889
Bonds payable	10	11	12	12	16	16	21	26	26	26
Bonds with share subscription rights								-	1,000	1,000
Long-term borrowings				125	25					863
Lease obligations						3	2	1		-
Other	-	-	-	0	-0	0	-	0	-0	0
Total fixed liabilities	10	11	12	137	41	19	23	27	1,026	1,889
Total liabilities	1,764	1,941	2,003	2,173	2,139	2,490	2,319	2,517	3,068	4,376
NET ASSETS										
Capital stock	523	523	523	523	523	523	523	523	523	523
Capital surplus	539	539	539	539	539	539	539	539		
Retained earnings	1,541	1,724	2,007	2,203	2,440	2,760	2,921	3,209	1,153	1,306
Treasury stock	-992	-992	-992	-2,287	-2,340	-2,810	-2,810	-2,810	-324	-324
Shareholders' equity	1,612	1,795	2,078	978	1,163	1,012	1,174	1,462	1,352	1,505
Accumulated other comprehensive income	5	-2	4	-0	6	3	-1	1	1	-0
Subscription rights to shares	2	2	2	1	1					
Non-controlling interests	1,619	1,796	2,085	979	1,170	1,015	1,174	1,463	1,354	1,505
Total net assets	3,383	3,737	4,087	3,152	3,309	3,506	3,492	3,980	4,422	5,881
Total liabilities and net assets	338	368	352	371	352	385	394	385	384	372
Working capital	10	11	101	237	141	345	24	28	1,026	2,049
Total interest-bearing debt	-759	-768	-1,251	-281	-622	-481	-549	-897	-285	1,631
Net debt										

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Cash flow statement

Cash flow statement (JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	593	828	444	678	613	466	692	-27	596	1,661
Pre-tax profit	485	659	559	544	596	402	582	583	527	796
Depreciation	216	204	190	175	102	85	87	82	65	192
Impairment losses				33						278
Change in working capital	-188	317	837	3	-30	9	6	5	1	-160
Decrease (increase) in accounts receivable	-252	89	-79	55	-7	-12	-31	20	-17	-18
Decrease (increase) in inventories										
Increase (decrease) in accounts payable	64	229	916	-52	-23	21	37	-14	18	-142
Cash flows from investing activities (2)	-82	-588	283	-122	-163	-89	-39	-350	-1,168	-198
Purchase of tangible/intangible fixed assets	-176	-180	-103	-69	-61	-92	-69	-66	-53	-221
Proceeds from sale of tangible/intangible fixed assets	0									
Free cash flow (1+2)	510	241	727	556	450	377	652	-377	-572	1,463
Cash flows from financing activities	-159	-104	-1,198	-252	-376	-449	-125	513	885	15
Net increase in short-term borrowings	-12		700		300	-300			30	220
Net increase in long-term borrowings	-50	-	218	-106	-103	-25	-	-	993	-41
Proceeds from long-term borrowings			300						1,000	100
Repayment of long-term borrowings	-50		-82	-106	-103	-25			-7	-141
Proceeds from issuance of, and redemption of, bonds	-	-	-	-	-	-	-	985	-	-
Issuance of bonds								985		
Dividends paid	-98	-98	-119	-94	-101	-124	-124	-144	-138	-138
Depreciation and amortization (A)	216	204	190	175	102	85	87	82	65	192
Capital expenditures (B)	184	191	88	77	75	129	36	54	55	
Change in working capital (C)	-188	317	837	3	-30	9	6	5	1	-160
Simple FCF (NI + A + B - C)	870	467	-235	581	609	490	529	540	486	834

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Estore group's cash flows for FY03/20 were as follows.

Cash flows from operating activities

In FY03/20, net cash inflows from operating activities were JPY596mn. The main factors contributing to inflows were JPY527mn in pre-tax profit and a JPY248mn increase in deposits received while JPY154mn in corporate income tax payments contributed to outflows.

Cash flows from investing activities

In FY03/20, net cash outflows from investing activities were JPY1.2bn. The main factors contributing to outflows were JPY1.2bn in purchases of shares of subsidiaries (Commerce21 and WebCrew Agency) resulting in a change in scope of consolidation and JPY98mn in payments for lease deposits.

Cash flows from financing activities

In FY03/20, net cash inflows from financing activities were JPY885mn. The main factor contributing to inflows was JPY996mn in proceeds from long-term borrowings for M&A funding while JPY138mn in dividend payments contributed to outflows.

Historical results

Full-year FY03/21 results (out May 14, 2021)

Overview

- ▷ Revenue: JPY10.5bn (+116.5% YoY; 101.6% achievement rate vs. revised forecast announced on February 12, 2021)
- ▷ Operating profit: JPY907mn (+89.7% YoY; 110.6%)
- ▷ Recurring profit: JPY1.1bn (+104.0% YoY; 107.4%)
- ▷ Net income: JPY483mn (+31.3% YoY; 78.5%)

* Net income attributable to owners of the parent

The boost in revenue was mainly attributed to contributions from Commerce21 and WebCrew Agency, which were made consolidated subsidiaries through M&A in FY03/20, from FY03/21.

In addition, the COVID-19 pandemic drove companies to accelerate their digital transformation initiatives while also triggering stay-at-home demand, which in turn boosted revenue at the company group, whose business is centered on e-commerce. However, some customers were less willing to spend on advertising because of the pandemic and the postponement of the Tokyo Olympics.

The main factors behind the increase in operating profit (+JPY429mn YoY) were the consolidation of the two companies mentioned above (+JPY40mn YoY) and higher revenue from Estore (parent) and Commerce21 (+JPY430mn YoY combined), which offset the rise in investments (-JPY50mn YoY).

Revenue by earnings model

E-commerce systems (Systems business)

- ▷ Revenue: JPY3.9bn (+101.6% YoY)

With the consolidation of Commerce21, the company expanded its e-commerce system offerings and enhanced its service portfolio. The company is now able to provide systems optimized for both small and medium-sized online stores with annual sales ranging from several million yen to several hundred million yen, and large-scale stores with annual sales above JPY10.0bn.

The Systems business covers Estore's cloud-based sales system (shopserve; SaaS) and Commerce21's dedicated converged sales system (Sell-Side Solution; PaaS).

Payment settlement services (Settlement business)

- ▷ Revenue: JPY2.4bn (+38.9% YoY)

Since the company's sales strategy is focused on customers with large annual sales, the number of small stores fell, which led to a decline in overall customer count. However, GMV per store is on the rise and payment settlement fees are increasing.

Reference

- ▷ Shopserve GMV: JPY103.9bn (up 26.2% from JPY82.3bn in FY03/20)
- ▷ Shopserve store count: 8,398 stores (down 6.7% from 9,004 stores)
- ▷ Shopserve revenue per store: JPY12.4mn (up 35.1% from JPY9.2mn)

Marketing services (Marketing business)

▷ Revenue: JPY4.2bn (+246.8% YoY)

Making WebCrew Agency a subsidiary strengthened the company's marketing service offering for system customers by linking and integrating it with marketing services previously handled internally at Estore. Advertising budgets fell in FY03/21 as a result of the COVID-19 pandemic and the postponement of the Tokyo Olympics, but online advertising demand for e-commerce was solid, which helped maintain marketing service revenues.

Reference: Revisions to the full-year FY03/21 earnings forecast

On February 12, 2021, the company revised its full-year FY-3/21 earnings forecast. The forecast for revenue was revised upward to JPY10.3bn (previous forecast of JPY9.6bn), for operating profit to JPY820mn (previous forecast of JPY398mn), for recurring profit to JPY1.0bn (previous forecast of JPY459mn), and for net income to JPY615mn (previous forecast of JPY230mn). The reason for these upward revisions is that progress toward the previous forecasts had been strong.

Factoring in the consolidation of earnings at new subsidiaries Commerce21 and WebCrew Agency, as well as the expansion of e-commerce due to the coronavirus crisis, the company forecasts FY03/21 revenue of JPY10.3bn (+113.1% YoY). Due to expected goodwill amortization of roughly JPY130mn (from M&A expenses) and office relocation expenses of about JPY230mn, the company forecasts operating profit of JPY820mn (+71.5% YoY), recurring profit of JPY1.0bn (+89.9% YoY), net income attributable to owners of the parent of JPY615mn (+67.2% YoY), and diluted earnings per share of JPY55.04. The company plans to pay a dividend of JPY32.00 per share, up JPY3.00 YoY (revised upward on March 25, 2021).

Q3 FY03/21 results

Overview

In cumulative Q3 FY03/21, Estore reported revenue of JPY7.8bn (+114.4% YoY), operating profit of JPY657mn (+73.9% YoY), recurring profit of JPY924mn (+106.2% YoY), and net income of JPY580mn (+80.6% YoY).

- ▷ From FY03/21, the company started booking Commerce21 (acquired in FY03/20) results in the Systems business and WebCrew Agency (also acquired in FY03/20) results in the sales promotion business. The inclusion of these two companies in consolidated results drove the rise in profits.
- ▷ Changes to social demand, such as expanded e-commerce caused by the coronavirus crisis, had a positive impact on cumulative Q3 FY03/21 results as these changes led to increased revenue of the company group's sales promotion and settlement function provision services. In Q1 (April-June), E-commerce demand rapidly grew and has remained at a high level since July 2020.
- ▷ In terms of non-operating profit, an affiliated company engaged in the DC2 business (Commerce21) contributed, and the company posted a JPY186mn gain on equity in earnings of affiliates.
- ▷ Part (JPY131mn) of the costs related to office consolidation and head office relocation implemented in FY03/21 were booked as impairment losses in Q1 and recorded as an extraordinary loss.

Results by business

E-commerce Systems business

The E-Commerce Systems business includes Estore's cloud-based sales system (shopsolve, a SaaS-based e-commerce system) and Commerce21's dedicated converged sales system (Sell-Side Solution, a PaaS-based e-commerce system).

The business booked cumulative Q3 FY03/21 revenue of JPY2.9bn (versus JPY1.4bn in cumulative Q3 FY03/20; +103.1% YoY). In addition to the positive effect on revenue from M&A, revenue in the existing businesses expanded on increased customer DX investment. Furthermore, an increasing number of companies is accelerating E-commerce-related investment, and revenue per customer is expanding. The company has gained more new customers by strengthening the sales force.

Settlement Function Provision business

The Settlement Function Provision business recorded cumulative Q3 FY03/21 revenue of JPY1.8bn (versus JPY1.3bn in cumulative Q3 FY03/20; +39.3% YoY), as sales grew at customer companies on increased stay-at-home demand. Revenue in the business is linked to e-commerce sales at the company's customer companies.

Marketing Support business (sales promotion business)

The sales promotion business covers sales promotion services, which primarily serves shopserve customers at the Estore parent, and all of WebCrew Agency's business. The business offers support in website creation and in attracting customers to those websites, and is accordingly highly focused on recurring revenue businesses. An increase in customer company e-commerce sales also results in a contribution to Settlement business earnings.

The business recorded cumulative Q3 FY03/21 revenue of JPY3.0bn (versus JPY880mn in cumulative Q3 FY03/20; +241.5% YoY). Advertising demand declined due to a decrease in the number of events held during the COVID-19 pandemic. Despite headwinds in existing areas, the consolidation of WebCrew Agency through M&A contributed to the group's revenue growth.

Progress versus forecast

Progress versus cumulative Q3 FY03/21 forecast was 75.1% for sales, 80.1% for operating profit, 92.4% for recurring profit, and 94.3% for net income.

1H FY03/21 results

Overview

In 1H FY03/21, Estore reported revenue of JPY5.0bn (+111.0% YoY), operating profit of JPY376mn (+61.6% YoY), recurring profit of JPY550mn (+86.4% YoY), and net income of JPY316mn (+45.2% YoY).

- ▷ From FY03/21, the company started booking Commerce21 (acquired in FY03/20) results in the Systems business and WebCrew Agency (also acquired in FY03/20) results in the sales promotion business. The inclusion of these two companies in consolidated results drove the rise in profits, though the company also noted that the company's existing businesses showed double-digit growth due to changes in consumer behavior as a result of the COVID-19 pandemic.
- ▷ Part (JPY131mn) of the costs related to the office consolidation and head office relocation on August 31, 2020 were booked as impairment losses in Q1 and recorded as an extraordinary loss.

Results by business

Systems business

The Systems business includes Estore's cloud-based sales system (shopserve, a SaaS-based e-commerce system) and Commerce21's dedicated converged sales system (Sell-Side Solution, a PaaS-based e-commerce system). The business booked 1H FY03/21 revenue of JPY1.9bn (+101.5% YoY). In addition to the positive effect on revenue from M&A, revenue in the existing businesses expanded on increased customer DX investment. New large customer acquisition has also been steady.

Settlement business

The Settlement business recorded 1H FY03/21 revenue of JPY1.2bn (+38.4% YoY). With the rise in stay-at-home demand caused by the COVID-19 pandemic especially in the April–June 2020 period, sales grew at various customer companies, including food companies. Revenue in the business is linked to e-commerce sales at the company's customer companies.

Marketing business (sales promotion business)

The sales promotion business covers sales promotion services, which primarily serves shopserve customers at the Estore parent, and all of WebCrew Agency's business. The business offers support in website creation and in attracting customers to those websites, and is accordingly highly focused on recurring revenue businesses. An increase in customer company e-commerce sales also results in a contribution to Settlement business earnings.

The business recorded 1H FY03/21 revenue of JPY1.9bn (+228.6% YoY). Despite headwinds such as fewer advertisements and sales promotion events brought on by the COVID-19 pandemic, revenue rose YoY with the consolidation of WebCrew Agency after acquisition. That said, revenue appears to be trending slightly below the company's forecast.

Q1 FY03/21 results

Overview

In Q1 FY03/21, Estore reported revenue of JPY2.4bn (+109.3% YoY), operating profit of JPY197mn (+73.4% YoY), recurring profit of JPY242mn (+79.2% YoY), and net income of JPY92mn (-2.9% YoY).

- ▷ From FY03/21, the company started booking Commerce21 (acquired in FY03/20) results in the Systems business and WebCrew Agency (also acquired in FY03/20) results in the sales promotion business. The inclusion of these two companies in consolidated results drove the rise in profits.
- ▷ Looking at YoY results by company, revenue fell at WebCrew Agency and Commerce21, with WebCrew Agency experiencing the largest drop in revenue. The main reason for the decline in WebCrew Agency's revenue is a review of revenue recognition standards prior to earnings consolidation, although there was some impact from a decrease in sales promotions and events at physical stores amid the COVID-19 pandemic. In contrast, Estore (parent) saw higher revenue and profits. E-commerce demand was steady and Estore (parent) revenue was the most stable among consolidated companies.
- ▷ The promotion of remote work led to a noticeable increase in online consumption. This was a tailwind for stores using the company's sales system (shopserve), and sales at various customer stores rose substantially. On the other hand, retailers operating physical stores faced the challenging market environment and an increasing number of these customers suspended or reviewed online customer attraction and advertising.
- ▷ While sales of the company's physical store area-linked cloud-based sales system were up, results for dedicated converged systems and sales promotion businesses came in below initial plans.
- ▷ In terms of expenses, the company cut back on advertising and other expenses.
- ▷ Part of the expected costs related to office consolidation and head office relocation (JPY131mn) were booked as an impairment loss and recorded as an extraordinary loss.

Results by business

Systems business

The Systems business covers Estore's cloud-based sales system (shopserve) and Commerce21's dedicated converged sales system (Sell-Side Solution).

- ▷ Revenue: JPY1.5bn (+69.1% YoY)
- ▷ Recurring revenue from SMEs (monthly fixed fees): JPY442mn (+7.5% YoY)
- ▷ Royalty revenue (GMV-linked revenue): JPY690mn (+46.9% YoY)
- ▷ Revenue from large corporations (development and maintenance fees): JPY358mn
- ▷ While shopserve's store count was down, the company made progress in acquiring customers with high revenue per store and e-commerce demand grew, which resulted in a substantial 54.6% YoY rise in revenue per store.
- ▷ Recurring and royalty revenues grew significantly due to a sharp rise in the use of payment options in sales systems and the use of payment settlement services, which also coincided with the rush demand ahead of the end of the cashless payment consumer rebate project which started in October 2019.
- ▷ Regarding Sell-Side Solution, which is an e-commerce system geared for large corporations, the company expects a steady stream of orders from existing customers for ongoing maintenance and additional work, and the operation and maintenance business, which includes work related to adding new functionalities, is progressing in-line with plan.
- ▷ On the other hand, new projects fell short of plan due to postponements of development start dates and requested delivery dates in light of the coronavirus pandemic.

Marketing business (sales promotion business)

The sales promotion business covers sales promotion services, which primarily serves Estore's shopservce customers, and all of WebCrew Agency's business.

- ▷ Revenue: JPY945mn (+239.4% YoY)
- ▷ Estore sales promotion services revenue: JPY287mn (+3.1% YoY)
- ▷ WebCrew Agency revenue: JPY658mn
- ▷ Estore sales promotion services showed steady growth in upsells to existing customers as well as a rise in order unit prices. In addition, the company only reached about half of its revenue target for new large projects, which has been a focus area over the past few years.
- ▷ With many customers operating physical stores, WebCrew Agency posted sluggish results due to weak demand for online advertising, which was mainly attributable to temporary suspension of large-scale promotions by customers as people refrained from going out. However, the situation is gradually improving after the Japanese government lifted the state of emergency.

Other businesses

The company reported sales of JPY9mn (+6.2% YoY) in other non-core businesses such as sales promotion systems.

Other information

History

Date	Description
Feb 1999	Estore established
Jul	Launched Store Tool, a shopping cart service
Sep	Launched Site Serve, a rental server service
Mar 2000	Agreed on sales tie-up with Osaka Usen Broadcasting (now USEN Corporation)
Jun	Agreed on sales tie-up with Sony Communication Network (now Sony Network Communications) and Jungle
May 2001	Agreed on sales tie-up with Global Media Online (now GMO Internet)
Sep	Listed shares on the NASDAQ Japan market of the Osaka Securities Exchange (now JASDAQ)
Apr 2002	Upgraded Site Serve rental server service; launched Domain Forward, a domain management and transfer service
Nov 2004	Launched Info Store, a content sales service
Nov 2005	Agreed on business tie-up with Yahoo!, and separately with Kakaku.com, the operator of the website kakaku.com
Jan 2006	Launched shopservice, a comprehensive support service for operators of online shops in their own domains
Oct 2010	Signed a partnership agreement with Google Shopping
Jun 2011	Made Precision Marketing a consolidated subsidiary
Sep	Agreed to participate in the Premier SME Partner Program with Google
Dec 2012	Opened park, a marketplace
Jan 2016	Made Precision Marketing out of the scope of consolidation
Apr 2017	Built up sales force for the sales promotion business
Mar	Added payment by bit coin to shopservice as a standard feature, and provided the service to 12,500 stores
Jul	Launched Estore COMPARE, an AB testing tool
Sep	Launched Estore QUERY, an email marketing tool
Aug 2018	Established CrossTrust and made into a consolidated subsidiary
Nov	Raised just under JPY1bn through issuance of unsecured convertible bond with new share subscription rights, via third-party allotment accompanying management participation to Advantage Advisors
Jan 2020	Made Commerce21 a consolidated subsidiary
Mar	Made WebCrew Agency a consolidated subsidiary

Source: Shared Research based on company data

News and topics

May 2021

On May 18, 2021, the company announced matters relating to the acquisition of treasury stock.

At the Board of Directors meeting held on May 18, 2021, the company passed a resolution on the acquisition of treasury stock and the method of acquisition.

Details of acquisition of treasury stock

- ▷ Type of shares to be acquired: Common stock
- ▷ Total number of shares that can be acquired: 240,000 shares (upper limit) (4.79% of outstanding shares excluding the treasury stock)
- ▷ Total acquisition value: JPY600mn (upper limit)
- ▷ Date of acquisition: May 25, 2021
- ▷ Acquisition method: Purchase treasury shares on TSE (ToSTNeT-3) at 8:45 am on May 25, via after-hours trading. The purchase will be limited to this trading period.

Reasons for repurchase of treasury stock

Following February 2021, some of the rights of Estore's first series of unsecured convertible bond-type bonds with stock acquisition rights will be exercised. The company will acquire the shares issued in connection with this as treasury stock.

The management believes that the level of the Estore share price as of May 2021 remains low in light of the company's financial targets based on the growth strategy outlined in the medium-term management plan. After comprehensively considering the prospects for further improvement of capital efficiency and the impact of this on the share price, the company has decided that it should acquire treasury stock as part of its agile capital strategy.

On May 14, 2021, the company announced that it had made Irvine Systems, Inc. (unlisted) its subsidiary.

Summary of acquisition

- ▷ Estore's stake: 50.2%
- ▷ Acquisition price: JPY130mn
- ▷ Acquisition method: Share exchange
- ▷ Contract date: May 14, 2021
- ▷ Effective date: July 12, 2021

March 2021

On March 25, 2021, the company announced a revised dividend forecast for FY03/21.

Reason for revision

Earnings in FY03/21 have been robust, with the company projecting a YoY increase of 71.5% in operating profit to JPY820mn. In light of this, the company raised its dividend forecast per share by JPY3.00, from JPY29.00 previously to JPY32.00.

February 2021

On February 12, 2021, the company announced revisions to its consolidated earnings forecast.

November 2020

On November 12, 2020, the company announced its medium-term management plan.

Corporate governance and top management

Top management

Kenichi Ishimura, representative director and president (born Oct. 1962)

Apr	1986	Joined ASCII
Oct	1988	President's office, Senior manager or PR and Business Development, ASCII
Dec	1990	Director and senior manager of planning, (newly established) ASCII Express
Dec	1991	Representative director, (newly established) ASCII Area Network
Oct	1994	Director, ASCII Net
Jul	1996	Deputy general manager, ASCII Internet Service Company
Jun	1998	Joined Secom as Supervisor, Network Security Department
Feb	1999	Established Estore and became representative director (current position)
Dec	2001	Director, Infoview
Nov	2004	Established Personal Shop, and became representative director
Aug	2005	Director, Wise Works Project
Oct	2005	Established Unicom, and became representative director (current position)
Jul	2006	Director, EC Holdings

Source: Shared Research based on company data

Representative director and president Kenichi Ishimura is the company's founder. Mr. Ishimura worked at ASCII in its early days, and subsequently worked at Secom (TSE1: 9735) before founding Estore. He has spent many years in the internet and e-commerce industries, leading the Estore group under the slogan "Making Japan full of online shops." Executive director Yoichi Yanagida formerly worked for Recruit (TSE1: 6098), joined the company in September 2005 and is currently the chief information officer and major shareholder (1.2% stake). Hiroyuki Tanaka, who became a director in June 2020, is a former Amazon Japan employee that joined the company in November 2017, became president and CEO of Commerce21 in January 2020, and has concurrently served as a director of WebCrew Agency since March 2020. Noriatsu Furukawa, who was appointed as Estore (parent)'s outside director in June 2019, worked at McKinsey & Company (Japan) before joining Advantage Partners, where he currently serves as a director and principal.

Transition to new management structure

The company plans to increase the number of representative directors. Yoichi Yanagida, who is currently managing director, becomes a new representative director and COO on June 24, 2021. The company commented that the transition to a structure with two representative directors is to ensure the management team keeps an eye on its business in close detail as well as speed up decision-making.

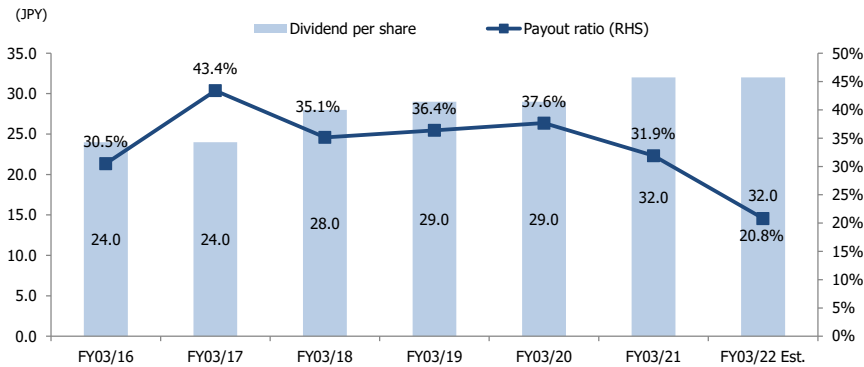
Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder and parent company	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	12
Number of directors	7
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	President
Number of outside directors	4
Number of independent outside directors	2
Number of members of Audit & Supervisory Board	3
Number of outside members of Audit & Supervisory Board	3
Number of independent outside members of Audit & Supervisory Board	2
Other	
Disclosure of individual director's compensation	None
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company data

Dividends

(JPY)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22 Est.
	Cons.	Parent	Parent	Cons.	Cons.	Cons.	Cons.
Dividend per share	24.0	24.0	28.0	29.0	29.0	32.0	32.0
Dividend on equity	11.3%	11.3%	11.0%	10.0%	8.8%	7.7%	-
Payout ratio	30.5%	43.4%	35.1%	36.4%	37.6%	31.9%	20.8%
EPS	75.4	55.3	79.7	79.7	77.0	100.3	



Source: Shared Research based on company data

Estore considers providing stable shareholder returns to be one of its top priorities. The company set its dividend forecast for FY03/19–FY03/21 at JPY29 per share.

Major shareholders (as of March 31, 2021)

Top shareholders	Shares held ('000)	Shareholding ratio
Unicom Co., Ltd.	1,801	35.94%
BBH Fidelity Puritan Fidelity Series Intrinsic Opportunities Fund	165	3.29%
Wand Co., Ltd.	154	3.07%
Kenichi Ishimura	150	2.99%
BBH for Fidelity Low Priced Stock Fund (Principal All Sector Sub-portfolio)	150	2.99%
Ueda Yagi Tanshi Co., Ltd.	85	1.69%
Yukio Tanaka	64	1.27%
Tomohiro Suzuki	59	1.18%
Yoichi Yanagida	58	1.15%
Japan Securities Finance Co., Ltd.	56	1.12%
SUM	2,741	54.70%

Source: Shared Research based on company data
The percentage of shares held is calculated by subtracting the number of treasury shares (388,000 shares) from the number of issued shares (5,399,000 shares). Note: Figures may differ from company materials due to differences in rounding methods

Unicom is President Ishimura's family fund. Including his personal stake, Mr. Ishimura's combined stake in Estore is 44.10%. Fidelity and Hikari Tsushin, Inc. own 9.79% and 1.00% of the company's shares, respectively. Yoichi Yanagida (1.20%) is a managing director of Estore (parent).

Employees

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Consolidated	Cons.	Cons.	Cons.	Cons.	Cons.	-	-	Cons.	Cons.	Cons. Est.
No. of employees ex. temporary workers	138	137	141	154	155	-	-	143	280	267
No. of temporary workers (avg.)	19	28	29	28	36	-	-	38	31	27
Parent	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par. Est.
No. of employees ex. temporary workers	126	131	133	138	155	168	143	143	151	139
No. of temporary workers (avg.)	11	18	21	22	36	54	55	38	29	24
Average age	32.8	33.0	33.0	33.1	32.6	34.4	34.5	34.1	35.7	36.6
Average years of service	3.9	3.9	4.2	4.3	3.4	4.4	3.8	3.8	5.0	5.3
Avg. annual salary (JPY'000)	5,118	4,957	4,703	4,810	4,858	4,945	5,106	5,023	4,854	5,155

Source: Shared Research based on company data
Note: Number of employees is based on period-end numbers.

The employee count for the period between FY03/12 and FY03/15 includes employees of Precision Marketing, which was a consolidated subsidiary at the time. For FY03/20, the difference in employee count on a consolidated basis (280) versus on an unconsolidated basis (151) is attributable to Commerce21's 100 employees and WebCrew Agency's 29 employees. According to the company, the majority of Commerce21 and WebCrew Agency employees stayed after the merger.

▷ The company acquired Commerce21 Corporation, a systems development company in January 2020, and WebCrew Agency Inc., an advertising agency, in March 2020.

Fujio Hino, president of WebCrew Agency, has been appointed executive officer in charge of overseeing the entire Marketing business of Estore (parent) and WebCrew Agency. Hiroyuki Tanaka, who became a director of Estore (parent) in June 2020, was appointed president of Commerce21 in January 2020, then appointed as director of WebCrew Agency in March 2020, concurrently serving all positions.

Profile

Company Name	Head Office
Estore Corporation	Tokyo Toranomon Global Square 1-3-1 Toranomon, Minato-ku, Tokyo 105-0001
Phone	Listed On
+81-(3)-3595-1106	Tokyo Stock Exchange JASDAQ
Established	Exchange Listing
February 17, 1999	September 19, 2001
Website	Fiscal Year-End
https://Estore.co.jp/	March
IR Contact	IR Web
https://Estore.co.jp/investors/ir_inquiry/	https://Estore.co.jp/investors/

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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Aeon Delight Co., Ltd.	Elecom Co., Ltd.	Locondo, Inc.	SANIX INCORPORATED
Aeon Fantasy Co., Ltd.	en Japan Inc.	LUCKLAND CO., LTD.	Sanrio Company, Ltd.
Ai Holdings Corporation	Estore Corporation.	Marumae Co., Ltd.	Sanyo Trading Co., Ltd.
AI inside Inc.	euglena Co., Ltd.	Maruwa Unyu Kikan Co., Ltd.	SATO HOLDINGS CORPORATION
AirTrip Corp.	FaithNetwork Co., Ltd.	MATSUI SECURITIES CO., LTD.	SBS Holdings, Inc.
Almedio Inc.	Ferrotec Holdings Corporation	Media Do Co., Ltd.	Seikagaku Corporation
ALINCO INCORPORATED	FIELDS CORPORATION	Medical System Network Co., Ltd.	Seria Co., Ltd.
and factory, inc.	Financial Products Group Co., Ltd.	MEDINET Co., Ltd.	Serverworks Co., Ltd.
ANEST IWATA Corporation	First Brothers Co., Ltd.	MedPeer, Inc.	SHIFT Inc.
AnGes Inc.	FreeBit Co., Ltd.	Mercuria Holdings Co., Ltd.	Shinane Holdings Co., Ltd.
Anicom Holdings, Inc.	Gamecard-Joyco Holdings, Inc.	Metaps Inc.	SHIP HEALTHCARE HOLDINGS, INC.
Anritsu Corporation	GameWith, Inc.	Micronics Japan Co., Ltd.	SIGMAXYZ Inc.
Apaman Co., Ltd.	Good Com Asset Co., Ltd.	MIRAIT Holdings Corporation	SMS Co., Ltd.
ARATA CORPORATION	Grandy House Corporation	Monex Group Inc.	Snow Peak, Inc.
Artspark Holdings Inc.	GIG Works Inc.	MORINAGA MILK INDUSTRY CO., LTD.	Solasia Pharma K.K.
AS ONE CORPORATION	Hakuto Co., Ltd.	Mortgage Service Japan Limited.	SOURCENEXT Corporation
Ateam Inc.	Hamee Corp.	MRT Inc.	Space Value Holdings Co., Ltd.
Aucfan Co., Ltd.	Happinet Corporation	NAGASE & CO., LTD	SpiderPlus & Co.
AVANT CORPORATION	Harmonic Drive Systems Inc.	NAIGAI TRANS LINE LTD.	Startia Holdings, Inc.
Axell Corporation	HENNGE K.K.	NAKAMOTO PACKS CO.,LTD.	Star Mica Holdings Co., Ltd.
Azbil Corporation	Hoosiers Holdings	NanoCarrier Co., Ltd.	Stream Media Corporation
Azoom, Co., Ltd.	Hosokawa Micron Corporation	NEC Networks & System Integration Corporation	Strike Co., Ltd.
Base Co., Ltd.	Hope, Inc.	Net Marketing Co., Ltd.	Sunnexa Group Inc.
BEEENOS Inc.	HOUSEDO Co., Ltd.	Net One Systems Co., Ltd.	Symbio Pharmaceuticals Limited
Bell-Park Co., Ltd.	H2O Retailing Corporation	Nichi-Iko Pharmaceutical Co., Ltd.	Synchro Food Co., Ltd.
Benefit One Inc.	IDOM Inc.	NIHON CHOUZAI Co., Ltd.	TAIYO HOLDINGS CO., LTD.
B-lot Co., Ltd.	IGNIS LTD.	Nihon Denkei Co., Ltd.	Takashimaya Company, Limited
Broadleaf Co., Ltd.	i-mobile Co., Ltd.	Nippon Commercial Development Co., Ltd.	Take and Give Needs Co., Ltd.
CanBas Co., Ltd.	Inabata & Co., Ltd.	Nippon Koei Co., Ltd.	TEAR Corporation
Canon Marketing Japan Inc.	Infocom Corporation	NIPPON PARKING DEVELOPMENT Co., Ltd.	Tempo Innovation Inc.
Career Design Center Co., Ltd.	Infomart Corporation	NIPRO CORPORATION	3-D Matrix, Ltd.
Carna Biosciences, Inc.	Intelligent Wave, Inc.	Nishinbo Holdings Inc.	The Hokkoku Bank, Ltd.
CARTA HOLDINGS, INC	ipet Holdings CO., Ltd.	Nisso Corporation	TKC Corporation
CERES INC.	Itochu Enex Co., Ltd.	NS TOOL CO., LTD.	TKP Corporation
Chiyoda Co., Ltd.	ItoKuro Inc.	OLBA HEALTHCARE HOLDINGS, Inc.	Tsuzuki Denki Co., Ltd.
Chori Co., Ltd.	JAFCO Co., Ltd.	OHIZUMI MFG. CO., LTD.	TOCALO Co., Ltd.
Chugoku Marine Paints, Ltd.	JMDC Inc.	Oisix ra daichi Inc.	TOKAI Holdings Corporation
COMSYS Holdings Corporation	JSB Co., Ltd.	Oki Electric Industry Co., Ltd.	Tokyu Construction Co., Ltd.
COTA CO., LTD.	JTEC Corporation	ONO SOKKI Co., Ltd.	TOYOBO CO., LTD.
CRE, Inc.	J Trust Co., Ltd	ONWARD HOLDINGS CO., LTD.	Toyo Ink SC Holdings Co., Ltd.
CREEK & RIVER Co., Ltd.	Japan Best Rescue System Co., Ltd.	Pan Pacific International Holdings Corporation	Toyo Tanso Co., Ltd.
Daichi Kigenso Kagaku Kogyo Co., Ltd.	JINS HOLDINGS Inc.	PARIS MIKI HOLDINGS Inc.	Tri-Stage Inc.
Daiki Axis Co., Ltd.	JP-HOLDINGS, INC.	PCA CORPORATION	TSURUHA Holdings
Daiseki Co., Ltd.	KAMEDA SEIKA CO., LTD.	PIGEON CORPORATION	VISCO Technologies Corporation
Daiwabo Holdings Co., Ltd.	Kanamic Network Co., LTD.	Premium Water Holdings	VISION INC.
Demae-Can CO., LTD.	KANEMATSU CORPORATION	P3, inc.	VISIONARY HOLDINGS CO., LTD.
Delta-Fly Pharma, Inc.	kaonavi, inc.	QB Net Holdings Co., Ltd.	V-cube, Inc.
DIC Corporation	KFC Holdings Japan, Ltd.	RACCOON HOLDINGS, Inc.	World Holdings Co., Ltd.
Digital Arts Inc.	KI-Star Real Estate Co., Ltd.	Raysum Co., Ltd.	WOW WORLD Inc.
Digital Garage Inc.	KLab Inc.	RESORTTRUST, INC.	YELLOW HAT LTD.
Doshisha Corporation	Kondotec Inc.	ROUND ONE Corporation	YOSHINOYA HOLDINGS CO., LTD.
Dream Incubator Inc.	Kringle Pharma, Inc.	RYOHIN KEIKAKU CO., LTD.	ZAPPALLAS, INC.

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Contact Details

Shared Research Inc.
 3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
<https://sharedresearch.jp>
 Phone: +81 (0)3 5834-8787
 Email: info@sharedresearch.jp