

Estore Corporation
4304 JASDAQ

18-Aug.-14

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■ Developing & positioning the Marketing Business to be the mid- to long-term growth engine

Estore Corporation (4304) had grown via ASP services aimed at eCommerce companies. These form the current core “Systems Business”. However, growth in ASP operations for EC has slowed due to the increasing number of new entrants. In light of such circumstances, Estore is in the midst of shifting its business focus for future growth from ASP operations to the Web marketing (called “Marketing Business” as a business segment by the Company), including consulting on attracting customers and improving rates of purchase as well as agency (services).

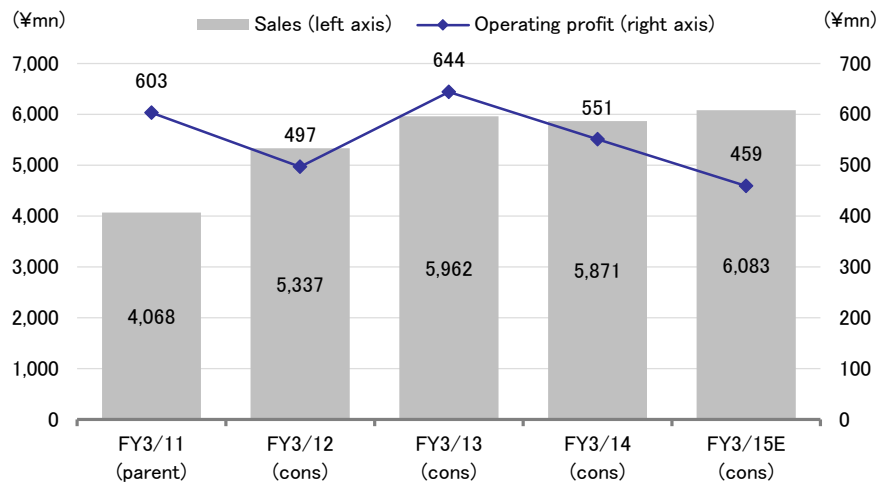
Estore’s Marketing Business will not go head-to-head with major specialist advertising agencies, but rather seek to establish a business model unique to Estore in terms of factors such as operational scale and efficiency. Specifically, its approach is to have mid-tier companies with annual sales between ¥100mn to 10bn as its target customer segment, and identify the best media and publication methods that will obtain the optimal results via a method of trial and error, determining coverage companies for each data scientist (person in charge). At present, Estore is still at the upfront investment stage, however, the anticipated values for potential operating profit margins are at the highest 15 to 20%. An important factor is that the success of the Marketing Business will be linked directly to synergies produced with the Systems Business. In other words, there is the potential for Estore’s profit margins to change significantly when the Marketing Business is launched.

It is expected that FY3/15 operating profit will decline for a second consecutive period to ¥459mn (-16.6% y-o-y). The reason for this, as noted above, is due to upfront investment in the Marketing Business. In the Systems Business, which is the current core business, the trend for an increase in both sales and earnings through commission income that is linked to traded value is being established, and our assessment is that there is an underlying improvement in Estore’s actual earnings capacity. We feel that this year’s results with a decline in earnings are already reflected in the share price, and that going forward, if the state of progress in the Marketing Business becomes clear there will be a re-evaluation of Estore’s share price.

■ Check Point

- Shift in growth scenarios from “expanding contracted customer numbers” to “increasing sales from existing contracted customers”
- Significant y-o-y sales growth of 52% in the new Marketing Business
- Proactive shareholder rewards with increased dividends in the future also in the event earnings growth is realized

Results Trends



Corporate Profile

Flagship operations in comprehensive support services for online shops

(1) Company History

Estore was established in February 1999. Initially, it started by providing the shopping cart service “storetool” and the “Siteserve” rental server. Subsequently, the Company entered into commercial sales alliances with, among others, USEN Corp. (4842), So-net (then called Sony Communication Network Corp.), the GMO Internet Group (9449) (then called Global Media Online), and expanded its operations. Following that the Company redesigned its service content, formed more alliances, also entering into commercial alliances in 2005 with Yahoo (4689) and Kakaku.com (2371). Also, from a services perspective, as well as evolving and developing storetool and Siteserve, in 2006 it began offering Shopserve, a comprehensive eCommerce support service, which is now its core business. Estore has consolidated as a subsidiary Precision Marketing Inc. (2011), launched the product search site Shoppingfeed as well as redesigning it as PARK.

Company History

| | |
|----------------|--|
| February 1999 | Founded Estore |
| July 1999 | Started providing the shopping cart service storetool |
| September 1999 | Started providing the web hosting service Siteserve |
| March 2000 | Established a marketing alliance with USEN Corp. (then USEN Broad Networks Corp.) |
| June 2000 | Established inter alia a marketing alliance So-net Entertainment Corp. (then Sony Communication Network Corp.) |
| May 2001 | Established a marketing alliance with GMO Internet, Inc. (then Global Media Online, Inc.) |
| June 2003 | Changed name to Estore Corporation. |
| July 2004 | Established a commercial and capital tie-up with Telewave Inc. (then iFLAG) |
| November 2005 | Established a business alliance with Yahoo Japan Corp. |
| November 2005 | Established a business alliance with Kakaku.com |
| January 2006 | Started providing the Shopserve comprehensive eCommerce support service under its proprietary domain |
| December 2007 | Established a systems development center in Ho Chi Minh City, Vietnam |
| October 2012 | Signed a partnership agreement with Google Shopping |
| June 2011 | Consolidated Precision Marketing as a subsidiary |
| July 2012 | Established the Sapporo Marketing Factory |
| October 2012 | Established shopping site PARK which promotes characters in 34 genres |
| April 2013 | Started providing the product data feed service PARK Marketplace |
| October 2013 | Started provided the Single Hand simple customer acquisition service |

A 2-pronged operating structure with the Systems Business & the Marketing Business

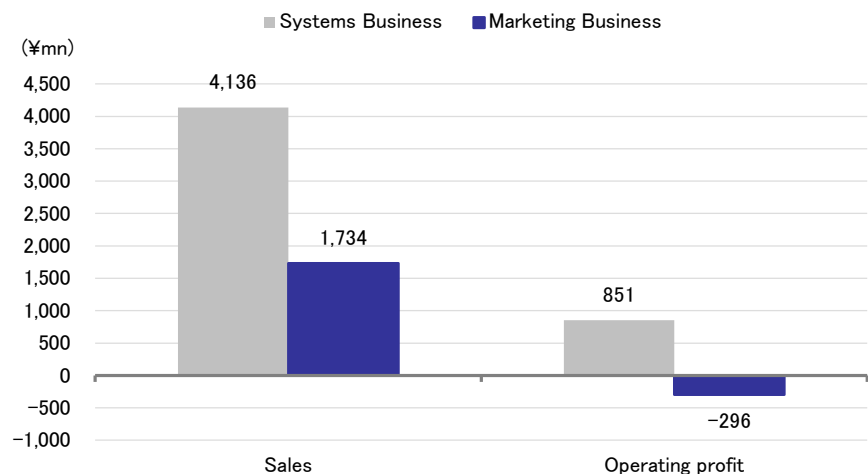
(2) Business Overview

Estore currently has a 2-pronged business structure with a Systems Business and a Marketing Business. The Systems Business is a cloud ASP service that enables eCommerce, called Shopserve. In addition to charging from contracted customers a monthly levy as a shopping cart and server systems usage fee, the business model receives settlement and other fees as a fixed percentage of sales. The monthly levy works on a flat rate basis and, while stable, revenues do not increase in the absence of an increase in contracted customer numbers. However, in an increasingly competitive environment gaining new customers is not easy. Accordingly, Estore is, rather than making efforts to increase the number of contracted corporate customers, has steered a course towards sales growth by guiding existing corporate clients to use Estore's services more and pay more.

The Marketing Business consults and provides agency (services) for attracting customers and improving rates of purchase. Precision Marketing provides an Internet marketing service for domains outside the eCommerce field (prospective customer acquisition etc.). From FY3/13 Estore started Internet marketing operations in earnest for eCommerce companies. At present, this eCommerce marketing business is in the red, however, it is currently in the process of making upfront investment, and is positioned as mid-term growth engine. Given that synergies may be expected between the eCommerce marketing business and the Systems Business, this seems to be a rational business strategy.

At present the Systems Business has been firmly established as a source of profits, while the Marketing Business is still recording losses. This is due to the burden from upfront investment for eCommerce advertising operations by the Company itself. While modest, positive earnings have been established at Precision Marketing.

FY3/14 Revenue & Earnings by Operating Segment



■ The direction & details of the shift in Estore’s business structure

Shift in growth scenarios from “expanding contracted customer numbers” to “increasing contracted customer sales”

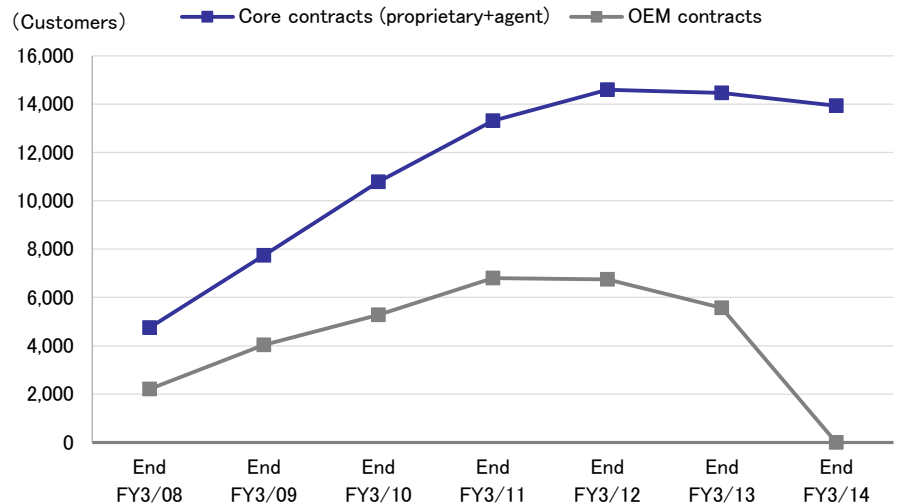
(1) Business structure reforms

The core source of earnings for the Company is the income from the comprehensive online shop support service Shopservice. It is an ASP service for sole traders and small- and mid-sized enterprises that have established an online shop and wish to engage in eCommerce, attracting support from a large number (of customers) due to its inexpensive usage fee pricing and user friendliness. This business is the Company’s Systems Business (called the EC Business until FY3/13).

However, there are two issues involved with the Systems Business. The first is the issue of low profitability in the commercial alliance agreements (called OEM agreements at Estore) which were expanded at the Company’s inception, with the second being the issue of increasing competition due to the proliferation of eCommerce ASP services like Shopservice.

There are two main Shopservice contract formats. One is the proprietary sales channel format for contracts entered into by Estore or small agents. Another is for OEM contracts and those via large agents, with OEM contracts being eCommerce ASP agreements provided under the respective corporate alliance partner’s brand, in a form where Estore is in charge of the backyard. Naturally, OEM contracts have low profitability. Thus Estore has restricted the securing of new OEM contract from FY3/13, and ceased accepting new contracts in FY3/14. During FY3/14 cancellation of the agreements has progressed and at the end of FY3/14 there were already zero contracts, completing its reorganization with contractual counterparties.

Shopservice Customer Number Trends by Contract Format



Another issue is that of increased competition in eCommerce ASP operations. The business model in eCommerce ASP operations like those of Shopservice involve, in addition to charging from contracted customers a monthly levy as a shopping cart and server systems usage fee, charging settlement and other fees as a fixed percentage of sales. The monthly levy works on a flat rate basis and, while stable, revenues do not increase in the absence of an increase in contracted customer numbers. However, amidst the competitive environment it is not easy to increase contracted customer numbers. Further, from perspectives such as server capacity, capital investment is required in response to increases in contracted customer numbers. Increases in income have to carry additional costs.

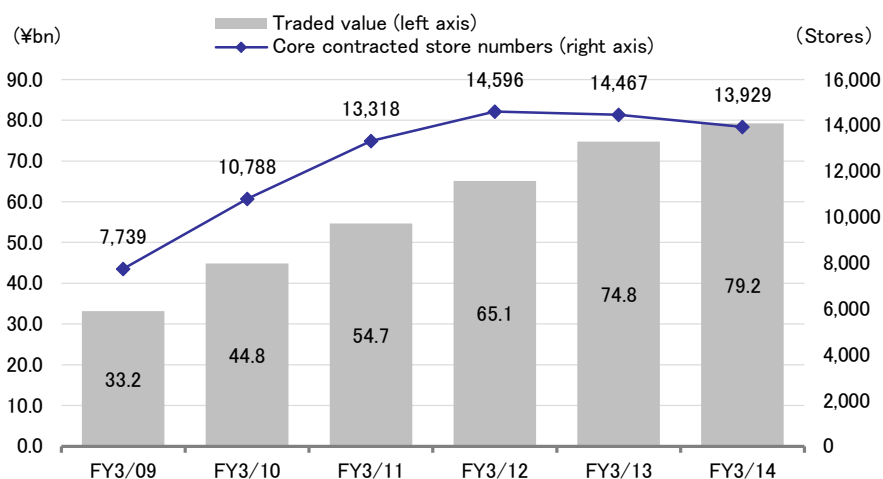
Within this framework, Estore made a clear shift in its Systems Business earnings growth scenario from “expanding contracted customer numbers” to “increasing sales from the existing contracted customers”. Through expanding agency commission income obtained from Shopperserve's corporate contracted customers and customer transfer services the Company will expand earnings. The latter measure itself has been undertaken to date via the establishment of the Shoppingfeed product search site in 2006 and the launch of its redesigned version PARK in 2012.

Systems Business Operational Scope

| Systems Business (Formerly EC Business) | Service Provided | Service Content & Operating Strategy | | |
|---|---|---|--|--|
| | “storetool” | Shopping cart service | | |
| “Siteserve” | Rental server operations | | | |
| “Shopperserve” | Core service. ASP eCommerce support service. Including storetool & Siteserve functions. | | | |
| | Sales method | Content | Cumulative contract numbers (End FY3/14) | Stance |
| | Direct sales | Directly contract with Estore | 10,761 | Maintain & strengthen as a “core business” |
| | Agency sales | Contract via agent | 3,168 | Maintain & strengthen as a “core business” |
| | OEM sales | Back office & Estore support for commercial alliance partners | 0 | Work to reduce due to low margins ⇒ Attained zero contract target by end FY3/14 |

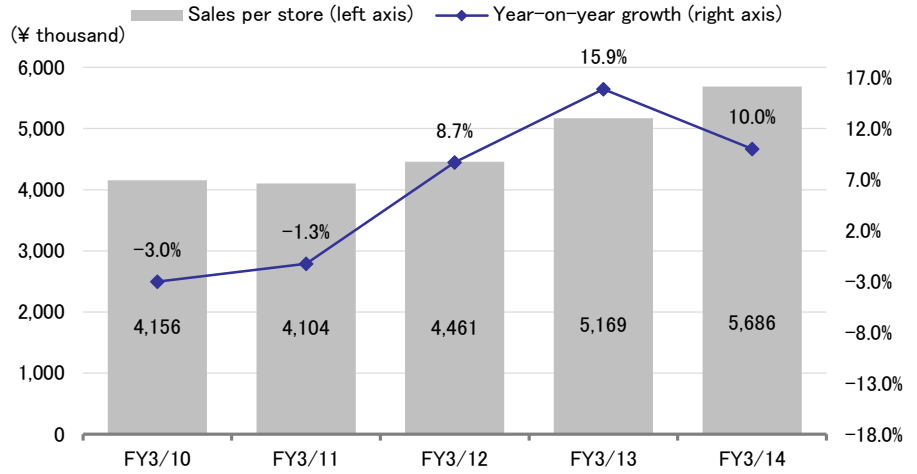
These measures have produced a certain degree of results. As shown in the graph, despite that the number of Shopperserve focused customer shops seems to have peaked, total sales from these shops (represented by Traded Value in the graph) continues to rise steadily.

Trends in Shopperserve Core Contracted Store Numbers & Traded Value



Looking at the trend of sales per shop we can clearly understand the direction in which the Company is aiming. Until FY3/11 despite being focused contract customers, the pattern was that sales per shop had stagnated, and were either flat at the early ¥4mn level or marginally down. However, in FY3/12 when Estore reviewed Shoppingfeed and redesigned it as PARK, as well as revising its policies in respect of contracted corporate customer also from quantity to quality with, from FY3/13, sales per shop having clearly shifted to being on the increase.

Trends in Shoppers Core Contracted Store Sales Per Store



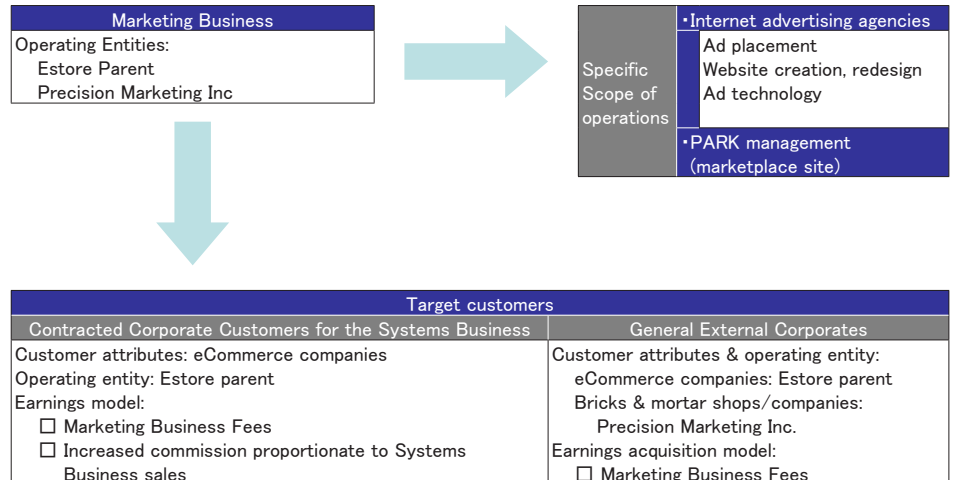
The Marketing Business, on which the Company is focusing at present, was originated by these activities. They were not limited to an improvement of the System Business but grew into the Marketing Business, an independent segment to become the next core source of profits. This is the essence of the business structure reforms the Company is promoting.

A focus on Internet advertising at the core of the business structure change

(2) Content & direction of the business structure reforms

The business structure reforms that the Company is promoting currently are, if we were to describe them in one phrase, "becoming a specialist eCommerce Internet advertising agency". The Internet advertising agent industry already contains market leaders such as Cyberagent, Inc. (4751), OPT Japan Co., Ltd. (2389) and SEPTENI Holdings Co., Ltd.(4293). It might be difficult for Estore to enter the market. However, the competitors are not specialized in eCommerce, and in the pursuit of the Company's services, the domain of Internet advertising business cannot be untouched. For their corporate customers, opening an online shop is not the goal, rather the target is increasing earnings via eCommerce.

Overall Conceptual Diagram for the Marketing Business



Estore’s Marketing Business (formerly the Customer Attraction Business) can be traced back to the establishment of Shoppingfeed in 2006. This was a product search site and as per its name was limited to the function to attract customers. The turning point for expansion into Internet advertising was the consolidation of Precise Marketing as a subsidiary in June 2011. Precision Marketing does not concern itself only with eCommerce companies but is engaged in general Internet advertising. Estore labels Precision’s marketing business as “Existing Marketing Business”, distinguishing it internally.

Currently, the core of the business structure shift that Estore is focusing on is Internet advertisement for eCommerce companies handled by Estore itself.. Internally the Company calls this “New Marketing Business”, distinguishing it from Precision Marketing’s “Existing Marketing Business”.

Marketing Business Scope of Operations

| | Operational Sector | Operating Entity | Content |
|---|-----------------------------|--|--|
| Marketing Business (Formerly the Customer Attraction Business) | Existing Marketing Business | Precision Marketing Inc. (consolidated subsidiary) | General Internet advertising |
| | New Marketing Business | Estore parent (Tokyo HQ, Sapporo Marketing Factory) | eCommerce company Internet advertising |

The content of the New Marketing Business may be described as Internet advertising agency, however, it does not aim to compete directly with the industry leaders Cyberagent and OPT. Its typical business model is as follows. Staff called data scientists are the ones that actually carry out operations, with them ascertaining clients’ needs by way of, amongst other things, interviews with the corporate eCommerce customers they are in charge of, while analyzing their sites at the same time. Additionally, in order to attain customer targets they formulate marketing strategies. After that, they specifically place advertisements in line with a Plan A and a Plan B. Following that, they continuously analyze the performance of the advertisements each day, and where necessary make minor adjustments to Plan A and/or Plan B, ascertaining the optimal advertising methods and media for the relevant corporate customer.

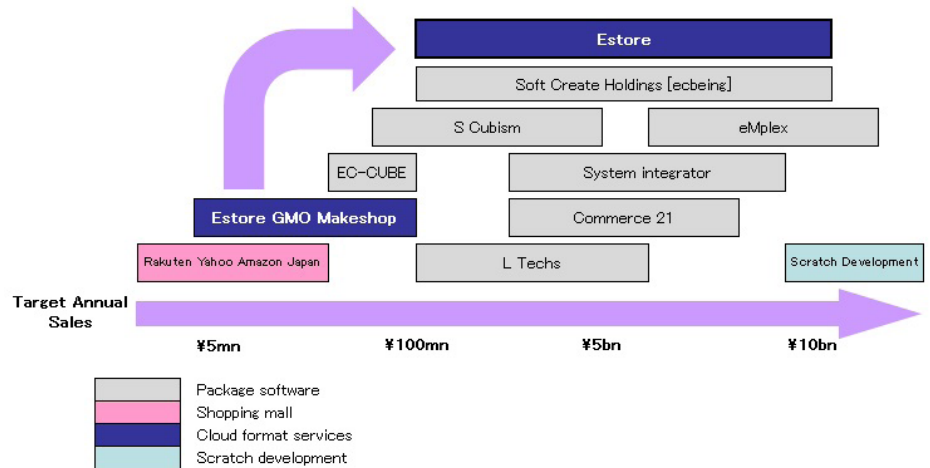
The work noted above, which by definition physically consumes the data scientists time, may be termed a labor-intensive method. On the other hand, to the extent that it distills the optimal publication method (type of advertisement and target advertising media), placing Plan A and Plan B (advertisements) at the same time, it is a business model that doesn’t rely on the individual abilities of the data scientists. That this business model has a low degree of reliance on individual sense and ability is an extremely important point, and we feel carries a lot of significance from the perspectives of being able to duplicate successful examples and securing data scientists.

The effectiveness of Estore’s marketing methods appear to date to be excellent. The Company explains that results over the last one year period for its corporate clients show increases from a minimum of 2.8x to a maximum of 8.5x in their eCommerce sales, with an average value for increases of 5x. If this is correct, the track record of 5x sale on average may be regarded as extremely distinguished, and a highly competitive number. While it is necessary to bear in mind that we may infer that many of the Company’s current Marketing Business customers are sole traders or small- and medium-sized enterprises and thus there is a tendency for their rates of sales growth to be readily inflated, there is no doubt that these advertising results form a wonderful track record.

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Their target customers for the Marketing Business should be larger companies than those in the Systems Business. In its Shopserve customers in the Systems Business Estore there is a high proportion of small- and medium-sized enterprises at the level of sole traders and one-man enterprises. In dealing companies of this scale, there is the possibility that even if one provides an advertising agency service by way of the sort of business model described above that efficiency will be low and it will not be viable as a business. Further, even if we consider it from the standpoint of the corporate customer, outlaying ¥200,000 per month in advertising expenses for sole trader level enterprises may be difficult. Accordingly we feel that the target customer segment in the Marketing Business will be in the mid-tier company class with annual sales in excess of ¥100mn.

Conceptual diagram for expansion of Estore's target customer segments



Another important perspective is that, in the process of getting the Marketing Business on track, there is the potential for the customer coverage in the Systems Business to alter. As noted above, given that Estore's Marketing Business also has an aspect of support for the Systems Business, we may suppose it is only natural that a trend may emerge for Marketing Business customer to become Systems Business customers also. If the composition of these mid-tier companies rises we feel that the potential for profitability of the Systems Business to improve significantly will occur.

■ Financial Analysis & Results Trends

A financial structure that facilitates a high ROE , awaiting profitability in the Marketing Business

(1) Financial Analysis

Estore's Return on Equity (ROE) for FY3/14 was 21.0%. Arguably an ROE of 21.0% is a solid figure and may be rated as a high ROE company within Japanese corporates. However, examining the amount of shareholders' equity, while it was ¥2,091mn in FY3/13, due to the impact of treasury stock being significantly increased in FY3/14 it halved to ¥995mn. Thus, it is necessary to pay attention to the factors in the boost in the ROE value.

ROE and ROA are both derived from financial leverage, however, Estore's ROA (Return on Total Assets) for FY3/14 was 14.0%, being two thirds (67%) of ROE, which is not a bad balance. However, as noted above, given the aspect that at present the Company's ROE is distorted due to the impact a sudden increase in treasury shares, perhaps greater attention ought be paid to ROA than ROE.



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As noted above, the FY3/14 ROA was 14.0%, which was a decline of 1.6% from the 15.6% in FY3/13. Analyzing the reasons for this by dividing them into margin (the recurring profit margin) and turnover (total asset turnover ratio), we see that ROA declined because, while the total asset turnover ratio rose, margins declined 1.7%. The reason for the decline in margins, which will be noted in the results section also, was upfront investment in the Marketing Business.

Based on the Company results forecasts for FY3/15, if we calculate based on the premises in the table in respect of the balance sheet items, it is expected that ROE will rise further to 24.7%. However, given that fundamentally it is expected that ROA will decline further to 12.8%, in essence there will be a decline in ROE. The rise in ROE is nothing more than the impact of (effective) reduction in shareholders' equity due to the treasury shares. The decline in FY3/15 ROA also has as its reason the decline in margins. The reason for the decline in recurring profit is, as was the case in the previous period, losses associated with the launch of the Marketing Business.

Estore is an Internet company with eCommerce support as its core business. It has little surplus fixed assets and an extremely streamlined balance sheet. It is a financial structure that readily realizes high ROEs, which lies in the result of acquiring treasury stock and reduction in shareholders' equity. Profitability in the Market Business is awaited.

Financial Analysis Chart

| | Unit | FY3/12 | FY3/13 | FY3/14 | FY3/15E | Comments | |
|----------------------------|-----------------------------|--------|--|--------|---------|----------|--|
| Key Results | Sales | ¥mn | 5,337 | 5,962 | 5,871 | 6,083 | Company forecast |
| | SG&A | ¥mn | 1,270 | 1,204 | 1,295 | 1,342 | Flat y-o-y as % of sales |
| | OP | ¥mn | 497 | 644 | 551 | 459 | Company forecast |
| | RP | ¥mn | 503 | 659 | 554 | 459 | Company forecast |
| | NP | ¥mn | 280 | 389 | 323 | 268 | Company forecast |
| | Total assets | ¥mn | 4,012 | 4,434 | 3,468 | 3,718 | Total asset turnover (year-end base) flat y-o-y |
| | Shareholders' Equity | ¥mn | 1,795 | 2,087 | 996 | 1,170 | Only assuming external dividend payment Interest bearing |
| | Liabilities | ¥mn | 21 | 15 | 233 | 233 | Flat y-o-y |
| | Depreciation & Amortization | ¥mn | 216 | 204 | 190 | 190 | Flat y-o-y |
| | EBITDA | ¥mn | 714 | 848 | 741 | 649 | |
| Profitability & Efficiency | ROE | % | 15.6 | 20.1% | 21.0% | 24.7% | Averaged year-end basis |
| | ROA | % | 12.5 | 15.6% | 14.0% | 12.8% | Averaged year-end basis |
| | Asset turnover | x/year | 1.33 | 1.34 | 1.69 | 1.69 | |
| | RP margin | % | 9.4% | 11.1% | 9.4% | 7.5% | |
| | Gross profit | % | 33.1% | 31.0% | 31.5% | 29.6% | |
| | SG&A margin | % | 23.8% | 20.2% | 22.1% | 22.1% | |
| | OP margin | % | 9.3% | 10.8% | 9.4% | 7.5% | |
| | EBITDA margin | % | 13.4% | 14.2% | 12.6% | 10.7% | |
| Growth | Sales | % | 3-year CAGR from a start in FY3/12 to FY3/15 | | | 4.5% | |
| | OP | % | | | | -2.7% | |
| | NP | % | | | | -1.5% | |

New Marketing Business sales of ¥389mn show significant (52%) y-o-y expansion

(2) FY3/14 Results

Both revenues and earnings declined in FY3/14, with sales of ¥5,871mn (1.5% decrease y-o-y), operating profit of ¥ 551mn (14.5% decrease y-o-y), recurring profit of ¥ 554mn (16.0% decrease y-o-y), and net profit of ¥ 323mn (16.9% decrease y-o-y). Estore had not disclosed forecasts for FY3/14 results, however, the trend towards a decline in both revenue and earnings had already become apparent in the Q3 FY3/14 results, so arguably there was no surprise.

The core Systems Business (formerly the EC Business) had sales of ¥4,136mn (2.4% decrease y-o-y) and operating profit of ¥851mn (6.8% increase y-o-y). As a result of the Company progressing the reduction in OEM contracts (eCommerce agreements with corporate commercial alliance partners), which had low profitability and many negatives from an operational efficiency perspective also, there was a decline in revenue as the increase in commission income associated with the rise in the traded value at contracted corporate customers (sales) was unable to offset their absence. As far as this point is concerned, it failed to meet the Company's projections. From a profit perspective, given that commission income increased resulting from increased traded value at continuing contracted corporate customers, earnings rose, being able to absorb the impact of cessation of the OEM contracts.

In the Marketing Business (formerly the Customer Attraction Business) despite a slight decline in revenue and earnings in the Existing Marketing Business engaged in by the subsidiary Precision Marketing profitability has been firmly established. Sales at the problematic New Marketing Business rose significantly by 52% year-on-year to ¥389mn, however, due to the accumulation of initial expenses there were operating losses of ¥337mn. The Company has commented in respect of the state of progress in the New Marketing Business that they are "one year behind schedule".

Breakdown by Operating Segment of Sales & Operating Profit

(Units: ¥mn)

| | FY3/13 | FY3/14 | |
|----------------------------------|--------|--------|--------|
| | Actual | Actual | y-o-y |
| Systems Business | | | |
| Sales | 4,236 | 4,136 | -2.4% |
| OP | 797 | 851 | 6.8% |
| Marketing Business | | | |
| Sales | 1,726 | 1,734 | 0.5% |
| Existing Marketing Business (PM) | 1,469 | 1,344 | -9% |
| New Marketing Business | 256 | 389 | 52% |
| OP | -148 | -296 | - |
| Existing Marketing Business (PM) | 41 | 41 | -1% |
| New Marketing Business | -190 | -337 | - |
| Consolidated Total | | | |
| Sales | 5,962 | 5,871 | -1.5% |
| OP | 644 | 551 | -14.4% |

Expectations for the Marketing Business to continue its growth trend

(3) FY3/15 Results Outlook

In respect of FY3/15 the Company forecasts an increase in revenues but decline in profits, with sales of ¥6,083mn (3.6% increase y-o-y), operating profit of ¥459mn (16.6% decrease y-o-y), recurring profit of ¥459mn (17.0% decrease y-o-y), and net profit of ¥268mn (17.2% decrease y-o-y). The Company has not disclosed a detailed earnings outlook by segment for FY3/15.

In the Systems Business, as was the case in the previous period, the plan is to promote the shift to quality rather than quantity. Given that the reorganization of the OEM agreements has been completed we feel that Estore will focus in FY3/15 on from sole traders and small- and mid-sized enterprises to mid-tier companies to expand customer size. We believe that the result will be the potential for further reduction in the number of contracted stores from the 13,929 at the end of FY3/14. On the other hand, in respect of traded value we feel that, as a result of factors such as the eCommerce market overall growing and an increase in the proportion that big ticket customers represent, in respect of corporate customers with overlapping contracts with the Marketing Business, the upward trend will continue, and thus the Systems Business will be flat year-on-year or show a swing to a slight growth in revenues.



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The Company forecasts a ¥100mn year-on-year decline at the operating profit level, however, to the extent that the Company operates in the same strategy as the last period, it is difficult to assume a loss of this amount.

Abbreviated Profit & Loss Statement and Key Indices

(Units: ¥mn)

| | FY3/11 | FY3/12 | FY3/13 | FY3/14 | FY3/15E |
|-----------------|--------|--------|--------|--------|---------|
| Sales | 4,068 | 5,337 | 5,962 | 5,871 | 6,083 |
| Gross profit | 1,782 | 1,768 | 1,849 | 1,847 | - |
| SG&A | 1,179 | 1,270 | 1,204 | 1,295 | - |
| OP | 603 | 497 | 644 | 551 | 459 |
| RP | 591 | 503 | 659 | 554 | 459 |
| NP | 328 | 280 | 389 | 323 | 268 |
| Diluted EPS (¥) | 75.67 | 66.01 | 91.65 | 97.87 | 88.79 |
| Diluted BPS | 380.21 | 421.68 | 491.72 | 329.95 | - |
| Diluted DPS | 23.0 | 23.0 | 28.0 | 31.0 | - |

Note: From 3/12 figures represent consolidated results, prior to that they represent parent results.

Abbreviated Balance Sheet

(Units: ¥mn)

| | FY3/11 | FY3/12 | FY3/13 | FY3/14 |
|--|--------|--------|--------|--------|
| Current assets | 2,595 | 3,325 | 3,695 | 2,847 |
| Cash & near cash | 1,973 | 2,327 | 2,873 | 2,005 |
| Accounts receivable | 456 | 749 | 644 | 722 |
| Other current assets | 165 | 249 | 177 | 119 |
| Fixed assets | 787 | 686 | 738 | 620 |
| Tangible fixed assets | 214 | 186 | 198 | 159 |
| Intangible | 292 | 310 | 282 | 216 |
| Investments & other | 280 | 189 | 258 | 244 |
| Total Assets | 3,383 | 4,012 | 4,434 | 3,468 |
| Current liabilities | 1,753 | 2,177 | 2,293 | 2,291 |
| Accounts payable | 123 | 276 | 410 | 412 |
| Short-term borrowings | 0 | 6 | 6 | 106 |
| Deposits held | 1,204 | 1,465 | 1,387 | 1,395 |
| Other current liabilities | 425 | 430 | 487 | 376 |
| Fixed liabilities | 10 | 25 | 20 | 139 |
| Long-term borrowings | 0 | 15 | 8 | 127 |
| Other liabilities | 10 | 10 | 11 | 12 |
| Shareholders' equity | 1,612 | 1,795 | 2,087 | 996 |
| Paid-in capital | 523 | 523 | 523 | 523 |
| Capital surplus | 539 | 539 | 539 | 539 |
| Retained earnings | 1,541 | 1,724 | 2,016 | 2,221 |
| Treasury stock | -991 | -991 | -991 | -2,287 |
| Other accumulated comprehensive income | 6 | 13 | 33 | 41 |
| Total net assets | 1,619 | 1,809 | 2,120 | 1,037 |
| Total Net Assets & Liabilities | 3,383 | 4,012 | 4,434 | 3,468 |
| Interest bearing liability Total | 0 | 21 | 16 | 233 |

Note: From 3/12 figures represent consolidated results, prior to that they represent parent results.

Cashflow Statement

(Units: ¥mn)

| | FY3/11 | FY3/12 | FY3/13 | FY3/14 |
|---|--------|--------|--------|--------|
| Cashflow from operating activities | 634 | 593 | 828 | 443 |
| Cashflow from investment activities | -72 | -82 | -587 | 283 |
| Cashflow from financial activities | -297 | -159 | -103 | -1,197 |
| Cash & near cash translation adjustments | 0 | 2 | 9 | 3 |
| Change in cash & near cash | 264 | 353 | 146 | -468 |
| Cash & near cash at the beginning of The year | 1,708 | 1,973 | 2,327 | 2,473 |
| Cash & near cash at year end | 1,973 | 2,327 | 2,473 | 2,005 |

Note: From 3/12 figures represent consolidated results, prior to that they represent parent results.

Shareholder Returns

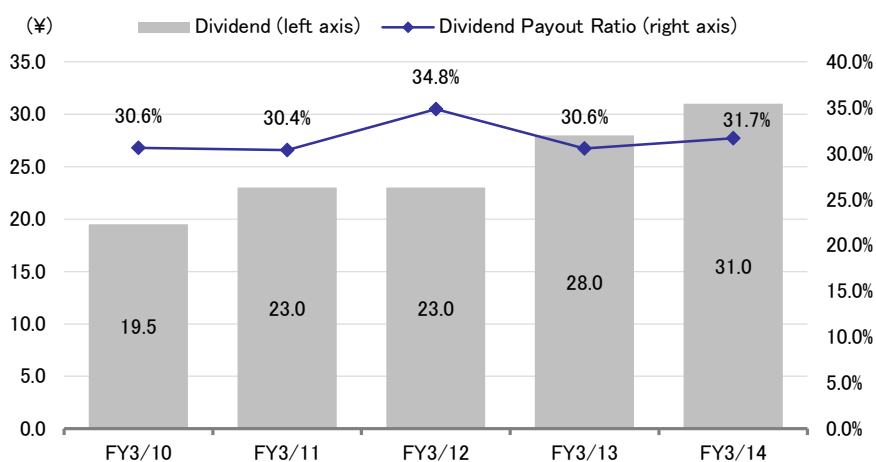
Proactive shareholder rewards with increased dividends in the future also in the event earnings growth is realized

Estore is well regarded for being acutely conscious in respect of shareholder returns. The Company bases returns on dividends, and undertakes dividend distribution after making a holistic decision (taking into account factors) including results, financial position and ensuring ample retention of internal reserves for investment in growth. While no official payout ratio has been formulated, the foundation of Estore’s thinking on shareholder returns is its basic philosophy of “dividing profits between 3 groups (consisting of) shareholders, customers and staff”. Based on this, the Company has in the past increased dividends in line with results. At present also there is no deviation from this basic stance, and Estore has clearly stated that in the future also it will proactively tackle shareholder returns by way of dividends and other measures in the event that it realizes growth in profits.

In FY3/14 Estore distributed dividends of ¥31, a rise of ¥3 y-o-y. Net profit declined 17% y-o-y, however, EPS increased from ¥91.65 to ¥97.87 which reflected the result of its holding a large volume of shares (previously) held by Yahoo as treasury stock. The payout ratio was 32%, which was almost the same level as the previous year.

At present there has been no announcement in respect of the FY3/15 dividend forecast. At the same time, there has been no announcement from the company side on EPS currently, which is still somewhat fluid. By our calculations, based on the number of shares outstanding at the end of FY3/14 and treasury shares, we expect a y-o-y decline to ¥88.8. It is not easy to determine whether as a result the Company will take the tack of lowering dividends. For arguments sake, in the event that dividends are maintained at ¥31 then the payout ratio would be around 35%, and historically, it was in that order in FY3/12. In determining future dividends, arguably it is necessary to watch results trends a little more, and we believe that it is unnecessary to take an overly pessimistic view.

Dividend Per Share and Dividend Payout Ratio



*Consolidated financial statement prepared from FY3/12.

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