



Aucfan / 3674

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Research Coverage Report by Shared Research Inc.

INDEX

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.

| | |
|--|-----------|
| Executive Summary ----- | 3 |
| Key financial data ----- | 4 |
| Recent updates ----- | 5 |
| Highlights----- | 5 |
| Trends and outlook ----- | 6 |
| Quarterly trends and results----- | 6 |
| Full-year company forecasts----- | 11 |
| Strategy and outlook----- | 13 |
| Business ----- | 16 |
| Business overview----- | 16 |
| Market and value chain----- | 28 |
| Strengths and weaknesses----- | 30 |
| Historical performance ----- | 31 |
| Historical performance----- | 31 |
| Income statement----- | 39 |
| Balance sheet----- | 40 |
| Cash flow statement----- | 41 |
| News and topics ----- | 42 |
| Other information ----- | 44 |
| History----- | 44 |
| Major shareholders----- | 45 |
| Corporate governance and top management----- | 46 |
| Employees----- | 46 |
| Dividend policy----- | 46 |
| By the way----- | 46 |
| Profile----- | 47 |

Executive Summary

Operates e-commerce business based on transaction data from major auction websites

- ▲ Aucfan operates Media, Marketplace, Solution, and Incubation businesses using the largest database of online transactions in Japan, gathered from major Japanese online auction websites. In the Media business it earns membership fees from providing auction data to paying members of the website aucfan.com (premium memberships typically cost JPY980 per month), and revenues from ads placed on the website. In the Marketplace business the company earns commissions on transactions conducted on its B2B e-commerce website for manufacturers, wholesalers, and retailers. In the Solution business, the company provides services such as a system that allows users to manage multiple online stores from a single location.
- ▲ The market data provided by the Media business include online transaction details (such as timing, price, and quantity), and are used by those looking to sell products or value inventories. Aucfan has been collecting transaction data from auction websites like Yahoo! Japan Auctions (Japan's largest) for more than 10 years, and its database has over 30bn transaction records. According to the company, roughly 40% of all visitors to Japanese auction websites are routed through aucfan.com. Aucfan attracts visitors to its website by offering access to some transaction data at no charge, but paying members have access to more detailed information and can use data analysis tools. The company holds a distinctive position by providing market prices for a variety of products sold online.
- ▲ Aucfan aims to use its large online transaction database in other businesses. It also aims to build up the Marketplace business (e-commerce websites for primary and secondary distribution), acquiring NETSEA Co., Ltd. and ReValue Inc. It is also looking to enter the fintech (financial technology) field via an asset-based lending business.
- ▲ Aucfan's three business segments are Media, Marketplace, and Solution. Revenues in the Media business mainly come from service fees and advertisements on its website, revenues in the Marketplace business mainly come from service fees and commissions on transaction of products, and revenues in the Solution business mainly come from service fees. As of end FY09/18, the sales composition ratios of each business category were 32.8%, 56.6%, and 7.3%, respectively. Segment profit composition ratios were 47.2%, 25.7%, and JPY54mn segment loss, respectively.

Trends and outlook: Expanding user base underpins record-high sales

- ▲ In FY09/18, Aucfan reported sales of JPY5.9bn (+60.4% YoY), operating profit of JPY411mn (+100.2% YoY), and recurring profit of JPY424mn (+39.9% YoY). Net income attributable to parent company shareholders was JPY224mn (+2.3% YoY).
- ▲ In FY09/19, Aucfan expects sales of JPY7.4bn (+26.2% YoY), operating profit of JPY600mn (+46.0% YoY), recurring profit of JPY600mn (+41.7% YoY), and net income attributable to parent company shareholders of JPY350mn (+56.3% YoY).

Strengths and weaknesses

Shared Research sees Aucfan's strengths as an extensive database of past transactions, strong relationships with the operators of the websites from which it gets data, and an early mover advantage in the secondary distribution market. Weaknesses: dependence on major auction sites for data, reluctance of companies to do business in a secondary market, and delegation of responsibilities to keep up with expansion. (For details see the Strengths and weaknesses section.)

Key financial data

| Income statement (JPYmn) | FY09/10 Parent | FY09/11 Parent | FY09/12 Parent | FY09/13 Parent | FY09/14 Par. | FY09/15 Cons. | FY09/16 Cons. | FY09/17 Cons. | FY09/18 Cons. | FY09/19 Est. |
|--|-------------------|-------------------|-------------------|-------------------|-----------------|------------------|------------------|------------------|------------------|-----------------|
| Sales | 326 | 492 | 620 | 752 | 1,006 | 1,450 | 2,726 | 3,656 | 5,864 | 7,400 |
| YoY | 47.8% | 50.8% | 26.1% | 21.3% | 33.9% | 44.0% | 88.0% | 34.2% | 60.4% | 26.2% |
| Gross profit | 252 | 419 | 547 | 653 | 864 | 1,088 | 1,826 | 1,886 | 2,715 | |
| YoY | 54.1% | 66.1% | 30.5% | 19.5% | 32.3% | 26.0% | 67.8% | 3.3% | 44.0% | |
| GPM | 77.3% | 85.2% | 88.2% | 86.9% | 85.8% | 75.1% | 67.0% | 51.6% | 46.3% | |
| Operating profit | 51 | 109 | 202 | 307 | 407 | 141 | 321 | 205 | 411 | 600 |
| YoY | - | 111.5% | 85.3% | 52.2% | 32.6% | -65.4% | 127.8% | -36.0% | 100.2% | 46.0% |
| OPM | 15.8% | 22.1% | 32.5% | 40.8% | 40.4% | 9.7% | 11.8% | 5.6% | 7.0% | 8.1% |
| Recurring profit | 51 | 111 | 201 | 302 | 413 | 143 | 332 | 303 | 424 | 600 |
| YoY | - | 119.9% | 81.0% | 50.2% | 36.7% | -65.5% | 133.0% | -8.8% | 39.9% | 41.7% |
| RPM | 15.5% | 22.6% | 32.4% | 40.2% | 41.0% | 9.8% | 12.2% | 8.3% | 7.2% | 8.1% |
| Net income | 43 | 73 | 101 | 212 | 250 | 182 | 309 | 219 | 224 | 350 |
| YoY | 214.0% | 69.3% | 38.1% | 110.2% | 17.8% | -27.2% | 69.5% | -29.1% | 2.3% | 56.3% |
| Net margin | 13.2% | 14.9% | 16.3% | 28.2% | 24.9% | 12.6% | 11.3% | 6.0% | 3.8% | 4.7% |
| Per share data | | | | | | | | | | |
| Shares issued (year-end; '000) | 2.3 | 2.5 | 2.7 | 1,833.5 | 9,737.5 | 9,860.0 | 9,895.0 | 9,907.5 | 9,915.0 | |
| EPS | 7.61 | 12.65 | 15.13 | 26.77 | 25.94 | 18.61 | 31.48 | 22.25 | 22.72 | 35.51 |
| EPS (fully diluted) | - | - | - | 23.23 | 25.04 | 18.37 | 30.26 | 21.20 | 22.14 | |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| Book value per share | 37.03 | 51.26 | 68.34 | 159.23 | 196.84 | 213.53 | 229.69 | 250.82 | 274.22 | |
| Balance sheet (JPYmn) | | | | | | | | | | |
| Cash and cash equivalents | - | 259 | 339 | 1,127 | 1,144 | 1,403 | 1,466 | 1,029 | 2,095 | |
| Total current assets | - | 340 | 435 | 1,290 | 1,368 | 1,966 | 2,137 | 2,477 | 4,176 | |
| Tangible fixed assets | - | 31 | 23 | 45 | 35 | 55 | 54 | 136 | 121 | |
| Investments and other assets | - | 58 | 47 | 77 | 294 | 888 | 841 | 448 | 436 | |
| Intangible fixed assets | - | 43 | 136 | 204 | 432 | 1,355 | 1,428 | 1,153 | 1,139 | |
| Total assets | 290 | 471 | 641 | 1,615 | 2,130 | 4,270 | 4,465 | 4,217 | 5,874 | |
| Short-term debt | - | 18 | 0 | 0 | 0 | 510 | 576 | 520 | 925 | |
| Total current liabilities | - | 132 | 170 | 154 | 206 | 763 | 1,224 | 1,133 | 1,965 | |
| Long-term debt | - | 15 | 0 | 0 | 0 | 1,364 | 961 | 578 | 1,188 | |
| Total fixed liabilities | - | 15 | 0 | 0 | 6 | 1,364 | 961 | 578 | 1,192 | |
| Total liabilities | - | 147 | 170 | 154 | 212 | 2,127 | 2,185 | 1,711 | 3,157 | |
| Net assets | 216 | 325 | 471 | 1,462 | 1,917 | 2,143 | 2,280 | 2,506 | 2,717 | |
| Total interest-bearing debt | - | 33 | 0 | 0 | 0 | 1,874 | 1,536 | 1,098 | 2,113 | |
| Statement of cash flows (JPYmn) | | | | | | | | | | |
| Cash flows from operating activities | - | 178 | 194 | 179 | 330 | 136 | 766 | 155 | 468 | |
| Cash flows from investing activities | - | -48 | -126 | -164 | -491 | -1,722 | -249 | -126 | -222 | |
| Cash flows from financing activities | - | 18 | 12 | 772 | 179 | 1,844 | -503 | -431 | 818 | |
| Financial ratios | | | | | | | | | | |
| ROA (RP-based) | 21.6% | 29.2% | 36.2% | 26.8% | 22.0% | 4.5% | 7.6% | 7.0% | 8.4% | |
| ROE | 23.5% | 27.2% | 25.5% | 22.0% | 11.0% | 9.1% | 14.2% | 9.3% | 8.7% | |
| Equity ratio | 73.9% | 86.6% | 73.0% | 90.4% | 90.0% | 49.0% | 50.6% | 58.6% | 46.0% | |

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Note: Consolidated results shown from FY09/15; change versus parent company figures the previous year shown for reference purposes only.

Recent updates

Highlights

On **December 14, 2018**, Shared Research updated the report following interviews with Aucfan Co., Ltd.

On **November 14, 2018**, the company announced earnings results for full-year FY09/18; see the results section for details.

On **September 28, 2018**, the company announced purchase of treasury shares.

Overview of the purchase

- ▷ Class of shares to be purchased: Common shares of the company
- ▷ Total number of shares to be purchased: 100,000 shares (upper limit; 1.01% of outstanding shares [excluding treasury shares])
- ▷ Total purchase price: JPY80mn (upper limit)
- ▷ Purchase period: From October 1, 2018 to the conclusion date of the next general meeting of shareholders (tentative)

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

Trends and outlook

Quarterly trends and results

| Cumulative (JPYmn) | FY09/17 cons. | | | | FY09/18 | | | | FY09/18 | |
|-----------------------|---------------|--------|--------|--------|---------|--------|--------|--------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | % of FY | FY Est. |
| Sales | 920 | 1,818 | 2,808 | 3,656 | 973 | 2,495 | 3,979 | 5,864 | 97.7% | 6,000 |
| YoY | 74.6% | 69.0% | 47.9% | 34.2% | 5.8% | 37.2% | 41.7% | 60.4% | | 64.1% |
| Gross profit | 505 | 956 | 1,430 | 1,886 | 484 | 1,194 | 1,884 | 2,715 | | |
| YoY | 25.5% | 14.6% | 10.5% | 3.3% | -4.1% | 24.9% | 31.7% | 44.0% | | |
| GPM | 54.9% | 52.6% | 50.9% | 51.6% | 49.8% | 47.8% | 47.3% | 46.3% | | |
| SG&A expenses | 425 | 842 | 1,249 | 1,681 | 505 | 1,142 | 1,741 | 2,304 | | |
| YoY | 42.8% | 39.3% | 24.6% | 11.6% | 18.8% | 35.6% | 39.4% | 37.1% | | |
| SG&A ratio | 46.2% | 46.3% | 44.5% | 46.0% | 51.9% | 45.8% | 43.7% | 39.3% | | |
| Operating profit | 80 | 113 | 181 | 205 | -20 | 52 | 143 | 411 | 91.3% | 450 |
| YoY | -23.7% | -50.6% | -38.0% | -36.0% | - | -54.4% | -21.0% | 100.2% | | 119.2% |
| OPM | 8.7% | 6.2% | 6.5% | 5.6% | - | 2.1% | 3.6% | 7.0% | | 7.5% |
| Recurring profit | 161 | 217 | 291 | 303 | -16 | 60 | 152 | 424 | 94.1% | 450 |
| YoY | 32.2% | -8.2% | -4.9% | -8.8% | - | -72.1% | -47.9% | 39.9% | | 48.6% |
| RPM | 17.5% | 11.9% | 10.4% | 8.3% | - | 2.4% | 3.8% | 7.2% | | 7.5% |
| Net income | 67 | 81 | 346 | 219 | -56 | -26 | 42 | 224 | 82.9% | 270 |
| YoY | -57.1% | -71.0% | 9.4% | -29.1% | - | - | -87.8% | 2.3% | | 23.3% |
| Net margin | 7.3% | 4.4% | 12.3% | 6.0% | - | - | 1.1% | 3.8% | | 4.5% |

| Quarterly (JPYmn) | FY09/17 cons. | | | | FY09/18 | | | |
|----------------------|---------------|--------|--------|--------|---------|--------|--------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 920 | 898 | 989 | 849 | 973 | 1,522 | 1,485 | 1,884 |
| YoY | 74.6% | 63.7% | 20.2% | 2.7% | 5.8% | 69.4% | 50.1% | 122.0% |
| Gross profit | 505 | 451 | 475 | 455 | 484 | 709 | 690 | 831 |
| YoY | 25.5% | 4.4% | 3.0% | -14.3% | -4.1% | 57.4% | 45.4% | 82.4% |
| GPM | 54.9% | 50.2% | 48.0% | 53.7% | 49.8% | 46.6% | 46.5% | 44.1% |
| SG&A expenses | 425 | 417 | 407 | 431 | 505 | 637 | 599 | 563 |
| YoY | 42.8% | 36.0% | 2.2% | -14.2% | 18.8% | 52.7% | 47.2% | 30.5% |
| SG&A ratio | 46.2% | 46.5% | 41.1% | 50.8% | 51.9% | 41.9% | 40.3% | 29.9% |
| Operating profit | 80 | 33 | 68 | 24 | -20 | 72 | 91 | 268 |
| YoY | -23.7% | -73.2% | 8.4% | -15.7% | - | 115.8% | 35.0% | 1013.7% |
| OPM | 8.7% | 3.7% | 6.8% | 2.8% | - | 4.7% | 6.2% | 14.2% |
| Recurring profit | 161 | 56 | 74 | 12 | -16 | 76 | 91 | 272 |
| YoY | 32.2% | -51.3% | 6.2% | -54.0% | - | 37.3% | 23.6% | 2133.3% |
| RPM | 17.5% | 6.2% | 7.4% | 1.4% | - | 5.0% | 6.1% | 14.4% |
| Net income | 67 | 14 | 266 | -127 | -56 | 30 | 69 | 182 |
| YoY | -57.1% | -88.9% | 597.2% | - | - | 119.4% | -74.1% | - |
| Net margin | 7.3% | 1.5% | 26.8% | - | - | 1.9% | 4.6% | 9.6% |

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Note: Forecasts are the most recent company estimates.

Quarterly results by segment

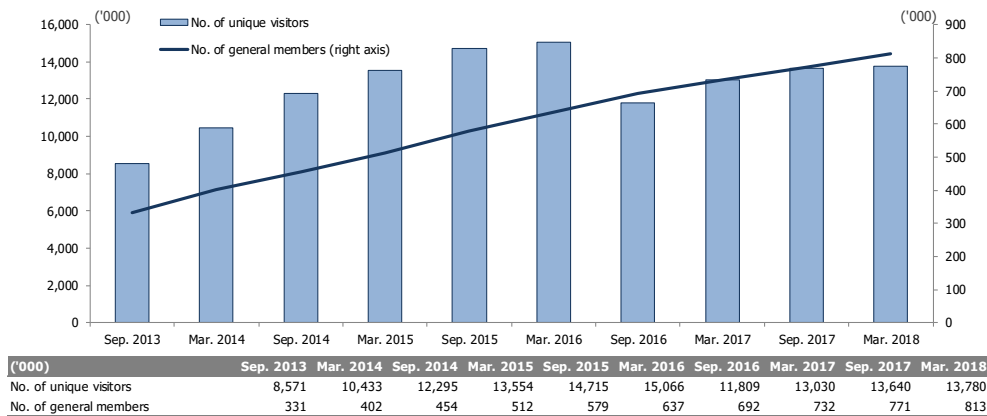
| Cumulative (JPYmn) | FY09/17 | | | | FY09/18 | | | |
|-----------------------|---------|--------|--------|--------|---------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Total sales | 920 | 1,818 | 2,808 | 3,656 | 973 | 2,495 | 3,979 | 5,864 |
| YoY | 74.6% | 69.0% | 47.9% | 34.2% | 5.8% | 37.2% | 41.7% | 60.4% |
| Media | 365 | 783 | 1,236 | 1,700 | 469 | 868 | 1,302 | 1,924 |
| YoY | 8.5% | 10.0% | 18.4% | 20.7% | 28.5% | 10.9% | 5.3% | 13.2% |
| Marketplace | 392 | 811 | 1,248 | 1,518 | 395 | 1,361 | 2,296 | 3,318 |
| YoY | 155.6% | 162.4% | 95.8% | 64.6% | 0.7% | 67.7% | 84.1% | 118.6% |
| Solution | 163 | 285 | 411 | 554 | 85 | 197 | 323 | 430 |
| YoY | 342.5% | 299.7% | 71.6% | 40.3% | -47.5% | -30.8% | -21.5% | -22.4% |
| Incubation | - | - | - | - | 50 | 118 | 119 | 275 |
| YoY | - | - | - | - | - | 0.0% | - | - |
| Operating profit | 80 | 113 | 181 | 205 | -20 | 52 | 143 | 411 |
| YoY | -23.7% | -50.6% | -38.0% | -36.0% | - | -54.4% | -21.0% | 100.2% |
| Media | 42 | 85 | 114 | 124 | 16 | 18 | 44 | 188 |
| YoY | -26.7% | -38.2% | -33.0% | -33.9% | -61.5% | -78.3% | -61.2% | 51.7% |
| Marketplace | 59 | 94 | 145 | 161 | 18 | 30 | 66 | 102 |
| YoY | 13.8% | -2.2% | -0.9% | -18.4% | -69.6% | -68.4% | -54.4% | -36.8% |
| Solution | -24 | -71 | -84 | -89 | -83 | -86 | -53 | -54 |
| YoY | - | - | - | - | - | - | - | - |
| Incubation | - | - | - | - | 25 | 83 | 75 | 162 |
| YoY | - | - | - | - | - | - | - | - |
| Adjustments | 2 | 5 | 6 | 9 | 3 | 7 | 10 | 13 |

| Quarterly (JPYmn) | FY09/17 | | | | FY09/18 | | | |
|----------------------|---------|--------|--------|--------|---------|--------|--------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Total sales | 920 | 898 | 989 | 849 | 973 | 1,522 | 1,485 | 1,884 |
| YoY | 74.6% | 63.7% | 20.2% | 2.7% | 5.8% | 69.4% | 50.1% | 122.0% |
| Media | 365 | 417 | 453 | 464 | 469 | 399 | 434 | 622 |
| YoY | 8.5% | 11.4% | 36.5% | 27.0% | 28.5% | -4.4% | -4.4% | 34.3% |
| Marketplace | 392 | 420 | 436 | 271 | 395 | 966 | 935 | 1,022 |
| YoY | 155.6% | 169.1% | 33.0% | -5.1% | 0.7% | 130.3% | 114.5% | 277.7% |
| Solution | 163 | 122 | 126 | 142 | 85 | 112 | 126 | 107 |
| YoY | 342.5% | 254.3% | -24.9% | -8.2% | -47.5% | -8.7% | -0.3% | -25.0% |
| Incubation | - | - | - | - | 50 | 68 | 2 | - |
| YoY | - | - | - | - | - | - | - | - |
| Operating profit | 80 | 33 | 68 | 24 | -20 | 72 | 91 | 268 |
| YoY | -23.7% | -73.2% | 8.4% | -15.7% | - | 115.8% | 35.0% | 1013.7% |
| Media | 42 | 43 | 29 | 9 | 16 | 2 | 26 | 143 |
| YoY | -26.7% | -46.5% | -11.2% | -43.0% | -61.5% | -94.9% | -11.2% | 1431.0% |
| Marketplace | 59 | 35 | 51 | 17 | 18 | 12 | 37 | 36 |
| YoY | 13.8% | -21.2% | 1.7% | -68.0% | -69.6% | -66.5% | -28.9% | 117.8% |
| Solution | -24 | -47 | -13 | -5 | -83 | -3 | 33 | -1 |
| YoY | - | - | - | - | - | - | - | - |
| Incubation | - | - | - | - | 25 | 58 | -7 | 86 |
| YoY | - | - | - | - | - | - | - | - |
| Adjustments | 2 | 3 | 0 | 3 | 3 | 3 | 3 | 3 |

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Trends in the number of unique visitors and general members

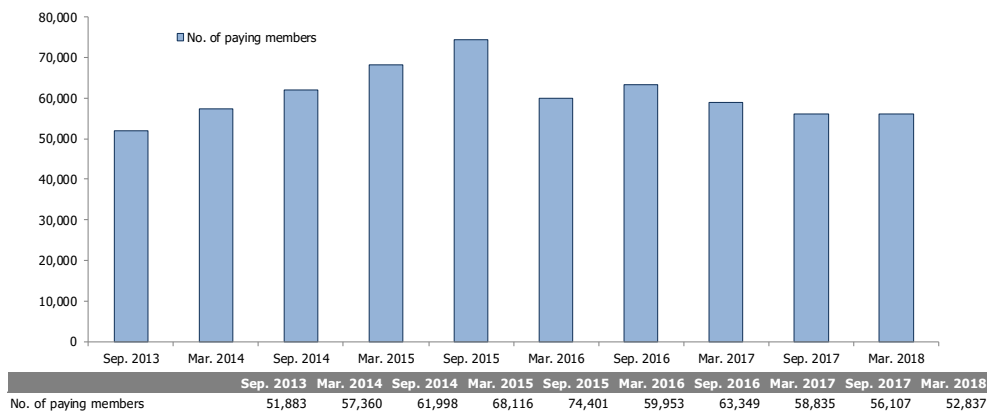


Source: Shared Research based on company data

Note: "Unique visitors" represent the total number of monthly visitors to aucfan.com.

Note: "General members" represent the total number of registered members (free registration) on the Aucfan website.

Trends in the number of paying members



Source: Shared Research based on company data

Note: "Paying members" represents the total number of paying members including Aucfan Pro and optional services, in addition to Aucfan Premium members.

Full-year FY09/18 results

Overview

In FY09/18, Aucfan reported sales of JPY5.9bn (+60.4% YoY), operating profit of JPY411mn (+100.2% YoY), and recurring profit of JPY424mn (+39.9% YoY). Net income attributable to parent company shareholders finished at JPY224mn (+2.3% YoY) since the company posted an impairment loss of JPY105mn after reevaluating the profitability of software assets concerning some game titles being developed on contract in the Solution business.

Approximately JPY22tn of companies' inventory is disposed of without reaching consumers (Aucfan estimate based on 2016 Corporate Enterprise Statistics published by the Ministry of Finance). Utilizing the large volume of actual sales data compiled since its founding, the company has provided support to deliver this inventory at an appropriate price to an appropriate market. After making netprice, an online seller of discount products, a subsidiary in December 2017, the company made a full entry into the marketplace business, which includes not only market data, but also logistics.

Media

Full-year FY09/18 sales were JPY1.9bn (+13.2% YoY) and operating profit was JPY188mn (+51.7% YoY). In Q4, sales were JPY622mn (+34.3% YoY), operating profit JPY143mn (operating profit of JPY9mn in Q4 FY09/17). It posted QoQ sales growth of 45.3% and operating profit growth of 5.5x.

Sales in this segment mainly come from service fees from Aucfan Premium and Aucfan Pro Plus members, operating revenue from Aucfan School (auction classes and individual support services), and advertising revenue from websites. New services (which

make use of market and logistics data) developed in Q2 FY09/18 and for which the company has been promoting sales, and peripheral services such as Aucfan School (which provides auction classes and individual support services) drove earnings.

Sales growth in Q4 came from revising fees for Aucfan Pro Plus. In July 2018, the company lifted the price from an average monthly charge of about JPY3,800 (including tax) to JPY10,800 (including tax). Monthly charges for Aucfan Pro Plus were hiked due to expanded functionality, including Storoid (tool for detailed analysis of Yahoo! Shopping stores and items for sale) and Global Aucfan (search and comparison service for the least expensive products worldwide). Shared Research understands that some 5,000 paying members were subject to the fee hike. According to the company, before and after the Aucfan Pro Plus fee hike (comparing April 2018 and July 2018), related customer numbers fell by 8%, but monthly fee revenues rose by 183%.

Although the number of members declined following the revised fees for Aucfan Premium Plus from July 2018, fees per member increased. The number of paying members for Aucfan Premium, Aucfan Pro Plus, and Aucfan School was 48,887 (versus 52,837 in FY09/17) and average monthly fees were JPY2,782 per member (versus JPY1,585).

Profits were trending down until Q3 due to declining advertising revenue and increased operating expenses for Aucfan School, but they started to improve due to cost cuts from Q3, and turned to growth in Q4 following the price revisions for Aucfan Pro Plus.

Marketplace

Full-year sales were JPY3.3bn (+118.6% YoY) and operating profit was JPY102mn (-36.8% YoY). In Q4, sales were JPY1.0bn (+277.7% YoY) and operating profit JPY36mn (+117.8% YoY). Sales were up 9.2% QoQ and operating profit down 1.4%.

The company prioritized business expansion in ReValue, an inventory liquidation service business for companies, and NETSEA, the largest B2B support site in Japan. netprice, Ltd., consolidated in December 2017, also contributed to sales and profit after being consolidated in the income statement from Q2. Partly due to the addition of netprice, the segment's annual transaction value reached JPY9.1bn (+18% YoY).

Sales rose due to the consolidation of netprice. NETSEA and ReValue also performed solidly. Transaction value increased against a backdrop of higher supplier and buyer numbers. For Otameshi, the e-commerce website launched in July 2017 as part of the ReValue offering, there was growth in both companies supplying products and consumers using the service. Otameshi sells products that cannot be sold via normal sales channels such as those with out-of-date packaging to consumers at a discount and donates a percentage of sales to community service organizations.

Profits declined on increased expenses accompanying growth in the number of new transactions and operating losses at netprice. Still, profits improved in 2H versus 1H. Operating losses narrowed due to reduced SG&A expenses at SynaBiz and netprice.

Solution

Full-year sales were JPY430mn (-22.4% YoY) and operating loss was JPY54mn (JPY89mn operating loss in FY09/17). In Q4, sales were JPY107mn (-25.0% YoY) and operating loss JPY1mn (operating loss of JPY5mn in Q4 FY 09/17). Sales were down 15.3% QoQ and operating result down by JPY34mn (from operating profit of JPY33mn to operating loss of JPY1mn).

In the Solution business, the company revised expense budgets with an aim of generating stable profit from TATEMPO NEXT service, which is an ASP service that allows users to place products simultaneously on multiple online marketplaces and adjust inventory. The company booked one-time bad debt expenses of JPY83mn as it became difficult to collect the receivables from certain large transactions. However, from 2H FY09/17, it improved the profitability of TATEMPO Guide customized projects by making better use of outsourcing as it prioritized profits. Zerodiv Inc., a consolidated subsidiary since Q3 FY9/18, also had an impact on segment results.

Incubation

Full-year sales were JPY275mn and operating profit was JPY162mn. In Q4, sales were JPY156mn and operating profit JPY86mn.

In Incubation, the company aims to acquire the know-how and network to gain and maintain a competitive advantage over the long-term through business investment activities. In Q4 (July to September 2018), the company sold some operational investment securities it held, and continued its effort since Q3 to provide consulting services to the companies it has invested in.

For details on previous quarterly and annual results, please refer to Historical financial statements section.

Full-year company forecasts

| Consolidated earnings (JPYmn) | FY09/18 | | FY09/19 | |
|----------------------------------|--------------|--------------|--------------|--------------|
| | 1H | 2H | FY | FY Est. |
| Sales | 2,495 | 3,369 | 5,864 | 7,400 |
| YoY | 37.2% | 83.3% | 60.4% | 26.2% |
| Cost of sales | 1,301 | 1,848 | 3,149 | |
| Gross profit | 1,194 | 1,521 | 2,715 | |
| YoY | 24.9% | 63.5% | 44.0% | |
| GPM | 47.8% | 45.2% | 46.3% | |
| SG&A expenses | 1,142 | 1,162 | 2,304 | |
| SG&A ratio | 45.8% | 34.5% | 39.3% | |
| Operating profit | 52 | 359 | 411 | 600 |
| YoY | -54.4% | 291.5% | 100.2% | 46.0% |
| OPM | 2.1% | 10.7% | 7.0% | 8.1% |
| Recurring profit | 60 | 363 | 424 | 600 |
| YoY | -72.1% | 322.7% | 39.9% | 41.7% |
| RPM | 2.4% | 10.8% | 7.2% | 8.1% |
| Net income | -26 | 250 | 224 | 350 |
| YoY | -132.8% | 81.1% | 2.3% | 56.3% |

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Note: Forecasts are the most recent company estimates.

Company forecast for FY09/19

In FY09/19, Aucfan expects sales of JPY7.4bn (+26.2% YoY), operating profit of JPY600mn (+46.0% YoY), recurring profit of JPY600mn (+41.7% YoY), and net income attributable to parent company shareholders of JPY350mn (+56.3% YoY).

The company does not disclose segment forecasts. Shared Research thinks that the Marketplace segment will contribute to sales growth and that the Media segment will drive operating profit growth.

Media

Shared Research thinks that full-year contributions of revised prices for Aucfan Pro Plus (fee hikes in July 2018) will drive sales and profit growth for the Media segment.

Additional features and full-year contribution of fee revisions for Aucfan Pro PLUS

Aucfan Pro PLUS is the company's service that stays abreast of who is selling what and to what extent on the three major markets (Amazon, Yahoo Auction!, and eBay). For an average monthly fee of about JPY3,800 (as of June 2018; tax inclusive), the service provided an Amazon research feature that shows sales trends of popular products in a graph, Yahoo Auction!'s auction reservation feature, and other data analysis and research functions to efficiently implement online retail businesses.

In July 2018, the company introduced Aucfan Pro PLUS service with expanded features, such as Storoid (tool for detailed analysis of Yahoo! Shopping stores and submitted products) and Global Aucfan (search and comparison service for the least expensive products worldwide) for a revised fee of JPY10,800 a month. Shared Research thinks that fee changes affected about 5,000 of its paying members. According to the company, before and after the fee hike (April 2018 and July 2018), related customer numbers fell by 8%, but monthly fee revenues rose by 183%.

In FY09/18, the Aucfan Pro Plus fee changes were in place for Q4 only, but in FY09/19, the impact will be for the full year, so should contribute to earnings for the entire period.

Marketplace

Shared Research forecasts sales to grow in the Marketplace segment due to a full-year contribution from netprice (consolidated in the accounts from Q2 FY09/18), and growing transaction value for NETSEA, ReValue, and Otameshi, the socially-conscious e-commerce website.

SG&A expenses at SynaBiz and netprice started declining due to cost cuts implemented in 2H FY09/18, which should flow through to profit growth in 1H FY09/19. However, Shared Research thinks that increased personnel expenses and delivery costs accompanying growing transaction value will drag on profit.

Solution

A full-year contribution from Zerodiv (consolidated in Q3 FY09/18) should contribute to sales growth. In FY03/17, Zerodiv posted sales of JPY260mn and operating profit of JPY1mn.

Shared Research expects segment profit to grow as the company is not forecasting a repeat of the JPY83mn in one-time bad debt expenses it booked in FY09/18.

Strategy and outlook

New medium-term plan toward September 2020 (DASH! 2020)

Targets under the new medium-term plan through FY09/20: sales of JPY10.5bn and recurring profit of JPY1.6bn

When announcing full-year results for FY09/16, Aucfan unveiled a new medium-term plan toward September 2020 (DASH! 2020). Under this new medium-term plan, the company targets sales of JPY10.5bn (roughly +290% compared to FY09/16) and recurring profit of JPY1.6bn (roughly +370%) in FY09/20.

The company announced a three-year medium-term plan (New Paradigm 2017) in December 2014, but the premises underlying the targets have significantly changed between that plan and the current one. Under the previous medium-term plan, the company aimed to increase sales and profits through advertisements and fees earned on the aucfan.com website. However, the new medium-term plan includes sales from the company's B2B marketplace business and sales assistance business targeting corporate customers.

Medium-term plan targets:

| (consolidated; JPYmn) | FY09/16 | FY09/17 | FY09/18 | FY09/17 | FY09/18 | FY09/19 | FY09/20 | 4-year CAGR |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|----------------|
| | Act. | Act. | Act. | Est. | Est. | Est. | Est. | |
| Sales | 2,726 | 3,656 | 5,864 | 3,815 | 5,280 | 7,400 | 10,500 | 40.1% |
| YoY | 88.0% | 34.2% | 60.4% | 40.0% | 38.4% | 40.2% | 41.9% | - |
| Recurring profit | 332 | 303 | 424 | 461 | 691 | 1,040 | 1,560 | 47.2% |
| YoY | 133.0% | -8.8% | 39.9% | 38.8% | 49.9% | 50.5% | 50.0% | - |
| RPM | 12.2% | 8.3% | 7.2% | 12.1% | 13.1% | 14.1% | 14.9% | - |

Source: Shared Research based on company data

Aucfan's expansion of target business areas follows its acquisition of NETSEA Co., Ltd. from DeNA Co., Ltd. (TSE: 2432) in July 2015. NETSEA connects manufacturers, wholesalers, and retailers through an online B2B marketplace. This has allowed Aucfan to expand beyond providing B2C and C2C price data in its existing Media business into the much larger B2B market.

After it acquired NETSEA, Aucfan moved to further expand its B2B business with the acquisition of ReValue Inc. from Dream Incubator Inc. (TSE: 4310) in January 2016. ReValue provides inventory liquidation services to companies seeking to eliminate surplus inventories and returned products at fair prices. (In order to increase synergies, NETSEA and ReValue merged on September 30, 2016 to form SynaBiz Co., Ltd.) In December 2017, the company acquired all shares in netprice, which operates an e-commerce business targeting consumers, and made it a subsidiary.

In April 2016, to further expand the Solution business, Aucfan acquired Smartsourcing, Inc., which operates a crowdsourcing business.

Target markets

Under its previous business model, the company's target markets were C2C and B2C markets in Japan with a market size of roughly JPY1.3tn and JPY20tn, respectively. However, the acquisition of NETSEA and ReValue has propelled the company's full-scale entry into the B2B market, which is roughly JPY200tn in size. The company expects plenty of room for growth in this distribution and retail market, since there are few competitors. The company also aims to expand its business overseas in these three markets (C2C, B2C, and B2B), a combined potential market of over JPY500tn.

In the four years until FY09/16 (FY09/13–16), the company achieved over 40% growth in sales. In the new medium-term plan, it targets an average growth rate of approximately 40% in sales. The company aims to achieve this high target by expanding its business areas. With data at the core, it hopes to create synergies between the Media, Marketplace, and Solution businesses to bolster areas where other companies cannot enter.

In the Marketplace business, started in 2014, the company explains that its strength is the ability to analyze the value of target products using its own database of transaction data. The company hopes to further enhance this database by collecting and storing other types of data, such as data on raw materials, machinery, and equipment. The company will use this data to deliver useful information to suppliers and buyers, including forecasts on product values one year later and the best timing to buy or sell products, as part of efforts to expand business operations.

The business model of the ReValue business is to provide information to buyers based on an understanding of the manufacturer’s inventory status, and to stock products only after they are ordered. As a result, the company holds little inventory, but for popular products it also considers holding one month’s worth of inventory. Holding inventory offers advantages when purchasing surplus inventory that manufacturers want to sell off quickly at lower price than usual. The company hopes to increase inventory, while estimating contract prices and sales volume leveraging its database, for profitable products in which it can expect consistent sales three to six months forward. Yet holding inventory also carries the risk of surplus inventory and inventory of large orders from overseas that remain unsold due to breach of contract. The company aims to minimize these risks by increasing inventory of products that can be sold online through its marketplace for small businesses.

Future growth model: synergies between three data-centered businesses to serve giant B2B market

Starting in FY09/16 the company divided its data-centered businesses into Media, Marketplace, and Solution. It adopted a growth model in which all three segments come together to realize further growth.

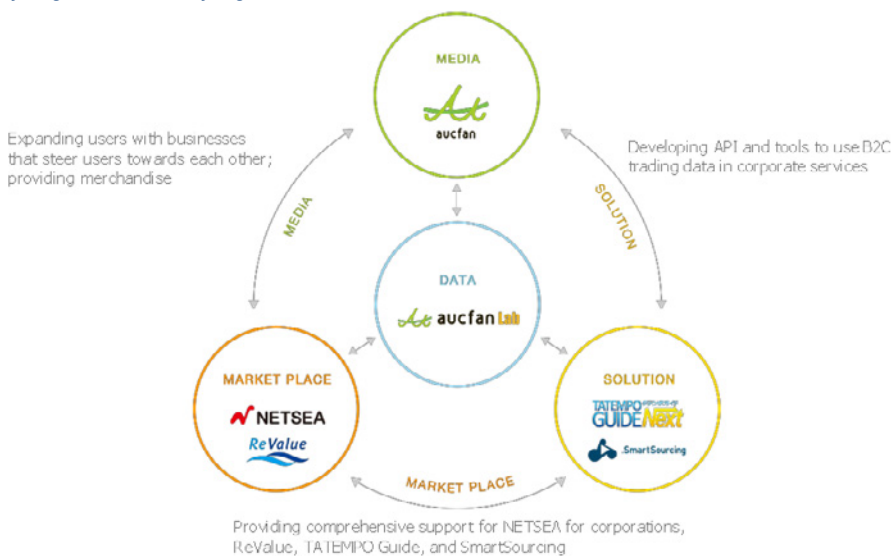
Supporting liquidation of JPY22tn in corporate inventories

The goal of the reorganization is to strengthen these three businesses by realizing group synergies. Aucfan aims to create a cyclic growth model centered on data that brings out the synergies between the three businesses. The Marketplace business started in July 2015 should leverage Aucfan's database to help client companies sell primary distribution goods (new products and inventories) and secondary distribution goods (surplus inventories and returned products). The company plans to direct efforts toward opening up Japan's underdeveloped secondary distribution market. According to the company, the total value of corporate inventory for disposal in Japan, including surplus inventories, returned and damaged products, and outlet products) is estimated at JPY22tn per year. Aucfan believes it can recommend optimal pricing and sales routes for these products based on actual product sales data from 68bn transactions it has gathered since its founding. The company has ways to supply corporate inventory to consumers via its distribution platforms such as NETSEA, ReValue, netprice, and Otameshi.

Meanwhile, the Solution business will provide crowdsourcing and other e-commerce business support services. Eventually, leveraging the asset valuation capabilities of group companies, Aucfan is also contemplating moving into asset-based lending or other fintech businesses.

Fintech (short for financial technology): Using information technology to provide financial services.

Cyclic growth model for synergies between three main businesses



Source: Company materials

One-stop provider of Data and Marketplace services

As the flow of products and data between Media, Marketplace, and Solution businesses increases, and if Aucfan adds new logistics and financial services, it can serve as a one-stop service provider of Data and Marketplace services. For example, Aucfan

thinks it can broaden the scope of its product and price data by combining the 30bn+ data of B2C and C2C transactions in its Media business with the B2B databases in the Marketplace business of SynaBiz.

Business

Business overview

Develops e-commerce businesses leveraging data from major auction websites

Aucfan develops various e-commerce businesses, leveraging Japan's largest database of online transaction data collected from major auction* and e-commerce websites.

- ▀ **Media business:** Core business since the company's inception. Operates aucfan.com, Japan's largest price comparison and search website for products sold through online auction and other e-commerce websites. Also operates Aucfan School, which specializes in teaching expertise and techniques for internet auctions and receives course fees. Earns revenues from membership fees by providing paying members access to market data based on transactions (memberships typically cost JPY980 per month), Aucfan School sales, as well as revenues from ads placed on the website.
- ▀ **Marketplace business**:** New business expanding since 2014. Acquired companies like NETSEA and ReValue that operate B2B online markets for manufacturers, wholesalers, and retailers in primary (inventory sales and wholesales) and secondary distribution (surplus inventory and returned goods) markets. Offers one-stop services handling everything from full-priced goods to clearance goods, surplus inventories, and returned products. Bought all the shares of netprice (e-commerce business targeting consumers) in December 2017 and made it a subsidiary.
- ▀ **Solution business:** Offers business support services including the TATEMPO Guide software system, which allows users to set up and manage multiple online shops (user fee of JPY29,800 per month), crowdsourcing services for large corporate clients, and other support services including one-time or ongoing sales support.
- ▀ **Incubation business:** Invests mainly in startups and earns revenue from selling investment securities and consulting for investee companies.

* Online auctions: Auctions that are conducted using the internet, where individuals can set their own price when bidding on the goods. Auction websites typically show only the highest price and would-be buyers can only bid at a higher price. The user that bids the highest price during a predetermined timeframe can buy the item.

**Online marketplace: A type of e-commerce website to connect companies looking to purchase goods (buyers) and companies looking to sell goods (suppliers). Because they allow electronic transactions between multiple companies, they are known as business-to-business (B2B) marketplaces.

Aucfan group service map



Source: Company data

Segment earnings

| (JPYmn) | FY09/16 | FY09/17 | FY09/18 |
|------------------|---------|---------|---------|
| | Cons. | Cons. | Cons. |
| Total sales | 2,726 | 3,656 | 5,864 |
| YoY | 88.0% | 34.2% | 60.4% |
| Media | 1,409 | 1,700 | 1,924 |
| YoY | - | 20.7% | 13.2% |
| % of total sales | 51.7% | 46.5% | 32.8% |
| Marketplace | 922 | 1,518 | 3,318 |
| YoY | - | 64.6% | 118.6% |
| % of total sales | 33.8% | 41.5% | 56.6% |
| Solution | 395 | 554 | 430 |
| YoY | - | 40.3% | -22.4% |
| % of total sales | 14.5% | 15.1% | 7.3% |
| Incubation | - | - | 275 |
| YoY | - | - | - |
| % of total sales | - | - | 4.7% |
| Operating profit | 321 | 205 | 411 |
| YoY | 127.8% | -36.0% | 100.2% |
| OPM | 11.8% | 5.6% | 7.0% |
| Media | 187 | 124 | 188 |
| YoY | - | -33.9% | 51.7% |
| OPM | 13.3% | 7.3% | 9.7% |
| % of total OP | 58.4% | 63.0% | 47.2% |
| Marketplace | 198 | 161 | 102 |
| YoY | - | -18.4% | -36.8% |
| OPM | 21.5% | 10.6% | 3.1% |
| % of total OP | 61.8% | 82.3% | 25.7% |
| Solution | -65 | -89 | -54 |
| YoY | - | - | - |
| OPM | - | - | - |
| % of total OP | - | - | - |
| Incubation | - | - | 162 |
| YoY | - | - | - |
| OPM | - | - | 58.9% |
| % of total OP | - | - | 40.7% |
| Adjustments | 0 | 9 | 13 |

Source: Shared Research based on company data

Note: Figures may differ from those reported by company owing to differences in rounding.

Media (32.8% of sales and 47.2% of operating profit in FY09/18)

In this segment the company operates Aucfan.com, Japan's largest price comparison and market price search website. Media revenues mainly come from membership fees, school tuition fees, and ads placed on the website. The company has not reported the breakdown of revenues in detail, but in order of contribution to earnings, membership fees account for more than half, followed by school fees, and ad revenue.

Service fee revenues and tuition fees

On aucfan.com, users can search for, compare, and analyze prices for goods offered through various auction and e-commerce websites. The site provides access to transaction data going back more than 10 years (product and price information for more than 68bn transactions). Buyers and sellers can refer to this data when conducting transactions.

Buyers and sellers on auction websites

| | Buyers | Sellers |
|--------------------|---|-----------------------------------|
| Users | Users looking to sell goods online, individual entrepreneurs and users looking to open businesses, e-commerce stores, and purchasing stores | Consumers comparing prices online |
| Information needed | Multifaceted market price info to attain profits (when, how much, and for what price the goods will sell) | Lowest price for a good |

Source: Shared Research based on company data

Some services available on aucfan.com are offered to users at no charge, but for a fee, members can gain access to more detailed market price information and data analysis. Paying users range from individuals seeking to earn money by trading in online auctions, to entrepreneurs and companies looking to find the right price at which to sell their products.* According to Aucfan, it is the largest provider of such varied online transaction data in the world. Other large price comparison websites mainly provide buyers with information on the lowest price.

*Aucfan President Shuichi Takenaga wrote a book about his buy-low-sell-high trading technique and how to use Yahoo! Japan's auction website. In the book, he disputes the commonly held view that Aucfan is a price comparison website for online auction services. Takenaga says that the essence of the company's services is a database of past winning bids, because what is most important when buying and selling products is addressing customer needs.

According to the company, the majority of users that pay for premium services are individuals or small business owners that are looking to make money on the side by buying and selling goods through online auctions. However, Aucfan also reports that the steady improvement and expansion of its database has led to an increasing number of corporate users looking to establish fair selling prices for the goods they have on hand.

Basic services for paying members are included in the Aucfan Premium service package. The company also offers a number of optional additional services to these users. For users who want more convenient features or data, the company offers advanced features such as Aucfan Pro Plus (data analysis tools) and auction classes and individual support services from Aucfan School. For users looking to learn more about auctions or run their own auction-related businesses, the company also offers face-to-face seminars as well as DVDs and other instructional materials from such seminars.

Service charges

Monthly charges are JPY980 (including tax) for Aucfan Premium and JPY10,800 (tax included) for Aucfan Pro Plus. In July 2018, the company introduced the Aucfan Pro Plus service with expanded features, such as Storoid (tool for detailed analysis of Yahoo! Shopping stores and items for sale) and Global Aucfan (search and comparison service for the least expensive products worldwide) for a revised fee of JPY10,800 a month versus the previous fee of about JPY3,800 (including tax). Shared Research thinks that fee changes affected about 5,000 of the paying members.

Number of fee-paying members, fees per member

In FY09/18, the number of fee-paying members for Aucfan Premium, Aucfan Pro Plus, and Aucfan School totaled 48,887 (vs. 52,837 in FY09/17). Although the number of members declined following the revised fees for Aucfan Premium Plus from July 2018, fees per member increased. Average monthly fees per member were JPY2,782 (vs. JPY1,585).

Online advertising revenues

The majority of segment revenues come from ads on the company's mainstay website, aucfan.com. Whenever the website user clicks an ad or purchases a product being advertised, Aucfan collects ad revenues from an advertising agency or a media representative working for the online marketplace or the e-commerce website advertised.

The company breaks down its online ad revenues into pay-for-performance, paid search, and network advertising, but the majority comes from pay-for-performance ads. Aucfan's online advertising revenue model is distinguished by a focus on ads that provide measurable results, which means the company can manage the ads to improve effectiveness. These ads are used by clients as sales promotions that lead directly to product sales.

Online advertising: Major types of web ads

| | |
|-------------------------|--|
| Pay-for-performance ads | The sponsor places an ad on aucfan.com, then pays Aucfan a performance-based fee each time an aucfan.com user purchases the good or service being advertised. |
| Search ads | Ads that appear on the results page when users of aucfan.com run key word searches; the company receives a fee from the ad sponsor each time the ad is clicked on by the user. |
| Network ads | Using an online platform provided by ad network operators, the company collects advertising fees from ad sponsors based on the number of times the ad is displayed or clicked. |

Source: Shared Research based on company materials

Interdependence between Aucfan and major auction/shopping websites

Aucfan gets its transaction data for free from operators of auction and shopping websites such as Yahoo! Japan and Amazon. (See following table.) In return it sends its visitors to those sites at no charge.

Major websites providing aucfan.com with transaction data

| Type | Website |
|----------------|---|
| Shopping | Amazon, Yahoo! Shopping, Rakuten Ichiba |
| Live auctions | Domestic: Yahoo! Japan, Mobaoku |
| | Overseas: eBay, Sekaimon |
| Market pricing | Yahoo! Japan, Mobaoku, Rakuten Rakuma, Sekaimon, eBay, Amazon |

Source: Shared Research based on company materials

Aucfan.com links to the various auction and shopping websites from which Aucfan receives data, so users who come to aucfan.com to compare prices can directly access the websites. Much of the traffic to major Japanese auction websites is routed via aucfan.com. In recognition of this interdependence, Aucfan and Yahoo! Japan are working together to increase activity in the auction market, including holding joint seminars on auctions.

Overview of users and services

Aucfan has three classes of users: unregistered users (who use its website at no cost), general members (registered but non-paying members), and paying members (who pay a monthly fee). All users of aucfan.com can conduct keyword searches using product names or characteristics, and use the product and price comparison, search, and analysis tools. Non-paying members can create their own page (My Page) where they can save product and price information. They can also use of some of the features offered to paying members, though with more restrictions. Paying members have access to more detailed data or convenient features that make it easier to buy or sell goods.

Overview of major features of aucfan.com

| User type | Service name and features | Overview of main features |
|--------------------------------------|--------------------------------------|--|
| All users | Product and Price Information Search | Keyword searches by product names and features, side-by-side comparisons of products and prices across e-commerce websites |
| General members (non-paying members) | My Page | By opening My Page on Aucfan.com, users can save product and price information on goods, and use of some of the features available to paying members, such as saving product display templates and placing bid reservations. |
| Paying members | Aucfan Premium | Basic level for paying members: searches of winning bid data from last ten years, features available to those putting goods up for auction, high-speed searches of winning bid prices, savable templates for goods offered, bid reservations, and purchasing information services. |
| | Aucfan Pro Plus | Online auction sellers can use market search and data analysis functions. Also enables use of profit calculation tools, sales aggregation systems, and search for high-profit products. |
| | Aucfan School | Experienced instructors providing training courses ranging from beginning to advanced topics. In addition to online lectures, the school also provides email support. |

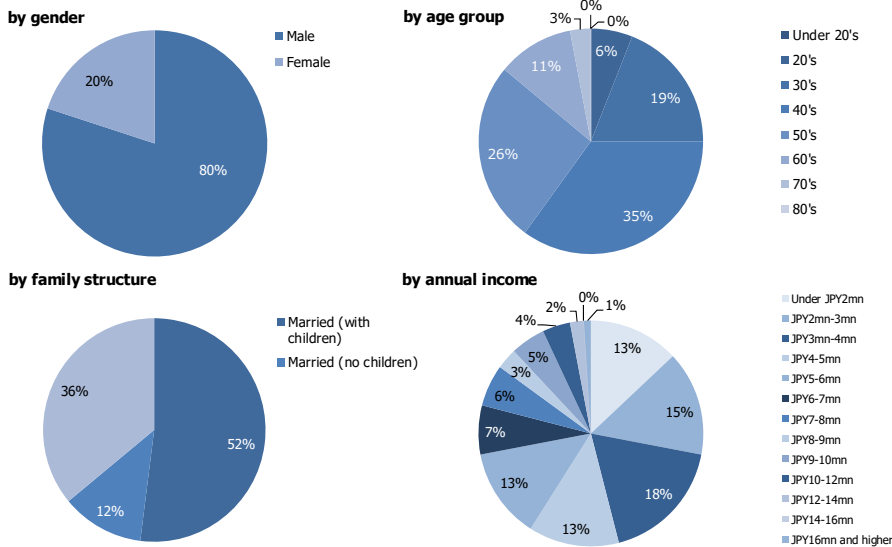
Source: Shared Research based on company materials

Demographic profile of Aucfan members

According to company materials (Media Guide), roughly 80% of Aucfan members are men. People in their twenties, thirties, and forties account for 80%, likely because those age brackets (typically with high internet literacy) would be most comfortable with Aucfan's online services. Otherwise, there are no visible trends based on marital status or annual income.

Still, this could change, as the company expects its user base to expand with the rise in smartphone users and internet access. Aucfan believes that as more auction-related smartphone apps are rolled out, more women and beginners will participate in online auctions, such as for secondhand fashion and household goods.

Aucfan members: Demographics (gender, age, family structure, and income)



Source: Shared Research based on data from Aucfan Media Guide 201602-06Ver1.0

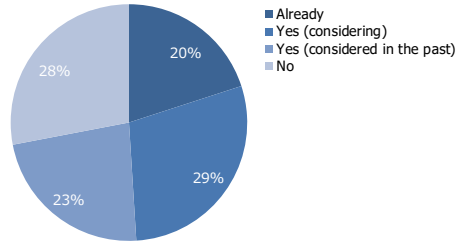
Aucfan members are most interested in affordable shipping prices, low product prices, inventory procurement, and side businesses. Roughly half of all members have or are considering starting their own business or are self-employed. Roughly 35% of members check auction or shopping websites every day using apps.

Profile of Aucfan users

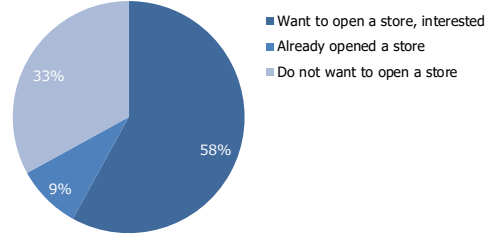
Users' interests in auction (some overlaps)



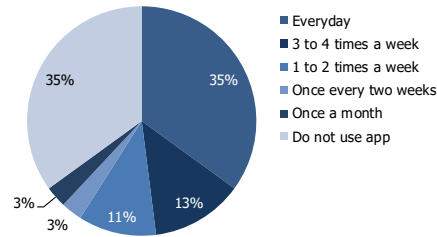
Interests in starting business



Interests in opening an online store



Frequency of visits to auction sites



Source: Shared Research based on data from Aucfan Media Guide 201602-06Ver1.0

School business: proprietary training program to turn buyers into sellers

Aucfan provides courses to give people the expertise they need to become a seller on online auctions. By providing the appropriate service to each customer segment and educating users, Aucfan aims to increase the number of paying users and get them to use more expensive services. The company is looking to expand its user base by allowing basic use of its price comparison website at no charge. It aims to provide auction education programs and premium data to individual users that frequently buy and sell goods through online auctions, and provide additional support to get these individual users to become resellers. (See figure below.)

Aucfan's model for getting people to move up from being buyers to sellers



Source: Company materials

Differences in services offered to general members , premium members, and Pro Plus members

| | General Members (free) | Premium Members (JPY980 per month) | Pro-Plus Members (JPY10,800 per month) |
|--|--|---|--|
| Search functions | | | |
| Search of winning bid prices | Six months of data | 10 years of data | 10 years of data |
| Search of seller ID numbers | △ (with restrictions) | ○ | ◎ Amazon also covered |
| Saving search criteria | △ (with restrictions) | ○ | ○ |
| Aucfan Alert (auction search alert) | △ (with restrictions) | ○ | - |
| Search of adult categories | ○ | ○ | ○ |
| Ad exclusion from search results | - | ○ | ○ |
| Ad exclusion from product details | - | ○ | ○ |
| Tools for sellers, winning bidders, and administration | | | |
| "My Bookmark" | △ (with restrictions) | ○ | ○ |
| "Simple Sellers Tools" (for Yahoo! Japan) | △ (with restrictions) | ○ | ◎ Linked to Yahoo! Japan |
| "One-glance Valuation Tool" (for winning bids at Yahoo! Japan) | △ (with restrictions) | ○ | - |
| "One-glance Valuation Tool" (for Yahoo! Japan) | △ (with restrictions) | ○ | - |
| "Simple Sellers Tools" (for Yahoo! Japan) | △ (with restrictions) | ○ | - |
| "One-glance Focus Tool" | △ (with restrictions) | ○ | - |
| Savable template for sellers | △ (with restrictions) | ○ | - |
| Monitor for auction sellers | △ (with restrictions) | ○ | - |
| "One-glance Re-auction Tool" | △ (with restrictions) | ○ | ○ |
| Profit calculation tool | - | ○ | ◎ Per product page |
| Sales summary system | - | ○ | ◎ |
| Store analysis | - | - | ◎ |
| Global search function | - | - | ◎ |
| Purchasing information | | | |
| Know-how column articles | ○ Blog articles | ○ Blog articles | ◎ Blog articles and video content |
| Statistics | ○ | ○ | ○ |
| Three-months course on emailing | - | ○ | - |
| Treasure items at Yahoo! Auction | - | ○ | - |
| Sedori List (books) | - | ○ | - |
| Taobao manual | - | ○ | - |
| Optional features ※ Available by request to Premium Members | | | |
| Sellers Template Photo Price (monthly fee) | Use up to 10 times per month Up to three additional images Save one template Saved for up to 7 days | Use up to 20 times per month Up to three additional images Save one template Saved for up to 14 days | - |
| Downloadable winning bid data (monthly fee) | Download up to three times per month | Download up to five times per month | - |
| My Goods for Sale Storage (monthly fee) | Save up to three items Saved for unlimited time at no charge | Save up to 20 items Saved for unlimited time at no charge | - |

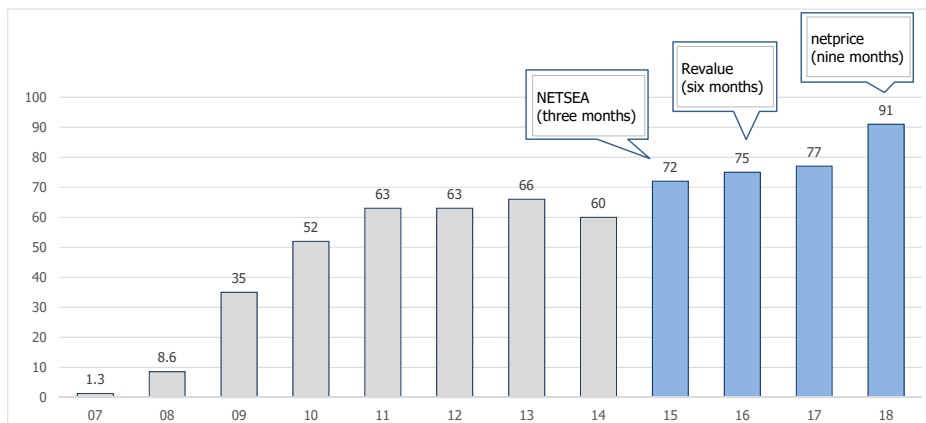
Source: Shared Research based on company data

Marketplace business (56.6% of sales and 25.7% of operating profit in FY09/18)

The core subsidiary under this business is SynaBiz Co., Ltd*. Under SynaBiz, the company operates the NETSEA business that offers a B2B wholesaling and procurement platform and the ReValue business that offers a liquidation support service of returned goods and surplus inventory. Fees on transactions for NETSEA and ReValue are main sources of revenue for the company. In December 2017, the company made netprice a subsidiary as a new addition to the Marketplace business. The main businesses of netprice are development and sales of private brand products, sales of products planned in-house, and joint purchasing services.

Aucfan announced that it merged consolidated subsidiaries NETSEA and ReValue, effective September 30, 2016. The merger is aimed at increasing the interaction between NETSEA, which specializes in primary distribution channels (for inventory sales and wholesaling) and ReValue, which specializes in secondary distribution channels (for surplus inventory and returned goods). It was an absorption-type merger with NETSEA as the surviving entity. The name of the new company after the merger is SynaBiz Co., Ltd.

Annual transaction value for Marketplace segment (JPY100mn)



Source: Shared Research based on company data

Shared Research sees the interaction between Aucfan's Marketplace business and other businesses leading to a rise in the percent of revenues coming from the Marketplace business. Along with growth in the B2C e-commerce market, the B2B e-commerce market in Japan has grown rapidly and is now worth over JPY300tn. The company plans to expand the user base of the Marketplace business and strengthen collaboration with its own platform aucfan.com.

NETSEA business: wholesaling and procurement platform connecting corporate sellers and buyers

NETSEA business operates an eponymous B2B marketplace for the primary distribution market (inventory sales and wholesaling). Aucfan acquired NETSEA, the predecessor of the business, from DeNA Co., Ltd. (TSE: 2432) in July 2015.

With roughly 5,000 manufacturers and wholesalers participating as suppliers (looking to sell goods) and 300,000–400,000 retailers and other companies as buyers (looking to purchase goods), the NETSEA website handles over JPY7.0bn in transactions annually (wholesale price basis), making it the largest online platform serving wholesalers and corporate buyers in Japan. Suppliers pay JPY20,000 per month, and registration is free for buyers. In addition, the company receives commissions of 8–11% for products sold on its website.

The NETSEA business gives suppliers and buyers an online platform to do business. In line with standard wholesaling practices, to complete the transaction the buyer must send the supplier a transaction request. The wholesale price is displayed with the permission of the supplier, and then the transaction can occur. At this time, mostly apparel and miscellaneous goods are traded on NETSEA. NETSEA handles only goods sold through primary distribution channels (inventory sales and wholesaling), but is planning to move into the secondhand market.

ReValue business: Helping companies liquidate returned goods and surplus stock by finding the right price

The company acquired ReValue, the predecessor of the business, from Dream Incubator Inc. (TSE: 4310) in January 2016. ReValue operates an online B2B mall that serves as a secondary distribution channel where companies can find the appropriate price and liquidate returned goods and surplus inventory.

The Revalue business offers two basic sales channels, a proprietary online mall (*ReValue BtoB Mall*) and a direct sales channel where potential buyers can contact sellers directly via email or telephone. These two channels have roughly the same transaction volume.

ReValue BtoB Mall is a members-only auction website. In some cases companies offer goods directly on the website (with ReValue earning a 10% commission on the sale). In other cases, ReValue buys the goods from companies (excess inventories, display items, and returned goods) then resells them itself, meaning ReValue must take on inventory risk. However, by using a proprietary database, ReValue can get fairly accurate estimates for fair-value prices that allow it to turn over inventory quickly and earn attractive margins. Buyers using *ReValue BtoB Mall* include secondhand stores, online stores, individual business owners, and overseas companies.

When the buyer directly negotiates with the seller, ReValue acts more like a trading company, matching sellers with buyers. ReValue takes no inventory risk in such cases but it does require time and effort, and margins are relatively thin. Also, sales channels for these direct B2B sales are limited owing to concerns on the part of the seller about possible damage to its brand value or the impact on new product prices. The alternatives may be limited to closed channels,* exports, and designated retailers or wholesalers.**

*Closed channels: Direct sales to specified markets, such as furnishing or equipment installed in buildings by real estate management companies or equipment handled by equipment rental companies.

** Designated retailers or wholesalers: Secondhand shops, online stores, secondhand wholesalers.

In order to expand its target markets, the ReValue business has developed a website (<http://trendnavi.revalue.jp/>) for the general public that allows users to estimate demand for their products (without registering). ReValue also provides advice regarding returned goods and surplus stock to retailers, wholesalers, and manufacturers, as well as execution support to help clients

liquidate inventories. The ReValue business can conduct inventory valuations utilizing its database, and is moving into the asset-backed lending business.

ReValue business: main service menu

| | |
|---|---|
| Inventory buy out/disposal | For retailers, wholesalers, manufacturers, and other users, determine fair price based on a proprietary price database and buy the entire lot to resell. Because most sales are done through closed channels, damage to brand image can be avoided. |
| Inspection agent/Agent for returned goods | A one-stop service to handle tedious task of receiving, accounting for, inspecting, and monetizing returned goods. |
| Inventory valuation/consulting | Provides accurate and timely asset valuation estimates for various types of inventory. |
| Bargain goods wholesaling/ sales | Finds buyer for imperfect goods at bargain price among secondhand goods retailers, online stores, overseas buyers |

Source: Shared Research, based on company materials

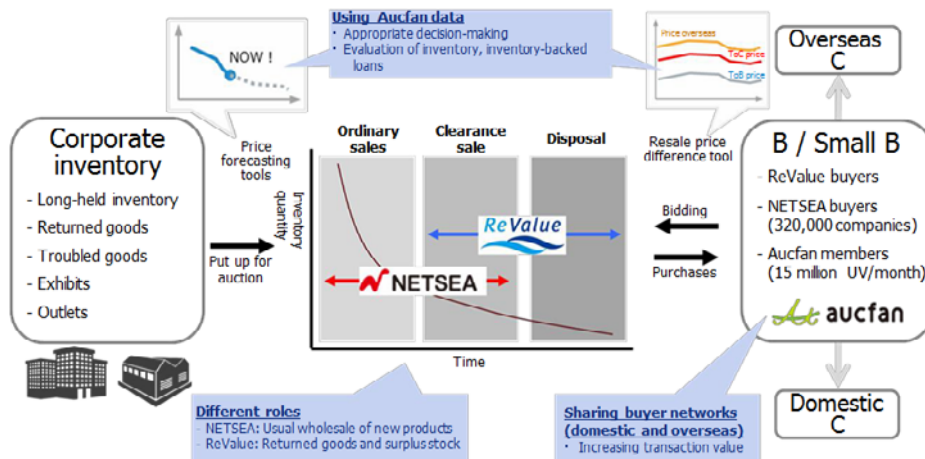
Otameshi

Otameshi was launched as part of the ReValue business in July 2017, selling products and retained goods that cannot be sold through regular sales channels due to outdated packaging or approaching best-before dates at reduced prices. A portion of sales is donated to community service organizations. Consumers benefit from purchasing items at a low price while contributing to society, and manufacturers benefit from liquidating goods and providing products in the form of samples through this novel distribution channel without tarnishing their brand image.

Synergies from cooperation between NETSEA and ReValue businesses

With the acquisition of NETSEA business in the primary distribution sector (surplus inventory sales and wholesaling) and ReValue business in the secondary distribution sector (inventory disposal and returns), Aucfan has become a one-stop shop for services related to the sale of everything from full-priced goods to clearance goods, returns, and surplus stock.

Suppliers can use either NETSEA or the ReValue BtoB Mall, depending on their wholesale structure and the condition of their inventories: For new goods that could easily be handled through wholesaling, clients can sell directly using the online platform provided by NETSEA business. For returned or surplus goods, clients can use ReValue business' online mall. By sharing a common buyer network, NETSEA and ReValue businesses can increase the value of transactions and supply a wider variety of goods both in Japan and abroad.



Source: Shared Research based on company data

netprice: E-commerce business targeting consumers

In December 2017, Aucfan acquired all shares in netprice, an e-commerce business targeting consumers, and made it a subsidiary.

Netprice, after launching in 1999 as an online seller of discount products for consumers, has gained support from users for its planning and development of private brand products and for its group buying services. Sales were JPY2.4bn in FY09/17 and registered users totaled 2.3mn in December 2018.

Aucfan decided to acquire all of netprice's shares because it believes that adding netprice to the group will enable it to expand the businesses of netprice, NETSEA, and ReValue. It intends to expand distribution by combining the transaction data that it holds, as well as by integrating the customer base and distribution platforms of NETSEA and ReValue with the supplier network, customer base, and e-commerce expertise of netprice.

Synergies between Marketplace and other group businesses

The company believes it can benefit from the synergies between Marketplace and other group businesses. In addition to aiding the growth of existing businesses, the company believes these synergies will help grow new businesses.

Synergies with Media business

The company expects Marketplace and Media cooperation to grow its user base and operational expertise. When aucfan.com users use the online marketplaces operated by NETSEA or ReValue businesses, they will be able to boost procurement and further expand their business. Users can also benefit from the basic price search functions on aucfan.com.

Synergies with Data business

The Data business is expected to enjoy substantial synergies with Marketplace, by providing B2B transaction data and analysis tool development. The Data business will provide users of the Marketplace business with marketing support, primarily pricing strategies. The Marketplace business will provide B2B transaction data that will help it expand service offerings. By using a substantial transaction database and big data analysis tools, Aucfan expects to improve the accuracy of inventory pricing estimates for companies. This will help it liquidate the inventories held by distributors and manufacturers more efficiently, which will in turn help Aucfan push ahead with its plan to move into fintech through an asset-based lending business.

Solution business (7.3% of sales and operating loss of JPY54mn in FY09/18)

The Solution business combines a unique database with API (application programming interface) and tool development to provide solutions for businesses. With this, Aucfan is able to provide clients with digital solutions support, data marketing support, alliance promotion, and various event planning and operations management. The core companies of the business are the consolidated subsidiaries Smartsourcing, Inc. and Digifan, Inc.

Main services include TATEMPO Guide (see below) through consolidated subsidiary Eterment Co., Ltd., and cloud solutions through Smartsourcing, Inc. To develop a corporate online-to-offline (O2O) support business, Aucfan merged Eterment with Smartsourcing at the end of June 2016. Through this merger the company integrated the expertise of Eterment in systems development and products such as TATEMPO Guide, and the independent cloud solution business offered by Smartsourcing.

TATEMPO Guide

TATEMPO Guide is a service that allows users to set up and manage multiple online stores from a single location. TATEMPO Guide helps improve operational efficiency by handling the many problems that come with running multiple online stores relating to order management, inventory management, and product records. Because it is compatible with a wide variety of online stores, TATEMPO Guide is used in more than 1,000 online stores, most with monthly sales of more than JPY100mn, and run by large or listed companies. Aucfan reports that at least 90% of its customers have experienced increases in average sales after installing TATEMPO Guide. Because TATEMPO Guide can be customized to handle changes such as growth in scale or flow of business, it can be used over many years.

Data business (R&D)

Although the Data business is not one of the reported categories, all three businesses of the company—Media, Marketplace, and Solution—are centered on data. The Data business collects transaction data from various websites including major auction and shopping websites as well as from its own online marketplace websites, then creates a database and analyzes the data to be used by other group businesses. The company uses a crawler platform and "scraping" (information extraction) system to analyze and organize data based on artificial intelligence.

In addition to handling the transaction data from existing e-commerce websites, Aucfan is also working to obtain transaction data from brick-and-mortar stores and expand its O2O support business. For example, Aucfan analyzed the cycles of prices and sales volume of two product categories based on the POS data of a Japanese home electronics retailer. The analysis revealed that the sales volume of LCD televisions and electronic dictionaries not only varied by the time of year but also by the day of the week. Seeing a pronounced increase in sales of LCD televisions in March, the company postulated that many consumers buy LCD televisions in preparation for moving. In contrast, the analysis showed the largest upticks in sales of electronic dictionaries in the months of April and May, a pattern that suggests large numbers of students buying electronic dictionaries at the beginning of a new school year. In both cases, sales volume on Saturdays and Sundays were higher than sales on weekdays. By analyzing transaction data such as this and providing more accurate information on sales, Aucfan makes it possible for companies to avoid trial and error, and rely on data analysis instead.

Starting in May 2016, Aucfan started receiving overseas e-commerce transaction data from India-based DataWeave Software Pvt. Ltd., helping it establish an international e-commerce price data alliance. With this alliance, DataWeave will be able to provide Aucfan's corporate clients with online price data for roughly one billion items in countries such as India, Indonesia, Malaysia, Singapore, Thailand, Vietnam, and the US.

Key group companies (as of the end of September 2018)

As of the end of FY09/18, the group consisted of Aucfan Co., Ltd. and four consolidated subsidiaries.

- ▷ SynaBiz (B2B marketplace business; wholly owned)
- ▷ Smartsourcing, Inc. (online media business, crowdsourcing business, and commerce business; stake: 91.04%)
- ▷ netprice Ltd. (B2C marketplace business; wholly owned). Offers group buying and 24-hour limited sales. 2.3mn registered members as of December 2018.
- ▷ Zerodiv Inc. (operates a systems development business: wholly owned)

Profitability vs. competitors

As noted above, there are companies that provide market price data for secondhand cars, housing, and other markets, but Aucfan's wide-ranging database of online transactions puts it in a unique position within the industry.

One Japanese company that resembles Aucfan's existing (media) business is Kakaku.com (TSE1: 2371), which operates kakaku.com and other websites that provide price and product information comparisons and personal product reviews. Cookpad, Inc. (TSE1: 2193) has a similar paying membership business, online advertising business, and marketing support business compared to Aucfan, and designs and operates the online recipe sharing website cookpad.com. Still, the differences in target industry and customer segments make it unlikely that either will compete directly with Aucfan.

Aucfan began the B2B Marketplace business in earnest with the acquisition of NETSEA in July 2015 and ReValue in January 2016. NETSEA and ReValue were merged in September 2016 to form SynaBiz, and the businesses of the two companies are now operated under SynaBiz, as NETSEA business and ReValue business. Similar companies to NETSEA business include Raccoon Co., Ltd. (TSE Mothers: 3031), which operates a wholesaling and purchasing website aimed at connecting manufacturers of fashion and accessories to retailers, MonotaRO Co. Ltd. (TSE1: 3064), which focuses on online sales of construction-related products, and Askul Corp. (TSE1: 2678), which focuses on online sales of office products. Raccoon can be viewed as a competitor in a few areas, but the rest do not compete directly with Aucfan given the differences in sales channels and the goods handled. Meanwhile, similar companies to the ReValue business are minor players such as recycling companies and small discount stores.

Aucfan still in investment phase, with sales and earnings growth yet to come

Looking at margin trends for Aucfan and similar companies, Aucfan stands at the low end when it comes to OPMs. The main reason for this is Aucfan's Marketplace business only got underway in earnest from September 2015. Still, the Marketplace business complements the premium membership and advertising operations, and Aucfan can look forward to synergies with its large database. Taking this into account, Shared Research believes there is plenty of room for Aucfan to improve margins.

| Financial year | | FY09/10 | FY09/11 | FY09/12 | FY09/13 | FY09/14 | FY09/15 | FY09/16 | FY09/17 |
|----------------|------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Cost ratio | Aucfan | 22.7% | 14.8% | 11.8% | 13.1% | 14.2% | 24.9% | 33.0% | 48.4% |
| | Kakaku.com | 8.9% | 8.7% | 8.3% | 7.9% | 9.4% | 9.4% | 10.0% | - |
| | cookpad | 1.1% | 1.1% | 1.1% | 1.4% | 6.6% | 4.9% | 5.0% | 2.4% |
| | RACCOON | 83.4% | 83.6% | 83.3% | 15.8% | 15.3% | 17.0% | 15.9% | 17.3% |
| SG&A ratio | Aucfan | 61.6% | 63.1% | 55.7% | 46.0% | 45.4% | 65.4% | 55.2% | 46.0% |
| | Kakaku.com | 40.8% | 42.5% | 41.8% | 42.9% | 43.6% | 43.3% | 43.1% | - |
| | cookpad | 0.0% | 49.5% | 45.8% | 50.9% | 50.3% | 49.7% | 44.4% | 51.8% |
| | RACCOON | 15.1% | 14.9% | 14.9% | 71.4% | 68.4% | 65.4% | 66.3% | 65.5% |
| OPM | Aucfan | 15.8% | 22.1% | 32.5% | 40.8% | 40.4% | 9.7% | 11.8% | 5.6% |
| | Kakaku.com | 50.3% | 48.8% | 49.9% | 49.2% | 47.0% | 47.3% | 46.9% | 48.9% |
| | cookpad | 18.4% | 49.3% | 53.1% | 47.7% | 43.0% | 48.0% | 29.8% | 40.2% |
| | RACCOON | 1.6% | 1.5% | 1.9% | 12.8% | 16.3% | 17.7% | 17.8% | 17.2% |
| Net margin | Aucfan | 13.2% | 14.9% | 16.3% | 28.2% | 24.9% | 12.6% | 11.3% | 5.8% |
| | Kakaku.com | 29.3% | 28.5% | 30.5% | 30.4% | 30.4% | 31.7% | 32.9% | 33.6% |
| | cookpad | 10.1% | 28.4% | 32.4% | 28.4% | 26.3% | 30.8% | 6.2% | 26.0% |
| | RACCOON | 2.0% | 1.2% | 1.4% | 6.4% | 9.8% | 10.7% | 10.8% | 11.1% |
| Equity ratio | Aucfan | 73.9% | 86.6% | 73.0% | 90.4% | 90.0% | 49.0% | 50.6% | 58.6% |
| | Kakaku.com | 60.7% | 63.5% | 75.3% | 79.5% | 78.4% | 81.6% | 83.1% | 75.5% |
| | cookpad | 12.2% | 86.0% | 83.2% | 82.0% | 86.6% | 76.7% | 85.8% | 94.5% |
| | RACCOON | 42.5% | 46.6% | 47.3% | 47.8% | 35.6% | 35.7% | 34.2% | 35.2% |
| ROE | Aucfan | 23.5% | 27.2% | 25.5% | 22.0% | 11.0% | 9.1% | 14.2% | 9.3% |
| | Kakaku.com | 38.0% | 32.3% | 38.0% | 40.4% | 41.7% | 45.2% | 44.5% | 45.7% |
| | cookpad | 15.8% | 27.5% | 29.9% | 23.6% | 14.5% | 21.2% | 4.4% | 15.7% |
| | RACCOON | 15.2% | 9.3% | 10.4% | 8.6% | 13.1% | 14.4% | 13.9% | 14.0% |

Source: Shared Research based on data from Aucfan, M3, Inc., Cookpad Inc., and Kakaku.com, Inc.

Note: Cookpad's fiscal year ends in December. Kakaku.com's fiscal year ends in March (IFRS used from FY03/18). Raccoon's fiscal year ends in April. For example, in the table above, Aucfan's results for FY09/16 are compared with the results of its competitors for FY12/16, FY03/17, and FY04/176.

Market and value chain

Since its inception, Aucfan has run a Media business with revenues and earnings stemming from providing data on transactions in the B2C e-commerce market. This makes the Media business highly dependent on the spread of devices providing internet connections and trends in the B2C e-commerce market. In contrast, the Marketplace business started in earnest with the acquisition of NETSEA in July 2015 is geared toward corporate users and the B2B e-commerce market. Therefore, this report will look at both trends in the B2C and B2B e-commerce market.

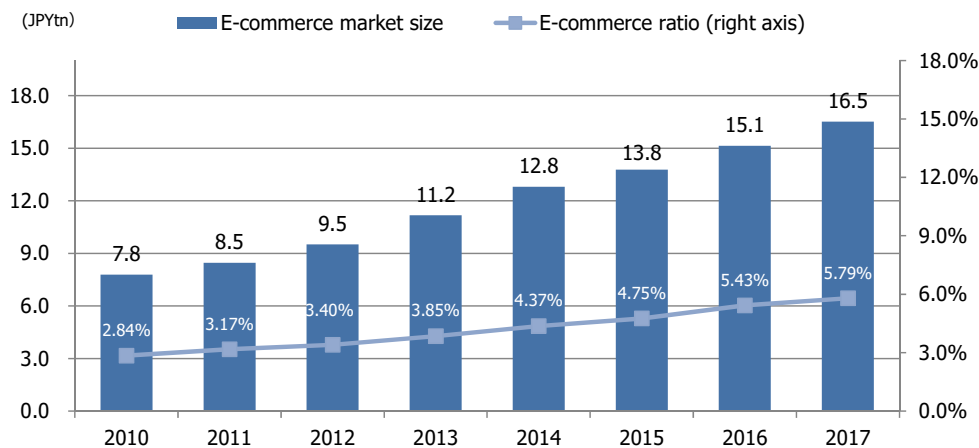
B2C e-commerce market for consumers

Aucfan's price comparison website, aucfan.com, is aimed primarily at the B2C e-commerce market.

According to a survey by Japan's Ministry of Economy, Trade, and Industry, in 2017 Japan's B2C e-commerce market was worth JPY16.5tn, up 9.1% from 2016. E-commerce transactions accounted for 5.79% of all B2C sales, up 0.36pp versus 2016. Of this, product sales accounted for JPY8.6tn (+7.5% YoY), with e-commerce transactions comprising 5.79% (+0.36pp) of all B2C product sales.

According to the company, the e-commerce market in Japan lags well behind the UK, where e-commerce transactions account for roughly 17% of B2C sales (according to Retail Sales statistics from the [British] Office for National Statistics). The size of the B2C e-commerce market in the UK suggests that the B2C e-commerce market in Japan can be expected to continue growing.

Trends in Japan's B2C e-commerce market



Source: Shared Research, based on Ministry of Economy, Trade, and Industry FY2017 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey)

Breakdown of Japan's B2C e-commerce market

| (JPYbn) | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | |
|------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Value | % of total | Value | % of total | Value | % of total | Value | % of total | Value | % of total |
| Product sales | 5,993 | 53.7% | 6,804 | 53.2% | 7,240 | 52.6% | 8,004 | 52.9% | 8,601 | 52.1% |
| E-commerce ratio | 3.85% | - | 4.37% | - | 4.75% | - | 5.43% | - | 5.79% | - |
| Services | 4,071 | 36.5% | 4,482 | 35.0% | 4,901 | 35.6% | 5,353 | 35.4% | 5,957 | 36.1% |
| Digital | 1,102 | 9.9% | 1,511 | 11.8% | 1,633 | 11.9% | 1,778 | 11.7% | 1,948 | 11.8% |
| Total | 11,166 | 100.0% | 12,797 | 100.0% | 13,775 | 100.0% | 15,136 | 100.0% | 16,505 | 100.0% |

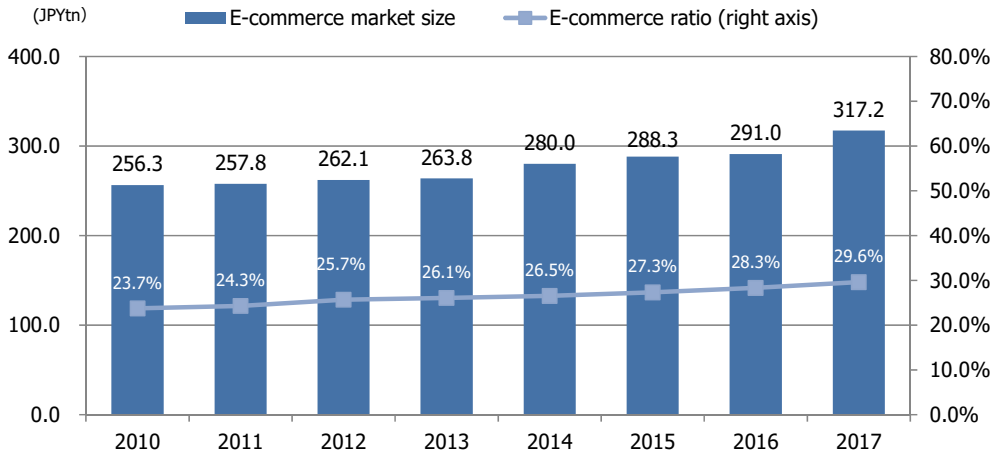
Source: Shared Research, based on Ministry of Economy, Trade, and Industry FY2017 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey)

B2B e-commerce market

Aucfan began a full-scale push to build up a B2B marketplace with the acquisition of NETSEA Cp., Ltd. in July 2015 and ReValue Inc. in January 2016.

According to a METI survey, in 2017 Japan's B2B e-commerce market was worth JPY317tn (+9.0% YoY) and accounted for 29.6% of all B2B sales (+1.3pp YoY).

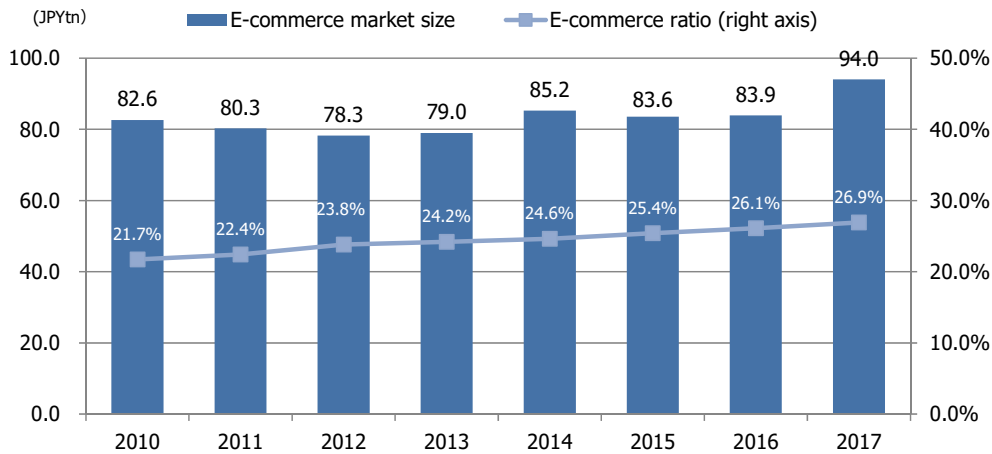
Trends in B2B e-commerce transactions and percent of all transactions accounted for by e-commerce



Source: Shared Research, based on Ministry of Economy, Trade, and Industry FY2017 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey)

Of the B2B market, wholesale transactions accounted for JPY94.0tn (+12.0% YoY). The percent wholesale transactions conducted via e-commerce continued to rise, hitting 26.9% (+0.8pp YoY).

Trends in wholesale e-commerce transactions and percent of all wholesale transactions accounted for by e-commerce



Source: Shared Research, based on Ministry of Economy, Trade, and Industry FY2017 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey)

Strengths and weaknesses

Strengths

- **Extensive database of transactions:** Aucfan has built up an extensive database of product and price data going back more than 10 years. According to the company, its database includes more than 30bn transaction records. The database includes not just price information, but comprehensive market data including timing, price, and quantity sold. Using this database Aucfan is able to provide relevant price information to buyers and sellers of a variety of goods in the secondary market (unused and used goods). Aucfan is the only company in this industry that can develop and provide a variety of services based on such a substantial database.
- **Interdependence with website operators, who provide Aucfan data:** According to the company, roughly 40% of the visitors to Japanese auction websites were routed from aucfan.com. Even in the case of Japan's largest online auction website, Yahoo! Japan Auctions, roughly 40% of visitors come through aucfan.com. This is an indication of a strong mutual dependence between Aucfan and the websites from which it acquires data.
- **Early-mover advantage in secondary distribution markets:** With the acquisition of ReValue (merged with NETSEA on September 30, 2016 to form SynaBiz), Aucfan is also starting to offer services to companies operating in the secondary distribution market (surplus inventory and returned goods). According to the company, Japan's secondary market is underdeveloped and SynaBiz has almost no competitors. With the Aucfan group already possessing a wide range of product and price data and analytical expertise to accurately value inventories, it will not take long to acquire the additional data and analytical expertise to expand into the secondary distribution market. The company also sees potential for expanding into new businesses, including in the fintech field, and is considering developing an asset-based lending business that would leverage its expertise in valuing inventories.

Weaknesses

- **Dependence on major auction sites for data restrains opportunities to expand:** Aucfan is able to differentiate itself because of data on winning bids and purchases, which it receives from major online websites such as Yahoo! Japan. Aucfan directs customers to these major online marketplaces, which send Aucfan transaction data in return. However, if the two sides come into competition as they work to expand their business areas, Aucfan might find it difficult to obtain the transaction data it needs.
- **Companies' reluctance to deal in secondary distribution markets dampens growth:** Secondhand goods account for only about 1% of Japan's JPY300tn retail market. Major Japanese manufacturers are cautious when it comes to dealing in secondary distribution markets (surplus inventories and returned goods) due to concerns about maintaining brand value and impacting new product prices. In January 2016 Aucfan took a plunge into secondary markets with the acquisition of ReValue Inc., a company that serves as an intermediary between buyers and sellers of returned goods and surplus inventories held by companies. Revalue has gotten off to a solid start following the acquisition, but if this business is to truly broaden its reach it will have to start handling nationally branded goods.
- **Delegation of responsibilities to keep up with expansion:** Aucfan's current business model was created by President Shuichi Takenaga, who plays a significant role as the company expands into various fields. Takenaga is still deeply involved in daily operations. According to Takenaga, he manages inventory of products procured by ReValue, even for small transactions. In this respect, there is a sense in which the delegation of responsibilities is not complete. The company, established in 2007, remains a young organization, with the average employee tenure only 3.2 years as of FY09/18. Thus, more time may be required for these workers to grow and take over some of the responsibilities.

Historical performance

Historical performance

Q3 FY09/18 results

Overview

In cumulative Q3 FY09/18, Aucfan reported sales of JPY4.0bn (+41.7% YoY), operating profit of JPY143mn (-21.0% YoY), recurring profit of JPY152mn (-47.9% YoY), and net income attributable to parent company shareholders of JPY42mn (-87.8% YoY).

In Q3 FY09/18 (April–June 2018), Aucfan reported sales of JPY1.5bn (+50.1% YoY) and operating profit of JPY91mn (+35.0% YoY). Simple aggregate sales for the three main businesses excluding Incubation (Media, Marketplace, and Solution) were JPY1.5bn (+47.2% YoY) and operating profit was JPY95mn (+41.5% YoY). This represented sales growth of 1.2% from Q2 and operating profit of roughly 9x. Performance improved on new services and cost-cutting measures starting in Q3.

Progress toward full-year company forecasts in cumulative Q3 FY09/18 was somewhat slow at 66.3% for sales and 31.8% for operating profit. Still, the company maintained its full-year forecasts as it aims to improve results through its 2H initiatives. Aucfan said that in Q4 it expected profit contributions from fee revisions to Aucfan Pro Plus implemented in July 2018, improved results at netprice, and earnings from Aucfan School.

Approximately JPY22tn of companies' inventory is disposed of without reaching consumers (Aucfan estimate based on 2016 Corporate Enterprise Statistics published by the Ministry of Finance). Utilizing the large volume of actual sales data compiled since its founding, the company has provided support to deliver this inventory at an appropriate price to an appropriate market. After making netprice, an online seller of discount products, a subsidiary in December 2017, the company made a full entry into the marketplace business, which includes not only market data, but also logistics. While only the balance sheet of netprice was included in Q1 consolidated results, from Q2 onward the income statement was also consolidated.

Media

In cumulative Q3, sales were JPY1.3bn (+5.3% YoY) and operating profit was JPY44mn (-61.2% YoY). In Q3 (April–June 2018), sales were JPY434mn (-4.4% YoY) and operating profit was JPY26mn (-11.2% YoY). Versus Q2, sales were up 8.7% and operating profit roughly 12x.

Sales in this segment come from Aucfan Premium service fee revenues, operating revenues from Aucfan School (auction classes and individual support services), and website ad revenues. In cumulative Q3, advertising sales declined, but new services (which make use of market and logistics data) developed in Q2 FY09/18 and for which the company has been promoting sales, and product development for peripheral services such as Aucfan School drove earnings.

Profits declined YoY. Relatively high-margin advertising revenues declined, Aucfan School operating expenses increased, and management expenses rose. Profits improved significantly in Q3 versus Q2, as the company benefited from the moves to cut costs and booked high-margin outsourced development earnings.

Marketplace

In cumulative Q3, sales were JPY2.3bn (+84.1% YoY) and operating profit was JPY66mn (-54.4% YoY). In Q3 (April–June 2018), sales were JPY935mn (+114.5% YoY) and operating profit was JPY37mn (-28.9% YoY). Versus Q2, sales were down 3.2% and operating profit roughly 3x.

The company prioritized business expansion in ReValue, an inventory liquidation service business for companies, and NETSEA, the largest B2B support site in Japan. Netprice, consolidated in December 2017, is classified under the Marketplace business. The company consolidated the balance sheet of netprice in Q1, and consolidated the income statement in Q2.

Sales grew on the consolidation of netprice. NETSEA and ReValue also performed well. Aucfan launched e-commerce site Otameshi as part of the ReValue business in July 2017. In Q3 there were increases in both companies that supply products and consumers using the service. Otameshi sells products that cannot be sold via normal sales channels such as those with out-of-date packaging to consumers at a discount and donates a percentage of sales to community service organizations such as NPOs and NGOs.

Profits declined on increased expenses accompanying growth in the number of new transactions and operating losses at netprice. Still, Q3 profit improved significantly versus Q2. Operating losses at netprice shrank following a review of offices, warehousing, and personnel allocations. The operating loss at netprice was JPY26mn in Q2, but the business was roughly breakeven in Q3.

Solution

In cumulative Q3, sales were JPY323mn (-21.5% YoY) and operating loss was JPY53mn (JPY84mn operating loss in Q3 FY09/17). In Q3 (April–June 2018), sales were JPY126mn (-0.3% YoY) and operating profit was JPY33mn (JPY13mn operating loss in Q3 FY09/17). Versus Q2, sales were up 12.7% and operating profit up by JPY36mn.

In the Solution business, Aucfan revised expense budgets with an aim of generating stable profit from TATEMPO NEXT service, which is an ASP service that allows users to place products simultaneously on multiple online marketplaces and adjust inventory. From 2H FY09/17, the company improved the profitability of TATEMPO Guide customized projects by making better use of outsourcing as it prioritized profits. This trend persisted through cumulative Q3. However, sales and profit declined as Aucfan booked one-time bad debt expenses of JPY83mn as it became difficult to collect the receivables from certain large transactions.

Zerodiv Inc., consolidated in March 2018, is classified under the Solution business. Aucfan consolidated the balance sheet in Q2 and the income statement in Q3. Zerodiv's results were more or less breakeven.

Profits improved dramatically from Q2 to Q3. The transfer of unprofitable subsidiary Digifan, Inc. drove the profit improvement.

Incubation

In cumulative Q3, sales were JPY119mn and operating profit was JPY75mn. In Q3 (April–June 2018), sales were JPY2mn and operating loss was JPY7mn.

In Incubation, Aucfan aims to acquire the expertise and network to gain and maintain a competitive advantage over the long-term through business investment activities. The company earns revenue from selling off shares in listed companies and consulting the companies it has invested in; however, the company did not sell any shares in Q3.

1H FY09/18 results

Overview

In 1H FY09/18, Aucfan reported sales of JPY2.5bn (+37.2% YoY), operating profit of JPY52mn (-54.4% YoY), recurring profit of JPY60mn (-72.1% YoY), and net loss attributable to parent company shareholders of JPY26mn (JPY81mn net profit attributable to parent company shareholders in 1H FY09/17).

Progress toward FY09/18 targets in 1H was 41.6% in sales, but just 11.5% in operating profit. Nevertheless, Aucfan is maintaining its initial full-year forecasts with the aim of improving results through initiatives in 2H.

Approximately JPY22tn of companies' inventory is disposed of without reaching consumers (Aucfan estimate based on 2015 Corporate Enterprise Statistics published by the Ministry of Finance). Utilizing the large volume of actual sales data compiled since its founding, the company has provided support to deliver this inventory at an appropriate price to an appropriate market. After making netprice, an online seller of discount products, a subsidiary in December 2017, the company made a full entry into the marketplace business, which includes not only market data, but also logistics. While only the balance sheet of netprice was included in Q1 consolidated results, from Q2 onward the income statement was also consolidated.

Media

Sales were JPY868mn (+10.9% YoY) and operating profit was JPY18mn (-78.3% YoY).

Aucfan promoted development of its peripheral services, such as Aucfan School (which provides auction classes and individual support services). While monthly membership fee revenue was unchanged YoY, sales in the higher-priced school business led segment sales growth. Meanwhile, in internet advertising income banner advertisements stayed flat YoY while affiliate advertising sales fell.

The number of unique visitors, a leading indicator of member acquisition, climbed 5.8% YoY to 13,780,000 people and the number of general members was up 11.1% to 813,000 people. Paying members dropped 10.2% to 52,837 people, and monthly membership fee per person was JPY1,585. While the number of paying members declined, the average amount of monthly membership fee rose.

Profit slipped YoY because of a decline in advertising income with a relatively high profit margin along with increased Aucfan School operating costs and larger management cost burden. According to Aucfan, Aucfan School operations involve higher costs. Nevertheless, members who attend courses subsequently become fee-paying consulting members. This mechanism hence steadily expands an income source with a high profit margin.

Marketplace

Sales were JPY1.4bn (+67.7% YoY) and operating profit was JPY30mn (-68.4% YoY).

Profit margin fell as the company prioritized business expansion in ReValue, an inventory liquidation services business for companies, and NETSEA, the largest B2B support site in Japan, and held sales events. The company also focused on making structural changes at netprice (consolidated in December 2017) so that the subsidiary can bounce back from a state of continued deficit and turn a profit, which led to higher sales and lower profit. Excluding the impact of netprice consolidation, both segment sales and profit increased during Q2 (Jan-Mar).

Netprice is classified under the Marketplace business. The company only consolidated the balance sheet of netprice in Q1; the income statement was consolidated in Q2. Netprice booked roughly JPY500mn in sales and had a JPY26mn operating loss. However, it generated a single-month profit in March 2018 thanks to revisions to offices, warehouses, and personnel assignments.

Solution

Sales were JPY197mn (-30.8% YoY) and operating loss was JPY86mn (JPY71mn operating loss in 1H FY09/17).

In the Solution business, the company started revamping the sales and development structures for TATEMPO NEXT service, which is an ASP service that allows users to place products simultaneously on multiple online marketplaces and adjust inventory. Since 2H FY09/17, profitability improved due to use of outsourcing in customization of TATEMPO GUIDE projects that put priority on earnings. This trend continued in 1H FY09/18. Meanwhile, the company booked JPY83mn in temporary bad debts expenses as it became difficult to collect the receivables from certain large transactions. As a result, both segment sales and profit fell during the period. Excluding the impact of bad debts expenses, profit rose YoY.

Zerodiv Inc., consolidated in March 2018, is classified under the Solution business. Aucfan will only consolidate the balance sheet in Q2 and start consolidating the income statement from Q3 or later.

Incubation

Sales were JPY118mn and operating profit was JPY83mn.

In Incubation, the company aims to acquire the know-how and network to gain and maintain a competitive advantage over the long-term through business investment activities. The company sold off shares in listed companies and consulted the companies it has invested in.

Q1 FY09/18 results

Overview

In Q1 FY09/18, Aucfan reported sales of JPY973mn (+5.8% YoY), operating loss of JPY20mn (JPY80mn operating profit in Q1 FY09/17), recurring loss of JPY16mn (JPY161mn recurring profit in Q1 FY09/17), and net loss attributable to parent company shareholders of JPY56mn (JPY67mn net profit attributable to parent company shareholders in Q1 FY09/17).

Approximately JPY22tn of companies' inventory is disposed of without reaching consumers (Aucfan estimate based on 2015 Corporate Enterprise Statistics published by the Ministry of Finance). Utilizing the large volume of actual sales data compiled since its founding, the company has provided support to delivery this inventory at an appropriate price to an appropriate market. After making netprice, an online seller of discount products, a subsidiary in December 2017, the company made a full entry into the marketplace business, which includes not only market data, but also logistics. While only the balance sheet of netprice was included in Q1 consolidated results, from Q2 the income statement will also be included.

The Media business recorded higher sales, but due to recording of one-off expenses in the Solution business, operating profit fell.

Media

Sales were JPY469mn (+28.5% YoY) and operating profit was JPY16mn (-61.5% YoY).

The company limited its advertising slots in order to improve user behavior on its site (aucfan.com) as it aims to make services pay-to-use in the future. The company also invested in product development for peripheral services such as Aucfan School (which provides auction classes and individual support services). As a result, the number of unique users, general members, and paying members has remained flat, and revenue from monthly membership fee revenue was flat YoY. Sales in the school business that has high unit costs have driven the sales growth of the segment.

Profits fell YoY due to lower sales of advertisements which have a relatively high profit margin and an increase in the operating cost of Aucfan School. The company expects that the operating cost of Aucfan School will rise. However, since members who attend the school become paying consulting members, they will continually form a growing source of high-margin revenue.

Marketplace

Sales were JPY395mn (+0.7% YoY) and operating profit was JPY18mn (-69.6% YoY).

The company strove to acquire new customers for ReValue, an inventory liquidation services business for companies, and NETSEA, the largest B2B support site in Japan.

Sales remained flat YoY. Regarding NETSEA, due to stricter scrutiny of overseas buyers, the volume of business handled was flat.

Meanwhile, the socially-conscious Otameshi e-commerce website in the ReValue business has served to address its procurement challenge. Otameshi was launched as part of the ReValue business in July 2017, selling products and retained goods that cannot be sold through regular sales channels due to outdated packaging or approaching best-before dates at reduced prices. A portion of sales is donated to NPOs and NGOs. Consumers benefit from purchasing items at a low price while contributing to society, and manufacturers benefit from liquidating goods and providing products in the form of samples through this novel distribution channel without tarnishing their brand image.

Profits fell due to an increase in expenses resulting from the rising number of new transactions. Netprice is categorized under the Marketplace business. In Q1, the company only included the balance sheet of netprice in consolidated results. However, netprice's earnings will contribute to consolidated results from Q2.

Solution

Sales were JPY85mn (-47.5% YoY) and operating loss was JPY83mn (JPY24mn operating loss in Q1 FY09/17).

In the Solution business, the company started restructuring the sales organization for TATEMPO NEXT service, which is an ASP service that allows users to place products simultaneously on multiple online marketplaces and adjust inventory. With regard to the efforts to prioritize profitability after TATEMPO Guide customizations in 2H FY09/17, as a result of outsourcing, profitability has improved and the trend continued through Q1 FY09/18. On the other hand, the company incurred temporary expenses related to bad debt from having difficulties collecting debts in certain large transactions. As a result, both sales and profits fell.

Incubation

Sales were JPY50mn and operating profit was JPY25mn.

In Incubation, the company aims to acquire the know-how and network to gain and maintain a competitive advantage over the long-term through business investment activities. The company sold off shares in listed companies and consulted the companies it has invested in.

Full-year FY09/17 results

Overview

In FY09/17, Aucfan reported sales of JPY3.7bn (+34.2% YoY), operating profit of JPY205mn (-36.0% YoY), recurring profit of JPY303mn (-8.8% YoY), and net income attributable to parent company shareholders of JPY219mn (-29.1% YoY).

Aucfan made efforts to maintain growth of companies it acquired in 2016, ReValue Inc. (which engages in liquidation services for companies trying to dispose of returned goods and surplus inventories) and Smartsourcing, Inc. (which provides products like automatic inventory adjustment systems), and expand business synergies within the group.

Media business

Sales were JPY1.6bn (+15.1% YoY) and operating profit was JPY124mn (-33.9% YoY).

Monthly membership fee revenue was flat YoY, but sales of Aucfan School, which has a high unit price, drove sales growth.

Unique users (a leading indicator of membership gains) totaled 13.6mn (+15.5% YoY), general members totaled 771,000 (+11.4% YoY), and paying members came to 56,107 (-11.4% YoY). Fees per member were JPY1,382 per month. The number of paying members fell because of the normalization of user acquisition costs. The company previously carried reward ads that offer monetary rewards to new paying members, but since this led to many new members canceling their membership the month after joining and the benefits of this type of ad was unclear, the company stopped them in FY09/17, with a resulting drop in the number of paying members.

Profits were down in FY09/17, because the company reduced the number of advertising slots to make its websites more user-friendly, resulting in lower advertising revenue. It also booked expenses for temporary upfront spending, including product development for peripheral services such as Aucfan School (which provides auction classes and individual support services), as well as higher development costs for new Web services.

Marketplace business

Sales were JPY1.5bn (+63.7% YoY) and operating profit was JPY161mn (-18.4% YoY).

The company strove to acquire new customers for ReValue, an inventory liquidation services business for companies, and NETSEA, one of the largest B2B transaction site in Japan.

Sales grew due to the full-year contribution of the ReValue business as well as initiatives to expand and cultivate new customers in the NETSEA and ReValue businesses. ReValue became a subsidiary in January 2016, making an eight-month contribution in FY09/16 and a full-year contribution in FY09/17, driving sales growth.

However, profits were down as a result of upfront spending in expanding business with new customers and exploring cross-border business opportunities.

Solution business

Sales were JPY526mn (+33.2% YoY) and operating loss was JPY89mn (JPY65mn operating loss in FY09/16).

In the Solution business, the company recorded sales growth by customizing products for TATEMPO NEXT service, which is an ASP service that allows users to place products simultaneously on multiple online marketplaces and adjust inventory. The company limited customized orders in 2H, however, because the increase in customization projects put pressure on profits.

Profits were down in FY09/17 due to the increase in customization projects, which increased outsourcing costs. The company shrank the operating loss of the Solution business in 2H by receiving fair pay for customization projects and making better use of outsourcing.

FY09/16 results

Overview

In FY09/16, Aucfan reported consolidated sales of JPY2.7bn (+88.0% YoY), operating profit of JPY321mn (+127.8% YoY), and recurring profit of JPY332mn (+133.0% YoY). The company booked JPY273mn in extraordinary gains mainly from sales of shares of affiliated companies, and posted JPY60mn in extraordinary loss from step acquisitions. Subsequently, net income attributable to parent company shareholders was JPY309mn (+69.5% YoY). The company achieved an increase in sales for nine consecutive years since its inception and posted record-high net income in FY09/16.

Aucfan reported an increase in sales in all business categories. The company booked robust sales growth in the Marketplace business due to the consolidation of ReValue in Q3 FY09/16. The company also posted increased sales in the Solution business owing to the consolidation of Smartsourcing.

| (JPYmn) | FY09/15 | FY09/16 | YoY |
|------------------|---------|---------|--------|
| Sales | 1,449 | 2,725 | 88.1% |
| Media | 1,010 | 1,174 | 16.2% |
| Marketplace | 136 | 922 | 577.9% |
| Solution | 304 | 630 | 107.2% |
| Operating profit | 140 | 320 | 127.8% |
| Recurring profit | 142 | 332 | 133.0% |
| Net income | 182 | 308 | 69.5% |

Source: Shared Research based on company data

However, the company reported increased CoGS due to a rise in purchasing costs attributable to an expansion of the Marketplace business and greater personnel costs in the entire group. Still, it booked significant profit growth due to the higher sales that outweighed increased costs. The company posted net income on par with operating profit, due to recognizing gains on sale and appraisal of some shares in subsidiary Grand Design as extraordinary gains.

Major factors contributing to changes in recurring profit

| Major factors | Contribution (JPYmn) |
|-----------------------------|----------------------|
| Recurring profit in FY09/15 | 142 |
| Changes in sales | 1,276 |
| Service fees | 164 |
| Online advertising | 786 |
| Marketing support | 325 |
| Changes in CoGS | -538 |
| Depreciation | -76 |
| Outsourcing costs | -8 |
| Purchasing costs | -382 |
| Changes in SG&A expenses | -558 |
| Personnel expenses | -149 |
| Advertising expenses | -47 |
| Outsourcing expenses | -69 |
| Amortization of goodwill | -48 |
| Compensations | -61 |
| Changes in operating profit | 10 |
| Recurring profit in FY09/16 | 332 |

Source: Shared Research based on company data

On a quarterly basis, profits grew significantly in 2H FY09/16 mainly owing to the addition of ReValue in Q3 FY09/16. However, margins slightly fell in 2H FY09/16 due to an increase in raw material costs because of acquiring ReValue, which conducts inventory procurement and sales. The company aims to promote further streamlining of operations through M&A and restructuring.

As a result, the company's sales reached 106.2% of its full year target, operating profit reached 105.8%, recurring profit reached 104.5% and net income attributable to parent company shareholders reached 102.3%. The company exceeded previous expectations in every category.

The company focused on strengthening the revenue base and increasing the number of users for the auction market comparison platform aucfan, the group's core business. As in the previous period, the company aimed to increase users by stepping up promotions, utilizing SEO, and strengthening alliances with other online marketplace operators. In order to increase users on smartphones, the company developed and launched a smartphone application in addition to previous promotional efforts. To strengthen the revenue base, the company expanded educational services and product purchasing services for users who sell on auctions. For those users who buy on auctions, the company diversified and readjusted the pricing of the paid services in order to increase revenues from service fees.

With the addition of subsidiaries NETSEA Co., Ltd. in Q4 FY09/15 and ReValue Inc. in Q3 FY09/16, the company has made its full foray into the B2B market. NETSEA operates the website NETSEA, an e-commerce site targeting wholesalers. ReValue provides inventory liquidation services for manufacturers and wholesalers trying to dispose of returned goods and excess inventory. In order to increase synergies, the two companies merged on September 30, 2016, with NETSEA Co., Ltd. as the surviving entity under the new company name SynaBiz Co., Ltd.

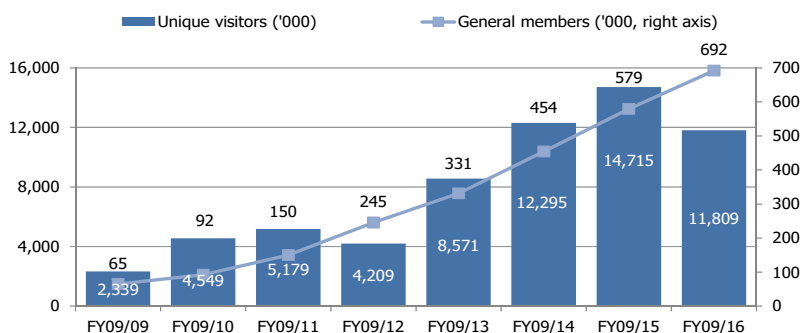
The company aims to increase transactions by connecting these new businesses with its wealth of product data and users with a keen interest in product purchasing and sales.

Overview by each business category:

Media business

In FY09/16, the company reported sales of JPY1.2bn (+16.2% YoY) in the Media business. The number of unique visitors fell due to a change in the search engine algorithm. However, the number of general members and premium members, which directly impacts the company's sales and profits, increased. The company booked higher sales owing to increased spend per customer due to an expansion of services offered and a price change in premium membership effective February 2016, from JPY513 to JPY980 per month.

Trends in the number of unique visitors and general members



Source: Shared Research based on company data

Marketplace business

In FY09/16, the company reported sales of JPY922mn (+580% YoY) in the Marketplace business. The company booked a significant increase in sales owing to the consolidation of ReValue and contribution from NETSEA, acquired in July 2015. According to the company, the annual transaction amount of NETSEA and ReValue combined was JPY7.6bn. Improved precision in customer matching using Aucfan's database of online transactions contributed to increased sales by NETSEA. The transaction amount of NETSEA in the Marketplace business achieved double-digit growth compared to when it was acquired. ReValue had been operating in the red at the time of acquisition but quickly moved into the black after becoming a subsidiary of Aucfan. Just as at NETSEA, improved precision in customer matching leveraging Aucfan's database of online transactions contributed to sales growth and improved profitability.

In order to increase synergies, NETSEA and ReValue merged on September 30, 2016 to form SynaBiz Co., Ltd.

Solution business

In FY09/16, the company reported sales of JPY630mn (+107.2% YoY) in the Solution business. The company booked increased sales owing mainly to the consolidation of Smartsourcing, Inc. (TATEMPO Guide) along with robust sales of existing businesses.

Income statement

| Income statement (JPYmn) | FY09/12 Parent | FY09/13 Parent | FY09/14 Par. | FY09/15 Cons. | FY09/16 Cons. | FY09/17 Cons. | FY09/18 Cons. |
|------------------------------|-------------------|-------------------|-----------------|------------------|------------------|------------------|------------------|
| Total sales | 620 | 752 | 1,006 | 1,450 | 2,726 | 3,656 | 5,864 |
| YoY | 26.1% | 21.3% | 33.9% | 44.0% | 88.0% | 34.2% | 60.4% |
| Cost of sales | 73 | 99 | 143 | 361 | 900 | 1,771 | 3,149 |
| Gross profit | 547 | 653 | 864 | 1,088 | 1,826 | 1,886 | 2,715 |
| YoY | 30.5% | 19.5% | 32.3% | 26.0% | 67.8% | 3.3% | 44.0% |
| GPM | 88.2% | 86.9% | 85.8% | 75.1% | 67.0% | 51.6% | 46.3% |
| SG&A expenses | 345 | 346 | 457 | 947 | 1,505 | 1,681 | 2,304 |
| YoY | 11.3% | 0.3% | 32.0% | 107.4% | 58.9% | 11.6% | 37.1% |
| SG&A ratio | 55.7% | 46.0% | 45.4% | 65.4% | 55.2% | 46.0% | 39.3% |
| Operating profit | 202 | 307 | 407 | 141 | 321 | 205 | 411 |
| YoY | 85.3% | 52.2% | 32.6% | -65.4% | 127.8% | -36.0% | 100.2% |
| OPM | 32.5% | 40.8% | 40.4% | 9.7% | 11.8% | 5.6% | 7.0% |
| Non-operating income | 0 | 10 | 15 | 37 | 69 | 123 | 28 |
| Non-operating expenses | 1 | 15 | 9 | 35 | 57 | 26 | 16 |
| Recurring profit | 201 | 302 | 413 | 143 | 332 | 303 | 424 |
| YoY | 81.0% | 50.2% | 36.7% | -65.5% | 133.0% | -8.8% | 39.9% |
| RPM | 32.4% | 40.2% | 41.0% | 9.8% | 12.2% | 8.3% | 7.2% |
| Extraordinary gains (losses) | -10 | 46 | 0 | 9 | 212 | 131 | -149 |
| Pre-tax profit | 191 | 348 | 413 | 151 | 544 | 433 | 274 |
| Income taxes | 90 | 136 | 163 | -13 | 240 | 221 | 59 |
| Implied tax rate | 47.2% | 39.0% | 39.4% | -8.9% | 44.0% | 51.0% | 21.5% |
| Minority interests | 0 | 0 | 0 | -18 | -4 | -7 | -9 |
| Net income | 101 | 212 | 250 | 182 | 309 | 219 | 224 |
| YoY | 38.1% | 110.2% | 17.8% | -27.2% | 69.5% | -29.1% | 2.3% |
| Net margin | 16.3% | 28.2% | 24.9% | 12.6% | 11.3% | 6.0% | 3.8% |

Source: Shared Research based on company data

Figures may differ from those reported by company owing to differences in rounding.

Consolidated results shown from FY09/15; change versus parent company figures the previous year shown for reference purposes only.

Sales grew from JPY326mn in FY09/10 to JPY5.9bn in FY09/18 for an average annual growth rate of 43.5%. (Note: FY09/10 figures are for parent company; FY09/18 figures are consolidated.) During the same timeframe, operating profit rose from JPY51mn to JPY411mn, an average annual growth rate of 29.7%. The OPM after FY09/15 has fallen below past levels, reflecting the increase in goodwill amortization costs following acquisitions and increased ratio of Marketplace business with high CoGS started in earnest from the same period.

Balance sheet

| Balance sheet (JPYmn) | FY09/12 Par. | FY09/13 Par. | FY09/14 Par. | FY09/15 Cons. | FY09/16 Cons. | FY09/17 Cons. | FY09/18 Cons. |
|--------------------------------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|
| Assets | | | | | | | |
| Cash and deposits | 339 | 1,127 | 1,144 | 1,403 | 1,466 | 1,029 | 2,095 |
| Accounts receivable | 81 | 111 | 162 | 265 | 305 | 356 | 594 |
| Marketable securities | - | - | - | - | - | 494 | 897 |
| Inventories | 1 | 1 | 2 | 8 | 35 | 195 | 236 |
| Deferred tax assets | 5 | 11 | 8 | 94 | 114 | 107 | 126 |
| Other current assets | 10 | 41 | 53 | 197 | 220 | 343 | 263 |
| Allowance for doubtful accounts | -1 | -1 | -1 | -1 | -3 | -48 | -35 |
| Total current assets | 435 | 1,290 | 1,368 | 1,966 | 2,137 | 2,477 | 4,176 |
| Buildings and structures (net) | 2 | 13 | 11 | 18 | 13 | 71 | 69 |
| Tools, furniture and fixtures (net) | 20 | 32 | 25 | 37 | 40 | 64 | 49 |
| Total tangible fixed assets | 23 | 45 | 35 | 55 | 54 | 136 | 121 |
| Goodwill | 1 | - | 127 | 860 | 879 | 733 | 602 |
| Software | 112 | 192 | 293 | 430 | 516 | 363 | 407 |
| Other | 23 | 12 | 12 | 65 | 32 | 56 | 131 |
| Total intangible fixed assets | 136 | 204 | 432 | 1,355 | 1,428 | 1,153 | 1,139 |
| Investment securities | 23 | 35 | 222 | 492 | 390 | - | - |
| Deferred tax assets | 8 | 8 | - | 366 | 294 | 200 | 247 |
| Other | 16 | 34 | 72 | 31 | 157 | 249 | 188 |
| Investments and other assets | 47 | 77 | 294 | 888 | 841 | 448 | 436 |
| Total fixed assets | 206 | 325 | 762 | 2,298 | 2,323 | 1,737 | 1,696 |
| Total assets | 641 | 1,615 | 2,130 | 4,270 | 4,465 | 4,217 | 5,874 |
| Liabilities | | | | | | | |
| Accounts payable | 6 | 6 | 23 | 36 | 99 | 128 | 277 |
| Short-term debt | - | - | - | 510 | 576 | 520 | 925 |
| Short-term debt | - | - | - | 23 | 41 | 100 | 300 |
| Short-term debt | - | - | - | 125 | 125 | 125 | 125 |
| Short-term debt | - | - | - | 362 | 410 | 295 | 500 |
| Income taxes payable | 69 | 97 | 90 | 2 | 159 | 60 | 75 |
| Accounts payable-other | - | - | - | - | 250 | 241 | 353 |
| Provision for bonuses | 13 | 6 | 3 | 4 | 10 | - | - |
| Other | 82 | 45 | 90 | 212 | 130 | 184 | 336 |
| Total current liabilities | 170 | 154 | 206 | 763 | 1,224 | 1,133 | 1,965 |
| Long-term debt | - | - | - | 1,364 | 961 | 578 | 1,188 |
| Bonds | - | - | - | 500 | 375 | 250 | 125 |
| Long-term debt | - | - | - | 864 | 586 | 328 | 1,063 |
| Other | - | - | 6 | - | 1 | - | 3 |
| Total long-term liabilities | - | - | 6 | 1,364 | 961 | 578 | 1,192 |
| Total liabilities | 170 | 154 | 212 | 2,127 | 2,185 | 1,711 | 3,157 |
| Net assets | | | | | | | |
| Capital stock | 176 | 566 | 656 | 671 | 676 | 678 | 680 |
| Capital surplus | 176 | 566 | 656 | 675 | 677 | 649 | 650 |
| Retained earnings | 112 | 324 | 574 | 756 | 958 | 1,177 | 1,401 |
| Treasury stock | - | - | - | -43 | -43 | -43 | -43 |
| Total shareholder equity | 468 | 1,460 | 1,889 | 2,059 | 2,269 | 2,461 | 2,687 |
| Valuation difference on securities | - | - | 27 | 35 | -8 | 10 | 17 |
| Share subscription rights | 3 | 2 | - | 13 | 19 | 21 | 9 |
| Other | -0 | - | 1 | 0 | 0 | 0 | 0 |
| Non-controlling interests | - | - | - | 35 | - | 13 | 4 |
| Total net assets | 471 | 1,462 | 1,917 | 2,143 | 2,280 | 2,506 | 2,717 |
| Working capital | 76 | 106 | 141 | 237 | 241 | 424 | 553 |
| Total interest-bearing debt | 0 | 0 | 0 | 1,874 | 1,536 | 1,098 | 2,113 |
| Net debt | -339 | -1,127 | -1,144 | 471 | 71 | 69 | 18 |

Source: Shared Research based on company data

Note: Figures above may differ from company figures due to rounding differences.

The sharp decline in the equity ratio from 90.0% at the end of FY09/14 (parent company basis) to 46.0% in FY09/18 (consolidated basis) reflects the heavy borrowing required to finance acquisitions.

Cash flow statement

| Cash flow statement (JPYmn) | FY09/12 Parent | FY09/13 Parent | FY09/14 Par. | FY09/15 Cons. | FY09/16 Cons. | FY09/17 Cons. | FY09/18 Cons. |
|--|-------------------|-------------------|-----------------|------------------|------------------|------------------|------------------|
| Cash flows from operating activities (1) | 194 | 179 | 330 | 136 | 766 | 155 | 468 |
| Cash flows from investing activities (2) | -126 | -164 | -491 | -1,722 | -249 | -126 | -222 |
| Free cash flow (1+2) | 68 | 15 | -161 | -1,586 | 517 | 30 | 246 |
| Cash flows from financing activities | 12 | 772 | 179 | 1,844 | -503 | -431 | 818 |
| Depreciation and amortization (A) | 39 | 59 | 105 | 239 | 394 | 424 | 441 |
| Capital expenditures (B) | -126 | -156 | -323 | -227 | -297 | -358 | -313 |
| Working capital changes (C) | 10 | 30 | 35 | 96 | 3 | 183 | 129 |
| Simple FCF (NI + A - B - C) | 256 | 397 | 643 | 552 | 996 | 817 | 849 |

Source: Shared Research based on company data

Note: Figures above may differ from company figures due to rounding differences.

In FY09/14 and FY09/15, when the company started becoming more active in M&A and acquiring stakes companies, free cash flow turned negative as the cash outflow from investing activities started exceeding the cash inflow from operations, requiring the company to cover the difference by borrowing.

News and topics

May 2018

On **May 24, 2018**, the company announced an acquisition of the company's shares by S173 Co., Ltd.

S173 Co., Ltd., an asset management company owned by Aucfan's largest shareholder, representative director and president Shuichi Takenaga, resolved to purchase 950,000 shares of the company's common stock (scheduled; 9.58% of issued shares) effective May 24, 2018.

March 2018

On **March 27, 2018**, the company announced the acquisition of shares in Zerodiv Inc., making it a wholly owned subsidiary.

At the Board of Directors Meeting held on the same day, the company resolved to acquire all shares in Zerodiv Inc. that operates a systems application planning, development, and management business, making it a wholly owned subsidiary. By adding Zerodiv to the group, the company aims to bolster its overall development capability. The addition will also bring in systems development resources that are necessary in order for the company to cultivate the corporate inventory market worth JPY22tn annually (Aucfan estimate). The share transfer is scheduled to take effect on March 31, 2018.

Zerodiv's financial results and position over the past three fiscal years (JPYmn)

| | FY03/15 | FY03/16 | FY03/17 |
|------------------|---------|---------|---------|
| Net assets | 62 | 63 | 63 |
| Total assets | 173 | 148 | 262 |
| Sales | 268 | 307 | 260 |
| Operating profit | 24 | 2 | 1 |
| Recurring profit | 24 | 2 | 0 |
| Net income | 20 | 1 | 0 |

November 2017

On **November 1, 2017**, the company announced that it would acquire shares of netprice Ltd. and make it a subsidiary.

At a board of directors meeting held on the same day, the company decided to acquire from BEENOS Inc. all 5,000 shares of netprice, which operates an e-commerce business targeting consumers, and make netprice its subsidiary (acquisition price: JPY88mn). The share transfer is planned for December 1, 2017.

netprice, after launching in 1999 as an online seller of discount products for consumers, has received support from users for its planning and development of private brand products and for its group buying services.

Aucfan decided to acquire all of netprice's shares because it believes that adding netprice to the group will enable it to expand the businesses of netprice, NETSEA, and ReValue. It intends to expand distribution by combining the transaction data that it holds, as well as by integrating the customer base and distribution platforms of NETSEA and ReValue with the supplier network, customer base, and e-commerce expertise of netprice.

Overview of netprice

- ▷ Business: Consumer-oriented e-commerce operator
- ▷ Capital: JPY100mn
- ▷ Established: December 27, 2004

netprice's earnings and financial position (JPYmn)

| | FY02/15 | FY02/16 | FY02/17 |
|--|---------|---------|---------|
| Net assets | 13 | 125 | 88 |
| Total assets | 542 | 703 | 619 |
| Revenue | 3,214 | 3,033 | 2,409 |
| Operating profit | 66 | -58 | -89 |
| Recurring profit | 76 | -49 | -88 |
| Net income attributable to parent company shareholders | 79 | 112 | -37 |

Other information

History

Shuichi Takenaga, founder and representative director, started out by launching an online auction business as a sole proprietor while still in college. As sales grew, in April 2004 he established Defactostandard, Ltd., which later became Aucfan. The experience of operating Defactostandard, which primarily sold items through actions, provided Takenaga with know-how on profit maximization through buying and selling secondhand products. In January 2006, Defactostandard took over management of an auction statistics website (now aucfan.com) run by an individual, and began operating a media business enabling auction price comparison and market data search.

Aucfan Co. Ltd. was established in June 2007 after Defactostandard separated the media business as an independent entity. At that time, Takenaga sold his stake in Defactostandard to BEENOS (TSE Mothers: 3328). Takenaga currently has no capital relationship with Defactostandard, which now operates Brandear, a platform for trading brand items.

In Aucfan's early years, it was based mainly on an online advertising revenue model at the Media business. It started generating service fee revenue with the introduction of premium services for members in August 2008. Since then, Aucfan has added steadily to its lineup of revenue-generating services, with the start of the Aucfan School (correspondence courses specializing in auction topics) in December 2008, the launch of the Monochekki smartphone app in October 2011, the introduction of Aucfan Pro comprehensive data analysis tools in November 2011, and the December 2012 launch of Global Aucfan, a one-stop e-commerce website search service.

Following its listing on the Mothers section of the Tokyo Stock Exchange in April 2013, Aucfan began moving into peripheral business areas, but the big turning point came with the acquisition of NETSEA Co., Ltd. in July 2015. With the acquisition, Aucfan extended outside of its traditional Media business (providing price data for online B2C and C2C transactions) into the larger B2B market.

Company history:

| | | |
|------|------|---|
| 2000 | Sep. | Auction business launched as a sole proprietorship |
| 2001 | Apr. | Auction Statistics Page (tentative name) begins operations |
| 2006 | Feb. | Auction Statistics Page (tentative name) acquired through business transfer |
| 2007 | Jun. | Media business of Defactostandard Co., Ltd. separated for the purpose of operating internet media "Aucfan;" Aucfan Co., Ltd. established and its "pure advertising" and net advertising businesses launched |
| | Aug. | Free members' service launched |
| 2008 | May | Paying members' service "Aucfan Premium" launched as a pay-per-use service business |
| | Dec. | "Aucfan School" auction class launched |
| 2009 | May | "Aucdata" consumer trend analysis tool launched |
| 2010 | Jan. | "Aucfan Seminar" auction correspondence course launched |
| | Aug. | "Aucfan Touch" site for smartphones launched |
| 2011 | Oct. | "Mono Cheki" smartphone app launched |
| | Nov. | "Aucfan Pro" integrated analysis tool launched |
| 2012 | Dec. | "Global Aucfan," a comprehensive global ecommerce search site, launched |
| 2013 | Apr. | Lists on Mothers Section of the Tokyo Stock Exchange |
| | Oct. | Aucfan acquires Rakuichi Rakuza, Japan's largest flea market business, from Marketenterprise Co., Ltd. |
| 2014 | Feb. | "Auction Listing Academy and University," a service to train Yahoo! Japan online auction sellers, launched in partnership with Yahoo! Japan |
| | May | Beta version of "Auc-checker," a detection and monitoring service for items traded on online auctions, launched |
| | Oct. | Acquires 100% of shares in Grand Design & Co., Ltd. |

| | | |
|------|------|--|
| 2015 | Nov. | Newly established company Grand Design Co., Ltd. Takes over operation of Omni-Channel platform business from Grand Design & Co., Ltd. |
| | Jan. | Acquires 100% of shares in MiningBrownie, Inc. "aucfan Touch" site launched as official content for iOS smartphones through KDDI's au service |
| | Feb. | "Aucfan Pro" price analysis tool redesigned Launches "Most Recent Purchase Flash," a new service for users who buy products on the internet |
| | Apr. | Conducts absorption-type merger of Grand Design & Co., Ltd. Aucfan service "Raku Oroshi" coordinates with Ctoj purchase and wholesale site Begins data coordination with MRT, a medical information platform provider Completes redesign of smartphone site of aucfan.com |
| | Jun. | Subsidiary Grand Design enters into a capital and business alliance with transcocos inc. to develop "Gotcha!mall" shopping mall smartphone app for use in ASEAN countries |
| | Jul. | Acquires 100% of shares in NETSEA, a new company founded to assume the operations of "DeNA BtoB market," a B2B marketplace operated by DeNA Co., Ltd. |
| | Sep. | Starts course on Yahoo! Japan Auctions at PC School AVIVA Aucfan price search site begins data coordination with TAU, which commands the largest market share in the purchase of damaged cars |
| 2016 | Jan. | Acquires 100% of ReValue Inc., a specialist in liquidating and evaluating surplus stock from retailers/wholesalers and manufacturers, from Dream Incubator Incorporated |
| | Apr. | Acquires 65% of Smartsourcing, Inc. |
| | Sep. | NETSEA Co., Ltd. and ReValue Inc. merge to form SynaBiz Co., Ltd. Conducts absorption-type merger of MiningBrownie, Inc. |
| 2017 | Dec. | Makes netprice Ltd. a subsidiary |

Source: Shared Research based on company materials

Major shareholders

| | Shareholding ratio |
|---|--------------------|
| Shuichi Takenaga | 35.32% |
| S173 Co., Ltd. | 9.63% |
| Japan Trustee Services Bank, Ltd. (Trust account 9) | 3.32% |
| Japan Trustee Services Bank, Ltd. (Trust account) | 1.71% |
| SBI Securities Co., Ltd. | 1.65% |
| Kyowa Seika Co., Ltd. | 1.42% |
| CREDIT SUISSE AG HONG KONG TRUST A/C CLIENT | 1.36% |
| Rakuten Securities, Inc. | 1.20% |
| Akiko Takashima | 0.86% |
| Ryosuke Hayashi | 0.71% |

Source: Shared Research based on company data

As of September 30, 2018

The company has 53,200 treasury shares, but is not listed as a major shareholder.

Corporate governance and top management

Corporate governance

| Capital structure | |
|---|--|
| Controlling interests | None |
| Parent company ticker | N/A |
| Directors | |
| Organizational type | Company with Audit & Supervisory Board |
| Number of directors under Articles of Incorporation | 8 |
| Directors' terms under Articles of Incorporation | 1 year |
| Number of directors | 4 |
| Number of independent outside directors | 2 |
| Voluntary committee equivalent to Nomination Committee or Compensation Committee | None |
| Number of Audit & Supervisory Board members under Articles of Incorporation | 4 |
| Number of Audit & Supervisory Board members | 4 |
| Number of independent outside members of Audit & Supervisory Board | 3 |
| Independent officers (outside directors and members of Audit & Supervisory Board) | 5 |
| Other | |
| Disclosure of directors' compensation | Total amount disclosed |
| Policy on determining amount of compensation and calculation methodology | In place |
| Corporate takeover defenses | None |

Source: Shared Research based on company data
 Note: As of end-September 2017

Top management

Aucfan's president and representative director is Shuichi Takenaga (born 1978). He began an online auction business as a sole proprietor in 2000, while still a student at Kyoto University. In 2004 he founded Defactostandard, Ltd. and became its representative director. In June 2006, Aucfan Co. Ltd. was founded through an incorporation-type company split.

Employees

Aucfan has been reporting consolidated results since FY09/15. As of the end of FY09/18, Aucfan had 172 (120 in FY09/17) employees (consolidated figures). The employee statistics that follow are parent company figures.

Parent company employees

| Financial year | Number of employees | Average age | Average number of years with the company | Average annual salary (JPY'000) |
|----------------|---------------------|-------------|--|---------------------------------|
| FY09/14 | 52 (3) | 30.8 | 2.0 | 4,245 |
| FY09/15 | 70 | 34.3 | 2.4 | 4,536 |
| FY09/16 | 69 (9) | 32.5 | 3.8 | 4,810 |
| FY09/17 | 69 (14) | 33.5 | 2.5 | - |
| FY09/18 | 71 (7) | 33.3 | 3.2 | - |

Source: Shared Research based on company data
 Note: Average annual compensation includes compensation other than base wages.
 Avg. number of temporary staff in parentheses.

Dividend policy

The company intends to begin paying dividends once earnings and its financial position support such a move. However, since it is still in the growth stage, Aucfan's current priority is building up the internal reserves needed to fund future business expansion and strengthen its financial position. Aucfan has not paid a dividend since its founding and does not plan to pay a dividend in FY09/18. It intends to eventually pay dividends, but has not yet made a decision regarding whether paying a dividend is possible or when a dividend might be initiated.

By the way

Origin of company name

The name Aucfan comes from the company's vision of gathering together auction fans to create a new whirlwind that will blow around the world.

Profile

| | |
|---|---|
| Company | Head office |
| Aucfan Co., Ltd. | Humax Shibuya Bldg. 6F, 1-14-6 Dogenzaka Shibuya-ku, Tokyo |
| Phone | Listed on |
| +81-3-6809-0951 | Tokyo Stock Exchange Mothers |
| Established | Exchange listing |
| June 1, 2007 | April 25, 2013 |
| Website | Fiscal year-end |
| http://aucfan.co.jp/en/ | September |
| IR Contact | IR Web |
| - | http://aucfan.co.jp/en/ir/ |

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 <http://www.sharedresearch.jp>.

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| | | |
|--------------------------------------|--------------------------------------|---------------------------------------|
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| ADJUVANT COSME JAPAN CO., LTD. | FURYU CORPORATION | PIGEON CORPORATION |
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| Aeon Fantasy Co., Ltd. | GCA Corporation | RESORTTRUST, INC. |
| Ai Holdings Corporation | Grandy House Corporation | ROUND ONE Corporation |
| AnGes Inc. | Hakuto Co., Ltd. | RVH Inc. |
| Anicom Holdings, Inc. | Happinet Corporation | RYOHIN KEIKAKU CO., LTD. |
| Anritsu Corporation | Harmonic Drive Systems Inc. | SanBio Company Limited |
| Apaman Co., Ltd. | HOUSEDO Co., Ltd. | SANIX INCORPORATED |
| Arealink Co.,Ltd. | IDOM Inc. | Sanrio Company, Ltd. |
| Artspark Holdings Inc. | IGNIS LTD. | SATO HOLDINGS CORPORATION |
| AS ONE CORPORATION | Inabata & Co., Ltd. | SBS Holdings, Inc. |
| Ateam Inc. | Infocom Corporation | Seikagaku Corporation |
| Aucfan Co., Ltd. | Infomart Corporation | Seria Co.,Ltd. |
| AVANT CORPORATION | Intelligent Wave, Inc. | SHIP HEALTHCARE HOLDINGS, INC. |
| Axell Corporation | istyle Inc. | SIGMAXYZ Inc. |
| Azbil Corporation | Itochu Enex Co., Ltd. | SMS Co., Ltd. |
| AZIA CO., LTD. | JSB Co., Ltd. | Snow Peak, Inc. |
| BEENOS Inc. | JTEC Corporation | Solasia Pharma K.K. |
| Bell-Park Co., Ltd. | J Trust Co., Ltd | SOURCENEXT Corporation |
| Benefit One Inc. | Japan Best Rescue System Co., Ltd. | Star Mica Co., Ltd. |
| B-lot Co.,Ltd. | JINS Inc. | Strike Co., Ltd. |
| Canon Marketing Japan Inc. | JP-HOLDINGS, INC. | SymBio Pharmaceuticals Limited |
| Carna Biosciences, Inc. | KAMEDA SEIKA CO., LTD. | Synchro Food Co., Ltd. |
| CERES INC. | Kenedix, Inc. | TAIYO HOLDINGS CO., LTD. |
| Chiyoda Co., Ltd. | KFC Holdings Japan, Ltd. | Takashimaya Company, Limited |
| Chugoku Marine Paints, Ltd. | KI-Star Real Estate Co., Ltd. | Take and Give Needs Co., Ltd. |
| cocokara fine Inc. | Kumiai Chemical Industry Co., Ltd. | Takihyo Co., Ltd. |
| COMSYS Holdings Corporation | Lasertec Corporation | TAMAGAWA HOLDINGS CO., LTD. |
| CRE, Inc. | LUCKLAND CO., LTD. | TEAR Corporation |
| CREEK & RIVER Co., Ltd. | MATSUI SECURITIES CO., LTD. | Tenpo Innovation Inc. |
| Daiseki Co., Ltd. | Medical System Network Co., Ltd. | 3-D Matrix, Ltd. |
| DIC Corporation | MEDINET Co., Ltd. | TKC Corporation |
| Digital Arts Inc. | Milbon Co., Ltd. | TOKAI Holdings Corporation |
| Digital Garage Inc. | MIRAIT Holdings Corporation | Tri-Stage Inc. |
| DIGITAL HEARTS HOLDINGS Co., Ltd | Monex Goup Inc. | VISION INC. |
| Don Quijote Holdings Co., Ltd. | NAGASE & CO., LTD | VISIONARY HOLDINGS CO., LTD. |
| Dream Incubator Inc. | NAIGAI TRANS LINE LTD. | VOYAGE GROUP, INC. |
| EARTH CHEMICAL CO., LTD. | NanoCarrier Co., Ltd. | WirelessGate, Inc. |
| Elecom Co., Ltd. | Net One Systems Co.,Ltd. | YELLOW HAT LTD. |
| Emergency Assistance Japan Co., Ltd. | Nichi-Iko Pharmaceutical Co., Ltd. | YOSHINOYA HOLDINGS CO., LTD. |
| en-Japan Inc. | Nihon Denkei Co., Ltd. | YUMESHIN HOLDINGS CO., LTD. |
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