

## CROOZ (2138)

Fiscal Year (Consolidated) (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2014		23,352	4,227	4,253	2,698	238.7	20.0	461.3
FY03/2015		20,841	2,373	2,423	1,368	119.3	15.0	636.0
FY03/2016		27,787	2,480	2,475	1,528	127.6	15.0	747.0
FY03/2015	YoY	(10.8%)	(43.8%)	(43.0%)	(49.3%)	-	-	-
FY03/2016	YoY	33.3%	4.5%	2.1%	11.7%	-	-	-
Half Year (Consolidated) (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2015		10,535	1,162	1,178	798	-	-	-
Q1 to Q2 FY03/2016		11,831	712	732	299	-	-	-
Q1 to Q2 FY03/2017		15,848	1,475	1,485	1,043	-	-	-
Q1 to Q2 FY03/2017	YoY	33.9%	107.0%	102.8%	248.2%	-	-	-

Source: Company Data, WRJ Calculation

### 1.0 Executive Summary (1 February 2017)

#### Game to Fast Fashion

CROOZ, having introduced strategy to focus own resources upon online shopping of fast fashion, i.e., “[SHOPLIST.com by CROOZ](http://SHOPLIST.com)” and other EC business, is seeing strengths for its earnings. The Company is calling for long-term target to see unique purchasers of 5m pa and purchase value per person of ¥20,000 pa, up some 3.8 times and up some 1.5 times, respectively, compared with recent results. Thus, the Company is looking to SHOPLIST as the growth driver, going forward, while the targets simply imply full-year sales of ¥100,000m.


On the other hand, the Company transferred Internet Contents Business (Game Business) but for “ELEMENTAL STORY” to Mynet Group on 1 November 2016. “ELEMENTAL STORY”, having accounted for bulk of earnings in Game Business, will remain, but the Company is to suffer from decreases of sales and earnings due to this transfer, starting in Q3 FY03/2017. More importantly, however, funds raised by this transfer will be invested in SHOPLIST to accelerate its growth in the future, enabling the Company to create corporate value, more than used to be expected, in a long-term view.

The Company is to release its Q3 FY03/2017 results on 10 February 2017 and to hold investor meeting at the same time, planning to discuss all those issues more in depth.

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## 2.0 Company Profile

### Online Shopping of Fast Fashion

<b>Company Name</b>	CROOZ, Inc. <a href="#">Company Website</a> <a href="#">IR Information</a> <a href="#">Share Price</a>	
<b>Established</b>	24 May 2001	
<b>Listing</b>	14 February 2007: Tokyo Stock Exchange JASDAQ Standard (Ticker: 2138)	
<b>Capital</b>	¥439m (As of the end of September 2016)	
<b>No. of Shares</b>	12,866,600 shares, including 852,500 treasury shares (As of the end of Sep. 2016)	
<b>Main Features</b>	<ul style="list-style-type: none"><li>● SHOPLIST: Online shopping of low-priced clothes for young women</li><li>● Trying to establish the brand to represent fast fashion EC domain</li><li>● High risk to low risk for Game Business in regards to way of development</li></ul>	
<b>Businesses</b>	. Internet Contents Business (Game Business) . Internet Commerce Business (EC Business) . Other	
<b>Top Management</b>	Representative Director and President: Koji Obuchi	
<b>Shareholders</b>	Koji Obuchi 26.0%, Tomoshi Tazawa 7.9%, Treasury shares 6.6% (As of the end of September 2016)	
<b>Headquarters</b>	Minato-ku, Tokyo, JAPAN	
<b>No. of Employees</b>	Consolidated: 413 (As of the end of Sep. 2016), Consolidated: 219 (As of 1 Nov. 2016)	

Source: Company Data

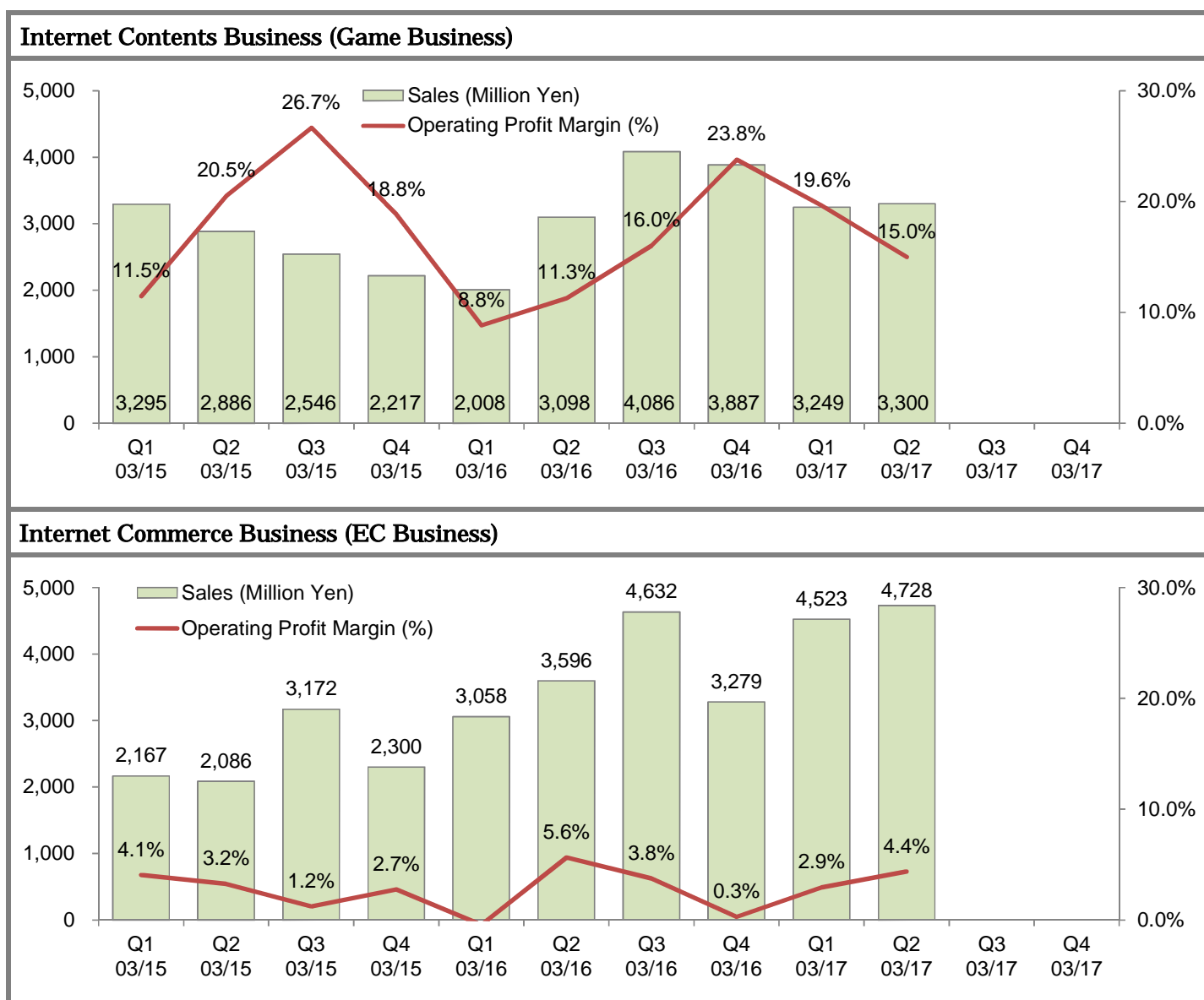
## 3.0 Recent Trading & Prospects

### Q1 to Q2 FY03/2017

In Q1 to Q2 FY03/2017, sales came in at ¥15,848m (up 33.9% YoY), operating profit ¥1,475m (up 107.0%) and operating profit margin 9.3% (up 3.3% points). By business segment, Internet Contents Business (Game Business) saw sales of ¥6,549m (up 28.3%), operating profit of ¥1,132m (up 114.9%) and operating profit margin of 17.3% points (up 7.0% points) and Internet Commerce Business (EC Business) saw sales of ¥9,251m (up 39.0%), operating profit of ¥339m (up 79.3%) and operating profit margin of 3.7% (up 0.8% points).

Over the previous year, sales and earnings surged on the Game Business side, due mainly to strengths of native game where “ELEMENTAL STORY” is the mainstay. Meanwhile, in the middle of Q3, i.e., on 1 November 2016, the Company transferred all the native game but for “ELEMENTAL STORY” and all the browser game to an operator to specialize in operations of game developed. The reason is that business environment changes too fast these days, resulting in excess volatility in the business.

That is to say, the Company has reached a conclusion that it is too difficult to achieve long-term stable earnings growth with high exposure to game business. However, the Company is to pursue opportunities to make money on the game side in a subsidiary, detached from the parent company, with small numbers-exceptional talent.



Source: Company Data, WRJ Calculation

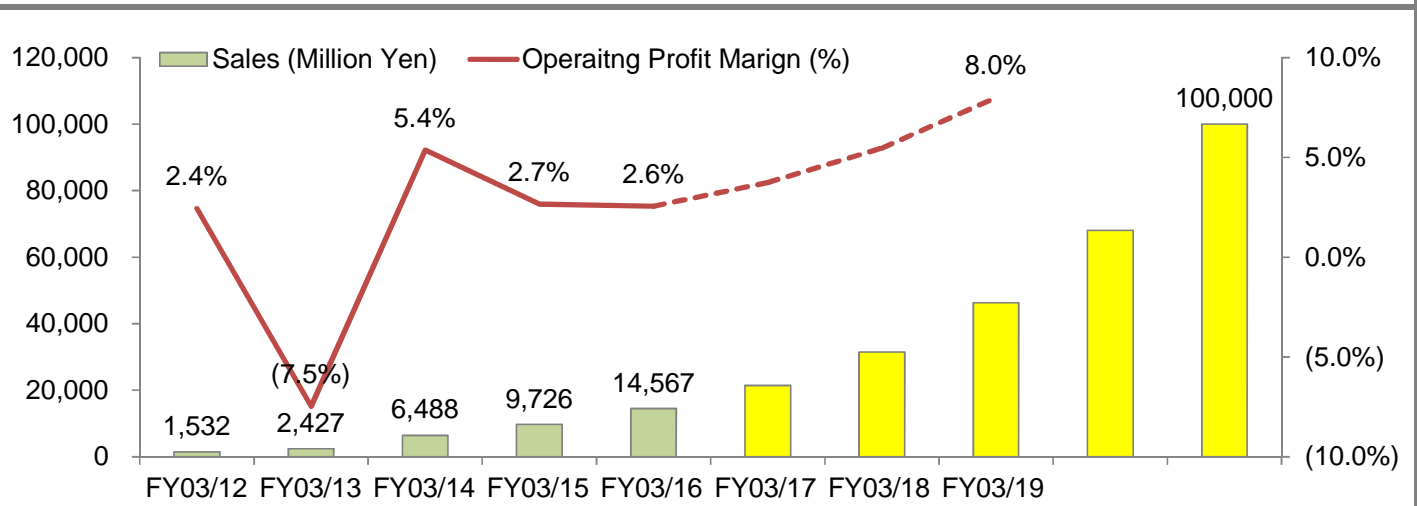
Meanwhile, the Company saw surging sales and earnings on the EC Business side as well. The contents here are SHOPLIST to run operations of online shopping of fast fashion (with some 500 brands to have opened stores), dedicated to low-priced clothes (unit selling prices; some ¥2,000 to ¥3,000) for young women, which is one of the distinguished features amongst competitors.

The Company suggests that customers appreciate its “discount advantages”. For example, all sorts of events are being held for 365 days a year, including nation-wide free shipping with a condition to buy more than a certain amount, sale, coupon, doubled points, etc. on top of introducing coupon available any number of times to discount up to 10%, depending on ranking of membership. Thus, SHOPLIST is recognized as online shopping to discount more by purchasing more. Meanwhile, customers also appreciate its high usability for its simple membership registration and its diverse ways of settlement.

### Long-Term Prospects

The Company is looking to Internet Commerce Business as the long-term growth driver. In regards to the contents here, i.e., SHOPLIST, the Company has already set up a scheme to utilize for delivering merchandises equating to sales of ¥60,000m pa, more than three times than now, while sales of ¥100,000m are suggested as a passing point in the future, which are almost seven times larger than the results in FY03/2016.

#### Long-Term Prospects: Internet Commerce Business (EC Business)



#### Long-Term Targets: Internet Commerce Business (EC Business)

	Period	Results	Long-Term Target	Long-Term Target / Results
No. of Unique Purchasers pa (thousand people)	Q2 FY03/2017	1,300	5,000	3.8 x
Purchasing Value per Person pa (thousand yen)	FY03/2016	13	20	1.5 x
No. of Purchases Per Person pa (times)	FY03/2016	2.56	4.00	1.6 x
(Per Order, thousand yen)	FY03/2016	5	5	1.0 x
Sales (Million Yen)	FY03/2016	14,567	100,000	6.9 x

Source: Company Data, WRJ Calculation (including estimates)

In the first place, the market for EC is assumed to expand in a long-term view, while increasing number of brands to open stores to enrich the platform are expected to drive sales in a long-term view. As a recent example, the Company mentions “FOREVER 21” to have opened store in SHOPLIST.

This is the new opening of global fashion brand running store more than 760 in 49 countries, earlier than anywhere else in Japan’ fashion-dedicated online shopping platforms, having enhanced value and reliability as platform for SHOPLIST. The Company is trying to get at new opening of similar brands through this new opening to further beef up the coverage of merchandises handled and thus ability to attract customers.

On the other hand, there remains a room for improvement on the logistics side in regards to usability. Going forward, the Company is looking to comprehensively improving usability due to improvement here, which is another driver for sales in a long-term view. Specifically speaking, the Company is to cut back lead time to shipment from order intake.

With all those factors, sales of EC Business with SHOPLIST as contents are expected to increase in a long-term view, while enhancing operating profit margin. The Company is calling prospective operating profit margin of 8.0% by the end of FY03/2019 (versus 2.6% in FY03/2016) as target to be achieved.

The Company is to invest some ¥5,000m in SHOPLIST in the foreseeable future to strengthen ability to attract customers, sales channels and branding, while considering opportunities of quality-oriented (not quantity-oriented) merger & acquisition to create new business. On top of this, the Company is to remain aggressively spending on advertising which accounts for half of expenses on the EC Business side.

However, spending on advertising is to see economies of scale with increasing sales going forward, gradually lowering the ratio to sales. This is the key reason why the Company is going for improving operating profit margin on the EC Business side.

## **Disclaimer**

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Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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