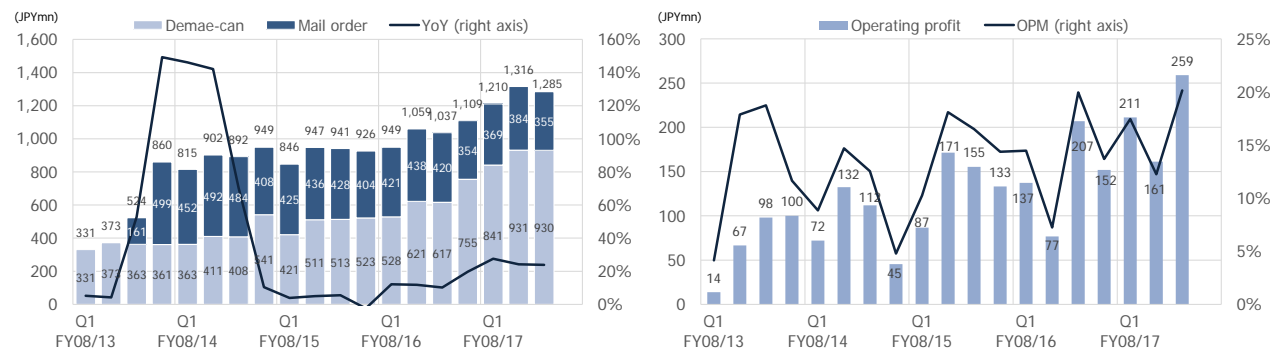


On **June 29, 2017**, Yume no Machi Souzou linkai Co., Ltd. announced earnings results for Q3 FY08/17.

Income statement (JPY/mn)	FY08/15				FY08/16				FY08/17				FY08/15			FY08/16			FY08/17		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3 cml.	Q3 cml.	Q3 cml.	Cons.	Cons.	Est.	% of FY		
Sales	846	947	941	926	949	1,059	1,037	1,109	1,210	1,316	1,285		2,735	3,046	3,811	3,661	4,155	5,000	76.2%		
Demae-can	421	511	513	523	528	621	617	755	841	931	930		1,446	1,766	2,702	1,968	2,522				
Basic operating fees	69	69	69	70	72	75	75	75	79	83	88		207	222	250	277	297				
Order processing fees	261	315	302	326	337	408	394	407	415	502	498		878	1,139	1,414	1,204	1,546				
Advertising fees	13	18	16	18	14	19	16	11	9	14	4		47	48	28	65	59				
System development fees	5	29	46	20	10	11	20	1	21	8	-		81	40	29	101	42				
Other	72	80	80	88	95	109	113	261	318	323	341		232	317	982	320	578				
Mail order	425	436	428	404	421	438	420	354	369	384	355		1,289	1,279	1,108	1,693	1,633				
YoY	3.9%	5.0%	5.5%	-2.4%	12.1%	11.8%	10.2%	19.7%	27.5%	24.2%	23.9%		4.8%	11.4%	25.1%	2.9%	13.5%	20.3%			
Demae-can	16.2%	24.5%	25.6%	-3.4%	25.3%	21.6%	20.2%	44.6%	59.3%	49.8%	50.8%		22.4%	22.2%	53.0%	14.3%	28.1%	-			
Mail order	-6.0%	-11.3%	-11.5%	-1.0%	-0.9%	0.4%	-1.8%	-12.4%	-12.4%	-12.2%	-15.6%		-9.7%	-0.8%	-13.4%	-7.8%	-3.5%	-			
CoGS	342	343	353	337	340	384	382	397	434	448	434		1,038	1,106	1,316	1,375	1,503				
CoGS-to-sales ratio	40.4%	36.2%	37.5%	36.4%	35.8%	36.3%	36.8%	35.8%	35.8%	34.1%	33.8%		37.9%	36.3%	34.5%	37.6%	36.2%				
Gross profit	505	604	588	589	609	675	656	713	777	867	851		1,697	1,940	2,494	2,286	2,652				
GP margin	59.6%	63.8%	62.5%	63.6%	64.2%	63.7%	63.2%	64.2%	64.2%	65.9%	66.2%		62.1%	63.7%	65.5%	62.4%	63.8%				
SG&A expenses	418	433	433	456	472	598	449	561	566	706	592		1,283	1,519	1,863	1,740	2,079				
YoY	0.2%	-1.4%	1.3%	15.4%	12.8%	38.3%	3.7%	23.0%	19.9%	17.9%	31.9%		0.0%	18.3%	22.7%	3.6%	19.5%				
SG&A-to-sales ratio	49.4%	45.7%	46.0%	49.2%	49.7%	56.5%	43.3%	50.6%	46.7%	53.7%	46.1%		46.9%	49.9%	48.9%	47.5%	50.0%				
Operating profit	87	171	155	133	137	77	207	152	211	161	259		414	421	631	547	573	800	78.9%		
Demae-can	127	210	120	181	161	102	223	190	232	171	271		458	486	674	639	676				
Mail order	33	45	101	25	50	51	62	54	67	78	60		178	163	205	204	217				
Adjustments	-73	-83	-66	-73	-74	-77	-78	-92	-88	-87	-72		-222	-228	-248	-296	-321				
YoY	20.4%	29.4%	38.9%	193.2%	58.2%	-55.3%	33.2%	14.1%	53.8%	110.2%	25.1%		30.7%	1.8%	50.0%	51.1%	4.8%	39.7%			
Demae-can	-13.0%	26.1%	-13.9%	140.3%	27.0%	-51.5%	85.0%	5.2%	43.9%	67.4%	21.7%		1.1%	6.2%	38.6%	21.0%	5.9%	-			
Mail order	1,244.1%	-1.4%	82.7%	-32.7%	50.6%	15.5%	-38.6%	112.3%	34.7%	51.8%	-3.0%		73.6%	-8.5%	25.8%	45.0%	6.6%	-			
OPM	10.3%	18.1%	16.5%	14.4%	14.5%	7.2%	20.0%	13.7%	17.4%	12.3%	20.1%		15.1%	13.8%	16.6%	14.9%	13.8%	16.0%			
Demae-can	30.1%	41.2%	23.5%	34.6%	30.5%	16.4%	36.1%	25.2%	27.6%	18.3%	29.1%		31.7%	27.5%	24.9%	32.5%	26.8%	-			
Mail order	7.9%	8.7%	19.6%	4.9%	9.4%	8.3%	10.0%	7.1%	8.0%	8.4%	6.4%		12.3%	9.2%	7.6%	10.3%	8.6%	-			
Non-operating income (expenses)	-1	0	-6	1	5	-0	1	0	-2	-2	-1		-6	6	-5	-5	6	-			
Financial income (expenses)	-1	-0	-1	-1	0	-0	0	-1	-6	-4	-6		-3	0	-17	-3	-1	-			
Equity in income of affiliates	-1	-0	-	-	2	1	1	0	2	3	4		-1	4	9	-0	4	-			
Others	1	1	-5	1	3	-1	0	2	1	-0	1		-2	2	3	-2	4	-			
Recurring profit	86	172	150	134	142	77	208	152	209	160	258		407	427	626	541	579	800	78.3%		
YoY	21.5%	31.0%	35.3%	152.3%	65.9%	-55.4%	39.0%	13.4%	46.7%	108.1%	23.9%		30.4%	4.8%	46.6%	48.1%	7.0%	38.2%			
RPM	10.1%	18.1%	15.9%	14.5%	15.0%	7.2%	20.1%	13.7%	17.2%	12.1%	20.1%		14.9%	14.0%	16.4%	14.8%	13.9%	16.0%			
Extraordinary gains (losses)	-18	-78	6	-233	-	92	0	-57	-10	-53	6		-89	92	-58	-322	35	-			
Pre-tax profit	68	94	156	-99	142	169	208	95	198	107	264		318	519	568	219	614	-			
Income taxes	36	69	55	-38	53	62	69	89	79	45	69		160	184	193	122	273	-			
Implied tax rate	53.2%	73.4%	35.0%	38.1%	37.4%	37.0%	33.0%	93.4%	40.0%	42.3%	26.1%		50.3%	35.5%	34.0%	55.8%	44.5%	-			
Non-controlling interests	-	0	-0	-	-3	-2	-1	-0	-0	-1	-1		-0	-0	-2	-0	-6	-			
Net income attributable to parent company shareholders	32	25	102	-61	92	109	141	6	119	62	195		158	341	377	97	348	450	83.8%		
YoY	8.1%	-61.8%	607.5%	-	-187.2%	335.0%	38.7%	-	30.1%	-42.8%	38.7%		44.9%	115.4%	10.5%	-42.0%	258.4%	29.4%			
Net margin	3.8%	2.6%	10.8%	-6.6%	9.7%	10.3%	13.6%	0.6%	9.9%	4.7%	15.2%		5.8%	11.2%	9.9%	2.6%	8.4%	9.0%			
EBITDA	162	244	229	207	211	153	284	244	302	246	331		635	649	879	842	893				
YoY	16.7%	20.6%	25.4%	76.8%	30.6%	-37.3%	24.2%	17.9%	43.1%	60.2%	16.4%		-	-	190.1%	31.4%	6.0%	-			
EBITDA margin	19.1%	25.8%	24.3%	22.4%	22.3%	14.5%	27.4%	22.0%	25.0%	18.7%	25.8%		23.2%	21.3%	23.1%	23.0%	21.5%	-			
No. of affiliated stores (quarter end)	11,680	11,812	12,011	12,213	12,505	12,529	13,018	13,656	14,206	14,559	14,953		12,011	13,018	14,953	12,213	13,656	-			
YoY	1.5%	1.4%	4.6%	5.0%	7.1%	6.1%	8.4%	11.8%	13.6%	16.2%	14.9%		4.6%	8.4%	14.9%	5.0%	11.8%	-			
No. of orders (mn)	2.32	2.74	2.64	2.85	2.92	3.50	3.46	3.64	3.79	4.41	4.38		7.70	9.89	12.58	10.56	13.53	-			
YoY	14.4%	21.6%	17.2%	22.4%	25.9%	27.8%	31.0%	27.6%	29.7%	26.0%	26.5%		17.9%	28.3%	27.3%	19.1%	28.1%	-			
No. of active members (quarter end; mn)	-	-	-	-	-	-	-	-	-	-	1.83		-	-	1.83	-	-	-			
YoY	-	-	-	-	-	-	-	-	-	-	-0.9%		-	-	-0.9%	-	-	-			
Total members (quarter end; mn)	6.45	6.69	6.89	7.14	7.37	7.69	7.98	8.30	8.56	8.81	-		6.89	7.98	-	7.14	8.30	-			
YoY	14.0%	13.6%	13.1%	13.7%	14.3%	14.9%	15.8%	16.2%	16.1%	14.6%	-		13.1%	15.8%	-	13.7%	16.2%	-			
Depreciation	46	44	45	45	45	48	49	53	51	50	39		136	142	141	181	195	-			
Amortization of goodwill	29	29	28	29	29	29	29	40	40	34	33		86	86	107	114	125	-			
Inventories	64	61	62	57	62	57	59	61	59	56	59		62	59	59	57	61	-			
YoY	23.9%	-10.0%	12.8%	17.3%	-3.2%	-7.0%	-4.6%	6.4%	-4.7%	-1.0%	0.2%		12.8%	-4.6%	0.2%	17.3%	6.4%	-			
Days in inventory	15.0	16.5	15.8	16.1	15.9	14.0	13.8	13.8	12.6	11.7	12.1		-	-	-	14.0	14.3	-			

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Quarterly earnings trends: sales (left), operating profit (right)



Source: Shared Research based on company data

Summary

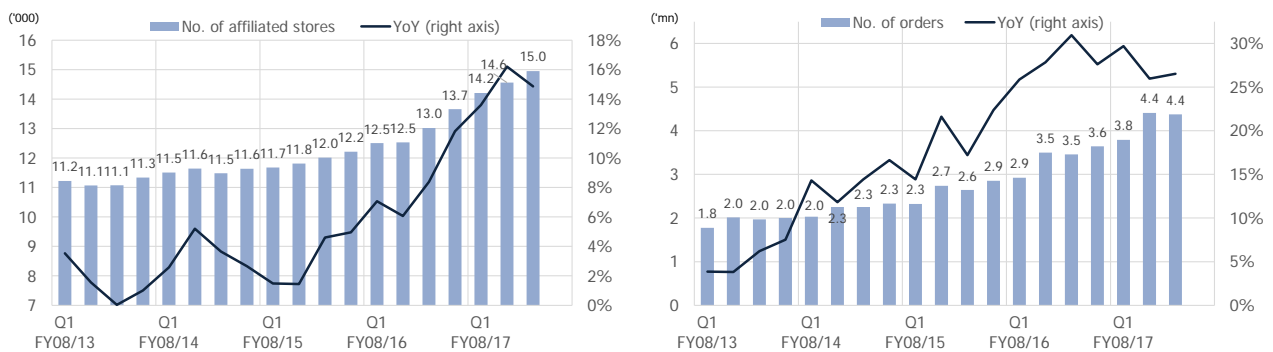
The company worked on different fronts toward its basic policy of “sustainable growth in the Demae-can business” and “renewed growth in the Mail Order business.” To achieve sustainable growth in the Demae-can business, it undertook the following initiatives. In Q1, it released an entirely new version of its smartphone app in October 2016. In November, it added support for Login and Pay with Amazon, and reinforced its capital and business alliance with LINE (becoming an equity-method affiliate of LINE). In Q2, it ran TV commercials across the Kanto region, and formed a business alliance with Asahi Shimbun Company (aiming to leverage the newsgent network). In February 2017, it launched a fully renewed (desktop) website and added support for Apple Pay. In Q3, it launched its first collaborative store with an Asahi Shimbun newsagent in March, followed by a second store in May. In addition, the number of stores accepting online payments apparently grew to 8,000 by end-May

(53.5% of total affiliated stores), while usage per store also increased. These trends have affected KPIs as follows: a) number of affiliated stores: 14,953, and still trending upward; b) number of orders: 4.4mn, and consistently growing at a strong pace above 20% since August 2016.

Initiatives and developments supporting renewed growth in the Mail Order business were as follows. In Q1, the company strengthened one-to-one marketing, including support for in-store sales promotion. It also developed and engaged in cross-selling of exclusive products, and expanded sales channels by, for example, accepting orders on LINE. In Q2, it continued to step up initiatives geared toward solidifying its repeat customer base by supporting sales promotion, introducing new products, and engaging in cross-selling. In Q3, efficiency gains in order dispatching operations and cost reductions started to manifest following the introduction of proprietary facilities and equipment.

As a result, cumulative Q3 sales came to JPY3.8bn (+25.1% YoY), operating profit to JPY631mn (+50.0% YoY), and net income attributable to parent company shareholders to JPY377mn (+10.5% YoY).

KPIs

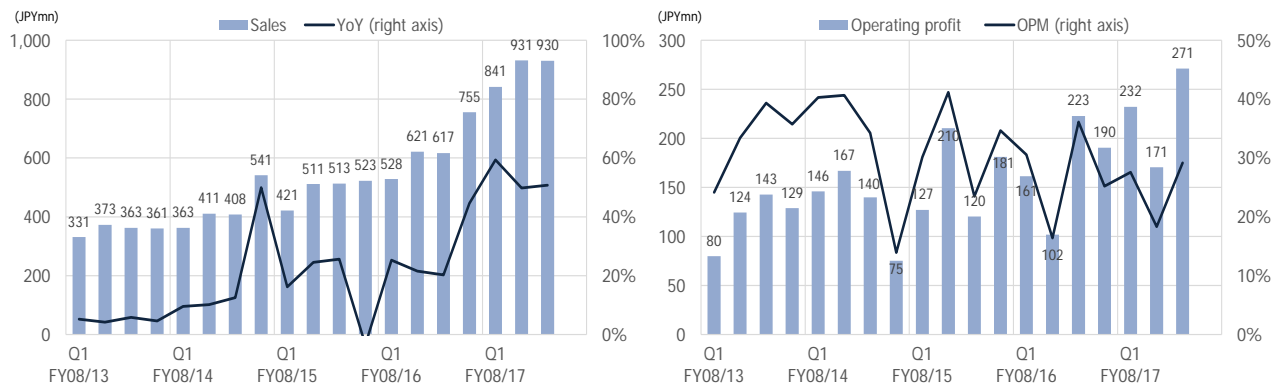


Source: Shared Research based on company data

Demae-can business (JPYmn)

Demae-can (JPYmn)	FY08/15				FY08/16				FY08/17				FY08/15		FY08/16		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3 cml.	Q3 cml.	Q3 cml.	Cons.	Cons.
Sales	421	511	513	523	528	621	617	755	841	931	930	-	1,446	1,766	2,702	1,968	2,522
YoY	16.2%	24.5%	25.6%	-3.4%	25.3%	21.6%	20.2%	44.6%	59.3%	49.8%	50.8%	-	22.4%	22.2%	53.0%	14.3%	28.1%
Operating profit	127	210	120	181	161	102	223	190	232	171	271	-	458	486	674	639	676
YoY	-13.0%	26.1%	-13.9%	140.3%	27.0%	-51.5%	85.0%	5.2%	43.9%	67.4%	21.7%	-	1.1%	6.2%	38.6%	21.0%	5.9%
OPM	30.1%	41.2%	23.5%	34.6%	30.5%	16.4%	36.1%	25.2%	27.6%	18.3%	29.1%	-	31.7%	27.5%	24.9%	32.5%	26.8%
No. of affiliated stores (quarter end)	11,680	11,812	12,011	12,213	12,505	12,529	13,018	13,656	14,206	14,559	14,953	-	12,011	13,018	14,953	12,213	13,656
YoY	1.5%	1.4%	4.6%	5.0%	7.1%	6.1%	8.4%	11.8%	13.6%	16.2%	14.9%	-	4.6%	8.4%	14.9%	5.0%	11.8%
No. of orders (mn)	2.32	2.74	2.64	2.85	2.92	3.50	3.46	3.64	3.79	4.41	4.38	-	2.64	3.46	4.38	10.56	13.53
YoY	14.4%	21.6%	17.2%	22.4%	25.9%	27.8%	31.0%	27.6%	29.7%	26.0%	26.5%	-	17.2%	31.0%	26.5%	19.1%	28.1%
No. of active members (quarter end; mn)	-	-	-	-	-	-	-	-	-	-	1.83	-	-	-	1.83	-	-
YoY	-	-	-	-	-	-	-	-	-	-	0.9%	-	-	0.9%	-	-	
Total members (quarter end; mn)	6.45	6.69	6.89	7.14	7.37	7.69	7.98	8.30	8.56	8.81	-	-	6.89	7.98	-	7.14	8.30
YoY	14.0%	13.6%	13.1%	13.7%	14.3%	14.9%	15.8%	16.2%	16.1%	14.6%	-	-	13.1%	15.8%	-	13.7%	16.2%
Depreciation	44	42	43	44	43	46	47	51	49	49	36	-	130	136	134	174	187
Amortization of goodwill	1	1	1	2	3	3	3	14	11	11	7	-	4	9	30	6	23
EBITDA	173	254	165	226	207	151	273	255	293	230	315	-	592	631	838	818	886
YoY	18.4%	52.4%	18.0%	-2.7%	19.9%	-40.6%	65.2%	12.7%	41.2%	52.7%	15.5%	-	30.8%	6.5%	32.8%	19.4%	8.3%
EBITDA margin	41.0%	49.7%	32.2%	43.3%	39.3%	24.3%	44.2%	33.8%	34.8%	24.7%	33.9%	-	41.0%	35.7%	31.0%	41.6%	35.1%

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

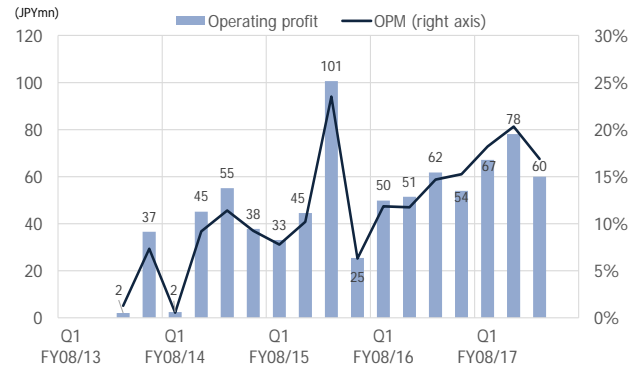
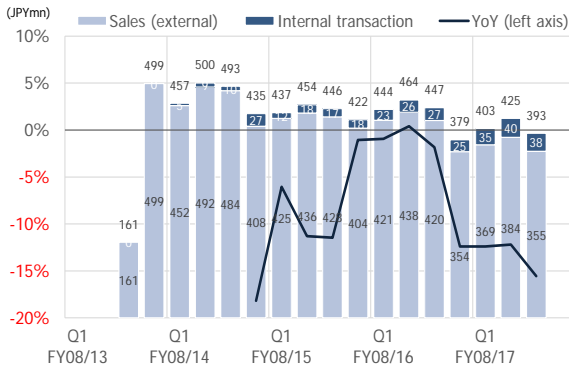


Source: Shared Research based on company data

Mail order business (JPYmn)

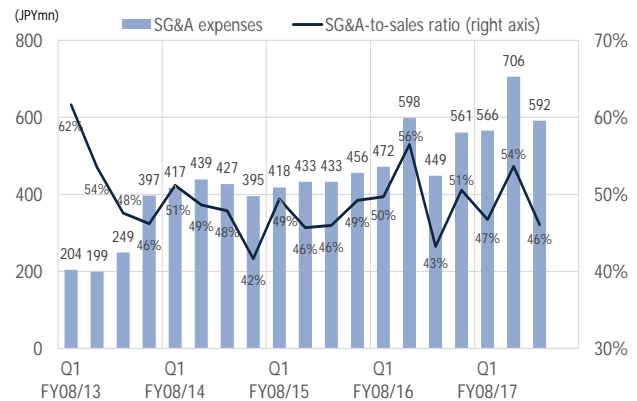
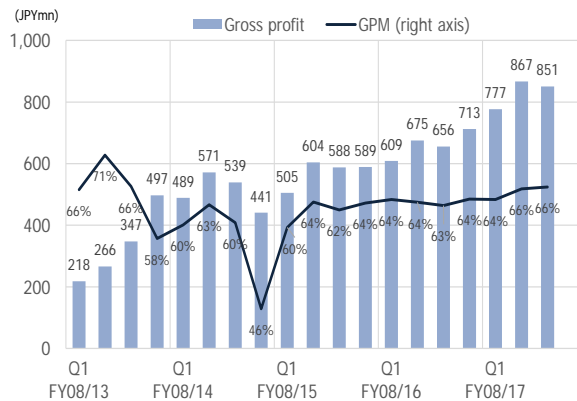
Mail order (JPYmn)	FY08/15				FY08/16				FY08/17				FY08/15	FY08/16	FY08/17	FY08/15	FY08/16
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3 cml.	Q3 cml.	Q3 cml.	Cons.	Cons.
Sales	425	436	428	404	421	438	420	354	369	384	355		1,289	1,279	1,108	1,693	1,633
YoY	-6.0%	-11.3%	-11.5%	-1.0%	-0.9%	0.4%	-1.8%	-12.4%	-12.4%	-12.2%	-15.6%		-9.7%	-0.8%	-13.4%	-7.8%	-3.5%
Internal transaction	12	18	17	18	23	26	27	25	35	40	38		47	76	113	65	101
Sales (incl. internal transaction)	437	454	446	422	444	464	447	379	403	425	393		1,336	1,355	1,221	1,759	1,734
Operating profit	33	45	101	25	50	51	62	54	67	78	60		178	163	205	204	217
YoY	1,244.1%	-1.4%	82.7%	-32.7%	50.6%	15.5%	-38.6%	112.3%	34.7%	51.8%	-3.0%		73.6%	-8.5%	25.8%	45.0%	6.6%
OPM	7.8%	10.2%	23.5%	6.3%	11.8%	11.7%	14.7%	15.3%	18.2%	20.3%	16.9%		13.8%	12.7%	18.5%	12.0%	13.3%
Depreciation	1	2	2	2	2	2	2	2	2	2	3		6	6	6	8	8
Amortization of goodwill	27	27	27	27	26	26	26	26	26	26	26		81	77	77	109	103
EBITDA	62	74	130	54	78	79	89	82	95	106	88		266	246	289	320	328
YoY	2,405.9%	63.8%	135.6%	-64.6%	26.0%	6.9%	-31.1%	50.8%	21.8%	33.6%	-1.4%		158.5%	-7.2%	17.2%	24.8%	2.6%
EBITDA margin	14.5%	17.0%	30.3%	13.4%	18.5%	18.1%	21.3%	23.1%	25.7%	27.5%	24.8%		20.6%	19.3%	26.0%	18.9%	20.1%

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.



Source: Shared Research based on company data

Gross profit (left), SG&A expenses (right)



Source: Shared Research based on company data

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>.

Disclaimer

This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report.

The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer

The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion by us that could influence investment decisions in the company, such opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details

Shared Research Inc.

3-31-12 Sendagi Bunkyo-ku Tokyo, Japan

<http://www.sharedresearch.jp>

Phone: +81 (0)3 5834-8787

Email: info@sharedresearch.jp