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On **October 11, 2018,** Yume no Machi Souzou Iinkai Co., Ltd. announced earnings results for full-year FY08/18.

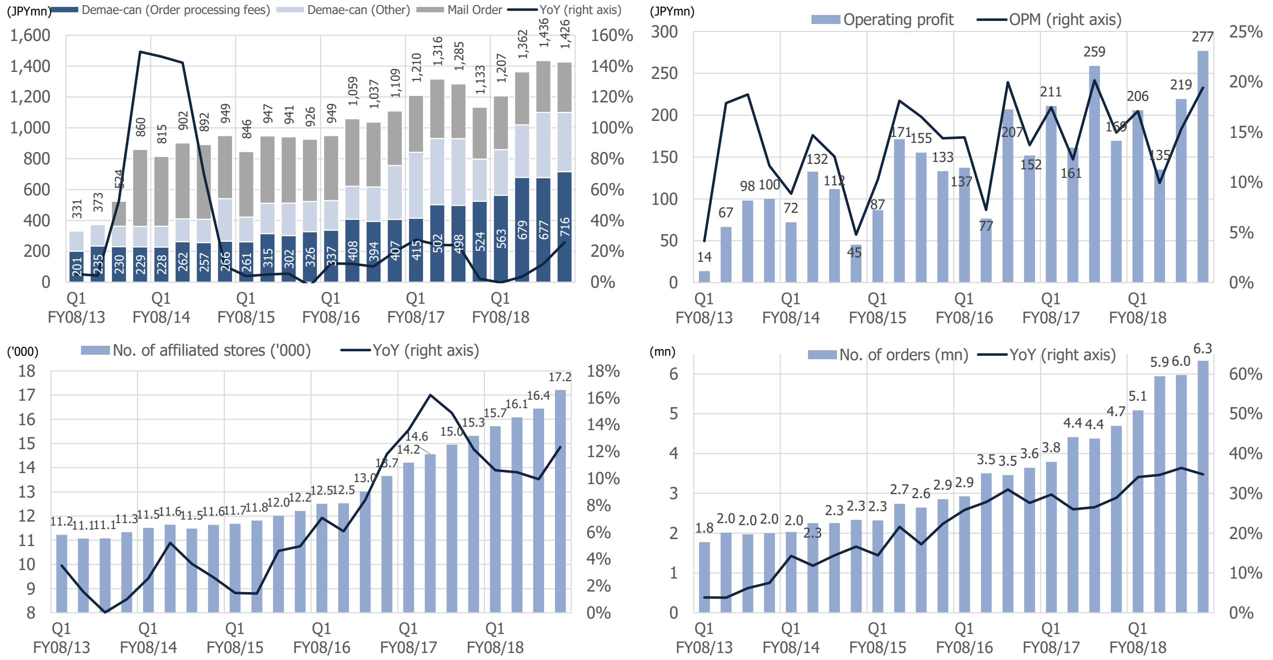
Income statement	FY08/16				FY08/17				FY08/18				FY08/16	FY08/17	FY08/18			FY08/19	YoY change		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2	Q3	Q4	Init. Est.	% of FY	Init. Est.	FY08/18	Vs. Est.	FY08/19
Revenue	**949**	**1,059**	**1,037**	**1,109**	**1,210**	**1,316**	**1,285**	**1,133**	**1,207**	**1,362**	**1,436**	**1,426**	**4,155**	**4,944**	**5,431**	**5,434**	**99.9%**	**7,681**	**+487**	**-3**	**+2,250**
Demae-can	528	621	617	755	841	931	930	797	859	1,019	1,100	1,100	2,522	3,499	4,078	3,922		-	+579	+156	
Basic operating fees	72	75	75	75	79	83	88	90	91	103	106	109	297	340	410				+70	+410	
Order processing fees	337	408	394	407	415	502	498	524	563	679	677	716	1,546	1,938	2,634				+696	+2,634	
Advertising fees	14	19	16	11	9	14	4	6	5	3	3	7	59	33	18				-15	+18	
System development fees	10	11	20	1	21	8	-	9	-	-	53	-	42	39	53				+15	+53	
Other	95	109	113	261	318	323	341	168	200	234	260	269	578	1,150	963				-187	+963	
Mail Order	421	438	420	354	369	384	355	336	348	343	336	326	1,633	1,445	1,353	1,512		-	-92	-159	
YoY	12.1%	11.8%	10.2%	19.7%	27.5%	24.2%	23.9%	2.2%	-0.3%	3.5%	11.8%	25.8%	13.5%	19.0%	9.8%	9.9%		41.4%			
Demae-can	25.3%	21.6%	20.2%	44.6%	59.3%	49.8%	50.8%	5.5%	2.1%	9.5%	18.3%	38.1%	28.1%	38.8%	16.5%	12.1%		-			
Basic operating fees	4.9%	8.3%	9.0%	6.8%	9.4%	10.2%	17.5%	19.8%	15.4%	25.0%	20.8%	21.1%	7.2%	14.3%	20.6%						
Order processing fees	28.8%	29.6%	30.7%	24.7%	23.2%	23.1%	26.2%	28.7%	35.7%	35.1%	36.1%	36.7%	28.3%	25.4%	35.9%						
Advertising fees	4.0%	4.5%	-0.7%	-38.7%	-33.1%	-23.8%	-74.6%	-48.4%	-47.1%	-77.6%	-18.4%	17.0%	-8.7%	-43.9%	-46.0%						
System development fees	84.2%	-63.0%	-57.8%	-93.8%	106.4%	-21.9%	-	660.8%	-	-	-	-	-58.9%	-7.5%	38.6%						
Other	31.7%	36.6%	39.9%	197.2%	233.7%	196.9%	202.7%	-35.6%	-37.1%	-27.5%	-23.7%	59.9%	80.4%	99.0%	-16.3%						
Mail Order	-0.9%	0.4%	-1.8%	-12.4%	-12.4%	-12.2%	-15.6%	-4.9%	-5.6%	-10.9%	-5.2%	-3.1%	-3.5%	-11.5%	-6.4%	4.7%		-			
Cost of revenue	340	384	382	397	434	448	434	404	437	487	554	542	1,503	1,720	2,020				+300		
Cost ratio	35.8%	36.3%	36.8%	35.8%	35.8%	34.1%	33.8%	35.7%	36.2%	35.7%	38.6%	38.0%	36.2%	34.8%	37.2%				+2.4pp		
Gross profit	**609**	**675**	**656**	**713**	**777**	**867**	**851**	**729**	**769**	**875**	**882**	**884**	**2,652**	**3,223**	**3,410**				**+187**		
GPM	**64.2%**	**63.7%**	**63.2%**	**64.2%**	**64.2%**	**65.9%**	**66.2%**	**64.3%**	**63.8%**	**64.3%**	**61.4%**	**62.0%**	**63.8%**	**65.2%**	**62.8%**				**-2.4pp**		
SG&A expenses	472	598	449	561	566	706	592	560	564	740	662	607	2,079	2,423	2,573				+150		
YoY	12.8%	38.3%	3.7%	23.0%	19.9%	17.9%	31.9%	-0.2%	-0.3%	4.9%	11.9%	8.5%	19.5%	16.5%	6.2%						
SG&A ratio	49.7%	56.5%	43.3%	50.6%	46.7%	53.7%	46.1%	49.4%	46.7%	54.3%	46.1%	42.6%	50.0%	49.0%	47.4%						
Operating profit	**137**	**77**	**207**	**152**	**211**	**161**	**259**	**169**	**206**	**135**	**219**	**277**	**573**	**801**	**837**	**819**	**102.2%**	**100**	**+37**	**+18**	**-737**
Demae-can	161	102	223	190	232	171	271	180	222	144	226	272	676	854	863				+9		
Mail Order	50	51	62	54	67	78	60	54	49	59	56	55	217	259	218				-41		
Adjustments	-74	-77	-78	-92	-88	-87	-72	-65	-64	-67	-63	-50	-321	-313	-244				+68		
YoY	58.2%	-55.3%	33.2%	14.1%	53.8%	110.2%	25.1%	11.6%	-2.5%	-16.2%	-15.2%	63.4%	4.8%	39.8%	4.6%	2.4%		-88.1%			
Demae-can	27.0%	-51.5%	85.0%	5.2%	43.9%	67.4%	21.7%	-5.2%	-4.5%	-15.8%	-16.6%	50.7%	5.9%	26.3%	1.1%	-					
Mail Order	50.6%	15.5%	-38.6%	112.3%	34.7%	51.8%	-3.0%	-0.5%	-27.4%	-24.8%	-6.4%	1.8%	6.6%	19.3%	-15.7%	-					
OPM	14.5%	7.2%	20.0%	13.7%	17.4%	12.3%	20.1%	14.9%	17.1%	9.9%	15.3%	19.4%	13.8%	16.2%	15.4%	15.1%		1.3%	-0.8pp	+0.3pp	-14.1pp
Demae-can	30.5%	16.4%	36.1%	25.2%	27.6%	18.3%	29.1%	22.7%	25.8%	14.1%	20.6%	24.7%	26.8%	24.4%	21.2%	-					
Mail Order	11.8%	11.7%	14.7%	15.3%	18.2%	20.3%	16.9%	16.0%	14.0%	17.1%	16.7%	16.8%	13.3%	17.9%	16.1%	-					
Non-operating income (expenses)	5	-0	1	0	-2	-2	-1	3	5	8	9	-10	6	-3	12	5		17	+14	+7	+5
Net financial income	0	-0	0	-1	-6	-4	-6	1	-0	1	-0	1	-1	-16	2				+18		
Equity in earnings of affiliates	2	1	1	0	2	3	4	3	4	7	9	-0	4	11	19				+8		
Others	3	-1	0	2	1	-0	1	-1	1	0	0	-10	4	2	-9				-11		
Recurring profit	**142**	**77**	**208**	**152**	**209**	**160**	**258**	**172**	**210**	**143**	**228**	**267**	**579**	**798**	**849**	**824**	**103.0%**	**117**	**+51**	**+25**	**-732**
YoY	65.9%	-55.4%	39.0%	13.4%	46.7%	108.1%	23.9%	13.1%	0.9%	-10.3%	-11.4%	55.4%	7.0%	37.8%	6.4%	3.3%		-86.2%			
RPM	15.0%	7.2%	20.1%	13.7%	17.2%	12.1%	20.1%	15.2%	17.4%	10.5%	15.9%	18.7%	13.9%	16.1%	15.6%	15.2%		1.5%	-0.5pp	+0.5pp	-14.1pp
Extraordinary gains (losses)	-	92	0	-57	-10	-53	6	-49	-1	-14	6	-1	35	-107	-9				+98		
Pre-tax profit	142	169	208	95	198	107	264	123	210	129	235	266	614	691	840				+149		
Income taxes	53	62	69	89	79	45	69	67	69	46	71	97	273	261	282				+21		
Implied tax rate	37.4%	37.0%	33.0%	93.4%	40.0%	42.3%	26.1%	55.1%	32.7%	35.6%	30.2%	36.3%	44.5%	37.7%	33.6%						
Non-controlling interests	-3	-2	-1	-0	-0	-1	-1	-1	-1	-0	0	-0	-6	-2	-1				+2		
Net income attributable to owners of parent	**92**	**109**	**141**	**6**	**119**	**62**	**195**	**56**	**142**	**83**	**164**	**170**	**348**	**433**	**559**	**478**	**116.9%**	**79**	**+126**	**+81**	**-480**
YoY	187.2%	335.0%	38.7%	-	30.1%	-42.8%	38.7%	762.2%	18.7%	34.2%	-16.2%	204.6%	258.4%	24.4%	29.1%	10.7%		-85.9%			
Net margin	9.7%	10.3%	13.6%	0.6%	9.9%	4.7%	15.2%	4.9%	11.7%	6.1%	11.4%	11.9%	8.4%	8.8%	10.3%	8.8%		1.0%	+1.5pp	+1.5pp	-9.3pp
EBITDA	**211**	**153**	**284**	**244**	**299**	**249**	**331**	**236**	**270**	**202**	**282**	**327**	**893**	**1,115**	**1,082**				**-33**	**+1,082**	
YoY	30.6%	-37.3%	24.2%	17.9%	41.7%	62.1%	16.4%	-3.5%	-9.7%	-18.6%	-14.7%	38.4%	6.0%	24.8%	-3.0%						
EBITDA margin	22.3%	14.5%	27.4%	22.0%	24.7%	18.9%	25.8%	20.8%	22.4%	14.9%	19.7%	22.9%	21.5%	22.6%	19.9%				-2.6pp	+19.9pp	
No. of affiliated stores (quarter end)	12,505	12,529	13,018	13,656	14,206	14,559	14,953	15,318	15,712	16,081	16,439	17,207	13,656	15,318	17,207	17,071		-	+1,889	+136	
YoY	7.1%	6.1%	8.4%	11.8%	13.6%	16.2%	14.9%	12.2%	10.6%	10.5%	9.9%	12.3%	11.8%	12.2%	12.3%	11.4%		-			
No. of orders (mn)	2.92	3.50	3.46	3.64	3.79	4.41	4.38	4.70	5.08	5.94	5.97	6.33	13.53	17.28	23.32	23.83		33.82	+6.0	-0.5	+10.5
YoY	25.9%	27.8%	31.0%	27.6%	29.7%	26.0%	26.5%	28.9%	34.1%	34.6%	36.4%	34.8%	28.1%	27.7%	35.0%	37.9%		45.0%			
Order processing fees / No. of orders	115.2	116.5	113.9	111.7	109.4	113.8	113.6	111.5	110.7	114.3	113.4	113.1	114.3	112.2	112.9	-			+0.8	+112.9	
YoY	2.3%	1.3%	-0.2%	-2.3%	-5.0%	-2.3%	-0.3%	-0.2%	1.2%	0.4%	-0.2%	1.4%	0.2%	-1.8%	0.7%	-					
No. of orders / No. of affiliated stores	236.6	279.7	270.9	273.2	272.2	306.7	296.7	310.3	327.7	373.5	367.3	376.3	1,045.9	1,192.7	1,434.3	1,471.5		3,931.0	+241.6	-37.2	+2,496.7
YoY	18.7%	20.0%	22.1%	15.9%	15.1%	9.6%	9.5%	13.6%	20.4%	21.8%	23.8%	21.3%	18.1%	14.0%	20.3%	23.4%		174.1%			
No. of active users (quarter end; mn)	-	-	1.82	1.92	1.98	2.13	2.24	2.35	2.45	2.55	2.62	2.69	1.92	2.35	2.69	3.13		-	+0.34	-0.44	
YoY	-	-	-	24.7%	-	-	23.2%	22.4%	23.7%	20.0%	17.0%	14.5%	24.7%	22.4%	14.5%	33.2%		-			
No. of orders / Average no. of users				1.9	1.9	2.1	2.0	2.0	2.1	2.4	2.3	2.4	7.8	8.1	9.3	8.7		17.4	+1.2	+0.6	+8.2
YoY	-	-	-	-	-	-	-	5.0%	8.9%	10.5%	15.2%	16.5%	7.0%	3.5%	14.4%	7.5%		88.3%			
Total users (quarter end; mn)	7.37	7.69	7.98	8.30	8.56	8.81	-	-	-	-	-	-	8.30	-	-				-	-	
YoY	14.3%	14.9%	15.8%	16.2%	16.1%	14.6%	-	-	-	-	-	-	16.2%	-	-						
Depreciation	45	48	49	53	51	50	39	41	39	41	46	50	195	181	176				-6		
Amortization of goodwill	29	29	29	40	37	37	33	26	26	26	17	-	125	133	69				-64		
Inventories	65	64	61	61	59	56	59	58	70	71	60	61	61	58	61				+3		
YoY	2.4%	5.1%	-13.6%	6.4%	-9.8%	-12.4%	-3.4%	-4.4%	19.1%	27.3%	2.0%	5.4%	6.4%	-4.4%	5.4%						
Days in inventory	16.4	15.3	14.9	14.0	12.6	11.7	12.1	13.2	13.3	13.2	10.8	10.2	14.3	12.6	10.8				-1.8		

Source: Shared Research based on company data

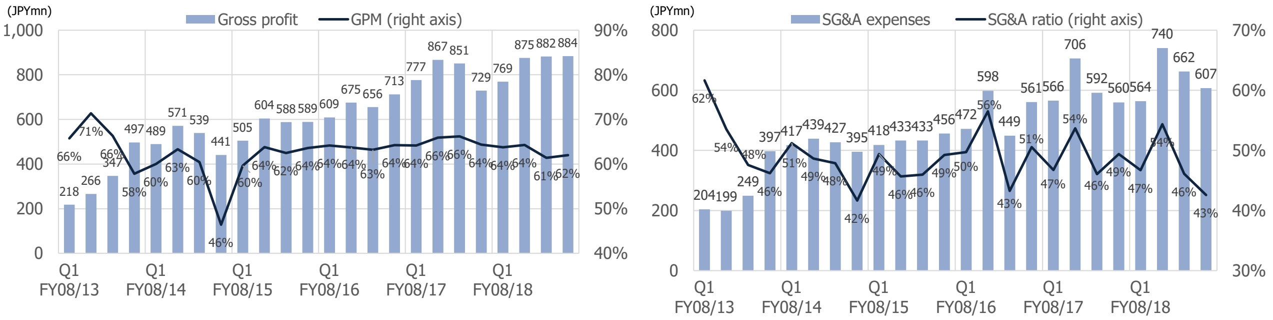
Full-year FY08/18 results (out October 11, 2018)

- FY08/18: Revenue up 9.8% YoY and operating profit up 4.6% YoY, but revenue would have been up 23.5% if not for sale of subsidiary. Full-year revenue in line with plan as key performance indicators (KPIs) show steady gains.
  - KPIs: 17,207 affiliated stores (+12.3% YoY), 23.3mn orders (+35.0% YoY), 2.7mn active users (+14.1% YoY), each trending up
    - Versus forecasts: Number of stores and orders in line with plan; an increase in repeat order rate compensated for the number of active users falling short of plan. Sales and operating profit finished in line with plan
  - Measures to increase repeat order rate successful, with results evident from initiatives encouraging users to place a third order and the launch of Demae-can's unique loyalty program
  - Sharing Delivery®: Reached target of 60 delivery bases as of end-FY08/18; expanded into Kansai and Tokai regions, began implementing urban center business model in August
    - Signed partnership agreement with three companies including Asrapport Dining Co., Ltd. in April 2018; establishing delivery bases at a faster pace
- Progress versus medium-term management plan: Pushing forward medium-term plan initiatives targeting market share gains and accelerated growth; looking to address issues one by one
  - Retain new users and raise repeat customer rate: Began loyalty program in November 2017 and ramped up marketing campaigns
  - Cultivate stores to expand market: By promoting Sharing Delivery®**, t**he company added popular large chains and local stores to its affiliated stores
- New medium-term plan: New plan prioritizes investments aimed at expanding active user base and accelerating rollout of Sharing Delivery® business. Plans for aggressive investment in FY08/19 and targets operating profit of JPY5.0bn in FY08/21

Quarterly earnings trends (left: revenue; right: operating profit; below: KPIs)



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



Source: Shared Research based on company data

Summary

For FY08/18, the company reported full-year consolidated revenue of JPY5.4bn (+9.8% or +JPY487mn YoY), operating profit of JPY837mn (+4.6% YoY) and net income attributable to owners of parent of JPY558mn (+29.1% YoY). For its mainstay Demae-can business, the company reported revenue of JPY4.1bn (+16.5% YoY) and an operating profit of JPY863mn (+1.1% YoY).

Growth in the Demae-can business slowed mainly owing to the sale of former consolidated subsidiary Delis Corporation (leading to a JPY510mn decline in other revenue) and changes in the scope of consolidation (JPY36mn). But KPIs, such as the number of affiliated stores, basic operating fees, number of orders, and order processing fees, grew steadily across the board. Excluding the impact from the sale of Delis, revenue rose 23.5% YoY overall and 38.0% YoY in the Demae-can business.

The GPM fell 2.4pp YoY to 62.8% mainly due to consigned systems development, which sparked a 4.8pp decline in the GPM in Q3. Although this was a one-time factor, the company said it may crop up again from time to time. However, because the consigned systems development does not involve SG&A expenses, operating profit is not affected. We plan to inquire about the 2.3pp decline in the GPM in Q4 during our upcoming interview with the company.

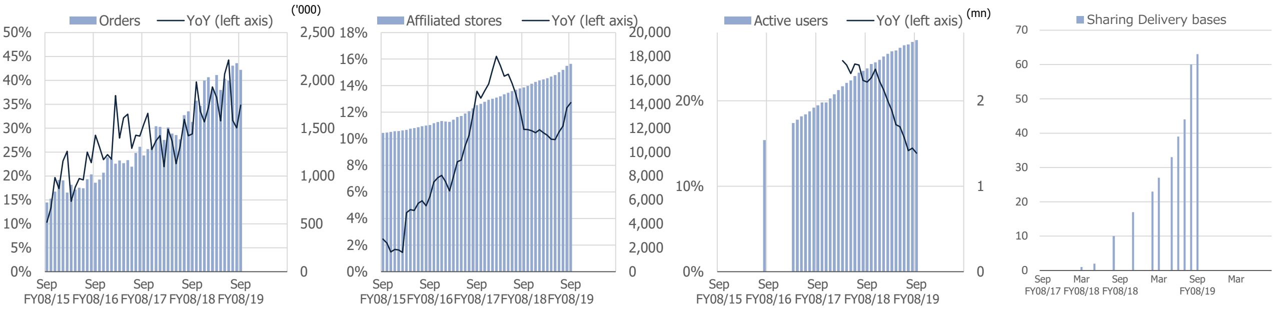
On the expense side, the company appeared to have invested aggressively to win larger market share as targeted in its medium-term plan; in 1H, the company spent JPY454mn (+1.6x or JPY177mn) on boosting brand recognition and converting users into heavy users. Advertising expenses increased owing to TV commercials aired mostly in December and January, and measures to bolster repeat usage, a focus for this fiscal year (these included discount coupons and marketing campaigns). Personnel and hiring costs also increased in tandem with stepped-up efforts to develop affiliate stores.

Key performance indicators

In the Demae-can business, KPIs were as follows.

- ▷ Number of orders: 23.3mn (+35.0% YoY), consistently growing above 20% since FY08/16 and rising above 30% for the first time since Q3 FY08/16;
- ▷ Number of affiliated stores: 17,207 (+12.3% YoY), trending upward;
- ▷ Number of active users: 2.7mn (+14.1% YoY), reflecting sustained double-digit growth . In terms of attracting new users, the company seemingly has been developing new customer segments thanks to synergies from collaboration with LINE Corporation (as it officially launched “LINE Delima” in July 2017), and cross-sector tie-ups with the likes of ZOZOTOWN and Mandom.

KPIs (monthly)

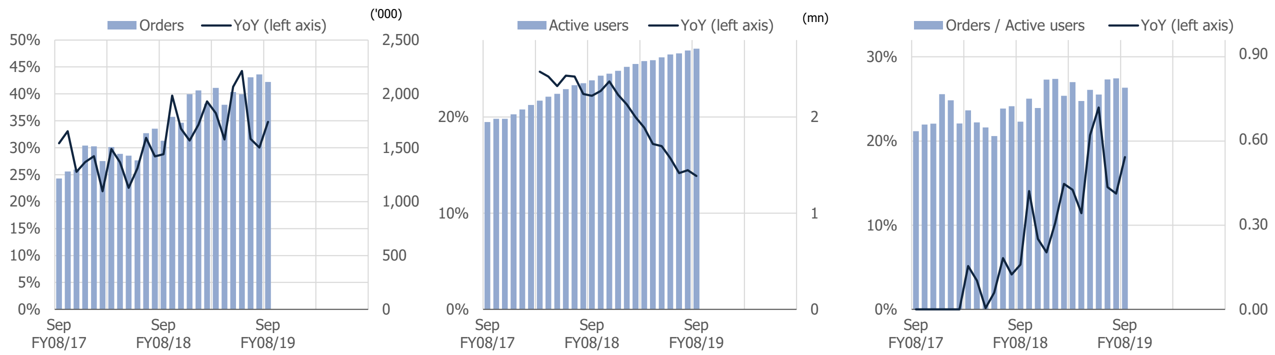


Source: Shared Research based on company data

The company considers number of orders as the most important KPI and aims for its accelerated growth in the medium-term plan. Pace of order increase in Q1 (+34.0% YoY) exceeded those of FY08/17 (+27.7%) and FY08/16 (+28.1%), driving up order processing fees (+35.7%). The strong momentum continued the rest of the year with orders rising 35.1% YoY in Q2, 35.6% in Q3, and 34.8% in Q4. While finishing some 510,000 orders short of its initial target of 23.8mn orders, we note that since the company reinforced its systems infrastructure and completed load testing in response to the system failure that occurred in February, the upgraded system has been able to handle the continual growth in orders. The company is projecting continued strong growth in orders in the years ahead, forecasting a 45% YoY increase in orders in FY08/19, a 42% increase in FY08/20, and a 40% increase in FY08/21.

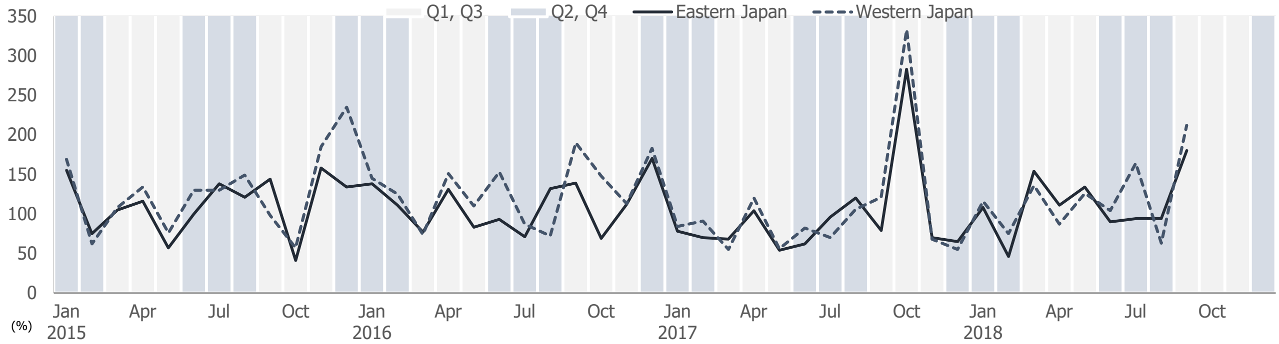
> Outlook as of Q3 (for reference): As of Q3, the company had appeared to be making good progress toward its full-year targets for each KPI. Number of orders was in line with plan as repeat order rate steadily increased. Number of affiliated stores grew thanks to accelerated expansion of bases under Share Delivery®. Number of active users undershot the target, but the company believes it can still attain the target for number of orders with contributions from higher repeat order rate than initially expected. Although figures for each KPI seem to have fallen slightly short of plan, the company stated that the KPIs are progressing as forecast as it has planned for gradual growth.

Monthly number of orders and other KPIs



Source: Shared Research based on company data

Monthly rainfall (comparison with average year)



Source: Shared Research based on Japan Meteorological Agency

Company updates rolling three-year business plan

Along with its FY08/18 results announcement, the company also updated its rolling three-year business plan, extending the plan out to FY08/21. Under the previous three-year plan, the company saw operating profit remaining basically flat YoY in FY08/18 (the first year of the plan) then rising to JPY2.9bn by FY08/20 as the operating profit margin improved rapidly over the next two years, reaching 30.4% in FY08/20. Under the new plan, the company looks to step up investment spending as it once again places medium/long-term growth ahead of short-term profit and continues initiatives from FY08/18 aimed at increasing its active user base and accelerating the rollout of its rapidly growing Sharing Delivery® service.

Under the new three-year plan the company is projecting operating profit of only JPY100mn (-JPY700mn YoY) in FY08/19. However, the following years it sees profitability improving rapidly, with operating profit jumping to JPY1.7bn in FY08/20 as the operating profit margin rises to 13.2%, followed by continued strong gains in FY08/21 with operating profit hitting JPY5.0bn as the operating profit margin rises to 27.8% in the final year of the plan. The company aims to maintain over a 40% increase in the number of orders stemming from an increase in the number of active users.

Performance targets under new three-year business plan (JPYmn)

Out October 2017		FY08/11 Act.	FY08/12 Act.	FY08/13 Act.	FY08/14 Act.	FY08/15 Act.	FY08/16 Act.	FY08/17 Act.	FY08/18 Init. Est.	FY08/19 MTP	FY08/20 MTP		3-year CAGR
No. of orders	(mn)	6.78	7.37	7.76	8.87	10.56	13.53	17.28	23.83	34.42	48.40		41.0%
	YoY	6.6%	8.6%	5.4%	14.3%	19.1%	28.1%	27.7%	37.9%	44.4%	40.6%		
Revenue	(JPYmn)	1,259	1,360	2,087	3,558	3,661	4,155	4,944	5,434	7,130	9,416		24.0%
	YoY	8.8%	8.0%	53.5%	70.5%	2.9%	13.5%	19.0%	9.9%	31.2%	32.1%		
Operating profit	(JPYmn)	244	211	278	362	547	573	801	819	1,480	2,861		52.9%
	YoY	4.5%	-13.7%	32.2%	30.0%	51.1%	4.8%	39.8%	2.3%	80.7%	93.3%		
	OPM	19.4%	15.5%	13.3%	10.2%	14.9%	13.8%	16.2%	15.1%	20.8%	30.4%		
Out October 2018		**FY08/11 Act.**	**FY08/12 Act.**	**FY08/13 Act.**	**FY08/14 Act.**	**FY08/15 Act.**	**FY08/16 Act.**	**FY08/17 Act.**	**FY08/18 Act.**	**FY08/19 Init. Est.**	**FY08/20 MTP**	**FY08/21 MTP**	**3-year CAGR**
No. of orders	(mn)	6.78	7.37	7.76	8.87	10.56	13.53	17.28	23.32	33.82	48.03	67.24	42.3%
	YoY	6.6%	8.6%	5.4%	14.3%	19.1%	28.1%	27.7%	35.0%	45.0%	42.0%	40.0%	
Revenue	(JPYmn)	1,259	1,360	2,087	3,558	3,661	4,155	4,944	5,431	7,681	12,900	18,800	51.3%
	YoY	8.8%	8.0%	53.5%	70.5%	2.9%	13.5%	19.0%	9.8%	41.4%	67.9%	45.7%	
Operating profit	(JPYmn)	244	211	278	362	547	573	801	837	100	1,700	5,000	81.4%
	YoY	4.5%	-13.7%	32.2%	30.0%	51.1%	4.8%	39.8%	4.6%	-88.1%	1,600.0%	194.1%	
	OPM	19.4%	15.5%	13.3%	10.2%	14.9%	13.8%	16.2%	15.4%	1.3%	13.2%	26.6%	
Versus previous forecast		**FY08/11**	**FY08/12**	**FY08/13**	**FY08/14**	**FY08/15**	**FY08/16**	**FY08/17**	**FY08/18**	**FY08/19**	**FY08/20**	**FY08/21**	**3-year**
No. of orders	(mn)								-0.51	-0.60	-0.37		
Revenue	(JPYmn)								-3	551	3,484		
Operating profit	(JPYmn)								18	-1,380	-1,161		
	OPM								0.3%	-19.5%	-17.2%		

Source: Shared Research based on company data

Initiatives undertaken in FY08/18

The company continued to work toward strong growth with Demae-can and undertook the following initiatives. It apparently made good progress with initiatives to increase brand recognition and convert customers into heavy users, as well as measures to cultivate new markets and build up the sales force.

The company aimed to proactively invest to quickly grow in the number of Demae-can fans. In order to retain new users, the company **encouraged customers to order for the third time** (when a customer orders three times, the user withdrawal rate falls dramatically). On November 21 2017, the company introduced a unique **loyalty program**, which sets the member status of a user based on the number of orders. From November 29, the company began a **child-raising support campaign** using comic books. From early December 2017 to the start of January 2018, the company launched television commercials in the Kanto and Kansai areas as well as corresponding marketing campaigns in order to raise brand awareness and promote use. The company also strengthened its system infrastructure to prevent recurrence of a system failure that occurred in February 2018. Beginning August 24, 2018, the company began accepting payment via LINE Pay and various mobile carrier payment services with the aim of increasing user convenience.

Improved repeat order rate on efforts to promote third-time orders

Growth in the numbers of orders in cumulative Q3 can be attributed to the company's initiative to encourage customers to order for the third time. Promotions (such as discount coupons and email reminders) aimed at winning an order for the second time or more have been successful. Looking at the number of orders placed by new active users in 1H, the share of those who ordered more than three times rose to 30% from just over 20% a year earlier. The average number of orders per user jumped, leading to a 35% growth in total number of orders for cumulative Q3. User withdrawal rate presumably continued to drop and boosted number of orders. (We plan to inquire about Q4 trends during our upcoming interview with the company.)

The loyalty program (member status changes every three months and the next change is scheduled in February) and child-raising support campaign also contributed to the order increase. In the exhibit below, which tracks evolution in user rankings in 1H, it is clear that there has been brisk growth in the higher rankings most prized by the company (that is, heavy users). Growth in the proportion of God-ranked members (those contributing the most to revenue) has been particularly strong. From this, we conclude that introducing the loyalty program has been very effective. Also, Shared Research will focus on how Demae-can's name recognition is rising thanks to television commercials and other media exposure. In January, TV broadcaster TBS showed a special segment on gourmet food delivery services in its weekly primetime show, featuring the company's sales team for two consecutive weeks. Inquiries by restaurant operators also increased following a Sunday morning program on TBS introducing the Demae-can business (program broadcasted on November 12). As of July 2018, number of orders is growing steadily and so is the repeat order rate.

Loyalty program

Rank	No. of orders per year	End-Feb. 2017 (a)	End-Feb. 2018 (b)	b/a	Birthday gift points	Advance notice of compaigns	Private coupons	Secret benefits
God	60 or more	2.0%	2.9%	+45%	1,000	○	○	○
Gold	30–59	4.5%	5.6%	+24%	500	○	○	-
Silver	10–29	14.8%	17.5%	+18%	300	○	-	-
Bronze	3–9	28.4%	31.0%	+9%	200	-	-	-
Regular	0–2	50.1%	42.9%	-14%	-	-	-	-

Source: Shared Research based on company data

Sharing Delivery® to accelerate quality improvement and delivery base expansion in 2H

As part of its store strategy to expand the market, the company promoted Sharing Delivery®. As a result, popular large chains and popular local stores, which previously did not have delivery services, joined the company's group of affiliated stores. Such additions included Tendon Tenya and Gyoza no Ohsho in Q1; Ringer Hut, Marugameseimen, and Chibo in Q2; and Lotteria and Denny's in Q3. Further, focusing on Asahi Shimbun's delivery network, ASA stations, the company expanded its target areas, increasing the number of locations to 17 at end-Q1 FY08/18, 23 at end-1H FY08/18, 33 at end Q3-FY08/18, and finally reaching its target of 60 locations at end-Q4 FY08/18.

The company has addressed small issues one by one and accumulated expertise. By increasing new graduate and mid-career hires, it has enhanced the effectiveness of new delivery bases, and accelerated base network expansion with a view to meeting the target by end-Q4. In August, the company began its urban center business model and immediately reached its target of 16 delivery bases.

Urban center business model: The company's "urban center business model" refers to its scheme to secure revenue while increasing efficiency by creating smaller delivery areas in central urban districts where there are many stores and users.

Expansion of Sharing Delivery® network in sight with new partnerships

In April 2018, the company announced business alliances with Asrapport Dining Co., Ltd., Kozosushi Co., Ltd., and Delis Corp. Asrapport Dining (TSE1: 3069) operates 813 restaurant chains nationwide of various types and brands including Gyukaku. Kozosushi (TSE JASDAQ Standard: 9973) operates 261 restaurant chains nationwide, mainly focusing on take-out sushi chains Kozosushi and Chagetsu. Kozosushi has decided to make Delis, an outsourced delivery service provider, its wholly owned subsidiary with an aim to significantly strengthen its delivery capabilities. With these new alliances, the company has been able to accelerate the number of restaurants for which it provides delivery service. As horizontal expansion of its Sharing Delivery® business is one of the main growth strategies in the company's new three-year plan, investors will want to keep an especially close eye on developments on this front during FY08/19.

A challenge in Sharing Delivery®: improving delivery efficiency

As of March 2018, 23 delivery bases had acquired more than 600 affiliated restaurants in total, exceeding the company's target of an average 25 restaurants per base. In view of issues that have become evident, though, as of Q2 the company planned to eschew merely adding 25 new restaurants in 2H, in favor of an approach to restaurant cultivation that focused on popular chains, thereby increasing the likelihood of both restaurant and delivery base making money. The company aims to diversify its service into different types of foods and beverages in each area, also by utilizing Sharing Delivery®.

In Q3, the company intended to not strictly adhere to its target of an average 25 restaurants per base if it could generate monthly revenue of JPY4mn at delivery bases by focusing on improving delivery efficiency. Owing to an increase in the number of major popular restaurant chains in its affiliate restaurant base, the company was able to expect newly established delivery bases to generate a certain level of revenue stably. A base newly opened in Nagoya in May 2018 as the first in the Tokai region performed extremely well from the initial month. Starting August 29, 2018, Sharing Delivery® will be handling deliveries of contact lenses for MeganeSuper. By accumulating experience in same-day delivery services for everyday goods, the company plans to build up its delivery system for Sharing Delivery®.

An issue to be resolved as of July 2018 is improving delivery efficiency. The company is working to build a model case and considering various initiatives to address this issue. Further, it is placing much emphasis on finding potential areas for expansion and signing popular restaurants as affiliates in areas it can expect to generate revenue.

Launch of new initiatives

As a new initiative, in March 2018 the company launched the Incubation Kitchen™ Project, which provides support to those seeking to open restaurants that focus on delivery services.

The company will provide support to restaurant operator candidates (individuals or corporations) who wish to enter the food delivery market. Under this project, the company will utilize its core business Demae-can to provide restaurant space (kitchen), share its sales channels (Demae-can), and offer expertise in food delivery business based on the big data accumulated by Demae-can. The project will allow candidates to start their businesses on a trial basis at low risk. Some of the main support areas offered are: a) marketing and operations, b) restaurant opening and financing, c) provision of operational expertise and accounting systems upon opening, and d) periodic seminars designed to help management after the start of business.

Candidates are selected via open application and the duration of the program (the incubation period) is in principle six months (first program to run from March 1, 2018 through September 30, 2018); the company plans to charge a monthly facility usage fee of about JPY100,000. Those enrolled in the program can immediately try out their businesses at low risk and without the burden of initial expenses. The program also allows the company to offer a wider selection of restaurants and foods in areas where it is running the Demae-can business. In June, as the first stage of the project, the company supported opening of a kuroge wagyu beef yakiniku restaurant, Ushikuro. The company anticipates the possibility of expanding restaurant space for Incubation Kitchen™ and growing the number of bases in each region.

Further, in May 2018 the company began a pilot launch of a one-stop delivery service Matomete Delivery for Yoshinoya and Hanamaru Udon, offering customers the ability to order beef bowls from Yoshinoya and noodles from Hanamaru Udon in just one order. This service was designed to meet the needs of families. Restaurants can expect to build a new customer base and strengthen their lineup of menu items, and the company can expect growth in repeat order rate and number of orders accompanying improved usability. We will see how the service will pick up as a new format for Sharing Delivery®.

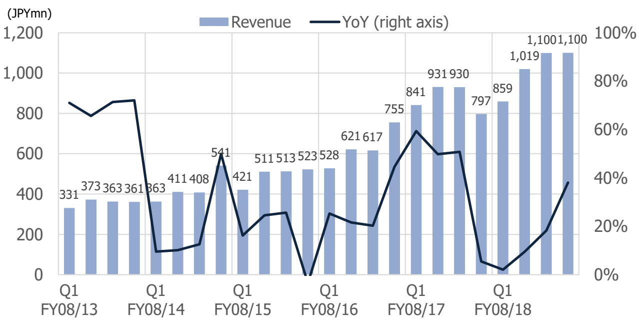
As part of its initiative to improve store operations, the company released a Demae-can order management app as a new way to receive orders. This app not only allows stores to receive orders for Demae-can easily through a tablet or smartphone, but also lightens the burden on affiliated stores by providing navigation to the delivery destination and other order management tools. The company evaluates this app highly as it has lessened the burden on stores.

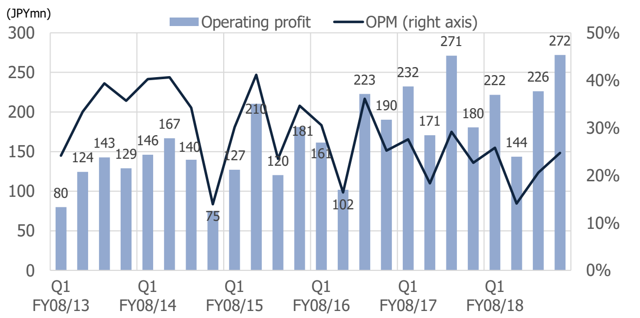
Demae-can business (JPYmn)

Demae-can (JPYmn)	FY08/16 Q1	Q2	Q3	Q4	FY08/17 Q1	Q2	Q3	Q4	FY08/18 Q1	Q2	Q3	Q4	FY08/16 Cons.	FY08/17 Cons.	FY08/18 Cons.	Init. Est.	FY08/19 Init. Est.	YoY change FY08/18	Vs. Est.
Revenue	528	621	617	755	841	931	930	797	859	1,019	1,100	1,100	2,522	3,499	4,078	3,922	-	+579	+156
YoY	25.3%	21.6%	20.2%	44.6%	59.3%	49.8%	50.8%	5.5%	2.1%	9.5%	18.3%	38.1%	28.1%	38.8%	16.5%	12.1%	-		
Operating profit	161	102	223	190	232	171	271	180	222	144	226	272	676	854	863	-	-	+9	
YoY	27.0%	-51.5%	85.0%	5.2%	43.9%	67.4%	21.7%	-5.2%	-4.5%	-15.8%	-16.6%	50.7%	5.9%	26.3%	1.1%	-	-		
OPM	30.5%	16.4%	36.1%	25.2%	27.6%	18.3%	29.1%	22.7%	25.8%	14.1%	20.6%	24.7%	26.8%	24.4%	21.2%	-	-	-3.2pp	
Order processing fees	337	408	394	407	415	502	498	524	563	679	677	716	1,546	1,938	2,634	-	-	+696	
YoY	28.8%	29.6%	30.7%	24.7%	23.2%	23.1%	26.2%	28.7%	35.7%	35.1%	36.1%	36.7%	28.3%	25.4%	35.9%	-	-		
No. of orders (mn)	2.92	3.50	3.46	3.64	3.79	4.41	4.38	4.70	5.08	5.94	5.97	6.33	13.53	17.28	23.32	23.83	33.82	6.05	-0.51
YoY	25.9%	27.8%	31.0%	27.6%	29.7%	26.0%	26.5%	28.9%	34.1%	34.6%	36.4%	34.8%	28.1%	27.7%	35.0%	37.9%	-		
Order processing fees / No. of orders	115.2	116.5	113.9	111.7	109.4	113.8	113.6	111.5	110.7	114.3	113.4	113.1	114.3	112.2	112.9	-	-	+0.8	
YoY	2.3%	1.3%	-0.2%	-2.3%	-5.0%	-2.3%	-0.3%	-0.2%	1.2%	0.4%	-0.2%	1.4%	0.2%	-1.8%	0.7%	-	-		
No. of affiliated stores (quarter end)	12,505	12,529	13,018	13,656	14,206	14,559	14,953	15,318	15,712	16,081	16,439	17,207	13,656	15,318	17,207	17,071	-	+1,889	+136
YoY	7.1%	6.1%	8.4%	11.8%	13.6%	16.2%	14.9%	12.2%	10.6%	10.5%	9.9%	12.3%	11.8%	12.2%	12.3%	11.4%	-		
No. of orders / No. of affiliated stores	236.6	279.7	270.9	273.2	272.2	306.7	296.7	310.3	327.7	373.5	367.3	376.3	1,045.9	1,192.7	1,434.3	1,471.5		+241.6	-37.2
YoY	18.7%	20.0%	22.1%	15.9%	15.1%	9.6%	9.5%	13.6%	20.4%	21.8%	23.8%	21.3%	18.1%	14.0%	20.3%	23.4%			
No. of active users (quarter end; mn)	-	-	1.82	1.92	1.98	2.13	2.24	2.35	2.45	2.55	2.62	2.69	1.92	2.35	2.69	3.13	-	+0.34	-0.44
YoY	-	-	-	24.7%	-	-	23.2%	22.4%	23.7%	20.0%	17.0%	14.5%	24.7%	22.4%	14.5%	33.2%	-		
No. of orders / Average no. of users				1.9	1.9	2.1	2.0	2.0	2.1	2.4	2.3	2.4	7.8	8.1	9.3			+1.2	
YoY	-	-	-	-	-	-	-	5.0%	8.9%	10.5%	15.2%	16.5%	7.0%	3.5%	14.4%				
Total users (quarter end; mn)	7.37	7.69	7.98	8.30	8.56	8.81	-	-	-	-	-	-	8.30	-	-		-	-	
YoY	14.3%	14.9%	15.8%	16.2%	16.1%	14.6%	-	-	-	-	-	-	16.2%	-	-		-		
Depreciation	43	46	47	51	49	49	36	37	36	38	42	46	187	171	162		-	-10	
Amortization of goodwill	3	3	3	14	11	11	7	-	-	-	-	-	23	30	-		-	-30	
EBITDA	207	151	273	255	293	230	315	217	257	182	268	317	886	1,055	1,025		-	-31	
YoY	19.9%	-40.6%	65.2%	12.7%	41.2%	52.7%	15.5%	-14.8%	-12.1%	-21.1%	-14.9%	46.1%	8.3%	19.1%	-2.9%		-		
EBITDA margin	39.3%	24.3%	44.2%	33.8%	34.8%	24.7%	33.9%	27.3%	30.0%	17.8%	24.4%	28.9%	35.1%	30.2%	25.1%		-	-5.0pp	

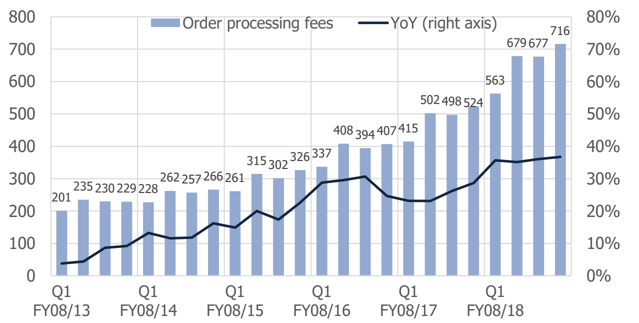
Source: Shared Research based on company data

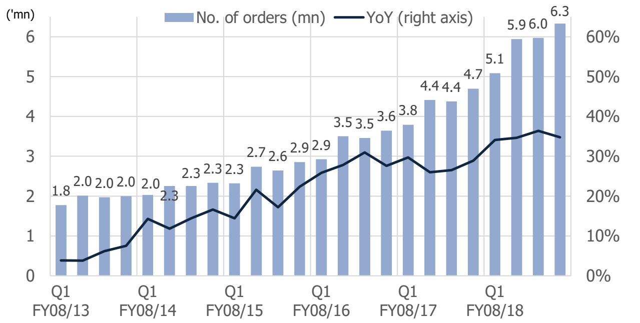
Demae-can business (JPYmn)





Source: Shared Research based on company data





Source: Shared Research based on company data

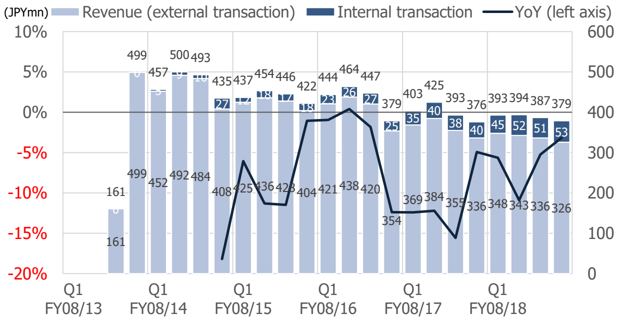
Mail Order

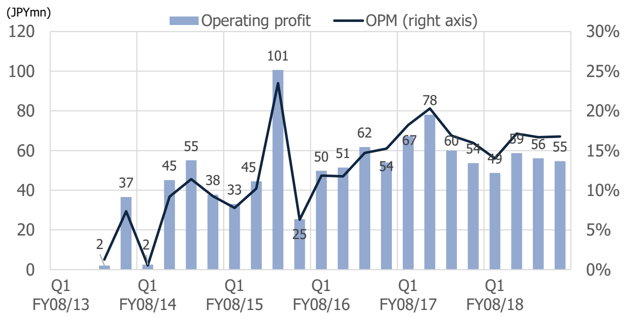
In the Mail Order business, the company strove to strengthen its products. In addition to its mainstay *shochu* (Japanese liquor) and wine (began selling in 2015), the company began to sell whisky from October 2017. The company also began activities to form a large user population for the future growth, mainly aiming to increase new customers. While repeat orders from new customers are showing a gradual increase, cumulative Q3 revenue fell by 6.4% YoY as it is taking longer than expected for new customers to place repeat orders.

Mail Order business (JPYmn)

Mail Order (JPYmn)	FY08/16 Q1	Q2	Q3	Q4	FY08/17 Q1	Q2	Q3	Q4	FY08/18 Q1	Q2	Q3	Q4	FY08/16 Cons.	FY08/17 Cons.	FY08/18 Cons.	Init. Est.	FY08/19 Init. Est.	YoY change FY08/18	Vs. Est.
Revenue	421	438	420	354	369	384	355	336	348	343	336	326	1,633	1,445	1,353	1,512	-	-92	-159
YoY	-0.9%	0.4%	-1.8%	-12.4%	-12.4%	-12.2%	-15.6%	-4.9%	-5.6%	-10.9%	-5.2%	-3.1%	-3.5%	-11.5%	-6.4%	4.7%	-		
Internal transaction	23	26	27	25	35	40	38	40	45	52	51	53	101	153	200			+47	
Sales (incl. internal transaction)	444	464	447	379	403	425	393	376	393	394	387	379	1,734	1,597	1,553			-45	
Operating profit	50	51	62	54	67	78	60	54	49	59	56	55	217	259	218	-	-	-41	
YoY	50.6%	15.5%	-38.6%	112.3%	34.7%	51.8%	-3.0%	-0.5%	-27.4%	-24.8%	-6.4%	1.8%	6.6%	19.3%	-15.7%	-	-		
OPM	11.8%	11.7%	14.7%	15.3%	18.2%	20.3%	16.9%	16.0%	14.0%	17.1%	16.7%	16.8%	13.3%	17.9%	16.1%	-	-	-1.8pp	
Depreciation	2	2	2	2	2	2	3	4	3	3	4	4	8	10	14			+4	
Amortization of goodwill	26	26	26	26	26	26	26	26	26	26	17	-	103	103	69			-34	
EBITDA	78	79	89	82	95	106	88	83	77	88	77	59	328	372	301			-71	
YoY	26.0%	6.9%	-31.1%	50.8%	21.8%	33.6%	-1.4%	2.0%	-18.2%	-17.1%	-12.6%	-29.5%	2.6%	13.4%	-19.1%				
EBITDA margin	18.5%	18.1%	21.3%	23.1%	25.7%	27.5%	24.8%	24.8%	22.2%	25.6%	22.9%	18.1%	20.1%	25.8%	22.3%			-3.5pp	

Source: Shared Research based on company data





Source: Shared Research based on company data

Outlook for Q4 FY08/18 and FY08/19 (as of Q3: for reference)

The company is making steady progress toward its full-year targets for FY08/18. To achieve the target number of orders, the company would need a 45.5% increase in Q4, but it already saw a significant 44.2% increase in June with contributions from higher repeat order rate. Target number of affiliated stores (17,071 stores) is within reach thanks to the growth in the number of delivery bases. Number of active users, however, seems to fall short of the initial target of 3.13mn users.

FY08/19 marks the second year of the medium-term plan announced in October 2017. In FY08/19, with basic strategies left unchanged, the company will set numerical targets in accordance with the medium-term plan. In resolving the issue of delivery efficiency improvement for Shared Delivery identified in FY08/18, the company will give greater priority to finding potential areas for expansion and attracting popular restaurants in regions where it can expect to generate revenue. Further, it anticipates accelerated expansion of bases following addition of new partners. The company is considering the possibility of increasing number of partners to further accelerate the pace of expansion. Among measures implemented in FY08/18, it intends to reinforce the ones that have proven effective.

Although not an urgent issue, the company plans to continually enhance its systems infrastructure. Further, the company believes it can further improve effectiveness of advertising activities by making continued investments into advertising and promotion spending. Various initiatives implemented in FY08/18 have shown both strengths and weaknesses, and upon reviewing each initiative, the company intends to focus on strengthening those that have proven to be effective. As the proportion of advertising expenses to revenue has improved despite an increase in the actual amount spent, Shared Research understands that the company will aim for higher OPM YoY as projected in the medium-term plan.

Full-year company forecasts

	FY08/16			FY08/17			FY08/18			FY08/19 Initial Est.		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H	2H	FY	1H	2H	FY
Revenue	**2,008**	**2,146**	**4,155**	**2,526**	**2,418**	**4,944**	**2,569**	**2,862**	**5,431**			**7,681**
YoY	12.0%	14.9%	13.5%	25.8%	12.7%	19.0%	1.7%	18.4%	9.8%			41.4%
Operating profit	**214**	**359**	**573**	**372**	**428**	**801**	**341**	**496**	**837**			**100**
YoY	-17.1%	24.4%	4.8%	74.0%	19.4%	39.8%	-8.4%	15.9%	4.6%			-88.1%
OPM	10.7%	16.7%	13.8%	14.7%	17.7%	16.2%	13.3%	17.3%	15.4%			1.3%
Recurring profit	**219**	**360**	**579**	**368**	**430**	**798**	**354**	**495**	**849**			**117**
YoY	-15.0%	26.9%	7.0%	68.2%	19.3%	37.8%	-4.0%	15.3%	6.4%			-86.2%
RPM	10.9%	16.8%	13.9%	14.6%	17.8%	16.1%	13.8%	17.3%	15.6%			1.5%
Net income attributable to owners of parent	**200**	**147**	**348**	**182**	**251**	**433**	**225**	**333**	**559**			**79**
YoY	252.0%	267.5%	258.4%	-9.4%	70.5%	24.4%	24.0%	32.8%	29.1%			-85.9%
Net margin	10.0%	6.9%	8.4%	7.2%	10.4%	8.8%	8.8%	11.6%	10.3%			1.0%

Source: Shared Research based on company data

Difference between forecasts and results

Initial Est. versus Results		FY08/13		FY08/14		FY08/15		FY08/16		FY08/17		FY08/18	
(JPYmn)		Cons.	vs. Est.	Cons.	vs. Est.	Cons.	vs. Est.	Cons.	vs. Est.	Cons.	vs. Est.	Cons.	vs. Est.
Revenue	Initial Est.	1,560	+33.8%	3,400	+4.7%	3,750	-2.4%	4,000	+3.9%	4,600	+7.5%	5,434	-0.1%
	Q1	1,455	+43.4%	3,400	+4.7%	3,750	-2.4%	4,000	+3.9%	4,600	+7.5%	5,434	-0.1%
	Q2	1,455	+43.4%	3,600	-1.2%	3,750	-2.4%	4,000	+3.9%	5,000	-1.1%	5,434	-0.1%
	Q3	2,000	+4.3%	3,600	-1.2%	3,750	-2.4%	4,150	+0.1%	5,000	-1.1%	5,434	-0.1%
	Results	**2,087**		**3,558**		**3,661**		**4,155**		**4,944**		**5,431**	
Operating profit	Initial Est.	211	+32.0%	363	-0.3%	550	-0.6%	650	-11.9%	800	+0.1%	819	+2.2%
	Q1	177	+57.3%	363	-0.3%	550	-0.6%	650	-11.9%	800	+0.1%	819	+2.2%
	Q2	177	+57.3%	430	-15.8%	550	-0.6%	650	-11.9%	800	+0.1%	819	+2.2%
	Q3	240	+16.0%	430	-15.8%	550	-0.6%	570	+0.5%	800	+0.1%	819	+2.2%
	Results	**278**		**362**		**547**		**573**		**801**		**837**	
Recurring profit	Initial Est.	212	+29.6%	357	+2.4%	510	+6.2%	656	-11.7%	800	-0.3%	824	+3.0%
	Q1	178	+54.3%	357	+2.4%	510	+6.2%	656	-11.7%	800	-0.3%	824	+3.0%
	Q2	178	+54.3%	417	-12.3%	510	+6.2%	656	-11.7%	800	-0.3%	824	+3.0%
	Q3	240	+14.5%	417	-12.3%	510	+6.2%	576	+0.5%	800	-0.3%	824	+3.0%
	Results	**275**		**366**		**541**		**579**		**798**		**849**	
Net income attributable to owners of parent	Initial Est.	88	+9.8%	196	-14.6%	232	-58.2%	343	+1.4%	450	-3.9%	478	+16.9%
	Q1	47	+105.7%	196	-14.6%	232	-58.2%	343	+1.4%	450	-3.9%	478	+16.9%
	Q2	47	+105.7%	198	-15.5%	232	-58.2%	343	+1.4%	450	-3.9%	478	+16.9%
	Q3	70	+38.1%	198	-15.5%	232	-58.2%	350	-0.7%	450	-3.9%	478	+16.9%
	Results	**97**		**167**		**97**		**348**		**433**		**559**	

Source: Shared Research based on company data

This note is the most recent addition to the full report.

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Contact Details

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