

SIR Corporate Report February 15, 2015

O-uccino Inc. (TSE Mothers : 6084)



Business Description

- Operates two lines of business- “O-uccino”, a portal site for housing and real estate business and “Dual Brain”, an advertising agent business.
- The O-uccino website not only introduces pre-owned and rent properties but also has a webpage that matches renovation companies and architects. They are the first company to set up a website on pre-owned housing.
- The Company is the first in Japan to set up a pre-owned housing transaction site. The site differentiates itself from others by objectively displaying numerous information on the value of the asset useful in making decisions on purchasing property, such as expected rent level and yield etc.
- The business model is to provide the administration page of the website to the housing and real-estate related businesses and earn revenue per the number of listed properties (for brand new housing, it is per the length of listing) .
- Foreseeing an expansion in the market for pre-owned houses and renovation for those properties, the Company aims to expand their market share by providing a one-stop service for pre-owned housing transactions and expanding sales channels including establishing “off-line”, real shops.



Expectation towards a V-shaped recovery

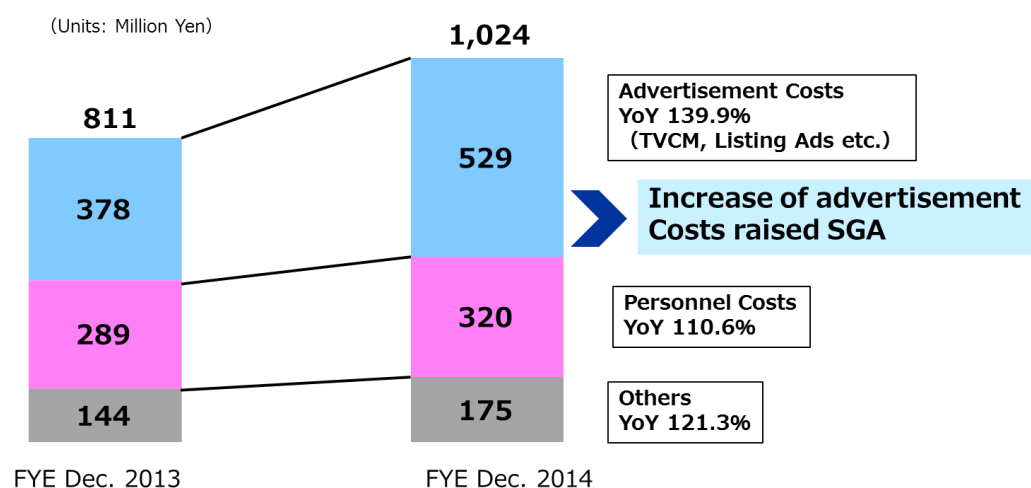
(FY 2014 Q4 results)

《Overview of Financial Results》

Both sales and profit ended up below the initial forecast, close to figure that was revised downward. For Sales, while housing and real estate portal business was 87% yoy, advertising agency business increased yoy. Overall sales was therefore 94% yoy, but since sales declined for the more profitable real estate portal business, gross profit margin declined. There was also an increase in SG&A expenses, in particular advertising and promotion costs, so overall operating profit was a negative 84 million yen (operating loss).

| | (Units; Million Yen) | | | | |
|--|----------------------|--------|--------|-------------------|------------|
| | FY2014 | FY2013 | % YoY | FY2014 (Forecast) | % complete |
| Housing and Real estate related Portal Wwb Site Business | 1,211 | 1,394 | 86.9% | 1,197 | 101.1% |
| Advertising Agency Business | 323 | 234 | 137.7% | 317 | 101.8% |
| Total Revenue | 1,534 | 1,629 | 94.2% | 1,515 | 101.3% |
| Operating Profit | (84) | 255 | — | (92) | — |
| Ordinary Profit | (85) | 246 | — | (93) | — |
| Net Profit | (128) | 145 | — | (138) | — |

In particular, advertising and promotional expenses increased by approximately 150 million yen, as the company actively aired TV commercials in order to increase exposure and raise recognition in their first year of listing on the stock exchange; this is considered as a one-off increase in expense



The issue for this FY was how to address the fall in response to their housing and real estate portal site O-uccino. We can break this issue down into the following two

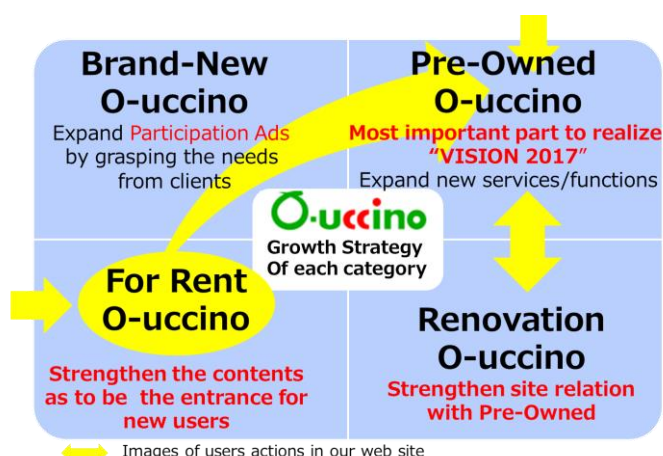
aspects:

- 1) external factor: Since the number of brand new apartments declined after the consumption tax hike, there was a decline in the absolute amount of advertising revenue from “brand new apartment/ housing”.
- 2) Internal factor: as the company lagged behind competitors in enhancing the attractiveness of their websites in such aspects as response in dealing with SEO, improving the usability of the website, formation of a curation site, they lost their preeminence in acquiring users. While they tried to raise recognition through TV commercials, because the response (number of information material requests) declined, tight budget sponsors refrained from posting advertisements especially for the Company's brand new housings.

In order to overcome these issues, the Company compiled a medium term business plan where the Company announced the areas in which they intend to focus as well as plans towards a V-shaped recovery.

《Medium term plan “VISION 2017”》

Up until now, the Company has operated an all-round “Housing and real-estate related portal site”. Moving forward however, the Company intends to position the “leasing business” where the user needs are higher as a “point of entry” for the users, and reformulate their website so that they can then direct these users towards the pre-owned housing transactions site (where the Company's strength lie). This is the major aspect of their plan/strategy.

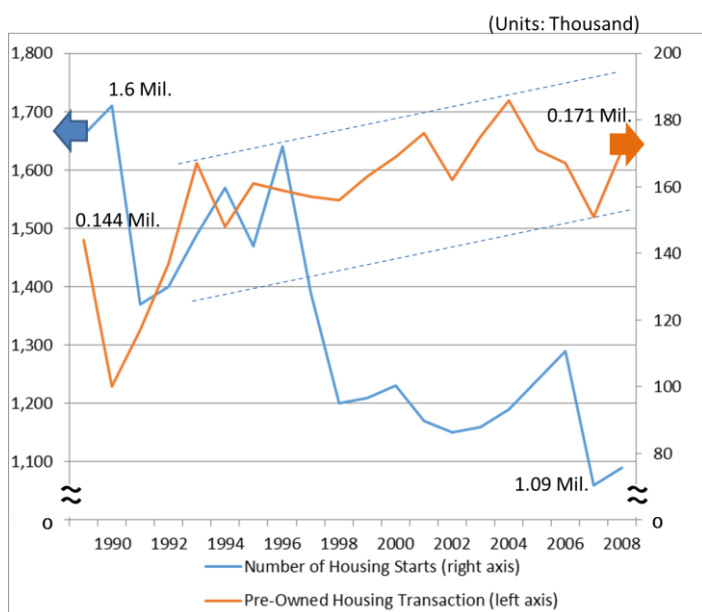


This is seen as management's intention to make the Company stand out in a market where there will be an increasing number of circulation of pre-owned property, as

well as to differentiate their business model when it is expected that more companies will be entering this pre-owned housing(property) market which is less affected by fluctuations in the macroeconomic environment

It shows that the Company intends to make itself stand out as an “expert” in the pre-owned housing market (where it is foreseen that more competitors will enter the market). At the same time, increasing the number of users by attracting them to the leasing (showed as “for rent” in the picture) website (which is more widely demanded), and then inducing them towards the “pre-owned housing site” Where the Company’s core specialization is, should raise the final closing rate; this seems to be what the Company’s management is aiming to do.

The chart below shows the recent trends in the number of new houses constructed and pre-owned houses transacted (excerpt from Company reference materials) ; it can be seen that the pre-owned housing market (in orange) is moving in a more stable manner.

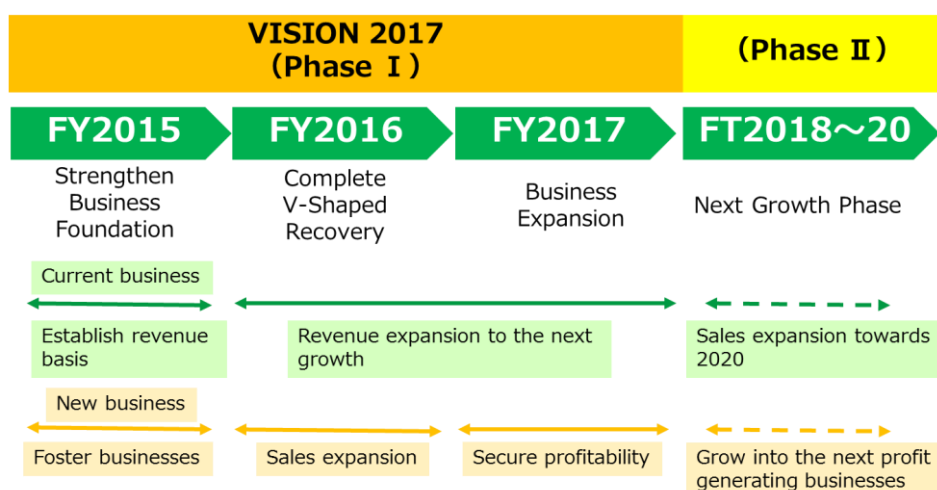


When taking into consideration such market trends and the government’s measures such as the “pre-owned renovation total plan”, the Company’s strategic direction to grow out from its current situation is in the right direction.

With this in mind, the Company decided to implement their growth strategy until 2020 in two stages— a medium term strategy up to 2017 (Phase 1) and a strategy from 2018~2020 (Phase 2) — announcing the former as “Vision 2017”.

《Details of Vision 2017》

According to the Company's announcement, there are three pillars to "Vision 2017"; ①To reformulate and strengthen the housing/real estate portal site, ②To strengthen advertising agency business, and ③To develop new business areas. The milestones for each of the measures are as the diagram below:

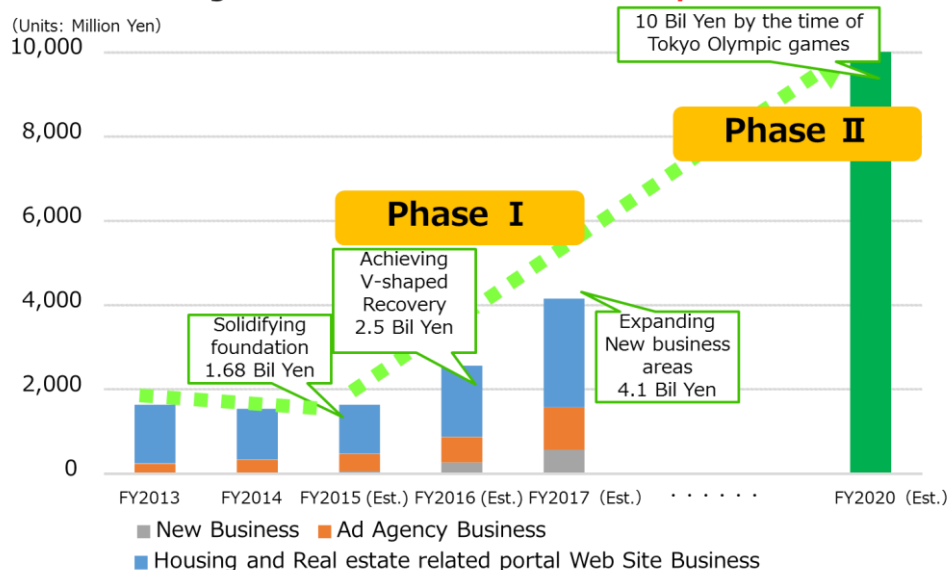


The structure of this "Vision 2017" is to position FY 2015 as a time to reorganize their business foundation and improve their income generating structure into the future, so that they can achieve a V-shaped recovery by 2017.

Therefore, the Company says they will strengthen their website and change their operation so that they can pay more attention to the more important areas (and less so on others), and for this term, will develop a new business with the concept of "Providing new services related to housing and living" (the Company has already started services such as an "off-line", in-person consulting service of "Resident Sommelier" and is conducting "Overseas real estate investment seminars")

With all that done, the Company declares that they will generate revenue with the breakdown as shown below, and to achieve growth in the medium term.

We are aiming to realize 10 Bil Yen revenue by 2010



In order to realize the above, however, a reasonable amount of preparation and investment will be necessary; therefore the next fiscal year's forecast continues to expect a slight decrease in revenue with profit levels of around just above zero.

(Units: Millen)

| | Forecast for FYE Dec. 2015 | | | Result of FYE Dec. 2014 | % YoY |
|--|----------------------------|-------------|-------|-------------------------|---------|
| | First Half | Second Half | Total | | |
| Housing and Real estate related Portal Wwb Site Business | 521 | 646 | 1,168 | 1,208 | 96.7% |
| Advertising Agency Business | 189 | 207 | 396 | 323 | 122.4% |
| New Business | 17 | 26 | 44 | 3 | 1402.4% |
| Revenue | 728 | 879 | 1,608 | 1,534 | 104.8% |
| Operating Profit | (103) | 123 | 20 | (84) | — |
| Ordinary Profit | (104) | 123 | 18 | (85) | — |
| Net Profit | (97) | 114 | 17 | (128) | — |

The Company's forecast seems to be factoring in recovery in the latter half of the FY from the current declining trend; this we believe is a realistic plan.

The advertisement agency business on the other hand is expected to show a robust growth, and to form the second pillar of the Company's business.

SIR intends to actively follow O-uccino's business restructuring formulated in line with their vision of societal change in the real-estate transactions market

and whether the Company can achieve a V shaped recovery as a result of those changes being implemented.

Strategic IR Insight Inc. CEO Yuichi Sekiguchi

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