An important announcement
In November 2016, CROOZ was reborn as a company centered on SHOPLIST

(Accordingly, we transferred our Social Games Business)
GOOD NEWS

FOREVER 21, a global fashion brand operating over 760 stores in 49 countries, opened an online store on SHOPLIST, which became Japan’s first mail-order fashion platform to host the brand.

And there is more…
We acquired, among others, MARBLE, a fashion curation media platform which boasts over 15 million monthly unique visitors, through M&A. With this new business, we will work to diversify our revenue.

GOOD NEWS

Next, about our announcements on October 13
A newly formulated policy
About future CROOZ business policies

Revising the business portfolio to persist as a long-lasting company, making SHOPLIST the brand that represents fast fashion e-commerce.

Three decisions were made based on the above. The first was...
1) Business restructuring:
Main business switching from Social Games to E-commerce

To concentrate management resources including personnel, assets, and funds on fast-growing SHOPLIST, the Social Games Business excluding Elemental Story was transferred.

Incidentally, as employees will also be reduced, the office space strategy will be revised to create an ideal environment for efficient e-commerce business operations. Also, since the Social Games Business will be spun off as a subsidiary and become a leaner operation, optimization of rents in each area are under consideration.
2) Actively pursuing M&A

By using approximately JPY5.0bn of the JPY10.0bn in total generated from the business transfer combined with accumulated cash and deposits, we will work toward attracting customers, increasing sales channels, and strengthening branding for SHOPLIST and creating new group businesses. As one measure, we will actively consider M&A with a focus on quality over quantity.
3) Future Social Games Business strategy

From the high-risk development method that dispersed management resources with multiple active development lines and multiple game titles, we will shift to a low-risk development method utilizing a single development line that concentrates resources in a select team to produce a single high-quality title.

Also, as strategies clearly differ between the main business and the game development division, it was spun off and established as a strategic subsidiary.

In summary, these decisions were...
In summary...

Through business restructuring to switch the main business from Social Games to E-commerce and concentrate management resources (personnel, assets, and funds) on fast-growing SHOPLIST, the Social Games Business excluding Elemental Story was transferred.

And, to strengthen SHOPLIST and aim to create new group businesses, M&A will be actively pursued.

Meanwhile, the Social Games Business will continue to challenge itself by shifting from the previous high-risk development method to a low-risk method featuring a single development line with a select team to produce a single high-quality title.
A history of changes
To respond to changes in the times, we have shifted our main business over five times since our founding

As a result, new sales records since our founding counted...
We have set a new sales record...

13 times in 15 years

The number of operating losses in 15 years is...
We have had operating losses...

0 times in 15 years

Essentially, CROOZ can be summed up as...
In sum...

A company with the ability to change

It is not the strongest that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.

With the business transition, we have set new goals.
Mid- to long-term goals for SHOPLIST

CROOZ will work toward the following goals…
Annual unique purchasers: 5 million (As of Q2 FY03/17: Approx. 1.3mn)  
Average annual spend per user: JPY20,000 (FY03/16 results: Approx. JPY13,000)  

*The above are calculated based on market scale and internal results data*
Our target market

The domestic B2C (business to consumer transactions) e-commerce market is forecast to grow to JPY25.6tn in five years, about JPY10tn higher than FY03/17.

Source: “A Look at Trends in the ICT and Media Market Until FY2021,” Nomura Research Institute
The fashion e-commerce market has expanded in the hundreds of billions of yen; growth is forecast to continue.
Annual unique purchasers

Trends and targets in annual unique purchasers

What kind of number is five million?

Approx. 1.3mn
Here now

5mn
The total number of people living in Japan between the ages of 16 and 45 is about 46 million; we will work to acquire 5 million, or about 11% of this number.

Next, an explanation on annual average spend per user and targets.
Trends and targets in average annual spend per user

- FY03/14: About JPY13,000
- FY03/15: 2.56 times
- FY03/16: 4 times
- FY03/XX: 4 times

Next, some frequently asked questions (FAQs)
FAQ

Q1: Why did you transfer the Social Games Business?
Q1: Why did you transfer the Social Games Business?

The games business is in a fast-moving business environment with high volatility, and as such, we determined that it would be too much of a risk to continue holding it as our main business. However, it is one type of today’s Internet Business that could generate a significant revenue in a short period of time, and by spinning it off as a subsidiary with a select team, we will continue to pursue opportunities.

We also determined that we could increase our enterprise value over the mid- to long-term by transitioning our main business to the high-growth SHOPLIST and using funds from the transfer of Social Games Business to further strengthen it and actively pursue M&A.

Q2: What kind of service is SHOPLIST?
Q2: What kind of service is SHOPLIST?

A one-stop shopping website where fast fashion items in a wide range of genres can be purchased for women, men and children.

Q3: Is SHOPLIST growing?
In the fourth year after launch, it quickly grew to transaction volume on the scale of JPY15.0bn.
Yes, we are very confident it will. To focus on increasing the number of annual unique purchasers and average annual spend per user, we will concentrate on strengthening aspects such as branding, promotion, logistics, and infrastructure maintenance.

Q5: Are measures in place for deliveries to meet increased transaction volume?
Q5: Are measures in place for deliveries to meet increased transaction volume?

Currently, we are prepared for shipments for a transaction volume of JPY60.0bn. As volume continues to increase, mechanisms to ship items from warehouses will be a necessity. When the transaction volume in excess of JPY60.0bn is in sight, we will expand our warehouse capacity at a timing we consider appropriate.

Q6: Since the profitable Social Games Business was transferred, will profits decline in the near term?
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Yes. Although profits will decline in the short- to mid-term, we view the transfer as advance on several years of profits had we continued to hold the Social Games Business. Actively investing this fund in the high-growth SHOPLIST and realizing unprecedented growth in fast fashion e-commerce will produce higher transaction volume, and although we cannot state a specific time frame, we believe that we will eventually be able to generate profits similar to those seen when the Social Games Business was in operation.

Q7: Did you exit the Social Games Business because you were unable to generate hits?
Q7: Did you exit the Social Games Business because you were unable to generate hits?

No. We wish to change our strategy in light of changes in the business environment. When browser games were popular, development expenses were about JPY10mn per title with a development cycle of six months, and we were among the top companies in Japan. At the time, about 40% of our titles were hits that generated revenue in excess of JPY100mn per month. However, native app games require development expenses of about JPY300mn to JPY500mn with a development cycle of over one year, representing a significant change. Additionally, looking at both CROOZ and peer companies, despite variance between the companies, the hit rates have dwindled. We believed that the risk was too great, and made a management decision to shift our development methods.

Q8: Why did you hold on to Elemental Story?
This is because we will continue with the Social Games Business as part of our investment. It is one form of today’s Internet Business that could generate a significant revenue in a short period of time, but it also involves a high degree of uncertainty. Moving forward, we will gather select team members who have experience in the development and operation of Elemental Story, one of our hit titles, spin it off as a subsidiary separate from CROOZ to shift from a high-risk development method to a low-risk method, and continue operating Elemental Story while seeking opportunities in new development.
Q9: How will employee numbers change as a result of transferring the Social Games Business?

The number will be reduced to about half

Q10: Speaking of which, did you already quit the new business described about a year ago?
Q10: Did you already quit the new business described about a year ago?

We will and are already working on it. New businesses can come from within, but there is also the method of acquiring external services and resources and commercializing them. The acquisition of Candle announced on October 13 is part of the approach to creating new businesses via the M&A method. Candle operates multiple curation media platforms, and in the future, we believe it can contribute to our earnings through advertising and other means.

Q11: What are policies on new businesses?
Q11: What are policies on new businesses?

We will actively pursue them. However, we will not engage in myriad businesses nor cover wide varieties. Regardless of internal or M&A, we will focus solely on “businesses and measures that can have a significant effect on the expansion of SHOPLIST” and move forward with an emphasis on quality over quantity.
Our earnings for Q2 FY03/17

But first, an important announcement…
An Important Announcement

This earnings announcement covers the period from July to September, and is thus unaffected by the business transfer. Effects will take shape from the next earnings announcement (scheduled for February 2017) onward.
The Commerce Business sets a new quarterly sales record.
There were no significant changes in Q2 versus Q1.
Appropriate employee number levels continue relative to our sales
Q2 sales were up 31% YoY
Set a new record for quarterly sales

Meanwhile, trends in expenses were...
We plan to continue implementing large-scale promotions. Personnel and subcontracting expenses to trend upward as business scales up.
As the company-wide cost balance is not optimal following the transfer of the Social Games Business, operating profit at SHOPLIST will appear to be temporarily lower.

The primary factor is that CROOZ is still a social games company with an office and structures for 400 employees.

Moving forward, we will advance cost optimizations including an office environment for 200 employees and revising personnel and hiring plans.

Our policy to achieve OPM of 8% by March 31, 2019 has not been changed.
Q2 native app games sales were up JPY 280mn QoQ.
Elemental Story led the way for gains.
Q2 advertising expenses increased by JPY100mn QoQ
Four key points for Q2 FY03/17
Transferred the Social Games Business, excluding Elemental Story, to concentrate management resources and shift the main business from Social Games to E-commerce.

Actively seeking M&A with the aim of strengthening SHOPLIST and expanding into new businesses.

Changed the Social Games Business approach from the previous high-risk development method to a low-risk method with a select team, and by spinning it off as a subsidiary, for its visions and strategies differ from the E-commerce business, will continue to seek opportunities.

Mid- to long-term targets for SHOPLIST:
Annual unique purchasers: 5 million people
Average annual spend per user: JPY20,000
Since FY03/15, we have not disclosed earnings forecasts. Accurate forecasting is difficult in our type of business due to a volatile industry.
The material herein contains medium- to long-term plans and forecasts made by CROOZ.

The information contained in these pages is not intended to guarantee the future business results of the company and bears certain risks and uncertainties.

As future business results can be affected by various factors and may change from the company outlook, we ask the reader to refrain from relying solely on the information presented herein.