

7618 PC DEPOT Corporation

Launching an Offensive Operation on City Centers with a Format Shift to Smart Life Partner (SLP) Stores That Provide Premium Membership Services

August 24, 2015

JASDAQ

Key Points

- The Company has been experiencing an increase in solution service sales in the form of integrated hardware and software packages. The range of services is expanding and service prices are expected to rise. Sales from these services are approaching 50% of the total.
- The Company is evolving its store format from specialization in desktop and notebook computers and transforming its business model to a focus on Internet device service stores that combine merchandise and services. With premium services at the core, schemes collecting fixed monthly fees from users purchasing PCs, smartphones, or new IoT products and services have become a major revenue source.
- The Company is expediting a shift toward Smart Life Partner (SLP) stores, which maintain premium membership services as their mainstay. In the current term ending March 2016, 9 to 14 existing stores will be shifted to SLP stores, compared to the 4 stores that were shifted in the term ended March 2014, and 10 stores in the term ended March 2015. The Company plans to remodel existing stores into SLP stores to uncover service demand. The number of SLP stores will increase to 29 in the term ending March 2016.
- In addition to remodeling existing stores, new SLP store openings will begin in earnest. The Company plans to open its first new store in central Tokyo, in Aoyama, in December. After the large-scale new store opening in Kinuta, Setagaya in March, the Company is planning to open three to four stores annually in the Tokyo metropolitan area from this period. If these new stores are successful, the Company's business will enter an entirely new stage. The past two-year results have already proved that Smart Life Partner (SLP) stores can be successful. Now the business will enter a new phase where exciting developments can be expected.
- Even though sales have not grown remarkably, the Company will continue to achieve record profits due to the effects of implementing a stock-type business model upon income from services. Ordinary income is expected to rise to 3.8 billion yen (up 19% year-on-year (YoY)) in FY2015 and to 4.55 billion yen (up

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

20% YoY) in FY2016. The ratio of ordinary income to net sales will reach 8% and ROE will exceed 15%.

• While keeping PCs as its platform, the Company is offering diverse products to cultivate customer demand for differentiated services other companies cannot replicate. While an ordinary income to sales ratio of 10% and REO of 15% has been set as new key performance indicators (KPI), ordinary income of 6 billion yen is practically within reach. The next key factor will be to dramatically increase the number of members. A new challenge is to start moving toward an ordinary income of 10 billion yen. The Company is aiming to have its shares even more favorably evaluated on the stock market in the future.

Table of contents

1. Characteristics: Evolution to stores specializing in Internet device service
2. Strength: Profit structure changed into one where services also generate revenue
3. Medium term business plan: Full rollout of SLP stores providing solution services
4. Near-term operating results: Realize service sales benefits, continued record-high profits
5. Evaluation: Possibility for great progress depending on the offensive expansion into the city center

Company rating: A

Stock price (August 21, 2015): 1,010 yen Market capitalization: 39.3 billion yen (38.928 million shares)

PBR: 2.48 ROE: 15.6% PER: 15.8 Dividend yield: 1.0%

(except where otherwise indicated, figures are in millions of yen)

Fiscal year end	Net sales	Operating income	Ordinary income	Net income	EPS (in yen)	Dividend (in yen)
Mar. 2007	42,345	839	1,112	511	15.3	3.3
Mar. 2008	42,439	1,229	1,340	816	24.5	4.0
Mar. 2009	42,899	1,259	1,429	684	20.7	4.7
Mar. 2010	44,740	1,226	1,306	677	20.7	4.7
Mar. 2011	46,912	1,368	1,509	737	22.8	4.7
Mar. 2012	49,693	553	717	280	8.7	4.7
Mar. 2013	51,353	876	933	445	13.6	4.7
Mar. 2014	53,816	2,310	2,411	1,554	46.1	5.7
Mar. 2015	51,285	3,089	3,205	1,941	51.1	8.3
Mar. 2016 (forecast)	53,000	3,750	3,800	2,430	64.0	10.0
Mar. 2017 (forecast)	55,000	4,500	4,550	2,900	76.3	12.0

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

* Forecasts are based on financial results as of June 2015.

Total assets: 29,232 million yen Net assets: 15,550 million yen Equity ratio: 53.1%

BPS: 408.3 yen

NOTE: ROE, PER and dividend yield are based on the most recent forecast.

On October 1, 2013, the Company carried out a share split at a ratio of 1:100 and on January 1, 2015, at a ratio of 1:1.5. The EPS and dividends for the preceding terms have been revised accordingly.

Analysis by: Yukio Suzuki

(Chief Analyst, Belle Investment Research of Japan)

Definition of Company rating: Qualitative evaluation based on criteria such as 1) management capabilities; 2) abilities to grow/maintain the business; 3) possibilities of downward revisions to earnings forecasts. The Company is expressed as a four-level rating where “A” means good, “B” means some degree of improvement is required, “C” means considerable improvement is required, and “D” means the state of the company is extremely grave.

1. Characteristics:

Evolution to stores specializing in Internet device service

A shift to a new format, with a corporate mission of bridging the digital divide

PC DEPOT is prioritizing support for customers struggling to use digital network devices. To this end, the Company improves its services in a slow and steady manner. These efforts cultivate a service market, enabling the Company to realize its unique business model. President Nojima says that the Company will take up challenges but will not take excessive risks. The Company experiments, confirming a new course before carefully expanding business.

The Company has been developing IT solution stores known as Smart Life Partner (SLP) stores that customers can maintain a relationship with over the long term. As well as being able to enjoy the convenience of a neighborhood PC superstore, users can have the Company solve the problems they experience when using desktops, notebooks, smartphones, the Internet and more.

New devices and services are continuously entering the market, which is a characteristic of the information and communication technology market. Customers need support in order to maintain an IT environment that enables them to fully utilize the products and services they use. SLP stores provide services and detailed explanations so that users can make full use of the features of their desktops, notebooks, smartphones, tablets (multi-function mobile terminals), and other devices, and

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

meeting any other user requirements as a total set.

These services are truly convenient. If consumers use products over a long period of time, in addition to the profit generated at the time they make the purchase, it is quite likely they will come to pay fees for services that make using such products more convenient. To make this happen, users must be satisfied with the convenience provided by the service.

The starting point for traditional retailers is merchandise, but as the Company is both a retailer and service provider, its starting point is also services. It will offer Internet-related services, mainly for devices, thereby building relations with its customers.

The Company generates profits in three ways: firstly, selling products; secondly, through technical fees for product repairs; and third, from monthly fees paid by members who receive ongoing support from the Company. Especially, the core of the Company's business is the support fees paid by its members, making it unique in the retail industry.

The Company considers its corporate social responsibility (CSR) to be to reduce the digital divide in society. To a certain extent, a digital divide arises between people who can use information and communication technologies, and those who cannot. It is not good for society as a whole when people who cannot use these technologies find themselves at a disadvantage. The Company intends to contribute to more convenient and enjoyable daily lives for these lives by supporting them in making the most of IT services. This support service is being provided by PC DEPOT, with its stores acting as a base for such services.

Business starts with personal computers

President Nojima used to work at Nojima, a consumer product mass retailer (Code No. 7419, listed on JASDAQ). The eldest son of Nojima Co.'s founder is currently president of that company, while Takahisa Nojima, his brother, is president of PC DEPOT. He was in charge of supervising stores and merchandise at Nojima Co., but once personal computers began to become popular, he decided to set out on his own and established an independent business. While Nojima is still one of the shareholders of Nojima Co., there is no business relationship between that company and PC DEPOT.

Nojima was 35 years old when he started his business, which is now in its 22nd year. In the early days after the founding of his business, consumers wanted to buy PCs, but the devices were still beyond their budgets. Many people wanted to own their own desktop or notebook computer, but such hardware was still beyond their reach. In those days, only a limited number of people went all the way to Akihabara, a Tokyo district famous for consumer electronics and Japanese sub-culture, to buy personal computers. In contrast, Nojima went into business selling PCs in the same way that

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

retailers in general deal with new merchandise. The Company performance steadily improved, and in 1999, five years after its establishment, it got listed on JASDAQ.

As the Internet era emerged in 2000, the Company entered into a new phase. At the time it was listed, it operated about a dozen stores with net sales of 15 billion yen, ordinary income of 800 million yen, and no debt.

At present, desktops, notebooks and related products are commonly sold at consumer electronics superstores. Also, there is a wide variety of specialist computer superstores. When viewed in the broad sense of the consumer electronics and computer superstore sectors, the Company ranks in a low position in terms of size, but it is competing on a different playing field to its rivals. It is not directly competing with the biggest companies, such as Yamada Denki, Edion, and K's Denki. It should be noted that the Company seeks to emphasize its uniqueness.

Cooperation with K's Denki

When developing its PC DEPOT stores, which are comprehensive specialist computer retailers, the Company allowed K's Denki stores, which are operated by K's Holdings Co. (Code No. 8282), to become PC DEPOT franchisees. K's Denki was the second PC DEPOT franchisee. It was beneficial for both companies, in that a consumer electronics superstore began to deal with PCs.

The Company does business in cooperation with K's Denki because, according to Takahisa Nojima, management concepts of the two companies are quite similar and he feels much empathy with Shuichi Kato, Chairman and CEO of K's Holdings Co. The Company focuses on basically being a chain store operation that is easy for customers to use, for example, offering self-service sales apart for parts and offering discounts for paying in cash instead of points cards.

From the very start, Mr Max Co. (who run general discount stores) and Kitamura Co. (specializing in cameras) also became PC DEPOT franchisees. However, as major operators became dominant in the consumer product mass retailer format, general discount stores found it difficult to sell PCs. FC stores of Mr Max Co. were bought by the Company and became its subsidiary (the present PC DEPOT Stores) by 2010.

Converting franchises to directly-managed stores

Aside from PC DEPOT franchises, PC DEPOT PC Clinics, which are franchise outlets providing technical services, were established as concessions inside consumer electronics superstores. PC Clinics successfully operated in many of K's Denki stores, and then the franchise was expanded.

At present, there are 51 directly-managed PC DEPOT stores (including 16 SLP stores), 13 stores outside the Kanto region run by the PC DEPOT Stores Co. subsidiary, and 3 franchise stores, for a

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

total of 67 stores. In addition, there are 52 directly-managed PC Clinics, and 6 franchise stores. As such, the Company currently operates 125 stores.

PC Clinic was operated mainly by FC stores until six years ago, but the Company transformed the FC stores to directly-managed stores. The Company and K's Denki agreed that direct management would be more effective for enhancing the service functions of the stores, and so the Company acquired these franchised stores. Currently, the Company operates directly managed PC Clinics inside K's Denki stores.

Store development conditions

(Number of stores)

		Number of stores (at the end of June 2015)	
PC DEPOT	Directly-managed (SLP stores included in the above)	35	PCs and related products for home users; technical support services Kanto region (Kanagawa, Tokyo, Chiba, Saitama, Shizuoka, Gunma, Tochigi and Ibaraki)
	Subsidiaries	16	
	FC	13	PC DEPOT Stores (Kyushu, Chubu, Shikoku, Koushinetsu and Tohoku regions)
	Subtotal	3	Kinki and Chugoku regions
	Subtotal	67	
PC DEPOT PC Clinic	Directly-managed	52	Operations inside the premises of other mass home electronics retailers
	FC	6	
	Subtotal	58	
Total		125	

NOTE: SLP stands for PC Depot Smart Life Partner stores, a new type of store, which receive royalties from franchise chain (FC) stores.

Of 35 directly managed PC DEPOT stores, 16 are Smart by Solutions (S×S) stores.

Ongoing Web business

EJWORKS Co., a PC DEPOT subsidiary, is engaged in the IT solution business and has lines of business that include internet service provision and Web content creation. The Internet services market started to expand from around 2000 onward. However, this market has matured and a process of natural selection began among internet service providers. The Company is acquiring small-to-midsize providers and to maintaining their customer-facing services. Customers would experience a seamless transition as they would keep their original email addresses.

Moreover, the Company has recently been utilizing this subsidiary as a support team for its content development and has come to attach more importance to it. The idea is to position it as a new support base for development.

The Company has made good effective and flexible use of part-time workers, and it has hired some of them as regular employees.

At the end of June 2015, in addition to 812 regular employees, 1,376 part-timers (on an 8-hour shift basis) were working for the Company. Seven categories of tasks are assigned, including

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

operations (cashiers and baggers), attending to customers (customer-service personnel), and clinic services (preventative and recovery services); workers are trained to handle the basic tasks involved in one category in one week. They carry walkie-talkies with them in the store in order to help each other by sharing information, which allows them to ensure a high level of customer satisfaction. Many part-time workers have been working for the Company for years, and each year roughly 50 to 60 workers change their status from part time to full time.

2. Strength:

Profit structure changed into one where services also generate revenue

Specializing in PC-related technical services, keeping the leading position in the industry

The Company is strong in Japan's Kanto region and covers 90% of the population there. Consumers who want to make use of PC DEPOT support services will find there is one within reasonable travelling distance. Consumers who buy a desktop or notebook can have a Wi-Fi router set up for them at the store, and can start using their new computer as soon as they get home simply by plugging it in. This saves them from having to do the initial setup themselves. Smartphones also can connect to these Wi-Fi routers. If customers have a problem, they can call the Company's call center and get immediate attention. Users can obtain all these services just by paying a monthly fee. This service provides users with genuine reassurance and convenience.

The Company leads the industry in PC repairs and maintenance services. Moreover, the revenue generated by these services has increased by more than 20% annually, and as such are showing rapid growth. Although the Company is in 7th or 8th place in terms of number of PCs sold, it is characterized by its services.

The Company has achieved a unique presence in its competition with consumer electronics superstores over the past decade. It has survived well in local competition as a computer specialist, although it could not compete against major companies in terms of total sales volume. Under these circumstances, the Company did not overextend itself when opening new stores. It decided, however, to become a customer-orientated IT solutions company, by striving to improve its services, instead of increasing the sales numbers for desktops, notebooks and other hardware. The Company markedly changed its tack to follow this direction in 2005. This was the second turning point for the Company since it was founded.

Providing solutions in combination with various services is key. The Company provides

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

telecommunication services using EMOBILE's network as an MVNO (Mobile Virtual Network Operator). Also providing fiber-optic network services as a fixed virtual network operator (FVNO). Moreover, when members subscribe to the Company's premium services, they can get any support they need: maintenance, call-center services, anti-virus support, and a "full installation" service for when customers replace old PCs.

One of the Company's strengths is this lineup of original services it has developed and runs. No other PC shop is capable of delivering technical services, especially data recovery, as speedily as PC DEPOT. The competition simply cannot match the level of service that the Company's provides.

The Company set as a policy objective its transformation into a store that specializes in services, and has strengthened its commitment to this policy as it entered the Internet era. The Company has also emphasized the sale of store brand products under the name "OZZIO." However, although OZZIO accessories and supplies are highly profitable when compared with its other retail lines, the Company is moving further toward providing customers with services.

Trend in constituent ratios of sales

(% , millions of yen)

	2009.3		2010.3		2011.3		2012.3		2013.3		2014.3		2015.3	
	Sales	Constituent ratios	Constituent ratios	Constituent ratios	Constituent ratios	Constituent ratios	Constituent ratios	Constituent ratios	Constituent ratios	Constituent ratios	Constituent ratios	Sales	Constituent ratios	Sales
Goods sales	35572	82.4	78.2	75.8	72.3	69.0	66.9	66.9	58.7	30116				
PCs and peripherals	24375	58.5	56.9	52.0	46.5	46.4	42.7	33.7	17276					
Accessories, supplies, and software	6554	14.6	15.0	13.9	12.6	12.1	10.8	8.4	4339					
Used items and others	4643	9.3	6.3	9.9	13.2	10.5	13.5	16.6	8501					
Used items and others	11340	17.6	21.8	24.2	27.8	31.0	33.1	41.3	21168					
Sales from technical services and commissions	8726	10.3	14.4	18.6	23.3	27.3	30.2	38.4	19720					
Royalties and other revenue (FC)	522	1.3	1.3	1.1	0.8	0.3	0.3	0.3	138					
Internet-related businesses	2090	6.0	6.1	4.5	3.7	3.4	2.6	2.6	1310					
Total	46912	100.0	100.0	100.0	100.0	100.0	100.0	100.0	51285					

Unique business model with premium services as its income source

The service has various aspects, including (1) the continued subscription of premium members, (2) repair and maintenance, (3) MVNO and FVNO, and (4) content. The categories in the previous sentence are listed in order with respect to the percentage of total sales represented by each such category. In this sense, with premium membership service at the core, focus is placed on the extent to which the content service will grow.

The Company's business model is quite unique, even when compared to companies outside of Japan. The model consists of products sales, service sales, and its operation as an MVNO. Members

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

enter into a three-year premium service contract. The company bears the cost of support up front, and then recovers it from the fees paid by members.

Customers would like to use the PCs, tablets or other devices they have bought as soon as they get home. Takahisa Nojima remembers what that feels like. If after buying a PC, for example, a user takes 3 hours to do things such as create a recovery disc, set up anti-virus software, configure the initial settings and set a password, and then comes to a dead end, he or she will be stuck without some help. PC DEPOT's premium services are solutions to help such users over the Internet.

Suppose a customer brings his/her old computer and member card to a PC DEPOT store, and buys a new one. The store's service personnel will then carry out all the necessary installations of software for the customer onto his or her new computer. The customer takes the new PC home, and is able to use it immediately in the same way as the old one, via the PC DEPOT-branded wireless router, without having to do anything in particular. This is convenience personified.

A patent for this router's systems was registered in March 2012. Including other services, typical packages for these services are 3,950 yen per month (for up to 7 devices) and 4,450 yen per month (for up to 10 devices). The packages are also cloud-capable. These services have been gradually expanded and improved.

PC DEPOT's business model, which generates revenue from service sales, was brought fully into operation in November 2005 and has been steadily expanded since. Conventionally, various technical services such as installing additional memory have been provided for a price. Today, however, when a fixed month fee is paid, a wireless router is leased to enable the consumers to use high-speed internet service with the purchase of a PC alone. (Depending on the package, there is no extra fee for as many as 3 to 10 devices.)

As mentioned above, PC DEPOT also is an MVNO. An MVNO does not have its own mobile communication network, but provides services under its own brand by renting network space from major carriers. The Company provides services to customers as a telecommunications carrier, rather than acting as an agent for other carriers in exchange for incentives. This makes it possible to provide services that customers may want in a single package, making for a very convenient premium service. This service (an EM premium service supporting all devices—Personal plan) costs 5,750 yen (6,037 yen including tax) a month.

PC Clinic can readily be used as a one-time-only technical service. Making customers into premium service users is a better strategy in order to retain them as members to whom ongoing services can be provided over a long period time. In addition, PC DEPOT's direct running of PC Clinics facilitates the agile management of PC Clinics. That is why the Company changed its policy and began managing PC Clinics directly.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

A mechanism that is impossible for others to copy

No other retail service company for personal devices provides solution services under a membership system in the same manner as the Company does. Even if another company tried to provide such services, it would be extremely difficult to develop a business model in which that company (1) trains the personnel required for technical services, (2) tolerates a decline in profits in the early stages due to the shift to a service income type business, and (3) provides an extensive service menu. Thus, we may say that the Company's superiority over its rivals is significant.

Service income tends to increase in accordance with new PC sales. Moreover, service income has increased rapidly along with increasing sales of smartphones and tablets. An individual does not have only one device, but multiple devices. Also, families own multiple devices. Needs for dependable service arise in accordance with the number of devices owned, which makes it easier for the Company to have such users as regular customers.

The Company provides services by assigning experts in each service category and having them work as a single team. It has spent more than 10 years developing this system, which has become a business model that constitutes part of its corporate culture.

A successful launch of new type of store: the PC DEPOT Smart Life Partner (SLP) stores

Currently, the Company has 51 directly managed PC DEPOT stores, 16 of which are SLP stores. In the term ended March 2014, four SLP stores were opened by renovating existing stores, one each at Nishimagome (in August), Higashifuchu (in November), Himonya (in February), and Shin-Yokohama (in February). In the term ended March 2015, 10 stores were reopened after being renovated: Tomei-Kawasaki (in May), Minato-Mirai and Chofu (in June), Tsujido and Hiyoshi (in August), Kohoku Flagship and Heiwadai (in September), Hanakoganei (in November), Yamato (in February), and Konan (in March). The Setagaya-Kinuta Store (opened in March) was the first new SLP store.

Among small-sized stores (V1: version 1), three types of stores have been converted into SLP stores. We have three types of stores with floor spaces of 100, 200 and 300 *tsubo* (one *tsubo* is 3.3 square meters). SLP stores have areas of 100 *tsubo* in Nishimagome, 150 *tsubo* in Himonya, 150 *tsubo* in Tomei-Kawasaki, 250 *tsubo* in Higashifuchu, 300 *tsubo* in Shin-Yokohama, 300 *tsubo* in Minato-Mirai, 300 *tsubo* in Chofu, 300 *tsubo* in Tsujido, and 300 *tsubo* in Hiyoshi. Taking advantage of its dominant regional strength, the Company is renovating its stores. The logo of the stores has been simplified, and the store color has changed from its traditional blue to orange.

In June, the Mitaka Store was renovated into an SLP store. It is delivering good results.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

SLP stores are fashionable and convenient

The Smart Life Nishimagome Store is the first SLP store. It was opened by renovating a PC DEPOT store in Tokyo's Nishimagome in August 2013. The store displays less merchandise than a conventional store. It instead has spacious customer counters. Tablets now occupy more of the display shelves. The store format is based on the Company's new store concept, "providing services that customers need in a single package instead of simply selling products."

The variety of professional accessories the a store stocks may not satisfy the needs of PC aficionados, but this poses no problems as customers can ask for an item at the store counter and the store will obtain it for them soon after. The name of the counter for responding to customer requests (such as computer repairs) has changed from PC Clinic to Dr. Smart, and staff members now wear a new uniform.

People want to use the IT services they need immediately without having to deal with anything inconvenient. Tablets and other devices are provided with content services pre-installed and with all the necessary configuration completed. This convenience allows customers to use their tablets with these services without having to do any cumbersome preparation. The customers neither need to configure the initial settings while staring at user guides nor need to call several call centers asking for help.

The Company also advises customers on Internet connections and fees for each PC, smartphone and tablet that they are now using, thereby allowing them to lower the fees for all of their devices or to switch to more convenient service packages.

The "Smart Pack" billing plan is also coming into wide use, which includes a hardware device, software, and Internet connection in a single package. This package allows customers to use hardware, software and an Internet connection by simply paying a monthly fee instead of having to buy a hardware device and paying a monthly fee for the necessary software and Internet connection. Although this is a type of loan of an amount determined by subtracting the product's estimated residual value at the end of the loan term from the product's sticker price, as customers are familiar with the billing plans of Japanese cell phone carriers, which require a two-year subscription, they find this system acceptable.

The Company has embarked on full-scale store innovation. The PC DEPOT logo includes the terms "Low Price" and "The Computer Superstore," and its image is that of a PC supermarket, but in some areas this image no longer reflects the reality. Therefore, these two terms were removed from the logo of the new stores.

Smart Life stores will not just sell products; they will create packages and provide customers with the solutions that they want. Their customers will become members who will use the services they

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

offer over long periods of time. PC DEPOT's president, Takahisa Nojima, stressed that the approach for Smart Life stores will not be to simply display products and ask customers to choose the ones they like. Instead they will be offered a one-stop service to provide them with the Internet communications that they want. Consequently, the atmosphere of these stores will be different to that of conventional stores and customer counters will be placed centrally within them.

Inventories decrease in Smart Life stores. By helping free customers from the burden of choosing products and services themselves, the role of these stores will be to provide the services needed by customers, as a result reducing inventories. However, a fixed level of account receivables will accumulate on the balance sheet because the merchandise will be in the form of packages made up of hardware, software, and content, with sales being collected in the form of monthly charges.

Gaining service members by troubleshooting for our customers

In-store arrangements like those of SLP stores are found in Europe, but the Company's business model, which allows it to retain customers mainly through providing services, does not exist either in the West or in Asia.

The inspiration for this business model dated back more than 10 years. At first, the Company started to put priority on serving consumers who were not familiar with PCs. In those days, there was a perception that PC users were somehow a different "tribe" or subculture of people. President Nojima, however, aimed to make customers of people who were not skilled at using PCs. He tried to provide free help to people who were unable to use PCs easily and those who wanted to reset their frozen PCs.

Next, he gave priority to serving "people who have difficulties." He dug deep into the technical support business and made it a tool for differentiating his company from others. Thinking that it would be more convenient to receive service continually by paying monthly fees than paying fees every time a technical problem occurred, he launched a monthly fee system in 2006. Today, the service has been refined into a scheme that can provide services when users face any technical trouble. The convenience of the premium service has been enhanced as more women and families use PCs.

The Company is committed to increasing the number of its premium members. Detailed data is collected and tracked for each area, in order to maximize the number of customers who become premium members when, for example, they buy a computer, visit to have a repair done, or replace their PC.

Premium members are increasing at a very high rate. However, this does not make money in the short term. The Company needs to make an up-front investment for each router which takes a year to

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

recoup from the monthly premium service fees. However, once the initial outlay has been covered, profit is generated at a fixed rate from the second year onward.

The sales of services are growing steadily. What this means in practice may be somewhat difficult to understand for people not directly involved; however, the Company's policy is clear. Sales incentives like those given by manufacturers for product sales are included in product sales. Sales from premium services, repair, maintenance, and one-off service plans are classified as service sales. The Company provides such diverse services that it is difficult to analyze the details of its service sales by disaggregating sales data into the number of service subscribers and the average unit price of services provided. This is because the number of customer and prices are not the most significant factors in this context.

The Company does not release information on the number of members, but given the variety of services it offers and the increases in the number of services and devices it supports, it is likely that the number of members is increasing by about 20% a year.

3. Medium term business plan:

Full rollout of SLP stores providing solution services

Opening a large number of SLP stores by renovating existing ones

Compared to the 10 stores reopened after renovation during the last term, the Company plans to renovate 5 to 10 existing stores and to reopen them as SLP stores during this term and continue to open more stores at the same pace in the next term. The Company also plans to open three or four new SLP stores, while one new SLP store was opened during the last term. SLP stores will be more focused in city centers than existing stores.

SLP stores transformed from existing PC DEPOT stores already have a certain level of recognition and regular customers. The key to their success is how many new service-oriented customers they can acquire. SLP stores can be set up even if the location is less than favorable. Both the Nishimagome and Higashifuchu stores are located on the second floor of a building. Even if they do not have dedicated parking lots, they can still attract customers if there are coin-operated parking lots around the building. The Company has learned that this format can work well and is speeding up the opening of SLP stores.

Firstly, SLP stores will be increased, mainly through renovation. As service grows and the percentage of total sales represented thereby increases, profitability will further improve. Costs for renovation are lower than those for opening new stores. Moreover, a marked impact can be noted.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Comparing the situation before and after renovation, the profitability of renovated stores is about 20% higher than that of existing ones. The expenditures required to open a new store with an area of 400 to 500 *tsubo* could be used for the renovation of four stores each with an area of 300 *tsubo*. Furthermore, the probability of recouping investments is higher, and the returns are also higher. Therefore, such moves are given first priority.

Store development history of PC DEPOT

(number of stores at the end of each FY)

Number of stores at the end of each FY	1994	1999	2004	2009	2010	2011	2012	2013	2014	2015 (forecast)	2016 (forecast)
PC DEPOT Directly managed	1	10	28	43	44	48	50	46	36	26	16
SLP stores								4	15	29	43
Subsidiaries	0	0	0	4	4	12	11	11	13	13	13
FC	0	8	32	17	17	5	5	5	3	3	3
PC DEPOT Directly managed	0	0	0	0	30	46	49	49	52	52	52
PC Clinics Subsidiaries	0	0	0	0	0	1	1	1	0	0	0
FC	0	0	0	24	6	7	7	7	6	6	6
Total	1	18	60	88	101	119	123	123	125	129	133

NOTE: SLP stores include both new and renovated stores. Some directly managed stores have been renovated so as to be changed into SLP stores, and thus the relevant numbers have decreased.

Among existing PC DEPOT stores, those stores that (1) are old, (2) have lost their competitiveness, and (3) are close to city centers will be chosen for renovation to create SLP stores. Although the stores put emphasis on providing services before selling hardware products, they have learned that they can also sell more professional peripheral devices than expected. Therefore, the Company has decided to maintain a certain level of inventory at its stores and so it is not necessarily the case that the inventory level of SLP stores will be considerably lower than at conventional PC DEPOT stores.

There remains considerable room for the opening of SLP stores. As a new-type store with emphasis placed on providing services, we can estimate there to be approximately 200 locations where these stores could be opened. The Company will first open stores primarily in the Kanto region to enhance its brand power through providing community-based services. The Company reckons that it requires 100 to 200 *tsubo* of land in Tokyo's 23 wards and 200 to 300 *tsubo* of land in the greater Tokyo area if it plans to open an SLP store on a vacant lot efficiently.

New SLP store openings: launch into Aoyama following Setagaya-Kinuta

At the newly opened Setagaya-Kinuta Store, customers are gradually increasing, however, the increase is slightly slower than expected. Many customers are bringing in hardware purchased from

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

other companies for repairs, increasing the store's customer base.

The Company has been exploring the possibilities for opening new SLP stores while evaluating the results from its renovated stores. The first new SLP store was the Setagaya-Kinuta store. This store was launched on a full-fledged basis in March and cost around 400 million yen to open due to its wide floor space of 300 *tsubo*; however, this is an exceptional case. The Company usually invests roughly 200 million yen in stores with a floor space of 100 to 150 *tsubo*, and roughly 40 million yen in stores that have all their fixtures and furnishings.

The Setagaya-Kinuta store was renovated directly after opening, which took about four days. Its line of flow was rearranged so that customers who visit the store for the first time can easily enter and move through it. Since this is the first new SLP store, not a renovated store, the store does not have any existing customers. It is not attempting to attract customers with product sales as traditional PC DEPOT stores do. Instead, first the store encourages customers to visit and then it attempts to gain their acceptance by providing them with services in which they can readily seek advice if they encounter any problems. It may take some time for the store to build up its popularity; however, customers will start counting on the store when they have difficulties with their smartphones, PCs, and tablets. Local residents will appreciate having such a store located in Setagaya.

Forecast number of new PC DEPOT store opening

		(number of stores)						
		2011.3	2012.3	2013.3	2014.3	2015.3	2016.3 (forecast)	2017.3 (forecast)
PC DEPOT	Directly -managed	1	4	3	0	0	0	0
	SLP stores				0	1	4	4
	Subsidiaries	0	6	2	0	2	0	0
	FC	0	-12	0	0	-2	0	0
PC DEPOT PC Clinic	Directly -managed	30	16	3	0	3	0	0
	Subsidiaries	0	1	0	0	0	0	0
	FC	-18	1	0	0	0	0	0

NOTE: New directly -managed stores are SLP stores. PC Clinics depend on projects with partners.

Figures in parentheses for PC DEPOT indicate the number of FC stores that became PC DEPOT's subsidiaries. The figure in the table indicates the number of stores for PC Clinic in March 2015 (5 stores opened — 2 stores closed).

This December, the same type of store will open on the first floor of the new Aoyama Quartz Tower (a comprehensive medical facility). This store will attract a great deal of attention from the market, which will be watching to see if it can become a symbol (as a flagship store in a city center) by demonstrating that people with problems with their IT equipment can rely on it for assistance.

The first floor Aoyama store faces the street, but floor space is limited (70 *tsubo*). Located in central

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Tokyo, this store will provide high-quality services and support fitting the area. Thus, service fees may be determined under a different pricing structure. Instead of competing with low-cost BICCAMERA INC. services, the store will attempt to establish unique, high-quality services and branding. Also, the store expects people visiting central Tokyo to visit PC DEPOT SLP in Aoyama to learn about its excellent services, enticing local SLP store visits.

The current and next fiscal terms will be the periods for the Company to establish a new business model for opening new SLP stores and it will continue at the same pace the process of converting existing stores to SLP stores, which it started on a full-fledged basis last year.

Ongoing shift to SLP stores covers large stores as well

Large PC DEPOT stores with services provided at SLP stores are Smart by Solutions. This type of store was first opened in September 2014, and stores numbered 16 by the end of March 2015, and 19 by the end of the first quarter of the current fiscal year.

The Company introduced Smart by Solutions (S×S) at the Tomisato-Interchange store in Chiba. This store has been installed with a counter that, similar to that in SLP stores, has the blue signboard of large conventional stores, not orange as in SLP stores. The Company plans to proceed with such renovations, of installing a Smart Counter inside large PC DEPOT stores as in SLP stores, at 15 stores during this term, while 16 stores were renovated in this manner during the last term.

The size of stores renovated into SLP stores was up to 300 *tsubo*. For stores larger than this, the Company plans to present a different challenge as V2 (version 2) stores.

Large-scale store conversions into SLP stores: the Inagi-Wakabadai Store will be the first.

In September, the Inagi-Wakabadai Store, a conventional PC DEPOT, will be renovated into a new SLP store. This store will have a floor space of 500 *tsubo*. Previous SLP stores have floor spaces of 100, 200, or 300 *tsubo*. These are V1 (version 1) stores. As the Inagi-Wakabadai Store is a large store, it will be a new V2 (version 2) store.

This large SLP store will focus more on IoT visualization, compared to conventional stores. As the store has the space, it will offer 120 seats. The Setagaya-Kinuta Store has 85 seats. Moreover, customers can try IoT devices allowing them to experience Smart Life.

While renovating stores with floor space of 300 *tsubo* costs 70 million yen, converting stores with floor space of 500 *tsubo* into SLP stores costs roughly 100 million yen. If this store is successful, converting large stores into SLP stores will expand.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Main menu of the principal premium services

	All device family plan	All device family wide plan
Initial settings/support	up to 7 for all devices	up to 10 for all devices
Wireless internet connection	complete & delivery at store front	High-speed wireless devices complete & delivery at store front
Home wireless connection	setting at store front, free of charge	setting at store front, free of charge
Measures against virus infection/data leakage/entering dangerous sites	up to 7 Windows PC, Mac or smartphone	up to 10 Windows PC, Mac or smartphone
Internet fraud countermeasures	Newly introduced	Newly introduced
ozzio email account registration/setting	1 address	1 address
Explanation on basic operations at store front	up to 7 Windows PC, Mac, or smartphone	up to 10 Windows PC, Mac or smartphone
OZZIO cloud automatic backup service	up to 1TB	up to 1TB
Total service call center	available	available
OS upgrade & backup	up to 7 for all devices	up to 10 for all devices
Inspection at store front/periodic backup	up to 7 for all devices	up to 10 for all devices
Trouble restoration service	up to 7 for all devices	up to 10 for all devices
Data reconfiguration upon replacement	up to 7 for all devices	up to 10 for all devices
Memories in smart video	500 yen per month (excl. tax) up to 10 videos tapes (VHS, 8mm and/or miniDV)	500 yen per month (excl. tax) up to 10 videos tapes (VHS, 8mm and/or miniDV)
Tethering set-up	as many devices as needed	as many devices as needed
Extended warranty for PC repairs	Unlimited repairs for 800 yen per month (excl. tax)	Unlimited repairs for 800 yen per month (excl. tax)
Monthly fee		
Current price	3,950 yen (564 yen per device)	4,450 yen (445 yen per device)
New price: from January 2016	4,500 yen (643 yen per device)	5,000 yen (500 yen per device)

Response to service demand

Customers sometimes face long waits at SLP stores. It takes time for stores to solve the difficulties facing customers one by one. Although the stores are trying to improve their service structure, they cannot always respond to peak weekends. Actually, customers are choosing to visit stores on less

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

crowded days or times during peak shopping periods.

Upgrading customers

Customers receive various services. Therefore, it is not appropriate to consider the Company's service fee income by looking at the number of members multiplied by the average membership fee. Some customers visit stores for repairs, others for specific services. Some customers subscribe to premium services and then once they have received the Company's services, they come to realize that being maintenance-free is advantageous, and that additional services would also be useful. More customers will use the cloud service. What is going to happen next? As the quality of services is improved, customers will be upgraded. In other words, they will increase their monthly fees to use the services

Moving to new prices

The Company plans to steadily expand service lineups and move to new prices corresponding to service expansion. The focus is shifting to improved software with increased security and improved usability with increased router speed.

A price revision of premium membership services is scheduled for January 2016. For members who upgrade beforehand, the Company will provide added anti-fraud measures with enhanced security and switch anti-virus software to Kaspersky software for a certain period, moving up the schedule at the same prices. As existing customers bring their current hardware to stores for service, the Company will offer benefits worth the effort.

In March, a member support system that comprehensively increases the efficiency of services called JIMAS (*Jitaku* (home) Internet device Multi-Assistant System) launched. Customers are invited to join the service with a device management system. Under this service, the condition of certain devices is constantly monitored with a dedicated application installed on the device. If a device is lost, it can be locked remotely. These services allow the Company to manage digital information and store it as customer records. Using these records, customer service can be further enhanced.

Stepping up efforts to provide solutions

The future sales policies of the Company are to (1) step up smartphone sales and (2) concentrate on providing solutions. As smartphones sell well, the Company is required to provide solutions to support them. Recently, an increasing number of users have printed directly from their smartphones and tablets using printers, and this encourages better sales of printers. The Company has started to

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

provide services that enable customers to use a printer at a monthly fee of 500 yen rather than purchase a printer for 25,000 yen. Thirty percent of the Company's customers acquire a printer through this type of service.

The Company will also link its services to health care products. If users step on Tanita's weighing machine, various types of data will be transmitted to their PCs or smartphones so that they can be managed conveniently. Furthermore, it will perform all necessary settings on behalf of customers. These services are designed so that customers pay a monthly fee to enjoy them. Since the Company increases menu items as described above, product sales, including services, will grow rapidly.

Major carriers have unlocked smartphone SIMs. Up to now, the subscriber identity module (SIM) card of mobile phones in Japan has been locked. In other words, the SIM card, which records information such as phone numbers which identifies individuals, can only be used for a particular mobile phone.

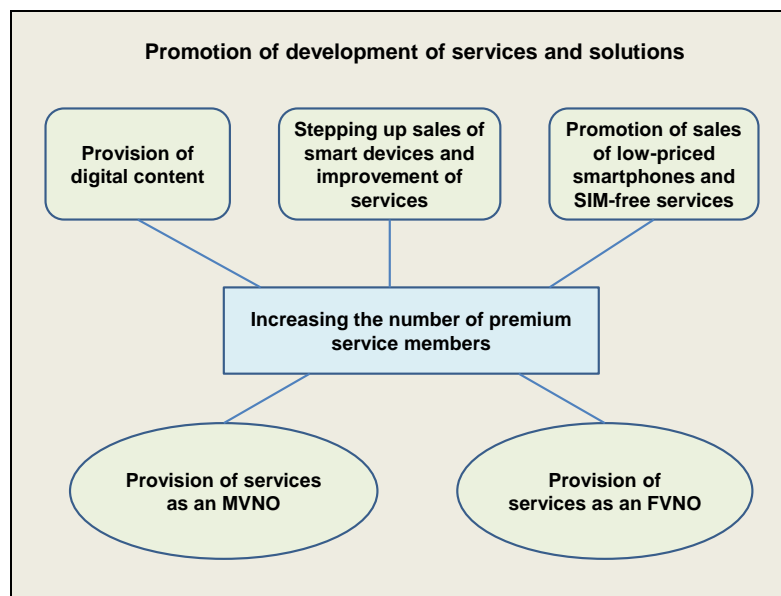
Overseas, any mobile phone can be used as one's own phone merely with the insertion of one's SIM card. Worded differently, if one has an SIM card, one can buy new smartphones more easily. One may own two to three smartphones so that one can use them for different purposes.

NTT East and NTT West, meanwhile, plan to start wholesaling optical line services. These services allow other companies to lease NTT's networks to provide fixed-line services under their own brands as fixed virtual network operators (FVNO) like mobile virtual network operators (MVNO). Up to now, the Company has acted as an agency for optical lines, but from now on it will provide them under its own brand. From the Company's router onward, the same line can be used, and therefore, NTT's optical line will be replaced by the Company's own. Since it can incorporate these into the premium services, the Company can improve its overall services without any particular difficulties.

The Company will take leadership in supporting these services of NTT's. Sales competition is likely to become intense, but in terms of how to use these services efficiently, there is ample room for the Company to expand service demand by enhancing its service functions. This will provide the Company with new business opportunities.

Specifically, the Company can (1) provide hardware maintenance services for smartphones, (2) offer services associated with smartphone replacement, (3) lower communications fees by incorporating FVNO services into its premium services and (4) help users to achieve greater efficiency in home communications hardware and software. These services will be useful to users. The Company will be able to charge higher monthly service fees that correspond to such services.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.



Increased added value with FVNO

Three to four thousand customers a month join the service using FVNO. When customers switch to the Company's fiber-optic network service, a communication fee of 4,000 to 5,000 yen per month is recorded as sales from services. While profit margins will be higher compared to conventional agency commissions, profit ratios for services will decrease.

FVNO's service provision using optical lines is an epoch-making change. In the 30-year history of the privatization of NTT, sales of mobile phones have increased, centering on NTT DOCOMO, while fixed telephone lines have been on the decrease. Under such conditions, NTT East and West first tried to expand optical network lines on their own; however, later they completely changed their policy.

In short, they decided to terminate their retail business and devote themselves to wholesale business. As the optical lines of NTT are sold on a wholesale basis, it has become possible for anyone to initiate retail services. NTT DOCOMO is able to provide services for both mobile phones and optical fixed telephone lines, while other companies in various industries also sell optical fixed telephone lines at retail among their services. In that sense, competition will become fierce, but the Company can greatly expand the range of its services and products.

FVNO services will also support fixed-line services. So far, the Company has provided services by attaching its Wi-Fi router to the tip of optical fiber lines, but now it has become possible to provide services including fixed optical lines.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

The Company will have to compete with mobile phone shops of carriers in FVNO services. In the competition, each company will make the most of its characteristics. The Company will have existing members subscribe to FVNO services and communicate the advantages of the Company's unique services to customers.

An increase in the menu of services means an increase in the number of people who cannot use them properly, which may lead people experiencing difficulties to PC DEPOT. To compete with carriers' shops, we may have to use incentives (sales promotion expenses).

PC DEPOT's unique services using optical fixed telephone lines have a good reputation. Customers can check faxes that have come to their homes via their smartphones, use their smartphones as cordless handsets at home, and make telephone calls and send faxes within 10 minutes 300 times a month without paying any surcharges. Customers can use these services at the cost of 2,000 yen per month by subscribing to the Company's optical Internet services.

**PC DEPOT high-speed optical line
(Optical Internet service as an FVNO)**

- The Company has developed "OZZIO Hikari" as an FVNO (fixed virtual network operator), starting in February 2015.
- It is being integrated with the Company's MVNO services, such as premium services, support services, content services and low-priced smartphones.
- OZZIO Hikari is provided by the Company by buying wholesale optical lines from NTT.
- The Company's premium members can get a good-value set of services and enjoy convenience when they change from NTT's optical lines to OZZIO Hikari.

Favorable sales have moved into a new phase—"Just Show up and Buy a New PC"

Service sales have remained firm. In the past, it has been a common pattern for the sale of devices to lead to the sale of premium services. After premium services have apparently improved, service sales have increasingly contributed to the profit growth.

In addition to MVNO, FVNO has entered the market. From now on, FVNO will enter the market, in addition to MVNO. Although it is still in the phase of seeding, the Company will enter a different phase with the addition of new services. Thus far, people have visited PC DEPOT only when they need something related to PCs; however, from now on, they may visit PC DEPOT for any types of Internet devices, including smartphones, tablets, printers, and fax machines.

Under such conditions, the key is the cloud. The Company will launch full-fledged "Comprehensive Cloud Services." Now that stable server operation has been secured, the Company

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

will be able to provide new services going forward. One of the representative new services is “Just Show up and Buy a New PC.” The Company has begun to provide its premium members with an automatic data backup service for Internet devices such as PCs and backup data reproduction services at store counters using a patent-pending proprietary comprehensive cloud system.

As data on PCs are backed up, when you buy a new PC, you don’t need to bring your own PC to the store to take data from it. Customers can have their new PCs ready for use without difficulty as the general mirroring service (backup of the same data on the cloud) provided by the Company allows them to save the data on their PCs on the cloud. Their smartphone data is also saved on the cloud via PCs.

Investments in such services do not necessitate much money. It is not a big investment compared to that involved in the creation of a new store. The Company can expand this service gradually.

It will be difficult for other companies to offer the same service. The Company has enhanced the PC Clinic functions at its stores. It has trained and developed engineers with expertise in PCs, smartphones, and the Internet. We have already created a mechanism through which we can make profits. Even if mass home electronics retailers try to imitate our model, it is impossible for them to develop the same functions by deploying such personnel at their stores.

Unlocked SIM services became available from May. The service costs 2,000 yen per month. Optical fixed line service costs about 5,000 yen per month. A certain contribution to profits can be expected from the second or third year if these services grow.

Original development of content and services: more than 50 types of digital content services

The Company has been evolving its business model. The Company is focusing on developing content and services that are compatible with Internet devices and providing them as solutions to customers.

Internet devices have diversified, and the emphasis on personal computers has shifted to smartphones and tablets. People have multiple devices and use them according to their needs and the occasion. And the combination of content and device meets the needs of today’s consumer. In fact, one of PC DEPOT’s ideas is to install digital versions of specialist magazines onto a tablet and offer them as a package at an affordable price. The users have the content that they want immediately, in addition to being able to use the tablet freely.

Customers can purchase a Lettuce Club package with content published twice monthly at 329 yen per issue and an iPad Air (16 GB Wi-Fi only model) for a monthly fee of 1,000 yen. The contract period is for three years. If a consumer purchased these two items separately and for the same period

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company’s position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst’s opinion of the Company, and all unauthorized usage hereof is prohibited.

of time as the contract, it would cost almost 60,000 yen. But with this package, customers pay only about 36,000 yen. The Company aims to package and offer services that customers want in order to retain them as long-term customers.

The unique service of distributing digital magazines through tablets has further spread throughout the market. *Nikkei Business*, *Toyo Keizai*, and other magazines are now available in this way. What is more, a subscription for a certain period results in lower costs than those for print-based magazines and newspapers.

Digital-contents services (examples)

		(yen)				(yen)	
Contents (magazines)	Magazines + iPad mini Monthly fee	Fixed prices of magazines (yen)		Contents (magazines)	Magazines + iPad mini Monthly fee	Fixed prices of magazines (yen)	
Weekly Toyo Keizai	2,000	690	Weekly	Nikkei PC21	1,200	650	Monthly
Nikkei Woman	1,200	580	Monthly	Mainichi ga Hakken	1,000	-	Monthly
Nikkei Business Associe	1,200	650	Monthly	News Week	1,500	460	Monthly
Nikkei Money	1,200	690	Monthly	PEN	1,200	650	Biweekly
Nikkei Trendy	1,200	570	Monthly	seventeen	1,200	590	Monthly
GetNavi	1,200	610	Monthly	non - no	1,200	650	Monthly
LEVOLANT (Le Volant)	1,200	1,010	Monthly	MAQUIA	1,200	650	Monthly
Lettuce Club	1,000	329	Biweekly	Marisol	1,200	800	Monthly
ESSE	1,000	500	Monthly	BAILA	1,200	730	Monthly
President	1,500	690	Monthly	eclat	1,200	940	Monthly
DigiCAPA	1,200	910	Monthly	LEE	1,200	670	Monthly
CAPA	1,200	700	Monthly	MEN'S NON - NO	1,200	770	Monthly
Mac Fan	1,200	780	Monthly	Haiku	1,200	920	Monthly
Weekly Soccer Digest	1,200	480	Weekly	Tanka	1,200	930	Monthly
WORLD SOCCER DIGEST	1,200	620	Biweekly	EVEN	1,200	741	Monthly
Nikkei Health	1,200	600	Biweekly	Shogi Sekai	1,000	800	Three times in a month
Slugger	1,500	900	Monthly	Nikkei Business	2,000	690	Weekly
Smash	1,200	670	Monthly	Tsuribito	1,200	935	Monthly
dancyu	1,200	880	Monthly	Kaminuma Emiko no Oshaberi	1,000	490	Monthly
DOS/V POWER REPORT	1,200	1,180	Monthly	Cooking			
Golf Digest	1,500	390	Weekly	Shumi no Engei	1,000	545	Monthly
RIDERS CLUB	1,200	905	Monthly	Kyono Kenko	1,000	545	Monthly
BiCYCLE CLUB	1,200	720	Monthly	Igo Koza	1,200	545	Monthly
Discover Japan	1,000	1,008	Once in two months	Thank You!	1,000	420	Monthly
Flick!	1,000	-	Monthly	Otona no OFF	1,200	700	Monthly
Fujingaho	1,200	1,200	Monthly	National Geographic	1,200	1,010	Monthly
ELLE	1,200	690	Monthly	Package of two magazines	1,800	2,100	
25ans	1,200	780	Monthly	Package of three magazines	2,200	2,300	
MEN'S CLUB	1,000	780	Monthly	Package of four magazines	3,300		

NOTE: All monthly fees are standard prices, and discount prices are also shown if available. Prices of packages depend on combinations.
 The iPad mini is the 16 GB/Wi-Fi model.

LEVOLANT is a specialist, colorful car magazine for motor enthusiasts. The price of the magazine is 1,010 yen a month, but if readers pay a subscription price of 1,200 yen a month, they can get an iPad Air as well. Books and other publications can be heavy to carry around, but this package allows them to be read casually anywhere.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

The reason why this package is being offered at a lower price is because the Company has capabilities in the area of content package services. If consumers already have iPad Airs, all they need to do is to buy the digital version of this magazine. They can of course buy an iPad and the magazine separately, but doing so will cost them more than 1,200 yen a month. The publisher of LEVOLANT could sell this package themselves, but they are unable to provide users with support until they master their device. On the other hand, the Company provides a one-stop service and offers support to users whenever they need it. This service is also convenient for content providers as it helps them to increase their digital audience. More than 50 kinds of packages are already being offered.

Enhanced services

Target devices	Descriptions of principal services
iPhone	Extended warranty on property damage (device failure, failure due to water leakage or breakage) Synchronizing iPhones and PCs Making reduced-rate telephone calls with an iPhone Listening to radio programs with an iPhone
iPad	Device failure due to water leakage / breakage (a maximum of twice in two years) Synchronizing iPads and PCs Data sharing with your Mac and iPhone + iPad Watching iPad contents on a large screen
Windows machine	Initial settings + data recovery disk Data migration + HDD backup Support with a one-point quick lecture
Nexus 7	E-mail setting + account registration Safety measures against virus and for personal information protection + 1TB cloud package Reading the Asahi Shimbun on the Nexus 7

Need for specialist services surviving a reinvention of Internet devices

There is an accelerating trend for the position of leading player in personal communication to be shifted from personal computers to smartphones. Cloud systems will become the main infrastructure. Computers used to be at the center of the internet, but are now giving way to net devices embedded in appliances, cars and homes, making them useable anywhere. Software is required to control such functions, and services are also required to make full use of this software. The Company is committed to the provision of these services, and has set as its objective the adopting of a strategy to

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

expand its business to cover internet devices, and to not limit its services to computer-orientated ones.

In today's digital era, Google, Microsoft and Apple are the Big 3. With these three top players at the center, Takahisa Nojima has established the fundamental policy for PC DEPOT as "helping users to resolve their problems."

Service menus of PC Clinics (examples)

(yen)

	Member	General
Service		
12 tickets for quick lectures	5,000	30,000
Setting-up		
Setting-up a wireless printer	3,000	10,000
Data		
Data restoration service	5,000	16,000
Setting-up an external peripheral device		
Setting-up a printer	3,000	6,000
OS/application configuration		
OS installation	0	10,000
Internet/network configuration		
Third-party provider email configuration	3,000	7,000
Smartphones/tablet devices		
Includes a mobile access point to set up Wi-Fi	3,000	10,000
Data management configuration		
Synchronizing with iTunes and synchronizing with back-up data	3,000	6,000
Configuration for peripheral devices		
AppleTV configuration	3,000	6,000
Contents/application configuration		
Setting-up for newspaper subscription	1,000	4,000

NOTE: "Member" refers to a service member of PC DEPOT; "General" refers to others.

Consumption tax is not included, so 8% of these prices will be added as the consumption tax.

Various IoT support is available

The Company is putting much effort into IoT as well. The term IoT is used broadly including the advanced use of PCs, smartphones, and tablets, or in combination with new hardware. Use of devices such as smartphones expands new connectivity in areas including healthcare, wearable computing and network, security, entertainment and content, and develops new uses. Contract details including liability exemption will change.

Examples of IoT include health control using data transferred from OMRON Corporation scales to smartphones, connected to Panasonic Corporation fax machines, allowing users to view fax content via smartphone.

The Company will pursue IoT for personal use, maintaining PCs as a platform. Companies such as Google Inc., Apple Inc., and Amazon.com, Inc. will begin providing new services. Robots will be

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

used in homes. Under any circumstances, the introduction of a new network will require new support. This is the Company's raison d'être in specialized areas.

From the first quarter of the year ending March 2016, "technical services/fees" changed to "solution service sales." Providing integrated hardware and software services now largely dominates these sales. Sales from these types of services are approaching 50% of the total, due to an increase of services with printers, iPads, and fiber-optic networks.

Importance of risk management due to increase in accounts receivable caused by new service sales

In SLP-based businesses, it takes three years to collect the full amount of revenue from products and services. Products sales are recorded under accounts receivable, which increase as SLP-based sales rise. For example, iPad Air + magazine sales are growing. They are recorded first as product sales and then as service sales. The monthly fee charging service for tablets and printers is designed to sell hardware first and then collect its price through monthly fees. In other words, this means that accounts receivable (installment accounts receivable) grow on the balance sheet.

This accounts receivable item grew by 600 million yen in the term ended March 2013, by 1.9 billion yen in the term ended March 2014, and by 4 billion yen in the term ended March 2015. Worded differently, the Company needs more working capital as such accounts grow. If the Company makes progress in collecting monthly fees, however, the amount of working capital needed will not increase as it is currently doing because a balance between outstanding accounts receivable and required working capital will be gradually achieved. Although the balance of accounts receivable will continue to grow in the current term, the pace of growth will settle at around 2 billion yen a year sometime in the future.

An increase in accounts receivable will also require enhanced credit management. With regard to sales at conventional merchandise stores, the individual credit risks arising from customers paying by credit card are assumed by the credit card companies, but such risks accompanying sales at Smart Life stores must be taken on by the Company. In the event that a customer becomes unable to make monthly payments for any reason, the Company will have to assume his/her debts.

In principle, as the Company sells products and services to individual customers who use IT products, it performs identification and usage checks very carefully before sale. Volume sales to corporate customers are outside the scope of its business. In many cases, the Company may turn down a bulk purchase even from an individual customer because it is unsure whether such products and services are actually for private use. As is obvious from the above, credit risks are well controlled by stores and therefore there is no need to worry about such risks.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Focusing on human resources development

To recruit personnel, the Company has been hiring people who understand its corporate culture. It is procuring part-time workers to avoid worker shortages.

Location and human resources are key factors for store development. With the Company's services, people always contact consumers by analog methods, and this is where a benefit can be found. Users pay monthly fees because they feel the convenience of a certain frequency of use. The Company hires about 50 new graduates, but it also plans to acquire at least 100 staff annually, including employees converted from part-time status to full-time status. It also intends to increase its part-time staff by 300 people annually. In other words, in order to achieve a 20% increase in the service business, it is necessary to increase the workforce at a certain rate, and furthermore, an increase in the number of workers should occur ahead of business growth.

The Company is conducting HR development to support its new-store openings. PC DEPOT has attracted employees who like PCs. It also has many female employees. Its female employees have expertise in hardware, software, as well as in their usage, reflecting that working at PC DEPOT is worthwhile and fulfilling to both women and men. Employees receive training and the Company is able to staff the PC Clinics that it opens.

The Company does not impose any quotas for individual staff's sales and service performance. Instead, everything is handled on a team basis. A team consists of three to five people and, for example, there may be five teams in a store. The management concept behind this is that the team members can share their experience and thereby raise each other's levels of competency. Employees' attitude and responsiveness to customers is the key. Part-time workers who have worked for the Company for a long time are proactively promoted to full-time positions.

Another point is the stores' use of "cyber operations." This was originally a kind of risk management scheme through internal monitoring, by which the on-site staff and the head office can be connected via Internet telephone and they can ask each other about anything at any time. Support for services can also be provided from the head office. If an on-site staff member has a problem, another person in the store can immediately go and provide them with support. Being able to respond quickly in this way improves service capabilities, while customers feel they are being dealt with kindly, politely, and quickly at PC DEPOT stores.

Active use of senior aged part-time workers

Stores are employing senior aged workers who provide better customer care, use polite, well-mannered greetings, have a tidy personal appearance, and provide good customer service. There are now over 70 senior aged part-time workers, and the number will increase to 150 by the end of the

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

fiscal year. One or two senior aged workers will be assigned to each store.

Hiring senior aged part-time workers employs people aged 55 to 75 in second careers. These workers will: 1) advise customers; 2) improve store conditions and security; 3) provide health management and career advice to young staff; and 4) apply their experience as specialists in technology or sales. This unique system is attracting attention from the market.

Changes in gross profit of products and services (provisional)

	2013.3		2014.3		2015.3	
	(million yen, %)					
Overall sales (consolidated)	51,353	100.0	53,816	100.0	51,285	100.0
Service sales (consolidated)	12,616	24.5	16,237	30.2	19,720	38.5
Goods sales (consolidated)	38,736	75.0	37,579	69.8	31,565	61.5
Cost of services (non-consolidated, provisional)	3,176	25.2	4,676	28.8	5,916	30.0
Overall gross profit (consolidated)	16,134	34.0	18,429	34.0	19,676	38.4
Service gross profit (provisional)	9,440	74.8	11,561	71.2	13,804	70.0
Goods gross profit (provisional)	6,694	17.3	6,868	18.2	5,872	18.0

NOTE: Goods sales includes other services (royalties, Internet related).

Figures in the column next to sales amount are a ratio of each segment sales to overall sales.

Provisional values are not necessarily accurate; these are approximations as reference data.

The quality of services is its source of competitiveness: active use of “Platinum Partners”

The Company does not merely sell hardware such as PCs and tablets, but offers services. This is a system under which convenient solutions are provided on a continual basis for a monthly fee. 60% of visitors to PC Clinics are those who bought products at other stores. That means they are interested in something other than low prices. PC Clinics support a wide-range of products owned by our customers. This brings about significant efficiency to the Company.

When considering the profits generated by products sales and from service sales from a perspective of operating profit levels, it is not possible to create a clear-cut breakdown of levels on classified into products and services. The reason why this cannot be done is that the Company's management does not differentiate products sales and service sales. Even though each staff member at stores has his/her own role, everyone provides both products and services. These sales are not differentiated when assessing employee performance. One pattern used involves a customer buying a product and subscribing to a service, thus becoming a regular customer of PC DEPOT, who naturally comes again to buy some other product.

However, even when profits derived from product sales and from service sales are viewed from the perspective of operating income under certain prerequisites, the structure in which service sales are highly profitable remains unchanged.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

In the competition to capture this demand for services, the Company has the advantage that is furthered by its track record over the years and its personnel. That is, the Company has set as its core policy differentiating itself from the competition. It does this by providing services that take time and effort to customers who may need more help to make full use of their purchases. The Company targets this kind of customer rather than those who do not need such services, and it is this latter kind of customer that other companies have set as their main target for their retail-exclusive operations.

Response to the rise of internet shopping

There is a concern that internet shopping might be a threat to over-the-counter sales. In fact, some people browse products at stores, but actually buy them online, as the prices.

This scenario is fine for those users who are able to make full use of their newly purchased hardware. However, others are in great need of convenient services in case they do not understand how to use their new hardware fully or are faced with some problem. That is where the Company has a chance to show what it can do. Basic sales of products such as iPhones, iPads, Nexus smartphones/tablets or Kindles do not make much profit. But if customers subscribe to premium services, the relationship with them can be maintained for a long period time, and service sales will contribute to earnings. In that sense, the Company is continuing to handle new products in a proactive way.

Pursuit of lifetime value

The shift to SLP stores will advance steadily. PCs will increasingly be accumulated as stock because they do not cease to exist. PC DEPOT has been evolving to achieve a brand new type of format by completing a total makeover of PC mass retailers. After transformation to SLP stores, stores experience changes in comparison from their previous formats, in that (1) customers stay in the stores longer, (2) more female customers visit, (3) customers revisit more frequently and (4) customers consult with employees about various matters.

The extent of sales in terms of customer hardware purchases changes little after renovation. However, sales from providing service are certain to increase. In other words, the stores gain long-term customers.

A short interval between visits means that visitors revisit the store again sooner once they have bought a product or service. Increasing numbers of female visitors represent the fact that needs for digital devices in households have risen and people wish to have a better command of them. In this sense, President Nojima hit a bull's eye.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

On the other hand, some customers miss the old stores, where a full array of products was displayed. Others find the fact that they cannot see many products to be less attractive. However, clarifying the function of stores has highlighted the uniqueness of the Company.

When the Company used a blue logo (for the former PC DEPOT), employees always were looking over their shoulders at competitors. However, after the change to the orange logo (the new SLP stores), they have no longer been paying excessive attention to competitors. It is said that they spend more time in the store explaining products to customers and less time negotiating with customers about prices.

“Lifetime value” is a concept in which the time span during which a customer uses a product is considered to be that product’s “lifetime.” The value of the customer to the business in a general sense during the lifetime of that product is raised, allowing the Company to generate sales accordingly during that time.

The Company’s service sales are growing, but in the normal growth pattern for services, they become profitable only in the second or third year of a three-year contract. Service quality should be improved so that members are encouraged to buy more products from the same store. Of course, member numbers are bigger at existing stores than at new stores. New stores have to compete in terms of products sales initially, and then, going forward, they will increase their member numbers.

So, if prices go down in due to competitions of products sales, making profit at new stores would be slower than expected. By increasing members, service sales can be raised, leading to additional profits several years later. The number of service subscription members is increasing, so “lifetime value” of a particular level can be ensured, depending on the terms of the members’ subscriptions. PC DEPOT is meeting the challenge of expanding a business model that is dependent on a customer base formed of members who are subscribed to its services. The Company operates while carrying out analysis of its service sales.

Targeting an ordinary income to sales ratio of 10% from the new business model

As business goals in the current term, President Nojima has set an ordinary income to sales ratio of 10% and REO of 15% as the new KPI (key performance indicators). While the ratio of ordinary income to sales improved to 6.2% in the term ended March 2015, it is unclear how far this profitability ratio will increase in the future. If the proportion of income from services increases in the current business model, the profitability ratio of around 10% can be achieved.

Since the Company has established a unique business model that other companies cannot replicate, it is quite possible for it to achieve sales of 60 billion yen and ordinary income of 5 to 6 billion yen if it maintains its current direction.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company’s position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst’s opinion of the Company, and all unauthorized usage hereof is prohibited.

To aim for sales of 100 billion yen and ordinary income of 10 billion yen in the future, the Company needs to further solidify its new business model for its store-opening policy, and it is expected to move in this direction.

Assuming the monthly fee for membership services is five thousand yen, if the number of members grows to one million, the income from services could reach 60 billion yen. If such income from services is attained, annual sales of 100 billion yen and ordinary income of 10 to 15 billion yen will be achievable. How will the Company capture customer demand for those services? The market will be paying attention to its strategy for the deployment of stores and the development of a new service menu.

The shift to SLP stores has sped up the transformation from a flow-based business model to an asset-based one. Connections between customers and the Company have become stronger. Moreover, giving consultation to customers increases contact with them.

Members of the service system exhibit several usage patterns, which cannot be explained only by the number of members and average values such as the average unit price. The conventional pattern has been service on a per-household basis. However, in the age of cloud services, the personal management of data has become important, and accounts for individual users are therefore important. The nature of services will also be further diversified.

In short, that means that the number of members will increase at a higher pitch than ever before, and the unit price of services will also increase. Contract prices, as the source of funds for services, will increase by 20% to 30% per year. If this happens, an ordinary income to sales ratio of 10% or more is achievable.

Challenges for the future

President Nojima recognizes that there are three challenges for the Company. The first challenge is employee training. While the Company has been achieving success in technical training, which is its area of expertise, it is important for it to nurture employees in the level immediately below the store manager. For example, to what extent are the people responsible for store operations and technical services able to pay careful attention to the entire store? In that regard, the Company has been hiring retired, talented office workers as senior aged part-time workers to raise the levels of courtesy and services to customers in stores.

The second challenge is the manner of attracting customers. Stores used to attract customers with products by handling a diverse range of items (devices). However, the method of advertising sales with flyers is not suitable for SLP stores, which do not employ that sort of business strategy. Since

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

the range of devices they handle is limited, SLP stores need to make good use of these devices in order to attract customers.

The third challenge is governance in its daily operations. Rather than selling products, the stores provide services and then recruit customers as members by providing solution services. On the other hand, products are sold in the form of installment sales accompanied by services. The Company emphasizes a stock-type business, not a flow-type business. In this situation, the governance at stores in its broad sense includes the management of customer information and the full-time and part-time employees, and this managements needs to be appropriately implemented.

4. Near-term operating results:

Realizing service sales benefits, achieving record-high profits

What the figures from existing stores tell us

It would not be correct to view the growth rate in the Company's existing stores based on a separation of the number of visitors from sales per customer. Analysis of the Company's monthly figures is not as simple as that of conventional merchandise stores. This is because the number of service members grows cumulatively, and these members contribute to monthly service sales. However, since products have actually been sold, sales figures cannot be analyzed based simply on member numbers and Average Revenue per User (ARPU), as is done for service sales of telecommunication carriers. That said, it cannot be denied that service sales owing to this cumulative effect have made a greater contribution to the Company's favorable performance.

Looking at the quarterly-based sales results posted by the Company in the past, when it engaged mainly in products sales, sales tended to be not bad during the first quarter, decline in the second quarter and become favorable in the third and fourth quarters. This seasonal trend is now disappearing because the Company has shifted its focus from selling products to selling services. Thus, the Company's performance should become more stable.

Performance started to recover in the term ended March 2013

The Company achieved a better-than expected recovery in FY2012, with net sales of 51,353 million yen (up 3.3% YoY), operating income of 876 million yen (up 58.3% YoY), ordinary income of 933 million yen (up 30.1% YoY), and net income of 445 million yen (up 59.0% YoY). Although same-store sales declined to 94% of the total of the previous fiscal year, service sales continued to grow, by 21%, accounting for 27% of all the Company's sales. The growth of service sales

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

contributed to the overall strong performance, despite an increase in the number of stores and service staff as well as in system development costs.

On the balance sheet, accounts receivable increased due to the rise in service sales, while efforts were made to reduce inventories. Due to this, inventories in existing stores decreased by around 20%. In terms of accounts receivable, sales of service-inclusive products like communication terminals by MVNO and premium services (maintenance service products for members for a monthly fee) increased.

The term ended March 2014 saw another large increase in profit.

For the term ended March 2014, the Company delivered very good results with 53,816 million yen (up 4.8% YoY) in sales, 2,310 million yen (up 163.6% YoY) in operating income, 2,411 million yen (up 158.4% YoY) in ordinary income and 1,554 million yen (up 248.7% YoY) in net income. Income figures were the highest in the Company's history.

The reasons for this are as follows: 1) service sales remained firm, up 28.7% from the previous year and growing to account for 30% of total sales; 2) frontloaded demand for PCs took place before the consumption hike as maintenance for XP was terminated; and 3) prices of PCs and other equipment stabilized with the continuing trend of a weak yen. By product, sales of hardware declined, but the frontloaded demand in March may amount to 1.5 to 1.8 billion yen. Although existing stores had been prepared for a decrease, they performed well, with a 4.8% increase.

The total number of stores as of the end of March has not changed since the previous year, but 4 out of 66 PC DEPOT stores were renovated to become SLP stores (PC DEPOT Smart Life Partner stores).

As for dividends, the Company aims to return profits to shareholders in a consistent manner over the long term, with a payout target of 20%. Due to good earnings, the Company increased dividends.

Performance in FY2014 remained extremely strong

In FY2014, the Company reported net sales of 51,285 million yen (down 4.7% YoY), operating income of 3,089 million yen (up 33.7% YoY), ordinary income of 3,205 million yen (up 32.9% YoY), and net income of 1,941 million yen (up 24.9% YoY). Gross profit from product sales was also steady due to the effects of Windows XP until the second quarter, but sales of PCs lost momentum from the third quarter. On the other hand, sales of services have continued to be strong, and the conventional pattern of profits greatly increasing despite sluggish total sales growth has continued.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Balance sheets comparison

(millions of yen, %)

	2010.3	2011.3	2012.3	2013.3	2014.3	2015.3
Current assets	10,511	11,678	14,185	13,991	18,494	19,920
Cash and deposits	1,754	2,505	2,083	2,982	4,679	2,370
Accounts receivable-trade	2,251	2,533	3,619	4,098	6,939	9,906
Inventories	5,316	5,500	7,285	5,986	5,775	6,548
Fixed assets	7,443	8,051	9,052	8,942	8,644	9,336
Tangible fixed assets	2,844	3,736	4,941	5,073	4,836	5,013
Goodwill	1,025	690	406	155	10	5
Guarantee deposits	1,479	1,440	1,466	1,387	1,349	1,639
Lease deposits	1,329	1,234	1,272	1,268	1,248	1,275
Total assets	17,954	19,729	23,238	22,933	27,138	29,257
Current liabilities	6,473	6,449	9,225	9,009	9,758	11,647
Accounts payable-trade	2,764	2,421	3,506	2,087	3,506	1,691
Short-term loans payable	800	700	2,100	2,550	900	4,520
Long-term loan payable (within one year)	690	1,004	1,518	1,849	1,727	1,447
Fixed liabilities	2,743	3,747	4,449	4,149	3,915	2,428
Long-term loans payable	1,936	2,759	3,809	3,479	3,244	1,796
Net assets	8,738	9,533	9,563	9,722	13,464	158,181
Interest-bearing liabilities	3,426	4,463	7,428	7,879	5,871	7,764
Interest-bearing liabilities ratio	19.0	22.6	32.0	34.4	21.6	26.5

Working capital is on the increase.

The Company raised 2.3 billion yen through equity finance in January 2014. In terms of the uses of these funds, the Company allocated 900 million yen to opening new stores, 1.1 billion yen to renovating existing stores, and 300 million yen to improving its IT system. The balance sheet for the term ended March 2014 saw an increase in accounts receivable due to the frontloaded demand in March. Shareholders' capital increased considerably after 2.3 billion yen in finance funds was injected through a public offering. The equity ratio rose to 49.5%.

In capital investment, 70 million yen per store is required for renovation and 200 million yen to open a new store. It is less expensive to open a SLP store than to open a conventional new PC DEPOT store. On the other hand, when service sales increase, operating funds grow faster than such sales. As a result, the investments will be recouped over a few years. On the balance sheet, accounts receivable have increased. When service sales increase, accounts receivable grow because a product that combines a tablet with magazines, for instance, is a package of service and a product for which costs are collected partly after the sale from a monthly fee. Store investments have settled down, but the amount of working capital needs to be increased as service sales grow.

The Company is currently increasing software investments, also. This initiative is being taken in order to concentrate the Company at energies on establishing a cloud-computing system of its own,

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

and on building its own proprietary fee-charging system. The Company plans to open a certain number of new stores, though it will do so while closely watching market conditions.

Cash flow trends

(millions of yen)

	2010.3	2011.3	2012.3	2013.3	2014.3	2015.3	2016.3 (forecast)	2016.3 (forecast)
Cash flow from operating activities	182	1,121	-635	1,597	2,010	-2,512	280	850
Net profit after tax	651	713	-63	441	1,902	1,834	2,430	2,900
Depreciation	512	595	715	728	686	781	850	950
Amortization of goodwill	344	334	296	259	145	5	0	0
Accounts receivable	-356	-281	-1,087	-479	-2,840	-2,967	-3,000	-3,000
Inventories	-564	-184	-1,785	1,299	210	-772	-500	-500
Accounts payable	28	-343	1,085	-1,418	1,417	-1,816	500	500
Cash flow from investing activities	-1,561	-1,440	-2,537	-994	-441	-1,436	-1,600	-2,000
Tangible fixed assets	-1,341	-1,287	-1,691	-844	-332	-797	-1,200	-1,800
Intangible fixed assets	-56	-163	-140	-135	-374	-260	-200	-300
Free cash flow	-1,379	-319	-3,172	603	1,569	-3,948	-1,320	-1,150
Cash flow from financing activities	1,330	1,070	2,752	295	127	1,637	1,620	1,620
Long-short term borrowings	1,715	1,037	2,964	451	-2,007	1,892	2,000	2,000
Common stock issuance	0	0	0	0	2,289	0	0	0
Common stock repurchases	-225	194	-25	0	0	-1	0	0
Cash dividends paid	-154	-150	-153	-155	-153	-253	-380	-380
Cash and cash equivalents at end-term	1,753	2,505	2,083	2,984	4,679	2,370	2,670	3,140

NOTE: Forecasts are by analysts.

Capital investment and financing in the future

The Setagaya-Kinuta store is a newly opened large store. The store has a floor space of 300 *tsubo* and cost roughly 400 million yen to open. The Company plans to open three to four new stores in the current term, intending to use stores that have all their current fixtures and fittings and a floor space of 100 to 150 *tsubo*. In this manner, investment can be kept down to the level of 200 million yen per store.

Capital investment totaled 1.58 billion yen in the last term, including renovations, and 1.6 billion yen is budgeted for the current term. Since the Company's earning power has been increasing, it is able to cover capital investment up to roughly 3 billion yen entirely by internal funds. Therefore, it would not be a problem in terms of capital funds for it to even open 10 new stores costing 100 to 200 million yen per store.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

However, another capital requirement arises in terms of cash flows from operating activities. Rather than selling products individually (a one-time sale), stores add services onto products to provide customers with, for example, printer and fax services, and collect monthly service fees, and this sort of solution service business is growing. Accounts receivable associated with these services increases, as a result. When considering the increase in net working capital derived from the above, it is apparent that cash flows from operating activities will decrease, resulting in an increase in loan balances on cash flows from financing activities.

As a financial strategy, the Company considers a sound financial position to be an equity ratio of at least 50% and a degree of indebtedness within 25%. In FY 2014, its equity ratio was 51.8%, and its debt equity ratio was 24.8%, so from the perspective of these indicators, its financial position is at a desirable level.

However, the increase in installments receivable will need to be financed by short-term loans. As long-term interest rates are currently at a low level, long-term loans could be arranged to finance the installments receivable. But on the other hand, for capital investments in stores, the Company may consider equity financing to be a feasible method.

In this context, when it fixes its plan to open its next store, the Company will need to raise 3 to 4 billion yen through equity financing. This will cause a stock dilution at a rate of roughly 10%. However, it should be able to fully absorb this, as an improvement in profits is anticipated due to its aggressive investments. It will also benefit from an improvement in liquidity, which will have a positive effect.

Continuous rise in profitability in the term ending March 2016

The Company's goals for FY2015 are net sales of 53,000 million yen (up 3.3% YoY), operating income of 3,750 million yen (up 21.4% YoY), ordinary income of 3,800 million yen (up 18.5% YoY), and net income of 2,430 million yen (up 25.2% YoY), which are entirely attainable goals. However, advertising expenses, which was being reduced until the last term, will no longer be reduced. Moreover, personnel expenses will rise. As a result, the growth in profits will slow down slightly.

Sales from services are expected to increase. However, an increase in sales from solution services with installment sales of products such as faxes, PCs and drones, will decrease the gross margin ratio for overall services. This is because the gross profit of such solution services is lower than that of the regular premium services, as the solution services involve products.

In the term ending March 2016, a certain amount of sales can be expected from optical line services, which will contribute to service and hardware sales.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

The annual sales from services will exceed 20 billion yen. In monetary terms, the subscription fees from support services to premium members accounts for the largest percentage of sales from services, followed by technical fees for services including repairs, and service fees to provide communication lines, such as MVNO and FVNO. The percentage of magazine and other content services is low, but sales of such services are growing at the fastest pace.

The policies are to (1) step up sales of smart devices, (2) work to develop solutions that combine content and services, (3) develop and provide service products that enhance safety and security, and (4) concentrate on opening SLP stores by renovating existing stores and establishing new ones.

Comparison of earnings forecasts and of profit ratios

(millions of yen, %)

	2012.3	2013.3	2014.3	2015.3	2016.3 (forecast)	2017.3 (forecast)
Net sales	49,693	51,353	53,816	51,285	53,000	55,000
Gross profit	14,756	16,134	18,429	19,676	21,200	23,000
Ratio to sales	29.7	31.4	34.0	38.4	40.0	41.8
SG&A expenses	14,202	15,258	16,118	16,586	17,500	18,500
Ratio to sales	28.5	29.7	30.0	32.0	33.0	33.6
Operating income	553	876	2,310	3,089	3,750	4,500
Ratio to sales	1.0	1.7	4.3	6.0	7.1	8.0
Ordinary income	717	933	2,411	3,205	3,800	4,550
Ratio to sales	1.4	1.8	4.5	6.2	7.2	8.0

NOTE: Forecasts are by analysts.

Due to the series of shifts in the business model, the ratio of ordinary income to sales is expected to improve to 7.2% in the current term and 8.3% in the next term. ROE will also exceed 15%. In fact, in terms of profitability growth, the gross profit margin for sales of goods is also improving. As the burden of selling goods in sales operations decreases, earnings from increased sales of services will become even more evident. In addition, the average sale per customer is increasing steadily. As a result of the progress of these two factors, the Company will establish a unique position as a provider of personal communication services both in name and in reality.

New Store Openings and Shift to SLP Stores

(Stores)

(FY)	2011 3Q	2011 4Q	2012 1Q	2012 2Q	2012 3Q	2012 4Q	2013 1Q	2013 2Q	2013 3Q	2013 4Q	2014 1Q	2014 2Q	2014 3Q	2014 4Q	2015 1Q
PC DEPOT stores															
Directly managed	1	0	2	1											
SLP stores (new)													1		
SLP stores (renovated)							1	1	2	3	4	1	2	1	
Subsidiaries	1	4	2									2	1		
PC Clinics															
Directly managed	6	3	1	2								2			
Total	8	7	5	3	0	0	0	1	1	2	3	4	6	3	1

NOTE: SLP stores (renovated) indicate the number of SLP stores opened by renovating and changing directly managed PC DEPOT stores.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

In the first quarter, the percentage of sales from services increased further.

In the first quarter of FY 2015, the Company reported ordinary income of 847 million yen (up 1.0% year-on-year (YoY)). Although results remained almost unchanged, they remained within Company projections. Last April, many replacement PC purchases took place due to the termination of Windows XP services. Conversely, PC sales declined in the first quarter. Results were also influenced by initial proceeds from sales of integrated software and hardware solution services, such as FVNO fiber-optic network services.

Accounts receivable increased due to the sales of service offerings (“solution hardware” targeted at premium service members and fiber-optic network service users) such as Premium Service (maintenance services provided on a monthly membership fee basis).

The percentage of sales from services increased to 46.2% (36.1% a year earlier). If sales from Internet-related business are included, the percentage rises to 48.9% (39.1% a year earlier).

Changes in the percentage of total sales accounted for by service sales

(million yen, %)

	Term Ended March 2013		Term Ended March 2014		Term Ended March 2015		Term Ending March 2016	
	Service sales	As a percentage of total sales	Service sales	As a percentage of total sales	Service sales	As a percentage of total sales	Service sales	As a percentage of total sales
1Q	3025	24.8	3689	30.3	4495	36.1	5651	46.2
2Q	3083	25.8	3894	31.8	4690	39.3		
3Q	3223	23.5	4215	30.6	5248	38.4		
4Q	3285	24.5	4439	28.4	5286	39.9		

5. Evaluation:**Possibility for great progress depending on the offensive expansion into the city center****Complying with corporate governance**

The Company will comply with corporate governance as a company with auditors. Two outside directors already sit on the Board, and there are no particular concerns.

Most directors are in their 40s, showing the Company is developing human resources. President Nojima (55) established this Company after leaving Nojima Corporation, however, he has no intention of allowing family members to succeed him at this Company. The reasons are: 1) he believes the Company is public; and 2) as PC DEPOT needs to continuously develop in the

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

diversified IT industry, a suitable successor need not be his own child.

ROE has improved significantly through the transformation of the profit structure

The Company does not need to rush to open new stores if its existing stores can capture customer demand for services and it maintains a positive profit performance in its overall operations. It will be able to continuously achieve double-digit growth in profits by steadily opening four or five new stores per year. By increasing sales for existing stores, the Company is most likely to attain the goal of 60 billion yen in sales and 5 to 6 billion yen in ordinary income. ROE will exceed 15%.

The Company is working to make its customers members of its service system, and is focusing attention on how to heighten this stock effect. Customers of the service system exhibit several usage patterns: some users own several pieces of hardware, while others subscribe to the service system so that their family members can use it. By making these users members of its service system, the Company will be able to increase the unit price of service per customer. There is ample room for the Company to come up with new ideas to attain this goal in the future. Examples include providing multiple services consisting of online magazines and music content as well as pursuing ease of use for security by offering a new combination of services.

It was in 2005 that the Company took the decision to shift its revenue source from selling PCs to providing services. Eight years after that, profits have caught up with the business model shift. Will the Company's business model remain as a niche presence or evolve into a new major move? President Nojima's next strategy will attract the market's attention, but if the deployment into the city center is successful, great progress can be expected.

The Company's business model is to secure stable income from sales of services through sales of Internet devices and other hardware. President Nojima believes that PC DEPOT stores can coexist alongside major electronics retailers in different market segments, keeping a certain distance.

In the future, there will also be room for the Company to increase its membership from several hundreds of thousands to 1 million or more as well as to raise the monthly fee unit price from several thousand yen to 5,000 yen or more by combining and diversifying service menus. If this happens, achievement of the goal of 10 billion yen in ordinary income (an ordinary income ratio of 10% to 15%) will be in sight. Market watchers can place great expectations on the Company as it is highly likely to enter this new phase of development.

The Company's efforts to shift to a stock-type profit structure based on service sales have evidently borne fruit. And in FY2014, it could see its ROE reach 13%. This shift in business model can be favorably evaluated, and the effects of new aggressive sales plans such as the development of

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

many SLP stores can also be expected. Therefore, the Company is rated A. (Please refer to the front page for an explanation of corporate ratings.)

As a result of a stock split conducted in January 2015 at a rate of 1 to 1.5 shares, the number of shareholders as of the end of March 2015 increased to 2,675. On the other hand, interest from institutional investors has also been growing. The Company meets the requirements to be listed on the first section of the Tokyo Stock Exchange.

This June, a shareholder special benefit plan was improved. The unit required to receive the special benefit was reduced from 400 to 100 shares. The plan distributes a 1,000 yen gift certificate (or 2,000 yen PC Clinic store voucher) for 100 shares, a 2,000 yen gift certificate (or 4,000 yen PC Clinic store voucher) for 400 or more shares, or a 3,000 yen gift certificate (or 6,000 yen PC Clinic store voucher) for 1,000 shares or more. As shareholders can use gift certificates for online shopping, PC DEPOT stores need not be nearby. The plan is intended to encourage shareholders to use Company products and services and visit stores.

Based on a stock price of 1,010 yen as of August 21, 2015, PC DEPOT has a PBR of 2.48, an ROE of 15.6%, and a PER of 15.8, with a dividend yield of 1.0%. However, there are questions that remain unanswered. For example, what kind of era will follow the current PC era and will the Company be able to compete against the consumer electronics superstores? With regards to this competition, the Company can demonstrate a unique presence. Meanwhile, its strategy of making profits through providing IT solution services and positioning its stores in a market segment to coexist alongside mass home electronics retailers has started to contribute to earnings. Against this background, more and more market players will upwardly reevaluate the Company's corporate value as its earnings grow.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend that investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.