Alpha-Win Company Research Report

YRGLM Inc.

(3690 TSE Mothers)

Issued: 3/2/2020

Research Dept., Alpha-Win Capital Inc.
http://www.awincap.jp/

● Flash Report on Performance

◆ A leading company in Internet advertising effect measurement systems

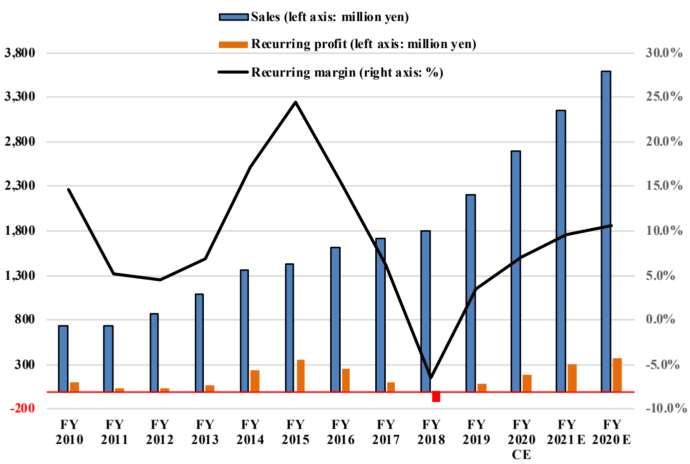
・The main product of YRGLM Inc. (hereinafter referred to as the “Company”) is its originally developed Internet advertising effect measurement system (AD EBiS) that is provided in cloud format to companies. The Company is a leading company in this niche field. Over the past few years, the Company has been conducting business restructuring and upfront investment, which temporarily resulted in a net loss in FY 2018 (Figure 1) (note that all fiscal years or FY in this Report end in September; e.g. FY 2018 ends in September 2018). However, thanks to the focus on the subscription-based business model and the past investments that have begun to produce positive results, last fiscal year, the Company achieved record-high sales and an improvement from operating loss to operating profit. Going forward, while aiming to expand the sales of its core products, the Company also plans to develop the Internet Marketing Robot business on a global scale through synergy with the acquired companies and by utilizing the information assets that it has accumulated over the years. The Company has also been actively conducting M&As and plans to select and focus its business as well as expanding its business content.

◆ This FY’s Q1 results: double-digit sales growth, net profit, and clear trend of recovery

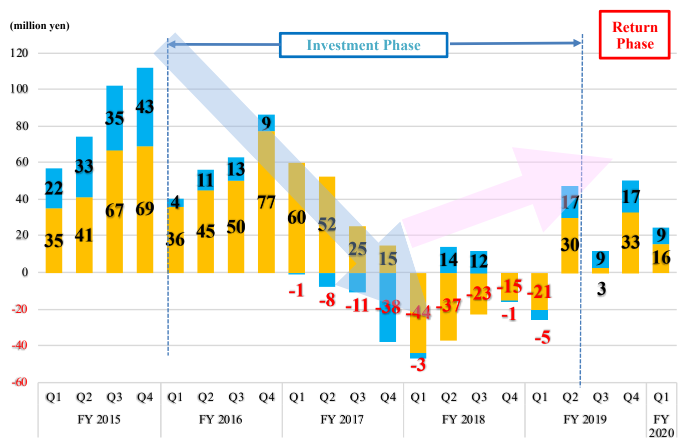
・The Company’s results for Q1 FY 2020 (Oct-Dec: hereinafter, “Q1”) are as follows: sales of Y585 million (+12.7% YoY), operating profit of Y24 million (last Q1: loss of Y26 million), recurring profit of Y25 million (last Q1: loss of Y29 million), and net profit of Y19 million (last Q1: loss of Y36 million). Both sales and profit grew, and the Company turned a profit. Of the Company’s two business segments, the main segment or the marketing platform segment bolstered the overall sales with its 13.8% sales growth. The segment’s operating profit also grew from a loss of Y21 million to a profit of Y16 million. Similarly, the EC platform segment’s sales grew slightly by 3.9% and its operating profit grew from a loss of Y5 million to a profit of Y9 million. Both segments are showing improvement.

・Since FY 2016, the Company has been actively carrying out business restructuring and upfront investment. As a result, despite growing sales, the cost burden had been pulling down profit to cause consecutive profit declines. On a quarterly basis, as shown in Figure 2, an operating loss had been consecutively posted since Q4 FY 2017. However, after reaching the bottom in Q1 FY 2018, the operating profit/loss has been improving. Recently, the Company has been starting to stably maintain a profit, having posted an operating profit for four consecutive quarters.

【 Figure 1 】Transition in Full-Year Results



【 Figure 2 】Transition in Quarterly Operating Profit



(Ref) Figure 1 and 2 were prepared by Alpha-Win Research Dept. based on the Company’s financial results summary and financial results briefing materials. CE is the Company’s forecast and E is Alpha-Win’s forecast. The same applies to all figures below.

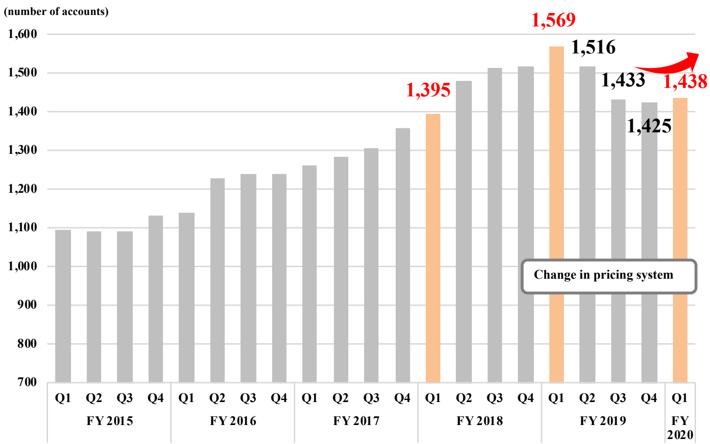
Sales and profit breakdown by segment

・The marketing platform segment accounts for 89% of the total Q1 sales. In this segment, the core business AD EBiS's growth and the acquired business AdRepo seem to be especially contributing to the sales and profit growth.

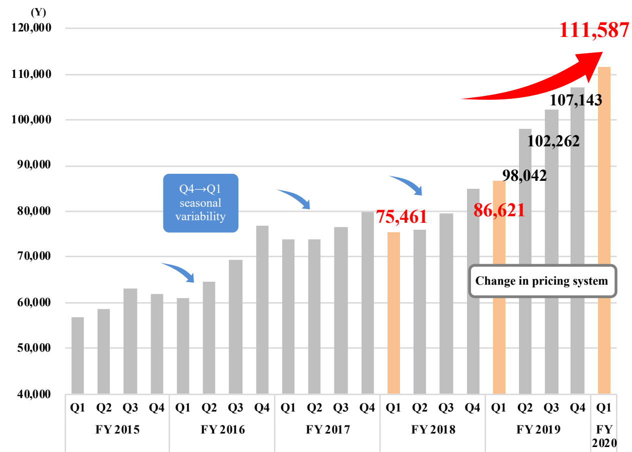
・AD EBiS's number of active accounts rose by 174 (12.5%) from 1,395 in the Q1 of the fiscal year before the previous to 1,569 in the previous fiscal year's Q1. Then, due to the change in the pricing system, the number of accounts decreased by 131 (8.3%) to 1,438 during this Q1. However, the wave of cancellations following the pricing system change has mostly ceased and the number of accounts in Q1 shows a slight increase (+13) compared to the most recent quarter or Q4 FY 2019 (Figure 3).

・Due to the change in the pricing system, AD EBiS's average unit price increased from Y75,461 to Y86,621 in the same order as above (+Y11,160 or +14.8%) and then further increased during this Q1 to Y111,587 (+Y24,966 or +23.8%) (Figure 4). While the low-price-range contracts became cancelled, as an increasing number of the existing customers switched to higher-added-value contracts and as new contracts were acquired, the unit price rose. Consequently, the decrease in the number of accounts was compensated, resulting in a sales growth. Since this business has a high marginal profit ratio, the sales growth and improvement in efficiency caused an improvement in the segment's profit, letting the Company turn a profit (Figure 2 on page 1 and Figure 6 on page 3).

【 Figure 3 】Quarterly Change in AD EBiS's Number of Active Accounts (unit: # of accounts)



【 Figure 4 】Quarterly Change in AD EBiS's Average Unit Price (unit: Y)



・Meanwhile, in the EC platform segment, sales had been declining due to the transfer of the SOLUTION business to affiliated companies and the transfer of the DMP business between segments. However, sales have started to grow during this Q1. The segment's sales are only about 11% of this Q1's total sales, but its operating profit/loss has shown improvement – the previous operating loss has turned into a profit. The EC-CUBE business, which remains in the segment, has been succeeded by a consolidated subsidiary that is 100% owned by the Company and is growing steadily thanks to the new software version and the growth of the EC market (Figure 6 on a later page).

・This Q1's progress rate against the full-year target was 21.7% for sales (last Q1's actual progress rate: 23.6%) and 12.4% for operating profit (last Q1: a loss was posted). Note that starting in January, ADPLAN will be reflected in the sales. The sales progress rate during this fiscal year's October to January is approx. 30.1%, which is about the same level as last Q1's 31.9% (Figure 5).

【 Figure 5 】Monthly Changes in Sales (unit: thou. yen, %)

(Ref) Prepared by Alpha-Win Research Dept. based on the news release on the Company's website.

(Note) Values shown are preliminary data before an audit by an auditor and may be revised in the future. The AdRepo business which was acquired in an absorption-type split in October 2018, as well as the ADPLAN business that was acquired in a business transfer on January 2020, is included in the marketing platform segment.

FY 2020	Sales	2019 Q1			2020	Cumulative for this FY:
		Oct	Nov	Dec	Jan	Oct-Jan
Marketing Platform	Thousand Yen	167,418	173,197	183,085	200,850	724,550
	% Change YoY	112.2	115.1	114.1	126.9	117.2
EC Platform	Thousand Yen	26,164	17,602	18,019	26,041	87,826
	% Change YoY	119.8	94.2	95.2	103.9	103.9
Entire Company	Thousand Yen	193,583	190,799	201,105	226,891	812,378
	% Change YoY	113.2	112.8	112.1	123.7	115.6
	% Diff. from Forecasted Sales	7.2	7.1	7.4	8.4	30.1

Overall profit and loss

・The overall gross margin for this Q1 had increased by more than three points to 69.5% from 66.1% in the Q1 of the previous fiscal year and the year before the previous. The number of employees only slightly increased YoY (from last Q1 ⇒ this Q1: 147 ⇒ 151), so that the personnel expense stayed about the same. Advertising expenses were held down and other various expenses were controlled. Consequently, the SG&A expenses increased only by 3.1% YoY from Y370 million in the previous Q1 to Y382 million during this Q1. Thanks to the sales growth (+12.7%) and the control of expenses, the SG&A expenses ratio (in the order of Q1 of the year before the previous ⇒ last year's Q1 ⇒ this year's Q1) improved consecutively from 77.1% ⇒ 71.3% ⇒ 65.2%.

・The overall operating profit and the factors contributing to the Y50 million profit growth are described below. In addition to the sales growth of the marketing platform segment (+Y63 million YoY) and the EC platform segment (+Y2 million YoY), the decreased advertising expense (-Y13 million YoY) helped offset the increase in various expenses including the depreciation expense, server cost, and rent. As a result, although an operating loss of Y26 million was posted in last fiscal year's Q1, this fiscal year's Q1 resulted in an improvement to an operating profit of Y24 million. No significant non-operating or extraordinary profit/loss were posted. A net profit was also obtained (improved from a loss of Y36 million to a profit of Y19 million).

【 Figure 6 】Transition in Q1 Results

	FY 2018	FY 2019	FY 2020	Q1 FY 2020 YoY	
(unit: million yen)	Q1 (Oct-Dec)	Q1 (Oct-Dec)	Q1 (Oct-Dec)	Difference	% Change / *Amount*
Total Sales	433	520	585	66	12.7%
Marketing Platform	353	460	524	64	13.8%
EC Platform	80	59	62	2	3.9%
Gross Profit	286	344	407	63	18.4%
Gross Margin	66.1%	66.1%	69.5%		*3.3%*
SG&A Expenses	334	370	382	12	3.1%
SG&A Expenses Ratio	77.1%	71.3%	65.2%		*-6.0%*
Operating Profit (segment)	-48	-27	25	51	To profit
Marketing Platform	-44	-21	16	37	To profit
EC Platform	-3	-5	9	14	To profit
Operating Margin	-11.0%	-5.1%	4.2%		*9.3%*
Marketing Platform	-12.5%	-4.6%	3.0%		*7.7%*
EC Platform	-4.2%	-9.2%	14.5%		*23.6%*
Recurring Profit	-47	-30	25	55	To profit
Net Profit	-32	-36	19	55	To profit

(Note) Due to rounding during calculations, etc., values for the same item may differ in the text and figures of this Report.

・Regarding the balance sheet, cash and deposits decreased due to the payment of acquisition costs and other factors (in the order of the Q1 of the year before the previous ⇒ last year's Q1 ⇒ this year's Q1: Y1,194 million ⇒ Y875 million ⇒ Y873 million). Meanwhile, goodwill was recorded as part of intangible fixed assets (in the same order: Y0 million ⇒ Y121 million ⇒ Y105 million; note that the cash and deposits and goodwill attributed to ADPLAN have not been reflected on the B/S as of the end of Q1). This goodwill comes from the acquisition of AdRepo and is planned to be amortized over eight years on a straight-line basis (approx. Y16 million per year). Furthermore, on 1/1/2020 (this Q2), the Company acquired the ADPLAN business from OPT (TSE First Section: securities code 2389) with Y315 million (in cash). Additional goodwill (amount and amortization period not determined yet) and advisory expense (approx. Y3 million) were incurred due to this purchase. The Company has already raised capital on long- and short-term loans (Y1,184 million remaining), so there currently seems to be no problem with liquidity even after the payment of acquisition costs (more than approx. Y500 million is estimated to remain in cash and deposits). The equity ratio at the end of this Q1 was 42.9%.

◆Full-year financial forecast announced: large sales and profit growth, record-high sales, and net profit

・As with the previous fiscal year, the Company announced its full-year financial forecast at the same time as the announcement of this fiscal year's Q1 results. It is expecting a significant sales and profit growth, with sales targeted at Y2,700 million (+22.5% YoY) and operating profit targeted at Y200 million (+135.5% YoY). Last fiscal year, due to an extraordinary loss and other factors, a net loss of Y34 million was posted. This fiscal year, though, the Company expects to achieve a net profit of Y130 million, which would entirely clean out the loss carried forward in accounting. The segment's sales and profit forecast for the full year as well as its H1 forecast have not been disclosed. Also, the Company has stated that dividend payment is undetermined.

・This fiscal year, while increasing sales through subscriptions, the Company plans to increase profit by allocating more resources to the development of new businesses and at the same time improving the cost ratios of the existing businesses. The Company believes that sales growth and margin improvement will lead to a profit growth. Also, it still plans to achieve the target of Y3 billion in sales this fiscal year, the final year of the medium-term business plan.
・Also, the Company has stated, "this fiscal year, we plan to take more and more actions that will take us to the next stage." Specifically, in the advertising effect measurement service, it plans to establish a firm position through M&As, develop products that will pioneer in the market's change, and enhance support for leading agencies. In addition, the Company plans to shift its employees to new business development, take in related needs, provide new subscription services, and find M&A opportunities in related fields.

・The net increase in the Company's number of employees has been starting to slow down, with 98 employees at the end of FY 2016 ⇒ 122 at the end of FY 2017 ⇒ 144 at the end of FY 2018 ⇒ 151 at the end of FY 2019. It had planned to actively recruit mainly engineers and sales professionals but did not hire as much as it had anticipated – consequently, the personnel expense was controlled. This fiscal year, the Company does not plan to largely increase the number of employees, but rather plans to improve the efficiency of the existing businesses and shift its employees to the development of new businesses (eight employees are working on this task as of the end of Q1).

◆ Financial forecast for this FY and over the medium term (Alpha-Win Research Dept.)

・The results announced by the Company were close to our forecast with regards to sales, operating profit, and recurring profit. As for the net profit, we had forecasted that it will be Y165 million, which is about Y35 million different from the Company's forecast of Y130 million. This difference is mainly due to the difference in the estimated carried-forward tax loss. We revised the net profit to about the same level as the Company's forecast, which is based on the effective tax rate (we also revised the net profit for next fiscal year and later based on the effective tax rate). Taking into account the Company's plan and the current situation (Q1 results show that financial performance has been similar to our prediction), as well as the fact that the Company will likely continue to control cost to achieve its target, we have mostly kept our full-year forecast the same, with no change to sales and operating profit from the previous forecast. We also believe that dividend payment will be resumed next fiscal year or later.

・Also, when this January's sales (which includes ADPLAN's sales) are added to the actual Q1 sales, and then simply adjusted and multiplied to match the eight-months period from February to September, this fiscal year's sales come out to be about Y2,628 million. This value is equivalent to 97.2% of the Company's target of Y2,700 million. The Company's full-year sales target, which does not seem to take into account the effect of M&As during this year and which seems to be a simple prediction based on the extension of the current results, is somewhat conservative and is expected to be achieved with a high likelihood. We also have the same impression regarding the full-year forecasts for the gross margin and the costs. As a side note, in recent years, the Company has been announcing its full-year forecast at a timing when reasonable predictions can be made. Track record suggests that the Company's forecast is high in accuracy (please refer to Figure 27 on page 27 of the initial report).

・We expect that sales and profit will grow for both segments. In the main marketing platform segment, we expect sales to continue to grow at a brisk pace thanks to AD EBiS's rise in the average unit price and its net increase in the number of accounts. The investments that the Company had been actively conducting are also expected to begin producing positive results and contribute to the sales growth. In addition to the growth of the AdRepo business acquired during last fiscal year, the switching of customers from the ADPLAN business acquired in a business transfer during this fiscal year is expected to help increase AD EBiS's number of accounts and may also raise the unit price. Also, in Q2, the average unit price has been maintained at over Y110,000 and the average unit price of new contracts has been greater than Y120,000. There also seems to be a general net increase in the number of active accounts in Q2.

・Meanwhile, in the other segment or the EC platform segment, we expect a slight increase in the sales and profit, since its sales are expected to continue to grow at a steady pace with the new version of EC-CUBE and the expansion of the EC market (Figure 7).

・In our financial forecast, we estimated that the amortization of goodwill related to ADPLAN will be Y250 million in total (amortized over five years on a straight-line basis; Y50 million per year). Also, at the current stage, we are not expecting any significant costs due to additional M&As, non-operating profit/loss, or extraordinary profit/loss. In the case that additional M&As or the sale, retirement, or revaluation of assets occur, we will review our forecast on the final profit and loss.

・Over the medium to long term, we expect that sales will increase by about 15-30% per year since the Internet Marketing Robot business, the Company's main point of focus, has a high growth potential. We believe that the Company will be able to maintain a double-digit sales and profit growth over the medium to long term through organic growth of the current businesses as well as active engagement in M&As, although the result would depend on the success of cost control (progress with upfront investment, recruitment, etc.).

【 Figure 7 】Past Full-Year Results and Forecast on Financial Performance for the Medium Term

Sales	*FY 2012*	*FY 2013*	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019		FY 2020 CE	FY 2020 Old E	FY 2020 New E	FY 2021 E	FY 2022 E
(million yen)	*Stand-alone*	*Stand-alone*	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	% Share	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
Marketing Platform	*545*	*666*	883	911	1,074	1,255	1,530	1,951	87.6%		2,470	2,470	2,840	3,280
①AD EBiS	*499*	*567*	722	822	1,012	1,200	1,402	1,747	78.5%			2,110	2,585	3,060
②THREe	*46*	*81*	161	89	62	54	43	28	1.3%			10	0	0
③(DMP)						(Business transfer→)	84	51	2.3%			20	0	0
④AdRepo						(Business acquired in Oct. 2018)		124	5.6%			140	155	170
⑤ADPLAN								(Business acquired on 1/1/2020)				190	100	50
Segment's Operating Profit	*-61*	*-1*	142	214	210	153	-121	46				155	250	325
Segment's Operating Margin	*-11.2%*	*-0.1%*	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%				6.3%	8.8%	9.9%
EC Platform	*323*	*422*	477	526	539	465	275	274	12.3%		280	280	310	320
①EC-CUBE	*150*	*207*	245	230	219	208	254	274	12.3%		280	280	310	320
②SOLUTION	*174*	*214*	232	296	319	257	20	0	0.0%			0	0	0
(DMP)						104	(Business transfer↑)		0.0%			0	0	0
Segment's Operating Profit	*98*	*75*	107	136	38	-60	22	39				45	50	55
Segment's Operating Margin	*30.5%*	*17.8%*	22.5%	25.8%	7.1%	-12.9%	8.2%	14.2%				16.1%	16.1%	17.2%
	FY 2012	*FY 2013*	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019		FY 2020 CE	FY 2020 Old E	FY 2020 New E	FY 2021 E	FY 2022 E
(million yen)	*Stand-alone*	*Stand-alone*	Consolidated	Consolidated	Consolidated	Cosolidated	Consolidated	Consolidated		Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
Sales (total - same below)	*868*	*1,090*	1,360	1,437	1,613	1,719	1,805	2,225		2,700	2,750	2,750	3,150	3,600
Operating Profit	*37*	*75*	249	350	248	93	-99	85		200	200	200	300	380
Operating Margin	*4.3%*	*6.8%*	*18.3%*	*24.4%*	*15.4%*	*5.4%*	*-5.5%*	*3.8%*		*7.4%*	*7.3%*	*7.3%*	*9.5%*	*10.6%*
Recurring Profit	*40*	*75*	234	352	250	106	-115	79		190	200	190	290	370
Net Profit	*6*	*42*	138	231	169	73	-88	-35		130	165	130	200	255

◆ Situation with and effect of tightened personal information protection regulations

・As described in the previous report (12/13/2019), regulations regarding the handling of data on personal information are becoming strengthened and tightened in Japan too from the viewpoint of privacy protection. The Japanese government's Personal Information Protection Commission reviewed the Personal Information Protection Law and announced an outline of its draft amendment in November 2019 (this amendment is expected to be passed by this year's summer). In this amendment, the right to stop the use of personal information will be expanded. Also, when providing information such as the browsing history of an Internet site to other companies (providing to a third party), the user's consent is required if the individual can be identified in connection with the personal information held by the third party to whom the information was provided.

・Traditional systems utilizing third-party cookies, allowing measurement across multiple websites and identification of users (individuals), can compromise user privacy. Therefore, their usage is becoming more and more restricted and tightly regulated. As a countermeasure, the Company has already released *CNAME Tracking* (first party cookie measurement) in October 2019 in cloud format (as of 1/14/2020, 310 companies are using this tool – its customer base is expanding steadily). *CNAME Tracking* is a new measurement tool that collects and retains information only for the domains that have been approved by the advertiser, enabling highly accurate advertising effect measurement while protecting user privacy.

・Currently, there is no issue with utilizing first party cookie measurements as long as personal cookie information is obtained as a primary acquisition, is limited in its use, and the purpose of acquisition is appropriately disclosed. Also, since the Company is in the business of providing tools for other companies, such as advertising companies, it does not fall under the criteria of a "third party" and will not be directly affected. In addition, the Company aims to become a reliable brand for both the client advertising companies and the users (individuals) by maintaining transparency and accountability toward both regarding the possession and utilization of personal information as a responsible member of society.

・Since protective regulations are expected to be further tightened in the future, we need to keep a close eye on the change in the regulations on obtaining and using cookies. Demand for highly accurate advertising effect measurement that makes consideration for user privacy is expected to grow, and increasingly sophisticated technologies are also expected to become required. Since the Company is specialized and has the number-one technology development capability and support system in the industry, we believe that it can differentiate itself from other companies that will have difficulty in catching up in technology (many of the competitors are predicted to face difficulties in meeting the demands for new technology) and thus gain a competitive advantage. Therefore, the tighter regulations will have a relatively positive effect on the Company and would be more of a business chance.

◆ Stock Price

・After reaching the lowest stock price in late December 2018, the stock price rebounded in anticipation of a recovery in financial performance. As an Internet-related, small-cap stock, the volatility of the Company's stock is high amidst the current overall stock market sentiment. Over the past year, the Company's stock has been underperforming indexes such as the TOPIX and TSE Mothers.

・The valuation is generally somewhat high. Compared to the average of the First Section of the TSE, the Company's P/B is 5.2 whereas TSE's is 1.1 and dividend yield is 0% whereas TSE's is 2.3%. We expect P/E (in the order of this fiscal year → next fiscal year → fiscal year after the next) to be 48.0 → 31.2 → 24.5 compared to TSE's approx. 14.4. However, since the Company is expected to maintain a net profit and increase profit at a double-digit annual rate in the future, considering the P/E over a three-to-five-year span and the PEG ratio (= expected P/E divided by expected annual profit growth rate), we believe that the stock price may rise over the medium to long term.

・Going forward, we expect that the stock price will reflect the restricted usage of cookies from the tightening of regulations pertaining to personal information protection, the change in the periodically disclosed monthly sales and quarterly profit, AD EBiS's average unit price and number of active accounts which are important indicators (KPIs) directly linked to financial performance, the timing when dividend payment is resumed, the announcement of M&A or business alliance and their effect on profit, and the level of profit over the medium term.

【3690 YRGLM Inc. Sector: Information & Communication】 Figure A

FY		Sales (million Y)	YOY (%)	O.P. (million Y)	YOY (%)	R.P. (million Y)	YOY (%)	N.P. (million Y)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2017		1,719	6.6	92	-62.6	106	-57.5	72	-56.8	11.56	195.60	5.0
2018		1,804	5.0	-98	-	-115	-	-88	-	-14.02	184.97	0.0
2019		2,204	22.1	84	To profit	79	To profit	-34	-	-5.54	168.68	0.0
2020	CE	2,700	22.6	200	135.5	190	140.4	130	To profit	20.72		ND
2020	E	2,750	24.8	200	135.5	190	140.4	130	To profit	20.40	186.92	0.0
2021	E	3,150	14.5	300	50.0	290	52.6	200	53.8	31.39	218.31	0.0
2022	E	3,600	14.3	380	26.7	370	27.6	255	27.5	40.02	258.33	5.0
2019	Q1	519	20.0	-26	-	-29	140.4	-36	-	-5.72		0.0
2020	Q1	585	12.7	24	To profit	25	To profit	19	To profit	3.04		0.0

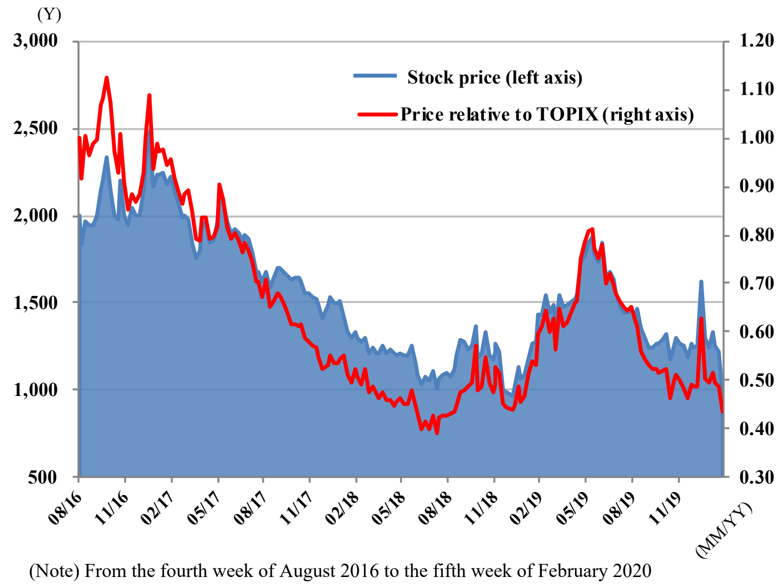
(Note) CE: the Company's forecast. E: Alpha-Win Research Dept.'s forecast. Q1 (first quarter): Oct-Dec. ND: not determined.

【Stock Price and Valuation Indicators: 3690 YRGLM Inc.】 Figure B

Item	2/28/2020	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	980	Last FY (actual)	—	5.8	0.0%	0.0%
Shares Outstanding (thou.)	6,372	This FY (est.)	48.0	5.2	0.0%	0.0%
Market Capitalization (million Y)	6,245	Next FY (est.)	31.2	4.5	0.0%	0.0%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End		51.4%	Last FY's ROE	-3.1%

(Note) Forecasts/estimates were made by Alpha-Win Research Dept.

【 Stock Chart (end-of-week prices): 3690 YRGLM Inc.】 Figure C



(Note) From the fourth week of August 2016 to the fifth week of February 2020

【Performance】		
Period	**Return**	**vs. TOPIX**
1 month	-21.4%	-12.4%
3 months	-24.3%	-14.8%
6 months	-33.2%	-33.2%
12 months	-29.5%	-25.0%

(Note) Stock price and index values are shown up through 2/28/2020. Performance for each period compares the values on 2/28/2020 with the values at the corresponding month-end. For example, the 1-month period compares the closing prices at the end of January with the closing prices on 2/28/2020.

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Disclaimers

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