Alpha-Win Company Research Report

YRGLM Inc. (3690 TSE Mothers)

Issued: 12/13/2021

Summary

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

Business Description

- YRGLM Inc. (hereinafter referred to as the "Company") is a technology company that plans, develops, and sells software related to Internet marketing. President Iwata started the business during his college years and then founded the Company in 2001. Its main product is an Internet advertising effect measurement system (AD EBiS) that it had originally developed. It is a leading company in a niche field.
- Its services are provided in cloud format to mid-tier and large companies. Its main business is based on a subscription-based business model (about 90% of total sales). Under this model, initial costs associated with customer acquisition are offset as revenue is gained from flat-rate payment by customers, resulting in a continuous and stable accumulation of profit.
- The Company has been working on business model transition and the selection and concentration of its business portfolio, strengthening its business foundation for the next level of growth. Currently, by leveraging its accumulated know-how and assets (data), it is beginning to enter a phase of earning power improvement.
- It became listed on TSE Mothers in September 2014 (will move to "Growth" under the new market segments). Its name was changed from LOCKON CO., LTD., to YRGLM Inc. in August 2019.

Past Trends in Financial Performance

- After becoming listed on the Mothers market, the Company had increased sales and stayed in the black. However, from FY 2017 (note that the Company's fiscal year is September-ending), although sales had continued to grow, profit had declined consecutively due to upfront investment for business expansion and expenses related to business restructuring. In FY 2018, a net loss was posted despite a sales growth, and dividend payment was stopped.
- Then, in FY 2019, the Company posted an operating profit in a turnaround thanks to the structural reforms. However, due to litigation-related expenses that were recorded as extraordinary loss, a net loss was posted again. Since Q2 of FY 2019 (Jan-Mar 2019), though, the Company's profit has been recovering under a clear, V-shaped curve, continuously posting a net profit for 11 consecutive quarters. Upfront investment costs in new areas of business have been absorbed, and a stably profitable structure has been maintained.
- In the previous fiscal year (FY 2021), sales were Y2,957 million (+12.9% YoY), operating profit was Y365 million (+32.0% YoY), and net profit was Y239 million (+30.7% YoY). Solid financial results with high growth rates were achieved. In the main Marketing PF (platform) business, the increase in the unit price of AD EBiS contributed to the results, and in the EC PF business, the EC market has been experiencing a boom, resulting in sales and profit growth for both business segments. Although the sales were 1.4% lower than the target announced during the fiscal year, with progress made in cost reduction, each profit exceeded the forecasted values. Record-high sales were achieved for the 12th year in a row at least, and record-high profit was achieved for the first time in six fiscal years.

Competitiveness

- The Company's strengths are the data that it has accumulated over many years, the management skill of the president with expertise in leading-edge technologies of the field, products and support systems with proven and strong functions, its stable subscription-based business model, and an agile business strategy including M&As. Its two main products (AD EBiS and EC-CUBE) both have the top share in the Japanese market. Its Internet ad effect measurement system is especially strong, having established an extremely solid position in the market.

Business Strategy

- Under the "MXP Strategy," the Company aims to contribute to the DX of customers by supporting data integration, analysis, and utilization. It plans to thus become a "comprehensive marketing DX support group" and comprehensively expand its business scope from ad effect measurement to other areas. In the new medium-term business plan, it has set goals of "sales of Y5 billion, operating margin of 15%, and DOE of 3% or more (all on a consolidated basis)" for the final year of this plan or FY 2023. It intends to accelerate its growth by continuing to

evolve and expand its core businesses and creating new businesses including businesses for advertising agencies and platform businesses in new fields.

- In the rapidly changing market, the Company aims to further strengthen its products/services and expand its business through the development of original products as well as active engagement in M&As, business acquisitions, and business alliances, thus increasing synergy within its group.

Financial Forecast for This Fiscal Year

- For the past six years, the Company had not announced its financial forecast at the beginning of the fiscal year under the reason that it was difficult to make a rational forecast, but this fiscal year (FY 2022) it announced a forecast (the first-half forecast was not disclosed though). In the current fiscal year, the Company plans for sales of Y3,600 million (+21.7% YoY), operating profit of Y470 million (+28.6%), net profit of Y320 million (+33.5%), and dividend of 7.5 yen (+2.3 yen/share YoY). The Company expects double-digit increases in sales and profits due to an increase in sales and profit margins of the advertising agency DX (which is in the upfront investment stage) and the new services. As with the previous fiscal year, it plans to achieve record-high sales and profits.
- Alpha-Win Research Department reviewed the financial forecasts for the three fiscal years starting this fiscal year upon taking into consideration the results of the previous fiscal year and the current situation. Our sales forecast for the current fiscal year remains unchanged at Y3,500 million (+18.3% YoY; -Y100 million compared to the Company's plan), while we raised operating profit from Y400 million ⇒ Y470 million (+28.6% YoY), net profit from Y260 million ⇒ Y320 million (+33.5%), and dividend from 7.0 yen/share ⇒ 7.5 yen/share, which is the same as the Company.

Financial Forecast for Next Fiscal Year Onwards and Over the Medium Term

- In the next fiscal year (FY 2023), which is the final year of the current medium-term business plan, the Company plans to achieve high targets: sales of Y5,000 million (+38.9% compared to the Company's forecast for this fiscal year), operating profit of Y750 million (similarly, +59.6%), and operating margin of 15% (13.1% forecasted for this fiscal year). To achieve this, it plans to expand business through M&As and new services.
- In the next fiscal year and the fiscal year after the next, we expect that sales, profit, and dividend will increase due to growth of AD EBiS in the Marketing PF, contribution of new businesses in terms of both sales and profits, continued effects of cost reduction, additional contributions from new M&As, and the expected product enhancement and positive effects of alliances in the EC PF despite intensifying competition. However, for the next fiscal year, we made a somewhat conservative forecast compared to the Company's upon considering the risks of the current businesses including M&As and the new services.
- With the large growth potential of Internet-marketing-related fields, an annual sales growth rate of 10-20% is expected over the medium to long term. Also, we expect that the Company will continue with ambitious upfront investments as it selects, focuses, and expands (through active M&As) its business portfolio so that it can achieve growth while also adapting to changes.
- It has also been conducting a strict cost control, which has been helping to improve the profit margins. Therefore, (under normal conditions without the impact of COVID-19,) we believe that the Company will be able to achieve a profit growth of about 20-30% per year, a higher rate than its sales growth rate.

Stock Price and Key Points to Watch Going Forward

- It is recognized as an AdTech-related, domestic-demand-oriented, and small-cap growth stock. After the announcement of Q3 results in August, stock price has been outperforming the TOPIX and the TSE Mothers Index in response to the solid financial improvements, positive outlook, upward revision of profit, and increase in dividend. The Company's stock price currently does not seem cheap compared to the TOPIX based on our prediction of its P/E, P/B, and dividend yield for this fiscal year. However, based on the comparison of valuation with similar companies, the forecasted P/E for the fiscal year after the next, and the PEG ratio that takes into account the anticipated profit growth rate over the medium to long term, the Company's stock appears to be a possible candidate for investment at its current price.
- Thanks to the establishment of the subscription-based business model, there has still been a clear, increasing trend for sales and profit after earnings had recovered in a V-shaped curve. Its likelihood of achieving profit growth over the medium to long term is also becoming greater. Going forward, medium/short-term changes in financial performance are expected to be reflected in the stock price and cause fluctuations. We should continue to closely watch the following factors: tightening of regulations related to personal information protection; trends in monthly sales; quarterly trends in profit/loss; announcement of M&As, alliances, or new functions; business performance of

the new businesses and acquired subsidiaries; and its key indicators (KPIs) directly linked to financial performance (unit price, number of active accounts, and churn rate of AD EBiS).

Return of Profit to Shareholders

- Dividend was resumed at 4.0 yen/share in FY 2020 and was increased to 5.2 yen/share in FY 2021. In both fiscal years, dividend was revised upward during the fiscal year. The Company also conducted a share buyback in November of this year, indicating its proactive attitude toward returning profit to shareholders.
- In the current medium-term business plan, the Company has announced a dividend policy that it will determine dividend based on the consolidated dividend on equity (DOE). It raised its target DOE from 2% of the previous fiscal year to 2.5% for the current fiscal year, and plans to achieve 3% or more in the next fiscal year. Since profits are also expected to increase, there is a high chance that dividend will be raised again consecutively.
- The Company is in its growth phase, but it plans to increase shareholder value by returning profit to shareholders and by achieving greater financial results while continuing to invest in growth.

【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)
2018	A	1,804	5.0	-98	To loss	-115	To loss	-88	To loss	-14.02	184.97	0.00
2019	A	2,204	22.1	84	To profit	79	To profit	-34	Smaller loss	-5.54	168.68	0.00
2020	A	2,618	18.8	276	226.1	261	230.5	183	To profit	29.09	202.20	4.00
2021	A	2,957	12.9	365	32.0	364	39.5	239	30.7	37.96	257.52	5.20
2022	CE	3,600	21.7	470	28.6	460	26.3	320	33.5	49.98		7.50
2022	E	3,500	18.3	470	28.6	460	26.3	320	33.5	50.68	302.98	7.50
2023	Medium-term CE	5,000	38.9	750	59.6	OPM=15%						DOE≧3%
2023	E	4,600	31.4	650	38.3	620	34.8	420	31.3	66.51	361.99	10.90
2024	E	5,300	15.2	780	20.0	750	21.0	510	21.4	80.77	431.85	13.00

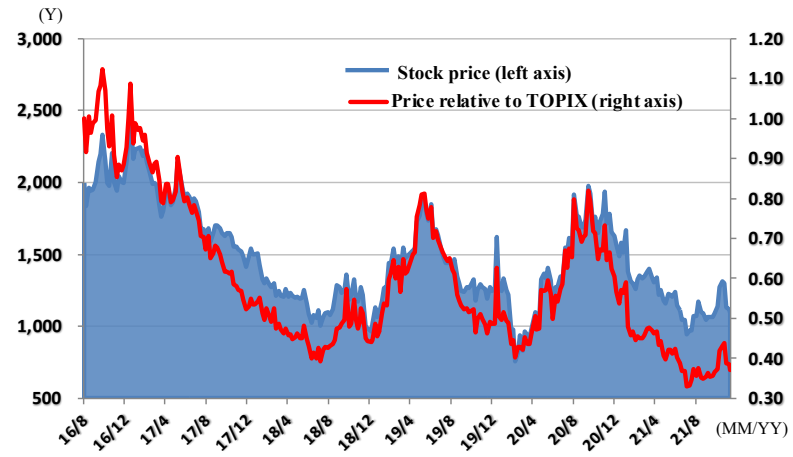
(Note) A: actual results. CE: the Company's estimate (forecast). E: estimate (forecast) by Alpha-Win Research Dept.
Note that the Company's fiscal year is September-ending. For example, FY 2022 ends in Sept. 2022.

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

Item	Stock Price on 12/10	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,089	Last FY (actual)	28.7	4.2	0.5%	13.7%
Shares Outstanding (thou.)	6,372	This FY (est.)	21.5	3.6	0.7%	14.8%
Market Capitalization (million Y)	6,940	Next FY (est.)	16.4	3.0	1.0%	16.4%
Dilutive Shares (thou.)	0.0	Equity Ratio at End of Last FY	51.8%		Last FY's ROE	16.5%

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

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



(Note) Prepared by Alpha-Win Research Dept. Reflects stock price and TOPIX values through the closing price on 12/10/2021 (most recent value). In the calculation of performance for each period, the stock price and TOPIX at the end of the last month of each period was compared with their most recent values.

【Performance】

Period	Return	vs. TOPIX
1 month	-7.5%	-8.9%
3 months	2.2%	5.9%
6 months	-12.3%	-13.0%
12 months	-33.1%	-38.3%

(Note) From the fourth week of Aug 2016 to the second week of Dec 2021 (most recent value: Dec 10)

(Note) Since values used in this Report have been rounded to the nearest unit, and due to processing during calculations, values for the same item may differ from the official values disclosed by the Company and other values in this Report.

Contents

Note: Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of this Report. Note that the Company's fiscal year is September-ending (i.e. FY 2022 ends in September 2022).

1. Company Overview

- **Providing marketing DX support services**

(1) DX (Digital Transformation): transformation and innovations of businesses and lifestyles using digital technologies

(2) Internet advertising effect measurement tool: Software for comprehensively measuring and evaluating the effect of various Internet ads and SEO strategies.

- **Currently, its main service is SaaS (cloud) for Internet ad effect measurement. Evolving into a comprehensive marketing DX support group through active engagement in M&As.**

(3) SaaS (software as a service): A service where software is used via the Internet (mostly synonymous with the cloud). Does not need purchasing of packaged products. Only the necessary functions, contents, and quantity of service are used via the Internet and paid for.

- **Founded in Osaka in 2001. Became listed on TSE Mothers in 2014.**

- **Changed its company name and logo**

- **The Company's group is composed of six companies including the Company.**

- **Acquired Spoo and TOPICA as consolidated subsidiaries in the previous fiscal year**

◆ A Leading Company in a Niche Market

Overview

YRGLM Inc. (hereinafter referred to as "the Company") is a marketing DX[1] support company that plans, develops, and sells software related to Internet advertising and e-commerce.

With its originally developed software, it has grown through the full-scale development of the business of improving marketing efficiency. The Company has an extremely high share in the Internet ad effect measurement tools[2] market and is a leading company in the niche field.

Currently, the main service is the Internet advertising effect measurement system, provided as SaaS[3] (≈ cloud), but it has been evolving into a comprehensive marketing DX support group through active engagement in M&As in addition to in-house development. It is working on the "MXP (Marketing Transformation Platform) Strategy" under which it aims to contribute to its customers' DX through data integration, analysis, and utilization support.

History

Susumu Iwata, the Company's president, started a web design business in Osaka as a college student. Following business expansion, he established the Company in 2001. The Company became listed on TSE Mothers in September 2014. In April 2022, it will move to the new market segment "Growth." Currently, it has two headquarters, one in Osaka and one in Tokyo.

Change in Company Name

On August 1, 2019, the Company changed its name from the previous "LOCKON" (CO., LTD.) to "YRGLM Inc." It renewed its company logo at the same time.

Consolidated Companies and Trends in Consolidated Financial Results

The YRGLM Group consists of a total of six companies: the Company, four consolidated subsidiaries, and one equity-method affiliate.

Four Consolidated Subsidiaries

In the previous fiscal year, it newly acquired the two companies Spoo! inc. (hereinafter, "Spoo") and TOPICA Inc. (hereinafter, "TOPICA").

・Spoo (headquartered in Chiyoda-ku, Tokyo; founded in March 2000; wholly owned by the Company) was acquired in December 2020 as a consolidated subsidiary. It conducts planning, editing, and production of web media. Results are not disclosed.

・TOPICA (headquartered in Shinjuku-ku, Tokyo; founded in June 2016; about 60% of shares owned by the Company) was acquired in July 2021 for Y220 million as a consolidated subsidiary. It provides one-stop services from planning and production of video contents to operation services for SNS.

・YRGLM Vietnam Co., Ltd. (Vietnam Socialist Republic. An offshore development site. Conducts software development outsourced from the Company. Wholly owned by the Company.)

- **Its other key consolidated subsidiary is EC-CUBE Co., Ltd. which works on the EC platform business. In November 2020, Orico acquired a stake in this subsidiary and formed an alliance.**

・EC-CUBE Co., Ltd. (established in Osaka City in October 2018; the Company currently owns 89.5% of its shares): The EC-CUBE business was transferred from the parent company's EC platform business segment to this subsidiary in January 2019. It started out as a wholly owned subsidiary, but in November 2020, 10% of its shares were sold to Orient Corporation (TSE First Section; securities code 8585; hereinafter "Orico") to form a capital and business alliance.

One Equity Method Affiliate

・SAI Co., Ltd. (the Company acquired 20% of the shares in September 2015 and transferred its EC contract development business)

The parent company's sales and profit both used to account for an extremely high proportion of the total until FY 2018. The consolidated-to-parent-company ratios had stayed around 1 and the total recurring profit/loss of the consolidated companies excluding the parent had been close to zero (Figure 1).

Note that LOCKON Marketing of U.S.A. (founded for information-collecting purposes) had previously been a nonconsolidated subsidiary, but this company was closed and removed from consolidated accounts.

- **Financial performance of consolidated companies (excluding the parent) has also recovered and has been solid.**

During FY 2019 (note that the Company's fiscal year is September-ending), the EC-CUBE business was separated from the Company (parent company) in a carve-out (became a consolidated subsidiary after the carve-out). Following this, the balance between the parent company's results and consolidated results has changed. Due to the profitability and solid financial performance of EC-CUBE Co., Ltd. as well as due to the acquisition of several companies and their business expansion, overall sales growth and profit have been observed for the consolidated companies excluding the parent (consolidated minus parent company) since FY 2019.

[Figure 1] Comparison of Consolidated vs. Parent Company's Results by Fiscal Year (Sales and Recurring Profit)

	Unit: million yen, %	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
A	Consolidated sales	1,360	1,437	1,613	1,719	1,804	2,204	2,618	2,957
B	Parent company sales	1,360	1,437	1,613	1,719	1,804	2,010	2,317	2,532
A-B=C	Consolidated sales - parent company sales	0	0	0	0	0	194	301	425
C/B	Subsidiaries' sales / parent company sales	0.0%	0.0%	0.0%	0.0%	0.0%	8.8%	11.5%	14.4%
A/B	Consolidated sales / parent company sales	1.00	1.00	1.00	1.00	1.00	1.10	1.13	1.17
A	Consolidated R.P.	234	352	250	106	-115	79	261	364
B	Parent company R.P.	245	359	252	107	-110	19	165	278
A-B=C	Consolidated R.P. - parent company R.P.	-12	-7	-2	-1	-5	60	96	86
C/B	Subsidiaries' R.P. / parent company R.P.	-4.7%	-1.9%	-0.7%	-0.5%	-	315.9%	58.2%	30.9%
A/B	Consolidated R.P. / parent company R.P.	0.95	0.98	0.99	1.00	-	4.16	1.58	1.31

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report
(Note) Consolidated results starting in FY 2014.

Financial Standing

The Company had stayed debt-free for many years after becoming listed, but in FY 2018, it raised about Y800 million in short/long-term debt for future investment. This capital was raised for investment in the development of the Marketing PF and AI-related fields and for future M&As.

- **Essentially debtless. FCF (free cash flow) turned positive.**

Accumulation of capital and improvement in finance have progressed due to the solid surplus maintained with regards to both profit/ loss and FCF, and as of the end of FY 2021, its short/long-term debt totaled about Y980 million while its cash and deposits were about Y1,390 million. Therefore, the Company is essentially debtless.

- **Sound financial standing**

Its total assets are about Y3.1 billion and market capitalization is about Y6.8 billion (based on the closing price of Y1,066 on 9/30/2021), both relatively small. However, its equity ratio is 51% and current ratio is 203% so there does not seem to be an issue with its financial standing.

- **Goodwill increased and software assets were recorded, resulting in intangible fixed assets of about Y900 million, but still smaller than the net assets.**

With the increase in goodwill due to M&As (Y316 million as of the end of the fiscal year before the previous ⇒ Y450 million as of the end of the previous fiscal year) and in the amount transferred to software assets, intangible fixed assets became Y900 million and deferred tax assets became Y130 million, totaling Y1,030 million. However, since this total is smaller than the Company's net assets of Y1,650 million, there does not seem to be an issue at this moment.

- **Share value of the unlisted company EC-CUBE Co., Ltd., which the Company owns, is estimated to be Y1.3 billion. The Company also has Y1.4 billion in cash & deposits, indicating its sufficient liquidity in terms of assets.**

Share Value of Unlisted Subsidiary

The Company currently holds an 89.5% stake in its subsidiary EC-CUBE Co., Ltd. In December 2020, the Company sold 10% of the shares of EC-CUBE Co., Ltd. to Orico for Y155 million. Simply estimating from the sale price at the time, the value of remaining shares held is equivalent to a market value of about Y1.3 billion. At the time of sale, the subsidiary was valued at a market value of about 5.2x of its sales. If business continues to expand in the future, the Company's asset value is expected to further increase.

- **Has earned a high reputation from external organizations. Chosen as the "Great Places to Work Certified Company."**

Awards and Recognitions

In December 2021, the Company was chosen as the "Great Places to Work Certified Company" by the Great Place to Work® Institute[4] Japan in the "Best Workplaces Ranking Japan 2022."

In February 2021, the Company also won the Best Companies Award in the "Great Place to Work® Best Workplaces Ranking for Medium-Sized Companies (100 to 999 employees)" from the same institute for the nineth year in a row (total of ten awards).

The Company has also won various other awards from external organizations in the past. This high reputation is valuable since it helps attract talents, which are crucial to the Company's type of business.

(4) Great Place To Work® Institute: An organization that conducts surveys and presents "Great Places to Work" in about 50 countries around the world every year.

- **Its main products have also earned top-level, high reputations.**

Its products have also earned a high reputation. AD EBiS won the "Leader" award for three times in a row in the "Access Analysis and Attribution" division of the "ITreview Grid Award 2021 Fall" by the IT product review platform "ITreview" (review site for real users of IT products and cloud services targeting corporations) operated by ITclowd Corp (headquartered in Minato-ku, Tokyo). The Company has been chosen for the "ITreview Grid Award" for the fifth time in a row.

Furthermore, its EC open platform "EC-CUBE," which is the main business of the EC platform segment, was ranked as "the most used shopping cart system by online stores with monthly sales of 10 million yen or greater" in a survey of online store trends conducted in October 2020 by EC&Marketing Co., Ltd. (headquartered in Minato-ku, Tokyo) (a high evaluation, winning by a large difference from 2nd place – by more than 2.5x).

◆ Business Philosophy

Under its mission, "Impact on the World," the Company aspires to realize a society in which companies can grow together with the society by creating unique values. This philosophy encompasses the Company's idea that "We shall continue to impact to each and every thing that we are involved in, because the accumulation of small impacts that move people's heart will eventually create a large momentum that will move the entire world."

Also, the Company's vision (for the future) is to "become a company that supports corporate marketing activities around the world through data and technology to bring happiness to both the sellers and the buyers."

2. Business Contents and Business Model

- **B2B business model, providing originally developed tools (software) in cloud format.**

◆Providing Originally Developed Products and Services

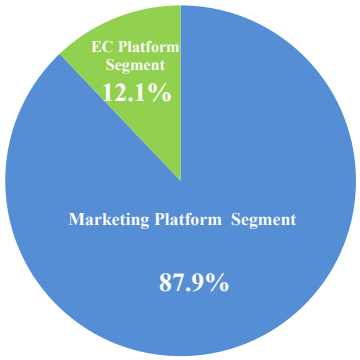
The Company's concept is that tools for solving issues efficiently and quickly are also necessary in the field of Internet marketing as the population ages and declines. Based on this concept, the Company has been providing originally developed software mainly as cloud-based software to corporate customers (B2B).

- **Its main business is the Marketing Platform business. Both the Marketing and the EC PF businesses have been profitable.**

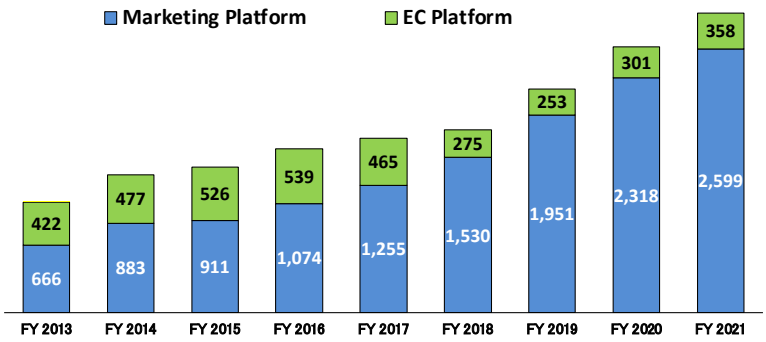
The Company's marketing DX support business consists of two segments: I. Marketing Platform and II. EC Platform. The Marketing Platform business segment accounted for about 87.9% of the total sales in the previous fiscal year and is the growth driver for sales (Figures 2 and 3).

The transition in operating profit for each segment is shown below in Figure 4. Excluding FY 2017 and FY 2018, during which business restructuring was conducted, both segments have been posting operating profits for each full fiscal year.

[Figure 2] FY 2021 Sales Breakdown by Business Segment

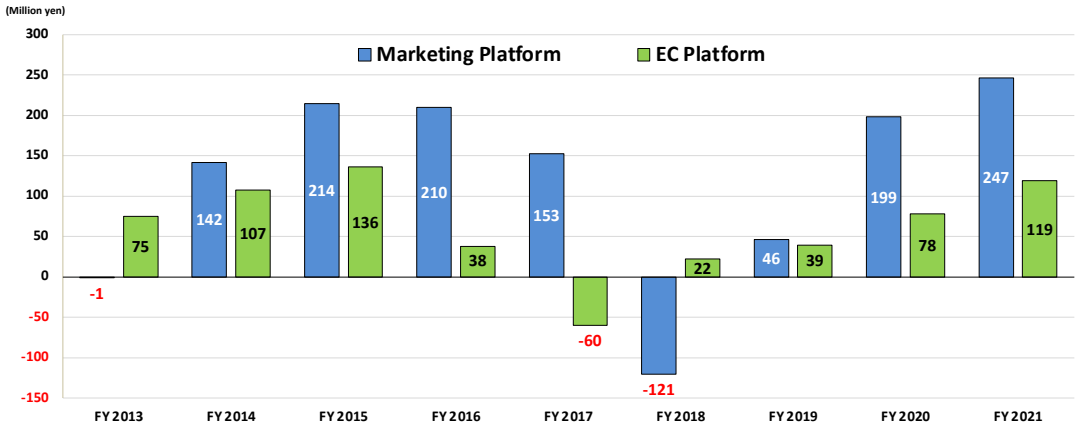


[Figure 3] Transition in Sales by Business Segment
(Unit: million yen)



(Ref) Figures 2-4 were prepared by Alpha-Win Research Dept. based on the Company's financial results summary and financial results briefing materials.

[Figure 4] Transition in Operating Profit by Business Segment



◆ Restructuring and Strengthening of Business Portfolio

- **Has been working on restructuring its business portfolio.**

Since FY 2016, the Company has been actively restructuring and strengthening its business portfolio. It has been increasing its focus on its core businesses (shifting to AD EBiS of the Marketing PF) and separating its non-core businesses (EC PF) (Figure 5).

- **Concentrating business resources on AD EBiS of the Marketing PF**

In the Marketing PF segment, the Internet advertising effect measurement system AD EBiS is especially significant, having accounted for about 78% of the total sales in the previous fiscal year. Over many years, the Company has concentrated business resources on AD EBiS and related products and has been strengthening this business as its growth driver.

- **The EC PF business was carved out to a consolidated subsidiary.**

Since the second quarter (Q2) of FY 2019, the Company (parent company) has been primarily focused on the Marketing PF. However, since the EC-CUBE business was transferred to a consolidated subsidiary, on a consolidated basis, the Company's business is still classified into the same two segments as before.

[Figure 5] Business Restructuring and Segments

Segment Name	Business Category	Main Service	Changes	Notes
(1) Marketing Platform	(1) Advertising effect measurement	①AD EBiS	ADPLAN business (acquired in Jan 2020; merged) was closed in March 2021	Parent company
		②THREe	Withdrew (end of March 2020)	
	(2) Advertising agency DX	①AdRepo	Business acquisition (August 2018)	
		②Ad-Knowledge	Started service in July 2020	
	(3) New services	①AD HOOP (former "Advertising agency referral service")	Started service in May 2020; changed name to ADHOOP in Jan 2021	
		②eZCX	Official version released in July 2021	
		③Spoo	Acquired as a wholly owned subsidiary (Dec 2020)	Consolidated
		④TOPICA	Acquired as subsidiary with about a 60% stake (July 2021)	
	*Other	Former "Professional Service" (DMP business)	(Former "SOLUTION"; transferred from SOLUTION and scaled down)	Parent company
(2) EC Platform	(1) EC-CUBE	(EC-CUBE) (ec-cube.co)	Transferred to EC-CUBE Co., Ltd., in Jan 2019; about 10% of shares sold to Orico	Consolidated
	(2) SOLUTION → withdrew	①EC contract dev. + consulting, etc.	Transferred to SAI Co., Ltd. (equity method; kept) and Radical Opti Co., Ltd. (removed from equity method after transfer)	*Equity method*
		(Of which is DMP business)	Transferred to Marketing Platform's *Other	Parent company

(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report and interview. Information as of the end of Nov 2021.
(Note) Gray highlight indicates businesses from which the Company withdrew. Words in red indicate changes since the previous fiscal year.

- **Currently, the Marketing PF segment is composed of the three business categories of advertising effect measurement, advertising agency DX, and new services.**

(5) Paid-listing ads: A type of programmatic advertising. Also referred to as search advertising. A method of displaying ads related to keywords searched or browsed by Internet users. Effectively displays ads in the users' areas of interest. A highly effective method for corporate advertising.

(6) DMP (Data Management Platform): A method by which a corporate client can analyze its own website

Changes in recent years are as follows (the numbers in parentheses and circles match the numbers in Figure 5).

Starting in the previous fiscal year, the Company's Marketing PF segment (I) has been composed of the following three categories, which are further composed of seven businesses: (1) advertising effect measurement, (2) advertising agency DX, and (3) new services.

I. (1) ① In January 2020, ADPLAN was acquired from OPT, Inc., a consolidated subsidiary of DIGITAL HOLDINGS, for Y315 million and was merged with AD EBiS.
② Withdrew from the THREe business (operating platform for paid-listing ads[5]; withdrawal completed at the end of March 2020).

I. (2) Created the advertising agency DX category, which is composed of the two businesses AdRepo and Ad-Knowledge

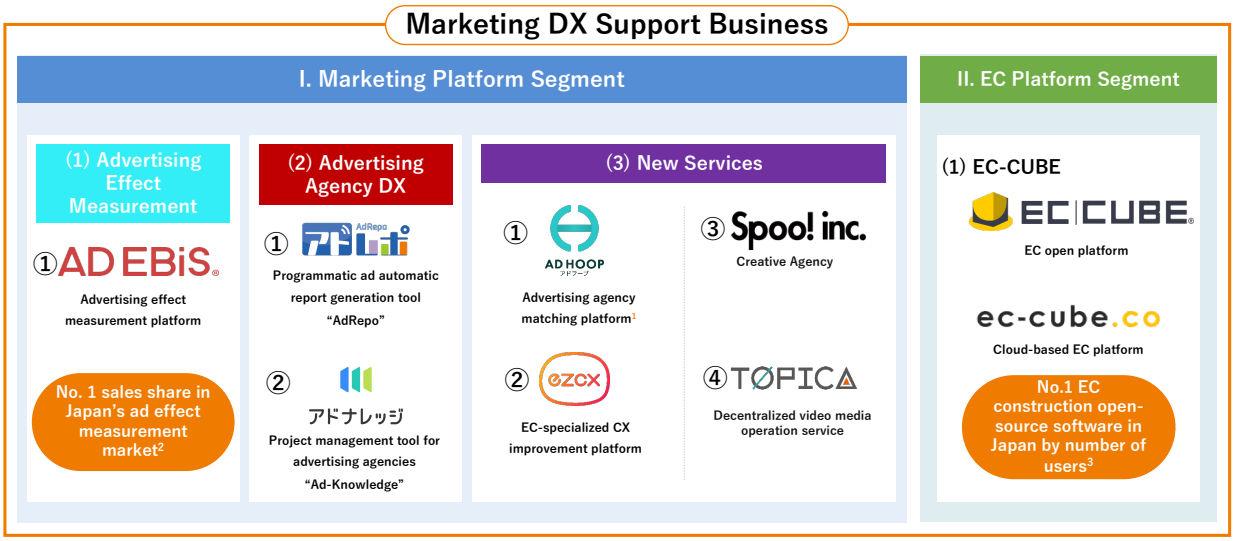
I. (3) Created the new services category and transferred AD HOOP from advertising agency DX to the new services in consideration of future business area expansion. The two acquired subsidiaries and eZCX were also placed in this category.

I. (Other) The DMP[6]-related business was transferred from the EC PF and scaled down.

II. (1) As with before, the EC PF segment is composed only of the EC-CUBE business.

As a result of the above restructuring of business, the current business portfolio is as shown in Figure 6.

【Figure 6】Composition of the Marketing DX Support Business



*1: AD HOOP was transferred from advertising agency DX to the new services in consideration of future business area expansion.
*2: ITR's "ITR Market View: Mail/Web Marketing Market 2020"; share of sales (in amount) of the advertising effect measurement market by vendor (prediction for 2015 – 2019)
*3: From Information-technology Promotion Agency, Japan's "3rd Open-Source Software Utilization Business Survey"

(Ref) Prepared by Alpha-Win Research Dept. from the financial results briefing materials.

◆ Business Details: I. Marketing Platform

The transition in the sales and profit of the Marketing PF business segment by fiscal year is shown below in Figure 7.

[Figure 7] Change in the Sales and Operating Profit of the Marketing Platform Business Segment

Sales (million yen)	FY 2012 parent	FY 2013 parent	FY 2014 consolidated	FY 2015 consolidated	FY 2016 consolidated	FY 2017 consolidated	FY 2018 consolidated	FY 2019 consolidated	FY 2020 consolidated	FY 2021 consolidated	FY 2022 CE consolidated	FY 2023 CE consolidated
I. Marketing Platform	545	666	883	911	1,074	1,255	1,530	1,951	2,318	2,599	3,220	4,590
(1) Advertising Effect Measurement	545	648	883	911	1,074	1,254	1,445	1,775	2,135	2,313	2,520	
(1) ①AD EBiS + former ADPLAN (business acquired in Jan 2020)	499	567	722	822	1,012	1,200	1,402	1,747	2,127	2,313	2,520	
①AD EBiS's sales growth rate (YoY: %)		13.7%	27.3%	13.9%	23.1%	18.6%	16.8%	24.6%	21.8%	8.8%	8.9%	
②THREe (withdrew)	46	81	161	89	62	54	43	28	8	0	0	
(2) Advertising Agency DX								124	152	182	196	
(2) ①AdRepo						(Business acquired in Oct 2018 →)		124	149			
②Ad-Knwoledge									3			
(3) New Services										89	504	1,500
(3) ①AD HOOP, ②EZCX, ③Spoo, ④TOPICA			(Spoo acquired in Dec 2020; TOPICA acquired in July 2021; ADHOOP transferred from advertising agency DX starting in FY 2021→)						3			
*Other: Professional Service (DMP)				(Professional Service, transferred from EC PF →)			84	51	27			
Segment's Operating Profit	-61	-1	142	214	210	153	-121	46	199	247		
Segment's Operating Margin (%)	-11.2%	-0.1%	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	9.5%		

(Ref) Prepared by Alpha-Win Research Dept. from the Company's financial results summary, financial results briefing materials, and interview. CE: the Company's estimates. A part of the segment sales for the past as well as this fiscal year is based on Alpha-Win's estimates.

The Marketing PF segment's sales are disclosed for the following three categories, which are further composed of seven subcategories.

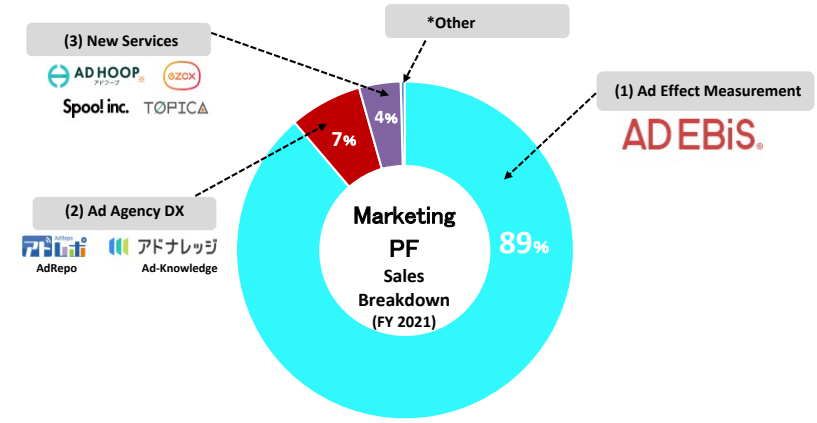
(1) Advertising effect measurement: ①AD EBiS accounts for 89% of the sales of this category (Figure 8 on page 12).

- **Sales of advertising effect measurement is 89% of the total sales of Marketing PF and about 78% of entire sales of the Company (both in FY 2021).**

(2) Advertising agency DX: accounts for 7% of sales but most of its sales are from ①AdRepo.
(3) New services: still in the start phase and currently accounts for only 4% of sales.

"*Other" consists of the previous Professional Service (DMP, etc.), but since its sales are very small, it is not defined as a category.

【Figure 8】Breakdown of Sales of the Marketing PF Segment (FY 2021)



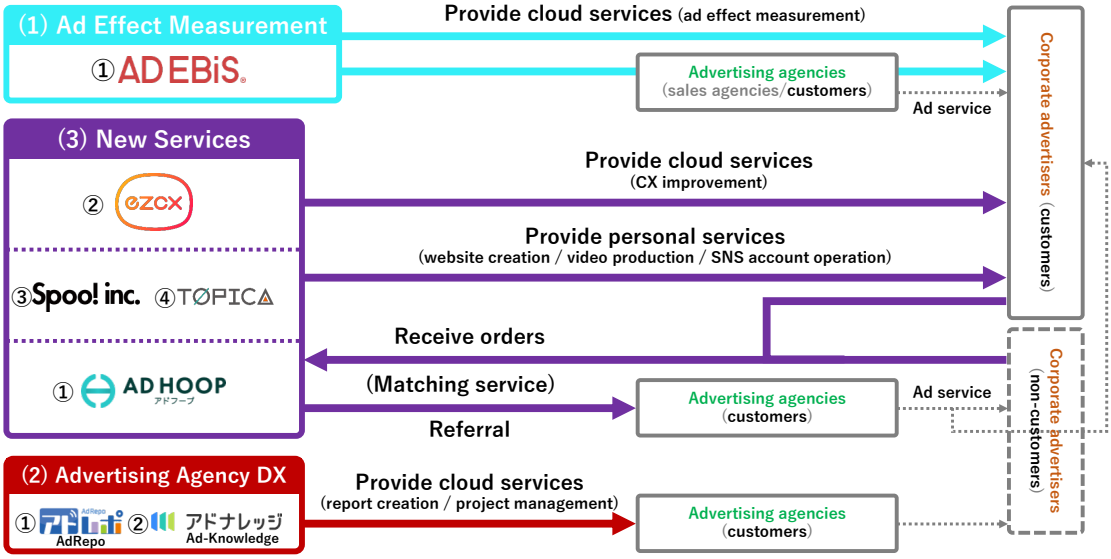
*ADHOOP was transferred from (2) Advertising Agency DX to (3) New Services in line with business area expansion.

(Ref) Figure 8-9 were both prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

- **B2B business. The cloud service accounts for most of the Company's entire sales.**

The flow chart in Figure 9 shows the relationship between the provided services and customers of each business of the Marketing PF segment. It is a B2B business in which advertising agencies and corporate advertisers are the customers. In terms of sales in the previous fiscal year, the cloud services accounted for about 97% of this PF segment.

【Figure 9】Marketing PF Segment's Business Flow Chart



I. (1) Advertising Effect Measurement

With the withdrawal from THREe, the advertising effect measurement category currently consists of only AD EBiS.

I. (1) Advertising Effect Measurement: ① AD EBiS

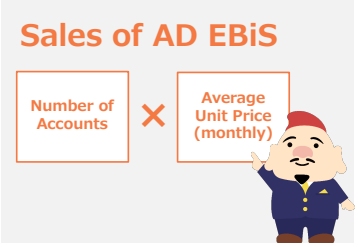
AD EBiS, the Company's Proprietary Product

- **Its core product is AD EBiS, an originally developed product. It is an Internet ad effect measurement system for understanding the cost effectiveness of ads.**

AD EBiS is the Company's main product (78% of the Company's total sales). It was originally developed and is an Internet advertising effect measurement system that allows the collective management, measurement, analysis, and visualization of the effect of Web ads, etc., to help users assess the cost effectiveness of ads.

It comprehensively provides a one-stop marketing environment where users can "utilize" marketing data accumulated by the "measurement" function to maximize sales or acquire prospective customers in proactive marketing.

With the increasingly diversified and dispersed consumer behavior of today's Internet society, marketing and advertising over the Internet have also become more sophisticated and complicated, increasing the necessity of incorporating technology in their operation. The Company offers, at a reasonable price, software that can accurately evaluate and leverage the effect of Internet ads through various methods of analysis, including various functions (ad measurement, analysis, evaluation, etc.). It also provides full software support.



Merged ADPLAN with AD EBiS

After acquiring the ADPLAN business, the Company had continued its service for a while. However, to improve the efficiency of system development and updates, it had shifted and merged the business with AD EBiS in December 2020. Afterwards, ADPLAN's customers were migrated to AD EBiS and ADPLAN was discontinued in March 2021 after complete integration into one business.

Business Model

- **Service is provided as a SaaS based on a subscription-based business model.**
- **AD EBiS's number of accounts and average unit price are the KPIs.**

AD EBiS is provided as SaaS based on a subscription-based business model[7] (details shown in Figure 16 on page 22). It is a business model based on flat-rate, periodic payments. Its sales are determined by average unit price × number of active accounts. Both numbers are key performance indicators (KPIs) for AD EBiS as well as for the entire company.

(7) Subscription-based business model: A business model where users pay for the provided service based on the duration of use. See page 22 for details.

Customers

- **Well-known companies are among customers too.**

It is a B2B business. AD EBiS's main customers include WOWOW, Lion, Kracie, sansan, Lifenet Insurance, Zwei, Z-KAI, and Bridgestone Cycle. The number of ADPLAN's accounts were estimated to be a little more than 100 companies at the time of merger, many of which are large, blue-chip companies that sell branded products throughout the country.

Price System

- **Changed to packaged plans with new pricing, resulting in significant rise in unit price.**

AD EBiS's pricing plan used to be a pay-per-use based on multiple parameters. However, in June 2018, the Company introduced a new price plan based on a flat-rate price table with basic functions and support packaged together. Options (various external linkage functions for reporting, etc.) can be added to a plan. New contracts have already been migrated to this new price system, and pricing has also been again changed after this.

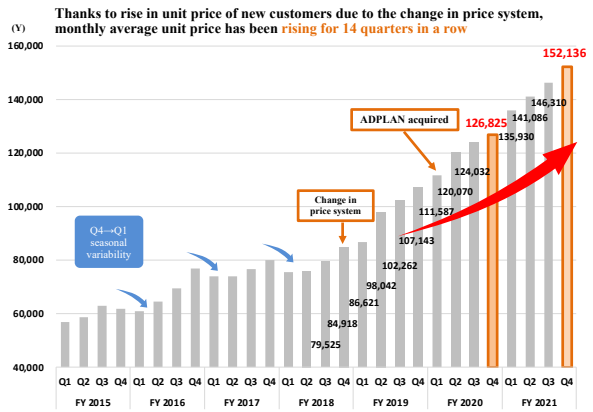
- **Due to the version upgrade, change in pricing due to the addition of new functions, and acquisition of new customers with high unit price, AD EBiS's unit price per customer has been increasing for 14 consecutive quarters. It grew by about 2.5x over the past five years.**
- **Last fiscal year, the average unit price rose by 20%.**

Change in the Average Unit Price

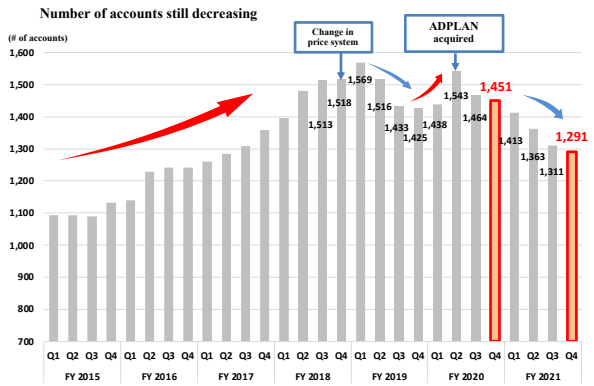
Change in the average unit price at of the end of each quarter (end of the final month of each period) is shown in Figure 10. There used to be a significant seasonal variability between quarters, but after the transition to the subscription-based business model, an upward and linear trend has been maintained. The average unit price has been rising for 14 consecutive quarters since Q2 of FY 2018. The average unit price has grown by about 2.5x over the past five years.

From the end of FY 2019 to the end of FY 2021, the monthly average unit price (average as of the end of the month; the same applies below) changed from Y107,143 ⇒ Y126,825 (+18.4% or +Y19,682 YoY) ⇒ Y152,136 (+20.0% or +Y25,311 YoY). In the previous fiscal year, the average unit price increased due to the cancellation of low-priced contracts, the acquisition of new and high-priced customers, and price revision following the change to higher functionality.

[Figure 10] Change in the Average Unit Price of AD EBiS



[Figure 11] Change in the Number of Active Accounts of AD EBiS



(Ref) Figures 10-11 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials. The former ADPLAN's values are also included in AD EBiS after the acquisition.

- **AD EBiS's number of active accounts is still on a net decline trend decline partly due to the impact of COVID-19. The challenge will be to implement measures to realize a net increase.**

Number of Active Accounts

On the other hand, based on end-of-the-quarter figures, the number of active accounts had been consecutively increasing until the end of Q1 of FY 2019 (end of Dec 2018), but then declined after this for three quarters in a row due to contract cancellations in response to the price revision.

However, in FY 2020, the number of accounts slightly increased in Q1 to 1,438 companies (+13 companies or +0.9% QoQ). In Q2, the number increased to 1,543 companies (+105 companies or +7.3% QoQ), partly due to the incorporation of ADPLAN's customers.

Then, due to the impact of COVID-19 which caused a temporary suspension of services and contract cancellations, the net number of accounts decreased for six quarters in a row to 1,290 by the end of Q4 of the previous fiscal year (Figure 11 on page 14).

- **Decline in the number of accounts of AD EBiS has been offset by the rise in the average unit price. Sales (in amount) of AD EBiS has been continuing to grow at a double-digit rate.**

Sales

The rise in unit price and decline in the number of accounts so far reflect the Company's strategy to prioritize high unit price over the number of accounts. Since Q3 of FY 2018, due to the transfer of existing customers to the new price system, cancellations of low-priced contracts and contracts made via sales agencies have increased.

However, the rise in the unit price has more than compensated for the sluggish progress with the number of accounts so that the sales of AD EBiS have been able to continue to grow each year at a rate of about 10-20% YoY (Figure 7 on page 11).

- **Average monthly churn rate of AD EBiS is currently 2.5%. Aims to improve this to 2.0% by the end of this fiscal year.**

Churn Rate

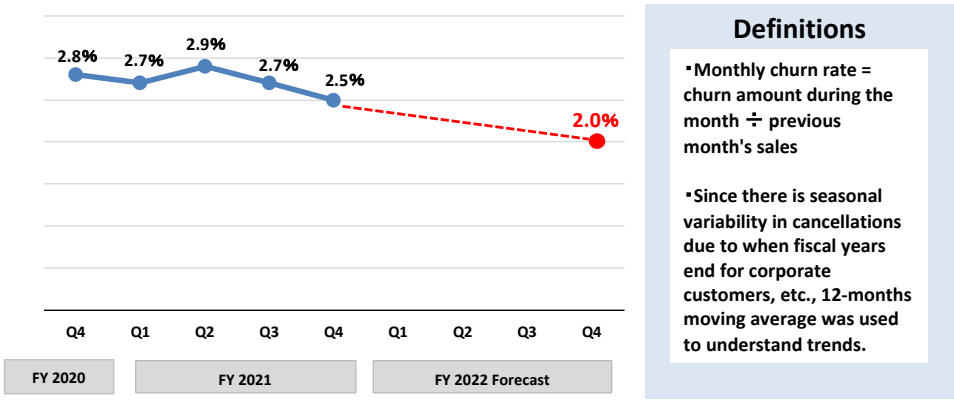
The monthly average churn rate of AD EBiS over the last 12 months (monthly average churn rate = current month's churn amount ÷ previous month's sales) was newly set as a KPI and has been disclosed. The rate has been decreasing on a quarterly basis, but was 2.5% in Q4 of the previous fiscal year (Figure 12).

If we estimate the monthly sales of AD EBiS to be Y196.4 million based on the unit price and the number of accounts at the end of the previous fiscal year, the decrease in sales due to cancellation would be Y4.9 million per month and Y58.8 million per year. This is equivalent to about 32.3 accounts per month and 387 accounts per year when calculated from the number of accounts at the same point in time, or 1,290.

(8) Onboarding: A series of processes to support new users (of AD EBiS) in learning how to use and operate the software, thereby increasing satisfaction and encouraging continued use.

According to the Company's analysis, about 40% of cancellations are made within one year of contract. The main reason for cancellation is that customers started using the software but could not use it effectively. Therefore, the Company aims to strengthen onboarding[8] to reduce early cancellations. It aims to reduce the churn rate by 0.5% (by about Y1 million or about 6.5 account cancellations per month) to 2.0% (Y3.9 million or about 25.8 account cancellations per month) in one year or by Q4 FY 2022.

【Figure 12】Change in Monthly Average Churn Rate of AD EBiS



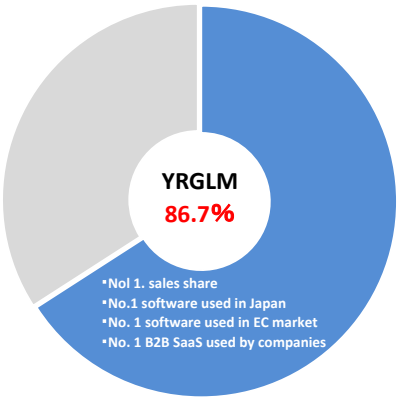
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

- **AD EBiS: top share in Japan's Internet ad effect measurement system market for 5 years in a row (source: ITR's "ITR Market View: Mail / Web Marketing Market 2020," prediction for 2015-2019). In the most recent later survey, its share was extremely high at 86.7%.**

Market Share

Since its release in 2004, AD EBiS has been used by more than 10,000 users in total and has gained the top share in Japan's Internet advertising effect measurement system market from 2015 to 2019 for five years in a row. Furthermore, its share has been increasing year by year, and an extraordinary share of 86.7% as the solid No.1 player was acquired according to the most recent market research, partly thanks to the acquisition of the ADPLAN business (Figure 13).

[Figure 13] Share of Sales (in amount) of the Advertising Effect Measurement Market by Vendor



(Ref) Researched by the Japan Marketing Research Organization; summary of June 2021 survey on competition in designated areas. Prepared by Alpha-Win Research Dept. based on the notice of convocation of general shareholders meeting.

- **Sequential, full update of AD EBiS starting in Jan 2021. Plans to strengthen product and expand sales.**

Major Update of AD EBiS

The Company had announced that it will sequentially release a major (full) update of AD EBiS starting in January 2021. In this full update, the Company has provided a complete renewal of the UI[9] as well as more than 20 additional functions, including an LTV (Customer Lifetime Value) analysis function specialized for D2C[10]/subscription-based business models, and the renewal of the API[11] for connecting AD EBiS with external services. Through this update, users can analyze and utilize data "easier and faster."

With the update, the Company also renewed AD EBiS's product logo and service design. By strengthening its product, the Company hopes to expand sales through the acquisition of new customers, upselling, and cross-selling.

(9) UI: Abbreviation for user interface. The part directly accessed by the user.

(10) D2C (Direct to Consumer): selling directly to consumers (model)

(11) API (Application Programming Interface): A protocol that defines procedures, data formats, etc., for accessing and using functions and managed data of computer programs from external programs.

- **AdRepo enables automatic creation of reports for programmatic advertising. Customers are advertising agencies. The Company intends to actively expand this business to create synergy with AD EBiS.**

I. (2) Advertising Agency DX: ①AdRepo

In August 2018, the Company acquired AdRepo, an automatic report-generation tool for programmatic advertising. It has been developing this business in full scale since the beginning of FY 2019. AdRepo is a tool that fully automates the creation of reports in linkage with major advertising platforms. It is a cloud service that has been developed to reduce the workload of advertising agencies in creating reports for programmatic ads.

Its sales at the time of acquisition were about Y150 million. By acquiring new customers and creating synergy with AD EBiS, the Company plans to develop and strengthen this business as its growth business.

- **Third largest share in the market.**

- **Added functions**

It is a latecomer product and its market share in Japan is third from the top, behind ATOM (SO Technologies, Inc.: wholly owned subsidiary of SoldOut, Inc [TSE First Section 6553] and previously called TechLoCo Co., Inc.) and glu (ATALA LLC: not listed; one of the Company's partners).

In addition, in July 2021, the Company started the "Smart Analysis Function" (a function that automatically outputs analysis of programmatic ad reports that used to take much time and workload) to improve the efficiency of reporting operations and support DX at advertising agencies. Going forward, it will aim to reduce costs and improve profitability by improving the products, strengthening customer success[12] management, and renovating the basic programs.

(12) Customer success: Activities aimed at maximizing LTV by proactively working on leading customers to success.

I. (2) Advertising Agency DX: ②Ad-Knowledge

- **Started Ad-Knowledge, a cloud-based project management system/service for advertising agencies. Will support improvement and streamlining of operations of advertising agencies.**

The Company newly developed this cloud-based project management system for advertising agencies and launched the service in July 2020. Through this service, it supports the improvement and streamlining of the operation of advertising agencies who work with programmatic advertising[13].

(13) Programmatic advertising: An advertising method where optimization of ads is conducted automatically or supported immediately. After submitting an ad, optimization is conducted, leading to better results.

In Japan, the mainstream for Internet ads is programmatic advertising with a flexible control of budget limit, distribution period, and distribution method, and many companies are indeed using this type of advertising. However, since its operation requires expertise, experience, time, and much workload, companies often ask advertising agencies to manage the ads for them.

However, since advertising agencies normally manage a wide range of advertising projects at the same time, they have been experiencing much workload in project management, including the timely checking and tuning of advertising results, progress management, and invoice processing.

Therefore, utilizing the know-how gained from its years of experience with the AD EBiS business, the Company offers Ad-Knowledge as a solution to these issues and aims to contribute to the customer success of advertising agencies. Like AD EBiS, this service is offered as a subscription-based service (SaaS).

I. Other: Former Professional Service Business

This category has only one client and sales are very small. The private DMP business is recorded under this "*Other" category that does not belong to the other three categories of the Marketing PF.

- **The new services are composed of four businesses.**

I. (3) New Services

The new services are the four businesses of ①AD HOOP, ②eZCX, ③Spoo, and ④TOPICA. ① and ② are cloud services that have been developed in-house, and ③ and ④ are professional services by companies acquired through M&As.

- **AD HOOP's category was changed to the new services.**

I. (3) New Services: ①AD HOOP

(Previously, "Advertising Agency Referral Service"; name changed in Jan 2021)

AD HOOP is an advertising agency matching platform. Its category has been changed from advertising agency DX to the new services in consideration of future business area expansion.

- **AD HOOP is a service that introduces the most suitable advertising agency to advertisers.**
- **A business model in which referral commissions are received from advertising agencies.**

In May 2020, it was started as a new service in which the most suitable advertising agencies are introduced to Internet advertisers. Using its network of more than 300 advertising agencies and information that it uniquely possesses, the Company selects and introduces a candidate agency that suits each advertiser in a one-stop support system. Through this service, advertisers can efficiently find agencies with the best matching and improve the performance of Internet advertising.

Advertisers can use the service for free, but the Company receives consideration from the advertising agency when an appointment is made between the two matched parties.

The service content was renewed in the previous fiscal year, and sales increased by 8x compared to the fiscal year before the previous. Going forward, the Company plans to provide new functions (creating new registration site, etc.) for corporate advertisers and increase areas of matching to improve matching efficiency and speed, and thus achieve high growth.

- **Launched the originally developed, EC-specialized CX improvement platform "eZCX"**

I. (3) New Services: ②eZCX

The CX[14] market has been growing annually by 30%, and "eZCX" is an EC-specialized CX improvement platform based on the concept of "anyone can easily use."

In July 2021, the Company started providing the official version of "eZCX," a new service that supports sales expansion by customers through the improvement of CX on websites. By providing EC-specific preset functions, effective implementation of customer experience strategies and measurements can be done using simple settings.

Using the user behavior data that the Company has accumulated through its AD EBiS business, the service will analyze the users' feelings to provide the most suitable experience to users at the most appropriate timing, and thus help improve the acquisition of new customers.

The service has received positive feedback from its early corporate users, who experienced a maximum of 10% improvement in CVR (conversion rate; rate of successful contracts made). The full contribution of this business to the Company's sales is expected to start this fiscal year.

(14) CX or Customer Experience: the customer experiences a product or service, and evaluates the value of the experience.

- **Acquired Spoo! inc., a web media and design company. Plans to leverage its creativity and human resources.**

I. (3) New Services: ③Spoo

On December 30, 2020, the Company acquired Spoo as a wholly owned subsidiary (consolidated subsidiary). Spoo was founded in March 2000 and is in the business of web media and design.

Its customers include ADK Marketing Solutions and Sapporo Real Estate.

Going forward, the Company plans to integrate Spoo's creativity and human resources with the Company's data and technology to create new values, expand into more areas of business, and strengthen its competitive edge and cross-selling.

Also, through a joint project with Spoo, the Company started providing the "Jirei Zamurai (Case Study Samurai)" (B2B service that creates contents for sharing actual cases of software implementation) in November 2021.

- **Also acquired TOPICA Inc., which works on a marketing support business utilizing SNS and videos.**

I. (3) New Services: ④TOPICA

On July 30, 2021, the Company acquired a 60% stake in TOPICA Inc. (headquartered in Shinjuku-ku, Tokyo; Shunsuke Fumoto as representative director; founded in May 2016; capital of approximately Y37 million; hereinafter, "TOPICA") for about Y220 million (market capitalization of TOPICA was about Y350 million). Since the fourth quarter of the previous fiscal year, it has been the Company's consolidated subsidiary.

TOPICA's results for FY 2021 (ended April 2021; the most recent fiscal year) were as follows: sales of Y156 million, net profit of Y4 million, and net assets of Y83 million. Based on these actual values, P/E is 87.5, P/B is 4.2, and P/S (price-to-sales ratio = market capitalization / annual sales) is 2.2. Compared to the Company's consolidated results (for FY 2021), TOPICA's sales are 5%, net profit is 2%, and net assets are 5% of the total.

TOPICA works on a marketing support business that utilizes SNS and videos and provides a series of services ranging from the planning and production of video contents to operation services for SNS accounts. With the acquisition, the YRGLM Group will expand its business domain to the rapidly growing social media marketing market and cross-sell TOPICA's services to its current corporate customers (around 1,300 companies).

- **Expecting synergy with the Company through cross-selling and new service development.**

In addition to this, the Company plans to integrate its data and technology businesses with TOPICA's SNS marketing business to develop and provide new services.

- **EC PF Segment is now specialized in EC-CUBE.**
- **The EC-CUBE business is managed by EC-CUBE Co., Ltd., the Company's consolidated subsidiary.**

◆ Business Details: II. EC PF Segment

Until FY 2018, the EC PF Segment had been composed of (1) EC-CUBE and (2) the previous SOLUTION business.

Currently, the EC PF segment only consists of the EC-CUBE business, which is managed by the consolidated subsidiary EC-CUBE Co., Ltd. (Figure 14).

【Figure 14】Change in Sales and Operating Profit of the EC Platform Segment

Sales (million yen)	FY 2012 parent	FY 2013 parent	FY 2014 consolidated	FY 2015 consolidated	FY 2016 consolidated	FY 2017 consolidated	FY 2018 consolidated	FY 2019 consolidated	FY 2020 consolidated	FY 2021 consolidated	FY 2022 CE consolidated	FY 2023 CE consolidated
II. EC Platform	323	422	477	526	539	465	275	253	301	358	380	410
(1) EC-CUBE	150	207	245	230	219	208	254	253	301	358	380	410
EC-CUBE sales growth rate (YoY: %)		38.1%	18.3%	-6.1%	-4.8%	-5.2%	22.2%	-0.4%	19.0%	18.9%	6.1%	7.9%
①Shopping settlement fee										290		
②Subscription										12		
③Other										54		
(2) SOLUTION (transferred / withdrew)	174	214	232	296	319	257	20	0	0	0		
①EC contract development, EC website consulting, etc.	174	214	232	296	319	257	20	0	0	0		
Of which is DMP (transferred)						104						
Segment's operating profit	98	75	107	136	38	-60	22	39	78	119		
Segment's operating margin	30.5%	17.8%	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	33.1%		

(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report, financial results briefing materials, and interview. Includes estimates.

- **In terms of the number of users, EC-CUBE is the No.1 shopping cart system used by online stores with monthly sales of Y10 million or greater.**

(15) Open source software: The source code, which is basically the blueprint for software, is made available free of charge, letting anyone revise and redistribute it.

(16) Freemium Model: "Freemium" is a coined word that combines "free" and "premium." Refers to a business model that generates revenue by offering basic services free of charge while charging fees for more sophisticated or specially added related services.

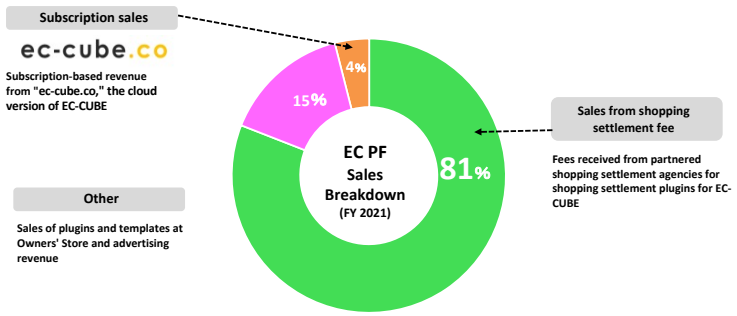
II. (1) EC-CUBE

EC-CUBE is an open source software[15] platform whereby users can create and manage EC (e-commerce) websites on their own. The Company provides "EC-CUBE (download version)" as free packaged software for web design to companies that will begin selling and providing products and services online. It is a long-selling shopping cart product with 15 years of history, estimated to be used at 35,000 stores.

Characterized by low cost, high customization, and user-friendly interface, it has the largest share in the Japanese market and is currently the standard platform.

EC-CUBE Co., Ltd. has set up a Freemium Model[16] in which it offers the software for free but in return earns revenue from peripheral services. Revenue is made through shopping settlement fees from official partners in Internet businesses (payment agencies, etc.), function addition fees, and ec-cube.co's subscription income (Figure 15).

【Figure 15】Breakdown of Sales of the EC PF Segment (FY 2021)



(Ref) Prepared by Alpha-Win Research Dept. from the Company's financial results briefing materials.

The development of the new version "EC-CUBE4" was released in October 2018 and has gone through several updates. Its cloud version "ec-cube.co (paid version)" was also released in February 2019. As the EC market expands, financial performance has been improving at a solid pace with the increase in payment agency fees, etc..

- **Orico acquired shares of EC-CUBE Co., Ltd. to form an alliance. Plans to take in EC- and DX-related demand to expand business.**

With the capital and business alliance with Orico that was started in December 2020, the Company plans to expand the sales of "ec-cube.co," increase customers, and expand business through Orico's customer network and sales power. Business is also planned to be expanded by providing support for Orico's 830,000 member stores in starting EC.

For Orico, this alliance will allow it to effectively take in the rising EC demand and thereby increase revenue from shopping settlement fees, etc. Therefore, this alliance seems to be a win-win situation for both companies.

Going forward, the Company plans to expand the EC PF business too, with alliances with other companies included as a strategy.

- **The EC PF's main competitors are listed corporate groups.**

Also, as described on paged 7-8, EC-CUBE has earned a high score in an online store trend survey. In the EC platform market (packaged software for development of EC websites), the following listed companies seem to be providing similar services (in the order of product/service name, operating company or group, market, and securities code). EC-CUBE Co., Ltd. targets high-end customers, and mainly competes with ecbeing and Commerce21.

・BASE: BASE, TSE Mothers, 4477
・ecbeing: SOFT CREATE HD, TSE First Section, 3371
・Commerce21: Estore, JASDAQ, 4304
・ebisumart: Interfactory, TSE Mothers, 4057
・futureshop: Commerce One Holdings, TSE Mothers, 4496

- **With Shopify entering the market, competition is intensifying.**

In addition, Shopify Inc.* listed on New York and Toronto's stock exchanges seems to be beginning to compete with EC-CUBE Co., Ltd., as it makes a full-scale entry into the Japan market (*multinational e-commerce company based in Canada, hereinafter referred to as "SHOP"; ticker SHOP, market cap of $116 billion, P/E of 547, and P/B of 28).

Shopify, the world's largest EC website production platform provided by SHOP, is expanding as a platform with abundant customization functions and payment methods, simple and easy-to-use interface, and excellent cost performance.

II. (2) Former SOLUTION Business

- **The Company transferred the SOLUTION business (EC contract development) to its equity-method affiliates and has withdrawn from the business.**

The former SOLUTION business had been composed of several businesses. However, with the restructuring of business, its main EC contract development business had been transferred to affiliated companies that the Company owned 20% of shares each, even though the business had been profitable. Then, the Company withdrew from the business (reflected in non-operating profit/loss as profit or loss accounted for by the equity method).

This business is no longer among the segments that are reflected in the consolidated sales.

◆ Subscription-Based Business Model (supplemental description)

- **The subscription-based business model enables continuous and stable generation of profit by charging fees for every certain period of use.**

Overview

In the Marketing PF segment, which accounts for approximately 88% of the Company's total sales, 89% of its sales (78% of the Company's entire sales) are from the SaaS (cloud), flat-rate billing model (subscription model).

In the subscription-based business model, users pay a predetermined, packaged price for the service contents or the use of system services such as AD EBiS during a certain contract period, enabling continuous generation of revenue until the contract becomes cancelled. In addition to the core business AD EBiS, a similar business model is also used in the EC-CUBE and the advertising agency DX businesses, although their sales are small.

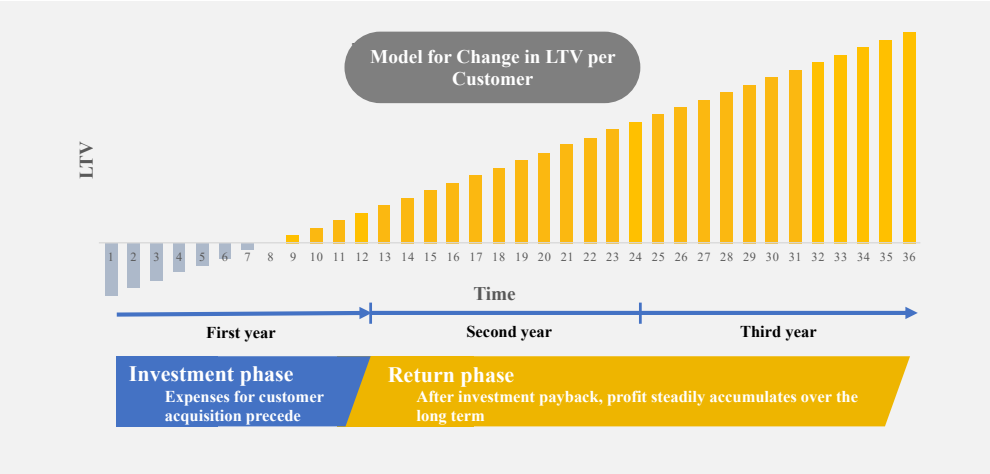
- **Initial costs are incurred immediately after new contracts are made but are gradually offset over the course of time, so that profit begins to accumulate steadily.**

Although expenses will precede at the beginning of a new contract, including marketing and sales activity expenses for customer acquisition and R&D expenses, over a customer's lifetime (the period from the start to the end of transaction with a customer), revenue is accumulated continuously, increasing the customer lifetime value (LTV: cumulative profit generated within a contract period). Therefore, it is a business model that enables stable growth.

Change in the LTV (cumulative profit/loss) per Customer

Figure 16 shows the model for the change in the Company's cumulative profit and loss over the average subscription contract period of three years.

[Figure 16] Model of the Change in LTV per Customer (cumulative profit and loss)



(Ref) Financial results briefing materials

In the month that a new contract is made, all expenses become recorded, so that an overall loss is recorded for that particular month. However, since the Company can then earn an almost fixed amount of sales revenue every month starting in the first month of contract, the cumulative break-even point (zero) is reached after eight months. From the ninth month, the cumulative profit/loss (LTV) turns into a surplus and profit accumulates until the 36th month when cancellation is expected.

In other words, it is a model with a time lag; during the phase that the number of contracts is increasing at an accelerating speed, there will be little contribution to profit in the first year, but profit will then accumulate on a continual and stable basis from the second year until the end of contract.

The Company sets the upper limit of the initial cost to be about 30% of the LTV (the final cumulative profit; the rightmost end of the graph in Figure 16 on page 22) and controls the initial cost related to new contract acquisitions accordingly.

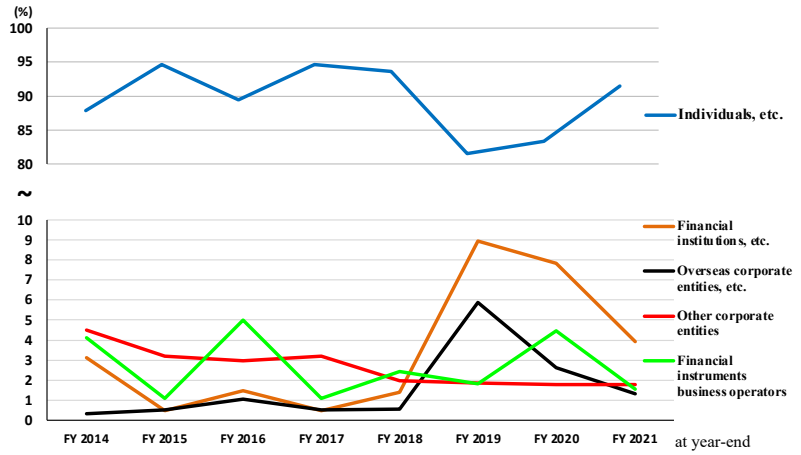
3. Shareholder Composition

- **Individuals hold an extremely high proportion of shares: about 91%.**

◆ Change in Composition by Shareholder Type

Regarding shareholder composition by shareholder type as of the end of September 2021 (Figure 17), compared to one year ago, the proportion of "individuals, etc." has increased from about 83% to about 91% of the total. On the other hand, "financial institutions, etc." has decreased from about 8% to about 4% and "overseas corporate entities, etc." too has decreased from 3% to a little more than 1%.

[Figure 17] Change in Shareholder Composition by Shareholder Type (unit = %)



(Ref) Prepared by Alpha-Win Research Dept. based on the Company's securities report, etc.

- **No significant changes to the major shareholders. Parties affiliated with the Company (former and present executive officers plus the employee stock ownership plan) possess about 60% of all shares in total.**

◆ Major Shareholder Composition

The major shareholders as of the end of September 2021 are shown in Figure 18 on page 25. The following is supplementary information. Compared with past periods, the major shareholders have essentially not significantly changed.

- The largest shareholder owning greater than 40% of the shares is Susumu Iwata, the current president, founder, and owner.
- The second and third largest shareholders are both former executive officers of the Company (they have been continuing to gradually sell their shares). The shares of the former and present executive officers of the Company, plus the employee stock ownership plan at sixth place, amount to greater than 60% of the total shares.

- The fourth and the fifth largest shareholders are the Custody Bank of Japan. Its final investors are unknown since it is a custodian (financial institution that manages securities on behalf of investors), but it has been owning the Company's shares since when it used to be trust banks. The Custody Bank of Japan was founded in July 2020 through the merger of the three companies JTC Holdings, Japan Trustee Services Bank, and Trust & Custody Services Bank. It is now the largest bank specialized in asset management in Japan.

According to the Report of Possession of Large Volume (the "5%-rule" report) submitted on July 31, 2019, 328.4 thousand shares (5.15% of outstanding shares) were mainly incorporated in the "MHAM Emerging

- **Invested by several investment trusts**

Growth Stock Open" portfolio (also called "J-Frontier") managed by Asset Management One (hereinafter, "AMO"). Some of these shares were later sold and the portfolio had 246.2 thousand shares (3.9% of outstanding shares) as of February 25, 2020, and 100 thousand shares (approx. 1.7% of outstanding shares and 0.37% of the fund's portfolio) as of February 4, 2021.

The Company's stock is also incorporated in the "Japan Emerging Equity Open" managed by Nikko Asset Management and "The 2020 Vision" managed by Commons Asset Management (as of 12/18/2020, 103.5 thousand shares and 49.9 thousand shares were owned, respectively). These investments are most likely being conducted under the names of custodians that are among the major shareholders, although this cannot be confirmed.

- **Individual investors are also among the major shareholders.**

- The seventh largest shareholder is Hakuhodo DY Media Partners Inc., the Company's sales agency.
- The final investors and purpose of the ninth largest shareholder J.P.MORGAN SECURITES PLC is unknown.
- The eighth and tenth shareholders are individual investors who are also investing as major shareholders in several Japanese listed companies.
- Currently, there seems to be no activist among the investors.

- **As of the end of September, it owned about 0.9% (about 58 thousand shares) of all outstanding shares as treasury stock. In November, it purchased an additional 53 thousand shares (0.8% of all outstanding shares) in a share buyback.**

At the end of September 2018, the number of treasury shares owned by the Company was 983 shares. Then, the Company bought back some of its shares in February and March of 2019 (a total of about Y100 million at an average stock price of Y1,363), increasing its treasury shares to about 81.4 thousand shares by the end of September 2019. Following this, the Company used a portion of the shares as transfer-limited, stock-based compensation for its executives and employees, and as of the end of September 2021, it owned about 57.8 thousand treasury shares (about 0.9% of all outstanding shares). In November 2021, it bought back 53 thousand common shares (0.8% of outstanding shares) for Y69 million (average purchase price of Y1,311 per share). The Company may also potentially use the treasury shares for M&A and alliance strategies as well as stock-based compensation for its executives and employees.

[Figure 18] Current Major Shareholders (units: thousand shares, %)

	End of Sept. 2015	End of Sept. 2016	End of Sept. 2017	End of Sept. 2018	End of Sept. 2019	End of Sept. 2020	End of Sept. 2021	←Shareholding %	←Ranking
Susumu Iwata (president and CEO)	2,851	2,817	2,817	2,819	2,822	2,825	2,827	44.7	1
Hiroichi Fukuda (former executive vice president)	1,071	1,021	1,021	961	801	781	817	12.9	2
Kanako Mataza (former director and senior executive office	415	415	352	354	353	352	329	5.2	3
Custody Bank of Japan (trust account)	—	—	—	—	—	221	128	2.0	4
Custody Bank of Japan (securities investment trust account)	—	—	—	—	—	169	82	1.2	5
YRGLM Employee Stock Ownership Plan	76	39	48	69	68	71	66	1.0	6
Hakuhodo DY Media Partners Inc.	60	60	60	60	60	60	60	0.9	7
Yoshihisa Yamashita (indiv.)	—	—	—	—	—	—	54	0.8	8
J.P. MORGAN SECURITIES PLC	—	—	—	—	—	—	35	0.5	9
Tomonori Yamada (indiv.)	—	—	28	—	—	—	33	0.5	10
UEDA YAGI TANSHI Co., Ltd.	—	—	—	—	—	86			
au Kabucom Securities	—	—	—	—	—	62			
Mitsubishi UFJ Morgan Stanley Securities	—	—	—	—	—	58			
Japan Trustee Services Bank (former name)	—	59	—	60	333	—			
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	—	—	60	—	—	—			
SBI SECURITIES Co., Ltd.	—	—	—	—	—	—			
Trust & Custody Services Bank (former name)	—	—	60	29	123	—			
Rakuten Securities, Inc.	—	—	—	72	64	—			
GOLDMAN SACHS INTERNATIONAL	—	—	—	—	284	—			
UEDA YAGI TANSHI Co., Ltd.	—	—	—	—	113	—			
Katsuyuki Ito (indiv.)	—	—	—	52	—	—			
Akiko Takashima (indiv.)	—	—	—	29	—	—			
Kenichiro Wade (former outside director)	39	29	29	—	—	—			
Yoshio Takayama (indiv.)	—	—	28	—	—	—			
Kayoko Nagano (indiv.)	—	—	24	—	—	—			
SEPTENI CO., LTD	62	62	—	—	—	—			
Matsui Securities Co., Ltd.	—	36	—	—	—	—			
Japan Securities Finance Co., LTD	30	35	—	—	—	—			
Yoichi Nishikawa (indiv.)	34	—	—	—	—	—			
Akio Shiojiri (former director; audit committee member)	26	—	—	—	—	—			

(Ref) Prepared by Alpha-Win Research Dept. based on materials including the shareholder convocation notice and securities report. Words in red indicate groups and individuals affiliated with the Company.

4. ESG

There has been no large change over the past year.

◆ Environment

Company's business is not the kind that harms the environment. It is working on conserving energy by saving electricity, etc.

◆ Society

The Company's business contributes to improved operation efficiency and business expansion of its users through its Internet marketing tools.

Social Initiatives

- **Actively engaged in CSR. Supporting future entrepreneurs, next-generation human resources development, and women working in the technology industry.**

As measures against the COVID-19 crisis, the Company has set up a working environment in which its employees can incorporate remote work, so that it can ensure safety and smooth operations. Currently, most of its business activities are conducted and continued online. Also, the Company has been actively engaged in CSR (corporate social responsibility) and has been undertaking the following social initiatives.

・Osaka to the World, an initiative for the development of the local regions: *Osaka Startups* – providing a support program for startup companies based in Osaka and for those aiming to start a company in Osaka.

・Promotion of Women's Active Participation in Society: supporting the improvement of the status of women working in the technology industry based on the philosophy of Girls in Tech Japan (Japan branch of the nonprofit organization launched in 2007 in San Francisco, USA).

・Next-Generation Human Resources Development: providing opportunities for students to learn the programming skills necessary for leading-edge technologies through actual job experience in order to foster a young generation of talents.

◆ Governance

The Company has adopted a company system with an audit and supervisory committee and delegates board decisions on executions of important business matters to directors to enable quick decision-making. Also, by incorporating an executive officer system and separating business execution from supervision, the Company aims to improve management efficiency and speed.

- **Half of the directors are outside directors.**

There are a total of six directors, of which three are outside directors who are also audit and supervisory committee members (from Kobe Steel, Ltd. and MUFJ Bank, Ltd.; certified public accountants). There is currently no woman among the directors or the four executive officers.

As an incentive, the Company has a program in which shares are allotted to directors (including directors who are audit and supervisory committee members), executive officers, employees, etc., as transfer-limited, stock-based compensation.

The Company has not adopted any anti-takeover measures.

5. History of Growth

◆ Past Transition in Financial Results

- **Developed and released unique products that can be differentiated from other companies. Has grown rapidly by predicting and meeting the needs of society ahead of others. Currently hitting record-high sales every fiscal year.**

Sales

From FY 2010 to FY 2013, during which account settlement was nonconsolidated, the Company had increased sales for four consecutive fiscal years. From FY 2014, when consolidated account settlement began, to FY 2021, the Company had achieved record-high sales consecutively for seven fiscal years (according to the available disclosure materials, sales have been hitting record highs for at least 12 consecutive fiscal years). During this period, sales had increased by about 4.1x from Y730 million to Y2,960 million.

The Company has grown rapidly by developing and releasing unique products that can be differentiated from other companies and by predicting and meeting the needs of society ahead of others. The consecutive achievement of record-high sales was due to the rapid growth of the Marketing PF's AD EBiS as well as the steady growth of the EC PF's EC-CUBE and former SOLUTION business.

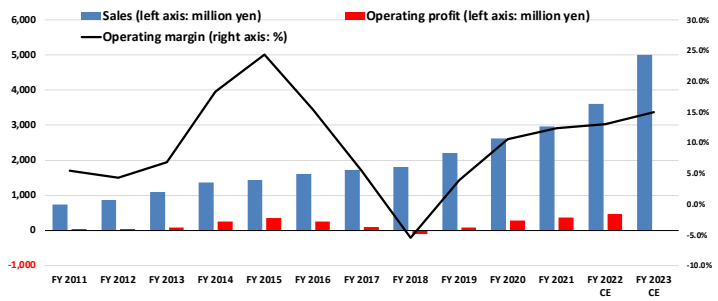
- **In FY 2015, record-high profit was recorded.**
- **Since FY 2016, the Company had been conducting business restructuring and upfront investments, prioritizing accelerated future business growth over current profit. A net loss was recorded in FY 2018.**
- **In FY 2019, operating and recurring profits were achieved in a turnaround due to large sales growth. In FY 2020 too, sales and profits increased again, net profit was posted in a turnaround with no more extraordinary loss, and dividend was resumed. In FY 2021, record-high sales and profits were achieved.**

Profit

Regarding profit, the Company had stayed profitable both on a nonconsolidated and consolidated basis up through FY 2017. In FY 2015, a record-high operating profit of Y350 million and a record-high net profit of Y231 million were achieved. However, since FY 2016, the Company's active business restructuring and upfront investments had been increasing the expenses, leading to a consecutive decline in profit despite increasing sales. In FY 2018, the Company recorded a net loss (of Y88 million) for the first time since becoming listed on the market, due to upfront investments mainly to hire more employees for development and sales (Figures 19 and 20).

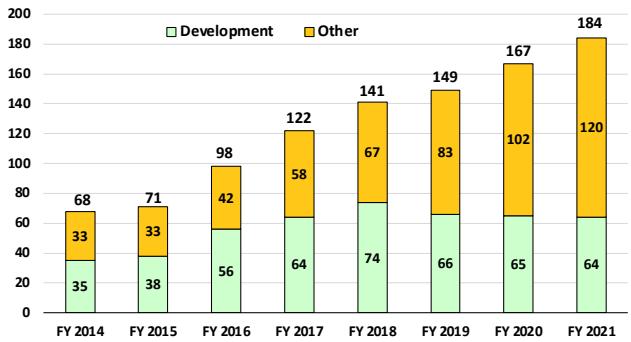
In FY 2019, thanks to the structural reform as well as the significant sales growth achieved in the Marketing PF business due to the rise in the average unit price of AD EBiS and other factors, the Company posted both an operating profit and a recurring profit for the full year in a turnaround. In FY 2020, too, carried-forward loss was entirely eliminated thanks to consecutive growth of sales and profit, and dividend was also resumed. Then, in FY 2021, it posted record-high sales and profits and entered a new growth stage.

【Figure 19】Transition in Past Financial Results and Forecast (Units: million yen, %)



(Ref) Prepared by Alpha-Win Research Dept. based on the Company's securities report.
CE: the Company's estimate/forecast.
(Note) Consolidated results starting in FY 2014; nonconsolidated prior to this.

【Figure 20】Change in the Number of Employees (Unit: persons)



(Ref) Prepared by Alpha-Win Research Dept. from the Company's financial results briefing materials. Includes estimates.

6. Market Environment

◆ Trends of Japan's Advertising Market

Total Advertising Expenditure

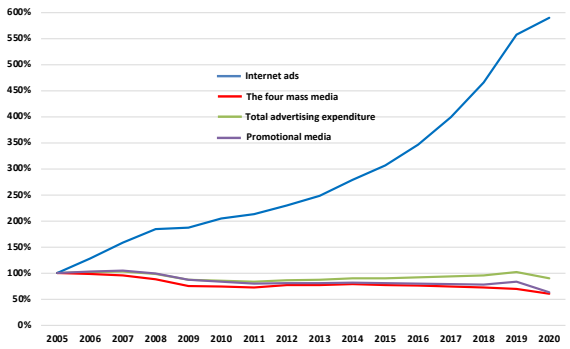
Since the Great East Japan Earthquake, total advertising expenditure in Japan had been growing for eight years in a row from 2012 to 2019 (calendar year; the same applies to this entire chapter). However, over the long term, the market has been flat. In 2020, the impact of COVID-19 had been large and caused the market size to decrease by 11.2% YoY to about Y6.2 trillion.

Internet Ad Market

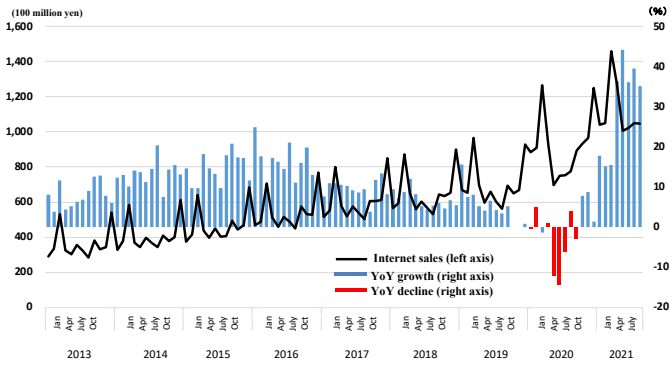
- **Internet advertising expenditure grew by about 5.9x from 2005 to 2020. The average annual growth rate (simple average) was about 12.8%. Growth was observed in 2020 as well. Surpassed TV advertising as the largest advertising media.**

As the Internet is rapidly becoming used by more people for more purposes, Internet advertising expenditure (sum of medium cost and production cost) has also been rapidly increasing and driving the growth of the entire advertising expenditure. Internet advertising expenditure had increased significantly from 2005 (point of comparison, set at 100) to 2020 by about 5.9x (annual growth rate of about 12.8%, on a simple average). In 2020, total advertising expenditure had decreased YoY at a double-digit rate, but due to accelerating digitalization of the society, Internet advertising expenditure had maintained growth, growing by 5.9% YoY (Figure 21). Internet advertising expenditure, which is about Y2.3 trillion (continuing to grow for at least 16 years in a row since the beginning of the survey), accounts for about 36% of the total advertising expenditure (source: Dentsu Inc.'s "2020 Advertising Expenditures in Japan"). Its share in the market has been increasing by several percent every year, becoming the largest advertising medium and surpassing the share of television (27% share).

[Figure 21] Change in Advertising Expenditure by Medium (Index: the year 2005 has been set to 100)



[Figure 22] Change in Monthly Sales of Internet Ads



(Ref) Figure 21: prepared by Alpha-Win Research Dept. from Dentsu Inc.'s "2020 Advertising Expenditures in Japan" (published every February).
Figure 22: prepared by Alpha-Win Research Dept. from the "Survey of Selected Service Industries" by the Ministry of Economy, Trade, and Industry.

Current Situation

- **Significant recovery is currently observed for the Internet ad market.**
- **Internet advertising is expected to return to double-digit growth over the medium to long term.**

Although EC-related businesses have been experiencing a boom with the stay-at-home trend, the COVID-19 crisis had caused the Internet advertising market as a whole to shrink on a year-on-year comparison (based on the sales of the advertising industry announced by the Ministry of Economy, Trade, and Industry). However, since October 2020, the market has been growing YoY again, and since April 2021 it has been growing by more than 30% YoY (Figure 22). Since Internet usage is predicted to still expand with the development of technology, once the society becomes adapted to the new normal, Internet advertising expenditure will likely continue to grow annually at a double-digit rate.

- **No competitor among major corporations with a similar service price range. Gained greater competitive edge through business acquisition.**

◆ Competitors

There seems to be no similar Japanese listed company that could be directly compared with the Company. Its biggest rival product used to be ADPLAN, but the Company has already acquired this business, so there is currently no major competitor with a similar service price range, and the Company is gaining a greater price advantage and stronger appeal toward potential customers.

Similar Services in Japan

For advertising effect measurement and analysis tools, competing and similar products are Google Analytics[17] and Adobe Analytics[16] widely used by domestic SMEs (small/medium-sized enterprises) and Web Antenna (used by more than 600 companies, including major companies as well as ventures) provided by the private company beBit, Inc. However, these other companies are not specialized in the field, and their products' function, measurement target, analysis content, and support system are limited. In comparison, the Company's products are superior in terms of specifications, development system, and support system, giving it a high competitive edge.

(17) Google Analytics: A website access analysis tool provided by Google targeting SME users. Analysis is only conducted within Google's website, and mostly the free version is popular. The high-spec, paid version seems to belong to a high price zone.

(18) Adobe Analytics: An access analysis tool used by many large websites. It can analyze complicated and large data, is highly customizable, and has multiple and high-quality functions, but the price is rather high.

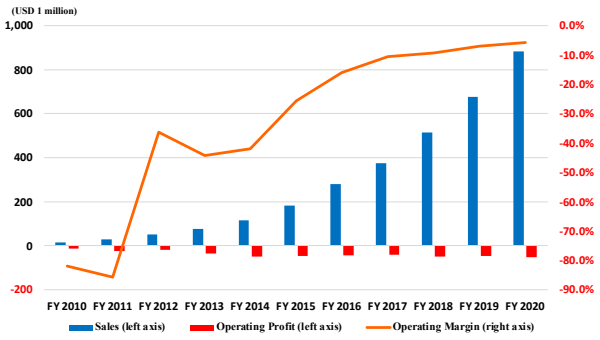
The Company's target customer zone is the middle zone, encompassing mid-tier companies as well as listed companies. This is different from the high-end zone targeted by the paid versions of Google Analytics and Adobe Analytics (with price settings that are estimated to be about ten times greater the Company's).

Overseas Company as Reference

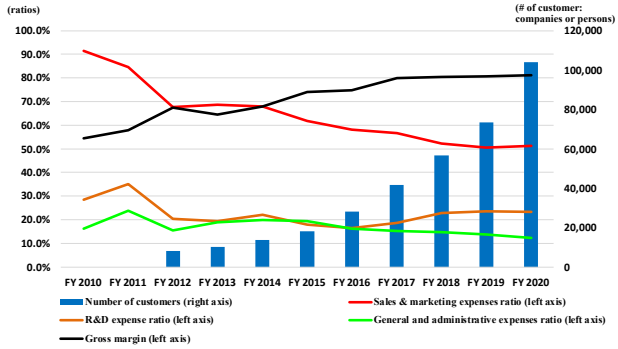
- **The Company can be compared with the US-based company HubSpot, Inc., which has rapidly grown through a similar subscription-based model.**

Although it is not a competitor, the US-based company HubSpot, Inc. (NYSE: HUBS) is a listed company with a similar subscription-based business model. HUBS is a company that develops marketing software and globally provides marketing platforms that include functions such as sales management, CRM, analysis, and reporting. Although it has been consecutively posting a net loss due to upfront investment costs, over these years its sales have been sharply increasing and profit/loss margins have been improving significantly (Figures 23 and 24). Since its listing on the market in October 2014 (closing price of $30.10), its stock price has increased by 24.0x in anticipation of strong future business performance (closing price as of December 10). During this period, SP500 rose by 2.4x, but HubSpot's stock return was 10x of the SP500 return. The rapid growth and high reputation of the US company HUBS, who started the cloud and subscription model ahead of the Company, may be helpful in analyzing the Company's prospects.

[Figure 23] Change in HubSpot, Inc.'s Financial Results (1)



[Figure 24] Change in HubSpot, Inc.'s Financial Results (2)



(Ref) Prepared by Alpha-Win Research Dept. based on financial results materials

- **Conducting business on remote work, targeting all employees**

◆ Impact of COVID-19 and the Company's Response

Response

The Company has prepared the environment for all employees to be able to work from home. Almost all business activities including sales, customer success, customer support, development, and management are being continued online. So far, its operation has been smooth and there have been no issues since the Company is highly compatible with remote work due to the nature of its business. The Company believes that it can sustain growth even in situations like this.

- **Only minimal impact from COVID-19**
- **Some customers of travel, restaurant, and other service industries were impacted by COVID-19 and had cancelled AD EBiS. Meanwhile, there has been high stay-at-home consumption, and contracts with customers in EC-related businesses have been solid.**

Impact

Financial results in the previous fiscal year were strong, indicating no large impact due to COVID-19. Some cancellations of AD EBiS contracts were seen among customers in industries such as travel, restaurants, entertainment, worker dispatching, and bridal services that were impacted by the COVID-19 crisis. Meanwhile, due to the high stay-at-home consumption, contracts with companies in the EC industry and SaaS-related businesses had been steady.

Recently, there has been increasing concern over the global outbreak of the new mutant strain and its impact. However, the Company's flagship product AD EBiS is a tool for optimizing costs through ad effect measurement. Therefore, the current situation may be more of a business chance since, amidst the COVID-19 crisis, the EC market has been strong and there is greater demand for ad effects that can more efficiently appeal to customers.

◆ Impact of Strengthened Regulations on Personal Information Protection and the Company's Response

Response

With the global trend of strengthening regulations on personal information protection[19], Japan too strengthened the Personal Information Protection Law (the amended Personal Information Protection Law will become effective on April 1, 2022). Google and Apple have also placed or will place regulations on their browsers[20] against the use of third-party cookies[21] (cookies issued by domains other the website that a user is visiting) which enable the tracking[22] of a user's browsing history across websites. As a result, measurement of ads through those means has become difficult. Third-party cookies have already been blocked by default (blocking function) in Safari, Apple's standard browser, starting in March 2020. By the latter half of 2023, their use will also be terminated in Google Chrome. In Microsoft's Internet Explorer and other browsers, the treatment of cookies can be selected through the privacy setting. In response to this, the Company has already begun providing a measurement method for AD EBiS where measurements using first-party cookies[23] can be made on behalf of customers. Since its release, about 700-800 companies seem to have already started using it. In the new measurement method, highly accurate measurements of advertising effectiveness can be made without using third-party cookies, which have raised many issues, while protecting user privacy.

(19) Tightened regulations: To strengthen privacy protection, the EU adopted the GDPR (General Data Protection Regulation).

(20) Browser: software to view websites.

(21) Third-party cookie: Cookies issued by a domain other than the website visited by the user.

(22) Tracking: Identifying visitors of websites or users of online services on the Internet to record and track their visiting history or activities within websites.

(23) First-party cookie: Cookies directly issued by the domain (website) visited by the user.

- **Tighter regulation is in some way a business opportunity for the Company.**

Impact

There seem to be many companies in general, as well as competitors, that will not be able to meet the demands of the strengthened regulations on personal information protection. Specialized in advertising effect measurement, the Company's ability to develop technology and adjust to changes is strong. Therefore, we believe that the Company will gain a greater competitive edge relative to other companies in this business area.

7. Last Fiscal Year's Results, the Company's Forecast for This Fiscal Year, and Medium-Term Business Plan

◆ Financial Results for FY 2021 (last fiscal year)

Summary

- **Solid results last FY. Sales and profit growth. Sales hit a record high for the 12th year in a row.**

Consolidated financial results for FY 2021 (October 2020 to September 2021) showed a significant increase in sales and profits, with sales of Y2,957 million (+12.9% YoY) and operating profit of Y365 million (+32.0% YoY). Both platform segments posted sales and profit growth, overall sales have increased for the 12th year in a row, and each profit reached their record highs for the first time in six years.

- **SG&A expenses ratio improved significantly, and profits hit record highs for the first time in six years.**

The gross margin had worsened by 1.1 percentage points from 70.0% in the fiscal year before the previous to 68.9% in the previous fiscal year, while the SG&A expenses to sales ratio had improved by 2.8 percentage points from 59.4% to 56.6%. As a result, the operating margin increased by 1.8 percentage points from 10.6% to 12.4% (Figure 25 on page 32). The SG&A expenses were Y119 million, having increased by 7.6% YoY, but grew at a much lower rate than the sales growth rate of 12.9%.

In addition, profit/loss accounted for by the equity method had turned positive, and the non-operating profit/loss had also improved. With no significant extraordinary gain or loss, net profit had increased significantly to Y239 million (+30.7% YoY).

Progress

- **Sales fell slightly short of the company forecast (= Alpha-Win's forecast)**

The Company had announced its full-year forecast at the same time as the disclosure of Q1 results on February 5, 2021. Compared to this company forecast, sales were slightly lower by -Y43 million (-1.4%), while operating profit was +Y35 million higher (+10.6%) (Figure 26 on page 32). Dividend had been announced as 4.5 yen/share at the beginning of the fiscal year, but was increased to 5 yen/share in May and then to 5.2 yen/share in November.

- **Underachievement of sales was due to contract cancellation by some of the customers which caused the number of accounts of AD EBiS to decrease and sales of EC-CUBE to be weaker.**

Our research department had expected sales to be Y3,000 million, the same amount as the Company's plan. The difference from the actual result (Y2,957 million) is most likely due to the following two points.

・ While the number of new contracts from companies that are engaged in non-face-to-face businesses such as EC has been increasing, the number of AD EBiS accounts fell short of the forecast due to the suspension or cancellation of services by users in businesses such as restaurants and travel that were impacted by the COVID0-19 outbreak.

・ Due to intensifying competition, some EC-CUBE customers had canceled their contracts.

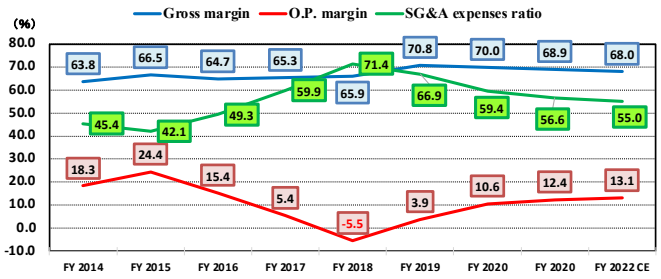
- **Profit was higher than the Company's forecast, and ended up being about the same as our forecast. Dividend was also revised upward.**

On the other hand, we expected operating profit to be Y370 million, which exceeded the Company's plan, but it turned out to be about the same as the actual result (Y365 million). Although sales were slightly underachieved, profit exceeded the Company's forecast due to the progress in reducing SG&A expenses (transportation expenses, advertising expenses, etc.) thanks to the online shift of business activities in general.

- **In the last three fiscal years, profit has tended to be higher than the initial forecast.**

In the last three fiscal years, sales have tended to be revised slightly downward and profits have tended to be revised upward compared to the initial company forecast (Figure 26 on page 32).

[Figure 25] Transition in Margins and Ratios
(Unit: %)



(Ref) Figures 25 and 26 were prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) Gross margin and SG&A expenses ratio in Figure 25 are estimates made by Alpha-Win based on the Company's forecasts.

[Figure 26] Transition in Results over the Past Seven Fiscal Years and Comparison with Forecast

FY	Initial forecast (announced date)/results	Sales	O.P.	R.P.	N.P.
FY 2015	Initial forecast (11/10/2014: millon yen)	1,545	350	350	203
	Actual result (million yen)	1,437	350	352	230
	Difference (%)	-7.0	0.0	0.6	13.3
	Difference (million yen)	-108	0	2	27
FY 2016	Initial forecast (5/12/2016: million yen)	1,600	200	201	130
	Actual result (million yen)	1,612	247	250	168
	Difference (%)	0.75	23.5	24.4	29.2
	Difference (million yen)	12	47	49	38
FY 2017	Initial forecast (5/9/2017: million yen)	1,650-1,700	10-100	-	-
	Actual result (million yen)	1,719	92	106	72
	Difference (%)	1.1-4.2	-8.0~820.0	-	-
	Difference (million yen)	19-69	~8-82	-	-
FY 2018	Initial forecast (5/8/2018: million yen)	1,800	-150	-	-
	Actual result (million yen)	1,804	-98	-115	-88
	Difference (%)	0.2	0.2	-	-
	Difference (million yen)	4	52	-	-
FY 2019	Initial forecast (2/6/2019: million yen)	2,250-2,350	0-50	-	-
	Actual result (million yen)	2,204	85	79	-35
	Difference (%)	-6.2~-2.0	∞~70.0	-	-
	Difference (million yen)	-146~-46	35-85	-	-
FY 2020	Initial forecast (2/7/2020: million yen)	2,700	200	190	130
	Actual result (million yen)	2,618	276	261	183
	Difference (%)	-3.0	38.0	37.4	40.8
	Difference (million yen)	-82	76	71	53
FY 2021	Initial forecast (2/5/2021: million yen)	3,000	330	320	210
	Actual result (million yen)	2,957	365	364	239
	Difference (%)	-1.4	10.6	13.8	13.8
	Difference (million yen)	-43	35	44	29

- **Marketing PF's sales growth was the growth driver for overall sales. Both PF segments contributed almost equally to profit growth.**

Financial Trend by Business Segment: Marketing PF

By business segment, sales of the Marketing PF business had increased by Y281 million from Y2,318 million in the fiscal year before the previous to Y2,599 million in the previous fiscal year. This accounts for 83% of the overall increase in sales. Meanwhile, operating profit had increased by Y48 million from Y199 million to Y247 million, accounting for 54% of the total profit growth (Figure 27).

[Figure 27] Transition in Financial Results by Segment

(Units: million yen, %)	FY 2020	FY 2021			
	Amount	Amount	Diff. in Amount/Rate	% Change	% of Total Diff.
Total Sales	2,619	2,958	339	12.9%	100.0%
Marketing Platform	2,318	2,599	281	12.1%	83.0%
EC Platform	301	358	58	19.2%	17.0%
Gross Profit	1,832	2,039	207	11.3%	
Gross Margin	70.0%	68.9%	-1.0%	-	-
SG&A Expenses	1,555	1,674	119	-	-
SG&A Expenses Ratio	59.4%	56.6%	-2.8%	-	-
Operating Profit (segment)	277	365	89	32.0%	100.0%
Marketing Platform	199	247	48	24.2%	54.3%
EC Platform	78	119	40	51.5%	45.7%
Operating Margin	10.6%	12.4%	1.8%	-	-
Marketing Platform	8.6%	9.5%	0.9%	-	-
EC Platform	26.1%	33.1%	7.1%	-	-
Recurring Profit	261	364	103	39.5%	-
Net profit	183	240	56	30.7%	-

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary

- **Thanks to AD EBiS, operating margin improved.**

In addition, the operating margin of this PF improved from 8.6% to 9.5%. This was largely due to the increase in sales of AD EBiS.

- **On an annual average, the number of AD EBiS accounts decreased by 9% but its unit price increased by 19% and a sales growth was maintained for the ad effect measurement business.**

Partly due to the impact of COVID-19, on an annual average (≈ average of the numbers at the end of each quarter), the number of accounts of AD EBiS decreased by 131 accounts or -9% from the fiscal year before the previous ⇒ the previous fiscal year, from 1,475 accounts ⇒ 1,344 accounts. On the other hand, the average unit price (in the same order) increased by +Y23,237 or +19.3%, from Y120,629 ⇒ Y143,866 on an annual average.

- **Rise in unit price was due to replacement of customers, upselling with function enhancement, etc.**

This was due to the polarization caused by the COVID-19 crisis as described above, with cancellation of contracts in the low price range mainly by companies that were negatively impacted by the crisis, while contracts in the high price range were gained from well-performing companies, resulting in improved contract mix. The pricing system that was changed along with the function enhancements and the increase in upselling and cross-selling had also been key factors. As a result, the increase in unit price had compensated for the decrease in the number of accounts, and sales of the advertising effect measurement business increased significantly (Figure 7 on page 11 and Figures 10 and 11 on page 14).

In the Marketing PF segment other than AD EBiS, the advertising agency DX and the new services other had posted losses, but contributed to the increase in sales by a small amount.

- **In EC PF, too, sales and profit grew. The EC market boom increased sales from shopping settlement fee. Profit margin also improved.**

Financial Trend by Business Segment: EC PF

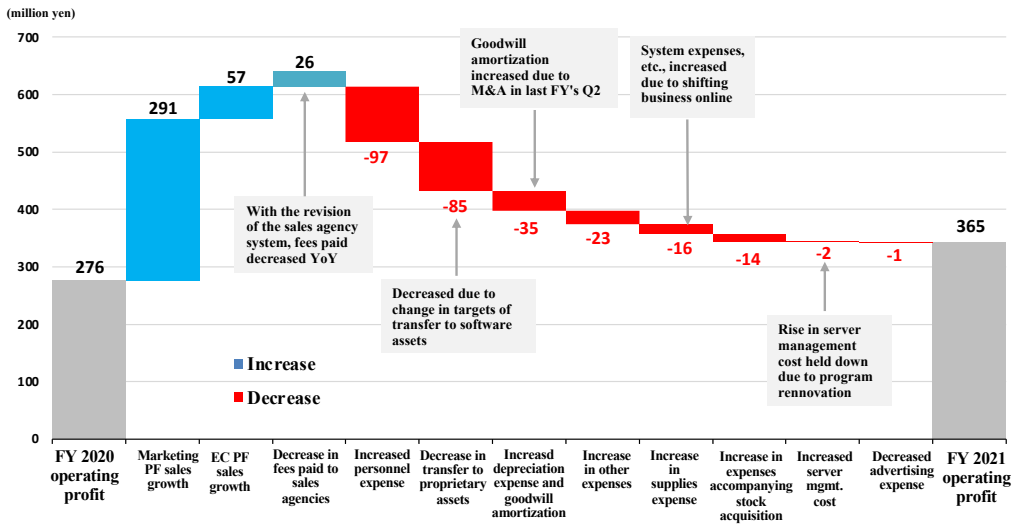
Sales of the EC Platform, the other business segment, increased by Y58 million from Y301 million in the fiscal year before the previous to Y358 million in the previous fiscal year. Since it is a business with a high marginal profit ratio, operating profit also increased by Y41 million from Y78 million to Y119 million along with the increase in sales. With the EC market boom due to the stay-at-home consumption brought by the COVID-19 crisis, sales from the main shopping settlement fee had increased, resulting in both sales and profit growth. The operating profit margin of this segment also improved by 7 percentage points from 26.1% to 33.1% (Figure 27 on page 32).

- **Upward profit revision was mainly due to cost reduction/suppression.**
- **Sales growth and reduced sales agency fees were the main factors behind the profit growth.**

Factors Contributing to Increase/Decrease in Profit

Figure 28 shows the factors behind the increase/decrease in overall operating profit. The major factor behind the increase in profit was the sales growth of the Marketing PF segment. This, in addition to cost reduction due to the review of the sales agency fee system, offset the increase in costs such as personnel costs due to the increased number of employees in new areas including those of the M&As, as well as the increased cost due to the decrease in the transfer of in-house developed software to assets and increased goodwill amortization. As a result, profit grew by Y89 million.

[Figure 28] Factors that Affected Operating Profit in FY 2021 (Unit: million yen)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary, with partial edits.

Quarterly Transition in Results

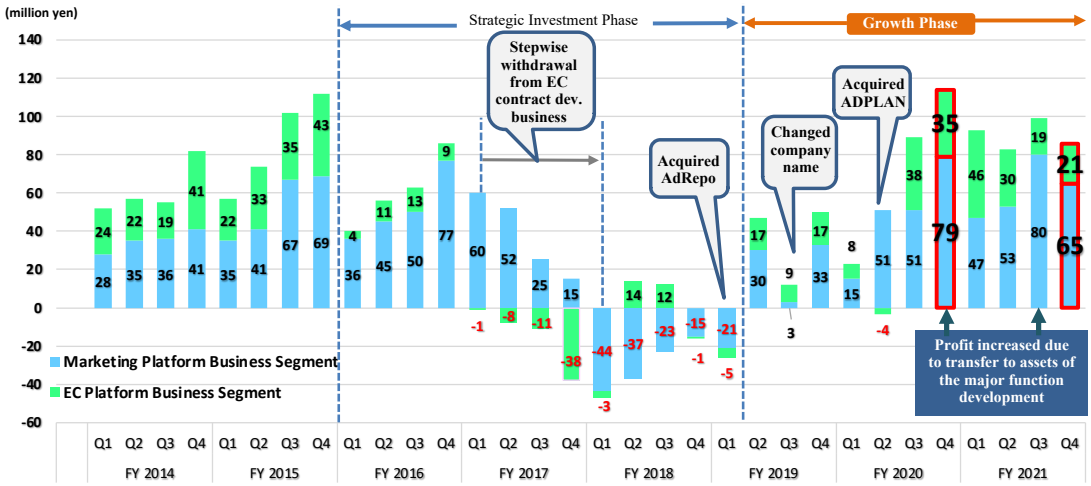
- **Last FY, profit was posted for all quarters.**

On a quarterly basis (YoY), sales increased and operating profit was posted in all quarters of the previous fiscal year. Q4 set a new record for quarterly sales. Although profit decreased in Q4 of the previous fiscal year in reaction to the increased profit of the fiscal year before the previous due to the transfer to assets related to a large-scale function development, profit increased in the other three quarters.

- **Through business restructuring and shift to the fixed-billing business model, business structure became stable with little seasonal variability.**

From Q4 of FY 2017 (July - Sept 2017) to Q1 of FY 2019 (Oct - Dec 2019), the Company had posted an operating loss for six consecutive quarters. In Q2 of FY 2019, the Company posted a profit in a turnaround, and has continued to post an operating profit for eleven consecutive quarters (Figure 29). Although quarterly profit fluctuates depending on the amount of asset transfers for software development, both PF segments have been becoming stably profitable. This quarterly recovery in profit can be explained by the improvement in profit margin caused by the sales growth of the core business AD EBiS, the restructuring of the business portfolio, the transformation of business model, the recovery of EC-CUBE due to various measures to bolster this business, and cost control.

[Figure 29] Quarterly Transition in Operating Profit



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary and the financial results briefing materials

Semi-Annual Transition in Cash Flow

- **FCF had been negative, but turned and stayed positive for three half-year periods.**

Looking at semi-annual results, we can see that free cash flow (FCF) had been negative for six consecutive quarters through the first half of FY 2020 (Figure 30). One of the Company's challenges had been to turn FCF positive, but this was achieved in the second half of FY 2020 thanks to the improvement in earning power and the completion of investments. In FY 2021, although it had conducted M&As, positive FCF was maintained in both the first and the second half.

[Figure 30] Semi-Annual Transition in Cash Flow

Unit: million yen	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019		FY 2020		FY 2021	
	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2
Operating CF ①	15	148	48	93	121	23	7	9	99	109	92	429	241	333
Investing CF ②	-5	-27	-80	-69	-88	-106	-94	-118	-368	-158	-409	-101	-35	-313
Financing CF	-3	0	-16	3	-31	-0	169	542	162	-262	391	-56	-1	-23
FCF (①+②)	9	121	-32	24	33	-83	-88	-110	-269	-50	-317	328	206	20
Cash and Deposits (on B/S)	666	787	738	762	764	681	760	1,194	924	774	847	1,119	1,342	1,392

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. H1: first half. H2: second half.

◆ The Company's Financial Forecast for FY 2022 (this fiscal year)

- **This FY, financial forecast was announced at the beginning of the fiscal year.**
- **Planning for double-digit sales and profit growth as well as dividend hike.**
- **Aiming for consecutive achievement of record-high sales and profits**

Overview

For the past six years, the Company had not announced its financial forecast at the beginning of fiscal year due to the difficulty in making a rational forecast (most recently due to the impact of COVID-19), and had instead announced it during the fiscal years (Figure 26 on page 32).

However, this fiscal year (FY 2022), it announced the full-year forecast at the beginning of the fiscal year, although first-half forecast is still undisclosed. Its forecast is as follows: sales of Y3,600 million (+21.7% YoY), operating profit of Y470 million (+28.6%), net profit of Y320 million (+33.5%), and dividend of 7.5 yen (dividend hike of +1.7 yen/share) (Figure 32 on page 36). If these values are achieved, then record-high sales and profits would be achieved again consecutively from the previous fiscal year.

- **Significant sales growth expected in the Marketing PF, especially in the new services.**

Sales

By platform, the Marketing PF's sales are expected to increase to Y3,220 million by Y630 million (+24.3% YoY), and EC PF's sales are expected to increase to Y380 million by Y30 million (+8.6% YoY). Furthermore, in the Marketing PF segment, full contribution by the two acquired companies is expected to raise sales of the new services significantly by Y415 million from Y89 million in the previous fiscal year to Y504 million. The total sales of the remaining AD EBiS and the advertising agency DX are expected to increase by Y215 million from Y2,501 million in the previous fiscal year (of which Y2,313 million was from AD EBiS and Y182 million was from the advertising agency DX) to Y2,716 million in the current fiscal year (breakdown not disclosed).

- **Due to sales growth of the new services, which are in the upfront investment phase, the amount of loss is expected to shrink and profit margin is expected to improve.**

Profit

The Company believes that it will continue to be in the earnings expansion phase in FY 2022. Due to the increase in sales of the advertising agency DX, which is in the upfront investment stage, and the new services, as well as improvement of the profit margin due to this, the Company expects an improvement of the overall profit margin by 0.7 percentage point from 12.4% in the previous fiscal year to 13.1% in the current fiscal year and a double-digit profit growth YoY.

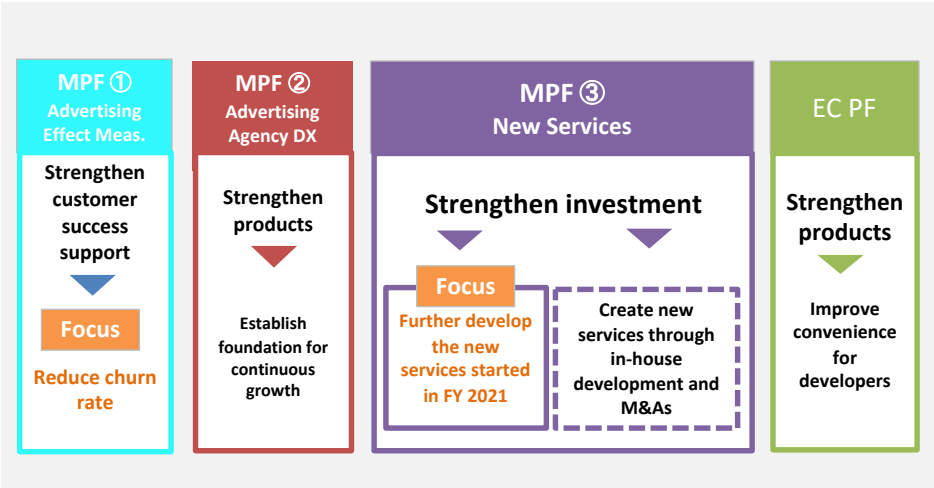
Similarly, EBITDA is also expected to increase by Y132 million (+20.7%) YoY from Y638 million to Y770 million. The EBITDA margin is expected to drop slightly from 21.6% to 21.4%. The sum of "software and goodwill amortization + depreciation expenses" is expected to increase by Y27 million from Y273 million to Y300 million.

- **Priority measures are planned to be implemented for each sales category. Decline in the churn rate of AD EBiS and greater investment in the new services are the key themes.**

Priority Measures by Service Category

Priority measures of each service category for this fiscal year are shown in Figure 31 on page 36. In particular, the Company will focus on "reducing the churn rate of AD EBiS" and "developing the new services through greater investment." It aims to pursue synergy among services, strengthen cross-selling, and maximize group assets. Active engagement in M&As is expected from this fiscal year to the next.

【Figure 31】 This Fiscal Year's Priority Measures by Service Category



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

【Figure 32】 Financial Forecast for This Fiscal Year and Over the Medium Term (the Company and Alpha-Win's forecasts)

(Million yen)	FY 2018 A	FY 2019 A	FY 2020 A	FY 2021 CE	FY 2021 Previous E	FY 2021 A	FY 2022 CE	FY 2022 Previous E	FY 2022 New E	FY 2023 CE	FY 2023 Previous E	FY 2023 New E	FY 2024 New E
Sales	1,805	2,204	2,618	3,000	3,000	2,957	3,600	3,500	3,500	5,000	3,950	4,600	5,300
I. Marketing PF	1,530	1,951	2,318		2,620	2,599	3,220	3,050	3,150	4,590	3,450	4,220	4,900
II. EC PF	274	253	301		380	358	380	450	350	410	500	380	400
Gross Profit	1,190	1,561	1,832		2,080	2,039	2,450	2,370	2,460		2,680	3,220	3,710
Gross Margin	65.9%	70.8%	70.0%		69.3%	69.0%	68.0%	67.7%	70.3%		67.8%	70.0%	70.0%
SG&A Expenses	1,289	1,476	1,555		1,710	1,673	1,980	1,970	1,960		2,200	2,570	2,930
Ratio to sales	71.4%	66.9%	59.4%		57.0%	56.6%	55.0%	56.3%	56.0%		55.7%	55.9%	55.3%
Operating Profit	-98	85	276	330	370	365	470	400	470	750	480	650	780
Ratio to sales	-5.5%	3.9%	10.5%	11.0%	12.3%	12.3%	13.1%	11.4%	13.4%	15.0%	12.2%	14.1%	14.7%
Recurring Profit	-115	79	261	320	360	364	460	390	460		470	620	750
Ratio to sales	-6.4%	3.6%	10.0%	10.7%	12.0%	12.3%	12.8%	11.1%	13.1%		11.9%	13.5%	14.2%
Net Profit	-89	-35	183	210	235	239	320	260	320		320	420	510
Ratio to sales	-4.9%	-1.6%	7.0%	7.0%	7.8%	8.1%	8.9%	7.4%	9.1%		8.1%	9.1%	9.6%
Sales (YoY growth rate)	5.0%	22.1%	18.8%	14.6%	14.6%	12.9%	21.7%	16.7%	18.4%	38.9%	12.9%	31.4%	15.2%
I. Marketing PF	21.9%	27.5%	18.8%		13.0%	12.1%	23.9%	16.4%	21.2%	42.5%	13.1%	34.0%	16.1%
II. EC PF	-41.1%	-7.6%	18.8%		26.3%	19.2%	6.0%	18.4%	-2.3%	7.9%	11.1%	8.6%	5.3%
Gross Margin (diff. from last FY)	-0.3%	4.9%	-0.8%		-0.6%	-1.0%		-1.6%	1.3%		0.1%	-0.3%	0.0%
SG&A Expense (growth rate)	25.1%	14.5%	5.4%		10.0%	7.6%		15.2%	17.2%		11.7%	31.1%	14.0%
Operating Profit (growth rate)	To loss	To profit	225.0%	19.6%	34.1%	32.2%	28.8%	8.1%	28.8%		20.0%	38.3%	20.0%
Recurring Profit (growth rate)	To loss	To profit	230.3%	22.6%	37.9%	39.5%	26.4%	8.3%	26.4%		20.5%	34.8%	21.0%
Net Profit (growth rate)	To loss	Smaller loss	To profit	14.8%	28.4%	30.6%	33.9%	10.6%	33.9%		23.1%	31.3%	21.4%
EBITDA	5	247	513	610		638	770		770			1,000	1,140
KPI	Annual Average (A)	Annual Average (A)	Annual Average (A)		Annual Average (E)	Annual Average (A)		Annual Average (E)	Annual Average (E)		Annual Average (E)	Annual Average (E)	Annual Average (E)
AD EBiS: # of active accounts	1,476	1,486	1,475		1,350	1,344		1,360	1,355		1,380	1,400	1,450
% change for the above		0.7%	-0.7%		-8.5%	-8.9%		0.7%	0.8%		1.5%	3.3%	3.6%
AD EBiS: average unit price (yen)	78,938	98,517	120,629		143,700	143,866		162,000	157,000		180,000	168,000	178,000
% change for the above		24.8%	22.4%		19.1%	19.3%		12.7%	9.1%		11.1%	7.0%	6.0%
I. (1) Ad Measurement (AD EBiS): Actual/Forecasted Sales	1,402	1,747	2,127		2,328	2,313	2,520	2,644	2,550		2,981	2,820	3,100
I. (2) Advertising Agency DX: Sales						182	196		200			250	300
I. (3) New Services: Sales						89	504		400	1,500		1,150	1,500
I. Sum of Sales of (1) Ad Measurement + (2) Advertising Agency DX						2,495	2,716		2,750	3,090		3,070	3,400
I. Marketing PF (1) + (2) + (3)	1,530	1,951	2,318		2,620	2,599	3,220	3,050	3,150	4,590	3,450	4,220	4,900

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) CE is the Company's forecast, E is Alpha-Win's forecast, and A is actual result. "Previous" is the previous forecast (as of August 20, 2021) and "New" is the current forecast. A part of the company-estimated (CE) gross profit (margin), SG&A expenses (ratio), and sales of ad effect measurement, advertising agency, and new services for this fiscal year, as well as the past segment sales, are estimates calculated by Alpha-Win. In Alpha-Win's forecasts and the results, the average unit price and number of active accounts of AD EBiS are based on annual averages (= average of the values at the end of each quarter). Also, the former ADLPAN has been summed together with AD EBiS.

◆ Medium-Term Business Plan and Strategy

At the beginning of the previous fiscal year, the Company announced its new medium-term business plan, "VISION2023," for the three fiscal years from FY 2021 to FY 2023.

- **In the medium-term plan, it plans to focus on Japan's DX market, expand its business area, and also focus on the new services.**

DX Support

The Company is developing its business by concentrating its business resources on the platform business for supporting the marketing DX of Japanese corporate customers amidst the COVID-19 crisis. Seeing the accelerated progress of DX as a business chance, it plans to expand its business domain by utilizing data and technology.

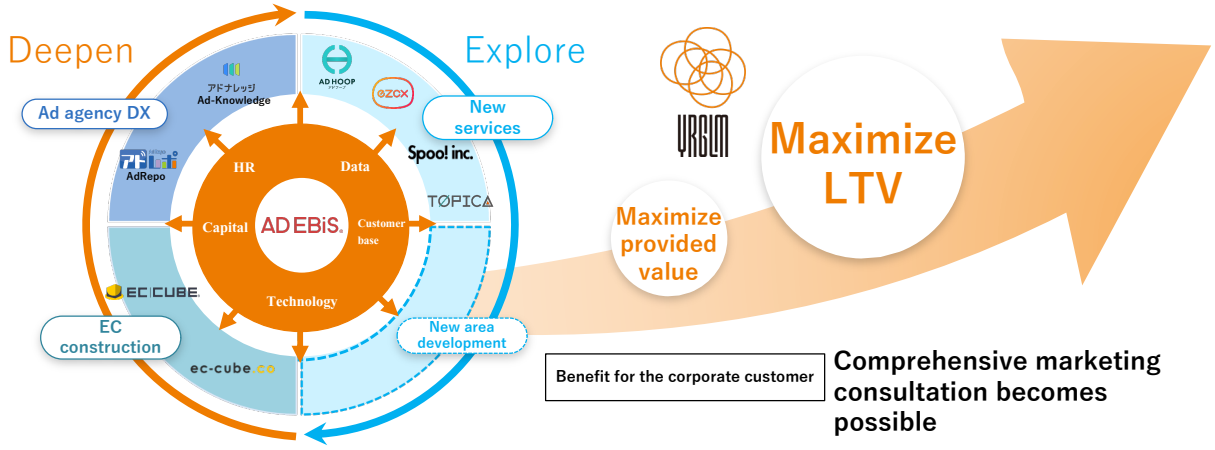
Group-wide Synergy

Through M&As and its in-house developed services that utilize the strengths gained through its years of operation of AD EBiS, the Company plans to expand its current areas of business (accelerating growth) as well as creating and cultivating new areas of business. It plans to increase its assets as a corporate group and pursue synergy within its group (Figure 33).

- **Using M&As too, it plans to expand business and pursue synergy. Will become a comprehensive marketing DX support group.**

It plans to not just provide single services to corporate customers, but also transform into a comprehensive marketing DX support group that provides optimal, multiple services. Through this, it aims to maximize the LTV (lifetime value).

【Figure 33】Providing Value and Maximizing LTV through Group Synergy



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

- **In the final year of the medium-term plan or next fiscal year, three numerical targets have been set: sales of Y5 billion, operating margin of 15.0% (Y750 million), and DOE of 3% or greater.**

Numerical Targets

As shown in Figure 34 on page 38, the numerical targets of the medium-term business plan for the final year or FY 2023 are sales of Y5 billion and operating margin of 15.0% (Y750 million). Compared to the forecast for the current fiscal year, sales and profit are planned to be increased significantly by Y1.4 billion (+38.9%) and Y280 million (+59.6%), respectively. In addition, the goal for dividend on equity (DOE) is 3.0% or greater (+0.5% increase).

【Figure 34】 Financial Targets of the Medium-Term Business Plan "VISION2023"

	Consolidated sales	Consolidated operating margin	DOE
FY 2020 Results	Y2.61 billion	10.6%	2.0%
FY 2021 Results	Y2.95 billion	12.4%	2.3%
FY 2022 Forecasts	Y3.6 billion	13.1%	2.5%
FY 2023 Goals	Consolidated sales Y5 billion	Consolidated operating margin 15%	DOE 3% or more

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

- **Plans to improve operating margin through sales growth of advertising agency DX and new services.**

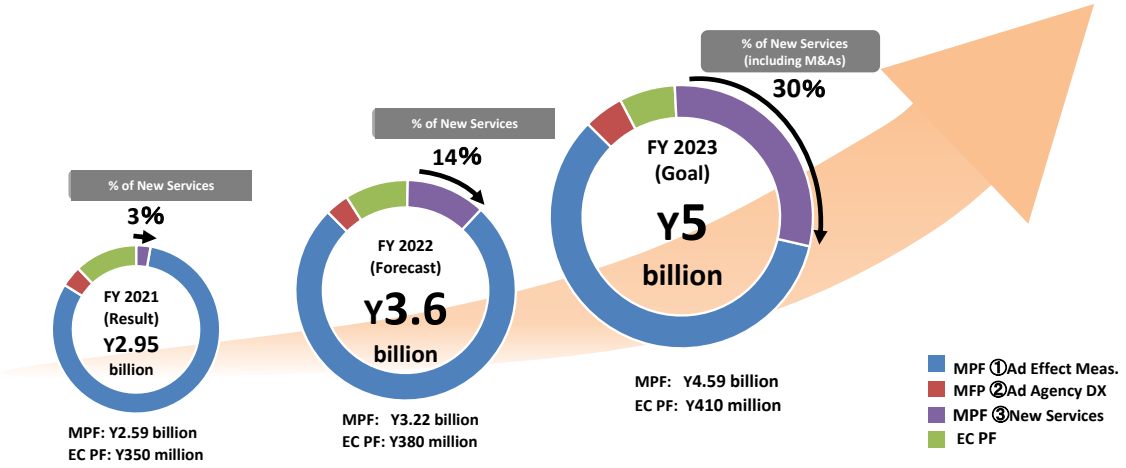
For the operating margin, compared to 12.3% of the previous fiscal year, it is targeted to be 13.1% (+0.8% YoY) in the current fiscal year and 15.0% (+1.9% YoY) in the next fiscal year. This is because the Company expects the profit margin of the Marketing PF's advertising measurement business to continue to increase. It also expects that, this fiscal year, the increase in sales of this PF's advertising agency DX and new services will lead to an improvement of the amount of their losses, which had been posted due to upfront investment costs, and make the businesses profitable by the next fiscal year.

- **Proportion of new services in the consolidated sales has been set as a KPI. Aims to raise the proportion from last FY's 3% to 30% in the next FY.**

New KPI

The Company has also recently set the "proportion of new services in the consolidated sales" as its new KPI (Figure 35). By working on the development of the new services (classified under Marketing PF), it plans to increase this proportion from 3% in FY 2021 to 14% in FY 2022, and furthermore to 30% in FY 2023 through expansion of business area by M&As. In terms of the amount of sales, sales are expected to grow at a high rate from Y89 million to Y504 million to Y1,500 million (in the same order; all numbers are estimates).

【Figure 35】 New KPI of the Medium-Term Busines Plan (proportion of new services in consolidated sales)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

8. Alpha-Win Research Dept.'s Forecast for This Fiscal Year and Over the Medium Term

◆ Alpha-Win Research Dept.'s Forecast for This Fiscal Year

- **Alpha-Win Research Dept. updated the financial forecast for the medium-term period.**

We added a new forecast for FY 2024 (fiscal year after the next) and reviewed the forecasts for this fiscal year and the next fiscal year (Figure 32 on page 36).

New Forecast for This Fiscal Year (FY 2022)

- **We predicted sales somewhat conservatively, but raised profit to the same level as the Company's forecast. Expecting increases in sales, profit, and dividend.**

In the previously made forecast, we had predicted that sales will be Y3,500 million (-Y100 million compared to the company plan), operating profit will be Y400 million, and net profit will be Y260 million. We kept the sales forecast the same, but raised profits to Y470 million and Y320 million, respectively, which are the same as the Company's forecasts. Similarly, we raised the dividend forecast from 7.0 yen/share to 7.5 yen/share.

Compared to our previous forecast, the Company's plan for the current fiscal year is Y100 million greater for sales, Y70 million higher for operating profit, and Y60 million greater for net profit. This difference in profit compared to our previous forecast is due to the difference in sales, as well as the difference in the operating margin which we had previously predicted to be 11.4%, while the Company expects 13.1% (previous fiscal year: 12.3%). Also, the Company's profit forecast for this fiscal year is almost the same as our (previous) forecast for FY 2023, so profit will most likely be achieved one year ahead of what we had forecasted.

The reason that we kept the sales forecast unchanged in our current forecast is that we saw the Company's forecast for this fiscal year's sales as being somewhat ambitious considering the monthly sales in October and November that were released after the start of this fiscal year (details will be described later). We mainly conservatively forecasted the sales of the Marketing PF's AD EBiS and new services and the EC PF.

- **Looking at past results, too, cost control seems to tend to be conducted steadily.**

On the other hand, we revised profit upward because the cost structure of the main Marketing PF segment is being steadily controlled according to the medium- to long-term targets, and the profit margin is being improved more than expected. More control seems possible this fiscal year too, so even if sales fall somewhat short of the goal, achieving the profit goal seems possible.

However, it is important to note the risk of business performance fluctuations depending on the execution and scale of M&As, the success or failure of the new businesses, recruitment situation, and the situation with COVID-19 (mutant strains, etc.).

Current Situation

Non-face-to-face businesses such as EC have been strong due to the stay-at-home demand, but the boom is starting to settle down. Also, due to intensifying competition in open-source EC website construction systems (shopping cart systems), monthly sales of the EC PF business have been falling compared to the previous year since June 2021. On the other hand, Marketing PF has been maintaining double-digit sales growth and is supporting the overall sales, thanks to the increase in unit price of AD EBiS and increased sales of the new businesses and advertising agency DX.

- **Sales continued to grow YoY overall in October and November too, but did not reach the Company's forecasted annual sales growth rate.**

Monthly company-wide sales in October and November, which are the first two months of this fiscal year, have both shown positive YoY growth, but the sales growth rate has somewhat slowed down (Figure 36). There is a difference of greater than 10% compared to the Company's estimated annual sales growth rate of 21.7% for the current fiscal year (cumulative sales growth rate from October to November was +8.0% YoY).

The Company had commented in the financial results briefing that "it would be possible to achieve the sales target for this fiscal year without an M&A," and the Company seems be expecting sales to rise at a faster rate in the second half. At the current pace, if there is no M&A during the fiscal year, sales may possibly fall short of the target.

【Figure 36】Change in Recent Monthly Sales (preliminary values)

(Upper row: sales in thousand yen) (Lower row: YoY change in %)

Calendar Year	2020			2021									2021		This Fiscal Year YTD (Oct 2021 - Nov 2021)
Fiscal Year	FY 2021												FY 2022		
Monthly Sales (thousand yen)	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	
Marketing Platform	203,942	205,256	212,307	206,412	216,511	226,457	214,535	212,076	214,294	217,719	229,621	240,117	233,052	231,281	464,333
	121.8	118.5	116.0	102.8	109.8	112.7	108.3	107.2	108.0	110.0	114.0	119.2	114.3	112.7	113.5
EC Platform	35,699	36,386	28,356	39,511	29,247	26,297	34,582	23,959	23,877	33,663	23,746	23,088	31,473	23,739	55,212
	136.4	206.7	157.4	151.4	181.4	311.2	186.2	161.3	41.4	77.4	93.2	81.8	88.2	65.2	76.6
Entire Company	239,641	241,642	240,664	245,924	245,758	252,755	249,118	236,036	238,171	251,383	253,368	263,205	264,526	255,021	519,547
	123.8	126.6	119.7	108.4	115.2	120.7	115.0	111.0	93.0	104.2	111.6	114.6	110.4	105.5	108.0

(Ref) Prepared by Alpha-Win Research Dept. based on the Company's news release on its website.
(Note) Values shown are preliminary values that have not been audited by an auditor and may be revised in the future,

Estimates/Assumptions for Sales

- **We expect AD EBiS's sales growth rate to be 10% for this fiscal year. Its unit price is expected to rise by 13%, while the number of accounts is expected to rise by 1%.**

・The number of accounts of AD EBiS has not recovered to a net increase trend, and new contracts gained or cancellations made in response to positive or negative impacts of COVID-19 on companies are expected to mostly offset each other.

・The average number of accounts during the fiscal year has been estimated to increase slightly by a little less than 1% compared to the previous fiscal year due to product enhancement of AD EBiS through continued updates and the Company's focus on strengthening onboarding and reducing the churn rate.

・On the other hand, the unit price is expected to increase by about 9% on average annually due to upselling and cross-selling, including enhancements and additions of functions. In fact, the average unit price of AD EBiS seems to be increasing since October 2021, too, although at a gradual pace.

・Based on the above, we expect sales of AD EBiS (advertising effect measurement) to increase by 10% YoY to Y2,550 million.

・In general, in the sales forecast, we have not included sales growth due to future new M&As except for the amount that would come from the full contribution by the companies and businesses that have already been acquired.

- **We made a conservative forecast of sales growth for the new services.**

・We conservatively predicted the amount of expansion of the new services in considering the risks (predicted sales growth: company plan is about Y400 million and our forecast is about Y300 million). Sales of advertising agency DX are expected to increase by around 10%, and sales of the Marketing PF business as a whole is expected to increase by about 21.2% YoY to Y3,150 million (-Y70 million compared to the Company's plan).

- Slight sales decline predicted for the EC platform.

・In the EC PF business, sales are currently on a YoY decline trend, so we predict its sales to decrease by 2.3% to Y350 million (-Y30 million compared to the Company's plan). For the second half of the fiscal year, we also reflected the effects of the improvement measures based on investment of business resources and the effect of the alliance with Orico.

Estimates/Assumptions for Profit

- We expect the profit margin to improve YoY.

・Although costs such development costs and personnel costs will increase, we predict that they will be compensated by sales growth as well as the profit margin improvement of the new services and other businesses, resulting in a higher gross margin (70.0% in the fiscal year before the previous → 69.0% in the previous fiscal year → 70% forecasted for this fiscal year). The SG&A expenses are also expected to be managed well, so that the operating margin will improve from 12.3% in the previous fiscal year to 13.4%. Although the Company's profit plan is a somewhat ambitious goal, since there seems to be room for cost control, we raised our profit forecast to the values of the Company's plan. We also do not anticipate any significant non-operating profit/loss or extraordinary gain/loss.

◆ Alpha-Win Research Dept's Forecast for Results Over the Medium Term

Forecast for Next Fiscal Year (FY 2023)

- We also revised our forecast for FY 2023 upward. Expecting record-high profit to be achieved consecutively.

For the next fiscal year, too, we predict that both platform businesses will increase their sales and improve costs, assuming that the economy will normalize, so we have revised the forecast upward. In the order of the previous forecast ⇒ current forecast, we revised sales from Y3,950 million ⇒ Y4,600 million (+31.4% compared to our forecast for FY 2022), operating profit from Y480 million ⇒ Y650 million (similarly, +38.2%), and net profit from Y320 million ⇒ Y420 million (+31.3%). We expect that sales and profits will increase, and record-high sales and profits will be achieved consecutively (Figure 32 on page 36).

- However, the Company's goals for FY 2023, the final year of the medium-term plan, are ambitious and are high goals to achieve.

As mentioned above, FY 2023 is the final year of the Company's new medium-term plan, by which the Company aims to achieve "sales of Y5 billion, operating margin of 15% (equivalent to Y750 million), and dividend on equity (DOE) of 3% or more" as its numerical targets. These are high and ambitious goals, and would require business expansion through the development of the new areas of business and M&As to achieve.

At this stage, since there are some uncertainties, we made a conservative forecast in consideration of the risks.

- Should watch changes in AD EBiS's pricing strategy and changes in the trend for the number of accounts.

Regarding the sales of AD EBiS, which account for the majority of the Company's sales, the unit price growth rate is expected to gradually slow down, although it would depend on the balance between the KPIs of unit price and number of accounts. Measures for continuously increasing the number of accounts would be the key challenge. The Company also seems to be considering increasing the number of accounts by providing services in the middle price range, and we would like to closely watch changes in future pricing strategies. For the next fiscal year onward, we made forecasts based on the estimates that the annual price increase rate will be 6-7%, the account increase rate will be about 3%, and the sales growth rate will be about 10%.

- Estimated the sales growth rate of AD EBiS as 10%

The Company has set DOE of 3% or more as its goal for the next fiscal year. If we assume that the DOE will be 3%, based on our forecasts for financial

- **Consecutive dividend hike is expected. Considering the dividend payout ratio and other factors, there is much room for dividend hike.**

results and net assets, dividend is expected to be 10.9 yen/share with a consecutive dividend hike. We estimate that the expected dividend yield will be 1.0% and the dividend payout ratio will be 16.4%. When the Company's forecasted dividend yield and dividend payout ratio are compared with the market average, there still seems to be room for increases in dividend.

Forecast for the Fiscal Year after the Next (FY 2024)

- **In FY 2024 (new forecast), we also expect sales and profit growth as well as consecutive record highs for sales and profit.**

Under basically the same rationale as the next fiscal year, we expect that there will be a relative decline in the expense ratio (decrease in server cost, etc.) due to the increase in sales, and that there will be an increase in sales and profits, as well as consecutive achievements of record-high sales and profits (Figure 32 on page 36). Assuming that there will continue to be multiple M&As of a certain scale every fiscal year, we predict that sales will be Y5,300 million (+15.2% compared to our forecast for FY 2023), operating profit will be Y780 million (+20.0%), net profit will be Y510 million (+21.4%), and dividend will be 13.0 yen after a 2.1 yen increase from FY 2023 (assuming that DOE of 3% will be maintained).

Forecast of Growth Rate over the Medium to Long Term

- **Expecting annual sales growth rate of 10-20% over the medium term**

As DX progresses and the Internet ad market expands, the growth potential of the Marketing PF business is expected to be large, since it is based on AdTech tools and expertise and can also incorporate related areas of business. Similarly, steady growth can also be expected for the EC PF business due to the expansion of the EC market. Consequently, over the medium to long term, we predict that the Company's overall sales will grow by about 10-20% per year.

- **Business model with high marginal profit ratio. Over the medium to long term, the profit growth rate (on a normalized basis) is expected to be greater than the sales growth rate and will be about 20-30% per year.**

In terms of profit and loss, since the Company will likely start to see positive results from the upfront investments, business restructuring, and cost structure reform, and since its business has a high marginal profit ratio (estimated to be 70%), we expect that there will be a sales growth that will also lead to a high profit growth rate.

Since there will likely continue to be upfront investment costs for business expansion, we are expecting an annual profit growth rate (on a normalized basis) of about 20-30%, which would be about the same as or greater than the sales growth rate.

- **Consecutive achievements of record highs also possible over the medium term.**

Over the medium to long term, there are expected to be changes in business performance depending on the timing of M&As and upfront investments, but as a general trend, the Company is expected to consecutively achieve record-high sales and profits.

- **Success or failure of M&As and new businesses are the factors that may cause changes in the results.**

Although the business restructuring has been completed, the Company is still in its growth stage and is actively pursuing greater competitiveness, expansion of business through new customer acquisition, and expansion into new and related areas of business. Since it has an ambitious attitude with regards to conducting M&As, business alliances, and business acquisitions for synergy and business expansion, the Company's sales and profit will most likely be impacted over the medium to long term by whether it will execute and/or succeed in these initiatives.

In addition, since the Company's business is small and specialized in a niche field, and its financial performance will be influenced by its cost control, the effort put into achieving the bottom line of its target, and the management topics that it will prioritize, some aspects are inevitably hard to predict.

Over the medium to long term, with the current trend of strengthening personal information protection, we believe that the key point in assessing the Company's future financial performance will be whether it can shift from its specialization in ad effect measurement to a more comprehensive expansion of business for each of its platform business segments (including new areas of business) through data integration, analysis, and utilization support, while also leveraging groupwide synergy and maintaining a certain level of profit. Another key point will be the amount of impact of future, new M&As on earnings (rate of return on investment).

9. Analyst's View

◆ SWOT Analysis

The Company's SWOT analysis result is shown on Figure 37 (below is supplementally information).

- **The Company's strengths are the data collected over many years, the president's management skills, product strength, support system, business model, and business strategy of actively conducting M&As.**

Strengths

The Company's main strengths are the following: data that it has collected over many years through the operation of AD EBiS; its president's management skill and expertise in leading technologies of the Internet marketing field; its main products and support system with proven and strong functions (technological expertise, development speed, and responsiveness to changes that only specialized major players like the Company can achieve); position in the market (No. 1 in the Internet ad effect measurement market with an extremely high share); stable, subscription-based business model; and business strategy to actively engage in M&As, business acquisitions, and business alliances.

- **Risks: tightening of regulations related to personal information protection, COVID-19, and intensifying competition**

Risk Factors

On the other hand, the main risks include new regulations pertaining to the collection and use of personal information due to strengthened privacy protection (with regards to conducting Internet ad effect measurement), the emergence of alternative products due to the development of advanced AI technologies, the impact of COVID-19, staff shortage, and intensifying competition.

- **Chikara Miyamoto joined the Company as executive officer and COO and will oversee the AD EBiS business.**

Change in Management Structure

We have previously pointed out that one of the issues faced by the Company is its dependency on President Iwata in management. However, in October 2021, Chikara Miyamoto was appointed as COO to oversee the advertising effect measurement business (the entire AD EBiS business). Meanwhile, President Iwata will oversee the advertising agency DX, new services, and new areas of development as CEO, and shift to focus on the creation of growth drivers. Dividing and decentralizing duties within the management team for Marketing PF are expected to lead increased speed and reduced risks in management. Miyamoto has expertise and managemental experience in creative businesses and had joined YRGLM in June 2021.

[Figure 37] SWOT Analysis (Words in red have been added/revised)

Strength	・Data and know-how that it has accumulated since foundation, and their potential usage as big data ・Recognition, strong customer base, proven track record, and product strength (No. 1 in the Internet ad effect system tool market with an extremely high share) ・The main marketing platform business is subscription-based; stable revenue can be expected ・Rising unit price through upselling and cross-selling; potential to expand customer base ・The president's management skills and expertise in leading-edge technologies of the industry ・Enhanced working environment; talents with specialized, leading-edge technological expertise; accumulation of know-how (competitive edge as a major, specialized company with high development capability and ability to respond to needs)
Weakness	・Specialized in a niche market; small in scale ・Business management is largely dependent on the president (although authority and responsibility have become divided with the appointment of a new COO) ・AD EBiS's monthly churn rate in the high 2% range and declining number of accounts ・Employee shortage (engineers and sales reps) ・Funding power (upfront investment costs and risks related to asset capacity and equity financing for large-scale M&As)
Opportunity	・Internet ad marketing market's growth potential and potential for accelerated growth of current products ・Business opportunities with the expanding EC market ・Business expansion and groupwide synergy through M&As and business acquisitions; utilization of resources of external partners; alliances ・Development of new products and services
Threat	・Impact of COVID-19 (cancellation by users with deteriorated financial performance, suspended services, etc.) ・Intensification of competition (esp. EC-CUBE-related businesses), launch of competing or alternative products/services, emergence of rivals, decline in competitiveness of existing products ・Tighter regulations related to stronger privacy protection in the use of personal information ・Defects in products/services and delays in development or in providing services with new function ・Large system troubles such as computer system stoppage

(Ref) Prepared by Alpha-Win Research Dept.

◆ Return of Profit to Shareholders

Dividend History

- **Started paying dividend after becoming listed on the market. Had paid no dividend during a period in the past due to worsened financial performance.**

In the second fiscal year after becoming listed on the market (FY 2015), the Company's dividend was 4.5 yen/share. Dividend was then increased by 0.5 yen in FY 2016 to 5.0 yen/share per year. In FY 2017, dividend was paid for the third year in a row, again at 5.0 yen/share (Figure 38).

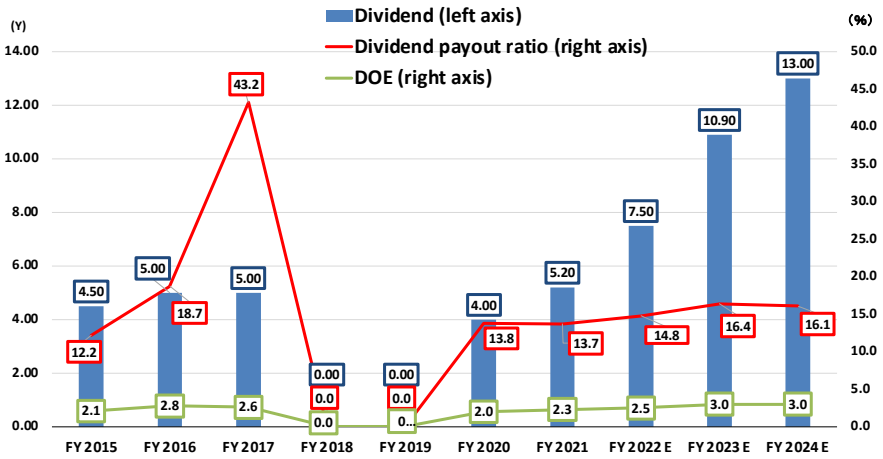
- **Held down the outflow of cash and instead used resources on investments for future growth.**

However, in FY 2018 and FY 2019, no dividend was paid since net losses had been posted consecutively during those years, and it also abolished the shareholder benefit program. The Company had decided to continue with no payment of dividend in order to recover its financial performance by focusing on investments for future growth, rather than letting its cash flow out through dividend and benefit programs, and thus increase shareholder value.

- **Dividend was resumed in the fiscal year before the previous thanks to the structural reform.**

Thanks to its structural reform, the Company achieved a net profit in a turnaround and eliminated its carried-forward loss, and was able to resume dividend in FY 2020 for the first time in three fiscal years (dividend of 3.8 yen was first announced during the fiscal year, and then was increased to 4 yen).

[Figure 38] Change in Dividend and Dividend Payout Ratio



Win's forecast/estimate.

Dividend Policy and Goals

- **In the medium-term plan, it has set a policy to pay dividend based on the level of DOE. The profit growth and sequential increase in DOE are expected to lead to dividend hikes.**

In the current medium-term business plan, the goal for dividend on equity (DOE) is set for each fiscal year, and the amount of dividend is determined accordingly. The plan is to raise the DOE in stages, and so far, dividend has been on the rise due to an increase in the net assets in response to the increase in profits and the upward profit revisions during the fiscal year.

In the previous fiscal year, which was the first year of the medium-term plan, the DOE had been set at 2%. The dividend forecast was initially 4.5 yen/share but was revised to 5.0 yen/share during the period, and then finally raised to 5.2 yen/share. In this fiscal year, which is the second year of the plan, the target DOE is 2.5%, and the Company plans to increase dividend by 1.7 yen/share YoY to 7.5 yen/share. This would raise the dividend payout ratio from 13.7% in the previous fiscal year to 15.0% in the current fiscal year. It has also announced that in the final year of the plan or FY 2023, it is planning for a DOE of 3% or greater.

- **Conducted a stock buyback**

Although the Company is in the growth stage, it intends to continue investing in growth while returning profit to shareholders and to increase shareholder value also through growth in business performance. Also, in November 2021, it conducted a stock buyback (about 53 thousand shares for Y69 million; about 0.8% of all outstanding shares), and the total shareholder return ratio for this fiscal year is expected to be 35%.

- **Even if DOE is fixed, profit growth is expected to lead to increasing dividend.**

Forecasted Dividend and Return of Profit to Shareholders

From the fiscal year after the next and beyond, after the DOE target is achieved and unless the DOE target become changed, dividend will be linked with the amount of net assets which will depend on changes in the profit. Since we expect that profit growth will continue over the medium term, we believe that dividend hikes will continue for the time being, although the pace of increase may slow down. In the future, although it would depend on the level of stock price, further return of profit to shareholders such as stock splits and additional share buybacks is possible.

◆ Stock Price, Characteristics, and Factors that May Affect Stock Price

- **Small-cap, AdTech stock with high volatility in stock price**

(24) AdTech (ad technology): A generic term for information technology used in advertising business, it refers to the digital technology used in Internet ads, etc. Specifically, it is the technology for efficiently selling /buying/distributing Internet ads and measuring advertising effects. Maximizes advertising effects for Internet advertisers and maximizes profit for media owners.

Characteristics

The Company's stock is a small-cap, AdTech[24]-related stock listed on TSE Mothers. Since becoming listed, the volatility of stock price has been high (max of 5,260 yen in May 2016 and min of 677 yen in August 2015).

Stock Price

Figure C on page 3 of this Report shows the stock price and relative stock price against TOPIX for the past approximately five years. Stock price was bearish during the period that the Company's financial performance had been worsening. Then, with the recovery in profit, it bottomed out and has been fluctuating within a boxed range of 1,000 to 2,000 yen.

- **Past 5 years' stock price has been within a boxed range of Y1,000-2,000.**
- **Stock price had been underperforming TOPIX and TSE Mothers since the beginning of the year, but started outperforming after the announcement of Q3 results in the previous fiscal year.**

Performance

Since the beginning of this year, stock price had been underperforming compared to major indices, but since the announcement of Q3 results on August 5, it has been outperforming the TOPIX and the TSE Mothers Index by about 7% and 12%, respectively (as of the closing price of Y1,089 on December 10, 2021). In addition to the solid financial results of the previous fiscal year, this seems to reflect the anticipation of large profit growth over the medium term in response to the forecast of significant increases in sales and profits as well as dividend hikes for the current and the next fiscal year.

Valuation Comparison with Competitors and Similar Companies

In Japan, there are no listed companies that provide similar AdTech tools and are based on a subscription model like the Company.

- **US's HubSpot is a similar company that could be used as reference.**
- **HUBS's valuation is extremely high.**

In the US, though, HubSpot described on page 29 can be seen as a similar company. HUBS has a market capitalization of $34.2 billion (about Y3.9 trillion) based on the closing price on December 10, 2021, and its stock price (market capitalization) has more than doubled compared to about a year ago. The valuation of HUBS based on the actual results for the fiscal year ended December 2020 is extremely high, with P/S[25] of 43.0 and P/B of 48.6 (no P/E due to posting of net loss).

(25) P/S (Price to Sales Ratio): Ratio of stock price to sales. A valuation indicator where market capitalization is divided by annual sales. P/S is often used as an indicator for the stock value of emerging companies with a high growth potential or a net loss.

- **Comparison with similar Japanese companies shows that the Company's valuation is somewhat underpriced.**
- **Comparison with the average of TSE First Section shows that its stock price does not currently seem underpriced.**

As reference, we compared the size, business contents, and valuations of 24 listed Japanese AdTech companies with business partly similar to the Company and the five companies that compete with the Company in the EC platform business (page 21; packaged software for construction of websites for EC stores, etc.) (Figure 39).

In this comparison, although the average values are not very meaningful due to the large disparity between companies, we can see that as far as P/E, P/B, P/S, and dividend yield for this fiscal year are concerned, the Company's valuation is relatively generally low and somewhat underpriced.

Valuation Comparison with Average of TSE First Section

Compared to the average of the companies listed on the First Section of the TSE (for the current fiscal year, based on the closing price on December 10, 2021: forecasted P/E of 15.3, actual P/B of 1.3, and forecasted, weighted average dividend yield of 2.0%), all indicators show that the Company's valuation is high. This is perhaps because of the anticipation of high profit growth as an AdTech-related, mid/small-cap growth stock which is being reflected in the stock price.

[Figure 39] Comparison with Similar Companies (24 AdTech-related companies + 5 EC-platform-related companies)

AdTech-Related Companies		Markets: TSE1=TSE 1st Section, TSE2=TSE 2nd Section, TM=TSE Mothers, JQS=JASDAQ Standard		Unit: million yen			%	Ratio			%	Closing Price (12/10)
Code	Company Name	Business Area	Market	Market Cap.	Sales	O.P.	O.P. Margin	P/S	P/E	P/B	Dividend Yield	Stock Price
2159	Full Speed	Internet marketing / AdTech (Internet Ad distribution tech)	TSE2	6,042	15,400	640	4.2	0.39	14.97	1.28	-	388
2389	DIGITAL HD	Internet ad agency / ad measurement tool	TSE1	34,274	100,000	12,000	12.0	0.34	-	0.92	0.00	1,439
2461	F@N Communications	Affiliate (pay-per-performance) ad	TSE1	32,157	28,900	2,720	9.4	1.11	16.22	1.53	4.55	418
2491	ValueCommerce	Affiliate (pay-per-performance) ad	TSE1	163,737	32,700	7,400	22.6	5.01	51.16	10.10	0.91	4,750
3134	Hamee	Mobile accessories / EC cloud support	TSE1	17,699	14,000	2,250	16.1	1.26	10.72	2.42	1.88	1,088
3655	BrainPad	Internet marketing / data analysis	TSE1	37,614	8,500	1,020	12.0	4.43	158.37	8.83	0.00	5,060
3688	CARTA HD	Ad platform	TSE1	53,840	25,000	4,500	18.0	2.15	17.14	2.22	2.36	2,120
3690	YRGLM Inc.	Internet ad measurement tool	TM	6,940	3,600	470	13.1	1.93	21.79	4.23	0.69	1,089
3853	Asteria	Packaged software	TSE1	14,011	2,900	1,000	34.5	4.8	15.5	2.12	-	801
3923	RAKUS	Cloud service / Email delivery / IT engineer dispatching	TM	550,897	20,387	1,341	6.6	27.02	604.37	67.89	0.06	3,040
4293	SEPTENI HD	Internet ad agency / smartphone marketing support	JQS	66,402	ND	ND	-	-	-	3.28	-	478
4395	Accrete	SMS delivery service	TM	7,925	2,722	387	14.2	2.91	36.18	5.44	0.71	1,404
4751	CyberAgent	Internet ad agency / smartphone / games	TSE1	1,003,321	ND	ND	-	-	-	7.78	-	1,984
4784	GMO AD Partners	Internet ad agency and related platform	JQS	7,005	35,500	460	1.3	0.20	21.33	1.28	2.34	418
6038	iiD	Contents marketing platform	TM	4,056	5,700	530	0.1	0.7	11.48	1.14	0.00	807
6045	Rentracks	Pay-per-performance Internet ad service	TM	5,495	2,346	746	31.8	2.34	12.85	2.21	1.45	689
6081	Allied Architects	SNS-related marketing support	TM	11,084	5,500	600	10.9	2.02	-	4.73	-	784
6094	FreakOut HD	Internet ad delivery (DSP)	TM	28,356	28,000	1,050	3.8	1.01	-	5.66	0.00	1,574
6175	Net Marketing	Pay-per-performance ad agency	TSE1	6,678	5,785	500	8.6	1.15	17.80	2.13	1.34	447
6533	Orchestra HD	Digital marketing for companies	TSE1	37,167	15,620	1,131	7.2	2.38	52.94	7.83	0.21	3,795
6553	SoldOut	Web marketing support for mid-tier companies/SMEs	TSE1	12,198	22,600	340	1.5	0.54	122.01	3.91	-	1,153
6562	Geniee	Automatic trading of media ad space / AdTech biz	TM	14,168	13,582	740	5.4	1.04	-	5.23	-	785
Simple average of 22 AdTech-related companies (which have not forecasted a net loss)				100,328	19,437	1,991	11.7	3.14	74.05	6.92	1.10	
Average of TOPIX (closing price on 12/10/2021)									15.26	1.28	1.96	1,975.48
6026	GMO TECH (net loss)	App-installation-type charging ad / SEO	TM	2,003	4,000	-300	-7.5	0.50	-4.83	2.60	0.00	1,820
6550	Unipos (net loss)	Internet ad service; media monetization support	TM	2,931	1,395	-1,320	-94.6	-	-	1.02	0.00	226

EC-Platform-Related Companies		Markets: TSE1=TSE 1st Section, TSE2=TSE 2nd Section, TM=TSE Mothers, JQS=JASDAQ Standard		Unit: million yen			%	Ratio			%	Closing Price (12/10)
Code	Company Name	Business Area	Market	Market Cap.	Sales	O.P.	O.P. Margin	P/S	P/E	P/B	Dividend Yield	Stock Price
3371	SOFT CREATE HD	EC website dev. package / selling merchandise to companies	TSE2	61,230	19,200	3,550	18.5	3.19	29.53	4.46	0.90	4,445
4304	Estore	EC website development / online shopping support	JQS	8,500	5,900	1,020	17.3	1.44	-	3.10	2.12	1,508
4057	Interfactory	Cloud commerce platform	TM	3,868	2,577	159	6.2	1.50	35.48	4.02	0.00	969
4496	Commerce One Holdings	EC website mgmt support for mid-tier/SME EC website mgmt companies	TM	10,224	2,841	632	22.2	3.60	23.64	5.16	0.00	1,359
Simple average of 4 EC-platform-related companies (which have not forecasted a net loss)				20,956	7,630	1,340	16.0	2.4	29.55	4.2	0.76	
4477	BASE (net loss)	E commerce platform / online settlements	TM	74,048	10,143	-1,181	-11.6	7.30	-61.64	4.68	0.00	666

(Ref) Prepared by Alpha-Win Research Dept. from the companies' websites, securities reports, financial results summaries, and financial results briefing materials.
(Note) Generally, each company's forecasted values from the latest financial results disclosure (latest quarterly financial results) or the most recent actual results (BPS, etc.) were used (based on disclosed data available as of December 10). For forecasts disclosed as ranges, as a general rule, the median was used for calculations. For the Company, Alpha-Win Research Dept.'s forecast was used. For other companies, values not disclosed are marked by "ND" (not determined), "UD" (undisclosed), or "-". The average was calculated using only valid figures.

The Company's Valuation

- **The forecasted P/E for this FY is 21.5. The forecasted P/E for the FY after the next is 13.5.**

IT companies, and especially AdTech companies, tend to be valued at a premium in anticipation of high growth. Concerning the Company's valuation, though, its P/E based on our forecasted EPS is expected to drop from 21.5 in the current fiscal year to 16.4 in the next fiscal year and 13.5 in the fiscal year after the next, and these levels seem to be within an acceptable range.

- **The PEG ratio is around a little less than 1 to 2**

If the Company's normalized EPS growth rate over the medium term is assumed to be 25%, its PEG Ratio[26] comes out to be a little less than 0.9 for this fiscal year (2.0 if the annual average profit growth rate is assumed to be about 10.8%). If a PEG of up to about 2 can be seen as acceptable for growing companies, then the Company's stock price may make it a possible investment candidate regarding the balance against the anticipated profit growth rate.

(26) PEG Ratio (Price Earnings Growth Ratio): A valuation indicator for stock value that takes into consideration a company's medium-term profit growth rate. It is calculated by dividing the expected price-earnings ratio (P/E) by the expected medium-term profit growth rate (%) per share. Generally, a PEG ratio of less than 1 means the stock is undervalued, and overvalued if it is more than 2.

If the likelihood of achieving the targets for financial performance and conducting another dividend hike increases, then its stock may possibly rise to a higher level.

Key Points that May Impact Future Stock Price

- **Should closely watch the tightening of personal information protection regulations, financial performance, changes in KPIs, and M&As as factors that may impact stock price**

As factors that may affect stock price, we should continue to closely watch the situation concerning tightened regulation on the protection of personal information, the trends in monthly sales (YoY), the quarterly changes in profit growth and profit growth rate, the level of dividend, financial trend of the advertising agency DX and new services in which growth is expected, M&As and business acquisitions or alliances, future announcements of new products and services, and the trends of the entire Internet ad market.

In addition, as the most important management indicators (KPIs) in judging the Company's growth potential in profit, we should continue to follow the change in the unit price (pricing strategies) and the number of active accounts of AD EBiS, in addition to the churn rate of AD EBiS and the proportion of the new services in the consolidated sales which the Company has newly introduced as KPIs.

Medium- to Long-Term Outlook

- **Future growth may be anticipated as a defensive, AdTech-related, domestic-demand-related, and small-cap growth stock.**

Over the medium to long term, the Company's Marketing Platform business has a large growth potential in the Internet advertising market, and the Company also seems to be placed in a good position with regards to reaping benefits from this growth potential.

We would like to follow the Company's growth as an AdTech-related, domestic-demand-related, and small-cap growth stock.

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