Alpha-Win Company Research Report

YRGLM Inc. (3690 TSE Mothers)

【Previous name: LOCKON CO., LTD.】 **Issued**: 12/7/2020

● 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 the leading company in the niche field.

・Its services are provided via the cloud to mid-tier and large companies. Its main business is based on a subscription-based business model (87% 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 had been working on business model transition and the selection and concentration of its business portfolio, strengthening is business foundation for the next level of growth. Currently, by leveraging its accumulated know-how and assets, it is beginning to enter a phase of earning power improvement.

・It became listed on TSE Mothers in September 2014. 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 FY before the previous), 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 FY 2019 (Jan-Mar 2019), though, the Company has been continuously posting a net profit for each quarter, both sales and profit have been growing, and a V-shaped recovery curve is becoming apparent.

Competitiveness

・The Company's strengths are the management skill of the president with expertise in leading-edge technologies of this 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 both have the top share in the domestic market. Its Internet ad effect measurement system is especially strong, having established an extremely solid position by acquiring ADPLAN, which has the second largest share 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 and plans to thus comprehensively expand its business scope from ad effect measurement to other areas. In the new medium-term business plan announced in November of this year, it set out its goal to achieve sales of Y5 billion, operating margin of 15%, and DOE of 3% or more (all on a consolidated basis) in the final year of this plan or FY 2023. It intends to accelerate its growth by continuing to enhance and expand its core businesses and creating new businesses including businesses for advertising agencies and platform businesses in new fields. It is a rapidly changing industry, but the Company aims to further strengthen its products/services and expand its business by actively conducting M&As, business acquisitions, and business alliances.

Financial Forecast for This Fiscal Year and Over the Medium Term

・The Company did not disclose its financial forecast (sales/profit) for the current fiscal year (FY 2021) because, like last fiscal year, there are various unpredictable factors such as the impact of COVID-19 which makes it difficult to prepare a rational forecast at this point. Like most other years, the announcement of a company plan is predicted to be made in February upon the announcement of Q1 results.

・Alpha Win Research Dept. made a forecast of financial results for the three fiscal years starting this FY upon considering the previous FY's results and the current situation. For this FY, we made no changes to our previous forecast that sales will be Y3,010 million (+15.0% YoY), operating profit will be Y300 million (+8.7% YoY), and net profit will be Y200 million (+9.3% YoY). Continued growth is expected for both AD EBiS, the Company's main product that is scheduled for a major update, and EC-CUBE, which may benefit from the EC market boom. In addition, costs are predicted to be held down, so that sales, profit, and dividend are likely to increase again this FY.

・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 believe that the Company will continue with "proactive" upfront investment as it selects, focuses, and expands 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 Characteristics

・Recognized as an AdTech-related, domestic-demand-oriented, and small-cap growth stock. Since profit was revised up and dividend was resumed, stock price has been outperforming the TOPIX and the TSE Mothers Index since the beginning of the year. IT stocks, and especially AdTech stocks, tend to be traded at a premium due to their high growth potential. The Company's stock price currently does not seem cheap compared to TOPIX and similar companies based on our prediction of its P/E, its P/B, and expected dividend yield.

・By establishing the new business model, the Company has started to be able to firmly post a net profit, and its likelihood of achieving profit growth over the medium to long term is becoming greater. Going forward, medium/short-term changes in financial performance are expected to be reflected in the stock price. We should continue to closely watch the following factors that may affect the stock price: tightening of regulations related to personal information protection, trends in monthly sales, quarterly trends in profit/loss, announcement of M&As or alliances or new functions, and the unit price and the number of active accounts of AD EBiS which are key indicators (KPIs) directly linked to financial performance.

Return to Shareholders

・The Company had initially announced that the previous FY's dividend was undetermined, but due to the sharp improvement in financial performance, it later announced that it will resume dividend payment for the first time in 3 fiscal years. It also recently announced a new dividend policy to decide dividend based on the DOE. This was positive news since dividend will now be automatically and directly raised when profit grows. The Company is in its growth phase, but it plans to return profit to shareholders while continuing with investments for growth at the same time to also contribute to increasing shareholder value through the achievement of greater financial results.

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

FY		Sales (million Y)	YOY (%)	O.P. (million Y)	YOY (%)	R.P. (million Y)	YOY (%)	N.P. (million Y)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2017	A	1,719	6.6	92	-62.6	106	-57.5	72	-56.8	11.56	195.60	5.00
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	CE	2,700	22.5	200	135.5	190	140.4	130	To profit	20.62		3.80
2020	E	2,630	19.3	235	176.7	225	184.7	155	To profit	24.55	193.74	3.80
2020	A	2,618	18.8	276	226.1	261	230.5	183	To profit	29.09	202.20	4.00
2021	CE					Not disclosed						4.50
2021	E	3,010	15.0	300	8.7	290	11.1	200	9.3	31.68	229.07	4.50
2022	E	3,390	12.6	380	26.7	370	27.6	255	27.5	40.40	264.15	5.30
2023	E	3,860	13.9	480	26.3	470	27.0	320	25.5	50.69	305.52	9.30
2023	Medium-term CE	5,000		750								

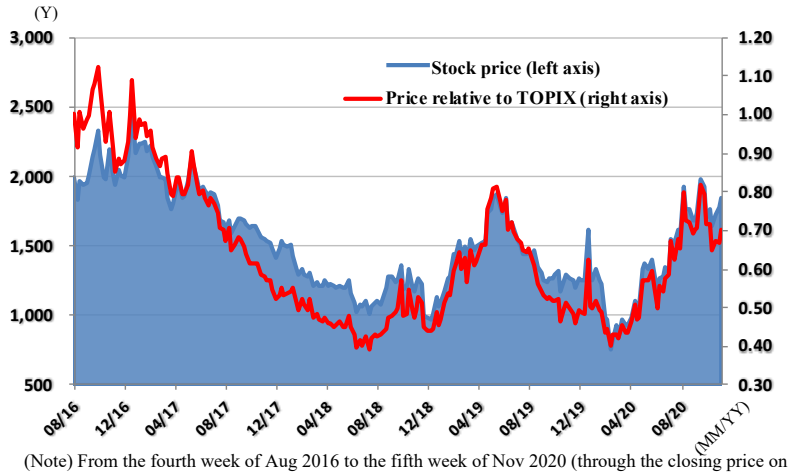
(Note) A: actual results. CE: the Company's estimate (forecast). E: estimate (forecast) by Alpha-Win Research Dept.
Note that the Company's fiscal year is September-ending. For example, FY 2021 ends in Sept. 2021.

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

Item	11/30/2020	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,840	Last FY (actual)	63.3	9.1	0.2%	13.8%
Shares Outstanding (thou.)	6,372	This FY (est.)	58.1	8.0	0.2%	14.2%
Market Capitalization (million Y)	11,725	Next FY (est.)	45.5	7.0	0.3%	13.1%
Dilutive Shares (thou.)	0	Equity Ratio at End of Last FY		46.4%	Last FY's ROE	15.7%

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

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



(Note) From the fourth week of Aug 2016 to the fifth week of Nov 2020 (through the closing price on Nov 30)

【Performance】

Period	Return	vs. TOPIX
1 month	8.9%	-2.0%
3 months	10.5%	1.9%
6 months	38.6%	23.5%
12 months	42.2%	18.6%

(Note) Prepared by Alpha-Win Research Dept. Reflects stock price and TOPIX values through the closing price on 11/30/2020 (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 were compared with their most recent values.

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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 2021 ends in September 2021).

1. Company Overview

◆ A Leading Company in a Niche Market

- **Marketing technology company. Working with the "MXP Strategy" where it aims to contribute to the DX of its customers by supporting data integration, analysis, and utilization. Currently, the Internet ad effect measurement business, which is a part of this strategy, is its main business.**

Company Overview

YRGLM Inc. (hereinafter referred to as "the Company") is an emerging marketing technology company that plans, develops, and sells software related to Internet advertising and e-commerce.

It has grown through the full-scale development of its business of improving the efficiency of marketing through originally developed software. The Company has an extremely high share in the Internet ad measurement tools market and is the obvious top player in the niche field. Currently, it is working on the "MXP (Marketing Transformation Platform) Strategy" where it aims to contribute to the DX of its customers through data integration, analysis, and utilization.

- **As its main service, it provides Internet-marketing-related platform as SaaS (cloud).**

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

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. Currently, it has two headquarters, one in Osaka and one in Tokyo.

- **Changed the company name and logo. New name: YRGLM Inc.**

Change in the Company Name

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

- **Its main products are its originally developed AD EBiS and EC-CUBE.**

(1) Internet advertising effect measurement system: A tool to comprehensively measure the effect of and evaluate various Internet ads and SEO strategies.

(2) 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.

Main Businesses

Currently, the Company carries out business in two areas: the marketing platform business and the EC platform business. Its flagship product is AD EBiS, an Internet advertising effect measurement system[1] that is provided as SaaS[2] (cloud) to other companies (B2B). (Names of the main products and services are listed after the colon.)

(1) Marketing platform segment: includes AD EBiS, ADPLAN, AdRepo, Ad-Knowledge, and Advertising Agency Referral Service
(2) EC platform segment: EC-CUBE

Consolidated Companies and Trends in Consolidated Financial Results

The YRGLM Group consists of a total of five companies: the Company, two consolidated subsidiaries, one nonconsolidated subsidiary, and one equity method affiliate.

(1) Two Consolidated Subsidiaries

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

・EC-CUBE Co., Ltd. (established in Osaka City in October 2018; the Company currently owns 100% 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

- **Its key consolidated subsidiary is EC-CUBE Co., Ltd. which works on the EC platform business. In November, Orico signed a basic agreement to acquire 10% of its shares to form an alliance.**

in November 2020, a basic agreement was made with Orient Corporation (TSE First Section; securities code 8585; hereinafter "Orico") to transfer 10% of its shares to Orico to form a capital alliance.

(2) One Nonconsolidated Subsidiary
・LOCKON Marketing of U.S.A (established for information-gathering purposes – a dormant company)

(3) 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 for the entire YRGLM Group. 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).

- **Financial performance of consolidated companies other than the parent company is also improving.**

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. Since EC-CUBE Co., Ltd. has been posting a net profit with solid financial performance, the overall financial performance of the consolidated companies excluding the parent (consolidated minus parent) have been improving too.

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

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

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report
(Note) Since the decimal places of the values used in this Report have generally been rounded off, they may differ from the values officially announced by the Company (applies to the rest of this Report). Results have been consolidated 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 platform and AI-related fields and for future M&As.

- **As of the end of September, its debt balanced out with its current cash and deposits.**

As of the end of September 2020, its long/short-term debt totaled about Y1,080 million and its cash and deposits were about Y1,120 million. Therefore, the Company is essentially mostly debtless. Its total assets were about Y2.8 billion and market capitalization was about Y10.8 billion (based

on the closing price of Y1,695 on 9/30/2020), both relatively small. However, its equity ratio was 46% and current ratio was 217% so there does not seem to be any issue with its financial standing.

- **Goodwill and software increased in the assets category. Intangible fixed assets are about Y830 million in total, but still smaller than the net assets.**

Due to the increase in goodwill (from succeeding the AdRepo business and acquiring the ADPLAN business) and software, intangible fixed assets increased to Y830 million and deferred tax assets increased to Y130 million, totaling Y960 million. However, since this total is smaller than the Company's net assets of Y1.28 billion, there does not seem to be an issue at this moment.

- **Has earned a high public reputation. Chosen as Best Company in the "Best Workplaces Ranking" for the 8th consecutive year for a total of 9 awards.**

(3) 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 a top-level, high reputation.**

Awards and Reputation

The Company won the Best Companies Award in the Japan division of the "2020 Best Workplaces Ranking for Medium-Sized Companies (100 to 999 employees)" from the Great Place to Work® Institute[3] Japan (winning an award for eight years in a row and for a total of nine 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.

Its products have also earned a high reputation. AD-EBiS won the "High Performer" award in the "Access Analysis and Attribution" division of the "ITreview Grid Award 2020 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).

Furthermore, its EC open platform "EC-CUBE" provided through the EC-CUBE business, 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 on online store trends conducted in October 2020 by EC&Marketing Co., Ltd. (headquartered in Minato-ku, Tokyo) (an especially high evaluation since it won by a large difference from 2nd place – more than 2.5x).

◆ Business Philosophy

Under its mission, "Impact on the World," the Company aspires to realize a society where companies can grow together with 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

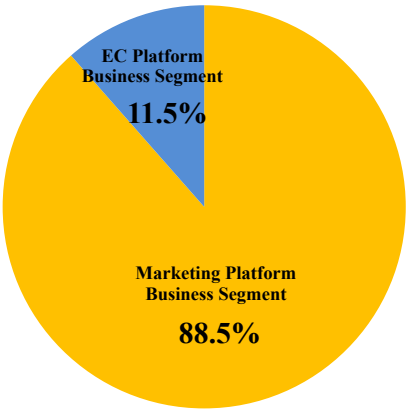
- **A B2B business, providing originally developed tools (software) via the cloud.**
- **Has been developing business based on two platforms. Had been focused on the marketing platform, but business opportunities are increasing for the EC platform business too with the EC market boom.**

◆Providing Originally Developed Marketing Tools via the Cloud

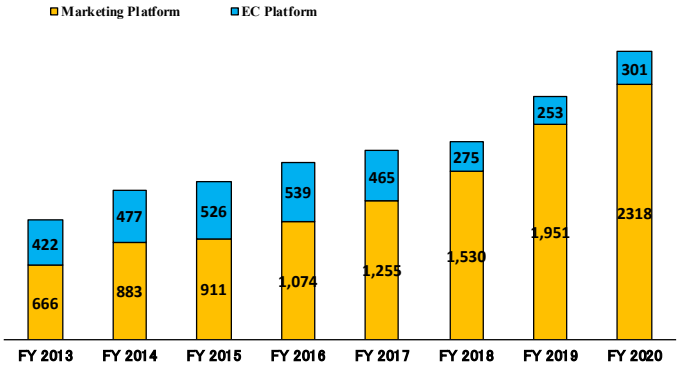
The Company's concept is that tools for solving issues efficiently and quickly will also become necessary in the field of Internet marketing as the population ages and declines. Based on this concept, the Company has been providing originally developed, cloud-based software mainly to companies.

The Company's business consists of two segments: (1) the marketing platform business and (2) the EC platform business. The marketing platform business accounted for about 88.5% of the total sales in the previous fiscal year and was 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 an operating profit for each full fiscal year.

[Figure 2] FY 2020 Sales Breakdown by Business Segment

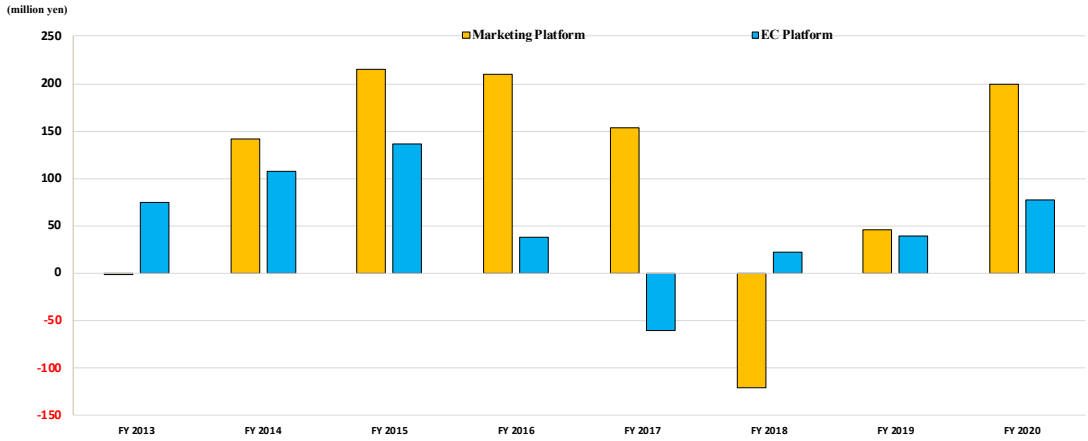


[Figure 3] Transition in Sales by Business Segment
(unit: million yen)



(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



- **Working on restructuring its business portfolio. Concentrating business resources on AD EBiS of the marketing platform business.**

◆ Restructuring and Strengthening of 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 platform business) and separating its non-core businesses (EC platform business) (Figure 5; see the report issued on 12/13/2019 for details on past restructuring of business).

In the marketing platform business, the Internet advertising effect measurement system AD EBiS is especially significant, accounting for about 81% of the total sales. Going forward, the Company plans to concentrate business resources on this product and related products to further develop this business as a growth driver.

Since the second quarter (Q2) of FY 2019, the Company (parent company) has been primarily focused on the marketing platform business. However, since EC-CUBE was transferred to its 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

Business Segment	Main Service	Business Subcategory	Change	Notes
(1) Marketing Platform	① AD EBiS			Parent company
	② THREe		Withdrew (end of March 2020)	
	③ DMP		Transferred from SOLUTION; will scale down	
	→ Professional Service		Will expand AD-EBiS-related software development project	
	④ AdRepo		Acquired (August 2018)	
	⑤ ADPLAN		Acquired (Jaunary 2018); to be merged with AD EBiS	
	⑥ Advertising Agency Referral Service		Started service in May 2020	
	⑦ Ad-Knowledge		Started service in July 2020	
(2) EC Platform	① EC-CUBE		Transferred to EC-CUBE Co., Ltd., on 1/1/2019; 10% of shares to be sold to Orico	Consolidated
	② *SOLUTION → abolished*	*EC Contract Dev.*	*Transferred to SAI Co., Ltd. (equity method) and Radical Opti Co., Ltd. (later removed from equity method)*	*Equity method*
		(DMP)	*Transferred to SOLUTION*	

(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report and interview.
(Note) Gray highlight indicates that the Company withdrew from that business. Words in red indicate changes since the previous fiscal year.

(4) Paid-listing ads: 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.

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

Changes since the previous fiscal year are the following (the numbers in parentheses and circles match the numbers in the table).
(1) ②Withdrew from the THREe business (operating platform for paid-listing ads[4]; withdrawal completed at the end of March 2020).
(1) ③ Scaled down the DMP[5]-related business that was previously transferred from the EC platform segment. Is now working on the Professional Service business where it develops software related to AD EBiS.
(1) ⑤ Acquired the ADPLAN business from OPT, Inc. (consolidated subsidiary of DIGITAL HOLDINGS [TSE First Section: 2389], previously called OPT Holding Group; DIGITAL HOLDINGS is hereinafter referred to as DIGTAL HD) in January 2020 (last fiscal year's Q2) for Y315 million. ADPLAN has the second largest share in the market after the Company. This business is planned to be gradually merged with AD EBiS. The Company is currently in a business alliance with DIGITAL HD.
(1) ⑥Advertising Agency Referral Service: started as a new business in May. Introduces the most suitable advertising agency to Internet advertisers. It is a business model where the Company receives referral fees when a contract is concluded between the two parties (details on page 14).

(6) 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.

(7) Subscription-based business model: A business model where users pay for the provided service based on the duration of use. See also page 17.

(1) ⑦Ad-Knowledge: a newly developed, cloud-based project management system designed for advertising agencies that was started in July. Supports and streamlines the operation of advertising agencies that use programmatic advertising[6] (details described on page 14). Service is provided based on a subscription-based business model[7] (SaaS).

(2) ①10% of the shares of EC-CUBE Co., Ltd. are planned to be acquired by Orico to form an alliance, through which the Company plans to also expand the EC platform segment.

◆ Detailed Business Contents (1) Marketing Platform Business

The transition in the sales and profit of the marketing platform business segment by fiscal year is shown below.

[Figure 6] 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
Marketing Platform	*545*	*666*	883	911	1,074	1,255	1,530	1,951	2,317
① AD EBiS	*499*	*567*	722	822	1,012	1,200	1,402	1,747	2,127
② THREe	*46*	*81*	161	89	62	54	43	28	8
③ Professional Service (DMP)							84	51	27
④ AdRepo								124	149
⑤ ADPLAN					Not disclosed (acquired in Jan 2020; sales disclosed as a sum of AD EBiS + ADPLAN) ↑				
⑥ Advertising Agency Referral Service									3
⑦ Ad-Knowledge									3
Segment's O.P.	*-61*	*-1*	142	214	210	153	-121	46	198
Segment's O.P. Margin	*-11.2%*	*-0.1%*	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%

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

The marketing platform segment currently consists of seven businesses: the Internet advertising effect measurement systems ① AD EBiS and ⑤ ADPLAN; ③ Professional Service (including DMP); ④ AdRepo; ⑥ Advertising Agency Referral Service; and ⑦Ad-Knowledge.

①AD EBiS & ⑤ADPLAN

AD EBiS, the Company's Proprietary Product

- **The main businesses of the marketing platform segment are AD EBiS (originally developed product) and ADPLAN (acquired). Both are Internet advertising effect measurement systems.**

AD EBiS is the Company's main product (81% 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 "effect measurement" function to maximize sales or acquire prospective customers in proactive marketing.

- **AD EBiS + ADPLAN account for about 81% of the Company's total sales (FY 2020).**

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 complete software support.

- **ADPLAN is planned to be merged with AD EBiS.**

Merging ADPLAN with AD EBiS

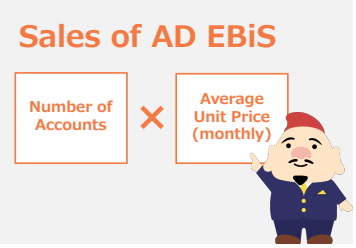
The Company has continued with the ADPLAN service after business transfer. Going forward, the service is planned to be gradually transferred to and merged with AD EBiS to improve the efficiency of system development and updates. Specific data on ADPLAN's unit price, number of accounts, and sales are not disclosed. Since the transfer, its results have been disclosed as the sum of AD EBiS + ADPLAN.

Business Model

AD EBiS and ADPLAN are both provided as SaaS based on a subscription-based business model (see page 17 for details).

- **AD EBiS's number of accounts and average unit price are the KPIs.**

It is a business model based on flat-rate, subscription-based pricing where sales are determined by average unit price × number of active accounts. Both numbers are key performance indicators (KPIs) for the two businesses as well as for the entire company.



Customers

These are B2B businesses. AD EBiS's main customers include WOWOW, Lion, MIKI HOUSE, Aiful, Zwei, Z-kai, Yazuya, and Setagaya Shizenshokuhin. A little more than 100 companies were estimated to be users of ADPLAN as of the time of its business transfer and many of them were large, blue-chip companies that sell branded products throughout the country.

- **With the transition to the packaged plan with new pricing, the unit price rose significantly.**

Price System

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 transferred to this new price system, and pricing was changed again after this transfer.

- **AD EBiS's average unit price is increasing at a double-digit rate. Increased by approx. 2x over the past 5 years.**

Change in the Average Unit Price

Change in the average unit price at the end of each quarter (as of the end of the final month of each period) is shown in Figure 7 on page 12. There used to be a significant seasonal variability between quarters, but since the transition to the subscription-based business model, an upward and linear trend has been maintained. The average unit price has been rising for 11 consecutive quarters since Q2 of FY 2018 and has increased by twofold over the past five years.

- **Last FY, average unit price increased by 18%.**

From the end of FY 2019 to the end of FY 2020, 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 +19,682 yen YoY). The average unit price increased in the previous fiscal year due to the additional revision in pricing that was conducted after February 2020, the acquisition of new customers in the high price range, and the incorporation of ADPLAN (estimated average unit price of about Y170,000). The average unit price seems to be gradually increasing after October 2020, too.

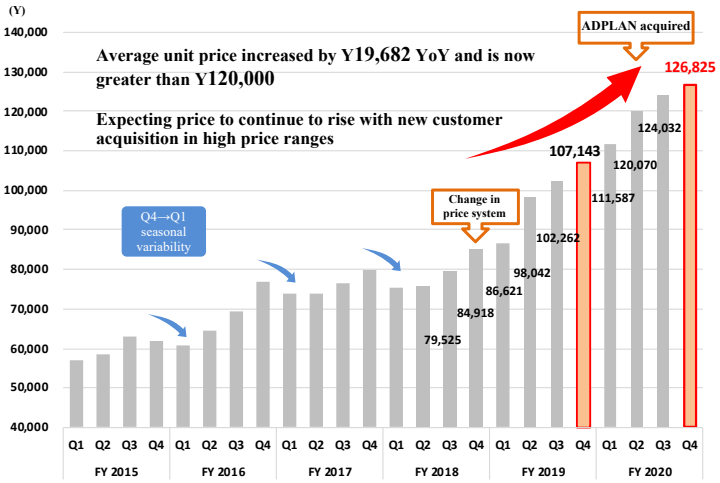
Number of Active Accounts

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

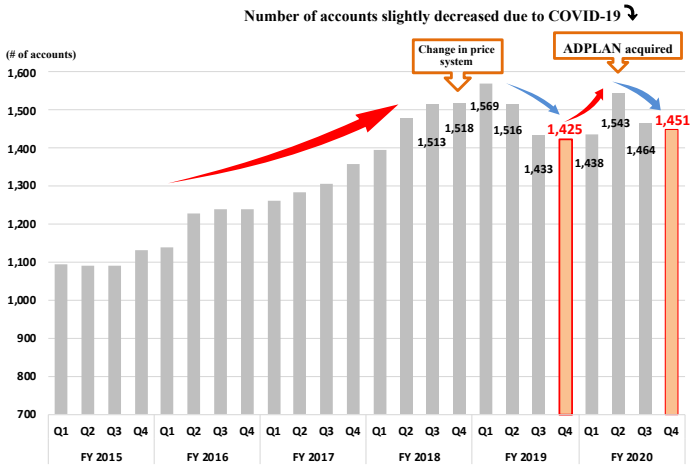
- **AD EBiS's number of active accounts had grown significantly by incorporating ADPLAN. Then, partly due COVID-19, the number fell in a net decline. The next challenge will be to reduce the contract cancellation rate (currently about 2% per month).**

(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 last fiscal year's Q1, the trend was reversed, and the number of accounts slightly increased to 1,438 (+13 or +0.9% QoQ). In Q2, the number sharply increased to 1,543 (+105 or +7.3% QoQ), partly due to the incorporation of contracts of ADPLAN. Then, due to the impact of COVID-19 which caused a temporary suspension of services and contract cancellations, the number of accounts decreased to 1,451 in Q4. However, this number is still greater than in Q4 of FY 2019 (1,425 companies) by 26 companies or 1.8% (Figure 8). The monthly contract cancellation rate is estimated to be about 2%, and the Company's next challenge will be to reduce this rate.

[Figure 7] Change in the Average Unit Price of AD EBiS



[Figure 8] Change in the Number of Active Accounts of AD EBiS



(Ref) Figures 7-8 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials. After acquisition, ADPLAN's numbers are also included in AD EBiS.

- **Sluggish progress with the number of accounts, but thanks to the rise in unit price, sales of AD EBiS (amount) continued to grow at a double-digit rate.**

Sales

The rise in unit price and decline in the number of accounts 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 20% YoY (Figure 6 on page 10).

Going forward, the unit price is expected to steadily increase and the number of active accounts is expected to increase in a slight upward trend due to the acquisition of more new customers in high price ranges and the major update which will lead to the addition new functions, enhancement of service, and up-selling and cross-selling of products, as well as the greater price leadership that is expected to be gained through its extremely high market share. Consequently, sales are expected to increase at a double-digit growth rate.

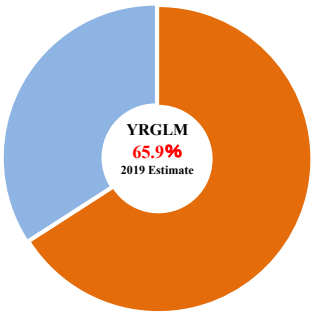
Market Share

Since its release in 2004, AD EBiS has been implemented by more than 10,000 users in total and has been maintaining the top share in the domestic Internet advertising effect measurement system market for five years in a row. Furthermore, according to the Company's financial results briefing materials, its share has been increasing year by year from 36.0% in FY 2015 to 40.0%

- **AD EBiS: top share in the domestic Internet ad effect measurement system market for 5 years in a row. Exceptionally high share of 65.9%.**

in FY 2016, 42.9% in FY 2017, and 44.2% in FY 2018. In FY 2019, an exceptionally high share of 65.9% (estimate) was achieved thanks to the acquisition of ADPLAN (Figure 9).

[Figure 9] Share of Sales (by amount) of the Internet Effect Measurement Market by Vendor (prediction for 2019)



(Ref) Financial results briefing materials
Source: ITR - "ITR Market View: Mail / Web Marketing Market 2020" (prediction for 2015-2019)

Note: Combined sales of AD EBiS and ADPLAN acquired from OPT, Inc. in January 2020

Major Update of AD EBiS

- **Will conduct a sequential, full update of AD EBiS starting in Jan 20201. Plans to strengthen product and promote sales.**

The Company announced that it will sequentially release a major (full) update for AD EBiS starting in January 2021. In this full update, the Company plans for a complete renewal of the UI[8] as well as more than 20 additions or improvements of functions, including an LTV (Customer Lifetime Value) analysis function specialized for D2C[9]/subscription-based business models, and the renewal of the API[10] for connecting AD EBiS with external services. Through this update, users will be able to analyze and utilize data "easier and faster." To mark this update, the Company also renewed AD EBiS's product logo and service design.

By strengthening and enhancing its product, the Company hopes to promote sales through the acquisition of new customers, upselling, and cross-selling.

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

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

(10) 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.

② THREe

THREe was an operating platform for paid-listing ads that was also originally developed by the Company. However, since it only contributed about 1% to the total sales in FY 2019, the Company stopped providing this service at the end of March 2020 to concentrate its business resources on AD EBiS.

- **Withdrew from THREe to concentrate business resources on AD EBiS.**

③ Professional Service

Currently, most of the sales of this business comes from private DMP, which is a method by which a corporate client can analyze its own website. For instance, a client can investigate and verify the behavior history and stay time of users who visit its website. The Company has a few major clients for this business including Lion.

- **Moved the DMP business from the EC platform business segment. Plans to withdraw from this business.**

Last fiscal year, DMP only contributed about 1% to the Company's overall sales. The Company plans to scale down this DMP business in steps and eventually withdraw from it. Currently, for its Professional Service business, it is working on the development of software related to AD EBiS.

④ AdRepo

In August 2018, the Company acquired AdRepo, an automatic report-generation tool for programmatic advertising. It has been developing this

- **AdRepo's customers are ad agencies. Automation technologies enable automatic creation of reports for programmatic advertising. Intends to actively expand this business to create synergy with AD EBiS.**

business in full scale since the beginning of FY 2019. Annual sales for last fiscal year 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 (we estimate that the full-year sales for this fiscal year will be about Y165 million and the growth rate will be about 10%). Its domestic market share 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).

AdRepo is a tool that fully automates the generation of reports by linking 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.

- **Started a new service where it introduces the most suitable advertising agency to Internet advertisers.**

⑥ Advertising Agency Referral Service

In May 2020, the Company released a new service where it introduces the most suitable advertising agencies to Internet advertisers. Based on its network of more than 300 advertising agencies and unique information, 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 an agency with the best matching and improve the performance of Internet advertising. Advertisers can use the service for free, but the Company receives a referral fee from the advertising agency that it introduced when a contract is concluded between the two parties.

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

⑦ Ad-Knowledge

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

In Japan, the mainstream for Internet ads is programmatic advertising with 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 energy, companies often ask advertising agencies to manage the advertising for them. Advertising agencies normally manage a wide range of advertising projects at the same time, though, so project management has been a heavy task for them, including the management of the timely confirmation and tuning of advertising results, progress management, and invoice processing.

Utilizing the know-how gained from its years of experience with the AD EBiS business, the Company offers Ad-Knowledge as a solution to this issue and intends to contribute to the customer success of advertising agencies. Like AD EBiS, this service will be offered as a subscription-based service (SaaS).

◆ Detailed Business Contents (2) EC Platform Business

Until FY 2018, the EC platform business had been composed of the two divisions of ①EC-CUBE and ②SOLUTION. Currently, the Company only works on the EC-CUBE business (Figure 10).

[Figure 10] Change in the Sales and Operating Profit of the EC 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
EC Platform	*323*	*422*	477	526	539	465	275	253	300
①EC-CUBE	*150*	*207*	245	230	219	208	254	253	300
②SOLUTION	*174*	*214*	232	296	319	257	20	0	0
(DMP)						104			
Segment's O.P.	*98*	*75*	107	136	38	-60	22	39	78
Segment's O.P. Margin	*30.5%*	*17.8%*	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%

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

① EC-CUBE

- **EC-CUBE will now be the EC platform segment's single main business.**
- **EC-CUBE also has the top share in the domestic market.**

EC-CUBE is an open source software[11] platform whereby users can create and operate EC (e-commerce) websites on their own. The Company provides EC-CUBE as free packaged software for web design to companies that will begin selling and providing products and services online. Characterized by low cost, high customization, and user-friendly interface, it has the largest share in the domestic market and has become the standard platform.

(11) 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.

EC-CUBE Co., Ltd. has set up a Freemium Model[12] where it offers the software for free but in return earns revenue from peripheral services. Specifically, it makes profit through royalties received from its official partners working on Internet businesses using this platform (payment agencies, hosting businesses, etc.), function-addition fee for plug-ins (programs to add functions to software), and revenue from selling commercial licenses.

(12) 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.

- **The EC-CUBE business is operated by EC-CUBE Co., Ltd., the Company's consolidated subsidiary.**

The EC-CUBE business had been transferred to EC-CUBE Co., Ltd., which was a wholly owned consolidated subsidiary, on January 1, 2019, as part of the YRGLM Group's business restructuring. However, since EC-CUBE Co., Ltd. is a fully consolidated subsidiary, there has been no impact on the consolidated financial results.

The development of the new version "EC-CUBE4" has been completed and was released in October 2018. Its cloud version "ec-cube.co" was also released in February 2019. With the expansion of the EC market and increase in payment agency fees, etc., financial performance has been improving at a solid pace.

- **Orico is expected to invest in EC-CUBE Co., Ltd. to form an alliance. Plans to take in DX-related demand to expand business.**

In November 2011, Orico signed a basic agreement to invest in 10% of EC-CUBE Co., Ltd.'s shares (Y155 million) to form an alliance. Going forward, the Company plans to expand this business by supporting Orico's members (830,000 stores) start e-commerce.

Through this alliance, the Company intends to utilize Orico's customer network and sales force to cultivate new customers and expand business. In addition, it plans to promote the sales of the cloud version of EC-CUBE or

"ec-cube.co" through Orico and shift the business model from open-source software (free basic functions) to cloud-based SaaS (fee-charging).

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

Also, EC-CUBE Co., Ltd. appointed Toshihiro Ichitani, the government's executive adviser for CIO[13], as its DX promotion adviser, and plans to work on supporting companies throughout Japan with "DX with a focus on EC" using EC-CUBE.

(13) Government's executive adviser for CIO: executive adviser for the Deputy Chief Cabinet Secretary for Information Technology Policy (previously called Chief Information Officer or CIO). Assigned with the task of providing support and advise to the Deputy Chief Cabinet Secretary for Information Technology Policy and the Information System Coordination Division of the cabinet's IT Strategy Headquarters as part of the Japanese government's E-government development plan. An external, independent, and neutral specialist with expertise in relevant fields.

The Company also plans to expand its EC platform segment in general through strategies including alliances with other companies.

Also, as described in page 7, 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 companies seem to be its competitors among listed companies (in the order of product/service name, operating company or group, market, and securities code).

- 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

◆The SOLUTION business (EC contract development) has been transferred to equity-method affiliates.

② Former SOLUTION business

Although the SOLUTION business had been composed of a few businesses, 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 (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

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

- **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.**

Overview

The marketing platform business, which accounts for approximately 90% of the Company's total sales, is almost entirely based (98.6%) on 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 continuously generation of revenue until the contract becomes cancelled.

Although expenses will precede at the beginning of a new contract, including marketing and sales 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: how much cumulative profit is generated within a customer's lifetime). Therefore, it is a business model that enables stable growth.

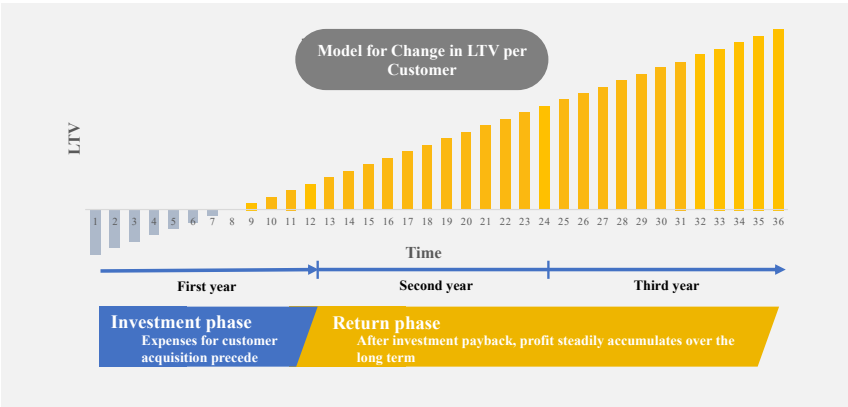
Change in the LTV (cumulative profit/loss) per Customer

Figure 11 shows the model for the change in the Company's cumulative profit and loss over the average subscription contract period of three years.

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; when 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 estimates 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 11) and controls the initial cost related to new contract acquisitions accordingly.

[Figure 11] Model of the Change in LTV per Customer (cumulative profit and loss)



(Ref) Financial results briefing materials

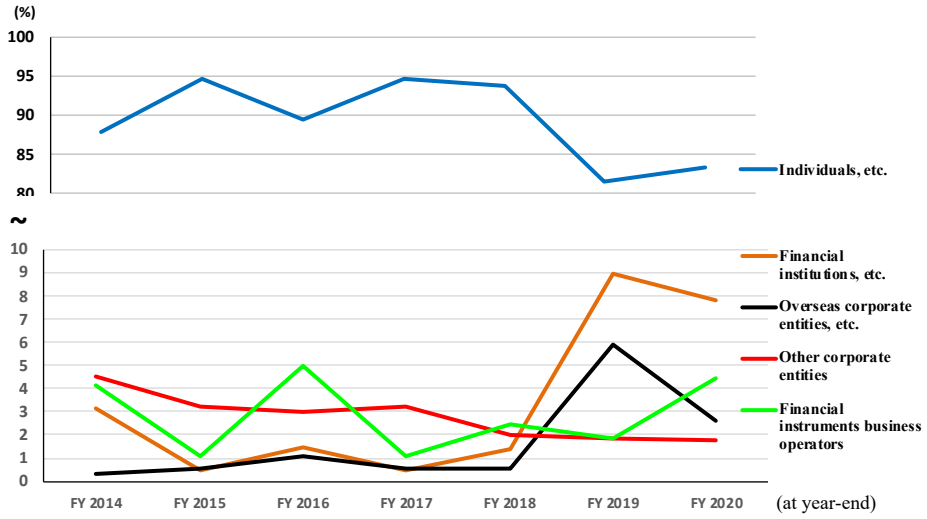
3. Shareholder Composition

◆ Change in Composition by Shareholder Type

- **Individuals hold an extremely high proportion of shares: about 83%.**

Regarding shareholder composition by shareholder type as of the end of September 2020 (Figure 12), compared to one year ago, the proportion of "individuals, etc." has slightly increased from about 81% to about 83% of the total and similarly "financial instruments business operators" has also increased from a little less than 2% to about 4.5%. Meanwhile, "financial institutions, etc." has decreased from about 9% to about 8% and "overseas corporate entities, etc." too has decreased from 6% to a little less than 3%.

[Figure 12] Change in Shareholder Composition by Shareholder Type (unit = %)



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

◆ Major Shareholder Composition

- **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.**

The major shareholders as of the end of September 2020 are shown in Figure 13 on page 19. The following is supplementary information. Compared with past periods, the major shareholders have generally 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 gradually selling their shares). The shares of the former and present executive officers of the Company, plus the employee stock ownership plan at seventh 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.

- **Also invested by several investment trusts**

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 Growth Stock Open" portfolio (also called "J-Frontier") managed by Asset Management One (hereinafter, "AMO"). Some of those shares were later sold and the portfolio had 246.2 thousand shares (3.9% of outstanding shares) as of February 25, 2020.

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 12/18/2019, 103.5 thousand shares and 47.3 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.

- The nineth largest shareholder is Hakuhodo DT Media Partners Inc., the Company's sales agency.
- The investment purposes of UEDA YAGI TANSHI Co., Ltd., au Kabucom Securities, and Mitsubishi UFJ Morgan Stanley Securities are unknown.
- Currently, there seems to be no obvious activist-like behavior among the investors.

- **Treasury shares are about 1% of all outstanding shares.**

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 22.7 thousand treasury shares as transfer-limited, stock-based compensation for its executives and employees. Therefore, as of the end of September 2020, it owned about 64.5 thousand treasury shares (about 1% of all outstanding shares). For the remainder, the Company intends to use them for M&A and alliance strategies as well as stock-based compensation for its executives and employees.

[Figure 13] Current Major Shareholders

	End of Sept. 2015	End of Sept. 2016	End of Sept. 2017	End of Sept. 2018	End of Sept. 2019	End of Sept. 2020	←Shareholding %	←Ranking
Susumu Iwata (president and CEO)	2,851	2,817	2,817	2,819	2,822	2,825	44.7	1
Hiroichi Fukuda (former executive vice president)	1,071	1,021	1,021	961	801	781	12.3	2
Kanako Mataza (former director and senior executive officer)	415	415	352	354	353	352	5.5	3
Custody Bank of Japan (trust account)	—	—	—	—	—	221	3.4	4
Custody Bank of Japan (securities investment trust account)	—	—	—	—	—	169	2.6	5
UEDA YAGI TANSHI Co., Ltd.	—	—	—	—	—	86	1.3	6
YRGLM Employee Stock Ownership Plan	76	39	48	69	68	71	1.1	7
au Kabucom Securities	—	—	—	—	—	62	0.9	8
Hakuhodo DY Media Partners Inc.	60	60	60	60	60	60	0.9	9
Mitsubishi UFJ Morgan Stanley Securities	—	—	—	—	—	58	0.9	10
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			
Tomonori Yamada (indiv.)	—	—	28	—	—			
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	—	—	—	—			
(Number of treasury shares: thousands of shares)	0	0	0.045	0.983	81	64		
(Ratio of treasury shares over all issued shares)			0.00%	0.02%	1.28%	1.01%		

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

4. ESG

◆ Environment

Company's business is not the kind that harms the environment. It aims to conserve 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

As measures against the COVID-19 crisis, the Company has set up a working environment where 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.

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

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 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.

- **Plans to increase the number of directors to strengthen its business management structure**

A proposal to appoint its current Executive Officer and General Manager of Business Administration Division as a new director is expected to be passed upon a resolution at the general shareholders' meeting (in December). This appointment is aimed at strengthening the Company's management structure and will increase the number of directors by one to a total of six directors. Of the six directors, 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 executive officers.

As an incentive, the Company has a program where 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

◆ Transition in Past Financial Results

- **Developed and launched unique products that can be differentiated from other companies. Has grown rapidly by predicting and meeting the needs of society ahead of others. All-time highs are being consecutively achieved every year for sales.**

Sales

From FY 2010 to FY 2013, during which account settlement was nonconsolidated, the Company increased sales for four consecutive fiscal years. Since FY 2014, when consolidated account settlement began, the Company has been achieving record-high sales consecutively for six fiscal years through FY 2020 (the available disclosure materials indicate that sales have been hitting record highs for at least 10 consecutive fiscal years). During this period, sales increased by about 3.6x from about Y730 million to about Y2,618 million.

The Company has achieved rapid growth by developing unique products that can be differentiated from other companies and by predicting and meeting the needs of society ahead of other. This consecutive record highs in sales were brought by the rapid expansion of the marketing platform's AD EBiS business as well as the steady growth of the EC platform including the EC-CUBE and SOLUTION businesses.

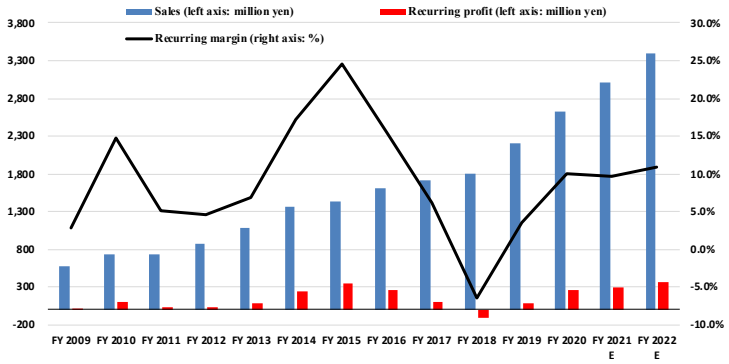
- **In FY 2015, record-high profit was recorded.**
- **Since FY 2016, the Company has been prioritizing business restructuring and upfront investments, focusing on future business growth rather than profit. A net loss was recorded in FY 2018.**
- **In FY 2019, posted an operating profit and recurring profit in a turnaround thanks to the large sales growth. In FY 2020, profit and sales grew again, net profit was posted in a turnaround with no longer any extraordinary loss, and dividend was resumed.**

Profit

Regarding profit, the Company had sustained profitability both on a nonconsolidated and consolidated basis until 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 focus on active business restructuring and upfront investment has increased 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 (see Figures 14 and 15).

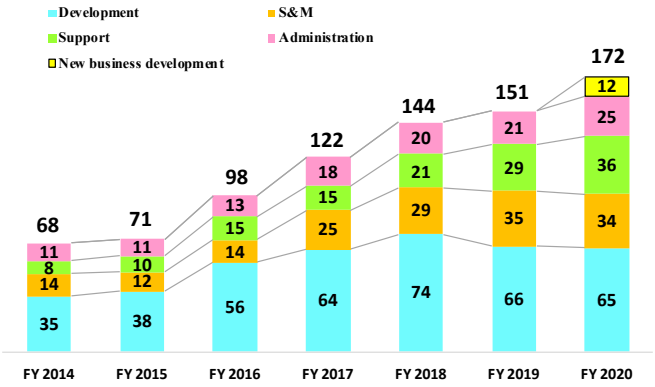
In FY 2019 (the fiscal year before the previous), thanks to the structural reform and the sales growth of the core product AD EBiS of the marketing platform business from increased average unit price, the Company posted both an operating profit and a recurring profit for the full year in a turnaround. In FY 2020 (last fiscal year), sales and profit grew for the consecutive fiscal year, carried-forward loss was eliminated, and dividend payment was resumed. Detailed results of FY 2020 will be described later (page 25).

[Figure 14] Transition in Past Financial Results and Forecast (unit: million yen, %)



(Ref) Prepared by Alpha-Win Research Dept. from the Company's financial results summary. E: Alpha-Win's forecast.
(Note) Consolidated results starting in FY 2014; nonconsolidated prior to this point.

[Figure 15] Change in the Number of Employees (unit: persons)



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

6. Market Environment

◆ Trends of Japan's Advertising Market

Total Advertising Expenditure

Total advertising expenditure in Japan in 2019 (calendar year; the same applies to this entire chapter) was about Y6.9 trillion. From a long-term perspective, the market has been flat. However, since 2012, market growth has been observed for eight years in a row, indicating that the market as a whole is on a slight upward trend (the annual growth rate, based on a simple average, was about 2.5% during this period).

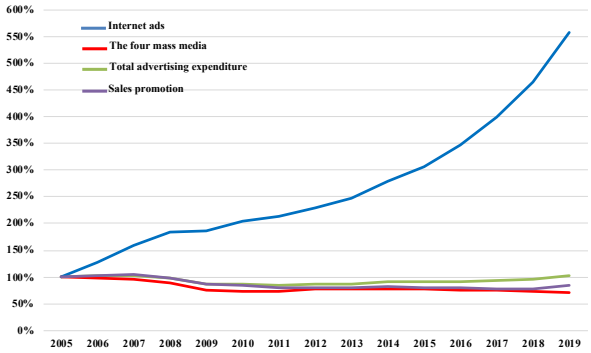
- **Internet advertising expenditure grew by about 5.6x from 2005 to 2019. The average annual growth rate (simple average) is about 13.3%. Surpassed TV advertising as the largest advertising media.**

Internet Ad Market

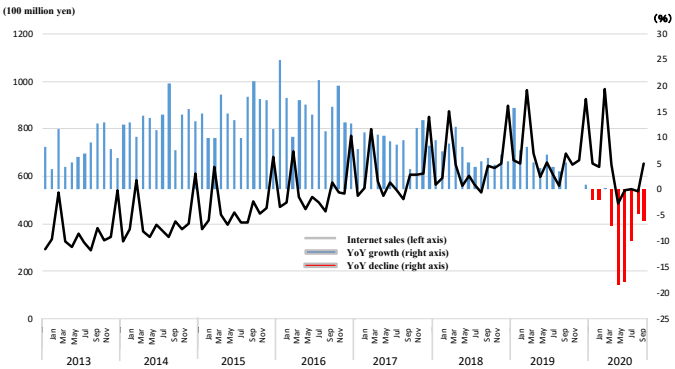
As the Internet is rapidly becoming used by more people for more purposes, Internet advertising expenditure has also rapidly increased and has been driving the growth of the entire advertising expenditure. Internet advertising expenditure had increased significantly from 2005 (point of comparison, set at 100) to 2019 by about 5.6 times (annual growth rate of about 13.3%, on a simple average). Growth has especially been great over the past five years, during which the growth rate accelerated year after year (Figure 16).

Internet advertising expenditure (sum of medium cost and production cost), which is about Y2.1 trillion (+19.7% YoY, growing at a double-digit rate for six consecutive years), accounts for about 30% of the total advertising expenditure (ref: Dentsu Inc.'s "2019 Advertising Expenditures in Japan"). Its share in the market has been steadily increasing by 1-3% every year, becoming the largest advertising medium in 2019 for the first time after surpassing the share of television (27%), which is the largest among the four mass-media advertising (newspaper, magazine, radio, and television).

[Figure 16] Change in Advertising Expenditure by Medium (index: the year 2005 has been set to 100)



[Figure 17] Change in Monthly Sales of Internet Ads



(Ref) Figure 16: prepared by Alpha-Win Research Dept. from Dentsu Inc.'s "2019 Advertising Expenditures in Japan" (published every February).
Figure 17: prepared by Alpha-Win Research Dept. from the "Survey of Selected Service Industries" by the Ministry of Economy, Trade, and Industry.

- **In the Internet advertising market, there has recently been a negative trend, but the situation is gradually starting to improve.**
- **Internet advertising is expected to grow at a double-digit rate again over the medium to long term.**

Current Situation

Although EC-related demand has increased 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, the rate of decline has recently started to improve, gradually starting to show signs of recovery (Figure 17). Since Internet usage is predicted to expand in the future with the development of technology, once the society becomes adapted to the new normal, Internet advertising expenditure will likely continue to grow again at a double-digit rate.

◆ Competitors

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

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 (total number of user accounts back then was estimated to be about 10% of the Company's) of the listed company DIGITAL HD (previously OPT), but the Company has already acquired this business and has become the top player in the market with an extremely large share (Figure 9 on page 13). Therefore, the Company no longer has a major competitor with a similar service price range and has gained a greater price advantage and greater appeal toward potential customers.

(14) 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.

(15) 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.

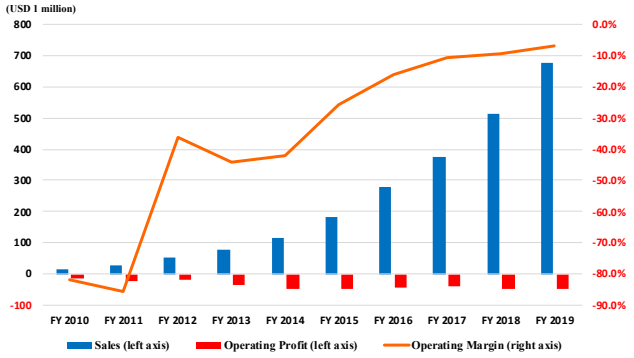
For advertising effect measurement and analysis tools, competing and similar products are Google Analytics[14] and Adobe Analytics[15] widely used by domestic SMEs (small/medium-sized enterprises) and Web Antenna (implemented by more than 600 companies, including major companies as well as ventures) 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 advantage.

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).

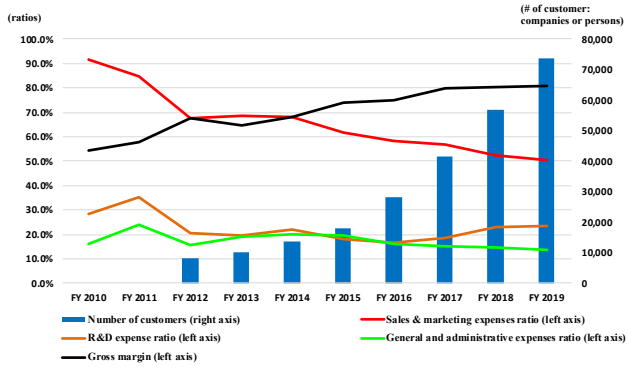
- **The Company can be compared with the US-based company HubSpot, Inc., which has rapidly grown through a similar subscription-based model.**

Also, although it is not a competitor, the US-based company HubSpot, Inc. (NYSE: HUBS) is also 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. It is a rapidly expanding company. Although it has been consecutively posting a net loss due to upfront investment costs, over the course of time, sales have been sharply increasing and profit/loss margins have been improving significantly. Since its listing in October 2014, its stock price has increased by 13x in anticipation of strong business performance (as of November 27). During this period, its stock price outperformed SP500 and NASDAQ COMPUTER INDEX by about 1,128% and 956%, respectively. The rapid growth and high reputation of the US company HUBS, who started the cloud and subscription model ahead of the Company, will be helpful in analyzing the Company's prospects.

[Figure 18] Change in HubSpot, Inc.'s Financial Results (1)



[Figure 19] Change in HubSpot, Inc.'s Financial Results (2)



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

- **Global trend of tightening regulations on personal information protection**

(16) ITP (Intelligent Tracking Prevention): A function that restricts the use of cookies after a certain time for advertisements known as targeting ads that use browser cookies.

- **With law revision, Japan also moved toward tighter personal info protection. Consent by individuals has become necessary when using cookies.**

(17) IP address: An identification number assigned to each computer or communication device connected to a network such as the Internet.

(18) Cookie: A code created on the web browser side when browsing a website. Temporarily stored and used mainly for website user identification. The website visit history and content browsing status can be identified. It is widely used in Internet marketing services such as personalized advertisement display and web-based services.

(19) Third-party cookie: A classification of cookies issued by the cookie issuer. Cookies issued by the domain (website) visited by the user (domain-specific) are first-party, and cookies issued by other third parties (domain-crossing) are third-party. First-party cookies have the advantages of being able to perform tracking and effect measurements with high accuracy and being less likely to be blocked by the user, but they place a substantial load on the website. On the other hand, third-party cookies can be issued across multiple websites but raise concerns over privacy protection and are easily blocked by users, and accurate measurement of effects of Internet ads using these cookies is becoming difficult due to restrictions.

- **As a specialized company with high technological expertise, the tighter privacy protection regulation is a business opportunity for the Company.**

◆ Impact of Strengthened Personal Information Protection on Advertising Effect Measurement

Background

In response to the strengthening of the General Data Protection Regulation (GDPR) in the European Union (EU), regulations regarding the handling of data on personal information are becoming strengthened and tightened globally from the viewpoint of privacy protection.

Details and Impact of the Tightening of Regulation Relevant to the Company

Specifically, for instance, Apple added the Intelligent Tracking Prevention[16] (hereinafter, "ITP"), a tracking prevention function, to its Safari browser (especially on iOS 14 and later versions with restrictions on using IDFA for device identification). Browser companies are increasingly moving toward limiting tracking using cookies by means such as ITP, since data such as IP addresses[17] and cookies[18] have become regarded as personal information when collecting data on user behavior on the web (currently, other browsers such as Google Chrome and Internet Explorer have not been changed or impacted).

Due to these new restrictions, advertising-related companies that conduct cross-site tracking to collect and track information across multiple domains will be negatively impacted. For instance, they may not be able to display retargeting ads (ads targeting visitors to the website) or may encounter issues in measuring advertising effects.

Response

In response to Japan's tightening of the Personal Information Protection Law, the Company began providing *CNAME Tracking*, a new measurement method for AD EBiS that does not use third party cookies[19]. By around the middle of this January, three months following its release, more than 300 companies have installed it. The Company has also announced a privacy statement and declared its commitment to users and the society to comply with and prioritize information protection and ensure reliability and safety.

Impact on the Company's Business

If the user does not consent to the collection or use of personal information, the quantity and quality of the collected data may be affected and the accuracy of effect measurement may decrease. However, since it is hard to imagine advertisement without any measurement of its effects, we expect that there will still be high demand for the measurement of advertising effects based on available data. Regulations on information protection are expected to be further tightened, increasing the demand for a highly accurate advertising effect measurement that makes consideration for user privacy. At the same time, increasingly sophisticated technological expertise is also expected to become required. Since the Company has a specialized and industry-leading technology development capability and support system, it can differentiate itself from other companies that will face difficulties in catching up with technology (there are assumed to be many companies that will not be able to effectively respond to the changes, including competitors, advertising agencies, and potential users). Therefore, the tighter regulations will raise the Company's competitive advantage and can be seen as a business opportunity for the Company.

7. Last Fiscal Year's Results and Forecast for This Fiscal Year

◆ Financial Results for FY 2020 (last fiscal year)

- **Last FY, sales and profit grew, and sales reached a record high for another consecutive year. SG&A expenses ratio significantly improved and operating profit grew by a little greater than 3x YoY.**
- **With no more extraordinary loss, a net profit was achieved in a turnaround.**

Summary

Consolidated financial results for FY 2020 (October 2019 - September 2020) were as follows: sales of Y2,618 million (+18.8% YoY), operating profit of Y276 million (+226.1% YoY), and net profit of Y184 million (net loss of Y34 million in the fiscal year before the previous). Both sales and profits had increased significantly. Sales of both platform segments increased by 18.8% YoY and overall sales reached a record high for the consecutive fiscal year. Gross margin deteriorated by 0.8 percentage point from 70.8% in the fiscal year before the previous to 70.0% in the previous fiscal year, but the ratio of SG&A expenses to sales improved significantly from 66.9% to 59.4%, improving operating margin by 6.7 percentage points from 3.9% to 10.6% (Figure 20). SG&A expenses increased by only Y46 million or +5.4% YoY, far lower than the rate of increase in sales. The Company had posted an operating profit of Y85 million in FY 2019 in a turnaround, but this year's operating profit grew significantly to about 3x that amount. In the previous fiscal year, there was no extraordinary loss such as litigation-related loss and loss on retirement of fixed assets, and a net profit was posted in a turnaround.

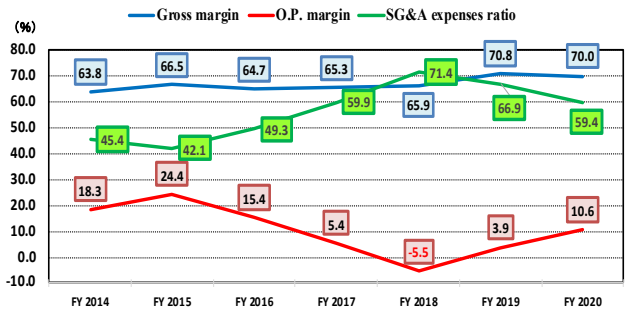
- **Sales fell short of plan. Profit and dividend exceeded the Company's forecast as well as Alpha-Win's forecast. Dividend was resumed for the 1st time in 3 years.**

Progress

The Company announced its full-year forecast at same time as its announcement of Q1 results on February 7, 2020. Compared to this forecast, sales fell short by Y82 million (-3.0%), while operating profit was Y76 million or 38.0% greater (Figure 21). Although dividend was still undetermined at that point, it announced in August that it will resume dividend payment (annual dividend of Y3.8 per share), and eventually increased it to Y4.0.

We had made a more conservative forecast for sales compared to the Company and had expected sales to be Y2,630 million, which came out to be about the same as the actual results (Y2,618 million). On the other hand, although we had expected operating profit to be Y235 million, which was greater than the Company's forecast, the actual result was higher (Y276 million). In the last three fiscal years, sales have tended to be revised downward while profit has tended to be revised upward compared to the Company's forecast.

[Figure 20] Transition in Margins and Ratios
(unit: %)



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

[Figure 21] Transition in Results over the Past Six Fiscal Years and Comparison with Forecast

		Sales	O.P.	R.P.	N.P.
FY	Date of forecast announcement	(Amount or %)			
FY 2015	11/10/2014	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	5/12/2016	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	5/9/2017	1,650 to 1,700	10 to100	-	-
	Actual result (million yen)	1,719	92	106	72
	Difference (%)	1.1 to 4.2	-8.0 to 820.0	-	-
	Difference (million yen)	19 to 69	-8.0 to 820.0	-	-
FY 2018	2/6/2018	1,800	-150	-	-
	Actual result (million yen)	1,804	-98	-115	-88
	Difference (%)	0.2			
	Difference (million yen)	4	52		
FY 2019	5/8/2019	2,250 to 2,350	0 to 50	-	-
	Actual result (million yen)	2,204	85	79	-35
	Difference (%)	-6.2 to -2.0	∞ to 70.0		
	Difference (million yen)	-146.0 to -46.0	35 to 85		
FY 2020	Initial forecast: 2/7/2020	3,000→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

Result by Segment: Marketing Platform

By business segment, sales of the marketing platform business segment increased by Y367 million from Y1,951 million in the fiscal year before the previous to Y2,317 million in the previous fiscal year. This increase accounts for 89% of the Company's total sales growth. Operating profit increased by Y152 million from Y46 million to Y198 million, accounting for 79% of the total increase in profit (Figure 22).

[Figure 22] Transition in Financial Results by Segment

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	
(Unit: million yen, %)	Amount/%	Amount/%	Amount/%	Amount/%	Amount/%	Amount/%	Amount/%	% Change / Diff.
Total Sales	1,360	1,437	1,613	1,719	1,805	2,204	2,619	18.8%
Marketing Platform	883	911	1,074	1,255	1,530	1,951	2,318	18.8%
EC Platform	477	526	539	465	274	253	301	18.8%
Gross Profit	867	956	1,044	1,123	1,190	1,561	1,832	17.4%
Gross Margin	63.8%	66.5%	64.7%	65.3%	65.9%	70.8%	70.0%	*-0.8%*
SG&A Expenses	618	606	796	1,030	1,289	1,476	1,555	5.4%
SG&A Expenses Ratio	45.4%	42.1%	49.3%	59.9%	71.4%	66.9%	59.4%	*-7.6%*
Operating Profit (segment)	249	350	248	93	-98	85	277	-
Marketing Platform	142	214	210	153	-121	46	199	331.1%
EC Platform	107	136	38	-60	22	39	78	101.6%
Operating Margin	18.3%	24.4%	15.4%	5.4%	-5.5%	3.9%	10.6%	*6.7%*
Marketing Platform	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	*6.2%*
EC Platform	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	*10.7%*
Recurring Profit	234	352	250	106	-115	79	261	230.5%
Net profit	138	231	169	73	-89	-35	183	To profit

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

Operating margin of this business segment also improved from 2.4% to 8.6% thanks to its highly profitable, core business AD EBiS (& ADPLAN; the same applies below).

The annual average for the number of accounts of AD EBiS decreased slightly partly due to the impact of COVID-19 (annual average ≒ average of the number at the end of each quarter; decreased from 1,486 → 1,475; note that the number of accounts at the end of the fiscal year has increased from 1,425 → 1,451).

However, sales increased thanks to a large increase in AD EBiS's average unit price (in the same order as above, the annual average price increased by Y22,112 or 22.4% from Y98,517→ Y120,629) (Figures 7 and 8 on page 12 and Figure 27 on page 30). The ADPLAN business, which had been acquired in January 2020 through a business transfer, also contributed to the increase in both the number of accounts and the average unit price after Q2 through the transfer of accounts.

Result by Segment: EC Platform

On the other hand, in the EC platform business segment, monthly sales fluctuated due to a time lag in recording sales caused by delays in the renewal of a part of the contracts and other factors.

However, for the full fiscal year, sales of this business segment increased by Y47 million from Y253 million in the fiscal year before the previous to Y301 million in the previous fiscal year. Consequently, operating profit also doubled from Y39 million to Y78 million. The EC market boom due to the increased stay-at-home consumption caused by the COVID-19 crisis had led to this significant increase in sales and profit. The segment's operating margin also improved by 10.7 percentage points from 15.4% to 26.1% (Figure 22).

- **Sales fell short of plan because COVID-19 caused stagnation of sales activities and cancellation by especially impacted customers.**

Difference from Forecasted Sales

The difference between the Company's full-year sales forecast and actual sales (the factor that caused sales to fall short by Y82 million) was mainly due to the impact of COVID-19 on the marketing platform business segment, especially the delays in expanding sales for the Professional service and in starting the new services as well as the sluggish progress with the number of accounts of AD EBiS. Regarding AD EBIS (including ADPLAN), the number of contracts ended up being lower than expected despite having gained more new corporate customers in EC-related or other non-face-to-face businesses, most likely because of the suspension of service or cancellation of contracts by users in industries such as restaurants and travel that were especially impacted by the COVID-19 crisis.

- **Profit was revised up because of the solid performance of the EC-related business and because costs were reduced or held down.**

Difference in Profit

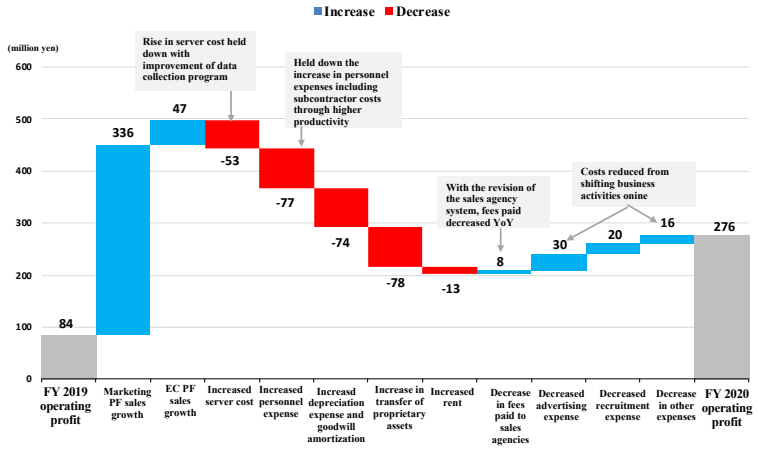
Sales of the EC platform business segment, which has a high gross margin, were solid and higher than expected. In the marketing platform business segment, the data processing program was renewed, which helped significantly reduce server management costs. Furthermore, by shifting business activities online in general, SG&A expenses (business trip expenses, advertising expenses, etc.) were reduced. As a result, profit ended up being higher than it had been forecasted.

- **Sales growth and cost reduction were the main factors that contributed to the profit growth.**

Factors Contributing to Increase/Decrease in Profit

The factors that caused an increase/decrease in the overall operating profit are summarized in Figure 23. For the increase in profit, the sales growth was the largest factor. Also, in addition to the above-mentioned reduction in costs, revision of the sales agency fee system, measures to reduce and hold down various costs including recruitment costs, and improvement in productivity had also contributed to the increase in profit and compensated for the increase in personnel costs, depreciation and goodwill amortization, and server management costs.

[Figure 23] Factors that Affected Operating Profit in FY 2020 (unit: million yen)



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

- **In each quarter of last FY, the Company posted net profit and increased profit YoY as well as QoQ.**

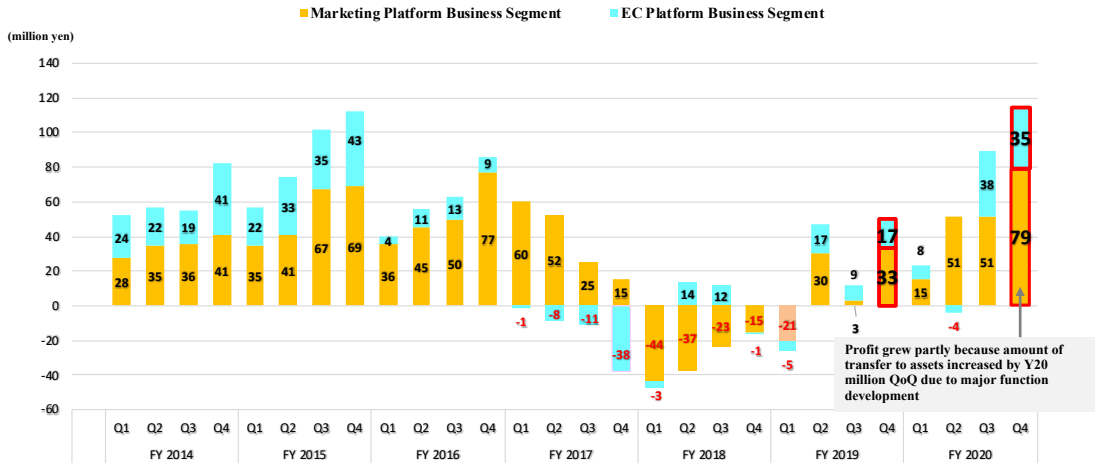
Quarterly Transition in Results

Looking at the quarterly change in operating profit, we can see that the Company was able to secure a profit in all quarters of the previous fiscal year. Profit increased year-over-year as well as quarter-on-quarter.

- **Through business restructuring and shift to the fixed-payment 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 a loss for six consecutive quarters. In Q2 of FY 2019, the Company posted a profit in a turnaround, and has stayed profitable for seven consecutive quarters as well as maintaining a profit growth trend since then (Figure 24). This rapid 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 its business model, the recovery of the EC-CUBE due to various measures to bolster this business, and cost control.

[Figure 24] Quarterly Transition in Operating Profit



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

- **Free cash flow had tended to be negative but turned slightly positive in the second half of the previous FY.**

- **Shares of EC-CUBE Co., Ltd. that the Company currently owns are estimated to be worth Y1.4 billion. Also with Y1.1 billion in cash and deposits, the Company has an ample cash reserve.**

Semi-Annual Transition in Cash Flow

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 the previous fiscal year (Figure 25). One of the Company's challenges had been to turn FCF positive, but this was achieved in the second half of the previous fiscal year thanks to the improvement in earning power and the completion of investments. For the Company, about 300-500 million yen in cash would be enough as a normal working capital, but it currently has Y1.1 billion in cash and deposits. Therefore, for the time being, even if funding becomes required for M&As, etc., the Company intends to work with cash on hand and bank loans rather than equity finance.

Furthermore, when calculated simply based on the price at which the shares of EC-CUBE Co., Ltd. will be sold to Orico (10% to be sold for Y155 million, at a market value that is about 5.2 times greater than this subsidiary's sales), the shares of the subsidiary EC-CUBE Co., Ltd. that the Company will own (90%) are estimated to be worth Y1.4 billion in market value. These shares can be considered as a substantial asset reserve for the Company.

[Figure 25] Semi-Annual Transition in Cash Flow

Unit: million yen	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019		FY 2020	
	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
Investing CF ②	-5	-27	-80	-69	-88	-106	-94	-118	-368	-158	-409	-101
Financing CF	-3	0	-16	3	-31	-0	169	542	162	-262	391	-56
FCF(①+②)	9	121	-32	24	33	-83	-88	-110	-269	-50	-317	328
Cash and Deposits (on B/S)	666	787	738	762	764	681	760	1,194	924	774	847	1,119

(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 2021 (this fiscal year)

- **This FY's forecast was not disclosed due to the unpredictability of the impact of the COVID-19 crisis. However, it is most likely expecting sales/profit growth and is planning a dividend hike.**

Due to the difficulty in making a rational prediction of the impact of COVID-19, and since there are many uncertainties, the Company has decided to not disclose a Q2 forecast or a full-year forecast for FY 2021. Its goal for dividend on equity (DOE), though, is 2% for this fiscal year, and it also plans to increase annual dividend per share by Y0.5 to Y4.5 during the year.

However, since the Company has defined FY 2021 as part of its current profit expansion phase and is planning to increase dividend at a fixed DOE of 2%, it is most likely expecting growth in both sales and profit. Major business structure reforms and upfront investment have already peaked out, so the Company now plans to ambitiously expand its platform business, including the advertising agency platform and platform businesses in new areas of business, with its current AD EBiS and EC-CUBE businesses as the core businesses.

The Company has generally announced its forecast for sales and operating profit at same time as the announcement of Q1 results in February or the interim results in May (Figure 21 on page 25). This trend is also expected this fiscal year; we believe that specific forecast figures will be announced at the announcement of Q1 results scheduled for February 5, 2021, or at the announcement of Q2 results scheduled for May 7, 2021, at the latest.

- **Currently, monthly sales are continuing to show a positive trend.**

Current Situation

The impact of the COVID-19 crisis has stayed limited because demand for non-face-to-face businesses such as EC has been firm due to increased stay-at-home consumption, the Company is mostly based on a subscription-based business model, and its business operations are highly compatible with remote work.

Sales in October, the first month of this fiscal year, show that a high year-over-year growth rate is being maintained for both business segments. There does not seem to be any signs of a slowdown (Figure 26).

However, we should closely watch the sales of the marketing platform (compared to the same period of the previous fiscal year) after January 2021, when the sales-increasing effect of the ADPLAN acquisition will diminish.

[Figure 26] Recent Monthly Transition in Sales (flash report)

(upper row: sales, unit = thousand yen)
(lower row: YoY change, unit = %)

	2019			2020									2020
10/2019 - 10/2020 Monthly Sales	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Marketing Platform	167,418	173,197	183,085	200,850	197,252	200,976	198,072	197,817	198,330	197,871	201,505	201,488	203,942
	112.2	115.1	114.1	126.9	118.8	117.3	117.2	119.5	121.7	120.7	121.7	119.6	121.8
EC Platform	26,164	17,602	18,019	26,041	16,126	8,450	18,569	14,856	57,689	43,474	25,477	28,236	35,699
	119.8	94.2	95.2	103.9	82.9	38.4	79.1	85.6	322.6	143.8	131.7	148.5	136.4
Entire Company	193,583	190,799	201,105	226,891	213,378	209,427	216,642	212,673	256,019	241,345	226,983	229,725	239,641
	113.2	112.8	112.1	123.7	115.1	108.3	112.6	116.3	141.6	124.3	122.8	122.5	123.8

(Ref) Prepared by Alpha-Win Research Dept. from the news release on the Company's website.
(Note) The values shown are preliminary data before auditing by an auditor and may be revised in the future.

◆ Alpha-Win Research Dept.'s Financial Forecast for FY 2021 (this fiscal year)

- **For this FY's forecast, we did not make changes to our previous forecast. Expecting sales/profit growth and dividend hike.**

Based on last fiscal year's results and interview with the Company, we made a revision to this fiscal year's forecast.

We did not change our forecast for FY 2021 from our previous forecast (the report published on August 12, 2020), including the forecast for sales, profit, and dividend. Our forecast for this fiscal year is that sales will be Y3,010 million (+15.0% YoY), operating profit will be Y300 million (+8.7% YoY), recurring profit will be Y290 million (+11.1% YoY), net profit will be Y200 million (+9.3% YoY), and dividend will be Y4.50. However, by segment, while we raised the sales forecast for the currently solid EC platform business segment, we lowered the forecasted sales for the marketing platform business segment, especially for AD-EBiS whose growth in the number of accounts is somewhat sluggish.

[Figure 27] Alpha-Win Research Dept.'s Forecast for This Fiscal Year and Over the Medium Term

(million yen)	FY 2018 A	FY 2019 A	FY 2020 CE	FY 2020 E	FY 2020 A	FY 2021 CE	FY 2021 E	FY 2022 E	FY 2023 E
Sales	1,805	2,204	2,700	2,650	2,618		3,010	3,390	3,860
Marketing PF	1,530	1,951		2,400	2,318		2,630	2,940	3,310
EC PF	274	253		250	301		380	450	550
Gross Profit	1,190	1,561		1,830	1,832		2,100	2,380	2,750
Gross Margin	65.9%	70.8%		69.1%	70.0%		69.8%	70.2%	71.2%
SG&A Expenses	1,289	1,476		1,630	1,555		1,800	2,000	2,270
Ratio to sales	71.4%	66.9%		61.5%	59.4%	Not disclosed	59.8%	59.0%	58.8%
Operating Profit	-98	85	200	200	276		300	380	480
Ratio to sales	-5.5%	3.9%	7.4%	7.5%	10.5%		10.0%	11.2%	12.4%
Recurring Profit	-115	79	190	190	261		290	370	470
Ratio to sales	-6.4%	3.6%	7.0%	7.2%	10.0%		9.6%	10.9%	12.2%
Net Profit	-89	-35	130	130	183		200	255	320
Ratio to sales	-4.9%	-1.6%	4.8%	4.9%	7.0%		6.6%	7.5%	8.3%
KPI	Annual Average (A)	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		1,500	1,475		1,490	1,520	1,550
% change for the above		0.7%		0.9%	-0.7%		1.0%	2.0%	2.0%
AD EBiS: average unit price (yen)	78,938	98,517		125,000	120,629		137,000	150,000	165,000
% change for the above		24.8%		26.9%	22.4%		13.6%	9.5%	10.0%
Sales (YoY growth rate)	5.0%	22.1%		20.2%	18.8%		15.0%	12.6%	13.9%
Marketing PF	21.9%	27.5%		23.0%	18.8%		13.5%	11.8%	12.6%
EC PF	-41.1%	-7.6%		-1.3%	18.8%		26.3%	18.4%	22.2%
Gross Margin (diff. from last FY)	-0.3%	4.9%		-1.7%	-0.8%		-0.2%	0.4%	1.0%
SG&A Expense (growth rate)	25.1%	14.5%		10.5%	5.4%		15.8%	11.1%	13.5%
Operating Profit (growth rate)	To loss	To profit		135.5%	225.0%		8.7%	26.7%	26.3%
Recurring Profit (growth rate)	To loss	To profit		140.4%	230.3%		11.1%	27.6%	27.0%
Net Profit (growth rate)	To loss	Smaller loss		To profit	To profit		9.3%	27.5%	25.5%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) CE: the Company's forecast/estimate. E: Alpha-Win's forecast/estimate. A: actual results. Estimates for AD EBiS's average unit price and number of active accounts are annual averages (average of the numbers at the end of each quarter). The same applies to their actual results. ADPLAN is included in AD EBiS.

The assumptions used in our forecast are the following:

- **We are expecting positive results from the major update to AD EBiS. AD EBiS's sales are predicted to grow by 15% from the increase in unit price and slight increase in the number of accounts.**

Sales

・For the number of accounts of AD EBiS, there does not seem to be a clear trend of a net increase, so contract cancellation by users negatively affected by COVID-19 will most likely offset the new contracts made with users positively affected by COVID-19. However, starting in January 2021, the sequential major update to AD EBiS is expected to gradually augment the product appeal. In addition, the Company plans to shift from its past policy to prioritize price (acquiring customers with a high unit price) to a policy of focusing on increasing the number of accounts including users in the low price range. Taking these factors into account, we estimated that the average

- **We expect AD EBIS's sales growth rate (including ADPLAN) to be 15% for this FY, assuming that unit price will rise by 13% and the number of accounts will increase by 1%.**

number of accounts for the fiscal year will slightly increase by about 1% compared to the previous fiscal year. On the other hand, since the update and its enhancement and addition of functions are expected to lead to upselling and cross-selling, we expect the annual average unit price to increase by about 13%. As a result, the total sales of AD EBiS + ADPLAN are expected to increase by 15% YoY to Y2,450 million.

・For businesses other than AD EBiS in the marketing platform business segment, sales of the current AdRepo business are expected to increase by about 10% YoY while the sales of the Professional Service and other are expected to be about the same as the previous fiscal year. Combined sales of the new services, Ad-Knowledge and the Advertising Agency Referral Service, are expected to be grow by about Y50 million (in the previous fiscal year, these businesses had just been started and their combined sales were estimated to be Y5-10 million). M&As and acquisitions other than those that have been already completed and are making a full contribution to sales growth have generally not been reflected in our sales forecast. Similarly, we did not take into account the potential increase in sales due to future M&As.

・Sales of the marketing platform business segment is expected to increase by approximately 13.5% to Y2,630 million, having considered the decrease in sales due to business withdrawal and various risks.

- **We expect the EC platform's sales to grow by 25%.**

・On the other hand, in the EC platform business segment, sales of EC-CUBE are expected to increase by about 25% to Y380 million. This reflects the EC market boom due to increased stay-at-home consumption caused by the COVID-19 crisis and the positive effects of the alliance with Orico.

- **For profit margin, we expect it to stay about the same YoY.**

Profit

・Gross margin is assumed to stay about the same (70.0% in the previous fiscal year → 69.8% for this fiscal year) due to temporary costs such as development costs and server costs (costs associated with switching).

・Concerning SG&A expenses for this fiscal year, we expect to see full, positive effects from the revision to the sales agency fee system that was conducted in the previous fiscal year. However, due to upfront investment such as R&D and addition of employees (a net increase of 20 employees is planned), as well as the increase in amortization of software and goodwill and the increase in various costs following the acquisition of business, we expect SG&A expenses to increase by about 15.8%. As a result, the ratio of SG&A expenses to sales is predicted to stay about the same, from 59.4% in the previous fiscal year to 59.8% in the current fiscal year.

・We made a somewhat conservative estimate of the operating margin: approx. 10%, which is about the same level as last fiscal year's 10.6%.
・Non-operating profit/loss and extraordinary/loss were not included.
・In this fiscal year onward, various uncertainties may impact the Company's financial results. These include the impact of COVID-19 on its current businesses (especially AD EBiS's unit price and number of accounts), sales trend of its new businesses, and whether M&As and business acquisitions will be conducted (and their effect on sales and profit, various associated costs, and timing).

8. Growth Strategy

◆ Previous Medium-Term Business Plan/Strategy and Its Results

- **Last medium-term business plan's goal for sales had not been achieved but the goal to build a solid growth foundation in Japan has been achieved.**

In the previous medium-term business plan, whose final year was FY 2020, the sales target was Y3 billion (later revised to Y2.7 billion), but actual sales fell short and were just over Y2.6 billion.

However, regarding its goal to "build a foundation for growth in Japan," it was able to achieve sufficient results; it established an extremely strong market position through its acquisition of the market's second largest service ADPLAN from DIGITAL HD Group, revised its sales agency system, and released Ad-Knowledge. On the other hand, challenges remain with the development of business in peripheral areas (Professional Service) and development of effect measurement products to lead the market as regulations on the protection of personal information become tightened.

In addition, the Company has set medium/long-term targets related to the cost structure of its main marketing platform segment, and has aimed to control the ratio of each category of cost to sales (Figure 28). In general, the target ranges have been achieved, excluding the ratio for new business development costs and the resulting operating margin. Excluding new business development, which was not initially included as a cost category, the operating margin comes out to be 15%, which is within the target range of 10 to 20%. Therefore, the structural reforms seem to have helped improve the Company's profit management as well.

Due to the difficult recruitment situation, the Company could not make progress with its HR strategy as it had planned, but it was able to increase of the net number of employees by 74 over the past four years (98 in FY 2016 → 172 in FY 2020; simple average of 18.5 employees per year). Also, it was able to improve the efficiency of its current businesses and shift more employees to work on new business development (Figure 15 on page 21).

- **In recent years, profit margins significantly improved thanks to the change in the cost structure. The target operating margin seems to be within an achievable range.**

According to its medium/long-term business model for the marketing platform business segment, the Company plans to increase sales and lower each of the expenses for this business relative to this sales increase so that the operating margin of this segment can be raised from the current 8% to its goal of 10-20%. Since this level of operating magin has been achieved in the past, it seems to be an achievable goal. The lower end of the target range – an operating margin of 10% – may become achieved during the current or next fiscal year depending on cost control (Figure 20 on page 25).

[Figure 28] Cost Structure of the Marketing Platform Business Segment

Marketing PF's Expense-to-Sales Ratio	FY 2017	FY 2018	FY 2019	FY 2020	Medium/Long-Term Targets
Marketing and Sales	28%	UP 33%	26%	23%	25-30%
Development	24%	UP 36%	29% *2	29%	25-30%
Customer Sucess (former "support")	11%	11%	UP 17%	15%	10-15%
New Business Development	–	-	-	UP 7%	5%
Other Indirect Expenses	25%	28% *1	26%	18%	15-20%
Operating Profit	**12%**	**-8%**	**2%**	**8%**	**10-20%**

*1 Due to increased allocation of common expenses to the segment following the sales decline of the EC platform caused by business restructuring
*2 Due to the transfer of operation staff from Development to Customer Success
UP: Ratio increased due to strengthening of category

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

◆ New Medium-Term Business Plan and Strategy

- **Announced a new medium-term business plan: overseas development temporarily stopped due to COVID-19 and will focus on the domestic market.**

Upon starting a new fiscal year, the Company announced a new medium-term business policy, "VISION 2023," for the three fiscal years from FY 2021 to FY 2023.

The Company had previously developed its business along president Iwata's long-term business plan as described by his words, "By creating completely new products in the field of Internet marketing that can be differentiated from other companies, we hope to gain an extremely large market share in Japan, and then develop our business globally to become a company with a strong presence." However, due to the COVID-19 crisis, overseas development was temporarily stopped, and the Company has shifted its plan toward focusing its resources on developing business in the domestic market.

- **In Japan, targeting the DX market.**

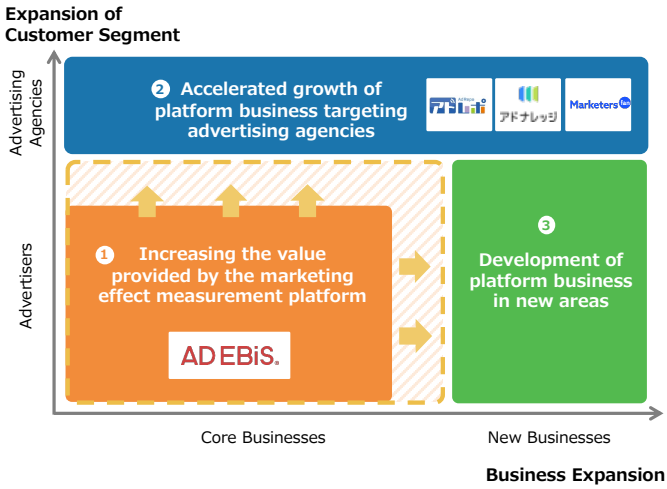
Seeing the digital transformation (DX) trend accelerated by the COVID-19 crisis as a business opportunity, the Company plans to contribute to the DX of its customers through data integration, analysis, and utilization support and focus on expanding its business in sectors of the domestic market that are moving toward DX.

Going forward, the Company plans to further enhance marketing support through data and technology as well as shifting its business from its previous focus on data measurement (recording the results of marketing) to data integration and analysis (visualization of marketing results) and utilization of data (improving the results of marketing activities).

- **Will expand business through the MXP strategy**

Toward this purpose, the Company set out a new policy: the MXP (Marketing Transformation Platform) strategy. It plans to expand its business in the three areas described below (Figure 29).

[Figure 29] MXP Strategy



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

- **Will develop new customers among large and small/medium-sized companies for the effect measurement business.**

① Increasing the value provided by the marketing effect measurement platform: work on increasing the value of the core businesses and contributing to DX by selling measurement sensors to large corporations (sales of accumulated data), providing OEM services (has experience with this business through its partner DIGITAL HD), and providing a

comprehensive marketing support package (combining the necessary functions with value-added information/services) to SMBs (small/medium-sized businesses).

- **Will expand the business targeting advertising agencies.**

② Accelerating the growth of the platform business for advertising agencies: contribute to DX through its advertising agency business by integrating its products for advertising agencies and providing support to advertising agencies from lead acquisition (collecting information on prospective customers) to improving operation efficiency.

③ Developing platform businesses in new areas: expand into new areas of business using the data and knowledge accumulated through the core businesses and develop services for improving marketing results (currently in the R&D phase).

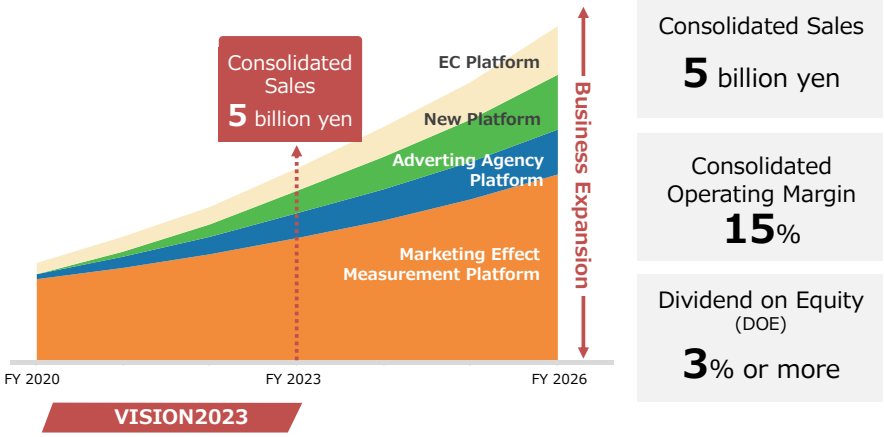
- **The president himself will lead the development of the business in new areas.**

Employees of the Company are already making progress with ① and ②, and president Iwata himself intends to work on③, the development of business in new areas. For further growth, the Company plans to evolve and expand with the current AD EBiS and EC-CUBE businesses as its core businesses, as well as actively expanding its business by creating platform businesses for advertising agencies and in new areas.

- **Goals for FY 2023 or the final year of the new medium-term plan: sales of Y5 billion, operating margin of 15%, and DOE of 3% or greater.**

In FY 2023, the final year of the new medium-term plan, the Company plans to achieve the following target values: sales of Y5 billion, operating margin of 15% (equivalent to about Y750 million), and dividend on equity ratio (DOE) of 3% or more. Compared to the results of FY 2020, sales will need to grow at an annual rate of about 24% and operating profit will need to annually grow by 40% to achieve the target values.

[Figure 30] Goals of the New Medium-Term Business Plan



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

- **We updated our forecast for financial results over the medium term. We kept our forecast for next FY the same as before; we predict sales, profit, and dividend to increase. Expecting double-digit profit growth next FY as well as the year after that.**

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

Forecast for Next Fiscal Year (FY 2022)

We have made no major changes to our basic view of the medium-term financial forecast for next fiscal year onward that was prepared in our previous report. Although we revised the sales of the marketing platform and

the EC platform, as with this fiscal year's forecast, we kept the forecast for the next fiscal year (FY 2022) the same as our previous forecast. We also made a new forecast for the fiscal year after the next or FY 2023.

Although the impact of COVID-19 will probably remain, we expect it to become relaxed, enabling the economic environment to improve. Therefore, we predict that sales and profits will both increase in the next fiscal year (FY 2022); sales are expected to be Y3,390 million (+12.6% YoY), operating profit is expected to be Y380 million (+26.7% YoY), and net profit is predicted to reach Y255 million (+27.5% YoY).

This forecast takes into account the increase in the unit price and number of active accounts of AD EBiS due to full contribution by the major update, the increase in sales and profit of the EC-CUBE business, and the growth of the new businesses including Ad-Knowledge and the advertising agency platform, as well as the improvement in costs such as server management costs.

Although the Company may possibly conduct a few new business acquisitions each year, this possibility has not been reflected in our current forecast. Also, although we kept our previous forecast that the profit growth will raise dividend to Y5.3 per year, dividend may be increased even more as DOE increases and profit is revised up.

- **The Company's target values for FY 2023, the final year of the new medium-term plan, seem ambitious and may not be easy to achieve.**

Financial Forecast for the Fiscal Year After the Next (FY 2023)

Assuming that the economy will normalize in the fiscal year after the next (FY 2023), we predict that sales will grow and costs will improve for both platform business segments. Consequently, we predict that sales and profit will grow consecutively, resulting in sales of Y3,860 million (+13.9% YoY), operating profit of Y480 million (+26.3% YoY), and net profit of Y320 million (+25.5% YoY).

FY 2023 is the final year of the Company's new medium-term plan and the Company has set goals of Y5 billion for sales, 15% for operating margin (equivalent to Y750 million), and 3% or more for dividend on equity (DOE). These are ambitious goals, and the Company will need to expand business in new areas and through M&As in order to achieve them.

- **Consecutive dividend hike expected, but considering the dividend payout ratio, an even further dividend hike is quite possible too.**

Concerning dividend, the Company is aiming for a DOE of 3% or more in the fiscal year after the next, which is more than 1.5 times greater than the current fiscal year's planned DOE. Therefore, we expect a consecutive dividend hike from the current fiscal year to the fiscal year after the next, resulting in Y9.3 per share. However, according to our estimate, dividend yield is expected to only be 0.3% and dividend payout ratio is predicted to only be 13.1%, so that there will be a relatively high likelihood of even more dividend hikes compared to the market average.

- **We expect sales growth of about 10-20% per year over the medium term.**

Going forward, the growth potential of the marketing platform business, which is based on Ad tech tools and expertise, is expected to be large due to DX and the expansion of the marketing effect measurement market. Similarly, EC platform also has a large growth potential due to the expansion of the EC market. Therefore, over the medium to long term, sales are expected to grow by about 10-20% per year.

In terms of profit and loss, we expect the Company to see positive results from the upfront investment, business restructuring, and cost structure reform,

- **Business model with a high marginal profit ratio. Over the medium to long term, we expect profit to grow at a rate of 20-30% per year (normalized basis), which is greater than the sales growth rate.**

leading to sales growth and consequently a large profit growth rate since its business has a high marginal profit ratio (estimated to be 70%). We expect an annual profit growth rate (on a normalized basis) of about 20-30%, which is greater than the sales growth rate.

- **We expect financial results to be affected by whether the Company will succeed in M&As and the new businesses.**

Although the business restructuring has been mostly 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 peripheral fields. 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 affected over the medium to long term by whether it will succeed in these initiatives.

In addition, since financial performance will be influenced by the Company's 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. Therefore, we made a somewhat conservative financial forecast.

- **We believe that the Company may achieve a new record-high profit over the medium term.**

So far, the Company has been steadily expanding its business in line with its plan. Over the medium term (about three to five years), record-high profit may possibly be achieved (the current record highs were achieved in FY 2015: operating profit of Y350 million and net profit of Y230 million).

- **The Company's growth potential will depend on whether it can comprehensively expand its business in the data marketing domain.**

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 Internet 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.

9. Analyst's View

◆ SWOT Analysis

The Company's SWOT analysis result is shown on Figure 31 (below is supplementally information).

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

The Company's main strengths are its president's management skill and expertise with leading technologies in 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 and COVID-19**

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

[Figure 31] SWOT Analysis

Strength	・The president's expertise in leading technologies of the market and his management skill ・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 ・Know-how and big data accumulated since foundation and their potential to be used ・Enhanced working environment; talents with specialized, leading-edge technological expertise; accumulation of know-how (competitive advantage 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 ・Employee shortage (engineers and sales reps) ・Funding power (cash reserves for upfront investment and M&As)
Opportunity	・Business opportunities with the expanding EC market ・Internet ad marketing market's growth potential and potential for accelerated growth of current products ・Business expansion 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.) ・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.

◆ Shareholder Returns

In the second fiscal year after becoming listed (FY 2015), the Company's dividend was Y4.5 per share. Dividend was then increased by Y0.5 in FY 2016 to Y5.0 per share per year. In FY 2017, dividend was paid for the third year in a row, again at Y5.0 yen per share (Figure 32 on page 38). However, in FY 2018 and FY 2019, no dividend was paid since a net loss had been posted consecutively for those years, and the Company also abolished the shareholder benefit program.

- **Had paid no dividend during a period in the past due to worsened financial performance. Held down the outflow of cash and instead used resources on investments for future growth.**

The Company had decided to continue with no payment of dividend in order to recover its financial performance and increase shareholder value by focusing on investments for future growth, rather than letting its cash flow out through dividend and benefit programs.

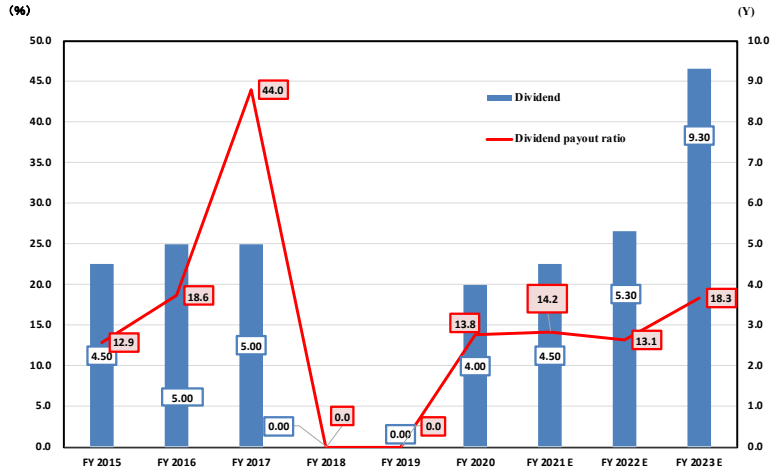
- **Dividend was resumed last FY thanks to the structural reform. Going forward, it plans to pay dividend based on the level of DOE. The increase in profit and DOE is expected to lead to dividend hikes.**

However, 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 Y3.8 was first announced during the fiscal year, and then was increased to Y4) (Figure 32). In addition, it announced its new policy to aim for a DOE of 2% this fiscal year and 3% or more in FY 2023. This was positive news, since the new policy implies that dividend will be increased automatically with the increase in profit. Although the Company is currently in its growth stage, it intends to return profit to shareholders while continuing with its upfront investments and also increase shareholder value by achieving growth in financial performance.

- **Stock splits and share buybacks may also be possible in the future.**

Over the medium to long term, we believe that dividend will continue to be increased with the increase in profit and DOE. In the future, depending on the stock price, the Company may conduct stock splits, share buybacks, and other measures to enhance return to shareholders.

[Figure 32] Change in Dividend and Dividend Payout Ratio



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. E: Alpha-Win's forecast/estimate.

(20) 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.

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

The Company's stock is a small-cap, AdTech[20]-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).

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

- **Stock price significantly outperforming TOPIX and TSE Mothers Index since the beginning of this year, reflecting positive financial results.**

Since the beginning of this year, stock price has increased by 47%, outperforming both the TOPIX and the TSE Mothers Index by 45% and 10%, respectively (as of November 30, 2020). This rise most likely reflects the Company's announcement of positive results during the previous fiscal year, such as increased sales, upward revision to profit, and resumed payment of dividend, despite the difficult economic situation caused by the COVID-19

crisis. It may also reflect the high anticipation for profit growth over the medium term.

(21) 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.

(22) Ad-Tech market players: companies that plan, develop, propose, and sell products, services, and technologies related to AdTech

- **According to valuation, its current stock price does not seem cheap. Anticipation of future high growth may be partly reflected.**

In Japan, there are no listed companies in the AdTech industry with a subscription model similar to the Company. In the US, HubSpot described on page 23 can be seen as a similar company (market capitalization of USD18.2 billion, actual P/S[21] of 27, and actual P/B of 26). As reference, though, we compared the size, business contents, and valuations of 24 AdTech market players[22] that are listed on the market (listed companies with AdTech-related business partly similar to the Company) and five companies (page 16) that competes with the Company in the EC platform business (packaged software for development of EC store websites, etc.) (Figure 33).

In this comparison, there is a large disparity between the companies and therefore the average values are not very meaningful. However, as far as P/E, P/B, P/S, and dividend yield are concerned, the Company's valuation is about average and does not seem particularly expensive or cheap.

Similarly, compared to the average of the companies listed on the First Section of the TSE (current fiscal year: forecasted P/E of 27.1, actual P/B of 1.3, and forecasted weighted average dividend yield of 2.0%), all indicators show that valuation is expensive. This is perhaps because of the anticipation of high profit growth as an IT-related and especially AdTech-related, mid/small-cap growth stock which is being partially reflected in the stock price as a premium.

[Figure 33] 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		Unit: million yen			%	Ratio			%	Closing Price (11/30)
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	7,708	20,200	700	3.5	0.38	17.77	1.79	-	495
2389	DIGITAL HD	Internet ad agency / ad measurement tool	TSE1	44,468	UD	UD	-	-	-	1.33	-	1,867
2461	F@N Communications	Affiliate (pay-per-performance) ad	TSE1	33,541	29,200	2,700	9.2	1.15	16.96	1.59	4.36	436
2491	ValueCommerce	Affiliate (pay-per-performance) ad	TSE1	119,959	30,000	5,500	18.3	4.00	31.22	8.36	0.98	3,480
3134	Hamee	Mobile accessories / EC cloud support	TSE1	28,582	12,832	1,778	13.9	2.23	22.08	5.74	0.45	1,763
3655	BrainPad	Internet marketing / data analysis	TSE1	31,778	6,950	400	5.8	4.57	113.49	7.66	0.00	4,275
3688	CARTA HD	Ad platform	TSE1	32,447	22,000	3,250	14.8	1.47	19.51	1.34	1.26	1,274
3690	YRGLM Inc.	Internet ad measurement tool	TM	11,725	3,010	300	10.0	3.90	58.08	9.10	0.24	1,840
3853	Asteria	Packaged software	TSE1	19,153	ND	ND	-	-	-	3.67	-	1,095
3923	RAKUS	Cloud service / Email delivery / IT engineer dispatching	TM	441,623	15,119	3,604	23.8	29.21	162.36	71.23	0.07	2,437
4293	SEPTENI HD	Internet ad agency / smartphone marketing support	JQS	60,568	20,000	2,850	14.3	3.03	30.88	3.49	-	436
4395	Accrete	SMS delivery service	TM	9,205	1,650	300	18.2	5.58	44.23	7.88	0.61	1,651
4751	CyberAgent	Internet ad agency / smartphone / games	TSE1	903,950	500,000	32,500	6.5	1.81	100.21	10.07	0.52	7,150
4784	GMO AD Partners	Internet ad agency and related platform	JQS	11,914	36,000	330	0.9	0.33	27.83	2.12	1.80	711
6026	GMO TECH	App-installation-type charging ad / SEO	TM	2,907	3,100	50	1.6	0.94	145.35	3.67	0.34	2,641
6038	iiD	Contents marketing platform	TM	4,506	ND	ND	-	-	-	1.44	0.00	899
6045	Rentracks	Pay-per-performance Internet ad service	TM	4,443	10,097	217	2.1	0.44	50.27	2.13	1.62	557
6081	Allied Architects	SNS-related marketing support	TM	7,196	4,150	230	5.5	1.73	-	4.24	0.00	512
6094	FreakOut HD	Internet ad delivery (DSP)	TM	15,583	27,000	200	0.7	0.58	-	3.36	0.00	935
6175	Net Marketing	Pay-per-performance ad agency	TSE1	8,567	15,500	650	4.2	0.55	19.25	3.04	1.04	579
6533	Orchestra HD	Digital marketing for companies	TSE1	23,168	11,300	600	5.3	2.05	62.61	13.61	0.28	2,530
6550	Fringe81	Internet ad agency, media monetization support	TM	4,825	ND	ND	-	-	-	31.33	0.00	466
6553	SoldOut	Web marketing support for mid-tier companies/SMEs	TSE1	16,279	21,000	450	2.1	0.78	-	5.39	-	1,555
6562	Geniee	Automatic trading of media ad space / AdTech biz	TM	16,081	15,580	186	1.2	1.03	119.52	6.65	-	894
Simple average of 24 AdTech-related companies				80,178	40,234	2,840	8.1	3.29	61.27	8.76	0.75	
Average of TOPIX (closing price on 11/30/2020)									27.13	1.28	1.65 (weighted 1.99)	1,754.92

EC-Platform-Related Companies		Markets: TSE1=TSE 1st Section, TSE2=TSE 2nd Section, TM=TSE Mothers, JQS=JASDAQ		Unit: million yen			%	Ratio			%	Closing Price (11/30)
Code	Company Name	Business Area	Market	Market Cap.	Sales	O.P.	O.P. Margin	P/S	P/E	P/B	Dividend Yield	Stock Price
4477	BASE	E commerce platform / online settlements	TM	196,110	7,810	250	3.2	25.11	1,156.82	47.72	0.00	9,590
3371	SOFT CREATE HD	EC website dev. package / selling merchandise to companies	TSE2	43,874	22,965	2,772	12.1	1.91	24.67	3.63	0.94	3,185
4304	Estore	EC website development / online shopping support	JQS	14,524	9,645	398	4.1	1.51	-	6.96	1.03	2,814
4057	Interfactory	Cloud commerce platform	TM	11,998	1,598	155	9.7	7.51	125.97	17.41	0.00	3,255
4496	Commerce One Holdings	EC website mgmt support for mid-tier/SME EC website mgmt companies	TM	21,630	2,409	466	19.3	8.98	67.65	14.45	0.00	5,750
Simple average of 5 EC-platform-related companies				57,627	8,885	808	9.7	9.0	343.78	18.0	0.39	

(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 November 30). 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.

(23) 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.

Based on our forecast of the Company's EPS, its P/E is expected to be 58.1 this fiscal year, 45.5 next fiscal year, and 36.3 the year after the next. If the Company's normalized EPS growth rate over the medium term is assumed to be 25%, its PEG Ratio[23] comes out to be about 2.3 for this fiscal year (2.0 if the growth rate is assumed to be about 29%). Assuming that a PEG of up to about 2 is acceptable for growing companies, then the Company's stock price has come to a level which may make it a candidate for investment. If the momentum of its financial performance becomes strong, then its stock may possibly rise to a higher level of price.

- **Should closely watch the tightening of personal information protection regulations, financial performance, and KPIs 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 and the trends in monthly sales (YoY), as well as the quarterly changes in profit growth and growth rate, the level of dividend, M&As and business acquisitions or alliances, releases of new products and services, and the trends of the entire Internet ad market.

In addition, as the most important management indicators (KPIs), we should continue to follow the change in the unit price and the number of active accounts of AD EBiS, which are key factors determining the Company's sales and indicative of the Company's growth potential.

- **Future growth may be anticipated as a defensive, ad-tech-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 seems to be in a good position with regards to reaping benefits from this growth potential. As a relatively defensive, AdTech-related, and domestic-demand-related growth stock, future growth may be anticipated.