

Alpha-Win Company Research Report

YRGLM Inc. (3690 TSE Mothers)

Issued: 5/24/2021

● Summary

Alpha-Win Capital Inc. Research Dept.

<http://www.awincap.com/>

Business Description

- YRGLM Inc. (hereinafter referred to as the “Company”) 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 its originally-developed Internet advertising effect measurement system (AD EBiS), which has an extraordinarily high market share (No.1 in the market). It is a leading company in a 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 and is therefore highly sustainable and stable. Under this model, sales and profit can continue to expand through the increase in the unit price and the number of customers, which are the KPIs.
- It had been working on a business model shift and the selection/focus of business portfolio. This business restructuring and upfront investment have reached the end of a phase, though, and its earning power is starting to improve.

First-Half Results and Financial Forecast for This Fiscal Year

- In the first half (H1) of this fiscal year (Q2 YTD FY 2021; note that the Company’s fiscal year is September-ending so FY 2021 ends in September 2021), sales grew by 18.7% YoY to Y1,466 million, operating profit grew by 150.3% YoY to Y178 million, and net profit also grew by 155.6% to Y116 million. Both sales and profit had grown significantly. Although the Company’s H1 forecasts are not disclosed, sales seem to have been as expected, while the profits seem to have exceeded the forecast.
- Number of accounts of its core business, AD EBiS, had decreased. However, its average unit price had increased thanks to improvement of functions in the full renewal and the acquisition of new contracts in high price ranges. AD EBiS has been the backbone to the growth of the Marketing Platform (hereinafter, “PF”) Segment. Results of the EC PF Segment have also improved sharply because of the EC boom due to the high stay-at-home consumption amidst the COVID-19 crisis.
- Achievement of net profit has helped accumulate capital, leading to an increase in the equity ratio to 51.5%. The Company is essentially debtless and financially sound.
- The Company has not changed its full-year forecast. It is expecting a large sales and profit growth: sales of Y3,000 million (+14.6% YoY), operating profit of Y330 million (+19.2% YoY), and net profit of Y210 million (+14.5% YoY).
- Progress in H1 in terms of the full-year company plan was solid, at 48.9% for sales (45.7% in the previous H1) and 53.9% for operating profit (35.8% in the previous H1).
- In addition to solid H1 results, the recent monthly sales are also showing a positive trend. In the second half (H2), its main product AD EBiS and EC-CUBE are expected to continue to grow, and the new services are also expected to contribute to the results. Since the Company’s estimate for H2 profit margin seems conservative, Alpha-Win expects the full-year profits to exceed the Company’s plan.

Business Strategy and Medium-Term Financial Forecast

- In addition to the sales expansion of its core product, the Company has also been working on developing related or new businesses in which synergy can be expected, so that it can contribute to its customers’ DX through its PF businesses and thereby achieve continuous growth under this “MXP (Marketing Transformation Platform) Strategy.” It also plans to accelerate business growth by actively conducting M&As and building alliances with other companies.
- In its medium-term business plan, the Company has set out goals of achieving sales of Y5 billion, operating margin of 15%, and DOE of 3% or greater in FY 2023.
- The Company has been focusing its business resources on areas related to Internet marketing, which have a large growth potential over the medium to long term. Consequently, the Company’s sales are expected to grow annually at a double-digit rate. Over the medium term, we believe that sales growth and profitability improvement from business expansion may enable the Company to also achieve an annual profit growth of about 20%.

Stock Price

- The stock price had bottomed out with the recovery of financial results, and has been fluctuating within a boxed range of Y1,000 to Y2,000 over the past four years. Thanks to the turnaround from net loss to net profit and the resumed payment of dividend, the Company's valuation can now be compared with a wider range of companies.
- The stock price seems to already reflect the market's evaluation of the Company's stock as an AdTech-related and domestic-demand-oriented growth stock, at least to some extent. Consequently, based on this fiscal year's figures, its valuation does not indicate cheapness in terms of the main valuation indicators.
- However, considering the P/E over a three to five period and the PEG (= expected P/E divided by expected annual profit growth rate), we believe that the stock price still has the potential to increase.
- Going forward, the following factors will likely affect the stock price: quarterly trends in profit/loss, announcement of M&As or alliances, medium-term forecast for profit, and the amount of profit returned to shareholders.

Return of Profit to Shareholders

- Since its shareholders' equity had increased upon selling a part of its subsidiary's shares, the Company announced that it plans to increase its payment of dividend for this fiscal year from the initially planned Y4.5 to Y5.0/year/share. Its current dividend policy is to maintain a DOE of 2%, but it plans to raise this to 3% or greater in FY 2023.

| 【3690 YRGLM Inc. Sector: Information & Communication】 Figure A | | | | | | | | | | | | |
|--|----------------|----------------------|------------|---------------------|------------|---------------------|------------|---------------------|--------------|------------|------------|-----------------|
| FY | | Sales (million Y) | YOY (%) | O.P. (million Y) | YOY (%) | R.P. (million Y) | YOY (%) | N.P. (million Y) | YOY (%) | EPS (Y) | BPS (Y) | Dividend (Y) |
| 2018 | A | 1,804 | 5.0 | -98 | To loss | -115 | To loss | -88 | To loss | -14.02 | 184.97 | 0.00 |
| 2019 | A | 2,204 | 22.1 | 84 | To profit | 79 | To profit | -34 | Smaller loss | -5.54 | 168.68 | 0.00 |
| 2020 | A | 2,618 | 18.8 | 276 | 226.1 | 261 | 230.5 | 183 | To profit | 29.09 | 202.20 | 4.00 |
| 2021 | CE | 3,000 | 14.6 | 330 | 19.2 | 320 | 22.5 | 210 | 14.5 | 33.26 | 5.00 | 5.00 |
| 2021 | New E | 3,000 | 14.6 | 350 | 26.8 | 340 | 30.3 | 225 | 23.0 | 35.61 | 231.37 | 5.00 |
| 2021 | Old E | 3,000 | 14.6 | 330 | 19.2 | 320 | 22.5 | 210 | 14.8 | 33.24 | 229.31 | 4.50 |
| 2022 | E | 3,390 | 13.0 | 400 | 14.3 | 390 | 14.7 | 260 | 15.6 | 41.15 | 268.48 | 7.00 |
| 2023 | E | 3,860 | 13.9 | 480 | 20.0 | 470 | 20.5 | 320 | 23.1 | 50.65 | 309.68 | 9.30 |
| 2023 | Medium-term CE | 5,000 | | 750 | | | | | | | | |
| 2020 | Q1 | 585 | 12.7 | 24 | To profit | 25 | To profit | 19 | To profit | 3.04 | | 0.00 |
| 2021 | Q1 | 721 | 23.3 | 94 | 281.6 | 95 | 279.8 | 61 | 222.7 | 9.77 | | 0.00 |
| 2020 | Q2 | 650 | 15.6 | 47 | To profit | 45 | To profit | 26 | To profit | 4.22 | | 0.00 |
| 2021 | Q2 | 745 | 14.6 | 84 | 80.5 | 82 | 80.2 | 55 | 107.6 | 8.75 | | 0.00 |
| 2020 | H1 | 1,235 | 14.2 | 71 | 239.2 | 70 | 310.4 | 45 | To profit | 7.26 | 180.25 | 0.00 |
| 2021 | H1 | 1,466 | 18.7 | 178 | 150.3 | 177 | 151.0 | 116 | 155.6 | 18.52 | 237.56 | 0.00 |
| 2020 | H2 | 1,383 | 23.2 | 205 | 221.7 | 191 | 208.3 | 138 | 1,070.2 | 21.83 | | 0.00 |
| 2021 | H2 CE | 1,534 | 10.9 | 152 | -26.4 | 143 | -25.1 | 94 | -32.4 | 14.74 | | 5.00 |

(Note)

A: actual results

CE: the Company's estimate (forecast)

E: estimate (forecast) by Alpha-Win Research Dept.

Q1: Oct-Dec

Q2: Jan-Mar

H1: Oct-Mar

H2: Apr-Sep

Note that the Company's

fiscal year is September-

ending. For example, FY

2021 ends in Sep. 2021.

| 【 Stock Price and Valuation Indicators: 3690 YRGLM Inc.】 Figure B | | | | | | |
|---|------------------------|--------------------------------|-------|---------------|----------------|-----------------------|
| Item | Stock price as of 5/21 | Item | P/E | P/B | Dividend Yield | Dividend Payout Ratio |
| Stock Price (Y) | 1,255 | Last FY (actual) | 43.1 | 6.2 | 0.3% | 13.8% |
| Shares Outstanding (thou.) | 6,372 | This FY (est.) | 35.2 | 5.4 | 0.4% | 14.0% |
| Market Capitalization (million Y) | 7,997 | Next FY (est.) | 30.5 | 4.7 | 0.6% | 17.0% |
| 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



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(Note 1) Values used in this report have generally been rounded to the nearest unit and may therefore differ from the Company's official disclosed values.

(Note 2) 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. Top share in the domestic software market for Internet ad effect measurement and open-source EC site construction.

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

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

- ◆ Founded by President Iwata. Listed on TSE Mothers.
- ◆ Changed the company name and logo in 2019. New name: YRGLM Inc.
- ◆ Both sales and profit improved in terms of the consolidated-to-parent-company ratios, thanks to the carve-out and financial recovery of EC-CUBE.

Company Overview

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

Under its vision 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,” the Company has grown rapidly through its originally developed software. It has the top market share with “AD EBiS,” an Internet ad effect measurement tool¹, and “EC-CUBE,” software for open-source² EC site construction.

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.

Change in the Company Name

In August 2019, the Company changed its name from “LOCKON CO., LTD.” to “YRGLM Inc.”

Consolidated Companies and Trends in Consolidated Financial Results

The YRGLM Group consists of a total of six companies: the Company, three consolidated subsidiaries (EC-CUBE Co., Ltd., Spoo! Inc., and YRGLM VIETNAM Co., Ltd.), one nonconsolidated subsidiary (a dormant company in the U.S.), and one equity method affiliate (SAI Co., Ltd.).

In the past, the consolidated-to-parent-company ratio for both sales and profit had been around 1 and the total recurring profit/loss of the consolidated companies excluding the parent had been nearly zero (Figure 1). Since FY 2019 (note that the Company’s fiscal year is September-ending, e.g., FY 2021 ends in September 2021), though, sales as well as recurring profit of the consolidated companies other than the parent company (consolidated minus parent company) have improved largely. This is because the EC-CUBE business was separated from the parent company to a subsidiary in a carve-out and because this subsidiary’s financial performance had also improved.

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

(Unit: million yen, %)

| | 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 | 1,805 | 2,204 | 2,619 |
| B | Parent company sales | 1,360 | 1,437 | 1,613 | 1,719 | 1,805 | 2,011 | 2,318 |
| 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% | 58.3% |
| 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) Results are consolidated starting in FY 2014 (the same applies to the rest of this report). Results for H1 FY 2021 are not disclosed.

- ◆ **As of the end of March, it was essentially debtless, with cash & deposits exceeding its amount of debt. Equity ratio became greater than 50%, indicating financial soundness. FCF also turned positive.**

- ◆ **Estimated to have an unrealized gain of a little greater than ¥1.3 billion owing to its subsidiary's shares.**

- ◆ **Has earned a high public reputation. Chosen as "Best Company" in the "Best Workplaces Ranking" for the 9th consecutive year and for a total of 10 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.

Financial Standing

Thanks to the posting of profit and the completion of an investment phase, its free cash flow (FCF) has turned positive. Having also sold a part of its subsidiary's shares, the Company has been making progress with the accumulation of capital as well as cash and deposits. As of the end of March 2021, its long/short-term debt totaled about ¥960 million, while its cash and deposits had increased to about ¥1,340 million. Therefore, the Company is essentially debtless.

Its total assets are about ¥2.9 billion and its market capitalization is about ¥8.5 billion (based on the closing price of ¥1,342 on 3/31/2021), both relatively small. However, its equity ratio is 51.5% and current ratio is 248.6%, indicating financial soundness.

The Company has intangible fixed assets of ¥750 million, including goodwill (reflecting the acquisition of the AdRepo and ADPLAN businesses) and software, and deferred tax assets of ¥120 million, totaling ¥870 million. However, since this total is smaller than the Company's net assets of ¥1,520 million, there does not seem to be any issue.

Also, the Company owns 90% of the shares of its subsidiary EC-CUBE Co., Ltd. Based on the amount for which the subsidiary's shares were sold to Orient Corporation (10% of shares for ¥155 million; ¥152 million in gain on sales), the Company is estimated to have shares worth ¥1.4 billion in market value and also ¥1.37 billion in unrealized gain.

Awards and Reputation

The Company has won the Best Companies Award in the Japan division of the "2021 Best Workplaces Ranking for Medium-Sized Companies (100 to 999 employees)" from the Great Place to Work® Institute³ Japan (winning an award for nine years in a row and for a total of ten awards). The Company has also won various other awards from external organizations in the past. This high reputation is valuable since it helps attract talents, which are crucial to the Company's nature of business.

Also, its originally developed Internet ad effect measurement tool AD EBiS has won the "Leader" award in the "Access Analysis and Attribution" division of the "ITreview Grid Award 2021 Spring" by the IT product review platform "ITreview" operated by ITcloud Corp (headquartered in Minato-ku, Tokyo; Genta Kurono as president). This is the third consecutive award that it has received, following the "High Performer" award that it had received in the "ITreview Grid Award 2021 Winter" (source: the Company's website).

2. Business Description and Business Model

◆ Restructuring and Strengthening of Business Portfolio

Since FY 2016, the Company had been actively restructuring and strengthening its business portfolio. It had been increasing its focus on the core businesses (shifting to AD EBiS of the Marketing Platform Segment) and separating its non-core businesses (EC Platform Segment) (Figure 2; see the report issued on 12/7/2020 for the specific measures for the restructuring and strengthening of business over recent years).

This business restructuring has already reached the end of a phase, and the Company is now in the stage of expanding its business for the next level of growth (for details, please see the section on medium-term business strategy on page 25).

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

【Figure 2】 Business Restructuring and Segments (withdrew from the businesses highlighted in gray)

| Business Segment | Business Category | Main Service | Changes | Notes |
|------------------------|----------------------------------|---|--|----------------|
| (I) Marketing Platform | (1) Marketing effect measurement | ① AD EBIS | ADPLAN (business acquired in Jan 2020; business closed in Mar 2021 after merging) | Parent company |
| | | ② THREc | Withdrew (end of March 2020) | |
| | (2) Advertising agency support | ① AdRepo | Acquired the business (August 2018) | |
| | | ② Ad-Knowledge | Started service in July 2020 | |
| | | ③ ADHOOP (previous: "advertising agency referral") | Started service in May 2020. Changed name to ADHOOP in Jan 2021. | |
| | (3) New services | ① Spool | Acquired as wholly owned subsidiary (Dec 2020) | |
| | ② EZCX | Service started in May 2021 with release of preliminary version | | |
| | *Other | Professional Service | Will expand AD-EBIS-related software development | Parent company |
| | | (↑ includes the previous DMP business) | (Transferred from SOLUTION and scaled down) | |
| (II) EC Platform | (1) EC-CUBE | (EC-CUBE) (ec-cube.co) | Transferred to EC-CUBE Co., Ltd., in Jan 2019; 10% of shares sold to Orico | Consolidated |
| | EC contract dev. business | ② SOLUTION → abolished | Transferred to SAI Co., Ltd. (equity method) and Radical Opti Co., Ltd. (later removed from equity method) | Equity method |
| | (Previous DMP business) | | Transferred to SOLUTION | Parent company |

(Ref) Prepared by Alpha-Win Research Dept. based on sources including the Company's securities report, financial results briefing materials, and website. Words in red indicate changes in recent years.

◆ Providing Originally Developed Software

The Company's concept is that systems for solving issues automatically and efficiently on behalf of humans will also become necessary in the field of Internet marketing as the population ages and declines. Based on this concept, the Company has been developing original software as tools and providing them mainly to companies.

Main Businesses

Currently, the Company develops business around two segments: (I) the Marketing PF (short for "platform") Segment and (II) the EC PF Segment.

The Marketing PF Segment accounted for about 86.7% of the total sales in the first half (H1) of this fiscal year. For many years, this segment has been the driver of the Company's overall sales growth (change in sales by PF segment: Figure 3 on page 7).

Each PF segment's change in operating profit over the years is as shown in Figure 4 on page 7. Excluding FY 2017 and FY 2018, during which business restructuring was conducted, operating profit has been posted for both PF segments during each full fiscal year.

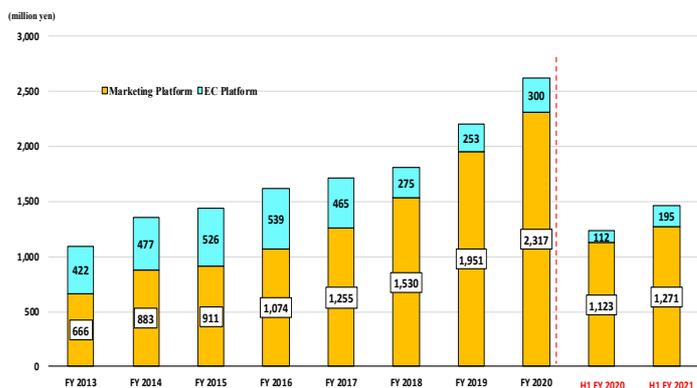
- ◆ Worked on restructuring its business portfolio. Withdrew from non-core businesses and concentrated business resources on AD EBiS of the Marketing PF Segment. Acquired and strengthened business in related areas.

- ◆ B2B business. Providing originally developed software via the cloud.

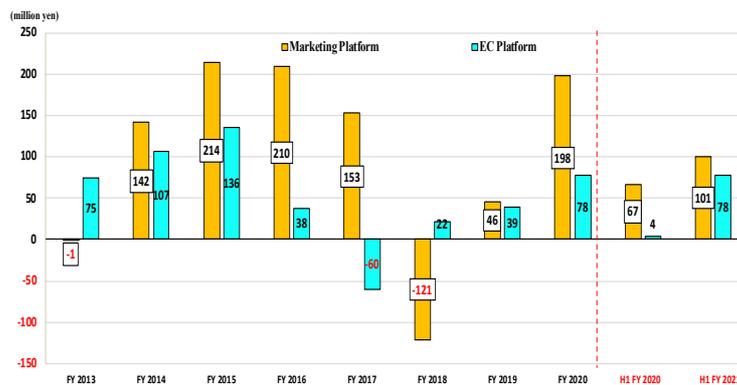
- ◆ Has been developing business around two PF segments. The Marketing PF is its main segment.

- ◆ Thanks to recent years' EC market boom, the EC PF Segment has also rapidly recovered.

【Figure 3】 Transition in Sales by Business Segment (unit: million yen)



【Figure 4】 Transition in Operating Profit by Business Segment (unit: million yen)



(Ref) Figures 2 and 3 were prepared by Alpha-Win Research Dept. based on the Company’s financial results summary and financial results briefing materials.

◆ Business Details (I) Marketing PF Segment

The change in the sales and profit of the Marketing PF Segment over the years is as shown in Figure 5.

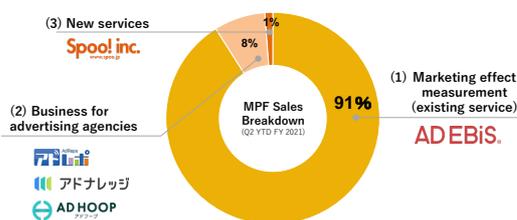
【Figure 5】 Change in the Sales and Operating Profit of the Marketing Platform Segment

| Sales (million yen) | FY 2012 parent | FY 2013 parent | FY 2014 consolidated | FY 2015 consolidated | FY 2016 consolidated | FY 2017 consolidated | FY 2018 consolidated | FY 2019 consolidated | FY 2020 consolidated | H1 FY 2020 consolidated | % of total | H1 FY 2021 consolidated | % of entire company |
|---|----------------|----------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|-------------------|-------------------------|---------------------|
| I. Marketing Platform | 545 | 666 | 883 | 911 | 1,074 | 1,255 | 1,530 | 1,951 | 2,317 | 1,123 | 89.5% | 1,271 | 86.7% |
| (1) AD EBIS + ADPLAN (acquired in Jan 2020) | 499 | 567 | 722 | 822 | 1,012 | 1,200 | 1,402 | 1,747 | 2,127 | 1,029 | 83.3% | 1,157 | 78.9% |
| (1) THREe (withdraw) | 46 | 81 | 161 | 89 | 62 | 54 | 43 | 28 | 8 | 7 | 0.6% | 0 | 0.0% |
| (2) AdRepo | | | | | | | | 124 | 149 | 70 | 5.7% | 102 | 6.9% |
| (2) Ad-Knowledge | | | | | | | | | 3 | | | 5 | 0.3% |
| (2) ADHOOP | | | | | | | | | 3 | | | 8 | 0.5% |
| (3) New services (incl. Spoo!) | | | | | | | | | | | | 15 | 1.0% |
| *Other: Professional Service (DMP) | | | | | | | 84 | 51 | 27 | 17 | 1.4% | 7 | 0.5% |
| Segment's O.P. | -61 | -1 | 142 | 214 | 210 | 153 | -121 | 46 | 198 | 67 | 93.8% | 101 | 56.6% |
| Segment's O.P. Margin | -11.2% | -0.1% | 16.1% | 23.5% | 19.5% | 12.2% | -7.9% | 2.4% | 8.6% | 6.0% | % of total O.P. ↑ | 8.0% | % of total O.P. ↑ |

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

◆ AD EBIS’s sales account for about 80% of the Company’s total.

【Figure 6】 Breakdown of Sales of the Marketing PF Segment by Category



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

(4) 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.

The Marketing PF Segment currently consists of the three main business categories described below, from (1) to (3). During H1 of this fiscal year, the sales breakdown was as shown in Figure 5 and 6. AD EBIS accounted for 91% of the Marketing PF Segment’s sales (79% of the Company’s entire sales).

Below are the current business categories by PF type and their main products (service or product name is in parentheses; “Professional Service” is excluded).

(1) Internet advertising effect measurement

① AD EBIS (Internet ad effect measurement system; includes ADPLAN)

(2) Advertising agency support

① AdRepo (automatic report generation tool for programmatic advertising⁴)

② Ad-Knowledge (project management tool for advertising agencies)

③ ADHOOP (advertising agency matching platform)

(3) New services

The newly acquired Spoo! inc., EC-specialized CX improvement platform “eZCX” whose preliminary version was released in May, and other businesses that will be developed going forward.

The following are the business overview and characteristics of each category.

- ◆ AD EBiS is an originally developed Internet ad effect measurement tool. It has the top share in the market.

- ◆ The ADPLAN business was merged with AD EBiS and was closed.

- ◆ Full renewal of AD EBiS. Aiming for higher unit price, customer acquisition, and cancellation prevention.

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



- ◆ Business is based on a subscription-based business model with flat-rate, periodic payment. Enables the Company to make profit continuously and stably.

(5) 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 can be used via the Internet and paid for.

(6) Subscription-based business model: A business model where users pay for the provided service based on the duration of use.

(1) ① AD EBiS + ADPLAN

AD EBiS, the Company's Original Product

AD EBiS is the Company's main product (top share in the domestic market). 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 provides a comprehensive, one-stop marketing environment where users can "utilize" marketing data accumulated through the "effect measurement" function to maximize sales or acquire prospective customers in proactive marketing.

Merging ADPLAN with AD EBiS

After acquiring the ADPLAN business in January 2020, the Company had maintained its service for a while. However, to improve the efficiency of system development and updates, it had gradually shifted and merged the business with YRGLM's AD EBiS, and finally closed the business in March 2021. The average unit price and the number of active accounts are disclosed as a sum of the two businesses.

Release of the New AD EBiS

In January 2021, the Company conducted the first full update for AD EBiS since the launch of the service. As the first round of updates, the following main changes were made: 1) faster screen response (speed increased by 82% max), 2) complete renewal of the UI (user interface) to be optimized for data analysis, including improvements in visual design and operability, and 3) renewal of the analysis function lineup (more than 20 additions or improvements of functions were conducted, significantly improving productivity).

With this update, users can now intuitively and efficiently analyze data. By enhancing product appeal, the Company hopes to acquire new customers, raise the unit price, and prevent cancellation by the existing customers.

Additional updates are planned to be sequentially released.

Business Model

AD EBiS is provided as SaaS⁵ based on a subscription-based business model⁶. It is a business model based on flat-rate, periodic payments. Its sales are determined by average unit price \times number of active accounts. Both numbers are key performance indicators (KPIs) for AD EBiS as well as for the entire company.

Customers

It is a B2B business. AD EBiS's main customers include WOWOW, Lion, Kracie, sansan, Lifenet Insurance, PERSOL CAREER, Zwei, Z-KAI, and Bridgestone Cycle. Many of the customers from the previous ADPLAN service are large, blue-chip companies that sell branded products throughout the country.

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 has also been changed along with version upgrades.

- ◆ Due to the version upgrade, change in pricing due to the addition of new functions, and acquisition of new customers with high unit price, AD EBiS's unit price per customer has been increasing for 12 consecutive quarters.

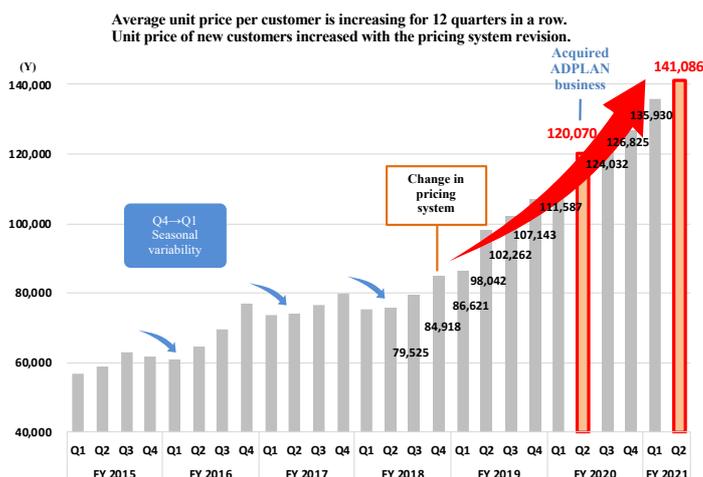
Change in the Average Unit Price (as sum of AD EBiS and the previous ADPLAN)

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

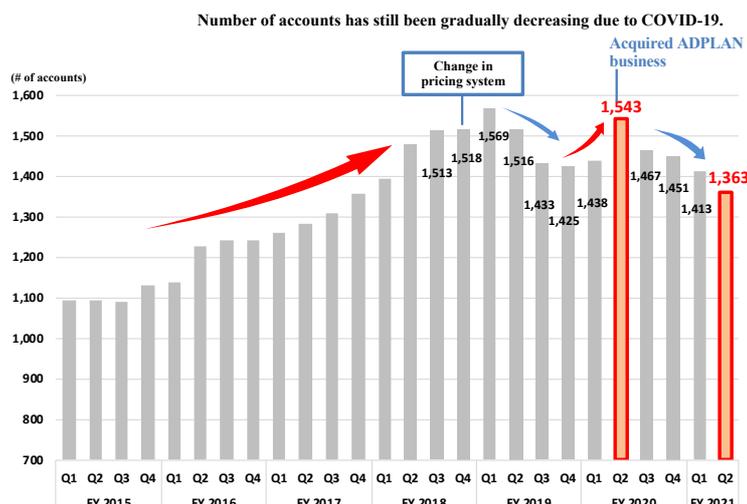
The average monthly unit price grew from Y75,846 at the end of H1 FY 2018 (end of Mar 2018) ⇒ Y98,042 at the end of H1 FY 2019 (+29.3% or +Y22,196 YoY) ⇒ Y120,070 at the end of H1 FY 2020 (+22.5% or +Y21,016 YoY) ⇒ and most recently, Y141,086 at the end of H1 FY 2021 (+17.5% or +Y22,028 YoY) (Figure 7).

Most recently, the average unit price increased due to the change in pricing and customers that occurred with the full renewal of AD EBiS (average unit price of new customers are about Y150,000). The average unit price of its current customers seems to be gradually increasing in Q3 of this fiscal year too.

【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 and securities report.

- ◆ AD EBiS's number of active accounts is on a gradually declining trend due to the impact of COVID-19. The challenge will be to reduce the contract cancellation rate.

- ◆ Decline in the number of accounts of AD EBiS has been offset by the rise in the average unit price. However, although a double-digit growth in sales (by amount) has been maintained for AD EBiS, the rate of growth is somewhat slowing down.

- ◆ AD EBiS has the top share in the domestic market. Gained an extraordinary share through the acquisition of ADPLAN.

- ◆ Strengthening the 3 businesses targeting advertising agencies.

- ◆ AdRepo enables automatic creation of reports for programmatic advertising through automation technology. The Company intends to actively expand this business to create synergy with AD EBiS.

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 FY 2019 (end of Dec. 2018), but then started to decline due to contract cancellations following the pricing revision (Figure 8). In Q2 FY 2020, the number of accounts temporarily increased due to the acquisition of ADPLAN. However, the number then returned to a declining trend again. Impacted by COVID-19 as well, the number of accounts (only the sum of AD EBiS and the previous ADPLAN service is disclosed) has been decreasing for four consecutive quarters, with 1,413 accounts in Q1 FY 2021 (decreased by 38 accounts or 2.6% compared to 1,451 accounts in Q4 FY 2020) and 1,363 accounts in Q2 (decreased by 50 accounts or 3.5% since Q1). The monthly contract cancellation rate is estimated to have been about 2-3%, with no large fluctuations.

Sales

Since the rise in the unit price fully offset the decline in the number of accounts, the Company was able to maintain a consecutive, double-digit YoY sales growth for AD EBiS. Recently, though, the growth rate is starting to somewhat slow down.

However, since the Company seems to be gaining a greater price leadership through its extremely strong position in the domestic market, AD EBiS's unit price is expected to continue to rise with the addition of new functions and services as well as through up-selling and cross-selling. Concerning the gradually declining trend for the number of active accounts, it will be key to watch when the trend will be reversed.

Market Share

Since its release in 2004, AD EBiS has been implemented by more than 10,000 users in total and has gained the top share in the domestic Internet advertising effect measurement system market. Furthermore, according to the Company, its share has been increasing year by year, and an extraordinary share was acquired in FY 2019 thanks to the acquisition of the ADPLAN business. This high share was most likely maintained in FY 2020 as well.

(2) Business for Advertising Agencies

Business for advertising agencies specifically consists of the following three businesses. This first half's sales were Y102 million in total, which is 8% of the entire Marketing PF Segment's sales (sales for each of the three specific businesses are not disclosed).

(2) ① AdRepo

In August 2018, the Company acquired AdRepo, an automatic report-generation tool for programmatic advertising. It has been developing this business in full scale since the beginning of FY 2019.

AdRepo is a tool that fully automates the creation of reports. It is a cloud service that has been developed to reduce the workload of advertising agencies in creating reports for programmatic ads.

Its domestic market share is third from the top, behind ATOM (TechLoCo Co., Inc.; not listed) and glu (ATALA LLC; not listed; one of the Company's partners). Sales in H1 were about Y84 million, which is about 7% of the entire Marketing PF's sales.

◆ **Ad-Knowledge is a cloud-based project management system for supporting the improvement and streamlining of operations by advertising agencies that manage programmatic advertising. Service is provided as subscription.**

(2) ② Ad-Knowledge

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

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

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

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

Sales in H1 were about Y5 million, which is about 0.4% of the entire Marketing PF's sales.

◆ **ADHOOP is a service that introduces the most suitable advertising agency to advertisers.**

(2) ③ ADHOOP (previously, "Advertising Agency Referral Service")

In May 2020, the Company released a new service in which it introduces the most suitable advertising agencies to Internet advertisers. Using its network of more than 300 advertising agencies and information that it uniquely possesses, the Company selects and introduces a candidate agency that suits each advertiser in a one-stop support system. Through this service, advertisers can efficiently find 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 introduces when an appointment is made between the two matched parties.

In January 2021, the Company changed the name of this service from the previous "Advertising Agency Referral Service" to "ADHOOP." Since its launch, the service has been steadily gaining more corporate customers. A renewal of the service was conducted in March, and the Company intends to develop this business in full scale through acceleration of its DX support as part of its strategy to acquire new customers.

Sales in H1 were about Y8 million, which is about 0.6% of the entire Marketing PF's sales.

- ◆ Acquired the company Spoo and released the new originally developed product eZCX. Started a new area of business with new services.

(3) New Services

The Company hopes to strengthen this new area of business as its medium-to long-term growth driver. The new services have only just begun, and their sales in H1 were still only 1% of the total (about Y13 million). This includes the Y10 million in sales (from Jan-Mar 2021) made by the newly acquired company Spoo! inc. (hereinafter, “Spoo”; headquartered in Shoto, Shibuya-ku, Tokyo; Kazuya Kawasaki as president; a total of seven employees).

On December 30, 2020, the Company acquired Spoo as a wholly owned subsidiary (consolidated subsidiary). Spoo was founded in March 2000 and is in the business of web media and design. Its customers include ADK Marketing Solutions and Sapporo Real Estate.

Going forward, the Company plans to integrate Spoo’s creativity and human resources with the Company’s data and technology to create new values, expand into wider areas, and strengthen competitiveness.

For the moment, the Company has not officially announced the details of its business development with Spoo yet, so we will need to wait for the announcement.

Also, in May, the Company released a preliminary version of a new service called “eZCX” (expected to be reflected in financial results starting in Q3). This service supports the improvement of CX (customer experience) on websites. The Company has joined the CX market, which has been growing annually by 30%, with this EC-specialized CX improvement platform “eZCX” under the concept of “anyone can easily use.”

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

The preliminary version has received positive feedback from its corporate users, as companies that have used the version have experienced a maximum of 10% improvement in CVR (conversion rate; rate of successful contracts made). The Company plans to further improve its functions before the official version is released. The full contribution of this business to sales is expected to start next fiscal year or later.

- ◆ EC PF Segment is specialized in EC-CUBE.

◆ Business Details (II) EC PF Segment

Until FY 2018, the EC PF Segment had been composed of ①EC-CUBE and ②SOLUTION (already withdrew from this business). Currently, only the EC-CUBE business remains (Figure 9).

【Figure 9】 Change in Sales and Operating Profit of the EC Platform Segment

| Sales (million yen) | FY 2012 parent | FY 2013 parent | FY 2014 consolidated | FY 2015 consolidated | FY 2016 consolidated | FY 2017 consolidated | FY 2018 consolidated | FY 2019 consolidated | FY 2020 consolidated | H1 FY 2020 | | H1 FY 2021 | |
|-------------------------|-------------------|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------|-------------------|--------------|---------------------|
| | | | | | | | | | | consolidated | % of total | consolidated | % of entire company |
| EC Platform | 323 | 422 | 477 | 526 | 539 | 465 | 275 | 253 | 300 | 112 | 9.1% | 195 | 13.3% |
| ① EC-CUBE | 150 | 207 | 245 | 230 | 219 | 208 | 254 | 253 | 300 | 112 | 9.1% | 195 | 13.3% |
| Payment Settlement Fee | | | | | | | | | | | | 162 | 11% |
| Subscription | | | | | | | | | | | | 6 | 0% |
| Other | | | | | | | | | | | | 27 | 2% |
| ② SOLUTION (DMP) | 174 | 214 | 232 | 296 | 319 | 257 | 20 | 0 | 0 | 0 | 0.0% | 0 | |
| Segment's O.P. (DMP) | 98 | 75 | 107 | 136 | 38 | -60 | 22 | 39 | 78 | 4 | 6.2% | 78 | 43.4% |
| Segment's O.P. Margin | 30.5% | 17.8% | 22.5% | 25.8% | 7.1% | -12.9% | 8.2% | 15.4% | 26.1% | 4.0% | % of total O.P. ↑ | 39.7% | % of total O.P. ↑ |

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

- ◆ The EC-CUBE business provides software for corporate users to build and operate EC websites on their own.
- ◆ In addition to the download version, the cloud version has been released.
- ◆ Gained top share in the domestic market.

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

- ◆ Formed a capital and business alliance with Orico. Will focus on the cloud. Aiming to raise revenue from payment settlement fees.

① EC-CUBE

Service Overview

EC-CUBE is a software platform whereby corporate users can build and operate EC (e-commerce) websites on their own.

The Company provides EC-CUBE as an open-source software package for web design to companies that will begin selling and providing products or services online. It is provided as either as a download version (EC-CUBE) or cloud version (ec-cube.co).

Characterized by low cost, high customization, and user-friendly interface, it has the top share in the domestic market and has become the standard platform.

EC-CUBE is based on a Freemium Model⁷ where software is offered for free but in return revenue is earned from accessory services. Specifically, the Company makes revenue through royalties received from official partners in the Internet business that use this platform (payment settlement agencies, hosting businesses, etc.), function-addition fees for plug-ins (programs to add functions to software), and revenue from selling commercial licenses.

On the other hand, “ec-cube.co” is currently mainly based on monthly-subscription-based revenue (3% of the entire sales of the EC PF) like AD EBiS. The Company plans to eventually shift this service toward making more revenue from payment settlement fees, like EC-CUBE.

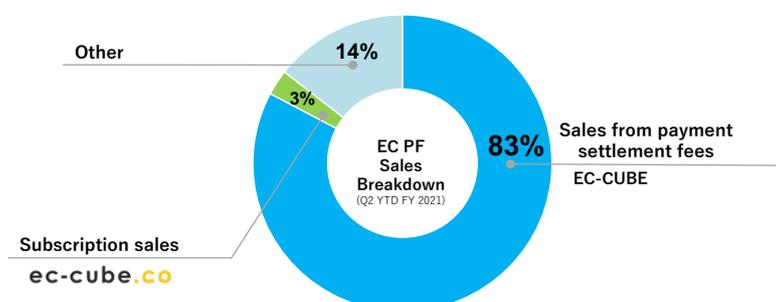
Sales Breakdown

Breakdown of sales in H1 is described in Figure 10. Sales from payment settlement fees (commissions received from partnered payment settlement agencies through EC-CUBE’s payment settlement plugin) accounted for 83% of the entire EC PF Segment’s sales.

Business Development

Orico purchased 10% of EC-CUBE Co., Ltd.’s shares from the Company and formed a capital and business alliance. Going forward, the Company plans to expand the sales of the cloud version, “ec-cube.co,” through Orico’s customer network (provide support in starting EC to Orico’s 830,000 member stores) and sales power.

【Figure 10】 Breakdown of Sales of the EC PF Segment by Business
(Unit: %, million yen)



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

3. Shareholder Composition

◆ 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.
- Invested by several domestic stock investment trusts.
- Treasury shares are a little less than 1% of all outstanding shares.

The major shareholders as of the end of March 2021 are shown in Figure 11. The following is supplementary information. The major shareholders have not largely changed.

- As of December 18, 2020, the “Japan Emerging Equity Open” managed by Nikko Asset Management owned 103,500 shares (1.37% of the fund’s AUM). Also, as of February 24, 2021, “MHAM Emerging Growth Stock Open” (also called “J-Frontier”) managed by Asset Management One (hereinafter, “AMO”) owned 100,000 shares (0.46% of the fund’s AUM). “The 2020 Vision” managed by Commons Asset Management owned 49,900 shares (0.96% of the fund’s AUM) as of December 18, 2020.

- Former executive officers of the Company have been gradually selling their shares. Instead, securities firms have been buying more shares. The investment purposes of Rakuten Securities at fourth place, JPMorgan Securities Japan at ninth place, and SBI Securities at tenth place are unknown, but are predicted to be related to their customers’ positions.

- As of the end of March 2021, the Company owned 53,941 treasury shares (about 0.85% of all outstanding shares). The Company intends to use them for M&As and alliance strategies as well as stock-based compensation for its executives and employees in the future.

【Figure 11】 Current Major Shareholders (Unit for number of shares: thousand shares) (Unit for ratios: %)

| | End of Sept 2015 | End of Sept 2016 | End of Sept 2017 | End of Sept 2018 | End of Sept. 2019 | End of Sept 2020 | End of Mar 2021 | ←Shareholding percentage | ←Ranking |
|--|------------------|------------------|------------------|------------------|-------------------|------------------|-----------------|--------------------------|----------|
| Susumu Iwata (president and CEO) | 2,851 | 2,817 | 2,817 | 2,819 | 2,822 | 2,825 | 2,827 | 44.73 | 1 |
| Hiroichi Fukuda (former executive vice president) | 1,071 | 1,021 | 1,021 | 961 | 801 | 781 | 701 | 11.09 | 2 |
| Kanako Mataza (former director and senior executive officer) | 415 | 415 | 352 | 354 | 353 | 352 | 329 | 5.21 | 3 |
| Rakuten Securities, Inc. | — | — | — | 72 | 64 | — | 219 | 3.47 | 4 |
| Custody Bank of Japan (trust account) | — | — | — | — | — | 221 | 193 | 3.05 | 5 |
| Custody Bank of Japan (securities investment trust account) | — | — | — | — | — | 169 | 88 | 1.38 | 6 |
| YRGLM Employee Stock Ownership Plan | 76 | 39 | 48 | 69 | 68 | 71 | 67 | 1.06 | 7 |
| Hakuhodo DY Media Partners Inc. | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 0.94 | 8 |
| JPMorgan Securities Japan Co., Ltd. | — | — | — | — | — | — | 53 | 0.83 | 9 |
| SBI SECURITIES Co., Ltd. | — | — | — | — | — | — | 37 | 0.57 | 10 |
| UEDA YAGI TANSHI Co., Ltd. | — | — | — | — | — | 86 | — | — | — |
| au Kabucom Securities | — | — | — | — | — | 62 | — | — | — |
| Mitsubishi UFJ Morgan Stanley Securities | — | — | — | — | — | 58 | — | — | — |
| Japan Trustee Services Bank (former name) | — | 59 | — | 60 | 333 | — | — | — | — |
| BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) | — | — | 60 | — | — | — | — | — | — |
| Trust & Custody Services Bank (former name) | — | — | 60 | 29 | 123 | — | — | — | — |
| 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 Shioiri (former director; audit committee member) | 26 | — | — | — | — | — | — | — | — |
| (Number of treasury shares: thousands of shares) | 0 | 0 | 0.045 | 0.983 | 81 | 64 | 54 | — | — |
| (Ratio of treasury shares over all issued shares: %) | — | — | 0.00% | 0.02% | 1.28% | 1.01% | 0.85% | — | — |

(Ref) Prepared by Alpha-Win Research Dept. based on materials including the securities report. Words in red indicate YRGLM’s former and current members, employee stock ownership plan, and other groups or individuals affiliated with the Company.

4. History of Growth

◆ Past Transition in Financial Results

- ◆ Developed and released unique products that can be differentiated from other companies. Has grown rapidly by predicting and meeting the needs of society ahead of others.
- ◆ In FY 2015, record-high profits were recorded. Meanwhile, the Company has been continuing to achieve consecutive record highs for sales.
- ◆ Since FY 2016, the Company had been conducting business restructuring and upfront investments, prioritizing accelerated future business growth over current profit. A net loss was recorded in FY 2018.
- ◆ In FY 2019, posted an operating profit and recurring profit in a turnaround thanks to the large sales growth. In FY 2020, both profits grew by 3x compared to the previous FY, and a net profit was posted in a V-shaped recovery.

From FY 2010 to FY 2013, during which account settlement was nonconsolidated, the Company had increased sales for four consecutive fiscal years. From FY 2014, when consolidated account settlement began, to FY 2020, the Company has been achieving record-high sales consecutively for six fiscal years (according to the available disclosure materials, sales have been hitting record highs for at least 10 consecutive fiscal years). During this period, sales had increased by about 3.6x from Y730 million to Y2,620 million. This achievement was due to the rapid growth of the Marketing PF's AD EBiS as well as the steady growth of the EC PF's EC-CUBE and SOLUTION.

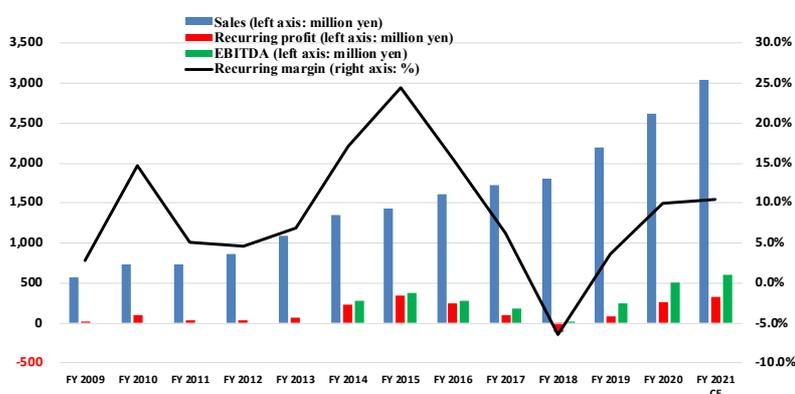
Regarding profit, the Company had stayed profitable both on a nonconsolidated and consolidated basis up through FY 2017. In FY 2015, a record-high operating profit of Y350 million and a record-high net profit of Y231 million were achieved. However, since FY 2016, the Company's active business restructuring and upfront investments had been increasing the expenses, leading to a consecutive decline in profit despite increasing sales (Figure 12).

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 (Figure 13).

In FY 2019, the Marketing PF's sales grew by 20% thanks to its main product AD EBiS, and the Company posted both an operating profit and a recurring profit for the full year in a turnaround. In FY 2020, too, consecutive growth of sales and further improvements in cost had led to a 300% growth in operating and recurring profit compared to the previous fiscal year. The Company posted a net profit for the first time in three fiscal years, achieving a clear, V-shaped recovery.

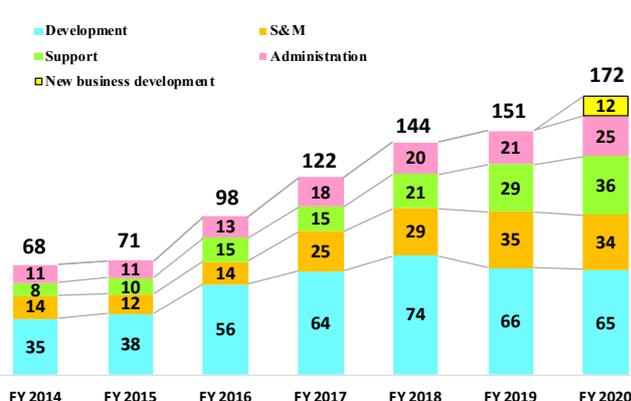
【Figure 12】 Transition in Past Financial Results and Forecast

(Unit: million yen, %)



【Figure 13】 Change in the Number of Employees

(Unit: persons)



(Ref) Figures 12 and 13 were prepared by Alpha-Win Research Dept. from the Company's securities report, financial results summary, and financial results briefing materials.

(Note) Consolidated results starting in FY 2014; nonconsolidated prior to this. CE: the Company's estimate/forecast.

5. Market Environment

◆ Trends of Japan’s Advertising Market

Total Advertising Expenditure

Total advertising expenditure in Japan in 2020 (calendar year; the same applies to this entire chapter) was about Y6.2 trillion, having decreased by 11.2% from the previous year. Due to the emergency declaration in response to COVID-19, travel and movement of people were restricted, and the economy was largely negatively impacted. As a result, the advertising market was also negatively affected. A negative growth was observed for the first time in nine years since the Great East Japan Earthquake in 2011.

Internet Ad Market

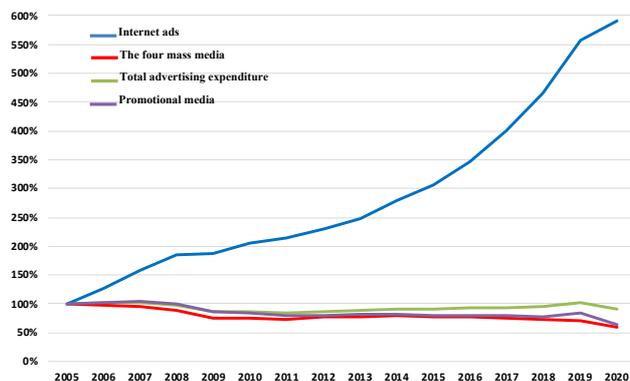
Although total advertising expenditure has been decreasing largely, the EC market has been experiencing a boom due to increased stay-at-home consumption amidst the COVID-19 crisis. As a result, Internet advertising expenditure increased by 5.9% compared to the previous year. Infact, from 2005 (point of comparison, set at 100) to 2020, Internet advertising expenditure grew significantly by about 5.9 times (annual growth rate of about 12.8%, on a simple average) (Figure 14).

Internet advertising expenditure (sum of medium cost and production cost), which is about Y2.2 trillion, accounts for about 36% of the total advertising expenditure. This proportion has been steadily increasing by several percent every year. It is not only as significant as the four mass-media advertising (newspaper, magazine, radio, and television), but it has exceeded the share of television (27%), which is the largest among the four, to become the largest advertising media (ref: Dentsu Inc.’s “2020 Advertising Expenditures in Japan”).

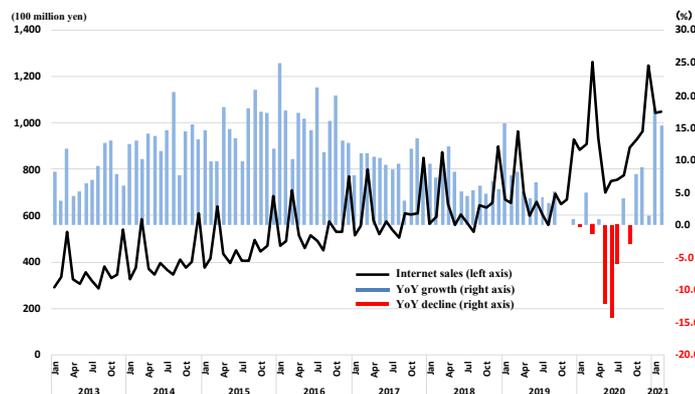
◆ Due to the impact of COVID-19, Japan’s total advertising expenditure decreased at a double-digit rate compared to the previous year.

◆ Internet advertising expenditure grew by about 5.9x in 15 years from 2005 to 2020. The average annual growth rate (simple average) is about 12.8%.

【Figure 14】 Change in Advertising Expenditure by Medium (Index: the year 2005 is set to 100)



【Figure 15】 Change in Monthly Sales of Internet Ads



(Ref) Figure 14: prepared by Alpha-Win Research Dept. from Dentsu Inc.’s “2020 Advertising Expenditures in Japan” (published every February).
Figure 15: prepared by Alpha-Win Research Dept. from the “Survey of Selected Service Industries” by the Ministry of Economy, Trade, and Industry.

Current Situation

◆ Despite the COVID-19 crisis, the Internet ad market was able to return to growth. After the crisis settles down, the market is predicted to return to a stable, double-digit growth again.

The COVID-19 crisis had caused the entire Internet advertising market to shrink on a year-on-year comparison (based on the sales of the advertising industry as announced by the Ministry of Economy, Trade, and Industry) since the beginning of 2020, but the market has recently been back to growth again (Figure 15). Although the total advertising expenditure seems to be held down due to the third wave of COVID-19, the continued EC boom from the high stay-at-home consumption seems to be helping the Internet advertising

- ◆ For advertising effect measurement tools, there are no competitors with a similar service price range among major corporations.

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

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

- ◆ With the open platform for building EC websites (shopping cart system used by online stores with monthly sales of Y10 million or more), it has the top share, but there are many rivals and competition is intense.
- ◆ The Company's targets are its top customers. Will increase investment to raise competitiveness.

market grow solidly. Once the COVID-19 crisis settles down, Internet usage is predicted to further expand along with the development of technology, leading to a rapid, double-digit annual growth of Internet advertising expenditure for the market. Therefore, the business environment is predicted to remain advantageous for the Company's business for the meanwhile, in terms of Internet ad effect measurement and utilization as well as the expansion of the EC-related markets.

◆ Competitors

There seems to be no similar listed Japanese company that could be directly compared with the Company.

Advertising Effect Measurement Tools

Concerning AD EBiS, its biggest rival had been ADPLAN provided by the listed company OPT HD, but since the Company has already acquired this business, there is no longer any major competitor with a similar service price range.

For advertising effect measurement and analysis tools, the competing products are Google Analytics⁸ and Adobe Analytics⁹ that are widely used by domestic SMEs (small/medium-sized enterprises), and also the private company beBit's "Web Antenna" (implemented by more than 600 companies, including major companies as well as ventures). However, these companies are not specialized in the field like the Company, and their products' function, measurement targets, contents of analysis, and support systems are limited. In comparison, the Company's products are superior in terms of specifications, development system, and support system, which explains its No. 1 position in the market with an extraordinarily high share.

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 than the Company's).

EC Platform (packaged software for building EC websites)

EC-CUBE has earned a high evaluation in an online store trend survey (the most used shopping cart system in Japan by online stores with monthly sales of 10 million yen or greater). For EC platforms, the following companies seem to be the 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

Currently, competition in this area is intense. Therefore, the Company plans to focus its target on its top customers and increase investment so that it can increase its products' competitiveness as well as enhancing support for its users' development environments.

6. Topics

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

- ◆ **Only minimal impact from COVID-19**

- ◆ **Some customers of travel, restaurant, and other service industries were impacted by COVID-19 and had cancelled AD EBiS. Meanwhile, there has been high stay-at-home consumption, which has increased contracts with customers in EC-related businesses. This has mostly offset the above cancellations.**

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

(11) A tracking prevention function was added to Apple's Safari. Google also plans to eliminate the use of third-party cookies from its Chrome in 2022.

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

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

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

Response

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

Impact

Financial results in H1 indicated a steady progress, with no large impact from COVID-19 at all. Some cancellations of AD EBiS contracts were seen among customers in industries such as travel, restaurants, leisure, worker dispatching, and bridal service that were impacted by the COVID-19 crisis. Meanwhile, due to the high stay-at-home consumption, contracts with companies in the EC industry and SaaS-related businesses had increased and nearly completely offset the cancellations.

Because the Company's flagship product AD EBiS is a tool for optimizing costs through ad effect measurement, the current situation may be more of a business chance since the shift in consumption toward EC amidst the COVID-19 crisis will increase the demand for ad effects that can more efficiently appeal to customers.

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

Response

With the global trend of strengthening regulations on personal information protection¹⁰, Japan too strengthened the Personal Information Protection Law. Google and Apple have also subsequently placed or will place regulations on their browsers¹¹ against the use of third-party cookies (cookies issued by domains other than the website that a user is visiting) which enable the tracking¹² of a user's browsing history across websites. As a result, measurement of ads through those means has become difficult.

In response to this, the Company has already begun providing a measurement method for AD EBiS where measurements using first party cookies¹³ can be made on behalf of customers. Since its release, about 700 companies seem to have installed it. In the new measurement method, highly accurate measurements of advertising effectiveness can be made without using third party cookies, which have raised many issues, and while protecting user privacy.

Impact

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

7. This Fiscal Year's First-Half Results and Full-Year Forecast

◆ Results for Q2 FY 2021 (first half)

Overview

- ◆ Record-high H1 sales and profit achieved.

Consolidated financial results for Q2 FY 2021 (October 2020 - March 2021; the first half or "H1") were as follows: sales had increased by 18.7% YoY to Y1,466 million and operating profit had increased by 150.3% YoY to Y178 million (Figure 16). Both sales and profit had increased significantly.

There was no significant nonoperating profit/loss or extraordinary profit/loss recorded, and net profit had increased by 155.6% to Y116 million. H1 record highs were achieved for sales and net profit.

Progress in H1

- ◆ H1 profit seems to have been higher than the Company had expected.

Progress in H1 in terms of the full-year forecast was 48.9% for sales (previous H1: 45.7%) and 53.9% for operating profit (previous H1: 35.7%). Although the Company's financial forecast for H1 is not disclosed, operating profit seems to have exceeded the Company's expectations.

Trends in Financial Performance by Segment

- ◆ Rise in unit price of AD EBiS contributed to the large profit growth of the Marketing PF.

By segment, sales of the Marketing PF Segment increased by 13.2% from the previous H1's Y1,122 million to Y1,271 million in this H1. Similarly, its operating profit increased significantly by 51.0% from Y67 million to Y101 million.

- ◆ Previous M&A and new businesses also contributed to the results.

This was mainly due to the increase in the average unit price of AD EBiS, its core business (see Figures 7 and 8 on page 9). The ADPLAN business, which had been acquired in January 2020, also fully contributed to the results (unlike the previous fiscal year, its sales for Q1 or Oct-Dec were recorded this year and contributed positively).

Also, although the monetary impact had been small, the new acquisition of a company (three months' sales of Spoo) and the launch of new businesses (six months' sales of Ad Knowledge and ADHOOP were added on a YoY comparison) have also contributed positively to the results.

【Figure 16】 Comparison of Quarterly and Semi-Annual Results

| Q1 (Oct-Dec), Q2 (Jan-Mar), Q2 YTD (Oct-Mar) (Unit: million yen, %) | FY 2020 | | FY 2021 | | FY 2020 | FY 2021 | Q2 YTD, FY 2021 (YoY) | |
|---|--------------|--------------|--------------|--------------|---------|---------|-----------------------|------------------|
| | Q1 (Oct-Dec) | Q2 (Jan-Mar) | Q1 (Oct-Dec) | Q2 (Jan-Mar) | Q2 YTD | Q2 YTD | Amount | % Change / Diff. |
| Total Sales | 585 | 650 | 722 | 744 | 1,235 | 1,466 | 231 | 18.7% |
| Marketing Platform | 524 | 599 | 622 | 649 | 1,123 | 1,271 | 148 | 13.2% |
| EC Platform | 62 | 51 | 100 | 95 | 112 | 195 | 83 | 73.8% |
| Gross Profit | 407 | 432 | 505 | 496 | 839 | 1,002 | 163 | 19.4% |
| Gross Margin | 69.5% | 66.5% | 70.0% | 66.7% | 67.9% | 68.3% | | 0.4% |
| SG&A Expenses | 382 | 386 | 411 | 412 | 767 | 823 | 55 | 7.2% |
| SG&A Expenses Ratio | 65.2% | 59.3% | 56.9% | 55.4% | 62.1% | 56.1% | | -6.0% |
| Operating Profit (segment) | 25 | 47 | 95 | 84 | 71 | 179 | 107 | 150.3% |
| Marketing Platform | 16 | 51 | 48 | 53 | 67 | 101 | 34 | 51.0% |
| EC Platform | 9 | -4 | 47 | 31 | 4 | 78 | 73 | 1643.3% |
| Operating Margin | 4.2% | 7.2% | 13.1% | 11.3% | 5.8% | 12.2% | | 6.4% |
| Marketing Platform | 3.0% | 8.5% | 7.7% | 8.2% | 6.0% | 8.0% | | 2.0% |
| EC Platform | 14.5% | -8.8% | 46.5% | 32.6% | 4.0% | 39.7% | | 35.8% |
| Recurring Profit | 25 | 46 | 95 | 82 | 71 | 177 | 107 | 151.0% |
| Net profit | 19 | 27 | 62 | 55 | 46 | 117 | 71 | 155.7% |

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

- ◆ Profit of the EC PF Segment, which has a high marginal profit ratio, increased by 17x YoY due to the sales growth.

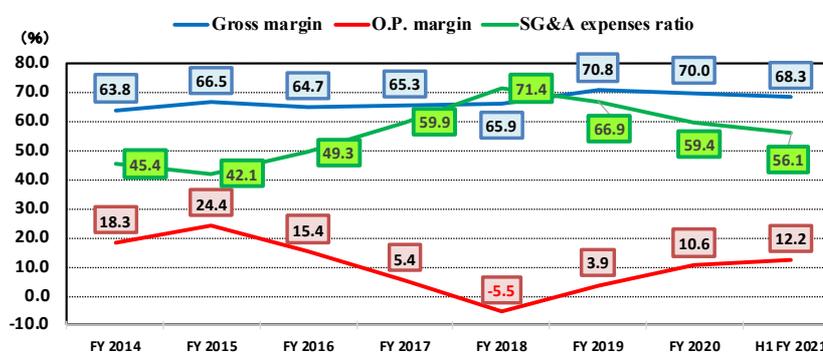
- ◆ SG&A expenses ratio became smaller, leading to a significant improvement in operating margin.

Meanwhile, in the EC PF Segment, sales had increased largely by 73.8% from the previous H1's Y112 million to Y195 million in this H1 thanks to the EC transactions boom. Since the segment is based on a business model with a high marginal profit ratio, the segment's operating profit had also increased sharply by 1,643.3% from Y4 million to Y78 million.

Trends in Margins and Profit/Loss

The gross margin slightly improved from 67.9% in the previous H1 to 68.3% in this H1 (Figure 17). Furthermore, since the SG&A expenses only increased by 7.2%, which is much smaller than the sales growth rate (+18.7%), the ratio of SG&A expenses to sales decreased by 6.0 percentage points from 62.1% to 56.1% in the same order as above. As a result, H1 operating margin improved by 6.4 percentage points from 5.8% to 12.2%.

【Figure 17】 Transition in SG&A Expenses Ratio and Profit Margins (Unit: %)



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

- ◆ Profit increased thanks to sales growth and cost control. Both PFs contributed to this achievement.

Analysis of Factors that Increased/Decreased Profit in H1

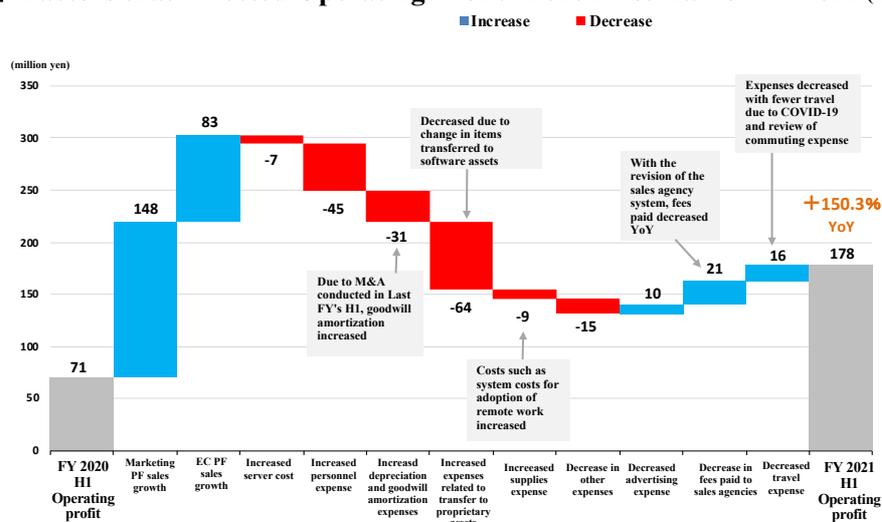
The factors that increased or decreased profit in H1 are summarized in Figure 18 on page 21. The sales growth of the Marketing PF Segment (+Y148 million YoY) and the EC PF Segment (+Y83 million YoY) both contributed significantly to the profit growth.

Regarding costs, the following were the main factors that decreased profit: Y64 million from the decrease in the amount transferred to proprietary assets (⇒ increase in expenses recorded during the period), increase in depreciation and goodwill amortization expenses by Y31 million, and increase in personnel expenses by Y45 million.

The increase in goodwill amortization was due to the acquisition of businesses including ADPLAN, and the increase in personnel expenses was from increasing employees for the new businesses. Both expenses were upfront investments and were for positive reasons.

Meanwhile, profit increased due to the following decrease in costs: the review of the sales agency system had led to a decrease in fees paid to sales agencies by Y21 million, travel expenses decreased by Y16 million due to COVID-19, and advertising expenses decreased by Y10 million.

【Figure 18】 Factors that Affected Operating Profit in the First Half of FY 2021 (YoY comparison)



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

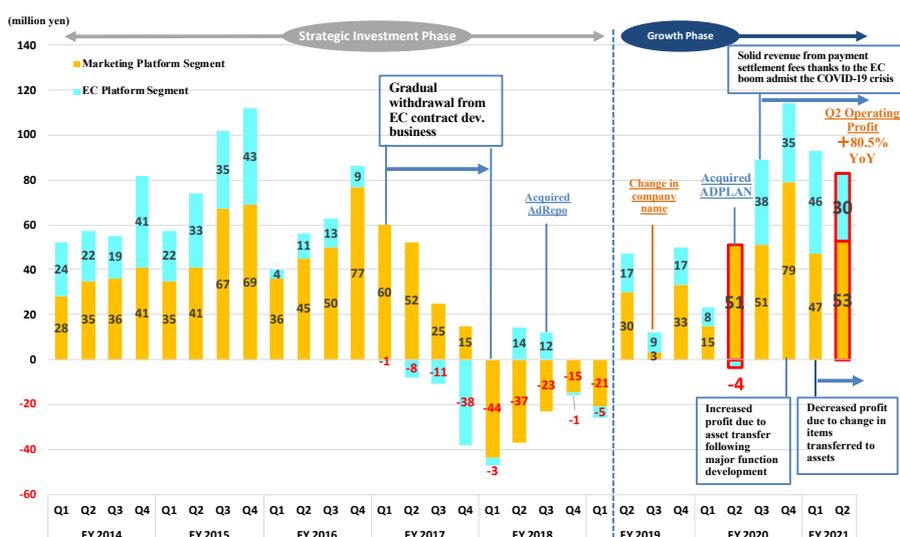
- ◆ Record-high sales and net profit in both Q1 and Q2.
- ◆ Since achieving an operating profit in a turnaround for the first time in 7 quarters, it has been maintaining an operating profit for 9 consecutive quarters.
- ◆ Shifted its business plan toward emphasizing growth in terms of profit. Positive results seen from the business restructuring and the shift to the fixed-payment business model.

Quarterly Change in Results

In both the first quarter (Q1) and the second quarter (Q2) of this fiscal year, sales grew YoY at a double-digit rate and record-high sales and profit were achieved.

Also, the quarterly change in operating profit (Figure 19) shows that the Company had posted losses from Q4 FY 2017 (Jul-Sep 2017) to Q1 FY 2019 (Oct-Dec 2019). However, in Q2 FY 2019, it posted a profit for the first time in seven quarters. Since then, it has been maintaining an operating profit for nine consecutive quarters through Q2 FY 2021 (Jan-Mar 2021). This has been due to the improvement in gross margin and SG&A expenses ratio caused by the sales growth of AD EBiS, withdrawal from the non-core businesses, improvement in EC-CUBE's profit, acquisition of promising businesses, transition in business model from pay-per-use to flat-rate subscription, cost control, and other factors.

【Figure 19】 Quarterly Transition in Operating Profit



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

Semi-Annual Change in Cash Flow

- ◆ **Positive FCF maintained for 2 consecutive quarters.**

Looking at semi-annual results, we can see that free cash flow (FCF) had been negative during the period that the Company had been actively making investments. However, with profit growth and the completion of the investment phase, FCF has turned positive (Figure 20).

【Figure 20】 Semi-Annual Change in Cash Flow

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

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

◆ The Company's Financial Forecast for FY 2021 (full year)

Full-Year Forecast

- ◆ **No change to this fiscal year's financial forecast. Expecting record-high sales and double-digit profit growth for the full year.**

The Company has not changed its forecast for the full year that it will achieve a double-digit sales and profit growth: sales of Y3,000 million (+14.6% YoY), operating profit of Y330 million (+19.2% YoY), recurring profit of Y320 million (+22.5% YoY), and net profit of Y210 million (+14.5% YoY). This means that sales are expected to increase consecutively for 12 fiscal years, and each of the profit is expected come close to their record highs.

Current Situation (monthly sales)

As described previously, the impact of the COVID-19 crisis on financial results has been small because demand for non-face-to-face businesses such as EC has been firm, the Company's business is mostly based on a subscription-based business model, and its business operations are highly compatible with remote work.

- ◆ **Solid sales maintained in April, the first month of H2, as well. Minimal impact of COVID-19.**

Figure 21 on page 23 shows the monthly change in sales over recent years that the Company has disclosed. Sales in April alone, the first month of the second half, were Y249 million for the entire company. This was a 15.0% growth from the same period of the previous fiscal year, indicating that the Company has maintained a double-digit growth rate. Although stagnation has been seen in economic activities due to another emergency declaration in response to the COVID-19 crisis, the Company's fundamentals have remained solid.

By segment, the main Marketing PF Segment's sales had increased by 8.3% YoY in April, somewhat slowing down in growth speed. On the other hand, the EC PF Segment's sales had grown significantly by 86.2% YoY in April.

The sum of all sales during this fiscal year so far from October 2020 to April 2021 (sum of flash-report monthly sales values) for the entire company was Y1,716 million, a 18.2% growth YoY. This growth rate exceeds the Company's expected sales growth rate of 14.6% for the full year.

Also, sales during the same period of the previous fiscal year were Y1,452 million, and progress in terms of the actual full-year sales was 55.4%. This fiscal year's progress has been slightly faster during this same period, at 57.2% of the Company's full-year plan.

【Figure 21】 Recent Monthly Change in Sales (flash report)

(Upper row: sales; unit = thousand yen, with decimal places cut off)

(Lower row: YoY change; unit = %)

| Calendar Year | 2020 | | | 2021 | | | | FY 2021 YTD (Oct 2020 - Apr 2021) |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---|
| Fiscal Year | FY 2021 | | | | | | | |
| Monthly Sales | Oct | Nov | Dec | Jan | Feb | Mar | Apr | |
| Marketing Platform | 203,942 | 205,256 | 212,307 | 206,412 | 216,511 | 226,457 | 214,535 | 1,485,420 |
| | 121.8 | 118.5 | 116.0 | 102.8 | 109.8 | 112.7 | 108.3 | 112.5 |
| EC Platform | 35,699 | 36,386 | 28,356 | 39,511 | 29,247 | 26,297 | 34,582 | 230,078 |
| | 136.4 | 206.7 | 157.4 | 151.4 | 181.4 | 311.2 | 186.2 | 175.7 |
| Entire Company | 239,641 | 241,642 | 240,664 | 245,924 | 245,758 | 252,755 | 249,118 | 1,715,502 |
| | 123.8 | 126.6 | 119.7 | 108.4 | 115.2 | 120.7 | 115.0 | 118.2 |

(Ref) Prepared by Alpha-Win Research Dept. from the monthly announcements posted on the Company's website.

(Note) The values shown are preliminary data before an audit by an auditor and may be revised in the future.

Plan for H2

Concerning the business plan for this fiscal year, the Company has stated that “in the first year of the medium-term business plan, VISION 2023, we will focus on accelerating the growth of the existing services as well as creating a new growth driver.”

In H2, the Company plans to continue cost control while also putting resources into areas whose competitiveness needs improvement and in areas of growth. It also plans to actively invest in new business development.

Goals for H2

The Company's forecast for H2, calculated by subtracting the H1 results from the full-year forecast, is as follows: sales of Y1,534 million (+10.9% YoY), operating profit of Y151 million (-26.4% YoY), recurring profit of Y143 million (-25.1% YoY), and net profit of Y93 million (-32.4% YoY).

Compared to this H1, the Company is expecting sales to increase by 4.6% and operating profit to decrease by 15.4% in H2 (compared to H1, +Y67 million in sales and -Y28 million in profit). It is also expecting operating margin to worsen from 5.8% in the previous fiscal year's H1, 14.9% in the previous fiscal year's H2, and 12.2% in this H1, to 9.9% in this H2.

As explained previously, these predictions are mostly due to the Company's expectation that gross margin will worsen and SG&A expenses ratio will rise in H2 following the enhancement of the existing businesses, development of new businesses, and upfront investment for future growth.

- ◆ In H2, the Company expects sales to grow by 10.9% YoY and operating profit to decline significantly by 26.4% YoY.
- ◆ Compared to H1, sales growth and profit decline are expected.
- ◆ In H2, the Company plans to actively invest, mainly in new business development. As a result, operating margin is expected to slightly worsen.

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

Revisions to This Fiscal Year's Forecast

We believe that the Company is highly likely to achieve its planned sales and profit for this full fiscal year. Considering the H1 results, the current situation, and interview with the Company, we made revisions to our full-year forecast for profit (Figure 22). The reasons are listed below.

1. H1 results were solid, and profit seems to have exceeded the Company's plan. Progress rate for operating profit was also high, at 53.9%.
2. Additionally, a steady growth of 15% was seen in the sales of the entire company in April.
3. The Company's estimated profit and profit margin for H2 seem conservative compared to the previous fiscal year's H2 and this fiscal year's H1.

- ◆ Alpha-Win revised the profit forecast for this full fiscal year upward. The Company's estimates seem conservative.

- ◆ Regarding full-year estimates for AD EBiS, the number of accounts was revised down while the unit price was revised up.

- ◆ Sales of EC PF have been extremely strong.

- ◆ In making the financial forecast, we assumed that there will be no large M&A in H2.

Since the number of active accounts of AD EBiS had been smaller than we had expected, we revised down our estimate of its annual average. On the other hand, we revised the estimated average unit price upward. Since we had also revised up the predicted sales of the business for advertising agencies and the new businesses, this downward revision was mostly offset, resulting in only a slight downward revision of the Marketing PF's sales (from the previously predicted Y2,630 million ⇒ current forecast of Y2,550 million; the same order applies below).

Since the EC PF has been extremely solid in contrast, we revised its sales upward (Y370 million ⇒ Y450 million). There is very little concern that the planned profit will not be achieved, especially since the Company has been continuing to control costs within a target range.

In sum, we have kept our forecast for full-year sales the same (Y3,000 million), but revised our forecast for operating profit upward by Y20 million (previous forecast of Y330 million → new forecast of Y350 million). We also raised our forecast for recurring profit and net profit accordingly.

Company or business acquisitions will bring factors of uncertainty regarding sales and various costs, but we have assumed that there will be no new large M&As during H2.

【Figure 22】 Alpha-Win Research Dept.'s Revised Forecast for This Fiscal Year and Medium-Term Forecast

| (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 | 3,000 | 3,000 | 3,390 | 3,860 |
| Marketing PF | 1,530 | 1,951 | | 2,400 | 2,318 | | 2,550 | 2,890 | 3,310 |
| EC PF | 274 | 253 | | 250 | 301 | | 450 | 500 | 550 |
| Gross Profit | 1,190 | 1,561 | | 1,830 | 1,832 | | 2,080 | 2,380 | 2,750 |
| Gross Margin | 65.9% | 70.8% | | 69.1% | 70.0% | | 69.3% | 70.2% | 71.2% |
| SG&A Expenses | 1,289 | 1,476 | | 1,630 | 1,555 | | 1,730 | 2,000 | 2,270 |
| Ratio to sales | 71.4% | 66.9% | | 61.5% | 59.4% | | 57.7% | 59.0% | 58.8% |
| Operating Profit | -98 | 85 | 200 | 200 | 276 | 330 | 350 | 400 | 480 |
| Ratio to sales | -5.5% | 3.9% | 7.4% | 7.5% | 10.5% | 11.0% | 11.7% | 11.8% | 12.4% |
| Recurring Profit | -115 | 79 | 190 | 190 | 261 | 320 | 340 | 390 | 470 |
| Ratio to sales | -6.4% | 3.6% | 7.0% | 7.2% | 10.0% | 10.7% | 11.3% | 11.5% | 12.2% |
| Net Profit | -89 | -35 | 130 | 130 | 183 | 210 | 225 | 265 | 320 |
| Ratio to sales | -4.9% | -1.6% | 4.8% | 4.9% | 7.0% | 7.0% | 7.5% | 7.8% | 8.3% |
| KPI | Annual Average (A) | Annual Average (A) | | Annual Average (E) | Annual Average (A) | | Annual Average (E) | Annual Average (E) | Annual Average (E) |
| AD EBiS: # of active accounts | 1,476 | 1,486 | | 1,500 | 1,475 | | 1,350 | 1,360 | 1,400 |
| % change for the above | | 0.7% | | 0.9% | -0.7% | | -8.5% | 0.7% | 2.9% |
| AD EBiS: average unit price (yen) | 78,938 | 98,517 | | 125,000 | 120,629 | | 142,000 | 155,000 | 165,000 |
| % change for the above | | 24.8% | | 26.9% | 22.4% | | 17.7% | 9.2% | 6.5% |
| Sales (YoY growth rate) | 5.0% | 22.1% | | 20.2% | 18.8% | | 14.6% | 13.0% | 13.9% |
| Marketing PF | 21.9% | 27.5% | | 23.0% | 18.8% | | 10.0% | 13.3% | 14.5% |
| EC PF | -41.1% | -7.6% | | -1.3% | 18.8% | | 49.6% | 11.1% | 10.9% |
| Gross Margin (diff. from last FY) | -0.3% | 4.9% | | -1.7% | -0.8% | | -0.6% | 0.9% | 1.0% |
| SG&A Expense (growth rate) | 25.1% | 14.5% | | 10.5% | 5.4% | | 11.3% | 15.6% | 13.5% |
| Operating Profit (growth rate) | To loss | To profit | | 135.5% | 225.0% | | 26.8% | 14.3% | 20.0% |
| Recurring Profit (growth rate) | To loss | To profit | | 140.4% | 230.3% | | 30.3% | 14.7% | 20.5% |
| Net Profit (growth rate) | To loss | Smaller loss | | To profit | To profit | | 23.0% | 17.8% | 20.8% |

(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. Alpha-Win's estimates for AD EBiS's average unit price and number of active accounts are annual averages and therefore they differ from the Company's estimates (which are averages of the end of the last month of each quarter). Actual results (A) are simple averages of end-of-the-quarter figures.

8. Growth Strategy

◆ The Company's Medium- to Long-Term Business Plan and Strategy

- ◆ Working on the MXP Strategy to support the DX of customers.

- ◆ Expanding the services for advertising agencies and the new services in addition to the existing businesses.

- ◆ Strategy to increase the average unit price and number of customers.

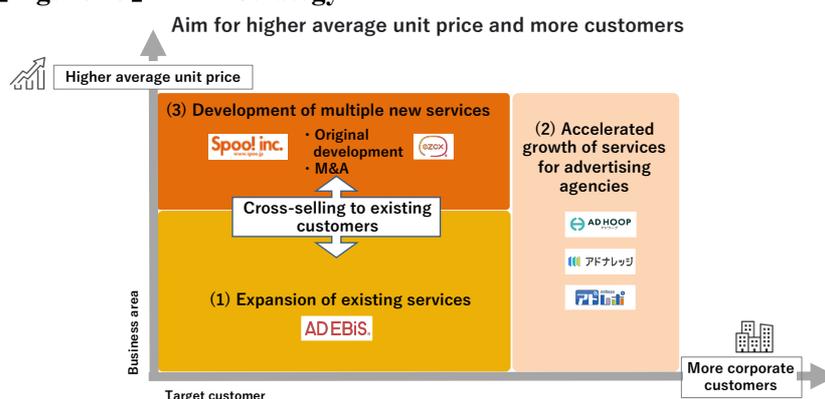
Medium-Term Business Plan

The Company set out a plan called the MXP Strategy (MXP stands for “Marketing Transformation Platform”) strategy. In this strategy, the Company plans to evolve its business into a platform business that supports the marketing DX of companies in Japan.

In the MXP Strategy, the Marketing PF Segment is divided into three categories (the existing businesses, services for advertising agencies, and new services), and the Company will work on expanding business in each area (Figure 23). In addition to further developing its current areas of strength, or data measurement and analysis, it will leverage these strengths, as well as releasing originally developed products and conducting M&As, to develop multiple new services. Also, to accelerate its progress with the advertising agency business, it will support the DX and streamlining of operation by advertising agencies.

In each business area, the Company plans to increase sales along two directions: increasing the number of customers (target customers) and raising the average unit price through cross-selling and up-selling.

【Figure 23】 MXP Strategy

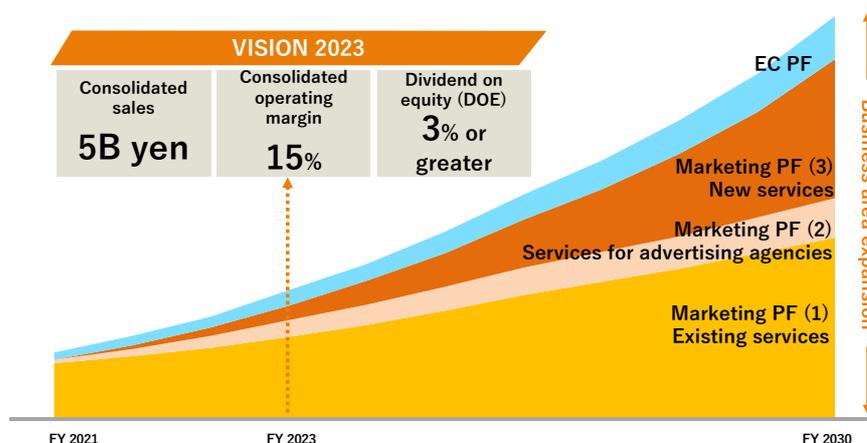


(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials, with partial revisions.

- ◆ Ambitious goals for the medium term.
- ◆ Aiming for sales of Y5 billion, operating margin of 15%, and DOE of 3% or greater for the final year of the medium-term plan or FY 2023.

The Company has announced its medium-term business plan (VISION 2023). In its final year or FY 2023, the Company plans to achieve the following targets: sales of Y5 billion (Y3 billion planned for this fiscal year; +66% or +Y2 billion in sales from this fiscal year), operating margin of 15% (+4% from this fiscal year's plan of 11%; the target operating profit is greater than Y750 million, meaning that it is expected to grow by Y420 million or 127% from the Y330 million expected for this fiscal year), and dividend on equity ratio (DOE) of 3% or greater (2% planned for this fiscal year) (Figure 24 on page 26).

These are high goals compared to this fiscal year's plan. To achieve the goals, the Company plans to work on accelerating growth by developing its existing core businesses and the new businesses that it is currently focusing on, as well as through the creation of a new platform business.

【Figure 24】 Medium-Term Business Plan

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials, with partial additions and revisions.

Cost of the Marketing PF, the main segment, is controlled through the following five categories, with medium-term cost goals set for each (in terms of the ratio to sales): “marketing and sales,” “development,” “customer success,” “other indirect expenses,” and “new business development” that was newly added this fiscal year. For operating margin, which reflects the result of cost control, the Company is aiming to achieve 10-20% for the Marketing PF. An operating margin of 12.1 % has already been achieved in this fiscal year’s H1, and the full-year forecast of 11% is also within the target range.

Long-Term Plan

- ◆ Over the medium to long term, growth of the Marketing PF Segment’s new services is expected to contribute significantly to results.

According to the most recent financial results briefing materials, the target period of the long-term business plan has been extended by four years from the previous “FY 2021 to FY 2026” to “FY 2021 to FY 2030” (right-hand side of the graph in Figure 24). The basic trend of the growth curve has not changed, but compared to the previous version, the proportion of the expected growth of the new services in the Marketing PF segment has become larger.

- ◆ In achieving the goals, M&A and alliances are also possible options. Results will be affected by whether there will be M&As and whether they will succeed. Over the medium to long term, the Company hopes to maintain profit growth while also improving the top line. ROIC will also be key going forward.

Breakdown of sales and other specific goals and measures have not been clarified. However, judging from the graph’s scale (the Company had commented that the graph was created so that its scale is close to realistic figures), it seems that the Company is expecting the total sales in FY 2030 to be about Y16.5 billion, or more than three times greater than the sales goal for FY 2023 (percent of total sales for the Marketing PF Segment’s existing services, services for advertising agencies, and new services and for the EC PF Segment is estimated to be 45, 10, 35, and 10, respectively).

If the economic situation normalizes, the Company will most likely not only accelerate growth through organic growth but also consider other possibilities such as active engagement in M&As and alliances.

Going forward, the balance between investment for growth and future return, or return on invested capital (ROIC), will likely become key to each project.

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

Medium-Term Forecast

- ◆ Alpha-Win revised the forecast for the medium term, starting next FY. We expect double-digit sales and profit growth next FY as well as the year after the next.

The domestic DX market for corporate Internet marketing activities, which the Company is focusing on, has a high growth potential. Therefore, assuming that the impact of COVID-19 will gradually become smaller and the economy will also normalize, we expect the Company to achieve a double-digit growth in sales and profit in FY 2022 as well as FY 2023.

In its main segment, or the Marketing PF Segment, up-selling and cross-selling of AD EBiS are expected to help raise the unit price so that AD EBiS will continue to be the growth driver. In addition, in the Marketing PF Segment, continuous improvements in profit are expected from the Company's control of operations based on medium-term goals for cost ratios and also as a result of its past measures.

- ◆ Over the medium term, we expect a profit growth rate of 20% per year.

Currently, the cash flow of the existing businesses is improving and the Company is in the stage of shifting resources to new or related areas of business. Going forward, growth is expected to accelerate with the development of the new businesses as well as active engagement in M&As and business alliances with other companies. Over the medium term, we believe that the Company may potentially maintain an annual profit growth of about 20%.

We only revised up the profit forecast for next fiscal year, and kept the sales for next fiscal year and all forecast for the fiscal year after the next the same (Figure A on page 2 and Figure 22 on page 24).

- ◆ For next FY, we only revised profit upward. Record-high profit is also possible. Kept the forecast for the year after the next the same.

Like the forecast for this fiscal year, we also revised down the expected number of active accounts of AD EBiS and the predicted sales of AD EBiS for FY 2022. However, this downward revision to sales was offset by the upward revision to the sales of the EC PF Segment.

In the EC Platform Segment, we believe that business will be solid since the EC market is expected to continue to grow at a high, stable rate and the Company is expected to create synergy with Orico in the alliance and start new strategies for new value creation.

Although there will be costs related to upfront investment for new businesses, profit margins are expected to be improved through cost reduction (server costs, etc.). Consequently, we revised operating profit upward from Y380 million to Y400 million. We also raised our forecast for recurring profit and net profit accordingly.

Next fiscal year, we believe that the Company may achieve record-high profits for the first time in seven fiscal years (operating profit of Y350 million and net profit of 230 million achieved in FY 2015). If that is achieved, then dividend may also be raised.

For FY 2023, we only made a downward revision to the number of active accounts of AD EBiS. However, since the Marketing PF Segment's business for advertising agencies is expected to make a full contribution to results and the new services will begin to yield results as well, we revised our sales forecast for those two businesses upward. In sum, there is no change to the overall forecast (sales and profits).

9. Analyst's View

◆ Shareholder Return

The Company had been paying dividend since becoming listed on the market, but in FY 2018 and FY 2019, it stopped paying dividend due to the consecutive posting of net loss. It also abolished the shareholder benefit program at the same time.

- ◆ This FY, dividend was revised upward.

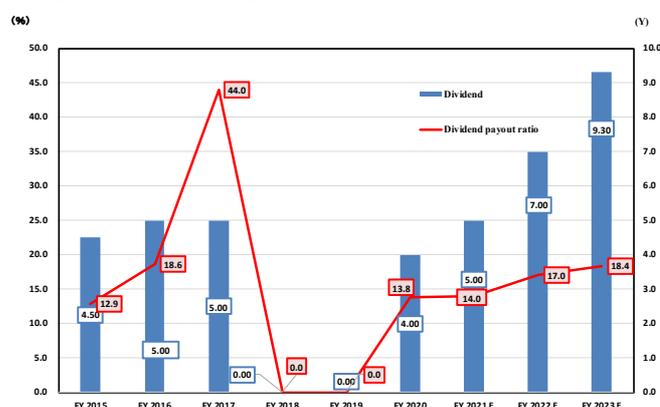
Due to the recovery of financial performance, the Company had resumed dividend in FY 2020 (4 yen / share) and had also initially planned to increase dividend to 4.5 yen per share during this fiscal year. However, because shareholders' equity had increased due to the sales of 10% of its subsidiary EC-CUBE's shares, it announced that it will now increase this fiscal year's dividend to 5.0 yen per share (Figure 25). This dividend hike reflects the Company's current policy to set dividend so that the consolidated dividend on equity ratio (DOE) is 2%.

- ◆ Over the medium term, DOE is planned to be raised from 2% to 3%.

One of the Company's goals is to raise DOE to 3% or greater in FY 2023. Additionally, the Company is still in the growth phase and a profit growth trend is expected. Due to these two factors, dividend is expected to increase over the medium term.

In response to the increase in the Company's expected dividend for this fiscal year, Alpha-Win also raised the expected dividend for this fiscal year from 4.5 yen per share to 5 yen per share. For FY 2022, we had previously predicted that the DOE will be 2%, but we now expect the Company to gradually raise the DOE toward the 3% goal for FY 2023. Consequently, we revised the expected DOE to 2.5%. As a result, we raised the expected dividend from the previous 5.3 yen per share to 7 yen per share.

【Figure 25】 Change in Dividend and Dividend Payout Ratio



(14) AdTech (ad technology): A generic term for information technology used in advertising business, it refers to the digital technology used in Internet ads, etc.

(Ref) Prepared by Alpha-Win Research Dept. E: Alpha-Win's forecast/estimate.

- ◆ Volatility of stock price is high. Recent stock price has been somewhat bearish due to corrections in the stock price of small-cap stocks in general.

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

Stock Price and Trends

The Company's stock is a small-cap, AdTech¹⁴-related stock listed on TSE Mothers. Since becoming listed, the volatility of stock price has been high (max of 5,260 yen in May 2016 and min of 677 yen in August 2015). Stock price was bearish during the period that the Company's financial performance had been worsening. However, with profit recovery, it had bottomed out and

has been fluctuating within a boxed range of 1,000 to 2,000 yen over the past four years.

Despite the severe economic environment amidst the COVID-19 crisis, the Company's financial performance has been solid and its stock price had been rising since March 2020. However, in a reactionary fall from this heightened price as well as due to the market's preference for economically sensitive stocks and the worsening of stock demand that has caused the market to be bearish for small-cap growth stocks in general, the Company's stock price has been underperforming the TSE Mothers, TOPIX, and other various indices since the beginning of the year (Figure 26).

【Figure 26】 Comparison of Performance Since the Beginning of the Year (based on closing price)

| | 12/30/2020 | 5/21/2021 | Performance |
|-------------|------------|-----------|-------------|
| YRGLM | 1,628.00 | 1,255.00 | -22.9% |
| TSE Mothers | 1,196.49 | 1,128.66 | -5.7% |
| TOPIX | 1,804.66 | 1,904.69 | 5.5% |

(Ref) Prepared by Alpha-Win Research Dept.

- ◆ No cheapness to valuation based on this fiscal year's figures.

(15) P/S: Ratio of stock price to sales = market capitalization / sales

- ◆ Considering its PEG and medium-term financial results, the current stock price is at a level that could be considered for investment.

Valuation

As reference, the overall size, business, and valuation of 28 listed companies in Ad-Tech-related or partially similar businesses, including the Company, were compared (Figure 27 on page 30; financial forecasts are from each company's most recent announced figures).

When compared based on this fiscal year's forecasted financial results, there is no cheapness to the Company's valuation (P/E of 36.9, P/B of 5.2, P/S¹⁵ of 2.6, and dividend yield of 0.4%). Valuation seems expensive compared to the average of the First Section of the TSE (P/E of 16.0, P/B of 1.3, and dividend yield of 1.8% on a simple average), but this is most likely because anticipation of profit growth over the medium term is reflected in the stock price to some degree.

The Company's PEG is about 1.8 (expected P/E for this fiscal year ÷ annual profit growth rate estimated by Alpha-Win = 35.2 ÷ 20%). Since this PEG ratio is smaller than 2, the Company can be considered as a possible investment target with regards to growth potential (the estimated P/E based on Alpha-Win's financial forecast is 30.5 for next fiscal year and 24.8 for the year after the next).

Key Points to Watch Going Forward

Going forward, stock price may be affected by the following factors: trends in monthly sales (YoY), quarterly changes (profit growth rate, profit margins, and AD EBiS's average unit price and number of active accounts), the final financial results for this fiscal year, announcement of M&As or alliances, announcement of new functions, and the release of new services and products and their contribution to financial results.

- ◆ Should watch the stock as an AdTech- and EC-related growth stock that is oriented toward domestic demand.

Over the medium to long term, the Company's business has a large growth potential since the Internet advertising market and the EC market are expected to continue to expand. We are hoping to see its growth as an AdTech- and EC-related growth stock that is oriented toward domestic demand and not directly largely influenced by COVID-19, trade wars, and exchange rates.

[Figure 27] Comparison with Similar Companies (AdTech-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 (5/21) |
|--|--------------------|---|--------|-------------|-------------------|--------|-------------|------|-------|-------|----------------|-------------|-----------------|---|--|----------------------|
| Code | Company Name | Business Area | Market | Market Cap. | Sales | O.P. | O.P. Margin | P/S | P/E | P/B | Dividend Yield | Stock Price | | | | |
| 2159 | Full Speed | Internet marketing / AdTech (Internet Ad distribution tech) | TSE2 | 6,649 | 20,200 | 700 | 3.5 | 0.33 | 15.33 | 1.55 | - | 427 | | | | |
| 2389 | DIGITAL HD | Internet ad agency / ad measurement tool | TSE1 | 49,350 | 100,000 | 12,000 | 12.0 | 0.49 | - | 1.49 | - | 2,072 | | | | |
| 2461 | F&N Communications | Affiliate (pay-per-performance) ad | TSE1 | 29,849 | 28,900 | 2,720 | 9.4 | 1.03 | 15.10 | 1.46 | 4.90 | 388 | | | | |
| 2491 | ValueCommerce | Affiliate (pay-per-performance) ad | TSE1 | 109,101 | 32,700 | 7,400 | 22.6 | 3.34 | 34.08 | 7.90 | 1.36 | 3,165 | | | | |
| 3134 | Hamee | Mobile accessories / EC cloud support | TSE1 | 25,067 | 12,832 | 1,778 | 13.9 | 1.95 | 19.36 | 4.13 | 0.52 | 1,546 | | | | |
| 3655 | BrainPad | Internet marketing / data analysis | TSE1 | 40,884 | 7,125 | 770 | 10.8 | 5.74 | 73.66 | 9.17 | 0.00 | 5,500 | | | | |
| 3688 | CARTA HD | Ad platform | TSE1 | 44,598 | 24,500 | 3,800 | 15.5 | 1.82 | 18.34 | 1.76 | 2.86 | 1,747 | | | | |
| 3690 | YRGLM Inc. | Internet ad measurement tool | TM | 7,997 | 3,000 | 330 | 11.0 | 2.67 | 37.73 | 5.28 | 0.40 | 1,255 | | | | |
| 3853 | Asteria | Packaged software | TSE1 | 14,675 | ND | ND | - | - | - | 2.46 | - | 839 | | | | |
| 3923 | RAKUS | Cloud service / Email delivery / IT engineer dispatching | TM | 369,681 | ND | ND | - | - | - | 47.13 | 0.09 | 2,040 | | | | |
| 4293 | SEPTENI HD | Internet ad agency / smartphone marketing support | JQS | 65,985 | 21,500 | 4,000 | 18.6 | 3.07 | 21.07 | 3.45 | - | 475 | | | | |
| 4395 | Accrete | SMS delivery service | TM | 7,630 | 2,171 | 373 | 17.2 | 3.51 | 29.64 | 5.69 | 0.74 | 1,354 | | | | |
| 4751 | CyberAgent | Internet ad agency / smartphone / games | TSE1 | 1,092,326 | 600,000 | 60,000 | 10.0 | 1.82 | 43.61 | 10.90 | 0.46 | 2,160 | | | | |
| 4784 | GMO AD Partners | Internet ad agency and related platform | JQS | 8,747 | 35,500 | 410 | 1.2 | 0.25 | 29.91 | 1.52 | 1.69 | 522 | | | | |
| 6038 | iID | Contents marketing platform | TM | 4,466 | ND | ND | - | - | - | 1.43 | 0.00 | 891 | | | | |
| 6045 | ReTracks | Pay-per-performance Internet ad service | TM | 4,514 | 2,224 | 618 | 27.8 | 2.03 | 14.39 | 1.98 | 1.77 | 566 | | | | |
| 6081 | Allied Architects | SNS-related marketing support | TM | 13,232 | 5,160 | 520 | 10.1 | 2.56 | - | 6.55 | 0.00 | 939 | | | | |
| 6094 | FreakOut HD | Internet ad delivery (DSP) | TM | 25,574 | 27,000 | 200 | 0.7 | 0.95 | - | 3.77 | 0.00 | 1,511 | | | | |
| 6175 | Net Marketing | Pay-per-performance ad agency | TSE1 | 7,651 | 14,400 | 400 | 2.8 | 0.53 | 28.33 | 2.64 | 1.16 | 517 | | | | |
| 6533 | Orchestra HD | Digital marketing for companies | JQS | 30,158 | 14,200 | 870 | 6.1 | 2.12 | 55.84 | 7.42 | 0.26 | 3,080 | | | | |
| 6553 | SoldOut | Web marketing support for mid-tier companies/SMEs | TSE1 | 17,125 | 22,600 | 470 | 2.1 | 0.76 | - | 5.82 | - | 1,634 | | | | |
| 6562 | Geniee | Automatic trading of media ad space / AdTech biz | TM | 21,441 | 13,582 | 740 | 5.4 | 1.58 | - | 8.08 | - | 1,188 | | | | |
| Simple average of 22 AdTech-related companies (which have not forecasted a net loss) | | | | 90,759 | 51,979 | 5,163 | 10.6 | 1.92 | 31.17 | 6.43 | 1.01 | | | | | |
| Average of TOPIX (closing price on 5/21/2021) | | | | | | | | | 16.04 | 1.29 | 1.80 | 1,904.69 | | | | |
| | | | | | | | | | | | | | (weighted 2.02) | | | |
| 6026 | GMO TECH | App-installation-type charging ad / SEO | TM | 2,430 | 2,800 | -1,000 | -35.7 | 0.87 | NA | 3.02 | 0.00 | 2,208 | | | | |
| 6550 | Fringes1 | Internet ad agency, media monetization support | TM | 5,249 | 1,985 | -235 | -11.8 | 2.64 | NA | 18.13 | 0.00 | 440 | | | | |

| EC-Platform-Related Companies | | Markets: TSE1=TSE 1st Section, TSE2=TSE 2nd Section, TM=TSE Mothers, JQS=JASDAQ | | | Unit: million yen | | | % | | | Ratio | | | % | | Closing Price (5/21) |
|--|-----------------------|---|--------|-------------|-------------------|--------|-------------|-------|-------|-------|----------------|-------------|--|---|--|----------------------|
| Code | Company Name | Business Area | Market | Market Cap. | Sales | O.P. | O.P. Margin | P/S | P/E | P/B | Dividend Yield | Stock Price | | | | |
| 3371 | SOFT CREATE HD | EC website dev. package / selling merchandise to companies | TSE1 | 33,308 | 19,200 | 3,550 | 18.5 | 1.73 | 16.07 | 2.52 | 1.24 | 2,418 | | | | |
| 4304 | Estore | EC website development / online shopping support | JQS | 11,322 | 5,900 | 1,020 | 17.3 | 1.92 | - | 4.48 | 1.53 | 2,097 | | | | |
| 4057 | Interfactory | Cloud commerce platform | TM | 8,741 | 2,121 | 205 | 9.7 | 4.12 | 63.69 | 9.47 | 0.00 | 2,222 | | | | |
| 4496 | Commerce One Holdings | EC website mgmt support for mid-tier/SME EC website mgmt companies | TM | 17,183 | 2,841 | 632 | 22.2 | 6.05 | 39.73 | 9.49 | 0.00 | 2,284 | | | | |
| Simple average of 4 EC-platform-related companies (which have not forecasted a net loss) | | | | 17,639 | 7,516 | 1,352 | 16.9 | 3.46 | 39.83 | 6.49 | 0.69 | | | | | |
| 4477 | BASE | E-commerce platform / online settlements | TM | 182,878 | 10,143 | -1,181 | -11.6 | 18.03 | NA | 11.25 | 0.00 | 1,666 | | | | |

(Ref) Prepared by Alpha-Win Research Dept. from the companies' websites, securities reports, financial results summaries, and financial results briefing materials.

(Note) Generally, each company's forecasted values from their 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 May 14). 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, when sales, operating profit, EPS, or expected dividend were not disclosed, they were marked by "ND" (not determined) or "-". The average was calculated using only valid figures.

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