Alpha-Win Company Research Report

YRGLM Inc. (3690 TSE Growth)

Issued: 12/15/2022

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. Its president Susumu Iwata started the business as a college student and founded the Company in 2001.
・Its main product is its originally-developed Internet advertising effectiveness measurement system (AD EBiS), which has an incredibly high market share (No.1 in the market). It is a leading company in a niche field. It provides the system as a cloud service to mid-tier and large companies.
・Its strengths are its technological skills enabling highly accurate data measurement, employees with expertise in DX, the big data that it has been accumulating as the frontrunner in the field, and its network with more than 500 partner companies.
・Its main business is based on a continuous and stable subscription model.
・Since 2016, it had been working on a business model shift and the selection/focus of its business portfolio. This business restructuring has already come to an end of a phase and has improved its business foundation and earning power. Indeed, in recent years, it has been growing sales at a double-digit rate and stably posting a profit, as well as maintaining profit growth and increasing dividend.
・Currently, it is in the phase of making upfront investments to prepare for the next stage of growth, developing original products using its accumulated know-how, technologies, and big data and actively expanding into new businesses through M&As.
・It became listed on the previous market segment of TSE Mothers in September 2014. In August 2019, its name was changed from LOCKON CO., LTD., to YRGLM Inc. Due to the restructuring of market segments, its listing was changed to TSE Growth in April 2022.

Last Fiscal Year's Results

・Last fiscal year (FY 2022; note that the Company's fiscal year is September-ending, i.e., FY 2022 ended in September 2022), sales grew to Y3,334 million (+12.7% YoY) and operating profit grew to Y392 million (+7.4% YoY), but net profit declined slightly to Y236 million (-1.5% YoY) due to an impairment loss recorded under extraordinary losses. The Company had revised down its initial plan in May, but sales fell short of this plan by Y66 million (-1.9% compared to the revised plan). On the other hand, operating profit and net profit were Y52 million (+15.3%) and Y26 million (+12.4%) greater than the plan, respectively (dividend of 7 yen/share was unchanged).
・The previous fiscal year's results exceeded Alpha-Win Research Department's previous forecast by Y34 million (+1.0% compared to our forecast) for sales, by Y42 million (+12.0%) for operating profit, and by Y18 million (+8.3%) for net profit.
・Thanks to the M&As and the in-house developed services, overall sales have remained strong and hit a record high for the ninth fiscal year since becoming listed on the market. Meanwhile, operating profit increased for the fourth consecutive year and hit a record high for the second consecutive year. However, operating margin worsened by 0.6 percentage points from 12.4% in the fiscal year before the previous to 11.8% in the previous fiscal year, due to increased costs associated with M&As and enhanced promotions. This led to a slowdown in the rate of profit growth.

This Fiscal Year's Financial Forecast

・Like last fiscal year, the Company announced its full-year forecast for the current fiscal year (FY 2023) at the beginning of the fiscal year (the forecast for the first half was not announced).
・For the current fiscal year, the Company forecasts sales of Y3,900 million (+17.0% YoY), operating profit of Y400 million (+1.9% YoY), net profit of Y240 million (+1.7% YoY), and dividend of 7.8 yen (+0.8 yen/share) (operating margin of 10% and DOE of 2.5% are planned).
・The Company had previously set financial targets for the current fiscal year, which is the final year of its medium-term business plan, of Y5,000 million in sales, Y750 million in operating profit (operating margin of at least 15%), and a DOE of at least 3%. However, it has revised down all of these targets. This was presumably due to the lower-

than-expected sales of AD EBiS in the previous fiscal year, the anticipated increase in upfront investment to strengthen investments for medium- to long-term growth, and the exclusion of undetermined factors, including new M&As, from the plan.

- However, the new forecast for this fiscal year still aims to achieve record-high sales for the 10th consecutive fiscal year since becoming listed on the market, as well as record-high operating profit and net profit, albeit at a slight increase. Note that the Company has not factored in any effects of M&As or new services that may become added to its current service lineup into its forecast for this fiscal year.
- Alpha Win Research Department has revised the forecast for the next three years starting this fiscal year, considering the results of the previous fiscal year and the current situation. Previously, the effect of M&As was factored into our forecast to some extent, but in line with the Company's forecast, we have excluded such effects from our forecast for this fiscal year. Also, while we reflected the effects of acquisitions made through the previous fiscal year, we have revised our forecast for this fiscal year downward from our previous forecast, mainly due to changes in the expected number of accounts and unit price of AD EBiS. In our new forecast, we expect sales of Y3,800 million (+14.0% YoY), which is Y100 million below the Company's forecast. On the other hand, since there seems to be some buffer for the costs, we revised our forecast for operating profit to Y400 million (+1.9% YoY), net profit to Y240 million (+1.7% YoY), and dividend to 7.8 yen/share, which are about the same levels as the Company's forecast. M&As during the fiscal year may cause sales to become higher. However, depending on the performance of the acquired company, the timing of the acquisition, and the timing of recording the acquisition costs (including goodwill amortization), the Company's profit for the current fiscal year (single year) may be affected either positively or negatively. Financial performance will also be impacted by whether the Company gains large contracts.

Business Strategy and Financial Forecast for Next Fiscal Year Onwards and the Medium Term

- Under the "MXP strategy" to contribute to its customers' DX through data integration, analysis, and utilization support, the Company aims to become a "corporate group of comprehensive marketing DX support" that provides the platform to support the marketing DX of Japanese companies. It will achieve this by accelerating the growth of its existing services and developing multiple new services.
- The Company has recently updated its strategy, launching a plan to strengthen its e-commerce website building & operation support and increase resources in the EC PF business, and to increase investment in development to create new services for the Marketing PF business.
- The Company has also set a new medium- to long-term goal of achieving sales of Y10 billion at an early stage, although it has not specified when this goal should be achieved. It plans to achieve this goal through stable growth of its existing businesses and expansion of new services in three areas (incubation and marketing process support businesses in the Marketing PF and e-commerce website building & operation support in the EC PF). The numerical targets presumably include the effect of expansion through M&As.
- Considering the current situation and the Company's growth strategy that includes active engagement in M&As, we have revised our forecast for the next fiscal year while including the effect of new M&As to some extent. We have also newly prepared a forecast for the fiscal year after the next. We forecast higher sales, profits, and dividends, expecting contribution to both sales and profits by the advertising agency DX and incubation businesses in the Marketing PF, as well as continued appropriate control of the costs and expansion of the e-commerce website building & operation support business in the EC PF.
- However, compared to our previous forecast, our current forecast is somewhat conservative. This is because we expect a slowdown in the growth rate of the advertising effectiveness measurement business, since the Company will continue to invest for the next stage of growth for the time being, the number of accounts of AD EBiS is continuing to decline, and the increase rate of AD EBiS's unit price is slowing down too.
- Considering the large growth potential of Internet-marketing-related fields and the expectation that the Company will actively engage in M&As, we predicted an annual sales growth rate of 10-20% over the medium to long term. Also, we expect that the Company will most likely continue to restructure its business portfolio toward future growth through selection (withdrawal from nonprofitable businesses), focus (shifting resources to growth areas), and expansion (M&As) in response to changes in the environment. It should be noted that since the Company will most likely continue with ambitious upfront investments for the meanwhile, its business performance will be impacted over the short term.
- On the other hand, the Company seems to plan to control costs appropriately and avoid a sharp decline in profit or a posting of a net loss. Assuming that profit margins will remain flat or gradually increase, we expect that a profit growth of 10-20%, which is about the same as the rate of sales growth, is possible over the medium term (in our previous forecast, we had expected an annual growth rate of around 20-30%).

Stock Price and Key Points to Watch Going Forward

- The Company is recognized as an AdTech-related, domestic-demand-oriented, and small-cap growth stock. Its stock price has underperformed major indices such as the TOPIX, TSE Growth, and Mothers due to weak stock prices of small growth stocks in general this year, as well as due to the downward revision of its financial performance.
- Comparing the forecasts of P/E, P/B, and dividend yield for this fiscal year made by the Company and Alpha-Win with the average of all stocks of the TSE Prime, the Company's stock price does not seem undervalued at the moment. It does not seem overvalued either when compared to valuations of the TSE Growth Market to which it belongs or of similar companies. Since its stock price has already been corrected to close to the lower limit of a boxed range and the Company's business performance for this fiscal year is firm, there seems to be limited downside risk to the stock price.
- The shift to the subscription business model has helped stabilize its business. The Company is expected to maintain a long-term growth of sales and profits by continuing to invest in growth and expanding into new businesses while maintaining profitability and balancing with the earnings. Its PEG ratio, which reflects its medium- to long-term profit growth rate, suggests that the stock price is at a level at which one can consider investment.
- Going forward, the stock price is expected to change while reflecting changes in short- to medium-term business performance. Key points include the monthly sales trend, changes in quarterly profit/loss, announcements of M&As or partnerships, announcements of new functions, financial performance of the new businesses and acquired companies, the situation with the personal information protection regulations, and the contents of the next medium-term business plan (will start next fiscal year). In addition, especially key points are the number of accounts of AD EBiS (timing of conversion to a net increase), its churn rate (conversion to a declining trend), and its unit price (YoY rate of change), which are the indicators directly correlated with business performance.

【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)
2019	A	2,204	22.1	84	To profit	79	To profit	-34	Smaller loss	-5.5	168.7	0.0
2020	A	2,618	18.8	276	226.1	261	230.5	183	To profit	29.1	202.2	4.0
2021	A	2,957	12.9	365	32.0	364	39.5	239	30.7	38.0	257.5	5.2
2022	A	3,334	12.7	392	7.4	399	9.8	236	-1.5	37.7	283.3	7.0
2022	Initial CE	3,600	21.7	470	28.6	460	26.3	320	33.5	50.0		7.5
2022	Revised CE	3,400	15.0	340	-7.0	340	-6.7	210	-12.4	33.5		7.0
2022	Revised E (previous)	3,300	13.8	350	-4.1	350	-3.8	218	-8.8	34.8		7.0
2023	Mid-term Plan: Old CE	5,000	-	750	-	OPM = 15% before ⇒ 10% now			DOE = 3.0% before ⇒ 2.5% now			
2023	New CE	3,900	11.6	400	1.9	390	-2.5	240	1.7	38.3	-	7.8
2023	New E	3,800	14.0	400	2.0	390	-2.3	240	10.1	38.3	314.5	7.8
2023	Old E (previous)	4,320	29.6	500	27.6	500	25.3	320	35.6	51.1	327.3	9.3
2024	Old E (previous)	4,740	9.7	580	16.0	580	16.0	380	18.8	60.7	378.7	10.8
2024	New E	4,320	13.7	460	15.0	450	15.4	300	25.0	47.9	367.4	9.2
2025	New E	5,000	15.7	530	15.2	520	15.6	340	13.3	54.3	412.5	10.3

(Note 1) A: actual results. CE: the Company's estimate (forecast). E: estimate (forecast) by Alpha-Win Research Dept. Note that the Company's fiscal year is September-ending. For example, FY 2023 ends in Sept. 2023.

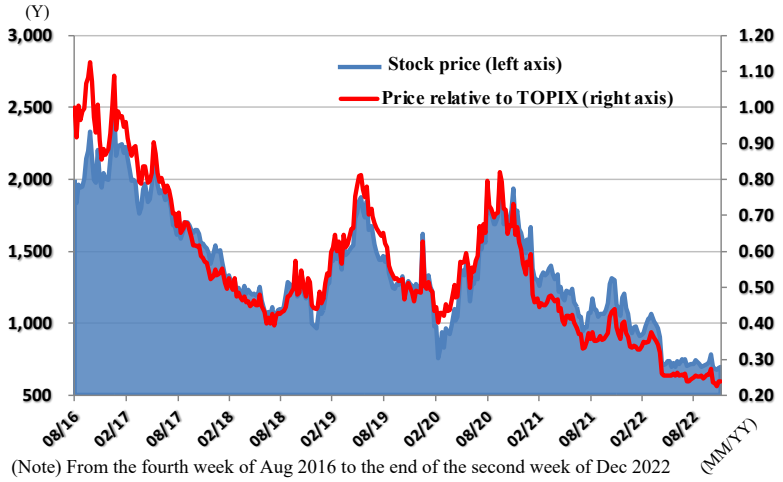
(Note 2) Since values used in this Report have generally been rounded to the nearest unit or may have gone through various calculation processes, the values may differ from the same item disclosed by the Company or shown in this Report.

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

Item	12/9/2022	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	699	Last FY (actual)	18.5	2.5	1.0%	18.6%
Shares Outstanding (thou.)	6,372	This FY (est.)	18.2	2.2	1.1%	20.3%
Market Capitalization (million Y)	4,454	Next FY (est.)	14.6	1.9	1.3%	19.2%
Dilutive Shares (thou.)	0.0	Equity Ratio at End of Last FY		57.1%	Last FY's ROE	13.9%

(Note) Forecasts/estimates for this fiscal year and the next fiscal year were made by Alpha-Win Research Dept.

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



(Note) From the fourth week of Aug 2016 to the end of the second week of Dec 2022

【Performance】

Period	Return	vs. TOPIX
1 month	1.5%	2.7%
3 months	-0.1%	-6.5%
6 months	-2.6%	-7.1%
12 months	-41.9%	-41.0%

(Note) Prepared by Alpha-Win Research Dept. Reflects stock price and TOPIX values through the closing price on 12/9/2022 (most recent value). In the calculation of performance for each period, the stock price and TOPIX at the end of the last month of each period was compared with their most recent values.

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Contents

Note: Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of this Report. Note that the Company's fiscal year is September-ending (i.e. FY 2023 ends in September 2023).

1. Company Overview

- **Provides marketing DX support services.**

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

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

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

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

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

- **Changed its company name and logo**

© YRGLM Inc.

- **The YRGLM Group is made of eight companies.**

◆ A Leading Company in a Niche Market

Overview

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

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

Currently, its main service is the Internet advertising effectiveness measurement system, provided as a SaaS[3] (cloud service). It has been evolving into a corporate group of comprehensive marketing DX support through active engagement in M&As in addition to in-house development.

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 the previous market segment of TSE Mothers in September 2014. In April 2022, its listing was changed to the new market segment of TSE Growth ("GRT"). Currently, it has two headquarters, one in Osaka and one in Tokyo.

Change in Company Name

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

Consolidated Companies

The YRGLM Group consists of a total of eight companies, including the Company and six consolidated subsidiaries (Figure 1). It has acquired four consolidated subsidiaries through M&As: TOPICA Inc. ("TOPICA"), Spoo! Inc. ("Spoo"), Far End Technologies Corporation ("Far End"), and BOKUBLOCK INC. ("BOKUBLOCK"). It also has two more consolidated subsidiaries, YRGLM VIETNAM Co., Ltd. (based in Vietnam) and EC-CUBE Co., Ltd. Lastly, it has one equity method affiliate (SAI Co., Ltd.). It has been acquiring consolidated subsidiaries one after another, having acquired Spoo and TOPICA in the fiscal year before the previous and Far End and BOKUBLOCK in the previous fiscal year.

【Figure 1】Summary of Consolidated Companies

Name of consolidated company	Business and Characteristics	Form	Date of Acquisition or Spin-off	Location	Stake	Capital	Founded Date	Fiscal Year	Sales	Operating Profit	Net Profit	Total Assets	Net Assets
Consolidated subsidiaries (6 companies)		(Acquisition price estimated by Alpha-Win)				Million yen							
TOPICA	Planning and production of video contents and SNS management service, provided in one stop	Company acquisition (Y220 million)	July 2021	Shinjuku-ku, Tokyo	Approx. 60%	37	June 2016	Ended Apr. 2021	156	4	4	83	21
Spoo	Web media planning, editing, and production	Company acquisition (several dozen million yen)	December 2020	Chiyoda-ku, Tokyo	100%	10	March 2000	Ended Dec. 2021			Slight profit	15	
Far End Technologies	Internet services and information security support services	Company acquisition (Y130 million)	February 2022	Matsue-shi, Shimane	100%	8	September 2008	Ended May 2021	117	10	8	77	29
EC-CUBE	Succeeded the EC-CUBE business from EC PF. Capital and business alliance with Orico.	Spin-off and business transfer	January 2019	Osaka City, Osaka	89.5%	30	October 2018	Ended Sep. 2021	358	119		249	
BOKUBLOCK	E-commerce website building and cloud-based e-commerce service	Company acquisition (150-200 million yen)	May 2022	Chiyoda-ku, Tokyo	100%	10	May 2007	Ended Sep. 2021	139	-7	0	171	63
YRGLM Vietnam Co., Ltd.	Offshore software development site	Founded		Socialist Republic of Viet Nam	100%	200,000 USD	December 2013						
Equity method affiliate (1 company)													
SAI Co., Ltd.	Transferred the Company's previous e-commerce contract development business	Spin-off and business transfer	September 2015		20	3	April 2004						

(Ref) Prepared by Alpha-Win Research Department based on the securities report.

Trends in Consolidated Financial Results

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

Until FY 2018 (note that the Company's fiscal year is September-ending), the parent company's sales and profit both had accounted for an extremely high proportion of the total. The consolidated-to-parent-company ratios had stayed around 1 and the total recurring profit/loss of the consolidated companies excluding the parent had been close to zero (Figure 2).

- **Carved out EC-CUBE as a separate company.**
- **The recent consolidated-to-parent-company ratio has been around 1.3-1.4.**

During FY 2019, the EC-CUBE business was separated from the parent company in a carve-out (became a consolidated subsidiary after the carve-out), which changed the balance between the parent company's results and consolidated results. Due to the profitability and solid financial performance of EC-CUBE Co., Ltd., as well as due to the acquisition of several companies and their business expansion, sales growth and profitability have generally been maintained for the consolidated companies excluding the parent (consolidated minus parent company) since FY 2019. This fiscal year, too, the consolidated-to-parent-company ratio for sales and recurring profit are expected to be at the same level as last fiscal year at 1.3-1.4.

【Figure 2】 Comparison of Consolidated vs. Parent-Company Business Performance (Sales and Recurring Profit) by Fiscal Year

	Unit: million yen, %	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
A	Consolidated sales	1,360	1,437	1,613	1,719	1,804	2,204	2,618	2,957	3,334
B	Parent company sales	1,360	1,437	1,613	1,719	1,804	2,010	2,317	2,532	2,583
A-B=C	Consolidated sales - parent company sales	0	0	0	0	0	194	301	425	751
A/B	Consolidated sales / parent company sales	1.00	1.00	1.00	1.00	1.00	1.10	1.13	1.17	1.29
A	Consolidated R.P.	233.6	352.0	250.3	106.3	-115	79	261	364	399
B	Parent company R.P.	245.2	359.0	252.1	106.8	-110	19	165	278	315
A-B=C	Consolidated R.P. - parent company R.P.	-12	-7	-2	-1	-5	60	96	86	84
A/B	Consolidated R.P. / parent company R.P.	0.95	0.98	0.99	1.00	-	4.16	1.58	1.31	1.27

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

Financial Standing

- **Essentially debtless with sound financial standing.**

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

Accumulation of capital and improvement of finance have progressed due to the steady posting of profit. As of the end of FY 2022, its short/long-term debt totaled about Y880 million while its cash and deposits were about Y1,320 million. Therefore, the Company is essentially debtless.

Its total assets are about Y3.1 billion and market capitalization is about Y4.5 billion (based on the closing price of Y700 on September 30, 2022), both relatively small. However, its equity ratio is 57% and current ratio is 208% so there does not seem to be an issue with its financial standing.

(4) FCF (Free Cash Flow): FCF = Operating CF + Investing CF. Cash which can be "freely" used. CF generated by a company minus its investments, etc., necessary to maintain its business.

- **FCF, which had been consecutively positive for three and a half fiscal years after recovering from a negative trend, turned negative again in the first half of the previous fiscal year due to M&As and then turned positive again in the second half of the same year.**

Semi-Annual Transition in Cash Flow and Change in the Amount of Cash & Deposits

Thanks to the recovery of earning power and the completion of an investment phase, its FCF[4] (free cash flow) turned positive in the second half of FY 2020. In FY 2021, too, it maintained a positive FCF both in the first and the second half despite conducting M&As. Last fiscal year, while operating CF decreased, the amount of investment increased due to the acquisition of Far End and BOKUBLOCK. Consequently, FCF for the full year became negative at -Y10 million (Figure 3 on page 8). However, this was due to the negative cash flow of -Y121 million in the previous fiscal year's first half, since cash flow turned positive again in the second half at Y111 million.

Due to M&As, its cash & deposits decreased slightly from Y1,392 million at the end of the previous fiscal year to Y1,321 million at the end of this fiscal year. Although it would depend on the size of acquisitions, estimating the normal working capital to be about two to three months of monthly sales, the Company should be able to conduct several more M&As of similar sizes (about 10 to 300 million yen per acquisition) using its available cash & deposits and debt.

【Figure 3】Semi-Annual Change in Cash Flow

Unit: million yen	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019		FY 2020		FY 2021		FY 2022	
	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2
Operating CF ①	15	148	48	93	121	23	7	9	99	109	92	429	241	333	141	292
Investing CF ②	-5	-27	-80	-69	-88	-106	-94	-118	-368	-158	-409	-101	-35	-313	-262	-181
Financing CF	-3	0	-16	3	-31	-0	169	542	162	-262	391	-56	-1	-23	-195	-121
FCF(①+②)	9	121	-32	24	33	-83	-88	-110	-269	-50	-317	328	206	20	-121	111
Cash and Deposits (on B/S)	666	787	738	762	764	681	760	1,194	924	774	847	1,119	1,342	1,392	1,214	1,321

(Ref) Prepared by Alpha-Win Research Dept. based on information including the financial results summary and briefing materials. H1 = first half. H2 = second half.

- **Goodwill is increasing but is not at a concerning level. In addition, the sum of intangible fixed assets (goodwill plus capitalized software) and deferred tax assets total Y1 billion, which within the amount of net assets (56%).**

Goodwill Balance and Progress with Amortization

The year-end balance of goodwill has been on the rise due to acquisitions of companies and businesses (Y316 million at the end of FY 2020 ⇒ Y450 million at the end of FY 2021 ⇒ Y484 million at the end of FY 2022). Since the Company uses the Japanese accounting standards and has been amortizing goodwill at a fixed amount over five years in principle, the amount of amortization of goodwill has also been rising along with the acquisitions. Simply dividing the remaining balance of goodwill by the annual amount of goodwill amortization shows that it would take about 4.5 more years to complete amortization (Figure 4).

(5) EBITDA = Operating profit + depreciation + goodwill amortization

Also, when the annual EBITDA[5] (Y686 million in the previous fiscal year) is divided by the amount of goodwill (balance), the ratio for the most recent period comes out to be about 1.4x (even if goodwill is amortized in a lump sum, a positive annual EBITDA can be maintained). Both factors indicate that there is no particular concern at this point.

The Company has intangible fixed assets of about Y900 million, which includes goodwill and capitalized software. Adding deferred tax assets of Y100 million, these total Y1 billion. Since this total is within the Company's net assets of Y1.8 billion (56%), the Company's standing seems sound.

【Figure 4】Change in Yearly Balance of Goodwill and Amortization

Yearly Goodwill	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Goodwill (balance on B/S: million yen) ①	0	0	0	0	0	109	316	450	484
Annual amortization of goodwill (on CF statement: million yen) ②	0	0	0	0	0	16	55	84	108
Average period of amortization (years) ③=①/②	0	0	0	0	0	7.0	5.8	5.4	4.5
EBITDA ④	273	373	286	174	6	247	514	638	686
EBITDA/goodwill ⑤=④／①	0	0	0	0	0	2.3	1.6	1.2	1.4

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

- **Share value of the unlisted company EC-CUBE Co., Ltd., which the Company owns, is estimated to be Y1.3 billion. Since the Company also has a similar amount of cash & deposits (Y1.3 billion), it has sufficient capital for the meanwhile.**

Share Value of the Private Subsidiary

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

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

(6) Great Place To Work® Institute: An organization that conducts surveys and announces "Great Places to Work" in about 60 countries around the world every year.

Awards and Reputation

In December 2022, the Company was chosen as a Great Places to Work-Certified Company in Japan's "Great Places to Work 2023" selected by the Great Place to Work® Institute[6] Japan.

It has also been chosen as a Best Company from the same organization in the "Great Place to Work® Best Workplaces Ranking for Medium-Sized Companies (100 to 999 employees)" for the ninth consecutive year in February 2021 (total of ten times). It has also won various other awards from other external organizations as well. This high reputation is valuable since it helps attract talents, which are crucial to the Company's type of business.

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

Its products have also earned a high reputation. AD EBiS won the Leader Award for the seventh time in a row in the Access Analysis and Attribution Division of the "ITreview Grid Award 2022 Fall" by the IT product review platform ITreview (review site for real users of IT products and cloud services targeting corporations) managed by ITclowd Corp (headquartered in Minato-ku, Tokyo) (the Leader Award is given to products with high customer satisfaction and recognition). This is the ninth time in a row that the Company has been chosen in the "ITreview Grid Award."

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

◆ Business Philosophy

- **The Company's business philosophy: Impact on the World**

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

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

2. Business Contents and Business Model

- **Worked on restructuring its business portfolio. Withdrew from non-core businesses and concentrated business resources on AD EBiS of the Marketing PF segment. In recent years, it had acquired related businesses to increase the YRGLM Group's comprehensive strength.**

◆Business Portfolio

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).

This business restructuring has already reached the end of a phase, and the Company is currently in the stage of expanding its business for the next level of growth.

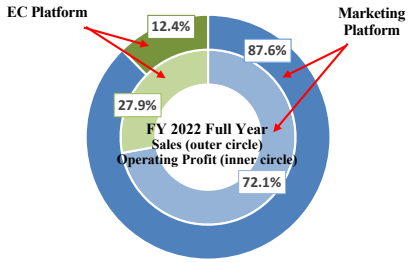
【Figure 5】Business Restructuring and Segments (businesses that it withdrew from or has significantly scaled down are highlighted)

Segment Name	Business Category	Main Service (or company name)	Changes	Note
I. Marketing Platform	(1) Advertising effectiveness measurement	① AD EBiS: advertising effectiveness measurement tool	ADPLAN business (acquired in Jan 2020; merged):closed in March 2021	Parent company
		② THREe: paid-listing ad management	Withdrew (end of March 2020)	
	(2) Advertising agency DX	① AdRepo: automatic report generation tool for advertising analysis	Business acquisition (August 2018)	
		② Ad-Knowledge: cloud-based project management tool	Started service in July 2020	
	(3) Incubation (previously "new services")	① AD HOOP: marketing-specialized matching	Started service in May 2020; changed name to ADHOOP in Jan 2021	
		② eZCX: e-commerce-specialized CX improvement PF	Official version released in July 2021	
		③ Spoo: web media/design & management services	Acquired as a wholly owned subsidiary (Dec 2020)	Consolidated
		④ TOPICA: SNS and video marketing support	Acquired as subsidiary with about a 60% stake (July 2021)	
		⑤ Far End Technologies: project management tool	Acquired as a wholly owned subsidiary (Jan 2022)	
	*Other	Former "Professional Service" (DMP business)	(Former "SOLUTION"; transferred from SOLUTION and scaled down)	Parent company
II. EC Platform	(1) EC-CUBE	EC-CUBE and ec-cube.co: open-sourced e-commerce website building	Transferred to EC-CUBE Co., Ltd., in Jan 2019; about 10% of shares sold to Orico	Consolidated
	(2) EC website building & operation support (new business; prrofessional services)	① BOKUBLOCK: e-commerce webite building & operation support and solutions	Acquired as a wholly owned subsidiary (end of May 2022)	Consolidated
	(3) SOLUTION → withdrew	① E-commerce contract dev. + consulting, etc.	Transferred to SAI Co., Ltd. (equity method; kept) and Radical Opti Co., Ltd. (removed from equity method after transfer)	*Equity method*
		(Of which is DMP business)	Transferred to Marketing Platform's *Other	Parent company

(Ref) Prepared by Alpha-Win Research Dept. based on information including the Company's financial results summary and briefing materials.
Words in red indicate companies/businesses that changed or were acquired during the previous fiscal year.

- **Composed of two segments. Excluding the period of business restructuring, both PF segments have been posting operating profits.**

【Figure 6】Breakdown of Sales (outer circle) and Segment's Profit (inner circle) by Segment in FY 2022



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

Business Composition

Currently, the Company's business is composed of two segments: I. Marketing PF (short for "platform") and II. EC PF (EC = e-commerce) (Figure 5).

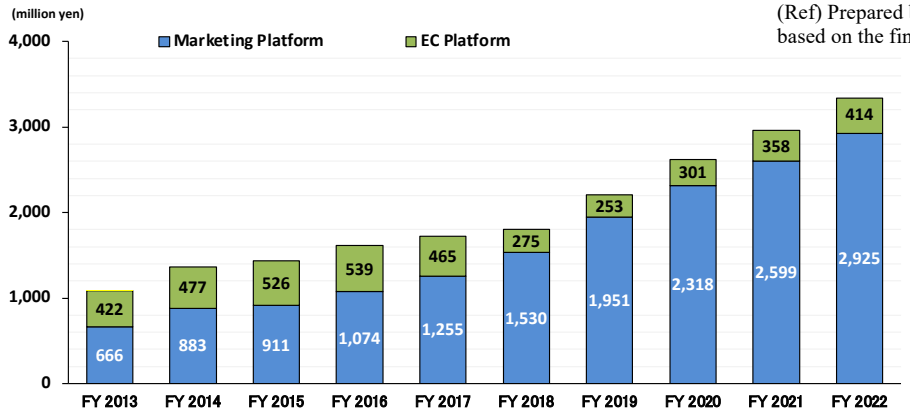
The Marketing PF provides various tools and solutions for Internet marketing. The EC PF provides open sources for e-commerce website building as well as e-commerce website building & operation support services.

In FY 2022, the Marketing PF segment accounted for about 88% of total sales and about 72% of the segments' profit (Figure 6). This segment has been the driver of the Company's overall sales growth over many years (transition in sales by PF: Figure 7 on page 11).

Each PF's transition in operating profit over the years is as shown in Figure 8 on page 11. Excluding FY 2017 and FY 2018, during which business restructuring was conducted, operating profit (segment's profit) has been posted for both PF segments during each full fiscal year.

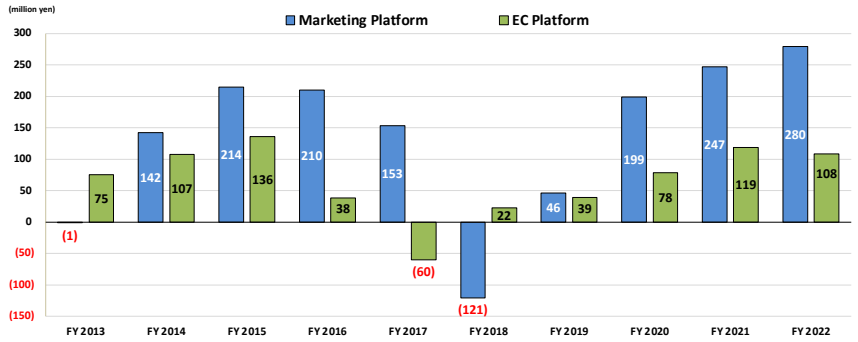
【Figure 7】Transition in Sales by Business Segment (unit: million yen)

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



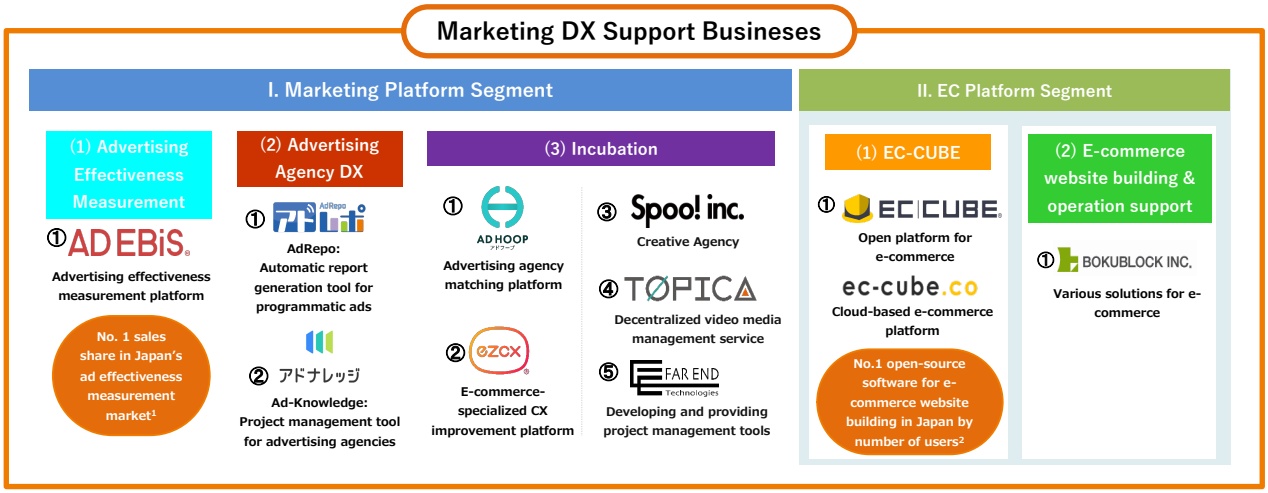
【Figure 8】Transition in Operating Profit by Business Segment

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



The Company's current business portfolio is shown in Figure 9 (the numbers in front of businesses in Figure 9 match the numbers in this section's description of businesses).

【Figure 9】Business Composition (as of end the of November 2022)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials with some additions.
*1: According to the Japan Marketing Research Organization's summary of its June 2021 survey on competition in designated areas
*2: According to Information-technology Promotion Agency, Japan's "3rd Open-Source Software Utilization Business Survey"

◆ Business Details I. Marketing Platform

The change in the sales and profit of the Marketing PF segment over the years is shown in Figure 10.

【Figure 10】Change in the Sales and Operating Profit of the Marketing Platform Segment

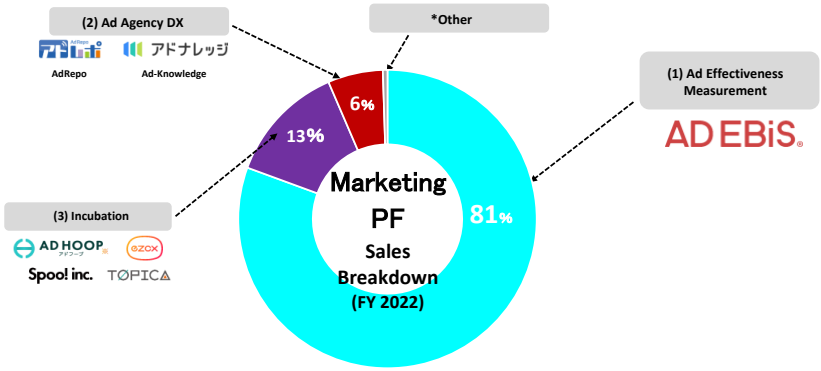
Sales (million yen)	FY 2014 Consolidated	FY 2015 Consolidated	FY 2016 Consolidated	FY 2017 Consolidated	FY 2018 Consolidated	FY 2019 Consolidated	FY 2020 Consolidated	FY 2021 Consolidated (A)	FY 2022 Consolidated (B)	FY 2022: YoY Change B-A	(B-A)/A
I. Marketing Platform	883	911	1,074	1,255	1,530	1,951	2,318	2,599	2,925	326	12.5
(1) Advertising Effectiveness Measurement	883	911	1,074	1,254	1,445	1,775	2,135	2,313	2,369	56	2.4
(1) ①AD EBiS + former ADPLAN (business acquired in Jan 2020)	722	822	1,012	1,200	1,402	1,747	2,127	2,313	2,369	56	2.4
①AD EBiS's sales growth rate (YoY: %)	*27.3%*	*13.9%*	*23.1%*	*18.6%*	*16.8%*	*24.6%*	*21.8%*	*8.8%*	*2.4%*	*-6.3%*	
②THREe (withdrew)	*161*	*89*	*62*	*54*	*43*	*28*	*8*	*0*	*0*	*0*	
(2) Advertising Agency DX						124	152	182	175	-7	-3.6
(2) ①AdRepo				(Business acquired in Oct 2018 →)		124	149				
②Ad-Knwoledge							3				
(3) Incubation (previous "new services")							3	89	380	291	327.2
(3) ①AD HOOP, ②EZCX, ③Spoo, ④TOPICA, ⑤Far End	(Spoo acquired in Dec 2020; TOPICA acquired in July 2021; AD HOOP transferred from advertising agency DX starting in FY 2021; Far End acquired in Jan 2022 →)						3	89	380	291	327.0
*Other: previously, Professional Service (DMP)		(Professional services, transferred from EC PF →)			84	51	27				
Segment's Operating Profit	142	214	210	153	-121	46	199	247	280	33	13.3
Segment's Operating Margin (%)	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	9.5%	9.6%	0.1%	

(Ref) Prepared by Alpha-Win Research Dept. based on financial results briefing materials and interview. Includes estimates.

- **The Marketing PF segment is composed of three business categories.**

I. The Marketing PF segment currently consists of the three main business categories (1) to (3) described below. During the previous fiscal year, the breakdown of sales of this segment was as shown in Figures 10 and 11. AD EBiS accounted for 81% of the Marketing PF segment's sales (71% of the Company's entire sales).

【Figure 11】Breakdown of Sales of the Marketing PF by Business Category



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

- **Its core business, AD EBiS, is an originally developed, Internet ad effectiveness measurement system. It has the top share in the market and accounts for about 70% of the Company's entire sales. Highly stable business based on subscriptions.**

(7) Subscription model: fees are paid periodically for the right to use the service for a certain period. See page 17 for supplemental descriptions.

Below are the current business categories of this PF and their main products (service or product name is in bold and underlined).

(1) Marketing Effectiveness Measurement

① **AD EBiS**

- Internet advertising effectiveness measurement system
- The Company's originally-developed, core product (incredibly strong position in the Japanese market with top share of 86.3%, according to the Japan Marketing Research Organization's summary of its June 2021 survey on competition in designated areas).
- Enables the collective management, measurement, analysis, and visualization of the effectiveness of Web ads, etc., and helps understand the cost effectiveness of ads.
- Subscription-based business model[7]

・Business based on flat-rate, periodic payments. Its sales are determined by average unit price × number of active accounts.

(2) Advertising Agency DX

- **Advertising Agency DX consists of 2 businesses: AdRepo, which fully automates the creation of reports for programmatic advertising, and Ad-Knowledge, a cloud-based project management system specialized for advertising agencies.**

The business targeting advertising agencies consists of the two businesses described below (AD HOOP has been moved to the incubation business). This previous fiscal year's sales were Y175 million in total, which was 6% of the entire Marketing PF's sales. Most of the sales came from AdRepo, although the specific sales of each of the two businesses were not disclosed.

① **AdRepo**

・Fully automatic report-generation tool for programmatic advertising[8]
・Developed to reduce the workload of advertising agencies in creating such reports
・Provided as a cloud service. The Company plans to continue to focus on expanding this business.

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

② **Ad-Knowledge**

・A newly developed, cloud-based project management system specialized for advertising agencies
・Supports advertising agencies that work with programmatic advertising in improving operation and efficiency
・Service was started in July 2020. Provided as a subscription service (SaaS). Its sales are small and seem to be flat.

(3) Incubation (changed from the previous "new services")

- **The name of the previous "new services" category was changed to "incubation."**
- **The Incubation business consists of the businesses acquired through the M&As of 3 companies and the Company's originally developed products AD HOOP and eZCX.**
- **Will rapidly expand this business category as its future growth driver.**

① **AD HOOP**

・Marketing-specialized matching platform that introduces the optimum solution partner to corporate advertisers to solve their problems and meet their needs. Released in May 2020. Moved from the advertising agency DX category due to its expansion of business domain.
・In addition to advertising agencies, the business has been expanded to also provide the service to SNS account management agencies and e-commerce website production companies (service limited to EC-CUBE). Steady business expansion. In FY 2022, sales grew by more than 4x from the previous fiscal year.

② **eZCX**

・E-commerce-specialized CX improvement platform
・Improves CX (customer experience) on websites. Leads to greater efficiency in acquiring new customers.
・Based on the concept of "anyone can easily use"
・Using the user behavior data that the Company has accumulated through its AD EBiS business, the service analyzes the users' emotions to provide the most suitable experience at the most appropriate timing.
・Released in May 2021, but sales have been flat.

③ **Spoo (Spoo! inc.): consolidated subsidiary**

・Web media and design company. After its acquisition in December 2020, its business has been developing steadily with increasing number of orders received. Securing employees will be the challenge.

◆ **Has been acquiring companies in businesses related to Internet marketing as consolidated subsidiaries at a pace of about 1-2 companies per year.**

(Note) For details on each business of I. Marketing PF (1)-① through (3)-④, see pages 13-19 of our report published on December 13, 2021. For details on (3)-⑤ Far End Technologies, see pages 7-8 of the report published on February 14, 2022.

・Leveraged Spoo's creativity and talents to integrate with the Company's data and technology. It plans to thereby create new values, expand into more areas of business, and strengthen its competitive edge.

④ TOPICA: consolidated subsidiary

・Acquired in July 2021 with a stake of about 60%.

・Developing a marketing support business that utilizes SNS and videos. Provides a series of services ranging from the planning and production of video contents to SNS account management services in one stop.

・With the acquisition, the Company will expand its business domain into the rapidly growing social media marketing market and cross-sell TOPICA's services to its current client companies (around 1,300 companies). In addition to this, it plans to integrate its data and technologies with TOPICA's SNS marketing business to create and provide new services.

・This business has been solidly expanding as there has been an increasing number of inquiries due to the proven track record and strengths in SNS management service, especially for TikTok.

⑤ Far End Technologies Corporation (hereinafter, "Far End"): consolidated subsidiary

・Provides Internet services (SaaS) and IT security support services. Acquired in January 2022 as a wholly owned subsidiary.

・Its main business involves the development of the globally well-known, open-source project management software **Redmine** and the paid, cloud version of the software, **My Redmine**.

・In recent years, due to increasing remote work in response to the COVID-19 crisis, there has been greater demand for project progress management. The number of accounts has been increasing steadily and a large growth can be expected.

・By increasing development personnel, improving the products, and leveraging and integrating YRLGM and Far End's technologies and expertise, the Company plans to expand the business domain, increase its competitive edge, and provide new value to customers.

- **EC PF had been specialized in EC-CUBE, but reentered the e-commerce website building & operation support market by acquiring BOKUBLOCK. The segment is now made of 2 businesses.**

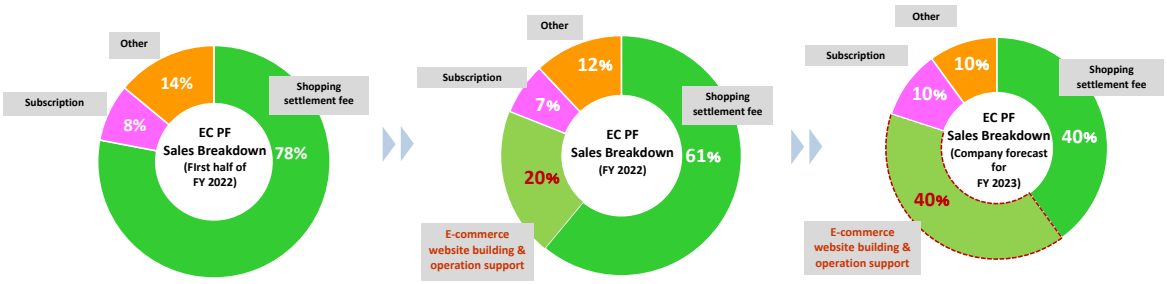
(9) Professional services: A general term for services other than the cloud; includes consulting, account management, and contract development.

◆ Business Details: II. EC Platform

Previously, the EC PF segment had only consisted of EC-CUBE. However, with the acquisition of BOKUBLOCK INC., the Company reentered the professional services[9] market (e-commerce website building & operation support) (consolidated starting in June 2022; Figures 12 and 13). EC-CUBE accounted for 80% of the sales of the EC PF in the previous fiscal year.

【Figure 12】Breakdown of Sales of the EC PF by Business Category

(Unit: % or million yen)



(Ref) Financial results briefing materials.

【Figure 13】Change in Sales and Operating Profit of the EC Platform Segment

Sales (million yen)	FY 2014 Consolidated	FY 2015 Consolidated	FY 2016 Consolidated	FY 2017 Consolidated	FY 2018 Consolidated	FY 2019 Consolidated	FY 2020 Consolidated	FY 2021 Consolidated (A)	FY 2022 Consolidated (B)	FY 2022: YoY Change B-A	(B-A)/A
II. EC Platform	477	526	539	465	275	253	301	358	414	56	15.6
(1) EC-CUBE	245	230	219	208	254	253	301	358	414	56	15.6
EC-CUBE's sales growth rate (YoY: %)	18.3%	-6.1%	-4.8%	-5.2%	22.2%	-0.4%	19.0%	18.9%	15.6%	-3.3%	
①Shopping settlement fee								290	253	-37	-12.9
②Subscription								12	29	17	149.9
③Other								54	50	-4	-7.4
New: (2) E-commerce website building & operation support (BOKUBLOCK)								0	83	83	
Previous: (3) SOLUTION (transferred/withdrew)	232	296	319	257	20	0	0	0	0	0	
Previous: ①E-commerce contract development, e-commerce website consulting, etc.	232	296	319	257	20	0	0	0	0	0	
Of which is DMP (transferred)				*104*							
Segment's operating profit	107	136	38	-60	22	39	78	119	108	-11	-9.0
Segment's operating margin	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	33.1%	26.1%	-7.0%	

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

- **The EC-CUBE business provides free software for companies to build and manage e-commerce websites on their own.**
- **In addition to the download version, the cloud version has been released.**
- **Gained top share in the Japanese market.**

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

(1) EC-CUBE: consolidated subsidiary

Service Overview

- EC-CUBE is a software platform whereby companies can build and manage e-commerce (EC) sites on their own.
- The Company provides EC-CUBE as web design software for companies that will begin selling and providing products or services online. It is provided as either as the open-source, packaged download version **EC-CUBE** or the cloud version **ec-cube.co**.

- Characterized by low cost, high customization, and high usability, it has the top share in the Japanese market and is the standard platform.

Business Model and Sales Breakdown

- **EC-CUBE** is based on a Freemium Model[10] in which software is offered for free but in return, revenue is earned from peripheral services.
- Revenue comes from shopping settlement fees from official partners using the software for their Internet businesses (61% of total sales of this PF in the previous fiscal year), **ec-cube.co**'s monthly subscription income

(similarly, 7% of total), and other revenue (function addition fees for plugins, or programs to add functions to software; similarly, 12% of total) (middle rows of Figure 12 on page 15).

(2) BOKUBLOCK INC.: consolidated subsidiary

Overview

・Acquired as a wholly owned subsidiary to strengthen the EC PF and expand into new areas of business. Consolidated subsidiary starting in June 2022.

- **Acquired BOKUBLOCK, an e-commerce website building & operation support company. Will work with EC-CUBE Co., Ltd. to provide one-stop services optimized for e-commerce.**

・Among the EC-CUBE Integrate Partners, BOKUBLOCK was one of the top-tier partners. It had been developing a wide range of businesses from building highly unique e-commerce websites using EC-CUBE to supporting operation of those websites (had been working together with the Company on different parts of its businesses as a partner).

・The acquisition united the two companies to provide an open platform for e-commerce website building, as well as starting vertically integrated services ranging from e-commerce website building to marketing support. Through the coordination between the two companies, it has become possible to provide a one-stop service optimized for e-commerce (the rivals would be EC-being and ec-force).

Business Model and Strengths

- **After the acquisition, synergies with EC-CUBE Co., Ltd., helped gain large-scale projects. Performance has been solid.**

・Because the product is open-source and the source code is owned by the client company, EC-CUBE Co., Ltd., has received many project requests. Indeed, since the acquisition, BOKUBLOCK has been able to constantly gain new projects through EC-CUBE Co., Ltd. Its track record as a top-tier partner of EC-CUBE, as well as the competitive edge of EC-CUBE and the fact that it has become a member of the YRGLM Group after the acquisition, have become its strengths.

- **Aims to continuously generate sales and improve profitability through the large-scale, website-building projects and follow-up operation support.**

・BOKUBLOCK has already received orders for large-scale projects (worth over a total of 100 million yen) in the previous fiscal year, which contributed to sales and brought better-than-expected results.

・Starting this fiscal year, the Company plans to focus on acquiring large-scale projects and aims to continuously generate sales and improve profitability through e-commerce website building and follow-up operation support. In addition to acquiring new projects by strengthening recruitment, it plans to propose a vertically integrated service lineup to its existing clients.

- **Aims to further expand the business domain and increase revenue by adding new solution services.**

・In addition, the Company has reentered the professional services market by leveraging BOKUBLOCK's expertise and talents and plans create new solution services to further expand its business domain and increase profit.

- **Re-entry into the professional services. For future expansion of areas of service, acquisitions in the field of e-commerce website contract development are also possible in the future.**

・In expanding the professional services business, the Company may also possibly conduct acquisitions in the field of e-commerce website contract development in the future.

Subscription Business Model (supplemental description)

Summary

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

In the Marketing PF segment, which accounts for approximately 88% of the Company's total sales, greater than 80% of its sales (a little more than 70% of the Company's entire sales) are from the SaaS (cloud) business model with flat-rate billing (subscription model).

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

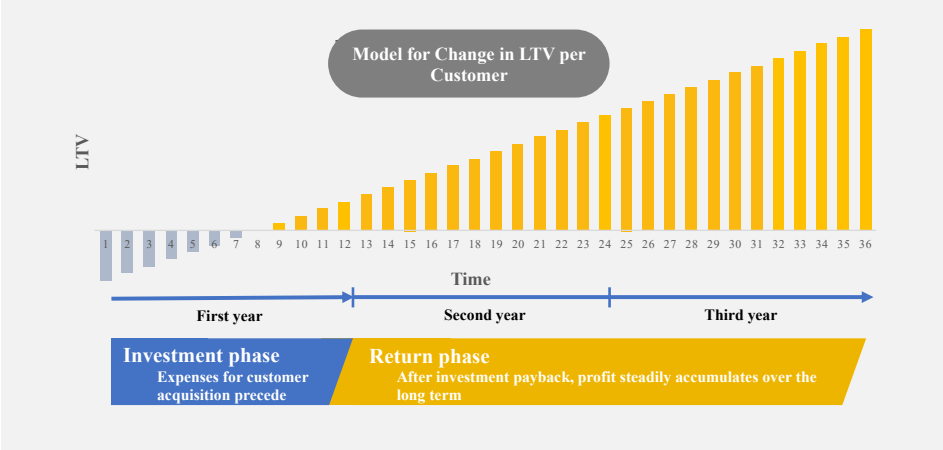
- **Costs are incurred immediately after new contracts are made but are gradually offset over the course of time, so that profit begins to accumulate steadily.**

In this business model, costs will precede at the beginning of a new contract, including marketing and sales activity expenses for customer acquisition and R&D expenses. However, over a customer's lifetime (the period from the start to the end of a transaction with a customer), revenue becomes accumulated continuously, stabling increasing the customer lifetime value (LTV: cumulative profit generated within a contract period).

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

Figure 14 shows the model for the change in the Company's cumulative profit and loss over the average subscription contract period of three years.

[Figure 14] Model of the Change in LTV (cumulative profit and loss) per Customer



(Ref) Past financial results briefing materials

In the month that a new contract is made, all costs become recorded, so that an overall loss is recorded for that particular month. However, since the Company can then earn an almost fixed amount of revenue from sales every month starting in the first month of contract, the cumulative break-even point (zero) is reached after eight months. From the ninth month, the cumulative profit/loss (LTV) turns into a surplus and profit accumulates until the 36th month when cancellation is expected (right side of the graph shows the amount of cumulative profit or loss). In other words, it is a model with a time lag; during the phase that the number of contracts is increasing at an accelerating speed, there will be little contribution to profit in the first year, but profit will then accumulate on a continual and stable basis from the second year until the end of contract.

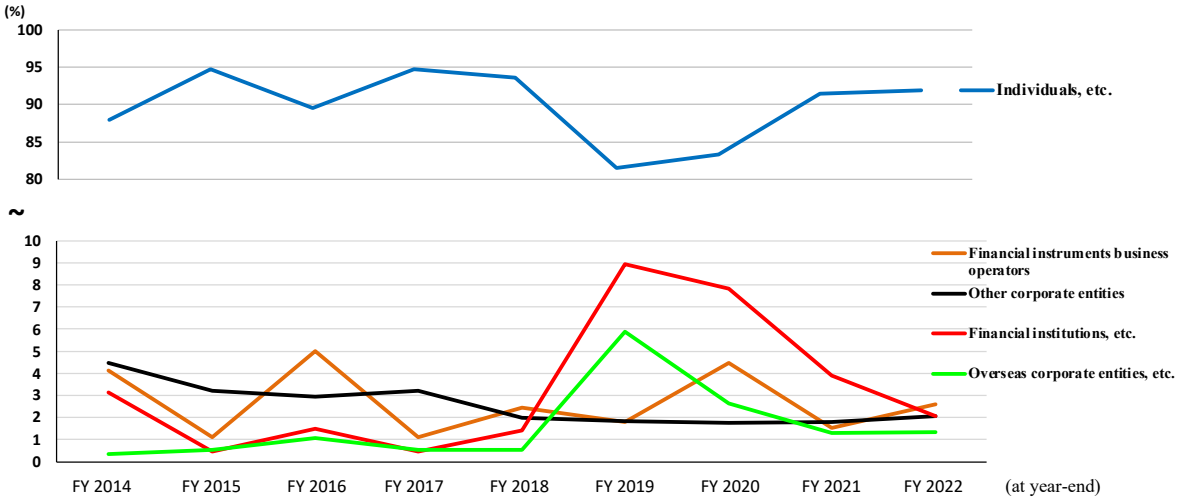
3. Shareholder Composition

◆ Change in Composition by Shareholder Type

- **Individuals hold an extremely high proportion of shares at about 92%.**

As of the end of September 2022, there is no significant change regarding the shareholder composition by shareholder type as of the end of September 2022 (Figure 15). Compared to one year ago, the proportion of "individuals, etc." has increased slightly from about 91% to about 92% of the total. On the other hand, "financial institutions, etc." has decreased from about 4% to about 2% and "overseas corporate entities, etc." has stayed about the same at about 1%.

[Figure 15] Change in Shareholder Composition by Shareholder Type (unit = %)



(Ref) Prepared by Alpha-Win Research Dept. based on the Company's notice of annual meeting of shareholders and securities report.

◆ Major Shareholder Composition

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

The major shareholders as of the end of September 2022 are shown in Figure 16 on page 19. Below is supplementary information. Compared with past periods, there has essentially been no significant change in the major shareholders.

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

- **Shares held by the Custody Bank of Japan (trust account as well as the securities investment trust account) have decreased.**

- The fourth largest shareholder is the Custody Bank of Japan (trust account). Its number of shares owned has decreased by about 26 thousand shares, but it still owns about 103 thousand shares (1.6%). Its final investors are unknown since it is a custodian (as a financial institution that manages securities on behalf of investors, it is the largest bank specialized in asset management in Japan). This bank's securities investment trust account had also been a major shareholder, but it seems to have sold its shares since it is no longer listed among the top ten major shareholders.

- **Invested by several investment trusts**

The Company's stock is also incorporated in the "Japan Emerging Equity Open" managed by Nikko Asset Management (as of December 20, 2021, the Company's shares accounted for 0.69% of the portfolio), "The 2020 Vision" managed by Commons Asset Management (similarly, 1.10%), and "Rakuten Japan New Economy Index Fund (JANE Index)" managed by Rakuten Investment Management (0.04%). These investments may be partially conducted under the names of custodians that are among the major shareholders, although this cannot be confirmed.

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

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

- **The Company has conducted share buybacks multiple times. As of September 30, 2022, it held approximately 1.75% of its outstanding shares. The Company is effectively the fourth largest shareholder.**

At the end of September 2018, the number of treasury shares owned by the Company was 983 shares. Then, the Company bought back some of its shares in February and March of 2019 (a total of about Y100 million at an average purchase price of Y1,363), increasing its treasury shares to about 81 thousand shares by the end of September 2019. In addition, from November to December 2021, the Company purchased a total of 80 thousand shares (total value of Y100 million at an average purchase price of Y1,253). Subsequently, a portion of the shares were issued to its directors, executive officers, and employees as restricted stock compensation, and as of September 30, 2022, the Company owned approximately 115.6 thousand shares of its own stock (approximately 1.75% of outstanding shares, effectively making it the fourth largest shareholder). The Company may also potentially use the treasury shares for M&As and alliance strategies as well as stock-based compensation for its directors, executive officers, and employees.

[Figure 16] Current Major Shareholders (units: thousand shares, %)

	End of Sept. 2015	End of Sept. 2016	End of Sept. 2017	End of Sept. 2018	End of Sept. 2019	End of Sept. 2020	End of Sept. 2021	End of Sept. 2022	←Shareholding Ratio	←Ranking
Susumu Iwata (president and CEO)	2,851	2,817	2,817	2,819	2,822	2,825	2,827	2,809	44.86	1
Hiroichi Fukuda (former executive vice president)	1,071	1,021	1,021	961	801	781	817	779	12.44	2
Kanako Mataza (former director and senior executive officer)	415	415	352	354	353	352	329	329	5.25	3
Custody Bank of Japan (trust account)	—	—	—	—	—	221	128	103	1.63	4
YRGLM Employee Stock Ownership Plan	76	39	48	69	68	71	66	69	1.09	5
Hakuhodo DY Media Partners Inc.	60	60	60	60	60	60	60	60	0.95	6
Yoshihisa Yamashita (indiv.)	—	—	—	—	—	—	54	54	0.86	7
Satoshi Hasegawa (indiv.)	—	—	—	—	—	—	—	37	0.58	8
Tomonori Yamada (indiv.)	—	—	28	—	—	—	33	36	0.57	9
J.P. MORGAN SECURITIES PLC	—	—	—	—	—	—	35	34	0.53	10
Custody Bank of Japan (securities investment trust account)	—	—	—	—	—	169	82	—		
Rakuten Securities, Inc.	—	—	—	72	64	—	—	—		
Yukio Tanaka (indiv.)	—	—	—	—	—	—	—	—		
SBI SECURITIES Co., Ltd.	—	—	—	—	—	—	—	—		
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	—	—	—		
Katsuyuki Ito (indiv.)	—	—	—	52	—	—	—	—		
Akiko Takashima (indiv.)	—	—	—	29	—	—	—	—		
Kenichiro Wade (former outside director)	39	29	29	—	—	—	—	—		
Yoshio Takayama (indiv.)	—	—	28	—	—	—	—	—		
Kayoko Nagano (indiv.)	—	—	24	—	—	—	—	—		
SEPTENI CO., LTD	62	62	—	—	—	—	—	—		
Matsui Securities Co., Ltd.	—	36	—	—	—	—	—	—		
Japan Securities Finance Co., LTD	30	35	—	—	—	—	—	—		
Yoichi Nishikawa (indiv.)	34	—	—	—	—	—	—	—		
Akio Shiojiri (former director: audit committee member)	26	—	—	—	—	—	—	—		
(Treasury shares: thousand shares)	0	0	0.045	0.983	81.423	64.493	57.825	111.580		
(Percentage of treasury shares: %)			0.00%	0.02%	1.28%	1.01%	0.91%	1.75%		

(Ref) Prepared by Alpha-Win Research Dept. based on materials including the notice of shareholder meeting and securities report. Words in red indicate groups and individuals affiliated with the Company.
(Note) Shareholding ratio (proportion of shares owned) has been calculated excluding treasury shares. The shareholder ranking is also the ranking that excludes the Company.

4. ESG and SDGs

- **Continuing to work on its ESG as usual.**

The Company has been continuing to work on ESG as usual, and there has been no notable change in the most recent year.

◆ Environment

Company's business is not the kind that harms the environment. It works on conserving energy by saving electricity and other means.

◆ Society

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

◆ Governance

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

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

There are a total of six directors including the CEO Susumu Iwata. Of these directors, three are outside directors who are also audit and supervisory committee members (director from Kobe Steel, Ltd., director from MUFJ Bank, Ltd., and certified public accountant). There is currently no woman or person from outside of Japan among the directors or the three executive officers (CTO, COO, and CSO).

◆ SDGs (Sustainable Development Goals)

Regarding the SDGs[11] (Sustainable Development Goals), the Company is working toward "providing marketing DX support to contribute to job satisfaction and business growth for our company as well as our customers," which is the common goal that applies to achieving the SDGs both in terms of employment and through its services (Figure 17).

(11) SDGs (Sustainable Development Goals) are international development goals adopted at the UN Summit to achieve a sustainable and better world by 2030.

【Figure 17】SDGs and Their Initiatives

(Ref) Financial results briefing materials

5. History of Growth

◆ Past Transition in Financial Results

Sales

- **Developed and released unique products that differentiate the Company from other companies. Has grown rapidly by predicting and meeting the needs of society ahead of others.**
- **Posting record-high sales for 13 fiscal years in a row**

From FY 2009 to FY 2022, sales have been hitting record highs every year, at least for the 13 fiscal years for which information is disclosed. During this period, sales had increased by about 5.8x from Y570 million to Y3,330 million (annual compound rate of +14.5%). The Company has grown rapidly by developing and releasing unique products that can be differentiated from other companies, predicting and meeting the needs of society ahead of others, as well as through M&As. Its growth has been achieved thanks to the release and expansion of its cloud services, especially the rapid growth of its originally developed service AD EBiS of the Marketing PF, and the steady growth of the EC PF's EC-CUBE as the e-commerce market grew.

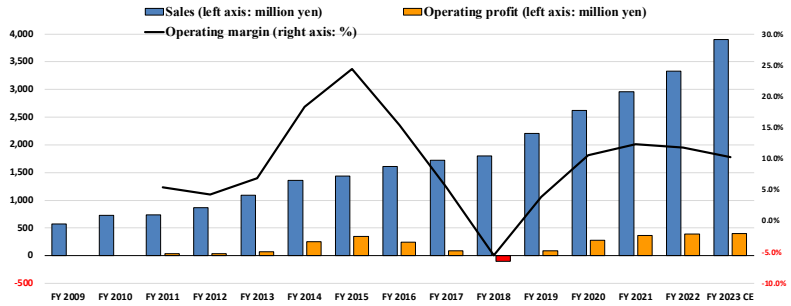
Profit

- **In FY 2015, record-high profits of the time were recorded.**
- **Starting in FY 2016, the Company had conducted business restructuring and upfront investments, prioritizing acceleration of future business growth over profit. Net losses were recorded consecutively in FY 2018 and FY 2019.**
- **Since then, sales have increased and costs have improved, leading to a V-shaped recovery in business performance. In FY 2021, sales and profits hit record highs, and in FY 2022, operating and recurring profit hit record highs in**

Regarding profit, the Company had stayed profitable both on a standalone 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, starting in FY 2016, the Company's active business restructuring and upfront investments had increased the expenses, leading to a consecutive decline in profit despite increasing sales. In FY 2018, the Company recorded a net loss (of Y88 million) for the first time since becoming listed on the market, due to upfront investments mainly to hire more employees for development and sales (Figures 18 and 19). In FY 2019, the Marketing PF's sales grew by 20% thanks to its main product AD EBiS, and the Company was able to post both an operating profit and a recurring profit for the full year in a turnaround. However, due to extraordinary losses, it posted a net loss for the second consecutive fiscal year.

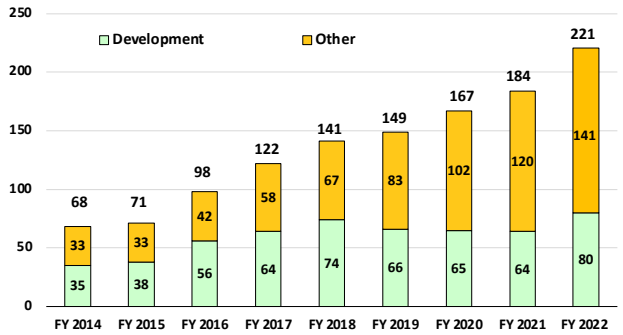
In the following year or FY 2020, consecutive growth of sales and improvements in cost led to a 3x growth in operating and recurring profit compared to the previous fiscal year. The Company posted a net profit for the first time in three fiscal years in a clear, V-shaped recovery. In FY 2021, the Company posted record profits for the first time in six years, and in FY 2022, operating and recurring profits both hit record highs for consecutive years.

【Figure 18】Transition in Past Financial Results and Forecast for This Fiscal Year (Unit: million yen, %)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. CE = the Company's estimate/forecast.
(Note) Consolidated results starting in FY 2014; nonconsolidated prior to this. Information on operating profit before FY 2010 was not available.

【Figure 19】Change in the Number of Employees (Unit: persons)



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

6. Market Environment

◆ Trends of Japan's Advertising Market

- **In 2021, Japan's total advertising expenditure increased at a double-digit rate compared to the previous year.**

Total Advertising Expenditure

Total advertising expenditure in Japan in 2021 (calendar year; the same applies to this entire chapter) was about Y6.8 trillion, having increased by 10.4% from the previous year. The advertising market has recovered rapidly with the relaxation of the COVID-19 situation and in a rebound from the previous year.

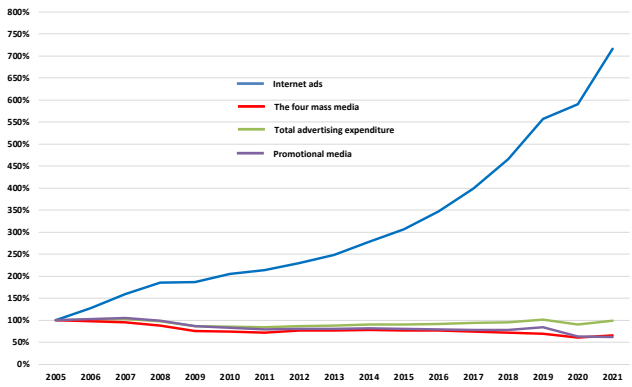
- **Internet advertising expenditure has been continuing to grow at a high rate. It surpassed the four mass media as the largest medium for advertising.**

Internet Ad Market

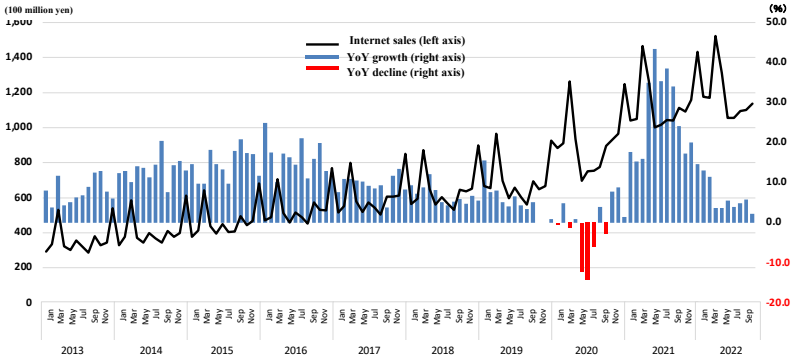
With the growth of overall advertising expenditure, digitalization of the society, the e-commerce market boom, and greater demands for video ads, the Internet advertising market grew by 21.4% YoY in 2021, a much higher rate than the overall advertising growth. Since 2005 (point of comparison, set at 100), Internet advertising has grown significantly to about 7.2x by 2021 (annual growth rate of about +13.3%, on a simple average) (Figure 20).

Internet advertising expenditure (sum of medium cost and production cost), which is about Y2.7 trillion, accounts for about 39.8% of the total advertising expenditure. Its proportion has been steadily increasing by several percent every year. In 2021, it surpassed the four mass-media advertising (newspaper, magazine, radio, and television) for the first time to become the largest advertising medium (source: Dentsu Inc.'s "2021 Advertising Expenditures in Japan").

【Figure 20】Change in Advertising Expenditure by Medium (Indexation: the year 2005 is set to 100)



【Figure 21】Change in Monthly Sales of Internet Ads



(Ref) Figure 20: prepared by Alpha-Win Research Dept. based on Dentsu Inc.'s "2021 Advertising Expenditures in Japan" (published in February of each year)
Figure 21: prepared by Alpha-Win Research Dept. based on the "Survey of Selected Service Industries (Advertising)" by the Ministry of Economy, Trade, and Industry.

- **Internet advertising has turned to a positive trend. However, its momentum (YoY) is declining.**

Recent Situation

The COVID-19 crisis had caused the entire Internet advertising market to shrink on a year-on-year comparison (based on the monthly sales of the advertising industry as announced by the Ministry of Economy, Trade, and Industry) since the beginning of 2020, but the market came back to growth in October of the same year (Figure 21). The market has been growing since then due to the e-commerce boom, but the stay-at-home consumption has somewhat settled down and the momentum (sales growth rate) has been declining on a monthly basis. Over the medium to long term, the business environment is predicted to remain advantageous for the Company's Interned ad business due to further digitalization.

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

◆ Competitors

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

◆ Similar Services and Response to Regulations on Privacy Protection

For advertising effectiveness measurement and analysis tools, competing and similar products are Google Analytics[12] and Adobe Analytics[13] widely used by small/medium-sized companies in Japan and Web Antenna (used by more than 600 companies from major companies to ventures) provided by the private company beBit, Inc. However, these other companies are not specialized in the field, and their products' functions, measurement target, analysis content, and support system are limited. In comparison, the Company's products are superior in terms of specifications, development system, and support system and also have a high price advantage.

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

Recent Situation

・For the protection of user privacy, Google and Apple are shifting toward eliminating or placing restrictions on the use of third-party cookies[14] that make measurements and track users across multiple websites. Instead, first-party cookies[14] that cannot measure across multiple websites are generally becoming mainstream.

・Google has announced to discontinue support for the previous version of Universal Analytics Properties in July 2023 and consolidate support to its successor, Google Analytics 4 Properties ("GA4"). GA4 is equipped with cross-device user analysis, integrated management of apps and websites, and user behavior prediction functions using machine learning. However, in acquiring data, it uses cookies and google account information.

・There are two versions: the standard version (free version) and the paid version (Google Analytics 360 or "GA360"). The free version has limited function, while the paid version has sophisticated functions but are highly priced. GA360 has many similar functions as the Company's AD EBiS, and although they are at different price ranges, competition is expected for some of the customers.

・In late December 2022, the Company will release a new measurement method for AD EBiS, the 1st Party Cookie Program (developed in-house), which will enable highly accurate measurement of advertising effectiveness. The previous method had limitations on some of the measurements due to stricter regulations, but by switching to 1st party cookies issued by the advertiser's web servers, accurate data measurement will now be possible within the limits of cookie regulations.

(12) Google Analytics: A website access analysis tool provided by Google targeting SME users. Analysis is only conducted within Google's website, and mostly the free version is popular. The high-spec, paid version has a high price (for example, the GA360 as explained later is priced as combinations such as "monthly fixed price of about Y1.3 million + pay-per-use price").

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

(14) Cookies are a mechanism for recording information such as a website visitor's browsing history, input data, and user environment. By identifying information and history, it enables the providing of advertisements and information tailored to each individual. Cookies include 1st party cookies issued directly from the domain (host) of the website that a user is visiting and 3rd party cookies issued from a different domain.

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

◆ Financial Results for FY 2022 (last fiscal year)

Summary

- **Sales increased by approximately 13% and operating profit increased by 7% in the previous fiscal year.**

Consolidated results for FY 2022 (October 2021 to September 2022) were as follows: sales increased to Y3,334 million (+12.7% YoY) and operating profit rose to Y392 million (+7.4% YoY). Net profit declined slightly to Y236 million (-1.5% YoY) due to an impairment loss (impairment loss on software which is no longer provided) recorded under extraordinary losses (see Figure 22 on page 25).

- **Sales hit a record high for the ninth consecutive year (since becoming listed on the market).**
- **Although the rate of increase in sales and profit has slowed down in recent years, operating and recurring profit hit record highs.**

Overall sales remained strong thanks to the M&As and the in-house developed services. Sales reached a record high for the ninth consecutive fiscal year since becoming listed on the stock exchange. Operating profit increased for the fourth consecutive fiscal year and reached a record high for the second consecutive fiscal year. Although the rate of sales growth was at a double digit, both sales and profit growth rates have been gradually slowing down over the past four fiscal years. In the previous fiscal year, the operating margin worsened due to increased costs associated with the M&As and enhanced promotions, leading to a slowdown in the rate of profit growth.

Comparison with the Company's Forecast

- **While sales fell slightly short of the Company's plan, profits rose above expectation. Turnaround from the forecasted profit decline to profit growth.**

In May, the Company revised down its initial plan, expecting sales growth and profit decline. Although sales fell short of this revised plan by Y66 million (-1.9% compared to the revised plan), operating profit was Y52 million greater (+15.3%), and net profit was Y26 million greater (+12.4%), exceeding the Company's forecasts in a turnaround to profit growth. Dividend per share was unchanged from the 7 yen/share after the revision.

- **The main reason for sales falling short of plan was the decrease in the number of accounts of AD EBiS due to large cancellations by some of the customers.**

Sales of the core business, AD EBiS, fell short of the forecast due to a decline in the number of accounts. Sales of AD HOOP also fell short of the plan. As a result, sales of the Marketing PF segment were about Y85 million below the forecast. On the other hand, sales of the EC PF segment exceeded the forecast by about Y24 million due to orders for large projects received by BOKUBLOCK after the acquisition, which helped increase sales.

- **The upward revision to profit was due to the difference from the cost estimates.**

The main reasons for the upward revision to profit were the higher-than-expected amount of transfer to assets, the postponement of a part of the advertising measures, and unused personnel expenses due to delays in hiring.

Comparison with Alpha-Win's Forecast

- **Both sales and profits slightly exceeded our forecast.**

Sales, operating profit, and net profit exceeded our previous forecast by Y34 million (+1.0% compared to our forecast), Y43 million (+12.2%), and Y18 million (+8.3%), respectively. While sales were close to our forecast, profit became greater mainly presumably due to the difference in cost estimates, especially in the amount of transfer to assets.

【Figure 22】Last Fiscal Year's Financial Results (comparison between results and forecast)

(Units: million yen, %)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022			FY 2022: Company Forecast (Revised)			FY 2022 Alpha-Win's Forecast (Previous)		
	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Change in Amount/Rate	% Change	Amount (forecast)	Diff. in Amount/Rate	% Diff.	Amount (forecast)	Diff. in Amount/Rate	% Diff.
Total Sales	1,360	1,437	1,613	1,719	1,805	2,204	2,619	2,958	3,334	376	12.7%	3,400	-66	-1.9%	3,300	34	1.0%
I. Marketing Platform	883	911	1,074	1,255	1,530	1,951	2,318	2,599	2,925	326	12.5%	3,031	-106	-3.5%	2,960	-35	-1.2%
II. EC Platform	477	526	539	465	274	253	301	358	414	56	15.6%	393	21	5.4%	340	74	21.8%
Gross Profit	867	956	1,044	1,123	1,190	1,561	1,832	2,039	2,260	220	10.8%	2,299	-39	-1.7%	2,250	10	0.4%
Gross Margin	63.8%	66.5%	64.7%	65.3%	65.9%	70.8%	70.0%	68.9%	67.8%	-1.2%	-	67.6%	-0.2%	-	68.2%	-0	-
SG&A Expenses	618	606	796	1,030	1,289	1,476	1,555	1,674	1,867	193	11.5%	1,955	-88	-4.5%	1,900	-33	-1.7%
SG&A Expenses Ratio	45.4%	42.1%	49.3%	59.9%	71.4%	66.9%	59.4%	56.6%	56.0%	-0.6%	-	57.5%	1.5%	-	57.6%	-0	-
Operating Profit (segment's)	249	350	248	93	-98	85	277	365	392	27	7.4%	340	52	15.3%	350	42	12.0%
I. Marketing Platform	142	214	210	153	-121	46	199	247	280	33	13.3%	285	5	1.9%	290	-10	-3.6%
II. EC Platform	107	136	38	-60	22	39	78	119	108	-11	-9.0%	56	52	93.1%	60	48	80.2%
Operating Margin	18.3%	24.4%	15.4%	5.4%	-5.5%	3.9%	10.6%	12.4%	11.8%	-0.6%	-	10.0%	1.8%	-	10.6%	0	-
I. Marketing Platform	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	9.5%	9.6%	0.1%	-	9.4%	0.2%	-	9.8%	-0	-
II. EC Platform	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	33.1%	26.1%	-7.0%	-	14.2%	11.9%	-	17.6%	0	-
Recurring Profit	234	352	250	106	-115	79	261	364	399	36	9.8%	340	59	17.4%	350	49	14.0%
Net profit	138	231	169	73	-89	-35	183	240	236	-4	-1.5%	210	26	12.4%	218	18	8.3%

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

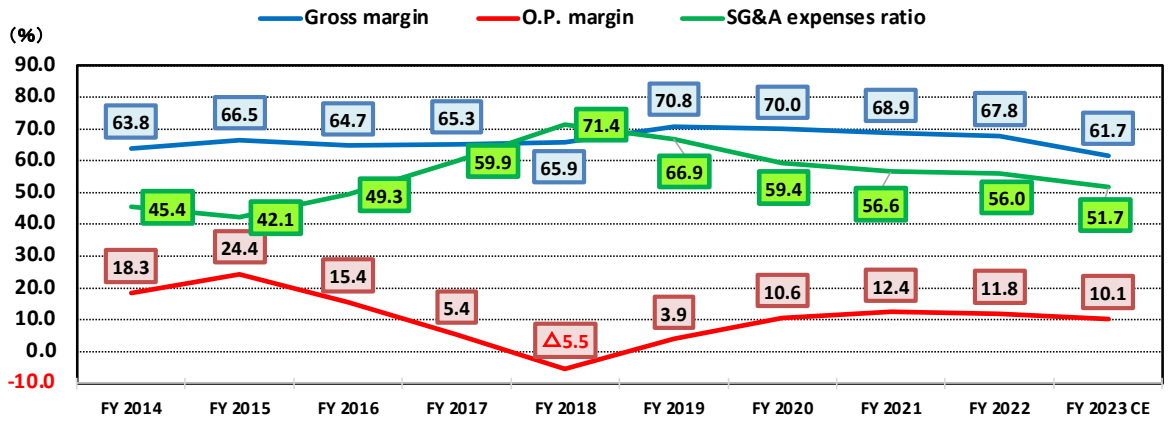
- **Operating profit increased and exceeded the forecast due to higher sales despite the decline in operating margin.**

Profit Margin and SG&A Expenses Ratio

The gross margin worsened by 1.1 percentage points from 68.9% in the fiscal year before the previous to 67.8% in the previous fiscal year, while the SG&A expenses ratio improved by 0.6 percentage point from 56.6% to 56.0%. The operating margin had been expected to worsen from 12.4% to 10.4%, but the actual margin only declined by 0.6 percentage point to 11.8% (Figure 23).

The SG&A expenses increased by Y193 million or 11.5% from the previous fiscal year. However, this increase was smaller than the 12.7% sales growth rate, so the increase in sales led to an increase in operating profit.

[Figure 23] Transition in Profit Margins and SG&A Expenses Ratio



(Ref) Alpha-Win Research Dept. based on the financial results summary.
(Note) CE: the Company's forecast.

- **Marketing PF posted double-digit sales and profit growth, absorbing the increase in cost.**

Summary of Each Segment

The status of businesses within each segment will be discussed later, but by segment, sales (to external customers) of its mainstay Marketing PF segment increased by Y325 million (+12.5% YoY) from Y2,599 million in FY 2021 to Y2,925 million in FY 2022. This represented 86% of the total increase in sales.

The segment's operating profit increased by Y33 million (+13.3%) from Y247 million to Y280 million, accounting for 122% of the total increase in operating profit. This was because the increase in costs associated with the M&As and enhanced promotion was absorbed by the increase in sales and the increase in transfer to assets associated with the new functions (recorded as assets, not as profit/loss for the period).

Regarding this segment's profit, the profit margin improved slightly from 9.5% to 9.6%.

- **In the EC PF, despite the double-digit sales growth largely owing to the acquisition of BOKUBLOCK, profit declined due to an increase in the related costs.**

The EC PF posted sales of Y414 million, increasing by Y56 million YoY (+15.6%), largely thanks to the acquisition of BOKUBLOCK, an e-commerce website building & operation support company.

However, its operating margin declined from 33.1% to 26.4% due to higher personnel costs associated with the M&As and greater server management costs caused by the weak yen, resulting in a profit of Y108 million for the segment in a Y11 million profit decline (-9.0%).

Financial Trend by Segment: Marketing PF (1) AD EBiS

- **Sales of ad effectiveness measurement increased, but the rate of sales growth has declined. This was mainly due to the slower rate of increase in the average unit price and the net decrease in the number of accounts.**
- **Average unit price increased QoQ for the 19th consecutive quarter. It has been increasing YoY for 38 consecutive quarters.**
- **Major update to AD EBIS Sync, strengthening the product.**

(15) Major version upgrade to AD EBiS Sync: Conducted a total of three version upgrades: media sync function, automatic ad registration function, and margin setting function. Automation improves efficiency of ad management operations and sharing of information within a group, contributing to greater competitive edge.

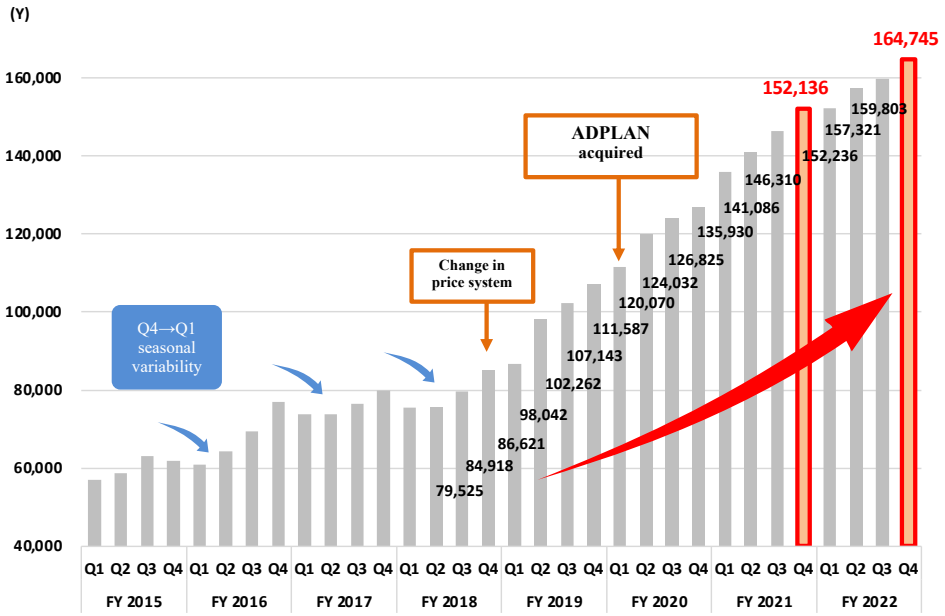
Sales of the advertising effectiveness measurement business seems to have increased slightly YoY (by about +4% YoY according to our estimate).

The increase in the Marketing PF's sales and profits used to be driven mainly by the rise in the monthly average unit price of its core business AD EBiS. However, the rate of increase in the average unit price is slowing down, while the number of accounts has also continued to decline. As a result, sales of AD EBiS in the previous year seem to have been about Y30 million lower than the expected Y2,400 million.

The average unit price has been increasing for 19 consecutive quarters QoQ (164,745 yen at the end of Q4 FY 2022), as shown in Figure 24 on page 27, due to the price revision following the improvement of functionality and the change in customer base toward higher-priced zones.

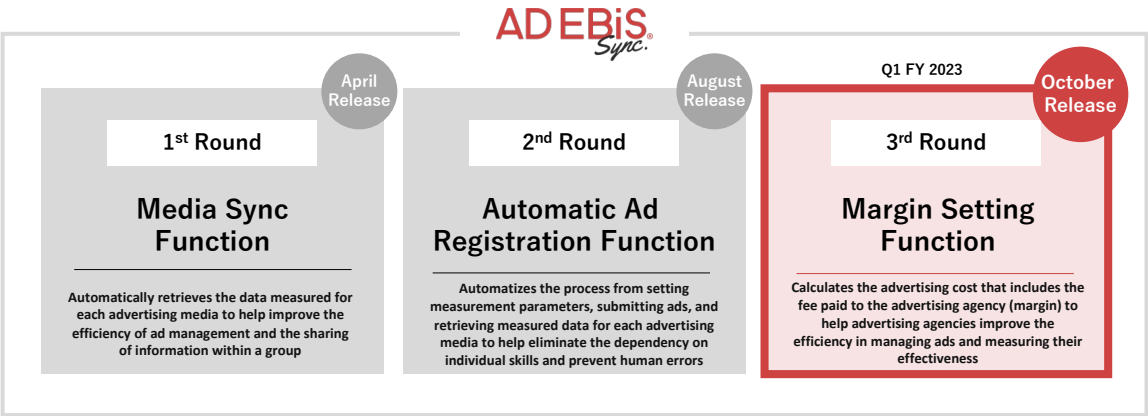
However, from the end of Q4 FY 2021 to the end of Q4 FY 2022, the average unit price increased (YoY) from 25,311 yen ⇒ 16,306 yen ⇒ 16,235 yen ⇒ 13,493 yen ⇒ 12,609 yen, with the rate of its increase slowing down from +20.0% ⇒ +12.0% ⇒ +11.5% ⇒ +9.2% ⇒ +8.3%. One reason for this is that although a major upgrade[15] from AD EBiS to AD EBiS Sync was released (see Figure 25 on page 27), the price was left unchanged as a standard service.

【Figure 24】Change in the Average Unit Price of AD EBiS



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

【Figure 25】Updates of AD EBiS Sync (2022)



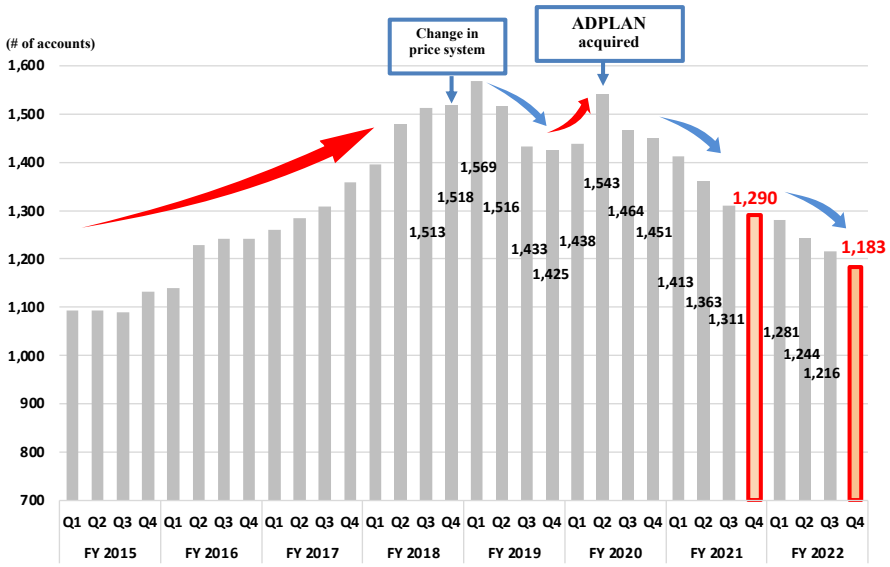
(Ref) Financial results briefing materials

- **The number of accounts continues to show a trend of net decline.**

Meanwhile, the number of accounts has been declining QoQ for 10 consecutive quarters, and the downward trend has not been stopped (Figure 26 on page 28).

Even in the most recent quarter, the number of accounts has shown a net decline from 1,290 at the end of Q4 FY 2021 ⇒ 1,183 at the end of Q4 FY 2022 (-107 accounts or -8.3% YoY). This was due to lower-than-expected acquisition of new clients, cancellations by clients in industries with weak performance, and cancellations by major clients.

【Figure 26】Change in the Number of Accounts of AD EBiS



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

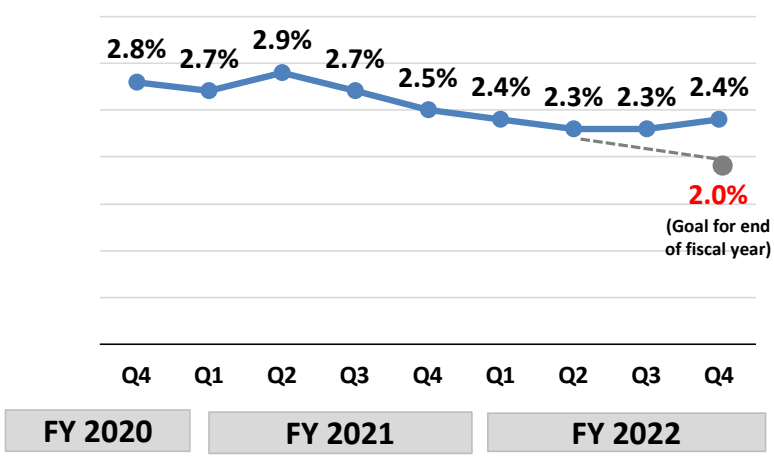
- **Churn rate has stayed about the same.**

The quarterly churn rate remained flat from Q4 FY 2021 to Q4 FY 2022, from 2.5% ⇒ 2.4% ⇒ 2.3% ⇒ 2.3% ⇒ 2.4%, falling short of the 2.0% target set for the end of the previous fiscal year (Figure 27).

- **Will focus on improving customer success**

The Company believes that the main reason for churn is that users who start using the ad effectiveness measurement are not able to fully utilize the analysis results in their business. Going forward, the Company intends to prevent churn by further strengthening customer success and recover the number of accounts through greater sales efficiency.

【Figure 27】Change in the Churn Rate of AD EBiS



Definitions

- Monthly churn rate = churn amount during the month ÷ previous month's sales
- Since there is seasonal variability in cancellations due to when fiscal years end for customers, etc., the 12-months moving average was used to understand trends.

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

- **Advertising agency DX business has stayed mostly flat.**

Financial Trend by Segment: Marketing PF (2) Advertising Agency DX

Sales of AdRepo, which accounted for most of the sales of the advertising agency DX business, seem to have stayed mostly flat compared to the previous fiscal year. Regarding Ad-Knowledge, the Company has not been actively working on sales activities and its sales have been gradually declining.

- **M&As and the new services contributed to sales.**

Financial Trend by Segment: Marketing PF (3) Incubation

This category's name has been changed from the previous "new services" to "incubation." Sales grew by 4.1x compared to the previous fiscal year and contributed to overall sales growth, thanks to contribution to sales by the three companies acquired in the M&As (Spoo, TOPICA, and Far End) and the growth of AD HOOP. However, the amount of net loss appears to have worsened slightly due to starting in-house development.

The proportion of the incubation business in the total consolidated sales has risen steadily from 3% in FY 2021 ⇒ 12% in FY 2022 (estimated sales of Y89 million ⇒ Y400 million in the same order).

- **Sales of EC PF increased due to the M&As, but profit decreased due to the increase in related costs.**

Financial Trend by Segment: EC PF Segment

In the EC PF, sales (to external customers) increased by Y52 million (+15.6% YoY) from Y358 million in the fiscal year before the previous to Y414 million in the previous fiscal year, largely due to the acquisition of BOKUBLOCK, an e-commerce website building & operation support company. This segment's amount of sales growth accounted for 14% of the overall increase in sales.

On the other hand, despite the increase in sales, operating margin (of the segment) declined from 33.1% to 26.4% due to the increase in costs such as higher personnel costs associated with the M&As and higher server maintenance costs due to the weaker yen. Consequently, operating profit declined by Y11 million (-9.0%) from Y119 million to Y108 million.

- **Sales of EC-CUBE declined due to intensifying competition and the discontinuation of use by some customers.**

Financial Trend by Segment: II. EC PF (1) EC-CUBE

The intensifying competition of e-commerce platforms has led to the termination of use by some of the customers. The lasting impact of this termination seem to have led to the Y27 million decline in sales (-7.5%) from Y358 million in the fiscal year before the previous to Y331 million in the previous fiscal year. Since this business is based on a business model with a high marginal profit ratio, this sales decline was presumably one of the factors causing the segment's profit decline.

- **Major upgrade of EC-CUBE was also released.**

Of the two businesses of the EC PF, a major update (strengthening security and adding new functions) was released in September 2022 for EC-CUBE, one of the Company's longtime products, as the latest version **EC-CUBE 4.2**.

- **BOKUBLOCK performed well and gained major contracts due to synergies within the YRGLM Group.**

Financial Trend by Segment: II. EC PF (2) E-commerce Website Building & Operation Support

As a result of the corporate acquisition, the e-commerce building & operation support business by BOKUBLOCK became included in this segment starting in the current fiscal year. Its sales (four months'), calculated back from the apportionment of sales over the fiscal year, are estimated to have been about Y80 million, which appears to have exceeded the expected sales. Compared to its annual sales before the acquisition, it is estimated to be posting sales at twice the rate since the acquisition. Having already gained new, large contracts, the effect of synergies within the Group is evident.

Factors that Increased/Decreased Profit

Figure 28 shows the factors that caused profit to increase or decrease in the previous fiscal year.

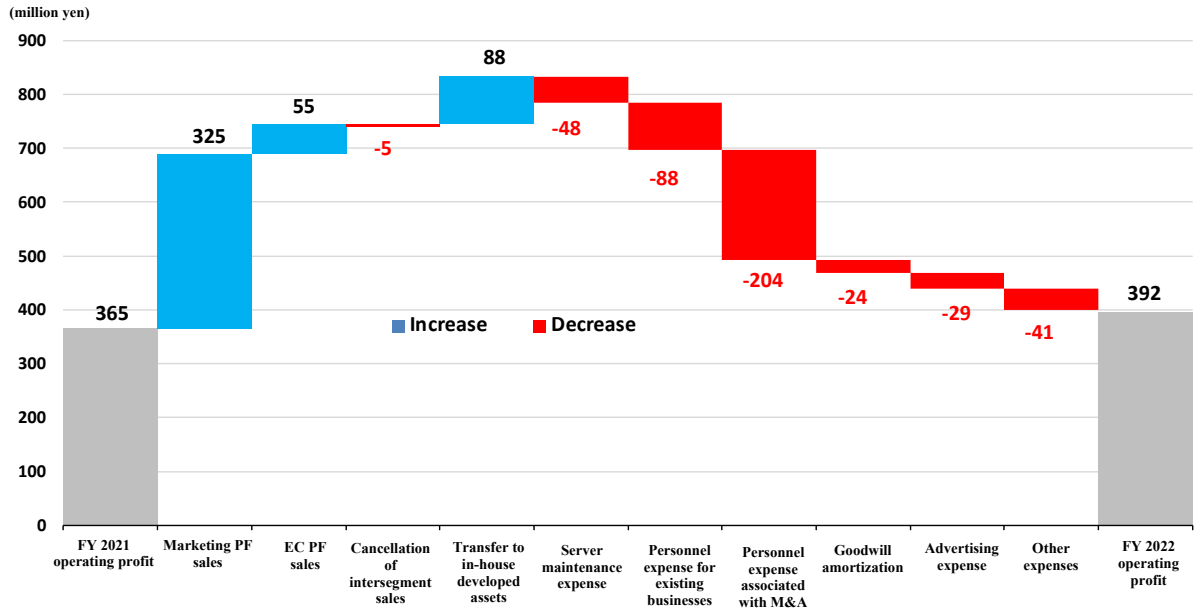
- **Sales growth and increased transfer to in-house developed assets were the main reasons for the increase in profit. Absorbed the increase in personnel expenses.**

The largest factor that increased profit was the sales growth of the Marketing PF segment (+Y325 million YoY), followed by an increase in the transfer to in-house developed assets (+Y88 million) and an increase in the sales of the EC PF due to the acquisition of BOKUBLOCK and other factors (+Y55 million).

On the other hand, the largest factor that decreased profit was the increase in personnel expenses due to the M&As (addition of approx. 20 employees caused a profit decline of -Y204 million), followed by the increase in personnel expenses (-Y88 million) due to increasing employees for the existing businesses. Advertising expenses also increased (-Y29 million) due to sales promotions for AD EBiS Sync and other products. However, these were all upfront investments as part of the business expansion process.

In addition, since the Company uses overseas servers, profit decline was also caused by the increase in server management expense due to the weak yen (-Y48 million). The increase in goodwill amortization due to the M&As also caused profit to decrease (-Y24 million). These negative factors were all absorbed, though, resulting in a net increase in operating profit of Y27 million YoY (+7.4%).

[Figure 28] Factors that Impacted Operating Profit in FY 2022 (Unit: million yen)



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

- **Sales increased in all quarters of the previous fiscal year and record quarterly sales were posted consecutively. Maintained high levels of quarterly profit.**
- **Q4 recurring profit reached the record high for a single quarter.**

Quarterly Transition in Financial Performance

Quarterly sales in the previous fiscal year all showed YoY as well as QoQ growth, also hitting record-high quarterly sales consecutively. Operating margins remained at a double digit (11.1%-12.6%) in all quarters, and operating profit since Q2 also increased YoY.

In Q4, the Company posted record quarterly sales as well as recurring profit, thanks to the effects of the M&As (acquisition of Far End in Q2 and BOKUBLOCK in Q3) and the increase in transfer to assets due to the development of major functions (operating profit was only slightly lower than the quarterly record high posted in Q4 of FY 2020).

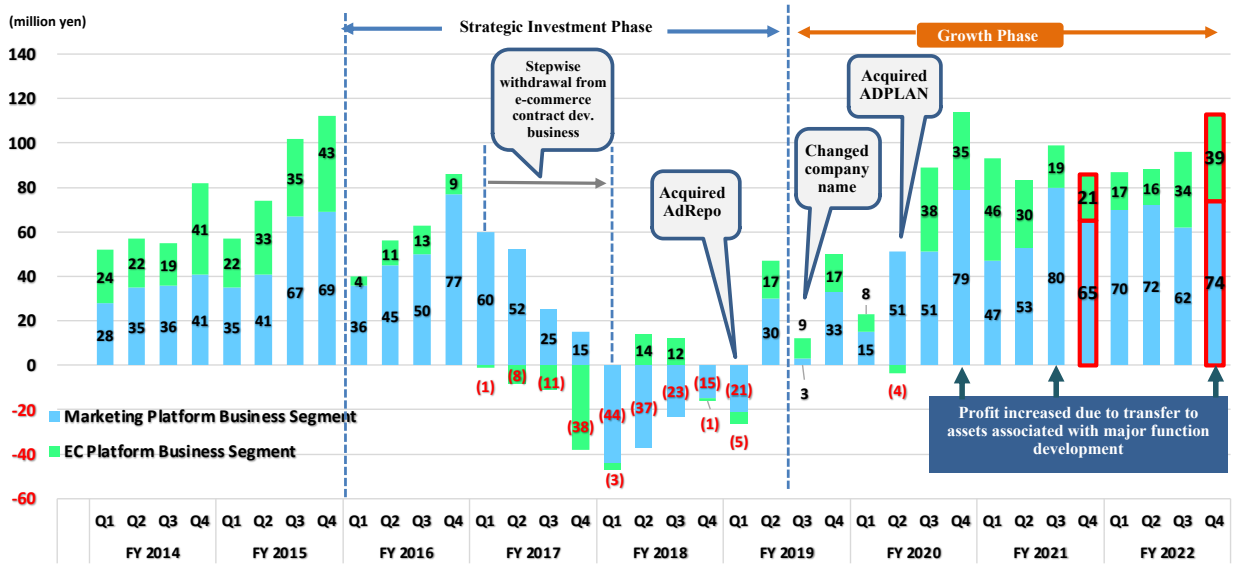
In the Marketing PF, the Company posted record quarterly sales from Q1 to Q3. Although Q4 sales declined from Q3 due to the one-time sales in Q3 at a subsidiary, sales have generally continued to increase (Figure 29). Operating profit has been solid, with around Y70 million posted every quarter.

- **Through business restructuring and shift to the subscription business model, business structure became stable with little seasonal variability.**
- **Both segments have remained profitable for 10 consecutive quarters.**

In the EC PF, sales had been stagnant for some period, but with the acquisition of BOKUBLOCK in Q3 of last fiscal year, both sales and operating profit grew in Q4.

Due to the transition to the subscription business model, business restructuring, and the entry into related businesses, its business structure is becoming stable with little seasonal variability. Since Q3 FY2020, both PFs have been firmly posting a profit.

【Figure 29】Quarterly Transition in Operating Profit



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

- For the current fiscal year, the Company forecasts double-digit sales growth, slight profit growth, and dividend hike.
- Revised down its forecast for this fiscal year in its mid-term plan
- The reasons for the downward revision are the lower-than-expected sales of AD EBiS in the previous fiscal year, continued upfront investment, and the exclusion of undetermined factors from the plan.
- The Company aims to achieve record-high sales and profits consecutively in the current fiscal year.

◆ The Company's Financial Forecast for FY 2023 (this fiscal year)

Overview

For the current fiscal year (FY 2023), the Company forecasts sales of Y3,900 million (+17.0% YoY), operating profit of Y400 million (+1.9% YoY), net profit of Y240 million (+1.7% YoY), dividend of 7.8 yen (+0.8 yen/share), operating margin of 10%, and dividend on equity of 2.5% (Figures 30 and 31).

The goals of the medium-term business plan for the current fiscal year (the final year of the plan), had been sales of Y5,000 million, operating profit of Y750 million (operating margin of at least 15%), and dividend on equity of at least 3%. However, it has revised down each of these to its current forecast. This was presumably to reflect the lower-than-expected sales of AD EBiS in the previous fiscal year and to exclude undetermined factors, such as new M&As and new services to be launched in the future (which are not incorporated in this fiscal year's forecast at all), from the plan.

However, in the new forecast for this fiscal year, the Company still plans to achieve record-high sales for the 10th consecutive fiscal year since becoming listed on the market, as well as record-high operating profit and net profit for the third consecutive fiscal year. As with the previous fiscal year, the forecast for the first half is not disclosed.

【Figure 30】Progress with Achievement of the Main Financial Targets and This Fiscal Year's Revised Forecast

	Consolidated Sales	Consolidated Operating Margin	Dividend on Equity
FY 2020 Results	Y2.61 billion	10.6%	2.0%
FY 2021 Results	Y2.95 billion	12.4%	2.3%
FY 2022 Results	Y3.33 billion	11.8%	2.6%
FY 2023 Previous Medium-Term Financial Targets	Y5.0 billion	15%	3% or more
FY 2023 Revised Financial Targets	Y3.9 billion	10%	2.5% or more

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

【Figure 31】The Company's Financial Forecast for This Fiscal Year

(Units: million yen, %)	FY 2022	FY 2023: Company Forecast		
	Amount (result)	Amount (forecast)	Change in Amount/Rate	% Change
Total Sales	3,334	3,900	566	17.0%
I. Marketing Platform	2,924	3,260	336	11.5%
II. EC Platform	414	640	226	54.5%
Gross Profit	2,260	*2,410*	*150*	*6.7%*
Gross Margin	67.8%	61.8%	-6.0%	-8.8%
SG&A Expenses	1,867	*2,010*	*143*	*7.7%*
SG&A Expenses Ratio	56.0%	51.5%	-4.5%	-8.0%
Operating Profit (segment's)	393	400	7	1.9%
I. Marketing Platform	280	*340*	*60*	*21.6%*
II. EC Platform	108	*60*	*-48*	*-44.5%*
Operating Margin	11.8%	10.3%	-1.5%	-12.9%
I. Marketing Platform	9.6%	*10.4%*	*0.9%*	*9.1%*
II. EC Platform	26.1%	*9.4%*	*-16.7%*	*-64.1%*
Recurring Profit	400	390	-10	-2.5%
Net profit	236	240	4	1.7%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) For this fiscal year's forecast, the gross profit, SG&A expenses, and segment's profit are estimates by Alpha-Win Research Dept. Since some of the sales within each PF were disclosed as a percentage of total sales or as a percentage of increase or decrease, estimates by Alpha-Win have been shown in the tables and the text.

Sales

Sales by Platform (PF)

- **For the current fiscal year, double-digit sales growth is expected in both segments.**

By platform, the Company seems to be estimating the sales of the Marketing PF to increase by Y336 million from Y2,924 million to Y3,260 million (approximates for all figures in this paragraph; +11.5% YoY) and sales of the EC PF to increase by Y266 million from Y414 million to Y640 million (+54.5% YoY).

Proportion of Sales by Platform

- **EC PF is expected to increase its proportion of total sales by 5 percentage points due to relatively high growth.**

The Company expects that approximately 83% of consolidated sales will come from the Marketing PF (-5 percentage points YoY) and the remaining 17% will come from the EC PF (+5 percentage points YoY). Profit forecasts for each platform segment are not disclosed.

Forecasted Sales of Businesses of the Marketing PF

- **AD EBiS's sales are expected to increase slightly, as a higher unit price will offset the decline in the number of accounts.**

Within the Marketing PF, the Company forecasts sales of Y2,460 million (+3.8% YoY) for the ad effectiveness measurement business. Although it has not disclosed the estimates for the unit price per customer and the number of accounts of AD EBiS on which the forecast is based on, it presumably expects the unit price to increase slightly and the number of accounts to decrease slightly.

The Company seems to be estimating that sales of advertising agency DX will increase slightly from Y175 million to approximately Y180 million due to the increase in the sales of AdRepo.

- **The incubation business is expected to see a significant increase in sales.**

For the incubation business, the Company expects a significant increase in sales by Y226 million (+54.6% YoY), from Y414 million to Y640 million, due to the expansion of AD HOOP's business domain and full contribution by the companies acquired during the fiscal year.

Forecasted Sales of Businesses of the EC PF

While sales of EC-CUBE have been on a downward trend, the Company expects its sales to increase by Y21 million from Y331 million to Y352 million this fiscal year.

- **In EC PF, BOKUBLOCK will be the growth driver.**

BOKUBLOCK contributed to four months of sales (estimated at Y84 million) in the previous fiscal year's consolidated sales. The Company seems to expect its sales to increase to approximately Y290 million in the current fiscal year.

Proportion of the New Services

- **The medium-term target for the proportion of new services is 30%, but this is expected to be achieved in the next fiscal year or later.**
- **The proportion of new services jumped from 3% in FY 2021 to 12% in FY 2022 (excluding e-commerce website building & operation support). Based on the new standard of (incubation + e-commerce website building & operation support) / total sales, the target ratio of 14% was achieved in the previous fiscal year.**

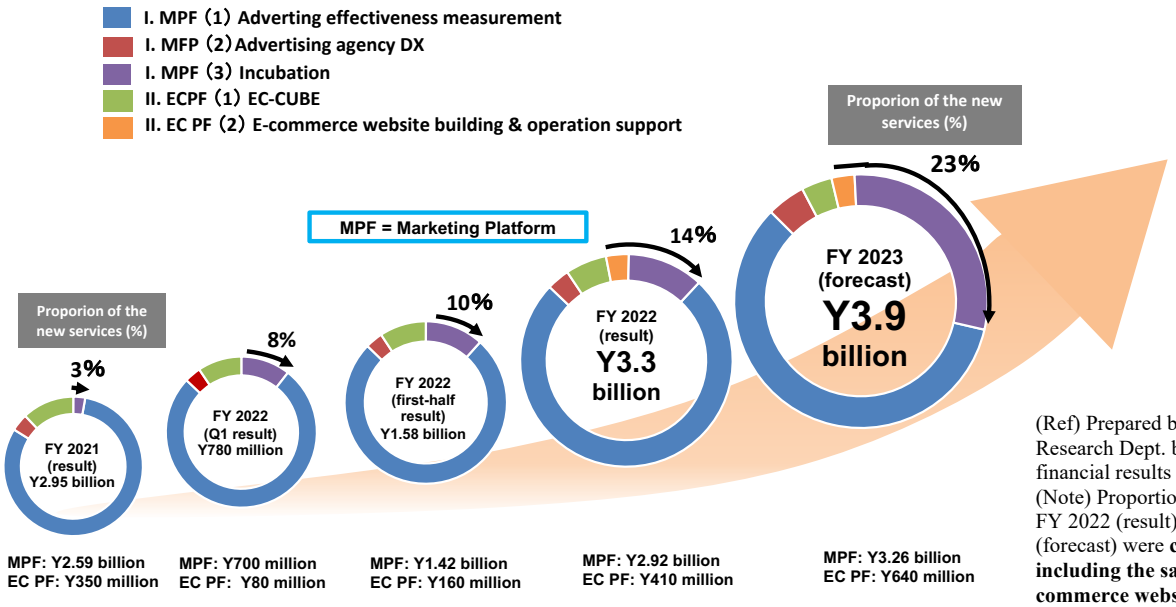
The proportion of new services in the consolidated sales, which is one of the companywide KPIs, had been planned to increase from 3% in FY 2021 (estimated actual sales of about Y89 million) to 14% in FY 2022 (Y500 million), and then to 30% in FY 2023 or this fiscal year (Y1,500 million) (the 30% target has been extended to next fiscal year and beyond).

However, due to the sales of eZCX falling short of the initial plan and other factors, the proportion was 12% in the previous fiscal year (approximately Y400 million based on the previous standard that calculates the proportion excluding the e-commerce building & operation support; approximately Y470 million based on the new standard which includes sales from the e-commerce website building & operation support, which reaches the 14% target). For this fiscal year, the target has been revised down to 23% (based on the new standard) (Figure 32).

- **Plans to double sales of the new services this fiscal year.**

Consequently, this fiscal year's sales forecast for the new services has also been revised downward to Y900 million (estimate). Despite the downward revision, however, the Company plans to almost double its sales for the current fiscal year compared to the previous fiscal year. It expects the acquisition of Far End in the Marketing PF and BOKUBLOCK (e-commerce website building & operation support) in the EC PF to contribute fully to the Company's performance and lead to significant growth through synergies.

【Figure 32】 Change in Financial Performance by Business and Change in the Proportion of New Services in the Consolidated Sales



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.
(Note) Proportion of new services in FY 2022 (result) as well as FY 2023 (forecast) were **calculated including the sales of the e-commerce website building & operation support.**

- **Operating margin is expected to decline due to upfront investments.**

Companywide Profit

The Company intends to continue to make upfront investments for further business expansion, while avoiding a decline in profit as much as possible. Due to investments in the development of new tools and services, M&As, and change in the business model, the overall operating margin is expected to decline from 11.8% in the previous fiscal year to about 10% in the current fiscal year.

EBITDA

EBITDA is expected to increase slightly by Y3 million YoY (+0.3%) from Y677 million in the previous year to Y680 million. The EBITDA margin is expected to decline by 2.9 percentage points from 20.3% to 17.4%.

- **Announced strategy update, early achievement of Y10 billion in sales, and revision of financial targets for the current fiscal year.**

◆ Medium-Term Business Plan and Strategy

The Company has announced the medium-term business plan VISION2023 for the three fiscal years from FY 2021 to FY 2023. The basic policy and priority strategies have not been changed, but it has announced a strategy update, a goal to achieve Y10 billion in sales at an early stage, and revision of financial targets (for the current fiscal year; see Figure 30 on page 32).

Priority Strategy

Under a strategy to evolve into a platform business that supports the marketing DX of Japanese companies through the development of its existing services as well as multiple new services, the Company has been focusing its business resources on areas of growth to develop its business. Seeing the accelerating progress of DX as a business chance, it plans to expand its business domain by utilizing data and technology.

Groupwide Synergy

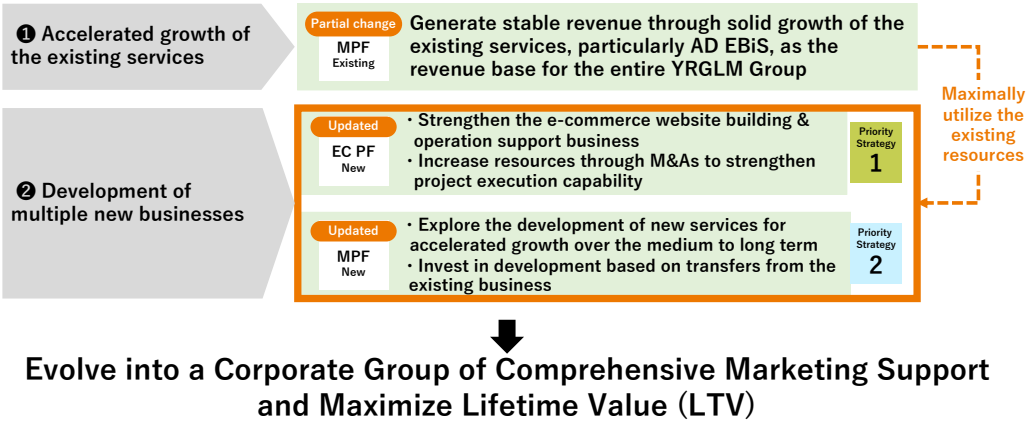
Through M&As and its in-house developed services that leverage the strengths gained through its years of business with AD EBiS, the Company plans to expand its current areas of business (accelerated growth) as well as creating and cultivating new areas of business. It plans to increase its assets as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

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

Updates to the Strategy

Although the timing has not been specified, the Company has set a new goal to achieve sales of Y10 billion at an early stage, and has updated a part of its current strategy to achieve this goal.

【Figure 33】Updates to the Strategy



(Ref) Financial results briefing materials.

Regarding the acceleration of growth of the existing services in ❶ (of Figure 33), rather than concentrating business resources on AD EBiS as the core growth driver, the strategy has been changed to maximize the use of resources for the new businesses by generating stable revenue from steady growth of

its existing services, centered on AD EBiS, which will serve as the revenue base for the entire group.

- **In the EC PF, resources will be augmented for the e-commerce website building & operation support to accelerate growth.**

As for the development of multiple new businesses in ❷ (of Figure 33 on page 35), the 1st priority strategy is to leverage the YRGLM Group's strengths and EC-CUBE's competitive edge to strengthen the EC PF's business in the area of website building & operation support (accelerate growth under a vertically integrated business model) based on BOKUBLOCK. The Company plans to increase its resources through recruitment and M&As, gain large projects, and establish the business as a continuous business by providing operation support after the website building.

- **In the Marketing PF, aiming to create new services.**

Its 2nd priority strategy is to strengthen investment in the Marketing PF to accelerate growth over the medium to long term. It plans to create new services for marketing process support (planning for release during this fiscal year).

Early Achievement of Y10 Billion in Sales

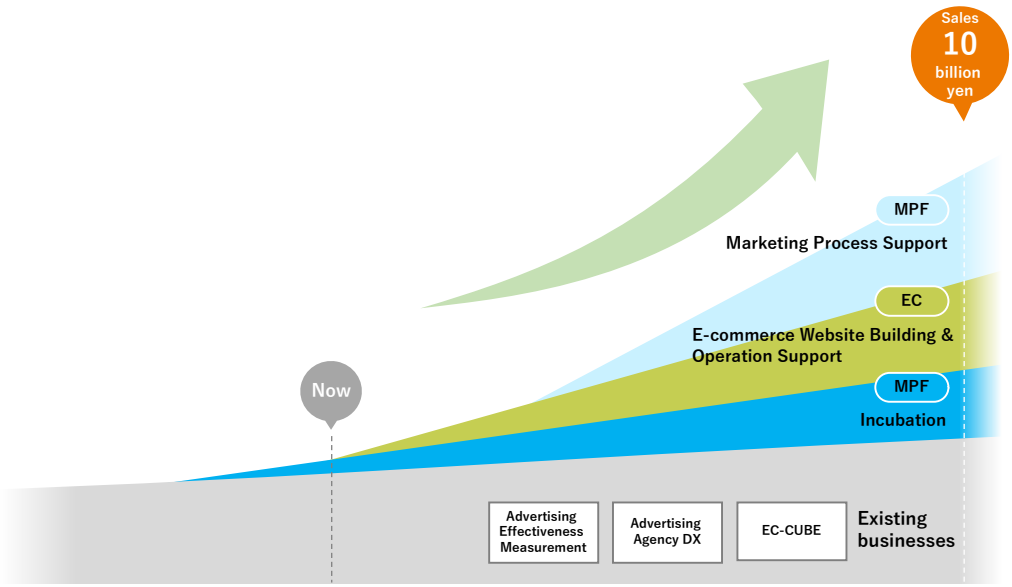
- **The Company aims to achieve sales of Y10 billion at an early stage through stable growth of existing businesses and development of new services.**

In aiming to achieve the Y10 billion goal for sales as recently announced, the Company envisions stable growth of its existing businesses (advertising effectiveness measurement, advertising agency DX, and EC-CUBE) and development of new services in three areas (incubation, e-commerce website building & operation support, and marketing process support) (Figure 34).

- **Marketing process support business is under development, aiming for release during this fiscal year.**

The marketing process support business, which is expected to become a significant portion of the Company's entire business in the future, is currently under development. The details of the service content, including the business model, have not been disclosed. Its concept is "service that helps facilitate the entire marketing process."

【Figure 34】Image of Sales Growth over the Medium to Long Term



(Ref) Financial results briefing materials.

- **Sales of Y10 billion is a high goal, but within an achievable range considering the past growth rates and M&As that may be conducted in the future.**

Sales of Y10 billion would be 2.56x the Y3.9 billion in sales planned for the current fiscal year. Assuming that the Company will achieve this goal in the six years starting next fiscal year, a sales growth rate of 17.0% per year (compound rate) would be necessary (a sales growth rate of 20.7% per year would be necessary to achieve this goal in five years). However, the Company has achieved a comparable rate of sales growth in the past (sales growth of +17% YoY is expected this fiscal year too).

Presumably, the goal includes the expected sales growth from future M&As. Therefore, it is not unrealistic as a medium- to long-term goal and may indeed become achieved.

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

- **We have updated our medium-term forecast (for the current and next fiscal year) and added a new forecast for FY 2025 (fiscal year after the next).**
- **Overall sales in both October and November continue to show double-digit YoY growth, but less than the annual growth rate expected by the Company.**

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

We have revised our forecasts for the current and the next fiscal year to reflect the current situation. We have also added a new forecast for FY 2025 (the fiscal year after the next) (Figure 36 on page 39).

Current Situation

Monthly companywide sales in October and November, the first two months of the current fiscal year, grew by 12.6% and 14.3% YoY, respectively, both at double-digit growths. The sales growth rate of the EC PF was high thanks to the positive effects of the acquisition of BOKUBLOCK, while the sales growth rate of the Marketing PF is slowing down due to the decrease in the number of AD EBiS accounts, despite the positive effect of the acquisition of Far End. The cumulative, companywide sales growth rate for the first two months was 13.4%, slightly below the Company's expected sales growth rate of 17.0% for the current fiscal year (Figure 35).

New M&As and new services planned to be developed have not been factored into the Company's forecast for this fiscal year. If the current sales growth rate continues and there is no M&A during the period, sales may not reach the forecasted value.

【Figure 35】Change in Recent Monthly Sales (preliminary values) (Upper row: sales in thousand yen) (Lower row: YoY change in %)

Calendar Year	2021			2022									2022		This Fiscal Year YTD (Oct 2022 - Nov 2022)
Fiscal Year	FY 2022												FY 2023		
Monthly Sales (thousand yen)	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	
Marketing Platform	233,052	231,281	232,702	231,333	244,921	246,739	259,809	247,336	250,882	247,675	248,093	250,142	248,293	248,744	497,037
	114.3	112.7	109.6	112.1	113.1	109.0	121.1	116.6	117.1	113.8	108.0	104.2	106.5	107.6	107.0
EC Platform	31,473	23,739	24,575	34,695	24,222	22,494	32,168	24,579	35,057	47,321	56,207	53,636	49,525	42,736	92,261
	88.2	65.2	86.7	87.8	82.8	85.5	93.0	102.6	146.8	140.6	236.7	232.3	157.4	180.0	167.1
Entire Company	264,526	255,021	257,278	266,028	269,143	269,233	291,977	271,915	285,940	294,997	304,300	303,779	297,819	291,480	589,299
	110.4	105.5	106.9	108.2	109.5	106.5	117.2	115.2	120.1	117.3	120.1	115.4	112.6	114.3	113.4

(Ref) Prepared by Alpha-Win Research Dept. based on the Company's news release on its website.
(Note) Values shown are preliminary values that have not been audited by an auditor and may be revised in the future. Note that sales of Far End Technologies, which became a consolidated subsidiary, are included in the Marketing Platform starting in February 2022, and sales of BOKUBLOCK, which became a consolidated subsidiary, are included in the EC Platform starting in in June 2022.

- **We lowered our sales and profit forecasts from our previous forecasts. While sales may fall short, we expect profits and dividend to be in line with the Company's plan. For the current fiscal year, too, we expect sales, profit, and dividend to increase.**
- **The Company has tended to conduct a certain degree of cost control, as seen from past financial performance.**

New Forecast for This Fiscal Year (FY 2023)

We lowered our previously prepared forecasts for the current fiscal year, which were sales of Y4,320 million, operating profit of Y500 million, net profit of Y320 million, and dividend of 9.3 yen/share. Our new forecasts are as follows: sales of Y3,800 million, operating profit of Y400 million, net profit of Y240 million, and dividend of 7.8 yen/share. We have lowered our forecasts by Y520 million, Y100 million, Y80 million, and 1.5 yen/share, respectively.

We have forecasted that sales will be Y100 million less than the Company's plan. However, since there seems to be some buffer to the costs, we predicted that profits and dividends will be in line with the Company's forecast (Figure 36 on page 39).

- **The size of business investment and whether there will be large contracts are factors that may impact financial performance.**

However, it should be noted that financial performance may be impacted by whether there will be M&As during the period and their sizes, the size of business investments, the success or failure of new businesses or in gaining large orders, situation with recruitment, and changes in the macro environment.

【Figure 36】Financial Forecast for This Fiscal Year and the Medium Term (the Company and Alpha-Win's forecasts)

(Million yen)	FY 2021 A	FY 2022 A	FY 2023 New CE	FY 2023 New E	FY 2024 New E	FY 2025 New E	FY 2022 Revised CE	FY 2023 Previous CE	FY 2022 Previous E	FY 2023 Previous E	FY 2024 Previous E
Sales	2,957	3,334	3,900	3,800	4,320	5,000	3,400	5,000	3,300	4,320	4,740
I. Marketing PF	2,599	2,925	3,260	3,137	3,507	4,036	3,010	4,590	2,950	3,870	4,260
II. EC PF	358	414	640	670	810	965	390	410	350	450	480
Gross Profit	2,039	2,260	*2,410*	2,320	2,610	2,880			2,310	2,950	3,280
Gross Margin	69.0%	67.8%	61.8%	61.1%	60.4%	57.6%			70.0%	68.3%	69.2%
SG&A Expenses	1,673	1,867	*2,010*	1,920	2,150	2,350			1,960	2,450	2,700
Ratio to sales	56.6%	56.0%	51.5%	50.5%	49.8%	47.0%			59.4%	56.7%	57.0%
Operating Profit	365	392	400	400	460	530	340	750	350	500	580
Ratio to sales	12.3%	11.8%	10.3%	10.5%	10.6%	10.6%	10.0%	15.0%	10.6%	11.6%	12.2%
Recurring Profit	364	399	390	390	450	520	340		350	500	580
Ratio to sales	12.3%	12.0%	10.0%	10.3%	10.4%	10.4%	10.0%		10.6%	11.6%	12.2%
Net Profit	239	236	240	240	300	340	210		218	320	380
Ratio to sales	8.1%	7.1%	6.2%	6.3%	6.9%	6.8%	6.2%		6.6%	7.4%	8.0%
Sales (YoY growth rate)	12.9%	12.7%	17.0%	12.9%	13.7%	15.7%	15.0%		11.6%	29.6%	9.7%
I. Marketing PF	12.1%	12.5%	11.5%	4.6%	11.8%	15.1%	-14.2%		13.5%	32.3%	10.1%
II. EC PF	19.2%	15.6%	54.5%	83.6%	20.9%	19.1%	-51.9%		-2.3%	8.7%	6.7%
Gross Margin (diff. from last FY)	-1.0%	-1.2%	-6.0%	-7.6%	-0.6%	-2.8%			13.3%	0.5%	0.9%
SG&A Expense (growth rate)	7.6%	11.6%	7.7%	-2.0%	12.0%	9.3%			17.2%	31.2%	10.2%
Operating Profit (growth rate)	32.0%	7.4%	1.9%	14.3%	15.0%	15.2%	-7.0%		-4.1%	27.6%	16.0%
Recurring Profit (growth rate)	39.5%	9.6%	-2.5%	11.4%	15.4%	15.6%	-6.7%		5.0%	25.3%	16.0%
Net Profit (growth rate)	30.7%	-1.5%	1.7%	10.1%	25.0%	13.3%	-12.4%		-4.1%	35.6%	18.8%
EBITDA	638	677	680	680	760	850	640		650	820	910
KPI	Annual Average (A)	Annual Average (A)	Annual Average (E)	Annual Average (E)	Annual Average (E)	Annual Average (E)	Annual Average (E)	Annual Average (E)	Annual Average (E)	Annual Average (E)	Annual Average (E)
AD EBiS: # of active accounts	1,344	1,231	Slight decline	1,160	1,170	1,185			1,280	1,310	1,350
% change for the above	-8.9%	-8.4%		-5.8%	0.9%	1.3%			-4.8%	6.4%	3.1%
AD EBiS: average unit price (yen)	143,866	158,527	Slight growth	165,000	175,000	185,000			156,300	157,000	158,000
% change for the above	19.3%	10.2%		4.1%	6.1%	5.7%			8.6%	-1.0%	0.6%
I. (1) Ad Measurement (AD EBiS): Actual/Forecasted Sales	2,313	2,369	2,460	2,297	2,457	2,631			2,400	2,470	2,560
I. (2) Advertising Agency DX: Sales	182	175	*180*	190	200	205			170	210	240
I. (3) Incubation: Sales	104	380	*620*	650	850	1,200	476	1,500	430	1,190	1,460
I. Marketing PF (1)+(2)+(3)	2,599	2,925	3,260	3,137	3,507	4,036	3,010	4,590	3,000	3,870	4,260
II. EC PF (1)+(2)	358	414	640	670	810	965	390	410	365	450	480
(1) EC-CUBE	358	330	*350*	350	360	370	390	410	365	450	480
(2) E-commerce website building & operation support: BOKUBLOCK		84	*290*	320	450	595					

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

Estimates Used to Predict This Fiscal Year's Sales

- **Lowered our previous forecast. Not reflecting future M&As, we changed our estimates for AD EBiS and reflected the current situation including monthly sales.**

・We have lowered our previous sales forecast. In the previous forecast, though, we had assumed that new M&As would partially contribute to the increase in sales. However, the Company's new forecast for this fiscal year that it has announced did not include the effects of M&As and new services, so we also revised our forecast accordingly.

・In addition, we also reflected the current situation, including the downward trend in the number of accounts of AD EBiS, the slowdown in the rate of increase in its unit price, and the recent level of monthly sales since October.

- **Updated our sales forecast, raising the expected unit price of AD EBiS while lowering its expected number of accounts.**

Our predicted number of accounts of AD EBiS (annual average of end-of-the-quarter numbers) was lowered from 1,310 to 1,160 from our previous forecast to our current forecast. On the other hand, we raised our predicted average monthly unit price (similarly, the annual average) from 157,000 yen to 165,000 yen. As a result, we lowered our sales forecast for the advertising effectiveness measurement business from Y2,468 million to Y2,300 million.

- **Three major updates to AD EBiS have been released.**

・However, although the Company has yet to see a net increase in the number of accounts, it has been enhancing the product strength of AD EBiS through three major updates and will begin to focus on further preventing churns through enhanced onboarding. Therefore, we predict that the rate of decline

- **The decline rate in the average annual number of accounts is expected to improve.**
- **Average annual unit price for the current fiscal year is expected to increase by 4% from the previous fiscal year.**
- **We forecast a slight decrease in the sales of AD EBiS for the current fiscal year.**
- **Key points are the pricing policy of AD EBiS and the reversal in its number of accounts.**
- **We forecast a slight increase in the sales of advertising agency DX and a significant increase in the sales of incubation.**
- **Sales of Marketing PF will increase but are expected to fall short of the Company's sales forecast by greater than Y100 million.**
- **On the other hand, in the EC PF, sales of EC-CUBE are expected to remain flat, but we predict the expected full contribution and earnings growth of the acquired BOKUBLOCK to lead to higher sales than the Company's forecast.**
- **Although sales may not reach the Company's forecast, we predict that it can achieve its profit target through cost control.**

in the average number of accounts will improve from about 8% YoY in FY 2021 and FY 2022 to 5% to 6% in the current fiscal year.

・On the other hand, we predict that its unit price will increase by about 4% in annual average compared to the average of the previous fiscal year, due to a change in customer base from low-priced to high-priced zones, as well as up-selling and cross-selling including the enhancement and addition of functions. As reference, our analysis shows that since October 2022, the average unit price of AD EBiS has most likely remained almost flat compared to the end of September, while the number of accounts has slightly decreased.

・Consequently, we estimate that the sales of AD EBiS (advertising effectiveness measurement) will decline by about 3% YoY to Y2,300 million (about -Y160 million compared to the Company's plan). The pricing policy of AD EBiS and the reversal in the numbers of its accounts will be the key points in the future. We predict the sales of advertising agency DX to increase slightly to Y190 million (similar to the Company's plan). For incubation, we expect its sales to be Y650 million, slightly exceeding the Company's forecast (+Y30 million compared to the Company's plan; +Y270 million or +71% YoY), due to the expansion of the business domain of AD HOOP, full contribution by Far End acquired in the previous fiscal year, increase in capacity through recruitment, and an expected increase in the number of new projects.

In sum, we expect the overall sales of the Marketing PF to increase by 7.4% YoY to Y3,140 million (-Y130 million compared to the Company's plan).

・In the EC PF, we expect sales of EC-CUBE to increase slightly YoY to Y350 million like the Company's plan. Sales of the new, e-commerce website building & operation support business will be impacted by whether there will be orders for large, generally one-time projects, but its sales are beginning to steadily expand thanks to the synergy with EC-CUBE that is also starting to be seen. We expect its sales to be Y320 million, which is Y30 million above the Company's forecast.
・As a result of the above, we predict that the EC PF's sales will be Y670 million (+Y30 million compared to the Company plan; +61.8% YoY).

Estimates Used to Predict This Fiscal Year's Profit

・We expect the gross margin to decline due to increased costs, such as higher development and personnel expenses, as the Company continues to make upfront investments for future growth. However, there seems to be room for control regarding SG&A expenses and other costs. Therefore, we predict that the costs will be offset by the sales growth and improved profit margins of the new services, so that the Company will ultimately be able to secure profit at the level that it predicts.

Although there are concerns that sales may fall short as described above, we predict that the operating margin will be 10.5%, which is slightly higher than the Company's forecast of 10.3% (the Company expects the margin to worsen by 1.5 percentage points YoY), and operating profit will be Y400 million (the same as the Company's forecast). We do not anticipate any significant non-operating or extraordinary gains or losses.

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

Forecast for Next Fiscal Year (FY 2024)

- **Our forecast for the next fiscal year reflects some predicted contributions from new M&As and businesses.**

The Company has not announced specific sales and profit targets for each fiscal year of its next medium-term business plan, which will start in FY 2024. We will have to wait for future announcements (we expect them to be announced next spring or later).

Unlike our forecast for the current fiscal year, we have reflected a certain amount of impact from new M&As and businesses in our forecast for next fiscal year and beyond.

- **Although we have revised down our previous forecast, in FY 2024 (revised forecast), we expect sales and profit growth again as well as consecutive record highs for sales and profit.**

From our previous forecast to our current forecast, we have made the following revisions: sales of Y4,740 million ⇒ Y4,320 million (+13.7% YoY compared to our forecast for FY 2023), operating profit of Y580 million ⇒ Y460 million (similarly, +13.7% YoY), and net profit of Y380 million ⇒ Y300 million (+25.0% YoY). We expect the consecutive posting of record-high sales to continue due to M&As and growth of the new services (Figure 36 on page 39). Also, as operating margin is predicted to be maintained while sales grow, we expect profits to hit consecutive record-highs too.

- **Consecutive dividend hike is expected due to the increase in profit, but considering the dividend payout ratio and other factors, there is still much room for more dividend hikes in the future.**

We forecast a dividend of 9.2 yen/share (+1.5 yen/share YoY), based on the assumption that DOE will continue to be maintained at 2.5%. Considering the dividend payout ratio and other factors, there is still much room for more dividend hikes in the future.

- **Estimated the sales growth rate of AD EBiS as 8%**

For the next fiscal year and beyond, we forecasted the sales of advertising effectiveness measurement based on the following estimates for AD EBiS: an annual increase in the unit price by 6-8%, annual increase in the number of accounts by about 1%, and a sales growth rate of about 8%.

- **With sales growth, the advertising agency DX and incubation businesses may become profitable in a turnaround.**

In addition, since the advertising agency DX and incubation businesses may potentially post profits in a turnaround depending on the increase in sales, and since the marketing process support business currently under development may also begin to contribute to sales, we included these factors in our forecast as well.

However, while sales growth is expected for both platform segments, the rate of increase in profit is unlikely to significantly exceed the rate of increase in sales, since the Company will most likely continue to make upfront investments while controlling the costs.

- **M&A is an important growth strategy, but it is also a major variable factor impacting earnings.**

Although not included in the forecast for this fiscal year, M&A is an important growth strategy for the Company. It would be realistic to predict that the Company will conduct M&As from time to time, which may significantly impact business performance. While M&As may cause sales to exceed our forecast, single-year profits may fall below our forecast depending on the acquisition cost, amortization of goodwill, performance of the acquired company, and the timing of acquisition.

Given the uncertainties at this stage, we have made a somewhat conservative forecast in consideration of the risks involved.

- **Due to the completion of an upfront investment phase and a relative reduction in the expenses-to-sales ratio, we expect the Company to post higher sales and profits and pay higher dividend in the fiscal year after the next, too.**

Forecasts for the Fiscal Year After the Next (FY 2025)

For the fiscal year after the next, we forecast sales of Y5,000 million, operating profit of Y530 million, net profit of Y340 million, and dividend of 10.3 yen/share. We expect the Company to achieve higher sales and profits, pay higher dividends, and post record-high sales and profits in consecutive years, as it will have completed its upfront investment phase and will start to see the positive effects of the investment, as well as seeing relative declines in the expenses-to-sales ratio due to sales growth (Figure 36 on page 39).

Forecast of Growth Rate over the Medium to Long Term

As DX progresses and the Internet ad market continues to expand, the Company plans to newly incorporate related areas of business through M&As and in-house development. Therefore, the growth potential of the Marketing PF based on AdTech tools and expertise is large.

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

Similarly, growth can also be expected for the EC PF due to the expansion of the e-commerce market, as the Company enters the e-commerce website building & operation support business and plans to further expand its business domain through M&As. Consequently, over the medium to long term, we predict that the Company's overall sales will grow by about 10-20% per year.

- **The Company is in the stage of making upfront investments for the next stage and is ambitiously working on M&As and expanding into new and related businesses.**

Although the business restructuring has reached the end of a phase, the Company is now in the upfront investment phase for the next stage of growth. It has an ambitious mindset of increasing synergy and expanding business through M&As and business alliances or acquisitions. It has also been actively pursuing greater competitive edge, expansion of existing areas of business through new services and new customer acquisition, and expansion into new and related areas of business. Therefore, the Company's sales and profit over the medium to long term will most likely be impacted by whether it will execute M&As and succeed in the new businesses.

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

- **Due to the upfront investment for future growth, over the medium to long term, the profit growth rate (on a normalized basis) is expected to be about the same as the sales growth rate at about 10-20% per year.**

In developing its business, the Company is expected to continue upfront investments. It may also expand into businesses other than those with high marginal profit ratios (estimated at 70%). These are expected to cause its profit structure to change. Therefore, we expect its profit growth to be around 10-20% per year (on a normalized basis), which is equivalent to its sales growth. We expect the operating margin to remain almost constant (gradually increasing from around 10%) and profits to increase along with the sales growth.

9. Analyst's View

◆ SWOT Analysis

The Company's SWOT analysis result is shown on Figure 37 (below is supplementally information). There has basically been no major change since the last report.

- **The Company's strengths are the data and technologies accumulated over many years, DX talents, external network, the president's management skill, product strength, support system, business model, and business strategy of actively conducting M&As.**

Strengths

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

- **On the other hand, risks include stricter regulations on the protection of personal information, technological innovations, intensifying competition, and staff shortage.**

Risk Factors

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

- **Clarified the areas of responsibility of each director and executive officer and shifted to a more organized management structure.**

Previously, the management's heavy dependence on its president Iwata had been a problem. However, the Company has shifted to a system in which supervision and execution of duties are divided among the CFO (Chief Financial Officer & director) and the executive officers CTO (Chief Technology Officer), COO (Chief Operating Officer), and CSO (Chief Strategy Officer). This system should increase management speed and reduce the risks. As CEO, Susumu Iwata oversees the advertising agency DX business, the incubation business, and areas of new development, shifting toward creating growth drivers.

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

Strength	・Data and know-how (potential usage as big data), as well as technologies, that it has accumulated since foundation ・Recognition, strong customer base, proven track record, and product strength (No. 1 in the Internet ad effectiveness system tools market with an extremely high share) ・The main marketing platform business is subscription-based; stable revenue can be expected (subscription business) ・Network with numerous business partners (leverage resources of external partners and collaborate with them) ・Potential to raise unit price through upselling and cross-selling and expand customer base ・CEO's management skills and expertise in leading-edge technologies of the industry ・Enhanced working environment; engineers with expertise in leading-edge technologies; accumulation of know-how (competitive edge as a major, specialized company with high capability in development and in responding to needs)
Weakness	・Specialized in a niche market; small in scale ・Business management is largely dependent on the CEO (however, authority and responsibility have now become divided and delegated to other executive officers) ・AD EBiS's number of accounts is on a declining trend (working on finding effective solutions to improve churn rate) ・Employee shortage (engineers and sales reps) ・Funding power (upfront investment costs and risks related to amount of capital and equity financing in large-scale M&As)
Opportunity	・Internet ad marketing market's growth potential and potential for accelerated growth of current products ・Business opportunities associated with the expansion of the e-commerce business (development into the e-commerce website building & operation support business through M&A) ・Business expansion and groupwide synergy through M&As and business acquisitions ・Development of new products and new services
Threat	・Impact of COVID-19 outbreak (cancellation by users with deteriorated financial performance, stopped services, etc.) ・Intensification of competition (esp. EC-CUBE-related businesses), launch of competing or alternative products/services, emergence of rivals, weakened competitive edge of existing products ・Tighter regulations related to stronger privacy protection in the use of personal information ・Defects in products/services and delays in development or in providing services with new function ・Large system troubles such as computer system stoppage

(Ref) Prepared by Alpha-Win Research Dept.

◆ Return of Profit to Shareholders

Past Dividend and Stock Splits

- **Paid dividend for three fiscal years after becoming listed on the market. Then, it stopped paying dividend for a while due to worsened financial performance.**

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

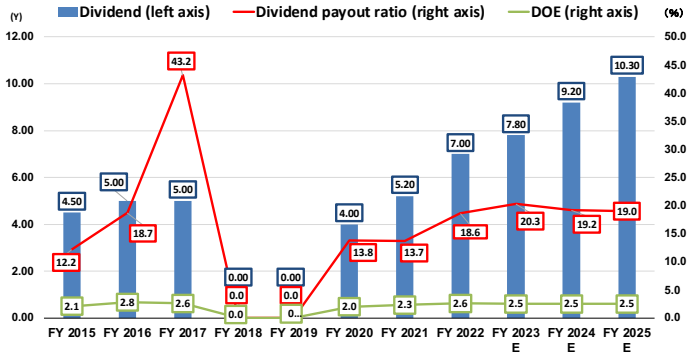
- **Held down the outflow of capital and instead used capital for growth investment.**

However, in FY 2018 and FY 2019, no dividend was paid since net losses had been posted consecutively during those years. It also abolished the shareholder benefit program. The Company's decision was to increase shareholder value by recovering its financial performance through focus on investments for the next stage of growth, rather than letting its cash flow out through dividend and benefit programs.

- **Dividend was resumed in FY 2020 with the success of the structural reform. Since then, dividend has been consecutively increased.**

Thanks to its structural reform, the Company achieved a net profit in a turnaround and eliminated its carried-forward loss in FY 2020. It was able to resume dividend for the first time in three fiscal years. Since then, the Company has continuously increased its dividend each fiscal year to 5.2 yen/share, and then to 7.0 yen/share. As for stock splits, it had conducted a two-for-one stock split in June 2015, but has not conducted one since then.

[Figure 38] Change in Dividend and Dividend Payout Ratio



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

Dividend Policy and Goals

- **Although the Company lowered its DOE target from 3.0% to 2.5% in its mid-term plan, it plans to increase dividends for the third consecutive year this fiscal year due to an increase in net assets resulting from higher profit.**

In the medium-term business plan VISION2023, the goal for dividend on equity (DOE) is set for each fiscal year. Its policy is to determine the amount of dividend based on this DOE and raise the DOE in stages. However, the Company has now revised its medium-term plan's financial targets and has lowered its DOE target of 3% or higher for the current fiscal year, or the final year of the plan, to 2.5%. Although this is even lower than the previous fiscal year's 2.6%, the Company plans to increase dividend by 0.8 yen to 7.8 yen for the current fiscal year, since it expects an increase in net assets due to higher profit.

The dividend payout ratio for the current fiscal year is expected to be 20.3%. Since the Company is in a growth stage, its dividend payout ratio does not reach the typical payout ratio of 30% but is still increasing. We expect this trend of increase in dividend to continue, since there is room to raise the dividend payout ratio and the DOE, and since the Company is expected to increase profits and consequently increase its net assets as well.

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

- **Listed on the TSE Growth Market. Small growth stock with high volatility.**

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

- **The stock price is close to the lowest price since becoming listed and has been around the lower end of a boxed range.**

- **Stock price has been underperforming the major indices since the beginning of the year.**

- **Valuation is above the TSE Prime's average but well below the Growth's average. Does not seem overvalued.**

Characteristics

The Company's stock is a small-cap, AdTech[16]-related stock listed previously on TSE Mothers and now on TSE Growth (GRT). Since becoming listed, the volatility of stock price has been high (max of 5,260 yen in May 2016 and min of 675 yen in June 2022).

Stock Price

Figure C on page 4 of this report shows the stock price and relative stock price against the TOPIX for the past approximately six years since August 2016. Stock price was weak during the period that the Company's financial performance had been worsening. Then, with the recovery in profit, it bottomed out and has been fluctuating within a boxed range of 700 to 2,000 yen. It is currently near the lower end of this previous boxed range.

Performance

Since the beginning of the year, the Company's stock has been underperforming major indices such as the TOPIX, TSE Mothers, and TSE Growth (comparison of the closing prices on December 9, 2022; Figure 39). This is most likely due to the downward revision of the previous fiscal year's financial forecast in May and the downward revision of this fiscal year's financial targets in the medium-term plan. However, since the stock price has already been corrected after the Company's announcement of financial results on November 4 (underperforming the TOPIX by 13.2%), the above factors seem to be already largely factored in.

Valuation Comparison with Major Indices of the TSE

Compared to the average of the TSE Prime, the Company's key valuation measures are all high. In contrast, when compared to the average of the TSE Growth, all of the Company's major valuation measures are low. Although the Company's valuation is mixed in its comparison with the market average, the absolute level of valuation suggests that its stock price is not particularly overvalued (Figure 39).

[Figure 39] Comparison of Valuation and Return between the Company and the Market Average

Closing price on December 9, 2022	Stock price or index	This fiscal year's forecasted P/E	Actual P/B (at end of quarter)	Simple average of dividend yield	Return since beginning of year	Return since the end of April 2022	Return since Nov. 4, 2022
YRGLM (3690): GRT	699	18.24	2.47	1.12	-41.94	-27.5	-10.8
TSE Prime Stock Average: PRM	1,009.38	13.51	1.16	2.36	-	3.3	2.4
TSE Standard Stock Average: STD	1,010.46	14.27	0.91	2.22	-	4.7	2.1
TSE Growth Stock Average: GRT	998.00	97.10	4.29	0.32	-	13.5	7.2
TOPIX	1,961.56				-1.54	3.3	2.4
TSE Mothers	787.03				-22.54	13.3	7.6
Nikkei Stock Average	27,901.01	12.66	1.14	2.27	-3.1	3.9	2.6

(Ref) Prepared by Alpha-Win Research Dept. based on market data. Month-end figures of TSE PRM (TSE Prime), STD (TSE Standard), and GRT (TSE Growth) have been disclosed since April 2022. November 4, 2022, is the Company's financial results announcement date.

Valuation Comparison with Similar Companies

In Japan, there are no listed companies that provide similar AdTech tools and are based on a subscription model like the Company. Instead, we compared the size, business, and valuations of listed Japanese AdTech companies with business partly similar to the Company and listed companies that compete with the Company in the e-commerce platform business (packaged software for building websites for e-commerce stores, etc.) (Figure 40).

- **Comparison with similar Japanese companies shows that the Company's valuation is somewhat underpriced.**

As reference, comparison was also made with two companies listed in the US market: HubSpot Inc. (ticker code HUBS; based in the U.S.; global development of its original marketing PF based on a subscription model; continuing to post a net loss; P/S of 10.9; P/B of 15.9) and Shopify Inc. (ticker code SHOP; based in Canada; providing cloud-based commerce PF developed for small/medium-sized businesses; expanding into Japan and competing with EC-CUBE; rapid growth; P/S of 10.5; P/B of 4.0).

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

Of the compared companies, the average values of the 23 Japanese companies with net profit forecasted for the current fiscal year based on company forecasts (19 AdTech companies and four e-commerce companies) are not very meaningful due to the large disparity between the companies. However, at least based on this fiscal year's expected P/E, P/B, P/S[17], and dividend yield, the Company's valuation is relatively generally low and somewhat underpriced.

[Figure 40] Comparison with Similar Companies (AdTech-related companies + e-commerce-platform-related companies + 2 overseas companies)

AdTech-Related Companies		Markets: PRM=TSE Prime, STD=TSE Standard, GRT=TSE Growth		Unit: million yen (million USD for overseas companies)			%	Ratio			%	Closing Price (12/9)
Code	Company Name	Business Area	Market	Market Cap.	Sales	O.P.	O.P. Margin	P/S	P/E	P/B	Dividend Yield	Stock Price
2389	DIGITAL HD	Internet ad agency / ad measurement tool	PRM	28,391	16,400	0	0.0	1.73	3.59	0.67	0.00	1,192
2461	F@N Communications	Affiliate (pay-per-performance) ad	PRM	33,465	7,680	2,410	31.4	4.36	18.47	1.61	4.37	435
2491	ValueCommerce	Affiliate (pay-per-performance) ad	PRM	68,528	37,000	8,700	23.5	1.85	10.71	3.30	2.82	1,988
3134	Hamee	Mobile accessories / E-commerce cloud support	PRM	14,136	14,000	2,250	16.1	1.01	8.56	1.93	2.36	869
3655	BrainPad	Internet marketing / data analysis	PRM	18,822	10,300	1,100	10.7	1.83	23.14	3.90	0.00	844
3688	CARTA HD	Ad platform	PRM	42,009	28,300	3,500	12.4	1.48	10.45	1.56	3.23	1,670
3690	YRGLM Inc.	Internet ad measurement tool	GRT	4,454	3,900	400	10.3	1.14	18.24	2.47	1.12	699
3853	Asteria	Packaged software	PRM	14,308	3,700	3,250	87.8	3.9	6.9	1.00	-	818
3923	RAKUS	Cloud service / Email delivery / IT engineer dispatching	PRM	316,947	27,302	1,424	5.2	11.61	339.61	36.34	0.11	1,749
4293	SEPTENI HD	Internet ad agency / smartphone marketing support	STD	74,722	42,500	7,500	17.6	1.8	12.46	1.18	-	354
4395	Accrete	SMS delivery service	GRT	21,259	6,121	1,220	19.9	3.47	27.33	11.87	0.28	3,605
4751	CyberAgent	Internet ad agency / smartphone / games	PRM	615,204	720,000	45,000	6.3	0.9	35.16	4.26	0.01	1,216
4784	GMO AD Partners	Internet ad agency and related platform	STD	7,591	15,000	600	4.0	0.51	18.55	1.40	2.43	453
6038	iiD	Contents marketing platform	STD	4,769	6,000	730	0.1	0.8	9.28	1.20	0.00	942
6045	Rentracks	Pay-per-performance Internet ad service	GRT	7,705	3,156	1,114	35.3	2.44	11.52	2.55	1.14	966
6081	Allied Architects	SNS-related marketing support	GRT	20,406	4,600	1,020	22.2	4.44	24.48	6.65	-	1,437
6094	FreakOut HD	Internet ad delivery (DSP)	GRT	24,511	35,000	1,600	4.6	0.70	-	2.85	0.00	1,360
6533	Orchestra HD	Digital marketing for companies	PRM	20,243	10,000	1,670	16.7	2.02	21.29	3.69	0.44	2,065
6562	Geniee	Automatic trading of media ad space / AdTech biz	GRT	24,004	2,389	1,100	46.0	10.05	33.51	7.41	-	1,330
Simple average of 19 AdTech-related companies (which have not forecasted a net loss)				71,656	52,281	4,452	19.5	2.94	35.18	5.05	1.22	
6026	GMO TECH (net loss)	App-installation-type charging ad / SEO	GRT	1,816	5,000	100	2.0	0.36	-	2.86	0.00	1,650
6550	Unipos (net loss)	Internet ad service; media monetization support	GRT	2,010	838	-1,138	-135.8	2.40	-	1.43	0.00	155
NYSE: HUBS	HubSpot Inc.	Cloud-based customer management platform	NYSE	14,154	1,300	-54	-4.2	10.9	-	15.9	0.00	USD 291.38

E-Commerce-Platform-Related Companies		Markets: PRM=TSE Prime, STD=TSE Standard, GRT=TSE Growth		Unit: million yen (million USD for overseas companies)			%	Ratio			%	Closing Price (12/9)
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	E-commerce website building package / selling merchandise B2B	PRM	45,871	23,460	4,140	17.6	1.96	17.11	3.06	1.50	3,330
4304	Estore	E-commerce website building / online shopping support	STD	7,981	9,600	1,250	13.0	0.83	9.98	2.33	3.53	1,416
4057	Interfactory	Cloud commerce platform	GRT	5,076	2,843	229	8.1	1.79	32.55	4.94	0.00	1,267
4496	Commerce One Holdings	Support services for e-commerce website mgmt SMEs / mid-tier companies	GRT	5,778	3,206	711	22.2	1.80	11.45	2.35	0.00	768
Simple average of 4 e-commerce-platform-related companies (which have not forecasted a net loss)				16,177	9,777	1,583	15.2	1.59	17.77	3.17	1.26	
4477	BASE (net loss)	E-commerce platform / online settlements	GRT	32,924	9,310	-2,215	-23.8	3.54	-	2.35	0.00	294
NYSE: SHOP	Shopify Inc.	Cloud-based commerce platform	NYSE	48,320	4,611	268	5.8	10.48	-	3.94	0.00	USD 38.38

(Ref) Prepared by Alpha-Win Research Dept. based on the companies' websites, securities reports, financial results summaries, and financial results briefing materials.
(Note) Generally, each company's forecasted values from the latest financial results disclosure (latest quarterly financial results) or the most recent actual results (BPS, etc.) were used (based on disclosed data available as of December 9). 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. Values not disclosed are marked by "ND" (not determined) or "-". The average was calculated using only valid figures. For the financial data on the two overseas companies, actual values from the most recent full fiscal year, forecasted P/E, and actual P/S and P/B were used.

- **Our forecast for P/E is 18 for this FY and 15 in the next FY.**

- **The PEG ratio is around a little less than 1 to about 1.8**

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

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

- **The timing at which the number of accounts of AD EBiS turn to a net increase is a key point.**

The Company's Valuation

The Company's stock price has already been corrected, and the P/E based on our profit forecast (EPS) is expected to decline sharply from 18 in this fiscal year, 15 in the next fiscal year, and 13 in the fiscal year after the next. If the Company's normalized EPS growth rate over the medium term is assumed to be 10-20%, its PEG Ratio[18] comes out to be 0.9-1.8 for this fiscal year (2.0 if the annual average profit growth rate is assumed to be about 9%). If a PEG ratio of up to about 2 can be seen as acceptable for growing companies, then the Company's stock price seems to be at a somewhat underpriced level regarding its balance against the anticipated profit growth rate.

IT companies, and especially AdTech companies, tend to be valued at a premium in anticipation of high growth, but the Company's stock currently does not seem to be priced at a significant premium. If the likelihood of upward revisions of financial performance and dividend hike increases, then its stock may possibly rise to a higher level.

Key Points that May Impact Future Stock Price

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

Also, in judging the Company's growth potential in profit, we should continue to follow the change in AD EBiS's unit price (pricing strategies) and the number of active accounts (quantity strategy; the turning point to a net increase would be especially key), on which its sales are based, in addition to the churn rate of AD EBiS and the proportion of the new services in the consolidated sales.

Medium- to Long-Term Outlook of Stock Price

Over the medium to long term, the Company's marketing platform business has a large growth potential in the Internet advertising market, and the Company also seems to be in a good position with regards to reaping benefits from this growth potential. It plans to accelerate growth in existing areas through active engagement in M&As and in-house development, as well as developing multiple new businesses. Consequently, sales are expected to first increase, followed by profit growth after a time lag.

We believe that the stock price will basically change along with the Company's profit level, profit growth rate, and level of dividend, since the current valuation does not seem overvalued. The Company should continue to be followed as an AdTech-related, domestic-demand-oriented, and small-cap growth stock.