Alpha-Win Company Research Report

YRGLM Inc. (3690 TSE Growth)

Issued: 6/5/2023

● Summary

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

Business Description

・YRGLM Inc. (hereinafter referred to as the "Company") plans, develops, and sells software related to Internet marketing. It is listed on the Growth Market of the Tokyo Stock Exchange. 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 ad effectiveness measurement system (AD EBiS), which has an incredibly high market share (top share in the market). While small in scale, it is a leading company in a niche field.

・Its strengths are its technological capability enabling highly accurate data measurement, employees with DX expertise, the big data that it has accumulated as the frontrunner in the field, and its network with more than 500 corporate partners.

・As its main business, it provides cloud services to mid-tier and large companies, based on a subscription-based business model. Therefore, its business is highly maintainable, stable, and profitable.

・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. Currently, the Company is developing two segments of business, the Marketing PF (platform) and the EC PF. It has been steadily laying the groundwork for growth by conducting M&As for both business segments.

・At least since FY2010 through the previous fiscal year (note that the Company's fiscal years are September-ending; e.g., FY2010 ended in September 2010), the Company has been hitting record-high sales for 13 consecutive fiscal years (including the period of non-consolidated financial results). From FY2020 onwards, it has continued to stably post a profit and has been generally increasing dividends.

This Fiscal Year's First-Half Results and Financial Forecast for This Fiscal Year

・Consolidated financial results for the first half of the current fiscal year (first half or "H1" of FY2023: cumulative results through the second quarter or from October 2022 to March 2023) were as follows: sales increased by 14.6% YoY to Y1,812 million, operating profit increased by 19.2% YoY to Y210 million, and net profit rose by 25.5% YoY to Y131 million. Sales and profits increased at double-digit rates. Although the Company did not disclose its preliminary forecasts for the first half of this fiscal year, while significant progress was made for both sales and profits in the first half in terms of achieving the full-year forecasts made at the beginning of the fiscal year, they have both been presumably slightly lower than the Company's internal plan.

・The Marketing PF's sales (to external customers; the same applies hereinafter) were Y1,492 million (+5.0% YoY) and its profit was Y158 million (+10.3% YoY), while the EC PF's sales were Y320 million (+98.3% YoY) and its profit was Y54 million (+61.8% YoY). Sales and profit grew for both platforms.

・In the Marketing PF segment, although the unit price of its core product AD EBiS increased for the 20th consecutive quarter (YoY), the amount and rate of increase have decreased. The acquisition of new customers has also been below expectations and the churn rate has stayed around 2.4% since Q4 FY2022. As a result, the sales of the advertising effectiveness measurement business have slightly decreased.

・On the other hand, these negative factors were offset by the significant sales growth of the incubation businesses, thanks to the expansion of its originally developed service AD HOOP's business domain and contribution by the three acquired subsidiaries. In terms of profit, the amount of loss posted for the incubation businesses has improved and costs associated with office relocation have decreased, which contributed to the increase in profit.

・In the EC PF, it received orders for large-scale projects. Sales and profit growth of the e-commerce website building & operation support, mainly owing to the acquired company BOKUBLOCK, contributed to the results.

・In terms of its financial position, the Company has continued to be essentially debt-free, having accumulated capital (through its profits) and cash & deposits. The equity ratio and current ratio are at sufficient levels, and its financial standing is sound.

・At the beginning of the fiscal year, the Company had expected sales and profit growths as well as record profit for this fiscal year as well. However, given the struggles in the first half with acquiring new customers for its highly profitable business AD EBiS, it has revised downward its full-year forecast. It revised sales from Y3,900 million (+17.0% YoY) ⇒ Y3,600-3,700 million (+8.0% to +11.0% YoY), operating profit from Y400 million (+1.9% YoY) ⇒ Y280-330 million (-16.0% to -28.7% YoY), and net profit from Y240 million (+1.7% YoY) ⇒ Y170-200 million (-15.3% to -28.0% YoY). Although the Company still expects to achieve sales growth and hit record-high sales, it now expects profit to decline.
・Since the Company's goal for the consolidated dividend on equity ratio (DOE) is 2.5% for this fiscal year, it revised down its annual dividend per share from 7.8 yen ⇒ 7.4 yen in line with the downward revision of profit. However, it is still increasing dividend by +0.4 yen compared to the previous fiscal year's dividend of 7.0 yen.

・Alpha-Win Research Department had forecast sales of Y3,800 million, which was Y100 million smaller than the Company's initial forecast, and operating profit of Y400 million, which was the same as the Company's forecast. However, the Company's revised forecasts are now smaller than these forecasts. We had previously evaluated that even if sales became smaller than expected, the Company had room for cost adjustment so that it could achieve the level of profit that we had forecasted through cost control. However, the fact that AD EBiS's number of accounts had decreased more than expected and that the Company has continued to strengthen development investments for future growth seem to have caused the difference between our forecast and the Company's.

・Considering the estimates used in the Company's new plan and the current situation, we also revised our full-year forecasts downward to the same level as the Company's forecasts. Our new forecasts are sales of Y3,650 million (same as the average of the Company's planned range), operating profit of Y310 million (similarly, +Y5 million compared to the Company's average), and dividend of 7.4 yen (same as the Company's forecast).
・ The Company's plan for the second half of this fiscal year (calculated by subtracting the first-half results from the average of the full-year forecasts) is sales of Y1,838 million (+4.8% compared to the previous fiscal year's second half), operating profit of Y95 million (similarly, -56.2%), and net profit of Y54 million (similarly, -59.1%). It expects a slight increase in sales and a large decrease in profit. Compared to this fiscal year's first-half results, too, it is forecasting a slight increase in sales (+1.4%) but a large decrease in profit (operating profit: -54.8%), due to the increase in costs and deterioration of profit margins. We believe that these forecasts may be somewhat conservative.

Business Strategy and Medium-Term Financial Forecast

・In addition to increasing the sales of its core product, it has been working on its strategy to achieve continuous growth by developing related or new businesses in which synergy can be expected and contributing to its customers' DX through its PF businesses. It also plans to accelerate business growth by actively pursuing M&As and building alliances with other companies.
・Although it has not specified the specific schedule, it plans to achieve Y10 billion in consolidated sales as a corporate group of comprehensive marketing DX support. It plans to achieve this goal through the stable growth of its conventional businesses (ad effectiveness measurement, advertising agency DX, and EC-CUBE) over the medium term and by creating new growth drivers through the expansion of new services in three areas (incubation, e-commerce website building & operation support, and marketing process support).

・ Internet marketing, on which the Company is concentrating its management resources, as well as the e-commerce related areas, has a high market growth potential over the medium to long term. Furthermore, since the Company's policy is to actively pursue M&As as part of its growth strategy, it is expected to maintain a double-digit annual sales growth (on average).
・ While profits will be impacted by the amount of investment in development since the Company is in its growth phase, the balance between profits and costs is a key point in management. Currently, it is in the stage of making upfront investments toward achieving high growth in the future. Once the current upfront investments peak out, we believe that it will return to an upward profit trend due to increased sales and improved profit margins brought by the expansion of its conventional and new businesses in both business segments. Regarding the financial forecasts for FY2024 and FY2025, we have reviewed our previous forecasts and made downward revisions mainly concerning AD EBiS, but we still expect increases in sales, profits, and dividends.

Stock Price

- The stock price has fallen in response to the downward revision of the full-year financial forecast at the time of the announcement of the financial results for the first half. The price is currently adjusting to the lowest price range since becoming listed on the market.
- Recognized as a domestic-demand-oriented growth stock related to ad-tech/subscription businesses, a certain level of evaluation is presumably already factored into the stock price. We believe the key valuation indicators are within reasonable ranges, considering the new forecasts for this fiscal year. In the future, the stock price is expected to change in response to the level of profit and dividend.
- In the medium to long term, the DOE could be reasonably raised, and dividend hikes are expected along with the profit growth. Dividend trends and the return of profit to shareholders, such as share buybacks, will also be some of the key points.

- The new services are expected to become the future growth drivers, and whether they will succeed will be a major factor impacting future business performance. Considering the medium-term growth potential for the profits and the possibility of future dividend hikes, we believe the stock price has the potential to rise over the medium to long term.
- The key factors impacting the stock price will mostly likely continue to be AD EBiS's number of accounts and unit price; AD EBiS's churn rate and the sales proportion of the new services, which are KPIs; monthly sales trends (MoM for both PF segments); quarterly trends in profit/loss; the financial results for this full fiscal year; forecasted profit levels for the next fiscal year onwards (the timing of the rebound to profit growth); measures to return profit to shareholders and their scale; and announcements of M&As and tie-ups.

【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)
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
2023		5,000	-	750	-	OPM = 15% (old) ⇒ 10% (new)			DOE = 3.0% (old) ⇒ 2.5% (new)			
2023	Initial CE	3,900	17.0	400	1.9	390	-2.5	240	1.7	38.3	-	7.8
2023	New CE average	3,650	9.5	305	-22.4	305	-23.8	185	-21.7	29.5	-	7.4
	New CE min.	3,600	8.0	280	-28.7	280	-30.0	170	-28.0	27.1	-	7.4
	New CE max.	3,700	11.0	330	-16.0	330	-17.5	200	-15.3	31.9	-	7.4
2023	New E	3,650	9.5	310	-20.9	310	-22.3	190	-19.5	30.2	305.4	7.4
2023	Old E (previous)	3,800	14.0	400	2.0	390	-2.3	240	1.7	38.2	314.6	7.8
2024	New E	4,000	9.6	330	6.5	330	6.5	200	5.3	31.8	329.8	8.3
2024	Old E (previous)	4,320	13.7	460	15.0	450	15.4	300	25.0	47.9	354.7	8.9
2025	New E	4,350	8.7	365	10.6	365	10.6	220	10.0	35.0	356.5	8.9
2025	Old E (previous)	5,000	15.7	530	15.2	520	15.6	340	13.3	54.3	400.1	10.0
2022	Q1 A	776	7.6	87	-7.1	87	-8.2	58	-5.1	9.3	249.1	0.0
2023	Q1 A	879	13.2	97	10.8	102	16.7	69	18.4	11.1	285.9	0.0
2022	Q2 A	805	8.1	89	5.3	89	8.2	46	-16.5	7.4		0.0
2023	Q2 A	933	16.0	113	27.5	110	24.5	62	34.6	9.9		0.0
2022	H1 A	1,581	7.8	176	-1.3	176	-0.6	104	-10.5	16.7	260.3	0.0
2023	H1 A	1,812	14.6	210	19.2	212	20.7	131	25.5	20.9	297.4	0.0
2022	H2 A	1,753	17.5	216	15.8	223	19.6	132	7.1	21.0		7.0
2023	H2 CE	1,838	4.8	95	-56.2	93	-58.7	54	-59.1	8.5		7.4

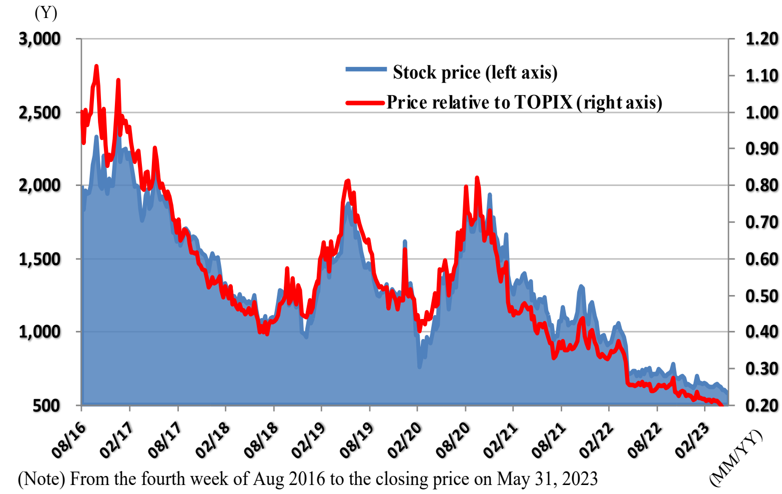
(Note) "Old": initial forecast at the beginning of the fiscal year or the previous forecast. "New": revised forecast for this fiscal year. "A": actual results. "CE": the Company's estimate (forecast). "E": estimate (forecast) by Alpha-Win Research Dept. "FY2023 New CE average": averages of the Company's forecasted ranges for sales (3,600 to 3,700 million yen), operating profit (280 to 330 million yen), recurring profit (280 to 330 million yen), and net profit (170 to 200 million yen). "Q1": Oct-Dec. "Q2": Jan-Mar. "H1" (first half): Oct-Mar. "H2" (second half): Apr-Sept. Note that the Company's fiscal year is September-ending. For example, FY2023 ends in Sept. 2023.

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

Item	5/31/2023	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	585	Last FY (actual)	15.5	2.1	1.2%	18.6%
Shares Outstanding (thou.)	6,372	This FY (est.)	19.3	1.9	1.3%	24.5%
Market Capitalization (million Y)	3,728	Next FY (est.)	18.4	1.8	1.4%	26.1%
Dilutive Shares (thou.)	0.0	Equity Ratio at End of This First Half	59.3%	Last FY's ROE	13.9%	

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

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



(Note) From the fourth week of Aug 2016 to the closing price on May 31, 2023

【Performance】

Period	Return	vs. TOPIX
1 month	-7.6%	-10.8%
3 months	-10.8%	-16.6%
6 months	-15.1%	-20.9%
12 months	-22.4%	-30.4%

(Note) Prepared by Alpha-Win Research Dept. Reflects stock price and TOPIX values through the closing price on 5/31/2023 (most recent value). In the calculation of performance for each period, the stock price and TOPIX at the end of the last month of each period were compared with their most recent values. For example, the performance during the 1-month period is the comparison between the closing price on the last day of April and on May 31. Similar for the rest.

Note: Values used in this Report, including its text and figures, may slightly differ from the same item disclosed by the Company or shown in this Report since the values may have been rounded, may have gone through various calculation processes with rounding to the nearest unit, or may be displayed in different formats.

＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊

Disclaimer

This Alpha-Win Company Research Report (hereinafter “this Report”) has been prepared by Alpha-Win-Capital Inc. (hereinafter “Alpha-Win”) on the request of the company presented in this Report.

This Report is not to be construed as a recommendation or solicitation of investment. Alpha-Win shall not be liable for any consequences including direct or indirect loss, lost profit, or damage resulting from the use of or reliance on this Report. Investors who read this report must make their own decisions on all investment matters and take full responsibility regarding their investment.

This Report has been prepared with a focus on objectivity and neutrality based on the analysis of generally accessible public information and supplemental information including interview(s) by the analyst. Alpha-Win, the writer, and/or other persons involved in the publication of this Report may already hold, or buy and sell in the future, the stock of the company presented in this Report.

Contents of this Report are based on information current as of the issue date and are subject to change without notice. For the latest (updated) report, please see our website (https://www.awincap.com/). We also do not warrant or represent that the information in this Report is accurate, reliable, complete, appropriate, or fit for any purpose and do not accept any responsibility or liability.

Copyright of this Report belongs to Alpha-Win and no part of the publication may be copied, photocopied, cited, or translated without our consent.

For inquiries regarding this Report, please send us an e-mail to info@awincap.com. However, Alpha-Win and the writer of this Report do not have any obligation to reply to inquiries.
MV2023-0606-20000

Contents

(Notes)
・Values used in this report have generally been rounded to the nearest unit and may therefore slightly differ from the Company's official disclosed values and other values.
*PF stands for "platform."
・On June 30, 2023, the name of the consolidated subsidiary BOKUBLOCK INC. is planned to be changed to EC-CUBE Innovations Inc. (the subsidiary which works on various solutions related to e-commerce).
・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. FY2023 ends in September 2023).

1. Company Overview

◆ A Leading Company in a Niche Market

- **A company in the business of marketing DX support. Top share in the Japanese software market for Internet ad effectiveness measurement and open-source e-commerce website building.**

(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.

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

(4) 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.

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

- **Founded by its president Susumu Iwata. Currently listed on the TSE Growth Market.**

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

Company Overview

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

Under its vision to "become a company that supports corporate marketing activities around the world through data and technology to bring happiness to both the sellers and the buyers," the Company has grown its business rapidly through its originally developed software. It has the top market share with both **AD EBiS**, its Internet advertising effectiveness measurement tool[2], and **EC-CUBE**, its open-source[3] software series for building e-commerce websites. It is a leading company in a niche field.

Currently, its main service is its Internet advertising effectiveness measurement system, provided as a SaaS[4] (cloud service). However, 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 TSE Mothers Market in September 2014 (now called the TSE Growth Market). It currently has two main offices, one in Osaka and one in Tokyo.

Change in the Company Name

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

Consolidated Companies and Trends in Consolidated Results

The YRGLM Group consists of a total of eight companies: the Company, its six consolidated subsidiaries (EC-CUBE Co., Ltd., YRGLM VIETNAM Co., Ltd., and the four acquired companies Spoo! Inc., TOPICA Inc., Far End Technologies Corporation, and BOKUBLOCK INC.), and one equity method affiliate (SAI Co., Ltd.).

During FY2019 (note that the Company's fiscal year is September-ending), the EC-CUBE business was carved out of the parent company (became a consolidated subsidiary after the carve-out). This caused changes in the balance between the parent company's results and the consolidated results. Due to the profitability and solid financial performance of EC-CUBE Co., Ltd., sales growth and profit have been maintained for the consolidated companies excluding the parent (consolidated minus parent company) since FY2019 (Figure 1 on page 7).

The subsidiaries, which have become included in the consolidated results upon their acquisition, have expanded their business after the acquisition and have been contributing to the Group's sales growth. Currently, all subsidiaries seem to be maintaining a profit, but significant contribution to the Group's profit should start to be seen in the next fiscal year or later. Note that the actual numerical results of the parent company alone have not been disclosed for the first half.

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

(Units: million yen and %)

	Unit: million yen, %	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
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 FY2014 (applies to the rest of this Report).

Financial Standing

- **As of the end of March 2023, it was essentially debtless, with cash & deposits exceeding its amount of debt.**

Its free cash flow (FCF) had been negative for some period due to M&As and large-scale investments, but since the second half of FY2020 the FCF has been generally improving and the Company's capital and cash & deposits have been accumulating (Figure 2). As of the end of March 2023, its debt totaled about Y750 million, while its cash & deposits were about Y1,410 million. Therefore, the Company is essentially debtless.

【Figure 2】Semi-Annual Change in Cash Flow and Balance of Cash & Deposits

Unit: million yen	FY2015		FY2016		FY2017		FY2018		FY2019		FY2020		FY2021		FY2022		FY2023
	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1
Operating CF ①	15	148	48	93	121	23	7	9	99	109	92	429	241	333	141	292	356
Investing CF ②	-5	-27	-80	-69	-88	-106	-94	-118	-368	-158	-409	-101	-35	-313	-262	-181	-100
Financing CF	-3	0	-16	3	-31	-0	169	542	162	-262	391	-56	-1	-23	-195	-121	-178
FCF(①+②)	9	121	-32	24	33	-83	-88	-110	-269	-50	-317	328	206	20	-121	111	256
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	1,408

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

- **Equity ratio is about 60%, indicating financial soundness.**

Its total assets are about Y3.2 billion and its market capitalization is about Y4.0 billion (based on the closing price of Y623 on March 31, 2023), both relatively small. However, its equity ratio is 59.3% and current ratio is greater than 200%, indicating financial soundness (both as of the end of March 2023).

- **Intangible fixed assets including goodwill have been smaller than the net assets.**

Goodwill had increased due to the acquisition of companies and businesses, but it is now decreasing due to amortization. Since the balance of goodwill as of the end of March 2023 was Y420 million, which is about 70% of the expected EBITDA for the full fiscal year, a lump-sum amortization of the goodwill is possible as well (Figure 3). Intangible fixed assets, which is a sum of the goodwill and Y420 million in software and software in progress, total Y860 million. Adding deferred tax assets of Y70 million to this, the total comes out to be Y930 million, which is smaller than the net assets of Y1.93 billion (48%) and therefore should not be a problem.

- **Estimated to have an unrealized gain of a little greater than Y1.3 billion owing to its subsidiary's shares.**

Also, the Company owns about 90% of the shares of its subsidiary EC-CUBE Co., Ltd. Based on the amount for which a portion of the subsidiary's shares was sold to Orient Corporation (the amount as of when they were sold in November 2020), the Company is estimated to have shares worth Y1.4 billion in market value and an unrealized gain of Y1.37 billion.

【Figure 3】Change in the Balance of Goodwill and Amount of Amortization

Yearly Goodwill	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	H1 FY2023
Goodwill (balance on B/S: million yen) ①	0	0	0	0	0	109	316	450	484	423
Annual amortization of goodwill (on CF statement: million yen) ②	0	0	0	0	0	16	55	84	108	61
Average period of amortization (years) ③=①/②	0	0	0	0	0	7.0	5.8	5.4	4.5	*3.5*
EBITDA ④	273	373	286	174	6	247	514	638	686	*618*
Goodwill/EBITDA ⑤=①/④	0	0	0	0	0	0.4	0.6	0.7	0.7	*0.7*

(Ref) Prepared by Alpha-Win Research Dept. based on information including the financial results summary and financial results briefing materials. For H1 FY2023, numbers in italics are annual forecasts or have been calculated for the full year; EBITDA is the average of the Company's forecast.

- **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 has been expanding its business again, including the EC PF, through acquisitions of businesses and companies in related areas.**

2. Business Contents and Business Model

◆Business Portfolio

Restructuring and Strengthening the Business Portfolio

Since FY2016, the Company had been actively restructuring and strengthening its business portfolio (Figure 4). It had been increasing its focus on the core businesses (shifting to AD EBiS of the Marketing Platform segment), separating its non-core businesses (EC Platform segment), and conducting M&As. This business restructuring has reached the end of a phase, though, and the Company is currently in the stage of expanding its business for the next level of growth.

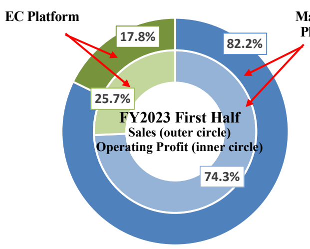
【Figure 4】Business Restructuring and Segments

(Businesses that it withdrew from are highlighted in gray and the new services are highlighted in yellow)

Segment Name	Business Categories	Main Services (or company name)	Changes	Notes
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	Service ended on Jan 31, 2023 (started service in July 2020)	
	(3) Incubation (previously "new services")	① AD HOOP: marketing-specialized matching	Started service in May 2020; changed name to AD HOOP 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) E-commerce website building & operation support (new: professional 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 devopment, 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) Figure 4-7 were prepared by Alpha-Win Research Dept. based on sources including the Company's financial results summary and financial results briefing materials. Words in red in Figure 4 indicate changes and events during the current fiscal year.

[Figure 5] Sales and Profit Breakdown by Segment (first half of FY2023)

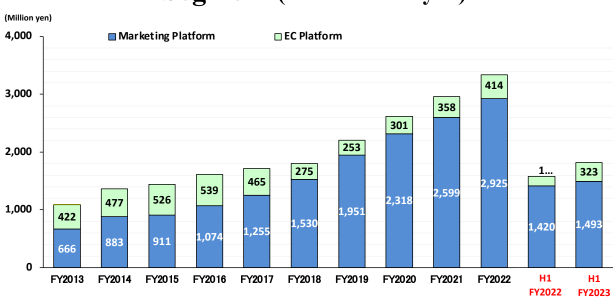


Business Composition

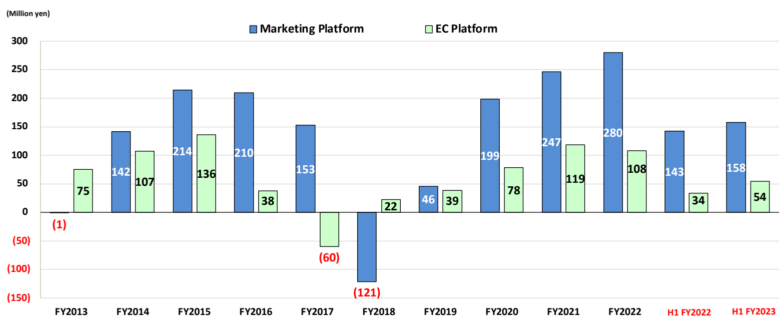
Currently, the Company's business is composed of two segments: I. Marketing PF (short for "platform") and II. EC PF.

The Marketing PF segment accounted for about 80% of the total sales in this fiscal year's first half (Figure 5) and has long been the driver of the Company's overall sales growth (change in sales by PF segment: Figure 6).

【Figure 6】Transition in Sales by Business Segment (Unit: million yen)



【Figure 7】Transition in Operating Profit by Business Segment



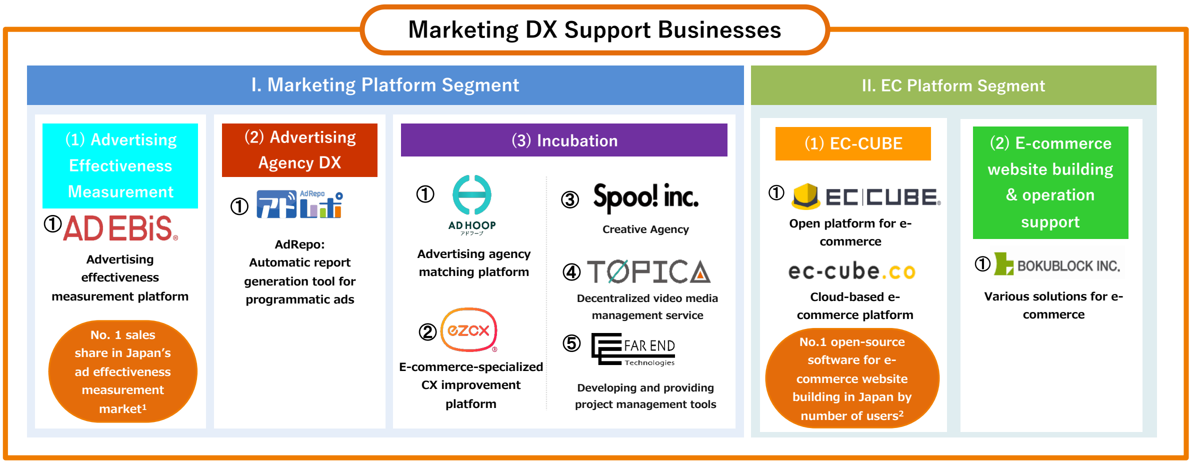
(Ref) Prepared by Alpha-Win Research Dept. based on sources including the Company's financial results summary and financial results briefing materials.

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

Each PF segment's change in operating profit over the years is as shown in Figure 7 on page 8. Excluding FY2017 and FY2018, during which business restructuring was conducted, operating profit (segment's profit) has been posted for both PF segments during each full fiscal year.

The Company's current business portfolio is as shown in Figure 8 (the numbers assigned to each business in Figure 8 match the numbers in Figure 4 and in the descriptions starting from this section's description of business contents).

【Figure 8】Business Composition (as of the end of May 2023)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials with some edits and 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 PF Segment

The breakdown of sales and change in profit of the Marketing PF segment over the years are shown in Figure 9.

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

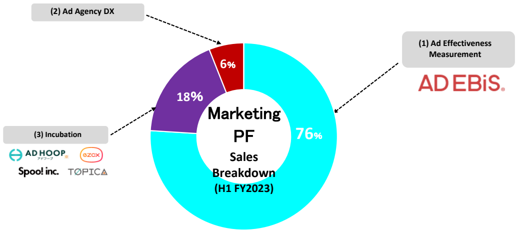
Sales (million yen)	FY2014 Consolidated	FY2015 Consolidated	FY2016 Consolidated	FY2017 Consolidated	FY2018 Consolidated	FY2019 Consolidated	FY2020 Consolidated	FY2021 Consolidated	FY2022 Consolidated	H1 FY2023 Consolidated
I. Marketing Platform	883	911	1,074	1,255	1,530	1,951	2,318	2,599	2,925	1,492
(1) Advertising Effectiveness Measurement	883	911	1,074	1,254	1,445	1,775	2,135	2,313	2,369	1,134
(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	1,134
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%*	*-3.6%*
②THREe (withdrew)	*161*	*89*	*62*	*54*	*43*	*28*	*8*	*0*	*0*	*0*
(2) Advertising Agency DX						124	152	182	175	90
(2) ①AdRepo				(Business acquired in Oct 2018 →)		124	149			
②Ad-Knwoledge							3			
(3) Incubation (previous "new services")							3	89	380	269
(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 FY2021; Far End acquired in Jan 2022 →)						3	89	380	269
*Other: previously, Professional Service (DMP)		(Professional Service, transferred from EC PF →)			84	51	27			
Segment's Operating Profit	142	214	210	153	-121	46	199	247	280	158
Segment's Operating Margin (%)	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	9.5%	9.6%	10.6%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials and interview.
(Note) Includes Alpha-Win's estimates. Sales are those toward external customers.

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

I. The Marketing PF segment currently consists of the three main business categories (1) through (3) described in Figure 8. During this fiscal year's first half, the breakdown of sales of this segment was as shown in Figure 9 and Figure 10 on page 10. While the sales proportion of AD EBiS has decreased compared to before, it still accounted for 76% of the Marketing PF segment's sales (63% of the Company's entire sales).

【Figure 10】Breakdown of the 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 60% of the Company's entire sales. Highly stable business based on subscriptions.**

(5) Subscription model: fees are paid periodically for the right to use the service for a certain period.

(6) 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.

- **The business for advertising agencies consists of only AdRepo, which fully automates the creation of reports for programmatic advertising. It withdrew from Ad-Knowledge, a cloud-based project management system specialized for advertising agencies.**

- **The Incubation business consists of the businesses of the 3 consolidated subsidiaries acquired through M&As and the Company's originally developed products AD HOOP and eZCX. These businesses are expected to become the Company's future growth drivers.**

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

(1) Advertising Effectiveness Measurement

① **<u>AD EBiS</u>**

・Internet advertising effectiveness measurement system

・The Company's originally-developed, core product (incredibly strong position in the Japanese market with the top share of 86.7 %, according to the Japan Marketing Research Organization's summary of its survey on competition in designated areas for the period ended June 2021).

・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[5]

・Business based on flat-rate, periodic payments. Its sales are determined by average unit price times the number of active accounts. Both numbers are key indicators that impact not only the performance of the AD EBiS business but also of the entire company. Sales in the first half of this fiscal year are estimated to have been Y1.13 billion (about -3% from Y1.18 billion in the first half of the previous fiscal year) (Figure 9 on page 9).

(2) Advertising Agency DX

This business targeting advertising agencies consists of only the AdRepo business (AD HOOP has been moved to the incubation category and the Company has withdrawn from the Ad-Knowledge business). Sales in this fiscal year's first half are estimated to have been Y90 million, which was 6% of the Marketing PF's entire sales (same proportion as the previous fiscal year's second half).

① **<u>AdRepo</u>**

・Fully automatic report-generation tool for programmatic advertising[6]

・Cloud service that has been developed to reduce the workload of advertising agencies

・The business was acquired from another company in August 2018. The Company plans to continue to focus on expanding this business.

② **<u>Ad-Knowledge</u>**

・An original, cloud-based project management system specialized for advertising agencies

・Aimed to support advertising agencies that work with programmatic advertising in improving their operation and efficiency

・Service was started in July 2020, provided as a subscription service (SaaS). However, the Company withdrew from this business in January 2023.

(3) Incubation (Figure 11 on page 12)

① **<u>AD HOOP</u>**

・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, and then moved from the advertising agency DX category. Since March 2023, service domains have been expanded significantly from three to twelve. Steadily expanding the business through the acquisition of new projects and cross-selling.

・Sales in the first half of this fiscal year were Y25 million (+71% YoY; 2% of the Marketing PF's sales). As with eZCX, the challenge is to turn the business profitable.

② **eZCX**
・E-commerce-specialized CX improvement platform
・Helps improve CX (customer experience) on websites. Leads to greater efficiency in acquiring new customers.
・It has been released in May 2021, but the Company is currently limiting its sales due to the reconsideration of service (sales in the first half were just Y2 million).

- **Has been acquiring companies in businesses related to Internet marketing as consolidated subsidiaries at a pace of about 1-2 companies per year.**
- **All three acquired companies have been steadily expanding their businesses.**

As described below, the Company has been acquiring companies that are in businesses related to Internet marketing at a pace of one or two companies per year, making them consolidated subsidiaries. All three recently acquired companies are steadily expanding their businesses by leveraging their edge and synergies.

③ **Spoo (Spoo! inc.): consolidated subsidiary (wholly acquired)**
・Web media and design company. Founded in March 2000 and was acquired by the Company in December 2020. Contract-development service provided by a small team. Recruitment has been a challenge.
・Leveraging Spoo's creativity and talents to integrate with the Company's data and technology. Plans to thereby create new values, expand into more areas of business, and strengthen its competitive edge.
・Sales increased by 47% from Y24 million in the first half of the previous fiscal year to Y36 million in the first half of this fiscal year.

④ **TOPICA: consolidated subsidiary (60% stake)**
・Founded in May 2016. Acquired in July 2021.
・Developing a marketing support business that utilizes SNS and videos (ranging from the planning and production of video contents to SNS account management services)
・With the acquisition, the Company plans to 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.
・Sales increased by 44% from Y88 million in the first half of the previous fiscal year to Y127 million in the first half of this fiscal year. Steadily expanding business.

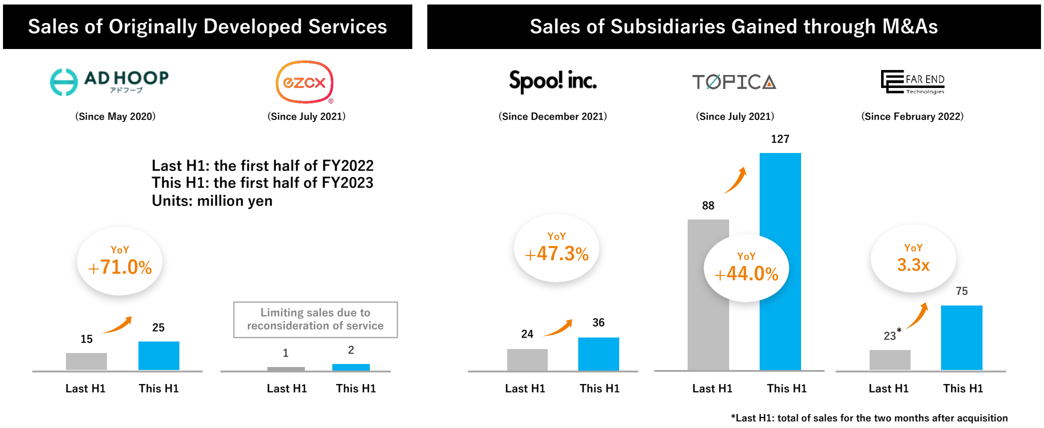
⑤ **Far End Technologies Corporation (hereinafter, "Far End"): consolidated subsidiary (wholly acquired)**
・Established in September 2008. Provides Internet services (SaaS) and IT security support services.
・Acquired in January 2022 as a wholly owned subsidiary
・Its main business involves the development 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 increased 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 significant growth can be expected.

・By leveraging and integrating with the YRLGM Group's technologies and expertise, the Company plans to expand its business domains, increase its competitive edge, and provide new value to customers.

・Sales increased by 226% from Y23 million in the first half of the previous fiscal year (sales for the two months after the acquisition) to Y75 million in the first half of this fiscal year (for the entire period).

【Figure 11】Comparison of the Incubation Businesses' Sales in the First Half



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

◆ **The EC PF segment is composed of EC-CUBE and the professional services.**

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

◆ Business Details: II. EC PF Segment

Previously, the EC PF segment had only consisted of EC-CUBE. However, with the acquisition of BOKUBLOCK INC., the Company has reentered the professional services[7] market (e-commerce website building & operation support) (consolidated starting in June 2022). Thanks to large synergies with EC-CUBE, this subsidiary is contributing well to the segment's performance (Figure 9).

【Figure 12】Change in Sales and Operating Profit of the EC Platform Segment

Sales (million yen)	FY2014 Consolidated	FY2015 Consolidated	FY2016 Consolidated	FY2017 Consolidated	FY2018 Consolidated	FY2019 Consolidated	FY2020 Consolidated	FY2021 Consolidated	FY2022 Consolidated	H1 FY2023 Consolidated
II. EC Platform	477	526	539	465	275	253	301	358	414	320
(1) EC-CUBE	245	230	219	208	254	253	301	358	331	176
EC-CUBE's sales growth rate (YoY: %)	18.3%	-6.1%	-4.8%	-5.2%	22.2%	-0.4%	19.0%	18.9%	-7.4%	9.3%
①Shopping settlement fee								290	253	134
②Subscription								12	29	19
③Other								54	50	22
New: (2) E-commerce website building & operation support (BOKUBLOCK)								0	83	144
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	54
Segment's operating margin	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	33.1%	26.1%	17.0%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials and interview.
(Note) Includes estimates. Sales are those toward external customers.

◆ **The EC-CUBE business provides software for companies to build and manage e-commerce websites on their own.**

① EC-CUBE

Service Overview

・EC-CUBE is a software platform whereby companies can build and manage e-commerce (EC) websites on their own.

- **In addition to the download version, the cloud version has been released.**
- **Gained top share in the Japanese market.**

(8) 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.

- **Planning to expand the professional services**
- **The e-commerce website building & operation support business grew significantly thanks to synergies within the Group.**

・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 customizability, and high usability, it has the top share in the Japanese market and is the standard platform.

Business Model and Sales Breakdown

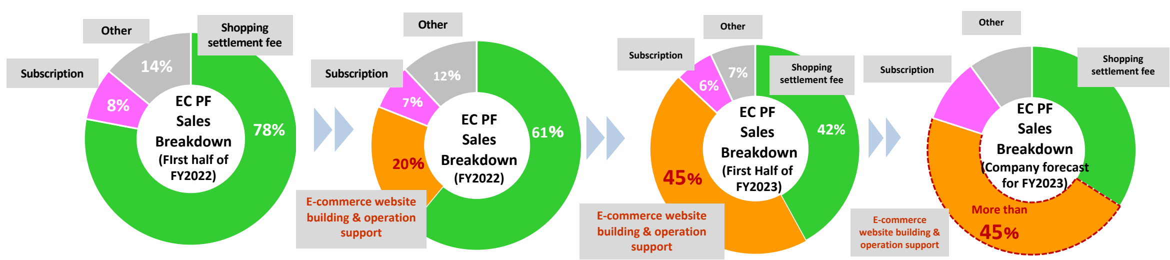
・**EC-CUBE** is based on a freemium model[8] in which software is offered for free, but in return, revenue is earned from the peripheral services.

・Revenue comes from shopping settlement fees from official partners using the software for their Internet businesses (42% of the total sales of this PF in this first half), **ec-cube.co**'s monthly subscription income (similarly, 6% of the total), and other revenue (function addition fees for plugins, or programs to add functions to software; similarly, 7% of the total) (Figure 13).

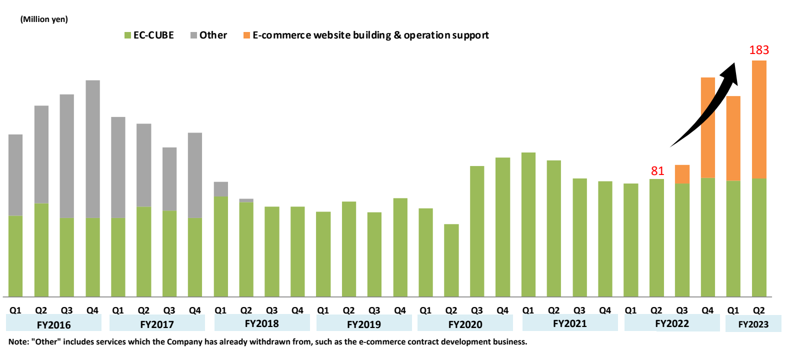
Each Business' Trends in Financial Performance: II. EC PF Segment (2) E-commerce Website Building & Operation Support

Through an M&A, BOKUBLOCK's e-commerce website building & support business has become included in this segment's results starting in the previous fiscal year (Q3 FY2022). As a result, the Company has now fully entered the professional services business and has been working on building a one-stop service under a hybrid model linked with EC-CUBE. Changes in the sales of the e-commerce website building & operation support business tend to depend on the orders received for website building projects and their progress. Since the acquisition, though, sales have grown significantly thanks to synergies within the Group, having successfully gained large projects (sales during this fiscal year's first half were Y144 million, accounting for 45% of the entire sales of the segment, whereas sales were zero in the previous fiscal year's first half since it was before the consolidation).

【Figure 13】Breakdown of Sales of the EC PF Segment (Units: % or million yen)



【Figure 14】Quarterly Change in the Sales of the EC PF Segment (Unit: million yen)



(Ref) Figures 13 and 14: prepared by Alpha-Win Research Dept. based on the financial results briefing materials with partial edits/additions.

3. Shareholder Composition

◆ Major Shareholder Composition

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

The major shareholders as of the end of March 2023 are shown in Figure 15. The following is supplementary information. Other than the individual shareholders and securities companies, the major shareholders have mostly not changed.

・The top three shareholders are Susumu Iwata, the Company's president, followed by the Company's executive officers (including former executive officers). Together, they possess more than half of the outstanding shares.

・The banks and securities companies are most likely investing as custodians of the below investment trusts or in relation to their customers' positions.

◆ **Invested by several Japanese stock investment trusts.**

・Regarding Japanese investment trusts, "The 2020 Vision" managed by Commons Asset Management owned 108 thousand shares as of December 19, 2022 (0.57% of the fund's portfolio; 161 thousand shares were owned as of Dec. 20, 2021). The Company's shares are also included as a small portion in "Rakuten Japan New Economy Index Fund (JANE Index)" (0.04% of the fund's portfolio).

◆ **Treasury shares are 1.39% of all outstanding shares, essentially ranking itself as the sixth largest shareholder.**

・In the past, the Company had used a portion of the treasury shares as transfer-limited, stock-based compensation. As of the end of March 2023, it owned 88,680 treasury shares (1.39% of all outstanding shares; essentially the sixth largest shareholder).

・The Company may use the treasury shares in the future for stock cancellation, M&A and alliance strategies, or stock-based compensation for its executives and employees.

【Figure 15】Current Major Shareholders (Unit for number of shares: thousand shares) (Unit for ratios: %)

	End of Sept. 2015	End of Sept. 2016	End of Sept. 2017	End of Sept. 2018	End of Sept. 2019	End of Sept. 2020	End of Sept. 2021	End of Sept. 2022	End of Mar. 2023	←Shareholding Ratio	←Ranking
Susumu Iwata (president and CEO)	2,851	2,817	2,817	2,819	2,822	2,825	2,827	2,809	2,788	44.36	1
Hiroichi Fukuda (former executive vice president)	1,071	1,021	1,021	961	801	781	817	779	661	10.52	2
Kanako Mataza (former director and senior executive officer)	415	415	352	354	353	352	329	329	329	5.23	3
Rakuten Securities, Inc.	—	—	—	72	64	—	—	—	177	2.81	4
Custody Bank of Japan (trust account)	—	—	—	—	—	221	128	103	97	1.54	5
SBI SECURITIES Co., Ltd.	—	—	—	—	—	—	—	—	85	1.35	6
Japan Securities Finance Co., LTD	30	35	—	—	—	—	—	—	80	1.26	7
YRGLM Employee Stock Ownership Plan	76	39	48	69	68	71	66	69	73	1.16	8
Hakuhodo DY Media Partners Inc.	60	60	60	60	60	60	60	60	60	0.95	9
Tomonori Yamada (indiv.)	—	—	28	—	—	—	33	36	53	0.84	10
Yoshihisa Yamashita (indiv.)	—	—	—	—	—	—	54	54			
Satoshi Hasegawa (indiv.)	—	—	—	—	—	—	—	37			
J.P. MORGAN SECURITIES PLC	—	—	—	—	—	—	35	34			
Custody Bank of Japan (securities investment trust account)	—	—	—	—	—	169	82	—			
Yukio Tanaka (individual investor)	—	—	—	—	—	—	—	—			
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	—	—	—	—	—	—			
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	88.680		
(Percentage of treasury shares: %)			0.00%	0.02%	1.28%	1.01%	0.91%	1.75%	1.39%		

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

4. History of Growth

◆ Past Transition in Financial Results

Sales

- **Posting record-high sales for 13 fiscal years in a row**

From FY2009 to FY2022, sales have been hitting record highs every year, at least for the 13 fiscal years for which information is disclosed. During this period, sales have increased by about 5.8x from Y570 million to Y3,330 million (annual compound rate of +14.5%).

- **Conducted M&As and 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.**

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 by conducting M&As and increasing its employees. Its growth has been achieved thanks to the release and expansion of 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

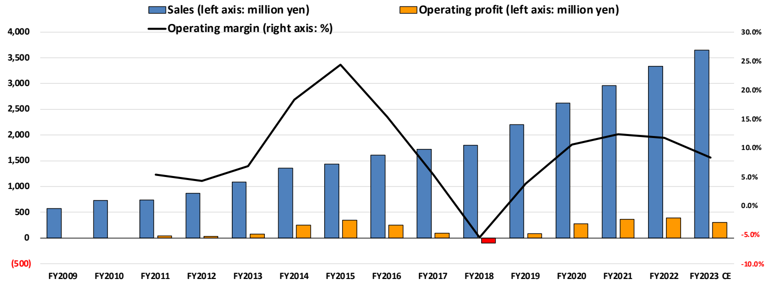
- **In FY2015, record-high profits of the time were recorded.**
- **Starting in FY2016, the Company had conducted business restructuring and upfront investments, prioritizing acceleration of future business growth over profit. Net losses were recorded consecutively in FY2018 and FY2019.**

Regarding profit, the Company had stayed profitable both on a standalone and consolidated basis up through FY2017. In FY2015, a record-high operating profit of Y350 million and a record-high net profit of Y231 million were achieved. However, starting in FY2016, the Company's active business restructuring and upfront investments had increased the expenses, leading to a consecutive decline in profit despite increasing sales. In FY2018, the Company recorded a loss (operating loss of Y98 million and 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 16 and 17). In FY2019, 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.

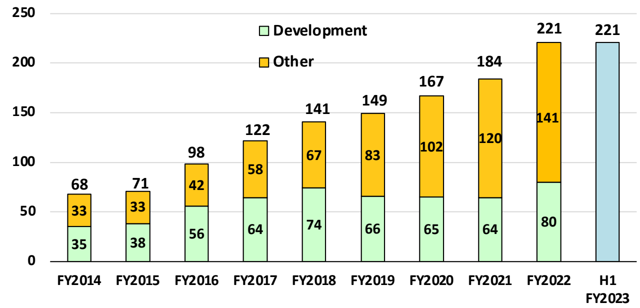
- **Since then, sales have increased and costs have improved, leading to a V-shaped recovery in business performance. In FY2021, sales and profits hit record highs, and in FY2022, operating and recurring profit hit record highs in consecutive years.**

In the following year or FY2020, consecutive growth of sales and improvements in cost resulted in 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 FY2021, the Company posted record profits for the first time in six years, and in FY2022, operating and recurring profits both hit record highs for consecutive years.

【Figure 16】Transition in Past Financial Results and the Company's Forecast for This Fiscal Year
(Units: million yen, %)



【Figure 17】Change in the Number of Employees
(Unit: persons)



(Ref) Figures 16 and 17 were prepared by Alpha-Win Research Dept. based on the securities reports, financial results summary, and financial results briefing materials.
(Note) Consolidated results starting in FY2014; nonconsolidated prior to this. CE = the Company's estimate/forecast.

5. Market Environment

◆ Trends of Japan's Advertising Market

- **In 2022, Japan's total advertising expenditure was solid and grew by 4% YoY.**

Total Advertising Expenditure

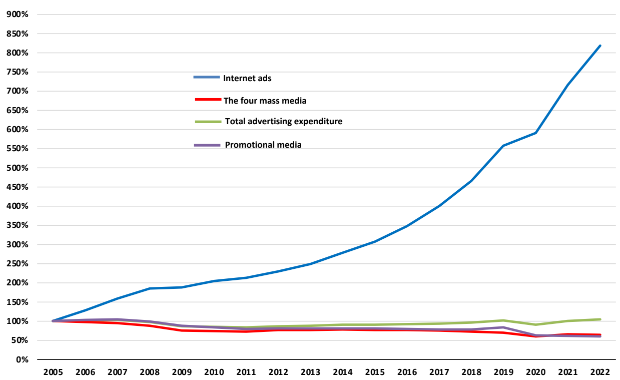
Total advertising expenditure in Japan in 2022 (calendar year; the same applies to this entire section) hit a record high at about Y7.1 trillion, having increased by +4.4% from the previous year. Despite the negative impact of the rebound of the COVID-19 outbreak, the situation in Ukraine, and inflation, the overall market remained firm thanks to the growth of Internet advertising expenditure along with the digitalization of the society.

- **Internet advertising expenditure has been continuing to grow at a high, double-digit rate. It has become the largest medium for advertising.**

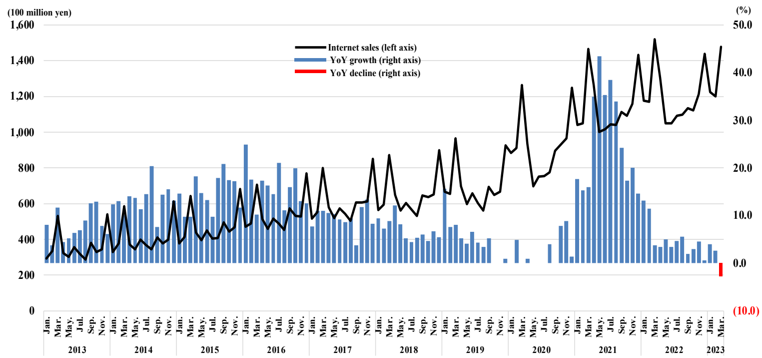
Internet Ad Market (Annual)

With the digitalization of the society, the e-commerce market boom, and greater demand for video ads, the Internet advertising market (sum of medium cost and production cost) grew by +14.3% YoY to about Y3.1 trillion, maintaining a double-digit growth. Since 2005 (point of comparison, set at 100) to 2022, the market has grown rapidly by 8.2x (annual growth rate of about +13.4%, on a simple average; compound growth rate of +17.6%) (Figure 18). Internet advertising expenditure accounts for about 43.5% of the total advertising expenditure (39.8% in the previous year) as the largest medium. Its proportion has been steadily increasing by several percent every year (source: Dentsu Inc.'s "2022 Advertising Expenditures in Japan").

【Figure 18】Change in Advertising Expenditure by Medium (Indexation: the year 2005 is set to 100)



【Figure 19】Change in Monthly Sales of Internet Ads



(Ref) Figure 18: prepared by Alpha-Win Research Dept. based on Dentsu Inc.'s "2022 Advertising Expenditures in Japan"
Figure 19: prepared by Alpha-Win Research Dept. based on the "Survey of Selected Service Industries" by the Ministry of Economy, Trade, and Industry (reflects monthly data through March 2023).

- **The internet advertising market had been solid after turning to a positive (monthly) trend, but its momentum is declining.**

Internet Ad Market (Monthly)

The COVID-19 crisis had caused the entire Internet advertising market to shrink on a year-on-year comparison (based on the sales of the advertising industry as announced by the Ministry of Economy, Trade, and Industry) since the beginning of 2020, but the market came back to growth in October of the same year. The market had then maintained its growth for a while, but fell to a -2.8% decline in March of this year (Figure 19). The internet ad market is still solid, but the stay-at-home consumption has somewhat settled down and the momentum (sales growth rate) has been declining on a monthly basis. Regarding the Company's Internet ad business, the business environment is predicted to remain advantageous for the Company due to the further digitalization of the society.

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

◆ Results for Q2 FY2023 (first half)

◆ **Double-digit sales and profit growth in the first half, also hitting record highs for both.**

Overview

The consolidated financial results for the first half of FY2023 (first half or "H1": October 2022 to March 2023) were as follows: sales increased by +14.6% YoY (+Y231 million) to Y1,812 million and operating profit increased by +19.2% YoY (+Y34 million) to Y210 million. Both sales and profit increased at double-digit rates (Figure 20). Both the Marketing PF and the EC PF experienced sales and profit growth. Especially the EC PF grew, with sales doubling and contributing to the overall results.

There were no major nonoperating profit/loss or extraordinary gain/loss posted. Consequently, the net profit resulted in an increase of 25.5% YoY (+Y27 million) to Y131 million. For first-half results, these were record-high sales and profits.

【Figure 20】Comparison of Quarterly and First-Half Results

	FY2022		FY2023		FY2022	FY2023	H1 FY2023 (YoY)	
(Units: million yen, %)	Q1 (Oct-Dec)	Q2 (Jan-Mar)	Q1 (Oct-Dec)	Q2 (Jan-Mar)	H1 (Oct-Mar)	H1 (Oct-Mar)	Amount of Change	% Change / *Diff.*
Total Sales	777	804	879	933	1,581	1,812	231	14.6%
Marketing Platform	697	723	742	750	1,420	1,492	72	5.0%
EC Platform	80	81	140	180	161	320	159	98.3%
Gross Profit	505	564	554	576	1,069	1,130	62	*5.8%*
Gross Margin	65.0%	70.1%	63.1%	61.7%	67.6%	62.4%		*-5.2%*
SG&A Expenses	417	475	457	463	892	920	28	3.1%
SG&A Expenses Ratio	53.7%	59.1%	52.0%	49.6%	56.4%	50.8%		*-5.7%*
Operating Profit (by segment)	88	89	97	113	176	210	34	19.2%
Marketing Platform	70	73	71	86	143	158	15	10.3%
EC Platform	18	16	27	28	34	54	21	61.8%
Operating Margin	11.3%	11.0%	11.1%	12.1%	11.2%	11.6%		*0.4%*
Marketing Platform	10.1%	10.0%	9.6%	11.5%	10.1%	10.6%		*0.5%*
EC Platform	22.1%	19.7%	19.3%	15.3%	20.9%	17.0%		*-3.8%*
Recurring Profit	87	89	102	111	176	213	36	20.7%
Net profit	58	46	69	62	105	131	27	25.5%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing materials. Sales of each PF segment are sales toward external customers.

◆ **There was significant progress with profit in the first half in terms of achieving the revised full-year plan.**

Progress in the First Half

The percentage of progress during this first half in terms of achieving the full-year forecast was as follows, in the order of before the revision of the full-year forecasts ⇒ after the revision: sales were 46.5% ⇒ 49.0% to 50.3% (47.4% in the first half of the previous fiscal year), operating profit was 52.5% ⇒ 63.6% to 75.0% (similarly, previously 44.9%), net profit was 54.6% ⇒ 65.5% to 77.1% (similarly, previously 44.1%), and EBITDA was 53.1% ⇒ 56.1% to 60.9% (similarly, previously 46.7%). Compared to the same period of the previous fiscal year, there was significant progress in achieving the revised profits. Regarding the Company's initial first-half forecasts, while they have not been disclosed, both sales and operating profit seem to have been below expectations.

◆ **In the Marketing PF segment, sales increased slightly and the profit margin was improved, resulting in double-digit profit growth.**

Trends in Financial Performance by Segment: I. Marketing PF Segment

By segment, sales of the Marketing PF segment (to external customers; the same applies hereinafter) increased by Y72 million (+5.0% YoY) from Y1,420 million in the first half of the previous fiscal year to Y1,492 million in the first half of this fiscal year. Similarly, this segment's (operating) profit increased by Y15 million (+10.3% YoY) from Y143 million to Y158 million.

- **AD EBiS's sales decreased. This was offset by the large increase in incubation's sales.**
- **The amount of loss improved for the incubation business.**

Significant growth of the incubation businesses compensated for the sales decline of AD EBiS, resulting in a slight sales growth for this PF overall. Regarding profit, although there was an increase in costs due to the M&As and the depreciation of the yen, a double-digit profit growth was achieved thanks to increased sales and reduction of costs associated with the office relocation. Although a loss was posted for the incubation businesses, the improvement in the amount of loss had significantly contributed to the results.

Trends in Financial Performance by Segment: Marketing PF Segment (1) AD EBiS

- **The unit price of AD EBiS rose YoY, but its number of accounts have continued to decline.**

Sales and profit growth of the Marketing PF used to be brought by the rise in the average unit price of AD EBiS, the core business (Figures 6 and 7 on page 8 and Figure 24 on page 19). However, while the rate of increase in the average unit price has slowed down, the decline in the number of accounts has not stopped. These seem to have caused the sales of AD EBiS in the first half to decline YoY (Alpha-Win Research Department estimates this decline to have been about -3%).

The average unit price was Y164,745 at the end of Q4 FY2022 (+Y12,609 or +8.3% YoY) ⇒ Y163,200 at the end of Q1 FY2023 (+Y10,964 or +7.2% YoY) ⇒ Y167,976 at the end of Q2 FY2023 (+Y10,655 or +6.8% YoY) (Figure 21).

- **The churn rate remained flat.**

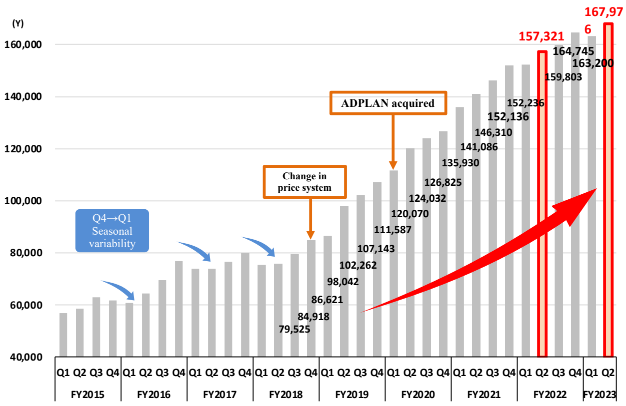
On the other hand, the number of active accounts has continued to decline, in the same order, from 1,183 ⇒ 1,162 ⇒ 1,121 (-123 or -9.9% YoY as of the end of this Q2) (net QoQ decline for 13 quarters in a row; Figure 22). In addition, the churn rate has remained flat at around 2.4% since Q2 FY2022 (Figure 23 on page 19).

- **Struggling to acquire new customers.**

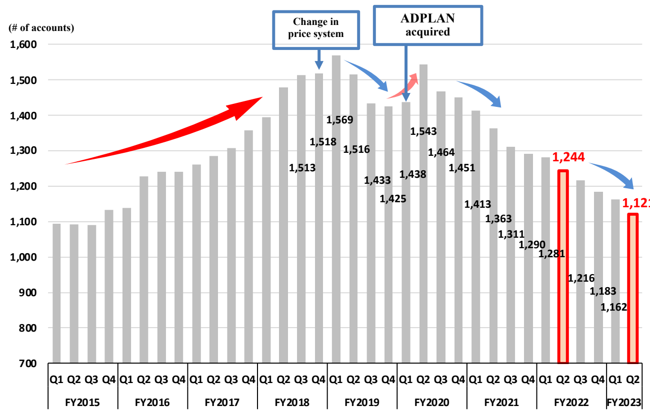
The main reason for the decline in the number of accounts in the first half of this fiscal year was that the acquisition of new customers was below expectations, while there was a certain number of cancellations as usual. The Company analyzes that this may have been caused by changes in the media environment, such as the increasing market domination by the major media due to third-party cookie regulations[9] (e.g., the migration to GA4, the Google Analytics 4 property for access analysis) and the simple management interface provided by each media for ad effectiveness measurement and ad management.

(9) Third-party cookie Regulations: Regarding privacy protection regulations, see page 23 of Alpha-Win's Company Research Report published in December 2022.

【Figure 21】Change in the Average Unit Price of AD EBiS

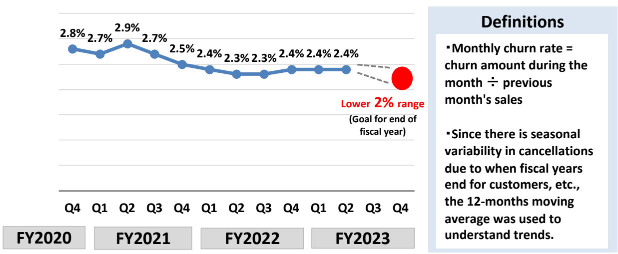


【Figure 22】Change in the Number of Accounts of AD EBiS

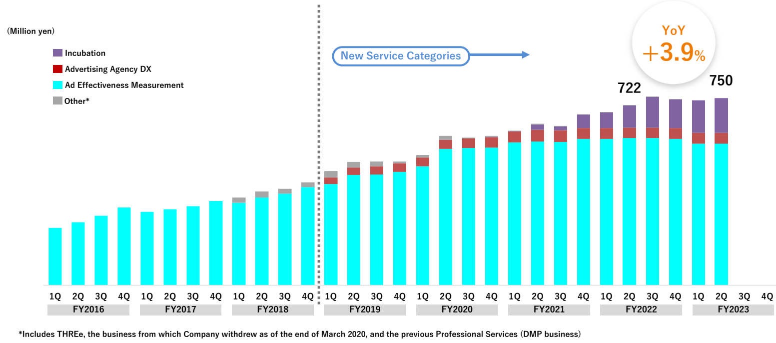


(Ref) Figures 21 and 22 were prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing materials.

【Figure 23】Change in the Churn Rate of AD EBiS



【Figure 24】Change in Sales of the Marketing PF by Business (quarterly)



(Ref) Figures 23 and 24 were prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing materials. 1Q, 2Q, 3Q, and 4Q in Figure 24 are the same as Q1, Q2, Q3, and Q4.

- **The advertising agency DX business was solid.**

Trends in Financial Performance by Segment: Marketing PF Segment (2) Advertising Agency DX

Regarding AdRepo, which accounted for the entire sales of the advertising agency DX category, its sales were 6% of the Marketing PF's sales in the first half (same proportion as the previous fiscal year's first half). Its sales are estimated to have been Y90 million and seem to have increased slightly by 5% compared to the previous fiscal year. Regarding Ad-Knowledge, the Company withdrew from the business in January 2023.

- **In the incubation businesses, the subsidiaries acquired through M&As and the originally developed service contributed to increased sales and improved profitability.**

(10) PMI (Post-Merger Integration): The process of business integration after acquisition

Trends in Financial Performance by Segment: Marketing PF Segment (3) Incubation

Steady progress has made with the originally developed service AD HOOP and with the PMI[10] of the three consolidated subsidiaries that the Company has acquired through M&As (Spoo, TOPICA, and Far End Technologies). Their sales expansion (including full contribution in terms of the length of period after becoming consolidated) contributed to the PF segment's sales growth (Figure 11 on page 12).

Sales of the incubation businesses increased by 75% from Y153 million in the first half of the previous fiscal year to Y267 million in the first half of this fiscal year. As a result, its proportion of the Company's overall sales increased from 12%⇒ 15%. Along with this increase in sales, it is estimated that the operating loss has also shrunk to about one-third (from about -Y80 million in the first half of the previous fiscal year to about -Y30 million; both are estimates by Alpha-Win) (Figure 26 on page 20).

- **In the EC PF, the e-commerce website building & operation support business was solid.**

Trends in Financial Performance by Segment: II. EF PF Segment

Regarding the other segment or the EC PF segment, it accounted for 18% of the Company's overall sales and 26% of the overall profit. Within this PF segment, EC-CUBE's sales from shopping settlement fees accounted for 42% (Y134 million), while the e-commerce website building & operation support of the acquired company BOKUBLOCK accounted for 45% (Y144 million) (Figure 13 on page 13).

Also, in the e-commerce website building & operation support business, orders for large-scale, one-time projects were received and contributed to the increase in sales (sales were zero in the first half of the previous fiscal year since it was before the acquisition). In terms of profit/loss, a small profit was posted (Figure 26 on page 20). Performance has been solid and this business is expected to account for more than 45% of the EC PF's sales for this full fiscal year (the proportion was 20% in the previous full fiscal year).

Regarding EC-CUBE, due to raised shopping settlement fees and the successful enhancement of matching through its collaboration with AD HOOP, its sales increased by 9% YoY from Y161 million in the first half of the previous fiscal year to Y176 million in the first half of this fiscal year.

- **Aiming to grow the e-commerce website building & operation support business by leveraging synergies within the Group.**

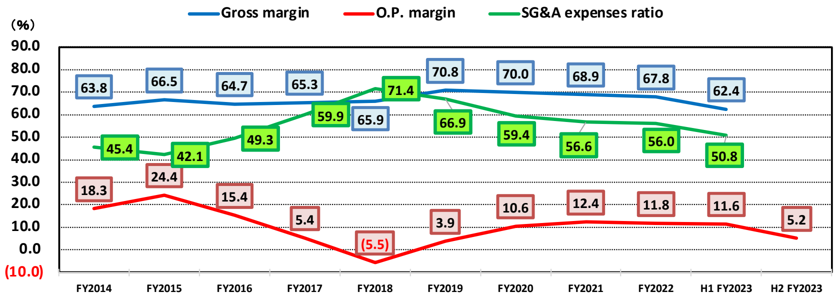
・By acquiring an Amazon Pay (ID payment) plug-in development/support business for EC-CUBE, the Company plans to strengthen and improve the usability of EC-CUBE. At the same time, through enhanced synergies with AD HOOP and EC-CUBE, the Company plans to grow the EC PF segment by expanding the e-commerce website building & operation support business.

Trends in Overall Profit Margin

- **Gross margin worsened, but operating margin improved thanks to improvement of the SG&A expenses ratio.**

Partly due to M&As causing changes in the business mix, the gross margin fell by 5.2 percentage points from 67.6% in the first half of the previous fiscal year to 62.4% in the first half of this fiscal year (Figure 25). Meanwhile, the SG&A expenses increased by +3.1%, which was much smaller than the rate of increase in sales (+14.6%), and consequently the SG&A expenses ratio declined by 5.6 percentage points from 56.4% to 50.8%. As a result, the first-half's operating margin rose by 0.4 percentage points from 11.2% to 11.6%.

【Figure 25】Transition in SG&A Expenses Ratio and Profit Margins (Unit: %)



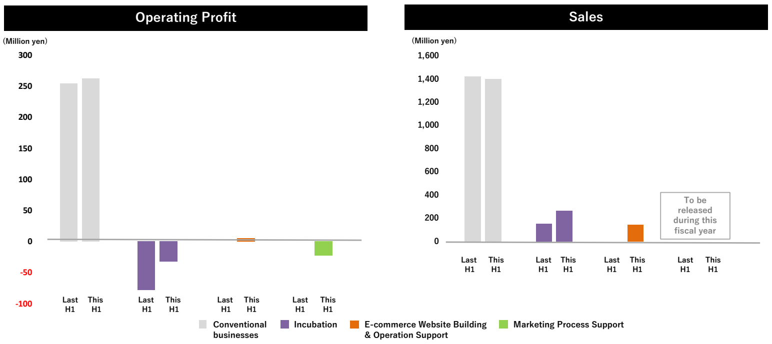
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. H1 = first half. H2 = second half.

Analysis of Factors that Increased/Decreased Profit in the First Half

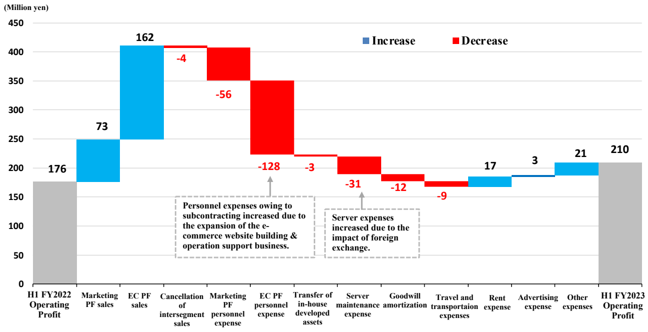
- **Costs increased, especially the personnel expenses. This was offset by the sales growth, resulting in increased profit.**

Figure 27 shows an analysis of the factors that caused profit to increase or decrease in the first half. As mentioned earlier, the sales growth of the Marketing PF (+Y73 million YoY) and the EC PF (+Y162 million YoY) were the main factors causing profit growth, offsetting the increase in personnel expenses for both segments (total of +Y184 million YoY), higher server management expense due to the weaker yen (+Y31 million YoY), and increase in other costs such as those due to inflation.

【Figure 26】Breakdown of the Change in Sales and Operating of Each Segment in the First Half of FY2023



【Figure 27】Factors that Impacted Operating Profit in the First Half of FY2023 (YoY comparison)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. H1 = first half.

- **Sales and profit grew at double-digit rates in both Q1 and Q2. Profits were also at high levels.**

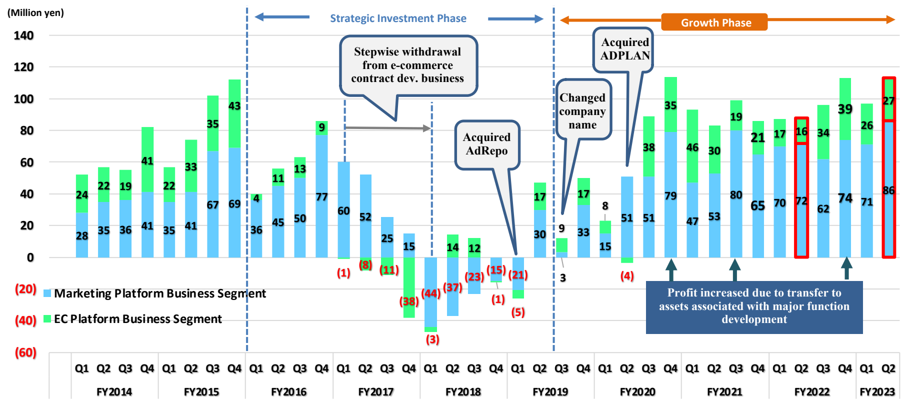
- **The past three years' quarterly operating margin has been above 11%, but the amount of operating profit has stayed within a boxed range.**

Quarterly Change in Results

Both in the first quarter (Q1) and the second quarter (Q2) of this fiscal year, sales and profit grew YoY at double-digit rates (Figure 20 on page 17). Profits were at high levels and sales reached record highs for each quarter.

Regarding the quarterly trends in operating profit (Figure 28), in Q2 FY2019 (January to March 2020) the Company became profitable for the first time in seven quarters. Since then, it has maintained an operating profit for 17 consecutive quarters in a row through Q2 FY2023 (January to March 2023). The operating margin has also remained stably above 11% for 12 consecutive quarters. However, although sales have continued to increase, the amount of operating profit for the last 12 quarters has remained within a boxed range of 83 million to 115 million yen.

【Figure 28】Quarterly Transition in Operating Profit



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

- **Thanks to the business transformation, it has been steadily posting a profit and its profit margins have been stable.**

A steady posting of profit and stable profit margins have been achieved thanks to the sales growth, as well as the firm support from AD EBiS's profit, withdrawal from the unprofitable businesses, improved profit of EC-CUBE, acquisition of promising businesses, development of new businesses, transition from a pay-as-you-go system to a subscription-based business model, and the improvement of the gross margin and SG&A expenses ratio through cost control.

◆ The Company's Financial Forecast for FY2023 (full year / second half)

- **At the beginning of the fiscal year, the Company had planned to increase sales and profits and achieve record highs for sales and net profit.**

- **The Company revised its financial forecast downward. Now expecting a large decrease in profit despite a sales growth. The amount of increase in dividend was also reduced. Forecasts have been disclosed as ranges.**

Full-Year Forecast

At the beginning of the fiscal year, the Company had planned for the following full-year results: sales of Y3,900 million (+17.0% YoY), operating profit of Y400 million (+1.9% YoY), recurring profit of Y390 million (-2.5% YoY), and net profit of Y240 million (+1.7% YoY). It had planned for a double-digit sales growth and a slight increase in net profit. Sales were expected to increase for the 13th consecutive year and net profit as well as sales was expected to hit record highs in a row.

However, when the results for the first half were announced (on May 8, 2023), the annual sales for this fiscal year were revised downward by 200-300 million yen to Y3,600-3,700 million (+8.0% to +11.0% YoY; a record high is still expected). In addition, operating profit was revised downward by 70-

120 million yen to Y280-330 million (-16.0% to -28.7% YoY), recurring profit was revised downward by 60-110 million yen to Y280-330 million (-17.5% to -30.0% YoY), and net profit was revised downward by 40-70 million yen to Y170-200 million (-15.3% to -28.0% YoY). Along with these changes, the forecast for dividend per share was also revised down from 7.8 yen to 7.4 yen (however, this dividend is still 0.4 yen greater than the previous fiscal year).

- **The main reason for the downward revision is that the acquisition of new customers for AD EBiS fell short of the plan.**

The main reason for these downward revisions is that, as mentioned earlier (on page 18), the number of accounts of AD EBiS fell far below expectations due to difficulties in acquiring new customers as the media environment changed, including the increasing market domination by the major media. The average unit price appears to have been largely in line with the plan, but the churn rate remained flat and did not improve, which was presumably another negative factor.

BOKUBLOCK's results are expected to exceed the initial forecast, and the businesses other than AD EBiS are expected to mainly offset each other.

Strategy for This Second Half

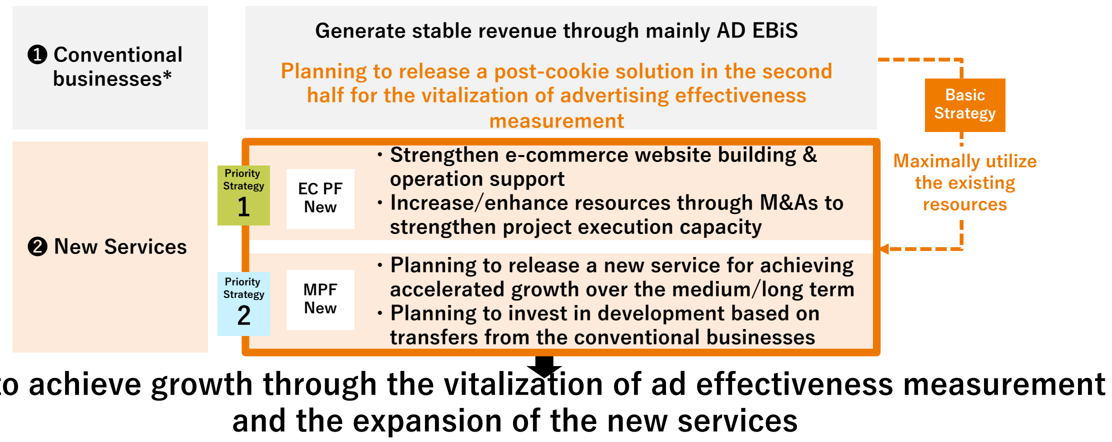
- **The strategy for the second half is to strengthen the conventional businesses as its revenue base and to begin providing the new services.**

The Company's strategy for the second half is to 1) continue to revitalize the conventional businesses in the area of advertising effectiveness measurement to further strengthen them as its revenue base and 2) utilize the existing resources to develop and launch new services in each segment (priority strategies 1 & 2 in Figure 29), thereby achieving growth.

- **The sales proportion of the new services rose to 23%, achieving the initial goal. High growth has been maintained.**

The Company had planned to increase the sales proportion of the new services from 14% in the previous fiscal year (sales: approx. Y467 million) to 23% in the current full fiscal year (initial forecast for sales: approx. Y897 million). However, 23% was already achieved in the first half (estimated sales of Y417 million) ahead of schedule, so it is now targeting greater than 23% for the full fiscal year.

【Figure 29】Strategy for This Fiscal Year's Second Half



(Ref) Financial results briefing materials.
(Note) *The conventional businesses include MPF's advertising effectiveness measurement and advertising agency DX and EC PF's EC-CUBE.

Plan for the Financial Performance in the Second Half

◆ A slight increase in sales and a large decrease in profit are planned for the second half.

The Company's second-half plan (calculated from the average values of the full-year forecast) is as follows: sales of Y1,838 million (+Y85 million or +4.8% compared to the second half of the previous fiscal year), operating profit of Y95 million (similarly, -Y121 million or -56.2%), and net profit of Y54 million (similarly, -Y78 million or -59.1%). It is expecting a slight increase in sales and a large decrease in profit.

Compared to the first half of the current fiscal year, too, the second half of the current fiscal year is expected to similarly experience a slight increase in sales (+Y26 million or +1.4%) but a large decrease in profit (operating profit: -Y115 million or -54.8%).

◆ The operating margin is expected to drop sharply in the second half. The Company's forecast seems somewhat conservative.

Regarding the operating margin, the Company is expecting it to worsen from 11.1% in the first half of FY2022, 12.3% in the second half of FY2022, and 11.6% in the first half of FY2023 to 5.2% in the second half of FY2023. Because AD EBiS, its revenue source, has a high marginal profit ratio, it seems to be expecting the downward revision of AD EBiS's sales to cause the overall profit margin to worsen. In addition, the Company seems to be expecting the profit margin to worsen due to upfront investments such as those for development and increasing employees and due to the increase in costs caused by inflation. However, these expectations seem somewhat conservative.

◆ The full-year forecast has been announced as ranges based on the two underlying factors: new customer acquisition for AD EBiS and sales of e-commerce website building & operation support.

The full-year (revised) forecast has been disclosed as ranges, depending on the underlying conditions of the second-half forecasts.

・Upper limit: If new customers are gained for AD EBiS as initially planned & the sales of e-commerce website building & operation support exceed the initial plan

・Lower limit: If the new customer acquisition for AD EBiS is only about the same as the first half & the sales of e-commerce website building & operation support are in line with the initial plan

Note that specific numbers have not been disclosed for the underlined parts.

◆ Plans to start providing two services in Q4 in the Marketing PF, but they are not included in the sales forecast for this fiscal year.

In the Marketing PF, the Company plans to release a **post-cookie solution** and launch **a new service for marketing process support** in Q4. However, neither of these services are included in the sales forecast for the second half of this fiscal year. The details of both services have not been announced yet, but both are expected to be subscription-based businesses.

The **post-cookie solution** will provide a service in the low price range that leverages the existing technologies. Complementing AD EBiS, which has a relatively high unit price and multiple functions, it is aimed at expanding the product lineup and creating synergies in the area of advertising effectiveness measurement. The Company hopes this to become a gateway product for promoting cross-selling and acquiring new customers for AD EBiS (note that this product/service is not simply a cheaper version of AD EBiS, equipped with a part of its functions, that may lead to cannibalization).

Marketing process support is a promising service that the Company aims to develop as its new source of revenue. Significant growth is expected for this service as part of its medium- to long-term management plan as well.

- **The monthly sales momentum (YoY) is declining.**

Current Situation (monthly sales)

Figure 30 shows the monthly sales trend for the current fiscal year as announced by the Company.

- **Sales in April, the first month of the second half, showed an increase of 4.6% YoY. The Company expects a sales growth of 2.0% to 7.7% (average: +4.8%) in the second half, so this is in line with its expectations.**

From the beginning of this fiscal year through March, it had maintained a double-digit sales growth (YoY), but the sales growth momentum has been somewhat dwindling compared to the past several years' track record.

In April, the first month of the second half, company-wide sales were Y306 million, having grown by 4.6% YoY at a single-digit growth rate. However, on a company-wide basis, this increase in sales is within the expected range for the second half (YoY: +2.0% to +7.7% at an average of +4.8%).

【Figure 30】Recent Monthly Change in Sales (flash report)

(Upper row is sales; unit = thousand yen)
(Lower row is YoY change; unit = %)

Calendar Year	2022			2023				This Fiscal Year YTD (Oct 2022 - Apr 2023)
Fiscal Year	FY2023							
Monthly Sales (thousand yen)	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Marketing Platform	248,293	248,744	244,462	242,066	250,282	258,554	244,070	1,736,471
	106.5	107.6	105.1	104.6	102.2	104.8	93.9	103.4
EC Platform	49,525	42,736	45,528	61,129	63,030	57,750	61,480	381,178
	157.4	180.0	185.3	176.2	260.2	256.7	191.1	197.1
Entire Company	297,819	291,480	289,999	303,196	313,313	316,335	305,550	2,117,692
	112.6	114.3	112.7	114.00	116.4	117.5	104.6	693.1

(Ref) Prepared by Alpha-Win Research Dept. based on the monthly announcements posted on the Company's website.
(Note) The values shown for April are preliminary data before an audit by an auditor and may become revised in the future.

- **Marketing PF's sales in April decreased YoY.**

By business segment, in April, the monthly sales of the main Marketing PF segment decreased by -6.1% YoY, turning to a negative trend from the approx. +2% to +8% sales growth rate maintained from October 2022 to March 2023 of this fiscal year.

Since the sales of the incubation and advertising agency DX businesses of this PF appear to be solidly growing, the sales decline is presumably due to decreased sales of the advertising effectiveness measurement business. The downward trend in the number of AD EBiS's accounts may still be continuing in the second half.

- **A high growth has been maintained for the sales of the EC PF.**

In the EC PF, sales have been strong with a steadily high growth rate in April, thanks to BOKUBLOCK, the company that became a consolidated subsidiary in June 2022 (e-commerce website building & operation support).

◆ Alpha-Win Research Dept.'s Financial Forecast for FY2023 (full year)

Revisions to This Fiscal Year's Forecast

- **Considering the results of the first half and the current situation, we have revised our financial forecasts downward.**
- **Our new forecasts are within the range of the Company's new forecasts.**

Based on the results of the first half, the current situation, and interviews with the Company, we revised down our sales and profit forecasts for the full fiscal year (Figure 31 on page 26).

In the order of our previous forecast ⇒ our current forecast, we revised this fiscal year's sales from Y3,800 million ⇒ Y3,650 million, operating profit from Y400 million ⇒ Y310 million, and net profit from Y240 million ⇒ Y190 million. As a result, our new forecasts are now within the ranges of the Company's revised forecasts. Compared to the average values of the ranges, sales are the same but operating profit is slightly higher (by +Y5 million).

The uncertainties include the sales and costs associated with acquisitions of companies and businesses and the rise in various costs due to inflation. However, we have assumed that there will be no new M&A in this second half.

- **The Company's forecasts for the second half seem somewhat conservative.**

We made our forecast for the current fiscal year based on the following estimates and predictions.

1. Based on the sales growth rate in April and the current situation, we predict that the sales in the second half will generally be in line with expectations. In addition, the Company's forecast seems somewhat conservative in that it expects the operating margin in the second half to drop sharply from 12.3% ⇒ 5.2% (based on average values) and the operating profit to decrease by 56.0% (similarly, based on the average) compared to the second half of the previous fiscal year. There also seems to be room for cost control, so we believe that the risk of falling below the lower end of the range is small.

- **Details of the post-cookie solution and the marketing process support service that will be newly launched are unknown. Their impact on the business results of the current fiscal year is expected to be limited.**

2. As mentioned earlier, in the Marketing PF segment, the Company plans to introduce a post-cookie solution and launch a marketing process support service in Q4. However, like the company forecast, we have not factored their sales into our forecasts. This is because information on their pricing system and service content has not been disclosed yet, making forecasting of their sales difficult. Also, their impact on the current fiscal year's results is likely to be limited in terms of the length of period (contributing to the results for a maximum of three months). Since they will be subscription-based businesses, we believe that there will a time lag in terms of their reflection in the results, which will most likely begin starting in the next fiscal year at the soonest.

- **While we raised the full-year forecast for the average unit price of AD EBiS, we lowered our prediction of its number of accounts.**

3. Regarding the annual average unit price of AD EBiS (average value at the end of each quarter), we have estimated them based on the results of the first half (167,976 yen as of the end of Q2). We have raised our forecast from 165,000 yen in our previous forecast ⇒ 168,000 yen in our current forecast (compared to the previous fiscal year's average unit price: +9,473 yen or +6.0%). The Company has kept the price of AD EBiS Sync unchanged, but due to upselling and changes in the customer mix, its average unit price has risen more than we had expected.

   On the other hand, the number of accounts has continued to decline, falling short of what we had expected.

As with the average unit price, based on the results of the first half (1,121 accounts as of the end of Q2), we have revised down the predicted number of accounts for the year from 1,160 accounts in our previous forecast ⇒ 1,090 accounts in our current forecast (compared to the average number of accounts in the previous fiscal year: -141 accounts or -11.5%).

Consequently, we revised down AD EBiS's full-year sales forecast from Y2,297 million ⇒ Y2,200 million by about Y100 million. Since AD EBiS has a high marginal profit ratio, the corresponding profit has also been reduced by about Y70 million.

- **The main reason for our downward revision is the reassessment of the estimates for AD EBiS.**

Our downward revision of sales and profits for this fiscal year from our previous forecast is mainly due to the reassessment of the estimates for AD EBiS.

【Figure 31】Alpha-Win Research Dept.'s Revised Forecast for This Fiscal Year and Medium-Term Forecast

(Million yen)	FY2022 A	FY2023 New CE	FY2023 New CE	FY2023 New E	FY2024 New E	FY2025 New E	FY2023 Old E	FY2024 Old E	FY2025 Old E
Sales	3,334	3,900	3,650	3,650	4,000	4,350	3,800	4,320	5,000
I. Marketing PF	2,925	3,260		2,970	3,235	3,530	3,137	3,507	4,036
II. EC PF	414	640		680	765	820	670	810	965
Gross Profit	2,260	*2,410*		2,310	2,455	2,660	2,320	2,610	2,880
Gross Margin	67.8%	61.8%		63.3%	61.4%	61.1%	61.1%	60.4%	57.6%
SG&A Expenses	1,867	*2,010*		2,000	2,125	2,300	1,920	2,150	2,350
Ratio to sales	56.0%	51.5%		54.8%	53.1%	52.9%	50.5%	49.8%	47.0%
Operating Profit	392	400	305	310	330	365	400	460	530
Ratio to sales	11.8%	10.3%	8.4%	8.5%	8.3%	8.4%	10.5%	10.6%	10.6%
Recurring Profit	399	390	305	310	330	365	390	450	520
Ratio to sales	12.0%	10.0%	8.4%	8.5%	8.3%	8.4%	10.3%	10.4%	10.4%
Net Profit	236	240	185	190	200	220	240	300	340
Ratio to sales	7.1%	6.2%	5.1%	5.2%	5.0%	5.1%	6.3%	6.9%	6.8%
Sales (YoY growth rate)	12.7%	17.0%	9.5%	9.5%	9.6%	8.7%	14.0%	13.7%	15.7%
I. Marketing PF	12.5%	11.5%		1.5%	8.9%	9.1%	7.2%	11.8%	15.1%
II. EC PF	15.6%	54.5%		64.2%	12.5%	7.2%	61.8%	20.9%	19.1%
Gross Margin (diff. from last FY)	-1.2%	-6.0%		-4.5%	-1.9%	-0.2%	-6.7%	-0.6%	-2.8%
SG&A Expenses (growth rate)	11.6%	7.7%		7.1%	6.3%	8.2%	2.8%	12.0%	9.3%
Operating Profit (growth rate)	7.4%	2.0%	-22.2%	-20.9%	6.5%	10.6%	2.0%	15.0%	15.2%
Recurring Profit (growth rate)	9.6%	-2.3%		-22.3%	6.5%	10.6%	-2.3%	15.4%	15.6%
Net Profit (growth rate)	-1.2%	1.7%	-21.6%	-19.5%	5.3%	10.0%	1.7%	25.0%	13.3%
EBITDA	677	680	618	625	645	675	680	760	850
KPI	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)
AD EBiS: # of active accounts	1,231	Slight decline		1,090	1,100	1,115	1,160	1,170	1,185
% change for the above	-8.4%			-11.5%	0.9%	1.4%	-5.8%	0.9%	
AD EBiS: average unit price (yen)	158,527	Slight increase		168,000	175,000	185,000	165,000	175,000	185,000
% change for the above	10.2%			6.0%	4.2%	5.7%	4.1%	6.1%	5.7%
I. (1) Ad Measurement (AD EBiS): Actual/Forecasted Sales	2,369	2,460		2,200	2,310	2,475	2,297	2,457	2,631
I. (4) Post-Cookie: Sales				0	25	50			
I. (2) Advertising Agency DX: Sales	175	*180*		190	200	205	190	200	205
I. (3) Incubation: Sales	380	*620*		580	650	700	650	850	1,200
I. (5) Marketing Process: Forecasted Sales				0	50	100			
I. Marketing PF (1)+(2)+(3)+(4)+(5)	2,925	3,260		2,970	3,235	3,530	3,137	3,507	4,036
II. EC PF (1)+(2)	414	640		680	765	820	670	810	965
(1) EC-CUBE	330	*350*		345	365	370	350	360	370
(2) E-commerce website building & operation support; BOKUBLOCK	84	*290*		335	400	450	320	450	595

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary and briefing materials.
(Note) CE: the Company's forecast/estimate. E: Alpha-Win's forecast/estimate. Alpha-Win's estimates for AD EBiS's average unit price and number of active accounts are annual averages and therefore they differ from the Company's announced estimates (which are averages of the end of the last month of each quarter). Actual results (A) are simple averages of end-of-the-quarter figures.

7. Growth Strategy

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

Medium-Term Business Plan (VISION 2023): Strategy

- **Aiming for a comprehensive marketing DX support business**

The Company has set out a plan called the MXP (Marketing Transformation Platform) strategy. In this strategy, the Company plans to evolve its business to not only provide specific services to its client companies but also provide the optimal service as a comprehensive marketing DX support business.

- **Planning to develop multiple new services, in addition to accelerating the development of its conventional businesses, through in-house development and M&As**

By leveraging the strengths that it has built, as well as through in-house development and M&As, the Company plans to accelerate the growth of its conventional services and develop multiple new services in the Marketing PF and EC PF segments. It will thus aim to maximize its group's assets and synergies, thereby accelerating its growth.

Medium-Term Business Plan (VISION 2023): Numerical Targets

- **The numerical targets for the final year of the medium-term plan (FY2023: this fiscal year) have been lowered in steps.**

For the final year of its medium-term business plan (VISION 2023), or FY2023 (this fiscal year), the Company had planned to achieve the following goals: sales of Y5 billion, operating margin of 15%, operating profit of greater than Y750 million, and DOE of 3% or greater (Figure 32). These were revised at the beginning of this fiscal year and at the time of the announcement of the first-half results in February of this year, resulting in the current forecast.

【Figure 32】Numerical Targets of the Long-Term Business Plan
(as of the date of their announcement)

	Consolidated Sales	Consolidated Operating Margin	Dividend on Equity
FY2020 Results	Y2.61 billion	10.6%	2.0%
FY2021 Results	Y2.95 billion	12.4%	2.3%
FY2022 Results	Y3.33 billion	11.8%	2.6%
FY2023 Old Medium-Term Financial Targets	Y5.0 billion	15%	3% or more
FY2023 Revised Financial Targets	Y3.9 billion	10%	2.5% or more
FY2023 Re-revised Financial Targets	Y3.6-3.7 billion	7.8-8.9%	2.5%

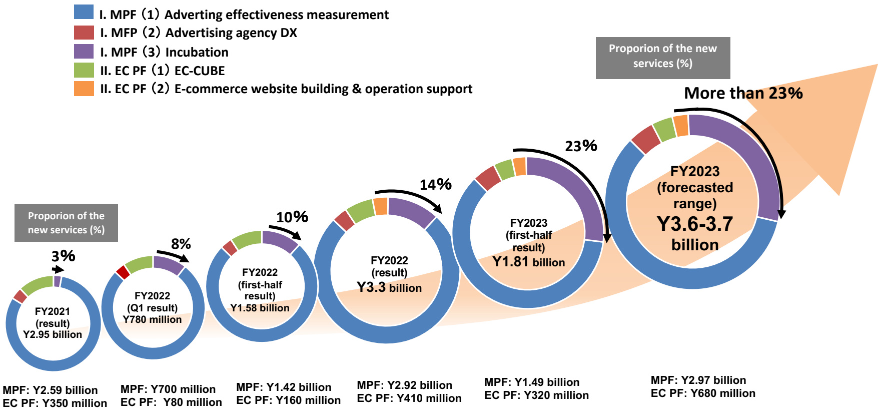
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials with partial additions/edits.
(Note) The "revised" forecast is the forecast made at the beginning of this fiscal year and the "re-revised" forecast is the forecast after the first half of this fiscal year.

- **Added the sales proportion of the new services as a KPI.**

Regarding the KPIs, the proportion of the new services (Marketing PF's incubation + EC PF's e-commerce website building & operation) in the consolidated sales has been added as a KPI. It plans to raise this proportion from 3% in FY2021, 14% in FY2022, and 23% in the first half of FY2023 to over 23% for this full fiscal year (previous goal was 30%) (Figure 33 on page 28).

The new medium-term management plan for the next fiscal year onwards will mostly likely be announced at the same time as the announcement of the financial results for the current full fiscal year.

【Figure 33】Change in the Proportion of the New Services



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. This fiscal year's forecasts are from the Company's plan. This fiscal year's sales forecasts for each segment are values estimated by Alpha-Win.
(Note) The proportion of the new services is the proportion of the sum of the sales of incubation and e-commerce website building & operation to the overall consolidated sales. "MPF" stands for the Marketing PF.

Early Achievement of Y10 Billion in Sales

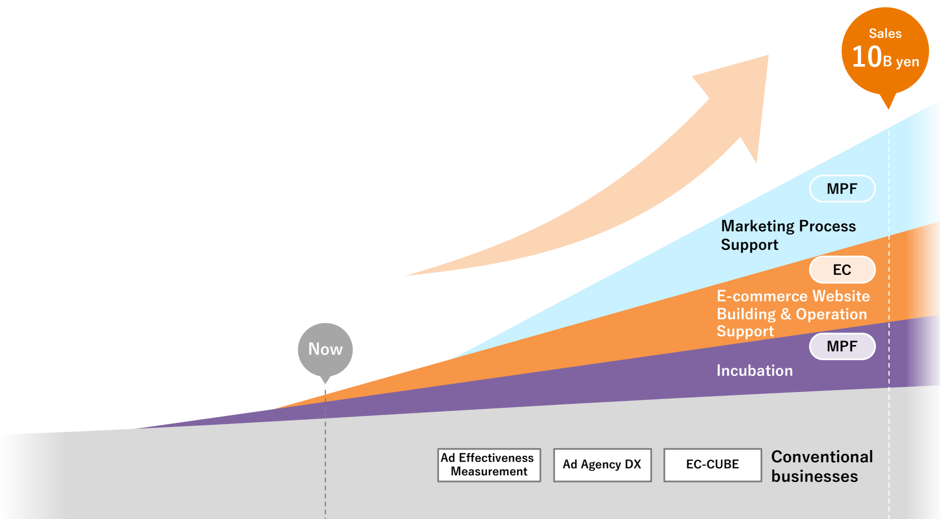
- **The Company aims to achieve sales of Y10 billion at an early stage through stable growth of its conventional businesses and expansion of the new services.**

Under it medium- to long-term theme of "achieving the goal of Y10 billion in sales as a corporate group of comprehensive marketing DX support," the Company envisions the stable growth of its conventional businesses (advertising effectiveness measurement, advertising agency DX, and EC-CUBE) and the expansion of new services in three areas (incubation, e-commerce website building & operation support, and marketing process support) (Figure 34).

- **The marketing process support business, which is expected to become the future growth driver, is planned for release during this fiscal year's Q4.**

Regarding the marketing process support service, which is expected to grow significantly and become a significant portion of the Company's entire business in the future, it is currently under development for its release in Q4. The details of its service content and pricing system, as well as its business model, have not been disclosed yet, but its concept is to "provide a cloud service that helps facilitate the entire marketing process."

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



(Ref) From the financial results briefing materials, with partial edits.

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

Medium-Term Forecast

- **We have reviewed our forecasts for the three fiscal years starting this fiscal year and have revised them downward.**

In addition to this fiscal year's forecasts, we have reviewed our previous forecasts for the next fiscal year and the fiscal year after the next. We especially reassessed our estimates for the Marketing PF, including AD EBiS (its number of accounts), and also reviewed our estimates for the EC PF. As a result, we made an overall downward revision to our forecasts (Figure 31 on page 26).

- **From the next fiscal year onwards, we expect sales, profits, and dividends to increase.**

However, in FY2024 and FY2025, we expect both sales and profits to increase, dividends to rise, and record-high sales to be reached consecutively. This is because the upfront investments will come to an end of a phase, the sales growth of the new services (especially incubation and e-commerce website building & operation support) is expected to lead to increased profits, AD EBiS's sales are expected to bottom out, the release of the post-cookie solution will help maintain the sales of the advertising effectiveness measurement business, and sales growth are expected from the marketing process support.

For the Marketing PF, the Company's main business, we have not changed our prediction of the annual average unit price of AD EBiS (excluding the post-cookie solution which will be in the low price range). Meanwhile, we changed our prediction of its number of accounts (annual average) from 1,170 ⇒ 1,100 for FY2024 and 1,185 ⇒ 1,115 for FY2025. In line with this, we also revised downward the sales forecast for AD EBiS for both fiscal years.

For FY2024 (the next fiscal year), we made downward revisions to our forecasts as follows: sales from Y4,320 million ⇒ Y4,000 million, operating profit from Y460 million ⇒ Y330 million (operating margin from 10.6% ⇒ 8.3%), and net profit from Y300 million ⇒ Y200 million (Figure 29 on page 26).

Similarly, our forecasts for FY2025 (the fiscal year after the next) were revised downward as follows: sales from Y5,000 million ⇒ Y4,350 million, operating profit from Y530 million ⇒ Y365 million, and net profit from Y340 million ⇒ Y220 million.

- **We expect the DOE to be 2.5% for the time being.**

Regarding dividends, we assumed that the DOE will be 2.5% for both fiscal years as with our previous forecast. In line with the change in our profit forecast, we revised the expected dividend downward, but we have not changed our forecast that dividend will continue to be increased along with the growth of profit.

Note that once the upfront investments settle down, the Company may raise its dividend goal back again to the previous DOE target of 3.0%.

Currently, the Company is in the stage of shifting resources to new or related areas of business by using the cash flow from its conventional businesses.

- **Over the medium term, we predict an annual profit growth rate of about 10%.**

Going forward, in addition to the organic growth of its conventional businesses, accelerated growth is expected through the development of the new businesses, active engagement in M&As, and synergies created from them. Over the medium term, we believe that the Company may be able to maintain an annual profit growth rate of about 10% (previously, we had predicted 15-20%).

Whether there will be M&As and whether those M&As will be successful (PMI) are the factors that may cause changes in financial performance in the future.

- **At present, it is difficult to forecast the sales of the post-cookie solution and the marketing process support, for which details have not been disclosed yet, but a certain amount has been reflected in our forecast.**

As mentioned earlier, in Q4 of this fiscal year, the Company plans to release a post-cookie solution, as well as a marketing process support service for the creation of a new source of revenue, in the Marketing PF. However, their impact on business performance in the next fiscal year onwards is difficult to evaluate at this moment because information such as the service content, customer reactions, and pricing has not been disclosed yet.

Since the post-cookie solution and marketing process support are new services, though, in addition to being based on cloud-based subscription models, we do not expect their impact on sales and profits to be large in the next fiscal year or the year after that.

- **We plan to update our medium-term forecast again in the next fiscal year or later, when the details and trends of the newly launched services are expected to become revealed.**

We hope to update our medium-term financial forecast as appropriate when the details, price range, and business performance become more revealed starting in the next fiscal year.

8. Analyst's View

◆ Shareholder Return

- **For this fiscal year, the dividend amount has been revised downward due to the downward revision of profit. However, the Company still plans to increase dividend compared to the previous fiscal year. The DOE is maintained at 2.5%.**

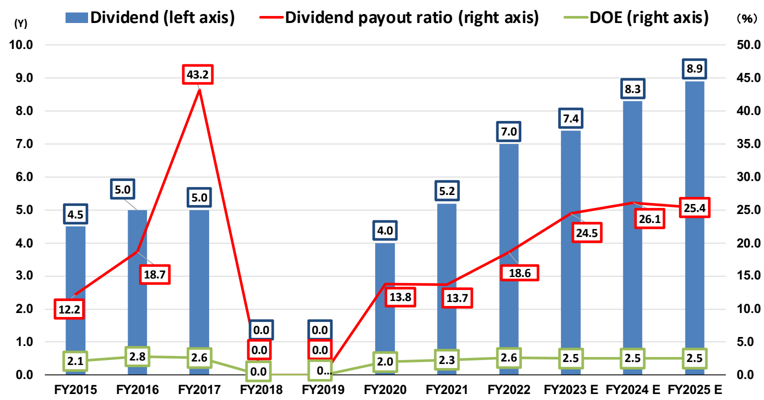
At the beginning of the fiscal year, the Company had planned to increase dividend from 7.0 yen/share in the previous fiscal year to 7.8 yen/share in the current fiscal year (+0.8 yen/share). However, due to the downward revision of the financial performance, dividend was lowered to 7.4 yen/share (+0.4 yen/share compared to the previous fiscal year), since a consolidated dividend on equity ratio (DOE) of 2.5% is set as the guideline for deciding the amount of dividend.

We, too, reviewed our financial forecast for this fiscal year and lowered our dividend forecast to 7.0 yen/share, which is the same as the Company. We also revised our financial forecast for FY2024 and FY2025 and revised their expected dividend based on a DOE of 2.5%.

- **Dividend is expected to increase in the next fiscal year onwards too.**

However, since the YRGLM Group is still in its growth stage, we predict that it will return to a profit growth trend starting in the next fiscal when it will start to see the effects of its investment, which will likely lead to dividend hikes (Figure 32).

【Figure 35】Change in Dividend and Dividend Payout Ratio



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

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

Stock Price and Trends

The Company's stock is a small-cap, ad-technology[11]-related stock listed on the TSE Growth Market. Since becoming listed, the volatility of its stock price has been high (intraday stock price was at a max of 5,770 yen in November 2014 and a min of 581 yen in May 2023).

(11) Ad-technology: A general term for information technology used in the advertising business, referring to the digital technologies used in Internet ads, etc.

- **Volatility of stock price has been high.**

- **Stock price weakened following the announcement of the downward revision to financial results.**

Upon announcing the financial results for the first half of the fiscal year, the Company revised down its financial forecast for the full fiscal year. In response to this, the stock price decreased and hit the lowest price since becoming listed on the market. The stock price is currently being adjusted in the low price range.

Since the beginning of the year, the stock price has been underperforming the major indexes such as the TSE Growth, Mothers, and TOPIX (Figure 34 on page 32).

【Figure 36】Comparison of Valuation and Performance

Closing price on May 31, 2023	Stock price or index	This fiscal year's forecasted P/E	Actual P/B	Simple average of dividend yield	Return since the beginning of the year	Return since the end of April 2023	Return since May 8, 2023
YRGLM (G 3690)	585	19.37	1.97	1.26	-9.58	-7.6	-17.4
TSE Prime Stock Average: P	1,096.42	14.53	1.24	2.36	12.65	3.6	2.9
TSE Standard Stock Average: S	1,064.93	14.59	0.94	2.28	6.99	0.2	-1.2
TSE Growth Stock Average: G	951.61	63.32	4.23	0.40	2.56	0.4	-0.9
TOPIX	2,130.63				12.63	3.6	2.9
TSE Mothers	748.06				2.42	0.4	-0.9
Nikkei Stock Average	30,887.88	14.09	1.27	2.07	18.4	7.0	6.7

(Ref) Prepared by Alpha-Win Research Dept. Actual P/B: as of the end of the first half of the fiscal year ending September 30, 2023, for the Company and as of May 31, 2023, for others. The Company's P/E is based on Alpha-Win's EPS forecast. Note that May 8, 2023, was the date on which the financial results for the first half were announced.

Valuation

Based on this fiscal year's financial forecast, the Company's valuation is as follows: forecasted P/E of 18.36 to 21.59, actual P/B of 1.97, forecasted P/S[12] of 1.01 to 1.04, and a forecasted dividend yield of 1.26% (forecasts are based on the forecasted ranges of the Company's plan)

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

- **Valuation is higher than the TSE Prime's average and lower than the TSE Growth's average.**

The valuation of the Company's stock is slightly high compared to the average of all stocks on the TSE Prime Market (P/E of 14.53, P/B of 1.24, and simple dividend yield of 2.36%). On the other hand, it is undervalued compared to the average of all stocks on the TSE Growth on which it is listed (P/E of 63.32, P/B of 4.23, and simple dividend yield of 0.40%).

Its EV/EBITDA is estimated to be 4.5 for the current fiscal year, 4.4 for FY2024, and 4.2 for FY2025 (Alpha-Win's forecasts), which seem to be within the common range (about 2 to 8). Also, if the medium-term profit growth rate is 10%, the PEG[13] would be around 1.8 to 2.2, so the stock does not seem overvalued.

(13) PEG: P/E ÷ Expected medium-term profit (EPS) growth rate (per year)

- **Valuation is slightly high in terms of the major indicators, but within a reasonable range. The future stock price is expected to have the potential to rise over the medium to long term, depending on the level of profits and dividends.**

The evaluation of the Company as a domestic-demand-oriented growth stock related to ad-tech/subscription businesses seems to be already reflected in the stock price to a certain extent. Based on the new forecast for this fiscal year, its valuation appears be within a reasonable range in terms of the major indicators. Consequently, the stock price is expected to change in the future depending on the level of profit and dividend in the next fiscal year onwards.

Whether the new services, which are expected to become the growth drivers, will succeed is the key factor that may impact financial performance. However, considering the medium-term profit growth potential of the conventional businesses and the potential for future dividend hikes, we believe that the stock price has the potential to rise over the medium- to long-term.

- **For the stock price to rise, the Company will need to achieve the forecasted financial results for this fiscal year and return to a profit growth trend from the next fiscal year onwards.**

The stock price may rebound if investors once again begin to have high expectations of this fiscal year's financial forecasts being achieved and of the future profit growth potential (based on our revised financial forecast, the forecasted P/E is 19.3 for this fiscal year, 18.4 for FY2024, and 16.7 for FY2025).

Key Points Going Forward

- **Key factors impacting the stock price are AD EBiS's number of accounts, unit price, and churn rate; the contribution of the new services to the financial performance; M&As; and dividend.**

・The following are the factors that may impact the stock price and are considered to be the key points to watch.

1. AD EBiS's number of active accounts (when it will turn from a net decline to a net growth), unit price (amount and rate of growth), and churn rate (KPI)
2. The proportion of the new services' sales to the consolidated sales (KPI), as well as the content of new services that are planned to be launched and their contribution to the Company's financial performance
3. Trends in monthly sales (YoY comparison for both PFs)
4. Quarterly trends in profit/loss (profit growth rate, profit margins, EBITDA, and changes in sales and profit per segment)
5. The financial results for this full fiscal year and the profit forecast for the next fiscal year onwards (the timing when it will begin increasing profit again)
6. Measures to return profit to shareholders
7. Announcements of M&As or alliances
8. Strengthened regulations such as those for the protection of personal information

- **We will continue to follow the Company as a domestic-demand-oriented growth stock in the marketing DX support business.**

Since it is a small-cap growth stock, the volatility of financial performance and stock price is likely to remain high. However, over the medium to long term, the Company's business has a large growth potential since the Internet advertising market and the e-commerce market are expected to continue to expand. We hope to follow the Company's development, as well as its change in sales and profit growth rates, as a domestic-demand-oriented growth stock in the business of marketing DX support that is not directly largely impacted by COVID-19, overseas situations, inflation, and exchange rates.