

# Alpha-Win Company Research Report

## YRGLM Inc. (3690 TSE Growth)

Issued: 12/8/2023

### ● Summary

Alpha-Win Capital Inc. Research Dept.

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

#### Business Description

- YRGLM Inc. (hereinafter, the “Company”) plans, develops, and sells software related to Internet marketing. It is listed on the Growth Market of the Tokyo Stock Exchange. Its CEO, 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 continuously 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. The Company has developed business in two segments, the Marketing PF (platform) and the EC PF, and has been steadily laying the groundwork for growth through M&As in both business segments.
- From its founding to the previous fiscal year, the Company has been hitting record-high sales for 23 consecutive years (including the period during which results were non-consolidated). Since FY2020 (note that its fiscal year is September-ending; i.e., FY2020 ended in September 2020), it has continued to stably post a profit and has been increasing its dividend.

#### Last Fiscal Year’s Results and This Fiscal Year’s Financial Forecast

- Consolidated results for the previous fiscal year (FY2023: October 2022 to September 2023) were as follows: sales increased by 8.8% YoY to 3,626 million yen, operating profit declined by 18.8% to 318 million yen, and net profit also fell by 16.5% to 197 million yen. There were double-digit declines in profit despite an increase in sales. The Company had revised its full-year forecasts downward (announced as ranges) at the time of the announcement of the first-half results, compared to which sales and profits resulted within expectations, with sales almost at the lowest end of the range and profits at the upper end. Both were also mostly the same level as Alpha-Win Research Department’s forecasts.
- Sales of the Marketing PF segment were 2,933 million yen (+0.3% YoY) and its profit was 255 million yen (-8.5% YoY). Sales of the EC PF segment were 709 million yen (+71.2% YoY) and its profit was 66 million yen (-38.4% YoY). Sales grew and profit declined in both segments.
- In the Marketing PF segment, the unit price of its core service AD EBiS rose (YoY) for the 42nd consecutive quarter, but its number of accounts continued to decline as the Company struggled to acquire new clients. Since the sales of this highly profitable, ad effectiveness measurement business were lower than expected, profit resulted in a decline.
- On the other hand, in the EC PF segment, sales increased significantly due to the expansion of the E-Commerce Website Building & Operation Support business, especially for EC-CUBE Innovations (former BOKUBLOCK). However, profits declined due to increased hiring and personnel expenses to strengthen the organization.
- In terms of its financial position, the Company has continued to be essentially debt-free, having accumulated cash & deposits as well as capital (through its profits). The equity ratio and current ratio are at sufficient levels, and its financial standing is sound.
- The Company expects to post sales growth and profit decline again this fiscal year, with the achievement of record-high sales. It will proactively make the necessary investments under the theme of “refining the growth drivers and solidifying the foundation for accelerated sales growth in the next fiscal year and beyond.” Consequently, the Company expects to post a consecutive decline in profit despite an increase in sales. It forecasts sales of 4,100 million

yen (+13.1% YoY), operating profit of 240 million yen (-24.7% YoY), and net profit of 140 million yen (-28.9% YoY). The first-half forecast is not disclosed.

- Setting its targeted consolidated dividend on equity ratio (DOE) to 2.5% again this fiscal year, the Company plans to pay an annual dividend of 7.9 yen per share, which is 0.5 yen greater than 7.4 yen per share paid in the previous fiscal year. It also plans to resume the shareholder benefit program and buy back up to 100 million yen or 200,000 shares as treasury stock, clearly demonstrating its commitment to strengthening shareholder returns.
- We reviewed our forecasts for the current and the next fiscal years (sales are largely unchanged, while profit forecasts have been revised down), and have prepared a new forecast for the fiscal year after the next. We lowered our sales forecast for the current fiscal year to 4,000 million yen, which is 100 million yen below the Company's plan, and lowered each of our profit forecasts to the same amount as the Company's plan. Given that the current sales are below the Company's predicted annual sales growth rate and also the limited contribution of the new services in the current fiscal year, we believe that sales may fall short of the Company's forecast unless there is a new M&A during this fiscal year. On the other hand, we believe that its profit forecasts are achievable through cost control. For dividend, we expect 7.9 yen per share, which is the same as the Company's forecast.

### Business Strategy and Medium-Term Financial Forecast

- The new medium-term business plan, VISION 2027, aims to draw a clear path toward achieving sales of 10 billion yen through the two growth drivers of Marketing Process Support and E-Commerce Website Building & Operation Support.
- In the Marketing DX Support segment (former Marketing PF), the Company will provide a marketing process support service as SaaS, which is currently under development, to support the customers' needs for a continuous cycle of improving advertising effectiveness in their marketing initiatives, along with human resources support. The Company then plans to strengthen cross-selling in the Marketing Process business, but this would require increasing the number of employees as well as strengthening its customer base by gaining a greater number of accounts.
- In the E-Commerce Website Building & Operation business of the E-Commerce Support segment (former EC PF), the Company will aim to create a vertically integrated model in which one-stop services are provided for building and operating websites as well as for marketing activities. In addition, it intends to further expand sales and improve profitability by developing and providing the EC-CUBE Enterprise Version for large e-commerce websites. It plans to rapidly expand the E-Commerce Website Building & Operation business from 50% of the total sales of the E-Commerce Support segment in the previous fiscal year to over 80% in FY2027, the final year of the current medium-term plan.
- Businesses related to Internet marketing, on which the Company is concentrating its management resources, and e-commerce have a high market growth potential over the medium to long term. Furthermore, since the Company plans to actively pursue M&A as one of its growth strategies, it is expected to maintain a double-digit annual sales growth rate (on average).
- Profits will be impacted by the level of investment in development and increase in personnel, since the Company is in its growth phase. The balance between profits and investment costs will be the 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 the Company will return to an upward profit trend starting next fiscal year due to sales growth and profit margin improvement brought by the expansion of its conventional and new businesses in both business segments.

### Stock Price

- The stock price fell after the downward revisions of full-year financial forecasts at the time of the announcement of the first-half results for the previous fiscal year, and had been at the lowest price range since the Company's listing on the market. However, in the announcement of the full-year financial results for the previous fiscal year, the Company presented results that were within expectations and also announced that while it plans to have sales growth and profit decline again for the current fiscal year, it will execute the abovementioned three measures to strengthen shareholder returns (dividend increase, reintroduction of shareholder benefit program, and share buyback). In response to these, the share price sharply rose from below 500 yen to around 700 yen.
- The Company's stock is recognized as an AdTech/subscription-related growth stock oriented toward domestic demand, which seems to be already reflected in the stock price to a certain extent. Considering the current business

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situation, the stock price seems to be mostly within a reasonable range. In terms of the major valuation indicators, its valuation is low compared to all stocks listed on the TSE Growth and compared to similar companies but high compared to all TSE Prime stocks, based on the Company's financial forecast for the current fiscal year.

- The Company's stock price is expected to be influenced by the change in the number of accounts which is its new KPI, profit trends (when profit will begin increasing), monthly sales trends (level of YoY change), and the level of dividend.
- The launch of the new service of the Marketing Process business, which is expected to become a growth driver, and whether the Company will succeed in expanding the E-Commerce Website Building & Operation business will be the major factors that may impact medium-term business performance.
- If the Company returns to a continuous profit growth trend of over 10% and continues to increase dividend, its stock price may rise over the medium term.

(Note) In this Report, figures for the same item may differ from each other, or from the figures disclosed by the Company, or have a margin of error due to rounding, fractional processing in the calculation process, or presentation methods in the text, figures, etc.

【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% before ⇒ 10% now			DOE = 3.0% before ⇒ 2.5% now			-
2023	Initial CE	3,900	17.0	400	1.9	390	-2.5	240	1.7	38.3	-	7.8
2023	CE: Average	3,650	9.5	305	-22.4	305	-23.8	185	-21.7	29.5	-	7.4
	CE: Lower End	3,600	8.0	280	-28.7	280	-30.0	170	-28.0	27.1	-	7.4
	CE: Upper End	3,700	11.0	330	-16.0	330	-17.5	200	-15.3	31.9	-	7.4
2023	A	3,626	8.8	318	-18.8	329	-17.6	197	-16.5	31.4	309.1	7.4
2023	E (previous)	3,650	9.5	310	-20.9	310	-22.3	190	-19.5	30.2	305.4	7.4
2024	CE	4,100	13.1	240	-24.7	230	-30.2	140	-28.9	22.8	-	7.9
2024	New E	4,000	10.3	240	-24.7	230	-30.2	140	-28.9	22.8	323.8	7.9
2025	New E	4,400	10.0	300	25.0	300	30.4	180	28.6	28.6	344.6	8.5
2026	New E	4,850	10.2	350	16.7	350	16.7	210	16.7	33.4	369.5	9.1
2024	Old (previous) E	4,000	9.6	330	6.5	330	6.5	200	5.3	31.8	329.9	8.3
2025	Old (previous) E	4,350	8.7	365	10.6	365	10.6	220	10.0	35.0	356.6	8.9

(Ref) Figures A through C were prepared by Alpha-Win Research Dept.

(Note) "Old (previous)": previous forecast. "New": current forecast.

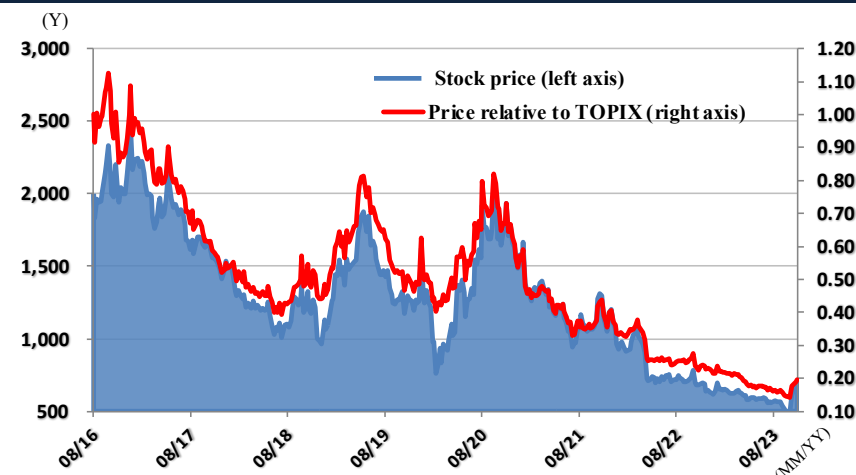
"A": actual results. "CE": the Company's estimate (forecast). "E": estimate (forecast) by Alpha-Win Research Dept.

"CE: Average" for FY2023: 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).

【Stock Price and Valuation Indicators: 3690 YRGLM Inc.】 Figure B						
Item	12/1/2023	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	697	Last FY (actual)	22.2	2.3	1.1%	23.6%
Shares Outstanding (thou.)	6,372	This FY (est.)	30.5	2.2	1.1%	34.6%
Market Capitalization (million Y)	4,442	Next FY (est.)	24.3	2.0	1.2%	29.7%
Dilutive Shares (thou.)	0.0	FY after the next (est.)	20.9	1.9	1.3%	27.2%
Equity Ratio at the End of Last FY	61.4%	Last FY's DOE	2.5%	Lasts FY's ROE		10.6%

(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 at end of the first week of Dec. 2023 (12/1)

【Performance】		
Period	Return	vs. TOPIX
1 month	43.7%	35.9%
3 months	21.6%	19.1%
6 months	19.1%	6.5%
12 months	1.2%	-15.7%

(Note) Prepared by Alpha-Win Research Dept. Reflects stock price and TOPIX values through the closing price on 12/1/2023 (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 October and on Dec. 1. Similar for the rest.

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(Note) \*PF stands for "platform."

- On January 1, 2024, EC-CUBE Co., Ltd. (subsidiary for the E-Commerce Website Building & Operation and the Platform businesses) will absorb the consolidated subsidiary EC-CUBE Innovations Inc. (former BOKUBLOCK INC.).
- 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. FY2024 ends in September 2024).



# 1. Company Overview

- ◆ A company that provides marketing DX support and e-commerce support services. 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 effectiveness 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&A and in-house development.

- ◆ Founded by its CEO Susumu Iwata. Currently listed on the TSE Growth Market.

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

## ◆ A Leading Company in a Niche Market

### Company Overview

YRGLM Inc. (hereinafter, the "Company") is a company in the business of providing marketing DX<sup>1</sup> support and e-commerce support services. 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<sup>2</sup>, and EC-CUBE, its open-source<sup>3</sup> 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 SaaS<sup>4</sup> (cloud service). However, it has been evolving into a corporate group of comprehensive marketing DX support through active pursuit of M&A in addition to in-house development.

### History

Susumu Iwata, the Company's CEO, 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.

### Consolidated Companies and Trends in Consolidated Results

The YRGLM Group consists of a total of eight companies: the Company, 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 EC-CUBE Innovations Inc. which was formerly BOKUBLOCK INC.), and one equity method affiliate (SAI Co., Ltd.) (as of the end of November 2023; Figure 1 on page 7).

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 2 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 significantly to sales growth in the Innovation and the E-Commerce Website Building & Operation Support businesses. Currently, each subsidiary seems to be posting a profit. Note that, like past years, the Company has not announced the forecast figures for its first-half consolidated results or non-consolidated results.

【Figure 1】 Summary of Consolidated Subsidiaries and Equity-Method Affiliate (Units: million yen or %)

Name of consolidated company	Business and Characteristics	Form	Date of Acquisition / Spin-off / Merger / Sale	Location	Stake	Capital	Founded Date	Fiscal Year	Sales	Operating Profit	Net Profit	Total Assets	Net Assets
Consolidated subsidiaries (6 companies ● 5 companies)		(Acquisition price estimated by Alpha-Win)				Million yen			Most recent disclosed data or results as of the time of acquisition				
TOPICA	Planning and production of video contents and SNS management service, provided in one stop	Company acquisition (220 million yen)	July 2021	Chiyoda-ku, Tokyo	Approx. 60%	37	June 2016	Ended Apr. 2023	230				
Spoo	Web media planning, editing, and production	Company acquisition (several dozen million yen)	December 2020	Chiyoda-ku, Tokyo	100%	10	March 2000	Ended Dec. 2023	78				
Far End Technologies	Internet services and information security support services	Company acquisition (130 million yen)	February 2022	Matsume-shi, Shimane	100%	8	September 2008	Ended May 2023	157				
EC-CUBE	Successed the EC-CUBE business from EC-PP. Capital and business alliance with Orix.	Spin-off and business transfer	January 2019	Kita-ku, Osaka City, Osaka	89.5%	30	October 2018	Ended Sep. 2021	358	119		249	
EC-CUBE Innovations (former BOKUBLOCK)	E-commerce website building and cloud-based e-commerce service	Company acquisition (150-200 million yen)	May 2022	Chiyoda-ku, Tokyo	89.5%	10	May 2007	Ended Sep. 2021	139	-7	0	171	63
	Acquired shares of EC-CUBE Innovations in Sep. 2022 (worth 100M yen) ● Merger planned	January 2024 planned											
	Transferred shares of EC-CUBE Innovations (100M yen) from YRGLM to EC-CUBE		September 2023										
YRGLM Vietnam Co., Ltd.	Offshore software development site	Founded		Ho Chi Minh City, Vietnam	100%	USD 0.2M	December 2013						
Equity method affiliate (1 company)													
SAI Co., Ltd.	Transferred the Company's previous e-commerce contract development business	Spin-off and business transfer	September 2015		20%	3	April 2004				13		

(Ref) Prepared by Alpha-Win Research Department based on the securities report. Net profit of SAI Co., Ltd. is an estimate calculated from the previous fiscal year's investment income under the equity method.

【Figure 2】 Comparison of Consolidated vs. Parent Company's Sales and Recurring Profit by Fiscal Year

(Units: million yen or %)

	Units: million yen or %	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
A	Consolidated sales	1,360	1,437	1,613	1,719	1,804	2,204	2,618	2,957	3,334	3,626
B	Parent company sales	1,360	1,437	1,613	1,719	1,804	2,010	2,317	2,532	2,583	2,476
A-B=C	Consolidated sales - parent company sales	0	0	0	0	0	194	301	425	751	1,150
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	1.46
A	Consolidated R.P.	233.6	352.0	250.3	106.3	-115	79	261	364	399	329
B	Parent company R.P.	245.2	359.0	252.1	106.8	-110	19	165	278	315	232
A-B=C	Consolidated R.P. - parent company R.P.	-12	-7	-2	-1	-5	60	96	86	84	97
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	1.42

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. (Note) Consolidated results starting in FY2014 (the same applies hereinafter).

### Financial Standing

- ◆ As of the end of September 2023, it was essentially debtless, with cash & deposits exceeding the 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 3). As of the end of September 2023, its debt totaled about 630 million yen, while its cash & deposits were about 1,450 million yen. Therefore, the Company is essentially debtless.

【Figure 3】 Semi-Annual Change in Cash Flow and Balance of Cash &amp; Deposits

Units: 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	H2
Operating CF ①	15	148	48	93	121	23	7	9	99	109	92	429	241	333	141	292	356	209
Investing CF ②	-5	-27	-80	-69	-88	-106	-94	-118	-368	-158	-409	-101	-35	-313	-183	-261	-100	-57
Financing CF	-3	0	-16	3	-31	-0	169	542	162	-262	391	-56	-1	-23	-195	-121	-178	-115
FCF (①-②)	9	121	-32	24	33	-83	-88	-110	-269	-50	-317	328	206	20	-42	32	256	152
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	1,452

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

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

Its total assets are about 3.2 billion yen and its market capitalization is about 3.6 billion yen (based on the closing price of 569 yen on September 29, 2023), both relatively small. However, its equity ratio is 61.4% and current ratio is greater than 200%, indicating financial soundness (both as of the end of September 2023).

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 September 2023 was 360 million yen, which was about 60% of the EBITDA for the full fiscal year, a lump-sum amortization of the goodwill is also possible (Figure 4 on page 8).

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

Intangible fixed assets, which is a sum of goodwill and 400 million yen in software and software in progress, total 780 million yen. Adding deferred tax assets of 60 million yen to this, the total comes out to be 840 million yen, which is smaller than the net assets of 1,990 million yen (42%) and therefore does not pose an issue.

【Figure 4】 Change in the Balance of Goodwill and Amount of Amortization

Yearly Goodwill	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Goodwill (balance on B/S: million yen) ①	0	0	0	0	0	109	316	450	484	362
Annual amortization of goodwill (on CF statement: million yen) ②	0	0	0	0	0	16	55	84	108	122
Average period of amortization (years) ③=①/②	0	0	0	0	0	7.0	5.8	5.4	4.5	3.0
EBITDA ④	274	373	286	175	6	247	513	638	677	628
EBITDA/goodwill ⑤=①/④	0	0	0	0	0	0.4	0.6	0.7	0.7	0.6

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

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

Also, the Company owns 89.5% 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 November 2020), the Company is estimated to own shares worth 1.4 billion yen in market value and an unrealized gain of 1.37 billion yen.

Also, a comparison of the closing price of TOPIX on the last day of November 2020, which was when the subsidiary's shares were sold, and the most recent closing price (closing price on the last day of November 2023) shows an increase of more than 20%, suggesting that the actual market value and unrealized gain most likely exceed the above amounts.

## ◆ Business Philosophy

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

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



- ◆ 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

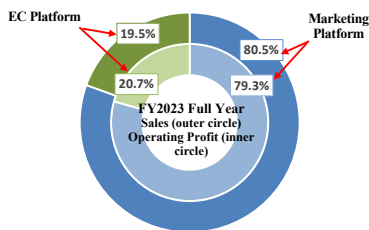
Since FY2016, the Company had been actively restructuring and strengthening its business portfolio. It had been increasing its focus on the core businesses (shifting to AD EBiS of the Marketing Platform segment), separating its non-core businesses (EC Platform segment), and conducting M&As (Figure 5). 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 5】 Business Restructuring and Segments (Businesses that it withdrew from are highlighted in gray)

Segment Name	Business Category	Main Service (or company name)	Changes	Note
I. Marketing Platform (→ New: Marketing DX Support)	(1) Advertising Effectiveness Measurement (→ New: Marketing Process)	① AD EBiS: advertising effectiveness measurement tool ② THREE: paid-listing ad management	ADPLAN business (acquired in Jan 2020; merged): ended in March 2021 Withdrew (end of March 2020)	Parent company
	(2) Advertising Agency DX (same as above)	① AdRepo: automatic report generation tool for advertising analysis ② Ad-Knowledge: cloud-based project management tool	Business acquisition (August 2018) Started service in July 2020; ended in January 2023	
	(3) Incubation (previously, "new services")	① AD HOOP: marketing-specialized matching ② eZCX: e-commerce-specialized CX improvement PF ③ Spoo: web media/design & management services	Started service in May 2020; changed name to ADHOOP in Jan 2021 Official version released in July 2021 Acquired as a wholly owned subsidiary (Dec 2020)	
	"Other"	④ TOPICA: SNS and video marketing support ⑤ Far End Technologies: project management tool	Acquired as subsidiary with about a 60% stake (July 2021) Acquired as a wholly owned subsidiary (Jan 2022)	
	(1) EC-CUBE (→ New: Platform)	EC-CUBE and ec-cube.co: open-source e-commerce website building	Transferred to EC-CUBE Co., Ltd., in Jan 2019; about 10% of shares sold to Orico; planned to absorb EC CUBE Innovations (former BOKOBLOCK) (in Jan. 2024)	Consolidated
	(2) E-Commerce Website Building & Operation Support (→ New: E-Commerce Website Building & Operation)	① EC-CUBE Innovation (former BOKUBLOCK): e-commerce website building & operation and solutions	Acquired as a wholly owned subsidiary (May 2022) → Changed name to EC CUBE Innovations (June 2023) → Shares acquired by EC-CUBE (Sept. 2023) → Planned to be closed	Consolidated
	(3) SOLUTION → withdrew	① E-commerce contract dev. + consulting, etc. (Of which, DMP business)	Transferred to SAI Co., Ltd. (equity method; maintained) and Radical Opti Co., Ltd. (removed from equity method after transfer) Transferred to Marketing Platform's "Other"	Equity method Parent company

(Ref) Figure 5-8 were prepared by Alpha-Win Research Dept. based on sources including the Company's financial results summary and briefing materials. Words in red in Figure 5 indicate recent changes and schedules.

【Figure 6】 Sales and Profit Breakdown by Segment (FY2023: full year)

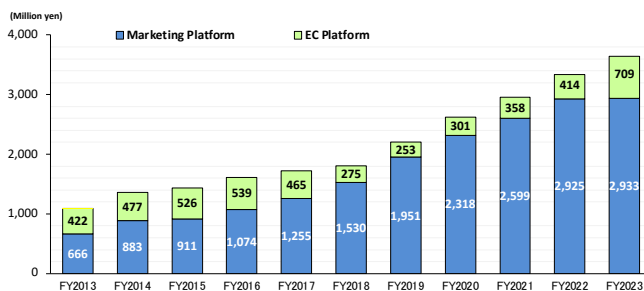


### Business Composition

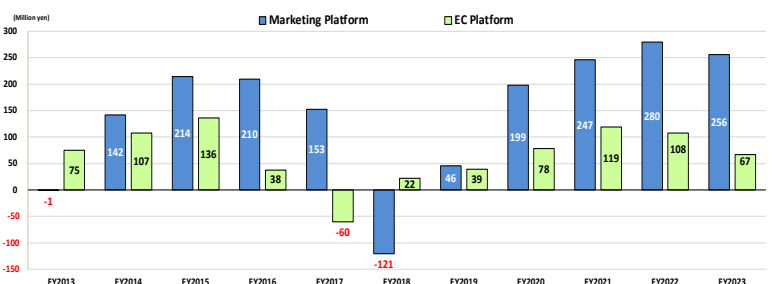
As of the end of FY2023 (last fiscal year), the Company's business was composed of two segments: I. Marketing PF (short for "platform") and II. EC PF.

The Marketing PF segment accounted for about 80% of total sales and total operating profit in the previous fiscal year (Figure 6). The segment has long been the driver of the Company's overall sales growth (transition in sales by PF segment: Figure 7).

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



【Figure 8】 Transition in Operating Profit by Segment



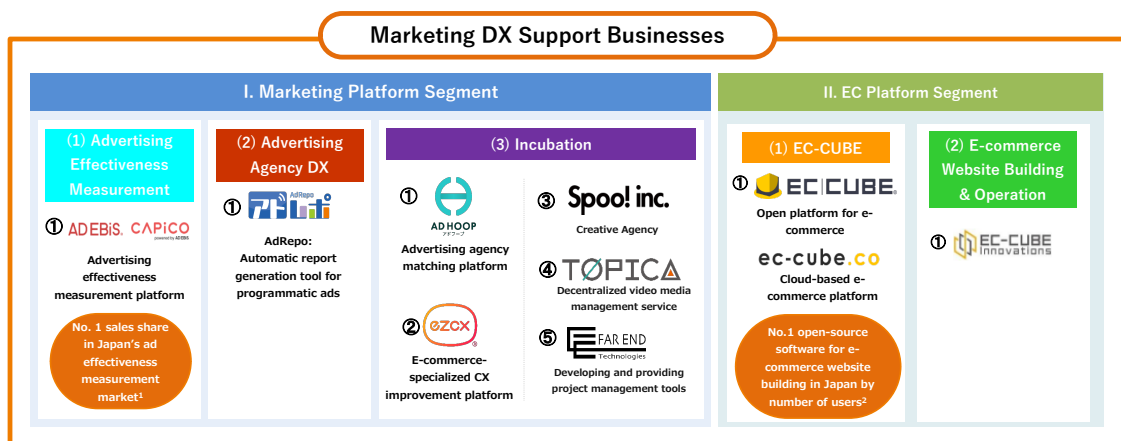
(Note) Each segment's sales are a sum of sales to external customers + internal sales + transfers, and profits are before consolidation adjustments (the same shall apply hereinafter).

- 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 8 on page 9. Excluding FY2017 and FY2018, during which business restructuring was conducted, operating profit (segment's profit) has been posted in both PF segments for each full fiscal year.

The Company's business portfolio as of the end of the previous fiscal year is as shown in Figure 9 (the numbers assigned to each business in Figure 9 match the numbers in Figure 5 and in the descriptions starting from this section's description of business contents).

【Figure 9】 Business Composition (as of the end of September 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

### (New: Marketing DX Support)

The Marketing PF segment's breakdown of sales and change in profit over the years are shown in Figure 10.

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

Sales (million yen)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2023: YoY Change
	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated A	Consolidated B	B-A (B-A)/A
<b>I. Marketing Platform</b>	883	911	1,074	1,255	1,530	1,951	2,318	2,599	2,925	2,933	8 0.3
(1) Advertising Effectiveness Measurement	883	911	1,074	1,254	1,445	1,775	2,135	2,313	2,369	2,229	-140 -5.9
(1) ① AD EBIS + former ADPLAN (business acquired in Jan 2020)	722	822	1,012	1,200	1,402	1,747	2,127	2,313	2,369	2,229	-140 -5.9
① AD EBIS's sales growth rate (YoY: %)	27.3%	13.9%	23.1%	18.6%	16.8%	24.6%	21.8%	8.8%	2.4%	-5.9%	
② THREe (withdrew)	161	89	62	54	43	28	8	0	0	0	
(2) Advertising Agency DX						124	152	182	175	176	0 0.3
(2) ① AdRepo						124	149				
② Ad-Knowledge (withdrew)							3			Withdrew	
(3) Incubation							3	89	392	525	133 34.1
(3) ① AD HOOP, ② EZCX, ③ Spool, ④ TOPICA, ⑤ Far End							3	89	392	525	133 34.1
*Other: former Professional Service (DMP)					84	51	27				
Segment's Operating Profit	142	214	210	153	-121	46	199	247	280	256	-24 -8.8
Segment's Operating Margin (%)	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	9.5%	9.6%	8.7%	-0.8%

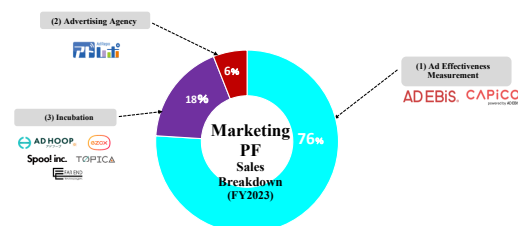
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials and interview. (Note) Includes Alpha-Win's estimates.

- The Marketing PF segment is composed of three business categories. AD EBIS (ad effectiveness measurement) is the main business.

I. The Marketing PF segment currently consists of the three main business categories (1) through (3) described in Figure 9. During the previous fiscal year, the breakdown of sales of this segment was as shown in Figure 10 and Figure 11 on page 11. While the sales proportion of AD EBIS has decreased compared to before, it still accounted for 76% of the Marketing PF segment's sales (61% of the Company's entire sales).

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

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 AD EBiS

- 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<sup>5</sup>
- 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 previous fiscal year (FY2023) are estimated to have been 2.22 billion yen, having decreased by about 6% from 2.37 billion yen in the fiscal year before the previous (FY2022) (Figure 10 on page 10).

### (2) Advertising Agency DX

This business targeting advertising agencies consists of only the AdRepo business (AD HOOP has been moved to the new businesses category and the Company has withdrawn from the Ad-Knowledge business). Sales in the previous fiscal year are estimated to have been 176 million yen, which was 6% of the Marketing PF's entire sales (same sales proportion as the fiscal year before the previous; sales have been flat).

#### ① AdRepo

- Fully automatic report-generation tool for programmatic advertising<sup>6</sup>
- 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 Ad-Knowledge

- 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 12 on page 13)

#### ① AD HOOP

- Marketing-specialized matching platform that introduces the optimum solution partner to corporate advertisers to solve their problems and meet their needs. Released in May 2020, and then moved from the Advertising Agency DX business. Since March 2023, service domains have been

- ♦ Its core business is **AD EBiS**, 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**. Total sales of the Incubation business grew by 34.1% YoY.

expanded significantly from three to twelve. Steadily expanding the business through the acquisition of new projects and cross-selling.

- Sales in the previous fiscal year were 56 million yen (+35.5% YoY; 2% of the Marketing PF's sales). 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 previous fiscal year and the year before that were only 6 million yen and 4 million yen, respectively).

- ♦ 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, with double-digit sales growth in the previous fiscal year.

As described below, the Company has been acquiring companies of businesses related to Internet marketing at a pace of one or two companies per year as 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 owned)**

- 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 33.1% from 59 million yen in the fiscal year before the previous to 78 million yen in the previous fiscal year.

## ③ **TOPICA: consolidated subsidiary (60% stake)**

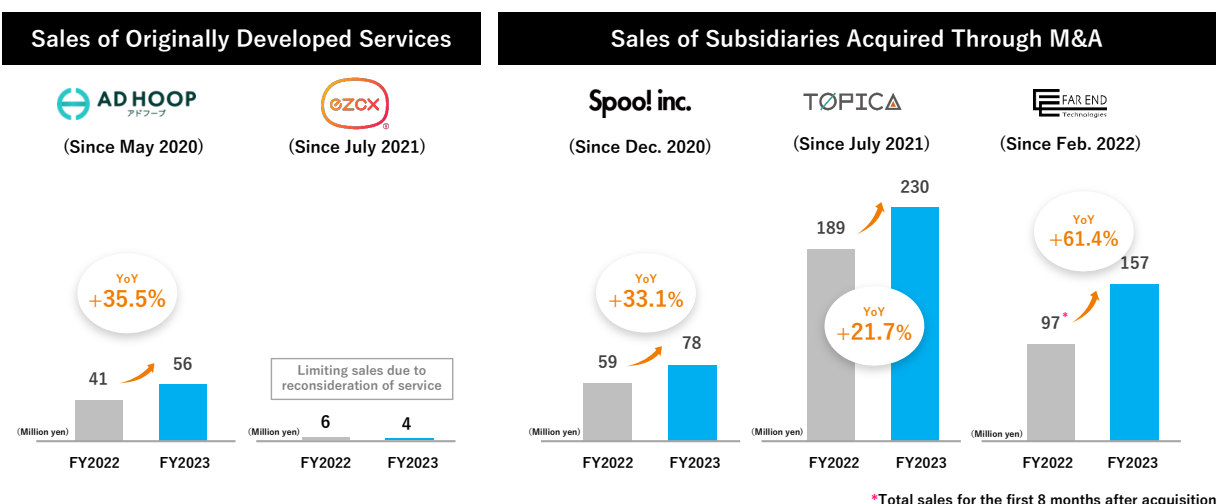
- Founded in May 2016. Acquired in July 2021.
- Developing a marketing support business that utilizes SNS and videos (ranging from the planning and production of video contents to SNS account management services)
- With the acquisition, the Company plans to expand its business domain into the rapidly 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 21.7% from 189 million yen in the fiscal year before the previous to 230 million yen in the previous fiscal year. Steadily expanding business.

## ④ **Far End Technologies Corporation (hereinafter, "Far End"): consolidated subsidiary (wholly owned)**

- Founded 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 61.4% from 97 million yen in the fiscal year before the previous (sales for the eight months after the acquisition) to 157 million yen in the previous fiscal year (for the entire period).

【Figure 12】 Comparison of the Incubation Business' Sales



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

- ◆ The EC PF segment consists of EC-CUBE and the e-commerce website building & operation support 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

### (New: E-Commerce Support)

Previously, the EC PF segment had only consisted of EC-CUBE. However, with the acquisition of the former BOKUBLOCK INC. (now called EC-CUBE Innovations Inc.), the Company has reentered the e-commerce website building & operation support market (professional services<sup>7</sup>) (consolidated starting in June 2022).

Significant contribution to the segment's performance has been achieved thanks to large synergies with EC-CUBE (Figure 13).

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

Sales (million yen)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2023: YoY Change
Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated A	Consolidated B	B-A (B-A)/A
II. EC Platform	477	526	539	465	275	253	301	358	414	709	295 71.2
(1) EC-CUBE	245	230	219	208	254	253	301	358	414	709	295 71.2
EC-CUBE's sales growth rate (YoY: %)	18.3%	-6.1%	-4.8%	-5.2%	22.2%	-0.4%	19.0%	18.9%	15.7%	71.2%	55.5%
① Shopping settlement fee								290	253	262	10 3.8
② Subscription								12	29	35	6 22.3
③ Other								54	50	57	7 14.1
New: (2) E-Commerce Website Building & Operation (EC-CUBE Innovations)								0	83	355	272 328
Previous: (3) SOLUTION (transferred/withdrew)	232	296	319	257	20	0	0	0	0	0	0
Previous: ④ E-commerce contract development, e-commerce website consulting, etc.	232	296	319	257	20	0	0	0	0	0	0
Of which, DMP (transferred)				104							
Segment's operating profit	107	136	38	-60	22	39	78	119	108	67	-41 -38.4
Segment's operating margin	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	33.1%	26.1%	9.4%	-16.7%

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

(Note) Includes estimates by Alpha-Win.



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

- ♦ In addition to the download version, the cloud version has been released.

- ♦ Gained top share in the Japanese market.

(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

## ① EC-CUBE

### Service Overview

- EC-CUBE is a software platform whereby companies can build and manage e-commerce (EC) websites on their own.
- The Company provides EC-CUBE as web design software for companies that will begin selling and providing products or services online. It is provided as either as the open-source, packaged download version **EC-CUBE** or the cloud version **ec-cube.co**.
- Characterized by low cost, high customizability, and high usability, it has the top share in the Japanese market and is the standard platform.

### Business Model and Sales Breakdown

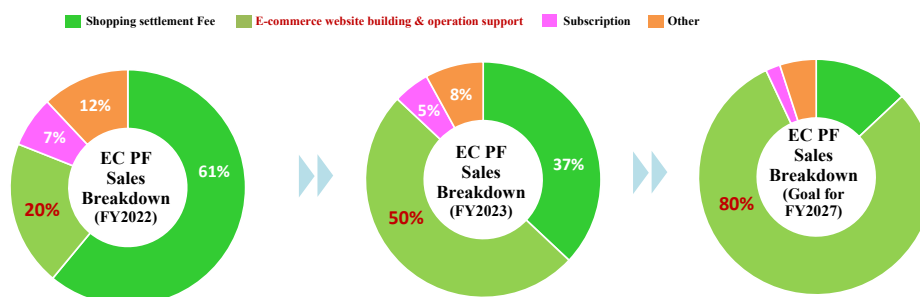
- **EC-CUBE** is based on a freemium model<sup>8</sup> in which software is offered for free, but in return, revenue is earned from peripheral services.
- Revenue comes from shopping settlement fees from official partners using the software for their Internet businesses (37% of the total sales of this PF in the previous fiscal year), **ec-cube.co**'s monthly subscription income (similarly, 5% of the total), and other revenue (function addition fees for plugins, or programs to add functions to software; similarly, 8% of the total) (Figure 14).

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

Through an M&A, the e-commerce website building & support business of EC-CUBE Innovations (former BOKUBLOCK) became included in this segment starting in the fiscal year before the previous (Q3 FY2022). Fully entering the professional services business, the Company has been working on building a one-stop service under a hybrid model linked with EC-CUBE.

Sales of the E-Commerce Website Building & Operation Support business tend to change depending on the orders received for website building projects and their progress. Since the acquisition, sales have been significantly growing thanks to synergies within the Group, as it successfully gained large projects (from the fiscal year before the previous to the previous fiscal year, its proportion of total sales has jumped from 20% to 50% and its sales have increased sharply from about 83 million yen to about 355 million yen).

【Figure 14】 Breakdown of Sales of the EC PF Segment (Units: % or million yen)



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

- ◆ Segment names have been changed starting this fiscal year, consolidating and integrating them into two segments and four businesses.

### ◆ Change in Segment Names

The Company has announced that it will change the names of its segments and businesses starting in FY2024, in order to more clearly express its business strategy for achieving the goals of its medium-term business plan VISION 2027 (Figure 15).

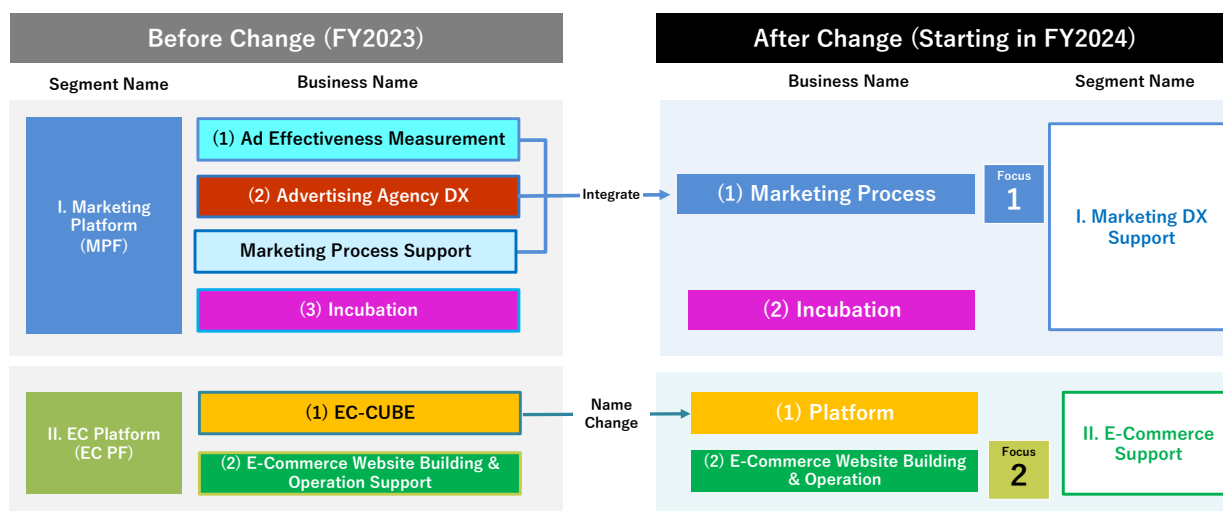
The number of segments will remain the same (two segments), but the Marketing Platform will be renamed to Marketing DX Support and the EC Platform will be renamed to E-Commerce Support.

In the Marketing Platform, the three businesses of Advertising Effectiveness Measurement, Advertising Agency DX, and Marketing Process Support will be integrated into Marketing Process. There is no change in the name of the Incubation business. As a result, the four businesses will be consolidated into two.

In the EC Platform, EC-CUBE will be renamed to Platform and E-Commerce Website Building & Operation Support will be renamed to E-Commerce Website Building & Operation.

In addition, on January 1, 2024, the consolidated subsidiary EC-CUBE Innovations Inc. (former BOKUBLOCK INC.) will be merged into EC-CUBE Co., Ltd. (EC-CUBE Co., Ltd. will integrate the Platform and the E-Commerce Website Building & Operation businesses of the E-Commerce Support segment to manage them comprehensively).

【Figure 15】 Change in Segment Names



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

### 3. Shareholder Composition

#### ◆ Change in Composition by Shareholder Type

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

Regarding the shareholder composition by shareholder type as of the end of September 2022 (Figure 16), the proportion of “individuals and others” is by far the largest at about 92% (data as of the end of September 2023 have not been disclosed). The proportions of “financial institutions” and “overseas corporate entities” are decreasing.

[Figure 16] Change in Shareholder Composition by Shareholder Type (unit = %)

	End of Sept. 2014	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
Individuals and others	87.90	94.69	89.48	94.69	93.62	81.51	83.29	91.42	91.93
Financial institutions	3.12	0.47	1.49	0.47	1.40	8.95	7.84	3.91	2.06
Overseas corporate entities	0.35	0.54	1.07	0.54	0.56	5.88	2.64	1.32	1.34
Other corporate entities	4.49	3.2	2.96	3.20	1.99	1.85	1.78	1.80	2.08
Financial instruments business operators	4.13	1.10	5.00	1.10	2.43	1.81	4.46	1.55	2.59

(Ref) Prepared by Alpha-Win Research Dept. based on information including the securities report.

#### ◆ Major Shareholder Composition

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

The major shareholders as of the end of September 2023 are shown in Figure 17. Compared with one year ago, the major shareholders have not changed except for the Custody Bank of Japan and some of the individual shareholders.

- The top three shareholders are Susumu Iwata, the Company’s CEO, followed by the Company’s executive officers (including former executive officers). Together, they possess more than half of the outstanding shares.
- Previously, the Company’s shares were included as a small portion in Japanese investment trusts such as “The 2020 Vision” managed by Commons Asset Management and the “Rakuten Japan New Economy Index Fund (JANE Index).” While their current status of shareholding is unknown, the shares are mostly likely no longer included in their portfolio.
- As of the end of September 2023, the Company owned about 84 thousand shares of its own shares (1.34% of all outstanding shares; essentially the fourth 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 17] Current Major Shareholders (units: thousand shares or %)

(Note) Treasury shares are excluded from the list of major shareholders. Shareholding ratio has been calculated excluding treasury shares.

	End of Sept. 2015	End of Sept. 2016	End of Sept. 2017	End of Sept. 2018	End of Sept. 2019	End of Sept. 2020	End of Sept. 2021	End of Sept. 2022	End of Sept. 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	2,753	43.77	1
Hiroichi Fukuda (former executive vice president)	1,071	1,021	1,021	961	801	781	817	779	805	12.80	2
Kanako Matzda (former director and senior executive officer)	415	415	352	354	353	352	329	329	329	5.23	3
YRGLM Employee Stock Ownership Plan	76	39	48	69	68	71	66	69	79	1.26	4
Yoshiohisa Yamashita (indiv.)	—	—	—	—	—	—	54	54	68	1.07	5
Hakuhodo DY Media Partners Inc.	60	60	60	60	60	60	60	60	60	0.95	6
Tomonori Yamada (indiv.)	—	—	28	—	—	—	33	36	53	0.84	7
Satoshi Hasegawa (indiv.)	—	—	—	—	—	—	—	37	37	0.58	8
Mitsugu Shirai (indiv.)	—	—	—	—	—	—	—	—	36	0.56	9
J.P. MORGAN SECURITIES PLC	—	—	—	—	—	—	35	34	34	0.53	10
Custody Bank of Japan (trust account)	—	—	—	—	—	271	133	—	—	—	—
Custody Bank of Japan (securities investment trust account)	—	—	—	—	—	169	83	103	—	—	—
Rakuten Securities, Inc.	—	—	—	72	64	—	—	—	—	—	—
Yukio Tanaka (individual investor)	—	—	—	—	—	—	—	—	—	—	—
SBI SECURITIES Co., Ltd.	—	—	—	—	—	—	—	—	—	—	—
UEDA YAGI TANSU 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 TANSU Co., Ltd.	—	—	—	—	113	—	—	—	—	—	—
Katsuyuki Ito (indiv.)	—	—	—	52	—	—	—	—	—	—	—
Akiko Takashima (indiv.)	—	—	—	29	—	—	—	—	—	—	—
Kenichiro Wade (former outside director)	39	29	29	—	—	—	—	—	—	—	—
Yoshio Takayama (indiv.)	—	—	—	—	—	—	—	—	—	—	—
Kayoko Nagano (indiv.)	—	—	24	—	—	—	—	—	—	—	—
SEPTENI CO., LTD	62	62	—	—	—	—	—	—	—	—	—
Matsui Securities Co., Ltd.	—	36	—	—	—	—	—	—	—	—	—
Japan Securities Finance Co., LTD.	30	35	—	—	—	—	—	—	—	—	—
Yoichi Nishikawa (indiv.)	34	—	—	—	—	—	—	—	—	—	—
Aki Shioiri (former director; audit committee member)	26	—	—	—	—	—	—	—	—	—	—
(Treasury shares: thousand shares)	0	0	0	8,425	81,425	64,493	57,825	111,500	84,068	—	—
(Percentage of treasury shares: %)	0.00%	0.00%	0.04%	0.28%	1.28%	1.01%	0.91%	1.75%	1.34%	—	—

(Ref) Prepared by Alpha-Win Research Dept. based on materials including the notice of convocation of the shareholders’ meeting. Words in red indicate groups and individuals affiliated with the Company, including its current and former directors/officers and the employee stock ownership plan.

◆ Continuing to work on ESG.

## 4. ESG and SDGs

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

### ◆ Environment

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

### ◆ Society

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

### ◆ Governance

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

There are a total of six directors including the CEO Susumu Iwata. Of these directors, three are outside directors who are also audit and supervisory committee members (director from Kobe Steel, Ltd., director from MUFG Bank, Ltd., and a certified public accountant). There is currently no woman or person from outside of Japan among the directors or the four executive officers who do not concurrently hold position as director (including the CTO and CAO).

◆ Half of the directors are outside directors.

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

◆ Working on SDGs through employment and services

### ◆ SDGs (Sustainable Development Goals)

Regarding the SDGs<sup>9</sup> (Sustainable Development Goals), the Company is working toward creating a prosperous society by "providing marketing DX support to contribute to job satisfaction and business growth for our company as well as our customers," which is the common goal for its achievement of the SDGs through employment and services (Figure 18).

【Figure 18】 SDGs and Their Initiatives



(Ref) Financial results briefing materials

## 5. History of Growth

### ◆ Past Transition in Financial Results

#### Sales

- ◆ Posting record-high sales for 23 fiscal years in a row

For 23 fiscal years since its founding, sales have been consecutively increasing and hitting record highs every year. From FY2009 to FY2023, for which information is disclosed, sales have increased by about 6.3x from 570 million yen to 3,630 million yen (annual compound rate of +14.1%).

- ◆ Expanded services through M&As and developed and released unique products and services 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 employees. Growth has been achieved due to the release and expansion of cloud services, especially with the rapid growth of its originally developed service AD EBIS of the Marketing PF; the steady growth of the EC PF's EC-CUBE along with the growing e-commerce market; and the E-Commerce Website Building & Operation Support business that it acquired.

#### Profit

- ◆ In FY2015, record-high profits of the time were posted.

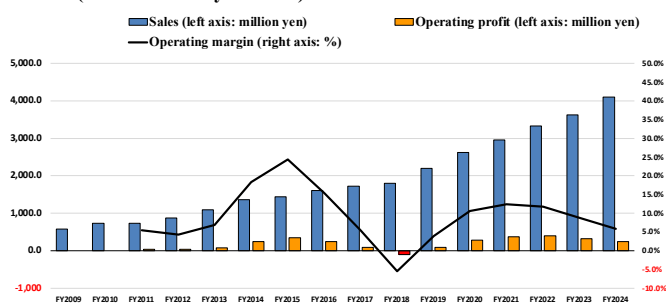
Regarding profit, the Company had stayed profitable both on a standalone and consolidated basis up through FY2017. In FY2015, a record-high operating profit of 350 million yen and a record-high net profit of 231 million yen were achieved. However, starting in FY2016, the Company's active business restructuring 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 98 million yen and net loss of 88 million yen) for the first time since becoming listed on the market, due to upfront investments mainly to hire more employees for development and sales (Figures 19 and 20). In 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.

- ◆ 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.

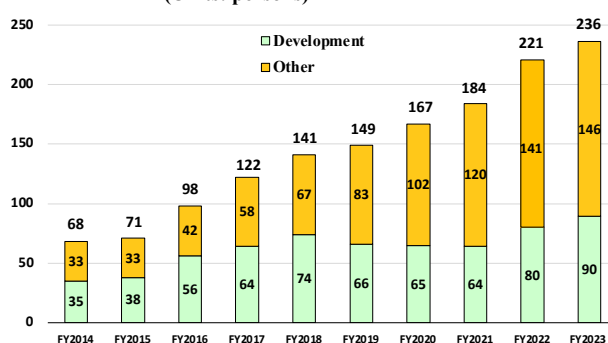
- ◆ Then, sales increased and costs improved in a V-shaped recovery of business performance. In FY2021, sales and profits hit record highs, and in FY2022, operating and recurring profit hit record highs for consecutive years. Sales growth and profit decline have been seen since then.

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. Since FY2023, sales growth and profit decline have been seen.

**【Figure 19】 Transition in Past Financial Results and the Company's Forecast for This Fiscal Year**  
(Units: million yen or %)



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



(Ref) Figures 19 and 20: Prepared by Alpha-Win 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.

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

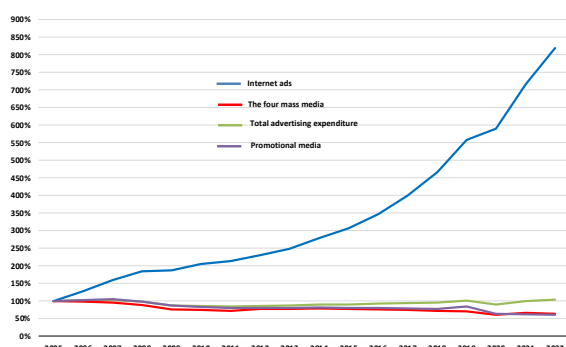
#### Total Advertising Expenditure

Total advertising expenditure in Japan in 2022 (calendar year; the same applies to this entire section) hit a record high at about 7.1 trillion yen, 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.

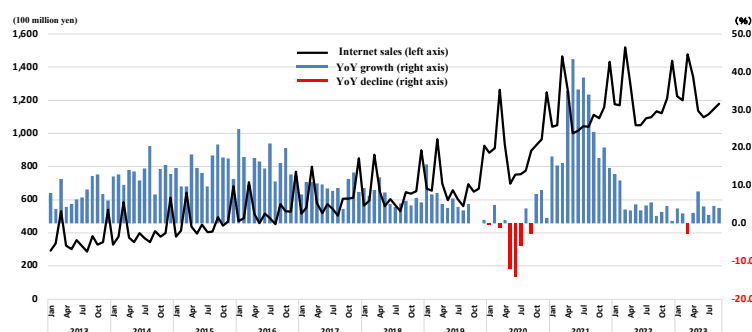
#### Internet Ad Market (Annual)

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 3.1 trillion yen, maintaining a double-digit growth. From 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 22). 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 21】 Change in Advertising Expenditure by Medium (Indexation: the year 2005 is set to 100)



【Figure 22】 Change in Monthly Sales of Internet Ads



(Ref) Figure 21: Prepared by Alpha-Win Research Dept. based on Dentsu Inc.'s "2022 Advertising Expenditures in Japan"

Figure 22: 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 September 2023).

- ◆ The internet advertising market had been solid after turning to a positive trend (monthly sales), 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. Since then, the market has maintained a positive growth trend. It fell to a temporary -2.8% decline in March of this year, but then came back to a positive trend in April (Figure 22). 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.

## 7. Last Fiscal Year's Results and This Fiscal Year's Company Forecast

### ◆ Consolidated Financial Results for FY2023 (last fiscal year)

#### Summary

- ◆ In the previous fiscal year, sales increased but profits declined. Sales reached a record high.

Consolidated financial results for FY2023 (October 2022 to September 2023) were as follows: sales increased by 8.8% YoY (+292 million yen) to 3,626 million yen, while operating profit declined YoY by 18.8% (-74 million yen) to 318 million yen, resulting in a double-digit decrease in profit despite the sales growth (Figure 23).

There was no major nonoperating profit/loss or extraordinary gain/loss posted. Net profit resulted in a decrease of 16.5% YoY (-39 million yen) to 197 million yen. Full-year sales hit a record high for the 23rd consecutive year.

【Figure 23】 Change in Full-Year Results and Comparison

(Unit: million yen or %)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023		FY2023 Comparison with the (revised) Company Forecast				FY2023 Comparison with Alpha-Win's Forecast (previous)		
	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	Amount (result)	% Change	Amount (forecast)	Diff. in Amount or %	Deviation Rate		Amount (forecast)	Diff. in Amount or %	Deviation Rate
											YoY	Lower End	Upper End	Lower End	Upper End	Lower End	Upper End	
Total Sales	1,360	1,437	1,613	1,719	1,805	2,204	2,619	2,958	3,334	3,626	8.8%	3,600	3,700	26	-74	0.7%	-2.0%	-0.7%
I. Marketing Platform	883	911	1,074	1,255	1,530	1,951	2,318	2,599	2,924	2,933	9	0.3%						-1.2%
II. EC Platform	477	526	539	465	274	253	301	358	414	709	71.3%							-4.3%
Gross Profit	867	956	1,044	1,123	1,196	1,561	1,832	2,039	2,260	2,169	-90							-6.1%
Gross Margin	63.8%	66.5%	64.7%	65.3%	65.9%	70.8%	70.0%	68.9%	67.8%	59.8%	-8.0%							-
SG&A Expenses	618	606	796	1,030	1,289	1,476	1,555	1,674	1,867	1,850	-17							-7.5%
SG&A Expense Ratio	45.4%	42.1%	49.3%	59.9%	71.4%	66.9%	59.4%	56.6%	56.0%	51.0%	-5.0%							-
Operating Profit (by segment)	249	350	248	93	85	277	365	392	318	255	-74	280	330	38	-12	13.6%	-3.6%	3.8%
I. Marketing Platform	142	214	210	153	-131	46	199	247	279	255	-24							-
II. EC Platform	107	136	38	40	22	39	78	119	108	66	-42							-
Operating Margin	18.3%	24.4%	15.4%	5.4%	-5.5%	3.9%	10.6%	12.4%	11.8%	8.8%	-3.0%	7.8%	8.9%	-1.0%	0.1%			-
I. Marketing Platform	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	9.5%	9.5%	8.7%	-0.8%							-
II. EC Platform	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	33.1%	26.1%	9.3%	-16.8%							-
Recurring Profit	234	352	250	106	-115	79	261	364	399	329	-70	280	330	49	-1	17.5%	-0.3%	6.1%
Net profit	138	231	169	73	-89	-35	183	240	236	197	-39	170	200	27	-3	15.9%	-1.5%	3.7%

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

### Comparison of Forecasts and Results

- ◆ Both sales and profits landed within expectations.

The Company had revised its full-year forecasts downward (announced as ranges) at the time of the announcement of the first-half results. Sales and profits were within expectations, as sales (3,626 million yen) resulted almost at the lower end of the forecast range (3,600-3,700 million yen) and profits reached the upper end of the range (operating profit was 318 million yen compared to the forecast range of 280-330 million yen; net profit was 197 million yen compared to the forecast range of 170-200 million yen). They were also mostly the same level as our forecasts (3,650 million yen, 310 million yen, and 190 million yen, respectively).

### Financial Performance by Segment: Overview

- ◆ The Marketing PF segment and the EC PF segment both posted higher sales but lower profits due to worsened profit margins.

- Sales of the Marketing PF segment were 2,933 million yen (+0.3% YoY) and its profit was 255 million yen (-8.5% YoY), while sales of the EC PF segment were 709 million yen (+71.3% YoY), and its profit was 66 million yen (-38.4% YoY). In both businesses, sales grew and profits declined.

- In the Marketing PF segment, the unit price of the core service, AD EBiS, increased (YoY) for the 43rd consecutive quarter. However, the Company struggled to acquire new customers and the number of accounts continued to decline, resulting in lower-than-expected sales for the highly profitable Advertising Effectiveness Measurement business. This was the main reason for the decline in sales and profit.

- ◆ AD EBiS's sales decreased. This was offset by the large increase in Incubation's sales.

- ◆ The amount of loss improved for Incubation.

- ◆ In the EC Platform, profits declined due to increased costs to strengthen the organization.

However, significant growth of the Incubation businesses compensated for the sales decline of AD EBiS (Advertising Effectiveness Measurement), resulting in a slight sales growth for this PF overall. Regarding profit, although the amount of loss of the Incubation business has improved, the increase in costs due to the M&As and the depreciation of the yen also caused profit to decline.

In the EC PF segment, sales grew significantly because orders increased for the E-Commerce Website Building & Operation Support business, especially for EC-CUBE Innovations (former BOKUBLOCK). However, profit decreased due to an increase in hiring and personnel expenses to strengthen the organization.

#### Financial Performance by Segment: Marketing PF Segment's AD EBiS

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 7 and 8 on page 9 and Figure 26 on page 22).

- ◆ The unit price of AD EBiS rose YoY, but its number of accounts have continued to decline. Ad effectiveness measurement's sales declined by about 6% YoY.

However, while the rate of increase in the average unit price has slowed down, the decline in the number of accounts could not be stopped, resulting in a YoY sales decline of AD EBiS in the previous fiscal year (Alpha-Win Research Department estimates this decline to have been about -6%) (for reference: quarterly change in estimated sales in Figure 26 on page 22).

The average unit price has increased from 164,745 yen as of the end of Q4 FY2022 (+Y12,609 or +8.3% YoY) ⇒ 163,200 yen as of the end of Q1 FY2023 (+10,964 yen or +7.2% YoY) ⇒ 167,976 yen as of the end of Q2 FY2023 (+10,655 yen or +6.8% YoY) ⇒ 169,264 yen as of the end of Q3 FY2023 (+9,461 yen or +5.9%) ⇒ 166,931 yen (+2,186 yen or +1.3%) as of the end of Q4 FY2023 (Figure 24 on page 22).

On the other hand, the number of active accounts has continued to decline, in the same order, from 1,183 ⇒ 1,162 ⇒ 1,121 ⇒ 1,074 ⇒ 1,061 (-122 or -10.3% YoY as of the end of last fiscal year's Q4) (net QoQ decline for 14 quarters in a row; Figure 25 on page 22).

- ◆ The churn rate has remained flat.

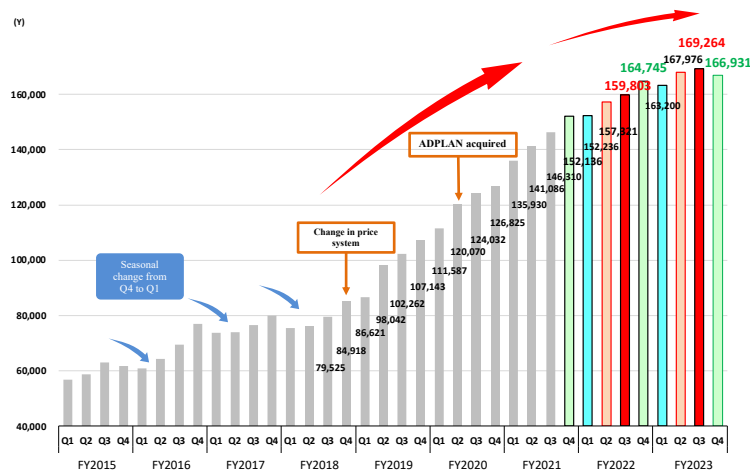
In addition, the churn rate has remained flat at around 2.3% to 2.5% since Q2 FY2022 and has shown no signs of recovery.

- ◆ Struggling to acquire new customers.

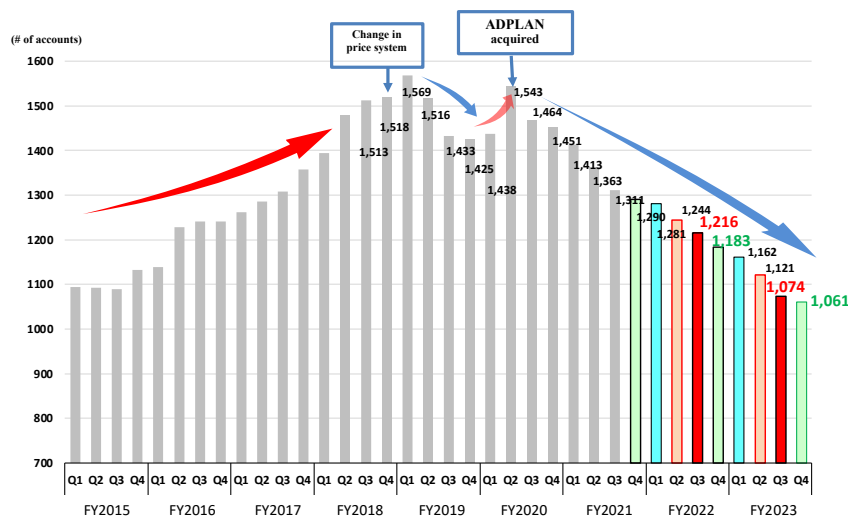
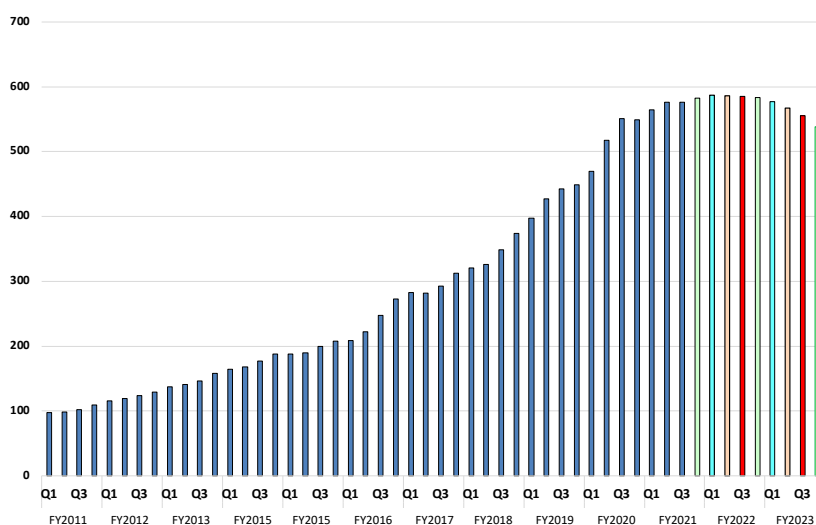
The main reason for the decline in the number of accounts in the previous fiscal year was that the acquisition of new customers was below expectations, while there was a certain number of cancellations as usual.

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

With the third-party cookie regulations<sup>10</sup>, users have been consolidating their ad placements to major platforms, which have caused increasing market domination by the major players (e.g., the migration to GA4, the Google Analytics 4 property for access analysis). The Company analyzes that the main reason for the slow acquisition of new customers is that, as a result of this trend, customer needs have been declining for AD EBiS whose strength is its ability to measure across multiple media.

**【Figure 24】 Change in the Average Unit Price of AD EBiS (quarterly; units of yen)**

(Ref) Figures 24 and 25 were prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing materials. Figure 26 is based on Alpha-Win's estimates.

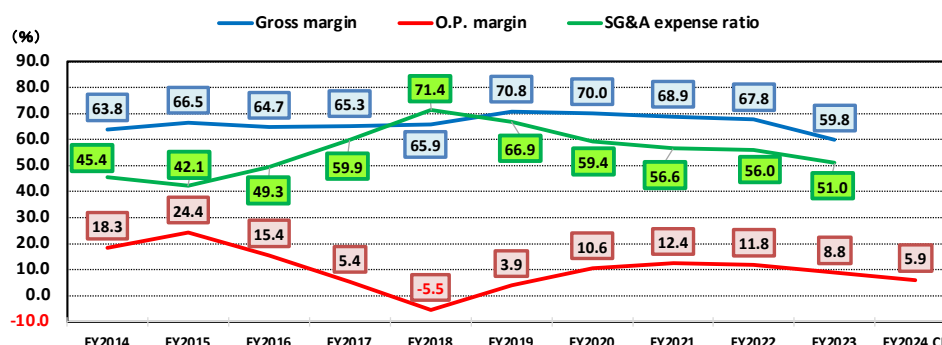
**【Figure 25】 Change in the Number of Accounts of AD EBiS (quarterly; units of number of accounts)****【Figure 26】 Change in Estimated Sales of AD EBiS (quarterly; units of million yen)**

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

### Trends in Overall Profit Margin

Partly due to M&As causing changes in the business mix, the gross margin fell by 8.0 percentage points from 67.8% in the fiscal year before the previous to 59.8% in the previous fiscal year (Figure 27). Meanwhile, SG&A expenses decreased by 0.9%, which was much smaller than the rate of increase in sales (+8.8%). Consequently, the SG&A expense ratio declined by 5.0 percentage points from 56.0% to 51.0%. As a result, in the previous fiscal year, the operating margin declined by 3.0 percentage points from 11.8% to 8.8%.

【Figure 27】 Transition in SG&A Expense Ratio and Profit Margins (Units: %)



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

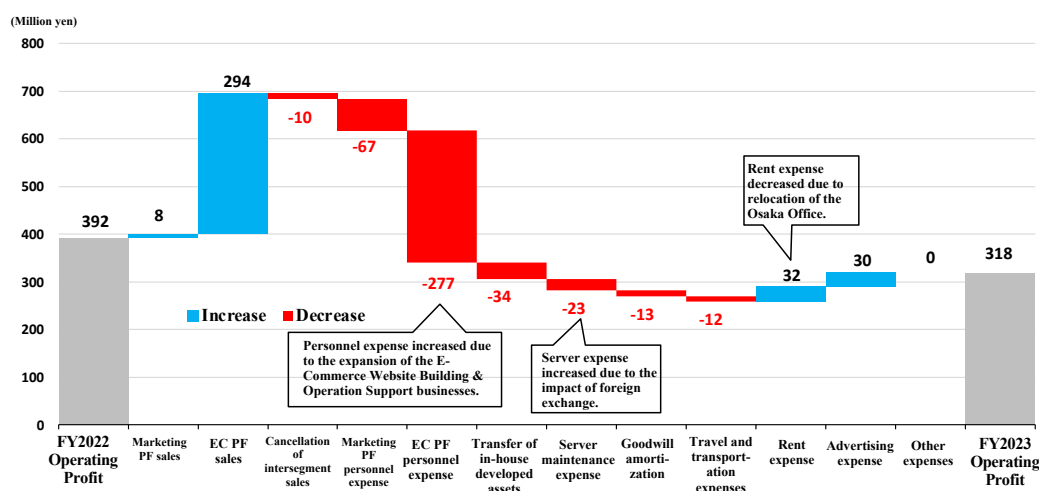
- ◆ Sales increased, but could not absorb the increase in costs, which were mainly due to personnel expense, resulting in a double-digit decline in profit.

### Analysis of Factors that Increased/Decreased Last Fiscal Year's Profit

Figure 28 shows an analysis of the factors that caused profit to increase or decrease in the previous fiscal year. As mentioned earlier, sales of the Marketing PF only grew slightly (+8 million yen YoY), but the sales growth of the EC PF (+294 million yen YoY) contributed largely to profit. Reduction of rent expense and advertising expense also helped increased profit.

On the other hand, the increase in personnel expense in both segments (total of +344 million yen YoY) and the higher server management expense due to the weaker yen (+23 million yen YoY) could not be offset, resulting in a profit decline (-74 million yen YoY).

【Figure 28】 Factors that Impacted Full-Year Operating Profit in FY2023 (YoY comparison)



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



- ♦ Sales and profit grew at double-digit rates in both Q1 and Q2. Profits were also at high levels. In contrast, in Q3 and Q4 there was a slight increase in sales and a significant decrease in profit.
- ♦ Operating margin declined in the second half of the previous fiscal year due to upfront investment costs, and the quarterly operating profit halved.

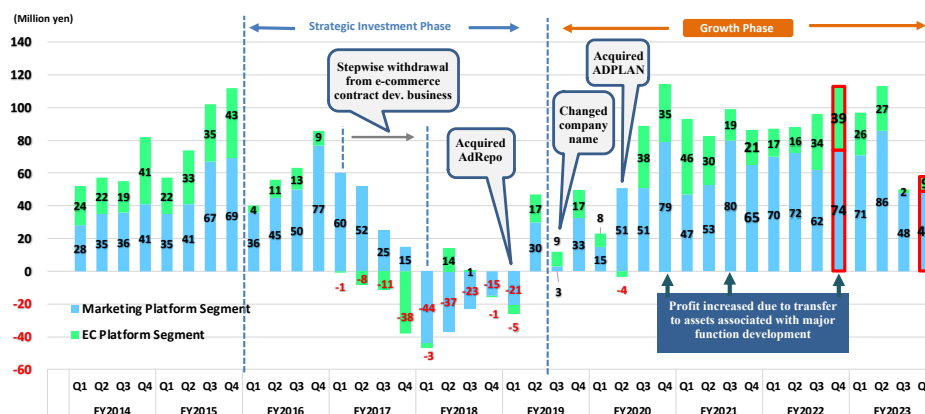
### Quarterly Change in Results

Both in the first quarter (Q1) and the second quarter (Q2) of the previous fiscal year, sales and profit grew YoY at double-digit rates, profits were at high levels, and sales reached record highs in both quarters.

In contrast, both the third quarter (Q3) and the fourth quarter (Q4) saw only a slight, single-digit YoY increase in sales, resulting in a significant decrease in profit.

Regarding the quarterly trends in operating profit (Figure 29), 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 19 consecutive quarters in a row through Q4 FY2023 (July to September 2023). The operating margin had also remained stably above 11% for 12 consecutive quarters. However, although sales have continued to increase in Q3 and Q4 of the previous fiscal year, the operating margin fell sharply to around 6% due to upfront investment costs. Operating profit halved as a result.

【Figure 29】 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.

The Company has been stably posting a profit mainly due to sales growth, but also due to the firm profit of AD EBiS, withdrawal from the unprofitable businesses, improved profit of EC-CUBE, acquisition of promising businesses, the 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 expense ratio through cost control.

### ◆ The Company's Forecast of Consolidated Financial Results for FY2024 (this fiscal year)

#### Full-Year Forecast

For this full fiscal year, the Company forecasts sales to be 4,100 million yen (+13.1% YoY), operating profit to be 240 million yen (-24.7% YoY), recurring profit to be 230 million yen (-30.2% YoY), and net profit to be 140 million yen (-28.9% YoY). While it expects double-digit sales growth and consecutive achievement of record-high sales, it expects a nearly 30% decline in profit due to continued investment in growth areas. However, it intends to increase dividend again for the current fiscal year, even though it will be the second consecutive fiscal year with a decline in profit (Figure 31 on page 28).

- ♦ It expects double-digit growth in sales and decline in profit, while achieving record-high sales. Profits are expected to decline for the second consecutive fiscal year due to upfront investments. However, the Company plans to increase dividends.

- ♦ The Company plans to solidify its foundation for growth in the current fiscal year.
- ♦ For its KPIs, it plans to reverse the number of accounts and increase the sales proportion of E-Commerce Website Building & Operation.
- ♦ The monthly sales momentum (YoY) is declining.
- ♦ Cumulative sales of October and November of this fiscal year have risen by 4.2% YoY. The sales growth rate has been lower than the Company's forecast of 13.1% for the full fiscal year.

Note that the Company does not disclose its forecasts of sales, profit, gross profit, and SG&A expenses by business segment for the current fiscal year, or the KPI goals that it plans to achieve by the end of the current fiscal year.

Since the theme for this fiscal year is “refining growth drivers and solidifying the foundation for accelerated sales growth in the next fiscal year and beyond,” the Company will focus on its areas of growth. As its KPIs, it plans to raise the number of accounts in the Marketing Process business of Marketing DX Support (aiming to reverse the trend) and the sales proportion of the E-Commerce Website Building & Operation business of E-Commerce Support.

#### Current Situation (monthly sales)

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

On a companywide basis, sales have continued to increase at a single-digit rate from October to November of this fiscal year (+4.2% YoY for the sum of the first two months). Momentum in terms of the sales growth rate has somewhat declined compared to data over the past several years. The rate has also been lower than the Company's forecasted sales growth rate of +13.1% for the current fiscal year.

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

(Upper row is sales with units of thousand yen; lower row is YoY change with units of %)

Calendar Year	2023			
Fiscal Year	FY2024			
Monthly Sales	October	November	Cumulative Sum of the Two Months	Units
Marketing DX Support (Previous: Marketing Platform)	232,034 93.5	243,991 98.1	476,025 95.8	thousand yen % YoY
E-Commerce Support (Previous: EC Platform)	72,280 145.9	65,678 153.7	137,958 149.5	thousand yen % YoY
Entire Company	304,315 102.2	309,670 106.2	613,985 104.2	thousand yen % YoY

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

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

- ♦ Marketing PF's sales have continued to decline YoY in October and November.

By business segment, monthly sales in October and November for the main Marketing DX Support segment fell by -6.5% and -1.9% YoY, respectively, marking the eighth consecutive month of YoY sales decline since April 2023.

Since the sales of Incubation and the former Advertising Agency DX of this segment appear to be solidly growing, the sales decline is most likely mainly due to the decreased sales of the former Advertising Effectiveness Measurement. The downward trend in the number of AD EBiS's accounts may still be continuing in the current fiscal year.

- ♦ A high growth rate has been maintained for the sales of the E-Commerce Support segment.

The E-Commerce Support segment has been performing well due to the E-Commerce Website Building & Operation business, with double-digit sales growth continuing even after July 2023, when the positive effects of the acquisition of EC-CUBE Innovations Inc. (former BOKUBLOCK INC.) had faded.

## ◆ Alpha-Win Research Dept.'s Financial Forecast for FY2024 (this fiscal year)

### Revisions to This Fiscal Year's Forecast

Based on the results of the previous fiscal year, the current situation, and interviews with the Company, we reviewed our sales and profit forecasts for the current fiscal year (Figure 31 on page 28). We maintained our sales forecast of 4,000 million yen, but revised downward our operating profit forecast (from our previous forecast ⇒ our new forecast) from 330 million yen ⇒ 240 million yen and our net profit forecast from 200 million yen ⇒ 140 million yen. Our new forecast is 100 million yen (-2.4%) lower than the Company's forecast for sales, but the same as the Company's forecasts for each of the profits. We also expect dividend to be 7.9 yen per share, which is the same as the Company's plan.

### Estimates/Assumptions Used in the Forecasts

We made the following estimates and assumptions in forecasting this fiscal year's financial performance.

- ◆ Considering the results of the previous fiscal year and the current situation, we have revised our profit forecasts for this fiscal year downward.

- ◆ As our new forecasts, we predict that sales will be somewhat lower than the Company's forecast, but each of the profits and dividend will be the same as the Company.

- ◆ The Company's profit forecasts for this fiscal year are conservative and seem generally achievable.

- ◆ Profit margin is assumed to decline sharply. There is room for cost control and limited downside risk.

- ◆ The sales situation of the three new services of the Marketing PF segment will be a key point.

- ◆ No details currently available for the new service of Marketing Process Support that is planned to be launched.

1. Companywide sales: Judging from the rate of sales increase in October and November and the current situation, sales growth in the first half may fall short of the sales growth rate of 13.1% that the Company expects for the full year. Due to the investment cost of the new service and the timing of its launch, both sales and profits for this fiscal year are expected to depend largely on the second half. If development and sales of the new service proceed smoothly, the Company may be able to mostly achieve its plan, but we made a somewhat conservative forecast in light of the risks involved.

2. Companywide profit: The operating margin is expected to fall sharply from 8.8% in the previous fiscal year to 5.9% planned for this fiscal year (almost the same level as the margin of 6.0% in the second half of the previous fiscal year), resulting in an operating profit decline of about 24.7%. Since there also seems to be room for various cost control including investments, the risk of a sharp decline from the forecasted profit seems small.

3. New services: The following three new services of the former Marketing PF segment need to be evaluated for their sales status.

- GSP (Growth Step Program) launched in late July 2023: A plan that provides AD EBiS at a special price of 50,000 yen/month for the first two years to new customers in their growth phase, after which the plan will be shifted to a higher plan of 100,000 yen/month or more.

- CAPiCO, launched in late August of the same year: A conversion API tool that compensates for conversion loss in advertising media due to cookie measurement restrictions, available for 15,000 yen/month on its own or for an additional fee of about 5,000 yen/month when it comes as a set with AD EBiS.

- New service of Marketing Process Support that will be developed and launched this fiscal year: Its overview, pricing, etc.

However, we have not factored these new services into sales by a large amount (we estimate the sales of GSP + CAPiCO to be 15 million yen for this fiscal year). Sales prediction is especially difficult since the pricing structure and service content of the new service of Marketing Process Support have not been disclosed yet. Its impact on this fiscal year's results is also likely to be limited in terms of the proportion of the year (the maximum contribution to this fiscal year's results is about three months;

- ♦ The contribution of new services to earnings is expected from next year onward.
- ♦ The new services, including GSP and CAPICO, are based on the subscription model, so their impact on earnings this fiscal year is expected to be limited.
- ♦ We expect AD EBiS's unit price based on the conventional standard to gradually increase YoY.
- ♦ The unit price will appear to decline due to the lower-priced service.
- ♦ We expect the number of accounts under the conventional standard to decrease again this fiscal year on average.
- ♦ We expect the number of accounts to reverse under the new standard.
- ♦ The downward revision has been made mainly due to the revised assumptions for AD EBiS.

we have included about 21 million yen as the sales of the Marketing Process Support's new service in this fiscal year's forecast). Since all of these services are subscription-based businesses, there will be a certain time lag before they contribute to earnings. We believe that they will not make a full-scale contribution to earnings until the next fiscal year at the earliest.

4. Unit price of AD EBiS: This fiscal year's average unit price of AD EBiS (average of the price at the end of each quarter) under the conventional standard has been assumed to be 167,000 yen, down from 175,000 yen in our previous forecast. We predicted that it will be flat compared to the previous fiscal year's actual average price of 166,843 yen (166,931 yen at the end of last fiscal year's Q4). Given the change in the product mix due to the new, lower-priced service, the average unit price will most likely appear to decrease. However, in order to ensure continuity between our forecasts for the current fiscal year and beyond, we have made forecasts of AD EBiS (under the conventional standard) and the new services separately based on their unit price, number of accounts, and sales.

Number of Accounts of AD EBiS: On the other hand, the number of accounts of AD EBiS, under the conventional standard, has continued to decline below our expectation. The number of accounts is expected to average 1,060 this fiscal year, decreasing by about 45 accounts from the previous fiscal year's average of 1,105 (for reference: our previous forecast was 1,090 for this fiscal year's average and the actual number at the end of the previous fiscal year was 1,061).

However, since the standard for recording the number of accounts will be changed from this fiscal year, the overall number of accounts is expected to increase due to the increase in low-priced services (in calculating the number of accounts, when a user subscribes to a plan in which CAPICO comes as a set with AD EBiS, it is only counted once).

Our forecast is based on the assumption that CAPICO's number of accounts will increase by approximately 100 accounts per year (however, since most of these are assumed to come as a set, they will largely not be added to the number of accounts). Similarly, we assumed that the number of accounts of GSP will also increase by approximately 100 accounts during the fiscal year. However, both of these services are cheaper in terms of unit price than AD EBiS. Estimating their sales based on the average number of accounts during the fiscal year (50 accounts each), their contribution to sales and profit growth can be expected to be limited.

Sales of AD EBiS: As a result, we expect the full-year sales of AD EBiS (based on the conventional standard) to decline by about 100 million yen from 2,222 million yen in the previous fiscal year to 2,124 million yen in the current fiscal year (we have revised down our sales forecast by about 200 million yen compared to our previous forecast). We have also lowered our forecast for profits, given the high marginal profit ratio of AD EBiS. This forecasted decline in profit from the previous fiscal year and the downward revisions of this fiscal year's sales and profit forecasts from our previous forecasts are mainly due to the revision of the assumptions for AD EBiS.

5. Advertising Agency DX and Incubation: In the Marketing DX Support segment, the former Advertising Agency DX is expected to post a slight increase in sales (from 176 million yen in the previous fiscal year to 180

- ◆ Slight increase in sales is expected for the entire Marketing DX Support segment.
- ◆ We revised the E-Commerce Support segment's forecasts upward, expecting growth in sales and profit.
- ◆ We forecast a decrease in profit since increased costs will negatively impact profit.

million yen in the current fiscal year; the same order shall apply hereinafter). Meanwhile, Incubation is expected to continue to post an increase in sales (from 528 million yen to 610 million yen), offsetting the decline in sales of the former Advertising Effectiveness Measurement. As a result, for the entire Marketing DX Support segment, we expect sales to slightly increase (2,933 million yen to 2,950 million yen).

6. E-Commerce Support segment: Performance of the E-Commerce Support segment will be impacted by whether there will be large projects. However, orders for E-Commerce Website Building & Operation have been strong and this segment is expected to continue contributing to earnings. For these reasons, we have made upward revisions to our previous forecast for sales and profits. For the current fiscal year, we forecast this segment's sales and profits to both increase, reaching sales of 1,050 million yen (+341 million yen or +48.1% YoY) and profit of 100 million yen (+34 million yen or +51.5% YoY).
7. Profit margin and SG&A expenses: We conservatively forecasted the gross margin to be 56.0%, the same level as Q4 of the previous fiscal year. We also assumed that SG&A expenses will increase significantly (from 1,850 million yen to 2,000 million yen; +150 million yen or 8.1% YoY), mainly due to personnel, advertising, and sales promotion expenses. We predict that profit will decline because upfront investment costs will exceed the positive impact of the increase in sales.
8. M&A: Sales and costs associated with acquiring companies and businesses during the fiscal year are uncertain. However, we do not expect any new M&A in the current fiscal year.

**【Figure 31】 Transition in Results and Forecasts for This Fiscal Year and the Medium Term**

(Million yen)	FY2022 Results	FY2023 Results	FY2024 CE	FY2024 New E	FY2025 New E	FY2026 New E	FY2024 Previous E	FY2025 Previous E
Sales	3,334	3,626	4,100	4,000	4,400	4,850	4,000	4,350
I. Marketing PF	2,925	2,933	Empty cell: not disclosed	2,950	3,200	3,500	3,235	3,530
II. EC PF	414	709	Same as above for the rest	1,050	1,200	1,350	765	820
Gross Profit	2,260	2,169		2,240	2,500	2,800	2,455	2,660
Gross Margin	67.8%	59.8%		56.0%	56.8%	57.7%	61.4%	61.1%
SG&A Expenses	1,867	1,850		2,000	2,200	2,450	2,125	2,300
Ratio to sales	56.0%	51.0%		50.0%	50.0%	50.5%	53.1%	52.9%
Operating Profit	392	319	240	240	300	350	330	365
Ratio to sales	11.8%	8.8%	5.9%	6.0%	6.8%	7.2%	8.3%	8.4%
Recurring Profit	399	329	230	230	300	350	330	365
Ratio to sales	12.0%	9.1%	5.6%	5.8%	6.8%	7.2%	8.3%	8.4%
Net Profit	236	197	140	140	180	210	200	220
Ratio to sales	7.1%	5.4%	3.4%	3.5%	4.1%	4.3%	5.0%	5.1%
Sales (YoY growth rate)	12.7%	8.8%	13.1%	10.3%	10.0%	10.2%	10.3%	8.7%
I. Marketing PF	12.5%	0.3%		0.6%	8.5%	9.4%	10.3%	9.1%
II. EC PF	15.6%	71.2%		48.1%	14.3%	12.5%	7.9%	7.2%
Gross Margin (diff. from last FY)	-1.2%	-8.0%		-3.8%	0.8%	0.9%	1.6%	-0.2%
SG&A Expenses (growth rate)	11.6%	-0.9%		8.1%	10.0%	11.4%	14.9%	8.2%
Operating Profit (growth rate)	7.4%	-18.8%	-24.7%	-24.7%	25.0%	16.7%	3.5%	10.6%
Recurring Profit (growth rate)	9.8%	-17.6%	-30.2%	-30.2%	30.4%	16.7%	0.2%	10.6%
Net Profit (growth rate)	-1.5%	-16.5%	-28.9%	-28.9%	28.6%	16.7%	1.5%	10.0%
EBITDA	677	628		540	600	650	645	675
Estimates/Assumptions for AD EBIS	Annual Average (result)	Annual Average (result)	Annual Average (forecast)	Annual Average (forecast)	Annual Average (forecast)	Annual Average (forecast)	Annual Average (forecast)	Annual Average (forecast)
AD EBIS: # of active accounts	1,231	1,105		1,060	1,080	1,090	1,100	1,115
% change for the above	-8.4%	-10.2%		-4.1%	1.9%	0.9%	-0.5%	1.4%
AD EBIS: average unit price (yen)	158,527	166,843		167,000	170,000	172,000	175,000	185,000
% change for the above	10.2%	5.2%		0.1%	1.8%	1.2%	4.9%	5.7%
I. (1) Former Ad Measurement (AD EBIS): Actual/Forecasted Sales	2,369	2,222		2,124	2,200	2,250	2,310	2,475
I. (4) Post-cookie (CAPICO) + low price (GSP): Sales				15	100	170	25	50
I. (2) Former Advertising Agencies DX: Sales	175	176		180	200	210	200	205
I. (3) Incubation: Sales	380	528		610	650	770	650	700
I. (5) Marketing Process and its new service: Forecasted Sales				21	50	100	50	100
I. Former Marketing PF (1)+(2)+(3)+(4)+(5)	2,925	2,933		2,950	3,200	3,500	3,235	3,530
II. Former EC PF (1)+(2)	414	709		1,050	1,200	1,350	765	820
(1) Former EC-CUBE	330	354		355	360	370	365	370
(2) E-Commerce Website Building & Operation: former BOKUBLOCK	84	355		695	840	980	400	450

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary and briefing materials. Sales of segments include estimates made by Alpha-Win.

(Note) CE: the Company's forecast/estimate. E: Alpha-Win's forecast/estimate. The actual and forecasted figures for AD EBIS's average unit price and number of active accounts are averages of each quarter of each fiscal year and therefore they differ from the Company's announced figures (which are the figures as of the end of the last month of each fiscal year).



## 8. Growth Strategy

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

- ◆ Aiming for a comprehensive marketing DX support business
- ◆ Planned to develop multiple new services, in addition to accelerating the development of its conventional businesses, through in-house development and M&A
- ◆ The numerical targets for the final year of the medium-term plan (FY2023: last fiscal year) had been lowered in steps. Compared to the medium-term goals announced in November of last year, it achieved DOE but fell short for consolidated sales and operating margin.

#### Previous Medium-Term Business Plan (VISION 2023): Strategy

The Company set out a plan called the MXP (Marketing Transformation Platform) Strategy. In this strategy, the Company aimed 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.

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

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

For the final year of its medium-term business plan (VISION 2023), or FY2023 (last fiscal year), the Company had planned to achieve the following goals: sales of 5 billion yen, operating margin of 15%, operating profit of greater than 750 million yen, and DOE of 3% or greater (Figure 32).

It then revised these medium-term goals at the beginning of the previous fiscal year (November 4, 2022) and also revised the financial forecasts in May of this year. Compared to the new medium-term goals announced in November of last year, it achieved only the DOE and fell short of the goals for consolidated sales and operating margin. As for the forecast announced in May, the Company's performance was within the expected range as already mentioned.

**[Figure 32] Numerical Targets of the Medium-Term Business Plan**  
(as of the date of their announcement)

	Consolidated Sales	Consolidated Operating Margin	Dividend on Equity
FY2020 Results	2.61B yen	10.6%	2.0%
FY2021 Results	2.95B yen	12.4%	2.3%
FY2022 Results	3.33B yen	11.8%	2.6%
FY2023 Medium-Term Financial Targets	5.0B yen	15%	3% or more
FY2023 Revised Financial Targets	3.9B yen	10%	2.5% or more
FY2023 Re-revised Financial Targets	3.6-3.7B yen	7.8-8.9%	2.5%
FY2023 Results	3.62B yen	8.8%	2.5%

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

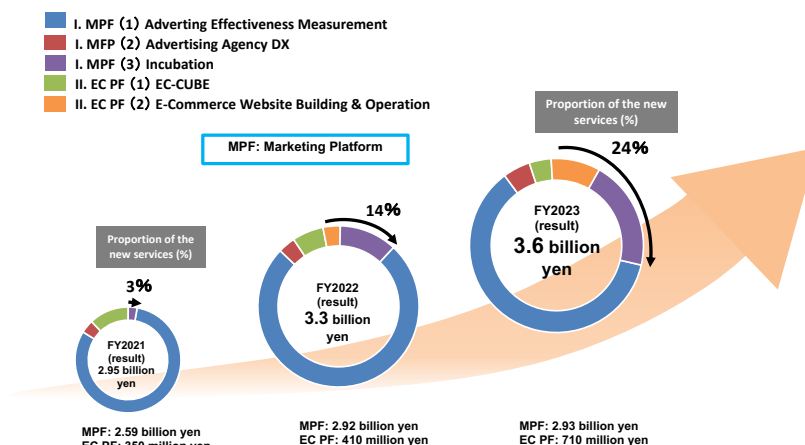
(Note) The "revised" forecast is the medium-term forecast for the previous fiscal year (FY2023) as of November 2022 and the "re-revised" forecast is the forecast for the previous fiscal year as of May 2023.

- ◆ Achieved the goal for the sales proportion of the new services, which used to be one of its KPIs.

In this previous medium-term plan, in addition to strengthening the existing businesses (especially AD EBiS), the Company focused on the new areas of business. As its companywide KPI, it newly added the proportion of the new services (Marketing PF's Incubation + EC PF's E-Commerce Website Building & Operation) in the consolidated sales.

It planned to raise this proportion from 3% in FY2021 and 14% in FY2022 to over 23% in the previous fiscal year (previous goal was 30%), but actually raised the proportion to 24% (Figure 33). Since the goal has been achieved, the proportion was excluded from the KPIs in the new medium-term business plan.

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



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

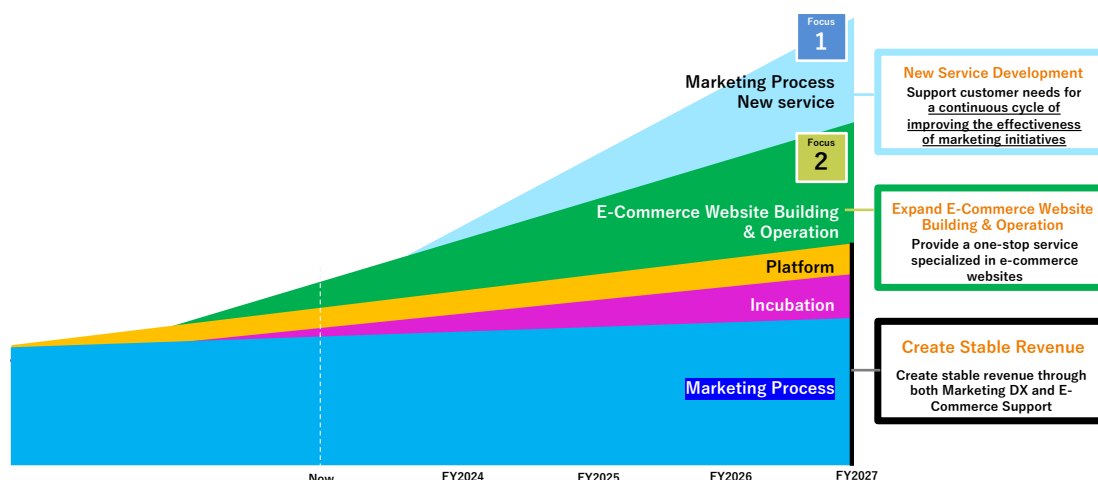
(Note) The proportion of the new services is the proportion of the sum of the sales of Incubation and E-Commerce Website Building & Operation to the overall consolidated sales. “MPF” stands for the Marketing Platform.

- ♦ The Company aims to achieve sales of ¥10 billion at an early stage (specific period is undecided) through stable growth of its conventional businesses and expansion of the new service.

#### New Medium-Term Business Plan (VISION 2027): Strategy

The Company created the new plan VISION 2027 (for the four fiscal years from FY2024 to FY2027). The theme is to “draw a clear path for achieving sales of 10 billion yen through the two growth drivers of Marketing Process Support and E-Commerce Website Building & Operation Support.” While there is no change in the medium- to long-term sales target (the timing for achieving it has not been determined yet), the Company aims to achieve accelerated growth by strengthening the new service of Marketing Process Support and expanding the E-Commerce Website Building & Operation business (Figure 34).

【Figure 34】 Image of Sales Growth in VISION 2027



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

- ♦ A new service of Marketing Process Support, which is expected to become a growth driver, is scheduled for release in Q4 of this fiscal year.

- ♦ The Company plans to provide tools as SaaS, provide human resources support, and strengthen cross-selling.

### Strategy for the Marketing DX Support Segment

In the Marketing DX Support segment (Marketing Process + Incubation), a new service for the Marketing Process business is scheduled to be launched in Q4 of this fiscal year as one of the Company's growth drivers (official version to be offered for a fee) (Figure 35).

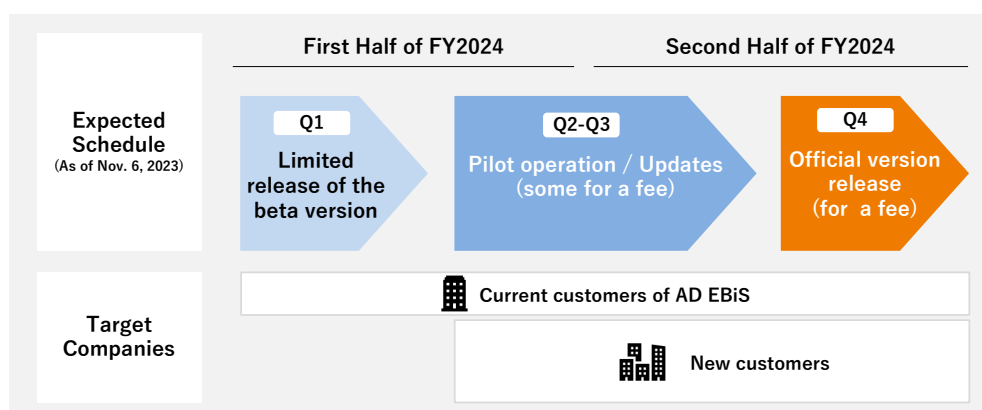
This service aims to comprehensively support the customers' needs for a continuous cycle of improving advertising effectiveness in their marketing initiatives.

The new service supports the smooth and effective execution of the entire marketing process, including adaptive learning and selection/execution of measures in addition to measuring the effectiveness of advertising. The concept is to enhance the quality of marketing management through the hypothesis/test-based cycle of Plan, Do, Check (measure and evaluate), and Action (fix and improve).

The Company is currently developing this service and plans to release the limited beta version in Q1 of this fiscal year, after which it will make improvements and release the product.

Details are undisclosed, but in addition to providing tools as SaaS, the Company plans to provide human resources support (professional services) as well as strengthening cross-selling to customers.

**【Figure 35】 New Service of Marketing Process and Its Schedule**



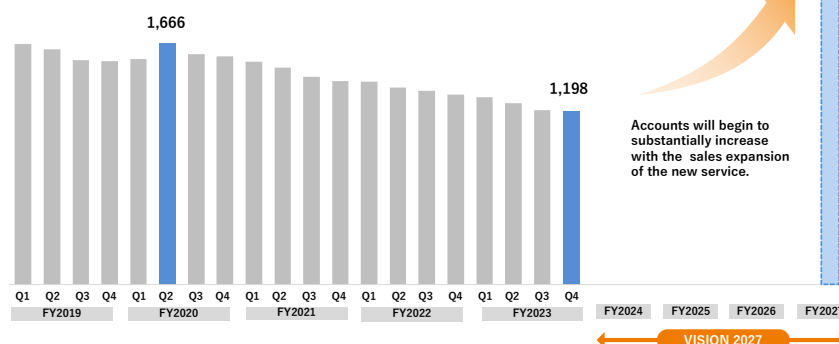
(Ref) Excerpt from the financial results briefing materials, with partial edits.

- ♦ For the Marketing Process business, the number of accounts has been set as a new KPI. The Company intends to increase the number of accounts and reach a new record by FY2027.

To do so, the Company will need to increase the number of accounts. Therefore, for the Marketing Process business, it has set the number of accounts as a new KPI. This KPI is the sum of the accounts of AD EBiS, CAPiCO (excluding those in a plan in which CAPiCO comes as set with AD EBiS), AdRepo, and the new SaaS. The Company plans to halt the decline in the number and reverse it in the current fiscal year. Furthermore, by FY2027, it aims to break the previous record (1,666 in Q2 FY2022) (Figure 36 on page 32; for reference, the number of accounts at the end of Q4 FY2023 was 1,198, of which 1,061 was for AD EBiS alone).

**【Figure 36】 Marketing Process' KPI: Number of Accounts**

\*The total number of accounts of AD EBiS, CAPiCO (excluding those also using AD EBiS), AdRepo, and the new SaaS



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

- ◆ In E-Commerce Website Building & Operation, which is expected to become the other growth driver, the Company plans to increase sales through a vertically integrated model. It is also planning to release a new service.

### Strategy for the E-Commerce Support Segment

For E-Commerce Website Building & Operation, which is one of the two main businesses that the Company expects to develop as growth drivers, the Company will expand sales through a vertically integrated model. In addition, it plans to improve profitability by launching EC-CUBE Enterprise, an e-commerce website building system tool for large-scale e-commerce websites.

In E-Commerce Support, EC-CUBE Co., Ltd. will absorb EC-CUBE Innovations Inc. (former BOKUBLOCK INC.) in January 2024, after which the organizational structure will be strengthened.

In addition, the Company has set the sales proportion of E-Commerce Website Building & Operation in the E-Commerce Support segment as a KPI and intends to raise it from 50% in the previous fiscal year to over 80% in FY2027 (the final year of the medium-term plan).

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

### Medium-Term Forecast

- ◆ We have reviewed our forecasts for the next fiscal year and have revised the profit forecasts downward.

We revised our previous forecast for the current and the next fiscal year and added a new forecast for the fiscal year after the next. The assumptions for AD EBiS (unit price and number of accounts) have been revised and changes have been made mainly for the Marketing DX Support segment. For the E-Commerce Support segment, we have made mostly no change to our previous forecast. We slightly raised our forecast for companywide sales in the next fiscal year, but we revised our forecast for profits downward due to continued upfront investments (Figure 31 on page 28).

- ◆ In the next fiscal year and the fiscal year after the next, we expect sales, profits, and dividends to increase.

However, we expect consecutive growths in sales, profits, and dividend, as well as record-high sales, in both FY2025 (next fiscal year) and FY2026 (fiscal year after the next), due to the completion of investments, full contribution from the new service of Marketing Process, sales and profit growth due to the strengthening of E-Commerce Website Building & Operation, the bottoming out of sales of AD EBiS, and sales growth due to stronger cross-selling.

♦ Unit price of AD EBiS under the conventional standard and the number of accounts are expected to show a gradual increase.

♦ The number of accounts under the new standard is expected to increase, but sales of Ad Effectiveness Measurement are expected to remain flat.

♦ We expect a DOE of 2.5% for now.

♦ We expect the medium-term annual profit growth rate to be around 10%.

♦ At this point, it is difficult to predict the impact of Marketing Process, for which details have not been disclosed, on sales and profit. However, we expect the impact to be limited in the short term since the services are based on a subscription model.

♦ We plan to update our medium-term financial forecasts again in the next fiscal year or later, when we expect to find out the details and trends of the new service to be launched.

In the main Marketing PF segment (former segment name), the annual average unit price of AD EBiS based on the conventional standard and the number of accounts are expected to show a gradual increase. The annual average unit price is expected to appear to decrease, following an increase in the proportion of the lower-priced new service, while the number of accounts is expected to increase (we expect the annual average unit price of each new service to be flat and the number of accounts to increase by 100 to 200 per year). Accordingly, we revised downward the sales forecast for the former Advertising Effectiveness Measurement business (AD EBiS) for both fiscal years.

For FY2025 (next fiscal year), we revised our forecast for sales upward from 4,350 million yen to 4,400 million yen and revised our forecasts downward for operating profit from 365 million yen to 300 million yen (operating margin from 8.4% to 6.8%) and for net profit from 220 million yen to 180 million yen (Figure 31 on page 28).

For FY2026 (the fiscal year after the next), we made new forecasts that sales will be 4,850 million yen, operating profit will be 350 million yen (operating margin of 7.2%), and net profit will be 210 million yen.

Regarding dividend, we assumed that the DOE will be 2.5% for both fiscal years, which is the same as our previous forecast. In line with the change in our profit forecasts, 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. Once the phase of upfront investment ends, there is a possibility that the Company may raise its dividend again to a DOE of 3.0%, which was its original goal.

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. Going forward, in addition to the organic growth of its conventional businesses, accelerated growth is expected through synergies created from the development of the new businesses and the active pursuit of M&A.

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 an M&A and whether that M&A will be successful (PMI) are the factors that may impact financial performance in the future.

As mentioned earlier, in Q4 of this fiscal year, the Company plans to release a new marketing process service in the Marketing DX Support segment. However, its impact on business performance in the next fiscal year and beyond is currently difficult to evaluate because information such as the service content, customer reactions, and pricing has not been disclosed yet.

However, GSP, CAPICO, and the new service of Marketing Process Support are cloud-based, subscription services, so their impact on earnings in the next fiscal year and year after that is not expected to be large. We hope to update our medium-term financial forecast as appropriate when the details, price range, and business performance of the new service of Marketing Process Support become more revealed starting in the next fiscal year.



## 9. Analyst's View

### ◆ SWOT Analysis

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

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

#### Strengths

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

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

#### Risk Factors

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

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

Previously, the management's heavy dependence on its CEO Iwata had been a problem. However, the Company has shifted to a system in which supervision and execution of duties are divided among its directors and executive officers, which would increase management speed and reduce risks. As CEO, Susumu Iwata oversees the new areas of business and has been shifting toward creating growth drivers.

【Figure 37】 SWOT Analysis (Words in red have been added/revised from the previous report)

Strength	<ul style="list-style-type: none"> <li>• Data and know-how (potential usage as big data) that it has accumulated since foundation, as well as its technologies</li> <li>• Recognition, strong customer base, proven track record, and product strength (No. 1 in the Internet ad effectiveness system tools market with an extremely high share)</li> <li>• The main marketing platform business is subscription-based; stable revenue can be expected (subscription business)</li> <li>• Network with numerous business partners (access to resources of external partners and collaboration with them)</li> <li>• Potential to raise unit price through upselling and cross-selling and expand customer base</li> <li>• CEO's management skills and expertise in leading-edge technologies of the industry; <b>agile management strategies</b></li> <li>• Enhanced working environment; engineers with expertise in leading-edge technologies; accumulation of know-how (competitive edge as a major, specialized company with high capability in development and in meeting needs)</li> </ul>
Weakness	<ul style="list-style-type: none"> <li>• Specialized in a niche market; small in scale (<b>focused on specific services</b>)</li> <li>• Business management is largely dependent on the CEO (however, authority and responsibility have now become divided and delegated to other executive officers)</li> <li>• AD EBIS's number of accounts is on a declining trend (working on finding effective solutions to improve churn rate)</li> <li>• Employee shortage (engineers and sales reps)</li> <li>• Funding power (upfront investment costs and risks related to amount of capital and equity financing in large-scale M&amp;As)</li> </ul>
Opportunity	<ul style="list-style-type: none"> <li>• Internet ad marketing market's growth potential</li> <li>• <b>Growth potential in new areas through its existing products and know-how</b> (⇒Business opportunities related to entering the marketing process support market and developing the E-Commerce Website Building &amp; Support business)</li> <li>• <b>Cross-selling through its customer base</b></li> <li>• Business expansion and groupwide synergy through M&amp;As and business acquisitions</li> </ul>
Threat	<ul style="list-style-type: none"> <li>• Impact of COVID-19 outbreak (cancellation by users with deteriorated financial performance, stopping services, etc.)</li> <li>• Intensification of competition (esp. EC-CUBE-related businesses), launch of competing or alternative products/services, emergence of rivals, and weakened competitive edge of existing products</li> <li>• Tighter regulations related to stronger privacy protection in the use of personal information (<b>restrictions on obtaining data</b>)</li> <li>• Defects in products/services and delays in development or in providing services with new function</li> <li>• Large system troubles such as computer system stoppage</li> </ul>

(Ref) Prepared by Alpha-Win Research Dept.

## ◆ Shareholder Returns

- ◆ DOE is maintained at 2.5%.

- ◆ This fiscal year, the Company plans to increase its dividend despite a decline in profit. We reviewed the Company's financial performance and revised down our dividend forecast to be the same as the Company's plan.

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

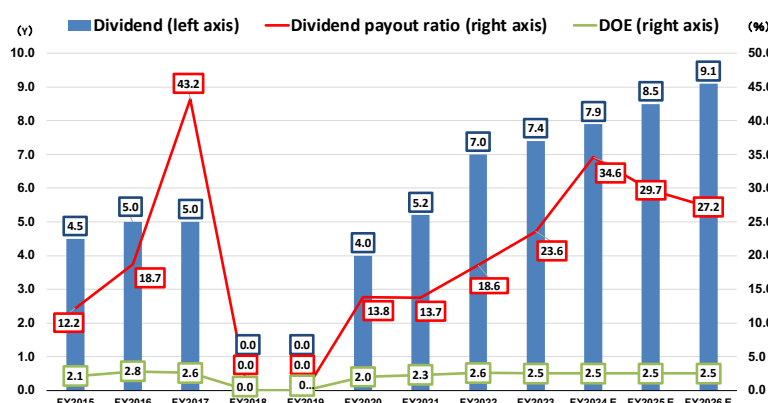
At the beginning of the previous fiscal year, the Company had planned to increase dividend to 7.8 yen/share (+0.8 yen/share YoY). However, due to the downward revision of the financial results, dividend was lowered to 7.4 yen/share (+0.4 yen/share YoY), since a consolidated dividend on equity ratio (DOE)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

This fiscal year, the Company plans to raise dividend by 0.5 yen/share to 7.9 yen/share, based on a DOE of 2.5% again. The dividend payout ratio will increase from 18.6% ⇒ 23.6% ⇒ 34.6% from FY2022 to FY2024.

We, too, reviewed our financial forecast for this fiscal year and lowered our dividend forecast from the previous 8.3 yen/share to 7.9 yen/share, which is the same as the Company's plan. We also revised our profit forecasts for FY2025 and FY2026 and revised dividend forecasts based on a DOE of 2.5%.

However, since the YRGLM Group is still in its growth stage, it will need to continue with investment. However, we predict that it will return to a profit growth trend starting in the next fiscal year as it begins to see the positive effects of its investments, which will likely lead to dividend hikes over the medium term (Figure 38).

【Figure 38】 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 Impact Stock Price

### Stock Price and Trends

The Company's stock is a small-cap, Ad-Technology<sup>11</sup>-related stock listed on the TSE Growth Market. Since becoming listed, the volatility of stock price has been high (intraday stock price was at a max of 5,770 yen in November 2014 and a min of 469 yen in October 2023).

Upon announcing the financial results for the first half of the previous 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. Stock price had been in a low price range after this.

(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.

However, when the Company announced its financial results for the previous fiscal year, it also announced that, in addition to an increase in dividend for the current fiscal year, it would resume the shareholder benefit program (shareholders who hold at least 100 shares will receive an Amazon gift card of 1,000 yen twice a year) and buy back up to 100 million yen or 200,000 shares of its stock. In a positive response to this enhanced shareholder return package, stock price turned around and is currently hovering around 700 yen.

Until the announcement of the full-year financial results (with the enhanced shareholder return package), the Company's stock had been underperforming the TSE Growth, TSE Prime, and other major indices since the beginning of the year, but it has been outperforming them since the announcement (Figure 39).

**【Figure 39】 Comparison of Valuation and Performance with Major Indices**

Closing price of Dec. 1, 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 Nov. 6, 2023
YRGLM (G 3690)	697	30.52	2.25	1.13	7.73	34.8
TSE Prime Stock Average: P	1,225.90	15.18	1.29	2.24	25.95	0.9
TSE Standard Stock Average: S	1,163.06	14.34	0.97	2.27	16.85	3.1
TSE Growth Stock Average: G	892.09	55.52	3.36	0.51	0.20	0.5
TOPIX	2,382.52				25.95	0.9
TSE Growth 250 (former TSE Mothers)	700.75				-4.06	1.1
Nikkei Stock Average	33,431.51	14.90	1.32	1.95	28.1	2.2

(Ref) Prepared by Alpha-Win Research Dept. The Company's P/E is based on Alpha-Win's EPS forecast. Note that November 6, 2023, was the date on which the financial results for the previous fiscal year were announced.

(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.

### Comparison of Valuation with Major TSE Indices

Based on this fiscal year's financial forecast, the Company's valuation is as follows: forecasted P/E of 30.52, actual P/B of 2.25, forecasted P/S<sup>12</sup> of 1.08, and a forecasted dividend yield of 1.13% (forecasts are based on the Company's plan).

The Company's stock is slightly overvalued compared to the average of all stocks on the TSE Prime Market (P/E of 15.18, P/B of 1.29, and simple dividend yield of 2.24%). 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 55.52, P/B of 3.36, and simple dividend yield of 0.51%).

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

- ♦ Valuation is slightly high in terms of the major indicators, excluding P/S, based on the forecasts for this fiscal year and the following two years

Its EV/EBITDA is estimated to be 6.8 for the current fiscal year, 6.1 for the next fiscal year, and 5.6 for the fiscal year after the next (Alpha-Win's forecasts), which seem to be within the general range (about 2 to 8).

Based on our new financial forecasts, the expected P/E would be 30.5 for this fiscal year, 24.3 for the next fiscal year, and 20.9 for the fiscal year after the next. If we assume the medium-term profit growth rate to be 10%, the PEG<sup>13</sup> would be around 3.0 (based on forecasts for this fiscal year), indicating that the stock is somewhat overvalued (generally, a stock is said to be undervalued if PEG is less than 1 and overvalued when more than 2).

The P/S is low at 1.08 (comparison with similar companies in Figure 40 on page 38: the average P/E of 22 major listed AdTech companies is over 2).

- ◆ Future stock price will depend on the profit and dividend levels.

The Company's stock is recognized as an AdTech/subscription-related growth stock oriented toward domestic demand, which seems to be already reflected in the stock price to a certain extent. Based on the new forecasts for this fiscal year, its valuation does not appear undervalued in terms of the major indicators. Therefore, the future stock price is expected to be impacted by the level of profit and dividend in the next fiscal year and beyond.

- ◆ We believe the stock price may rise if visibility of sustainable, double-digit profit growth increases.

Whether the new services (such as the new service of Marketing Process Support), which are expected to become the growth drivers, will succeed will be the key factor that may impact financial performance. Once the Company completes its phase of upfront investment and becomes more likely to sustain a double-digit profit growth, its valuation may rise such that the stock price may rise over the medium term considering the potential for future dividend increases.

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

### **Valuation Comparison with Similar Companies**

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

Instead, we have compared the size, business, and valuations of listed Japanese AdTech companies with business partly similar to the Company and listed companies that compete with the Company in the e-commerce platform business (packaged software for building websites for e-commerce stores, etc.) (Figure 40 on page 38).

As reference, comparison was also made with two companies listed on the US market: HubSpot Inc. (ticker code HUBS; based in the U.S.; global development of its original marketing PF based on a subscription model; continuing to post a net loss; P/S of 14.3 and P/B of 25.7 based on the closing price of Dec. 1, 2023) and Shopify Inc. (ticker code SHOP; based in Canada; providing cloud-based e-commerce PF developed for small/medium-sized businesses; expanding into Japan and competing with EC-CUBE; rapid growth; P/S of 15.4 and P/B of 11.4 based on the closing price of Dec. 1, 2023). Both companies are posting losses and their P/S and P/B are extremely high compared to the Company.

Of the compared companies, the average figures of the 26 Japanese companies with net profit forecasted for the current fiscal year based on company forecasts (22 AdTech companies and four e-commerce companies) are not very meaningful due to the large disparity between the companies.

However, at least based on this fiscal year's expected P/E, P/B, P/S, and dividend yield, the Company's valuation is relatively generally low and its stock seems somewhat underpriced.

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

AdTech-Related Companies		Markets: P = TSE Prime, S = TSE Standard, and G = TSE Growth		Unit: million yen (million USD for overseas companies)			%	Ratio			%	Closing Price (12/1)
Code	Company Name	Business Area	Market	Market Cap.	Sales	O.P.	O.P. Margin	P/S	P/E	P/B	Dividend Yield	Stock Price
2389	DIGITAL HD	Internet ad agency / ad measurement tool	P	21,895	16,000	210	1.3	1.37	63.28	0.46	0.00	1,254
2461	F@N Communications	Affiliate (pay-per-performance) ad	P	32,080	7,600	2,100	27.6	4.22	22.28	1.57	4.56	417
2491	ValueCommerce	Affiliate (pay-per-performance) ad	P	46,570	29,100	4,700	16.2	1.60	13.65	2.01	3.70	1,351
3134	Hamee	Mobile accessories / E-commerce cloud support	P	16,133	16,813	2,086	12.4	0.96	10.49	1.82	2.27	991
3655	BrainPad	Internet marketing / data analysis	P	22,791	11,000	1,100	10.0	2.07	29.25	4.46	0.00	1,022
3690	YRGLM Inc.	Internet ad measurement tool	G	4,442	4,100	240	5.9	1.08	30.52	2.25	1.13	697
3853	Asteria	Packaged software	P	12,454	4,500	Not disclosed	—	2.8	—	2.14	—	712
3923	RAKUS	Cloud service / Email delivery / IT engineer dispatching	P	480,222	38,295	5,390	14.1	12.54	120.02	46.04	0.08	2,650
4293	SEPTENI HD	Internet ad agency / smartphone marketing support	S	95,619	36,700	4,200	11.4	2.6	25.84	1.47	1.02	453
4395	Accrete	SMS delivery service	G	6,272	7,784	1,168	15.0	0.81	8.30	2.50	0.95	1,050
4751	CyberAgent	Internet ad agency / smartphone / games	P	438,767	750,000	30,000	4.0	0.6	54.86	3.04	1.73	867
4784	GMO AD Partners	Internet ad agency and related platform	S	6,217	15,500	10	0.1	0.40	77.62	1.15	0.65	371
6026	GMO TECH	App-installation-type charging ad / SEO	G	4,347	6,200	500	8.1	0.70	11.93	5.67	4.19	3,950
6031	Scigineer	Digital marketing solutions	G	7,475	1,800	470	26.1	4.15	44.43	8.85	0.32	1,169
6038	iid	Contents marketing platform	S	3,640	6,700	650	0.1	0.5	8.58	0.85	1.81	719
6045	Rentracks	Pay-per-performance Internet ad service	G	3,757	3,232	794	24.6	1.16	11.66	1.28	2.55	471
6081	Allied Architects	SNS-related marketing support	G	6,825	4,686	643	13.7	1.46	28.18	2.11	—	479
6094	FreakOut HD	Internet ad delivery (DSP)	G	15,716	51,000	Not disclosed	—	0.31	—	0.95	0.00	872
6185	SMN	Retargeting ads and affiliate website services	S	4,265	12,500	100	0.8	0.34	93.55	0.96	0.00	290
6533	Orchestra HD	Digital marketing for companies	P	11,222	11,500	1,150	10.0	0.98	15.92	1.90	0.87	1,143
6535	i-mobile	Ad network (pay-per-click ad distribution)	P	28,005	20,000	3,800	19.0	1.40	10.11	0.63	2.95	458
6562	Geniee	Automatic trading of media ad space / AdTech biz	G	18,702	8,400	1,800	21.4	2.23	14.10	2.69	—	1,036
Simple average of 22 AdTech-related companies (which have not forecasted a net loss)				58,519	48,337	3,056	12.1	2.01	34.73	4.31	1.51	—
3688	CARTA HD (net loss)	Ad platform	P	32,713	24,200	500	2.1	1.35	—	1.32	4.15	1,300
6550	Unipos (net loss)	Internet ad service; media monetization support	G	2,668	973	-614	-63.1	2.74	—	3.99	0.00	205
NYSE:HUBS	HubSpot Inc.	Cloud-based customer management platform	NYSE	26,019	1,730	-109	-6.3	15.0	—	25.9	0.00	USD 516.97

E-Commerce-Platform-Related Companies		Markets: P = TSE Prime, S = TSE Standard, and G = TSE Growth		Unit: million yen (million USD for overseas companies)			%	Ratio			%	Closing Price (12/1)
Code	Company Name	Business Area	Market	Market Cap.	Sales	O.P.	O.P. Margin	P/S	P/E	P/B	Dividend Yield	Stock Price
3371	SOFT CREATE HD	E-commerce website building package / selling merchandise B2B	P	46,643	27,702	5,079	18.3	1.68	13.71	2.52	2.84	1,693
4304	Estore	E-commerce website building / online shopping support	S	7,132	12,498	835	6.7	0.57	8.91	2.01	—	1,210
4057	Interfactory	Cloud commerce platform	G	2,235	2,883	69	2.4	0.78	48.87	2.14	0.00	542
4496	Commerce One Holdings	Support services for e-commerce website mgmt SMEs / mid-tier companies	G	5,342	3,558	488	13.7	1.50	15.49	1.87	4.79	710
Simple average of 4 e-commerce-platform-related companies (which have not forecasted a net loss)				15,338	11,660	1,618	10.3	1.13	21.74	2.13	2.54	—
4477	BASE (net loss)	E-commerce platform / online settlements	G	28,454	11,500	-1,000	-8.7	2.47	—	2.17	0.00	247
NYSE:SHOP	Shopify Inc.	Cloud-based commerce platform	NYSE	89,064	5,599	-822	-14.7	15.91	—	11.4	0.00	USD 73.86

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

(Note) Generally, each company's forecasted values from the latest financial results disclosure (latest quarterly financial results) or the most recent actual results (BPS, etc.) were used (based on disclosed data available as of December 1, 2023). For forecasts disclosed as ranges, as a general rule, the median was used for calculations. For the Company, Alpha-Win Research Dept.'s forecast was used. Values not disclosed are marked by "ND" (not determined) or "-". The average was calculated using only valid figures. For the two overseas companies, data (actual values) on business performance and finance in the most recent full fiscal year (ended December 2022) were used to calculate P/E, P/S, P/B, and operating margins.

### Key Points Going Forward

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

- ◆ Key factors that may impact stock price are the number of accounts, change in the sales proportion of E-Commerce Website Building & Operation, the contribution of the new services or products to financial performance, change in monthly sales, M&A, and dividend.

1. The number of accounts as generally defined for the Marketing Process business as its KPI – especially AD EBiS's number of accounts (when it will turn from a net decline to a net increase), unit price (amount and rate of growth), and churn rate based on the standard used up to the previous fiscal year, which constitute a part of this KPI
2. Sales proportion of the E-Commerce Website Building & Operation business, which is a KPI for the E-Commerce Support segment, and the contribution to results by EC-CUBE Enterprise that is planned be launched
3. Monthly sales trends (YoY change for both support segments, especially the timing that the Marketing DX Support segment will turn to sales growth)
4. Quarterly trends in profit/loss (profit growth rate, profit margins, EBITDA, and changes in each segment's sales and profit)
5. The financial results for this full fiscal year and the profit forecast for the next fiscal year and beyond (the timing when profit will begin increasing again)



6. Shareholder return measures and their level (possibility of dividend increase or additional share buyback)
7. Announcements of M&A or alliance
8. Strengthened regulations such as those for the protection of personal information

◆ We will continue watch the Company's stock as a domestic-demand-oriented growth stock in the marketing DX support and e-commerce businesses.

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 business development, change in sales, and change in profit growth rates as a domestic-demand-oriented growth stock in the business of marketing DX support that is resistant to direct impacts by COVID-19, global situations, inflation, and foreign exchange.