

Alpha-Win Company Research Report

YRGLM Inc. (3690 TSE Growth)

Issued: 5/31/2024

● Summary

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

Business Description

- YRGLM Inc. (hereinafter, the “Company”) plans, develops, and provides services 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 extremely high market share (top share in the market). While small in scale, it is a leading company in a niche category.
- Its strengths are its technological capability enabling highly accurate data measurement, employees with DX expertise, the big data that it has accumulated as a 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 has high continuity, stability, and profitability.
- Since 2016, it had been working on a business model shift and the selection/focus of its business portfolio. This business restructuring has already come to an end of a phase and has improved its business foundation and earning power. Currently, the Company’s business is based on two business segments: Marketing DX Support (formerly, “Marketing Platform”) and E-Commerce Support (formerly, “EC Platform”).
- Since 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 dividends.

Results for the First Half of This Fiscal Year and Forecast for This Full Fiscal Year

- In the first half of the current fiscal year (H1 FY2024: the cumulative total through Q2, from Oct. 2023 to Mar. 2024), sales increased by 2.2% year-on-year (YoY) to 1,851 million yen, operating profit decreased by 49.2% to 106 million yen, and net profit decreased by 59.8% to 52 million yen, resulting in a slight increase in sales but a significant decrease in profit. The forecast for the first half of the fiscal year is not disclosed, but the results appear to have all been in line with the Company’s expectations.
- In the Marketing DX Support segment, sales (to external customers; the same applies hereinafter) decreased to 1,437 million yen (-3.7% YoY) and profit decreased to 78 million yen (-50.3% YoY). On the other hand, in the E-Commerce Support segment, sales rose to 415 million yen (+29.8% YoY) and profit decreased to 25 million yen (-52.8% YoY).
- In the Marketing DX Support segment, sales of the Marketing Process category declined due to the gradual decrease in the number of accounts of the highly profitable AD EBiS up through the end of the previous fiscal year. In addition, investments were made in the development of new services, resulting in the segment’s profit decline. However, the number of accounts of this category including AD EBiS (KPI) has bottomed out after Q4 FY2023 and has been increasing for two consecutive quarters since the beginning of this fiscal year, thanks to new contracts for the low-end plan (GSP), growth of CAPiCO, and decreased churn rate. Meanwhile, in the Incubation category, the Company saw a slight decline in sales.
- In the E-Commerce Support segment, sales increased significantly thanks to the E-Commerce Website Building & Operation category, but profits declined due to lower sales of the Platform category and upfront investments for organizational strengthening.
- Financially, the Company is essentially debt-free, thanks to the accumulation of capital and cash & deposits due to profits. The equity ratio and current ratio are at sufficient levels and its financial structure is sound.
- The Company has maintained the full-year forecasts that were announced at the beginning of the fiscal year, which

are as follows: full-year 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). It plans to maintain sales growth and achieve a new record high, but since it will continue to invest in the second half to develop its future growth drivers and increase their sales, profits are expected to fall for the second fiscal year in a row.

- The Company is targeting a consolidated dividend on equity ratio (DOE) of 2.5% for this fiscal year. It plans to pay an annual dividend of 7.9 yen per share (an increase of 0.5 yen compared to the previous fiscal year).
- The Company's forecasts for the second half (calculated by full-year forecast minus first-half result) are as follows: sales of 2,248 million yen (+23.9% compared to the second half of the previous fiscal year), operating profit of 133 million yen (similarly, +22.6%), and net profit of 87 million yen (similarly, +32.8%). Significant increases in both sales and profits are expected. The operating margin is expected to be 5.9%, almost the same as in the second half of the previous fiscal year (+0.2% compared to 5.7% in the first half of the current fiscal year). It seems to be expecting the E-Commerce Website Building & Operation category and the Marketing Process category to contribute to results.
- We, Alpha-Win Research Department, had previously forecasted sales of 4,000 million yen, which were 100 million yen below the Company's plan. However, taking into account the first-half results, the current monthly sales trend, the Company's second-half plan, the slowdown in Incubation's growth, and the delay in releasing the paid version of the new service, we have revised our forecast further downward by 150 million yen to 3,850 million yen (+6.2% YoY). Accordingly, we have also lowered our operating profit forecast by 30 million yen to 210 million yen, while we kept the dividend forecast at 7.9 yen (based on a DOE of 2.5%).

Business Strategy and Medium-Term Financial Forecast

- In addition to the current fiscal year, we also reviewed our previous forecasts for the next fiscal year and the fiscal year after the next and have revised them downwards, especially for the Marketing DX Support segment. However, from next fiscal year onwards, we expect an annual sales growth rate of about 10%, an even higher profit growth rate, and increases in dividends, since we expect sales growth from Marketing DX Support's new services, Advertising Effectiveness Measurement, and E-Commerce Website Building & Operation.
- Businesses related to Internet marketing (where the Company is concentrating its management resources) and e-commerce have a high market growth potential over the medium to long term. Furthermore, the Company plans to actively pursue M&A as its growth strategy. Sales growth is therefore expected.
- Since the Company is currently in the phase of making upfront investments for future exponential growth, the balance between profits and investment costs will be a key point in management. Once the current upfront investments peak out, we believe that the Company will return to an upward profit trend due to sales growth and profit margin improvement brought by the expansion of its conventional and new businesses in both segments.
- The Company aims for an early achievement of consolidated sales of 10 billion yen as a 'Comprehensive Marketing DX Support Business Group' (the specific timespan for achieving this has not been announced). It will achieve this through stable growth of its conventional businesses over the medium term and expansion of new services in two areas (E-Commerce Website Building & Operation and Marketing Process; "creation of new growth drivers").

Stock Price

- In November 2023, the Company announced measures to increase shareholder returns (dividend increase, reintroduction of the shareholder benefit plan, and share buyback), upon which the share price soared from below 500 yen to the mid-700 yen range. Since then, the share price has been hovering around 600 yen. There were no surprises in the first-half results, so the share price was not significantly affected.
- The Company is a small, Internet-related stock with high volatility in share price. Based on the forecasts for this fiscal year, there is no sign of undervaluation in the key valuations.
- However, depending on the expansion of and contribution to earnings by the new service of the Marketing Process category (which is expected to become a growth driver) and the E-Commerce Website Building & Operation category, the momentum of the Company's overall financial performance may recover and the share price may rise.

• The key factors that may impact stock price are the number of accounts, unit price, churn rate, and sales growth rate of the Marketing Process category; the sales proportion and sales growth rate of the E-Commerce Website Building & Operation category; monthly sales trends (YoY for both segments); quarterly profit and loss trends; this full fiscal year's results and the profit outlook for the next fiscal year and beyond (the timing that profit will begin increasing again, the profit growth or decline rate, and the profit margin); the strengthening of shareholder return measures and their level (DOE increase, share buybacks, etc.); and announcements of M&A and alliances.

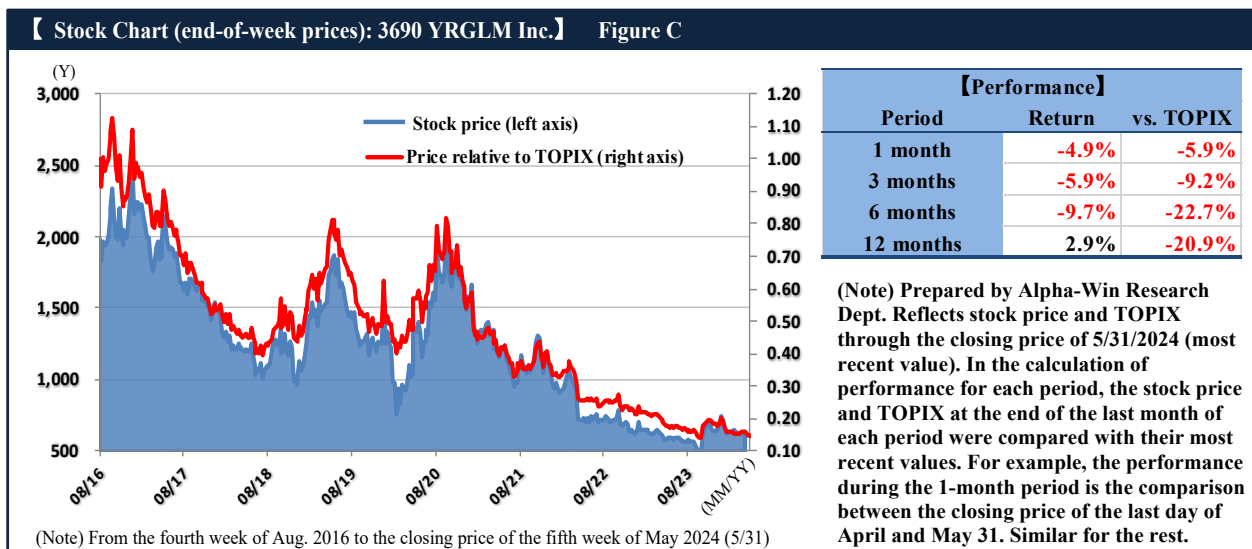
【3690 YRGLM Inc. Sector: Information & Communication】		Figure A										
FY		Sales (million Y)	YoY (%)	O.P. (million Y)	YoY (%)	R.P. (million Y)	YoY (%)	N.P. (million Y)	YoY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2021	A	2,957	12.9	365	32.0	364	39.5	239	30.7	38.0	257.5	5.2
2022	A	3,334	12.7	392	7.4	399	9.8	236	-1.5	37.7	283.3	7.0
2023	A	3,626	8.8	318	-18.8	329	-17.6	197	-16.5	31.4	309.1	7.4
2024	Initial CE	4,100	13.1	240	-24.7	230	-30.2	140	-28.9	22.7	-	7.9
2024	New E	3,850	6.2	210	-34.0	210	-36.2	125	-36.5	19.9	321.5	7.9
2024	Old E (previous)	4,000	10.3	240	-24.5	230	-30.1	140	-28.9	22.3	323.8	7.9
2025	New E	4,250	10.4	250	19.0	250	19.0	150	20.0	23.9	337.4	8.5
2025	Old E (previous)	4,400	10.0	300	25.0	300	30.4	180	28.6	28.6	344.6	8.5
2026	New E	4,680	10.1	280	12.0	280	12.0	170	13.3	27.0	356.0	9.0
2026	Old E (previous)	4,850	10.2	350	16.7	350	16.7	210	16.7	33.4	369.5	9.1
2023	Q1 A	879	13.2	97	10.8	102	16.7	69	18.4	11.1	249.1	0.0
2024	Q1 A	928	5.6	49	-49.2	52	-48.4	23	-66.0	3.8	291.9	0.0
2023	Q2 A	933	8.1	113	5.3	110	8.2	62	-16.5	9.9	298.5	0.0
2024	Q2 A	923	16.0	57	27.5	55	24.5	29	34.6	4.7	302.6	0.0
2023	H1 A	1,812	14.6	210	19.2	212	20.7	131	25.5	20.9	298.5	0.0
2024	H1 A	1,851	2.2	106	-49.2	107	-49.5	52	-59.8	8.5	302.6	0.0
2023	H2 A	1,814	3.5	109	15.8	117	19.6	66	7.1	10.5	309.1	7.4
2024	H2 CE	2,248	23.9	133	22.6	123	4.9	87	32.8	14.1	-	7.9

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

Old (previous): previous forecast. New: current forecast. Q1: Oct-Dec. Q2: Jan-Mar. H1 (first half): Oct-Mar. H2 (second half): Apr-Sept.

【Stock Price and Valuation Indicators: 3690 YRGLM Inc.】		Figure B				
Item	5/31/2024	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	602	Last FY (actual)	19.2	1.9	1.2%	23.6%
Shares Outstanding (thou.)	6,372	This FY (est.)	30.3	1.9	1.3%	39.7%
Market Capitalization (million Y)	3,836	Next FY (est.)	25.2	1.8	1.4%	35.6%
Dilutive Shares (thou.)	0.0	FY after the next (est.)	22.3	1.7	1.5%	33.3%
This First Half's Equity Ratio	62.7%	Last FY's DOE	2.5%	Last FY's ROE	10.6%	

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



(Note) From the fourth week of Aug. 2016 to the closing price of the fifth week of May 2024 (5/31)

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(Notes)

In this Report, figures for the same item may slightly differ from those disclosed by the Company due to rounding.

¹ Previous "Marketing Platform Segment"

² Previous "EC Platform Segment"

- On June 30, 2023, the name of the consolidated subsidiary BOKUBLOCK INC. was changed to EC-CUBE Innovations Inc. Then, on January 1, 2024, EC-CUBE Co., Ltd. absorbed EC-CUBE Innovations 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).

- ◆ **Comprehensive Marketing DX Support Business Group. Top share in the Japanese software market for Internet ad effectiveness measurement and open-source e-commerce website building.**

- ◆ **Ambitiously developing new businesses through M&As and in-house development. Its current main service is its SaaS (cloud service) for Internet ad effectiveness measurement.**

(1) DX (Digital Transformation): transformation and innovation 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.

- ◆ **Founded by its CEO Susumu Iwata. Listed on the TSE Growth Market.**

(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 require purchasing of packaged products. Only the necessary functions, contents, and quantity of service are used via the Internet and paid for.

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

- ◆ **The performance of its consolidated subsidiaries has recovered and is remaining solid, contributing to sales.**

1. Company Overview

◆ A Leading Company in a Niche Market

Company Overview

YRGLM Inc. (hereinafter, the "Company") is a comprehensive marketing DX¹ support company which plans, develops, and provides services and 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, an Internet advertising effectiveness measurement tool², and EC-CUBE, an open-source³ software series for building e-commerce websites. It is a leading company in a niche category.

Currently, its main service is its Internet advertising effectiveness measurement system, provided as SaaS⁴ (cloud service). However, it has been evolving into a Comprehensive Marketing DX Support Business Group 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.

Change in Company Name

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

Consolidated Companies and Trends in Consolidated Results

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

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

The subsidiaries, which became included in the consolidated results upon their acquisition, have expanded their business after the acquisition and have been contributing significantly to the Group's sales growth (however, the most recent profit and loss figures for each company are not disclosed). The Company did not announce non-consolidated results for this first half.

[Figure 1] 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 (applies to the rest of this Report).

Financial Standing

- ◆ Continuing to be essentially debtless

There was a period of negative free cash flow (FCF) in the past due to M&As and large-scale investments, but since the second half of FY2020, the FCF has been generally improving and the Company's capital and cash & deposits have been accumulating (Figure 2). As of the end of March 2024, or the end of the first half of this fiscal year, its debt totaled about 520 million yen while its cash & deposits were about 1,370 million yen. Therefore, the Company is essentially debtless.

[Figure 2] Semi-Annual Change in Cash Flow and Balance of Cash & Deposits

Units: million yen	FY2016		FY2017		FY2018		FY2019		FY2020		FY2021		FY2022		FY2023		FY2024		
	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1		
Operating CF ①	15	148	48	93	121	23	7	9	99	109	92	429	241	333	141	292	356	209	261
Investing CF ②	-5	-27	-80	-69	-88	-106	-94	-118	-368	-158	-409	-101	-35	-313	-262	-181	-100	-57	-69
Financing CF	-3	0	-16	3	-31	-0	169	542	162	-262	391	-56	-1	-23	-195	-121	-178	-115	-273
FCF (①-②)	9	121	-32	24	33	-83	-88	-110	-269	-50	-317	328	206	20	-121	111	256	152	192
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	1,370

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

- ◆ The equity ratio is about 60%, indicating financial soundness.
- ◆ Intangible fixed assets including goodwill have been smaller than the net assets.
- ◆ Estimated to have an unrealized gain of a little greater than 1.3 billion yen owing to its subsidiary's shares.

Its total assets are 3.0 billion yen and its market capitalization is 4.0 billion yen, both relatively small. However, its equity ratio is 62.7% and current ratio is 198%, indicating financial soundness (all figures are as of the end of March 2024, or the end of this first half).

Goodwill has increased due to the acquisition of companies and businesses, but is now decreasing due to amortization. Since the balance of goodwill as of the end of March 2024 was 300 million yen, which is about 56% of the forecasted EBITDA for this full fiscal year, a lump-sum amortization of goodwill is also possible (Figure 3). Intangible fixed assets, which is a sum of goodwill and 380 million yen in software and software in progress, total 700 million yen. Adding deferred tax assets of 50 million yen to this, the total comes out to be 750 million yen, which is smaller than the net assets of 1,910 million yen (39%) and therefore does not pose an issue.

Also, the Company owns 90% of the shares of its subsidiary EC-CUBE CO., Ltd. Based on the amount for which a portion of the subsidiary's shares was sold to Orient Corporation (the amount as of 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.

[Figure 3] Change in the Balance of Goodwill and Amount of Amortization

Yearly Goodwill	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	H1 FY2024
Goodwill (balance on B/S; million yen) ①	0	0	0	0	0	109	316	450	484	362	301
Annual amortization of goodwill (on CF statement; million yen) ②	0	0	0	0	0	16	55	84	108	122	122
Average period of amortization (years) ③=①/②	0	0	0	0	0	7.0	5.8	5.4	4.5	3.0	1.2
EBITDA ④	273	373	286	174	6	247	514	638	686	628	535
EBITDA/goodwill ⑤=①/④	0	0	0	0	0	0.4	0.6	0.7	0.7	0.6	0.6

(Ref) Prepared by Alpha-Win Research Dept. based on information including the financial results summary and briefing materials. The italicized figures under H1 FY2024 are annual forecasts made by Alpha-Win (estimated based on H1 results).

◆ Worked on restructuring its business portfolio. Withdrew from non-core businesses and concentrated business resources on AD EBiS of the Marketing DX Support segment. In recent years, it has been expanding its business again, including the E-Commerce Support segment, through acquisitions of businesses and companies in peripheral areas.

2. Business Contents and Business Model

◆ Business Portfolio

Restructuring and Strengthening the Business Portfolio

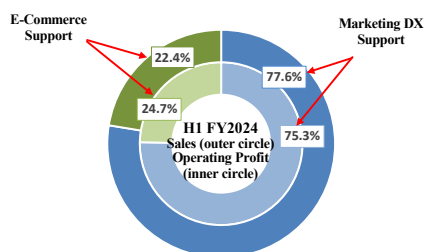
Since FY2016, the Company had been actively restructuring and strengthening its business portfolio. It increased its focus on the core businesses (shifting to AD EBiS of the Marketing DX Support segment), separated its non-core businesses (E-Commerce Support segment), and carried out M&As (Figure 4). This business restructuring has reached the end of a phase, though, and the Company is now in the stage of rapidly expanding its business for the next level of growth, especially with the new businesses.

【Figure 4】 Business Restructuring and Segments (New services are highlighted in yellow)

Segment	Category / Business	Main Service (or company name)	Changes	Notes
I. Marketing DX Support (formerly, Marketing Platform)	(1) Marketing Process: A. Ad Effectiveness Measurement	① AD EBiS (includes GSP) and CAPICO: advertising effectiveness measurement tool	ADPLAN business (acquired in Jan 2020; merged) was ended in March 2021	Parent company
	B. Advertising Agency DX	① AdRepo: automatic report generation tool for advertising analysis	Business acquisition (August 2018)	
	C. New service (name not announced yet)	① New service: Tool to create "a continuous cycle for improving the effectiveness of marketing strategies" through SaaS and human support	Currently focused on updating and increasing the users of the beta version. The official (paid) version was scheduled to be released in Q4 FY2024, but this has been postponed to FY2025 or later.	
	(2) Incubation (formerly, New Services)	① AD HOOP: marketing-specialized matching	Started service in May 2020; changed name to ADHOOP in Jan 2021	
		② eZCX: e-commerce-specialized CX improvement PF	Official version released in July 2021; sale of service is currently suspended. Service ended in May 2024.	
		③ Spoo: web media/design & management services	Acquired as a wholly owned subsidiary (Dec 2020)	
④ TOPICA: SNS and video marketing support		Acquired as subsidiary with about a 60% stake (July 2021)		
II. E-Commerce Support (formerly, EC Platform)	(1) Platform (formerly, EC-CUBE)	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; absorbed EC CUBE Innovations in Jan. 2024 for vertically integrated operation	Consolidated
	(2) E-Commerce Website Building & Operation (formerly, E-Commerce Website Building & Operation Support)	① EC-CUBE Innovation (former BOKUBLOCK) ⇒ (absorbed by) EC-CUBE Co., Ltd.: e-commerce website building & operation and solutions	Acquired as a wholly owned subsidiary (May 2022) ⇒ Changed name to EC CUBE Innovations (June 2023) ⇒ Shares transferred to EC-CUBE Co., Ltd by YRGLM ⇒ company closed	Consolidated
	⑤ Far End Technologies: project management tool	Acquired as a wholly owned subsidiary (Jan 2022)		

(Ref) Figures 4-7 were prepared by Alpha-Win Research Dept. based on information including the financial results summary and briefing materials. Words in red in Figure 4 indicate changes during this fiscal year.

【Figure 5】 Sales and Profit Breakdown by Segment (first half of FY2024)

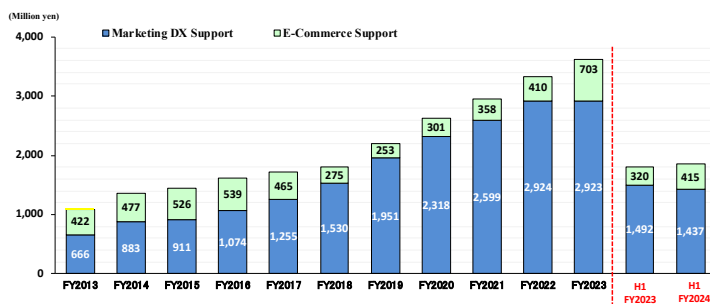


Business Composition

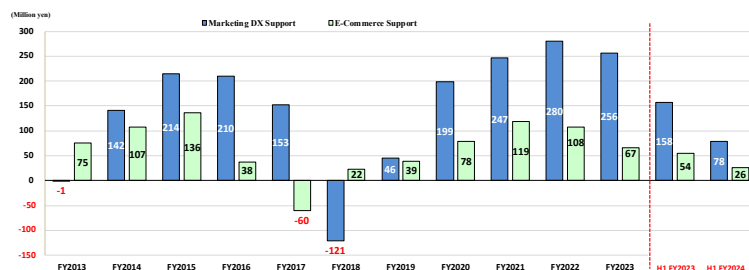
Currently, the Company has two business segments: I. Marketing DX Support (formerly, Marketing Platform) and II. E-Commerce Support (formerly, EC Platform).

The Marketing DX Support segment accounted for about 78% of total sales in the first half of this fiscal year (Figure 5). This segment has long been the driver of the Company's overall sales growth (change in sales by segment: Figure 6).

【Figure 6】 Change in Sales by Segment (Units: million yen)



【Figure 7】 Change in Operating Profit by Segment



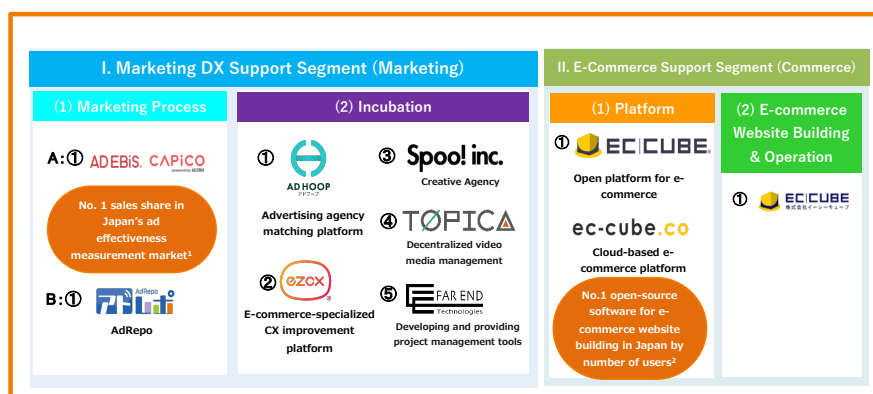
(Ref) Prepared by Alpha-Win Research Dept. based on information including the financial results summary and briefing materials.

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

- ◆ Excluding the period of business restructuring, both segments have been profitable.

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

【Figure 8】 Business Composition (as of the end of May 2024)



(Ref) Prepared and updated by Alpha-Win Research Dept. based on past 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 DX Support Segment

The Marketing DX Support segment's breakdown of sales and change in profit over the years are as shown in Figure 9.

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

Sales (million yen)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	HI FY2023	HI FY2024
	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
I. Marketing DX Support Segment	883	911	1,074	1,254	1,530	1,951	2,318	2,599	2,924	2,933	1,493	1,438
(1) Marketing Process	883	911	1,074	1,254	1,445	1,775	2,135	2,313	2,368	2,402	1,224	1,179
A. Ad Effectiveness Measurement	722	822	1,012	1,200	1,402	1,747	2,127	2,313	2,368	2,222	1,135	1,089
① AD EBIS (including GSP)	722	822	1,012	1,200	1,402	1,747	2,127	2,313	2,368	2,222	1,135	1,088
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%	-6.2%	-3.7%	-4.1%
*CAPICO (since Aug. 2023)										0	0	1
THREe (withdrew)	161	89	62	54	43	28	8	0	0	0	0	0
B. Advertising Agency DX						124	152	182	175	180	89	90
① AdReco						124	149	169	167	180	89	90
Ad-Knowledge							3	13	5	Withdraw		
(C) New service											0	0
(2) Incubation							3	89	390	525	269	258
① AD HOOP								20	41	56	25	19
② eZCX (service ended in May 2024)								1	6	5	2	1
③ Spoo (Mar. 2021)								38	59	79	36	26
④ TOPICA (Aug. 2021)								28	189	230	127	119
⑤ Far End (Feb. 2022)								0	97	158	75	89
Segment's Operating Profit	142	214	210	153	-121	46	199	247	280	256	158	78
Segment's Operating Margin (%)	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	8.6%	9.5%	9.6%	8.7%	10.5%	5.4%

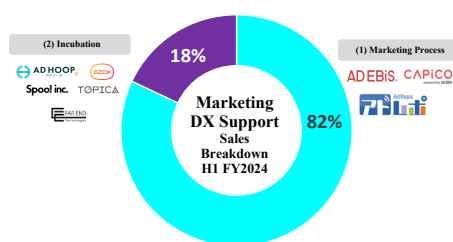
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials and interview.

(Note) Includes Alpha-Win's estimates (*italicized*). Sales are toward external customers. AD EBIS includes GSP.

- ◆ The Marketing DX Support segment is composed of three business categories.

I. The Marketing DX Support segment currently consists of the following two main business categories as shown in Figure 8: (1) Marketing Process and (2) Incubation.

During the first half of this fiscal year, the breakdown of sales in this segment was as shown in Figure 9 and Figure 10 on page 10. While the sales proportion of AD EBIS has decreased compared to one time, it still accounted for the majority of this segment's sales.

【Figure 10】 Breakdown of Sales of Marketing DX Support

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

- ◆ Its core business is AD EBiS, an originally developed Internet ad effectiveness measurement system. It has the top share in the Japanese market and accounts for the majority 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, it is optimized, leading to better results.

- ◆ Advertising Agency DX consists of only AdRepo, a tool for fully automating the creation of reports in programmatic advertising.

Note that (1) Marketing Process covers (A) Advertising Effectiveness Measurement and (B) Advertising Agency DX of the Marketing DX Support segment.

Below are the current businesses of the Marketing DX Support's business categories and their main products (service or product name is marked in bold and underlined).

I. Marketing DX Support Segment

(1) Marketing Process Category

(A) Advertising (Marketing) Effectiveness Measurement

AD EBiS accounts for most of the sales of the ad effectiveness measurement business (GSP is included with AD EBiS as its low-end service, while CAPiCO is a separate service but generates an insignificant amount of sales).

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 and helps users understand the cost effectiveness of ads.
- Subscription-based business model⁵
- A business based on flat-rate, periodic payments by users. Its sales are determined by average unit price times the number of active accounts. Both numbers are important metrics that impact not only the performance of the AD EBiS business but also of the entire company.

(B) Advertising Agency DX

This business targeting advertising agencies consists of only AdRepo (AD HOOP has been moved to the Incubation category and the Company has withdrawn from the Ad-Knowledge business).

① AdRepo

- Fully automated report-generation tool for programmatic advertising⁶
- A 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 work on expanding this business.

② Ad-Knowledge

- An original, cloud-based project management system specialized for advertising agencies
- Aimed at supporting advertising agencies that use 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.

I. Marketing DX Support Segment

(2) Incubation Category

(See Figure 23 on page 20 for the sales of each business)

- ◆ The Incubation category consists of the Company's originally developed product AD HOOP and the businesses of the 3 consolidated subsidiaries acquired through M&As.

- ◆ Has been acquiring companies in businesses related to Internet marketing as consolidated subsidiaries.

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 expanded significantly. Aiming to increase new contracts and cross-selling.

② eZCX

- E-commerce-specialized CX improvement platform
- Helps improve CX (customer experience) on websites with greater efficiency in acquiring new customers.
- Service was released in May 2021, but ended in May 2024.

The Company has also acquired consolidated subsidiaries as described below that operate in businesses peripheral to Internet marketing. All three of the most recently acquired companies have been expanding their businesses by leveraging their respective strengths and synergies with the YRGLM Group. They have expanded their business domain, acquired more customers, and strengthened their competitive edge.

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.

④ **TOPICA: consolidated subsidiary (60% stake)**

- Founded in May 2016. Acquired in July 2021.
- Developing a marketing support business that utilizes SNS and videos (ranging from the planning and production of video contents to SNS account management services)
- With the acquisition, the Company plans to expand its business domain into the rapidly growing social media marketing market and cross-sell TOPICA's services to its current client companies (around 1,300 companies).
- In addition to this, it plans to integrate its data and technologies with TOPICA's SNS marketing business to create and provide new services.

⑤ **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, as COVID-19 made remote work more widespread and common, there has been greater demand for project progress management. The number of accounts has been increasing steadily and significant growth can be expected.

◆ **The E-Commerce Support segment consists of the E-Commerce Website Building & Operation category and the Platform category.**

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

◆ **Business Details: II. E-Commerce Support Segment**

Previously, the E-Commerce Support segment had only consisted of the Platform business (category) or EC-CUBE. However, with the acquisition of the former BOKUBLOCK INC. (which was later renamed EC-CUBE Innovations and then absorbed by EC-CUBE Co., Ltd.), the Company has reentered the professional services⁷ market (E-Commerce Website Building & Operation) (consolidated starting in June 2022).

The annual sales breakdown and profit trends of the E-Commerce Support segment are shown in Figure 11. Thanks to large synergies with the Company and its platform, E-Commerce Website Building & Operation has contributed significantly to the segment's performance.

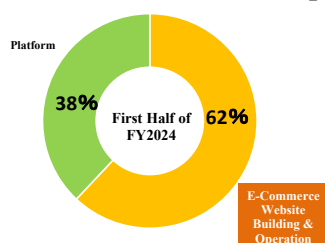
【Figure 11】 Change in Sales and Operating Profit of the E-Commerce Support Segment

Sales (million yen)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	HI FY2023	HI FY2024
Consolidated	477	526	539	465	275	253	301	358	414	709	320	415
II. E-Commerce Support Segment	477	526	539	465	275	253	301	358	414	709	320	415
(1) Platform	245	230	219	208	254	253	301	358	331	355	174	158
EC-CUBE's sales growth rate (YoY: %)	18.3%	-6.1%	-4.8%	-5.2%	22.2%	-0.4%	19.0%	18.9%	-7.5%	7.3%	8.1%	-9.2%
① Payment processing fee								290	253	261	136	125
② Subscription								12	29	37	19	19
③ Other								54	50	56	19	29
(2) E-Commerce Website Building & Operation (formerly, BOKUBLOCK)								0	83	353	145	257
Previous: (3) SOLUTION (transferred/withdrew)	232	296	319	257	20	0	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	0
Of which, DMP (transferred)				104								
Segment's Operating Profit	107	136	38	-60	22	39	78	119	108	67	54	26
Segment's Operating Margin	22.5%	25.8%	7.1%	-12.9%	8.2%	15.4%	26.1%	33.1%	26.1%	9.4%	17.0%	6.2%

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

(Note) Includes estimates by Alpha-Win (*italicized*)

【Figure 12】 Breakdown of Sales of E-Commerce Support



(Ref) Financial results briefing materials.

- ◆ **In the platform business, the Company provides software for companies to build and manage e-commerce websites on their own.**

- ◆ **Gained top share in the Japanese market.**

II. E-Commerce Support Segment

(1) Platform Category (EC-CUBE)

Service Overview

- The platform category (EC-CUBE) accounts for 38% of the E-Commerce Support segment's sales (Figure 12) and 9% of company-wide sales.
- 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 to 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 has become the standard platform.

(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.

- ♦ **The E-Commerce Website Building & Operation category accounts for 62% of the E-Commerce Support segment's sales and 14% of total sales.**

- ♦ **Growing rapidly through synergies within the Group.**

Business Model and Sales Breakdown

- **EC-CUBE** is based on a freemium model⁸ in which software is offered for free, but in return, revenue is earned from peripheral services.
- Revenue comes from payment processing fees paid by official partners using the software for their Internet businesses (largest source of revenue in the Platform category), **ec-cube.co**'s monthly subscription income, and other revenue (function addition fees for plugins, or programs to add functions to software).

II. E-Commerce Support Segment (2) E-Commerce Website Building & Operation Category

- Through a M&A, the E-Commerce Website Building & Operation business of the former BOKUBLOCK has become included in this segment starting in the third quarter of FY2022.
- The E-Commerce Website Building & Operation category accounts for 62% of the E-Commerce Support segment's sales and 14% of company-wide sales.
- Currently, the Company's subsidiary EC-CUBE Co., Ltd., is working on both the Platform and the E-Commerce Website Building & Operation categories. Entering the professional services market in full scale in collaboration with EC-CUBE, this category provides a one-stop service based on a vertically integrated model.
- Sales of the E-Commerce Website Building & Operation category tend to change depending on size of the orders received for website-building projects and their progress. Since the acquisition, sales have been growing significantly thanks to synergies within the Group, which have helped it to successfully gain large contracts (in the range of dozens of millions of yen to more than a hundred million yen per project).

3. Shareholder Composition

◆ Major Shareholder Composition

Major shareholders as of the end of March 2024 are shown in Figure 13. The following is supplementary information.

- ◆ No significant change to the major shareholders. Parties affiliated with the Company (the CEO, former directors and executive officers, and the employee stock ownership plan) possess about 60% of all shares in total.
- ◆ The Company bought back its own shares. Its shareholding ratio is now 3.2%, making it the fourth largest shareholder.
- The major shareholders have not largely changed.
- Susumu Iwata, the Company's CEO, is the largest shareholder and owns approx. 44%. This is followed by the Company's former executive officers at second and third place. Together, these three shareholders possess about 60% of all issued shares.
- There is only a small amount of investment made by institutional investors such as investment trusts. Most of the investments are made by individual investors. The shareholders ranked from seventh to tenth place are all individual investors.
- In November 2023, the Company purchased approximately 100 million yen of its own shares (corresponding to 154.6 thousand shares). In January 2024, however, it disposed of 36,100 shares as restricted share compensation. As of the end of March 2024, the Company held 204,935 of its own shares. This amounts to 3.2% of the total number of shares issued, effectively making it 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.
- The Company may also choose to flexibly buy back its own shares using its available cash and deposits.

[Figure 13] Current Major Shareholders

(Units in the figure: thousand shares for the number of shares and % for the ratios)

	End of Sept. 2015	End of Sept. 2016	End of Sept. 2017	End of Sept. 2018	End of Sept. 2019	End of Sept. 2020	End of Sept. 2021	End of Sept. 2022	End of Sept. 2023	End of Mar. 2024	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	2,706	43.88	1
Hiroichi Fukuda (former executive vice president)	1,071	1,021	1,021	961	801	781	817	779	805	805	13.05	2
Kanako Mataya (former director and senior executive officer)	415	415	352	354	353	352	329	329	329	329	5.33	3
YRGLM Employee Stock Ownership Plan	76	39	48	69	68	71	66	69	79	69	1.11	4
Hakuhodo DY Media Partners Inc.	60	60	60	60	60	60	60	60	60	60	0.97	5
Rakuten Securities, Inc.	—	—	—	72	64	—	—	—	—	56	0.90	6
Tomonori Yamada (indiv.)	—	—	28	—	—	—	33	36	53	53	0.85	7
Satoshi Hasegawa (indiv.)	—	—	—	—	—	—	—	37	37	37	0.59	8
Hiitoshi Nakagawa (indiv.)	—	—	—	—	—	—	—	—	—	27	0.43	9
Kayoko Narano (indiv.)	—	—	24	—	—	—	—	—	—	24	0.38	10
Yoshihisa Yamashita (indiv.)	—	—	—	—	—	—	54	54	68	—	—	—
Mitsugu Shirai (indiv.)	—	—	—	—	—	—	—	—	—	36	—	—
J.P. MORGAN SECURITIES PLC	—	—	—	—	—	—	—	35	34	34	—	—
Custody Bank of Japan (trust account)	—	—	—	—	—	—	221	128	103	—	—	—
Custody Bank of Japan (securities investment trust account)	—	—	—	—	—	—	169	82	—	—	—	—
Yukio Tanaka (individual investor)	—	—	—	—	—	—	—	—	—	—	—	—
SBI SECURITIES Co., Ltd.	—	—	—	—	—	—	—	—	—	—	—	—
UEDA YAGI TANSHI Co., Ltd.	—	—	—	—	—	—	86	—	—	—	—	—
in Kabucom Securities	—	—	—	—	—	—	—	62	—	—	—	—
Mitsubishi UFJ Morgan Stanley Securities	—	—	—	—	—	—	—	58	—	—	—	—
Japan Trustee Services Bank (former name)	—	59	—	60	333	—	—	—	—	—	—	—
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	—	—	60	—	—	—	—	—	—	—	—	—
Trust & Custody Services Bank (former name)	—	—	60	29	123	—	—	—	—	—	—	—
GOLDMAN SACHS INTERNATIONAL	—	—	—	—	—	284	—	—	—	—	—	—
UEDA YAGI TANSHI Co., Ltd.	—	—	—	—	—	113	—	—	—	—	—	—
Katsunuki Ito (indiv.)	—	—	—	52	—	—	—	—	—	—	—	—
Akiko Takashima (indiv.)	—	—	—	29	—	—	—	—	—	—	—	—
Kenichiro Wade (former outside director)	39	29	29	—	—	—	—	—	—	—	—	—
Yoshio Takayama (indiv.)	—	—	28	—	—	—	—	—	—	—	—	—
SEPTENT CO., LTD	62	62	—	—	—	—	—	—	—	—	—	—
Matsui Securities Co., Ltd.	—	36	—	—	—	—	—	—	—	—	—	—
Japan Securities Finance Co., LTD.	30	35	—	—	—	—	—	—	—	—	—	—
Yoichi Nishikawa (indiv.)	34	—	—	—	—	—	—	—	—	—	—	—
Akio Shiojiri (former director; audit committee member)	26	—	—	—	—	—	—	—	—	—	—	—
(Treasury shares: thousand shares)	0	0	0	1	81	64	58	112	84	205	—	Essentially 4th
(Percentage of treasury shares: %)	—	—	0.00%	0.02%	1.28%	1.01%	0.91%	1.75%	1.34%	3.22%	—	—

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

4. History of Growth

◆ Past Transition in Financial Results

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

- ◆ Developed and released unique products and services that differentiate the Company from other companies. Has grown rapidly by actively carrying out M&As and by predicting and meeting the needs of society ahead of others.

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

- ◆ 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 performance recovery. In FY2021, sales and profits hit record highs, and in FY2022, operating and recurring profit hit record highs for a consecutive year.

Sales (Chronological description; the same applies throughout this section)

- For 23 fiscal years since its founding, sales have been consecutively increasing and hitting record highs every fiscal year. During the 14 years from FY2009 to FY2023, for which financial performance figures are disclosed, sales have increased by about 6.3x from 570 million yen to 3,620 million yen (annual compound rate of about +14%).

- The Company has grown rapidly by predicting and meeting the needs of society ahead of others to develop and release unique products and services that are differentiated from other companies, while also carrying out M&As and increasing the number of employees. Its growth has been supported by the release and expansion of cloud services, especially with the rapid growth of its originally developed service AD EBiS of the Marketing DX Support segment, as well as by the growth of the e-commerce market which has helped the E-Commerce Support segment's EC-CUBE to stably grow.

Profit

- 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 engagement in business restructuring and upfront investments had increased the expenses, leading to a consecutive decline in profit despite increasing sales.

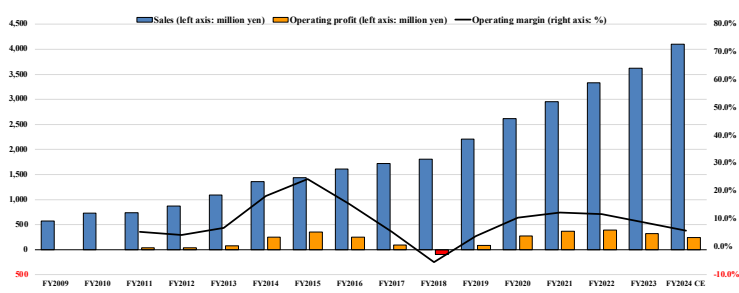
- In FY2018, the Company recorded a loss (an operating loss of 98 million yen and a net loss of 88 million yen) for the first time since becoming listed on the market, due to upfront investments mainly to hire more employees for development and sales (Figures 14 and 15).

- In the following FY2019, the Marketing DX Support segment's sales grew by 20% thanks to its main product AD EBiS, so the Company was able to post both an operating profit and a recurring profit for the full year in a turnaround. However, due to extraordinary losses, it posted a net loss for the second consecutive fiscal year.

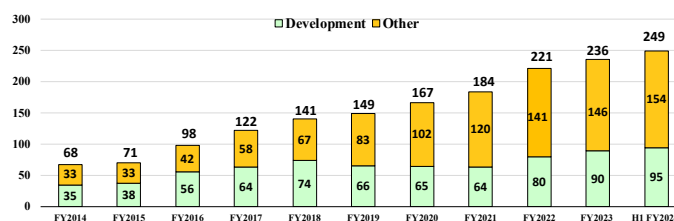
- In the following year or FY2020, consecutive growth of sales and improvements in costs resulted in a 3x growth in operating and recurring profits compared to the previous fiscal year. The Company posted a net profit for the first time in three fiscal years in a clear, V-shaped recovery.

- 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 a consecutive year.

【Figure 14】 Transition in Past Financial Results and the Company's Forecast for This Fiscal Year
(Units: million yen or %)



【Figure 15】 Change in the Number of Employees
(Units: persons)



(Ref) Figures 14 and 15: 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 2023, Japan’s total advertising expenditure showed a steady increase of 3% compared to the previous year, consecutively hitting a record high.

◆ Internet advertising expenditure has been continuing to grow at a high rate. It has become the largest advertising medium.

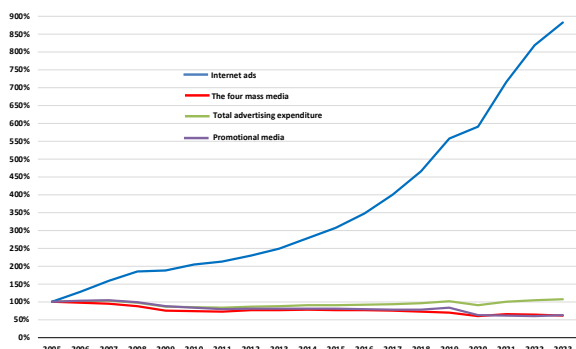
Total Advertising Expenditure

Total advertising expenditure in Japan in 2023 (calendar year; the same applies to this entire section) hit a record high at about 7.3 trillion yen, having increased by +3.0% from the previous year. This recovery has been driven by the increase in on-site events and the revitalization of tourism and travel, both domestically and internationally, as the COVID-19 situation became more controlled. With this growth in Internet advertising expenditure supporting the overall market, particularly with the digitalization of society, the environment remains favorable for the Company’s internet-advertising-related business.

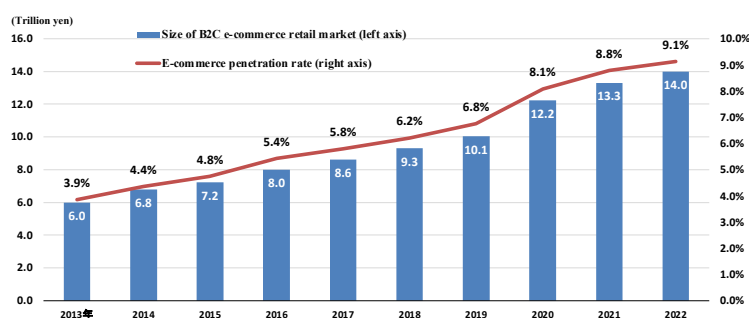
Internet Ad Market (Annual)

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) has grown, albeit at a slower rate of +7.8% YoY, to about 3.3 trillion yen. From 2005 (point of comparison, set at 100) to 2023, the market has grown rapidly by 8.8x (annual growth rate of about +13.1%, on a simple average) (Figure 16). As a result, Internet advertising expenditure now accounts for 45.5% of total advertising expenditure (43.5% in the previous year) as the largest medium. Its share has been steadily increasing by a few percent every year (source: Dentsu Inc.’s “2023 Advertising Expenditures in Japan”).

【Figure 16】 Change in Advertising Expenditure by Medium (Indexation: the year 2005 is set to 100)



【Figure 17】 Change in the B2C E-Commerce Retail Market Size and Change in the E-Commerce Penetration Rate



(Ref) Figure 17: Prepared by Alpha-Win Research Dept. based on Dentsu Inc.’s “2023 Advertising Expenditures in Japan”

Figure 18: Prepared by Alpha-Win Research Dept. based on the “FY2022 E-Commerce Market Survey” by the Ministry of Economy, Trade, and Industry.

◆ Trends of Japan’s E-Commerce Market

Market Size and E-Commerce Penetration Rate by Business Type (Annual)

The e-commerce market, which is the business area of the Company’s E-Commerce Support segment, is also continuing to grow, so there continues to be a large potential for business expansion (the following data is from the “FY2022 E-Commerce Market Survey” published by the Ministry of Economy, Trade and Industry). In 2022, the size of the domestic B2C e-commerce market was 22.7 trillion yen (+9.9% YoY), of which the market for retail was 14 trillion yen (+5.4% YoY), with the e-commerce penetration rate reaching 9.1% (+0.3 percentage points YoY) (Figure 17). Similarly, the size of the B2B e-commerce market was 420.2 trillion yen (+12.8% YoY) and its e-commerce penetration rate has grown to 37.5% (+1.9 percentage points YoY).

◆ Japan’s B2C e-commerce market continues to expand. A follow-wind for the Company’s E-Commerce Support business.

6. Results for the First Half of This Fiscal Year and Full-Year Forecast

◆ Financial Results for the First Half of FY2024

Summary

- ◆ Profits halved in the first half of the fiscal year, despite a slight increase in sales.

Consolidated financial results for the first half of FY2024 (first half or H1: October 2023 to March 2024) were as follows: sales increased by 2.2% YoY (+39 million yen) to 1,851 million yen, while operating profit declined by 49.2% YoY (-104 million yen) to 106 million yen. While sales grew slightly, profit declined significantly (Figure 18). However, sales still surpassed the record high for first-half sales set in the previous fiscal year.

By business segment, the Marketing DX Support segment reported lower sales and profits, while the E-Commerce Support segment reported higher sales and lower profits. Both saw a decline in profit margins and lower profits due to increased costs as a result of greater investment for growth. Since there were no major nonoperating profit/loss or extraordinary gain/loss posted, net profit resulted in a decrease of 59.8% YoY (-79 million yen) to 52 million yen.

【Figure 18】 Comparison of Quarterly and First-Half Results

(Units: million yen or %)	FY2023		FY2024		FY2023	FY2024	H1 FY2024 (YoY)	
	Q1 (Oct-Dec)	Q2 (Jan-Mar)	Q1 (Oct-Dec)	Q2 (Jan-Mar)	H1 (Dec-Mar)	H1 (Dec-Mar)	Change in Amount	% Change / Diff.
Total Sales	879	933	929	922	1,812	1,851	39	2.2%
Marketing DX Support Segment	742	751	712	725	1,492	1,437	-56	-3.7%
E-Commerce Support Segment	138	182	217	198	320	415	95	29.8%
Gross Profit	554	576	524	532	1,130	1,056	-74	-6.5%
Gross Margin	63.1%	61.7%	56.5%	57.7%	62.4%	57.1%		-5.3%
SG&A Expenses	457	463	475	474	920	949	30	3.2%
SG&A Expense Ratio	52.0%	49.6%	51.1%	51.5%	50.8%	51.3%		0.5%
Operating Profit (by segment)	97	113	49	57	210	106	-104	-49.2%
Marketing DX Support Segment	71	86	33	45	158	78	-79	-50.3%
E-Commerce Support Segment	27	28	17	9	54	26	-29	-52.8%
Operating Margin	11.1%	12.1%	5.3%	6.1%	11.6%	5.7%		-5.9%
Marketing DX Support Segment	9.6%	11.5%	4.6%	6.3%	10.6%	5.4%		-5.1%
E-Commerce Support Segment	19.5%	15.1%	7.8%	4.5%	17.0%	6.2%		-10.8%
Recurring Profit	102	110	53	55	212	107	-105	-49.5%
Net Profit	69	62	24	28	131	52	-79	-59.8%

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

Progress in the First Half

- ◆ The first half's progress in terms of achieving the full-year plan for profit was somewhat low, but in line with the Company's expectations.

Progress during this first half in terms of achieving the full-year forecast was as follows: 45.1% for sales (50.0% in the previous first half), 44.2% for operating profit (66.0% in the previous first half), and 37.1% for net profit (66.5% in the previous first half). Compared to the previous fiscal year's first half, progress has been slow. The Company did not announce its forecasts for this first half at the beginning of the fiscal year, but it has commented that both sales and profits were in line with expectations.

Financial Performance by Segment: I. Marketing DX Support Segment

- ◆ The Marketing DX Support segment saw a slight decline in sales but a significant decline in profit due to worsened profit margins.

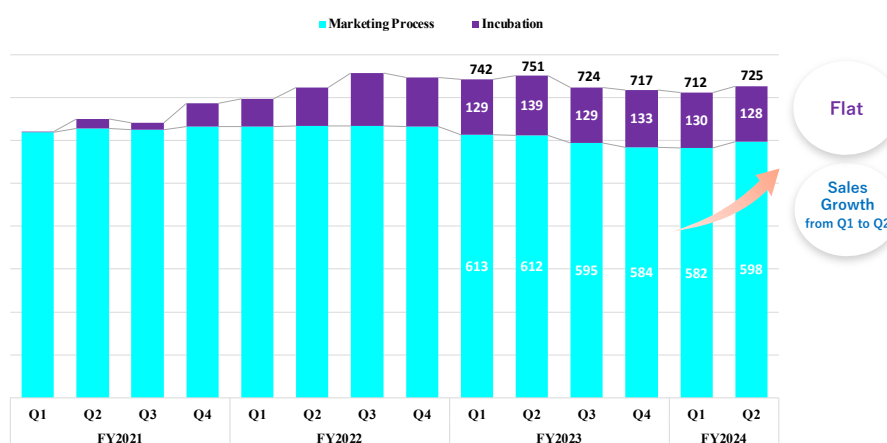
By business segment, sales of the Marketing DX Support segment (to external customers; the same applies hereinafter) decreased by 56 million yen (-3.7% YoY) from 1,492 million yen in the first half of the previous fiscal year to 1,437 million yen in the first half of the current fiscal year. Similarly, the segment's (operating) profit halved from 158 million yen to 78 million yen (-79 million yen or -50.3% YoY).

- ◆ Decline in sales of AD EBiS and upfront investment in new service development are the main reasons for the decline in profits.
- ◆ In Q2, sales of Marketing Process increased compared to Q1 in a turnaround.

As discussed in more detail below, the decline in sales of the highly profitable AD EBiS was the main reason for this segment’s decline in sales and profits. In addition, increased investment in the development of the new services was also partly responsible for causing the profit decline rate to be significantly worse than the sales decline rate.

Regarding Marketing Process’ number of accounts, it has been recovering in the current fiscal year. Consequently, sales of the Marketing Process category were greater in Q2 than in Q1 (Figure 19).

【Figure 19】 Change in (Quarterly) Sales of the Marketing DX Support Segment



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

**Financial Performance by Segment: I. Marketing DX Support Segment
(1) Marketing Process – A. Advertising Effectiveness Measurement –
① AD EBiS**

In the Marketing DX Support segment, sales and profit growth used to be mainly driven by the increase in the average unit price of its core product AD EBiS.

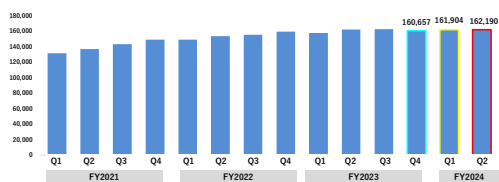
- ◆ From this fiscal year, the average unit price, number of accounts, and churn rate are disclosed for the entire Marketing Process category instead of AD EBiS alone.

However, the rate of increase in the average unit price has slowed (the unit price of AD EBiS appears to have increased slightly in the first half of this fiscal year and seems to be maintained at a high level), and the number of accounts of AD EBiS had been decreasing up through the previous fiscal year. Consequently, sales of AD EBiS in this first half appear to have declined YoY (by -3% to -5% as estimated by Alpha-Win).

Also, it should be noted that starting in this fiscal year, the Company has changed its disclosure standard. It used to disclose the average unit price, number of accounts, and churn rate for AD EBiS alone, but it now discloses each of these figures for the entire Marketing Process category (the sum of the accounts of AD EBiS, CAPiCO [excluding combined use with AD EBiS], the low-end plan GSP, AdRepo, and the new SaaS).

Only some of the past figures are disclosed retrospectively under the new standard. Each figure for AD EBiS alone under the previous standard is no longer disclosed.

【Figure 20】 Change in Marketing Process' Average Unit Price (yen)



(Ref) Financial results briefing materials.

- ◆ The unit price has remained flat at a high level, the number of accounts turned to net growth, and the churn rate has improved.

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

Under this new disclosure standard, the average unit price of the Marketing Process category was 160,657 yen at the end of Q4 FY2023 ⇒ 161,904 yen at the end of Q1 FY2024 ⇒ 162,190 yen at the end of Q2 FY2024 (slight YoY increase in both Q1 and Q2 of this fiscal year), indicating a solid trend despite the increase in the proportion of the low-end plan GSP (GSP constituted 54% of all new contracts in the first half of this fiscal year) (Figure 20).

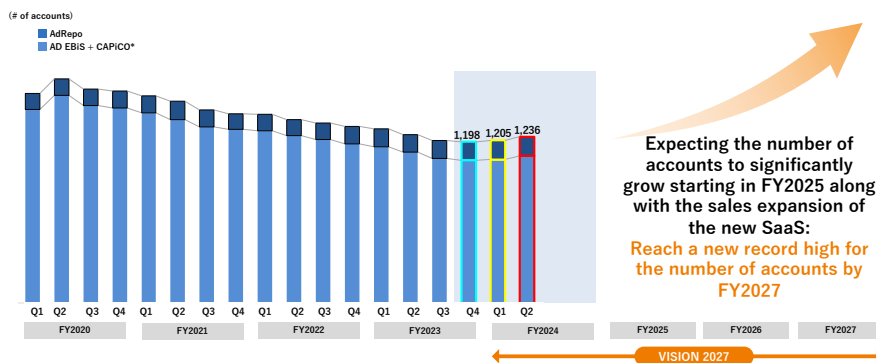
Meanwhile, the number of accounts had been on a declining trend, but it has increased for two consecutive quarters from 1,198 in Q4 FY2023 ⇒ 1,205 in Q1 FY2024 (+7 QoQ) ⇒ 1,236 in Q2 FY2024 (+31 QoQ) (Figure 21; the record high was 1,666 in Q2 FY2020).

In addition, the churn rate had been staying around the mid-2% range since FY2022, but it fell to 2.2% in Q2 of this fiscal year (Figure 22).

AD EBiS had been experiencing cancellations due to changes in the media environment, such as the third-party cookie regulations⁹ causing greater market domination by the major platforms (e.g., the migration to GA4, the Google Analytics 4 property for access analysis) and platforms shifting to interfaces with simpler ad effectiveness measurement and ad management.

However, the number of accounts rebounded to an increase in the first half of this fiscal year, as the wave of cancellations subsided partly due to strengthened customer support from the Customer Success Team and as new customers were gained mainly for GSP.

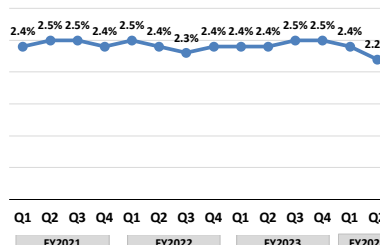
【Figure 21】 Change in Marketing Process' Number of Accounts



Expecting the number of accounts to significantly grow starting in FY2025 along with the sales expansion of the new SaaS: Reach a new record high for the number of accounts by FY2027

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

【Figure 22】 Change in the Churn Rate



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

(Notes) The number of accounts using either AD EBiS or CAPiCO alone have been counted. Accounts using CAPiCO in combination with AD EBiS are not counted. Since these are figures for paid accounts only, they do not include the accounts of the beta version of the new SaaS.

◆ Sales of the Advertising Agency DX business have stayed flat.

Financial Performance by Segment: I. Marketing DX Support Segment

(1) Marketing Process – B. Advertising Agency DX – ① AdRepo

Regarding AdRepo, which accounted for the entire sales of the Advertising Agency DX business, its sales were about 6% of the Marketing DX Support’s sales in the first half (same proportion as the previous fiscal year’s first half). Its sales are estimated to have been about 90 million yen and seem to have increased slightly compared to the previous fiscal year. Regarding Ad-Knowledge, the Company withdrew from the business in January 2023.

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

Financial Performance by Segment: I. Marketing DX Support Segment

(2) Incubation

Steady progress has been made with the originally developed service AD HOOP and with the PMI¹⁰ of the three consolidated subsidiaries that the Company has acquired through M&As (Spoo, TOPICA, and Far End Technologies). Up through the previous fiscal year, their sales had contributed to the segment’s sales growth.

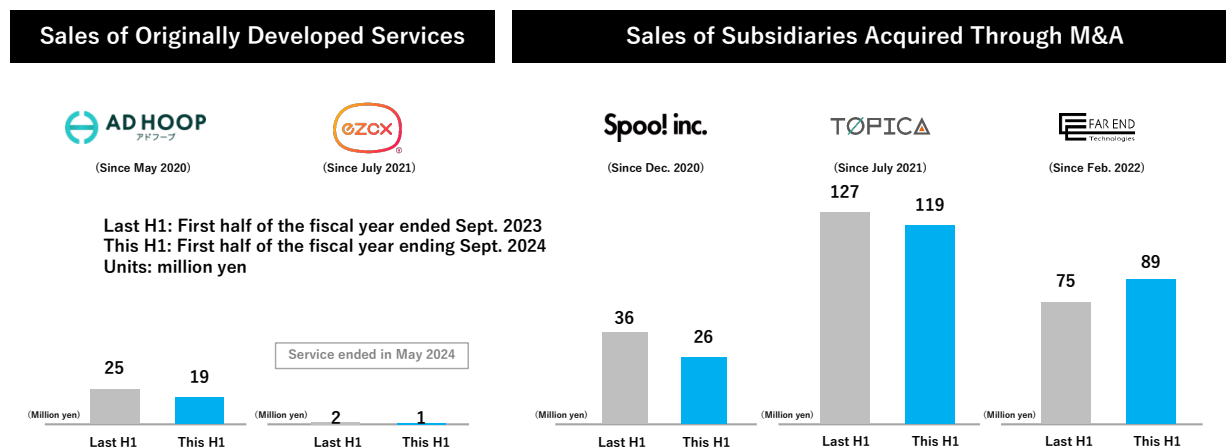
◆ Sales of Incubation were flat in this first half.

However, partly since the Company concentrated its management resources on Marketing Process and E-Commerce Website Building & Operation in the first half of this fiscal year, sales of the Incubation category fell from 265 million yen in the first half of the previous fiscal year to 254 million yen in the first half of this fiscal year, a decline of 11 million yen or 4%. As a result, its proportion of sales to the entire company fell from 15% to 14% (Figure 23).

◆ The challenge is to make this category profitable.

The Incubation category seems to be continuing to post an overall loss and the challenge would be to turn this category profitable in the next fiscal year onwards.

【Figure 23】 Comparison of the Incubation Businesses’ Sales in the First Half



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

◆ Sales of the E-Commerce Support segment were strong.

◆ Platform’s sales were flat in the first half of this fiscal year.

◆ Large sales growth in the E-Commerce Website Building & Operation category.

◆ Its strength in E-Commerce Support is the one-stop service based on a vertically integrated model.

Financial Performance by Segment: II. E-Commerce Support Segment

E-Commerce Support, which is the Company’s other business segment, recorded sales of 415 million yen in the first half of the current fiscal year, a significant increase of 28.6% compared to the previous fiscal year’s first half. On the other hand, its profit fell by 52.8% to 26 million yen. This segment accounted for 23% of company-wide sales and 25% of profit (Figure 12 on page 12).

Financial Performance by Segment: II. E-Commerce Support Segment (1) Platform

Platform’s sales in the first half of this fiscal year are estimated to have fallen by 18 million yen (-10%) to 158 million yen from 176 million yen in the previous fiscal year (sales were flat in Q1 and Q2). Due to increased competition, the high-margin revenue from payment processing fees has declined, which was one of the factors that caused the decline in the profit of the E-Commerce Support segment.

Financial Performance by Segment: II. E-Commerce Support Segment (2) E-Commerce Website Building & Operation

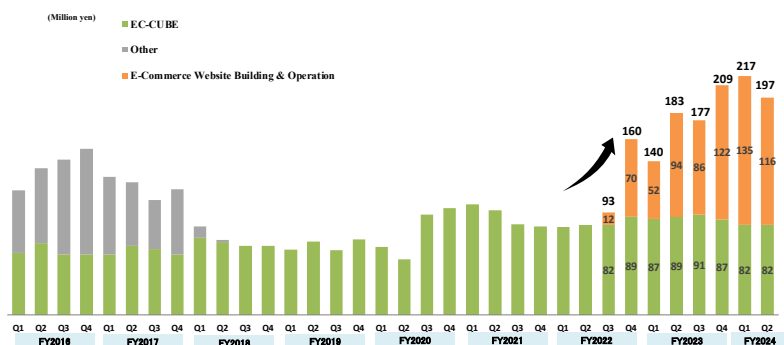
Meanwhile, in E-Commerce Website Building & Operation, orders for new projects were strong and contributed to higher sales. Sales in the first half of this fiscal year were estimated at 257 million yen, an increase of 113 million yen or 78% from 144 million yen in the previous fiscal year (both Q1 and Q2 recorded a high level of sales, significantly exceeding the same period of the previous fiscal year; Figure 24).

However, the profit and loss figures seem to have temporarily deteriorated due to increased personnel expense associated with organizational strengthening.

The Company has been steadily expanding the scale of business, though, by providing a one-stop service that leverages EC-CUBE’s strengths based on a vertically integrated model (supporting e-commerce through logistics, customer attraction, operation, development, e-commerce applications, and e-commerce website building systems).

The Company aims to increase E-Commerce Website Building & Operation’s competitive edge, sales, and service security through more versatile solutions for this category that will improve productivity and efficiency, as well as through EC-CUBE Enterprise (a system for building large-scale and high-access e-commerce websites; currently being developed) and EC-CUBE Official Security Check. Therefore, once the current upfront investment phase is completed, a recovery in profitability can be expected.

【Figure 24】 Change in Quarterly Sales of the E-Commerce Support Segment (Units: million yen)



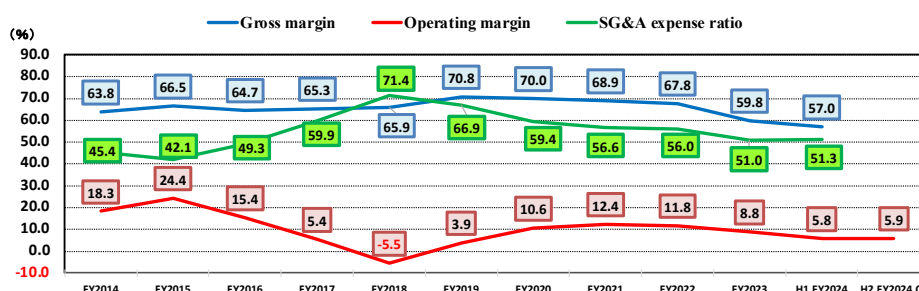
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. Includes estimates.

- ◆ Gross margin fell, the SG&A expense ratio rose, and operating margin halved.

Trends in Overall Profit Margin

The gross margin fell by 5.4 percentage points from 62.4% in the first half of the previous fiscal year to 57.0% in the first half of the current fiscal year, due to an increase in outsourcing expense and personnel for development, as well as due to the rise in various costs caused by inflation (Figure 25). The SG&A expenses also rose by +3.2%, at a somewhat higher rate than the rate of sales growth (+2.2% YoY). The SG&A expense ratio consequently rose by 0.5 percentage point from 50.8% to 51.3% during the same period. As a result, the operating margin halved from 11.6% in the first half of the previous fiscal year to 5.8% in the first half of the current fiscal year.

【Figure 25】 Change in SG&A Expense Ratio and Profit Margins (Units: %)



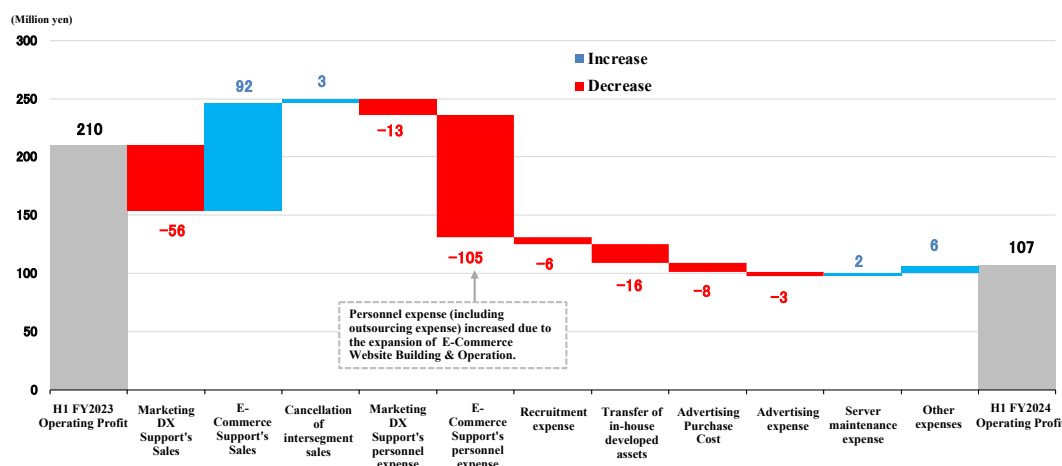
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. CE: the Company's forecast.

- ◆ Profit decline was caused by the increase in upfront investments, especially in personnel expense.

Analysis of Factors that Increased/Decreased This First Half's Profit

Figure 26 shows an analysis of the factors that caused profit to increase or decrease in the first half of this fiscal year. As already mentioned, the decline in sales of the Marketing DX Support segment (-56 million yen YoY) was offset by the increase in sales of the E-Commerce Support segment (+92 million yen YoY). However, profit declined, mainly due to the 105 million yen increase in personnel expense (including outsourcing expense) for the expansion of the E-Commerce Website Building & Operation category in the E-Commerce Support segment.

【Figure 26】 Factors that Impacted Operating Profit in the First Half of FY2024 (YoY comparison)



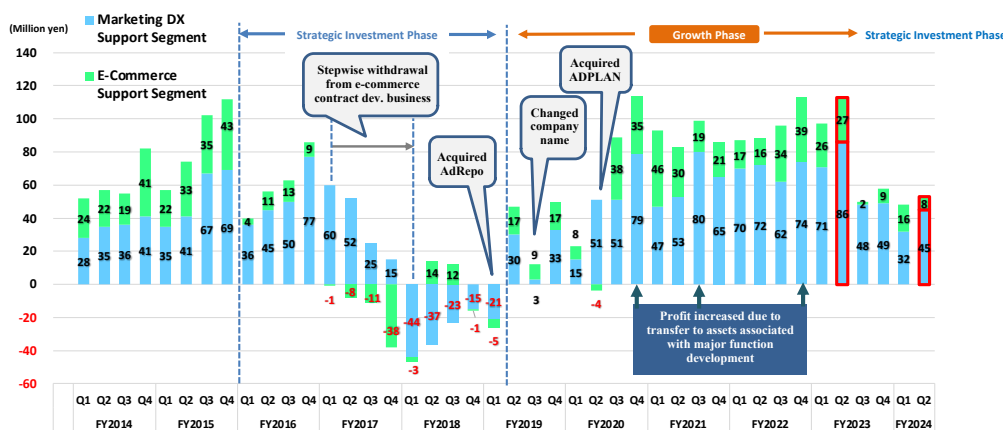
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

- Profits were halved in both Q1 and Q2 compared to the previous fiscal year.

Quarterly Trends in Results

While sales increased by 5.6% YoY in Q1 of this fiscal year, they fell by 1.1% in Q2, which was the first decline in quarterly sales (YoY) since Q1 FY2018. Regarding operating profit, it has been around 50 million yen since Q3 FY2023 (April to June 2023) and has shown declines for four consecutive quarters (profits were halved YoY) (Figure 27).

[Figure 27] Quarterly Change in Operating Profit



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

◆ The Company’s FY2024 Financial Forecast for the Second Half and the Full Year

Full-Year Forecast

- The Company maintains its initial full-year plan and expects double-digit sales growth and profit declines. Sales are planned to reach a new record high.

The Company has not changed the full-year financial forecasts that were announced at the beginning of the fiscal year. It plans for a double-digit sales growth but declines in profits of around 20-30%, with sales of 4,100 million yen (+13.1% YoY), operating profit of 240 million yen (-24.7% YoY), recurring profit of 230 million yen (-30.2% YoY), and net profit of 140 million yen (-28.9% YoY). Sales are expected to reach a consecutive record high, but profits are forecasted to fall since it will continue to invest in growth.

Business Strategy

- Generally in line with business strategy and plan.

Although the launch of the SaaS (new service) is somewhat delayed, the business strategy for the current fiscal year is generally being implemented in line with the plan (Figure 28).

[Figure 28] Business Strategy for This Fiscal Year



(Ref) Financial results briefing materials.

- ◆ In the second half, the Company plans to increase sales and operating profit by more than 20% YoY.

Financial Forecast for the Second Half

The Company plans for double-digit sales and profit growths in the second half (second-half forecast was calculated by full-year forecast minus first-half results), with sales of 2,248 million yen (+23.9% YoY), operating profit of 133 million yen (+22.6% YoY), and net profit of 87 million yen (+32.8% YoY) (operating margin of 5.9%; Figure 29). Compared to the first half of the current fiscal year, it expects an increase in sales (+397 million yen or +21.4%) and an increase in profit (operating profit: +26 million yen or +24.8%) in the second half.

It seems to be expecting this rapid recovery in performance in the second half due to the expected growth in the number of accounts of the Marketing Process category, the recovery of Incubation, and sales growth from the expansion of the E-Commerce Website Building & Operation category.

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

(Units: million yen or %)	FY2023	FY2024 CE	H2 FY2024 (YoY)	
	H2 (Apr-Sept)	H2 (Apr-Sept)	Change in Amount	% Change / Diff
Total Sales	1,814	2,248	434	23.9%
Operating Profit	109	133	25	22.6%
Operating Margin	6.0%	5.9%		-0.1%
Recurring Profit	117	123	6	4.9%
Net Profit	66	87	22	32.8%

(Ref) Financial results summary (Note) CE stands for the company forecast (full-year forecast minus first-half result)

- ◆ The monthly sales momentum (YoY) has declined.
- ◆ Sales in April, the first month of this second half, were 1.2% lower than in the same month of the previous fiscal year. This deviates largely from the Company's expectation for a 24.0% sales growth in the second half.
- ◆ Sales of the Marketing Support segment has continued to fall YoY. Sales of the E-Commerce Support segment are generally maintaining an upward trend.

Current Situation (monthly sales)

Figure 30 shows the monthly sales figures as disclosed by the Company. In the current fiscal year so far (October 2023 to April 2024), sales on a company-wide basis have either been increasing YoY at a single digit rate, or else decreasing. Compared to data over the past few years, the sales momentum has declined.

In April, the first month of this second half, company-wide sales were 302 million yen, down 1.2% YoY. This is below the Company's planned sales growth rate of 24.0% in the second half (it forecasts a full-year sales growth rate of +13.1%, but the growth rate has been +1.7% up through April).

By business segment, monthly sales of the mainstay Marketing DX Support segment have continued to decline YoY in the current fiscal year. The decline in the number of AD EBiS's accounts up to the end of the previous fiscal year and the struggles with the Incubation category are presumed to be the main reasons for this decline in sales, although the decline in accounts seems to have stopped recently. On the other hand, the E-Commerce Support segment is performing well, maintaining an overall increase in sales, except in February, thanks to the expansion of the E-Commerce Website Building & Operation category (note that monthly sales and their rate of increase or decrease tend to be impacted by whether or not large projects are booked).

(Ref. for Figure 30) Prepared by Alpha-Win Research Dept. based on the monthly announcements posted on the Company's website.

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

【Figure 30】 This Fiscal Year's Monthly Change in Sales (flash report)

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

Calendar Year	2023			2024				Cumulative for This Fiscal Year So Far (Oct. 2023 to Apr. 2024)
	October	November	December	January	February	March	April	
Monthly Sales (thousand yen)								
Marketing DX Support Segment	232,034	242,656	236,897	238,831	237,968	248,286	235,091	1,671,763
	93.5	97.6	96.9	98.7	95.1	96.0	96.3	96.3
E-Commerce Support Segment	72,280	65,678	79,350	67,980	52,148	77,601	66,700	481,737
	145.9	153.7	174.3	111.2	82.7	134.4	108.5	126.4
Entire Company	304,315	308,335	316,247	306,812	290,117	325,887	301,792	2,153,505
	102.2	105.8	109.1	101.2	92.6	103.0	98.8	101.7

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

- ◆ Our sales and profit forecasts have been revised downwards in light of the first-half results and the current situation. We have kept our dividend forecast the same as our previous forecast (the same amount as the Company's plan).

Revisions to This Fiscal Year's Forecast

Based on the results of the first half, the current situation (monthly sales trend), and interviews with the Company, we have revised our full-year sales forecast downward by 150 million yen, from 4,000 million yen in our previous forecast to 3,850 million yen in our current forecast (the same order applies below; Figure 31). Our new forecast is 250 million yen below the Company's forecast.

Accordingly, we have revised our operating profit forecast downward from 240 million yen to 210 million yen and our net profit forecast downward from 140 million yen to 125 million yen. The new forecasts are 30 million yen and 15 million yen lower than the Company's plan, respectively.

In the second half of the fiscal year, the Company expects high rates of both sales and profit growth. This plan may not be achieved, though, especially due to stagnant sales in the Marketing DX Support segment (mainly with the stagnation of Incubation and the delay in the launch of the paid version of the new service), and also due to the sluggish growth of the Platform category in the E-Commerce Support segment.

The rebound in the number of accounts and the high average unit price being maintained are positive factors. However, sales growth of GSP and CAPICO (post-cookie solution) will most likely only have a limited impact on this fiscal year's results since they are mainly based on subscription models. The same is true for the new services (including the one in the Marketing Process category).

The Company's operating margin assumption for the second half is 6.0%, the same level as the second half of the previous fiscal year. It expects an improvement of about 0.3% compared to the first half of the current fiscal year. However, taking into account the concerns that the sales target may not be achieved and that profit margins may deteriorate due to higher costs, we have forecasted the margin to be 5.2% (our full-year forecast for operating margin is 5.5%).

Note that in our forecasts for the current fiscal year, we have not factored in any new M&A.

【Figure 31】 Alpha-Win Research Dept.'s Revised 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 Old E	FY2025 Old E	FY2026 Old E
Sales	3,334	3,626	4,100	3,850	4,250	4,680	4,000	4,400	4,850
I. Marketing DX Support Segment	2,924	2,923	Not announced	2,950	3,100	3,200	2,950	3,200	3,500
II. E-Commerce Support Segment	410	703	Not announced	900	1,150	1,480	1,050	1,200	1,350
Gross Profit	2,260	2,169	Not announced	2,130	2,300	2,380	2,240	2,500	2,800
Gross Margin	67.8%	59.8%	Not announced	55.3%	54.1%	50.9%	56.0%	56.8%	57.7%
SG&A Expenses	1,867	1,850	Not announced	1,920	2,050	2,100	2,000	2,200	2,450
Ratio to sales	56.0%	51.0%	Not announced	49.9%	48.2%	44.9%	50.0%	50.0%	50.5%
Operating Profit	392	318	240	210	250	280	240	300	350
Ratio to sales	11.8%	8.8%	5.9%	5.5%	5.9%	6.0%	6.0%	6.8%	7.2%
Recurring Profit	399	329	230	210	250	280	230	300	350
Ratio to sales	12.0%	9.1%	5.6%	5.5%	5.9%	6.0%	5.8%	6.8%	7.2%
Net Profit	236	197	140	125	150	170	140	180	210
Ratio to sales	7.1%	5.4%	3.4%	3.2%	3.5%	3.6%	3.5%	4.1%	4.3%
Sales (YoY growth rate)	12.7%	8.8%	13.1%	6.2%	10.4%	10.1%	10.3%	10.0%	10.2%
I. Marketing DX Support Segment	12.5%	-0.0%		0.9%	5.1%	3.2%	0.9%	8.5%	9.4%
II. E-Commerce Support Segment	14.4%	71.4%		28.0%	27.8%	28.7%	49.4%	14.3%	12.5%
Gross Margin (diff. from last FY)	-1.2%	-8.0%		-4.5%	-1.2%	-3.3%	-3.8%	0.8%	0.9%
SG&A Expenses (growth rate)	11.6%	-0.9%		3.8%	6.8%	2.4%	8.1%	10.0%	11.4%
Operating Profit (growth rate)	7.4%	-18.8%	-24.7%	-34.0%	19.0%	12.0%	-24.5%	25.0%	16.7%
Recurring Profit (growth rate)	9.8%	-17.6%	-30.2%	-36.2%	19.0%	12.0%	-30.1%	30.4%	16.7%
Net Profit (growth rate)	-1.5%	-16.5%	-28.9%	-36.5%	20.0%	13.3%	-28.9%	28.6%	16.7%
EBITDA	677	680		535	540	570	680	760	850

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

(Notes) CE: the Company's forecast/estimate. E: Alpha-Win's forecast/estimate. Old: previous forecast. New: current forecast.

7. Growth Strategy

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

- ◆ Formulated a new medium-term plan, VISION 2027

- ◆ The Company aims to achieve sales of 10 billion yen at an early stage
- ◆ Marketing process support and e-commerce website building & operation support will be the two growth drivers.
- ◆ It aims to achieve accelerated growth through focused investment.

- ◆ Two KPI targets set in the new medium-term plan.

Medium-Term Business Plan (VISION 2027): Summary

The Company has created a new plan, VISION 2027 (for the four fiscal years from FY2024 to FY2027). This fiscal year is the first year of the plan.

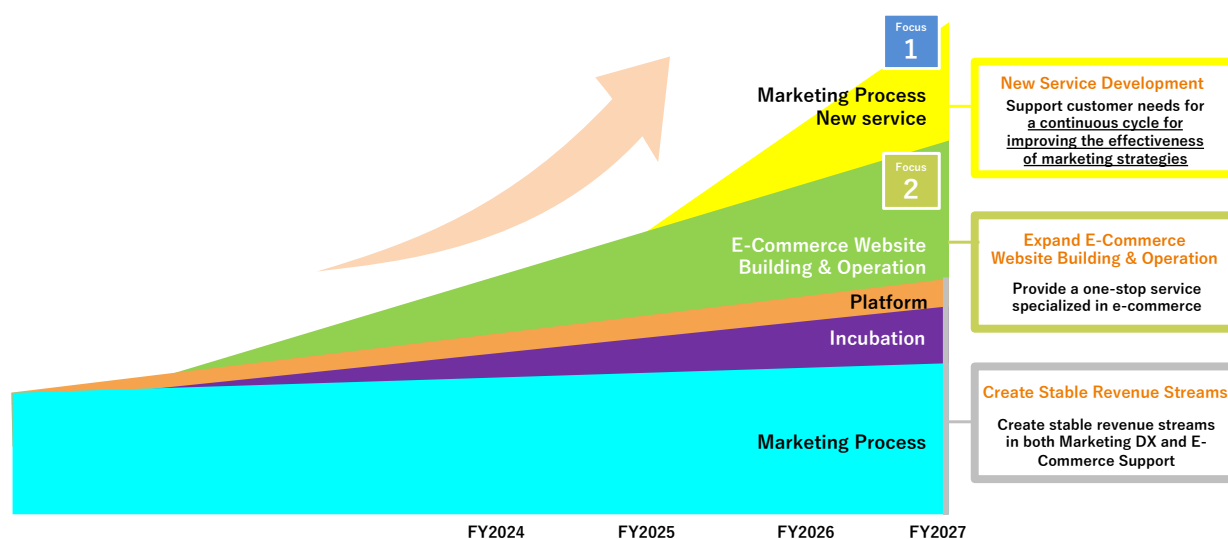
The medium- to long-term goal is to “achieve 10 billion yen in sales as a Comprehensive Marketing DX Support Business Group” (the Company aims to achieve this early, but the timeframe has not been specified). The new medium-term business plan will contribute to this goal through its theme to “draw a 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.”

The Company aims to achieve accelerated growth through the stable growth of its conventional businesses (Marketing Process / Incubation / Platform) and focused investment on its two areas of focus (E-Commerce Website Building & Operation and the new services of Marketing Process) for their strengthening and expansion (Figure 32).

Unlike the previous medium-term plan, specific numerical targets including sales, operating profit, operating margin, and dividend on equity ratio for the final fiscal year have not been announced.

However, the Company has set two KPIs: to break the record high for the number of accounts of the Marketing Process category by FY2027 (the current record is 1,666 in Q2 FY2020), and to increase the sales proportion of E-Commerce Website Building & Operation in the E-Commerce Support segment to over 80% by FY2027 (62% in the first half of this fiscal year).

【Figure 32】 Image of Sales Growth in VISION 2027



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

The aims of VISION 2027 and areas of investment are shown in Figure 33.

【Figure 33】 Aims of VISION 2027 and Areas of Investment

Focused investment in Marketing Process and E-Commerce Website Building & Operation

	Aims of VISION 2027	Key Investment Areas
Marketing DX Support	Create a society where companies can continuously improve the effectiveness of their marketing strategies through an improvement cycle, thereby solidifying our position as a pioneer in marketing process support.	<ul style="list-style-type: none"> Release and continuous update of the new SaaS in the Marketing Process field Increase number of accounts and cross-selling through sales promotion of the conventional services Develop and provide a human support service for solving customers' problems that cannot be fully solved by SaaS Expansion of services through M&A
E-Commerce Support	Solidify our position as an enterprise e-commerce support company in the increasingly complex e-commerce market by providing a one-stop solution for development, operation, and marketing	<ul style="list-style-type: none"> Development of EC-CUBE Enterprise Version Expansion of the development base in Japan and Vietnam Expansion of services to support operation and marketing after building an e-commerce site

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

◆ Medium- to Long-Term Financial Outlook by Alpha-Win Research Dept.

Medium-Term Forecast

- ◆ We reviewed and revised downwards the forecasts for the three fiscal years starting this year.

In addition to the current fiscal year, we have also reviewed our previous forecasts for the next year and the fiscal year after the next, mainly regarding the Marketing DX Support segment but also for E-Commerce Support. Overall, we have revised them downwards (Figure 31 on page 25).

Our sales forecasts have been revised downwards as described below. We have also revised the profit margin and profit forecasts downwards to take into account the rise in various costs due to inflation, such as personnel and outsourcing expenses, in addition to strategic upfront investment costs.

For FY2025 (the next fiscal year), we revised down sales from 4,400 million yen to 4,250 million yen, operating profit from 300 million yen to 250 million yen (operating margin from 6.8% to 5.9%), and net profit from 180 million yen to 150 million yen.

Similarly, for FY2026 (the fiscal year after the next), we have revised down sales from 4,850 million yen to 4,680 million yen, operating profit from 350 million yen to 280 million yen (operating margin from 7.2% to 6.0%), and net profit from 210 million yen to 170 million yen.

- ◆ However, we expect a trend of increasing sales, profits, and dividends starting in the next fiscal year.

However, in both FY2025 and FY2026, we expect the Company to increase sales and profits, increase dividends, and achieve record-high sales consecutively. We have made these forecasts based on the following: the completion of the current phase of upfront investments; the launch of the new service in the Marketing Process category (the release of the paid version of the new SaaS and strengthening of the human support service); sales growth of the E-Commerce Website Building & Operation category's conventional business and EC-CUBE Enterprise through sales promotion; and sales growth of the conventional businesses of Marketing Process (due to the number of

accounts of AD EBiS bottoming out and contribution from GSP and CApiCO).

Regarding the new services planned for the current fiscal year, though, the extent of their impact on results in the next fiscal year and beyond is difficult to rationally predict at this point. These include the Marketing Process category's new SaaS and human support service and the E-Commerce Support segment's EC-CUBE Enterprise and EC-CUBE Official Security Check.

- ◆ **At present, the contribution of the new services to performance is not expected to be significant in the coming years.**
- ◆ **We plan to review our medium-term forecasts again in the next fiscal year or later when the details and trends of the new services will most likely be known.**
- ◆ **We expect a DOE of 2.5% for the meantime.**

For this reason, these new services have not been largely factored into our sales and profit forecasts for the next fiscal year and the fiscal year after the next.

We would like to update our medium-term forecasts as appropriate in the next fiscal year or later, when the content, price range, and performance of these services will be known to some extent.

Regarding dividends, we assumed that the DOE will be 2.5%, or the same as our previous forecast, over the medium term. In line with the change in our profit forecasts, we have partly revised the expected amount of dividend, but we have not changed our forecast that dividends will continue to be increased along with the growth of profit.

If the profit growth trend becomes solid over the medium term, then the DOE target may be raised again to the Company's previous goal of 3.0%.

Long-Term Performance Outlook

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

In addition to the organic growth of its conventional businesses, growth could accelerate in the future if it can monetize the new businesses and carry out M&As that generate synergies.

- ◆ **We expect an average annual sales growth rate of around 10% over the long term and an even greater profit growth rate.**

In the long term, the volatility of financial performance is likely to remain high due to the cyclical nature of investments, with investment periods for growth followed by their payback periods. However, we believe that the Company could increase sales by an average of around 10% per year and also achieve an even greater profit growth, all the while generally maintaining profitability.

8. Analyst’s View

◆ Shareholder Returns

- ◆ This fiscal year, the Company plans to increase dividends for the fourth consecutive year, targeting a DOE of 2.5%.

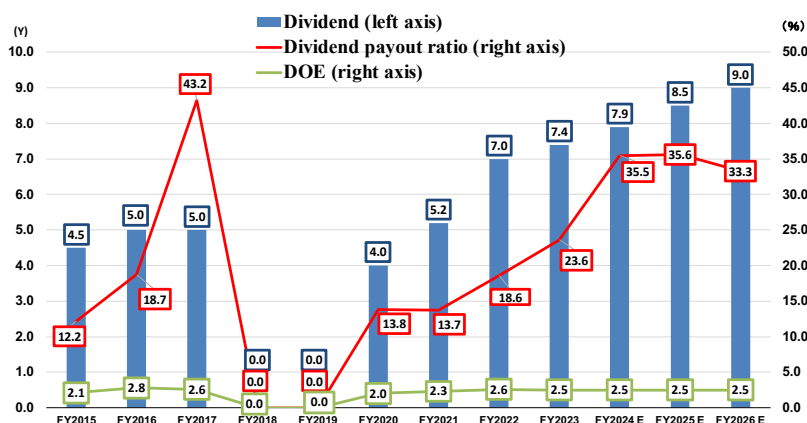
The Company plans to pay a dividend of 7.9 yen/share (+0.5 yen/share YoY) based on a consolidated dividend on equity ratio (DOE) of 2.5% for the current fiscal year, marking the fourth consecutive year of dividend increases since resuming dividend payments in FY2020.

We have revised the current fiscal year’s forecasts (page 25) but have left the dividend forecast unchanged at 7.9 yen/share, which is the same amount as the Company. For FY2025 and FY2026, we have adjusted the dividend in line with our forecast revisions, based on a DOE of 2.5%.

- ◆ We expect dividends to continue to be increased in the next fiscal year and beyond.

The YRGLM Group is in its growth stage, so we expect that from the next fiscal year onwards, the investments made so far will pay off and the Group will return to a profit growth trend. As net assets will increase from the profits, we expect dividends to continue to generally increase (Figure 34).

【Figure 34】 Change in Dividend and Dividend Payout Ratio



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

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

Stock Price and Trends

- ◆ Volatility of share price has been high
- ◆ Share price has been fluctuating within a narrow range after a sharp rise in response to increased shareholder returns.

The Company is a small-cap, Ad-Technology⁽¹¹⁾-related stock listed on the TSE Growth Market. Since becoming listed, the volatility of share price has been high.

At the time of the announcement of the previous fiscal year’s results (November 2023), the Company announced three measures to increase shareholder returns (dividend increase, reintroduction of the shareholder benefit plan, and share buyback). In response, the share price rose sharply from below 500 yen to the mid-700 yen range. Since then, the share price has been hovering around 600 yen.

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

Since the beginning of the year, the Company has been outperforming the TSE Growth and former Mothers, while underperforming the TSE Prime, Standard, TOPIX, and other major indices (Figure 35 on page 30).

The Company has been recognized as an AdTech/subscription-related growth stock oriented toward domestic demand. Its slowdown in profit growth is most likely already becoming reflected in the share price.

【Figure 35】 Comparison of Valuation and Performance

Closing price of May 31, 2024	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	Return since May 8, 2024
YRGLM (3690): GRT	602	30.28	1.99	1.31	-5.49	16.44	-4.7
TSE Prime Stock Average: PRM	1,427.16	16.27	1.39	2.29	17.21	17.47	2.5
TSE Standard Stock Average: STD	1,234.56	14.01	1.00	2.34	5.58	9.39	-1.3
TSE Growth Stock Average: GRT	796.23	46.41	3.00	0.63	-10.64	-8.43	-5.1
TOPIX	2,772.49				17.16	17.46	2.4
TSE Growth 250 (former TSE Mothers)	618.49				-12.45	-10.74	-5.6
Nikkei Stock Average	38,487.90	16.52	1.48	1.80	15.01	17.67	0.7

(Ref) Prepared by Alpha-Win Research Dept. Actual P/B for the Company is the value as of the end of the first half of FY2024 (the fiscal year ending September 2024), and the rest are values as of May 31, 2024. The Company's P/E is based on Alpha-Win's forecast for EPS. Note that November 6, 2023, is the when the Company announced the previous fiscal year's results (including enhanced shareholder returns) and May 6, 2024, is when it announced the first half's results.

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

Valuation

Based on this fiscal year's financial forecast, the Company's valuation is as follows: forecasted P/E of 26.54, actual P/B of 1.99, forecasted P/S¹² of 0.94, and a forecasted dividend yield of 1.31% (forecasts are based on the Company's plan).

Based on Alpha-Win's forecasts, the P/E is 30.3 for this fiscal year, 25.2 for next fiscal year, and 22.3 for the fiscal year after the next. In the same order, the P/B is 1.9, 1.8, and 1.7 and the dividend yield is 1.3%, 1.4%, and 1.5%.

◆ Resumed the shareholder benefit program

In the reintroduced shareholder benefit program, shareholders holding at least 100 shares will receive Amazon gift certificates worth 1,000 yen twice a year, in March and September, which would make the actual shareholder return approximately 4.6% (when holding 100 shares).

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

The Company's stock is somewhat overvalued compared to each average of all stocks on the TSE Prime Market (P/E of 16.27, P/B of 1.39, and simple-average dividend yield of 2.29%). 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 46.41, P/B of 3.00, and simple-average dividend yield of 0.63%).

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

Its EV/EBITDA is estimated to be 5.6 for the current fiscal year, 5.5 for the next fiscal year, and 5.2 for the fiscal year after the next (Alpha-Win's forecasts), which seem to be within the general range (about 2 to 8).

◆ Future share price will depend on earnings momentum and dividend levels.

Also, although the PEG¹³ would be around 3.0 if we assume the medium-term profit growth rate to be 10%, suggesting that the stock is not undervalued, the PEG would be 1.5 if we assume the growth rate to be 20% and would suggest that the share price is within an acceptable range.

Valuations are not extremely expensive or undervalued, and the share price is expected to be linked to profit momentum in the next fiscal year and beyond, as well as to the dividend forecast.

- ◆ Recovery of profit growth in the next fiscal year and beyond is essential for the share price to rise.

In particular, the success or failure of the two services that are expected to become the growth drivers will be the major factors that may impact earnings. If investors' expectations for future profit growth recover, the share price could rebound.

- ◆ The key factors that may impact the share price are the number of accounts, unit price, churn rate, M&A, and dividends, as well as the contribution of the new services and E-Commerce Website Building & Operation to earnings.

Key Points Going Forward

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

1. Marketing Process' number of accounts (KPI), unit price (amount and rate of increase), and churn rate
2. Details of the new services to be launched (the new SaaS and the human support service) and their contribution to earnings
3. Proportion of E-Commerce Website Building & Operation' sales to the overall sales of the E-Commerce Support segment (KPI) and the profitability of E-Commerce Website Building & Operation
4. Monthly sales trends (YoY change for both segments)
5. Quarterly trends in profit/loss (profit growth rate, profit margins, EBITDA, and changes in each segment's sales and profit)
6. The level of financial performance for this full fiscal year and the profit outlook for the next fiscal year and beyond (the timing when profit will begin increasing again, as well as the profit growth rate)
7. Shareholder return measures and their level
8. Announcements of a M&A or alliance
9. Strengthened regulations such as those for the protection of personal information

Since it is a small-cap stock in the growth phase, the volatility of financial performance and share price is likely to remain high.

However, over the medium to long term, the Internet advertising market and the e-commerce market are expected to continue to expand. The Company's business therefore has a high growth potential, including growth through M&As using its cash on hand.

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

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 and e-commerce support, which is relatively resistant to direct impacts by COVID-19, global situations, interest rates, and exchange rate fluctuations.