# Alpha-Win Company Research Report

# LOCKON CO., LTD.
## (3690 TSE Mothers) Issued:12/18/2018

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

## ● Summary

**Business Description**

・LOCKON CO., LTD. (hereinafter referred to as "the Company") plans, develops, and sells software related to Internet marketing. It was founded in 2001 by president Iwata during his college years. The main product is its proprietary Internet advertising effect measurement system, provided via the cloud to middle-sized and large companies. The Company's main business can be described as a subscription-based business, meaning that although costs precede and temporarily cause an overall loss upon the acquisition of new customers, after a certain period of time, the initial costs are recovered and profit begins to steadily accumulate over time. Going forward, the Company is expected to enter a profitability improvement phase by effectively using its accumulated information assets. The Company became listed on TSE Mothers in September 2014. It is a leading company in a niche market.

**Current Financial Results**

・After becoming listed on Mothers, the Company increased sales and stayed in the black. However, since FY 2017 (the fiscal year ending in Sept. 2017), although the Company continued to increase sales, profit has been declining due to upfront investment for business expansion and expenses related to business restructuring. In FY 2018 (last FY), its net sales were Y1,804 million (+5.0% YOY), and the Company recorded a net loss of Y88 million (Y72 million earned as profit in the previous fiscal year) and stopped the payout of dividend. As of this point in time, the Company has not announced forecast figures for FY 2019 (this FY). When the impact of the transfer and acquisition of businesses is taken into account, sales have essentially been steadily increasing over the last few years, including the previous fiscal year.

**Competitiveness**

・The Company's strengths are the management skill of the president who has a deep knowledge of advanced technologies in this field, products with proven and strong functions, and possession of big data that have been accumulated over the years. The Company's two main products both have the largest share in the domestic market. In this recently born industry, the Company aims to secure an extraordinarily large market share by further strengthening its products.

**Business Strategy**

・With the Marketing Robot Strategy, which aims to automate and improve the efficiency of Internet marketing, the Company plans to expand its business domain as a whole from advertising effect measurement to analysis and utilization, as well as overseas development. It plans to achieve Y3 billion in sales in FY 2020 (next FY). Toward this target, the Company plans to accelerate its growth by actively pursuing M&As and alliances with other companies.

**Forecast on Financial Results (Alpha-Win Research Dept.)**

・The Company's business restructuring seems to have been completed for now. Current sales are excellent, and for FY 2019 we expect sales of Y2,150 million (+19.2% YOY) and a net profit of Y10 million. While "aggressive" upfront investment may be continued over the medium to long term, we predict that its existing and future businesses, past and future acquisitions of companies, and various measures conducted so far will bring positive results, creating a great growth potential and leading to a sales growth of 20% per year. Although profit will depend on the success of cost control, we believe that the Company can maintain profitability in the future and may achieve a double-digit profit growth over the medium to long term.

**Stock Price**

・The Company's stock value does not seem cheap when comparing valuation indicators between the Company, TOPIX, and similar companies. However, if the Company bottoms out and improves its financial performance, then it may

regain attention. Going forward, we should pay attention to the factors that may affect stock price including the change in monthly sales, quarterly transition in profit and loss (watch out for when a net profit becomes recorded again), M&A, alliances, and new functions. In particular, the unit price and the number of active accounts of the core AD EBiS business are key indicators (KPI) directly linked to performance, and should be followed.

## Shareholder Return

・In the previous fiscal year, the Company posted a net loss and terminated its dividend payout and shareholder benefit plan. Currently, because it is in its growth phase, the Company believes that it should raise shareholder value by recovering its financial performance through investments for growth rather than letting its cash flow out.

【 3690 LOCKON CO., LTD. Sector: Information & Communication 】 Figure A

| FY | | Sales (Y mil) | YOY (%) | O.P. (Y mil) | YOY (%) | R.P. (Y mil) | YOY (%) | N.P. (Y mil) | YOY (%) | EPS (Y) | BPS (Y) | Dividend (Y) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | | 1,612 | 12.2 | 247 | -29.2 | 250 | -28.9 | 168 | -26.9 | 26.79 | 189.08 | 5.0 |
| 2017 | | 1,719 | 6.6 | 92 | -62.6 | 106 | -57.5 | 72 | -56.8 | 11.56 | 195.60 | 5.0 |
| 2018 | | 1,804 | 5.0 | -98 | - | -115 | - | -88 | - | -14.02 | 184.97 | 0.0 |
| 2019 | CE | Has not been disclosed at this point | | | | | | | | | | |
| 2019 | E | 2,150 | 19.2 | 30 | To surplus | 10 | To surplus | 10 | To surplus | 1.57 | 186.41 | 0.0 |
| 2020 | E | 2,600 | 20.9 | 120 | 300.0 | 100 | 900.0 | 96 | 860.0 | 15.11 | 201.53 | 0.0 |
| 2021 | E | 3,000 | 15.4 | 250 | 108.3 | 230 | 130.0 | 155 | 61.5 | 24.40 | 225.93 | 0.0 |

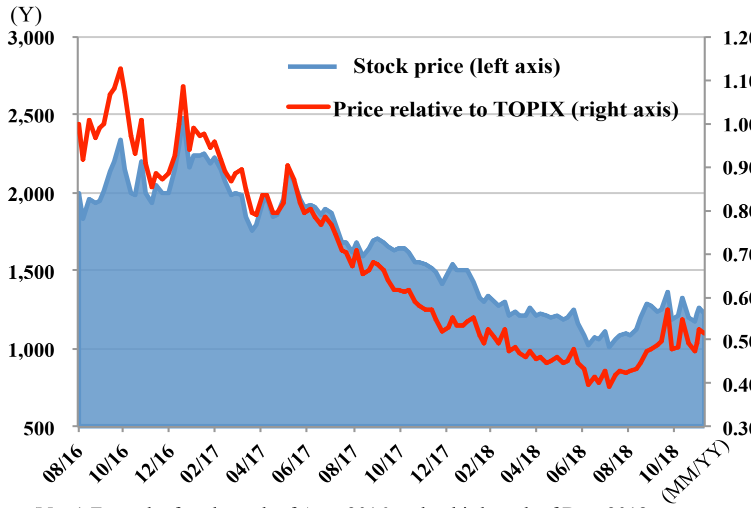
(Note) CE = the Company's estimate; E = estimate by Alpha-Win Research Dept. All fiscal years discussed in this document are September-ending. For example, FY 2018 ends in Sept. 2018. This applies to all parts of this Report.

【 Stock Price and Valuation Indicators 3690 LOCKON CO., LTD. 】 Figure B

| Item | as of 12/14/2018 | Item | P/E | P/B | Dividend Yield | Dividend Payout Ratio |
|---|---|---|---|---|---|---|
| Stock Price (Y) | 1,220 | Last FY (actual) | - | 6.6 | 0.0% | 0.0% |
| Shares Outstanding (thou.) | 6,352 | This FY (est.) | 774.9 | 6.5 | 0.0% | 0.0% |
| Market Capitalization (Y mil) | 7,750 | Next FY (est.) | 80.7 | 6.1 | 0.0% | 0.0% |
| Dilutive Shares (thou.) | 0 | Equity Ratio at Last FY-End | 54.5% | Last FY's ROE | - | |

(Note) Estimates were made by Alpha-Win Research Dept.

【 Stock Chart (end-of-week prices) 3690 LOCKON CO., LTD.】 Figure C




【 Performance 】

| Period | Return | vs. TOPIX |
|---|---|---|
| 1 month | -0.3% | 4.4% |
| 3 months | -3.3% | 10.3% |
| 6 months | 13.7% | 23.6% |
| 12 months | -16.7% | -4.9% |

(Note) From the fourth week of Aug. 2016 to the third week of Dec. 2018

(Note) Prepared by Alpha-Win Research Dept. The most recent stock price and TOPIX values used for the calculation of performance are as of 12/14/2018. However, comparison between periods is based on the end-of-the-month stock price for each corresponding month.

# Contents



Note: Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of the Report.

# 1. Company Overview

## ◆ Leading Company in a Niche Market

LOCKON CO., LTD. (hereinafter referred to as "the Company") is a startup company that plans, develops, and sells software related to Internet advertising and e-commerce. Susumu Iwata, the Company's president, started a web design business in Osaka as a college student and, upon business expansion, established the Company in 2001.

The Company has grown through the full-scale development of the Marketing Robot (registered trademark of the Company) business, developing proprietary software to automatize and improve the efficiency of marketing instead of humans. Until now, it has grown its business in two areas – the marketing platform and the commercial distribution platform. The main products are AD EBiS, an Internet advertising effect measurement system[1], and THREe, an operating platform for paid-listing ads[2]. Software is provided as a SaaS[3] (cloud) to companies (B2B). The Company is a leading company and a giant in the niche marketing robot market. It became listed on TSE Mothers in September 2014. Currently, the Company has two head offices, one in Osaka and one in Tokyo.

The Company name "LOCKON" (CO., LTD.) comes from "lock on," which is a military term in English meaning "a missile becoming ready to automatically follow a target." Iwata, the president and founder, stated that he chose this as the company name because "the military term 'lock on' connotes ideas such as reliability, innovation, high speed, independence, and uniqueness, and illustrates how we are striving to realize the goals of our corporate statement (corporate philosophy), 'Impact on the World.'"

The Company is specialized in providing the Marketing Robot and carries out the following two businesses (main product names listed after the colon).
(1) Marketing platform: AD EBiS, THREe, AdRepo (automatic report generation tool for programmatic advertising[4])
(2) Commercial distribution platform: EC-CUBE

The corporate group consists of a total of six companies: the Company, two consolidated subsidiaries, one nonconsolidated subsidiary, and two affiliates accounted for by the equity method.

Consolidated Subsidiaries
・LOCKON Vietnam Co., Ltd. (Vietnam Socialist Republic. An offshore development site. Conducts software development outsourced by the Company. 100% owned by the Company.)
・EC-CUBE Co., Ltd. (Established in Osaka City Kita Ward in October 2018. The Company has a 100% stake. Planned to take over the EC-CUBE business from the parent company's commercial distribution platform business in January 2019)

Nonconsolidated Subsidiary
・LOCKON Marketing of U.S.A (Established for information gathering purposes – a dormant company)

◆ **As its business, developing the Marketing Robot that automates and improves the efficiency of marketing instead of humans. Currently, the Internet advertising effect measurement system, which is a part of this business, is its main product.**

◆ **As its main service, the Company provides Internet-marketing-related platform as a SaaS (cloud).**

(1) Internet advertising effect measurement system: A tool to comprehensively measure the effect of and evaluate various Internet ads and SEO strategies

(2) Paid-listing ads: Also referred to as search advertising. A method of displaying ads related to keywords searched or browsed by Internet users. Effectively displays ads in the users' areas of interest. A highly effective method for corporate advertising.

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

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

◆ **Main products are its proprietary AD EBiS and EC-CUBE.**

Affiliates Accounted for by the Equity Method
・SAI Co., Ltd. (LOCKON CO., LTD. acquired 20% of the shares in September 2015 and transferred its EC outsourced development business)
・Radical Opti Co., Ltd. (LOCKON CO., LTD. acquired 20% of the shares in May 2017 and, like SAI, transferred its EC outsourced development business)

◆ **Consolidated-to-parent-company ratios are about 1 for both sales and profit.**

The parent company's sales and profit make up an extremely large portion of the total for the entire corporate group, with the consolidated-to-parent-company ratios staying at around 1. Total recurring profit/loss of the consolidated subsidiaries is also almost zero (Figure 1).

**【 Figure 1 】Comparison of Consolidated to Parent Company Recurring Profit**

(unit: Y mil, %)

| | | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|---|---|
| A | Consolidated R.P. | - | 234 | 352 | 250 | 106 | -115 |
| B | Parent company R.P. | 75 | 245 | 359 | 252 | 107 | -110 |
| A-B = C | Consolidated R.P. - parent company R.P. | 75 | -12 | -7 | -2 | -1 | -5 |
| C/B | Subsidiaries, etc.'s R.P. / parent company R.P. | - | -4.7% | -1.9% | -0.7% | -0.5% | - |
| A/B | Consolidated R.P. / parent company R.P. | NA | 0.95 | 0.98 | 0.99 | 1.00 | - |

(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report, financial results summary, financial results briefing materials, HP, etc.

**(Note) Hereinafter, unless otherwise noted, reference may be omitted if it is the same as above. Also, since we generally round off the decimal places for the numbers used in this Report, the numbers may differ from those officially disclosed by the Company.**

◆ **All fiscal years (FY) discussed in this Report are September-ending. For example, FY 2018 ends in Sept. 2018.**

After becoming listed, the Company had been debt-free, but in FY 2018, as investment for the future, the Company raised about Y800 million in long- and short-term loans. The Company commented that this investment is for the development of the marketing platform and AI-related fields and in preparation for future M&As. Since the cash and deposits were about Y1.2 billion as of the end of FY 2018, the Company is essentially debt-free. In addition, while its total assets and market capitalization are relatively small – about Y2.2 billion and Y8 billion, respectively, as of the end of FY 2018 (stock price was Y1,262 at the end of Sept. 2018) – there is no problem with its financial condition, with an equity ratio of 54% and current ratio of 259%.

◆ **The Company's business philosophy**

## ◆ Business Philosophy, Mission, and Action Guidelines

The Company's business philosophy is "Impact on the World." These words embody the Company's wish to "create a company with global influence and give dream and hope to as many people as possible."


As its mission statement, the Company has established the following three policies: "For the happiness of all employees," "For the happiness of all customers," and "For the happiness of all suppliers." The Company has also set five action guidelines: "reliability," "speed," "uniqueness," "innovation," and "independence."

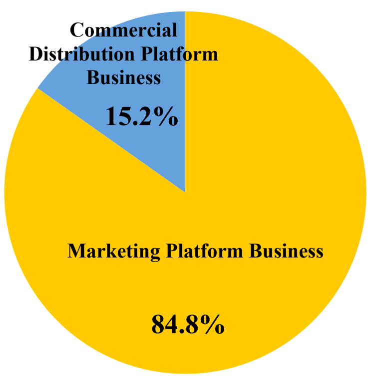
# 2. Business Description and Business Model

◆ **A B2B business, providing proprietary software via the cloud as its main business. Developing businesses for two platforms. Focused on the marketing platform business.**

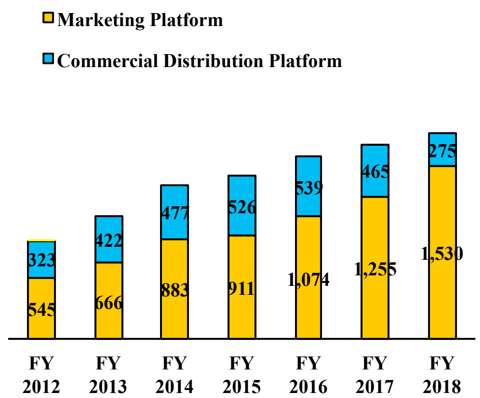
## ◆ Providing Originally Developed Marketing Robot via the Cloud

Based on the concept that a "marketing robot" that solves problems automatically and efficiently instead of humans is also necessary in the area of Internet marketing due to the aging and declining population, the Company provides proprietary Marketing Robot software via the cloud mainly to companies. The Company's business consists of two business segments: (1) the marketing platform business and (2) the commercial distribution platform business. The former accounts for approximately 85% of total sales and is the driver of sales growth (Figures 2 and 3). Change in operating profit by business segment is shown below on Figure 4. Except for FY 2017, the profit of the commercial distribution platform had underpinned the Company's performance amidst fluctuations in the profit of the marketing platform business.

【 Figure 2 】 Sales Breakdown by Business Segment

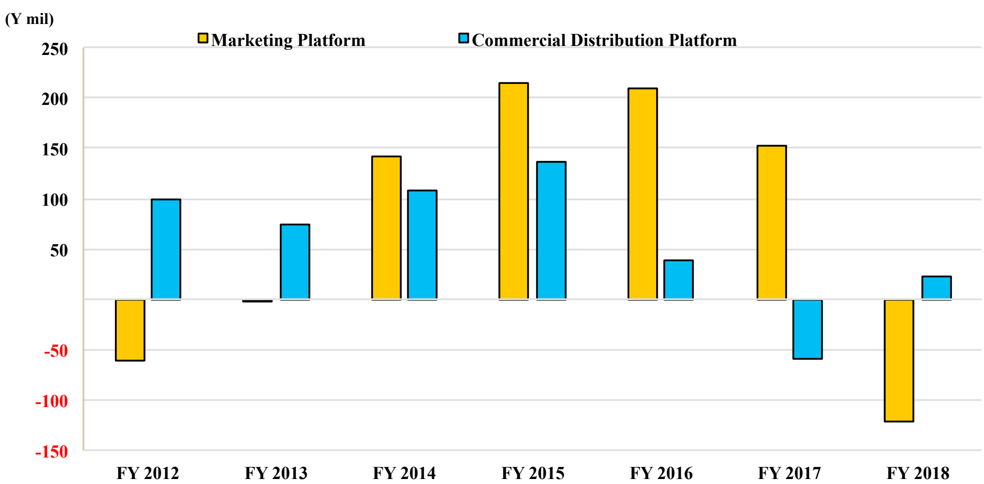



【 Figure 3 】 Change in Sales by Business Segment




(Ref) Figures 2-4 were prepared by Alpha-Win Research Dept. from the Company's securities report, financial results summary, and financial results briefing materials.

【 Figure 4 】 Change in Operating Profit by Business Segment



## ◆ Restructuring and Strengthening of Business Portfolio

◆ **Pushing forward with restructuring of business portfolio. Concentrating business resources on AD EBiS of the marketing platform business.**

Since FY 2016, the Company has making fast progress with the restructuring and strengthening of its business portfolio, focusing on its core business (AD EBiS in the marketing platform business) and separating its non-core business (commercial distribution platform business) (Figure 5). In the marketing platform business, the Internet advertising effect measurement system AD EBiS accounts for most of the total sales (78%). In the future, the Company plans to concentrate business resources on this product and related products to develop this business as an even greater driver of growth. Thereby, the Company plans to acquire an extremely large share in the market.

Specifically, in recent years, the Company has been conducting the following strengthening and restructuring of business.

(i) Strengthened the products of the marketing platform business. Offering products with enhanced capabilities by adding various optional functions to the AD EBiS such as the artificial intelligence functions Cross-Device Function[5] (patent-pending; provided starting in August 2018) and Customer Journey Analysis Function (visualizes and evaluates the user's action history; patent obtained).

(ii) Formed 31 new alliances with other companies against the target of 30, which had been a high-priority target of the Company's development strategy (FY 2018). As a result, with the utilization of external resources, the Company was able to obtain most of what is needed for the three components – measurement, analysis, and utilization – crucial to the Marketing Robot.

(iii) Acquired EVERRISE CO., LTD.'s automatic report creation tool AdRepo business in August 2018 and incorporated it into the marketing platform business.

(iv) Restructured the commercial distribution platform business, transferring the EC outsourced development business (actual sales were Y246 million in FY 2016) to its two equity-method subsidiaries and withdrawing from the outsourcing business.

(v) For the same commercial distribution platform business, the Company also decided to transfer its EC-CUBE division to EC-CUBE Co., Ltd., its new consolidated subsidiary, on January 1, 2019 by a company split-up. Developed and began providing a new version, EC-CUBE 4 (October 2018).

(vi) Similarly, the DMP[6]-related business of the commercial distribution platform business (previous fiscal year's sales were Y84 million) was transferred to the Company's marketing platform business in the previous fiscal year since it is closely related to AD EBiS.

(vii) Reinforced human resources to prepare for growth. From FY 2014 to FY 2018, the number employees were increased from 68 → 71 → 98 → 122 → 144 (the number of staff at the end of the fiscal year) through new-graduate and mid-career recruitment. In the last four years, more than 20 staff were hired each year, doubling the staff size (increased the number of staff by 22 YOY during this period). In particular, the Company is reinforcing its engineering team for software development and sales team to strengthen sales activities.

(5) Cross-Device Function: A function to visualize user behavior across devices, applications, and browsers

(6) DMP: A method by which a corporate client analyzes its website

As a result of the above actions, after the second quarter (Q2) of FY 2019, the Company (parent company) will concentrate on the marketing platform business. However, since the company to which EC-CUBE was transferred is a consolidated subsidiary, on a consolidated basis, the Company plans to continue to classify its business into the same two segments as before. However, the specific businesses within each business segment whose sales result will be disclosed are undetermined at this time.

### 【 Figure 5 】 Business Restructuring

| Business Segment | Main Product/Service | Business Subcategory | Change | Note |
|---|---|---|---|---|
| (1) Marketing Platform | 1. AD EBiS | | | Parent Company |
| | | DMP | Transferred from SOLUTION | |
| | | AdRepo | Acquired | |
| | 2. THREe | | | |
| (2) Commercial Distribution Platform | 1. EC-CUBE | | To be transferred to EC-CUBE Co., Ltd. on 1/1/2019 | Consolidated |
| | 2. SOLUTION | EC Outsourced Dev. | Were transferred to SAI Co., Ltd. and Radical Opti Co., Ltd. | Equity method |
| | | (DMP↑) | | |

(Ref) Figures 5 and 6 were prepared by Alpha-Win Research Dept. from the Company's securities report, financial results summary, and financial results briefing materials.

## ◆ Details on the Business Contents

### (1) Marketing Platform Business

The transition in the sales and profit of the marketing platform business is as follows.

### 【 Figure 6 】 Change in Sales of the Marketing Platform Business and Operating Profit of This Business Segment

| Sales (Y mil) | *FY 2012* | *FY 2013* | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | % of Total |
|---|---|---|---|---|---|---|---|---|
| Marketing Platform | *545* | *666* | 883 | 911 | 1,074 | 1,255 | 1,530 | 84.7% |
| AD EBiS | *499* | *567* | 722 | 822 | 1,012 | 1,200 | 1,402 | 77.7% |
| THREe | *46* | *81* | 161 | 89 | 62 | 54 | 43 | 2.4% |
| (DMP) | | | | | | | 84 | 4.7% |
| Segment's O.P. | *-61* | *-1* | 142 | 214 | 210 | 153 | -121 | |
| Segment's O.P. Margin | *-11.2%* | *-0.1%* | 16.1% | 23.5% | 19.5% | 12.2% | -7.9% | |

- **AD EBiS is the Company's main product that accounts for approximately 78% of the Company's total sales (FY 2018).**

The marketing platform business consists of 1) AD EBiS (Internet advertising effect measurement system) and 2) THREe (in-house operation platform for paid-listing ads). By combining THREe, which enables automatic optimization and automatic ad submission, and AD EBiS, which measures and analyzes the effectiveness of Internet advertising, the Company provides a one-stop platform for the three elements of marketing automation – from effect measurement to optimization to purchase/ad-submission.

Increasingly diversified and dispersed consumer behavior of today's Internet society has led to more sophisticated and complicated marketing and advertising, making technology-based operation more important. Usually, an advertising effect measurement system is involved in the effect measurement, analysis, and evaluation of ads, and utilization (ad management) is normally not included. The Company's characteristic or strength is its ability to offer, at a reasonable price, software that can accurately evaluate and utilize the effect of Internet ads using various analysis functions and analytical methods, and its capability to provide excellent support.

### (i) AD EBiS

- **AD EBiS is an Internet advertising effect measurement system.**
- **Provides services as a SaaS, adopting the subscription-based business model.**

Ad EBiS is the Company's core product and is an Internet advertising effect measurement system that allows the collective management, effect measurement, analysis, and visualization of the effect of Web ads, etc., to help assess the cost effectiveness of ads. It comprehensively provides a one-stop marketing environment for maximizing sales or acquiring prospective customers through proactive marketing by "using" marketing data accumulated by the "effect measurement" function. AD EBiS makes possible the visualization of marketing strategy (evaluation, improvement, etc.), letting advertisers measure and understand the series of behavior from the number of impressions[7] of the ads displayed on PCs, smartphones, etc., and the contacts, interests, and reactions toward the advertiser's ads to the number and history of clicks[8] for the paid-listing ads and the final purchase made at the advertiser's website (the number of conversions[9]).

The service is provided as a SaaS under a subscription-based business model[10] (described in detail later).

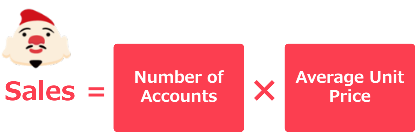
(7) Impressions: The number of times an ad was displayed.
(8) Clicks: The number of times an ad was clicked.
(9) Conversions: The number of times that users, who visited the site and clicked on an ad, took actions that the advertiser considers as achievement, such as product purchase, information request, and inquiry.
(10) Subscription-based business model: A business model where users pay for the provided service according to the duration of use.

- **Number one in the domestic market for three consecutive years**

Since its release in 2004, AD EBiS has had a total of more than 9,000 installations and has had the largest share in domestic market for Internet advertising effect measurement system for three years in a row. Moreover, according to the Company's data, it is increasing its share year by year from 36.0% in 2015 to 40.0% in 2016 and 42.9% in 2017 (forecasted value). It is a B2B business with its major customers being ECC Junior, Aiful, Noevir, Zwei, Kobayashi Pharmaceutical, Z-kai, Yazuya, Setagaya Shizenshokuhin, etc.

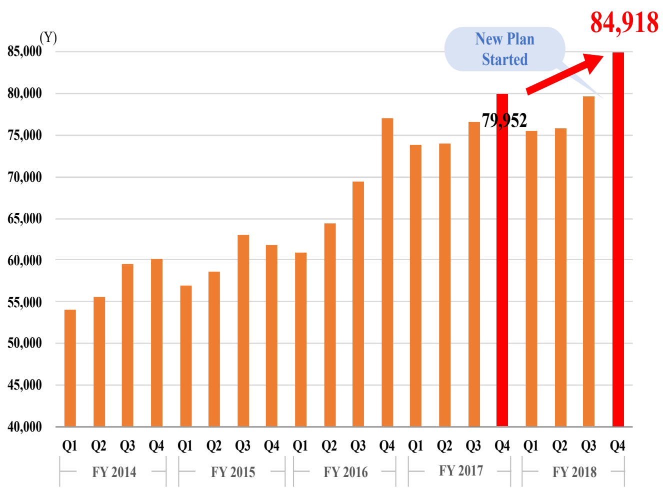
AD EBiS allows users to add a variety of optional functions (Cross-Device Function, access history analysis function, etc.) to the basic function as necessary. In the past, its pricing plan was a pay-as-you-go based on multiple parameters. However, starting in June 2018, the Company simplified the plan and set up a pricing table with a flat rate for different upper limits to the monthly number of clicks and PV (page view), much like a mobile phone pricing plan. In the future, the Company hopes to make this new pricing system its main system. In the new pricing system, the implementation-support program and telephone support are packaged together with the basic functions and three main plans of S, M, and L (monthly basic charge: 100, 200, and 300 thousand yen, respectively) are offered. Options (various external linkage functions such as reporting, etc.) can be added to a plan.

- **Unit price is increasing with the transition to the new pricing system.**



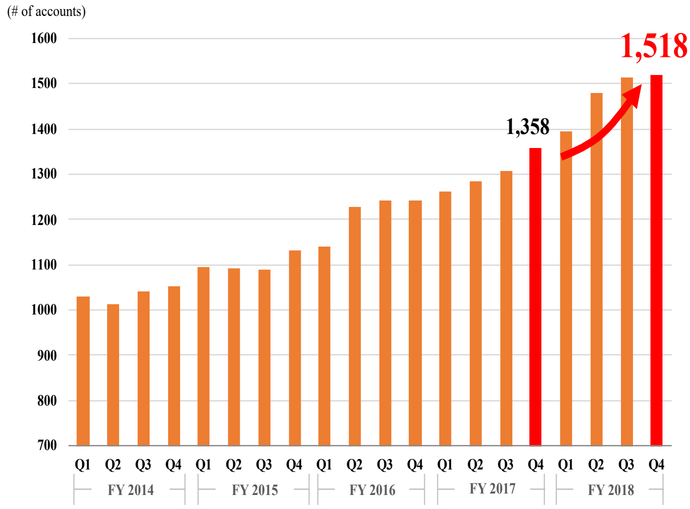

Sales of AD-EBiS are determined by average unit price × number of active users. Both figures are important indices (KPI) not only for this business but for the Company as a whole. In Q4 of FY 2018, the average monthly unit price was Y84,918, which is Y4,966 or 6.5% greater than Y79,952 in the same period of the previous fiscal year. Similarly, the number of active users had also increased from the previous fiscal year; the number was 1,518 in Q4 of FY 2018, which is 160 users or 11.8% greater YOY than previous fiscal year's 1,358 (Figure 8). If new functions or services are added, the average unit price will rise, generally leading to increased sales. In October and November of 2018, the average unit price of AD EBiS for newly acquired contracts had exceeded Y100,000.

【 Figure 7 】 Change in Unit Price of AD EBiS




Note: There are seasonal variations, as some accounts only exist during campaigns.

【 Figure 8 】 Change in the Number of Active Accounts for AD EBiS




(Ref) Figures 7-9 were prepared by Alpha-Win Research Dept. from the Company's securities report and financial results briefing materials.

- **THREe's sales are very small. The Company plans to reduce business resources used for this business in order to concentrate on AD EBiS.**

(11) Human-like Portfolio: A bidding function that algorithmizes the bidding strategy of the operator. If budget and efficiency target are set, it will automatically perform optimal bidding as if operated by a person.

### (ii) THREe

THREe is also a proprietary product – an operation platform for paid-listing ads. Of the many forms of Internet advertising, programmatic advertising is especially rapidly growing and is becoming more complicated and advanced. Consequently, manual operation is becoming difficult (about 60% of Internet ads are programmatic ads). Using THREe, it is possible to analyze big data accumulated through AD EBiS or various media, automatically optimize ads, and automatically submit ads. By enabling fully automatic operation (Human-like Portfolio[11]), including the optimal adjustment of bid unit price and addition of keywords, it can shorten the amount of time needed for operation and management and realize optimization. It has been used by more than 5,000 users. THREe is also provided as a SaaS.

However, in FY 2018, THREe accounted for only a little less than 3% of total sales. In order to concentrate business resources on AD EBiS, the Company intends to shrink this business in the future.

- **Moved the DMP business from the commercial distribution platform business**

### (iii) DMP Business

The DMP business was transferred from the SOLUTION division of the commercial distribution platform business to a division of the marketing platform business in the previous fiscal year since it is closely related to AE EBiS. DMP is an abbreviation for "Data Management Platform." The private DMP provided by the Company is a method by which a corporate client can analyze its website. For instance, a client can investigate and verify the behavior history and stay time of users who visited its website. The Company has several major clients for this business including Lion.

- **AdRepo's customers are advertising agencies. Enables automated creation of reports for programmatic advertising.**

### (iv) AdRepo Business

In August 2018, the Company acquired the AdRepo business, an automatic report-generation tool for programmatic advertising, and has begun to fully develop this business starting this fiscal year. Annual sales are estimated to have been a little less than Y100 million in the last fiscal year. The Company plans to develop this business as a growth business. Its domestic market share is third place, following ATOM (TechLoCo Co., Inc.: not listed) and glu (ATALA LLC: not listed, a partner of the Company).

AdRepo is a tool to fully automate the generation of reports and is a cloud service developed to reduce the workload of advertising agencies in report creation for programmatic ads. By collaborating with key advertising platforms such as Google AdWords, Yahoo! Promotional Ads, Facebook Ads, and FreakOut, it can automate data aggregation and report generation for programmatic ads. In addition, by strengthening its coordination with AD EBiS, AdRepo enables the integrated management of all data from data measurement to reporting and automation of digital marketing work.

### (2) Commercial Distribution Platform Business

The commercial distribution platform business is composed of two divisions: (i) EC-CUBE and (ii) SOLUTION.

**【Figure 9】Change in Sales of the Commercial Distribution Platform Business and Operating Profit of This Business Segment**

| Sales (Y mil) | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | % of Total |
|---|---|---|---|---|---|---|---|---|
| Commercial Distribution Platform | 323 | 422 | 477 | 526 | 539 | 465 | 275 | 15.2% |
| EC-CUBE | 150 | 207 | 245 | 230 | 219 | 208 | 254 | 14.1% |
| SOLUTION | 174 | 214 | 232 | 296 | 319 | 257 | 20 | 1.1% |
| (DMP) | | | | | | 104 | | 0 |
| Segment's O.P. | 98 | 75 | 107 | 136 | 38 | -60 | 22 | |
| Segment's O.P. Margin | 30.5% | 17.8% | 22.5% | 25.8% | 7.1% | -12.9% | 8.2% | |

### (i) EC-CUBE

EC-CUBE is an open source software[12] or platform whereby users can create and operate EC (e-commerce) websites on their own. The Company provides EC-CUBE as free packaged software for web design to companies who wish to begin selling and providing products and services on the web. It is characterized by both the user-friendliness as an ASP[13] and the convenience as a software enabling development – companies can directly and freely customize the program source. It has the largest share in the domestic market. EC-CUBE has features such as low cost, high customization (it can be changed according to the needs of users), and user-friendly interface, and has become a standard platform.

In return for offering EC-CUBE for free, the Company has set up the Freemium Model[14] where revenue is earned from peripheral services. Through this system, the Company makes profit from royalties from official partners in the Internet business (account settlement agent business, hosting businesses, etc.), function-addition fee from plug-ins (program to add functions to software), sales revenue of commercial license, etc. Other sales related to sales promotion and events are also included in the net sales.

(12) Open source software: The source code, which is equivalent to the blueprint of software, is made available free of charge, letting anyone improve and redistribute it.

(13) ASP: A service that rents applications to customers through the Internet.

(14) 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.

However, as part of the restructuring of the business domain of the Company's group, the EC-CUBE business is planned to be transferred to the 100% consolidated subsidiary, EC-CUBE Co., Ltd., on January 1, 2019. Because it is a fully consolidated subsidiary, there is no change in the consolidated financial results, but the Company plans for the subsidiary to further expand and develop the business as a separate corporate entity, for instance, through partnerships with other companies. The development of the new version, EC-CUBE4, has been completed, and it has been provided since October 2018.

- **SOLUTION business transferred to consolidated affiliates**

**(ii) SOLUTION**

Although the SOLUTION business used to be composed of multiple businesses, with the restructuring of business, its main EC outsourced development business had been transferred to the two affiliated companies of which the Company owns 20% of shares each. From this fiscal year and onwards, it seems that this division of business will no longer exist.

- **The Company's main business is based on a subscription-based business model. It lets the Company acquire continuous and stable profit by charging fees for every certain period.**

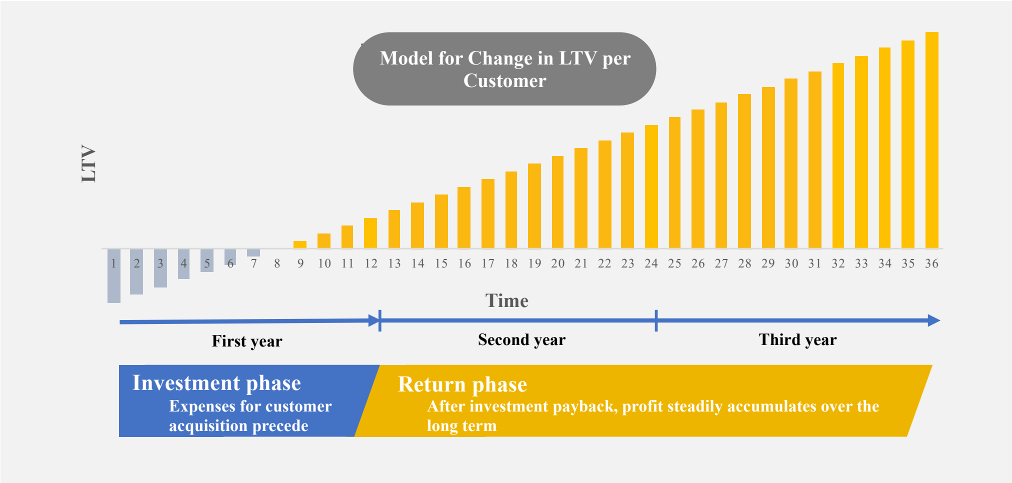
- **A business model where there is an overall loss immediately after obtaining a new contract, but over time the cost is recovered and profit is steadily accumulated.**

## ◆ Subscription-Based Business Model

The marketing platform business, which accounts for approximately 85% of the Company's sales, is mostly based on the SaaS (cloud), pay-as-you-go model. It is a subscription-based business where users pay a predetermined fee for the service contents or the use of system services such as AD EBiS during a certain contract period, such that the Company can continue to earn revenue until contract cancellation. Although expenses including marketing and sales expenses for customer acquisition and R&D expenses will precede at the beginning of a new contract, over a period of about three years (the period from the start to the end of a transaction with a customer), revenue can be accumulated continuously to increase the life time value (LTV: how much cumulative profit is generated within a customer's lifetime). Therefore, it is a business model that allows for stable growth.

Figure 10 below shows a model for the change in the Company's cumulative profit and loss over the average contract period of three years under the subscription-based business model. In the month that a new contract is made, all of the expenses are recorded, so that an overall loss is recorded for that month. However, since the Company then earns an almost fixed amount of sales revenue every month starting in the month of contract, the cumulative break-even point is reached after eight months. From the ninth month, the cumulative profit and loss (LTV) turns into a surplus and accumulates until the 36th month when cancellation is expected. In other words, while the number of contracts is increasing at an accelerating speed, on the surface level, there would seem to be a time lag, where the contribution to profit in the first year is small but profit accumulates on a continual and stable basis from the second year until the end of the contract. The Company considers the upper limit of the initial cost to be about 30% of the LTV (the final cumulative profit; the rightmost end of the graph in Figure 10) and controls the initial cost related to new contract acquisition accordingly.

**【 Figure 10 】Model for the Change in a Customer's LTV (cumulative profit and loss)**




(Ref) Prepared by Alpha-Win Research Dept. from the Company's financial results briefing materials, HP, etc.

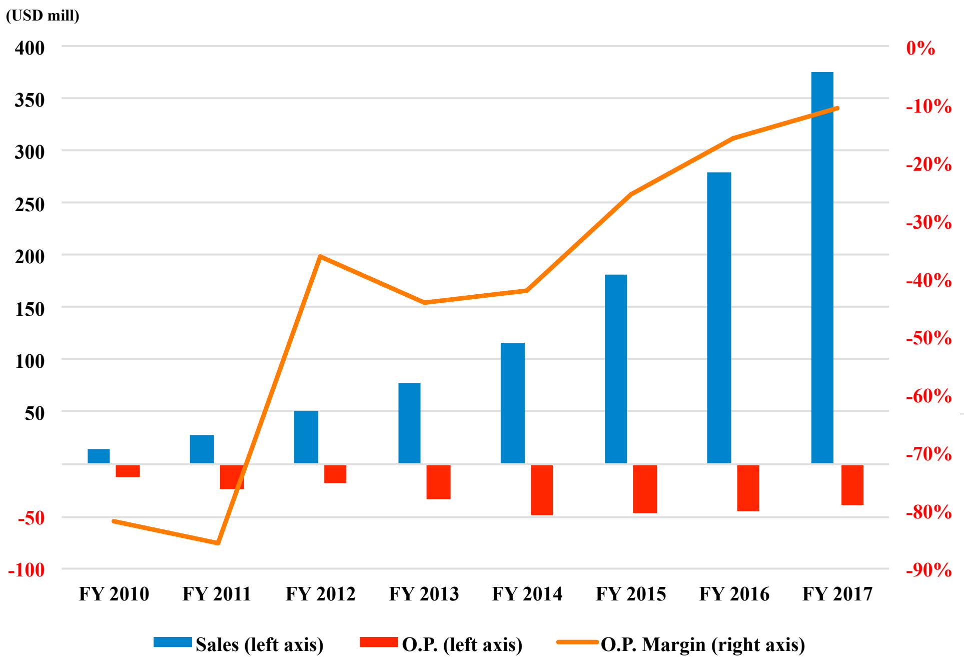
HubSpot, Inc. (hereinafter "HUBS"), listed on the US NASDAQ, is a company with the same subscription-based model as the Company that can be used as reference. HUBS provides integrated software for inbound marketing[15] via the cloud. This company charges a monthly fee based on the amount of use.

The transition in HUBS 's overall business performance is shown on Figure 11, and the transition in profit margin, various expense ratios, and the number of customers is shown on Figure 12. Because of sales and marketing expenses and upfront investment costs such as research and development (R&D) expenses incurred during the business's growth phase, or the phase during which the number of customers rapidly increases, the operating margin resulted in a large negative percentage of -82% in FY 2010. However, due to the time lag in the number of contracts, sales, and profit inherent to the subscription-based model as described above, the operating margin suddenly improved to -11% in FY 2017. Along with this, the stock price of HUBS also rose to about four times the price of its IPO, largely outperforming NASDAQ and S&P500 (as of December 14, 2018).

Similar to HUBS, the profit of the Company (LOCKON CO., LTD.) is predicted to tend to improve with a time lag as the number of contracts (net sales and active users) increases. Therefore, it would be important to follow up on the Company over multiple years rather than just a single year. In that sense, the number of active users and the average unit price may be considered as leading indicators of the Company's performance.

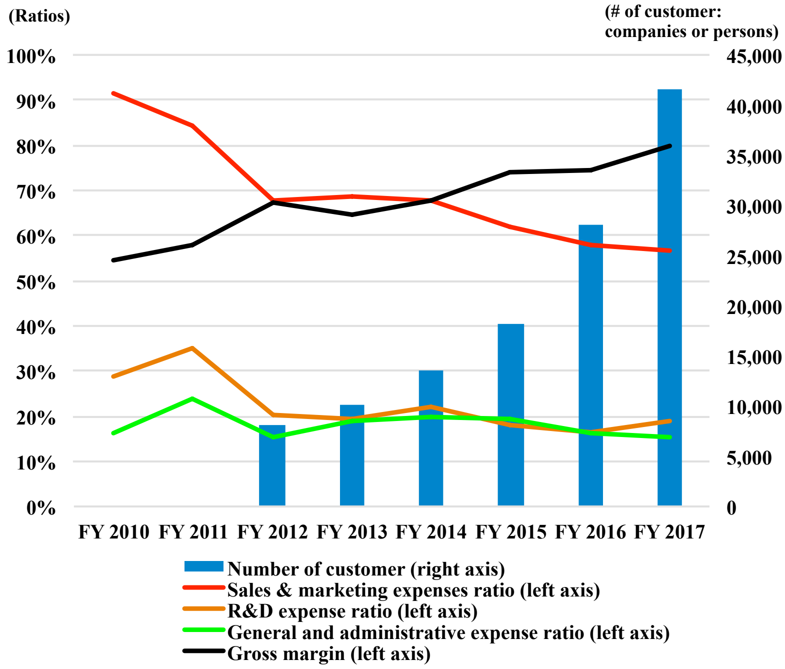
(15) Inbound marketing: A marketing concept where the relevant information (contents) are sent out to users who are already interested in them to some degree and are potential future customers of the advertiser, thereby encouraging purchase of the advertiser's products or services.

**【 Figure 11 】 Change in HUBS' Performance (1)**
**Sales & Operating Profit (left axis): unit = USD mil, O.P. Margin (right axis): unit = %**




(Ref) Figures 11 and 12 were prepared by Alpha-Win Research Dept. from HUBS' financial results materials, HP, etc.

**【 Figure 12 】 Change in HUBS' Performance (2)**
**Gross margin & expense ratios over sales (left axis): unit = %**
**Number of customers (right axis): unit = companies or persons**



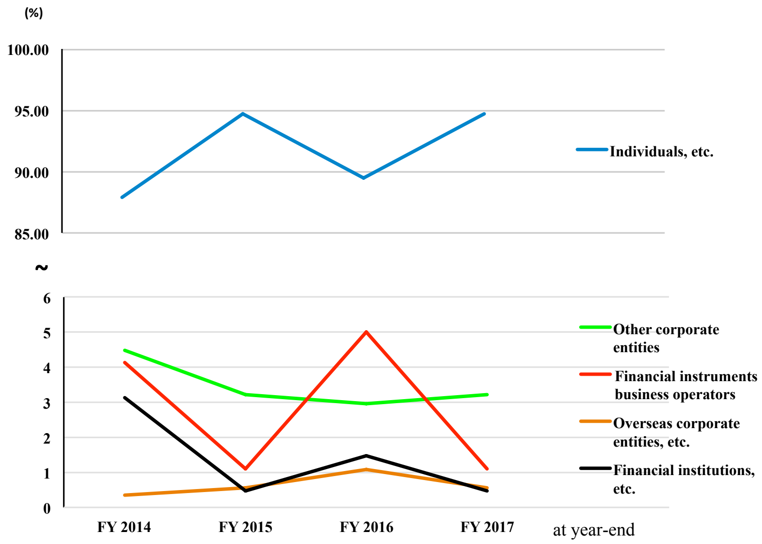
# 3. Shareholder Composition

◆ **The shareholding ratio of individuals is overwhelmingly high at about 95%.**

## ◆ Change in Composition by Shareholder Type

Regarding shareholder composition by shareholder type as of the end of September 2017 (Figure 13), "individuals, etc." accounts for an overwhelmingly large portion – about 95% of the total. "Other corporate entities" is about 3%, "financial instruments business operators" is about 1%, and both the "overseas corporate entities, etc." and "financial institutions, etc." are small, with less than 1% each. The composition ratio has not changed significantly.

**【 Figure 13 】 Change in Shareholder Composition by Shareholder Type (unit = %)**




(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report and financial results summary
(Note) As of the time when this Report was created, the securities report for FY 2018 had not been disclosed.

◆ **The top major shareholders are active or former executive officers. Persons affiliated with the Company own approx. 60% of the shares, including the employee stock ownership plan.**

## ◆ Major Shareholder Composition

The major shareholders are as shown on Figure 14. The following is supplementary information (the major shareholders at the end of September 2018 have not been disclosed as of the issue date of this Report).

· The largest shareholder is Susumu Iwata, the current president, founder, and owner.
· Second largest shareholder is a former executive vice president of the Company, and the third largest shareholder is the present director and senior executive officer Ms. Kanako Mataza (planned to retire in December 2018). The ninth largest shareholder is a former director. The shares of these former and present executive officers of the Company, plus the employee stock ownership plan at sixth place, amount to greater than 60 percent of the total shares.
· The fourth largest shareholder is Rakuten Securities, Inc.
· The fifth largest shareholder is Hakuhodo DT Media Partners Inc., the Company's distributor.

· The seventh largest shareholder is BNY GCM CLIENT ACCOUNT JPRD AC ISG, an account that is a major shareholder of a total of over 40 Japanese stocks – mainly small caps but also including large caps. Its investment objective is unknown, but currently there seems to be no activist-like behavior.
· The eighth and tenth largest shareholders are thought to be general individual investors.

As of the end of March 2018, the number of treasury shares owned by the Company was only 45. It increased this amount to 983 shares at the end of September of the same year, but this is still just slightly less than 0.02% of the outstanding shares.

## 【 Figure 14 】 Major Shareholders' Status

Unit for number of shares in the table: thou. shares %

| | End of Sept. 2015 | End of Sept. 2016 | End of Sept. 2017 | End of Mar. 2018 | ←Shareholding % | ←Ranking |
|---|---|---|---|---|---|---|
| Susumu Iwata (president and CEO) | 2,851 | 2,817 | 2,817 | 2,819 | 44.39 | 1 |
| Hiroichi Fukuda (former executive vice president) | 1,071 | 1,021 | 1,021 | 961 | 15.13 | 2 |
| Kanako Mataza (director and senior executive officer) | 415 | 415 | 352 | 354 | 5.58 | 3 |
| Rakuten Securities, Inc. | — | — | — | 63 | 0.99 | 4 |
| Hakuhodo DY Media Partners Inc. | 60 | 60 | 60 | 60 | 0.94 | 5 |
| LOCKON Employee Stock Ownership Plan | 76 | 39 | 48 | 57 | 0.89 | 6 |
| BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) | — | — | 60 | 29 | 0.46 | 7 |
| Katsuyuki Ito (indiv.) | — | — | — | 29 | 0.46 | 8 |
| Kenichiro Wade (former outside director) | 39 | 29 | 29 | 29 | 0.45 | 9 |
| Tomonori Yamada (indiv.) | — | — | 28 | 28 | 0.44 | 10 |
| Yoshio Takayama (indiv.) | — | — | 28 | — | | |
| Kayoko Nagano (indiv.) | — | — | 24 | — | | |
| SEPTENI CO., LTD | 62 | 62 | — | — | | |
| Japan Trustee Services Bank, Ltd. | — | 59 | — | — | | |
| Matsui Securities Co., Ltd. | — | 36 | — | — | | |
| Japan Securities Finance Co.,LTD | 30 | 35 | — | — | | |
| Yoichi Nishikawa (indiv.) | 34 | — | — | — | | |
| Akio Shiojiri (former director: audit committee member) | 26 | — | — | — | | |
| (Number of treasury shares) | 0 | 0 | 45 | 179 | | |
| (Ratio of treasury shares over all issued shares) | | | 0.0007% | 0.0028% | | |

(Ref) Prepared by Alpha-Win Research Dept. from the Company's FY 2018 Q2 securities report

# 4. ESG

## ◆ Environment

The Company's business is not the kind that harms the environment. The Company aims to conserve energy by saving electricity, etc.

## ◆ Society

◆ **Supporting future entrepreneurs, next-generation human resource development, and women working in the technology industry**

The Company is engaged in the following social initiatives.

· Osaka Startups: providing a support program for startup companies based in Osaka and for those aiming to start a company.
· Girls in Tech Japan: supporting the improvement of the status of women working in the technology industry based on the philosophy of Girls in Tech (GIT: a nonprofit organization launched in 2007 in San Francisco, USA).
·Next-Generation Human Resources Development: providing opportunities for students to learn through actual job experience in order to foster the young generation of human resources.

In addition, the Company holds a general employee meeting twice a year as well as holding monthly company parties where all the employees gather on the last Friday of each month. It also has clubs. Through these activities, the Company provides the opportunity to exchange information and strengthen the relationship among employees.

The Company has also put efforts into enhancing unique employee benefit programs, such as the "Mountain-Retreat" Leave System where every employee must take nine consecutive days of leave every year, the Training Leave Program which allows employees to take leave for up to two years for self-development, and the LOCK-Off which is a facility (a house) for communication among employees and free learning. Because of these efforts, the Company has been awarded with the following awards.

· Great Place to Work®[16] Best Workplaces Ranking: Best Companies Award for companies with 25 ~ 99 employees (awarded for six years in a row)
· Selected by the Ministry of Economy, Trade and Industry as a Driving Company for the Regional Future for Fiscal Year 2017
· The 2nd GOOD ACTION contest sponsored by Rikunabi NEXT: Best Action Award
· The 8th Deloitte Technology Fast 500 Asia Pacific Award
· The 7th Japan Technology Fast 50 Award

(16) Great Place To Work® Institute: An organization that conducts surveys and presents "Great Places to Work" in about 50 countries around the world every year.

## ◆ Governance

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

Of the six directors, three are outside directors who are also audit and supervisory committee members (from Kobe Steel, Ltd. and MUFJ Bank, Ltd.; certified public accountants). Of the three directors who are not audit and supervisory committee members, one is a woman.

# 5. History of Growth

## ◆ Company History

◆ **Founded by president Iwata in 2001**

President Susumu Iwata traveled around the world as a backpacker during his college days. After returning home, he started a restaurant but withdrew and then started a travel-related business. Through this business, he acquired the skills and know-how for Internet and web design. He then individually started a web design company. This business grew and, in June 2001, when Mr. Iwata was 21 years old, he founded the Company. After foundation, upon recognizing the business potential, interactivity, and real-time nature of the Internet, as well as the importance of data mining, he began to make a transition to a web integration business.

◆ **Developed and launched unique products that can be differentiated from other companies**

◆ **Listed on Mothers in September 2014**

In September 2004, the Company released the EBis (predecessor of AD EBiS), a proprietary Internet advertising effect measurement system, based on the concept of "From a 'Website to Show' to a 'Website to Use.'" Then, in September 2006, it released Japan's first open platform software EC-CUBE, and released the paid-listing ad management service THREe in October 2012. Amidst the rapid increase of Internet ads and the related market needs for adverting effect measurement and EC, the Company pioneered in the creation of unique products, steadily expanding its business by cultivating a new market. It became listed on the TSE Mothers market in September 2014.

## ◆ Transition in Past Financial Results

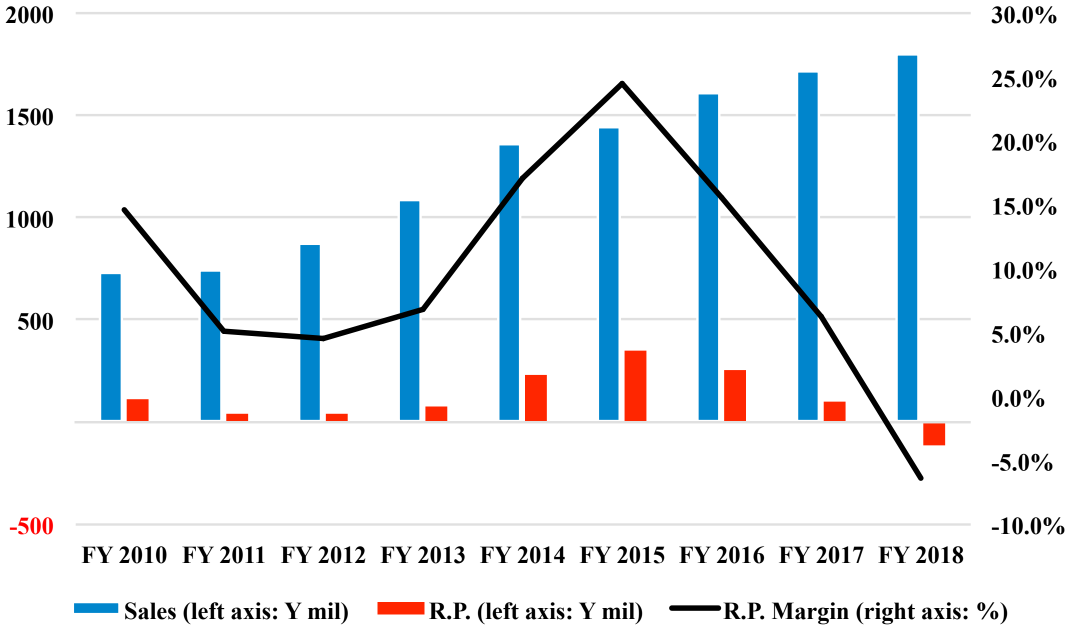
◆ **In FY 2015, record-high profit was recorded. All-time highs are being consecutively achieved every year for sales.**

From FY 2010 to FY 2013, during which account settlement was nonconsolidated, the Company increased sales for fourth consecutive fiscal years. Since FY 2014, from which consolidated account settlement began, consecutive record-highs were achieved for sales for four fiscal years up to FY 2018 (from what is available in the disclosure material, we can see that sales have been hitting record-highs for at least eight consecutive years). During this period, sales increased by about 2.5 times from about Y730 million to about Y1.8 billion. This success was brought by the rapid expansion of the marketing platform's AD EBiS business and the steady growth of the commercial distribution platform's EC-CUBE and SOLUTION businesses.

◆ **Since FY 2016, the Company has been restructuring its business and conducting upfront investment for future growth as its priority, rather than focusing on profit. A net loss was recorded in FY 2018.**

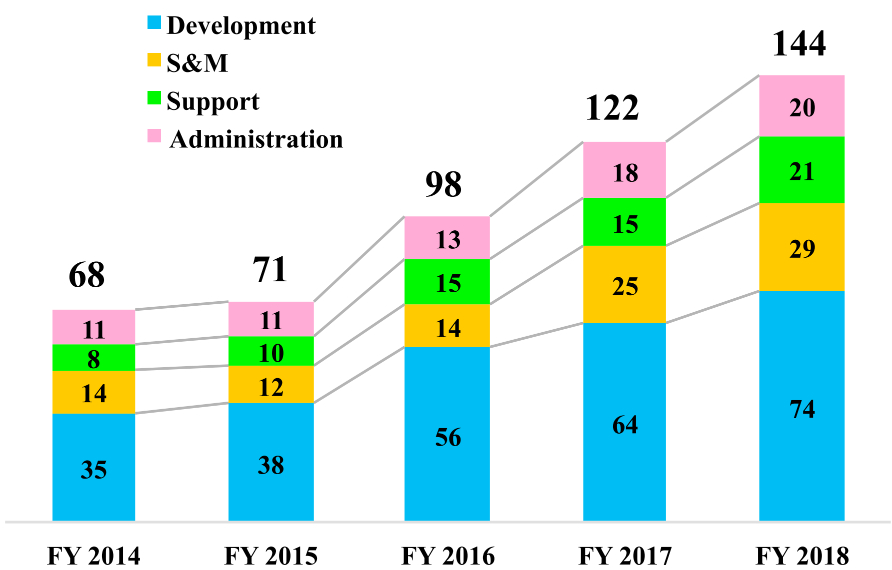
Meanwhile, for profit, the Company had sustained profitability both on a nonconsolidated and consolidated basis until FY 2017. In FY 2015, a record-high operating profit of Y350 million and a record-high net profit of Y231 million were achieved. However, since FY 2016, the Company's focus on business restructuring and upfront investment has increased the expenses, leading to a continuous decline in profit despite increased sales. In the previous fiscal year, or FY 2018, the Company recorded a net loss for the first time since becoming listed on the market (the previous fiscal year's results are described later) due to the upfront investment cost mainly for the expansion of human resources for divisions such as development and sales (increased personnel expenses).

【 Figure 15 】 Transition in Past Financial Results




(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report and financial results summary
(Note) Consolidated results starting in FY 2014; nonconsolidated prior to this point.

【 Figure 16 】 Change in the Number of Employees (Unit: persons)




(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report and financial results briefing materials

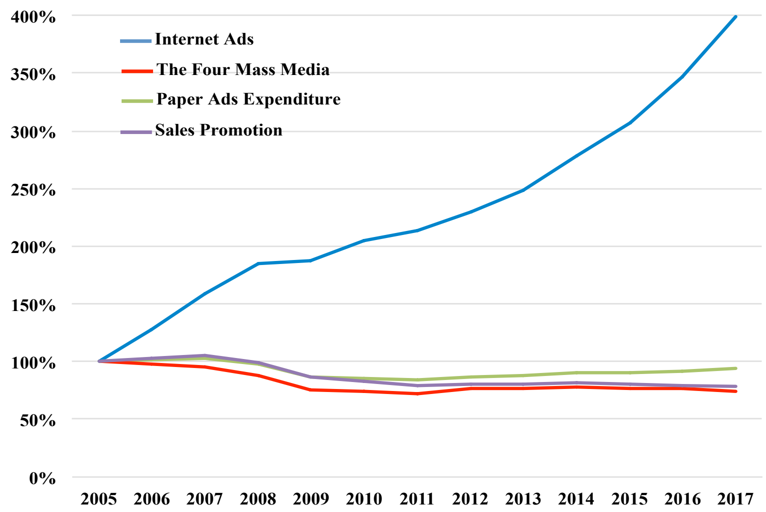
# 6. Business Environment

◆ **The Internet advertising expenditure increased by about fourfold from 2005 to 2017. The average annual growth rate is high at about 12%.**

## ◆ Trends in Japan's Advertising Industry

Total advertising expenditure in Japan in 2017 (calendar year; the same applies to this entire chapter) was about Y6.4 trillion. Although there have been ups and downs over the last ten years, the market as a whole is gradually becoming smaller (average annual growth rate is -0.5%). Of this expenditure, Internet advertising expenditure (total of medium cost and production cost) was about Y1.5 trillion (+15.2% YOY), which is about 24% of the total. Its share in the market is steadily increasing by 1-2% every year, growing close to the share of 30% for television advertising, the largest among the four types of mass-media advertising (newspaper, magazine, radio, and television). Internet advertising expenditure has grown by about four times from 2004 (point of comparison, set at 100) to 2017, rapidly increasing at an average annual growth rate of about 12.2% (Figure 17).

**【 Figure 17 】 Change in Advertising Expenditure by Medium**
**(index value: year 2005 set at 100)**




(Ref) Prepared by Alpha-Win Research Dept. from Dentsu Inc.'s "2017 Advertising Expenditures in Japan"

◆ **Internet advertising is expected to continue its double-digit growth in the future.**

The Internet advertising expenditure in 2018 is predicted to be about Y1.44 trillion, an increase of 18% from the previous year; continued double-digit growth is expected. (Source: Dentsu's "2017 Advertising Expenditures in Japan"). Also, the data on the number of Internet users and population penetration rate disclosed by the Ministry of Internal Affairs and Communications indicate that 83.5% of Japan's population already uses the Internet. Especially for the young population in their 20s, the Internet has become a necessity of life. Since they see Internet ads as often as or more than television commercials, Internet ads are highly likely to become the most influential advertising medium in the near future. As technology becomes more advanced in the future, more people are expected to use the Internet, leading to growing demand for Internet advertising. Therefore, for the time being, business environment is expected to stay favorable for the development of the Company's Internet advertising effect measurement and utilization business.

### ◆ LOCKON CO., LTD.'s Competitors

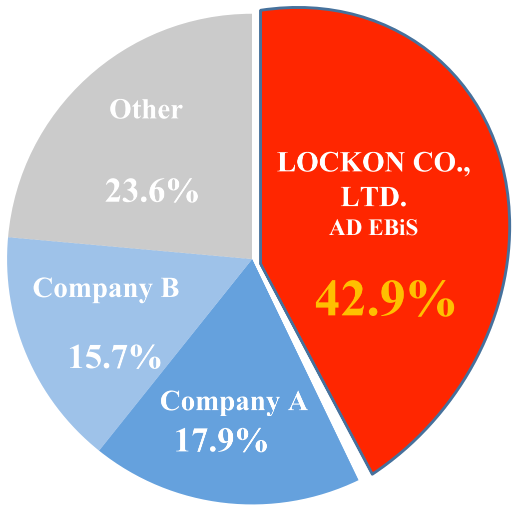
There seems to be no Japanese listed company that could be directly compared with the Company. For advertising effect measurement and analysis tools, the competing products are Google Analytics[17] and Adobe Analytics[18] widely used by domestic SMEs (small- and medium-sized enterprises), ADPLAN (implemented in a cumulative total of over 1,500 companies) offered by the listed company OPT Holding Group (TSE First Section 2389; hereinafter "OPT HD"), and Web Antenna (implemented in more than 600 companies, from major companies to venture companies) provided by the unlisted company beBit, Inc. However, other companies are not specialized in the field, and their product's functions, measurement targets, analysis contents, and support system are limited. In comparison, the Company's products are superior in terms of specifications and the development and support systems, which is why the Company has a large share and is number one in the market. Also, the Company's target customer zone is the middle zone, different from the high-end zone targeted by the paid versions of Google Analytics and Adobe Analytics (estimated to be about ten times the Company's price setting).

(17) Google Analytics: A website access analysis tool provided by Google targeting SME users. Analysis is only conducted within Google's website, and mostly the free version is popular. The high-spec paid version seems to be a high-end service.

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

**【 Figure 18】Each Vendor's Share of Advertising Effect Measurement Market by Sales Volume (forecast for 2017)**

**◆ AD EBiS – No. 1 in domestic share for 3 consecutive fiscal years**




(Ref) The Company's financial results briefing materials

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

## ◆ Full-Year Financial Results for FY 2018 (last fiscal year: 09/2018)

- **A net loss was recorded last fiscal year due to upfront investment as a part of the growth strategy.**

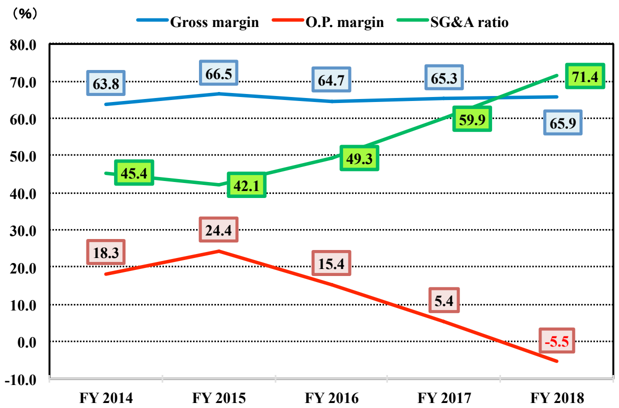
Consolidated financial results for FY 2018 (hereinafter "last fiscal year") were as follows: sales of Y1,804 million (+5.0% YOY), operating loss of -Y98 million (last fiscal year, a profit of Y92 million), recurring loss of -Y115 million (last fiscal year, a profit of Y106 million), and net loss attributable to the parent company of -Y88 million (last fiscal year, a net profit of Y72 million). Although record-high sales were achieved for another consecutive fiscal year, the Company recorded an operating loss for the first time since becoming listed because of the upfront investment cost. Sales ended up being about the same as the forecast made and disclosed by the Company. Meanwhile, concerning profit, the amount of operating loss was Y52 million smaller than expected (forecasted loss of -Y150 million) thanks to reduced personnel expense (seven less employees than planned) and cost cut-down.

- **The gross margin has been stable. No change in fundamentals.**

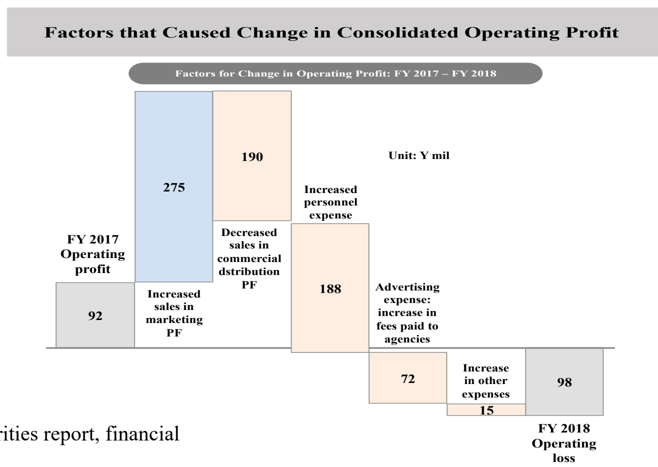
- **Upfront investment was focused on increasing human resources. Business restructuring was also conducted.**

The gross margin has been maintained at a high level of around 65% since FY 2014. Indeed, the value was also stable in FY 2018 at 65.9%. This shows that there has been no major change in the business environment or fundamentals. On the other hand, although the operating margin was 24.4% in FY 2015, due to increased SG&A expenses from the active upfront investment starting in FY 2016, it decreased to -5.5% for last fiscal year. The SG&A expenses (and its ratio over sales) have suddenly increased from Y796 million (49.3%) in FY 2016 → Y1,030 million (59.9%) in FY 2017 → Y1,298 million (71.4%) in FY 2018 (Figure 19). In particular, operating loss was recorded last fiscal year since, in preparation for medium- to long-term growth strategies, the number of staff was increased (by 22) leading to an increase in personnel expense by Y188 million, the commercial distribution platform's SOLUTION business was transferred to equity-method companies causing a Y190 million decrease in sales, and advertising expenses increased (Figure 20).

**【 Figure 19 】 Transition in Margins and Ratios** (unit = %)




**【 Figure 20 】 Factors Contributing to Change in Operating Profit in FY 2018 (last FY)** (unit = Y mil)

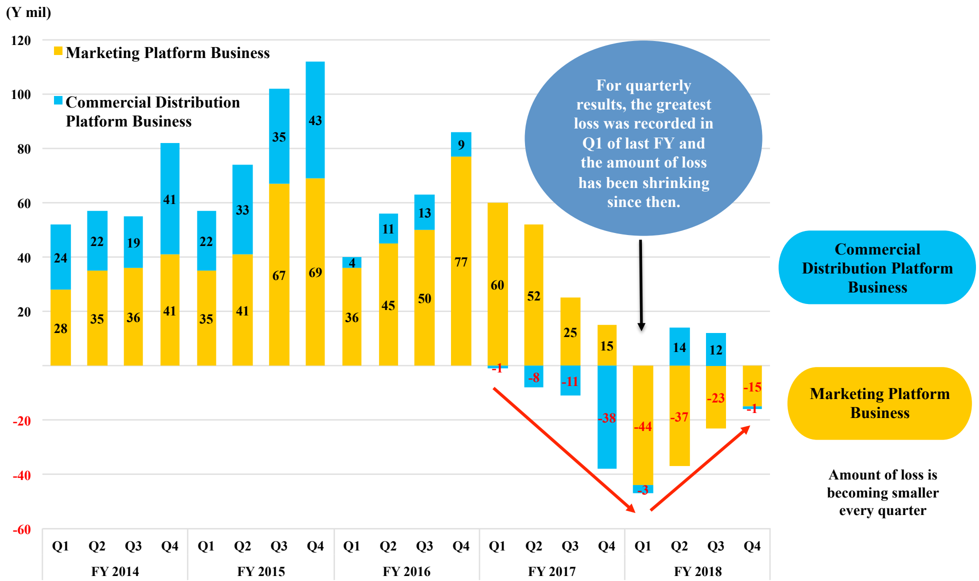



(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report, financial results summary, and financial results briefing materials

◆ **Looking at profit and loss on a quarterly basis, the amount of loss is becoming smaller.**

However, looking at the quarterly change in operating profit and loss, from the first quarter (Q1) to Q4 of FY 2018, the value has changed from -48 → -23 → -12 → -16 (unit: million yen), showing that the amount of loss has already peaked out and is becoming smaller. This trend is explained by the improvement in gross margin since Q3 and the improved SG&A expenses ratio since Q2 thanks to cost-cutting efforts.

**【 Figure 21 】 Quarterly Transition in Operating Profit**




(Ref) Prepared by Alpha-Win Research Dept. from the Company's securities report and financial results briefing materials

## ◆ LOCKON CO., LTD.'s Financial Results Forecast for FY 2019 (this fiscal year: 09/2019)

◆ **This FY's forecast has not been disclosed. Currently, excellent monthly sales are being maintained.**

The Company plans to continue to actively invest during this fiscal year (FY 2019), but it has not disclosed the financial results forecast or the dividend schedule, stating that disclosure cannot be made since at this point in time it is difficult to accurately predict the outcome of investment. It plans to make a disclosure when reasonable calculations become possible. However, the monthly sales for the current fiscal year as announced by the Company, shown on Figure 22, do indicate that total sales in both October and November were about 18% greater on a YOY comparison. While the sales for the commercial distribution platform declined due to the transfer of business, the sales for the marketing platform increased by nearly 30%, resulting in strong sales.

**【 Figure 22 】 Recent Monthly Transition in Sales (flash report)**
**(upper row: sales, unit = Y thou, decimal places cut off)**
**(lower row: YOY change, unit = %)**

(Ref) Prepared by Alpha-Win Research Dept. from the news release on the Company's HP. **The values shown are preliminary data before auditing by an auditor and may be revised in the future.**

| FY 2019 Sales | Oct | Nov | Total |
|---|---|---|---|
| Marketing Platform | 149,201 | 150,478 | 299,679 |
| | 126.9 | 130.9 | 128.9 |
| Commercial Distribution Platform | 21,839 | 18,683 | 40,522 |
| | 78.3 | 67.6 | 73.0 |
| Entire Company | 171,041 | 169,161 | 340,202 |
| | 117.6 | 118.6 | 118.1 |

- **With the growth strategy involving the Marketing Robot, the Company aims for sales of Y3 billion in FY 2020.**

- **Actively cooperating with other companies**

- **Focused on making progress with the development of the Marketing Robot and enhancing the marketing & sales division**

(19) BI (Business Intelligence): A method whereby business data accumulated by business intelligence companies and others in information systems are analyzed and processed by users as needed and utilized for business and management. Or, software and information systems to practice this method.

(20) API (Application Programming Interface): A protocol that defines procedures, data formats, etc., for accessing and using functions of computer programs and data to be managed from other external programs.

# 8. Growth Strategy

## ◆ LOCKON CO., LTD.'s Medium-Term Business Plan and Strategy

The Company is developing its business along president Iwata's long-term business plan as described by his words, "By creating a completely new product that can be differentiated from other companies in the field of Internet marketing, we hope to acquire an extremely large market share in Japan and then develop our business globally to become a company with a strong presence." Specifically, the Company has set the Marketing Robot as the focus of its growth strategy, aiming for sales of Y3 billion in FY 2020 (+67% compared to FY 2018). To accelerate business development, the Company has already created new alliances with 31 other companies (met the initial target of 30 companies) (Figure 24). Reinforcement of alliance will increase AD EBiS 's product strength by enhancing its optional functions, leading to an increase in the number of contracts, an increase in unit price, and prevention of contract cancellation. Furthermore, the Company is working on the following measures in order to achieve its target.

(1) Focus on the development of the Marketing Robot and accomplish its creation

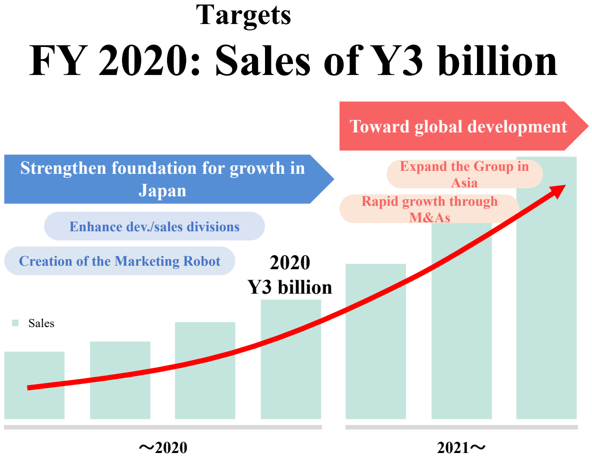
- Conduct big data analysis utilizing artificial intelligence and actively cooperate with other companies to develop and sell new functions
- Move engineers to the core business (AD EBiS) and separate off the other businesses
- Increase development staff (especially for the AI, BI [19], and API[20] sections)

(2) Strengthen the marketing & sales division

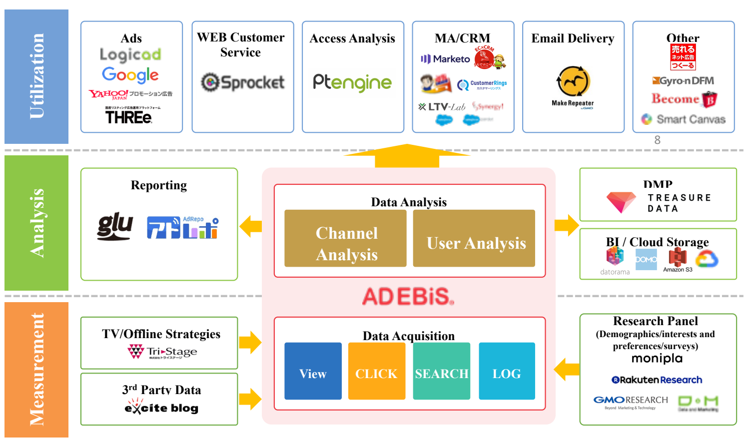
- Enhancement of the marketing system
- Increase the number of experts and sales representatives

(Hire 20-30 more people every year by new-graduate and mid-career recruitment)

【 Figure 23 】 Medium- to Long-Term Targets




【 Figure 24 】 Progress with the 30 Alliances for the Marketing Robot




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

◆ **Over the medium term, the Company will strengthen its domestic business foundation. Over the long term, it will aim for global expansion.**

Furthermore, for the long-term strategy (FY 2021 to FY 2023), the Company plans to increase its development and sales sites mainly in Asia. Also, the Company intends to accelerate its growth not only by organic growth, but also by M&As, alliances, etc. However, specific target figures such as those concerning the breakdown of sales and the actual means for achieving them have not been disclosed. Since the Company has been raising funds ahead of plan, it may actively conduct M&As in the futture.

◆ **Will restructure its business to concentrate on its core business (marketing platform business)**

Regarding the cost structure of the core marketing platform business, the medium- to long-term targets are disclosed as ratios (Figure 25). According to this information, in the future, the Company intends to achieve an operating margin of 10-20%, which had been achieved during its past growth phase. For the marketing platform business, the Company had been achieving high operating margins of around 16-24% since FY 2014. However, since FY 2017, because the Company increased the amount of investment related to marketing & sales and the development of software functions, the operating margin has been on a downward trend. In FY 2018, marketing & sales expenses were 32% and development expense was 36% of the sales of the marketing platform business, having increased by 8% and 15%, respectively, compared to FY 2016.

Over the medium to long term, the Company plans to increase sales and significantly lower the expenses for this business. It especially plans to lower the marketing & sales expenses to 30% (-2% compared to FY 2018), development expense to 25-30% (-6 to -11%), and other indirect expenses to 15-20% (-8 to -13%), thus stabilizing the operating margin of this business at around 10-20%. Since this level of operating profit has been achieved in the past, it seems to be an achievable goal.

**【 Figure 25 】 Cost Structure of the Marketing Platform (MPF) Business (actual and medium/long-term targets)**

| Expenses of MPF business - To-Sales Ratio (%) | FY 2016 | FY 2017 | FY 2018 | Medium- to Long-Term Targets |
|---|---|---|---|---|
| | | Increased investment | | |
| Marketing & Sales | 24% | **29%** | **32%** | 30% |
| Development | 21% | **24%** | **36%** | 25-30% |
| Customer Support | 11% | 11% | 11% | 10% |
| Other indirect exp. | 24% | 25% | 28% | 15-20% |
| **Operating Profit** | **20%** | **12%** | **-8%** | **10-20%** |

*1 Due to increased allocation of common expenses to the segment following business restructuring which caused the sales of the commercial distribution platform business segment to decrease.

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

## ◆ Alpha-Win Research Dept.'s Financial Results Forecast for FY 09/2019

- **Alpha-Win Research Dept. forecasts that the Company will make a small net profit this FY due to increased profit brought by greater sales as well as cost control.**

The Company has not disclosed forecast figures for this fiscal year. Alpha-Win Research Department believes that business restructuring and active upfront investment have peaked out for now and expects sales of Y2,150 million (+19.2% YOY) and a small net profit of Y10 million for FY 2019 (Figure 26).

- **Rise in the unit price and the number of contracts for AD EBiS is expected.**
- **As of the beginning of the FY, the earnings forecast is undisclosed.**

Since we can expect the average unit price to increase over the long term along with changes in the pricing system of the main product, AD EBiS, we predict that the gross margin will improve. The marginal profit ratio of this business is estimated to be around 70%, and most of the increase in sales is expected to contribute to an increase in profit, excluding variable expenses such as fees paid to distributors and server costs. As described before, due to the nature of the subscription-based business, it takes about eight months after making a new contract for a contract under the new pricing system to make actual contribution to profit. Although contribution to profit may be small in the first half, it is expected to gradually increase from the second half and into the next fiscal year.

**【 Figure 26 】 Alpha-Win Research Dept.'s Financial Results Forecast for This Fiscal Year and Over the Medium Term**

| (Y mil) | FY 2018 actual | FY 2019 CE | FY 2019 E | FY 2020 CE | FY 2020 E | FY 2021 E |
|---|---|---|---|---|---|---|
| Sales | 1,805 | Not disclosed | 2,150 | 3,000 | 2,600 | 3,000 |
| Marketing PF | 1,530 | | 1,870 | | 2,300 | 2,670 |
| Commercial Distribution PF | 274 | | 280 | | 300 | 330 |
| Gross Profit | 1,190 | | 1,430 | | 1,750 | 2,050 |
| Gross Margin | 65.9% | | 66.5% | | 67.3% | 68.3% |
| SG&A Expenses | 1,289 | | 1,400 | | 1,630 | 1,800 |
| % over sales | 71.4% | | 65.1% | | 62.7% | 60.0% |
| Operating Profit | -98 | | 30 | | 120 | 250 |
| % over sales | -5.5% | | 1.4% | | 4.6% | 8.3% |
| Recurring Profit | -115 | | 10 | | 100 | 230 |
| % over sales | -6.4% | | 0.5% | | 3.8% | 7.7% |
| Net Profit | -89 | | 10 | | 96 | 155 |
| % over sales | -4.9% | | 0.5% | | 3.7% | 5.2% |
| KPI | Q4 | | Annual average | | Annual average | Annual average |
| AD EBiS - # of active accounts | 1,518 | | 1,670 | | 1,837 | 2,020 |
| % change for the above | | | 13.1% | | 10.0% | 10.0% |
| AD EBiS - average unit price | 84,918 | | 87,315 | | 91,928 | 94,863 |
| % change for the above | | | 10.6% | | 5.3% | 3.2% |
| Sales (YOY change) | 5.0% | | 19.1% | | 20.9% | 15.4% |
| Marketing PF | 21.9% | | 22.2% | | 23.0% | 16.1% |
| Commercial Distribution PF | -41.1% | | 2.2% | | 7.1% | 10.0% |
| Gross Margin (diff. from last FY) | -0.3% | | 0.6% | | 0.8% | 1.0% |
| SG&A Expense (growth rate) | 25.1% | | 8.6% | | 16.4% | 10.4% |
| Operating Profit (growth rate) | To deficit | | To surplus | | 300.0% | 108.3% |
| Recurring Profit (growth rate) | To deficit | | To surplus | | 900.0% | 130.0% |
| Net Profit (growth rate) | To deficit | | To surplus | | 864.3% | 61.0% |

(Ref) Prepared by Alpha-Win Research Dept. CE= the Company's estimate. E = Alpha-Win Research Dept.'s estimate.

The difference between the Company's recent financial results forecast (initial version) and the actual results is shown on Figure 27. In recent years, the Company has not been disclosing its forecast at the beginning of the fiscal year, but has instead been making a disclosure after judging that a reasonable forecast can be made. Consequently, the difference between the disclosed forecast and the actual results has been small. For the current fiscal year, the forecast figures for the full fiscal year may become disclosed at around the same time as the disclosure of the second- or third-quarter results.

**【 Figure 27 】Change in Financial Results Forecast and Actual Results**

| | | Sales | O.P. | R.P. | N.P. |
|---|---|---|---|---|---|
| FY | Forecast release date | (Amount and %) | | | |
| 2015 | 11/10/2014 | 1,545 | 350 | 350 | 203 |
| | Actual result (Y mil) | 1,437 | 350 | 352 | 230 |
| | Difference (%) | -7.0 | 0.0 | 0.6 | 13.3 |
| | Difference (Y mil) | -108 | 0 | 2 | 27 |
| 2016 | 5/12/2016 | 1,600 | 200 | 201 | 130 |
| | Actual result (Y mil) | 1,612 | 247 | 250 | 168 |
| | Difference (%) | 0.75 | 23.5 | 24.4 | 29.2 |
| | Difference (Y mil) | 12 | 47 | 49 | 38 |
| 2017 | 5/9/2017 | 1,650～1,700 | 10～100 | - | - |
| | Actual result (Y mil) | 1,719 | 92 | 106 | 72 |
| | Difference (%) | 1.1～4.2 | -8.0～820.0 | - | - |
| | Difference (Y mil) | 19～69 | 8～92 | - | - |
| 2018 | 2/6/2018 | 1,800 | -150 | - | - |
| | Actual result (Y mil) | 1,804 | -98 | -115 | -88 |
| | Difference (%) | 0.2 | | | |
| | Difference (Y mil) | 4 | 52 | | |

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

## ◆ Alpha-Win Research Dept.’s Financial Results Forecast for the Medium Term

- **Alpha-Win Research Dept. forecasts an annual sales growth rate of around 15 to 20% over the medium term.**

- **Business model with a high marginal profit ratio. Alpha-Win Research Dept. expects the profit growth rate to be around 20 to 30% per year over the medium term, exceeding the sales growth rate.**

Going forward, we expect to see positive effects from the investment and business restructuring conducted by the Company. In addition, the addition of functions and changed pricing system for the AD EBiS are expected to increase the unit price and the number of active users. Furthermore, the marketing platform business has a large growth potential and is expected to become a growth driver, leading to an annual sales growth rate of around 15 to 20% over the medium to long term. We also predict that the Company will continue its active upfront investment for future growth. Although the final profit and loss will of course depend on the Company's cost control and eagerness to achieve the bottom line of its target figures, we believe that the Company will generally be able to maintain a net profit and may achieve a double-digit profit growth (with regards to evened-out figures) over the medium to long term. Because the Company’s business has a high marginal profit ratio, we expect a profit growth rate of 20 to 30% per year over the medium to long term, exceeding the sales growth rate.

Alpha-Win Research Dept.’s medium-term financial results forecast is shown on Figure 26 (on page 26, above). The Company's goal of Y3 billion in sales for FY 2020 seems to be within an achievable range if the M&A and alliance strategies are successful. However, since it is a high goal, and since we cannot predict at this point whether an M&A will actually be conducted or how it will contribute to profit, we made a somewhat cautious prediction. The assumptions or estimates used in our forecast are as follows.

- **Whether the Company can achieve its goal for sales – Y3 billion in FY 2020 – will depend on M&A and tie-up strategies.**

(i) The average unit price of AD EBiS, which makes up the majority of the marketing platform business, is expected to increase since new contracts should have the effect of raising the unit price and because about 20% of the existing contracts will be switched to new contracts under the new pricing system. Also, the number of active users is expected to increase by 10% per year.

(ii) As a result, sales of the marketing platform business are expected to grow by about 20% annually.

(iii) In addition, the marginal profit ratio of the platform business is estimated to be 70%, and the gross margin is expected to gradually improve. The number of staff is assumed to increase by about 20 each year. General and administrative expenses including personnel expenses are expected to increase by 10 to 20% per year. The ratio of SG&A expenses to sales is expected to gradually decline, resulting in an improved operating margin.

(iv) Regarding the commercial distribution platform business, its sales are almost entirely contributed by EC-CUBE. As of this point in time, the Company has not launched fundamental measures to expand this business, but we estimated that sales will increase by about 10% per year due to the new product version.

(v) In making the medium-term financial forecast, we assumed that there will be no extraordinary profit or extraordinary loss such as contingent liabilities.

(vi) We anticipate that M&A(s) will expand business and contribute to about 1/3 to 1/2 of the increase in sales, but we do not expect it to contribute to profit in the short term.

In terms of the next three to five fiscal years, we believe that dividend payout may be resumed and record-high profit may be achieved.

# 9. Analyst's View

## ◆ SWOT Analysis

- **The Company's strengths are the president's management skills, product strength, and the potential to accumulate and utilize big data.**

- **Is in a position to be able to enjoy the benefits of future market expansion. Plans to expand into new business areas and overseas.**

The Company's SWOT analysis result is listed on Figure 28. The Company's main strengths are (1) its president's management skill and expertise with advanced technologies in the Internet marketing field, (2) its main products and support system with proven and strong functions, and (3) its possession of big data accumulated over many years since the start of its service and potential for utilization of such data. In particular, because president Iwata himself has continued to acquire Internet-related techniques since the foundation of the Company, he has a deep knowledge of this field – this is considered to be an advantage over other companies. In addition, since the marketing robot market is still in its early stage, it has a high growth potential, from which the Company may be able to enjoy benefits. The Company seems to have the potential to accelerate its growth through overseas development as well as expansion of the scope of the Marketing Robot business from measurement of ads to analysis and utilization.

**【 Figure 28 】SWOT Analysis**

| | |
|---|---|
| **Strength** | ・Big data accumulated since foundation; potential for use |
| | ・Well-known, strong customer base, experience, product strength (No. 1 share in Internet ad effect system tool) |
| | ・The main marketing platform business is subscription-based so that stable revenue can be expected |
| | ・Management skill of the president who has a deep knowledge of advanced technologies in the business |
| | ・Enhanced working environment and high employee retention rate; accumulation of talents and know-how |
| **Weakness** | ・Specialized in a niche market; small in scale |
| | ・Businss management is dependent on the president |
| | ・Employee shortage (engineers and sales reps) |
| | ・Funding power (equity financing risk associated with continued upfront investment and future business expansion) |
| **Opportunity** | ・Potential for growth of Internet advertising marketing market and accelerated growth of existing products |
| | ・Utilization of resources of external partners; collaboration |
| | ・Overseas development |
| | ・Development of new products and services |
| **Threat** | ・Release of competing or alternative products/services, emergence of rivals, declining competitiveness of existing products |
| | ・Defects in prducts/services, delays in developing or providing services with new function |
| | ・Large system troubles such as computer system stoppage |

(Ref) Prepared by Alpha-Win Research Dept.

## ◆ Shareholder Return

- **We expect that there will be no dividend for this fiscal year too.**

In the second fiscal year after becoming listed (FY 2015), the Company's dividend was Y4.5 per share. Dividend was then increased by Y0.5 in FY 2016 to Y5.0 per share. In FY 2017, dividend payout was made for the third year in a row, again at Y5.0 yen per share (Figure 29). However, in FY 2018, no dividend was paid out since a net loss was recorded that year, and the Company abolished the shareholder benefit plan at the same time (Osaka Eh-mon Benefit Plan: specialty products of Osaka given to shareholders chosen in a draw for the appreciation and development of the Company's local region, Osaka). Since the Company is currently in its growth phase, rather than letting its cash flow out through dividends and benefit plans, the Company hopes to increase shareholder value by focusing on investments for future growth and recovering its financial performance. Dividends for this fiscal year

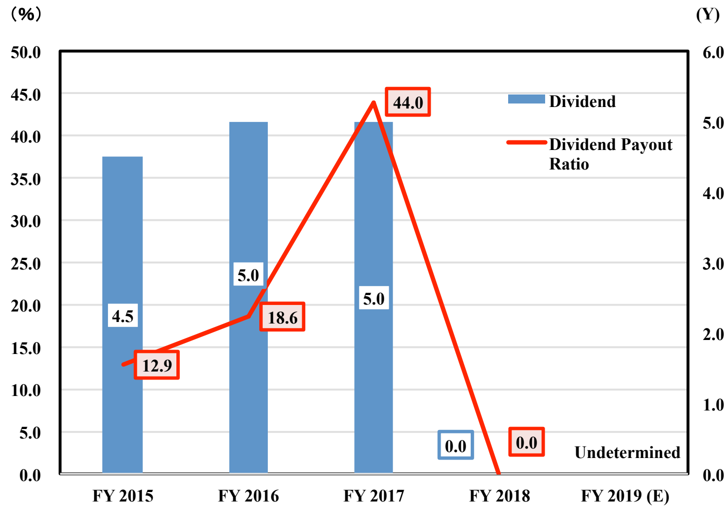
(21) AdTech: Abbreviation for ad technology. A generic term for information technology used in advertising business, it refers to digital technology used in Internet ads, etc.

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

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

are undetermined and, for the short term, dividend payout and shareholder benefit plan are unlikely to be resumed.

**【 Figure 29 】 Change in Dividend and Dividend Payout Ratio**




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

## ◆Stock Price and Characteristic and Factors that May Affect Stock Price

- **Stock price had been on a downward trend, underperforming TOPIX, but has been stable in recent months.**

The Company's stock is a small AdTech[21]-related stock listed on the TSE Mothers market with a highly volatile stock price. On page 2 (Figure C on page 2 of this Report), stock prices and relative stock prices with respect to TOPIX for the past two years are shown. During this period, the Company's stock price decreased, underperforming the TOPIX. Stock price may have declined because (1) as seen from the TSE Mothers Index, the market environment is such that small- and medium-cap stocks in the emerging markets are generally weak and (2) in order to achieve the goals of the growth strategy concerning the Marketing Robot, the Company has been restructuring its business and conducting upfront investment to focus on its core business, resulting in the recording of a net loss, no dividend, abolition of shareholder benefit plan, etc. However, partly in anticipation of recovery of business performance, both the absolute and relative stock prices have been stable over the last few months.

- **The Company's stock value does not seem cheap. It seems that the current stock price reflects expectation for some recovery in business performance.**

For reference, we compared the size, business contents, and valuation indicators of 22 companies listed in the market, including the Company, under the AdTech category or with a business partly similar to the Company's (Figure 30). In this comparison, as far as P/E, P/B, P/S[22], and dividend yield are concerned, the Company's stock value is not cheap. This may be due to the fact that anticipation of future recovery of business performance and growth is reflected in the stock price to some extent.

- **Stock price going forward will be affected by the expected level of profit over the medium term.**

Also, under the condition that a PEG ratio[23] of up to 2 is tolerated and the medium-term growth rate for the normalized EPS is expected to be 20%, the P/E comes out to be about 40 at maximum (60% if the growth rate is assumed to be 30%). Calculating back from the current market capitalization of about Y7.8 billion, we can deduce that the necessary net profit (after income tax) is about Y200 million (Y130 million if P/E is 60). If business performance recovers, leading to a net profit greater than this level, then the stock price may also possibly jump up.

- **For the time being, the key points of interest are the unit price and the number of active accounts for AD EBiS, the quarterly profit / loss, M&A, the timing of resumed dividend, etc.**

Looking ahead, we should pay attention to the Company's changes in monthly sales and control of costs such as personnel expenses, and especially pay attention to when quarterly results return to a net profit or when dividend payout is resumed. In addition, as the most important management indicators (KPI), we would like to continue to watch the unit price and the number of active accounts of AD EBiS, which makes up the majority of total sales. It is also speculated that news releases on M&As, business alliances, new products and services, etc., may also affect the stock price. Over the medium to long term, the Company's Marketing Robot business, as well as the Internet advertising market, has much potential for growth, and the Company is in a good position to be able to enjoy the fruits of growth. Going forward, we hope to see the Company grow as an AdTech-related growth stock.

### 【 Figure 30 】 Comparison of Similar Companies (AdTech-related companies, etc.)

| AdTech-Related Companies | | Markets: TSE1=TSE 1st Section, TSE2=TSE 2nd Section, TM=TSE Mothers, JQS=JASDAQ Standard | | Unit: Y mil | | | % | Ratios | | | % | Closing Price (12/14) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Code | Company Name | Business Area | Market | Market Cap | Sales | O.P. | O.P. Margin | P/S | P/E | P/B | Divided Yield | Stock Price |
| 2159 | Full Speed | Internet marketing, AdTech (Internet Ad delivery tech) | TSE2 | 8,766 | 21,000 | 1,640 | 7.8 | 0.42 | 9.04 | 2.70 | - | 563 |
| 2389 | OPT Holding | Internet ad agency / ad measurement tool | TSE1 | 40,871 | 91,000 | 2,100 | 2.3 | 0.45 | 28.07 | 1.29 | - | 1,716 |
| 2461 | F@N Communications | Affiliate (pay-per-performance) ad | TSE1 | 50,620 | 38,293 | 4,979 | 13.0 | 1.32 | 14.44 | 2.54 | 2.89 | 658 |
| 2491 | ValueCommerce | Affiliate (pay-per-performance) ad | TSE1 | 50,707 | 19,810 | 3,270 | 16.5 | 2.56 | 21.76 | 5.67 | 1.43 | 1,471 |
| 3134 | Hamee | Mobile accessories / EC cloud support | TSE1 | 22,587 | 10,214 | 1,403 | 13.7 | 2.21 | 23.07 | 6.39 | 0.46 | 1,407 |
| 3655 | BrainPad | Internet marketing, data analysis | TSE1 | 43,538 | 5,200 | 750 | 14.4 | 8.37 | 83.72 | 22.27 | 0.00 | 6,440 |
| 3688 | VOYAGE GROUP | Ad platform | TSE1 | 13,531 | ND | ND | - | - | - | 1.59 | - | 1,138 |
| 3690 | LOCKON CO., LTD. | Internet ad measurement tool | TM | 7,750 | 2,100 | 30 | 1.4 | 3.69 | 774.89 | 6.60 | 0.00 | 1,220 |
| 3923 | RAKUS | Cloud service, Email delivery, IT engineer dispatching | TM | 92,873 | 8,601 | 1,376 | 16.0 | 10.80 | 104.33 | 23.09 | 0.20 | 2,050 |
| 4293 | SEPTENI HD | Internet ad agency, smartphone marketing support | JQS | 28,049 | 17,200 | 2,000 | 11.6 | 1.63 | 19.63 | 1.63 | - | 202 |
| 4395 | Accrete | SMS delivery service | TM | 5,922 | 1,390 | 220 | 15.8 | 4.26 | 42.05 | 7.68 | 0.00 | 1,089 |
| 4751 | CyberAgent | Internet ad agency, smartphone, games | TSE1 | 597,366 | 470,000 | 30,000 | 6.4 | 1.27 | 118.93 | 7.29 | 0.70 | 4,725 |
| 4784 | GMO AD Partners | Internet ad agency and related platform | JQS | 7,105 | 33,600 | 600 | 1.8 | 0.21 | 34.95 | 1.35 | 1.44 | 424 |
| 6026 | GMO TECH | App-installation-type charging ad, SEO | TM | 1,826 | 2,829 | -100 | -3.5 | 0.65 | Loss - NA | 2.63 | 0.00 | 1,659 |
| 6045 | Rentracks | Pay-per-performance Internet ad service | TM | 5,855 | 10,000 | 500 | 5.0 | 0.59 | 18.15 | 2.87 | 1.09 | 736 |
| 6081 | Allied Architects | SNS-related marketing support | TM | 6,537 | 4,047 | 0 | 0.0 | 1.62 | Loss - NA | 4.43 | - | 466 |
| 6094 | FreakOut HD | Internet ad delivery (DSP) | TM | 19,036 | 19,000 | 100 | 0.5 | 1.00 | 35.57 | 4.48 | 0.00 | 1,429 |
| 6175 | Net Marketing | Pay-per-performance ad agency | TSE2 | 9,733 | 14,465 | 373 | 2.6 | 0.67 | 37.68 | 4.82 | 0.75 | 668 |
| 6533 | Orchestra HD | Digital marketing for companies | TM | 8,189 | 7,204 | 445 | 6.2 | 1.14 | 27.88 | 7.89 | 0.31 | 962 |
| 6550 | Fringe81 | Internet ad agency, media monetization support | TM | 8,586 | 6,590 | 187 | 2.8 | 1.30 | 35.27 | 6.13 | 0.00 | 875 |
| 6553 | SoldOut | Web marketing support for mid-tier companies/SMEs | TM | 42,130 | 15,700 | 1,000 | 6.4 | 2.68 | 64.50 | 17.67 | - | 4,275 |
| 6562 | Geniee | Automatic trading of media ad space, AdTech biz | TM | 10,286 | 15,026 | -400 | -2.7 | 0.68 | Loss - NA | 3.47 | - | 581 |
| 22 AdTech-related companies: simple average | | | | 51,027 | 38,727 | 2,403 | 6.6 | 2.26 | 82.99 | 6.57 | 0.62 | |
| TOPIX (closing price of 12/14/2018): average | | | | | | | | | 13.43 | 1.18 | Simple 1.93 | 1,592.16 |
| | | | | | | | | | | | (Weighted 2.35) | |

(Ref) Prepared by Alpha-Win Research Dept. from the companies' securities reports, financial results summaries, and financial results briefing materials. Generally, each company's forecasted values were extracted from their latest disclosure of financial results. For the Company, since the Company's forecast has not been disclosed, Alpha-Win Research Dept.'s forecast is used. For other companies, values not disclosed are marked by "ND" (not determined) or "-".

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