Alpha-Win Company Research Report

YRGLM Inc. (3690 TSE Mothers)

【Previous name: LOCKON CO., LTD.】 **Issued**: 6/1/2020

● Summary

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

Business Description

・YRGLM Inc. (hereinafter referred to as the "Company") is a marketing technology company that plans, develops, and sells software related to Internet marketing. President Iwata started the business during his college years and then founded the Company in 2001.

・Its main product is the Internet advertising effect measurement system that it originally developed. It is a leading company in a niche field. Its product is provided via the cloud to middle-sized and large companies. The Company's main business is based on a subscription-based business model. Under this model, where customers continuously pay a flat rate, the Company can stably and continuously expand sales and profit as its number of customers increases.

・The Company had been working on the transformation of its business model and the selection and concentration of its business portfolio, but now that the upfront investment phase is mostly complete, it is starting to enter a profitability-improvement phase.

・It became listed on TSE Mothers in September 2014. On August 1, 2019, it changed its name from LOCKON CO., LTD., to YRGLM Inc.

Competitiveness

・The Company's strengths are the management skills of its president with a deep knowledge of leading technologies in the relevant field, products with proven and strong functions, and how it possesses and can leverage the big data that it has continuously accumulated over the years. It has been acquiring related businesses with synergy potential one after another. Its advertising effect measurement system tool (AD EBiS) has been No. 1 in the market for five consecutive years. Recently, the Company purchased the ADPLAN business from OPT, which raised its market share to an exceptionally high 65.9%. Going forward, the Company is expected gain greater price leadership.

Business Strategy

・Over the medium to long term, the Company plans to execute business according to its Marketing Robot Strategy, aiming to automate and improve the efficiency of Internet marketing. It plans to expand its overall business domain from advertising effect measurement to analysis and utilization as well as through global expansion. It also plans to accelerate growth by actively pursuing M&As, expanding business into related fields, and forming alliances with other companies.

Financial Results for H1 of This Fiscal Year and Forecasts for the Full Year and Over the Medium Term

・In the consolidated results for the first half (H1) of this fiscal year (Q2 FY 2020 YTD; note that the Company's fiscal years are September-ending), both sales and profit grew significantly: sales grew by 14.2% YoY to Y1,235 million and operating profit increased by 239.2% YoY to Y71 million yen. In last fiscal year's H1, a net loss of Y46 million was posted due to an extraordinary loss, but it turned a net profit of Y45 million in this fiscal year's H1.

・The Company has not made changes to its full-year forecast announced on February 7 of this year that sales will be Y2.7 billion, operating profit will be Y200 million, net profit will be Y130 million, and year-end dividend is yet to be determined. Progress in H1 in terms of the full-year company plan was 45.7% for sales (49.0% in last fiscal year's H1) and 35.7% for operating profit (25.0% in last fiscal year's H1). Although the Company has not disclosed its H1 forecast, the achieved results seem to be mostly in line with the Company's plan.

・AD EBiS, the core product of the marketing platform business, has incorporated the ADPLAN business, which helped steadily increase the number of accounts. The price revision also raised this product's average unit price. These two factors have driven the Company's growth.

・The impact of the COVID-19 outbreak on the Company's financial performance has been minimal since the demand for greater efficiency in advertising effects has grown especially from non-face-to-face businesses such as EC, its business is sustainable and stable thanks to its subscription-based business model, and its business operations are highly compatible with remote work.

・In the second half (H2), in addition to the sales growth of the flagship product AD EBiS, the Company is expected to further improve its cost. Therefore, over the full year, we expect the Company to achieve a double-digit sales growth, realize a substantial profit growth, and turn a net profit, at about the same level as the Company's forecasts.

・The Company concentrates its business resources on areas related to Internet marketing. Over the medium to long term, since these areas will continue to have a high growth potential, the Company's sales are expected to grow annually at a double-digit rate. Also, the Company will likely continue to conduct upfront investment over the medium to long term in preparation for business expansion. Therefore, although it would depend on the cost control, we believe that the margins will generally improve and profit may potentially grow faster than sales at an annual growth rate of 20-30%.

Stock Price and Characteristics

・AdTech-related and domestic-demand-oriented growth stock. The stock price, which had been on a downtrend during the business restructuring phase due to the posting of profit declines and net losses, bottomed out in response to the recovery in financial performance in recent years and has stayed within the range of 1,000-2,000 yen since then. The downside risk has become lower since the recent financial performance from January to April 2020 has been solid, the Company did not revise its full-year forecast despite the difficult economic situation with the COVID-19 crisis, and a V-shaped profit recovery has become more likely to occur. In the stock price rebound phase following the plunge due to COVID-19, the Company has been outperforming TSE Mothers and TOPIX. Based on this fiscal year's figures, its valuation does not seem cheap compared to other similar companies. Going forward, we expect that stock price will be affected by the trend in quarterly profit/loss, announcement of M&As and alliances, medium-term profit forecast, and when dividend is resumed.

Shareholder Return

・In the previous fiscal year and the year before that, the Company posted net losses and therefore no dividend was paid. It announced that this fiscal year's dividend is still undetermined. Mostly likely, dividend will not be resumed this year, and we will need to wait until at least the year after the next before it becomes paid again. The Company believes that since it is currently in a re-growth phase, it should raise shareholder value by recovering its financial performance through investments for growth rather than letting its cash flow out.

【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)
2017		1,719	6.6	92	-62.6	106	-57.5	72	-56.8	11.56	195.60	5.00
2018		1,804	5.0	-98	To loss	-115	To loss	-88	Smaller loss	-14.02	184.97	0.00
2019		2,204	22.1	84	To profit	79	To profit	-34	To loss	-5.54	168.68	0.00
2020	CE	2,700	22.5	200	135.5	190	140.4	130	To profit	20.62		ND
2020	E	2,650	20.2	200	135.5	190	140.4	130	To profit	20.59	188.67	0.00
2021	E	3,010	13.6	300	50.0	290	52.6	200	53.8	31.68	220.35	0.00
2022	E	3,390	12.6	380	26.7	370	27.6	255	27.5	40.40	260.75	5.00
2019	Q1	520	20.0	-27	Smaller loss	-30	Smaller loss	-36	Smaller loss	-5.72	179.12	0.0
2020	Q1	585	12.7	25	To profit	25	To profit	19	To profit	3.04	171.69	0.0
2019	Q2	562	26.3	48	To profit	47	To profit	-10	Smaller loss	-1.66		0.0
2020	Q2	650	15.6	47	-2.0	46	-2.8	27	To profit	4.22		0.0
2019	H1	1,082	23.2	21	To profit	17	To profit	-47	Smaller loss	-7.38	166.83	0.00
2020	H1	1,235	14.2	71	239.2	71	310.5	46	To profit	7.26	180.12	0.00
2019	H2	1,123	21.1	64	To profit	62	To profit	12	To profit	1.84		0.00
2020	H2 CE	1,465	30.5	129	101.3	119	93.1	84	616.4	13.36		ND

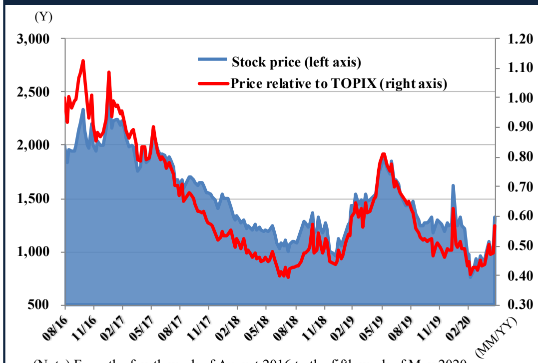
(Note) CE = the Company's estimate (forecast)
E = estimate (forecast) by Alpha-Win Research Dept.
ND = not determined
All fiscal years discussed in this document are September-ending. For example, FY 2020 ends in Sept. 2020.
Q1: Oct-Dec
Q2: Jan-Mar
H1: Oct-Mar
H2: Apr-Sept

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

Item	5/29/2020	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,328	Last FY (actual)	-	7.9	0.0%	0.0%
Shares Outstanding (thou.)	6,372	This FY (est.)	64.5	7.0	0.0%	0.0%
Market Capitalization (million Y)	8,463	Next FY (est.)	41.9	6.0	0.0%	0.0%
Dilutive Shares (thou.)	0	Equity Ratio at this FY's Q2-End	46.8%	Last FY's ROE	-3.1%	

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

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



【Performance】

Period	Return	vs. TOPIX
1 month	39.8%	30.9%
3 months	35.5%	30.9%
6 months	2.6%	11.5%
12 months	-24.8%	-27.3%

(Note) From the fourth week of August 2016 to the fifth week of May 2020

(Note) Prepared by Alpha-Win Research Dept. The most recent stock price and TOPIX values are closing prices on 5/29/2020. In the performance calculations for each period, the stock price and TOPIX at the end of each respective month were compared with their most recent values.

Contents

Note: 1) 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. 2) The Company's fiscal year is September-ending; i.e. FY 2020 ends in September 2020.

1. Company Overview

◆ A Leading Company in a Niche Market

- **Marketing technology company. Developing the Marketing Robot Business to automate and improve marketing efficiency on behalf of humans. This business includes the Internet advertising effect measurement system – its main product.**

Company Overview

YRGLM Inc. (hereinafter referred to as the "Company") is a marketing-technology company that plans, develops, and sells software related to Internet advertising and e-commerce. It has grown through the full-scale development of the Marketing Robot Business (registered trademark of the Company) where it develops original software to automate and improve the efficiency of marketing on behalf of humans. The Company has an exceptionally high share in the Internet marketing measurement tools market.

- **Founded by president Iwata. Listed on TSE Mothers.**

History

Susumu Iwata, the Company's president, started a web design business in Osaka as a college student. Upon business expansion, he established the Company in 2001. The Company became listed on TSE Mothers in September 2014. Currently, it has two head offices, one in Osaka and one in Tokyo.

- **Changed the company name and symbol. New name: YRGLM Inc.**

Change in the Company Name

On August 1, 2019, the Company changed its name from "LOCKON" (CO., LTD.) to "YRGLM Inc." The Company also decided on a new vision: "Become a company that supports corporate marketing activities around the world through data and technology to create happiness for sellers and buyers."

- **Main service: Internet-marketing-related platform as SaaS (cloud).**
- **The originally developed AD EBiS is its main product.**

Main Business Contents

Currently, the Company carries out business in two areas: the marketing platform business and the EC platform business. Its flagship product is AD EBiS, an Internet advertising effect measurement system[1] that is provided as SaaS[2] (cloud) to other companies (B2B). (Names of the main products are listed after the colon.)

(1) Marketing platform:
AD EBiS and ADPLAN (Internet ad effect measurement systems)
AdRepo (automatic report generation tool for programmatic advertising[3])
(2) EC platform: EC-CUBE

(1) Internet advertising effect measurement system: A tool to comprehensively measure the effect of and evaluate various Internet ads and SEO strategies.
(2) 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.
(3) 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.

- **Consolidated-to-parent-company ratios had been about 1 for both sales and profit. Last FY, the ratios improved thanks to the subsidiaries.**

Consolidated Companies and Trends in Consolidated Financial Results

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

The parent company's sales and profit used to account for an extremely high proportion of the total for the entire corporate group. The consolidated-to-parent-company ratios had stayed around 1 and the total recurring profit/loss of the consolidated companies excluding the parent was nearly zero (Figure 1 on page 5). Last fiscal year, there was a significant improvement as the sales of the consolidated companies excluding the parent (consolidated minus parent) reached Y193 million and recurring profit reached Y60 million (in the fiscal year before the previous, sales of Y0 million and a recurring loss of Y5 million were recorded). The reason for this improvement is that the EC-

CUBE business was carved out of the parent company to the subsidiaries and the performance of this business had turned around.

【 Figure 1 】Comparison of Consolidated-to-Parent-Company Recurring Profit by Fiscal Year

(unit: million yen, %)

		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
A	Consolidated R.P.	234	352	250	106	-115	79
B	Parent company R.P.	245	359	252	107	-110	20
A-B=C	Consolidated R.P. - parent company R.P.	-12	-7	-2	-1	-5	60
C/B	Subsidiaries' R.P. / parent company R.P.	-4.7%	-1.9%	-0.7%	-0.5%	-	304.9%
A/B	Consolidated R.P. / parent company R.P.	0.95	0.98	0.99	1.00	-	4.05

(Ref) Prepared by Alpha-Win Research Dept. based on materials including the Company's securities report, financial results summary, financial results briefing materials, and website.
(Note) Since the decimal places of the values used in this report have generally been round off, they may differ from those officially announced by the Company. Results have been consolidated starting in FY 2014 (the same applies to the rest of this report).

Financial Situation

- **Had been debt-less, but its debt exceeded its cash and deposits as of the end of March. However, there is no issue with its financial standing.**

The Company had kept itself debt-free after becoming listed, but in FY 2018 (note that the Company's fiscal year is September-ending) it raised about Y800 million in loans as capital for future investment (for business acquisition, etc.). As of the end of March 2020, its long- and short-term loans totaled about Y1,130 million, which is greater than its cash and deposits of about Y850 million. However, although the Company is relatively small in scale with total assets of about Y2.5 billion and a market capitalization of about Y5.9 billion (based on the closing stock price on 3/31/2020, at Y920), there does not seem to be an issue with its financial standing since its equity ratio is 44.9% and current ratio is 164.3%.

Its intangible fixed assets, including goodwill (from the acquisition of the AdRepo and ADPLAN businesses) and software, are Y860 million and its deferred tax assets are Y120 million. These total Y980 million but should not pose a problem for the meanwhile since this total is still smaller than the net assets of Y1,140 million.

Awards and Reputation

- **High reputation from outside the company; chosen as Best Company in the *Best Workplaces Ranking* for the 8th consecutive year for a total of 9 awards**

(4) 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.

The Company won the Best Companies Award in the Japan division of the *2020 Best Workplaces Ranking for Medium-Sized Companies (100 to 999 employees)* from the Great Place to Work® Institute[4] Japan (winning an award for the eight years in a row; a total of nine awards received in the past). The Company has also won various awards from other organizations in the past; this high reputation is valuable since it helps attract new, talented employees who are crucial to the kind of business that the Company engages in.

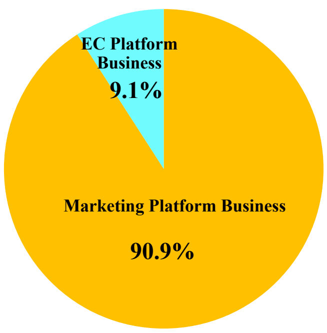
2. Business Description and Business Model

◆Providing the Originally Developed Marketing Robot via the Cloud

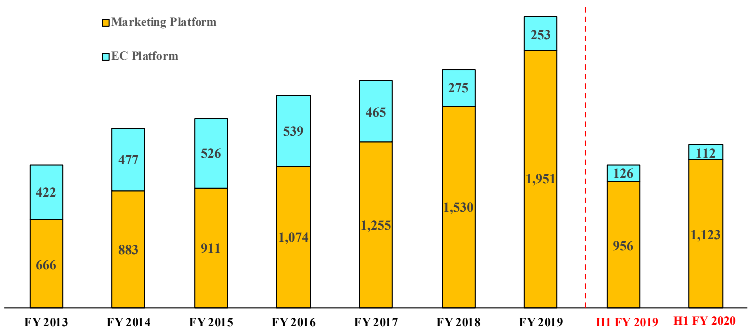
- **A B2B business, providing originally developed software via the cloud. Developing businesses based on two platforms. The marketing platform is its core business.**

The Company's concept is that a "Marketing Robot" that solves problems automatically and efficiently on behalf of humans is also necessary in the area of Internet marketing due to the aging and declining population. Based on this concept, the Company provides such tools in the form of originally developed software, mainly to other companies in cloud format. The Company's business consists of two segments: the marketing platform business and the EC platform business. The marketing platform business accounted for about 90.9% of the total sales in H1 of this fiscal year (Figure 2); it has been the driver of the Company's overall sales growth for many years (Figure 3). The transition in operating profit for each segment is shown in Figure 4. Excluding FY 2017 and FY 2018 during which business restructuring was conducted, both segments have posted an operating profit during each full fiscal year.

【 Figure 2 】H1 FY 2020 Sales Breakdown by Business Segment

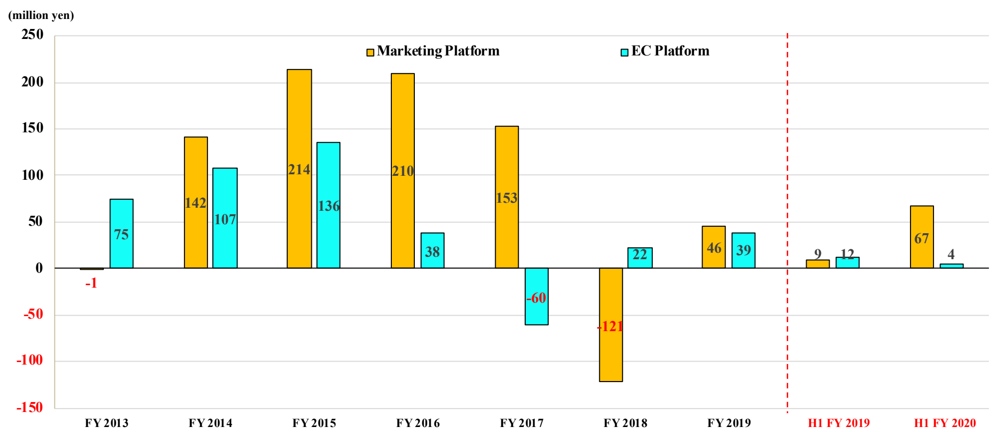


【 Figure 3 】Change in Full-Year Sales by Business Segment (unit: million yen)



(Ref) Figures 2-4 were prepared by Alpha-Win Research Dept. based on 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

- **Actively restructuring its business portfolio. Concentrating business resources on AD EBiS of the marketing platform business. Strengthening business by purchasing businesses in peripheral areas.**
- **AD EBiS is its main product as well as growth driver that accounts for approx. 80% of the total sales.**

Since FY 2016, the Company has been actively restructuring and strengthening its business portfolio, becoming concentrated on its core business (shifting to AD EBiS of the marketing platform business) and separating its non-core business (EC platform business) (Figure 5; see the report issued on 12/13/2019 for details on the recent restructuring and strengthening of business).

In the marketing platform business, the Internet advertising effect measurement system AD EBiS accounts for about 80% of the total sales (actual result for this fiscal year's H1). Going forward, the Company plans to concentrate business resources on this product and related products to further develop this business as a growth driver.

【 Figure 5 】 Business Restructuring and Segments (withdrew from the highlighted businesses)

Business Segment	Main Product/Service	Business Subcategory	Change	Note
(1) Marketing Platform	① AD EBiS			Parent company
	② THREe		Withdrew (end of March 2020)	
	③ DMP		Transferred from SOLUTION; will scale down	
	→ Professional Service		Will expand AD-EBiS-related software development project	
	④ AdRepo		Acquired (August 2018)	
	⑤ ADPLAN		Acquired (January 2020)	
(2) EC Platform	① EC-CUBE		Transferred to EC-CUBE Co., Ltd., on 1/1/2019	Consolidated
	② SOLUTION → abolished	*EC Outsourced Dev.*	*Transferred to SAI Co., Ltd. (equity method) and Radical Opti Co., Ltd. (no longer equity method as of last FY)*	*Equity method*
		(DMP)	*Transferred to SOLUTION*	

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

(5) 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.

(6) DMP (Data Management Platform): A method by which a corporate client can analyze its website

Changes during this fiscal year are so far as follows (the numbers in parentheses and circles match the numbers in the graph).
(1) ② Withdrew from the THREe business, an operating platform for paid-listing ads[5] (completed as of the end of March 2020).
(1) ③ Scaled down the previously transferred DMP[6]-related business. Plans to develop the Professional Service business around the development of software closely related to AD EBiS.
(1) ⑤ Acquired the ADPLAN business from OPT, Inc., a consolidated subsidiary of OPT Holding Group (TSE First Section 2389; hereinafter "OPT HD") in January 2020 (this fiscal year's Q2) for Y315 million. ADPLAN used to have the second largest share in the market, behind the Company. Aims to merge this business with AD EBiS in the future.

Since Q2 FY 2019, the Company (parent company) has been primarily focused on the marketing platform business. However, since EC-CUBE was transferred to a consolidated subsidiary, on a consolidated basis, the Company's business is still classified into the same two segments as before.

◆ Details of Its Business Contents (1) Marketing Platform Business

The transition in the sales and profit of the marketing platform business by fiscal year is shown in Figure 6 on page 8.

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

Sales (million yen)	*FY 2012 parent*	*FY 2013 parent*	FY 2014 consolidated	FY 2015 consolidated	FY 2016 consolidated	FY 2017 consolidated	FY 2018 consolidated	FY 2019 consolidated	H1 FY 2020 consolidated	H1 FY 2020 % of total
Marketing Platform	*545*	*666*	883	911	1,074	1,255	1,530	1,951	1,123	90.9%
① AD EBiS	*499*	*567*	722	822	1,012	1,200	1,402	1,747	1,029	83.3%
② THREe	*46*	*81*	161	89	62	54	43	28	7	0.6%
③ Professional Service (DMP)							84	51	17	1.4%
④ AdRepo								124	70	5.7%
⑤ ADPLAN	(acquired in Jan 2020; announced in combination with AD EBiS's sales) ↑									NA
Segment's O.P.	*-61*	*-1*	142	214	210	153	-121	46	67	93.8%
Segment's O.P. Margin	*-11.2%*	*-0.1%*	16.1%	23.5%	19.5%	12.2%	-7.9%	2.4%	6.0%	% of O.P. ↑

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

- **The main businesses of the marketing platform segment are AD EBiS and ADPLAN. Both are Internet advertising effect measurement systems.**

The marketing platform segment currently consists of four businesses: the Internet advertising effect measurement systems ① AD EBiS and ⑤ ADPLAN; ③Professional Service (including DMP); and ④AdRepo. The ADPLAN business joined AD EBiS after its acquisition in January 2020.

With the increasingly diversified and dispersed consumer behavior of today's Internet society, marketing and advertising over the Internet has also become more sophisticated and complicated, raising the importance of the use of technology in their operation. The Company's characteristic or strength is its ability to offer, at a reasonable price, software that can accurately evaluate and leverage the effect of Internet ads through various methods of analysis and comes with various functions (ad measurement, analysis, evaluation, etc.). Another strength is its ability to provide excellent support for the software.

- **The originally developed AD EBiS has the top share in the domestic market.**

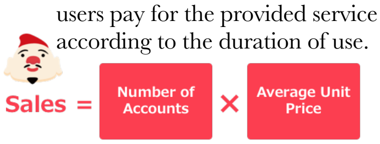
①AD EBiS & ⑤ADPLAN

AD EBiS, the Company's Proprietary Product

AD EBiS is the Company's main product (top domestic share), which it had originally developed, and is an Internet advertising effect measurement system that allows the collective management, measurement, analysis, and visualization of the effect of Web ads, etc., to help users assess the cost effectiveness of ads. It comprehensively provides a one-stop marketing environment where users can "utilize" marketing data accumulated by the "effect measurement" function to maximize sales or acquire prospective customers in proactive marketing.

- **A subscription-based business model. Its flat-rate subscription system lets the Company acquire profit continuously and stably.**

(7) Subscription-based business model: A business model where users pay for the provided service according to the duration of use.



Merging ADPLAN with AD EBiS

The Company will continue the ADPLAN service after its acquisition but the service will be gradually transferred to and merged with YRGLM's AD EBiS to improve the efficiency of system development and updates.

Business Model

Both services are provided as SaaS based on a subscription-based business model[7] (see pages 15-16 in the report issued on 12/13/2019 for details).

Since AD EBiS and ADPLAN are both businesses based on flat-rate, subscription-based pricing, their sales are determined by average unit price × number of active accounts. Both elements are key performance indicators (KPI) for the entire company as well as for each business.

- **AD EBiS's number of accounts and average unit price are the KPIs.**

Customers

These are B2B businesses. AD EBiS's main customers include WOWOW, Lion, MIKI HOUSE, Aiful, Noevir, Zwei, Z-kai, Yazuya, and Setagaya Shizenshokuhin. More than 100 companies use ADPLAN (the number of accounts) and many of them are large, blue-chip companies that sell branded products throughout the country.

- **With the transition to the packaged plan with new pricings, the unit price rose significantly.**

Price System

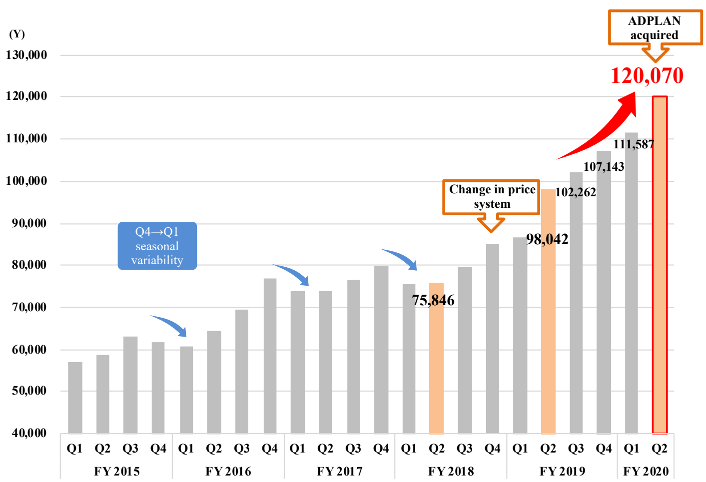
AD EBiS's pricing plan used to be a pay-per-use based on multiple parameters. However, in June 2018, the Company introduced a new price plan based on a flat-rate price table with basic functions and support packaged together. Options (various external linkage functions such as reporting, etc.) can be added to a plan. New contracts have already been transferred to this new price system, and price revision has also been made since then.

- **AD EBiS's average unit price increasing at a double-digit rate**

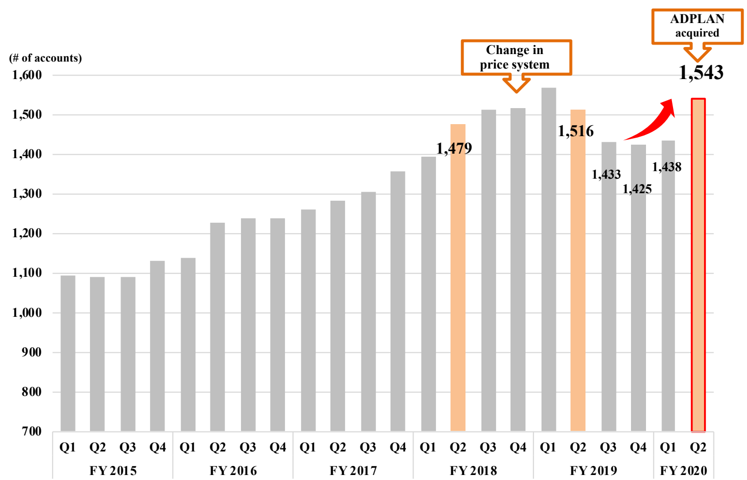
Transition in the Average Unit Price

Transition in the average unit price at the end of each quarter (price at the end of each final month) is shown in Figure 7. Quarterly trends used to show a significant seasonal variability, but since the transition to a subscription-based business model, an upward and linear trend has been observed. The average unit price has been rising for nine consecutive quarters since Q2 FY 2018. The average monthly unit price at the end of H1 FY 2018 (end of Dec. 2018) was Y75,846 ⇒ Y98,042 at the end of H1 FY 2019 (+29.3% or +Y22,196 YoY) ⇒ most recently, Y120,070 at the end of H1 FY 2020 (+22.5% or +Y22,028 YoY) (Figure 7). During the most recent Q2, the average unit price rose thanks to the price revision in February 2020 and the incorporation of ADPLAN (average unit price of approx. Y170,000). Also, since January 2020, the average unit price of new contracts has been greater than Y140,000. During this Q3, too, the average unit price of the existing contracts seems to be on a rising trend.

【 Figure 7 】Change in the Average Unit Price of AD EBiS



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



(Ref) Figures 7-8 were prepared by Alpha-Win Research Dept. from the Company's securities report and financial results briefing materials.

- **AD EBiS's number of active accounts grew significantly thanks to the incorporation of ADPLAN. Improvement of cancellation rate is the next challenge.**

Number of Active Accounts

Based on end-of-the-quarter figures, the number of active accounts had consecutively increased until the end of Q1 FY 2019 (end of Dec 2018), after which it declined for three quarters in a row due to contract cancellations in response to a price revision. However, during Q1 of this fiscal year, the trend was reversed, and the number of accounts slightly increased to 1,438 (+13 or +0.9% QoQ). In Q2, a sharp rise was seen as the number reached 1,543 (+105 or +7.3% QoQ), partly due to the incorporation of contracts from ADPLAN (more than 100).

- **AD EBiS's sales (by amount) continuing to grow at a double-digit rate**

Sales

The rise in unit price and temporary decline in the number of accounts occurred due to the increase in cancellations by low-priced contracts and contracts made via agencies since Q3 FY 2018 when the existing customers' contracts were transferred to the new pricing system.

However, sales of AD EBiS have been growing each year at a rate of about 20% YoY, since the rise in the unit price has been more than enough to compensate for the periods of slow growth in the number of accounts.

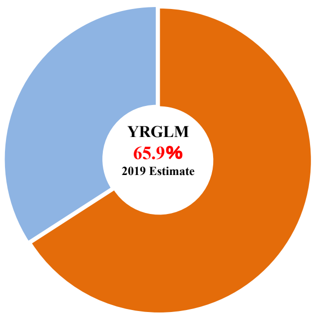
Going forward, the Company expects an increase in the number of high-priced new customers, addition of new functions and services (including option services provided through external partners that will contribute to an increase in revenue), up-selling and cross-selling of products, and a greater price leadership. As a result, it expects the unit price to keep rising and the number of active accounts to continue to increase in small increments.

- **AD EBiS: top share in the domestic market for 5 years in a row. Exceptionally high share of 65.9%.**
- **ADPLAN will be merged with AD EBiS.**

Market Share

Since its release in 2004, AD EBiS has been installed by more than 10,000 users and has had the largest share in the domestic Internet advertising effect measurement system market for five years in a row. Furthermore, according to the Company's financial results briefing materials, its share has been increasing year by year from 36.0% in FY 2015 to 40.0% in FY 2016, 42.9% in FY 2017, and 44.2% in FY 2018. In FY 2019, an exceptionally high share of 65.9% (estimate) was gained thanks to the acquisition of ADPLAN (Figure 9). However, in order to improve the efficiency of system development and updates, the Company plans to merge ADPLAN with AD EBiS. Key points going forward will be the contract continuation rate of ADPLAN's customers and cross-selling strategies targeting those customers.

【 Figure 9 】Share of Amount of Sales in the Internet Effect Measurement Market by Vendor (prediction for 2019)



(Ref) Financial results briefing materials
Source: ITR - "ITR Market View: Mail / Web Marketing Market 2020" (prediction for 2015-2019)
Note: Combined sales of AD EBiS and ADPLAN purchased from OPT, Inc. in January 2020

②THREe

- **Withdrew from THREe to concentrate business resources on AD EBiS.**

THREe, an operating platform for paid-listing ads, had also been originally developed by the Company. However, since it only contributed about 1% to the total sales in FY 2019, the Company stopped providing this service at the end of March 2020 in order to concentrate its business resources on AD EBiS.

③Professional Service

- **Moved the DMP business from the EC platform business. Plans for future withdrawal.**

Currently, most of the sales of this business comes from DMP. DMP 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 visit its website. The Company has a few major clients for this business including Lion.

Last fiscal year, DMP only contributed about 2% to the Company's overall sales. The Company plans to scale down this business in steps and eventually withdraw from it. Going forward, for the Professional Service, it plans to expand the software development project for new software related to AD EBiS.

④AdRepo

- **AdRepo's customers are ad agencies. Automation technology enables automatic creation of reports for programmatic advertising.**
- **Intend to actively expand the AdRepo business to create synergy with AD EBiS**

In August 2018, the Company acquired the AdRepo, an automatic report-generation tool for programmatic advertising. It has been fully developing this business since the beginning of FY 2019. Annual sales for last fiscal year were Y124 million. By acquiring new customers and creating synergy with AD EBiS, the Company plans to develop and enhance this business as its growth business (we estimate that the full-year sales for this fiscal year will be about Y140 million and the growth rate will be about 10%). Its domestic share is third in the market, behind ATOM (TechLoCo Co., Inc.: not listed) and glu (ATALA LLC: not listed, the Company's partner).

AdRepo is a tool for fully automating the generation of reports. It is a cloud service that had been developed to reduce the workload of advertising agencies in creating reports for programmatic ads.

◆ Details of Its Business Contents (2) EC Platform Business

Until FY 2018, the EC platform business had been composed of the following two divisions: ①EC-CUBE and ②SOLUTION (Figure 10).

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

Sales (million yen)	*FY 2012 parent*	*FY 2013 parent*	FY 2014 consolidated	FY 2015 consolidated	FY 2016 consolidated	FY 2017 consolidated	FY 2018 consolidated	FY 2019 consolidated	H1 FY 2020 consolidated	H1 FY 2020 % of total
EC Platform	*323*	*422*	477	526	539	465	275	253	112	9.1%
①EC-CUBE	*150*	*207*	245	230	219	208	254	253	112	9.1%
②SOLUTION	*174*	*214*	232	296	319	257	20	0	0	0.0%
(DMP)						104				0.0%
Segment's O.P.	*98*	*75*	107	136	38	-60	22	39	4	6.2%
Segment's O.P. Margin	*30.5%*	*17.8%*	22.5%	25.8%	7.1%	-12.9%	8.2%	14.2%	4.0%	% of O.P. ↑

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

(8) 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.

(9) 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 EC-CUBE business has been transferred to a consolidated subsidiary.**

◆ **The SOLUTION business was transferred to affiliates accounted for by the equity method.**

① EC-CUBE

EC-CUBE is an open source software[8] 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 that will begin selling and providing products and services online. Characterized by low cost, high customization, and user-friendly interface, it has the largest share in the domestic market and has become the standard platform.

In EC-CUBE, in return for offering the software for free, the Company has set up a Freemium Model[9] where revenue is earned from peripheral services. Through this system, the Company makes profit from royalties from its 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 from commercial licenses, etc.

However, as part of the restructuring of the business domain of the Company's group, the EC-CUBE business was transferred to the 100% consolidated subsidiary, EC-CUBE Co., Ltd., on January 1, 2019. Because it is a fully consolidated subsidiary, there will be no effect on the consolidated financial results. The Company expects this 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 was released in October 2018. With also the release of the cloud version, the increase in account settlement agent fees received, and other positive factors, financial performance has been improving steadily.

② Former SOLUTION business

Although the SOLUTION business had been composed of a few businesses, with the restructuring of business, its main EC outsourced development business had been transferred to affiliated companies that the Company owns 20% of shares each (reflected in non-operating profit/loss as profit or loss accounted for by the equity method). Since last fiscal year, this business is no longer part of the segments that are reflected in the consolidated sales.

3. Shareholder Composition

◆ Major Shareholder Composition

- **No large changes to the top-ranking major shareholders. Persons affiliated with the Company, including active and former executive officers and the employee stock ownership plan, own approx. 60% of the shares.**
- **Shares owned by Asset Management One have decreased from the peak of over 5%. Invested by several other funds managed by other companies.**
- **Treasury shares are a little less than 1% of all issued shares.**

Major shareholders as of the end of March 2020 are shown in Figure 11. The following is supplementary information. The major shareholders have not significantly changed.

・However, BNY GCM CLIENT ACCOUNT AC ISG appeared in the ranking for the first time as the fifth largest shareholder (the account invests in at least about 200 Japanese small-, mid-, and large-cap stocks). The names of the final investors and the purpose of investment are unknown.

・The *MHAM Emerging Growth Stock Open* portfolio (also called "J-Frontier"; open-end fund with AUM of Y63 billion that invests in emerging Japanese stocks with high growth potential) managed by Asset Management One ("AMO") owned 189.5 thousand shares of the Company's stock (about 3% of all outstanding shares) as of 2/25/2019. AMO later purchased more shares for this fund, as well as for its *MONEX Japan Growth Fund*; according to the Report of Possession of Large Volume (the "5%-rule" report) submitted on 7/31/2019, it possessed a total of 328.4 thousand shares (5.15% of outstanding shares). According to the Change Report, some of the shares were later sold so that on 1/31/2020 it owned 249.3 thousand shares (3.91% of outstanding shares).

The Company's stock is also incorporated in *Japan Emerging Equity Open* managed by Nikko Asset Management and *The 2020 Vision* managed by Commons Asset Management (as of 12/18/2019 for both).

・The investment purposes of SBI SECURITIES Co., Ltd., which appeared at sixth place, and Rakuten Securities, Inc., at eighth, are unknown but are likely related to their customers' position.

・As of the end of March 2020, the Company owned 59,700 shares of its own stock (0.93% of all outstanding shares). The Company intends to use these treasury shares for M&A and alliance strategies as well as stock-based compensation for its executives and employees in the future.

【 Figure 11 】Current Major Shareholders

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

	End of Sept. 2015	End of Sept. 2016	End of Sept. 2017	End of Sept. 2018	End of Sept. 2019	End of Mar 2020	←Shareholding %	←Ranking
Susumu Iwata (president and CEO)	2,851	2,817	2,817	2,819	2,822	2,825	44.7	1
Hiroichi Fukuda (former executive vice president)	1,071	1,021	1,021	961	801	801	12.7	2
Kanako Mataza (former director and senior executive officer	415	415	352	354	353	353	5.6	3
Japan Trustee Services Bank, Ltd.	—	59	—	60	333	311	4.9	4
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	—	—	60	—	—	286	4.5	5
SBI SECURITIES Co., Ltd.	—	—	—	—	—	142	2.2	6
Trust & Custody Services Bank, Ltd.	—	—	60	29	123	104	1.6	7
Rakuten Securities, Inc.	—	—	—	72	64	80	1.3	8
YRGLM Employee Stock Ownership Plan	76	39	48	69	68	79	1.3	9
Hakuhodo DY Media Partners Inc.	60	60	60	60	60	60	1.0	10
GOLDMAN SACHS INTERNATIONAL	—	—	—	—	284			
UEDA YAGI TANSHI Co., Ltd.	—	—	—	—	113			
Tomonori Yamada (indiv.)	—	—	28	—	—			
Katsuyuki Ito (indiv.)	—	—	—	52	—			
Akiko Takashima (indiv.)	—	—	—	29	—			
Kenichiro Wade (former outside director)	39	29	29	—	—			
Yoshio Takayama (indiv.)	—	—	28	—	—			
Kayoko Nagano (indiv.)	—	—	24	—	—			
SEPTENI CO., LTD	62	62	—	—	—			
Matsui Securities Co., Ltd.	—	36	—	—	—			
Japan Securities Finance Co., LTD	30	35	—	—	—			
Yoichi Nishikawa (indiv.)	34	—	—	—	—			
Akio Shiojiri (former director; audit committee member)	26	—	—	—	—			
(Number of treasury shares)	0	0	45	983	81,423	59,700		
(Ratio of treasury shares over all issued shares)			0.0007%	0.0155%	1.2777%	0.9369%		

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

4. History of Growth

◆ Transition in Past Financial Results

- **Developed and launched unique products that can be differentiated from other companies. Have grown rapidly by predicting and meeting the needs of society ahead of others.**

From FY 2010 to FY 2013, during which account settlement was nonconsolidated, the Company increased sales for four consecutive fiscal years. From FY 2014, when consolidated account settlement began, the Company has been achieving record-high sales for five consecutive fiscal years through FY 2019 (from what is available in the disclosure material, we can see that sales have been hitting record highs for at least nine consecutive fiscal years). During this period, sales increased by about three times from about Y730 million to about Y2.2 billion. This success was brought by the rapid expansion of the marketing platform's AD EBiS business and the steady growth of the EC platform's EC-CUBE and SOLUTION businesses.

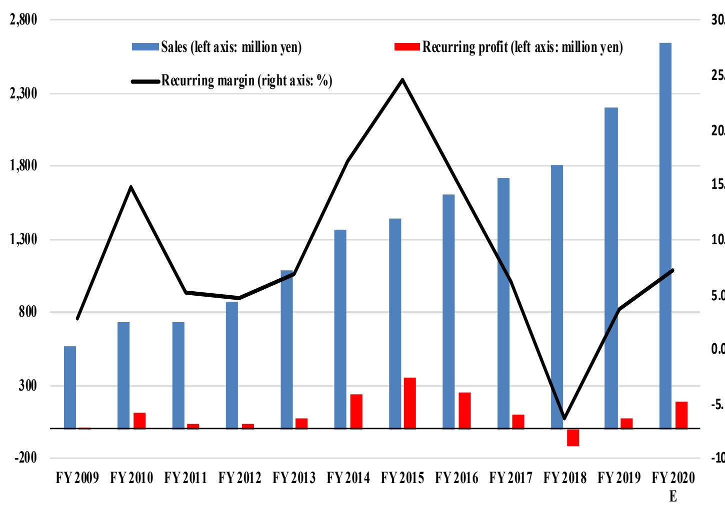
- **In FY 2015, record-high profit was recorded. All-time highs are being consecutively achieved every year for sales.**
- **Since FY 2016, the Company has been prioritizing business restructuring and upfront investments, focusing on future business growth rather than profit. A net loss was recorded in FY 2018.**

Regarding 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 consecutive decline in profit despite increasing sales. In the fiscal year before the previous or FY 2018, the Company recorded a net loss (of Y88 million) for the first time since becoming listed on the market due to upfront investments mainly in hiring more employees for development and sales (see Figures 12 and 13).

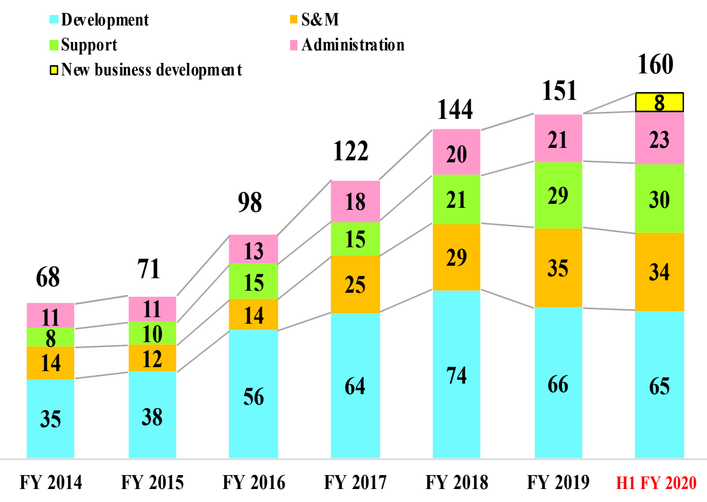
- **In the previous fiscal year (FY 2019), a large sales growth let the Company turn an operating profit and a recurring profit.**

In the financial results for FY 2019 (last fiscal year), the rise in the average unit price of the core product AD EBiS had helped increase sales by 22% YoY, so that the Company was able to turn both an operating profit and a recurring profit for the full year.

【 Figure 12 】Transition in Past Financial Results
(unit: million yen, %)



【 Figure 13 】 Change in the Number of Employees
(unit: persons)



(Ref) Figure 12-13 were 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.

5. Business Environment

◆ Trends in Japan's Advertising Market

- **Internet advertising expenditure increased by about 5.6x from 2005 to 2019. The average annual growth rate (simple average) is high at about 13.3%.**

Total Advertising Expenditure

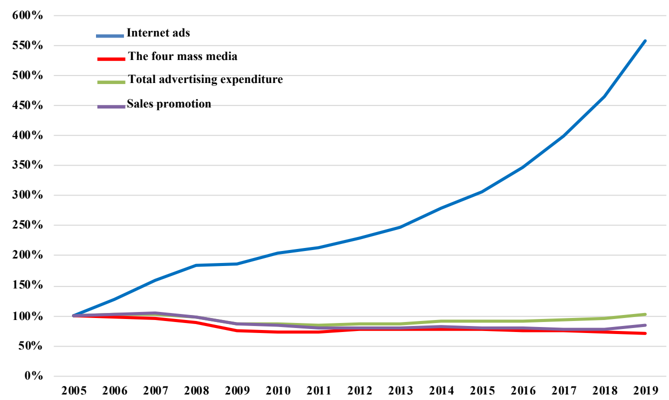
Total advertising expenditure in Japan in 2019 (calendar year; the same applies to this entire chapter) was about Y6.9 trillion. From a long-term perspective, the market has been flat. However, since 2012, market growth has been observed for eight years in a row, indicating that the market as a whole is on a slight upward trend (the annual growth rate, based on a simple average, is about 2.5% during this period).

Internet Ad Market

As the Internet is rapidly becoming used by more people for more purposes, Internet advertising expenditure has also rapidly increased and has been driving the growth of the total advertising expenditure. Internet advertising expenditure had increased significantly from 2005 (point of comparison, set at 100) to 2019 by about 5.6 times (annual growth rate of about 13.3%, on a simple average). Growth has especially been great over the past five years, during which the growth rate accelerated year after year (Figure 14).

Internet advertising expenditure (sum of medium cost and production cost), which is about Y2.1 trillion (+19.7% YoY, growing at a double-digit rate for six consecutive years), accounts for about 30% of the total advertising expenditure (ref: Dentsu Inc.'s "2019 Advertising Expenditures in Japan"). Its share in the market has been steadily increasing by 1-3% every year, becoming the largest advertising medium in 2019 after beating the share of television (27%), the largest among the four mass-media advertising (newspaper, magazine, radio, and television).

【 Figure 14 】Change in Advertising Expenditure by Medium
(index value: year 2005 set at 100)



(Ref) Prepared by Alpha-Win Research Dept. from Dentsu Inc.'s "2019 Advertising Expenditures in Japan" (published every February)

- **Internet advertising is expected to continue to grow at a double-digit rate. A tailwind for the Company.**

Current Situation

Due to the impact of COVID-19, the overall advertising expenditure seems to be held down. However, since EC demand has increased with more people buying goods while staying at home, the Internet advertising market seems to be growing at a solid pace. Internet use is expected to continue to expand as technology develops, so Internet advertising expenditure will likely continue to grow at a double-digit rate. Therefore, for the meanwhile, the market environment is expected to stay favorable for the Company in developing its business in Internet advertising effect measurement and utilization.

◆ Competitors

- **No major competitor with a similar service price range**

There seems to be no similar Japanese listed company that could be directly compared with the Company. Its rival product used to be ADPLAN (total installation by more than 1,500 companies) of the listed company OPT HD Group, but this has already been acquired by the Company. Therefore, the Company no longer has a major competitor with a similar price range.

Similarly, regarding advertising effect measurement and analysis tools, the competing products are Google Analytics[10] and Adobe Analytics[11] widely used by domestic SMEs (small- and medium-sized enterprises) and Web Antenna (installed by more than 600 companies, including major companies as well as ventures) provided by the private company beBit, Inc. However, these other companies are not specialized in the field, and their products' function, measurement target, analysis content, and support system are limited. In comparison, the Company's products are superior in terms of specifications, development system, and support system, which explains why the Company has an exceptionally large share as number one in the market.

(10) 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 in the high-price zone.

(11) 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.

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

Although it is not a competitor, the U.S.-based company HubSpot, Inc. (NYSE: HUBS) is a listed company with a similar subscription-based business model (for details, see page 15 of the report issued on 5/31/2019). HUBS provides a platform that links together software for marketing, sales, and customer service.

6. Topics

◆ Impact of COVID-19 and the Company's Response

◆ **Started remote work for all of its employees**

Response

Starting on 3/31/2020, all employees began remote work. Almost all business activities including sales, customer success, customer support, development, and management have been continued online. The Company's business is inherently highly compatible with remote work, so the Company has not encountered major problems in smoothly conducting business.

◆ **Minimal impact from COVID-19**
◆ **Cancellation of AD EBiS by some of the customers in the staffing, travel, entertainment, education, bridal, securities, and finance industries who were affected by COVID-19. This was almost entirely offset by the brisk demand from customers in EC-related businesses due to more people buying goods from home.**

Impact

As described later, H1 results had shown a steady growth and the Company has experienced almost no impact from COVID-19.

If the COVID-19 crisis is prolonged, there may be some effect on the sales activities, such as new customer acquisition, but even in such case, the Company believes that it will be able to sustain its growth. In fact, it said that "Since the end of March, we have seen increased service cancellations and account deactivation by customers whose industry has been highly impacted by COVID-19. However, since we have seen strong demand from non-face-to-face businesses such as EC, the overall demand has not waned." Because the Company's flagship product AD EBiS is a tool for optimizing costs through ad effect measurement, the current situation may be more of a business chance since the shift in consumption toward EC due to COVID-19 will increase the demand for ad effects with more efficient appeal to customers.

◆ Impact of the Strengthened Regulation on Personal Information Protection and the Company's Response

Response

Due the global trend to strengthen regulations on personal information protection[12], Japan too strengthened the Personal Information Protection Law. In response to this, the Company began providing *CNAME Tracking*[13], a new measurement method for AD EBiS that does not use third party cookies. In the three months following its release around the middle of this year's January, more than 300 companies have installed it.

The Company has declared that its purpose is to improve corporate value and privacy-protected user experience through the power of data and technology. It also announced the six principles of its privacy statement, declaring itself as a company that values and complies with information protection in a commitment to maintain reliability and safety for users as well as the society as a whole.

Impact

There seems to be many companies, or competitors, that cannot meet the demands of the strengthened regulations on personal information protection. Specialized in advertising effect measurement, the Company's ability to develop technology and adjust to changes is high. We believe that the Company will gain a greater competitive advantage relative to other companies in this business area.

(12) Tightened regulations: To strengthen privacy protection, the EU adopted the GDPR (General Data Protection Regulation). A tracking prevention function was added to Apple's Safari. Google also plans to eliminate the use of third-party cookies from its Chrome within two years.

(13) CNAME Tracking: a new measurement method that can measure the effectiveness of advertising with high accuracy while protecting user privacy. Uses first-party cookies. For details, see page 26 of the report issued on 12/13/2019. "Tracking" means identifying visitors of websites or users of online services on the Internet to record and track their visiting history or activities within websites.

7. This Fiscal Year's H1 Results and Full-Year Forecast

◆ Financial Results for Q2 FY 2020 (first half)

Overview

- **Record-high H1 sales**
- **Also turned a net profit**

The consolidated financial results for Q2 FY 2020 (October 2019 to March 2020) show that both sales and profit grew significantly; in H1, sales increased by 14.1% YoY to Y1,235 million and operating profit increased by 239.2% YoY to Y71 million (Figure 15). In the previous H1, it posted a net loss of Y47 million due to an extraordinary loss, but it turned a net profit of Y46 million in this fiscal year's H1. Record-high H1 sales were achieved.

H1 Progress Rate

- **H1 results were in line with the plan; firm progress**

Progress in H1 in terms of the full-year plan was 45.7% for sales (49.0% in the same period of the previous year) and 35.7% for operating profit (previously 25.0%). The Company has not disclosed the forecast for H1, but the results seem have been in line with the plan.

Trends in Financial Performance by Segment

- **The main AD EBiS business has been successful. Rise in the unit price and in the number of accounts due to the acquisition of ADPLAN also contributed to the results.**

By business segment, sales of the marketing platform business increased by 17.5% from Y956 million in the previous H1 to Y1,122 million this H1. Operating profit increased by 658.1% from Y9 million to Y67 million; profit improved significantly. This improvement was due to the increase in the number of accounts and average unit price of its main business AD EBiS (see Figures 7 and 8 on page 9). The ADPLAN business, which was acquired in January and incorporated into this segment, also contributed to the results in Q2 in terms of the rise in both the number of accounts and the unit price.

- **Due to a delay in some of the contract renewals, EC platform's sales temporarily decreased.**

In the other segment, or the EC platform business, due to a delay in some of the contract renewals (these renewals have been completed as of the date of this report), sales decreased by 10.7% from Y125 million in the previous H1 to Y112 million this H1. Consequently, operating profit also fell from Y12 million to Y4 million by 63.5%.

【 Figure 15 】Comparison of H1 or Quarterly Results

Q1 (Oct-Dec), Q2 (Jan-Mar), Q2 YTD (Oct-Mar)	*FY 2019*		FY 2020		*FY 2019*	FY 2020	Q2 FY 2020 YTD YOY	
(Unit: million yen)	*Q1*	*Q2*	Q1	Q2	*Q2 YTD*	Q2 YTD	Diff. in amount	% Change / Diff.
Total Sales	*520*	*563*	585	650	*1,083*	1,235	153	14.1%
Marketing Platform	*460*	*496*	524	599	*956*	1,123	167	17.5%
EC Platform	*59*	*67*	62	51	*126*	112	-14	-10.7%
Gross Profit	*344*	*404*	407	432	*748*	839	91	12.2%
Gross Margin	*66.1%*	*71.8%*	69.5%	66.5%	*69.1%*	67.9%		
SG&A Expenses	*370*	*356*	382	386	*727*	767	41	5.6%
SG&A Expenses Ratio	*71.3%*	*63.3%*	65.2%	59.3%	*67.1%*	62.1%		
Operating Profit (segment)	*-27*	*48*	25	47	*21*	71	50	239.2%
Marketing Platform	*-21*	*30*	16	51	*9*	67	58	658.1%
EC Platform	*-5*	*18*	9	-4	*12*	4	-8	-63.5%
Operating Margin	*-5.1%*	*8.4%*	4.2%	7.2%	*1.9%*	5.8%		
Marketing Platform	*-4.6%*	*6.1%*	3.0%	8.5%	*0.9%*	6.0%		
EC Platform	*-9.2%*	*26.6%*	14.5%	-8.8%	*9.7%*	4.0%		
Recurring Profit	*-30*	*47*	25	46	*17*	71	53	310.5%
Net profit	*-36*	*-10*	19	27	*-47*	46	92	-197.8%

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

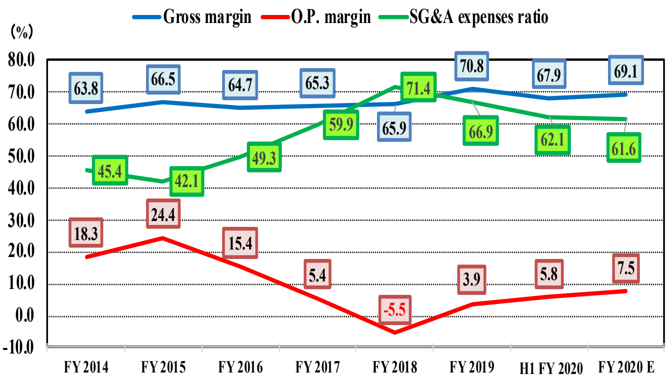
◆ **SG&A expenses ratio decreased and operating margin significantly improved.**

◆ **With no more extraordinary loss, the Company was able to turn a net profit.**

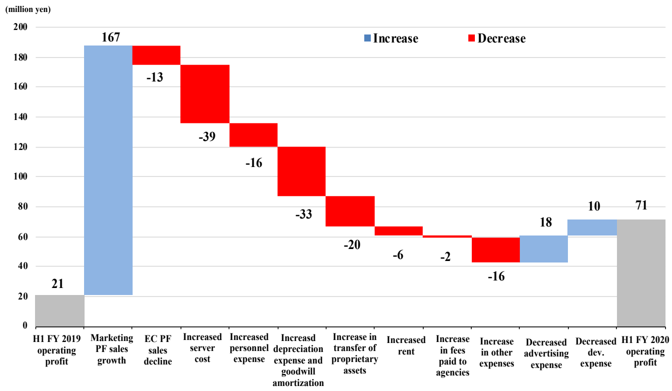
Trends in Margins and Profit/Loss

Despite sales growth in the marketing platform business, the gross margin slightly worsened from 69.1% in the previous H1 to 67.9% this H1 due to investments to prepare the infrastructure for increasing the capacity of the marketing platform business and decreased sales of the EC platform business (Figure 16). However, since the SG&A expenses only increased by 12.2%, which is less than the increase in sales (14.1%), the SG&A expenses ratio fell sharply from 67.1% to 62.1% during the same period. As a result, the operating margin improved by about 3.9 points from 1.9% to 5.8%. The previous fiscal year's H1 resulted in a net loss due to an extraordinary loss of a total of Y71 million, which included Y60 million in litigation-related expenses as well as loss on retirement of fixed assets. This H1, though, no extraordinary loss was recorded and a net profit was gained.

【 Figure 16 】 Transition in Margins and Ratios
(unit: %)



【 Figure 17 】 Factors Affecting O.P. in H1 FY 2020
(unit: million yen)



(Ref) Figures 16-17 were prepared by Alpha-Win Research Dept. based on the securities report and financial results summary

◆ **Profit increased thanks to sales growth and cost suppression**

Factors that Increased/Decreased Profit in H1

An analysis of the factors that increased or decreased H1 profit is shown in Figure 17 above. In terms of cost, the increase in server-related expenses by Y39 million, depreciation expense and goodwill amortization by Y33 million, and personnel expense by Y16 million were the main factors that decreased profit. The increase in server costs came from securing and increasing the infrastructure capacity of the marketing platform business. The other expenses were for positive investment purposes. For instance, the increase in depreciation expense and goodwill amortization was due to the amortization of goodwill from the acquisition of ADPLAN. The increase in personnel expense was also for increasing the number of employees to work on the new businesses. On the other hand, although the decrease in advertising expense by Y18 million and the decrease in recruitment cost by Y10 million helped increase profit, much of the overall profit growth came from the sales growth of the marketing platform business.

◆ **After turning an operating profit for the first time in 7 quarters, the Company has been maintaining an operating profit for 5 quarters in a row.**

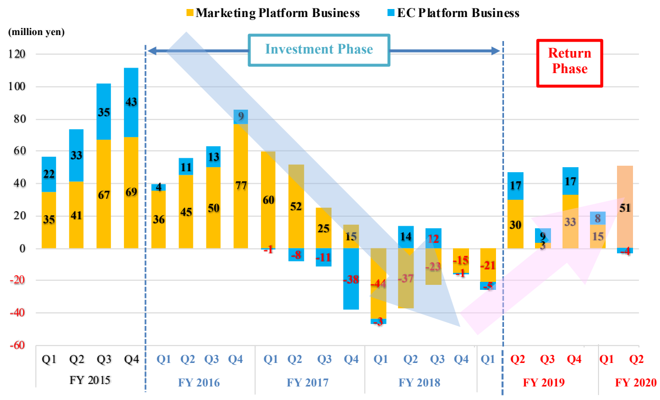
◆ **With business restructuring and transition to a flat-rate, subscription-based business model, its business became more stable with small seasonal variations.**

Quarterly Transition in Results

In both the first quarter (Q1) and the second quarter (Q2) of the current fiscal year, a double-digit YoY sales growth and record-high sales were achieved.

Looking at the quarterly transition in operating profit (Figure 18 on page 20), the Company had posted net losses from Q4 FY 2017 (July-Sept 2017) to Q1 FY 2019 (Oct-Dec 2019). Then, in Q2 FY 2019, it turned a profit for the first time in seven quarters. Since then, it has been maintaining an operating profit for five consecutive quarters through Q2 FY 2020 (Jan-Mar 2020) (Figure 18). This recovery had been brought by the sales growth of AD EBiS, the withdrawal from unprofitable businesses, the acquisition of promising businesses, the transition in business model from a pay-per-use to a flat-rate, subscription-based price system, and the improvement in gross margin and SG&A expenses ratio through cost control.

【 Figure 18 】 Quarterly Transition in Operating Profit



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

- **No change to financial forecast for this fiscal year. Planning to increase both sales and profit, turn a net profit, and achieve record-high sales.**

Current Situation

As mentioned on page 17, the Company has experienced little impact from the COVID-19 outbreak on the H1 results because of the firm demand from non-face-to-face businesses such as EC for more efficient advertising effects, its mainly subscription-based business model, and high compatibility of its business operations with remote work.

- **Current sales are solid.**

The period from January to March was especially difficult for many companies, with about a quarter of all listed companies posting net losses as the emergency declaration in response to the COVID-19 outbreak caused an economic stagnation. More than half of the companies whose fiscal year ends in March have announced that this fiscal year's financial results are still undetermined; the Company's strong fundamentals in contrast to those companies became clear, although its fiscal year ends on a different month.

- **Free cash flow is still negative. Making this positive is the next challenge.**

Semi-Annual Transition in Cash Flow

Looking at the semi-annual transition in cash flow, investing cash flow as well as free cash flow (FCF) has been negative because the Company has been continuously and actively conducting investment (Figure 19). Turning the FCF positive would be the Company's next challenge for the meanwhile.

【 Figure 19 】 Semi-Annual Transition in Cash Flow

Unit: million yen	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019		FY 2020
	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
Investing CF ②	-5	-27	-80	-69	-88	-106	-94	-118	-368	-158	-409
Financing CF	-3	0	-16	3	-31	-0	169	542	162	-262	391
FCF (①+②)	9	121	-32	24	33	-83	-88	-110	-269	-50	-317
Cash and Deposits (on B/S)	666	787	738	762	764	681	760	1,194	924	774	847

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

◆ The Company's Financial Forecast for FY 2020 (full-year)

- **This fiscal year's forecast was kept the same. Expects full-year sales to reach a record high and operating profit to double.**

Full-Year Forecast

The Company has not made revisions to its forecast for this full fiscal year announced on February 7: sales of Y2.7 billion (+22.5% YoY), operating profit of Y200 million (+135.5% YoY), recurring profit of Y190 million (+140.4%), net profit of Y130 million (a turnaround), and undetermined year-end dividend. Full-year sales and operating profit for each segment, as well as the overall gross margin and SG&A ratio, have not been disclosed. Also, the Company is expected to become subject to a normal corporate tax rate.

For the current fiscal year, or the final year of the current medium-term plan, the Company had previously set a sales target of Y3 billion, but it announced that it had revised this to Y2.7 billion.

- **Still maintaining solid sales in April, the first month of H2.**

Recent Monthly Sales

Figure 20 shows the transition in monthly sales during this fiscal year as announced by the Company. Total sales in April, the first month of the second half of this year, were Y217 million, up 12.6% YoY. Since October 2018, it has been maintaining a double-digit sales growth for 17 consecutive months. The growth slowed down to a high single digit in March but returned to a double digit after that.

The marketing platform business segment, which accounts for more than 90% of the Company's total sales, has maintained strong sales; its sales were about Y198 million in April, up 17.2% YoY. On the other hand, sales of the EC platform business segment in April were about Y19 million, down 20.9% YoY, due to delays in contract renewals, etc.

Cumulative overall sales for the seven months of this fiscal year including April (October 2019 to April 2020) were Y1,452 million, up 13.9% YoY. This is a 53.8% progress rate in terms of the full-year company sales plan of Y2.7 billion (last fiscal year, the progress rate of the same period over the full year was 57.8%).

【 Figure 20 】Recent Monthly Transition in Sales (flash report)

(upper row: unit for sales = thousand yen, decimal places cut off)
(lower row: unit for YoY change = %)

Calendar Year	2018			2019								
Fiscal Year	FY 2019											
Monthly Sales	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Marketing Platform	149,201	150,478	160,409	158,319	165,994	171,330	168,971	165,515	162,982	163,876	165,521	168,509
	126.9	130.9	133.7	132.9	132.9	129.0	133.0	133.0	120.3	124.6	122.2	114.6
EC Platform	21,839	18,683	18,936	25,060	19,460	21,990	23,467	17,363	17,883	30,223	19,341	19,019
	78.3	67.6	76.5	96.8	82.9	117.2	100.8	90.3	87.6	115.9	104.7	102.3
Entire Company	171,041	169,161	179,345	183,379	185,455	193,321	192,439	182,878	180,866	194,099	184,863	187,529
	117.6	118.6	124.0	126.4	125.0	127.5	128.0	127.3	116.1	123.2	120.1	113.2

Calendar Year	2019			2020				10/2019 - 4/2020	
Fiscal Year	FY 2020							This FY (FY 2020)	
Monthly Sales	Oct	Nov	Dec	Jan	Feb	Mar	Apr	H1 YTD	This FY YTD
Marketing Platform	167,418	173,197	183,085	200,850	197,252	200,976	198,072	1,122,778	1,320,850
	112.2	115.1	114.1	126.9	118.8	117.3	117.2	117.5	117.4
EC Platform	26,164	17,602	18,019	26,041	16,126	8,450	18,569	112,402	130,971
	119.8	94.2	95.2	103.9	82.9	38.4	79.1	89.2	87.6
Entire Company	193,583	190,799	201,105	226,891	213,378	209,427	216,642	1,235,183	1,451,821
	113.2	112.8	112.1	123.7	115.1	108.3	112.6	114.2	113.9

(Ref) Prepared by Alpha-Win Research Dept. from the monthly disclosure materials on the Company's website.
(Note) The values shown are preliminary data before auditing by an auditor and may be revised in the future.

H2 Plan

By subtracting the H1 results from the full-year forecast, we can obtain what would essentially be the Company's forecast for H2: sales of Y1,465 million (+30.5% YoY), operating profit of Y129 million (+101.3% YoY), recurring profit of Y119 million (+93.1% YoY), and net profit of Y84 million (+616.4% YoY). Compared with the same period of the previous year or H1 of this year (18.6% increase in sales and 80.1% increase in operating profit), the Company seems to be expecting large increases in sales and profits.

- **This H2, the Company expects a 30.5% YoY growth in sales and a large 101.3% YoY growth in O.P. These are based on the assumptions that the SG&A expenses ratio will significantly improve and the margins will rise.**

Regarding the operating margin, the Company expects it to improve significantly from 1.9% in the H1 of the previous year to 5.7% in the H2 of the same year, 5.8% in this year's H1, and 8.8% in this year's H2. An improvement in the gross margin and a significant improvement in the SG&A expenses ratio are expected to contribute to this rise.

H2 Strategy

- **In H2, plans to make progress with new business development, while refining its areas of focus and strengthening cost control.**

In H2, the Company plans to change crisis into opportunity under a business strategy that can be flexibly revised as needed. Specifically, it will (1) refine its areas of focus and accelerate the speed at which it provides services that match the market transformation, (2) conduct stricter cost control to prepare for further economic downturns, and (3) promote the new working style brought by the crisis to improve productivity. Through this strategy, the Company hopes to become closer to achieving its full-year targets – especially the one for profit. It also plans to allocate resources to work on new business development.

◆ Alpha-Win Research Dept.'s Financial Forecast for FY 2020 (full year)

Revisions to This Fiscal Year's Forecast

- **Alpha-Win Research Dept. revised sales for this fiscal year slightly downward. Profit was kept the same, having judged that the downside risk is low due to strengthened cost control. Predicts profits to be about the same level as the Company's plan.**
- **Risk factor: prolonged impact of COVID-19 such as a second wave**

Based on the H1 results and interviews with the Company, we made a small downward revision to this full fiscal year's sales. However, we did not change the forecast for this year's profit. The potential prolongation of economic stagnation in Japan due to a second wave of COVID-19 remains a risk factor.

The Company's sales forecast of Y2.7 billion seems to be within an achievable range as long as the new businesses contribute to the results as expected. However, we revised the forecast to a more conservative one concerning the impact of COVID-19 and the sales of the Professional business and the EC platform business.

On the other hand, with regard to the profit forecast, even if sales fall somewhat short of the target for AD EBiS (including ADPLAN) and the new business development, we believe that there is unlikely to be a large downside risk in profit for the following reasons.

・The Company's subscription-based business model allows it to firmly and steadily accumulate profit (in H2, ADPLAN will fully contribute).

・It is gradually strengthening its control over various expenses. For instance, it revised the fees paid to agencies (reviewed the system concerning distributing agents).

Assumptions used in our full-year forecast are as follows, although they have not changed significantly since the previous forecast.

Assumptions for Sales

・We had expected the number of accounts (annual average) of AD EBiS to increase by 4% YoY with customers switching from ADPLAN, but we revised this upward by about 1% after taking into account the current situation. For the unit price, we had expected a rise of about 17% but revised this upward to about 27% since the price revision has been more effective than we had anticipated. As a result, we revised AD EBiS's sales slightly upward.

・For the new businesses including the Professional Service, although the Company had planned for their expansion, progress seems to be somewhat delayed partly due to COVID-19. Therefore, we made a conservative sales prediction.

・In sum, we revised our sales prediction for the marketing PF (platform) from Y2,470 million (27% growth) to Y2,400 million (23% growth).

・For the EC PF, we had forecasted EC-CUBE's sales to be Y280 million, but revised this to Y250 million, which is about the same as the previous fiscal year.

・We had predicted full-year sales to be Y50 million greater than the Company's forecast, but revised this to account for the H1 results and the factors explained above (previously predicted Y2,750 million → now predicting Y2,650 million).

Assumptions for Profit

・Since the Company revised its system concerning distributing agents, we expect that the fee rate will gradually improve in H2 of the current fiscal year and the next fiscal year, leading to an improvement in the profit margin over the next year or so by a few points.

・Starting this fiscal year, the Company will be subject to a normal corporate tax rate.

・Sales and various costs associated with company or business acquisitions (e.g. goodwill amortization and fees related to new acquisitions) remain uncertain. Whether such events will occur and how they will be recorded in accounting will affect profit and loss. However, we believe that there will be no additional M&A this fiscal year in H2.

【 Figure 21 】Alpha-Win Research Dept.'s Forecast for This Fiscal Year and Over the Medium Term

(million yen)	FY 2018 A	FY 2019 A	FY 2020 CE	FY 2020 E	FY 2021 E	FY 2022 E
Sales	1,805	2,204	2,700	2,650	3,010	3,390
Marketing PF	1,530	1,951		2,400	2,750	3,120
EC PF	274	253		250	260	270
Gross Profit	1,190	1,561		1,830	2,100	2,400
Gross Margin	65.9%	70.8%		69.1%	69.8%	70.8%
SG&A Expenses	1,289	1,476		1,630	1,800	2,020
% over sales	71.4%	66.9%		61.5%	59.8%	59.6%
Operating Profit	-98	85	200	200	300	380
% over sales	-5.5%	3.9%	7.4%	7.5%	10.0%	11.2%
Recurring Profit	-115	79	190	190	300	380
% over sales	-6.4%	3.6%	7.0%	7.2%	10.0%	11.2%
Net Profit	-89	-35	130	130	200	255
% over sales	-4.9%	-1.6%	4.8%	4.9%	6.6%	7.5%
KPI	Annual Average (A)	Annual Average (A)		Annual Average (E)	Annual Average (E)	Annual Average (E)
AD EBiS: # of active accounts	1,476	1,486		1,500	1,550	1,600
% change for the above		0.7%		0.9%	3.3%	3.2%
AD EBiS: average unit price (yen)	78,938	98,517		125,000	135,000	145,000
% change for the above		24.8%		26.9%	8.0%	7.4%
Sales (YoY growth rate)	5.0%	22.1%		20.2%	13.6%	12.6%
Marketing PF	21.9%	27.5%		23.0%	14.6%	13.5%
EC PF	-41.1%	-7.6%		-1.3%	4.0%	3.8%
Gross Margin (diff. from last FY)	-0.3%	4.9%		-1.7%	0.7%	1.0%
SG&A Expense (growth rate)	25.1%	14.5%		10.5%	10.4%	12.2%
Operating Profit (growth rate)	To loss	To profit		135.5%	50.0%	26.7%
Recurring Profit (growth rate)	To loss	To profit		140.4%	57.9%	26.7%
Net Profit (growth rate)	To loss	Smaller loss		To profit	53.8%	27.5%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) CE is the Company's forecast/estimate. AD EBiS's average unit price and number of active accounts used in our forecast/estimate (E) are average values for the fiscal year and differ from the values announced by the Company (which are averages of the values at the end of the last month of each quarter). The actual result (A) is the simple average of figures at the end of each quarter.

8. Growth Strategy

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

- **Aims to create a solid domestic foundation over the medium term and expand globally over the long term**

There have been no major changes to the medium- to long-term business plan. The Company has been steadily executing measures in line with its plan. It has been developing its business according to 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 exceptionally large market share in Japan and then develop our business globally to become a company with a strong presence."

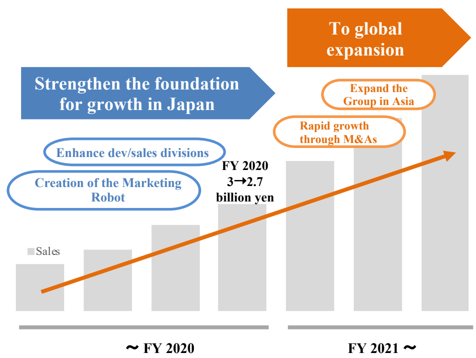
- **Conducting business under the Marketing Robot growth strategy. The sales target for FY 2020 (medium-term plan) was revised from Y3 billion to Y2.7 billion.**
- **Actively cooperating with other companies**

Medium-Term Strategy

The Company's medium-term goal in the Marketing Robot growth strategy was to achieve sales of Y3 billion in FY 2020 or this fiscal year (+36.1% compared to FY 2019). However, it has recently announced that it had revised this goal to Y2.7 billion considering the current situation (Figure 22). The Company has already finished forming new alliances with 31 other companies for the purpose of accelerating business development. It has been developing its business with a focus on developing and creating the Marketing Robot and strengthening the marketing & sales division.

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

【 Figure 22 】Medium- to Long-Term Plan



(Ref) Supplemental briefing materials, partially added and reworked by Alpha-Win Research Dept.

Long-Term Strategy

As its long-term strategy (from FY 2021 to FY 2023), the Company plans to increase development and sales sites mostly in Asia. Also, the Company intends to accelerate its growth not only through organic growth but also through M&As, alliances, etc. However, specific targets such as those for the sales breakdown and the actual means for achieving the targets have not been announced. Since the Company has been raising funds ahead of plan, if the economic situation returns to normal, it may continue to actively conduct M&As or acquire businesses from other companies in the next fiscal year and onward.

The cost structure of the marketing platform, its core business, had been controlled in four parts, but it now consists of five with the addition of "new business development" starting this fiscal year. Medium- to long-term target ratios have been set for each (Figure 23).

Targets of Cost Control

- **Aiming for an operating margin of 10-20% over the medium to long term**

In the medium- to long-term business plan, the Company has not disclosed the target profit values that it plans to achieve. However, it did set the medium- to long-term operating margin target for the main marketing platform business at 10-20%.

- **Cost structure of the main marketing platform business segment is improving**

In the marketing platform business, the Company had achieved high operating margins of around 16-24% from FY 2014 to FY 2016. Then, in FY 2017, because the Company increased the amount of investment related to marketing & sales and the development of software functions, operating margin began to decrease. However, after hitting the bottom in FY 2018, operating margin began to improve. In FY 2019, excluding the customer service expense and other indirect expenses, the ratios of expenses over sales for marketing & sales and development have already reached the target ranges set out in the medium- to long-term plan. Ratios of the customer service expense and other indirect expenses over sales are also expected to decrease proportionately with the completion of investment and sales growth and will likely reach the target range in the next fiscal year or later.

Over the medium to long term, the Company plans to expand sales and significantly reduce the expenses of this business in order to stabilize its operating margin within the range of 10-20%. Since this level of operating magin has already been achieved in the past, the Company is likely to be able to achieve it again. The lower end of the target range – an operating margin of 10% – may become achieved next fiscal year depending on the success of cost control. This H1's operating margin was 5.8% and the full-year forecast is 7.4%. An operating margin close to the 10% goal would have been achieved if the Company had not allocated 4% of its resources to new business development in H1.

【 Figure 23 】Cost Structure of the Marketing Platform (MPF) Business (actual and medium/long-term targets)

Marketing PF's Expense-to-Sales Ratio	FY 2016	FY 2017	FY 2018	FY 2019	Q2 FY 2020	Medium- to Long-Term Targets
Marketing and Sales	24%	UP 28%	UP 33%	26%	24%	25-30%
Development	21%	UP 24%	UP 36%	29%*2	31%	25-30%
Customer Success (old name: "support")	11%	11%	11%	UP 17%	15%	10-15%
New Business Development	—	—	—	—	UP 4%	5%
Other Indirect Exp.	24%	25%	28%	26%*1	20%	15-20%
Operating Profit	20%	12%	-8%	2%	6%	10-20%

*1: Due to increased allocation of common expenses to the segment following the sales decline of the EC platform caused by business restructuring
*2: Due to transfer of operation staff from Development to Customer Success

UP: Increased from strengthening the category

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

◆ Alpha-Win Research Dept.'s Financial Forecast for the MediumTerm

Revisions to the Medium-Term Forecast

- **Alpha-Win Research Dept. made revisions to its previous medium-term forecast. Sales were revised slightly downward but O.P. and R.P. forecasts were kept the same.**
- **Margins are improving with stronger cost control**

We revised our previous prediction of the medium-term results for the next fiscal year and later (Figure 21 on page 23), but our basic line of thinking has not changed. While we revised up the predicted unit price of AD EBiS, we made a conservative prediction of the growth in the number of accounts. We also predicted only modest values for the marketing platform's sales and the EC platform's sales growth, so the overall sales were consequently revised slightly downward. However, with AD EBiS as the growth driver, sales of the marketing platform are expected to continue to grow at a double-digit rate. Since the effect of cost control is expected to become more prominent in the future, we kept the same forecast for operating profit for each year in the medium-term period. We also revised the net profit based on the assumption that a normal corporate tax rate will start to be applied.

Medium- to Long-Term Growth Potential

- **Double-digit sales and profit growth expected over the medium term.**

We believe that the Company will announce the next medium-term business plan at the same time as the announcement of this fiscal year's results around November 2020, along with the forecast for next fiscal year (FY 2022). Over the medium to long term, as the advertising effect measurement market expands, we expect that the Company's exceptionally high share and high reliability will help AD EBiS's unit price to continue to grow and its number of active accounts to increase modestly, thereby contributing to business expansion. In addition, the growth potential of its businesses is large, since the Company can up-sell and cross-sell its products as well as offer new services to its existing customers through distributing agencies. With these factors as the growth driver, we anticipate an annual sales growth of 15 to 20% over the medium to long term.

In terms of profit and loss, since the upfront investment phase has settled down and the Company is starting to shift from sales-focused to cost- and profit-focused management, and since its business has a high marginal profit ratio (estimated to be 70%), we expect to see a clear V-shaped recovery as the Company begins to consecutively post net profits with its sales growth.

We are expecting a high annual profit growth rate (on a normalized basis) of 20-30%, which is greater than the sales growth rate. So far, the Company has been steadily expanding its business in line with its plan, so we believe that dividend payment may be resumed within the next two to three years. Over the medium term (about three to five years), record-high profit may be achieved and the shareholder benefit plan may come back.

Points to Keep Note of Regarding the Medium- to Long-Term Forecast

- **Whether there will be M&As or business acquisitions and whether they will be successful are points that may affect the results. Over the medium to long term, the Company hopes to maintain a net profit.**

Going forward, the Company is expected to actively conduct upfront investments in its core and peripheral businesses in preparation for future growth, although this will probably happen after the COVID-19 crisis ends. The Company has shown an eager attitude toward increasing competitiveness, increasing market share, and expanding into peripheral fields, so it may continue to engage in M&As, business alliances, and business acquisitions in the future. Therefore, whether these measures will be taken, whether they will succeed, and how much they will contribute to profit will likely influence the medium- to long-term sales and profits. Financial performance will also be affected by the Company's success in cost control and how much effort it puts into achieving the bottom line of its targets. However, even if it conducts upfront investment in the future, the Company hopes to still keep a net profit.

9. Analyst's View

◆ Shareholder Return

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 per year. In FY 2017, dividend was paid for the third year in a row, again at Y5.0 yen per share (Figure 24). However, in FY 2018 and FY 2019, no dividend was paid since a net loss was posted consecutively for those years, and the Company also abolished the shareholder benefit plan.

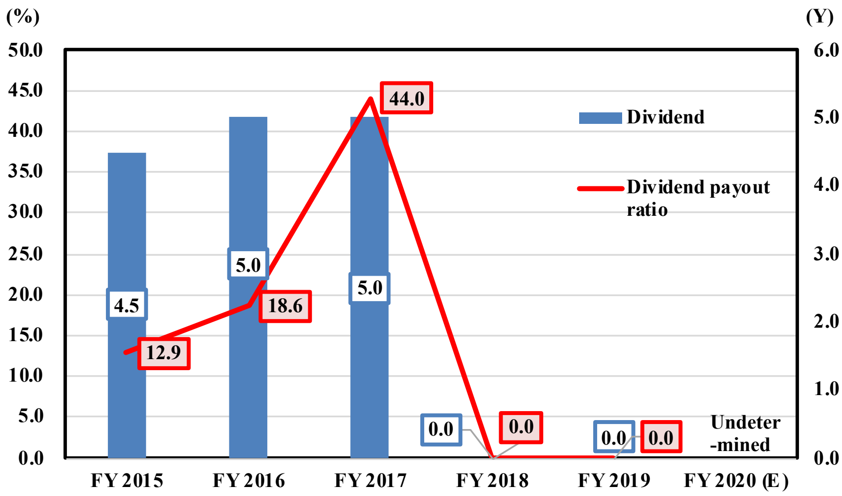
- **Most likely to be no dividend gain this fiscal year. Dividend is expected to be resumed in the fiscal year after the next or later.**

Since the Company is currently in its growth stage, rather than letting its cash flow out through dividend and benefit plans, it hopes to increase shareholder value by focusing on investments for future growth to recover its financial performance.

- **Hopes to increase shareholder value through recovery of financial performance**

Dividend for this fiscal year is undetermined, and dividend payment and the shareholder benefit plan are unlikely to be resumed in the short term. We believe that dividend payment may possibly be resumed in FY 2022 (the fiscal year after the next).

【 Figure 24 】 Change in Dividend and Dividend Payout Ratio



(Ref) Prepared by Alpha-Win Research Dept.

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

Stock Price and Trend

The Company's stock is a small-cap, AdTech[14]-related stock listed on TSE Mothers. Since becoming listed, the volatility of its stock price has been high (max of 5,260 yen in May 2016 and min of 677 yen in August 2016).

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

- **Highly volatile stock price. Has been solid in the recent rebound due to the solid financial performance.**

When the Company's financial performance was worsening, its stock price gradually fell, but has been bottoming out with the recovery of earnings. Over the past three years, the stock price has been within the range of about 1,000 to 2,000 yen. The downside risk has become lower since the recent financial performance in January to April 2020 has been firm, the Company did not make revisions to its full-year forecast despite the difficult economic situation caused by COVID-19, a V-shaped profit recovery is become more likely, and the COVID-19 crisis is anticipated to settle down. In the rebound phase after

- **Solid performance after bottoming out from the recent low**

the plunge in stock price due to COVID-10 (from 3/16, the most recent low based on the closing price, to 5/29), the Company has been outperforming TSE Mothers and TOPIX (Figure 25).

【 Figure 25 】Comparison of Performance Since the Most Recent Low (based on the closing price)

2020	Mar 16	May 29	Performance
YRGLM	750.00	1328.00	77.1%
TSE Mothers	559.54	982.43	75.6%
TOPIX	1236.34	1563.67	26.5%

(Ref) Prepared by Alpha-Win based on stock data.

Valuation

- **The Company's valuation does not seem cheap based on this FY's figures. Going forward, stock price will be influenced by medium-term profit levels.**

Based on this fiscal year's figures, the Company's valuation does not seem cheap compared to other similar companies. As a reference, we compared the overall scale, business content, and valuation of 24 companies listed on the market, including the Company, under the AdTech category or with a business partly similar to the Company's (Figure 26 on page 29).

(15) 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.

In this comparison, as far as P/E, P/B, P/S[15], and dividend yield based on this fiscal year's figures (estimates by each company) are concerned, the Company's valuation does not seem cheap. We believe that this is because the current stock price already reflects the anticipation of growth in business performance over the medium term to some extent. As the Company begins to turn a net profit and becomes subject to a normal corporate tax rate, comparison of its P/E with other companies become possible. We should then take into consideration the valuation based on the expected EPS for next fiscal year and the year after the next when considering investments (our predicted P/E in our forecast is 41.9 for next fiscal year and 32.9 for the year after that).

Upcoming Key Points

- **For now, key points include the monthly sales, quarterly trends (profit/loss and AD EBiS's unit price and number of active accounts), M&A, and when dividend becomes resumed.**

Looking ahead, factors that may affect stock price are the changes in monthly sales (YoY), quarterly trend (profit growth rate, profit margins, and AD EBiS's average unit price and number of active accounts), announcements of M&As or alliances or new functions, launching of new services or products, contents of the next medium-term business plan to be announced, the next medium-term profit forecast, and whether dividend will be resumed.

- **Growth potential seems large, being able to benefit from market expansion.**

Over the medium to long term, since the Internet advertising market is expected to keep growing, the Company's Marketing Robot business has a large growth potential. The Company's position in the market will most likely let it benefit from such market growth. Going forward, we hope to see the Company grow as an AdTech-related and domestic-demand-related growth stock that is unlikely to be directly affected by COVID-19, trade wars, and exchange rates.

【 Figure 26 】 Comparison of Similar Companies (24 companies related to AdTech)

AdTech-Related Companies		Markets: TSE1=TSE 1st Section, TSE2=TSE 2nd Section, TM=TSE Mothers, JQS=JASDAQ		Unit: million yen			%	Ratio			%	Closing Price (5/29)
Code	Company Name	Business Area	Market	Market Cap.	Sales	O.P.	O.P. Margin	P/S	P/E	P/B	Dividend Yield	Stock Price
2159	Full Speed	Internet marketing, AdTech (Internet Ad delivery tech)	TSE2	6,618	21,400	1,350	6.3	0.31	8.71	1.62	0.00	425
2389	OPT Holding	Internet ad agency / ad measurement tool	TSE1	36,417	ND	ND	-	-	-	1.44	0.00	1,529
2461	F@N Communications	Affiliate (pay-per-performance) ad	TSE1	36,619	34,300	3,750	10.9	1.07	13.82	1.81	3.99	476
2491	ValueCommerce	Affiliate (pay-per-performance) ad	TSE1	92,865	30,000	5,500	18.3	3.10	24.17	7.28	1.26	2,694
3134	Hamee	Mobile accessories / EC cloud support	TSE1	20,700	11,288	1,427	12.6	1.83	20.95	4.25	0.51	1,284
3655	BrainPad	Internet marketing, data analysis	TSE1	36,424	6,600	1,080	16.4	5.52	44.42	9.45	0.00	4,945
3688	CARTA HD	Ad platform	TSE1	27,305	23,000	2,500	10.9	1.19	17.06	1.17	1.49	1,073
3690	YRGLM Inc.	Internet ad measurement tool	TM	8,463	2,650	200	7.5	3.19	64.40	7.37	0.00	1,328
3853	Asteria	Packaged software	TSE1	8,921	ND	ND	-	-	-	1.81	0.00	510
3923	RAKUS	Cloud service, Email delivery, IT engineer dispatching	TM	195,079	ND	ND	-	-	-	37.57	0.15	2,153
4293	SEPTENI HD	Internet ad agency, smartphone marketing support	JQS	30,423	17,000	1,250	7.4	1.79	38.49	1.83	0.91	219
4395	Accrete	SMS delivery service	TM	4,799	1,650	300	18.2	2.91	23.28	4.46	1.15	869
4751	CyberAgent	Internet ad agency, smartphone, games	TSE1	686,496	465,000	30,000	6.5	1.48	76.08	8.62	0.61	5,430
4784	GMO AD Partners	Internet ad agency and related platform	JQS	6,703	36,000	280	0.8	0.19	32.10	1.29	1.58	400
6026	GMO TECH	App-installation-type charging ad, SEO	TM	1,708	3,100	50	1.6	0.55	85.42	2.11	0.59	1,552
6038	iid	Contents marketing platform	TM	4,175	5,200	200	3.8	0.80	31.27	1.33	0.00	834
6045	Rentracks	SNS-related marketing support	TM	3,812	9,758	169	1.7	0.39	53.41	1.81	1.88	478
6081	Allied Architects	Internet ad delivery (DSP)	TM	4,353	4,556	101	2.2	0.96	-	2.83	0.00	310
6094	FreakOut HD	Pay-per-performance ad agency	TM	19,427	27,000	200	0.7	0.72	-	4.23	0.00	1,221
6175	Net Marketing	Digital marketing for companies	TSE1	10,089	ND	ND	-	-	-	3.79	0.88	682
6533	Orchestra HD	Internet ad agency, media monetization support	TSE1	11,794	11,300	600	5.3	1.04	31.87	8.25	0.54	1,288
6550	Fringe81	Web marketing support for mid-tier companies/SMEs	TM	5,940	7,295	-525	-7.2	0.81	Loss: NA	6.17	0.00	602
6553	SoldOut	Automatic trading of media ad space, AdTech biz	TSE1	23,205	23,000	800	3.5	1.01	-	7.69	0.00	2,218
6562	Geniee	Automatic trading of media ad space; Adtech biz	TM	11,547	ND	ND	-	-	-	4.55	0.00	643
24 AdTech-related companies: simple average				55,754	38,952	2,591	6.7	1.52	37.70	5.53	0.65	

(Ref) Prepared by Alpha-Win Research Dept. from the companies' websites, securities reports, financial results summaries, and financial results briefing materials.
(Note) Generally, each company's forecasted values as of their latest financial results announcement (latest quarterly financial results) or the most recent actual results (BPS, etc.) were used (based on data disclosed and available as of May 29). For forecasts disclosed as ranges, the median was generally used for calculations. For the Company, Alpha-Win Research Dept.'s estimates were used. For other companies, in the case that sales, operating profit, EPS, or planned dividend are not disclosed, they were marked with "ND" (not determined) or "-". The average was calculated using only valid figures.

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Disclaimers

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