


 <p>Yuzuru Honda Founder &amp; Global CEO</p>	FreakOut Holdings, inc. (6094)
	

## Company Information

Exchange	TSE Mothers
Industry	Service
President	Yuzuru Honda
Address	Roppongi Hills Cross Point, 6-3-1 Roppongi, Minato-ku, Tokyo
Year-end	End of September
URL	<a href="https://www.fout.co.jp/">https://www.fout.co.jp/</a>

## Stock Information

Share Price	Number of Shares Issued		Total Market Cap	ROE (Actual)	Trading Unit
¥1,863	15,760,360 shares		¥29,361 million	0.6%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥0.00	-	¥35.23	52.8x	¥319.12	5.8x

\* The share price is the closing price on May 17<sup>th</sup>.

The number of shares issued is from the brief financial report for the latest period.

ROE and BPS are the values from the previous term.

## Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Sep. 2015 (Actual)	4,217	96	95	65	5.23	0.00
Sep. 2016 (Actual)	5,792	358	561	394	30.72	0.00
Sep. 2017 (Actual)	12,019	601	1,208	842	64.12	0.00
Sep. 2018 (Actual)	14,745	-532	307	25	1.94	0.00
Sep. 2019 (Estimated)	19,000	100	200	undecided	undecided	0.00

\*The forecasted values were provided by the company. On Sep. 1, 2016, the company conducted a 2-for-1 stock split.

EPS was adjusted retroactively.

This Bridge Report presents an overview of FreakOut Holdings, inc.'s earnings results for the first half of the term ending September 2019, and more.

## Table of Contents

### [Key points](#)

#### [1. Company Overview](#)

#### [2. First half of Fiscal Year September 2019 Earnings Results](#)

#### [3. Fiscal Year September 2019 Earnings Estimates](#)

#### [4. Progress of Each Business](#)

#### [5. Conclusions](#)

[<Reference: Regarding Corporate Governance>](#)

## Key Points

FreakOut Holdings, inc. is a marketing technology company that helps advertisers convey the right message to the right consumers at the right moment, with its cutting-edge technology based on artificial intelligence (AI). The company mainly operates “Demand Side Platform (DSP),” a platform for purchasing and distributing online ads effectively for maximizing the profits of advertisers (including ad agencies), and conducts the “DSP business” for offering OEM services. Its major strengths and characteristics include “holding vast amounts of data,” “capability of securing good-quality ad space,” and “active investment for developing a superior algorithm.” The company’s philosophy is to “Give People Work That Requires A Person” with its technologies in various fields not limited to advertising, and to contribute to the development of a creative society.

For the first half of the term ending September 2019, compared with the same period last year, sales increased 31.6%, ordinary loss stood at 288 million yen (which was ordinary income of 355 million yen in the same period of the previous term), and EBITDA decreased by 85.5%. In the second quarter, while business overseas was stagnant due to the seasonal factors, business in Japan grew significantly, boosting sales on a steady and continuous basis. Regarding profit, the rising labor cost resulted in operating loss, and profit in the affiliated companies accounted for by the equity method showed a significant decrease.

The business results of FreakOut Holdings, inc. this term was unsatisfactory at first glance as demonstrated by the facts that operating loss widened considerably and non-operating profit from investment gain on equity method shrank greatly; however, while the business performance overseas was sluggish owing to seasonal factors, the regrowth of Intimate Merger Inc. of the DMP business in Japan is worthy of attention. Furthermore, the company achieved only 47.5% of the full-year sales estimate, but taking into account the sales growth in the past and an expected inclusion of the proceeds from Playwire, LLC in and after the third quarter, the actual results are projected to exceed the estimate. In addition, the company is steadily making preparations behind the scenes for the next term. Under such circumstances, the company announced conclusion of a capital and business alliance with ITOCHU Corporation, and we expect that this will gradually make contributions to revenue. As for profit, the company is selecting and focusing business, and we also expect that it will successfully attain its medium-term goals. Although the company revised the business forecast downwardly following the dissolution of M.T.Burn, Inc., it is considered as expected as part of the business reconstruction approach to achieving sales and profit next term. Therefore, we think that this would not be a significantly negative factor from the medium-term perspective.

## 1. Company Overview

FreakOut Holdings, inc. is a marketing technology company that solves advertisers' challenges of conveying the right message to the right consumers at the right moment with its cutting-edge technology using AI (artificial intelligence). Its chief business is the "DSP business," including the operation of "DSP (demand-side platform)" – a platform that enables advertisers and advertising agencies to buy Internet advertisements efficiently and distribute them to maximize profit – and OEM.

Its major strengths and characteristics include "holding vast amounts of data," "capability of securing good-quality ad space," and "active investment for developing a superior algorithm."

The company's philosophy is to "Give People Work That Requires A Person" with its technologies in various fields not limited to advertisement, and to contribute to the development of a creative society.

### 【1-1 Corporate History】

FreakOut was founded in October 2010 by its Founder & Global CEO Yuzuru Honda, an engineer with the previous experience of engaging in advertising businesses at Yahoo! Japan Corporation, who wanted to bring about a game change in advertising in Japan by introducing RTB(Real-Time Bidding) - a distribution method that automatically trades advertisement spaces in the form of bidding according to the number of times an Internet advertisement is displayed -, which already became a norm in the USA about a year earlier than in Japan. Joined the start-up by the Representative Director, Yusuke Sato, also an engineer who worked on advertisement products at Google Japan, the company was the first in Japan to commercialize the RTB technologies in January 2011.

Helped by the feature of high sensitivity to new products of the advertising industry, the company gained numerous corporate clients soon after its launch while its customer satisfaction level has remained high, pushing both its sales and profits constantly upward. In June 2014, the company was listed on TSE Mothers in less than four years after its founding.

In January 2017, the company changed its structure to a holding company to actualize faster decision-making and more dynamic business development.

2010	Oct.	FreakOut is established.
2011	Jan.	Released DSP FreakOut using RTB technology, the first of its kind in Japan.
2012	May	Launched service for smartphones.
2013	Jun.	A joint venture (currently a consolidated subsidiary) “Intimate Merger, Inc.” is established.
2013	Oct.	Launched a video advertisement distribution service using videos hosted on YouTube.
	Dec.	A joint venture “M.T. Burn, Inc.” is established with LINE Corporation.
2014	Jun.	Listed shares on TSE Mothers.
	Jun.	M.T. Burn released AppDavis (currently renamed Hike), a native advertising platform.
2016	Jan.	Started a system connection through RTB with Hike provided by M.T.Burn, Inc.
	May	Released RED, a mobile marketing platform.
2017	Jan.	The company changed its structure to a holding company, and was renamed FreakOut Holdings, inc.
	Mar.	Gardia, Inc. is established, and enters the Fintech field.
2019	Jan.	The advertising businesses operated in Japan and abroad are integrated.
	May	M.T.Burn, Inc. is dissolved.

### **【1-2 Philosophy】**

FreakOut’s philosophy is “Give People Work That Requires A Person.”

As shown in the corporate history section, the company has its origin in the first commercialization of real-time transactions of Internet advertisements in Japan, with the aim of gradually changing the system of advertising transactions from manual operations to inter-computer transactions.

With the use of technologies, advertisers are now able to communicate with each and every consumer, approaching the true 1-to-1 marketing that was not possible with conventional mass-advertising.

At the same time, the “people” engaged in the advertising business are becoming freer from the transaction-related chores, and instead they are now able to dedicate more time to creative works such as planning more human-like communications and creating sympathetic messages.

The company believes its mission to be “generate *surplus labor* (the time for people to dedicate to their creativity) by letting computers do what they are good at.”

The company is striving to contribute to a more creative society by “Giving People Work That Requires A Person” through the use of its advanced technologies in more diverse fields than just advertising.

### **【1-3 Overview of the Internet Advertising Market】**

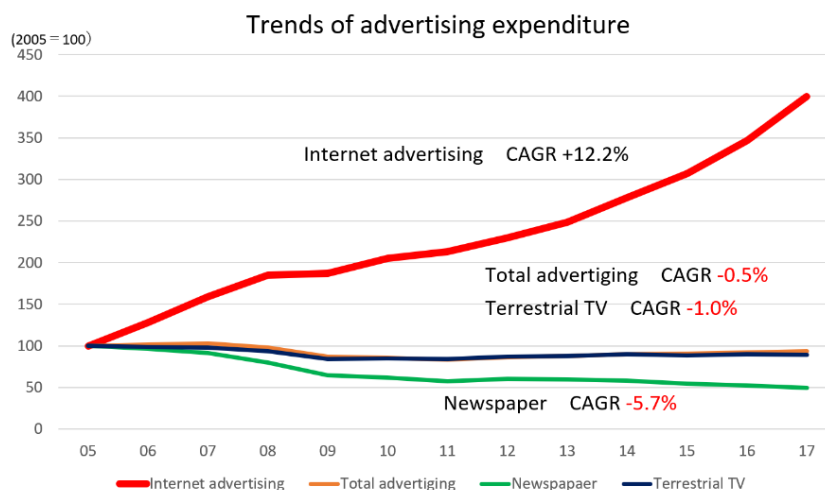
To understand FreakOut’s businesses, it is necessary to have some knowledge of environmental and constituent elements surrounding the operation of the “Internet advertisement,” such as the changing needs of advertisers and media, and advertising markets, as well as the technologies and the main players. A few essential points are outlined below.

### « Changing advertising market »

In the conventional advertising market, especially with the advertising businesses that exploited the mass media such as television and newspapers, monopolization and exclusivity of stock were of paramount importance in terms of business development for the supply side (i.e. the media and advertising agencies). Major advertising agencies would have a near-total monopoly over the limited television ad spaces, enabling them to hold onto their pricing leadership against advertisers to continually generate huge profits in tandem with the media.

However, with the end of the era of strong economic growth and the advent of Internet advertising characterized by its interactivity and low-cost, compared to the conventional media, the demand for mass advertising via TV and newspapers is apt to decline.

As shown in the graph below, while Japan's total advertising spending has not grown in the last 10 years, Internet advertising expenses of 377.7 billion yen in 2005, which was less than 20% of Terrestrial TV and 40% of Newspapers, has grown 12.2% per year on average and reached 1,509.4 billion yen in 2017, which was 80% of Terrestrial TV and 30% of Newspapers. (Data from Dentsu "Japan's Advertising Market in 2017")



Meanwhile, the needs from advertisers for even more effective advertisements keep growing, creating a significant challenge in delivering “the right message” to “the right consumers” at “the right moment.”

In this situation, there appeared a marketplace with open advertisement space called “Ad Exchange.” This is indeed a “marketplace” in which advertisers, the media and advertising agencies can freely trade advertisement space. For advertisers, this means that it has become even more important that they buy optimal advertisement space for an even better advertisement performance and one of the key technologies that enable this is “RTB,” which was commercialized by the company for the first time in Japan.

### «Real-time transaction of advertisement space through RTB»

RTB (Real-Time Bidding) is a distribution method that performs automatic transactions of advertisement space through bidding per impression (the number of times an advertisement is displayed).

Before RTB debuted, “a pure advertising transaction” was the norm. This was, as it were, a ‘set menu’ in which the space for display advertisements (advertisements utilizing images, flash, videos, etc. displayed on websites) were sold to the media and advertising agencies as a package with impression guarantees and period guarantees attached.

In contrast, RTB analyzes the attributes of the user who accessed a display advertisement per impression, and performs a transaction by bidding as “an advertisement for a user with specific attributes” per impression.

The RTB technologies enable advertisers to engage with potential consumers whom it was previously difficult to reach through conventional pure advertising (buying advertisement space of specific websites at a pre-fixed price) or search advertising (relating to the keywords searched), and also make it possible to take recognition measures through a more effective advertisement distribution to elicit further interests and curiosity of users.

#### How RTB works

- ① At the instant when an Internet user visits a website with advertisement space, Ad Exchanges, SSP, \*adnetworks, or other systems that manage the advertisement space send out visiting user information and advertisement space information (bidding request) to multiple DSP operators.
- ② Each DSP operator analyzes the database and bidding is carried out.
- ③ The DSP operator that wins the bid for the advertisement space distributes the space.
- ④ As soon as the auction is completed, the company buys the advertisement space from the SSP, etc. and distributes the advertisement space with a new price adding price margin on top of the bidding price.

\*Adnetwork: advertisement space from multiple media sites are united as a network so that advertisement sales and distribution can be integrally managed in order to generate profits.

“RTB” requires two main players: “DSP (the demand-side system)” and “SSP (the supply-side system)” of advertisement space.

#### What is DSP (Demand Side Platform)?

DSP is a platform on which advertisers and advertising agencies can effectively purchase and distribute Internet advertisements so that they can maximize their profits.

More specifically, it is a platform where advertisers and advertising agencies perform an automatic bidding transaction and advertisement distribution *per impression* utilizing the RTB technologies and their own algorithms with Ad Exchanges, SSP, adnetworks and others.

Advertisers first determine the attributes of their target users and the maximum bidding price, and when a user who satisfies their criteria is found, bidding is instantaneously (within roughly 0.05 second) carried out and the advertisement with the highest bid is distributed on the medium.

Before RTB appeared, advertisers were forced to make an assumption as to which websites might be visited by the target users and then purchase specific advertisement slots at a pre-fixed price. However, DSP enables advertisers to make an assessment in real-time about the user to whom they want to distribute an advertisement. Furthermore, the advertisement can be distributed at a reasonable price through the bidding process, optimizing the cost effectiveness of the advertisement for the advertisers.

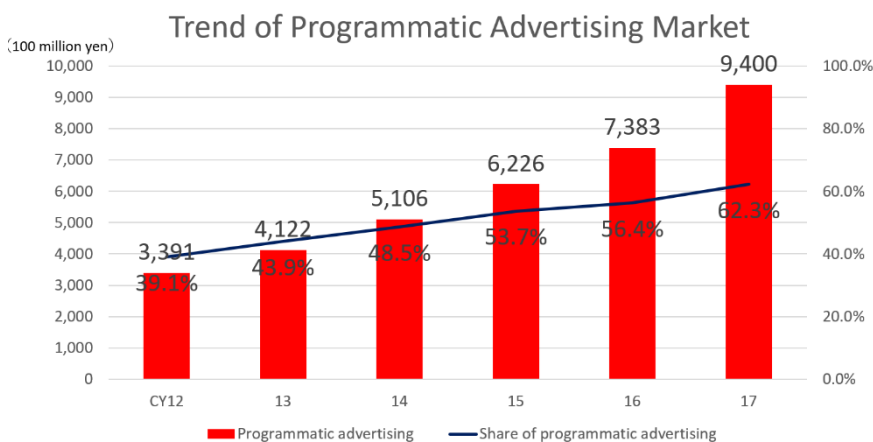
FreakOut's main businesses are the sales of its uniquely developed DSPs "Red" and "FreakOut" as well as the "DSP business" that supplies OEM.

To be able to regularly distribute advertisements to the right users and bid at the best price requires building highly advanced algorithms and training the AI (artificial intelligence) to be "even more intelligent" through repeated machine learning based on vast amounts of data. The company has a powerful competitive advantage on this matter (for more details, please refer to 【1-6 Characteristics & Strengths】).

### What is SSP (Supply Side Platform)?

SSP is a system that supports the maximization of advertisement effectiveness from the viewpoint of the media. It is a platform used by the media to manage and sell advertisement space and has the technologies to respond to real-time biddings from DSP.

This type of cost-effective advertising, based on the RTB technologies, which cleared the hurdles of optimization that were difficult to realize with conventional pure advertising is termed "performance-based advertising" and it is growing at a speed that is faster than that of Internet advertising as a whole. In 2017, slightly more than 60% of Internet advertising in Japan was performance-based advertising.



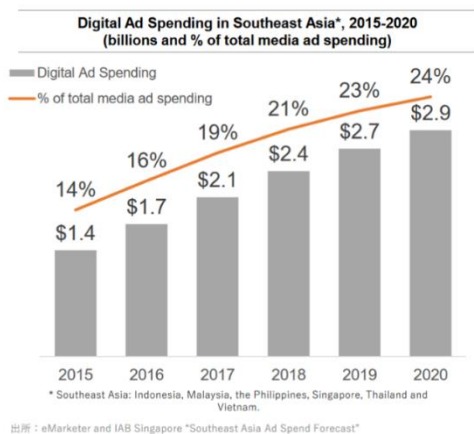
(Data from Dentsu "Japan's Advertising Market in 2017")

\*Performance-based advertising: an advertising method which utilizes platforms that employ ad technologies processing vast amounts of data to provide automatic or instantaneous optimization of advertising. In addition to search engine advertising and some ad networks, major types include recently developed demand-side platforms (DSPs), ad exchanges, and supply-side platforms (SSPs). Performance-based advertising does not include ad space sales, tie-up ads, or affiliate advertising

The company's RTB commercialized in Japan is currently only less than 10% in size of its US counterpart, but it is growing rapidly.

As seen here, “performance-based advertising” based on the remarkably fast-growing RTB technologies even within the Internet advertising, the sector showing the highest growth compared to the other media, is the company’s main field. It is assuredly capitalizing on the robust demands and expanding its business operations.

In addition, while the company is actively working on expanding the overseas business mainly in Southeast Asia, as described later, the proportion of digital advertising expenses in the advertising market in each Southeast Asian country including Taiwan is also rising and the market is expanding continuously.



	2015	2016	2017	2018	2019	2020
Taiwan	30.1%	35.8%	40.4%	44.6%	48.1%	51.0%
Singapore	16.9%	20.3%	23.8%	27.2%	29.6%	30.8%
Hong Kong	15.7%	18.4%	20.4%	21.8%	23.1%	24.0%
Malaysia	14.3%	17.0%	19.7%	22.3%	23.9%	25.2%
Philippines	13.1%	16.2%	18.7%	21.0%	22.9%	24.2%
Vietnam	13.0%	16.0%	18.4%	20.6%	22.5%	23.6%
Thailand	12.7%	15.1%	17.5%	19.8%	21.5%	22.7%
Indonesia	12.5%	14.8%	17.1%	18.8%	20.1%	21.5%

出所: eMarketer and IAB Singapore "Ad Spending in Southeast Asia"

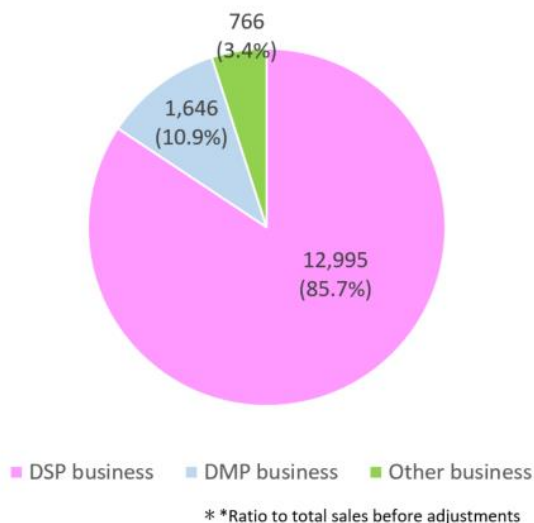
(Reference material of the company)

**【1-4 Business contents】**

1. Business segments

There are three business segments: “DSP business,” “DMP business,” and “Other business.”

Composition of Sales  
(Term ended Sep. 2018; million yen)





① DSP business

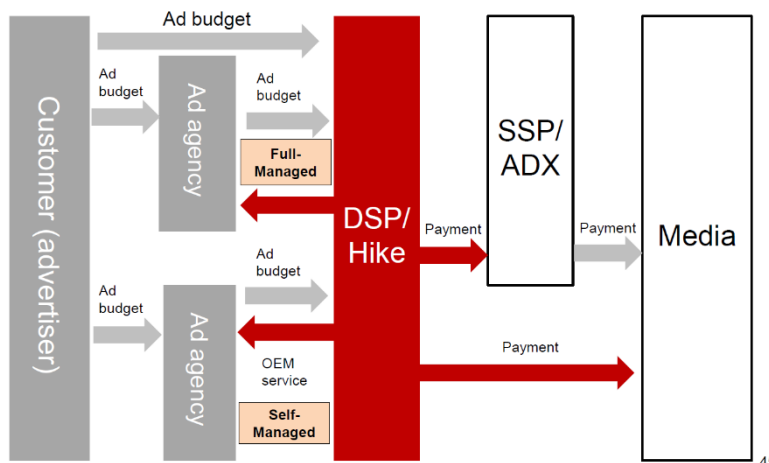
**Business model**

The Group purchases ad spaces through SSPs, ad exchanges, and media, and provides internet ad spaces to advertisers and ad agencies and provides the OEM service on DSP to some ad agencies.

Business Model of DSP Business



In the DSP business, the Group purchases ad spaces through SSPs, ad exchanges, and media, and provides internet ad space to advertisers and ad agencies and provides OEM service on DSP to some ad agencies.



(Reference material of the company)

**Major products and services**

The company aims to maximize the effect of ad distribution via DSP “Red” and “FreakOut,” by utilizing the private DMP “MOTHER,” an original analysis software which analyzes big data such as access data to each advertiser’s website, ad distribution data, membership data, and purchase data.

“Red” and “FreakOut” have various methods for ad distribution, in order for advertisers to target prospective customers. In detail, they distribute ads that choose targets based on the behaviors of consumers using the following methods: (1) methods such as “Audience Expansion” for reaching “those who do not know the advertiser’s products/services (prospective customers),” (2) methods such as “Keyword Match” for reaching “those who know advertisers’ products/services (people who have interests),” and (3) methods such as “Retargeting” for promoting “those who want advertisers’ products/services (expected customers)” to take action by purchasing products, requesting a brochure, getting registered as a member, etc.

Product/service	Outline
Red	<p>Marketing platform specializing in mobile devices, for which the cutting-edge technology for optimizing ad distribution was adopted with the aim of maximizing the effect of ads in the smartphone file, while considering the shift from PCs to smartphones for accessing the Internet, and the excellent stocks of ad spaces have been secured. Released in May 2016.</p> <p>Features:</p> <ul style="list-style-type: none"> <li>▪ Mounted with the cutting-edge original engine for machine learning</li> <li>▪ Exclusive procurement of ad spaces in LINE apps</li> <li>▪ Exclusive procurement of mobile and infeed ad spaces of Hike SSP</li> <li>▪ Securing of mobile and infeed ad spaces worth tens of billions of impressions, one of the largest scales in this field</li> <li>▪ Securing of stocks of mobile ad spaces worth 130 billion impressions per month, one of the largest scales in this field</li> </ul> <p>The company will operate a platform that enables advertisers to reach their target customers efficiently through the mobile media globally in Japan, Southeast Asia, the Middle and Near East.</p>
Red for Publishers	<p>Technology and service package supporting sales, operations, development, and launching unique advertisement platform in terms of administrating the project for Premium Media (media with major traffic) and advertisers. Released in September, 2017.</p> <p>The media owners entrust the task of profit maximization through ad distribution to “Red for Publishers,” so that they can concentrate on improving the content that they should originally be using resources for and attracting customers.</p> <p>Advertisers, too, are able to pursue further maximization of advertising value, which has always been the objective of “Red,” by preferential connection of DSP “Red” to the advertisement space of excellent media owners.</p> <p>In addition to sales from the DSP business, “ad distribution system usage fee” received from the premium media is monetized. The latter contributes to profit largely as 100% of that fee becomes gross profit.</p>
Freakout	<p>Developed as the Japan’s first DSP in 2010. Used for a variety of purposes, including the promotion of brand recognition and sales.</p>
Poets	<p>Premium advertising platform that can provide advertisement experiences without compromising the user experience by utilizing an advertisement format highly compatible with the content UI.</p> <p>Because it possesses carefully selected media that can be expected to maximize advertisement effectiveness in direct response,</p>

	advertisers can obtain high advertisement effectiveness according to the target KPI through a format that matches with the content. In addition, it will use advertisement distribution technology of Red for Publishers to match media advertisers with high tender offers.
Trading desk service	Service aimed at improving the outcome of online marketing by advertisers. The company designs online marketing strategies utilizing new marketing technologies and supports the ad management, which is becoming more sophisticated and more complex.

②DMP business

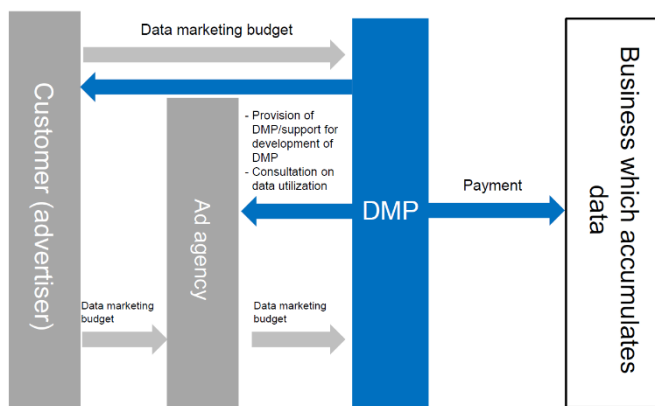
DMP stands for Data Management Platform, which is a data integration management tool for managing and analyzing the data of access to advertisers’ websites, ad distribution, membership, etc. and enabling the use of the data in cooperation with data utilization channels, for email distribution, analysis, surveys, etc.

In order to actualize the optimization of data marketing conducted by client companies and ad agencies, the company collects vast amounts of data from data providers, including media companies and research firms, and stores and analyzes data on DMP to provide the unique DMP for an enormous amount of public data, support the development of the DMP for large-scale portal sites, and offer consulting services utilizing the company’s own data with optimal marketing channels, etc.

Business Model of DMP Business



The Group collects vast amounts of data (such as First Party data, Third Party data, and offline data) from businesses which accumulate data, and stores and analyzes the data on DMP to provide advertisers and ad agencies with DMP, help them develop DMP, and provide them with consulting services on data utilization.



③Other business

This is a new business segment established in the term ended Sep. 2017, as the company shifted to the holdings company system. New businesses and business administration in the group companies inside and outside Japan are included in this segment.

### 【1-5 Group companies】

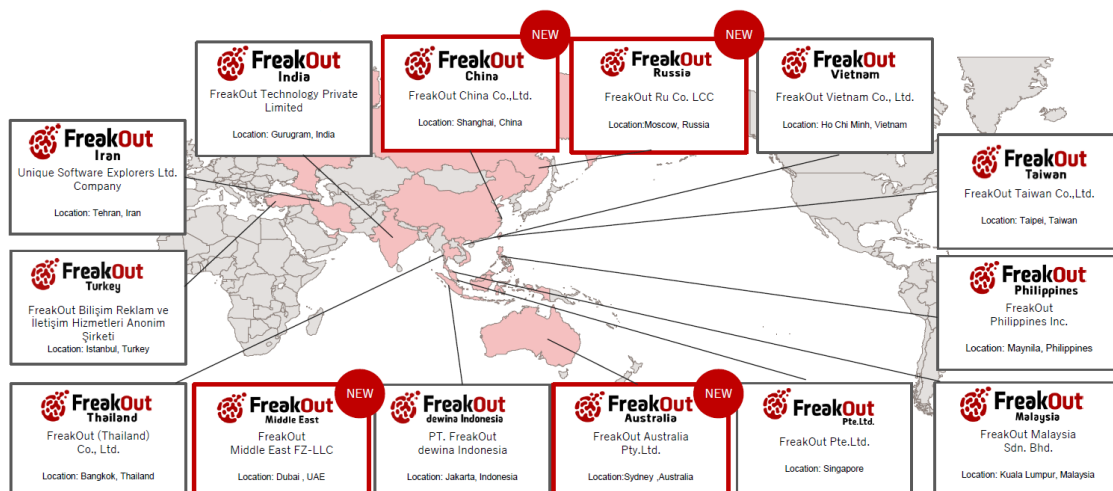
Under the management of the holdings company FreakOut Holdings, inc., establishes the corporate group.

As for the overseas business, they have been mainly operating the native ad platform business with FreakOut Pte. Ltd. (headquartered in Singapore) serving as the headquarters.

Since a native ad platform was released for the first time in Southeast Asia in 2015, the company has formed tie-ups with mainly the leading media in each country, and currently over 700 advertisers use the service of FreakOut.

In July 2017, the company entered the Hong Kong market and established local subsidiaries in Vietnam, Malaysia, the Philippines, India, and Iran as new bases in Southeast Asia, following the existing ones in Singapore, Thailand, and Indonesia. Also, the company actively promotes M&A and forms alliances with the premium media in each country. It also offers the native ad platform in Asia and the Middle East.

It also started business operations in Russia, the United Arab Emirates and Australia in the term ended Sep. 2018. It will provide services in 16 countries around the world, mainly in Asia. Furthermore, it plans to develop several bases in the term ending Sep. 2019.



( Reference material of the company)

### 【1-6 Characteristics and strengths】

As mentioned above, in order to distribute ads to the right users and submit a bid at the best price, it is necessary to develop an extremely advanced algorithm and repeat machine learning based on a large amount of data to actualize “smart artificial intelligence (AI).” At this point, the company possesses a significant competitive advantage. Having good ad spaces is its advantage as well.

#### ①The largest amount of data

Since the company commercialized the RTB technology for the first time in Japan, it possesses the largest amount of data in Japan.

No matter how superior AI is, it will not grow to a practical and effective AI, unless machine learning is repeated with vast amounts of data.

The company, which “knows about smartphone owners the most in Japan”, with accurate data of 3 million users (5%) out of 60 million mobile users in Japan, it is possible to predict the thoughts and behaviors of the remaining 57 million users according to age and gender. Therefore, the satisfaction level of advertisers towards this strength of the company is high.

## ②Securing of good-quality ad spaces

After RTB debuted, the “smartness” of a platform in an open environment has become important, whereas the gap in technology levels shrank over a certain period of time. As a result, the quality and exclusiveness of ad spaces, in particular, became the major competitive conditions in the mobile field again.

## ③Active investment for developing a superior algorithm

For targeting advertisement, it is possible to win a bid by submitting the highest bid. As the company aims to expand sales, it wants to purchase as many ad spaces as possible, but if ad performance is poor, advertisers will not evaluate it highly, which will make it difficult to continue transactions with them.

This indicates that it is essential to produce reasonable results for clients even when the ad cost was high. Therefore, the company has developed “a model for predicting rate of clicking” and “a model for predicting rate of conversion,” boosting the capability of giving proposals to advertisers, and constantly carries out investment for further improving the accuracy of these models.

The data science team of the company has top-level abilities among Japanese mid-sized companies, so their accumulated active investment is leading to continuous high performance.

## ④Securing of talented personnel

In a survey called “popularity ranking of companies among the students of Tokyo and Kyoto Universities” conducted by a magazine, the company has been ranked high along with some renowned large IT companies, foreign financial institutions and other global manufacturers at 28<sup>th</sup>, which is 79 ranks higher than the previous year’s 107<sup>th</sup> rank.

In addition to active utilization of the internship system to increase the contact points with students, possibilities to work in wider and new fields such as HR tech and Fintech despite having the advertising as the core business and being able to work with some renowned and excellent engineers of the industry as an engineer, are reasons why they are attracted to the company.

Also, the company considers the incentive system that evaluates the challenges to the maximum is one of the factors for its popularity.

## **【1-7 Capital and business alliance with ITOCHU Corporation】**

FreakOut Holdings announced conclusion of a capital and business alliance with ITOCHU Corporation in December of last year. The details are as follows:

### \*Purpose and reason of the capital and business alliance

Under the corporate philosophy of “Committed to the Global Good” with a corporate message of “I am One with Infinite Missions,” ITOCHU Corporation engages in business globally as one of the leading trading companies in Japan in a variety of industrial fields. Starting in early October of 2018, FreakOut Holdings and ITOCHU Corporation had discussed mainly conclusion of a business alliance chiefly in the field of digital marketing in terms of a possibility of business growth primarily through effective mutual use of the technological infrastructure that FreakOut Holdings possesses and an enormous number of the tangible and intangible online and offline assets that ITOCHU Corporation holds. Furthermore, during the discussion over the alliance, based on an idea that allowing ITOCHU Corporation to become a shareholder of FreakOut Holdings would result in more effective synergy between the two companies, they continued discussing a possibility for a capital alliance right after they started the discussion.

As a result, FreakOut Holdings and ITOCHU Corporation decided to enter into a business alliance with the aim of resulting in synergy and improving the corporate value globally and broadly in the technology

field on the basis of understanding of and respect for their respective philosophies and businesses. At the same time, they agreed to conclude a capital alliance through the third-party allocation of shares in order to boost the effectiveness of the business alliance, and raise fund and enhance shareholders equity toward growth of FreakOut Holdings.

\*Details of the capital and business alliance

•Business alliance

FreakOut Holdings and ITOCHU Corporation cooperate with each other widely by combining a myriad of the tangible and intangible assets possessed by ITOCHU Corporation with the technology infrastructure of FreakOut Holdings, such as joint development of new services in the digital marketing field and expansion of business overseas mainly in Asia.

•Capital alliance

With the aim of improving the effectiveness of the business alliance, and raising fund and enhancing shareholders equity toward its growth, FreakOut Holdings will allocate 2,577,400 common shares to ITOCHU Corporation through the third-party allocation of shares. At the same time, President Honda has agreed with ITOCHU Corporation to transfer part of FreakOut Holding's shares (258,300 shares) that he held to ITOCHU Corporation through off-market negotiated transaction. The transfer price is JPY 1,550 (with the figures after the decimal point being rounded off), which is the simple average of the closing price of regular transaction of the company's common shares over the last month up to the last business day (December 14, 2018) right before the meeting of the board of directors concerning the capital alliance. The shares were transferred on January 9, 2019. ITOCHU Corporation acquired 2,835,700 common shares of FreakOut Holdings through the third-party allocation of shares and the transfer. This allowed the ratio of the number of voting rights that ITOCHU Corporation possesses to the total number of the voting rights of FreakOut Holdings to be 18.00%.

➤ Major Shareholders and Ratio of Shareholding after Third-Party Allocation of Shares (%)

Before subscription (as of September 30, 2018)		After subscription	
Yuzuru Honda	39.58%	Yuzuru Honda	31.46%
Deutsche Securities Inc.	5.10%	ITOCHU Corporation	18.00%
Japan Trustee Services Bank, Ltd. (trust account)	4.39%	Deutsche Securities Inc.	4.27%
YJ 1 Investment Partnership	4.33%	Japan Trustee Services Bank, Ltd. (trust account)	3.67%
BBH(LUX) FOR FIDELITY FUNDS PACIFIC FUND	4.28%	YJ 1 Investment Partnership	3.62%

## 2. The First half of Fiscal Year September 2019 Earnings Results

### [2-1] Overview of Business Results (Total)

	9/18 1H	Ratio to sales	9/19 1H	Ratio to sales	YOY
Sales	6,862	100.0%	9,030	100.0%	+31.6%
Gross profit	1,984	28.9%	2,343	25.9%	+18.1%
SG&A expenses	1,989	29.0%	2,671	29.6%	+34.3%
Operating income	-4	-	-327	-	-
Ordinary income	355	5.2%	-288	-	-
EBITDA	648	9.4%	93	1.0%	-85.5%
Net income	184	2.7%	-475	-	-

(unit: million yen)

\*Some data is calculated by Investment Bridge, and some data contained within this report may vary from actual results. (Applies to all data in this report)

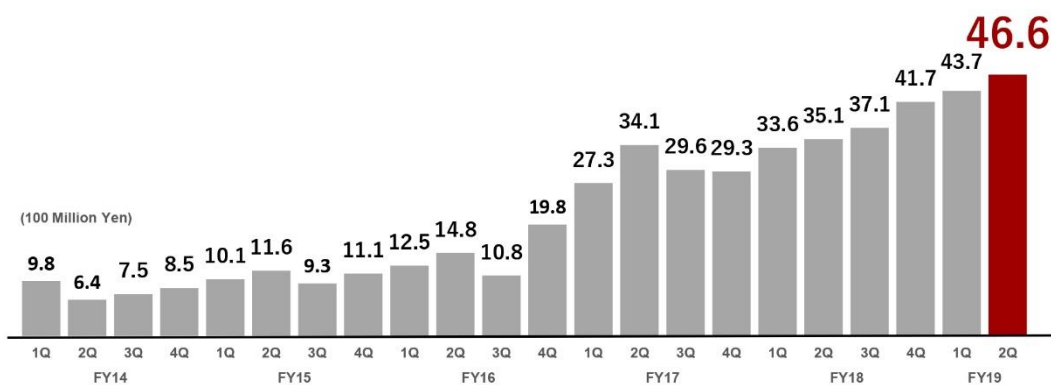
### Sales increased 31.6% and EBITDA shrank 85.5% from the same period last year.

Sales stood at 9,030 million yen, up 31.6% year on year. The rate of sales growth remained high, exceeding 30%. Although sales hit a record high in the second quarter (January – March), sales decreased overseas compared to the first quarter (October – December) due to seasonal factors.

#### Quarterly Trends in Consolidated Net Sales



### Achieved new record-high quarterly net sales.



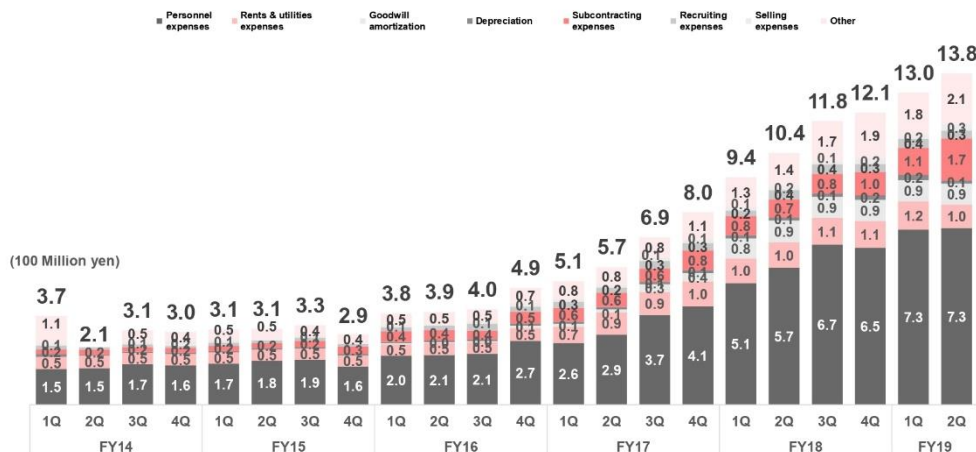
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7

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Operating loss was 327 million yen (which was loss of 4 million yen in the same period last year). While gross profit margin shrank by 3 points year on year to 25.9%, the selling, general and administrative (SG&A) expense ratio rose 0.6 points to 29.6%. SG&A expenses have been on the rise owing mainly to labor cost.

Reference: Trends in Consolidated SG&A Expenses



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15

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Outside of operating income and loss, investment gain on equity method went down to 183 million yen from 416 million yen in the same period of the previous year. Of the affiliated companies, profit from M.T.Burn dropped significantly. Ordinary loss stood at 288 million yen (which was profit of 355 million yen in the same period last year).

EBITDA decreased 85.5% year on year to 93 million yen. This resulted from the temporary costs associated with M&A and the drop of the investment gain on equity method regarding M.T.Burn. The DSP and DMP advertising businesses in Japan steadily contributed to revenue. The quarterly changes by segment are as follows:

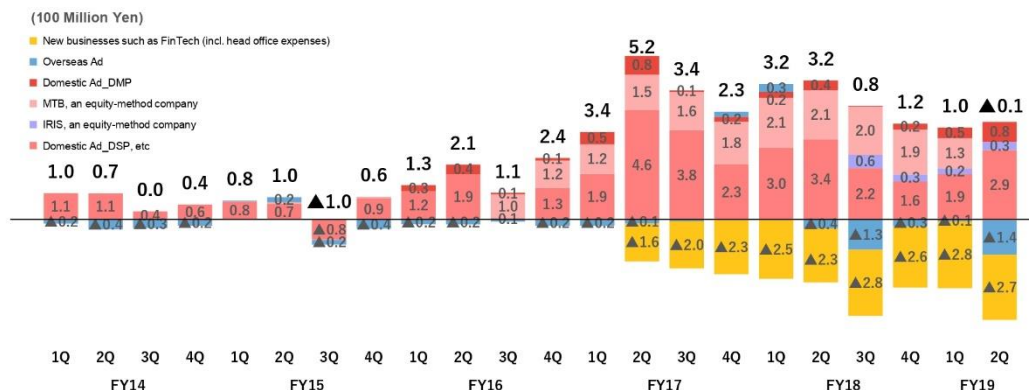
Trends of EBITDA by segment and area

Consolidated EBITDA (by Segment/Region) Quarterly Trends



**YoY: Decreased due to a temporary cost increase due to the M&A and a decline in equity in gains of M.T. Burn.**

**QoQ: Despite the above decrease, Domestic Ad DSP, etc. and Domestic Ad DMP contributed to profitability as expected.**



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Tax burdens were lessened, and loss attributable to owners of parent was 475 million yen (which was profit of 184 million yen in the same period last year).

**Qualitative trends at home and abroad**

«Domestic Advertising Business»

The DSP advertising business in Japan showed significant growth thanks in part to seasonal factors. Intimate Merger regrew in the DMP business, contributing to EBITDA.

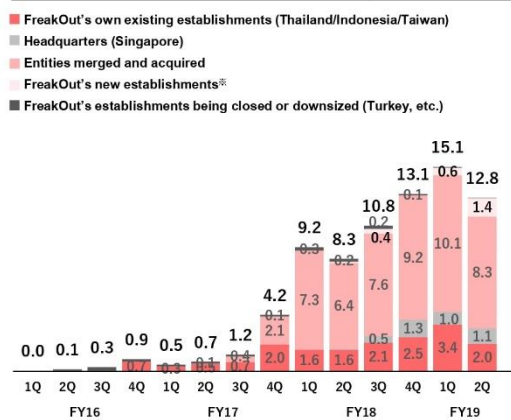
«Foreign Advertising Business»

This business segment showed a decline in the second quarter (January to March) on the whole compared to the first quarter due in part to seasonal factors. The EBITDA of the corporation that FreakOut Holdings obtained through M&A, in particular, significantly decreased. In the second half of this term, however, it is expected to make great contributions to revenue again because the business results of Playwire will be added to the consolidated accounting in the second half. The company propelled forward its policy of securely operating overseas business that could generate sales of 10 billion yen, starting in 2017 when it formulated the medium-term plan toward the term ending Sep. 2020. Under such circumstances, although the overseas business continued to be unfavorable in this second quarter (January – March), sales stood at 2,450 million yen with Playwire taken into consideration, allowing FreakOut Holdings to achieve, and even exceed, the goal of annual sales of 10 billion yen. Meanwhile, the company spent a vast amount of cost related to bases and businesses through a great deal of trials and errors in the course of raising the previous sales of hundreds of millions of yen to over 10 billion yen only in a couple of years without pausing. Although there is nothing better than that everything goes well, that is quite difficult. In this situation, the company considers that it will be essential to keep following approaches that could go well and streamline ones that could fail, concentrate management resources on approaches with potential for success, and take necessary action for that in a timely manner from the perspective of profitability. According to the numerical figures presented in the financial statement for the second quarter, this term is an opportune time just before leaping into the aforementioned actions, and the company says that it is endeavoring to make right decisions toward the next and subsequent terms.

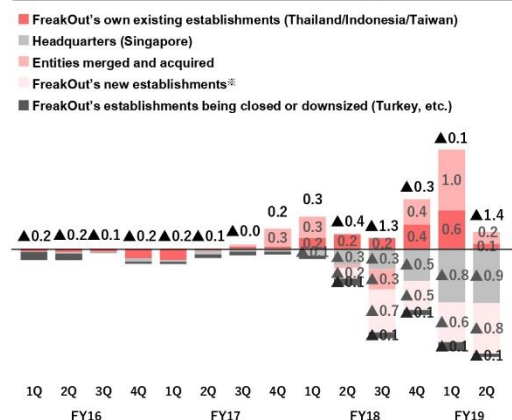
Reference: Breakdown of Overseas Ad



**Net sales (100 Million Yen)**



**EBITDA (100 Million Yen)**



※ Malaysia/Vietnam/Philippines/India/China/UFG/Rigoletto/Australia/Korea/Gandee/Dialog/FOPWFOUSA

( Reference material of the company )

## 【2-2】 Financial condition and Cash Flow

### Main BS

	End of September. 2018	End of March. 2019		End of September. 2018	End of March 2019
Cash and deposits	3,174	5,651	Trade payables	1,494	2,752
Trade receivables	2,602	4,442	Short-term loans payable	3,544	3,967
<b>Current assets</b>	<b>8,026</b>	<b>12,279</b>	Current liabilities	6,182	8,788
Property, plant and equipment	265	279	Long-term interest-bearing debts	4,920	7,289
Intangible assets	1,334	3,864	<b>Total liabilities</b>	<b>11,141</b>	<b>16,116</b>
Investment securities	5,157	7,382	<b>Net assets</b>	<b>4,495</b>	<b>8,734</b>
Investments and other assets	6,010	8,427	<b>Total liabilities and net assets</b>	<b>15,636</b>	<b>24,851</b>
<b>Noncurrent assets</b>	<b>7,609</b>	<b>12,571</b>	<b>Balance of interest-bearing debts</b>	<b>8,464</b>	<b>11,257</b>

(unit: million yen)

\*Interest-bearing debts = loans + lease obligation

Total assets at the end of the first half of this term stood at 24,851 million yen, up 9,214 million yen from the end of the previous term. Cash and deposits, and trade receivables under current assets and goodwill and investment securities under noncurrent assets increased.

Liabilities went up 4,975 million yen from the end of the previous year to 16,116 million yen. Trade payables and long-term debts showed a rise.

Net assets were 8,734 million yen, up 4,239 million yen from the end of the previous term.

As a result, capital-to-asset ratio was 30.4% (up from 26.9% at the end of the previous year).

## 3. Fiscal Year September 2019 Earnings Estimates

### 【3-1】Full-year earnings forecast

	FY 9/18	Ratio to sales	FY 9/19 (forecast)	Ratio to sales	YOY
<b>Sales</b>	14,745	100.0%	19,000	100.0%	+28.9%
<b>Operating income</b>	-532	-	100	0.1%	-
<b>Ordinary income</b>	307	2.1%	200	1.1%	+192.6%
<b>EBITDA</b>	843	0.2%	700	3.7%	+65.9%
<b>Net income</b>	25	0.0%	undecided	-	-

(unit: million yen)

### The business forecast was revised downwardly following the dissolution of M.T.Burn.

The company resolved to dissolve one of its affiliated companies, M.T.Burn, Inc., on May 27, 2019. It revised the business forecasts for ordinary income and EBITDA downwardly because the dissolution would result in a decline in potential investment gain on equity method.

Regarding net income, the company is currently examining the impact of the dissolution of M.T.Burn, and therefore, the estimate for net income is to be determined for the time being.

(Reason for dissolution)

M.T.Burn, Inc. had developed and operated an advertisement distribution platform for LINE Corporation in order to maximize LINE’s revenue from advertising. Meanwhile, LINE Corporation developed a new ad distribution platform and propelled forward a shift of its services. LINE Corporation lately completed the shift to the new platform, and the company discussed how they would handle M.T.Burn in the future with LINE Corporation, one of the shareholders of FreakOut Holdings. As a result, the two companies agreed to dissolve M.T.Burn.

**【3-2】 Medium-term plan**

The three-year medium-term plan aims at “sales of 33 billion yen and EBITDA of 3 billion yen” in the term ending Sep. 2020. The company pursues sales and EBITDA growth in FY2020 that are 2.8 times and 2.1 times higher than the actual results of FY2017, respectively.

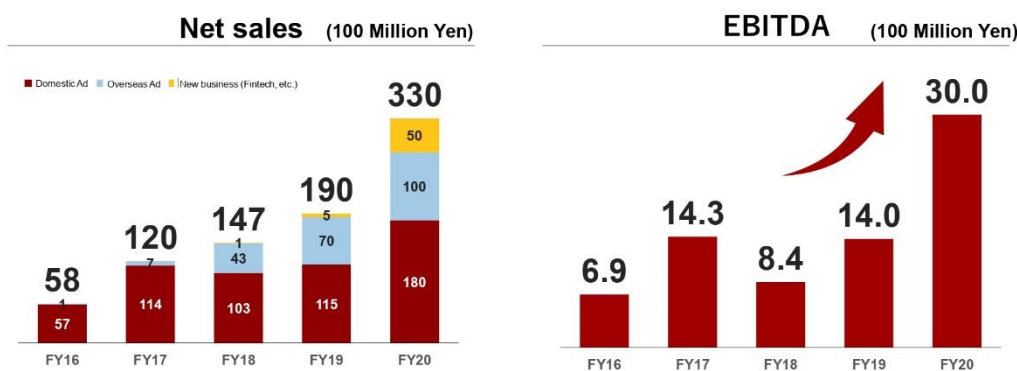
The company believes that the overseas advertising business will be a growth driver, in conjunction with the steady growth of the advertising business in Japan.

Medium-Term Three-Year Plan



The Group aims to achieve net sales of ¥33 billion and EBITDA of ¥3 billion by FY2020.

The first half of FY2019 is part of the investment phase for achieving the FY2020 targets.



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4

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## 4. Progress in Each Business

### ◎ Synergy through acquisition of Playwire in the U.S.

Playwire, LLC develops solutions that simply and effectively commercialize media that are becoming complex by providing a variety of solutions related to commercialization of online media on a single platform and utilizing the technology of machine learning. After the acquisition of Playwire, FreakOut Holdings began selling a video solution developed by Playwire in Asia in April following the period during which it obtained a better understanding of Playwire's business. The company completed implementation of the solution, within a month of its adoption, to 40 media companies with which it had already forged business partnerships in the native advertising business, including the media with high added value in Asia, and it is expected to complete implementation of the solution to 200 other media in this quarter. It is anticipated that this project will start contributing to revenue in the fourth quarter (July – September) and to sales for the full year in the next term.

### ◎ Integration of Japanese and overseas advertising businesses

The company integrated the Japanese and overseas advertising businesses. This has allowed it to properly allocate its development resources from the perspective of optimizing the entire global market. For the last 4 years, the company used almost no development resources for the overseas business but utilized what was developed in Japan; however, as the Japanese market is unique, meaning that the products developed in Japan would not necessarily be received well abroad, appropriate localization is required. The business integration has enabled it to distribute its development resources to such localization projects in proper order of priority. Through development according to the needs of local markets, the company's own businesses operated in 16 countries are expected to start making contributions in the fourth quarter and contribute significantly for the full year in the next term.

### ◎ Integration and reorganization of app teams that worked independently at each base

Following the establishment of Honda Shoji Co., Ltd. that engages in the cross-border business of app marketing as was announced in January, FreakOut Holdings integrated and reorganized the app teams that worked independently at each base. In recent years, on the back of the tightened regulations imposed on app companies in China, expansion of business overseas by Chinese app developers has been accelerating rapidly. Under such circumstances, Japan will be the first option chosen by Chinese companies amid their effort to expand business abroad. Therefore, the company is generating sales for now by supporting business expansion of such Chinese companies to Japan. The establishment of Honda Shoji and the reorganization of the app teams working over the Asian region into a team partially across all the bases have allowed the company to smoothly offer solutions concerning cross-border projects other than ones from China to Japan. As the Japanese app market itself is coming to maturity and an increasing number of Chinese companies are entering the Japanese market, it is expected that developers that will go out of Japan into overseas markets will grow in number rapidly. Under these circumstances, the company started promoting market awareness in order to be chosen as the first option by Chinese and Japanese developers for their business expansion projects to Asia. Although the company is fostering market awareness, multifarious developers have already been moving ahead with business expansion to the Asian region. Starting in April, Honda Shoji is exclusively supporting app game developers, which possess intellectual property (IP) that represents Japan, in expanding business to Asian nations. The company has received a number of inquiries about other projects than this since the establishment of Honda Shoji, through which FreakOut Holdings strongly feels confident, in the period between January

and March alone, in its approach. The company expects that this project will also grow as a business that can make substantial contributions in the next term.

#### © **Withdrawal from business with difficulty in commercialization and reduction of team**

While propelling forward a variety of verification toward achieving the revenue forecast next term, the company plans to withdraw from countries and businesses that seem to be difficult to commercialize and reduce the scale of teams in a drastic manner. This will enable the company to focus human resources, development resources, and fund on the countries and businesses that are expected to thrive further, rather than to simply cut down on cost, as the business areas with potential for growth become apparent. Thus, even in nations and businesses in which commercialization has hypothetically been achieved, it is expected that the company will grow the areas with potential for further growth while distributing less resources to the areas with little or no short- and medium-term scalability, with management cost taken into account.

## 5. Conclusions

The business results of FreakOut Holdings, inc. this term was unsatisfactory at first glance as demonstrated by the facts that operating loss widened considerably and non-operating profit from investment gain on equity method shrank greatly; however, while the business performance overseas was sluggish owing to seasonal factors, the regrowth of Intimate Merger Inc. of the DMP business in Japan is worthy of attention. Furthermore, the company achieved only 47.5% of the full-year sales estimate, but taking into account the sales growth in the past and an expected inclusion of the proceeds from Playwire, LLC in and after the third quarter, the actual results are projected to exceed the estimate. In addition, the company is steadily making preparations behind the scenes for the next term. Under such circumstances, the company announced conclusion of a capital and business alliance with ITOCHU Corporation, and we expect that this will gradually make contributions to revenue. As for profit, the company is selecting and focusing business, and we also expect that it will successfully attain its medium-term goals.

Although the company revised the business forecast downwardly following the dissolution of M.T.Burn, Inc., it is considered as expected as part of the business reconstruction approach to achieving sales and profit next term. Therefore, we think that this would not be a significantly negative factor from the medium-term perspective.

## &lt;Reference: Regarding corporate governance&gt;

## ◎Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	7 directors, including 3 external ones

## ◎Corporate Governance Report

Last modified: February 15, 2018.

## &lt;Basic Policy&gt;

The company believes that improving management efficiency, management soundness, transparency and compliance will enhance the corporate value from a long-term perspective, and by doing so, it can return profits to many stakeholders including shareholders. In order to enhance the management soundness, transparency and compliance, it is important to build an organizational structure that can respond swiftly and flexibly to changes in the business environment while improving the corporate governance. The company carries out efficient management based on the viewpoints of shareholder who are the owners of the company.

## &lt;Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)&gt;

It is mentioned that “our company follows all of the basic principles of the Corporate Governance Code.”

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