
	FreakOut Holdings, inc. (6094)
Yuzuru Honda Founder & Global CEO	

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	https://www.fout.co.jp/

Stock Information

Share Price	Number of Shares Issued		Total Market Cap	ROE (Actual)	Trading Unit
¥1,396	15,766,360 shares		¥22,009 million	-	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥0.00	-	-	-	¥280.12	5.0 x

* The share price is the closing price on May 25. 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. 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 (Actual)	21,709	-1,270	-1,497	-3,512	-	0.00
Sep. 2020(Estimated)	27,000	200	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 2020, and more.

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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 2020, sales grew 50.5% and EBITDA rose 420.6%. The business performance was healthy inside and outside Japan. The equity-method affiliates, too, performed well. The break-even point had been assumed in their budget, but their performance is healthy, despite the negative factor of the novel coronavirus that reduced sales by 210 million yen. The company has not revised the full-year forecast in which sales are estimated to grow 24.4% and EBITDA is projected to be 500 million yen. If there was no effect of the pandemic, the company would think of revising the forecast upwardly.**
- **Despite the impact of the novel coronavirus, their performance improved significantly in the first half. In addition, the impact of the pandemic seems to be smaller than assumed. EBITDA almost reached the full-year estimate in the first half, and unless something unexpected happens, annual EBITDA is expected to be much larger than the estimate: 500 million yen. If the state of emergency is lifted, the businesses that have been negatively affected by the novel coronavirus are expected to recover. The businesses that have been positively influenced by the novel coronavirus are expected to keep contributing to the company’s performance even after the pandemic subsides, and boost the profitability of the company in the end. We would like to pay attention to the goals in the new medium-term plan, although its announcement has been postponed.**

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 (currently serving as a director, chief business development officer,) 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.
2018	Dec.	Announced a capital and business alliance with ITOCHU Corporation.
2019	Jan.	The advertising businesses operated in Japan and abroad are integrated.
	Jan.	Reorganized Playwire, LLC into a consolidated subsidiary.
	May	M.T.Burn, Inc. is dissolved.
	Oct.	The subsidiary Intimate Merger, Inc. was listed in Mothers of TSE.

【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.

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 over 12.0% per year on average and reached 2,104.8 billion yen in 2019, and surpassed that of Terrestrial TV (1,861.2 billion yen) for the first time. (Data from Dentsu "Japan's Advertising Market in 2019")

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.

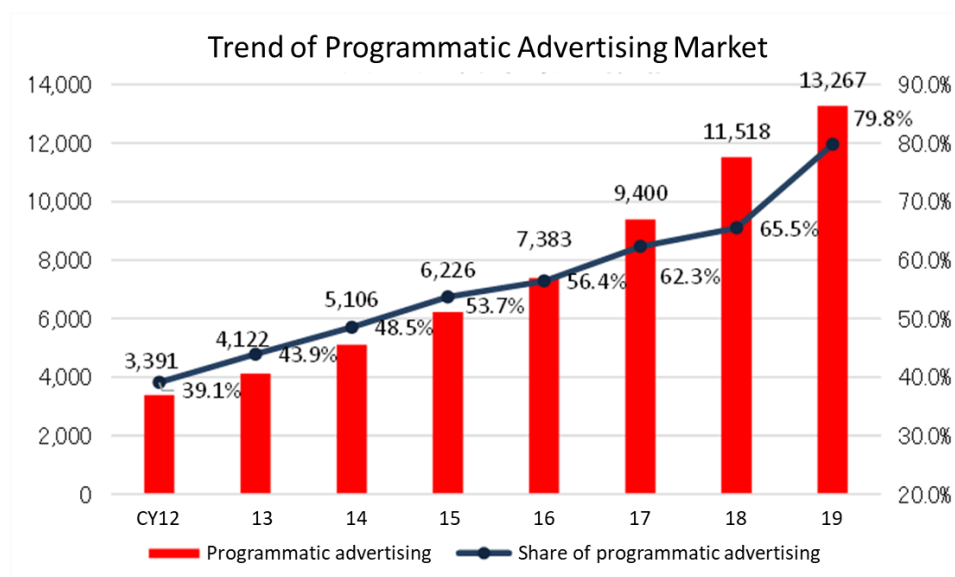
To be able to regularly distribute advertisements to the right users and bid at the best price requires building highly advanced algorithms and training the AI (artificial intelligence) to be "even more intelligent" through repeated machine learning based on vast amounts of data. The company has a powerful 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 2019, 79.8% of Internet advertising in Japan was performance-based advertising.



(Data from Dentsu "Japan's Advertising Market in 2019")

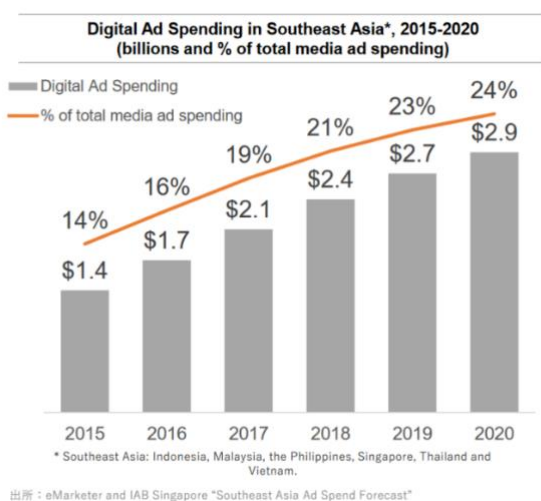
*Performance-based advertising: an advertising method which utilizes platforms that employ ad technologies processing vast amounts of data to provide automatic or instantaneous optimization of advertising. In addition to search engine advertising and some ad networks, major types include recently developed 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.

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Digital Ad Spending Share of Total Media Ad Spending in Select Countries in Asia-Pacific, 2015-2020
(% of total media ad spending)

	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%

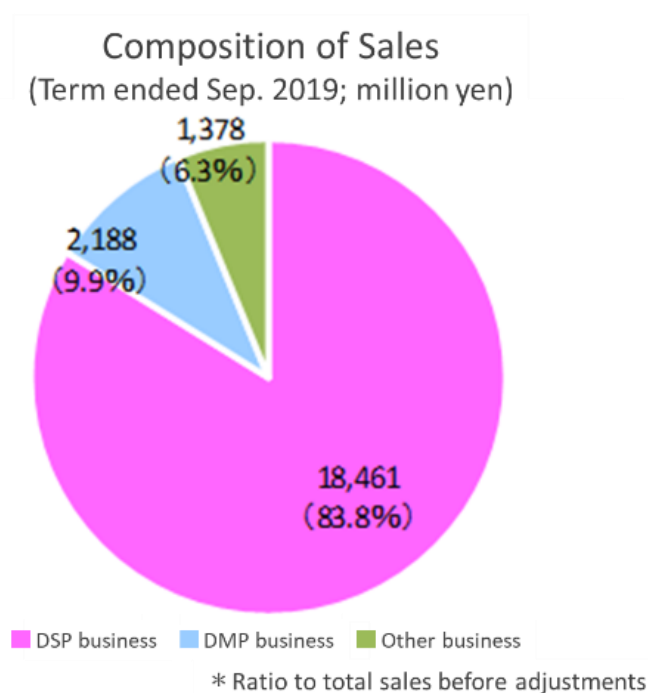
出所: eMarketer and IAB Singapore "Ad Spending in Southeast Asia"

(Reference material of the company)

【1-4 Business contents】

1. Business segments

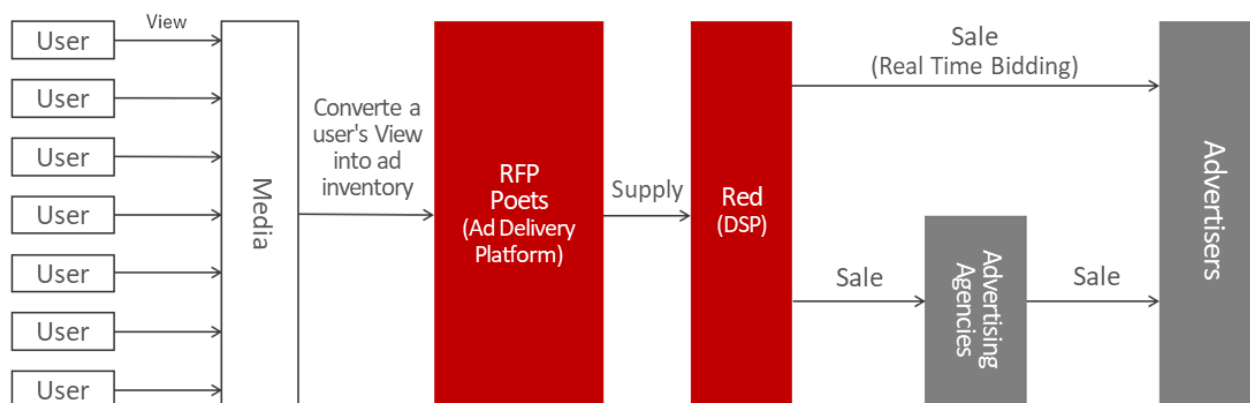
The business segments are “DSP business,” “DMP business,” “Other business,” and “Investment business,” which was added in the term ending September 2020. The business segments are 4 businesses.



①DSP 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.



(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 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.

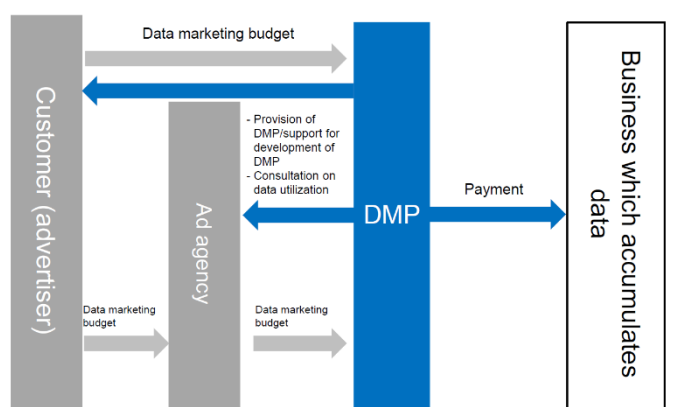
Product/service	Outline
Red	<p>Marketing platform specializing in mobile devices, for which the cutting-edge technology for optimizing ad distribution was adopted with the aim of maximizing the effect of ads in the smartphone file, while considering the shift from PCs to smartphones for accessing the 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"> • Mounted with the cutting-edge original engine for machine learning • Securing of mobile and infreed ad spaces worth tens of billions of impressions, one of the largest scales in this field • Securing of stocks of mobile ad spaces worth 130 billion impressions per month, one of the largest scales in this field <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	Technology and service package supporting sales, operations, development, and

	<p>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	It was developed as Japan’s first DSP in 2010. It is used for various purposes, including the popularization of brands and sales promotion.
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, 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.</p>
Trading desk service	<p>Service aimed at improving the outcome of online marketing by advertisers.</p> <p>The company designs online marketing strategies utilizing new marketing technologies and supports the ad management, which is becoming more sophisticated and more complex.</p>

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.



(Reference material of the company)

③Investment business

This segment was established in the term ending September 2020. The company has been investing in promising venture firms, and produced some results, but in order to expand its stable revenue base and improve corporate value, the company established the investment business department, to conduct investment activities systematically as business.

④Other 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.

In the term ended September 2018, the company started offering services globally in 16 countries mainly in Asia. In the second half of the term ended September 2019, the company reorganized Playwire in the U.S. into a subsidiary, to enter English-speaking countries. However, its business structure is being reformed from the term ended September 2019 to the term ending September 2020, as its business was suspended in 5 countries.

【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 28th, which is 79 ranks higher than the previous year’s 107th 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 2018.

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.

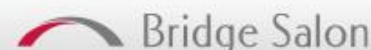
2. First Half of Fiscal Year September 2020 Earnings Results

(1) Overview of Business Results (Total)

	1H of FY 9/19	Ratio to sales	1H of FY 9/20	Ratio to sales	YoY
Sales	9,030	100.0%	13,588	100.0%	+50.5%
Gross profit	2,343	25.9%	3,248	23.9%	+38.6%
SG&A expenses	2,671	29.6%	2,978	21.9%	+11.5%
Operating income	-327	-	269	2.0%	-
Ordinary income	-288	-	266	2.0%	-
EBITDA	93	1.0%	488	3.6%	+420.6%
Net income	-475	-	-86	-	-

*unit: million yen

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*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 grew 50.5% year on year, and EBITDA was 488 million yen, up 420.6% year on year

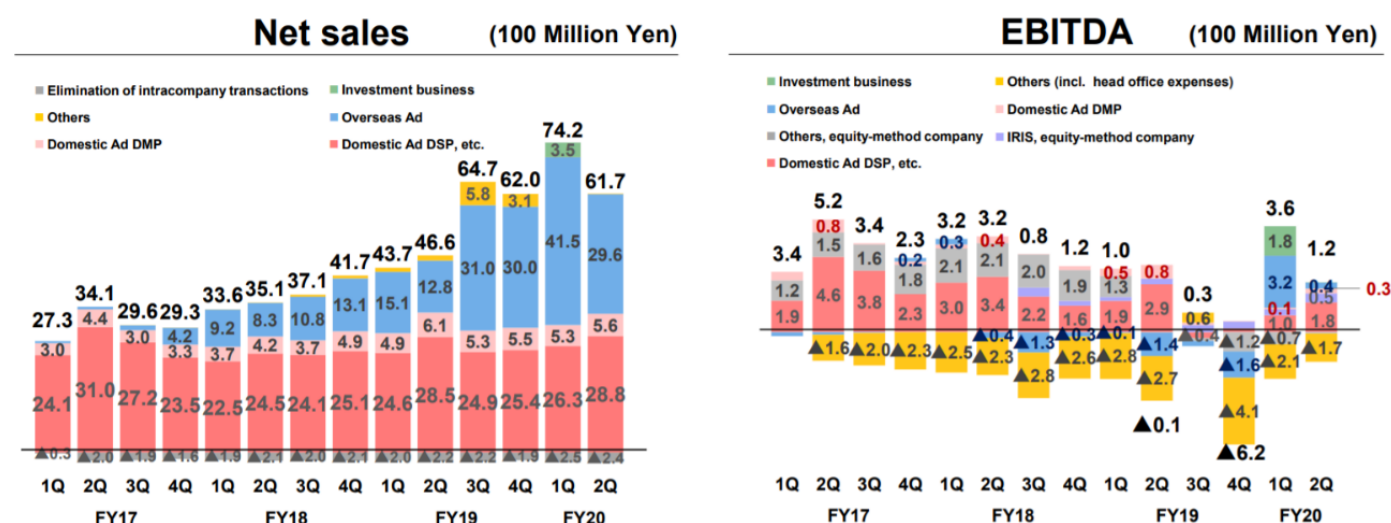
For the first half of the term ending September 2020, sales were 13,588 million yen, up 50.5% year on year. In the domestic Internet ad market, “Red” and “Poets” kept performing well, contributing to the results. As for “Red for Publishers,” which took some time to earn profit, “TVer PMP,” an ad market place for video streaming services, such as “TVer,” an official TV portal site by 5 private broadcasting companies in Tokyo, started contributing to revenue. Outside Japan, the situation in 2Q (Jan. to Mar.) was severe due to seasonal variations, but Playwire and the subsidiaries in Indonesia and Taiwan contributed to the results.

Operating income improved year on year from a loss of 327 million yen to a profit of 269 million yen. The company is promoting business for the future, as the Taiwanese corporation, for which cost reduction has been implemented, started earning profit.

EBITDA was 488 million yen, up 420.6% year on year. As for equity-method affiliates, IRIS Inc., which offers digital signages in taxicabs, performed well, and the performance of the other equity-method affiliates, too, was healthy. On the other hand, the businesses inside and outside Japan saw the cancellation of orders and use of products by clients, the loss of opportunities to increase new clients, etc. due to the impact of COVID-19, and the company has been liquidating companies facing difficulty in moving into the black in a short period of time since March 2020.

The break-even point had been assumed in their budget, but their performance has been healthy despite the impact of the novel coronavirus (which will be described later).

Quarterly Trends in Consolidated Net Sales and EBITDA



(Reference material of the company)

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**(2) Trends by segment**

Sales and Profit by Business Segment

	1H of FY 9/19	Ratio to sales	1H of FY 9/20	Ratio to sales	YoY
DSP business	7,710	83.8%	12,162	84.6%	+57.7%
DMP business	1,107	12.0%	1,083	7.5%	-2.2%
Investment business	-	-	347	2.4%	-
Other business	383	4.2%	777	5.4%	+102.8%
Groups and adjustment	-171	-	-781	-	-
Consolidated Sales	9,030	100.0%	13,588	100.0%	+50.5%
DSP business	163	2.1%	443	3.6%	+171.3%
DMP business	113	10.2%	29	2.8%	-73.6%
Investment business	-	-	172	49.8%	-
Other business	-604	-	235	30.3%	-
Adjustments	0	-	-612	-	-
Consolidated Operating Income	-327	-	269	2.0%	-

*Unit: million yen

*the ratio shown in the operating income is profit margin.

DSP business

Sales were 12,162 million yen, up 57.7% year on year, segment profit was 443 million yen, up 171.3%, and EBITDA was 643 million yen, down 23.3% year on year.

By offering the mobile marketing platform “Red,” the system for supporting the development and operation of ad platforms “Red for Publishers,” native ad platforms, and trading disks, the company worked on the maximization of the effects of ads for advertisers and the revenue of media providers.

In the first half, “Red” contributed to the results, and “poets,” a native ad platform, performed well. In addition, the businesses of overseas subsidiaries, especially those in Indonesia and Taiwan, performed well, and Playwire contributed considerably to the results. On the other hand, the company saw the cancellation of orders and use of products by clients, the loss of opportunities to increase new clients, etc. due to the impact of COVID-19 inside and outside Japan from March, and these decreased sales and gross profit.

DMP business

Sales were 1,083 million yen, down 2.2% year on year, profit was 29 million yen, down 73.6% year on year, and EBITDA was 39 million yen, up 67.8% year on year.

In this business, the subsidiary Intimate Merger, Inc. solves marketing issues of client companies by utilizing data. The company kept enhancing popularity and increasing client companies in data marketing by utilizing data. However, the economic stagnation caused by COVID-19 is affecting the ad budgets of clients in the fields of travel and entertainment, decreasing sales and gross profit.

Investment business

Sales were 347 million yen, profit was 172 million yen, and EBITDA was 172 million yen.

This segment was established in the term ending September 2020. The company has been investing in promising venture firms, and produced some results, but in order to expand the stable revenue base and enhance corporate value from 1Q, the company established the investment business department, to carry out investment activities systematically as business. In the first half of this term, the company sold some shares for existing invested businesses.

Other business

Sales were 777 million yen, up 102.8% year on year and segment profit was 235 million yen (in the previous term, a loss of 604 million yen posted) and EBITDA was 245 million yen (in the previous term, negative 512 million yen).

In the other business segment, the company offers new businesses and business administration functions in the group companies inside and outside Japan. As overseas footholds increased mainly through M&A project, the company strengthened its management system, and received dividends from overseas subsidiaries, etc.

About the impact of COVID-19

《Effects on the business》

Some phenomena caused by the spread of COVID-19, businesses that were affected by its effects, and the effects are as follows:

Event	Influenced business	Influence
1. Significant increase in the number of views of Internet media	Domestic Ad (Poets: Native ads)	Positive Gross profit increased since March
2. Needs generated in staying home	Overseas Ad (FreakOut's own establishments, Ad for app developers)	Positive Mainly the Chinese corporation, gross profit increased since March
3. Declined unit price of ad due to decreased demand by advertisers	FinTech (non-consolidated, Kanmu, Inc.)	Positive Growth with organic & minimum ad cost * Short-term personal funding needs also occurred
4. Restraint on going out	Domestic Ad (Products to facilitate store visits by using location information)	Negative Significant decrease in gross profit since March
	IRIS (Digital signage in taxis)	Negative Significant decrease in sales and equity in earnings of affiliates relating to IRIS since April

(Reference material of the company)

In the advertising industry in general in worldwide, due to the recent effects of COVID-19, corporations that run businesses under the prerequisite that people will go out, such as the travel industry and businesses related to eating and drinking, have all decreased their advertisements. This issue is for the advertising industry as a whole. In these circumstances, the Internet ad business, which is the mainstay business of the company, has the advantage that due to COVID-19, consumers stay longer at home, thus their consumption of Internet media (browsing time) has expanded enormously. Also, as advertisers of some industries have decreased their advertisements, all Internet advertising channels became affordable to place an advertisement (this means that stronger advertisement effectiveness can be expected.) Advertisers of some industries that are not affected by COVID-19 increased their budget for Internet advertisement and are placing more and more Ads. Even when they can't communicate face to face in these circumstances, they utilize tools like Zoom, to gather information from advertising companies and actively look for new advertising products. Amid this situation, regarding the effects of COVID-19 on the company's advertising business, some businesses were greatly affected and their sales dropped temporarily whereas, on the contrary, other businesses have increased their profits and advertisers who actively place ads appeared, thus the effects vary greatly from one business to another.

The following are the effects on the business:

(1) Businesses that are performing well

1. Ad platform business offered by FreakOut (Native Ad SSP, Poets), which is aimed at media including major media companies, has been performing extremely well since March. Thanks to the contribution of the significant increase in the aforementioned views of Internet media and such, both sales and gross profit have been favorable.

2. Chinese subsidiaries are also performing well. At first, there were great concerns especially since China was the source of COVID-19 but on the contrary, the results showed strong growth. The subsidiary was focusing on advertisement distribution in Japan for Chinese game application developers and as this business was designed to meet the needs of those who are staying home, the performance has been favorable.

3. Although the results are not consolidated at the moment, even for Kanmu, Inc., which is the company's most important investment target, organic users have been increasing extremely favorably. This is related to the increasing needs, in the current situation, for the product characteristics for the mainstay business, Vandle Card (pochitto charge) to meet the short term and small sum financial needs for users. In addition, advertisements can be placed more efficiently with increased effectiveness.

(2) Businesses that suffered a limited effect but recovering

The mainstay businesses, including DSP and the foreign advertising business, are in this category. While some businesses decreased advertisements, other businesses increased them; the company is taking advantage of the characteristics of the Internet ad business, which allows many transactions to be made without meeting in person, and although results will vary from business to business, it is gradually recovering from the impact of COVID-19.

(3) Businesses that were heavily affected

As going outside was significantly limited, the signage media business whose signs are viewed in outdoor destinations and products that utilize the consumers' activity (location information) were particularly heavily affected.

1. FreakOut posts a hefty amount of gross profit monthly from ASE, a product that utilizes location information to promote going to stores, however, it has suffered a major decline since March. It is thought to be related to the rapid drop in demand for the advertisement of dining-out, apparel, and events from the end of March and from April onwards. Furthermore, there were additional advertisement needs from mainly brand advertisers in March simultaneously with the end of the fiscal year; in 2Q, those needs significantly weakened and already secured contracts were canceled.

2. The operation of taxis in the metropolitan area has dropped strikingly since late March and the stagnation continued from April, thus sales and investment gain on equity method related to IRIS, which is the joint venture company with Nihon Kotsu Group, are expected to drop from April.

《Effects on the business results》

As a result of the effects of COVID-19, sales decreased 480 million yen and EBITDA dropped 210 million yen. The normal profitability base for EBITDA, in the first half, reached around 700 million yen, which exceeds the 500 million yen in the full-year forecast.

	(1) 2Q Results		(2) Amount affected by COVID-19		(1) + (2) = (3) Quality of earnings	
	Net Sales	EBITDA	Net Sales	EBITDA	Net Sales	EBITDA
Domestic Ad_DSP, etc. +DMP*1	34.3	2.1	4.1	1.4	38.4	3.6
Overseas Ad*2	29.6	0.4	0.7	0.7	30.4	1.1
Others (incl. head office expenses)	▲2.3	▲1.2	-	-	▲2.3	▲1.2
Total	61.7	1.2	4.8	2.1	66.5	3.4

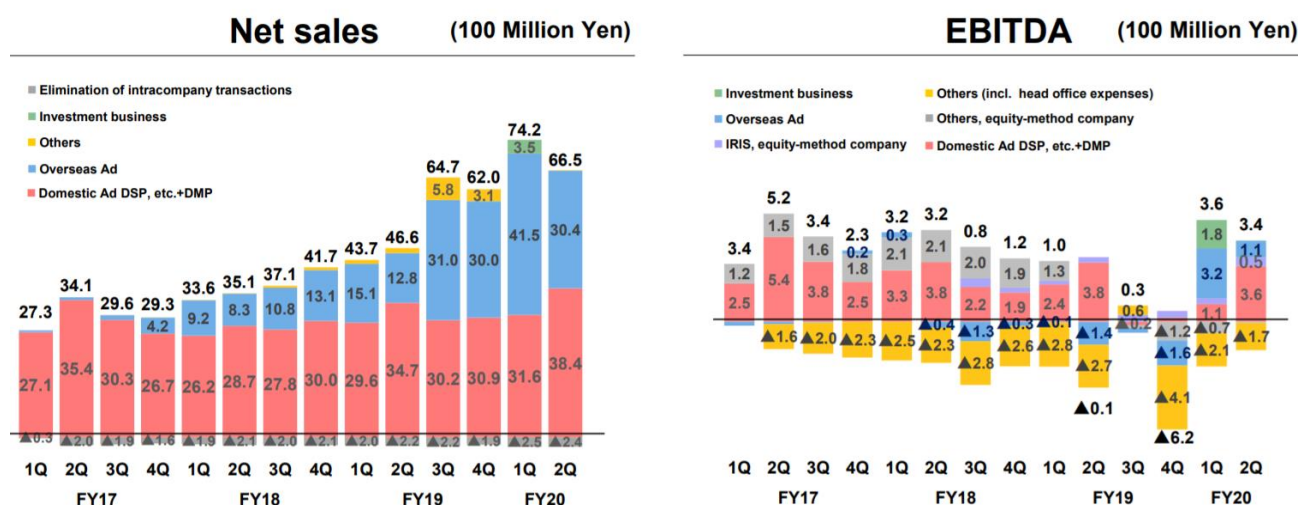
*1: Aggregated cancelled orders and the like during the demand season of ad in March.

*2: Aggregated and offset the negative impact of Playwire and adGeek and the positive impact of the Chinese corporation.

(Reference material of the company)

Regarding the domestic ad DSP, etc. most affected by COVID-19, which includes FreakOut, the cancellation of orders during periods of high-demand on advertising and products with the main purpose of utilizing location data to promote visiting stores were affected. In addition, subsidiaries have suffered the same-level effects. Overseas, mainly Playwire and the Taiwanese corporation adGeek are starting to get affected. As for Chinese corporations, results are in the positive for advertisement distribution, etc. aimed at application developers and the above figures are acquired after netting. If it weren't for COVID-19, results would have been extremely favorable and the company would have considered revising upwardly.

Reference: Trend of Consolidated Net Sales and EBITDA



(Reference material of the company)

《The Company's response》

ASE

Due to the fact that ASE per se is a product aimed at promoting visiting stores by utilizing location data, the advertisement demand for dining-out, apparel, and events resulted in a rapid decline in sales from late March.

Additionally, as the state of emergency was announced after April and self-isolation became an important social responsibility, the situation for taxi advertisement, etc., of which the number of operating vehicles was reduced during self-isolation times, is much different from communicating with ads made under the prerequisite of people being on the move. This makes for an even more stringent change in the external environment that shakes the root of the ASE business, for which, "making people move through the advertisement" is the core value. For the ASE business, continuing the operation with the existing proposal scheme is difficult amid these circumstances. Thus, the company is making proposal activities aimed at brand advertisers, which are not the product's expected main clients. However, compared to the reasons for the above-mentioned negative results, the proposal opportunities and impact are minimal, thus FreakOut is proceeding with optimizing the allocation of resources for the entire company.

1. Proposal activities for brand advertisers

The company is making proposal activities aimed at brand advertisers for distributing ads to a targeted audience by utilizing approximate attributes (residence area, work area, etc.) based on location information, which is hard to segment online.

2. Optimal resources allocation

The ASE business is linked to the business company FreakOut and adopts a structure where the Tokyo DSP sales team and all sales members in Kansai have combined DSP and Poets to sell ASE. As the ASE has currently lost a large portion of business opportunities, and on the other hand, TVer, Poets, etc. are gaining new business opportunities; the company is making proposal activities by shifting the resources for operation from ASE to TVer, Poets, etc. products in order to gain the maximum return on operating expenses.

IRIS

Due to the practice of self-isolation, starting from around mid-March, demand for outdoor ads started to decline and the decrease in taxi use raised concerns, but sales in March marked a record high. However, the effects of self-isolation became more severe in April and May. As long as this situation persists, there is no escaping the decline in sales. IRIS is not a subsidiary; it's an affiliated company accounted by the equity method, thus, profit and loss are affected by the profit from investment gain on equity method, sales of the company's IRIS agencies, etc. The company took the following measures:

1. Selling billing menus based on the number of views

As the company did not expect the number of times of taxi use to fluctuate so much, it has been focusing on a sales menu where the billing amount was set for a fixed term. However, as predicting the volume of ad distribution continues to be difficult, the company added a menu billed based on the number of views.

2. Support for medical personnel

Despite the decrease in taxi use, there are usage trends specific to the current situation; for example, COVID-19-specific trends such as more usage by medical personnel and increased pick-ups and drop-offs around hospitals were observed. For this reason, the company started displaying the message "we want to deliver our gratitude" as a thank-you message for all the people who are doing their jobs on the frontlines during the COVID-19 pandemic, especially medical personnel.

3. Integration project

The joint venture partner (new company name: Mobility Technologies Co., Ltd) has finally started its activities after the merger, and the joint advertisement business with the company, "Tokyo Prime," will be facing new aspects. The company will cooperate with Mobility Technologies and plans to announce new products and the timing of release around summer. If plans proceed smoothly, ads distribution will begin as the new Tokyo Prime this fall.

IRIS has been steadily growing, so that it can at least make a new record high in sales by March. Thanks to the integration of Japan Taxi and MOV, Mobility Technologies will be able to offer its services for over 50,000 vehicles. Further, the company plans to prepare for an ideal start in the next term by significantly growing the scale of Tokyo Prime, which is currently operating on a scale of 30,000 vehicles.

Qualitative trends inside and outside Japan

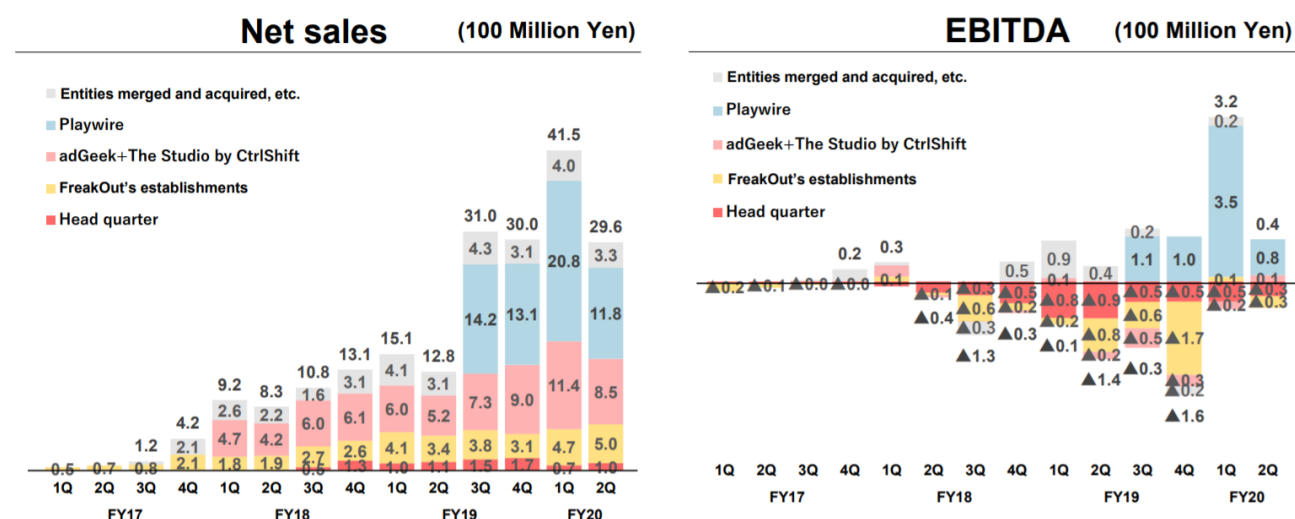
《Domestic Advertising Business》

Domestic advertisement, mainly the core business subsidiary, FreakOut, is making a recovery in profitability as its budget is, currently, in a favorable surplus. Directly after the transaction with the top media was complete, profitability declined in 3Q and 4Q of the previous term, but, in this 1Q, EBITDA was 100 million yen, which is a remarkable comeback. Moreover, in this 2Q, sales of the mainstay project, RED, have firmly recovered. Additionally, sales related to TVer started to contribute to profitability, among other factors resulted in EBITDA of 180 million yen in total. Regarding the recovery of profitability after ending the transaction with the top media, the company has put itself on firm ground.

《Foreign Advertising Business》

Overseas, for Playwire, due to the recoil from the results in December, sales and profit tend to drop sharply in 2Q including January and February every year, but this term even though it was affected by COVID-19, it managed to end in the black. Moreover, for the JV between adGeek and The Studio By CtrlShift, which was a major concern, the total value is in deficit but adGeek's initiatives, which have been undertaken, to improve profitability including downsizing have met with success; judging individually, despite the effects of COVID-19 in March, this 2Q ended in the black. By the end of March, it was cut down further. In contrast, for The Studio, which has been a big issue, it was in deficit for 2Q only by 10 million yen but this term it posted an extraordinary loss and its liquidation was decided early on; it will not affect the results from 3Q onwards. On the other hand, the company's base continues to be in deficit but for 2Q, which is an off-season for advertising, the deficit range is significantly minimized. Additionally, thanks to promoting the joint venture with SilverPush and its awareness of bases that should be considered for additional liquidation, it has become significantly close to achieving profitability. Furthermore, the Singapore corporation has currently finished cutting costs and it will further work on cost improvements in the future.

Breakdown of Overseas Ad's Net Sales and EBITDA



(Reference material of the company)

BRIDGE REPORT



(2) Financial condition and Cash Flow

Main BS

	September 2019	March 2020		September 2019	March 2020
Cash and deposits	5,690	5,485	Trade payables	2,854	3,027
Trade receivables	4,454	4,568	Short-term loans payable	3,358	7,718
Current assets	14,511	12,036	Current liabilities	11,498	12,279
Property, plant and equipment	239	204	Long-term interest-bearing debts	6,809	2,428
Intangible assets	2,615	2,505	Total liabilities	18,353	14,753
Investment securities	5,830	5,546	Net assets	5,885	6,263
Investments and other assets	6,872	6,271	Total liabilities and net assets	24,239	21,017
Noncurrent assets	9,727	8,981	Balance of interest-bearing debts	10,168	10,146

*unit: million yen

*Interest-bearing debts = loans + lease obligation

The total assets as of the end of the first half stood at 21,017 million yen, down 3,221 million yen from the end of the previous term. This is mainly because other accounts receivable decreased 3,499 million yen.

Liabilities were 14,753 million yen, down 3,599 million yen from the end of the previous term. This is mainly because other accounts payable decreased 3,549 million yen.

Net assets were 6,263 million yen, up 378 million yen from the end of the previous term. This is mainly because non-controlling shareholders' interest rose 243 million yen through the capital increase due to the listing of a consolidated subsidiary, while retained earnings dropped 86 million yen through the posting of net loss attributable to owners of the parent.

Capital-to-asset ratio was 21.7% (18.2% at the end of the previous term).

Cash Flow

	1H of FY September 19	1H of FY September 20	YoY
Operating cash flow (A)	647	844	196 30.3%
Investing cash flow (B)	-4,938	-1,356	3,581 -
Free • Cash Flow (A + B)	-4,290	-512	3,778 -
Financing cash flow	7,235	338	-6,897 -95.3%
Cash and Equivalents at the end of term	6,151	5,485	-665 -10.8%

*Unit: million yen

At the end of the first half, the cash and cash equivalent stood at 5,485 million yen, down 204 million yen from the end of the previous term.

Operating CF was an inflow of 844 million yen (an inflow of 647 million yen in the same period of the previous year). This is mainly because net income before income taxes was 171 million yen, allowance for doubtful accounts increased 245 million yen, and the refund of income taxes amounted to 259 million yen.

Investing CF was an outflow of 1,356 million yen (an outflow of 4,938 million yen in the same period of the previous year). This is mainly because the purchase of investment securities was 805 million yen, the purchase of shares of subsidiaries and associates was 279 million yen, and the payments for sales of shares of subsidiaries resulting in change in scope of consolidation was 847 million yen.

Financing CF was an inflow of 338 million yen (an inflow of 7,235 million yen in the same period of the previous year). This is mainly because the proceeds from long-term loans payable was 996 million yen, the proceeds from share issuance to non-controlling shareholders was 548 million yen, and the repayments of long-term loans payable was 680 million yen.

3. Fiscal Year September 2020 Earnings Estimates

(1) Full-year earnings forecast

	FY 9/19	Ratio to sales	FY 9/20 (forecast)	Ratio to sales	YOY
Sales	21,709	100.0%	27,000	100.0%	+24.4%
Operating income	-1,270	-	200	0.7%	-
Ordinary income	-1,497	-	200	0.7%	-
EBITDA	-491	-	500	1.9%	-
Net income	-3,512	-	undecided	-	-

*Unit: million yen

For the term ending September 2020, sales are estimated to rise 24.4% and EBITDA is expected to be 500 million yen.

The full-year forecast has not been revised. For the term ending September 2020, it is estimated that sales will be 27 billion yen, up 24.4% year on year, ordinary income will be 200 million yen (a loss of 1,497 million yen in the same period of the previous year), and EBITDA will be 500 million yen (a loss of 491 million yen in the same period of the previous year).

The profitability of each business has improved so considerably that the upward revision of the forecast was considered, but the estimates for this term have been left unchanged. Despite the impact of the novel coronavirus, the performance of some businesses improved unexpectedly. As the results in the first half were favorable and there are many measures to be implemented this term, it is considered that even if this situation lingers, the company will not have to revise the forecast downwardly. If the pandemic subsides early, it can be expected that the results will exceed the forecast. Since it is impossible to predict when the pandemic will subside, the forecast was left unchanged. In the second half, the company plans to concentrate on the achievement of plans for this term and preparations for the following terms, which can be made in this situation, although the novel coronavirus keeps affecting the business.

(2) Progress of the medium-term plan

In the 3-year the medium-term plan, the company aims to achieve “sales of 33 billion yen and EBITDA of 3 billion yen” in the term ending September 2020.

However, the company is estimated to fail to achieve this goal. This is mainly because a) there are no longer transactions with the top media, with which the company formed an alliance 3 years ago, in the domestic advertising business, and b) it took time to earn profit in the foreign advertising business, excluding Playwire.

This time, their financial results were affected by the novel coronavirus. This is an abnormal situation, so the company will summarize factors in failing to achieve the goals, produce and announce the new medium-term plan at the right timing.

4. Progress in Each Business

◎ Changes in User Behavior and Internet Advertising Market Challenges

Recent changes in the novel coronavirus situation had various good and bad impacts on all business domains within the company. In general, the negative impact remains stronger than the positive one. Nonetheless, as a result of its successful diversification of the business portfolio and aggressive reorganization of its business since the second half of the previous fiscal year, the company has transformed its organizational structure into a robust one, which limited the negative impact of the novel coronavirus. Given these circumstances, the company's current arrangements, which include its perceptions of the macro-level situation as an advertising business, and the long-term outlook are as follows.

- Internet Advertising Becoming the Top Media

As a recent epoch-making event in the advertising industry, Internet ad market finally surpassed the terrestrial television advertising market in 2019. In addition to the continuous expansion of the performance budget linked to the increase in the EC rate, the brand budgets, which used TV advertisements as its top media until now, are beginning to return to Internet advertisements as the users' media access duration changes. This shift is believed to be irreversible.

- OTT (Over-The-Top, a Service that Provides Video and Audio via the Internet) Market Growth and Changes in User Behavioral Habits

Now that the spread of smartphones and social media has somewhat settled down, the next trigger that will cause changes in the user's media access duration and accompanying changes in the brand advertisers' environment will be the growth of the OTT market such as YouTube. Looking at the rapid growth of Netflix during the novel coronavirus crisis, it is clear that the growing need to stay at home does not uniquely encourage the return to television. Users prefer to consume on-demand media via the Internet even at home, and the spread of 5G will further promote this trend.

- Especially recently, celebrities such as idols, personalities, entertainers, and athletes who have been appearing on TV have opened accounts on YouTube one after another and started communicating directly with fans through social media. Such changes by content providers will draw not only the digital native generation, but also middle-aged users, who have been the core generation for TV users, from TV to the Internet.

- Challenges in the Internet Video Advertising Market

It is only natural that brand advertisers will actively place advertisements on Internet video services year after year. On the other hand, the Internet video advertising market has a major problem that there are very few places where brand advertisers can communicate their brand messages in a secure, effective, and scalable manner. There is a problem that the advertising budgets are concentrated on a small number of specific video media such as YouTube, and there are not enough options. There are also significant concerns from the perspective of brand safety.

- In the face of such market challenges, the corporate group has been advancing ad-tech development for multi-faceted Internet video advertising and has been working on ad-tech development to contribute to a healthier industry. The following (1) to (3) are the concrete measures the corporate group has undertaken.

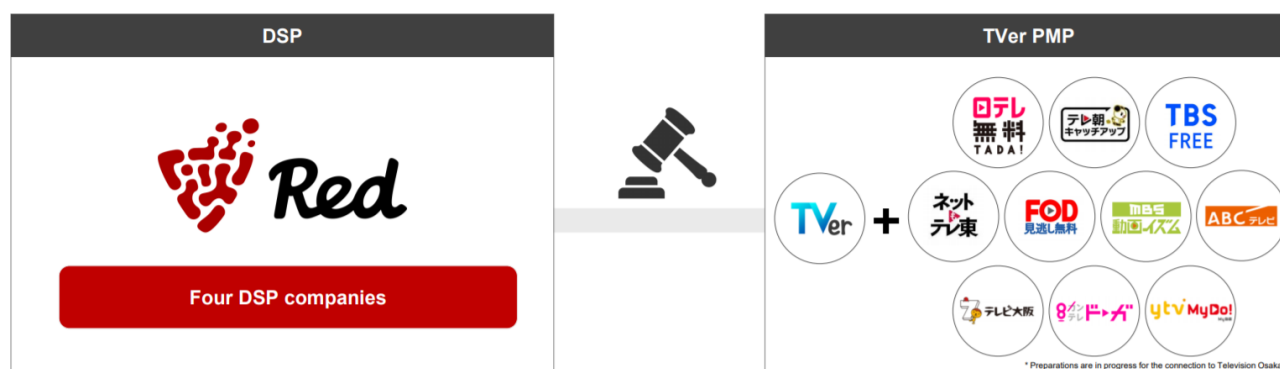
(1) Development of New Technological Platforms in the OTT Market—TVer PMP

The company is developing advertising technologies where the development of new video media will be jointly created, and a new place for safe brand communication will be provided. Last year, the company formed a business alliance with TVer, an official TV portal site established through the collaboration of commercial TV stations. For TVer to function as a healthy space for brand advertisers, the company has been working on the development of a technological platform for

creating a healthy advertising ecosystem on TVer by conducting thorough and very rigorous creative screening, like the screening of TV commercials. In March, the number of MAU (monthly active users) exceeded 10 million, and the cumulative number of downloads exceeded 25 million, making it one of the leading OTTs in Japan.

In the first half of the fiscal year, the company proceeded with development by focusing its utmost efforts on building a platform to create such a large-scale business. Specifically, the company connected with DSP companies to maximize the number of bids and expanded the inventory to maximize the number of requests. Regarding the former, in the first half of this fiscal year, FreakOut's Red, The Trade Desk (the world's largest DSP), and five companies including the major domestic DSPs connected. As for the latter, video advertisement distribution has become possible on broadcasting companies in Osaka as well as 5 private broadcasting companies in Tokyo.

Sales in 2Q showed a positive growth of +200% from 1Q, and the company was about to achieve a full-scale sales impact in the second half of the fiscal year when the novel coronavirus crisis happened, forcing some brand advertisers to go into a self-restraint mode. However, since May, advertising has recovered gradually from this self-restraint mode. Thus, the company expects new robust revenue sources in the second half of the fiscal year.



(Reference material of the company)

(2) Development of Video Analysis Technology on OTT such as YouTube—Mirrors by SilverPush

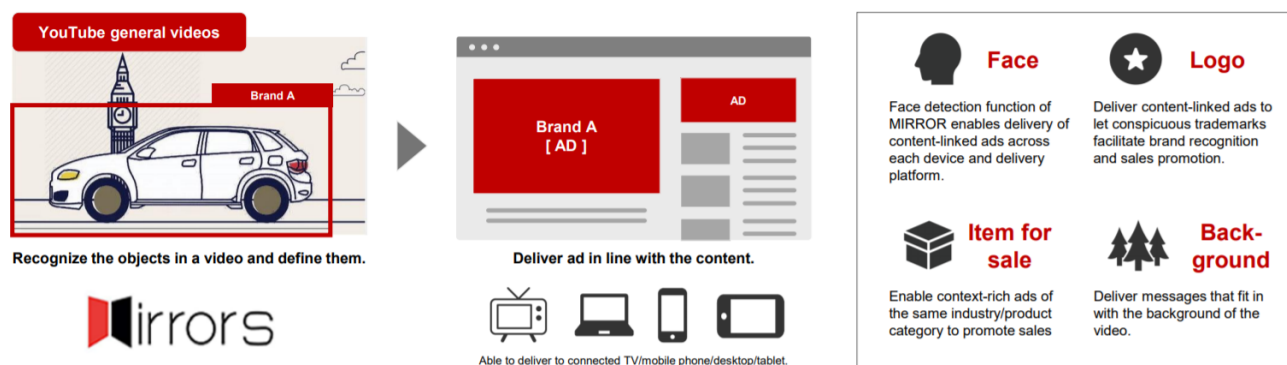
Mirrors by the affiliated company SilverPush is the development of an advertising technology that enables safer, more efficient, and effective brand communication on specific video media. It is a video analysis technology that is used in video advertising services such as YouTube. SilverPush has been focusing on developing real-time core technologies for video image analysis such as Parallels, a product SilverPush launched a few years ago in various parts of Asia that analyzes video images of TVCM and enables placing ads that are synced with TVCM real-time on the Internet. SilverPush has more than 25 in-house AI engineers and has acquired seven patents for core technologies.

Refining its video analysis technology using Parallels, last year, SilverPush launched Mirrors, which analyzes content based on video instead of text in video advertising services such as YouTube and uses the analysis results as a trigger to achieve brand safety and streaming efficiency. There have been technologies for textual analysis of audio information spoken in videos that use this analysis for brand safety. However, humans are said to have the ability to collect about eight times as much information through visual input as auditory input. That is why there has been a wide demand for brand safety based on visual input.

Using Mirrors, you can remove or add advertisement placement triggers that cannot be picked up by the YouTube keywords or tags, and brand-specific unsuitable requirements from distribution targets based on video content analysis. For example, you can use it to distribute your product's advertisements to videos in which your company's and your competitors' products appear in the video contents. These instances often appear casually and naturally in videos, and are

often not identified by the default targeting of YouTube. Thus, instances are often excluded from the advertisement distribution targets. In addition to brand logos and products, Mirrors can identify a wide range of specific people such as celebrities and their facial expressions, and backgrounds such as football stadiums.

By using Mirrors, you do not place your ads blindly on YouTube as you can customize it to exclude or place ads when specific triggers appear in the video content. Therefore, Mirrors strengthens brand safety and enhances the impact of advertisement distribution by improving the user experience since it places ads that match the video content. That is why in most of the cases, using Mirrors resulted in an improvement in viewership rates (the yield from advertisement distribution to viewing) and the cost per view in comparison with the advertisement distribution by the default targeting. Since the company was able to confirm its performance after conducting in-house business verification, in the second half of the fiscal year, the company established a system in Southeast Asia where its own sales team will exclusively sell Mirrors and Parallels, and SilverPush will concentrate on improving products and developing new core technologies. Moreover, in the second half of the fiscal year, FreakOut is planning to deploy “Mirrors” in Japan, where it will fully support the business verification starting from the launch of the sales organization.



(Reference material of the company)

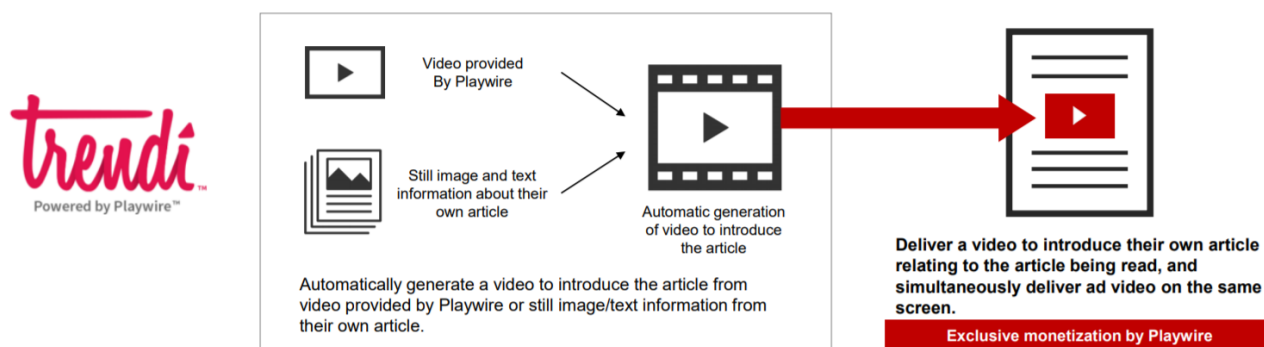
(3) Developing Technologies to Automatically Generate and Mass-Produce Video Advertisement on Still Image-Based Media—Trendi by Playwire

Trendi by Playwire is an advertising technology that expands the opportunities for brand communication in video ads in a scalable manner by automatically producing video contents in the existing media. Due to the increasing demand for Internet video advertisements from brand advertisers, there is a growing need to expand revenue through increasing video contents and placing video advertisements not only in new media such as TVer but also in existing media such as news media and vertical media that are mainly still images and text. However, to produce video content, you have to set up a new organization, and it takes a considerable amount of time to create each video. Thus, it is extremely difficult to increase the volume of video content at a cost that commensurate with profitability.

To deal with these challenges in the media, Playwire, an American subsidiary, developed and provided Trendi, which collects still images and text on websites and automatically produces video contents. Trendi analyzes text in the article that the users are currently reading and distributes related generated video in the middle or at the bottom of the article. This enables media partners to mass-produce video content easily. Moreover, Playwire exclusively supports the monetization of the advertising frames set for the video content, which makes it possible for the media to increase the video ads revenue effortlessly.

Playwire has succeeded in developing an extremely profitable business model by increasing the bargaining power with advertisers and agents by gaining exclusive media video frames.

Concerning business progress, the company expects steady business growth in the future through business development that captures the current trends, such as earning EBITDA of 430 million yen in the first half of the fiscal year.



(Reference material of the company)

The three points mentioned above are mainly “past” measures related to the Internet. However, like with IRIS Inc., companies are moving towards getting online and creating a new side to the Internet, which is the top media where advertisers can develop new ways of video advertisement distribution that are safe, effective, and scalable through the Internet. The company plans to release new businesses that will move various offline spaces to the Internet.

In the era when everything is connected with the Internet, as 5G arrives, moving towards a future where brand communication will mainly be online, the company will not only continue to use technology to solve the problems on the existing Internet media, but it will also continue to develop new technologies that will bring offline media online. Through the collaboration within the group, it became possible to develop while hedging the risks associated with new businesses. This was the result of the advertising businesses moving up to the next level as a group. In the second half of the fiscal year, the company will continue to work on new developments that are connected to the next fiscal year and beyond, while implementing restraints where it is needed due to the coronavirus pandemic, and appropriately hedging risks in the upcoming future.

5. Conclusions

Despite the impact of the novel coronavirus, their performance improved significantly in the first half. In addition, the impact of the pandemic seems to be smaller than assumed. EBITDA almost reached the full-year estimate in the first half, and unless something unexpected happens, annual EBITDA is expected to be much larger than the estimate: 500 million yen. If the state of emergency is lifted, the businesses that have been negatively affected by the novel coronavirus are expected to recover. The businesses that have been positively influenced by the novel coronavirus are expected to keep contributing to the company’s performance even after the pandemic subsides, and boost the profitability of the company in the end. We would like to pay attention to the goals in the new medium-term plan, although its announcement has been postponed.

<Reference: Regarding corporate governance>**◎Organization type, and the composition of directors and auditors**

Organization type	Company with audit and supervisory committee
Directors	8 directors, including 4 external ones

◎Corporate Governance Report

Last modified: December 26, 2019.

<Basic Policy>

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.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

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

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