Yuzuru Honda
Founder & Global CEO

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

Stock Information

Share Price	Number of Shares Issued		Total Market Cap	ROE (Actual)	Trading Unit
¥1,511	16,780,987 shares		¥25,355 million	-	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥0.00	-	-	-	¥278.22	5.4x

* The share price is the closing price on May 21. The number of shares issued, 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 (Actual)	21,709	-1,270	-1,497	-3,512	-	0.00
Sep. 2020 (Actual)	24,878	211	-221	-669	-	0.00
Sep. 2021 (Estimated)	27,000	200	100	Not decided	-	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 2021, 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.**

- **In the first half of the term ending September 2021, sales increased 6.7% year on year and EBITDA rose 75.3%. Sales growth was mainly in the video and Connected TV domain. Outside Japan, sales did not witness as much momentum as in the first quarter due to seasonal factors, but they improved significantly year on year. Although all profits greatly exceeded the corporate budget and the full-year forecast, the company postponed revising them in consideration of the effects of the novel coronavirus and exchange rates. This term is the first fiscal year of the medium-term plan, where the company aims for sales of 45 billion yen and an EBITDA of 3 billion yen in the term ending September 2023.**

- **The term ending September 2021, which is the first year of the medium-term plan, got off to a strong start in the first quarter. Even though the sales momentum slowed down in the second quarter due to the off-season overseas, it can be said that it has kept the trend of the first quarter. We could see an overseas breakthrough in sales centered on the United States in the first quarter, while domestic sales moved from recovery towards the path of growth in the second quarter. Cumulative profits in the second quarter exceeded the company's full-year forecast, and although there was no upward revision, it will inevitably exceed the forecast. Despite the great leap forward, there is still room for improvement in the Thai business. Even though the company possesses cutting-edge technology and is taking on the global advertising market, its sales are only nearly 30 billion yen. Especially considering the company's growth potential overseas, we get the impression that it is a "diamond in the rough." In the short term, we would like to pay particular attention to the trends in Playwire.**

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 (former President and Representative, currently serving as an operating officer, 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.
2020	Nov.	Intimate Merger was transformed from a subsidiary to an equity-method affiliate.

【1-2 Philosophy】

FreakOut’s philosophy is “Give People Work That Requires A Person.”
With the recent popularity of the keyword "DX," companies are being asked to make more digital shifts, but at FreakOut, we believe that it is a matter of course for IT companies to use technology to improve the work efficiency of their customers.
If "DX" means replacing what people can do with machines, then FreakOut's goal is to create new jobs by having machines do what people could not do.

The company's mission is to make sure that DX does not end up being DX.
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.

【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.

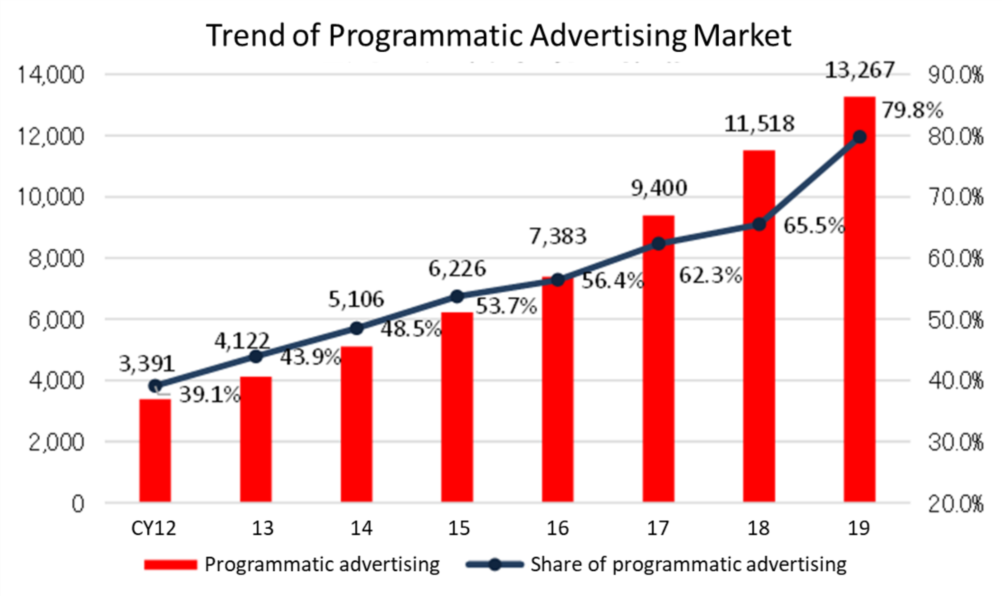
More specifically, it is a platform where advertisers and advertising agencies perform an automatic bidding transaction and advertisement distribution *per impression* utilizing the RTB technologies and their own algorithms with Ad Exchanges, SSP, adnetworks and others.
Advertisers first determine the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

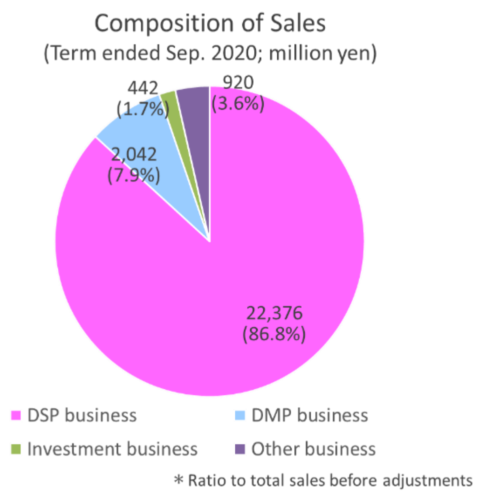
The company's RTB commercialized in Japan is currently only less than 10% in size of its US counterpart, but it is growing rapidly.
As seen here, "performance-based advertising" based on the remarkably fast-growing RTB technologies even within the Internet advertising, the sector showing the highest 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.

【1-4 Business contents】

1. Business segments

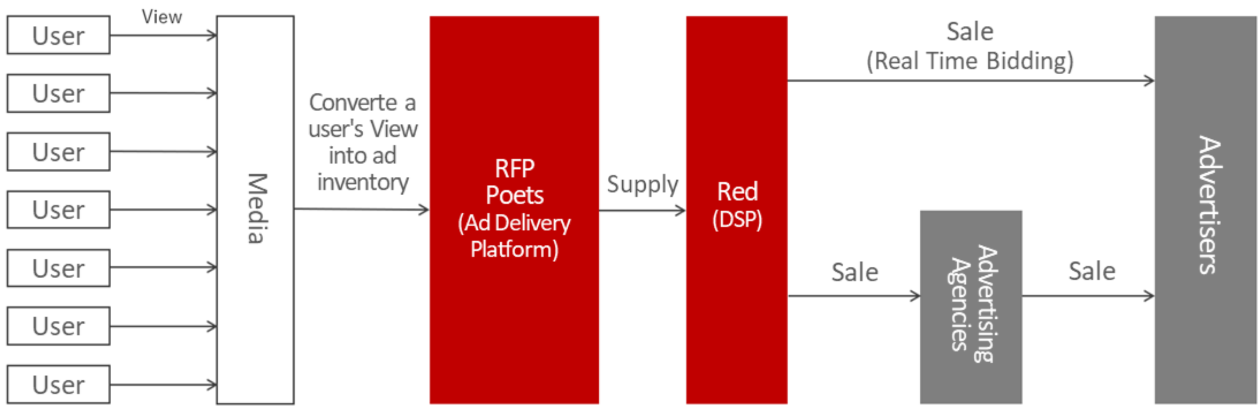
The company's three business segments are "Advertising and Marketing Business," "Other Business," and "Investment Business." Intimate Merger, which had been a part of the "DMP business" until the term ended September 2020, was excluded from the scope of consolidation (currently an equity-method affiliate).



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.



(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	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.

	Features: ・Mounted with the cutting-edge original engine for machine learning ・Securing of mobile and infeed 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 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.
Red for Publishers	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. 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. 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. 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.
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	Premium advertising platform that can provide advertisement experiences without compromising the user experience by utilizing an advertisement format highly compatible with the content UI. 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.
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.

②Investment 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.

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.
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. The company is reviewing its business structure from FY9/19 to FY9/20 and is about to enter the growth phase again.

【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 adverting 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 2021 Earnings Results

(1) Overview of Business Results (Total)

	FY 9/20 1H	Ratio to sales	FY 9/21 1H	Ratio to sales	YoY
Sales	13,588	100.0%	14,500	100.0%	+6.7%
Gross profit	3,248	23.9%	3,380	23.3%	+4.1%
SG&A expenses	2,978	21.9%	2,726	18.8%	-8.5%
Operating income	269	2.0%	653	4.5%	+142.8%
Ordinary income	266	2.0%	847	5.8%	+218.0%
EBITDA	488	3.6%	856	5.9%	+75.3%
Net income	-86	-	821	5.7%	-

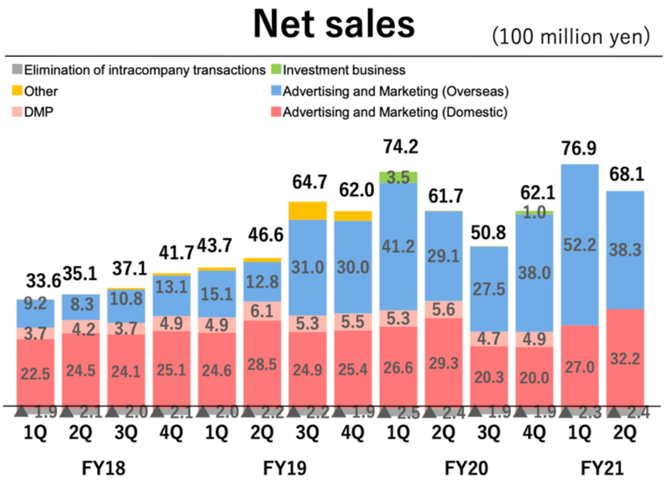
*unit: million yen

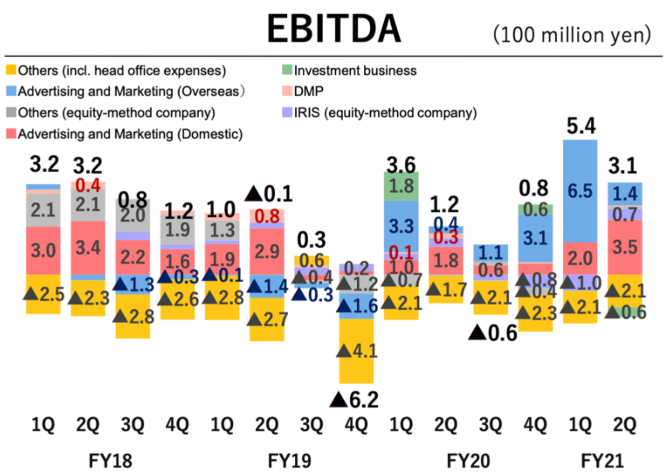
*Some data is calculated by Investment Bridge, and some data contained within this report may vary from actual results. (Applies to all data in this report)

Sales and EBITDA increased 6.7% and 75.3% year on year, respectively.

In the first half of the term ending September 2021, sales increased 6.7% year on year to 14.5 billion yen.
In the domestic advertising business, sales related to services that require the physical movement of people, which had been declining due to the effects of the spread of the novel coronavirus, have recovered significantly. In addition, the video and Connected TV domain, a part of the "premium media support" business and the focus of the medium-term management plan, contributed steadily to the earnings. Outside Japan, some of the effects of the spread of the novel coronavirus remained. However, despite the reactionary decline in advertising demand at the end of the year following the peak in the first quarter and the impact of the Lunar New Year, sales of Playwire grew significantly year on year and drove the company's business performance powerfully. Moreover, overseas bases, mainly in China and Taiwan, are steadily contributing to profits despite the off-season of advertising.
EBITDA rose 75.3% year on year to 856 million yen. Gross profit margin fell 0.6 points year on year to 23.3%. Nonetheless, SG&A expenses decreased, resulting in an improvement in the operating income margin from 2.0% in the same period of the previous year to 4.5%, and operating income rose 142.8% year on year to 653 million yen. In the investment business, some investment securities, which are relatively susceptible to the effects of the spread of the novel coronavirus, were impaired. Among equity-method affiliates, IRIS returned to the black, contributing to profits again, and recorded a foreign exchange gain of 220 million yen. Accordingly, ordinary income increased 218.0% year on year to 847 million yen. Net income improved significantly from a loss of 80 million yen in the same period of the previous year to a profit of 821 million yen, partly due to the recording of a gain on the sale of shares of affiliated companies.

Trends in Consolidated Net Sales and EBITDA





(Reference material of the company)

"Advertising and marketing (domestic)" is making good progress towards recovery and regrowth, centered on its core subsidiary FreakOut Inc., with sales of 3,220 million yen and EBITDA of 350 million yen. The company achieved record-high sales, and even EBITDA reached a high level compared to the time of the transactions with the top media several years ago. In addition, the state of emergency after January 7 did not have a significant impact. Although the effects of targeting becoming difficult from May cannot be foreseen yet, the priority strategies of the medium-term management plan, centering on the video and Connected TV domain, are producing results very smoothly.
Sales of "advertising and marketing (overseas)" were 3.83 billion yen, and EBITDA was 140 million yen, a significant decrease from the previous quarter. However, this was due to the reactionary decline to the advertising demand period in the first quarter (October-December) and the Chinese New Year. Thus, the struggle of the overseas business in the second quarter (January-March) was due to normal seasonal fluctuation factors, and the company expected these results from the beginning. Compared to the previous year, the impact of the novel coronavirus has subsided except for some bases, and both sales and EBITDA have been steadily increasing, which significantly exceeded the budget.

(2) Trends by segment

Sales and Profit by Business Segment

	FY 9/20 1H	Ratio to sales	FY 9/21 1H	Ratio to sales	YoY
Advertising and marketing business	12,162	84.6%	14,469	95.3%	+19.1%
DMP business	1,083	7.5%	-	-	-
Investment business	347	2.4%	-	-	-
Other business	777	5.4%	707	4.7%	-9.0%
Groups and adjustment	-781	-	-677	-	-
Consolidated Sales	13,588	-	14,500	-	+6.7%
Advertising and marketing business	443	3.6%	974	6.7%	+119.9%
DMP business	29	2.8%	0	-	-
Investment business	172	49.8%	-68	-	-
Other business	235	30.3%	223	31.5%	-5.3%
Adjustments	-612	-	-476	-	-
Consolidated Operating Income	269	1.9%	653	4.3%	+142.8%

*Unit: million yen

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

Advertising and marketing business

Sales increased 19.1% year on year to 14.46 billion yen, profit augmented 119.9% year on year to 974 million yen, and EBITDA rose 78.4% year on year to 1.14 billion yen.
The company worked on the maximization of the effects of ads for advertisers and the revenue of media providers by providing "Red," "Red for Publishers," native ad platforms, and trading desks. Sales related to services that require the physical movement of people have recovered and grown significantly. Sales of the video and Connected domain, a part of the "premium media support" business and the focus of the medium-term management plan, have grown steadily. As a result, "Red" has also been performing smoothly. Overseas, Playwire was a strong driving force of the company's business performance, and all the bases in China and Taiwan also contributed to earnings.

Investment business

There were no sales (347 million yen in the same period of the previous year), loss was 60 million yen (profit of 170 million yen in the same period of the previous year), and EBITDA was -60 million yen (+170 million yen in the same period of the previous year).
Impairment was implemented on investment securities that are relatively susceptible to the effects of the spread of the novel coronavirus.

Other business

Sales were 777 million yen, down 9.0% and segment profit was 223 million yen, down 5.3% year on year and EBITDA was 250 million yen, up 3.6%.
In the other business segment, the company offers 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.

Progress Compared with Internal Budget

Followed by 1Q, sales are making greatly steady progress, drastically exceeding the budget.

(100 million yen)

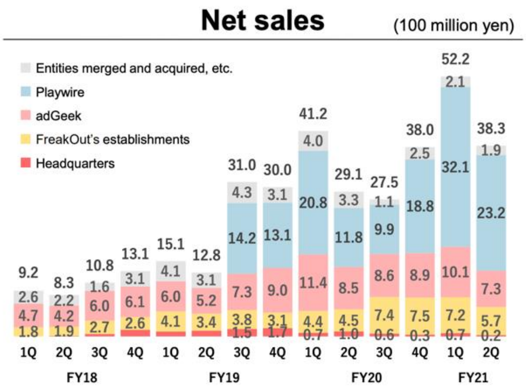
H1			(Reference) Full year	
Initial forecast	Result	Difference	Initial forecast	Progress
130.1	145.0	+14.9	270.0	54%
2.2	8.6	+6.3	6.0	143%
0.9	6.5	+5.7	2.0	328%
▲0.4	8.5	+8.8	1.0	869%
Not disclosed	8.2	-	Not disclosed	-

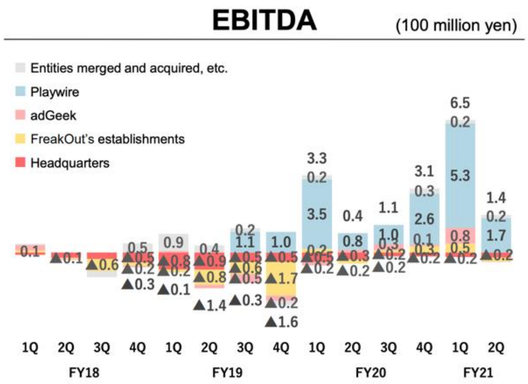
(Reference material of the company)

Overseas business

・ Playwire's sales and EBITDA both grew significantly from the same period of the previous year.
・ FreakOut overseas bases witnessed a deficit in EBITDA due to the reactionary decline from the advertising demand period in the first quarter and the impact of the Chinese New Year.
・ The company decided to withdraw from the Thai subsidiary. In the future, the Thai market will concentrate resources on Digitiv and DotGF.

Sales of overseas and breakdown of EBITDA

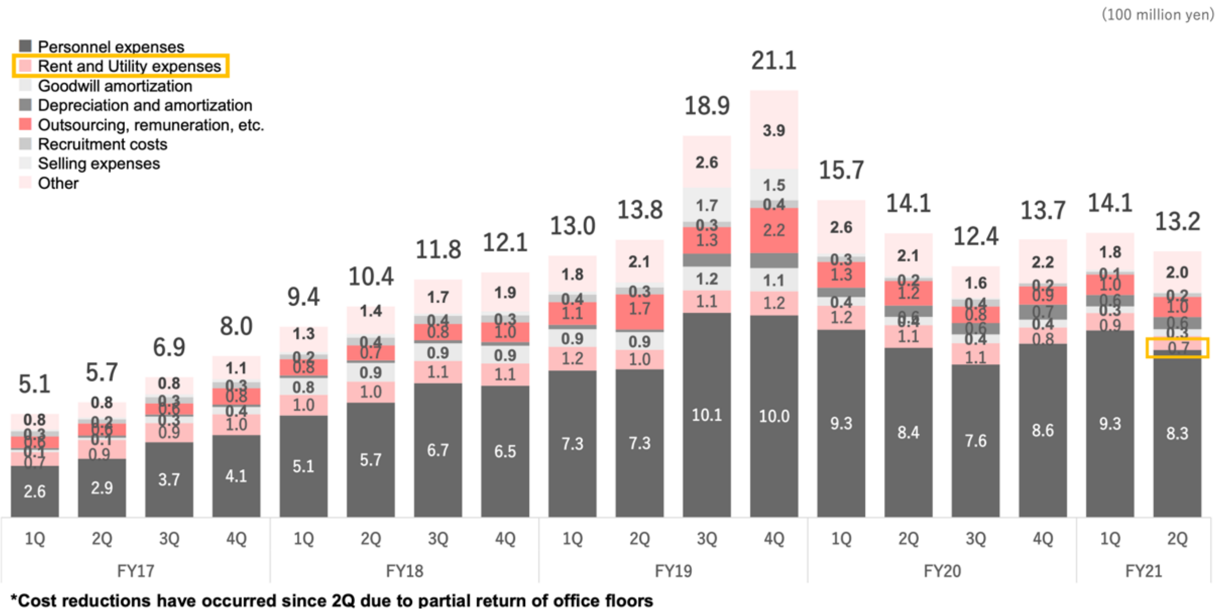




(Reference material of the company)

The total numbers are going very well. Playwire is performing steadily, and the Chinese and Taiwanese corporations continue to be in the black due even with the influence of the Chinese New Year. On the other hand, some overseas FreakOut bases have not achieved their EBITDA budgets in the second quarter.
From the beginning, it was expected that the overseas business would struggle in the second quarter due to the reactionary decline from the peak in advertising demand in the first quarter and the influence of the Chinese New Year. However, there are some bases where the numbers are down even compared to the initial budget. Among them, the Thai corporation cannot continue to be profitable on its own due to external factors such as political instability. Thus, the company has made an additional decision to withdraw from the business in order to streamline management by integrating the business into a subsidiary of a Thai corporation that has undergone M&A.

Trend of SG&A expenses



(Reference material of the company)

The rent declined due to the partial return of the Roppongi headquarters office. As for personnel expenses, there was a temporary cost of about 30 million yen due to a partial review of allowances.

(2) Financial condition and Cash Flow
Main BS

	September 2020	September 2021		September 2020	September 2021
Cash and deposits	9,916	6,597	Trade payables	3,065	3,782
Trade receivables	4,340	5,257	Short-term loans payable	7,854	3,385
Current assets	16,492	13,358	Current liabilities	12,275	8,919
Property, plant and equipment	180	177	Long-term interest-bearing debts	5,608	6,318
Intangible assets	2,302	2,278	Total liabilities	17,959	15,285
Investment securities	4,635	5,482	Net assets	6,356	6,733
Investments and other assets	5,340	6,204	Total liabilities and net assets	24,316	22,018
Noncurrent assets	7,823	8,660	Balance of interest-bearing debts	13,463	9,704

*unit: million yen
*Interest-bearing debts = loans + lease obligation

At the end of the first half of the term ending September 2021, total assets were 22.01 billion yen, down 2.29 billion yen from the end of the previous fiscal year. This was mainly due to a decline of 3.31 billion yen in cash and deposits because of the redemption of convertible bond-type bonds with stock acquisition rights scheduled to be redeemed within one year, even though notes receivable and accounts receivable (trade receivables) increased 910 million yen, and investment securities rose 840 million yen due to the transfer of a consolidated subsidiary to an equity-method affiliate.
Liabilities stood at 15.28 billion yen, down 2.67 billion yen from the end of the previous fiscal year. This was mainly due to accounts payable increasing 710 million yen and long-term debt rising 880 million yen despite the redemption of the convertible bond-type bonds with stock acquisition rights of 4.5 billion yen, which were scheduled to be redeemed within one year.
Net assets were 6.73 billion yen, up 370 million yen from the end of the previous fiscal year. This was mainly due to a decrease in non-controlling shareholder equity of 550 million yen resulting from the transfer of a consolidated subsidiary to an equity-method affiliate even though retained earnings increased 820 million yen due to the recording of profit attributable to owners of parent.
Capital-to-asset ratio was 25.1% (18.9% at the end of the previous term).

Cash Flow

	FY 9/20 1H	FY 9/21 1H	YoY	
Operating cash flow（A）	844	871	+26	+3.2%
Investing cash flow （B）	-1,356	-499	+857	-
Free･Cash Flow（A＋B）	-512	372	+884	-
Financing cash flow	338	-3,817	-4,155	-
Cash and Equivalents at the end of term	5,485	6,597	+1,111	+20.3%

*Unit: million yen

At the end of the first half of the term ending September 2021, cash and cash equivalents increased 1,111 million yen from the end of the previous fiscal year to 6,597 million yen.
Operating CF was an inflow of 871 million yen (an inflow of 844 million yen in the same period of the previous year). This was mainly due to an increase in trade receivables of 1,115 million yen, despite recording a net income before taxes and other adjustments of 1,295 million yen and an increase in trade payables of 821 million yen.
Investing CF was an outflow of 499 million yen (an outflow of 1,356 million yen in the same period of the previous year). This was mainly due to expenditures of 517 million yen resulting from the sale of shares of a subsidiary because of a change in the scope of consolidation.

The financing CF was an outflow of 3,817 million yen (an inflow of 338 million yen in the same period of the previous year). This was mainly due to the expenditure of 4.5 billion yen from the redemption of corporate bonds, even though the company recorded proceeds from long-term loans payable of 1,378 million yen.

3. Fiscal Year September 2021 Earnings Estimates

(1) Full-year earnings forecast

	FY 9/20	Ratio to sales	FY 9/21 (forecast)	Ratio to sales	YOY
Sales	24,878	100.0%	27,000	100.0%	+8.5%
Operating income	211	0.9%	200	0.7%	-5.4%
Ordinary income	-221	-	100	0.4%	-
EBITDA	510	2.0%	600	2.2%	+17.4
Net income	-669	-	undecided	-	-

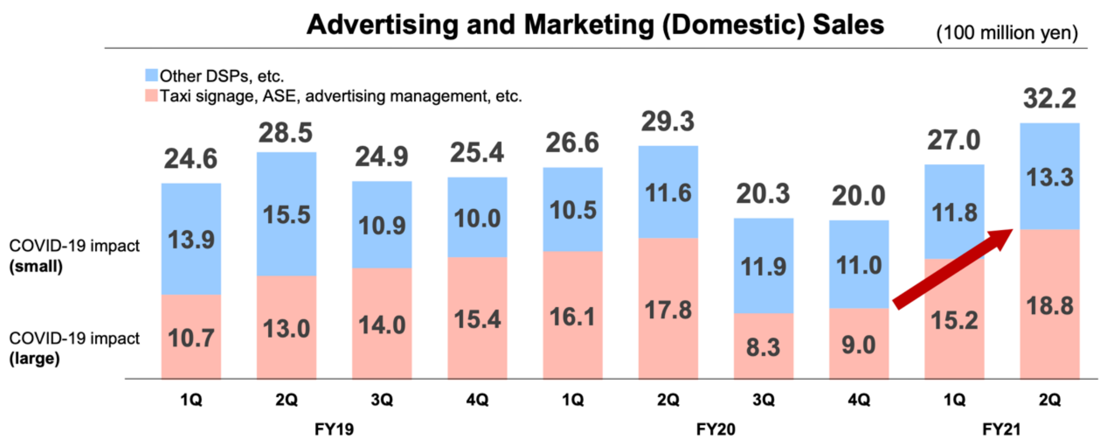
*Unit: million yen

For the term ending September 2021, sales are estimated to rise 8.5% and EBITDA is expected to rise 17.4%.
The full-year forecast was not revised. In the term ending September 2021, the company plans to achieve sales of 27 billion yen (an increase of 8.5% year on year), an ordinary income of 100 million yen (a loss of 221 million yen in the previous fiscal year), and an EBITDA of 600 million yen (up 17.4% year on year).
Although the company performance greatly exceeded the corporate budget, FreakOut did not conduct a revision for the following reasons: (1) As a result of the change from the initial contract due to the agreement with the management of Playwire, expenses of about 100 million yen will be incurred (SG&A expenses or extraordinary loss) in the third quarter (October-December), (2) The novel coronavirus variants are expected to impact all APAC bases except China and Taiwan negatively, and (3) In Advertising and marketing (domestic), the impact of factors related to privacy issues, such as the IDFA opt-in, on business results for the current fiscal year (impact on existing DSPs) cannot be predicted this time. In addition, there are preexisting uncertain factors such as (4) in the "investment business," some stocks that are susceptible to the impact of the novel coronavirus may need to be impaired, (5) the impact of foreign exchange trends cannot be foreseen. (6) It is impossible to read future fluctuations in the profit related to the derivative contract concluded together with the sale of shares of Intimate Merger. Thus, the company concluded that it is premature to revise the earnings forecast for all stages of profits.

(2) Business progress

◎ Recovery & re-growth of domestic advertising business

- The company has achieved record sales after overcoming the effects of Covid-19.
- The taxi-signage and location-based marketing platforms (ASE), which had a particularly high impact, also had the largest sales ever.



(Reference material of the company)

Businesses affected significantly by Covid-19 (red in the above figure)

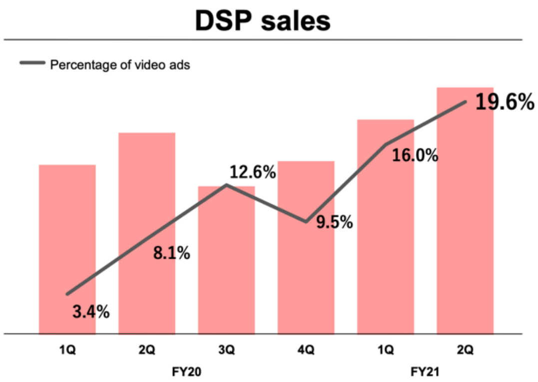
The red (lower) portion of each column in the above graph represents the businesses strongly affected by Covid-19. Of these, sales of taxi signage was particularly affected and dropped to about half, but since this has almost recovered to the pre-pandemic level. Although there is still room for growth, the plateau is being reached, so while it can be expected as a stable source of revenue in the future, the next challenge will be how to make the next step up from there.
The red area also contains ASE: although the company has been doing very well here, various privacy issues are thought to start affecting it in the future.

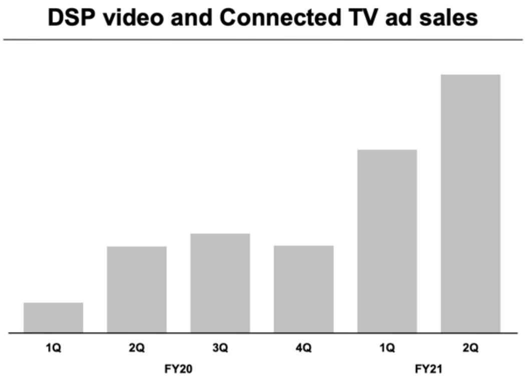
Businesses with minor impacts of Covid-19 (blue in the above figure)

On the other hand, the main businesses not affected by Covid-19 so much (blue portion of each column) were DSP, Premium Media Support (Red for Publishers) and Poets, a native ad network. In terms of the total, the 2Q (Jan-Mar) increased significantly from the previous term as well as the 1Q (Oct-Dec). The positives include the growths in the video and Connected TV domains, and while Poets' struggle was the negative point.

◎ Recovery & Re-growth of Domestic Advertising Business (DSP, Video, Connected TV)

- DSP sales grew 122% year on year with the growths in the video and Connected TV areas.
- The video advertising ratio, which had grown sharply in the previous quarter, continued to grow at about 20%, contributing significantly to the revenue.



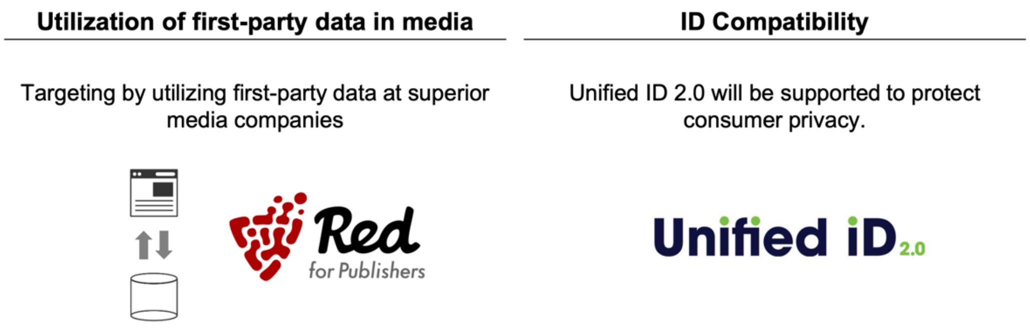


(Reference material of the company)

The DSP video advertising area, which had grown rapidly from the previous fiscal year to the 1Q, grew significantly in the 2Q. March is often the period with high advertising demands, but it is an area that is clearly growing even after deducting seasonal fluctuations. It is also a focus point in a mid-term management plan, and the sales related to excellent video ad space that does not rely strongly on targeting will become a growth driver for the domestic business in the future.

◎ Strengthening business models that do not rely strongly on targeting

- Enhance ad delivery utilizing first-party data from the good media.
- Join Unified ID 2.0. Other solutions and technologies are also considered all the time.

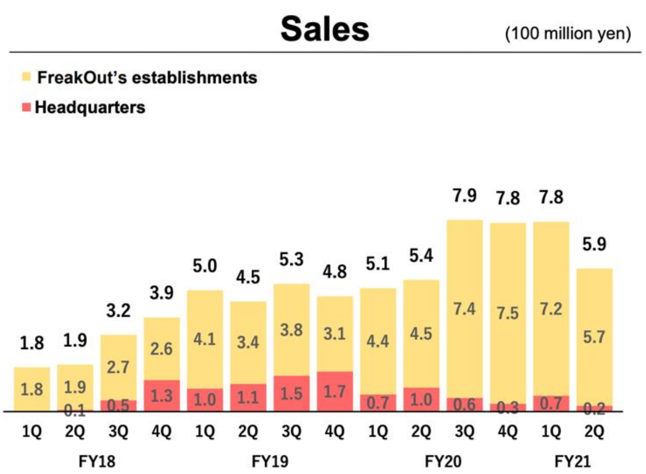


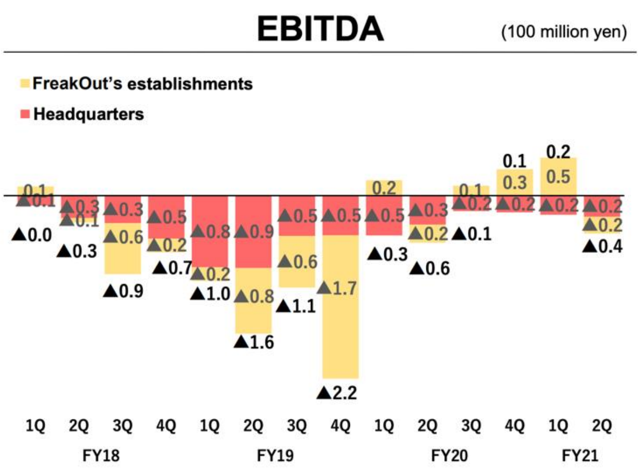
(Reference material of the company)

One of the key elements of the company's growth strategy in the mid-term management plan is to "strengthen its business model that does not rely strongly on targeting." While this will lead to growth in the medium to long term through shifts in advertising budgets, but this could dampen sales over a very short period. DSP originally came about and grew from the perspective of maximizing revenue (advertising effectiveness) by effectively and efficiently delivering advertisements to both advertisers and media, with the view that focusing on the attributes of the media's audience (viewers), and not only the advertising value of the media to which it is published, also adds significant value to the advertising inventory. The regulation this time round has a significant impact on the ad tech industry.
The company has come up with two measures: the first is to focus on the premium media; while with the second, the company will face the strengthening of these regulations head on and respond in the ethical way with consideration for privacy. By implementing these measures, the company plans to make it a catalyst for the shift in advertising budgets to the company's products in the medium to long term.

◎ Monetization of FreakOut overseas bases

- Sales grew 110% year on year, but EBITDA was in the red due to the ads off-season.
- China, Taiwan and Malaysia performed well, but Indonesia struggled due to Covid-19.
- The company decided to withdraw from Thailand due to the low contributions to earnings. In the future, the Thai market will focus its resources on Digitiv/Dot GF.





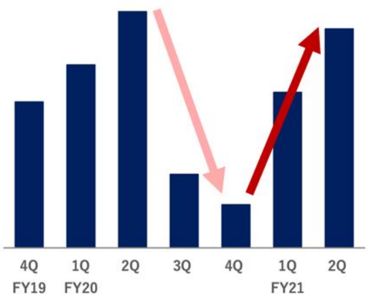
(Reference material of the company)

2Q was in the middle of the quiet period for advertising in many countries, and overall figures are showing a loss again. It was expected to some extent, but Indonesia, many of whose customers were affected by Covid-19, has done particularly badly. The impact is likely to continue, but it is expected to gradually recover from 3Q, partly because the company was working on gaining support for other industries.
China and Taiwan have been performing well since 1Q. As they have been successful in suppressing Covid-19, they have been steadily growing and contributing revenue. The company will continue to focus on these two countries. Malaysia also managed to be in the black despite the off-season following 1Q. On the other hand, for Thai corporations, which have been in the red since 1Q, the company made a decision to liquidate the corporation in 2Q. Going forward, the group as a whole will continue to operate in the Thai market while streamlining its business by integrating its business into Digitiv/Dot GF, a Thai subsidiary that joined the Group through M&A, in order to monetize.

◎ Recovery & Re-growth of Taxi Signage Business (IRIS)

- In March, the company achieved record sales and profit. On a quarterly basis, it recovered to pre-Covid levels.
- In collaboration with the Japan Weather Association, a new advertising menu in cooperation with weather information content has been launched.
- Started broadcasting seat belt awareness videos in collaboration with the TV anime "Odd Taxi."

Changes in IRIS sales



New advertising menu linked with weather information

Seatbelt awareness video in collaboration with ODDTAXI

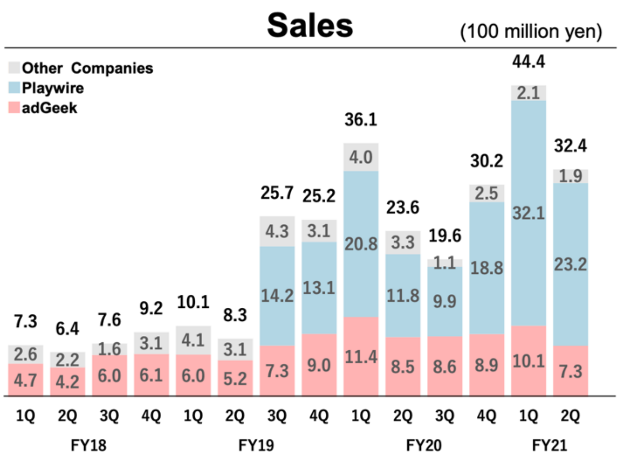
*Excerpt from IRIS media materials

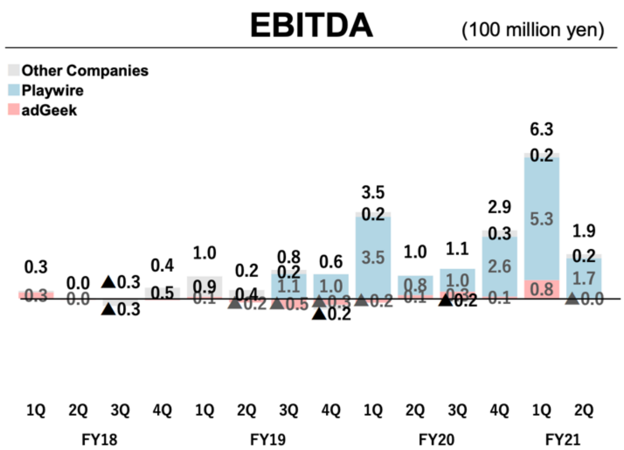
(Reference material of the company)

Tokyo Prime, which was already showing the sign of recovery in 1Q, has grown steadily through 2Q, despite the effects of Covid-19. In particular in March – the high season for advertising – the sales reached a record high. In addition, since the number of units can be increased only so much by nature of the product and there is the sales plateau in existing businesses, new revenue sources are required. The company will maximize future sales by developing new menus and continue to actively develop new advertising products. 3Q will see a sales decline temporarily due to the annual low season of advertising, but the company expect it to continue to grow due to an increase in the number of units and a new menu.

◎ Overseas Group Business Status

- United States: Sales and EBITDA of Playwire exceeded the estimates. The company are also making steady progress in strengthening the company's personnel structure.
- APAC: Sales and EBITDA are also almost as planned (2Q is a quiet period for advertising).





(Reference material of the company)

Playwire

In 2Q, sales reached 2.32 billion yen and EBITDA, 170 million yen. While they declined compared to 1Q, which was during the highest demand period, the company performed well above the expected outcome. The company plans to recruit a total of 20 to 30 additional employees for the purpose of pioneering Publisher and enhancing mobile app technologies. By the end of March, 12 new employees were hired and also 8 in April. The cost is increasing gradually in 2Q, but sales is exceeding the plan, making it a good landing in terms of profit.

adGeek

Taiwan's advertising market reaches its peak demand in November and the period between the new year to the Chinese New Year in February is relatively quiet, and 2Q saw a significant dip. Even the internal budget didn't expect 2Q to be strong, so it was almost a planned landing. In the first half of the term, the company had savings that exceeded the company's budget significantly in 1Q, and the company plans to firmly exceed the company's budget for the full fiscal year by continuing to strengthen the company's basic profitable capacity.

Digitiv, **Dot GF**

Due to the economic situation and the effects of Covid-19, there is uncertainty about the future in Thailand and their brand budgets and creative projects continue to be restrained, but the company continues to actively engage in the sales activities and secure customers and sales in response to needs. In addition, the company's original base will be liquidated, and Digitiv/Dot GF will be operated efficiently as the group's Thailand base.

Thrive

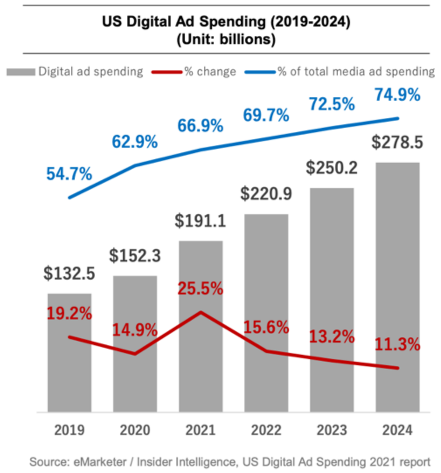
Due to the coronavirus, the company is carefully planning the launch of new advertising product. On the other hand, the orders for development projects evaluated for the online media advertising and technical capabilities from existing customers have improved business performance.

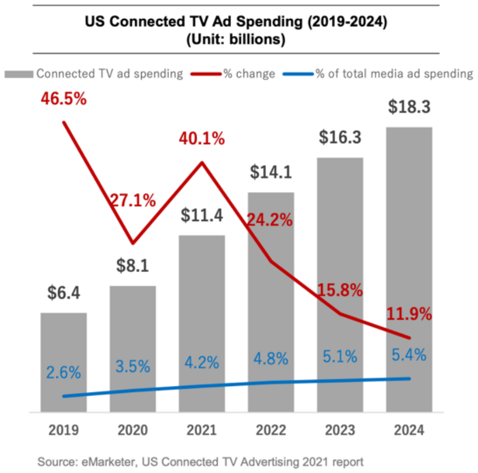
SilverPush

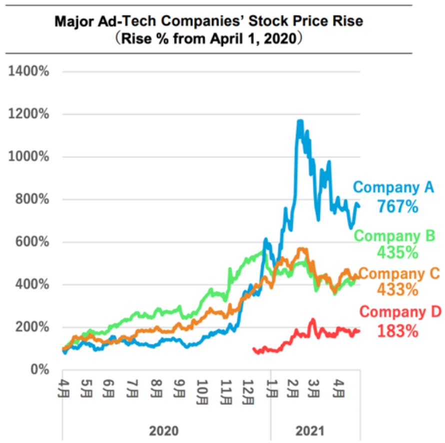
Compared to 1Q, that overlapped with the high advertising demand period, the 2Q figure is low overall, but in Japan, the company received many initial orders, including the trials.

◎ Growth & Reevaluation of Ad Techs in the U.S.

- Digital advertising in the U.S. has grown to occupy more than 60% of all advertising media expenditures and continued to grow at a high rate (up 25% in 2021).
- Connected TV advertising has grown significantly as a shift away from traditional TV.
- U.S. ad tech companies' valuations have risen (market capitalization of listed companies in the sector has soared, IPO and M&A are also active).





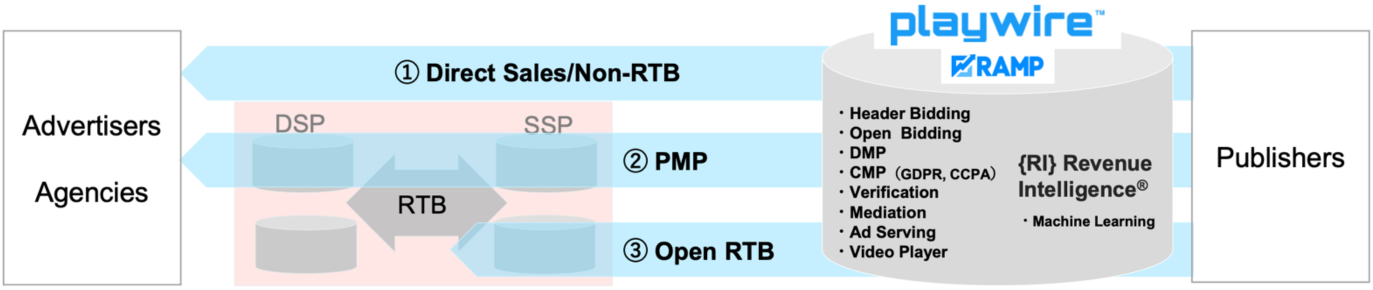


(Reference material of the company)

The U.S. digital advertising market declined year on year in 2Q (April-June) 2020 due to Covid-19, but increased by more than 10% in 3Q (July-September) and by nearly 30% in 4Q (October-December). Social media, video advertising, and programmatic advertising are growing rapidly.
The shift in advertising budgets from traditional TV ads to Connected TV (CTV) and over-the-top (OTT) videos with fine-tuned targeting and operations is a major trend. In particular, Connected TV is recognized as an area to grow significantly in the United States as the TV's "value as a device" is being reevaluated through the Internet-derived contents, and the Internet-based detailed advertisement distribution is done through Connected TV.
Looking at the U.S. stock market, while tech stocks as a whole performing well, ad tech companies' stock prices have been regarded very highly for about a year to the end of April. There has been a recent downturn, partly due to a slight sense of overheating, and the high volatility needs to be looked at with caution, but it is only the proof that the industry has high growth expectations. New listings and M&A have also been active, and since the start of this year, seven cases have been reported with valuations exceeding 1 billion dollars (just over 10 billion yen).

◎ Playwire: Business Description

- Provide complex digital advertising technologies and features as a one-stop platform. Help maximize advertising revenue for digital media.
- Utilize "Revenue Intelligence®," a proprietary technology that optimizes ad revenue with machine learning + human insight. Maximize revenue by combining pure and programmatic advertisings.



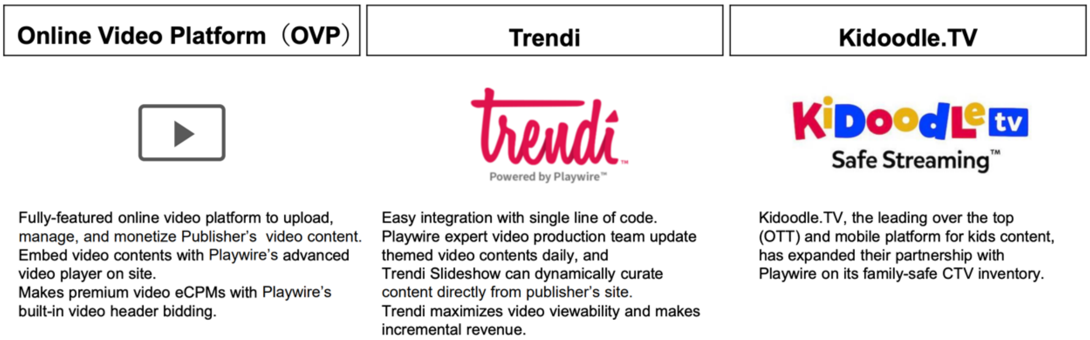
	Deal Category	Inventory	eCPM	Competitive advantage
①	Direct Sales/Non-RTB	Premium	$$$	Direct Sales Relationship with Advertisers & Agencies, plus Exclusive Inventory by BizDev
②	PMP（Private Market Place）	Premium	$$$	High Skilled Programmatic Sales/Ops , plus Exclusive Inventory
③	Open RTB	Large Amount	$	Development of Software Platform to Optimize over 20 SSPs, and Ops.

(Reference material of the company)

Playwire, founded in 2007 and is headquartered in Boca Raton, Florida, is increasing its presence in the U.S. ad tech market. The company acquired 75% its shares in January 2019. They specialize in providing digital media companies with the functions and technologies as a platform to maximize their profits. The digital advertising technologies continue to evolve and become very complex. Playwire provides a platform with the functions that can respond to changes in the real-time trading methods of companies such as Google, ensure the appropriateness of handling data including support for the protection of personal information such as GDPR in Europe and CCPA in California, ensure visibility to advertisements delivered, eliminate inappropriate advertisements and fraud, and deliver technologies that do not cause delays. Thus, media companies do not need to make technical capital investments or build human systems. In addition, by exclusively undertaking the sales of the ad space, media companies can concentrate on the enhancement of their content as their main business.
The company plans to sell premium ad spaces through direct sales by human; the real-time PMP transactions on a closed network of premium ad space limited to selected media companies and advertisers; and Open RTB transactions that can instantly trade large amounts of ad space. These improve transaction unit prices and expand advertising revenue. With RTB trading, the company can maximize its earnings by making full use of its more than 20 SSPs and ad networks. Based on transaction information, the company is also developing the technology to optimize revenue by combining machine learning predictions with human insights.

◎ Strengths of Playwire Video Advertising

- Years of experience and know-how of video technologies – provides unique video-related solutions (video operation platform (OVP), “Trendi” which provides original videos that match the context, etc.).
- Video ad sales account for approximately 40% (about 20% of the total digital advertising market in the U.S. video advertising market). The company is also actively working on the growing OTT/Connected TV field.

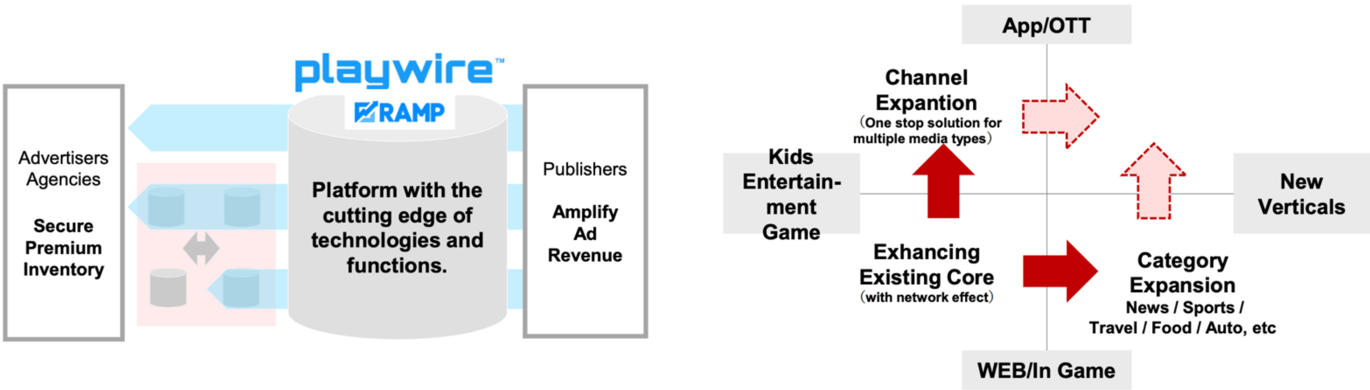


(Reference material of the company)

Playwire’s strengths include its long-standing experience and expertise in the video technologies, including video players for PC in-game advertising, since its launch. Video advertising, which is expected to grow continuously, occupies a rather high rate of about 40%. In the U.S. digital advertising as a whole, video advertising occupies about 20% of the total, and the situation in Japan is similar, so it can be argued that the company is in a strong position with the video advertising as well. In the domestic advertising business, the company is focusing on the video and Connected TV areas. Playwire is actively working in the OTT/CTV field, taking advantage of the company’s technological strengths.

◎ Competitive Advantage & Future Growth Strategies

- An intelligent, hybrid (machine learning + human) ad revenue maximization platform.
- The network effect by accumulating revenue increase results by media. By realizing safe and secure advertising through exclusive management of ad space, the company have gained high trust from both media and advertisers.
- Taking advantage of the strengths that the company has cultivated in its specialty areas (kids, entertainment, games), the company aims to expand in both media categories (news, sports, etc.) and channels (apps, OTT, etc.).



(Reference material of the company)

Playwire’s long-standing relationships with advertisers and agencies, as well as the confidence it enjoys in delivering ads to the right ad space, allow new media to benefit from brand budgets with the premium ad space. In addition, a large amount of ad space can be sold effectively by making full use of multiple diverse networks to greatly expand the sales. Playwire’s strength is its intelligent, hybrid (program and human), revenue-amplifying platform that takes advantage of the latest and numerous ad-tech benefits without having to rely on a single network.

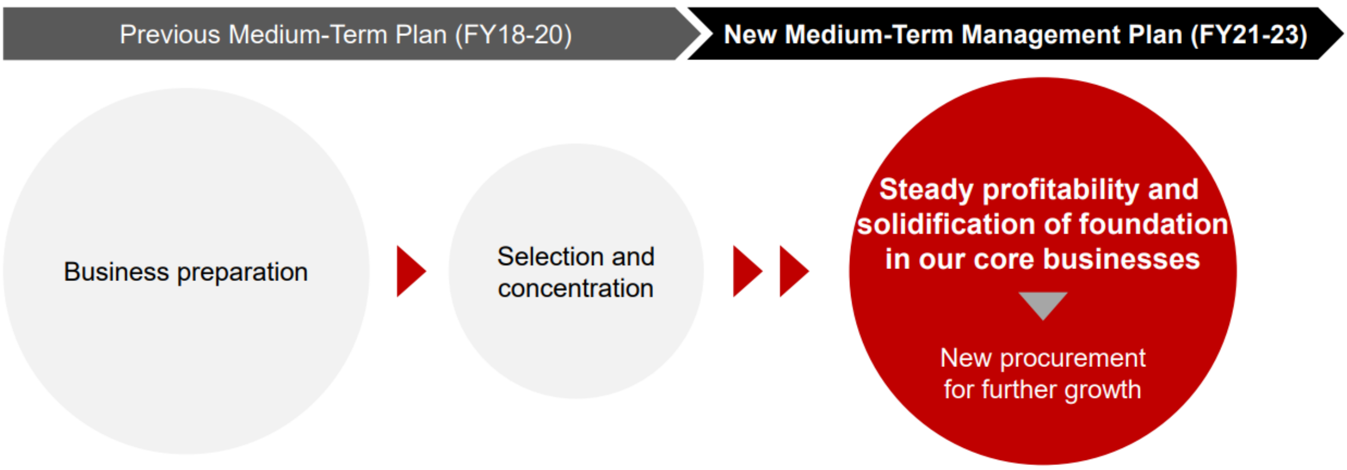
In addition, the company has gained the trust of both media and advertisers for the company's technologies and operations that exclusively manage the ad space of contract media and enable safe and secure advertising. The media contents are scrutinized and continuously optimized to ensure quality. It also ensures the ad visibility without compromising user experience and provides transparent analytics data.
In the children's area, it is required to comply with the regulations regarding the sites aimed at children according to the Children's Online Privacy Protection Act (COPPA) that came into effect in April 2000 in the United States. Playwire ensures that all advertisements and sites as a whole are COPPA-compliant and safe for brands and children through the reviews by human as well as with technology.
The satisfaction from the experience of media companies and advertisers has led to new media acquisitions. Playwire's acquisition of exclusive media will ensure that advertisers and agencies have a place to run ads with the peace of mind. Growth is accelerating due to the synergetic network effect. Taking advantage of this strength, the company plans to expand the sales scale by promoting support for advertising aspects such as smartphone apps and OTT/CTV, and by strengthening the development of new categories such as news, sports, travel, food, and automobiles in addition to existing categories such as kids, entertainment, and games, which are the company's specialty areas so far. To that end, the company is strengthening its engineer system for mobile apps, business development system to develop media publisher companies, and personnel system for stable operation.
As Playwire has been growing so well, the company has made the decision to ask the high-performing management team to stay for longer than originally planned. This policy change is expected to incur the cost of slightly under 100 million yen in 3Q. However, the business performance has been significantly higher than expected, and this will easily absorb it. Playwire is the company's most important strategic subsidiary, and the company will pursue synergies over the medium- to long-term, such as strengthening its businesses in North America and the English-speaking countries and jointly expanding in Asia, including Japan, by securing its presence in the United States.

4. Overview of the New Medium-term Plan

(1)Overview of the Medium-term Plan

◎ New Medium-term Plan (from FY 9/21 to FY 9/23) Basic Policy

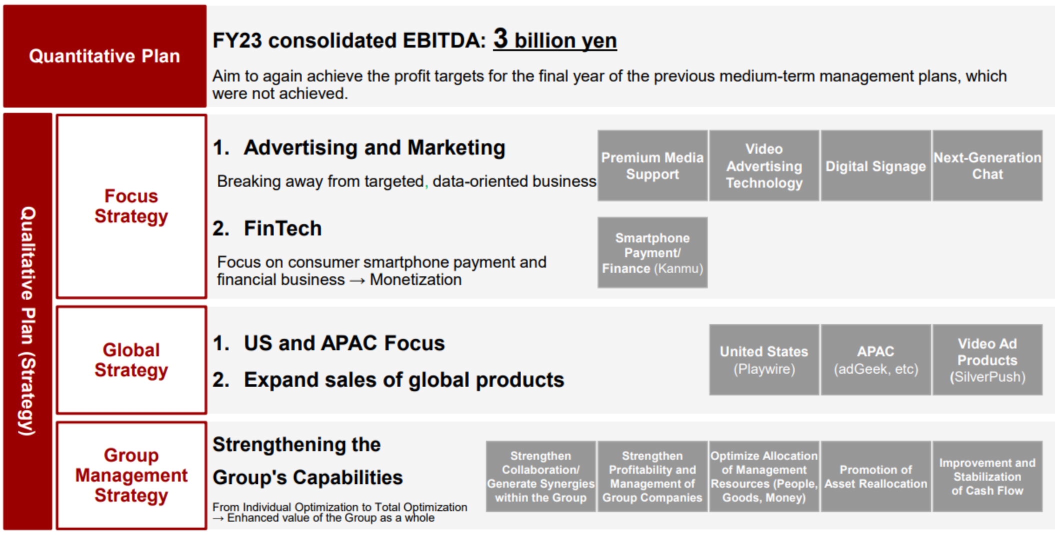
Extension of the Previous Medium-Term management Plan: Challenge the targets of the previous Medium-Term Management Plan, which were not achieved.
The previous medium-term plan is positioned as a period for preparation, and the new plan will be a period for **monetization and solidification of the foundation.**



(Reference material of the company)

In the new medium-term plan, the company will further focus on the businesses that have produced tangible results in the previous medium-term plan. In other words, it will invest more management resources and renew the organization of these businesses. As a result, the businesses will expand further, and new investments will be channeled into related areas.

◎New Medium term Plan Summary

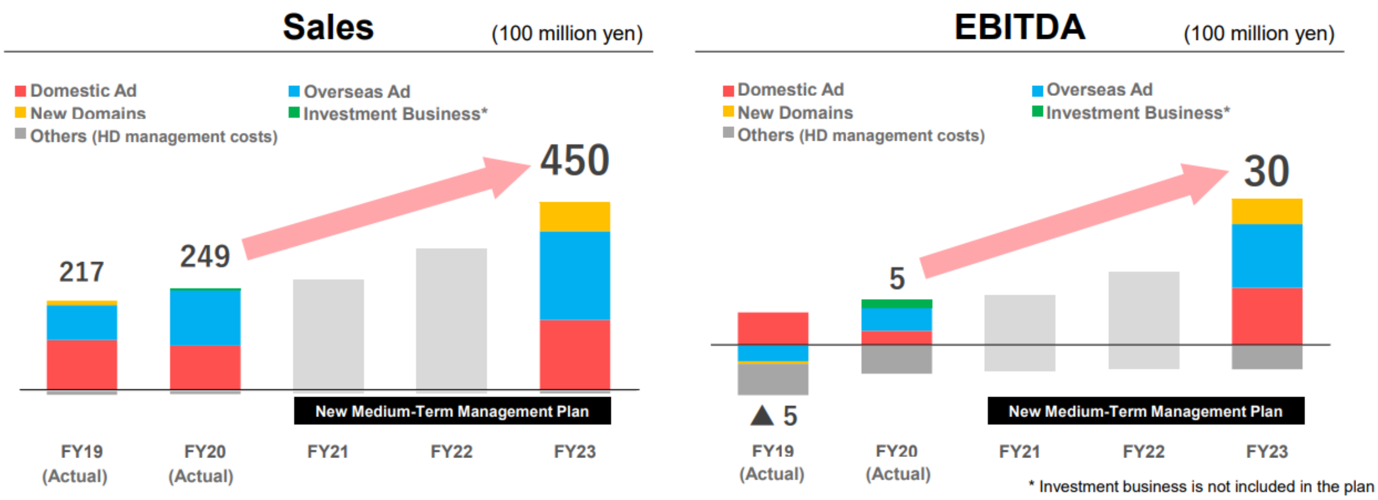


(Reference material of the company)

Quantitatively, the EBITDA target for the term ending September 2023 was set at 3 billion yen. The company will once again aim to achieve the goals that were not accomplished in the previous medium-term plan. Profit from the investment business, which had already had an impact even in the term ended September 2020, is projected to continue to be an additional factor. Yet, it is not included in the plan because it is difficult to predict the timing of profit recording. Thus, the profit target only includes business profit.

Qualitatively, the company plans to further focus on the advertising and FinTech areas that expanded in the previous medium-term management plan, and on overseas, including the United States, which are already growing steadily. In terms of group management, since the company has determined the focusing areas, it will shift from individual optimization to overall optimization. Specifically, FreakOut will create synergies across countries and optimize management by improving traffic efficiency of people and money, which is required for global corporate management. Through these efforts, it will aim to increase the profitability of the entire group.

◎Quantitative Plan



(Reference material of the company)

The profit in the term ending September 2021 are perceived to be unchanged from the profit level in the term ended September 2020. This is because the company is considering investments centered on increasing the number of employees in Playwire. Playwire's growth is extremely fast, and success in the vast market of English-speaking countries centered on North America can be foreseen.

The company executes investments more, especially in personnel to maximize Playwire's profits in the term ending September 2023. While continuing this growth investment, the company aims to steadily monetize the business as a whole in the term ending September 2021 without depending on the profit from the sale of securities.

As for the term ending September 2022, based on the potential growth in the term ending September 2021, and the degree of achievement of the targets for the term ending September 2023, the company might curb investment a little if the company's performance went well. Suppose the company falls behind in terms of growth, the company projects that there will be an adjustment phase where it will make additional necessary investments in necessary businesses while observing the profit status. On the other hand, if the company performs well, it aims to start consolidation of new group companies such as SilverPush, Kanmu, and Jent from the latter half of the term ending September 2022 to the term ending September 2023. Therefore, the company's plan to achieve an EBITDA of 3 billion yen is to accomplish a growth curve where profits will increase slightly in the term ending September 2021 to the term ending September 2022. Then, profits will rise in a non-linear manner from that point to the term ending September 2023.

◎ Qualitative Plan: Overview of Focus Strategy

Breaking away from targeted, data-oriented businesses

Targeting ads using data will become increasingly difficult in the future, as evidenced by growing awareness of privacy protection and platformer policies making it difficult, for example, to "sell low-quality media at high prices through retargeting." Under such circumstances, the question for future advertising businesses is: What are the policies and how well prepared are they?

"Focus on the good stuff"
(Global Unified Group Slogan for achieving the Medium-Term Management Plan)

Development and provision of products and services focused on premium media and high-quality clients

Premium Media Support	Video Advertising Technology	Digital Signage	Next-Generation Chat
Providing high-level advertising platforms that support high-quality media sought by excellent advertisers	R&D and commercialization of advanced targeting technologies that do not rely on user data, such as video contextual advertising utilizing AI	Development of a new premium signage advertising space following taxis	Investment in and commercialization of next-generation chat technologies that enable more sophisticated levels of customer service amid chat becoming the standard as an alternative to targeted advertising

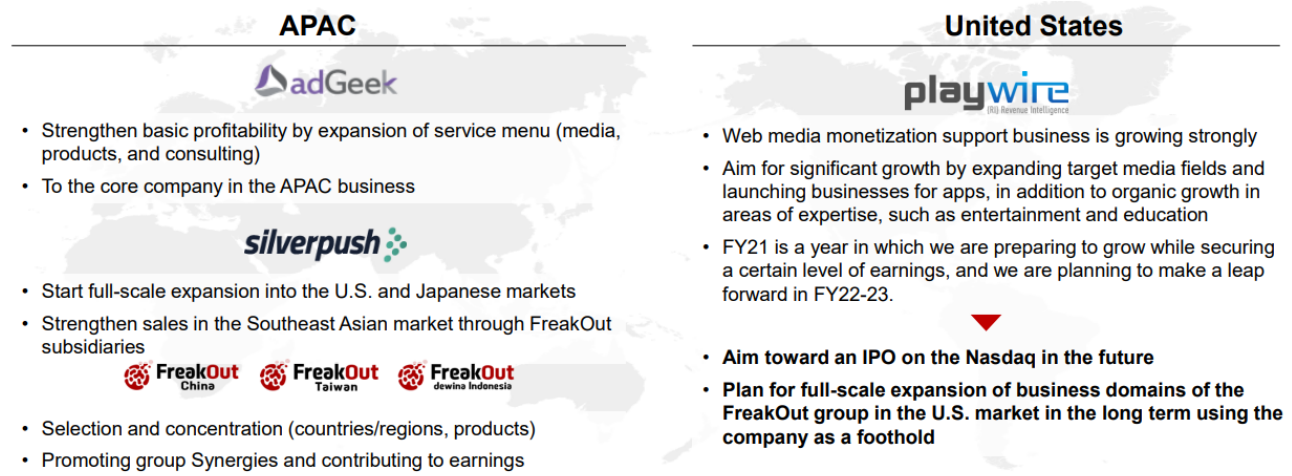
(Reference material of the company)

There is no doubt that the DSP business, which is their leading business that the company had continued since its establishment ten years ago, is based on targeting technology utilizing user data. This has made it theoretically possible to sell ad spaces at high price even if it is not a premium media platform, because high advertising effectiveness can be expected by using high-quality user data. However, due to this, some advertising companies sold extremely low-quality media, and in extreme cases, even ad spaces on illegal sites. This issue has been highlighted by the media, such as TV, and has been viewed as a social problem. As a result, excessive privacy awareness rose among Internet users, and major platformers have also laid stricter data usage rules for advertising companies. This tendency is expected to become more rigid in the future. Advertising companies are under pressure to break away from the user data-oriented business, and concrete solutions for this issue are being demanded from them. Targeting advertising using user data will become more difficult in the future. For example, it will become hard to sell low-quality media at a high price with retargeting strategies, due to heightened awareness of privacy protection and platformer policies.

Under such circumstances, FreakOut has expanded its business centered on transactions with premium first-class media through its services, such as providing an advertising system to several well-known leading platformers in Japan. Thus, the company has stayed away from the business policy of selling low-quality media at a high price using user data. Also, aside from the Internet, all operating companies in the group have been working with a high level of commitment to "premium manufacturing," such as creating a premium atmosphere inside taxis through advertising. As it is becoming more difficult for advertising companies to utilize user data, the company chose its slogan for its medium-term management plan to be; Focus on the good stuff. The company decided to share their concept of focusing on dealing only good things while keeping their high moral standards as they have been doing so far, throughout the group, including overseas subsidiaries. Based on this idea, the company has set up four strategies that focus on "handling premium services away from user data dependence" in the advertising business, which is its primary business. These strategies are: (1) premium media support, (2) video advertising technology, (3) digital signage, and (4) next-generation chats.

◎ Qualitative Plan: Global Strategy

Focus on expanding the profitability of the U.S. and APAC businesses
Develop video advertising products (SilverPush) globally



(Reference material of the company)

FreakOut's corporate philosophy is; Give People Work that Require a Person. Their mission is to accomplish this globally. The company aims to establish clear added value and strengths for all overseas group companies, secure profitability, and gain a presence in each country by 2023. FreakOut plans to fully promote alliances and synergies between these companies once each company secure their profits. Therefore, during the new medium-term management plan up to 2023, the company will focus on expanding each business's profits. Among the group companies, Playwire in the United States has been performing well in the media's monetization support business. It is foreseen that it will grow further in the future. Thus, the company will boldly invest resources as much as possible in it, and expand its system to increase profits. Furthermore, the company intends to proceed with its efforts with filing for IPO in NASDAQ. For Playwire to grow with high competitiveness in the global market as a product company, the company intends to use Playwire as a foothold to gain a presence in the U.S. market. The U.S. business is critical in the new medium-term management plan.

In the APAC business, FreakOut will establish core competencies and expand the fundamental profitability of companies such as adGeek in Taiwan, digitiv in Thailand, and dotgf. Furthermore, it will deepen its collaboration with SilverPush, which has video analysis and advertising technologies.

◎ Qualitative Plan: Group Management Strategy

Strengthening the Group's Capabilities

Aiming to increase the entire group's value through management that is more conscious of overall optimization as a group.

To increase the investment capacity in growth areas, the company will focus more on cash flow and strive to improve and stabilize it.

(Reference material of the company)

The company will change the organizational structure drastically to rotate the excellent human resources within the group, manage the profit and loss of group companies from quantitative and qualitative aspects, and create synergies.

Moreover, as some listed companies have emerged within the group, the company will aggressively sell the non-core businesses to concentrate their investment on core businesses.　They sold the shares of Intimate Merger, Inc. as a start in November 2020. This does not deny the growth potential of the businesses to be sold. The decision to sell these businesses reflects the willingness to sell assets with a high possibility of cashing and have entered a stable operation phase, considering them by the priority level, as the company will invest intensively in areas with extremely high growth potential.

5. Conclusions

The term ending September 2021, which is the first year of the medium-term plan, got off to a strong start in the first quarter. Even though the sales momentum has slowed down in the second quarter due to witnessing an off-season overseas, it can be said that it has kept the trend of the first quarter. We could see a breakthrough in overseas sales centered on the United States in the first quarter, while domestic sales moved from recovery to the path of growth in the second quarter. Cumulative profits in the second quarter exceeded the company's full-year forecast, and although there was no upward revision, it will inevitably exceed the forecast. Despite the great leap forward, there is still room for improvement in the Thai business. Although the company possesses cutting-edge technology taking on the global advertising market, its sales are only around 30 billion yen. Especially considering the company's growth potential overseas, we get the impression that it is a "diamond in the rough." In the short term, we would like to pay particular attention to the trends in Playwire. Sales in the second quarter decreased compared to the first quarter but doubled from the previous second quarter. Thus, we are looking forward to the sales growth in the second half.

<Reference: Regarding corporate governance>

◎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: January 14, 2021.

<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.”

To view back numbers of Bridge Reports on FreakOut Holdings, inc. (6094) and other companies and to see IR related seminars of Bridge Salon, please go to our website at the following url: www.bridge-salon.jp/