



Keiji Nishie
Representative Director,
Chairperson, and President

VECTOR INC. (6058)



Company Information

Marketing	TSE Prime Market
Industry	Service
President	Keiji Nishie
HQ Address	Akasaka Garden City 18th Floor, 4-15-1 Akasaka, Minato-ku, Tokyo
Year-end	February
Homepage	https://vectorinc.co.jp/en

Stock Information

Share Price	Share Outstanding	Market Cap.	ROE (Act.)	Trading Unit	
¥1,076	48,176,100shares	¥51,837million	25.1%	100shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥28.00	2.6%	¥95.56	11.3x	¥306.44	3.5x

*The share price is the closing price on October 26. Each figure is based on the financial results for the second term ending February 2024.

Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Feb. 2020 (Actual)	39,626	3,635	3,322	-199	-4.20	0.00
Feb. 2021 (Actual)	39,164	2,892	2,769	486	10.21	2.00
Feb. 2022 (Actual)	48,122	5,128	5,208	2,071	43.46	13.00
Feb. 2023 (Actual)	55,225	6,276	6,623	3,172	66.54	19.00
Feb. 2024 (Forecast)	63,000	7,260	7,260	4,570	95.56	28.00

*Unit: million yen, yen. The forecasts are from the company. Net income is profit attributable to owners of parent. The same applies below. As the accounting policy was changed due to turning investment into business, the new accounting policy was retroactively applied to the financial figures in and before the term ended February 2022.

This Bridge Report reviews on the outlook of Vector Inc.'s earnings results for the for the second term of the fiscal year ending February 2024.

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Key Points

- Under the vision: “Making People Happy by Delivering Excellent Products, Services and Solutions to the World,” Vector supports corporate communication strategies in a multifaceted manner mainly in the PR and advertising business. With the competitive advantage of having a broad range of infrastructure for distributing products, the company aims to secure the No. 1 position in the global PR field as a “fast company in the advertisement field” targeting an advertisement market with a scale of 7 trillion yen.
- In the first half of the term ending February 2024, sales grew 7.1% year on year to 28.5 billion yen. Both the PR and advertising business and the press release distribution business continued to grow by double digits, and the investment business saw a sales decline due to the recoil from the gain on sales recorded in the same period of the previous year. Operating income dropped 56.2% year on year to 1,480 million yen. The company recorded a provision for doubtful debts for accounts receivable in the PR and advertising business. Profit shrank because the company did not book a gain on sale in the investment business this term like in the same period of the previous year. Regarding sales, the company reduced the number of advertisements it placed in the first quarter in the direct marketing business, and with regard to profit, it fell below the forecast because it booked a provision for doubtful debts, which is a one-off cost, but excluding it, all kinds of profits exceeded their respective forecasts as projected.
- For the term ending February 2024, the company forecasts that sales will reach 63 billion yen, up 14.1% year on year, operating income will rise 15.7% year on year to 7,260 million yen, and net income will be 4,570 million yen, up 44.1% year on year. An extraordinary income from sale of shares in Signal Holdings Co., Ltd. will be recorded in the third quarter, based on which the company has revised the forecast of net income upwardly by 500 million yen. The forecast for this term places a great weight on the second half of the term even at the beginning of the current term, and the performance of each business is as expected so far. Therefore, profits generated in the company’s businesses, including its mainstay PR and advertising business, will make contribution to the financial performance in the second half. Furthermore, the company will post an extraordinary income from sale of the shares in Signal Holdings in the third quarter, and it is expected to catch up on its progress on the full-term forecast. The dividend is to be 28.00 yen/share, up 9.00 yen/share year on year. The projected amount of dividends has been revised upwardly by 3.00 yen/share from the previous announcement, with the expected payout ratio being 29.4%.
- The financial results are seemingly disappointing because of the provision for doubtful debts recorded in the PR and advertising business and the year-on-year decline in profit by 56.2% in the investment business due primarily to the gain on sale which was booked in same period of the previous year. The provision for doubtful debts in the PR and advertising business, however, is expected to be paid back by the end of the current term. In the investment business, the company is projected to record gain on sale in the second half. The business forecast originally attaches more emphasis on the second half of the term, and the company will be able to regain its strength in the second half.

- **We would also like to pay attention to the increase in the numbers of participating enterprises and registered students in the recruitment matchmaking platform “JOBTV.” While there are other services using videos for employment matchmaking, only Vector’s service allows job seekers to create a video. It is expected that generative AI such as ChatGPT will significantly change all kinds of scenes in everyday life and as it is assumed that CVs and professional resumes will be commonly created by AI in regard to job hunting as well, it is expected that the value and importance of a video which allows for the demonstration of one’s personality instead of a uniform resume created by AI will dramatically elevate for both the job-seeking applicants and the selecting enterprises, and it can be considered that it will constitute a powerful factor that differentiates Vector from other companies.**

1. Company Overview

Under the vision: “Making People Happy by Delivering Excellent Products, Services and Solutions to the World,” Vector supports corporate communication strategies in a multifaceted manner mainly in the PR and advertising business. With the competitive advantage of having a broad range of infrastructure for distributing products, the company aims to secure the No. 1 position in the global PR field as a “fast company in the advertisement field” targeting an advertisement market with a scale of 7 trillion yen.

1-1 Corporate History

Established in March 1993 by Mr. Keiji Nishie (Founder and Representative Director, Chairperson, and President) for the purpose of operating sales promotion business. To conduct businesses with higher growth potential, the company shifted to a business structure centered on the PR business in April 2000 and began to aggressively operate its business with the goal of becoming the No. 1 company in the PR industry. He has established various companies to support PR from a wide range of aspects. Furthermore, in recent years, the company has been continuously expanding its services and strengthening its structure to provide comprehensive support for corporate communication strategies, beyond the conventional field of PR services.

Listed on the Mothers of Tokyo Stock Exchange in 2012. In 2014, the company stepped up to the First Section of the Tokyo Stock Exchange. In April 2022, the company got listed on the TSE Prime Market.

They ranked first in Asia and seventh globally on a worldwide PR company ranking in 2023.

1-2 Management Philosophy

The company's vision is “Making People Happy by Delivering Excellent Products, Services and Solutions to the World.”

In addition, the company presents **Vector's Rock**, a list of thoughts and ideas employees should have and actions they should take.

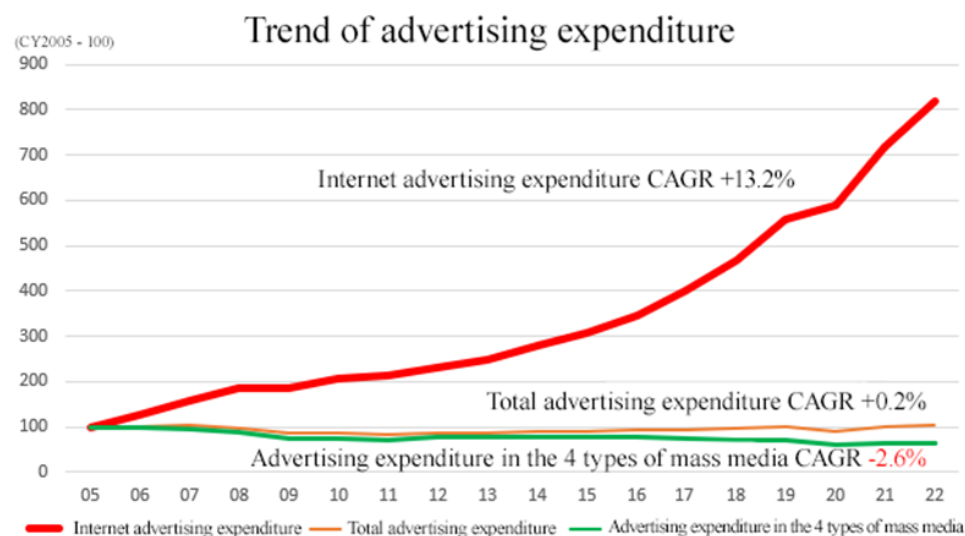
Become Professional	To become a professional in this industry, one must be incredibly well versed in all its intricacies. Recognize the way you are, have strong confidence, apply yourself diligently each day, contribute to customers, and by doing so control the industry. That’s what being professional means to us.
Restrained Passion	We have passion and we understand how important that is. Cold pizza is out of the question to eat. Of course, we are also careful not to get overly excited though. That’s why we praise employees for showing what we call “restrained passion.”
Take Action	You can’t create anything without first taking the initiative. Don’t ask with a serious face whether to act before thinking or think before acting. Vector is made up of a group of people who take action, with speed.
Clear Goals	We have clear objectives and recognize this as critical to our operations. We constantly look to get creative by using our imagination. A cornerstone of our philosophy is to let go of everything and receive success, because we know in that way, success is sure to come.
Entrepreneurial Spirit	We value creating new business and we have gotten where we are today by adopting an entrepreneurial spirit. We take great joy in building something from nothing, and we like to share this enjoyment with others. We prefer this to losing ourselves as can happen to big companies.
Simplicity	We like to keep work simple. Humans often tend to overcomplicate things, but we believe that people who succeed lead extremely simple lives. That’s something we aspire to.
Evolution	We are an organization that makes precise plans for everything we do. That’s why we always do the work we are asked to do perfectly. On top of this, we continually read the trends of the times and look to create and improve. This leads to the development of innovative and creative services that revolutionize the industry.
Be Giving	Our first thought is to give. We understand it’s only natural to want to go out and take. But from the outset we try and see what we have to give. It may seem paradoxical, but good fortune starts with giving.
Be Genuine	Being genuine is a trait that we see as essential and one of the most important components needed to grow at work. Any problem or issue can be overcome if we just remain genuine. That’s the way we choose to live. It’s simple, yet profound.
Think Straight	It’s not as easy as it sounds to think straight, but it can help us solve most problems when it comes to human-related issues. Remember this Vector’s Rock when you feel like complaining. Just remain silent when you feel like saying something hard to express. Dignity is a characteristic that we can develop on our own.

Client First	Although there are various principles listed in Vector's Rock, we are well aware that our prosperity is based on those of our clients'. Success in business is gained from contributing to customers, a point we thoroughly understand.
Be in Tune with the Times	No matter how hard you try, you still need to be in tune with the times. That means reading current trends, being thoroughly prepared and making your own luck. It also means recognizing the potential of a period and tapping into it. This will help to nurture one's own potential at the same time. Deep contemplation is often a good way of unearthing latent capabilities.
Full and Beautiful	Both work and life are meant to be fun. Goals are important, but so too is enjoying the moment. Lead a full and beautiful life. These are wonderful words to live by.
Glory	This is what we are aiming for. Although it seems like a simple concept, it is something that we endeavor to obtain in all facets of our existence.

1-3 Business Environment

According to 2022 Advertising Expenditures in Japan (DENTSU INC.), total advertising expenditures in Japan in 2022 (January-December) increased 4.4% year on year to 7,102.1 billion yen, exceeding the amount in the year 2019 before the outbreak of the coronavirus crisis and hitting a record high (7,019.1 billion yen in 2007) ever since the estimation was started in 1947.

The overall advertising market grew especially owing to the expenditures stemming from favorable Internet advertising against the backdrop of the digitalization of the society. Out of Internet advertising, Vector expects that the market of video advertisement will expand dramatically as the commercialization of 5G has made it possible to convey richer content than before by improving communication speed and marketing strategies using video content will increase.



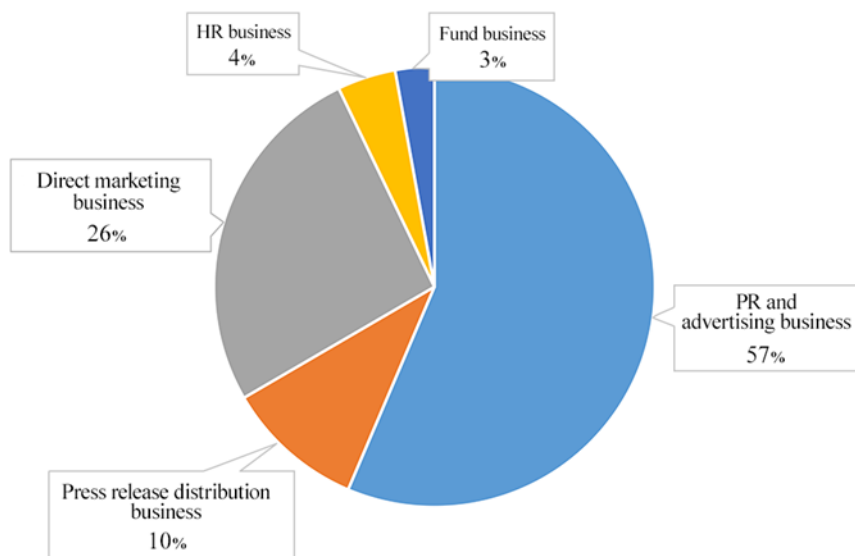
(Produced by Investment Bridge)

1-4 Business Description

The company engages in PR and advertising, press release distribution that provide comprehensive support for corporate clients' communication with consumers using the media. The company also engages in the direct marketing business, which focuses on online sales of goods; the HR business, which provides cloud services for personnel evaluation; and the investment business, which invests in venture companies to support their growth.

The basic principle is having a PR retainer contract (cases in which a monthly fee is charged when the contract period is 3 or more months). Based on this contract, the company provides a variety of advertising and PR methods owned by the group. The company is currently working on about 2,600 projects a year.

Sales composition by each segment (FY2/23, unit: million yen)



The group consists of 53 companies, including Vector Inc. Subsidiaries are responsible for providing services to customers, and Vector Inc. collectively manages various administrative functions for the entire group, including corporate planning, human resources, general affairs, legal affairs, finance, and accounting.

Although the company operated seven business segments up until the term ended February 2023, it changed the number of reportable segments to five in the term ending February 2024.

(1) PR and advertising business

In addition to its conventional public relations services, the company offers consulting services to support PR for clients' products and services through strategic PR, which utilizes PR in the advertising and publicity fields. The company also sells advertising through IoT signage services using tablets installed in taxicabs. Most of the work is provided to clients through group companies, each of which has its own specialties such as existing media, blogs, and social media, and operates in different areas such as Japan, China, and ASEAN countries.



Digital signage has been installed for rear seat passengers in approx. 11,500 vehicles, the largest scale of taxi signage advertising in Tokyo.

In October 2022, we introduced a new screen for signage that is 156% larger than previous screens.

Roughly 40% of Tokyo's taxi users, who mainly consist of business people, have been covered, with video advertisements and media content reaching around 7.7 million people.

(Taken from the reference material of the company)

(2) Press release distribution business

In response to publicity requests from clients, the company distributes information about client products and services as press releases and is operating a platform business that connects companies and consumers through press releases.

The number of companies using the press release platform PR TIMES is over 87,000 making it the No. 1 platform in Japan, used by 56% of listed companies.

Japan's No. 1 press release distribution platform PR TIMES
 More than 87,000 user companies, used by 56% of listed companies



(Taken from the reference material of the company)

(3) Direct marketing business

The company operates the D2C (Direct to Consumer) business, which develops and sells health and beauty-related products and services via the Internet. The company offers the “Vitabrid C” series, which is one of their core products, and the cumulative sales volume exceeds 14.69 million items.

The company is also generating synergies by utilizing the knowledge and experience gained from its own D2C business for its PR and advertising business.

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We launched the Vitabrid C series using worldwide patented technology, and it is continuing to grow steadily.

It is an accumulated earnings model provided via a subscription model, and the total number of products provided has **surpassed 14.69 million**.



Terminalia First continued to perform well following its launch, with cumulative sales **exceeding 6.4 million units**.

Net sales
12,540 million JPY
Feb. 2023

10,210 million JPY
Feb. 2022



First in Japan! Japan Premium DHA & EPA + GABA, a functional supplement that addresses 8 health concerns, launched on September 21, 2023

9,890 million JPY
Feb. 2021

8,360 Million JPY
Feb. 2020

6,310 million JPY
Feb. 2019

(Taken from the reference material of the company)

(4) HR business

The company provides consulting services to companies to support the installation and operation of HR evaluation systems and HR evaluation cloud services.

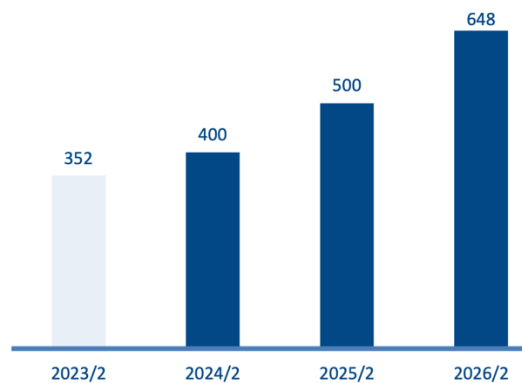
They are proceeding with building stable revenue foundations, increasing the ratio of recurring revenues by raising the retention rate by reinforcing the sale of SaaS solutions and elevating client satisfaction.

Personnel evaluation cloud "Ashita Cloud"

Operating Profit (million JPY)



Build up subscription earnings by strengthening sales of SaaS-based products



(Taken from the reference material of the company)

“JOBTV,” a recruitment matchmaking platform, is a service that settles issues experienced by both job seekers and enterprises. It enables expeditious matchmaking by utilizing videos as a gateway to recruitment activities. The merger and acquisition of Busiconet Inc. contributed to the rapid sales growth of the business in the second quarter of term ending February 2024.

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JOBTV is a recruitment matching platform where users can view unlimited company information videos.



(Taken from the reference material of the company)

(5) Investment business

The company invests in venture companies to support their growth. In addition to the investment, the company provides PR and IR support to help increase corporate value. In addition, by transforming invested firms into subsidiaries, the company will back up their capital aspects and accelerate their growth, with the aim of conducting an IPO early and earning profit on sale.

Thirty companies, including PR TIMES and its subsidiaries, have gone public so far.



(同社資料より)

1-5 Characteristics, Strengths, and Competitiveness

Extensive infrastructure for distributing products

There are a wide variety of ways for companies to popularize their new products and services, including the rapidly expanding Internet, mass media (TV, newspapers, magazines, and radio), events such as presentations and press conferences, and in-store sales promotions.

On the other hand, because of the high degree of division of labor in the advertising industry, when companies try to use each method, they have to place orders with different companies, which is time-consuming and expensive in many cases.

The company, on the other hand, has a group of 53 companies that provide a wide range of infrastructures necessary for promoting products and can provide one-stop services, thereby reducing costs. The company receives many orders from major advertising agencies, and rather than competing with them, they are differentiating their areas of expertise.

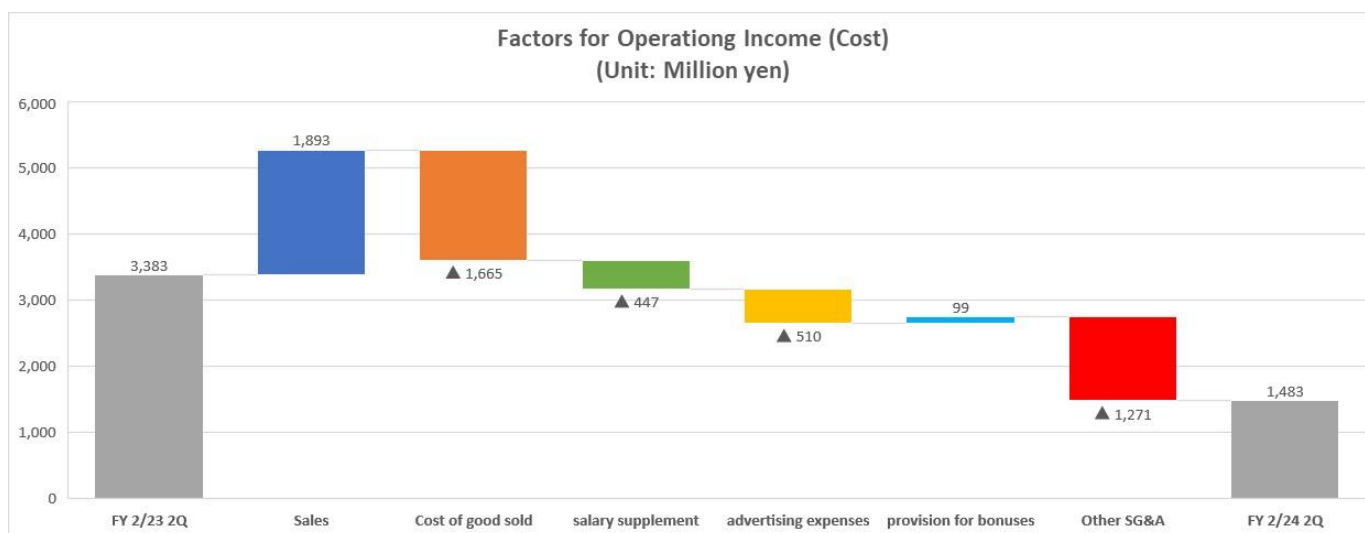
Another of the company's strong competitive advantages is its ability to propose and provide advertising and PR methods that match the needs of companies and the characteristics of their products and services, based on accurate consulting.

2. Second Quarter of the Fiscal Year ending February 2024 Earnings Results

2-1 Business Results

	2Q FY 2/23	Ratio to Sales	2Q FY 2/24	Ratio to Sales	YoY	Ratio to Revised Forecast
Sales	26,672	100.0%	28,565	100.0%	+7.1%	-4.0%
Gross Profit	17,712	66.4%	17,940	62.8%	+1.3%	-
SG&A	14,328	53.7%	16,457	57.6%	+14.9%	-
Operating Income	3,383	12.7%	1,483	5.2%	-56.2%	-31.8%
Ordinary Income	3,507	13.1%	1,697	5.9%	-51.6%	-22.0%
Quarterly Net Income	1,918	7.2%	823	2.9%	-57.1%	-23.2%

*Unit: million yen. Quarterly net income is quarterly profit attributable to owners of parent. The same applies below.



*This figure is created by Investment Bridge Co., Ltd. based on disclosed materials.

*▲ of expense account indicates that the expense has increased.

Sales increased, but profit decreased due in part to one-off cost; however, excluding the transient factor, the results were as forecasted.

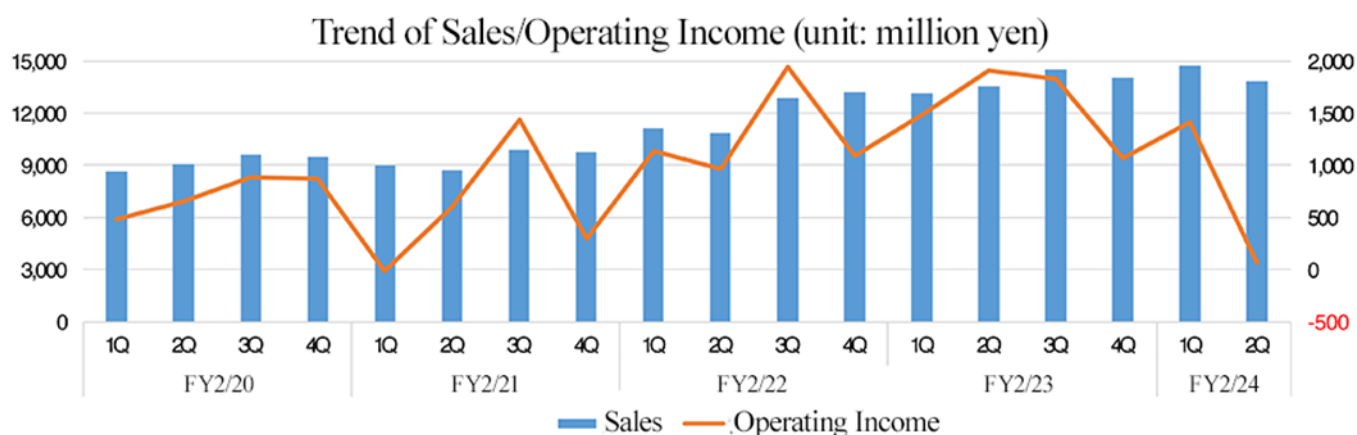
Sales grew 7.1% year on year to 28.5 billion yen. Both the PR and advertising business and the press release distribution business continued to grow by double digits, while the investment business suffered a significant sales decline due to the recoil from the gain on sale recorded in the same period of the previous year.

Operating income stood at 1,480 million yen, down 56.2% year on year. The company recorded a provision for doubtful debts for accounts receivable in the PR and advertising business. Profit dropped because the company did not post a gain on sale in the investment business this term like in the previous term.

Profit increased according to the “Quality of Earnings (QoE)” calculated while excluding one-off cost, cost of mergers and acquisitions, and cost of up-front investment by investment mergers and acquisitions.

Regarding sales, the company reduced the number of advertisements it placed in the first quarter in the direct marketing business, and with regard to profit, it fell below the forecast because it booked a provision for doubtful debts, which is a one-off cost, but excluding it, all kinds of profits exceeded their respective forecasts as projected.

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◎ Highlights of financial results

- * In the PR and advertising business, a greater number of products are distributed digitally today, meaning that the times have caught up with Vector's strategy. In addition, the company has established a system for supporting clients' communication strategies in a more comprehensive manner, which allowed it to continue strong sales growth. Profit, however, fell 40.7% because of the provision for doubtful debts recorded for accounts receivable from specific clients.
- * In the press release distribution business, the company's service was used by a number of enterprises as social infrastructure and the number of enterprises using its service exceeded 87,000 in August, allowing the company to generate record-high sales. It encouraged local companies to utilize "PR TIMES" and placed ads for new businesses.
- * In the direct marketing business, although the company temporarily curbed its activities to acquire new clients considering the efficiency of its client acquisition efforts, it increased advertising expenses at an accelerated rate in the second quarter. As a result, "Terminalia First" sold well, resulting in only a slight sales decline. Furthermore, it concentrated on developing new products and, in September, started sale of a supplement with function claims which contains such ingredients as gamma-aminobutyric acid (GABA).
- * In the investment business, both sales and profit went down due to the recoil from the gain on sale recorded in the first half of the previous term. The company plans to sell the shares it holds in the second half of this term. It provides enterprises in which it invests with support for both public and investor relations activities. Consequently, SYLA Technologies Co., Ltd. got listed on the NASDAQ in the U.S. on March 31, and W TOKYO INC. got listed on the Growth Market of Tokyo Stock Exchange on June 29.

2-2 Trend by Segments

	2Q FY 2/23	Composition Ratio	2Q FY 2/24	Composition Ratio	YoY
Sales					
PR and advertising business	14,253	53.4%	17,150	60.0%	+20.3%
Press release distribution business	2,738	10.3%	3,219	11.3%	+17.6%
Direct marketing business	7,143	26.8%	6,647	23.3%	-6.9%
HR business	1,255	4.7%	1,306	4.6%	+4.1%
Investment business	1,280	4.8%	240	0.8%	-81.3%
Total	26,672	100.0%	28,565	100.0%	+7.1%
Profit of each segment					
PR and advertising business	1,551	10.9%	920	5.4%	-40.7%
Press release distribution business	916	33.5%	890	27.6%	-2.8%
Direct marketing business	-86	-	-237	-	-
HR business	11	0.9%	-9	-	-

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Investment business	990	77.3%	-80	-	-
Adjustment	0	-	0	-	-
Total	3,383	12.7%	1,483	5.2%	-56.2%

* Unit: million yen

* The following sales increase/decrease refers to sales to external customers.

* Operating income is composed of the ratio of profit to sales.

(1) PR and advertising business

Sales increased and Profit decreased

The way of distributing products has become more digital, meaning that the times have caught up with Vector's strategy of "FAST COMPANY." In addition, the company strove to provide a wider range of services through mergers and acquisitions in the field of digital marketing, which it has been proactively conducting since the previous term, and it has established a system for supporting clients' communication strategies in a more comprehensive manner. Sales marked a record high in the second quarter. Profit, however, shrank because it recorded a provision for doubtful debts for the accounts receivable amounting to 750 million yen which specific clients in the digital marketing field owe to Vector.

Furthermore, with the aim of enhancing its digital marketing services, the company acquired Tryhatch Inc., which operates a business of assisting clients in attracting customers using social media, as a consolidated subsidiary in March and turned Owned Co., Ltd., which specializes in managing programmatic advertising with search engine optimization being as its forte, into another one of its consolidated subsidiaries in July.

(2) Press release distribution business

Decrease in sales and income

The company distributes and posts press releases on a plethora of websites, including PR TIMES, a press release distribution website, and its service is used by many enterprises as social infrastructure. The number of enterprises using it exceeded 87,000 in August, enabling the company to achieve record-high sales. Furthermore, it encouraged local companies to use PR TIMES and placed ads for new businesses as it planned at the beginning of this term.

(3) Direct marketing business

Sales and Profit declined

Although the company temporarily curbed its activities to acquire new clients considering the efficiency of its client acquisition efforts, it increased advertising expenses at an accelerated rate in the second quarter. As a result, "Terminalia First" sold well, resulting in only a slight sales decline. Furthermore, it concentrated on developing new products and, in September, started sale of a supplement with function claims which contains such ingredients as gamma-aminobutyric acid (GABA).

(4) HR business

Decrease in sales and income

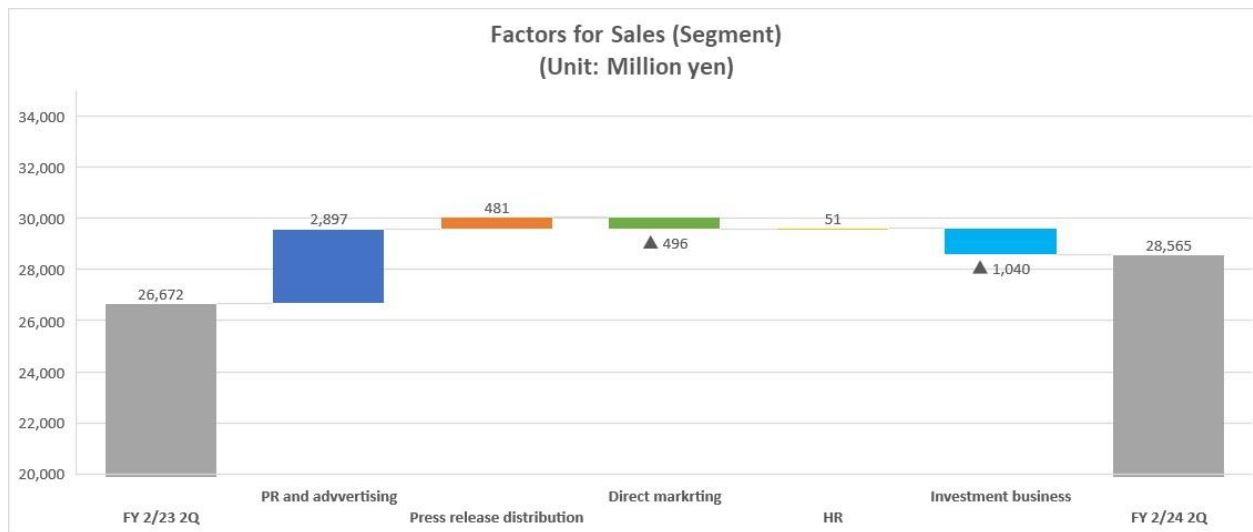
Regarding ASHITA-TEAM Co., Ltd., Vector focused on selling SaaS products while spending advertising funds for attracting new clients and development funds for enhancing functions, while reconsidering its sales strategies and honing the skills of sales personnel. Consequently, operating income was 140 million yen. With regard to JOBTV, a recruitment matchmaking platform using videos, it spent advertising funds for increasing the number of subscribers to the platform, including new graduates and job changers, and development funds for improving the platform's functions with the aim of creating a revenue base. Meanwhile, it acquired Bisiconet Inc., which operates a web media business for job changers, as a consolidated subsidiary in June in order to boost revenue from JOBTV. This resulted in a slight operating loss in the first half of the term.

(5) Investment business

Sales and Profit declined

Both sales and profit declined due to the recoil from the gain on sale recorded in the first half of the previous term. The company plans to sell the shares it holds in the second half of the current term. Furthermore, it provides enterprises in which it invests with support for both public and investor relations activities. Consequently, SYLA Technologies Co., Ltd. got listed on the NASDAQ in the U.S. on March 31, and W TOKYO INC. got listed on the Growth Market of the Tokyo Stock Exchange on June 29.

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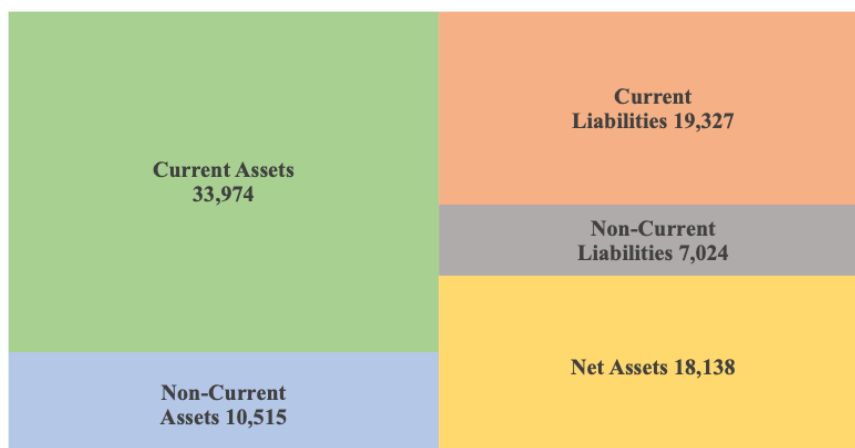
*This figure is created by Investment Bridge Co., Ltd. based on disclosed materials.

2-3 Financial Standing and Cash Flows

◎Balance Sheet Summary

	End of February 2023	End of August 2023	Increase/decrease		End of February 2023	End of August 2023	Increase/decrease
Current Assets	30,115	33,974	+3,859	Current Liabilities	16,623	19,327	+2,704
Cash and equivalents	13,372	15,638	+2,266	Accounts Payable	2,513	2,500	-13
Accounts Receivable	7,484	6,881	-603	ST Interest Bearing Liabilities	6,875	9,817	+2,942
Noncurrent Assets	6,228	10,515	+4,287	Noncurrent Liabilities	3,960	7,024	+3,064
Tangible Assets	837	1,967	+1,130	LT Interest Bearing Liabilities	2,880	5,049	+2,169
Intangible Assets	2,265	4,614	+2,349	Total Liabilities	20,584	26,351	+5,767
Investments and Other Assets	3,126	3,934	+808	Net Assets	15,759	18,138	+2,379
Total Assets	36,343	44,490	+8,147	Retained Earnings	8,173	8,091	-82
				Total Liabilities and Net Assets	36,343	44,490	+8,147

*Unit: million yen.



*This figure is created by Investment Bridge Co., Ltd. based on disclosed materials.

Total assets grew 8.1 billion yen from the end of the previous term to 44.4 billion yen, due to the increases in cash and deposits, operational investment securities, lease assets etc.

Liabilities augmented 57 million yen to 26.3 billion yen, due to the rise in ST interest bearing liabilities, etc.

Net assets increased by 2.3 billion yen to 18.1 billion yen, due to an increase in unrealized gains on available-for-sale securities.

Capital-to-asset ratio decreased 2.6 points from the end of the previous term to 33.0%.

◎Cash Flows

	2Q FY 2/23	2Q FY 2/24	Increase/decrease
Operating CF	1,316	1,150	-166
Investing CF	-153	-2,600	-2,447
Free CF	1,163	-1,450	-2,613
Financing CF	-2,549	3,671	+6,220
Cash and Equivalents	12,249	15,638	+3,389

*Unit: million yen.

The free cash flow went negative due mainly to the augmentation of the cash outflow from investing activities caused by the purchase of shares of subsidiaries resulting in change in scope of consolidation. The cash position improved because the cash inflow from financing activities moved into the black owing chiefly to increases in long- and short-term debts.

2-4 Topics

◎ Provision for doubtful debts recorded in the digital advertising business

Following the filing of a petition for commencement of bankruptcy proceedings for BeautyThree Inc., in the digital advertising business, Vector recorded a provision for doubtful debts for the full amount of the accounts receivable, which stood at 750 million yen, for BeautyThree Inc.

BeautyThree Inc. is a client that Vector took over when it inherited the digital advertising business from TERMINAL Inc. as of September 30, 2022. Vector plans to recoup the debts from TERMINAL Inc. by the end of this term as performance by third parties.

Vector has gotten an agreement of TERMINAL Inc. that if the debts are not recouped by the end of the current term, TERMINAL Inc. will pay the amount specified in the asset purchase agreement entered into between TERMINAL Inc. and Vector when the reference operating income is not met.

Vector intends to take thorough preventive measures by dividing the credit exposure management of the digital advertising business from the credit exposure management it has conventionally conducted for the PR and advertising business, and taking proper actions depending on risks.

◎ Transfer of business (share transfer)

Vector transferred all of the shares in Signal Holdings Co., Ltd. as part of its business reconstruction because the corporate group's business segments overlapped. It will record an extraordinary income of about 1.7 billion yen as gain on sale of shares of subsidiaries and affiliates in the third quarter of the term ending February 2024.

Stock Transfer Overview

Company name	 SIGNAL, Inc.
Other party	Accenture Japan Ltd
Sale price	Not disclosed
Stock transfer date	October 2, 2023

Business

Online marketing business



Offers a wide range of web-related proposals, from production and operation of promotional and corporate websites to creating content and sending email newsletters

(Taken from the reference material of the company)

3. Fiscal Year ending February 2024 Earnings Forecasts

3-1 Earnings Forecasts

	FY 2/23	Ratio to Sales	FY 2/24(Est.)	Ratio to Sales	YoY	Previous Forecast
Sales	55,225	100.0%	63,000	100.0%	+14.1%	63,000
Adjusted Operating Income	6,276	11.4%	7,260	11.5%	+15.7%	7,260
Operating Income	6,623	12.0%	7,260	11.5%	+9.6%	7,260
Ordinary Income	3,172	5.7%	4,570	7.3%	+44.1%	4,070

*Unit: million yen. The forecasted values were provided by the company.

Projected increase in sales and profit

For the term ending February 2024, the company forecasts sales of 63 billion yen, up 14.1% year on year, an adjusted operating income of 7.2 billion yen, up 15.7% year on year, and an operating income of 7.1 billion yen, up 14.1% year on year.

When the company published its financial results for the first quarter (in July), it revised upward operating income and ordinary income by 100 million yen and net income by 70 million yen.

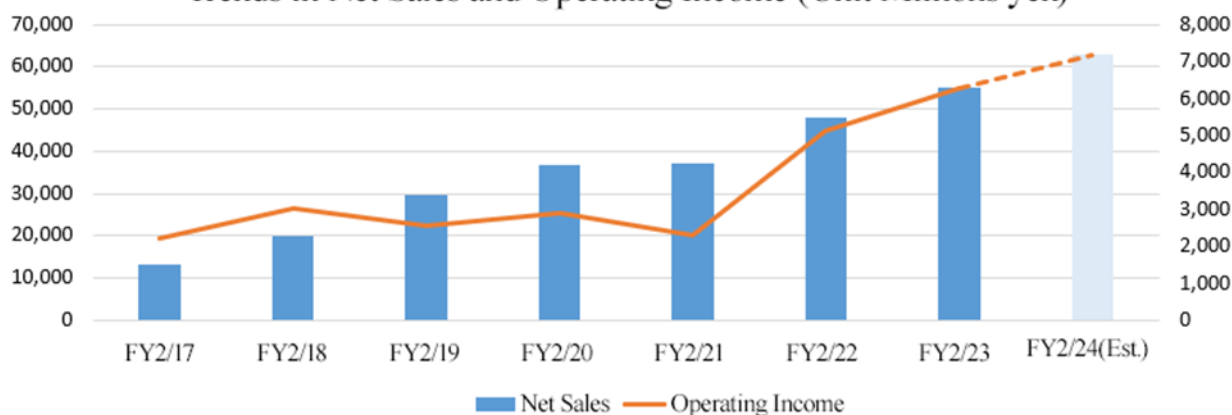
As an extraordinary income from sale of the shares in Signal Holdings will be booked in the third quarter, the company revised net income upwardly by 500 million yen. Because the forecast for this term places a great weight on the second half of the term even at the beginning of the current term, and the performance of each business is in line with the forecast so far, profits generated in the company's businesses, including its mainstay PR and advertising business, will make contribution to the financial performance in the second half. Furthermore, the company will post an extraordinary income from sale of Signal Holdings in the third quarter, which is expected to allow the company to catch up on its progress on the full-term forecast in the second half.

Regarding the direction of their management, Vector intends to brush up all segments and elevate the synergy between different segments based on the robust business foundations of their main business. The company plans to pay a dividend of 28.00 yen/share, up 9.00 yen/share year on year. Revised increase of 3.00/share from the previous forecast, The expected payout ratio is 29.4%.

BRIDGE REPORT



Trends in Net Sales and Operating Income (Unit Millions yen)



3-2 Outlook for each Segment

(Adjusted Operating Income Plan by Segment)

	FY2/24 (Est.)	2Q FY2/24	Rate of Progress
PR and advertising business	3,844	920	23.9%
Press release distribution business	1,500	890	59.4%
Direct marketing business	974	-237	-
HR business	100	-9	-
Investment business	842	-80	-
Total	7,260	1,483	20.4%

*Unit: million yen. The forecasted values were provided by the company. Adjusted operating income = Operating income + Expenses for the restricted stock compensation provided by the company

(1) PR and advertising business

While sales hit a record high in the second quarter, the company posted a deficit due to recording of one-off cost. From the third quarter onward, it will provide leading enterprises, which are its major clients, with one-stop support services with their communication strategies and increase the average spending per client. By region, the domestic business recorded a loss due to one-off cost, and the overseas business also ran a loss because of a decline in its performance in such countries as China. In the third quarter, the overseas business is expected to continue running a loss, but the deficit will be made up for by the satisfactory performance of the domestic PR business that fares well with major enterprises. The company aims to conclude retainer contracts, which is a base for stable revenue, with 1,500 companies by the term ending February 2026. It will enhance customer engagement while aiming to enter into retainer contracts with 1,140 companies in the term ending February 2024.

In the business of electronic ads via tablets installed in taxicabs, sales declined year on year because the number of ads the company placed went down due to the worsening fund-raising environment of venture-backed companies in the second quarter. The company intends to form a solid revenue base by increasing the number of ads it takes out for not only venture-backed companies, but also major enterprises in and after the third quarter.

(2) Press release distribution business

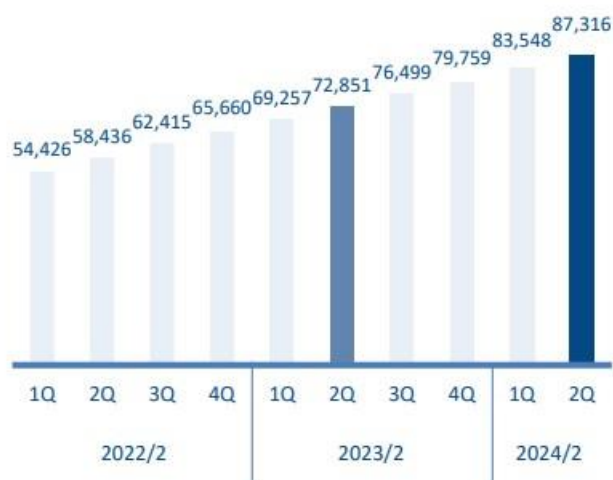
In the second quarter, the increasing number of enterprises using the service resulted in record-high sales, and operating income marked a record high for second quarters. From the third quarter onward, the company will strive to grow both sales and profit for the full fiscal year with major redesign of PR TIMES and investment for promoting use of the service.

Both the number of enterprises using the service and the number of press releases distributed rose significantly year on year. The company will endeavor to increasingly distribute press releases by continuing to increase the number of enterprises using the service and their frequency of use in and after the third quarter.

BRIDGE REPORT



Number of user companies: 87,316 (119.9% YoY)



Number of press release distributions: 93,431 (114.3% YoY)



(Taken from the reference material of the company)

(3) Direct marketing business

The company recorded a loss in the second quarter because it proactively took out advertisements with the aim of getting new clients. From the third quarter onward, it is expected to achieve the operating income as it has forecasted for the full fiscal year while continuing to put advertisements to a certain extent while looking ahead to the next term.

(4) HR business

The business turned into the black in the second quarter because Busiconet Inc. contributed to considerably reducing the deficit in JOBTV. Vector will strive to make the revenue base sounder by boosting sales of both Ashita-Team and JOBTV in and after the third quarter.

(5) Investment business

The company produced an operating surplus in the second quarter because it sold some of the shares it held while recording a valuation loss to a certain extent. From the third quarter onward, Vector is expected to record a certain degree of valuation loss, but generate an operating income as it forecasted for the full fiscal year through sale of the shares it holds.

4. Medium-term Profit Plan

4-1 Profit Plan

Forecasts for EBITDA and operating income until the term ending February 2026 are as follows. (expenses for the restricted stock compensation provided by the company have been added to both)。

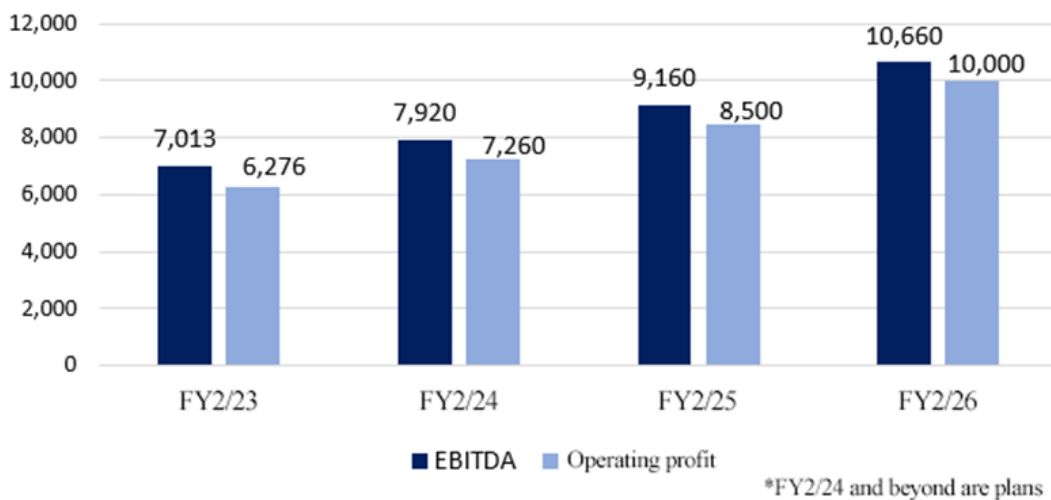
They will be updated, when necessary, based on future market conditions and actual results.

It will maintain operating income margin at slightly over 10%.

The company aims to make continuous improvements to achieve an ROE of 25%.

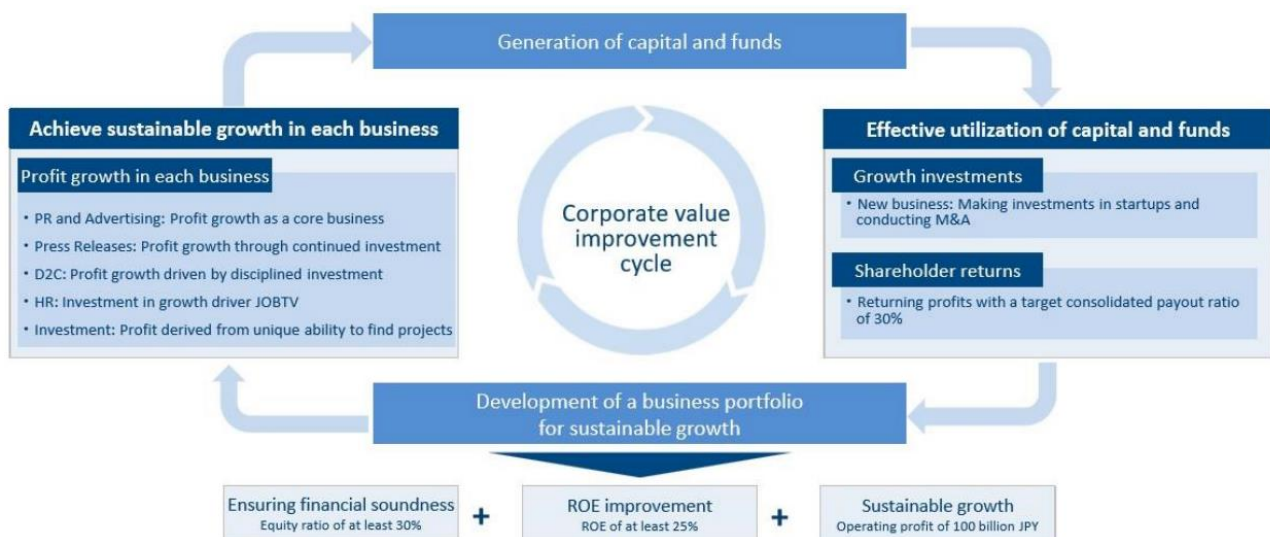
The company will return profit to shareholders with a payout ratio of around 30%.

Transition of EBITDA and operating profit (unit: million yen)



4-2 Capital allocation

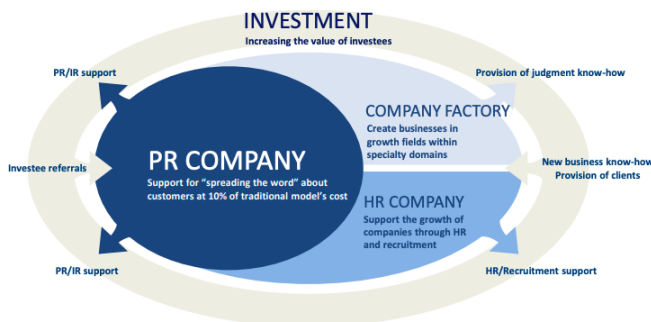
The company will allocate the cash it gained from the cash inflow of operating activities to investment for growth and shareholder return.



(Taken from the reference material of the company)

4-3 Vector Group Business Concept Chart

The company aims to support the growth of client companies through the four business areas of PR COMPANY, which aims to help companies promote their products, HR COMPANY, which provides support in the areas of human resources and recruitment, COMPANY FACTORY, which creates new businesses, and INVESTMENT, which grows investment business, with the aim of achieving a continuous expansion of the corporate group.



PR COMPANY	COMPANY FACTORY	HR COMPANY	INVESTMENT
PR/Press Release/Video/Digital Marketing FAST COMPANY provides one-stop, comprehensive support for marketing strategies designed to deliver the excellent products, services and solutions of our customers to the world. ARTIL, VECTOR INITIAL, PR TIMES, NT	D2C We handle everything in-house, from product planning and production to advertising, marketing, and purchasing in a D2C business having direct contact with customers. Vitabrid C ² , Direct Tech	Personnel Evaluation Our HR Business primarily provides consulting and personnel evaluation cloud solutions to support the introduction and operation of personnel evaluation systems. Recruitment Support We provide a service that enables job seekers and companies to utilize video in the initial recruitment processes, which saves time, labor, and space and achieves speedy matching. MEDICAL, LIVER BANK, PERFORMANCE, CYBER SECURITY	Investment In our venture company investing activities, we provide investees with support for increasing value along with PR and IR. vector, Capital

(Taken from the reference material of the company)

5. Management Strategies

(1) Vision and ideal state

Vector was selected as the No. 1 PR company in Asia 2022, No. 7 PR company in Global, according to a global survey on PR.

It has set a new goal of occupying the No. 1 position in the global PR field.

The scale of the domestic PR market is expected to be 100 billion yen, but the company aims to become a fast company in the advertisement field, targeting the global advertisement market, whose scale is estimated to be 7 trillion yen, to expand its domain further.

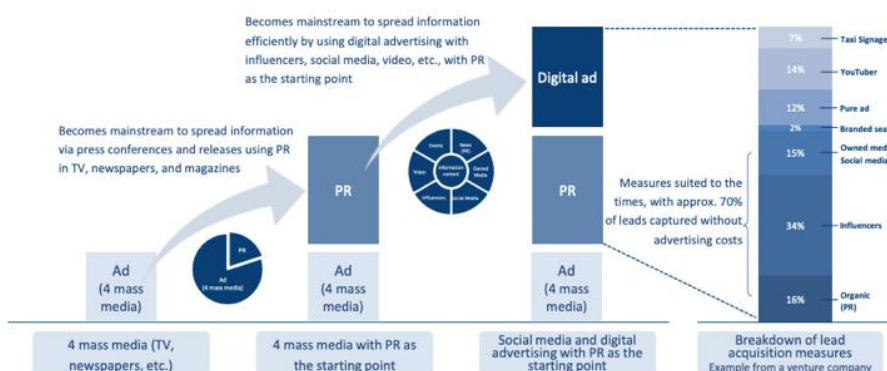
A “fast company in the advertisement field” implies that it will trigger the revolution of the advertisement industry like a fast fashion company in the apparel industry, with low cost, middle quality, and speedy business.

In addition, the company aims to become “a disrupter in the advertisement field.”

Namely, it is aimed as a player that destroys the order and business models of the existing industry, by utilizing digital technologies, including cloud computing, big data, IoT, and AI.

As mentioned in Section 1-3 “Business Environment,” while ads via newspapers, magazines, TV, and radio are on a decline, the advertising market in Japan has expanded to over 7,000 billion yen due to the growth of Internet advertising.

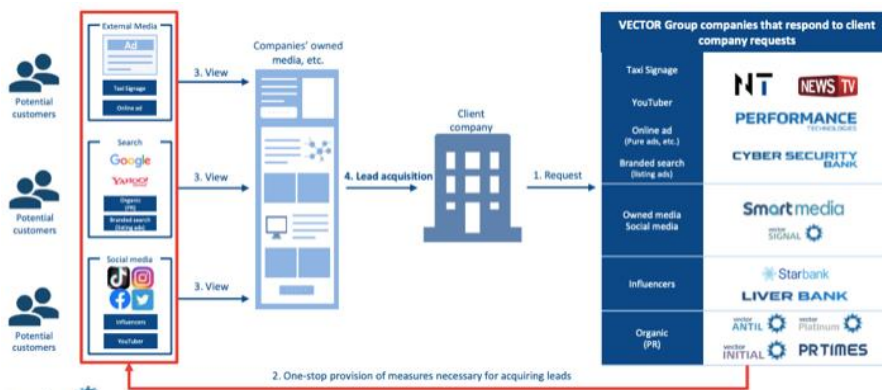
Under the vision: “Making People Happy by Delivering Excellent Products, Services and Solutions to the World,” Vector is currently at a stage of utilizing digital advertising originating from PR to efficiently spread products, services and solutions, and the fact that they can post news and content as an advertisement in addition to PR is considered to significantly differentiate the company from advertising agencies. And they are the only company that can provide a one-stop solution for the measures necessary to acquire prospective client companies.



(Taken from the reference material of the company)

Furthermore, Vector is the only company capable of offering one-stop services that are necessary for enterprises to generate leads.

BRIDGE REPORT



(Taken from the reference material of the company)

(2) What is a “FAST COMPANY” in the advertising industry?

Vector executes a one-stop marketing strategy encompassing both the area of recognition in which they directly deliver “content” to the target while making use of “strategical PR” and “social networks” and the area of acquisition leading to purchase using “digital advertising.”

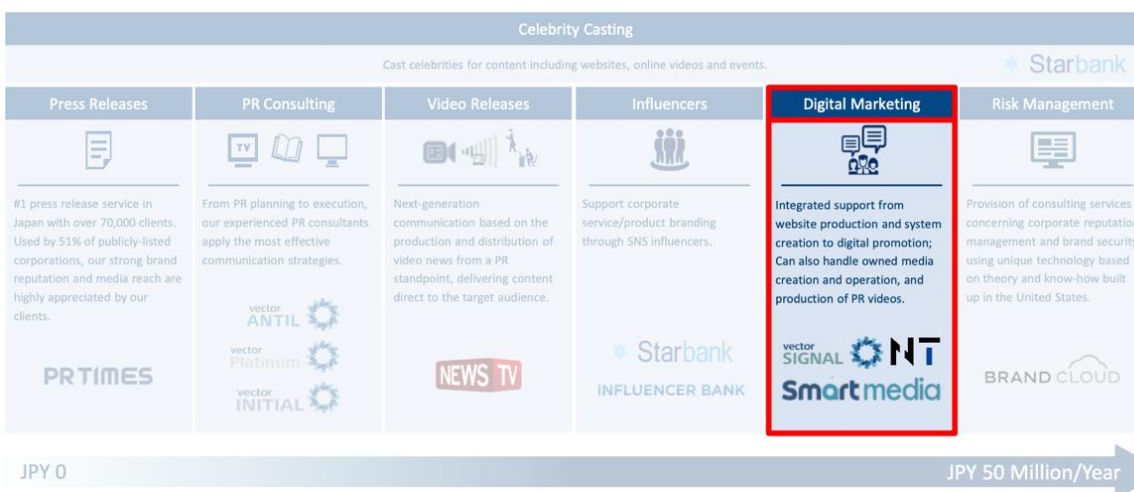
The capability to offer marketing measures that match the current trends well at less than one tenth of the conventional price is a significant characteristic and strength of Vector, which is a “FAST COMPANY.”

(3) Priority items

The company believe that the key areas of focus for strengthening the foundation of the "fast company" concept are 1. M&A, 2.VC × PR.

1. M&A

The company plans to expand the areas of the services it provides through mergers and acquisitions in order to strengthen marketing measures that fit with the times.



(Taken from the reference material of the company)

◎Basic policy concerning M&A

Vector intends to reinforce their FAST COMPANY concept, proactively promote M&A where synergy with their core businesses can be expected, and boost their organic growth based on effective M&A while aiming for discontinuous growth based on the following basic policy.

Acquisition target	Companies (small-scale projects) that can expand and enhance the Fast Company concept Strengthen digital marketing (digital advertising) domain in particular
Valuation	Execute M&A with a target EV/EBITDA multiple of 5x to 7x
Fund procurement	Acquisitions will basically be financed by cash on hand and bank loans.
Governance	Decisions made carefully by the Board of Directors, which is majority comprised of outside directors with extensive knowledge of M&A and finance
PMI	Regularly monitor objectives of acquisition from time of investment and their achievement Develop the internal controls required of a listed group company

(Taken from the reference material of the company)

◎Examples of M&A

① Taking over the digital advertisement business from Terminal Inc.

In September 2022, the company acquired the digital advertisement business, which excels at designing strategies, from Terminal Inc. at a price of 1.1 billion yen. As its forte, Terminal Inc. possesses the experience and know-how for operating its services in the digital advertisement business, and can give proposals for long-term sustainable projects from each client's viewpoint.

The acquisition of the business has enabled Vector to not only enhance digital advertising, but also offer public relations services based on digital marketing.

② Turning Keyword Marketing Inc. into a subsidiary

In December 2022, they acquired Keyword Marketing Inc., whose forte is the operation of programmatic advertisements, as a subsidiary at approximately 1.2 billion yen.

They will work toward boosting the average spending per client by reinforcing digital aspects of the marketing strategies of their clients originating from strategical PR.

③ Turning Tryhatch Inc. into a subsidiary

In March 2023, they acquired Tryhatch Inc., whose forte is the support for attracting customers through social networks, as a subsidiary at approximately 400 million yen.

They will provide one-stop support for marketing challenges of clients who own a store, utilizing strategical PR and technology.

④ Turning Owned Co., Ltd. into a subsidiary

In July of 2023, the company acquired Owned Co., Ltd, which specializes in programmatic advertising using search engine optimization (SEO) as its forte, as a subsidiary at a price of about 480 million yen.

Vector intends to boost the average spending per client by making the most of the expertise and know-how of programmatic advertising in combination with SEO.

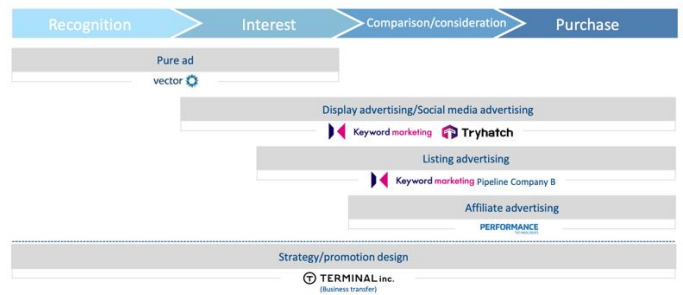
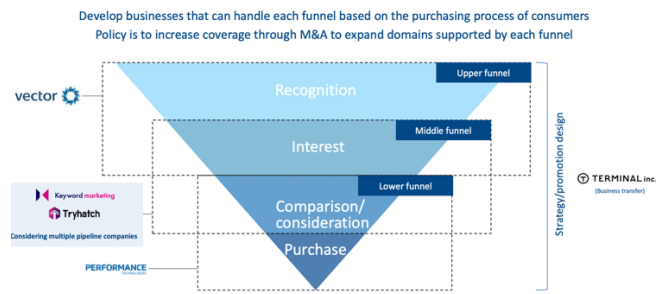
◎Expansion of the digital marketing domain

Considering the purchase process of consumers, the company will develop a business portfolio for covering respective marketing funnels*.

They will expand the coverage of each marketing funnel through M&A.

In addition, the company will expand the digital marketing domain, in order to establish a system for designing digital advertisement and promotional measures, utilize M&A, supporting processes from popularization to purchase in a one-stop manner.

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(Taken from the reference material of the company)

***Marketing funnel**

It means a schematic diagram of customers' phases from recognition to purchase of products. Customers first recognize the name of a product, become interested in the product, think of purchasing it, and then actually purchase it. The number of customers in these processes can be expressed by a funnel, which is a tool shaped like an inverted triangular mortar. Accordingly, this is used as a marketing term.

2. VC x PR: PR capital that can provide both investment and PR support

Taking into consideration the growing number of start-up companies, Vector will work toward maximizing the effects of investment leverage through assistance with PR and IR, not only conventional financial support in regard to VC.

The company will increase customers, by covering not only leading companies, which are major clients, but also venture firms.



(Taken from the reference material of the company)

6. Conclusions

Operating income shrank 56.2% year on year in the first half of the term due principally to the provision for doubtful debts booked in the PR and advertising business and the gain on sale recorded in the same period of the previous term in the investment business. The financial results, including the single-digit sales growth, were seemingly disappointing. The provision for doubtful debts recorded in the PR and advertising business, however, is projected to be paid back by the end of the current term. Regarding the investment business, the company places a greater weight on the second half of this term compared to the previous term during which it focused on the first half, and gain on sale is forecast to be booked in the second half of the current term. The business forecast for this term originally attaches more emphasis on the second half, and the company is expected to regain its strength in said period.

As there have been doubts regarding how effective merely posting an ad is, Vector is surely capturing the budgets allocated to the advertising market from the perspective of cost effectiveness by showing its capability of offering public relations services, which advertising agencies lack. The company used to project the range of the average spending per client to be from 50 million yen to a maximum of 100 million yen, but it expects further growth.

We would also like to pay attention to the increase in the numbers of participating enterprises and registered students in the recruitment matchmaking platform "JOBTV." While there are other services using videos for employment matchmaking, only Vector's service allows job seekers to create a video. It is expected that generative AI such as ChatGPT will significantly change all kinds of scenes in everyday life and as it is assumed that CVs and professional resumes will be commonly created by AI in regard to job hunting as well, it is expected that the value and importance of a video which allows for the demonstration of one's personality instead of a uniform resume created by AI will dramatically elevate for both the job-seeking applicants and the selecting enterprises, and it can be considered that it will constitute a powerful factor that differentiates Vector from other companies.

While the company's business performance is strong, its share price remains weak due to a downturn in the Growth Market. We can say that price earnings ratio (PER) is extremely low considering the company's growth potential.

<Reference: Regarding Corporate Governance>

◎Organization type and the composition of directors and auditors

Organization type	Company with auditors
Directors	9 directors, including 5 independent outside ones
Auditors	3 directors, including 2 independent outside ones

◎Corporate Governance Report

Updated on May 31, 2023

<Basic Policy>

Our company recognizes being thorough with corporate governance is the most important issue, from the viewpoint that it is indispensable to increase the efficiency and soundness of business administration and develop a fair and highly transparent management system, to achieve stable corporate growth and advance amid the rapidly changing business environment.

In addition, we will upgrade our system for improving the effectiveness of corporate governance, according to changes in the social environment and the enforcement of laws, regulations, etc.

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

We implement each principle of the Corporate Governance Code.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

The information regarding the principles of the corporate governance code revised in June 2021 is described below.

Principles	Disclosure contents
【Principle 1-4. Strategically held shares】	When our company acquires securities, including shares, the board of directors, the investment committee, or the like deliberate it according to investment scale in accordance with “the regulations on investment management,” “the regulations on authority,” etc. while discussing whether it would contribute to the mid/long-term improvement in our corporate value. After the acquisition, it will be reported to the board of directors regularly. When exercising voting rights for the shares we hold, we discuss each proposal in detail while comprehensively checking whether the exercise of voting rights would contribute to the improvement of the corporate value of the share-issuing company and our company. As of the last update date of this report, our company does not hold any listed shares as strategically held shares that fall under the so-called “cross-held” shares.
【Principle 2-4. Securing of diversity inside the company including the empowerment of women, etc.】 Supplementary Principle 2-4 ①	Our company considers that the securing of diversity of core personnel would contribute to the mid/long-term improvement in corporate value, and is recruiting and training personnel while eliminating all kinds of discrimination. To secure diversity, we are working on the development of an employment system for actualizing a comfortable working environment for women. As of February 28, 2023, the ratio of female employees in our corporate group was 61% and the ratio of female managers was 32%. We will keep aiming to secure the diversity of core personnel and strive to secure diversity from other aspects, including non-Japanese employees and mid-career workers, while maintaining the current level of services.

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<p>【Principle 3-1 Enrichment of information disclosure】 Supplementary Principle 3-1 ③</p>	<p>Our company launched Vector SDGs PROJECT in October 2021, specified concrete actions, etc. for solving social issues, and disclosed their outline in our website.</p> <p>Regarding the investment in human capital and intellectual property, etc., we put importance on the investment in human capital, which is a major growth driver of our corporate group, and are developing a comfortable working environment through the development of personnel by improving training programs, the upgrade of in-house systems, etc.</p> <p>Regarding the risks and revenue earning opportunities related to climate change, we are responding to the recommendations of TCFD, while collecting and analyzing necessary data on the impact on our business activities, revenues, etc. and disclosing the analysis results in our webpage on sustainability.</p>
<p>Principle 5-1 【 Policy for constructive dialogue with shareholders】</p>	<p>Our company recognizes the business administration department as a section in charge of IR for promoting constructive dialogue with investors, including shareholders, and strives to communicate with investors, including shareholders, in a constructive manner, based on the organic cooperation among the divisions of our corporate group.</p> <p>We reply positively to requests for dialogue from shareholders and investors, and hold online meetings with investors inside and outside Japan when necessary. Furthermore, we produce reference material for briefing quarterly financial results and disclose it in TDnet and our website, to distribute more practical information.</p> <p>We report the opinions of shareholders, investors, analysts, and others we have received through IR activities, etc. to executives and the board of directors when necessary.</p>

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