

Appier Group, Inc.

4180

Tokyo Stock Exchange Growth Market

19-Oct.-2022

FISCO Ltd. Analyst

Yoichiro Shimizu



FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. Summary of FY12/22 1H results	01
2. FY12/22 results outlook	02
3. Medium- and long-term management strategy	02
■ Company profile	03
1. Company overview	03
2. Business description	05
3. Strengths	07
■ Performance Trends	12
1. FY12/22 1H results	12
2. Financial condition and business metrics	13
■ Business outlook	14
● FY12/22 results outlook	14
■ Medium- and long-term management strategy	15
■ Shareholder return policy	17

Summary

Seeking to improve customers' ROI by providing cutting-edge AI platforms. Operating income expected to turn positive in FY12/22 2H, driven by revenue growth and improved operating leverage

Appier Group, Inc. <4180> (hereinafter, "the Company") is a SaaS*1 company that uses artificial intelligence (hereinafter, "AI") to provide solutions that contribute to predictable revenue returns on customers' marketing investments. The Company is a one-stop provider of comprehensive AI solutions that cover all marketing processes (hereinafter, "full funnel"*2), ranging from user prospecting and acquisition to engagement and retention, and sales transactions. Links between the Company's solutions enable the easy integration of siloed customer data, thereby turning data and action into value and improving customers' ROI*3 further. In addition, their solutions significantly shorten the development time and resources required to implement AI. For marketing professionals, their solutions enable them to utilize the user data they have, addressing the "full funnel" of the consumer journey, aligning with their day-to-day challenges and automates various manual tasks, allowing them to focus on more strategic decision-making. At the management level, they empower Chief Marketing Officers (CMOs) and other executives with the ability to predict future user behaviors and obtain insights derived from such predictions, transforming marketing decisions from reactive responses based on historical data to proactive decisions anticipating consumer behavior and enabling more effective engagement of crucial moments and minimization of missed opportunities. Because their solutions address a wide range of marketing and sales use cases and deliver measurable return on customers' marketing investment, they continue to grow their business with efficient new customer acquisition as well as strong retention and expansion in existing customers.

*1 SaaS is an abbreviation of Software as a Service. It refers to software that allows users to access only the services they need, in the quantity they need, over the Internet and other communications networks. SaaS can also refer to the method by which such software is provided.

*2 In marketing, a funnel is a model that describes the customer's journey toward the purchase of goods or services as a sequence of steps.

*3 ROI refers to the rate of return on an investment in marketing.

1. Summary of FY12/22 1H results

The Company's consolidated results for FY12/22 1H were as follows. Revenue increased 54.2% year on year (YoY) to ¥8,557mn, EBITDA was ¥475mn (compared to negative ¥144mn in the same period of the previous fiscal year), operating loss was ¥92mn (compared to a loss of ¥783mn in the same period of the previous fiscal year) and net loss attributable to owners of the parent company was ¥233mn (compared to a loss of ¥858mn in the same period of the previous fiscal year). Revenue outperformed the Company's initial target, because of the Company's focus on new customer acquisition, as well as continued growth in existing customers' usage of its products. In addition, U.S. and EMEA revenue grew substantially, increasing by more than a factor of 9 YoY in FY12/22 Q2 (April-June), and representing 12% of overall revenue. On the earnings front, the gross margin improved 1.3 percentage points YoY, reflecting increased marketing campaign efficiency as a result of improved CrossX algorithm accuracy, and revenue growth primarily from AIQUA, AiDeal, and AIXON, all of which have relatively high gross margins. As a result, EBITDA has remained consistently positive since FY12/21 2H and the size of losses at each profit level has been drastically reduced.

Summary

2. FY12/22 results outlook

In August 2022, the Company announced upward revisions to its FY12/22 guidance for consolidated results. In terms of the upwardly revised guidance, the Company is now forecasting revenue of ¥18,455mn, up 45.8% YoY, EBITDA of ¥1,068mn, operating loss of ¥84mn and net loss attributable to owners of the parent company of ¥287mn. The Company upwardly revised its guidance for the second time in response to the outperformance of both revenue and profits at each level compared to the upwardly revised guidance announced in May 2022, which was due to greater-than-expected new customer acquisition and existing customer growth in FY12/22 Q2 (April-June). Meanwhile, it is believed that business will not be significantly influenced by macro-economic conditions. This is mainly because (1) the Company's solutions provide predictable returns (ROI) on customers' marketing investments and directly lead to earnings growth acceleration and business impact; and (2) the Company's customers mainly consist of large enterprises that have a high resilience and operational stability in response to changes in the economic environment. The Company is expected to continue to achieve international geographic expansion, new customer acquisition and growth in business with existing customers and has an optimistic outlook for FY12/22 2H results. Operating income is expected to turn positive in FY12/22 2H based on increased revenue and improved operating leverage. On a full-year basis, operating income is forecast to approach the breakeven point.

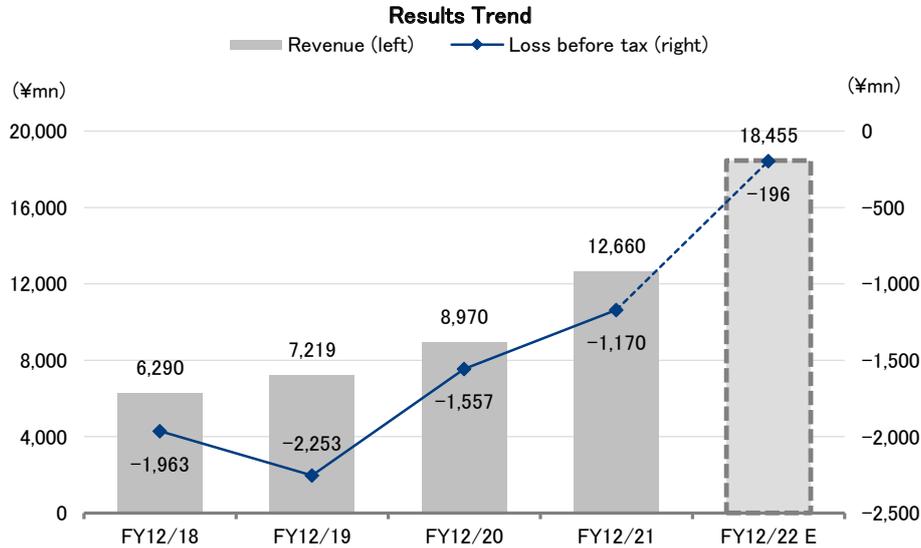
3. Medium- and long-term management strategy

Looking at the current state of AI deployment in business activities, while awareness of the importance of AI usage is growing, only a few companies have completed the deployment of AI due to a lack of staff with specialized technical expertise and because the data that will be analyzed is siloed across the organization. On the other hand, AI is expected to continue to grow in importance in the future, owing to factors such as the rapid and widespread adoption of the Internet and mobile devices, increased demand for the use of first-party data, and the importance of ROI predictions in an uncertain business environment. In this business environment, the Company has adopted the following medium- and long-term management strategies: (1) continuously strengthen AI technologies and develop new solutions; (2) drive growth in geographic regions and business sectors of the Company's customer base; (3) expand business with existing customers through upselling (increase solutions currently in use) and cross selling (provide other solutions); (4) increase the total addressable market (TAM); and (5) M&A strategy. The Company aims to drive business expansion and increase corporate value by promoting these strategies.

Key Points

- A SaaS company that uses AI to provide solutions that contribute to predictable revenue returns on customers' marketing investments based on the mission of "Turning AI into ROI by Making Software Intelligent"
- Results for FY12/22 1H showed simultaneous momentum in growth and profitability, with continuous improvement in business metrics
- Guidance for FY12/22 has been upwardly revised for the second time, because results for FY12/22 1H finished above forecasts
- The Company aims to drive business expansion and increase corporate value by working on priorities such as strengthening AI technology, growing the customer base, and implementing an M&A strategy

Summary



Source: Prepared by FISCO from the Company's financial results and Annual Securities Reports

Company profile

A SaaS company that uses AI to provide solutions that contribute to predictable revenue returns on customers' marketing investments based on the mission of "Turning AI into ROI by Making Software Intelligent"

1. Company overview

The Company is a SaaS company that uses AI to provide solutions that contribute to predictable revenue returns on customers' marketing investments. Guided by the mission of "Turning AI into ROI by Making Software Intelligent," the Company provides an AI platform* that can demonstrate the true value of data held by enterprises by harnessing AI technologies that use a wide range of cutting-edge algorithms and machine learning in marketing and sales fields. By offering such an AI platform, the Company continues to provide value to customers from a variety of perspectives.

* Refers collectively to the solutions provided by the Company.

Appier Group, Inc. | 19-Oct.-2022
 4180 Tokyo Stock Exchange Growth Market | <https://ir.appier.com/en/>

Company profile

Dr. Chih-Han Yu co-founded the Company and serves as its Representative Director and CEO. He is an AI scientist who earned his MS degree from Stanford University and his Ph.D. degree from Harvard University in the U.S. He has more than 20 years of research experience in the AI field. Before co-founding the Company, Dr. Yu primarily researched and applied algorithms in the fields of machine learning and autonomous control. Mr. Chia-Yung Su is a co-founder of the Company and serves as its Chief Technology Officer (CTO). Mr. Su earned his MS degree at Harvard University and is an expert in large-scale systems. Dr. Wan-Ling Lee is a co-founder of the Company and serves as its Chief Operating Officer (COO). Dr. Lee has previously worked as a researcher in immunological learning and medicine at Stanford University and Washington University. The Company’s engineering departments are staffed with many AI and data scientists who have strong research backgrounds. For these reasons, the Company was included in the “50 Companies Leading the AI Revolution” by Fortune magazine in 2017. It was also included in a list of the 100 most promising artificial intelligence startups globally by CB Insights for 2 years running in 2017 and 2018.

The Company’s vision is “Making AI easy by making software intelligent.” It expects that AI will be integrated into all software in the future. The Company aspires to be a key driver in the evolution of software, allowing enterprises to make more accurate and proactive decisions.

History

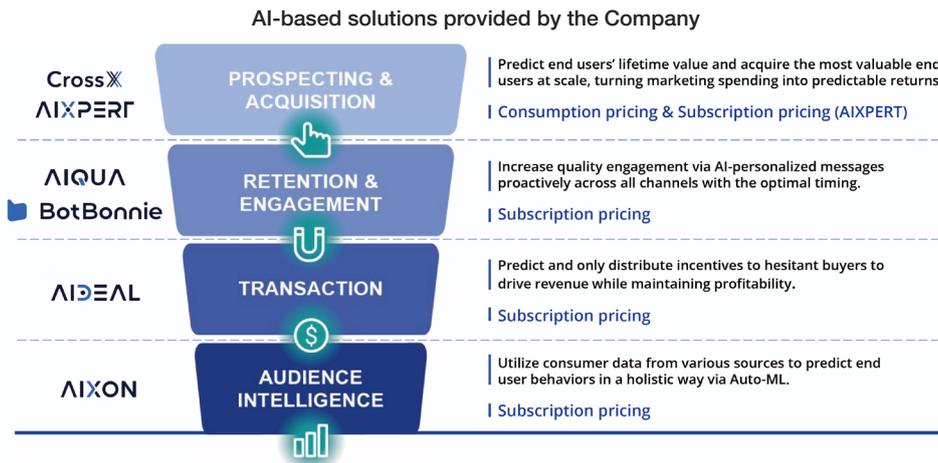
Date	Description
June 2012	Dr. Chih Han Yu, the Company's Representative Director and CEO, initiated research and development of AI-based marketing solutions for enterprises at Appier, Inc., a company headquartered in the Republic of China (Taiwan).
March 2014	Founded Appier Pte. Ltd.
June 2014	Began providing CrossX
July 2014	Founded Appier Japan K.K.
December 2014	Established the Ho Chi Minh City Office
April 2015	Established the Sydney Office
July 2015	Established the Manila Office
September 2015	Established the Mumbai, Delhi, Jakarta and Hong Kong offices
December 2015	Established the Seoul and Kuala Lumpur offices
May 2017	Established the Bangkok Office
July 2017	Began providing AIXON Established the Osaka Office
April 2018	Founded Appier Group Inc. in Tokyo as an intermediary holding company
May 2018	Acquired Quantumgraph Solutions Private Limited.
June 2018	Founded Appier Beijing Co., Ltd.
October 2018	Began providing AIQUA
August 2019	Acquired Emotion Intelligence, Inc.
October 2019	Began providing AiDeal
December 2019	Founded Appier UK Co., Ltd.
February 2020	Founded Appier US LLC Established the Paris Office
March 2021	Listed shares on the Tokyo Stock Exchange Mothers Market
June 2021	Began providing BotBonnie
April 2022	Transitioned to the Tokyo Stock Exchange's Growth Market following the exchange's market segment restructuring

Source: Prepared by FISCO from the Company's Annual Securities Reports

Providing comprehensive AI solutions that cover the full funnel on a one-stop basis

2. Business description

The Company provides comprehensive AI solutions that cover the full funnel on a one-stop basis with its leading AI algorithms making prediction based on customers' first party data to cope with tightening privacy regulation and fast-changing consumer behaviors. Specifically, the Company's solutions comprise CrossX, which assists businesses in predicting and acquiring potential users; AIXPERT, which is CrossX's campaign automation solution; AIQUA, which supports user retention and engagement; BotBonnie, which is a messenger service; AiDeal, which provides incentives to users who are hesitant to make purchases or take action; and AIXON, which provides a data science platform that enables businesses to predict and analyze user behavior. Customers can tailor the Company's solutions to their specific requirements based on different business goals. When used on their own, the solutions are effective. However, the solutions are linked and integrated in a sophisticated manner, so users can expect even greater synergies when using the solutions in tandem, which also leads to improved customer satisfaction.



Source: Reprinted from the Company's results briefing materials

Except for CrossX, all of these solutions are provided through subscription pricing. Because the Company's solutions employ AI, prediction accuracy improves as the amount of data analyzed grows in step with customer usage, and the AI learns based on the increased data. Improved prediction accuracy will boost customer satisfaction, encouraging more use and retention. Moreover, because AIQUA, AiDeal and AIXON have relatively high gross margins, profit growth from cross-selling can be expected even as the top-line grows.

Company profile

(1) CrossX

CrossX is a solution for prospecting and acquisition of new potential users with high lifetime value (hereinafter, "LTV"), which is the first marketing stage. CrossX enables businesses to use machine learning and deep learning to predict users' LTV and acquire the most valuable end users at scale, allowing businesses to turn marketing spending into predictable returns. Traditional user acquisition methods frequently entail spending a significant amount of money and time on repeating A/B testing* via manual work processes. CrossX, on the other hand, uses AI to predict users with the highest LTV, allowing customers to focus on targeting. Customers benefit from higher returns on investments as a result. CrossX's main functions include one that achieves precise targeting using AI-based predictions using only first party data, another that predicts each user's LTV based on several million signals, and yet another that derives the most cost-efficient bidding price by optimizing bidding in real time.

* In marketing, an experimental method in marketing where several variations of a campaign are prepared and audiences are divided and assigned to each variation, so that marketers can study which variations result in improved performance.

(2) AIXPERT

AIXPERT is an automated user acquisition tool that enables customers to perform various AI-recommended actions. It was developed as part of the CrossX solution. AIXPERT manages automated advertisements 24 hours a day, 7 days a week. AI regularly suggests how to adjust parameters, such as budget allocation and bidding strategies for advertising campaigns, to achieved desirable results, with customers making the final decision. As a result, AIXPERT can fully automate the user acquisition process, and identify appropriate target users automatically. Its main functions include a function that can be instantly applied to campaigns, a function that can use filters to identify the most effective keywords for acquiring high LTV customers, and a function that automatically calculates the most effective budget allocation across multiple channels such as Apple Search Ads, Facebook, Google, and Twitter.

(3) AIQUA

AIQUA is a solution for user retention and engagement, which is the main priority of the stage after user acquisition. Customers face a variety of challenges when it comes to user retention and engagement. They may discover that preparing complex messages and managing them across multiple communication channels requires too much manual work. They may be unable to send users optimally personalized messages at the appropriate time. They may be unable to develop highly loyal users due to ineffective communication channels for user engagement purposes. To solve these issues, AIQUA enables customers to increase quality engagement with their end users through AI-personalized messages proactively and effectively across all their communication channels with the optimal timing. Conventional marketing automation solutions send a pre-defined message automatically when certain pre-established rules are met based on user behavior. As a result, the content and timing of messages sent are often inappropriate for engagement and are ignored by end users. In response, AI-based AIQUA can boost user engagement by preparing content (recommendations) that users are most interested in and delivering optimally personalized messages at the optimal time. Customers can easily use a diverse range of communication channels with AIQUA, including Web push notifications, e-mail, SMS, and messenger apps. The AI algorithm automatically prepares optimally personalized messages and recommended information in real time, and automatically sends messages with the optimal timing via the communication channel predicted to be the mostly likely to pique the user's interest.

Company profile

(4) BotBonnie

BotBonnie is another solution for user retention and engagement. It is a conversational marketing solution built upon social media platforms such as Instagram, Facebook, Messenger, LINE, WebChat and WhatsApp. Companies typically require a significant amount of labor to create personalized customer services via messenger platforms and to build desirable customer relationships. To address this issue, BotBonnie can easily create personalized messages with the help of a visual builder. In addition, AI recommends more appropriate messages based on information gleaned from conversation data. The solution enables marketers to send codeless instant messages and provides gamified prebuilt marketing kits that can be used to create engaging customer experiences. Through these capabilities, BotBonnie contributes to sales growth and improved customer loyalty.

(5) AiDeal

AiDeal is a solution for transactions, which is the next priority after retaining and enhancing engagement with existing users. AiDeal enables businesses to use machine learning and deep learning to predict hesitant buyers through user patterns and distribute the most effective incentives to those users to maximize revenue while maintaining profitability. Specifically, AI discovers the triggers for users' buying decisions based on real-time behavioral user data collected throughout the website, such as how users touch or swipe mobile screens, cursor position and the amount of scrolling, and identifies users who are hesitant to make purchases. It then suggests tailored and effective offers for such users (such as limited-time discounts) and guides them through the purchasing process. AiDeal thus improves profitability by increasing purchasing frequency and precision. In addition, the solution generates relevant offers based on data, thereby contributing to sales growth while reducing the costs of discounts, coupons and so on.

(6) AIXON

AIXON is a data science platform that predicts and analyzes user behavior. It predicts user behaviors holistically by utilizing an automatically generated machine learning model. AIXON enables businesses to effectively use their own customer data without the need for in-house data scientists or the hassle of building an entire AI technology system in-house. AIXON's advantages include ease of deployment via data unification and auto-processing, automated AI prediction model building, and explanations and displays of AI reasoning. Furthermore, AIXON is frequently cross-sold with other products because businesses can expect to generate even more synergies* by using several solutions at the same time, such as AIXON and AIXPERT, AIXON and AIQUA. Synergies include not only the acquisition of new customers, but also the avoidance of future losses by predicting potential cancellation risk and boosting sales by predicting potential purchasing behavior.

* Businesses, for example, can expect to avoid future losses and increase sales by using AIQUA to conduct user engagement to address factors such as AIXON-predicted potential user cancellation risk and purchasing behavior.

3. Strengths

(1) Continuous innovation in AI technology using machine learning

The foundation of the Company's solutions is AI technology based on the Company's innovative machine learning, and its technical superiority is a strength. Some specific examples are deep representation learning technology,*¹ automated machine learning, online real-time learning, and the introduction of transfer learning.*²

*¹ A technology capable of automatically detecting representations from data required for feature extraction and classification, as well as extracting deep meaning from not only text but also images and video sources.

*² Technology for applying an AI model learned in one field to another, allowing the AI model to be learned more efficiently.

Company profile

a) Deep representation learning technology

The AI technology platforms provided by the Company use deep representation learning technology, which enables the platforms to be easily deployed to new languages.

b) Automated machine learning

The Company's AI platforms automatically scale up systems and AI algorithms as the amount of analyzed data increases, and AI models are automatically built without the intervention of a data scientist. As a result, businesses with a shortage of AI personnel will be able to implement the Company's solutions using these capabilities.

c) Online real-time learning

Unlike conventional machine learning technologies, the Company's AI technology platforms can analyze massive amounts of online data in real time. This capability allows customers to quickly adapt to changes in user preferences and rapidly deal with any issues concerning data adequacy and the validity of prediction results.

d) Introduction of transfer learning

When supporting new customers, industries or predictions, the Company introduces transfer learning to platforms, thereby successfully conveying concepts that effectively reduce AI model learning time.

Another Company strength, ensemble learning, is the number of algorithms used when building AI prediction models. Based on customer data, the AI can extract the best models from among a vast library of algorithms and automatically implement the best combination of algorithms, resulting in the best AI prediction model for each customer.

(2) Management team of AI experts and business professionals

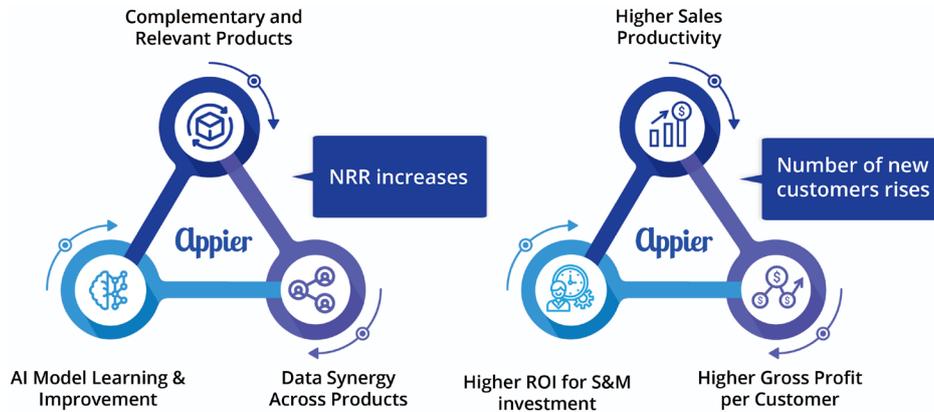
As previously stated, the Company's founders and management team include many AI experts. In addition to having many employees with extensive experience, the Company has the ability to fully harness the specialized knowledge of other directors and advisers. Mr. Koji Tachibana, Head of Japan, is a case in point. After graduating from the Faculty of Law at the University of Tokyo, Mr. Tachibana joined Nomura Securities Co., Ltd., where he worked in corporate fund-raising and IPOs (Initial Public Offerings) for 10 years. He then moved to the public sector and worked at the Agency for Natural Resources and Energy of the Ministry of Economy, Trade, and Industry, where he was in charge of the sale of government-owned assets. Subsequently, he worked in the investment business as an independent investment advisor before joining DeNA Co., Ltd. <2432>, where he led the corporate finance division as an executive officer, responsible for M&A strategy, finance, accounting, public relations, investor relations and internal IT. Furthermore, Dr. Che-hsu "Joe" Chang, Chief Strategy Officer, has worked at McKinsey and Company, Inc., a major U.S. strategic consulting firm and currently oversee the M&A and partnership strategy to capture opportunities in new markets and technologies for the Company.

(3) Network effects that enhance platform value

The Company has created powerful network effects by providing six solutions (CrossX, AIXPERT, AIQUA, BotBonnie, AiDeal, AIXON) that are mutually, complementarily, and closely linked with each other.

Company profile

Network effects that enhance platform value



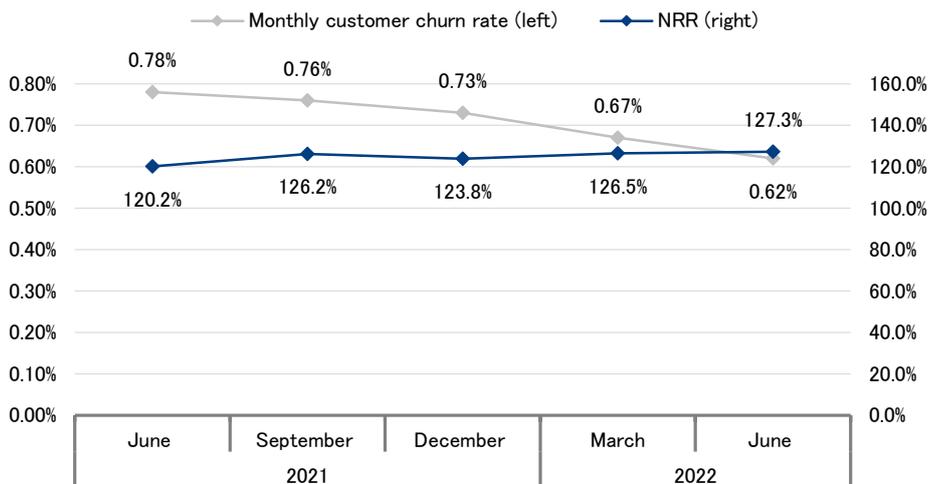
Source: Reprinted from the Company's results briefing materials

a) Increased use by existing customers creates a positive feedback loop

Because the Company's solutions employ machine learning, prediction accuracy improves as the amount of data analyzed grows in step with customer usage. Improved prediction accuracy will boost customer satisfaction, encouraging more use and retention, along with increasing the desire to introduce other solutions. As a customer deploys other solutions and their usage grows, the type of data analyzed and coverage expands, leading to further improvement in AI algorithm accuracy. This, in turn, will increase customer satisfaction even more, creating a positive feedback loop.

The Company's monthly customer churn rate improved to an all-time low of 0.62% (June 2022), while Net Revenue Retention Rate (NRR) increased to an all-time high of 127.3%. These metrics demonstrate that the Company has a high level of customer loyalty.

Trend in monthly customer churn rate and NRR over the past 12 months



Note: Monthly customer churn rate = the number of customers that terminated their relationship with the Company during the month ÷ the number of all customers as of the end of the month
 NRR is calculated by dividing total revenue calculated in U.S. dollars from the last 12 months from customers that used one of the Company's solutions during the same period in the prior year, by total revenue calculated in U.S. dollars from such customers during the same period of the prior year
 Source: Prepared by FISCO from the Company's results briefing materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

b) Improving sales productivity

In addition to a positive feedback loop from expanded use by existing customers, sales productivity has continued to improve. The Company has established an efficient sales organization through a systematic approach of exploring potential customers in each country and approaching them at the most appropriate time. As a result, the number of new customers has increased, and the investment recovery cycle has become shorter.

c) Increase in recurring revenue and improvement in gross margin and operating leverage

The Company's AI algorithm has continuously improved due to an increase in the amount of data analyzed. Against this backdrop, solutions that generate predictable returns on customers' marketing investments generate high customer satisfaction, resulting in a growth trend in recurring revenue*, which is a stable revenue source. In terms of profit margins, CrossX will be able to acquire many more users with a lower marketing platform usage fee as AI algorithm accuracy continuously improves, so the gross margin is expected to improve. Moreover, growth in customer bases for solutions with relatively high gross margins, such as AIQUA, AiDeal and AIXON, will lead to improved gross margins. Moreover, as the revenue base grows, the Company's SG&A expense ratio tends to decrease, which will help to improve the operating margin.

* Revenue with a high likelihood of being recognized continuously for solutions based on usage volume pricing and subscription pricing.

As stated earlier, the Company's solutions support all phases of digital marketing. When used on their own, the solutions are effective. However, the solutions are linked and integrated in a sophisticated manner, so users can expect even greater synergies when using the solutions in tandem. For this reason, trends show a low churn rate and a high NRR. At FISCO, we believe that these trends are also helping the Company's business results to grow.

(4) Portfolio expansion through strategic M&As

In addition to developing solutions internally, the Company has expanded its portfolio through strategic M&As while considering how they fit with existing solutions. Examples include the 2018 acquisition of Quantumgraph Solutions Private Limited. of India and the 2019 acquisition of Emotion Intelligence, Inc. of Japan. By redesigning and upgrading both companies' solutions using the Company's cutting-edge AI functions, the Company developed AIQUA and AiDeal, which are helping to enlarge its customer base. In addition, the Company acquired Taiwan-based BotBonnie Inc., which provides BotBonnie, in 2021. The Company expanded sales regions and target users by localizing BotBonnie into several languages and expanding the service delivery channels from LINE and Facebook to Instagram, WebChat, and Whatsapp.

The Company has identified the areas into which it will expand and has conducted a systematic search for appropriate acquisition targets that will complement the Group's solutions and business regions. It has integrated the acquired solutions and the Company's systems, as well as redesigned and upgraded the solutions with its cutting-edge AI capabilities. The Company's customer base has grown as a result of these efforts. The Company intends to continue to use this approach in the future to develop new products and expand into new regions.

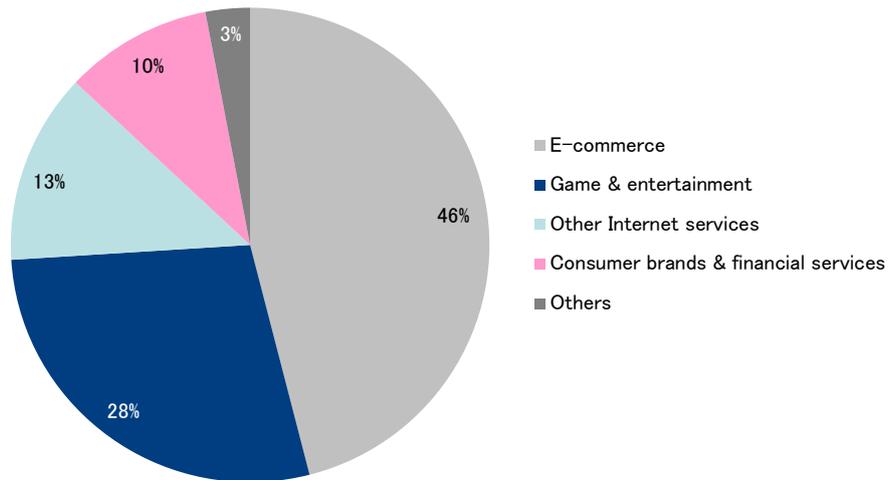
(5) A customer base straddling the Asia-Pacific region

Since its founding, the Company has expanded its operations globally. As of December 31, 2021, it had offices in 17 cities. The Company's main markets have continued to grow. These markets are Northeast Asia (Japan and Korea), Greater China (Taiwan, Hong Kong, and China (overseas expansion only)) and Southeast Asia. In FY12/20, the Company expanded into the U.S. The U.S. market has grown rapidly and the revenue expanded to over 10% of total revenue in FY12/22 Q2. The Company has put in place expertise, infrastructure and human resources in order to grow its business systematically in accordance with the characteristics of each country and region, and it intends to actively apply these resources to global business expansion in the future.

Company profile

Moreover, customers from a diverse range of industries are another source of strength for the Company. Looking at its revenue composition by industry in FY12/21, E-commerce accounted for 46% of revenues, while game & entertainment accounted for 28%, other Internet services 13%, consumer brands & financial services 10%, and others 3%. FISCO rates the Company positively for achieving stable revenues by broadening its customer base and diversifying risk.

Revenue composition by industry (FY12/21)



Source: Prepared by FISCO from the Company's Annual Securities Reports

(6) Expanding business with a global sales team

The Company has international and experienced sales teams in place in the major markets of the Asia-Pacific, Europe and the U.S.. It has grown its business and built a customer base through a unique market acquisition strategy. It also has customer success teams that work to understand customer needs and encourage greater use of solutions after they are deployed. These teams have encouraged use and retention, which have resulted in successful up-selling and cross-selling.

Performance Trends

Results for FY12/22 1H showed simultaneous momentum in growth and profitability, with continuous improvement in business metrics. Because of continuous growth in CrossX and growth in other solutions with high gross margins, the size of losses at each profit level has been drastically reduced

1. FY12/22 1H results

The Company's consolidated results for FY12/22 1H were as follows. Revenue increased 54.2% YoY to ¥8,557mn, EBITDA was ¥475mn (compared to negative ¥144mn in the same period of the previous fiscal year), operating loss was ¥92mn (compared to a loss of ¥783mn in the same period of the previous fiscal year) and net loss attributable to owners of the parent company was ¥233mn (compared to a loss of ¥858mn in the same period of the previous fiscal year). Results showed simultaneous momentum in growth and profitability, with continuous improvement in business metrics. As a result, the Company can be rated positively for producing strong financial results.

FY12/22 1H results (Consolidated, IFRS)

	FY12/21 1H		FY12/22 1H		YoY change
	Results	% of revenue	Results	% of revenue	
Revenue	5,549	-	8,557	-	54.2%
Gross profit	2,708	48.8%	4,291	50.1%	58.4%
SG&A expenses	2,675	48.2%	3,565	41.7%	33.3%
EBITDA	-144	-2.6%	475	5.5%	-
Operating loss	-783	-14.1%	-92	-1.1%	-
Net loss attributable to owners of the parent company	-858	-15.5%	-233	-2.7%	-

Note: SG&A expenses = sales and marketing (S&M) expenses + general and administrative (G&A) expenses

EBITDA = operating income + depreciation and amortization of intangible assets + tax expenses included in operating expenses + IPO-related expenses

Source: Prepared by FISCO from the Company's financial results

In FY12/22 Q2, revenue outperformed the Company's initial target, although Q2 is seasonally a lower revenue quarter. This outperformance was attributable to the Company's focus on new customer acquisition, as well as continued growth in existing customers' usage of its products. In addition, U.S. and EMEA revenue grew substantially, increasing by a factor of more than 9 YoY in FY12/22 Q2 (April-June), and representing 12% of overall revenue.

On the earnings front, the gross margin improved 1.3 percentage points YoY to 50.1%, reflecting increased marketing campaign efficiency as a result of improved CrossX algorithm accuracy, and revenue growth primarily from AIQUA, AiDeal, and AIXON, all of which have relatively high gross margins. Moreover, in order to drive future business expansion, the Company made upfront investments in areas such as personnel expenses for sales staff and engineers. As a result, EBITDA has remained consistently positive since FY12/21 2H and the size of losses at each profit level has been drastically reduced.

Making upfront investments while remaining aware of financial soundness. Adequate short- and long-term liquidity in hand

2. Financial condition and business metrics

Total assets amounted to ¥35,111mn as of the end of FY12/22 1H, up ¥3,906mn from the previous fiscal-year end. Current assets rose ¥2,568mn from the previous fiscal year-end to ¥27,051mn. The main changes were increases of ¥2,742mn in other financial assets and ¥1,229mn in time deposits due to foreign currency translation, and a decrease of ¥1,572mn in cash and cash equivalents reflecting the acquisition of financial assets, withdrawal of time deposits, and acquisition of intangible assets. Non-current assets increased by ¥1,338mn from the previous fiscal year-end to ¥8,059mn, mainly due to an increase of ¥1,340mn in goodwill and intangible assets due to capitalization of development costs that meet the requirements for capitalization.

Total liabilities as of the end of FY12/22 1H amounted to ¥8,398mn, an increase of ¥29mn from the previous fiscal year-end. Current liabilities increased by ¥151mn from the previous fiscal year-end to ¥5,902mn. The main changes were an increase of ¥152mn in borrowings due to foreign currency translation of foreign currency-denominated borrowings, and a decrease of ¥131mn in other liabilities due to the payment of bonuses. Non-current liabilities decreased by ¥122mn from the previous fiscal year-end to ¥2,496mn, mainly due to a decrease of ¥126mn due to the repayment of lease liabilities. Total equity stood at ¥26,712mn, an increase of ¥3,876mn from the previous fiscal year-end. The main changes were an increase of ¥4,079mn in other components of equity due to changes in exchange rates, and a decrease of ¥233mn in retained earnings due to the recording of a net loss.

In terms of business metrics, the ratio of equity attributable to owners of the parent company (equity ratio) stood at a high level of 76.1% (73.2% at the end of FY12/21). In addition, the current ratio was 458.3% (425.8% at the end of FY12/21), and the non-current ratio was 30.2% (29.4% at the end of FY12/21). Based on these business metrics, FISCO believes the Company's short and long-term liquidity in hand is adequate. Although the Company is making upfront investments due to its rapid growth, business metrics show that it is also taking steps to ensure financial soundness.

Consolidated statements of financial position and business metrics

	As of December 31, 2021	As of June 30, 2022	Change
	(¥mn)		
Current assets	24,483	27,051	2,568
Cash and cash equivalents	6,560	4,988	-1,572
Non-current assets	6,721	8,059	1,338
Total assets	31,205	35,111	3,906
Current liabilities	5,750	5,902	151
Non-current liabilities	2,619	2,496	-122
Total liabilities	8,369	8,398	29
Retained earnings	-9,494	-9,727	-233
Total equity	22,835	26,712	3,876
(Business metrics)			
Ratio of equity attributable to owners of the parent company	73.2%	76.1%	2.9pt
Current ratio	425.8%	458.3%	32.5pt
Non-current ratio	29.4%	30.2%	0.8pt

Source: Prepared by FISCO from the Company's financial results

Business outlook

Guidance for FY12/22 has been upwardly revised for the second time, because results for FY12/22 1H finished above forecasts. Operating income expected to turn positive in FY12/22 2H, driven by revenue growth and improved operating leverage

● FY12/22 results outlook

In August 2022, the Company announced upward revisions to its FY12/22 guidance for consolidated results. In terms of the upwardly revised guidance, the Company is now forecasting revenue of ¥18,455mn, up 45.8% YoY, EBITDA of ¥1,068mn, operating loss of ¥84mn and net loss attributable to owners of the parent company of ¥287mn. The Company upwardly revised its guidance for the second time in response to the outperformance of both revenue and profits at each level compared to the upwardly revised guidance announced in May 2022, which was due to greater-than-expected new customer acquisition and existing customer growth in FY12/22 Q2 (April-June).

Guidance for FY12/22 (Consolidated, IFRS)

	FY12/21		FY12/22			
	Results	% of revenue	Initial guidance	Revised guidance	% of revenue	YoY change
Revenue	12,660	-	17,477	18,455	-	45.8%
Gross profit	6,238	49.3%	9,070	9,578	51.9%	-
EBITDA	42	0.3%	575	1,068	5.8%	-
Operating loss	-1,116	-8.8%	-517	-84	-0.5%	-
Net loss attributable to owners of the parent company	-1,178	-9.3%	-646	-287	-1.6%	-

Note: The revised guidance for FY12/22 was announced on August 12, 2022
 Source: Prepared by FISCO from the Company's financial results

The revised guidance reflects the outperformance of FY12/22 1H results compared to forecasts. Meanwhile, it is believed that business will not be significantly influenced by macro-economic conditions. This is mainly because (1) the Company's solutions provide predictable returns (ROI) on customers' marketing investment and directly lead to earnings growth acceleration and business impact; and (2) the Company's customers mainly consist of large enterprises that have a high resilience and operational stability in response to changes in the economic environment. The Company is expected to continue to achieve international geographic expansion, new customer acquisition and growth in business with existing customers and has an optimistic outlook for FY12/22 2H results. The gross margin is expected to remain unchanged from the previous guidance at 51.9%, mainly owing to optimized unit costs in cloud services, continuous algorithm enhancement, and product mix improvement. In addition, operating income is expected to turn positive in FY12/22 2H based on increased revenue and improved operating leverage. On a full-year basis, operating income is forecast to approach the breakeven point (at an operating loss of around ¥84mn).

Business outlook

The Company's solutions turn customers' marketing investments into measurable profits, creating a strong customer base. The Company's solutions emphasize returns, and directly contribute to the revenue and profits of more than 80% of customers. In addition, more than 90% of the Company's revenue is generated from large enterprises that are thought to be highly resilient to economic downturns. Furthermore, progress is being made in terms of cross-selling and product synergies. The number of customers who have deployed two or more solutions has increased by 40% YoY, contributing to the Company's high customer retention rate. Based on these considerations, macro-economic conditions are expected to have a minor impact on the Company's business results. The Company anticipates continued growth in demand and business momentum in FY12/22 2H.

Meanwhile, the total addressable market (TAM) has increased significantly due to well-planned international business expansion. The Company is concentrating on business expansion in the U.S. market. FISCO believes that bringing successful practices from the U.S. to EMEA is highly likely to contribute not only to FY12/22 2H business results, but also to medium-term growth. In fact, U.S. and EMEA revenue increased by a factor of more than 9 YoY in FY12/22 Q2 (April-June) and represented 12% of overall revenue, indicating strong growth momentum.

■ Medium- and long-term management strategy

The Company aims to drive business expansion and increase corporate value by working on priorities such as strengthening AI technology, growing the customer base, and implementing an M&A strategy

Looking at the current state of AI deployment in business activities, while awareness of the importance of AI usage is growing, only a few companies have completed the deployment of AI due to a lack of staff with specialized technical expertise and because the data that will be analyzed is siloed across the organization. On the other hand, AI is expected to continue to grow in importance in the future, owing to factors such as the rapid and widespread adoption of the Internet and mobile devices, increased demand for the use of first-party data, and the importance of ROI predictions in an uncertain business environment.

In this business environment, the Company has adopted the following medium- and long-term management strategies: (1) continuously strengthen AI technologies and develop new solutions; (2) drive growth in geographic regions and business sectors of the Company's customer base; (3) expand business with existing customers through upselling (increase solutions currently in use) and cross selling (provide other solutions); (4) increase TAM; and (5) M&A strategy. The Company aims to drive business expansion and increase corporate value by promoting these strategies.

(1) Continuously strengthen AI technologies and develop new solutions

The Company has made continuous investment in AI innovation a top priority. Despite the fact that AI research has been going on for a long time, the application of AI to business is still in its infancy. Therefore, as a pioneer AI company led by a management team with AI research backgrounds, the Company will continue to increase investment in AI technology, with the goal of developing new solutions by applying cutting-edge research to business.

Medium- and long-term management strategy

Specifically, the Company will implement three measures: (1) ensure that client companies can benefit from AI in a short period of time through more efficient machine learning and deep learning; (2) enhance user analysis functions and broaden the scope of analysis of structured data, such as video and voice, and non-structured data; and (3) expand the areas where machine learning-based decision-making frameworks can be applied. By implementing these three measures, the Company will further automate existing enterprise software applications. Furthermore, by using AI to automate activities such as customer communication, company decision-making, resource management and in-house business processes, the Company aims to improve AI efficiency and accuracy.

(2) Drive growth in geographic regions and business sectors of the Company's customer base

As part of its new customer acquisition strategy, the Company considers the degree of AI acceptance, whether there are any successful practices in each industry, and sales efficiency projections based on in-depth sales analysis and top-down market analysis. Based on these considerations, the Company develops and prioritizes strategies for entering new regions and acquiring new customers. Furthermore, the Company intends to apply its successful practices horizontally to businesses that face similar issues in adjacent or the same industries. By doing so, the Company intends to broaden its potential target customer base. The Company will increase case examples of new customer acquisition in existing industries such as E-commerce and games by implementing these measures. Concurrently, it will increase use cases in new industries such as consumer goods and finance, with the aim of expanding into a wide range of industries.

(3) Expand business with existing customers through upselling (increase solutions currently in use) and cross selling (provide other solutions)

As the Company's solution portfolio expands, it has increased cross-selling even more than before, together with robust upselling from existing customers. By adopting multiple solutions we offer, customers derive greater benefits from enhanced product effectiveness. Each solution is built under the same data storage infrastructure such that customers only need to upload their data once. The convenience of this approach not only lowers the time and effort on the part of customers, and therefore increases customers' willingness to adopt more of their solutions, but also is more cost-effective for the Company and allows them to have higher margins when customers use more than one solution. The Company aims to drive further growth in its business results by increasing revenue through cross-selling with stronger sales capabilities, in addition to increasing existing customer loyalty through network effects and enlarging and solidifying the customer base.

(4) Increase TAM

As previously stated, the Company excels at well-planned international business expansion. It intends to enter new regions and continue to expand globally by replicating its success in existing regions in new markets. In the Asia-Pacific region, the Company will continue to prioritize the region and expand its market share. Notably, the Company believes that there is more room to expand its share of markets like Japan and Korea, which are large and have widespread adoption of digital technologies. It will increase its market share in existing business sectors, while expanding into new ones. In Southeast Asia (Thailand, Singapore, Vietnam, Indonesia, and so on) the digital economy is expanding at an unprecedented rate. As a result, the Company is concentrating its efforts on business sectors that are well-versed in digital technology, such as online services, including E-commerce. Moreover, in China, customers are accelerating their overseas business expansion, which has become one of the Company's growth drivers. Furthermore, in the U.S. and EMEA, the Company will work to expand business as it benefits from the tailwinds of a favorable external environment, specifically countries with advanced digital marketing capabilities.

Medium- and long-term management strategy

(5) M&A strategy

Going forward, the Company will continue to select and prioritize strategic M&As and investment opportunities based on its previous M&A track record. As previously stated, when developing new industries and regions, the Company will begin with adjacent areas to existing businesses where synergies can be expected and will explore M&A possibilities from the standpoint of strengthening technologies and solutions.

■ Shareholder return policy

For the time being, the Company will prioritize reinvestment in strengthening its financial position and R&D activities through internal reserves in order to grow the business

In terms of dividend policy, the Company has adopted a policy of reinvesting in strengthening its financial position and R&D activities through internal reserves. Accordingly, it has not paid out a dividend since its inception. However, the Company sees returning profits to shareholders as a critical management issue and plans to consider dividend payments in light of its financial condition and business results.



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp