

IREP Co., Ltd.2132 Tokyo Stock Exchange
Second Section

30-May-16

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Nobumasa Morimoto

■ Scaling up the advertising agency business toward being “the absolute number one agency for management-type advertising”

IREP <2132>, (hereafter, also “the Company”) is a digital marketing agency with a strength in search engine marketing (SEM). It has secured a competitive advantage over its industry peers through accumulating expertise and findings in search advertising, and has cemented its position as the top agency in the management-type advertising market (via sales agencies). IREP provides a range of one-stop solutions to solve marketing problems in companies’ digital areas. In its mainstay advertising agency business, as an agency for media like Yahoo <4689> and Google, it provides advertising solutions to hundreds of corporate clients. Its parent company is Digital Advertising Consortium <4281> (hereafter, DAC), and it is a member of the Hakuholdo DY Holdings <2433> Group.

In the consolidated results for FY9/16 Q1 (October to December, 2015), net sales were ¥17,451mn (up 34.9% year on year (y-o-y)), operating income was ¥371mn (up 72.3 times), and net income attributable to the owners of the parent company was ¥288mn (compared to a net loss of ¥19mn in the same quarter in the previous fiscal year), for major increases in both sales and profits. In addition to these results being record highs for a Q1 (October to December), they also exceeded the already high-level results of FY9/15 Q4 (July to September; net sales of ¥16,736mn and operating income of ¥348mn). The main reason for this was the strong performance of the mainstay advertising agency business. Through the Company improving its management accuracy, the budgets of existing clients grew, which led to an increase in net sales from direct sales. In addition, large-scale orders for new clients both in direct sales and in collaborative projects with the Hakuholdo DY Group were positive factors behind the growth in net sales.

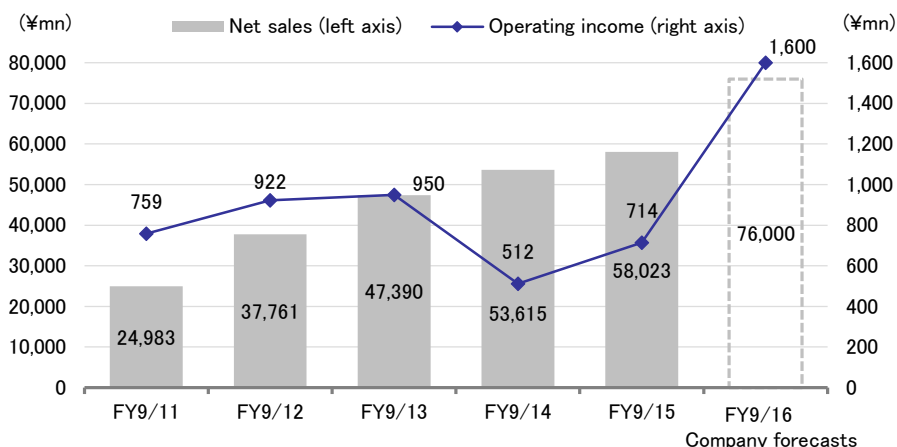
On March 30 the Company upwardly revised its initial forecasts for the full fiscal year ending September 2016, with the net sales forecast increasing ¥11,000mn, from ¥76,000 to ¥77,000mn; operating income rising ¥800mn, from ¥1,600 to ¥1,700mn; and net income attributable to the owners of the parent company increasing in the range of ¥520 to ¥550mn, from ¥900 to ¥1,000mn.

By actualizing the effects of measures for the goals of being “the absolute number one agency for management-type advertising” and for “growth in the advertising peripheral solutions business,” both the Company’s existing and new businesses, of the advertising agency business and the solutions business, trended strongly. In addition, considering that the advertising agency business has completed a growth cycle and now exceeds a certain scale, it would seem to have in place a structure able to absorb an increase in costs from additional investment.

■ Check Point

- In the FY9/16 Q1 (October to December, 2015) consolidated results, achieved recorded highs for both net sales and operating income
- Is developing new clients for direct sales and in the Hakuholdo DY Group in both the advertising agency business and solutions business
- Plans to implement additional investment from Q2 to strengthen systems and personnel

Results trends



Note: The FY9/16 values are the lower-limit values of the Company's targets

■ Descriptions of businesses

The mainstay business is the advertising agency business, centered on management-type advertising. Provides one-stop digital marketing services.

● Conditions in the Company's Group

The Company's Group (at the end of December 2015) was comprised of the Company, 2 parent companies of DAC and Hakuholdo DY Holdings, and 9 consolidated subsidiaries*, and it has a system in place for the provision of one-stop services to domestic and overseas clients for all their digital marketing needs, centered on management-type advertising and content marketing.

* NEWSY became a subsidiary on January 1, 2016, and therefore from Q2 (January to March, 2016), the Company has 10 consolidated subsidiaries.

List of group companies (as of January 2016)

Relationship to the Company	Company name	Business description
The Company	IREP Co., Ltd.	Provision of listing advertising, SEO, and other peripheral services
Parent company	Digital Advertising Consortium Inc.	Provision of advertising and related services over networks, including Internet and commercial online services
Parent company	Hakuhodo DY Media Partners Inc.	Handles advertising, sales promotions, and public relations
Consolidated subsidiaries	Relevancy-Plus Inc.	Provision of listing advertising, SEO, and other peripheral services to advertising companies
Consolidated subsidiaries	Localio Co., Ltd.	Provision of advertising management services of listing and network advertising to medium- and small-sized companies and regional companies
Consolidated subsidiaries	PT. DIGITAL MARKETING INDONESIA	Provision of digital marketing consulting services in Indonesia
Consolidated subsidiaries	ACQUISIO JAPAN CO., LTD.	Provision of platforms in the digital marketing area
Consolidated subsidiaries	IREP BEIJING CO., LTD.	Provision of digital marketing consulting services in China
Consolidated subsidiaries	Open Coat Co., Ltd.	Provision of SEO services
Consolidated subsidiaries	MOORE ONLINE DEVELOPMENT SOLUTIONS CORPORATION	Provision of services in Vietnam for an advertising agency business in the digital marketing area and based on ad technologies
Consolidated subsidiaries	OPENCOAT PHILIPPINES, INC.	Provision of website production services, etc.
Consolidated subsidiaries	SYNX Inc.	The provision of management services for listing advertising delivered within Japan, handled by Full Speed
Consolidated subsidiaries	NEWSY Inc.	Deploys a news distribution site management business, a news content creative business, and a corporate and commercial communication design business

Note: NEWSY became a subsidiary on January 1, 2016

Source: prepared by FISCO from the Company's securities report, press releases, etc.

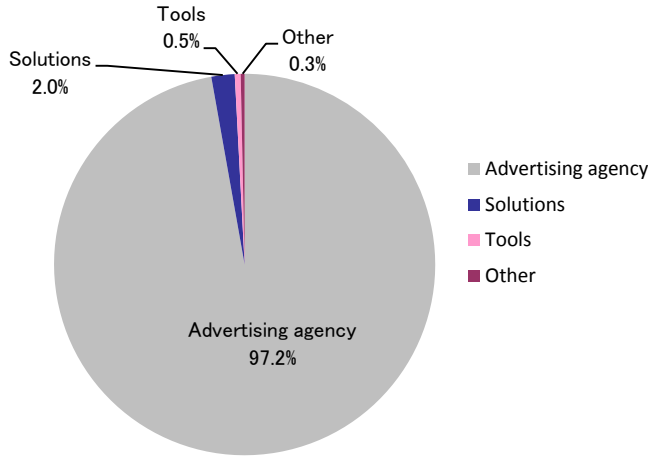
● **Descriptions of businesses**

The Company's businesses can be divided into the digital marketing area and the digital media area. By services, there are four businesses; the advertising agency business, the solutions business, and the tools business in the digital marketing area, and other businesses in the digital media area. In terms of their percentages of total net sales in FY9/16 Q1 (October to December 2015), the advertising agency business provided 97.2%, solutions 2.0%, tools 0.5%, and other 0.3%.

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Percentages of FY9/16 Q1 net sales



Provides high-value-added services for clients, mainly for advertising solutions, on media such as Yahoo and Google

(1) Advertising agency business

The Company sells advertising agency services as a legitimate agency, mainly for advertising solutions, including using Yahoo's "Yahoo! Promotional Ads" and Google's "AdWords Advertising." In addition to search advertising (listing advertising), it mainly handles management-type display advertising (routinely providing optimized advertising that utilizes DSP*1, third-party distribution*2, and ad networks*3, and controlling the advertising volume and the advertising content according to the results). The Company is not merely an agency commissioned for services within a conventional advertising framework as it provides various high-value-added services to enhance the advertising effects for its client companies, including changing the optimized targeting and advertising content in real time and then adjusting the unit prices of bids.

In addition to Yahoo and Google, the suppliers and media include Facebook, Twitter, LINE, Gunosy, and SmartNews, but the main media of Google and Yahoo account for approximately 80% of the total commission for ads purchases.

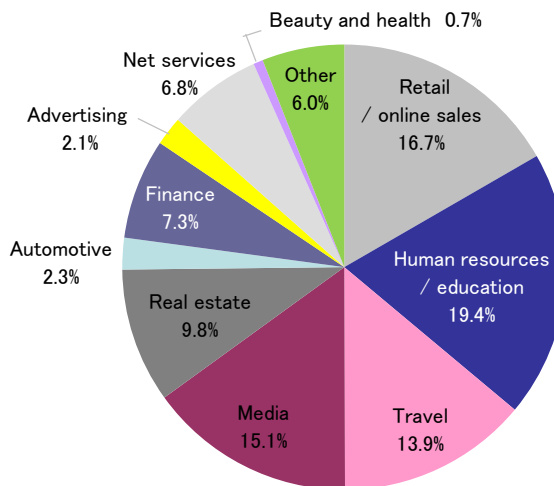
Conversely, for sales, it has a client base of several hundred companies, including major national clients (companies that rank within the top 500 domestically in terms of advertising budget). A feature is that more than 70% of its clients have long-term contracts of a marketing budget for 12 consecutive months, and the Company's long-term contract rate is considered to be an important KPI. Clients are divided into direct-sales client (which account for around 60% of net sales) and clients acquired via the Hakuodo DY Group. Looking according to industry, the client structure is not biased toward any particular industry, although it is focused on the travel, human resources and education, retail and online sales, and the real estate industries.

*1 Demand side platform: in online advertising, a tool to support the maximization of advertising effects for the advertiser (buyer) side. It provides the function of the selection of the optimized advertising framework based on the budget management by the advertiser side, the management of ad postings, the management of listings, and on the user attributes of its budget and targets, or the function of optimizing distribution conditions by reflecting past results.

*2 A method of distribution not from the media's server, but from the advertiser's server or the server managed by the advertising agency to which the advertiser outsources the distribution.

*3 Within Internet advertising, an advertising distribution method of a type that gathers a large number of websites as the advertising medium, forms an "advertising distribution network," and distributes the advertising over these many websites.

Percentages of net sales by client industry in FY9/16 Q1



In addition to existing businesses like website consulting, is newly strengthening measures for the content marketing area

(2) Solutions business

This business mainly involves website consulting and production services, particularly for SEO (Search Engine Optimization)*1, Web analysis (analysis of visitor behavior on websites), and Landing Page*2.

On the other hand, as a new development in response to the latest marketing trends, the Company has entered into a business alliance with crowd-sourcing major Lancers Inc. to release ONE CUSHION, which is a content marketing one-stop support service. Against the backdrop of the rapidly growing need to provide useful content on owned media, through this joint provision with Lancers, the Company is strengthening and activating its measures in the content marketing area. Within the trends of the increasing complexity of the work to build websites and the greater pressure to generate content for clients, it is aiming to expand its business in this area through the provision of a one-stop service in a framework that can utilize crowd sourcing, and as needed, make use of a team of writers.

The introduction and management of in-house developed platforms like Marketia® and the provision of digital media services

(3) Tools business

Starting with the in-house developed Marketia®*3, the Company is introducing and managing excellent overseas and domestic platforms that are best suited to its client companies' KPI and budgets.

(4) Other businesses

In digital media services, the Company manages jutakutenjijo.com, which is a comprehensive model homes site (a comprehensive information site for custom-made homes, in which users can make bulk requests for viewings for free from the catalogues of home builders, and can also easily search for nearby model homes venues).

*1 Estimates from an algorithm using Google and other search engines (a processing procedure for guiding the search results), and with regards to this algorithm, carrying out "internal measures" on the Web to arrange keywords within websites and change link structures in an optimized form, and "external measures" of arranging the websites that are being linked to. It requires knowledge of web production, algorithm analysis technologies, etc.

*2 The "receiver page" of the website that is first to appear when users click-on advertising.

*3 An automated system of management that is equipped with the experience and expertise that the Company has cultivated in digital marketing, particularly in the management-type.

The business environment and the Company's strengths and risks

Maintaining its absolute competitive advantage in management-type advertising from the expertise and findings it has accumulated since its establishment

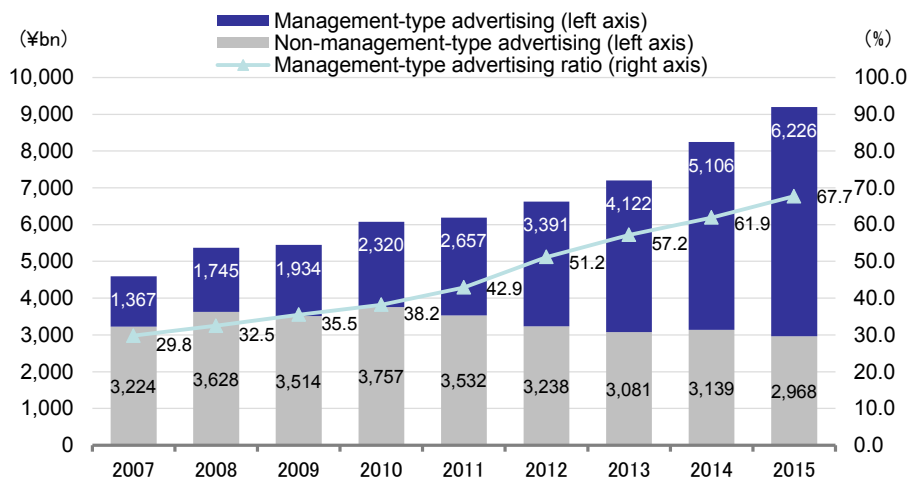
●The conditions in the management-type advertising market and for competition

In terms of the market scale of the Internet advertising expenditure market in which the Company's Group operates, according to "Advertising Expenditures in Japan, 2015," published by Dentsu, spending continues to trend upward due to factors including the growth of the smartphone market and the spread of advertising distribution that utilizes video advertising and other new technologies. In 2015, spending was ¥919.4bn which was an increase of 11.5% on 2014.

Within this spending, the scale of the Company's management-type advertising market has been growing rapidly in the form of incorporating the non-management-type advertising market. In the same time period, spending on it increased 21.9% to ¥622.6bn, and it continues to grow at a pace exceeding that of the market as a whole.

Whether in search advertising, which constitutes the majority of this business, or in management-type display advertising (including smartphone-related advertising, video advertising, etc.) the business environment is that advertising is evolving on a seemingly daily basis, for example for distribution technologies, and that the management environment is becoming increasingly complex.

Trends in the Japanese Internet Advertising Market (media costs only)



Source: prepared by FISCO from Advertising Expenditures in Japan (Dentsu)

The Company's industry peers include companies developing Internet advertising agency businesses like Cyber Agent<4751>, OPT Holding <2389>, and Septeni Holdings <4293>. In the process of the spread and growth of Internet advertising, clients have become able to use it according to their advertising objectives, for example by utilizing the characteristics and strengths of the respective specialist agencies. As a result, agencies have become compartmentalized, while the results of these various companies have grown alongside the expansion of the Internet advertising market. But recently, major advertising agencies have also begun focusing on the management-type advertising market and have made fully fledged entries into it, so the tendency has been for competition to intensify for some major clients.

●Strengths and business risks

The Company's strengths can be said to be that it has secured the leading share in the management-type advertising market (via sales agencies), and also that it has secured an absolute competitive advantage over its industry peers because since its establishment, it has been accumulating expertise in search advertising, which is the leading method in this market.

In addition, the Company was awarded the first prize for 10 consecutive fiscal periods among all Yahoo's certified agencies, and also as Google's first ever legitimate agency, it has been a certified partner since the introduction of this system in May 2010. It has also retained its certified status in various programs, including Yahoo! Promotional Ads "Ads Review Express Pass," the "Yahoo! Tag Manager Certified Partner Program," and the "Google Analytics Certified Partner" program, and it is building wide pipelines to Yahoo and Google. Furthermore, its strength include that it possesses 600 professional human resources specializing in management-type advertising, which is the highest number in Japan (as the number of professionals certified by Yahoo and Google, etc.), and it has in place a system to provide clients with useful and advanced solutions appropriately and quickly.

The Company's strengths also include its position as playing the central role for digital marketing as a member of the Hakuhodo DY Group, which is the eighth largest in the world, and that it has a client base not biased toward any specific industry and that includes national clients acquired against the backdrop of the Group's comprehensive strength.

Business risks include that in terms of its current media, it is highly reliant on transactions with only two companies, Google and Yahoo. Therefore, it is possible that a change of business policy by either of these two companies could adversely impact its results. Another business risk is that if the presence of one of these media companies grows larger, then the added value it provides as an agency would be reduced, which could have a negative effect on results.

■ Results trends

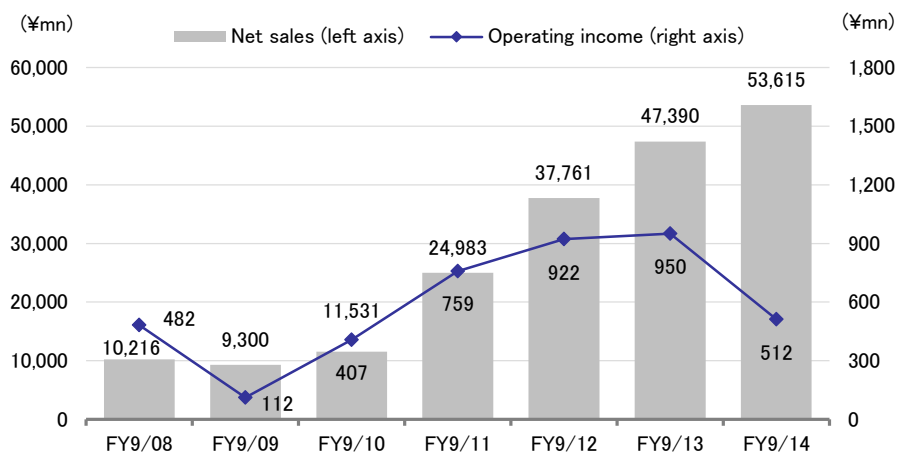
Succeeded in converting to a profit-growth trend after resolving to carry out structural reforms of its business in FY15 following the deterioration of the business environment

● Results trends up to FY9/15

(1) Overview of the Long-term Management Policy and the Medium-term Management Plan 2016

In November 2013 with the aim of further solidifying growth up to FY9/16, the Company formulated and published the Long-term Management Policy, which indicates the image for the Company Group as a whole it wants to achieve by 2020, and the Medium-term Management Plan 2016, which is the three year plan (FY9/14 to FY9/16) to serve as the growth strategy to realize this policy.

Past results trends (FY9/06 to FY9/14)



Source: prepared by FISCO from the Company's financial reports summary and securities report

The Long-term Management Policy is to solidify its position as “Japan’s number one agency that guides its client companies to business growth maximization through optimizing the flow of information to users.” In addition, the policy is to embark on the full-fledged deployment of a global business targeting the United States, China, and APAC. The goal is also for its subsidiaries to take on the challenge of launching new businesses other than the digital marketing business, and to achieve an operating income margin of 5% by 2020.

In order to realize this policy, the Company formulated the Medium-term Management Plan 2016, in which it set the following four targets: (a) aim to be the absolute number one agency for management-type advertising; (b) achieve growth through strengthening and diversifying the advertising peripheral solutions business, such as SEO and Web analysis; (c) establish the foundations for a global business, including establishing subsidiaries and forming alliances in APAC and the United States; and (d) evolve the integrated platform Marketia®. The targets set in this plan are net sales of ¥63,150mn and operating income of ¥1,831mn in FY9/16.

The Medium-term Management Plan’s targets and the results up to FY15

(unit: ¥mn)

	Results	The Medium-term Management Plan’s targets			Results	
	FY9/13	FY9/14	FY9/15	FY9/16	FY9/14	FY9/15
Net sales	47,390	52,176	57,400	63,150	53,615	58,023
Operating income	950	1,004	1,205	1,831	512	714
Operating income margin	2.0%	1.9%	2.1%	2.9%	1.0%	1.2%
Ordinary income	967	1,010	1,263	1,895	509	737
Ordinary income margin	2.0%	1.9%	2.2%	3.0%	0.9%	1.3%
Net income	584	611	746	1,137	314	319
Net income margin	1.2%	1.2%	1.3%	1.8%	0.6%	0.5%

Source: prepared by FISCO based on the Company’s press releases, financial reports summary, and financial results briefing materials

(2) FY14 and FY15 results

In the results for FY9/14, which was the first year of the Medium-term Management Plan, due to the deterioration of the business environment because of intensified competition and other factors, although net sales increased 13.1% y-o-y to ¥53,615mn, operating income decreased 46.0% to ¥512mn, and the Company endured a major fall in operating income despite recording a double-digit growth in sales.

Based on this worsening of results, it positioned FY9/15 as a “period for structural review” in order to respond to the changes in the market environment, and it formulated a business policy that considered how to achieve a balance between “prioritizing the sales growth rate, focused on existing business areas,” and “actively reviewing the business structure, including the earnings-and-expenses structure.” This policy has three key points: (a) in the mainstay advertising agency business, once again achieve growth for search advertising as the main service and build a competitive advantage in management-type display advertising; (b) in the solutions business, accelerate investment in the highly profitable solutions area; and (c) improve the contributions to the consolidated results of the subsidiaries that received investments the previous fiscal year and have the overseas subsidiaries achieve profitability. The Company determined the specific measures for each of these respective points and resolved to undertake the necessary structural reforms.

As a result, in FY9/15, net sales increased 8.2% y-o-y to ¥58,023mn and operating income grew 39.3% to ¥714mn, thereby securing sales at the upper level of the Company’s initial forecasts (of ¥55,000 to ¥58,000mn) and operating income above this upper level (of ¥520 to ¥650mn). In this way, the Company achieved its initial objective of advancing the structural reforms at the same time as maintaining the growth rate.

Positioned as “a period of re-growth,” aiming to both actively implement investment for growth and achieve a double-digit increase in sales

●FY9/16 consolidated results trends

(1) Overview of the FY9/16 Company targets

On March 30, the Company upwardly revised its initial targets for its FY9/16 consolidated results, for net sales of ¥76,000 to ¥77,000mn, operating income of ¥1,600 to ¥1,700mn, and net income attributable to the owners of the parent company of ¥900 to ¥1,000mn.

Overview of the FY9/16 Company targets

(unit: ¥mn)

	FY9/15		FY9/16		
	Results	% of sales	Company targets	% of sales	y-o-y
Net sales	58,023	-	76,000-77,000	-	31.0-32.7%
Operating income	714	1.2%	1,600-1,700	2.1-2.2%	124.0-138.0%
Ordinary income	737	1.3%			
Net income attributable to the owners of the parent company	319	0.5%	900-1,000	1.2-1.3%	182.1-213.5%

Source: prepared by FISCO based on the Company's financial reports summary and financial results briefing materials

To realize this image, the Company is aiming to achieve double-digit growth in net sales based on an expansion of share through re-strengthening the mainstay search advertising business. In addition, it has positioned the gross profit amount and the profit margin as key indicators and will work to design services suitable for sales growth. While on the one hand it will actively carry out investment to achieve continuous sales growth, on the other hand it expects to secure profits around three times those of FY9/15.

Achieved record highs for Q1 results from the strong performance of the mainstay advertising agency business

(2) Overview of the FY9/16 Q1 consolidated results

In the FY9/16 Q1 (October to December, 2015) consolidated results, net sales were ¥17,451mn (up 34.9% y-o-y), operating income was ¥371mn (an increase of 72.2 times), and net income attributable to the owners of the parent company was ¥288mn (compared to a net loss of ¥19mn in the same period in the previous fiscal year), for major increases in both sales and profits. In addition to being record highs for a Q1 (October to December), the results maintained the previous high level, exceeding the values of FY9/15 Q4 (July to September).

Overview of FY9/16 Q1 (October to December, 2015)

(unit: ¥mn)

	FY9/15 Q1		FY9/16 Q1		
	Results	% of sales	Results	% of sales	y-o-y
Net sales	12,941	-	17,451	-	34.9%
Cost of sales	11,751	90.8%	15,919	91.2%	35.5%
Gross profit	1,190	9.2%	1,531	8.8%	28.7%
SG&A expenses	1,184	9.2%	1,160	6.6%	-2.1%
Operating income	5	0.0%	371	2.1%	7226.9%
Ordinary income	7	0.1%	388	2.2%	4943.1%
Net income attributable to the owners of the parent company	-19	-	288	1.7%	-

Source: prepared by FISCO based on the Company's financial reports summary and financial results briefing materials

The growth in net sales was mainly because in the mainstay advertising agency business, both direct sales and collaborative projects with the Hakuholdo DY Group trended strongly. Cost of sales rose to ¥15,919mn (up 28.7% y-o-y). Due to the increase in net sales, gross profit was ¥1,531mn (up 28.7%), securing a double-digit rise in profits. However, the gross profit margin declined. Conversely, thanks to the effective utilization of near shore (Kochi) and off-shore location (Vietnam) and the Philippines), the Company succeeded in keeping down SG&A expenses to ¥1,160mn (down 2.1%) within the context of the improved productivity and sales growth in the advertising agency business. Elsewhere, personnel costs declined to ¥676mn (down 6.1%). As a result of these factors, operating income grew by 72.2 times to ¥371mn, while the operating income margin also greatly improved, from 0.0% in the same period in the previous fiscal year to 2.1%.

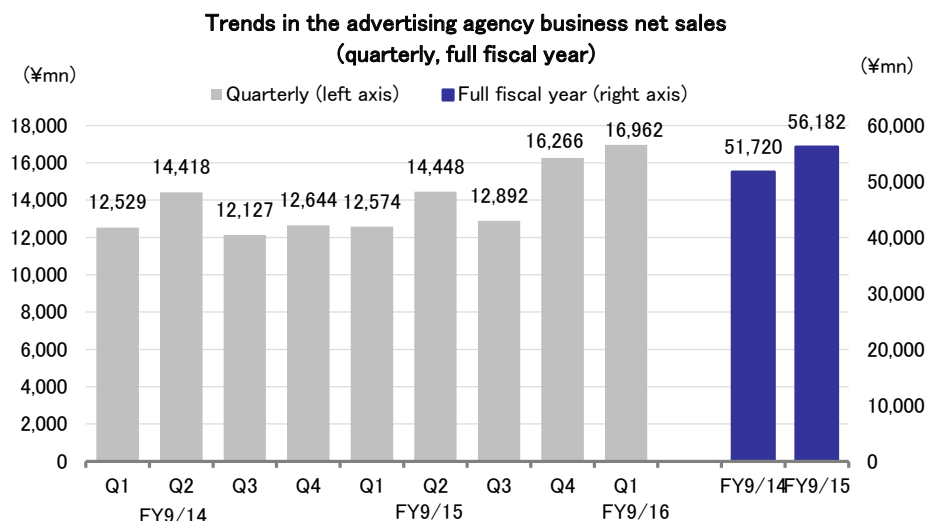
Both direct sales and Hakuholdo DY Group collaborative projects performed strongly

(3) Segment conditions

• Advertising agency business

In the advertising agency business, net sales increased 34.9% y-o-y to ¥16,962mn and gross profit rose 28.1% (the gross profit amount was not disclosed), for double-digit growth in both net sales and gross profit and for record highs for a Q1. The results also exceeded the totals of FY9/15 Q4 (July to September).

The increase in net sales was because in management-type advertising in general, thanks to the development of independent expertise and new services, the Company's ability to generate results for its clients has improved, and together with the higher budgets of existing clients, this resulted in the expansion of net sales via direct sales. For new projects also, both direct sales and Hakuholdo DY Group collaborative projects trended strongly, which pushed-up net sales. In conjunction with the sales growth, gross profit increased for both direct sales and Hakuholdo DY Group collaborative projects.



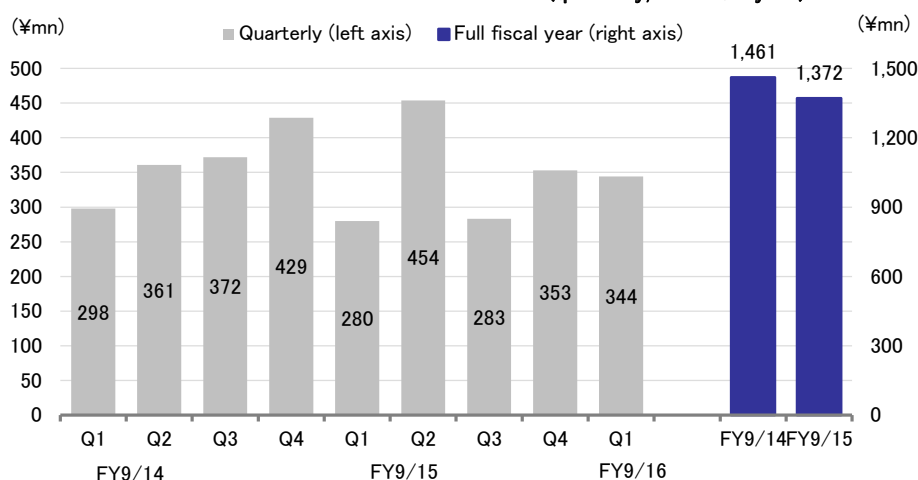
Source: prepared by FISCO from the Company's financial results briefing materials

• Solutions business

Net sales increased 22.7% y-o-y to ¥344mn, while gross profit rose 40.9%, for double-digit growth in both sales and profits. In this fiscal year, there were orders for direct sales from the effects of the Company's efforts to strengthen its proposal capabilities for content marketing, which it is focusing on as its main product to realize growth, and net sales trended strongly. Moreover, there were multiple orders for large projects for "HACC (Hakuholdo DY Actual-data Content Creator),"* which provides content development solutions based on actual data for owned media, and was launched in November 2015 in joint development with the Hakuholdo DY Group. It also contributed to sales and profits. As the management-type orders ratio for these orders is high, they are expected to continuously contribute to profits.

* HACC is provided as part of the "strengthening of the 'Sei-katsu-sha data driver' marketing responses capabilities," which has been positioned as one of the growth drivers in the Hakuholdo DY Group's Medium-term Business Plan (FY3/15 to FY3/19). It is comprised of a lineup of three services: 1) HACC-Search (based on searches, such as of actual data, designing content that will lead to interest from consumers and heightened appeal for companies and products); 2) HACC-Creation (building a system to produce content according to the client's issues that is both cost effective and retains quantity and quality); 3) HACC-Analyze (analyzing data acquired and optimized at any time, such as for advertising distribution and guidelines within sites).

Trends in the solutions business net sales (quarterly, full fiscal year)



Source: prepared by FISCO from the Company's financial results briefing materials

At FISCO, we expect that the effects from the review of operations in FY9/15 will be actualized in 2H (April to September), which will improve results, and that based on this, that in the FY9/16 results it will be possible to confirm that the pace in net sales growth and in the improvement to profits is once again accelerating alongside the measures the Company is taking.

The current Q1 results can be positively evaluated, as the effects of measures for both search advertising and management-type display advertising are being actualized and better-than-expected results were achieved for both direct sales and Hakuhodo DY Group collaborative projects, resulting in the major increase in net sales in the advertising agency business. In the solutions business also, it seems that the effects of the multiple orders of large scale projects from the many inquiries for HACC, which the Company jointly launched with the Hakuhodo DY Group, are appearing at a faster pace than anticipated. Therefore, we consider that the solutions business is on a growth track, even if sales are presently small scale.

Net assets increased following the recording of net income from the improved results. The equity ratio improved slightly.

(4) Financial position

At the end of FY9/16 Q1, total assets had increased ¥633mn compared to the end of the previous fiscal period, to ¥15,453mn. This was because although cash and deposits decreased ¥183mn, notes and accounts receivable rose ¥482mn. Liabilities increased ¥375mn to ¥10,958mn, primarily due to a rise in accounts payable of ¥580mn. Net assets climbed ¥258mn to ¥4,495mn, as the decrease in dividends from retained earnings of ¥41mn was exceeded by the increase of a recording of net income attributable to the owners of the parent company of ¥288mn.

Due to the increase in net assets following the recording of net income from the improved results, the equity ratio, which is an indicator of financial stability, rose to 28.4% (compared to 27.7% at the end of the previous fiscal period), while the current ratio also improved to 126.4% (125.4%).

Balance sheet

(unit: ¥mn)

	FY9/14	FY9/15	FY9/16 Q1	Change	Main change factors
Current assets	11,020	13,221	13,780	558	Notes and accounts receivable +482 Cash and deposits -183
Non-current assets	1,480	1,598	1,673	74	
Total assets	12,501	14,820	15,453	633	
Current liabilities	8,500	10,544	10,900	356	Accounts payable +580 Corporate tax payable -86 Consumption tax payable -163
Non-current liabilities	60	38	57	19	
Total liabilities	8,560	10,582	10,958	375	
Net assets	3,940	4,237	4,495	258	Net income +288 Dividends -41
Total liabilities, net assets	12,501	14,820	15,453	633	

Cash flow and management indicators

(unit: ¥mn)

	FY9/14	FY9/15	FY9/16 Q1
Cash flow from operating activities	131	675	-
Cash flow from investing activities	-365	-366	-
Cash flow from financing activities	-39	-42	-
Cash and equivalents (stability)	3,330	3,617	-
Current ratio	129.6%	125.4%	126.4%
Equity ratio (profitability)	30.5%	27.7%	28.4%
ROE	8.6%	8.1%	-
ROA	4.2%	5.4%	-
Operating income margin	1.0%	1.2%	2.1%

Source: prepared by FISCO from the Company's financial reports summary, securities report, etc.

Making steady progress in the collaboration with the Hakuholdo DY Group

(5) Specific measures and progress

The Company set four policy targets in the Medium-term Management Plan 2016; (a) become the absolute number one agency for management-type advertising, (b) evolve Marketia®, (c) achieve growth in the advertising peripheral solutions business, and (d) establish the foundations for the global business. The specific measures to achieve these targets and the progress made toward each of them are described below

(a) Become the absolute number one agency for management-type advertising

For search advertising, for which the Company holds the leading market share, the aim is to enhance the management level and improve management efficiency through concentration into the functions of "planning," "R&D," "management," and "operations," and the integration of the organization. Further, in order to expand the client base, in addition to direct sales and sales via the Hakuholdo DY Group, it is developing new business opportunities, including a business alliance with Full Speed and the establishment with it of the joint venture company SYNX. In such ways, the Company is aiming to capturing even more market share.

Conversely, for management-type display advertising, the goal is to increase billings by narrowing down the themes while taking into account the client base, and achieve and utilize the optimal allocation of resources. The Company is also strengthening its collaboration with the Hakuholdo DY Group and the DAC Group for human-resources training and to acquire knowledge and new clients.

(b) Evolve Marketia®

The Company is improving the client introduction rate by upgrading its functions up to the present time, while there are an increasing number of cases of it improving management results, and consequentially, the Marketia results are trending steadily. In addition, it will establish the specialist Marketia Division to further strengthen its functions and promote its introduction within companies. Further, in order to utilize the Quality Management Center Kochi, it plans to enhance management in Kochi by transferring knowledge to it from the Tokyo Head Office.

The Quality Management Center Kochi is planning to quickly establish a management structure on the scale of more than 100 people, compared to the more than 80 people it had at the end of March 2016, while also aiming to improve the productivity of the advertising agency business alongside the introduction of Marketia®.

(c) Achieve growth in the advertising peripheral solutions business

The Company will focus on content marketing as the main product responsible for growth. Specifically, to provide high-added-value for services, such as ONE CUSHION, it plans to implement a combination of multi-faceted measures, including for Group collaboration and alliances. Further, in November 2015, it launched a business jointly with the Hakuodo DY Group under the HACC brand for owned media content development solutions. In addition, in January 2016, it made a subsidiary of NEWSY, which manages the sirabee.com news distribution site, with the aim of strengthening creativity.

(d) Establish foundations for the global business

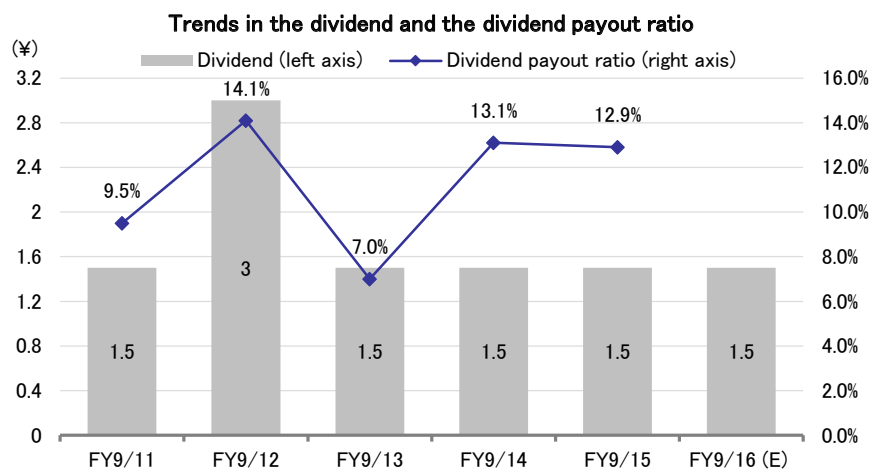
On the one hand the Company will accelerate the pace of investment in Indonesia and China, which are continuing to grow, but on the other hand it will rebuild its business in Vietnam to respond to the rapidly changing business environment. Further, in November 2015, it reached a basic agreement for a business alliance in the digital marketing area with Sanook Online Limited, which is the leading online media company in Thailand, it's fifth Asian country in which it does business. The Company intends to further increase business opportunities in the Thai online advertising market by strengthening services for online advertising for Japanese and local companies and the production business.

■ Returns to shareholders

Prioritizes returning profits to shareholders at the same time as supplementing internal reserves so it can respond to its rapidly changing industry environment

The Company considers that it is important to supplement its internal reserves to maintain them at a certain level so it can respond to the rapidly changing Internet advertising industry environment. But at the same time, it recognizes that returning profits to shareholders is an important management issue. In FY9/15, it paid an annual dividend per share of ¥1.5 (a year-end dividend of ¥1.5, for a dividend payout ratio of 12.9%). The forecast for FY9/16 is once again for a dividend per share of ¥1.5.

For the future, the Company will look to return profits to shareholders upon considering its results and financial position and while aiming to achieve a balance with maintaining internal reserves. However, as the shareholding ratios of the parent companies are high, its policy is to reward shareholders in the form of a raising the share price through profit growth, rather than through paying dividends.



Note 1: Reflects of 500-for-1 share split (October 2012), and 2-for-1 share split (October 2013)

Note 2: FY9/12 includes a commemorative dividend of ¥1.5 (after reflecting the share split) to mark the 15th anniversary of its establishment

■ Overview of the Company

Became a DAC consolidated subsidiary in 2010

● Overview and history

The Company is a Net advertising agency whose mainstay business is a search advertising (listing advertising) agency. Its corporate philosophy is to “Provide clients with marketing solutions with high ROI that will contribute to their higher sales and profits, and to optimize the flow of information to users and to provide them with the products and services that best match their needs.” It provides various one-stop services in the digital marketing area and has been increasing its share of the management-type advertising market (via sales agencies). It listed on the Osaka Stock Exchange Hercules market in November 2006 (currently the Tokyo Stock Exchange (TSE) JASDAQ), and then in September 2014, its listing was transferred to the TSE 2nd Section.

The Company’s predecessor was Aspire Co., Ltd., a Web consulting company founded in November 1997 by Masayuki Takayama, the Company’s founder. Its first business following its establishment was the production of homepages and related. But focusing on the potential of Internet advertising in the future, in June 2000 it changed its name to IREP Co., Ltd. and began a fully fledged business as an Internet advertising agency, centered on search engine marketing (SEM).

In July 2002, it began sales (as the first agency in Japan) of AdWords Advertising by Google Inc. of the United States (hereafter, Google). In December of the same year, it began sales of “Sponsored Search (R)” (currently Yahoo’s “Yahoo! Promotional Ads Sponsored Search (R)”) from Overture Co., Ltd., thereby expanding its business. In May 2004, it established the Search Engine Marketing Total Researching Laboratory (the SEM Total Researching Laboratory) as a think tank for specialist research into search engine marketing.

In April 2006, it entered-into a capital and business alliance with Hakuodo DY Media Partners Inc., and then in December 2007, established Relevancy-Plus Inc. as a joint venture with DAC (it became the Company’s wholly owned subsidiary in 2011). In June 2009, the Company became a DAC equity-method affiliate following a capital and business alliance, and in such ways it has continued to strengthen its relationship with the Hakuodo DY Holdings Group. Moreover in December 2010, it became a consolidated subsidiary of DAC in order to build even stronger cooperative relations with DAC, to acquire new large clients, and to expand its new business in the SEM area by acquiring mobile and smartphone projects, for which demand was expected to grow, and global projects.

Since it announced the Medium-term Management Plan 2016 in November 2013, following on from Indonesia, which it had already entered-into (May 2013), it established a subsidiary in China in January 2014 and made a Vietnamese company a consolidated subsidiary in October of the same year. In November 2015, it entered-into a business alliance in the digital marketing area with Sanook Online Limited, which is the leading online media company in Thailand, the fifth Asian country in which it does business. It is moving ahead with expansion of its overseas business base.

Elsewhere, in order to accelerate the development of Marketia®, a management automation system, in December 2013 it established ACQUISIO JAPAN CO., LTD. as a joint venture with Acquisio, Inc. (Canada), the world’s leading company for integrated digital marketing platforms. Also, in the content marketing business, in June 2015 it entered-into a business alliance with LANCERS, INC Then in January 2016, it made a consolidated subsidiary of NEWSY Inc., which has advanced planning and editing capabilities specializing in web content and independent web media management expertise and systems. Moreover, in its core business of the search advertising business, in October 2015 it concluded a basic agreement for a business alliance with Full Speed <2159> to provide support in the management-type advertising area, and then in December established the joint venture company SYNX Inc. with it.



IREP Co., Ltd.

2132 Tokyo Stock Exchange
Second Section

30-May-16

The Company's history

Main events	
November 1997	Aspire Co., Ltd., which is the Company's predecessor, was established by Masayuki Takayama, the Company's founder
June 2000	The company name was changed to IREP Co., Ltd. Began a fully-fledged Internet advertising agency business, mainly Yahoo! JAPAN keyword advertising.
July 2002	Launched sales of AdWords Advertising from Google Inc.
November 2002	Established the Japan Elderly Nursing Home Guidance Center
December 2002	Launched sales of "Sponsored Search (R)" (currently Yahoo's "Yahoo! Promotions Advertising Sponsored Search (R)") from Overture Co., Ltd.
October 2003	Certified as a "Recommended authorized agency" by Overture (Currently, Yahoo! JAPAN Display Ad Network (YDN) "legitimate agency")
May 2004	Established the Search Engine Marketing (SEM) Total Researching Laboratory
April 2006	Entered-into a capital and business alliance with Hakuholdo DY Media Partners Inc.
November 2006	Listed on Osaka Security Exchange Hercules (currently, JASDAQ)
January 2007	Entered-into a business alliance with Mediba Inc.
October 2007	Span-off the Senior Marketing Business Department and established ICare Inc.
December 2007	Established the joint venture Relevancy-Plus with Digital Advertising Consortium Inc. and Started operations of the jutakutenjijo.com., which is the total model homes information website
June 2009	Entered-into a capital and business alliance with Digital Advertising Consortium Inc.
December 2009	Transferred ICare Inc. to Internet Infinity Inc.
December 2010	Became a consolidated subsidiary of Digital Advertising Consortium Inc.
January 2011	Made Relevancy-Plus Inc. a wholly owned subsidiary
January 2012	Established Frontier Digital Marketing Co., Ltd.
December 2012	Established Localio Co., Ltd.
May 2013	Established PT.DIGITAL MARKETING INDONESIA in Indonesia
December 2013	Established ACQUISIO JAPAN CO., LTD.
January 2014	Established IREP BEIJING CO., LTD.
April 2014	Established Nextfield Co., Ltd.
July 2014	Opened the Quality Management Center Kochi. Made Open Coat Co., Ltd. a consolidated subsidiary
September 2014	Listing was transferred to the Tokyo Stock Exchange 2nd Section
October 2014	Made MOORE ONLINE DEVELOPMENT SOLUTIONS CORPORATION a consolidated subsidiary
May 2015	Established OPENCOAT PHILIPPINES, INC.
June 2015	Entered-into a business alliance with Lancers Inc. in the content marketing business
October 2015	Entered-into a business alliance with Full Speed Inc.
November 2015	Entered-into a business alliance with Sanook Online Limited of Thailand in the digital marketing area
December 2015	Conducted an absorption type merger of 2 consolidated subsidiaries (Frontier Digital Marketing Co., Ltd., and Nextfield Co., Ltd)
December 2015	Established SYNX Inc. as a joint venture company with Full Speed Inc. (the Company's investment ratio, 51%)
January 2016	Made NEWSY Inc. a subsidiary (the Company's investment ratio, 96.2%)

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