# Appier Group, Inc.

## 4180

Tokyo Stock Exchange Prime Market

20-Apr.-2023

FISCO Ltd. Analyst
**Yoichiro Shimizu**

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# ■ Summary

## Achieved a full year profitability for operating income in FY12/22, a year ahead of schedule, and now aiming to deliver new record-high results by balancing growth and profitability

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 sliced customer data, thereby turning data and action into value and further improving customers' ROI.[3] 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 first-party data they have, addressing the "full funnel" of the consumer journey, aligning with their day-to-day challenges and automating 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 with 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 of 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 results

The Company's consolidated results[1] for FY12/22 were as follows: Revenue increased 53.4% year on year (YoY) to ¥19,427mn, EBITDA was ¥1,363mn (compared to ¥42mn in the same period of the previous fiscal year), operating income was ¥50mn (compared to a loss of ¥1,117mn in the same period of the previous fiscal year) and net income attributable to owners of the parent company was ¥21mn (compared to a loss of ¥1,179mn in the same period of the previous fiscal year). In addition to posting record results, the company successfully accomplished a profitable year for each profit item a year ahead of schedule. Revenues increased 53% YoY thanks to balanced revenue growth from both existing and new customers. Factors in the increase in revenue included, for existing customers, upselling through ROI-oriented solutions and cross-selling through promotion of product synergies, and for new customers, expansion into new regions and industries and efficient marketing through the acquisition of large customers. Gross profit more than tripled over the past four years, primarily due to improved profit margins in the mainstay CrossX product resulting from improved algorithm accuracy. Although operating expenses increased as the scale of business expanded, the cost structure has improved, with a 5.4-point YoY decline in the ratio of operating expenses to revenue. Of note is the development of diverse growth drivers in multiple regions and a focus on expanding client industries, which resulted in building a diverse revenue base and continued growth momentum. By region, sales grew in the U.S. and EMEA, with revenue surging more than seven times over the previous fiscal year. By industry, revenue from digital content[2], a new industry, more than doubled over the previous fiscal year.

[1] Figures for operating results and forecasts are rounded to the nearest million yen (the same hereafter).
[2] Digital content includes games, entertainment, e-books and online streaming.

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### 2. FY12/23 results outlook

For FY12/23, the Company forecasts a 31.0% YoY increase in revenue to ¥25,454mn, a 71.9% increase in EBITDA to ¥2,342mn, a 964.3% increase in operating income to ¥535mn and net income attributable to owners of the parent company of ¥718mn (compared to net income of ¥21mn in the same period of the previous fiscal year). The Company aims to achieve record results by strengthening its capabilities in innovative technology, its core value, and by balancing both growth and profitability. The Company aims to grow revenue by further increasing market share in each region and expanding new customers through balanced expansion of customer industries, as well as by promoting upselling through ROI-oriented solutions and cross-selling through product synergies. In terms of profitability, meanwhile, it aims to improve gross profit margins by enhancing algorithm accuracy and boost operating profit margins through further improvements in business efficiency and sales productivity. The Company is also targeting high productivity in sales and R&D by increasing awareness of and capturing new customers for its new solutions, and by improving the accuracy of its CrossX algorithm, among other steps. The industry tailwinds, including first-party data trend and generative AI adoption, continue to favor the Company's future growth. Tightened regulation on data usage and increased awareness of privacy accentuate the importance of first-party data. The recent adoption of ChatGPT backed by generative AI has also increased the acceptance of AI technology and opened up more business opportunities for the company.
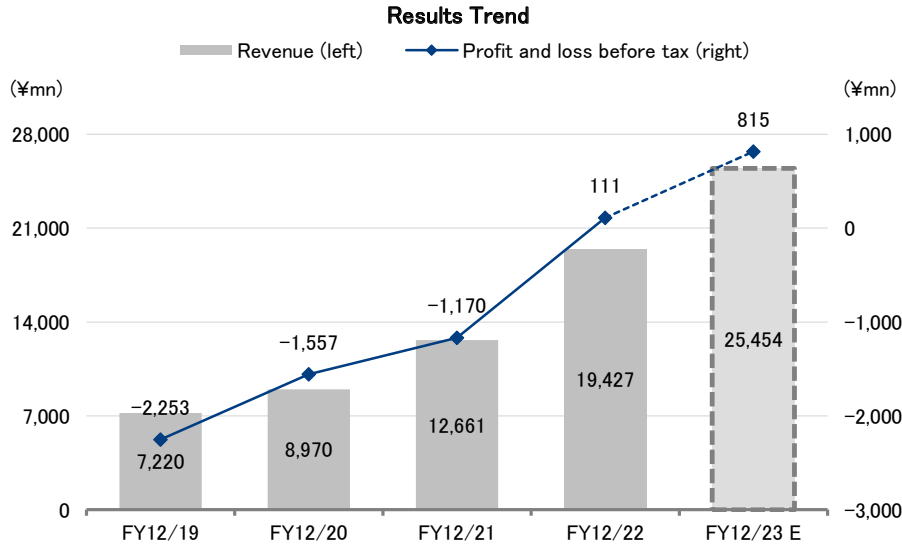
### 3. Medium- and long-term management strategy

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 with new solutions and remain at the forefront; (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
- Achieved a profitable year in FY12/22 a year ahead of schedule, posting record-high results
- Aims to strengthen its capabilities in innovative technology, the Company's core value, while reaching record-high results by balancing growth and profitability
- 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

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**Results Trend**



Note: Rounded to the nearest million yen
Source: Prepared by FISCO from the Company's financial results and Annual Securities Reports

## ◼ Company profile

### Uses AI to provide solutions that contribute to predictable revenue returns on customers' marketing investments

**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.

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## 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, in addition that the engineers on the company's R&D team has won the KDD cup, the most well-known competition for algorithms prediction accuracy, a total of seven times.

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<br>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 utilizing technology acquired through the acquisition of Quantumgraph Solutions Private Limited |
| August 2019 | Acquired Emotion Intelligence, Inc. |
| October 2019 | Began providing AiDeal utilizing technology acquired through the acquisition of Emotion Intelligence, Inc. |
| December 2019 | Founded Appier UK Co., Ltd. |
| February 2020 | Founded Appier US LLC<br>Established the Paris Office |
| March 2021 | Listed shares on the Tokyo Stock Exchange Mothers Market |
| June 2021 | Began providing BotBonnie upon acquisition of BotBonnie, Inc., a conversational engagement management platform |
| April 2022 | Transitioned to the Tokyo Stock Exchange's Growth Market following the exchange's market segment restructuring |
| October 2022 | Acquired Woopra, Inc. |
| December 2022 | Transitioned to the Tokyo Stock Exchange's Prime Market<br>Began offering AIRIS, an AI-equipped next-generation customer data platform (CDP) combining AIXON's AI predictive approach and the intuitive data visualization technology acquired through the acquisition of Woopra, Inc. |

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

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## 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 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; AIXON, which provides a data science platform that enables businesses to predict and analyze user behavior; and AIRIS, which combines an AI predictive approach with intuitive data visualization to support customer decision-making in real time. Moreover, 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.

**AI-based solutions provided by the Company**
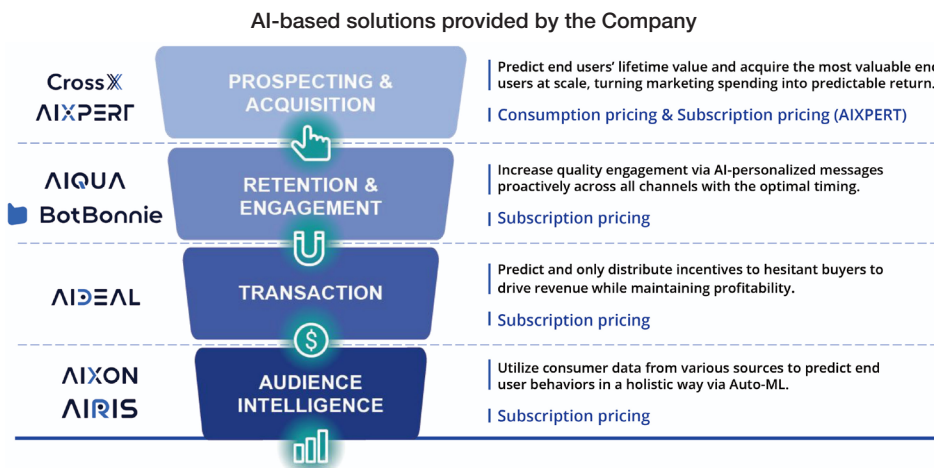


Source: Reprinted from the Company's results briefing materials

Except for CrossX, pricing of which is based on usage, 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 high gross margins compared to CrossX, gross profit margin growth from cross-selling can be expected even as the top-line grows.

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### (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 by 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 auto-matically sends messages with the optimal timing via the communication channel predicted to be the mostly likely to pique the user's interest.

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### (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 generally 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.

### (7) AIRIS

AIRIS is a customer data platform (CDP) that integrates AIXON's advanced user-centric AI predictive technology with the superior data analysis and data visualization technology of Woopra, Inc., acquired in October 2022. It offers real-time support for decision-making and execution by brand companies and marketers by instantaneously visualizing vast amounts of data and significantly shortening the amount of time required to gain insights from that data. Seamless data integration allows for the creation of 360-degree customer profiles and real-time prediction of marketing event effectiveness.

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### 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.

#### 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 in relation to the amount that 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, Senior Vice President of Finance, 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 oversee the M&A and partnership strategy to capture opportunities in new markets and technologies for the Company.

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### (3) Network effects that enhance platform value

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



Network effects that enhance platform value
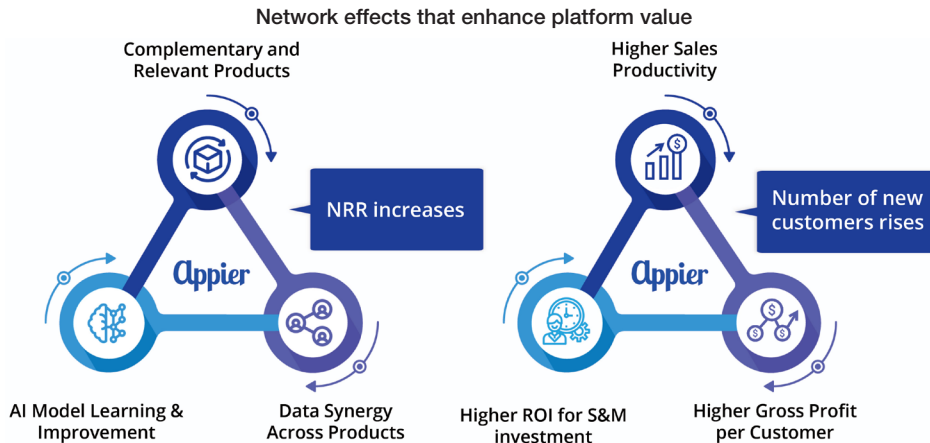
Source: Reprinted from the Company's results briefing materials

### 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 0.617% (FY12/22), while Net Revenue Retention Rate (NRR) was 121.8%, maintaining that high standard even in an environment where the yen is weak and demonstrating that the Company has a high level of customer loyalty.

Company profile

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

◆— Monthly customer churn rate (left)     ◆— NRR (right)
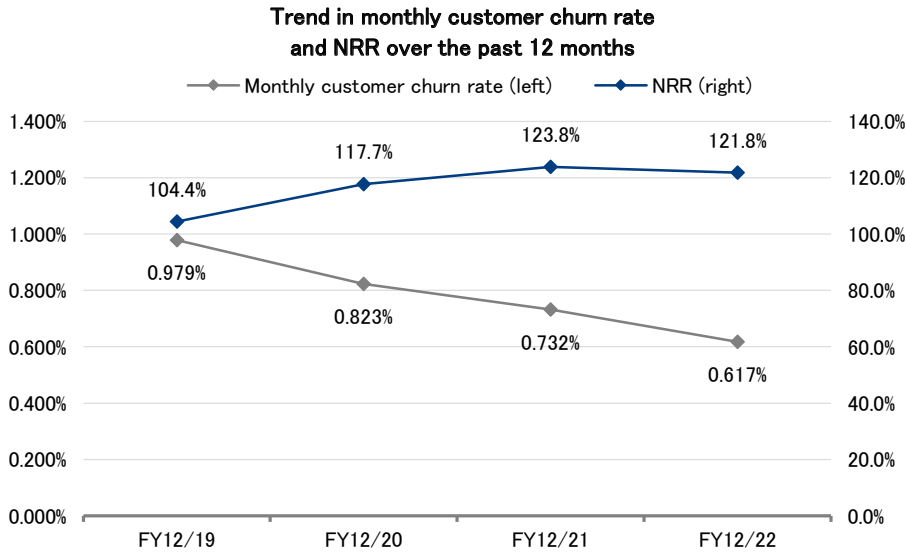
Note: Monthly customer churn rate = the number of customers that terminated their relationship with the Company during the month ÷ the number of all customers as of the end of the month
NRR is calculated by dividing total revenue calculated in U.S. dollars from the last 12 months from customers that 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

### 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, leveraging targeted account-based marketing, instead of mass marketing, to promote their solutions to customers efficiently. 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 advertisement platform usage fee as AI algorithm accuracy continuously improves, so the gross margin is expected to improve. Moreover, growth in customer bases for non-CrossX solutions with relatively high gross margins, 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 sub-scription 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.

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**(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. In 2022, the Company acquired Woopra of the U.S., and within two months developed AIRIS.

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, 2022, 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. and EMEA areas. In FY12/22, the U.S. and EMEA areas market have grown rapidly and revenue expanded to over seven times that of the previous fiscal year. 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.

Moreover, customers from a diverse range of industries are another source of strength for the Company. Looking at its revenue composition by industry in FY12/22, E-commerce accounted for 43% of revenues, digital content 38%, other Internet services 12%, and consumer brands & financial services 7%. FISCO rates the Company positively for achieving stable revenues by broadening its customer base and diversifying risk.

**(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 upselling and cross-selling.

# ■ Performance Trends

## Achieved a return to profitability in FY12/22 a year ahead of schedule, posting record-high results

### 1. Summary of FY12/22 results

The Company's consolidated results for FY12/22 set record highs, as follows: Revenue increased 53.4% YoY to ¥19,427mn, EBITDA was ¥1,363mn (compared to ¥42mn in the same period of the previous fiscal year), operating income was ¥50mn (compared to a loss of ¥1,117mn in the same period of the previous fiscal year) and net income attributable to owners of the parent company was ¥21mn (compared to a loss of ¥1,179mn in the same period of the previous fiscal year). Against its third upward revision announced in November 2022, revenue increased by 1.3%, EBITDA increased by 13.6%, operating income rose by ¥72mn, and net income attributable to owners of the parent company increased by ¥306mn.

**FY12/22 consolidated results (IFRS)**

(¥mn)

| | FY12/21 | | FY12/22 | | | | |
|---|---|---|---|---|---|---|---|
| | Results | % of revenue | Revised forecasts | Results | % of revenue | YoY | vs. Revised forecast |
| Revenue | 12,661 | - | 19,169 | 19,427 | - | 53.4% | 1.3% |
| Cost of sales | 6,422 | 50.7% | - | 9,428 | 48.5% | 46.8% | - |
| Gross profit | 6,239 | 49.3% | - | 9,998 | 51.5% | 60.3% | - |
| Operating expenses | 7,381 | 58.3% | - | 10,280 | 52.9% | 39.3% | - |
| EBITDA | 42 | 0.3% | 1,200 | 1,363 | 7.0% | - | 13.6% |
| Operating income (loss) | -1,117 | -8.8% | -22 | 50 | 0.3% | - | - |
| Net income (loss) attributable to owners of the parent company | -1,179 | -9.3% | -285 | 21 | 0.1% | - | - |

Note: The revised forecast for FY12/22 represents values announced on November 14, 2022. Values are rounded to the nearest million yen.
　　　Operating expenses = sales and marketing (S&M) expenses + research and development 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

Amid growing corporate interest in the adoption of AI solutions and the use of first-party data, the Company has managed to achieve balanced sales growth between existing and new clients. Upselling and cross-selling were implemented for existing clients, which accounted for 51% of the Company's incremental revenue in FY12/22, while for new clients, which accounted for 49% of incremental revenue, the company strategically focused on expanding regions and client industries, and on acquiring larger clients. The Company has accelerated growth by adding growth drivers each year, with revenue nearly tripling over the last four years and new customer sales doubling every year.

In terms of profit, profit margins improved largely due to improvements to the CrossX algorithm, which allowed for more efficient marketing campaigns, as well as lower server-related costs due to optimization of server utilization. As a result, gross profit more than tripled over the past four years to ¥9,998mn, up 60.3% YoY, while the gross profit margin rose 2.2 percentage points YoY to 51.5%. In addition, although operating expenses increased 39.3% YoY due to business expansion, the cost structure has improved, as the ratio of expenses to revenue declined 5.4 percentage points YoY. As a result, EBITDA grew significantly, and both operating income (loss) and net income (loss) attributable to owners of the parent company returned to profitability a year earlier than expected. The Company's consistent business execution has led to continuous profit improvement, a reflection of its strong profitability.

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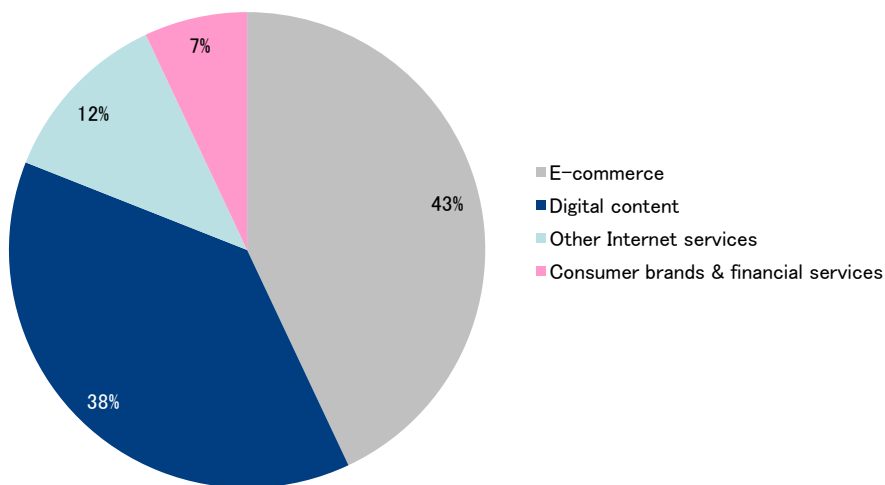
Performance Trends

**(1) A diverse revenue base**

The Company has developed diverse growth drivers in multiple regions and has focused on expanding its customer industries, resulting in a diversified revenue base. The revenue composition by region includes 63% from Northeast Asia (66% in the previous fiscal year); 20% from Greater China (23%); 12% from the U.S. and EMEA (3%); and 5% from Southeast Asia (9%). The revenue composition from the U.S. and EMEA grew, with revenue from these regions surging over sevenfold from the previous fiscal year. By industry, E-commerce accounted for 43% of revenue (54% in the previous fiscal year); digital content for 38% (28%); other internet services for 12% (13%); and consumer brands and financial services for 7% (5%). Digital content, a new industry sector, rose 10 percentage points YoY, and revenue more than doubled compared to the previous fiscal year. Diversification of regions and client industries not only significantly expands TAM, but also mitigates business seasonality, resulting in continuous growth momentum.

**Revenue composition by region (FY12/22)**
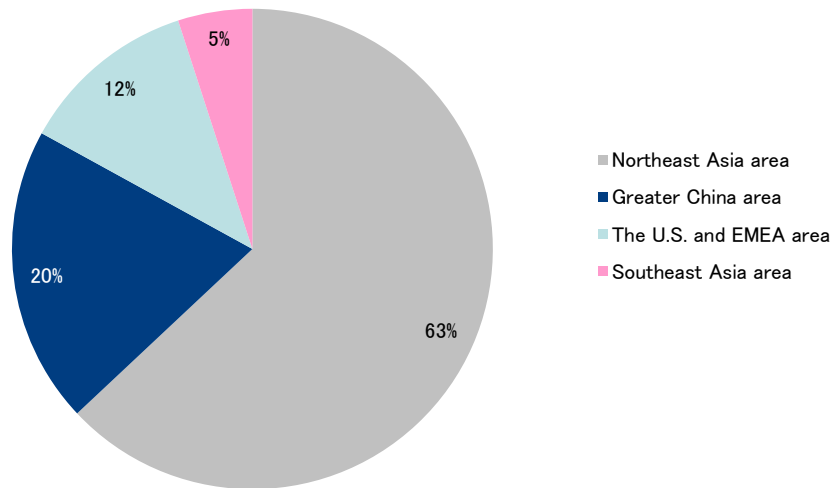


Source: Prepared by FISCO from the Company's results briefing materials

**Revenue composition by industry (FY12/22)**



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

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Performance Trends

### (2) Number of client companies

As a result of the Company's developing diverse growth drivers in multiple regions and its focus on expanding client industries, the number of new clients has steadily grown, with the number of client companies increasing 26.3% YoY to 1,374. The Company's technologies and solutions were well received and inquiries increased significantly.

**Change in number of client companies**

(companies)
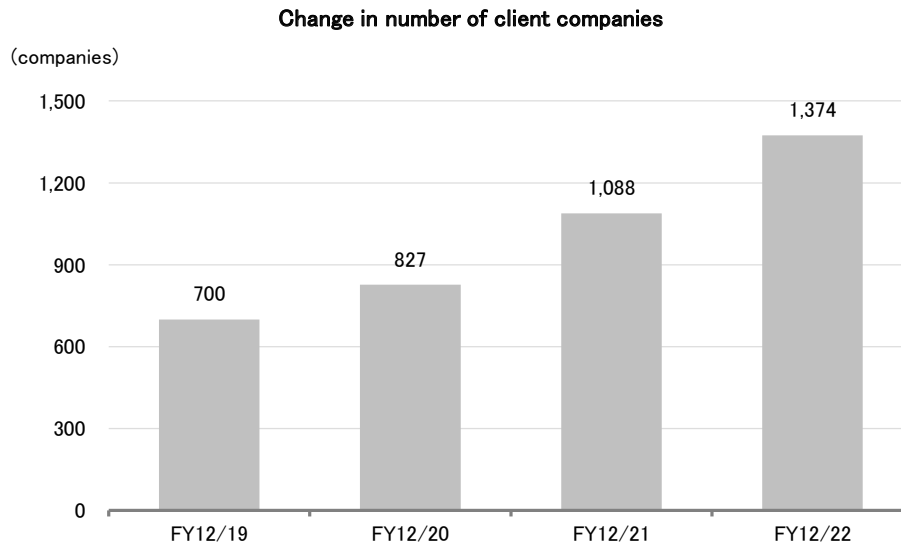


Source: Prepared by FISCO from the Company's results briefing materials

## Equity ratio is 72.9%, and short and long-term liquidity are sound

2. Financial condition and business metrics

Total assets amounted to ¥35,939mn as of the end of FY12/22, up ¥4,733mn from the previous fiscal-year end. Current assets rose ¥879mn from the previous fiscal year-end to ¥25,363mn. The main factors were increases of ¥3,577mn in other financial assets and ¥923mn in trade receivables, while cash and cash equivalents decreased by ¥2,757mn due to the acquisition of financial assets and by ¥1,007mn due to the withdrawal of time deposits, respectively. Non-current assets increased ¥3,854mn YoY to ¥10,576mn. This was due primarily to an increase of ¥3,960mn in goodwill and intangible assets in conjunction with the capitalization of development costs that met the requirements for capitalization and the acquisition of a subsidiary, while there was a decrease of ¥164mn due the amortization of right-of-use assets.

Total liabilities increased by ¥1,367mn from the previous fiscal year-end, to ¥9,737mn. Current liabilities increased by ¥1,537mn from the previous fiscal year-end, to ¥7,287mn. The primary factors were, respectively, a ¥924mn increase in other liabilities due to an increase in unpaid salaries and taxes, etc., and a ¥356mn increase in trade payables due to an increased cost of sales. Non-current liabilities decreased ¥169mn to ¥2,450mn. This was primarily due to a decrease of ¥230mn due to repayment of lease liabilities. Total equity stood at ¥26,201mn, an increase of ¥3,366mn from the previous fiscal year-end. Other components of equity increased by ¥3,268mn due to exchange rate fluctuations.

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Performance Trends

In terms of business metrics, the ratio of equity attributable to owners of the parent company (equity ratio) stood at a high level of 72.9% (73.2% at the end of FY12/21). In addition, the current ratio was 348.1% (425.8% at the end of FY12/21), and the non-current ratio was 40.4% (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.

Consolidated statements of financial position and business metrics

(¥mn)

|  | As of December 31, 2021 | As of December 31, 2022 | Change |
|---|---|---|---|
| Current assets | 24,484 | 25,363 | 879 |
| Cash and cash equivalents | 6,561 | 3,804 | -2,757 |
| Non-current assets | 6,722 | 10,576 | 3,854 |
| Total assets | 31,206 | 35,939 | 4,733 |
| Current liabilities | 5,750 | 7,287 | 1,537 |
| Non-current liabilities | 2,620 | 2,450 | -169 |
| Total liabilities | 8,370 | 9,737 | 1,367 |
| Total equity | 22,836 | 26,201 | 3,366 |
| Retained earnings | -9,494 | -9,473 | 21 |
| Business metrics |  |  |  |
| Ratio of equity attributable to owners of the parent company | 73.2% | 72.9% | -0.3pt |
| Current ratio | 425.8% | 348.1% | -77.7pt |
| Non-current ratio | 29.4% | 40.4% | 11pt |

Note: Values are rounded to the nearest million yen
Source: Prepared by FISCO from the Company's financial results

# ■ Business outlook

## Aims to strengthen its capabilities in innovative technology, the Company's core value, while reaching record-high results by balancing growth and profitability

● FY12/23 results outlook

For FY12/23, the Company forecasts a 31.0% YoY increase in revenue to ¥25,454mn, a 71.9% increase in EBITDA to ¥2,342mn, a 964.3% increase in operating income to ¥535mn and net income attributable to owners of the parent company of ¥718mn (compared to net income of ¥21mn in the same period of the previous fiscal year). The Company aims to achieve record results by strengthening its capabilities in innovative technology, its core value, and by balancing both growth and profitability. In addition, the Company has set financial targets of revenue growth rate of 30%+, gross margin of 55% to 60% and operating margin of 15% to 20% in FY12/25.

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Business outlook

## Consolidated guidance for FY12/23 (IFRS)

(¥mn)

| | FY12/22 | | FY12/23 | | |
| --- | --- | --- | --- | --- | --- |
| | Results | % of revenue | Forecast | % of revenue | YoY |
| Revenue | 19,427 | - | 25,454 | - | 31.0% |
| EBITDA | 1,363 | 7.0% | 2,342 | 9.2% | 71.9% |
| Operating income | 50 | 0.3% | 535 | 2.1% | 964.3% |
| Net income attributable to owners of the parent company | 21 | 0.1% | 718 | 2.8% | - |

Note: Values are rounded to the nearest million yen
Source: Prepared by FISCO from the Company's financial results

Trends in AI are expected to continue in FY12/23, as companies continue to show strong interest in implementing AI solutions and using first-party data. Given this business environment, the Company aims to achieve revenue growth by further expanding its market share in each region, increasing the number of new clients through balanced expansion of customer industries, and by promoting upselling through ROI-oriented solutions and cross-selling through product synergies. At the same time, it aims to improve profitability by improving its gross margin through greater algorithm accuracy and other measures, and by boosting its operating margin by further improving business efficiency and sales productivity. By region, the Company will focus on the U.S. and EMEA/Northeast Asia, which are advanced digital marketing countries. By industry, the Company plans to select focused industries, such as E-commerce and digital content, taking into account the characteristics and conditions of each market.

One notable trend is generative AI. With the use of generative AI, TAM is expanding from decision-making to content creation. Among the Company's existing products are those utilizing generative AI, which will likely provide a tailwind. The Company also plans to develop new products equipped with generative AI, which FISCO believes will lead to further business expansion. FISCO also expects AIRIS, which the Company began offering in December 2022, will contribute to earnings.

As for improving profitability, the Company will aim for high productivity in sales and R&D. The Company will also work to improve gross margins by further enhancing its CrossX algorithm and reducing server-related costs, while improving operating margins by achieving better operating leverage.

# ■ 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 with new solutions and remain at the forefront; (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 with new solutions and remain at the forefront
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 in 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.

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.

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**(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)**

With the expansion of solutions, the Company intends to increase cross-selling even more than before, along with strong upselling from existing customers. By adopting the multiple solutions offered by the Company, customers can increase the effectiveness of those solutions. Since each solution is built on the same cloud service infrastructure, customers need only upload their data once. This kind of convenience not only reduces customer time and effort and motivates them to employ even more solutions, but is also cost-effective for the Company itself, allowing it to earn higher profit margins as customers utilize multiple solutions. The Company aims to further expand business results by enhancing the loyalty of existing customers through network effects, expanding and strengthening its customer base, and increasing revenue through cross-selling by a strengthened sales force.

**(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, for future growth 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 may become the Company's growth driver in the future. 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.

**(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.

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## ■ 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.