

Cross Marketing Group Inc.

3675

Tokyo Stock Exchange Prime Market

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Summary

Results are growing rapidly and will achieve the target in the medium-term management plan ahead of schedule

1. Supporting the entire range of marketing processes as a marketing DX partner

Cross Marketing Group Inc. <3675> (hereinafter, “the Company”) supports customers as a DX* marketing partner and comprehensively engages in the three businesses of the Digital Marketing Business, the Data Marketing Business, and the Insight Business. The Digital Marketing Business provides media promotions and IT solutions, etc. The Data Marketing Business engages in online and offline research, etc., and the Insight Business provides other services such as analysis, reporting and consulting, etc. From a starting point of an original business of online research, the Company helps customers solve various issues that arise during all domains of the marketing process.

* DX (Digital Transformation): Transforming lives and work for the better by disseminating advanced digital technologies into companies and society.

2. Strengths include its business model, an abundant panel network, and detailed consumer data

The Company’s business model is characterized by combining the research functions of its Data Marketing Business and Insight Business (its understanding of consumers) with support for execution through its Digital Marketing Business in order to provide customers comprehensive marketing solutions with high added value. The Company’s strength is its business model—the combination of its understanding of consumers through market research and its support for marketing execution. Moreover, this business model is supported by the Company’s assets and infrastructure, which include an enormous online survey panel network of 7.52 million people and detailed consumer data on a maximum of 2,500 items, and a customer base of 5,000 companies and 72,000 contacts. It is one of only a small number of companies capable of providing comprehensive marketing services across all marketing processes, which is also a strength.

3. The FY6/22 results were driven by the Digital Marketing Business, including the full consolidation of DO HOUSE

In the FY6/22 results, net sales were ¥24,899mn and operating profit was ¥2,522mn. Compared to the results from July 2020 to June 2021, which adds the 2H FY12/20 results to the irregular six-month fiscal period results of FY6/21, on an actual basis both sales and profits increased significantly, with net sales rising 30.7% and operating profit growing 38.0%. Within these results, the sales growth was driven by the Digital Marketing Business against the backdrop of the full consolidation of DO HOUSE Inc. that was made a subsidiary through an M&A in January 2021, the synergies through PMI (the integration process after an M&A), and the growth of D&M, Inc. Sales were strong in the other businesses as well due to factors such as the recoveries from the novel coronavirus pandemic (hereafter, COVID-19) and overseas. In profits, the gross profit margin improved through work process improvements, including the improved productivity due to the automation of in-house work by AI and the expansion of near shore (work at regions in Japan). As a result, the Company was able to absorb the upfront costs for growth, such as in human resources and systems.

Summary

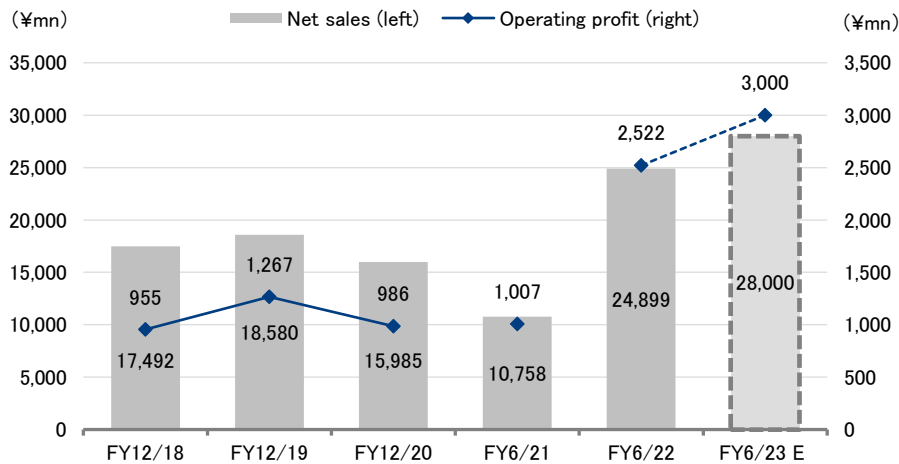
4. The FY6/23 operating profit forecast is ¥3,000mn, which will achieve the numerical target in the medium-term management plan ahead of schedule

For the FY6/23 results, the Company is forecasting net sales of ¥28,000mn (up 12.5% year-on-year (YoY)) and operating profit of ¥3,000mn (up 19.0%). Based on its expansive panel network and detailed consumer data, it plans to secure growth greater than that of the market by addressing the marketing method evolution and to other changes occurring against the backdrop of the acceleration of DX. In this situation, the Digital Marketing Business, in which media and promotions are performing excellently, is expected to continue to drive sales. The operating profit margin is also expected to improve due to the work process improvements and other factors, and the Company is forecast to achieve the numerical target of ¥3,000mn in operating profit for FY6/24, the final fiscal year of the medium-term management plan, one year ahead of schedule. The Company is strengthening its growth capability by continuing to conduct proactive management for the expanding markets, and we can expect it to indicate its next targets at an early stage.

Key Points

- Marketing DX partner supporting the entire range of marketing processes for customers
- FY6/22 results achieved significant increases in sales and profits as a result of the consolidation of DO HOUSE and the strong performances of the existing businesses
- Is forecasting that the excellent results will continue in FY6/23 as well and expects to achieve the medium-term management plan's operating profit target ahead of schedule

Results trends



Note: FY6/21 was an irregular six-month fiscal period
 Source: Prepared by FISCO from the Company's financial results

■ Company profile

Marketing DX partner supporting the entire range of marketing processes

1. Company profile

The Company conducts businesses across all marketing processes and supports the marketing DX of its customers. It is a holding company and its businesses are conducted through its subsidiaries. It has three businesses: the Digital Marketing Business, which conducts the management of sales promotions support media, support for promotions and marketing, and outsourced systems development; the Data Marketing Business, which collects and analyzes various data centered on the original business of online research; and the Insight Business, which supports customers' decision making, including through analysis, reporting, and consulting. Currently, societies and economies around the world are in the middle of being transformed through DX and digitization is being progressed in various fields. In the marketing industry as well, the environment is changing, including the acceleration of the increase in the sophistication and diversification of customer needs due to DX, and up to the present time, the Company has been able to ascertain these changes in advance and expand its business scope and strengthen its constitution. The COVID-19 pandemic hit while the Company was working toward these goals, but currently the outcomes of its efforts are appearing such as the rapid growth of results, which is becoming a major strength toward achieving the targets in the medium-term management plan.

Evolution from solutions to DX partner

2. History

The Company can trace its roots back to Cross Marketing Inc., an online research company that was founded in April 2003 by Miki Igarashi, the current Representative Director, President and CEO. In May 2006, Cross Marketing Inc. entered into a capital and business alliance with EC Navi Inc. (currently CARTA HOLDINGS, INC. <3688>), the operator of an ad platform and point media businesses). In March 2007, it entered into capital alliances with major research companies such as Dentsu Research Inc. (currently DENTSU MACROMILL INSIGHT, INC.) and Video Research Ltd. In October 2008, the Company listed on the Mothers Section of the Tokyo Stock Exchange (TSE), and in August 2011, it received part of Index Inc.'s mobile solutions business (currently the Digital Marketing Business), and established a subsidiary in China (Shanghai) as it launched its overseas business, and otherwise actively worked to expand its business scope. In 2013, the Company became a holding company and changed its name to the current Cross Marketing Group. In March 2018, it changed its stock market listing to the First Section of the TSE. Then in April 2022, its listing was changed to the TSE Prime market following the TSE's reorganization of its market categories.

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Company profile

In recent years, the Company has continuously expanded its business scope through methods including M&A, such as of DO HOUSE and SKIP Inc., and spin-offs of D&M, Inc. and Medilead, Inc., while continuing to conduct proactive management, including progressing structural reforms in Japan and overseas. So even while being a late starter, it has continued to grow as a major player in the marketing research industry. In 2020, the impact of COVID-19 was significant, but at the same time it was a major business opportunity for DX that changes the understanding of companies and society. In conjunction with this, the Company evolved its business from being a marketing solutions company centered on research to being a marketing DX partner that focuses on digital marketing. The Company succeeded with this strategy and is currently growing at a pace higher than that set out in the medium-term management plan.

History

Date	Item
April 2003	Founded in Shibuya-ku, Tokyo
January 2004	Relocated to Chuo-ku, Tokyo
May 2006	Entered into a capital and business alliance with Voyage Group and its subsidiary Research Panel, Inc.
October 2008	Listed on the Mothers section of the Tokyo Stock Exchange
August 2011	Subsidiary Cross Communication Inc. commenced operations after succeeding to a portion of Index Inc.'s mobile solution business
May 2012	Established and launched subsidiary Cross Marketing China Inc. (currently, Kadence International Inc. (China)) in Shanghai, China
June 2013	Transitioned to a holding company framework by establishing Cross Marketing Group Inc. through a sole-share transfer
August 2013	Acquired shares in Markelytics Solutions Private Limited and Medical World Panel Online Inc.
May 2014	Relocated the head office to Shinjuku-ku, Tokyo (Tokyo Opera City)
November 2014	Converted Kadence Group, which operates in eight countries in North America, Europe, and Asia, into a wholly owned subsidiary
February 2015	Converted affiliate Research and Development, Inc. into a consolidated subsidiary
April 2015	Cross Communication Inc. established subsidiary Cross Propworks Inc. in Hakodate
July 2015	Established Medilead Inc., and D&M Inc., and they started operations
August 2015	Established Cross Marketing (Thailand) Co., Ltd. (currently, Kadence International (Thailand) Co., Ltd.)
November 2015	Cross Communication Inc. converted JIN SOFTWARE (renamed Cross J Tech Inc.) into a subsidiary
April 2016	Shopper's Eye Inc., started operations
March 2018	Listing was upgraded to the TSE 1st Section
April 2018	Established Cross Ventures Co., Ltd.
October 2018	Cross Communication made a subsidiary of Supotant Co., Ltd.
November 2019	Supotant Co., Ltd., merged with Cross J Tech Inc., and the company name was changed to Fittio Inc.
October 2020	Cross Marketing Inc. conducted an absorption merger of Research & Development Inc. aimed at strengthening online and offline synergies
January 2021	Converted DO HOUSE Inc. into a subsidiary
July 2021	Established MetaSite inc.
January 2022	Made SKIP Inc. a subsidiary
March 2022	Made subsidiaries of REECH Inc., Norfre foods Co. Ltd. and Norfre Communications Co., Ltd.

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

The greatly changing marketing research market against the backdrop of DX

3. Industry environment

The marketing research market has grown stably together with diversifying consumer needs and expanding corporate results. Since 2000 in particular, the market for online research, the Company's original business, has expanded rapidly along with the spread of the Internet. In recent years, as digitization has progressed, it has become easier to obtain large amounts of data (big data), such as smartphone location data and web access logs. Companies naturally want to analyze this big data and utilize it in online advertising, D2C* and other marketing activities, but most companies have not sufficiently progressed DX and do not fully utilize the big data they acquire in their businesses. This is the current state of affairs, so for the Company that supports DX, there is still plenty of room for the further development of the market.

* D2C (Direct to Consumer): Directly promoting and selling products to consumers via the internet and other channels without going through advertising agents and retailers.

Marketing research is the business of acquiring, surveying, and analyzing data and providing high added value. Previously, the research, consulting, IT, advertising, and marketing industries had been subdivided vertically, and the companies in these respective categories worked to add value to data but only in their areas of expertise, so in many cases data was only partially optimized. However, it is now possible to use DX to convert data to big data and give it high added value, so all industries related to marketing are pierced horizontally making it possible to pursue overall optimization. Within this movement from partial to overall optimization, the marketing research market, which had been subdivided, has scaled up into a single entity that cuts across industries.

With these changes in the market, ESOMAR (European Society for Opinion and Market Research) has redefined the research market as "An industry that compiles and analyzes a range of data and provides insights* to clients," a market that includes some IT and consulting. As a result, the global scale of the marketing research market is ¥5.2tn, but the scale of the global insight market increases to ¥9.8tn when data analysis, report production, and other aspects are included. Furthermore, if you include the ¥220bn domestic research market and the ¥2.2tn D2C market, the scale of the markets targeted by the Company are estimated to be over ¥10tn, even considering areas of overlap. This is a massive market and few companies are capable of covering it entirely on their own and in particular, few companies have fully fledged development functions. This situation is advantageous for the Company, which comprehensively develops marketing solutions rooted in research, so from this point also, it can be said to be a market with plenty of room for further development.

* Insight (marketing term): Refers to a purchasing trigger obtained from analysis of the mentality structure underlying consumer behavior and attitudes. Insight is the switch that brings out latent consumer needs.

Business overview

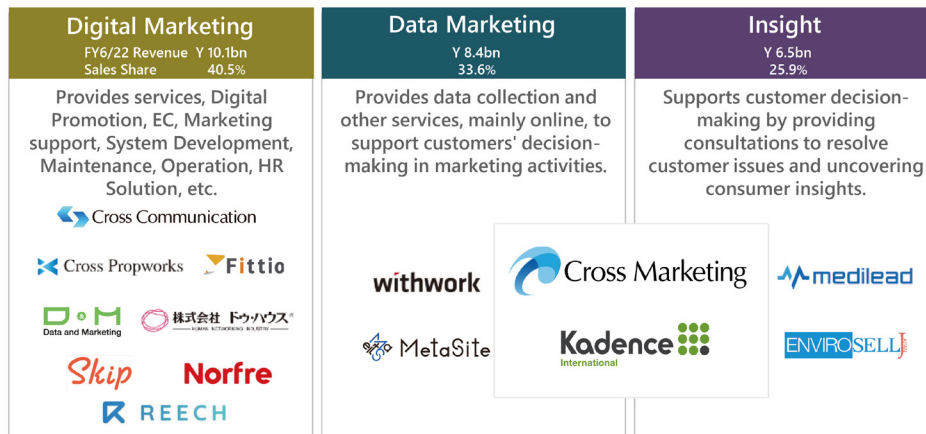
Provides support for all marketing areas through its three businesses

1. Business activities

The Company's three businesses of Digital Marketing, Data Marketing and Insight, are conducted by various Group companies in Japan and overseas, centered on its panel network of 7.52 million people. The Digital Marketing Business provides comprehensive IT solutions for DX, including the management of sales promotions support media, support for promotions and marketing, and outsourced systems development. The Data Marketing Business provides services centered on online and offline data collection based on marketing research. The Insight Business discovers consumer insights through the integrated analyses of various marketing data and supports customers' decision making in their marketing strategies, such as by creating reports.

It is considered that the Company, whose original business was research, adopted these business segments in order to clarify its position as a marketing DX partner for customers and at the same time, to incorporate business areas that cannot be explained collectively, such as online research and marketing solutions. For research work, its original business, the Company already provides full support worldwide, but the growth potential seems extremely large for digital marketing, as sales promotions are conducted through social media and other media. The overseas business is not divided into segments, but its areas mainly cover the Data Marketing Business and the Insight Business. Also, through coordination between the businesses, the Group is able to provide various support, including supporting all marketing processes and supporting overseas marketing through its domestic companies.

Business segments overview and main subsidiaries



Source: The Company's results briefing materials

Business overview

(1) Digital Marketing Business

The Digital Marketing Business provides comprehensive IT solutions for DX, including the management of sales promotions support media, support for promotions and marketing, and outsourced systems development. In sales promotions support, it manages a diverse range of media according to customer needs. Within it, DO HOUSE, which was made a subsidiary in January 2021, has connections with manufacturers and an excellent reputation for product inventory and handling, and it manages the promotions media sites Moratame.net and Tentame!, which are Japan's largest product trial sites, and through free sampling promotions*, it has its own consumer network of 2mn people. By making DO HOUSE a subsidiary, the scale of the promotions panel for the Group as a whole increased to 7.52mn people, including those of its partners, while DO HOUSE itself is also realizing synergies for sales and other areas. In digital promotions, the Group is now capable of providing the latest marketing services that are more accurate and optimum, utilizing the 7.52mn consumer data acquired from its large-scale panel network. This has led to the improved profitability of D&M, one of the main companies in the Group. In systems development, its strengths including building and managing systems that require accuracy and robustness, such as apps for financial institutions and for EC payments and points management, and also for large-scale systems on a scale of having 1mn members.

* Sampling promotions are a type of sales promotion in which trial products, such as of cosmetics, beverages, and foods, are distributed to consumers, when new products are purchased from stores, and they are given questionnaires on them, and the results are used in multipurpose marketing, including for manufacturer product development and support.

(2) Data Marketing Business

The Data Marketing Business provides services centered on online and offline data collection based on marketing research, and it supports customers' decision making in their business activities and marketing activities. The most important elements for online research are the quantity and quality of the questionnaire panels. For quantity, the Group has one of the largest active questionnaire panels in Japan when combined with those of its partners, and the Group as a whole conducts around 30,000 surveys a year. In addition to basic information, such as on gender, age group, and residence location, the quality of the panel refers to basic attributes like cohabitating family members, and member registration information is updated annually to keep this basic attribute information up to date. It also requires rigorous panel quality management, such as removing registrations of respondents giving intentionally disingenuous answers. To conduct smooth surveys, the Company categorizes many specialized panels that have been pre-segmented, such as on car ownership. The pace of the increase of online research is fast compared to that of offline research and its marginal profit margin is extremely high, including as inherently it has a relatively high profit margin and that automation is being progressed through AI and other means.

(3) Insight Business

The Insight Business discovers consumer insights through the integrated analyses of various marketing data and supports customers' decision making in their marketing strategies, such as by creating reports. Each year the Company conducts around 1,000 group interviews and workplace surveys and other surveys, such as beverage or food tasting surveys, to discover insights. During the COVID-19 pandemic, interviews have been cancelled or changed to being online, but efficiency has improved since the face-to-face online research methods that use online meeting tools has been established. In addition, this business conducts work including analyzing posted data that use SNS or other media and providing data-driven consulting that integrates questionnaire data and secondary data. Also, based on the research of panels that specialize in specific areas, for example the healthcare and medical areas, it provides support for health management programs and for formulating disease onset risk models, as well as support for research papers, studies, and medical technology evaluations related to drug discovery and clinical trials. In these specialist areas, the Insight Business can be said to be providing extremely high-value-added services with high barriers to new entrants because the research-company side must carry out tasks like securing specialist human resources and responding to new technologies.

Business overview

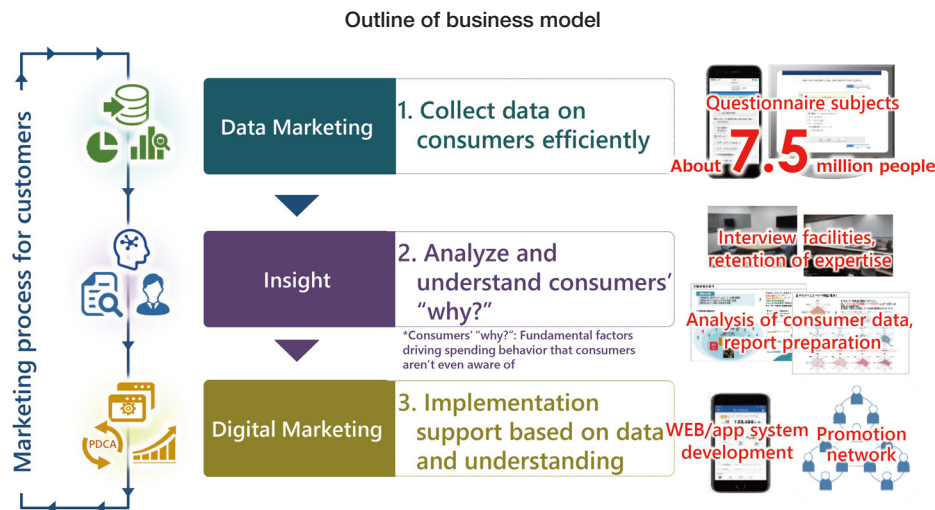
(4) Overseas business

The overseas business is not an independent segment (it is mainly included in the Data Marketing Business and the Insight Business), but it is an important angle for discussing the future of the Company, which is developing its businesses at over 20 bases in 10 countries around the world (including Japan). It has continued to actively develop the overseas business, including entering-into China in 2012 and making Kadence a subsidiary in 2014, but it resolved to conduct structural reforms, such as concentrating management resources into Kadence in 2020. As a result of these reforms, the overseas business structure had begun to produce results by the second half of 2021 and presently there has been a noticeable improvement in earnings, particularly in the United States and Southeast Asia. Toward regrowth in the future, the Group is currently strengthening the provision of infrastructure to major companies in Japan, the United States, and Europe.

Business model for supporting overall marketing processes of customers

2. Business model

The Company’s business model is characterized by combining its understand of consumers through the research functions of its Data Marketing Business and Insight Business with support for execution through its Digital Marketing Business in order to provide customers comprehensive marketing solutions with high added value. Specifically, the Company efficiently collects consumer data through both online research—its original business—and offline research to analyze and understand the “Why?” of consumer behavior. Utilizing precision marketing tools based on this data and understanding leads to the Company’s support for the marketing execution of customers. In addition, the Company is involved in all marketing processes, so it is able to help customers solve the various types of issues that occur. Moreover, sales reps, researchers, directors and all other personnel involved work together and the businesses are integrated, so the Company has a support system for flexibly solving issues, which is also an important characteristic of its business model.



Source: The Company's results briefing materials

Strengths include its large-scale panel network and detailed consumer data

3. The Company's strengths

The Company's strengths can be said to include its business model, which combines its understanding of consumers derived from research (Data Marketing Business and Insight Business) and its support for marketing execution (Digital Marketing Business) to provide high-value-added services directly linked to customers' business promotion and growth. Moreover, the assets and infrastructure that support this business model are also its major strengths, which includes a promotion panel network of over 7.52 million people, a customer base of 5,000 companies and 72,000 contact points, data analytics technologies and over 300 analysts, and an online research system and over 100 engineers. While possessing this research infrastructure, the Company's strength is that it is one of the few companies that can provide solution services across the entire marketing process by responding to the drastically changing market environment against the backdrop of DX. Among these assets, the panel network offers outstanding quantity, quality, and reliability based on the results of a maximum of 2,500 items and detailed questions. Furthermore, the offline research conducted during the recovery from COVID-19 has become a unique feature currently unavailable elsewhere and it is able to provide a service with extremely high added value, of research that understands the subtleties of consumers that are only possible to understand offline.

In terms of its current competitors, Macromill, Inc. <3978> and INTAGE HOLDINGS Inc. <4326> have previously been called its rivals in marketing research, but the direction that each company is taking is slightly different due to changes to the market definitions, and there seems to be an increasing number of fields without competitors. In every stage of the marketing process, there is also competition from companies other than those in the research industry, including Orchestra Holdings <6533>, which conducts Internet advertising, and Members <2130>, which produces website and builds systems. However, for major Internet advertising agencies whose main work is marketing implementation support, they approach customers by proposing implementation support from the assumption of being an advertising agency. In contrast, the Company proposes to them from facts that are based on research, so currently it seems more appropriate to view them as collaborative partners for the development of the industry rather than as competitors. For these company trends, the Company always sets the benchmark and it is responding firmly for both collaborations and competition.



Comprehensive marketing solutions
 based on data and understanding

Source: The Company's results briefing materials

■ Medium-term management plan

Aiming for growth as a marketing DX partner

1. Medium-term management plan “DX Action 2024”

Under its corporate philosophy of “Discover Something New,” the Company has established a long-term vision of “We aspire to be a Group that supports every step in marketing, from strategy formulation through to the implementation of marketing measures, by ‘identifying consumers’ why’ and guiding customers’ businesses to success as their partner,” and it is progressing the DX Action 2024 medium-term management plan to achieve this long-term vision. It has positioned the time from FY6/22 to FY6/24 as its growth period and is targeting achieving the Triple Three targets of market capitalization of ¥30bn, net sales of ¥30bn, and operating profit of ¥3bn. To achieve these targets, the Company intends to grow as a “marketing DX partner” that can adapt to the major change of times by organically and efficiently utilizing the assets and infrastructure that it has built up through M&A and new businesses, and thereby maximize synergies with its growth drivers. Moreover, it is aiming to take an even greater leap forward with the DX Action 2024 medium-term management plan as the springboard.

Is focusing on the existing businesses, new businesses, and M&A, and aiming for regrowth overseas

2. The growth strategies of each segment

In terms of the specific strategies in the DX Action 2024 medium-term management plan, the Company is aiming to grow the existing businesses by strengthening customer services and accelerating DX, while it is also expanding its business scope and areas through new businesses and M&A. In the Digital Marketing Business, the plan is to drive growth by providing new added value and speeding-up responses to customers by utilizing AI to automate work and implementing DX for data and work systems. In the Data Marketing Business, it intends to increase the sophistication of the business model by promoting the standardization of services through Cloud BI tools and implementing DX for user profiling tools, managing CRM data coordination systems and Webinars, and providing customers with research tools and other products and services. In the Insight Business as well, it plans to increase the sophistication of the business model by providing consulting-based research services, developing life time value (LTV) methods, and expanding its customer scope to government ministries and agencies, schools, and others.

For new businesses, the Company’s policy is to launch multiple small businesses while ascertaining both risk and efficiency, and for M&A, to actively invest in business areas necessary for the Group’s growth. It may continue to consider spin-offs from its existing businesses. Through these initiatives, it plans to increase net sales in the Digital Marketing Business from ¥6.8bn in FY6/21 (for the sake of convenience, the cumulative values from July 2020 to June 2021 are used, the same below) to ¥12bn in FY6/24; in the Data Marketing Business, from ¥6.5bn to ¥8bn, in the Insight Business, from ¥5.9bn to ¥7bn; and to ¥3bn through new businesses and M&A. For overseas, the review of the business structure centered on the Kadence Group has been completed and it intends to achieve re-growth, including by actively investing in growth in North America and considering entering-into areas it has not yet entered, such as Malaysia, Germany, and France. For human resources that are an important element for growth, its policy is to improve its ability to develop human resources as a company by building a system that produces results and a human resources development model.

Business trends

Achieved new record highs for both net sales and operating profit

1. FY6/22 results

In the FY6/22 results, net sales were ¥24,899mn, operating profit was ¥2,522mn, ordinary profit was ¥2,498mn, and profit attributable to owners of parent was ¥1,559mn, and both net sales and operating profit achieved new record highs. Compared to the results from July 2020 to June 2021, which adds the 2H FY12/20 results to the irregular six-month fiscal period results of FY6/21, both sales and profits increased significantly, with net sales increasing 30.7%, operating profit rising 38.0%, ordinary profit growing 28.7%, and profit attributable to owners of parent increasing 60.0% in actual terms. Compared to the initial forecasts as well, the results were higher than forecast by ¥1,848mn for net sales, ¥618mn for operating profit, ¥647mn for ordinary profit, and ¥458mn for profit attributable to owners of parent. Due to the adoption of the Accounting Standard for Revenue Recognition, etc., there were decreases of ¥38mn for net sales, ¥33mn for sales costs, and ¥4mn for each of operating profit, ordinary profit and profit before taxes, etc.

FY6/22 results

	July 2020 -June 2021		FY6/22		Change (%)
	Results	Versus sales	Results	Versus sales	
	(¥mn)				
Net sales	19,043	100.0%	24,899	100.0%	30.7%
Gross profit	7,704	40.5%	10,337	41.5%	34.2%
SG&A expenses	5,877	30.9%	7,815	31.4%	33.0%
Operating profit	1,827	9.6%	2,522	10.1%	38.0%
Ordinary profit	1,940	10.2%	2,498	10.0%	28.7%
Profit attributable to owners of parent	974	5.1%	1,559	6.3%	60.0%

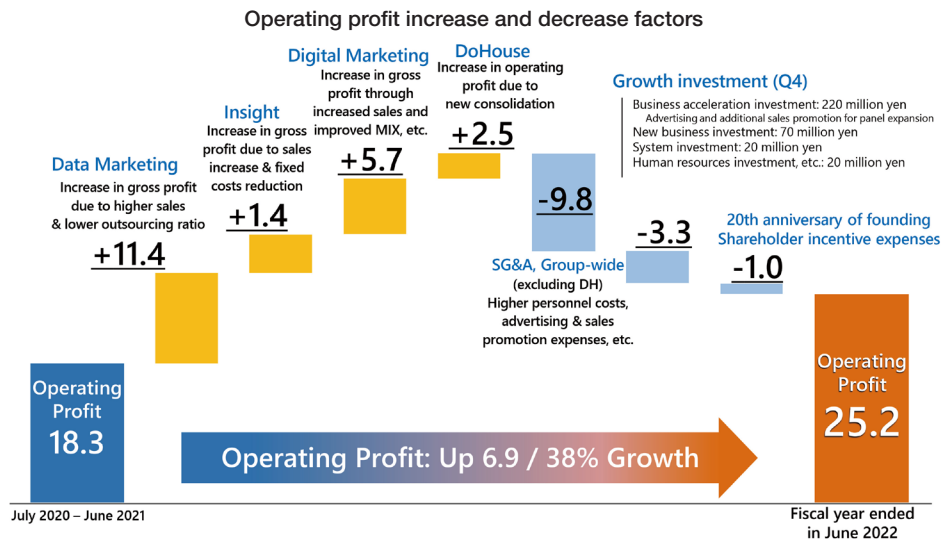
Note: The increase and decrease rates are an actual comparison with the results of the 12-month period from July 2020 to June 2021

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

The Japanese economy continued to face uncertain conditions due to the spread of virus mutations, the tense Russia-Ukraine situation, rising prices of raw materials and sudden fluctuations in exchange rates in the second half of FY6/22 despite the recovery seen at the beginning of the fiscal period after the lifting of restrictions on movement following a temporary easing of the impact of the coronavirus pandemic. The markets for digital marketing and marketing research, which are the Company's business areas, continue to trend firmly against the backdrop of customers' strong DX investment, while in the future also, they are forecast to grow in the medium term. But conversely, alongside the diversification of consumers' purchasing behaviors and survey methods, the evolution of promotion methods is accelerating and the competitive environment is expected to further intensify. Based on this business environment, in order to achieve sustainable growth, the Company implemented various measures toward becoming a "marketing DX partner," which is its compass in its DX Action 2024 medium-term management plan, and it promoted business model evolution and business area expansion.

Business trends

In this sort of environment, as previously explained the Company achieved record high net sales and operating profit by significantly increasing sales and profits. It is considered that the factors behind these results include that the growth strategies in the Company's medium-term management plan fit well with the recovery of demand in Japan and overseas occurring against the backdrop of the spread of online methods during the COVID-19 pandemic and the economic recovery. Net sales grew significantly by 30.7% in actual terms, and this was the biggest driver of results. The main reasons for this growth were in the Digital Marketing Business, the full contribution of DO HOUSE that was acquired by M&A in January 2021, the synergies generated through PMI (the integration process after an M&A), and the growth of D&M. Moreover, another factor was that the research-related business performed strongly because of the demand for research due to COVID-19 and the recovery of the overseas business (including due to the weak yen). In profits, the gross profit margin improved through work process improvements, including the improved productivity due to the automation of in-house work by AI and the expansion of near shore, and also the effects of the increase in overseas sales and the rise in the percentage of profits provided by highly profitable online research. On the other hand, the SG&A expenses ratio rose because of the increases in upfront costs that are expected to contribute to sales from FY6/23 onwards. These included personnel costs because of the increased recruitment, sales promotions costs for DO HOUSE and D&M, and costs to strengthen systems to expand the panels' differentiation points. Compared to the initial forecasts, net sales were ¥1,848mn higher than forecast because of the strong performances of DO HOUSE and D&M and the recovery of the overseas business that was better than expected, while despite the increase in upfront costs in the 4Q, operating profit was ¥618mn higher than forecast, mainly due to the effects of the higher sales.



Source: The Company's results briefing materials

Businesses other than the Digital Marketing Business also performed well

2. FY6/22 results by business segment

In the FY6/22 results by segment (segment profit is before adjustments), in the Digital Marketing Business, net sales were ¥10,083mn and segment profit (operating profit) was ¥654mn; in the Data Marketing Business, net sales were ¥8,366mn and segment profit was ¥2,472mn; and in the Insight Business, net sales were ¥6,449mn and segment profit was ¥1,268mn. As FY6/21 was a six-month fiscal period, the Company has not published YoY change rates, but compared to the same period of the previous year (July 2020 to June 2021), in the Digital Marketing Business, sales increased 55% and profits 19%; in the Data Marketing Business, sales increased 16% and profits 26%; and in the Insight Business, sales increased 21% and profits 63%. The results by segment from July 2020 to June 2021 are estimated values.

FY6/22 results by business segment

External sales	July 2020 – June 2021		FY6/22		Change (%)
	Results	Versus sales	Results	Versus sales	
	(¥mn)				
Digital Marketing	6,490	34.1%	10,083	40.5%	55%
Data Marketing	7,210	37.8%	8,366	33.6%	16%
Insight	5,350	28.1%	6,449	25.9%	21%

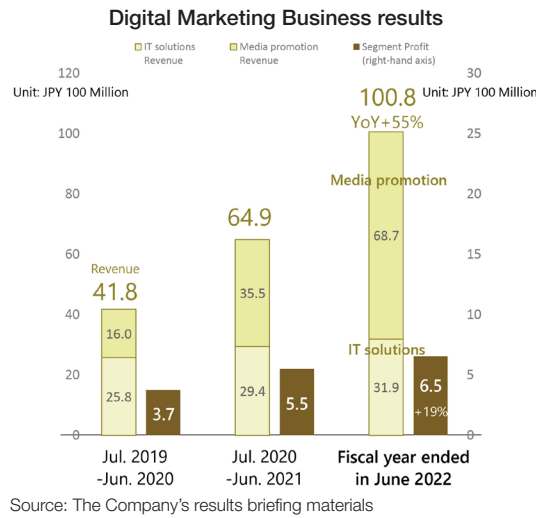
Segment profit before adjustment	July 2020 – June 2021		FY6/22		Change (%)
	Results	Profit margin (%)	Results	Profit margin (%)	
	(¥mn)				
Digital Marketing	550	8.5%	654	6.5%	19%
Data Marketing	1,970	27.3%	2,472	29.6%	26%
Insight	780	14.6%	1,268	19.7%	63%

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

(1) Digital Marketing Business

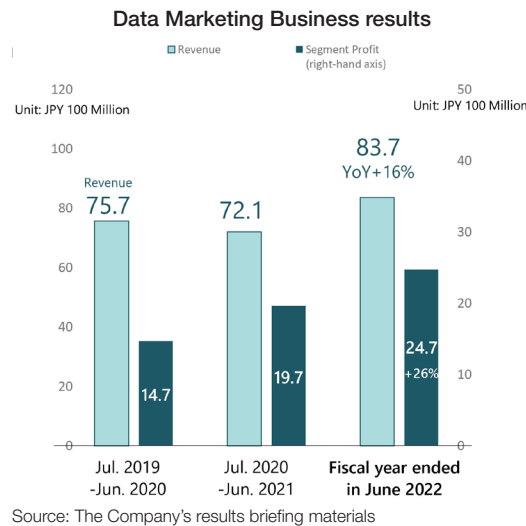
In the Digital Marketing Business, the results of the three main companies of Cross Communication, D&M, and DO HOUSE steadily grew. In the media and promotions business, net sales increased 55%, including because of the full consolidation of the results of DO HOUSE that was made a subsidiary through an M&A and the synergies with it, and also due to factors including the start of growth of DO HOUSE itself as its online sampling promotions are a good fit with COVID-19 lifestyles, the expansion of the scope of services against the backdrop of D&M's enhanced panel and the acceleration of DX in society, and the fully fledged launch of an influencer marketing support business. In the IT solutions business, net sales achieved high single-digit growth as orders and sales for outsourced systems development and IT human resources services trended strongly in Cross Communication, while it also strengthened DX consulting for the food industry. The Digital Marketing Business, which is expected to grow, continues to conduct upfront investment to expand the business areas, including M&A, and for upfront costs, and in FY6/22, segment profit increased only 19% because of the upfront investment in sales promotions costs for the media and promotions business.

Business trends



(2) Data Marketing Business

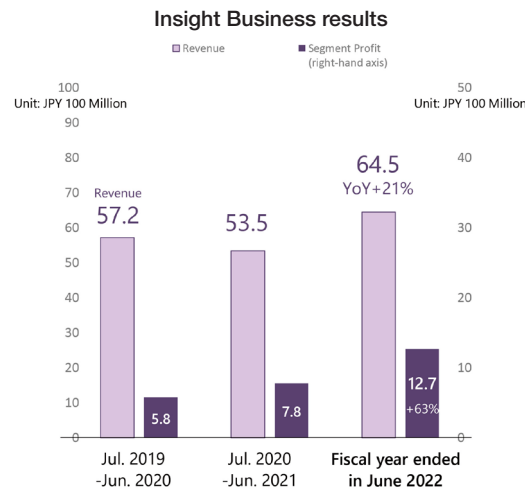
Demand for online services continues to trend firmly during the COVID-19 pandemic, and net sales were strong overall. In addition, the growth of segment profit exceeded the growth of net sales due to the improved profitability because of the rise in the online ratio and the increased efficiency of work processes, including from the utilization of near shore outsourcing bases. However, the production department, which has no excess capacity in terms of personnel during the busy season, strengthened recruitment in the 2H. At the overseas bases, sales and profits are recovering as they have strengthened their constitutions and also due to the recovery of economic activities. In particular, with the acquisitions of a series of major projects, North America drove earnings. As a result, sales increased 16% and profits rose 26%, and both sales and profits increased significantly compared to the results from July 2019 to June 2020 before COVID-19.



Business trends

(3) Insight Business

This business is steadily secured orders in Japan by utilizing ZOOM and other methods to respond rapidly to needs for online qualitative research, such as face-to-face interviews. Overseas also, there were some areas where the impact of COVID-19 remained severe, but business conditions have recovered following the recovery of the economic environment in South East Asia and other regions, and progressed on reducing fixed costs. As a result, earnings recovered, securing significant increases in sales and profits, with sales rising 21% and profits growing 63%. The earnings environment is trending the same as that of the Data Marketing Business as both are research areas, and in the comparison with the period of July 2019 to June 2020 before COVID-19, net sales recovered and contributed greatly to results alongside the measures to improve earnings, including to improve productivity.

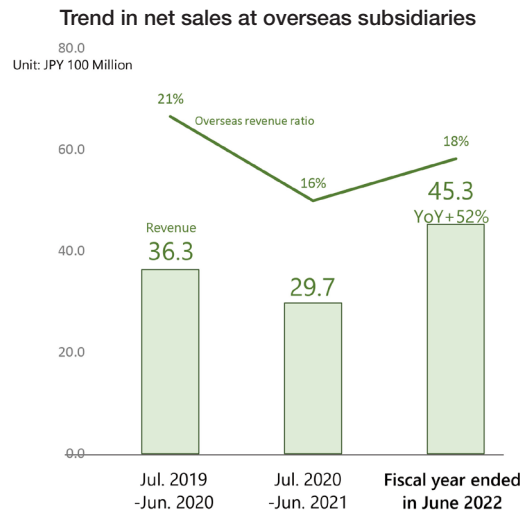


Source: The Company's results briefing materials

(4) Overseas business

There have continued to be major changes in the overseas business in recent years. Up to around 2016, the Company strengthened its growth orientation, including by acquiring Kadence. But due to the issues occurring in Kadence, it halted this growth orientation and instead progressed measures to improve productivity, such as to restructure the organization and to reduce fixed costs. The severe conditions have continued, including because of the ongoing COVID-19 pandemic, but the Group has increased investment in order to acquire large-scale projects, including in North America that has recovered quickly from COVID-19, while continuing to improve earnings by reducing fixed costs in countries where sales have been slow to recover. As a result, at the present time conditions in the overseas business are rapidly recovering with the increase in the number of profitable bases. FY6/22 was a phase in which the earnings structure of the overseas business as a whole greatly improved. This included from the rapid recovery of sales in the Data Marketing Business that continues to acquire orders from major companies in North America and India and in the Insight Business that has acquired government-related orders in Indonesia, the United Kingdom and other countries, and also the ongoing measures to improve cost efficiency, such as to reduce fixed costs.

Business trends



Source: The Company's results briefing materials

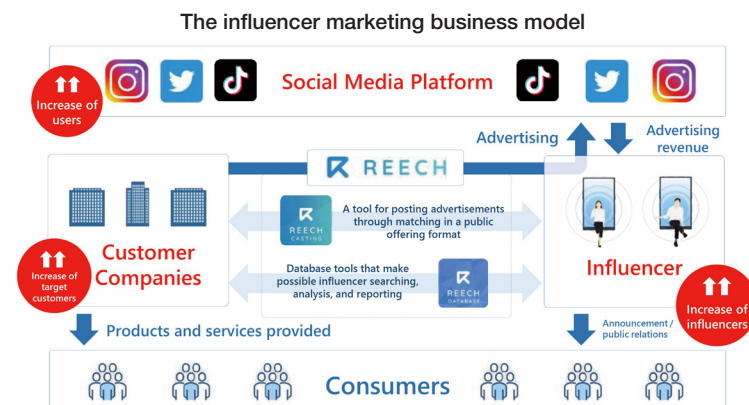
Actively conducting M&A and developing new services

3. New services and M&A in FY6/22

The Company continues to actively implement measures in Japan and overseas, including developing new services, conducting M&A, and entering-into capital alliances. Cross Marketing has started to provide Cross Marketing Console, which is a dedicated customer portal site for CRM tools in which project information can be easily accessed and enables the progress made in services to be understood at a glance, and CrossData, which is customer success BI (Business Intelligence) to realize customer-oriented CRM activities, and it has established a structure in which each and every employee can utilize customer data at their work sites via cloud-based data. It has also started to provide Dipper, which is an advertising simulator tool designed for the 'cookieless' era that extracts highly effective segments from consumer data on a maximum of 6.5mn people and on more than 2,000 attributes. In the future, it plans to apply it to various social media. D&M has started to provide DRAW, a CMS (content management system), with which the Company has built an environment to continuously capture accurate targets and conduct detailed improvements in providing strategic website planning that utilizes its expertise in surveying and research. Also, the businesses of Cross Marketing and Shopper's Eye Co., Ltd. have been integrated and the policy is to utilize Shopper's Eye's anonymous surveys to provide effective services.

Business trends

For its capital policy, such as for M&A, the Company is actively conducting acquisitions while overseas, it sold its holdings of shares of four companies, including Markelytics, in November 2021 in order to concentrate on the businesses of the Kadence Group and to strengthen the earnings foundation. This eliminates the duplicate businesses in India and Singapore and smoothly incorporate the current economic recovery. For M&A, in January 2022 the Company acquired the shares of SKIP. SKIP manages the Japan Makeup-Free Association, which is beauty media specializing in beautiful skin information, such as on skin care and inner beauty, and Tsuya Plus, which is beauty and health media in which experts respond to the health and beauty concerns mainly of women in their forties and fifties. It has 3.79mn subscribers in total. In addition to contributing to increasing the number of panels, synergies are also expected with DO HOUSE's online sampling promotions. In addition, in March 2022 the Company acquired REECH Inc. for a fully-fledged launch of an influencer marketing support business, and in June it started provided Twitter user search and analysis functions on REECH DATABASE, which is a search, analysis and management tool that uses AI and data analysis technologies to increase the efficiency of influencer marketing. The influencer marketing market, which is said to be currently worth ¥50.9bn, is a promising market that is expected to grow to be worth ¥93.3bn by 2028 against the backdrop of the increases in advertisers, SNS users, and influencers. Also, in March 2022 in order to strengthen food-related DX consulting and to accumulate expertise in the planning, manufacture, and sales of foods, the Company acquired the shares of Norfre Communications Co., Ltd. and Norfre foods Co. Ltd., which is expected to lead to developments of new services and an expansion of business scope in the future.



Source: Reprinted from the Company's results briefing and company briefing materials

Results forecasts

Is set to achieve the medium-term management plan's profit target one year ahead of schedule

1. FY6/23 outlook

As the FY6/23 outlook, the Company is forecasting net sales of ¥28,000mn (up 12.5% YoY), operating profit of ¥3,000mn (up 19.0%), ordinary profit of ¥2,900mn (up 16.1%), and profit attributable to owners of parent of ¥1,800mn (up 15.4%). With regards to the targets in the DX Action 2024 medium-term management plan, net sales are progressing as expected, but the progress made for operating profit has been faster than expected and it anticipates achieving this profit target one year ahead of schedule.

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Results forecasts

FY6/23 outlook

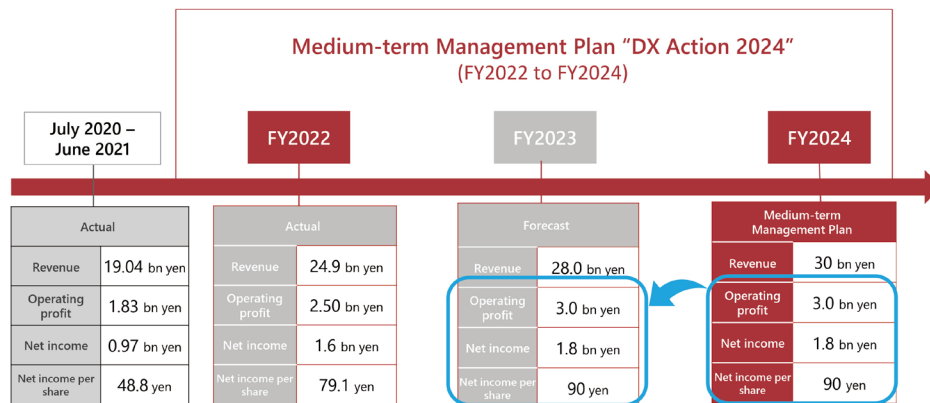
(¥mn)

	FY6/22		FY6/23		Change (%)
	Results	Versus sales	Forecasts	Versus sales	
Net sales	24,899	100.0%	28,000	100.0%	12.5%
Digital Marketing Business	10,083	40.5%	12,100	43.2%	20.0%
Data Marketing Business	8,366	33.6%	9,000	32.1%	7.6%
Insight Business	6,449	25.9%	6,900	24.6%	7.0%
Operating profit	2,522	10.1%	3,000	10.7%	19.0%
Ordinary profit	2,498	10.0%	2,900	10.4%	16.1%
Profit attributable to owners of parent	1,559	6.3%	1,800	6.4%	15.4%

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

The Company's policy is to continue to respond rapidly to the evolution of marketing methods and the diversification of problem-solving needs based on its large-scale panel network and detailed consumer data, which are its assets and infrastructure foundation. In terms of the sales through this, in the Digital Marketing Business, in which it will continue to actively invest, it anticipates the growth of media and promotions, while in the Data Marketing Business and the Insight Business, its policy is to secure growth that is higher than the growth of the markets, including through the recoveries of the overseas business and offline research. Conversely for profits, it is forecasting that the operating profit margin will improve through work process improvements, such as the automation of in-house work, and the growth of online research. Therefore, it expects to achieve the operating profit target in the medium-term management plan one year ahead of schedule. On considering its momentum in FY6/22 and its investment in upfront costs in the 4Q FY6/22, this target seems to be well within range.

Will achieve the medium-term management plan's profit target one year ahead of schedule



Source: The Company's results briefing materials

Expected to show next intention after achieving the target

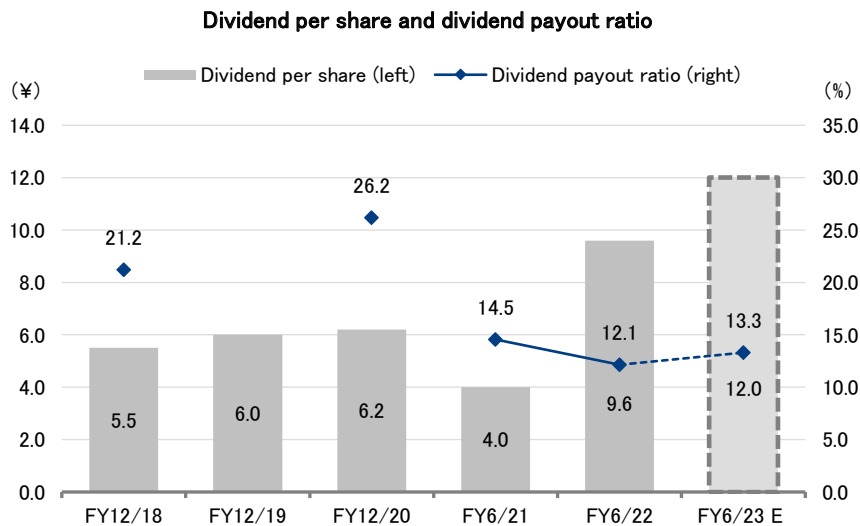
2. May review the medium-term management plan

The Company expects to achieve the operating profit target in the medium-term management plan one year ahead of schedule, while the market it is targeting is forecast to continue its growth trend for the time being. Within this market, continuous growth is also expected from the Company's development of a proactive strategy. Therefore, it is anticipated that growth will continue from FY6/24 onwards as well. However, the Company's medium-term management plan is not a rolling plan, and therefore is not automatically updated to the next medium-term management plan. But it currently has in its sights achieving the targets in the medium-term management plan, so we at FISCO think it is preferable that the Company presents its next medium-term management plan on the earliest possible timing. In any case, about the time that it appears targets will be achieved for FY6/23 for operating profit, which is also targeted under the medium-term management plan, we expect the Company should give some indication of intentions for medium-term growth, such as the next period's strategy.

Shareholder return policy

Aiming to continue to increase dividends based on a target payout ratio of 15%

The Company considers returning profits to shareholders to be one of its most important management issues. Its dividend policy is that, while continuing to stably return profits to shareholders through dividends, to determine the dividend amount on the assumption of increasing the consolidated dividend payout ratio to 15% in principle, at the same time as securing funds for the current strong demand for funds and for business expansion in the future. Based on this policy, in FY6/22 it paid a dividend per share of ¥9.6 (¥4.3 at the end of 1H and ¥5.3 at the period end), while it plans to increase the FY6/23 dividend per share to ¥12.0 (¥6.0 at the end of 1H and ¥6.0 at the period end).



Notes1: Dividend payout ratios for FY12/19 are not shown as loss attributable to owners of parent was recorded
 Notes 2: FY6/21 was an irregular six-month fiscal period
 Source: Prepared by FISCO from the Company's financial results

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