COMPANY RESEARCH AND ANALYSIS REPORT

IID, Inc.

6038

Tokyo Stock Exchange Growth Market

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Index

Summary

Diversification of revenue will compensate for the decline in online advertising. Double-digit growth is expected in FY6/24

IID, Inc. <6038> (hereinafter "the Company") operates two business segments: the Creator Platform Business (CP Business), which involves managing online media content, and the Creator Solutions Business (CS Business), which involves providing research and e-commerce solutions. The mainstay CP Business includes online advertising, data and content delivery (including e-commerce merchandise sales), media and systems, and publishing business. The Company operates 79 online media websites spanning a diverse range of 21 content categories that include automotive, IT, entertainment, and lifestyles (as of December 31, 2023). It also turns to mergers and acquisitions in promoting its media portfolio strategy of seeking not to rely on specific forms of media and its 360-degree business approach of diversifying revenue rather than relying solely on online advertising income.

1. Outline of results for 1H FY6/24

In 1H FY6/24 (July to December 2023) consolidated results, net sales increased 4.5% year on year (YoY) to ¥3,027mn, while operating profit decreased 9.3% to ¥272mn. Net sales reached a new record, in part due to a full contribution from FIT Pacific, Inc. (FIT Pacific),*1 which became a subsidiary in November 2022, and steady growth in subscription services,*2 which the Company is currently focusing on. Meanwhile, profits saw a decline due to a 15.2% YoY drop in high-margin online advertising sales. That said, looking at 2Q alone, an upturn in online advertising sales brought a 10.6% YoY increase in operating profits, to ¥177mn, the first such increase in two quarters. Many firms in the internet media industry have seen their performance deteriorate due to a decline in online advertising revenue, but the Company's strategy of diversifying revenue over the past several years is beginning to show its effectiveness.

*1 FIT Pacific engages in business related to vehicle crash testing, cable and facility management business, etc. Meanwhile, it recorded net sales of ¥686mn and operating profit of ¥58mn in FY3/22. The Company holds a 90.1% ownership stake in FIT Pacific as of December 31, 2023.
*2 Paid membership services including Response, one of Japan's largest automotive information media sites, ScanNetSecurity, a media platform for net security-related information, and others.

2. Outlook for FY6/24

For FY6/24 results, the Company has left its initial plan unchanged, calling for net sales to increase 10.3% to ¥6,700mn and operating profit to rise 14.3% to ¥650mn. It aims to achieve a new all-time high in operating profit for the first time in two fiscal years. Through 1H, the Company appears to be making steady progress toward that plan, and in 2H expects sales and profits to increase. This would be due to steady growth in online advertising and increased revenue from subscriber services through managed media, the contribution from FIT Pacific, and the growth of subsidiaries including en Factory, which operates the intercompany training service for companies, and SAVAWAY, which offers an e-commerce support business. The Company has also begun utilizing generative AI services in content information collection, production and editing, which is expected to generate synergies.

3. Mid-term targets

The Company has set mid-term results targets for net sales of ¥10.0bn and EBITDA (operating profit + depreciation + amortization of goodwill) of ¥1.2bn in FY6/26 (FY6/23 results of ¥717mn). As the online media market becomes increasingly diverse in line with evolution of the internet, the Company has established a strategy of accelerating growth in that market by promoting M&A strategies and revenue diversification. In addition to the MaaS*1 field, education, finance, and entertainment are also areas of focus. In the entertainment field, the Entame Print*2 service, which can be applied as a new promotional strategy, has developed well. In October 2023, the Company also launched its strategic capital and business alliance with CINEMATODAY, Inc., which runs CINEMATODAY, a comprehensive movie information site, through which further synergies are expected.

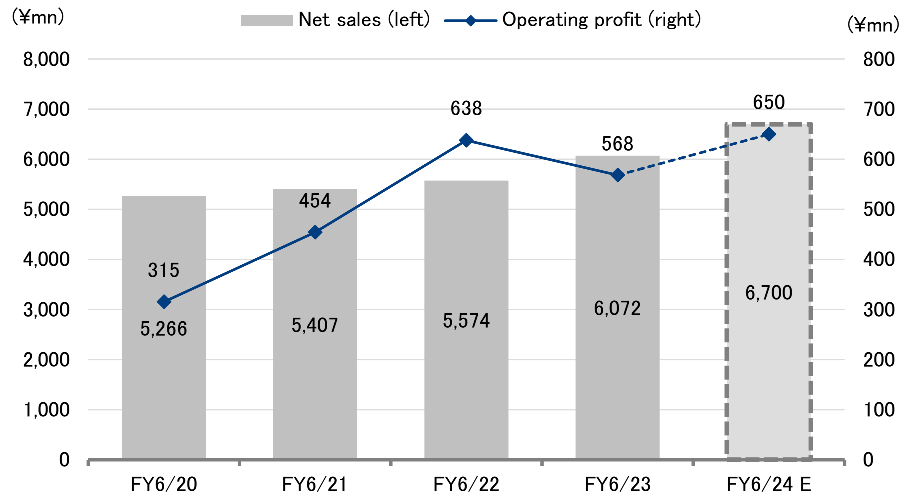
*1 Mobility as a Service (MaaS) refers to services that optimally combine multiple forms of public transportation and other mobility services aligned with mobility needs on a trip-by-trip basis for individual community residents and travelers in providing them with a range of features that include performing searches, arranging bookings, and making payments. Such services are integrated with destination-specific services beyond those involving transportation, including tourism and healthcare services, thereby making such services an important means of enhancing mobility convenience and addressing locally based challenges

*2 The Entame Print service, available through the use of multifunction copy machines installed at convenience stores, enables users to purchase and print various types of content including photo cards featuring anime characters, voice actors, and video game images. The service can be used as a promotional tool for products involving intellectual property including picture cards bundled with advance-purchase movie tickets.

Key Points

- 1H FY6/24 results in line with Company plan despite lower profits due to a decline in online advertising income
- Initial plan for FY6/24 left unchanged, aiming for double-digit growth in both sales and profits
- M&A strategy will be key to achieving FY6/26 target of net sales of ¥10.0bn and EBITDA of ¥1.2bn
- Dividends paid consistently on an ongoing basis at a rate of 1.5% of dividend on equity (DOE) on a consolidated basis while option of stock buybacks considered as appropriate

Results trends



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

Company profile

Expansion of both the CP Business focused on managing online media content and the CS Business of providing research and e-commerce solution services

1. Company profile

The Company operates two business segments: one of which is the Creator Platform Business (CP Business), which entails offering various services including online advertising and e-commerce merchandise sales with a focus on operating its own media platforms in seeking to produce a world where everyone is able to engage with media; and the other of which is the Creator Solutions Business (CS Business), which entails providing research and e-commerce solutions. Since its establishment in 2000, the Company has been expanding its business operations while promoting its M&A strategy. As of December 31, 2023, the Company has five consolidated subsidiaries (en Factory, Inc., Onlineshop Labo, Inc., Michael Inc., SAVAWAY Corp., FIT Pacific, Inc.) with a combined workforce of 265 employees (including temporary workers).

2. Business description

(1) Creator Platform Business (CP Business)

The CP Business segment primarily generates net sales from online advertising streamed through online media platforms operated by the Company, media content, and data billing and sales (including e-commerce merchandise sales). For this reason, the extent to which the segment is able to efficiently improve media value of the online media platforms in terms of numbers of unique users (UU) serves as the key to the segment increasing its revenues. The segment also encompasses operations that include developing and providing systems related to media and e-commerce, engaging in the publishing business, as well as the automotive and IT-related businesses of FIT Pacific, which became a subsidiary in November 2022.

The portfolio of online media platforms operated by the Company has been expanding year after year, with the segment operating 79 websites spanning 21 content categories as of December 31, 2023, which is an increase of 3 websites compared to the same period of the previous fiscal year. A distinguishing aspect of the segment is that it operates websites encompassing a wide range of content categories including the automotive and IT, entertainment, lifestyles, and the e-commerce domains. One such website is the Response online media platform in the automotive domain, which is Japan's largest comprehensive automotive news media platform and holds a central position among the online media platforms operated by the Company. The segment's publishing business primarily involves issuing magazines in the puzzle and anime domains and coordinating with online media.

(2) Creator Solutions Business (CS Business)

In its CS Business, the Company offers research solutions and e-commerce solutions. Sales to the automotive and telecommunications sectors account for the bulk of sales related to research solutions. Meanwhile in the realm of e-commerce solutions, the segment offers the marbleASP e-commerce website development system to e-commerce providers. Characterized by their low cost, short lead times, and high scalability, these services are suitable for e-commerce websites with membership counts ranging from hundreds of thousands of users.

Strengths derived from system developed in-house for efficiently managing online media content

3. Features and strengths

(1) IID-CMP

A key strength of the Company derives from its in-house development of its IID-CMP platform (IID content marketing platform) for efficiently managing the many online media platforms and high volume of content handled in the CP Business. The IID-CMP platform makes it possible for users to monetize online media in the early stages, enlisting the platform's four key features as follows. The IID-CMP platform enables: 1) achievement of higher sales using tools for generating substantial website engagement (SEO strategies, SNS compatibility, prompt web page rendering, optimal usability and user experience for smartphones and other devices, etc.), 2) cost optimization through low-cost operations (shared system usage and CPU resource distribution, standardization of formats in which news articles are furnished to portal websites, joint operation of optimal network advertising and affiliate advertising, etc.), 3) database storage and management (big data management enlisting data acquired from website content), and 4) streamlined editing enlisting content management functions (posting of news articles and photos online, content proofing and similarity assessment).

(2) M&A strategy

The Company is actively proceeding with efforts to acquire online media content through M&A. This entails ongoing consideration of around five websites as potential M&A opportunities using the personal networks of the Company's management team when it comes to primary channels for gaining information. When making a business acquisition, management draws up a plan consisting of a target investment payback period of approximately five years. Meanwhile, the prospect of achieving profitability within two years post-acquisition serves as a key benchmark for assessing business continuity. As of June 2023, the Company has acquired a total of 73 online media content websites by means including capital investment. Some 74% of those websites remain in operation given that 19 of the websites have been discontinued. The total acquisition cost of the websites, including the discontinued websites, amounts to ¥2,164mn, which equates to an average acquisition cost of ¥29mn per website. Moreover, the Company has 42 websites that were developed in-house (of which 17 have been discontinued). Use of the IID-CMP platform has enabled the Company to lower costs, increase sales, and monetize nearly all of the websites in which it is involved. The Company has been encountering an increasing number of instances where a counterparty expresses interest in initiating sales negotiations thanks to the Company's track record of over 20 years of managing online media platforms and successfully arranging mergers and acquisitions. Accordingly, the Company's strengths lie in its expertise for identifying promising media platforms among potential opportunities and being able to determine suitable sales prices.

Elsewhere, the Company is also actively making strategic investments for the purpose of collaboration in new areas of business. Of its investment deals, two companies have gone public, including note inc. <5243>, which runs "note," a platform for creators, and Nyle, Inc.<5618>, which operates Carmo-kun, a subscription-based car leasing service. Companies that have yet to be listed include Campingcar Inc., which develops sharing economy services in the MaaS domain, and Jigowatts Inc., which engages in business involving virtual keys. Most recently, the Company invested in CINEMATODAY, Inc., which operates CINEMATODAY, a comprehensive online movie platform. In June 2022, the Company also invested in Arriba Studio PTE. LTD. (Singapore), an accelerator that supports startups in the Web3/NFT domain. Going forward, the Company intends to spur growth of its own media platforms by collecting cutting-edge information through Arriba Studio and concurrently seeking business alliances with prominent Web3 startups in Japan and abroad.

Results trends

1H FY6/24 results in line with Company plan despite lower profits due to a decline in online advertising income

1. Outline of results for 1H FY6/24

In 1H FY6/24 consolidated results, net sales increased 4.5% YoY to ¥3,027mn, operating profit decreased 9.3% to ¥272mn, ordinary profit decreased 10.5% to ¥274mn, and profit attributable to owners of parent decreased 29.0% to ¥148mn. Revenue increased in the CP business, in part due to a full contribution from FIT Pacific, which became a consolidated subsidiary in November 2022, and steady growth in subscription services. Revenue also increased in the CS business with a recovery in research solutions, reaching a record high in 1H FY6/24 for the second consecutive term. Meanwhile, operating profit declined due to a drop in high-margin online advertising revenue, though the profit decline was only slightly lower than that of the Company's online media management competitors, due in part to its efforts to diversify revenue. Earnings before income tax, depreciation and amortization (EBITDA), an indicator of a company's true earning capacity, also declined slightly by 5.2% YoY, to ¥344mn. The significant percentage decrease in profit attributable to owners of parent is due to the absence of a ¥39mn gain on the redemption of investment securities, which was recorded as an extraordinary gain in the same period of the previous fiscal year.

Progress rate against the full-year plan remains somewhat low, at 45.2% for net sales and 41.9% for operating profit, but since the Company had assumed that online advertising revenue would remain sluggish until 2Q, it appears to have made steady progress against its internal plan. In 2Q in particular, signs of a recovery have begun to emerge, with operating profit up 10.7% YoY to ¥177mn, the first increase in two quarters, due in part to an upturn in online advertising revenue.

Consolidated results trends

(¥mn)

	1H FY6/21	1H FY6/22	1H FY6/23	1H FY6/24	Full-year plan progress rate
Net sales	2,829	2,714	2,896	3,027	45.2%
YoY	10.6%	-4.0%	6.7%	4.5%	
Operating profit	238	355	300	272	41.9%
YoY	34.5%	49.2%	-15.5%	-9.3%	
% of net sales	8.4%	13.1%	10.4%	9.0%	
Ordinary profit	213	349	306	274	42.2%
YoY	19.6%	63.8%	-12.3%	-10.5%	
Profit attributable to owners of parent	366	242	209	148	36.2%
YoY	162.6%	-33.8%	-13.8%	-29.0%	
EBITDA	301	389	363	344	
YoY	31.0%	28.9%	-6.7%	-5.2%	
% of net sales	10.7%	14.3%	12.5%	11.4%	

Note: EBITDA = operating profit + depreciation + amortization of goodwill
Source: Prepared by FISCO from the Company's financial results

(1) CP Business

Net sales of the CP Business increased 4.4% YoY to ¥2,702mn, while operating profit decreased 11.8% to ¥207mn. Looking at a breakdown of net sales, sales of data and content rose 7.9% YoY to ¥1,148mn, thanks in part to the contribution of FIT Pacific and growth in subscription revenue from an increase in the number of paying subscribers to Response, an automotive information media platform, and ScanNetSecurity, a media platform for internet security. In addition, while still small in scale, the number of companies using en Factory's intercompany training service* also began to increase as awareness of the service grew, further contributing to an increase in revenue.

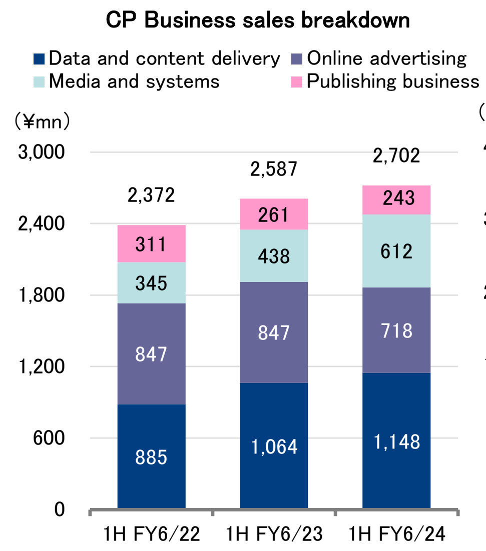
* Among the intercompany training services, Fukugyo Ryugaku involves placing company employees within venture enterprise host companies for a period of around two to three months, for the purpose of enabling such employees to gain experience through secondary employment or training at such venture companies with the aims of employee reskilling and other forms of professional development providing them with growth opportunities, and encouraging self-sufficiency. For the host company, this service can lead to resolving issues through the use of outside human resources, and both parties can enjoy the benefits. Since the launch of the service in July 2020, the number of those experiencing this intracompany training has increased from approximately 120 at the end of June 2023 to more than 200 as of January 2024. The cumulative number of companies using the service exceeds 25, and the number of registered venture companies is over 250. In addition, there were in excess of 100 people with intercompany training experience, primarily at major firms, through the Intercompany Circuit, a dialogue-based online training service that launched in July 2022 that allows users to engage with venture company issues.

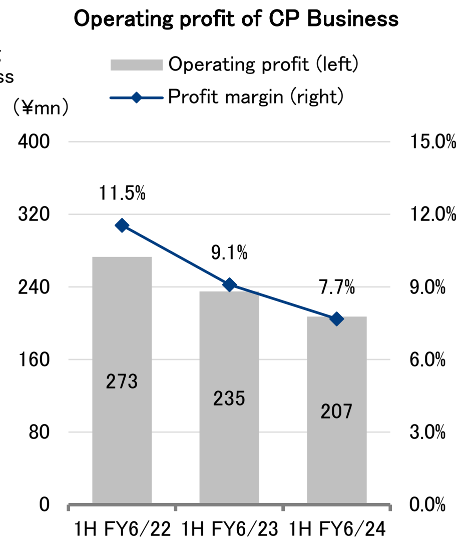
The scale of annual sales at FIT Pacific is between ¥600mn and ¥700mn, of which approximately 50% comes from the vehicle crash testing services business (data and content provision sales) provided at the Tsukuba Technical Center owned by FIT Pacific. The remainder comes from the cable and facility management business (media and system sales) that provides, operates, and maintains data center facilities and management systems related to power supplies and networks. With the recent revelations of fraudulent vehicle development testing by automobile manufacturers, demand is expected to increase due to stricter development testing. We at FISCO also see the cable and facility management business as a good opportunity to expand amidst a series of planned capital investments in data centers in Japan.

Media and system sales grew significantly, with a 39.5% increase YoY to ¥612mn. While the contribution of sales at FIT Pacific was the primary factor, SAVAWAY, which offers the TEMPOSTAR centralized management system for multiple e-commerce shops, also posted an increase in sales, thanks in part to an increase in the number of contracts as the company expanded its partnerships, including the April 2023 launch of a partnership with the BASE service of BASE, Inc. <4477>. (In February 2024, it also partnered with Mercari, Inc. <4385> and its Mercari Shops.) Meanwhile, online advertising sales fell 15.2% YoY to ¥718mn. In the online advertising market, while video-based ads on social media continued their high rate of growth, a willingness to run ads on online media was sluggish, and ad unit prices remained soft, which contributed to the decline in revenue. However, looking at 2Q alone, net sales declined 8.2% YOY to ¥380mn, shrinking the negative growth rate into the single-digit range, and both net sales and ad unit prices improved compared to 1Q, suggesting business may have bottomed out for the time being. Net sales in the publishing business continued to decline, falling 6.7% YoY to ¥243mn, as a reactionary decline continued from the stay-at-home demand.

Operating profit declined due to a drop in high-margin online advertising revenue, with the operating margin falling from 9.1% in the previous fiscal year to 7.7%. That said, the Company's should be commended for its effort to build a revenue base that is not depending on online advertising, enabling it to compensate to some extent for the decline in profits from online advertising with increased revenues from other businesses.

Results trends

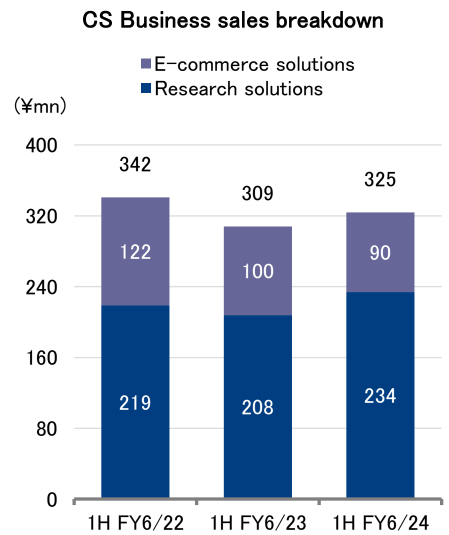


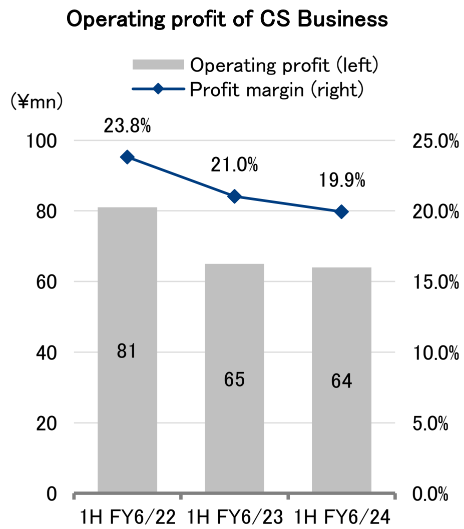


Source: Prepared by FISCO from the Company's earnings presentation materials. Excludes intra-segment transactions

(2) CS Business

Net sales of the CS business increased 5.1% YoY to ¥325mn, while operating profit was down 0.4% YOY to ¥64mn, maintaining a level about on par with the same period in the previous year. Operating profit margin also declined slightly, from 21.0% in the same period the previous year to 19.9%, but maintained a high level as the Company continued to emphasize profitability in its sales activities. Looking at a breakdown of net sales, research solutions sales rose 12.5% YoY to ¥234mn—its first increase in four fiscal terms—with the receipt of orders for several large deals. Meanwhile, e-commerce solutions sales decreased 10%, to ¥90mn, due to the impact of a relative softening of growth in the e-commerce market as a whole.





Source: Prepared by FISCO from the Company's earnings presentation materials. Excludes intra-segment transactions

Initial plan for FY6/24 left unchanged, aiming for double-digit growth in both sales and profits

2. Outlook for FY6/24

For FY6/24 full-year results, the Company aims to achieve new all-time highs in terms of net sales, operating profit, and ordinary profit (the forecasts do not account for the effects of M&A initiatives to be carried out during the fiscal year). Accordingly, it leaves its initial plan unchanged, calling for net sales to increase 10.3% YoY to ¥6,700mn, a 14.3% gain in operating profit to ¥650mn, ordinary profit of ¥650mn, up 14.7%, and a 46.3% increase in profit attributable to owners of parent to ¥410mn. As noted above, profits in 2Q have turned toward a recovery, increasing on a YoY basis, and if the market environment does not worsen once again in 3Q and beyond, we at FISCO believe achieving this plan should be possible.

Consolidated results trends

(¥mn)

	FY6/19	FY6/20	FY6/21	FY6/22	FY6/23	FY6/24 (E)
Net sales	5,192	5,266	5,407	5,574	6,072	6,700
YoY	10.1%	1.4%	2.7%	3.1%	8.9%	10.3%
Operating profit	310	315	454	638	568	650
YoY	20.9%	1.5%	44.1%	40.4%	-10.8%	14.3%
% of net sales						
Ordinary profit	313	277	464	638	566	650
YoY	16.6%	-11.5%	67.2%	37.6%	-11.3%	14.7%
Profit attributable to owners of parent	194	104	464	450	280	410
YoY	287.4%	-46.4%	346.5%	-3.0%	-37.8%	46.3%

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

As a priority measure for FY6/24, the Company has begun deploying AI technology in all processes of its media management platform, IID-CMP, working to achieve higher productivity. A newly organized dedicated team, the IID AIrticle Lab, is at the center of this initiative. Currently, AI technology has already been introduced for the information collection, content creation (workload reduction through the use of generative AI), and editing processes (text checking using AI). Going forward, it will be deployed in the distribution and monetization processes (optimization of ad placement and distribution via AI). Productivity improvements have already been confirmed, and surplus human resources will be reallocated to focus businesses including subscription services and others. As of the end of December 2023, the production and editing divisions accounted for 25.7% of the total workforce, a slight decline from 29.0% in the same period of the previous fiscal year.

In addition, to move away from a profit structure dependent on online advertising, the Company is shifting the focus of its media content production from breaking news, with its emphasis on page views, to content that leads to membership acquisition and billing, and is also focused on providing value not only through web-based content but also through events, seminars, and other offline activities. These efforts are expected to stabilize the Company's revenue base. In membership acquisition, Response, the comprehensive automotive information site, has surpassed 20,000 business members (including free members). Business seminars and research reports for paying members have also been well received, and subscription sales are steadily increasing. In offline events and seminars in the automotive field, the Company holds seminars on MaaS and next-generation mobility, and is building a network among startup companies and others. Additionally, in the education sector, against the backdrop of growing interest in international education, in February 2024, the ReseMom International Education Festival was held both on and offline, with many companies and schools involved in international education exhibiting. In the entertainment field, the Company is focusing on developing its Entame Print service as new revenue source.

Meanwhile in online advertising, cookie-free environments are spreading among the major browsers, and in the second half of 2024, Google Chrome, which has the largest share of the browser market, is expected to significantly restrict the use of cookies. These changes in the environment have raised concerns about the declining cost-effectiveness of targeted ads, and there is a need to address this issue. The Company plans to introduce advertising products that enable appropriate user targeting based on the vast amount of data collected through acquisition of free memberships, surveys, and information on event participation. One of the reasons the Company is focused on acquiring free members is so that it can prepare for these changes in the environment.

In another new initiative, in October 2023 the Company announced the start of a strategic capital and business alliance with CINEMATODAY, operator of CINEMATODAY, one of Japan's largest comprehensive movie media platforms. The platform includes a presence on X (formerly Twitter), an official LINE channel and a YouTube channel, giving it overwhelming reach. Annual net sales are thought to be in the range of several hundred million yen, and the company has 17 employees (as of December 1, 2023). Since the announcement of the partnership, the Company has been supporting cost optimization using IID-CMP, and CINEMATODAY is expected to eventually become a Group company, given the collaboration between their sales divisions and the integration of its offices into the Company's site in January 2024. Through this alliance, the Company's Group will gain the largest entertainment media group in Japan, with a total of 20 million people accessing the platform per month in the fields of movies, animation, and games. The Company will provide marketing support centered on digital media in these areas of entertainment. At the same time, it will work to expand revenue by developing new IP-based businesses such as Entame Print and picture cards bundled with advance-purchase movie tickets.

M&A strategy will be key to achieving FY6/26 target of net sales of ¥10.0bn and EBITDA of ¥1.2bn

3. Mid-term targets

In its mid-term plan released in August 2021, the Company presented targets for achieving net sales of ¥10.0bn and EBITDA of ¥1.2bn in FY6/26, the final fiscal year of the plan. If FY6/24 results are in line with the Company's plan, the average annual growth for FY6/25 and beyond is expected to be 22% for net sales and the low 20% range for EBITDA. The Company is advancing a media portfolio strategy, aiming to reach its targets not only through organic growth, but by developing media acquired through M&A. The business environment in the online media industry has become more challenging due in part to the ongoing slump in online advertising. For the Company, with its strong cost competitiveness and financial base*, this could be a good opportunity to expand the scale of its business through M&A, and future trends will be closely watched.

* As of the end of 2Q FY6/24, the Company had an equity ratio of 72.7%, ¥2.8bn in cash on hand and deposits, and ¥350mn in interest-bearing debt, representing sound finances.

The Company's media portfolio strategy aims to expand business by increasing media through M&A and in-house development, acquiring new revenue models, and working to create synergies with existing media and businesses to build a solid revenue base that is not affected by specific media trends. The Company already has a strong track record in M&A—and ability to identify the right deals—which is necessary to achieve this strategy. It also aims to achieve its targets by promoting a 360-degree business approach to diversifying revenue in an effort to diversify and maximize business opportunities and revenue.

Shareholder return policy

Dividends paid out consistently on an ongoing basis at a rate of 1.5% of dividend on equity (DOE) on a consolidated basis, while the option of stock buybacks is considered as appropriate

The Company paid a dividend of ¥12.0 per share for the first time in FY6/23, based on its revenue growth over the past several years and having enhanced its financial base. The Company also enlists a policy of furnishing dividends consistently on an ongoing basis, with its sights set on a 1.5% dividend on equity (DOE) on a consolidated basis for the time being. Accordingly, the Company intends to pay a dividend of ¥13.0 per share (DOE of 1.5%) in FY6/24, for an increase of ¥1.0 from the previous fiscal year.

Moreover, the Company considers the option of acquiring treasury shares as appropriate, and accordingly carried out a total of three stock buybacks during 2023 (total number of shares purchased: 280,000 shares; total acquisition cost: ¥214mn). The Company considers actions to take with respect to such treasury shares from among various options that include allocating such shares to stock options, using such shares in equity swaps in M&A transactions, or retiring such shares. As of the end of 2Q FY6/24, net assets per share amounted to ¥870, and one of the Company's management challenges is boosting its corporate value in terms of achieving a price book-value ratio (PBR) of 1 or greater.

FISCO

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