

6-Jun-2013

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FISCO Ltd. Analyst
Yuzuru Sato

■ Aiming for further growth through aggressive M&A and expansion of existing businesses

GMO AD Partners Inc. is the media representative, or media rep, company of the GMO Internet (9449) group. In the Japan's advertising industry, a media rep buys advertising space from various media, sells this space to advertising agencies, and places ads in the media. GMO AD Partners also serves as an advertising agency and strengthened this function in 2011 by purchasing the advertising agency NIKKO. While expanding its sales routes through aggressive mergers and acquisitions, GMO AD Partners aims to grow further as a media rep for small or medium-sized, established advertising agencies.

In the fiscal year through December 2012, i.e., in FY12/12, GMO AD Partners increased its sales by 25.4% year-on-year (y-o-y) to ¥15,368mn and its operating profit by 62.8% to ¥546mn. This strong growth was led by a marked increase in advertising geared to mobile communication devices, such as smartphones, which have been rapidly adopted in Japan in the past few years. The sales weighting of highly profitable products made in-house also increased, lifting the operating profit margin by 0.9 percentage point y-o-y.

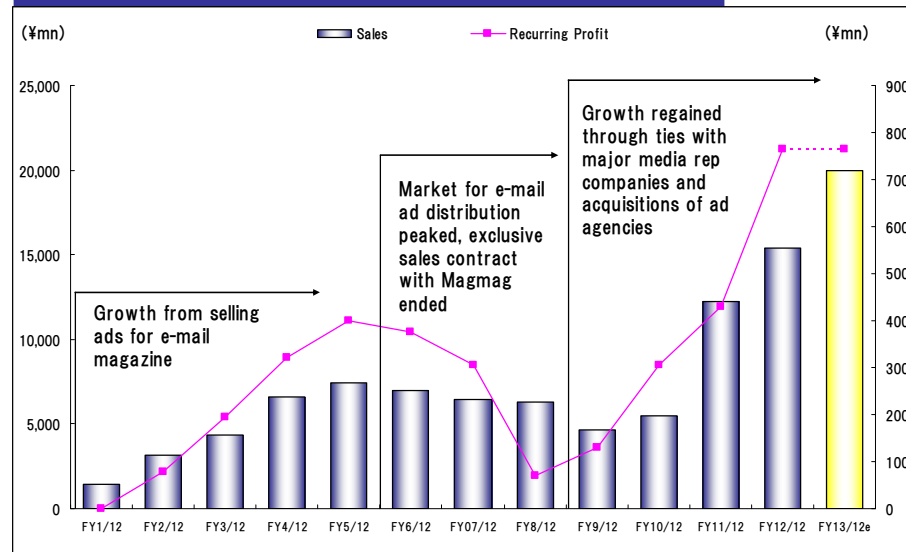
For FY12/13, the company projects a 30.1% y-o-y rise in sales to ¥20bn and a 36.4% increase in operating profit to ¥745mn. However, it foresees only a 0.1% rise in recurring profit because, in FY12/12, it claimed a large non-operating gain from an investment in anonymous partnership, while it expects no such gain in FY12/13. However, the company tends to make conservative forecasts, and it has been growing strongly so far in 2013. In January 2013, GMO AD Partners acquired IMJ's advertising agency business, and in March, it made JWord a consolidated subsidiary. In its fiscal year to March 2012, IMJ's ad agency reported sales of ¥1,927mn. JWord provides an engine to search for Japanese keywords. Given these developments, we believe GMO AD Partners could exceed its forecasts for FY12/13.

In the media rep division, GMO AD Partners represents a wide range of media and prepares many kinds of advertisements that can be directed to many devices, from personal computers to smartphones. With these capabilities, the company intends to increase its share of the market for ad space sold to smaller, established ad agencies. In the advertising agency division, GMO AD Partners plans not only to promote product listing ads, but to strengthen its capabilities in the highly profitable search engine optimization (SEO) business that pays for success, in demand-side platform (DSP) ads, and in the production of websites. Through these measures, it aims to increase sales and profitability simultaneously. The company has not announced its planned dividend per share for FY12/13, but it aims for a dividend payout ratio of 35%.

■ Check Points

- Company differentiates itself from major media rep companies by targeting small or medium-sized ad agencies
- Change in business emphasis to next-generation Internet ad agency business should support growth
- With upturn in profits, company may increase its dividend

Consolidated Sales and Recurring Profit (¥mn) of GMO AD Partners, FY12/01 - FY12/13E



Company Profile

Growth recovered by responding to changes in industry operating environment

(1) Company History

GMO AD Partners was established in September 1999 through the joint venture of InterQ, now GMO Internet, United Digital, now Magmag, and NetIRD. The original goal of the company was to distribute ads through electronic mail (e-mail). Magmag is Japan's largest site for the distribution of e-mail magazines, and with the diffusion of the Internet in Japan, more companies became interested in advertising on this site. As GMO AD Partners became the sole seller of Magmag ads, its business grew rapidly, and in September 2000, the company listed its shares on the NASDAQ Japan, now the JASDAQ, of the Osaka Securities Exchange.

The company subsequently developed other e-mail distribution businesses, such as the distribution of ads to cell phones. From 2004, however, Japan's market for the e-mail distribution of ads peaked out, and from 2005, the company's growth faltered. Furthermore, the company's contract for the exclusive sale of Magmag ads was due to expire in 2008. Therefore, from 2004, GMO AD Partners aggressively pursued business with other advertising media. In 2004, the company bought the banner advertising rights of AD2, a subsidiary of Transcosmos (9715). In 2008, GMO AD Partners entered into a joint equity tie-up with Japan's largest media rep company, Cyber Communications Inc. (CCI). In 2009, GMO AD Partners concluded a business agreement with Japan's largest media rep company for ads sent to mobile communication devices, D2 Communications, now D2C. Through these ties, GMO AD Partners gained access to leading advertising media targeting ads for personal computers and mobile communication devices and concentrated on becoming a total media rep for small and medium-sized, established advertising agencies.



■ Company Profile

Since 2010, GMO AD Partners has also been developing its own advertising agency business with the aim of gaining greater benefits from scale and synergy in Internet advertising. In November 2010, the company bought NIKKO which sold product listing ads and other ads. In September 2011, it bought Cybird, advertising agency business that sold Internet ads for transmission to cellular communication devices, and in January 2013, it bought IMJ's advertising agency business. To strengthen its ad network business for mobile communication devices, in April 2010, GMO AD Partners made Sanow, a consolidated subsidiary, and in 2011, it formally absorbed this company. In 2012, the company started bolstering its service line for smartphones to better serve the rapidly expanding customer base for these devices. Through this strategy, the company regained growth.

Company History

Year	History
Sep-99	Established in Shibuya Ward, Tokyo to distribute e-mail ads. Initial capital was ¥10mn.
Dec-99	Started selling Magmag ads.
Sep-00	Listed shares on the NASDAQ Japan market (now the JASDAQ market) of the Osaka Securities Exchange.
Dec-00	Established Magforce with Kanematsu Computer Systems (now Kanematsu Communications) and other companies to strengthen the business of distributing e-mail ads to cell phones. Absorbed Magforce in 2004.
Nov-04	Purchased the Internet advertising agency business spun off by AD2; Bought from Interpylon the right to sell JWord, a system that searches for keywords in Japanese.
Jun-07	Bought the Melmo service for distributing e-magazines to mobile communication devices from SHARP.
Jul-07	Established GMO Mobile as a consolidated subsidiary to strengthen mobile media business.
Feb-08	Established a business and equity agreement with Cyber Communications Inc.
Jul-08	Changed name to GMO AD Partners
Oct-09	Started offering ADResult network ads for distribution to media in Japan and overseas.
Nov-09	Concluded a business agreement with DC Communications, now D2C.
Apr-10	Bought Sanow and made it a consolidated subsidiary to strengthen the ad network business for mobile communication devices. Absorbed Sanow in 2011.
Nov-10	Purchased NIKKO and made it a consolidated subsidiary to improve economies of scale and synergy in the Internet advertising business.
May-11	Started the ad network business ADResult for Smartphone.
Aug-11	Started GMO SSP service to optimize the advertisement inventories of Internet media companies. Started the GMO DSP service to raise the return on investment in placing display ads for advertisers.
Sep-11	Bought Cybird's advertising agency business that sold Internet ads for transmission to cellular communication devices.
Jan-12	Bought SearchTeria and made it a consolidated subsidiary to improve synergy in the smartphone ad business and in ad technology.
Jun-12	Started the GMO DSP for Smartphone service to raise advertisers' return on investment in placing ads for smartphones.
Aug-12	Started selling two services for distributing ads to smartphones, GMO SmaAD Ad Network, and GMO SmaAD Reward. Started the GMO SSP for Smartphone service to optimize the advertisement inventories of smartphone media companies.
Oct-12	Started offering GMO MARKET SUITE, an integrated management ad platform for optimizing distributed ads.
Nov-12	GMO NIKKO bought the advertising agency business of IMJ.
Dec-12	Started offering operational agency service to ad agencies aiming to place ads with Yahoo! Listing Advertisement.



Group offers services ranging from media rep to ad agency

(2) Consolidated Subsidiaries

At the end of 2012, GMO AD Partners had the four consolidated subsidiaries described in the table below. GMO NIKKO handles Internet ads, primarily product listing ads for Yahoo! Japan (4689) and Google. GMO Mobile engages in various businesses related to advertising, mainly the operation of an e-magazine site for smartphones and other mobile communication devices. GMO SearchTeria develops ad technology, a business that is expected to grow.

Consolidated Subsidiaries of GMO AD Partners

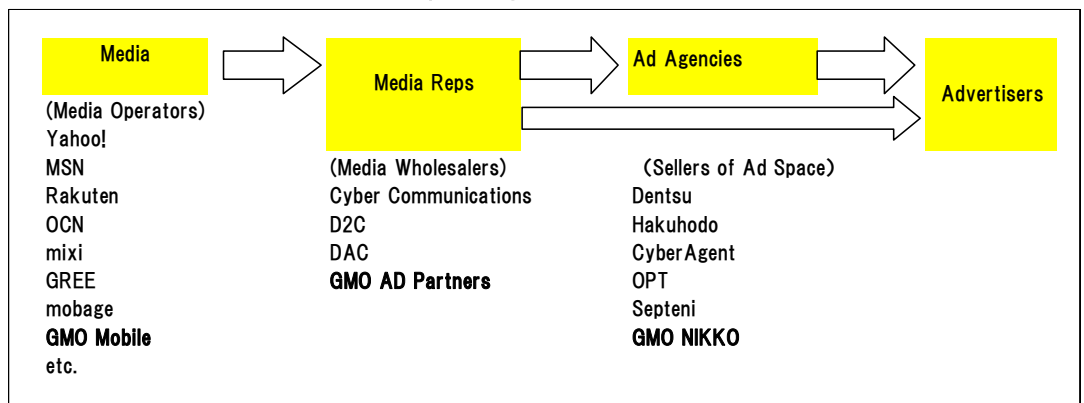
Subsidiary	Ownership(%)	Main business
GMO NIKKO	100	Ad agency (mainly listing ads)
GMO Mobile	100	Operate e-magazine site for mobile
GMO SearchTeria	67	Ad network business for mobile communication devices
Seed Technology	100	Operates Internet ad media

Each division makes a well-balanced, stable contribution to profit

(3) Business Description

GMO AD Partners engages in the Internet advertising business. The main companies operating in Japan's Internet advertising market are shown in the diagram of the market structure below. Operators of advertising media range from large portal sites, such as Yahoo! and MSN, to social sites, such as mixi (2121), GREE (3632), and mobage, operated by DeNA (2432). Media reps sell advertising space at media companies to ad agencies or directly to advertisers. Ad agencies sell advertising space to advertisers, i.e., the placers of advertisements. In advertising through conventional media, such as TV and newspapers, there is no media rep function in Japan. In advertising through the Internet, however, there are many kinds of ads, many types of ad spaces, and many media prices, and advertisers change their media more often than they do with conventional media. Thus, most conventional ad agencies are unable to select an effective ad or medium. Media reps understand the intricacies of this market and recommend appropriate ads or media, thereby selling ad space effectively and efficiently to ad agencies or advertisers.

Structure of Japan's Internet Advertising Market and Main Companies Operating in the Market

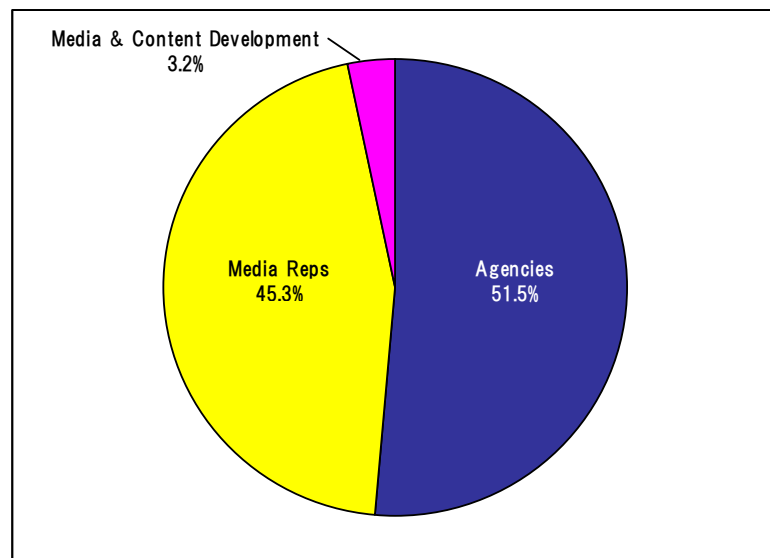


Source: Produced by FISCO from Company materials

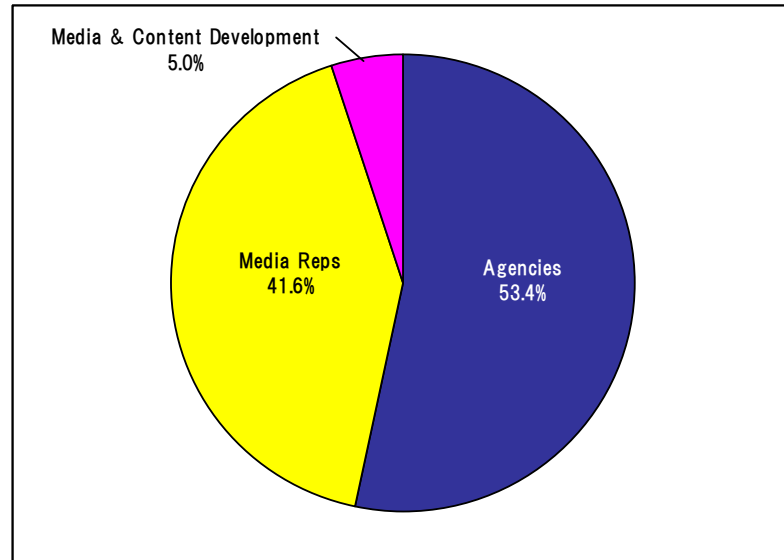
GMO AD Partners is positioned as a media rep company, but through subsidiaries, it engages in all stages of the Internet advertising business. GMO NIKKO is an ad agency and GMO Mobile operates e-mail distribution sites geared to mobile communication devices, sites such as Yomerumo and Merumo.

GMO AD Partners has three business divisions: the media rep division, the ad agency division, and the media & content development division. As shown in the pie charts below, in FY12/12, the media rep division supplied 45.3% of the company's total sales, the agency division provided 51.5%, and the media & content development division contributed 3.2%. The contributions of these divisions to gross profit, 41.6%, 53.4%, and 5.0%, respectively, were similar to their sales contributions. Thus, the profitability of each division is similar.

Sales Breakdown by Division for GMO AD Partners in FY12/12



■ Company Profile

Gross Profit Breakdown by Division for GMO AD Partners in FY12/12

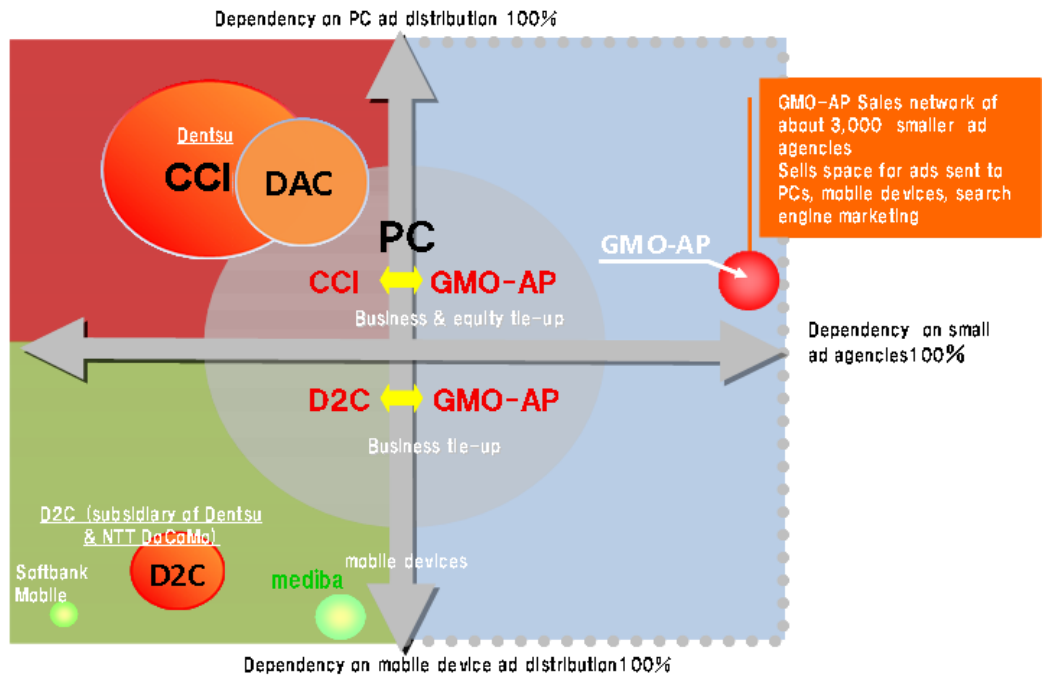
Targets small or medium-sized ad agencies to differentiate itself from large media rep companies

(a)Media Rep Division

The media rep division represents media which transmit ads to personal computers and to mobile communication devices. In FY12/12, 64% of division sales came from media which transmit ads to personal computers, and 36% came from media which transmit to mobile devices. Having established relationships with leading ad media through business alliances, the media rep division sells ad space at these media to about 3,000 small or medium-sized ad agencies in Japan, or directly to advertisers. Japan's media rep industry for Internet advertising can be analyzed through the matrix shown below. Dentsu (4324), Japan's largest advertising agency, is served primarily by its media rep subsidiaries, Cyber Communications Inc. (CCI) for ads sent to personal computers and D2C for ads sent to mobile devices. Hakuhodo (2433), Japan's second largest advertising agency, is served mainly by its media rep subsidiary, Digital Advertising Consortium (DAC). These leading media rep companies do very little business with small or medium-sized ad agencies, which are the main customer segment for the media rep division of GMO AD Partners.

■ Company Profile

Matrix of Japan's Media Rep Industry for Internet Advertising



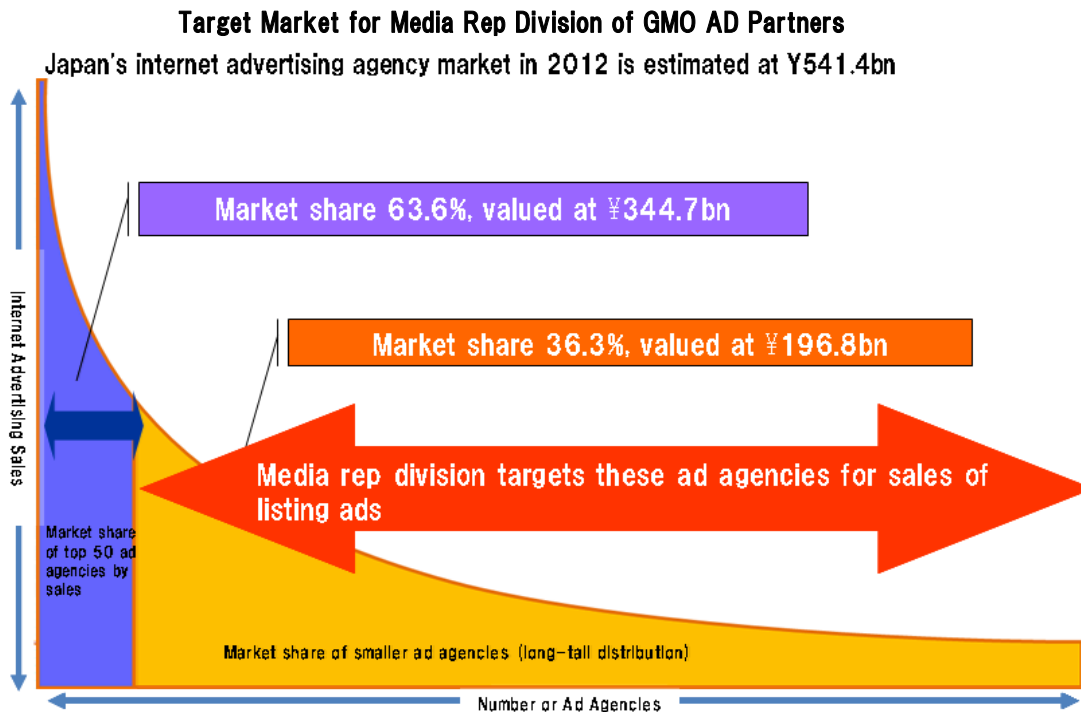
Sources: Company, Internet Advertising & Web Integration Market, Current Status and Prospects, 2011, by MIC Research Institute Ltd.

According to the MIC Research Institute, Japan's market for Internet ad agency business was valued at ¥541.5bn in 2012, and the top 50 ad agencies accounted for 63.7% of the market. The remaining 36.4% of the market, valued at ¥196.8bn, was accounted for by small or medium-sized ad agencies targeted by the media rep business of GMO AD Partners. In FY12/12, GMO AD Partners generated ¥14,871mn of Internet advertising sales through its media rep and ad agency divisions combined. This sales amount is slightly less than 10% of Japan's Internet ad business handled by small or medium-sized ad agencies, indicating ample room for growth.

The main competitor for the media rep division of GMO AD Partners is Hakuhodo subsidiary Digital Advertising Consortium (DAC). GMO AD Partners has business partnership with Dentsu subsidiaries Cyber Communications Inc. (CCI) and D2C, so its media rep division sells to the small or medium-sized ad agencies that these large companies ignore and handles the credit management function for such sales.



Company Profile



GMO NIKKO supplies more than 90% of SEM sales

(b) Ad Agency Division

The ad agency division of GMO AD Partners is divided into two components: search engine marketing (SEM)*, primarily sales of product listing ads, and Web marketing, which includes the production of websites and sales of demand-side platform (DSP)* ads. In FY12/12, the ad agency division derived 80% of its sales from search engine marketing and 20% from Web marketing, but search engine marketing provided only 66% of total gross profit for the division because the sale of product listing ads carries low profit margins.

Listing ads sold by GMO NIKKO, which became a consolidated subsidiary of GMO AD Partners in 2011, provide more than 90% of search engine marketing sales. Web marketing businesses do not require media reps. The main competitors of the ad agency division are IREP (2132), OPT (2389), and Septeni (4293).

Engages in R&D in growth areas

(c) Media & content development division

Although this division supplies only 3% of GMO AD Partners' total sales, it engages in businesses with growth potential, such as R&D in social media and the development of social games and content to increase the value of media. This division derives most of its sales from sales of ads to media, and some of its sales from affiliate advertising.

■SEM (Search Engine Marketing) : Search engine marketing is a means of increasing the number of visitors to a website through search engines. Among such means are search engine optimization (SEO), listing ads, and ads connected to keywords.

■DSP (Demand Side Platform) : A demand-side platform is a next-generation platform for ad distribution that maximizes advertising effectiveness by such means as distributing display ads to target segments of an audience data base.



Business Trends

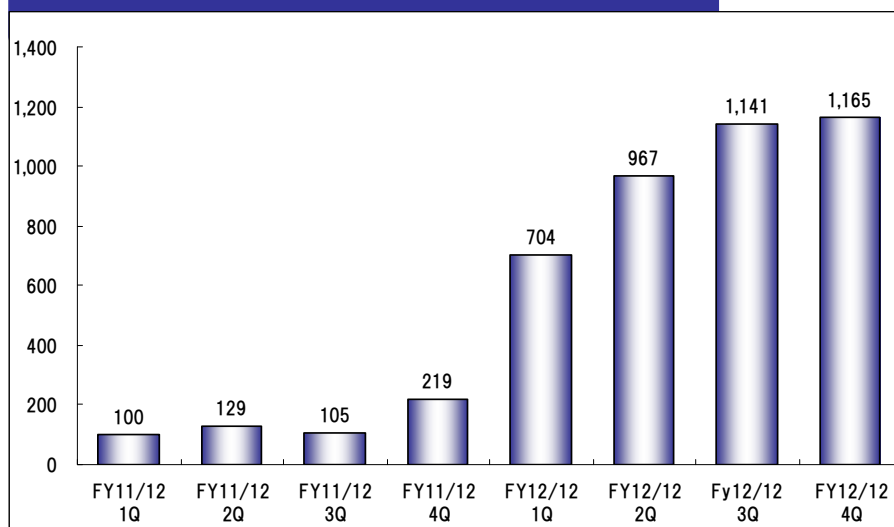
Reflecting strong profit growth, the company raised its dividend substantially

(1)FY12/12 Results

On February 6, 2013, GMO AD Partners announced its consolidated results in FY12/12. Sales grew by 25.4% y-o-y to ¥15,368mn, operating profit rose by 62.8% to ¥546mn, recurring profit grew by 77.5% to ¥764mn, and net profit advanced by 50.3% to ¥357mn. All figures were record highs. As the company aims to maintain a dividend payout ratio of 35%, it raised its dividend for FY12/12 by about 50% y-o-y to ¥1,713, from ¥1,150 in FY12/11.

The growth achieved in FY12/12 stemmed mainly from strong sales of listing ads and from an increase in the sales weighting of products made in-house, which are more profitable than other products. Sales of ads for distribution to smartphones increased by about seven times y-o-y.

Index of Ad Sales for Smartphones, Q1 FY11/12-
Q4 FY12/12



Source: Company

Note: Sales in Q1 FY11/12 = 100

In the media rep division, sales increased by 21.2% y-o-y, and in the ad agency division, sales rose by 30.8%. In the media rep division, sales for distribution to mobile communication devices increased by 33.4% y-o-y, reflecting the diffusion of smartphones in Japan, while sales for distribution to personal computers grew by 15.4%.

■ Business Trends

In FY12/12, the media rep division promoted sales of products made by GMO AD Partners or other members of the GMO group of companies, such as GMO DSP for Smartphone and GMO SmaAD Ad Network, which are tools to optimize ad distribution. These products contributed to the sales for distribution to mobile communication devices. Sales for distribution to personal computers were strong to Yahoo, while sales for distribution to mobile devices were strong to social sites, such as mixi, Gree, and mobage. To promote the sale of products made in-house, the division opened an office in Osaka in July 2012 and actively attracted new customers. These measures also contributed to sales growth in the media rep division.

In the ad agency division, sales from search engine marketing grew 34.3% y-o-y, while sales from Web marketing increased by 18.6%. Sales of listing ads to Yahoo! contributed to the growth of search engine marketing sales, while website production and sales of ad technology products (demand-side platform products) contributed to the growth of Web marketing sales.

In the media & content development division, sales rose 6.2% y-o-y in FY12/12, supported by brisk sales of social game applications, a new product for the division.

**Consolidated Sales (¥mn) of GMO AD Partners by Segment,
FY10/12-FY12/12**

	FY10/12	FY11/12	FY12/12	YOY
● Internet Advertising	5,178	11,785	14,870	26.2
- Media Rep	4,811	5,736	6,958	21.2
For PCs	3,154	3,880	4,482	15.4
For mobile devices	1,656	1,855	2,476	33.4
- Ad Agency	367	6,047	7,913	30.8
SEM	367	4,694	6,307	34.3
Web marketing	-	1,353	1,605	18.6
● Media & Content Development	337	467	497	6.2
Help-wanted ads	-	-	-	-
Total	5,515	12,253	15,368	25.4

The total gross profit earned by GMO AD Partners in FY12/12 increased by 23.0% y-o-y. This growth rate was slightly slower than sales growth because gross profitability was adversely affected by a large increase in low-margin sales of listing ads in the search engine marketing business. However, the gross profit margins in the two main divisions increased, supported by sales growth and increased sales of ad technology products made in-house.



■ Business Trends

Consolidated Gross Profit (¥mn) and Gross Profit Margin (%) of GMO AD Partners by Segment, FY10/12-FY12/12

Segment Gross Profit	FY12/10	FY12/11	FY12/12	YOY
● Internet Advertising	881	1,905	2,523	32.5
- Media Rep	639	822	1,104	34.2
For PCs	491	622	775	24.4
For mobile devices	147	199	329	64.9
- Ad Agency	241	1,082	1,420	31.1
SEM	241	677	938	38.5
Web marketing	-	405	481	18.8
● Media & Content Development	125	126	131	3.9
Total	1,006	2,031	2,656	23.0
Segment Gross Profit Margin				
● Internet Advertising	17.0	16.2	17.0	-
- Media Rep	13.3	14.3	15.9	-
For PCs	15.6	16.0	17.3	-
For mobile devices	8.9	10.7	13.3	-
- Ad Agency	65.7	17.9	17.9	-
SEM	65.7	14.4	14.9	-
Web marketing	-	29.9	30.0	-
● Media Content & Development	37.1	27.0	26.4	-
Total	18.3	16.6	17.2	-

Forecasts appear conservative, could be surpassed

(2) Company Forecasts for FY12/13

As detailed in the table below, GMO AD Partners raised its forecasts for FY12/13 on February 18, 2013, just 12 days after it had released its initial forecasts. The company raised its forecasts to reflect its purchase of JWord. The amounts by which it lifted its forecasts, ¥1.5bn for sales, ¥65mn each for operating and recurring profits, and ¥10mn for net profit, are lower than the latest results reported by JWord, for several reasons. JWord has been selling many of its ad products through GMO AD Partners, so its integration into the group will not increase sales so much. Goodwill costs will depress JWord's contributions to operating and recurring profits, and minority interests will limit its contribution to net profit.

FY12/12 Financial Results (¥mn) of GMO AD Partners and Company Forecasts for FY12/13

	Sales	YOY	Operatng Profit	YOY	Recurring Profit	YOY	Net Profit	YOY	EPS
FY12/12 Results	15,368	25.4	546	62.8	764	77.5	357	50.3	4,893.60
FY13/12 F Feb. 6, 2013	18,500	20.4	680	24.5	700	-8.4	330	-7.8	4,461.27
FY13/12 F Feb. 18, 2013	20,000	30.1	745	36.4	765	0.1	340	-4.8	4,626.47



■ Business Trends

In its main business, its keyword advertising product called JWord has concluded business ties with leading portal sites, and JWord holds the top share of the Japanese market for search services for Internet cafes. The company also developed a JWord plug-in as an add-on for the Internet Explorer search engine. Thus, the engineers working at JWord are very capable of developing commercial products. GMO AD Partners has been selling the strategic JWord product since November 2004, but by buying JWord, GMO AD Partners expects to increase its sales weighting in products made in-house, thereby raising its profitability. GMO AD Partners expects JWord to contribute not only to its Internet advertising divisions, but also to its media & content development division.

GMO AD Partners bought GMO Internet's 72.4% stake in JWord for ¥1,422mn in cash on March 5, 2013. With this purchase, GMO AD Partners also acquired slightly less than ¥700mn of goodwill, which it will amortize in equal annual amounts of about ¥140mn over five years. At the end of 2012, GMO AD Partners held cash and cash equivalents of ¥2,985mn. The company used about half this amount for its purchase of JWord, but its financial condition remains sound as the company carries no debt and its profits are growing strongly.

Outline of JWord

Date of establishment	August-00		
Main shareholders	GMO Internet (72.4%), Yahoo! Japan (24.7%)		
Recent results and balance sheet data (¥mn)			
Fiscal year	FY12/10	FY12/11	FY12/12
Sales	2,528	2,297	2,203
Operating profit	556	446	340
Recurring profit	559	448	344
Net profit	332	265	202
Net worth	892	994	1,037
Total assets	1,445	1,449	1,410

As shown in the table of company forecasts for FY12/13, GMO AD Partners originally projected a decline in recurring profit because, in FY12/12, it recorded a non-operating gain of ¥206mn on investment in a silent partner, but the company does not expect a similar gain in FY12/13.

GMO AD Partners foresees double-digit sales growth for its media rep division and its ad agency division in FY12/13. Growth in the ad agency division will be supported by the company's purchase, in January 2013, of the ad agency business of IMJ. This ad agency business sells primarily listing ads. In its fiscal year through March 2012, this business recorded sales of ¥1,927mn, and the business is estimated to be as profitable as GMO NIKKO. The business serves large customers, such as Google and Yahoo!, so its sales are steady. However, GMO AD Partners plans to expand the customer base of this business to improve its profitability. GMO AD Partners paid ¥440mn for the business, and this entire amount is recorded as goodwill that will be amortized in equal amounts over five years. In FY12/13, GMO AD Partners expects this business to contribute ¥1.0-1.5bn to sales but to just break even at the operating profit level, after deducting the goodwill amortization expense.



■ Business Trends

To strengthen its media rep business for rapidly growing listing ads, in December 2012, GMO AD Partners started offering an operational agency service to ad agencies aiming to buy ad space on Yahoo! Listing Advertising. This service has three distinctive characteristics.

First, it offers two plans, a basic service plan for ad operation only and a comprehensive service plan for ad agencies lacking knowhow in operating listing ads. The comprehensive plan offers the handling of accounts for an ad agency and its customers, advertisers. It operates ads and offers consulting in the set-up of accounts, the fine-tuning of ad distribution, and other aspects of the business. In effect, the comprehensive plan handles all aspects of operating listing ads except customer expansion.

Second, for ad agencies lacking tools to manage or operate listing ads, for no charge, the service offers the GMO MARKETING SUITE integrated management ad platform, which enables the efficient use of ads made by different methods and distributed to personal computers and smartphones. The media rep division of GMO AD Partners is the only media rep business in Japan offering such a tool to ad agencies for free. Small or medium-sized ad agencies should benefit significantly from using this tool.

Main Functions of the GMO MARKETING SUITE Ad Platform

Automatic bidding	For ads distributed to personal computers, this tool undertakes all functions from measuring the effectiveness of the ad to distributing it again. Thus, it should raise the speed and efficiency of the PDCA cycle*. The tool can also measure the effectiveness of ads distributed to smartphones.
Online comprehensive report history of operations	The tool prepares comprehensive reports of ad effectiveness for ads posted up the one day previously. Users can work with consultants at GMO AD Partners to learn to use the tool more effectively, if needed.

Note: The PDCA cycle is a management cycle of planning, doing, checking and acting.

The third characteristic of the new service is that ad agencies that cannot prepay advertising fees, have limited credit or similar financial problems can receive operational support from GMO AD Partners based on the company's analysis of the credit standing of the agencies.

By offering this new service, GMO AD Partners hopes to assist small or medium-sized ad agencies to buy space for listing ads on Japan's leading media portals, Yahoo! and Google.

In FY12/13, GMO AD Partners plans to accelerate its growth by concentrating resource investment in rapidly growing businesses, such as ad transmission to smartphones and social networks, and ad technology. The company's strategy for each business is detailed in the table below.



■ Business Trends

GMO AD Partners Growth Strategy for Main Businesses in FY12/13

① Media Rep (PC Rep · Mobile Rep)	● Organize media monetization	Prepare a data management plan.
	● Bring SEM Rep business to full scale operation	Strengthen operational agency for listing ads.
② Ad Agency (SEM · WEB Marketing)		Upgrade consultant and operation functions for operational ads. Open standard offices and operational satellite offices outside Tokyo. Strengthen direct sales of SEM. Greatly increase the number of employees directly selling SEO. Make a meaningful start of consulting in the operation of social ads. Improve marketing of ads for distribution on newer devices, e.g., smartphones and tablet devices. Expand capability of platform for managing ad effectiveness.
③ Ad technology development	● Set up office to promote use of ad platforms throughout the company.	Accumulate knowhow in managing data on advertisers and use this knowhow to expand DSP business. Develop bidding and operational logic and apply it to expand DSP business. Use company' s audience data according to a data management plan to expand DSP business. Through private exchanges, start next-generation media rep business.
	● GMO SearchTeria	Expand network by integrating ADResult and OPASt, thereby increasing sales. Adjust GMO SSP for Smartphone application so it can be used overseas. Expand GMO SSP.
④ Media & content development	● Sanow Labs	Expand contacts with developers by participating in the Graphhack Award and blogs for media developers.
	● GMO Mobile	Enter the business of paid applications, release at least five such application titles. Strengthen the content and marketing of yomerumo to make it the No. 1 news site for smartphones. Work with affiliate GraphTurn to release several application titles geared to women. Start and strengthen a smartphone content provider business such as au Smartpass.

Source: Company

GMO AD Partners is also considering the launch of overseas business in FY12/13. It has not decided anything definite, but it is preparing to enter Asian markets with promising growth potential.

Japan' s economy is showing signs of renewed growth, and the Internet advertising market should benefit from such growth. Smaller companies, in particular, are likely to expand their Internet ad placements with an upturn in the economy. Despite these brightening prospects, GMO AD Partners projects sales growth for FY12/13 of only somewhat more than 10%, excluding the expected contributions of IMJ' s ad agency business and of JWord Co. This forecast appears very conservative to us. Unless market conditions erode notably, we expect GMO AD Partners to exceed its forecasts for FY12/13.

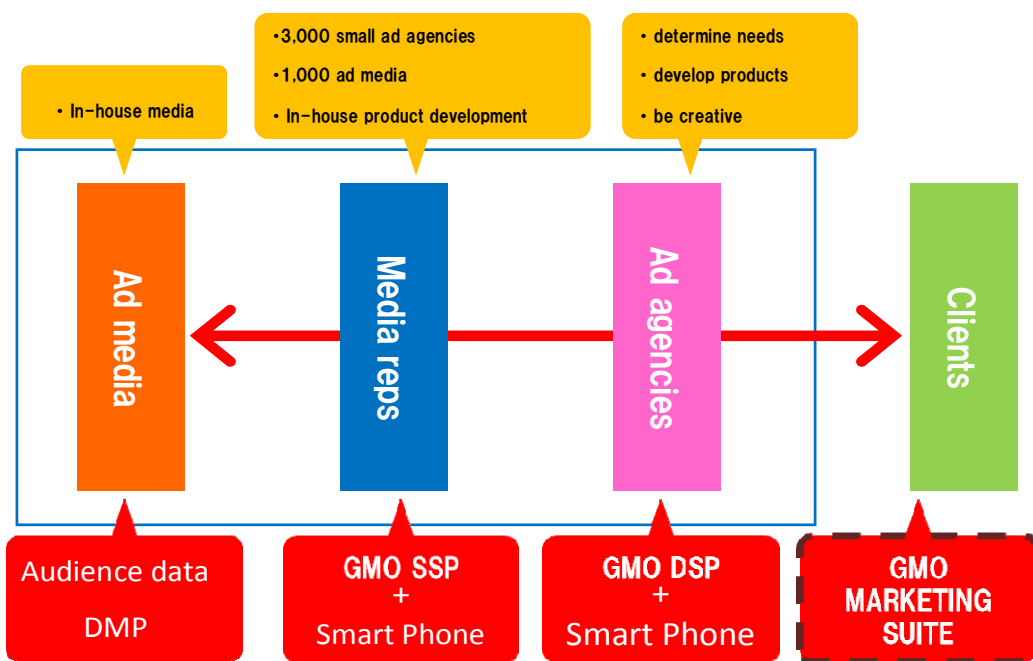
■ Medium-term Goals

Change to next-generation Internet ad agency business should support growth

GMO AD Partners plans to promote further growth by transforming its current comprehensive Internet ad agency business to a next-generation Internet ad business. In order to optimize Internet ad effectiveness, technological advances in ad transmission are progressing. The demand for next-generation Internet ads which take advantage of ad technology is likely to grow faster than the demand for current Internet ads.

In order to optimize ad transmission in this changing market, audience data, i.e., data on the affiliations of site users, is likely to become a more important requirement. Therefore, GMO AD Partners intends to become involved in the ad media business, as well as the media rep business, the ad agency business, and direct business to advertisers.

Changing from a Comprehensive Internet Ad Agency Business to a Next-Generation Internet Ad Agency Business



Source: Company

Currently, GMO AD Partners ranks about tenth in Japan’s Internet advertising market in terms of sales, but the company plans to expand its businesses rapidly, in part, through mergers and acquisitions, with the aim of matching competitors IREP, Septeni, and OPT in terms of sales. The company has not announced any medium-term targets, but annual sales of ¥50bn seems to be a likely goal.

GMO AD Partners would consider merging or acquiring ad agencies and ad media companies with good cost performance, as well as companies possessing ad technology.



■ Shareholder Return Policy

With upturn in profits, company may increase its dividend

GMO AD Partners intends to maintain a dividend payout ratio of 35%, so it will probably increase its dividend as its profits grow. The company also offers two awards to shareholders as of the rights dates at the end of June and the end of December. One award is a rebate of commissions paid to GMO Click Securities Co. for the purchase of GMO AD Partners' shares. The other is a rebate of up to ¥5,000 for brokerage commissions paid to GMO Click Securities within a designated time period. A holder of a single share in GMO AD Partners purchased through GMO Click Securities therefore could receive a total return on investment, i.e., dividend plus awards divided by share price, of more than 10%, based on the closing share price on April 1, 2013 of ¥87,400.

Consolidated Income Statement (¥mn) for GMO Ad Partners, FY 12/08 - FY12/12

	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12
Sales	6,305	4,651	5,515	12,253	15,368
(YOY)	-2.5	-26.2	18.6	122.2	25.4
Cost of sales	4,702	3,714	4,509	10,221	12,712
(Cost-of-sales ratio)	74.6	79.9	81.7	83.4	82.7
SGA cost	1,601	898	871	1,696	2,109
SGA cost ratio	25.4	19.3	15.8	13.8	13.7
Operating profit	2	38	135	335	546
(YOY)	-99.0	1580.0	253.4	148.1	62.8
Margin	0.0	0.8	2.5	2.7	3.6
Non-operating income	71	93	197	96	224
Non-operating costs	2	0.5	26	1	6
Recurring profit	71	130	305	430	764
(YOY)	-76.6	83.5	133.9	40.9	77.5
Margin	1.1	2.8	5.5	3.5	5.0
Extraordinary gains	61	8	1	14	0
Extraordinary losses	245	61	47	10	23
Pretax profit	-112	77	259	434	741
(YOY)	-	-	234.1	67.8	70.5
Margin	1.8	1.7	4.7	3.6	4.8
Income taxes	130	-2	128	196	391
(Effective tax rate)	-115.1	-3.4	49.8	45.2	52.8
Minority interest	-4	-	-	-	-7
Net profit	-238	81	130	238	357
(YOY)	-	-	58.9	82.9	50.3
Margin	-	1.8	2.4	2.0	2.3
Shares outstanding (thousand)	89.5	89.5	76.0	76.0	76.0
Earnings per share (¥)	-2,999.03	1,064.49	1,746.81	3,219.21	4,708.90
Dividend per share (¥)	0	450	600	1,150	1,713
Book value per share (¥)	46,244.08	47,278.83	49,671.74	52,015.74	55,866.43



Consolidated Cash Flow (¥mn) Statement for GMO Ad Partners, FY12/08 - FY12/12

	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12
Cash flow from operations	-185	108	196	123	773
(Pretax profit)	-112	77	259	434	741
(Depreciation & amortization of goodwill)	306	42	50	137	171
(Income taxes, etc)	-248	0	-3	-228	-213
Cash flow from investing	67	120	-328	-201	-503
(Tangible fixed assets acquired)	-3	-7	-5	-50	-36
(Subsidiaries acquired)	-45	-12	-231	0	-86
Cash flow from financing	-486	40	-134	-44	-117
(Dividends paid)	-52	0	-34	-44	-84
(Treasury stock acquired)	-355	0	-100	0	-47
Balance of cash, cash equivalents, etc.	2,952	3,221	2,955	2,832	2,985

Consolidated Balance Sheet (¥mn) for GMO Ad Partners, FY 12/08 - FY12/12

	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12
Current assets	3,782	3,894	4,473	4,696	4,912
(Cash and cash equivalents)	2,952	3,221	2,955	2,832	2,985
Tangible fixed assets	28	25	12	66	97
Intangible fixed assets	99	77	486	454	964
Investments, etc.	815	588	808	870	754
Total assets	4,726	4,586	5,780	6,088	6,727
Current liabilities	664	504	1,812	1,976	2,471
Fixed liabilities	490	443	292	258	93
(Interest-bearing debt)	0	0	0	0	0
Total liabilities	1,155	947	2,104	2,235	2,565
Shareholders' equity	3,554	3,636	3,632	3,826	4,071
Common stock	1,301	1,301	1,301	1,301	1,301
Additional paid-in capital	2,353	2,353	1,914	1,914	1,914
Retained earnings	503	585	507	701	969
Treasury stock	-603	-603	-91	-91	-114
Total equity	3,570	3,639	3,675	3,853	4,162
Total liabilities & equity	4,726	4,586	5,780	6,088	6,727
(Measures of financial strength)					
Current ratio	568.7%	772.2%	246.9%	237.7%	198.8%
Equity ratio	75.3%	79.3%	63.6%	63.2%	61.0%
(Measures of profitability)					
Return on assets	0.0%	0.8%	2.3%	5.5%	8.1%
Return on equity	-6.6%	2.2%	3.5%	6.2%	8.7%
Operating profit margin	0.0%	0.8%	2.4%	2.7%	3.5%

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