

Bridge Report SEPTENI HOLDINGS CO., LTD. (4293)

 Koki Sato, President	Company	SEPTENI HOLDINGS CO., LTD.	
	Code No.	4293	
	Exchange	JASDAQ	
	Industry	Service	
	President	Koki Sato	
	HQ Address	Sumitomo Fudosan Shinjuku Grand Tower, 28F, Nishi Shinjuku 8-17-1, Shinjuku-ku, Tokyo	
	Business Description	Corporate management and control of group subsidiaries which conduct Internet advertising agency, sales promotion support, and contents distribution services. Yahoo is also a shareholder.	
	Year-end	September	
	URL	http://www.septeni-holdings.co.jp/en/	

— Stock Information —

Share Price	Shares Outstanding		Market Cap.	ROE (actual)	Trading Unit
¥164,900	126,046 shares		¥20.785 billion	10.9%	1 share
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER(Est.)	BPS (actual)	PBR (actual)
¥1,300.00	0.8%	¥8,806.31	18.7x	¥51,369.52	3.2x

* Stock price as of the close on May 17, 2013. Number of shares at the end of the most recent quarter excluding treasury shares. ROE, BPS based on previous term's results.

— Consolidated Earnings Trends —

(Unit: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	Dividend (Y)
September 2009	33,046	598	421	-585	-	900.00
September 2010	32,648	1,098	1,024	545	4,333.90	1,000.00
September 2011	34,632	928	980	429	3,411.04	1,000.00
September 2012	41,358	1,527	1,638	677	5,381.15	1,000.00
September 2013 Est.	45,660	1,550	1,690	1,110	8,806.31	1,300.00

* Estimates are those of Investment Bridge Co., Ltd.

We present this Bridge Report along with the first half of fiscal year September 2013 earnings results for SEPTENI HOLDINGS.

1. Company Overview
2. First Half of Fiscal Year September 2013 Earnings Results
3. Fiscal Year September 2013 Earnings Estimates
4. Conclusions

Key Points

- SEPTENI recorded sales and operating income of ¥11.566 billion and ¥479 million respectively during the second quarter of fiscal year September 2013. An increase in Internet Marketing Business sales allowed overall sales to rise 7.1% year-over-year to a record high on a quarterly basis. At the same time operating income fell by a small margin of 3.8% year-over-year to just below the record profit recorded during the previous second quarter, but rose by 65.0% from the first quarter and exceeded estimates to 27.9%. During the first half, sales rose by 9.5% and operating income declined by 11.0% year-over-year.
- SEPTENI estimates call for sales to rise by 10.9% year-over-year and operating income to decline by 6.6% year-over-year during the third quarter (April to June). The hiring of 85 new employees during April is expected to lead to a seasonal increase in anticipatory expenses in human resources during the third quarter. Internet Marketing Business is expected to continue to see favorable sales and SEPTENI will endeavor to make the social games, which just broke even during the second quarter, in the Media Contents Business profitable. Eight new game titles are expected to be released during the second half. (SEPTENI only releases earnings estimates for the quarter immediately following the quarter for which actual results are released.)
- Because social games reached break even during the second quarter, the favorable business results of the Internet Marketing Business are expected to contribute more directly to overall consolidated earnings. During the third quarter, the hiring of new graduates and subsequent increased anticipatory investments in human resources will become a burden. However positive developments in the realm of social games could help to allay this burden. Investment Bridge Co., Ltd. expects SEPTENI to see record high levels of operating and ordinary income during the full year despite the outlook for conservative performance in the realm of social games.

1. Company Overview

The SEPTENI Group is comprised of about 20 consolidated subsidiaries, which include the Internet advertising agency SEPTENI CO., LTD., the mobile contents distribution company AXEL MARK INC. (3624), and others. SEPTENI will continue to fortify its Internet advertising agency service business, make aggressive investments in growth realms, and convert in-house services into strong contributors of earnings.

Pure Holding Company	SEPTENI HOLDINGS CO., LTD		(As of May 2, 2013)
Internet Marketing Business		ASP CO., LTD.	e-Marketing Solutions
SEPTENI CO., LTD.	Internet Advertising	Tricorn Corporation	CRM Services
MANGO, Inc.	SEM Operation	TRIGGER CO., LTD.	Social Research
Vasara, Inc.	Internet Advertising	Media Contents Business	
High Score, Inc.	Social Media Marketing Support	AXEL MARK INC.	Mobile Contents
EAGLE i Co., Ltd.	Ad Network	Cytech, Inc.	Social Applications
Septeni Asia Pacific Pte. Ltd.	Internet Advertising for the Asia Pacific Region	Others	
Septeni America Inc.	Internet Marketing in North American	SEPTENI DIRECT MARKETING CO., LTD.	Direct Mail
SEPTENI TECHNOLOGY CO., LTD	Web Service Development	New Business Development	
SEPTENI CROSSGATE CO., LTD.	Affiliate Network	SEPTENI VENTURES Co., Ltd.	

<Business Segment Description>

SEPTENI's business is comprised of the Internet Marketing, Media Contents, and the direct mailing outsourcing services, inship advertising, and other services included in other business (Other services is not included as a reported segment). During fiscal year September 2012, the Internet Marketing, Media Contents, and other business segments accounted for 81.1%, 10.5% and 8.4% of sales, and 78.5%, 12.8%, and

8.7% of operating income respectively.

Internet Marketing Business

Comprehensive marketing support services that leverage the Internet are provided in this segment. In addition to the two main services of Internet advertising sales and various web solutions (Website creation, operation, viewer traffic gathering, SEO and other activities), the Internet advertising agency service is becoming a significant contributor to earnings of this segment. In addition, ad network and other marketing platforms and cloud type CRM services provided as in-house services are being cultivated as other services in this segment.

Media Contents Business

Planning and development of social games, and provision of music, publications, streaming video, fortune telling and other contents are included in this segment. The various digital contents developed in this segment are provided to consumers over various social network systems and cellular telephone service carriers. Also, AXEL MARK provides social games to Mobage and Cytech to GREE.

2. First Half Fiscal Year September 2013 Earnings Results

(1) 2Q Consolidated Earnings

(Units: Million Yen)

	2Q FY9/12	Share	2Q FY9/13	Share	YY Change	Est. as of 1Q	Divergence
Net Sales	10,803	100.0%	11,566	100.0%	+7.1%	11,200	+3.3%
Gross Income	2,221	20.6%	2,202	19.0%	-0.9%	-	-
SG&A	1,722	15.9%	1,722	14.9%	-0.0%	-	-
Operating Income	498	4.6%	479	4.2%	-3.8%	375	+27.9%
Ordinary Income	524	4.9%	542	4.7%	+3.4%	394	+37.6%
Net Income	141	1.3%	549	4.8%	+288.4%	426	+29.1%

Operating Income Fell by 3.8%, but Still close to Record High of Previous Term (¥498 Million)

Sales rose by 7.1% year-over-year to ¥11.566 billion. Difficult conditions in the realm of social games contributed to a decline in sales of the Media Contents Business, but this decline was absorbed by higher sales of the Internet Marketing Business. Consequently sales exceeded estimates by 3.3% and rose to a quarterly record high. At the same time operating income fell 3.8% below the record high recorded during the previous second quarter due to difficulties in social games and anticipatory investments for new business development. However, the improvement in profitability of social games is advancing at a quicker than expected pace and operating profit rose by 65.0% on a quarter-over-quarter basis. Valuation gains on marketable securities (¥58 million) allowed non-operating balance to improve and ordinary income to rise by 3.4% year-over-year. In addition, the sale of a Group company contributed to extraordinary income (¥313 million) and allowed net income to rise by 3.9 times year-over-year to ¥549 million.

The decline in gross margin is attributed to weak sales of high profitability games and the retreat from the commerce business. However the retreat from the commerce business also contributed to a decline in sales, general and administrative expense margin.

Quarterly Earnings Trend

(Units: Million Yen)

	1Q FY9/12	2Q	3Q	4Q	1Q FY9/13	2Q	YY Change	QQ Change
Sales	9,710	10,803	10,365	10,478	10,891	11,566	+7.1%	+6.2%
Gross Income	2,006	2,221	2,176	2,228	2,178	2,202	-0.9%	+1.1%
SG&A	1,640	1,722	1,865	1,877	1,887	1,722	-0.0%	-8.7%
Operating Income	366	498	310	351	290	479	-3.8%	+65.0%
Gross Margin	20.7%	20.6%	21.0%	21.3%	20.0%	19.0%	-1.5%p	-1.0%p
SG&A Margin	16.9%	15.9%	18.0%	17.9%	17.3%	14.9%	-1.1%p	-2.4%p

(2) Segment Earnings Trends

Internet Marketing

(Units: Million Yen)

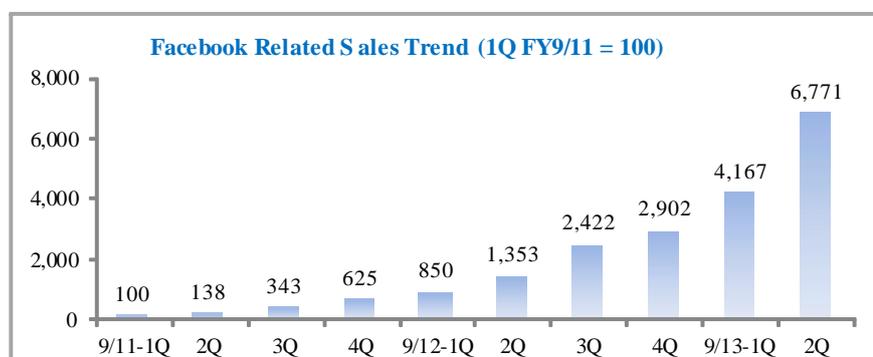
	1Q FY9/12	2Q	3Q	4Q	1Q FY9/13	2Q	YY Change	QQ Change
Sales	7,872	8,735	8,355	8,636	9,066	9,970	+14.1%	+10.0%
Gross Income	1,347	1,491	1,427	1,555	1,589	1,718	+15.2%	+8.1%
SG&A	1,054	1,092	1,156	1,122	1,165	1,150	+5.4%	-1.3%
Operating Income	293	399	270	432	423	567	+42.2%	+34.0%
Gross Margin	17.1%	17.1%	17.1%	18.0%	17.5%	17.2%	+0.1%p	-0.3%p
SG&A Margin	13.4%	12.5%	13.8%	13.0%	12.9%	11.5%	-1.0%p	-1.3%p

Growth in performance-based advertising and uptake of end demand contributed to a rise in quarterly sales to a second consecutive record high of ¥9.970 billion. A main factor behind this favorable performance was the growth in Facebook related and smartphone advertising. The higher sales and improvements in productivity allowed operating income to grow strongly and operating margin to rise by a large margin to 5.7% in the second quarter from 4.6% and 4.7% in the previous second and third quarters respectively. In addition, the 12th sales office was opened in Takasaki, and SEPTENI TECHNOLOGY CO., LTD. was established as an offshore development office in Hanoi, Vietnam.

(Note) Performance-based advertising is an advertising method that utilizes large data processing advertising technology platforms to automatically optimize and quickly produce advertisements. Performance-based advertising also includes search linked advertisements, newly registered ad-exchanger, supply side platform (SSP), demand side platform (DSP) and other types of advertising. (DENTSU INC. “Japanese Advertising Expenses in 2012”)

Facebook Related Business

In the realm of Facebook, page creation, consigned operations, and advertising spot sales services are provided. During the second quarter, mobile (Smartphone) advertising got off to a favorable start with sales rising by five times year-over-year and 1.6 times quarter-over-quarter. Moreover, SEPTENI acquired certification as “Preferred Marketing Developer” and “Mobile Measurement Partner” from Facebook. Of these two certifications, the favorable evaluation of SEPTENI’s advertising volume and track record and its in-house Facebook advertising operational management tool “PYXIS” are reasons cited for the acquisition of the “Preferred Marketing Developer” (Advertising category) certification. At the same time, the acquisition of the “Mobile Measurement Partner” certification will enable SEPTENI to use its “Smac” mobile advertising effectiveness measurement tool to measure the effect of Facebook’s mobile (Smartphone) advertising “Mobile App Install Ads”. In addition, services responding to Internet elections that leverage the Company’s knowhow in supporting corporate marketing for use in the creation of Facebook pages for political parties and election candidates and to provide operational support as a packaged service were launched from April 2013.

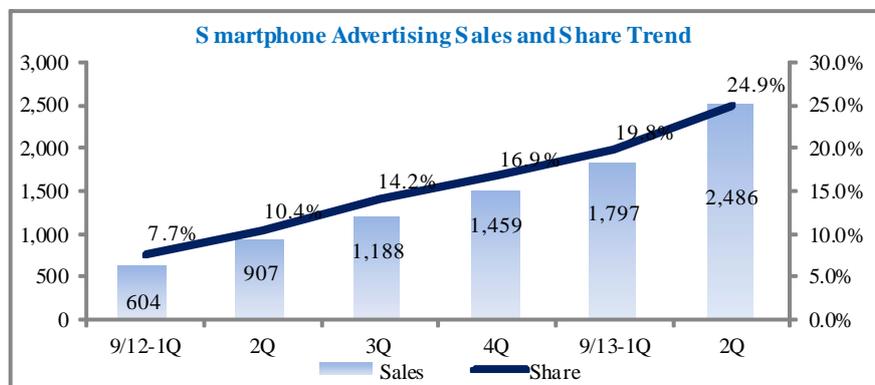


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Smartphone Advertising

Sales rose by 2.7 times year-over-year (Facebook related advertising has been added as of the current second quarter) and accounted for 25% of Internet Marketing Business sales.



Media Contents Business

(Units: Million Yen)

	1Q FY9/12	2Q	3Q	4Q	1Q FY9/13	2Q	YY Change	QQ Change
Sales	1,015	1,138	1,092	1,088	940	894	-21.5%	-4.9%
Gross Income	432	486	504	468	371	387	-20.4%	+4.2%
SG&A	334	368	449	512	478	422	+14.7%	-11.9%
Operating Income	98	118	55	-44	-107	-34	-	-
Gross Margin	42.5%	42.7%	46.2%	43.0%	39.5%	43.3%	+0.6%p	+3.8%p
SG&A Margin	32.9%	32.3%	41.1%	47.1%	50.9%	47.2%	+14.9%p	-3.6%p

While sales peaked and began to decline from the second quarter of fiscal year September 2012, efforts to restrain outsourcing, advertising and labor expenses primarily for the social games realm became effective and the operating loss of ¥107 million recorded during the first quarter contracted to ¥34 million in the second quarter. The simple aggregation of the two social game companies (AXEL MARK INC. and Cytech, Inc.) yielded a recovery in operating income to profits, with the bulk of losses arising from new business development including ¥31 million in loss from SEPTENI VENTURES Co., Ltd.

In the social game realm, a total of four game titles were released during the second quarter including “Tales of the Kingdoms” and “KING’S GAME Team Battle” by AXEL MARK INC. and “Valkyrie of Darkness” and “AKB0048 GALAXY CINDERELLA” (Provided by NAMCO BANDAI Games Inc.) by Cytech, Inc. At the end of the second quarter, the total number of registered users reached 3.98 million (Excluding users of titles developed on a custom-basis).

In addition, the SEPTENI Group’s new business development company SEPTENI VENTURES Co., Ltd. launched two new services including the “word of mouth” fashion information website “MANT” and the IT and Internet industry focused human resources employment matching platform “ViViViT”.

Social Game Sales and New Title Numbers

	1Q FY9/12	2Q	3Q	4Q	1Q FY9/13	2Q	Total Titles
Sales (¥mn)	350	563	593	639	519	487	-
Title Numbers	3	1	2	2	3	4	15
AXEL MARK: Mobage	2	1	1	1	2	2	9
Cytech: GREE	1	0	1	1	1	2	6

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“KING’S GAME Team Battle”



“KING’S GAME Team Battle” is the second version of “Osama (King) Game” and boasts of over 750,000 registered users. AXEL MARK began providing this game over Mobage from March 22, 2013.

AXELMARK INC. / @E★Everystar

(Source: SEPTENI)

First Half Consolidated Earnings

(Units: Million Yen)

	1H FY9/12	Share	1H FY9/13	Share	YY Change	Initial Est.	Divergence
Net Sales	20,514	100.0%	22,458	100.0%	+9.5%	22,091	+1.7%
Gross Income	4,228	20.6%	4,380	19.5%	+3.6%	-	-
SG&A	3,363	16.4%	3,609	16.1%	+7.3%	-	-
Operating Income	865	4.2%	770	3.4%	-11.0%	665	+15.9%
Ordinary Income	931	4.5%	880	3.9%	-5.5%	732	+20.3%
Net Income	270	1.3%	736	3.3%	+172.7%	612	+20.4%

※ Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (applies to all tables in this report).

Sales Rose 9.5%, Ordinary Income Fell 5.5%

Sales during the first half rose by 9.5% year-over-year to ¥22,458 billion. The expansion in the Internet advertising market acted as a tailwind and complimented SEPTENI’s strengths in the growth realm of smartphone advertising and Facebook related marketing, boosting Internet Marketing Business sales by 14.6% year-over-year. This strong growth was offset by a 14.8% year-over-year decline in the Media Contents Business sales arising from difficulties in sales of some new game titles.

Operating income declined by 11.0% year-over-year to ¥770 million during the first half. While operating income of the Internet Marketing Business rose by 43.1% year-over-year due to the improvement in profitability arising from the higher sales, declines in sales and anticipatory investments for new businesses in the Media Contents Business caused profitability to deteriorate by ¥360 million to a loss of ¥142 million from a profit of ¥216 million in the previous first half. However, valuation gains on marketable securities (Up from ¥19 to ¥58 million), and increases in minority shareholding income (Up from ¥53 to ¥64 million) contributed to improvements in non-operating balance. Profits on the sale of a subsidiary (¥103 million) and the sale of marketable securities (¥209 million) contributed to an improvement in extraordinary income to ¥313 million and allowed net income to rise by 2.7 times to ¥736 million.

Consolidated Sales, Operating Income by Segment

(Units: Million Yen)

	1H FY9/12	Share	1H FY9/13	Share	YY Change
Internet Marketing	16,607	80.8%	19,037	84.6%	+14.6%
Media Contents	2,154	10.5%	1,834	8.2%	-14.8%
Others	1,781	8.7%	1,630	7.2%	-8.5%
Adjustments	-29	-	-44	-	-
Total Sales	20,514	-	22,458	-	+9.5%
Internet Marketing	692	69.9%	991	106.2%	+43.1%
Media Contents	216	21.9%	-142	-15.2%	-
Others	81	8.2%	84	9.0%	+2.8%
Adjustments	-126	-	-163	-	-
Total Operating Income	865	-	770	-	-11.0%

(4) Financial Conditions and Cash Flow

Financial Conditions

(Units: Million Yen)

	September 2012	March 2013		September 2012	March 2013
Cash, Equivalents	5,131	5,762	Payables	4,432	4,986
Receivables	5,624	6,494	Unpaid Tax	414	339
Current Assets	11,381	12,700	Bonus Reserves	275	284
Tangible Fixed Assets	332	300	Interest Bearing Liabilities	798	841
Intangible Fixed Assets	751	658	Liabilities	7,116	7,340
Investments, Others	1,896	1,518	Net Assets	7,246	7,837
Fixed Assets	2,981	2,477	Total Liabilities, Net Assets	14,362	15,178

* Interest Bearing Liabilities = Debt + Bonds

At the end of the first half, total assets rose by ¥815 million from the end of the previous fiscal year to ¥15.178 billion. The expansion in business contributed to increases in payables, while improvements in cash flow resulting from the increase in earnings allowed cash and equivalents and assets to rise. At the same time, investment securities and lease assets declined by ¥380 and ¥56 million respectively, contributing to a 1.7% improvement in equity ratio to 46.7%.

Cash Flow

(Units: Million Yen)

	1HFY9/12	1HFY9/13	YY Change	
Operating Cash Flow (A)	518	28	-490	-94.5%
Investing Cash Flow (B)	-1	692	+694	-
Free Cash Flow (A+B)	516	721	+204	+39.5%
Financing Cash Flow	38	-103	-141	-
Cash, Equivalents at Term End	5,149	5,762	+612	+11.9%

Increases in taxes from ¥184 to ¥557 million contributed to an increase in working capital and caused the operating cash flow to decline. However, the sale of investment securities and recovery of loans extended allowed investing cash flow to improve by a large margin. Free cash flow improved from a net inflow of ¥516 million in the previous first half to ¥721 million in the current first half. A decline in new debt contributed to a net outflow of cash in financing activities, but cash and equivalents still rose by ¥613 million from the end of the previous term to ¥5.762 billion.

3. Fiscal Year September 2013 Earnings Estimates

3rd Quarter Consolidated Earnings

(Units: Million Yen)

	3Q FY9/12	Share	3Q FY9/13 Est.	Share	YY Change
Sales	10,365	100.0%	11,500	100.0%	+10.9%
Operating Income	310	3.0%	290	2.5%	-6.6%
Ordinary Income	324	3.1%	300	2.6%	-7.5%
Net Income	173	1.7%	170	1.5%	-1.9%

Sales to Rise 10.9%, Operating Income to Fall 6.6% in 3Q

The hiring of 85 new employees in April is expected to contribute to the seasonal increase in anticipatory investments in human resources during the third quarter. Conditions in the Internet Marketing Business are expected to continue to trend favorably with both sales and profits expected to grow. At the same time, social games within the Media Contents Business are expected to turn profitable and new titles expected to grow, with the release of eight new large adaptations anticipated during the second half. The corporate strategy of SEPTENI will be transformed to match changes in their operating environment, with efforts to secure solid earnings by aggressively pursuing title development in the joint- or custom-basis. Moreover, SEPTENI has disclosed its earnings estimates for the following quarter in lieu of full year.

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1-3Q Consolidated Earnings Estimates

(Units: Million Yen)

	1-3Q FY9/12	Share	1-3Q FY9/13 Est.	Share	YY Chnage
Sales	30,879	100.0%	33,958	100.0%	+10.0%
Operating Income	1,175	3.8%	1,060	3.1%	-9.9%
Ordinary Income	1,255	4.1%	1,180	3.5%	-6.0%
Net Income	443	1.4%	906	2.7%	+104.4%

4. Conclusions

While SEPTENI calls for operating income to decline during the third quarter (April to June), the potential for positive surprises from better than expected results depending upon the timing of the release of new social game titles (New title releases are not announced on quarterly basis) exists. In addition, the outlook for SEPTENI remains bright in the coming terms given its leading position in the rapidly expanding Facebook related business, and its progress in performance-based advertising and smartphone applications in the main Internet Marketing Business. Consequently, the main issue for the Company's earnings is likely to be how effectively risks can be managed and how strongly social games can be grown. SEPTENI's policy regarding social games has been right on target, which is to "secure solid earnings through the aggressive title development in the joint- or custom-basis."

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