

Summary of the Q&A Session for 1Q FY2021 Financial Results Briefing

A summary of the main questions and answers at the first quarter financial results briefing held on February 2, 2020 (for institutional investors, analysts, and the press) is as follows.

◆Digital Marketing Business

Q1. Regarding the growth trend of net sales.

A1. Following the last quarter, in response to the growing demand from expansion of online consumption, the growth outperformed the market growth. The negative impact of the economic downturn has not become apparent at the moment, and the momentum of the increasing demand is stronger, and this trend is expected to continue for a while. As for the demand in the offline industries, it seems that the demand is also gradually recovering with variation among each industry, because they advance environmental responses utilizing digital methods.

Q2. Regarding the improvement of operating margin.

A2. The operating margin increased because net sales increased while SG&A costs are stable. The major reason is that per-client sales is rising by enhancing the relationship with large advertisers. In addition to expanding transactions as an organic growth, the integrated proposal of online/offline in cooperation with Dentsu Group is progressing well, and these factors lead to the growth of net sales and revenue.

Q3. Regarding the volume of clients in collaboration with Dentsu Group.

A3. In collaboration with Dentsu Group, the number of clients and per-client sales rise in turns through the cycle of establishing the system, approaching to clients, increasing the number of clients, and increasing transactions. The number of orders and requests from clients are steadily increasing, and overall, it progresses smoothly.

Q4. Regarding the competitive environment and the market share.

A4. There has been no major change in the competitive environment, and the Company has become more competitive in the digital marketing area for large advertisers that it focuses on, as well as the integrated proposal of online/offline in cooperation with Dentsu Group. In regard to the market share, guessing from the growth rate of net sales in the last two quarters, the Company's share has expanded.

◆Media Platform Business

Q5. Regarding a correlation between the deficit increase of Media Platform business and the advertising expenses of Manga Content Business.

A5. The operating loss of Manga Content Business was reduced in the last quarter, and there is no impact from the severe competition in the manga application market. The advertising expenses are controlled to be little, and it is considered to be able to improve the loss by increasing the top line. The Company develops the business model that it creates IP in-house and delivers original content directly or through the external services. Therefore, compared to other services with different business models, the correlation between the amount of advertising expenses and the growth of sales is weak.

Q6. Regarding GANMA!'s revenue from advertisements.

A6. Compared to the growth of Digital Marketing Business, the recovery is weaker, but it is because GANMA! gains the advertising revenue from major brand advertisers. In terms of media, it is relatively a small platformer, and the recovery of revenue tends to be slow.

Q7. Regarding a reason why the Company is engaged in D2C business.

A7. In general, development of brand and distribution of products and services used to be divided into offline and online areas, but the contact with users has become digital first under a current circumstance, and it is easier to conclude the process of brand recognition, offering experiences, gaining empathy, and winning new fans online. The development of brand in digital methods has been the Company's strong field, and it is easy to join this area considering its environment. The strength of the Company is that it has the business asset that it is able to set up media, increase the contact with users, and acquire first-party data. Based on the belief that these strengths can be utilized, "Strengthening business development in the D2C domain" has been incorporated into the mid-term business policy from this fiscal year.

◆Each New Businesses

Q8. Regarding the investment into new businesses that were shown this time.

A8. As with existing businesses, these new businesses are classified by segment, and Anime Business and Men's Makeup Business are fully included in this year's budget of Media Platform Business, and it will not be a large investment.

The amount of investment in the HR technology domain, which is a part of domain expansion, is also included in the current budget plan and will be limited. There are high expectations that the data-driven approach of the Company's "AI-based personnel system" to recruitment, development, organization, and use of human resources will lead to increased social demand and expansion throughout the world as its own unique business value.

◆The Future Prospects

Q9. Regarding risks and opportunities in the future.

A9. There are two risks that can be assumed. One is the deterioration of the economy and corporate performance due to the extension of the declaration of the State of Emergency, and the Company will continue to monitor the situation. The other is the environmental change related to data and privacy in the wake of Apple's iOS14 update, which is unlikely to have a direct impact to the Company's business, but it is worth keeping eyes on.

As an opportunity, it is considered that increasing corporate appetite for digital investment due to the prolonged disaster of COVID-19 will create new growth opportunities and demand for DX.