

Summary of Questions and Answers for 2Q FY2023 Financial Results Briefing

The summary of the main questions and answers at the financial results briefing for the 2Q of the fiscal year ending December 2023 (for institutional investors, analysts, and the media) held on May 11, 2023 is as follows.

Q1. FY2023/2Q Results and Future Outlook

A1. As of the end of the first quarter, it was largely in line with expectations, but in the second quarter there began to be a delay versus forecasts, and the cumulative second quarter results fell short of forecasts. Especially in the Digital Marketing Business, while the hurdles were high in the previous year, budget cuts by some clients had a more negative impact than expected. As changes are occurring from the initial outlook, the Company has also begun to control expenses.

The full-year outlook seems to be somewhat more severe than the initial forecast, but the Company aims to continue to grow sales by increasing the number of clients.

Q2. Regarding Human Capital Investment

A2. The Company plans to control the number of employees to hire after peaking in April.

In April, the Company raised its base salary, which was previously planned. Expenses will increase in the short term, which will reduce profits, but the Company expects to retain employees, increase the value it provides to clients and customers and reflect them in shareholder value in the medium to long term.

Q3. Regarding Equity in Earnings of Affiliates

A3. The Company's earnings estimates are based on the plans formulated by equity-method affiliates.

Q4. Regarding Digital Advertising Market

A4. It seems that demand in the online industry has run its course and that demand in the offline industry has been increasing in the market as society shifts to the post-COVID environment as foot traffic returns. Further, in the current economic trends, the Company believes that the sales promotion budget is tending to increase. Looking at the trends in the media, the growth in search advertising is strengthening relatively.

Q5. Digital Marketing Business Results

A5. While acquisition of new clients has been steady and the Company expects good results, the increase in the unit price per client was weaker than initially expected, partly due to the economic impact. The organic component excluding the alliance with the Dentsu Group and new consolidation grew negatively.

Q6. Collaboration with the Dentsu Group

A6. At this point, the Company recognizes that both the number of clients and the unit price are at the development stage. Especially for the number of clients, the Company feels more potential than the organic business. Furthermore, if the economic cycle picks up, it believes that the growth in average client spend may also strengthen.

Q7. Outlook of the IP Platform Business

A7. The Company expects to further growth in the top-line accelerated by the anime of its own IP, which was launched in April.

Meanwhile, the Company has recently begun strengthening the production of Webtoon titles, and it expects to invest in this domain. Therefore, it is not expected that the increase in the top-line will directly contribute to an improvement in operating loss, but rather that top-line growth and a certain level of cost increases will be in parallel. For Webtoon titles, the Company aims to create a production system of the same size as the present manga to read horizontally within a few years.