# Septeni Holdings Co., Ltd.

FY2023 3rd Quarter Financial Results Briefing

August 8, 2023

# Event Summary

| | |
|---|---|
| **[Company Name]** | Septeni Holdings Co., Ltd. |
| **[Company ID]** | 4293-QCODE |
| **[Event Language]** | JPN |
| **[Event Type]** | Earnings Announcement |
| **[Event Name]** | FY2023 3rd Quarter Financial Results Briefing |
| **[Fiscal Period]** | FY2023 Q3 |
| **[Date]** | August 8, 2023 |
| **[Number of Pages]** | 24 |
| **[Time]** | 16:00 – 16:21<br>(Total: 21 minutes, Presentation: 21 minutes) |
| **[Venue]** | Webcast |
| **[Venue Size]** | |
| **[Participants]** | |
| **[Number of Speakers]** | 3 |

| | |
|---|---|
| Koki Sato | Group President and Chief Executive Officer |
| Kei Hatano | Group Senior Executive Officer |
| Tei Go | Group Executive Officer |

## Presentation

**Moderator:** It's time and we will now begin the presentation of the financial results of Septeni Holdings Co., Ltd. for Q3 of the fiscal year ending December 31, 2023.

First, I would like to introduce our representatives.

Koki Sato, Group President and Chief Executive Officer.

**Sato**: I'm Sato. Thank you for your attention.

**Moderator:** Kei Hatano, Group Senior Executive Officer.

**Hatano:** I'm Hatano. Thank you for your attention.

**Moderator:** Tei Go, Group Executive Officer.

**Go:** I'm Go. Thank you for your attention.

**Moderator:** Now, Sato, the representative, will give an explanation.

**Sato**: I'm Sato. Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today.

I will begin this presentation of financial results for Q3 with an explanation of the revisions to the earnings forecast announced today and the revised forecast for the current fiscal year, followed by the usual highlights of the financial results and the status of each business segment. Thank you.

## 04 Revisions to Earnings Forecasts (Consolidated)

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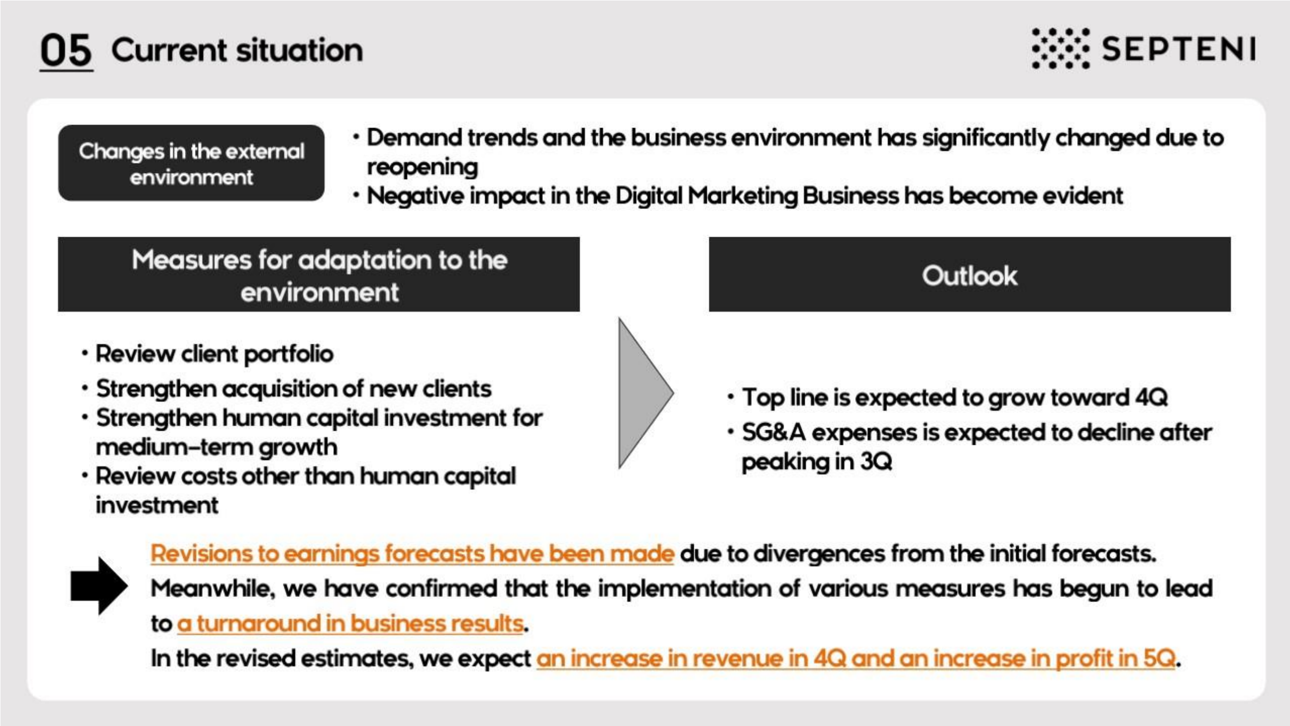
**Lowered earnings forecasts due to changes in the external environment in the Digital Marketing Business.**

| (unit: ¥mn) | Revenue | Non-GAAP operating profit | Profit attributable to owners of parent | Basic earnings per share (EPS) (¥) |
|---|---|---|---|---|
| Prior forecast (A) | 42,500 | 7,500 | 5,950 | 28.42 |
| Revised forecast (B) | 36,700 | 4,200 | 3,650 | 17.53 |
| Change (B–A) | –5,800 | –3,300 | –2,300 | |
| Change (%) | –13.6 | –44.0 | –38.7 | |
| (Reference) Results for the previous fiscal year (FY2022) | 28,819 | 5,855 | 5,734 | 30.54 |

First of all, as for the revision of our full-year earnings forecast, we announced the revision of the guidance that we had originally disclosed.

The contents are as described here, but we have revised our full-year forecasts in light of the current changes in the environment, with downward revisions to revenue, Non-GAAP operating profit, and net profit.

We will also show a few slides after this, including factors and countermeasures. I will explain the details there but let me say that the purpose of the overall revision is to reflect changes in the external environment of our core Digital Marketing Business, which has led us to this revision.




This shows our current recognition of the business environment.

As I have often explained in these earnings announcements, the environment is changing in post-COVID-19, and economic activity is changing in the form of reopening in response to the changes in human flows and lifestyles. The reopening of the market has led to significant changes in demand trends and the business environment, particularly in the Digital Marketing Business.

As a result, a negative short-term impact on the Digital Marketing Business has become apparent.

In response to these changes in the environment, we have been taking several measures to adapt to the environment. As a result, we are now seeing a bottoming out or reversal trend in business performance. We have put together some of them.

The first measure is to review the client portfolio, the second is to strengthen the acquisition of new clients, and the third is to strengthen human capital investment for medium-term growth, which means stepping up costs. In addition, we are reducing costs by reviewing costs in all areas other than our core assets, human resources.

As a result, the top line is expected to grow over Q4.

We have already seen a turnaround and growth in net sales, and we expect growth in revenue base as well through Q4. As for costs, after a general review, SG&A expenses has increased due to employment of new graduates. We have a forecast that expenses have peaked in this Q3 and then will decline throughout the current fiscal year.

Due to these changes in the environment, while taking the measures to cope with them, the current performance has deviated significantly from the forecast made at the beginning of the fiscal year. This is why we have decided to revise our earnings forecast at the time of this quarter's results.

On the other hand, we have been able to confirm that the implementation of these measures is gradually beginning to bring about a turnaround in business performance. As a result, the revised forecast, which I will explain later, shows that expenses will fall after Q3, and revenue will bottom out in Q3 and rise in Q4 and Q5.The increase in revenue in Q4 and the conversion of profit growth in Q5 are expected.

Therefore, we expect a turnaround in profit growth in Q5, which is the "fifth quarter" of an irregular five quarter accounting period of this fiscal year.

## 06 Outlook for this fiscal year

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**Net sales turned positive in 3Q. Revenue turnaround in 4Q and Non-GAAP operating profit turnaround in 5Q are also expected.**

**Trends and Outlook of YoY Changes in Each Item (Consolidated)**

Timing of reversal

| | FY2023 | | | | | FY2024 |
|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 5Q | |
| Net sales | +6.5% | -5.4% | 3.3% | Increase in sales growth | Double-digit growth | Revenue growth |
| Revenue | +6.1% | -4.0% | -0.2% | Revenue turnaround | Double-digit growth | |
| SG&A expenses | +32.2% | +2.0% | +7.8% | Decline in the increase pace | Decline in the increase pace | Increase at cruising speed |
| Non-GAAP operating profit | -55.6% | -29.7% | -77.0% | Decline in the decrease pace | Profit turnaround | Substantial profit growth |

On the next page, I will break down the forecast in more detail, as I understand that the downward revision of the financial results may have caused some concern. We have added a slide with more resolution to show the outlook for our business going forward.

As shown in the summary, the timing of the reversal is plotted and colored to indicate the reversal in sales in Q3, the reversal on a revenue basis in Q4, and on a Non-GAAP operating profit basis in Q5.

In the current Q3, net sales increased by 3.3% compared to the previous year, while revenue was almost flat, down 0.2%, and SG&A expenses increased by 7.8% compared to the previous year due to increased human capital investment. As a result, operating profit in Q3 was down 77% from the previous quarter, a significant decrease.

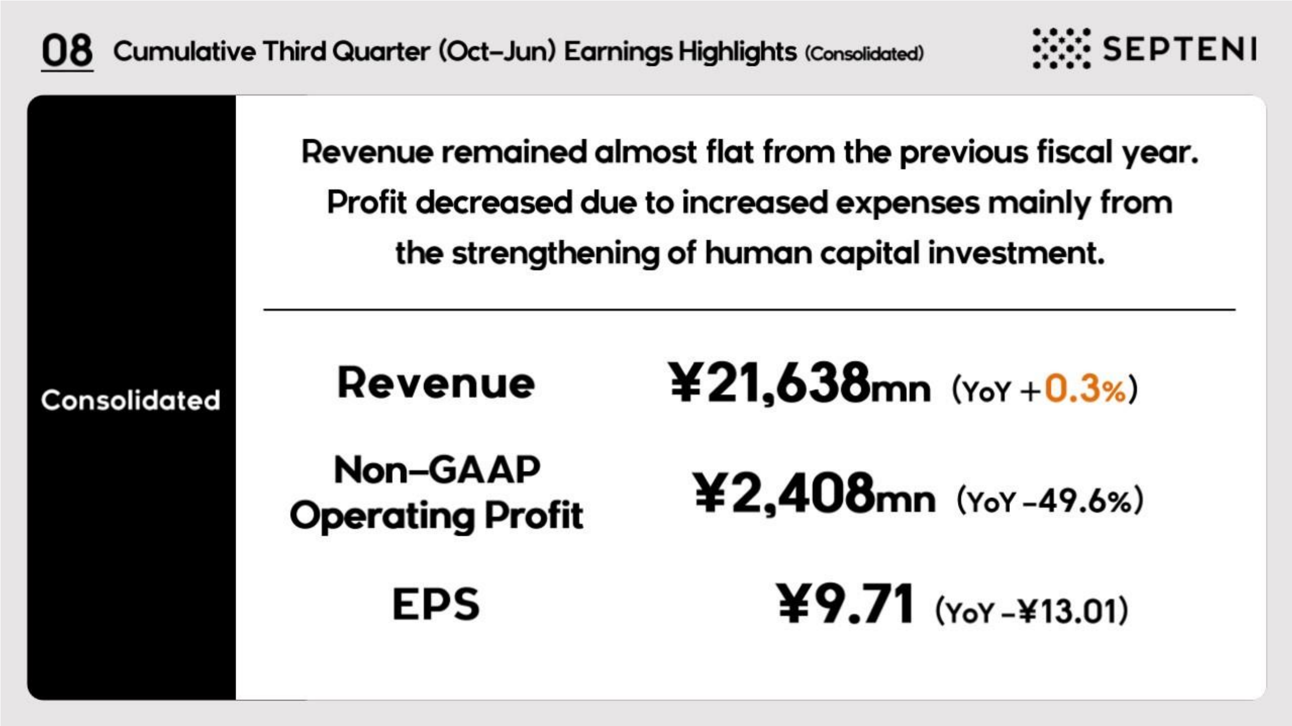
We have also indicated our forecast for Q4 and Q5. We expect to see an increase in net sales or top line growth and a turnaround to higher revenue from Q4. As for SG&A expenses, the increase in SG&A expenses have peaked in Q3, and the increase in SG&A expenses will be reduced, resulting in a smaller decrease in profit in Q4.

Similarly, for Q5, we are forecasting double-digit growth in net sales and double-digit growth in revenue as well. And as for SG&A expenses, the control will continue, so the increase will be reduced. As a result, as for operating profit, we expect a turnaround to profit increase in this Q5.

Although the figures are not yet ready to be disclosed at this time, we have briefly touched on the outlook for the next fiscal year ending December 31, 2024.

In the same way, the pace of growth will be maintained for net sales and revenue, and SG&A expenses will increase at a cruising speed while remaining under constant control. As a result, operating profit is expected to be lower this fiscal year and significantly higher next fiscal year.

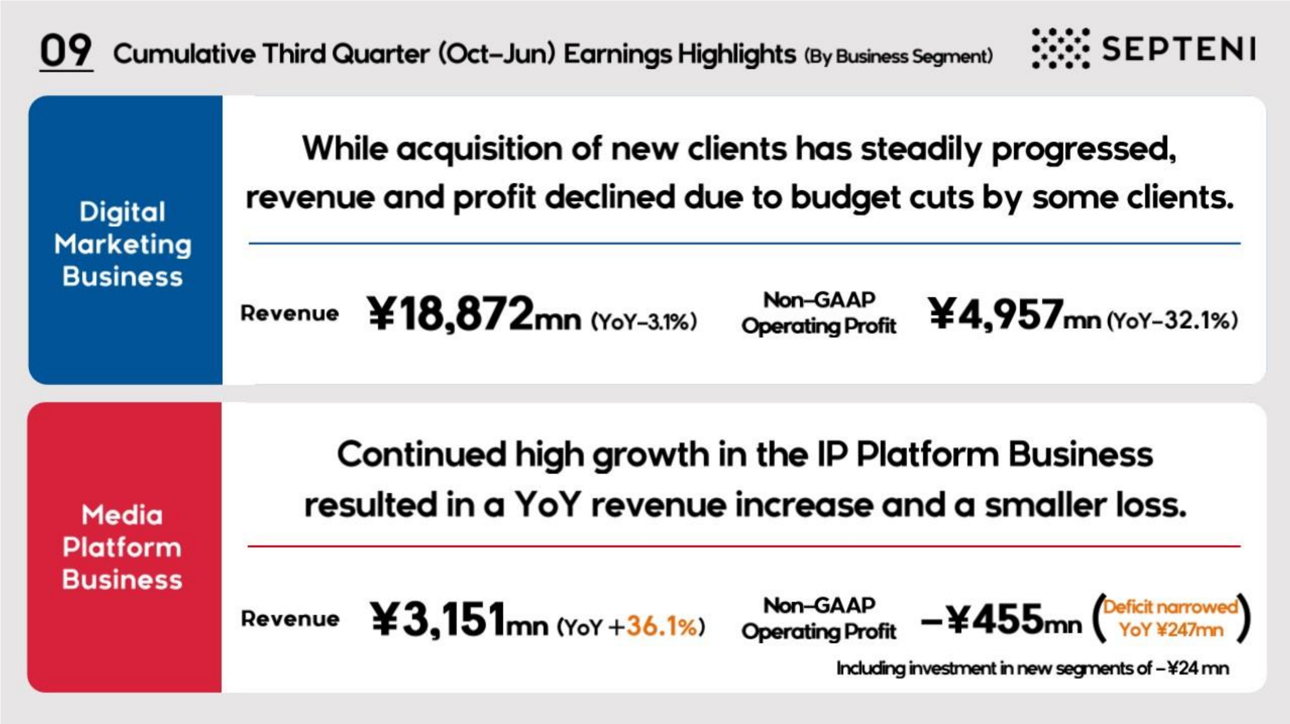
I have added a slightly more detailed explanation of our view of future business growth.




We started with the revisions to the guidance at the beginning of this presentation, and from here we will explain the financial results as per usual.

Page 8 highlights the financial results for the first nine months of the fiscal year. Revenue is almost unchanged from the previous year, up 0.3%, and operating profit decreased by 49%.

As I have been saying for some time, revenue remained almost unchanged from the previous year, while expenses increased, mainly due to strengthened human capital investment. We are aggressively increasing personnel in anticipation of medium-term top-line growth, and human capital investment is progressing steadily, which means that the decrease in profit is larger in the short term.




Page 9 is a breakdown by segment.

In the Digital Marketing Business, the development of new clients is progressing steadily. We are also working to cover the budget reductions that some of our clients are experiencing as a result of the reopening. In the cumulative total through this quarter, we have not yet achieved that reversal. Therefore, both revenue and operating profit decreased.

In the Media Platform Business, revenue increased from the previous year and the deficit narrowed as the IP Platform Business continued to grow at a high rate. This area is continuing to grow very steadily.

## 10 Consolidated Income Statement (Oct-Jun)

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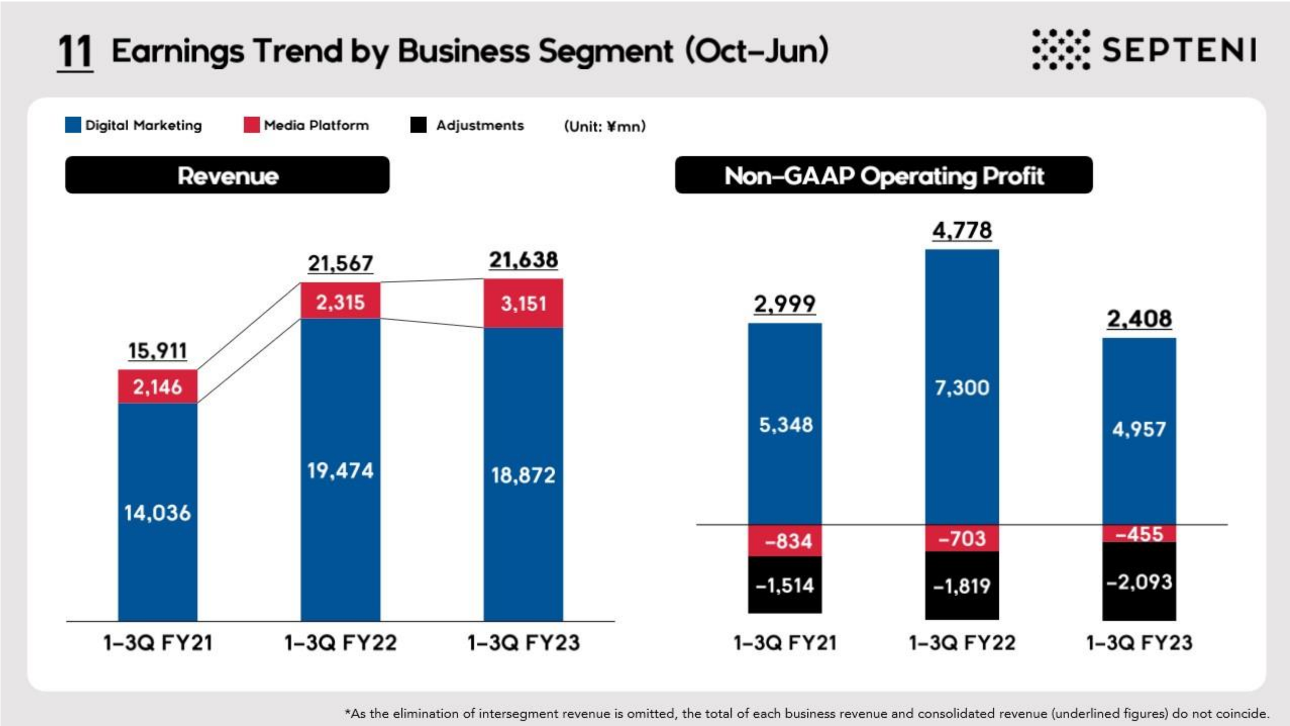
| (unit: ¥mn) | 1-3Q/FY2023 | | | 1-3Q/FY2022 | |
|---|---|---|---|---|---|
| | Value | Ratio | YoY | Value | Ratio |
| Revenue | 21,638 | 100.0% | +0.3% | 21,567 | 100.0% |
| Gross Profit | 16,414 | 75.9% | -4.4% | 17,162 | 79.6% |
| SG&A expenses | 14,077 | 65.1% | +12.5% | 12,515 | 58.0% |
| Non-GAAP operating profit | 2,408 | 11.1% | -49.6% | 4,778 | 22.2% |
| Operating profit | 2,285 | 10.6% | -48.9% | 4,474 | 20.8% |
| Financial income | 5 | 0.0% | -99.6% | 1,245 | 5.8% |
| Financial expenses | 237 | 1.1% | +3.8% | 229 | 1.1% |
| Equity in earnings of affiliates | 1,043 | 4.8% | +33.0% | 784 | 3.6% |
| Profit for the period attributable to owners of parent | 2,031 | 9.4% | -50.5% | 4,101 | 19.0% |
| Basic earnings per share (EPS) (¥) | 9.71 | — | -13.01 | 22.72 | — |
| [Reference] Net sales | 99,778 | — | +1.0% | 98,782 | — |

Page 10 is a breakdown of various consolidated P&L figures. Please look at this later.




This is the quarterly trend by business segment.

## 13 Consolidated Income Statement (Apr–Jun)

SEPTENI

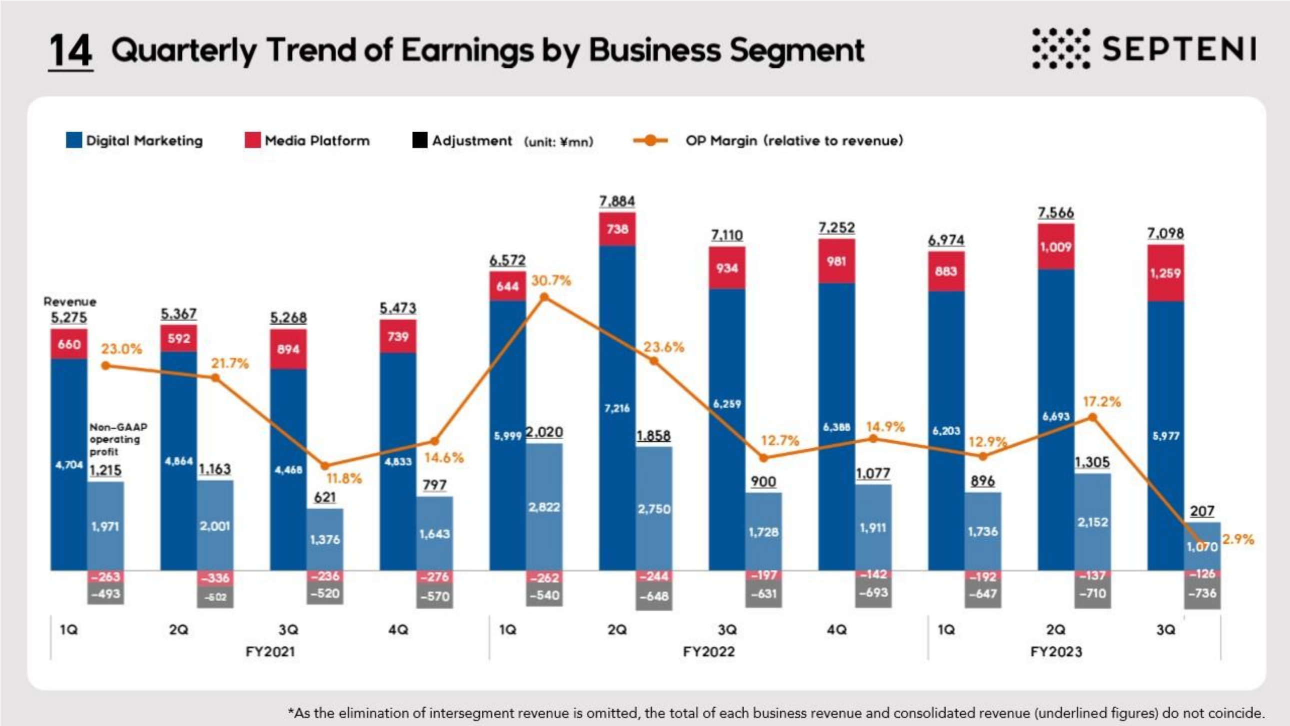
**Net sales increased YoY, and operating profit decreased due to an increase in SG&A expenses, mainly in human capital investment.**

| (unit: ¥mn) | 3Q/FY2023 | | | 3Q/FY2022 | |
|---|---|---|---|---|---|
| | Value | Ratio | YoY | Value | Ratio |
| Revenue | 7,098 | 100.0% | -0.2% | 7,110 | 100.0% |
| Gross Profit | 5,204 | 73.3% | -4.9% | 5,473 | 77.0% |
| SG&A expenses | 4,988 | 70.3% | +7.8% | 4,626 | 65.1% |
| Non-GAAP operating profit | 207 | 2.9% | -77.0% | 900 | 12.7% |
| Operating profit | 221 | 3.1% | -73.1% | 821 | 11.5% |
| Financial income | 5 | 0.1% | -99.5% | 858 | 12.1% |
| Financial expenses | 130 | 1.8% | -36.6% | 205 | 2.9% |
| Equity in earnings of affiliates | -75 | — | — | 216 | 3.0% |
| Profit for the period attributable to owners of parent | -125 | — | — | 1,044 | 14.7% |
| 【Reference】 Net sales | 32,871 | — | +3.3% | 31,836 | — |

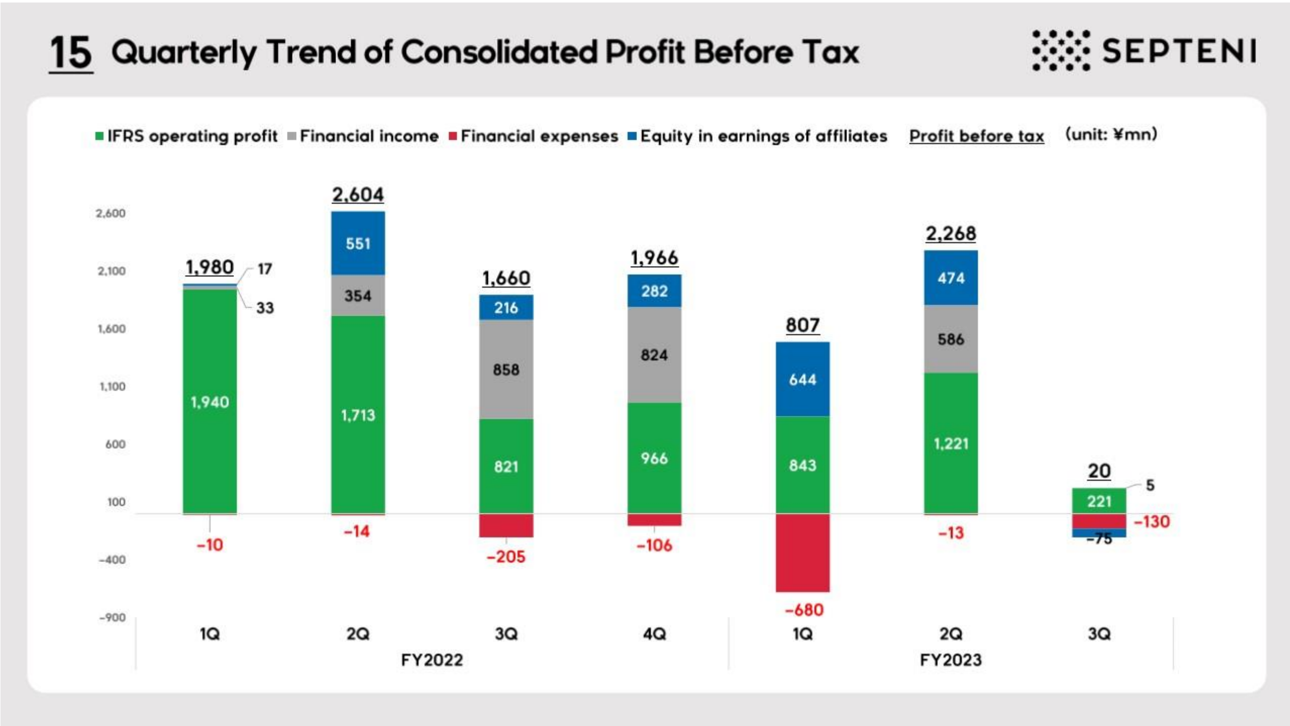
The following is a summary of the quarterly consolidated financial results for the current quarter of April to June.

Although there is almost no change from the cumulative results, net sales have turned around in this quarter compared to the previous year. This is because the volume of transactions is steadily increasing.

Human capital investment is also being channeled toward the Digital Marketing Business. As for SG&A expenses, they are increasing. As a result, we have lower profit.




The next page shows the quarterly trend of consolidated financial results, which are color-coded by segment.




Page 15 shows the breakdown of profit before taxes, including the profit/loss from investments and the equity in earnings of affiliates in the gradation.

## 16 Constitution of Consolidated Expenses (IFRS)

SEPTENI

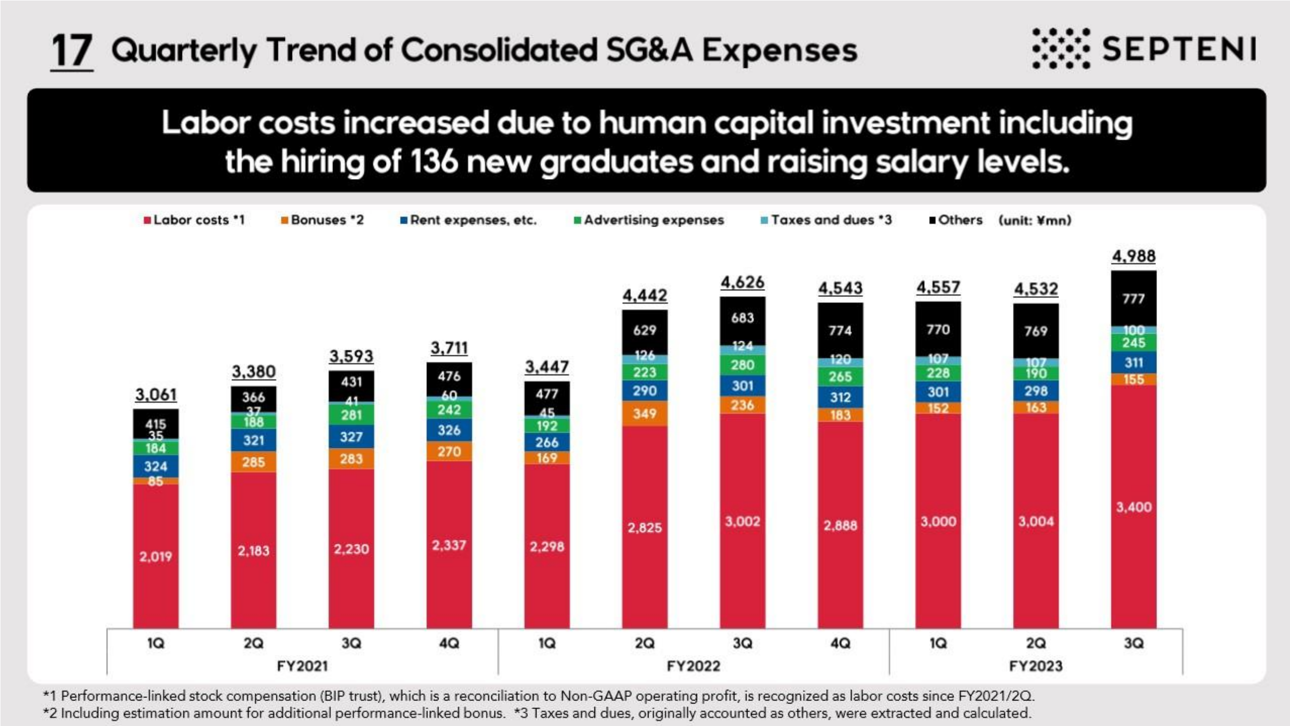
**Sales of e-books in the IP Platform Business were strong, resulting in increased other cost of sales.**

| (unit: ¥mn) | FY2021 1Q | FY2021 2Q | FY2021 3Q | FY2021 4Q | FY2022 1Q | FY2022 2Q | FY2022 3Q | FY2022 4Q | FY2023 1Q | FY2023 2Q | FY2023 3Q | QoQ | YoY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total of cost of sales** | **1,005** | **939** | **1,076** | **1,079** | **1,120** | **1,647** | **1,637** | **1,694** | **1,568** | **1,762** | **1,894** | +7.5% | +15.7% |
| Labor costs | 296 | 321 | 347 | 344 | 364 | 366 | 388 | 379 | 393 | 408 | 453 | +10.9% | +16.8% |
| Subcontract costs | 240 | 167 | 204 | 244 | 294 | 779 | 632 | 674 | 545 | 659 | 623 | -5.6% | -1.5% |
| Others | 468 | 451 | 525 | 491 | 462 | 503 | 617 | 641 | 631 | 695 | 819 | +17.9% | +32.6% |
| **Total of SG&A expenses** | **3,061** | **3,380** | **3,593** | **3,711** | **3,447** | **4,442** | **4,626** | **4,543** | **4,557** | **4,532** | **4,988** | +10.1% | +7.8% |
| Labor costs *1 | 2,019 | 2,183 | 2,230 | 2,337 | 2,298 | 2,825 | 3,002 | 2,888 | 3,000 | 3,004 | 3,400 | +13.2% | +13.3% |
| Employee bonuses *2 | 85 | 285 | 283 | 270 | 169 | 349 | 236 | 183 | 152 | 163 | 155 | -4.8% | -34.2% |
| Rent expenses etc. | 324 | 321 | 327 | 326 | 266 | 290 | 301 | 312 | 301 | 298 | 311 | +4.5% | +3.2% |
| Advertising expenses | 184 | 188 | 281 | 242 | 192 | 223 | 280 | 265 | 228 | 190 | 245 | +28.9% | -12.4% |
| Taxes and dues *3 | 35 | 37 | 41 | 60 | 45 | 126 | 124 | 120 | 107 | 107 | 100 | -7.3% | -20.0% |
| Others | 415 | 366 | 431 | 476 | 477 | 629 | 683 | 774 | 770 | 769 | 777 | +1.1% | +13.8% |

*1 Performance-linked stock compensation (BIP trust), which is a reconciliation to Non-GAAP operating profit, is recognized as labor costs since FY2021/2Q.
*2 Including estimation amount for additional performance-linked bonus.
*3 Taxes and dues, originally accounted as others, were extracted and calculated.

Page 16 is the part about the cost structure of the consolidation.

Especially due to the strong sales of e-books in the IP Platform Business, a business related to manga, animation, and other IP, other costs of sales are on an increasing trend.




Page 17 shows the quarterly trend of consolidated SG&A expenses, which increased significantly in this quarter. This is due to the seasonality of Q3, with new graduates joining the company in April, and a record 136 new employees joining our group this quarter.

We are also stepping up our investment in human capital, as we have previously announced, including raising salary levels as part of the revision of our human resource system. The implementation of the new system started in this Q3, and this had an impact on the QoQ and YoY figures, showing a large increase in labor costs.

On the other hand, as I mentioned in the revision of earnings forecasts on page 5, consolidated SG&A expenses have peaked at the current score. Therefore, from this point forward, we will review expenses other than core assets, and we are strongly promoting overall cost containment and reduction. We expect expenses to peak in Q3 and decrease thereafter.

## 19 Digital Marketing Business Earnings Overview

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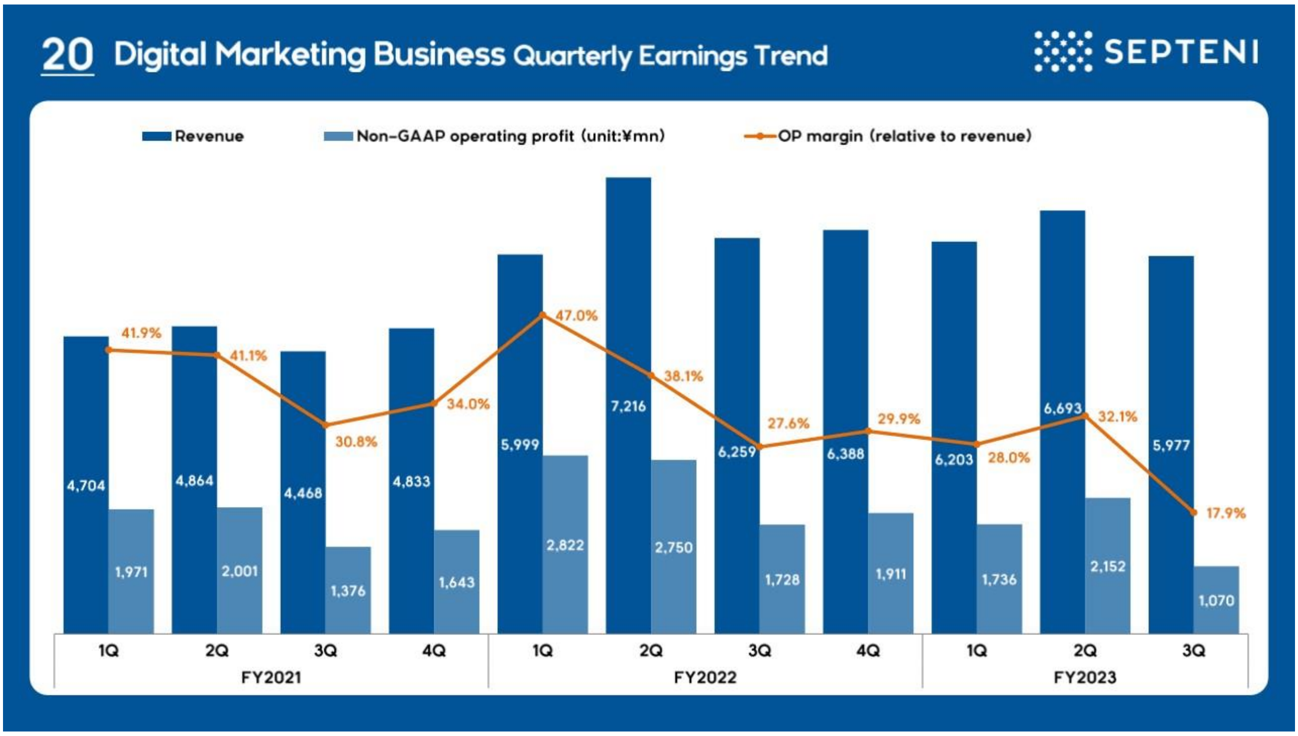
**Revenue declined due to budget cuts by some clients, and profit declined due to the strengthening of human capital investment.**

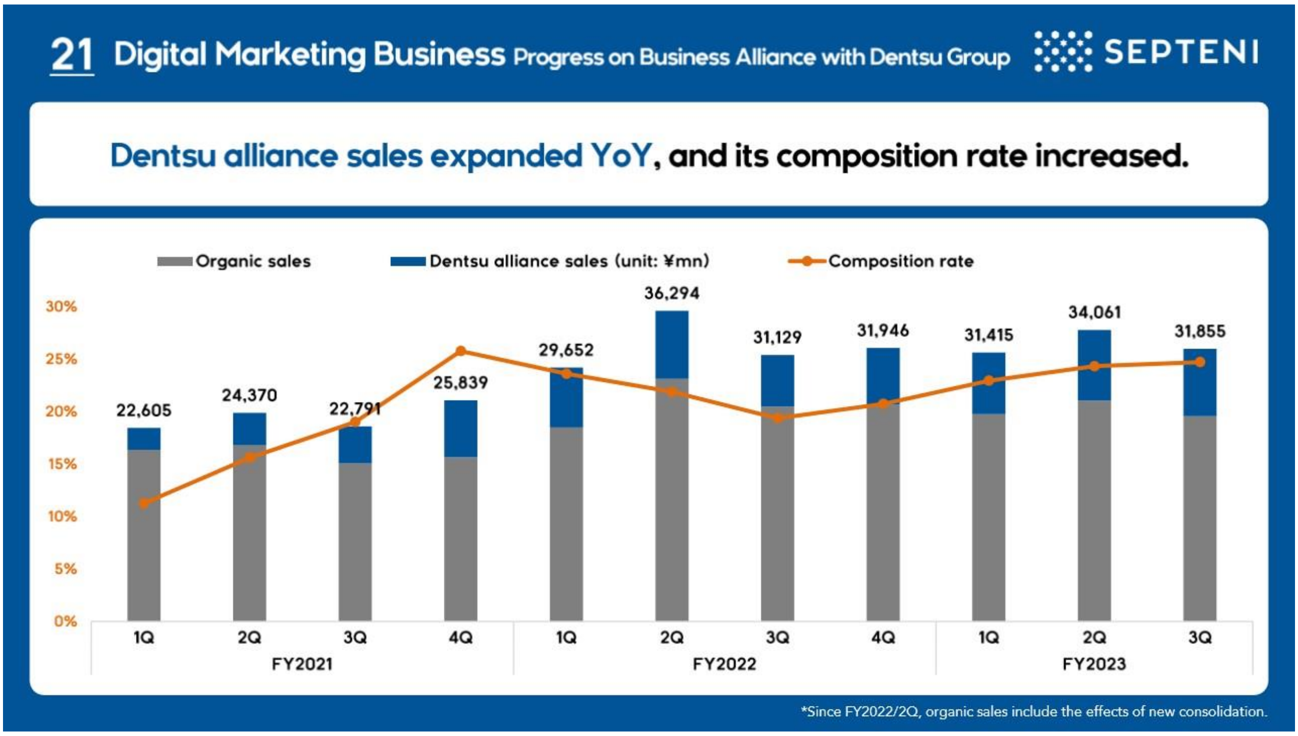
| (unit: ¥mn) | 3Q/FY2023 | | | 3Q/FY2022 | |
|---|---|---|---|---|---|
| | Value | Ratio | YoY | Value | Ratio |
| Revenue | 5,977 | 100.0% | -4.5% | 6,259 | 100.0% |
| Gross profit | 4,682 | 78.3% | -7.3% | 5,051 | 80.7% |
| SG&A expenses | 3,622 | 60.6% | +8.3% | 3,344 | 53.4% |
| Non-GAAP operating profit | 1,070 | 17.9% | -38.1% | 1,728 | 27.6% |
| 【Reference】 Net Sales | 31,855 | — | +2.3% | 31,129 | — |
| 【Reference】 Revenue/Net Sales | — | 18.8% | -1.3Pt | — | 20.1% |

Next, I would like to talk about the overview of business by segment.

This is the Digital Marketing Business, and the tone is generally the same as the consolidated financial results. In the Digital Marketing Business, revenue decreased due to the impact of reduced budgets of some clients, and expenses increased due to strengthened human capital investment.

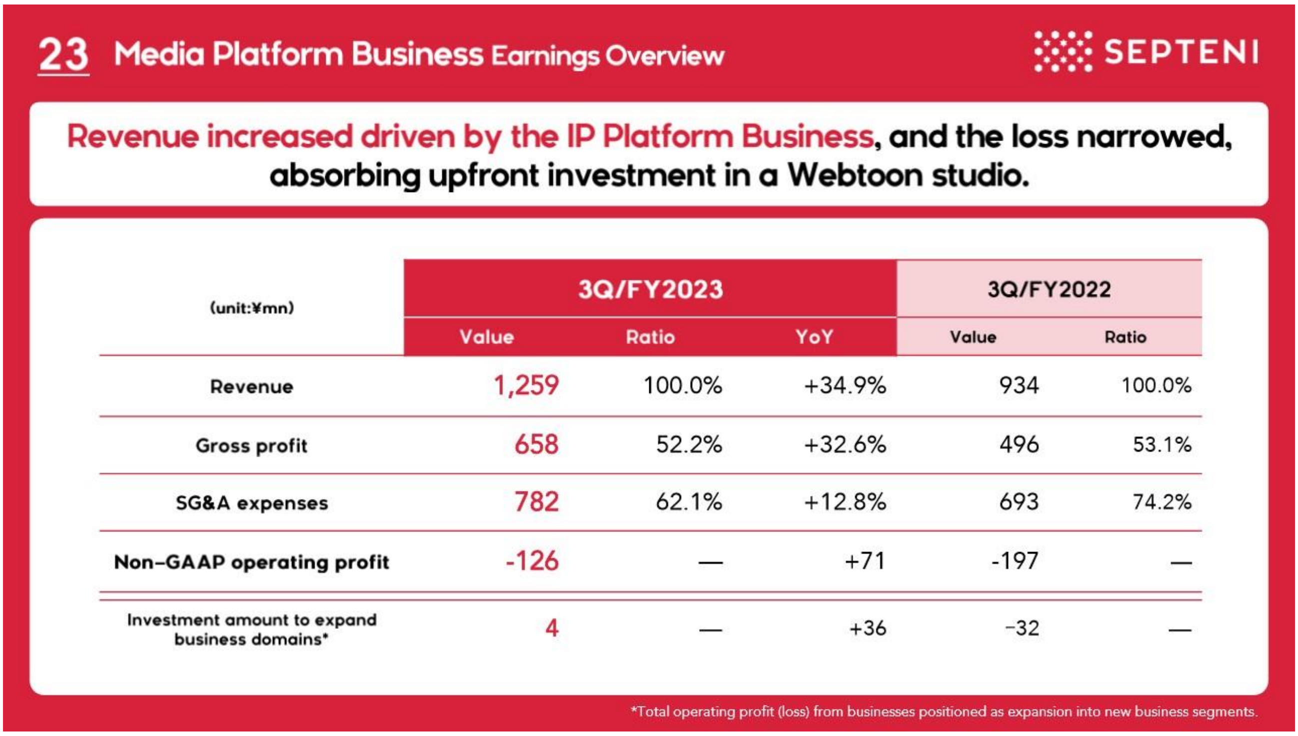



The next page shows quarterly trends.




Next is the progress of the business alliance with the Dentsu Group.

Dentsu cooperative sales have made steady progress and expanded YoY. The segment as a whole saw a decrease in revenue, and as a result, the current topic is that the Dentsu alliance composition rate is slightly increasing in the segment.



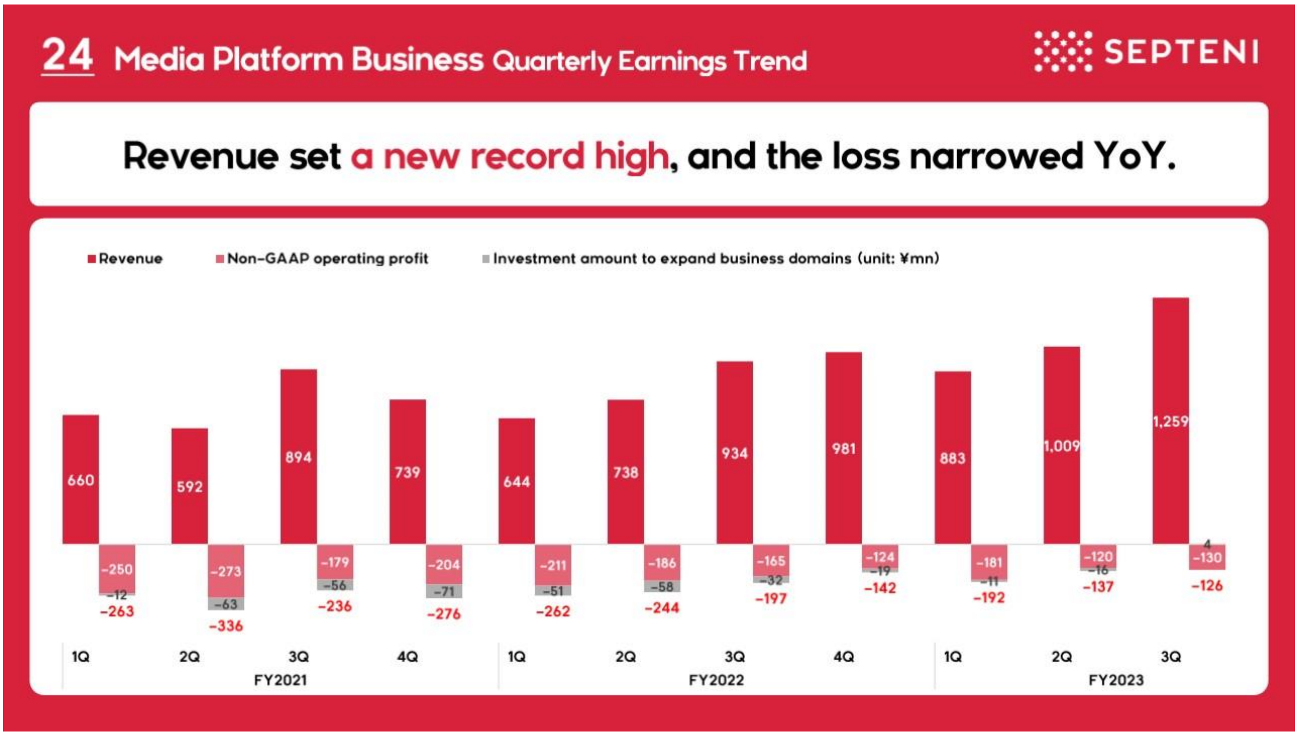

| (unit:¥mn) | 3Q/FY2023 | | | 3Q/FY2022 | |
|---|---|---|---|---|---|
| | Value | Ratio | YoY | Value | Ratio |
| Revenue | 1,259 | 100.0% | +34.9% | 934 | 100.0% |
| Gross profit | 658 | 52.2% | +32.6% | 496 | 53.1% |
| SG&A expenses | 782 | 62.1% | +12.8% | 693 | 74.2% |
| Non-GAAP operating profit | -126 | — | +71 | -197 | — |
| Investment amount to expand business domains* | 4 | — | +36 | −32 | — |

*Total operating profit (loss) from businesses positioned as expansion into new business segments.

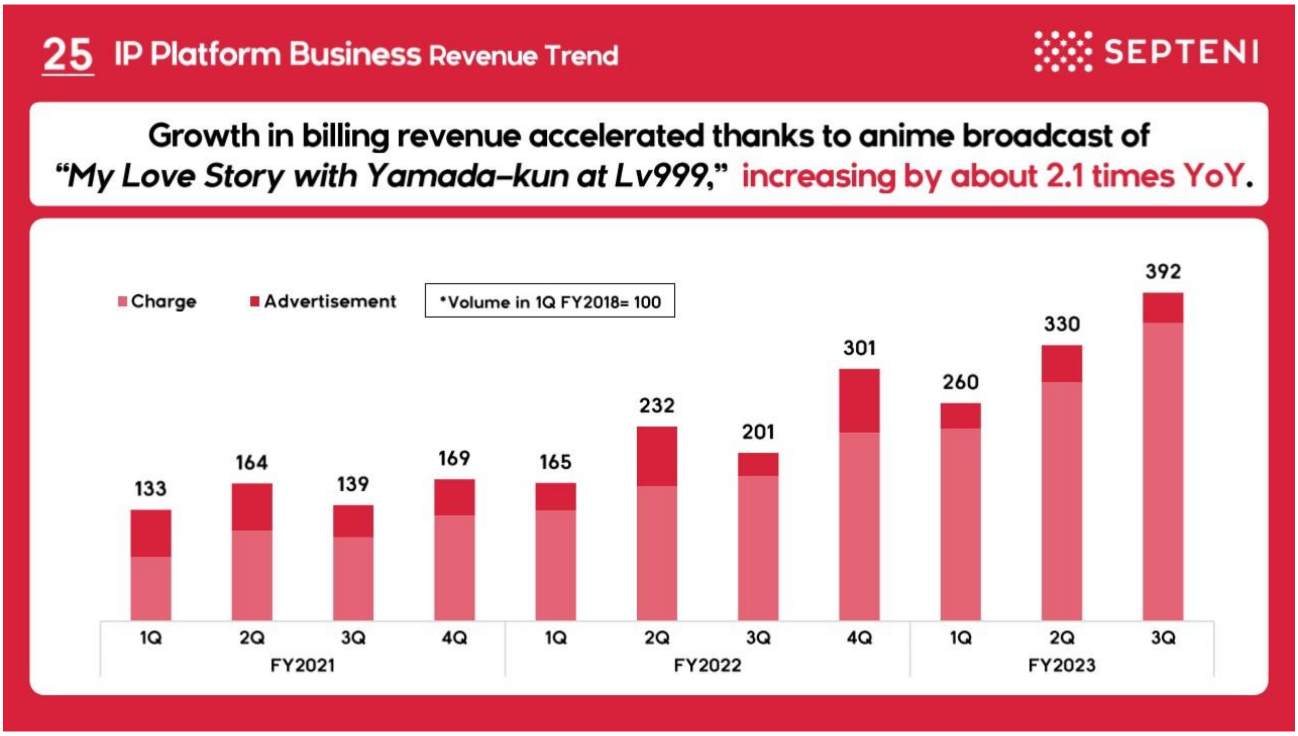
The following is an earnings overview of the Media Platform Business.

This revenue increase was driven by the IP Platform Business. On the other hand, in terms of investment, we have invested in webtoon, a vertical-reading, full-color content, and created a new studio in Fukuoka. There is an impact of an increase in upfront investment costs for the studio.

In addition, salary increases had a certain impact on this segment as well, resulting in a 12.8% increase in SG&A expenses compared to the previous year. On the other hand, the top line has been growing strongly, and as a result, the deficit has been shrinking in line with the plan.

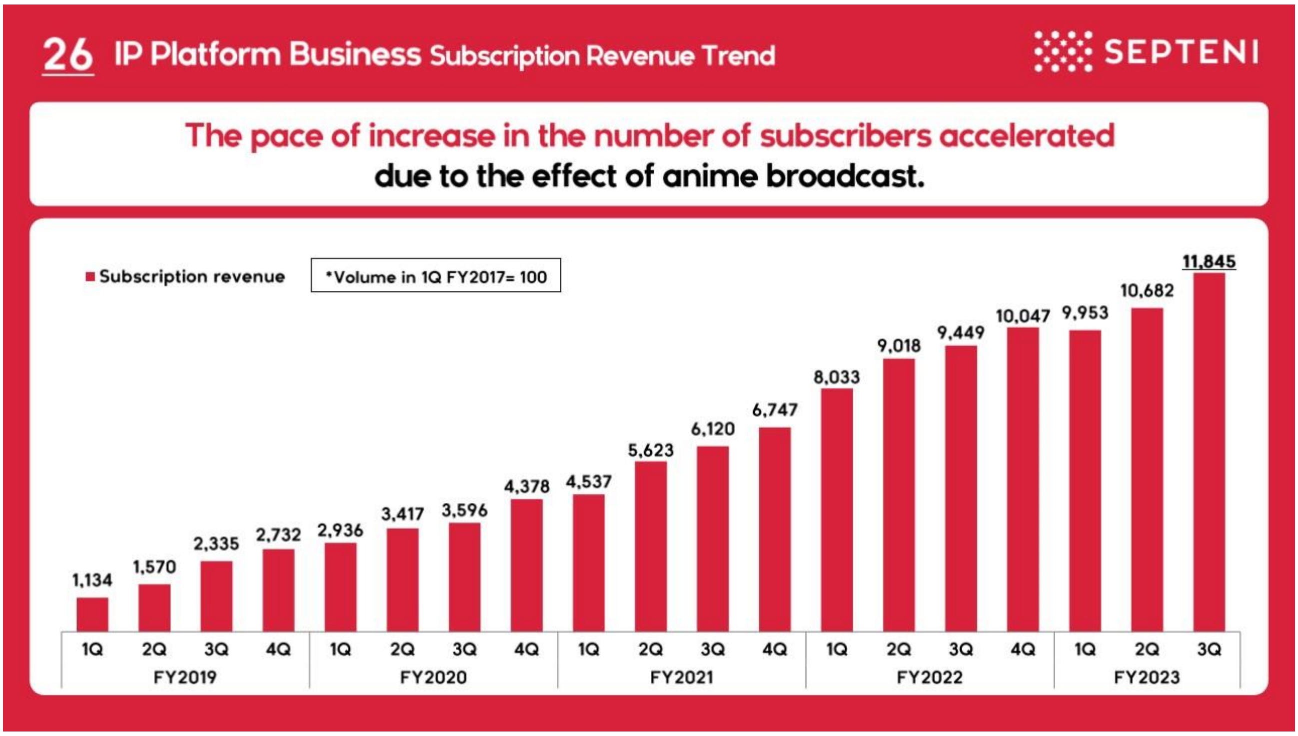



This is the quarterly earnings trend of the Media Platform Business. Revenue have reached a record high and the deficit has continued to narrow compared to the previous fiscal year.

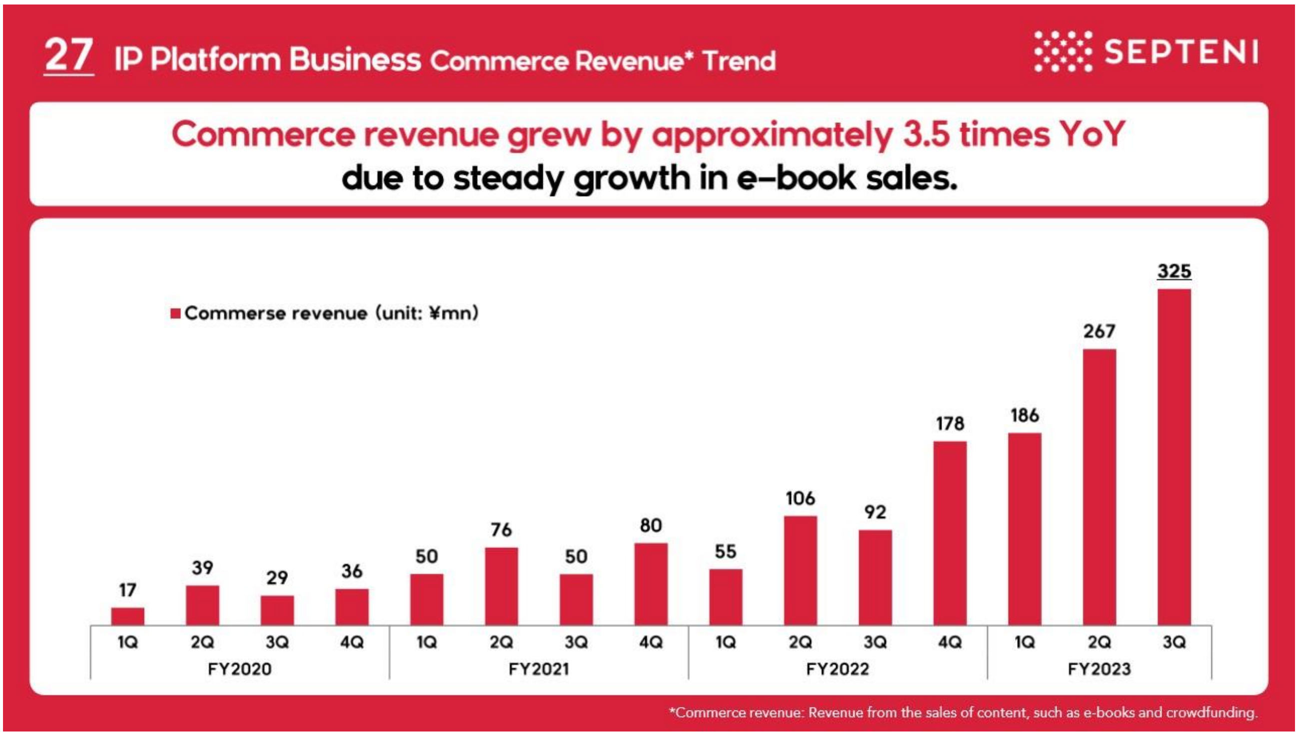



Page 25 shows the revenue trend of the IP Platform Business, which has also been growing at an accelerated pace and is now at a record high level. The animation of GANMA!'s main work, *My Love Story with Yamada-kun at Lv999* was broadcast from April to June this year.

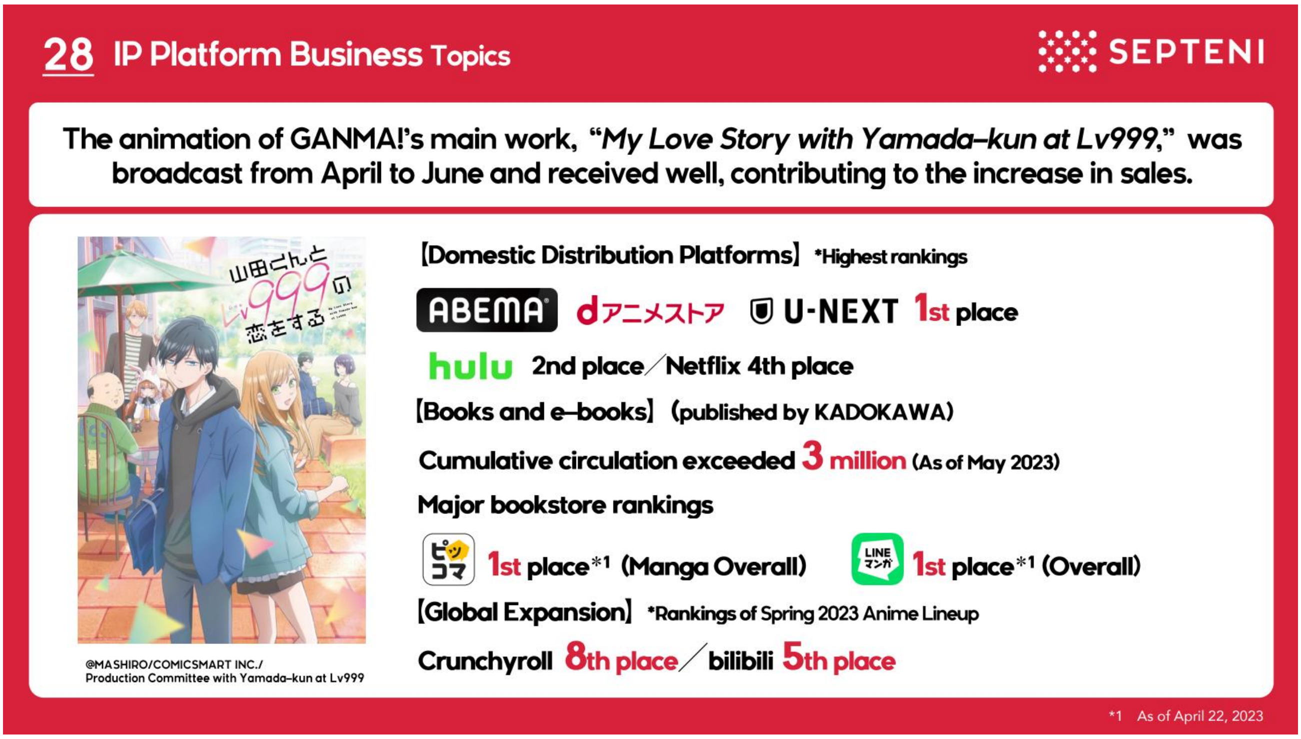
This anime broadcast has accelerated the growth of billing revenue. As a result, earnings growth was about 2.1 times that of the Q3 of the previous fiscal year, which means that the growth has become stronger.




Page 26 shows subscription revenue trends for the IP Platform Business. You can see that the number of users is increasing at an accelerating pace due to the effect of the anime broadcast as well.




Page 27 is about the IP Platform Business, primarily the area of commerce revenue, i.e., e-book sales. This area is likewise growing steadily and has reached a record high in revenue. Compared to the previous fiscal year, the pace of growth has become considerably stronger, at approximately 3.5 times the level of the previous fiscal year.



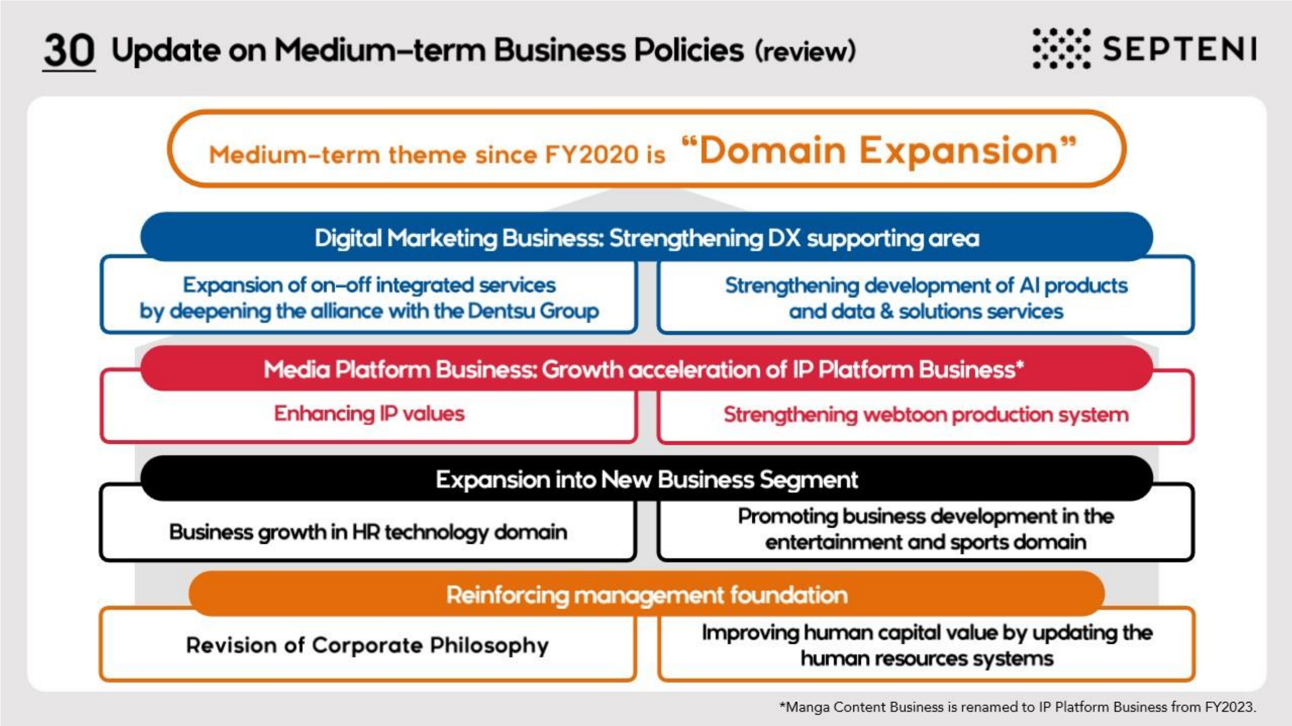

The next topic in the IP Platform Business is the spring animation of GANMA!'s main work, *My Love Story with Yamada-kun at Lv999* which was broadcast from April to June this year.

The response has been very positive, contributing greatly to the increase in revenue.

Several distribution results are listed, and this is ranked number one or high in the major domestic distribution platforms in Japan. Sales of e-books of the book have also been increasing steadily, with the total number of copies sold surpassing 3 million as of the end of May and are growing even more. The book is also ranked first in major e-bookstores and has received very positive reviews.

In addition, the anime is being distributed in almost real time overseas as well and is performing very well on major overseas platforms such as Crunchyroll and bilibili, respectively. The fan base of our IP is spreading not only in Japan but also around the world, and we are making great achievements as a foundation for overseas expansion of our business.

This is the overview of each business segment and its topics.




Finally, as I explained at the beginning, I would like to reiterate our progress toward the earnings forecast. This is a reprint of an update on our medium-term business policies.

As a medium-term theme since FY2020, we have been expanding domains in each segment and also actively investing in human capital in order to strengthen our management foundation. We expect to increase our business value and contribute to our customers by improving the value of our human capital.

**31 Revisions to Earnings Forecasts (Consolidated) (review)** SEPTENI

**Lowered earnings forecasts due to changes in the external environment in the Digital Marketing Business.**

| (unit: ¥mn) | Revenue | Non-GAAP operating profit | Profit attributable to owners of parent | Basic earnings per share (EPS) (¥) |
|---|---|---|---|---|
| Prior forecast (A) | 42,500 | 7,500 | 5,950 | 28.42 |
| Revised forecast (B) | 36,700 | 4,200 | 3,650 | 17.53 |
| Change (B-A) | -5,800 | -3,300 | -2,300 | |
| Change (%) | -13.6 | -44.0 | -38.7 | |
| (Reference) Results for the previous fiscal year (FY2022) | 28,819 | 5,855 | 5,734 | 30.54 |

Page 31 is also a reprint of the revised guidance and downward revision of the earnings forecast.

## 32 Revisions to Earnings Forecasts (By Business Segment)

SEPTENI

(unit: ¥mn)

| | Revenue | | | Non-GAAP operating profit | | |
|---|---|---|---|---|---|---|
| | Prior forecast | Revised forecast | Change (%) | Prior forecast | Revised forecast | Change (%) |
| Digital Marketing Business | 36,250 | 31,100 | -14.2 | 11,500 | 8,250 | -28.3 |
| Media Platform Business | 6,800 | 6,300 | -7.4 | -500 | -550 | (-50) |
| Eliminations/ Corporate | -550 | -700 | - | -3,500 | -3,500 | - |
| Consolidated | 42,500 | 36,700 | -13.6 | 7,500 | 4,200 | -44.0 |

These are the segment values of the revised forecast. The downward revision in the Digital Marketing Business is relatively larger than the initial forecast due to the impact of changes in the business environment.

## 33 Progress toward Earnings Estimates (Consolidated, 15-month period)

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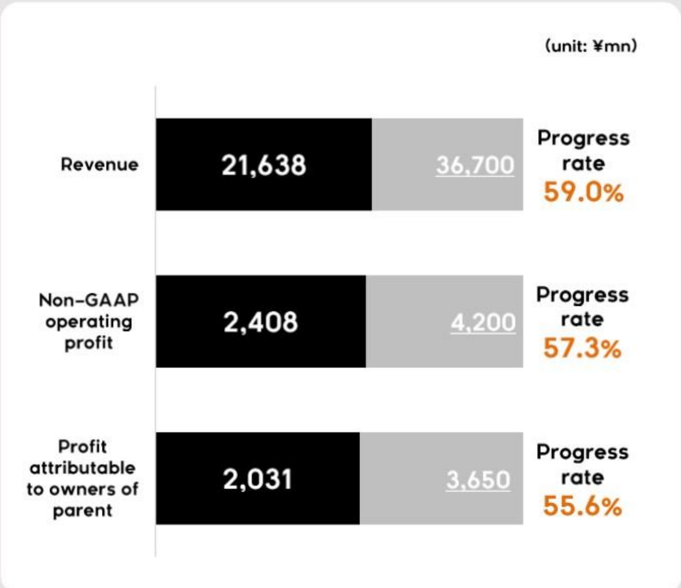
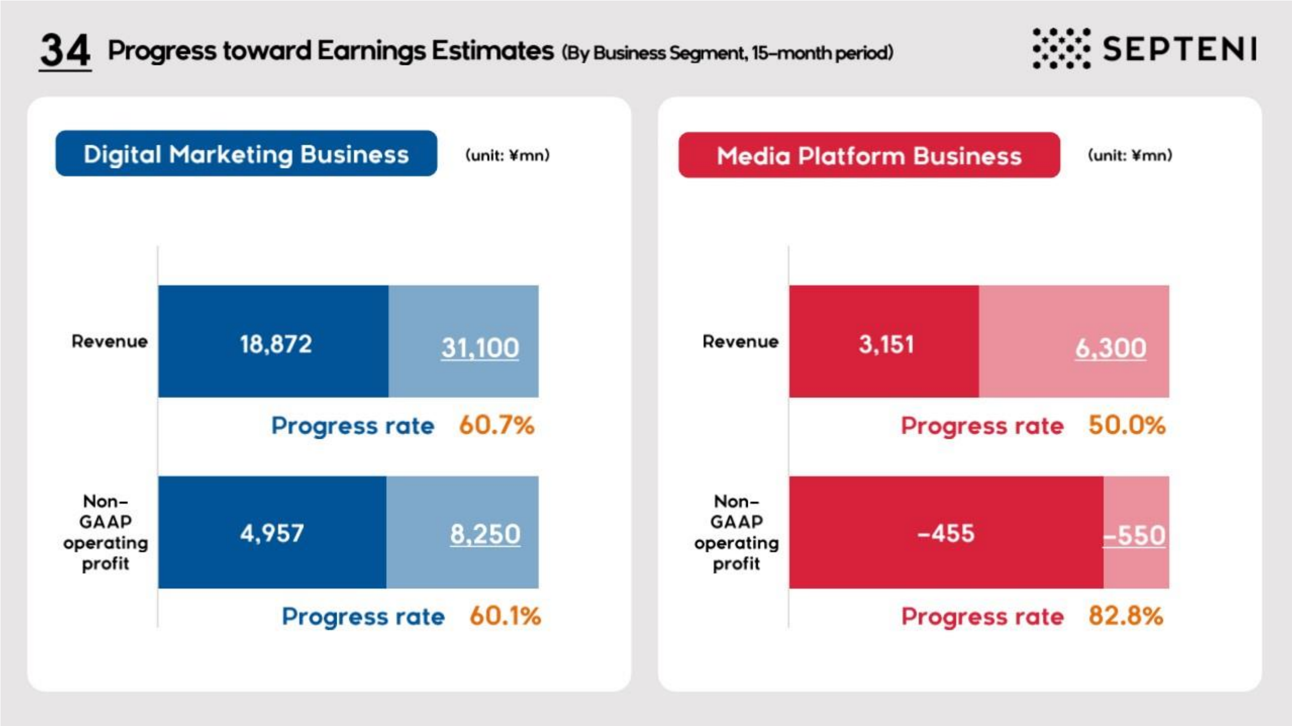



| | 1-3Q/ FY2023 | Full-year forecast |
|---|---|---|
| EPS(¥) | 9.71 | 17.53 |

| *Reference | 1-3Q/ FY2023 | 1-3Q/ FY2022 |
|---|---|---|
| EPS(¥) | 9.71 | 22.72 |
| Profit attributable to owners of parent(¥mn) | 2,031 | 4,101 |
| Average number of shares outstanding (1,000 shares) | 209,073 | 180,497 |

Page 33 is the progress against the revised forecast for an irregular 15-month, five-quarter accounting period of this fiscal year. We have just completed three of the five quarters, with two quarters remaining.

Please check the figures shown here for progress in each of the financial indicators.




Page 34 is also about progress by segment.

This is the end of my brief explanation.

We look forward to your continued support of our group.

Thank you very much for your attention.

[END]

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***Document Notes***

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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