



Septeni Holdings Co., Ltd.

FY2023 3rd Quarter Financial Results Briefing

August 8, 2023

Event Summary

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[Participants]		
[Number of Speakers]	3	
	Koki Sato	Group President and Chief Executive Officer
	Kei Hatano	Group Senior Executive Officer
	Tei Go	Group Executive Officer

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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.

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04 Revisions to Earnings Forecasts (Consolidated)



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.

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05 Current situation



Changes in the external environment

- Demand trends and the business environment has significantly changed due to reopening
- Negative impact in the Digital Marketing Business has become evident

Measures for adaptation to the environment

- Review client portfolio
- Strengthen acquisition of new clients
- Strengthen human capital investment for medium-term growth
- Review costs other than human capital investment

Outlook

- Top line is expected to grow toward 4Q
- SG&A expenses is expected to decline after peaking in 3Q

➡ **Revisions to earnings forecasts have been made** due to divergences from the initial forecasts. Meanwhile, we have confirmed that the implementation of various measures has begun to lead to **a turnaround in business results**. In the revised estimates, we expect **an increase in revenue in 4Q and an increase in profit in 5Q**.

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

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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



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	+6.1%	-4.0%	-0.2%	Revenue turnaround	Double-digit growth		Revenue 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.

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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.

08 Cumulative Third Quarter (Oct–Jun) Earnings Highlights (Consolidated)		SEPTENI
Consolidated	Revenue remained almost flat from the previous fiscal year. Profit decreased due to increased expenses mainly from the strengthening of human capital investment.	
	Revenue	¥21,638mn (YoY +0.3%)
	Non-GAAP Operating Profit	¥2,408mn (YoY –49.6%)
	EPS	¥9.71 (YoY –¥13.01)

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.

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**Digital
Marketing
Business**

While acquisition of new clients has steadily progressed, revenue and profit declined due to budget cuts by some clients.

Revenue **¥18,872mn** (YoY-3.1%) Non-GAAP Operating Profit **¥4,957mn** (YoY-32.1%)

**Media
Platform
Business**

Continued high growth in the IP Platform Business resulted in a YoY revenue increase and a smaller loss.

Revenue **¥3,151mn** (YoY +36.1%) Non-GAAP Operating Profit **-¥455mn** (Deficit narrowed YoY ¥247mn)
Including investment in new segments of -¥24 mn

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.

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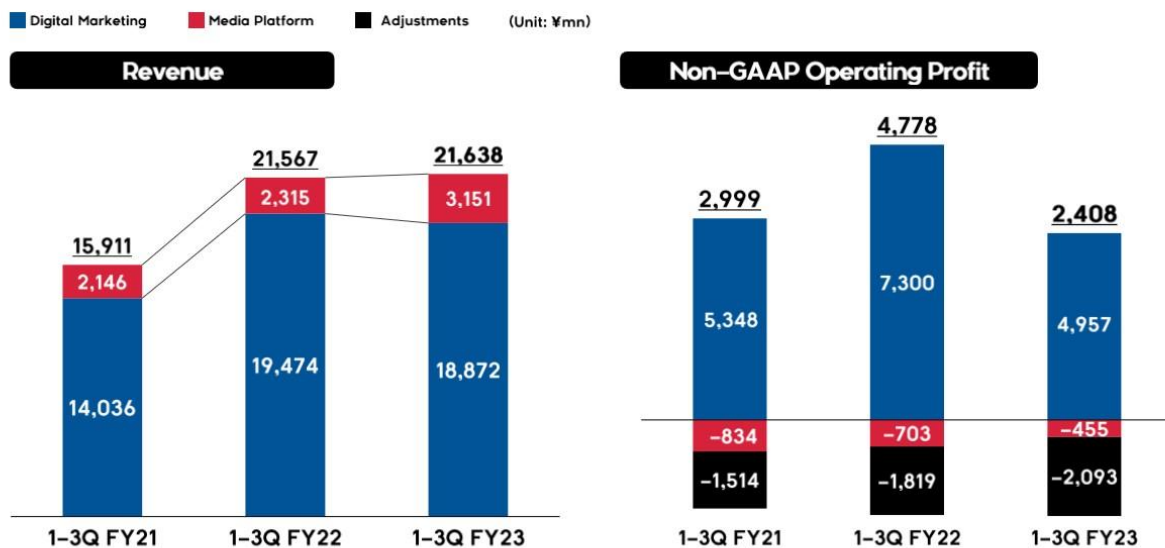
10 Consolidated Income Statement (Oct-Jun)



(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.

11 Earnings Trend by Business Segment (Oct-Jun)



*As the elimination of intersegment revenue is omitted, the total of each business revenue and consolidated revenue (underlined figures) do not coincide.

This is the quarterly trend by business segment.

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13 Consolidated Income Statement (Apr–Jun)



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.

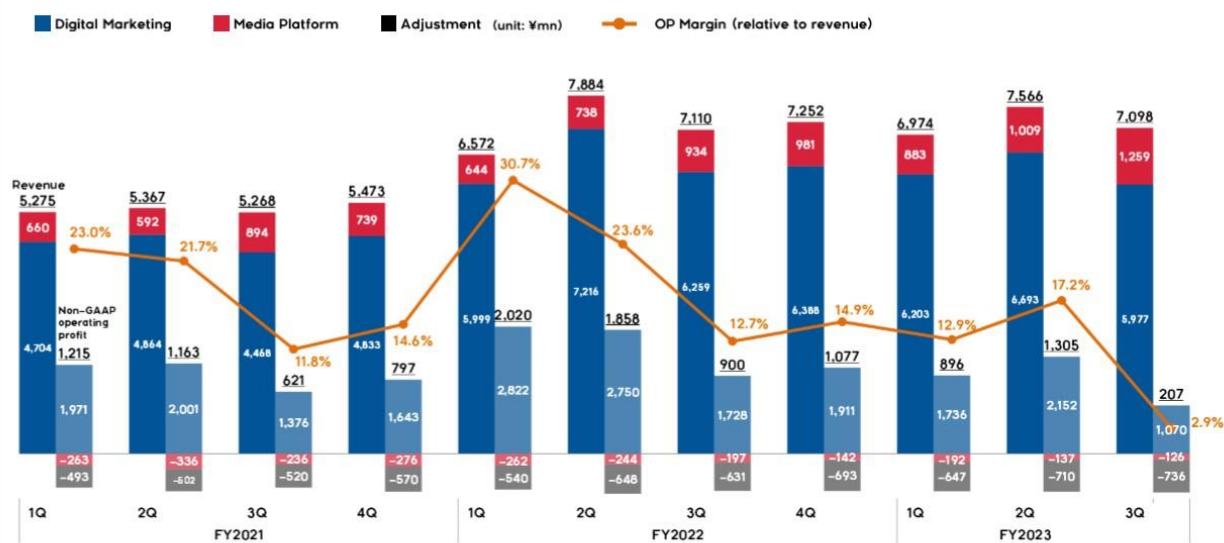
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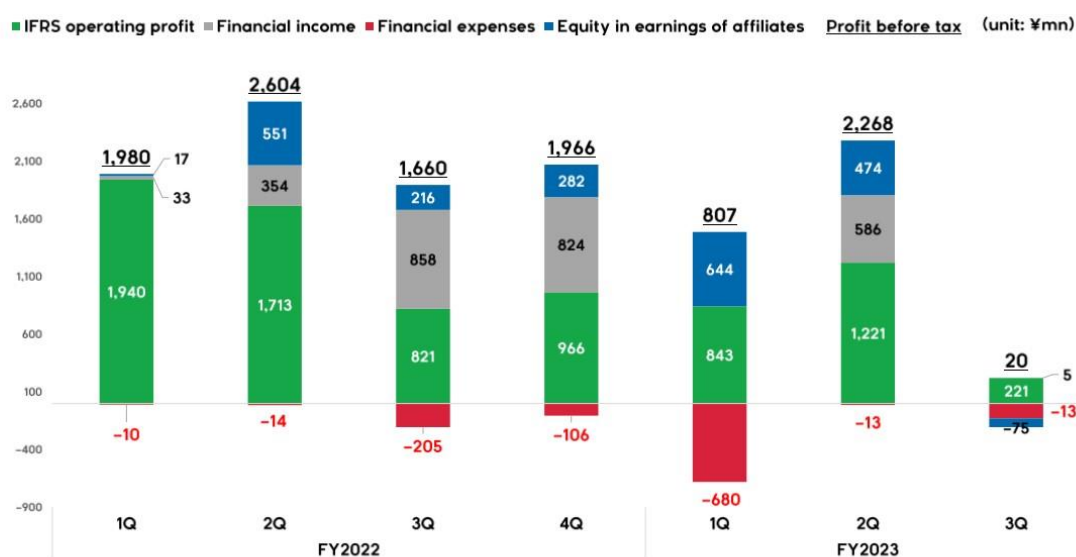
14 Quarterly Trend of Earnings by Business Segment



*As the elimination of intersegment revenue is omitted, the total of each business revenue and consolidated revenue (underlined figures) do not coincide.

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

15 Quarterly Trend of Consolidated Profit Before Tax



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.

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16 Constitution of Consolidated Expenses (IFRS)

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

(unit: ¥mn)	FY2021				FY2022				FY2023			QoQ	YoY
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
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.

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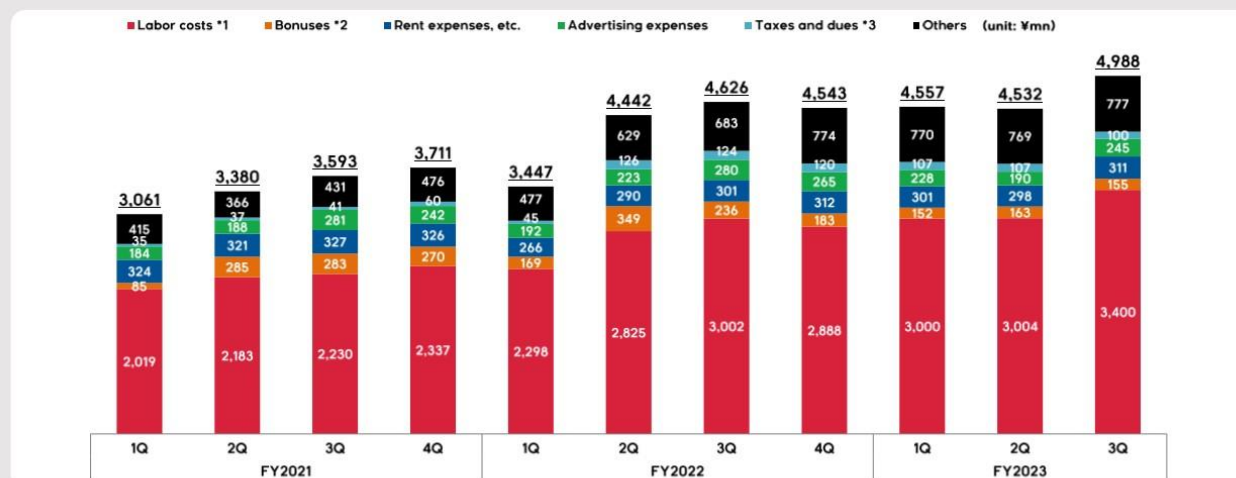
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17 Quarterly Trend of Consolidated SG&A Expenses



Labor costs increased due to human capital investment including the hiring of 136 new graduates and raising salary levels.



*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 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.

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19 Digital Marketing Business Earnings Overview



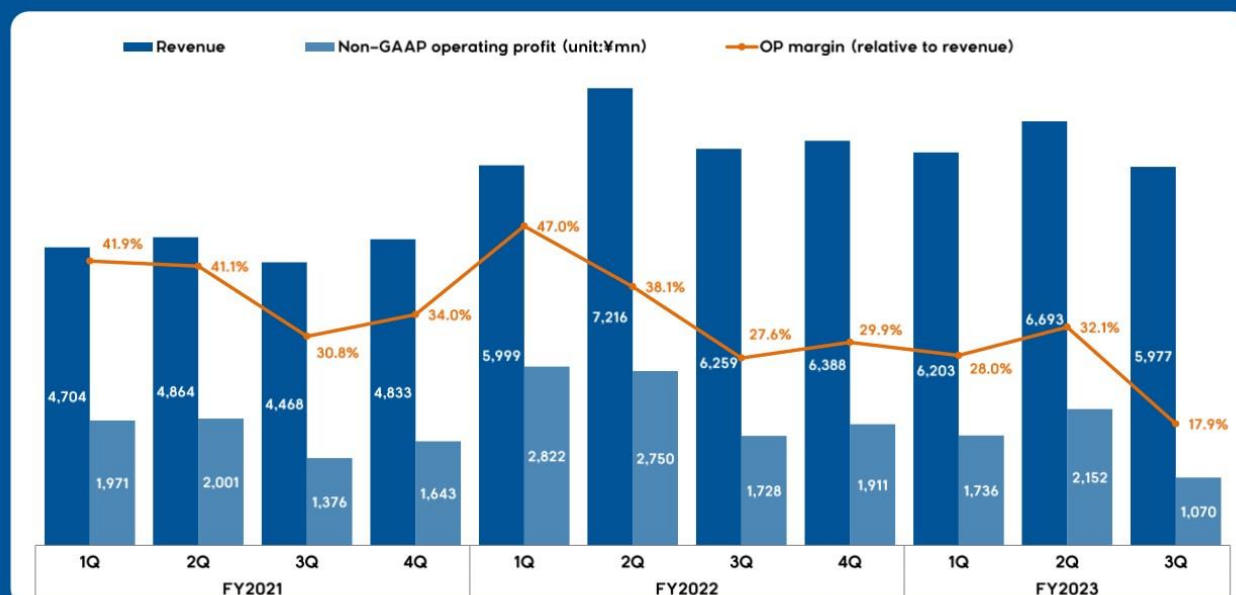
**Revenue declined due to budget cuts by some clients,
and profit declined due to the strengthening of human capital investment.**

(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.

20 Digital Marketing Business Quarterly Earnings Trend



The next page shows quarterly trends.

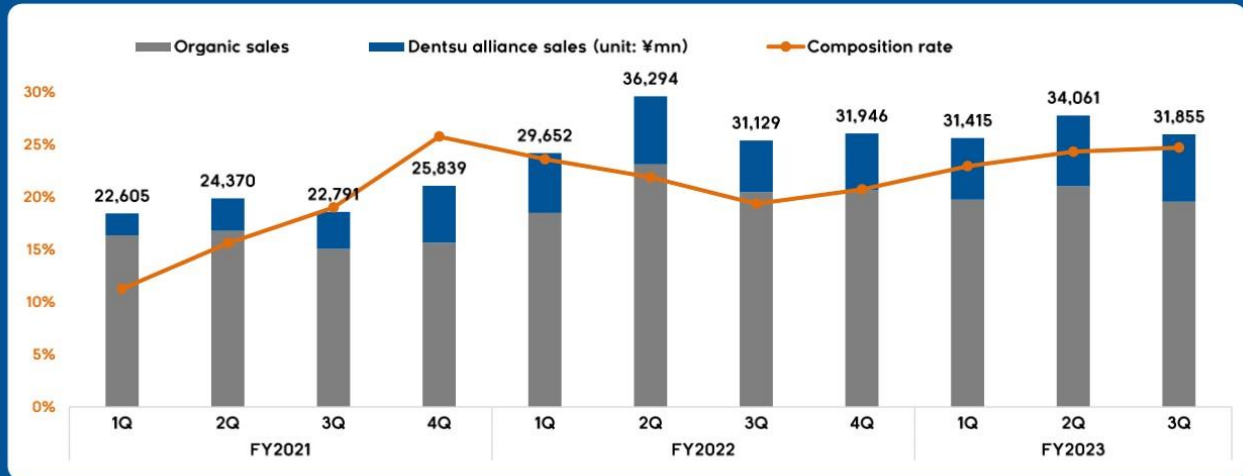
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Dentsu alliance sales expanded YoY, and its composition rate increased.



*Since FY2022/2Q, organic sales include the effects of new consolidation.

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.

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23 Media Platform Business Earnings Overview



Revenue increased driven by the IP Platform Business, and the loss narrowed, absorbing upfront investment in a Webtoon studio.

(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.

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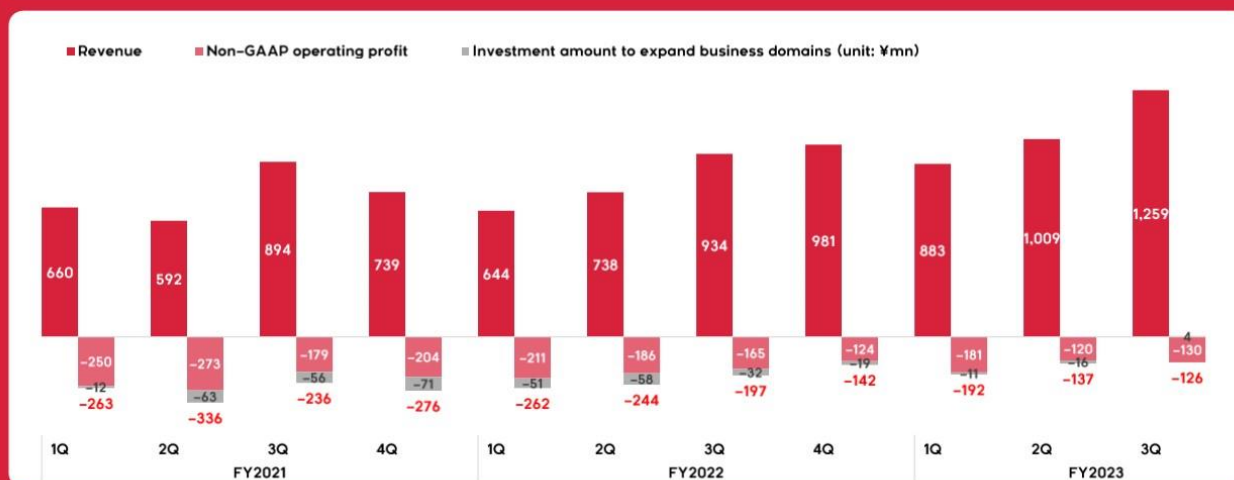
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24 Media Platform Business Quarterly Earnings Trend



Revenue set a new record high, and the loss narrowed YoY.



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.

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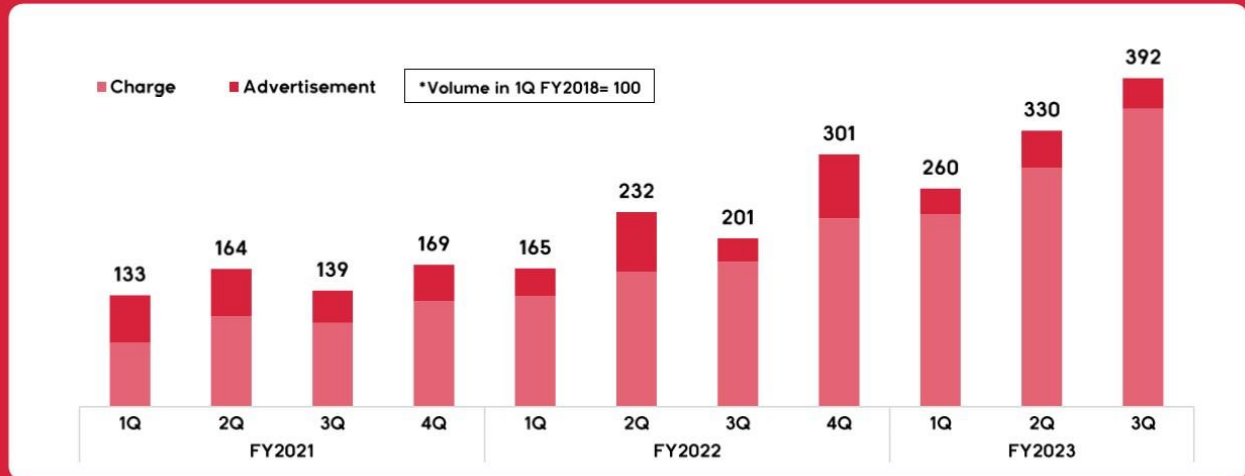
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25 IP Platform Business Revenue Trend



Growth in billing revenue accelerated thanks to anime broadcast of *"My Love Story with Yamada-kun at Lv999,"* increasing by about 2.1 times YoY.



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.

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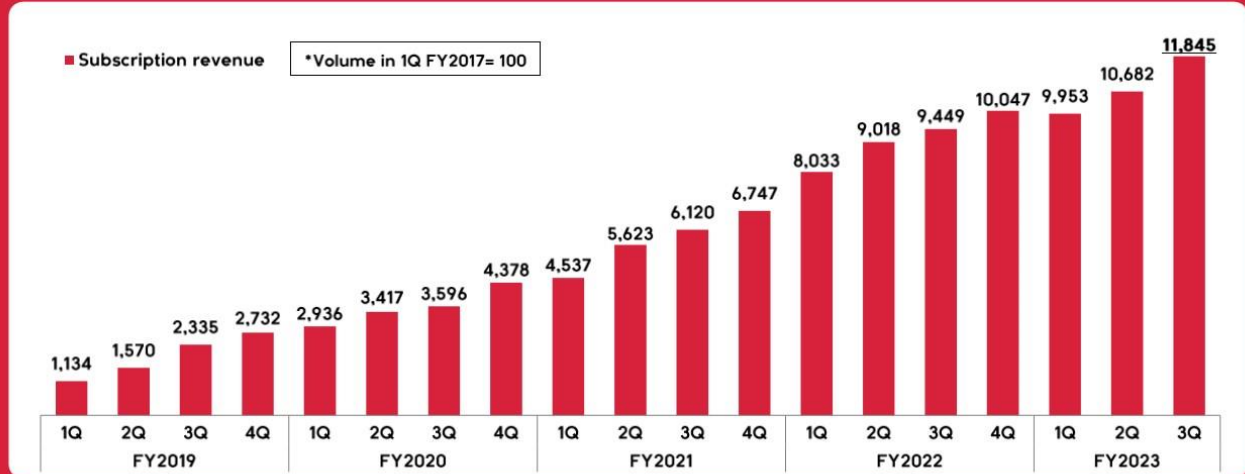
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26 IP Platform Business Subscription Revenue Trend



The pace of increase in the number of subscribers accelerated due to the effect of anime broadcast.

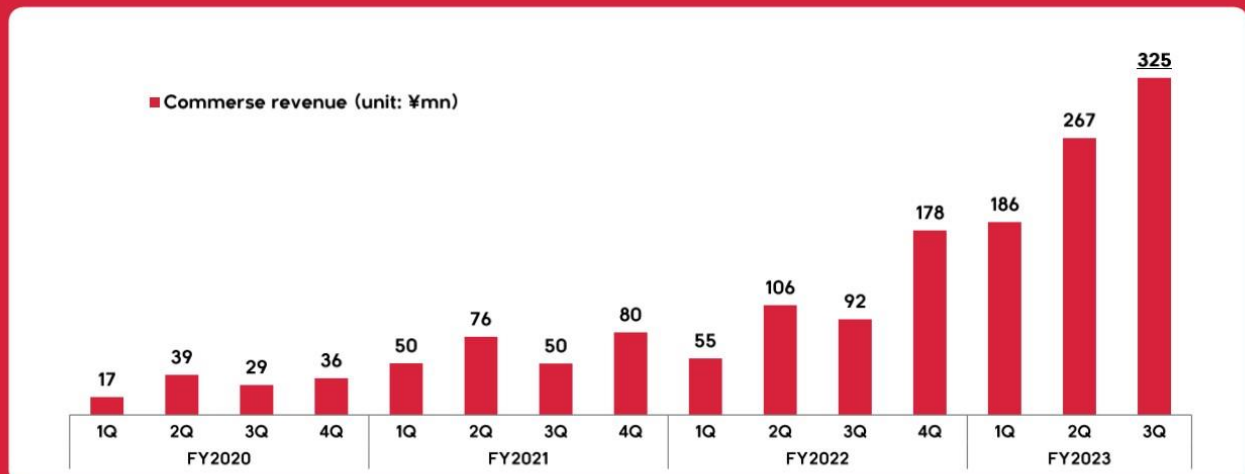


Page 26 shows subscription revenue trends for the IP Platform Business. You can see that the number of users is increasing at an accelerating pace due to the effect of the anime broadcast as well.

27 IP Platform Business Commerce Revenue* Trend



Commerce revenue grew by approximately 3.5 times YoY due to steady growth in e-book sales.



*Commerce revenue: Revenue from the sales of content, such as e-books and crowdfunding.

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.

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The animation of GANMA!'s main work, "My Love Story with Yamada-kun at Lv999," was broadcast from April to June and received well, contributing to the increase in sales.



©MASHIRO/COMICSMAST INC./
Production Committee with Yamada-kun at Lv999

[Domestic Distribution Platforms] *Highest rankings

ABEMA **アニメストア** **U-NEXT** **1st place**

hulu 2nd place / Netflix 4th place

[Books and e-books] (published by KADOKAWA)

Cumulative circulation exceeded **3 million** (As of May 2023)

Major bookstore rankings



1st place*1 (Manga Overall)



1st place*1 (Overall)

[Global Expansion] *Rankings of Spring 2023 Anime Lineup

Crunchyroll **8th place** / **bilibili** **5th place**

*1 As of April 22, 2023

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.

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30 Update on Medium-term Business Policies (review)



Medium-term theme since FY2020 is **“Domain Expansion”**



*Manga Content Business is renamed to IP Platform Business from FY2023.

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)



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.

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32 Revisions to Earnings Forecasts (By Business Segment)



(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)



		(unit: ¥mn)	
Revenue	21,638	36,700	Progress rate 59.0%
Non-GAAP operating profit	2,408	4,200	Progress rate 57.3%
Profit attributable to owners of parent	2,031	3,650	Progress rate 55.6%

	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.

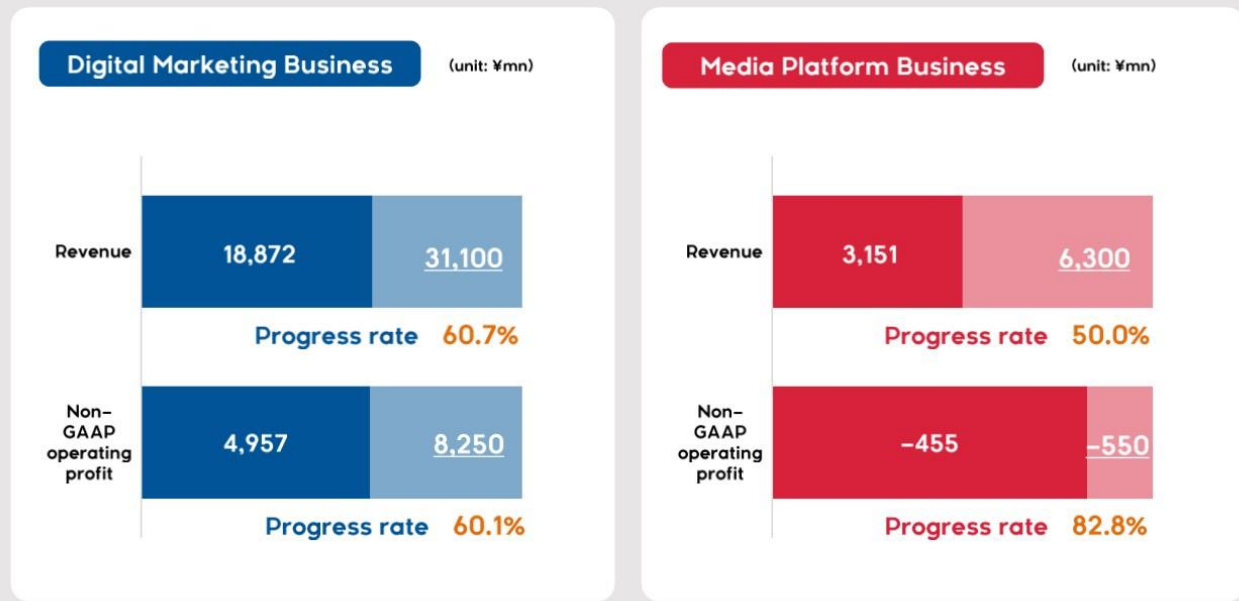
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34 Progress toward Earnings Estimates (By Business Segment, 15-month period)



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]

Document Notes

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