

Strategies

The Group President and Chief Executive Officer on Strategy



Koki Sato
Representative Director and President, SEPTENI HOLDINGS CO., LTD.
Group President and Chief Executive Officer

1997

Entered SEPTENI HOLDINGS CO., LTD. (then-named SUB & LIMINAL CO., LTD.) after graduating from university
Launched an Internet advertising agency in his third year after joining the Company, developing it as a new business manager into one of Japan's top Internet advertising companies

2006

Appointed as President and Representative Director of the operating company SEPTENI CO., LTD. with the transition to a holding company structure

2009

Appointed as Representative Director and President of SEPTENI HOLDINGS CO., LTD. (current position)

2017

Appointed as Group President and Chief Executive Officer (current position) following the introduction of an entrusted executive officer system

By applying our unique human resource development strategy to entrepreneurial human resources, we continue to create outstanding businesses that empower both people and industry.

Riding the Great Wave of Social Change to Further Growth

In 2000, the Septeni Group shifted the focus of its business from direct marketing to Internet advertising. Even then, we were convinced that the Internet and digital technology were not short-term fads, but major industries that would change the world in the long run. We have since grown into an organization with more than 30 Group companies, 11 bases in 8 countries and about 1,500 employees centered on the Internet Marketing Business, with a track record of one of the highest levels of transactions in Japan, and the Media Content Business, which includes the Manga Content Business.

Over the past 18 years, we have seen the advent of a new industrial revolution due to digital technology, and society has undergone a rapid digital shift. During that time, we quickly identified and adapted to society's emerging trends and growth areas, including smartphone, social media and video advertising, and have grown by flexibly reallocating management resources. In other words, changes in society and our own progress have largely followed the same track.

Society is now at the dawn of the Digital Industrial Revolution, which is certain to drastically change society's vision by connecting the real space we live in with every industry, including e-mobility, medical care and retail stores. As a key player in the digital advertising market, the Septeni Group intends to grow further by riding this great wave of social change.

Empowering People and Industry Is Our Reason for Existence

For companies like ours that are involved with Internet advertising and media content, investors may find it hard to imagine how the items on our balance sheet lead to profits. I believe that the most important element linking the Group's balance sheet to its sales and profits is human capital. Based on this belief, we have been proactively investing in people who possess a good sense of ownership and a strong entrepreneurial spirit. By placing entrepreneurial individuals who can think and act for themselves at the core of each of our organizations and establishing an environment and systems that make it easy for them to create new services, we aim to be a group that can take the lead in social change. This is the Group's philosophy and the nucleus around which the unique Septeni culture has formed.

The low average age of our employees, 29, is another major strength of our human resources. To provide our clients with the value of the unique strengths of a group of young people – including adaptability to change and flexible thinking – we promote young talent and decisively delegate authority.

In addition, to bolster our activities in the fields of recruitment, development and management, we operate an AI-based personnel system centered on machine learning that we developed in-house. The rapid development of human resources into fully contributing members of the team from the use of this system and the resulting contribution to sales and profits are evidenced by our data.

Our unique philosophy and culture centered on young people and our AI-based personnel system are the “operating system” of the Group, serving as the infrastructure that supports its growth. All of us in management share an awareness that it is because of this infrastructure that we are able to create superior businesses, or “applications,” as it were.

The common strength of the Group’s businesses is empowering people and industry. It is also the essential value we create. Employees, each with a strong entrepreneurial spirit, creating businesses that empower people and ultimately better society: This is the Septeni Group’s reason for existence.

Accelerating the Growth of Our Core Businesses through Organic Growth and a Capital and Business Alliance with the Dentsu Group

In the Group’s Midterm Business Policies for the period starting from the fiscal year ended September 2017, we set three basic policies: expand advertising business globally; enhance our own media; and invest in what comes after the smartphone. The Midterm Business Policies also target non-GAAP operating profit of ¥10 billion as soon as possible. In October 2018, we announced a capital and business alliance with the Dentsu Group. Aiming to increase the value we provide to clients through collaboration between our two groups, we expect to generate synergies in areas including mutual utilization of management assets and economies of scale from sharing knowledge and technologies. For the fiscal year ending September 2019, the Septeni Group will significantly accelerate its growth through the organic growth of its businesses and this alliance.

Midterm Business Policies (From the Fiscal Year Ended September 2017)

Earnings Target	Basic Policies
Non-GAAP Operating Profit ¥10 billion	Expand advertising business globally
	Enhance our own media
	Invest in what comes after the smartphone

Internet Marketing Business

In the Internet Marketing Business in Japan, although we were impacted by factors including a decrease in advertising in existing projects, we worked to establish a robust organizational foundation through investment in human resources and to promote growth in the new field of brand advertising, where demand has been growing. These measures will help to expand our business operations. In addition, through our business alliance with the Dentsu Group, we will increase the value we provide to clients by jointly running the Dentsu Group’s digital advertising projects and establishing an integrated system for proposing online and offline advertisements.

Revenue from overseas markets is increasing, mainly from Southeast Asia and Greater China, and the ratio of overseas revenue to total revenue has reached approximately 13%. We will continue to take a two-pronged approach to global expansion through organic growth and M&A, with plans to increase the ratio of overseas revenue to total revenue to about 50% for the entire Group over the medium term.

Media Content Business

We have been promoting the Media Content Business under a policy of creating strong media and products to establish a new mainstay business alongside the advertising business. Currently, we are focusing investments on expanding the media scale of our manga app “GANMA!”. As of September

2018, the cumulative number of app downloads reached 10.98 million, monthly page views reached 3.16 billion and the number of users is growing, mainly among young people in their teens and twenties. Both the experiential value for the people who access and post about GANMA! on a daily basis and the long-term profits that are generated will be substantial.

We will enhance the value of the Company’s intellectual property by developing works in other genres such as comic books and theatrical productions, and aim to increase revenue from advertising, in-app sales and sales of goods, as well as to grow through global expansion.



Proactive Investment in Our Business Infrastructure to Enhance Medium-to-Long-Term Competitiveness

The Group will actively invest in its business infrastructure (“operating system”) with a view to enhancing its medium-to-long-term competitiveness. During the fiscal year ended September 2018 in particular, we increased investment in the human resources field while conducting Group operation of the AI-based personnel system I mentioned earlier. This system, which uses our vast human resources database to make highly accurate predictions of each person’s degree of success in future employment, has become a robust part of our infrastructure after going through several years of empirical verification and operation. It has generated remarkable results in each organization, eliminating mismatches in assigning employees to departments and getting them up to speed earlier, and has been evaluated highly by external organizations.* Moreover, we are focusing on using the AI-based personnel system in achieving the Midterm Business Policies in areas such as discovering and hiring human resources with latent capabilities.

Our business concept of empowering people and industry applies not only to external stakeholders but also to Group employees. I believe that clients want to patronize companies that have established enjoyable work environments that fill employees with positive emotions and energy, rather than companies that do not, and the results of the former will continue to grow. Every day, I can see for myself that a company with low-stress relationships and a good fit between individuals and organizations experiences less friction when making management decisions.

As the transformation of industry through digital technology gains speed, the Group will combine its unique human resource development strategy with the power of its human resources to offer new value by creating outstanding businesses that others cannot.

Return of Profits

Consolidated profits for the fiscal year ended September 2018 declined due to a decrease in advertising in existing projects and higher costs mainly for investments in human resources aimed at enhancing competitiveness, among other factors. In the fiscal year ending September 2019, we will aim for a V-shaped recovery in business results by returning to growth in our core businesses and strengthening our profit structure through cost controls.

To return profits to our shareholders and investors, we are targeting a payout ratio of 15% of profit for the period attributable to owners of the parent and have set a lower limit for dividends per share of ¥2.0 in consideration of the continuity and stability of dividends. We will continue to allocate profits appropriately in accordance with growth in our business results.

* In August 2018, at the Third HR Technology Awards sponsored by the Ministry of Economy, Trade and Industry, the Septeni Group received the Prize for Innovation in recognition of its efforts in using AI to optimize its entire HR flow, including recruiting, employee dispatch, training and retirement.

In the “Great Place to Work (in Japan)” rankings by the Great Place to Work® Institute Japan in February 2018, the Septeni Group was selected as one of the best companies for the seventh consecutive year.

Strategy by Business: Internet Marketing

The Internet Marketing Business harnesses the Internet to provide comprehensive marketing support services to corporations. In addition to selling Internet advertising, this business also operates marketing platforms as an in-house service, including cloud-based customer relation management (CRM) services and affiliate networks.

Opportunities

- Internet advertising's share of Japan's total advertising expenditure is approaching TV advertising's share
- Acceleration toward a digital shift among leading advertisers going forward

Issues

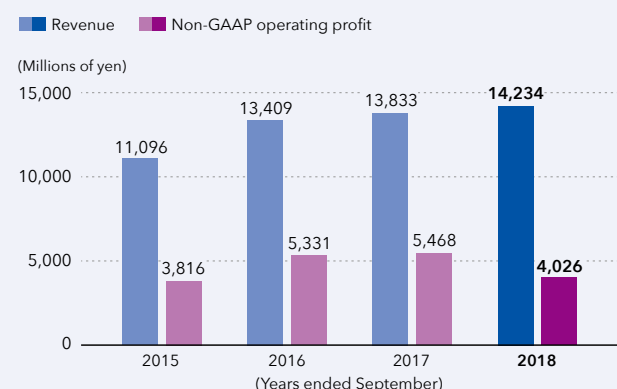
- Growing sophistication and specialization of marketing methods
- Need for establishing a strong foothold for the business by securing and promoting development of human resources

Overview of Results for the Fiscal Year Ended September 2018

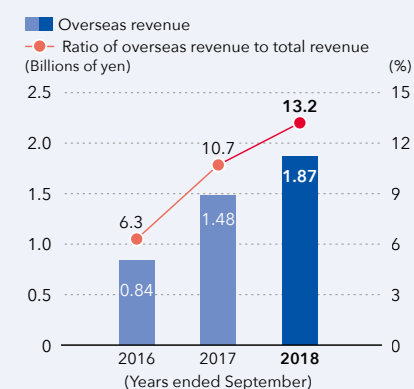
- Revenue from the flagship areas of video advertising and brand advertising increased steadily.
- Profit declined due to a decrease in advertising in some existing large-scale projects, as well as increases in cost prices and personnel expenses.

Note: Starting from the fiscal year ended September 2018, Company-wide expenses are no longer allocated to each segment. In accordance with this new reporting standard, non-GAAP operating profit for the fiscal year ended September 2017 has been restated excluding Company-wide expenses. Unrestated figures for the preceding fiscal years are presented for reference only.

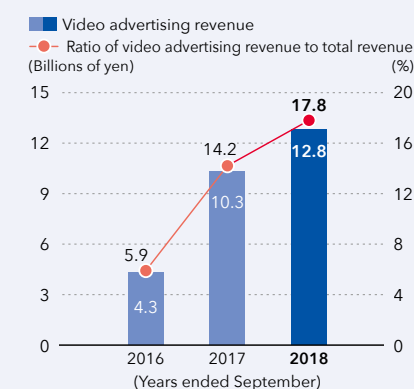
Revenue and Non-GAAP Operating Profit



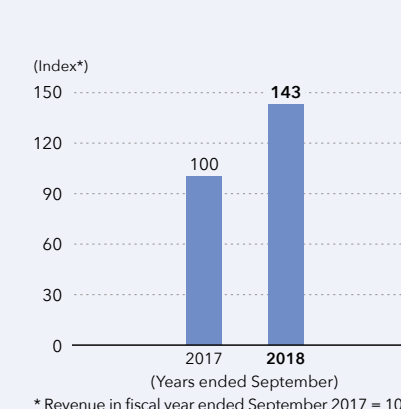
Overseas Revenue



Video Advertising Revenue



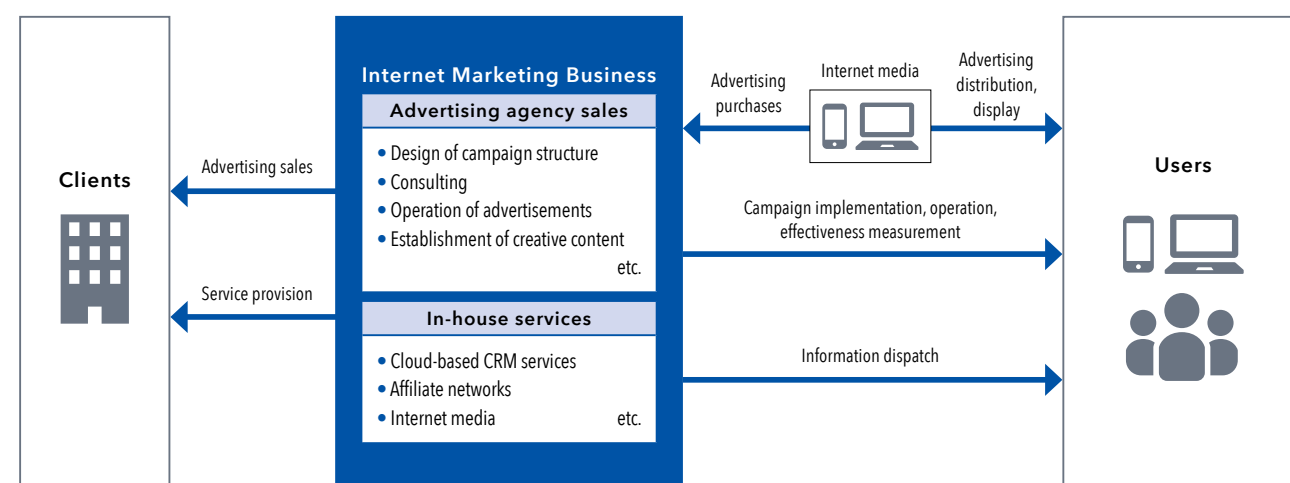
Brand Advertising Revenue



Strengths of the Business

In addition to the foresight to uncover emerging growth fields before others and the flexibility to immediately allocate management resources to those fields, we have a core competence in Internet advertising that we have cultivated since the establishment of the business, creative capabilities and a superior position in smartphone advertising. By taking advantage of these strengths, we can meet client needs with a comprehensive approach based on targets and their likely outcomes.

Business Model



Future Strategy

For further business growth, we consider it important to develop new market categories in brand advertising and to strengthen our positioning in this field, which is driving market expansion. For the past year or so, the Septeni Group has focused on expanding sales of brand advertisements on its own. Going forward, through our business alliance with the Dentsu Group, we aim to raise the value of the services we provide and resolve our clients' issues by offering comprehensive proposals for online and offline advertising rather than simply delivering conventional discrete advertisements as finished products.

In our overseas operations, we will also work to organically increase earnings, mainly in Southeast Asia and Greater China.

Learn about the Septeni Group through Its People!

Yusuke Shimizu

Group Executive Officer
President and Representative Director, SEPTENI CO., LTD. and Septeni Japan, Inc.
2006 Joined SEPTENI CO., LTD. after graduating from university
2018 Appointed as Group Executive Officer (current position)
Appointed as President and Representative Director of SEPTENI CO., LTD. and Septeni Japan, Inc. (current positions)

Capturing the digital shift as an opportunity, the Internet advertising market is currently expanding. Amid this expansion, it is becoming increasingly challenging to solve the problems faced by clients due to the growing sophistication and specialization of marketing methods. In this business, regardless of the job category, human resources are our greatest asset. The Septeni Group has a culture of encouraging its employees to take on challenges and pursues initiatives such as applying its AI-based personnel system to get the best from its human resources. The Group is also investing in human resources with the aim of strengthening its organizational foundation to secure medium-to-long-term competitiveness. In a market that is becoming ever more complex, we aim to achieve further business growth by taking on new challenges and establishing new partnerships to provide an even greater number of clients with solutions to their problems.



Strategy by Business: Media Content

The Manga Content Business fosters and supports manga artists and operates the manga app GANMA!, which mainly features original works by exclusively-affiliated authors, with the aim of planning and developing the Company's intellectual property (IP).

In addition, the Media Content Business conducts new businesses born from the in-house startup program, such as the recruitment, social contribution, medical and childcare platform businesses.

Opportunities

- Expanding market for manga apps, mainly among the younger generation
- Increasing in-app sales and IP revenue from in-house content

Issues

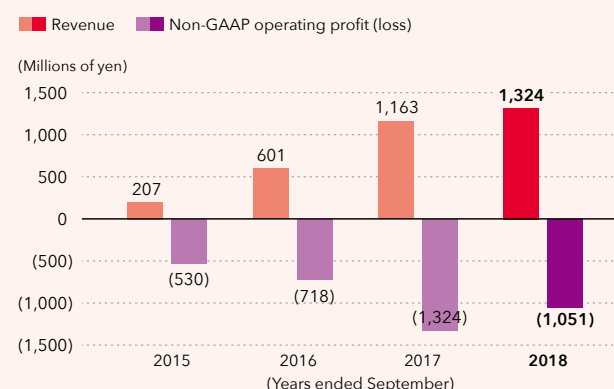
- Intensification of competition for users and authors due to competitors entering the market
- Need for engaging users who are not influenced by the external environment

Overview of Results for the Fiscal Year Ended September 2018

- The cumulative number of downloads for GANMA! reached 10.98 million as of September 2018, and the number of monthly page views increased to 3.16 billion.
- In addition to robust sales growth for advertisements published on GANMA!, app revenue, mainly consisting of advertising revenue, also increased steadily due to the growth of in-app sales.
- Operating loss was reduced due to control of advertising and publicity expenses and efforts to strengthen content and product.

Note: Starting from the fiscal year ended September 2018, Company-wide expenses are no longer allocated to each segment. In accordance with this new reporting standard, non-GAAP operating profit for the fiscal year ended September 2017 has been restated excluding Company-wide expenses. Unrestated figures for the preceding fiscal years are presented for reference only.

Revenue and Non-GAAP Operating Profit (Loss)

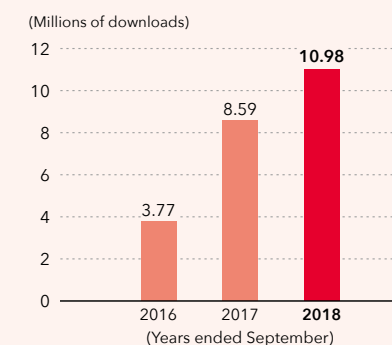


What is GANMA!?

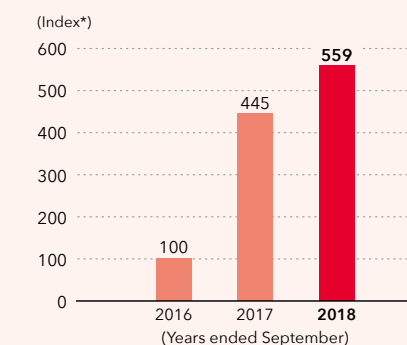
GANMA! is a manga app featuring over 160 original works ranging from suspense to romance, fantasy, action-adventure, horror and comedy. Entire original series can be read at no charge, and content is updated daily.



Cumulative Number of GANMA! App Downloads



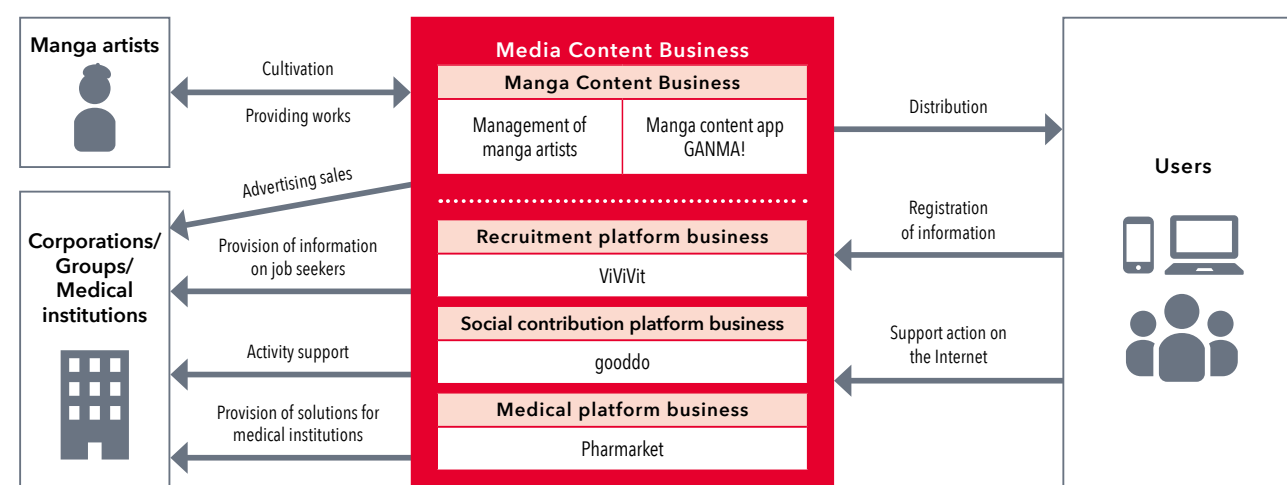
App Revenue



Strengths of the Business

The user base of the GANMA! manga app is growing, mainly among millennials (the generation currently in their teens through thirties). Two points differentiate GANMA! from other services: most of the comics are works by artists nurtured in-house, and they can be read for free. Amid declining television viewership among young people, we are establishing the position of GANMA! as an advertising medium that reaches this demographic, which makes up the great majority of the app's users.

Business Model



Future Strategy

We intend to distribute the in-house content that is a distinctive feature of GANMA! on various platforms that are well-suited for manga (YouTube, Twitter, eBook stores) to create a decentralized traffic structure, thus strengthening growth in the number of users and monetization. At the same time, having conducted a major update of the app in December 2018, we aim to increase subscription revenue by enhancing the user interface and user experience to increase the retention rate and session time, monetizing works produced completely in-house and presenting popular works based on intellectual property from outside the Company. In addition to increased revenue from these sources, in-app sales of goods and expansion of cash points rewarded for merchandise sold, we will enhance our ability to secure brand advertising budgets through our business alliance with the Dentsu Group.

Learn about the Septeni Group through Its People!

Takefumi Okada

Director, COMICSMART, Inc.
Group Executive Officer

2003 Joined SEPTENI CO., LTD. after graduating from university
2018 Appointed as Director of COMICSMART, Inc. (current position)
2019 Appointed as Group Executive Officer (current position)

The shift in manga readership from printed to digital formats is accelerating, mainly among young people, and manga services continue to grow, centered on apps. Although competition is intense in the manga app market, few companies produce original Internet content, and we believe that our current role as a driver of market growth will give us an advantage over the medium to long term.

GANMA! marked its fifth anniversary in 2018, and recognition of the service is increasing with a cumulative total of more than 10.98 million downloads. Initiatives we intend to introduce in the fiscal year ending September 2019 include a rollout of a multi-channel network (MCN) for in-house content as an opportunity for inorganic growth. This will be the culmination of the first chapter since the launch of this business. In addition, everyone in the business will work together to help improve Group profitability.

