

The firm achieved the #1 market share with ¥1.6 bn in gross sales in 3Q as TELECY continued strong growth.

FY12/2022 3Q RESULTS SUMMARY

CARTA HOLDINGS' 3Q FY12/22 reported results (cumulative) of a 5.4% YoY increase in sales (¥19,464 mn) but a 42.2% decline in operating profit (¥2,056 mn). net profit attributable to owners of the parent increased 1.6% (¥2,616 mn), mainly due to an extraordinary gain from the sale of investment securities.

In the 3Q alone (July-Sep.), net sales were ¥6,288 mn (up 7.8%) while gross profit was up 7.6%. SG&A expenses increased ¥5,328 mn, or 15.8%, due to an increase in advertising expenses as well as an increase in server-related expenses due to the weak yen. Operating profit fell 54.4% to ¥279 mn. The results were worse than initially expected due to the deteriorating macroeconomic environment. An extraordinary gain (¥116 mn) was recorded due to the transfer of all shares of DO HOUSE Inc., an equity-method affiliate.

Segment Trends (3Q Cumulative Total)

- **Marketing Solutions Business: Net Sales: ¥8,710 mn (-0.7%), Operating profit: ¥1,461 mn (-32.8%)** Sales declined mainly due to a drop in advertising demand by major advertisers. Profit decreased as a result of higher personnel and recruiting costs due to aggressive hiring.
- **Ad Platform Business: Net Sales of ¥5,578 mn (up 16.0%); operating profit of ¥955 mn (down 17.2%).** Gross sales in the 3Q alone were ¥1,600 mn, up 72.2%, thanks to strong sales of the TELECY operated TV commercial platform. Profit decreased due to higher advertising expenses for aggressive upfront investment in TELECY.
- **Consumer Business: Net Sales of ¥5,197 mn (up 6.0%), operating loss of ¥360 mn (vs. operating profit of ¥224 mn in 3Q of FY12/21).** Aggressive upfront promotional investments in the D2C and game publishing businesses resulted in a segment loss for 2Q of FY12/22. The company is focusing on its smartphone game business and began distributing *King of Kingdoms*, on October 21. Although the number of downloads was strong, sales were below its projections.

As of the end of 3Q, the achievement rate against the full-year forecast is 68.8% for sales, 58.7% for operating profit, 63.8% for net profit, and 63.4% for EBITDA, which are all under plan. The company plans to secure profits by significantly increasing the top line in 4Q, when advertising demand is high, but the business environment going forward is expected to be more difficult than initially planned.

¥ mn, %	Net sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS ¥	DPS ¥
09/2017	25,895	24.2	1,806	5	1,861	49.4	1,161	58.7	96.9	15
09/2018	28,518	10.1	1,420	-21.4	1,431	-23.1	1,117	-3.8	93.58	15
12/2019	26,158	-	3,839	-	3,812	-	2,139	-	94.29	16
12/2020	22,487	-	3,463	-	3,335	-	1,781	-	70.57	48
12/2021	25,821	14.8	4,973	43.6	5,614	68.3	3,104	74.3	122.68	51
12/2022 CE	28,300	9.6	5,500	10.6	5,900	5.1	4,100	32.1	159.9	54
12/2021 3Q	18,464	13.1	3,554	37.8	4,019	65.0	2,574	87.5	101.92	-
12/2022 3Q	19,464	5.4	2,056	-42.2	2,822	-29.8	2,616	1.6	102.33	-

Source: compiled by SIR from TANSHIN financial statements.

3Q FOLLOW-UP

CARTA HOLDINGS

Focus Points: VOYAGE Group and Dentsu Group's Cyber Communications merged in Jan. 2019. In addition to serving as a media rep., CARTA HD conducts various businesses related to digital advertising, such as ad platforms and internet media.

Key indicators (yy/mm/dd)

Share price (12/14)	1,686
YH (4/5)	2,619
YL (12/7)	1,618
10YH (14/7/7)	4,335
10YL (20/3/23)	662
Shrs. out (mn, shr)	25.154
Mrk cap (¥bn)	42.411
EV (¥bn)	24.192
Shr. equity ratio (12/31)	58.2%
22/12 PER (CE)	10.5x
21/12 PBR (act)	1.58x
21/12 ROE (act)	12.0%
22/12 DY (CE)	3.2%

Share Price Chart (1Y)



Source: SIR from SPEEDA data

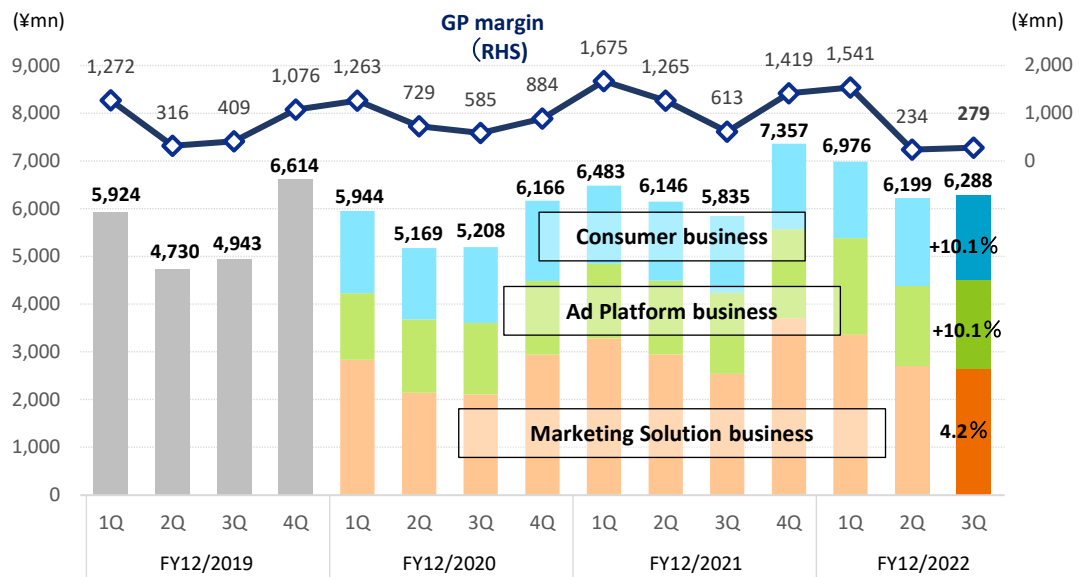
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Quarterly Consolidated Net Sales & Operating Profit



Source: compiled by SIR from the company material.

1. 3Q FY12/22 Results*

1) Sales rose 5% YoY, but operating profit fell owing to aggressive expansion of upfront investments

In cumulative 3Q FY12/22, sales rose and operating profit fell, with the company reporting net sales of ¥19,464 mn (+5.4% YoY), operating profit of ¥2,056 mn (-42.2% YoY), ordinary profit of ¥2,822 mn (-29.8% YoY), and profit attributable to owners of parent of ¥2,616 mn (+1.6% YoY). Sales growth slowed owing to sluggish growth in ad placements, mainly by major clients. On the other hand, the company continued to make upfront investments in strategic businesses and products through aggressive promotions, which led to an increase in SG&A expenses and a drop in operating profit. Profit attributable to owners of parent rose as the company recorded an extraordinary gain from the sale of all of its shares in Do House (September 28, 2022), an equity-method affiliate.

In the three-month-period of 3Q, sales rose and operating profit fell in all segments, with the company reporting net sales of ¥6,288 mn (+7.8% YoY), gross profit of ¥5,608 mn (+7.6% YoY), and operating profit of ¥279 mn (-54.4% YoY). SG&A expenses rose 15.8% YoY to ¥5,328 mn driven by an increase in ongoing strategic advertising expenses as well as higher server-related expenses stemming from the weaker yen. This performance was worse than the company had initially anticipated primarily due to the weakening macroeconomic environment. On September 28, the company sold all shares of its equity-method affiliate DO HOUSE Inc. and recorded an extraordinary gain of ¥116 mn.

2) Segment Trends (see pg. 7 table)

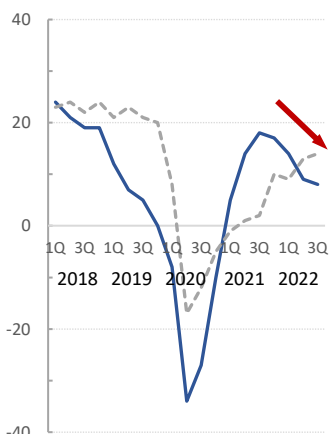
a) Marketing Solutions Business (net sales ¥8,710 mn (-0.7%), segment profit ¥1,461 mn (-32.8%)) (see top figure on following page)

The marketing solution business sells advertising space and provides solutions centered on media communications as a member of the Dentsu Group.

The media communication service, which accounts for 90% of segment sales, has seen a slowdown in placements from its main client base of national clients, due in part to the macroeconomic environment. With inflation continuing to rise, companies are under pressure to raise prices, and marketing-related spending is also being curbed. In addition, foreign clients are holding back on advertising spending, not only in IT, but also in various other industries, partly due to the weak yen.

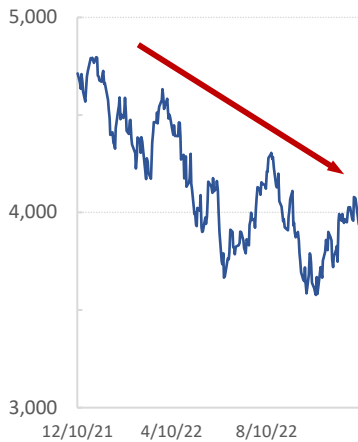
* The company mainly provides stand-alone quarterly earnings in its earnings briefings. Therefore, this report presents cumulative figures first, and then provides specific quarterly business trends and related figures.

Diffusion Index: DI



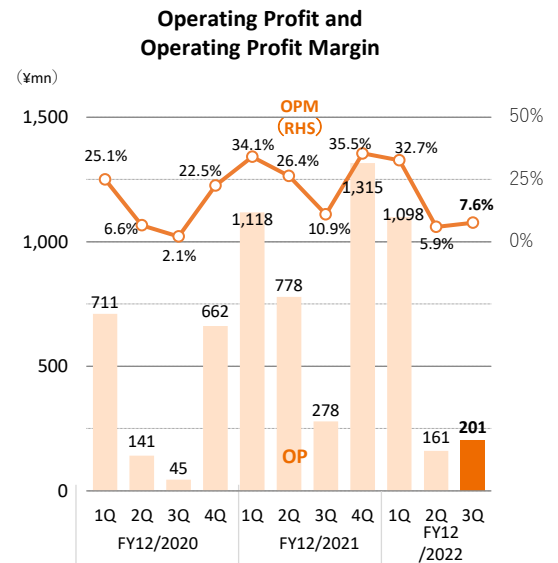
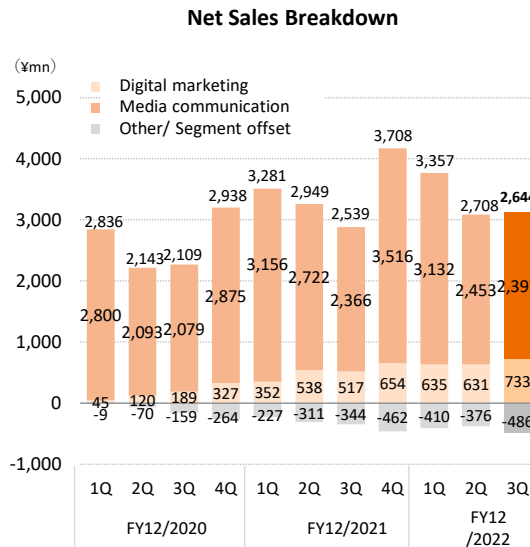
Source: compiled by SIR From the BOJ TANKAN

Economic Trends in the U.S. : S&P500



Source: compiled by SIR from S&P DJI.

Marketing Solution Business Segment Earnings



Source: compiled by SIR from the company material.

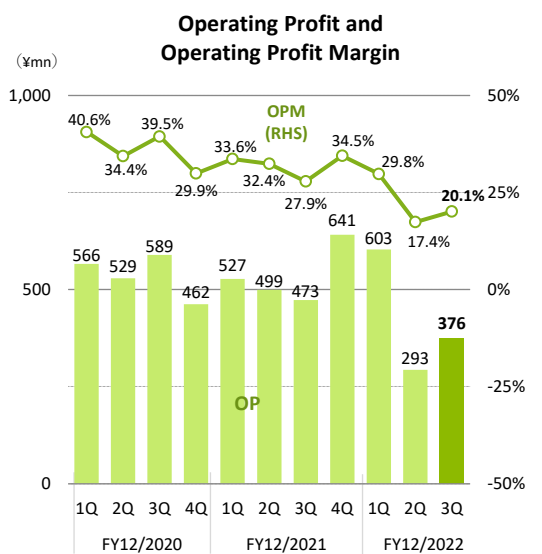
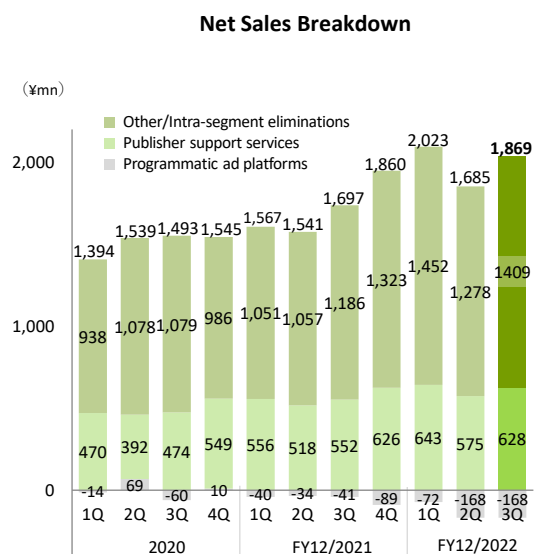
In the three-month-period of 3Q, sales rose 4.2% YoY to ¥2,644 mn. Sales in the core media communication service fell 2.3% YoY, while sales in the digital marketing service, where the company directly approaches advertisers, rose 41.8% YoY to 733 mn. As a result, segment profit fell 27.7% YoY to ¥201 mn.

b) Ad Platform Business (net sales ¥5,578 mn (+16.0%); segment profit ¥955 mn (-17.2%))

The ad platform business provides both programmatic ad platforms (Zucks, PORTO, TELEY, etc.), which automatically optimizes ad delivery in real time, and publisher support services (fluct, etc.), which helps media maximize ad earnings.

Net sales from programmatic ad platforms rose 25.7% YoY to ¥4,139 mn on the back of strong growth in sales of programmatic TV commercial service TELEY. Sales from publisher support services grew 13.5% YoY to ¥1,846 mn.

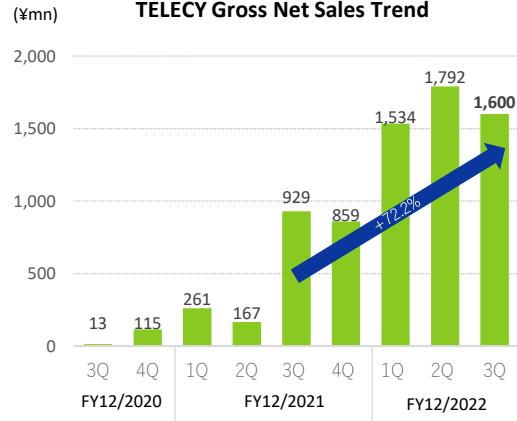
Ad Platform Business Segment Earnings



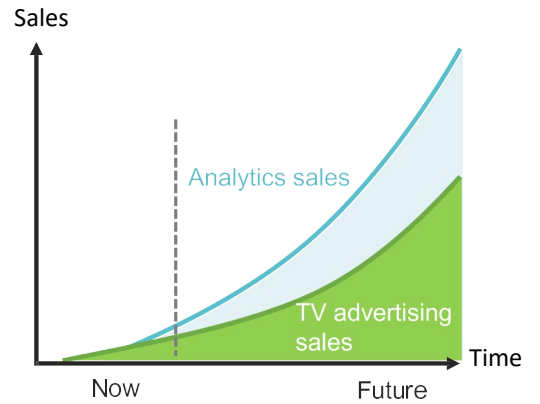
Source: compiled by SIR from the company material.

Trends in TELECY

TELECY Gross Net Sales Trend



TELECY Growth Strategies



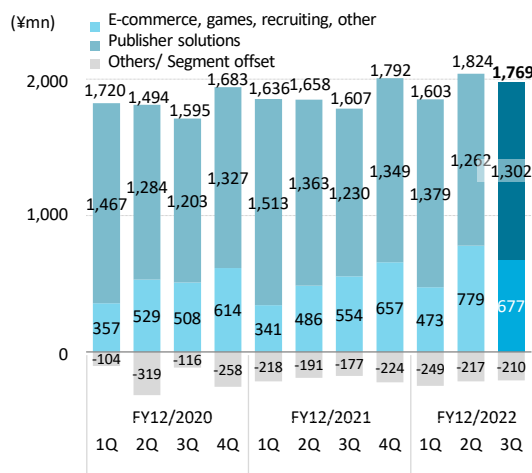
Source: compiled by SIR from the company material.

In the three-month-period of 3Q, sales rose 10.1% YoY to ¥1,869 mn. Sales of programmatic ad platforms, including TELECY, rose 18.7% YoY. The company continued to make upfront investments in strategic promotions for TELECY, which pushed up 3Q advertising expenses in the segment by about 3x YoY to ¥284 mn. As a result, segment profit fell by 20.5% YoY to ¥376 mn.

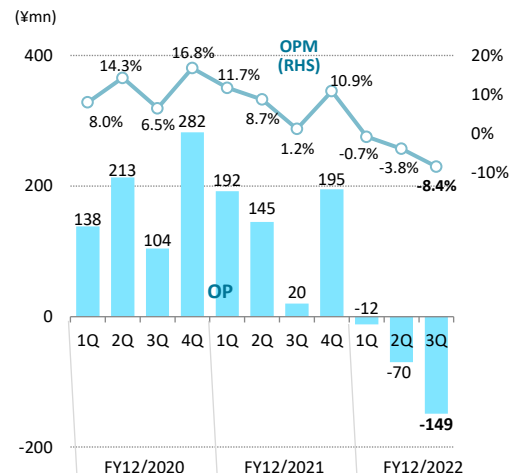
TELECY, which the company has been focusing its efforts on, is a hybrid product that enables more efficient ad placement compared to conventional TV commercials by combining the advantages of TV commercials, which can reach a large number of consumers, and programmatic ads, which makes it easy for customers to verify cost-effectiveness. The service is highly regarded by advertisers, and gross sales quickly expanded to over a billion yen. 3Q gross sales were up 72.2% YoY to ¥1,600 mn, securing the highest share of sales in the industry for programmatic ad platforms. In addition to TV commercial sales (transaction amount), the company plans to provide SaaS-based analytics services in the future as part of its growth strategy for TELECY. It also expects to boost earnings from analytics sales to existing clients and clients of the Dentsu Group.

Consumer Business Segment Earnings

Net Sales Breakdown



Operating Profit and Operating Profit Margin



Source: compiled by SIR from the company material.

c) Consumer Business (net sales ¥5,197 mn (+6.0%); segment loss ¥360 mn (profit of ¥224 mn in 3Q FY12/21)) CARTA Holdings (CARTA) has positioned its consumer business, which includes both publisher solutions and e-commerce, games, recruiting, and other businesses, as a critical business segment for promoting vertical integration of its services. In particular, the company is proactively making upfront investments to strengthen its efforts in the growing D2C field.

In the three-month-period of 3Q, sales rose 10.1% YoY to ¥1,769 mn. Media solution sales rose 5.8% YoY to ¥1,302 mn, while sales from e-commerce, games, recruiting, and other businesses grew by a substantial 22.2% YoY to ¥677 mn on the back of strong performance by Yomite, a D2C business. On the other hand, upfront investments to acquire new clients in the D2C business and advertising and promotion expenses related to the game business rose sharply, with 3Q advertising expenses totaling ¥454 mn (+35% YoY) and dragging down profits. Segment operating loss reached ¥149 mn, up from a loss of ¥70 mn in 2Q.

In the game publishing business, the company launched *King of Kingdoms*, a major smartphone game, on October 21. Total downloads reached 100,000 on November 14, 2022. As previously reported, the company has been making heavy upfront investments to promote the game, but sales have been below initial expectations, and the company will probably need to take some measures to bolster its performance.

2. FY12/22 Earnings Forecast: Results fell short of forecasted sales of ¥28.3 bn and operating profit of ¥3.5 bn

Along with the 2Q earnings announcement, the company downwardly revised its full-year earnings forecast as shown in the table on the bottom of page 1. Q3 progress has fallen short of the revised forecast, standing at 68.8% for sales, 58.7% for operating profit, 63.8% for profit attributable to owners of parent, and 63.5% for EBITDA. The company's earnings tend to be higher in 4Q due to seasonality, but in light of current trends, investors should be cautious about the company's ability to achieve its full-year targets.

3. Share Price Trend: Flat following sluggish sales and downward revision of profit forecast

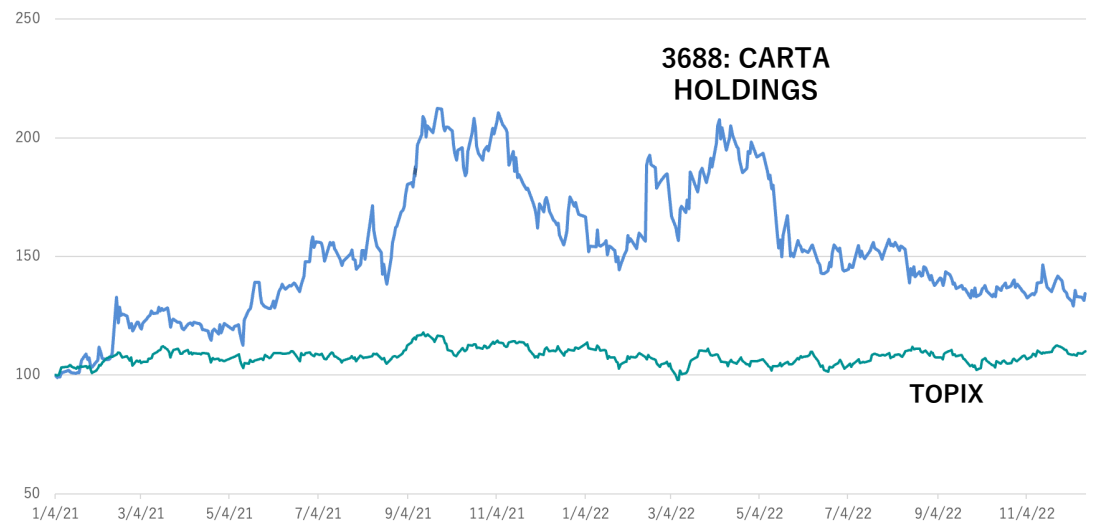
CARTA Holdings' share price continued to fall after the Q2 earnings announcement and remained weak after the Q3 earnings announcement, hitting a new low for the year on December 7 at 1,618 yen. While there are growth expectations for TELECY, some investors are likely highly concerned over a continued challenging environment in terms of earnings, as major advertisers are holding back and the company continues to make upfront investments for promotions and other activities. On the other hand, the company's earnings base is fundamentally strong. Although it will continue to incur expenses to increase its headcount, the company can easily boost its bottom line by taking care of the one-time increase in investment associated with group reorganization and curbing upfront investments. If advertisers become more receptive to placing ads in FY12/23 onward and boost topline growth expectations further, this should lead to a higher share price.

3688 CART HOLDINGS Share Price Trend(most recent 3 years)



Source: SIR from SPEEDA data

Relative Chart (3688, TOPIX)



Source: SIR from SPEEDA data

Quarterly Consolidated Results by Segment

	FY12/20				FY12/21				FY12/22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Net Sales	5,944	5,169	5,208	6,166	6,483	6,146	5,835	7,357	6,976	6,199	6,288	
	0.3%	9.3%	5.4%	-6.8%	9.1%	18.9%	12.0%	19.3%	7.6%	0.9%	7.8%	
	2,836	2,143	2,109	2,938	3,281	2,949	2,539	3,708	3,357	2,708	2,644	
	-	-	-	-	12.7%	37.6%	20.4%	26.2%	2.3%	-8.2%	4.1%	
YoY	47.7%	41.5%	40.5%	47.6%	50.6%	48.0%	43.5%	50.4%	48.1%	43.7%	42.0%	
Partner Sales business	2,800	2,093	2,079	2,875	3,156	2,722	2,366	3,516	3,132	2,453	2,397	
YoY	-	-	-	-	12.7%	30.1%	13.8%	22.3%	-0.8%	-9.9%	1.3%	
% of Sales	47.1%	40.5%	39.9%	46.6%	48.7%	44.3%	40.5%	47.8%	44.9%	39.6%	38.1%	
Media communication	45	120	189	327	352	538	517	654	635	631	733	
YoY	-	-	-	-	682.2%	348.3%	173.5%	100.0%	80.4%	17.3%	41.8%	
% of Sales	0.8%	2.3%	3.6%	5.3%	5.4%	8.8%	8.9%	8.9%	9.1%	10.2%	11.7%	
Digital marketing	-9	-70	-159	-264	-227	-311	-344	-462	-410	-376	-486	
YoY	1,394	1,539	1,493	1,545	1,567	1,541	1,697	1,860	2,023	1,685	1,869	
% of Sales	-	-	-	-	12.4%	0.1%	13.7%	20.4%	29.1%	9.3%	10.1%	
Ad Platform business	23.5%	29.8%	28.7%	25.1%	24.2%	25.1%	29.1%	25.3%	29.0%	27.2%	29.7%	
YoY	470	392	474	549	556	518	552	626	643	575	628	
% of Sales	-	-	-	-	18.3%	32.1%	16.5%	14.0%	15.6%	11.0%	13.8%	
Publisher support services	7.9%	7.6%	9.1%	8.9%	8.6%	8.4%	9.5%	8.5%	9.2%	9.3%	10.0%	
YoY	938	1,078	1,079	986	1,051	1,057	1,186	1,323	1,452	1,278	1,409	
% of Sales	-	-	-	-	12.0%	-1.9%	9.9%	34.2%	38.2%	20.9%	18.8%	
Programmatic ad platforms	15.8%	20.9%	20.7%	16.0%	16.2%	17.2%	20.3%	18.0%	20.8%	20.6%	22.4%	
YoY	-14	69	-60	10	-40	-34	-41	-89	-72	-168	-168	
% of Sales	1,720	1,494	1,595	1,683	1,636	1,658	1,607	1,792	1,603	1,824	1,769	
Other/intra-segment eliminations	5.8%	11.3%	14.3%	-23.1%	-4.9%	11.0%	0.8%	6.5%	-2.0%	10.0%	10.1%	
Consumer business	28.9%	28.9%	30.6%	27.3%	25.2%	27.0%	27.5%	24.4%	23.0%	29.4%	28.1%	
YoY	1,467	1,284	1,203	1,327	1,513	1,363	1,230	1,349	1,379	1,262	1,302	
% of Sales	-	-	-	-	3.1%	6.2%	2.2%	1.7%	-8.9%	-7.4%	5.8%	
Publisher solutions	24.7%	24.8%	23.1%	21.5%	23.3%	22.2%	21.1%	18.3%	19.8%	20.4%	20.7%	
YoY	357	529	508	614	341	486	554	657	473	779	677	
% of Sales	-	-	-	-	-4.5%	-8.1%	9.1%	7.0%	38.7%	60.3%	22.2%	
E-commerce, games, recruiting, other	6.0%	10.2%	9.8%	10.0%	5.3%	7.9%	9.5%	8.9%	6.8%	12.6%	10.8%	
YoY	-104	-319	-116	-258	-218	-191	-177	-224	-249	-217	-210	
% of Sales												
Operating Profit	1,263	729	585	884	1,675	1,265	613	1,419	1,541	234	279	
YoY	-0.7%	130.7%	43.0%	-17.8%	32.6%	73.5%	4.8%	60.5%	-8.0%	-81.5%	-54.5%	
Operating margin	21.2%	14.1%	11.2%	14.3%	25.8%	20.6%	10.5%	19.3%	22.1%	3.8%	4.4%	
Partners Sales business	711	141	45	662	1,118	778	278	1,315	1,098	161	201	
YoY	-	-	-	-	57.2%	451.8%	517.8%	98.6%	-1.8%	-79.3%	-27.7%	
Operating margin	25.1%	6.6%	2.1%	22.5%	34.1%	26.4%	10.9%	35.5%	32.7%	5.9%	7.6%	
Ad Platform business	566	529	589	462	527	499	473	641	603	293	376	
YoY	-	-	-	-	-6.9%	-5.7%	-19.7%	38.7%	14.4%	-41.3%	-20.5%	
Operating margin	40.6%	34.4%	39.5%	29.9%	33.6%	32.4%	27.9%	34.5%	29.8%	17.4%	20.1%	
Consumer business	138	213	104	282	192	145	20	195	-12	-70	-149	
YoY	94.4%	294.4%	-	86.8%	39.1%	-31.9%	-80.8%	-30.9%	-	-	-	
Operating margin	8.0%	14.3%	6.5%	16.8%	11.7%	8.7%	1.2%	10.9%	-0.7%	-3.8%	-8.4%	

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