

# CARTA HOLDINGS | 3688

Sponsored Research  
August 6, 2021



Sessa Investment Research

## INITIATION

**CARTA**  
HOLDINGS

### Focus Points:

CARTA HOLDINGS is a specialist digital advertising company, which will drive the digital transformation of media solutions within the Dentsu Inc.

### Kei Indicators

Share price (8/4)	1,914
YH (7/5)	2,007
YL (1/5)	1,225
10YH (7/7/14)	4,335
10YL (3/23/20)	662
Shares out(mn shs)	25.306
Market cap (¥bn)	48.436
EV (¥bn)	48.722
Equity ratio(12//21)	49.6%
21/12 PER (CE)	20.10x
20/12 PBR (act)	1.93x
20/12 ROE (act)	7.45%
21/12 DY (CE)	2.61%



Source: SPEEDA

### Team coverage

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## The Digital Transformation of Advertising

### Executive Summary

CARTA HOLDINGS (CARTA) has made good progress in merging its two business units, VOYAGE GROUP (VOYAGE) and Cyber Communications, to spearhead the digital transformation of media solutions in Dentsu Group. CARTA's digital advertising technology will better address the needs of Dentsu Inc.'s and CARTA's blue-chip client base. The digital transformation of the domestic advertising market is picking up speed, driven by changes in both technology and consumer behavior. By working closely with its parent company, CARTA is bringing new advertising technologies and ad platforms to the market that should drive revenue growth of 10% through FY22. The valuation is attractive compared with peers and is yet to reflect following three transformative events:

- ▷ The digital transformation of marketing and advertising
- ▷ CART HD's internal transformation to consolidate the group structure
- ▷ Impact of new digital Ad services

(JPY mn) FY	Net sales	YoY (%)	OP	YoY (%)	RP	YoY (%)	NP (ATOP)	YoY (%)	EPS (¥)
9/2018	28,518	-	1,420	-	1,432	-	1,117	-	93.6
12/2019*	26,158	-	3,839	-	3,812	-	2,139	-	94.3
12/2020	22,487	-	3,467	-	3,335	-	1,781	-	70.6
12/2021 CE	24,500	8.6	3,800	9.6	3,700	10.9	2,400	34.8	95.3

Source: compiled by Sessa Partners from company materials \* 15 months period due to change in FY end

### Investment Summary

Transformation on track

CARTA will benefit from three transformative trends over the next several years:

1. The digital transformation of marketing and advertising. FY20 was the cross-over year for digital ad spending in Japan, surpassing traditional media spend for the first time. Like the rest of the world, the pandemic accelerated the digital transformation of social and work life, driving online advertising for commerce, gaming, remote work and cashless payments.
2. CARTA's internal transformation is on track. Over the past two years, CARTA has executed well on the merger, streamlining the product portfolio, and putting the company in a strong position to reach its financial FY22 MTP goals.

This report was prepared by Sessa Partners on behalf of CARTA Holdings. Please refer to the legal disclaimer at the end for details.

3. CARTA's product transformation. CARTA is looking to aggressively grow the Ad Platform business over the next several years. Two key initiatives have been launched in collaboration with Dentsu Inc.: TELECY and PORTO.

**Financials: improving returns**

FY12/20 figures reflect the impact of the Covid-19 pandemic, with overall revenue growth sluggish at +1.2%. Demand for advertising slumped due to the crisis, especially for brand ads, but the Ad Platform business recovered quickly to pre-Covid levels, as advertisers resumed placing ads online.

CARTA anticipates a steady improvement in the underlying business in FY21, with sales forecast to climb 8.9% and EBITDA by 21%. The EBITDA margin is expected to expand to 23% in the final year of the MTP as the internal business transformation streamlines the management structure. The objective is to maintain an efficient balance sheet, aiming for a dividend on equity of 5%, to drive a recovery in ROE above 12%.

**Valuation: attractive versus peers**

Despite the strong share price performance as the business recovered quickly post Covid, the valuation still looks attractive compared with local digital advertising companies and global peers. The successful implementation of management's plans, simplifying the corporate structure, and driving growth through new services, should help drive shareholder value over the long term.

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**PART ONE**

**Company Description**

CARTA was formed as a holding company in January 2019 through a merger between VOYAGE GROUP and Cyber Communications. Cyber Communications was a wholly owned subsidiary of Dentsu Inc. and post-merger, Dentsu Inc. remains the parent with a 53% stake in CARTA.

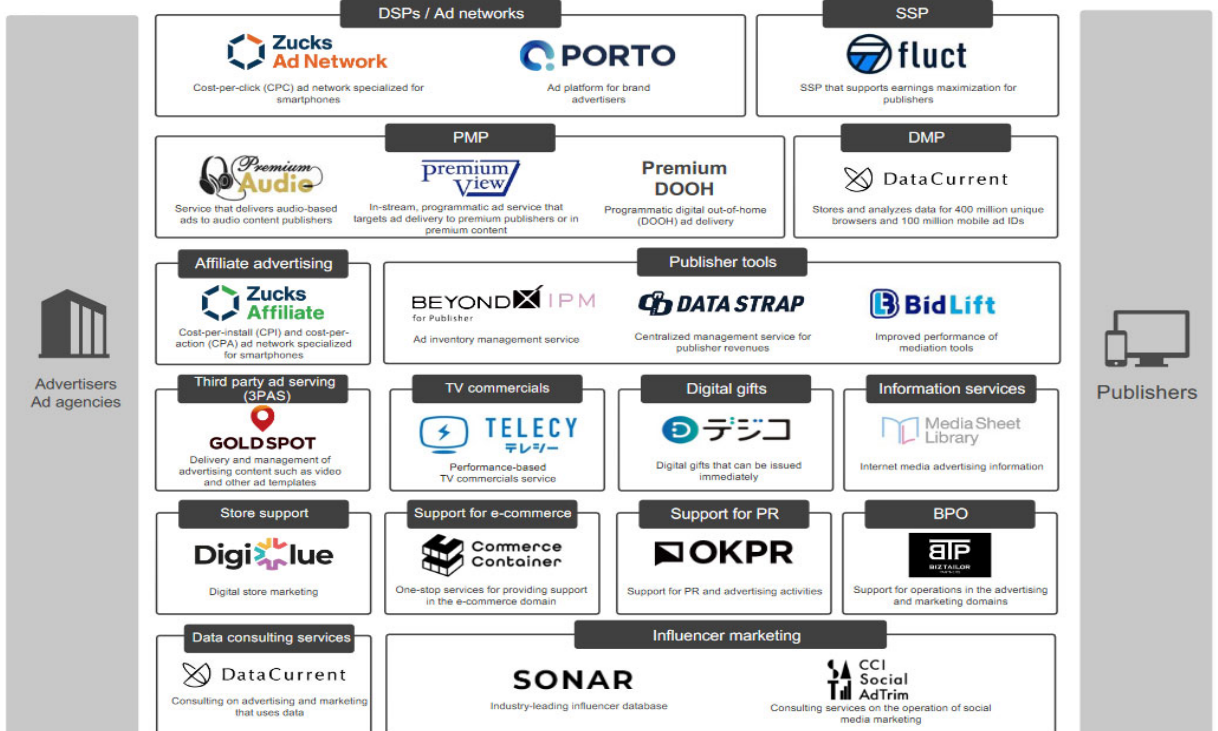
One of CARTA’s roles within Dentsu Inc. is to accelerate the digital transformation (DX) of media solutions in Japan. The merged company combines the best of VOYAGE’s digital advertising technology with Cyber Communications’ publisher and media connections. Today, CARTA offers a broad range of digital solutions from consumer businesses, promotional and performance ads, to brand building.

Historically, advertising in Japan had been dominated by traditional media, such as TV and newspapers. However, with consumers spending more and more time online, digital advertising has become increasingly important. Nowadays, brands need a digital strategy that can reach audiences at any time and any place. As such, digital advertising will continue to grow in importance.

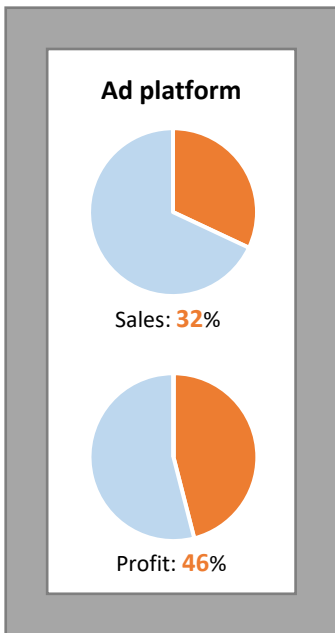
In addition to the changing behavior of consumers, digital advertising has been driven by technology and data. This has led to a dramatic shift towards programmatic ad campaigns run through digital advertising platforms. Programmatic platform enable advertisers to target consumers more accurately. Moreover, the underlying data and analysis provide greater clarity on the success and return on investment for each marketing campaign. By removing much of the human negotiation out of the ad buying process, programmatic networks are often more affordable than the traditional advertising agency relationship.

A modern ad platform business has various components and CARTA is no exception. The chart below highlights how these parts fit together. For further explanation, please see the glossary section of the report on digital terms.

**Exhibit 2: CARTA’s advertising product and service map**



Source: compiled by Sessa Partners from CARTA Holdings, FY12/20 Presentation materials



**CARTA’s revenue mix**  
1/ Ad platform

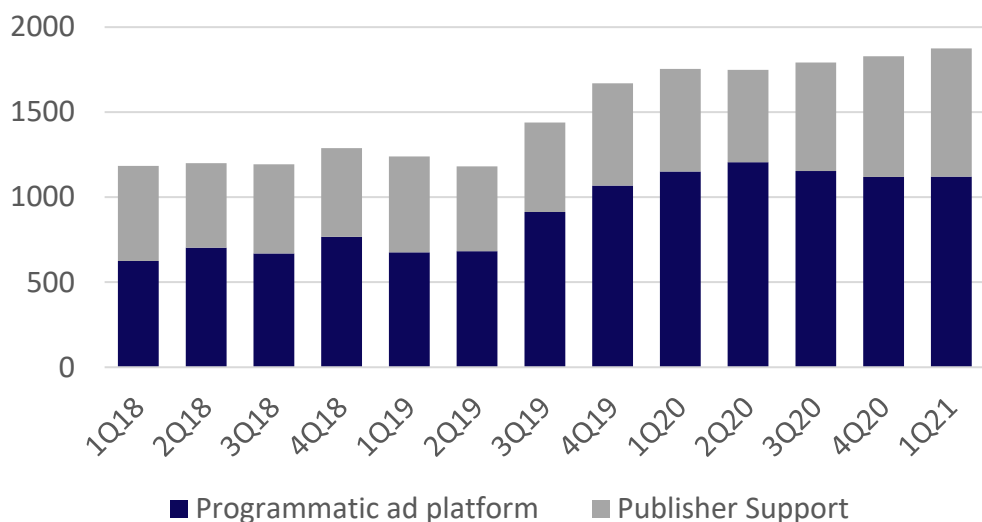
**Exhibit 3: Ad platform business**



Source: compiled by Sessa Partners from CARTA Holdings, 1Q FY12/21 Presentation materials

The Ad Platform business operates in a fast-moving environment driven by technology. In response to the shifting landscape within ad tech, Ad Platform revenue is split into two sub-segments – Programmatic Ad Platforms (60% of segment sales) and Publisher Support (40% of segment).

**Exhibit 4: Ad platform sales, quarterly (¥m)**



Source: compiled by Sessa Partners from CARTA Holdings, 1Q FY12/21 Presentation materials

**Programmatic ad platforms (60% of segment sales)**

**PORTO** is a DSP ad platform that is popular for brand advertisers. PORTO distributes ads only to media that have verified content that has been properly processed for rights such as copyright and content. Hence, advertising can be delivered in a “brand-safe environment.” PORTO measures, manages, and distributes ads across all formats, online and offline. As an example, PORTO runs Premium Audio Ads with key publishers like Spotify.





**TELECY** is a programmatic TV commercial service. It was previously known as PORTO.TV and is operated as a JV with Dentsu Inc. TELECY allows advertisers to easily publish TV commercials with a minimum ad spend of ¥1m (\$9,000), while enjoying the same analytics usually found in internet advertising. TELECY is a one stop shop from planning to CM production to measurement.



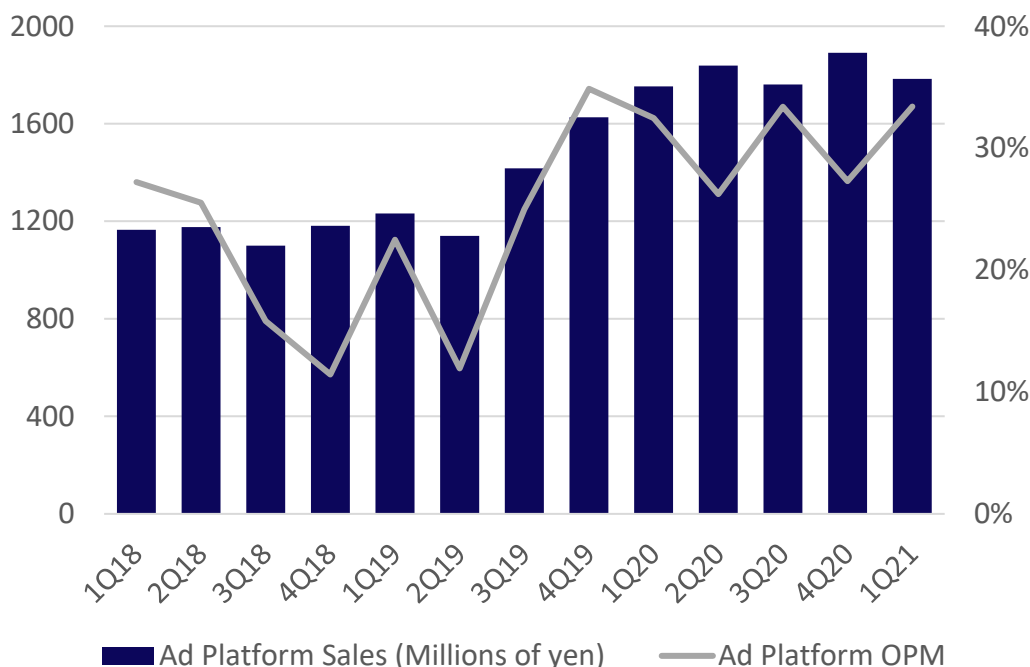
**Zucks** is a cost-per-click ad network specialized for smartphones that provides two platforms “Zucks Affiliate” and “Zucks Ad Network.” Zucks Ad Network is Japan’s largest smartphone CPC ad network, while Affiliate is the largest smartphone CPI / CPA advertising network. Zucks helps advertisers with problems such as user acquisition and app monetization.

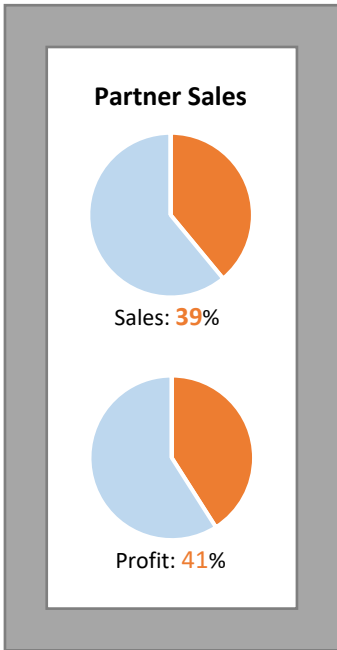


**Publisher Support Services (40% of segment sales)**

**fluct** is an SSP that maximizes media advertising revenue. fluct has been operating its SSP since 2008 to optimally distribute ad placement to more than 17,000 media owners and apps. fluct has recently expanded its efforts for voice and video advertising, providing distribution slots that match the advertiser's campaign. fluct connects with over 75 DSPs and ad networks in Japan and overseas, including Trade Desk.

**Exhibit 5: Ad platform sales (¥m) and operating margin trend, rhs**





**2/ Partner Sales**

The Partner Sales Business is responsible for media planning and support for clients (advertisers and agencies). CARTA provides all the functions necessary for marketing activities for advertisers – media planning and buying, content production, consulting, and analytics. The company also provides comprehensive support and services for over 1,500 publishers in Japan. These services include website improvements, ad product development, earnings maximization, and content development. All the services provided to advertisers or publishers, rely on the data held by CARTA.

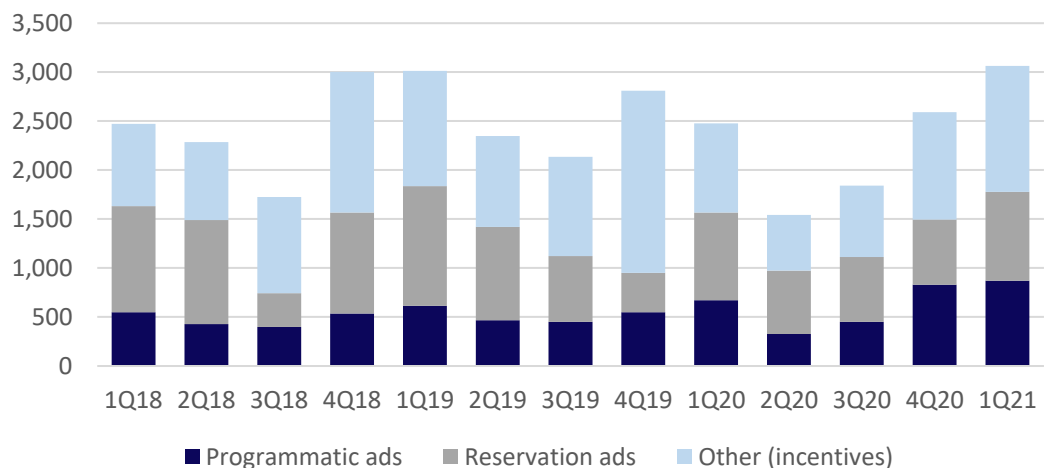
**Exhibit 6: Partner sales business services**



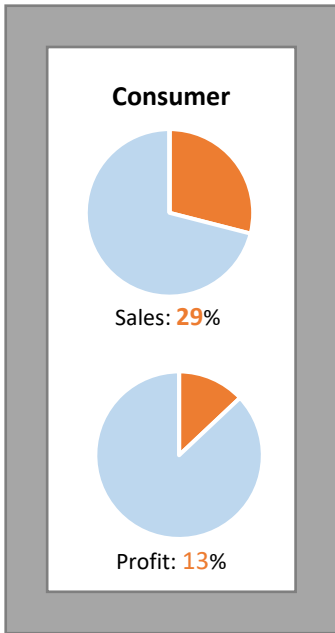
Source: compiled by Sessa Partners from CARTA Holdings, 1Q FY12/21 Presentation materials

In terms of sales, the Partner sales segment is broken down into Programmatic ads, Reservation-based ads, and other incentives.

**Exhibit 7: Partner sales business revenue mix (¥ mn)**



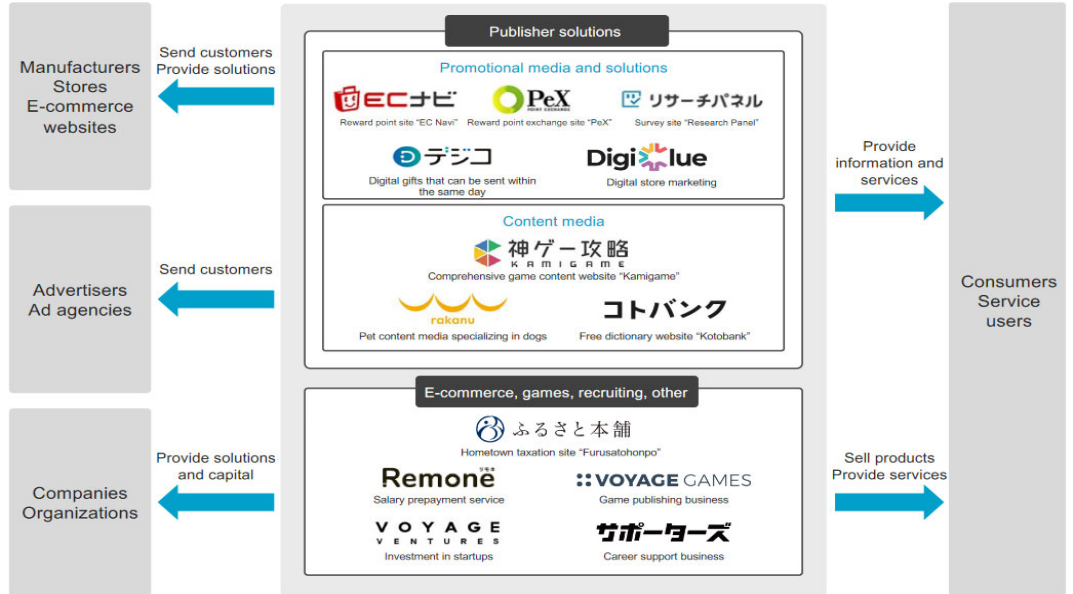
Source: compiled by Sessa Partners from CARTA Holdings, 1Q FY12/21 Presentation materials



**3/ Consumer**

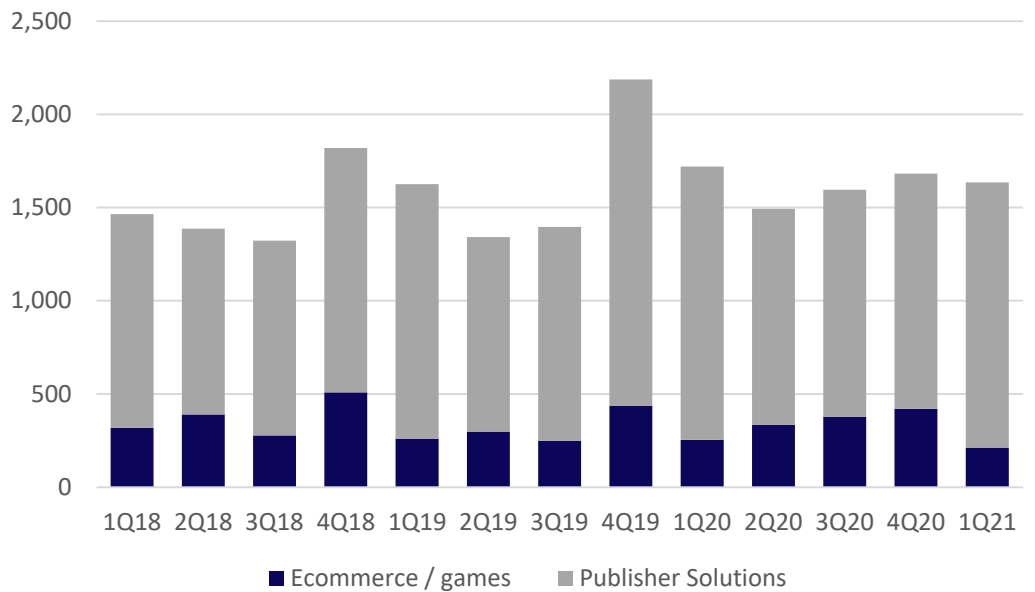
The consumer business segment includes a diverse range of new services that help to promote the vertical integration of the entire group. The consumer segment is involved in the operation of owned media, e-commerce websites, and smartphone game development.

**Exhibit 8: Media business services – published media & content**



Source: compiled by Sessa Partners from CARTA Holdings, 1Q FY12/21 Presentation materials

**Exhibit 9: Media revenue breakdown (¥mn)**



Source: compiled by Sessa Partners from CARTA Holdings, 1Q FY12/21 Presentation materials



**PART TWO**



Global Ad Market 2021: US\$657b

**Transformation on track**

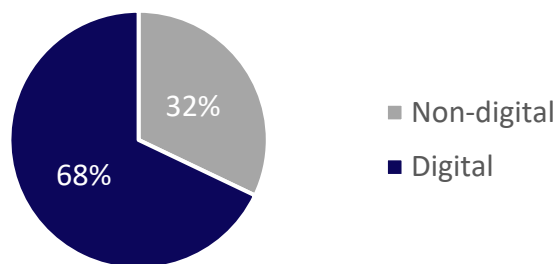
**1 The transformation of digital advertising in Japan**

Historically, the Japanese market has been relatively slow to adapt to digital media. Nevertheless, the trends in Japan are similar to the rest of the world. Traditional advertising is cyclical and tied to the health of the economy, while digital advertising is enjoying structural growth. CARTA is well positioned to benefit from the shifting consumer habits and technological innovation in advertising.

**The Global Advertising Market**

Advertising spend is highly correlated with GDP growth and with the severe economic recession triggered by the COVID-19 pandemic, advertising spending contracted in 2020. Global advertising revenues are estimated by MAGNA to have decreased by around -2.5% in 2020, with double digit decline of linear ad sales (TV, print, radio, OOH, cinema), offset by stability (+1%) growth in digital formats. Global advertising spending is projected to grow by 14% to \$657b in 2021, on a strong economic recovery.

**Exhibit 10: Global Advertising Forecasts - 2021**



Source: compiled by Sessa Partners from Magna Global Advertising Forecasts – June 2021

Digital advertising has benefited tremendously from increased digital media usage during the pandemic and global lockdown, while the continued structural shift to ecommerce was also a major factor driving the advertising mix.

Aside from shifting consumer habits, the rising share of digital ad spend has been driven by technological innovation. Digital ad spending surpassed traditional media in 2019 and it is expected to reach over two-thirds of total media spending in 2023. Around 85% of digital ads are bought and sold through programmatic advertising, with only a small number now bought and sold directly and manually.

**The Japanese Advertising Market**

According to Dentsu, in 2020, advertising expenditure in Japan amounted to \$55 billion (down 11.2% year on year), reflecting the impact of Covid-19 and the cancellation of the Tokyo Olympics. This was the first market contraction in nine years since the Great East Japan Earthquake of 2011. The Japanese advertising market is still far behind the digital transition curve, with TV taking a pervasive 27% share.

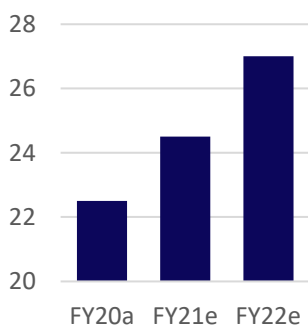
Like the rest of the world, the pandemic has accelerated the digital transformation (DX) of social and work life. Consequently, internet advertising had a record year, driven by demand for delivery, online commerce, conferencing, remote work and cashless payments.

Digital ad spend in Japan amounted to \$21 billion, up 5.9% year-on-year. As a result, 2020 has been the cross-over year for digital ad spending in Japan, surpassing traditional media spend for the first time. Video advertising was \$3.5 billion, up 21.3% from the previous year, and accounted for 22% of digital ad spend. Programmatic advertising grew by 9.7% year on year and accounted for 83% of digital advertising.

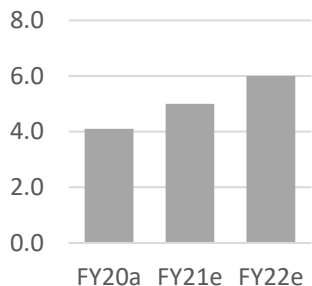


Japan Ad Spend US\$59b

MTP Sales Target (¥bn)



MTP EBITDA Target (¥bn)



**Exhibit 11: Advertising Expenditure in Japan by medium**

	2019	2020	YoY	2020
	¥ bn			\$ bn
<b>Traditional</b>				
Newspaper	455	369	-19%	4
Magazines	168	122	-27%	1
Radio	126	107	-15%	1
Television	1,861	1,656	-11%	16
<b>Total Traditional</b>	<b>2,609</b>	<b>2,254</b>	<b>-14%</b>	<b>21</b>
<b>Total Internet</b>	<b>2,105</b>	<b>2,229</b>	<b>6%</b>	<b>21</b>
<b>Total Promotional Media</b>	<b>2,224</b>	<b>1,677</b>	<b>-25%</b>	<b>16</b>
<b>TOTAL</b>	<b>6,938</b>	<b>6,160</b>	<b>-11%</b>	<b>59</b>

Source: compiled by Sessa Partners from Dentsu, Advertising Expenditures in Japan for 2020

**② The Transformation of CARTA’s group structure**

CARTA’s medium-term management plan (MTP) was launched upon completion of the merger between Cyber Communications and Voyage in 2019. The “CARTA 2022” plan outlined three clear commitments. These were to:

- promote business synergies by integrating and streamlining the ad platforms.
- collaborate more closely with parent Dentsu Inc. by co-developing new services.
- and improve productivity by rationalizing human resources and systems.

Over the past two years, CARTA has executed on the plan and the merging of the two teams has proceeded faster than originally planned. The duplicate ad platforms have been consolidated into services, like PORTO, while CARTA has increasingly collaborated with Dentsu Inc. on key products, such as TELECY. We highlight these two growth drivers in the next section.

In terms of numbers, the MTP is focused on profits (EBITDA), capital efficiency (ROE) and shareholder returns (DOE).

**Exhibit 12: Mid-term plan targets**

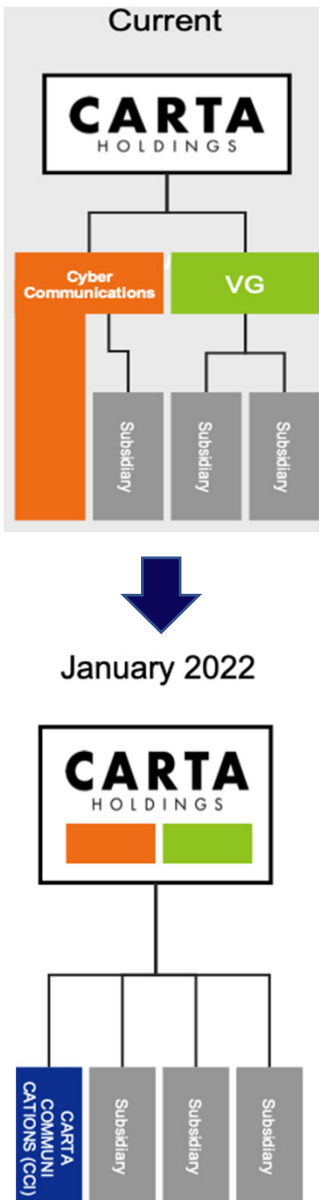
FY2022 Management Targets		
Income	EBITDA	¥6.0 billion
Capital Efficiency	ROE	12%
Shareholder Returns	DOE	5%

Source: compiled by Sessa Partners from CARTA Holdings, FY12/20 Presentation materials

The business integration has set CARTA on a path towards meeting its financial goals by 2022. As such, attention now turns towards building a management structure to drive sustainable growth over the coming several years. This includes three key initiatives:



Group structure change



1. Simplify the management level into a single layer, with the business units turned into operating subsidiaries, able to make their own speedy decisions.
2. Integrate all back-office departments from Cyber Communications and Voyage into CARTA HOLDINGS, including HR, Technology, Audit and Corporate. Most importantly, the HR system, will be integrated allowing for a more efficient, transparent, and productive utilization of the 1,500 group employees.
3. Improve Corporate Governance. CARTA is building a better governance system, with a separation of supervision and execution. The Board will focus on its supervisory function, with three internal directors and four external directors, providing better oversight over the Executive Team. The executive team will be made up of five officers, representing the core segments and the CTO.

Exhibit 13: Board structure and key management

**Directors: 7**

- Full-time Directors: 3**
  - Shinsuke Usami, Chief Executive Officer (Re-election)
  - Akio Niizawa, President (Re-election)
  - Hidenori Nagaoka, Director CFO (Re-election)
- Part-time Directors: 4**
  - Taro Saito, Independent Outside Director (Re-election)
  - Kouhei Takashima, Independent Outside Director (Re-election)
  - Shuji Yamaguchi, Independent Outside Director (Re-election)
  - Makiko Ishiwatari, Independent Outside Director (New candidate)

**Executive Officers: 5**

- Taku Meguro, Executive Officer, Partner Sales SBU Manager
- Wataru Sato, Executive Officer, Partner Sales Deputy SBU Manager
- Masashi Nishizono, Executive Officer, Ad Platform SBU Manager and Partner Sales Deputy SBU Manager
- Kazuyuki Furuya, Executive Officer, Consumer SBU Manager
- Masanori Koga, Executive Officer and CTO, Technology Division General Manager

Source: Company material

③ Product Transformation

CARTA is looking to aggressively grow the Ad Platform business over the next several years. Here we highlight two of the key growth initiatives that have been launched in collaboration with Dentsu Inc.: TELECY and PORTO.

**TELECY – promoting the Digital Transformation of traditional media.**

CARTA launched an operational TV commercial platform, TELECY. Traditionally, it was difficult to get timely feedback on the effectiveness of TV commercials and this was a problem given the high cost of producing and placing a commercial. Despite drawbacks about monitoring campaign effectiveness, television remains a popular choice for brands in Japan given TV’s breadth of reach.

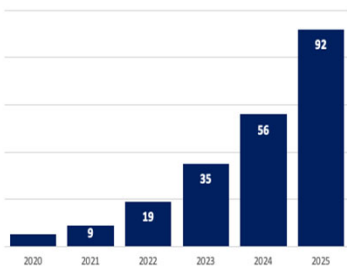
TELECY is an operational TVCM platform that allows you to easily place TVCMs starting from a minimum of 1 million yen, and to run the PDCA cycle while carefully checking the effectiveness. It is a joint venture with Dentsu Inc., and its strengths lies in Dentsu's powerful buying power for TVCM slots and the analysis functions CARTA has cultivated through the operation of advertising platforms. As with online advertising, TV commercials can be monitored using CPM/CPA/CPI\* indicators, making it possible to operate while checking cost effectiveness.

With the success of digital marketing and programmatic advertising transactions, there is now wide-spread demand for centralized visualization and measurement of ALL advertising effectiveness. It is this ability to clearly measure and optimize the impact of the commercials using digital marketing tools, TELECY Analytics, that will drive increased adoption by clients.

CARTA has high hopes for the growth of operational TV and predicts that the market will expand from around ¥5 bn in 2020 to ¥92 bn in 2025.

\*  
CPM: Cost Per Miles  
CPA: Cost Per Acquisition  
CPI: Cost Per Install

Performance-based TV commercial market size, (¥ bn)



Source: TELECY website

**Exhibit 14: TELECY Performance Dashboard**



Source: TEREY

At present, the main competitor for TELECY is *Novasell*, operated by **Raksul (4384)**. Novasell offers a comprehensive ad service from TV commercial production, broadcasting, and measurement of effectiveness. Novasell started a few years ago, by providing TV commercials targeting internet and start-up companies. Recently, however, Novasell teamed up with *ADK Group*, Japan’s third largest advertising agency, to offer the service to a larger range of corporate customers. For the most recent quarter (2Q FY21) segment revenue grew to an all time high of ¥1.2b, up +68% YoY. TELECY could follow a similar growth trajectory given the growth outlook for this market.

**PORTO – brand ads**

PORTO is an ad platform for advertisers who place importance on branding. PORTO enables the programmatic distribution of ads, with integrated measurement, management, and distribution of various formats such as audio, in-stream\*, DOOH (Digital Out of Home), and premium online and offline media. PORTO connects to large media outlets in Japan like Spotify, Gya!, and LiveBoard. A key competitive advantage is that PORTO cooperates with the world standard (IAS/Oracle) to guarantee brand safety and protect against Ad fraud.

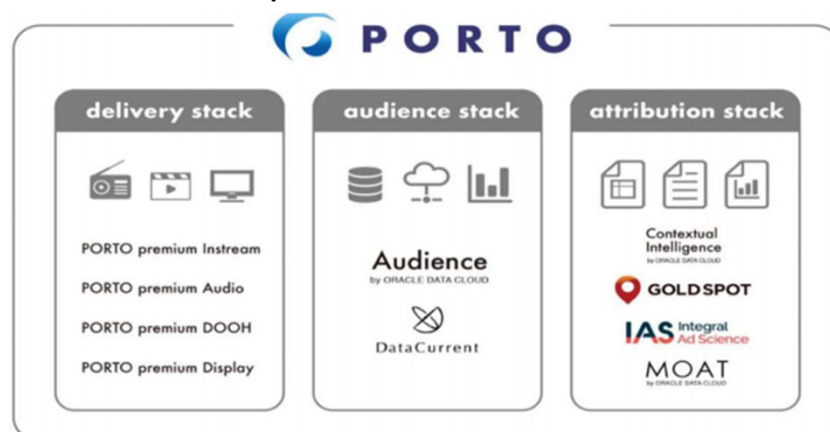
\* Video ads before and during video

**PORTO in Practice: PORTO + LIVEBOARD**

OOH (Out-of-Home) advertising is the simple traditional advertising boards, where an audience can view an ad in a public space, or transportation routes. DOOH makes use of multiple digital screens with multiple animated images that can interact with people, making it more energetic and interactive. DOOH has been growing rapidly globally with an overall market size of around \$20 billion in 2020. It is unique medium for advertisers, given the ability to deliver creative content to separate locations in a dynamic and context-dependent format (for example, a camera could detect yawns and deliver a coffee advertisement).

Until now, Japan has lagged the rest of the world in DOOH, due to the lack of digital technologies. LIVE BOARD (a JV between NTT and Dentsu) is Japan’s first DOOH advertising platform that enables programmatic transactions based on impressions. PORTO delivers DOOH ads to the LIVE BOARD Marketplace. LIVE BOARD promotes digitization of analog boards and creates a network with them, making the ad’s more effective. The programmatic DOOH via PORTO allows brands to set detailed as well as precise conditions that trigger the DOOH advertising slot.

**Exhibit 15: PORTO ad platform**



Source: Company material

**Financials**

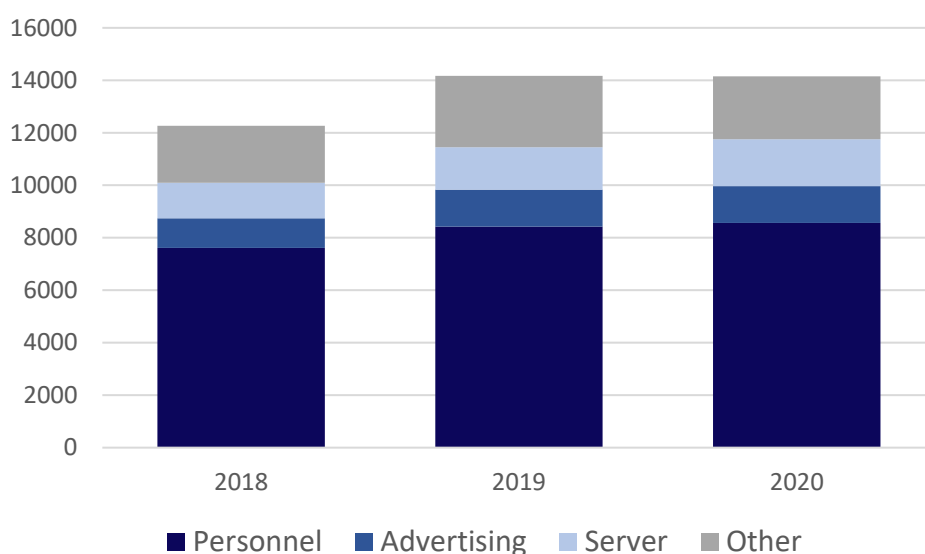
**Income statement: proactive cost control**

For the year ended December 2020, CARTA reported a 1.2% increase in sales to ¥22.5 billion and operating profit of ¥3.5 billion, up 12.6% year-on-year. The year was affected by the Covid-19 pandemic, which affected advertising spend early in the April state of emergency. However, once this was lifted, the performance advertising quickly recovered to the level of the previous year. Brand advertising started to recover more slowly given the longer lead times from campaign proposal to placement, but this too started to recover from September.

By segment, sales in the ad platform business surged 33.8% last year, which included the newly launched operational advertising platform, TELECY. Partner sales decreased by 15.8% year on year due to clients scaling back on brand advertising campaigns through the corona crisis. Consumer Business sales were flat (-0.9% year on year).

Marketing is traditionally a ‘people heavy’ service. The pandemic has drawn attention to the companies cost bases in terms of payroll and property costs. CARTA successfully held operating expenses flat in 2020 at ¥16.2 billion. Staff costs make up the bulk of the cost at 52% of total SG&A. Staffing costs were up 1.7% on the year, but other cost reductions were put into place, with the company benefiting from downsizing the Higashi-Ginza office and switching to a more flexible working style (hot desks).

**Exhibit 16: SG & A expense breakdown (¥ mn)**



\* Figures from 2018 are the simple sum of VOYAGE GROUP and CCI results (unaudited), with the early application of new revenue recognition standards (recording on a net basis) and segment changes retrospectively applied for the purpose of comparison\*Figures for 2018 and 2019 exclude CMerTV

Source: compiled by Sessa Partners from CARTA Holdings, FY12/20 Presentation materials

**PART THREE**

\* Cash Flow from Operations

**Cashflow and Balance sheet: conservatively financed**

CARTA’s balance sheet is conservatively financed. Net cash amounts to ¥15.4billion, with a further ¥4b invested in securities, out of total net assets of ¥24.5 billion. Given the company’s nature as a marketing business, there is little need for fixed assets, which account for just 2.5% of total assets of ¥49 billion. The balance sheet is tied up in working capital - trade receivables (¥17.7b) and payables (¥16.5b).

CARTA’s business model has inherently attractive cash flow properties, with an EBITDA to cash conversion of 95% over the past two years on average. (CFO\* of ¥7.8b / EBITDA ¥8.2b). As such, the free cash flow can be earmarked for M&A or shareholder returns.

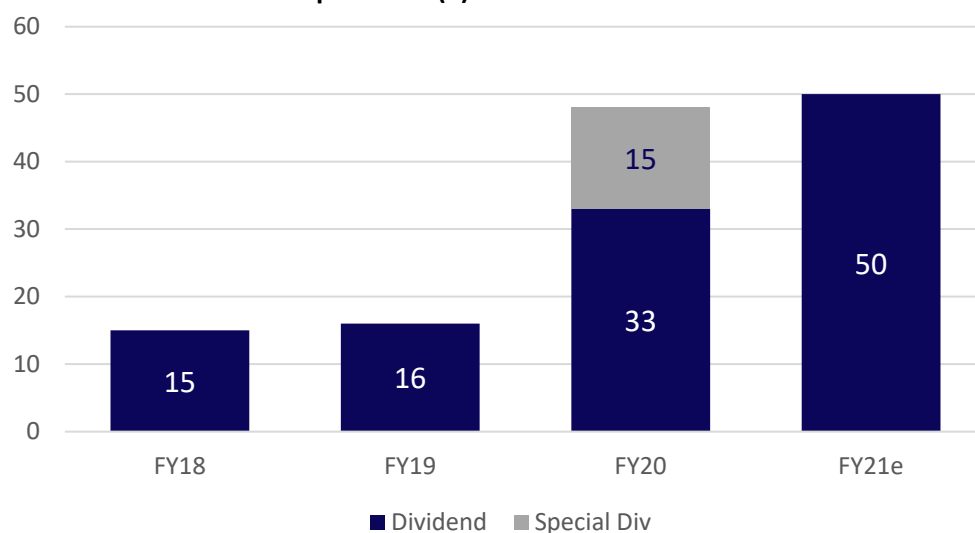
The aim now is to keep an efficient balance sheet and invest for future growth. The high net cash position should allow for continued investment in organic growth and M&A.

**Shareholder returns: focus on capital efficiency**

At the recent results announcement, CARTA revised its shareholder return policy. In the past, the company had targeted a payout ratio of 25%, but in the future, in order to increase capital efficiency, the policy was revised to a 5% Dividend on Equity (DOE).

Furthermore, CARTA intends to implement share buybacks based on maintaining a ratio of tradeable shares of 35%, which is one of the listing criteria of the “Prime Market”, a new market classification currently being considered by the Tokyo Stock Exchange.

**Exhibit 17: Dividend per share (¥)**



Source: compiled by Sessa Partners from CARTA Holdings, FY12/20 Presentation materials

### **ESG and Governance**

As a core subsidiary of Dentsu Inc., CARTA is intimately involved within the sustainability initiatives of the parent. The Dentsu Inc. has a corporate social responsibility (CSR) committee, on which CARTA is represented. Senior executives of group companies form the committee, with Chairman Usami the representative for CARTA.

The Committee has identified several strategic focus areas where they believe their impact can be most significant: 1) climate change, 2) sustainable consumption and production, 3) diversity and inclusion, and 4) human digital rights.

#### **• Climate Change**

The group has a target of converting all group companies to renewable energy by 2030. Measures to reduce emissions, including office consolidation, have led to a cut in paper use, water, and waste. The group will continue to take measures to reduce their carbon footprint, including reduced business travel. CARTA, acquired ISO14001, the international standard for effective environmental management system in January 2021. The goal is to continue to improve work processes and minimize environmental impact and risk.

#### **• Sustainable consumption and production**

In 2019, Dentsu Inc. joined several larger clients to form *#BrandForGood*, a movement to transform the role of marketing and advertising to make sustainability more aspirational for consumers. The aim is to encourage consumers to adopt nine sustainable behaviors and promote more sustainable living.

#### **• Promoting diversity and empowering women**

CARTA now has 3 independent external directors, 43% of the board. The company is certified by the Ministry of Health, Labor and Welfare as *Eruboshi*. This means it has achieved excellence in the promotion and of female participation and career advancement in the workplace.

#### **• Respect for Human and Digital Rights**

The committee is focused on data privacy and protection, an important priority for the businesses. Dentsu Inc. is a strategic partner to the Global Alliance for Responsible Media – a group that aims to improve digital safety.



## **Sensitivities and Risks**

### **Privacy**

In recent years, privacy has been brought to the forefront of the digital discussion and how data is being collected and analyzed. The fight over what data can be collected, who can collect it, and who owns the data has resulted in legislation, such as GDPR, CCPA and CRPA.

- **GDPR - General Data Protection Regulation:** A European Union law aimed at unifying privacy regulation within the EU by giving control to individuals over their personal data and simplifying the regulatory environment for international business.
- **CCPA - California Consumer Privacy Act:** A California state statute intended to enhance privacy rights and consumer protection for residents of California through strict data restrictions.
- **CPRA - California Privacy Rights Act:** Expands and amends the CCPA.

Despite the changing regulatory landscape, the past few years has been one of slow adjustment rather than wholesale transformation. However, the pace of change is picking up dramatically. As a result of GDPR, tech companies that own device operating systems and web browsers have also had to rethink data protection. The simple solution – ending the use of cookies and mobile device IDs – is simple and effective. For the ad tech industry that relies on these identifiers to personalize and automate advertising it brings fresh challenges. CARTA's share of targeted ads is relatively small, so the impact will be limited.

### **IOS14 changes**

Apple's latest software update, iOS 14.5, bans apps and advertisers from collecting data about iPhone users without their explicit consent. Most users are expected to decline to be tracked, dealing a potentially huge blow to how the mobile advertising industry works.

What seems like a minor change by allowing iOS users to decide whether advertisers can track them on other websites and apps will have wide-ranging effects. Digital ad platforms have been so successful because they have been able to track a user's online behavior without limits. The extent to which digital advertising platforms can maintain their advertising performance depends on how heavily they have invested in cross-device tracking, using multiple identifiers outside of IDFA, which is the unique device ID assigned to each iPhone, to link users and devices together. CARTA believe that the impact from the iOS changes will be limited given a low exposure to targeted ad distribution.

### **Unified ID - UID 2.0**

Now that third-party cookies are becoming extinct, companies including The Trade Desk, LiveRamp, BritePool and large data consultancies and brokers including Epsilon and Neustar offer these so-called alternate identifiers, some of which use email addresses or other personal information to create encrypted identity signals that can be used to track people across the web and target and measure advertising in programmatic ad systems.

**Valuation and peer comparison**

In the tables below, we compare CARTA Holdings versus local internet advertising firms, as well as global ad tech peers. The valuation metrics are backward looking but still provide a useful view how the company stacks upon traditional metrics.

CARTA is trading at 5x EV/EBITDA, with a revenue growth and EBITDA growth of close to 20%. CARTA looks attractively valued versus peers, which trade at EV/EBITDA of 15x, despite lower revenue growth.

The company has been going through the operational merger over the past two years and its possible the market has yet to discount the business transformation that is underway. However, with the visible progress and senior management commitment, cost synergies are likely to emerge, and underpin a multiple re-rating.

We also compare CARTA vs overseas Ad Tech peers: **Trade Desk, Magnite** and **Criteo**. Though a lot more difficult to compare due to differences in end markets, and product line up, CARTA looks attractively valued.

**Exhibit 18: Peer comparison**

Ticker	Name	Digital Ad Connection	Market Cap (\$m)	1Yr Pct Chg	EV/EBITDA (X)	TTM PE (X)	PBR (X)	Revenue growth (TTM)	EBITDA growth (TTM)	EBITDA Margin (TTM %)
3688	CARTA	Digital ad agency	357	82.7	5.2	21.7	1.3	16.0%	18.0%	19.0%
4751	CYBERAGENT	Digital marketing agency	10,063	90.2	18.8	69.9	9.0	5.5%	7.2%	8.0%
4384	RAKSUL	Digital TV CM	1,284	77.8	324.4	1759.4	12.1	25.2%	na	-0.4%
2491	VALUECOMMERCE	Affiliate marketing	1,077	39.5	13.6	48.9	7.0	13.5%	33.8%	24.9%
4293	SEPTENI	Digital ad services	598	118.3	12.4	27.5	2.5	6.8%	729.1%	17.8%
2461	FAN COMM	Affiliate advertising	281	-12.6	3.1	15.3	1.5	-14.1%	-22.0%	10.5%
TTD	TRADE DESK	Ad Tech	31,438	109.6	147.1	129.7	37.4	26.5%	31.5%	25.3%
MGNI	MAGNITE INC	Ad Tech	3,680	374.4	279.1	-65.0	9.2	41.7%	29.0%	5.9%
CRTO	CRITEO SA	Ad Tech	2,248	282.4	5.5	28.6	1.2	-8.4%	-35.9%	11.0%
<b>Median</b>				<b>90.2</b>	<b>13.6</b>	<b>28.6</b>	<b>7.0</b>	<b>13.5%</b>	<b>23.5%</b>	<b>11.0%</b>

Source: compiled by Sessa Partners

## Glossary of Digital Advertising Terms

- **Programmatic Advertising:**

Programmatic ad buying, put simply, is the use of software to buy digital advertising. Whereas the traditional method includes requests for proposals, tenders, quotes, and human negotiation, programmatic buying uses machines and algorithms to purchase display space.

- **Real Time Bidding (RTB)**

is a form of advertising technology where the advertising buyer uses a DSP to buy media ad spots on a per-impression basis in a bidding format. Media can be sold as impressions to the advertiser with the highest bid, which can drastically increase advertising income.

- **A Data Management Platforms (DMP)**

is a data warehouse. DMPs pull data from in-house systems and third parties and use that data to build detailed customer profiles that drive targeted ad campaigns. The DMP keeps track of customers in a single, centralized location; analyze customer data and connects to digital ad platforms so that those platforms know who to serve which ads or content.

- **Demand Side Platforms (DSPs)**

give advertisers the ability to buy ads in real time through a process of real time bidding (RTB). With DSPs advertisers can purchase ads on an impression-by-impression basis, by bidding on an incoming space within the milliseconds it takes to load a web page. DSPs connect to the publishers Supply Side Platform (SSP).

- **Sell-side Platforms (SSP)**

start the advertising process by sending information about an incoming impression to an ad exchange. This includes the type of ad, where it is located, demographic and geographic information and more. Once all bids are made, the SSP will select the highest bid and place the ad.

- **A Private Marketplace (PMPs)**

within a programmatic ecosystem allows buyers to take advantage of the benefits of automation, while also ensuring that deals meet their customization requirements. Typically, brands will use a combination of open exchange and PMP buying in order to maximize reach while also customizing campaigns.

- **Affiliate Advertising**

Affiliate marketing is a new twist on an old idea: getting a finder's fee when you refer a customer. Publishers introduce the audience to a product or service and, if they buy using a unique affiliate site link, the publisher commission.

- **Cost per Mile (CPM)**

is the cost per 1000 impressions (or how many times it is seen). This refers to how much it costs to have an ad published a thousand times on a website and is seen by users.

- **Cost Per Click (CPC)**

is a method that websites can use to determine the average times an advertiser has clicked on the relevant ad. CPC is also a widely used metric that advertisers incorporate to manage campaign budgets & performance.

- **Cost Per Acquisition (CPA)**

is a payment scheme like CPM and CPC; however, it differs in those advertisers only pay when the user completes the desired transaction, such as a purchase, download or free trial. Therefore, the advertiser only pays when an acquisition is made.

## Consolidated Statements of Income

(¥mn)

	FY12/2019 *15 months due to change in FY end	FY12/2020
<b>Total Revenue</b>	26,158	22,487
Total Cost of Sales	3,193	2,852
Cost of Sales	3,193	2,852
Gross Profit	22,966	19,635
Gross Margin	88	87
Selling, General and Administrative Expenses	19,126	16,172
<b>Operating Profit</b>	<b>3,840</b>	<b>3,463</b>
Operating Profit Margin	15	15
Non-Operating Income	169	149
Interest and Dividends Income	100	66
Non-Operating Expenses	196	277
Interest Expenses	2	
Income from Equity Method - Non-Operating	-89	-44
<b>Ordinary Profit</b>	<b>3,813</b>	<b>3,335</b>
Ordinary Profit Margin	15	15
Extraordinary Gains/Losses	-295	-280
Extraordinary Gain	141	231
Extraordinary Loss	436	511
Pretax Profit	3,517	3,055
Pretax Profit Margin	13	14
Income Taxes	1,395	1,190
Income Taxes - Current	1,799	1,321
Income Taxes - Deferred	-403	-131
<b>Net Profit Attribute to parent company shareholders</b>	<b>2,139</b>	<b>1,781</b>
Net Profit	2,122	1,865
Net Profit Attribute to non-controlling shareholders	-17	83

Source: SPEEDA, To enable financial comparison between companies from different countries with different accounting standards, the financial items in this section are standardized. Additionally, certain financial items such as Operating Profit, EBIT, EBITDA are derived figures.

## Consolidated Balance Sheets

(¥mn)

	FY12/2019 *15 months due to change in FY end	FY12/2020
<b>Total Assets</b>	<b>50,621</b>	<b>49,259</b>
<b>Current Assets</b>	<b>36,283</b>	<b>37,004</b>
Cash Cash Equivalents And Short-term Investments	14,547	15,695
Cash & Cash Equivalents	14,547	15,600
Short-Term Investment in Securities		95
Accounts Receivables	18,478	17,697
Inventories	436	564
Finished Goods and Merchandise	17	29
Other Inventories	419	535
Deferred Tax Assets - Current		
Allowance for Doubtful Accounts - Assets	-86	-51
<b>Non-Current Assets</b>	<b>14,338</b>	<b>12,255</b>
Property, Plant & Equipment (PPE)	1,692	1,276
Construction In Progress		
Intangible Assets	6,747	5,462
Goodwill	3,022	2,317
Investments and Other Assets	5,899	5,516
Investment Securities (inc. Subsidiaries and Affiliates)	4,246	3,959
Investment Securities	4,246	3,959
Deferred Tax Assets - Non-Current	176	155
Allowance for Doubtful Accounts - Fixed	-1	0
<b>Total Liabilities</b>	<b>26,901</b>	<b>24,705</b>
<b>Current Liabilities</b>	<b>25,020</b>	<b>23,287</b>
Trade Payables	18,110	16,655
Short-Term Debt	240	161
Short-Term Borrowings	20	19
Current Portion of Long-term Debt	220	142
Current Portion of Long-Term Borrowings	220	142
Asset Retirement Obligations - Current		70
<b>Non-Current Liabilities</b>	<b>1,881</b>	<b>1,417</b>
Long-Term Debt	277	207
Long-Term Borrowings	277	207
Deferred Tax Liabilities - Non-Current	875	596
Asset Retirement Obligations - Non-Current	536	468
<b>Total Net Assets</b>	<b>23,720</b>	<b>24,553</b>
<b>Total Shareholders' Equity</b>	<b>23,452</b>	<b>24,383</b>
Shareholders' Equity	22,755	23,924
Capital Stock	1,096	1,111
Capital Surplus	12,016	12,031
Retained Earnings	9,643	11,046
Treasury Stock	0	-264
Accumulated Other Comprehensive Income	690	452
Valuation Difference On Available-for-sale Securities	705	463
Foreign Currency Translation Adjustments	-15	-10
Share Warrants	8	7
Non-controlling interest	268	170

Source: SPEEDA, To enable financial comparison between companies from different countries with different accounting standards, the financial items in this section are standardized. Additionally, certain financial items such as Operating Profit, EBIT, EBITDA are derived figures.

## Consolidated Statements of Cash Flows

(¥mn)

	FY12/2019 *15 months due to change in FY end	FY12/2020
<b>Cash Flows from Operating Activities</b>	<b>5,902</b>	<b>2,013</b>
Depreciation and Amortization - CF	1,359	1,073
Depreciation - CF	1,023	766
Amortization of Goodwill - CF	336	307
Gain/Loss on Valuation of Securities and Investment Securities		
Gain/Loss on Sale of Securities and Investment Securities	163	-93
Gain/Loss on Sale of Investment Securities	163	-93
Gain/Loss on Sale of Stocks of Subsidiaries and Affiliates		
Gain/Loss on Sale of PPE	116	155
Interest and Dividends Received - Operating CF	39	38
Interest Paid - Operating CF	-3	-2
<b>Cash Flows from Investing Activities</b>	<b>3,987</b>	<b>66</b>
Payments for Purchases of Securities and Investment Securities	-376	-516
Payments for Purchases of Investment Securities	-376	-516
Proceeds from Sales of Securities and Investment Securities	441	569
Proceeds from Sales of Investment Securities	441	569
Purchases/Sales of PPE	-507	-97
Payments for Purchases of PPE	-507	-97
Purchases/Sales of Intangible Assets	-308	-219
Payments for Purchases of Intangible Assets	-308	-219
Proceeds from Sales of Intangible Assets		
Interest and Dividends Received - Investing CF		
<b>Cash Flows from Financial Activities</b>	<b>-549</b>	<b>-892</b>
Proceeds from Short-Term Borrowings	20	
Repayments of Short-Term Borrowings		
Increase in Long-Term Debt		
Proceeds from Long-Term Borrowings		
Repayments of Long-Term Debt	-478	-197
Repayments of Long-Term Borrowings	-478	-197
Proceeds from Issuance of Stock	21	14
Redemption/Retirement of Stock	0	-265
Cash Dividends Paid	-179	-404
Foreign exchange adjustment	-3	-134
Changes in Cash Flow	8,867	1,054
Cash & Cash Equivalent - Beginning	5,680	14,546
Cash & Cash Equivalent - Ending	14,547	15,600
Free Cash Flow (FCF)	9,889	2,079
Capital Stock	1,096	1,111
Capital Surplus	12,016	12,031
Retained Earnings	9,643	11,046
Treasury Stock	0	-264
Accumulated Other Comprehensive Income	690	452
Valuation Difference On Available-for-sale Securities	705	463
Foreign Currency Translation Adjustments	-15	-10
Share Warrants	8	7
Non-controlling interest	268	170

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