

INITIATION



Key indicators	
Share price(4/15)	1,307
YH (3/30)	1,529
YL (1/28)	915
10YH (21/9/9)	2,607
10YL (20/3/23)	552
Shrs. out (mm. shrs.)	5.867
Mkt cap (¥bn)	8.017
EV (¥bn)	7.013
EV/EBITDA. CE	9.7
Shr eqty ratio (12/31)	65.29%
FY12/21PER (act)	20.8x
FY12/21 PBR (act)	4.8x
FY12/21 ROE (act)	21.0%
FY12/21 DY (act)	0.7%

Share price chart (1 year)



Source: Trading View

Team Coverage

research@sessapartners.co.jp



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Benefiting from strong growth in SMS Messaging

Summary

Accrete Inc. is a pioneer in SMS distribution, where its distribution platform is used by domestic and overseas companies to send bulk messages to Japanese consumers. The market for enterprise messaging is growing rapidly as companies embrace SMS messaging for authentication services and digital transformation. The company's strategy is to use M&A and partnerships supported by organic growth to establish a strong position in the Asian market, including Japan which is estimated to be \$10bn of corporate demand¹. Accrete has grown sales at a four-year CAGR of 49%. The business is well-funded, profitable, and cash generative. The growing adoption of digital transformation, +Message, and entry into the Asian market should drive upside.

Leader in a growing market

Accrete is a leader in the growing market for SMS messaging and mobile customer engagement. The company services global aggregators (who have global IT companies as clients) and domestic enterprises. Enterprise messaging allows businesses to automate text messaging for many use cases such as ID verification, booking confirmation, business communication and payment reminder. Due to mature mobile phone penetration, SMS can be forced through telecom carrier networks to deliver messages instantly. Instant reach and powerful user engagement among an increasingly mobile user base have driven adoption. The Japanese SMS market is forecast to grow at an annualized 60% over the next several years.

Strong financial performance

The company has a strong track record for growth, with a four-year CAGR revenue growth of 49% and 75% for operating profit. Despite the impact of the COVID-19 pandemic on the Japanese economy, the SMS market has continued to expand rapidly and this is reflected in Accrete's strong performance. FY12/21 sales rose 59.5% to ¥2,765 million while operating profit expanded by 44.6% to ¥498 million.

Reinvesting to drive growth

The company's strong balance sheet with net cash of ¥1.2 billion is a solid foundation on which to grow the business. The company has increased its investment in R&D and lifted staffing levels to meet increased demand for its core services and the upcoming shift towards +Message. Expansion into new markets with the acquisition of a Vietnamese SMS provider will provide a material boost to the revenue outlook in 2022. The market for SMS messages in Vietnam is far larger than the domestic market and diversification of the group into the rapidly growing Asian market sets Accrete apart from domestic rivals. Additionally, Japan is undergoing rapid Digital Transformation in its enterprise sector, which will drive increased use of social media for business, requiring increased personal authentication and related services, providing strong tailwinds to Accrete's core business.

1 : MobileSquared GLOBAL A2P SMS DATABOOK REPORT 2019-2024

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Company Description: The SMS business model

Accrete Inc (hereinafter: Accrete) is a pioneer in SMS distribution in Japan. The Company has been providing SMS distribution services since 2003 and began offering corporate SMS distribution services, or A2P messaging (Application-to-Person) from 2010. Accrete is headquartered in Tokyo and employs 45 people, including directors.

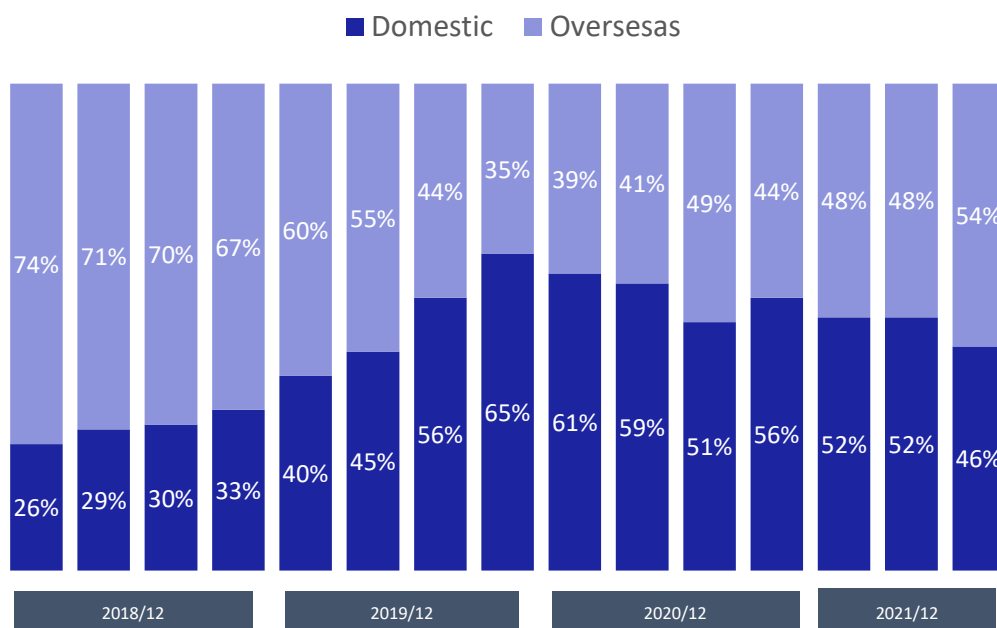
Accrete offers a reliable, large-scale distribution platform that enables stable SMS distribution. The platform was developed in-house based on long-standing engineering and technical capabilities and allows businesses to automate text messaging for booking confirmation, two-factor authentication, reminder, and more. Accrete's services are used by domestic and overseas companies that value its direct connection to all four mobile carriers in Japan and its ability to deliver SMS messages via approved routes in large volume.

For reporting purposes revenue is divided into two categories:

Domestic SMS (56% of FY2020 sales). Accrete provides several services for domestic companies that wish to connect with customers via SMS. While the client base has grown to over 2,500 companies, **the business model is transaction-based, meaning that the volume of SMS sent is the key revenue driver.**

Overseas SMS (44% of FY2020 sales). Global companies that wish to connect with Japanese consumers typically employ an overseas SMS aggregator, which connect to Accrete via an SMPP gateway to distribute SMS to domestic phone numbers. Accrete's services are highly valued given Accrete has a direct connection to Japan's mobile operators (legitimate route), thus avoiding spam and non-delivery. Similarly, the revenue model is based on the volume of SMS delivered.

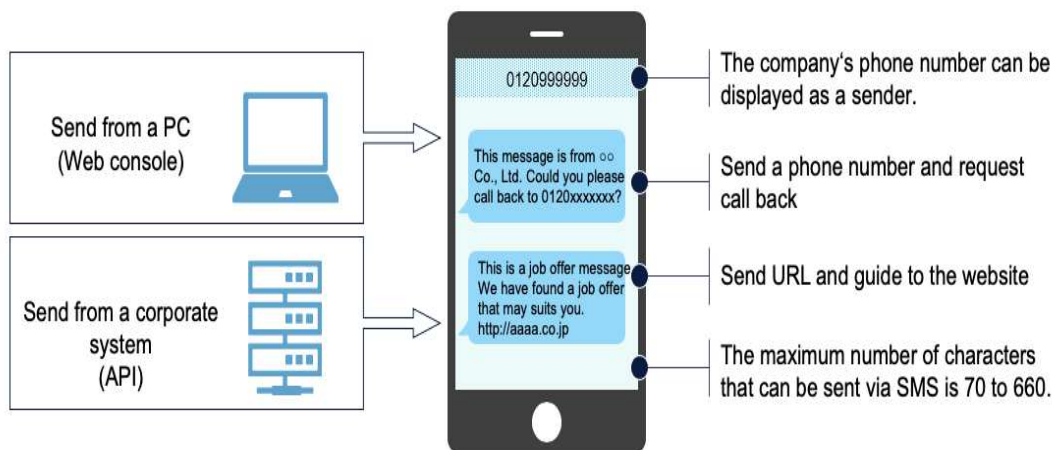
Chart: Quarterly Revenue Breakdown



Service overview

Companies can send millions of SMS messages per month using Accrete's service. Messages can be sent in two ways: through a computer system (API connection) or by a person (web management screen). Companies then receive the results of the transmission through APIs or web screens. Services are classified into seven cloud platforms services linked to phone numbers, although in practice customers tend to use multiple services.

Accrete's service offering



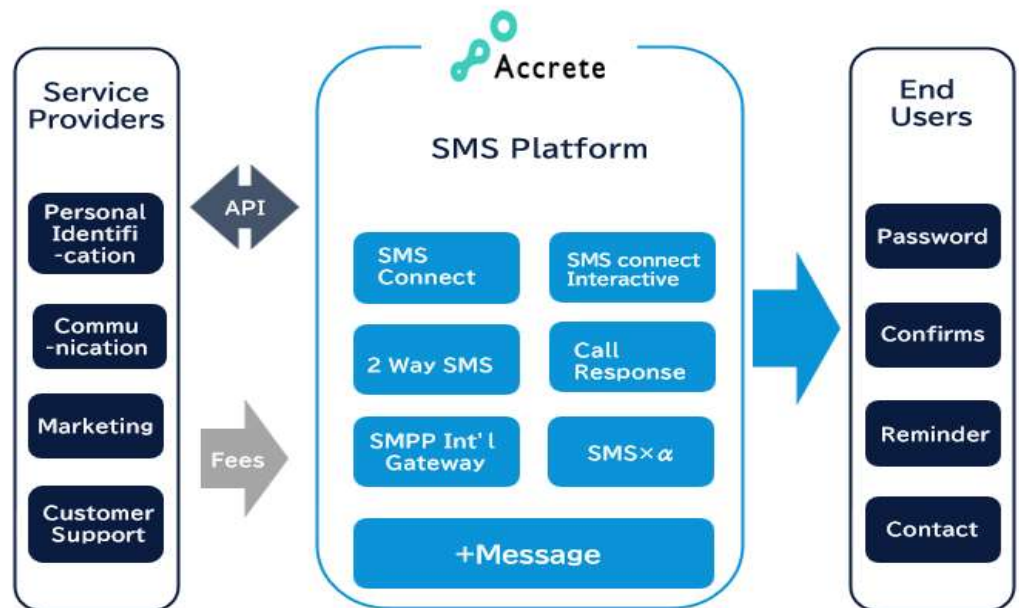
Source: Accrete Inc. company presentation

Service Offering

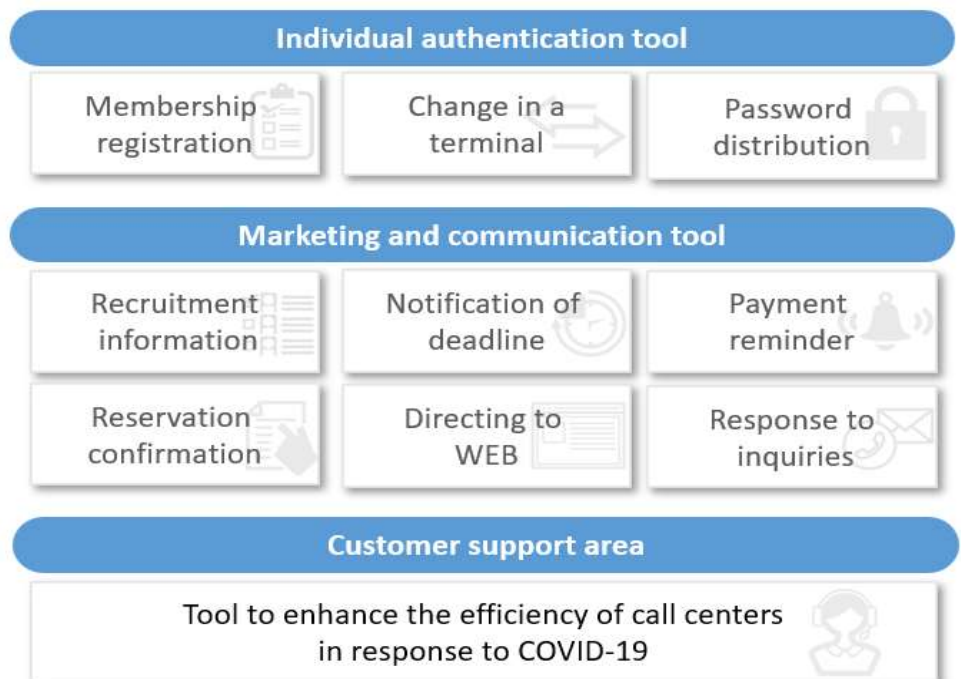
- 1) **SMS Connect:** Enterprises can use Accrete's API or WebApp to send multiple SMS messages. (See picture of web management screen on website) - global and domestic
- 2) **SMS Connect (two way):** a two-way SMS service that realizes two-way communication between companies and customers.
- 3) **IVR (interactive voice response):** An IVR service for authenticating phone numbers of users who cannot receive SMS. For example, a service that calls a landline number and reads out the authentication number for the user.
- 4) **Call via phone to get SMS:** a service that automatically delivers SMS to the mobile phone number of the user who called the IVR.
- 5) **SMPP International Gateway:** for connection with overseas aggregators
- 6) **SMS x alpha:** new SMS-based services through active system service alliances with partner companies.
- 7) **RCS/+Message:** Known in Japan as +Message, RCS enables people to send a wide variety of messages, including group chat, photos, videos, and stickers, using just the recipients' phone number

Platform Linkages

The chart below shows a graphical representation of Accrete’s platform linkages. The company’s 7 key services are in the center of the chart. Service providers, on the left, have a variety of communication and security needs (Personal Identification, Communication, Marketing, Support) that Accrete’s Platform efficiently provides to End users, represented on the right hand side of the chart.



Use Cases



Source: compiled by SIR from company materials

Globally, SMS messages are sent by businesses in all sectors and tend to fall into a few, broad categories. MobileSquared estimates that 37 percent of all text messages sent by businesses are reminders and alerts, around 28 percent are passwords, 19 percent promotions & ads, and 17 percent are customer service updates¹.

For Accrete, many SMS messages (61% of 2019 sales) are used for personal authentication or two-factor authentication (2FA). Authentication services have been widely adopted by online banks, payment services, and global IT companies (Google and Facebook) to grant secure access to a websites or applications.

Enterprise communication (36% of 2019 sales) messages are used by businesses to send reminders and other alerts. With wider adoption of Rich Communication Services (RCS, or +Message as it is known in Japan), enterprise communication is expected to grow rapidly.

Benefits of using Accrete's SMS service

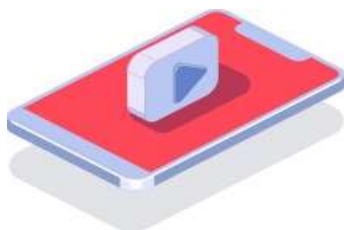
Reach – SMS messages can be delivered to almost any mobile device and given the extremely high penetration rates of mobiles phones in Japan, almost everyone has access to SMS texts.

Immediacy – An SMS is an excellent means to convey a short message or important notification. SMS has a very high arrival and opening rate.

Identity – Japanese people very rarely change their phone number, especially given MNP (mobile number portability). The phone number becomes attached as a proof of identity to the person meaning it is a safe and secure communication method.

Areas for future use of SMS and Accrete services

Apps, IT Services



Call Centers



Administration



Automation / RPA



Financial Institutions



Distribution / Logistics



SMS has a stunning global read rate of 95% within 2 minutes²



Mobile reaches 67% of the global population



MARKET - Driven by an increasingly mobile consumer

What is A2P SMS?

SMS, the original mobile communications channel, has been around since 1992, and still lets people send and receive prompt, cost-efficient text messages anywhere in the world. Peer-to-peer (P2P) mobile messaging revolutionized the way people communicate with each other. More recently, business messaging migrated from email (which is slow and unresponsive) to SMS, or A2P Messaging (Application-to-Person Messaging). A2P Messaging allows businesses to automate text messaging for booking reminders, two-factor authentication, text message alerts, text-based, and more. Instant reach and powerful user engagement have driven the adoption of A2P messaging.

From SMS to RCS (+Message)

RCS (Rich Communication Services) is a global and emerging messaging protocol whose multifeatured, interactive multimedia experiences could supplement or even replace SMS. RCS messaging is similar to mobile apps like Line, Facebook Messenger, iMessage, WeChat, and WhatsApp. It offers the same kind of advanced messaging functionality you get with those apps. In Japan, +Message is a messaging platform developed by the network operators to provide a trusted, secure, and safe channel for brands to connect with consumers.

What are the market drivers?

The growing mobile subscriber base is fueling the A2P market. By the end of 2019, 5.2 billion people subscribed to mobile services, accounting for 67% of the global population³. With the increase in the mobile subscriber base, enterprises can connect directly with their customers more efficiently across the globe.

The global COVID pandemic has further fueled the shift to mobile and transformed business messaging from a functional channel into the mainstream alongside TV, the internet, and social media. Demand for business messaging channels is on the rise - 1.3 million global businesses started using A2P SMS in 2020, taking the total number of businesses using the channel globally to just under 8 million⁴.

Even with rapid growth in the number of businesses starting to use A2P SMS for the first time in 2020, there are still less than 3% of total registered businesses using it. This highlights those businesses are only now starting to buy into the concept of using SMS to communicate with customers.

Juniper Research estimates that global enterprises sent 2.5 trillion messages last year⁵. The mobile business messaging market is made up of three main messaging protocols: SMS, RCS, and OTT (Over-the-Top) messaging applications.

Notes:

² Gartner, The Future of Sales Follow-Ups: Text Messages, October 4, 2019

³ GSMA, The Mobile Economy 2020

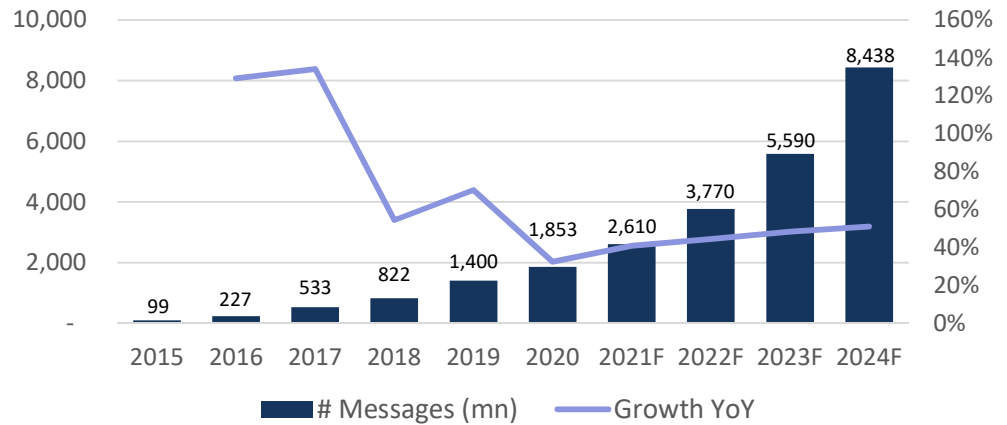
⁴ MobileSquared, The Impact of COVID-19 on Business Messaging 2020, White Paper

⁵ Juniper Research, Mobile Business Messaging to Reach 2.7 Trillion Globally in 2020, September 15, 2020

The Japanese SMS Market

Deloitte Tohmatsu MIC data shows that the Japanese A2P market rose 32% in 2020 to 1.8 billion messages⁶. MIC divides the A2P-SMS service market into three segments: domestic corporate, overseas corporate and carrier-direct. MIC expects the market to grow at annual rate of around 60% from 2021 onwards.

Chart: Number of A2P SMS messages sent in Japan, MIC forecasts

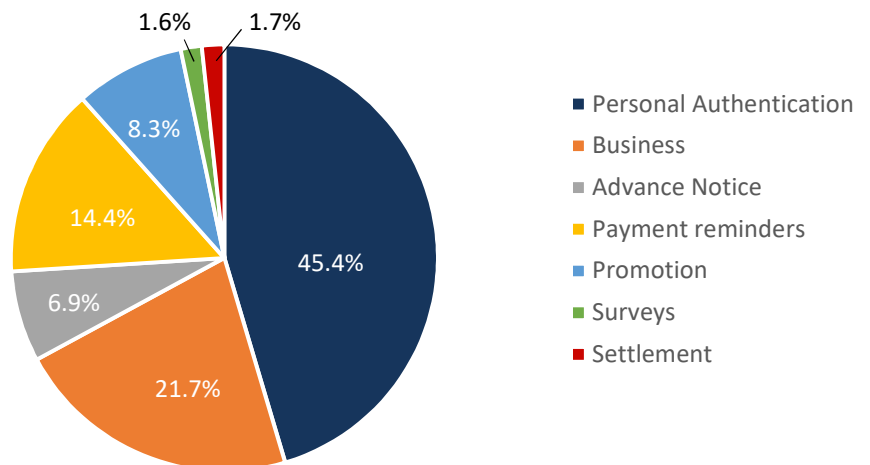


Source: Deloitte Tohmatsu MIC Report, November 2020

The A2P-SMS market was effectively created after the start of carrier interconnection in July 2011 but did not enter a growth phase until 2018. Domestic companies account for 68% of the total market and are the mainstay of the A2P-SMS market.

Domestic aggregators that support a wide range of applications such as authentication, business communication, advance notice, reminder, and payment are the main players. The need for A2P-SMS by domestic corporate users is increasing year by year and it is becoming not only a communication tool for corporations but also part of the social infrastructure (for example, disaster notifications). Most of the overseas corporate users are using A2P-SMS for two factor authentication.

SMS Composition ratio in FY2019 (based on the number of distributions)



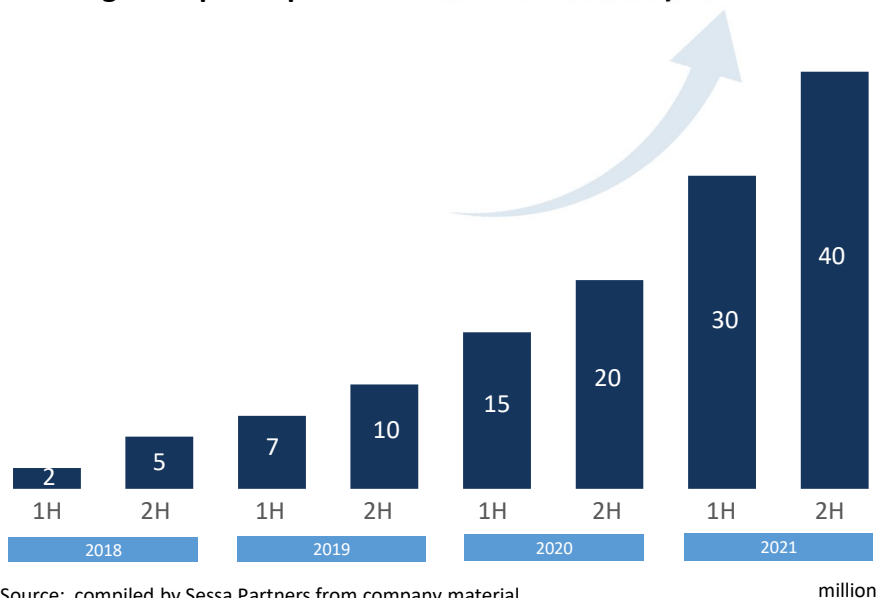
Source: Deloitte Tohmatsu MIC Report, November 2020

Notes:

⁶ MIC IT Report November 2020: A2P-SMS Market and Usage Trend by Domestic Corporations

Next generation of SMS, +Message is also seeing rapid uptake. From its launch in 2018, there are now 25 million active users of +Message⁷. According to Mobilesquared in UK, Japan should top 40m +Message users by 2021. The number of RCS business messages sent in Japan is forecast to reach more than 150m per year by 2021, growing to 1.2bn in 2023⁸.

+Message in Japan expected to reach 40m users by 2021



Source: compiled by Sessa Partners from company material

Accelerating digital transformation in Japan

A study by ACCJ and McKinsey (<https://www.accj.or.jp/japan-digital-agenda-2030>) highlights how far behind Japan has fallen behind in digitization. Japan now ranks 27th overall for digital competitiveness (based on knowledge, technology, and future-readiness), down from 23rd in 2015. This contrasts with the first-ranked US, while China leapt from 33rd to 16th. One telling statistic was the measure of Economic Renewal.

Covid-19 has been a wake-up call for companies. Spending on digitalization has surged as firms raced to enable staff to work from home and keep doing business. The establishment of a Digital Ministry to revamp government services has sent a strong signal to business leaders. Digitization and AI initiatives are not just nice to have, they are imperative if Japan is to lift productivity and regain its status as a center of innovation.

A study from the Fuji Chimera Institute projects that the DX market in Japan should reach ¥3.4 trillion by 2030, almost a four-fold increase from 2019, and Japan catches up with other developed economies. The market expansion is expected to be driven by Transportation, Logistics, Finance and Manufacturing, among other sectors. With the advance of DX, the corporate social network market is only set to expand. This will drive broad-based demand for personal authentication and communication across various fields. Additionally, as it expands in public areas such as the medical sphere, there will be an increased need for security in data handling, and notifications. As a result, in this way, the ongoing DX in Japan presents a significant tailwind for growth for Accrete for years to come.

Notes:

⁷<https://news.kddi.com/kddi/corporate/newsrelease/2021/09/02/5363.html>

⁸GSMA, RCS Business Messaging in Japan, December 2019



BUSINESS MODEL - Message volume is key driver

Unlike email, SMS messaging is charged on a per message basis. Prices vary between small and high-volume users, but the per-message pricing structure creates a healthy barrier and ensures that SMS, unlike email for instance, remains a premium channel for key use cases.

The Go-To-Market Strategy

Any business, anywhere on the planet, that wants to interact with Japanese customers is a potential user of Accrete's SMS service. The go-to-market model is mainly centered on the direct sales to enterprises channel. Accrete divides its customer base into two main categories: domestic enterprises and overseas enterprise customers.

For **domestic enterprises**, Accrete has shifted to a model whereby Accrete focuses on service development and marketing, while sales activity is conducted through distributors and agencies. As a result, the addressable market is growing, Accrete is reaching more potential enterprise customers, handling higher transaction volumes, and creating bigger economies of scale.

For **overseas enterprises**, Accrete connects to foreign aggregators via the SMPP International Gateway protocol (legitimate route). This allows foreign companies to access to all of Japan's mobile network operators through Accrete's direct connections. Accrete adds value to foreign aggregators by conducting pre-screening on senders and other checks that ensures high quality and delivery rates. The approved legitimate route avoids the problems of phishing.

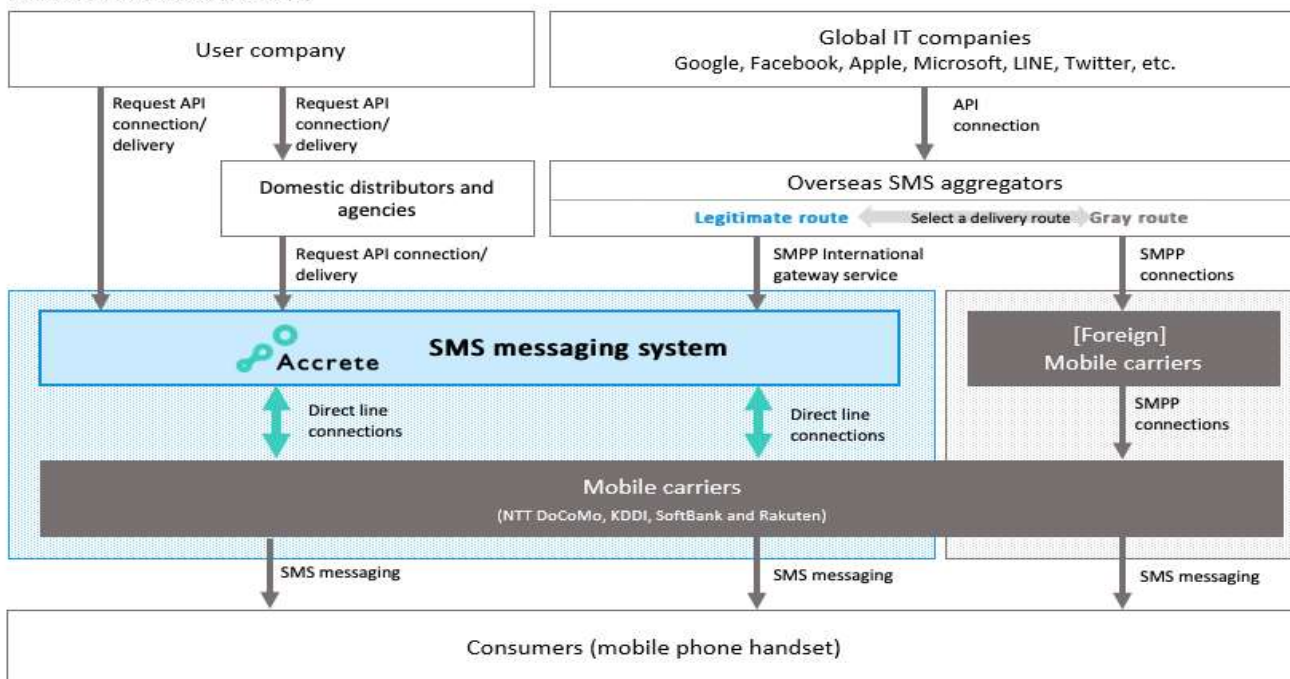
Accrete's Go-To-Market Strategy

Domestic Enterprise Customer

Provides a sound and secured SMS contents delivery environment using a legitimate route through a direct connection with 4 mobile carriers

Overseas Enterprise Customer

Provides the SMS messaging service in the domestic market to global IT companies by connecting with overseas SMS aggregators

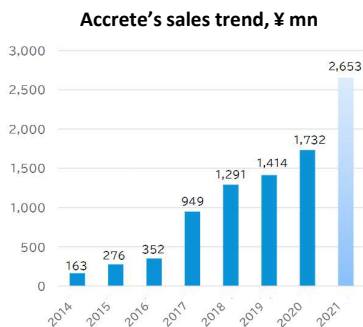


Source: company material

Recap of FY12/2021 Financial results

Despite the headwinds of the Coronavirus on the Japanese economy, the SMS delivery market continued to expand rapidly as more companies began to see the usefulness of SMS as a means of communicating with customers.

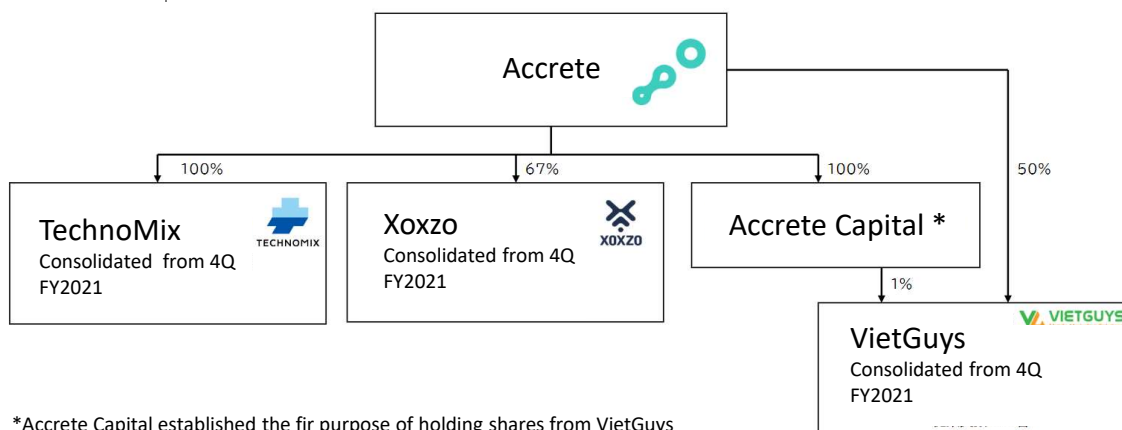
During FY2021, Accrete for the first time prepared consolidated financial statements, so for comparative purposes, non-consolidating statements are used to gauge the company's financial performance. In FY2021, total revenue grew by 59.7% to reach ¥2,764 million, while Operating Profit grew by 35% hitting an all-time high of ¥465 million. Domestic SMS sales rose 49% to ¥1,358 million and overseas SMS grew by 85.2% to ¥1,406 million. Revenue increased due to recovery and growth in domestic customer SMS volumes. Overseas sales showed strong growth due to a combination of recovery from a temporary decline due to a new pricing scheme introduced in 2019, which placed an emphasis on profitability, and strong overall growth in overseas traffic, as the company experienced strong demand for its high-quality SMS authentication services. This strong growth in the overseas business was despite increased price competition and new SMS service providers entering the market. Operating margins fell from 19.9% in FY2020 to 18% as the company focused on growth by adding new personnel, spending on R&D, and lifting promotional activities.



¥, mn	Net Sales	YoY %	Oper. Profit	YoY %	Recur. Profit	YoY %	Profit ATOP	YoY %	EPS ¥	DPS ¥
12/2018 non-cons.	1,291	36	246	43.6	223	30	152	35.5	28	
12/2019 non-cons.	1,414	9.5	254	3.2	249	11.7	171	12.0	30.9	
12/2020 non-cons.	1,732	22.4	344	35.6	345	38.6	241	41.2	43.2	10
12/2021 non-cons.	2,765	59.6	498	44.6	494	43.1	343	42.1	61.4	10
12/2022 non-cons. CE	4,052	46.6	na	na	592	19.8	403	17.6	68.8	10
12/2022 consolidated CE	5,547	95.8	648	39.1	640	38.7	368	22.6	62.7	10

Company forecast for FY12/2022

- a) *Non-consolidated forecast.* Accrete forecasts Revenue of ¥4,052 million, +46.6% and Ordinary Profit of ¥592 million, +19.9%. This is despite expectations of lower ASPs due to price competition. The company will continue investing in hiring new personnel and in R&D for new businesses/services.
- b) *Consolidated forecast.* Accrete began reporting consolidated numbers in FY2021, as the firm transitioned to consolidated accounts in 3Q FY2021, with the acquisition of Technomix (Japan), Xoxzo (Japan), and VietGuys (Vietnam). The new consolidated structure is detailed on the next slide. Projected Revenue is ¥5,547 million, +95.8%, and operating Profit ¥648 million, +39.1%.



*Accrete Capital established the firm purpose of holding shares from VietGuys

Growth Strategy

Accrete's growth strategy has two key pillars: The first is to offer new services to existing clients and the second is to provide current products to new clients. These strategies are organic, as in the case of +Message, and via partnerships and acquisitions, like the expansion into new geographic markets.



Source: company material

There are additional services that Accrete is studying, which could form the basis of new revenue lines in the future. The recent tie-up with Digital Platformers (DP), is one such development. DP is a Japanese company that runs a platform for digital currencies and digital IDs using the blockchain. The reason for the investment is to acquire domain skills and technology in authentication platforms. It is hoped that this cooperation will lead to the expansion of Accrete's market share for SMS delivery to various customers, including local governments, regional organizations, and regional banks. Also, DP has a tie-up with Solamitsu, a company with recognized technology in blockchain. Accrete hopes to be able to capitalize on this relationship.

In this section, we highlight two key growth opportunities for Accrete: +Message and Vietnam.

Setting the stage for growth: key business highlights in FY2021

2021	Promotion of new "SMS x α" and "+Message"	Agency Network Expansion	New Business Initiatives
Jan.	New customer mgmt. and reservation service for Restaurants	On going measures to improve and expand agency network	
Feb.	Connected Worker recruitment Chatbot to +Message		
Mar.	Launched "SMS Connect for LGWAN"		
May	New portal to promote +Message to Enterprises		New Business Planning Dept
Aug.			51% shares of VietGuys, a Vietnamese SMS delivery service Co
Sep.			Invested in Digital Platformer Inc
Oct.			Acquired 100% of TechnoMix
			Acquired 67% of Xoxzo, SMS delivery service Co
Dec.	Strengthened SMS business communication among major 3 major mobile providers		



Growth Strategy - Rich and Conversational Messaging (+Message)

Text messages, SMS outcompete email with greater immediacy and superior read-rates. However, they are constrained by the 160-character message limit and do not support features smart phone users are used to, like images and video, group chat and read-receipts. The next generation of SMS, + Message eliminates this limitation. Rich and conversational messaging provides an app-like experience, with no need to download and install an app. Users can tap easy action buttons like "Confirm," "No, thanks," or "Show me more information" directly from inside the text. These new features make messaging relevant for new use cases like marketing, customer service, and advice, which significantly expands the addressable market.

Expanded use cases for +Message

Use case	+Message function	Example companies
Personal Authentication	Official account	Banks, SNS
Customer Support	Official account (Rich content)	Recruitment agencies, call centers
Information Distribution	Official account (Rich content)	Listed companies, Stores
Safety Confirmation	Official account (Read receipts)	Companies, local governments

A rising number of mobile phones and operators now support RCS technology which is the new global protocol and next-generation of SMS,. In Japan, the carrier-led standard is known as +Message. As it is delivered by telecoms operators, which are widely trusted in Japan, +Message offers a secure and private way for consumers and businesses to communicate with each other. The Japanese operators offer an "official account" service for brands and chat bots: A green tick indicates these official accounts have been verified, thereby providing consumers with a secure and trusted channel for communication that is less impacted by spam.

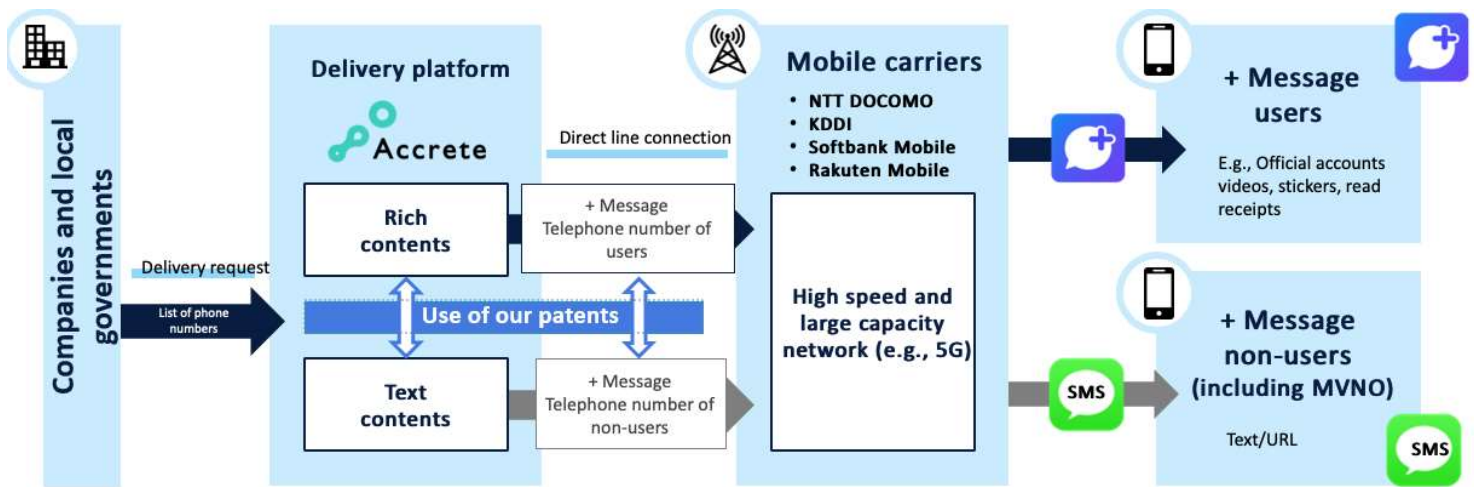
Brands & Chatbots are verified & authenticated by MNOs



Accrete’s services using their patents:

Accrete's offering in SMS and +Message enables the best possible messaging experience to every end customer, given the unique set of capabilities of individual mobile handsets. Utilizing recognized patents, Accrete's distribution platform appropriately selects the message communication channel and content style: Plus-message users receive messages containing rich visual content, while non-plus-message users receive standard SMS text messages. Therefore, the user company can send without being aware of which one is available to the destination user.

Accrete’s +Message service using patents



Source: company material

Growth Strategy - New Markets: Vietnam

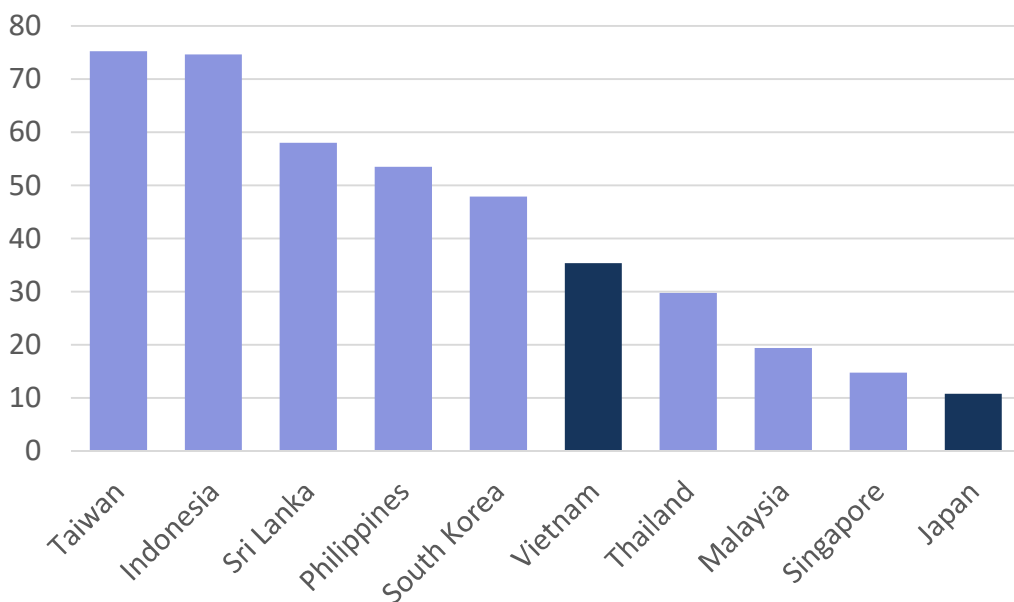
Accrete recently (August 2021) announced the acquisition of a majority stake in a Vietnamese Company, VietGuys J.S.C (VGS). VGS will become a subsidiary upon completion of the deal. This acquisition is part of the strategy of expanding into new markets lying outside of Japan, and will contribute to the expansion of Accrete’s core SMS messaging business.

VGS was formed in 2007 and is mainly engaged in SMS messaging business and other related marketing business. The Company has 42 employees and is headed by the founder, Pham Duh Anh. VGS is a major player in the domestic Vietnamese E-commerce SMS market. Vietnam's e-commerce market has been expanding rapidly, with the government targeting 25% growth per annum through 2025.

VGS is a material acquisition for Accrete. In the year ended December 2020, VGS reported 11.4% growth in sales to ¥1.25 billion. This compares with Accrete’s revenue of ¥1.73 billion in the past fiscal year. The acquisition was closed in December 2021 and thus have a positive impact on Accrete’s financials from 2022.

The market for corporate SMS messages in Asia was estimated at 1.2 trillion SMS in 2019, valued at around \$10 billion. Estimates suggest the growth rate is around 3% per year. The addressable market value is expected to reach approximately \$13 billion by 2024. SMS traffic in Vietnam is expected to grow to 35 billion messages by 2024, versus 10.8 billion in Japan. Considering the supportive demographics, growing economy, and rapid shift to e-commerce, Accrete’s decision to venture outside Japan into this promising market makes perfect sense.

Asia A2P-SMS market by traffic volume (2019-24), Billion messages



Source: compiled by Sessa Partners from company materials

Growth Strategy – Technomix

In September 2021, Accrete continued to expand via M&A with the acquisition of 100% of the shares in the mailing service company, Technomix. Technomix's service offering is that of sending mail messages. End clients include schools, kindergartens, daycares, hospitals, and other public institutions across Japan. With over 4,400 clients across Japan, annual sales are approximately ¥150 million with operating profit margins between 40-50%.

Technomix has a very high level of trust among schools and local government institutions and is seen as a reliable partner to get necessary and needed information to the said institutions.

For Accrete, the acquisition presents an excellent opportunity to supplement gaps in its end client base. As such, there is a significant opportunity to cross-sell, offering its services to schools across Japan and other public institutions that are currently clients of Technomix.

The acquisition was reflected in Accrete's Balance Sheet as of the end of the third-quarter results, reported in September 2021. Sales and profit impact will be incorporated from the fourth quarter of 2021.

Growth Strategy – Xoxzo

In October 2021, Accrete acquired a 67% share of Xoxzo Corporation, an SMS service company, and made it a subsidiary. Xoxzo service offering is in the International SMS market. For Accrete, the company adds to the business portfolio by offering an alternative low-cost service that allows a broader international customer base.

The company provides Telephony Web APIs for Web Developers, including SMS sending, verification of mobile numbers, and receiving and making calls. The cost aspect is structured to allow clients to only pay for what is used, with no upfront costs.

The company has established technology development in various countries, mainly across Asia. Most of its engineers are based overseas, with three based locally in Japan, working to support its service.

Xoxzo's annual sales are approximately ¥150 million, with an operating margin of around 20%.

COMPETITIVE ADVANTAGE AND MOAT

Accrete is widely used by many companies, including global IT companies and major domestic companies, centering on applications that require high quality, high stability, high security, and large-scale services that deliver a large amount of SMS. A company's moat refers to its ability to maintain the competitive advantages that are expected to help it fend off competitors and drive profitability in the future.

Accrete's competitive advantage

A competitive advantage is also sometimes referred to as a unique selling proposition. It's the things that make businesses different from their competitors, and the reason that makes customers use one service over another.

We believe that Accrete has the following sources of competitive advantage:

First-to-market: Accrete was a pioneer in SMS delivery in Japan and was the first to start mobile phone authentication services. This has enabled the Company to capture a significant market share, particularly with the global aggregator companies. There is no record of any disruption from the use of Accrete's platform.

High Service Quality: Accrete has direct connection to Japan's four mobile operators enabling a high quality, secure, and stable delivery for many SMS messages.

Industry knowledge and expertise: Each country has specific policies on provisioning phone numbers for outbound SMS, channel-specific regulations, and complex guidelines for opt-in, opt-out and data storage. Accrete is the only member of the "Anti-Spam mail Promotion Council" as an SMS distributor and can professionally deliver SMS while complying with Japanese laws and regulations. The council comprises the Ministry of Internal Affairs and Communications, telecom carriers, and the metropolitan police department.

Better technology and innovation: Accrete's background in engineering technology is strong, having originally formed through a spin-off from a system integration company. The Company employs an in-house development team to provide a flexible service and offer hands on assistance.

Accrete's moat

Typical sources of a moat include Switching Costs, Intangible Assets, Network Effect, Cost Advantage, and Efficient Scale. Companies may demonstrate one or a combination of the five sources of moat. When companies are successful and earning excess profits, they often become targets for competitors, which may pose a threat to its profits. Companies with a wide moat tend to be best equipped to hold off competitors, which may help defend profitability over the long term.

We believe that Accrete has the following sources of moat:

Switching Cost: Once there is API integration of Accrete's SMS delivery system with a customer's system, even if a competitor offers a cheaper option, it will take time and cost money for the customer to do the integration again. Therefore, price alone is not an incentive for existing customers to switch.

Intangible Assets: Patents are a legal barrier to entry that protect companies from unauthorized commercial usage of their services by competitors. Although not always easy to quantify, Accrete has secured 4 patents, with another 3 pending, that management believes has a significant impact on the availability of phone numbers and user lists. Legal and regulatory compliance also acts as an intangible barrier to entry. Being in Japan, Accrete is subject to a wide range of laws and regulations concerning telecommunications, privacy, data protection, consumer protection, in addition to all sorts of financial and tax laws. Adherence to these laws is a genuine cost of doing business and requires significant capital and operating expenditures, not to mention time. We believe that this forms a substantial moat against large global aggregators, who would have to replicate these costs in each international market that they wish to enter. For this reason, the global SMS market tends to rely on local aggregators.

Efficient Scale: When a company serves a market limited in size, new competitors may not have an incentive to enter. Accrete may benefit from this dynamic given that the market only supports a handful of competitors, which may limit competitive pressures. Given the legal barriers to entry mentioned above, it seems unlikely that the Japanese market would be attractive enough for global competitors to enter at the current time.

MANAGEMENT – Creating bonds in a digital society

Management Vision

Accrete's vision is to provide a secure and optimal platform for everyone who communicates. Its Mission Statement and Values are built around core values of peace of mind, trust, communication, safety, and security. Through these core values, the Company seeks to build bonds with users by connecting the digital world to the real world.

President and CEO Yusei Tanaka believes that, in the past, people would meet each other face to face, talk, and socialize. It would allow them to understand each other and develop bonds based on feelings and trust over time. Japan has been moving to the digital world over the past two decades, and this trend has accelerated with Digital Transformation sweeping society. Compounding this issue is the rapidly aging Japanese society, where senior citizens face anxiety from the rapid shift to online occurring around them.

Accrete provides a platform that focuses on filling that gap in the digital world by ensuring that individuals can communicate securely without risk of information loss. This is possible due to a focus on key technologies that allow communication without being subjected to troublesome or unwanted contact such as phishing or data loss.

Business is conducted in line with the United Nations **Sustainable Development Goals** (SDGs) with a particular focus on Peace and Fairness (SDG16) and Forming a Partnership with Users (SDG17). The key is to develop and ensure proper usage to build trust while partnering with various groups, such as the government, to promote proper use.

Accrete's business model makes it possible for enterprises, organizations, and individuals all over the world to communicate swiftly and easily. Accrete creates value by generating long-term and profitable growth based on quality, economies of scale and innovations that make it easier for people and companies to meet. Accrete is committed to doing responsible and secure business, being a fair employer and taking significant responsibility in the value chain.





Management Team

Accrete's board structure is the traditional Japanese board structure, a company with an audit and supervisory board. The board consists of six directors, two of which are outside directors, and is led by President Tanaka.

President Yusei Tanaka

President Yusei Tanaka started his career at Tomen (now Toyota Tsusho) in 1993. In 2003, while at Tomen, he established and headed the international communication service, which used SMS messages in its operations. President Tanaka joined Accrete (formerly Indigo Corporation) in 2007 after Tomen acquired the business and oversaw the SMS-related business. In 2010, he guided the launch of the critical A2P-SMS message delivery operations. His achievements included the successful commercialization of the service. In 2014, President Tanaka was appointed as director of newly formed Accrete after Indigo underwent a corporate split. This time, he assumed responsibilities that included the launch of the gateway service for overseas SMS aggregators. After resigning as director in 2015, President Tanaka returned to the company in 2017 as Sales Manager and was later promoted to Senior Managing Director of Sales in 2018. His contribution included gaining new SMS message delivery business from global IT companies via overseas aggregators. Appointed President/Chairman in 2019, President Tanaka brings a wide range of experience, knowledge, and innovation to the SMS message arena, with a strong track record in business development and sales.

Special Advisor

In November 2020, Natsuhiko Sakimura was appointed as Special Advisor to the board. He is an expert the areas of security, digital identity, and privacy through his research on international standardization.

Accrete Board Members

Title	Name	Age	Director since	Experience
President	Yusei Tanaka	53	2014	Toyota Tsusho, Indigo
Managing Director	Yuta Ikeda	55	2019	Toyota Tsusho, NTT Docomo
Director	Keiichi Kamikawa	44	2015	Global Vision, Indigo
Director	Yasuhiro Urata	49	2020	NTT Docomo
Outside Director	Kenji Hioki	53	2016	Tomen, Colt technologies, others
Outside Director	Pola Sugawara	57	2022	Financial firms, others
Outside Director*	Kazuhiro Kaneko	58	2022	Lawyer, NRL Pharma, others
Outside Director*	Yoichiro Yatsurugi	66	2022	IBM Japan, AT&T, SAP Japan, others
Outside Director*	Ayumi Kimura	40	2022	CPA

* Supervisory Committee Member. The company has been a company with audit and supervisory committee since March 2022

RISK FACTORS

Accrete's financial and share price performance may be sensitive to the following factors:

High dependence on third parties:

Accrete's role as an aggregator of SMS messaging relies on the ability to directly connect to the networks of Japan's four mobile operators. If this connection fails or is terminated, Accrete's business may be disrupted. Telecom operators may also charge higher fees, which Accrete may not be able to be passed on to customers.

Competition and pricing:

The market for SMS messaging is rapidly evolving, fragmented and highly competitive. Accrete may face competition from local competitors and competition is based on several criteria including price, platform performance, delivery quality, security, and customer support. Accrete's ability to maintain or increase its profitability will depend on its ability to maintain its current competitive position.

Fraud and Spam:

Around 30% of SMS users report receiving unsolicited messages called SMiShing. Additionally, 64% of users are concerned about fraud in messaging, and 25% report receiving text messages that tried to steal their data. While these concerns are valid, spam and fraud are not confined to SMS messages, but afflict all communication channels. To combat these issues, Accrete has been active as a regular member of the Council of Anti-Phishing Japan backed by METI and the Anti-Spam mail Promotion Council led by the Ministry of Internal Affairs and Communications. Based on the knowledge and know-how it has accumulated so far, it has been working to reduce phishing damage, such as by raising awareness among companies that use SMS about the dangers of phishing.

Third Party Apps:

Some small businesses are now using the WhatsApp Business APP rather than SMS. This migration could cost the A2P SMS industry hundreds of millions of dollars globally. The broad user base for apps such as What's app, Facebook, and Line, suggest that businesses will also look to utilize these channels. While SMS and RCS are still the dominant channels for businesses to communicate, Accrete may need to expand and enhance its services to different channels, if Japanese businesses adopt an omnichannel⁹ approach.

Note:

9 : Integration of all physical channels (offline) and digital channels (online) to offer a unified customer experience

VALUATIONS, SHARE PERFORMANCE AND OWNERSHIP STRUCTURE

The share

Accrete was listed on the Tokyo Mothers Market on July 26, 2018, at a price of ¥770/share. The stock had an outstanding debut, closing out the opening day above ¥1,500. However, the gains disappeared over the next two years as the stock bottomed out just below ¥750. Stronger revenue growth in 2020 saw the stock again climb back above ¥1,800 and the uptrend has been maintained so far in 2021.

Dividend policy

For the first two years post-listing, the Company did not pay a dividend as it was in a phase during which financial surpluses were reinvested for growth. In 2020, the board of directors decided to propose a dividend of ¥10/share for the full year. The Company's policy is to pay stable dividends (30% payout ratio) in line with business performance.

Shareholders

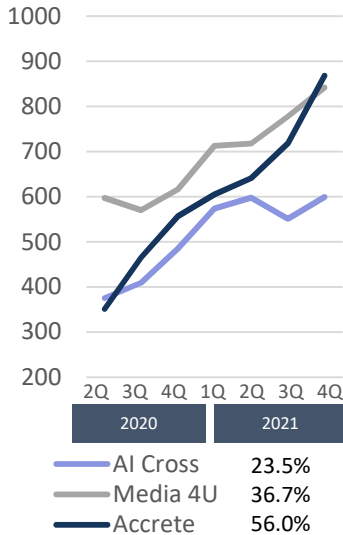
At the end of the last financial year, Accrete had about 2,900 shareholders(2Q FY2021, the number is up to 3100). The ten largest shareholders combined owned 54.8% of the outstanding shares. BANA1 Limited Liability Partnership is the largest shareholder of the Company as of December 31, 2020, holding 29.7% of the voting rights. Accrete was originally established in May 2014 by splitting the SMS distribution business from a division of Indigo Corporation. Four directors of Indigo are members of BANA No.1 LLP. However, there is no business relationship between Accrete, Indigo Corporation and BANA No.1 LLP.

Chart: Shareholder breakdown by investor type

Classification	Shareholders (persons)	Number of shares owned	Percent of shares owned
Financial Institutions	3	527,800	9.00%
Brokers	27	405,700	6.92%
Other Corporations	17	1,729,900	29.50%
Foreigners	34	727,900	12.42%
Individuals	3,737	2,472,100	42.16%
Total	3,818	5,863,400	100%

Source: Company Yuho, FY12/2021

Accrete Q4 growth of 56% YoY outpaces peers



Sep.-Dec. 2021 YoY growth comparison

AI Cross is the group company of Fabrica Communications

Valuation

We believe that there are around six companies that are broadly similar in terms of SMS services, including small subsidiaries of NTT Communications, NEC and a couple of small unlisted companies. However, we believe that the closest quoted peers are AI Cross and Fabrica Communications. Fabrica is a more diverse company than Accrete, having started out by developing an IT system for automobile repairs. Since then, it has expanded into used car systems, Internet services and SMS solutions (Media 4u). We believe that SMS accounts for around 50% of consolidated sales. AI Cross' core business focus is SMS, but the group has also expanded into providing HR Services for companies, Hyouman Box. In comparison to the peer group, Accrete trades at a slight premium to both AI Cross and Fabric.

We also compare Accrete with global players that are involved in communications, including SMS services. However, Vonage, Sinch, CM.com and Twilio are far larger in scale, services and market capitalization. While these companies may provide a useful roadmap for the Japanese peers, we feel it is too early to draw any firm valuation comparisons.

Relative Valuation versus local peers

Indicator	Accrete 4395	AI Cross 4476	Fabrica 4193
Mkt Cap (¥B)	7.68	5.72	13.05
EV/EBITDA (X)	13.0	11.5	12.1
TTM PE (X)	25.6	16.6	23.8
PBR (X)	4.7	2.6	5.9
TTM Sales (¥M)	2,834	2,422	5,581
Sales growth (TTM)	63.6%	26.9%	15.6%
EBITDA growth (TTM)	39.8%	20.0%	25.1%
EBITDA Margin	17.7%	11.9%	16.7%
1Yr Pct Chg (%)	0.1	(42.7)	(22.0)

Profit & Loss Statement

Y mn, %	FY12/2017	FY12/2018	FY12/2019	FY12/2020	FY12/2021	FY12/2022
	Non-cons.	Non-cons.	Non-cons.	Non-cons.	Consolidated	CE
Total Revenue	949	1,291	1,414	1,732	2,834	5,547
Gross Sales	949	1,291	1,414	1,732		
Total Cost of Sales	609	840	901	1,041	1,691	
Cost of Sales	609	840	901	1,041	1,691	
Gross Profit	340	451	513	691	1143	
Gross Margin	35.8	34.9	36.3	39.9	40.3	
SG & A	169	205	259	346	677	
Operating Profit	171	246	254	344	466	648
<i>Operating Profit Margin</i>	<i>18.0</i>	<i>19.1</i>	<i>18.0</i>	<i>19.9</i>	<i>16.4</i>	<i>11.7</i>
Non-Operating Income	1	0	0	1	0	
Interest and Dividends Income	0	0	0	0	0	
Non-Operating Expenses	1	23	5		5	
Interest Expenses	1	0			1	
Ordinary Profit	171	223	249	345	461	640
<i>Ordinary Profit Margin</i>	<i>18.0</i>	<i>17.3</i>	<i>17.6</i>	<i>19.9</i>	<i>16.3</i>	<i>11.5</i>
Extraordinary Gains/Losses					-15	
<i>Extraordinary Loss</i>					<i>15</i>	
Pretax Profit	171	223	249	345	446	
Pretax Profit Margin	18.0	17.3	17.6	19.9	15.7	
Income Taxes	59	70	78	104	144	
Income Taxes - Current	64	65	79	107	149	
<i>Income Taxes - Deferred</i>	<i>-5</i>	<i>6</i>	<i>-1</i>	<i>-3</i>	<i>-5</i>	
Net Profit Attribute to parent company shareholders	113	152	171	241	300	368

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.

Balance Sheet

Y mn, %	FY12/2017 Non-cons.	FY12/2018 Non-cons.	FY12/2019 Non-cons.	FY12/2020 Non-cons.	FY12/2021 Consolidated
Total Assets	434	1,034	1,244	1,604	2,512
Current Assets	402	998	1,197	1,498	1,959
Cash Cash Equivalentents And Short-term Investments	223	769	988	1,218	1,521
Cash & Cash Equivalentents	223	769	988	1,218	1,521
Accounts Receivables	142	176	184	255	372
Prepaid Expenses	2	2	2	3	
Deferred Tax Assets - Current	6	2			
Non-Current Assets	31	35	47	105	553
Property, Plant & Equipment (PPE)	5	6	7	36	37
Intangible Assets	17	23	33	45	471
Goodwill					416
Investments and Other Assets	8	6	8	25	45
Investment Securities (inc. Subsidiaries and Affiliates)					5
Investment Securities					5
Long-Term Trade Receivables	0	0	0	0	1
Long-term Prepaid Expenses		0	0	0	
Deferred Tax Assets - Non-Current	3	1	4	7	9
Allowance for Doubtful Accounts - Fixed	0	0	0	0	-1
Total Liabilities	241	208	217	337	869
Current Liabilities	225	208	217	337	595
Trade Payables	143	156	150	227	338
Accounts Payable - Other and Accrued Expenses	8	10	13	28	56
Short-Term Debt	10				74
Current Portion of Long-term Debt	10				74
Current Portion of Long-Term Borrowings	10				74
Non-Current Liabilities	16				274
Long-Term Debt	16				272
Long-Term Borrowings	16				272
Total Net Assets	193	826	1027	1266	1643
Total Shareholders' Equity	193	826	1027	1,266	1,640
Shareholders' Equity	192	825	1022	1,248	1,617
Capital Stock	30	256	270	276	338
Capital Surplus		250	263	269	332
Retained Earnings	166	319	490	703	947
Treasury Stock	-5		0	0	0
Share Warrants	1	1	5	19	22
Non-controlling interest					3

Source: SPEEDA, To enable financial comparison between companies from different countries with different accounting standards, the financial items in this section are standardized.

Cash Flow Statement

Y mn, %	FY12/2017 Non-cons.	FY12/2018 Non-cons.	FY12/2019 Non-cons.	FY12/2020 Non-cons.	FY12/2021 Consolidated
Cash Flows from Operating Activities	171	124	211	316	360
Depreciation and Amortization - CF	11	9	10	15	36
Depreciation - CF	11	9	10	15	16
Amortization of Goodwill - CF					20
Gain/Loss on Valuation of Securities and Investment Securities					15
Interest and Dividends Received - Operating CF	0	0	0	0	0
Interest Paid - Operating CF	-1	0			-1
Cash Flows from Investing Activities	6	-16	-19	-71	-464
Payments for Purchases of Securities and Investment Securities					-20
Payments for Purchases of Investment Securities					-20
Purchases/Sales of PPE	0	-1	-1	-36	-2
Payments for Purchases of PPE	0	-1	-1	-36	-2
Purchases/Sales of Intangible Assets	-2	-15	-18	-20	-19
Payments for Purchases of Intangible Assets	-2	-15	-18	-20	-19
Cash Flows from Financial Activities	-14	439	27	-16	408
Proceeds from Short-Term Borrowings					400
Repayments of Short-Term Borrowings					-400
Increase in Long-Term Debt					371
Proceeds from Long-Term Borrowings					371
Repayments of Long-Term Debt	-10	-26			-25
Repayments of Long-Term Borrowings	-10	-26			-25
Proceeds from Issuance of Stock		475	27	12	118
Redemption/Retirement of Stock	-5				
Cash Dividends Paid				-28	-56
Foreign exchange adjustment	0	0	0	0	0
Changes in Cash Flow	163	546	219	230	303
Cash & Cash Equivalent - Beginning	60	223	769	988	1,218
Cash & Cash Equivalent - Ending	223	769	988	1,218	1,521
Free Cash Flow (FCF)	177	108	192	245	-104

Source: SPEEDA, To enable financial comparison between companies from different countries with different accounting standards, the financial items in this section are standardized.

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Sessa Partners Inc.

5-3-18, Hiroo, Shibuya-ku, Tokyo
info@sessapartners.co.jp