

Operating profit revised downward owing to increases in upfront investment costs in advertising/promotion. TELECY continued robust growth with gross sales of ¥1.79 bn.

FY12/2022 2Q RESULTS SUMMARY

CARTA HOLDINGS' 2Q FY2022/12 results (cumulative) showed a 4.3% YoY increase in revenue (¥13,176 mn) and a 0.9% increase in EBITDA (¥4,070 mn), but a 39.6% decline in operating profit (¥1,776 mn), resulting in higher net sales and lower operating profit.

-In the 2Q alone (April-June), net sales were ¥6,199 mn (up 0.9%). Gross profit increased 0.3%, but SG&A expenses rose 24.3% to ¥5,349 mn due to a large increase in advertising and other expenses, resulting in a sharp 81.5%, or ¥234 mn, decline in operating profit.

Marketing Solutions Business: Sales were ¥6,065 mn (down 2.6%), and operating profit was ¥1,260 mn (down 33.5%). Sales declined due to a drop in demand for ad placements by major advertisers, while personnel and hiring expenses increased due to aggressive personnel hiring.

Ad Platform Business: Sales of ¥3,708 mn (up 19.2%); operating profit of ¥684 mn (down 14.0%). Gross sales in the 2Q alone were ¥1,792 mn, 10.7 times higher than in the same period of the previous year, due to strong performance of TELECY, the programmatic TV commercial platform. Earnings declined due to prior investment in TELECY.

Consumer Business: Net sales of ¥3,428 mn (-4.0% YoY), operating loss of ¥168 mn (vs. operating profit of ¥246 mn in 2Q-FY2010); segment profit was negative due to aggressive upfront promotional activities in the D2C business and the game publishing business.

The company revised its full-year forecasts as shown in the table below. The factors behind the revision include: 1) no change in total sales due to growth in TELECY, etc., despite sluggish growth in ad placements; 2) downward revisions to operating profit and recurring profit due to aggressive investment in advertising; and 3) no change to net profit due to higher-than-expected gain on sales of investment securities. The achievement rate toward the revised full-year forecasts is 46.6% for net sales, 50.8% for operating profit, 57.5% for net profit, and 53.6% for EBITDA.

-Share buyback: The company completed the acquisition of 400,000 shares of treasury stock on August 2, the maximum number of shares to be repurchased announced at the time of 1Q results. The total acquisition cost was 761,711,300 yen. The company announced a new buyback of up to 250,000 shares for a maximum amount of ¥440 mn.

¥ mn, %	Net sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS ¥	DPS ¥
09/2017	25,895	24.2	1,806	5	1,861	49.4	1,161	58.7	96.9	15
09/2018	28,518	10.1	1,420	-21.4	1,431	-23.1	1,117	-3.8	93.58	15
12/2019	26,158	-	3,839	-	3,812	-	2,139	-	94.29	16
12/2020	22,487	-	3,463	-	3,335	-	1,781	-	70.57	48
12/2021	25,821	14.8	4,973	43.6	5,614	68.3	3,104	74.3	122.68	51
12/2022 CE	28,300	9.6	5,500	10.6	5,900	5.1	4,100	32.1	159.9	54
12/2021 2Q	12,629	13.6	2,940	47.6	3,301	76.2	2,215	122.3	87.84	25
12/2022 2Q	13,176	4.3	1,776	-39.6	2,460	-25.5	2,358	6.4	91.94	27

Source: compiled by SIR from the company material.

2Q FOLLOW-UP

CARTA HOLDINGS

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

Key indicators (¥/mm/dd)

Share price (9/8)	1,758
YH (4/5)	2,619
YL (9/7)	1,705
10YH (14/7/7)	4,335
10YL (20/3/23)	662
Shrs. out (mn, shr)	25.799
Mrk cap (¥bn)	45.355
EV (¥bn)	26.501
Shr. equity ratio (12/31)	59.9%
22/12 PER (CE)	11.0x
21/12 PBR (act)	1.61x
21/12 ROE (act)	12.0%
22/12 DY (CE)	3.1%

Share Price Chart (1Y)



Source: SIR from SPEEDA data

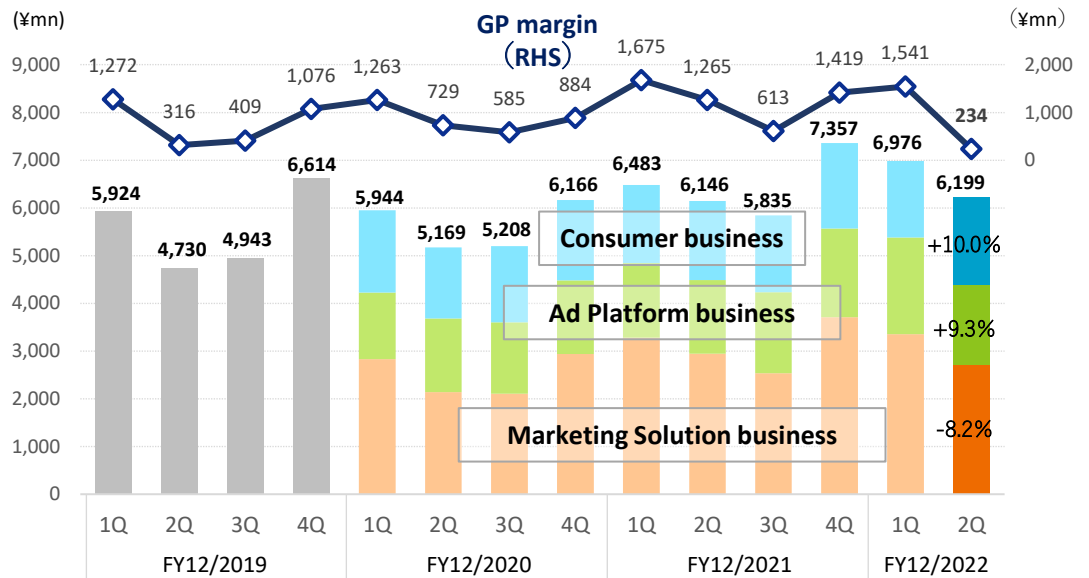
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Quarterly Consolidated Net Sales & Operating Profit



Source: compiled by SIR from the company material.

1. 2Q FY12/22 Results*

1) Operating profit fell YoY owing to expanded proactive promotion efforts

In 1H FY12/22, sales rose and operating profit fell, with the company reporting net sales of ¥13,176 mn (+4.3% YoY), operating profit of ¥1,776 mn (-39.6% YoY), ordinary profit of ¥2,460 mn (-25.5% YoY), and profit attributable to owners of parent of ¥2,358 mn (+6.4% YoY). Sales growth continued to slow as in 1Q, and operating profit fell as SG&A expenses rose due to upfront investments in proactive promotions of strategic businesses and products. Profit attributable to owners of parent rose as extraordinary income from the sale of shareholdings exceeded initial forecasts, as noted in the 1Q report.

In 2Q FY12/22, the company reported net sales of ¥6,199 mn (+0.9% YoY) and operating profit of ¥234 mn (-81.5% YoY). Sales remained mostly flat, mainly due to lower sales in the Marketing Solutions Business. Sales grew substantially YoY in 2Q FY12/22 (April–June 2021) due to favorable comparisons as companies refrained from advertising in response to the spread of COVID-19 in 2020. However, advertising interest among brand advertisers in the automotive, transportation, and leisure industries fell temporarily in 2Q FY12/22.

In terms of SG&A expenses, advertising and sales promotion expenses rose significantly from ¥337 mn in 1Q FY12/21 to ¥787 mn in 2Q FY12/22 as a result of proactive promotion of strategic products such as TELECY and the D2C business. In addition, system-related expenses and personnel costs for business expansion grew, pushing SG&A expenses up 24.3% YoY to ¥5,349 mn and weighing down on operating profit. As a result, 2Q operating profit fell sharply by 81.5% YoY.

2) Segment Trends (see pg. 8 table)

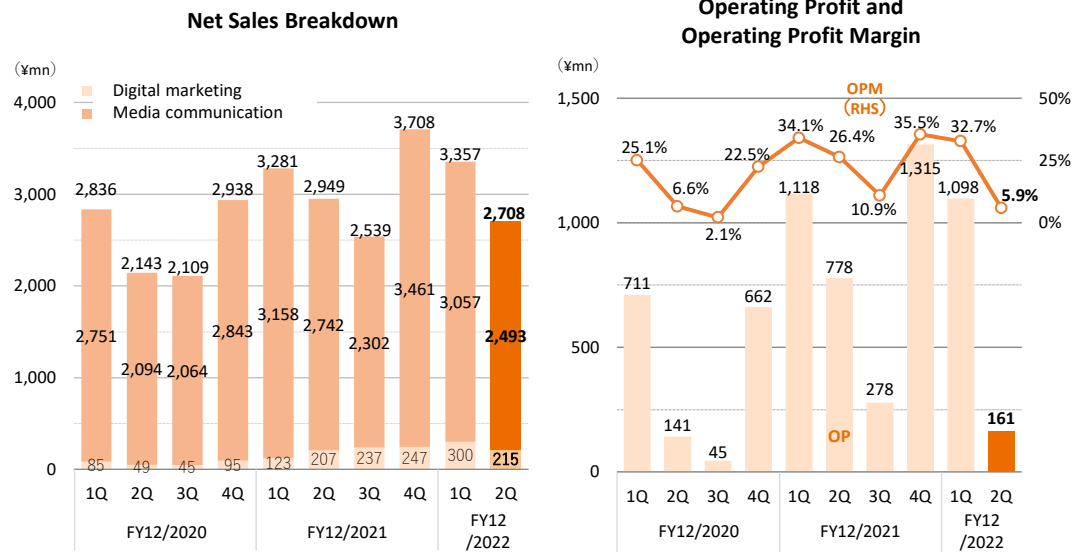
a) Marketing Solutions Business** (net sales ¥6,065 mn (-2.6%), segment profit ¥1,260 mn (-33.5%)) (see top figure on following page)

The marketing solution business sells advertising space and provides solutions centered on media communications as a member of the Dentsu Group. Sales in this business fell 2.6% YoY, reflecting unfavorable comparisons as sales in 1H FY12/21 were elevated due to a bounce-back in demand from the spread of COVID-19. Furthermore, in 2Q FY12/22, advertising interest among brand advertisers in the automotive, transportation, and leisure industries fell temporarily in response to the current geopolitical situation, which has pushed up oil prices and materials prices, while the yen continued to depreciate.

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

** Some of the segments have changed starting this quarter. The name of the partner sales business was changed to marketing solution business. KAIKETSU, which was previously part of the partner sales business, was transferred to the ad platform business. In addition, the video-related business, which was previously part of the ad platform business, was transferred to the marketing solution business. Segment figures in this report have been revised to match new segments.

Marketing Solution Business Segment Earnings



Source: compiled by SIR from the company material.

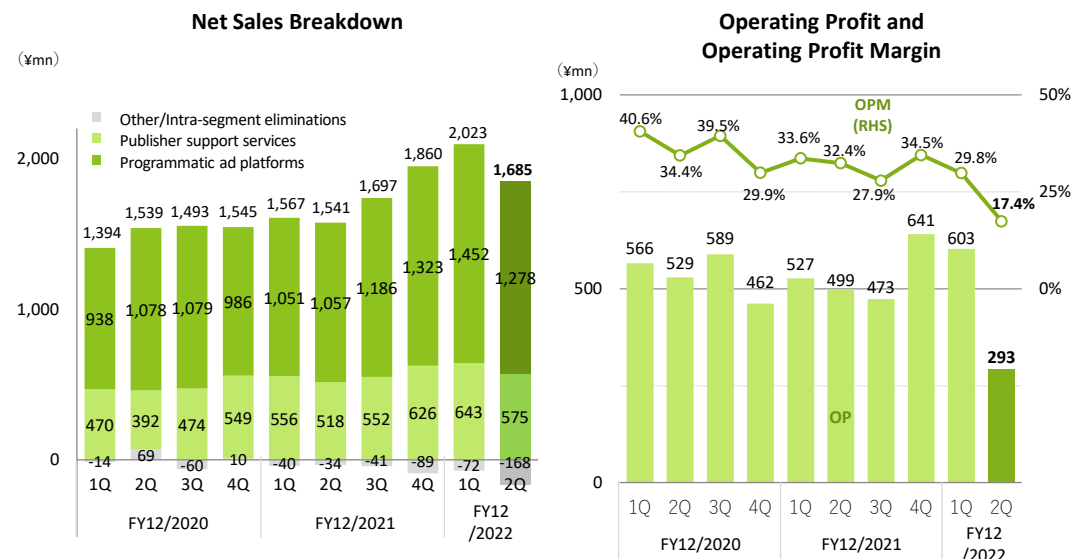
In 2Q FY12/22, sales fell 8.2% YoY to ¥2,708 mn, reflecting the weak advertising placements mentioned earlier. Sales in the core media communication service also fell 9.1% YoY. Partly as a result of the drop in sales, operating profit in the Marketing Solution Business fell sharply by 79.3% YoY, with operating profit margin also falling substantially by 5.9% YoY.

b) Ad Platform Business (net sales ¥3,708 mn (+19.2%); segment profit ¥684 mn (-14.0%))

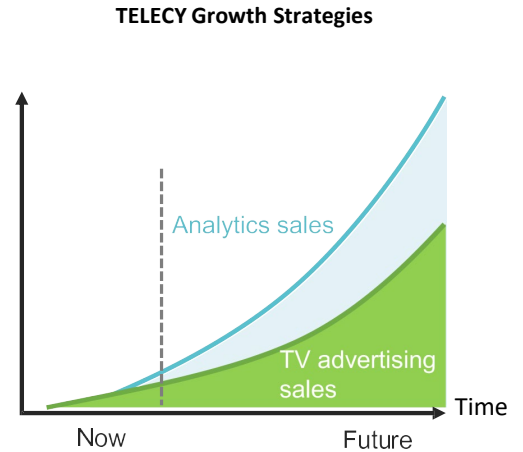
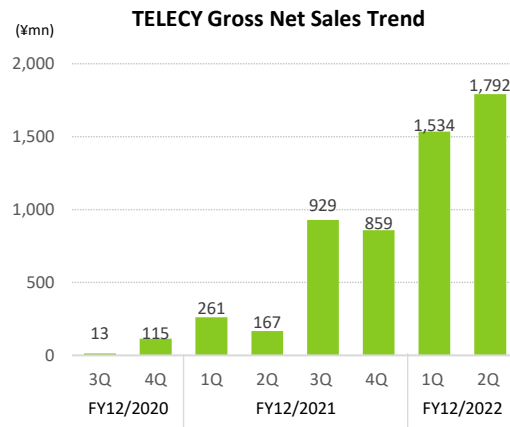
The ad platform business provides both programmatic ad platforms (Zucks, PORTO,TELECY, etc.), which automatically optimizes ad delivery in real time, and publisher support services (fluct, etc.), which helps media maximize ad earnings.

Net sales from programmatic ad platforms rose 29.5% YoY to ¥2,730 mn on the back of strong growth in sales of programmatic TV commercial service TELECY. Sales from publisher support services grew 13.4% YoY to ¥1,218 mn.

Ad Platform Business Segment Earnings



Source: compiled by SIR from the company material.



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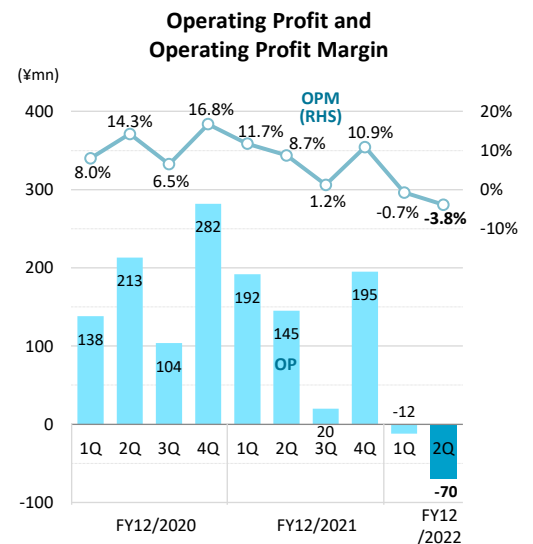
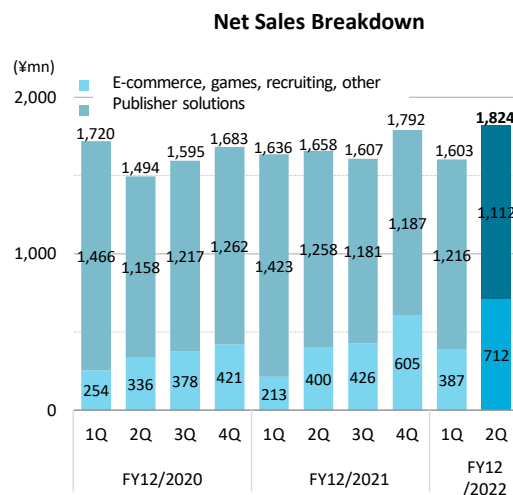
In 2Q FY12/22, sales rose 9.3% YoY to ¥1,685 mn. The company has been strategically promoting TELECY since 3Q FY12/21, and spent about ¥200 mn on advertising in 1Q FY12/22. As a result, segment operating profit fell 41.3% to ¥293 mn.

TELECY, which the company has been focusing its efforts on, is a hybrid product that enables more efficient ad placement compared to conventional TV commercials by combining the advantages of TV commercials, which can reach a large number of consumers, and programmatic ads, which makes it easy for customers to verify cost-effectiveness. Gross sales quickly expanded into the billions, and the company became the industry leader in programmatic TV commercials by sales with 2Q gross sales growing 10.7x YoY to ¥1,792 mn. In addition, the company plans to provide SaaS analytics services on top of its TV commercial sales (transaction volume) in the future as part of its growth strategy for TELECY. It also plans to boost earnings from analytics sales to existing clients and clients of the Dentsu Group.

c) Consumer Business (net sales ¥3,428 mn (+4.0%); segment loss ¥168 mn (profit of ¥246 mn in 1H FY12/21))

CARTA Holdings (CARTA) has positioned its consumer business, which includes both publisher solutions and e-commerce, games, recruiting, and other businesses, as a critical business segment for promoting vertical integration of its services.

Consumer Business Segment Earnings



Source: compiled by SIR from the company material.

Consumer Business Focus Area

D2C at subsidiary Yomite Inc.



Game Business



In particular, the company is proactively making upfront investments to strengthen its efforts in the growing D2C field.

In 2Q FY12/22, sales rose 10.0% YoY to ¥1,824 mn. Media solutions sales were down 11.6% YoY at ¥1,112 mn, but sales from e-commerce, games, recruiting, and other businesses grew 78.0% YoY to ¥712 mn, thanks to strong results from Yomite, a D2C business, and Supporterz, a recruiting service for engineers. The company appears to be making steady progress in acquiring new customers. On the other hand, upfront investments to acquire new customers in the D2C business and advertising and other promotional expenses related to the game business rose sharply by ¥200 mn YoY, which in turn led to a segment operating loss of ¥70 mn.

In the game publishing business, the company plans to launch *King of Kingdoms*, a major smartphone game, this fall. This is a strategy game by China's most successful game producer, and will be distributed in Japan ahead of the rest of the world. There are over 200,000 pre-registered players, and while the company expects to incur promotion costs for the game in 2Q onward, it will be interesting to see how the game fares after launch and how much it contributes to earnings.

2. Other Topics

1) Formulation of Purpose and renewal of corporate logo

The company announced its newly formulated Purpose at the time of its 2Q earnings announcement. The company has gone through a number of mergers, and unifying its internal direction and values is one of its most important management priorities. It had already formulated its mission and values, and decided to announce its new Purpose below with an eye toward CARTA's future.

“Opening up human and future potential with the thoughts of people.”

At the same time, the company also revised its corporate logo, adopting a new logo mark that evokes the letter "C" for "CARTA" and the image of a platform and a spiral of co-creation and evolution. (See upper right corner of pg. 1)

Through these measures, the company aims to further enhance its corporate value by creating new brand value for CARTA and strengthening group management.

2) Launched a joint venture with TBS Holdings for video ad solutions

In addition, as part of its ad platform business, the company announced the establishment of VOXX, inc., a joint venture with TBS Holdings aimed at developing a video ad solutions business to capitalize on the growth of the video ad market. The company holds a 34% stake in VOXX, with TBS Holdings owning the remainder. VOXX plans to develop and provide new video ad solutions by combining the ad technology development capabilities and operational expertise of the company with the extensive content and sales experience of TBS Holdings.

3. FY12/22 Earnings Forecast: Operating profit and ordinary profit revised downward; net sales and profit attributable to owners of parent remain unchanged.

Along with the 2Q earnings announcement, the company revised its full-year forecasts as shown in the table on the bottom of page 1. While it maintained its initial forecasts for net sales and profit attributable to owners of parent, the company lowered its operating profit forecast by 36.4% from its initial forecast to ¥5.5 bn to ¥3.5 bn, and its ordinary profit forecast by 30.5% from ¥5.9 bn to ¥4.1 bn. The company maintained its net sales forecast as it expects total sales to remain the same, with growth in TELECY offsetting sluggish orders for ad placements. On the other hand, the company lowered its operating profit and ordinary profit forecast to reflect proactive advertising spending, and left its bottom-line profit forecast unchanged as it booked a higher-than-expected gain on the sale of investment securities.

The sluggish performance ad placements by brand advertisers seen in 2Q appears to be recovering from July onward.

Progress against the revised full-year forecasts is 46.6% for net sales, 50.8% for operating profit, 57.5% for profit attributable to owners of parent, and 53.6% for EBITDA.

4. Shareholder Return: Announced new share repurchase program of up to ¥440 mn

Together with its earnings announcement, the company announced a share repurchase program of up to ¥440 mn aimed at boosting shareholder returns and improving capital efficiency. It will repurchase up to 250,000 shares between August 16, 2022 and November 11, 2022. This equates to 0.98% of outstanding shares. The company had previously announced a share repurchase program in May, which was completed on August 2, 2022. During this period, it repurchased 400,000 shares, for a total repurchase price of ¥761,711,300.

In addition, the company plans to pay a dividend of ¥54 per share in FY12/22, an increase of ¥3 per share from FY12/21. Combined with the previous and latest share repurchases, the company expects to return approximately ¥2.58 bn to shareholders.

5. Share Price Trend: Flat Following Downward Revision of Profit Forecast

CARTA Holdings' stock price fell about 9% on August 15 to its lowest level since the beginning of the year, following the company's earnings announcement on August 12 and the downward revision of its operating profit forecast. It has since hovered around the ¥1,700 level. While there are growth expectations for TELECY, its sales contribution is still small in absolute terms. On the other hand, some investors are likely highly concerned over the impact on earnings from major advertisers' holding back and continued promotion expenses. The company is also working to secure excellent talent, and expects to continue investing for the time being. Continuous investment is a necessity in the technology industry, but it will be interesting to see when the company returns to a profit growth trend.

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



Relative Chart (3688, TOPIX)



Quarterly Consolidated Results by Segment

	FY12/20				FY12/21				FY12/22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Net Sales	5,944	5,169	5,208	6,166	6,483	6,146	5,835	7,357	6,976	6,199
YoY	0.3%	9.3%	5.4%	-6.8%	9.1%	18.9%	12.0%	19.3%	7.8%	+0.9%
										2,708
Partner Sales business	2,836	2,143	2,109	2,938	3,281	2,949	2,539	3,708	3,357	8.2%
YoY	-	-	-	-	15.7%	37.6%	20.4%	26.2%	2.3%	43.7%
% of Sales	47.7%	41.5%	40.5%	47.6%	50.6%	48.0%	43.5%	50.4%	48.1%	2,493
Media communication	2,751	2,094	2,064	2,843	3,158	2,742	2,302	3,461	3,057	-9.1%
YoY	-	-	-	-	14.8%	30.9%	11.5%	21.7%	-3.2%	40.2%
% of Sales	46.3%	40.5%	39.6%	46.1%	48.7%	44.6%	39.5%	47.0%	43.8%	215
Digital marketing	85	49	45	95	123	207	237	247	300	3.9%
YoY	-	-	-	-	44.7%	322.4%	426.7%	160.0%	143.9%	3.7%
% of Sales	1.4%	0.9%	0.9%	1.5%	1.9%	3.4%	4.1%	3.4%	4.3%	1,685
Ad Platform business	1,394	1,539	1,493	1,545	1,567	1,541	1,697	1,860	2,023	9.3%
YoY	-	-	-	-	12.4%	0.1%	13.7%	20.4%	29.1%	27.2%
% of Sales	23.5%	29.8%	28.7%	25.1%	24.2%	25.1%	29.1%	25.3%	29.0%	575
Publisher support services	470	392	474	549	556	518	552	626	643	11.0%
YoY	-	-	-	-	18.3%	32.1%	16.5%	14.0%	15.6%	9.3%
% of Sales	7.9%	7.6%	9.1%	8.9%	8.6%	8.4%	9.5%	8.5%	9.2%	1,278
Programmatic ad platforms	938	1,078	1,079	986	1,051	1,057	1,186	1,323	1,452	20.9%
YoY	-	-	-	-	12.0%	-1.9%	9.9%	34.2%	38.2%	20.6%
% of Sales	15.8%	20.9%	20.7%	16.0%	16.2%	17.2%	20.3%	18.0%	20.8%	-168
Other/intra-segment eliminations	-14	69	-60	10	-40	-34	-41	-89	-72	1,824
Consumer business	1,720	1,494	1,595	1,683	1,636	1,658	1,607	1,792	1,603	10.0%
YoY	5.8%	11.3%	14.3%	-23.1%	-4.9%	11.0%	0.8%	6.5%	-2.0%	29.4%
% of Sales	28.9%	28.9%	30.6%	27.3%	25.2%	27.0%	27.5%	24.4%	23.0%	1,112
Publisher solutions	1,466	1,158	1,217	1,262	1,423	1,258	1,181	1,187	1,216	-11.6%
YoY	7.4%	11.0%	6.1%	-27.9%	-2.9%	8.6%	-3.0%	-5.9%	-14.5%	17.9%
% of Sales	24.7%	22.4%	23.4%	20.5%	21.9%	20.5%	20.2%	16.1%	17.4%	712
E-commerce, games, recruiting, other	254	336	378	421	213	400	426	605	387	78.0%
YoY	-2.3%	12.4%	51.8%	-3.9%	-16.5%	19.4%	12.7%	43.8%	81.7%	11.5%
% of Sales	4.3%	6.5%	7.3%	6.8%	3.3%	6.5%	7.3%	8.2%	5.5%	
Operating Profit	1,263	729	585	884	1,675	1,265	613	1,419	1,541	234
YoY	-0.7%	130.7%	43.0%	-17.8%	32.6%	73.5%	4.8%	60.5%	-8.0%	-81.5%
Operating margin	21.2%	14.1%	11.2%	14.3%	25.8%	20.6%	10.5%	19.3%	22.1%	29.4%
Partners Sales business	711	141	45	662	1,118	778	278	1,315	1,098	161
YoY	-	-	-	-	57.2%	451.8%	517.8%	98.6%	-1.8%	-79.3%
Operating margin	25.1%	6.6%	2.1%	22.5%	34.1%	26.4%	10.9%	35.5%	32.7%	5.9%
Ad Platform business	566	529	589	462	527	499	473	641	603	293
YoY	-	-	-	-	-6.9%	-5.7%	-19.7%	38.7%	14.4%	-41.3%
Operating margin	40.6%	34.4%	39.5%	29.9%	33.6%	32.4%	27.9%	34.5%	29.8%	17.4%
Consumer business	138	213	104	282	192	145	20	195	-12	-70
YoY	94.4%	294.4%	-	86.8%	39.1%	-31.9%	-80.8%	-30.9%	-	-
Operating margin	8.0%	14.3%	6.5%	16.8%	11.7%	8.7%	1.2%	10.9%	-0.7%	-3.8%

Note: There may be slight inconsistencies in figures because of rounding, etc. All-company expenses not attributed to a particular segment are included as adjustments. Therefore, total segment operating profit does not equal company-wide operating profit.

Source: compiled by SIR from the company material.

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