

Benefiting from strong growth in SMS Messaging

1Q Revenue +96% YoY on continued structural growth and a temporary boost from COVID-19 factors

- Accrete announced 1Q FY12/22 financial results after the close on Friday, May 13th. The headline numbers for 1Q on a consolidated basis were revenue of ¥1,251 mn, operating profit of ¥329 mn, and an operating margin of 26.3%. The company has reported results on a consolidated basis since Q4FY12/21, so there is no previous year-on-year comparison for growth. The key drivers were underlying growth in the core SMS service business and a rise in business related to COVID-19 notifications. Additionally, their new subsidiary, Tecnomix's service which is an emergency email distribution services for schools between parents and local government underpinned the group earnings.
- On a non-consolidated basis, revenue rose +95.9% YoY to ¥1,185 mn (+48.2% QoQ). Revenue continues to be underpinned by structural growth in the SMS market. The top line also benefited from a temporary boost in health-related SMS notifications associated with the ongoing COVID-19 pandemic. This business received a boost because SMS notifications proved more convenient and efficient for reaching targets to get updates on their health status.
- Non-consolidated OP rose ¥153.1% YoY to reach ¥315.9 mn, as strong revenue growth helped lift the OPM to 26.7% from 20.6% a year ago. The OPM improved significantly, despite rising SG&A expenses as Accrete lifted hiring and R&D to address the expanding market opportunity in the SMS business.
- Guidance remains unchanged for the full year, but the company already exceeded over 50% of full-year OP in 1Q and is expected to see continued strong revenue momentum. Sessa Partners believes there is potential for an overshoot to full-year profit guidance given the current growth trajectory.

FY	Net sales		YoY		OP		YoY		RP		YoY		NP		YoY		EPS		DPS	
	Y mn	%	Y mn	%	Y mn	%	Y mn	%	Y mn	%	Y mn	%	Y mn	%	Y	%	Y	Y	Y	
12/2018 NC ^{*1}	1,291	36	246	43.6	223	30	152	35.5	28	0										
12/2019 NC	1,414	9.5	254	3.2	249	11.7	171	12	30.9	0										
12/2020 NC	1,732	22.4	344	35.6	345	38.6	241	41.2	43.2	10										
12/2021 C ^{*2}	2,765	59.6	498	44.6	494	43.1	343	42.1	61.4	10										
12/2022 C(CE)	5,547	95.8	648	39.1	640	38.7	368	22.6	62.7	10										
12/2021 1Q NC	605		124		125		85													
12/2022 1Q NC	1,185	95.9	315	153.1	317	154.1	220	157.5												
1Q/CE (%)	29.3		52.6		53.5		54.5													

Source: compiled by SIR from company data, Note: ^{*1} Non-consolidated, ^{*2} Consolidated

1Q FOLLOW-UP

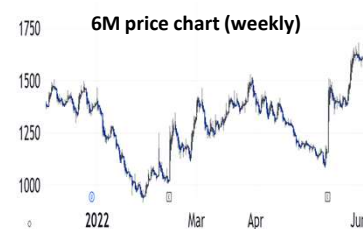


Focus Points:

Accrete has a competitive edge backed by its proven track record and technology in the rapidly expanding SMS business. Entry into the Asian market will also be a future earnings driver.

Key indicators

Share price(6/8)	1,652
YH (6/7)	1,703
YL (1/28)	915
10YH (21/9/9)	2,607
10YL (20/3/13)	571
Shrs. out (mm. shrs.)	5.867
Mkt cap (¥bn)	9.645
EV (¥bn)	8.398
Shr eqty ratio (12/31)	65.3%
FY12/21PER (act)	26.2x
FY12/21 PBR (act)	5.24x
FY12/21 ROE (act)	21.0%
FY12/21 DY (act)	0.6%



Source: Trading View

Team Coverage

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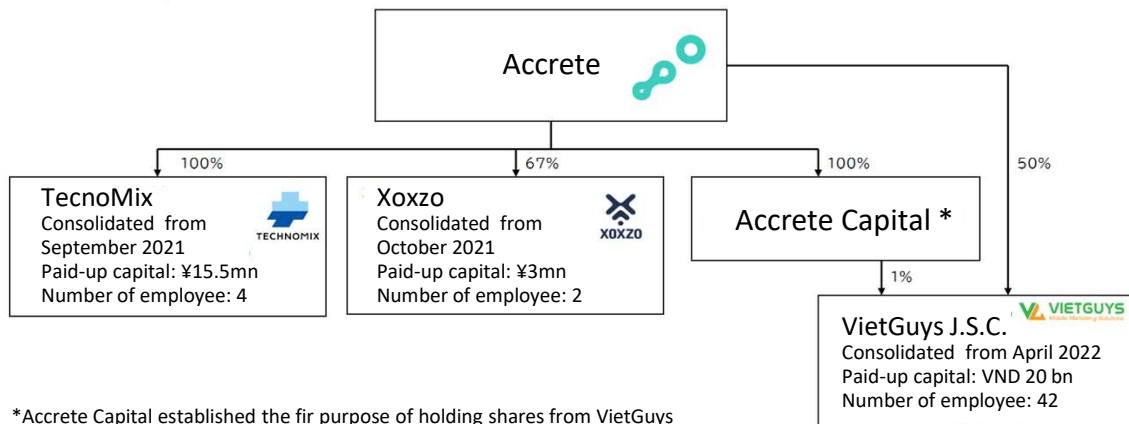


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Key Developments

Vietguys consolidation

Vietguys was consolidated from April 2022 (2Q 2022). This will provide an additional tailwind along with market growth in Asia. Accrete effectively holds 51% of Vietguys, split between a 50% direct holding and an additional 1% via its fully-owned subsidiary, Accrete Capital.



Source: 1Q.FY12/2022 IR results briefing materials

R&D spending – crucial investment

The firm continues to focus on building out its capabilities via R&D in security authentication and communication. R&D spending is not disclosed, however, it is included in SG&A(1Q: ¥168 mn, +53.5% YoY) and the cost of sales. As the business develops, we expect Accrete to continue to lift R&D spending in the future.

Headcount to rise in tandem with growth

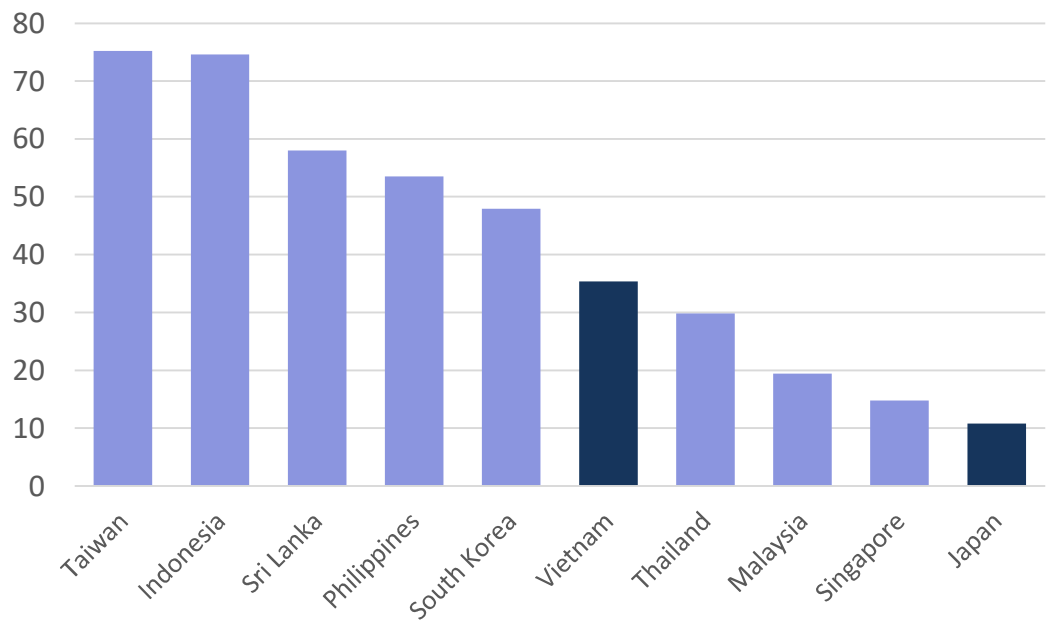
In 1Q, the company lifted its staff from 21 full-time employees a year ago to 36. This number is expected to rise this year in tandem with the continued strong growth prospects in a fast-growing market with hires across engineers, sales, business development, and business support.

Future direction – overseas opportunity

The market is SMS messaging in Asia is an opportunity for further growth for Accrete. With a presence now established in Vietnam, we see the company's potential to use its SMS domain knowledge and skills to expand into other Asian countries.

The market for corporate SMS messages in Asia was estimated at 1.2 trillion SMS in 2019, valued at around \$10 billion. 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: 2Q FY12/2021 IR results briefing materials

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