

AViC | 9554

TSE Growth

2Q Follow up

Undergoes Valuation Correction Need to ascertain timing of recover in sales growth

Summary

Earnings summary

AViC announced its 2H FY9/23 earnings on May 15. For 1H, Oct.–Mar., AViC posted net sales of ¥730 mn, +30.1% YoY, and operating profit of ¥140 mn, a slight year-on-year decline of 5.1%. On account of a deterioration in the funding environment for start-up companies, AViC lost some of its start-up clients, which account for a percentage of clients that is not insignificant, and saw others cut their budget. Labor costs also rose as a result of recruiting and an increase in the base pay for employees. On the other hand, there has recently been a recovery in the number of sale leads and clients, and focus should be on AViC's ability to compensate for the above starting in 3Q onward.

Growth strategy

AViC maintained a high billings per employee although it was slightly less than that for the same period the previous fiscal year, and it was confirmed that the company saw a healthy increase in the number of employees. The number of onboarding employees who are well-versed in operations rose to 41, a year-on-year net increase of 10, and one can argue that the company is steadily laying the groundwork for a new phase of growth as it captures new clients. On January 1, 2023, the company acquired Overflow Inc.'s SEO consulting business, which reinforced its customer base for that business. When releasing its 2Q earning, the company also announced that it had introduced a new analysis function, the first for Cre Tech Force, a video ad tool. Focus should be on the company's efforts to expand its business content in the medium term.

Valuation

On February 7, AViC's stock price hit a record high since the company went public. After that, its stock price has remained at a near record low in response to the release of the next two quarterly earnings reports. The initial fall was probably because of a decline in earnings compared to Q4 FY9/22, in which AViC benefited from temporarily strong demand, and this was followed by growing recognition of the risk that the company may not achieve its guidance for FY9/23. Furthermore, growth for the overall advertising industry has slowed and remains weak, one of the factors behind the correction in valuations through the industry. However, the recent correction has resulted in AViC's P/E based on this FY forecast falling to about 16x, which appears relatively low compared to the simple average P/E of about 30x for peers. AViC will probably be revalued once it looks more likely the company will see a recovery in earnings growth. It is important to make valuations from the same perspective.



Focus Points:

Marketing support company committed to generating results through formulation of meticulous, data-driven strategies and fast-paced PDCA cycle. Leveraging high quality, productivity, and organization management capabilities to continually expand sales in the Internet advertising market, which boasts strong growth.

Key Indicators

Share price (5/19)	871
YH (2/7)	1,478
YL (5/19)	871
10YH (23/2/7)	1,478
10YL (23/5/19)	871
Shrs out. (mn shrs)	5.693
Mkt cap (¥ bn)	5.029
EV (¥ bn)	4,419
Equity ratio(3/31)	55.4%
FY23/9 P/E (CE)	15.98x
FY22/9 P/B (act)	5.84x
FY22/9 ROE (act)	43.1%
FY23/9 DY (CE)	0.00%



Source: SPEEDA

FY	¥mn,%	Gross Sales	YoY	Net Sales	YoY	Ord. Profit	YoY	Net Profit	YoY	EPS(¥)	DPS(¥)
2018/9		38	-	38	-	3	-	2	-	-	0.0
2019/9		236	521.0	151	295.6	-9	-	(2)	-	-	0.0
2020/9		697	194.8	432	186.7	122	-	86	-	16.3	0.0
2021/9		1,330	90.9	687	59.3	112	(9)	79	(9)	14.2	0.0
2022/9		3,401	155.7	1,246	81.3	305	173	226	187	40.5	0.0
2023/9CE		4,652	36.8	1,711	37.3	419	37	310	37	54.5	0.0
2022/9 2Q C		1,420	-	561	-	148	-	103	-	18.6	-
2023/9 2Q C		1,992	40.3	730	30.1	143	(3)	105	2	18.4	-

Source: compiled by SIR from TANSBIN financial statements.

Notes: AViC has applied such accounting standards as the Accounting Standard for Revenue Recognition since FY9/22. For financial and accounting disclosure, such as *kessan tanshin*, it is necessary to keep in mind that AViC reported gross sales, in which media fees are included in both sales and cost of sales through FY9/21, but switched to net sales since FY9/22.

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Earnings Summary

2Q FY9/23: Focus on compensating for lost customers and decline in customer budgets

AViC announced its 2Q FY9/23 results on May 15. For the Jan.–Mar. quarter, the company recorded net sales of ¥400 mn (+29.4% YoY) and operating profit of ¥90 mn (+0.2% YoY). Net sales for the internet ad business, which offers operation support, particularly for listing, digital display, and in-feed ads, were ¥270 mn (+47.3% YoY). Despite this firm growth, profit growth was flat as labor costs rose on account of recruiting and increase in base pay. One factor behind the lackluster results was the loss of and advertising budget cuts by some start-up clients, which account for a percentage of clients that is not insignificant, as a result of the recent deterioration in the VC financing environment.

As for progress through 2Q towards achieving its forecasts, AViC reached 42.7% of its net sales target and 34.2% of its operating profit target, which appear slightly low. Because it is a growth phase, forecasts are weighted toward the second half to a certain extent, and it will be necessary for AViC to make up for the loss of customers and impact of smaller budgets to achieve its initial forecasts. Looking at the number of clients by quarter reveals that while the number fell 5.3% QoQ as of the end of December 2022, the number rose 23.6% QoQ as of the end March 2023 and is expected to grow an additional 12.4% by the end of June. Furthermore, the number of sales leads appears to be recovering as they rose 180.6% YoY in the Jan.–Mar. quarter. It will take about another quarter for these leading indicators to truly impact earnings, and focus should be on material indicating an acceleration in growth. Regarding such issues as employee bonuses, AViC proportionally allocates the portion of man-hours tied to actual project implementation to the cost of sales, and the portion of man-hours tied to sales activities, such as capturing new clients, to SG&A expenses. SG&A expense accounted for a relatively high percentage compared to full-fiscal year forecasts, but this was primarily because focus was on capturing new clients, and labor costs included in SG&A expenses were greater than initially forecast. To avoid misunderstandings, it is probably best to monitor operating expenses, which include both cost of sales and SG&A expenses, and their breakdown.

AViC Quarterly Results

Item (¥mn)	22/9				23/9		22/9	23/9 CE
	1Q	2Q	3Q	4Q	1Q	2Q	Full Year	Full Year
Gross Sales (sales volume)	604	818	826	1,153	943	1,049	3,401	4,652
YoY, %	134.1	162.5	157.3	162.5	56.2	28.3	155.7	36.8
Net Sales	255	306	313	371	334	397	1,246	1,711
YoY, %	86.9	74.6	77.4	88.2	31.0	29.6	81.3	37.3
Internet ad	153	182	201	261	237	268	798	1,187
YoY, %	163.8	117.0	104.9	137.2	54.8	47.3	126.8	48.7
SEO Consulting	101	124	122	110	97	128	447	524
YoY, %	29.1	35.6	55.8	26.5	-4.0	3.5	33.5	17.1
Total Cost of Sales + SG&A	194	215	242	277	281	306	929	1,292
% of Sales	75.9	70.3	77.4	74.5	84.2	77.1	74.6	75.5
Labor Cost	77	82	97	105	115	128	361	-
% of Sales	30.1	26.7	31.1	28.4	34.4	32.3	29.0	-
outsourcing expenses	75	85	88	112	99	118	360	-
% of Sales	29.6	27.9	28.0	30.1	29.6	29.8	28.9	-
recruiting and training	8	14	17	8	13	12	47	-
% of Sales	3.2	4.6	5.4	2.0	3.9	3.0	3.8	-
Compensation Paid	13	12	12	18	22	16	56	-
% of Sales	5.2	4.0	3.8	4.9	6.6	4.0	4.5	-
Other costs	20	22	28	34	32	29	106	-
% of Sales	7.8	7.1	9.1	9.0	9.7	7.3	8.5	-
Operating profit	60	90	71	95	53	91	316	419
% of Sales	23.5	29.4	22.6	25.5	15.8	22.9	25.4	24.5

Source: compiled by SIR from the company IR material.

Note: It is important to keep in mind that for some items, there is a mix of figures rounded off to the nearest thousand yen and figures rounded off to the nearest million yen, and there may be differences in fractional amounts when compared to actual figures.

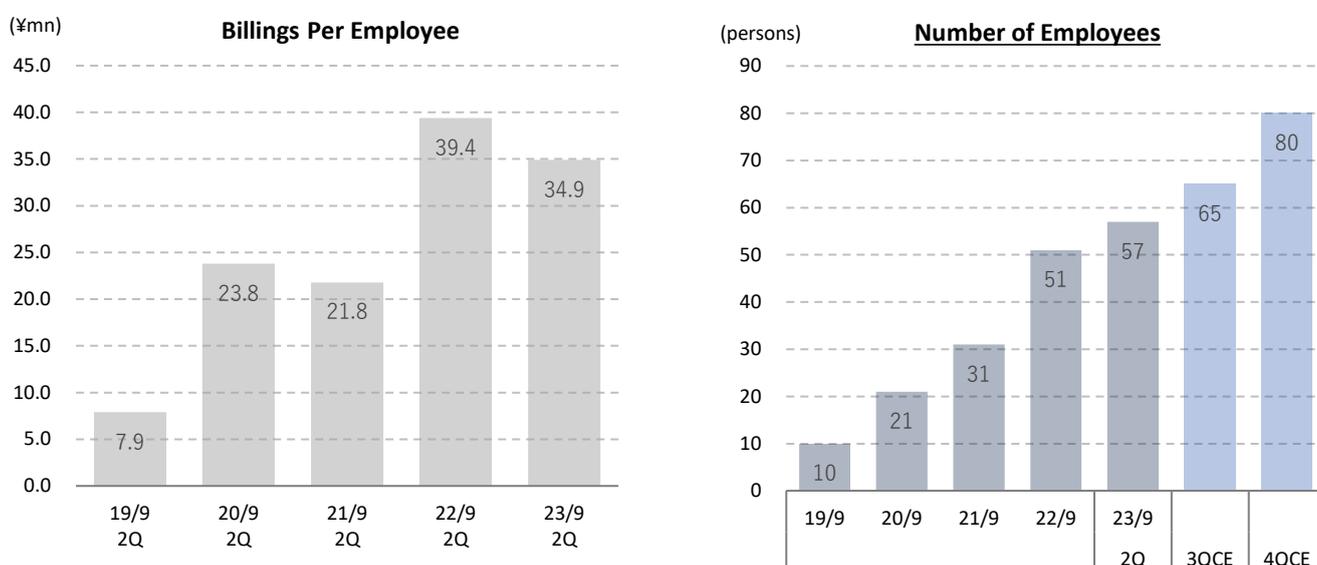
Growth Strategy

Maintained high productivity and entered video ad field

Because AviC’s business is labor intensive to a certain degree, important indicators include securing employees and efficient training (maintaining and improving productivity). As indicated in the following graph, billings per employee remain high despite falling slightly year on year, and there has been a steady increase in the number of employees. The number of employees is forecast to reach 65 as of the end of June, which is slightly less than the initial forecast of 80 (end of 4Q), but the company’s policy is to steadily but patiently increase the number of employees that meet recruiting requirements.

There has also been a steady increase in onboarding staff who do not need mentors and are capable of being a mentor for inexperienced employees, with the number of onboarding employees growing to 41 (+32.2%) as of the end of March 2023 compared to 31 at the end of March 2022. AviC is moving forward with its unique “enablement project,” which aims to transform inexperienced employees into skilled employees by not only using proprietary evaluation items that put into words the gap between top players, such as the members of the management team, and employees targeted for training but also running through a methodical and high-frequency PDCA cycle. It can be argued that the company is making steady progress in reinforcing the foundation for capturing new clients and once again accelerating growth.

Billings Per Employee and Number of Employees for AVIC



Source: compiled by SIR from the company IR material.

Note: Billings per employee is calculated by dividing total 1H billings by the number of employees at the end of 2Q. Furthermore, the number of employees at the end of 3Q is the end-of-2Q forecast number of employees, and the number of employees at the 4Q is the company’s initial forecast.

This time it appears that AviC made progress with proposing video ads. As for Cre Tech Force, a service developed to undertake highly precise video ad analysis, planning, and production using the latest AI, AviC has started to provide an analysis function as the first step. Considered important for increasing value added as a broadly-defined ad agency with overall strong growth, this is a field that the company has begun to focus more on reinforcing, including establishing a capital and business tie-up with the YouTuber agency UUUM (3990). This is a factor that could drive further internet ad earnings growth, and focus should be on future measures.

Moreover, AviC acquired Overflow Inc.’s SEO consulting business as of January 1, 2023. Although it appeared that its SEO consulting business was failing to grow as quickly as its internet ad business, AviC plans to accelerate growth of the business and generate additional synergies with the internet ads by incorporating Overflow’s client base and business operation know-how.

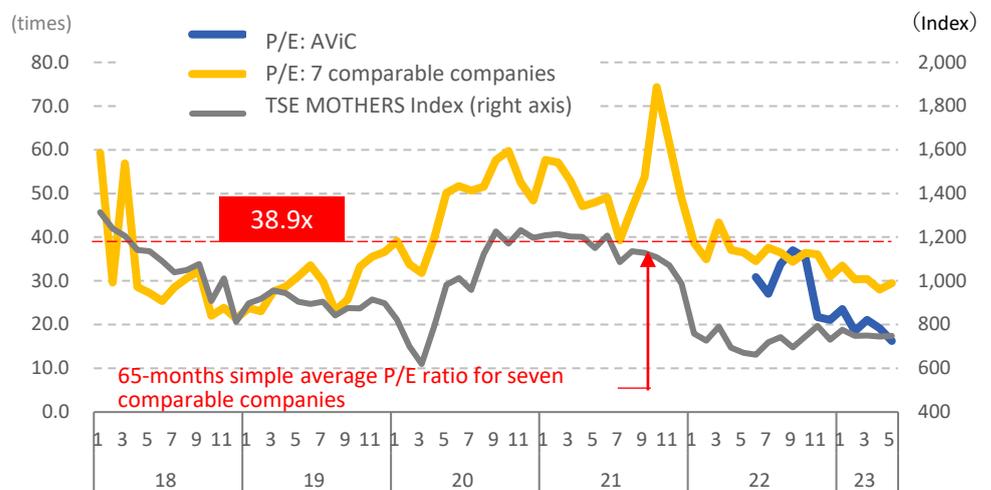
Valuation

Large P/E correction after announcing results for the previous two quarters

Before announcing its 1Q results, AviC’s stock hit a record high of ¥1,478 on February 7, but its stock price underwent a 10%–20% correction following each of its last two earnings announcements, 1Q and 2Q results. It has recently been trading below ¥900. For the 1Q earnings announcement, this may have been the result of the quarter-on-quarter decline in both sales and profit due to a fall-off from large-scale advertising investments by some clients in 4Q. The correction following the 2Q earnings announcement may have partially been the result of concerns about the company being unable to achieve its guidance on account of the weak quarter-on-quarter growth in sales and profit.

However, because of the relatively large correction in valuation and signs of a recovery in growth on account of such leading indicators as the number of sales leads and number of clients, one should keep in mind the extent of the possible revaluation based on progress in achieving FY9/23 forecasts and FY9/24 guidance. The advertising industry has faced a period of lackluster earnings in the short term as a result of revisions to client budgets, and the P/E level for comparable companies has fallen about 20%–30% year on year. Even so, one can argue that when compared to the average P/E of 30x for peers(see the figure below), AviC’s P/E of about 16x is low.

AViC and Comparable Companies’ P/E and TSE MOTHERS Index



Note: The P/E ratio for each was calculated by simply dividing the market capitalization by profit attributable to shareholders of parent or net profit (company’s 1Q forecast, and revisions are reflected when necessary). Although the simple average P/E ratio for the seven peers is used, companies that forecast a loss for transitory reasons or with a P/E ratio over 100x are excluded from the simple average.

Source: compiled by SIR from the companies’ IR materials and SPEEDA

Data: AViC and Seven Comparable Companies Valuation Sheet

code	Name	Closing month	Stock Price	Market Value	P/E			PBR	Net Cash	ordinary	Growth rate of ordinary		
			(10/24)	(10/24)	FY21	FY22E	FY23E	Latest	Latest	FY21	FY21	FY22E	FY23E
-	-	-	yen	mn			X	X	mn	mn			%
9554	AViC	9	871	5,029	61.3	21.5	16.0	7.00	683	112	(8.7)	173.3	37.4
-	sector average	-	-	-	33.5	23.4	29.5	5.43	-	-	-	-	-
4293	SEPTENI HOLDINGS	9	369	77,888	17.9	12.1	-	1.23	12,406	3,796	54.8	54.2	-
4499	Speee	9	1,697	17,626	20.4	16.0	46.4	2.92	4,851	1,191	76.7	33.4	(41.2)
4751	CyberAgent	9	1,104	558,705	13.4	22.3	31.9	3.87	139,675	104,694	209.2	(33.7)	(35.2)
6533	Orchestra Holdings	12	1,214	11,915	15.7	13.9	11.9	2.30	1,308	1,286	88.3	8.9	17.1
7069	CyberBuzz	9	1,425	5,682	(72.9)	64.3	27.8	2.90	0	4	(98.0)	4,175.0	133.9
7095	Macbee Planet	4	17,380	61,978	72.5	40.3	-	20.68	1,053	1,233	57.1	66.3	-
9246	PROJECT COMPANY	12	4,265	24,580	61.3	35.8	29.3	8.77	1,552	502	195.3	88.8	32.9
code	Name	Closing month	ROE		Ordinary Profit Margin		Asset Turnover		Capital ratio		Payout ratio		yield
			FY21	FY22E	FY21	FY22E	FY21	FY22E	FY21	FY22E	FY21	FY22E	forward
-	-	-	%		%		回		%		%		%
9554	AViC	9	26.2	43.1	16.2	24.5	1.23	1.19	52.8	48.7	0.0	0.0	0.00
-	sector average	-	26.4	19.5	11.8	13.5	1.73	1.27	54.9	59.8	5.7	7.7	0.30
4293	SEPTENI HOLDINGS	9	15.2	14.1	17.8	20.3	0.56	0.44	43.9	70.7	16.5	15.1	0.00
4499	Speee	9	18.9	20.1	9.4	14.1	1.70	1.36	63.7	66.6	0.0	0.0	0.00
4751	CyberAgent	9	38.1	17.7	15.7	9.8	2.07	1.85	33.7	37.6	13.4	28.3	1.36
6533	Orchestra Holdings	12	24.7	18.0	7.7	13.5	2.18	0.94	40.9	45.4	10.3	10.3	0.74
7069	CyberBuzz	9	(3.9)	4.6	0.1	4.0	1.38	1.77	80.8	73.4	0.0	0.0	0.00
7095	Macbee Planet	4	33.5	-	8.5	10.8	3.12	-	46.2	-	0.0	0.0	0.00
9246	PROJECT COMPANY	12	28.0	27.7	23.5	21.8	1.11	1.23	75.0	65.1	0.0	0.0	0.00

Source: compiled by SIR from the companies' IR materials and SPEEDA

Notes: FY22 data for AViC, Septeni Holdings, Speee, CyberAgent, and CyberBuzz are actual figures. For Septeni Holdings, non-GAAP operating profit is provided instead of ordinary profit because of the application of IFRS. For AViC, Speee, and Orchestra Holding, sales were changed from gross to net from FY22 due to the application of accounting standards for revenue recognition, and asset turnover and ordinary profit margin change for technical reasons.

AVIC Financial Results

¥mn, %	FY 2018/9	2019/9	2020/9	2021/9	2022/9	2023/9	2022/9				2023/9	
	act	act	act	act	act	CE	1Q	2Q	3Q	4Q	1Q	2Q
Gross Sales (sales volume)	38	236	697	1,330	3,401	4,652	604	818	826	1,153	943	1,049
YOY	239.9	521.0	194.8	90.9	155.7	36.8	134.1	162.5	157.3	162.5	56.2	28.3
Net Sales	38	151	432	687	1,246	1,711	255	306	313	371	334	397
YOY	239.9	295.6	186.7	59.3	81.3	37.3	86.9	74.6	77.4	88.2	31.0	29.6
Internet ad	-	-	239	352	798	1,187	153	182	201	261	237	268
YOY	-	-	-	47.3	126.8	48.7	163.8	117.0	104.9	137.2	54.8	47.3
SEO Consulting	-	-	193	335	447	524	101	124	122	110	97	128
YOY	-	-	-	74	33	17	29	36	56	27	-4	4
Cost of sales (excluding media costs)	-	-	142	323	585	897	123	139	146	177	158	184
% of sales	-	-	33.0	47.0	46.9	52.4	48.0	45.4	46.7	47.7	47.4	46.3
SG&A	-	-	169	244	345	395	71	76	96	100	123	122
% of sales	-	-	39.2	35.5	27.7	23.1	27.8	24.8	30.7	26.8	36.8	30.9
Total Cost of Sales + SG&A	-	-	312	567	929	1,292	194	215	242	277	281	306
% of sales	-	-	72.2	82.5	74.6	75.5	75.9	70.3	77.4	74.5	84.2	77.1
Labor Cost	-	-	-	-	361	-	77	82	97	105	115	128
% of sales	-	-	-	-	29.0	-	30.1	26.7	31.1	28.4	34.4	32.3
outsourcing expenses	-	-	-	-	360	-	75	85	88	112	99	118
% of sales	-	-	-	-	28.9	-	29.6	27.9	28.0	30.1	29.6	29.8
recruiting and training expenses	-	-	-	-	47	-	8	14	17	8	13	12
% of sales	-	-	-	-	3.8	-	3.2	4.6	5.4	2.0	3.9	3.0
Compensation Paid	-	-	-	-	56	-	13	12	12	18	22	16
% of sales	-	-	-	-	4.5	-	5.2	4.0	3.8	4.9	6.6	4.0
Other costs	-	-	-	-	106	-	20	22	28	34	32	29
% of sales	-	-	-	-	8.5	-	7.8	7.1	9.1	9.0	9.7	7.3
Operating profit	-	-	120	120	316	419	60	90	71	95	53	91
% of sales	-	-	27.8	17.5	25.4	24.5	23.5	29.4	22.6	25.5	15.8	22.9
Ordinary income	3	-9	122	112	305	419	-	-	58	98	53	90
% of sales	8.0	-3.7	17.6	8.4	24.5	24.5	-	-	18.7	26.4	16.0	22.8
Income before income taxes	-	-	122	112	306	-	-	-	58	99	53	90
Total Income taxes	-	-	35.9	32.9	79.9	-	-	-	17.9	16.5	14.1	24.5
effective tax rate	-	-	29.3	29.5	26.1	-	-	-	30.6	16.6	26.4	27.1
Net income	2	-2	86	79	226	310	-	-	41	83	39	66
EPS (¥)	0.42	-0.43	16.30	14.21	40.54	54.51	-	-	7.31	14.61	6.90	11.51
BPS (¥)	2.5	7.6	47.2	61.4	124.4	-	-	-	-	-	-	-
DPS (¥)	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-	-	-
payout ratio (%)	-	-	-	-	-	-	-	-	-	-	-	-
ROE (%)	-	-	57.2	26.2	43.1	-	-	-	-	-	-	-
Equity ratio (%)	46.7	33.9	55.0	52.8	48.7	-	-	-	-	-	-	-
Capital investment (¥mn)	-	-	-	51.26	2,843	-	-	-	-	-	-	-
Number of Employees (persons)	5	10	21	31	54	80	-	-	-	-	51	57
Total Assets	27	118	476	645	1,456	-	-	937	1,109	1,456	1,237	1,553
Cash and deposits	-	-	330	329	724	-	-	407	644	724	568	771
Cash and deposits	-	-	90	228	565	-	-	404	330	565	370	462
Total Liabilities	14	78	211	301	743	-	-	488	478	743	479	689
Trade Payables	-	-	44	145	442	-	-	183	169	442	316	349
Interest-bearing debt	-	-	54	62	41	-	-	25	25	25	25	38
Total Net Assets	12	40	265	344	713	-	-	449	630	713	758	864
Net worth	-	-	262	340	708	-	-	444	625	708	753	861
Cash Flows from Operating Activities	-	-	171	15	324	-	-	-	-	-	-	-
Cash Flows from Investing Activities	-	-	-28	-26	-34	-	-	-	-	-	-	-
Free Cash Flow (FCF)	-	-	144	-10	291	-	-	-	-	-	-	-
Cash Flows from Financial Activities	-	-	146	9	105	-	-	-	-	-	-	-
Changes in Cash Flow	-	-	290	-1	396	-	-	-	-	-	-	-
Cash Equivalent - Beginning	-	-	40	330	329	-	-	-	-	-	-	-
Cash Equivalent - Ending	-	-	330	329	724	-	-	-	-	-	-	-

Source: compiled by SIR from the company IR material.

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