

Earnings forecasts for the full year were revised up after the firm already surpassed its full-year net profit target in the first half.

## RESULTS SUMMARY

- Accrete announced its 2Q results for FY12/22 after the close of trading on Friday 12 August. Key consolidated figures for the 2Q were sales of ¥2,733mn, operating profit of ¥574mn, and net profit attributable to shareholders of the parent company of ¥386mn. The company started consolidated accounts from 3Q of the previous year, and thus the YoY growth rates are not meaningful on a consolidated basis. However, growth rates on a non-consolidated basis were +74.1% for sales and +148.1% for operating profit, with high growth continuing in the core domestic SMS distribution service business in Vietnam, which has been consolidated since April 2022. The overseas messaging services business, mainly VietGuys in Vietnam, was consolidated from April 2022, and recorded sales of ¥432mn and an operating loss of ¥1.6mn. From the 2Q, the company used the consolidation of VietGuys as an opportunity to begin disclosing segment information separately for the domestic messaging services business and the overseas messaging services business.
- 2Q non-consolidated sales (Apr-Jun), including the company's core domestic SMS distribution service, rose by 53.6% YoY to ¥984mn. However, compared to the 1Q, sales were down 16.9% QoQ owing to heightened usage of SMS in the 1Q in response to the 6th wave of COVID-19. As mentioned in the 1Q follow-up report, the company's 1Q (Jan-Mar) coincided with the 6th wave of COVID-19, which caused the government to accelerate the use of SMS for PCR tests and communication with people recovering at home. 2Q was adversely affected by the decline in administrative demand between the 6th and 7th waves.
- The forecast was revised up owing to the high achievement rate in 2Q versus the company's original forecast for FY12/2022. The achievement rate versus the original forecast was as follows: 49.3% of sales, 88.7% of operating profit, 91.6% of recurring profit, and 105.1% of net profit attributable to shareholders of the parent company. The noticeable improvement in operating and net profit margins is due to the increase in gross profit margin as well as a performance-based advertisement cost allocation and cuts on other SG&A expenses. The new company forecasts are shown in the table below.

### Accrete 2Q consolidated results summary

FY	Net sales		OP		RP		NP		EPS	DPS
	Y mn	YoY %	Y mn	YoY %	Y mn	YoY %	Y mn	YoY %		
12/2018 NC <sup>*1</sup>	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 <sup>*2</sup>	2,765	59.6	498	44.6	494	43.1	343	42.1	61.4	10
12/2022 C(CE/Initial)	5,547	95.8	648	39.1	640	38.7	368	22.6	62.7	10
12/2022 C(CE/New)	5,726	102.1	917	96.8	923	100.1	568	89.2	96.62	10
12/2021 2Q NC	1,246	75.5	235	82.4	235	83.2	161	85.7		
12/2022 2Q NC	2,170	74.1	584	148.1	595	153.0	412	156.5		

Source: compiled by SIR from TANSWIN financial statements, Note: <sup>\*1</sup> Non-consolidated, <sup>\*2</sup> Consolidated

## 2Q 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(9/1)	2,404
YH (8/25)	2,868
YL (1/28)	915
10YH (22/8/25)	2,868
10YL (20/3/23)	571
Shrs. out (mm. shrs.)	5.867
Mkt cap (¥bn)	14.138
EV (¥bn)	13.156
Shr eqty ratio (9/30)	65.3%
FY12/22PER (CE)	24.9x
FY12/21 PBR (act)	4.99x
FY12/21 ROE (act)	21.0%
FY12/22 DY (CE)	0.4%

### 1Y price chart



Source: Trading View

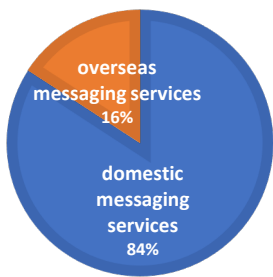
### Team Coverage

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## FY2022/12Q2 NET SALES



Source: TANSHIN financial statements

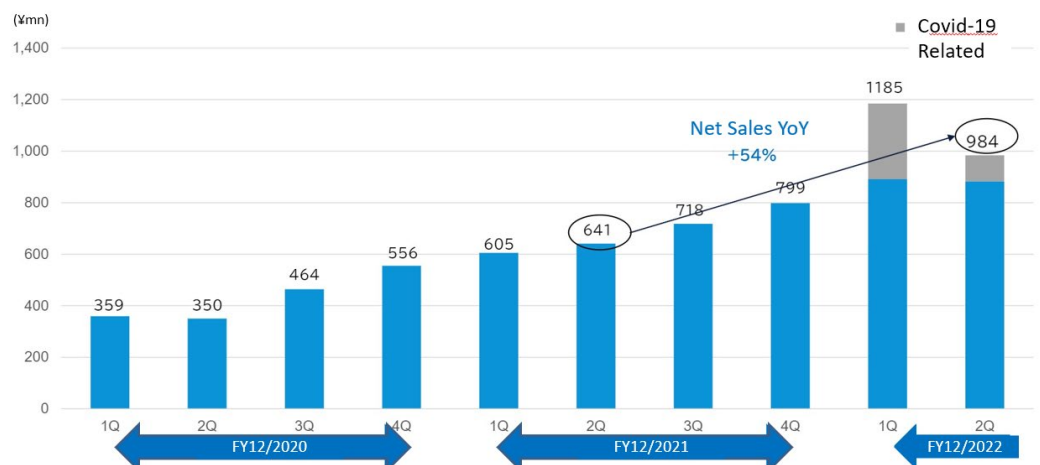
## Segment Reporting

In April 2022, Accrete acquired a 51% stake in VietGuys J.S.C., a Vietnamese SMS distribution company, and made it a consolidated subsidiary. Following this, it began segment reporting for the domestic and overseas segments. In 1H FY12/22, the domestic SMS business posted revenue of ¥2,301 mn, accounting for 84% of total revenue, while the overseas SMS business reported revenue of ¥432 mn, accounting for 16% of total. The company recorded ¥354 mn in goodwill related to the acquisition.

## 2Q FY12/22 Highlights

In 2Q FY12/22, the company reported revenue of ¥984 mn, which was up 54% YoY but down 17% QoQ. The main factor behind this was the aforementioned sharp decline in COVID-19 related sales after the 6th COVID-19 wave. In addition, traffic can temporarily flow to the company due to telecommunications carrier outages (which occur frequently but are unpredictable), and this can be a factor in unexpected revenue growth. On the other hand, this can also translate into unfavorable QoQ comparisons, which appears to be the case for 2Q.

## Quarterly Sales Trend



Source : compiled by SIR from the company financial results presentation

On a non-consolidated basis, 1H operating profit rose 148.1% YoY to ¥584 mn, and OPM rose 8% YoY to 26.9% from 18.9% in 1H FY12/21. The company has set aside a substantial budget for human resources in FY12/22, mainly to secure engineers in order to take the lead in the rapidly growing market. While its recruitment is slightly behind plan, the company managed to offset the personnel shortage by outsourcing more work.

The company also reported lower-than-planned advertising expenses, which was another factor contributing to higher profits. It had aggressively spent on advertising from the start of FY12/22, but proceeded to carefully examine the performance of each advertising campaign, such as by analyzing leads from its SEO measures as well as for each ad listing. As a result, the company was able to reduce advertising expenses by undertaking more cost-effective advertising activities.

\*1 segment belongs to domestic messaging services.

## FY12/2025 Performance

**Net sales** consolidated net sales ¥170 bn  
(Of which, New business sales ¥20 bn)

**Sales CAGR**  
 • Domestic Messaging Service Business CAGR over 30 % growth  
 • Overseas Messaging Service Business CAGR over 50 % growth

**OP** • Consolidated OP ¥ 3 bn

Source: compiled by SIR  
from the company IR material

## Medium-term Management Plan (FY12/23–FY12/25)

On August 18, the company announced its medium-term management plan through FY12/25, and presented it at its earnings briefing held on August 26. This was a big surprise, and the day after the announcement, its shares ended the day at the upper price limit. Two business days later on August 22, the closing price was ¥2,752, 49% higher than the closing price on August 18.

Accrete has set a target of ¥17.0 bn in revenue for FY12/25, about three times the ¥5.5 bn forecast for FY12/22, and an operating profit of ¥3.0 bn, 4.6 times the FY12/22 forecast. The FY12/25 revenue target is broken down into ¥10.0 bn for the domestic messaging services business, ¥2.0 bn for new businesses<sup>\*1</sup>, and ¥5.0 bn for the overseas messaging services business.

For the domestic messaging services business, the company assumes that the domestic SMS market in 2024 will be ¥20-30 bn based on a think tank's estimate<sup>\*2</sup>, and that it will capture 30% of the market. This is not an unreasonable assumption considering the current market share and competitive landscape.

In terms of new businesses, the company aims to offer solution services tailored to customer issues based on its existing SMS identity authentication and communication transmission service, and is pursuing a growth strategy to extend its value proposition to include multichannel communication, AI/nudge, multi-factor authentication, and consent management platforms, based on its core business. SMS has been recognized for its usefulness in identity authentication and communication, but on top of this core value, the company plans to provide solution services that encourage behavioral change by facilitating information delivery. Specifically, this has been demonstrated through COVID-19 response efforts by public institutions, where users are able to register using only a phone number, and the institutions are able to communicate efficiently through short text messages to confirm the patient's condition, medication delivery, and in some cases, arrange for hospitalization and transportation.

Following the VietGuys acquisition in Vietnam, Accrete has adopted a rollup strategy for its overseas messaging services business, with the aim of acquiring peers in SE Asia. The company aims not only to expand revenue, but also to produce results through post merger integration efforts by sharing its SMS expertise. At the earnings briefing held on August 26, President Yusei Tanaka opened the session the company will shift focus from Japan to all of Asia, emphasizing the company's interest in expanding in Asia.

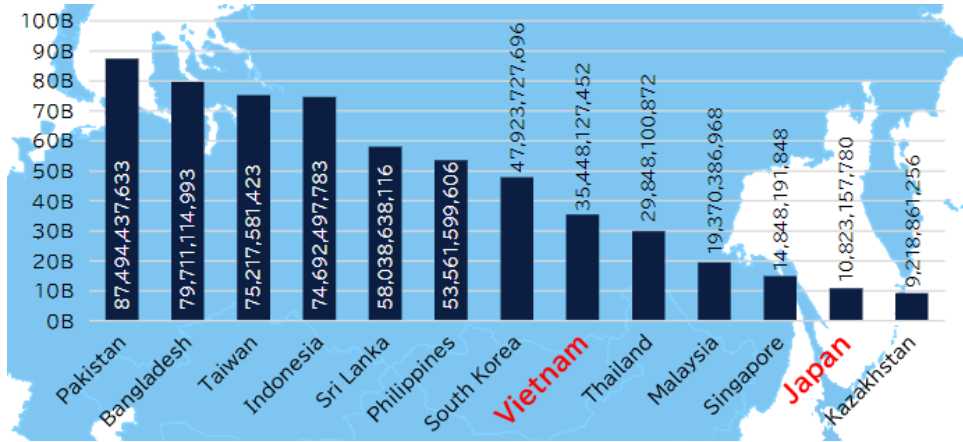
SMS traffic in Asia is massive compared to Japan (see figure below). In the 2000s, when mobile phones were becoming more common (2G), the GSM communication standard was used in Asia, which differed from the standard used in Japan. This helped to popularize SMS, not just by enabling text messaging before social networking apps became available, but also by facilitating low-cost messaging within GSM networks in Asia, where cross-border communication is common.

The Asian market has a longer history of using SMS than Japan, and is considered a mature market. The Japanese SMS distribution market for corporate customers is expected to grow at a 40+% CAGR<sup>\*3</sup> from 2020 to 2025, while the Asian market is expected to grow at a 5.5%<sup>\*4</sup> CAGR. In this market environment, the company's M&A roll-up strategy appears to be a rational approach.

<sup>\*2</sup>, <sup>\*3</sup>Deloitte Tomatsu MIC Research Institute **MIC IT report** Sep/2021

<sup>\*4</sup> Mobile Squad Global A2P SMS Databook report, 2019-2024

Asia countries by traffic volume(2019-2024)



Source: The company IR material, Mobile Squad Global A2P SMS Databook report, 2019-2024

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