

AViC | 9554

TSE Growth

INITIATION



Creating Added Value Through Quality Marketing Support To Mid-sized Clients

-- Balancing provision of in-depth services and high productivity while generating accelerated earnings growth --

Summary

- Company Profile:** AViC Co., Ltd., primarily provides Internet advertising services that support clients' Internet advertising, mainly listing, display, and in-feed ads, and that employ a revenue mechanism where the company earns 15%-20% of the medium cost as a fee. The company is also involved in SEO consulting, including SEO and article page planning and creation. Touting "eliminating the digital divided in marketing among companies," the company offers quality internet advertising and the optimal SEO strategy primarily to clients with a monthly advertising budget of ¥5-¥50 mn that cannot receive quality digital marketing services.
- Competitive advantages:** The company's competitiveness comes from (1) the deep understanding of various media algorithms possessed by its management team, particularly the company's representative who was the chief executive of the internet advertisement business at CyberAgent, and content backed by experience and a track record, (2) capability to execute projects and manage the organization that makes it possible to more efficiently provide mid-sized clients, for which solutions are easily standardized, with quality services that require large number of man-hours by thoroughly managing and improving productivity, and (3) mechanisms so that human resources can acquire the skills necessary to quickly contribute through an extensive training and education system. AViC's ability to secure strong operating profit per employee while paying relatively high average salaries compared to other listed companies is probably evidence that it is creating high value added due to its strong organization and management capabilities in a business field with strong demand.
- Earning trends:** Since AViC was effectively founded in March 2018, earnings growth has accelerated, and in FY9/22, net sales reached ¥1,246 mn and operating profit hit ¥306 mn. Under current conditions, for potential projects, the pace of earnings growth tends to depend on human resource capacity, and it can be argued that a major issue for AViC is securing and training human resources that can immediately contribute to operations. During FY9/23, the company plans on adding about 30 employees (51 → 80), mainly marketing consultants, and recording sales of ¥1,711 mn (+37.3%) and ordinary profit of ¥419 mn (+37.4%).
- Valuation:** Directly comparable companies are listed companies whose main business is Internet advertising and digital marketing support, and the industry average P/E ratio (based on first quarter forecasts) over the past five years is 39.8x. However, it has recently been 35x. AViC's P/E ratio is 29.8x using actual earning for FY9/22, but 22.2x using FY9/23 forecasts.

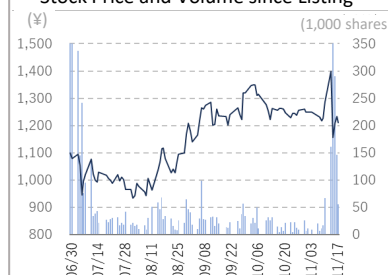
Focus Points:

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 (11/18)	1,210
YH (11/14/22)	1,400
YL (8/2/22)	934
10YH (11/14/22)	1,400
10YL (8/2/22)	934
Shrs out. (mn shrs)	5.693
Mkt cap (¥ bn)	6.889
EV (¥ bn)	6,206
Equity ratio(9/30)	48.7%
FY9/22 P/E (CE)	22.20x
FY9/22 P/B (act)	9.72x
FY9/22 ROE (act)	43.1%
FY9/23 DY (CE)	0.00%

Stock Price and Volume since Listing



Source: Trading view

FY	Gross Sales (mn)	YoY (%)	Net Sales (mn)	YoY (%)	Ordinary Profit (mn)	YoY (%)	Net income (mn)	YoY (%)	EPS (yen)	DPS (yen)
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	-8.7	79	-8.8	14.2	0.0
2022/9	3,401	155.7	1,246	81.3	305	173.3	226	187.2	40.5	0.0
2023/9CE	4,652	36.8	1,711	37.3	419	37.4	310	37.2	54.5	0.0

Source: compiled by SIR from TANSWIN financial statements.

Shohei Hasegawa

research@sessapartners.co.jp

Company profile



Therefore, it is somewhat low assuming the company achieves its forecasts. AViC is part of a high-growth industry, and it is probably necessary to make valuations after ascertaining the medium-term growth potential and profit level for the company and comparable companies.

Risks: AViC has not yet broken free of its small-scale organizational structure that relies on particular people, such as the management team, and it is probably necessary to keep in mind risks related to securing human resources and a decline in valuation due to a deterioration in earnings as the company’s P/E ratio is greater than the average for Japanese companies .

History: Gaining experience and expanding business since its founding in March 2018

AViC is involved in the commissioned handling of Internet advertising and provision of SEO (search engine optimization) consulting services so that it can provide quality digital marketing services to clients with small- to medium-sized advertising budgets. The company’s current Representative Director Sogo Ichihara, who used to work as the chief executive of the internet advertisement business at CyberAgent (4751), established the company in March 2018 when he saw a business opportunity in the fact that except for some large companies with massive advertising budgets of more than ¥50 mn a month, most companies cannot benefit from quality digital marketing.

When AViC was first founded, it generated earnings by working with clients and on projects of other advertising agencies and businesses in the Internet advertising field, but as it gradually gained experience, it concluded more and more direct contracts with clients, and recently, about 70% of its sales come from business directly with clients. To maximize the impact of client advertising, the company expanded its business from Internet advertising using such ads as listing, display, and in-feed ads, to SEO consulting, which involves optimizing websites to raise their position on search engines, such as Google, and planning and creating article pages that take into consideration capturing CV. To increase the quality and differentiate its video ads used as in-feed ads, etc., the company concluded a capital tie-up agreement with UUUM (3990), the industry leader for YouTuber management, etc., in March 2022.

As shown in the table below, the predecessor to AViC was Fugaido Inc., which was founded in July 2013 (the name of the company was changed to OWL Inc. in April 2014), but after the company conducted a capital increase through a third-party allocation of shares to the current Representative Director Sogo Ichihara in March 2018, the company’s business was changed to digital marketing, which effectively created AViC Inc.

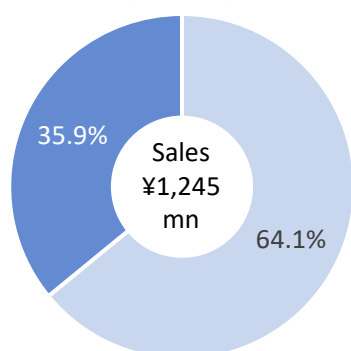
History

Year	Month	Details
2013	Jul.	Established as Fugaido Inc. by the spouse of BuySell TEchnologies (7685) Representative Director, President, and CEO Kyohei Iwata.
2014	Apr.	Kyohei Iwata acquired all shares of Fugaido Inc. and changed the business to marketing consulting and the company name to OWL Inc.
2018	Mar.	Capital increased through third-party allocation of shares to the current Representative Director and President Sogo Ichihara. Company name changed to current name and business changed to digital marketing. Kyohei Iwata resigned and Sogo Ichihara became Representative Director at that time.
2018	Sept.	Launched SEO consulting services
2021	Mar.	Moved head office to Akasaka, Minato-ku, Tokyo
2021	Dec.	Transitioned to company with Audit & Supervisory Board
2022	Mar.	Concluded capital tie-up agreement with UUUM (3990)

Source: compiled by SIR from the company’s IR material.

*1. Until FY9/21, the various media fees, including listing ad fees proportional to the product of number of clicks and unit cost were recorded as sales and cost of sales on a gross basis, but starting in FY9/22, the accounting policy was changed to record only the amount equivalent to fees as sales on a net basis due to the application of accounting standard for revenue recognition.

Sales Composition (FY9/22)



- Internet Advertising
- SEO Consulting

Source: compiled by SRI from company's IR material
 Note: This refers to net sales.

Business content: Internet advertising and SEO for a wide range of companies

AViC's business can be broadly divided into Internet advertising services, which involve the commissioned handling of listing, display, and in-feed ads, and SEO consulting services, which entail optimizing websites to raise their position in search engine (Google, etc.) results and planning and creating article pages that take into consideration capturing CV. For the Internet advertising business, the company earns about 15%-20% of the cost of the medium as an operating fee,*1 and for the SEO consulting services, it earns a monthly consulting fee proportional to the number of man-hours and article creation fee, etc., as cash point. In FY9/22, the Internet advertising services business accounted for more than 60% of the company's sales.

The company has a wide range of clients, which makes it possible to provide digital marketing support for various industries. Examining its securities report and the companies disclosed in its accounts payable list reveal that AViC's clients include not only advertising agencies such as the Hakuhodo DY Holdings' subsidiary D.A.Consortium (2433) and Tokyu Agency, but also clients that AViC directly conducts business with, including the used car purchase/sales assessment company Nextage (3186), the payment/remittance app operator Kyash, and the Mizkan Group mail-order subsidiary ZENB Japan.

AViC primarily targets companies with a monthly advertising budget of ¥5-¥50 mn (annual budget of ¥60-¥600 mn), not companies one rank above with a monthly advertising budget of more than ¥50 mn (annual budget of more than ¥600 mn), which are the companies that large advertising agencies target. While large advertising agencies do not actively target these companies because of resources and productivity, they are companies that require in-depth marketing support and make it easy for AViC to leverage its competitive advantages discussed below.

Past and Present Main Clients

Industry	Past and Present Main Clients
Advertising agency	D.A.Consortium
Advertising agency	Tokyu Agency
Car purchase/sales assessment	Nextage
Bridal jewelry	New Art Holdings
Local healthcare services	Medical Services
Payment/remittance service	Kyash
Mail-order food	ZENB JAPAN

Source: compiled by SIR from company's IR material
 Note: Excerpt based on securities report and accounts payable list, not all clients.

Distinguishing features: Creates meticulous, data-driven strategies and generates results through fast-paced PDCA cycle

For its Internet advertising services, AViC handles primarily (1) listing ads for the most commonly used search engines in Japan, such as Google and Yahoo!Japan, (2) display (banner) ads for search engines and leading websites with ad space, such as LINE, and (3) in-feed ads included in SNS and media feeds, such as Facebook, Twitter, and Instagram, but also makes use of (4) other types of ads, such as affiliate ads, if they contribute to maximizing ad impact for clients. One distinguishing aspect of its services is the formulation of a meticulous marketing strategy and use of a data-driven fast-paced PDCA cycle.

For example, for Google's listing ads, the settings on the Google ad management page are limited to creating ad copy, selecting images, setting the advertising budget and click rate, and choosing keywords as hooks for posting ads when users conduct a search. Finding the optimal strategy becomes more complex if one wants to capture quality potential clients at a low unit cost. Starting with personnel settings, it is important to examine the words that should be included in the ad copy and to select keywords based on user interest and search behavior. Furthermore, the optimal solution is impacted by service cycle, changes in the environment of the industry the client is in, and competitors' keywords and ad budget setting of listing ads.

Competitive advantages

Representative Director and President Sogo Ichihara



Source: company IR material

In the above example, only Google listing ad was used to simplify things, but it is also important to decide on the optimal allocation between media by measuring and horizontally comparing the ad impact for other media in a similar way. While people talk of digital marketing as a single activity, there are major differences in results and cost effectiveness depending on “the depth and man-hours spent on the analysis.” By providing in-depth solutions to clients with limited advertising budgets, AViC is differentiating itself from companies in the same industry conducting business that targets similar-sized clients.

While listing ads are displayed at the top of searches as ads and require paying the search engine operator a media fee that depends on factors such as the number of clicks, SEO consulting services involve providing support so that websites are displayed near the top for natural searches. Similar to listing ads, there are personal settings, and keywords can be selected, but it is important to get search engines to recognize that one’s landing page (LP) or website itself is more useful than rivals by taking steps such as optimizing the structure of the LP and website and appropriately embedding keywords. The algorithms that search engines such as Google use to display results are not public and items evaluated and weights are adjusted each time the algorithm is updated. Therefore, to generate good results, it is necessary to have in-depth understanding of the algorithm and continually verify that. Therefore, this points makes it easy for companies to differentiate themselves by gaining experience.

Management team: Community of members with abundant experience and track records

One of the company’s competitive advantages is the large number of its management team members who possess extensive experience with and proven track record related to providing quality digital marketing services. The company boasts a management team that includes not only members who have served as managers of business at a wide range of advertising agencies, from major ones to startups, including the Representative Director and President who was the chief executive of the advertisement business at CyberAgent, but also members who are knowledgeable of media such as TikTok and LINE.

Management team in charge of frontline divisions and their experience

Position	Name	Background
Representative Director and President	Sogo Ichihara	Head of Internet advertisement business at CyberAgent (4751). While at CyberAgent, expanded annual sales of the programmatic ad business to ¥10.0 bn.
Internet Advertising Div. Head	Satoshi Okugawa	Former Representative Director and President of the digital marketing support company AiTrigger. Active as LINE Frontier, one of ten certified LINE instructors in Japan
Internet Advertising Dept. GM	Kazuya Tamachi	Served as Advertising Agency and former United (2497) advertising agent and Advertising Business Dept. Manager. Expert in SNS ads and app projects for ASO measures and IP collaboration
SEO Consulting Business Div. Head	Mitsue Masuda	Former CyberAgent Advertising Business Div., Sales Bureau Manager. Held various other positions including manager of Consulting Bureau for programmatic and in-feed ads at CyberAgent.
SEO Consulting Dept. GM	Yohei Sakuraba	Managed various operations including the construction of sales system and improvement in service quality as executive officer at web marketing start up. Has experience providing SEO services to more than 800 companies in total
Service Development Div. Head	Yu Hatakeyama	Developed mechanization and automation system for various uses at CyberAgent. Subsequently worked on global expansion of TikTok programmatic ads as executive officer of ByteDance.

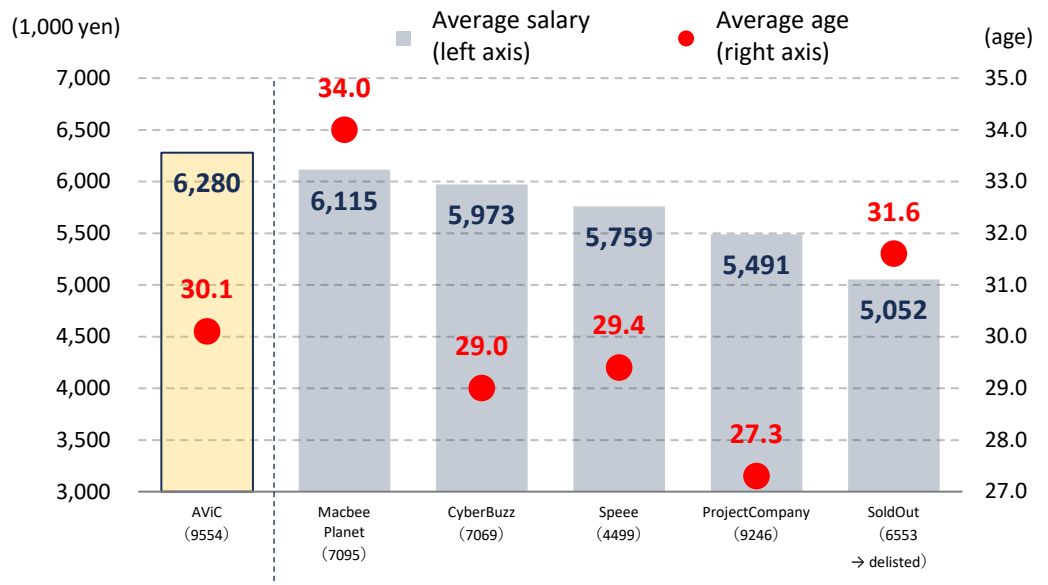
Source: compiled by SIR from the company’s IR material

Note: Quantitative and qualitative information are as of when the report was written.

Productivity: Thorough man-hour management and use of outside resources and high productivity due to in-house DX tools

Depth of provided value and greater operational efficiency tend to be inversely correlated, but the company has achieved high productivity by (1) thoroughly managing man-hours for consultants, (2) selecting value added operations and appropriately leveraging outside resources, and (3) reducing man-hours through the use of marketing DX tools developed in-house. It is worth noting that compared to other listed companies in the same industry, AViC pays higher salaries for the average age (top part of figure below), and generates strong operating profit per employee (lower part of figure below).

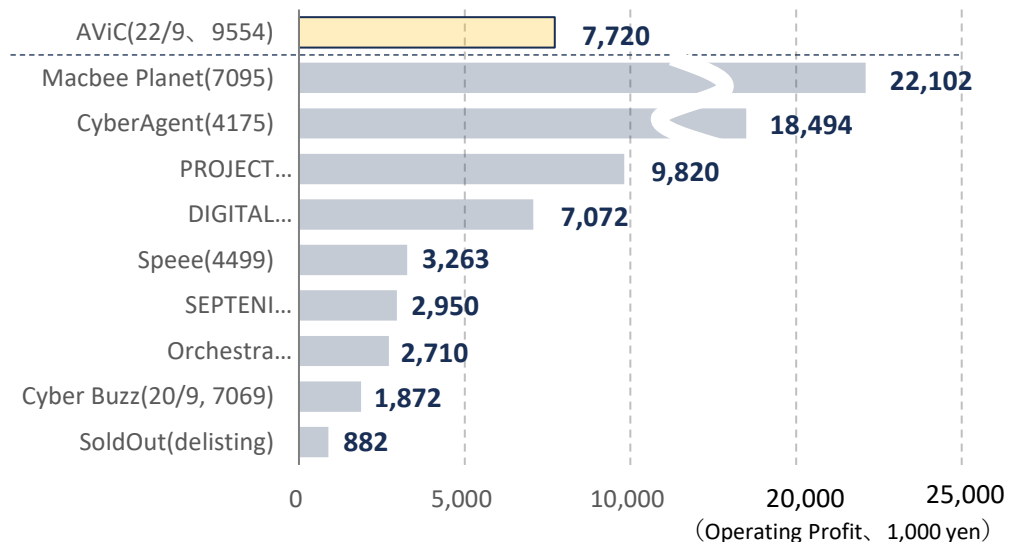
Average Age and Salary of Other Listed Companies in Same Industry



Source: compiled by SIR from the company's IR material

Note: Used data as of April 30, 2022, for AViC and Macbee Planet ; as of December 31, 2021, for ProjectCompany and SoldOut; and as of September 30, 2021, for Speee and CyberBuzz. In this report, companies other than those listed here are treated as other companies in the same industry, but they have been excluded as they are considered inappropriate for comparison as they only disclose the average salary and age for employees who work at the holding company, etc.

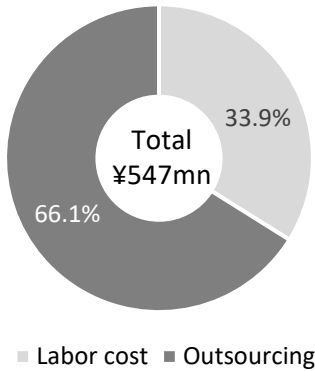
Operating Profit Per Employee for Other Listed Companies in Same Industry



Source: compiled by SIR from the company's IR material

Note: Calculated by dividing operating profit for the whole company (priority given to consolidated operating profit) by the average number of regular employees at the end of the fiscal period. Based mainly on information disclosed in securities reports, the figures for other companies are for the most recent full fiscal year as of November 2022. However, for CyberBuzz, which experienced a temporary dramatic decline in profit for FY9/21, figures for FY9/20 are used. While both Macbee Planet and CyberAgent have higher operating profit per employee than AViC, this is probably partially as a result of unique aspects for each company. Macbee Planet has a high spending per client because its profit structure leans toward some clients with large advertising budgets, such as particular clients with budgets of a several billions of yen a year, and CyberAgent benefits from merits of scale as it is the largest Internet advertising company.

Labor and Outsourcing Cost (FY9/22)



Source: compiled by SRI from company's IR material

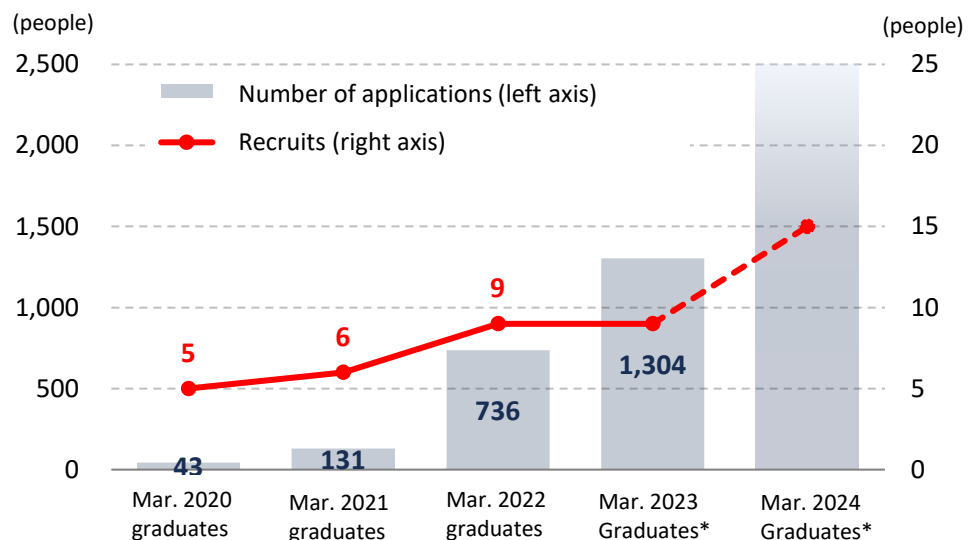
2. Regarding personnel expenses for employees involved in frontline operations, the portion for man-hours while executing projects are recorded as labor costs under cost of sales, but time not directly related to the project, such as marketing activities and company-wide meetings is recorded as SG&A expenses.

(1) Man-hour management: AViC has established a management system that makes it possible to manage what percentage of man-hours each employee directly involved with frontline operations spends on each project on a weekly basis and ascertain the expected gross profit margin for each project each week. For projects with low or deteriorating profitability, the responsible person checks with staff regarding the cause, and if there is some reason why it is impossible to focus on value added operations, efforts are made to implement improvements, including those to project execution plans. If the problem is related to skills, such as prioritizing, training or another type of improvement is recommended.

(2) Use of outside resources: With only 51 regular employees as of the end of FY9/22, AViC is small, and if man-hours are increasing because operations with little added value are being undertaken, the company does not mind outsourcing the work. For example, much of the writing of articles for SEO is outsourced, and the organizational structure is such that even for projects underway, efforts are made to use outside resources for operations that should be outsourced so that employees can focus on higher priority operations. As a result, a large percentage of expenses recorded as cost of sales are outsourcing costs, not labor costs.²

(3) Marketing DX tools: In addition to optimizing operations, which includes managing man-hours and using outside resources, AViC possesses and uses marketing DX tools that it has independently developed to directly reduce man-hours spent on analysis and simulation operations. The company has been able to automate various operations. For Internet advertising services, the monitoring of the advertising impact and simulation of the impact for envisioned timing of ads has been automated, and for SEO consulting services, the generation of candidate key words and combinations of those words and the verification of differences from rival sites related to factors that have a major impact on the order of search results have been automated. Particularly in the field of SEO, these tools make it possible to reduce the amount of time it takes to conduct highly-precise analysis, design strategies and related measures, and make quantitative forecasts, which would take one of the company's top consultants 108 hours to perform by hand, to 8 hours (a mere 7.4% of the time required for a top consultant to conduct the work).

New Graduate Applications and Actual Recruits



Source: compiled by SIR from the company's IR material.

Note: Number of applications for March 2023 graduates are the number as of September 31, 2022. In addition, the number of March 2023 graduate recruits and March 2024 recruits are envisioned. The are not the company's actual numerical targets.

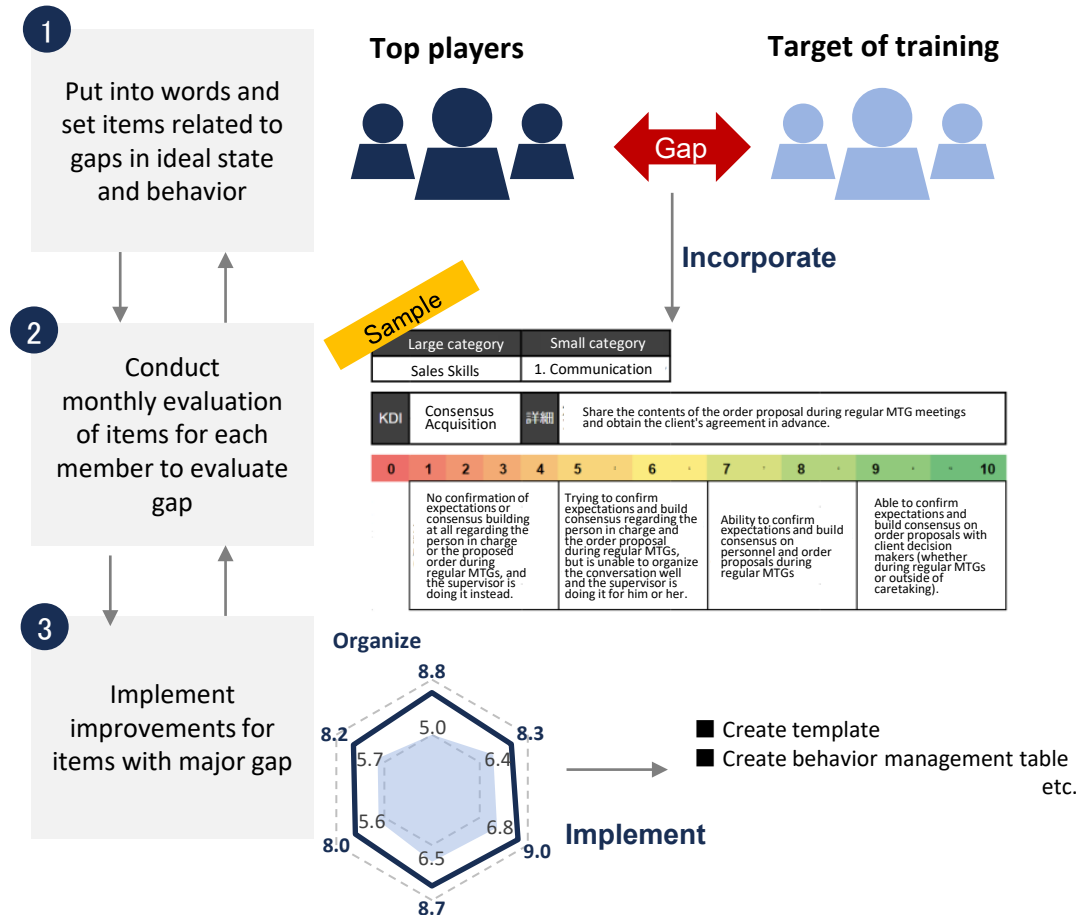
Recruiting and training: Fast-paced PDCA cycle for both in-house management and system construction

Even with a highly skilled management team that possesses abundant experience and an environment and management system that makes it possible to concentrate on high valued added operations, unless there is a system for hiring and training consultants with the skills and know-how to provide quality digital marketing services, it would be difficult to generate strong earnings growth. In this sense, one can argue that AViC, which started to hire new university graduates in the second year after being established and can transform even inexperienced recruits into employees who possess a certain amount of knowledge and can actively contribute within 3 months–1 year, is making progress toward establishing a foundation for sustainable growth. AViC also has a system in which university students who have received a tentative job offer work part-time so that they can easily undertake operations immediately after graduating and joining the company.

One measure to provide human resources with the skills necessary to immediately make contributions is a monthly evaluation/assessment that makes the skills of individual employees visible and uncover issues and implement improvements. Since FY9/22, AViC has operated a human resource training system titled Enablement Project as a mechanism to enable human resources.

As for gaps between top players, including the management team, and employees that the training is targeted to, a wide range of items, including “know-how directly tied to advertising results” and “skills to get accepted by clients,” which includes communication skills, are graded, and if it is necessary to implement improvements, they are included as a template or behavior management table. In this way, AViC has built a training system that keeps in mind raising the skills of the whole organization, not simply the responsible person. In addition to conducting reviews of the “what should be” and items evaluated, the company is working to create a more precise training system by applying the PDCA cycle to the system itself.

Enablement Program (Conceptual Diagram)

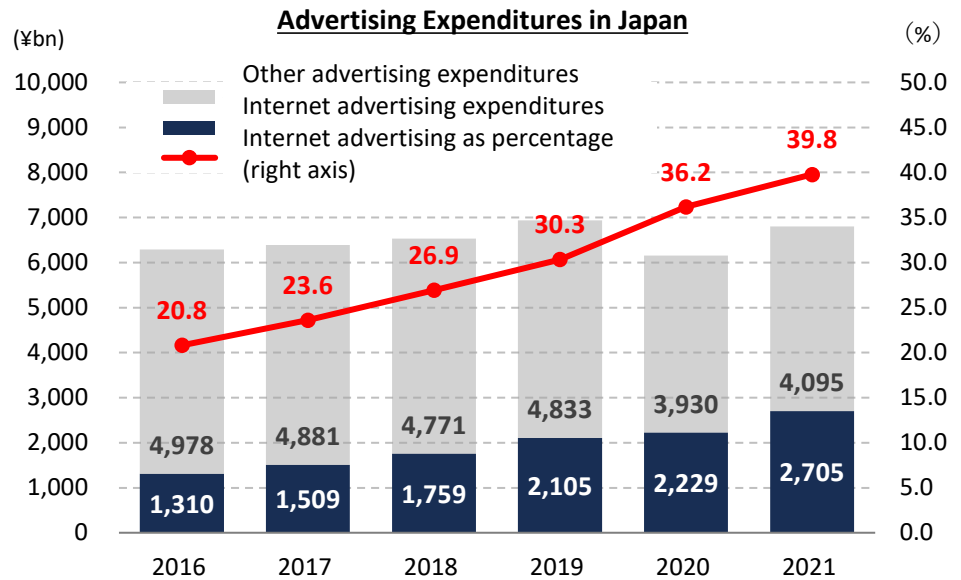


Source: compiled by SIR from the company's IR material

Macro environment

Market summary: Internet advertising is recording strong growth and accounts for about 40% of advertising expenditures in Japan

The Japanese Internet advertising market has strong growth potential, which has helped boost AViC earnings. In 2016, advertising expenditures in Japan totaled about ¥6.3 tn, approximately 20.8% (¥1.3 tn) of which was Internet advertising expenditures, but in 2021, five years later, Internet advertising expenditures almost doubled to ¥2.7 tn, accounting for 39.8% of advertising expenditures.

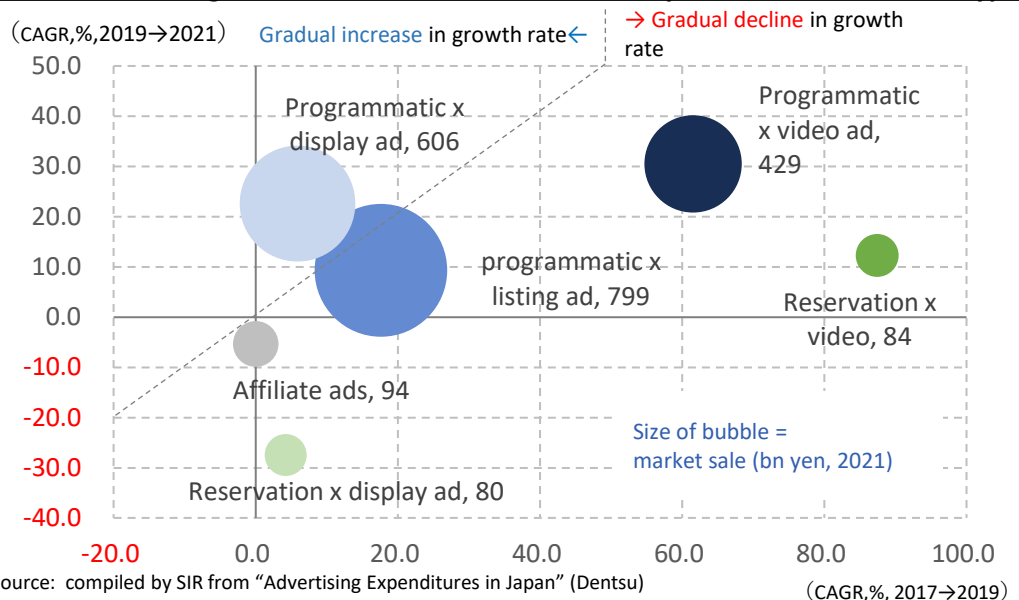


Source: compiled by SIR from "Advertising Expenditures in Japan" (Dentsu)

Detailed trends: Programmatic advertising boasts greater scale and growth potential, particularly for video ads, which is experiencing prominent growth

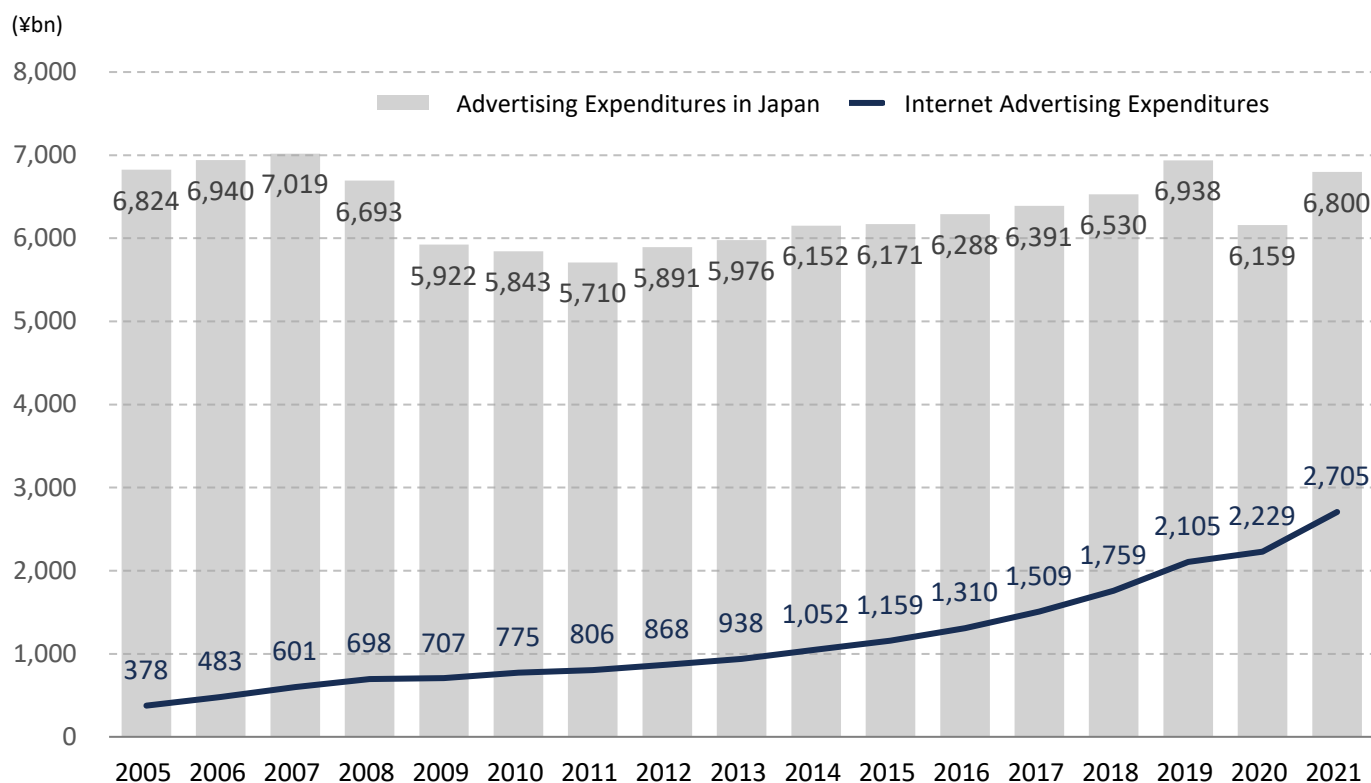
In particular, programmatic ads, a strength of AViC, is massive even among other forms of Internet advertising, and continues to grow at a fast pace. While growth for reservation ads and affiliate ads has slowed (downward slope in the below figure, whose x-axis is the past growth rate and y-axis is recent growth rate) or turned negative, overall programmatic ads has maintained a certain size and growth potential. As for programmatic video ads, which boast the strongest growth, AViC has concluded a capital tie-up agreement with UUUM (3990), the largest YouTuber agency, and it is expected that this will increase the provided added value and expand earnings.

Internet Advertising Market Size and Growth Potential by Business Method x Ad Type



Source: compiled by SIR from "Advertising Expenditures in Japan" (Dentsu)

Data: Long-term Trend in Advertising Expenditures in Japan and Detailed Breakdown of Internet Advertising Expenses



Segment	Act amount (¥ 1bn)					Growth rate (YoY,%)					CAGR(%)	
	Actual amount (bn yen)					Growth rate (YoY,%)					CAGR(%)	
	2018	2019	2020	2021	2017	2018	2019	2020	2021	17→19	19→21	
Total ad cost	6,391	6,530	6,938	6,159	6,800	1.6	2.2	6.2	-11.2	10.4	4.2	-1.0
Internet ad	1,509	1,759	2,105	2,229	2,705	15.2	16.5	-	5.9	21.4	18.1	13.4
Internet advertising media expenses	1,221	1,448	1,663	1,757	2,157	17.6	18.6	14.8	5.6	22.8	16.7	13.9
<Ad Type>												
Search-linked ad	483	571	668	679	799	-	18.2	17.1	1.6	17.7	17.6	9.3
Display ad	499	564	554	573	686	-	13.0	-1.7	3.4	19.6	5.4	11.2
Video ad	116	203	318	386	513	-	75.5	57.1	21.3	32.8	66.0	26.9
instream	-	-	-	180	292	-	-	-	-	62.3	-	-
outstream	-	-	-	206	221	-	-	-	-	7.0	-	-
Reward ad	105	99	105	99	94	-	-5.6	6.0	-6.1	-4.6	0.0	-5.3
Other internet ad*	18	12	17	20	66	-	-36.1	45.3	17.6	228.5	-3.6	96.6
<Trading Methods x Ad Type>												
Operational ad	940	1,152	1,327	1,456	1,838	27.3	22.5	15.2	9.7	26.3	18.8	17.7
Search-linked ad	483	571	668	679	799	-	18.2	17.1	1.6	17.7	17.6	9.3
Display ad	359	405	403	452	606	-	12.7	-0.5	12.2	34.0	5.9	22.6
Video ad	97	174	252	321	429	-	79.8	45.1	27.2	33.8	61.5	30.5
Other Internet ad*	17	2	3	4	4	-	-86.2	41.7	29.4	-4.5	-55.8	11.1
Reserved Ad	176	197	231	202	225	14.3	12.1	17.4	-12.5	11.1	14.7	-1.4
Display ad	139	159	151	121	80	-	14.0	-4.7	-19.9	-34.3	4.2	-27.4
Video ad	19	29	66	66	84	-	52.9	129.8	-1.2	27.6	87.4	12.3
Other Internet ad*	17	9	14	16	62	-	-47.1	47.8	14.7	294.2	-11.6	112.7
Reward ad	105	99	105	99	94	-28.0	-5.6	6.0	-6.1	-4.6	0.0	-5.3
<By Channel>												
Social ad	-	389	490	569	764	-	-	25.9	16.1	34.3	-	24.9
SNS type	-	-	228	249	317	-	-	-	9.1	27.3	-	17.9
Video Sharing type	-	-	114	159	261	-	-	-	39.2	64.7	-	51.4
Others	-	-	148	162	186	-	-	-	9.1	15.2	-	12.1
Others	-	1,059	1,173	1,188	1,393	-	-	10.8	1.3	17.3	-	9.0
Non-Internet advertising media costs	289	311	442	472	548	6.1	7.7	-	6.9	16.0	23.7	11.4
Internet ad production costs	289	319	335	340	385	6.1	10.5	5.1	1.4	13.2	7.8	7.1
Product sales EC platform ad costs	-	-	106	132	163	-	-	-	24.2	23.5	-	23.8
Other advertising costs*	4,881	4,771	4,833	3,930	4,095	-1.9	-2.3	1.3	-18.7	4.2	-0.5	-8.0

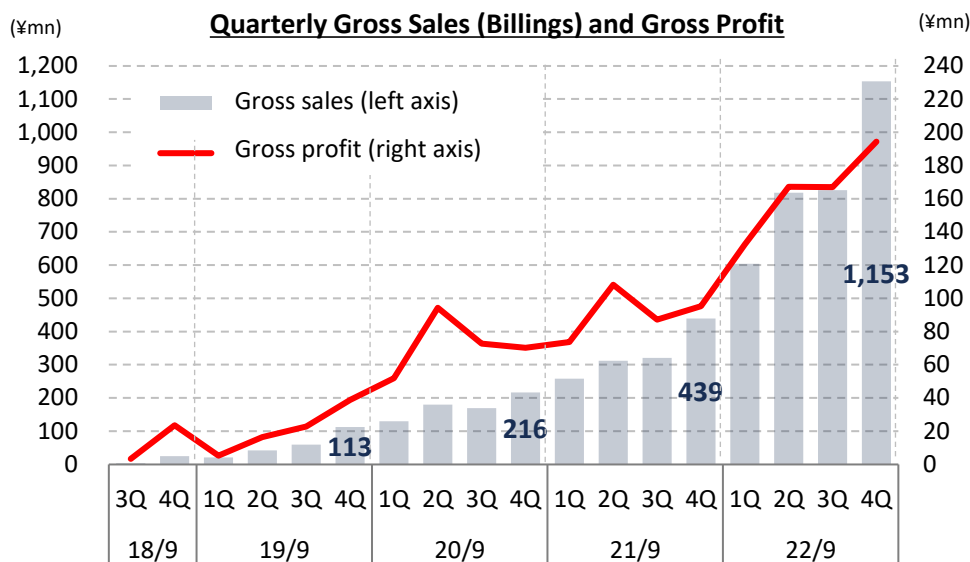
Source: Created by SIR from “Advertising Expenditures in Japan: Detailed Analysis of Expenditures on Internet Advertising Media”

Note: “Other ad spending” is advertising for the four main types of media (newspapers, magazines, radio, and TV) and promotion media. “Other internet ads” include email ads, audio ads, tie-up ads, etc. For “tie-up ads,” the data is not continuous as it was included in display ads until 2020. Total Internet advertising expenditures is not continuous because spending on product sales EC platform ads were added starting in 2019.

Earnings trend

Earnings trend: Gross sales (billings) is growing at an accelerated pace

AViC has had success with providing quality digital marketing solutions backed by the abundant experience of its management team to medium-sized clients that have a monthly advertising budget of ¥5–¥50 mn, and this has been recognized by its clients and resulted in accelerated growth. Gross sales for 4Q of each fiscal year have grown at an accelerated pace, doubling each fiscal year between FY9/19 and FY9/21—¥113 mn in 4Q FY19/9, ¥216 mn in 4Q FY20/9, and ¥439 mn in 4Q FY9/21—and then reaching ¥1,153 mn (+162.5%) in 4Q FY9/22.



Source: compiled by SIR from the company's IR material

Note: Net sales were included in financial audits starting in FY9/22 due to the application of Accounting Standards for Revenue Recognition, and it should be kept in mind that that company's trial figures include media cost.

What is driving this growth in sales is direct business with new clients. AViC does not currently conduct sales activities because most of its contact with new clients comes from inquiries by potential clients and through introductions by existing clients. The strong impact of its advertising has spread by word of mouth, resulting in numerous inquiries. Some clients do not need comprehensive support but outsource operations for only one medium, such as Facebook, to the company. By generating results for that one medium, the company wins more of the client's work, which leads to greater earnings.

Cost structure: Majority of expenses are personnel expenses

Because AViC operates a business that relies on human resources, more than 60% of sales are used for broadly defined personnel expenses, which include labor costs, outsourcing expenses, personnel expenses, and recruiting/training expenses. Other costs eat up about 13% of sales, resulting in an operating profit margin of about 25%.

There are many fixed cost elements, such as management labor costs, and some of these costs could result in greater profitability as the company grows in size. Many of these, however, are actually variable costs, which offers the upside that future profitability could improve with greater spending per project and greater productivity.

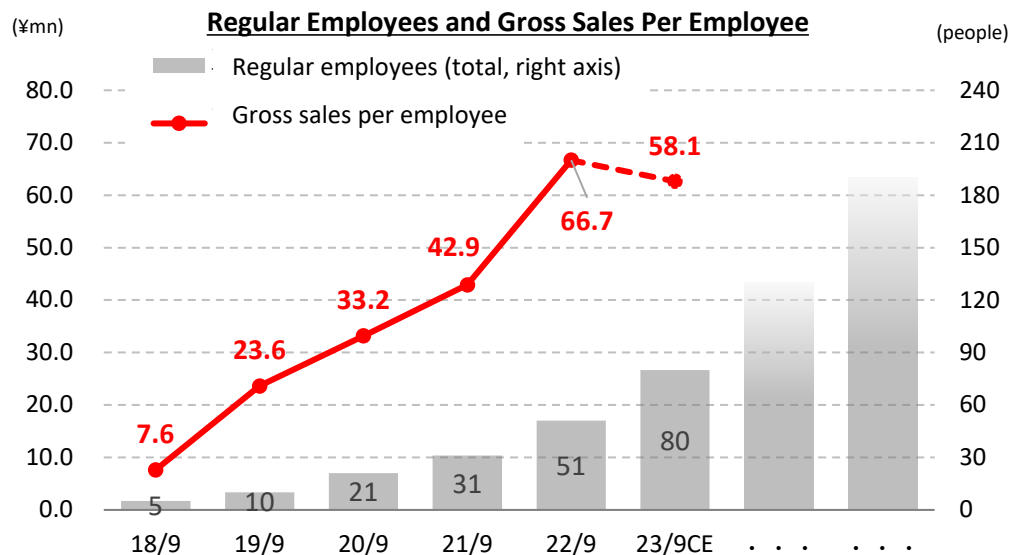
Expense Structure (FY9/22)

Item	FY9/22	
	(¥mn)	(weight,%)
Net sales	1,246	100.0
Cost of sales + SG&A	929	74.6
Labor costs	361	29.0
Outsourcing costs	360	28.9
Recruiting and education costs	47	3.8
Compensation paid	56	4.5
Other SG&A expenses	106	8.5
Operating profit	317	25.4

Source: compiled by SIR from the company's IR material

Human resource strategy: Expand sales through aggressive recruitment and provision of practical skills

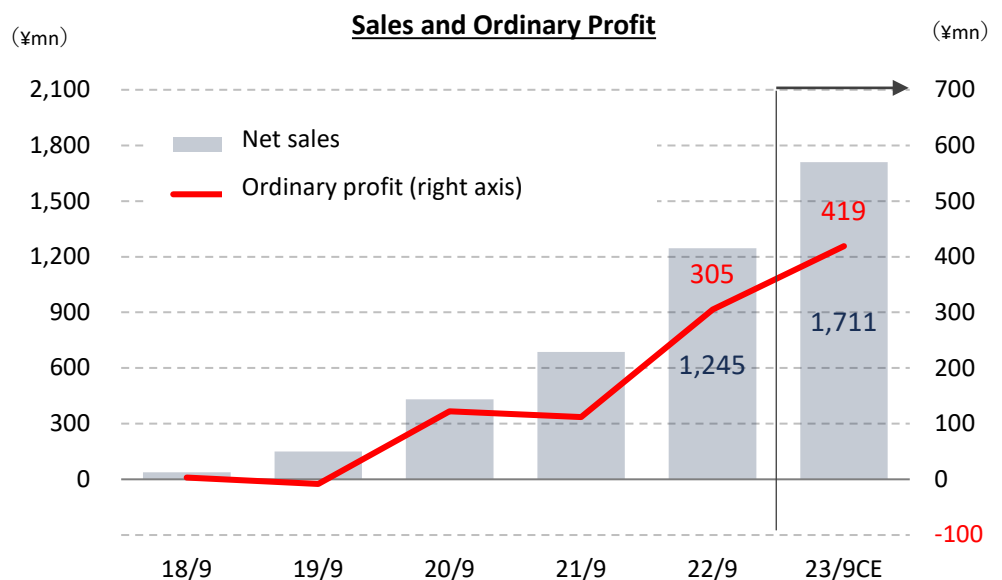
Because this is a business strongly impacted by man-hours, AViC must increase in size to achieve strong earnings growth, and the company is actively recruiting and training employees. While the company had only 10 regular employees at the end of FY9/19, the number grew to 31 by the end of FY9/21 and 51 by the end of FY9/22. It is also noteworthy that gross sales per employee (billings) continues to grow. The company plans to continue to increase the number of employees and earnings while maintaining current productivity.



Source: compiled by SIR from the company's IR material
 Note: Figures for FY9/23 and after are company forecasts and conceptual figures. Gross sales per employees is calculated by dividing by the number of employees at the end of the fiscal year.

FY9/23 forecast: Sales forecast to grow 37.5% and operating profit to increase 42.0%

AViC forecasts it will record sales of ¥1,711 mn (+37.3%) and ordinary profit of ¥419 mn (+37.4%) in FY9/23. It is expected that aggressive recruiting and further evolution of its marketing DX tools will increase the company's capacity, and collaboration with major general advertising agencies will expand its client base.



Source: compiled by SIR from the company's IR material

Income Statement, Supplementary Information

¥mn, %	FY 9/2018	9/2019	9/2020	9/2021	9/2022	9/2023	9/2022				9/2022		FY
	act	act	act	act	act	CE	1Q	2Q	3Q	4Q	1H	3Q(9M)	
Net sales (financial accounting disclosure)	38	236	697	1,330	1,246	1,711	-	-	313	371	562	875	1,246
YOY	-	521.0	194.8	90.9	-	37.3	-	-	-	-	-	-	-
Gross Sales (sales volume)	38	236	697	1,330	3,401	4,652	604	818	826	1,153	1,422	2,247	3,401
YOY	-	521.0	194.8	90.9	155.7	36.8	134.1	162.5	157.3	162.5	149.7	152.4	155.7
Net Sales	38	151	432	687	1,246	1,711	-	-	313	371	562	875	1,246
YOY	-	295.6	186.7	59.3	81.3	37.3	-	-	-	-	-	-	81.3
Internet ad	-	-	239	352	798	1,187	-	-	201	261	337	537	798
YOY	-	-	-	47.3	126.8	48.7	-	-	-	-	-	-	126.8
SEO Consulting	-	-	193	335	447	524	-	-	112	110	225	337	447
YOY	-	-	-	74.2	33.5	17.1	-	-	-	-	-	-	33.5
Cost of Sales (Financial Accounting Disclosures)*	-	-	407	966	585	897	-	-	146	177	262	408	585
% of sales	-	-	58.5	72.6	46.9	52.4	-	-	46.7	47.7	46.6	46.6	46.9
media expenses	0	86	265	642	2,155	3,244	0	0	0	0	0	0	0
% of sales	0.0	36.3	38.0	48.3	63.4	69.7	-	-	0.0	0.0	0.0	0.0	0.0
Cost of sales (excluding media costs)	-	-	142	323	585	897	-	-	146	177	262	408	585
% of sales	-	-	33.0	47.0	46.9	52.4	-	-46.7	-	47.7	46.6	46.6	46.9
SG&A	-	-	169	244	345	395	-	-	96	100	149	245	345
% of sales	-	-	39.2	35.5	27.7	23.1	-	-	30.7	26.8	26.5	28.0	27.7
Total Cost of Sales + SG&A	-	-	312	567	929	1,292	-	-	242	277	411	653	929
% of sales	-	-	44.7	42.6	74.6	75.5	-	-	77.4	74.5	73.1	74.6	74.6
Labor Cost	-	-	-	-	361	-	77	82	97	105	159	256	361
% of sales	-	-	-	-	29.0	-	-	-	31.1	28.4	28.3	29.3	29.0
outsourcing expenses	-	-	-	-	360	-	75	85	88	112	161	248	360
% of sales	-	-	-	-	28.9	-	-	-	28.0	30.1	28.6	28.4	28.9
recruiting and training expenses	-	-	-	-	47	-	8	14	17	8	22	39	47
% of sales	-	-	-	-	3.8	-	-	-	5.4	2.0	4.0	4.5	3.8
Compensation Paid	-	-	-	-	56	-	13	12	12	18	25	37	56
% of sales	-	-	-	-	4.5	-	-	-	3.8	4.9	4.5	4.3	4.5
Other costs	-	-	-	-	106	-	-	-	28	34	44	72	106
% of sales	-	-	-	-	8.5	-	-	-	9.1	9.0	7.8	8.2	8.5
Operating profit	-	-	120	120	316	419	-	-	71	95	151	222	316
% of sales	-	-	27.8	17.5	25.4	24.5	-	-	22.6	25.5	26.9	25.4	25.4
Non-operating income	-	-	3	5	4	-	-	-	0	4	0	0	4
Non-operating expenses	-	-	1	13	16	-	-	-	12	1	2	15	16
Ordinary income	3	(9)	122	112	305	419	-	-	58	98	149	207	305
% of sales	8.0	(6)	28.3	16.2	24.5	24.5	-	-	18.7	26.4	26.5	23.7	24.5
Extraordinary income	-	-	0	0	1	-	-	-	0	1	0	0	1
Extraordinary loss	-	-	0	0	0	-	-	-	0	0	0	0	0
Income before income taxes	-	-	122	112	306	-	-	-	58	99	149	207	306
Total Income taxes	-	-	36	33	80	-	-	-	18	16	46	63	80
effective tax rate	-	-	29.3	29.5	26.1	-	-	-	30.6	16.6	30.6	30.6	26.1
Net income	2	(2)	86	79	226	310	-	-	41	83	103	144	226
EPS (¥)	0.42	-0.43	16.30	14.21	40.54	54.51	-	-	7.31	14.61	18.62	25.93	40.54
BPS (¥)	2.5	7.6	47.2	61.4	124.4	-	-	-	-	-	80.1	109.8	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	-	-	-	-	-	47.3	56.4	48.7
Capital investment (¥mn)	-	-	-	51.26	2.843	-	-	-	-	-	-	-	-
Number of Employees (persons)	5	10	21	31	54	80	-	-	-	-	-	50	54

Source: SIR from company's financial statement and SPEEDA. Note: % of sales is referenced to the net sales, cost of sales (financial accounting figures) is versus the net sales (financial association figures), and media costs is versus the gross sales.

Balance Sheet and Cash Flow Statement

¥mn, %	FY 9/2018	9/2019	9/2020	9/2021	9/2022	9/2023	9/2022				9/2022		
	act	act	act	act	act	CE	1Q	2Q	3Q	4Q	1H	3Q(9M)	FY
Total Assets	27	118	476	645	1,554	-	-	-	-	-	937	1,109	1,456
Cash and deposits	-	-	330	329	724	-	-	-	-	-	407	644	724
Accounts Receivables	-	-	90	228	565	-	-	-	-	-	404	330	-
Other Financial Assets	-	-	56	88	265	-	-	-	-	-	126	135	731
Total Liabilities	14	78	211	301	762	-	-	-	-	-	488	478	743
Trade Payables	-	-	44	145	442	-	-	-	-	-	183	169	442
interest-bearing debt	-	-	54	62	41	-	-	-	-	-	53	47	41
Income taxes payable	-	-	34	14	9	-	-	-	-	-	47	53	76
Other Liabilities	-	-	78	80	269	-	-	-	-	-	205	208	183
Total Net Assets	12	40	265	344	792	-	-	-	-	-	449	630	713
net worth	-	-	262	340	787	-	-	-	-	-	444	625	708
Other Net Assets	-	-	3	4	5	-	-	-	-	-	6	6	5
Cash Flows from Operating Activities	-	-	171	15	230	-	-	-	-	-	112	-	324
Income before income taxes	-	-	122	112	306	-	-	-	-	-	149	-	306
Depreciation	-	-	1	3	3	-	-	-	-	-	2	-	5
Change in working capital	-	-	6	(37)	(40)	-	-	-	-	-	(138)	-	(40)
Other Increase/Decrease	-	-	42	(10)	45	-	-	-	-	-	113	-	81
Income taxes	-	-	0	(52)	(84)	-	-	-	-	-	(14)	-	(29)
Cash Flows from Investing Activities	-	-	(28)	(26)	(35)	-	-	-	-	-	(24)	-	(34)
Increase/decrease in property, plant and equipment	-	-	(3)	(1)	(4)	-	-	-	-	-	(2)	-	(6)
Increase (decrease) in intangible assets	-	-	-	(5)	(7)	-	-	-	-	-	-	-	(6)
Other Increase/Decrease	-	-	(25)	(20)	(24)	-	-	-	-	-	(22)	-	(22)
Free Cash Flow (FCF)	0	0	144	(10)	195	-	-	-	-	-	88	-	291
Cash Flows from Financial Activities	-	-	146	9	121	-	-	-	-	-	(10)	-	105
Change in interest-bearing debt	-	-	8	11	(21)	-	-	-	-	-	(9)	-	(21)
Dividends paid	-	-	0	0	0	-	-	-	-	-	0	-	0
Increase (Decrease) in Equity	-	-	138	(1)	142	-	-	-	-	-	(1)	-	139
Other Increase (Decrease)	-	-	0	0	0	-	-	-	-	-	0	-	(13)
Changes in Cash Flow	-	-	290	(1)	316	-	-	-	-	-	78	-	396
Cash Equivalent - Beginning	-	-	40	330	329	-	-	-	-	-	329	-	329
Cash Equivalent - Ending	-	-	330	329	645	-	-	-	-	-	407	-	724

Source: SIR from company's IR material

Valuation

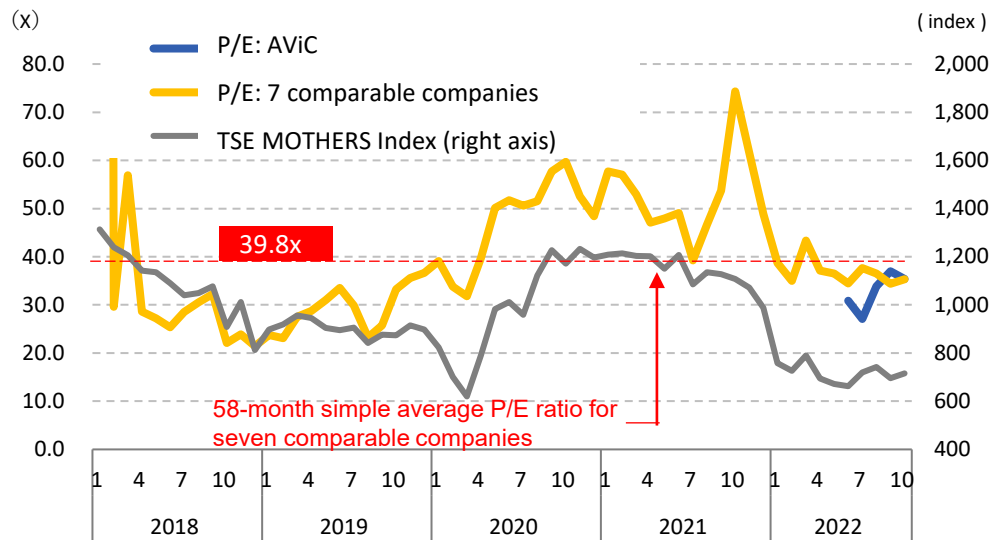
General remarks: P/E of 22.2x based on FY9/23 forecasts

When deciding on the company’s valuation, the following seven companies were used as comparable companies whose primary business is Internet advertising and digital marketing support: (1) Septeni Holdings (4293), (2) Speee (4499), (3) CyberAgent (4751), (4) Orchestra Holdings (6533), (5) CyberBuzz (7069), (6) Macbee Planet (7095), and (7) ProjectCompany (9246). Digital Holdings (2389) and SoldOut (6553 → delisted) could also be comparable companies, but the two were excluded because Digital Holdings’ earnings are volatile as is actively working to restructure its business, including a carve-out of a consolidated subsidiary, and make investments, and SoldOut has already been delisted.

Despite its short track record since being listed in June 2022, AViC has had a P/E ratio of about 30x–35x using 1Q company forecasts. The five-year simple average P/E ratio for the seven comparable companies is 39.8x, but for the past couple of months the average has been about 35x because of the low valuation for start-up companies, which many of the comparable companies are. Overall, they have similar valuations.

On the other hand, using AViC’s November 18 closing price of ¥1,210 and EPS forecast of ¥54.51 for FY9/23 announced on November 14, AViC has a P/E ratio of 22.2x. Assuming forecasts are achieved, the company has a relatively low P/E ratio compared to comparable companies. It is necessary, however, to keep the point in mind that this is a sector in which companies tend to forecast growth in the short and medium term as it is a growth industry, future profit growth may already be factored in (see valuation sheet on the next page). An important point when making investment decisions, is to what degree growth potential has already been factored in.

AViC’s and Comparable Companies’ P/E ratio 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 companies 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 company’s IR material and SPEEDA

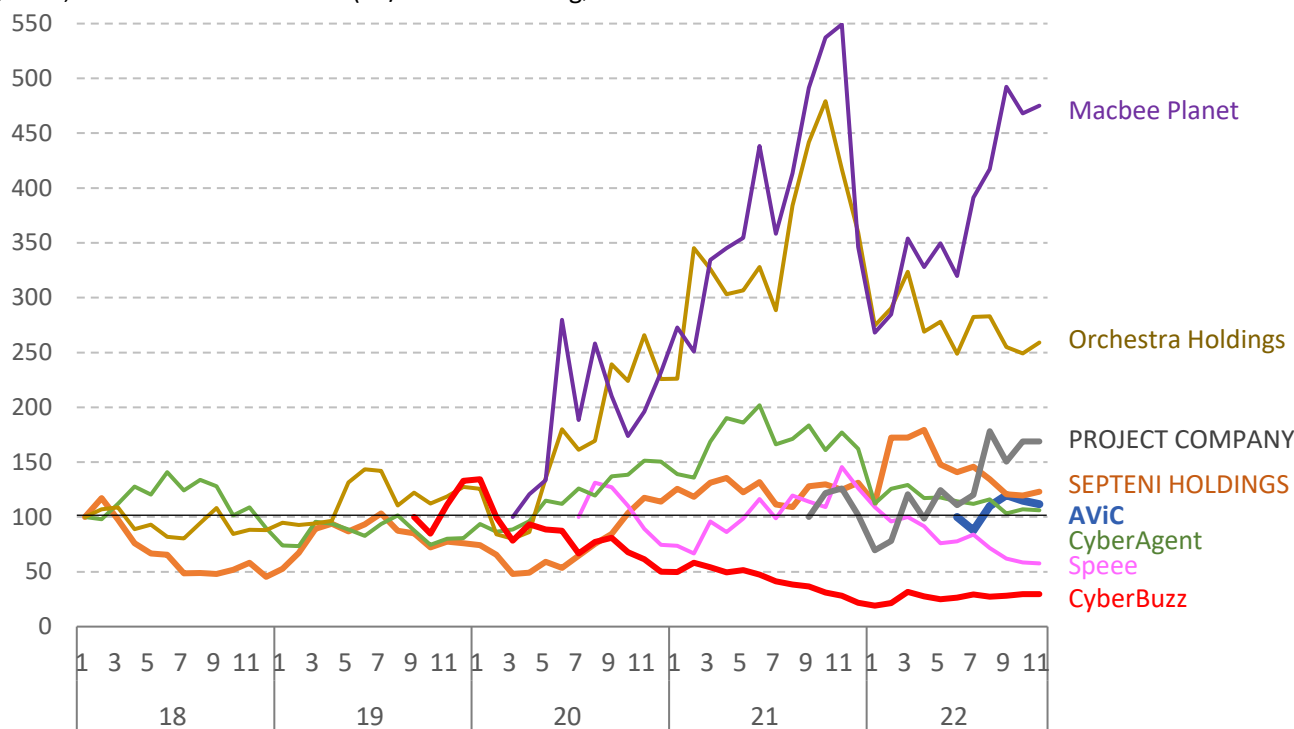
AViC’s P/E Ratio by Basis

		Actual		Co's	
		9/21	9/22	9/23 CE	• • •
As of Nov. 17, 2022					
Stock price (¥)	1,229	¥ 14.21	40.54	54.51	XX.XX
Market Value(¥mn)	6,997	P/E x 85.2	29.8	22.2	YY.Y

Source: compiled by SIR from company’s IR material and SPEEDA

Data: Relative Share Price of AViC and Seven Comparable Companies

(index, 100 = End of the month (18/1 or New Listing))



Source: compiled by SIR from 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	1,210	6,889	85.2	29.8	22.2	9.72	683	112	-8.7	173.3	37.4
-	sector average	-	-	-	38.2	29.3	41.6	6.08	-	-	-	-	-
4293	SEPTENI HOLDINGS	9	410	86,543	19.9	13.4	-	1.37	12,406	3,796	54.8	54.2	-
4499	Speee	9	2,053	20,985	24.7	19.3	56.2	3.53	4,851	1,191	76.7	33.4	-41.2
4751	CyberAgent	9	1,242	628,357	15.1	25.1	35.9	4.36	139,675	104,694	209.2	-33.7	-35.2
6533	Orchestra Holdings	12	2,320	22,736	30.0	23.9	-	5.27	4,423	1,286	88.3	30.6	-
7069	CyberBuzz	9	1,670	6,542	-85.5	75.4	32.6	3.40	0	4	-98.0	4,175.0	133.9
7095	Macbee Planet	4	9,250	29,988	38.6	29.8	-	11.01	1,053	1,233	57.1	29.8	-
9246	PROJECT COMPANY	12	7,010	40,167	100.7	63.9	-	18.93	1,968	502	195.3	79.3	-

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
-	-	-		%		%				%		%	%
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	17.3	11.8	13.7	1.73	1.36	54.9	62.1	5.7	7.5	0.23
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	1.21
6533	Orchestra Holdings	12	24.7	-	7.7	16.8	2.18	-	40.9	-	10.3	9.3	0.39
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	9.4	3.12	-	46.2	-	0.0	0.0	0.00
9246	PROJECT COMPANY	12	28.0	-	23.5	21.6	1.11	-	75.0	-	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.

Governance

System: Majority of directors are outside directors

AViC plans to introduce a system of six directors assuming the proposal is approved at the general meeting of shareholders to be held in the latter part of December 2022, and except for the representative director and CFO, the other four directors will be outside directors. Outside directors will account for a majority, 67% of directors, ensuring a certain level of governance. Furthermore, the company has also introduced an Audit and Supervisory Board, which is composed only of outside members.

List of Directors

No.	Position	Name	Main background	Independent outside director	Female
1	Representative Director & President	Sogo Ichihara	Sogo Ichihara graduated from School of Science at Aoyama Gakuin University and then joined CyberAgent. In 2015, he became the chief executive of the Internet advertising business at CyberAgent. For the programmatic ad business, he increased annual sales to 10.0 bn. In March 2018, he founded AViC and became Representative Director and President.		
2	Director and CFO	Makoto Sasano	Makoto Sasano graduated from Tokyo University in 2010. After joining Mizuho Bank and working on corporate sales, he was involved in investment banking operations covering the telecom, media, technology sector at Mizuho Securities. In 2020, he joined the AViC as CFO and took up position of Director in February.		
3	Director	Kazushi Osari	Will be added later	●	
4	Director (Full-time Audit & Supervisory Board Member)	Tomomi Amako	Tomomi Amako graduated from Kyoto University in 2010 and joined Deloitte Touche Tohmatsu LLC. After working at Pricewaterhouse (presently PwC Advisors), she took up the position of full-time Audit & Supervisory Board Member at AViC in September 2020 and her present position in December 2021. She registered as a certified public accountant in 2015.	●	●
5	Directors (Full-time Audit & Supervisory Board Member)	Yuta Yamamoto	After graduating from Kyoto University in 2007, Yuta Yamamoto joined the Boston Consulting Group. After serving as Director, Vice President, and CFO (current position) of NK Relations Inc. (currently Noritsu Koki Co., Ltd.) and JMDC Inc., he became an Outside Director at AViC in August 2020. He took up his current position in December 2021, and registered as an attorney in 2014.	●	
6	Director (Full-time Audit & Supervisory Board Member)	Misao Akutsu	Will be added later	●	
				66.7%	16.7%

Source: compiled by SIR from the company's IR material

Risks

Notes: Difficulty in securing human resources and risk of losing premium valuation

As for earnings-related risks, the primary one that should be kept in mind is the risk related to human resources. Even though AViC is strengthening its organization capabilities, it has yet to break free of its small-scale organizational structure dependent on particular personnel, including the management team, and there is a risk that earnings would deteriorate if key personnel were to leave the company. In addition, if the company were unable to recruit the number of new graduates desired, it could slow growth on account of capacity.

As for valuation, it should be kept in mind that there is the risk that AViC could lose its premium valuation compared to the overall market because of slower growth and deterioration in earnings. Although AViC has a lower P/E ratio based on the company's 1Q forecasts than comparable companies, it still boasts a premium P/E ratio compared to the overall Japanese market average of about 13x, and if there were concerning signs about the company's growth potential in the medium and long term, this could result in a fall in its share price greater than the decline in short-term earnings outlook.

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Sessa Partners Inc.

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