

Earnings expansion accelerates, and the company's FY12/22 forecast has been revised upward for the second time.

Earnings Result Summary

- Key Points:** Accrete announced its 3Q results for FY12/22 after the close of the market on Friday, November 11. Key consolidated figures for 3Q were sales of ¥4,615 mn (+134.9% YoY), operating profit of ¥1,007 mn (+200.9% YoY), and net income attributable to the parent company (hereinafter "net income") of ¥681 mn (+209.6% YoY), representing substantial gains in both sales and profit. At the time of the 3Q results announcement, its full-year forecasts for FY12/22 was revised upward on the back of an increase in the volume of SMS compared to the previous forecast as well as the contribution from the overseas currencies getting stronger against Japanese yen with the new addition of VietGuys in Vietnam to Overseas Messaging Services of Accrete contributed to boosting the revenue.
- Diversifying business portfolio:** The Domestic Messaging Services business, which includes both domestic SMS services and e-mail services, posted sales of ¥3,698 mn in 3Q FY12/22. Due to the fact that the Overseas Messaging Services business was newly added to the consolidated accounting from 2Q FY12/22, the YoY percentage change for 3Q FY12/22 was not available. A significant increase in the use of SMS services as communication tools between municipal public administration offices and patients in connection with the seventh wave of COVID-19 led to posting sales of ¥3,698 mn. In addition, "Secure Mailing Service for Schools" and "Secure Mailing Service for Municipals", e-mail distribution services conducted by TECHNOMIX (consolidated in September 2021), have been adopted by over 5,000 various public organizations and facilities nationwide, contributing to a significant increase in sales in the Domestic Messaging Service business. The Overseas Messaging Services business, which mainly provides SMS services in Vietnam, generated sales of ¥918 mn. The expectations are high for the company's overseas-related sales momentum on a full year basis going forward.
- Full-year FY12/22 forecast revised:** At the time of the 3Q results announcement, the company upwardly revised its full-year FY12/22 forecast, the second upward revision since the 2Q results announcement on August 12, 2022. The newly revised forecast, which is shown in the table below, shows a remarkable growth in both sales and earnings. This stems mainly from higher than previously estimated volume of SMS sending and weaker than previously anticipated yen against the USD raising earnings contribution of the overseas subsidiary. By the end of the 3Q, 83 % of the company's newly revised operating profit for FY12/22 had already been achieved.

| FY | Net sales ¥ mn | YoY % | OP ¥ mn | YoY % | RP ¥ mn | YoY % | NP ¥ mn | YoY % | EPS ⁽³⁾ ¥ | DPS ¥ |
|--------------------------|-------------------|----------|------------|----------|------------|----------|------------|----------|-------------------------|----------|
| 12/2018 P ⁽¹⁾ | 1,291 | 36.0 | 246 | 43.6 | 222 | 30.0 | 152 | 35.5 | 28.2 | 0.0 |
| 12/2019 P | 1,413 | 9.5 | 254 | 3.2 | 249 | 11.7 | 170 | 12.0 | 29.7 | 0.0 |
| 12/2020 P | 1,732 | 22.5 | 344 | 35.6 | 345 | 38.6 | 241 | 41.2 | 41.5 | 10.0 |
| 12/2021 C ⁽²⁾ | 2,833 | - | 465 | - | 461 | - | 300 | - | 50.8 | 10.0 |
| 12/2021 C, CE old | 5,726 | 102.0 | 917 | 97.4 | 923 | 100.0 | 568 | 89.3 | 96.6 | 10.0 |
| 12/2022 C, CE new | 6,121 | 116.0 | 1,220 | 161.9 | 1,224 | 165.4 | 774 | 158.0 | 131.9 | 10.0 |
| Quarter | | | | | | | | | | |
| 12/2021 Q3 C | 1,965 | - | 335 | - | 333 | - | 220 | - | 37.3 | - |
| 12/2022 Q3 C | 4,615 | 134.9 | 1,007 | 200.9 | 1,027 | 207.7 | 681 | 209.6 | 114.4 | - |

Source: compiled by SIR from the company's Kessan TANSIN (financial statements).

Note (1): Financial years from FY12/18 to FY12/20 are parent company basis.

Note (2): Consolidated financial statements are available since the 3Q of 12/21, accordingly percentage changes compared to the previous year is not shown for FY12/21.

Note (3): EPS shown in the table is calculated by using potentially dilutive common shares.

3Q Follow-Up



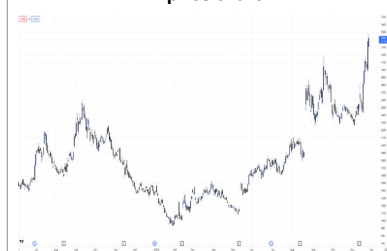
Focus Points:

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(11/25) | 3,380 |
| YH (11/25) | 3,495 |
| YL (1/28) | 915 |
| 10YH (22/11/25) | 3,495 |
| 10YL (20/3/13) | 571 |
| Shrs. out (mm. shrs.) | 5.867 |
| Mkt cap (¥bn) | 19,932 |
| EV (¥bn) | 7,013 |
| Shr eqty ratio (9/30) | 65.3% |
| FY12/22PER (CE) | 24.5x |
| FY12/21 PBR (act) | 5.0x |
| FY12/21 ROE (act) | 21.0% |
| FY12/22 DY (CE) | 0.3% |

1Y price chart



Source: Trading View

Toshihiko Nakajima
Senior Analyst

research@sessapartners.co.jp



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3Q FY12/22 consolidated results summary

Key consolidated figures for 3Q FY12/22 were sales of ¥4,615mn (+134.9% YoY), operating profit of ¥1,007mn (+200.9% YoY), recurring profit of ¥1,027mn (+207.7% YoY), and net income attributable to owners of the parent of ¥681mn (+209.6% YoY), marking a substantial rise in both sales and profits.

The company made VietGuys J.S.C. (VGS), which provides SMS services in Vietnam, a consolidated subsidiary in 2Q. As a result, the company changed its previous single segment reporting for the Messaging Services to two segments consisting of the Domestic Messaging Services and the Overseas Messaging Services, with the new segmentation based on the location of each group company. For this reason, YoY changes in sales and segment operating profit by business segment in 3Q FY12/22 are not available. Going forward, the progress of the company's business development in both domestic and overseas markets should become much clearer.

The Domestic Messaging Services business is composed of SMS services and e-mail services, and Technomix, which became a consolidated subsidiary in September 2021, operates the e-mail services business. In 3Q, sales in the Domestic Messaging Services business totaled ¥3,698mn and segment operating profit came to ¥1,005mn. This business currently represents the majority of sales and earnings, accounting for 80.1% of total sales and 99.8% of operating profit.

In 3Q, the company had a substantial increase in SMS service use by municipal public administration offices to communicate with patients in connection with seventh wave of COVID-19. In addition, sales growth in SMS services were driven by the expansion of the SMS market owing to the increasingly diverse use of SMS by both public and private sectors. The company's e-mail services include "Secure Mailing Service for Schools", which enables smooth communication among schools, PTAs, and parents, and "Secure Mailing Service for Municipals", which has been adopted by over 5,000 various public organizations and facilities nationwide as an emergency communication system for crime prevention and disaster prevention crisis management connecting residents and local governments.

The Overseas Messaging Services business generated sales of ¥918mn and segment operating profit of just over ¥2mn, accounting for 19.9% of total sales, with segment operating profit marginally in the black. Vietnam's SMS traffic for corporate customers (A2P-SMS) is expected to grow to over 35 billion messages by 2024, compared to Japan's current volume of around 11 billion messages. Following business in Vietnam, the company plans to expand its business to other countries and throughout the Asian market. It aims to grow its Overseas Messaging Service business over the medium term by leveraging the experience and expertise it has accumulated in Japan to execute a roll-up strategy designed to integrate management resources to boost efficiency and generate synergies.

Other notable topics in 3Q include the MIC Research Institute's (Deloitte Tohmatsu) 「MIC IT Report October 2022」 research report. The report states that Accrete ranked first in terms of overall market share for combined domestic and overseas aggregators' A2P-SMS in FY2021. Regarding business alliances, the company launched a service in August to add messaging functionality to COLLABOS PHONE, a cloud-based call center system offered by COLLABOS. In the same month, the company also formed a business alliance with Tripleize, an AI facial recognition service provider and a pioneer in identity authentication services using cell phone numbers, to further strengthen its messaging platform.

Sales and Segment Operating Profit by Business Segment (Q3 FY12/22)

| Business | Domestic Messaging Services | Overseas Messaging Services | Total |
|-----------------------------------|-----------------------------|-----------------------------|-----------|
| Sales (in ¥mn) | 3,697,977 | 917,651 | 4,615,628 |
| Segment Operating Profit (in ¥mn) | 1,005,190 | 2,699 | 1,007,889 |
| Segment Operating Profit Margin | 27.2% | 0.3% | 21.8% |

Source: compiled by SIR from TANSHIN financial statements

Upward revision of full-year FY12/22 company earnings forecast

At the time of its 3Q results announcement, the company upwardly revised its full-year FY12/22 earnings forecast. This is its second upward revision, with the first revision made on August 12, when the company announced its 2Q results. The new forecast calls for sales of ¥6,121mn (+116.0% YoY), operating profit of ¥1,220mn (+161.9% YoY), recurring profit of ¥1,224mn (+165.4% YoY), and net income of ¥774mn (+158.0% YoY), projecting an 8th consecutive year of sales and profit growth since the company's establishment.

The main reason for the upward revision is that sales of SMS services in the Domestic Messaging Services business grew considerably in 3Q as the use of SMS services by municipal public administration offices rose substantially more than previously expected. In addition, the pace of growth in the number of public and private sectors using SMS services, as well as the increasing diversity of usage methods, outpaced previous forecasts, and this has resulted in higher-than-expected earnings growth. The yen has weakened more than previously expected, which has also increased earnings contribution of the overseas subsidiary. Operating profit margins are also improving thanks to sales growth outpacing increases in SG&A and other expenses. The company's newly revised FY12/22 forecast calls for operating profit margin to reach 19.9%, a sharp 3.5pp jump from 16.4% in FY12/21.

No change to current medium-term management plan

The company currently does not appear to be making any changes to its medium-term management plan (FY12/23-FY12/25) announced on August 18, 2022, following the upward revision of its FY12/22 forecast. This is partially attributable to the fact that it has only been about four months since the company announced its medium-term management plan, and also because the FY12/22 forecast incorporates some extraordinary factors stemming from the seventh wave of COVID-19, whereas the medium-term management plan does not incorporate any such extraordinary factors. The company's medium-term management plan is based on its management vision, which focuses on providing services that support the accelerating digital transformation movement in society and companies, stricter handling of personal information, and new IT technologies such as AI, as well as business expansion in Asia. Key figures for the company's medium-term management plan are as follows:

Medium-Term Management Plan (from FY12/23 to FY12/25)

| FY | 12/21 act | 12/22 CE | 12/23(plan) | 12/24(plan) | 12/25(plan) |
|-------------------------|-----------|----------|-------------|-------------|-------------|
| Sales (¥mn) | 2,764 | 6,121 | 7,800 | 11,700 | 17,000 |
| Operating Profit (¥mn) | 498 | 1,220 | 1,200 | 1,900 | 3,000 |
| Operating Profit Margin | 18.0% | 19.9% | 15.4% | 16.2% | 17.6% |

Source: compiled by SIR from the company material.

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Sessa Partners Inc.

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