

TELECY, a key service, grew 5.9x YoY

The firm announced a share buyback of up to ¥1.2 billion as well

FY12/2022 1Q RESULTS SUMMARY

CARTA HOLDINGS reported a 7.6% YoY increase in sales (¥6,976 mn), EBITDA of ¥3,174 mn (+28.1%), operating profit of ¥1,541 mn (-8.0%), and net profit attributable to owners of the parent of ¥1,975 mn (+46.9%) for the 1Q of FY12/2022. Net profit(ATOP) was ¥1,975 mn (up 46.9%).

Gross profit was up 9%, but operating profit declined due to a 17.3% increase in SG&A expenses, including a ¥2,500 mn increase in advertising expenses as a result of aggressive promotions in the Teleservice and D2C businesses.

➤ **Marketing Solutions Business:** Net sales were ¥33,500 mn (up 2.3%) while operating profit was ¥10,900 mn (down 1.8%). Sales were at the same level as the 1Q of last year, when sales rebounded significantly in reaction to the previous curb of advertising expenses in 2020 when COVID-19 infections first spread.

➤ **Ad Platform Business:** Net sales were ¥20,200 mn (+29.0%), and operating profit was ¥6,000 mn (-14.4%). Record-high sales were achieved partly due to strong performance of managed TV commercial TELECY (gross sales of ¥15,300 mn, up 5.9 times from the same period of the previous year).

➤ **Consumer Business:** Sales were ¥16,000 mn (-2.0%), while operating loss was ¥100 mn (vs. operating profit of ¥1400 mn in 1Q last year); segment profit was negative due to upfront promotional investments in the D2C business.

The progression rate against the full-year forecast was 24.7% for net sales, 28.0% for operating profit, 48.2% for net profit, and 41.8% for EBITDA. Net profit and EBITDA made significant progress because the gain on the sale of Cross Marketing's shares (¥12,000 mn) which exceeded initial expectations.

In 2021, the Internet advertising market size increased 22.8% YOY to ¥2.157 tn, growing to 39.8% of total advertising expenditures. The growth rate has recovered significantly from 2020, when the market was affected by the spread of the COVID-19.

In conjunction with the 1Q results announcement, the company announced a share buyback of up to 400,000 shares for ¥1.2 bn. This, together with the dividend, is expected to result in a total return to shareholders of approximately ¥2.5 bn in FY2022.

¥ mn, %	Net sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS ¥	DPS ¥
09/2017	25,895	24.2	1806	5	1,861	49.4	1,161	58.7	96.9	15
09/2018	28,518	10.1	1420	-21.4	1,431	-23.1	1,117	-3.8	93.58	15
12/2019	26,158	-	3,839	-	3,812	-	2,139	-	94.29	16
12/2020	22,487	-	3,463	-	3,335	-	1,781	-	70.57	48
12/2021	25,821	14.8	4,973	43.6	5,614	68.3	3,104	74.3	122.68	51
12/2022 CE	28,300	9.6	5,500	10.6	5,900	5.1	4,100	32.1	159.9	54
12/2021 1Q	6,483	9.1	1,675	32.6	1,988	67.6	1,344	94	53.34	-
12/2022 1Q	6,976	7.6	1,541	-8	1,884	-5.2	1,975	46.9	77.01	-

Source: compiled by SIR from TANSHIN financial statements.

1Q FOLLOW-UP

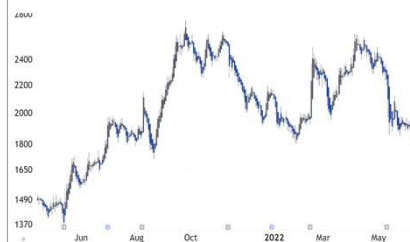
CARTA HOLDINGS

Focus Points: VOYAGE Group and Dentsu Group's Cyber Communications merged in Jan. 2019. In addition to serving as a media rep., CARTA HD conducts various businesses related to digital advertising, such as ad platforms and internet media.

Key indicators (¥y/mm/dd)

Share price (6/13)	1,853
YH (4/5)	2,619
YL (1/28)	1,800
10YH (14/7/7)	4,335
10YL (20/3/23)	662
Shrs. out (mn, shr)	25.699
Mrk cap (¥bn)	47.621
EV (¥bn)	28.632
Shr. equity ratio (12/31)	49.8%
22/12 PER (CE)	11.6x
21/12 PBR (act)	1.73x
21/12 ROE (act)	12.0%
22/12 DY (CE)	2.9%

Share Price Chart (1Y)



Source: TradingView

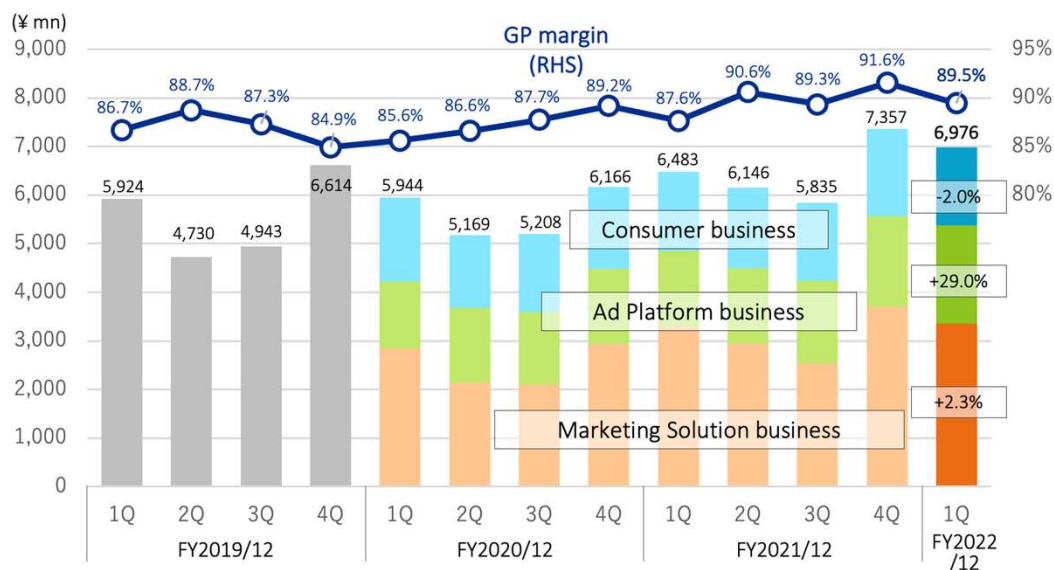
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Quarterly Consolidated Net Sales & Operating Profit



Source: compiled by SIR from CARTA Holdings material.

1. 1Q FY12/22 Results

1) Net Sales Rise 7.6% (¥6.97 bn), Gross Operating Profit Grows 9.8% (¥6.24 bn)

In 1Q FY12/22, CARTA Holdings recorded an increase in net sales but decline in operating profit with net sales of ¥6,976 mn (+7.6%), operating profit of ¥1,541 mn (-8.0%), ordinary profit of ¥1,884 mn (-5.2%), and profit attributable to owners of parent of ¥1,975 mn (+46.9%).

The company posted only single digit growth in net sales because of the strong 1Q FY12/21 rebound in net sales following the pandemic. As a result of strong growth in the highly profitable ad platform business, gross profit rose 9.8% to ¥6,241 mn. On the other hand, not only was there an increase in both promotions for the strategic product TELECY and upfront investments in the D2C business, but labor costs also rose in order to grow the business. As a result, SG&A expenses increased 17.3% to ¥4,699 mn, which weighed down operating profit. Thus, 1Q operating profit fell 8.0% to ¥1,541 mn.

CARTA Holdings also sold its cross-holdings of Cross Marketing Inc. in February, generating a ¥1.0 bn gain on the sale, which surpassed the initially expected ¥600 mn. Thus profit attributable to owners of parent for the quarter rose dramatically.

2) Segment Trends (see pg. 7 table)

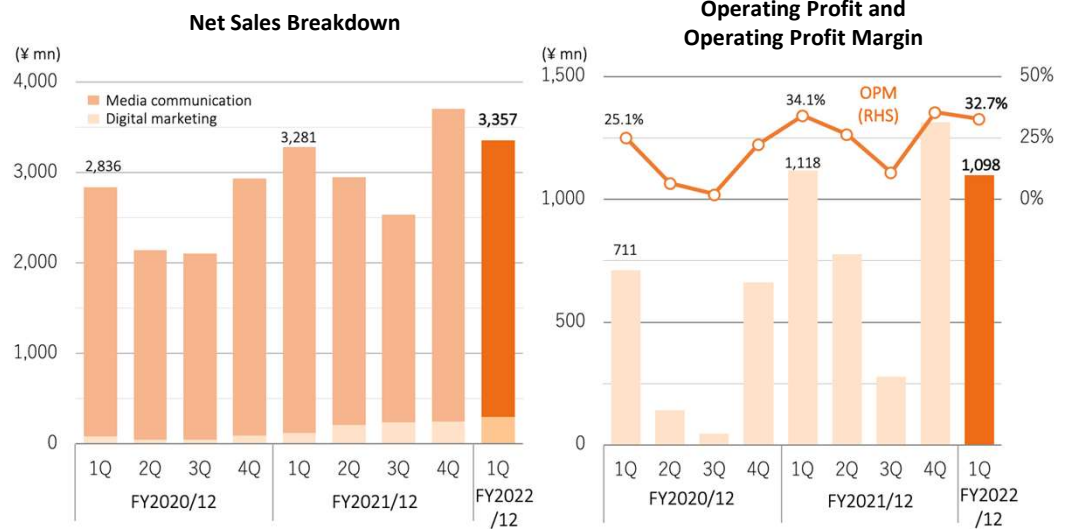
a) Marketing Solution Business* (nets sales ¥3,357 mn (+2.3%), segment profit, ¥1,098 mn (-1.8%)) (see top figure on following page)

The marketing solution business offers a wide range of marketing services to various types of businesses, including advertisers, advertising agencies, large media outlets, and platformers. The field was further expanded by including digital marketing.

Net sales for the business were about the same as those for the same period the previous fiscal year. Media communication net sales were also basically unchanged year on year as there was a major increase in placements from brand advertisers in 1Q FY12/21 due to the rebound following the pandemic. On the other hand, sales for digital marketing, which primarily offers solutions for direct ads, rose a dramatic 2.4 fold. Segment profit fell 1.8% to ¥1,098 mn.

* Some of the segments have changed starting this quarter. The name of the partner sales business was changed to marketing solution business. KAIKETSU, which was previously part of the partner sales business, was transferred to the ad platform business. In addition, the video-related business, which was previously part of the ad platform business, was transferred to the marketing solution business. Segment figures in this report have been revised to match new segments.

Marketing Solution Business Segment Earnings



Source: compiled by SIR from CARTA Holdings material.

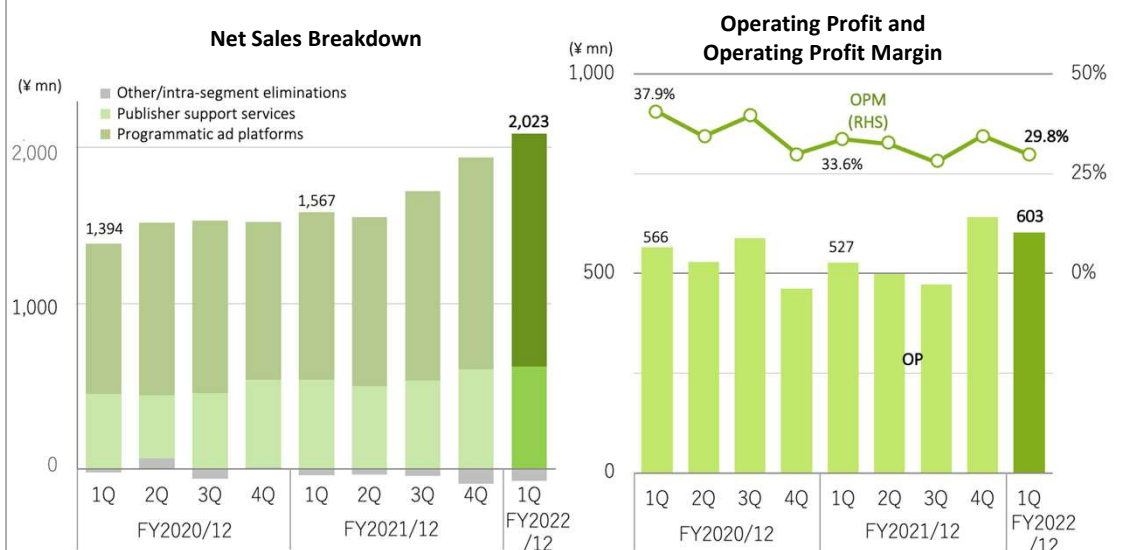
b) Ad Platform Business (net sales, ¥2,023 mn (+29.1%); segment profit, ¥603 mn (+14.4%)).

The ad platform business provides both programmatic ad platforms (Zucks, PORTO, TELECY, etc.), which automatically optimize ad delivery in real time, and publisher support services (fluct, etc.), which helps media maximize ad earnings.

Net sales from programmatic ad platforms rose 38.2% to ¥1,452 mn because of strong growth in TELECY. Publisher support services net sales grew 15.6% to ¥643 mn.

Since 3Q FY12/21, CARTA Holdings has conducted strategic promotions of TELECY, and even in 1Q FY12/22, the company recorded about ¥200 mn in advertising expenses. Operating profit for the segment rose 14.4% to ¥603 mn.

Ad Platform Business Segment Earnings



Source: compiled by SIR from CARTA Holdings material.

Of the various ad platforms, investors, too, have high expectations that the programmatic TV CM service TELECY, which CARTA Holdings is focusing on, will experience strong growth. Possessing the merits of both TV CMs, which can reach large numbers of consumers, and programmatic ads, for which it is easy to verify the cost benefit, programmatic TV CMs make it possible to place ads more efficiently than traditional TV commercials. Traditional TV CMs are difficult to use unless a company has a large advertising budget, but with TELECY, ads can be run with a relatively small budget because of the finely tuned target, etc. CARTA Holdings plans to continue to aggressively expand these products by leveraging the TV CM buying power of the Dentsu Group and the knowledge it possesses as a company skilled at developing ad platforms. As these are the early days of programmatic TV CMs, they account for a limited share of the Japanese TV ad market. They are expected to rapidly grow in the future, and the company forecasts that they will grow to ¥130.0 bn in 2025, an elevenfold increase compared to 2021, and account for around 7% of the TV ad market.

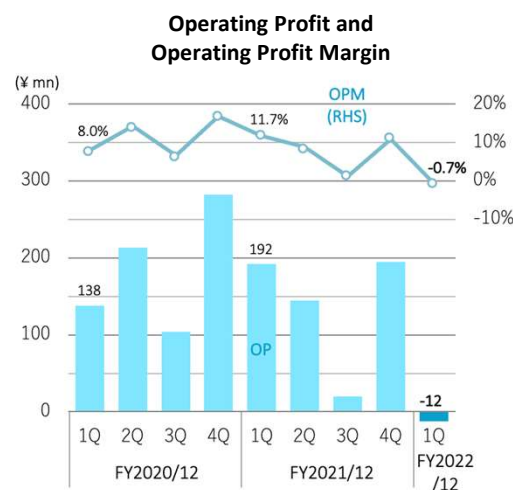
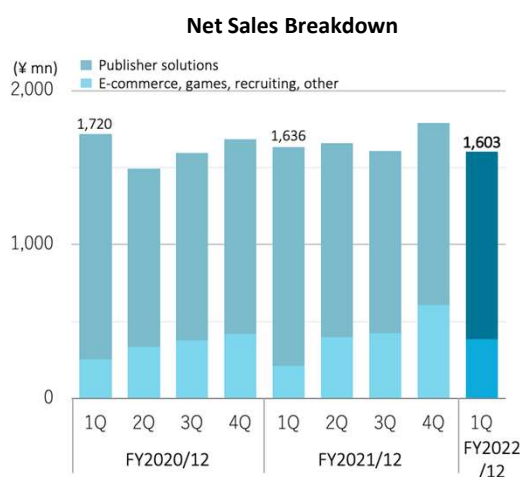
TELECY advertisers are primarily game and EC companies, but there has also been an increase in ads from start-up companies, such as B2B and SaaS businesses. TELECY gross sales have rapidly grown (¥13 mn in 3Q FY12/20 → ¥115 mn, 4Q FY12/20 → ¥261 mn, 1Q FY12/21 → ¥929 mn, 3Q FY12/21 → ¥859 mn, 4Q FY12/21). In 1Q FY12/21, net sales rapidly increased 5.9-fold year on year to ¥1,534 mn. It appears that gross sales can be expected to increase to ¥1.0–¥2.0 bn quarterly in the 2Q and after.

c) Consumer Business (net sales, ¥6,695 mn (+3.1%); segment profit, ¥312 mn (-31.3%)).

CARTA Holdings has positioned its consumer business, which includes both publisher solutions and EC, games, recruiting, and other businesses, as a critical business segment for promoting the vertical integration of its services. In addition to expanding its own proprietary media, such as EC Navi and PeX, the company plans to generate growth by launching new media and conducting M&As. Even in the D2C field, the company is making upfront investments and aims for growth in the medium and long term.

In 1Q, the segment saw an increase in sales, particularly for highly profitable businesses, such as the D2C business Yomite and support for engineer human resources. On the other hand, advertising expenses rose ¥170 mn YoY because of strong growth in the number of new customers for the D2C business, and the company reported a segment loss of ¥12 mn, compared to operating profit of ¥192 mn for 1Q FY12/21. Although CARTA Holdings temporarily recorded a loss for the DC2 business due to the cost of capturing new customers, these captured customers are expected to result in continued sales.

Consumer Business Segment Earnings



Source: compiled by SIR from CARTA Holdings material.

2. FY12/22 Earnings Forecast: No Change as Progress is Being Made as Expected

At the end of 1Q, there were no changes in the earnings outlook as CARTA Holdings is making progress in achieving its full fiscal year earnings forecasts as planned. The company recorded 24.7% of its net sales forecasts and 28.0% of its operating profit forecast for the full fiscal year. As for profit attributable to owners of parent and EBITDA, the company posted 48.2% of its profit attributable to owners of parent and 41.8% of its EBITDA forecasts for the full fiscal year because the gain on sales of shares was greater than initially projected as mentioned previously. Some investors may be concerned about the decline in 1Q profit, but if anything, we are positive about this as it was the result of strategic upfront investments, such as advertising expenses. In 2Q, too, the company plans to actively invest in advertising for TELECY and its D2C business as this is the upfront investment phase, and the company is expected to record another year-on-year decline in profit.

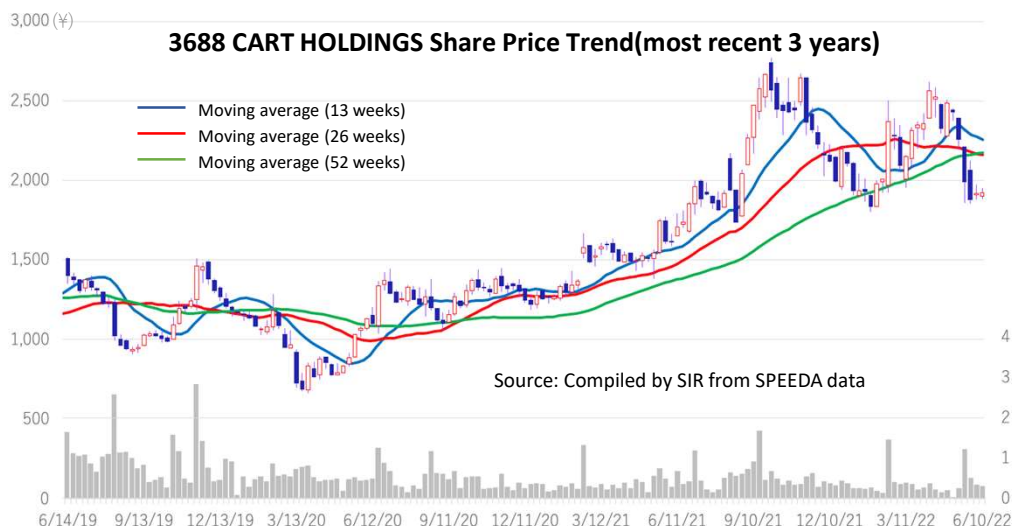
3. Shareholder Return: Purchase of up to ¥1.2 bn in Treasury Shares Announced

At the same time that it released its earnings, CARTA Holdings announced that it will spend up to ¥1.2 bn to purchase treasury shares in order to boost shareholder return and increase capital efficiency. The company will purchase up to 400,000 shares between May 16 and August 15, 2022. This is equivalent to 1.56% of the total number of issued shares (minus treasury shares). The Dentsu Group holds a majority of the company’s stock, 52.4%, and the tradeable share ratio after the purchase of treasury shares is expected to fall to 37.4%, which still exceeds the Tokyo Stock Exchange’s listing criteria of a tradeable share ratio of at least 35%.

Furthermore, for FY12/22, CARTA Holdings plans to increase the dividend payment ¥3 and pay a dividend of ¥54 per share for the full fiscal year. When this is combined with the purchase of treasury shares, the company expects to pay a shareholder return of ¥2.58 bn.

4. Share Price Trend: Flat Following Announcement of Decline in Profit

CARTA Holdings’ stock price shed about 15% since its earnings announcement on May 13. After hitting a recent bottom of ¥662 on March 23, 2020, the company’s share price rose fourfold to its peak of ¥2,770 on September 27, 2021. Having vastly outperformed the TOPIX, it can be argued that the decline is in response to strong growth expectations for this growth stock. However, growth in sales is on track as previously noted, and it can be argued that there are no major pressing concerns (there are concerns that Russia’s invasion of Ukraine could negatively impact client’s stance on running ads, but as of now, there still does not appear to be any major impact). The decline in profit was also the result of investments in fields necessary for future growth. In addition to advertising expenses, the company has to secure top talent to expand the business. Therefore, these expenses are necessary for growth. We want to continue to focus on how the market judges the management team’s management policy related in investments for growth.



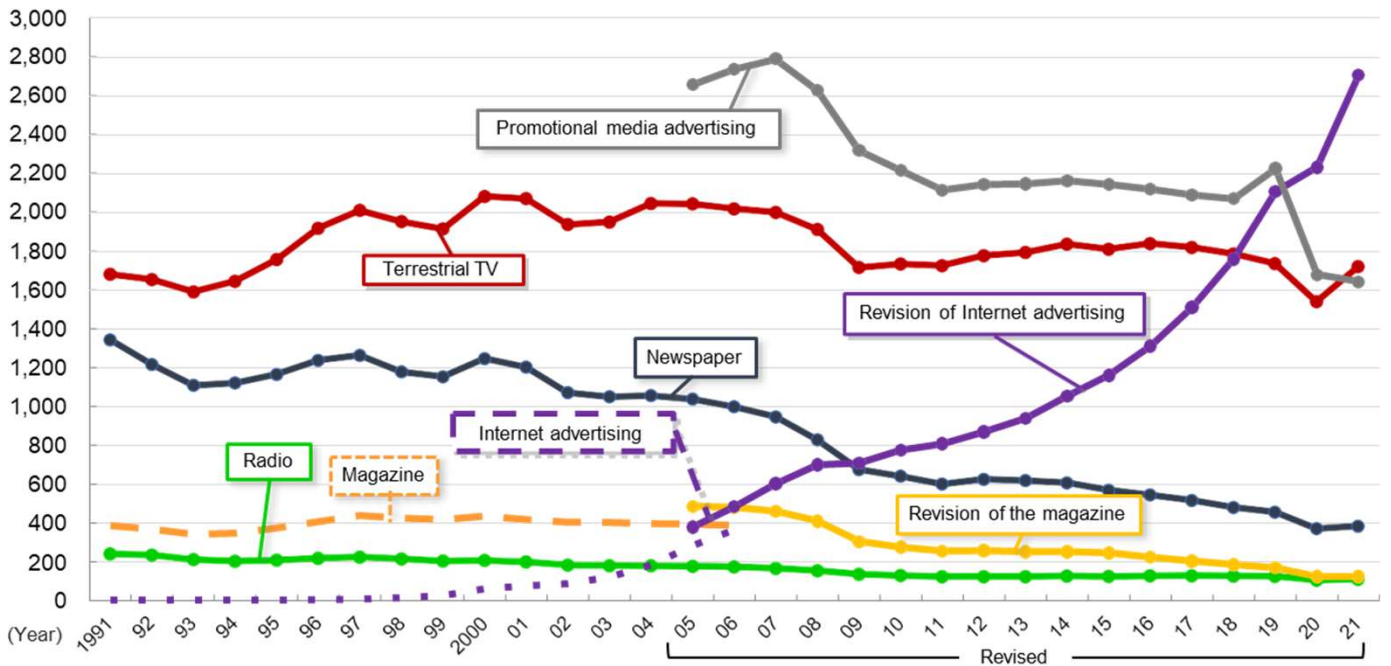
Relative Chart (3688, TOPIX)



Source: SIR from SPEEDA data

Cf : General Trend of Advertising Expenditures

In 2021, Internet advertising expenditures amounted to 2.705 trillion yen, to account for 39.8% of total advertising expenditures.



Source: Dentsu Inc. "2021 Advertising Expenditures in Japan"

Source : CARTA HOLDINGS Financial Results Presentation for 1Q FY12/2022

Quarterly Consolidated Results by Segment

	FY12/20				FY12/21				FY12/22
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Net Sales	5,944	5,169	5,208	6,166	6,483	6,146	5,835	7,357	6,976
YoY	0.3%	9.3%	5.4%	-6.8%	9.1%	18.9%	12.0%	19.3%	7.8%
Partner Sales business	2,836	2,143	2,109	2,938	3,281	2,949	2,539	3,708	3,357
YoY	—	—	—	—	15.7%	37.6%	20.4%	26.2%	2.3%
% of Sales	47.7%	41.5%	40.5%	47.6%	50.6%	48.0%	43.5%	50.4%	48.1%
Media communication	2,751	2,094	2,064	2,843	3,158	2,742	2,302	3,461	3,057
YoY	—	—	—	—	14.8%	30.9%	11.5%	21.7%	-3.2%
% of Sales	46.3%	40.5%	39.6%	46.1%	48.7%	44.6%	39.5%	47.0%	43.8%
Digital marketing	85	49	45	95	123	207	237	247	300
YoY	—	—	—	—	44.7%	322.4%	426.7%	160.0%	143.9%
% of Sales	1.4%	0.9%	0.9%	1.5%	1.9%	3.4%	4.1%	3.4%	4.3%
Ad Platform business	1,394	1,539	1,493	1,545	1,567	1,541	1,697	1,860	2,023
YoY	—	—	—	—	12.4%	0.1%	13.7%	20.4%	29.1%
% of Sales	23.5%	29.8%	28.7%	25.1%	24.2%	25.1%	29.1%	25.3%	29.0%
Publisher support services	470	392	474	549	556	518	552	626	643
YoY	—	—	—	—	18.3%	32.1%	16.5%	14.0%	15.6%
% of Sales	7.9%	7.6%	9.1%	8.9%	8.6%	8.4%	9.5%	8.5%	9.2%
Programmatic ad platforms	938	1,078	1,079	986	1,051	1,057	1,186	1,323	1,452
YoY	—	—	—	—	12.0%	-1.9%	9.9%	34.2%	38.2%
% of Sales	15.8%	20.9%	20.7%	16.0%	16.2%	17.2%	20.3%	18.0%	20.8%
Other/intra-segment eliminations	-14	69	-60	10	-40	-34	-41	-89	-72
Consumer business	1,720	1,494	1,595	1,683	1,636	1,658	1,607	1,792	1,603
YoY	5.8%	11.3%	14.3%	-23.1%	-4.9%	11.0%	0.8%	6.5%	-2.0%
% of Sales	28.9%	28.9%	30.6%	27.3%	25.2%	27.0%	27.5%	24.4%	23.0%
Publisher solutions	1,466	1,158	1,217	1,262	1,423	1,258	1,181	1,187	1,216
YoY	7.4%	11.0%	6.1%	-27.9%	-2.9%	8.6%	-3.0%	-5.9%	-14.5%
% of Sales	24.7%	22.4%	23.4%	20.5%	21.9%	20.5%	20.2%	16.1%	17.4%
E-commerce, games, recruiting, other	254	336	378	421	213	400	426	605	387
YoY	-2.3%	12.4%	51.8%	-3.9%	-16.5%	19.4%	12.7%	43.8%	81.7%
% of Sales	4.3%	6.5%	7.3%	6.8%	3.3%	6.5%	7.3%	8.2%	5.5%
Operating Profit	1,263	729	585	884	1,675	1,265	613	1,419	1,541
YoY	-0.7%	130.7%	43.0%	-17.8%	32.6%	73.5%	4.8%	60.5%	-8.0%
Operating margin	21.2%	14.1%	11.2%	14.3%	25.8%	20.6%	10.5%	19.3%	22.1%
Partners Sales business	711	141	45	662	1,118	778	278	1,315	1,098
YoY	—	—	—	—	57.2%	451.8%	517.8%	98.6%	-1.8%
Operating margin	25.1%	6.6%	2.1%	22.5%	34.1%	26.4%	10.9%	35.5%	32.7%
Ad Platform business	566	529	589	462	527	499	473	641	603
YoY	—	—	—	—	-6.9%	-5.7%	-19.7%	38.7%	14.4%
Operating margin	40.6%	34.4%	39.5%	29.9%	33.6%	32.4%	27.9%	34.5%	29.8%
Consumer business	138	213	104	282	192	145	20	195	-12
YoY	94.4%	294.4%	—	86.8%	39.1%	-31.9%	-80.8%	-30.9%	—
Operating margin	8.0%	14.3%	6.5%	16.8%	11.7%	8.7%	1.2%	10.9%	-0.7%

Note: There may be slight inconsistencies in figures because of rounding, etc. All-company expenses not attributed to a particular segment are included as adjustments. Therefore, total segment operating profit does not equal company-wide operating profit.

Source: compiled by SIR from CARTA Holdings material.

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