

## Company Report

30 August, 2024

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## FY12/2024 Q2 Results: Mobile Services, Especially Moppy are Strong. Despite the Impact of Crypto Asset Prices, the Company is on Track to Achieve Its Full-Year Forecast

In Q2 of FY12/2024, revenues slowed compared to a strong Q1, but overall the first half was roughly in line with expectations. For the full FY12/2024, the company is on track to achieve its forecasts, despite the fluctuating effects of crypto asset prices. Sales in Q2 increased 13.0% YoY to ¥6.43 billion, while recurring profit was a loss of ¥70 million compared to a profit of ¥180 million in the same period last year. However, there were temporary factors such as upfront costs due to strong sales in D2C appearing in Q2 and a valuation loss of ¥100 million in CVC shares.

By business unit, operating profit for Mobile Service in Q2 rose 3.5% YoY to ¥790 million. In the Point business, the main point site "Moppy" performed well. Gross profit margin rose to 26.9% from 22.8% in the same period last year. This is thought to be due to thorough management of point allocation and reduced costs by going through "AD.TRACK," the company's own ASP (Affiliate Service Provider). In D2C, sales of "Pitsole," the main functional insole, remained high, while sales of "Oigult," a supplement for improving the intestinal environment, are growing. As it is a regular sales product, advertising expenses are incurred first and revenues follow later.

Financial Service's Q2 operating profit was -¥410 million, down from -¥260 million in the same period last year. Profits at Mercury, a subsidiary that operates a crypto asset exchange, deteriorated. Equity profits at bitbank, an equity method affiliate, fell to -¥130 million in Q2 this year, down from -¥40 million in the same period last year. This is thought to be due to the decline in the market prices of Bitcoin and altcoins during the April-June period.

After hitting its most recent peak in May, the stock price had been weak due to the fall in cryptocurrency prices, but it dropped significantly in August due to the sudden fall in the overall stock market and the fact that Q2 financial results did not meet market expectations. However, it is almost certain that mobile services will recover in the second half of the year. With Bitcoin's halving having passed, there are expectations that cryptocurrency prices will strengthen in the future, and if this happens, the company's stock price is likely to recover.

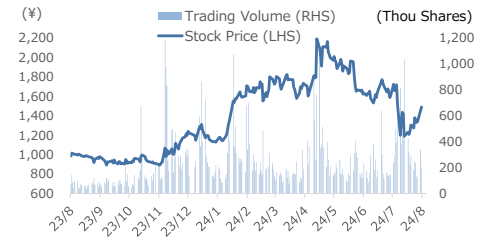
### Japanese GAAP - Consolidated

| FY            | Sales<br>(¥ mn) | YoY<br>(%) | OP<br>(¥ mn) | YoY<br>(%) | RP<br>(¥ mn) | YoY<br>(%) | NP<br>(¥ mn) | YoY<br>(%) | EPS<br>(¥) | DPS<br>(¥) |
|---------------|-----------------|------------|--------------|------------|--------------|------------|--------------|------------|------------|------------|
| FY12/2023 Q2  | 5,695           | 16.5       | 213          | 7,000.0    | 179          | NM         | 153          | NM         | 13.4       | -          |
| FY12/2024 Q2  | 6,433           | 13.0       | 98           | -54.0      | -71          | NM         | -159         | NM         | -14.1      | -          |
| FY12/2023 H1  | 11,220          | 16.9       | 466          | -22.0      | 531          | 117.4      | 354          | NM         | 31.1       | -          |
| FY12/2024 H1  | 13,151          | 17.2       | 811          | 74.1       | 1,069        | 101.2      | 673          | 90.1       | 58.8       | -          |
| FY12/2021     | 23,402          | 15.8       | 2,305        | 54         | 3,499        | 92.7       | 2,775        | 272.7      | 251.8      | 40.0       |
| FY12/2022     | 20,536          | NA         | 1,246        | -45.9      | 679          | -80.6      | 46           | -98.3      | 4.1        | 20.0       |
| FY12/2023     | 24,070          | 17.2       | 1,118        | -10.3      | 1,217        | 79.1       | 451          | 868        | 39.6       | 20.0       |
| FY12/2024 CoE | 27,000          | 12.2       | 1,600        | 43.1       | 2,000        | 64.2       | 1,200        | 166        | 104.5      | 20.0       |

Note: Due to the new revenue recognition standard starting in FY12/2022, YoY change in net sales is NA.

Source: Strategy Advisors - Based on Company Data

### Share Price & Volumes



Source: Strategy Advisors

### Key Indicators

|                              |       |
|------------------------------|-------|
| Stock Price (8/26)           | 1,450 |
| YTD High (5/10)              | 2,191 |
| YTD Low (1/26)               | 1,128 |
| 52-Week High (24/5/10)       | 2,191 |
| 52-Week Low (23/11/28)       | 891   |
| Shares Issue & Outstanding   | 11.5  |
| Market Capitalization (¥ bn) | 16.7  |
| EV (¥ bn)                    | 15.9  |
| Equity Ratio (12/23, %)      | 35.4  |
| ROE (12/23, %)               | 5.0   |
| PER (12/24 Forecast, Times)  | 13.9  |
| PBR (12/23 Actual, Times)    | 1.8   |
| Yield (12/24 CoE, %)         | 1.4   |

Source: Strategy Advisors

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## 1. Profits for Q2 FY12/2024 Decreased QoQ, But This Includes Temporary Factors

**Although Q2 Performance Slowed, there were Savings from Q1 & Was In-Line with the Company's Full-Year Forecast**

In the second quarter of FY12/2024, sales increased 13.0% YoY to ¥6.43 billion and operating profit decreased 54.0% YoY to ¥100 million. Recurring profit also declined to -¥70 million from ¥180 million in the same period in the previous year. Compared to the previous quarter, sales, operating profit and recurring profit all decreased, partly due to the seasonality of the point business and other businesses in Q2 being in a low-demand period. In Q1, many of the main businesses were strong and the progress rate against the company's full-year forecast for the fiscal year ending December 2024 was high; but in Q2, there was a slowdown, including temporary factors and savings from Q1 were consumed. The results for the first half as a whole are in line with expectations. There were no revisions to the company's full-year forecast following the Q2 results.

**Mobile Service Remain Strong in Q2. Financial Service are Affected by the Decline in Crypto Assets**

By business segment, in Q2 Mobile Service, the strong performance of "Moppy" led to an increase in revenue from the points business compared to the same period last year. D2C saw a decrease in profit compared to the same period last year due to an increase in advertising expenses, but this was mainly due to the initial costs associated with the expansion of future sales of "Oi gurt", which is sold on a subscription basis, so the results can be considered positive. Meanwhile, in Financial Services, the crypto asset business's operating profit decreased compared to the same period last year, due to factors such as the fall in crypto asset prices and with CVC recording an impairment loss of ¥100 million.

**Figure 1. Trends by Segment for Q2 FY12/2024**

(¥ mn)

| Segment                                 | 12/24 Q1     | 12/24 Q2     | YoY Change    | QoQ Change    | 12/24 H1<br>(A) | YoY Change    | Progress<br>(A)/(B) | FY12/23       | FY12/24 CoE<br>(B) |
|---|--------------|--------------|---------------|---------------|-----------------|---------------|---------------------|---------------|--------------------|
| <b>Sales</b>                            | <b>6,718</b> | <b>6,433</b> | <b>13.0%</b>  | <b>-4.2%</b>  | <b>13,151</b>   | <b>17.2%</b>  | <b>48.7%</b>        | <b>24,070</b> | <b>27,000</b>      |
| Mobile Services                         | 6,275        | <b>6,260</b> | 11.6%         | -0.2%         | <b>12,535</b>   | 14.9%         | 48.7%               | 23,458        | 25,720             |
| Point                                   | 3,553        | <b>3,454</b> | 2.8%          | -2.8%         | <b>7,007</b>    | 1.8%          | 50.1%               | 13,817        | 14,000             |
| D2C                                     | 1,751        | <b>1,749</b> | 49.0%         | -0.1%         | <b>3,500</b>    | 92.4%         | 54.7%               | 5,053         | 6,400              |
| DX                                      | 983          | <b>1,126</b> | 1.9%          | 14.5%         | <b>2,109</b>    | -8.9%         | 38.3%               | 4,776         | 5,500              |
| Financial Services                      | 447          | 168          | 88.8%         | -62.4%        | 615             | NA            | 47.3 %              | 611           | 1,300              |
| <b>Operating profit</b>                 | <b>713</b>   | <b>98</b>    | <b>-54.0%</b> | <b>-86.3%</b> | <b>811</b>      | <b>74.0%</b>  | <b>50.7%</b>        | <b>1,118</b>  | <b>1,600</b>       |
| Mobile Services                         | 1,119        | <b>789</b>   | 3.5%          | -29.5%        | <b>1,908</b>    | 31.8%         | 50.7%               | 3,187         | 3,760              |
| Point                                   | 782          | <b>705</b>   | 15.8%         | -9.8%         | <b>1,487</b>    | 33.4%         | 52.5%               | 2,480         | 2,830              |
| D2C                                     | 341          | <b>149</b>   | -57.3%        | -56.3%        | <b>490</b>      | 20.1%         | 62.4%               | 730           | 785                |
| DX                                      | 31           | <b>-35</b>   | NM            | NM            | <b>-4</b>       | NA            | NM                  | 106           | 275                |
| Financial Services                      | -54          | <b>-413</b>  | NM            | NM            | <b>-467</b>     | NM            | NM                  | -897          | -780               |
| Adjustment amount                       | -351         | <b>-278</b>  | -             | -             | <b>-629</b>     | NM            | 45.6%               | -1,172        | -1,380             |
| <b>Equity in Earnings of Affiliates</b> | <b>370</b>   | <b>-132</b>  | <b>NM</b>     | <b>NM</b>     | <b>238</b>      | <b>226.0%</b> | <b>59.5%</b>        | <b>78</b>     | <b>400</b>         |

Source: Compiled by Strategy Advisors. Based on Company Documents

## 2. Mobile Service Business

### 1) Moppy Continues to Perform Well

#### Moppy's Gross Profit Margin Increases Further

Mobile Service sales in Q2 increased 11.6% YoY to ¥6.26 billion and operating profit increased 3.5% YoY to ¥1.12 billion. The Point business drove growth, with sales increasing 2.8% YoY and operating profit increasing 15.8% YoY. In particular, sales of "Moppy" were strong, increasing 5.6% YoY to ¥3.0 billion. The gross profit margin hit 26.9%, which is higher than the 22.8% of the same period last year and also slightly higher than the 26.8% of Q1, which was a seasonally high demand period. Gross profit was ¥810 million, not as high as Q1, but still up from the ¥650 million of the same period last year.

The factors behind the increase in Moppy's gross profit margin include 1) thorough management of point allocation and 2) an increase in the proportion of products listed via "AD.TRACK", the company's own ASP (Affiliate Service Provider).

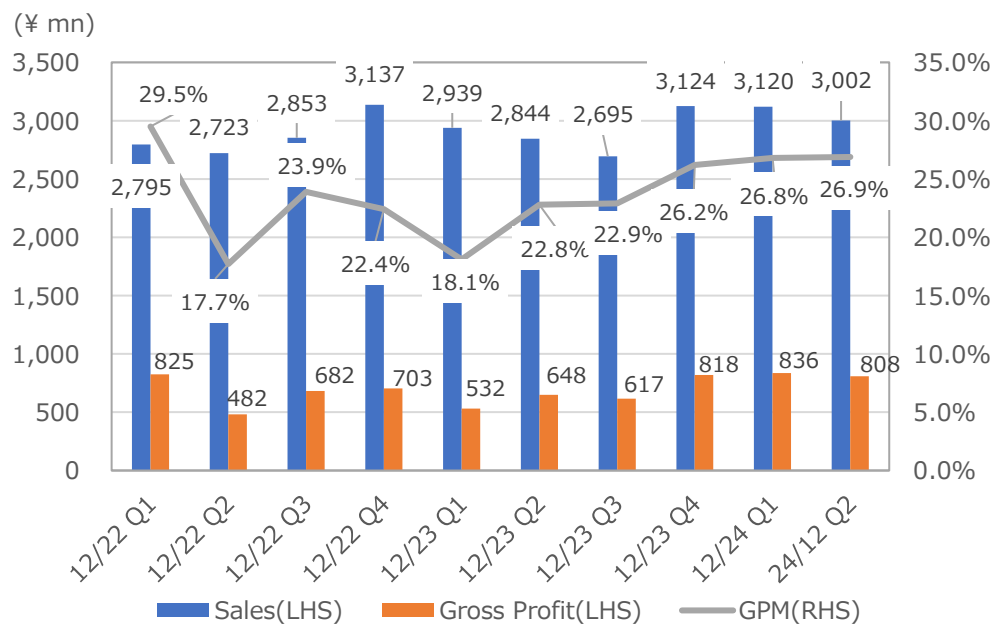
**Thorough Management of Point Allocation. Effective Point Design is Possible by Utilizing the Company's Know-How**

**Increase in the Ratio of Traffic via Our Own ASP "AD.TRACK"**

Regarding thorough point allocation management, it is necessary to award attractive high points to encourage action from users, the consumers; but at the same time, as points are a cost for CERES, it is also important from a management perspective to keep the amount of points reasonable. Designing points that provide an optimal solution to the trade-off between these two factors is a major key to the point site business. The company has always been considered to be good at this, but it appears that they have stepped up their efforts since last year. We consider the company's corporate DNA to be "bold challenges and meticulous execution," and this is an example of meticulous execution producing results.

The company also owns the ASP "AD.TRACK," and the proportion of product listings via this is increasing. It appears to currently be at 40-50%. This has seen a reduction in the fees paid to other companies, leading to an improvement in gross profit margins. It is highly likely that this proportion will continue to rise gradually in the future, which will be a factor in further improving Moppy's gross profit margins. Also, by owning "AD.TRACK," Moppy has a cost-competitive advantage, which gives it more freedom in awarding the above-mentioned points, making it possible to design effective points.

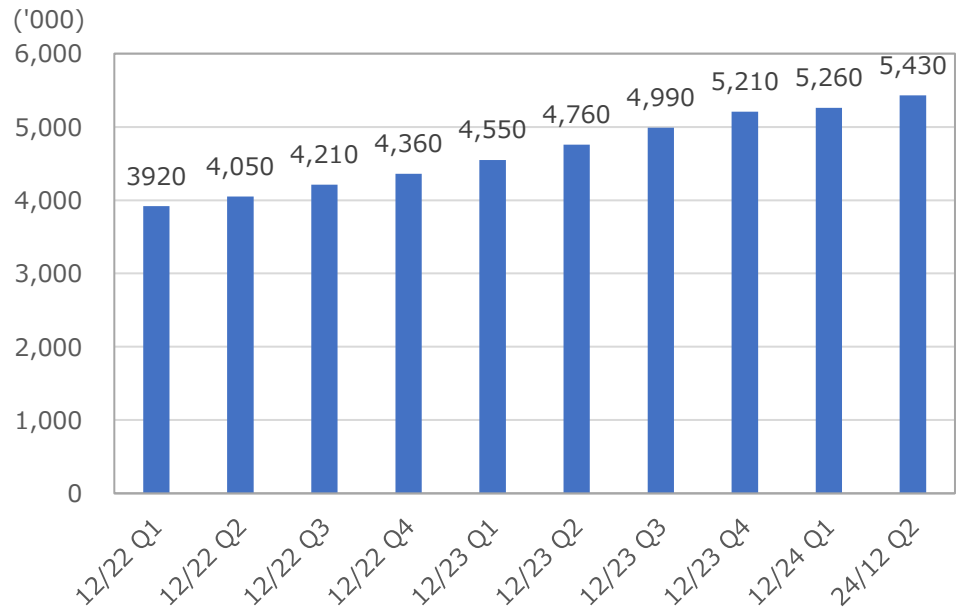
**Figure 2. Moppy Sales and Gross Profit Margins**



Note: Gross profit is calculated based on the company's disclosed sales and gross profit margin.

Source: Company Data. Compiled by Strategy Advisors

**Figure 3. Changes in the Number of Active Members of "Moppy"**



Source: Company Data. Compiled by Strategy Advisors

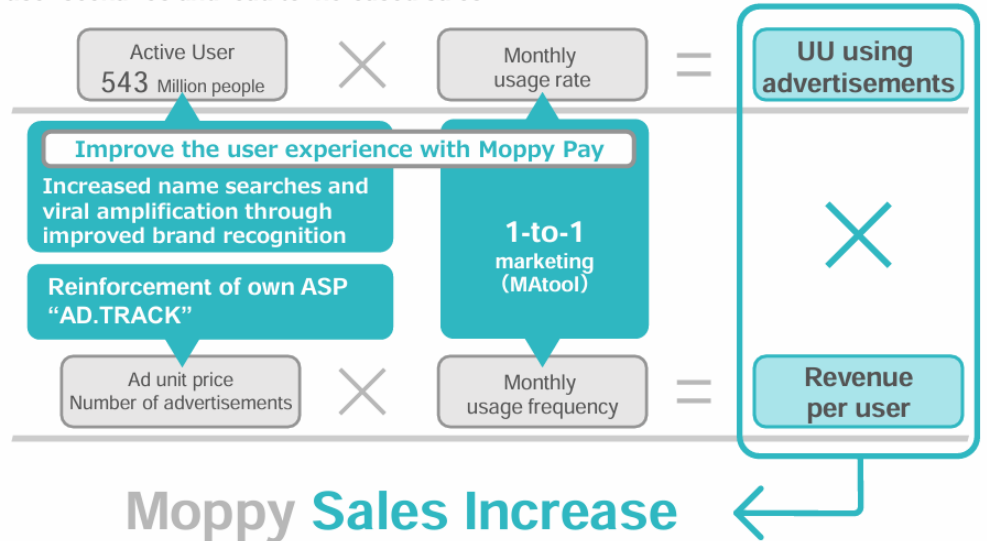
### Increase Usage Rates Among Active Members Through 1-to-1 Marketing

The number of active members of "Moppy" is steadily increasing, and is expected to continue to grow. In addition, in order to increase the actual purchasing behavior of users, the company is working to improve user convenience and raise awareness of the "Moppy" site by introducing "Moppy Pay" (which allows payment with points) as shown in Figure 4, but is currently focusing on efforts to increase the usage rate of active users by utilizing MA (marketing automation) tools. In May of this year, the company introduced Salesforce's "Marketing Cloud." This is equipped with AI, which allows it to grasp the preferences and behavior of individual users and enable 1-to-1 marketing that delivers personalized advertisements.

**Figure 4. Measures to Increase Sales of "Moppy"**

Achieve stable user growth by improving the app's usability and increasing Moppy's brand awareness.

By strengthening 1-to-1 marketing and diversifying advertising, expand the number of user scenarios and lead to increased sales.

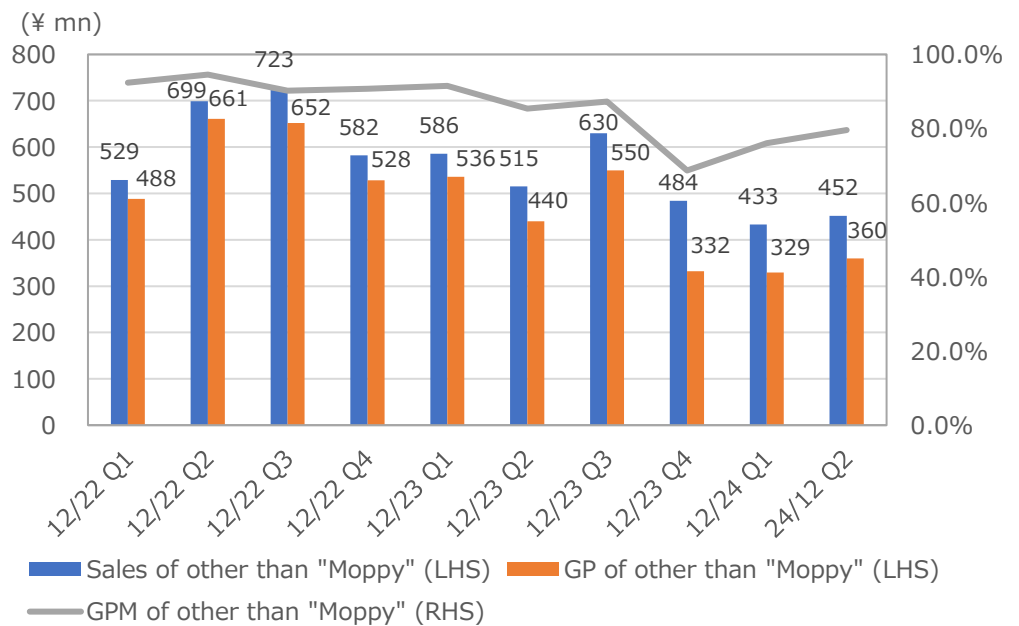


Source: Company data

**External "AD.TRACK" & Article Advertising Media Remain in a Difficult Position**

Meanwhile, Point's other businesses, "AD.TRACK" (for other companies) and article advertising media, continue to show sluggish earnings, although the decline appears to have bottomed out. As shown in Figure 5, sales and gross profits for Point excluding "Moppy" continue to decline compared to the same period last year. This is presumably due to the continued impact of stricter regulations on excessive advertising as a result of the Pharmaceuticals and Medical Devices Act and the Act against Unjustifiable Premiums and Misleading Representations. However, the quarterly trend has bottomed out and the situation is not expected to worsen further.

**Figure 5. Sales and Gross Profit Margins of Point Businesses Other than "Moppy"**



Note: Gross profit is calculated based on the company's disclosed sales and gross profit margin.

Source: Company Data. Compiled by Strategy Advisors

## 2) D2C Revenue Remains High

### "Pitsole" Sales Remain High, & "Oi gurt" Sales Expand

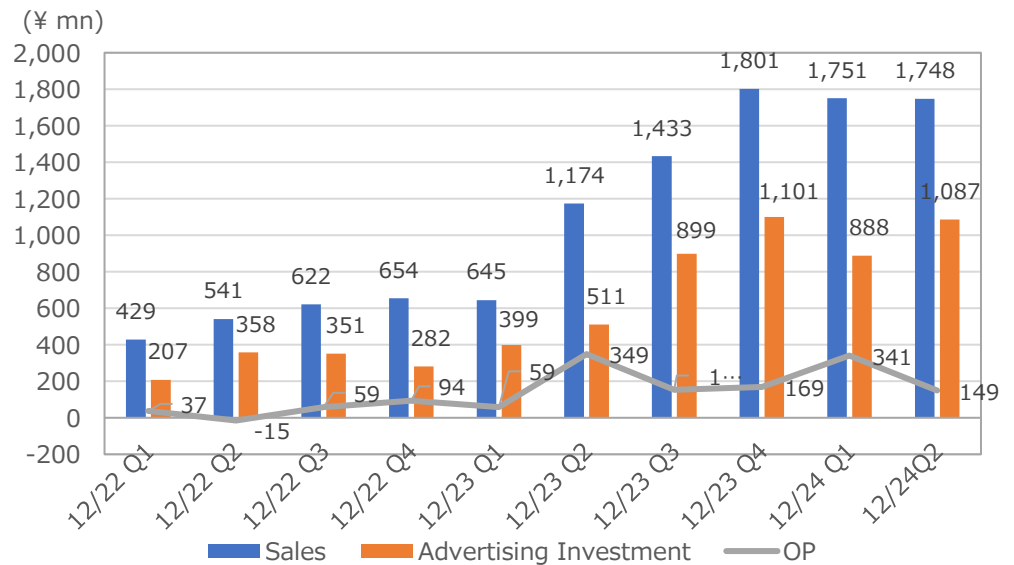
D2C sales in Q2 increased 49.0% YoY to ¥1.75 billion, while operating profit decreased 57.3% to ¥150 million. Compared to the previous quarter, sales decreased 0.1% and operating profit decreased 56.3%. As for sales, the company's main product, functional insoles "Pitsole," seems to be slowing down in growth, but it is estimated that sales remain at a high level due to the addition of new products. Recently, sales of the functional food "Oi gurt" have begun to expand. This is a yogurt-flavored powdered supplement that is said to improve the intestinal environment.

### Regular Sales of "Oi gurt" Will Contribute to Profits from Now-On

While "Pitsole" is sold as a singular item, "Oi gurt" is a subscription-based regular sales product, so sales will rise steadily each month. On the other hand, advertising expenses based on success fees are paid when consumers decide to purchase regularly, so expenses are recorded before sales. This was particularly evident in terms of profits in Q2. As shown in Figure 6, advertising expenses increased by ¥200 million in Q2 compared to the previous quarter, resulting in a ¥190 million decrease in operating profit. However, as mentioned above, it is clear that sales will steadily increase in the future, so the decline in profits for Q2 can be seen as temporary. Profits for the business are expected to recover in Q3. The progress rate of the business in the first half of the year against the company's forecast for the full year ending December 2024 is more than 50%, which can be said to be smooth progress.



**Figure 6. Trends in D2C Business**



Source: Company Data. Compiled by Strategy Advisors

## DX Continues to Stagnate

The DX business being carried out by subsidiary Yumemi is currently stagnant. Sales in Q2 increased 1.9% year on year to ¥1.13 billion, while operating profit saw a loss of ¥40 million down from a loss of ¥160 million in the same period last year. Orders are generally accumulating smoothly, and revenues should recover in Q4, when these will result in sales. Note that from 2024, due to a review of accounting policies, the method of recording sales and costs at the time the deliverables are handed over for some quasi-entrusted contract projects has been changed, so both sales and profits are being recorded on a delayed basis.

## 3. Financial Services Business

### Crypto Assets Fall in Q2

Financial service sales in Q2 were down 62% QoQ to ¥170 million, while operating loss widened by ¥50 million on the previous quarter to ¥410 million. Of these, Mercury's sales revenue in Q2 was -¥20 million. This was due to an impairment loss incurred as the price of the crypto assets held by Mercury, which fell from the end of Q1 to the end of Q2. Mercury's operating loss also worsened to ¥240 million in Q2 from ¥90 million in Q1. In addition, equity method profits at bitbank, an equity method affiliate, fell to ¥130 million from ¥370 million in Q1. This is also thought to be due to the same factors that affected Mercury.

### Bitcoin Remains Relatively Resilient Whilst Other Currencies are Sluggish

The price of Bitcoin softened to U\$69,600 at the end of March after hitting an all-time high of U\$73,000 on March 13. However, after that, while still at a historically high level, it gradually declined by cutting down the upper and lower limits of the range, reaching U\$60,900 at the end of June. Nevertheless, Bitcoin was relatively resilient among crypto assets due to the

approval of 11 Bitcoin spot ETFs by the U.S. SEC in January and expectations that the halving that occurred on April 20 will have a positive impact on the market. Ethereum, the second largest cryptocurrency by market capitalization, also fared relatively well, although not as well as Bitcoin. However, the prices of other cryptocurrencies did not rise much in the first place and many of them have suffered severe declines since April.

It is difficult to predict future market trends, but the decline in interest rates in the United States could be a tailwind. In addition, in past examples, the price rose for 18 months after the halving, so if this trend continues, the Bitcoin price could rise until around autumn 2025. In that case, attention will be focused on whether other crypto assets will follow suit.

## **Mercury's Business Expansion**

Mercury, a subsidiary that operates a crypto asset exchange, continues to focus on staking and is increasing the number of currencies it handles. Staking is a method of earning income gains similar to bond yields by holding crypto assets such as Ethereum (excluding Bitcoin) for a certain period of time. Mercury handles a total of 19 currencies, of which 12 are available for staking. It has also started handling stable coins that are linked to the price of gold issued by Mitsui & Co. Digital Commodities. Lending can earn income gains of up to 0.1% per year. It has also started handling stable coins that are linked to the prices of silver and platinum.

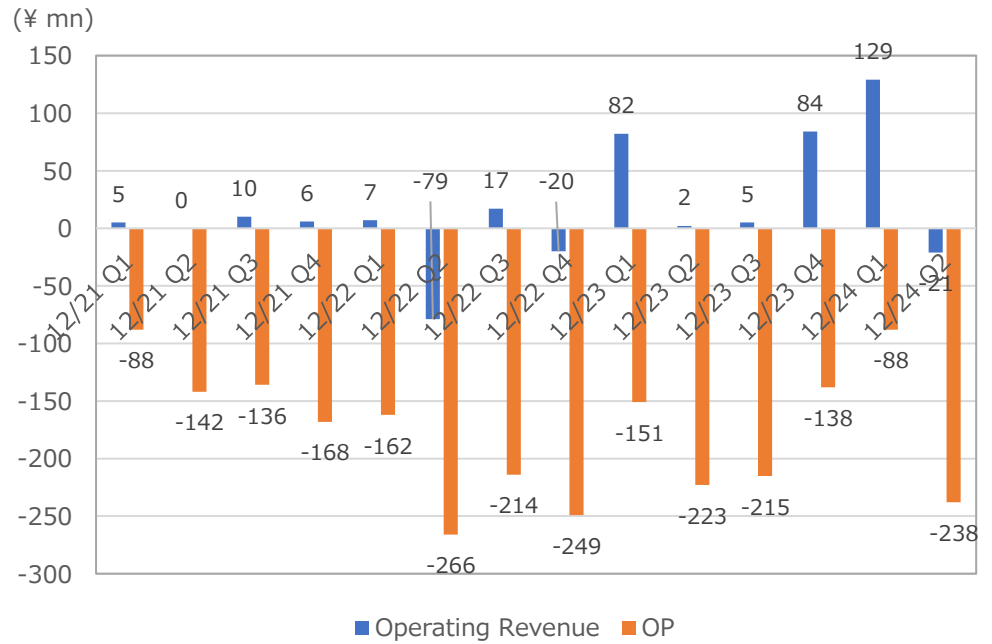
## **Bitbank Prepares to 'Go Public'**

As announced on July 31, bitbank, in which CERES has a 23.05% investment, is preparing for a stock listing. The timing and market for the listing have not yet been decided and it is unclear what will become of CERES' investment relationship with bitbank; but it is expected that market interest in bitbank's corporate value will grow in the future.

## **Online Factoring also Appears to be Doing Well**

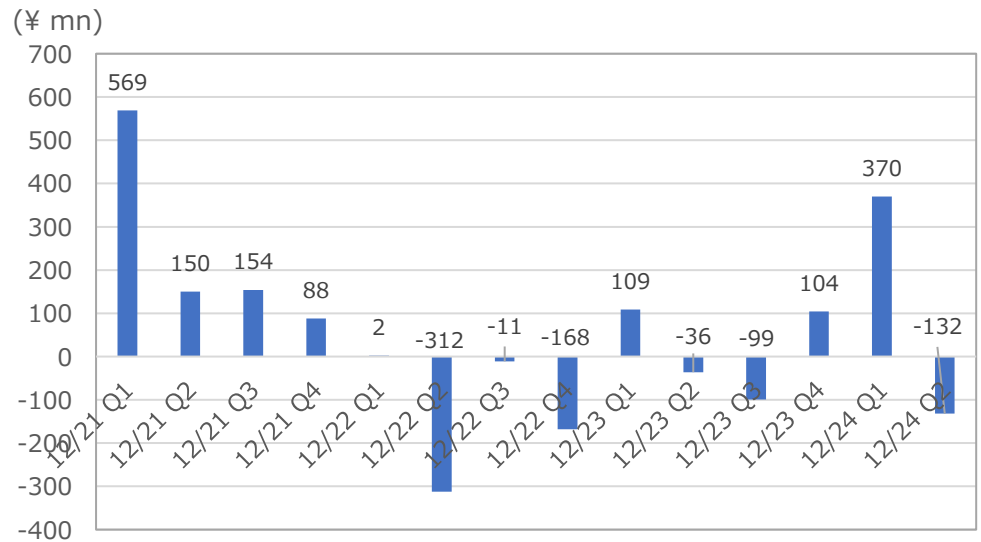
Apart from crypto assets, the company's subsidiary labol's online factoring business is doing well, with GMV (gross merchandise volume) growing 3.2 times compared to the same period last year. However, this does not appear to have contributed to profits yet. In addition, in this Q2, the company recorded a stock valuation loss of ¥100 million in the CVC investment and development business.

**Figure 7. Mercury's Earnings Trends**



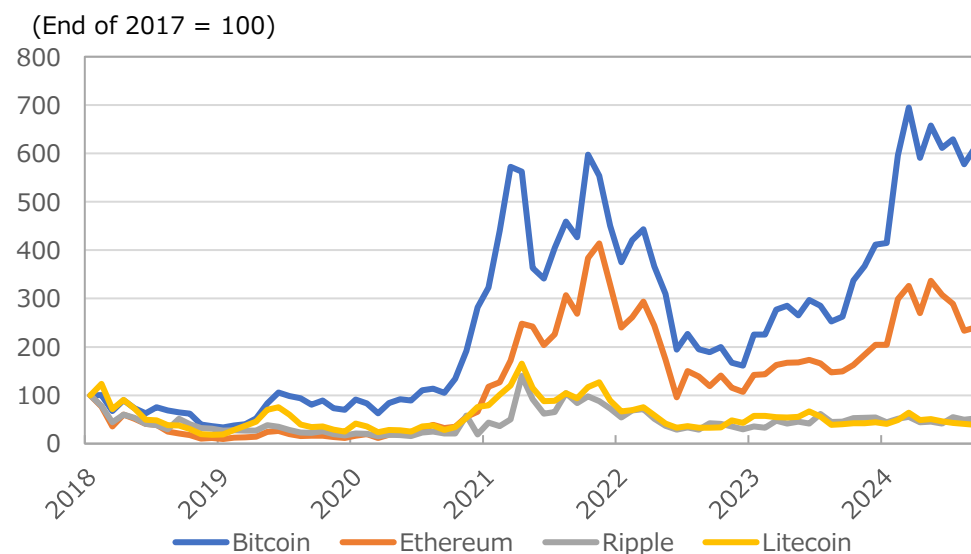
Source: Company Data. Compiled by Strategy Advisors

**Figure 8. Equity in Earnings of Affiliates (bitbank)**



Source: Company Data. Compiled by Strategy Advisors

**Figure 9. Price Trends of Major Crypto Assets**



Source: Investing.com, Strategy Advisors

## 4. Business Outlook

### Mobile Service is Going Well

The company's full-year forecast for FY12/2024 was not revised in this financial statement. In the Mobile Service, the mainstay "Moppy" is expected to continue to perform well; and in the D2C service, sales of "Oi gurt" are expected to increase in the future and contribute to profits, so the outlook for earnings in the second half is good. As orders for DX are also improving at the moment, earnings are expected to recover in Q4. ASP's and article advertising media within the points business are likely to remain sluggish in the second half, but for Mobile Service as a whole, it is quite possible that the company's full-year forecast for FY12/2024 will be achieved. There is also a possibility that profits will be exceeded.

### Financial Services Depends on Crypto Asset Price Trends

Financial Service's second half earnings may fluctuate significantly depending on the price of crypto assets. The price of Bitcoin rose slightly from U\$60,900 at the end of June to U\$62,923 as of August 27. Meanwhile, the total market capitalization of crypto assets has fallen slightly from U\$2.44 trillion at the end of June to U\$2.30 trillion. If the price of crypto assets rises to a certain extent toward the end of December, the Financial Service's company forecast for the division for FY12/2024 will be attainable. In addition, the achievement of bitbank's equity method profit, which affects the recurring profit stage, is also within reach. Mercury is laying the groundwork for improving earnings in the medium to long term through the expansion of staking and lending, but short-term performance will continue to depend on the market.

## 5. Trends of Other Companies in the Industry

### GMO Media's Media Business & CARTA HOLDINGS' Internet-Related Services Business Report Increased Profits in the April-June Quarter

In the Points business, competitors include GMO Media (6180 TSE Prime), which operates the points site "Point Town," and CARTA HOLDINGS (3688 TSE Prime), which operates "EC Navi." GMO Media's media business, which includes "Point Town," saw sales of 12.6% up YoY to ¥1.44 billion and operating profit of 52.8% up YoY to ¥160 million in the second quarter of FY12/2024. According to the presentation materials, point-earning media was sluggish, but educational media and advertising games were the driving forces. CARTA HOLDINGS' internet-related services business, which includes "EC Navi," saw sales of 5.6% up YoY to ¥1.97 billion and operating profit of 27.4% up YoY to ¥160 million in the second quarter of FY12/2024. Of these, sales of the media solutions business, which includes "EC Navi," increased 11.6% YoY to ¥1.28 billion. However, the trends of "EC Navi" are not known. Judging from the comments of these competing companies, it can be said that CERES' "Moppy" is performing very well.

### FAN Communications' "A8.net" Declines Slightly in the April-June Period

Among ASP's, there is FAN Communications (2461 TSE Prime), which operates "A8.net", one of the largest in Japan. Sales of the CPA solutions business, which includes "A8.net", for the second quarter of FY12/2024 were down 7.5% YoY to ¥1.42 billion and operating income was down 16.2% YoY to ¥770 million. According to the company's financial results presentation, the transaction volume of "A8.net" for the second quarter was down 1.6% YoY to ¥5.5 billion.

### Monex Group's Crypto Assets Also Saw a Decline in Profits in the April-June Quarter

One of its competitors in crypto assets is Monex Group (8698 TSE Prime), which owns the major exchange Coincheck. The company's crypto asset business's segment profit for the first quarter of FY3/2025 was ¥640 million, down significantly from ¥2.81 billion in the fourth quarter of FY3/2024. This was due to a decline in market volatility for crypto assets and a drop in trading volume.

**Figure 10. Profitability Comparison with Other Companies in the Industry**

| Company            | Code        | FY           | Sales<br>(¥ mn) | OP<br>(¥ mn) | RP<br>(Pretax Profit)<br>(¥ mn) | OPM<br>(%) | ROE<br>(%) | ROIC<br>(%) | Equity Ratio<br>(%) |
|--------------------|-------------|--------------|-----------------|--------------|---------------------------------|------------|------------|-------------|---------------------|
| <b>CERES</b>       | <b>3696</b> | <b>12/23</b> | <b>24,070</b>   | <b>1,118</b> | <b>1,217</b>                    | <b>4.6</b> | <b>5.0</b> | <b>8.1</b>  | <b>35.4</b>         |
| GMO Media          | 6180        | 12/23        | 6,266           | 533          | 540                             | 8.5        | 16.2       | 64.6        | 43.5                |
| CARTA HOLDINGS     | 3688        | 12/23        | 24,111          | 1,301        | 1,798                           | 5.4        | -9.3       | 20.0        | 47.2                |
| FAN Communications | 2461        | 12/23        | 7,396           | 2,068        | 2,103                           | 28.0       | 6.9        | NM          | 76.2                |
| Monex Group        | 8698        | 3/24         | 66,796          | 31,976       | 25,237                          | 47.9       | 27.1       | 28.4        | 17.3                |

Note: FAN Communications' ROIC is NM because Invested Capital is Negative.

Source: Compiled by Strategy Advisors. Based on Company Data

## 6. Stock Price Outlook

### Stock Prices Have Been Weak Since May

CERES's share price is estimated to have risen between December 2023 and March 2024, supported mainly by the rise in the price of crypto assets, specifically Bitcoin. The strong Q1 financial results announced on May 9 led to the share price rising further, hitting a recent high of ¥2,191 on May 10. However, it subsequently fell due to a softening of crypto assets prices, a sharp drop in the overall stock market and due to the Q2 financial results announced on August 8 that appeared to fall short of market expectations. The share price has recently regained stability.

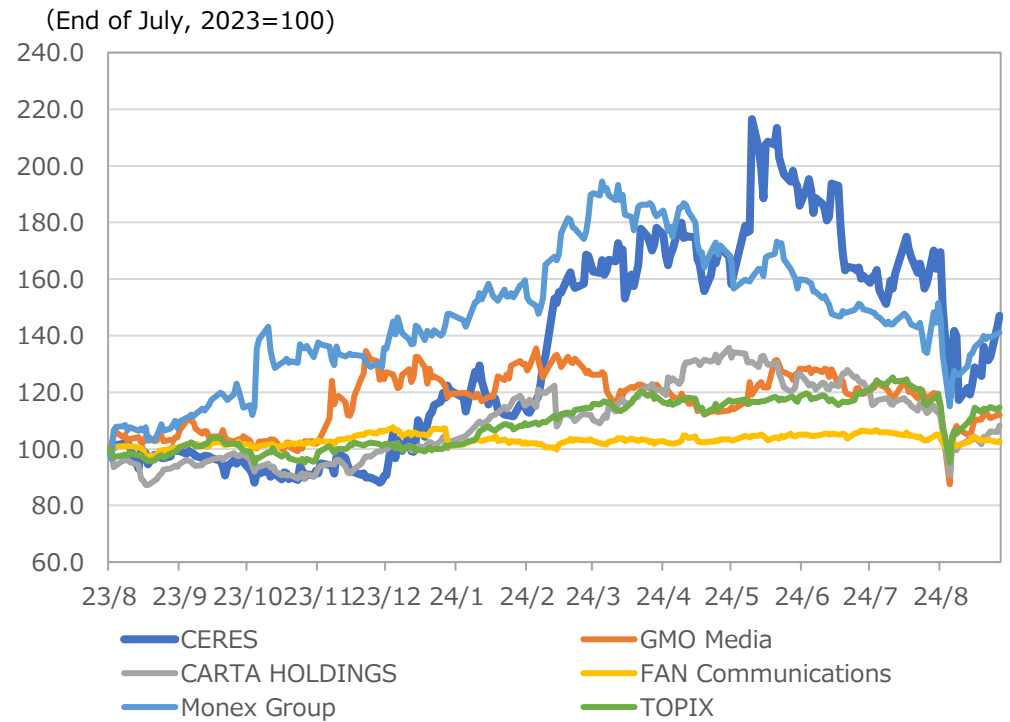
### Q2 Reality Isn't So Bad

Although the Q2 financial results showed a significant decrease in profits compared to the previous quarter, the reality is not as bad as it appears. As mentioned above, in D2C, there was an increase in advertising expenses due to an increase in orders for "Oi gurt". In addition, the valuation loss of ¥100 million in CVC's shares can be considered a temporary factor. The future of crypto asset prices is unclear, but since Bitcoin's halving occurred on April 20th, past experience suggests that prices will rise. The decline in interest rates in the United States is also a positive factor.

### Mobile Services are Set to Recover in the Second-Half of the Year. If Cryptocurrency Prices Strengthen, it Will be a Positive for the Stock Price

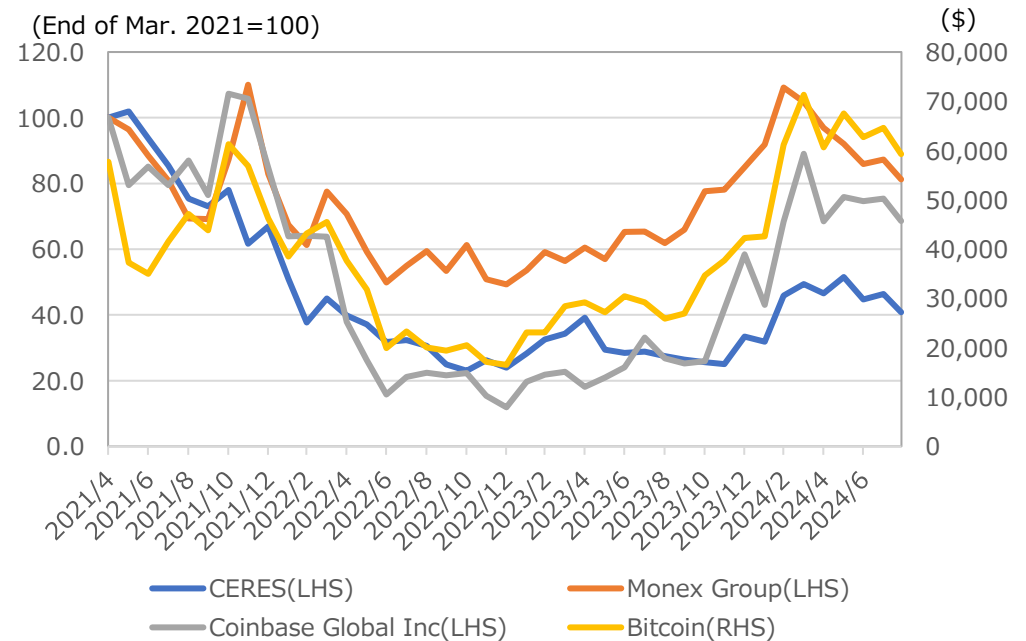
While the stock price will continue to be affected by the price trend of crypto assets in the future, the Mobile Service business's revenue is expected to improve compared to Q2, which is likely to have a positive impact on the stock price. In addition, it was announced that bitbank, an equity method affiliate, is preparing to list its shares. However, since rival Coincheck is planning to list its business on the Nasdaq market through a De-SPAC, the stock market may pay attention to bitbank's corporate value in the future. Comparing valuations with mobile service companies, bitbank's value does not seem to have a clear positive effect. For this reason, bitbank's move toward listing could be a positive factor for the stock price.

**Figure 11. Comparison of Stock Price Trends with Peers**



Source: Strategy Advisors

**Figure 12. Bitcoin Price and Crypto Asset Related Stock Prices (Index)**



Note: Coinbase Global (COIN, NAS) is a dollar-based stock index.

Source: Strategy Advisors

**Figure 13. Comparison of bitbank and Coincheck**

|                         | bitbank  | Coincheck         |
|-------------------------|--|-------------------|
| Major Shareholders      | Noriyuki Hirose 30.69%<br>MIXI(2121) 26.99%<br>CERES (3696) 23.05% | Monex Group 89.0% |
| Key Indicator (¥ bn)    | 【FY12/2023】  | 【FY3/2024】        |
| Deposited crypto assets | 213.3  | 685.0             |
| Net Worth               | 11.3   | 12.5              |
| Total Assets            | 279.4  | 763.3             |
| Operating Revenue       | 3.9  | 9.4               |
| Operating profit        | 0.7  | 2.3               |

Source: Company Data. Compiled by Strategy Advisors

**Figure 14. Valuation Comparison with Peer Companies**

| Company            | Code        | Latest Result | Share Price (26 Aug) (¥) | Market Cap. (¥ mn) | PER CoE (Times) | PBR Actual (Times) | Yield CoE (%) | ROE Actual (%) |
|--------------------|-------------|---------------|--------------------------|--------------------|-----------------|--------------------|---------------|----------------|
| <b>CERES</b>       | <b>3696</b> | <b>12/23</b>  | <b>1,450</b>             | <b>16,692</b>      | <b>13.9</b>     | <b>1.8</b>         | <b>1.4</b>    | <b>5.0</b>     |
| GMO Media          | 6180        | 12/23         | 2,880                    | 5,040              | 12.0            | 2.1                | 4.2           | 16.2           |
| CARTA HOLDINGS     | 3688        | 12/23         | 1,381                    | 34,939             | 21.8            | 1.5                | 3.9           | -9.3           |
| FAN Communications | 2461        | 12/23         | 403                      | 26,698             | 17.1            | 1.5                | 4.7           | 6.9            |
| Monex Group        | 8698        | 3/24          | 687                      | 176,946            | NA              | 1.3                | NA            | 27.1           |

Source: Compiled by Strategy Advisors. Based on Company Data



**Figure 15. Segment Performance Trends (Quarterly Basis)**

| (¥ mn)                      | FY12/22 |        |         |         | FY12/23 |         |         |         | FY12/24 |         |
|-----------------------------|---------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
|                             | Q1      | Q2     | Q3      | Q4      | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      |
| <b>Mobile Service</b>       |         |        |         |         |         |         |         |         |         |         |
| <b>Sales</b>                | 4,674   | 4,961  | 5,358   | 5,454   | 5,314   | 5,613   | 5,975   | 6,570   | 6,275   | 6,260   |
| YoY                         | -22.8%  | -17.9% | 13.6%   | 6.8%    | 13.7%   | 13.1%   | 11.5%   | 20.5%   | 18.1%   | 11.5%   |
| Point                       | 3,324   | 3,422  | 3,576   | 3,719   | 3,525   | 3,359   | 3,325   | 3,608   | 3,553   | 3,454   |
| YoY                         | -7.8%   | 4.3%   | 34.3%   | 32.1%   | 6.0%    | -1.8%   | -7.0%   | -3.0%   | 0.8%    | 2.8%    |
| D2C                         | 429     | 541    | 622     | 654     | 645     | 1,174   | 1,433   | 1,801   | 1,751   | 1,749   |
| YoY                         | 110.3%  | 150.5% | 113.0%  | 76.3%   | 50.3%   | 117.0%  | 130.4%  | 175.4%  | 171.5%  | 49.0%   |
| DX                          | 960     | 1,082  | 1,167   | 1,149   | 1,210   | 1,105   | 1,250   | 1,211   | 983     | 1,126   |
| YoY                         | 15.2%   | 4.4%   | 20.8%   | 30.7%   | 26.0%   | 2.1%    | 7.1%    | 5.4%    | -18.8%  | 1.9%    |
| Transaction Value           | -39     | -84    | -7      | -68     | -66     | -25     | -33     | -50     | -13     | -13     |
| Within segment              |         |        |         |         |         |         |         |         |         |         |
| <b>OP</b>                   | 1,007   | 588    | 878     | 818     | 686     | 762     | 813     | 926     | 1,119   | 789     |
| YoY                         | -18.2%  | -15.9% | 57.6%   | 53.5%   | -31.9%  | 29.6%   | -7.4%   | 13.2%   | 63.1%   | 3.5%    |
| OPM                         | 21.5%   | 11.9%  | 16.4%   | 15.0%   | 12.9%   | 13.6%   | 13.6%   | 14.1%   | 17.8%   | 12.6%   |
| Point                       | 885     | 597    | 798     | 715     | 506     | 609     | 612     | 753     | 782     | 705     |
| OPM                         | 26.6%   | 17.4%  | 22.3%   | 19.2%   | 14.4%   | 18.1%   | 18.4%   | 20.9%   | 22.0%   | 20.4%   |
| D2C                         | 37      | -15    | 59      | 94      | 59      | 349     | 153     | 169     | 341     | 149     |
| OPM                         | 8.6%    | -2.8%  | 9.5%    | 14.4%   | 9.1%    | 29.7%   | 10.7%   | 9.4%    | 19.5%   | 8.5%    |
| DX                          | 93      | 39     | 53      | 42      | 152     | -162    | 80      | 36      | 31      | -35     |
| OPM                         | 9.7%    | 3.6%   | 4.5%    | 3.7%    | 12.6%   | -14.7%  | 6.4%    | 3.0%    | 3.2%    | -3.1%   |
| Transaction Value           | -10     | -32    | -32     | -32     | -32     | -33     | -32     | -32     | -36     | -28     |
| Within segment              |         |        |         |         |         |         |         |         |         |         |
| <b>Financial Service</b>    |         |        |         |         |         |         |         |         |         |         |
| <b>Sales</b>                | 66      | -2     | 106     | 117     | 218     | 89      | 99      | 205     | 447     | 168     |
| YoY                         | -84.1%  | NM     | -83.4%  | 56.0%   | 230.3%  | NM      | -6.6%   | 75.2%   | 105.0%  | 88.8%   |
| <b>OP</b>                   | -176    | -284   | -231    | -249    | -137    | -257    | -263    | -240    | -54     | -413    |
| OPM                         | -266.7% | NM     | -217.9% | -212.8% | -62.8%  | -288.8% | -265.7% | -117.1% | -12.1%  | -245.8% |
| <b>Equity in Affiliates</b> | 2       | -312   | -11     | -168    | 109     | -36     | -99     | 104     | 370     | -132    |
| Adjustment                  |         |        |         |         |         |         |         |         |         |         |
| Sales                       | -31     | -70    | -50     | -47     | -7      | -7      | -1      | 2       | -4      | 5       |
| Operating Profit            | -237    | -301   | -277    | -290    | -294    | -292    | -280    | -304    | -351    | -351    |
| <b>Total</b>                |         |        |         |         |         |         |         |         |         |         |
| Sales                       | 4,709   | 4,889  | 5,414   | 5,524   | 5,525   | 5,695   | 6,073   | 6,777   | 6,718   | 6,433   |
| OP                          | 594     | 3      | 370     | 279     | 253     | 213     | 270     | 382     | 713     | 98      |
| RP                          | 266     | -22    | 502     | -67     | 352     | 179     | 203     | 483     | 1,140   | -71     |
| NP                          | 192     | -332   | 553     | -367    | 201     | 153     | -243    | 340     | 832     | -159    |

Source: Company Data. Compiled by Strategy Advisors

**Figure 16. Income Statement**

| (¥ mn)                                     | 12/18  | 12/19  | 12/20  | 12/21  | 12/22  | 12/23  | 12/24CoE |
|--|--------|--------|--------|--------|--------|--------|----------|
| Net Sales                                  | 10,706 | 16,510 | 20,213 | 23,402 | 20,536 | 24,070 | 27,000   |
| Cost of Sales                              | 6,398  | 11,416 | 13,967 | 15,629 | 12,472 | 13,483 |          |
| Gross Profit                               | 4,308  | 5,094  | 6,246  | 7,773  | 8,063  | 10,587 |          |
| Gross Profit Margin                        | 40.2%  | 30.9%  | 30.9%  | 33.2%  | 39.3%  | 44.0%  |          |
| SG&A Expenses                              | 3,086  | 4,213  | 4,749  | 5,467  | 6,816  | 9,468  |          |
| Operating Profit                           | 1,229  | 880    | 1,496  | 2,305  | 1,246  | 1,118  | 1,600    |
| Operating Profit Margin                    | 11.5%  | 5.3%   | 7.4%   | 9.8%   | 6.1%   | 4.6%   | 5.9%     |
| Non-Operating Income                       | 1      | 11     | 357    | 1,220  | 13     | 147    |          |
| Interest and Dividend Income               | 0      | 5      | 9      | 7      | 0      | 0      |          |
| Equity in Earnings of Affiliates           | 0      | 0      | 238    | 963    | 0      | 78     |          |
| Gain on Sale of Crypto Assets              | 0      | 4      | 0      | 156    | 0      | 0      |          |
| Gain on Valuation of Crypto Assets         | 0      | 0      | 73     | 19     | 0      | 0      |          |
| Others                                     | 1      | 2      | 37     | 75     | 13     | 69     |          |
| Non-Operating Expenses                     | 1,225  | 100    | 37     | 26     | 580    | 48     |          |
| Interest Expense and Discount              | 5      | 10     | 12     | 14     | 20     | 25     |          |
| Equity in Losses of Affiliates             | 690    | 49     | 0      | 0      | 489    | 0      |          |
| Loss on Valuation of Crypto Assets         | 520    | 4      | 0      | 0      | 0      | 0      |          |
| Others                                     | 10     | 37     | 25     | 12     | 71     | 23     |          |
| Recurring Profit                           | -2     | 792    | 1,816  | 3,499  | 679    | 1,217  | 2,000    |
| Recurring Profit Margin                    | 0.0%   | 4.8%   | 9.0%   | 15.0%  | 3.3%   | 5.1%   | 7.4%     |
| Extraordinary Income                       | 244    | 1      | 8      | 896    | 43     | 0      |          |
| Extraordinary Loss                         | 178    | 340    | 327    | 389    | 1      | 387    |          |
| Pretax Profit                              | 64     | 452    | 1,496  | 4,005  | 721    | 830    |          |
| Corporate, Inhabitant and Enterprise Taxes | 399    | 302    | 704    | 1,142  | 910    | 660    |          |
| Income Taxes-Deferred                      | -102   | 6      | -55    | -80    | -304   | -328   |          |
| Total Income Taxes                         | 221    | 309    | 649    | 1,062  | 606    | 332    |          |
| (Corporate Tax Rate)                       | 345.3% | 68.4%  | 43.4%  | 26.5%  | 84.0%  | 40.0%  |          |
| Net Profit                                 | -232   | 74     | 744    | 2,775  | 46     | 451    | 1,200    |
| Net Profit Margin                          | -2.2%  | 0.4%   | 3.7%   | 11.9%  | 0.2%   | 1.9%   | 4.4%     |
| EPS (¥)                                    | -28.7  | 6.8    | 67.3   | 251.8  | 4.1    | 39.6   | 104.5    |
| Investment in Tangible & Intangible Assets | 55     | 320    | 243    | 352    | 70     | 343    |          |
| Depreciation and Amortization of Goodwill  | 106    | 302    | 403    | 196    | 426    | 525    |          |
| Cash Flow                                  | -126   | 376    | 1,147  | 2,971  | 472    | 976    |          |
| CFPS (¥)                                   | -11    | 34.0   | 104.3  | 269.5  | 41.8   | 85.6   |          |
| ROE  | -6.4%  | 1.2%   | 11.8%  | 35.6%  | 0.5%   | 5.0%   |          |
| ROIC                                       | NM     | 3.1%   | 8.9%   | 14.5%  | 1.4%   | 4.3%   |          |
| Dividend (¥)                               | 5.0    | 14.0   | 18.0   | 40.0   | 20.0   | 20.0   | 20.0     |
| Average Number of Shares (mn shares)       | 11.0   | 11.0   | 11.0   | 11.0   | 11.3   | 11.4   |          |
| Number of Shares at FY End (mn shares)     | 10.9   | 11.1   | 11.1   | 11.2   | 11.4   | 11.4   |          |

Source: Company Data. Compiled by Strategy Advisors

**Figure 17. Balance Sheet**

| (¥ mn)                                 | 12/18  | 12/19  | 12/20  | 12/21  | 12/22  | 12/23  |
|--|--------|--------|--------|--------|--------|--------|
| <b>Current Assets</b>                  | 7,668  | 8,342  | 11,517 | 13,163 | 14,413 | 17,586 |
| Cash and Deposits                      | 4,367  | 3,941  | 6,087  | 6,842  | 6,547  | 8,112  |
| Notes and Accounts Receivable-Trade    | 1,769  | 2,457  | 2,778  | 2,866  | 3,545  | 3,643  |
| Operating Investment Securities        | 868    | 1,279  | 1,804  | 2,300  | 2,744  | 2,976  |
| Inventory Count                        | 448    | 249    | 259    | 247    | 460    | 554    |
| Others                                 | 216    | 416    | 589    | 908    | 1,133  | 2,339  |
| Allowance for Doubtful Accounts        | 0      | 0      | 0      | 0      | -16    | -38    |
| <b>Fixed Assets</b>                    | 4,248  | 4,560  | 4,709  | 7,071  | 8,183  | 8,328  |
| Property, Plant and Equipment          | 229    | 413    | 296    | 261    | 263    | 361    |
| Intangible Fixed Assets                | 1,791  | 1,347  | 1,395  | 1,178  | 2,129  | 1,729  |
| Goodwill                               | 1,623  | 1,200  | 938    | 1,034  | 1,743  | 1,537  |
| Other                                  | 168    | 147    | 0      | 19     | 386    | 192    |
| Investments and Other                  | 2,227  | 2,799  | 3,017  | 5,632  | 5,790  | 6,236  |
| Investments in Securities              | 274    | 380    | 562    | 835    | 1,095  | 1,139  |
| Shares of Subsidiaries and Affiliates  | 801    | 722    | 872    | 3,604  | 3,116  | 3,194  |
| Deferred Tax Asset                     | 726    | 657    | 667    | 835    | 1,111  | 1,435  |
| Others                                 | 461    | 1,044  | 925    | 365    | 471    | 471    |
| <b>Total Assets</b>                    | 11,917 | 12,902 | 16,227 | 20,234 | 22,597 | 25,915 |
| <b>Current Liabilities</b>             | 4,161  | 4,710  | 7,471  | 8,924  | 10,558 | 13,451 |
| Accounts Payable                       | 479    | 756    | 1,024  | 934    | 832    | 783    |
| Interest-Bearing Debt                  | 1,736  | 1,511  | 2,276  | 2,846  | 3,713  | 5,048  |
| Income Taxes Payable                   | 256    | 338    | 1,657  | 1,639  | 1,343  | 1,434  |
| Allowance for Point Card Certificates  | 1,021  | 1,322  | 1,693  | 2,283  | 3,182  | 3,921  |
| Allowance for Bonuses                  | 31     | 0      | 30     | 50     | 30     | 30     |
| Others                                 | 638    | 783    | 791    | 1,172  | 1,458  | 2,235  |
| <b>Fixed Liabilities</b>               | 1,317  | 1,610  | 1,663  | 1,490  | 2,342  | 2,417  |
| Interest-Bearing Debt                  | 1,251  | 1,493  | 1,546  | 1,369  | 2,172  | 2,314  |
| Asset Retirement Obligations           | 58     | 70     | 70     | 70     | 16     | 0      |
| Others                                 | 8      | 47     | 47     | 51     | 154    | 103    |
| <b>Net Assets</b>                      | 6,437  | 6,581  | 7,091  | 9,819  | 9,696  | 10,045 |
| Capital Stock                          | 5,979  | 5,933  | 6,250  | 9,001  | 8,761  | 9,025  |
| Capital & Surplus                      | 4,134  | 4,173  | 4,236  | 4,410  | 4,572  | 4,613  |
| Retained Earnings                      | 1,852  | 1,768  | 2,321  | 4,899  | 4,496  | 4,719  |
| Treasury Stock                         | -7     | -7     | -307   | -307   | -307   | -307   |
| Accumulated Other Comprehensive Income | 29     | 166    | 260    | 70     | 120    | 158    |
| Subscription Warrant                   | 8      | 7      | 4      | 3      | 1      | 1      |
| Noncontrolling Interest                | 420    | 473    | 576    | 744    | 813    | 860    |
| <b>Total Assets</b>                    | 11,917 | 12,902 | 16,227 | 20,234 | 22,597 | 25,915 |
| Interest-Bearing Debt                  | 2,987  | 3,004  | 3,822  | 4,215  | 5,885  | 7,362  |
| Equity                                 | 6,008  | 6,099  | 6,510  | 9,071  | 8,881  | 9,183  |
| BPS(¥)                                 | 551.2  | 551.1  | 588.6  | 807.2  | 779.8  | 804.6  |
| Capital Adequacy Ratio                 | 50.4%  | 47.3%  | 40.1%  | 44.8%  | 39.3%  | 35.4%  |
| D/E Ratio                              | 0.50   | 0.49   | 0.59   | 0.46   | 0.66   | 0.80   |

Source: Company Data. Compiled by Strategy Advisors

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