

A Pioneer in Cloud-Based Electronic Payment Services with Huge Potential in Transaction Platform Services

Transaction Media Networks, Inc. (TMN) launched Japan's first cloud-based e-cash service in February 2011, followed by credit card and QR/barcode payment services. Japan's electronic payment ratio is 39% in 2023, up from 21% in 2017. The government is aiming for 80% in the future and TMN will reap the benefits.

The current growth driver is stock revenue as measured by the number of connected terminals, which continues to increase by 10,000 units per month (960,000 units at the end of FY3/2024). In addition to subscription revenues linked to the number of terminals, pay-per use revenues from QR/Barcode payment services are growing remarkably.

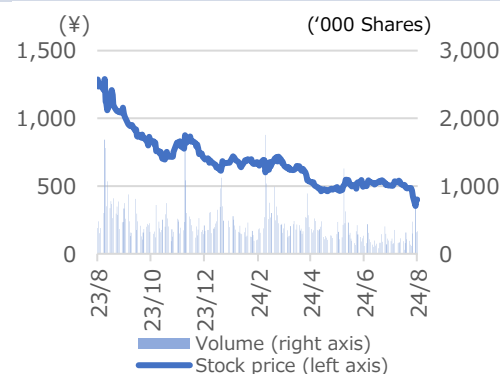
TMN's inimitabilities are (1) high technological barriers to entry in the frequently used e-cash payment, (2) exquisite positioning in the payment industry through an open strategy and (3) a merchant acquisition channel in partnership with major credit card companies and Square, a major global payment provider. These are the sources of the company's competitive advantage.

The company forecasts a 32% increase in sales and a 6% increase in EBITDA for FY3/2025. However, operating income is expected to decline by 60% due to one-time costs associated with the data center relocation. On the other hand, for FY3/2026, the company expects an 18% increase in net sales, a doubling of EBITDA and a 7-fold increase in operating income to a record high profit levels.

TMN's EV/EBITDA multiple for FY3/2025 is 1.3 times and is significantly undervalued relative to peer companies. Its steady long-term growth in the electronic payment business has barely been factored in the current share price.

After the expected first delivery of the cloud POS systems to a major retail chain this fiscal year, TMN will be able to acquire both payment and purchase data automatically. It will lead to the earnest launch of the transaction platform services and will raise expectations for further long-term growth.

Stock Price and Volumes



Source: Strategy Advisors

Key Indicators

Stock Price (5/31/24)	401
YTD High (2/28/24)	743
YTD Low (5/30/24)	345
52-Week High (7/4/23)	1,978
52-Week Low (5/30/24)	345
Shares on Issue (mn)	36.9
Market Capitalization (¥ bn)	14.8
EV (¥ bn)	3.4
Equity Ratio (3/24 Actual, %)	42.4
PER (3/25 CoE, Times)	63.0
PBR (3/24 Actual, Times)	1.4
Yield (3/25 CoE, %)	0.0

Source: Strategy Advisors

Japanese GAAP -

FY	Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	RP (¥ mn)	YoY (%)	NP (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
3/21	6,451	-21	155	-90.6	159	-90.4	99	-91.1	3.1	0.0
3/22	7,139	11	711	358.7	712	347.8	-386	-489.9	-12.2	0.0
3/23	7,831	9.7	560	-21.2	535	-24.9	673	-274.4	21.2	0.0
3/24	10,370	32.4	777	38.8	766	43.2	585	-13.1	15.85	0.0
3/25 CoE	13,645	31.6	312	-59.8	286	-62.7	235	-59.8	6.38	0.0
3/26 CoE	16,109	18.1	2,075	565.1	2,053	617.8	1,508	541.7	40.83	NA

Source: Strategy Advisors. Based on Company Data

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Executive Summary

Commercialized Japan's First Cloud-Based e-cash Service Which had Been Considered Impossible

TMN, listed on the TSE Growth Market in April 2023, is one of the largest electronic payment gateway providers in Japan; and has been executing its corporate DNA through its mission of "Do the Impossible" and its vision of "A Company that Creates New Ways of Life" ever since. In 2011, the company became the first firm in Japan to successfully supply cloud-based e-cash payment service and has since expanded its services to include credit card, QR/Barcode payment services and in the process connecting 960,000 payment terminals at more than 1,000 merchants with 45 payment services, the largest in Japan.

Japan's Electronic Payment Market Benefits Greatly from Accelerating Growth

The size of the domestic electronic payment market is growing at an accelerating pace, thanks in part to strong policy support: with the percentage of electronic payments in 2023 at 39.3%, up from 21.3% in 2017. TMN will benefit greatly from the expansion of Japan's electronic payment market.

Stock Revenue Accounts for 68% of Sales in FY3/2024. High Growth in QR/Barcode Payment Transaction Value Accelerates Growth

TMN's sales can be roughly divided into (1) flow revenue (development and sales of payment terminals) prior to the introduction of payment services by its customers, such as supermarkets and drugstores, and (2) stock revenue, which kicks-in after the introduction of payment services. The growth driver is the increase in the number of connected terminals in operation, which in turn drives growth in stock income. Stock revenue was ¥7 billion in FY3/2024, up 25.6% from the previous year, accounting for 68% of total company sales.

The number of connected terminals in operation at the end of March 2024 was 960,000, up 16% from the end of the previous fiscal year. TMN's stock revenue is composed of a subscription fee linked to the number of active terminals and the number of payment services provided, plus pay-per-use revenues based on the amount of QR/barcode payment transactions. Additionally, TMN plans to introduce a pay-per-use fee for credit cards in the future.

TMN's Unique Competitive Advantages and its Inimitabilities

TMN's competitive advantages are (1) high barriers to entry in frequently used e-cash payment gateway services (only a few companies in Japan are involved in e-cash payments based in the cloud), (2) exquisite positioning with leading electronic payment players based on its open strategy and (3) strong relationships with major credit card companies as its shareholders. All of these are inimitabilities that TMN has built up since its establishment.

OP will Decline in FY3/2025 Due to One-Time Expenses due to their Data Center Relocation. But Record-High OP is Expected in FY3/2026

In FY3/2024, the company's performance consolidated results were strong, with sales of ¥10.370 billion (+32.4% YoY), operating income of ¥770 million (+38.8% YoY) and EBITDA of ¥2.389 billion (+11.8% YoY) thanks to steady growth in stock revenue. The company forecasts a 32% increase in sales and a 3.5% increase in EBITDA for FY3/2025. However, operating profit is expected to decline by 60% due to a one-time expense of ¥627 million for the relocation of their data center. On the other hand, for FY3/2026, the company is targeting an 18% increase in net sales, a doubling of EBITDA and a 7-fold increase in operating income to record high profits.

Transaction Media Networks, Inc. | 5258 (TSE Growth)

Delivery of Cloud POS this Summer Will be a Trigger to Accelerating the Transaction Platform Business

Along with electronic payment service, TMN will be fully developing its transaction platform business, which collects, integrates, stores, analyzes and provides various data related to payments and purchases. President Atsushi Otaka has been aiming to develop a data business since the company was founded and the cloud POS business is nicely positioned as a means of acquiring data.

Sales in the transaction platform business have begun to rise with the implementation of "nextore" and in-house prepaid service, with deliveries of cloud POS to major retail chains starting in FY2024. This is expected to lead to the launch of the transaction platform business, since TMN will be able to automatically collect both payment and purchase data, including cash transactions.

Valuations are Significantly Lower than Electronic Payment Providers in the Same Industry

TMN's stock price has been on a downtrend since last summer and as a result, it is undervalued compared to other electronic payment providers. Its EV/EBITDA multiple of 1.3 times based on FY3/2025 company estimates is extremely low compared to GMO FG's 27.0 times and GMO PG's 19.2 times, both based on FY9/2024 forecasts. We believe huge potential of the transaction platform business, as well as the steady growth the electronic payment business, which is expected to grow at least over the next five years, has not been factored in at all.

The timing for TMN to attract attention in the stock market is likely to be when the company announces the upcoming large-scale introduction of cloud POS, which was mentioned at the financial FY3/2024 results meeting that the company plans to introduce 5,000 units in stages. This will not only contribute the commercial deployment of the cloud POS business but will also help positively impact other transaction platform business components, such as Data Hub, which stores POS data.

1. Company Overview - Japan's Leading Electronic Payment Gateway Firm

(1) Pioneer of Cloud-Based e-cash Payment Gateway Services

TMN, which listed on the Growth Market of the Tokyo Stock Exchange on April 4, 2023, was the first company in Japan to launch a cloud-based (thin-client method) e-cash payment service, back in 2011. The term "thin-client" refers to a system design method in which most of the data processing is performed on the server side and the client terminal (in TMN's case, the payment terminal) performs only the minimum necessary data processing.

Before the development of thin-client payment services, rich-client services and terminals were the mainstream choice. But since rich-client services were less extendable than thin-client services, each service had its own payment terminal at the merchant store and several electronic payment terminals were placed next to the cash register.

In addition, the rich-client method requires high-level machine specifications to process payments at the payment terminal itself in order to perform payment transactions. E-cash payment terminals are also expensive, costing ¥250,000-¥300,000 per unit.

In cloud-based (thin-client method) payment services, only the functions of reading and writing necessary information from e-cash are left in the payment terminal, while other functions are processed in the cloud-based system (TMN's data center). As a result, this has encouraged lower terminal costs and provided a major push for the spread of e-cash payment terminals in Japan.

By converting to a thin-client method, TMN was also able to simultaneously achieve excellent scalability to support various payment services without changing the terminals and high-level security by maintaining all security information in a robust data center. The technological hurdle of building a payment system in the cloud environment is high and is still a source of TMN's competitive advantage today.

TMN has continued to develop not only e-cash, which was developed at the very beginning, but also credit card, debit, prepaid and QR/barcode payment services, as seen in Figure 2. TMN has developed a gateway service that supports 45 payment services with a single terminal. TMN is one of the largest companies in Japan that can handle such a large number of services. Whilst there are other companies in the industry that offer a large number of services through alliances with other companies, TMN is one of the very few companies in Japan that can offer this service on its own.

TMN is connected to 960,000 payment terminals (as of the end of March 2024) installed at more than 1,000 companies; mainly in the retail industry processing daily payments. The target customers include supermarkets, convenience stores, drugstores, department stores, restaurants, commercial facilities, gas

Launched Japan's First Cloud-Based e-cash Payment Service

Traditionally Expensive and Less Extendable Rich-Client Terminals Have Been the Norm

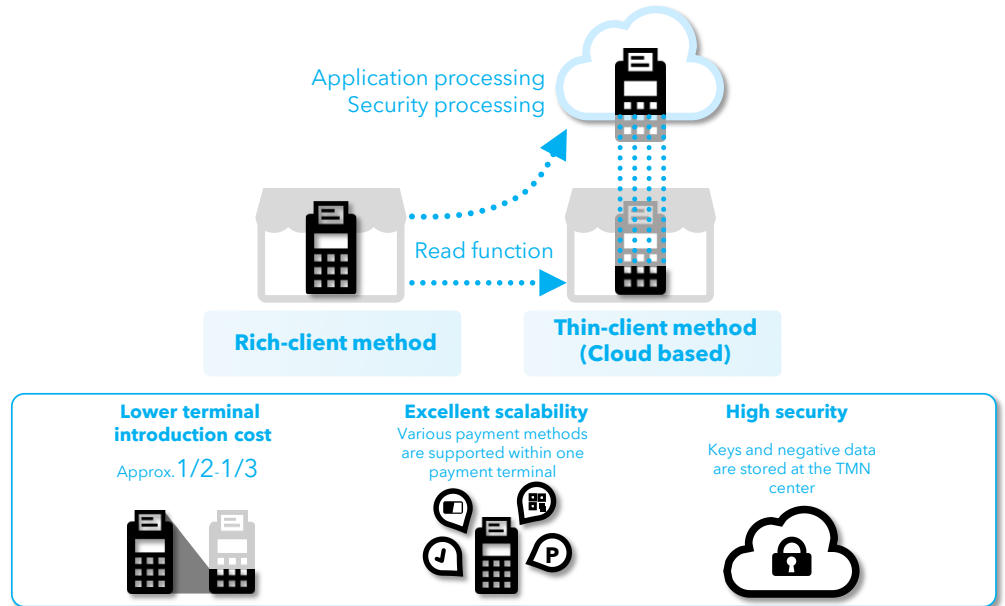
Development of Thin-Client Payment Services has Led to the Widespread Use of Inexpensive Terminals in Japan

Gateway Capable of Supporting 45 Payment Brands, the Most in the Industry

Connects to 960,000 Payment Terminals at More than 1,000 Merchants

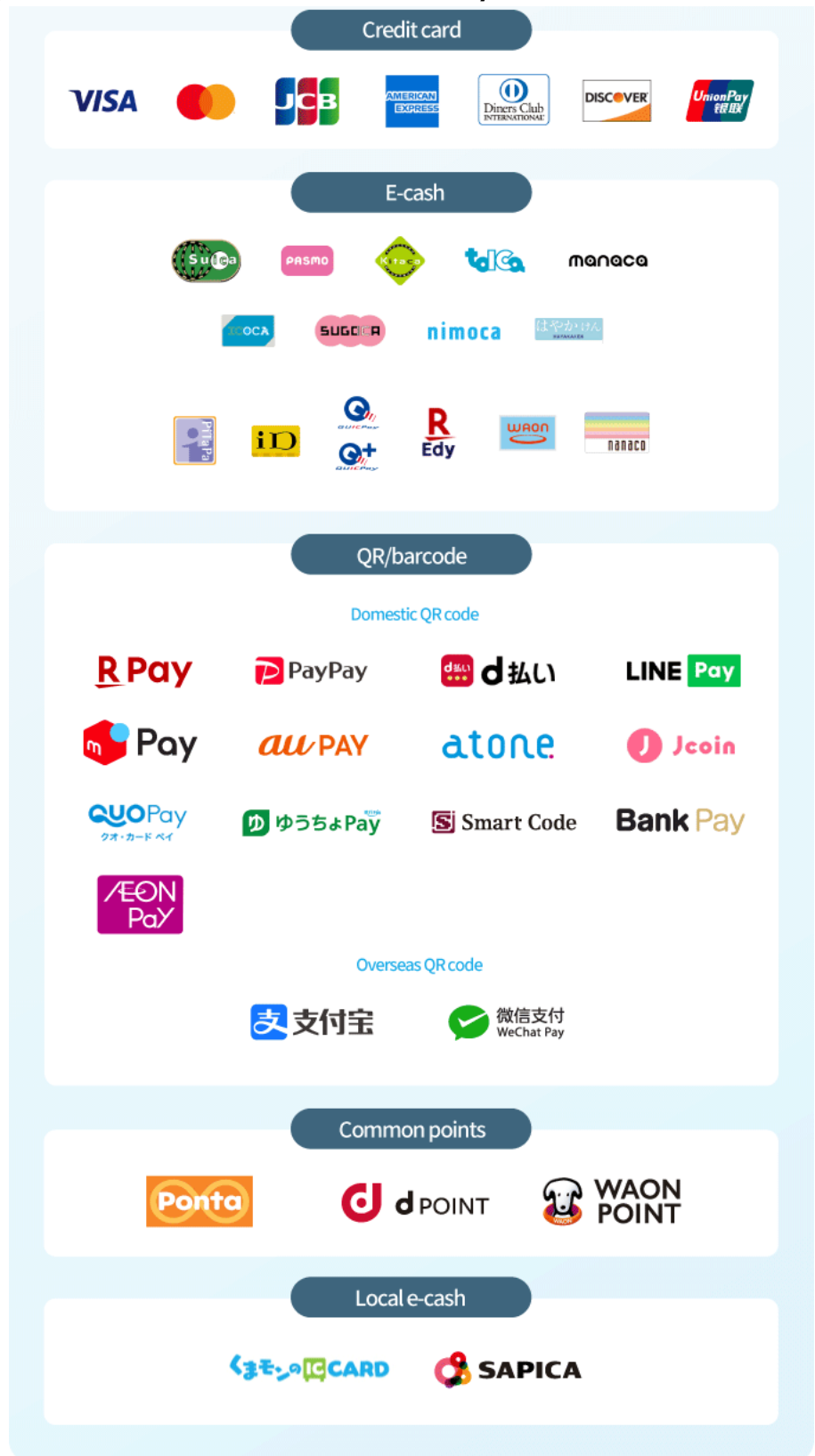
stations, leisure facilities and financial institutions.

Figure 1. Diagram of Thin and Rich Clients



Source: Company Data

Figure 2. 45 Services that TMN's Gateway Can Provide



Source: Company Data

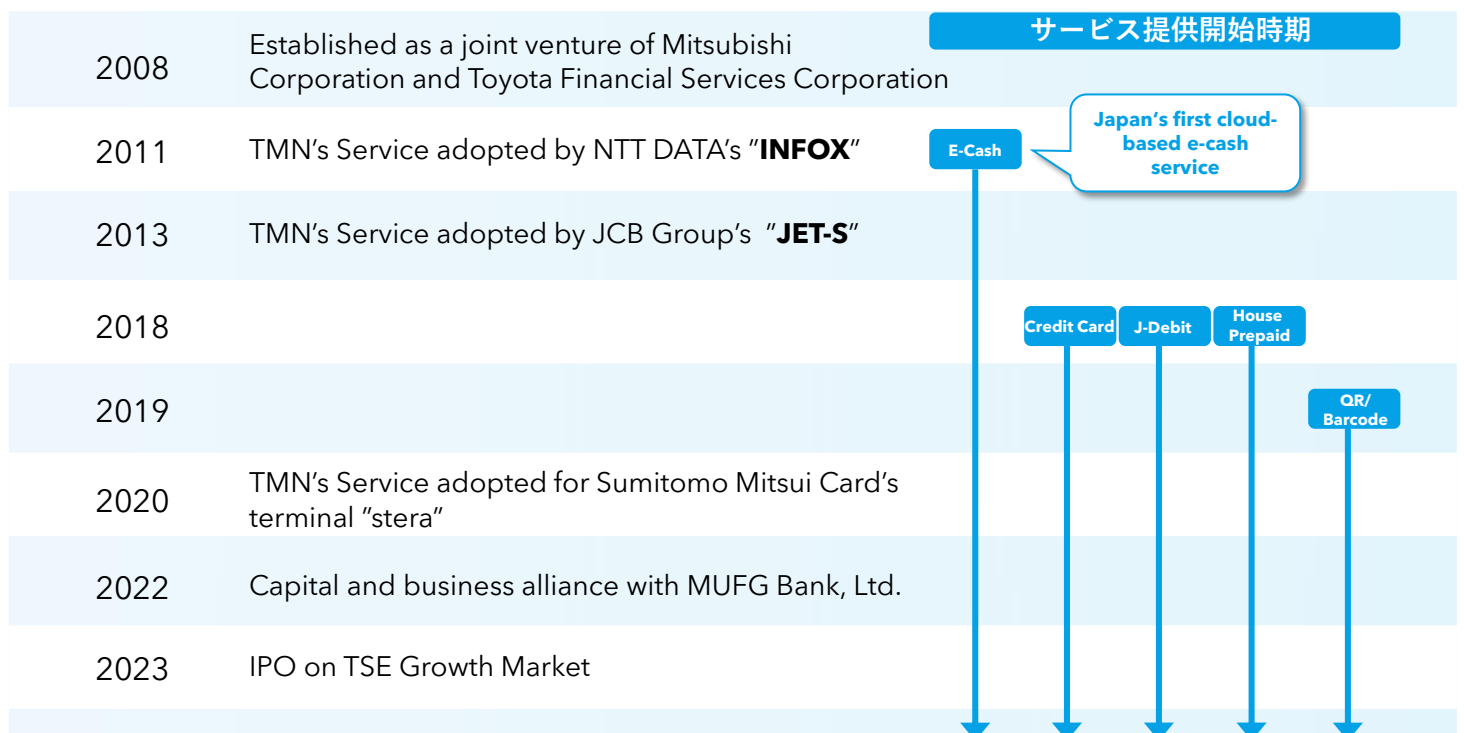
(2) Aiming for Further Growth in the Transaction Platform Business Using Payment and Purchase Data

Transaction Platform Business: Aiming to be a Gateway for All Kinds of Digital Data

The idea behind TMN, established by the current president and founder, Atsushi Otaka, is to acquire data generated by purchasing behavior and utilize it for the development of new products and services. Through the introduction of cloud POS and other transaction platform services, the company aggregates various data related to purchasing, including electronic as well as cash payments, and provides it to manufacturers and distributors. As a result, TMN aims to enrich the consumer experience. In the future, TMN will establish a system to collect and utilize not only payment data, but also various data related to purchasing activities and mobility, such as Cloud POS.

Sales of the transaction platform business were ¥0.07 billion in FY3/2022 and ¥0.12 billion in FY3/2023. FY3/2024 sales were about ¥0.72 billion or about 7% of the company's total sales. For more details on the transaction platform business and its specific development, please refer to Section 10 of this report.

Figure 3. History of TMN



*1: An electronic payment method in which only the minimum necessary functions, such as reading a card, are installed on the payment terminal, and all remaining processing is performed in the cloud (i.e., on the server side).
 *2: <Source> "Cashless Roadmap 2022" published by Payments Japan Association (TMN Translation)

Source: Company Data

2. Payment Services - Continuous Growth of Stock Revenue is Expected

(1) Stable Growth Stock Revenue Accounts for 70% of Total Sales

Broadly Classified into Flow and Stock Revenue

TMN's sales revenue (business model) can be divided into two main categories: flow revenue and stock revenue. The disclosed breakdown of sales is in five categories: (1) development sales, (2) terminals sales, (3) registration fees, (4) gateway service fees and (5) QR/barcode settlement fees. Figure 4 shows the flow of those sales categories as TMN introduces its services to merchants.

Flow Revenue is the Entry Point to Stock Revenue

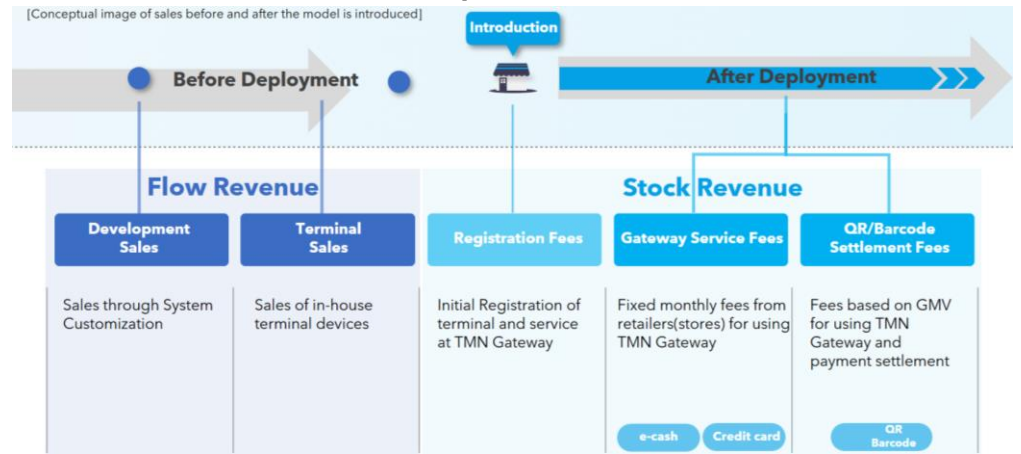
Once it is decided that TMN's services will be introduced, for example in the case of TMN's main customer, a major retailer, they develop a connection between the retailer's core system and TMN's systems. The sales for customization in this case is (1) development sales. When a major retailer purchases a terminal from TMN, it generates payment terminals sales (2). Thus, flow revenue is a transitory activity in itself, but it is sales that occur at the flow revenue stage that flow into the stock revenue stage and derive income thereafter.

3 Types of Stock Revenue

Once the TMN payment gateway is connected to the merchant's payment terminal, the merchant can register the terminal with TMN and use TMN's services. The merchant makes a contract with each payment service provider, and TMN connects the payment services contracted by the merchant to the TMN gateway. At this time, a registration fee will be charged based on the number of services to be introduced (3).

When introducing e-cash and credit card services, a subscription gateway service fee (4) is generally charged. In addition, when QR/Barcode payment services are introduced, a pay-as-you-go (5) QR/barcode settlement fee is charged based on the amount of settlement transactions.

Figure 4. Breakdown of TMN Sales & Timeline, Before and After the Introduction of Payment Services



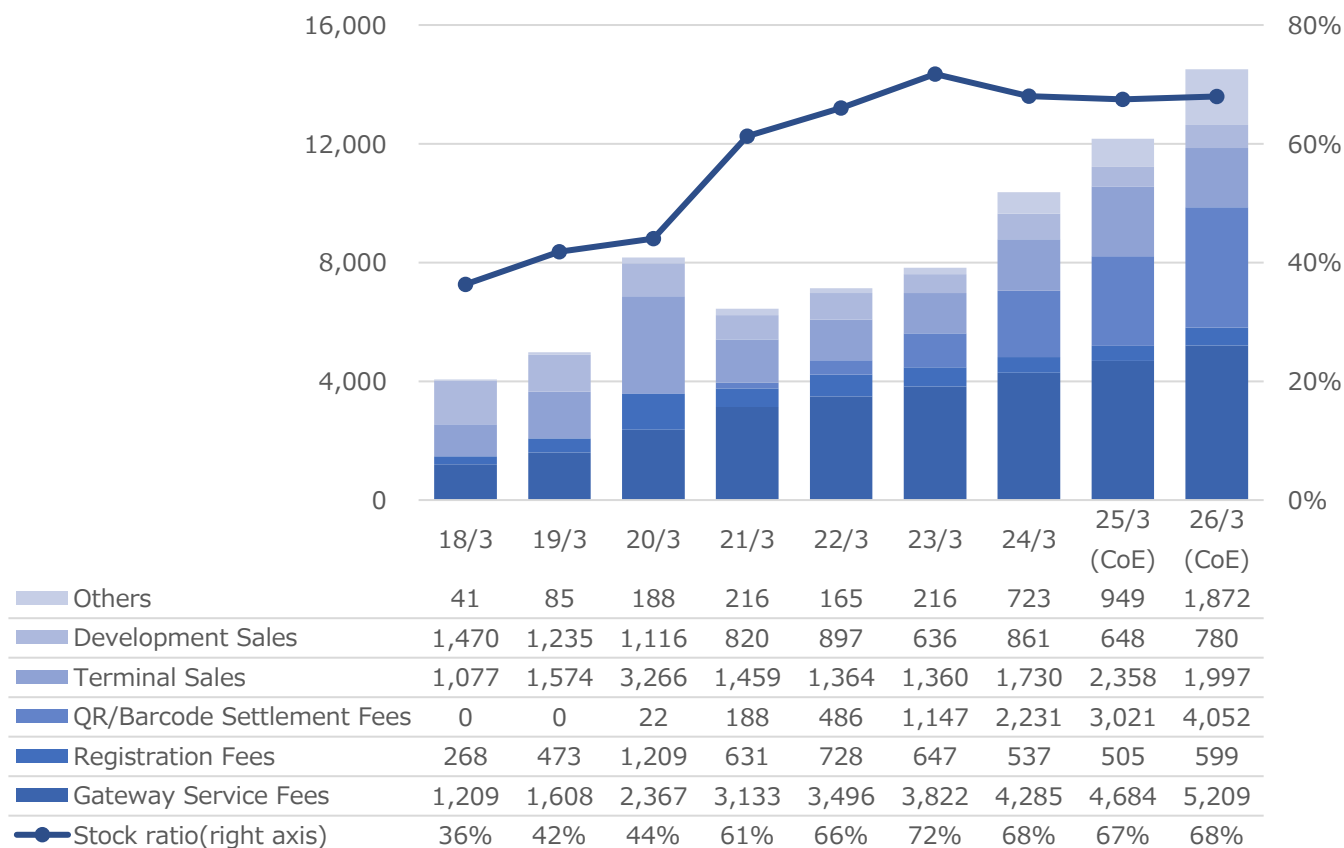
Source: Company Data

Figure 5. TMN's Basic Business Model

	(Data) Item	Revenue Model
Flow Revenue	<p>Development Sales Development of sales and new services through system customization. Responds to the individual needs of merchants, such as connecting merchants at the time-of-service introduction and adding payment services.</p>	<p>Recognized According to Development Amounts vary depending on the size of each project. The recording method also varies depending on the project.</p>
	<p>Terminal Sales Sales from settlement terminal.</p>	<p>Recorded at the Time of Sale Terminal price x number of units sold</p>
Stock Revenue	<p>Registration Fees Commission sales to be registered and set up at the TMN data center at the start of payment terminal usage.</p>	<p>Collected at the Start of Use Proportionately prorated, monthly charge that is allocated to the accounting period and recorded monthly (number of terminals x number of services)</p>
	<p>Gateway Service Fees Settlement transaction usage fees, obtained mainly from merchants, etc.</p>	<p>Subscription Fee Number of terminals x number of services</p>
	<p>QR/Barcode Settlement Charge Commission sales from TMN to merchants through payment settlements</p>	<p>Pay-Per-Use (GMV (of each service) x commission rate</p>

Source: Strategy Advisors. Based on Company Data

Figure 6. Sales Breakdown and Composition of Stock Income (¥ mn)



Source: Strategy Advisors. Based on Company Data

(2) Flow Revenues (32% of Total Revenues)

① Development Sales (8% of Sales)

Development sales occur when TMN's payment service requires customization to connect to the merchant's system (POS system or core system). Development support for payment service providers is also included in development sales. The value of orders received ranges from several million yen to several hundred million yen, but the timing of occurrence, development period and scale vary from case to case. Profit margins are high because other companies cannot handle these projects and TMN has already built up a wealth of development experience.

② Terminal Sales (17% of Sales)

The company generates terminal sales when merchants purchase payment terminals through TMN, at prices ranging from ¥30,000 to more than ¥100,000 per unit. The company sells both in-house proprietary and third-party payment terminals. Gross profit margins vary, ranging from 25-30% to 10-15%, respectively. The majority of sales in FY3/2024 came from TMN's in-house proprietary payment terminals.

Figure 6 shows that Terminal sales in FY3/2020 totaled ¥3.3 billion, doubling from ¥1.6 billion in FY3/2019 and dropping to ¥1.5 billion in FY3/2021. This was largely due to the "Cashless Consumer Cash-back Program," which was implemented over a nine-month period from October 2019 to June 2020. The Ministry of Economy, Trade and Industry subsidized the diffusion of payment terminals to medium and small businesses. The government subsidized 2/3 of the cost of electronic payment terminals and 1/3 was borne by electronic payment providers, thus reducing the burden on merchants to zero. The government also subsidized commissions during the same period (commission rate of 3.25% or less, 1/3 of which was borne by the government) to encourage the spread of electronic payments in Japan.

(3) Stock Revenue (68% of Sales)

③ Registration Fees (5%)

Registration Fees are generated when merchants connect their payment system to the TMN's Electronic payment gateway system. Although this is a one-time sale received at the time of connection; for accounting purposes, several hundred yen per contract is recorded as a registration fee each month during the relevant period, since it is recorded proportionally over the contract period. Gross profit margin is high.

④ Gateway Service Fees (41%)

Amongst the three main payment services handled by TMN (e-cash, credit card, and QR/barcode), payment processing fees for e-cash and credit cards are fixed

High Profit Margins on Development Sales Due to the Company's Extensive Track Record and the Inability of Other Companies to Imitate

Most of the Terminals to be Sold are Going to be In-House Proprietary Product from FY3/2024

Increase in Handset Sales in FY3/2020 Backed by Government Subsidies

High Commissions & Profit Margins

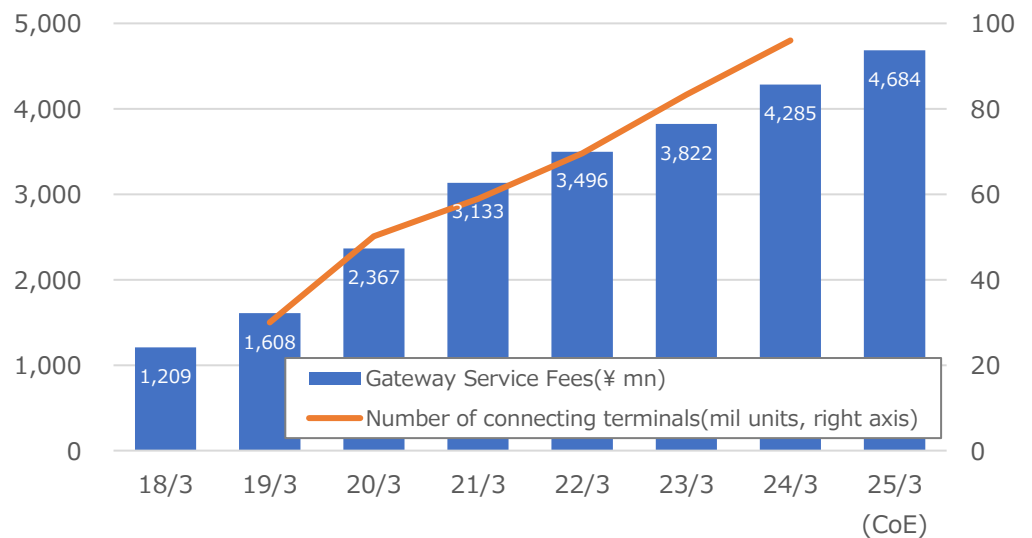
Subscription Contract Related to e-cash & Credit

Card Payments

and recorded monthly as Gateway Service Fees based on the number of services introduced. TMN intends to develop contracts on a pay-per-use basis for credit card services, which is common in the industry.

TMN has been disclosing the payment processing volume (GMV) and number of transactions processed by the company for each of the three main payment services since FY3/2024 3Q results. 31% of the GMV in FY3/2024, ¥4.6 trillion, was for credit cards, 52% e-cash and 17% were for QR/barcodes. 20% of the 2.4 billion transactions in FY3/2024 were on credit cards. 63% were e-cash and 17% were QR/barcodes. Of the 2.4 billion transactions in FY3/2024, credit cards accounted for 31%, e-cash 52% and QR/barcode 17% of transactions respectively. In FY3/2024, credit cards accounted for 20%, e-cash 63% and QR/barcodes 17% of the 2.4 billion transactions processed in FY3/2024.

Figure 7. Changes in Gateway Service Fees since FY 3/2018 (¥ mn)



Source: Strategy Advisors. Based on Company Data

QR/Barcode Settlement Fees are Charged on a Pay-Per-Use Basis

⑤ QR/barcode Settlement Fees (22%)

When a merchant installs a QR/barcode in a payment terminal, TMN receives a commission fee equal to the amount of the QR/barcode payment transaction (GMV) multiplied by a certain commission rate, which becomes TMN's sales. The commission rate is several tens of basis points, and a pay-per-use model is adopted where sales grow in proportion to the settlement amount of payment transactions. As seen in Figure 7, the number of QR/barcode payment transactions has been growing steadily in Japan as a whole and the commission rate has been set so that the company can reap the upside growth.

The QR/barcode payment business model is the same as the general credit card business model. When a QR/barcode payment service firm such as PayPay

wholesales to TMN at 3% for example, TMN's sales are determined by the percentage or "spread" that TMN adds to the wholesale price. In other words, TMN sells to merchants the 3% received from the QR/barcode servicer plus the spread to the merchant; so that TMN's sales are the 3% plus the spread of the QR/barcode payment GMV. Since TMN pays the servicer 3% of the GMV, the gross profit margin is the spread multiplied by GMV.

As for QR/Barcode payments, only a small portion of the 960,000 terminals is connected and there is significant room to increase the number of connections when merchants upgrade to multi-payment terminals.

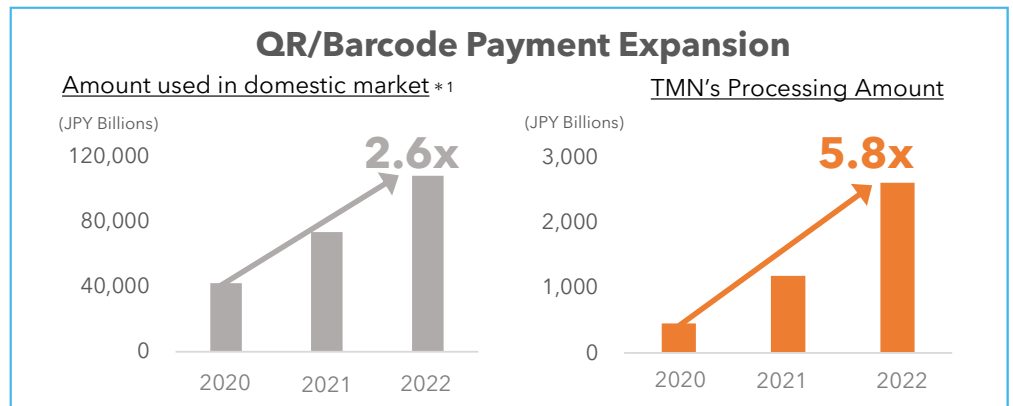
As seen in Figure 8, while the value of QR/barcode payment transactions in Japan expanded 2.6 times from 2020 to 2022, the value of QR/barcode payment transactions using TMN payment services grew 5.8 times over the same period, growing faster than that of general market expansion.

TMN is in charge of the e-cash and QR code payment system and mobile terminals for the electronic payment terminal/service, stera, sold by SMCC. The structure of the system contributes to sales from (1) Terminal Sales (only for stera mobile), (2) Registration Fees, (3) Gateway Service Fees and (5) QR/barcode Settlement Fees when transactions are made using stera terminals. The number of installed stera terminals exceeds 300,000 units, of which the terminals at merchants that accept e-cash and QR/barcode payments are partially connected to TMN's gateway system.

Among the Current Number of Connecting Terminals in Operation, QR/Barcode Connections have Much Room for Expansion

Expect a Further Increase in the Number of Connecting Terminals by Connecting to the stera Terminals Marketed by SMCC

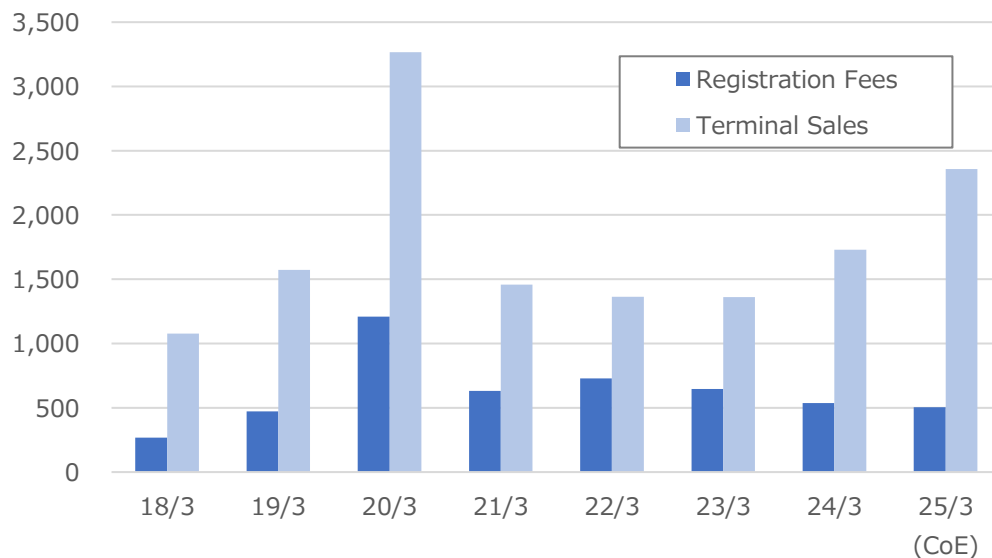
Figure 8. QR/Barcode Settlements at Comparison of TMN's Processing. Amount with the Amount Used in the Domestic Market



*1: <source> "Cashless Roadmap 2022" published by Payments Japan Association

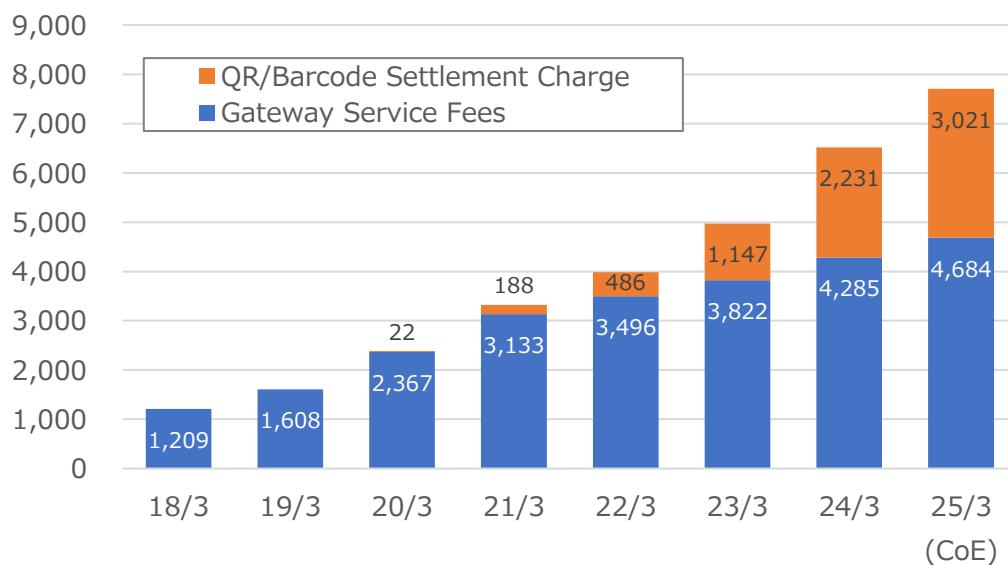
Source: Company Data

Figure 9. Trends in Registration Fees & Terminal Sales (¥ MN)



Source: Strategy Advisors. Based on Company Data

Figure 10. Gateway Service Fees & QR/Barcode Settlement Fees (¥ MN)



Source: Strategy Advisors. Based on Company Data

3. Competitive Advantage Created by Inimitability

Jay B. Barney, a professor of Strategic Management at the University of Utah David Eccles School of Business, has identified "inimitability" as a resource that provides a company with a competitive advantage. Inimitability means that it is difficult for other companies to imitate and there is significant cost disadvantage to obtain, develop or duplicate the resource/capability.

Strategy Advisors believe that TMN's competitive advantage by inimitability are (1) high barriers to entry in e-cash payments used frequently, (2) exquisite positioning in the payments industry through TMN's open strategy and (3) merchant acquisition channels through alliances with major shareholder credit card companies and Square, a major global payments service provider.

(1) High Barriers to Entry for Frequently Used e-cash Payments

Background of the Birth of E-cash in Japan

E-cash in Japan got its start in November 2001 with the issuance of the "Suica", transportation IC card ticket. Around the same time, Sony-affiliated BitWallet launched "Edy," which was widely used as a means of payment at stores, etc. Since March 2004, "Suica" has been used not only for transportation but also for shopping. In around 2007, Seven-Eleven, the largest convenience store chain in Japan started issuing "nanaco" and Aeon group started issuing "WAON," ushering in a period of widespread use of e-cash.

According to the Bank of Japan, the total number of issued e-cash cards as of December 2023 had reached 533.08 million. This is based on data provided by eight major companies, including Rakuten Edy, Suica (JR East), ICOCA (JR West), SUGOCA (JR Kyushu), Kitaca (JR Hokkaido), PASMO (private railway companies), nanaco (Seven & I) and WAON (AEON).

Japan has 4.2 e-cash Cards, Per Capita

Figure 11 shows the current situation for electronic payment methods in the world's major countries. As of 2021, e-cash is prevalent in Japan, South Korea, Australia and Germany. The average number of e-cash cards held per capita in Japan in 2021 is 4.2, higher than the 3.7 per capita for debit cards and 2.4 per capita for credit cards. Compared to credit cards, e-cash cards are mainly used for smaller transaction amounts and the debit cards account for only about 1% of payment transactions, but e-cash cards can be considered an electronic payment method with a very high frequency of payment.

High Barriers to Entry Due to Technical Hurdles & Strict Operational Regimes

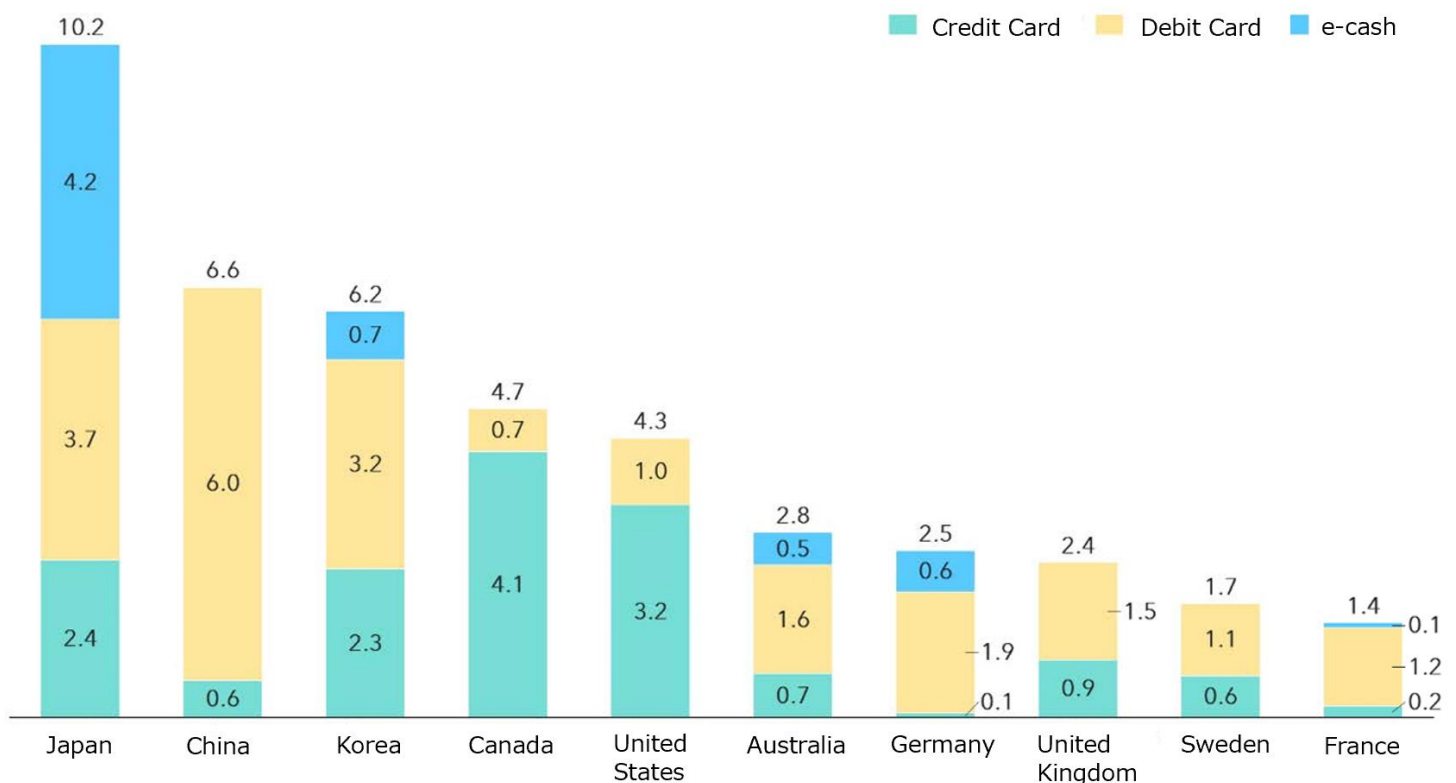
Although e-cash has thus become widely accepted in Japan, as mentioned above, the technical difficulty of building systems in a cloud environment is high. In addition, the need for large investments to meet strict security standards poses a high barrier to entry. 50% of TMN's employees are engaged in development work and the company complies with international security standards and has its own servers in a contracted data center.

Company Which Operates e-Cash Gateway Businesses Are Very Few

There are only a few e-cash gateway operators, including TMN, with TMN estimated to have a large market share in the retail industry (excluding transportation-related and station ticket gates).

Using general-purpose e-cash as a hook, for which consumer demand is high, TMN is expanding its merchant clients. In addition to supporting the largest number of payment services in the industry, TMN's strength lies in its ability to sell and contract not only e-cash, but also QR/barcode payment, credit cards and points, all as a set. To combine with merchants' systems, TMN be customizing its product to each company's system. Vendor switching by merchants is not a simple task, resulting in a low churn rate.

Figure 11. Electronic Payment Methods Held in Major Countries (# of Methods)



(2) Unique Positioning with Extensive Collaborative Relationships with Various Major Players in the Payments Industry

The 5-Layers that Make Up the Payments Industry

In the payments industry, as seen in Figure 12, there are five players in the payment industry by value chain: (1) payment brands, (2) issuers (card issuers)/acquirers (companies that acquire and manage merchant contracts), (3) payment networks, (4) gateways/payment agents and (5) payment terminals. TMN is directly involved in (4) and (5) and collaborates with companies in (1), (2), and (3) through various ways in addition to direct transactions. In the case of (4) and (5), TMN often competes with other companies in the same industry; but in some cases, depending on the services provided, TMN also collaborates with and supports other companies in their backyard.

As mentioned above, TMN serves as a gateway connecting merchant vendors with an industry-leading 45 services, including credit cards, e-cash and QR/barcodes, under its payment brands.

Deep Collaboration with Shareholder Credit Card Companies

TMN has close ties with credit card companies that are involved in the issuer and acquirer businesses: JCB, Sumitomo Mitsui Card, UC Card and Toyota Finance are shareholders of TMN. TMN provides e-cash and other services as a white label to these shareholder card companies when they offer services to mid-size and smaller merchants that TMN does not directly reach.

Partnership with Two Major Payment Networks

TMN is connected to two major payment networks, INFOX, which is affiliated with NTT Data, and JET-S, which is affiliated with Japan Card Network, a subsidiary of JCB. Additionally, TMN's cloud-based e-cash and QR code/barcode payment gateways are also used in the new payment platform stera, which Sumitomo Mitsui Card entered a partnership with VISA in September 2020.

White Label to Credit Card Companies and Square

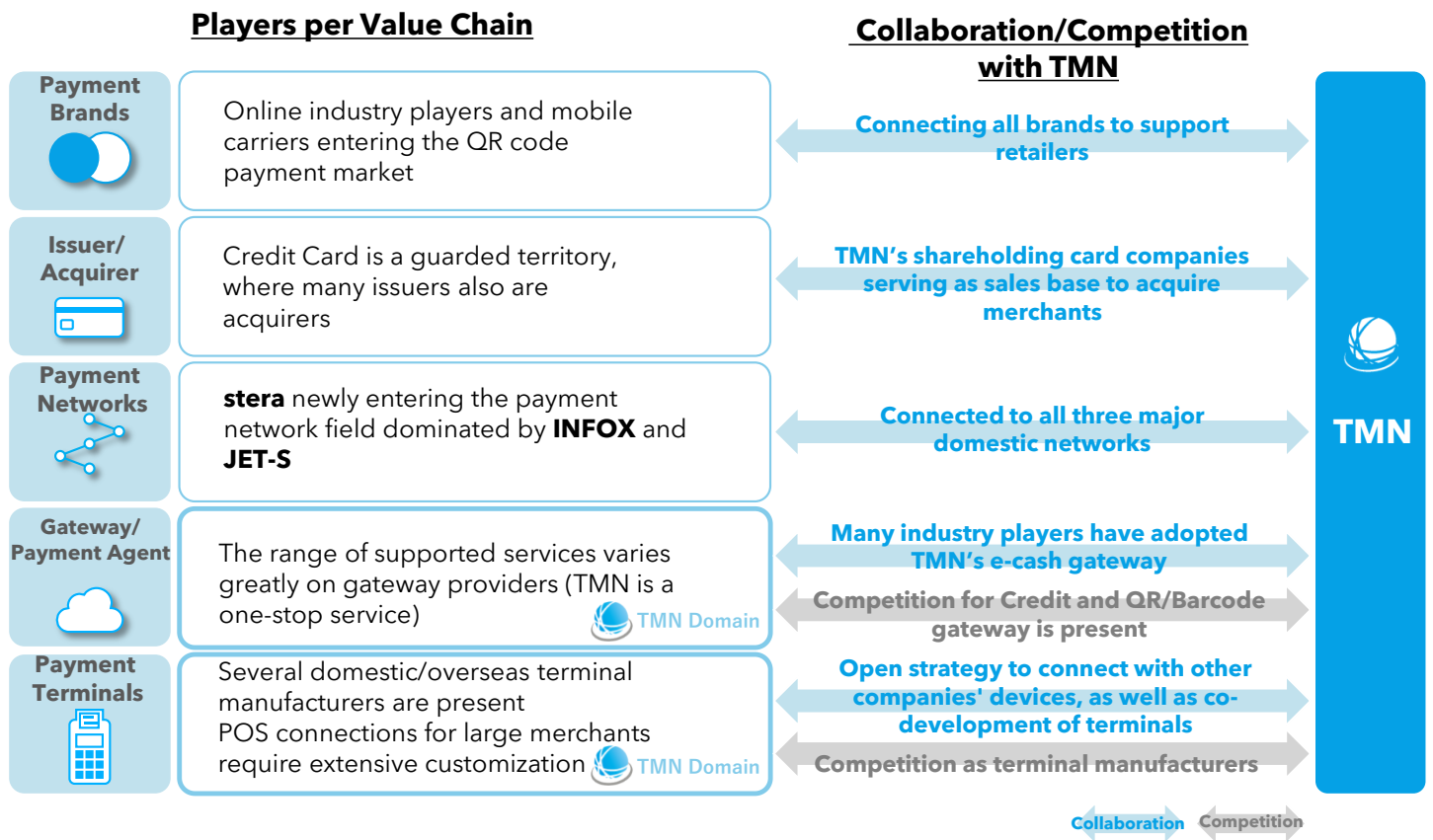
In gateway payment services, TMN itself directly markets and provides services mainly to large retailers. At the same time, there are but a few other companies in the payment industry that prioritize their own systems for credit cards and QR codes/barcode payments and use TMN's payment systems for e-cash.

Develop an Open Strategy to Collaborate with Various Players in the Payments Industry

For payment terminals, there are many domestic and foreign terminal manufacturers; TMN sells its own terminals, but almost all terminals sold in Japan can be connected to TMN's payment service. Global payment service provider Block's Square e-cash service offered in Japan is white-labeled by TMN.

TMN has an open strategy to collaborate extensively with many players in the payment industry to expand its surface, taking advantage of its e-cash service, which has few competitors, although it competes with each player in some parts of the industry. The company plans to respond flexibly to future market restructuring and the new player entries.

Figure 12. Relationships between Players and TMN by Value Chain



Source: Company Data

(3) Capability to Leverage Shareholders & Other Partners for Customer Development

TMN's Target Customer

TMN categorizes retailers in Japan that are customers of the electronic payment business as large retailers (sales of ¥2 trillion or more), middle retailers (sales of ¥50 billion to less than ¥2 trillion), and long-tail retailers (sales of ¥50 billion or less). Large retailers include several companies such as Seven & i, Aeon and Fast Retailing, while middle retailers and long-tail retailers include a variety of business categories such as supermarkets, drugstores, specialty store chains and restaurants.

Two Types of Sales Strategies Based on Business Size

TMN has two sales strategies: direct sales by TMN itself for many of the large and middle retailers and white-label services (customer acquisition) for other middle retailers and long-tail retailers through partners such as credit card companies, which are TMN's shareholders.

TMN's Strength is that it can Customize & Develop Each Customer's IT System

For merchants subject to direct sales, the TMN system line is coupled to the merchant's POS cash register at the merchant's store. In general, POS (Point of Sales) is a generic term for a service that provides information on sales performance trends, such as the date, time, quantity, and price of products

sold; but the payment industry customarily uses the term merchant POS to refer to all terminals that are not CCT (Credit Card Terminal) terminals and are capable of processing payments.

Customized development is a prerequisite for linking with customers' systems, but since there are few e-cash gateway operators with the development capabilities to do so, TMN has a competitive advantage. Major retail chains update their POS systems on a regular basis, such as once every five years, so TMN's sales activities are often targeted to coincide with these updates.

At the same time, for middle and long-tail retailers, customer acquisition is operated by white labels through partners. Partners include the credit card companies as mentioned above as well as Square, which operates a global electronic payment service business.

Reach Long-Tail Retailers with White Labels

Figure 13. Sales and Support Structure based on Customer and Business Size



Source: Company Data

4. Domestic & Overseas Payment Services Providers

(1) Domestic Payment Service Providers

3 Types of Payment Service Providers

Payment service providers (PSP's) can be broadly classified into three types: (1) those that specialize in brick and mortar stores, (2) those that provide both online and brick and mortar stores and (3) those that specialize in online stores.

TMN & GMO FG Specialize in Real Stores, GMO PG Alone Specializes in Online

TMN and GMO Financial Gate (hereafter GMO FG) are companies that specialize in (1) brick and mortar stores, providing payment services as a gateway between various payment services and merchants for retail and food service, etc. GMO Payment Gateway (hereafter GMO PG) is a company that specializes in (3) online stores. Although GMO PG specializes in online payment services, it is the parent company of GMO FG with a 56.51% stake as of March 2024, so on a consolidated basis, it can be considered as (2), which handles both online and brick and mortar store services.

Digital Garage & GMO Consolidated are Online & Real

Digital Garage, Inc. <TSEP 4819> also belongs to (2) as it operates both face-to-face and online payment businesses. Digital Garage's main business is non-face-to-face payments, and it has a joint venture with Toshiba Tec Corporation called TD Payment, which operates a face-to-face payment business. Similarly, SB Payment Service, a SoftBank Group company, is engaged in online and face-to-face payment services.

(2) Global PSP Companies

Block and Adyen Provide Payment Services for Real Stores

The global payment service providers include Block (its payment service business being Square), Adyen, PayPal and Stripe. Of the four companies, all but Stripe is publicly traded.

Square is the World's First Mobile Card Reader

Block was founded by Jack Dorsey, founder of Twitter (now X) and his co-founder Jim McKelvey, both of whom founded Square in 2009 to develop the world's first mobile card reader in 2010. The company changed its name to Block in December 2021.

TMN Handles Square's e-cash Payments

In addition to the United States, Square operates in nine other countries, including Canada, Japan, the United Kingdom, France, Spain, Ireland, Australia, and New Zealand. It entered Japan market in May 2013, and as mentioned above, TMN supports Square's e-cash payments.

Block's Revenue Sources are Square, a Payment Service and Cash App, a Personal Wallet App

Currently, the Block's two main businesses are Square, a credit card payment service since its inception, and Cash App, the No. 1 downloaded app in the financial services sector on iOS and Android, which allows users to easily transfer and pay funds between individuals and invest in stocks and bitcoin. Gross profit has surpassed Square since 2022 and continues to grow at a high rate.

Block's gross profit for FY12/2023 was U\$7.505 billion, consisting of Square U\$3.129 billion, Cash App U\$4.323 billion, and others were U\$0.053 billion; operating loss for FY12/2023 was -U\$279 million, with adjusted EBITDA of U\$1.798 billion.

Square had U\$209.6 billion in payment transaction value in 2023 (+12.4% YoY) and 4 billion payment transactions. The growth rate of payment transaction value slowed from over 20% in 2022.

Adyen Originated in the Netherlands & Integrates Online & In-Person Payments

Adyen is a global payment services company founded in 2006 in the Netherlands. In 2023, the company reported operating revenues of €1.863 billion, gross profit of €1.626 billion, EBITDA of €743 million and operating income of €657 million.

Adyen has Offices in 27 Cities Worldwide & Operations in Japan

The company has offices in 27 cities around the world, mainly in Europe, but also in North America, South America, Asia, the Middle East and Australia. In Japan, the company launched its face-to-face closing solutions business in December 2022; with EMEA (Europe, Middle East, and Africa) accounting for 55%, North America for 27%, Asia Pacific for 11% and other countries for 7% of sales in 2023.

The value of payment transactions was €970.1 billion (+26.4%) and the number of payment transactions was 23 billion. Of the total value of payment transactions, POS payments through face-to-face sales grew to €159.9 billion (+42.0%), continuing their high growth rate.

Figure 14. Comparison of Payment Services Firms - Performance and Profitability

	Transaction Media Networks	GMO Financial Gate	Block (Square) Yen Equivalent 1\$=¥141.6	Adyen Yen Equivalent 1€=¥156.5	Block (Square)		Adyen	
Payment Processing								
Volume (¥ tn)	4.6	5.2	29.7	151.8	209.6	\$ bn	970.1	€ bn
Face-to-Face	4.6	5.2	NA	25.0	NA		159.9	€ bn
Transactions Volume								
(¥ bn)	2.4	0.61	4.0	23.0	4		23	
Average Payment								
Amount (¥)	1,917	8,525	7,420	6,601	52	\$	42	€
Net Sales (¥ mn)	10,370	17,888	1,062,708	291,560	7,505		1,863	€ mn
Operating Profit								
(¥ mn)	829	1,407	-39,365	102,821	-278		657	€ mn
EBITDA (¥ mn)	2,389	1,818	254,597	116,280	1,798	\$ mn	743	€ mn
Net Income (¥ mn)	585	904	1,416	109,237	10	\$ mn	698	€ mn
OPM (%)	8.0%	7.9%	-3.7%	35.3%				
EBITDA Margin (%)	23.0%	10.2%	24.0%	39.9%	24.0%		39.9%	

Note: Data for Block and Adyen are for the full year ending December 31, 2023.

Source: Prepared by Strategy Advisors

5. Comparison with GMO Financial Gate

GMO FG's Business Model is the Same

GMO Financial Gate (hereafter GMO FG) is a similarly listed company that provides a variety of electronic payment services to real stores as a one-stop store.

GMO FG Slightly Outperforms TMN in Terms of Payment Processing Volume (GMV), but TMN Significantly Outperforms GMO FG in Terms of Numbers of Transactions

The value of settlement transactions between April 2023 and March 2024 is ¥4.6 trillion for TMN and ¥5.2 trillion for GMO FG, with GMO FG exceeding TMN by approximately 13%. The number of settlement transactions is 2.4 billion for TMN and 0.6 billion for GMO FG, and the settlement transaction value per transaction is significantly higher for GMO FG at approximately ¥8,670 compared to approximately ¥1,920 for TMN. This is because TMN's payment processing is dominated by e-cash, which mainly handles small-value payments, while GMO FG processes only credit and debit cards.

Stock Revenue for TMN & Initial Revenue for GMO FG Account for 70% of Total Sales

Comparing the sales composition of the two companies, TMN's stock revenue accounted for 68.0% in FY3/2024. On the other hand, GMO FG's initial revenue, mainly from terminal sales, accounted for 67.3% of its total sales from April 2023 to March 2024, making up a high component of non-recurring revenue.

TMN has been Aggressively Investing in Software & Hardware

Comparing profit margins from April 2023 to March 2024, GMO FG and TMN have an operating margin of 7.87% and 7.99%, respectively. On the other hand, TMN's EBITDA margin of 23.0% is higher than GMO FG's 10.2%, as TMN is aggressively investing in software and expanding its data center facilities to meet the growing demand for payment services and the development of transaction platform services.

GMO FG's Initial Sales Grew Due to stera Terminal Sales, etc.

GMO FG's growth was largely due to continued growth in initial sales with the launch of the stera terminal in July 2020. This also led to the expansion of GMV due to the increase in credit processing. However, the expansion of stera sales has also been positive for TMN, with higher service usage fees due to an increase in the number of connected terminals and high growth in QR/Barcode settlement fees also contributing to the increase in stera terminals and the associated increase in the number of payment transactions.

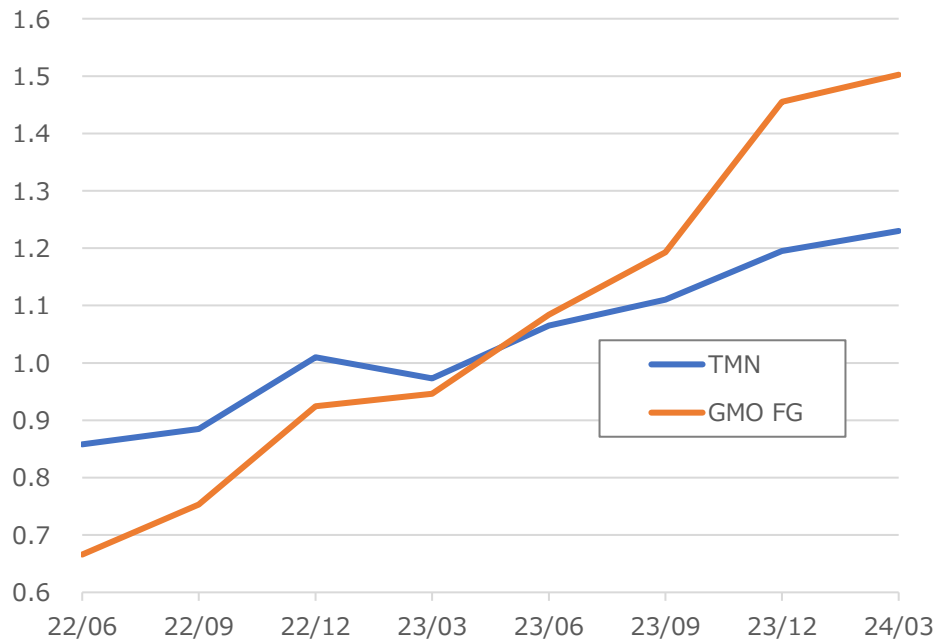
TMN has a Higher Share of Stock Income, and its Performance is Relatively Stable

In general, TMN's performance is more stable due to the higher ratio of stock income. Going forward, the explosive growth effect of stera is expected to subside; while TMN is expected to see an increase in sales of terminals such as nextore and an increase in the number of credit card transactions, which is expected to narrow the growth gap between the two.

TMN Will Use the Payments Business as a Hook to Develop Transaction Platform Services

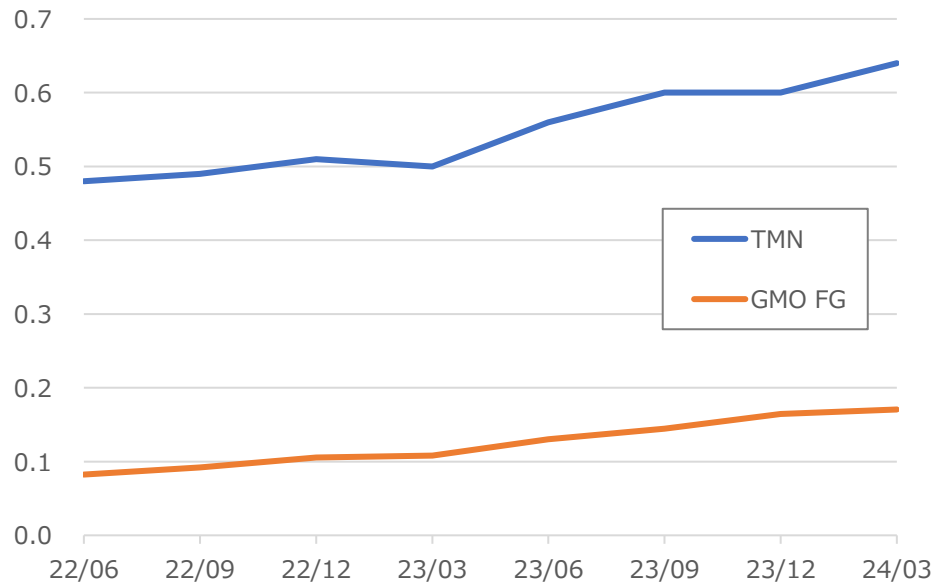
The two companies have different visions for the future: TMN plans to expand into transaction platform services by collecting, analyzing and utilizing not only payment data, but also purchase data from its cloud POS business (currently in development), which will be explained later in this report. GMO FG on the other hand, aims to expand its revenue opportunities by providing various solution assets to major corporate groups, in addition to its payment services.

Figure 15. Quarterly Payment Processing Volumes of TMN & GMO FG (¥ Trillions)



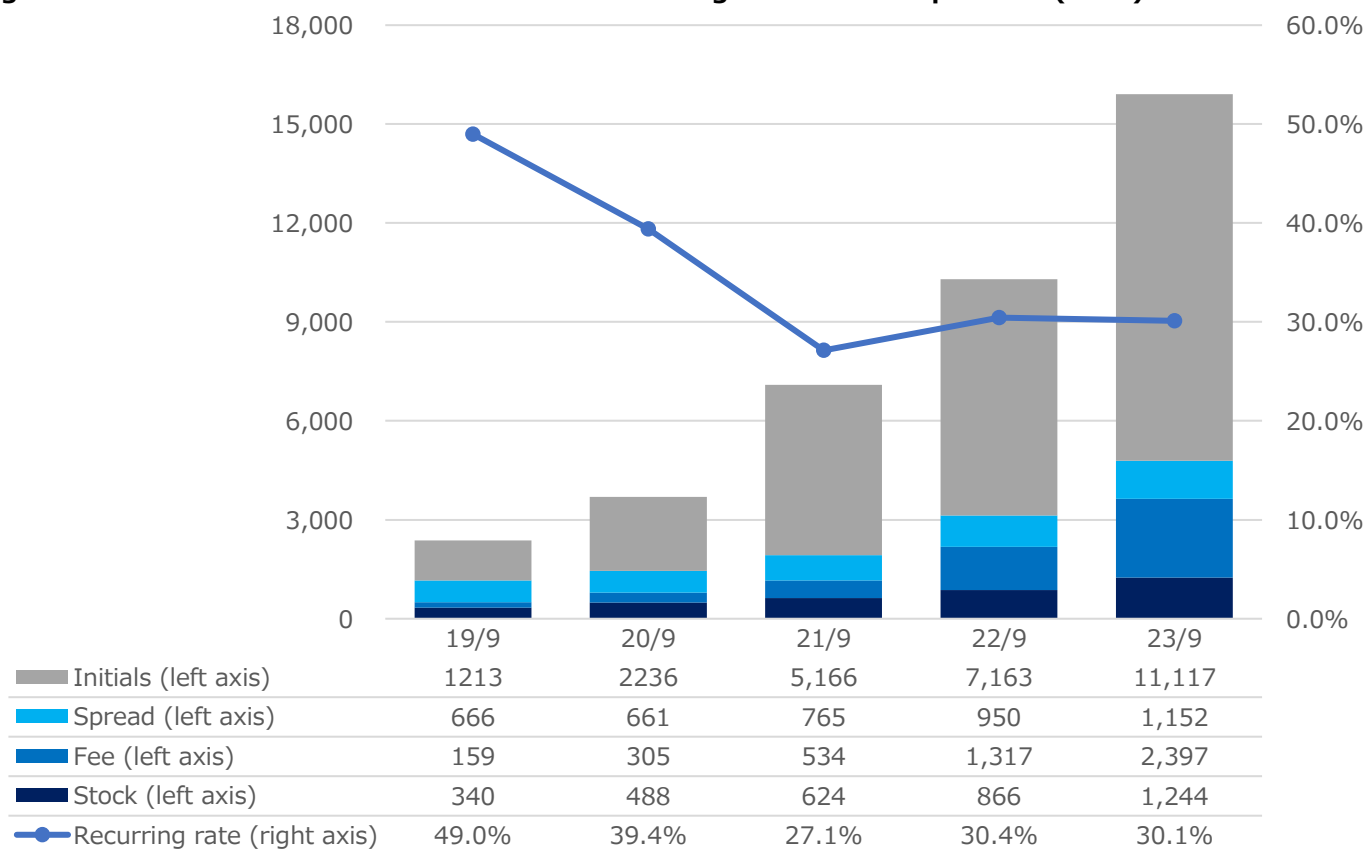
Source: Prepared by Strategy Advisors

Figure 16. Number of Settlement Transactions by Quarter for TMN & GMO FG (Billions)



Source: Prepared by Strategy Advisors

Figure 17. Breakdown of GMO FG's Sales & Recurring Revenue Composition (¥ MN)



Source: Prepared by Strategy Advisors based on GMO FG data.

6. Japan's Electronic Payment Market

Japan's Electronic Payment Ratio is Increasing Year-by-Year, at an Accelerating Rate

In Japan, where TMN provides services, the electronic payment ratio reached 39.3% in 2023. This is an increase of 3.3% year-on-year and has been rising since 2010. The rate of increase in the electronic payment ratio is accelerating due to various policy boosts in 2019, as well as the COVID-19 pandemic.

Japanese Government Provides Policy Support for Cashless Transactions

The upward trend began to become more pronounced in 2017, the year the government established the electronic payment ratio as a KPI in its growth strategy. In the "Growth Strategy Follow-Up" approved by the Cabinet in June 2019, the Japanese government set the goal of "doubling the electronic payment ratio to around 40% by June 2025." The achievement of this goal has become quite realistic.

Significant Growth of QR/Barcode Payments

A breakdown of electronic payments shows that QR/Barcode payments surpassed debit cards in 2020 and e-cash in 2022 to become the second most used payment method in Japan. TMN's pay-per-use business model is designed to capture the growth of QR/Barcode payments and will continue to benefit from this growth.

Credit Cards Transactions Increasing Steadily

Credit card transactions have been increasing steadily since 2010. As mentioned above, TMN expects further sales growth from credit cards by developing contracts on a pay-per-use basis, which is common in the industry.

Growth in e-cash Payment Transactions is Slowing

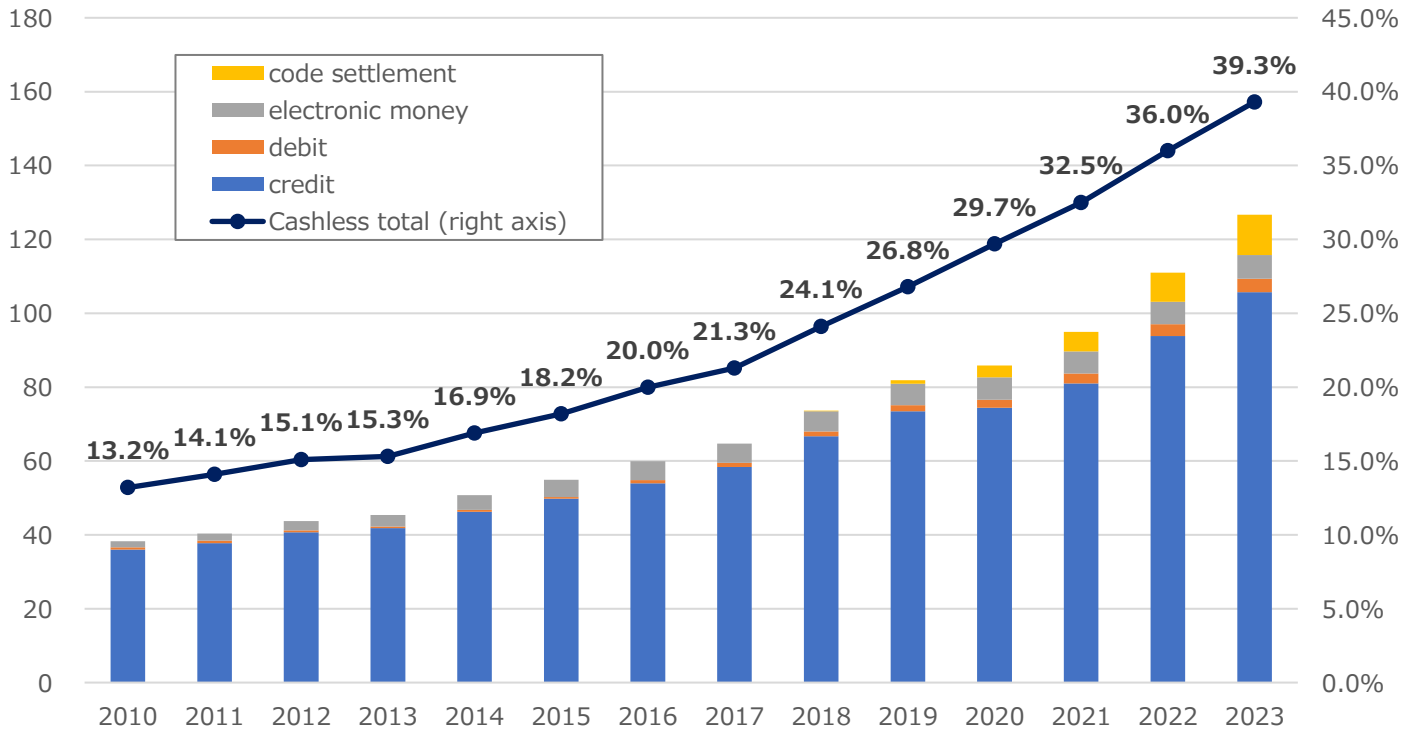
On the other hand, e-cash experienced negative growth in 2021 due to the reduction of brick and mortar store hours during COVID-19 pandemic but turned positive in 2022. The increasing penetration and use of e-cash suggests that it is maturing compared to credit cards and QR/barcodes. TMN is aware of this trend and plans to continue the current subscription business model for e-cash for the time being. (The contract in stera applies for a pay-per use contract for e-cash.)

Compared to Other Countries, Japan Has Much Upside in Going Cashless

Based on the "Red Book" published by the Bank for International Settlements (BIS), which includes statistical data on payments in major countries, a comparison of Japan's electronic payment ratio in 2021 with other countries shows that Japan's electronic payment ratio is 32.5%, which is still low compared to the United Kingdom (65.1%), Singapore (63.8%), the United States (53.2%) and other countries.

The Japanese government has stated that it will promote the necessary support with the aim of achieving an electronic payment ratio of 40% by June 2025 and, in the future, an electronic payment ratio of 80%, the highest level in the world. This will be a strong tailwind for TMN's payment business. The ratio of electronic payments in 2023 is 39.3% and is steadily increasing.

Figure 18. Trends in Japan's Electronic Payment Amounts & Ratios (¥ Trillion)



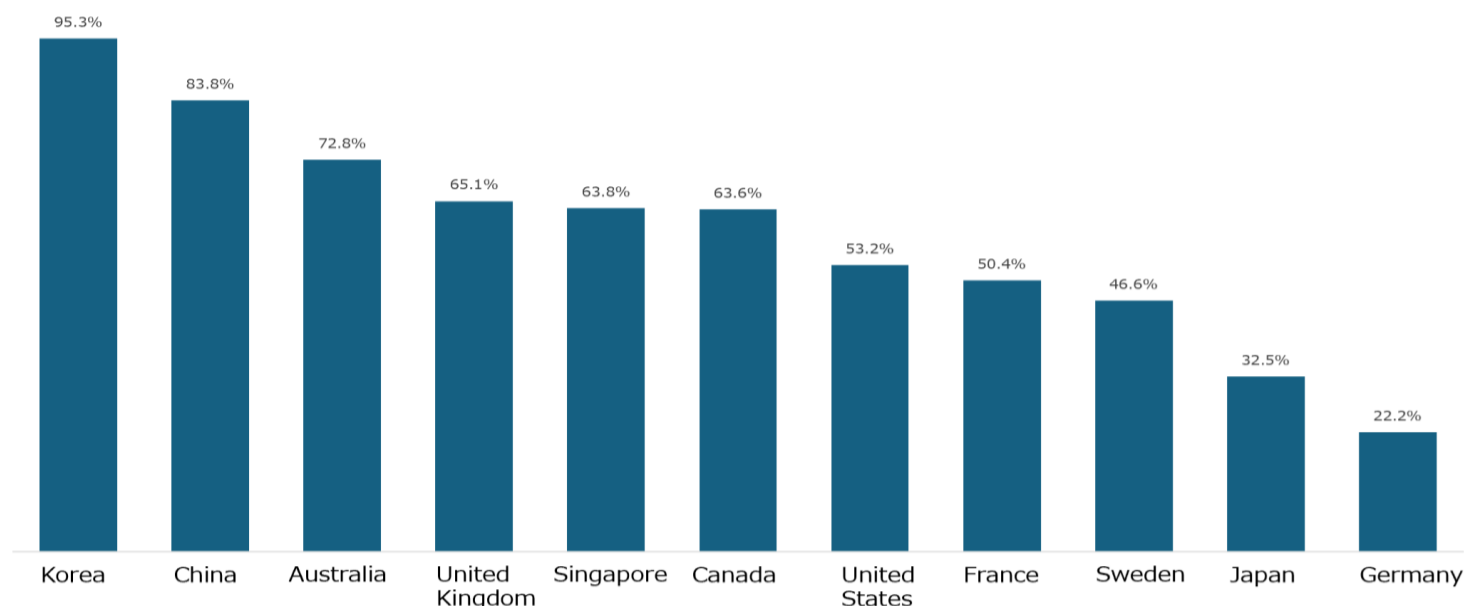
Source: Prepared by Strategy Advisors, Based on Data from the Ministry of Economy, Trade and Industry.

Figure 19. Electronic Payments in Japan by Service (¥ Trillions)

	Calendar Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Credit	Processing Volume	41.8	46.3	49.8	53.9	58.4	66.7	73.4	74.5	81.0	93.8	105.7
	(YoY)	2.7%	10.7%	7.7%	8.2%	8.2%	14.2%	10.1%	1.4%	8.8%	15.8%	12.7%
	Percentage in CL	14.1%	15.4%	16.5%	18.0%	90.2%	90.7%	89.7%	86.8%	85.3%	84.5%	83.5%
Debit	Processing Volume	0.5	0.5	0.4	0.9	1.1	1.3	1.7	2.2	2.7	3.2	3.7
	(YoY)	-12.7%	-4.4%	-7.7%	108.2%	26.9%	18.3%	28.1%	25.8%	25.1%	19.3%	13.7%
	Percentage in CL	0.2%	0.2%	0.1%	0.3%	1.7%	1.8%	2.1%	2.5%	2.8%	2.9%	2.9%
E-Cash	Processing Volume	3.1	4.0	4.6	5.1	5.2	5.5	5.8	6.0	6.0	6.1	6.4
	(YoY)	27.1%	28.0%	15.7%	10.8%	1.1%	5.4%	5.0%	4.9%	-1.1%	1.9%	5.3%
	Percentage in CL	1.1%	1.3%	1.5%	1.7%	8.0%	7.5%	7.0%	7.0%	6.3%	5.5%	5.1%
Code Settlement	Processing Volume	-	-	-	-	-	0.2	1.0	3.2	5.3	7.9	10.9
	(YoY)	NA	NA	NA	NA	NA	NA	512.5%	230.0%	66.3%	50.3%	37.5%
	Percentage in CL	-	-	-	-	-	0.2%	1.2%	3.7%	5.6%	7.1%	8.6%
Electronic Payment	Processing Volume	45.4	50.7	54.9	60.0	64.7	73.5	81.9	85.8	95.0	111.0	126.7
	(YoY)	15.3%	16.9%	18.2%	20.0%	21.3%	24.1%	26.8%	29.7%	32.5%	36.0%	39.3%
Private Final Consumption Expenditure	Volume	296.7	300.1	301.2	299.9	303.3	305.2	305.8	288.6	292.0	308.5	332.4

Source: Prepared by Strategy Advisors, based on data from the Ministry of Economy, Trade and Industry.

Figure 20. Electronic Payment Ratios in Major Countries (2021)



Source: "Cashless Roadmap" by the Cashless Promotion Council, Japan

7. Profile of President Atsushi Otaka

Atsushi Otaka Has Been in the Technology Business Since his Younger Days

Mr. Atsushi (Alex) Otaka, CEO and is also the founder of TMN, was born in 1970. Due to his father's work relocation, he spent his middle and high school in the U.S. He then attended college at Fordham University in New York, where he majored in theoretical physics.

He joined Mitsubishi Corporation in 1992 and was assigned to the Opto-Electronics Team in the then Technology Department 1. In this department, he mainly represented overseas research institutes to Japanese companies and from early on he was at the forefront of cutting-edge technologies.

Mr. Otaka oversaw agency work for the Battelle Memorial Institute in the U.S., which developed copiers, holograms, barcodes, and other products. At the time, the Battelle Memorial Institute was also operating a research institute for the U.S. Department of Energy and Mr. Otaka was facilitating commissioned research for Japanese companies in a wide range of fields, including electronics, electronic materials, and energy, such as nuclear power.

Support for Overseas Development of SONY's Contactless Card FeliCa

Since the late 1990s, Mitsubishi Corporation had been supporting the overseas deployment of SONY's contactless card technology, FeliCa. Mr. Otaka was responsible for the introduction of FeliCa into overseas transportation systems and he realized the introduction of FeliCa technology in transportation payment systems such as Octopus Card in Hong Kong and EZ Link in Singapore.

Initial FeliCa Terminal Were Expensive

Since the first half of 2000's, Felica-based e-cash payment operators have been trying to introduce e-cash payment systems to retailers in Japan, but the e-

FeliCa Development Engineer Joined Mitsubishi Corporation & Encouraged the Firm to Convert to Thin-Client Terminals

cash payment terminals at that time were rich-client systems with built-in settlement functions and were extremely expensive at ¥200,000-¥300,000 per unit; making their introduction and therefore the marketing promotion of e-cash payment terminals difficult and so it did not progress well.

In 2005, Susumu Kusakabe, a key member of the FeliCa development team, left Sony and joined Mitsubishi Corporation. Mr. Otaka, Mr. Kusakabe and others thought that the price of a terminal could be reduced to about ¥50,000 per unit by using a thin-client system in which the terminal is always connected to the Internet, the main payment functions are processed at the center (cloud), and the functions on the terminal are minimized. To achieve this, they studied and verified the solution of technical issues such as security assurance on the Internet and payment speed in the thin-client method.

TMN is Established as a JV between 2 Leading Japanese Companies for the Development of the Payment Infrastructure Business

As thin-client payment services will be public infrastructure, and after considering the neutrality and the continuity of the business, Mr. Otaka decided that a joint business partner was needed to launch this service. In March 2008, he founded TMN through a joint venture between Mitsubishi Corporation and Toyota Financial Service (TFS), a financial subsidiary of the Toyota Group.

Data Utilization Business Oriented from the Beginning

Mr. Otaka believes that as technology evolves, data will become the root of value in the near future, and he was oriented toward establishing a system for collecting data and a data asset business.

The thin-client payment service business is the first step in this direction. By openly collaborating with various businesses, including multiple credit card companies, the service will be deployed throughout Japan; and as the business expands, TMN will establish its position as an infrastructure provider and build a foundation for collecting data other than payment data through network connections with numerous businesses, including merchant businesses. As TMN expands its business, it can be said that it has established its position as an infrastructure provider and is building a foundation for collecting data other than settlement data through network connections with a large number of businesses, including merchant businesses.

8. TMN's DNA: "Do the Impossible"

(1) Cloud-Based Electronic Payment System that No-One Had Ever Made

TMN's mission is "Do the Impossible." and its vision is "A Company that Creates New Ways of Life". TMN questions the common sense of the world, challenging what is considered unthinkable by the world and producing results. By securely managing the various data of consumers, TMN aims to meet needs that have not yet been met and create new lifestyles through products, services, and experiences.

After nearly three years of development, TMN overcame several hurdles and realized cloud computing for e-cash payment, which was said to be impossible at that time. This was the first episode of "Do the Impossible", and this DNA is embodied in the most recent project and has been passed down since the company's founding.

Many IT firms are reluctant to take on complex and difficult projects due to the risk of losing money or not being able to complete the project. TMN does not judge each project solely based on profitability or probability. TMN is conscious of increasing the return on investment of technology accumulated in the development process, thereby increasing the return on the company as a whole.

TMN also believes that the successful completion of such complex projects will improve the company's capabilities and external credibility. The company aims not only to achieve profit and loss from the project alone, but also to increase its long-term enhancement of corporate value, considering the ripple effects within and outside the company.

(2) The Co-Op Kobe Project: TMN Did the Impossible

Co-op Kobe is a consumer cooperative consisting of eight businesses: home delivery, stores, electric power, co-sponsorship and service, production, welfare, culture and seminar house, and has approximately 1.73 million members.

Co-op Kobe had a need for a point card balance management system and TMN was called in as one of the companies to propose a solution to the difficult problem of integrating and managing user data that had been managed separately across multiple businesses, even at the household level. Thanks to their efforts, TMN won the bid, in which major IT vendors participated, and the project with Co-op Kobe began.

The reason TMN won the competition over the other vendors was that TMN understood the "needs" of Co-op Kobe and proposed the creation of "needs" that had not yet surfaced, which is TMN's brand message; although it was the

The Mission is "Do the Impossible"

Improving Corporate Value by Completing Complex, "Impossible" Projects

A Good Example of a Transactional Platform Service, Where TMN "Did the Impossible"

Visualization of Individual & Household Purchasing Behavior Through Integration of Membership Information

Transaction Platform Services Efforts Begin for Fully-Fledged Data Utilization

most complex and difficult big proposal.

Co-op Kobe's projects have made the following "impossible" things happen.

- ① Membership information, which had been managed by each business, was centralized, enabling management by household unit in addition to individual members.
- ② Introduced a single point service by centralizing and standardizing the point service issued for each business.
- ③ The previously separate point function and prepaid e-cash function was integrated into a single "Co-op card" for Co-op Kobe members and the Co-op card was also introduced to the smartphone application with centralized member information. Smartphone payments can now be used for in-store purchases.

These were made possible by utilizing the TMN's technologies of cloud computing, in-house prepaid and data management in the transaction platform business. Strategy Advisors believes that this is an example of concreting the company's mission of "Do the Impossible".

The results of this effort to build an infrastructure to centrally manage membership information, prepaid point services and other services have enabled the horizontal expansion of prepaid services and other services to other co-ops. Last year, another consumer cooperative Eucorp decided to adopt TMN's in-house prepaid service.

In addition, TMN, Co-op Kobe and Mitsubishi Shokuhin, which has deep expertise in understanding consumers gained through its support to retailers, have started information processing efforts to maximize the attractiveness of Co-op Kobe by utilizing this platform.

9. TMN's Growth Strategy

(1) Long-Term Vision for Further Expansion of Payment Services & Full-Scale Development of Transaction Platform Services

Eyeing the Development of Transaction Platform Services from the Very Beginning of the Company's Existence

Transaction platform services (accumulation and analysis of payment and purchasing data, etc.) is a data asset business that TMN has been aiming for since its inception in 2008.

TMN1.0 & TMN2.0 to Launch Full-Scale Payment Services and TMN3.0 to Launch Transaction Platform Business

Payment services are the first step in this process, while expanding the business and has the aspects of building relationships with customers and merchants and establishing its position as an infrastructure provider. Figure 21 shows TMN's future business expansion organized along the three axis of information, business areas and customer & merchants.

"TMN1.0" refers to the launch of the e-cash payment service business, "TMN2.0" refers to business expansion through the expansion of payment services (business domain) such as credit card and QR/barcode settlement. And "TMN3.0" refers to transaction platform services through the development of services other than payment services and the collection and utilization of purchasing data and other information.

Current Position is a Starting Point in TMN 3.0

The company will continue to expand on two axes: the business areas in payment services & customers/merchants through the acquisition of new projects.

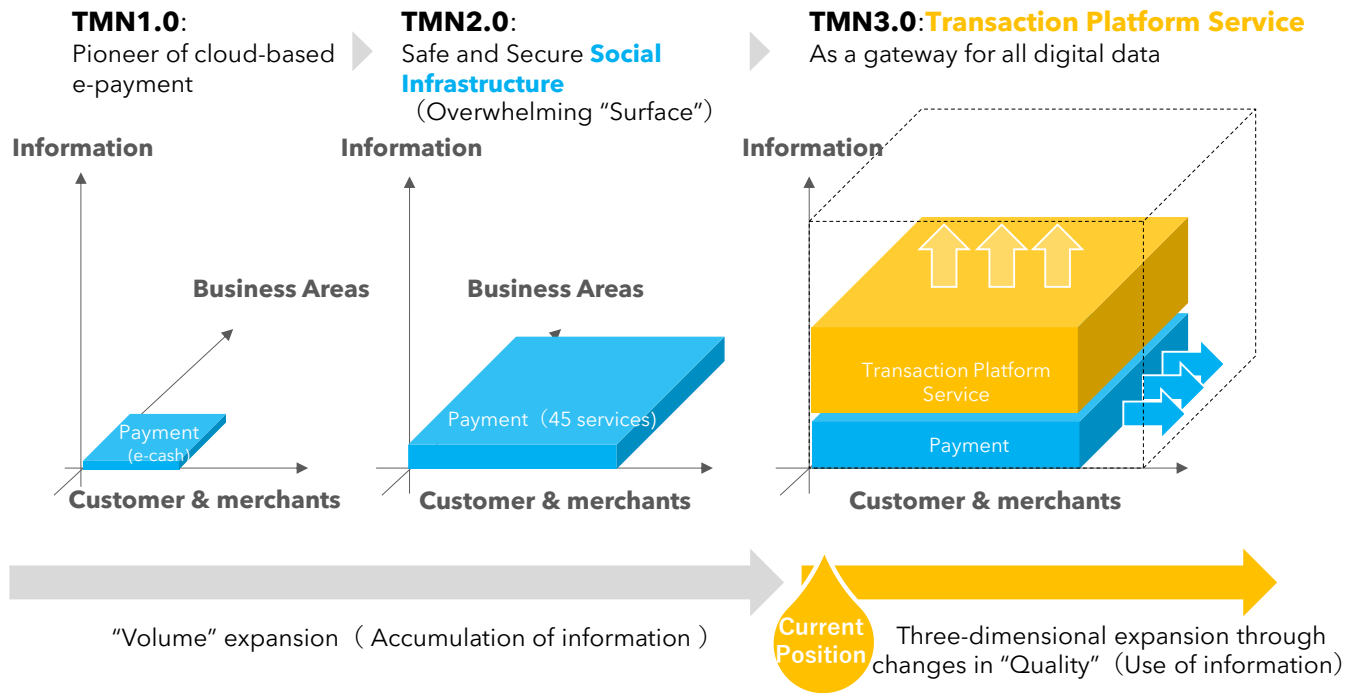
At the same time, the company has entered a phase of full-fledged development of its transaction platform services. At the same time, TMN is further expanding their business domain by developing non-payment services such as POS mainly for customers and affiliated stores of payment services. The company believes now it is at the point where they have begun to enter the "TMN 3.0" phase.

By promoting TMN3.0 and becoming a gateway for various data, the company aims to expand its transaction platform services in a more multi-dimensional way; including the development of services in collaboration with consumer goods manufacturers and financial institutions in the mid to long-term.

TMN have been Refining their Development and Service Delivery Capabilities for TMN 3.0

Through the realization of TMN2.0, TMN has established their position as an infrastructure provider and built relationships with customers and member stores; and through the completion of difficult projects such as the cloud-based e-cash payment service, which competitors said to be impossible. In addition, through the development of cloud-based e-cash settlement services and the realization of difficult services such as the integration of Co-op Kobe's membership information, which was said to be impossible at the time, the company has improved its development and service delivery capabilities, mainly through its in-house engineers and has built up its corporate strength.

Figure 21. Conceptual Diagram of Growth Strategies



Source: Company Data

(2) Expansion of Terminals & Increase in Payment Volumes Will be the Medium to Long-Term Growth Driver in Payment Services

TMN's payment service business is expected to grow over the medium to long term as the percentage of Japan's electronic payment ratio grows. The two main drivers of growth in stock income will be the increase in the number of terminals and the increase in payment volume.

To expand the number of terminals, in addition to "Retailer expansion strategy" to encourage new merchants to connect to the TMN gateway, the company is also working on "Market expansion strategy" to connect to terminals other than CCT terminals and POS terminals.

As for strategy to expand the number of retailers, as mentioned above, TMN will promote direct sales and indirect sales by providing white labelling to credit card companies, which are its shareholders, and to Square. In Japan, it is said that there are 4 million POS and CCT terminals installed, but since most of the 960,000 payment terminals connected to TMN's gateway are POS/CCT terminals, there is room to develop around 3 million additional terminals.

In terms of strategy to expand the market, the company is working to install and connect payment terminals not only to POS/CCT terminals, which are the current mainstream of TMN gateway connection terminals; but also, to vending machines and automatic seller machines for route buses and parking lots, etc.

Room to Develop Nearly 3 million CCT & POS Terminals at Merchants

Potential to Connect More than 8 million Units if Vending Machines, Payment Machines etc., are Considered

In Japan, it is estimated that there are about 4 million vending and teller machines installed. As seen in Figure 22, it is estimated that the total potential market, including POS and CCT terminals, is about 8 million units in Japan.

In recent supermarkets, customers are increasingly making their own payments at multiple self-service payment terminals in a row after the cashier has scanned the merchandise. Thus, the market is likely to grow even larger as multiple payment terminals are being installed next to the cash register, whereas in the past only one system was installed next to the cash register. Furthermore, electronic payment is spreading to areas where cash payment has been the mainstream, such as coin-operated parking lots and outdoor payment at event venues and the potential for the number of terminals is huge.

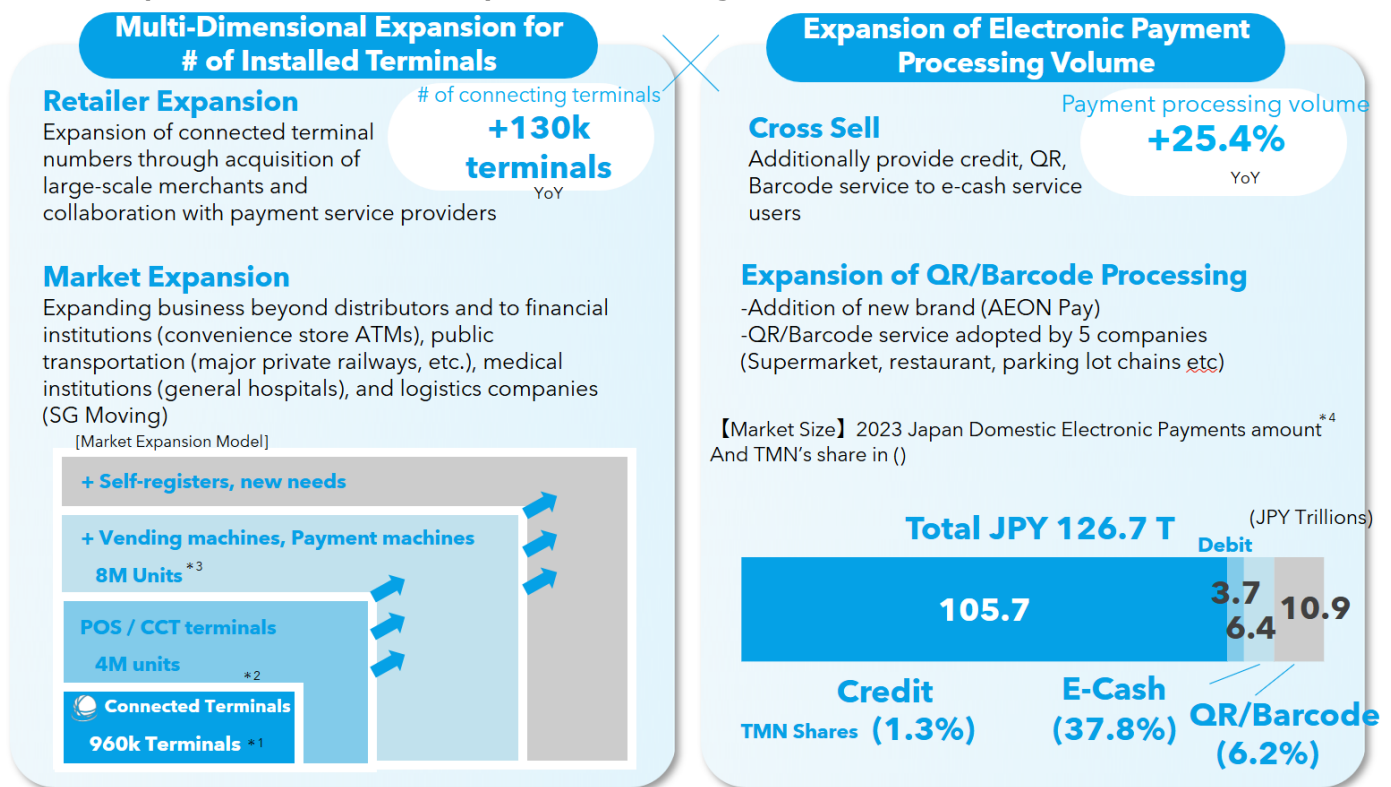
Cross-Selling of Payment Services, Expansion of Payment Volumes by Adding QR/Barcode Settlement

By adding payment services to already connected terminals, the amount of payment transactions per connected terminal can be expanded. For example, if a merchant that had previously only subscribed to e-cash were to add QR/barcode services, TMN would be able to generate new revenue from QR/barcode settlement fees.

AEON Pay Available from August 2023

In August 2023, the company began handling "AEON Pay," a QR/barcode settlement service. Since TMN's payment services are provided in the cloud, it is easy to add payment services to existing payment terminals. "AEON Pay" can now be used by supermarkets, drugstores, convenience stores, home centers, transportation companies and local governments that have already installed TMN services.

Figure 22. Multi-Dimensional Expansion of the Number of Installed Terminals & Expansion of Electronic Payment Processing Volumes



Source: Company Data

(3) Accelerating Growth Through Aggressive M&A and Capital Alliances

TMN is also pursuing an inorganic growth strategy through M&A and capital alliances using the funds raised through its IPO and has already announced two capital alliances in FY3/2024.

- ① Acquisition of WebSpace Co., Ltd. (share acquisition completed on 12/26/2023, acquisition price ¥890 million)

WebSpace, a Distribution Solutions Company, becomes a Consolidated Subsidiary

Since its founding in 1998, WebSpace is a company that has developed its business around retail systems ("Parallel Net"), primarily POS and EOS (replenishment ordering system) and MMK collection agency services for utility bill and other payment.

MMK's "MMK Collection Window Service," a collection agency service for bar-coded payment slips (for payment of telephone, electricity, and other utility bills) provided by Shinkin Information Service and WebSpace, has been installed in more than 10,000 stores, including supermarkets and drugstores. The service has a proven track record and has built a broad customer base ranging from

major retail chains to small and medium-sized stores.

The synergy desired will be to strengthen the service menu for mutual customers by incorporating TMN's payment service and WebSpace's "MMK Collection Window Service". In addition, by utilizing WebSpace's POS system, TMN is looking to accelerate the development of its own cloud POS system.

The impact of capital participation in WebSpace on consolidated results for FY3/2024 is M&A brokerage fees ¥53 million, which is recorded in sales, general and administrative expenses. The inclusion of WebSpace in the consolidated financial results is scheduled to begin in FY3/2025.

- ② Capital alliance with Global Communication Planning Co., Ltd. <TSEG 4037> (14.90% stake, ¥200 mn acquisition fund)

Global Communication Planning is a company that operates a credit card payment gateway in the payment business area and was originally involved with TMN as a development partner in the early 2010s.

Since TMN will also focus on the credit card settlement business, the two companies intend to utilize Global Communication Planning Co., Ltd.'s knowledge and to promote development efficiency through collaboration between the two companies.

Scheduled to be Reflected in Consolidated Financial Results from FY3/2025

Formed Capital Alliance with Global Communication Planning, a Credit Settlement Gateway Business

Figure 23. WebSpace's Financial Condition & Operating Results for the Past 3 Years (¥ MN)

Accounting Period	FY 6/2021	FY 6/2022	FY 6/2023
Net Assets	337	373	414
Total Assets	1,745	1,793	1,242
Net Assets Per Share (¥)	68,467.56	75,768.77	74,176.89
Net Sales	1,076	1,160	1,264
Operating Income	13	55	59
Ordinary Income	15	57	60
Net Income	11	35	41
EPS (¥)	2,260.35	7,301.21	8,408.12
Dividend Per Share	-	-	-

Source: Strategy Advisors. Based on Company Data

Figure 24. Global Communication Planning's Financial Position & Operating Results for the Past 3 Years (¥ MN)

Accounting Period	FY 6/2021	FY 6/2022	FY 6/2023
Net Assets	781	1,138	340
Total Assets	1,336	1,514	1,571
Net Assets Per Share (¥)	374.4	456.74	136.38
Net Sales	2,078	1,588	1,549
Operating Income (Loss)	199	△55	△273
Ordinary Income (Loss)	191	△82	△297
Net Income (Loss)	126	△91	△773
Net Income (Loss) Per Share (¥)	61.39	△39.18	△310.40

Source: Strategy Advisors. Based on Company Data

10. Transaction Platform Services Overview and its Future Potential

TMN, which has set its sights on acquiring purchasing data since its inception, started with an electronic payment approach and has gradually developed as a transaction platform services to access purchasing data other than payment data.

Transaction platform is intended to securely store all data collected in the TMN gateway, including payment information (whether electronic or cash), marketing and product information; and to build a mechanism to process the information so that it can be used for advanced data analysis and linked to a variety of services. TMN provides services such as in-house prepaid cards and cloud POS to acquire data at the same time as revenue is generated, and to visualize and otherwise utilize the data.

(1) Cloud POS Business Essential for Purchasing Data Acquisition

Developed Cloud POS by Leveraging the Strength of the Electronic Payment Infrastructure

TMN's strength in the transaction platform services is its network connection to the POS systems of major retail chains through its payment gateway business, and its ability to leverage its track record of 960,000 payment terminals connected to its gateway in a wide area to develop new services such as cloud POS and in-house prepaid.

Cloud POS Enables Data Acquisition of "Who" & "What" Purchases

TMN's cloud POS is hardware-independent and can be installed on POS hardware, tablets, etc. currently used in stores. In addition, because of the cloud environment, retailers benefit from relatively low costs with flexible functionality additions after installation. Payment terminals can acquire "where", "when" and "how much" data, while POS can acquire "what" data related to purchased goods and services in addition to these data. In addition, by linking "who" data from ID-POS and in-house prepaid, one to one marketing becomes possible.

Large-Scale Adoption in Major Retail Chain is Scheduled from FY3/2025

TMN's cloud POS is currently being tested at a major retail chain and is in the final stages of full-scale commercialization. A large-scale installation of 5,000 units will be phased in starting in FY3/2025, and this will be a major step forward in the development of the transaction platform services.

Linking Large Volumes of POS Data Acquired Using Cloud POS to Data Hub

Data Hub, which has been in service since June 2024, is a service that collects, stores, and utilizes data, and is one of the key components of the transaction platform services. The Data Hub service is offered in conjunction with Cloud POS to store large amounts of data from POS.

In addition, as mentioned above, Co-op Kobe centrally manages its point service and membership information, in addition to providing an in-house prepaid system. The CDP (Customer Data Platform), a data platform for collecting and integrating the association's customer data, is being built based on TMN's Data Hub service.

Transaction Media Networks, Inc. | 5258 (TSE Growth)

Purchase Data is Gathered by TMN at No Cost

TMN believes that the most important thing in the information transaction platform business, or in other words, data management, is to keep data acquisition costs down. As data distribution and trading become more prevalent in the future, the price of data will likely increase and the cost of purchasing data will also rise. As cloud POS and in-house prepaid systems are introduced, all payment and purchase data, including cash, will be processed at TMN's data centers, which will automatically accumulate these data. This will also proceed in a way that generates income from merchants, which can be an extremely effective business model.

Transaction Platform Services Targets ¥20 trillion in Advertising & Distribution Spending in Japan

TMN aims to generate revenue by providing the acquired purchase data and customer information to consumer goods manufacturers and distributors who will become its customers in the future. The advertising and sales promotion market for consumer goods in Japan is said to be worth ¥20 trillion, including approximately ¥4 trillion in annual advertising expenditures by consumer goods manufacturers and approximately ¥16 trillion in "distribution countermeasure expenditures" such as rebates and sales promotion. TMN believe that it can generate revenue from this advertising-related market by realizing one-to-one marketing, etc. based on a variety of data.

Specifically, manufacturers will be able to utilize real-time purchasing and payment data to develop completely new products and marketing strategies, and to further improve the efficiency of production and inventory adjustment. Retailers will also be able to utilize customer and purchase data to develop efficient and effective promotions.

(2) nextore Digital Platform Services with Payments as a Starting Point

nextore Enables Distribution of Apps to Support Store Operations Other than Payment

While most of the transaction platform service, such as cloud POS, are for large retail chains ; the nextore business is a payment-based digital platform service for small chains and individual stores that starts with payments and is a major contributor to contribute significantly to the sales in the transaction platform business in FY3/2024. Nextore not only consolidates various electronic payment methods into a single terminal, but also enables the expansion of functions other than payment by implementing an application platform for business support for stores developed by Tance Co., Ltd. on TMN's mobile terminal (UT-P10). Tance is a joint venture between JCB Group's Japan Card Network and TIS, a major system integrator, providing platforms and DX support.

The applications that can be provided include those with functions such as common points and duty-free processing and aims to improve the efficiency of store operations and increase sales. nextore's model is to charge according to the use of the applications on the platform. The first two business applications, "yoboca," a call notification service, and "QR Order," a self-ordering service, have already been added to the "tance mall" lineup as of April 19, 2024.

nextore's Sales in FY3/2024 are Mainly from Terminal Sales; Expect JCB

Initially, regional banks were the channel partners, but with the start of collaboration with the JCB Group, nextore terminal sales totaled 7,000 units in FY2024/3, with a sales value of about ¥600 million. JCB subsidiary Japan Card

Group's Sales Force

Network has 854,000 connected terminals (as of the end of March 2023), and it is possible that some of these terminals will be replaced by the more sophisticated nextore. If the installation of terminals progresses well, the contribution of payment and application usage fees is expected to increase. In addition, given JCB Group has close relationships with regional banks, TMN hopes to create new financial services for small retail chains and individual merchants through a three-way partnership that includes regional banks.

(3) In-House Prepaid/Data Hub

TMN Undertakes System Development & Operations for Making Prepaid Cards for Each Company

When a merchant business issues its in-house prepaid card, TMN takes over the operation of the entire back-end system. When issuing prepaid cards, consumers enter their membership information to create a card, so the data can be obtained in a form that links membership information with payment data.

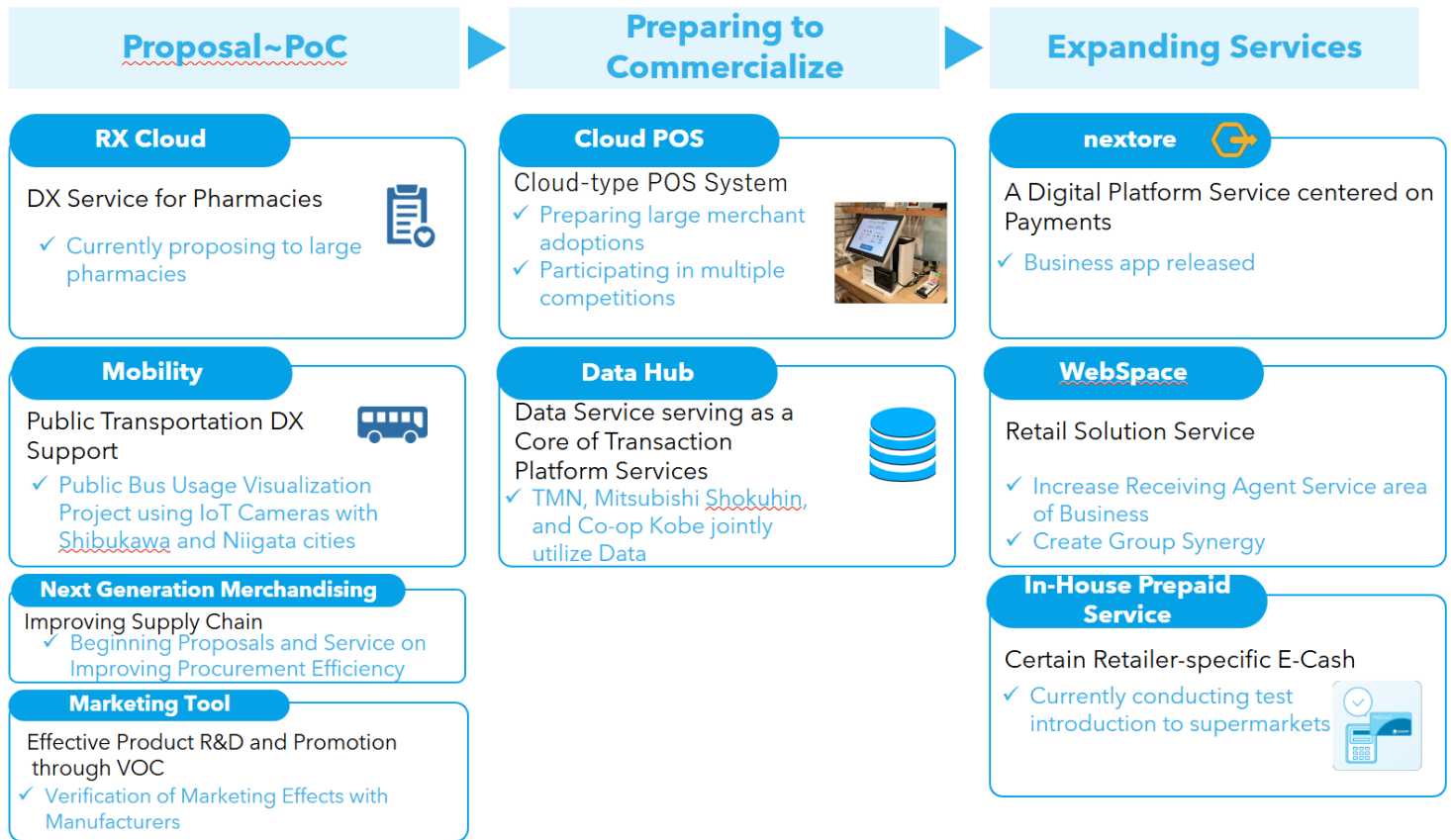
TMN has introduced both the system and sales based on the number of users, as well as the advantage of being able to obtain payment data linked to member information necessary for data management. On the other hand, merchants have the advantage of being able to introduce electronic payment systems with lower settlement fees than with credit cards.

For the in-house prepaid business, the business model is to receive development sales on an initial basis and a fixed monthly fee based on the number of cards issued on a stock basis.

Data Hub to Consolidate & Manage Big Data from In-House Prepaid & Cloud POS

With its Data Hub service, TMN aims to contribute to the improvement of retailers' profitability by providing data visualization and utilization through the safekeeping (data preservation), connection (data linkage) and discovery (data analysis) of a variety of large volumes of data, including POS data. In addition, while distribution industry associations, including manufacturers and wholesalers, are discussing the commonization and standardization of product master code, the current situation is that product master codes differ among major retailers and the firm is considering the linkage of such master data for data utilization.

Figure 25. Specific Efforts in Transaction Platform Services



Source: Company Data

11. Current Performance Trends

(1) Full-Year Results for FY3/2024

Operating Income for the First Nine Months of the Current Fiscal Year Increased 30.7% YoY

TMN's consolidated business results for FY3/2024, announced on May 14, 2024, showed a double-digit increase in both sales and profit, with sales of ¥10.371 billion (+32.4% YoY) and operating income of ¥777 million (+32.4% YoY). The company will begin disclosing consolidated results from FY3/2024, taking into account the ¥0.53 billion in brokerage fees associated with the M&A of WebSpace Corporation, whose stock acquisition was completed on December 26, 2023. The results of WebSpace is scheduled to be included from April 2024.

Pay-As-You-Go QR/Barcode Reimbursement Fees Drive Sales Growth

The cumulative results for the five sales components were: 1) development sales: ¥861 million (+35.4% YoY), 2) sales of payment terminals: ¥1.730 billion (+27.2% YoY), 3) registration setup fees: ¥537 million (-17.1% YoY), 4) center utilization fees: ¥4.285 billion (+12.1% YoY) and 5) QR/barcode settlement fees QR/barcode settlement fees, in particular, drove sales growth.

In the Transaction Platform Services Business, nextore Contributed Significantly to Sales

In addition, the increase in sales of nextore led to a significant increase in other sales to ¥723 million (+233.8% YoY).

Figure 26. Quarterly Business Performance Trends (¥ MN)

	23/3				24/3			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total Sales	1,691	1,932	1,919	2,287	2,305	2,304	2,917	2,842
(YoY change)	NA	NA	NA	NA	36.31%	19.25%	52.01%	24.27%
Development Sales	130	171	138	195	187	132	135	406
(YoY change)	NA	NA	NA	NA	43.85%	-22.81%	-2.17%	108.21%
Terminal Sales	238	363	266	492	402	361	489	476
(YoY change)	NA	NA	NA	NA	68.91%	-0.55%	83.83%	-3.25%
Registration Fees	179	168	156	142	138	140	133	124
(YoY change)	NA	NA	NA	NA	-22.91%	-16.67%	-14.74%	-12.68%
Gateway Service Fees	932	938	967	983	1,033	1,059	1,085	1,105
(YoY change)	NA	NA	NA	NA	10.84%	12.90%	12.20%	12.41%
QR/Barcode Settlement	167	229	338	412	461	527	609	633
(YoY change)	NA	NA	NA	NA	176.05%	130.13%	80.18%	53.64%
Others	42	60	52	61	81	82	463	95
(YoY change)	NA	NA	NA	NA	92.86%	36.67%	790.38%	55.74%
Gross Profit	494	667	624	775	789	763	790	977
(Gross Profit Margin)	29.21%	34.52%	32.52%	33.89%	34.23%	33.12%	27.08%	34.38%
SGA	437	477	476	611	620	595	611	665
Operating Profit	56	190	148	164	169	168	179	311
(YoY change)	NA	NA	NA	NA	201.79%	-11.58%	20.95%	89.63%
(Operating Profit Margin)	3.31%	9.83%	7.71%	7.17%	7.33%	7.29%	6.14%	10.94%
Non-Operating Income (Loss)	0	1	1	-27	-7	1	1	-6
Ordinary Income	56	191	149	137	162	169	180	305
(YoY change)	NA	NA	NA	NA	189.29%	-11.52%	20.81%	122.63%
(Ordinary Income Margin)	3.31%	9.89%	7.76%	5.99%	7.03%	7.34%	6.17%	10.73%
Net Income	55	181	152	283	161	157	162	156
EBITDA	464	602	534	537	552	565	583	739
Number of Connected Terminals (10,000)	NA	NA	NA	83.3	87.0	90.0	93.0	96.0
Annual Settlements								
Processing Amount (GMV) (¥ Billions)	858	885	1,010	973	1,065	1,110	1,195	1,230
Annual Number of Payments								
Process settlement Transactions (Millions)	480	490	510	500	560	600	600	640

Source: Company Data

(2) Full-Year Earnings Forecast for FY3/2025 & Full-Year Earnings Target for FY3/2026

Company Forecasts Higher Sales & Lower Income in FY3/2025

For the fiscal year ending March 31, 2025, the company expects a significant increase in net sales due to continued business growth and the contribution of sales from WebSpace, which was acquired in the fiscal year ending March 31, 2024. On the other hand, the company expects a decrease in profit due to planned increase in expenses for relocation of data centers (hereinafter DC). The company forecasts net sales of ¥13.645 billion (+31.6% YoY), operating income of ¥312 million (-59.7% YoY) and net income of ¥235 million (-59.7% YoY), while forecasting EBITDA of ¥2.526 billion (+5.8% YoY).

Company Targets Record Profits in FY3/2026

The company expects that the impact of the DC relocation costs and other expenses will be removed in FY3/2026, and that the number of large prospective projects will increase in the same fiscal year, resulting in higher sales and profits compared to FY3/2024 and FY3/2025, and record-high profits. The company targets sales of ¥16.109 billion (+18.1% YoY), operating profit of ¥2.075 billion (+563.4% YoY), net income of ¥1.508 billion (+540.0% YoY) and EBITDA of ¥5.03 billion (+99.1% YoY).

Expect to Increase Revenues in the Stock and Flow Businesses & WebSpace Towards FY3/2026

FY3/2025 and FY3/2026 sales by stock, flow and WebSpace Co., Ltd. business models are visible in Figure 27. The company expects an increase in sales for each of stock, flow and WebSpace. In terms of stock revenue, QR/barcode settlement fees and gateway service fees, both of which are expanding in the market, are expected to grow. As for flow revenues, cloud POS, which is scheduled to be introduced to large-scale merchants from FY3/2025, is expected to drive sales, while WebSpace is also expected to grow through synergies with existing businesses.

TMN Expects Operating Income to Decline in FY3/2025 but is Aiming for Record-High in FY3/2026

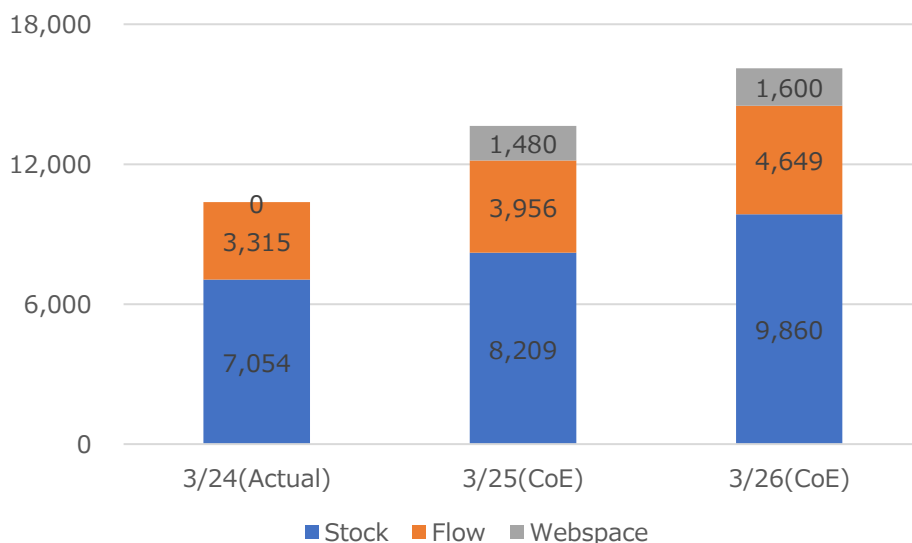
For the projected operating income trends into FY3/2026, please refer to Figure 28. The purpose of the DC relocation is to strengthen the scalability and security of the DC and to contribute to the expansion of the settlement system and the construction of an infrastructure system to further promote transaction platform services.

Since it is difficult to put the e-payment system on a public cloud for security reasons, it must be prepared on-premises at TMN. TMN has to purchase its own servers and install them in the DC, and while this is a costly investment, it is also a barrier to entry.

Minor Impact on Operating Income with Due to the Inclusion of WebSpace Co., Ltd.

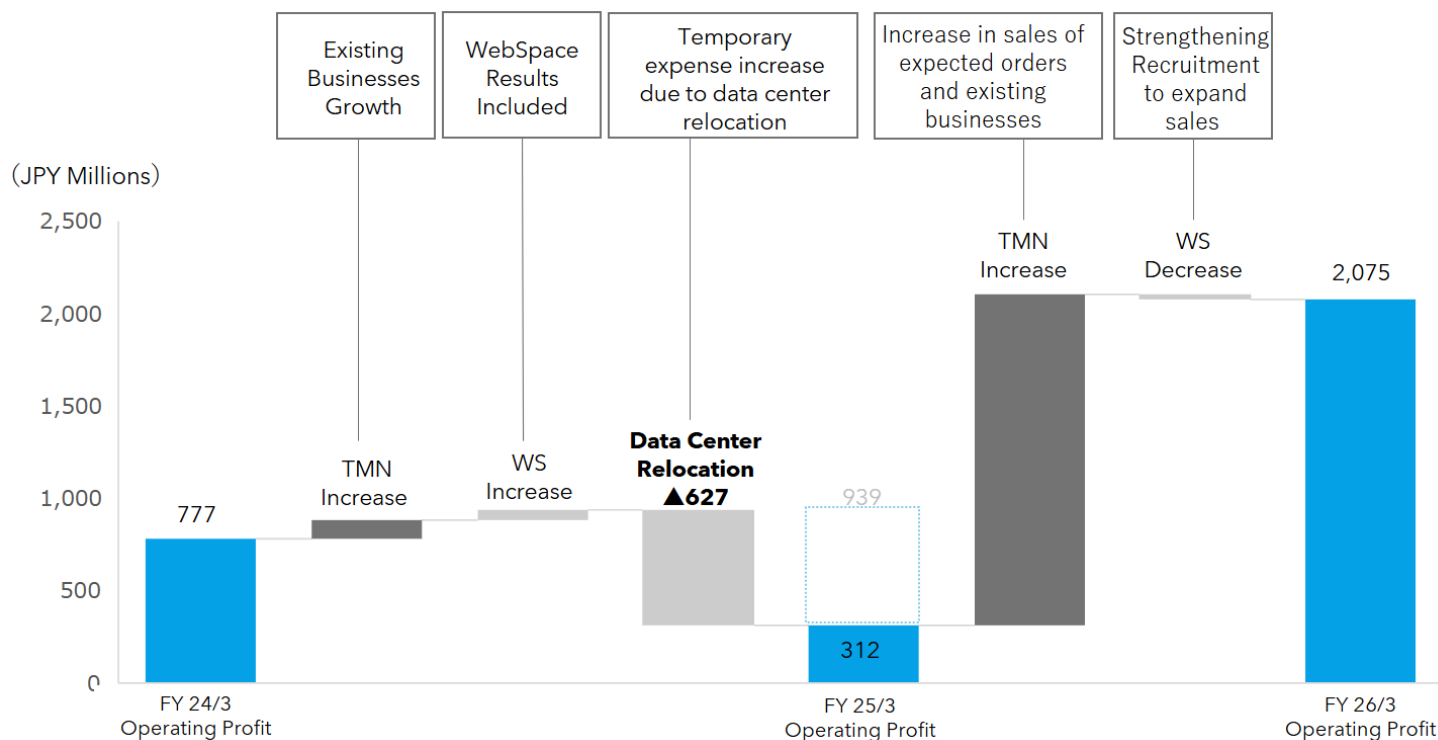
From FY3/2025, the results of WebSpace, which became a subsidiary in FY3/2024, will be included; but the impact on consolidated operating income for FY3/2025 and FY3/2026 targets is expected to be negligible as it will be offset by amortization of goodwill.

Figure 27. Net Sales by Business Model (¥ MN)



Source: Strategy Advisors. Based on Company Data

Figure 28. Change in Operating Income Through FY3/2026 (¥ MN)



Source: Company Data

(3) Target for FY2030: Consolidated Net Sales of ¥100 billion

Aim to Achieve Sales of ¥100 billion through New Businesses and M&A in Addition to Steady Growth of Existing Businesses

TMN announced its long-term vision in its FY3/2024 financial results presentation, targeting consolidated sales of ¥100 billion by FY2030, of which ¥40 billion (¥9.64 billion in FY3/2024) is in the settlement domain and ¥60 billion (¥720 million in FY3/2024) is in the information processing domain.

Aiming to Scale from FY2027 Utilizing Transaction Platform Area

The transaction platform, including cloud POS, which has been set to be introduced on a large scale from FY3/2025, will contribute to the DX of each company and we assume that companies will begin to respond to the "2025 cliff" indicated in the METI's DX report around 2027. Figure 29 shows expected rapid sales growth, including through M&A, starting immediately after FY2026 and beyond.

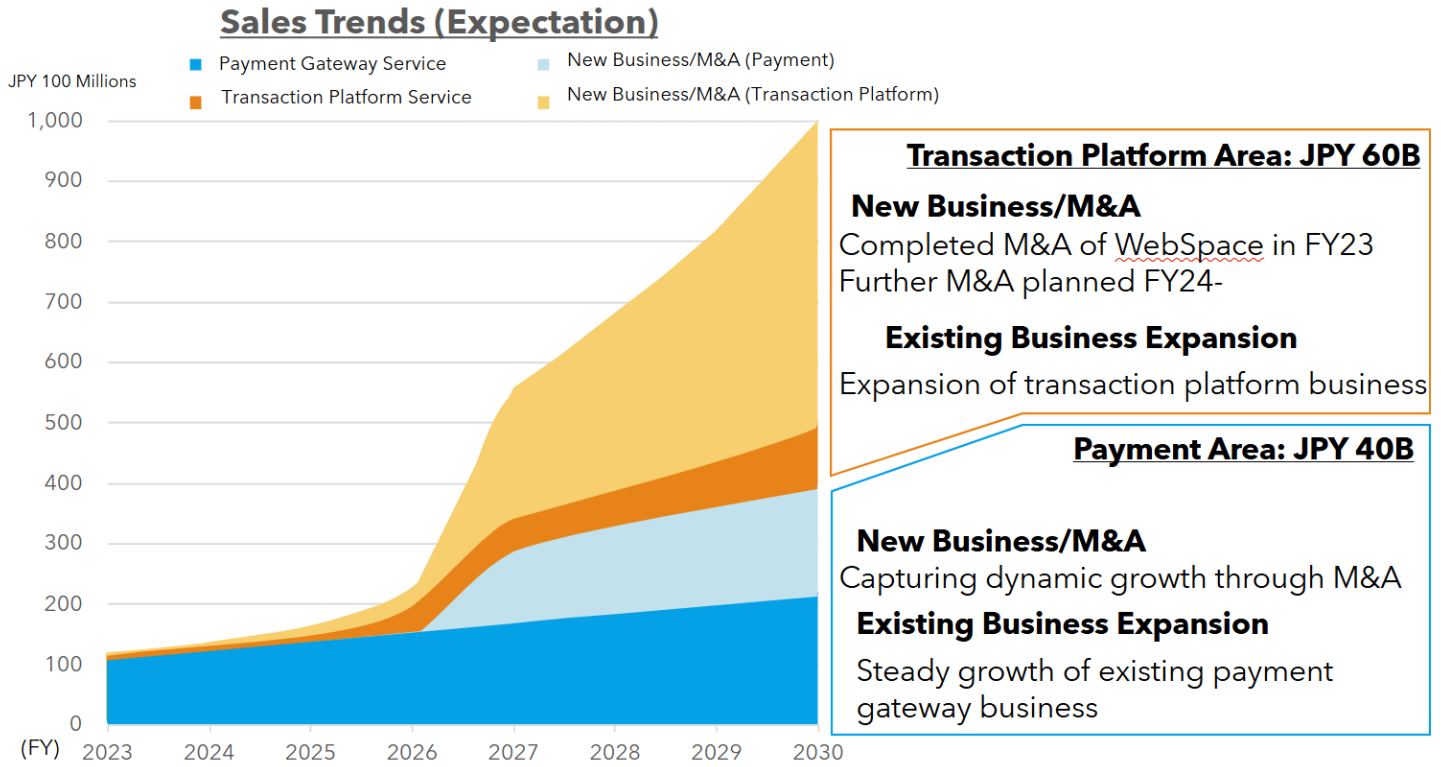
In the Payments Area, Aiming Capture Credit Card Transactions

In the payments area, the company plans to achieve sales of ¥40 billion by combining organic growth through the steady accumulation of stock income and inorganic growth through M&A and new businesses that are not extensions of existing businesses. In particular, the company plans to achieve organic growth through sales growth in the payment area, such as through the acquisition of a credit card settlement gateway with a large transaction volume.

In the transaction platform area, aim to increase sales through new businesses and M&A

In the transaction platform area, organic growth is expected to come from existing businesses such as cloud POS and in-house prepaid, as well as Data Hub and nextore. In terms of inorganic growth, the company expects to achieve sales of ¥60 billion through new transaction platform Service and M&A.

Figure 29. Firm Goals by 2030



Source: Company Data

12. ESG

No Disclosure of Carbon Dioxide Emissions Under the TCFD

TMN was newly listed in April 2023, just one year and two months ago and since it is in Tokyo Stock Exchange's Growth market, the level of ESG information is not yet sufficient. While the TSE Prime market requires disclosure in line with the TCFD, the Standard and Growth markets are voluntary. However, TMN's data centers and other facilities use electricity and as such it is expected to disclose Scope 1, 2, 3, and other carbon dioxide emissions in the future and to present future reduction targets. TMN has also started to consider TCFD disclosure.

Promoting Electronic Payments Reduces Carbon Emissions

According to the "Cashless Roadmap 2023" disclosed by the Cashless Promotion Council, the carbon dioxide emissions for a ¥1,000 payment using cash is 1.06g, whereas for electronic payment shopping it is 0.34g. Therefore, TMN is reducing its carbon footprint by promoting its core business and going cashless.

Company with Audit Committee, Voluntary Nominating Committee & Compensation Committee

The institutional design of TMN's Board of Directors is a company with an audit committee. It has a voluntary Nomination and Compensation Committee chaired by the President and Representative Director and consisting of two internal directors and three external directors, a total of five members.

3 out of 10 Board Members are Independent Outside Directors

Of the 10 directors for FY2024/3, 4 are internal (Atsushi Otaka, Ken Tanimoto, Michitaka Komatsubara, and Toru Nishiwaki) and 6 are external. Of the outside directors, three are independent: Saori Kanno (president of a foreign cosmetics company), Shinji Sakai (full-time Audit Committee member), Yukitoshi Sanada (university professor, Audit Committee member), and Hiroki Yanagisawa (lawyer, Audit Committee member). The two non-independent outside directors are Mr. Hiroya Nishimura (major shareholder: Mitsubishi Corporation) and Mr. Yusuke Tomimoto (major shareholder: Toyota Financial Service). The percentage of independent outside directors is 40%, and the percentage of female directors is 10%. The Audit Committee consists of three outside directors.

Appointment of 3 New Directors & Retirement of One Director at the General Meeting of Shareholders Held on June 26, 2024

Mr. Hiroya Nishimura and Mr. Yusuke Tomimoto resigned as of March 31, 2024. Mr. Toru Nishiwaki will retire at the end of his term of office at the Ordinary General Meeting of Shareholders that was held on June 26, 2024. At the same meeting, Kenji Yamauchi was newly appointed as an in-house director, and Takashi Sato (major shareholder: Mitsubishi Corporation) and Tateyuki Sawada (major shareholder: Toyota Financial Services Corporation) were appointed as outside directors.

Ratio of Female Managers in FY3/2024 is 4.3%, Lower Than the Average of TSE Listed Companies

According to TMN's annual securities report for the fiscal year ended March 31, 2024, the percentage of women in management positions is 4.3%. Of the 2,456 listed companies whose FY3/2023 financial results were compiled by Tokyo Shoko Research, the average is 9.4%; this is clearly lower than the average among the 1,706 companies that listed the "female managers ratio" in their securities reports.

TMN's male employees took 57.1% of available parental leave in FY3/2024. 52.5% was the rate for the 1,522 listed companies whose fiscal year ended

March 31, 2023, as compiled by Tokyo Shoko Research, Inc.

13. Valuation

Share Price Has Been on a Downward Trend Since July 4, 2023, after Early Highs Soon After Listing

TMN's Fundamentals are Not Well Understood by a Wide Range of Investors

Current Major Shareholders are Mainly Operating Companies of Strategic Partners, Which Poses a Liquidity Challenge

TMN listed its shares on Tokyo Stock Exchange's Growth market on April 4, 2023. At the time of listing, the company issued new shares at ¥930 per share. From there the shares rose steadily until July, hitting a high of ¥1,978 on July 4, 2024, after which began a downward trend leading to a historic low of ¥401 on August 5, 2024.

The sluggishness of the TSE Growth market is a factor, but it is also likely that TMN is not widely understood by general investors as it has only been on the market for 15-months.

As of March 2024, 52.29% of the top 10 largest major shareholders, excluding the 3rd-ranked Custody Bank of Japan (trust account) and 9th-ranked Nomura Trust & Banking (investment trust account), are investors of TMN from its founding or credit card companies with which TMN has collaborated with. According to Nikkei Company Information, the holdings of domestic and foreign institutional investors are very small, at 28.8% by individual investors and 1.2% by foreigners and there may be liquidity and other issues.

Figure 30. List of Major Shareholders as of March 31, 2024

Order	Major Shareholders	Number of Shares Held ('000 Shares)	Shareholding Ratio (%)
1	Mitsubishi Corporation	9,414.1	25.48
2	Toyota Financial Services Corporation	3,305.3	8.94
3	Custody Bank of Japan, Ltd.	2,613.6	7.07
4	JCB Co., Ltd.	1,396.4	3.78
5	Sumitomo Mitsui Card Co., Ltd	1,396.4	3.78
6	UC CARD Co., Ltd.	1,396.4	3.78
7	Toyota Finance Corporation	989.8	2.67
8	Internet Initiative Japan Inc.	733.3	1.98
9	Nomura Trust and Banking Co., Ltd.	728.3	1.97
10	Dai Nippon Printing Co., Ltd.	697.1	1.88
Total Amount		22,670.7	61.33

Source: Company Data

Leaving the Electronic Payment Business Alone at a Lower Price than Other Companies in the Industry, Even When Evaluated Only in the Electronic Payment Business

At this point, it is difficult to factor in the future potential of transaction platform services and its projected cash flow. However, even if we look at the electronic payment business alone, the company's valuation is low compared to its peers: as of May 31, FY3/2025, the company's P/E ratio was 62.9 times based on FY3/2025 EPS of ¥6.4 as of August 7, but a P/E ratio of 20.7 times to EPS of ¥19.4, excluding the one-time (expected) cost related to the data center relocation. GMO-FG and GMO-PG's FY3/2025 P/E ratios are 60.7 times and 40.5

times to FY9/2025 EPS of ¥103.41 and ¥204.68 respectively.

EV/EBITDA Multiple One-Third that of Peers

However, since net income is attributed to the parent company, which is the basis for EPS, is affected by depreciation and amortization of development investments, etc., we believe it is better to compare the two using EBITDA, which is also TMN's KPI. Since there is no EBITDA in the company's forecast, Figure 31, we compared TMN's EBITDA (ordinary income + depreciation + amortization of goodwill + interest expense) for the past 12-months as of March 2024 and its EV (market capitalization + interest-bearing debt - cash and cash equivalents) as of March 2024. We are left with an extremely low multiple at 8.5 times, compared to GMO FG's 40.2 times for GMO FG and GMO PG's 24.0 times. We also believe that the growth potential of the electronic payment business, which is expected to grow steadily and at a high rate over the next five years or so, has not been factored in at all.

As seen in Figure 32, the historical EV/EBITDA multiples for GMO FG and GMO PG have devalued since 2022. Nevertheless, GMO FG and GMO PG are still valued at EV/EBITDA multiples of over 40-times and 20-times respectively, after that this decline.

Focus on Further Expansion of Cloud POS

The timing of the announcement of the large-scale introduction of the cloud POS system is expected to be the focus of attention in the stock market in the near future. At the FY3/2024 financial results meeting, it was mentioned that the company plans to introduce 5,000 units in phases. This will not only mark the full-scale launch of the cloud POS business, but will also spread to other transaction platform services, such as Data Hub, which stores POS data.

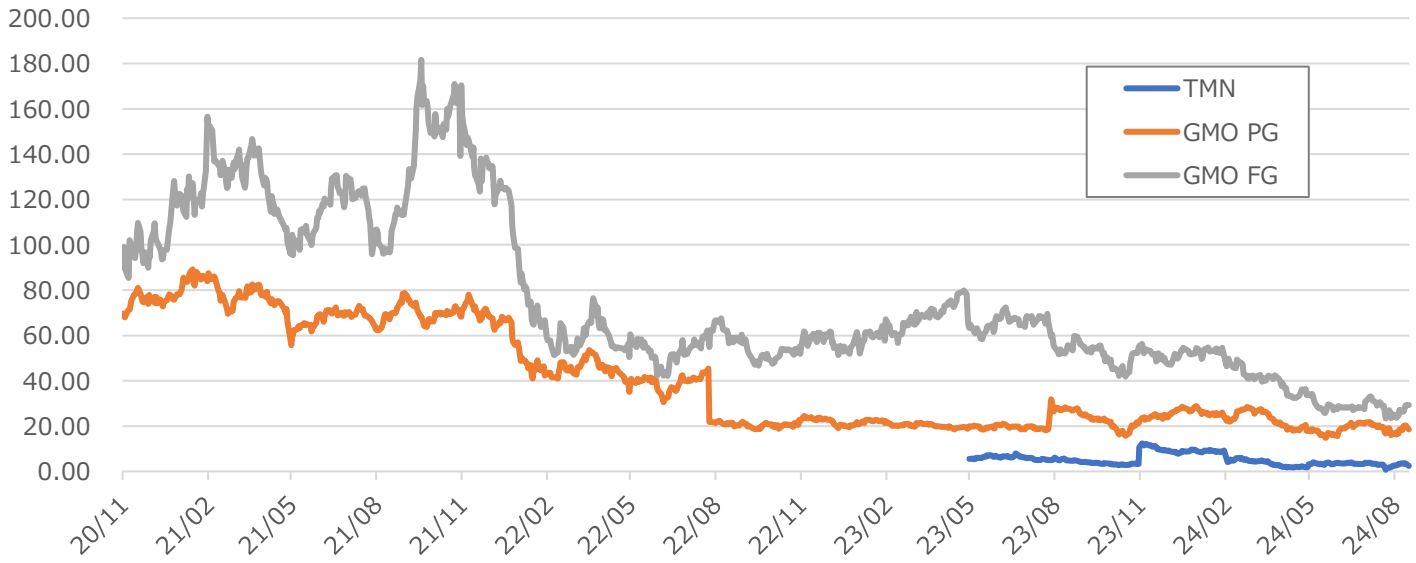
Figure 31. Comparison of Valuations with Peers

	Transaction Media Networks	GMO Payment Gateway	GMO Financial Gate	Block (Square) Yen Equivalent 1\$=151.41¥	Adyen Base 1€=163.24¥	Block (Square)	Adyen
FY	FY3/2024	LTM	LTM	FY12/2023	FY12/2023	FY12/2023	FY12/2023
Market Capitalization (¥ MN)	23,196	731,121	75,548	7,902,281	7,943,242	52,191 \$ mn	48,660 € mn
EV (2024/03)	20,343	643,716	73,032	7,456,033	6,638,128	49,244 \$ mn	40,665 € mn
EBITDA (¥ MN)	2,389	26,805	1,818	301,484	123,078	2,129 \$ mn	786 € mn
Net Income (¥ MN)	585	15,676	904	70,604	109,287	499 \$ mn	698 € mn
EV/EBITDA	8.5	24.0	40.2	23.1	51.7	23.1	51.7
PER	39.7	46.6	83.6	104.7	69.7	104.7	69.7
EPS (CoE)	6.4	204.7	103.4	516.7	4,615.2	3.4	28.3

* Forecasts for TMN, GMO PG, and GMO FG are based on company estimates, while those for Block and Adyen are based on the Fact Set consensus estimates.

Source: Prepared by Strategy Advisors

Figure 32. Comparison of Valuations with Peers (EV/EBITDA)



Source: Prepared by Strategy Advisors

14. Risk Factors

Although there are no major risks to watch for at this point, the following four risks can be identified that may prevent the company's performance from growing as much as expected.

- ① Risk that deliveries of cloud POS to a major retail chain planned for FY3/2025 will be postponed. The delivery performance of the first delivery is extremely important, increasing the likelihood that the subsequent development of the transaction platform services will be delayed.
- ② Risk of not being able to cross-sell payment services or expand QR/barcode payment volume due to increased competition. TMN has established strong barriers to entry in e-cash, where competition is low; but there are many competitors in credit card and QR/barcode payment services.
- ③ Risk of revenue opportunity losses and customer confidence losses due to natural disasters, large-scale communication failures and system failures caused by human error, etc. There is the risk of data center relocation planned for FY3/2025 not going smoothly.
- ④ Risk of customer information leakage. Leakage of personal information such as credit card numbers, names, addresses, telephone numbers and e-mail addresses to outside parties could result in security incident response costs and a loss of public trust in TMN.

Figure 33. Consolidated Statement of Income (¥ MN)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25 CoE	3/26 CoE
Total Revenue	4,068	4,977	8169	6451	7,139	7,831	10,370	13,645	16,109
(YoY)	NA	22.35%	64.14%	-21.03%	10.67%	9.69%	32.42%	74.24%	55.34%
Development Sales	1,470	1,235	1,116	820	897	636	861	648	780
(YoY)	NA	-15.99%	-9.64%	-26.52%	9.39%	-29.10%	35.38%	1.89%	-9.41%
Terminal Sales	1,077	1,574	3,266	1,459	1,364	1,360	1,730	2,358	1,997
(YoY)	NA	46.15%	107.50%	-55.33%	-6.51%	-0.29%	27.21%	73.38%	15.43%
Registration Fees	268	473	1209	631	728	647	537	505	599
(YoY)	NA	76.49%	155.60%	-47.81%	15.37%	-11.13%	-17.00%	-21.95%	11.55%
Gateway Service Fees	1,209	1,608	2,367	3,133	3,496	3,822	4,285	4,684	5,209
(YoY)	NA	33.00%	47.20%	32.36%	11.59%	9.32%	12.11%	22.55%	21.56%
QR/Barcode Settlement Fees	0	0	22	188	486	1,147	2,231	3,021	4,052
(YoY)	NA	#DIV/0!	#DIV/0!	754.55%	158.51%	136.01%	94.51%	163.38%	81.62%
Others	41	85	188	216	165	216	723	949	1,872
(YoY)	NA	107.32%	121.18%	14.89%	-23.61%	30.91%	234.72%	339.35%	158.92%
Gross Profit	2,214	2,358	2,862	1,915	2,279	2,562	3,321		
Gross Profit Margin	54.42%	47.38%	35.03%	29.69%	31.92%	32.72%	32.03%		
SGA	1,457	2,063	1,219	1,760	1,568	2,002	2,492		
Operating Profit	757	295	1,643	154	711	560	829	802	802
(YoY)	NA	-61.03%	456.95%	-90.63%	361.69%	-21.24%	48.04%	43.21%	-3.26%
OPM	18.61%	5.93%	20.11%	2.39%	9.96%	7.15%	7.99%	5.88%	4.98%
Non-Operating Income/Loss	-2	-1	5	4	1	-25	-11	-5	-5
Ordinary Income	755	294	1,648	158	712	535	818	797	797
(YoY)	NA	-61.06%	460.54%	-90.41%	350.63%	-24.86%	52.90%	48.97%	-2.57%
Net Profit Margin	18.56%	5.91%	20.17%	2.45%	9.97%	6.83%	7.89%	5.84%	4.95%
Extraordinary Income/Loss	NA	NA	NA	0	-1	5	5		
Profit Before Income Taxis	NA	NA	NA	159	711	540	540		
Income Taxis	NA	NA	NA	60	1,097	-132	-132		
Net Income	728	219	1,110	98	-385	672	637	732	732
(YoY)	NA	-69.92%	406.85%	-91.17%	-492.86%	-274.55%	-5.21%	8.93%	14.91%

Source: Company Data

Figure 33. Consolidated Balance Sheet (¥ MN)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24
Cash and Deposits	1,907	1,583	2,533	2,168	3,419	2,861	13,173
Accounts Receivable				1,110	1,034	1,044	1,345
Inventories				264	549	504	621
Others				507	221	205	1,043
Current Assets				4,049	5,223	4,614	16,182
Construction In Progress				269	14	85	445
Others				699	778	558	1,420
Property, Plant and Equipment				968	792	643	1,865
Goodwill				0	0	0	537
Intangible Assets	2,346	2,457	3,170	4,113	4,001	4,070	6,699
Deferred Tax Asset				129	0	147	120
Investment Securities				0	0	0	286
Investments and Other Assets				511	355	482	784
Total Non-Current Assets	2,808	3,991	4,524	5,592	5,148	5,194	9,348
Total Assets	7,167	7,246	9,322	9,641	10,372	9,808	25,530
Accounts Payable - Trade				53	149	68	206
Accounts Payable - Other				700	390	779	0
Short - Term Debt				1,014	507	5	167
Advances Received				0	2,528	2,009	1,764
Deposits Received					661	1,684	8,735
Others				425	262	189	1,690
Current Liabilities				2,192	4,497	4,734	12,562
Long-Term Debt				15	8	3	1,560
Accrued Pension Cost / Salary Allowance				88	101	115	178
Others				40	0	1	401
Non-Current Liabilities				143	109	119	2,139
Total Liabilities	1,295	1,154	2,119	2,335	4,606	4,852	14,700
Capital	9,812	9,812	9,812	3,053	3,553	3,553	6,151
Capital Surplus	3,100	3,100	2,581	3,053	3,553	708	3,306
Retained Earnings	18,288	19,973	21,021	1,195	-1,345	673	1,258
Shareholders' Equity	25,326	27,070	29,629	7,302	5,761	4,934	10,714
Stock Acquisition Rights	2,254	1,646	123	5	5	22	40
Valuation Difference on Other Securities			0	0	0	76	76
Total Net Assets	5,872	6,092	7,203	7,306	5,766	4,956	10,830

Source: Company Data

Figure 34. Consolidated Operating Cash Flow Chart (¥ MN)

FY	3/21	3/22	3/23	3/24
Depreciation	1,206	1,464	1,601	1,615
Loss (Gain) on Valuation of Investment	1	0	0	0
Interest and Dividends Received	0	0	0	0
Interest Payments	-2	-4	0	0
Increase (Decrease) in Deposits Received		298	1,023	1,177
Other Operating Cash Flows	-165	352	180	-2,259
Cash Flows from Operating Activities	1,040	2,110	2,804	533
Purchase of Property, Plant and Equipment	-451	-167	-101	-476
Purchase of Intangible Assets	-1,860	-1,177	-1,277	-2,455
Purchase of Investment Securities	0	0	0	-200
Purchase of Shares of Subsidiaries Resulting in Change in Scope of Consolidation				7,710
Cash Flows from Investing Activities	-2,311	-1,344	-1,377	4,589
Proceeds from Short-Term Borrowings	970	0	0	0
Repayment of Short-Term Debt	0	-500	-500	0
Issuance of Shares	0	1,000	0	5,195
Redemption and Cancellation of Shares	0	0	-1,500	0
Other Financing Cash Flows	-64	-14	15	-5
Cash Flows from Financing Activities	906	486	-1,985	5,190
Free Cash Flow	-1,271	766	1,427	5,122

Source: Company Data

Figure 35. Stock Indicators, ROE and KPI's

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25 CoE	3/26 CoE
EPS (¥)	3,493	17,632	3.13	-12.23	21.19	15.85	6.38	40.83
BPS (¥)	96,731	114,362	232	179	160	292	293	NA
Dividend Per Share (¥)	NA	NA	0	0	0	0	0	NA
Dividend Payout Ratio	NA	NA	0.00%	0.00%	0.00%	0.00%	0.00%	NA
Closing Price (¥)	NA	NA	NA	NA	NA	628	529	529
PER (Times)	NA	NA	NA	NA	NA	39.6	82.9	13.0
PBR (Times)	NA	NA	NA	NA	NA	2.1	1.8	NA
Shares Issued & O/standing (TN)	63.0	63.0	NA	NA	NA	36,937	36,943	NA
Number Of Treasury Stock (‘000 Shares)	NA	NA	NA	NA	NA	0	0	NA
Number Of Shares of Treasury Stock Excluded (‘000 Shares)	NA	NA	NA	NA	NA	36,937	36,943	NA
Market Capitalization (¥ MN)	NA	NA	NA	NA	NA	23,196	19,543	NA
Shareholders' Equity Ratio	84.1%	77.3%	75.73%	55.54%	50.30%	41.97%	41.97%	NA
Interest-Bearing Debt	NA	NA	1,029	515	8	1,728	1,728	NA
D/E Ratio	NA	NA	0.14	0.09	0.00	0.16	0.16	NA
EV (Enterprise Value)	NA	NA	NA	NA	NA	11,751	8,098	NA
EBITDA (¥ MN)	1,079	2,667	1,367	2,180	2,137	2,441,392	2,526	5,030
EV/EBITDA Multiple	NA	NA	NA	NA	NA	4.81	3.21	NA
ROE	3.7%	16.7%	1.35%	-6.69%	13.58%	5.40%		
ROIC (Capital Invested)	NA	NA	1.14%	-6.14%	13.94%	4.75%		
ROIC (Business Assets)	NA	NA	1.45%	-9.93%	15.85%	6.97%		
Number of Employees	217	236	275	249	254			
Number of Connected Terminals (10,000)	30	50	59	70	83	96		
Annual Settlement Processing Transaction Value (GMV) (¥ TN)	1.1	1.7	2.6	3.1	3.7	4.6		
Annual Number of Settlements Processed (Billions of Times)	9	12	15	17	20	24		

Note: Stock price indices for FY3/25 (company forecast) and FY2/26 (company target) are based on the closing price on August 7. Balance sheet items are as of FY3/2024.

Source: Company Data

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