



## Net Marketing / 6175

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Research Coverage Report by Shared Research Inc.

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## Executive summary

### Business overview

- **Business:** Net Marketing was founded in July 2004 as an online ad agent handling affiliate ad plans for advertisers running promotional campaigns, and has since expanded into new products such as social media ads. It currently operates in two business segments: the Advertising business (online ad agency), and the Media business that operates the Omiai app (launched in February 2012), which provides a safe and secure meeting place for singles. In FY06/20, the Advertising business had revenue of JPY9.8bn (+0.2% YoY) and segment profit of JPY891mn (+3.4% YoY), and the Media business had revenue of JPY4.5bn (+6.8% YoY) and segment profit of JPY449mn (+250.2% YoY).
- **Advertising business:** The main product in this business is affiliate ads. Net Marketing connects advertisers (end clients) with affiliate service providers (ASPs; affiliate ad distributors) or with the individual media and social media platforms it partners with. The company earns revenue as an agent, formulating marketing strategies for advertisers and providing them operational support. The advertisers are mostly beauty salons and companies engaged in HR and finance. A portion of the ad revenue Net Marketing earns is paid to the affiliates as performance fees. Profit margins vary by project, but the company says overall segment profit margin is a low 8.8%. In addition to affiliate ads, the company has handled social media ads since Q4 FY06/18.
- **Media business:** Revenue in the Media business mainly comprises fees (monthly usage and added options) from paying members (male users) of the matchmaking app Omiai. As of end-FY06/20, the number of paying members (monthly service users) was approximately 77,000 (-100 members YoY). A one-month plan was priced at JPY3,980/month (tax inclusive) as of August 2020, but long-term plans are discounted (e.g., the three-month plan was JPY3,320 yen/month [tax inclusive]). We estimate ARPPU to be around JPY5,000–6,000 based on past Media business revenue and numbers of paying members. Users often do not stop using the matchmaking app immediately after establishing a match, and the app allows for multiple simultaneous matches. However, once two members form a couple, there is no need for them to continue using the app since they can communicate by other means. In other words, there is turnover in paying members. This structure necessitates continuous acquisition of new subscribers, which calls for a certain amount of continuous advertising spending. Although some members pay for long-term plans and there is some repeat demand due to resumption of use, the profit structure is different from a typical subscription model that assumes long-term continuous use.
- **Rebranding of Omiai:** Net Marketing commenced a promotion geared at rebranding Omiai in February 2020. The company said the aim of this effort was to increase Omiai's recognition and attractiveness, particularly among the younger generation. Having realized in FY06/19 that reliance on cost-per-action-based online ads was not enough to drive further growth of the app, the company decided to increase organic user inflow through rebranding. Unlike promotions that primarily rely on online advertising, the rebranding effort is not focused on raising short-term earnings and instead targets future organic increases in member volume. Accordingly, the company views it as a long-term initiative that will last several years.
- **Market environment of matchmaking apps in Japan:** According to "Matchmaking Activity Survey 2019" by Recruit Marketing Partners Co. Ltd.'s Bridal Research Institute, the percentage of people who got married through online matchmaking services was 7.4% in 2018. This number has seen continuous growth from roughly 2% in 2012–13, likely in line with users increasingly adopting mobile app versions of matchmaking services. According to the "Online Matchmaking Service Market Size Forecast (2017–2025)" by MatchingAgent, Inc. and digitalinfact, the size of the online matchmaking market was JPY51.0bn in 2019, and will be JPY106.0bn in 2025. (It should be noted that this forecast was announced in January 2020, and the impact of the COVID-19 pandemic on the market from 2020 onward was not taken into consideration in various relevant statistics.)
- **Competition in the market for matchmaking apps in Japan:** Rival apps are Pairs, run by a subsidiary of The Match Group (NASDAQ, MTCH), a global leader in the matchmaking app market; and Tapple run by a subsidiary of CyberAgent, Inc. (TSE1: 4751), a major online advertising company in Japan. Estimating from consumer app spending in 2019, we understand Pairs and Tapple have greater market shares than Omiai.

## Trends and outlook

- Net Marketing reported FY06/20 revenue of JPY14.4bn (+2.2% YoY), operating profit of JPY735mn (+73.3% YoY), recurring profit of JPY747mn (+77.4% YoY), and net income of JPY510mn (+79.6% YoY). The company was mainly affected by the spread of COVID-19 in Q4 FY06/20. In the Media business, fewer opportunities for singles to date amid the shelter-in-place request by the Government and the company's cutback on promotional activities have led to sluggish growth in paying member counts and missed opportunities to capture new app users. In addition, existing members held off purchasing point premium packs. As a result, monthly fee revenue and key performance indicators declined. In the Advertising business, the acquisition of advertisers in the brick-and-mortar store business category slowed in response to the shelter-in-place request and temporary store closures. At the same time, advertisers scaled back ad placement and business opportunities decreased amid concerns of a deterioration of the business environment. The YoY increase in operating profit was mainly due to the absence of strategic investments made in the Media business in FY06/19.
- The company's full-year FY06/21 forecast calls for revenue of JPY15.5bn (+7.9% YoY), operating profit of JPY500–800mn (-32.0 to +8.8% YoY), recurring profit of JPY500–800mn (-33.1 to +7.1% YoY), net income of JPY340–550mn (-33.3 to +7.9% YoY), and an EPS of JPY22.98–37.17. This is below the company's revised medium-term target (revenue: JPY19.4bn, operating profit: 1.2bn) announced in August 2019. Net Marketing envisions being able to air TV commercials for its Omiai app from Q4 FY06/21 or after. However, as of August 11, 2020, the company could not determine whether this was actually possible, and was also unable to gauge the effects of the commercials, which led to its decision to provide targets in a range. The company noted that revenue and profit growth from the TV commercials are not factored into its FY06/21 forecast. As for paid Omiai memberships, the company maintained its target of 100,000 members by end-FY06/21. (The company originally assumed it would reach its target at an early stage in FY06/21, but its current forecast assumes that the target will not be reached until near the end of the fiscal year.)

## Strengths and weaknesses

- Shared Research believes Net Marketing has three key strengths; 1) rebranding of the Omiai matching app to improve recognition and attractiveness; 2) a rich customer base built on pursuing the top position in the niche affiliate ad agency market; and 3) an Advertising business centered on affiliate advertising, which is relatively unaffected by economic downturns.
- Weaknesses include: 1) The existence of competitors with a greater share of the Japan matchmaking app market; 2) being outperformed in terms of capital by major competitors in matchmaking apps; and 3) end clients in the Advertising business being overly weighted toward certain industries, making the earnings structure vulnerable changes in the environment (See the "Strengths and weaknesses" section for details.)

Figures in this report may differ from company materials due to differences in rounding methods.

## Key financial data

Income statement (JPYmm)	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19	FY06/20	FY06/21
	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Parent Est.
<b>Revenue</b>	<b>2,697</b>	<b>4,691</b>	<b>6,619</b>	<b>8,524</b>	<b>8,824</b>	<b>9,868</b>	<b>11,210</b>	<b>14,051</b>	<b>14,364</b>	<b>15,500</b>
YoY	-	74.0%	41.1%	28.8%	3.5%	11.8%	13.6%	25.3%	2.2%	7.9%
<b>Gross profit</b>	-	-	-	<b>1,798</b>	<b>1,793</b>	<b>2,532</b>	<b>3,272</b>	<b>4,332</b>	<b>4,570</b>	-
YoY	-	-	-	-	-0.3%	41.2%	29.3%	32.4%	5.5%	-
GPM	-	-	-	21.1%	20.3%	25.7%	29.2%	30.8%	31.8%	-
<b>Operating profit</b>	-	-	-	<b>425</b>	<b>274</b>	<b>441</b>	<b>551</b>	<b>424</b>	<b>735</b>	<b>500 ~ 800</b>
YoY	-	-	-	-	-35.6%	61.3%	24.9%	-23.1%	73.3%	-32.0% ~ 8.8%
OPM	-	-	-	5.0%	3.1%	4.5%	4.9%	3.0%	5.1%	-
<b>Recurring profit</b>	<b>-1</b>	<b>56</b>	<b>273</b>	<b>419</b>	<b>275</b>	<b>424</b>	<b>566</b>	<b>421</b>	<b>747</b>	<b>500 ~ 800</b>
YoY	-	-	391.5%	-	-34.4%	54.2%	33.7%	-25.6%	77.4%	-33.1% ~ 7.1%
RPM	0.0%	1.2%	4.1%	4.9%	3.1%	4.3%	5.1%	3.0%	5.2%	-
<b>Net income</b>	<b>-4</b>	<b>61</b>	<b>163</b>	<b>271</b>	<b>177</b>	<b>297</b>	<b>404</b>	<b>284</b>	<b>510</b>	<b>340 ~ 550</b>
YoY	-	-	165.0%	-	-34.8%	68.1%	35.9%	-29.7%	79.6%	-33.3% ~ 7.9%
Net margin	-	1.3%	2.5%	3.2%	2.0%	3.0%	3.6%	2.0%	3.5%	-
<b>Per-share data (JPY)</b>										
Shares issued (year-end; '000)	-	-	-	-	13,988	13,988	14,562	14,579	14,797	-
EPS	-	-	6.3	10.6	6.9	22.5	28.2	19.5	34.5	22.98 ~ 37.17
EPS (fully diluted)	-	-	-	-	-	22.1	27.0	19.0	33.9	-
Dividend per share	-	-	-	-	-	-	5.0	5.0	6.0	6.0
Book value per share	-	-	-	53.1	65.5	115.4	141.9	157.1	186.0	-
<b>Balance sheet (JPYmm)</b>										
Cash and cash equivalents	-	-	-	893	1,391	2,244	3,027	3,044	3,214	-
<b>Total current assets</b>	-	-	-	<b>2,708</b>	<b>2,591</b>	<b>3,504</b>	<b>4,469</b>	<b>4,883</b>	<b>4,515</b>	-
Tangible fixed assets	-	-	-	20	21	17	141	121	107	-
Investments and other assets	-	-	-	110	85	266	239	263	311	-
Intangible fixed assets	-	-	-	86	138	121	43	15	45	-
<b>Total assets</b>	-	-	-	<b>2,924</b>	<b>2,835</b>	<b>3,908</b>	<b>4,892</b>	<b>5,281</b>	<b>4,978</b>	-
Short-term debt	-	-	-	94	103	88	80	80	80	-
<b>Total current liabilities</b>	-	-	-	<b>2,154</b>	<b>1,656</b>	<b>2,054</b>	<b>2,666</b>	<b>2,911</b>	<b>2,225</b>	-
Long-term debt	-	-	-	80	328	240	160	80	-	-
<b>Total fixed liabilities</b>	-	-	-	<b>81</b>	<b>328</b>	<b>240</b>	<b>160</b>	<b>80</b>	-	-
<b>Total liabilities</b>	-	-	-	<b>2,235</b>	<b>1,984</b>	<b>2,294</b>	<b>2,826</b>	<b>2,991</b>	<b>2,225</b>	-
<b>Net assets</b>	<b>805</b>	<b>1,637</b>	<b>2,079</b>	<b>2,924</b>	<b>2,835</b>	<b>3,908</b>	<b>4,892</b>	<b>5,281</b>	<b>4,978</b>	-
Total interest-bearing debt	-	-	-	174	430	328	240	160	80	-
<b>Cash flow statement (JPYmm)</b>										
Cash flows from operating activities	-	-	-	360	356	718	920	213	368	-
Cash flows from investing activities	-	-	-	-127	-96	-227	-22	43	-71	-
Cash flows from financing activities	-	-	-	-95	250	342	-33	-159	-127	-
<b>Financial ratios</b>										
ROA (RP-based)	-	-	-	14.3%	9.5%	12.6%	12.9%	8.3%	14.6%	-
ROE	-2.2%	28.2%	49.3%	49.7%	22.9%	24.1%	21.9%	13.0%	20.2%	-
Equity ratio	23.3%	15.2%	19.8%	23.6%	30.0%	41.3%	42.2%	43.4%	55.3%	-
<b>Employees</b>										
No. of employees	43	62	79	93	98	111	114	120		
Revenue per employee	62.7	75.7	83.8	91.7	90.0	88.9	98.3	117.1		
Operating profit per employee	-	-	-	4.6	2.8	4.0	4.8	3.5		

Source: Shared Research based on company data.

Notes: Per share data has been adjusted to reflect the 2-for-1 stock split enacted by the company on March 14, 2018.

Figures may differ from company materials due to differences in rounding methods.

Figures for non-consolidated YoY growth in FY06/19 reflect a comparison to consolidated earnings in FY06/18. These differ slightly from the figures for YoY growth on the company's financial statements summary, as those figures reflect a comparison of non-consolidated earnings in both years.

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## Recent updates

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### Highlights

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On October 7, 2020, Shared Research updated the report following interviews with Net Marketing Co., Ltd.

On the same day, the company released monthly business data for September 2020.

On September 4, 2020, the company released monthly business data for August 2020.

On August 13, 2020, the company launched a new video promotion campaign.

On August 11, 2020, the company announced earnings results for full-year FY06/20; see the results section for details.

On August 7, 2020, the company released monthly business data for July 2020.

**For previous releases and developments, please refer to the News and topics section.**

## Trends and outlook

### Media business KPI (monthly, quarterly)

#### Monthly Media Business data: Omiai membership and matches made

('000)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Number of paying members	2015					19						
	2016					28						
	2017					40			44			45
	2018			48		53			65			65
	2019			69		77			81			76
	2020			78		77						
Number of paying members YoY	2015					-0.2%						
	2016					48.6%						
	2017					41.4%						
	2018					33.1%			46.2%			45.2%
	2019			45.2%		43.8%			24.8%			16.8%
	2020			13.2%		-0.2%						
Cumulative total number of members ('000)	2015					1,010	1,041	1,075	1,108	1,143	1,179	1,217
	2016	1,265	1,305	1,344	1,389	1,449	1,504	1,556	1,608	1,666	1,727	1,845
	2017	1,922	1,984	2,051	2,120	2,198	2,270	2,336	2,413	2,484	2,557	2,625
	2018	2,790	2,864	2,942	3,024	3,124	3,214	3,320	3,425	3,517	3,611	3,700
	2019	3,881	3,964	4,068	4,158	4,271	4,385	4,481	4,599	4,703	4,806	4,898
	2020	5,123	5,216	5,317	5,405	5,507	5,605	5,708	5,840	5,964		
Change in the number of members ('000)	2015						31	34	33	35	36	38
	2016	48	40	39	45	60	55	52	58	61	57	61
	2017	77	62	67	68	79	72	66	77	71	73	68
	2018	91	74	78	82	100	91	106	105	92	94	89
	2019	98	83	104	90	112	114	96	118	104	103	92
	2020	112	93	101	88	102	98	103	132	124		
New members ('000)	2017						66	76	70	73	67	75
	2018	90	73	77	82	99	90	106	103	92	88	82
	2019	98	82	94	99	112	113	108	118	103	102	92
	2020	111	93	101	87	102	97	103	131	124		
	Paying members, as % of total	2016					1.89%					
2017						1.77%			1.78%			1.67%
2018				1.62%		1.66%			1.83%			1.73%
2019				1.70%		1.75%			1.71%			1.52%
2020				1.47%		1.37%						
Paying members, as % of new members	2017								20.8%			20.9%
	2018			19.8%		19.7%			21.4%			24.7%
	2019			25.2%		23.7%			24.5%			24.9%
	2020			25.7%		26.8%						
Cumulative total number of matching ('000 pairs)	2015					3,270	3,370	3,474	3,573	3,692	3,832	4,009
	2016	4,179	4,346	4,561	4,778	5,032	5,260	5,498	5,736	5,978	6,250	6,881
	2017	7,252	7,597	7,953	8,329	8,868	9,359	9,883	10,535	11,215	11,989	12,706
	2018	14,305	15,061	15,880	16,661	17,547	18,408	19,429	20,522	21,584	22,637	23,698
	2019	26,225	27,386	28,651	29,842	31,127	32,513	33,955	35,461	36,917	38,358	39,694
	2020	42,558	43,907	45,341	46,680	48,104	49,458	50,909	52,491	54,054		
Number of matching ('000 pairs)	2015					100	104	99	119	140	177	
	2016	170	167	215	217	254	228	238	242	272	302	329
	2017	371	345	356	376	540	491	524	652	680	774	717
	2018	872	755	819	781	886	861	1,021	1,093	1,062	1,053	1,061
	2019	1,333	1,161	1,265	1,191	1,285	1,386	1,442	1,506	1,456	1,441	1,336
	2020	1,484	1,349	1,434	1,339	1,424	1,354	1,451	1,582	1,563		
Number of matching per paying member (pairs)	2015					8						
	2016					12						16
	2017					16			15			18
	2018			17		16			16			18
	2019			18		18			18			18
	2020			18		18						

Source: Shared Research based on company data

Notes: Monthly data from the company is limited to cumulative total number of members, new members, and cumulative total number of matching. All other figures were calculated independently by Shared Research. As of July 2020 monthly data, the company has been able to release finalized figures earlier than before. As such, the company revised its data to be more detailed. The table above shows the revised figures.

The number of paying members is disclosed only on the last month in each quarter (shown on a graph in the company's results briefing materials)

Only men are paying members.

Paying members are those paying a monthly fee and excluding those who do not use the monthly service and have purchased the point premium pack only.

Monthly ARPPU (about JPY5,500) can be calculated based on Media business segment revenue/cumulative 12-months total of paying members.

Definition of matching: A match is considered made when an interested party clicks the equivalent of a "like", and the person to whom that click was sent replies with a "thank you" click.

According to the company, the key to gaining paying members is to increase new members rather than increase cumulative members, based on the assumption that paying members come from the active new member groups joining the service over the

last few months. Given the nature of matchmaking apps, users do not remain as customers for an especially long period of time, with members being swapped out in relatively short order. Accordingly, the number of new members and the number of paying members can easily be impacted by when the company chooses to advertise and how much it decides to spend on that advertising. As of June 2020, the number of matches made per paying member was more than twice as high as it was as of June 2016.

## Quarterly trends and results

Cumulative (JPYmm)	FY06/18 (consolidated)				FY06/19 (parent)				FY06/20 (parent)				FY06/20 (parent)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Revenue	2,709	5,022	7,714	11,210	3,455	6,533	9,813	14,051	4,255	7,752	11,314	14,364	100.5%	14,290
YoY	-	8.0%	10.3%	13.6%	27.5%	30.1%	27.2%	25.3%	23.1%	18.6%	15.3%	2.2%		1.7%
Gross profit	771	1,516	2,360	3,272	982	1,953	2,990	4,332	1,386	2,504	3,590	4,570		
YoY	-	31.4%	32.0%	29.3%	27.3%	28.8%	26.7%	32.4%	41.1%	28.2%	20.1%	5.5%		
GPM	28.5%	30.2%	30.6%	29.2%	28.4%	29.9%	30.5%	30.8%	32.6%	32.3%	31.7%	31.8%		
SG&A expenses	581	1,211	1,883	2,717	955	1,927	2,846	3,908	979	1,996	2,987	3,835		
YoY	-	27.7%	25.5%	30.0%	64.3%	59.2%	51.1%	43.8%	2.6%	3.5%	5.0%	-1.9%		
SG&A ratio	21.5%	24.1%	24.4%	24.2%	27.6%	29.5%	29.0%	27.8%	23.0%	25.7%	26.4%	26.7%		
Operating profit	190	306	477	555	27	26	144	424	406	508	603	735	105.0%	700
YoY	-	48.1%	65.3%	25.7%	-85.8%	-91.5%	-69.8%	-23.6%	-	1857.6%	318.9%	73.3%		65.0%
OPM	7.0%	6.1%	6.2%	4.9%	0.8%	0.4%	1.5%	3.0%	9.6%	6.6%	5.3%	5.1%		4.9%
Recurring profit	202	317	488	570	27	22	140	421	410	513	613	747	105.2%	710
YoY	-	54.2%	78.3%	34.5%	-86.6%	-93.1%	-71.4%	-26.1%	-	2244.2%	338.9%	77.3%		68.5%
RPM	7.4%	6.3%	6.3%	5.1%	0.8%	0.3%	1.4%	3.0%	9.6%	6.6%	5.4%	5.2%		5.0%
Net income	144	222	336	397	17	9	91	284	283	352	420	510	106.2%	480
YoY	-	60.2%	83.4%	33.8%	-88.3%	-95.9%	-72.8%	-28.5%	-	3740.5%	359.4%	79.6%		69.1%
Net margin	5.3%	4.4%	4.4%	3.5%	0.5%	0.1%	0.9%	2.0%	6.6%	4.5%	3.7%	3.5%		3.4%

Quarterly (JPYmm)	FY06/18 (consolidated)				FY06/19 (parent)				FY06/20 (parent)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	2,709	2,312	2,693	3,496	3,455	3,078	3,280	4,238	4,255	3,497	3,562	3,050
YoY	-	-	14.9%	21.5%	27.5%	33.1%	21.8%	21.2%	23.1%	13.6%	8.6%	-28.0%
Gross profit	771	745	843	912	982	971	1,036	1,342	1,386	1,118	1,086	980
YoY	-	-	33.1%	22.7%	27.3%	30.3%	22.9%	47.1%	41.1%	15.1%	4.8%	-27.0%
GPM	28.5%	32.2%	31.3%	26.1%	28.4%	31.6%	31.6%	31.7%	32.6%	32.0%	30.5%	32.1%
SG&A expenses	581	629	672	834	955	972	919	1,062	979	1,016	992	848
YoY	-	-	21.9%	41.3%	64.3%	54.5%	36.6%	27.3%	2.6%	4.5%	8.0%	-20.2%
SG&A ratio	21.5%	27.2%	25.0%	23.9%	27.6%	31.6%	28.0%	25.1%	23.0%	29.1%	27.8%	27.8%
Operating profit	190	116	171	78	27	-1	118	280	406	102	95	133
YoY	-	-	108.8%	-48.9%	-85.8%	-	-31.0%	258.1%	-	-	-19.8%	-52.7%
OPM	7.0%	5.0%	6.3%	2.2%	0.8%	-	3.6%	6.6%	9.6%	2.9%	2.7%	4.3%
Recurring profit	202	116	170	82	27	-5	118	282	410	103	100	134
YoY	-	-	151.4%	-45.3%	-86.6%	-	-30.9%	242.7%	-	-	-15.3%	-52.4%
RPM	7.4%	5.0%	6.3%	2.4%	0.8%	-	3.6%	6.6%	9.6%	2.9%	2.8%	4.4%
Net income	144	78	114	61	17	-8	82	193	283	69	68	90
YoY	-	-	155.7%	-46.2%	-88.3%	-	-27.8%	214.5%	-	-	-17.4%	-53.1%
Net margin	5.3%	3.4%	4.2%	1.8%	0.5%	-	2.5%	4.5%	6.6%	2.0%	1.9%	3.0%

Source: Shared Research based on company data

Figures for non-consolidated YoY growth in FY06/19 reflect a comparison to consolidated earnings in FY06/18. These differ slightly from the figures for YoY growth on the company's financial statements summary, as those figures reflect a comparison of non-consolidated earnings in both years.



## Earnings trends by segment

Cumulative (JPYmm)	FY06/18 (consolidated)				FY06/19 (parent)				FY06/20 (parent)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Revenue</b>	<b>2,709</b>	<b>5,022</b>	<b>7,714</b>	<b>11,210</b>	<b>3,455</b>	<b>6,533</b>	<b>9,813</b>	<b>14,051</b>	<b>4,255</b>	<b>7,752</b>	<b>11,314</b>	<b>14,364</b>
YoY	-	8.0%	10.3%	13.6%	27.5%	30.1%	27.2%	25.3%	23.1%	18.6%	15.3%	2.2%
Advertising	1,969	3,514	5,414	8,074	2,449	4,480	6,704	9,812	3,018	5,372	7,831	9,835
YoY	-	-1.4%	2.8%	8.3%	24.4%	27.5%	23.8%	21.5%	23.2%	19.9%	16.8%	0.2%
% of total revenue	72.7%	70.0%	70.2%	72.0%	70.9%	68.6%	68.3%	69.8%	70.9%	69.3%	69.2%	0.6703599
Media	741	1,507	2,300	3,136	1,006	2,053	3,109	4,239	1,238	2,380	3,483	4,529
YoY	-	38.9%	33.3%	29.9%	35.8%	36.2%	35.1%	35.2%	23.1%	15.9%	12.0%	6.8%
% of total revenue	27.3%	30.0%	29.8%	28.0%	29.1%	31.4%	31.7%	30.2%	29.1%	30.7%	30.8%	0.3087014
Adjustments	0	0	0	0	0	0	0	0				-307
<b>Operating profit</b>	<b>189</b>	<b>304</b>	<b>475</b>	<b>551</b>	<b>27</b>	<b>26</b>	<b>144</b>	<b>424</b>	<b>406</b>	<b>508</b>	<b>603</b>	<b>735</b>
YoY	-	47.4%	64.6%	24.9%	-85.8%	-91.5%	-69.7%	-23.1%	-	1857.6%	318.9%	73.3%
Operating profit margin	7.0%	6.1%	6.2%	4.9%	0.8%	0.4%	1.5%	3.0%	9.6%	6.6%	5.3%	5.1%
Advertising	157	267	437	620	177	315	495	862	375	568	778	891
YoY	-	6.3%	21.4%	18.8%	12.5%	18.0%	13.2%	39.0%	112.3%	80.5%	57.3%	3.4%
% of total OP	52.1%	50.5%	51.4%	58.1%	106.6%	106.4%	90.3%	87.1%	67.3%	70.5%	74.0%	66.5%
OPM	8.0%	7.6%	8.1%	7.7%	7.2%	7.0%	7.4%	8.8%	12.4%	10.6%	9.9%	9.1%
Media	144	262	416	451	-11	-19	53	128	182	238	274	449
YoY	-	119.5%	102.1%	46.2%	-	-	-87.2%	-71.5%	-	-1354.0%	413.0%	250.2%
% of total OP	47.9%	49.5%	48.9%	42.2%	-6.6%	-6.4%	9.7%	12.9%	32.7%	29.5%	26.0%	33.5%
OPM	19.5%	17.4%	18.1%	14.4%	-1.1%	-0.9%	1.7%	3.0%	14.7%	10.0%	7.9%	9.9%
Adjustments	-112	-224	-376	-516	-139	-270	-404	-566	-151	-298	-449	-605
Quarterly (JPYmm)	FY06/18 (consolidated)				FY06/19 (parent)				FY06/20 (parent)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Revenue</b>	<b>2,709</b>	<b>2,312</b>	<b>2,693</b>	<b>3,496</b>	<b>3,455</b>	<b>3,078</b>	<b>3,280</b>	<b>4,238</b>	<b>4,255</b>	<b>3,497</b>	<b>3,562</b>	<b>3,050</b>
YoY	-	-	14.9%	21.5%	27.5%	33.1%	21.8%	21.2%	23.1%	13.6%	8.6%	-28.0%
Advertising	1,969	1,545	1,900	2,660	2,449	2,031	2,224	3,108	3,018	2,354	2,459	2,004
YoY	-	-	11.5%	21.5%	24.4%	31.4%	17.1%	16.8%	23.2%	15.9%	10.6%	-35.5%
% of total revenue	72.7%	66.8%	70.6%	76.1%	70.9%	66.0%	67.8%	73.3%	70.9%	67.3%	69.0%	0.5968186
Media	741	767	793	835	1,006	1,047	1,055	1,130	1,238	1,142	1,103	1,046
YoY	-	-	23.7%	21.6%	35.8%	36.6%	33.1%	35.3%	23.1%	9.0%	4.5%	-7.4%
% of total revenue	27.3%	33.2%	29.4%	23.9%	29.1%	34.0%	32.2%	26.7%	29.1%	32.6%	31.0%	0.3116839
<b>Operating profit</b>	<b>189</b>	<b>115</b>	<b>170</b>	<b>77</b>	<b>27</b>	<b>-1</b>	<b>118</b>	<b>280</b>	<b>406</b>	<b>102</b>	<b>95</b>	<b>133</b>
YoY	-	-	108.1%	-49.9%	-85.8%	-100.8%	-30.8%	265.0%	-	-	-19.8%	-52.7%
Operating profit margin	7.0%	5.0%	6.3%	2.2%	0.8%	0.0%	3.6%	6.6%	9.6%	2.9%	2.7%	4.3%
Advertising	157	110	171	183	177	138	180	367	375	193	210	113
YoY	-	-	56.1%	13.0%	12.5%	25.9%	5.7%	100.6%	112.3%	39.8%	16.7%	-69.3%
% of total OP	52.1%	48.3%	52.9%	84.5%	106.6%	106.2%	71.4%	83.1%	67.3%	77.5%	85.6%	39.1%
OPM	8.0%	7.1%	9.0%	6.9%	7.2%	6.8%	8.1%	11.8%	12.4%	8.2%	8.5%	5.6%
Media	144	117	154	35	-11	-8	72	75	182	56	35	175
YoY	-	-	78.0%	-65.1%	-	-	-53.0%	114.2%	-	-793.1%	-51.0%	134.2%
% of total OP	47.9%	51.7%	47.7%	16.2%	-6.6%	-6.2%	28.6%	16.9%	32.7%	22.5%	14.4%	60.9%
OPM	19.5%	15.3%	19.4%	4.2%	-1.1%	-0.8%	6.8%	6.6%	14.7%	4.9%	3.2%	16.8%
Adjustments	-112	-112	-152	-140	-139	-131	-135	-162	-151	-147	-151	-156

Source: Shared Research based on company data. Sales to external customers shown for Advertising business.

Notes: Figures may differ from company materials due to differences in rounding methods

Figures for non-consolidated YoY growth in FY06/19 reflect a comparison to consolidated earnings in FY06/18. These differ slightly from the figures for YoY growth on the company's financial statements summary, as those figures reflect a comparison of non-consolidated earnings in both years.

## Seasonal factors

With revenue at the company maintaining an upward course over the long term, it is somewhat difficult to get a clear picture of the seasonal factors in the near term, but there such factors impacting both the Advertising and Media businesses. However, 2020 has been an abnormal year due to the impact of COVID-19.

### Advertising business

The increase in summer advertising orders tends to result in Advertising business revenue improving in Q1 and Q4.

### Media business

There are a number of holiday periods in Japan lasting over several days between December and May. Membership tends to increase during this period as people have a chance to use the app for an extended period of time. Moreover, member activity, including the number of matches made, tends to increase during this period. However, operating profit may not increase, as the timing and amount of advertising spending by the company can have an impact on near-term earnings.

## Full-year FY06/20 results

### Earnings summary

Net Marketing reported FY06/20 revenue of JPY14.4bn (+2.2% YoY), operating profit of JPY735mn (+73.3% YoY), recurring profit of JPY747mn (+77.4% YoY), and net income of JPY510mn (+79.6% YoY). This was roughly in line with the company's revised full-year FY06/20 forecast announced on June 8, 2020, which called for revenue of JPY14.3bn, operating profit of JPY700mn, recurring profit of JPY710mn, and net income of JPY480mn.

- ▷ Full-year FY06/20 results: The company was mainly affected by the spread of COVID-19 in Q4 FY06/20. In the Media business, fewer opportunities for singles to date amid the shelter-in-place request by the Government and the company's cutback on promotional activities have led to sluggish growth in paying member counts and missed opportunities to capture new app users. In addition, existing members held off purchasing point premium packs. As a result, monthly fee revenue and key performance indicators declined. In the Advertising business, the acquisition of advertisers in the brick-and-mortar store business category slowed in response to the shelter-in-place request and temporary store closures. At the same time, advertisers scaled back ad placement and business opportunities decreased amid concerns of a deterioration of the business environment. The YoY increase in operating profit was mainly due to the absence of strategic investments made in the Media business in FY06/19.
- ▷ Full-year FY06/21 forecasts: The company's full-year FY06/21 forecast calls for revenue of JPY15.5bn (+7.9% YoY), operating profit of JPY500–800mn (-32.0 to +8.8% YoY), recurring profit of JPY500–800mn (-33.1 to +7.1% YoY), net income of JPY340–550mn (-33.3 to +7.9% YoY), and an EPS of JPY22.98–37.17. Net Marketing envisions being able to air TV commercials for its Omiai app from Q4 FY06/21 or after. However, as of August 11, 2020, the company could not determine whether this was actually possible, and was also unable to gauge the effects of the commercials, which led to its decision to provide targets in a range. The company noted that growth in revenue and profit from the TV commercials are not factored into its FY06/21 forecast. As for paid Omiai memberships, the company maintained its target of 100,000 members by end-FY06/21. The company expects to pay an interim dividend of JPY0 and a year-end dividend of JPY6 for a total annual dividend of JPY6 (payout ratio of 16.1%–26.1%). See the "Full-year company forecasts" section for details.

### Earnings by operating segment

#### Advertising business

Full-year FY06/20 revenue in the Advertising business was JPY9.8bn (+0.2% YoY) and segment profit was JPY891mn (+3.4% YoY).

- ▷ In this business, the company specializes as an affiliate ad agency, offering an integrated line of services from strategic planning in advertising development to operational support. In FY06/19, the social media ad business the company began working on in FY06/18 has seen a gradual yet steady increase in customers and management continues to lay the foundation for full-fledged development.
- ▷ The company benefitted from firm affiliate advertising revenue in the services sector, which includes beauty salon and HR businesses.
- ▷ However, in Q4, which is normally the busiest period of the year, advertisers scaled back ad placements. Q4 revenue was JPY2.1bn, down sharply from JPY3.1bn in Q4 FY06/19. Most of this decrease was accounted for by the curtailment of advertising spending at brick-and-mortar businesses. Operating profit was JPY112mn, also down significantly from JPY367mn.
- ▷ Demand from brick-and-mortar businesses is gradually returning.

#### Media business

Full-year FY06/20 revenue in the Media business was JPY4.5bn (+6.8% YoY) and segment profit was JPY449mn (+250.2% YoY).

- ▷ The Media business centers on the Omiai matchmaking app. In February, the company launched a new brand logo and appointed actress and creative artist NON as a brand ambassador. The company also launched an online commercial and placed out of home (OOH) ads in the Kanto and Kansai regions to raise awareness.

- ▷ Q4 FY06/19 revenue was JPY1.0bn, down from JPY1.1bn in Q4 FY06/19 due to the spread of COVID-19. The company curbed promotional spending in light of a decline in consumer confidence, resulting in operating profit of JPY175mn, up from JPY74mn in Q4 FY06/19.
- ▷ As of the July 2020 monthly disclosure, there were 5.7mn cumulative members, 103,000 new members, and 50.9mn cumulative matches made. The number of new members is gradually recovering.
- ▷ Various KPIs such as the ratio of paying members have been recovering since June as the state of emergency came to an end.
- ▷ The company was able to confirm aspects of consumer behavior through the implementation of various campaigns in FY06/20. It is working to maximize LTV by adjusting its marketing strategy, including optimization of price setting.

**For details on previous quarterly and annual results, please refer to the Historical financial statements section.**

## Full-year company forecasts

### Full-year FY06/21 forecasts

(JPYmn)	FY06/19 (parent)			FY06/20 (parent)			FY06/21 (parent)	
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.	FY Est.	
<b>Revenue</b>	<b>6,533</b>	<b>7,517</b>	<b>14,051</b>	<b>7,752</b>	<b>6,612</b>	<b>TBD</b>	<b>15,500</b>	
YoY	30.1%	21.5%	25.3%	18.6%	-16.4%	2.2%	7.9%	
Cost of revenue	4,580	5,139	9,719	5,248	4,545	9,794	-	
<b>Gross profit</b>	<b>1,953</b>	<b>2,379</b>	<b>4,332</b>	<b>2,504</b>	<b>2,067</b>	<b>4,570</b>	-	
Gross profit margin	29.9%	31.6%	30.8%	32.3%	-0.5%	31.8%	-	
SG&A expenses	1,927	1,981	3,908	1,996	1,840	3,835	-	
SG&A ratio	29.5%	26.3%	27.8%	25.7%	1.0%	26.7%	-	
<b>Operating profit</b>	<b>26</b>	<b>398</b>	<b>424</b>	<b>508</b>	<b>227</b>	<b>735</b>	<b>500 ~ 800</b>	
YoY	-91.5%	59.9%	-23.6%	1857.6%	-1784.2%	73.3%	-32.0% ~ 8.8%	
Operating profit margin	0.4%	5.3%	3.0%	6.6%	-1.4%	5.1%	-	
<b>Recurring profit</b>	<b>22</b>	<b>399</b>	<b>421</b>	<b>513</b>	<b>197</b>	<b>710</b>	<b>500 ~ 800</b>	
YoY	-93.1%	58.2%	-26.1%	2244.2%	-2175.7%	68.5%	-33.1% ~ 7.1%	
Recurring profit margin	0.3%	5.3%	3.0%	6.6%	-1.7%	4.9%	-	
<b>Net income</b>	<b>9</b>	<b>275</b>	<b>284</b>	<b>352</b>	<b>128</b>	<b>480</b>	<b>340 ~ 550</b>	
YoY	-95.9%	57.0%	-28.5%	3740.5%	-3671.4%	69.1%	-33.3% ~ 7.9%	
Net margin	0.1%	3.7%	2.0%	4.5%	-1.2%	3.3%	-	

Source: Shared Research based on company data  
 Note: Figures may differ from company materials due to differences in rounding methods.

### Initial forecast (August 11, 2020)

The company's full-year FY06/21 forecast calls for revenue of JPY15.5bn (+7.9% YoY), operating profit of JPY500–800mn (-32.0 to +8.8% YoY), recurring profit of JPY500–800mn (-33.1 to +7.1% YoY), net income of JPY340–550mn (-33.3 to +7.9% YoY), and an EPS of JPY22.98–37.17. This is below the company's revised medium-term target announced in August 2019.

- ▷ The company's forecast assumes COVID-19 will subside gradually rather than rapidly progressing in either direction.
- ▷ Although the impact of COVID-19 remains in FY06/21, revenue is expected to increase, and profits would as well if not for a TV commercial expected to be implemented in Q4 for the cost of JPY300mn.
- ▷ The company's policy is to set and achieve earnings targets based on combined Advertising business and Media business earnings, and it thus does not disclose forecasts by segment.
- ▷ The company expects to pay an interim dividend of JPY0 and a year-end dividend of JPY6 for a total annual dividend of JPY6 (payout ratio of 16.1%–26.1%).

### Advertising business

- ▷ Q1 and Q4 are typically the busy season for the Advertising business. In 2020, however, the COVID-19 pandemic affected the company's sales activities to capture new customers in April and May, which will likely affect Q1 (July–September) revenue.
- ▷ In addition, the company expects the off-season to come earlier than in a typical year because end clients (advertisers) such as beauty salons are feeling the impact of consumers refraining from leisure activities during the summer of 2020.
- ▷ The YoY comparison for Q1 was also affected by a particularly strong performance in Q1 FY06/20.
- ▷ For Q4, the company assumes seasonality will be the same as in a typical year.
- ▷ The company forecasts little change in full-year OPM from past levels.

### Media business

- ▷ IMS certification system\* for the online matchmaking industry will be established in FY2021. The deadline for accepting applications for the first round of certification is the end of September 2020, with screening starting in October, and certification being granted starting around March 2021. The company attaches great importance to improving its

trustworthiness in the online matchmaking industry, and thus plans to apply for and obtain IMS certification. If the company passes the screening and is granted certification on schedule, it will be certified in Q3 FY06/21.

**\* IMS certification system:** IMS is an abbreviation for Institution for Matchmaking Service, which is a non-profit organization. IMS is a third-party organization that conducts certification examinations of businesses in the matchmaking service industry, granting a “suitability mark” to passing businesses. In the past, the scope of IMS was limited to brick-and-mortar matchmaking services, but has been expanded to cover online matchmaking services as well. The purpose of the certification system is not to examine the quality of services, but to certify specific services operated by proper businesses aiming for solid consumer protection in compliance with relevant laws and regulations. Under the system, certified business operators can display a certification mark issued by the organization on their website and/or advertisements, allowing consumers to select business operators that provide appropriate services. Please see Business overview (Media business: Matchmaking app provider) below for an overview of the certification standards for the online matchmaking service industry.

- ▷ Net Marketing envisions being able to air TV commercials for its Omiai app from Q4 FY06/21. However, as of August 11, 2020, the company could not determine whether this was actually possible, and was also unable to gauge the effects of the commercials, which led to its decision to provide forecasts in a range. Even if the company were to air TV commercials in Q4, it expects to recover such spending through an increase in paying members mainly after FY06/21. Accordingly, the company noted that it has not factored growth in revenue and profit from the TV commercials into its FY06/21 forecast.
- ▷ The company assumes JPY300mn in expenses related to TV commercials for FY06/21. The lower end of the range given for operating profit corresponds to the scenario where this entire amount is spent, and the higher end of the range corresponds to the scenario where none of this amount it spent.
- ▷ Although the company does not anticipate major changes in its promotional measures other than the TV commercials, it plans to work on expanding channels such as YouTube and aims to attract customers efficiently.
- ▷ As for paid Omiai memberships, the company maintained its target of 100,000 members by end-FY06/21. The company originally assumed it would reach its target for the number of paying members at an early stage in FY06/21, but its current forecast assumes that the target will not be reached until near the end of the fiscal year. The effect of TV commercials is not included in the expected increase in the number of paying members, only the effect of promotions other than TV commercials.

## FY06/21 initiatives

### Advertising business

Net Marketing plans to expand the business by strengthening the earnings base.

- ▷ Business stabilization: From the perspective of reducing dependence on specific customers and specific products, the company plans to optimize its portfolio by developing new customers. It additionally plans to expand into new categories.
- ▷ Revenue expansion: From the perspective of upselling new and existing projects, the company plans to improve the level of service such as by enhancing consultations and creating new ad technologies.

### Media business

Net Marketing plans to develop services in line with changes in society and people’s values.

- ▷ Marketing field: The company plans to improve the efficiency of attracting customers through measures to sharpen awareness of potential customers. In addition, it will work to lock in customers by improving products and making changes to payment plans (multi-month contract plans) from the perspective of optimizing various KPIs.
- ▷ PR field: In order to improve brand power and recognition of its services, the company will work on acquiring IMS certification, preparing to air TV commercials, and expanding channels such as YouTube.
- ▷ Product field: Work on expanding new services from the perspective of improving UI/UX.

## Differences between initial targets and actual results

Results vs. Initial Est. (JPYmm)	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Parent	FY06/20 Parent
Revenue (Initial Est.)	-	-	-	-	-	-	11,296	14,465	16,302
Revenue (Results)	2,697	4,691	6,619	8,524	8,824	9,868	11,210	14,051	14,364
<b>Results vs. Initial Est.</b>	-	-	-	-	-	-	<b>-0.8%</b>	<b>-2.9%</b>	<b>-11.9%</b>
Operating profit (Initial Est.)	-	-	-	-	-	-	540	373	813
Operating profit (Results)	-	-	-	425	274	441	551	424	735
<b>Results vs. Initial Est.</b>	-	-	-	-	-	-	<b>2.1%</b>	<b>13.7%</b>	<b>-9.6%</b>
Recurring profit (Initial Est.)	-	-	-	-	-	-	538	372	812
Recurring profit (Results)	-1	56	273	419	275	424	566	421	747
<b>Results vs. Initial Est.</b>	-	-	-	-	-	-	<b>5.3%</b>	<b>13.3%</b>	<b>-8.0%</b>
Net income (Initial Est.)	-	-	-	-	-	-	371	258	563
Net income (Results)	-4	61	163	271	177	297	404	284	510
<b>Results vs. Initial Est.</b>	-	-	-	-	-	-	<b>8.8%</b>	<b>10.0%</b>	<b>-9.4%</b>

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Medium-term plan

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On August 11, 2020, the company announced its full-year FY06/21 earnings forecast, which calls for revenue of JPY15.5bn (+7.9% YoY), operating profit of JPY500–800mn (-32.0 to +8.8% YoY), recurring profit of JPY500–800mn (-33.1 to +7.1% YoY), net income of JPY340–550mn (-33.3 to +7.9% YoY), and an EPS of JPY22.98–37.17. This is below the company's revised medium-term target announced in August 2019 (revenue of JPY19.4bn, operating profit of JPY1.2bn). As for paid Omiai memberships, the company maintained its target of 100,000 members by end-FY06/21. Please refer to the "Full-year company forecasts" section above for assumptions used in the forecast and details on company initiatives.

- ▷ As of August 2019 (before the company announced FY06/21 forecasts), the company's medium-term plan called for Advertising business revenue of JPY2.8bn and Media business revenue of JPY6.6bn in FY06/21. Meanwhile, the company had forecast segment profit of JPY1.0bn in the Advertising business and JPY900mn in the Media business, and company-wide expenses of JPY700mn.

## Business

### Business overview

Net Marketing was founded in July 2004 as an online ad agent handling affiliate ad plans for advertisers running promotional campaigns, and has since expanded into new products such as social media ads. It currently operates in two business segments: the Advertising business (online ad agency), and the Media business that operates the Omiai app (launched in February 2012), which provides a safe and secure meeting place for singles. In FY06/20, the Advertising business had revenue of JPY9.8bn (+0.2% YoY) and segment profit of JPY891mn (+3.4% YoY), and the Media business had revenue of JPY4.5bn (+6.8% YoY) and segment profit of JPY449mn (+250.2% YoY).

### Earnings by segment

Segment revenue and profit (JPYmn)	FY06/12 Par. Act.	FY06/13 Par. Act.	FY06/14 Par. Act.	FY06/15 Cons. Act.	FY06/16 Cons. Act.	FY06/17 Cons. Act.	FY06/18 Cons. Act.	FY06/19 Par. Act.	FY06/20 Par. Act.
<b>Total revenue</b>	<b>2,697</b>	<b>4,691</b>	<b>6,619</b>	<b>8,524</b>	<b>8,824</b>	<b>9,868</b>	<b>11,210</b>	<b>14,051</b>	<b>14,364</b>
YoY	-	74.0%	41.1%	28.8%	3.5%	11.8%	13.6%	25.3%	2.2%
Advertising				7,255	7,357	7,458	8,074	9,812	9,835
YoY	-	-	-	-	1.4%	1.4%	8.3%	21.5%	0.2%
% of total revenue	-	-	-	85.1%	83.4%	75.5%	72.0%	69.8%	68.5%
Media				1,271	1,467	2,414	3,136	4,239	4,529
YoY	-	-	-	-	15.4%	64.5%	29.9%	35.2%	6.8%
% of total revenue	-	-	-	14.9%	16.6%	24.5%	28.0%	30.2%	31.5%
Segment sales adjustments				-2		-3	-0	-	-
<b>Gross profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,798</b>	<b>1,793</b>	<b>2,532</b>	<b>3,272</b>	<b>4,332</b>	<b>4,570</b>
YoY	-	-	-	-	-0.3%	41.2%	29.3%	32.4%	5.5%
Gross profit margin	-	-	-	21.1%	20.3%	25.7%	29.2%	30.8%	31.8%
Advertising				928	827	914			
YoY	-	-	-	-	-10.9%	10.6%	-	-	-
% of gross profit	-	79.4%	62.5%	51.6%	46.1%	36.1%	-	-	-
Gross profit margin	-	-	-	12.8%	11.2%	12.3%	-	-	-
Media				870	966	1,618			
YoY	-	-	-	-	11.1%	67.4%	-	-	-
% of gross profit	-	20.6%	37.5%	48.4%	53.9%	63.9%	-	-	-
Gross profit margin	-	-	-	68.5%	65.9%	67.0%	-	-	-
<b>SG&amp;A expenses</b>				<b>1,373</b>	<b>1,519</b>	<b>2,090</b>	<b>2,721</b>	<b>3,908</b>	<b>3,835</b>
YoY	-	-	-	-	10.7%	37.6%	30.2%	43.6%	-1.9%
SG&A ratio	-	-	-	16.1%	17.2%	21.2%	24.3%	27.8%	26.7%
Advertising				394	388	392			
YoY	-	-	-	-	-1.5%	0.9%	-	-	-
% of total SG&A expenses	-	-	-	35.9%	32.5%	23.0%	-	-	-
SG&A expense ratio	-	-	-	5.4%	5.3%	5.3%	-	-	-
Media				703	806	1,312			
YoY	-	-	-	-	14.6%	62.8%	-	-	-
% of total SG&A expenses	-	-	-	64.1%	67.5%	77.0%	-	-	-
SG&A expense ratio	-	-	-	55.3%	54.9%	54.4%	-	-	-
<b>Operating profit</b>				<b>425</b>	<b>274</b>	<b>441</b>	<b>551</b>	<b>424</b>	<b>735</b>
YoY	-	-	-	-	-35.6%	61.3%	24.9%	-23.1%	73.3%
Operating profit margin	-	-	-	5.0%	3.1%	4.5%	4.9%	3.0%	5.1%
Advertising				533	438	522	620	862	891
YoY	-	-	-	-	-17.8%	19.2%	18.8%	39.0%	3.4%
% of total operating profit	-	-	-	76.1%	73.2%	63.1%	58.1%	87.1%	66.5%
Operating profit margin	-	-	-	7.4%	6.0%	7.0%	7.7%	8.8%	9.1%
Media				167	161	306	447	128	449
YoY	-	-	-	-	-3.9%	90.3%	46.2%	-71.3%	250.2%
% of total operating profit	-	-	-	23.9%	26.8%	36.9%	41.9%	12.9%	33.5%
Operating profit margin	-	-	-	13.2%	10.9%	12.7%	14.3%	3.0%	9.9%
Segment profit adjustments				-275	-325	-386	-516	-566	-605

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Segment gross profit no longer disclosed from FY06/18. Segment SG&A expenses calculated by subtracting operating profit from segment gross profit.

### Advertising business: an affiliate ad agency

#### Business model

Net Marketing specializes in the affiliate ad agency business, providing a complete service lineup covering everything from strategic advertising planning to operational support. In affiliate advertising, the advertiser pays a performance fee to the

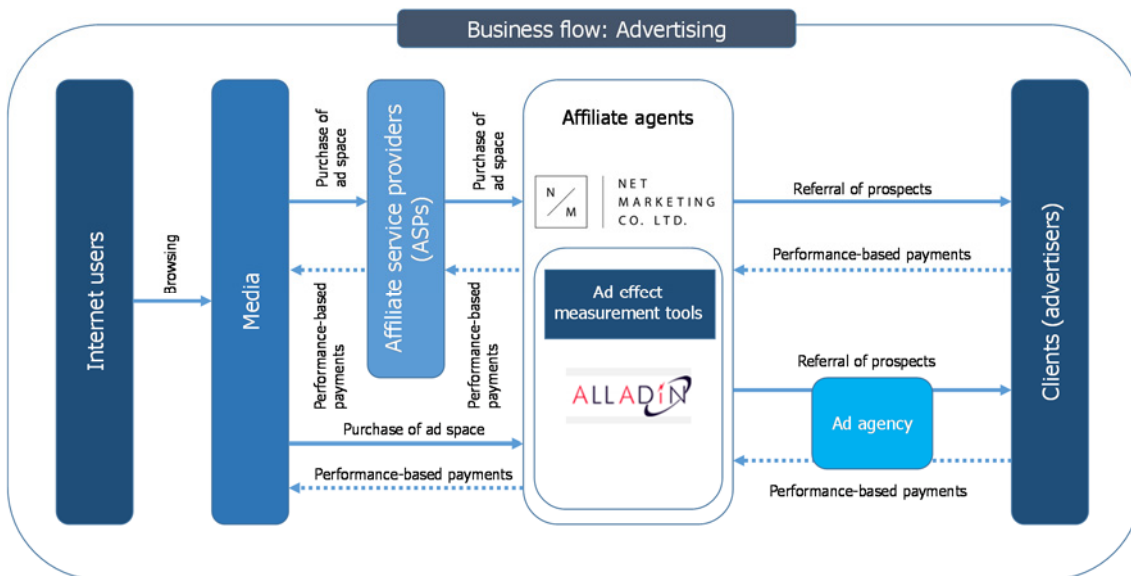


publisher (the affiliate) when, for example, the published ad is viewed, a web form is filled, or a purchase is made. Net Marketing acquires ad spaces from a medium’s publisher or an Affiliate Service Provider (ASP), then earns commissions as an agent connecting the advertiser with the publisher or the ASP. Gross profit margins in the agency business are low, generally in the 10%–15% range, though the company’s operating profit margin in the segment stands at about 8% by keeping SG&A expenses low through systemization. However, it should be remembered that gross profit margins can vary by project, and in projects in which Net Marketing has been able to ensure efficient and effective operations, the company has proven itself successful in lowering costs and bolstering gross profit margins.

**Specializing in the affiliate ad agency business**

Net Marketing was founded as an ASP that would build a network of major media it could offer to advertisers. The company later shifted focus to the agent business, as it had entered the market after the major ASPs were already established, and recognized a strong and untapped need for agency services. Advertisers are faced with many difficult decisions. They must choose from a variety of media including TV, magazines, newspapers, radio, and the internet. In the internet category alone, advertisers are presented with the challenge of developing listing ad and search engine optimization (SEO) strategies, as well as the issue of sifting through the various affiliates. An ASP simplifies the process by assuming responsibility for purchasing ad space from the publishers of media and making performance-based payments. However, choosing among ASPs can be a labor-intensive task requiring advertisers to spend a considerable amount of time and effort sorting through a pool that includes four listed ASPs and dozens focusing on mobile ads. The company decided to focus its attention on the agency business to save advertisers time and hassle. As a first step, Net Marketing developed ALLADiN, a systems tool allowing centralized management of the complex operations involved in the affiliate agency business. The tool helped the company close contracts with several dozen companies.

**Advertising business**



Source: Shared Research based on company data

**Developing the consulting business**

Net Marketing positions ALLADiN—which has the ability to centralize a substantial number of ASPs—as an ASP gateway, and deploys its operations team to manage a consulting business that offers strategic planning as well as advertising operations for the advertiser. Net Marketing selects an appropriate ASP for the advertiser from an unbiased standpoint and proposes optimal pricing. The company also provides information and management services to advertisers in cooperation with E-Guardian (TSE 1: 6050), which monitors affiliates to ensure quality. Major advertising agencies typically treat affiliate advertising as merely one service among many in their portfolio. Net Marketing’s strength, however, lies in the fact that it specializes in the affiliate business and can thus offer an accumulated wealth of knowledge and knowhow in this type of advertising. According to the company, Net Marketing ranks among the top players in the agency industry based on affiliate advertising revenue. The company has also secured agency contracts with ASP leaders Adways (TSE Mothers: 2489), F@N Communications (TSE 1: 2461), and Interspace (TSE Mothers: 2122).

## Major ASP companies

Ticker	Company	Latest full-year results				Main businesses (% of revenue)
		FY	Revenue (JPYmn)	OPM	ROE	
2461	F@N Communications	FY12/19	34,200	10.6%	12.2%	CPA Ad Network (71), CPC / Targeting Ad Network (27), Others (2)
2489	Adways	FY03/20	37,304	0.5%	1.4%	Advertising (88), Apps and Media (1), Overseas (10), Other (1)
2122	Interspace	FY09/19	28,552	3.0%	9.3%	Online Ad (97), Media (3)
2491	ValueCommerce	FY12/19	25,694	19.3%	32.4%	Marketing Solutions (74), E-commerce Solutions (26)

## Large-lot customers

From FY06/15 through FY06/18, the percentage of Advertising business revenue from the company's three largest customers hovered at a rather high level of just over 60%. Due in part to revenue growth in the Media business, there was only one large customer (accounting for at least 10% of total revenue) in FY06/19 and two in FY06/20, yet revenue and profit in the Advertising business continues to grow.

- ▷ In FY06/19, the company had only one large customer in the Advertising business (accounting for at least 10% of revenue based on the company's disclosure), and yet revenue growth accelerated during the year. Net Marketing's major customer base centers on the Dentsu Group. It also has a firm grip on advertisers that favor affiliate ads such as those in the services sector (including beauty salon and human resources businesses). Thus, Net Marketing continues to attract new projects in this segment without incurring large promotional expenses. Shared Research believes the company's strength lies in the depth of its customer base.
- ▷ As lead advertising agencies, Dentsu Group and EPARK (operates the EPARK online reservations service for beauty salons, fee-based parking lots, hairdressers, medical facilities, and restaurants) will often refer affiliate advertising prospects to the company.
- ▷ The company says it has won praise from its customers for the ads' effectiveness. It attributes this success to the consulting work it offers to the affiliate ad customers where it focuses not only on points that lead to the company's own revenue generation (for example, helping customers bolster the number of store visits or card loan applications made by ad viewers) but also on the customers' revenue generation thereafter (how the ad could lead to a contract after the store visit or a successful screening after the loan application, in the above examples). In addition to an understanding of the affiliates, this kind of advertising consulting requires knowledge on individual sectors, which the company has accumulated thanks to its long consulting experience in the beauty salon, human resources, and financial sectors. This has resulted in Net Marketing rarely losing orders while receiving numerous orders from customers who wish to switch from other companies. It has become all the much easier for the company to maintain its close relationship with its customers.
- ▷ As noted, the Advertising business includes a consulting function, and its main customers in the business center around large-lot customers who can best merit from such added value. However, from the perspective of hedging risk by diversifying the customer base to include end clients in diverse industries and business formats, the company has also been working to develop medium-sized projects with monthly revenue of several tens of millions of yen since around FY06/19. The main product of the Advertising business is affiliate advertising. As of FY06/20, there was a high ratio of end clients (advertisers) operating brick-and-mortar stores that are easily affected by restricted operating hours and the tendency for consumers to refrain from leaving the home. Affiliate advertising is a type of performance-based advertising, so revenue is not generated unless consumers visit the stores of end clients or fill applications. As a result, the company's Advertising business was significantly affected by the COVID-19 pandemic. In order for the company's Advertising business to have a profit structure that is resistant to changes in the environment, it is necessary to achieve diversity in the industries and business formats of its end clients.

## Revenue from large-lot customers

Large accounts (JPYmm)	FY06/12 Par. Act.	FY06/13 Par. Act.	FY06/14 Par. Act.	FY06/15 Cons. Act.	FY06/16 Cons. Act.	FY06/17 Cons. Act.	FY06/18 Cons. Act.	FY06/19 Par. Act.	FY06/20 Par. Act.
Dentsu Digital						1,434	1,420		
EPARK						1,136	2,437		
DMM.com Labo				1,621	1,439	1,044			
Recruit Career					886	990	1,230	1,624	2,116
Dentsu Digital				1,682	1,314				
NEXTAGE Dentsu					897				
AI Pacific				1,284					
First Charge									1,446
Other				3,937	4,287	5,264	6,123	12,427	10,802
Advertising revenue				7,255	7,357	7,458	8,074	9,812	9,835
Large account ratio				63.2%	61.7%	61.7%	63.0%	-	-
Total revenue	2,697	4,691	6,619	8,524	8,824	9,868	11,210	14,051	14,364

Source: Shared Research based on company data

Note: The large account ratio has been omitted from FY06/19 due to the difficulty of making estimates based on the documents disclosed.

## Social media advertising business

In addition to the affiliate advertising business, the company launched its social media advertising business in Q4 FY06/18, which shows even stronger potential for growth. Social media advertising refers to advertising on social networking sites such as Facebook, Twitter, LINE, and Instagram. Net Marketing's revenue in this business stems from the number of times advertisements on these social networking sites are viewed.

- ▷ The company is focused on establishing a foundation in social media advertising, and is working to build the business as a second pillar next to affiliate advertising.
- ▷ The company uses Facebook ads to advertise its own Media business app and has thus gained experience in social media advertising from the advertiser's perspective. Using this knowledge, it decided to venture into selling social media ads in its Advertising business. The company is using its Media business experience (e.g., its understanding of how CPA changes based on activities in the social media platform), to develop the social media advertising business, while simultaneously using knowledge gained in the social media advertising business to improve its advertising efforts in the Media business.
- ▷ Social media advertising customers include, but are not limited to, affiliate advertising customers. Net Marketing is also focused on aggressive efforts in the cross-selling of advertising.

## Media business: Matchmaking app provider

### Market share

According to the "Online Matchmaking Service Market Size Forecast (2017–2025)" by MatchingAgent, Inc. and digitalinfact, the size of the matchmaking market was JPY51.0bn in 2019, and will be JPY106.0bn in 2025. However, it should be noted that this forecast was announced in January 2020, and the impact of the COVID-19 pandemic on the market from 2020 onward was not taken into consideration in various relevant statistics.

- ▷ There are many competitors because the matchmaking app market has low barriers to entry. However, matchmaking apps require a sufficient number of members to deliver a certain level of matching accuracy, and there is constant turnover in paying members. These facts necessitate operating the business on a scale large enough to maintain advertising spending. The major competing apps in Japan are Pairs of Match Group, Inc. (NASDAQ, MTCH), which develops matching apps globally, and Tapple operated by CyberAgent, Inc. Based on app spending as of 2019, Pairs and Tapple's shares seems to exceed that of Omiai.
- ▷ Given the abovementioned market size of JPY51.0bn in 2019 and the company's Media business revenue of JPY4.5bn in FY06/20, we estimate the company's share at around 9%.
- ▷ As of 2020, there are many restrictions on mass marketing in the online matchmaking business in Japan, including, for example, a prohibition on TV commercials. This limits the advertising methods available to companies in the field. If these restrictions are lifted, Net Marketing and competitors are expected to significantly increase advertising spending to engage in mass marketing efforts. Therefore, if the external environment changes, for example the ban on TV commercials is lifted, the market growth

rate and each company’s share is expected to change significantly. In the FY06/21 full-year company forecast, the company has indicated the possibility of airing TV commercials in Q4 or after.

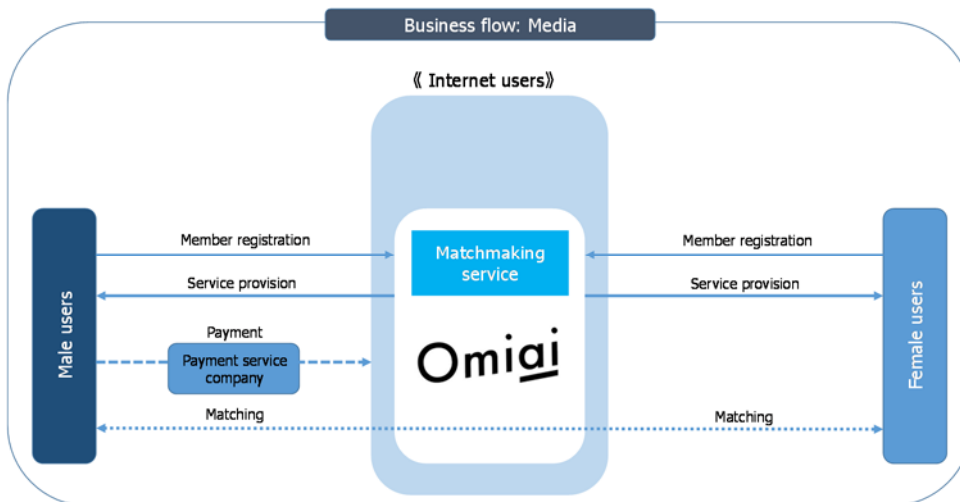
**Business model**

**Basic mechanism**

In the Media business, Net Marketing operates the Omiai matchmaking app. The service, which uses Facebook authentication, assists men and women in their search for partners. Whereas the service was previously limited to users with Facebook accounts, it is now available to internet users in general.

- ▷ A match is considered made on the app when an interested party clicks the equivalent of a “like”, and the person to whom that click was sent replies with a “thank you” click. Once a match is made, the parties can exchange messages. The exchange of messages is a paying member feature, which only men pay, so successful matching can be seen as a factor contributing to an increase in paying members.
- ▷ On Tuesday, May 26, 2020, the company began providing the new online dating feature, which allows users to video call their potential matches within the Omiai matchmaking app. The new feature makes available video calling, which may be used up to 15 minutes a day, once a user has exchanged messages with his/her potential match for more than three times. Because the video call feature can only be used in the Omiai app, there is no need for users to exchange their personal information such as telephone numbers or user IDs for other external communication tools.
- ▷ *Omiai* is a Japanese word referring to a meeting between a man and woman through the mediation of a third party for the purpose of marriage. The name of the company’s app (Omiai) thus gives the impression that it is more “marriage oriented” and safer than other companies’ apps. This impression seems to affect the attributes of the user base.

**Media business**



Source: Shared Research based on company data

**A subscription-based service**

Omiai requires no fee to register, but basically charges male members monthly fees to sign up for additional services. It also charges for a variety of features, including points allowing an additional number of contacts and premium packs with functions that can increase the matching rate. The Media business operates under a subscription model, with revenue calculated based on the number of paying members and average revenue per paying user (ARPPU).

- ▷ Revenue in the Media business mainly comprises fees (monthly usage and added options) from paying members (male users) of the matchmaking app Omiai. As of end-FY06/20, the number of paying members (monthly service users) was approximately 77,000 (-100 members YoY). A one-month plan was priced at JPY3,980/month (tax inclusive) as of August 2020, but long-term plans are discounted (e.g., the three-month plan was JPY3,320 yen/month [tax inclusive]). We estimate ARPPU to be around JPY5,000–6,000 based on past Media business revenue and numbers of paying members.

- ▷ Users often do not stop using the matchmaking app immediately after establishing a match, and the app allows for multiple simultaneous matches. However, once two members form a couple, there is no need for them to continue using the app since they can communicate by other means. In other words, there is turnover in paying members. This structure necessitates continuous acquisition of new subscribers, which calls for a certain amount of continuous advertising spending. Although some members pay for long-term plans and there is some repeat demand due to resumption of use, the profit structure is different from a typical subscription model that assumes long-term continuous use.
- ▷ Paid membership is rather fluid, with members either moving to different sites or ending their subscription after finding a partner. Of course, the higher the matching rate and the easier it is to find a partner, the higher the termination rate. On the other hand, a higher matching rate means the majority of users feel more motivated to match. Since these users would have previously left the service after only a short amount of time (roughly two months), the upshot of increasing the matching rate is an overall increase in the number of users paying monthly fees and the average paying membership period. Moreover, sites where it is easy to find a partner often produce synergistic effects such as more rapid influx of members (including repeat members). The Harvard Business Review recently published an article titled “The Strategy Puzzle of Subscription-Based Dating Sites,” which introduced several case studies and raised the following points.

The method for men and women to meet each other has evolved from traditional matchmaking, to dating sites, and now to matchmaking sites. This has raised the question of whether the matchmaking site operator is really introducing the best technologies to ensure the best match. A number of these companies employ subscription-based models, but as matching technologies improve and it becomes easier to find a partner, the termination rate among subscribers tends to rise, ultimately impacting that company’s profits.

Source: Yue Wu, V. “Paddy” Padmanabhan, “The Strategy Puzzle of Subscription-Based Dating Sites” *Harvard Business Review* Jan. 2019

- ▷ When payment is made via an app platform operator (e.g., Apple, Google), 30% of the price—treated as cost of revenue at Net Marketing—is paid to the platform.

## Maximizing lifetime value (LTV)

From the perspective of maximizing revenue from each paying user (lifetime value [LTV]), the company aims to maximize the factors in the LTV equation: monthly unit price and paying member retention period. The unit price is determined by the amount members are willing to pay based on the balance between the matching rate and other benefits for the members and the pricing of competitors. Since raising the unit price excessively depresses the paying member retention period, the company emphasizes finding an overall balance between the unit price and the paid membership retention period to improve LTV. Moreover, it is necessary to maintain a certain matching rate for members because if the matching rate falls too low, the satisfaction of paying members decreases, leading them to judge the service as not worth the unit price, which increases the withdrawal rate and shortens the paying member retention period.

- ▷ Omiai members who leave the service do so mainly because they cannot find a good match. As such, Net Marketing believes that increasing the matching rate will result in contract extension of members who might otherwise leave after only a short time. Something else to consider is that if the matching rate is high, a member who withdraws after making match may at some point return as a repeat user. The company and its competitors are working on a variety of ways to increase the matching rate and thereby extend the average contract period to yield a higher number of paying members on a monthly basis. For example, some companies focus on achieving high membership turnover rates (indicating successful matching) and improving their ability to attract customers by offering highly efficient member services to boost matching accuracy and speed, including those employing advanced technologies such as AI. Eureka is one of these; its Pairs service is involved in a joint research and development project focusing on matchmaking algorithms with the Yamazaki Laboratory at the University of Tokyo’s Graduate School of Information Science and Technology.
- ▷ Assuming there is no technological disparity, the size of the number of members (including free members) is also important because the larger the population of members, the easier it is for any given member to find matches, which increases satisfaction. In addition, matching accuracy can change depending on the composition ratio of men and women and whether a member has attributes conducive to matching (e.g., is part of a well-represented age group).
- ▷ While most paying members opt for the monthly plan, the company has also introduced multi-month plans that are cheaper on a monthly basis than the monthly plan, but require the user to sign on for several months. While the multi-month plans put

downward pressure on unit prices, they also work to extend contract length, which in turn looks to boost ARPPU (to put it differently, if they didn't lift ARPPU, the company would stick with only the monthly plan). In addition, as those using the multi-month plans are counted among the paying members for a particular period, these plans also have the effect of increasing the total number of paying members.

- ▷ As of August 2020, monthly prices of competitors' paid plans (basic monthly charges not including options) fall in the range of JPY3,500–4,000, which is the same level as Net Marketing.

### An uptick in member acquisition costs

Users often do not stop using the matchmaking app immediately after establishing a match, and the app allows for multiple simultaneous matches. However, once two members form a couple, there is no need for them to continue using the app since they can communicate by other means. In other words, there is turnover in paying members. This structure necessitates continuous acquisition of new subscribers, which calls for a certain amount of continuous advertising spending. What becomes essential is to maintain an LTV that is higher than the cost of acquiring members, which equates to improving LTV while efficiently acquiring members.

- ▷ When the company spends on advertising, it first sees an increase in the number of free members, some of whom switch to paid memberships. Net Marketing expects paying members to continue their contracts for a certain period of time. In this manner, when the company actively advertises, there is a slight lag from the point when expenses are incurred to the point when the effects show up as revenue.
- ▷ While there was a time the company focused its efforts on acquiring customers through Facebook advertising, it is now working to diversify advertising to cap cost per action (CPA) increases and more effectively acquire new customers. Thanks to a simplified process, logging in through Facebook was still the preferred method of many of the company's members in 2020.
- ▷ Given the substantial mass marketing restrictions still in effect in Japan in 2020, including a ban on TV commercials, the company's options for advertising remained rather limited. A lifting of these restrictions would likely significantly expand mass market advertising by the company and its competitors, with a change in the external environment, including as a result of the TV commercial ban being lifted, contributing to a substantial shift in CPA and market growth rate trends. In the FY06/21 full-year company forecast, Net Marketing has indicated that TV commercials will be implemented in Q4 FY06/21 or after.
- ▷ The majority of promotion expenses (a subset of SG&A expenses) are accounted for by advertising in the Media business. Shared Research estimates the cost of acquiring paying members (CPA) as of June 2019 to be about JPY9,000 per member. We estimate monthly ARPPU to be roughly JPY5,000–6,000 based on past Media business revenue and numbers of paying members, which means the company is able to recover the paying member acquisition cost within two months.

### Cost per action (CPA) estimation

Cost per action (CPA) estimation	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Parent	FY06/20 Parent
Promotion expenses (company data; JPYmn)				487	619	1,085	1,387	2,467	
New members (YoY change, monthly disclosure; '000)							938	1,163	1,226
Paying members, as % of new members							20.0%	24.0%	25.0%
New members acquired (SR estimate; '000)							188	279	307
CPA per paying member (JPY)							7,393	8,837	

Source: Shared Research based on company data

"Paying members, as % of new members" was estimated by dividing the number of paying members by the number of new members inflowing for three months. It is difficult to estimate figures before FY06/18 using the same criteria as for FY06/18 and after due to a lack of data.

### Rebranding of Omiai

In February 2020, the company launched a rebranding promotion for the Omiai matchmaking app. It updated the logo of the Omiai brand, creating a simple and monotone design based on the concept of supporting sincere matchmaking that leads to loving relationships (by emphasizing the letters "ai," which mean "love" in Japanese). Furthermore, the company began employing Non (the stage name of famous actress and creative artist Rena Nonen) as a brand ambassador.

- ▷ According to Net Marketing, these rebranding efforts are aimed at increasing recognition of and favorability toward the Omiai brand among other matchmaking services in Japan. The company decided to implement these rebranding measures to increase organic user inflow because it realized in FY06/19 that achieving further growth would be difficult if it were to merely



rely on its previous online advertising strategy that was driven by cost per action (CPA). Net Marketing indicated that these rebranding efforts are particularly focused on raising recognition of and favorability toward the Omiai brand among the younger generation. Unlike promotions that primarily rely on online advertising, these rebranding efforts are not focused on raising short-term earnings and instead target future organic increases in member volume. Accordingly, the company collectively views these measures as a long-term initiative that will last several years.

- ▷ Net Marketing thinks that higher levels of brand recognition produced by these efforts will lead to an increase in organic member inflow. The company also projects that this larger inflow will help curtail advertising expenses and raise OPM.

**New brand logo and brand ambassador**



Source: Company data

**IMS certification system**

IMS is an abbreviation for Institution for Matchmaking Service, which is a non-profit organization. IMS is a third-party organization that conducts certification examinations of businesses in the matchmaking service industry, granting a “suitability mark” to passing businesses. In the past, the scope of IMS was limited to brick-and-mortar matchmaking services, but has now been expanded to cover online matchmaking services as well. The purpose of the certification system is not to examine the quality of services, but to certify specific services operated by proper businesses aiming for solid consumer protection in compliance with relevant laws and regulations. Under the system, certified business operators can display a certification mark issued by the organization on their website and/or advertisements, allowing consumers to select business operators that provide appropriate services. Net Marketing attaches great importance to improving the trustworthiness of the matchmaking app industry, and plans to apply for the first round of certification under the new system and obtain the certification mark.

- ▷ An outline of the requirements to receive IMS certification in the online matchmaking service industry is as follows.
- ▷ The company believes that major competitors in Japan will also apply for IMS certification.

**Criteria relating to proper business structure (1): Service content**

- ▷ Explicit indication that the service is for finding a marriage partner or finding someone to date with a view to marriage (website, terms of use)
- ▷ Explicit indication that being single is a requirement for membership
- ▷ A requirement for users to explicitly confirm that they are single when registering for membership
- ▷ A policy of having applicants certify their singleness in writing if there is any doubt about the singleness of the applicant during the application screening, or if there is a complaint from another member while using the app. (However, this excludes asking for a copy or extract of the family register).
- ▷ A policy of terminating the contract and a making a claim for damages in the case of a breach of a single pledge

## Criteria relating to proper business structure (2): Proper contracts and compliance with related laws and regulations

- ▷ Items concerning respect for basic human rights and compliance with related laws and regulations such as the Act on Specified Commercial Transactions, Consumer Contract Act, and Act on the Protection of Personal Information
- ▷ Explicit indication of the outline of service content, billing method, the presence or absence of automatic renewal, cancellation method, and other policies to make this information available to general consumers
- ▷ Have applicants explicitly agree to the terms of use when applying
- ▷ Explicitly display the final confirmation screen in addition to the application screen as a measure against consumer errors
- ▷ Give notification before implementing automatic contract renewal

## Criteria for exclusion of unsuitable members

- ▷ Regulation and monitoring of sexual expression and expression going against the intended use and alerting of members in order to ensure sound quality as a matchmaking service
- ▷ Authentication via documents verifying identity to prevent spoofing and misuse
- ▷ Adoption of an around-the-clock monitoring system for sound use
- ▷ Establishment of contact channels (telephone, e-mail, or inquiry form) for customers to use
- ▷ Adoption of sufficient measures against malware and viruses to provide safe services to consumers

## Criteria for exclusion of unsuitable businesses

- ▷ Examination of the status of complaints with the National Consumer Affairs Center of Japan to substantially eliminate malicious sites from certification
- ▷ Adoption of a flat-rate billing method (e.g., monthly charges) instead of pay-as-you-go billing

## Combining online and offline activity

In terms of offline activities, Net Marketing sees social value in helping resolve the issue of Japan's declining birthrate, and aspires to provide safe and secure services that help lift the marriage rate. It has participated in related events such as government-hosted conferences, the NPO-sponsored Marriage Support Project, and the Japan Dating Summit for industry players. In particular, the company is cooperating with municipalities that are focused on addressing the issue of the declining birth rate. These efforts include working with Okayama Prefecture, the city of Izumo (Shimane Prefecture), Aomori Prefecture, and the city of Kurashiki (Okayama Prefecture) to host matchmaking parties at each of these locations. The company aims to enhance awareness of Omiai through a mix of real world and online efforts, and to ultimately become the leading matchmaking business in Japan through synergistic effects.



## Market and value chain

### The online advertising market in Japan

The following is an overview of the online advertising market in Japan based on a survey by Dentsu Inc. (TSE1: 4324) titled Advertising Expenditures in Japan and a survey by Dentsu and its group companies D2C Inc., Cyber Communications Inc., and Dentsu Digital Inc. titled Advertising Expenditures in Japan: Detailed Analysis of Expenditures on Internet Advertising Media. In 2020, the number of ad placements will decrease due to the COVID-19 pandemic, and the growth from 2019 is expected to decelerate.

- ▷ Total advertising expenditures (including offline advertising) have been in the range of 1.16–1.32% of nominal GDP since 2005, suggesting the level of total advertising expenses is affected by economic trends.
- ▷ The ratio of online advertising expenditures to total advertising expenditures is increasing year by year, reaching about 30% in 2019. Total advertising expenditures only grow by a few percent per year, which seems to suggest that offline advertising expenditures are being replaced by online advertising expenditures.
- ▷ In 2019, a new category of advertising expenditure, ad expenditures in e-commerce platforms dedicated to sale of goods (advertising expenditures invested in goods-retailing e-commerce platforms by businesses opening stores on those platforms), was created. This had the effect of making statistical growth in online advertising in 2019 slightly larger than it would otherwise be.
- ▷ In 2019, online advertising expenditures exceeded TV media advertising expenditures for the first time (even excluding the impact of the newly established product sales EC platform ad expenditures category).
- ▷ Most online advertising media expenditure is programmatic advertising.

#### Online advertising expenditures and their breakdown

(JPYbn)		2012	2013	2014	2015	2016	2017	2018	2019
Total advertising expenditures		5,891.3	5,976.2	6,152.2	6,171.0	6,288.0	6,390.7	6,530.0	6,938.1
YoY		3.2%	1.4%	2.9%	0.3%	1.9%	1.6%	2.2%	6.2%
Internet advertising expenditures		868.0	938.1	1,051.9	1,159.4	1,310.0	1,509.4	1,758.9	2,104.8
% of total advertising expenditures		14.7%	15.7%	17.1%	18.8%	20.8%	23.6%	26.9%	30.3%
YoY		7.7%	8.1%	12.1%	10.2%	13.0%	15.2%	16.5%	19.7%
Medium expenditures		662.9	720.3	824.5	919.4	1,037.8	1,220.6	1,448.0	1,663.0
Product sales EC platform ad expenditures									106.4
Production costs		205.1	217.8	227.4	240.0	272.2	288.8	310.9	335.4
Transaction method	Performance-based	339.1	412.2	510.6	622.6	738.3	940.0	1,151.8	1,326.7
	Reserved					153.8	175.8	197.1	231.4
	Affiliate					145.7	104.8	99.1	104.9
Device	Mobile	80.0	207.3	345.0	497.9	647.6	831.7	1,018.1	
	Desktop	582.9	513.0	479.5	421.5	390.2	388.9	429.9	
Ad category	Display						498.8	563.8	554.4
	Paid search						483.1	570.8	668.3
	Video			29.0	51.6	86.9	115.5	202.7	318.4
	Affiliate						104.9	99.0	104.9
	Other						18.3	11.7	17.0
Social	Social media ads							389.0	489.9
	Social networking								228.0
	Video sharing								113.9
	Other								148.0
	Other than social ads							1,059.0	1,173.1

Source: Shared Research based on Dentsu Group's Advertising Expenditures in Japan and Advertising Expenditures in Japan: Detailed Analysis of Expenditures on Internet Advertising Media

#### Transaction methods

Programmatic advertising: Paid search ads and bidding through digital platforms (tools) and ad networks.

Reservation-based advertising: Pure ads and tie-up ads that are sold to advertisers directly or via agencies or media representatives, or those that are purchased through digital platforms (tools) and ad networks via non-bid (fixed price) transactions.

Affiliate advertising: Ads in which advertisers reward the hosting media and browsing user when the user performs a preset action after viewing an online advertisement.

### Types of advertisement

Display ads: Text- and image-based ads that are displayed in frames or banners on websites or apps.

Paid search ads: Ads that are displayed on search results pages when users query specific keywords.

Video ads: Ads in video file format (video/audio).

Affiliate ads: Ads in which advertisers reward the hosting media and browsing user when the user performs a preset action after viewing an online advertisement.

Other online advertising: Online advertising in formats other than the above. Includes email ads, audio ads, and others.

### Social advertising

Advertisements deployed on social media\* services

\*Media (platforms) that provide services for sharing and interaction between users and whose content comprises information posted by users

(Source: JIAA Internet Advertising Basic Glossary FY2019)

Examples of social media: Social networking services, blog services, mini (micro) blogs, video sharing sites, social bookmarking, electronic bulletin boards

## Trends in online advertising

### Transition to mobile

The Dentsu survey stopped disclosing the advertising expenditure breakdown by device at the end of 2018, but as of 2018, more than two-thirds of online advertising media expenditures were mobile advertising. We understand mobile advertising will continue to drive the whole as long as there are no major changes in consumer lifestyles.

### Video advertising

Among the types of advertising, video advertising has shown particularly high growth in recent years. Although the CAGR of video advertising slowed in 2019, it was still nearly 60%.

### Social advertising

The Dentsu survey began disclosing information on social advertising and the breakdown of social advertising in 2019. Social advertising accounted for around 30% of online advertising media expenditures as of 2019. Another survey, MIC Research Institute Ltd.'s "Current Status and Outlook of the Internet Advertising & Web Solutions Market FY2019," estimates the market size in 2023 at JPY448.6bn (CAGR of 24% from FY2018). However, it should be noted that since this survey was announced in June 2020, it seems that the impact of the COVID-19 pandemic was not taken into consideration in the forecasts. The size of the social advertising market according to the MIC Research Institute survey is larger than the size of the social advertising market according to the Dentsu survey. This difference may be the result of differences in definitions and scope as well as differences in research methods.

#### The social advertising market

Market size (JPYbn)	2015 Act.	2016 Act.	2017 Act.	2018 Act.	2019 Est.	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Social media ad agency	34.0	61.4	114.3	154.0	214.3	260.0	307.4	361.5	448.6
YoY	-	80.6%	86.2%	34.7%	39.2%	21.3%	18.2%	17.6%	24.1%

Source: Shared Research based on MIC Research Institute Ltd.'s "Current Status and Outlook of the Internet Advertising & Web Solutions Market FY2019"

### Influencer marketing

In recent years, with development in digital communications and the spread of smartphones, users have become able to easily distribute information. As a result, distributors of information are becoming more and more able to influence the consumption behavior of those following them on social media platforms such as YouTube and Instagram. The influencer marketing market is expected to expand accompanying such changes in the environment. A survey by digitalinfact estimates the market to grow by a CAGR of more than 10% until around 2028. However, it should be noted that since this survey was announced in March 2019, it seems that the impact of the COVID-19 pandemic was not taken into consideration in the forecasts.

**Influencer:** A distributor of information who influences a certain user group through online media, mainly on social media platforms such as YouTube, Instagram, or Twitter, or on blogs.

## The influencer marketing market

Market size (JPYbn)	2017 Act.	2018 Est.	2019 Est.	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Influencer marketing	17.5	21.9	26.7	32.7	39.0	44.8	50.9	59.0	67.4	75.7	84.3	93.3
YoY	-	25.1%	21.9%	22.5%	19.3%	14.9%	13.6%	15.9%	14.2%	12.3%	11.4%	10.7%
YouTube	6.3	8.5	11.0	13.8	16.5	19.4	22.7					
YoY	-	34.9%	29.4%	25.5%	19.6%	17.6%	17.0%					
Instagram	4.0	5.9	7.5	9.3	10.8	12.2	13.5					
YoY	-	47.5%	27.1%	24.0%	16.1%	13.0%	10.7%					
Twitter and blogs	5.5	5.0	5.1	5.1	5.2	5.2	5.3					
YoY	-	-9.1%	2.0%	0.0%	2.0%	0.0%	1.9%					
Other	1.7	2.5	3.1	4.5	6.5	8.0	9.5					
YoY	-	47.1%	24.0%	45.2%	44.4%	23.1%	18.8%					

Source: Shared Research based on a digitalinfact survey

## Affiliate advertising (performance-based)

In affiliate advertising, a content provider (affiliate) posts a link to an advertiser's webpage on their website, blog, social media account, or other media, and is paid a fixed performance fee per conversion (for example, when the visitor registers as a member, fills a web form, visits the company's store, or purchases a product on the company's site after having clicked through using the link). Since affiliate advertising is performance-based, as long as customer lifetime value (LTV) exceeds the payout to the affiliate, there is no incentive for the advertiser to reduce affiliate advertising.

A Yano Research Institute survey of Japan's affiliate advertising market estimates the size of the market will reach JPY465.4bn in FY2023 (growing at a CAGR of around 10% from 2018). It should be noted that since the survey was published in February 2020, it seems that the impact of the COVID-19 pandemic was not taken into consideration in the forecasts. In addition, the size of the affiliate advertising market in Japan according to the Yano Research Institute survey is larger than the size of the affiliate advertising market according to the Dentsu survey mentioned above. This difference may be the result of differences in definitions and scope as well as differences in research methods.

## The affiliate advertising market

Market size (JPYbn)	2015 Act.	2016 Act.	2017 Act.	2018 Act.	2019 Est.	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Affiliate advertising	202.9	231.6	261.5	288.1	313.3	343.4	378.0	418.1	465.4
YoY	-	14.1%	12.9%	10.2%	8.7%	9.6%	10.1%	10.6%	11.3%

Source: Shared Research based on the Yano Research Institute's "Japan Affiliate Advertising Market Size and Forecast"

The Yano Research Institute's survey categorizes affiliate advertising players into four types: 1) ASP (agency): an agency mediates between various advertisers and website (media) owners, receiving advertising fees and commissions from advertisers, and paying website owners, 2) online marketplace: an online marketplace receives advertising fees and commissions from member stores to promote their products, and pays website owners, 3) independent: a company takes the role of advertiser to promote the products and content sold through its proprietary online store, and pays website owners, 4) platform: a platform provides advertisers with the tracking system and analysis tools necessary for affiliate advertising and receives compensation. The affiliate market in the survey was calculated by adding up performance fees, commissions, and various costs (initial cost, monthly cost, option cost, etc.) incurred from affiliate advertising.

Yano Research Institute's "Affiliate Advertising Market Trends and Outlook 2020" forecasts the size of the mobile affiliate advertising market as follows. It can be seen that affiliate advertising is shifting to mobile. It should be noted that since the survey was published in December 2020, it seems that the impact of the COVID-19 pandemic was not taken into consideration in the forecasts.

## The mobile affiliate advertising market

Market size (JPYbn)	2018 Act.	2019 Est.	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Mobile affiliate advertising	187.3	222.4	271.3	321.3	368.0	418.8
YoY	-	18.7%	22.0%	18.4%	14.5%	13.8%

Source: Shared Research based on Yano Research Institute's "Affiliate Advertising Market Trends and Outlook 2020"

## Long-term trends in advertising spending

During the global financial crisis in 2009, despite total advertising spending falling by double digits, online advertising spending was able to barely maintain growth. As of 2020, a major difference from 2009 is that online advertising spending grew to account for over 30% of the total market.

### Long-term trends in advertising spending

(JPYbn)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total advertising expenditures	6,823.5	6,939.9	7,019.1	6,692.6	5,922.2	5,842.7	5,709.6	5,891.3	5,976.2	6,152.2	6,171.0	6,288.0	6,390.7	6,530.0	6,938.1
YoY		1.7%	1.1%	-4.7%	-11.5%	-1.3%	-2.3%	3.2%	1.4%	2.9%	0.3%	1.9%	1.6%	2.2%	6.2%
Traditional media	3,740.8	3,666.8	3,569.9	3,299.5	2,828.2	2,774.9	2,701.6	2,880.9	2,893.5	2,939.3	2,869.9	2,859.6	2,793.8	2,702.6	2,609.4
Newspapers	1,037.7	998.6	946.2	827.6	673.9	639.6	599.0	624.2	617.0	605.7	567.9	543.1	514.7	478.4	454.7
Magazines	484.2	477.7	458.5	407.8	303.4	273.3	254.2	255.1	249.9	250.0	244.3	222.3	202.3	184.1	167.5
Radio	177.8	174.4	167.1	154.9	137.0	129.9	124.7	124.6	124.3	127.2	125.4	128.5	129.0	127.8	126.0
Television	2,041.1	2,016.1	1,998.1	1,909.2	1,713.9	1,732.1	1,723.7	1,877.0	1,902.3	1,956.4	1,932.3	1,965.7	1,947.8	1,912.3	1,861.2
Terrestrial TV	2,041.1	2,016.1	1,998.1	1,909.2	1,713.9	1,732.1	1,723.7	1,775.7	1,791.3	1,834.7	1,808.8	1,837.4	1,817.8	1,784.8	1,734.5
Satellite media								101.3	111.0	121.7	123.5	128.3	130.0	127.5	126.7
Internet	377.7	482.6	600.3	698.3	706.9	774.7	806.2	868.0	938.1	1,051.9	1,159.4	1,310.0	1,509.4	1,758.9	2,104.8
% of total advertising expenditures	5.5%	7.0%	8.6%	10.4%	11.9%	13.3%	14.1%	14.7%	15.7%	17.1%	18.8%	20.8%	23.6%	26.9%	30.3%
YoY		27.8%	24.4%	16.3%	1.2%	9.6%	4.1%	7.7%	8.1%	12.1%	10.2%	13.0%	15.2%	16.5%	19.7%
Medium expenditures	280.8	363.0	459.1	537.3	544.8	607.7	618.9	662.9	720.3	824.5	919.4	1,037.8	1,220.6	1,448.0	1,663.0
Product sales EC platform ad expenditures															106.4
Production costs	96.9	119.6	141.2	161.0	162.1	167.0	187.3	205.1	217.8	227.4	240.0	272.2	288.8	310.9	335.4
Promotional media	2,656.3	2,736.1	2,788.6	2,627.2	2,316.2	2,214.7	2,112.7	2,142.4	2,144.6	2,161.0	2,141.7	2,118.4	2,087.5	2,068.5	2,223.9

Source: Shared Research based on Dentsu Group's Advertising Expenditures in Japan and Advertising Expenditures in Japan: Detailed Analysis of Expenditures on Internet Advertising Media

## The matchmaking app market in Japan

According to the "Online Matchmaking Service Market Size Forecast (2017–2025)" by MatchingAgent, Inc. and digitalinfact, the size of the matchmaking market was JPY51.0bn in 2019, and will be JPY106.0bn in 2025. However, it should be noted that this forecast was announced in January 2020, and the impact of the COVID-19 pandemic on the market from 2020 onward was not taken into consideration in various relevant statistics.

- ▷ Given the abovementioned market size of JPY51.0bn in 2019 and the company's Media business revenue of JPY4.5bn in FY06/20, we estimate the company's share at around 9%.
- ▷ According to "Matchmaking Activity Survey 2019" by Recruit Marketing Partners Co. Ltd.'s Bridal Research Institute, the percentage of people who got married through online matchmaking services was 7.4% in 2018. This number has seen continuous growth from roughly 2% in 2012–13, which seems to have been caused by users increasingly adopting mobile app versions of matchmaking services. The percentage of singles are seeking partners and have experience of using online matchmaking services was up in both 2018 and 2019, reaching 16.5% in 2019. Women have experience using online matchmaking services at a slightly higher rate than men. By age, the younger the generation, the higher the usage rate for both men and women.
- ▷ According to a research paper by the University of Chicago in 2013, which details a survey of about 20,000 people in the US married from 2005 to 2012, roughly 35% of those surveyed met their spouses online. Of those meeting online, about 45% met through a dating app, while about 20% met through social media. Breaking down those who met through a dating app, about 25% met through eHarmony, while about 25% met through Match (the research paper was instigated by eHarmony.com).

The company believes utilization rates for matchmaking apps are still lower in Japan than they are in the US, with the Japanese market, even when taking into account the cultural differences between the two countries, still showing room for growth. Moreover, the substantial restrictions on mass market advertising in Japan as of 2020, including the ban of TV commercials, means awareness of the services offered by the company's app is still rather low. The company believes a lifting of these restrictions could boost awareness of the services offered by its app and the market will also grow sharply. In the FY06/21 full-year company forecast, Net Marketing has indicated that TV commercials will be implemented in Q4 FY06/21 or after.

### Japan online matchmaking services market forecast (2017–2025)

(JPYbn)	2017 Act.	2018 Act.	2019 Act.	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Online matchmaking service market in Japan	25.8	39.2	51.0	62.0	75.3	84.1	92.7	101.2	106.0
YoY	-	51.9%	30.1%	21.6%	21.5%	11.7%	10.2%	9.2%	4.7%

Source: Shared Research based on "Japan Online Matchmaking Services Market Forecast (2017-2025)" by MatchingAgent and digitalinfact

### Percentage of people who got married through online matchmaking services

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Act.	2015 Act.	2016 Act.	2017 Act.	2018 Act.
People married through online matchmaking services (% of newlyweds)	1.6	1.5	2.1	2.0	2.6	3.4	4.5	5.0	7.4

Source: Shared Research based on "Matchmaking Activity Survey 2019" by Recruit Marketing Partners Co. Ltd.'s Bridal Research Institute

### Percentage of single people with experience using online matchmaking services

	2016 Act.	2017 Act.	2018 Act.	2019 Act.
Singles with experiences of using online matchmaking services (% of newlyweds)	9.8%	9.1%	12.0%	16.5%
Male				
Total	9.1%	8.4%	11.1%	15.6%
20s	8.8%	8.1%	11.5%	17.9%
30s	10.1%	9.8%	10.6%	15.0%
40s	8.3%	7.4%	11.0%	12.5%
Female				
Total	10.6%	10.1%	13.1%	17.7%
20s	11.5%	10.0%	13.7%	19.3%
30s	11.5%	11.6%	15.0%	19.6%
40s	6.8%	8.1%	9.5%	12.5%

Source: Shared Research based on "Matchmaking Activity Survey 2019" by Recruit Marketing Partners Co. Ltd.'s Bridal Research Institute

## Competitor trends

### Comprehensive online ad agencies (Japan)

In addition to operating as an affiliate ad agency, Net Marketing is also focusing on the social media advertising service, which shows even stronger potential for growth. The company aims through this effort to position itself as a comprehensive online ad agency. Net Marketing's competitors include CyberAgent (TSE 1: 4751), Digital Holdings (TSE 1: 2389; formerly OPT Holding), and Septeni Holdings (TSE JASDAQ: 4293). Standing out in terms of the scale of its revenue, CyberAgent operates in a wide range of fields, including media, games, business incubation, and online advertising.

### Matchmaking app providers (Japan)

There are many competitors because the matchmaking app market has low barriers to entry. However, matchmaking apps require a sufficient number of members to deliver a certain level of matching accuracy, and there is constant turnover in paying members. These facts necessitate operating the business on a scale large enough to maintain advertising spending. The major competing apps in Japan are "Pairs" of Match Group, Inc. (NASDAQ, MTCH), which develops matching apps globally, and "Tapple" operated by CyberAgent, Inc. Based on app spending as of 2019, Pairs and Tapple's shares seems to exceed that of Omiai.

#### Japanese apps spending: Top apps in 2019

Rank	App	Company
1	LINE Manga	LINE
2	LINE	LINE
3	LINE MUSIC	LINE MUSIC
4	piccoma	Kakao Corp
5	Pairs	IAC
6	tapple	CyberAgent
7	AbemaTV	CyberAgent
8	Pokecolo	Cocone
9	YouTube	Google
10	Shonen Jump Plus	SHUEISHA

Source: Shared Research, based on App Annie's The State of Mobile in 2020  
Total app spending on iOS and Google Play Store outlets

### Pairs (est. 2012)

Eureka, which operates Pairs, the leading domestic matchmaking app, is a subsidiary of Match Group, Inc. The Match Group develops well-known online dating services on a global scale including Match, OkCupid, Tinder, Meetic, Hinge, OurTime, and Plenty of Fish.

- ▷ According to Eureka's disclosure materials, the cumulative number of Pairs members (total for Japan, Taiwan, and South Korea) as of end-2019 was 10 million.
- ▷ According to Match Group's disclosure materials, downloads of the Pairs app in Japan grew by 44% in 2019.
- ▷ According to the Pairs website, the monthly fee for paying members (i.e., male members) as of August 2020 was JPY3,590 (tax inclusive), and there are also several option plans available.

### Tapple (est. 2014)

MatchingAgent, which operates Tapple, is a CyberAgent consolidated subsidiary. Net Marketing and the CyberAgent Group are competing in both the advertising and media businesses.

- ▷ According to Match Group's disclosure materials, downloads of the Tapple app fell by 8% in 2019.
- ▷ According to CyberAgent's website, half of the users are between the ages of 20 and 24, there are more than 5 million members (as of end-October 2019), and there have been 200 million cumulative matches.

- ▷ According to the Tapple website, a one-month subscription for men as of August 2020 was JPY3,700 (tax inclusive), and long-term plans are discounted. Women can use the service free of charge. Both men and women can purchase optional plans to use additional features.

## Others

- ▷ IGNIS (TSE Mothers: 3689) operates the “With” service, which had 3.2 million members as of June 2020. A one-month subscription is priced at JPY4,300 (tax inclusive) as of August 2020, and optional plans are also available.
- ▷ IBJ (TSE 1: 6071) mainly concerns itself with marriages through the use of marriage consulting offices and partner-search parties, including the “Party☆Party” events, giving it a business model somewhat different from companies such as Net Marketing that are focused on matchmaking apps. On March 5, 2020, Line Corporation (TSE1: 3938, primarily provides the Line messenger app, which holds a large share of the market in Japan) announced that it would enter the matchmaking services business along with Diverse, Inc., a group company operating underneath IBJ, Inc. Line owns 60% of this joint investment.

## Major competitors by business segment

Ticker	Company	Latest full-year results				Main businesses (% of revenue)
		FY	Revenue (JPYmn)	OPM	ROE	
6175	Net Marketing	FY06/20	14,364	5.1%	20.2%	Advertising, Media
<b>Online advertising general agency</b>						
4293	Septeni Holdings	FY09/19	16,796	1.1%	-3.6%	Digital Video Ads Service, Branding Ads Service, Global Service
2389	OPT Holding	FY12/19	89,953	2.9%	7.6%	Listing ads, Display ads, Social media ads, Affiliate ads, Movie ads, other
4751	CyberAgent	FY09/19	453,611	6.8%	2.1%	Media, Games, Online ads, Investment and consultation, other
<b>Online matchmaking</b>						
3938	LINE	FY12/19	227,485	-17.1%	-26.3%	Operates communication service LINE; content, advertising services, other
3689	IGNIS	FY09/19	5,571	-13.4%	-28.0%	Community, Native Games, Other; operates matching service "with"
6071	IBJ	FY12/19	15,282	15.3%	36.0%	Corporate, Community, Lounge, Life design
Unlisted	Matching Agent					Operates matchmaking service "tapple tanjo"; consolidated subsidiary of CyberAgent
Unlisted	eureka					Operates matchmaking service "Pairs"

Source: Shared Research based on company data

## Comparison of Net Marketing's major competitors

Online matchmaking (JPYmn)	Net Marketing (6175)			IGNIS (3689)			IBJ (6071)			LINE (3938)		
	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Parent	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Revenue	11,210	14,051	14,364	5,577	4,874	5,571	9,461	11,818	15,282	167,147	207,182	227,485
Operating profit	551	424	735	83	-2,532	-745	1,493	1,476	2,339	25,078	16,110	-38,997
Recurring profit	566	421	747	71	-2,571	-868	1,493	1,468	2,346	18,145	3,354	-51,616
Net income	404	284	510	-35	-2,651	-635	1,036	1,050	1,523	8,078	-3,718	-46,888
ROE	21.9%	13.0%	20.2%	-1.1%	-84.1%	-28.0%	40.1%	31.4%	36.0%	4.7%	-1.9%	-26.3%
ROA (RP-based)	12.9%	5.4%	10.2%	1.3%	-47.0%	-20.2%	26.9%	21.3%	24.9%	6.5%	0.9%	-10.0%
OPM	4.9%	3.0%	5.1%	1.5%	-52.0%	-13.4%	15.8%	12.5%	15.3%	15.0%	7.8%	-17.1%
Total assets	4,892	5,281	4,978	6,291	4,654	3,956	6,220	7,562	11,288	303,439	486,587	541,352
Equity	2,075	2,290	2,752	4,046	2,256	2,251	3,169	3,525	4,936	185,075	198,916	158,133
Equity ratio	42.2%	43.4%	55.3%	64.3%	47.4%	56.9%	50.9%	46.6%	43.7%	61.0%	40.9%	29.2%
Interest-bearing debt	240	160	80	1,396	1,076	458	1,358	1,657	2,726	-	142,132	142,851
Online ad general agency (JPYmn)	Septeni Holdings (4293)			OPT Holding (2389)			CyberAgent (4751)					
	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.			
Revenue	14,702	15,272	16,796	82,602	87,216	89,953	371,362	419,512	453,611			
Operating profit	2,247	976	183	2,224	1,767	2,633	30,700	30,163	30,825			
Recurring profit	2,448	1,353	-81	1,921	1,669	2,833	28,741	28,565	30,493			
Net income	2,211	847	-542	1,011	1,922	1,928	4,024	4,849	1,694			
ROE	15.1%	5.5%	-3.6%	6.3%	9.9%	7.6%	5.2%	6.0%	2.1%			
ROA (RP-based)	7.8%	4.1%	-0.3%	4.2%	2.9%	4.6%	17.9%	14.7%	13.5%			
OPM	15.3%	6.4%	1.1%	2.7%	2.0%	2.9%	8.3%	7.2%	6.8%			
Total assets	32,929	33,371	30,413	46,127	57,181	61,132	164,009	225,484	224,876			
Equity	15,172	15,673	14,796	15,219	23,477	27,196	78,908	81,557	79,169			
Equity ratio	46.1%	47.0%	48.7%	33.0%	41.1%	44.5%	48.1%	36.2%	35.2%			
Interest-bearing debt	5,949	6,424	5,302	11,524	10,000	8,738	1,219	41,628	41,457			

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods

Net Marketing and the CyberAgent Group both operate internet advertising agent and online matchmaking businesses.



## Strengths and weaknesses

### Strengths

- **Rebranding of the Omiai matching app to improve recognition and attractiveness:** The company has been working on the rebranding of Omiai since February 2020. According to Net Marketing, these rebranding efforts are aimed at increasing recognition of and favorability toward the Omiai brand among other matchmaking services in Japan. The company decided to implement these rebranding measures to increase organic user inflow because it realized in FY06/19 that achieving further growth would be difficult if it were to merely rely on its previous online advertising strategy driven by cost per action (CPA). Net Marketing indicated that these rebranding efforts are particularly focused on raising recognition of and favorability toward the Omiai brand among the younger generation. Unlike promotions that primarily rely on online advertising, these rebranding efforts are not focused on raising short-term earnings and instead target future organic increases in member volume. Accordingly, the company views these measures as a long-term initiative that will last several years. As of August 2020, rebranding efforts are still underway, but the brand is gradually shifting to a form more suitable for mass marketing. We expect this to be a positive factor when the company implements TV commercials in the future.
- **A rich customer base built on pursuing the top position in the niche affiliate ad agency market:** Major advertising agencies tend to treat affiliate ads as just one of several advertising services. However, Net Marketing has accumulated a wealth of knowledge and expertise as an agency specializing in the affiliate business, which places it second among agency peers in affiliate ad revenue, according to the company. The percentage of Advertising business revenue from the company's three largest customers between FY06/15 and FY06/18 hovered high at just over 60%. Due in part to revenue growth in the Media business, there was only one large customer (accounting for at least 10% of total revenue) in FY06/19 and two in FY06/20, yet revenue and profit in the Advertising business continues to grow. Shared Research believes the company's strength lies in the depth of this kind of customer base.
- **The Advertising business is centered on affiliate advertising, which is relatively unaffected by economic downturns:** Showing resistance to economic fluctuations, revenue at Net Marketing's Advertising business has continued to expand from FY06/12 to FY06/20. An affiliate ad, the core of the Advertising business, is performance based, making it more cost effective for advertisers compared to traditional advertising, such as TV commercials. In fact, advertisers view affiliate ads (often perceived as promotion expenses) as more resistant to expense cuts even during economic downturns. According to a survey by Cyber Communications Inc., "Forecast of Market Trends in Online Advertising in the First Half of 2020 and Advertising Trends by Industry in the Second Half of 2020 (July 2020)," in the first half of 2020, spending on promotional campaigns decreased for many types of advertising methods amid the COVID-19 pandemic, but affiliate advertising and search advertising were little affected. Net Marketing felt the impact from customers in the brick-and-mortar store category as consumers refrained from leaving the home, but all other categories performed strongly.

### Weaknesses

- **The existence of competitors with a greater share of the Japan matchmaking app market:** There are many competitors in the matchmaking app market due to low barriers to entry. However, matchmaking apps require a sufficient number of members to deliver a certain level of matching accuracy, and there is constant turnover in paying members. These facts necessitate operating the business on a scale large enough to maintain advertising spending. The major competing apps in Japan are Pairs of Match Group, Inc. (NASDAQ, MTCH), which develops matching apps globally, and Tapple operated by CyberAgent, Inc. Based on app spending as of 2019, the shares of Pairs and Tapple seems to exceed that of Omiai. In the case that it becomes possible to air TV commercials for these apps in Japan, and full-scale mass marketing becomes a reality, companies with larger share should have an advantage from the perspective of ability to spend on advertising. In light of this, we see Net Marketing's share as a potential weakness.
- **Major competitors in matchmaking apps outperform the company in terms of capital:** Net Marketing's major competitors in Japan in the matchmaking app space are group companies with superior capital strength and a wider business domain (sales area, app type, business scope). For this reason, the company is in a disadvantageous position when it competes using short-term capital and a scope limited to matchmaking apps in Japan.



- ▀ **End clients in the Advertising business are overly weighted toward certain industries, making the earnings structure vulnerable to changes in the environment:** The main product of the Advertising business is affiliate advertising. As of FY06/20, the ratio of affiliate advertising end clients (advertisers) who operate brick-and-mortar stores—and are thus easily affected by consumers’ reluctance to leave the home—is high. Affiliate ads are performance-based, and revenue is not generated unless a potential lead visits the end client’s store or fills an application. As a result, Net Marketing’s Advertising business was significantly affected by the COVID-19 pandemic. For the company’s Advertising business to achieve an earnings structure that is resistant to changes in the environment, it is necessary to achieve diversification in the industries and business formats of its end clients.

## Historical results and financial statements

### Income statement

Income statement (JPYmm)	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Parent	FY06/20 Parent
<b>Revenue</b>	<b>2,697</b>	<b>4,691</b>	<b>6,619</b>	<b>8,524</b>	<b>8,824</b>	<b>9,868</b>	<b>11,210</b>	<b>14,051</b>	<b>14,364</b>
YoY	-	74.0%	41.1%	28.8%	3.5%	11.8%	13.6%	25.3%	2.2%
Cost of revenue				6,727	7,031	7,337	7,938	9,719	9,794
<b>Gross profit</b>				<b>1,798</b>	<b>1,793</b>	<b>2,532</b>	<b>3,272</b>	<b>4,332</b>	<b>4,570</b>
YoY				-	-0.3%	41.2%	29.3%	32.4%	5.5%
GPM				21.1%	20.3%	25.7%	29.2%	30.8%	31.8%
SG&A expenses				1,373	1,519	2,090	2,721	3,908	3,835
SG&A ratio				16.1%	17.2%	21.2%	24.3%	27.8%	26.7%
<b>Operating profit</b>				<b>425</b>	<b>274</b>	<b>441</b>	<b>551</b>	<b>424</b>	<b>735</b>
YoY				-	-35.6%	61.3%	24.9%	-23.1%	73.3%
OPM				5.0%	3.1%	4.5%	4.9%	3.0%	5.1%
Non-operating income (expenses)				1	8	0	17	9	13
Non-operating expenses				7	7	18	1	12	1
<b>Recurring profit</b>	<b>-1</b>	<b>56</b>	<b>273</b>	<b>419</b>	<b>275</b>	<b>424</b>	<b>566</b>	<b>421</b>	<b>747</b>
YoY	-	-	391.5%	53.4%	-34.4%	54.2%	33.7%	-25.6%	77.4%
RPM	0.0%	1.2%	4.1%	4.9%	3.1%	4.3%	5.1%	3.0%	5.2%
Extraordinary gains				-	-	-	9	0	-
Extraordinary losses				-	4	-	2	0	-
Income taxes				148	94	127	170	137	237
Implied tax rate				35.4%	34.7%	29.9%	29.6%	32.6%	31.8%
<b>Net income</b>	<b>-4</b>	<b>61</b>	<b>163</b>	<b>271</b>	<b>177</b>	<b>297</b>	<b>404</b>	<b>284</b>	<b>510</b>
YoY	-	-	165.0%	66.5%	-34.8%	68.1%	35.9%	-29.7%	79.6%
Net margin	-0.2%	1.3%	2.5%	3.2%	2.0%	3.0%	3.6%	2.0%	3.5%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

In FY06/19, revenue increased while profit decreased owing to aggressive sales promotion spending in the Media business. In FY06/20, profits increased significantly as a result of curbing sales promotion expenses in the Media business, despite COVID-19 acting as a drag on profit growth.

### SG&A expenses

SG&A expenses (JPYmm)	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Parent	FY06/20 Parent
Salaries and allowances	-	-	-	398	442	495	539	581	
Promotion expenses	-	-	-	487	619	1,085	1,387	2,467	

Source: Shared Research based on company data

## Balance sheet

Balance sheet (JPYmn)	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Parent	FY06/20 Parent
<b>ASSETS</b>									
Cash and deposits				893	1,391	2,244	3,027	3,044	3,214
Notes and accounts receivable				1,791	1,186	1,233	1,384	1,759	1,199
Deferred tax assets				14	6	12	16	-	-
Other				29	21	29	42	80	102
Allowance for doubtful accounts				-19	-12	-13	0	0	0
<b>Total current assets</b>				<b>2,708</b>	<b>2,591</b>	<b>3,504</b>	<b>4,469</b>	<b>4,883</b>	<b>4,515</b>
<b>Total tangible fixed assets</b>				<b>20</b>	<b>21</b>	<b>17</b>	<b>141</b>	<b>121</b>	<b>107</b>
<b>Total intangible fixed assets</b>				<b>86</b>	<b>138</b>	<b>121</b>	<b>43</b>	<b>15</b>	<b>45</b>
Deferred tax assets				10	7	19	35	27	58
Other				100	77	248	204	235	252
<b>Investments and other assets</b>				<b>110</b>	<b>85</b>	<b>266</b>	<b>239</b>	<b>263</b>	<b>311</b>
<b>Total fixed assets</b>				<b>216</b>	<b>243</b>	<b>404</b>	<b>423</b>	<b>399</b>	<b>463</b>
<b>Total assets</b>				<b>2,924</b>	<b>2,835</b>	<b>3,908</b>	<b>4,892</b>	<b>5,281</b>	<b>4,978</b>
<b>LIABILITIES</b>									
Notes and accounts payable				1,630	1,228	1,432	1,767	2,033	1,263
Short-term debt				94	103	88	80	80	80
Income taxes payable				99	15	114	132	17	216
Other				330	310	421	687	781	666
<b>Total current liabilities</b>				<b>2,154</b>	<b>1,656</b>	<b>2,054</b>	<b>2,666</b>	<b>2,911</b>	<b>2,225</b>
Long-term debt				80	328	240	160	80	-
Other (financial reports)				1	-	-	-	-	-
<b>Total fixed liabilities</b>				<b>81</b>	<b>328</b>	<b>240</b>	<b>160</b>	<b>80</b>	<b>-</b>
<b>Total liabilities</b>				<b>2,235</b>	<b>1,984</b>	<b>2,294</b>	<b>2,826</b>	<b>2,991</b>	<b>2,225</b>
<b>NET ASSETS</b>									
Capital stock				137	137	366	394	395	408
Capital surplus				127	127	356	384	385	398
Retained earnings				402	579	876	1,280	1,509	1,946
Shareholders' equity				666	843	1,599	2,057	2,290	2,753
Foreign currency translation adjustments				24	8	15	10	-	-
<b>Total net assets</b>	<b>187</b>	<b>249</b>	<b>411</b>	690	851	<b>1,614</b>	<b>2,066</b>	<b>2,290</b>	<b>2,753</b>
<b>Total liabilities and net assets</b>	<b>805</b>	<b>1,637</b>	<b>2,079</b>	<b>2,924</b>	<b>2,835</b>	<b>3,908</b>	<b>4,892</b>	<b>5,281</b>	<b>4,978</b>
Working capital				161	-42	-199	-383	-274	-64
Total interest-bearing debt				174	430	328	240	160	80
Net debt				-719	-961	-1,916	-2,787	-2,884	-3,134

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Unearned revenue (Media business)

When a paying member in the Media business subscribes to the multi-month plan, payments received for months not yet used are booked as current liabilities.

## Borrowings

The company has a sound financial position, with borrowings in FY06/20 amounting to only JPY80mn.

## Cash flow statement

Cash flow statement (JPYmn)	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Parent	FY06/20 Parent
Cash flows from operating activities (1)				360	356	718	920	213	368
Cash flows from investing activities (2)				-127	-96	-227	-22	43	-71
<b>Free cash flow (1+2)</b>				<b>233</b>	<b>260</b>	<b>491</b>	<b>899</b>	<b>256</b>	<b>297</b>
Cash flows from financing activities				-95	250	342	-33	-159	-127
Depreciation and amortization (A)				46	67	70	77	50	34
Capital expenditures (B)				-6	-6	-12	-145	-2	-5
Change in working capital (C)				161	-203	-157	-184	109	210
<b>Simple FCF (NI + A + B - C)</b>				<b>151</b>	<b>442</b>	<b>511</b>	<b>520</b>	<b>223</b>	<b>329</b>

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

- ▷ Cash flows from operating activities can be generally explained by changes in net income after tax and working capital.
- ▷ Cash flows from investing activities are small since the company invests mainly in advertising, which is reflected in net income as an expense.
- ▷ Cash provided by financing activities has been high since the company generated JPY444mn from the issuances of shares at its IPO in FY06/17.

## Historical performance

### Q3 FY06/20 results

#### Earnings summary

Net Marketing reported cumulative Q3 FY06/20 revenue of JPY11.3bn (+15.3% YoY), operating profit of JPY603mn (+318.9% YoY), recurring profit of JPY613mn (+338.9% YoY), and net income of JPY420mn (+359.4%). The company's operating profit margin improved significantly from 1.5% in cumulative Q3 FY06/19 to 5.3%. The OPM improvement was largely due to the company's strategic investments in its Media business in the first three quarters of FY06/19.

- ▷ On June 8, 2020, Net Marketing announced revisions to its full-year FY06/20 forecasts (previous figures not disclosed). It now guides for revenue of JPY14.3bn (+1.7% YoY), operating profit of JPY700mn (+65.1% YoY), recurring profit of JPY710mn (+68.6% YoY), net income attributable to owners of the parent of JPY480mn (+70.7% YoY), and earnings per share of JPY32.82 (+68.4% YoY). In the Media business, growth in the number of paying members is sluggish and there are fewer opportunities to acquire new members owing to reduced opportunities for dates amid the avoidance of non-essential travel, and the review of promotions targeted at new member acquisition. In addition, existing members are holding off purchasing point premium packs. As a result, monthly fee revenue and key performance indicators are falling. In the Advertising business, the acquisition of advertisers in the brick-and-mortar store business category is slowing in response to reduced non-essential travel and temporary store closures. At the same time, advertisers are scaling back ad placement and business opportunities are decreasing amid concerns of a deterioration of the business environment. There was little impact on social media advertising, but the company said that it still fell short on metrics needed to trigger performance fee payments for affiliate ads. Although the state of emergency was lifted, there was still no end in sight to the COVID-19 crisis as at June 8, 2020, and the company expects it will be some time before the business environment recovers. As such, it has revised its earnings forecasts.

#### Earnings by operating segment

##### Advertising business

Cumulative Q3 revenue in the Advertising business was JPY7.8bn (+16.8% YoY) and segment profit was JPY778mn (+57.3% YoY).

- ▷ In this business, the company specializes as an affiliate ad agency, offering an integrated line of services from strategic planning in advertising development to operational support. In FY06/19, the social media advertising business the company began working on in FY06/18 has seen a gradual yet steady increase in customers and management continues to lay the foundation for full-fledged development.
- ▷ The company benefitting from firm affiliate advertising revenue in the services sector, which includes beauty salon and human resources businesses.

##### Media business

Cumulative Q3 revenue in the Media business was JPY3.5bn (+12.0% YoY) and segment profit was JPY274mn (+413.0% YoY).

- ▷ The Media business centers on the Omiai matchmaking app. With the goal of ensuring sustained revenue growth, the company implemented measures aimed at more efficiently acquiring new members and optimizing the process leading up to member registration. In February, the company launched a new brand logo and appointed actress and creative artist NON as a brand ambassador. The company also launched an online commercial and placed OOH advertisements in the Kanto and Kansai regions to raise awareness.
- ▷ The number of paying members at end-Q3 was 78,000, recovering from 76,000 at end-Q2, thanks to enhanced member acquisition measures during the year-end and New Year holidays. With the company's promotion of long-term plans with lower customer unit prices, however, revenues in Q3 (January–March) were lower than in Q2 (October–December). The company aims to grow future revenues by extending the lifetime of paying members.

- ▷ As of the April 2020 monthly disclosure, there were 5.4mn cumulative members, 87,000 new members, and 46.7mn cumulative matches made. The number of new members decreased from 99,000 in April 2019, but this was likely due to the voluntary restraint on going out due to the spread of the new coronavirus infection.
- ▷ On Tuesday, May 26, the company began providing the new online dating feature, which allows users to video call their potential matches within the Omiai matchmaking app. The new feature makes available video calling, which may be used up to 15 minutes a day, once a user has exchanged messages with his/her potential match for more than three times. Because the video call feature can only be used in the Omiai app, there is no need for users to exchange their personal information such as telephone numbers or user IDs for other external communication tools.

## 1H FY06/20 results

### Earnings summary

Net Marketing reported 1H FY06/20 revenue of JPY7.8bn (+18.6% YoY), operating profit of JPY508mn (versus an operating profit of JPY26mn in 1H FY06/19), recurring profit of JPY513mn (JPY22mn), and net income of JPY352mn (JPY9mn). The company's operating profit margin improved significantly from 0.4% in 1H FY06/19 to 6.6%. Progress versus company forecasts for 1H FY06/20 were 102.9% for revenue, 127.7% for operating profit, 129.0% for recurring profit, and 127.9% for net income.

- ▷ Progress versus full-year FY06/20 forecasts: revenue 48.3%, operating profit 62.5%, recurring profit 63.2%, and net income 62.3%.
- ▷ The company made no changes to its full-year earnings forecasts announced on August 9, 2019.

### Earnings by operating segment

#### Advertising business

1H revenue in the Advertising business was JPY5.4bn (+19.9% YoY) and segment profit was JPY568mn (+80.5% YoY). Influencing the strong results were a favorable order volume recorded in FY06/19 and healthy performance in terms of new orders (lost order volume was lower than projected).

- ▷ In this business, the company specializes as an affiliate ad agency, offering an integrated line of services from strategic planning in advertising development to operational support. In FY06/19, the social media advertising business the company began working on in FY06/18 has seen a gradual yet steady increase in customers and management continues to lay the foundation for full-fledged development.
- ▷ The company benefitting from firm affiliate advertising revenue in the services sector, which includes beauty salon and human resources businesses.

#### Media business

1H revenue in the Media business was JPY2.4bn (+15.9% YoY) and segment profit was JPY238mn (versus segment loss of JPY19mn in 1H FY06/19).

- ▷ The Media business centers on the Omiai matchmaking app. With the goal of ensuring sustained revenue growth, the company implemented measures aimed at more efficiently acquiring new members and optimizing the process leading up to member registration. These efforts pushed cumulative membership since the app's launch past 5.02mn in December 2019.
- ▷ In Q2, revenue and segment profit declined temporarily because the company invested management resources in promotional activities featuring a popular celebrity. The number of paying members fell QoQ from 81,000 at end-Q1 to 76,000 at end-Q2 because the company did not step up investment in online advertising and emphasized year-end member acquisition when conducting online advertising investment in Q2 (In Japan, many companies observe long holidays at the end of the calendar year into the beginning of the next calendar year). Net Marketing indicates that this decrease in paying members was within the scope of its projections. However, the company said the paying member count recovered in January 2020 because it stepped up customer acquisition efforts during the year-end and New Year holidays (typically, non-paying members become paying members a short time after joining).

**Other topics**

**Rebranding of the Omiai matchmaking app**

In February 2020, the company launched a rebranding promotion for the Omiai matchmaking app.

- ▷ The company updated the logo of the Omiai brand, creating a simple and monotone design based on the concept of supporting sincere matchmaking that leads to loving relationships (by emphasizing the letters “ai,” which mean “love” in Japanese). Furthermore, the company began employing NON (the stage name of famous actress and creative artist Rena Nonen) as a brand ambassador.
- ▷ According to Net Marketing, these rebranding efforts are aimed at increasing recognition of and favorability toward the Omiai brand among other matchmaking services in Japan. The company decided to implement these rebranding measures to increase organic user inflow because it realized in FY06/19 that achieving further growth would be difficult if it were to merely rely on its previous online advertising strategy, which placed an emphasis on cost per action (CPA). Net Marketing indicated that these rebranding efforts are particularly focused on raising recognition of and favorability toward the Omiai brand among the younger generation. Unlike promotions that primarily rely on online advertising, these rebranding efforts are not focused on raising short-term earnings and instead target future organic increases in member volume. Accordingly, the company collectively views these measures as a long-term initiative that will last several years.
- ▷ Net Marketing believes that higher levels of brand recognition produced by these efforts will lead to an increase in organic member inflow. The company also thinks that this larger inflow will help curtail advertising expenses and raise OPM.

**New brand logo and brand ambassador**



Source: Company data

**Behavior of domestic competitors in matchmaking services**

On March 5, 2020, Line Corporation (TSE1: 3938, primarily provides the Line messenger app, which holds a large share of the market in Japan) announced that it would enter the matchmaking services business along with Diverse, Inc., a group company operating underneath IBJ, Inc. (TSE1: 6071, operates a marriage agency among other endeavors). Line owns 60% of this joint investment.

**Impact of the novel coronavirus on Net Marketing's businesses**

The novel coronavirus outbreak that began in Wuhan, China has also spread to Japan, where cases of infections are also being reported. However, Net Marketing indicates that the virus has not had a large impact on its Advertising or Media businesses as of March 6, 2020. The company is currently investigating the impact the virus will have on its customer base in the Advertising business moving forward. In the Media business, the company states that it is implementing public relations measures associated

with rebranding efforts as planned. Net Marketing's FY06/20 performance forecast was released before the spread of the virus and therefore does not reflect risks associated with the further spread of the virus.

## Q1 FY06/20 results

### Earnings summary

Net Marketing reported Q1 FY06/20 revenue of JPY4.3bn (+23.1% YoY), operating profit of JPY406mn (versus an operating profit of JPY27mn in Q1 FY06/19), recurring profit of JPY410mn (JPY27mn), and net income of JPY283mn (JPY17mn). The company's operating profit margin improved significantly from 0.8% in Q1 FY06/19 to 9.6%.

- ▷ Q1 progress versus full-year FY06/20 company forecasts: revenue 56.5%, operating profit 102.1%, recurring profit 103.0%, and net income 102.7%.
- ▷ FY06/20 earnings forecasts: While the company achieved a high progress rate in Q1, it refrained from revising up its 1H and full-year earnings forecasts from its targets announced on August 9, 2019, as it anticipates significant strategic investments in Q2 and Q3 ahead of the high demand period in its Media business. The company in particular made no change to its 1H earnings forecast, despite a favorable progress rate, in light of its expectations for a significant amount of strategic investment in Q2.

### Earnings by operating segment

#### Advertising business

Q1 revenue in the Advertising business was JPY3.0bn (+23.2% YoY) and segment profit was JPY375mn (+112.3% YoY).

- ▷ In this business, the company specializes as an affiliate ad agency, offering an integrated line of services from strategic planning in advertising development to operational support. In FY06/19, the social media advertising business the company began working on in FY06/18 has seen a gradual yet steady increase in customers and management continues to lay the foundation for full-fledged development.
- ▷ The company is benefitting from firm affiliate advertising revenue in the services sector, which includes beauty salon and human resources businesses.
- ▷ While the pace of growth in social media advertising is quite high, the amount of revenue generated from such is relatively limited, so growth in the Advertising business as a whole is largely a function of growth in affiliate advertising operations. Based on market research, the affiliate advertising market is estimated to be expanding at an annual rate of about 15%. As the pace of growth at the company exceeds this, it appears Net Marketing's market share is also improving.

#### Media business

Q1 revenue in the Media business was JPY1.2bn (+23.1% YoY) and segment profit was JPY182mn (versus segment loss of JPY11mn in Q1 FY06/19).

- ▷ The Media business centers on the Omiai matchmaking app. With the goal of ensuring sustained revenue growth, the company broadened the user base from Facebook users to internet users in general, while at the same time implementing measures aimed at more efficiently acquiring new members and launching aggressive promotions. These efforts pushed cumulative membership since the app's launch past 4.71mn in September 2019.
- ▷ The company saw firm revenue on an increase in promotional spending over the five quarters leading up to Q4 FY06/19, a period it viewed as an investment phase. Moreover, operating profit improved in Q1 FY06/20 on the company's strategic allocation of promotional spending targeting its high-demand period. Net Marketing's policy from Q2 FY06/20 onward is to invest in priority areas, including marketing.



## Full-year FY06/19 results

### Earnings summary

Net Marketing reported FY06/19 revenue of JPY14.1bn (+25.3% YoY), operating profit of JPY424mn (-23.6% YoY), recurring profit of JPY421mn (-26.1% YoY), and net income of JPY284mn (-28.5% YoY). The company's operating profit margin for the year was down 1.9pp YoY to 3.0%.

### Earnings by operating segment

#### Advertising business

In this business, the company specializes as an affiliate ad agency, offering an integrated line of services from strategic planning in advertising development to operational support. In FY06/19, the social media advertising business the company began working on in FY06/18 has seen a gradual yet steady increase in customers and management continues to lay the foundation for full-fledged development. Benefitting from firm affiliate advertising revenue in the services sector, which includes beauty salon and human resources businesses, FY06/19 revenue in the segment expanded 21.5% YoY to JPY9.8bn, with operating profit up 39.0% YoY to JPY861mn.

#### Media business

The Media business centers on the Omiai matchmaking app. With the goal of ensuring sustained revenue growth, the company broadened the user base from Facebook users to internet users in general, while at the same time implementing measures aimed at more efficiently acquiring new members and launching aggressive promotions. These efforts pushed cumulative membership since the app's launch past 4.38mn in June 2019. Meanwhile, on March 28, 2019 Net Marketing decided to terminate its online dating app QooN. This decision factored in market conditions and earning achievement rates, and the company's desire to bolster competitiveness in the segment by reallocating management resources to the mainstay Omiai service. The company also wanted to improve the likelihood of achieving its full-year and medium-term plan (FY06/19–FY06/21) targets. As a result of these developments, revenue in the segment improved 35.2% YoY to JPY4.2bn, with segment operating profit dropping 71.5% YoY to JPY128mn.

### Assets, liabilities, and net assets

Total assets as of end FY06/19 stood at JPY5.3bn, up JPY389mn from the end of FY06/18, with the gain due largely to solid earnings performance contributing to a JPY375mn improvement in accounts receivable. Total liabilities were up JPY165mn from end FY06/18 to JPY3.0bn, due mainly to a JPY265m YoY increase in accounts payable. Net assets were up JPY215mn from end FY06/18 to JPY2.3bn, thanks in large part to the company booking net income for the year of JPY283mn. The company's shareholders' equity ratio improved from 42.3% at end FY06/18 to 43.4% at end FY06/19.

### Cash flows

Cash and cash equivalents at the end of FY06/19 stood at JPY3.0bn, up JPY96mn YoY.

#### Cash flows from operating activities

Cash derived from operating activities at end FY06/19 stood at JPY213mn, down JPY707mn YoY, reflecting pre-tax profit of JPY421mn, and an increase in accounts payable–trade of JPY265mn, and depreciation of JPY50mn, but also an increase in accounts receivable–trade of JPY375mn and income taxes paid of JPY219mn.

#### Cash flows from investing activities

Cash derived from investing activities at end FY06/19 stood at JPY42mn (cash used in investing activities was JPY21mn in FY06/18), reflecting in part JPY79mn in proceeds from the liquidation of a subsidiary.

#### Cash flows from financing activities

Cash used in financing activities at end FY06/19 was JPY158mn, up JPY125mn YoY, reflecting the repayment of JPY79mn in long-term borrowings and dividend payments of JPY72mn.

## Other information

### History

Date	Description
Jul 2004	Established (capital: JPY10mn) in Taito, Tokyo, as online ad agency to provide campaign-type affiliate ad plans to advertisers
Dec 2004	Relocated head office to Minato, Tokyo
Feb 2007	Changed business model to sales representative in the affiliate ad industry and started offering consulting services to advertisers on online promotions
Jun 2007	Adways Inc. sold shares of Net Marketing Co., Ltd. to JSPF Number Two Investment LLP, making the company no longer an equity-method affiliate of Adways Inc.
Sep 2011	Relocated head office to Shibuya, Tokyo
Feb 2012	Started offering matchmaking service Omiai
Dec	Established Net Marketing International, Inc. (consolidated subsidiary) in California as its US base for market research and marketing activities
Mar 2014	Started handling performance-based ads as a way to enhance its consulting services on advertisers online promotions
Jan 2015	Launched Switch, social job matching service specifically targeting Facebook users
Mar 2017	Listed shares on the JASDAQ Standard market of the Tokyo Stock Exchange (TSE)
Sep	Transferred Switch, social job matching services, to Open-Career Co., Ltd. in a company split
Mar 2018	Relocated head office to the current location in Minato, Tokyo
May	Changed listing to the Second Section of TSE
Jun	Started providing Qoon, dating service
Feb 2019	Held matchmaking party (co-sponsoring with the City of Izumo, Shimane)
Mar	Terminated Qoon, dating service
Mar	Cumulative total members of Omiai exceeded 4mn
Mar	Collaborated with the Prefecture of Aomori on matchmaking and migration
Apr	Changed listing to the First Section of the Tokyo Stock Exchange
Apr	Collaborated with the City of Kurashiki on matchmaking and migration
Nov	Collaborated with municipalities in the Tsuyama area, Okayama, on matchmaking and migration
Dec	Cumulative total members of Omiai exceeded 5mn
Feb 2020	Announced rebranding the Omiai service
Apr	Upgraded keyword search for the Omiai app, now to include search for potential matches available for a video chat
May	Started providing the new online dating feature, allowing users to make video calls within the Omiai app

Source: Shared Research based on company data

### News and topics

#### June 2020

On June 8, 2020, the company announced revisions to full-year forecasts.

Revised full-year FY06/20 forecasts (as of June 8, 2020; previous forecasts not disclosed)

▷ Revenue:	JPY14.3bn (+1.7% YoY)
▷ Operating profit:	JPY700mn (+65.1% YoY)
▷ Recurring profit:	JPY710mn (+68.6% YoY)
▷ Net income:	JPY480mn (+70.7% YoY)
▷ Earnings per share:	JPY32.82 (+68.4% YoY)

### Reason for revisions

In Japan, consumer spending has plummeted alongside a sharp reduction in outings by individuals in response to the government's order on February 26 for people to avoid events and non-essential travel, and its subsequent state of emergency declaration on April 7. This is having an impact on Net Marketing's performance. In the Media business, growth in the number of paying members is sluggish and there are fewer opportunities to acquire new members owing to reduced opportunities for dates amid the avoidance of non-essential travel, and the review of promotions targeted at new member acquisition. In addition, existing members are holding off purchasing point premium packs. As a result, monthly fee revenue and key performance indicators are falling. In the Advertising business, the acquisition of advertisers in the brick-and-mortar store business category is slowing in response to reduced non-essential travel and temporary store closures. At the same time, advertisers are scaling back ad placement and business opportunities are decreasing amid concerns of a deterioration of the business environment. Although the state of emergency has been lifted, there was still no end in sight to the COVID-19 crisis as at June 8, 2020, and the company expects it will be some time before the business environment recovers. As such, it has revised its earnings forecasts. However, it has left its recently announced annual dividend forecast unchanged. Going forward, Net Marketing plans to continue operating its business while modifying the strategies in its medium-term management plan ending FY06/21.

### May 2020

On May 26, 2020, the company announced the addition of the online dating feature to the Omiai app.

On Tuesday, May 26, the company began providing the new online dating feature, which allows users to video call their potential matches within the Omiai matchmaking app. The new feature makes available video calling, which may be used up to 15 minutes a day, once a user has exchanged messages with his/her potential match for more than three times. Because the video call feature can only be used in the Omiai app, there is no need for users to exchange their personal information such as telephone numbers or user IDs for other external communication tools.

On May 12, 2020, the company announced a revision to its full-year earnings forecast.

On May 12, 2020, Net Marketing announced that its full-year FY06/20 forecast is undetermined. The spread of the new coronavirus infection has continued and is starting to affect business performance. Hence, the company determined that it is unable to provide detailed earnings forecasts at this time. It plans to announce the forecast as soon as it can provide appropriate estimates.

### April 2020

On April 7, 2020, the company released monthly business data for March 2020.

As of April 6, 2020, the company indicated that the spread of the novel coronavirus disease has not caused a major change in its number of new members. However, the company mentioned that it does project some impact on some performance indicators, such as its number of paying members.

## Corporate governance and top management

### Top management

#### Kunihisa Miyamoto, President, CEO, and representative director (born 1975)

Date	Description
Apr 1998	Joined Nissho Iwai Corporation (now Sojitz Corporation)
Aug 2000	Moved to ITX Corporation
Jul 2004	Established Net Marketing Co., Ltd. and became representative director
Dec 2012	CEO and director, Net Marketing International, Inc.
Jun 2013	President and representative director, Net Marketing Co., Ltd.
Sep 2018	President, CEO, and representative director, Net Marketing Co., Ltd. (current position)

#### Hideki Matsumoto, COO and director (born 1975)

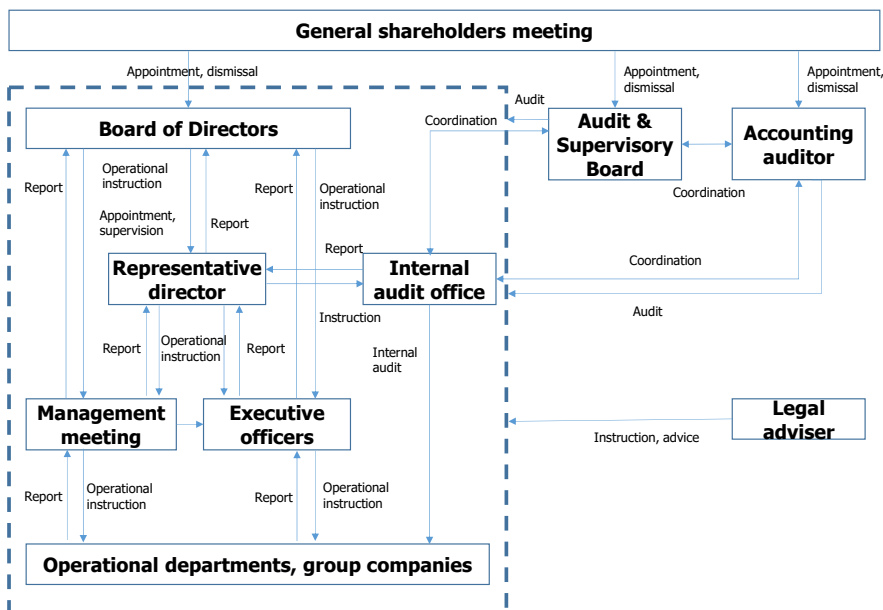
Date	Description
Dec 1996	Joined West Co., Ltd. (now West Holdings Co., Ltd.)
Dec 2006	Joined Net Marketing Co., Ltd.
Apr 2008	Executive officer, Net Marketing Co., Ltd.
Jan 2013	Executive officer and head of Advertising business, Net Marketing Co., Ltd.
Jun 2013	Director and head of Advertising Business, Net Marketing Co., Ltd.
Sep 2018	COO and director, Net Marketing Co., Ltd. (current position)

#### Koji Mimura, CFO and director (born 1977)

Date	Description
Apr 2000	Joined Aplus Co., Ltd.
Jul 2007	Joined GDH K.K. (now Gonzo K.K.)
Jan 2011	Head of Corporate planning office, Bears Co., Ltd.
Apr 2012	Joined Net Marketing Co., Ltd.
Jan 2013	Head of Finance and accounting department, Administration division, Net Marketing Co., Ltd.
Apr 2014	Deputy general manager of Administration division, and head of Finance and accounting department, Net Marketing Co., Ltd.
Oct 2015	Director, Net Marketing International, Inc.
Oct 2016	Executive officer, general manager of Administration division, and head of Finance and accounting department, Net Marketing Co., Ltd.
Jul 2017	Executive officer, general manager of Administration division
Sep 2019	Director and CFO, Net Marketing Co., Ltd. (current position)

Source: Shared Research based on company data

### Corporate governance



Source: Shared Research based on company data

### Corporate Identity

Net Marketing updated its Corporate Identity in September 2019. With the company expanding in terms of size and scope, and as a result being listed on the TSE Section 1 in April 2019, Net Marketing decided to update its corporate identity on the belief

that it was vital to foster a common understanding throughout the company and ensure that all executives and employees were working together as one.

**VISION**

“Going beyond conventional wisdom to create an enriched society and happier people”

**MISSION**

“Innovate your lifestyle with ideas and passion”

**VALUE & CREDO**

Let’s seek out the best!

Let’s give it our all!

Let’s overcome barriers!

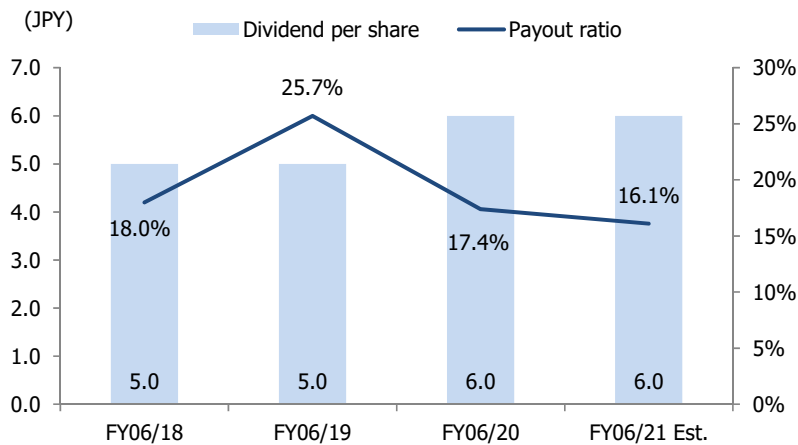
Let’s provide the best services!

Let’s follow the right path!

Let’s keep remain close to our colleagues!

Let’s promote innovation in ourselves!

**Dividend policy**



Source: Shared Research based on company data

For FY06/21, the company expects a dividend payout ratio of 16.1–26.1% since it has disclosed a range for its profit forecast. The lower limit is shown in the graph.

The company’s policy is to provide shareholder returns in line with earnings, while maintaining a balance with medium- to long-term efforts to maximize corporate value and the retained earnings necessary to expand business.

## Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Kunihisa Miyamoto	3,374	23.14%
Takahiro Nagano	2,157	14.79%
Goldman Sachs International (Standing proxy: Goldman Sachs Securities Co., Ltd.)	793	5.44%
NOMURA PB NOMINEES LIMITED A/C CPB30072482276 (Standing proxy: Nomura Securities Co., Ltd.)	487	3.34%
Adways Inc.	392	2.69%
IREP Co., Ltd.	354	2.43%
The Master Trust Bank of Japan, Ltd. (Trust account)	250	1.72%
SMBC Nikko Securities Co., Ltd.	215	1.48%
JP Morgan Securities Co., Ltd.	197	1.36%
Daisuke Shimada	196	1.35%
<b>Total</b>	<b>8,415</b>	<b>57.74%</b>

Source: Shared Research based on company data

Notes: The number of shares held has been rounded down to the nearest thousand shares.

The shareholding ratio versus total shares issued (excluding treasury stock) is rounded to the second decimal place.

### Takahiro Nagano

Mr. Nagano held the CFO position until September 2019, and now serves as a part-time director.

## Employees

Employees (JPYmn)	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Parent
Number of employees (excluding temporary workers)	43	62	79	93	98	111	114	120
Advertising						63	65	66
Media						29	31	32
Company-wide						19	18	22
Temporary workers		4	4	5	5	11	8	5
Advertising						3	2	2
Media						7	5	2
Company-wide						1	1	1
Segment sales per employee	62.7	71.1	79.7	87.0	85.7	80.9	91.9	112.4
Advertising						113.0	120.5	144.3
Media						67.0	87.1	124.7
Company-wide						-0.1	0.0	0.0
Segment profit per employee				4.3	2.7	3.6	4.5	3.4
Advertising						7.9	9.3	12.7
Media						8.5	12.4	3.8
Company-wide						-19.3	-27.1	-24.6
Number of employees (parent; excluding temporary workers)						111	114	120
Temporary workers						11	8	5
Average age						31.0	31.2	31.2
Average years of service						3.3	3.6	3.9
Average annual salary (JPY'000)						5,245	5,519	5,724

Source: Shared Research based on company data

Net Marketing's workforce previously increased each year as the scope of the company's business expanded, but the pace of the expansion in the last few years has stabilized to just a few people each year. In FY06/19, revenue and operating profit per employee including temporary employees were JPY112mn and JPY3.4mn, respectively.

## Profile

<b>Company Name</b>	<b>Head Office</b>
Net Marketing Co., Ltd.	1-2-6, Minami-Aoyama, Minato-ku, Tokyo
<b>Phone</b>	<b>Listed On</b>
+813-6894-0139	First Section of the Tokyo Stock Exchange
<b>Established</b>	<b>Exchange Listing</b>
July 2004	March 2017
<b>Website</b>	<b>Fiscal Year-End</b>
<a href="http://www.net-marketing.co.jp/">http://www.net-marketing.co.jp/</a>	June
<b>IR Contact</b>	<b>IR Web</b>
<a href="http://www.net-marketing.co.jp/contact2/">http://www.net-marketing.co.jp/contact2/</a>	<a href="http://www.net-marketing.co.jp/ir/">http://www.net-marketing.co.jp/ir/</a>

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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Aeon Delight Co., Ltd.	Doshisha Corporation	KFC Holdings Japan, Ltd.	SATO HOLDINGS CORPORATION
Aeon Fantasy Co., Ltd.	Dream Incubator Inc.	KI-Star Real Estate Co., Ltd.	SBS Holdings, Inc.
Ai Holdings Corporation	Earth Corporation	KLab Inc.	Seikagaku Corporation
AI inside Inc.	Edion Corporation	Kondotec Inc.	Seria Co.,Ltd.
AirTrip Corp.	Elecom Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	Serverworks Co.,Ltd.
and factory, inc.	en-Japan Inc.	Lasertec Corporation	SHIFT Inc.
ANEST IWATA Corporation	Estore Corporation.	Locondo, Inc.	Shikigaku Co., Ltd
AnGes Inc.	euglena Co., Ltd.	LUCKLAND CO., LTD.	SHIP HEALTHCARE HOLDINGS, INC.
Anicom Holdings, Inc.	FaithNetwork Co., Ltd.	MATSUI SECURITIES CO., LTD.	SIGMAXYZ Inc.
Anritsu Corporation	Ferrotec Holdings Corporation	Media Do Co., Ltd.	SMS Co., Ltd.
Apaman Co., Ltd.	FIELDS CORPORATION	Medical System Network Co., Ltd.	Snow Peak, Inc.
ARATA CORPORATION	Financial Products Group Co., Ltd.	MEDINET Co., Ltd.	Solasia Pharma K.K.
Artspark Holdings Inc.	First Brothers Col, Ltd.	MedPeer,Inc.	SOURCENEXT Corporation
AS ONE CORPORATION	FreeBit Co., Ltd.	Mercuria Investment Co., Ltd.	Star Mica Holdings Co., Ltd.
Ateam Inc.	Fujita Kanko Inc.	Micronics Japan Co., Ltd.	Strike Co., Ltd.
Aucfan Co., Ltd.	Gamecard-Joyco Holdings, Inc.	MIRAIT Holdings Corporation	Symbio Pharmaceuticals Limited
AVANT CORPORATION	GameWith, Inc.	Monex Goup Inc.	Synchro Food Co., Ltd.
Axell Corporation	GCA Corporation	MORINAGA MILK INDUSTRY CO., LTD.	TAIYO HOLDINGS CO., LTD.
Azbil Corporation	Good Com Asset Co., Ltd.	Mortgage Service Japan Limited.	Takashimaya Company, Limited
AZIA CO., LTD.	Grandy House Corporation	NAGASE & CO., LTD	Take and Give Needs Co., Ltd.
AZoom, Co., Ltd.	Hakuto Co., Ltd.	NAIGAI TRANS LINE LTD.	Takihyo Co., Ltd.
Base Co., Ltd	Hamee Corp.	NanoCarrier Co., Ltd.	TEAR Corporation
BEENOS Inc.	Happinet Corporation	Net Marketing Co., Ltd.	Tenpo Innovation Inc.
Bell-Park Co., Ltd.	Harmonic Drive Systems Inc.	Net One Systems Co.,Ltd.	3-D Matrix, Ltd.
Benefit One Inc.	HENNGE K.K.	Nichi-Iko Pharmaceutical Co., Ltd.	The Hokkoku Bank,Ltd.
B-lot Co.,Ltd.	Hope, Inc.	Nihon Denkei Co., Ltd.	TKC Corporation
Broadleaf Co., Ltd.	HOUSEDO Co., Ltd.	Nippon Koei Co., Ltd.	TKP Corporation
CanBas Co., Ltd.	H2O Retailing Corporation	NIPPON PARKING DEVELOPMENT Co., Ltd.	Tsuzuki Denki Co., Ltd.
Canon Marketing Japan Inc.	IDOM Inc.	NIPRO CORPORATION	TOCALO Co., Ltd.
Career Design Center Co., Ltd.	IGNIS LTD.	Nishinbo Holdings Inc.	TOKAI Holdings Corporation
Carna Biosciences, Inc.	i-mobile Co.,Ltd.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
CARTA HOLDINGS, INC	Inabata & Co., Ltd.	OHIZUMI MFG. CO., LTD.	TOYOBO CO., LTD.
CERES INC.	Infocom Corporation	Oisix ra daichi Inc.	Toyo Ink SC Holdings Co., Ltd
Chiyoda Co., Ltd.	Infomart Corporation	Ok Electric Industry Co., Ltd	Toyo Tanso Co., Ltd.
Chori Co., Ltd.	Intelligent Wave, Inc.	ONO SOKKI Co., Ltd.	Tri-Stage Inc.
Chugoku Marine Paints, Ltd.	ipet Insurance CO., Ltd.	ONWARD HOLDINGS CO.,LTD.	TSURUHA Holdings
cocokara fine Inc.	Itochu Enex Co., Ltd.	Pan Pacific International Holdings Corporation	VISION INC.
COMSYS Holdings Corporation	JAFCO Co.,Ltd.	PARIS MIKI HOLDINGS Inc.	VISIONARY HOLDINGS CO., LTD.
COTA CO.,LTD.	JMDC Inc.	PIGEON CORPORATION	World Holdings Co., Ltd.
CRE, Inc.	JSB Co., Ltd.	QB Net Holdings Co., Ltd.	YELLOW HAT LTD.
CREEK & RIVER Co., Ltd.	JTEC Corporation	RACCOON HOLDINGS, Inc.	YOSHINOYA HOLDINGS CO., LTD.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	J Trust Co., Ltd	Raysum Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
Daiseki Co., Ltd.	Japan Best Rescue System Co., Ltd.	RESORTTRUST, INC.	ZAPPALLAS, INC.
Demaë-Can CO., LTD	JINS HOLDINGS Inc.	ROUND ONE Corporation	
DIC Corporation	JP-HOLDINGS, INC.	ROYHIN KEIKAKU CO., LTD.	

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## Contact Details

Shared Research Inc.  
 3-31-12 Sendagi Bunkyo-ku Tokyo, Japan  
<https://sharedresearch.jp>  
 Phone: +81 (0)3 5834-8787  
 Email: [info@sharedresearch.jp](mailto:info@sharedresearch.jp)