

## 1H FY12/20 results mostly in line with plan, but Quartz heavily affected by COVID-19. Growth funds (¥5.0bn) secured through overseas offering. Positive market reaction despite share dilution.

### ➤ Results in line with plan

—In 1H FY12/20, Uzabase grew sales by 12% YoY to ¥6,354mn, and the operating loss improved YoY to ¥551mn (from ¥931mn). The net loss attributable to owners of the parent was ¥1,110mn (net loss of ¥965mn in 1H FY12/19) due to restructuring-related expenses (¥282mn) recorded at Quartz.

### ➤ Positives

—Steady growth in domestic operations (SPEEDA, NewsPicks, FORCAS, INITIAL). Excluding Quartz, net sales expanded by 32% YoY.

—Monthly recurring revenue (MRR), as of end-June 2020, was ¥793mn, bringing into sight the posting of ¥10bn per year in recurring revenue alone. Recurring revenues accounted for 68% of total sales in 2Q FY12/20.

—On July 10, Uzabase announced the offering of new shares (approx. ¥5.0 billion) to foreign institutional investors, aimed at strengthening its financial position and securing growth funds. Although the impact of COVID-19 on the business was limited, the company decided to further reinforce its balance sheet.

—Management left FY12/20 guidance intact (sales growth of 19.8% to 27.8% YoY; positive EBITDA). The business environment has improved since Q1 results were announced, and this has been especially the case after Japan's state-of-emergency declaration was lifted. As evidenced by the rise in MRR, Uzabase has built a stable earnings base focusing on a recurring fee revenue model. In addition, advertising revenues are robust in domestic operations. While falling revenues at Quartz is a source of concern, management believes achieving positive EBITDA over the full year is within reach through cost control.

### ➤ Concerns

—Quartz saw a sharp drop in advertising revenues, mainly due to the impact of COVID-19 in the US. Quartz's net sales were ¥544mn (-57.3% YoY). Management expects the segment loss to improve, driven by the effects of restructuring in May (¥12bn-¥13bn/year).

JPY mn, %	Net Sales	YoY (%)	Oper. Profit (Loss)	YoY (%)	Ord. Profit (Loss)	YoY (%)	Profit (Loss) ATOP	YoY (%)	EPS (¥)
FY12/16	3,081	60.9	250	-	225	-	267	-	10.03
FY12/17	4,565	48.2	545	117.5	518	130.0	438	63.8	15.13
FY12/18	9,340	104.6	830	52.1	533	2.9	610	39.5	20.42
FY12/19	12,521	34.1	(1,236)	-	(1,429)	-	(1,620)	-	(51.35)
FY12/20 (E)	15,000-16,000	19.8-27.8	-	-	-	-	-	-	-
2Q FY12/19	5,665	84.6	(931)	-	(1,007)	-	(965)	-	(30.80)
2Q FY12/20	6,354	12.2	(551)	-	(665)	-	(1,110)	-	(33.36)

## FOLLOW-UP

# UZABASE

### Focus Points:

Uzabase operates a business intelligence platform. The impact of COVID-19 was limited, as most of its revenues are recurring. Earlier-than-planned restructuring implemented at Quartz to turn it EBITDA positive over the full year.

### Key Indicators

Share price (Sep 11)	3,520
YH (Sep 11, 2020)	3,710
YL (Mar 13, 2020)	1,152
10YH (Jul 9, 2018)	4,170
10YL (Nov 4, 2016)	637.5
Shrs. out. (mn shrs)	36.420
Mkt cap (¥bn)	128.199
EV (¥bn)	129.659
Shr eqty ratio (30 Jun)	26.8%
FY12/19 P/E (act)	-
FY12/19 P/B (act)	19.75x
FY12/19 ROE (act)	-29.1%
FY12/20 DY (CE)	0.00%

### Share price 52 weeks



Source: SPEEDA

### Takafumi Yamawaki

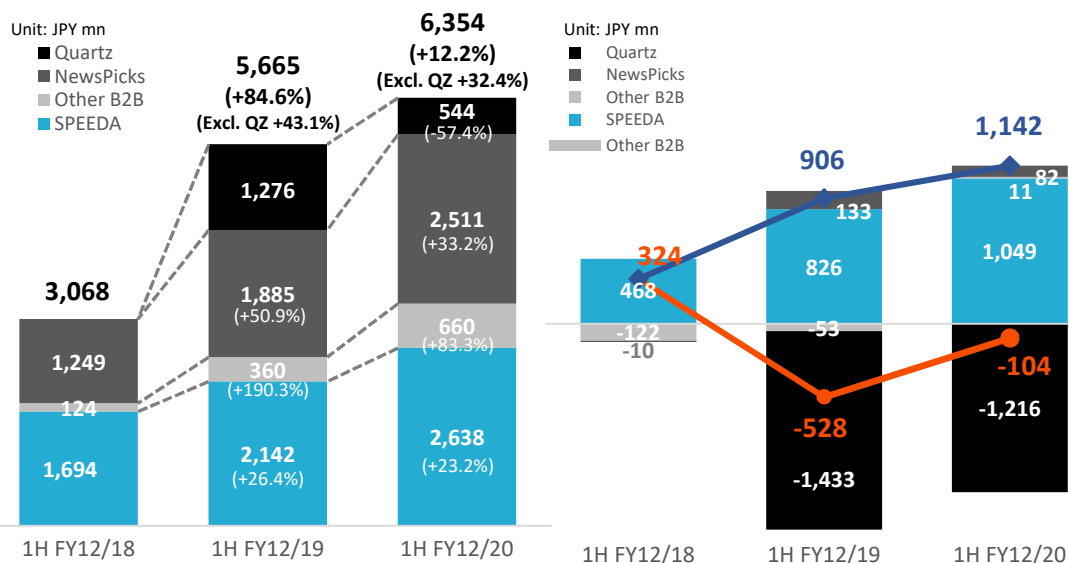
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This report was prepared by Sessa Partners on behalf of Uzabase, Inc. Please refer to the legal disclaimer at the end for details.

**Consolidated 1H results over the last three years: Net sales and EBITDA**



Note: Internal transactions between segments are excluded  
 Source: Sessa Partners from company materials (2Q FY12/20 earnings presentation)

**1. 1H FY12/20 Results Highlights**

**1) Net sales growth slowed to 12% YoY (¥6.35bn). But, excluding Quartz, net sales expanded by 32% YoY. The operating loss improved by ¥424mn YoY.**

Despite some impact from COVID-19 on B2B businesses, existing domestic businesses, including B2B (SPEEDA, FORCAS, INITIAL) and B2C (NewsPicks), delivered steady growth. Net sales, excluding Quartz, increased by 32.4% YoY. MRR, designated as a core KPI since 1Q FY12/20, rose to ¥793mn (from ¥725mn, as of end-Mar. 2020), and 2Q recurring revenue accounted for 68% of total sales (63% in 2Q FY12/19; See figure on next page).

Meanwhile, the pandemic has caused serious restrictions on economic and social activities in the US, where advertising placements continued to drop sharply. Consequently, Quartz saw a significant decline in revenue (-57.4% YoY), albeit progress is being made in shifting from an advertising revenue to subscription fee business model.

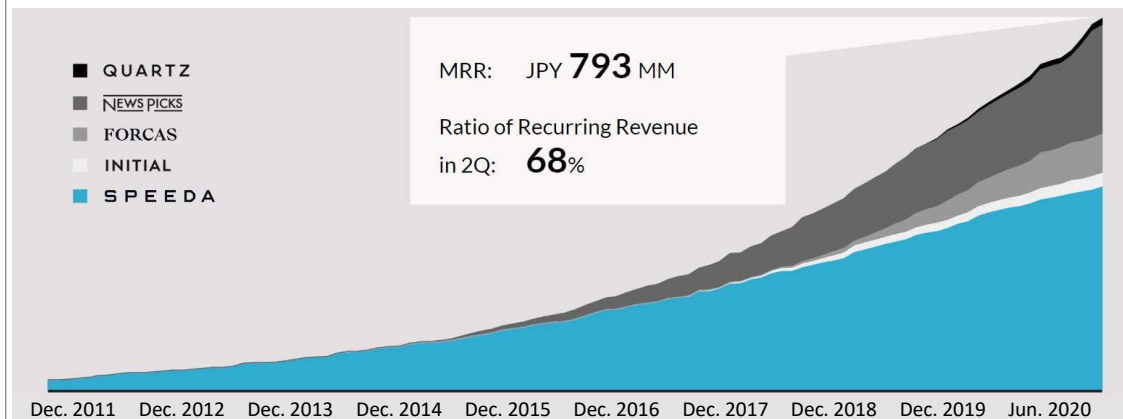
EBITDA was -¥104mn, a sizable improvement from -¥528mn in 1H FY12/19. Excluding Quartz, EBITDA was positive at ¥1,142mn, up 26.0% from ¥906mn in 1H FY12/19.

**2) Segment Trends**

**a) SPEEDA: Net sales +23% YoY, MRR ¥435mn (+16.6% YoY), EBITDA ¥1,049mn (+27.0% YoY), EBITDA margin 39.7% (+1.3pp YoY)**

In the SPEEDA business, Uzabase continued to achieve net sales growth surpassing 20% despite COVID-19's impact on some sales activities. The EBITDA margin was about 40%.

### Monthly Recurring Revenue (MRR)



Source: Sessa Partners from company materials (2Q FY12/20 earnings presentation)

The company announced the acquisition of MIMIR in April 2020, followed by the formation of a capital tie-up with GlobalWorks in May 2020. Management aims to augment the expert network services offered on SPEEDA, aimed at further accentuating the originality of SPEEDA as a business intelligence platform.

#### b) Other B2B: Net sales +84% YoY, EBITDA turned to positive ¥11mn

In 1H FY12/20, net sales expanded 84% YoY, supported by growth at INITIAL despite a modest slowdown in growth at FORCAS since entering 2Q due to the impact of COVID-19. Segment EBITDA turned to positive ¥11mn in 1H FY12/20 (vs. -¥122 and -¥53 in 1H FY12/18 and 1H FY12/19, respectively).

#### c) NewsPicks: Surge in paid subscriptions, advertising growth sustained

In the NewsPicks business, MRR increased by 24% to ¥229mn in June 2020 from ¥184mn in March 2020 on a surge in paid subscriptions. Despite the spread of COVID-19, advertising revenues grew steadily. As a result, segment sales came to ¥2,516mn (+32.8% YoY). In 2Q alone, segment sales rose sharply by 43.9% YoY. Segment EBITDA amounted to ¥82mn (-38.1% YoY) as a result of amplified investments in marketing and new businesses.

#### d) Quartz: Net sales -57% YoY due to slump in advertising business caused by COVID-19

In the Quartz business, net sales slumped, as the pandemic's ongoing damages on the US economy took a heavy toll on the advertising industry. Segment sales fell 57.3% YoY to ¥544mn despite steady growth in paid subscriptions. In May, management implemented restructuring, mainly in the advertising business. As a result, segment EBITDA improved to -¥1,216mn in 1H FY12/20 (from -¥1,433mn in 1H FY19).

## 2. Raised ¥5.0bn in additional growth funds via public offering to overseas investors

In July, Uzabase raised ¥5.0 billion in funding through a public share offering to foreign investors, including subscriptions received from long-term institutional investors. This lifted the equity ratio to around 40%, from 26.8% at end-June. Management intends to allocate the funds as follows:

- ¥2.35bn in SPEEDA: development and operation of expert network services; strengthening of sales and marketing including reinforced customer success.
- ¥0.65bn in NewsPicks: development projects aimed at large-scale product improvements to continuously realize robust growth in paid subscriptions; marketing efforts geared towards building the brand profile.
- ¥2.0bn for debt repayment: repayment of past debt to strengthen the financial standing and secure flexible investment capacity; obtaining financial resources for M&A and other investments to drive further growth.

The public offering of new shares resulted in share dilution of approximately 8%.

Notwithstanding, Uzabase shares (as of September 11 close) traded at ¥3,520, already up 60.9% from ¥2,188 (as of July 9 close).

## 3. FY12/20 Guidance

### **Net sales of ¥15.0-¥16.0bn (+19.8%-27.8% YoY), plan for positive EBITDA unchanged**

When announcing 1Q FY12/20 results, management noted the difficulty of reasonably estimating the impact of COVID-19, as Japan was still in the middle of the state-of-emergency declaration. Along with 1H FY12/20 results announcement, management maintained its full-year plan in consideration of 2Q results and current trends. Reassuring factors are recurring revenues accounting for two-thirds of total sales and the solid performance of the domestic advertising business.

Ongoing concerns include performance trends at Quartz in the US, where the pandemic has had a serious effect on the economy, but the benefits of restructuring efforts will start contributing fully from 3Q FY12/20 onwards. Considering the progress made up to the end of June, achieving the topline target may prove difficult due to the unexpected slump in the advertising business at Quartz. However, the goal of achieving positive EBITDA over the full year appears within reach.

Quarterly consolidated results

	FY12/18				FY12/19				FY12/20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
<b>Net sales</b>	<b>1,488</b>	<b>1,580</b>	<b>2,363</b>	<b>3,908</b>	<b>2,847</b>	<b>2,818</b>	<b>2,808</b>	<b>4,048</b>	<b>3,171</b>	<b>3,183</b>
YoY	52.9%	49.9%	106.1%	180.6%	91.3%	78.4%	18.8%	3.6%	11.4%	13.0%
<b>SPEEDA</b>	<b>820</b>	<b>869</b>	<b>940</b>	<b>987</b>	<b>1,037</b>	<b>1,105</b>	<b>1,162</b>	<b>1,226</b>	<b>1,289</b>	<b>1,355</b>
YoY	—	—	—	—	26.5%	27.2%	23.6%	24.2%	24.3%	22.6%
% of SLS	55.1%	55.0%	39.8%	25.3%	36.4%	39.2%	41.4%	30.3%	40.6%	42.6%
<b>MRR</b>	<b>273</b>	<b>295</b>	<b>313</b>	<b>332</b>	<b>346</b>	<b>373</b>	<b>389</b>	<b>407</b>	<b>420</b>	<b>435</b>
<b>NewsPicks</b>	<b>611</b>	<b>638</b>	<b>825</b>	<b>888</b>	<b>1,017</b>	<b>868</b>	<b>873</b>	<b>1,419</b>	<b>1,267</b>	<b>1,249</b>
YoY	—	—	—	—	66.4%	36.1%	5.8%	59.8%	24.6%	43.9%
% of SLS	41.1%	40.4%	34.9%	22.7%	35.7%	30.8%	31.1%	35.1%	40.0%	39.2%
<b>MRR</b>	<b>98</b>	<b>100</b>	<b>119</b>	<b>131</b>	<b>141</b>	<b>143</b>	<b>148</b>	<b>170</b>	<b>184</b>	<b>229</b>
<b>Quartz</b>	<b>—</b>	<b>—</b>	<b>505</b>	<b>1,909</b>	<b>629</b>	<b>647</b>	<b>538</b>	<b>1,128</b>	<b>289</b>	<b>255</b>
YoY	—	—	—	—	—	—	6.5%	-40.9%	-54.1%	-60.6%
% of SLS	—	—	21.4%	48.8%	22.1%	23.0%	19.2%	27.9%	9.1%	8.0%
<b>MRR</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>11</b>	<b>12</b>	<b>15</b>
<b>Other BtoB</b>	<b>56</b>	<b>68</b>	<b>98</b>	<b>126</b>	<b>162</b>	<b>198</b>	<b>236</b>	<b>274</b>	<b>330</b>	<b>335</b>
YoY	—	—	—	—	188.3%	190.5%	141.8%	117.2%	103.7%	69.2%
% of SLS	3.8%	4.3%	4.1%	3.2%	5.7%	7.0%	8.4%	6.8%	10.4%	10.5%
<b>MRR (only FORCAS)</b>	<b>7</b>	<b>12</b>	<b>17</b>	<b>30</b>	<b>40</b>	<b>50</b>	<b>60</b>	<b>75</b>	<b>80</b>	<b>83</b>
<b>MRR Total</b>	<b>382</b>	<b>420</b>	<b>465</b>	<b>511</b>	<b>550</b>	<b>594</b>	<b>629</b>	<b>689</b>	<b>725</b>	<b>793</b>
<b>Excluding Quartz</b>	<b>1,488</b>	<b>1,580</b>	<b>1,858</b>	<b>1,999</b>	<b>2,218</b>	<b>2,171</b>	<b>2,270</b>	<b>2,920</b>	<b>2,882</b>	<b>2,928</b>
YoY	52.9%	49.9%	62.1%	43.5%	49.1%	37.4%	22.2%	46.1%	29.9%	34.9%
<b>EBITDA</b>										
<b>Total</b>	<b>244</b>	<b>92</b>	<b>(69)</b>	<b>920</b>	<b>(179)</b>	<b>(348)</b>	<b>(299)</b>	<b>401</b>	<b>(42)</b>	<b>(64)</b>
SPEEDA	234	234	214	351	416	410	398	373	513	536
NewsPicks	57	(67)	87	125	179	(46)	(47)	196	121	(39)
Quartz	—	—	(327)	473	(752)	(681)	(611)	(116)	(682)	(534)
Other BtoB	(47)	(75)	(43)	(29)	(22)	(31)	(39)	(52)	5	6
<b>Excluding Quartz</b>	<b>244</b>	<b>92</b>	<b>258</b>	<b>447</b>	<b>573</b>	<b>333</b>	<b>312</b>	<b>517</b>	<b>639</b>	<b>503</b>
EBITDA/SLS	16.4%	5.8%	-2.9%	23.5%	-6.3%	-12.3%	-10.6%	9.9%	-1.3%	-1.9%
EBITDA(-QZ)/SLS(-QZ)	16.4%	5.8%	13.9%	22.3%	25.9%	15.3%	13.7%	17.7%	22.1%	17.1%
<b>Operating Profit (Loss)</b>	<b>226</b>	<b>66</b>	<b>(186)</b>	<b>724</b>	<b>(380)</b>	<b>(551)</b>	<b>(505)</b>	<b>200</b>	<b>(263)</b>	<b>(288)</b>
YoY	61.1%	-59.0%	—	717.2%	—	—	—	-72.4%	—	-30.8%
Operating profit margin	15.2%	4.2%	-7.9%	18.5%	-13.3%	-19.6%	-18.0%	4.9%	-8.3%	-9.0%
<b>Ordinary Profit (Loss)</b>	<b>167</b>	<b>37</b>	<b>(345)</b>	<b>674</b>	<b>(395)</b>	<b>(612)</b>	<b>(551)</b>	<b>129</b>	<b>(317)</b>	<b>(348)</b>
YoY	24.3%	-78.3%	—	828.5%	—	—	—	-80.9%	—	-19.7%
Ordinary profit margin	15.2%	4.2%	-7.9%	18.5%	-13.3%	-19.6%	-18.0%	4.9%	-8.3%	-9.0%
<b>Profit (Loss) ATOP</b>	<b>117</b>	<b>(49)</b>	<b>(661)</b>	<b>1,205</b>	<b>(296)</b>	<b>(669)</b>	<b>(606)</b>	<b>(49)</b>	<b>(473)</b>	<b>(637)</b>
YoY	-3.4%	—	—	24x	—	—	—	—	—	—
Net profit margin	7.9%	-3.1%	-28.0%	30.8%	-10.4%	-23.7%	-21.6%	-1.2%	-14.9%	-20.0%

Source: Sessa Partners from company materials

Note: YoY changes not shown prior to 2017 due to different segmentation. MRR partially includes company estimates. EBITDA uses a new standard from FY12/20.

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