

FY22/12: significant revenue growth driven mainly by SMS distribution; A high level of earnings can be expected in FY23/12, despite the aggressive investment burden.

Earnings Result Summary

- Key Points:** Accrete announced its full year results for FY22/12 after the close of the market on Tuesday, February 14. Operating profit rose 150.4%, to ¥1.172 bn, on sales growth of 118.5%, to ¥6.19 bn. Recurring profit rose 153.7%, to ¥1.176 bn, and net income rose 177.4%, to ¥0.851 bn. Sales and net profit both exceeded the company's most recent guidance, while operating profit and recurring profit were in-line. Performance was driven primarily by an increase in the use of SMS distribution by local authorities and other administrative services, including as a means of communicating with people who have tested positive for COVID-19.
- FY22/12 Business overview by segment :** The Domestic Messaging Services business, which includes both domestic SMS services and e-mail services, posted a segment profit of ¥1.181 bn on ¥4.826 bn in sales. The use of SMS distribution increased in many industries, including administrative services such as local governments, as a means of communicating with people who have tested positive for COVID-19 or who have undergone PCR testing. Demand for email distribution services also grew as a means of smoothly communicating with users, such as the 'Secure Mailing Service for Schools' and 'Secure Mailing Service for Municipals' at various public organizations and facilities nationwide. The Overseas Messaging Services business, which was added to the consolidated accounts as a new segment from 2Q FY22/12, generated a segment loss of ¥8 mn on sales of ¥1.365bn.
- FY23/12 company forecasts:** the company guided for higher sales and lower profits for FY23/12. Sales are forecast to rise about 25.7%, to ¥7.784 bn, with demand for SMS distribution services continuing to grow, and a full-year contribution from VietGuys J. S. C., which became a consolidated subsidiary in 2Q FY23/12 and provides SMS distribution services in Vietnam.. On the other hand, costs are likely to increase due to infrastructure development in line with the increase in the number of deliveries, sales promotion activities to acquire new customers, increased R&D costs and aggressive recruitment, resulting in a slight decline in operating profit.

FY	Net sales	YoY	OP	YoY	RP	YoY	NP	YoY	EPS ⁽²⁾	DPS
	¥ mn	%	¥ mn	%	¥ mn	%	¥ mn	%	¥	¥
2018/12 P	1,291	36.0	246	43.6	222	30.0	152	35.5	28.2	0.0
2019/12 P	1,413	9.5	254	3.2	249	11.7	170	12.0	29.7	0.0
2020/12 P	1,732	22.5	344	35.6	345	38.6	241	41.2	41.5	10.0
2021/12 C ⁽¹⁾	2,833	-	468	-	463	-	307	-	54.2	10.0
2022/12 C, CE ⁽²⁾	6,121	116.0	1,220	161.9	1,224	165.4	774	158.0	131.9	10.0
2022/12 C	6,190	118.5	1,172	150.4	1,176	153.7	851	177.4	144.2	10.0
2023/12 C, CE	7,784	25.7	1,168	-0.4	1,160	-1.4	735	-13.7	126.5	10.0

Source: compiled by SIR from the company's Kessan TANSWIN (financial statements).

Note (1): Consolidated financial statements are available since the 3Q of FY21/12, accordingly percentage changes compared to the previous year is not shown for FY21/12.

Note (2): EPS shown in the table is calculated by using potentially dilutive common shares.

Full Year Follow-Up

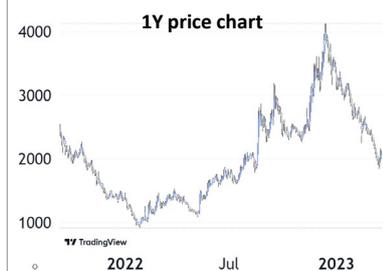


Focus Points:

Accrete has a competitive edge backed by its proven track record and technology in the rapidly expanding SMS business. Entry into the Asian market will also be a future earnings driver.

Key indicators

Share price(3/24)	2,161
YH (1/11)	3,375
YL (3/16)	1,844
10YH (22/12/16)	4,130
10YL (20/3/13)	571
Shrs. out (mm. shrs.)	5,959
Mkt cap (¥bn)	11.9
EV (¥bn)	10.9
Shr eqty ratio (9/30)	33.6%
FY24/12 PER (CE)	13.4
FY21/12 PBR (act)	7.4x
FY22/12 ROE (act)	52.60%
FY22/12 DY (CE)	0.46%



Source: Trading View

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

Full-year FY2022/12 consolidated results summary

Key consolidated figures for full-year FY2022/12 were sales of ¥6,190mn (+118.5% YoY), operating profit of ¥1,172mn (+150.4% YoY), recurring profit of ¥1,176mn (+153.7% YoY), and profit attributable to owners of the parent of ¥851mn (+177.4% YoY), marking a substantial rise in both sales and profits. Results were boosted dramatically by a sharp rise in the use of SMS services by local governments and other administrative services, including as a means of communicating with people who have tested positive for COVID-19. The company had previously engaged in a single segment operation consisting of messaging services until FY2022/12. However, following the consolidation of Vietnam SMS services provider VietGuys J.S.C. (VGS) from 2Q FY2022/12, the company switched to a two-segment operation based on the location of each group company, consisting of Domestic Messaging Services and the Overseas Messaging Services. Below is a summary of each business segment for FY2022/12. YoY changes are not shown due to the change in business segments.

In FY2022/12, sales in the Domestic Messaging Services business totaled ¥4,826mn and segment operating profit came to ¥1,181mn, representing 78.0% of total sales and the majority of total operating profit. The Domestic Messaging Services business is composed of SMS services and e-mail services, and Technomix, which became a consolidated subsidiary in September 2021, operates the e-mail services business.

The use of SMS services grew considerably on the back of COVID-19 as a means of communication between local governments and patients. In addition, the SMS delivery market is expanding as public institutions and private companies diversify their SMS usage methods, which fueled a steady increase in demand for SMS services. The company's e-mail services include "Secure Mailing Service for Schools", which enables smooth communication among schools, PTAs, and parents, and "Secure Mailing Service for Municipals", which has been adopted by over 5,000 various public organizations and facilities nationwide as an emergency communication system for crime prevention and disaster prevention crisis management connecting residents and local governments. Use of those e-mail services appear to have expanded steadily.

Sales from Overseas Messaging Services, a new segment added in FY2022/12, totaled ¥1,365mn, accounting for 22.0% of total sales. Meanwhile, the segment posted an operating loss of about ¥8mn. Vietnam's SMS traffic for corporate customers (A2P-SMS) is expected to grow to over 35 billion messages by 2024, compared to Japan's current volume of around 11 billion messages. Following business in Vietnam, the company plans to expand its business to other countries and throughout the Asian market. It aims to grow its Overseas Messaging Service business over the medium term by leveraging the experience and expertise it has accumulated in Japan to execute a roll-up strategy designed to integrate management resources to boost efficiency and generate synergies.

Sales and Segment Operating Profit by Business Segment (¥mn)

Business	Domestic messaging services	Overseas messaging services	Total amt	Adj.	Amount in consolidated FS
Net sales	4,826	1,365	6,191	-0.4	6,190
Segment operating profit	1,181	-8	1,173	-0.4	1172
Segment operating income ratio	24.5%	-	18.9%	-	18.9%

Source: compiled by SIR from TANSHIN financial statements

Key themes for FY2022/12

The company had three key themes in the previous year, including (1) promotion of new services, (2) efforts to expand new businesses and sales, and (3) other themes, including the announcement of the medium-term management plan.

① Promotion of new services

- January ● Started providing services to members of Startup Cafe, a venture support facility in Fukuoka City
- June ● Began service collaboration with HubSpot, a CRM platform used by more than 123,000 companies around the world, including Accrete
- August ● Became the first company in the industry to standardize SMS sender numbers for businesses across four cell phone companies, improving the convenience of SMS notifications
- August ● Launched system collaboration between SMS service SMS Connect and cloud-based call center system COLLABOS PHONE
- October ● Became a special collaborator for the Yokohama Keio Challenger International Tennis Tournament 2022 (Verification experiment to streamline access control and physical temperature inspection operations for operation staff)
- November ● Provided marketing support for the B3 League's Yokohama Excellence through the Denwa de SMS service (September: Signed a Gold Partner Agreement with B3 League Yokohama Excellence for the 2022-23 season)

② Efforts to expand new businesses and sales

- April ● Acquired a 51% stake in Vietnam-based SMS service company VietGuys J.S.C., making it a subsidiary
- August ● Appointed Hiroyuki Sato as a special advisor and entered into a business alliance with facial recognition AI company Tripleize Co., Ltd.
- October ● Invested in stepdays Inc., which operates Pet Techou, a platform that connects veterinary hospitals with pet owners

③ Others

- August ● Announced medium-term management plan (2023-2025)
- September ● Repurchased treasury shares (280,000 shares, 5.54% of outstanding shares)
- October ● Participated in Kyoto Smart City Expo 2022
- Accrete affiliate Technomix participated in the 1st EDIX Online Education General
- December ● Participated in Communication Tech Conference 2022

Source: compiled by SIR from the company material.

Full-year FY2023/12 earnings forecast

Accrete's full-year FY2023/12 earnings forecast calls higher sales and lower profits, with sales of ¥7,784mn (+25.7% YoY), operating profit of ¥1,168mn (-0.4% YoY), recurring profit of ¥1,160mn (-1.4% YoY), and profit of ¥735mn (-13.7% YoY).

The company expects double-digit sales growth. The forecast assumption includes a 12-month contribution from consolidated subsidiary VietGuys, compared to 9 months of sales contribution in the previous fiscal year. In its Domestic Messaging Services, the company does not expect to see a one-time sales boost from COVID-19 as it did in the previous year, but expects continued growth in demand for SMS services related to services provided by local governments and other organizations. On the other hand, the company expects a slight drop in operating profit reflecting higher costs for infrastructure development in connection with an increase in distribution volume, sales promotion activities to acquire new customers, higher R&D expenses, and proactive personnel hiring.

Medium-term management plan

Accrete has positioned the three-year period from 2023 as the third growth period based on its medium-term management plan (FY2023/12–FY12/2025), following its first founding period focused on building a solid foundation for its SMS business that began in 2015 and its second founding period focused on creating new value from 2020. The plan's main numerical targets are shown in the chart below, and for the final year of FY12/2025, the company targets consolidated sales of ¥17bn (2.7 times FY2022/12 sales) and operating profit of ¥3bn (2.6 times FY2022/12 operating profit). The company's medium-term theme is "From Japan's Accrete to Asia's Accrete," and its basic policy is to provide solutions that meet the needs and demands of a changing information society, which it sees as a growth driver. Specifically, the company aims to provide solutions to the issues that society and companies face today, such as the accelerating pace of digital transformation, stricter requirements for handling personal information, and providing services that incorporate new technologies such as AI.

Medium-term management plan (from FY12/23 to FY12/25)

Business	Medium-term management plan				
	21/12 act	22/12 act	22/12 (plan)	24/12 (plan)	25/12(plan)
Net sales (¥mn)	2,764	6,121	7,800	11,700	17,000
Operating profit (¥mn)	498	1,220	1,200	1,900	3,000
Operating profit margin	18.0%	19.9%	15.4%	16.2%	17.6%

Source: compiled by SIR from the company material.

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