

IID | 6038

TSE Growth

2Q Follow-up



Posts record-high cumulative 2Q net sales Profit falls due to upfront investments

2Q FY23/6 Results Summary

Despite record-high 1H net sales of ¥2,896 mn (+7.0% YoY), IID posted operating profit of ¥300 mn (-16%). The Creator Platform (CP) business drove the growth in sales, while the company posted a decline in sales for the Creator Service (CS) business on account of a fall-off in large-scale projects from the 1H FY22/6. At first glance, it appears that the company's earnings were impacted by a decline in consumer sentiment due to high inflation—that is, the external environment—just as other Internet media companies were, but the company completed two relatively large M&A deals in new fields during the 1H to improve its earnings base. For such reasons as one-time expenses related to the M&A deals and amortization of good will, SG&A expenses rose ¥126 mn, but these were upfront investments for future growth.

FY	Net Sales (¥mn)	YoY (%)	Oper. Profit (¥mn)	YoY (%)	Ordinary Profit (¥mn)	YoY (%)	Profit ATOP (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
2019/06	5,193	10.1	311	21.0	314	16.7	194	288.0	40.45	-
2020/06	5,267	1.4	315	1.3	278	-11.5	104	-46.4	21.01	-
2021/06	5,407	2.7	454	44.1	464	66.9	465	347.1	92.07	-
2022/06 ^{*1}	5,574	3.1	638	40.5	638	37.5	450	-3.2	90.81	-
2023/06 CE	6,000	7.6	730	14.4	730	14.4	500	11.1	101.46 ^{*2}	12
22/06 Q2	2,714	-4	355	49.2	349	63.8	242	-13.8	48.88	-
23/06 Q2	2,896	6.7	300	-15.5	306	-12.3	209	-33.8	41.91	-

IID Note: FY2022/6 is after application of new revenue recognition. ^{*2} FY6/19–FY6/22: diluted figures; FY6/23: undiluted figures

Progress in achieving FY23/6 company forecasts

	FY Forecast	YoY(%)	23/6 2Q	YoY(%)	Progress (%)	Last 4 years Average(%)
Net Sales	6,000	7.6	2,896	6.7	48.3	49.4
Operating Profit	730	14.4	300	-15.5	41.1	56.3
Ordinary Profit	730	14.4	306	-12.3	41.9	56.6
net profit (ATOP)	500	10.9	209	-13.8	41.8	82.3

Considering that IID has achieved 48.3% of its net sales forecast for the full fiscal year and their seasonal nature, such as typical strong 3Q (Jan.–Mar.) net sales, the company is on course to achieve its FY23/6 net sales forecasts. Profits at the operating profit level and below were lower than the average for the past four years, but this was due to one-time expenses accompanying the above M&A deals and amortization of good will, which are not negative reasons for the decline. However, the market has been disappointed by lackluster earnings for net-media and advertising-related companies, and IID's share price will likely be impacted by the deterioration in market sentiment for a while.

Focus Point

web media company operating 75 media outlets in 21 genres. Employs a diverse range of monetization methods, including data sales and e-commerce, in addition to advertising. Also provides research services and e-commerce solutions to broaden its business domain.

Key indicators

Share price (3/17)	843
YH (22/11/18)	974
YL (3/14)	823
10YH (15/3/24)	2,392
10YL (20/3/13)	454
Shrs out. (mn, shrs)	5.0626
Mrk cap (¥bn)	4.268
21.6 Shr. equity ration	72.80%
23.6 PER (CE)	8.40x
22.6 PBR (act)	1.06
22.6 ROE (act)	12.62%
23.6 DT (CE)	1.4%

Share Price Chart 52 Weeks



Source: Tradingview

Team coverage

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2Q FY6/23 Results

Through the 2Q, IID recorded an increase in net sales but decline in profit with net sales of ¥2,896 mn (+6.7% YoY), operating profit of ¥300 mn (-15.5% YoY), ordinary profit of ¥306 mn (-12.3% YoY), and net profit attribute to parent company shareholders of ¥209 mn (-13.8% YoY).

Even though growth in Internet ad placement was flat, new content that came available because of the M&As made contributions, and sales of data content and media and EC systems were firm.

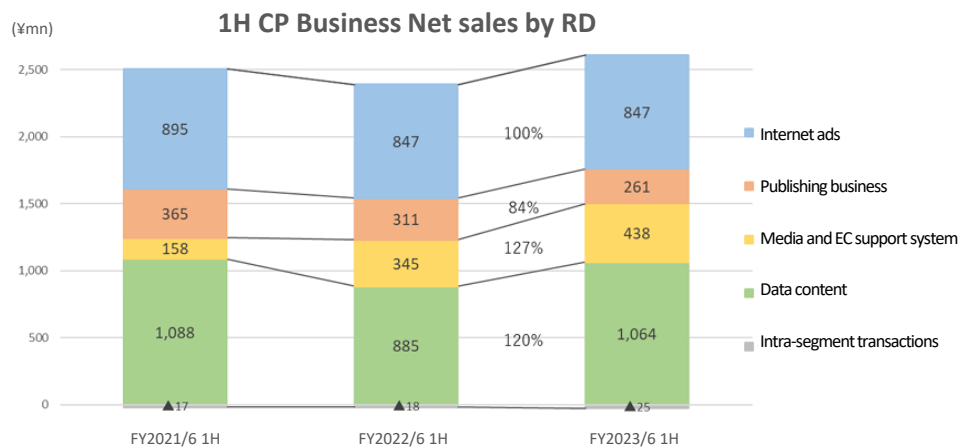
Profits at the operating profit level and below declined on account of an increase in SG&A expenses of ¥129 mn. The main reasons for the increase in SG&A expenses were advisory fees and amortization of good will from businesses acquired from the previous fiscal year through the 1H FY6/23.

Creator Platform (CP) Business

Segment net sales of ¥2,587 mn (+9.1% YoY) and segment profit of ¥235 mn (-14.1%)

For Internet ads, despite firm affiliate marketing, net sales were flat compared to 1H FY6/22 at ¥847 mn as advertisers were less inclined to run ads at a time of weaker consumer interest as a result of inflation. According to 2022 labor statistics released by the Ministry of Health, Labour and Welfare in February, real wages fell 0.9% and failed to keep up with inflation. The same earnings trend can be seen for other Internet advertising companies. However, IID has consistently advocated a “360% business” with diverse earning sources, and the percentage of sales accounted for by non-Internet advertising business rose to 70.7% in 2Q FY6/23 from 68.8% in 2Q FY6/21.

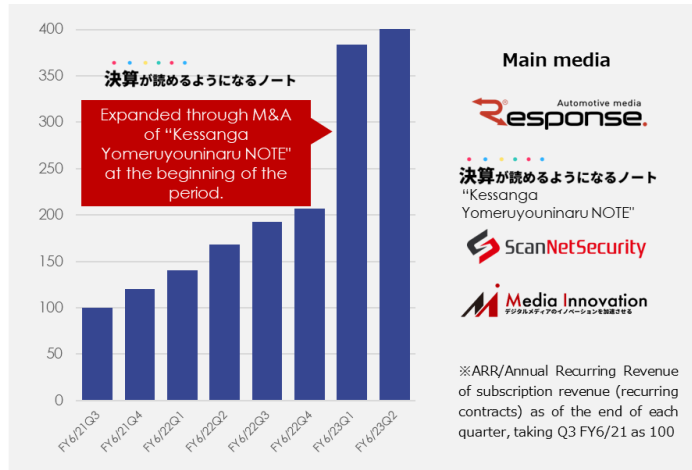
Data content sales rose 20.2% year on year to ¥1,064 mn because of aggressive purchases. Media and EC support system sales increased a substantial 27% year on year to ¥439 mn.



FITP’s accelerating sled testing system used for head-on collision tests. IID Tsukuba Technical Center Source: The company’s website

Acquired and added to the scope of consolidation in November 2022, FIT Pacific Inc. (FITP) is also in this segment. FITP, a technology trading company that provides solutions to improve safety in the automobile field, conducts business in various fields including providing data center management systems. Although this field is quite different than the digital content field that IID has focused on until now, it expects to generate synergies with the mobility field in a CASE/MaaS era that the company has been concentrating on.

The B2B media subscription business includes such businesses as Response, which was launched in June 2021, and has steadily grown, and the acquisition of “Kessanga Yomeruyouninaru Note”* in July 2022 contributed to earnings, resulting in quarterly subscription revenue increasing almost 4-fold between March 2021 and December 2022.



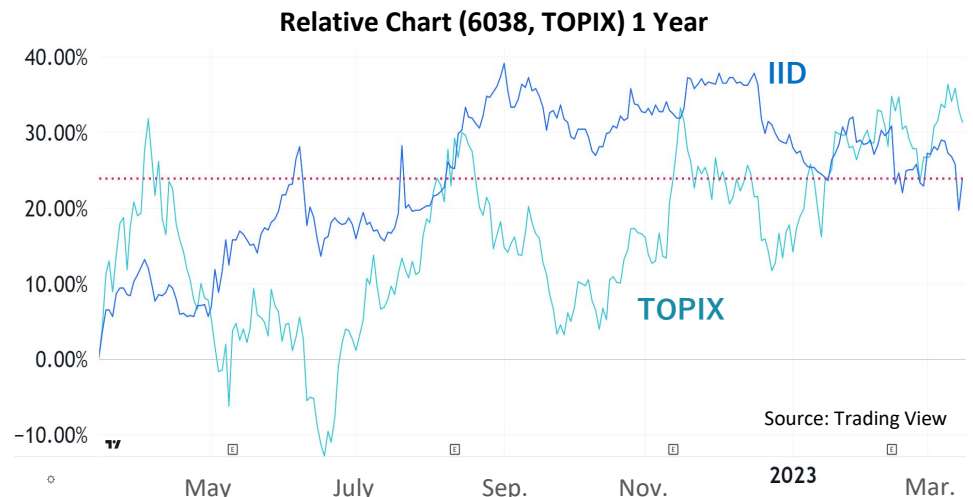
Source: Company's financial results material for 2Q FY2023/6

Creator Solutions (CS) Business

Segment net sales of ¥310 mn (-9.6% YoY) and segment profit of ¥65 mn (-20.2% YoY) Both segment net sales and profit fell as a result of the small number of research solution and EC solution projects that boast high profit margins.

Stock price insights

IID has made good progress towards achieving its net sales forecast for FY6/23, but the situation is less clear for profit on account of the previously mentioned investments. Because the company has positioned M&As as its growth driver, its profit for a single year will be easily impacted by the deals completed that year. Therefore, in the medium-term management plan, the management team has set a target for net sales of ¥10.0 bn and EBITDA of ¥1.2 bn for the final year of which is FY6/26, but not a particular profit level. Thus, SIR considers it inappropriate to discuss the company’s share price in terms of a single year’s profit. We will keep an eye on the company’s forecasts for FY6/24, the year in which this fiscal year’s M&A related expenses will no longer have an impact and the acquired companies will make full contributions to earnings.



Source: Trading View

* Focusing analysis of a corporate financial statement

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