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Geniee Inc. (TSE Mothers 6562)

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Forecast for the fiscal year ending March 2018

Our Group earnings forecast for FY2017 (April 1, 2017 - March 31, 2018) is as follows.

【Consolidated】

(Unit: million yen, %)

Item	Fiscal year	FY2018 (Forecast)		FY2018 1H (Actual)		FY2017 (Actual)		
			% of sales	YoY		% of sales		% of sales
Net Sales		14,731	100.0	25.6	6,488	100.0	11,730	100.0
Operating Income		548	3.7	112.7	245	3.8	257	2.2
Ordinary Income		522	3.5	168.4	237	3.7	194	1.7
Profit (loss) attributable to owners of parent		47	0.3	—	(132)	—	(14)	—
Net income (loss) per share		2.87			(8.24)		(0.92)	
Dividend per share		—			—		—	

(Note) FY2016 (actual) and FY2017 cumulative second quarter (actual) net losses per share (quarterly) are calculated based on the interim average number of shares issued. FY2017 (forecast) net income per share is calculated based on the planned interim average number of shares issued, which includes the planned number of new shares issued through public offering (1,000,000 shares) and the number of treasury stock shares planned for disposal (23,000 shares). The increase in third-party allocation related to secondary distribution due to over-allotment (maximum 196,200 shares) is not factored into this calculation.

[Assumptions to FY2017 Earnings Forecast]

(1) Group overall projections

Our Group currently consists of entities operating in Japan and Southeast Asia, including Geniee Inc. (Company), Geniee International Pte., Ltd. (Singapore), Geniee Vietnam Co., Ltd. (Vietnam), PT. Geniee Technology Indonesia (Indonesia), PT. Adstars Media Pariwara (Indonesia), and Geniee Adtechnology (Thailand) Co., Ltd. (Thailand).

The domestic online advertisement market in which we operate has continued to grow favorably (market size of approx. 1,095.6 billion yen in FY2016, 116.0% YoY) on steady growth in the adoption of in-feed ads and video ads as well as growth in the use of search-linked ads, ad networks, DSP (Demand Side Platform), and SSP (Supply Side Platform) (source: Yano Research Institute "Online Advertisement Market in Japan: Key Research Findings 2017"). The online advertisement market in Asia where our overseas Group companies operate is also projected to experience a high rate of growth due to the rapid dissemination of mobile terminals and the continuing shift towards online advertisements (source: Digital InFact "Online Advertisement Market Survey 2017: Top 6 Markets in Southeast Asia").

Amid such an operating environment, during FY2017 we have applied our strengths in technology development and business promotion to enhance existing services in line with customer needs and advancements in technology as well as to develop new services and customer proposals. Specifically, in our ad platform business we focused on securing new media formats and enhancing the functions of our mainstay product GenieeSSP, the ad revenue maximization platform for online media, and on strengthening the sales capabilities of agencies offering GenieeDSP, our digital distribution platform for advertisers. In the market automation business, we are focusing on strengthening the AI-related functions of our marketing automation platform MAJIN and winning new customers for the platform, as well as on promoting the use of GenieeDMP, our platform for advertising distribution utilizing big data and marketing strategy maximization. At overseas offices, we are focusing on strengthening our system development and organizational structures, and promoting GenieeSSP and the provision of other service that matched to the needs of local corporations.

As a result of these and other initiatives, for FY2017 we forecast net sales of 14,731 million yen (increase of 25.6% YoY), operating income of 548 million yen (increase of 112.7% YoY), ordinary income of 522 million yen (increase of 168.4% YoY), and net income attributable to owners of parent of 47 million yen (previous fiscal year was net loss of 14 million yen). The abovementioned earnings forecast figures are calculated using results from April 2017 to September 2017 and forecast figures for October 2017 through March 2018.

(2) Net sales

Our Group operates in a single segment, the ad technology business. However, the primary services constituting this segment are largely divided into (1) the ad platform business and (2) the marketing automation business.

1. Ad platform business

The ad platform business provides a system (platform) for using techniques (ad technology) to instantly select and display the ads suited for each browser on a website or smartphone app, thereby maximizing the advertiser ad revenue and the efficacy of online media. Specifically, our platforms include GenieeSSP for online media and GenieeDSP for advertisers and ad agencies. We also provide platform OEM services (original equipment manufacturing, the development and provision of SSP, DSP, etc., as a brand for another company) and, as a certified Google Media Solutions Partner, provide online media ad distribution services such as Google AdSense and DoubleClick Ad Exchange.

When an ad is distributed via GenieeSSP or GenieeDSP, the advertiser pays ad listing fees (= sales for our Group) based on the number of times an ad is displayed and the unit rate.

When an ad is distributed through an ad agency or a competitor DSP, ad network, or OEM client, ad listing fees are paid by the advertiser via that third party.

For the ad platform business, we calculate FY2017 net sales by referencing operating results from the previous fiscal year (FY2016) and the FY2017 cumulative second quarter, as well as current operating conditions and seasonality (Note).

During the previous fiscal year (FY2016), we advanced various business partnerships and the development and provision of new services. In April we enhanced our lineup of services following our certification as a Google Certified Publishing Partner. In August we launched provision of "mitayo.", a news distribution service specifically for smartphones development in collaboration with Trenders, Inc. And in October, we launched OEM provision of SSP services, etc., on the SoftBank Ads Platform provided by Softbank Corp. As a result, FY2016 domestic net sales for the ad platform business were 10,841 million yen.

During the first half of FY2017, we worked to strengthen functions and capture new media formats for our mainstay service GenieeSSP. We increase the number of ads displayed through OEM provision, improved our ad distribution logic, and conducted platform optimization. With our ad distribution platform for advertisers GenieeDSP, we worked to secure new agencies and enhance support for agencies. As a result, net sales for the ad platform business during the first half of FY2017 were 5,790 million yen.

During the second half of FY2017, we will continue working to secure new media formats and enhancing the functions of GenieeSSP and on strengthening the sales capabilities of agencies offering GenieeDSP.

As a result of the above, our forecast for the ad platform business during FY2017 is domestic net sales of 13,065 million yen (increase of 20.5% YoY), and overseas net sales of 783 million yen (increase of 2.3% YoY).

2. Marketing automation business

The marketing automation business offers GenieeDMP, a platform for data collection, analysis, and utilization, and MAJIN, a marketing automation platform. MAJIN is a new business launched in July 2016. This platform automates corporate marketing activities, efficiently captures and increases the purchasing desires of potential customers, and handles purchasing and contract administration.

In principle, GenieeDMP and MAJIN sales are based on system or service usage fees paid on a monthly basis by the company incorporating the service.

The marketing automation business is a new business, so we calculate FY2017 net sales by referencing current business conditions and market trends, among other factors.

During the first half of FY2017, we partnered with LINE, an effective platform for corporate marketing activities, and embedded new proprietary technology that conducts the segmentation of collected data in real time. We also worked to improve usability by conducting a major renewal of the admin screen. To increase service recognition, we held seminars for potential customers, attended exhibits, and focused on OEM provision. As a result, net sales for the marketing automation business during the first half of FY2017 were 549 million yen.

During the second half of FY2017, we will continue focusing on winning new customers for the MAJIN platform and strengthening the platform's AI-related functions as well as on promoting the use of GenieeDMP, our platform for advertising distribution utilizing big data and marketing strategy maximization.

As a result of the above, our forecast for the marketing automation business during FY2017 is net sales of 1,034 million yen (increase of 88.1% YoY).

Note: About seasonality

Due to common business practices among Japanese companies, there is a trend of companies using a relatively larger percentage of advertising budgets (distributing ads) towards the end of the fiscal year. As such, it is typical for our net sales to increase during the fourth quarter (January to March).

(3) Sales costs

Sales costs for our Group are comprised mainly of ad listing fees paid based on the number of times ads are distributed to online media using GenieeSSP. We calculate FY2017 sales costs based on the assumption of a sales-cost ratio that is largely equivalent to that for the previous fiscal year (FY2016) and the cumulative second quarter (2H/FY2017).

As a result of the above, we forecast consolidated sales costs of 12,179 million yen (increase of 22.1% YoY) and consolidated gross profit of 2,552 million yen (increase of 45.1% YoY).

(4) Sales, general & administration expenses, operating income

Group sales, general & administration expenses, are mainly comprised of personnel expenses and other expenses.

Based on the assumption of a consolidated employee structure consisting of 253 employees by the end of FY2017 (increase of 40 employees compared to end of previous fiscal year, excludes administrative outsourcing and temporary staff) in line with initiatives related to business expansion and strengthening our domestic and overseas organizational structure, we forecast personnel expenses, etc. of 1,568 million yen, a 76.9% increase YoY. We calculate other expenses by referencing actual expenses from FY2016.

As a result of the above, we forecast consolidated sales, general & administrative expenses of 2,004 million yen (increase of 33.5% YoY) and consolidated operating income of 548 million yen (increase of 112.7% YoY).

(5) Non-operating gains and losses, ordinary income

We forecast non-operating income of 6 million yen, including anonymous partnership investment income and grant income. We forecast non-operating expenses of 32 million yen, including currency exchange losses, interest paid, and expenses incurred in relation to new stock market listing and additional public offering.

As a result of the above, we forecast consolidated ordinary income of 522 million yen (increase of 168.4% YoY).

(6) Extraordinary gains and losses, net income attributable to owners of parent

After careful consideration, we recorded 275 million yen as a valuation loss on investment securities during the second quarter. This is due to the fact that the earnings of both the Indonesian ad technology company Adskom Pte. Ltd., in which we have invested since June 2015, and the Indian ad technology company AdPushup Inc., in which we have invested since August 2016, are transitioning below targets outlined in our original strategy. We forecast no extraordinary gains or losses during the second half of the fiscal year.

As a result of the above, we forecast net income attributable to owners of parent of 47 million yen (previous fiscal year resulted in net losses attributable to owners of parent of 14 million yen).

The Group earnings forecasts included in this document are based on judgments and assumptions made using information available at the time of document creation. Actual results may vary due to various factors.