



# Makuake

TSE Mothers 4479 Industry: Internet service, E-commerce

## Evolved form of crowdfunding; initiating coverage with a Buy

### Initiating coverage with a TP of 7,000 yen and a Buy rating

We initiate coverage of Makuake, Inc. (4479, Makuake, the company) with a target price of 7,000 yen and a Buy rating.

The company operates "Makuake," a web and app-based marketplace for pre-sales of new products. The company started the business as a crowdfunding service, but subsequently, through trial and error, it developed a unique concept of "support" pre-order focused on pre-sales of new products and has been successfully expanding the market. By differentiating itself from crowdfunding, which merely aims to raise funds, it has succeeded in attracting a number of high-quality projects. In addition, the company has won many projects from large corporations that do not require funding. In order to pursue growth in GMV (total amount of pre-orders), it is important to secure high-quality projects as well as to make advertising creatives that communicate the attractiveness of the project to supporters (purchasers). As such, the company has been focusing on hiring and training curators to provide consulting services on creatives. The company's growth drivers going forward are: 1) quantitative expansion of existing businesses with quality, and 2) expansion of distribution channels.

The catalysts we envision for an upturn in the stock price include high growth in GMV, early full-scale development of new businesses, and M&A that can easily generate synergies.

### Mita Securities' earnings forecast

Our FY9/22 earnings forecast is for GMV of 29.4bn yen (+36.3% YoY), sales of 6.1bn yen (+31.6% YoY), and OP of 0.5bn yen (+42.3% YoY). FY9/23 forecast is for GMV of 43.9bn yen (+49.5% YoY), sales of 8.9bn yen (+46.2% YoY), and OP of 0.7bn yen (+53.8% YoY). We expect FY9/26 GMV to be 111.0bn yen with a 5-year CAGR of 38.8%.

The online pre-sales market for new products has a massive TAM (total addressable market) of 1trn yen (company estimate), and we see significant room for growth for the company over the medium to long term. In the near term, we expect GMV to continue to grow at a high rate through increased brand awareness of "Makuake," enhanced curator system and improved usability of the web and app. In the medium to long term, we expect the company to expand its distribution channels through the full-scale development of 1) the support procurement service for professional buyers, 2) Makuake Global for overseas supporters, and 3) Makuake STORE for new products in the mass production stage.

### Valuations and risk factors

In calculating our target price, we used a residual income model (RIM) with a cost of equity of 4.75% and a terminal growth rate of 3.5%, based on our earnings forecasts for FY9/22-FY9/26. The target multiples implied by our target price and FY9/24 earnings forecast are 120x for P/E, 56x for EV/EBITDA, and 6.1x for EV/sale.

Risk factors to our view include weak growth in GMV, leakage of customer information, frequent troubles related to projects, reduced take rate due to adverse competitive environment, capital increase to make up for the deficit, and large-scale offering of shares by major shareholders.

MITA SECURITIES Co., Ltd.  
Junichi Shimizu  
Chief Analyst, Head of Research

## Initiation of coverage

Rating  
**Buy**

Target price (JPY)	7,000
Stock price (JPY) (Dec 24)	4,435
Market cap (JPYbn)	55.2

### Key changes

Rating	New
Target price	New
Earnings forecast	New

### Stock price (JPY)



Source: Bloomberg Finance LP

### Earnings

		9/20	9/21	9/22E	9/23E	9/24E
Sales	JPYbn	3.2	4.6	6.1	8.9	12.0
OP	JPYbn	0.5	0.3	0.5	0.7	1.0
RP	JPYbn	0.5	0.3	0.5	0.7	1.0
NP	JPYbn	0.4	0.2	0.3	0.5	0.7
EPS	JPY	31.7	19.9	28.0	40.4	58.3
BPS	JPY	228.2	551.6	579.6	619.9	678.3
DPS	JPY	0.0	0.0	0.0	0.0	0.0
PER	x	335.2	232.6	158.3	109.9	76.0
PBR	x	46.5	8.4	7.7	7.2	6.5
Div. yield	%	0.0	0.0	0.0	0.0	0.0
ROA	%	9.8	3.0	3.1	3.8	4.4
ROE	%	25.1	5.2	5.0	6.7	9.0

Source: Company data, Mita Securities

### Company profile

Makuake operates a web and app-based marketplace "Makuake" for pre-sales of new products. The company was founded in May 2013 as a subsidiary of CyberAgent, and was listed on the TSE Mothers in December 2019. In FY9/21, the total amount of pre-orders (GMV) was 21.5bn yen and sales were 4.6bn yen. The number of employees at the end of FY9/21 was 152.

# Investment thesis

## Outlook

### Unique marketplace with high growth potential

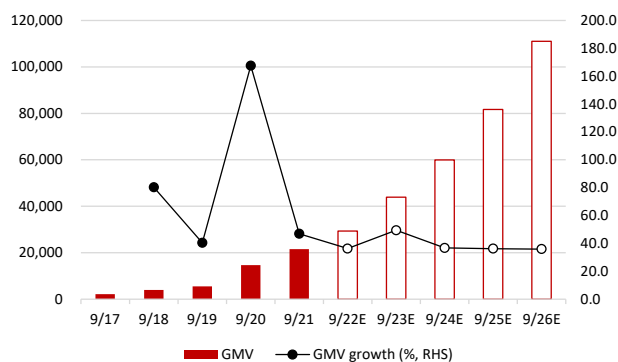
We initiate coverage of Makuake, Inc. (4479, Makuake, the company) with a target price of 7,000 yen and a Buy rating.

*Initiating coverage with a TP of 7,000 yen and a Buy rating*

The company operates "Makuake," a highly unique marketplace EC site for pre-sales of new products and services. For FY9/21, GMV (total amount of pre-orders) was 21.5bn yen (+46.9% YoY), sales 4.6bn yen (+43.3% YoY), OP 0.3bn yen (-35.5% YoY), and OPM 7.1%. Our GMV forecast is 29.4bn yen (+36.3% YoY) for FY9/22, 60.0bn yen for FY9/24, and 111.0bn yen for FY9/26, for a 5-year CAGR of 38.8%. Our OP forecast is 0.5bn yen (7.7% OPM) for FY9/22, 1.0bn yen (8.7% OPM) for FY9/24, and 2.3bn yen (10.7% OPM) for FY9/26. We also believe that there is significant room for growth in the long term.

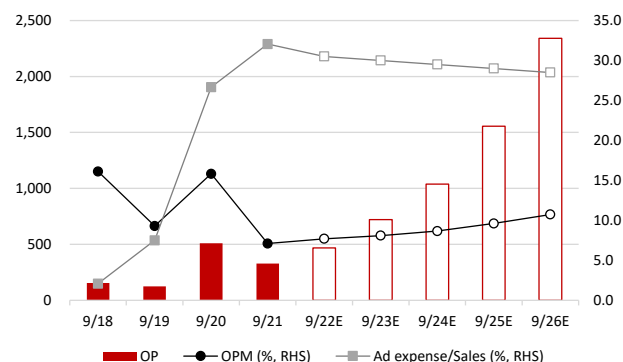
*Forecasting a 5-year CAGR of 39% for GMV*

Figure: GMV (JPYm), GMV growth (%)



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

Figure: OP (JPYm), OPM, Ad expense/Sales (%)



Source: Company data, Mita Securities Note: Forecasts are by Mita Securities

### Growth potential and growth drivers

The total addressable market (TAM) for the company is estimated at 1trn yen (company estimate). In comparison, the current GMV is only over 2% of the TAM, and we believe there is significant room for growth in the medium to long term.

*GMV is just over 2% of TAM 1trn yen*

In the near term, growth in GMV should come from an increase in the number of projects and purchases by supporters. In order to achieve this, it is important to: 1) secure high-quality project owners and encourage them to become repeat owners; 2) strengthen the curator system to support production of advertising creatives that communicate the attractiveness of the project and encourage supporters to purchase; and 3) improve the web and app structure to maximize the matching between projects and supporters.

*Growing number of project owners and supporters due to increased brand awareness. Further growth acceleration is possible through operational improvements*

The natural inflow of project owners and supporters seems to be increasing along with the growing brand awareness of "Makuake." In addition, the company should be able to accelerate the growth based on its efforts, as there is still room for improvement in operations related to the above items, in our view.

Furthermore, in the medium to long term, the company should be able to expand its distribution channels, which should contribute to further GMV growth. We are paying close attention to: 1) the "support procurement service," which allows professional buyers from select shops to purchase new products via the web; 2) Makuake Global, which receives pre-orders from overseas supporters; and 3) Makuake STORE, an EC select shop that offers new products that have entered the mass production stage after being listed on "Makuake."

*Expansion of distribution channels is expected in the medium to long term*

### Catalysts

The catalysts we envision for an upturn in the stock price include high growth in GMV, early full-scale development of new businesses, and M&A that can easily generate synergies.

**Figure: Summary of Mita Securities' earnings forecast (parent)**

JPYm	9/19	9/20	9/21	9/22	9/23	9/24	9/22	9/22	9/23	9/24
	A	A	A	Mita E	Mita E	Mita E	CoE	Consensus	Consensus	Consensus
<b>Earnings</b>										
Sales	1,344	3,225	4,621	6,084	8,892	11,996	6,200	6,239	8,628	12,053
(YoY, %)	40.3	139.9	43.3	31.6	46.2	34.9				
Operating profit	125	510	329	468	720	1,039	465	450	634	1,144
(YoY, %)	-19.1	308.5	-35.5	42.3	53.8	44.2				
OPM (%)	9.3	15.8	7.1	7.7	8.1	8.7				
Recurring profit	127	512	326	463	715	1,034	460	448	632	1,142
(YoY, %)	-18.4	302.2	-36.3	42.1	54.3	44.5				
Net profit	89	370	247	348	501	724	350	323	451	811
(YoY, %)	-20.5	315.3	-33.3	40.9	44.0	44.5				
Depreciation & amortization	31	65	102	142	204	273				
Capital expenditure	224	220	313	416	612	830				
Free CF	165	2,317	-435	966	1,988	2,287				
<b>KPI</b>										
GMV (total amount of pre-orders)	5,480	14,664	21,536	29,351	43,865	59,980	30,000			
(YoY, %)	40.4	167.6	46.9	36.3	49.5	36.7				
Number of new projects	2,471	4,631	7,914	10,273	13,758	18,160				
(YoY, %)	35.2	87.4	70.9	29.8	33.9	32.0				
GMV/Number of new projects (JPY thousand)	2,218	3,166	2,721	2,857	3,188	3,303				
Number of pre-orders ('000)	505	1,495	1,963	2,668	3,988	5,453				
(YoY, %)	NA	196.1	31.3	36.0	49.5	36.7				
GMV/Number of pre-orders (JPY)	10,855	9,810	10,973	11,000	11,000	11,000				
Take rate (%)	27.0	24.2	23.6	22.8	22.3	22.0				
<b>Per share indicators</b>										
EPS (JPY)	8.91	31.68	19.88	28.02	40.36	58.34	28.22	25.93	36.24	65.19
BPS (JPY)	28.57	228.20	551.56	579.58	619.94	678.28				
DPS (JPY)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Valuation, profitability, etc.</b>										
EV/Sales (x)	NA	36.8	10.6	7.5	4.9	3.4				
EV/EBITDA (x)	NA	206.4	113.2	74.5	47.0	31.4				
PER (x)	NA	335.2	232.6	158.3	109.9	76.0				
PBR (x)	NA	46.5	8.4	7.7	7.2	6.5				
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0				
Dividend yield (%)	NA	0.0	0.0	0.0	0.0	0.0				
ROA (%)	7.6	9.8	3.0	3.1	3.8	4.4				
ROE (%)	37.0	25.1	5.2	5.0	6.7	9.0				
<b>Financial soundness indicators</b>										
Shareholders' equity ratio (%)	20.4	43.1	66.2	60.4	52.3	46.8				
Debt/Equity (x)	0.3	0.0	0.0	0.0	0.0	0.0				

Source: Company data, QUICK data, Mita Securities

Note: Consensus forecasts are by QUICK consensus

Figure: Quarterly earnings and KPIs

JPYm	9/19				9/20				9/21				9/22 E			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Sales	317	286	313	427	520	603	970	1,133	993	1,108	1,233	1,288	1,285	1,389	1,569	1,840
Gross profit	257	230	258	340	418	483	818	937	805	933	1,036	1,032	1,057	1,142	1,290	1,513
Operating profit	36	-10	29	69	103	137	291	-20	152	-89	138	128	99	107	121	142
Sales growth (%)	73.2	31.8	20.4	44.4	63.9	110.7	210.0	165.0	91.1	83.8	27.0	13.7	29.5	25.4	27.3	42.8
GPM (%)	81.1	80.4	82.4	79.5	80.5	80.1	84.3	82.7	81.1	84.3	84.0	80.1	82.2	82.2	82.2	82.2
OPM (%)	11.4	-3.3	9.3	16.1	19.8	22.7	30.0	-1.8	15.3	-8.0	11.2	9.9	7.7	7.7	7.7	7.7
GMV	1,256	1,167	1,367	1,689	2,182	2,597	4,633	5,252	4,512	5,299	5,917	5,807	6,148	6,729	7,672	8,802
GMV growth (%)	62.5	37.0	28.7	39.0	73.7	122.6	238.9	211.0	106.8	104.1	27.7	10.6	36.3	27.0	29.7	51.6
Take rate (%)	27.8	27.0	25.2	27.8	26.2	25.5	23.0	23.7	24.2	23.0	22.9	24.4	23.0	22.7	22.5	23.0
Number of new projects	538	524	635	774	890	863	1,319	1,559	1,826	1,660	2,213	2,215	2,414	2,294	2,638	2,928
GMV/No. of new projects (JPY thousand)	2,335	2,227	2,153	2,182	2,452	3,009	3,512	3,369	2,471	3,192	2,674	2,622	2,546	2,934	2,908	3,006
Access UU ('000)	3,328	3,341	4,149	4,519	4,968	5,749	11,400	10,585	9,027	11,257	13,650	14,442	15,525	16,534	18,353	20,005
CVR (%)	3.3	3.1	3.1	3.6	3.9	4.1	4.9	4.7	4.6	4.5	3.8	3.6	3.6	3.7	3.8	4.0
Number of pre-orders ('000)	110	105	129	160	196	237	562	499	414	508	516	525	559	612	697	800
GMV/No. of pre-orders (JPY)	11,439	11,102	10,560	10,526	11,125	10,937	8,246	10,517	10,890	10,434	11,472	11,066	11,000	11,000	11,000	11,000

Source: Company data, Mita Securities

Note: Forecasts are by Mita Securities

## Valuations

### Stock valuation based on the residual income model (RIM)

In calculating our target price of 7,000 yen, we used a residual income model (RIM) with a cost of equity of 4.75% and a terminal growth rate of 3.5%, based on our earnings forecasts for FY9/22-FY9/26. The target multiples implied by our target price and FY9/24 earnings forecast are 120x for P/E, 56x for EV/EBITDA, and 6.1x for EV/sale.

*TP of 7,000 yen based on RIM*

Figure: Residual Income Model (RIM)

JPYbn	Y0	Y1	Y2	Y3	Y4	Y5	Y6~
	A	Mita E	Mita E	Mita E	Mita E	Mita E	Mita E
	9/21	9/22	9/23	9/24	9/25	9/26	9/27
Shareholders' equity (EOP)	6.8	7.2	7.7	8.4	9.5	11.1	
Net profit		0.3	0.5	0.7	1.1	1.6	
Cost of equity		0.3	0.3	0.4	0.4	0.5	
Residual income		0.0	0.2	0.4	0.7	1.2	
PV of residual income		0.0	0.1	0.3	0.6	0.9	
PV of terminal value							77.7
Beta	0.85	Estimated equity value (JPYbn)				86.5	
Risk free rate (%)	0.50	Number of shares O/S (m)				12.4	
Risk premium (%)	5.00	Target price (JPY)				7,000	
Cost of equity (%)	4.75						
Terminal growth rate (%)	3.50						

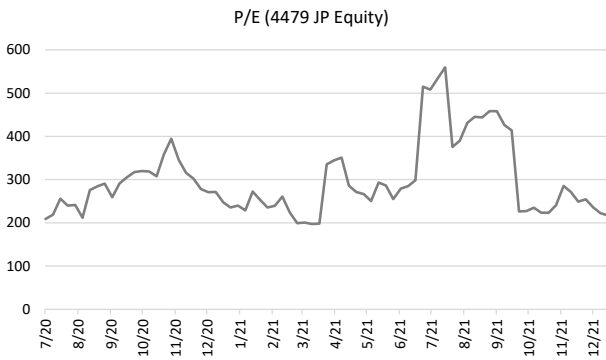
Source: Company data, Mita Securities

Figure: Sensitivity of target price to terminal growth rate

Terminal growth rate (%)	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.0	4.1
Target price	4,900	5,150	5,450	5,750	6,100	6,500	7,000	7,550	8,200	9,000	9,950	11,200	12,850

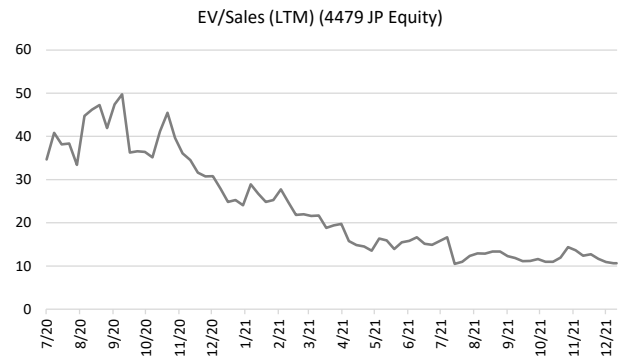
Source: Mita Securities

Figure: P/E (x)



Source: Bloomberg Finance LP data, Mita Securities

Figure: EV/Sales (x)



Source: Bloomberg Finance LP data, Mita Securities

Comparison of valuations and stock prices with peers

Figure: Comparison of valuations with peers

Company name	Ticker	PX 24-Dec	Mkt cap JPYbn	Sales YoY	Sales YoY	EBITDA Mgn	ROE	ROE	PER	PER	PBR	EV/EBITDA	EV/EBITDA	EV/Sales	EV/Sales	EV/Sales	Div yield Cur E	1M Chg	3M Chg	1YR Chg	
				LTM	Cur E	LTM	LTM	Cur E	LTM	Cur E	LTM	Cur E	Last	LTM	Cur E	LTM					Cur E
CREEMA LTD	4017	1,376	9.2	NA	NA	7.6	11.7	NA	110.1	NA	7.5	96.6	NA	7.7	NA	NA	NA	NA	-28.1	-38.4	-19.1
SMAREGI INC	4431	2,213	43.4	29.7	NA	27.2	17.2	NA	52.0	95.2	10.7	64.6	53.3	17.7	9.6	7.2	0.0	-28.1	-38.4	-19.1	
GIFTEE INC	4449	2,106	60.0	152.3	-44.8	30.6	15.9	4.7	79.1	260.0	11.2	80.8	105.4	25.1	16.4	12.1	0.0	-31.3	-48.8	-29.1	
BASE INC	4477	645	71.9	33.0	16.0	-8.3	-8.3	-4.7	NA	NA	4.5	NA	NA	10.5	5.0	3.9	0.0	-12.8	-43.2	-64.9	
<b>MAKUAKE INC</b>	<b>4479</b>	<b>4,435</b>	<b>55.2</b>	<b>43.3</b>	<b>32.1</b>	<b>9.3</b>	<b>5.2</b>	<b>5.3</b>	<b>217.0</b>	<b>148.8</b>	<b>8.0</b>	<b>119.5</b>	<b>NA</b>	<b>11.1</b>	<b>7.8</b>	<b>5.6</b>	<b>0.0</b>	<b>-12.9</b>	<b>-8.9</b>	<b>-45.6</b>	
JIMOTY INC	7082	3,550	21.3	19.0	NA	19.6	23.2	NA	77.5	NA	22.4	54.3	NA	11.0	NA	NA	NA	-6.1	-5.0	31.2	
Average				55.5	1.1	14.3	10.8	1.8	107.2	168.0	10.7	83.1	79.3	13.9	9.7	7.2	0.0	-16.4	-32.3	-33.0	
Median				33.0	16.0	14.4	13.8	4.7	79.1	148.8	9.4	80.8	79.3	11.1	8.7	6.4	0.0	-12.9	-40.8	-37.4	

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

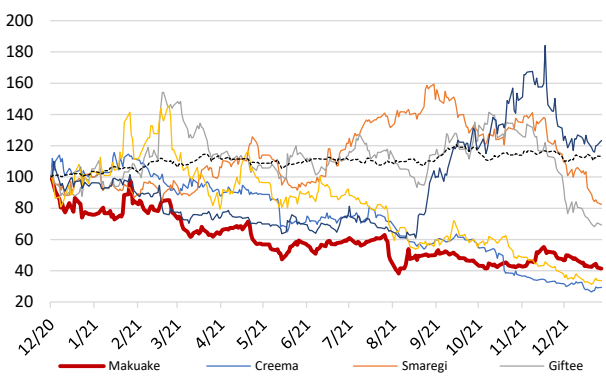
Figure: Comparison of valuations with peers

Company name	Ticker	PX 24-Dec	Mkt cap JPYbn	Sales YoY	Sales YoY	EBITDA Mgn	ROE	ROE	PER	PER	PBR	EV/EBITDA	EV/EBITDA	EV/Sales	EV/Sales	EV/Sales	Div yield Cur E	1M Chg	3M Chg	1YR Chg
				LTM	Cur E	LTM	LTM	Cur E	LTM	Cur E	LTM	Cur E	Last	LTM	Cur E	LTM				
ZOZO INC	3092	3,570	1,112.6	16.5	9.9	31.7	77.5	58.5	32.2	30.5	24.7	24.4	20.5	7.8	6.6	6.1	1.5	-2.3	-18.4	41.8
MERCARI INC	4385	6,150	982.6	40.2	47.8	5.4	3.4	10.4	734.8	292.8	23.5	138.2	87.3	7.6	6.1	5.1	0.0	-13.0	-0.8	39.8
<b>MAKUAKE INC</b>	<b>4479</b>	<b>4,435</b>	<b>55.2</b>	<b>43.3</b>	<b>32.1</b>	<b>9.3</b>	<b>5.2</b>	<b>5.3</b>	<b>217.0</b>	<b>148.8</b>	<b>8.0</b>	<b>119.5</b>	<b>NA</b>	<b>11.1</b>	<b>7.8</b>	<b>5.6</b>	<b>0.0</b>	<b>-12.9</b>	<b>-8.9</b>	<b>-45.6</b>
Average				33.3	29.9	15.5	28.7	24.7	328.0	157.4	18.7	94.0	53.9	8.9	6.8	5.6	0.5	-9.4	-9.4	12.0
Median				40.2	32.1	9.3	5.2	10.4	217.0	148.8	23.5	119.5	53.9	7.8	6.6	5.6	0.0	-12.9	-8.9	39.8

Source: Bloomberg Finance LP data, Mita Securities

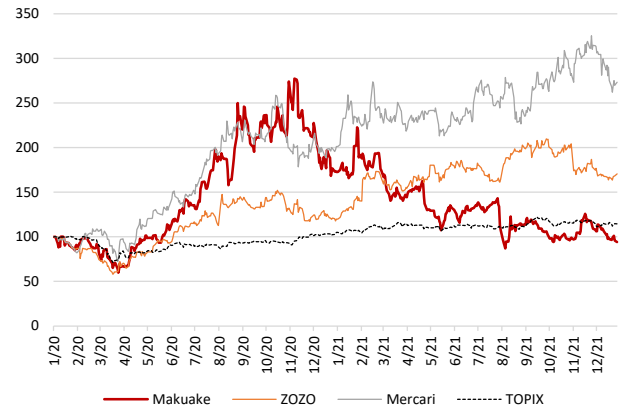
Note: Forecasts are based on Bloomberg consensus. Shading indicates stocks covered by Mita Securities

Figure: Stock price trends



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of Nov 2020

Figure: Stock price trends



Source: Bloomberg Finance LP data, Mita Securities Note: Indexed 100 at the end of 2019

**Figure: Overview of comparable companies**

Company name	Business description	Establishment
CREEMA	Operates "Creema," a marketplace for handmade products	Mar-09
SMAREGI	Cloud-based POS cash register system. Subscription model	May-05
GIFTEE	Electric ticket "eGift" platform	Aug-10
BASE	Operates "BASE," an online store opening support service	Dec-12
MAKUAKE	Operates "Makuake," a marketplace for pre-sales of new products	May-13
JIMOTY	Operates "Jimoty," a bulletin board site. Advertising model	Feb-11

Source: Companies' data, Mita Securities

**Figure: Overview of comparable companies**

Company name	Business description	Establishment
ZOZO	Operates "Zozotown," a fashion EC site	May-98
MERCARI	Operates "mercari," a CtoC marketplace	Feb-13
MAKUAKE	Operates "Makuake," a marketplace for pre-sales of new products	May-13

Source: Companies' data, Mita Securities

**Risk factors**

Risk factors to our view include weak growth in GMV, leakage of customer information, frequent troubles related to projects, reduced take rate due to adverse competitive environment, capital increase to make up for the deficit, and large-scale offering of shares by major shareholders.

## Company overview

### History

The company was founded in May 2013 as a wholly owned subsidiary of CyberAgent, Inc. by three co-founders (Ryotaro Nakayama, President, Kana Bogaki, Director, and Fumiaki Kiuchi, Director). The company name at the time of its founding was CyberAgent Crowd Funding, Inc. In August 2013, the company launched its "Makuake" service. In October 2017, the company changed its name to Makuake, Inc. and in December 2019, it listed its shares on the Mothers section of the Tokyo Stock Exchange. Initially, "Makuake" started as a crowdfunding service, but through trial and error, it has evolved into a pre-sale service for new products.

*Started by CyberAgent as a crowdfunding business. Evolved into a pre-sale service for new products*

Figure: History

Date	Event
May-13	Established CyberAgent Crowd Funding, Inc. Ryotaro Nakayama appointed as President and Representative Director (current position)
Aug-13	Launched "Makuake," a pre-sale service for new products and experiences
Jun-15	Launched "Makuake Analytics" function, a project analysis tool for project owners
Jan-16	Launched "Makuake Enterprise" (currently "Makuake Incubation Studio"), a new product development support service for companies
Mar-16	Launched the e-commerce site "Makuake STORE"
Oct-17	Changed company name to Makuake, Inc.
May-18	Launched "Makuake Government," a hometown tax payment service in which local governments act as project owners and collect donations for projects
Dec-19	Listed shares on the Mothers section of the Tokyo Stock Exchange
Feb-21	Issued new shares through overseas offering
Jun-21	Opened an office in South Korea
Aug-21	Launched "Makuake Global," a service to accept pre-orders from overseas supporters

Source: Company data, Mita Securities

### Major shareholders

The company's largest shareholder is CyberAgent, Inc. and it is a consolidated subsidiary of CyberAgent.

*Parent company CyberAgent owns 52% of the shares*

Figure: Major shareholders (end-FY9/21)

Major shareholders	Shares held (%)
CyberAgent, Inc.	52.28
Ryotaro Nakayama	2.52
Custody Bank of Japan, Ltd. (trust account)	2.46
The Master Trust Bank of Japan, Ltd. (trust account)	2.01

Source: Company data, Mita Securities

# Details of business

## Business model of "Makuake"

### Marketplace for pre-sales of new products

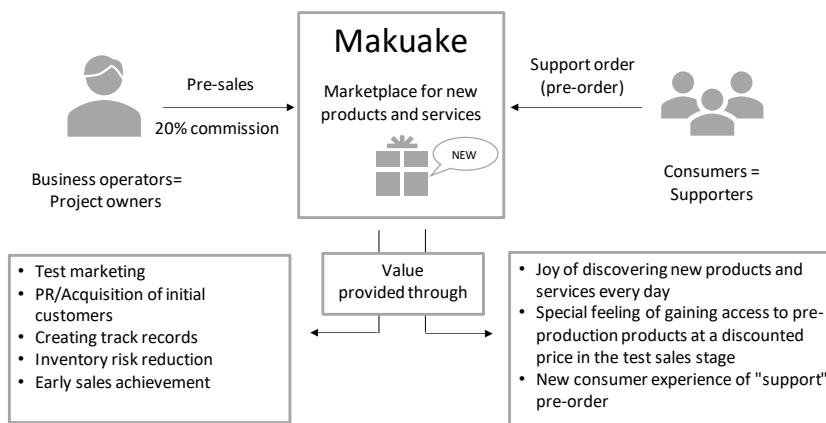
"Makuake" is an EC marketplace that specializes in pre-sales of new products and services. The company matches project owners, who offer new products and services, with consumers (supporters), who purchase the projects, on its website and app.

The company 1) provides project owners with consulting services on test marketing of new products and services, 2) screens the project for appropriateness and feasibility, and 3) publishes the project on "Makuake" for supporters to purchase.

Once the supporters make payments in advance and the project is closed, the company receives a platform usage fee (20% of the pre-order amount) from the project owner. Then, as soon as the project is ready, the project owner provides returns (new products and services) to the supporters.

*Consulting services for businesses pre-selling new products. Matching them with consumers making "support" pre-orders*

Figure: Overview of "Makuake"



Source: Company data, Mita Securities

### Operations highlights

The company assigns a curator to every project to provide consulting support. The curator assists in clarifying the project content, improving the appeal to supporters, and maximizing the volume of pre-orders. As the number of projects increases, the company needs to increase the number of curators, as well. In order to expand the GMV of "Makuake," it is important to secure a sufficient number of well-trained curators.

In addition, the company has a dedicated team of screeners to ensure the quality of the projects. The review items include the appropriateness and feasibility of the project, evaluation of the project owner, feasibility of the return, appropriateness of the information posted on the site, and legality.

*The engine of "Makuake" consists of curators who provide consulting services for projects, and a screening team that manages the quality of projects*

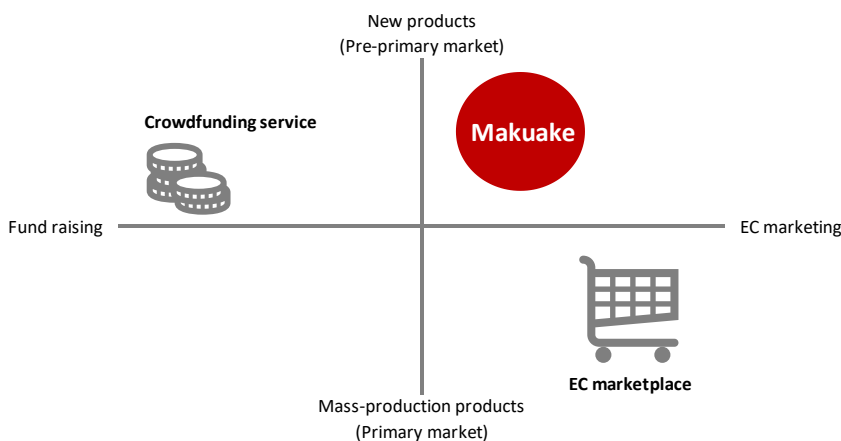


**Positioning of "Makuake"**

Initially, the company launched "Makuake" as a crowdfunding platform, but through trial and error, it identified demand for test marketing of new products and services, rather than fundraising, and thus developed a unique positioning. Prior to Makuake's entry, the online new product debut market was an untapped field. For reference, among the well-known crowdfunding services in Japan include CAMPFIRE and READYFOR.

*Evolving away from crowdfunding to develop a unique position in the market*

**Figure: Positioning of "Makuake"**



Source: Company data, Mita Securities

**Earnings structure**

**Breakdown of GMV, sales, and OP**

For the company, gross merchandise value (GMV) is the total amount of pre-orders made by supporters. The GMV can be broken down into 1) the number of new projects posted x the transaction amount per project, or 2) the number of pre-orders x the average price per pre-order. Furthermore, the number of pre-orders can be broken down into the number of access unique users (UUs) x conversion rate (CVR).

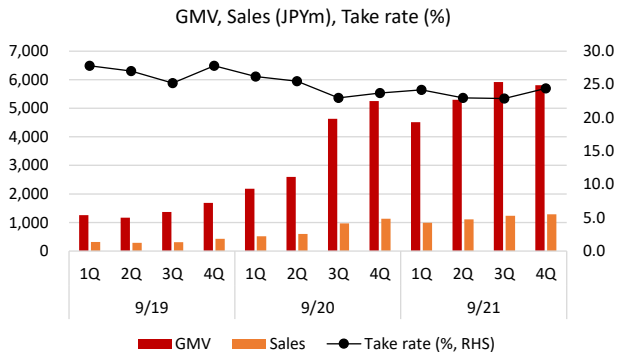
*Sales mainly consist of a 20% commission on the transaction amount. Large advertising expenses have a significant impact on OP*

Over 80% of the company's sales consist of platform usage fees equivalent to 20% of the pre-order amount (transaction amount) (project owners are paid after deducting fees from the pre-order amount). The ratio of sales to GMV (excluding consumption tax) is called the take rate, and it has been stable at just above 20%. The remaining less than 20% of the sales come from Makuake Incubation Studio (MIS) and the ad distribution service.

The COGS includes advertising media costs (for the ad distribution service), software amortization, server usage fees, and engineer labor costs. The COGS ratio has been stable at around 18%.

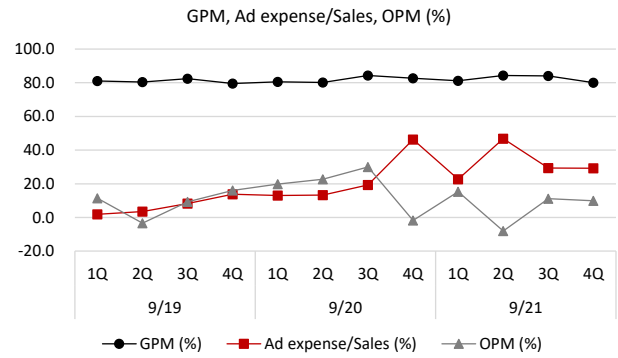
SG&A expenses include advertising expenses, personnel costs, and collection fees. The ratio of advertising expenses to sales has been increasing in recent years: 26.7% in FY9/20 and 32.0% in FY9/21. The company has achieved profitability on a fiscal year operating profit basis, but OPM fluctuates significantly depending on the scale of advertising expenses. In quarterly results, the company has posted operating losses in quarters with large advertising expenses.

Figure: GMV, sales (JPYm), take rate (%)



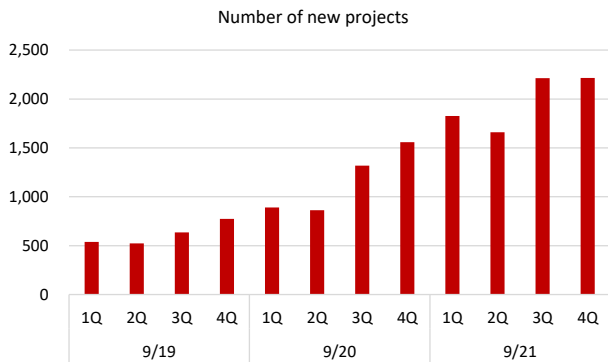
Source: Company data, Mita Securities

Figure: GPM, Ad expense/Sales, OPM (%)



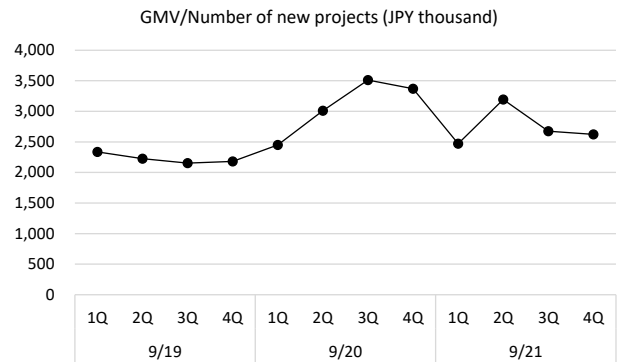
Source: Company data, Mita Securities

Figure: Number of new projects



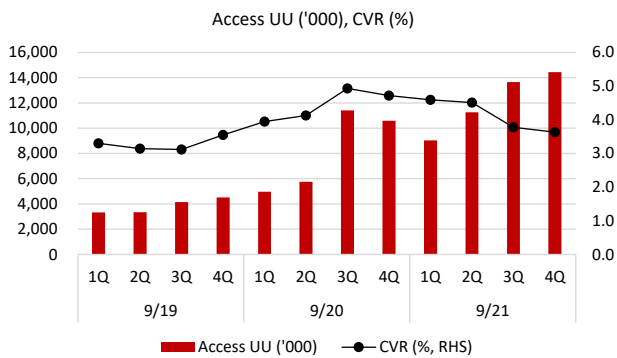
Source: Company data, Mita Securities

Figure: Transaction amount per project (JPY thousand)



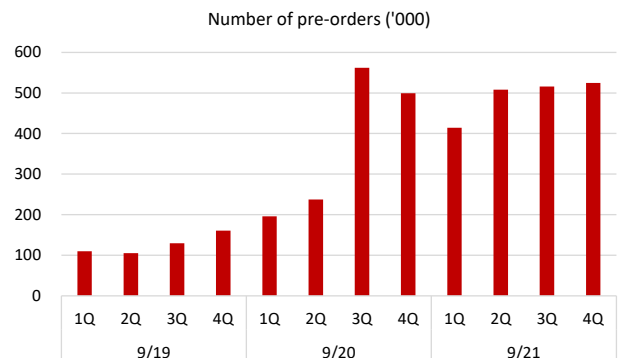
Source: Company data, Mita Securities

Figure: Number of access unique users ('000), CVR (%)



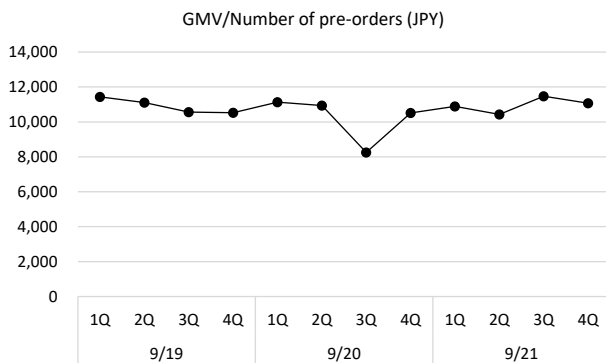
Source: Company data, Mita Securities

Figure: Number of pre-orders ('000)



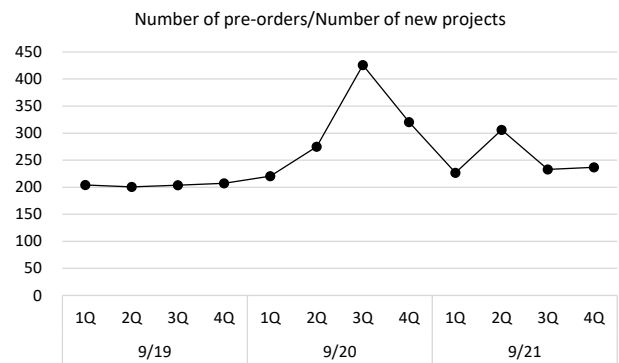
Source: Company data, Mita Securities

Figure: Average price of pre-order (JPY)



Source: Company data, Mita Securities

Figure: Number of pre-orders per project



Source: Company data, Mita Securities

## Examples of projects

### Examples of the most popular projects in the past

Electric bicycles, large-capacity portable power supplies, mask sterilization cases, molecular masks, robot vacuum cleaners, automatic photography cameras, home use low-temperature cookers, 2-way completely wireless earphones, multifunctional portable scanners

*Over 30 projects achieved over 100m yen in pre-orders*

### Examples of the latest popular projects

Japanese-style rice distillery, puppy brand bowl set, five-layer brush and broom, new Michelin-starred chef's restaurant, telescopic camera, laundry adapter, smart shoes, stretch jeans, new sense jewelry

*Products in the fashion and restaurant/food categories, as well as products in lifestyle-related categories, are growing*

## Services other than "Makuake"

### Makuake Incubation Studio (MIS)

Makuake Incubation Studio (MIS) provides a variety of incubation services to support the development of new businesses by utilizing the excellent R&D technologies of clients. There are many R&D themes and findings of companies that have not yet been commercialized despite their useful technologies. The company supports the development of products with new ideas based on these technologies by utilizing data on customer needs and know-how accumulated through "Makuake." The following are examples of specific projects.

*Support services for new business development*

- Sharp: A special bag for sake using a proprietary cold storage material. The bag and sake were sold for pre-order on "Makuake."
- Fujitsu Design: An IoT measuring tape that can instantly send information to a smartphone. It received a great response from apparel companies.

**Makuake Global**

Makuake Global is a global version of the "Makuake" service that connects project owners in Japan who want to pre-sell new products and services to overseas markets with project supporters around the world. The company launched the service at the end of August 2021. Lingble, a partner company, manages logistics and customer service.

*Overseas pre-sales service for new products*

**Support procurement service**

The support procurement service assists professional buyers to purchase newly debuted products on the web while monitoring their pre-sales. The service is targeted at select shops and is in the process of recruiting buyers. We believe that the launch of support procurement service should increase the number of project owners and further strengthen the barriers to entry. The company plans to fully launch the service in spring 2022.

*Procurement services for professional buyers*

**Makuake STORE**

An EC select shop for selling new products in the mass production stage after they have been posted on "Makuake." The company plans to reopen the store with expanded functions. Many of the projects listed on "Makuake" are order-made sales of prototypes, and it takes several months for users to actually receive the product after they have decided to purchase it. For new users who are not familiar with "Makuake," it would be psychologically easier if they can immediately obtain a product that has already been posted on "Makuake." Also, in terms of the company's operations, it should reduce the burden on curators and allow for more efficient sales.

*EC select shop for after-Makuake products*

**Ad distribution service**

A service to distribute online advertisements for products on "Makuake" on behalf of project owners upon their request.

*Online ad distribution service*

**Medium- to long-term growth vision****Aiming for the scale of ZOZOTOWN and Mercari in the long term**

The company's medium-term management goal is to achieve 100bn yen in GMV by 2025. The company has also set an ambitious goal of achieving 500bn yen in GMV by the end of the 2020s. It seems that the company's long-term goal is to build a marketplace on a scale comparable to ZOZOTOWN and Mercari.

*Ambitious GMV growth targets*

**Figure: Comparison with major EC companies (JPYbn)**

Company	Ticker	Fiscal year/ Segment	GMV	Sales		OP		Adv. expense				
				YoY (%)	vs. GMV (%)	YoY (%)	OPM (%)	vs. Sales (%)				
Makuake	4479	FY9/21 Par	21.5	46.9	4.6	21.5	43.3	0.3	7.1	1.5	32.0	
Mercari	4385	FY6/21 Cons			106.1		39.1		5.2	4.9	31.5	29.7
		Mercari JP	784.5	25.3	75.1	9.6	27.9				15.8	21.0
ZOZO	3092	FY3/21	419.4	21.5	147.4	35.1	17.4	44.1	29.9	5.9	4.0	
MonotaRO	3064	FY12/20			157.3		19.7	19.6	12.5	5.0	3.2	

Source: Companies' data, Mita Securities

## Mita Securities' earnings forecast

Figure: Mita Securities' earnings forecast (parent, various indicators)

	9/19	9/20	9/21	9/22	9/23	9/24	9/25	9/26	5-yr ave growth (CAGR, %)
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales growth (%)	40.3	139.9	43.3	31.6	46.2	34.9	35.0	34.7	
OP growth (%)	-19.1	308.5	-35.5	42.3	53.8	44.2	49.8	50.4	
RP growth (%)	-18.4	302.2	-36.3	42.1	54.3	44.5	50.0	50.6	
NP growth (%)	-20.5	315.3	-33.3	40.9	44.0	44.5	50.0	50.6	
GPM (%)	80.7	82.4	82.4	82.2	82.1	82.0	81.9	81.8	
Advertising expense/Sales (%)	7.5	26.7	32.0	30.5	30.0	29.5	29.0	28.5	
OPM (%)	9.3	15.8	7.1	7.7	8.1	8.7	9.6	10.7	
EBITDA margin (%)	11.6	17.8	9.3	10.0	10.4	10.9	11.9	13.0	
ROA (%)	7.6	9.8	3.0	3.1	3.8	4.4	5.4	6.4	
ROE (%)	37.0	25.1	5.2	5.0	6.7	9.0	12.1	15.8	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (parent, PL, JPYm)

P/L	9/19	9/20	9/21	9/22	9/23	9/24	9/25	9/26	5-yr ave growth (CAGR, %)
Parent, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
Sales	1,344	3,225	4,621	6,084	8,892	11,996	16,189	21,800	36.4
COGS	259	569	816	1,083	1,592	2,159	2,930	3,968	
Gross profit	1,085	2,656	3,806	5,001	7,300	9,837	13,259	17,833	36.2
SGA	961	2,146	3,477	4,532	6,580	8,798	11,702	15,492	
Advertising expense	101	860	1,481	1,856	2,668	3,539	4,695	6,213	33.2
Operating profit	125	510	329	468	720	1,039	1,556	2,341	48.0
Non-operating income	4	8	8	10	15	20	25	30	
Non-operating expense	1	6	11	15	20	25	30	35	
Recurring profit	127	512	326	463	715	1,034	1,551	2,336	48.3
Extraordinary gains	0	0	0	0	0	0	0	0	
Extraordinary losses	0	0	0	0	0	0	0	0	
Pre-tax profit	127	512	326	463	715	1,034	1,551	2,336	48.3
Corporate taxes	38	142	79	116	215	310	465	701	
Net profit	89	370	247	348	501	724	1,086	1,635	46.0
EBITDA	155	576	431	610	924	1,312	1,923	2,834	45.7
Shares O/S (m)	9,986	11,668	12,405	12,405	12,405	12,405	12,405	12,405	
EPS (JPY)	8.91	31.68	19.88	28.02	40.36	58.34	87.53	131.80	46.0
BPS (JPY)	28.57	228.20	551.56	579.58	619.94	678.28	765.82	897.62	10.2
DPS (JPY)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (parent, PL, JPYm)

KPIs	9/19	9/20	9/21	9/22	9/23	9/24	9/25	9/26	5-yr ave growth (CAGR, %)
	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	
GMV (total pre-order amount, JPYm)	5,480	14,664	21,536	29,351	43,865	59,980	81,687	111,020	38.8
(YoY, %)	40.4	167.6	46.9	36.3	49.5	36.7	36.2	35.9	
Number of new projects	2,471	4,631	7,914	10,273	13,758	18,160	23,608	30,691	31.1
(YoY, %)	35.2	87.4	70.9	29.8	33.9	32.0	30.0	30.0	
GMV/Number of new projects (JPY thousand)	2,218	3,166	2,721	2,857	3,188	3,303	3,460	3,617	5.9
Number of pre-orders ('000)	505	1,495	1,963	2,668	3,988	5,453	7,426	10,093	38.7
(YoY, %)	NA	196.1	31.3	36.0	49.5	36.7	36.2	35.9	
GMV/Number of pre-orders (JPY)	10,855	9,810	10,973	11,000	11,000	11,000	11,000	11,000	0.0
Take rate (%)	27.0	24.2	23.6	22.8	22.3	22.0	21.8	21.6	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (parent, BS, JPYm)

B/S	9/19	9/20	9/21	9/22	9/23	9/24	9/25	9/26	5-yr ave growth
Parent, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
<b>Assets</b>									
Total current assets	1,079	5,648	9,270	10,525	12,814	15,537	19,354	24,710	21.7
Cash and deposits	879	5,109	8,591	9,526	11,447	13,774	16,942	21,556	
Accounts receivable	195	530	551	849	1,198	1,563	2,163	2,854	
Inventories	0	0	0	0	0	0	0	0	
Other	5	8	127	150	170	200	250	300	
Total fixed assets	320	513	1,042	1,359	1,860	2,404	3,103	4,011	31.0
Tangible assets	50	47	43	50	50	50	50	50	
Intangible assets	201	356	594	809	1,210	1,654	2,253	3,061	
Investment and other	69	110	405	500	600	700	800	900	
Deferred assets	0	12	20	20	20	20	20	20	
Total assets	1,399	6,173	10,332	11,904	14,694	17,961	22,477	28,742	22.7
<b>Liabilities</b>									
Total current liabilities	1,099	3,472	3,415	4,628	6,892	9,407	12,802	17,385	38.5
Deposits payable	801	2,346	2,652	3,615	5,403	7,387	10,061	13,674	
Short-term debt	78	0	0	0	0	0	0	0	
Other	220	1,126	763	1,013	1,489	2,020	2,741	3,712	
Total long-term liabilities	15	28	43	56	81	108	144	191	34.8
Long-term debt	0	0	0	0	0	0	0	0	
Other	15	28	43	56	81	108	144	191	
Total liabilities	1,114	3,500	3,458	4,684	6,973	9,516	12,946	17,576	38.4
<b>Net assets</b>									
Shareholders' equity	285	2,663	6,842	7,189	7,690	8,414	9,500	11,135	10.2
Warrants	0	10	31	31	31	31	31	31	
Total net assets	285	2,673	6,873	7,220	7,721	8,445	9,531	11,166	10.2
Debt	78	0	0	0	0	0	0	0	
D/E (x)	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' equity ratio (%)	20.4	43.1	66.2	60.4	52.3	46.8	42.3	38.7	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (parent, CF, JPYm)

CF	9/19	9/20	9/21	9/22	9/23	9/24	9/25	9/26	5-yr ave growth
Parent, JPYm	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	(CAGR, %)
Cashflow from operations	388	2,564	151	1,382	2,599	3,117	4,198	5,969	
Net profit	89	370	247	348	501	724	1,086	1,635	
Depreciation and amortization	31	65	102	142	204	273	367	493	
Other	269	2,129	-197	892	1,895	2,120	2,745	3,841	
Cashflow from investing	-224	-248	-586	-416	-612	-830	-1,126	-1,525	
Capital expenditure	-224	-220	-313	-416	-612	-830	-1,126	-1,525	
Disposal of fixed assets	0	0	0	0	0	0	0	0	
Other	0	-27	-273	0	0	0	0	0	
Cashflow from financing	20	1,913	3,915	0	0	0	0	0	
Debt issuance/repayment	20	-78	0	0	0	0	0	0	
Share issuance/buyback	0	1,991	3,915	0	0	0	0	0	
Dividend paid	0	0	0	0	0	0	0	0	
Other	0	0	0	0	0	0	0	0	
Cash and cash equivalents	879	5,109	8,591	9,557	11,544	13,832	16,903	21,348	
Free cashflow	165	2,317	-435	966	1,988	2,287	3,072	4,445	

Source: Company data, Mita Securities

## APPENDIX

### [Analyst Certification]

We hereby certify that the views on securities and issuers expressed in this report accurately reflect the personal views of the analyst(s) listed on the cover page of this report. The analyst(s) also certifies that the analyst(s) has not been compensated, directly or indirectly, or promised to be compensated, for expressing any particular view in this report.

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The target price and ratings are based on our views for the next 12 months or so.

Buy: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be 15% or more.

Hold: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be between -15% and +15%.

Sell: Stocks whose total return (percentage change in share price from current price to projected target price plus projected dividend yield), as of the time the target price is set or changed, is expected to be -15% or less.

RS: Rating Suspended - Stocks for which the target price and rating have been temporarily suspended.

NR: No Rating - Stocks for which no target price or rating is assigned.

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### Company Name

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