



Money Forward

TSE 1st Section 3994 Industry: Internet service, SaaS, Fintech

SaaS & Fintech combined. Initiating coverage with a Hold

Initiating coverage with a TP of 5,650 yen and a Hold rating

We initiate coverage of Money Forward, Inc. (3994, Money Forward, the company) with a target price of 5,650 yen and a Hold rating.

The company operates 1) back-office SaaS businesses for SMEs and sole proprietors, 2) personal budgeting apps for consumers, 3) Fintech promotion and DX support services for financial institutions, and 4) finance services for small businesses. The company's sales have grown about tenfold in the past five years, mainly due to the rapid penetration of its mainstay cloud accounting software. The trend among SMEs to promote digital transformation of their back-office operations should be a tailwind for SaaS companies in general.

On the other hand, the company should need to make larger investments than in the past, as competitors are increasing sales headcounts and stepping up promotions. In our view, the timing of the company's turning to profitability is likely to be much later than the market consensus assumes. In addition, the need for the company to allocate resources to relatively slow-growth businesses other than back-office SaaS could become an issue, if the growth in these businesses shows signs of slowing down.

Mita Securities' earnings forecast

We forecast sales of 20.6bn yen for FY11/22 (+32.1% YoY) and 26.4bn yen for FY11/23 (+27.7% YoY). We expect a 5-year CAGR of 28.0% in sales through FY11/26. We forecast OP of -6.0bn yen (-29.1% OPM) for FY11/22 and -3.9bn yen (-14.9% OPM) for FY11/23. The high level of personnel and advertising expenses should put pressure on the profitability. We believe that the company intends to prioritize early market share expansion rather than an early turn to profitability, and forecast that the company will turn profitable on an EBITDA basis in FY11/25 and on an OP basis in FY11/26. The company already raised a large capital in August 2021, when the stock market was bullish, so there should be little need to raise additional capital even if it continues to post losses.

Valuations and risk factors

Our target price is based on a target EV/Sales multiple of 10.5x for FY11/23. We expect NP to turn profitable only in FY11/26 and free CF not to turn profitable by FY11/26. Therefore, we believe that the company has not reached the stage where we can apply stock valuation methods based on future NP or free CF, such as RIM and DCF. EV/Sales multiples, however, are commonly used as a stock valuation method for SaaS companies, especially in the US. Given the high percentage of overseas institutional investors in the company's shareholder mix, we believe the company's shares are most likely to be priced in line with the EV/Sales multiple for the time being. The target multiple of 10.5x is a level that we believe is consistent with our FY11/23 sales growth forecast of 27.7%, based on the distribution of sales growth and EV/Sales multiples of comparable companies. It should be noted that changes in valuations of US SaaS companies are likely to affect the valuation of the company's shares.

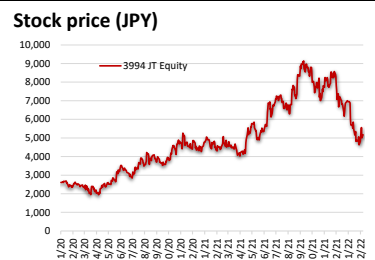
Upside risks to our view include unexpectedly high sales growth, and M&A that strengthens the business franchise. Downside risks include intensifying competition, unexpectedly weak sales growth, M&A failures, difficulties in hiring and training personnel, customer defections due to information leakage, and large-scale credit losses.

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

Initiation of coverage

Rating	
Hold	
Target price (JPY)	5,650
Stock price (JPY) (Feb 4)	5,170
Market cap (JPYbn)	276.0

Key changes	
Rating	New
Target price	New
Earnings forecast	New



Source: Bloomberg Finance LP

Earnings		11/20	11/21	11/22E	11/23E	11/24E
Sales	JPYbn	11.3	15.6	20.6	26.4	33.9
OP	JPYbn	-2.8	-1.1	-6.0	-3.9	-2.8
RP	JPYbn	-2.5	-1.4	-6.1	-4.0	-2.9
NP	JPYbn	-2.4	-1.5	-6.2	-4.1	-3.0
EPS	JPY	-50.8	-27.8	-116.3	-77.2	-57.1
BPS	JPY	201.7	759.0	642.7	565.5	508.5
DPS	JPY	0.0	0.0	0.0	0.0	0.0
PER	x	NA	NA	NA	NA	NA
PBR	x	23.4	10.3	7.9	9.0	10.0
Div. yield	%	0.0	0.0	0.0	0.0	0.0
ROA	%	-12.7	-3.8	-11.1	-7.6	-5.7
ROE	%	-27.7	-5.9	-16.6	-12.8	-10.6

Source: Company data, Mita Securities

Company profile

Money Forward is a provider of back-office SaaS for SMEs and sole proprietors, personal budgeting apps for consumers, Fintech promotion and DX support services for financial institutions, and financial services for small businesses. The company was listed on the TSE Mothers in September 2017 and changed its market to the First Section in June 2021. FY11/21 sales were 15.6bn yen, and OP was -1.1bn yen. The company had 1,259 full-time employees at the end of FY11/21.

Investment thesis

Outlook

High growth to be driven by back-office SaaS business

We initiate coverage of Money Forward, Inc. (3994, Money Forward, the company) with a target price of 5,650 yen and a Hold rating. Money Forward is a software company with a vision to provide a "money platform" for all individuals and corporations and is a pioneer in the field of cloud accounting software and personal budgeting apps.

The company's business is comprised of four domains: Business, Home, X, and Finance. The Business domain includes 1) back-office SaaS (Software as a Service) business for SMEs and sole proprietors (cloud-based accounting software, expense management software, HR and labor management software, etc.), and 2) SaaS marketing support business, which is provided by subsidiary Smartcamp. The Home domain focuses on the personal budgeting apps business (Money Forward ME) for consumers. The X domain includes Fintech promotion and DX support business (apps and web development) for financial institutions. The Finance domain consists of financial services for small businesses (online accounts receivable financing, invoicing and settlement BPO services). Of these, the back-office SaaS business in the Business domain has the largest sales and highest growth potential. The trend among SMEs to promote digital transformation of their back-office operations should be a tailwind for SaaS companies in general, including Money Forward.

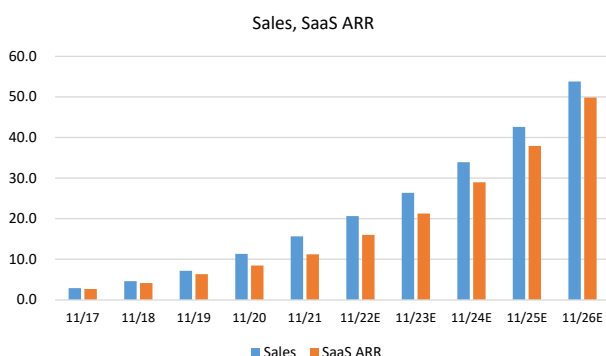
The company's core businesses are based on subscription models with recurring charges to customers. For now, the company intends to focus on expanding its market share by building up its customer base and maximizing earnings over the long term. The company's primary focus is on SaaS ARR (ARR stands for Annual Recurring Revenue, a recurring revenue measure for subscription-type businesses), and the back-office SaaS business is expected to be the largest contributor to future growth in SaaS ARR. The company estimates that the total addressable market (TAM) for Japan's back-office SaaS is about 1.45trn yen. The company's back-office SaaS ARR as of the end of FY11/21 was only 8.5bn yen (0.6% share), indicating that there is extremely large room for growth.

Initiating coverage with a TP of 5,650 yen and a Hold rating

Main revenue driver is back-office SaaS business

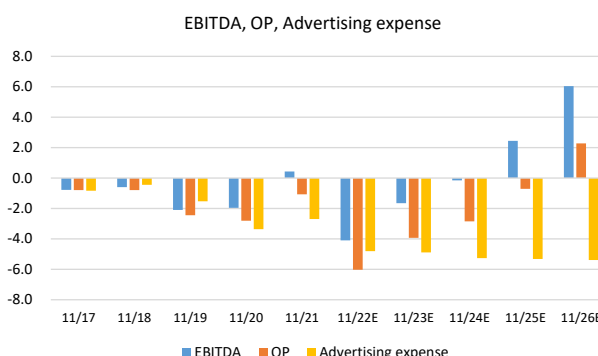
Focuses on achieving high growth in SaaS ARR. Subscription model with extremely large room for growth

Figure: Sales, SaaS ARR (JPYbn)



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

Figure: EBITDA, OP, Advertising expense (JPYbn)



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

Going forward, the company is likely to focus on increasing the number of paying customers and ARPA (Average Revenue Per Account) in the Business domain. This should require proactive spending on advertising and promotion, as well as a significant expansion of sales staff targeting medium-sized companies. It is also important to note that competitors such as freee and Rakus are strengthening their workforce and aggressively promoting their services in order to expand their market shares in the growing cloud market. The company has been operating in the red since its founding, and we believe that the timing of the company's turning to profitability is likely to be much later than the market consensus assumes (the QUICK consensus calls for a turning to profitability in FY11/24).

Moreover, the company has a wide range of non-back-office SaaS businesses, such as the "Money Forward ME" personal budgeting app, and it needs to allocate a part of the resources to these businesses. However, many of these businesses are smaller in scale and growing at a slower pace than the back-office SaaS business. If SaaS ARR growth in these businesses shows signs of slowing down, resource allocation could become an issue for the company.

Mita Securities' earnings forecast

FY11/21 consolidated sales were 15.6bn yen (+38.1% YoY), OP was -1.1bn yen, and SaaS ARR at the end of FY11/21 was 11.2bn yen (+33.0% YoY). The company's sales have grown about tenfold in the past five years, mainly due to the rapid penetration of its mainstay cloud accounting software.

We forecast sales of 20.6bn yen for FY11/22 (+32.1% YoY; company guidance 20.322 to 21.886bn yen) and 26.4bn yen for FY11/23 (+27.7% YoY). We expect a 5-year CAGR of 28.0% in sales through FY11/26. Our SaaS ARR forecast is 16.0bn yen at the end of FY11/22 (+42.5% YoY; company guidance 15.718 to 16.841bn yen) and 21.2bn yen at the end of FY11/23 (+32.7% YoY).

We forecast OP of -6.0bn yen (-29.1% OPM) for FY11/22 and -3.9bn yen (-14.9% OPM) for FY11/23. The high level of personnel and advertising expenses should put pressure on the profitability. We believe that the company intends to prioritize early market share expansion rather than an early turn to profitability. We expect the company to turn profitable on an EBITDA basis in FY11/25 and on an OP basis in FY11/26. The company already raised a large capital in August 2021, when the stock market was bullish, so there should be little need to raise additional capital even if it continues to post losses.

1Q earnings preview

Our forecasts for 1Q FY11/22 earnings are as follows: sales 4.363bn yen (+25.9% YoY; company guidance: 4.299 to 4.368bn yen), SaaS ARR 12.537bn yen (+35.9% YoY; company guidance: 12.545 to 12.729bn yen), EBITDA -2.239bn yen (vs. 358m yen in 1Q FY11/21; company guidance: -2.4 to -1.9bn yen), and OP -2.683bn yen (vs. 81m yen in 1Q FY11/21; company guidance -2.9 to -2.4bn yen).

Proactive investment is needed in light of the fierce competition. Unlikely to turn profitable in the near term

Service domains are diversified. Resource dispersion could be an issue in the future

We expect sales to grow at a 5-year CAGR of 28% and OP to turn profitable in FY11/26

We expect 1Q earnings to be within the range of the company's guidance

Figure: Summary of Mita Securities' earnings forecast

JPYm	11/19 A	11/20 A	11/21 A	11/22 Mita E	11/23 Mita E	11/24 Mita E	11/25 Mita E	11/26 Mita E	11/22 CoE Lower end	11/22 CoE Upper end	11/22 Consensus	11/23 Consensus	11/24 Consensus
Earnings													
Sales	7,157	11,318	15,633	20,648	26,369	33,923	42,574	53,791	20,322	21,886	20,648	26,709	34,207
YoY (%)	55.8	58.1	38.1	32.1	27.7	28.6	25.5	26.3					
Operating profit	-2,446	-2,805	-1,062	-6,019	-3,925	-2,846	-715	2,276	NA	NA	-2,100	-591	1,457
YoY (%)	NA	NA	NA	NA	NA	NA	NA	NA					
OPM (%)	-34.2	-24.8	-6.8	-29.1	-14.9	-8.4	-1.7	4.2					
Recurring profit	-2,567	-2,539	-1,433	-6,104	-4,018	-2,945	-820	2,165	NA	NA	-2,206	-698	1,337
YoY (%)	NA	NA	NA	NA	NA	NA	NA	NA					
Net profit	-2,572	-2,423	-1,482	-6,204	-4,118	-3,045	-920	2,065	NA	NA	-2,176	-698	1,424
YoY (%)	NA	NA	NA	NA	NA	NA	NA	NA					
SaaS ARR	6,319	8,439	11,227	16,004	21,243	28,968	37,922	49,809	15,718	16,841			
YoY (%)	51.8	33.5	33.0	42.5	32.7	36.4	30.9	31.3					
EBITDA	-2,098	-1,951	430	-4,087	-1,658	-159	2,441	6,030	NA	NA			
YoY (%)	NA	NA	NA	NA	NA	NA	NA	147.1					
EBITDA margin (%)	-29.3	-17.2	2.8	-19.8	-6.3	-0.5	5.7	11.2					
Advertising expense	1,521	3,362	2,696	4,807	4,878	5,258	5,322	5,379					
Depreciation & amortization	177	491	868	1,312	1,477	1,669	1,878	2,141					
Capital expenditure	131	1,166	2,334	2,900	1,238	1,786	2,208	2,969					
Free CF	-6,389	-3,726	-7,527	-9,721	-7,445	-7,118	-5,712	-3,643					
Breakdown for sales													
Business domain	4,166	7,300	10,559	14,756	19,727	26,597	34,475	44,851	14,387				
YoY (%)	55.4	75.2	44.6	39.7	33.7	34.8	29.6	30.1					
Home domain	1,671	1,894	2,465	2,836	3,254	3,552	3,849	4,147	3,025				
YoY (%)	32.0	13.3	30.1	15.1	14.8	9.1	8.4	7.7					
X domain	968	1,373	1,831	2,106	2,388	2,724	3,120	3,593	1,950				
YoY (%)	68.9	41.8	33.4	15.0	13.4	14.1	14.5	15.2					
Finance domain	339	743	769	950	1,000	1,050	1,130	1,200	950				
YoY (%)	438.1	119.2	3.5	23.5	5.3	5.0	7.6	6.2					
Per share indicators (adjusted for stock split)													
EPS (JPY)	-58.02	-50.82	-27.79	-116.30	-77.20	-57.08	-17.24	38.71	NA	NA	-40.79	-10.25	26.69
BPS (JPY)	177.56	201.71	759.04	642.74	565.53	508.45	491.21	529.92					
DPS (JPY)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Valuation, profitability, etc.													
EV/Sales (x)	7.2	9.8	24.9	12.5	10.1	8.0	6.5	5.2					
EV/EBITDA (x)	NA	NA	906.3	NA	NA	NA	114.0	46.8					
PER (x)	NA	NA	NA	NA	NA	NA	NA	133.6					
PBR (x)	13.6	23.4	10.3	8.0	9.1	10.2	10.5	9.8					
Dividend payout ratio (%)	NA	NA	NA	NA	NA	NA	NA	0.0					
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
ROA (%)	-20.6	-12.7	-3.8	-11.1	-7.6	-5.7	-1.7	3.4					
ROE (%)	-46.3	-27.7	-5.9	-16.6	-12.8	-10.6	-3.4	7.6					
Financial soundness indicators													
Shareholders' equity ratio (%)	48.2	44.3	71.1	62.5	56.3	50.2	46.0	44.5					
Debt/Equity (x)	0.7	0.7	0.2	0.3	0.4	0.4	0.5	0.5					

Source: Company data, QUICK data, Mita Securities Note: Consensus forecasts are by QUICK consensus

Figure: Quarterly earnings and KPIs

JPYm	11/20				11/21				11/22				11/22	
	A 1Q	A 2Q	A 3Q	A 4Q	A 1Q	A 2Q	A 3Q	A 4Q	Mita E 1Q	Mita E 2Q	Mita E 3Q	Mita E 4Q	CoE 1Q lower end	CoE Q upper end
Sales	2,394	2,821	2,756	3,348	3,467	3,993	3,833	4,339	4,363	5,102	5,393	5,789	4,299	4,368
SaaS ARR	6,814	7,035	7,840	8,439	9,224	9,934	10,507	11,227	12,537	13,567	14,760	16,004	12,545	12,729
EBITDA	-460	-421	-147	-923	358	290	42	-260	-2,239	-646	-645	-557	-2,400	-1,900
OP	-632	-614	-357	-1,201	81	-36	-446	-661	-2,683	-1,127	-1,139	-1,070	-2,900	-2,400
Advertising expense	612	819	502	1,429	552	727	652	765	1,876	918	971	1,042		
No. of paying customers (Business)	123,617	128,569	135,178	142,214	154,261	166,597	174,790	183,303	195,249	207,471	218,839	230,836		
ARPA (Business, JPY)	40,571	39,456	42,537	43,864	44,630	44,306	44,730	46,187	49,162	50,334	52,300	54,123		
Sales														
Business	1,559	1,675	1,862	2,203	2,357	2,567	2,618	3,017	3,229	3,521	3,855	4,151		
Home	451	478	456	510	561	621	652	631	616	691	727	802		
X	235	441	244	453	357	607	370	496	391	656	521	538		
Finance	147	227	193	176	190	198	190	191	127	234	291	298		
SaaS ARR														
Home: premium charges	1,215	1,285	1,369	1,428	1,506	1,656	1,710	1,769	1,865	1,966	2,066	2,167		
Business: sole proprietors	855	836	836	857	936	1,040	1,064	1,092	1,157	1,226	1,284	1,346		
Business: corporates	4,160	4,237	4,914	5,381	5,948	6,342	6,754	7,374	8,442	9,217	10,161	11,148		
X: recurring revenues	472	556	562	587	627	664	720	710	765	823	885	951		
Finance: recurring revenues	112	122	159	186	207	232	259	283	308	336	364	392		

Source: Company data, Mita Securities

Valuations

Stock valuation based on EV/Sales multiple

Our target price is based on a target EV/Sales multiple of 10.5x for FY11/23.

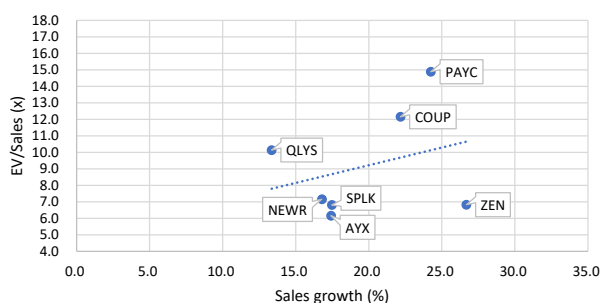
We expect NP to turn profitable only in FY11/26 and free CF not to turn profitable by FY11/26. Therefore, we believe that the company has not reached the stage where we can apply stock valuation methods based on future NP or free CF, such as RIM and DCF.

EV/Sales multiples, however, are commonly used as a stock valuation method for SaaS companies, especially in the US. Given the high percentage of overseas institutional investors in the company's shareholder mix, we believe the company's shares are most likely to be priced in line with the EV/Sales multiple for the time being. The target multiple of 10.5x is a level that we believe is consistent with our FY11/23 sales growth forecast of 27.7%, based on the distribution of sales growth and EV/Sales multiples of comparable companies. It should be noted that changes in valuations of US SaaS companies are likely to affect the valuation of the company's shares.

TP of 5,650 yen based on the target EV/Sales multiple of 10.5x for FY11/23

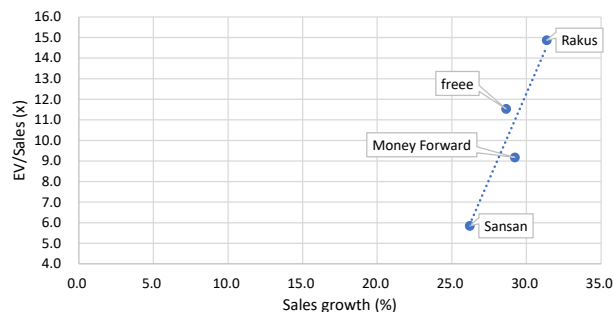
The company's stock price should be susceptible to changes in valuations of US SaaS companies

Figure: Sales growth and EV/Sales



Source: Bloomberg Finance LP data, Mita Securities
Note: Based on Bloomberg consensus for next fiscal year

Figure: Sales growth and EV/Sales



Source: Bloomberg Finance LP data, Mita Securities
Note: Based on Bloomberg consensus for next fiscal year

Figure: Stock valuation based on EV/Sales multiple

Calculation of target price

		JPYm
Sales	26,369 (FY11/23E)	Target MV 302,537
Target multiple	10.5	Shares O/S (m) 53
Target EV	276,874	Target price (JPY) 5,650
Net debt	-27,466	
Minorities	1,803	

Reference	11/19	11/20	11/21	11/22E	11/23E	11/24E	11/25E	11/26E
Target EV	276,874	276,874	276,874	276,874	276,874	276,874	276,874	276,874
Sales	7,157	11,318	15,633	20,648	26,369	33,923	42,574	53,791
Sales growth (%)	55.8	58.1	38.1	32.1	27.7	28.6	25.5	26.3
Target EV/Sales (x)	38.7	24.5	17.7	13.4	10.5	8.2	6.5	5.1
EPS (JPY)	-58.02	-50.82	-27.79	-116.30	-77.20	-57.08	-17.24	38.71
TP/EPS (x)	NA	NA	NA	NA	NA	NA	NA	146.0
FCF	-6,389	-3,726	-7,527	-9,721	-7,445	-7,118	-5,712	-3,643
Target EV/FCF (x)	NA	NA	NA	NA	NA	NA	NA	NA

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

Figure: Sensitivity of target price to the target EV/Sales multiple

Target EV/Sales (x)	4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5
Target price	2,700	3,200	3,700	4,200	4,700	5,200	5,650	6,150	6,650	7,150	7,650

Source: Mita Securities

Comparison of valuations and stock prices with peers

Figure: Comparison of valuations with peers (Japanese companies)

Company name	Ticker	PX	Mkt cap	Sales YoY			EBITDA Mgn	ROE	ROE	PER	PER	PBR	EV/EBITDA	EV/EBITDA	EV/Sales			Div yield	1M	3M	1Yr
				LTM	Cur E	Nxt E									LTM	Cur E	Nxt E				
RAKUS CO LTD	3923	2,244	406.6	33.8	34.1	31.4	20.2	31.1	11.9	182.9	405.3	50.1	198.2	203.3	40.0	19.5	14.9	0.1	-12.6	-42.2	11.6
MONEY FORWARD INC	3994	5,170	276.0	38.1	26.9	29.2	-1.2	-5.9	-6.4	NA	NA	6.8	NA	NA	24.7	11.9	9.2	0.1	-8.3	-37.3	14.5
SMAREGI INC	4431	1,818	35.6	29.7	NA	36.8	27.2	17.2	NA	39.2	70.2	8.8	64.6	46.0	17.7	7.6	5.6	0.0	-6.7	-52.0	-29.4
SANSAN INC	4443	1,283	160.2	23.3	24.6	26.2	8.9	3.2	3.8	434.2	188.8	13.3	594.2	115.7	21.0	7.4	5.8	0.0	-37.5	-62.9	-43.6
FREEE KK	4478	4,745	264.4	49.8	48.0	28.6	-20.3	-9.9	-3.8	NA	NA	5.6	NA	NA	35.3	14.8	11.5	0.0	-11.1	-44.0	-50.6
OBIC BUSINESS CONSULTANTS	4733	4,390	331.0	17.8	NA	NA	NA	9.0	NA	28.7	28.0	2.5	NA	NA	7.4	NA	NA	1.6	-3.9	-21.2	-34.2
BENGO4.COM INC	6027	5,000	111.3	31.7	NA	NA	10.8	19.1	NA	235.0	227.2	41.0	200.2	NA	20.5	NA	NA	NA	2.1	-33.5	-55.1
Average				32.0	33.4	30.4	7.6	9.1	1.4	184.0	183.9	18.3	264.3	121.7	23.8	12.2	9.4	0.3	-11.1	-41.9	-26.7
Median				31.7	30.5	29.2	9.8	9.0	0.0	182.9	188.8	8.8	199.2	115.7	21.0	11.9	9.2	0.0	-8.3	-42.2	-34.2

Source: Bloomberg Finance LP data, Mita Securities

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

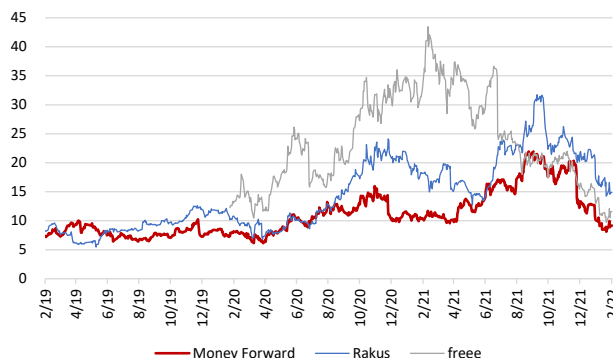
Figure: Comparison of valuations with peers (overseas companies)

Company name	Ticker	PX	Mkt cap	Sales YoY			EBITDA Mgn	ROE	ROE	PER	PER	PBR	EV/EBITDA	EV/EBITDA	EV/Sales			Div yield	1M	3M	1Yr
				LTM	Cur E	Nxt E									LTM	Cur E	Nxt E				
AUTODESK INC	ADSK	241	53.1	15.4	15.1	17.4	20.9	195.6	88.2	40.1	48.1	41.5	78.7	37.9	16.9	12.4	10.6	0.0	-8.7	-25.7	-21.1
ALTERYX INC - CLASS A	AYX	53	3.6	6.4	3.4	17.4	-10.1	-28.4	-4.4	NA	NA	8.7	NA	2,193.1	9.9	7.2	6.2	0.0	-8.8	-33.7	-60.4
COUPA SOFTWARE INC	COUP	130	9.7	42.1	14.0	22.2	-17.4	-51.2	5.2	NA	188.4	10.4	NA	115.6	25.8	14.9	12.2	0.0	-8.6	-44.3	-63.0
INTUIT INC	INTU	544	154.0	31.6	73.7	14.8	29.3	27.9	25.3	71.0	46.6	15.3	57.1	33.0	16.5	12.4	10.8	0.5	-7.2	-11.5	39.7
NEW RELIC INC	NEWR	103	6.7	11.5	20.5	16.8	-18.7	-67.9	-7.2	NA	NA	19.7	NA	155.2	6.3	8.4	7.2	NA	1.4	18.2	52.3
SERVICENOW INC	NOW	578	115.5	30.4	25.2	24.7	13.7	7.0	32.8	493.6	78.6	31.2	155.0	48.6	21.8	15.4	12.4	NA	0.6	-16.5	-2.1
OKTA INC	OKTA	189	29.4	50.0	53.1	37.1	-45.8	-20.5	-7.5	NA	NA	4.9	NA	NA	33.0	22.6	16.5	0.0	-6.6	-25.9	-33.3
PAYCOM SOFTWARE INC	PAYC	326	19.6	21.8	24.9	24.2	28.7	23.5	40.8	110.1	73.2	22.9	100.6	46.7	28.8	18.5	14.9	NA	-8.7	-35.4	-25.0
QUALYS INC	QLYS	129	5.0	12.3	14.3	13.3	33.6	18.2	30.8	69.0	40.7	12.4	30.2	24.9	10.2	11.5	10.1	NA	1.5	-4.5	3.5
SPLUNK INC	SPLK	118	18.7	10.6	4.3	17.5	-45.5	-149.7	-39.4	NA	NA	105.3	NA	NA	11.1	8.0	6.8	0.0	2.8	-29.1	-30.8
ATLASSIAN CORP PLC - CLASS A	TEAM	321	81.3	34.8	23.0	23.8	-15.2	-362.6	129.9	NA	200.8	656.1	753.2	129.6	39.8	30.4	24.6	0.0	2.3	-27.1	31.6
VEEVA SYSTEMS INC - CLASS A	VEEV	233	35.8	27.7	20.8	17.6	29.8	17.8	23.0	82.0	63.0	12.9	88.5	43.1	26.3	18.2	15.4	NA	-3.7	-27.0	-21.9
WORKDAY INC - CLASS A	WDAY	237	59.2	17.6	20.4	19.4	7.2	0.8	26.7	2,152.6	60.8	14.0	151.3	39.0	14.5	11.3	9.4	NA	-5.5	-18.3	-10.3
ZENDESK INC	ZEN	98	11.9	27.7	30.5	26.7	-11.1	-51.6	18.2	NA	150.0	25.1	NA	86.1	11.0	8.6	6.8	0.0	-0.7	-3.4	-38.2
ZSCALER INC	ZS	259	36.3	58.5	54.1	36.3	-26.2	-58.3	12.3	NA	495.2	68.4	NA	278.7	57.9	35.3	25.9	0.0	-0.5	-23.5	19.5
Average				26.6	26.5	21.9	-1.8	-33.3	25.0	431.2	131.4	69.9	176.8	248.6	22.0	15.7	12.6	0.1	-3.4	-20.5	-10.6
Median				27.7	20.8	19.4	-10.1	-20.5	23.0	82.0	73.2	19.7	94.5	48.6	16.9	12.4	10.8	0.0	-3.7	-25.7	-21.1

Source: Bloomberg Finance LP data, Mita Securities

Note: Forecasts are based on Bloomberg consensus.

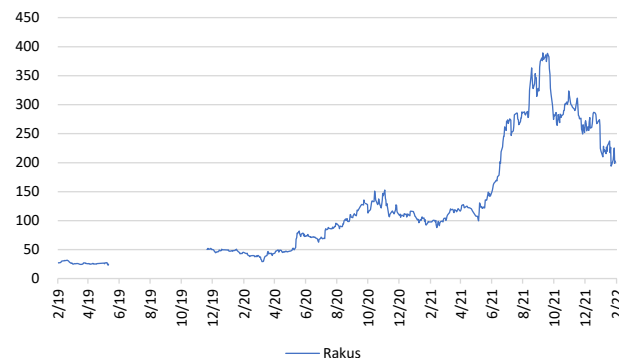
Figure: EV/Sales for SaaS companies



Source: Bloomberg Finance LP data, Mita Securities

Note: Based on Bloomberg consensus forecasts for next fiscal year

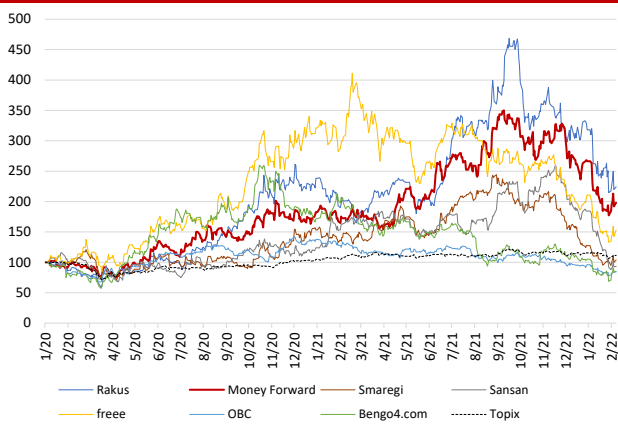
Figure: PER for SaaS companies



Source: Bloomberg Finance LP data, Mita Securities

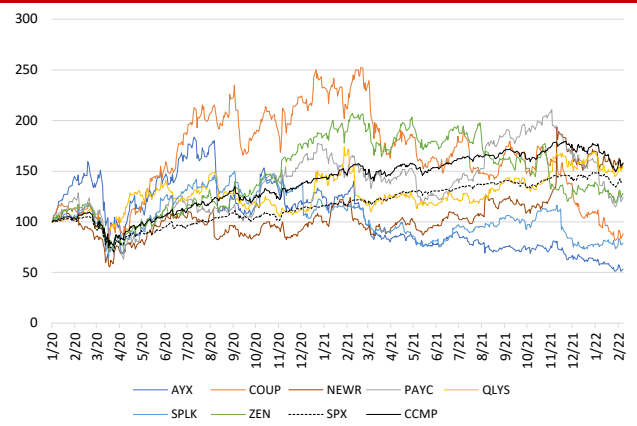
Note: Based on Bloomberg consensus forecasts for next fiscal year

Figure: Stock price trends



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

Figure: Stock price trends



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

Risk factors

Upside risks to our view include unexpectedly high sales growth, and M&A that strengthens the business franchise.

Downside risks include intensifying competition, unexpectedly weak sales growth, M&A failures, difficulties in hiring and training personnel, customer defections due to information leakage, and large-scale credit losses.

Company overview

History

Money Forward was established in May 2012 by the members led by Yosuke Tsuji (current CEO and President). In December 2012, the company released "Money Forward ME," a personal budgeting apps for consumers (Home domain), and in November 2013, it released "Money Forward Cloud Accounting/Tax Return," cloud accounting software for sole proprietors and corporations (Business domain). Since then, the company has grown to become one of Japan's leading back-office SaaS companies with a wide range of cloud software. In November 2015, the company released the "Money Forward" apps for financial institution users (X domain), and in June 2017, it released the "Money Forward Kessai" service (Finance domain).

The company was listed on the Tokyo Stock Exchange Mothers market in September 2017 and changed its market to the First Section in June 2021. The company has been in the red since its founding due to heavy upfront spending to maintain high growth. Since its listing, it has raised capital through overseas offerings and successfully deepened its ties with overseas institutional investors. From FY11/18 to FY11/21, the company posted a cumulative net loss of -7.3bn yen and a cumulative free cash flow deficit of -19.7bn yen. The total amount of funds raised through the three rounds of capital increase was 43.4bn yen (paid-in amount basis). The company expects to use the funds for sales and marketing, hiring engineers, and M&A.

An emerging software company founded in 2012. Has grown to become one of Japan's leading back-office SaaS providers with cloud accounting software at its core

Losses continued due to heavy upfront spending. Raised capital three times after listing

Figure: History

Date	Event	Domain	Note
May-12	Established Moneybook, Co., Ltd.		
Dec-12	Company name changed to Money Forward, Inc. Money Forward ME released	Home	
Nov-13	Money Forward Cloud Accounting/Tax Return released	Business	
May-14	Money Forward Cloud Invoice released	Business	
Mar-15	Money Forward Cloud Payroll released	Business	
Aug-15	Money Forward Cloud My Number released	Business	
Nov-15	Money Forward for financial institution users released	X	
Jan-16	Money Forward Expense released	Business	
Jun-17	Money Forward Kessai began providing services	Finance	
Sep-17	Listed on the Mothers section of the Tokyo Stock Exchange		
Nov-17	Acquired Klavis, Inc. as a subsidiary	Business	Purchase price 0.8bn yen
Jul-18	Acquired Knowledge Labo, Inc. as a subsidiary	Business	Purchase price 0.2bn yen
Aug-18	Money Forward Vietnam Co., Ltd. established	Business	
Dec-18	Money Forward Company Registration released Issued new shares through international offering		Proceed 7.0bn yen
Mar-19	Money Forward Cloud Attendance released	Business	
May-19	New plans for Money Forward Cloud released	Business	
Sep-19	Money Forward Synca, Inc. established		
Nov-19	Acquired Smartcamp Co., Ltd. as a subsidiary	Business	Purchase price 3.4bn yen
Feb-20	Money Forward Okane no Sodan released	Home	
Mar-20	Money Forward Cloud Accounting Plus released Issued new shares through international offering	Business	Proceed 4.8bn yen
Aug-20	Money Forward Cloud Social Insurance released	Business	
Oct-20	Acquired R&AC Co., Ltd. as a subsidiary	Business	Purchase price 1.8bn yen
Dec-20	Money Forward Cloud ERP for medium-sized corporates announced	Business	
Jan-21	Money Forward Business Registration released	Business	
Mar-21	Money Forward Cloud Payable Management released	Business	
May-21	Money Forward Fintech Platform released	X	
Jun-21	Money Forward Cloud Contract released	Business	
Jul-21	Money Forward Cloud Receivable Management and Money Forward Cloud Fixed-Assets released	Business	
Aug-21	Moved to the First Section of the Tokyo Stock Exchange		
Sep-21	Money Forward Cloud HR Database and Money Forward Cloud Tax Adjustment released	Business	
Oct-21	Money Forward IT Management Cloud released	Business	
Nov-21	BIZ Forward, Inc. established as a joint venture of Money Forward, Inc. and MUFG Bank, Ltd.	Finance	
Dec-21	Issued new shares through international offering		Proceed 31.6bn yen
Jan-22	Money Forward Pay for Business released	Business	
Feb-22	Acquired HITTO, Inc. as a subsidiary	Business	Purchase price 2.0bn yen

Source: Company data, Mita Securities

Major shareholders

The company's largest shareholder is Yosuke Tsuji, the founder and CEO, who owned just under 15% at the end of FY11/20 (note that this does not reflect the capital increase in August 2021).

Overseas institutional investors hold 45% of the shares

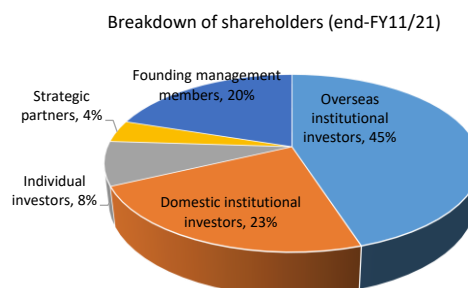
At the end of FY11/21, 45% of the company's shares were held by overseas institutional investors, far exceeding the 23% by domestic institutional investors and 8% by individual investors.

Figure: Major shareholders (end-FY11/20)

Major shareholders	Shares held (%)
Yosuke Tsuji	14.68
Goldman Sachs International	5.57
Takashi Ichikawa	4.79
Northern Trust Co. (AVFC) Re Fidelity Funds	4.76
Custody Bank of Japan (trust account)	4.19

Source: Company data, Mita Securities

Figure: Distribution of shareholders (end-FY11/21)



Source: Company data, Mita Securities

Group companies

Figure: Subsidiaries

Company name	Voting rights/ investments held (%)	Business description
Money Forward Kessai, Inc.	100.0	B2B invoicing and settlement BPO service "Money Forward Kessai"; Factoring service "Money Forward Early Payment"
Klavis, Inc.	100.0	Cloud-based automated bookkeeping service "STREAMED"
Knowledge Labo, Inc.	51.4	Cloud-based budget management platform "Manageboard"
Money Forward Vietnam Co., Ltd.	100.0	Internet service development
Money Forward Synca, Inc.	100.0	Management support services for start-up companies; Financial advisory services
Smartcamp Co., Ltd.	100.0	SaaS marketing platform "BOXIL"; Inside sales support services "BALES" and "BALES CLOUD"
Money Forward Venture Partners, Inc.	100.0	Management of "HIRAC FUND," which supports seed-stage and early-stage startups
R&AC Co., Ltd.	100.0	Cash reconciliation and receivable management system "V-ONE Cloud"
Biz Forward, Inc.	51.0	Online factoring and invoicing BPO services. JV with MUFG Bank
HiTTO Inc.	100.0	HR chatbot "HiTTO"

Source: Company data, Mita Securities

Earnings structure

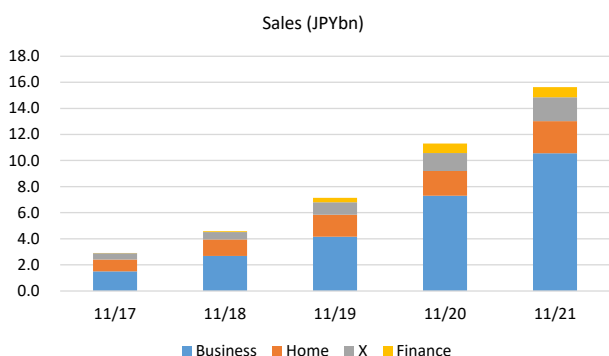
Breakdown of sales and ARR

Breakdown of sales

So far, over 80% of the company's sales have come from the Business domain (e.g., back-office SaaS) and the Home domain (e.g., personal budgeting apps), but the positions of these two domains have been changing in a significant manner. Sales in the Business domain grew 7.0 times from 1.5bn yen in FY11/17 (51.9% of total sales) to 10.6bn yen in FY11/21 (67.5%). On the other hand, sales in the Home domain grew only 2.7 times, from 0.9bn yen in FY11/17 (31.2% of total sales) to 2.5bn yen in FY11/21 (15.8%). The fast growth in the Business domain is largely due to the organic growth in recurring revenues from corporate customers and acquisition of Smartcamp.

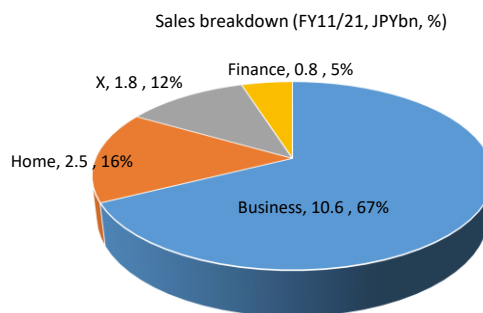
Business domain accounts for 2/3 of sales

Figure: Sales (JPYbn)



Source: Company data, Mita Securities

Figure: Breakdown of sales (FY11/21, JPYbn, %)



Source: Company data, Mita Securities

Breakdown of SaaS ARR

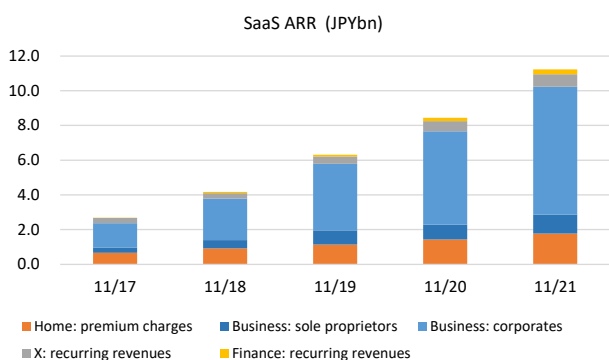
The company discloses SaaS ARR (Annual Recurring Revenue) as a key measure of recurring revenue growth (note that this is a completely different concept from "recurring profit" in financial accounting). ARR is defined as 12 times the MRR (Monthly Recurring Revenue) at the end of the period. MRR is the total recurring revenue as of the end of the month in question. ARR and its growth rate are useful indicators for understanding the direction of recurring revenue, as they reflect changes in the number of paying customers and ARPA (Average Revenue Per Account) in a timely manner.

Recurring revenue growth led by corporate customers in the Business domain

Of the SaaS ARR of 11.2bn yen at the end of FY11/21, 75.4% was in the Business domain, of which 65.7% was for corporations and 9.7% was for sole proprietors. This means that a significant portion of the company's recurring revenues come from corporate customers (SMEs) in the Business domain.

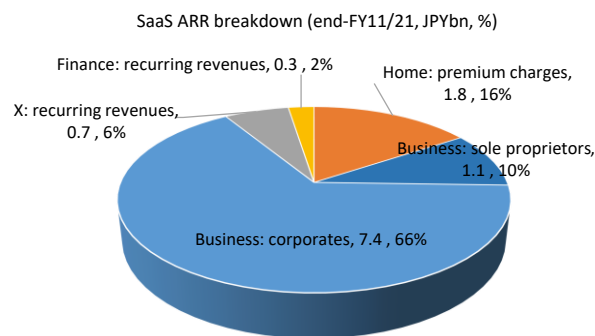
The company's SaaS ARR grew 4.2 times from FY11/17 to FY11/21. Of this growth, corporate customers in the Business domain grew by 5.3 times, sole proprietors in the Business domain grew by 3.5 times, and premium charges in the Home domain grew by 2.7 times.

Figure: SaaS ARR (JPYbn)



Source: Company data, Mita Securities

Figure: Breakdown of SaaS ARR (FY11/21, JPYbn, %)



Source: Company data, Mita Securities

Cost and profit analysis

Cost structure

Personnel and advertising expenses account for a large proportion of the company's operating expenses (COGS+SG&A). So far, personnel expense has increased roughly in line with revenue, indicating that the company is at a stage where it needs to invest in engineers and sales staff to achieve sales growth. The level of advertising expense has varied depending on the company's policy from time to time, but as with personnel expense, the company is at a stage where it needs to make aggressive spending.

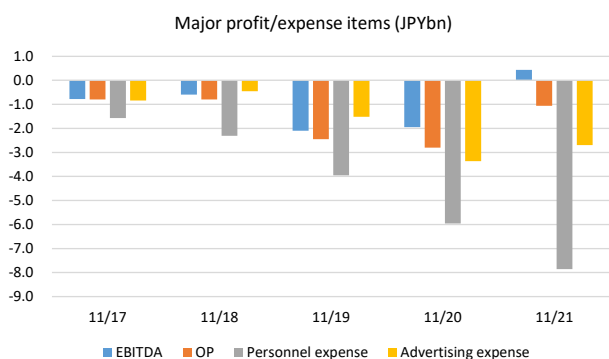
Main cost items are personnel and advertising expenses

EBITDA and OP analysis

In FY11/21, the company's EBITDA was 0.4bn yen (vs. -2.0bn yen in FY11/20), and its EBITDA margin was 2.8% (vs. -17.2% in FY11/20). OP was negative at -1.1bn yen (vs. -2.8bn yen in FY11/20) and OPM was -6.8% (vs. -24.8% in FY11/20). The company achieved profitability on an EBITDA basis and substantially reduced its operating losses. The main reason for this was a decrease in advertising expense: in FY11/21, advertising expense was 2.7bn yen (vs. 3.4bn yen in FY11/20), and the ratio of advertising expense to sales was only 17.2% (vs. 29.7% in FY11/20). The ratio of personnel expense to sales also declined slightly to 50.2% (vs. 52.6% in FY11/20).

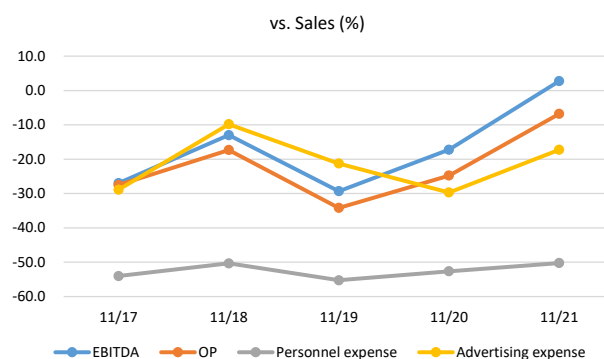
FY11/21 positive EBITDA was due to temporary control of advertising expense

Figure: Key profit and cost items (JPYbn)



Source: Company data, Mita Securities Note: Cost items are shown as negative

Figure: Profit and costs as % of sales (%)



Source: Company data, Mita Securities Note: Cost items are shown as negative

However, this is only a temporary improvement in profits, and it is too early to assume that EBITDA has turned into a positive trend. The company had publicly stated that it would aim to turn EBITDA into the black in FY11/21, and as such it was necessary for the company to prove the commitment even if the profit was temporary. Going forward, the company should need to strengthen its sales force and invest heavily in advertising in order to acquire new medium-sized corporate customers and promote up-selling and cross-selling. In fact, the company has been hiring on an unprecedented scale from 4Q FY11/21 to 1Q FY11/22. In addition, the company plans to spend 1.7 to 1.9bn yen on advertising in 1Q alone (equivalent to 2/3 of full-year FY11/21 advertising expense). The company's 1Q guidance assumes a significant loss, with EBITDA of -2.4 to -1.9bn yen and OP of -2.9 to -2.4bn yen. While the company has not disclosed its full-year profit targets, we believe that it is likely that the company will focus on sales growth rather than profit generation, and that EBITDA will fall into the red again.

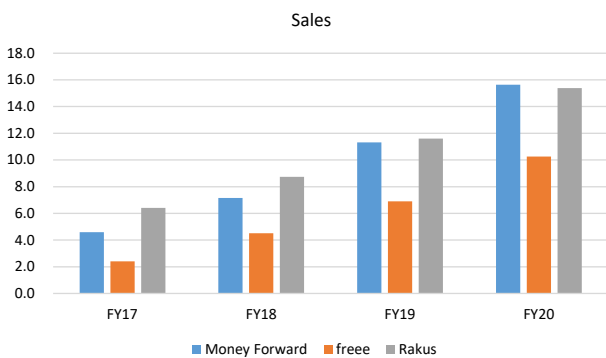
The company is strengthening its workforce and aggressively promoting advertising. EBITDA is likely to fall into the red again

Competitive pressure

The company's competitors in the back-office SaaS market, such as freee and Rakus, are also focusing on sales growth and investing aggressively. Although freee focuses its resources on businesses that correspond to Money Forward's Business domain, its advertising expense has been on par with Money Forward's overall advertising expense. Rakus, which leads the competition in the field of cloud-based expense management software for medium-sized companies, has shifted to a policy of aggressive promotion from FY3/22, placing the highest priority on sales growth. Rakus plans to spend 4.4bn yen on advertising in FY3/22 (vs. 1.1bn yen in FY3/21). In our view, advertising by back-office SaaS companies, including Money Forward, will become increasingly heated going forward.

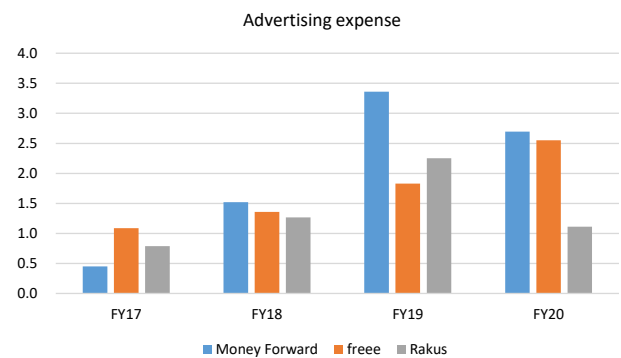
Competitors' behavior should also affect the profit structure of Money Forward

Figure: Comparison of sales (JPYbn)



Source: Companies' data, Mita Securities

Figure: Comparison of advertising expense (JPYbn)



Source: Companies' data, Mita Securities

Business overview

Business domain

Products and services

The core business in the Business domain is "Money Forward Cloud," a cloud service for back offices, which offers a wide range of products covering the areas of accounting and finance, human resources and labor affairs, legal affairs, and information systems. Data can be seamlessly linked between modules, and data from third-party services (bank accounts, credit cards, POS cash registers, etc.) can be automatically imported. In addition, the company operates a SaaS marketing support business through Smartcamp, which became a subsidiary in November 2019, and which is also included in the Business domain.

Operates back-office cloud software "Money Forward Cloud" series in a wide range of areas

FY11/21 sales in the Business domain were 10.6bn yen (+44.6% YoY). This includes 6.5bn yen in recurring revenue from corporations (+41.4% YoY), 1.0bn yen in recurring revenue from sole proprietors (+23.8% YoY), 1.0bn yen in flow revenue (+70.7% YoY), and 2.0bn yen in Smartcamp sales (+57.5% YoY).

Customers, distribution channels, unit prices

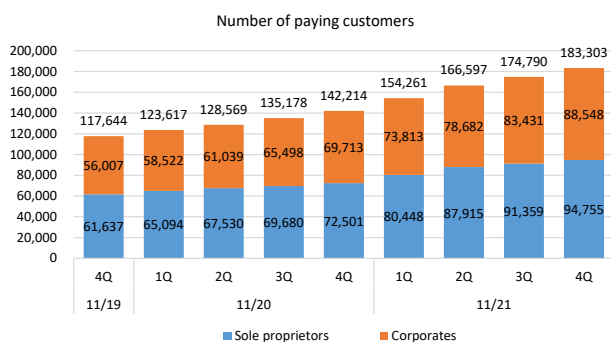
The company's main customer segments are sole proprietors, small businesses, and medium-sized companies (including companies preparing for IPO and listed companies). Its distribution channels are as follows: 1) Web sales (to sole proprietors and small businesses), 2) sales by sales staff to accounting offices (for accounting office customers), and 3) direct sales by sales staff to medium-sized companies. Recently, the company has been focusing on acquiring medium-sized corporate customers and has been aggressively strengthening its sales force.

Strong customer base in sole proprietors and SMEs. Focusing on acquiring medium-sized corporate customers

The company charges a monthly or annual fee to the customers. Basically, it is a subscription-based business model where recurring revenue builds up if new customers outnumber cancellations. As of the end of FY11/21, the number of paying customers was 183,303 (+28.9% YoY), of which 94,755 were sole proprietors (+30.7% YoY) and 88,548 were corporations (+27.0% YoY). ARPA (Average Revenue Per Account) for all customers was 46,187 yen (+5.3% YoY). The breakdown is as follows: 11,523 yen for sole proprietors (-2.5% YoY) and 83,281 yen for corporations (+7.9% YoY).

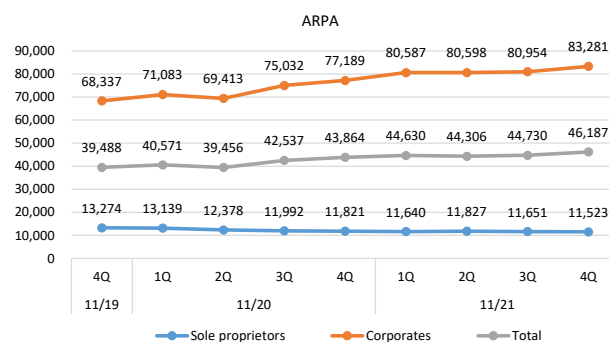
Subscription-based business model. KPIs are number of paying customers, ARPA, and churn rate

Figure: Number of paying customers



Source: Company data, Mita Securities

Figure: ARPA (JPY)



Source: Company data, Mita Securities

The customer churn rate has averaged 1.5% (monthly rate) for the past 12 months, which is around 18% per year in simple calculation. In order to grow the number of paying customers at an annual rate of 30%, the company would need to acquire new customers equivalent to just under 50% of the total number of paying customers. This is the main reason why the company needs to continue the high level of advertising spending.

TAM for back-office SaaS

The total addressable market (TAM) for back-office SaaS in Japan (the sum of sole proprietors, small businesses, and medium-sized companies) is about 6.37m businesses, with annual spending of about 1.45trn yen (Money Forward estimate). The company's share of this market (at the end of FY11/21) was only 2.9% based on the number of paying customers and 0.6% based on ARR, leaving extremely large room for growth.

TAM is 1.45trn yen. Extremely large room for growth

Competition

We believe that the direct competitor to the company is freee. The two companies have a similar product mix, mainly in the cloud back-office software space, and a strong customer base among sole proprietors and small businesses. The latest ARR for freee (at the end of 1Q FY6/22) was 12.1bn yen, which was higher than the latest ARR (at the end of FY11/21) of 8.5bn yen for Money Forward's Business domain (corporations and sole proprietors).

Direct competitor is freee. Rakus is also a competitor for medium-sized companies. Need to keep a close eye on Yayoi, which will be owned by KKR

Rakus' "Raku Raku Seisan" has a large market share in the cloud-based expense management software market for medium-sized companies, well ahead of Money Forward, with FY3/21 cloud business sales of 12.3bn yen, of which "Raku Raku Seisan" accounted for 5.6bn yen. Rakus has set a high sales growth target of 25 to 30% (CAGR) in its mid-term plan ending in FY3/26 and has been strengthening hiring and advertising aggressively.

Another competitor with strengths in sole proprietors and small businesses is Yayoi. Yayoi originally specialized in on-premise accounting software, but in recent years it has been focusing on cloud accounting software as well. In FY9/21, Yayoi posted sales of 21.2bn yen, higher than Money Forward and freee, but the sales growth rate was only 5%. Its parent company Orix agreed to sell its stake in Yayoi to KKR in March 2022. We have the impression that Yayoi has not been able to focus on growth strategies under ORIX, but under KKR's umbrella, Yayoi is likely to pursue a high-growth strategy in the cloud software market.

Home domain

The core business in the Home domain is "Money Forward ME," a personal budgeting app that links data with over 2,590 financial services (bank accounts, credit cards, electric money accounts, etc.) to automatically create a household account. The number of users is over 12m, and the number of paying users is over 360,000. Its basic functions are available for free, and paid services are available for 500 yen (Android) / 480 yen (iOS) per month.

"Money Forward ME," a personal budgeting app for consumers

Of the FY11/21 Home domain sales of 2.5bn yen (+30.1% YoY), premium charges for "Money Forward ME" accounted for 1.7bn yen (+25.5% YoY). Other revenue included media and advertising revenue of 0.6bn yen and finance-related service revenue of 0.2bn yen. Media and advertising revenue has been sluggish, due in part to the inability to hold live events due to the COVID-19 pandemic.

X domain

The core business for the X domain is apps and web development for financial institutions. The company provides personal budgeting apps for individuals (e.g., Money Forward for Shizuoka Bank), bankbook apps, etc. to a number of affiliated financial institutions, which are promoting Fintech services and digital transformation of their operations.

Of the FY11/21 X-domain sales of 1.8bn yen (+33.4% YoY), recurring revenue was 0.7bn yen (+27.4% YoY) and flow revenue was 1.2bn yen (+36.8% YoY). Recurring revenue is monthly fee-based revenue related to the maintenance and operation of apps. Flow revenue is one-time revenue related to software development and promotion support.

Finance domain

The core services in the Finance domain are "Money Forward Kessai," a B2B invoicing and settlement BPO service, and "Money Forward Early Payment," an online factoring (accounts receivable financing) service.

In FY11/21, sales in the Finance domain were 0.8bn yen (+3.5% YoY). Of this amount, recurring revenue was 0.2bn yen and flow revenue was 0.5bn yen. Recurring revenue corresponds to "Kessai," and flow revenue corresponds to "Early Payment." Sales growth in the Finance domain has been sluggish, due to tightening of credit control in response to multiple cases of credit losses.

In August 2021, the company established Biz Forward, a joint venture with MUFG Bank (51% owned by Money Forward, 49% by MUFG Bank), and launched an invoicing BPO service in November and an online-factoring services for small businesses in December. Biz Forward's target customers are corporate customers of MUFG Bank.

Fintech promotion and DX support business for financial institutions

Invoicing and settlement BPO services and online factoring services for small businesses. Started a JV with MUFG Bank as well

Mita Securities' earnings forecast

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

Various indicators	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5yr CAGR (%)
	11/18	11/19	11/20	11/21	11/22	11/23	11/24	11/25	11/26	
	Cons	Cons	Cons	Cons	Cons	Cons	Cons	Cons	Cons	
Sales growth (%)	58.5	55.8	58.1	38.1	32.1	27.7	28.6	25.5	26.3	
OP growth (ex-advertising expense, %)	NA	NA	NA	193.4	NA	NA	153.1	91.0	66.2	
OP growth (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	
RP growth (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	
NP growth (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Gross profit margin (%)	60.6	60.4	67.3	69.2	65.4	67.0	68.0	69.0	70.0	
SGA/Sales (%)	77.9	94.6	92.1	76.0	94.5	81.9	76.4	70.7	65.8	
SGA/Sales (ex-advertising expense, %)	68.1	73.4	62.4	58.8	71.3	63.4	60.9	58.2	55.8	
Advertising expense/Sales (%)	9.8	21.2	29.7	17.2	23.3	18.5	15.5	12.5	10.0	
OP margin (ex-advertising expense, %)	-7.5	-12.9	4.9	10.5	-5.9	3.6	7.1	10.8	14.2	
OP margin (%)	-17.3	-34.2	-24.8	-6.8	-29.1	-14.9	-8.4	-1.7	4.2	
EBITDA margin (ex-advertising expense, %)	-3.2	-8.1	12.5	20.0	3.5	12.2	15.0	18.2	21.2	
EBITDA margin (%)	-13.0	-29.3	-17.2	2.8	-19.8	-6.3	-0.5	5.7	11.2	
ROA (%)	-10.2	-20.6	-12.7	-3.8	-11.1	-7.6	-5.7	-1.7	3.4	
ROE (%)	-22.6	-46.3	-27.7	-5.9	-16.6	-12.8	-10.6	-3.4	7.6	

Source: Company data, Mita Securities

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

P/L	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5yr CAGR (%)
	11/18	11/19	11/20	11/21	11/22	11/23	11/24	11/25	11/26	
	Cons	Cons	Cons	Cons	Cons	Cons	Cons	Cons	Cons	
JPYm										
Sales	4,595	7,157	11,318	15,633	20,648	26,369	33,923	42,574	53,791	28.0
COGS	1,812	2,833	3,701	4,814	7,144	8,702	10,855	13,198	16,137	27.4
Gross profit	2,783	4,324	7,617	10,819	13,504	17,667	23,068	29,376	37,653	28.3
SG&A	3,579	6,770	10,422	11,881	19,522	21,593	25,914	30,091	35,377	24.4
Advertising expense	451	1,521	3,362	2,696	4,807	4,878	5,258	5,322	5,379	14.8
Other	3,128	5,250	7,060	9,185	14,715	16,714	20,656	24,769	29,998	
Operating profit (ex-advertising expense)	-345	-925	557	1,634	-1,211	953	2,412	4,607	7,655	36.2
Operating profit	-796	-2,446	-2,805	-1,062	-6,019	-3,925	-2,846	-715	2,276	NA
Non-operating income	0	3	338	26	0	0	0	0	0	
Non-operating expense	28	124	72	397	86	93	99	105	111	
Recurring profit	-824	-2,567	-2,539	-1,433	-6,104	-4,018	-2,945	-820	2,165	NA
Extraordinary gains	4	2	102	2	0	0	0	0	0	
Extraordinary losses	0	74	18	0	0	0	0	0	0	
Pre-tax profit	-821	-2,639	-2,455	-1,430	-6,104	-4,018	-2,945	-820	2,165	NA
Corporate taxes	13	-19	24	152	200	200	200	200	200	
Minority interests	-18	-49	-55	-100	-100	-100	-100	-100	-100	
Net profit	-815	-2,572	-2,423	-1,482	-6,204	-4,118	-3,045	-920	2,065	NA
Shares outstanding (m)	19.3	22.2	23.8	53.3	53.3	53.3	53.3	53.3	53.3	
EPS (JPY)	-42.19	-116.05	-101.64	-27.79	-116.30	-77.20	-57.08	-17.24	38.71	NA
BPS (JPY)	167.00	355.12	403.41	759.04	642.74	565.53	508.45	491.21	529.92	-6.9
DPS (JPY)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA
EPS (adjusted for stock split, JPY)	-21.09	-58.02	-50.82	-27.79	-116.30	-77.20	-57.08	-17.24	38.71	NA
BPS (adjusted for stock split, JPY)	83.50	177.56	201.71	759.04	642.74	565.53	508.45	491.21	529.92	-6.9
DPS (adjusted for stock split, JPY)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA
Payout ratio (%)	NA	NA	NA	NA	NA	NA	NA	NA	0.0	
EBITDA (ex-advertising expense)	-145	-577	1,411	3,126	720	3,221	5,099	7,762	11,409	29.6
EBITDA	-596	-2,098	-1,951	430	-4,087	-1,658	-159	2,441	6,030	69.6

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (breakdown of sales, JPym)

Breakdown of sales	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5yr CAGR
	11/18	11/19	11/20	11/21	11/22	11/23	11/24	11/25	11/26	(%)
JPym										
Business domain										
Sales	2,681	4,166	7,300	10,559	14,756	19,727	26,597	34,475	44,851	33.5
YoY (%)	78.3	55.4	75.2	44.6	39.7	33.7	34.8	29.6	30.1	
Recurring revenue (sole proprietors)	394	660	825	1,021	1,253	1,547	1,912	2,218	2,573	20.3
YoY (%)	52.1	67.5	25.0	23.8	22.7	23.5	23.6	16.0	16.0	
Recurring revenue (corporates)	2,040	3,208	4,609	6,519	9,742	13,800	19,664	26,606	35,998	40.7
YoY (%)	85.8	57.3	43.7	41.4	49.4	41.7	42.5	35.3	35.3	
Smartcamp sales	NA	NA	1,251	1,970	2,711	3,280	3,871	4,451	5,030	20.6
YoY (%)	NA	NA	NA	57.5	37.6	21.0	18.0	15.0	13.0	
Non-recurring revenue	245	299	614	1,048	1,050	1,100	1,150	1,200	1,250	3.6
YoY (%)	66.7	22.0	105.4	70.7	0.2	4.8	4.5	4.3	4.2	
Number of paying customers	NA	117,644	142,214	183,303	230,836	287,282	351,781	420,390	502,812	22.4
YoY (%)	NA	NA	20.9	28.9	25.9	24.5	22.5	19.5	19.6	
Sole proprietors	NA	61,637	72,501	94,755	119,046	146,426	175,712	203,825	236,438	20.1
YoY (%)	NA	NA	17.6	30.7	25.6	23.0	20.0	16.0	16.0	
Corporates	NA	56,007	69,713	88,548	111,790	140,855	176,069	216,565	266,375	24.6
YoY (%)	NA	NA	24.5	27.0	26.2	26.0	25.0	23.0	23.0	
ARPA	NA	39,488	43,864	46,187	54,123	60,522	69,542	77,795	87,092	13.5
YoY (%)	NA	NA	11.1	5.3	17.2	11.8	14.9	11.9	12.0	
Sole proprietors	NA	13,274	11,821	11,523	11,305	11,305	11,645	11,645	11,645	0.2
YoY (%)	NA	NA	-10.9	-2.5	-1.9	0.0	3.0	0.0	0.0	
Corporates	NA	68,337	77,189	83,281	99,720	111,686	127,322	140,054	154,060	13.1
YoY (%)	NA	NA	13.0	7.9	19.7	12.0	14.0	10.0	10.0	
Home domain										
Sales	1,266	1,671	1,894	2,465	2,836	3,254	3,552	3,849	4,147	11.0
YoY (%)	39.7	32.0	13.3	30.1	15.1	14.8	9.1	8.4	7.7	
Premium charges sales	811	1,068	1,345	1,688	2,016	2,404	2,682	2,959	3,237	13.9
YoY (%)	51.9	31.7	25.9	25.5	19.4	19.3	11.5	10.3	9.4	
Other revenue	455	604	550	776	820	850	870	890	910	3.2
YoY (%)	22.6	32.7	-8.9	41.1	5.7	3.7	2.4	2.3	2.2	
X domain										
Sales	573	968	1,373	1,831	2,106	2,388	2,724	3,120	3,593	14.4
YoY (%)	19.1	68.9	41.8	33.4	15.0	13.4	14.1	14.5	15.2	
Recurring revenue	324	383	529	674	856	1,113	1,424	1,795	2,243	27.2
YoY (%)	35.6	18.2	38.1	27.4	27.0	30.0	28.0	26.0	25.0	
Non-recurring revenue	250	585	844	1,155	1,250	1,275	1,300	1,325	1,350	3.2
YoY (%)	2.0	134.0	44.3	36.8	8.2	2.0	2.0	1.9	1.9	
Finance domain										
Sales	63	339	743	769	950	1,000	1,050	1,130	1,200	9.3
YoY (%)	3,050.0	438.1	119.2	3.5	23.5	5.3	5.0	7.6	6.2	

Source: Company data, Mita Securities

Figure: Mita Securities' earnings forecast (breakdown of SaaS ARR, JPYm)

Breakdown of SaaS ARR	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5yr CAGR
	11/18	11/19	11/20	11/21	11/22	11/23	11/24	11/25	11/26	(%)
JPYm										
SaaS ARR										
Home: premium charges	920	1,139	1,428	1,769	2,167	2,621	2,923	3,226	3,528	14.8
Business: sole proprietors	472	818	857	1,092	1,346	1,655	2,046	2,373	2,753	20.3
Business: corporates	2,383	3,827	5,381	7,374	11,148	15,732	22,417	30,331	41,038	41.0
X: recurring revenues	319	435	587	710	951	1,235	1,581	1,992	2,490	28.5
Finance: recurring revenues	71	99	186	283	392	504	616	706	784	22.6
Total	4,164	6,319	8,439	11,227	16,004	21,243	28,968	37,922	49,809	34.7
SaaS ARR growth (YoY, %)										
Home: premium charges	39.6	23.8	25.4	23.9	22.5	20.9	11.5	10.3	9.4	
Business: sole proprietors	50.3	73.3	4.8	27.4	23.2	23.0	23.6	16.0	16.0	
Business: corporates	70.8	60.6	40.6	37.0	51.2	41.1	42.5	35.3	35.3	
X: recurring revenues	6.3	36.4	34.9	21.0	33.9	29.9	28.0	26.0	25.0	
Finance: recurring revenues	610.0	39.4	87.9	52.2	38.5	28.6	22.2	14.5	11.1	
Total	55.5	51.8	33.5	33.0	42.5	32.7	36.4	30.9	31.3	

Source: Company data, Mita Securities

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

B/S	A	A	A	A	Mita E	Mita E	Mita E	Mita E	Mita E	5yr CAGR
	11/18	11/19	11/20	11/21	11/22	11/23	11/24	11/25	11/26	(%)
JPYm										
Total current assets	6,213	10,868	13,460	44,026	37,709	33,640	30,279	28,620	29,144	-7.9
Cash and deposits	4,952	7,193	8,920	36,221	27,638	20,607	13,667	7,693	2,758	
Accounts receivable	591	891	1,228	1,516	1,765	2,426	2,965	3,800	4,747	
Inventories	9	7	83	22	29	37	47	59	75	
Other	662	2,778	3,229	6,267	8,278	10,571	13,600	17,068	21,565	
Total fixed assets	2,447	5,445	8,251	12,917	17,192	19,950	23,799	28,302	34,332	21.6
Tangible fixed assets	289	387	478	537	600	650	700	750	800	
Intangible fixed assets	904	2,640	4,564	6,105	8,305	8,716	9,484	10,464	11,943	
Investments and other	1,254	2,418	3,209	6,274	8,287	10,583	13,615	17,087	21,589	
Total assets	8,660	16,313	21,712	56,943	54,902	53,590	54,078	56,922	63,477	2.2
Total current liabilities	2,849	5,395	8,240	12,276	15,702	18,098	21,222	24,575	28,655	18.5
Accounts payable	190	185	175	212	314	383	478	581	710	
Short-term debt	1,065	2,621	3,478	6,413	7,000	7,500	8,000	8,500	9,000	
Other current liabilities	1,594	2,589	4,587	5,651	8,387	10,216	12,744	15,494	18,944	
Total long-term liabilities	2,428	2,888	3,234	2,333	3,170	3,680	4,190	4,700	5,210	17.4
Long-term debt	2,425	2,810	3,068	2,141	3,000	3,500	4,000	4,500	5,000	
Other long-term liabilities	3	79	166	192	170	180	190	200	210	
Total liabilities	5,277	8,283	11,474	14,610	18,872	21,778	25,412	29,275	33,865	18.3
Net assets	3,383	8,030	10,238	42,333	36,030	31,812	28,667	27,647	29,612	-6.9
Shareholders' equity	3,228	7,871	9,618	40,492	34,287	30,169	27,124	26,204	28,269	-6.9
Minorities	95	105	573	1,803	1,703	1,603	1,503	1,403	1,303	
Warrants	60	55	47	39	40	40	40	40	40	
Debt	3,490	5,430	6,546	8,554	10,000	11,000	12,000	13,000	14,000	10.4
Shareholders' equity ratio (%)	37.3	48.2	44.3	71.1	62.5	56.3	50.2	46.0	44.5	
Debt/Equity (x)	1.1	0.7	0.7	0.2	0.3	0.4	0.4	0.5	0.5	

Source: Company data, Mita Securities

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

CF	A		A		Mita E		Mita E		Mita E		5yr CAGR (%)
	11/18	11/19	11/20	11/21	11/22	11/23	11/24	11/25	11/26		
JPYm	Cons	Cons	Cons	Cons	Cons	Cons	Cons	Cons	Cons		
Cashflow from operations	-795	-3,605	-1,120	-2,328	-4,320	-3,707	-2,331	-504	2,326		
Net profit	-815	-2,572	-2,423	-1,482	-6,204	-4,118	-3,045	-920	2,065		
Depreciation and amortization	142	177	491	868	1,312	1,477	1,669	1,878	2,141		
Depreciation	52	67	121	395	638	777	969	1,178	1,441		
Amortization of goodwill	91	110	370	473	674	700	700	700	700		
Other	-122	-1,210	813	-1,713	572	-1,065	-955	-1,462	-1,880		
Cashflow from investing	-1,288	-2,784	-2,606	-5,199	-5,400	-3,738	-4,786	-5,208	-5,969		
Capital expenditure (net)	-375	-131	-1,166	-2,334	-2,900	-1,238	-1,786	-2,208	-2,969		
Capital expenditure	-375	-131	-1,166	-2,334	-2,900	-1,238	-1,786	-2,208	-2,969		
Disposal of fixed assets	0	0	0	0	0	0	0	0	0		
Other investment inflows / (outflows)	-913	-2,653	-1,440	-2,865	-2,500	-2,500	-3,000	-3,000	-3,000		
Cashflow from financing	1,306	8,638	5,257	34,798	1,446	1,000	1,000	1,000	1,000		
Dividends paid	0	0	0	0	0	0	0	0	0		
Share capital issuance / (buy-back)	98	6,797	4,978	31,444	0	0	0	0	0		
Debt issuance / (repayment)	1,194	1,845	1,099	2,030	1,446	1,000	1,000	1,000	1,000		
Other financing inflows / (outflows)	13	-4	-821	1,324	0	0	0	0	0		
Cash and cash equivalents	4,952	7,193	8,720	36,021	27,746	21,301	15,183	10,471	7,827		
Free CF	-2,083	-6,389	-3,726	-7,527	-9,721	-7,445	-7,118	-5,712	-3,643		

Source: Company data, Mita Securities

APPENDIX

[Analyst Certification]

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

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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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