

Gunosy

FY2020/5 Financial Results for Q3



Gunosy Inc.

First Section of The Tokyo Stock Exchange
(Stock Code: 6047)

April 14, 2020

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1

Financial Results for FY2020/5 Q3

Summary of FY2020/5 Q3

Net sales: 3.7 billion yen (101.8% YoY) **Operating profit: 340 million yen** (103.5% YoY)

- Gunosy Ads: While unchanged YoY, **Gunosy has achieved a 7.4% sales increase YoY.**
- ADNW: Despite a QoQ sales decline due to topical factors in the previous , YoY sales growth was achieved.
- Game8: Quarterly net sales marked **a record high** and operating profit **reached the highest level.**

Earnings forecast for the current period

Effects of the new coronavirus and the renewal of advertising guidelines

- Based on the above, **a downward revision was made to the full year forecast of net sales.** (Consolidated forecast revised from 17.05 billion yen to 14 billion yen)
- **As to operating profit and all other profit items, the previous consolidated forecast remains unchanged** as they are expected to be achieved through thorough cost reductions including advertising expenses.

Measures for dealing with the business environment

Judging from the uncertainties of the latest business environment, it is determined to be necessary to **review FY2021/5 targets.** We developed plans to cope with the uncertain business environment, including **expansion of the number of advertisers, acquisition of revenue sources other than media and advertising businesses,** strengthening of profitability by **thorough cost reduction** and **enhancement of financial base,** etc.

FY2020/5 Q3 Consolidated Results

Gunosy

- Achieved YoY **growth of net sales and operating profit** on a quarterly basis, despite increased uncertainties in the business environment.
- Net sales of Gunosy** focused on recovery of ad unit price **increased by 7.4%** YoY.

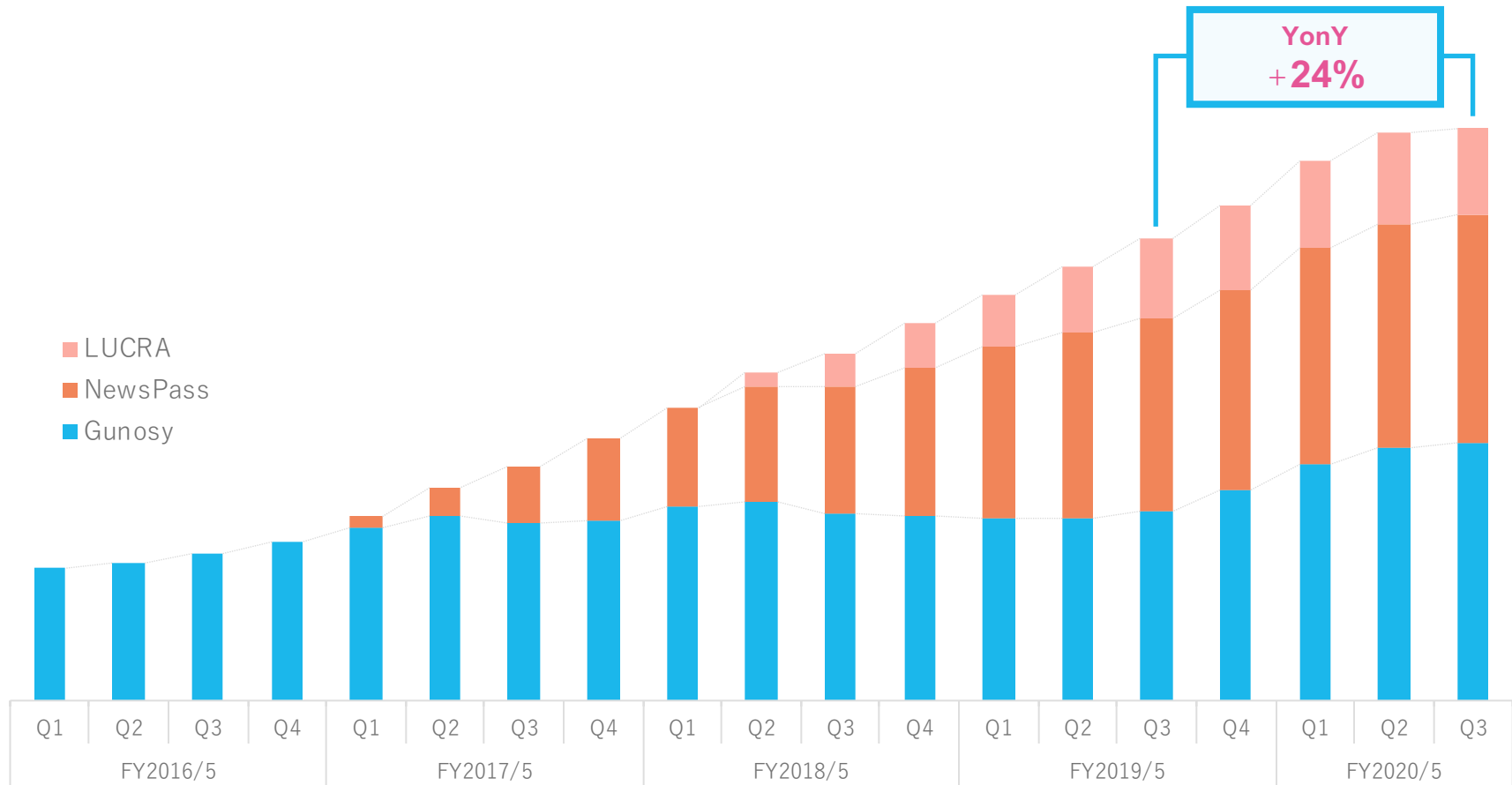
(Million yen)

	Q3			Total Q1-Q3		
	FY2019/5 Q3	FY2020/5 Q3	YoY	FY2019/5 Q1-Q3	FY2020/5 Q1-Q3	YoY
Net sales	3,640	3,705	101.8%	11,182	11,291	101.0%
Operating profit	331	343	103.5%	1,856	500	27.0%
Operating margin	9.1%	9.3%	-	16.6%	4.4%	-
Ordinary profit	322	352	109.3%	1,843	484	26.3%
Profit attributable to owners of parent	200	91 [*]	45.8%	1,717	219 [*]	12.8%

* The excess earning power that was estimated when acquiring the shares of digwell Co., Ltd. (formerly Kumar Co., Ltd.), a consolidated subsidiary, is no longer expected. Accordingly, an unamortized goodwill balance of 125 million yen and related intangible assets of 2 million yen were recorded as impairment loss in the current quarter.

Total Number of Active Users ^{*1}

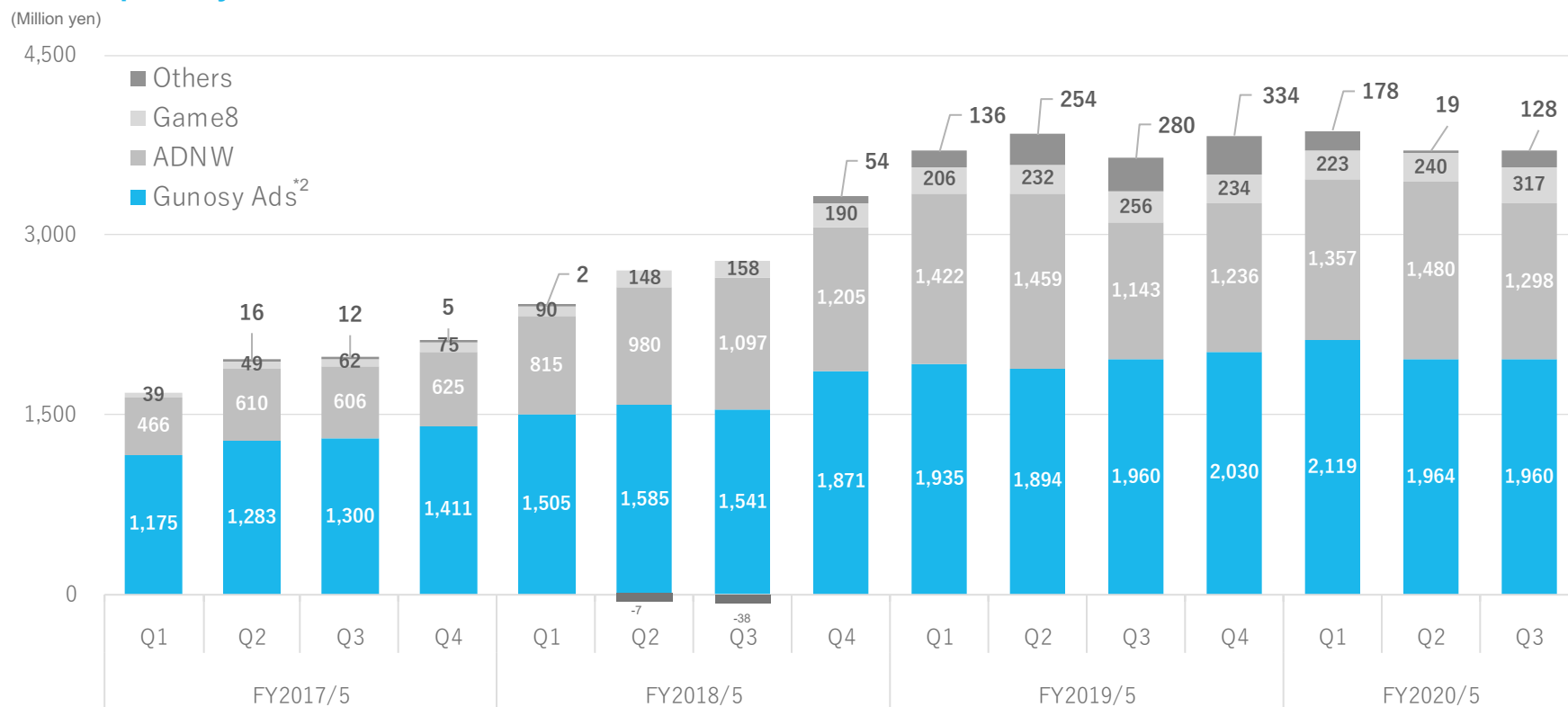
- Total MAU in the current quarter **increased by 24%** YoY
- It marked only a slight increase QonQ due to **control of investment** in advertising in Q3.



*1 Average for each quarter of MAUs (monthly active users) of Gunosy, NewsPass and LUCRA.

Breakdown of Net Sales ^{*1}

- Gunosy Ads net sales are unchanged YoY. (While Gunosy net sales marked strong growth QonQ due to an increase in the number of advertisers, there are issues regarding the growth in the number of advertisers in NewsPass and LUCRA.)
- ADNW net sales increased YoY. Net sales decreased QonQ as topical factors which supported business in Q2 settled down.
- As the PV of the game walkthrough Wiki remained strong after the release of big game titles, **Game8 achieved the highest ever quarterly net sales.**

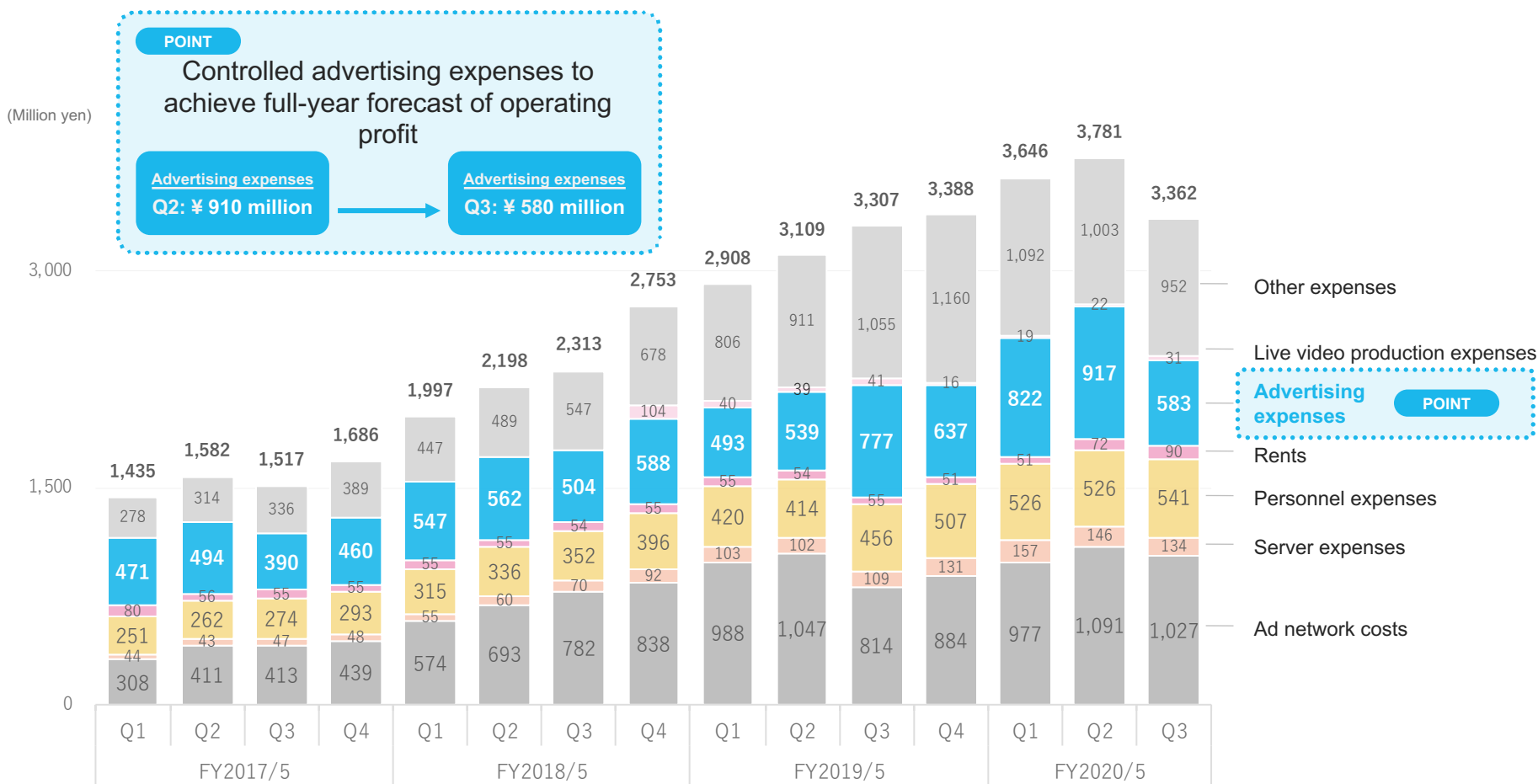


*1 Net sales of Gunosy Ads, ADNW and Game8 are presented on a non-consolidated basis. Internal trade adjustments are included in Others.

* 2 Net sales of Gunosy Ads are the total of "Gunosy", "NewsPass" and "LUCRA".

Cost Structure

We controlled advertising expenses in Q3 to achieve full-year forecast of operating profit. Further reduction of redundant costs is under way to improve profitability in light of the latest business environment, including improvement of server costs.



2

FY2020/5 Outlook

FY2020/5 Financial Forecast (Consolidated)

Gunosy

- We anticipate a negative impact on short-term net sales due to a decline in the number of advertisers, which was caused by the deterioration of the current market conditions due to the impact of the new coronavirus, the renewal of advertising guidelines and the enhancement of the examination system. **However, as we have implemented thorough cost reductions (including advertising expenses), the target of the full-year forecast of operating profit is left unchanged.**
- On the other hand, the impact of the new coronavirus is changing day by day and we will disclose it promptly when it becomes necessary to further revise our earnings forecast.

(Million yen)

	FY2020/5 Q3	FY2020/5 full-year forecast (consolidated)			
		FY2020/5 Initial full-year financial forecast	Increase / Decrease	FY2020/5 Revised financial forecast	Increase/ decrease rate
Net sales	11,291	17,054	-3,054	14,000	-17.9%
Operating profit	500	1,000	-	1,000	-
Operating margin	4.4%	5.9%	-	7.1%	-
Ordinary profit	484	960	-	960	-
Profit attributable to owners of parent	219	565	-	565	-

FY2020/5 Financial Forecast (Non-consolidated)

Gunosy

- As in the revision of the consolidated forecast, **a downward revision was made to the non-consolidated forecast of net sales.**
- Ordinary profit is expected to exceed initial expectations as significant cost reductions are planned in Q4 including advertising expenses, outsourcing expenses, etc. Profit forecast is unchanged from the initial value, given the fact that the evaluations of the investment securities as of the end of the current fiscal year have not been determined.
- As in the consolidated forecast, the impact of the new coronavirus is changing day by day and we will disclose it promptly when it becomes necessary to further revise our earnings forecast.

(Million yen)

	FY2020/5 Q3	FY2020/5 full-year forecast (non-consolidated)			
		FY2020/5 Initial full-year financial forecast	Increase / Decrease	FY2020/5 Revised financial forecast	Increase/ decrease rate
Net sales	10,245	14,314	-1,814	12,500 Revised	-12.7%
Ordinary profit	446	632	187	820	29.6%
Profit	347	436	-	436	-

Renewal of advertising guidelines

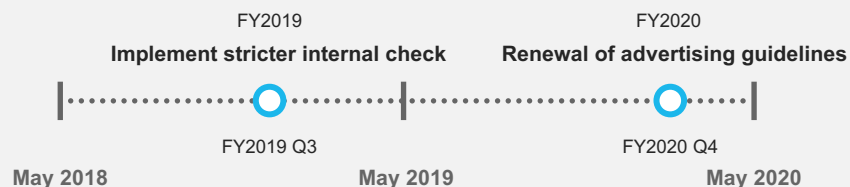
Implemented **renewal of advertising guidelines** (announced on April 10, 2020) and **enhancement of the check system** to **sustain growth over the medium to long term**

Measures for new coronavirus

Reduction of infection risk for employees, customers and partners and implementation of measures with the **highest priority on ensuring safety**

Background of measures

- Building a healthier media and ad network to **eradicate false advertising**
- **Improving the transparency and reliability** of Internet advertising
- Although short-term sales impact is unavoidable, **we aim for medium- to long-term growth** by expanding the number of advertisers who place advertisements in highly reliable media.



Measures taken

- **Issued a notice to essentially work from home from March 26, 2020 (remote work)**
→ At the same time, strengthened the productivity monitoring system. Built a system that allows business to continue without significant difficulties even if the current situation is prolonged
- Require all employees who come to work to disinfect with alcohol, check their physical condition and their temperature before coming to work, etc.
- Basically prohibit domestic and international business trips and travel
- Promoting the use of Web conferencing and teleconferencing

Taking the uncertainties of the business environment into account, we **started to strengthen profitability and financial base.**

Strengthen profitability

Thorough **cost reduction**

Strengthen cost reductions in the short term to achieve the target of the full-year operating profit. In FY2020/5 Q4, we expect a significant reduction in advertising expenses and outsourcing expenses. From a medium- to long-term perspective, we will promote reduction and reallocation of all cost items company-wide.

Strengthen financial base

Discussions underway to set commitment lines with major banks

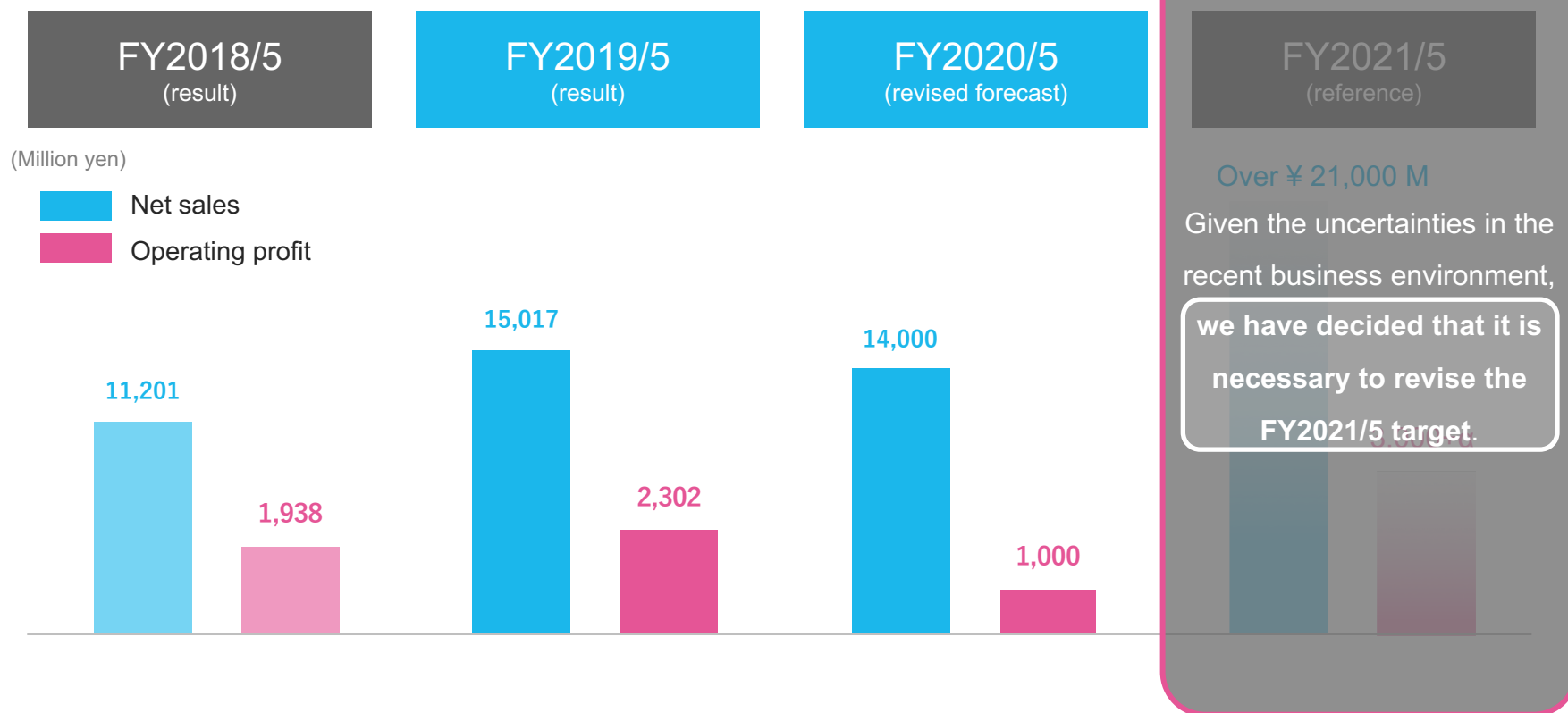
To prepare for unexpected deterioration of business environment and prolongation thereof, we plan to secure ordinary working capital for two years or longer in our group in addition to cash on hand and deposits.

3

Policy for FY2021/5

FY2021/5 Results

Concerning next fiscal year, we have **decided that it is necessary to revise the targets of “consolidated net sales over 21 billion yen” and “consolidated operating profit over 3 billion yen”** given the uncertainties in the recent business environment. As soon as we have finalized the revised business plan, we will make another disclosure.



Measures to Take

Although we are currently in the process of closely examining the business environment and have not yet established specific performance targets, **at this moment we expect to exceed the FY2020 / 5 full-year forecast on an operating profit basis** through thorough cost reduction and flexible control of advertising expenses.

Measure 1

Net sales

- **Increase the number of advertisers**
- **Develop revenue sources other than media and advertising**

Measure 2

Increase profitability

- **Cost reduction** through review of all cost items (eg: Communication expenses, outsourcing expenses, etc.)

Measure 3

Advertising expenses

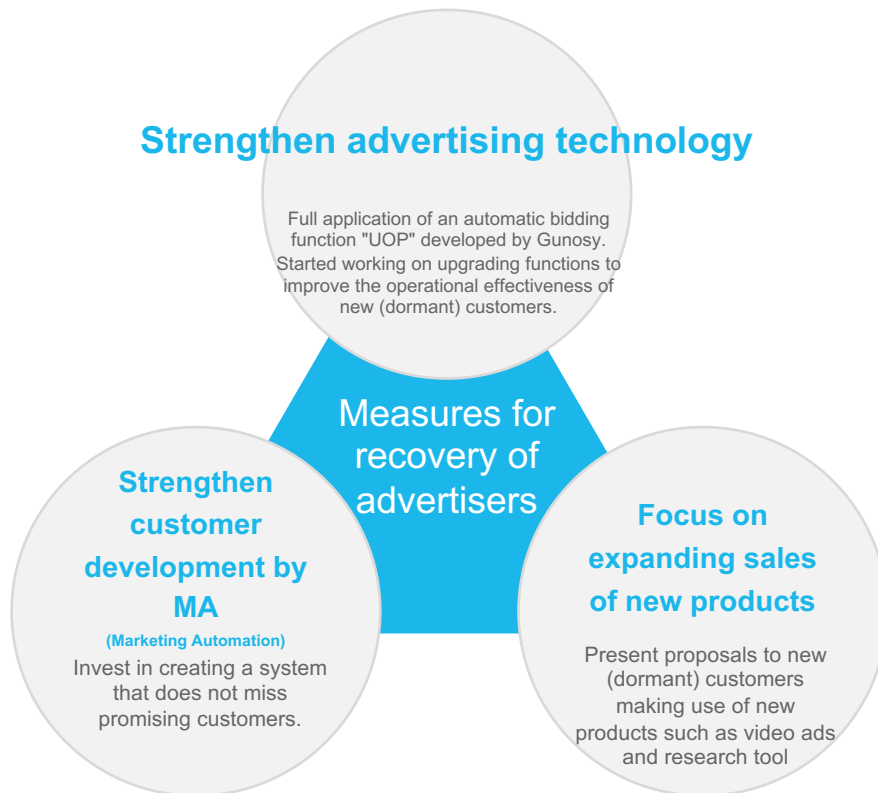
- **Strict investment standards**
(Investment focused on acquiring users who are expected to bring a solid return on investment even in an uncertain business environment)

Measures to Expand the Number of Advertisers Gunosy

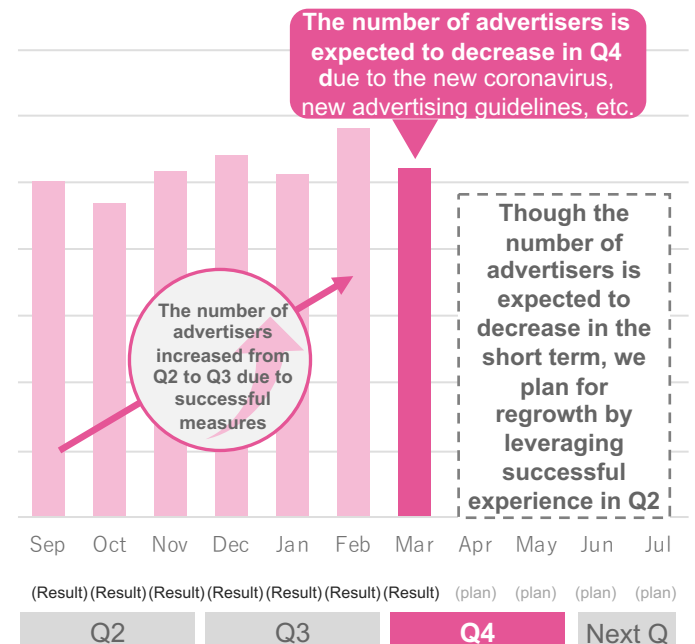
In Q3, the number of Gunosy advertisers turned to an increasing trend. Regarding the ratio of each category to total sales (in value terms), the health category fell by 5.7% QonQ, the applications, finance and human resources categories increased. We also succeeded in diversification of advertisers. In the future, we will promote plans for regrowth with the aim of **acquiring advertisers who want to place ads on highly reliable media and advertisers that are less affected by the current market environment.**

3 measures

Number of active advertisers* of Gunosy



Focus on advertisers who place advertisements on highly reliable media and advertisers that are less affected by the current market environment (eg: VOD, entertainment, commerce, etc.).

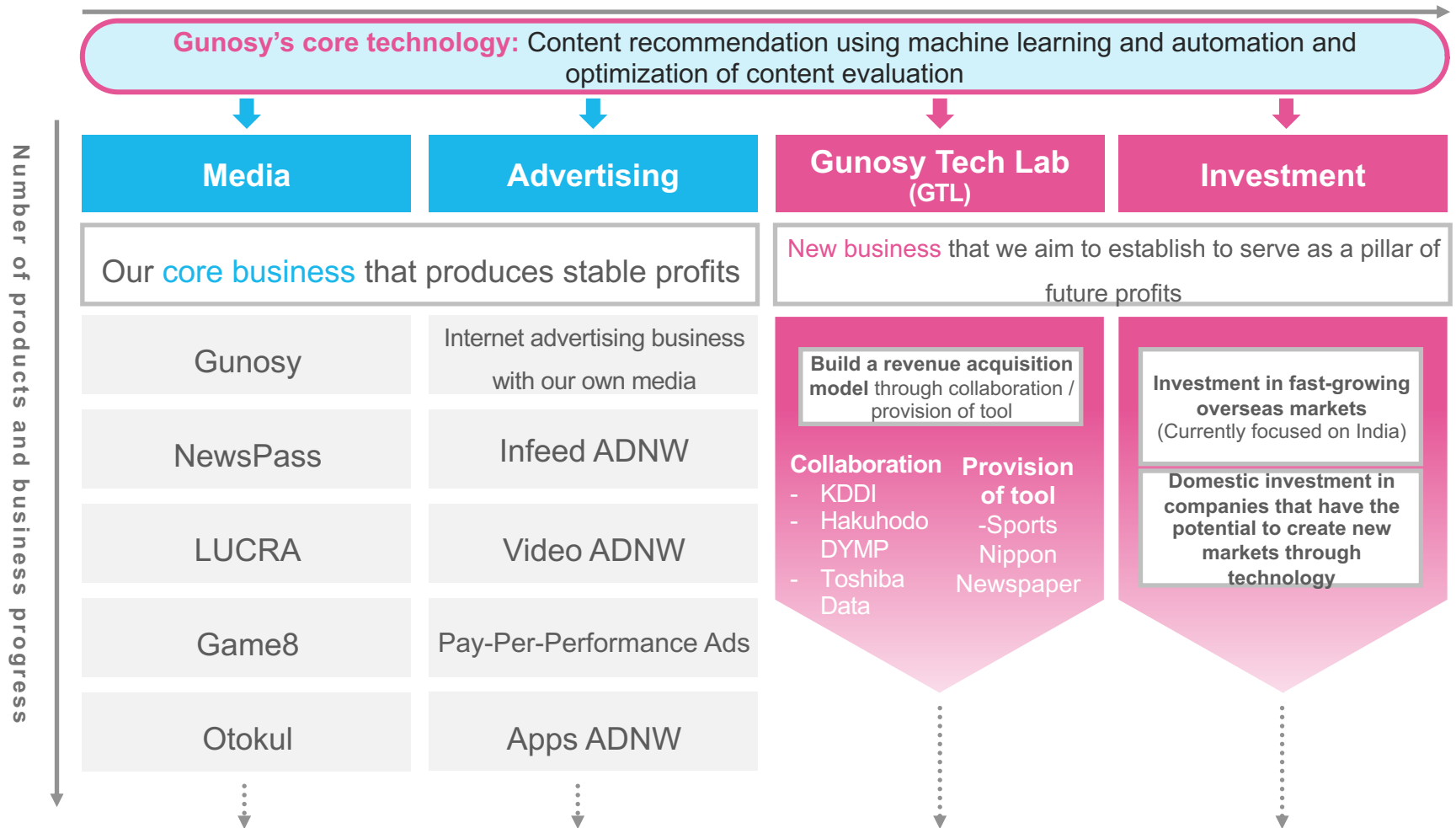


* Monthly average number of daily active advertisers in "Gunosy"

Develop Revenue Sources Other Than Media And Advertising Areas

Although the contribution to sales and profit has not started yet, **steady progress has been made in monetizing our own technology at Gunosy Tech Lab.** We plan to make a concrete contribution to business performance from FY2021/5.

Expansion of business domain



Since the establishment of Gunosy Tech Lab (GTL), we have provided research results to various major companies. In Q3, we started to provide our technology to **Sports Nippon Newspapers Co., Ltd.** Discussions are also currently underway to provide our technology to **Toshiba Data Corporation.**

Steady progress being made to establish collaboration with major companies

Partner companies that GTL provides technology and cooperates with



KDDI CORPORATION



Hakuhodo DY media partners

Hakuhodo DY Media Partners Inc.



Sports Nippon Newspapers Co., Ltd.

New

TOSHIBA

Toshiba Data Corporation

New



Gunosy

Tech Lab

Provides our technology cultivated through operations such as Gunosy, NewsPass, LUCRA and ADNW, and promotes collaboration.



Aim to earn profits outside the media and advertising areas such as business development through collaboration and provision of our technology through SaaS model, etc.

Current Status of Collaboration with Hakuholdo DY Media Partners

As part of the promotion of DX (digital transformation) in the advertising market, we have started to study the visualization of TV commercial effects with Hakuholdo DYMP. While **it is increasingly important to clarify the advertising effectiveness of TV commercials** with the deterioration of the macroenvironment, we are considering products that will **help advertisers improve the effectiveness of TV commercials** and improve the cost effectiveness of placing TV commercials.

Concept of "Visualization of TV commercial effect"

Perspective of advertising agency

Creative – Idea - Relation

Perspective of advertiser

Operation know-how cultivated through placing ads worth over 10 billion yen



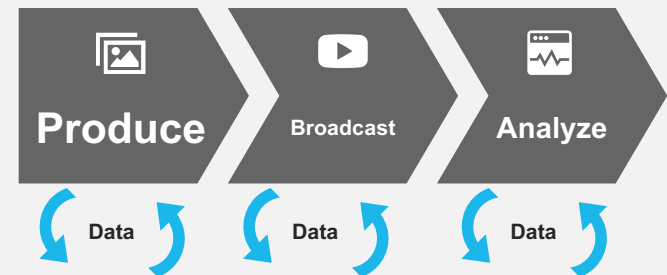
Promotion of DX in the TV commercial area

Productization

Developed a tool that visualizes the effects of TV commercials and enables quantitative planning of placement of commercials

Outline of our services

■ Illustration of business model



POINT

Leading TV commercials to success through a scientific approach based on numerical verification

4

Business Overview by Division

Media

P23 - P26

- Due to the impact of the new coronavirus, the renewal of advertising guidelines and the enhancement of the examination system, it is expected in Q4 that **the number of advertisers in each media will temporarily show a sharp drop** and **sales will decline in the short term**.
- In Q3, while controlling investment in advertising expenses, **MAUs for “Gunosy” and “NewsPass” remained firm**. In Q4, while we plan to significantly reduce advertising expenses and MAU is expected to slow down and decline in each media, we aim to **enhance profitability by drastic cost reduction**.
- In Game8, PV of big titles remained strong, **achieving record-high quarterly results**. There is ongoing investment in the organizational structure to create synergies with Smarprise and to develop our business overseas.

Advertising

P27 - P28

- Regarding ADNW, although ad unit prices (CPM) have been declining, advertising inventory (impressions) have remained at a high level. Although we **expect a substantial temporary decline in earnings** due to the impact of the new coronavirus, the renewal of advertising guidelines and the enhancement of the examination system, **we will aim for regrowth in the medium to long term through measures to restore soundness**.
- Regarding digwell and VIDPOOL, we are continuing to examine **measures to recover business performance from a medium- to long-term perspective**.

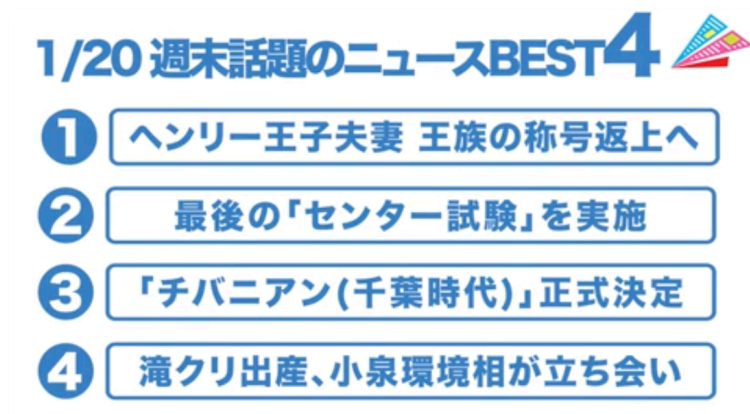
Others

P28

- Grill: New product “Gutele” launched.

In Q3, we achieved sales growth both in QonQ and YonY supported by strong acquisition of advertisers. We **enhanced original news and entertainment content** including daily news summary video and "super trend prediction", etc. **We continued to offer a unique and money-saving experience** by distributing coupons exclusive to Gunosy users.

1 Daily news summary video



Topical news

We produce original videos in collaboration with Grill, our subsidiary.

It summarizes the news of the day in one minute in an easy to understand way.

2 Distribution of original content started



We broadcast "Ranking over 30 million people! Super trend forecast", a program that predicts future trends based on the results of research of "GUNOSY" users, every Monday from 12:00 noon.

3 Gift campaign



Cheese meat bun campaign
January 24 to February 2, 2020



Onigiri Rice ball campaign
February 4 to February 13, 2020



Exceeded **12 million downloads** in FY2020/5 Q3. We successfully expanded the number of coupon tab users through the **au WALLET point gift campaign** jointly conducted with KDDI. While user KPIs remained solid, there are still problems with the acquisition of advertisers, which resulted in sales to decline QonQ.

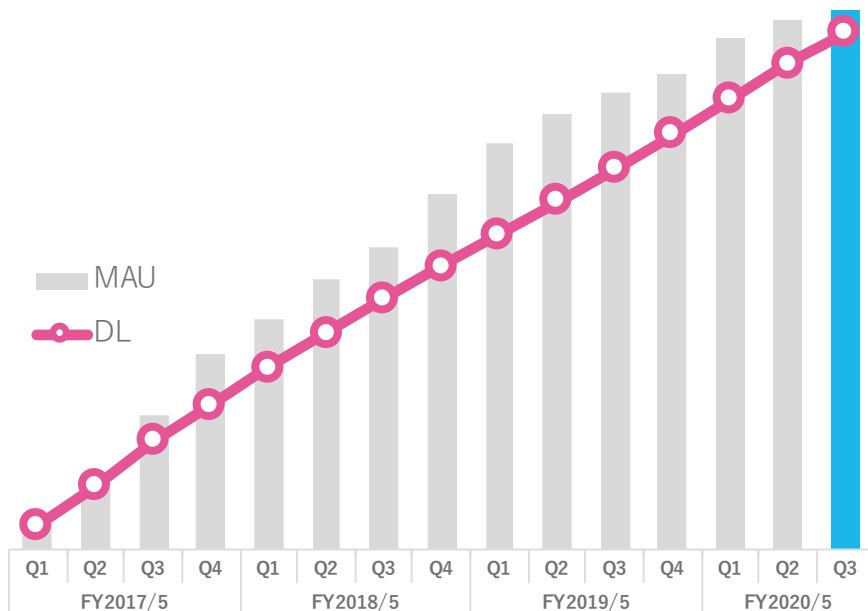
MAU and DL

MAU

Increase

Number of advertisers

Improvement measures under way



Point gift campaign



Coupon tab users doubled

Coupon reward campaign

Campaign launched where users can get points by checking the coupon tab.

Despite continuing efforts to improve profitability, there are still problems. **Accordingly we continued to restrain investment for user acquisition in Q3.** Although MAU decreased in Q3, we will **continue to restrain investment for user acquisition until sufficient profitability improvement is achieved.**

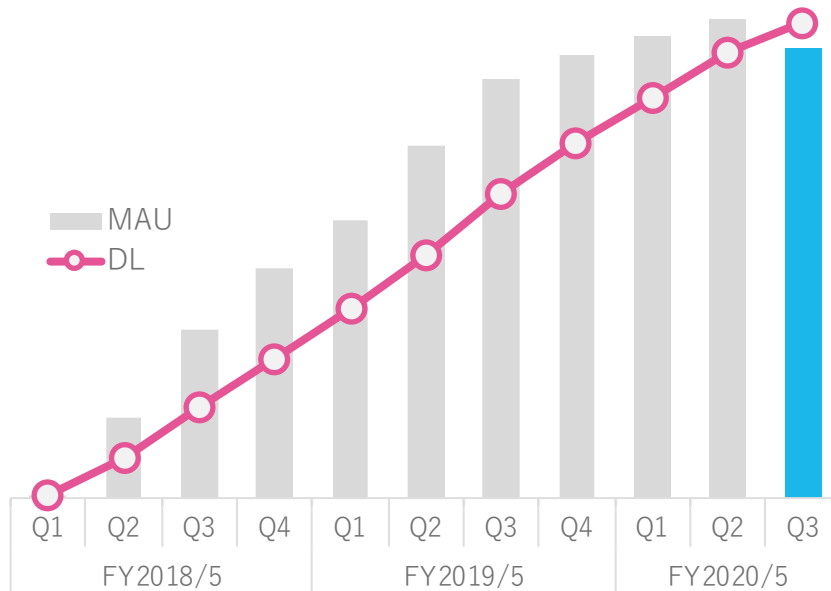
MAU and DL

MAU

✗ Decrease

Number of
advertisers

△ Improvement
measures under way



Measures to improve profitability

1

Improve retention rate
(E.g. Hold gift campaign)

2

Improve ad delivery logic
(Consider optimizing ad delivery)



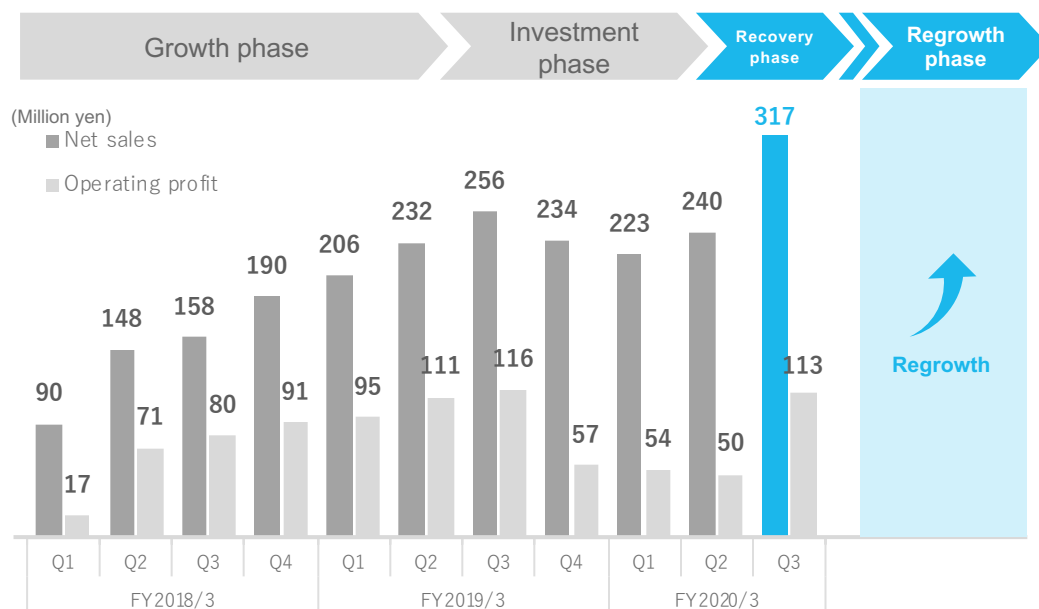
After achieving profitability improvement,
**consider investment to acquire
users**

Record high quarterly net sales were achieved in Q3 and operating profit marked the highest ever.

Although there are uncertainties such as advertisement unit prices in the business environment under the influence of the new coronavirus, PV is currently performing well.

Results ^{*}

	FY2020/3 Q3 results	QonQ
Net sales	317 million yen	132%
Operating profit	113 million yen	225%



* Non-consolidated results (before consolidated adjustment)

Topics

PV of big titles remained strong

In Q4, it is expected that good performance will be maintained as big game titles are scheduled to be released.

Active investment in human resources

We will actively invest in human resources to achieve further growth.

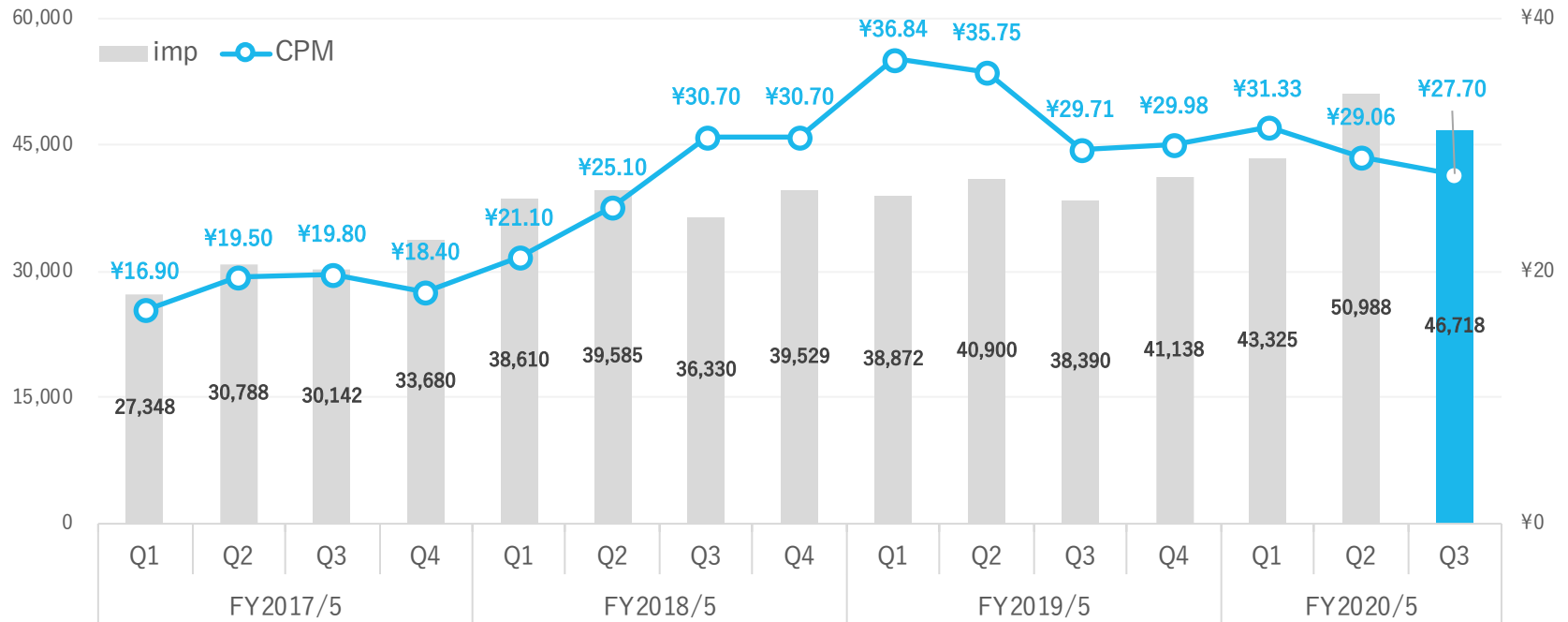
Post M&A & Strengthen business development overseas

To realize synergies with Smarprise and to prepare for full-fledged launch of the English website, we will strengthen our investment in overseas organizational structures.

Although ad unit prices (CPM) have been declining, advertising inventory (impressions) have remained at a high level. **Although we expect a substantial temporary decline in earnings due to the impact of the new coronavirus, the renewal of advertising guidelines and the enhancement of the examination system, we will aim for regrowth in the medium to long term through measures to restore soundness.**

Number of Impressions and CPM

(million imp)



* CPM (cost per mille): Price per 1,000 impressions of advertisements

Outline of Other Subsidiaries



Focus on advertising business for apps

Pay-Per-Performance Advertising service



Focus on sales of video ad networks and media rep business

Video ad network service



“Gutele” launched (Video advertisement distribution service)

Marketing research
Video marketing



Acquired as a consolidated subsidiary in December 2019

Media business
Advertising agency business
Entertainment business



sumutasu inc. (our investee) raised approximately 500 million yen

(Feb 4, 2020)

(Other existing investees have not been adversely affected by recent changes in market conditions either)

Investment business

5

APPENDIX

Reference Materials: Overview of Gunosy Inc.

Basic Information

- Company name: Gunosy Inc.
 - Representative: Yuya Taketani
 - Established: November 14, 2012
 - Fiscal year end: May 31
 - Capital: 4,077 million yen
(as of the end of Feb 2020)
 - Stock Code: 6047 (First Section of The Tokyo Stock Exchange)
 - Audit corporation: Ernst & Young ShinNihon LLC
 - Number of employees: 240 (as of the end of Feb, 2020, on a consolidated basis)
 - Head office: Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo
 - Business: Development and operation of information curation service and other media
- Officers: Representative Director and CEO, Yuya Taketani
Director and COO, Tetsuya Nagashima
Director and CFO, Yuki Maniwa
Director and CDO, Keisuke Osone
Director, Shinji Kimura
Director (Outside), Takashi Kamiyama
Director (Outside), Suguru Tomizuka
Director (Outside), Hirokazu Mashita

Corporate Auditor, Masakazu Ishibashi
Corporate Auditor (Outside), Kenji Shimizu
Corporate Auditor (Outside), Noboru Kashiwagi

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Gunosy

Optimally deliver information to people around the world