

## Company Report

March 29, 2024

Strategy Advisors, Inc.  
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## Aiming for High Growth Through Innovation in the Token (Points and Crypto Assets) Economy

CERES is engaged in the mobile services business centered on 'point sites' and also has a financial services business centered on the 'blockchain'. Based on the belief that both "Moppy" and crypto assets are tokens, the company has positioned both as their core businesses.

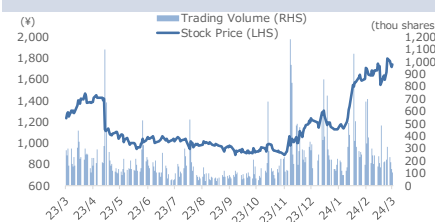
We believe that CERES' corporate DNA is a combination of "bold challenging and meticulous implementation". President Satoshi Takagi's 'spirit of challenge' has given the company a strong willingness to take on new challenges. On the other hand, "Moppy"; a loyalty point site, has adopted detailed measures such as point design with excellent tactics and this is the source of its competitiveness. It should therefore be difficult for other companies to imitate.

"Moppy" has 5.21 million active users at the end of 2023, far exceeding the number of other sites. The company's competitive edge is its ability to design optimal points for consumers, advertisers and itself, by owning its own ASP (Affiliate Service Provider) which is a contingency fee-based advertising agency. In the D2C (Direct to Consumer) business, utilizing the know-how cultivated in the point and ASP businesses, "Pitsole" performs exceedingly well, having become a rapidly growing hit product.

Blockchain has an equity method affiliate (23.6% stake) in bitbank, a major domestic exchange, as well as Mercury, a wholly owned subsidiary in the crypto asset sales market. Mercury is building a stable revenue source in the form of staking. Although earnings volatility is high due to fluctuations in crypto asset prices, blockchain has potential as an innovative technology, including NFT.

The stock price has risen significantly since December, largely due to the rise in crypto asset prices. In the short term, the price trend of Bitcoin and other crypto assets will influence the company's share price. In the medium to long term, the key will be whether the company can demonstrate a growth trajectory toward its medium-term management plan of ¥40 billion in sales and ¥10 billion in recurring profit. The high growth of D2C and the monetization of online factoring will also be of interest.

### Stock Price and Volumes



Source: Strategy Advisors

### Key Indicators

Stock Price (2024/3/28)	1,743
Year-to-Date High (2024/3/22)	1,799
Year-to-Date Low (2024/1/26)	1,128
52-Week High (2024/3/22)	1,799
52-Week Low (2023/11/28)	891
Number of Shares Issued (mn)	11.4
Market Capitalization (¥bn)	19.9
EV (¥bn)	19.1
Equity Ratio (12/2023, %)	35.4
ROE (FY12/2023 Actual, %)	5.0
PER (FY12/2024 CoE, Times)	24.9
PBR (FY12/2023 Actual, Times)	2.2
Yield (FY12/2024 CoE, %)	1.2

Source: Strategy Advisors

### Japanese GAAP - Consolidated

FY End	Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	RP (¥ mn)	YoY (%)	NP (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
FY12/2020	20,213	22.4	1,496	70.0	1,816	129.3	744	893.9	67.3	18.0
FY12/2021	23,402	15.8	2,305	54.0	3,499	92.7	2,775	272.7	251.8	40.0
FY12/2022	20,536	NA	1,246	-45.9	679	-80.6	46	-98.3	4.1	20.0
FY12/2023	24,070	17.2	1,118	-10.3	1,217	79.1	451	868.0	39.6	20.0
FY12/2024CoE	27,000	12.2	1,600	43.1	1,600	31.4	800	77.3	70.1	20.0

Note: Due to the adoption of the new revenue recognition standard in FY12/2022, the year-on-year change in net sales is NA

Source: Strategy Advisors- Based on Company Data.

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## Executive Summary

### Engaged in Mobile & Financial Service

CERES is engaged in two businesses: Mobile and Financial Services. Mobile Service consists of the loyalty point business centered around "Moppy," the largest loyalty point site in Japan; D2C (Direct to Consumer), which handles everything from product development to sales and consists of Sier's DX. Financial Service includes Blockchain, which operates a crypto asset exchange and sales office, online factoring and investment development business (CVC).

### We Believe that the Corporate DNA is "Bold Challenging & Meticulous Implementation"

President Satoshi Takagi began envisioning his future as an entrepreneur when he was a university student, and after working for Nomura Securities (now Nomura Holdings (8604 TSE Prime)) and CyberAgent (4751 TSE Prime), he started his own business, founding CERES in 2005. Looking at President Takagi's thoughts on founding CERES and the company's subsequent business development, one can see that the company's corporate DNA is "bold challenging and meticulous implementation". The company's strong ambition for growth and the formulation and implementation of meticulous tactics provides for a good management balance for the company.

### "Moppy" has a Big Advantage in Point Design Capability

"Moppy" started out as a point site for feature phones, and when the transition to smartphones was made, it overcame competition from PC-based point sites to achieve the position it holds today as the largest player. This was largely due to its superiority in providing information on small screen devices such as mobile phones and its design capabilities. Later, the company conducted its own affiliate service provider (ASP) business, a contingency fee-based advertising agency and increased the number of transactions in which it received orders directly from advertisers. As a result, the company was able to award higher points to users who are consumers; and the number of members has increased, growing such that the site has become used more by advertisers. The company's point design is carefully crafted to benefit all three parties - consumers, advertisers and the company itself-which makes it difficult for other companies to imitate.

### D2C, Which Handles Everything from Product Development to Sales, is Growing Rapidly

D2C is currently growing rapidly in the mobile market. Through its involvement in point sites and ASP, the company has accumulated expertise in product concepts and sales methods, and has begun to handle product development, manufacturing (outsourcing) and sales on its own. The company's high-function insoles, "Pitsole," have been a big hit and earnings have been growing rapidly.

### Blockchain has a Distinctive Strategy for bitbank and Mercury

Blockchain currently holds a 23.6% stake in bitbank, one of the three largest crypto asset exchanges in Japan, making it an equity method affiliate. It also has Mercury, which operates the crypto asset sales exchange "CoinTrade", as a wholly owned subsidiary. bitbank is unique in that it can trade a number of stocks in addition to its mainstay Bitcoin. It has also established a preparatory company with Sumitomo Mitsui Trust Holdings for the establishment of Japan Digital Asset Trust, with plans to create a platform for institutional investors. Mercury is a latecomer to the market, but it is distinctive in that it is steering a policy of expanding stable revenue sources such as bond yields through 'staking'. However, these are subject to the market trend of crypto assets and as such earnings volatility is high.

## Mobile Service to Recover in FY12/2024. Rising Crypto Asset Prices Could Provide Upside Potential

In FY12/2023, sales grew 17.2% YoY, but operating profit declined 10.3% YoY, largely due to sluggish ASP and other services, despite significant growth in D2C. For FY12/2024, the company forecasts higher sales and profits due to further expansion of D2C and steady growth of "Moppy". Due to the unreadable price trend of crypto assets, the equity in earnings of bitbank is provisionally set at zero. In fact, crypto asset prices are currently rising, especially Bitcoin and so there is a good chance that the company will benefit from this.

## Medium-Term Management Plan 2026

The Medium-Term Management Plan 2026 calls for sales of ¥40 billion and recurring profit of ¥10 billion (¥5 billion each in Mobile and Financial Service) in FY12/2026. Mobile Service are generally on that line in terms of profit, although there are fluctuations in each business. Financial Service, on the other hand, is steadily making the necessary investments, but the hurdles are high, as they depend on the crypto asset market.

## The Stock Price has Risen Significantly in the Recent Past and Will be Affected by Crypto Asset Prices in the Short-Term. In the Medium to Long-Term, Realization of the Company's Growth Strategy Will be Key

The stock price has risen significantly since last December. The rise in crypto asset prices impacted the share price significantly. For the time being, the share price will depend on the price trends of Bitcoin and other stocks. In the medium to long term, growth is expected to come from D2C and other sectors, in addition to the steady expansion of point sites. Blockchain innovation is expected to include crypto assets and NFTs. If these growth factors are reflected more clearly in the company's performance, the company's stock price will likely be influenced by crypto asset prices, but expectations will be high for an upward trend.

## 1. Platformer to Create a Token Economy

### Mobile Services are Point, D2C & DX Businesses

CERES ("the company") has two divisions: Mobile Service and Financial Service. Mobile Service consists of three businesses: Point, D2C and DX. Point operates Moppy, one of the largest point sites in Japan and "AD.TRACK", an affiliate service provider (ASP) that connects advertisers and affiliate media. DX's subsidiary Yumemi (49.8% stake) develops software, mainly smartphone applications and websites.

### Financial Service has 3 Businesses: Blockchain, Online Factoring & CVC

Financial Service consists of Blockchain, Online Factoring and the Investment Development Business ("Corporate Venture Capital (CVC)"). In Blockchain, the crypto asset sales exchange "CoinTrade" is operated by wholly owned subsidiary Mercury and bitbank, a leading crypto asset exchange in Japan, is an equity method affiliate, holding a 23.6% stake. Online factoring helps freelancers and sole proprietors raise funds, while CVC mainly targets areas with potential synergies with the company's core businesses, with the aim of generating investment returns through exits, while also looking to enhance the value of existing businesses and explore new businesses.

**Figure 1 . CERES Earnings Trends by Segment (FY12/2023)**

(¥ mn)

Segment	Sales	Composition	OP	Composition	Equity in Earnings of Affiliates
Mobile Service Business	23,458	97%	3,187	139%	-
Point	13,817	57%	2,480	108%	-
D2C	5,053	21%	730	32%	-
DX	4,776	20%	106	5%	-
Financial Service Business	611	3%	-897	-39%	78
Total (Before Adjustment)	24,070	100%	2,290	100%	-
Adjustment	-	-	-1,172	-	-
Total Amount	24,070	100%	1,118	-	78

Note: Operating income composition ratios are to unadjusted totals.

Source: Company Data

## 2. "My Resume" of President Satoshi Takagi and Corporate DNA

### Conceived the Idea of Starting a Business While in College

The founder, President Satoshi Takagi, was born in 1971 and is 52 years old. He says that a visit to New York when he was a student at Sophia University's Faculty of Economics had a great influence on his later life. He was impressed by the fact that many businessmen had personally provided financial support or donated their works to museums and concert halls and that there were many facilities bearing their names. Individuals were making significant contributions to society and at the same time leaving their names for posterity. Growing up in a typical salaryman family, Mr. Takagi thought that the only way for him to make such a contribution to society was to start his own business and become successful and he conceived a plan in his mind to start his own business at the age of 30 and go public at 40.

### Gained Experience at Nomura Securities & CyberAgent

However, at that point, the Internet had not yet been created and he had not yet drawn a concrete picture of what field he would start a business in. In order to gain experience for starting his own business, he thought it would be good to work as a generalist and be involved in the economy as a whole, so he joined Nomura Securities (now Nomura Holdings (8604 TSE Prime)). At Nomura, he worked in branch sales and had numerous opportunities to come into contact with Internet companies, which were in their infancy, as clients. At that time, he had been paying attention to this field as one that seemed likely to grow in the future.

In 2000, he moved to CyberAgent (4751 TSE Prime), which had just been established and had not yet gone public. He says his motivation was to gain various experiences at a venture company rather than a large corporation like Nomura Securities. At CyberAgent, he experienced going public as the general

manager of the president's office and the general manager of the corporate planning office and was responsible for various tasks such as budget planning, launching new businesses, IR and public relations. These experiences are seen as having been very useful in his subsequent entrepreneurship and management.

## **CERES was Established in 2005.**

Having left CyberAgent with the goal of starting his own business at the age of 30, and after managing a cell phone content provider company, President Takagi founded CERES in 2005.

As mentioned above, President Takagi was born and raised in a typical businessman's family and had no particular connection to becoming an entrepreneur prior to his visit to New York during his college years. However, his maternal grandmother had established and managed a bridal costume rental company. It was very rare for a woman to start and manage a company at that time and President Takagi said that he may have inherited such a spirit through her bloodline.

## **Listed on Tokyo Stock Exchange Mothers in 2014**

In October 2014, the company was listed on the 'Mothers' market of the Tokyo Stock Exchange. In February 2016, the company moved to the First Section of the Tokyo Stock Exchange. Then in April 2022, the company moved to the TSE Prime Market due to a change in the TSE's market classifications.

From an early stage, President Takagi saw an affinity between point sites and blockchain technology, based on the idea that both "Moppy" points and "Bitcoin" are virtual currencies (tokens). For this reason, it invested in bitbank in 2015 and made it an equity method affiliate in 2017. In the same year, it established Mercury; which operates a crypto asset sales office, as a wholly owned subsidiary, laying the foundation for its crypto asset-related business. In FY12/2018, the company adopted a consolidated accounting structure, consisting of a Mobile Service Business and a Financial Service Business.

## **Our Management Philosophy is to "Enriching the World Through Internet Marketing"**

The name "CERES" in the company name means the "Goddess of Abundant Harvest" in Greek mythology and represents President Takagi's desire to enrich real society through the Internet. In addition, the company's management philosophy, "Enriching the World Through Internet Marketing," defines the scope of its business broadly, without being too conventional, while at the same time defining the Internet so that the company's businesses are not overly dispersed.

## **Corporate DNA is Considered to be "Bold Challenging & Meticulous Implementation"**

We believe that CERES' corporate DNA is "Bold Challenging and Meticulous Implementation". President Takagi's motivation for starting the company, was his desire to make an impact by contributing to society and to become a company that will leave its mark on future generations, which is clearly reflected in the company's growth strategy. The point site "Moppy" was a latecomer to the market, launching a website for feature phones at a time when most sites were for PCs and it was a winner when the switch to smartphones was made, establishing its current solid position in point sites.

## President Takagi Effectively Owns 16.3% of the Company.

The company also embarked on the crypto asset business, whose future prospects were uncertain, as early as 2015.

On the other hand, the company is not just moving blindly into growth areas but has adopted measures to differentiate itself backed by detailed tactics. In the case of "Moppy," a well-thought-out point-of-sale design has been implemented and the company has built up the know-how to secure appropriate profits. In crypto assets, although affected by large fluctuations in market prices, the company is steadily developing its business with the aim of earning stable profits through staking, as described below. According to President Takagi, while the Mobile Service Business centered on "Moppy" is steadily increasing earnings, whilst the Financial Service Business centered on crypto assets is significantly in the red: but as a venture aiming for growth, the president's thinking is shared by others within the company.

As for the shareholder composition (as of December 31, 2023), President Takagi and his co-owner Juno & Co., Ltd. hold a total of 16.3%. In addition, CyberAgent holds 4.4%.

**Figure 2: Major Shareholders (as of December 31, 2023)**

Major Shareholders	Shareholding Ratio (%)
Juno & Co., Inc	10.33
Satoshi Takagi	5.98
CyberAgent, Inc.	4.38
Toru Akaura	2.89
Tetsuya Nozaki	1.91
Nozomu Yachidate	1.86
Hideaki Takahashi	1.75
Yasuhiro Kobayashi	1.74

Source: Strategy Advisors, based on Company Data.

According to the company's February 29, 2024 press release entitled "Progress of the Plan for Compliance with Listing Maintenance Criteria," the ratio of tradable shares as of December 2023 was 66.4%. Since the total holdings by major shareholders in Chart 2 is 30.8%, a significant portion of the other shares are tradable shares. The holdings by foreign corporations, were at 4.5% at the end of December 2023.

## 3. Point Business

### 1) Point Site "Moppy"

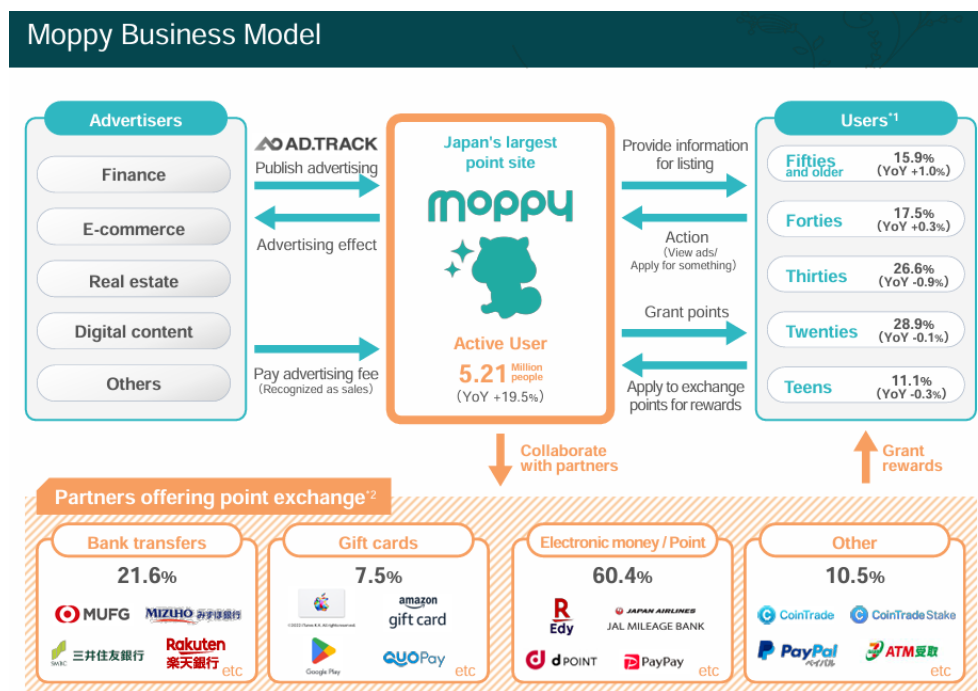
#### Point Sites are Performance-Based Affiliate Advertisements

Point sites are media in which points are awarded for purchasing products and services or accessing advertisements through smartphone applications or PC websites. As shown in Figure 3, point sites post advertisements through an intermediary called an ASP, which acts as a go-between advertisers and media or affiliates. Consumers who use these point sites can register as members via websites or mobile applications and earn points when they purchase products or services and clicking on advertisements. Affiliate advertisements are paid on a pay-for-performance basis, meaning that advertisers pay advertising fees only after the event. Point sites then receive the advertising fees and subsequently award points to their consumer members. ASPs also receive a certain amount of commission. "AD.TRACK", which is operated by the company itself, is developing the ASP business.

#### Launched "Moppy Pay"

Once users accumulate points, they can exchange them for cash, gift certificates, e-money, other points or even crypto assets. However, it is a hassle for users to exchange their points for these items. To address this issue, "Moppy" launched "Moppy Pay" last November in partnership with APLUS, a member of the SBI Shinsei Bank Group. This allows users to use the card for payment at merchants that accept Visa touch payments and QUICPay merchants, thereby increasing convenience.

Figure 3: Figure 3: "Moppy" Business Model



<sup>1</sup> Ratios as of December 31, 2023  
<sup>2</sup> Point exchange ratios are for October to December 2023

Source: Company Data



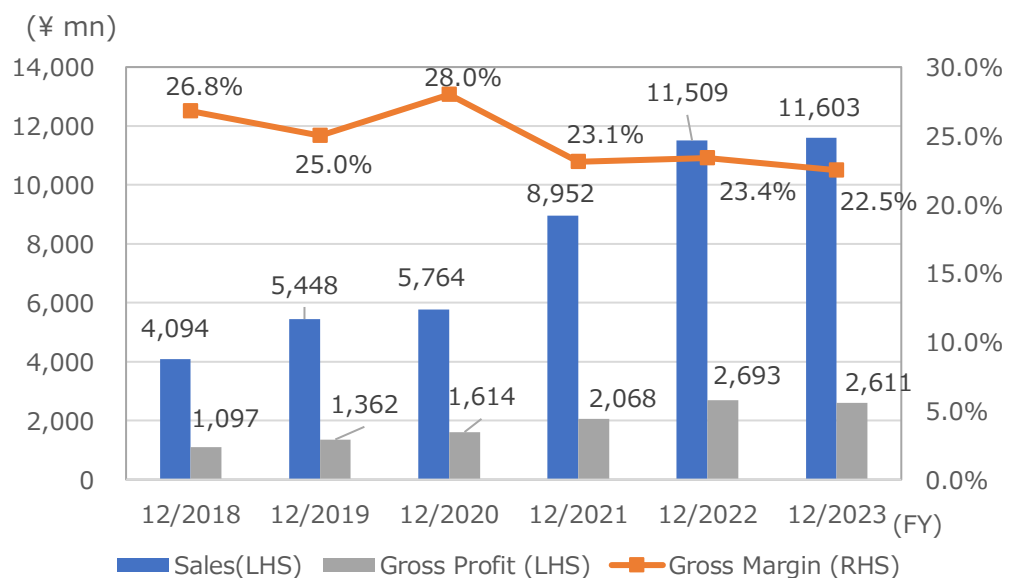
## “Moppy” Started for Feature Phones

“Moppy” was launched in 2005 as a web service for feature phones. Subsequently, a smartphone version of the web service was launched in 2011 and the service has steadily expanded since. The number of active members has steadily increased each year, reaching 5.21 million by the end of FY12/2023. Sales of “Moppy” have grown at a 23.2% annual rate over the five years through FY12/2023, while the number of active members has grown at a 22.0% annual rate over the same period. Products and services handled by “Moppy” are likely to include financial institutions (e.g., card applications and account openings), e-commerce, real estate and digital content; with financial institutions accounting for about half of the business. Recently, e-commerce and tax payments (aka Furusato Nozei) have been increasing and the number of members appears to be spreading to a wide range of people.

## Largest Point Site in Terms of Members and Sales

Point sites include “Point Town” by GMO Media (6180 TSE Growth), “EC Navi” by CARTA HOLDINGS (3688 TSE Prime), “Hapitas” by OZVISION, “Point Income” by FIVEGATE, and “Chobirich” by Chobirich. “Moppy” is believed to be the largest in Japan in terms of both number of active members and sales. “Moppy’s” sales of ¥11.6 billion (FY12/2023) are much higher than ¥5.4 billion in sales of GMO Media’s media business (including Point Town) and ¥7.1 billion in sales of CARTA HOLDONGs’ Internet-related services (including EC Navi).

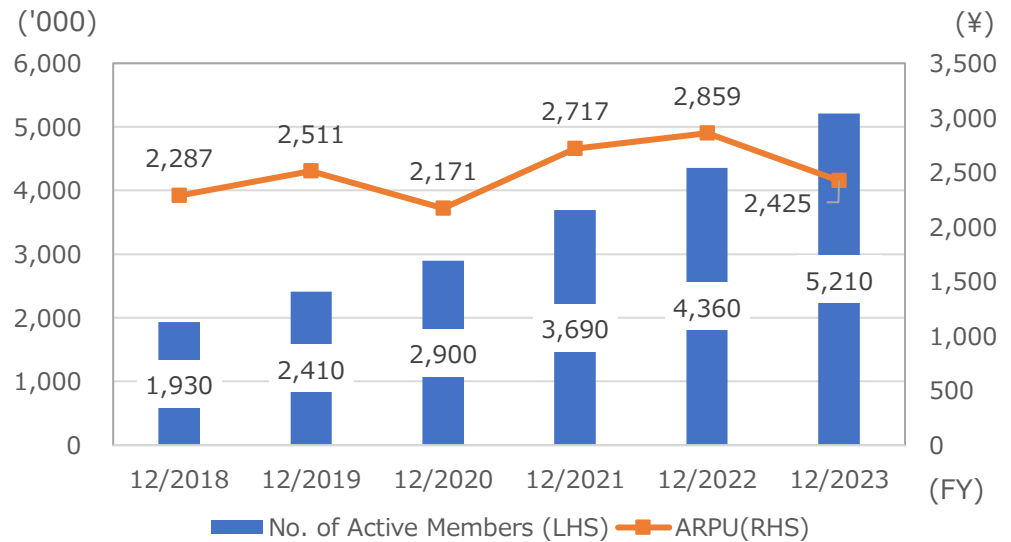
**Figure 4: Sales and Gross Profit Margin of “Moppy”**



Note: Gross profit is calculated based on sales and gross profit margin as disclosed by the company.

Source: Strategy Advisors, based on Company Data.

**Figure 5: Number of Active Members of "Moppy"**



Note: ARPU is Average Revenue per User

Source: Strategy Advisors, based on Company Data.

## “Moppy,” Which Was Accustomed to Handling Small Screens on Feature Phones, Gained an Advantage Over PC’s

“Moppy’s” dominance was established during the switch from feature phones to smartphones. When “Moppy” was launched in 2005 as a latecomer with a feature phone version, PC versions were the mainstream for point sites, and the only feature phone version was "OSAIFU.com," which the company later acquired. “Point Town” and “EC Navi” were the first to offer PC versions of their web services. Later, as the switch from feature phones to smartphones began, the feature phone version of “Moppy” and the PC version of point sites began to launch their smartphone versions simultaneously. At that time, “Moppy,” which had created its web design for the small screens of feature phones, was able to migrate to smartphones without difficulty. However, it is believed that many PC-version sites with larger screens had difficulty in making this transition. Nevertheless, the PC version of the site was still by far the larger market than the smartphone application at first, but the shift from PCs to smartphones and tablets for general consumer use has progressed, and as a result, “Moppy,” which became dominant in smartphones, has become the largest player in the industry.

The following are some of the factors that have allowed “Moppy” to maintain its superiority since then.

## Have Our Own ASP

First, by having “AD.TRACK”, an ASP, in-house, CERES will have more room to offer higher points to users because the commissions charged by the ASP for advertisements placed through “AD.TRACK” will not flow out to outside parties. This will naturally lead users to prefer sites with higher points when purchasing the same product, which in turn will increase activity on “Moppy”. Advertisers will also use “Moppy” more as a site to increase their sales.

## Point Design Know-How

Second, CERES has a high level of expertise in point-of-sale design. For advertisers, sites that are used more by consumers with high LTV (Life Time Value), who continuously purchase products and services, are highly valuable. For example, for users who subscribe to a credit card, if only the initial points are designed to be high, it will have the effect of increasing the number of subscribers, but there is a high possibility that the use of that card will not increase afterwards. On the other hand, if the site is designed so that points are awarded when the card is used after subscription, it will be possible to increase LTV. In addition, since there is competition with other loyalty sites in awarding points, the company appears to have expertise in designing points for each product or service in a detailed manner that is both beneficial to the user and profitable for the company.

## CERES' Creditworthiness

Third, CERES' credibility: Aside from the big players such as GMO Media and CARTA HOLDINGS, there are many sites and operators of point sites that lack credibility. There have been sites that set points too high in order to attract users to make purchases and then went out of business. Since points have a monetary value, sites operated by companies that lack credibility tend to be weeded out.

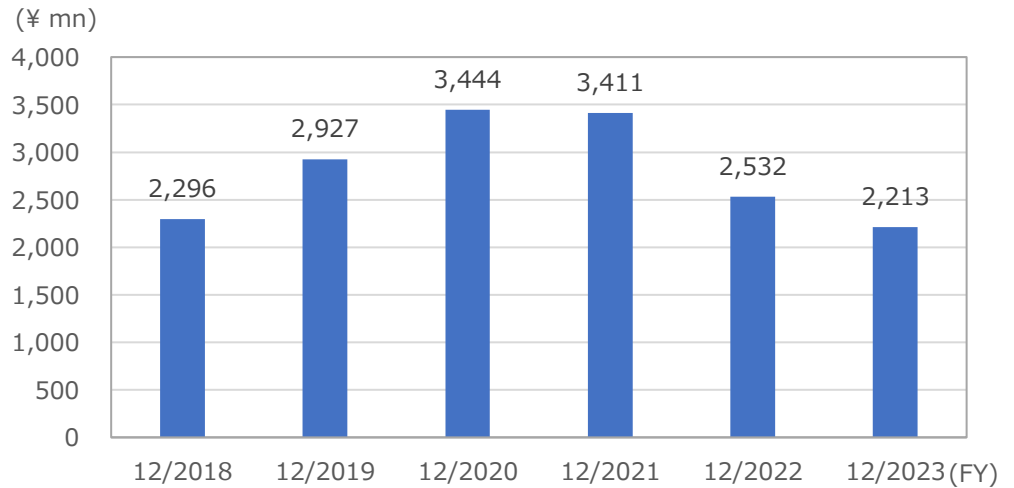
## 2) ASP's "AD.TRACK" and Advertorial media

### Have Our Own ASP "AD.TRACK".

"AD.TRACK" is an in-house service of ASP that connects advertisers with the media and affiliates such as "Moppy" and serves as a contingency fee-based advertising agency. Affiliates are individuals or corporations that register with ASP and write introductions of advertisers' products and services on their own sites or blogs. When a consumer reads the article and makes a purchase, the affiliate is compensated. "AD.TRACK" also publishes advertisements for advertisers in media other than "Moppy". Since "AD.TRACK" is a business of CERES, which has the largest point site "Moppy" in Japan, it is an ASP that advertisers need to associate with.

"A8.net" of FAN Communications (2461 TSE Prime), Value Commerce (2491 TSE Prime), a subsidiary of LY Corporation (4689 TSE Prime), Rakuten LinkShare are major ASPs, and "AD.TRACK" is not as large as these companies. However, it plays an important role in maintaining the competitiveness of "Moppy" and in expanding the group's earnings.

**Figure 6: Net Sales of Point Businesses Other than "Moppy"**



Source: Strategy Advisors, based on Company Data.

**Headwinds Such as Advertising Restrictions Under the Pharmaceutical and Medical Device Act and the Act Against Unjustifiable Premiums and Misleading Representations & Restrictions on Third-Party Cookies**

These days, there is a headwind facing ASPs and advertorial media. In August 2021, a surcharge system was introduced in the Pharmaceutical and Medical Device Act covering pharmaceuticals and cosmetics, which orders the payment of a surcharge if a person benefits from false or exaggerated advertising. Act against Unjustifiable Premiums and Misleading Representations also introduced a surcharge system in 2016. This is believed to have made advertisers more cautious about the content of their advertisements.

Also, there is the added problem of third-party cookie regulations. Third-party cookies are cookies issued by a domain different from the website accessed, and because of this, remarketing (displaying ads from a previously visited site when the user is browsing a different site) is possible. However, there is a move by Apple to block third-party cookies in its browser Safari in 2020 and by Google Chrome to discontinue them in 2024. This has made the business environment for affiliate advertising more difficult. Figure 6 shows the sales of CERES' point business, excluding "Moppy," which declined in FY12/2022 and FY12/2023. This is because "AD TRACK" and advertorial media sales declined for the reasons mentioned above.

**The Point Service Market is Growing Steadily. Growth Potential for Point Sites Has Been Large for Some Time**

Although the effects of stricter regulations on advertising under the Pharmaceutical and Medical Device Act and the Act against Unjustifiable Premiums and Misleading Representations are expected to run their course, the business of ASP's and article ad-based media is expected to remain somewhat uncertain for the time being due to the effects of the abolition of third-party cookies.

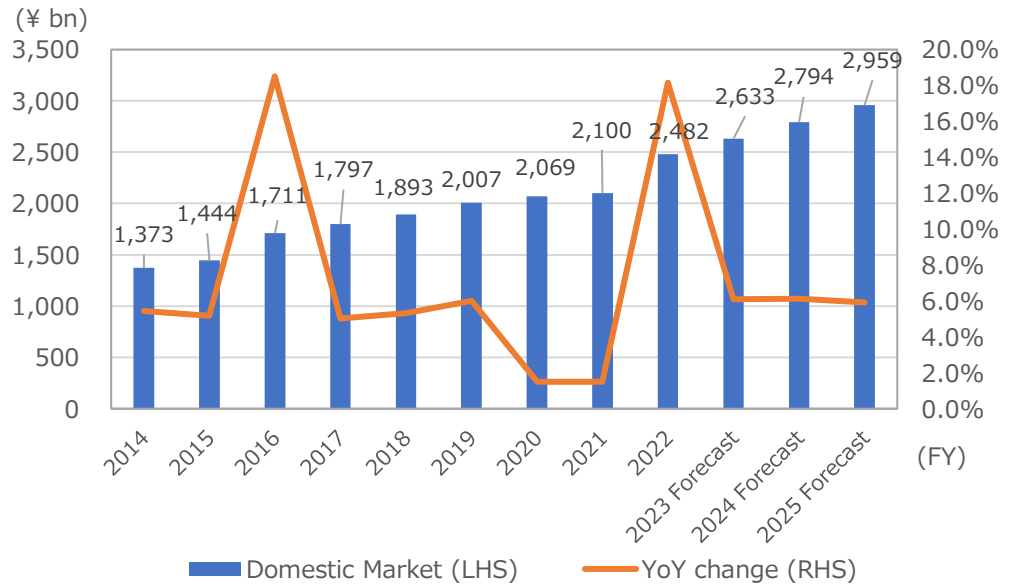
### 3) Market Trends of Point Sites

According to the Japan Internet Point Council (JIPC), the total points issued by the 10 companies that responded to the survey of participating companies is ¥17.5 billion in FY2021 and ¥18.6 billion in FY2022. Since CERES, the largest company, is not included, adding the ¥11.6 billion in sales of "Moppy" in FY2022 would bring the total to just under ¥30 billion. The market size of point sites is probably larger than this, as some of the participating companies do not participate in the JIPC survey. Figure 7 shows the overall market size of point services, as announced in a release by the Yano Research Institute Ltd. This includes points issued by individual companies, frequent flyer points, points awarded to credit cards and electronic money and point sites in general. The market size is estimated to be approximately ¥2.5 trillion in FY2022 and it is still growing steadily every year. The size of the market for the above mentioned point sites is estimated to be less than 2% of this amount.

The expansion of the EC market has expanded commercial opportunities for point sites, and corporate points are also shifting from conventional cards to smartphone applications; and this trend toward DX is expected to have a positive effect on point sites, which have traditionally focused on smartphones. CERES believes that there is still much room for point sites to grow.

In a report compiled by Mitsubishi UFJ Research and Consulting in March 2021, a survey asked point site users about their reasons for choosing a particular point site and the most common reasons given were that it is easy to exchange or redeem points, the point redemption rate is high, good reputation through word of mouth and it comes at the top of Internet searches. "Moppy" is seen as highly user-friendly and satisfying in all these respects.

**Figure 7: Domestic Market Size of Point Services**



Note: Domestic market size is the amount of points issued.

Source: Prepared by Strategy Advisors based on a press release by Yano Research Institute Ltd.

## 4) Difficulty in Imitating CERES as Seen in "Moppy"

### "Moppy's" Know-How in Point Design is Unrivaled

The company's main battlegrounds in mobile are generally highly competitive areas such as point sites, affiliate advertising and D2C, but the company has been able to differentiate itself from its competitors. "Moppy" launched its own "AD.TRACK" and has increased the ratio of media advertising it undertakes directly from advertisers. This has naturally displeased the ASP's (affiliate service providers) that serve as the link between advertisers and "Moppy" and has made it difficult to do business with them.

This created price competitiveness and, as mentioned above, made it possible to attach points in a way that was attractive to the user, the consumer. In addition, "Moppy's" unshakable position in the point site market was built on its expertise in point design. The point design that satisfies the contradictory needs of users for attractive points, advertisers for large LTV users to make purchases, and the company for reasonable profits, can be said to be a mass of know-how. In fact, the company is generating stable and relatively high profits, while many point sites are indulging in thin profit margins by setting high point incentives for users in order to attract registrations.

The strategy of utilizing its own ASP has been successful due to the "bold challenge" considered to be in the company's DNA mentioned above, and the building of point-of-sale design know-how is considered to be "meticulous implementation". In crypto assets as well, as discussed below, Mercury has boldly stepped into its own stock-type business of increasing assets under custody through a service called staking and has continued to invest steadily in building wallets one by one for each crypto asset. While it remains to be seen how this will pay off, it is a noteworthy example of the company's strategic thinking.

## 4. 5-Force Analysis from Management Strategy Theory

### Michael Porter's 5 Forces Analysis of Point Sites

From a management strategy perspective, we would like to consider the business environment of the company's mainstay point site based on Michael Porter's 5 Forces analysis. The point site is a highly competitive business and it would be helpful to examine positioning theory. According to Porter, the five competitive factors are: (1) threat of new entrants, (2) bargaining power of suppliers, (3) bargaining power of buyers, (4) threat of substitutes (alternative services) and (5) competition among existing companies.

#### 1) Threat of New Entrants

A great many companies are involved in the Internet advertising industry and an extremely large number of them operate point sites. It is quite possible that companies that wish to continue to engage in Internet advertising on multiple fronts will enter the point site market as part of this effort. In addition, there are no particular need for economies of scale or financial strength. However, building a brand, fostering credibility and spreading name recognition will not be easy for new entrants. "Moppy's" name recognition and credibility, such as the ability to convert accumulated points into cash and the assurance that this will be done, are major advantages.

#### 2) Negotiating Power of Suppliers

Point sites are considered to be suppliers by their users, who are general consumers (supplying actions such as purchases or site visits by being awarded points). Since consumers are free to choose from many point sites to purchase goods and services, the bargaining power of suppliers is strong. On the other hand, it would be possible to attract consumers to their own sites by providing them with point incentives, a sense of security, reliability and other attractions.

#### 3) Negotiating Power of the Buyer

The fact that "Moppy" has the largest number of active users leads to the fact that it is a media that advertisers and ASPs as agents are forced to deal with.

This makes it possible for the company to operate "AD.TRACK" on its own, a business strategy that competes with ASPs.

#### 4) Threat of Substitutes

Potential threats include consumer goods manufacturers, cosmetics manufacturers, and retailers that sell directly to consumers via their websites or apps and award points that can be redeemed for that manufacturer's products. However, the number of visits to a particular company's site is limited compared to point sites, which offer a wide variety of products and services. In the end, it is likely that advertisements will often be placed on point sites as well. From the consumer's perspective, there is an advantage in being able to obtain points from both the manufacturer or retailer and the loyalty point site.

#### 5) Competition Among Existing Companies

There is constant competition among point sites to award points, and setting the points too high will put pressure on profits. The key to success is to create a virtuous cycle in which the number of members increases by offering points that are attractive to consumers, which in turn leads to orders from advertisers and ASPs, which in turn increases the company's profits. "Moppy" is certainly one site that is doing this well.

From the above perspective, it can be said that although the point site business is a field with low barriers to entry and intense competition, the market has achieved relatively stable growth and the background to the company's continued dominance of "Moppy" can be clearly seen.

## 5. D2C Business

D2C is a type of business that plans and develops its own products, manufactures them on an OEM basis and then sells them to consumers. In addition to manufacturing, logistics, warehousing and settlement are outsourced, allowing the company to focus on marketing. Currently, the company focuses on health foods and cosmetics, but its high-function insole "Pitsole" is growing rapidly and is driving rapid growth in D2C revenues. CERES has been profitable since FY12/2022 by applying its marketing know-how accumulated through over 5 million users' purchase data on "Moppy", "AD.TRACK" and article ad-based media to its product development and marketing strategies.

"Pitsole" was launched in April 2022 and has proved to be a big hit. It focuses on improving concerns related to body shape by making walking more comfortable, leading to improved gait movement and increased physical activity. It uses a patented technology that supports the cubital and calcaneal bones. "Pitsole" is a stand-alone sales model. The company sold a cumulative total of 500,000 pairs in October 2023, a year and a half after its launch and this past February it surpassed 1 million pairs. Other products include "Oigurt"

**Competition is Fierce, But "Moppy" will Remain Dominant**

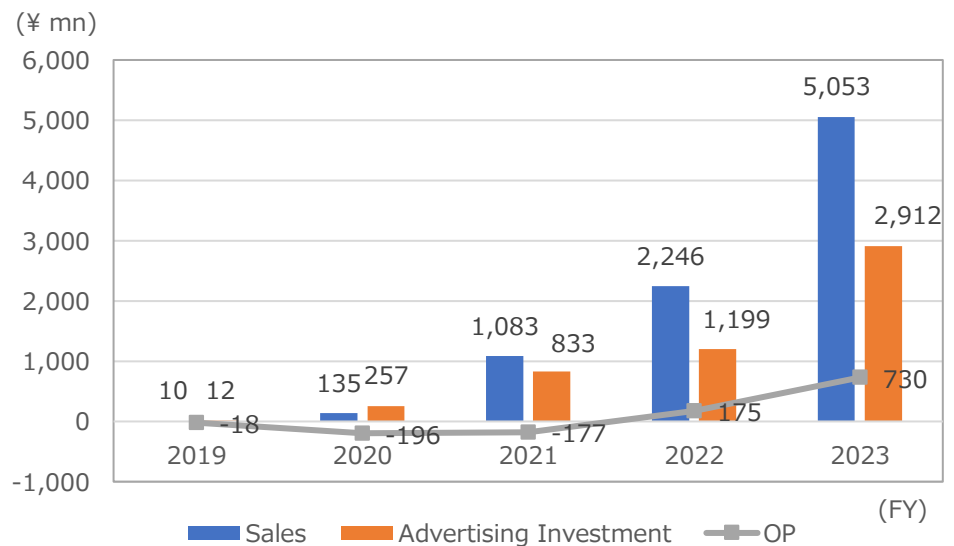
**Accumulated Know-How Through "Moppy" & "AD.TRACK"**

**Rapid Growth with the Big Hit of "Pitsole"**



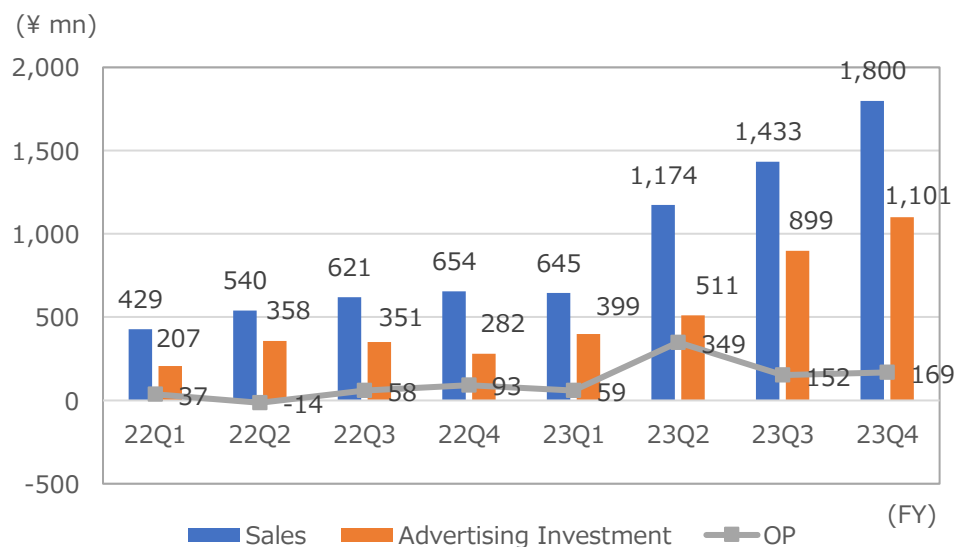
and "Off Re:kake," which are subscription-type products sold on a regular basis. The model is one in which advertising costs are high at the beginning, but after a certain number of sales, profits rise rapidly. These subscription-based products are also expected to perform well. As a result, the D2C business posted sales of ¥5.05 billion and operating profit of ¥730 million in FY12/2023. Sales have been increasing steadily every quarter and are expected to grow further in FY12/2024.

**Figure 8: D2C Revenue Trends (Annual Basis)**



Source: Strategy Advisors, based on Company Data.

**Figure 9: D2C Revenue Trends (Quarterly Basis)**



Source: Strategy Advisors, based on Company Data.

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## 6. DX Business

### Managed by Subsidiary Yumemi

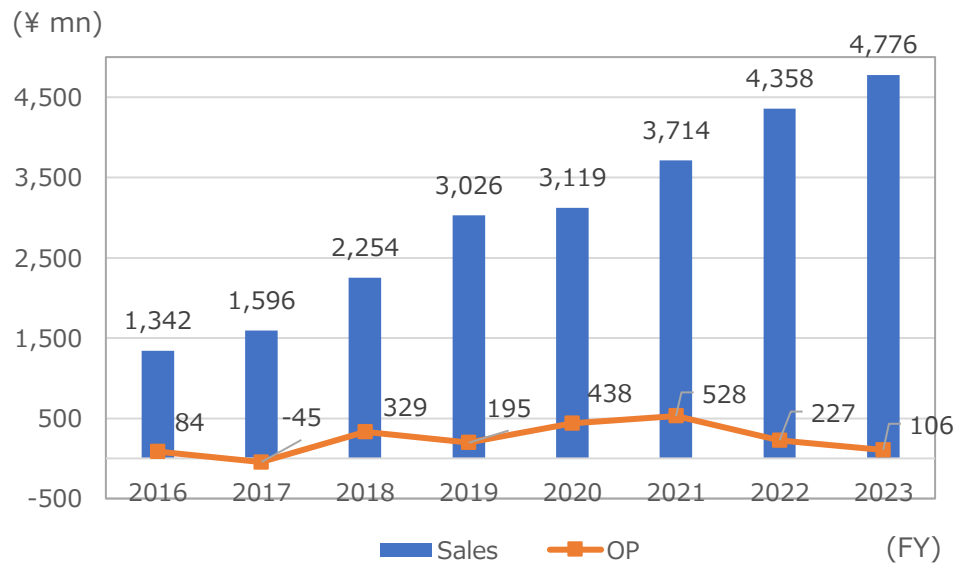
The DX business began in 2016 with a capital participation in Yumemi Corporation, making it an equity method affiliate and in 2018, it became a subsidiary (currently 49.8% owned). By industry, 32.9% of DX business clients are manufacturers, 23.3% are retail and food services, 17.3% are information and communications, 5.1% are financial Services 13.6% and Others account for 7.8%. In its financial results presentation, CERES cited CO-OP, Takashimaya (8233 TSE Prime), AU (a subsidiary of KDDI (9433 TSE Prime)), Kanebo Cosmetics (a subsidiary of Kao (4543 TSE Prime)), and Mynavi as specific client examples.

This business is characterized by the twin facts that it is basically a prime project in which orders are received directly from customers without intermediary vendors and that it is developed by in-house engineers. Because there are no intermediary vendors or outsourcing vendors, the business is highly cost-competitive and customer satisfaction is high. While these factors are predicated on past performance, sales capabilities and the availability of internal resources, Yumemi has created a virtuous cycle. The percentage of sales from outsourced contracting, where sales fluctuate, is only 16.5% (FY12/2023) and 83.5% is recurring business such as semi-contracting, operation and maintenance, which enables the company to secure continuous earnings.

### Sales Grew Steadily, But Profits Stalled Due to Increased Hiring of Engineers

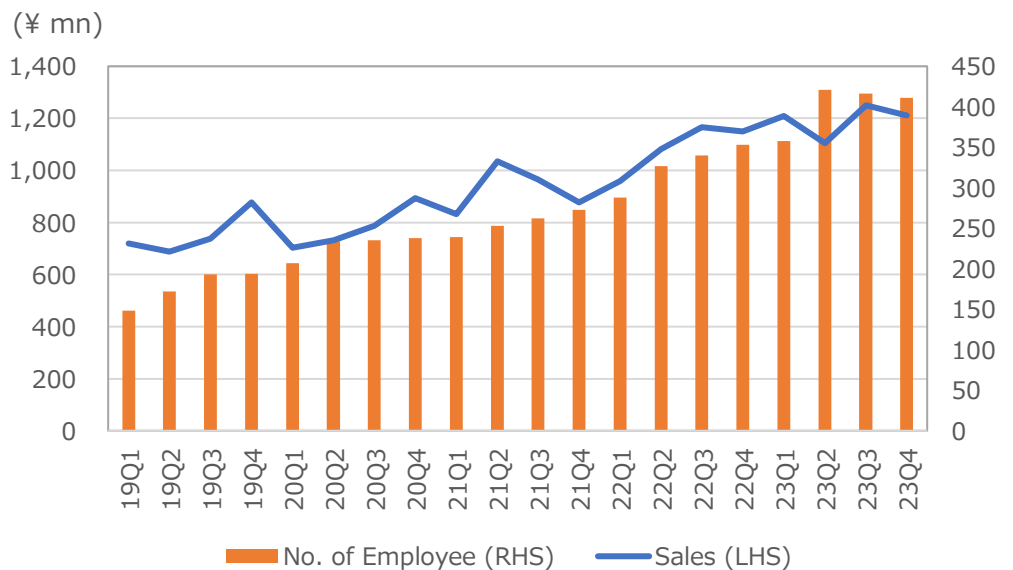
As seen in Figure 10, sales have been growing continuously every year, with an average annual sales growth rate of 19.9% from FY12/2016 to FY12/2023. On the other hand, for the DX business, recruiting engineers is a key management issue and since there is a growing shortage of engineers in Japan these days, the company is hiring more new graduates. 67 new employees were hired in 2023, resulting in an increase in training and other expenses, which also put pressure on profits. Especially in Q2, when new graduates joined the company, the overall utilization rate of engineers fell to 68.0% from 73.5% in Q1. In addition to the initially low utilization rate of new graduates, another factor is the time taken by existing employees for training; while the number of new graduates to be hired in 2024 will be limited to 30, new graduates from 2023 will become more competitive, which should lead to an increase in the utilization rate of engineers. As a result, operating profit is expected to bottom out in FY12/2023 and begin a gradual recovery.

**Figure 10: DX Earnings Trends**



Source: Strategy Advisors, based on Company Data.

**Figure 11: DX Business Sales and Number of Employees**



Source: Strategy Advisors, based on Company Data.

## Affinity of Points & Crypto Assets

### 7. Blockchain

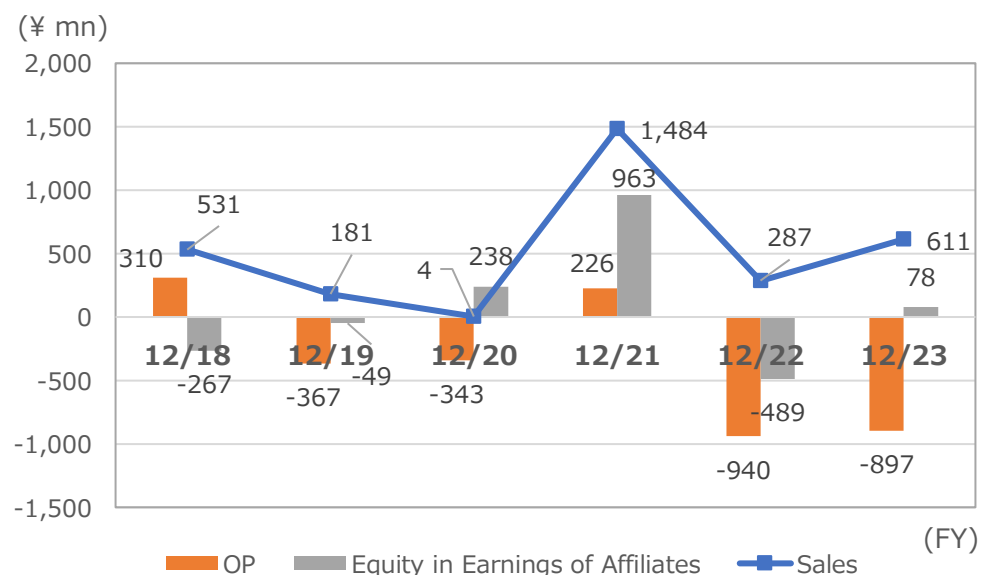
#### 1) Both Points and Crypto Assets are Tokens

CERES' other segment, Financial Service, consists of Blockchain, Online Factoring and Investment Development (CVC). Of these, the blockchain business is the one with the highest revenue volatility and the largest impact on operating income and equity in earnings of affiliates.

CERES' Mid-term Business Plan 2026 states that its management policy is to create a "token economy (substitute currency economic sphere)" consisting of the point economy sphere and blockchain. It aims to become a platform for activating social economic activities. The reason why the company, whose main business is pointing sites, has embarked on the blockchain business is based on the idea that both points and crypto assets issued by "Moppy" are virtual currencies and have a high affinity with each other.

President Takagi was quick to note the potential of crypto assets and had been considering entering the business. He formed a capital and business alliance with bitbank, a leading crypto asset exchange, in 2015: and bitbank became an equity method affiliate in July 2017. The company effectively entered the blockchain business. Initially, it was believed that the company wanted to make bitbank a subsidiary, which did not happen, but it did gain a major foothold in the market. Mercury was then established as a wholly owned subsidiary and the crypto asset sales office "CoinTrade" was opened in March 2021.

**Figure 12: Revenue Trends in the Financial Service Business**



Source: Strategy Advisors, based on Company Data.

## 2) bitbank

### One of the 3 Major Exchanges for Crypto Assets in Japan

While many crypto asset exchanges have been established in Japan, bitbank is one of the three largest exchanges, along with bitFlyer and CoinCheck (a subsidiary of Monex Group (8698 TSE Prime)). bitbank was founded in 2014 by its president, Noriyuki Hirose and launched its crypto asset exchange in March 2017; in addition to capital participation by CERES in 2015, it formed a capital and business alliance with MIXI (2121 TSE Prime) in 2021. Currently, CERES owns 23.6% and MIXI 27.6% of the company, making it an equity method affiliate of the two companies.

### Emphasis on Safety & Security

As President Hirose has commented in interviews and other articles that "safety and security" is of utmost importance, bitbank has focused on security and has never had an accident such as hacking and is believed to have established a reputation among users as a highly reliable exchange. bitbank has only handled cash transactions but plans to launch margin trading during 2024.

### Function as an Exchange & Distributor of Crypto Assets

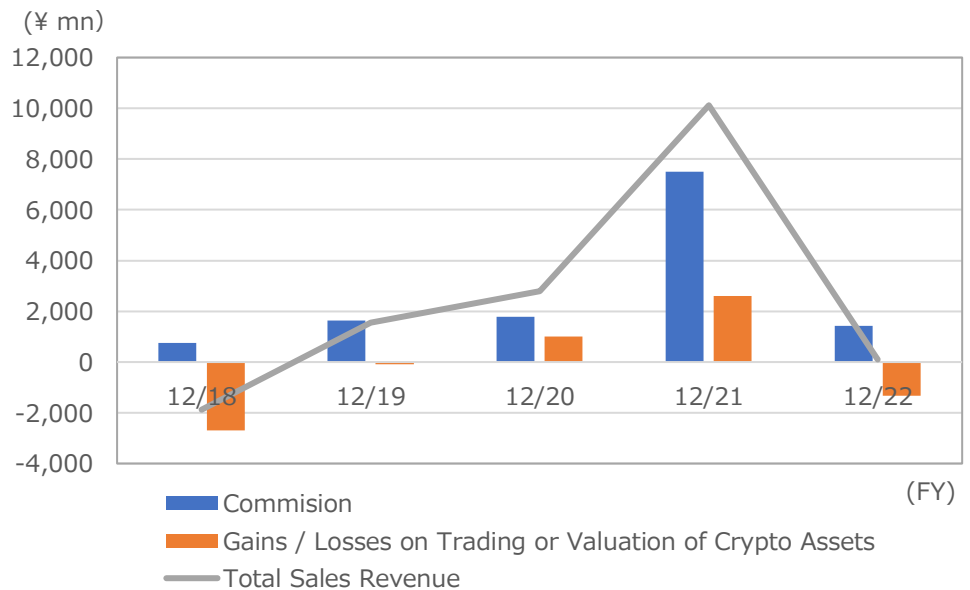
Crypto asset exchanges can be in the form of exchanges or sales offices and exchanges such as bitbank generally combine the functionality of a sales office. Mercury, a subsidiary of CERES, is a sales office only. Exchanges generally receive a commission for closing a transaction between a buyer and seller, similar to a stock exchange. Currently, bitbank charges a commission of 0.1% of the transaction amount. Some other exchanges charge zero commission for major issues such as Bitcoin. A sales office is a company that sells its own crypto assets to prospective buyers. In this case, they charge a commission in the form of a spread. The price is higher than the market price to prospective buyers and lower than the market price to prospective sellers. According to data from the Japan Virtual and Crypto assets Exchange Association, exchange commissions range from zero to 0.15%, while the spread for sales offices ranges from 0.1% to 21.63%.

### Commissions and Valuation/Trading Gains/Losses are Components of Revenue

The exchange's revenue consists of two components: (1) commission revenue and (2) valuation and trading gains/losses. Commission revenue is -0.02% for makers and 0.12% for takers in the case of bitbank. Makers are defined as transactions that are concluded by offering a price that is not on the trading board at the time. Makers have a negative commission because they make it easier to execute a trade by providing liquidity. Takers, on the other hand, are transactions that are executed with existing orders lined up on the trading board. Since takers reduce liquidity, they pay a 0.12% fee to the exchange. From the exchange's perspective, it earns a 0.1% commission for each transaction executed by a taker and a maker. The commission is based on the crypto assets traded. The level of commission varies from exchange to exchange. bitFlyer does not differentiate between makers and takers and the commission depends on the volume of transactions in the last 30 days. Other

fees include withdrawal and transfer fees, which again vary from exchange to exchange.

**Figure 13: Breakdown of bitbank's Sales Revenue**



Source: Prepared by Strategy Advisors from bitbank's Website.

On exchanges, market participants buy and sell on the board, but the exchanges themselves also hold crypto assets in their own possession to facilitate transactions. Exchanges must manage customer-owned crypto assets in cold wallets, but it takes time to release crypto assets from cold wallets when customer trades are executed, so exchanges respond to release requests with self-owned crypto assets stored in hot wallets. Cold wallets are tools for physical storage on paper or devices disconnected from the Internet, and while robust against hacking, they require time and effort to conduct daily transactions. Hot wallets are stored in an environment connected to the Internet, such as a smartphone or PC, and while they are convenient for transactions, they are at risk for hacking. Exchanges are required to store customer-held crypto assets in cold wallets for safety.

For self-owned crypto assets, valuation gains and losses calculated at the market value at the end of the fiscal year are recorded as sales revenue, which further increases the volatility of sales revenue. Since bitbank also has a sales office function, it also incurs valuation and trading gains/losses on its own crypto assets. bitbank's sales revenue declined significantly from ¥10.12 billion in FY12/2021 to 0.09 billion yen in FY12/2022. The breakdown of this revenue shows that while commissions received amounted to ¥7.51 billion in FY12/2021 and gains on the sale and purchase of crypto assets amounted to ¥2.61 billion, they were ¥1.42 billion and ¥-1.34 billion, respectively, in

**Net Unrealized Gains/Losses at the End of the Period Vary Widely Depending on the Market Price**

FY12/2022. The volatility of commissions received is also significant, but valuation and trading gains/losses add to it.

## Largest Number of Stocks Handled

bitbank is characterized by its large number of crypto assets (38), which, according to CERES, is the largest number of yen pair transactions in Japan (according to the company's research as of the end of 2023). Importantly, they also appear to be substantially tradable. For example, bitFlyer is Japan's leader in bitcoin trading, but the trading volume for other issues is expected to be limited. Coincheck is also estimated to have a significant concentration of transactions in major crypto assets. bitbank, on the other hand, is believed to be providing an environment that facilitates customer transactions in a wider range of crypto assets. As a result, according to CERES' financial results, the company is Japan's leader in altcoins (crypto assets other than bitcoin) in terms of transaction volume.

## Strategies to Increase Trading Volume by Increasing the Number of Stocks and Margin Trading

bitbank's strategy for the future is to further increase the number of crypto assets it handles, start margin trading and thereby increase the volume of transactions on its own exchange and the number of users. The company aims to become the top company in Japan in terms of the number of crypto assets it handles.

## Strategies to Attract Institutional Investors

The other is to attract institutional investors. bitbank has established Japan Digital Asset Trust Preparatory Company (JADAT) to provide asset management services for digital assets and in May 2022, agreed to collaborate with Sumitomo Mitsui Trust Holdings, including through capital participation. The company aims to obtain a trust license. If this enables custody operations, it is expected that trading of crypto assets by institutional investors, which has been hampered by the lack of custody, will begin in Japan. The company also aims to handle stable coins (crypto assets whose prices are linked to legal tender such as yen or dollar) and NFT's (non-substitutional tokens). If the company is able to generate fee income from custody assets, it is expected to contribute to the stabilization of earnings as a stock-type business.

**Figure 14: Overview of the Three Major Exchanges for Crypto Assets**

(¥ mn)	bitbank			Coin Check			bitFlyer		
Establishment	May 2014			August 2012			January 2014		
Number of Stocks Handled	38			29			22		
Transaction fees	Makers -0.02%, takers 0.12%			Bitcoin: 0%; Ethereum: makers 0.05%, takers 0.1%			Approximate constant amount x 0.01% - 0.15% (bitcoin)		
Cash on Delivery Fee	¥ 550 or 770 (over ¥30,000)			¥ 407			¥ 220-770		
Performance Trends (¥ mn)									
FY	12/20	12/21	12/22	3/21	3/22	3/23	12/20	12/21	12/22
Operating Revenue	2,790	10,120	94	20,825	28,508	7,484	7,555	27,503	7,378
Operating Profit (Loss)	1,175	5,187	-2,569	13,772	13,820	-835	1,614	17,798	-2,505
Net Profit (Loss)	965	3,683	-1,967	10,305	9,796	-485	427	12,504	-2,194
Net Assets	1,514	12,701	10,754	13,150	16,144	10,658	14,968	27,224	25,030
Total Assets	109,395	248,088	136,644	485,777	539,381	358,956	310,042	639,111	296,543

Source: Prepared by Strategy Advisors based on Company Data.

### 3) Mercury's "CoinTrade"

#### Wholly Owned Subsidiary Mercury Operates "CoinTrade" a Sales Exchange

CERES has bitbank as an affiliate but failed to take control of its management, so it established a wholly owned subsidiary, Mercury, and obtained a license to operate a crypto asset exchange. The company operates "CoinTrade," a crypto asset sales office. Since "CoinTrade" was a latecomer to the market, Mercury is focusing on staking to differentiate itself from other exchanges/sellers. In the following, we will discuss the structure of crypto assets and staking with reference to the description on the "CoinTrade" website.

#### What is Staking?

There are two main mechanisms for recording transaction data, such as transactions and transfers of crypto assets, on the blockchain: PoW (Proof of Work) and PoS (Proof of Stake). PoW is the mining method used by Bitcoin. The person who successfully calculates the values of parameters suitable for connecting data to the blockchain becomes the approver of transaction data and receives crypto assets as a reward for mining. Because of the investment required in computers and the large amount of electricity costs involved, companies are the main players and the hurdle for ordinary individuals to participate is high.

A PoS implies approval of a transaction by holding it. The right to approve transactions is given randomly to holders of crypto assets. The randomly selected person records the transaction data in the blockchain. Although random, the probability of being selected increases the more a crypto asset is held. Exchanges and sales offices will take custody of crypto assets for a certain period of time from holders of crypto assets to make it easier for them



to be selected as approvers and share the rewards they receive with those who deposited the assets. This is staking. For the holders of crypto assets, although they will not be able to withdraw them for a certain period of time, they will receive a stable income that is comparable to income gains such as bond yields or stock dividends. However, there is a risk that the asset cannot be sold even if its price fluctuates significantly while it is on deposit.

## Presence as a Staking Firm

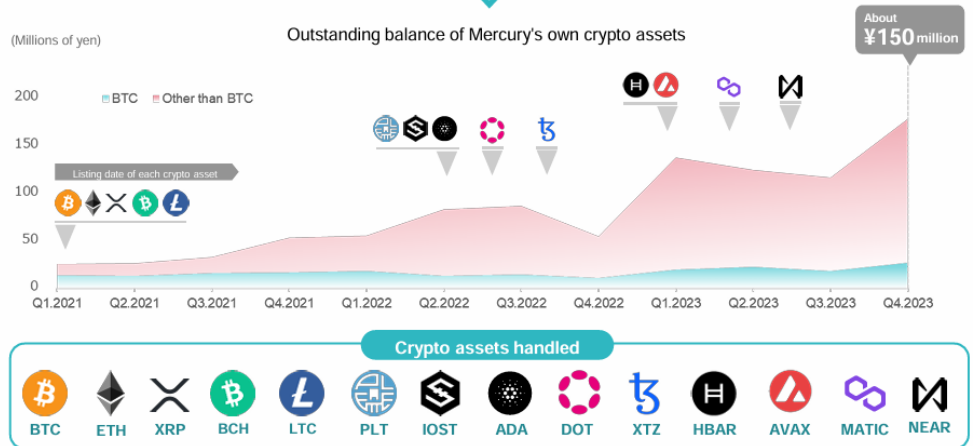
“CoinTrade” handles 14 crypto assets, of which 10 can be staked. By offering staking services, Mercury is proposing crypto assets as a means of asset management and is believed to be increasing its presence as a staking firm. Going forward, Mercury plans to increase its stock revenue by adding more stocks to its staking service, expanding the number of users and increasing the balance of assets under custody.

**Figure 15: Crypto Assets Handled by "CoinTrade" and Proprietary Balances**

### Mercury's Holdings of Crypto Assets and the Impact on PL

- Mercury holds a certain amount of crypto assets
  - To ensure trading liquidity
  - To secure a minimum staking amount
  - Because revenues are received in crypto assets
- For self-holding crypto assets, under the accounting rules, valuation/gains or losses on sale are booked to net sales.
  - \* No cash inflows or outflows with regard to valuation gains or losses.

There is a risk of price volatility for own holdings



Source: Company Data

## Deficits Continue Due to Continued Upfront Investments

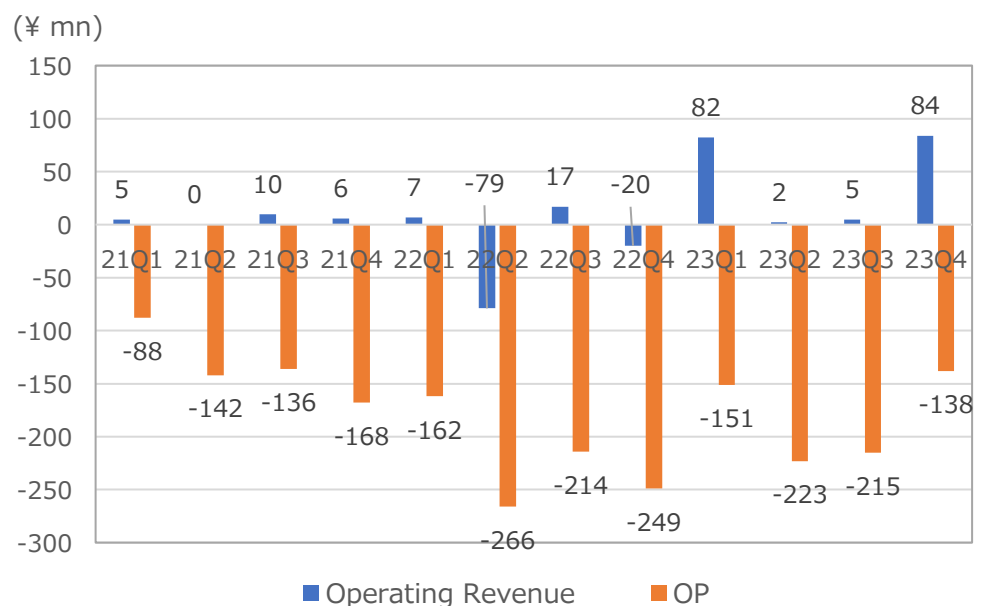
On the other hand, since the consensus algorithm for staking differs from crypto to crypto, a system must be built for each asset in order to provide staking services. For this reason, Mercury continues to invest a certain amount of money, which is a burden on profits. The company has posted an operating loss in every quarter since its inception. According to the segment information, tangible and intangible fixed assets of the Financial Service segment increased by ¥300 million in FY12/2022 and ¥200 million in FY12/2023 compared to the previous year, of which investment in software at Mercury appears to have been significant.

Mercury's revenues fluctuate based on the following factors. (1) spread income from trading crypto assets, (2) income from staking and (3) valuation and trading gains/losses on proprietary assets.

(1) Spread is equivalent to a trading commission, and as in forex trading, it earns a profit by buying from sellers at a lower price than the market value and selling to buyers at a higher price. (2) In staking, the company receives physical assets from holders of crypto assets and is compensated through PoS. (3) Mercury needs to own crypto assets for business operations. This is to ensure the liquidity of transactions, to secure a minimum staking amount, and to receive compensation for staking in crypto assets. For proprietary holdings, valuation gains and losses and sales gains and losses will be recorded as sales revenue, so sales revenue will also fluctuate significantly depending on the market price of crypto assets. However, the balance of crypto assets held by Mercury at the end of 2023 is approximately ¥150 million (Figure 15), so this should not be a major risk.

Mercury plans to continue expanding its crypto assets business and the investment burden for this purpose is expected to continue for the foreseeable future. Therefore, in order for Mercury to become profitable in terms of operating income in the short term, crypto asset prices will need to rise, and valuation and sales gains and losses will need to make a certain level of profit contribution. In the medium term, Mercury is expected to become a stock-type business as the number of users and the amount of assets under custody increase and it is expected to become a relatively stable revenue source in the crypto asset business, where prices fluctuate widely.

**Figure 16: Mercury's Quarterly Operating Revenues and Operating Profit**



Source: Strategy Advisors, based on Company Data.

Many Crypto Assets but Large Size of Mainstay Stocks Such as Bitcoin, Ethereum et.

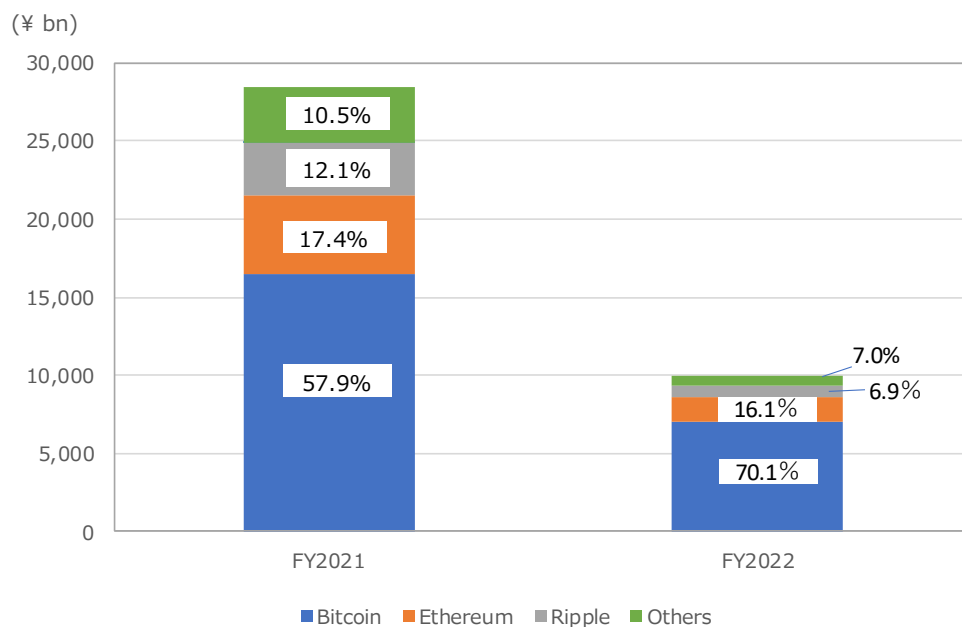
Bitcoin Price Volatility is High & Has Spiked Recently

## 4) Trends in the Crypto Asset Market

In the global market for crypto assets, market capitalization reached \$2.6 trillion as of March 28, 2024, of which Bitcoin is by far the largest at \$1.4 trillion, with Ethereum in second place at approximately \$420 billion. The presence of these two crypto assets is significant. According to the Japan Virtual and Crypto assets Exchange Association, Bitcoin will account for 70% of physical transactions in Japan in FY2022, followed by Ethereum at 16% and Ripple at 7%, however Bitcoin still dominates. Furthermore, when it comes to margin trading, Bitcoin accounts for 86%, an even higher percentage.

Price movements also vary from crypto asset to crypto asset, with Bitcoin experiencing the most volatility, followed by Ethereum. Bitcoin's price began to rise in late 2023 and has been spurred since the beginning of 2024, except for Ethereum, which has moved somewhat closer to it, but the dollar-denominated prices have not risen much. After all, Bitcoin, with its overwhelmingly large liquidity, is also an easy target for speculative moves and tends to be more volatile.

**Figure 17: Percentage of Japanese Transaction Value by Crypto Asset (Cash)**



Source: Prepared by Strategy Advisors based on data from Japan Virtual and Crypto assets Exchange Association

The price of Bitcoin reached an all-time high of over \$73,000 in mid-March. It then adjusted for a time, but as of March 28, it remained at a high level of around \$70,000. In January of this year, the U.S. SEC approved 11 Bitcoin exchange traded funds (ETFs), which is believed to have spurred a rise in crypto asset prices. The price of crypto assets fluctuates with the inflow and

outflow of risk money and in this respect it is linked to the stock market, especially the NASDAQ Composite Index, which contains many growth stocks. The NASDAQ Composite Index is heavily influenced by the performance of the underlying companies, i.e., U.S. and global economic trends, as well as interest rate trends and financial market liquidity. Crypto assets are considered to have a particularly strong relationship with market liquidity.

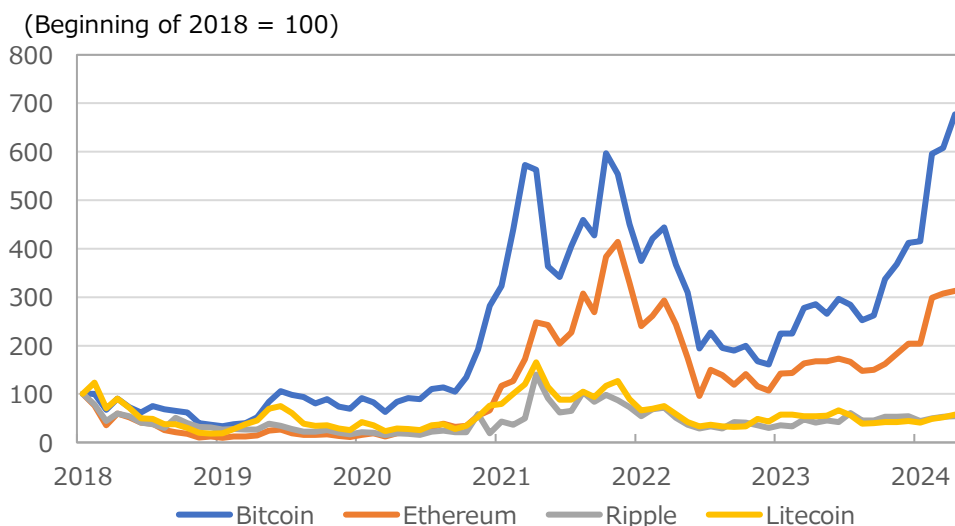
## Bitcoin is Nearing its Reward Halving

Bitcoin has an individual factor that affects its price independent of the stock market and other external circumstances. This is the halving of mining rewards. The total number of Bitcoins issued is capped at 21 million and the reward is halved after 210,000 blocks are issued in order to limit the amount of mining activity. The halving occurs approximately once every four years, and the next half-life is said to be in April or May 2024, which could be the reason for the current price increase.

Since Bitcoin mining rewards are received in Bitcoin, if rewards are halved, the amount of Bitcoin issued will also be halved. This will suppress supply and supply and demand will tighten. Market sentiment also suggests that demand may increase due to increased scarcity. However, the effect on prices has not been clear in past halving periods.

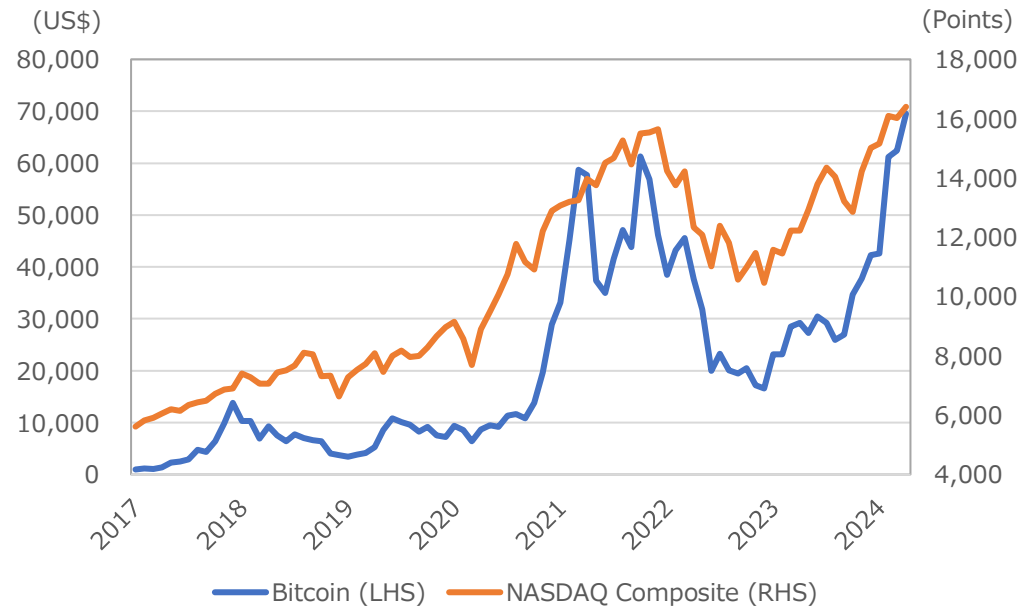
Crypto assets that use PoS, such as Ethereum, are not subject to halving like Bitcoin, but are susceptible to the price fluctuations of Bitcoin, which has greater liquidity. Ethereum's price fluctuations are linked to Bitcoin. Other crypto assets can also be said to be affected by Bitcoin to varying degrees, however all crypto assets are affected by Bitcoin. It remains to be seen what will happen to the currently rising Bitcoin price and whether other crypto assets will follow suit.

**Figure 18. Market Trends of Major Crypto Assets (Index)**



Source: Strategy Advisors from Investing.com

**Figure 19: Bitcoin Market Conditions and the NASDAQ Composite Index**



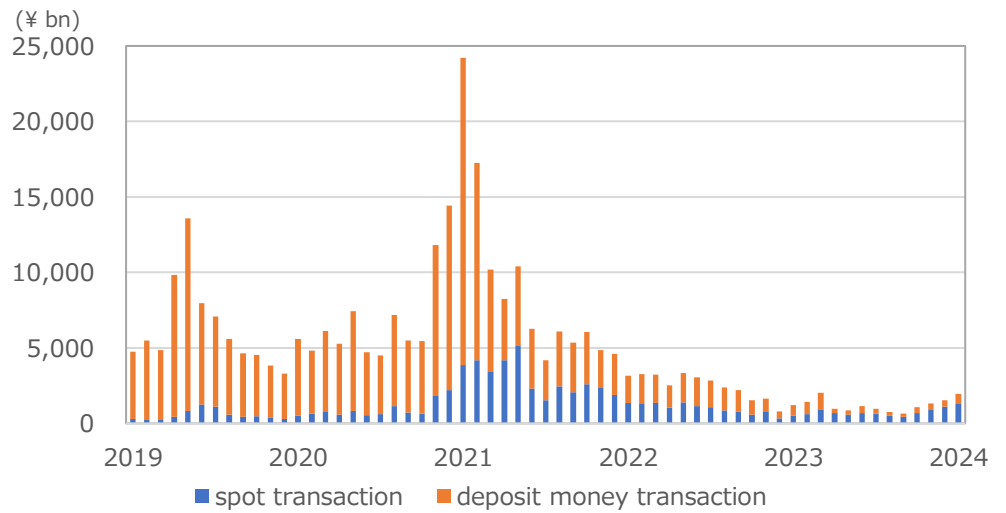
Source: Prepared by Strategy Advisors from Investing.com and other Sources.

## Rising Crypto Asset Prices Lead to Increased Trading Volumes

The transaction value of crypto assets naturally tends to increase as market fluctuations increase. In particular, buy orders increase sharply at the start of a rising market. Many participants are then expected to sell at a profit when prices have risen considerably. In the past, we have seen significant increases in trading volume during price spikes in 2019 and 2021. However, trading volume did not increase much during the upswing in 2023 and has remained at a low level. Finally, in 2024, trading volume appears to have increased slightly.

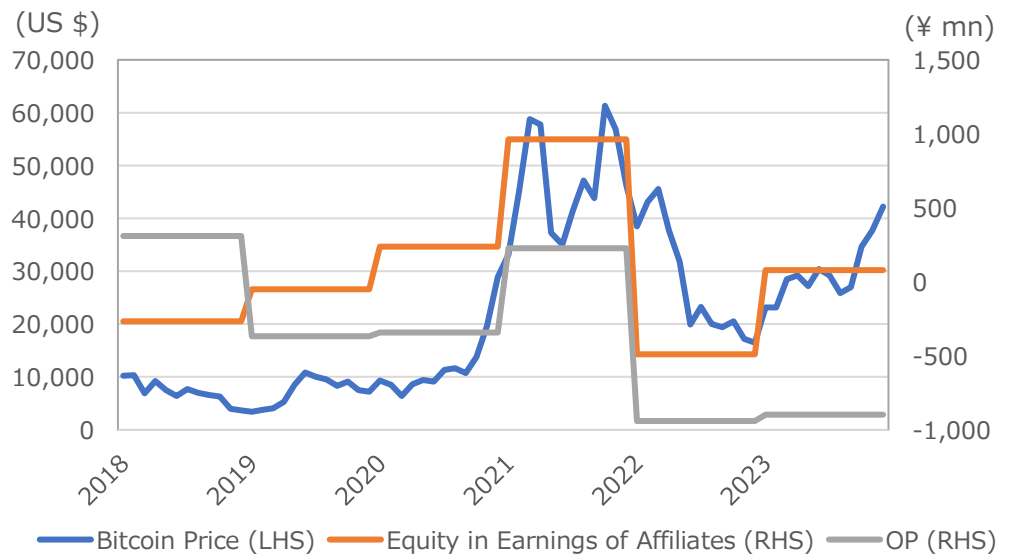
As mentioned above, bitbank, an equity-method affiliate and Mercury, a wholly owned subsidiary, have their sales and profits affected by market trends, along with trading commissions and spreads. Both companies' profits are affected by market trends, as rising market conditions increase trading volume and have a positive effect on year-end valuation and trading gains and losses. Therefore, as shown in Figure 21, the profits of both companies are linked to market trends. Mercury intends to expand its staking business and is currently investing heavily in this business, which is putting pressure on earnings.

**Figure 20: Transaction Value by Crypto Asset**



Source: Prepared by Strategy Advisors based on data from Japan Virtual and Crypto assets Exchange Association

**Figure 21: Bitcoin Price and Financial Service Business Revenue**



Source: Strategy Advisors, based on Company Data and Investing.com

## 8. Other Financial Services

### 1) Online Factoring

#### Fundraising Support Services for Freelancers

The factoring business is conducted by subsidiary labol. 2018 saw the acquisition from YOUVISION of the "Shikin-Chotatsu Pro (Funding Professional) " business, a financial information website, which is a portal site that provides funding information for businesses. 2020 saw the launch of a freelance funding support service called "nugget" (now "labol") service was launched. Currently, labol operates "Shikin-Chotatsu Pro (Funding Professional) " and "labol" and "labol card payment", a card payment service for freelancers.

#### Purchase Trade Receivables from Users

The "labol" service is a business that purchases trade receivables from freelance users to support their cash flow. There are two types of factoring: three-party factoring, in which the factoring company notifies the user's clients that it will purchase the trade receivables and receives funds from the clients; and two-party factoring, in which the user's clients are not notified. "labol" is the latter. In the case of bilateral factoring, the factoring company bears the risk of default, so the key is how accurately the credit screening of the user and the client can be conducted. The key to success in this regard is to provide a quick and easy way for users to make decisions online, which will improve user-friendliness and expand business. With "labol," the company claims to be able to make a deposit in as little as 60 minutes.

#### Postpone User Payments Through Cards

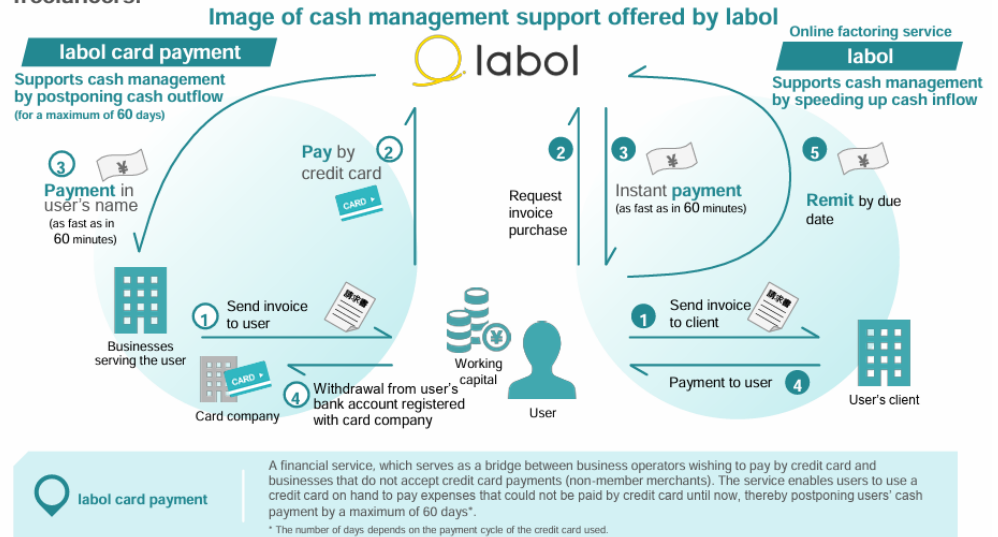
In 2022, the company entered into a business alliance with Orient Corporation (8585 TSE Prime) to launch the "labol card payment" service. This connects users who wish to make card payments with business partners who do not offer card payment. When a user receives an invoice from a business partner and applies to use the service, labol will pay the funds to the business partner in a short period of time. The user pays labol at a later date by credit card, plus a fee. This allows users to delay payment for up to 60 days, benefiting their cash flow.

Figure 22: "labol" financial assistance for freelancers

## labol Business Strategy

Provides cash management support for both sales and expenses with factoring and credit card payments.

Building up the number of users and GMV and contribute to accelerate the business of freelancers.

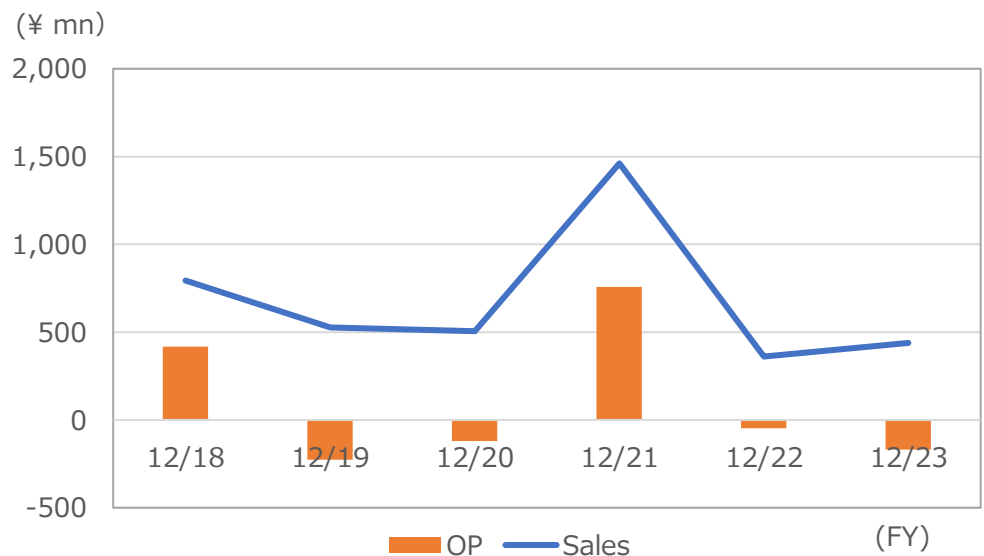


Source: Company Data

labol is currently making upfront investments and while sales are increasing, they have not yet contributed to profits. While the business is able to earn commissions through factoring and card payments, the cash management side of the business is burdened with debt purchase funds, which will increase further as the scale of the business grows. For this reason, the company is planning an IPO of labol.



**Figure 23: Revenue Trends for Financial Service Businesses Excluding Mercury**



Source: Strategy Advisors, based on Company Data.

## 2) Investment Development Business (CVC)

CVC is an investment operation that invests primarily in venture companies that have an affinity with the company's business. The business has three main objectives.

First, investing in companies that can add some value to the company's existing business has the potential to generate business synergies; second, it can be a means for the company to explore new business opportunities; and third, it can generate capital gains as a pure investment. To date, the company has invested a total of ¥3.8 billion in 52 companies; and as of the end of FY12/2023, it had 40 companies with ¥2.97 billion in investment securities on its balance sheet. Four of these companies, amounting to ¥510 million, are listed companies.

At the end of 2023, the company established a wholly owned subsidiary, Apollo Capital, which will set up the Apollo Capital 1 fund, in which CERES will invest. The company has transferred 17 companies in the mobile sector with a book value of approximately ¥1 billion. Until now, investments have been made using funds on CERES' balance sheet, but the company has switched to a policy of raising funds and conducting operations as a fund. Since the company remains a consolidated subsidiary, this will affect earnings. However, as a whole, CVCs have a small amount of investment per investment and so profit fluctuations due to stock transactions will be limited.

### Targeting Business Synergies & Capital Gains

## 9. Earnings Trends

### 1) Actual Results for FY12/2023

For FY12/2023 (announced on February 9, 2024), net sales increased 17.2% YoY to ¥24.07 billion and operating income decreased 10.3% YoY to ¥1.11 billion. Although sales exceeded the company's initial forecast of ¥23.0 billion, operating income fell short of initial forecast of ¥1.6 billion. The both sales and operating income, however, slightly exceeded the revised forecast of ¥24.0 billion in sales and ¥1.0 billion in operating income that was announced at the time of the Q3 results announcement.

By segment, sales in the Mobile Service business increased 15.8% YoY, while operating profit declined 3.2% YoY. Looking at sub-segments, revenue from point services stagnated. Net sales declined 1.6% YoY, while operating income fell 17.2% YoY. Although revenue from "Moppy" was firm, "AD.TRACK", an affiliate advertising service, and article advertising-type media were affected by the industry-wide weakness in Internet advertising and the ongoing impact of restrictions on advertising expressions under the Pharmaceutical and Medical Device Act covering pharmaceuticals and cosmetics and the Act Against Unjustifiable Premiums and Misleading Representations Act. In addition, sales of "Moppy" are recorded when users act, but the granting of points, which is a cost of sales, is recorded after the approval of advertisers, which causes a time lag. In FY12/2023, the negative impact of this was seen in Q1, but the company was unable to recover that amount. On the other hand, in the D2C sub-segment, sales grew 2.2 times YoY to ¥5.1 billion and operating profit 4.2 times YoY to ¥730 million, both of which were significantly higher than initial forecasts. The strong growth of "Pitsol" is considered to be the main reason for this increase.

Net sales of the Financial Service Business were ¥610 million in FY12/2023, compared with ¥280 million in FY12/2022, and operating income was ¥-890 million, compared with ¥-940 million in FY12/2022. Mercury's operating income slightly improved from ¥-0.89 billion to ¥-0.72 billion. Equity in earnings of affiliates turned to a profit of ¥0.07 billion from ¥-0.48 billion due to the recovery of bitbank's earnings. In addition, an impairment loss of ¥360 million on software at Mercury was recorded as an extraordinary loss.

### 2) Forecast for FY12/2024

The company's forecasts for FY12/2024 are net sales of ¥27 billion, up 12.2% YoY and operating income of ¥1.6 billion, up 43.1% YoY. In Mobile Service, the company expects a gradual recovery in Point business. D2C is expected to continue to perform well, especially for "Pitsole." Given that D2C had been growing strongly every quarter until Q4 FY12/2023, the forecast is somewhat conservative. However, the company is expected to be cautious in its forecasts due to uncertainty over the trend of hit products, while DX is expected to see a moderate recovery in profits in FY12/2024 as the burden of

**Landed on the Line of the Revised Forecast at the Time of the Q3 Earnings Announcement**

**"AD.TRACK" & Advertorial media Slumped While D2C Performed Well**

**bitbank Turns Slightly Profitable**

**Company Expects Overall Sales and Profits to Increase in FY12/2024**

hiring engineers, which was large in FY12/2023, eases amid forecasts for steady sales growth.

Operating losses in Financial Service is expected to narrow slightly. Mercury continues to invest and has a heavy fixed cost burden but given the recent surge in Bitcoin and Ethereum prices, there is room for upside, although it will depend on future market conditions. The company is not expected to factor the impact of rising crypto asset prices into its earnings forecast.

## **bitbank's Equity in Earnings (Loss) of Zero Factored In**

Equity in earnings of affiliated companies is tentatively set at zero due to the difficulty of forecasting bitbank's earnings, which are highly sensitive to market fluctuations. bitbank's equity in earnings for the year ended December 31, 2021 was ¥960 million. The number of issues handled by bitbank has increased significantly compared to 2021 and if crypto assets as a whole see rising market prices and trading volume, the earnings impact is expected to be significant.

**Figure 24: CERES Segment Revenue Trends**

(¥ mn)	FY12/21	FY12/22	FY12/23	FY12/24CoE
<b>Mobile Service</b>				
<b>Sales</b>	16,467	20,447	23,476	25,720
YoY	NA	24.2%	14.8%	9.6%
Point	12,364	14,041	13,817	14,000
YoY	NA	13.6%	-1.6%	1.3%
D2C	1,083	2,246	5,053	6,400
YoY	NA	107.4%	125.0%	26.7%
DX	3,714	4,358	4,776	5,500
YoY	19.1%	17.3%	9.6%	15.2%
Transaction Value Within Segments	-694	-198	-170	-180
<b>Operating Profit</b>				
OPM	13.8	16.3%	13.6%	14.6%
Point	NA	2,995	2,480	2,830
OPM	NA	21.3%	17.9%	20.2%
D2C	NA	175	730	785
OPM	NA	7.8	14.4%	12.3%
DX	528	227	106	275
OPM	14.2%	5.2%	2.2%	5.0%
Transaction Value Within Segments	NA	-106	-129	-130
<b>Financial Service</b>				
<b>Sales</b>	1,484	287	611	1,300
YoY	NM	-80.7	112.9%	112.8
<b>Operating Profit</b>	226	-940	-897	-780
OPM	15.2%	-327.5%	-146.8%	-60.0%
Equity in Earnings (losses) of Affiliates	963	-489	78	0
<b>Inter-Segment Transaction Value/Adjustment</b>				
Sales	-105	-198	-17	-20
Operating Profit	-941	-1,105	-1,172	-1,380
<b>Whole Company</b>				
Sales	17,846	20,536	24,070	27,000
Operating Profit	2,305	1,246	1,118	1,600
Recurring Profit	3,499	679	1,217	1,600
Net Profit	2,775	46	451	800
EPS (¥)	251.8	4.1	39.6	70.1

Source: Strategy Advisors, based on Company Data.

## 3) Financial Strength

### Financial Strength is Sound

The company's balance sheet can be said to be sound: shareholders' equity at the end of FY12/2023 was ¥9.88 billion, the equity ratio was 38.1%, and interest-bearing debt was ¥7.36 billion. The company has ¥8.11 billion in cash and deposits, leaving it in a net cash position. ¥2.97 billion in operating investment securities held by CVC should not pose a problem on the balance sheet, even if a certain amount of impairment loss is incurred. Goodwill is also limited at ¥1.53 billion. The investment in bitbank, an equity-method affiliate, is ¥3.12 billion, but this should not pose a significant problem for CERES' balance sheet for the time being. In terms of cash flow, investments in property, plant, and equipment and intangible assets have been limited, and the company has the capacity for future mergers and acquisitions. Although the company is involved in the crypto asset business, which carries a high risk of earnings volatility, it can be said that the company is developing its business within its risk tolerance.

## 4) Shareholder Returns

### Stable Dividend Likely for the Time Being

Although CERES has relatively high earnings volatility, its dividend per share will be 20 yen for three consecutive fiscal years, including the forecast for FY12/2024, excluding 40 yen in FY12/2021, when the company posted a high level of profit. As a result, the dividend payout ratio has also fluctuated widely: 15.9% in FY12/2021, 484.9% in FY12/2022, 50.5% in FY12/2023, and 28.5% in the FY12/2024 forecast. Although the company has not indicated a clear dividend payout ratio policy, it is expected to make decisions while keeping in mind earnings trends, future growth investments, DoE and other indicators. For the time being, the company will likely continue to pay a stable dividend.

**Figure 25: CERES Segment Revenue Trends (Quarterly Basis)**

(¥ mn)	FY12/22				FY12/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Mobile Service</b>								
Sales	4,674	4,961	5,358	5,454	5,314	5,613	5,975	6,574
Point	3,324	3,422	3,576	3,719	3,525	3,359	3,325	3,608
D2C	429	541	622	654	645	1,174	1,433	1,801
DX	960	1,082	1,167	1,149	1,210	1,105	1,250	1,211
Intra-Segment Transactions	-39	-84	-7	-68	-66	-25	-33	-46
Operating Profit	1,007	588	878	818	686	762	813	926
Point	885	597	798	715	506	609	612	753
D2C	37	-15	59	94	59	349	153	169
DX	93	39	53	42	152	-162	80	36
Intra-Segment Transactions	-10	-32	-32	-32	-32	-33	-32	-32
<b>Financial Service</b>								
Sales	66	-2	106	117	218	89	99	205
Operating Profit	-176	-284	-231	-249	-137	-257	-263	-240
Equity in Earnings (Losses) of Affiliates	2	-312	-11	-168	109	-36	-99	104
<b>Adjustment</b>								
Sales	-31	-70	-50	-47	-7	-7	-1	-2
Operating Profit	-237	-301	-277	-290	-296	-292	-280	-304
<b>Whole Company</b>								
Sales	4,709	4,889	5,414	5,524	5,525	5,695	6,073	6,777
Operating Profit	594	3	370	279	253	213	270	382

Source: Strategy Advisors, based on Company Data.

## 10. Medium to Long-Term Outlook

### Target Recurring Profit of ¥10 billion under Mid-Term Management Plan 2026

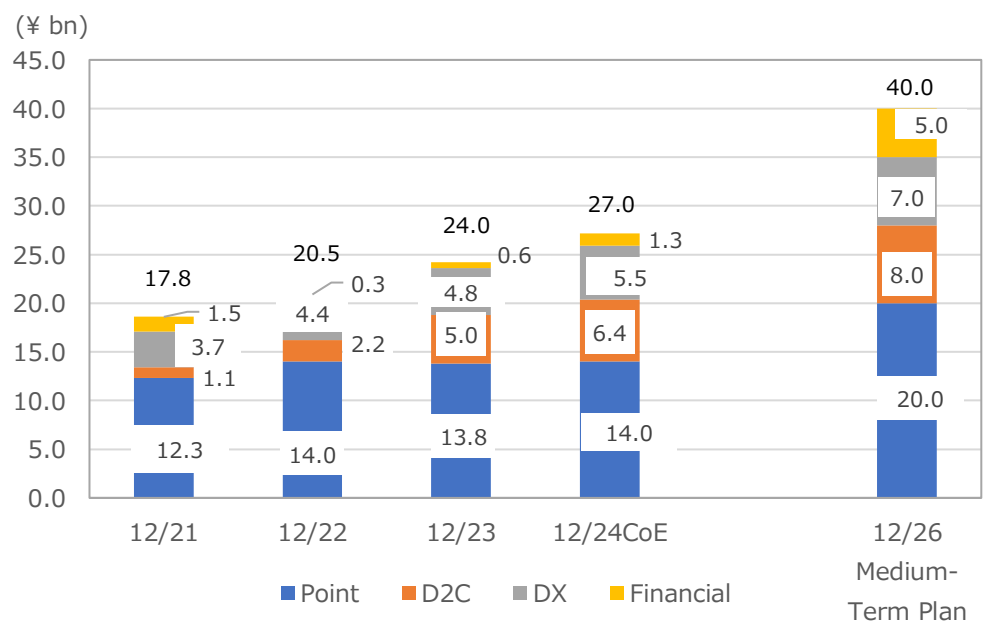
In the Mid-term Business Plan 2026 announced in 2021, the company's management policy states, "We aim to build a token economy platform consisting of a points economy and a blockchain to stimulate social and economic activities". The company's Mobile Service include "Moppy" as the main service. In Mobile Service, the company will establish a point economy through ASP and D2C, with "Moppy" as its mainstay. In Financial Service, in addition to exchanges and sales outlets for crypto assets, the company assumes that the arrival of the Web 3.0 era will lead to the penetration of its technology into NFT (non-substitutional tokens) and DAO (autonomous decentralized organizations) and aims to become the No. 1 company in the blockchain domain.

### Point Sales Lagged, D2C Ahead of Schedule

The numerical targets for FY12/2026 are sales of ¥40 billion compared to ¥17.8 billion in FY12/2021 (new revenue recognition basis) and recurring profit of ¥10 billion compared to ¥3.49 billion in FY12/2021.

By segment, the company is targeting sales of ¥35.0 billion and recurring profit of ¥5.0 billion for Mobile Service in FY12/2026. The company forecasts call for sales of ¥25.7 billion in FY12/2024 for this segment, which is behind the company's progress rate. Although the number of "Moppy" members is steadily increasing and sales are strong, the affiliate advertising "AD.TRACK" and advertorial media have been affected by adjustments in the Internet advertising market. On the other hand, sales of D2C, which was initially considered an ambitious target, are expanding at a faster pace than planned. Sales have expanded substantially thanks to the blockbuster success of "Pitsole". DX is also expected to remain in line with the plan.

**Figure 26: CERES Segment Revenue Trends**



Source: Strategy Advisors, based on Company Data.

## Mobile Service are Within Attainable Range in Terms of Profit

When considering profit by segment, it is assumed that corporate expenses will cost ¥1.5 to 2.0 billion per year, so in order to achieve the recurring profit target of the medium-term management plan, recurring profit of ¥6.0 billion or more would be required for Mobile Service. Although the recurring profit target for each sub-segment is not indicated, if sales of ¥20 billion can be achieved in Points, an operating profit margin of around 20% can be expected, which would result in an operating profit of around ¥4 billion. DX has also been achieving an operating profit margin of more than 10%, so an operating profit of about ¥1 billion is also expected. If so, operating profit before intersegment adjustments would be ¥6 billion.

## Achieving in Financial Services a Hurdle

The Financial Service segment's highest recurring profit to date was ¥1.40 billion in FY12/2021, and the hurdle to reach ¥5 billion is expected to be high. It is expected that conditions in the external environment, such as rising crypto asset market conditions and increased investment returns in CVC, will

need to be met. bitbank, an equity-method affiliate, currently handles 38 stocks, a significant increase from 2021, and is expected to increase further; so, if conditions are as favorable as they were in FY12/2021, higher profits can be expected. Mercury will likely continue to face a heavy fixed cost burden, but the company aims to improve earnings by increasing the number of staking currencies, the number of accounts and assets under custody. CVC is aiming for an aggregate exit amount of at least ¥5 billion from FY2024 to FY2026.

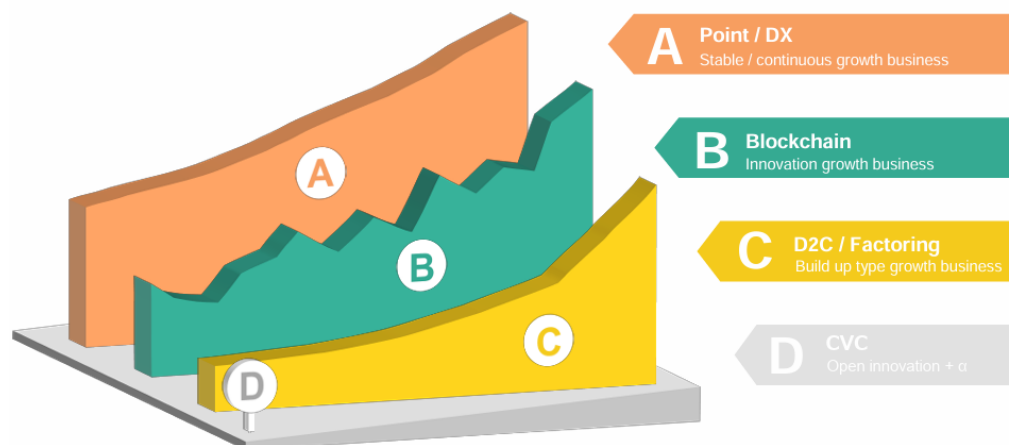
The company sees its business portfolio as being divided into three different growth models: (A) Point and DX, which are stable and continuous growth businesses; (B) Blockchain, which is an innovative growth business; and (C) D2C and factoring, which are new and accumulative growth businesses. The company is aiming for stable growth in points and DX and discontinuous rapid growth in blockchain and D2C. The company's appetite for growth is very strong and it continues to invest aggressively. There is also a risk of earnings volatility, as the company deals in crypto assets, which are subject to high price volatility. On the other hand, the company is investing mainly in areas peripheral to existing businesses and areas with synergies, and risk management is considered, such as doing so while maintaining a sound financial position.

**Figure 27: Growth Image for Medium-Term Management Plan 2026**

### An Image of Growth up to 2026

We will pursue medium-term growth leveraging three business portfolios that feature varying growth models.

We plan to achieve stable growth with Point and DX while aiming for dynamic and rapid growth with Blockchain and D2C.



Source: Company Data



## 11. Comparison with Other Companies in the Industry

### Mobile Service Peers

CERES' business portfolio is unique in that it invests a considerable amount of management resources in the Point business, mainly "Moppy"; and the crypto asset business, mainly bitbank and Mercury. In the mobile business, GMO Media (6180 TSE Growth), which operates "Point Town," and CARTA HOLDINGS (3688 TSE Prime), which operates "EC Navi," are competitors among the listed competitor companies.

GMO Media is a subsidiary 66.0% owned by GMO Internet Group. In addition to "Point Town," GMO Media operates media in the education, beauty, and gaming fields. In FY12/2023, 87% of sales came from the media division, of which Point Town is estimated to be the mainstay. The remainder is in the Solutions division. The Media division's operating profit margin was 7.0%. CERES' point business had a 13.7% operating profit margin in FY12/2023, which is estimated to be higher than GMO Media's media division's profit margin, even taking into account inter-segment adjustments.

CARTA HOLDINGS is a subsidiary of the Dentsu Group (53.4% stake), and DIGITALICO, a wholly owned subsidiary of CARTA HOLDINGS, operates EC Navi. Internet-related services, to which EC Navi and other services belong, account for 30% of total sales, with an operating profit margin of 5.6%. Although it is difficult to make a general comparison since many businesses other than "EC Navi" are included, we estimate that the profit margin of CERES's point business is high, even considering CERES's inter-segment adjustments.

"A8.net", operated by FAN Communications (2461 TSE Prime), is the leading ASP. The CPA Solution business, which includes this business, had sales of ¥6.01 billion and operating profit of ¥3.48 billion in FY12/2023. Even taking into account the -0.82 billion yen in inter-segment adjustments, FAN Communications' profitability is high. On the other hand, CERES' ASP is estimated to be marginally profitable at present.

### Monex Group in Blockchain

In blockchain, Monex Group (8698 TSE Prime), which owns CoinCheck, is a publicly traded company. Coincheck's crypto asset sales volume is significantly larger than bitbank's, and the company tends to make large profits during price spikes and the crypto asset business earned ¥13.8 billion of the ¥20.8 billion in pre-tax income of the Monex Group during the 2021 spike. In the cumulative Q3 of FY3/2024, the division's pre-tax profit was at breakeven.

**Figure 28: Profitability Comparison with Peers**

Company Name	Code	FY	Sales (¥ mn)	OP (¥ mn)	RP/Pretax Profit (¥ mn)	OPM (%)	ROE (%)	ROIC (%)	Capital Adequacy Ratio (%)
<b>CERES</b>	<b>3696</b>	<b>12/23</b>	<b>24,070</b>	<b>1,118</b>	<b>1,217</b>	<b>4.6</b>	<b>5.0</b>	<b>8.1</b>	<b>35.4</b>
GMO Media	6180	12/23	6,266	533	540	8.5	16.2	37.8	43.5
CARTA HOLDINGS	3688	12/23	24,111	1,301	1,798	5.4	-9.3	58.9	47.2
FAN Communications	2461	12/23	7,396	2,068	2,103	28.0	6.9	NM	76.2
Monex Group	8698	3/23	79,304	NA	4,669	NA	3.3	64.6	6.6

Note: FAN Communications is not shown because its EV is negative in the calculation.

Source: Prepared by Strategy Advisors based on Company Data.

## 12. Stock Trends and Valuations

### Stock Prices Have Risen Sharply Since December '23

CERES' stock price has been rising since the beginning of December 2023 and has risen about 90% in the current period from ¥915 at the end of November. Although the overall stock market has also risen significantly during this period, with the Nikkei 225 reaching a new high; the rise in CERES' share price is likely due mainly to the rise in the price of crypto assets.

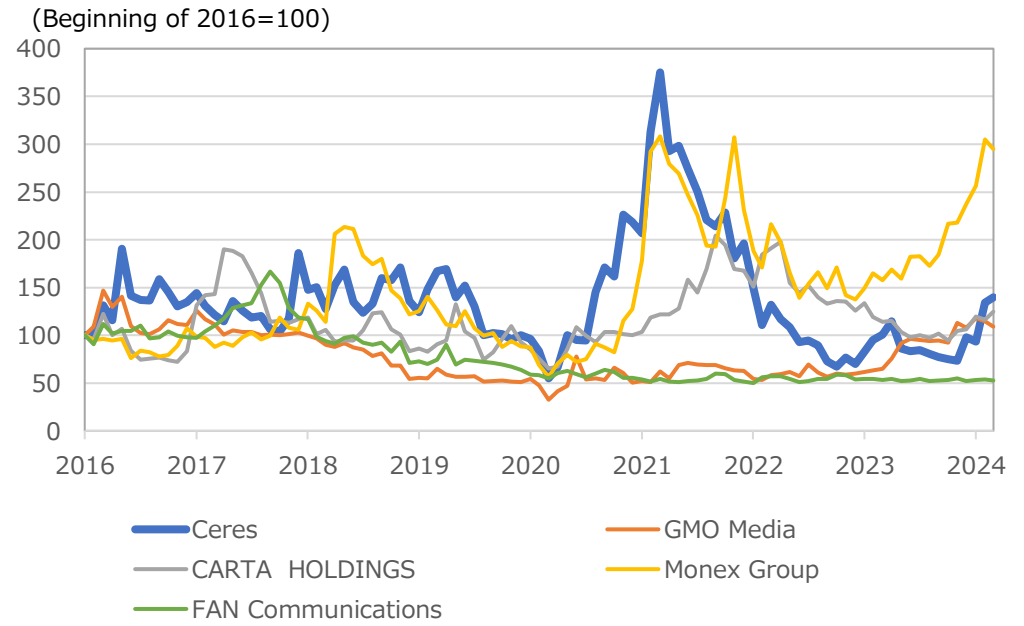
### However, Lagging Against Monex Group

Comparing the company's stock price trends with its peers such as GMO Media and CARTA HOLDINGS (point sites), FAN Communications (APS), and Monex Group (crypto assets), the company is by far the most closely linked to Monex Group. Comparing the company's stock price to the Bitcoin price shows a very high correlation. However, even though CERES' stock price has been performing well recently, the price of Bitcoin has hit a record high and Monex Group's stock price is still rising to near its peak, while CERES' stock price has not recovered to that extent. Two factors may be responsible for this.

First, while CoinCheck, which is part of the Monex Group, is an exchange that mainly handles Bitcoin, bitbank, an equity-method affiliate of CERES, is unique in that it handles many stocks other than Bitcoin. As mentioned above, prices of non-Bitcoin issues have not risen as much as those of Bitcoin and may be lagging behind because of this. In addition, its subsidiary Mercury is mainly engaged in staking, so it is unlikely to be directly affected by the Bitcoin price.

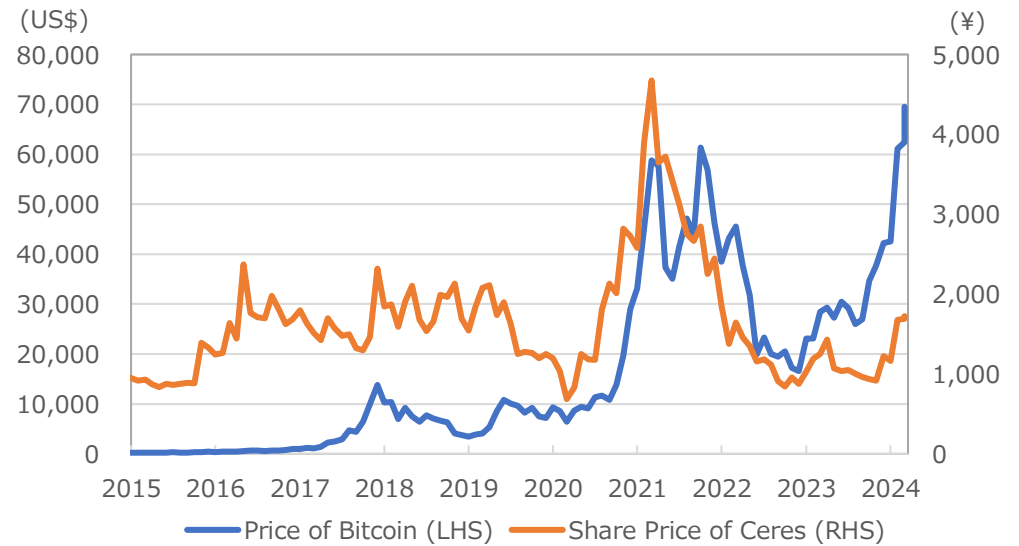
Second, demand for CERES' current revenue source, Mobile Service, especially in the area of Internet advertising such as ASP, has been weak, which may have affected its stock price, just as the stock prices of other companies in its industry have been weak.

**Figure 29: Share Price Comparison with Peers**



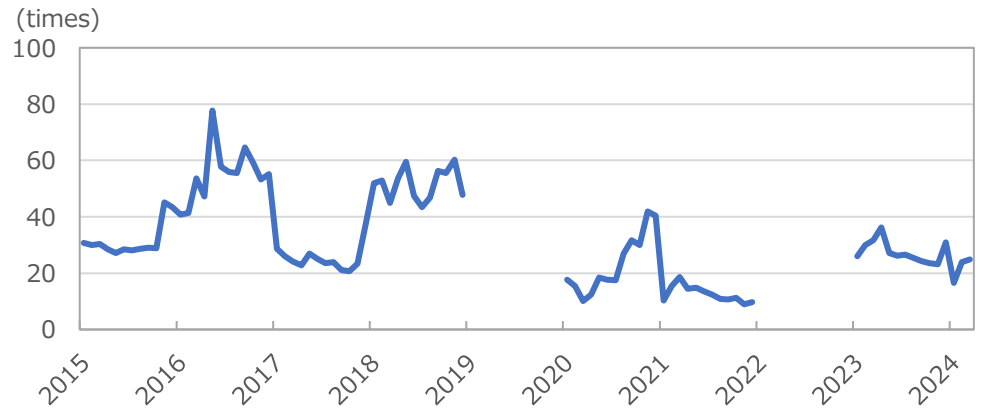
Source: Strategy Advisors

**Figure 30. bitcoin price and CERES stock price**



Source: Investing.com, Strategy Advisors

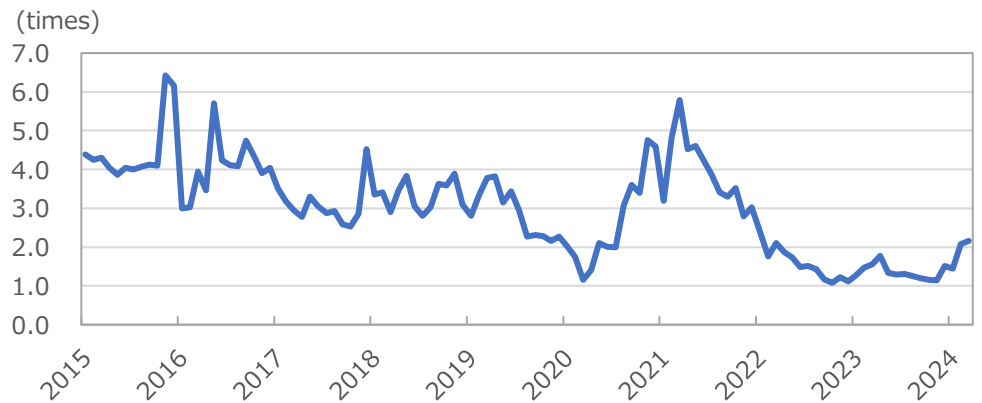
**Figure 31: Trends in PER**



Note: Excludes 2019 and 2022, when profit levels were very low.

Source: Strategy Advisors

**Figure 32: Trends in P/B ratios**



Source: Strategy Advisors

## Valuation

CERES' earnings tend to be volatile due to price fluctuations of crypto assets, and in FY12/2019 and FY12/2022, net income fell to almost break-even levels whilst PER was very high. Excluding those periods, PER has been in the range of 15-40x over the past five years. The current PER based on the FY12/2024 forecast is 23.4x, which means there is still upside in the above range; PBR is also 2.0x, which is high for the past two years, but not high on the historical range. In addition, the company's "Progress of the Plan for Compliance with Listing Maintenance Criteria," released on February 9, 2024, shows that the minimum and median estimated P/E ratios on the business day following the announcement of the earnings forecast for the past five years were 15.2x and 22.6x, respectively. This is similar to our estimated ranges above.

Although it is difficult to compare CERES with its peers, its PER is higher than those of Internet advertising-related companies such as GMO Media and FAN Communications. Since last December, probably due to the rise in crypto asset prices, CERES' share price has risen significantly.

Short-term stock prices will likely be influenced by trends in crypto asset prices. The extent to which the prices of Bitcoin and Ethereum rise and the extent to which the prices of other stocks follow will be major variables. In the medium term, the focus will be on fundamentals such as CERES' steady growth in the point business, the expansion of D2C and factoring and the recovery of prior investments in crypto assets. While crypto asset prices will continue to have an impact, the share price is expected to shift from a back-and-forth range to an upward trajectory once the growth strategy becomes manifest in the form of earnings.

**Figure 33: Comparison of Valuations with Peers**

Company Name	Code	Latest Results	Stock Prices (March 28) (¥)	Market Cap. (¥ mn)	PER CoE (Times)	PBR Actual (Times)	Dividend Yield CoE (%)	ROE Actual (%)
<b>CERES</b>	<b>3696</b>	<b>23/12</b>	<b>1,743</b>	<b>19,893</b>	<b>24.9</b>	<b>2.2</b>	<b>1.1</b>	<b>5.0</b>
GMO Media	6180	23/12	3,095	5,391	12.8	2.3	3.9	16.2
CARTA HOLDINGS	3688	23/12	1,565	39,388	49.2	1.7	3.5	-9.3
FAN Communications	2461	23/12	399	26,433	17.5	1.5	4.8	6.9
Monex Group	8698	23/3	894	230,262	NA	2.3	NA	3.3

Note: Monex Group does not disclose company forecasts

Source: Prepared by Strategy Advisors based on Company Data.

## 13. Risk Factors

### Crypto Assets and CVC are an Earnings Volatility Risk

Some of the company's businesses, such as crypto assets and CVC, are risky by the nature of their business. In particular, the prices of crypto assets are expected to continue to fluctuate, as they have in the past. Therefore, in terms of the income statement, certain revenue fluctuations are expected to continue. However, as mentioned earlier, the company has a comfortable balance sheet and management appears to have a solid risk management program in place.

Mercury continues to invest in business expansion, posting a ¥380 million impairment loss on the business's systems and other assets in FY12/2023. In addition to the recurring profit level, the CVC and crypto asset businesses will be a factor that causes profit volatility in the net income level as well.

## 14. ESG

### 1) Governance Structure to Promote Diversity

CERES has eight consolidated subsidiaries and one equity method affiliate. Satoshi Takagi, founder and president, owns 5.98%, and Juno & Company, of which he is a director, owns 10.33% (as of December 31, 2023). The company is organized as a company with an audit committee.

In 2020, the Company established the Nomination and Compensation Advisory Committee as a voluntary advisory body to the Board of Directors, with a majority of its members being independent outside directors. The committee deliberates on the election and dismissal of directors, the election and dismissal of representative directors (including succession planning), and executive compensation, and reports its findings to the Board of Directors. Two out of three members of both the Nomination Committee and the Compensation Committee are outside directors.

Three out of eight directors, or 37.5%, are independent outside directors. Two of the three Audit Committee members are outside directors. The Corporate Governance Code (CG Code, Principle 4-8) requires at least one-third of directors to be independent outside directors, which meets the CG Code standard. The company has one female director, Kana Chitose, who is an in-house director (Audit and Supervisory Committee member) (the ratio of female directors is 12.5%).

According to the Corporate Governance Report submitted in March 2024, the company has implemented all the principles of the CG Code.

According to its annual securities report for the fiscal year ended December 31, 2023, CERES has 13.8% female managers and 27.8% female employees (as of the end of 2023). According to a survey by Tokyo Shoko Research, of the 2,456 companies whose fiscal year ended March 31, 2023, the average ratio of female managers was 9.4% (1,706 listed companies), making CERES' ratio higher than the average for listed companies.

In response to the government's "Women's Policy," the TSE revised its Listing Regulations to recommend that companies listed on the prime market (1) strive to appoint at least one female director, corporate auditor, or executive officer by 2025, (2) aim to increase the percentage of female directors, corporate auditors, or executive officers to 30% or more by 2030, and (3) formulate action plans to achieve these goals. (iii) encourage the formulation of an action plan to achieve these goals.

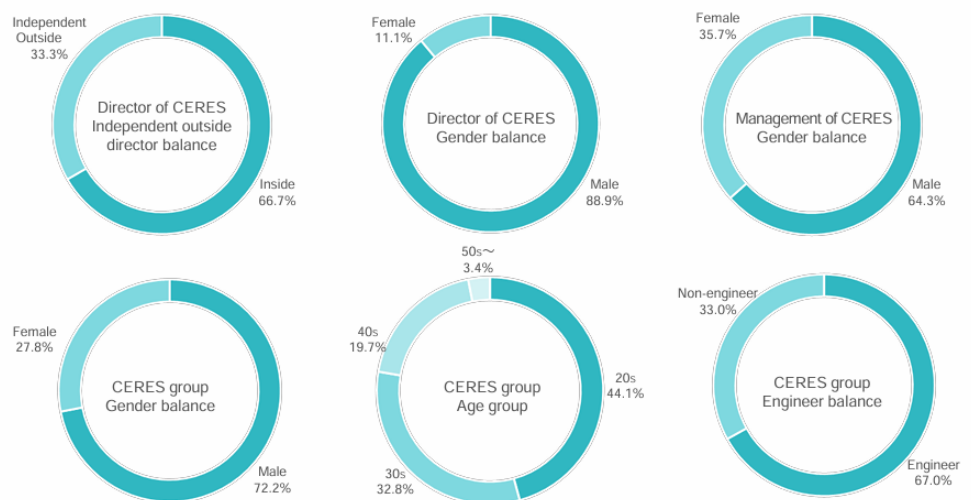
### Ahead in Diversity

**Figure 34. Diversity Promotion in CERES (as of the end of 2023)**

## Promoting Governance and Diversity

Boost corporate value over the medium to long term by strengthening corporate governance.

Promote diversity, including gender equality, to achieve sustainable growth.



Note: Management positions here are based on different criteria than in the Annual Report.

Source: CERES, "Financial Results for the Year Ended December 31, 2023" (February 2024)

## 2) SDGs Initiatives in the Medium-Term Management Plan

CERES has a management philosophy of "Enriching the world through Internet marketing," and in its medium-term management plan announced in 2021, the company stated its medium to long-term management policy was to create a "token economy platform" consisting of a points economy and a blockchain to stimulate social and economic activities.

In 2021, the company launched the SDG donation platform "Moppy x SDGs," which allows donations to 22 organizations (15 at the time of disclosure of the mid-term plan) for each of the 17 SDG targets by the Moppy Committee. The platform allows donations to 22 organizations (15 organizations at the time of disclosure of the mid-term business plan) for each of the 17 SDGs goals. The following table shows the SDGs and ESGs being promoted in the mid-term management plan.

**Figure 35: Promoting SDGs and ESG in CERES' Medium-Term Management**

Specific Initiatives	Contribution to the SDGs
Carbon offset	Offset 100% of CO2 emissions related to electricity used by the Group
Participation in JCLP and RE 100 Project Morippi no Mori (tree planting)	Planted trees in Inner Mongolia to create sustainable woods and contribute to reducing CO2 emissions
Participation in JCLP and RE 100 Project	Participated in JCLP and RE 100 Project to show our intention and action to achieve 100% renewable energy
Appointment of female directors and managers	High percentages of female directors and managers, 11.1% and 36.4%, respectively
Cultivation of internal human resources	To cultivate internal human resources, we provided education for leaders and held workshops for engineers
Support for higher education	Offered a blockchain donation course at Keio University.
Promoting the employment of people with disabilities	Achieved the legal employment rate for private companies and promoted diversity.
Setting up committees	Set up the Audit and Supervisory Committee and the Nomination and Remuneration Committee to enhance corporate governance

Note: The ratios of female directors and female managers are as of December 31, 2021. The ratio of female managers is based on a different standard than in the annual securities report.

Source: CERES "Medium-Term Management Plan 2026 (Five-Year Plan)" (December 2021)

### 3) CERES Sustainability Management

In September 2022, CERES established a Sustainability Promotion Committee chaired by the President and CEO to promote sustainability in a cross-sectional and dynamic manner. In principle, the committee deliberates once a year on the identification, evaluation, management of risks and opportunities as well as materiality in overall sustainability, including climate change. The chairperson of the committee reports the contents to the Board of Directors.

The Sustainability Promotion Committee has identified the following seven materialities:

- Enriching the world through our services
- Resolving social issues and promoting economic development through open innovation
- Proper digital advertising and sound development of the industry
- Providing environmentally friendly products and services
- Active empowerment of diverse human resources

#### Seven Materialities



- Information security and privacy
- Strengthening of corporate governance

With regard to the resolution of issues surrounding sustainability, focus is on the above seven materialities in order to more effectively utilize management resources. The company recognizes that addressing issues surrounding sustainability, like global environmental issues such as climate change, and taking into consideration the health and working environment of employees; are important management issue that not only reduces risk but also leads to profit opportunities.

## 4) CERES' Climate Change Measures

As mentioned above, since 2009, we have planted 1,000 seedlings in Mongolia, China to prevent desertification, and from 2021, we will offset 100% of CO2 emissions from electricity use (carbon neutrality) to realize a decarbonized society. The company is a member of the "Japan Climate Leaders' Partnership" and the "100 Renewable Energy Declaration Re Action".

In July 2023, the company expressed support for the TCFD (Task Force on Climate-related Financial Disclosures) recommendations and joined the TCFD consortium; the 2023 Sustainability Report includes disclosures based on the TCFD.

The GHG (greenhouse gases) protocol measures and indexes emissions in Scope 1 (the amount of GHG emitted directly by the company) and Scope 2 (the amount of GHG emitted through the use of electricity supplied by the company). The company has achieved zero emissions for Scope 1 and Scope 2 since FY2021.

The power used for servers used for web services and the power used in offices will be changed to 100% renewable energy-derived power from FY2021 to reduce 100% of CO2 emissions. The company has achieved "carbon neutrality" ahead of the government target of 2050. Emissions, including up to Scope 3 (GHG emissions from raw material purchases and after-sales GHG emissions), have not been measured and targets have not been set.

"CoinTrade", a crypto asset sales office operated by group company Mercury, allows staking only in crypto assets that use a consensus algorithm called PoS (Proof of Stake). This system has a low environmental impact because it does not require large amounts of electricity and high-performance computers like the PoW (Proof of Work) used for Bitcoin and other crypto assets.

## 5) CERES' Human Capital Strategy

CERES' medium to long-term growth strategy is to strengthen its own media, launch new media and enter the O2O business. The company's policy is to emphasize diversity in the human resources responsible for its growth strategy. Since the company operates in the highly competitive Internet field,

**Endorsement of TCFD Declaration**

**PoS has Less Power Burden than PoW**

**Emphasis on Diversity of Human Resources**

it aims to diversify its human resources by actively investing in blockchain technology, which has the potential to become a social infrastructure in the future. They believe that new ideas never seen before will be created when talented people with various backgrounds gather at Ceres and influence each other.

To develop human resources, the firm has introduced a Management by Objectives (MBO) system as an evaluation mechanism. They expect to develop human resources who are committed to the goals they set for themselves and work on their own initiative. To help employees improve their skills, the company offers internal training programs as needed according to job type, area of expertise, position, etc., and also provides support for external training programs. And they have established a system that allows employees to choose a wide range of career paths.

CERES has a culture in which proposals to executives for businesses, systems, and structures that will benefit the company are proactively made. The company has introduced a program for new graduates to plan new businesses using the company's management resources as part of their training when they join the company. Yumemi, a group company, has unique systems such as the "C.xO System," "Executive Officer System" and the "Challenge Director System.

## CERES Human Rights Policy

CERES has established the "CERES Human Rights Policy" to ensure that human rights are respected and not violated. And to promote informal in-house communication, there is an in-house drinking assistance system (Komikatsu) and an in-house club activity system. To ensure diverse work styles, the company provides support through a childcare support system, a flextime working system, with a combination of office and remote work that matches business characteristics, a welfare system that fully subsidizes the cost of low-dose pills and a housing allowance.

In 2019, the company also received approval from the Tokyo Metropolitan Government as a "TOKYO Workplace Reform Declaration Company". In order to improve the way employees work and take time off, the company aims to achieve an average of less than 20 hours of overtime work per employee per month and an annual paid leave utilization rate of more than 70%.

**Figure 36. Income Statement**

(¥ mn)	12/18	12/19	12/20	12/21	12/22	12/23	12/24CoE
Net Sales	10,706	16,510	20,213	23,402	20,536	24,070	27,000
Cost of Sales	6,398	11,416	13,967	15,629	12,472	13,483	
Gross Profit	4,308	5,094	6,246	7,773	8,063	10,587	
Gross Profit Margin	40.2%	30.9%	30.9%	33.2%	39.3%	44.0%	
SG&A Expenses	3,086	4,213	4,749	5,467	6,816	9,468	
Operating Profit	1,229	880	1,496	2,305	1,246	1,118	1,600
Operating Profit Margin	11.5%	5.3%	7.4%	9.8%	6.1%	4.6%	5.9%
Non-Operating Income	1	11	357	1,220	13	147	
Interest and Dividend Income	0	5	9	7	0	0	
Equity in Earnings of Affiliates	0	0	238	963	0	78	
Gain on Sale of Crypto Assets	0	4	0	156	0	0	
Gain on Valuation of Crypto	0	0	73	19	0	0	
Assets							
Others	1	2	37	75	13	69	
Non-Operating Expenses	1,225	100	37	26	580	48	
Interest Expense and Discount	5	10	12	14	20	25	
Equity in Losses of Affiliates	690	49	0	0	489	0	
Loss on Valuation of Crypto	520	4	0	0	0	0	
Assets							
Others	10	37	25	12	71	23	
Recurring Profit	-2	792	1,816	3,499	679	1,217	1,600
Recurring Profit Margin	0.0%	4.8%	9.0%	15.0%	3.3%	5.1%	5.9%
Extraordinary Income	244	1	8	896	43	0	
Extraordinary Loss	178	340	327	389	1	387	
Pretax Profit	64	452	1,496	4,005	721	830	
Corporate, Inhabitant and Enterprise Taxes	399	302	704	1,142	910	660	
Income Taxes-Deferred	-102	6	-55	-80	-304	-328	
Total Income Taxes	221	309	649	1,062	606	332	
(Corporate Tax Rate)	345.3%	68.4%	43.4%	26.5%	84.0%	40.0%	
Net Profit	-232	74	744	2,775	46	451	800
Net Profit Margin	-2.2%	0.4%	3.7%	11.9%	0.2%	1.9%	3.0%
EPS (¥)	-28.7	6.8	67.3	251.8	4.1	39.6	70.1
Investment in Tangible and Intangible Fixed Assets	55	320	243	352	70	343	0
Depreciation and Amortization of Goodwill	106	302	403	196	426	525	
Cash Flow	-126	376	1,147	2,971	472	976	
CFPS (¥)	-11	34.0	104.3	269.5	41.8	85.6	
ROE	-6.4	1.2%	11.8	35.6%	0.5%	5.0%	
ROIC	NM	3.1%	8.9%	14.5%	1.4%	4.3%	
Dividend (¥)	5	14	18	40	20	20	20
Average Number of Shares During the Period (mn shares)	11.0	11.0	11.0	11.0	11.3	11.4	
Number of Shares at End of Period (mn shares)	10.9	11.1	11.1	11.2	11.4	11.4	

Source: Strategy Advisors, based on Company Data.

**Figure 37: Balance Sheet**

(¥ mn)	12/18	12/19	12/20	12/21	12/22	12/23
<b>Current Assets</b>	7,668	8,342	11,517	13,163	14,413	17,586
Cash and Deposits	4,367	3,941	6,087	6,842	6,547	8,112
Notes and Accounts Receivable-Trade	1,769	2,457	2,778	2,866	3,545	3,643
Operating Investment Securities	868	1,279	1,804	2,300	2,744	2,976
Inventory Count	448	249	259	247	460	554
Others	216	416	589	908	1,133	2,339
Allowance for Doubtful Accounts	0	0	0	0	-16	-38
<b>Fixed Assets</b>	4,248	4,560	4,709	7,071	8,183	8,328
Property, Plant and Equipment	229	413	296	261	263	361
Intangible Fixed Assets	1,791	1,347	1,395	1,178	2,129	1,729
Goodwill	1,623	1,200	938	1,034	1,743	1,537
Other	168	147	0	19	386	192
Investments and Other	2,227	2,799	3,017	5,632	5,790	6,236
Investments in Securities	274	380	562	835	1,095	1,139
Shares of Subsidiaries and Affiliates	801	722	872	3,604	3,116	3,194
Deferred Tax Asset	726	657	667	835	1,111	1,435
Others	461	1,044	925	365	471	471
<b>Total Assets</b>	11,917	12,902	16,227	20,234	22,597	25,915
<b>Current Liabilities</b>	4,161	4,710	7,471	8,924	10,558	13,451
Accounts Payable	479	756	1,024	934	832	783
Interest-Bearing Debt	1,736	1,511	2,276	2,846	3,713	5,048
Income Taxes Payable	256	338	1,657	1,639	1,343	1,434
Allowance for Point Card Certificates	1,021	1,322	1,693	2,283	3,182	3,921
Allowance for Bonuses	31	0	30	50	30	30
Others	638	783	791	1,172	1,458	2,235
<b>Fixed Liabilities</b>	1,317	1,610	1,663	1,490	2,342	2,417
Interest-Bearing Debt	1,251	1,493	1,546	1,369	2,172	2,314
Asset Retirement Obligations	58	70	70	70	16	0
Others	8	47	47	51	154	103
<b>Net Assets</b>	6,437	6,581	7,091	9,819	9,696	10,045
Capital Stock	5,979	5,933	6,250	9,001	8,761	9,025
Capital & Surplus	4,134	4,173	4,236	4,410	4,572	4,613
Retained Earnings	1,852	1,768	2,321	4,899	4,496	4,719
Treasury Stock	-7	-7	-307	-307	-307	-307
Accumulated Other Comprehensive Income	29	166	260	70	120	158
Subscription Warrant	8	7	4	3	1	1
Noncontrolling Interest	420	473	576	744	813	860
<b>Total Assets</b>	11,917	12,902	16,227	20,234	22,597	25,915
Interest-Bearing Debt	2,987	3,004	3,822	4,215	5,885	7,362
Capital Adequacy Ratio	50.4%	47.3%	40.1%	44.8%	39.3%	35.4%
D/E Ratio	0.50	0.49	0.59	0.46	0.66	0.80

Source: Strategy Advisors, based on Company Data.

**Figure 38: Cash Flow Statement**

(¥ mn)	12/18	12/19	12/20	12/21	12/22	12/23
<b>Cash Flows from Operating Activities</b>						
Income before Income Taxes	64	452	1,496	4,006	721	830
Depreciation and Amortization	85	119	122	184	190	272
Amortization of Goodwill	143	153	131	111	183	205
Increase/decrease in Allowance for Points	271	301	371	589	899	738
Equity in Earnings (Losses) of Affiliated Companies	690	49	-238	-963	489	-78
Impairment Loss	89	320	0	0	0	343
Net Valuation Gains/Losses on Crypto Assets	520	4	-73	-19	32	0
Gain (Loss) on Sale of Crypto Assets	0	0	0	-156	0	0
Increase/Decrease in Trade Receivables	-603	-661	-297	-72	-666	-148
Increase (Decrease) in Operating Investment Securities	-411	-228	-514	-660	-385	-170
Increase (Decrease) in Notes and Accounts Payable-Trade	232	277	266	-96	-101	-48
Income Taxes Paid	-405	-485	-174	-931	-1,357	-811
Others	-180	469	1,168	-831	96	-72
<b>Total Amount</b>	<b>495</b>	<b>770</b>	<b>2,258</b>	<b>1,162</b>	<b>101</b>	<b>1,061</b>
<b>Cash Flows from Investing Activities</b>						
Purchases of Property, Plant and Equipment	-25	-258	-40	-73	-123	-269
Payments for Acquisition of Intangible Assets	-69	-70	-361	-105	-292	-234
Payments for Purchase of Investment Securities	-175	-119	-64	-487	-290	-106
Others	-1,193	-670	-17	-122	-1,270	-235
<b>Total Amount</b>	<b>-1,462</b>	<b>-1,117</b>	<b>-482</b>	<b>-787</b>	<b>-1,685</b>	<b>-738</b>
<b>Cash Flows from Financing Activities</b>						
Net Increase (Decrease) in Short-Term Loans Payable	1,150	-350	500	550	600	963
Net Increase (Decrease) in Long-Term Debt	606	165	425	37	1,129	569
Increase/Decrease in Corporate Bonds	-30	265	-130	-110	-190	-70
Payments for Purchase of Treasury Stock	0	0	-299	0	0	0
Dividends Paid	-130	-154	-154	-197	-448	-227
Others	101	-9	21	128	100	-2
<b>Total Amount</b>	<b>1,697</b>	<b>-83</b>	<b>363</b>	<b>408</b>	<b>1,191</b>	<b>1,233</b>
Cash Increase/Decrease	730	-430	2,139	783	-391	1,555
Cash Beginning Balance	3,596	4,327	3,946	6,097	6,883	6,491
Increase/Decrease in Cash due to New Consolidations, etc.	0	49	11	2	0	4
<b>Cash Ending Balance</b>	<b>4,327</b>	<b>3,946</b>	<b>6,097</b>	<b>6,883</b>	<b>6,491</b>	<b>8,051</b>

Source: Strategy Advisors, based on Company Data.

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