

Company Report

2024 November 14

Strategy Advisors Inc.
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Q3 FY12/2024 Results: Mobile Services such as "Moppy" Performing Well. Expectations for Crypto Assets Also Rising.

Q3 results for FY12/2024 were favorable, with operating income up 2.3 times YoY to ¥620 million and ordinary profit up 2.2 times YoY to ¥450 million. By division, sales for Mobile Service increased 10.8% YoY and operating income rose 40.7% YoY. Point media "Moppy" continued to perform well. Financial Service's Q3 operating income was -¥270 million, almost flat YoY.

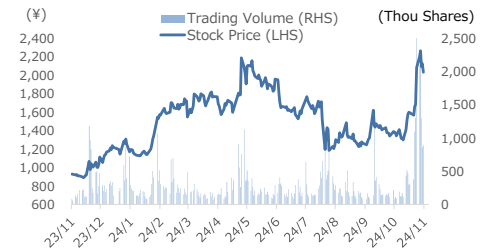
Recently, the price of crypto assets such as Bitcoin have soared. Following the victory of Donald Trump in the US presidential election, the price of Bitcoin has risen sharply from USD\$67,800 on November 4th to over USD\$90,000 on November 12th, which will boost CERES's Q4 Financial Services revenue and the profits of its equity method affiliate bitbank (23.05% stake). "Moppy" and D2C are expected to remain strong and DX, which had been sluggish, is beginning to recover; so, there are hopes that the company's ordinary income for FY12/2024 will exceed its forecast of ¥2 billion.

Crypto assets are at a turning point. With the election victory of Trump and the Republican Party, who advocate positive policies for the industry, expectations are rising for the development of legal systems in US. There is also discussion of the US government's strategic stockpiling of Bitcoin. In Japan, there is also discussion of changing the law governing crypto assets from the Payment Services Act to the Financial Instruments and Exchange Act, which could lead to positive changes.

The company is also proactively returning value to shareholders. On September 30th, it announced that it would give ¥10,000 worth of cryptocurrency to shareholders who hold 100 or more shares as a shareholder benefit. In addition, on October 23rd, it announced that it would offer a ¥20 commemorative dividend for its 10th anniversary of listing in addition to the regular dividend of ¥20.

The stock price has risen significantly due to favorable Q3 earnings and the sharp rise in cryptocurrency prices. The estimated base PER for FY12/2024 has risen to 21.7 times and it is expected that revenues from both Mobile Service and Financial Service will expand in FY12/2025. The stock price will continue to be affected by fluctuations in cryptocurrency prices, but it is likely to remain firm due to increased revenues and a tailwind for the cryptocurrency industry.

Stock Price & Volumes



Source: Strategy Advisors

Key Indicators

Stock Price (11/12)	2,268
52-Week High (24/11/12)	2,268
52-Week Low (23/11/28)	891
All-Time High (21/3/18)	5,110
All-Time Low (20/3/19)	558
Shares on Issue (mn)	11.5
Market Capitalization (¥ bn)	26.1
EV (¥ bn)	25.3
Equity Ratio (12/23 Actual, %)	35.4
ROE (12/23 Actual, Times)	5.0
PER (12/24 CoE, Times)	21.7
PBR (12/23 Actual, Times)	2.8
Dividend Yield (12/24 CoE, %)	1.8

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Net Sales (¥ mn)	YoY (%)	Operating Income (¥ mn)	YoY (%)	Ordinary Income (¥ mn)	YoY (%)	Net Income (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
12/2023 Q3	6,073	12.2	270	-27.0	203	-59.6	-243	NM	-21.3	-
12/2024 Q3	7,067	16.4	618	128.9	455	124.1	172	NM	14.9	-
12/2023 Q1-Q3	17,293	15.2	736	-23.9	734	26.6	111	495.3	9.8	-
12/2024 Q1-Q3	20,218	16.9	1,429	94.2	1,524	107.5	845	660.4	73.7	-
12/2021	23,402	15.8	2,305	54	3,499	92.7	2,775	272.7	251.8	40.0
12/2022	20,536	NA	1,246	-45.9	679	-80.6	46	-98.3	4.1	20.0
12/2023	24,070	17.2	1,118	-10.3	1,217	79.1	451	868	39.6	20.0
12/2024 CoE	27,000	12.2	1,600	43.1	2,000	64.2	1,200	166	104.5	40.0

Note: Due to the adoption of new revenue recognition standards, sales for FY12/2022 are NA compared to the previous year.

Source: Company Data. Compiled by Strategy Advisors

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Strong Earnings in Q3 FY12/2024 due to the Contribution from Mobile Service

Significant Increase in Profits in Both Q3 and Cumulative Q3, Compared to the Same Period Last Year

Sales for Q3 of FY12/2024 were strong, increasing 16.4% YoY to ¥7.07 billion, and operating income was 2.3 times higher at ¥620 million. Compared to the previous quarter, where they also increased 9.8% and 6.3 times, respectively. Cumulative for the third quarter, sales increased 16.9% YoY to ¥20.22 billion and operating income increased 94.2% YoY to ¥1.43 billion, achieving significant increases in both sales and profits.

Mobile Services Generally Performing Well

Broken down by business segment, revenue from the Mobile Service business was strong in Q3, with Point, primarily "Moppy" and D2C contributing significantly. DX, which had been sluggish until Q2, also showed signs of recovery in Q3. In the Financial Service business, cryptocurrency prices stagnated in Q2 and Q3, resulting in an operating loss. bitbank, an equity method affiliate (23.05% stake) also posted a loss in Q3. Ordinary income was ¥450 million, 2.2 times higher than in the same period last year.

Figure 1. Trends by Segment for Q3, FY12/2024

(¥ mn)

Segment	12/24 Q3	YoY Change	QoQ Change	12/24 Q1-Q3 (A)	YoY Change	Progress (A)/(B)	FY12/23	FY12/24 CoE (B)
Sales	7,066	16.4%	9.8%	20,218	16.9%	74.9%	24,070	27,000
Mobile Service	6,619	10.8%	5.7%	19,162	13.4%	74.5%	23,458	25,720
Point	3,473	4.5%	0.6%	10,480	2.7%	74.9%	13,817	14,000
D2C	1,937	35.2%	10.7%	5,437	67.2%	85.0%	5,053	6,400
DX	1,244	-0.4%	10.5%	3,354	-5.9%	61.0%	4,776	5,500
Financial Service	449	353.8%	167.3%	1,065	162.0%	81.9%	611	1,300
OP	618	129.0%	530.6%	1,429	94.2%	89.4%	1,118	1,600
Mobile Service	1,143	40.7%	44.9%	3,052	35.0%	81.2%	3,187	3,760
Point	784	28.1%	11.2%	2,271	31.5%	80.2%	2,480	2,830
D2C	248	63.0%	66.4%	738	31.7%	94.0%	730	785
DX	143	78.5%	NM	139	98.2%	50.5%	106	275
Financial Service	-267	NM	NM	-735	NM	NM	-897	-780
Adjustment	-257	NM	-	-887	NM	64.3%	-1,172	-1,380
Equity in Earnings of Affiliates	-142	NM	NM	95	NM	23.8%	78	400

Source: Based on Company Data. Compiled by Strategy Advisors

Mobile Service business

1) "Moppy" Revenues Grow Steadily

Points Business Operating Income up 40.7%

Mobile Service sales in Q3 increased 10.8% YoY to ¥6.62 billion and operating income increased 40.7% YoY to ¥1.14 billion. The Point business sales increased 4.5% YoY and operating income increased 28.1%, showing solid performance. The Point business's operating income margin rose significantly to 22.6% in Q3, up 18.4% in the same period last year.

Moppy's Gross Profit Margin Increases Further

Sales for "Moppy" were strong, increasing 11.7% YoY to ¥3.01 billion. The number of active members for "Moppy" continued its upward trend, increasing by 11.3% YoY to 5.56 million people. Gross profit margin also increased to 28.5%, up from 22.9% in the same period last year and 26.9% in Q2. Gross profit amounted to ¥860 million, up from ¥620 million in the same period last year and ¥810 million in Q2. In Q3, there appears to have been a slight boost in revenue due to the postponement of cost accounting until Q4, but it can be said that profit margins are improving overall.

Point Allocation Management, Linking with In-House ASP's, Utilizing MA Tools

The factors behind the increase in gross profit margin include thorough management of point allocation and expanded collaboration with "AD.TRACK," the company's own ASP (affiliate service provider). In addition, the strengthening of efficient advertising through the use of MA (marketing automation) tools introduced in 2024 is also believed to have led to increased sales and improved profit margins.

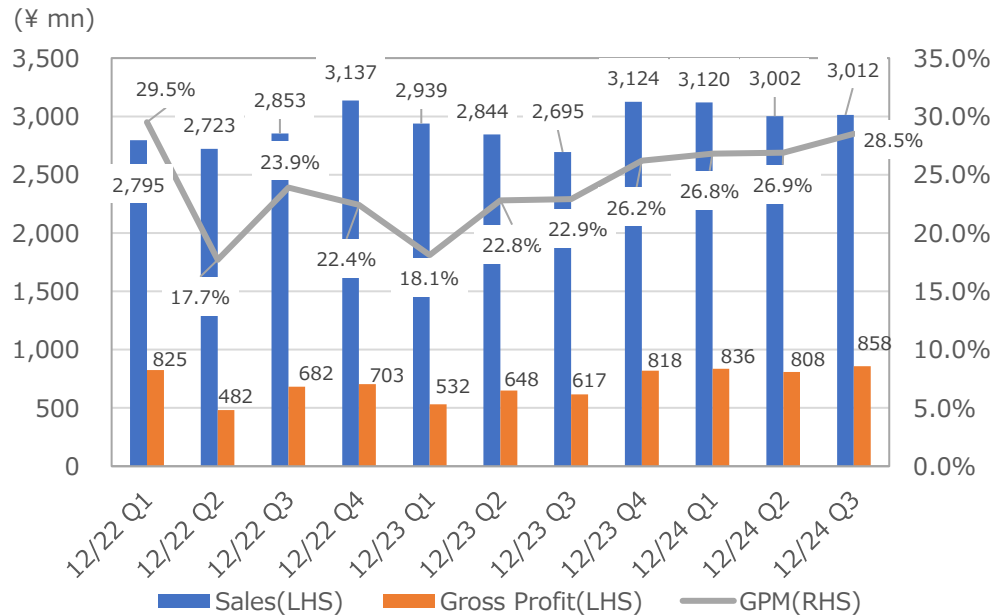
The Company's Strength Lies in its Precise Point Design

Point design is key to thorough point allocation management. Increasing the number of points will make it more attractive to users and encourage them to make purchases; but points are a cost for the company, so it wants to keep them as low as possible. Finding a solution that maximizes gross profit within a trade-off relationship requires know-how and precision based on experience and this is thought to be one of the company's strengths.

The Proportion of its Own ASP "AD.TRACK" is Increasing

The company also has its own ASP, "AD.TRACK" and the proportion of product listings via this is increasing. It appears to be currently at 40-50% levels. As the company can take in the profits that would otherwise flow to other companies' ASP's, it has a large profit margin and greater freedom in designing points, which is thought to lead to competitiveness and high profit margins.

Figure 2. Moppy Sales & Gross Profit Margin



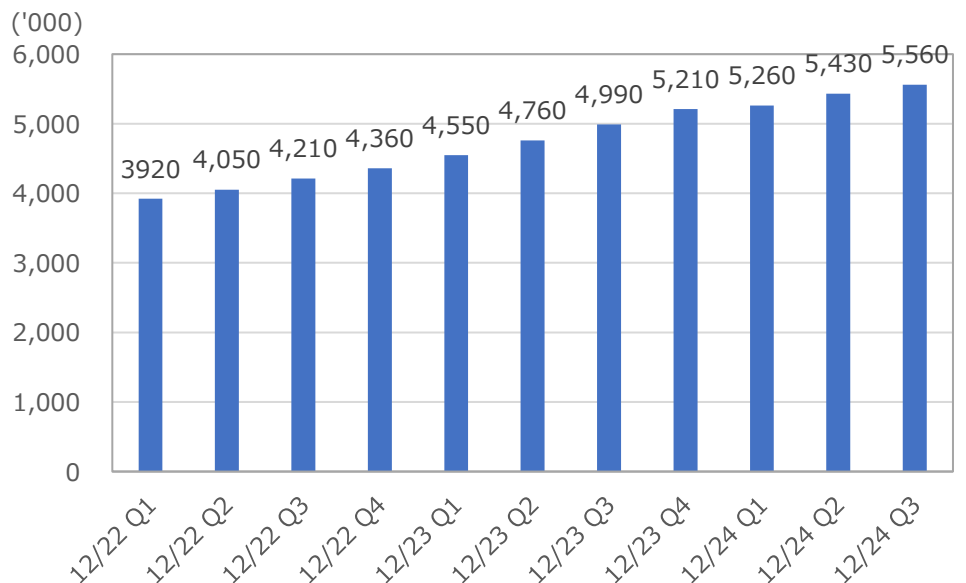
Note: Gross profit is calculated from the company's disclosed sales and gross profit margin.

Source: Company Data. Compiled by Strategy Advisors

Home Delivery Purchase Service Also Launched

The company is also working to increase revenue opportunities by taking advantage of its 5.56 million active members. In October, it launched an online home delivery buy-back service called "Moppy Reuse." It hopes to encourage more frequent use of the "Moppy" site by offering "Moppy Points" that are 5% of the purchase price of ¥3,000 or more (excluding tax).

Figure 3. Changes in the Number of Active Members of "Moppy"

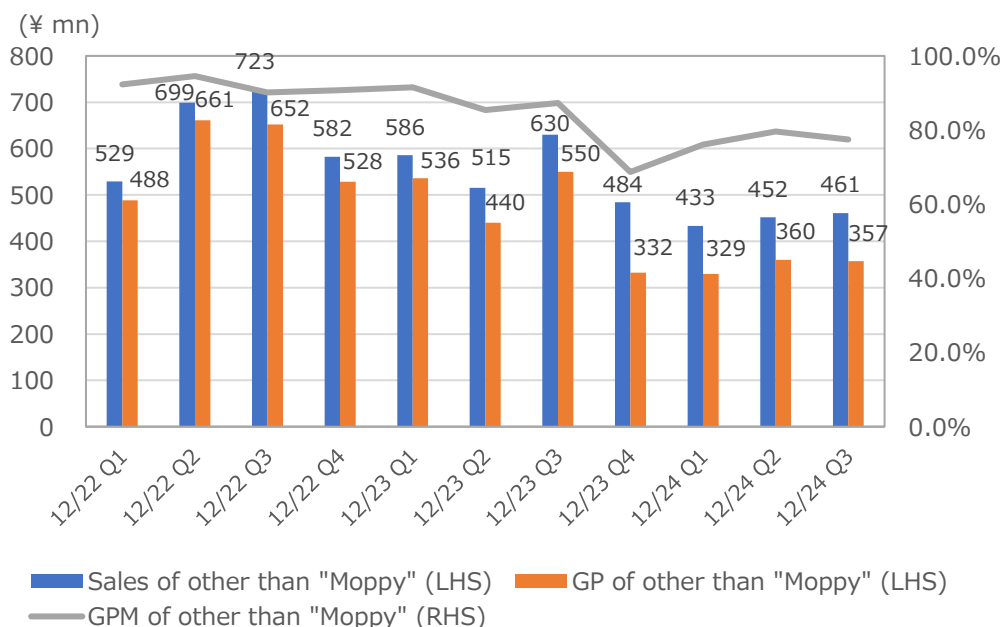


Source: Company Data. Compiled by Strategy Advisors

ASP Seems to Have Bottomed Out

Sales of Point's businesses other than "Moppy" have been recovering gradually since hitting bottom in Q1 of FY12/2024. The business environment for article advertising media is expected to remain tough due to the effects of regulations under the Pharmaceuticals and Medical Devices Act and the Act against Unjustifiable Premiums and Misleading Representations; but external transactions (advertising for other companies' products in media other than "Moppy") of ASP appear to be recovering gradually. In addition, "Studio15", which is included in Point, plans, produces and promotes short videos, mainly for TikTok and appears to be expanding.

Figure 4. Sales and Gross Profit Margins of Point Businesses Other Than "Moppy"



Note: Gross profit is calculated from the company's disclosed sales and gross profit margin.

Source: Company Data. Compiled by Strategy Advisors

2) D2C Recovers from Temporary Lull in Q2

D2C Sales are Growing

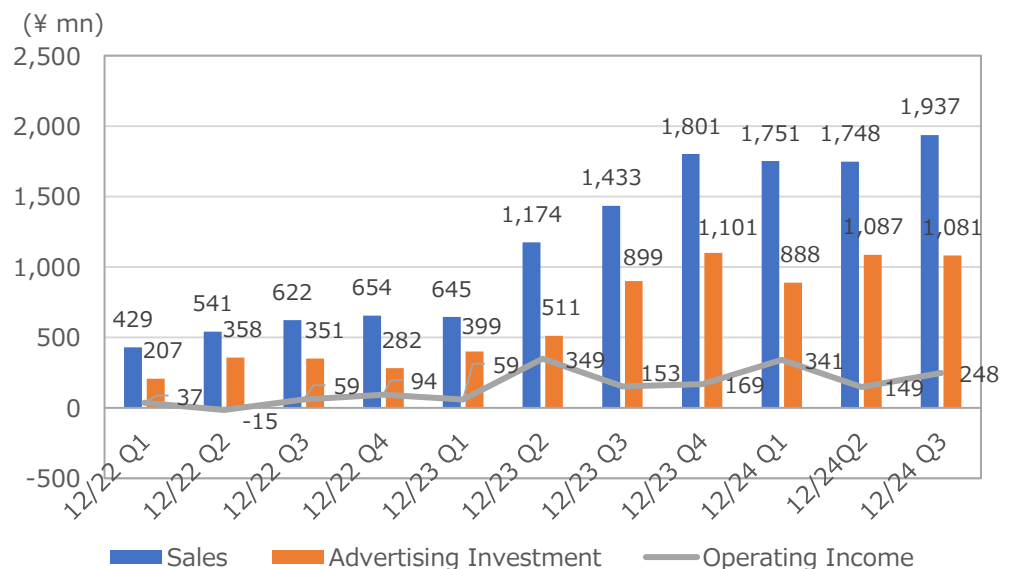
D2C sales in Q3 were strong, up 35.2% YoY to ¥1.94 billion and operating income was up 63.0% YoY to ¥250 million. In Q2, advertising investment increased compared to Q1, causing operating income to fall; but in Q3 sales increased as a result and with advertising investment remaining high, operating income increased compared to Q2. High-performance insoles "Pitsole" continue to secure high levels of sales and sales of functional food "Oi gurt" appear to have increased significantly compared to Q2. "Pitsole" is a diet support insole that uses patented technology and has become a hit product

Sales of New Product "Oi gurt" are Strong

with cumulative sales exceeding 1 million pairs. "Oi gurt" is a yogurt-flavored powdered supplement that appears to be well-received.

"Oi gurt" is a subscription-based product sold on a regular basis and when a consumer decides to purchase it, advertising investment is recorded according to that action. Although there is a certain cancellation rate, basically stable revenue is recorded every month, so expenses recorded in advance will be recovered later. Therefore, the fact that a high level of advertising investment is being made in "Oi gurt" indicates that purchase results have already increased accordingly. The fact that "Oi gurt" has expanded favorably since "Pitsole" became a huge hit indicates the company's strong product development and marketing capabilities and the D2C business is expected to see sustainable growth.

Figure 5. Trends in the D2C Business



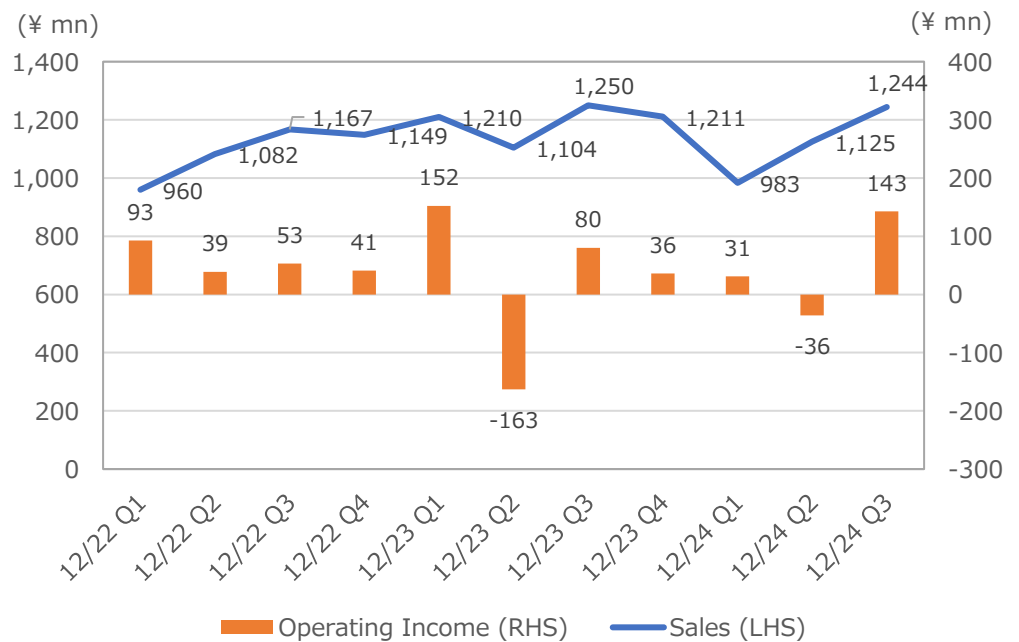
Source: Company Data. Compiled by Strategy Advisors

DX Also Enters a Recovery Phase

The DX business run by subsidiary Yumemi is on a recovery track. Sales in Q3 were down 0.4% YoY, but operating income was up 78.5% YoY to ¥140 million. In Q2, seasonal negative factors included increased costs due to the hiring of new graduates and a drop in the utilization rate due to the resource investment required for this; but in Q3, sales and operating income recovered significantly compared to Q2. Furthermore, since the start of FY12/2024, orders have exceeded sales every quarter and backlogs are also increasing, so sales are expected to increase in the future.

The domestic system integrator industry is facing a tough environment overall, but the company's process of using relatively small design projects as a foothold to lead to larger projects appears to be working. It is significant that Yumemi's earnings, which had been stagnant since the FY12/2022, have started to recover.

Figure 6. Yumemi (DX) Earnings Trends



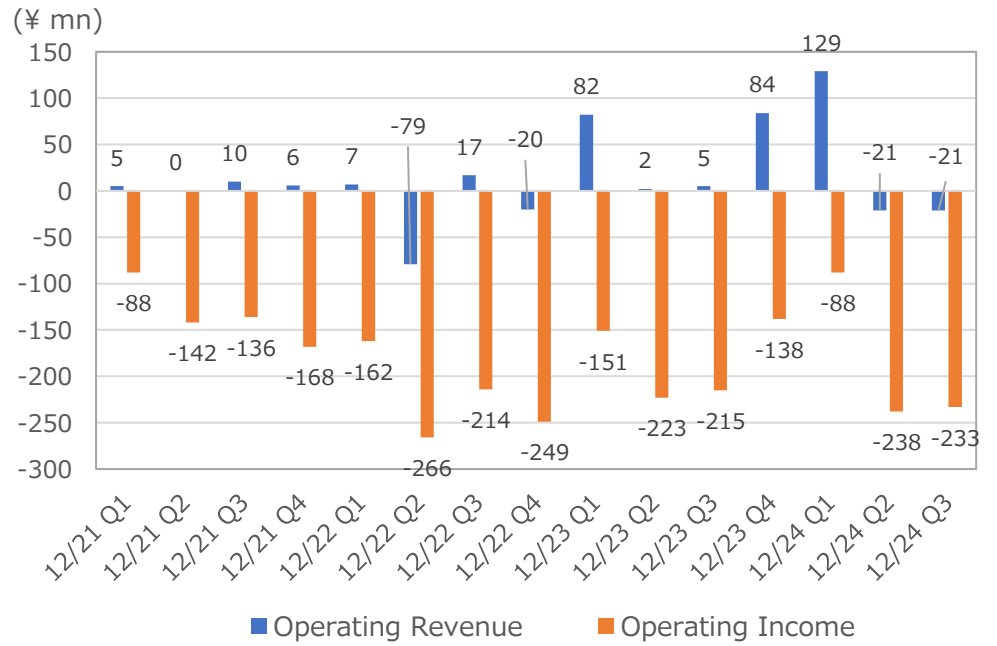
Source: Company Data. Compiled by Strategy Advisors

3. Financial Services Business

1) Cryptocurrency Prices are Rising Sharply at Present

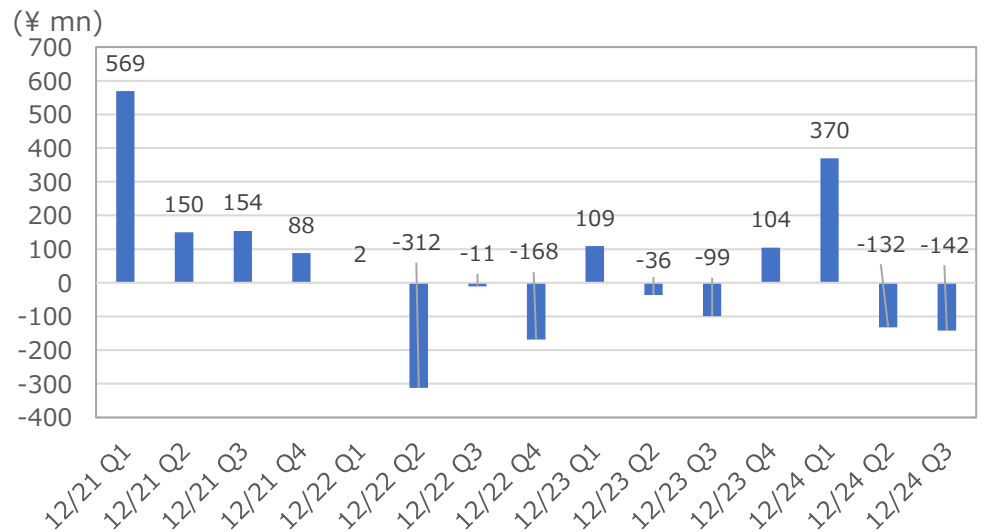
Financial Services revenue in Q3 was ¥450 million, 2.7 times higher than in Q2 and operating income was -¥270 million, improving from -¥410 million in Q2. Mercury, which operates a cryptocurrency exchange, had revenue of -¥20 million in Q3, unchanged from Q2. Operating revenue, which is equivalent to sales, was in the red due to the revaluation of cryptocurrency holdings at the end of each quarter; reflecting the decline in cryptocurrency prices in Q3 compared to the previous quarter, Q2. Mercury's operating income was -¥230 million in Q3, almost unchanged from Q2. Equity method profit of bitbank, an equity method affiliate, was -¥140 million in Q3, almost unchanged from -¥130 million in Q2.

Figure 7. Mercury's Earnings Trends



Source: Company Data. Compiled by Strategy Advisors

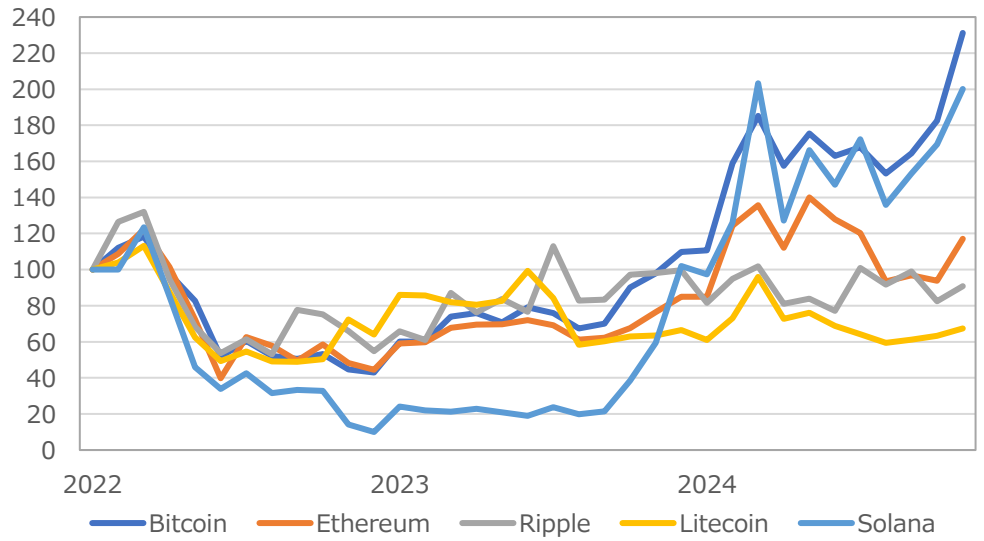
Figure 8. Equity in Earnings of Affiliates (bitbank)



Source: Company Data. Compiled by Strategy Advisors

Figure 9. Price Trends of Major Cryptocurrencies

(End of 2021 = 100)



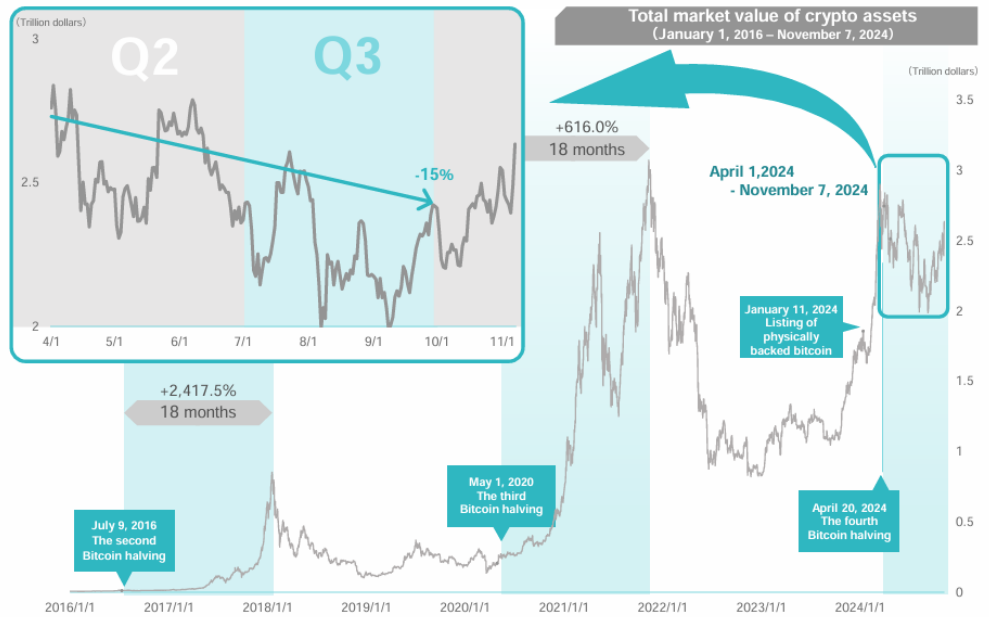
Source: Investing.com & Strategy Advisors

Cryptocurrency Prices Soar

The price of Bitcoin, the representative cryptocurrency, fluctuated and weakened after hitting a new high of USD\$73,000 on March 13 this year, but began to rise in late October. It reached a new record high on November 6, with Republican candidate Donald Trump's victory in the U.S. presidential election. It continued to rise after that, exceeding USD\$90,000 on November 12. Trump and the Republican Party have put forward positive policies for the cryptocurrency industry, which seems to have been well received by the market. Originally, there was a view that Bitcoin's supply and demand would rise due to the halving on April 20, which halved new supply, but the election results added to the upward trend. In previous halving's, there was a pattern of adjustments for a while after the halving due to the backlash from prior speculation buying, but the market would start to rise about six months later.

Figure 10. Bitcoin Price After Halving

Total Market Value of Crypto Assets



Source: Company Data. Compiled by Strategy Advisors

Liquidity in Financial Markets Remains High

Although interest rates in the United States remain high due to the strength of the U.S. economy, the interest-sensitive NASDAQ Composite Index continues to reach new all-time highs and it appears that liquidity in financial markets remains high. This is why funds are also flowing into the cryptocurrency market. As will be described later, the cryptocurrency industry is experiencing a tailwind moving ahead and expectations for price increases are rising.

Q4 Likely to Benefit From Rising Crypto Prices

If the price of crypto assets remains at the current level toward the end of Q4 of FY12/2024, the profits of subsidiary Mercury and affiliated company bitbank will increase significantly. In particular, the impact on the profits of bitbank, which operates bitbank, one of the three major exchanges in Japan, is expected to be large and its equity method investment profits are likely to increase significantly. If the market price of Bitcoin remains at around USD\$88,000 compared to USD\$63,300 at the end of September, this will be an increase of about USD\$25,000. In Q1 of FY12/2024, when bitbank's equity method investment profit was ¥370 million, the price rose from USD\$42,200 at the end of December 2023 to USD\$71,300 at the end of March 2024, an increase of USD\$29,100. As the number of user accounts and assets under custody are also increasing, the positive contribution to bitbank's profits in Q4 is expected to increase.

Online Factoring Company Ibafin Issues Third-Party Allotment of New Shares Preparations for IPO Underway

Outside of crypto assets, the online factoring business of subsidiary Ibafin is doing well, with cumulative GMV (total merchandise volume) for Q3 expanding 3.7 times compared to the same period last year. However, profits remain below water. Ibafin raised approximately ¥550 million through a third-party allotment in October 2024. This is equivalent to 18.3% of Ibafin's issued shares and the company's overall enterprise value is valued at approximately ¥3 billion. Ibafin is considering listing on the stock exchange. Also, in this Q2, the investment and development business (CVC) recorded a stock valuation gain of ¥50 million.

2) Crypto Assets are on the Rise

Not only in the near future, but from 2025 to 2026, cryptocurrencies are likely to see a favorable business environment.

President-Elect Trump Promotes Growth of Cryptocurrency Industry

First, in the United States, it has been pointed out that with Trump's victory in the presidential election, SEC Chairman Gary Gensler, who has been taking a tough stance against cryptocurrencies, may step down. During the election campaign, Trump called for a policy to promote cryptocurrencies and included this idea in his election pledges. As a result, he has received support, including donations, from leaders in the cryptocurrency industry. Once inaugurated as president, there is a possibility that he will swiftly implement his pledges.

Development of Legal System in the US

In addition, the US House of Representatives passed a cryptocurrency regulation bill, "The Financial Innovation and Technology Act for the 21st Century Act" (FIT21) in May, but it has since been stalled in the Democratic-led Senate without being enacted into law. Until now, there have been no laws regulating cryptocurrency in the US, making it difficult for cryptocurrency traders to take action. In fact, many lawsuits related to cryptocurrency are currently being held between the SEC and traders. With the Republican Party winning the presidency, the Senate and the House of Representatives in this election, it is expected that the development of laws regarding cryptocurrency will also progress.

Bitcoin Strategic Stockpiling

Trump also indicated that he plans to allocate the approximately 210,000 BTC (Bitcoin) held by the Department of Justice, which had been seized in the past, to a strategic national stockpile rather than sell it. In July of this year, Republican Senator Cynthia Lummis introduced the Bitcoin Act of 2024, which would require the government to hold Bitcoin as a strategic reserve. If the government were to purchase Bitcoin on a regular basis, it would have a significant impact on supply and demand.

Regulatory Review May Occur in Japan as Well

In Japan, there is also a view that the Financial Services Agency will review the regulations on crypto assets. Currently, crypto assets are regulated by the Payment Services Act, but since crypto assets are often traded for investment purposes, there seems to be an opinion that they should be regulated by the Financial Instruments and Exchange Act. Currently, income earned from crypto assets is subject to comprehensive taxation as miscellaneous income, so high-income earners with high income tax rates are subject to high tax

rates. If this is considered securities, the tax rate will be reduced to 20% through separate reporting taxation, just like stocks. If this happens, it is expected that crypto asset trading will become more active, which could be a tailwind for the market.

In the future, it is possible that cryptocurrency ETF's will be created in Japan, just like in the U.S. In that case, custody services will be essential and CERES' affiliate bitbank is collaborating with Sumitomo Mitsui Trust Holdings to establish Japan Digital Asset Trust Establishment Preparatory Co., Ltd. (JADAT) in 2022, with the aim of establishing a trust company specializing in digital assets. This puts them ahead of the rest of the industry.

4. Business Outlook

The company maintained its full-year forecast for FY12/2024. However, the progress rate for the cumulative Q3 was 74.9% for sales, 89.3% for operating income and 76.2% for ordinary income. In terms of operating income, the progress rate for points and D2C was high and there is a high possibility that the overall mobile service will exceed its target. Financial services had a tough Q2 and Q3, but as mentioned above, it is expected to benefit from the rise in cryptocurrency prices in Q4, so Mercury's operating income in Q4 is likely to improve versus Q3. bitbank, an equity method affiliate, is even more sensitive to cryptocurrency prices, so a clear recovery is expected in Q4 after the losses in Q2 and Q3.

Given the above, although it depends on the trend of cryptocurrency prices for the remainder of Q4, if prices remain high or rise further, it is highly likely that results will exceed the company's forecast. As mentioned above, there are some negative factors, such as the postponement of some expenses for "Moppy" from Q3 to Q4 and the occurrence of CVC profits of ¥50 million in Q3, but the impact is likely to be limited. In Q4, seasonal demand for "Moppy" such as hometown tax donations is expected towards the end of the year and the recovery of digital transformation is also expected to continue.

For FY12/2025, assuming the trends from Q3 to Q4 of FY12/2024 continue, revenues from Mobile Service and Financial Service are expected to increase. For mobile services, the continued expansion of "Moppy" and D2C and a recovery in DX are expected. For Financial Service, it will depend on the trend of the cryptocurrency market, but as mentioned above, there are expectations of a price rise after the halving of Bitcoin and the positive effects of policies in the United States, so the environment surrounding the market is considered to be favorable.

In addition, it has already been announced that bitbank, an equity method affiliate in which CERES holds a 23.05% stake, is preparing to go public. Although the timeline has not been decided, if concrete progress is made clear

**In the Future,
Cryptocurrency ETF's
Will Be Traded in Japan**

**Progress Rate up to Q3
is High**

**Full-Year Results Likely to
Exceed Company Forecasts**

Direction for FY12/2025

**The Timing of Bitbank's
Listing is Also Attracting
Attention**

in the future, it is highly likely that the assessment of bitbank's market value will also be taken into consideration when considering CERES' corporate value.

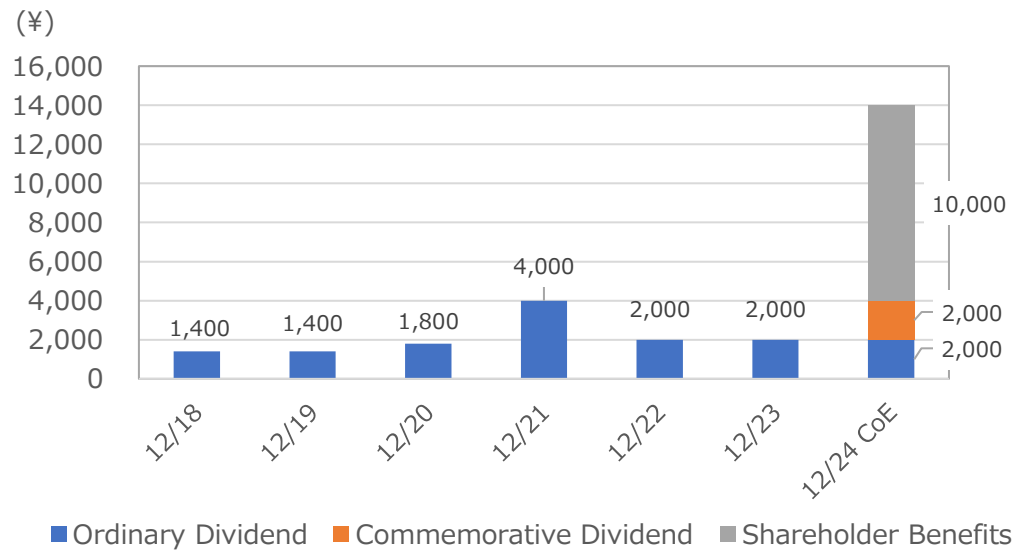
5. Strengthening Shareholder Returns

Shareholder Benefits and Dividend Increase Announced

CERES is also proactive in returning profits to shareholders. On September 20th, it announced the implementation of shareholder benefits, and on October 25th, it announced an increase in dividends. In addition to the planned ¥20 ordinary dividend, it announced a ¥20 commemorative dividend for the 10th anniversary of its listing. The shareholder benefits will be given to shareholders who hold one unit (100 shares) or more at the end of December, with Ethereum and Zipang Coin worth ¥5,000 each, for a total of ¥10,000. Eligible shareholders will open an account with Mercury's exchange, CoinTrade and receive the crypto assets. The company seems to want to reward CERES shareholders and promote their understanding by having them hold crypto assets.

From a shareholder's perspective, this shareholder perk is attractive. For a shareholder holding 100 shares, the yield calculated based on the closing price of CERES shares on November 12th at ¥2,268 is 4.4%. The dividend yield after the dividend increase announcement will be 1.8%, so the total will be equivalent to 6.2%. The shareholder perk will be recorded as selling, general and administrative expenses on the income statement. It will depend on the number of shareholders at the end of the fiscal year, but the impact on the company's earnings will be limited.

Figure 11. Return Received by a Shareholder Who Holds 100 Shares



Source: Strategy Advisors

6. Trends of Other Companies in the Industry

Other Companies' Point Businesses are Stagnating

In the points business, GMO Media (6180 TSE Prime), which operates the points site "Point Town" and CARTA HOLDINGS (3688 TSE Prime), which operates "EC Navi," are among the competitors that can be used for comparison purposes. GMO Media's Media Business, which includes "Point Town", posted sales of ¥1.4 billion, up 0.4% YoY and operating income of ¥160 million, up 20.7% YoY, in Q3 of 12/2024. According to their presentation materials, the points business was sluggish and games and new businesses appear to be driving the results. The company's full-year operating income forecast has been revised upward from ¥650 to ¥715 million and the dividend forecast has also been significantly raised from the previous ¥121 to ¥174, including a commemorative dividend of ¥30.

CARTA HOLDINGS' Internet-related Services Business, which includes "EC Navi" saw sales increase 14.5% YoY to ¥1.95 billion and operating income decline ¥10 million in Q3 of FY12/2024. Of this, sales from the Media/Solutions business, which includes "EC Navi," increased 7.9% YoY to ¥1.3 billion. Judging from the comments of these rival companies, it can be said that sales and profits for CERES' "Moppy" are solid.

FAN Communications' "A8.net" is Gradually Recovering

Among ASP's, FAN Communications (2461 TSE Prime) operates "A8.net" one of the largest companies in this field in Japan. "A8.net" has continued to perform somewhat sluggishly, but sales in Q3 increased 2.4% YoY to ¥1.35 billion and transaction volume increased 8.3% YoY to ¥5.70 billion, so it appears to be recovering slightly.

Monex Group's Crypto Assets Also Saw a Decline in Profits in the July-September Period

One of its competitors in the cryptocurrency market is Monex Group (8698 TSE Prime), which owns Coincheck, a major exchange. The company's Crypto Asset business's segment profit for the second quarter of FY3/2025 was -¥130 million, down from ¥510 million in Q1. This is thought to be due to the stagnation of the cryptocurrency market and is a similar trend to those experienced by Mercury and bitbank. Coincheck has received approval from the SEC to list on the US Nasdaq market through a special purpose acquisition company (SPAC), and is scheduled to be listed in December 2024.

7. Stock Price Outlook

The Stock Price is Soaring

CERES' stock price hit a high of ¥2,191 (closing price basis) on May 10th due to favorable results for Q1 of FY12/2024 and the rise in the cryptocurrency market, but then weakened and stagnated. However, it rebounded with the announcement of shareholder benefits on September 20th and an increase in dividends on October 25th. Furthermore, with candidate Trump's victory in the US presidential election on November 6th secured, the cryptocurrency market soared and CERES' stock price also soared. Furthermore, the stock price rose further due to favorable results for the third quarter, mainly for Mobile Service, announced during trading on November 8th.

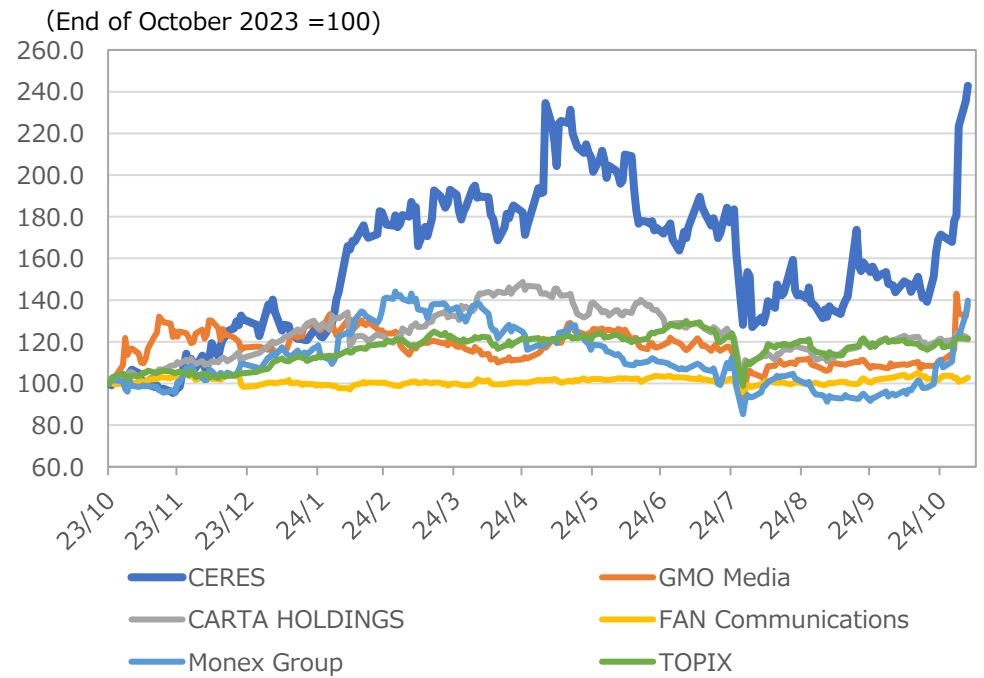
Crypto Assets Will be Heavily Influenced for the Time Being

The company's revenue is expected to continue to fluctuate significantly in Financial Service, while Mobile Service are steadily expanding. As a result, while the stock price is expected to continue to trend upwards, reflecting the growth of mobile services, it is expected to continue to be significantly affected by the volatility of the cryptocurrency market. In particular, as mentioned above, various macro movements in the cryptocurrency market are expected in Q4 of FY12/2024 and FY12/2025, and there is a possibility that the schedule for the listing of bitbank will become concrete within the company group and the trend of cryptocurrencies, including current momentum, may have a greater impact than usual.

Relatively High Valuation

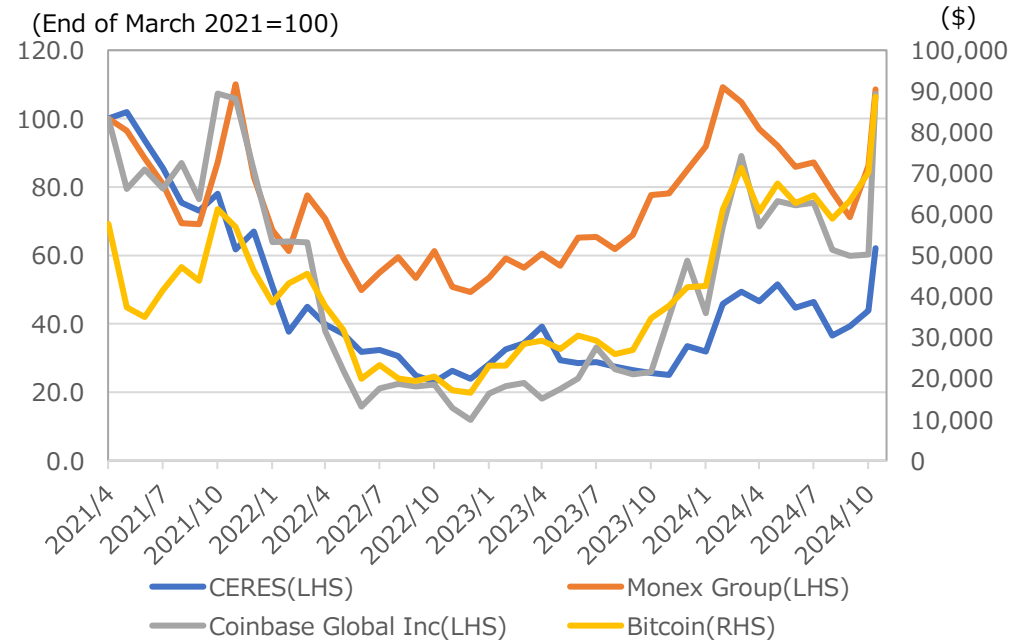
CERES' ROE is expected to rise from 5.0% in FY12/2023 to around 12.7% in FY12/2024 and there is also room for further upside. Compared to Point Media's peers, its ROE is at a high level second only to GMO Media. Although the company's PER and PBR are higher than its peers in point media industry, the current profitability and expectations for a rise in the cryptocurrency market will justify the relatively high level for the time being.

Figure 12. Comparison of Stock Price Trends with Other Companies in the Same Industry



Source: Strategy Advisors

Figure 13. Bitcoin Price & Cryptocurrency-Related Stock Prices (Index)



Note: Coinbase Global (COIN, NAS) is a USD-based stock index.

Source: Strategy Advisors

Figure 14. Valuation Comparison with Peer Companies

Company	Code	Latest Result	Share Price (12 Nov) (¥)	Market Cap. (¥ mn)	PER CoE (Times)	PBR Actual (Times)	Yield CoE (%)	ROE Actual (%)	ROE CoE (%)
CERES	3696	12/23	2,268	26,105	21.7	2.8	1.8	5.0	12.7
GMO Media	6180	12/23	3,600	6,307	12.5	2.6	4.8	16.2	20.1
CARTA HOLDINGS	3688	12/23	1,440	36,432	22.7	1.5	3.8	-9.3	6.8
FAN Communications	2461	12/23	414	27,428	17.6	1.5	4.6	6.9	8.8
Monex Group	8698	3/24	918	235,548	NA	1.8	NA	27.1	NA

Note: The company's forecast ROE is calculated by dividing the company's forecast net income by the average of the equity capital at the end of the previous fiscal year and the equity capital at the end of the most recent quarter.

Source: Based on Company Data. Compiled by Strategy Advisors

Figure 15. Segment Trends and Performance Trends (Quarterly Basis)

(¥ mn)	FY12/22		FY12/23		FY12/24				Q3
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Mobile Service									
Sales	5,358	5,454	5,314	5,613	5,975	6,570	6,275	6,260	6,619
YoY	13.6%	6.8%	13.7%	13.1%	11.5%	20.5%	18.1%	11.5%	10.8%
Point	3,576	3,719	3,525	3,359	3,325	3,608	3,553	3,454	3,473
YoY	34.3%	32.1%	6.0%	-1.8%	-7.0%	-3.0%	0.8%	2.8%	4.5%
D2C	622	654	645	1,174	1,433	1,801	1,751	1,749	1,937
YoY	113.0%	76.3%	50.3%	117.0%	130.4%	175.4%	171.5%	49.0%	35.2%
DX	1,167	1,149	1,210	1,105	1,250	1,211	983	1,126	1,244
YoY	20.8%	30.7%	26.0%	2.1%	7.1%	5.4%	-18.8%	1.9%	-0.4%
Within Segment	-7	-68	-66	-25	-33	-50	-12	-69	-35
Operating Income									
YoY	878	818	686	762	813	926	1,119	789	1,143
Operating Income Margin	57.6%	53.5%	-31.9%	29.6%	-7.4%	13.2%	63.1%	3.5%	40.7%
Point	16.4%	15.0%	12.9%	13.6%	13.6%	14.1%	17.8%	12.6%	17.3%
Operating Income Margin	798	715	506	609	612	753	782	705	784
Operating Income Margin	22.3%	19.2%	14.4%	18.1%	18.4%	20.9%	22.0%	20.4%	22.6%
D2C	59	94	59	349	153	169	341	149	248
Operating Income Margin	9.5%	14.4%	9.1%	29.7%	10.7%	9.4%	19.5%	8.5%	12.8%
DX	53	42	152	-162	80	36	31	-35	143
Operating Income Margin	4.5%	3.7%	12.6%	-14.7%	6.4%	3.0%	3.2%	-3.1%	11.5%
Within Segment	-32	-32	-32	-33	-32	-32	-36	-28	-32
Financial Service									
Sales	106	117	218	89	99	205	447	168	449
YoY	-83.4%	56.0%	230.3%	NM	-6.6%	75.2%	105.0%	88.8%	353.8%
Operating Income									
Operating Income Margin	-231	-249	-137	-257	-263	-240	-54	-413	-267
Operating Income Margin	-217.9%	-212.8%	-62.8%	-288.8%	-265.7%	-117.1%	-12.1%	-245.8%	-59.5%
Equity in Earnings (Losses) of Affiliates									
	-11	-168	109	-36	-99	104	370	-132	-142
Adjustment									
Sales	-50	-47	-7	-7	-1	2	-4	5	-1
Operating Income	-277	-290	-294	-292	-280	-304	-352	-278	-258
Whole Company									
Sales	5,414	5,524	5,525	5,695	6,073	6,777	6,718	6,433	7,067
Operating Income	370	279	253	213	270	382	713	98	618
Ordinary Income	502	-67	352	179	203	483	1,140	-71	455
Net Income	553	-367	201	153	-243	340	832	-159	172

Source: Company Data. Compiled by Strategy Advisors

Figure 16. 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 Income	1,229	880	1,496	2,305	1,246	1,118	1,600
Operating Income 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 Assets	0	0	73	19	0	0	
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 Assets	520	4	0	0	0	0	
Others	10	37	25	12	71	23	
Ordinary Income	-2	792	1,816	3,499	679	1,217	2,000
Ordinary Income Margin	0.0%	4.8%	9.0%	15.0%	3.3%	5.1%	7.4%
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 Income	-232	74	744	2,775	46	451	1,200
Net Income Margin	-2.2%	0.4%	3.7%	11.9%	0.2%	1.9%	4.4%
EPS (¥)	-28.7	6.8	67.3	251.8	4.1	39.6	104.5
Investment in Tangible & Intangible Assets	55	320	243	352	70	343	
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 (¥)	5.0	14.0	18.0	40.0	20.0	20.0	40.0
Average Number of Shares (mn shares)	11.0	11.0	11.0	11.0	11.3	11.4	
Number of Shares at FY End (mn shares)	10.9	11.1	11.1	11.2	11.4	11.4	

Source: Company Data. Compiled by Strategy Advisors

Figure 17. Balance Sheet

(¥ mn)	12/18	12/19	12/20	12/21	12/22	12/23
Current Assets	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
Fixed Assets	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
Total Assets	11,917	12,902	16,227	20,234	22,597	25,915
Current Liabilities	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
Fixed Liabilities	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
Net Assets	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	29	166	260	70	120	158
Income						
Subscription Warrant	8	7	4	3	1	1
Noncontrolling Interest	420	473	576	744	813	860
Total Assets	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
Equity	6,008	6,099	6,510	9,071	8,881	9,183
BPS (¥)	551.2	551.1	588.6	807.2	779.8	804.6
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: Company Data. Compiled by Strategy Advisors

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