SEPTENI HOLDINGS CO., LTD.

Summary of Questions and Answers for 3Q FY2024 Financial Results Briefing

The summary of the main questions and answers at the financial results briefing for the 3Q of the fiscal year ending December 2024 (for institutional investors, analysts, and the media) held on November 7, 2024 is as follows.

Q1. Revisions to Estimates and Outlook

A1. The factors leading to this downward revision are mainly recognized as the decline in the revenue to net sales ratio and the decrease in productivity. As the retention rate has been steadily rising, partly thanks to the base salary increase implemented in the previous fiscal year, the Company considers its human resources to be sufficient. From now to the next fiscal year, the Company intends to restrain additional new hires and prioritize efforts to improve productivity.

Q2. Approach to Quantitative Targets in the Next Fiscal Year and Medium-Term Management Policies

A2. As the Company aims to return to profit growth in the next fiscal year, it does not currently have a policy of securing profits by significantly reducing expenses, and while keeping the increase in expenses to a slight extent, it is working to improve productivity to recoup the human capital investments made in the previous fiscal year.

The impact of this revisions to the earnings estimates on the quantitative targets in the medium-term management policies will be announced at the timing of the next full-year results announcement, as the Company is currently in the process of considering and formulating these targets internally.

Q3. Results of Subcontract Costs for Creative Production in Cost of Sales

A3. For creative production, the Company operates its business based on a policy of basically promoting in-house production. However, the main factors behind this increase in outsourcing expenses in this quarter were the acquisition of branding projects and the delivery of projects in the short video area, which the Company has been focusing on recently, and this is considered to be the temporary increase. This does not mean that subcontract costs are increasing due to structural changes.

Q4. Regarding Equity in Earnings of Affiliates, Gain on Change in Equity and Impairment Loss on Investments Accounted for Using Equity Method

A4. The gain on change in equity is due to changes in the equity of COMICSMART Inc., which is an equity-method affiliate, since this April. The impairment loss on investments accounted for using equity method arose from the impairment loss incurred by the equity-method affiliate. Including the equity in earnings of affiliates, the equity in earnings of affiliates for this quarter is approximately ¥140 million. The equity in earnings of affiliates is expected to be in line with initial forecasts for the full fiscal year.

Q5. Results and Outlook of the Digital-Marketing Business

A5. Net sales growth slowed somewhat in the 3Q due to budgetary cutbacks by some clients such as those in the financial sector in the Marketing Communications Area, but the Company considers it could have resulted in a year-on-year growth rate that is close to market-growth without it. Because the competition winning rate has increased when the Company made an online-offline integrated proposal with the Dentsu Group, it intends to use this as a hook to increase the net sales growth rate.

Additionally, in the Direct Business Area, the impact of the decline in health food-related products is continuing, and it is considered that it will still take time for the entire industry to recover, so the Company will proceed with increasing transactions in other industries and acquiring new clients.

Q6. Revenue to Net Sales Ratio in the Digital Marketing Business

A6. The main factor behind the decline in revenue to net sales ratio is the growing share of search advertising in a mix of products in its core Marketing Communications Area. The Company considers it as an important indicator, and to improve this, it is working to expand sales through adding social and display advertising, as well as cross-selling with high-margin products, while maintaining high performance of advertising operation, which is the most important aspect of performance advertising, one of the Company’s strengths. Although the current progress is not as fast as originally anticipated, the Company is steadily improving the rate on a quarterly basis, and it intends to continue its efforts to improve in the 4Q, compared to the 3Q.