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December 8, 2022

Company name: Appier Group, Inc.
Representative: Chih-Han Yu, Representative Director and CEO
(TSE Growth Code: 4180)
Contact: Koji Tachibana, Senior Vice President of Finance
(TEL. + 81 – 3 – 6435 – 6617)

Explanation Material on Investment Policy for Mid- to Long-Term Enhancement of Corporate Value

Appier Group, Inc. ("the Company") got the approval from the Tokyo Stock Exchange, Inc. to change the market on which the Company's shares are listed from the Growth Market segment to the Prime Market segment as of December 15, 2022, as separately announced today.

For Appier's long term commitment in "Turning AI into ROI by Making Software Intelligent", the Company has made long term investments to aim for maximizing corporate value in the future. Currently, the Company is growing at 56% for revenue year-on-year for first to third quarter cumulative total (from January to September) and expects to reach JPY19.2 billion for revenue and JPY 22 million in operating loss for FY2022, which has improved from previous years, based on the most recent full year forecast we disclosed on Nov 14, 2022.

The details, policy, and future outlook of the Company's investment are as follows.

1. Major Investment Targets

The Company is a pioneer in providing advanced AI marketing solutions in a Software-as-a-Service (SaaS) format. Our solutions support the entire marketing and sales funnel with the automation and the prediction of consumer behavior through AI.

The first solution that the Company provided is CrossX, which enables our customers to predict users' lifetime value and acquire the most valuable customers in the prediction and acquisition stage of the marketing and sales funnel. In addition, CrossX constitutes a majority of our revenue among our solutions. In order to support our customers in the entire marketing and sales funnel, the Company has continuously developed new solutions. In recent several years, the Company developed and provided solutions such as AIQUA and BotBonnie (in the user retention and engagement stage), AiDeal (in the transaction stage), AIXON and Woopra (in the audience intelligence stage) (hereinafter referred to as "the New Solutions").

The Company aims to strengthen sales of the New Solutions and achieve a balanced revenue mix among our solutions. The Company also aims to enhance AI algorithms for the New Solutions by using cloud computations to increase the added value of the New Solutions.

Therefore, in addition to personnel expenses and marketing and advertising expenses to raise awareness of the New Solutions and acquire new customers, the Company continuously invests in up-front investment such as cloud computation usage fees to develop and research AI algorithms. Furthermore, it has been essential for continuous investment in cloud computations to develop and research our AI algorithms in the New Solutions, since our AI algorithms have been built on cloud computations.

Regarding the up-front investments, the Company has also engaged in sales promotion, holding webinars, and participating in exhibitions, led by our commercial role personnel, while considering cost effectiveness.

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2. Investment Amount

The following is a breakdown of up-front investment for raising awareness of the New Solutions, new customers acquisition, and AI algorithms enhancement from FY2020 to FY2022.

(Amount: Millions of yen)	FY2020 Actual	FY2021 Actual	FY2022 Plan ***
Total amount of up-front investment	1,678	2,004	2,740
(1) Expenses to raise awareness of the New Solutions and acquire new customers	1,250	1,441	1,962
Of which, personnel expenses *	1,109	1,311	1,817
Of which, marketing and advertising expenses	111	106	105
Of which, rent, travel and transportation expenses, etc. **	30	25	40
(2) R&D expenses, cloud computation usage fees to develop and research AI algorithms for the New Solutions	428	562	778

* The total personnel expenses for each fiscal year are allocated proportionally based on the ratio of the number of personnel engaged in raising awareness of the New Solutions and acquiring new customers.

** Rent, travel and transportation expenses for each fiscal year are allocated proportionally based on the ratio of the number of people engaged in raising awareness of the New Solutions and acquiring new customers.

*** Compared with FY2020 and FY2021, the amount of the FY2022 Plan would increase to some extent due to JPY depreciation.

3. The Purpose of investment to Enhance Corporate Value, Policy for Investment, and Investment Plan

The Company provides the New Solutions on a subscription basis with recurring billing.

The number of customers for the New Solutions has increased steadily from 256 as of the end of December 2020 to 386 as of the end of December 2021 and 483 as of the end of September 2022 driven by our up-front investments in raising awareness of the New Solutions and acquiring new customers.

The churn rate for the New Solutions has recently been at a low level while continually improving due to our AI algorithm enhancement. The monthly customer revenue churn rate of the New Solutions has been getting lower: 1.68% as of December 2020, 1.23% as of December 2021, and 0.94% as of September 2022.

As indicated by the increase in customers' number and the improvement of churn rate of customers who subscribe to the New Solutions, our up-front investment has enabled strong business expansion by increasing the number of new customers using the New Solutions and steadily increasing revenue from existing customers, while maintaining a low churn rate.

It is expected that the global AI industry will continue to grow, with the software technology category comprising of 89% the global AI industry. The AI software market size is expected to reach over US$356 billion by 2022, up from US$264 billion in 2020 (Note 1). The Company's TAM (Note 2) in the "Customer Relationship Management" segment and the "Data Analytics and AI Software" segment, as defined by IDC, is expected to grow from a total of approximately US$53.3 billion in 2020 to approximately US$67 billion in 2022.

(Notes)
1. IDC, "IDC Semiannual Artificial Intelligence Tracker, 2H 2020 (July 2021)".
2. Abbreviation for Total Addressable Market, a term meaning the largest market size assumed by the Company.
3. "IDC Semiannual Artificial Intelligence Tracker, 2H 2020 (July 2021)" and "Semiannual Software Tracker, 1H 2020 (November 2020)".

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In order to seize such a huge market opportunity, the Company has proactively made up-front investments to raise awareness of the New Solutions, acquire new customers, and develop and research AI algorithms to increase the added values of the New Solutions by using cloud computations for R&D activities, which would increase corporate and shareholder value in the mid to long term.

In the fiscal year ending December 31, 2021, the Company made up-front investments of JPY 2,004 million in total. The Company invested JPY 1,441 million to raise awareness of the New Solutions and acquire new customers (including personnel expenses for sales and marketing, travel and transportation expenses for their activities, and marketing and advertising expenses for webinars, etc.), and JPY 562 million as cloud computation expenses to develop and research AI algorithms for the New Solutions.

For the fiscal year ending December 31, 2022, we plan to make up-front investments of JPY 2,740 million in total.

In the fiscal year ending December 31, 2023 and going forward, the Company will continue to make up-front investments to raise awareness of the New Solutions, acquire new customers, and enhance our AI algorithms, while considering our important KPIs such as the number of customers of the New Solutions and monthly customer churn rate, in addition to the business environments and the competitive landscape among the SaaS market in Japan and overseas. We expect that the amount of up-front investments will increase in the future, taking into account the various factors as mentioned above and the Company's revenues and profits.

Besides the growth of CrossX, the Company expects to be able to generate a reasonable level of profits in the mid to long term by increasing revenue through raising awareness of the New Solutions, acquisition of new customers for the New Solutions, and cross-selling. These up-front investments are covered by cash on hand. As of September 30, 2022, we had a total of JPY 21,685 million in cash and time deposits, and believe that we have sufficient cash and time deposits to continue investment activities for the foreseeable future.

4. Future Outlook for the Company in consideration of the Investment

Regarding EBITDA, we reported negative EBITDA of JPY 1,103 million in the fiscal year ending December 31, 2020, but it turned positive and we reported JPY 42 million of EBITDA in the fiscal year ending December 31, 2021. In the fiscal year ending December 31, 2022, we forecast an EBITDA of JPY 1,200 million with a significant improvement from the previous fiscal year, due to the enhancement of our business foundation through our global geo expansion, while we will continue to make up-front investments for the New Solutions as mentioned above.

For operating profit and loss, our operating loss was JPY 1,578 million in the fiscal year ending December 31, 2020, and JPY 1,117 million in the fiscal year ending December 31, 2021. We forecast an operating loss of JPY 22 million in the fiscal year ending December 31, 2022, while turning profitable for operating profit in the second half of the year, which is a significant decrease in loss for the full fiscal year. The main difference between EBITDA and operating loss is depreciation and amortization of intangible assets.

Although we have not disclosed earnings forecasts for the fiscal year ending December 31, 2023 and beyond at this time, we will continue to improve profitability in the mid to long term, while making aggressive up-front investments to raise awareness of the New Solutions, acquire new customers, and AI algorithm enhancement for the New Solutions, with the aim of maximizing corporate and shareholder value in the mid to long term.

End