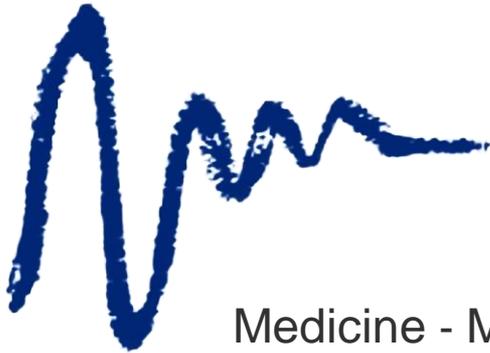
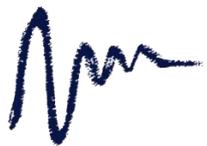


2017-2018 Global Network Investment Competition
Stock Analysis Report



M3, Inc.

Medicine - Media - Metamorphosis



M3, Inc.

M3 Inc

2413 JP EQUITY	BUY
Price:	3,605
Price Target	3,953
Consensus Estimate:	4.50
Market Cap (¥bn):	1,167
Shares O/S (mn):	324
Enterprise Value (¥bn):	1,014.04
52Wk Price Range:	94.94
3M Avg Vol. (¥mn):	1.18
P/E	65.5x
P/B	16.2x
D/E	-
Sector:	Communications & Healthcare
Foreign Ownership:	40.40%
FY17 Sales (bn¥)	78,143
FY17 Net Profit (bn¥)	16,004

Source: Bloomberg, Speeda



Investment Highlights

The No. 1 from Japan in the list of most innovative companies¹ in 2017 with strong business performances and solid expansion activities

Business model that changes “The World of Medicine through the full use of the power of the Internet”.

📈 **Facebook and LinkedIn for doctors:** M3, Inc. connects doctors to doctors and pharmaceutical companies, hospitals, research providers with doctors. They currently have 90% membership of all doctors in Japan (250,000 out of 290,000 doctors).

📈 Great asset for coordination of medical relief efforts, especially in Japan as proven during the Great Earthquake in 2011



Strongly favorable macroeconomic environment for M3 Inc's businesses

📈 Healthcare industry, especially in Japan is large – ¥ 33tn (USD 26.5bn)

📈 Doctors' behavior in regard to acquiring information has changed: 39% using internet, only 17% through MR.



M3 Inc has maintained solid performance/operations throughout its history

📈 Strong leadership with clear strategy and visions:

- 3 stages of development & growth for M3
- Maintain rapid growth and dominating position via M&A: 37 M&A and investment activities since 2006 (Bloomberg).

📈 **Strong cash flow:** 37 M&A transactions but no borrowings and always deliver positive earnings.

📈 **Critical size** of membership and network has reached, creating dominant to monopolistic positions in markets it is operating and credibility, which is important in the field of medicinal practices. Currently, M3 Inc has gained **over 4 million members** worldwide.

📈 Claiming **dominant market shares:** in US (MDLinx, 80% doctors), Korea (Medigate, 70%), and UK (Doctors.net.uk, 70%).

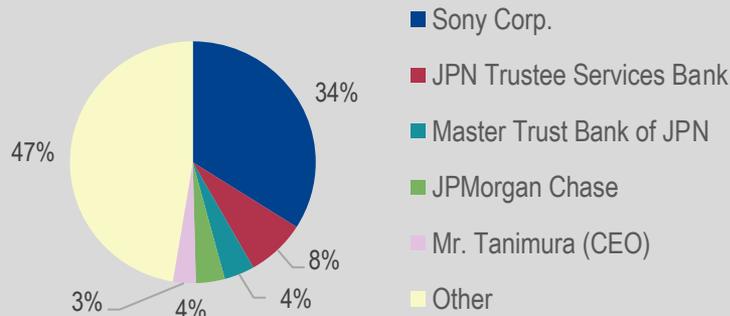


¹: Forbes's The World's 25 Most Innovative Growth Companies 2017

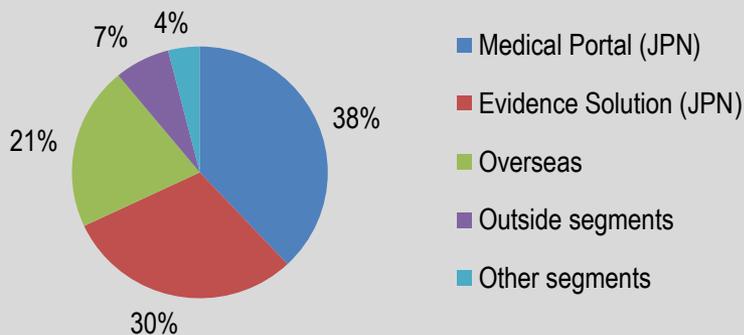
Company Overview |

Company **M3, Inc.**
 Headquarter **Minato, Tokyo, Japan**
 Headcount **4,370** (FY17 Consolidated)

M3 Inc Ownership



FY17 Sales Breakdown



¹Sources: Speeda, Bloomberg

In September 2000, So-net was established in Japan as a supplier of network-related services, with Sony Communications Network Corporation being the largest shareholder. The company was established with the goal of “Changing the World of Medicine through the full use of the power of the Internet.” They initially launched the MR-kun services and eventually acquired WebMD Japan that broadened their range of medical-related services.

In 2010, the company eventually changed its name to M3, which represents the three M’s of Medicine, Media, and Metamorphosis. Eventually, their success allowed them to acquire various subsidiaries and affiliates that is offering healthcare-services online. To date, foreign market accounts to 21% of their annual sales as of 3rd quarter of 2017.

The President of M3, Inc. is Itaru Tanimura, who has been the president since the company’s establishment. M3, Inc. started to venture into foreign markets with M3 USA Corporation in 2003.



Company Overview | Main Business Lines and Milestones



For Healthcare Professionals

- **m3.com**: A members-only website for information needs of doctors
- **MR-kun**: Online platform for drug information from pharma companies
- **MDLinx (USA)**: Online source of medical news and info for US physicians
- **MEDI:GATE (SoKor)**: Online source of medical news and discussion board for South Korea doctors



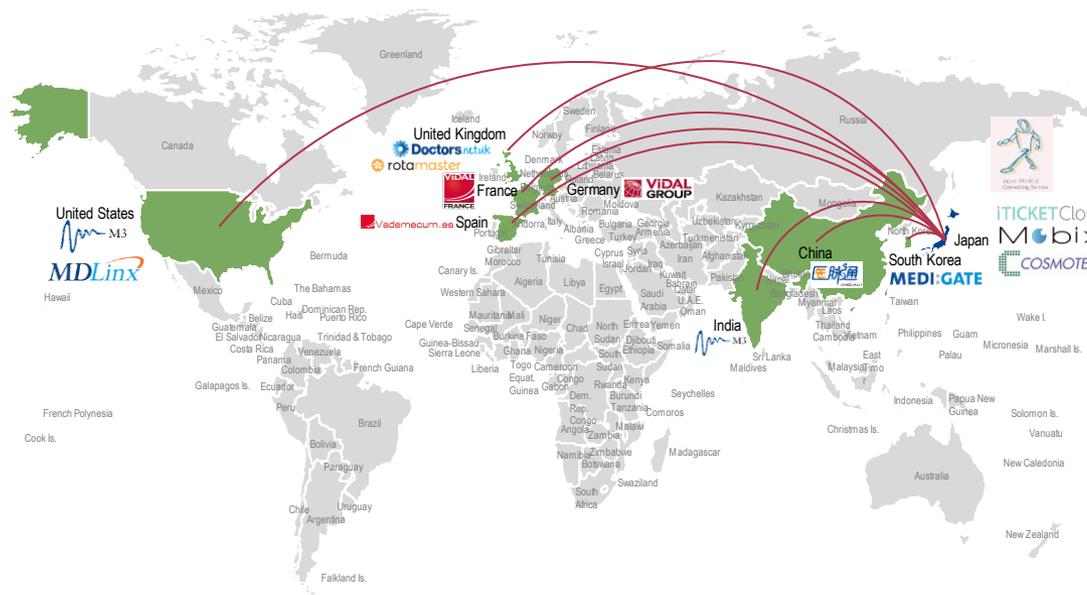
For Medical-related Businesses

- Marketing support for healthcare professions (MR-kun, m3MT, overseas marketing)
- Large-scale clinical trial service (Mebix, Inc.)
- Clinical trial support service (Chicken-kun)
- Market research targeted at healthcare professionals in and outside of Japan
- Doctor and pharmacist recruiting support
- Marketing support for medical solution providers



For the General Public

- **AskDoctors**: Q&A site for free online consultation with m3.com doctors
- **Ichie**: A website with health information evaluated by doctors
- **iTicket Plus**: A reservation system for clinics through mobile phones and Internet

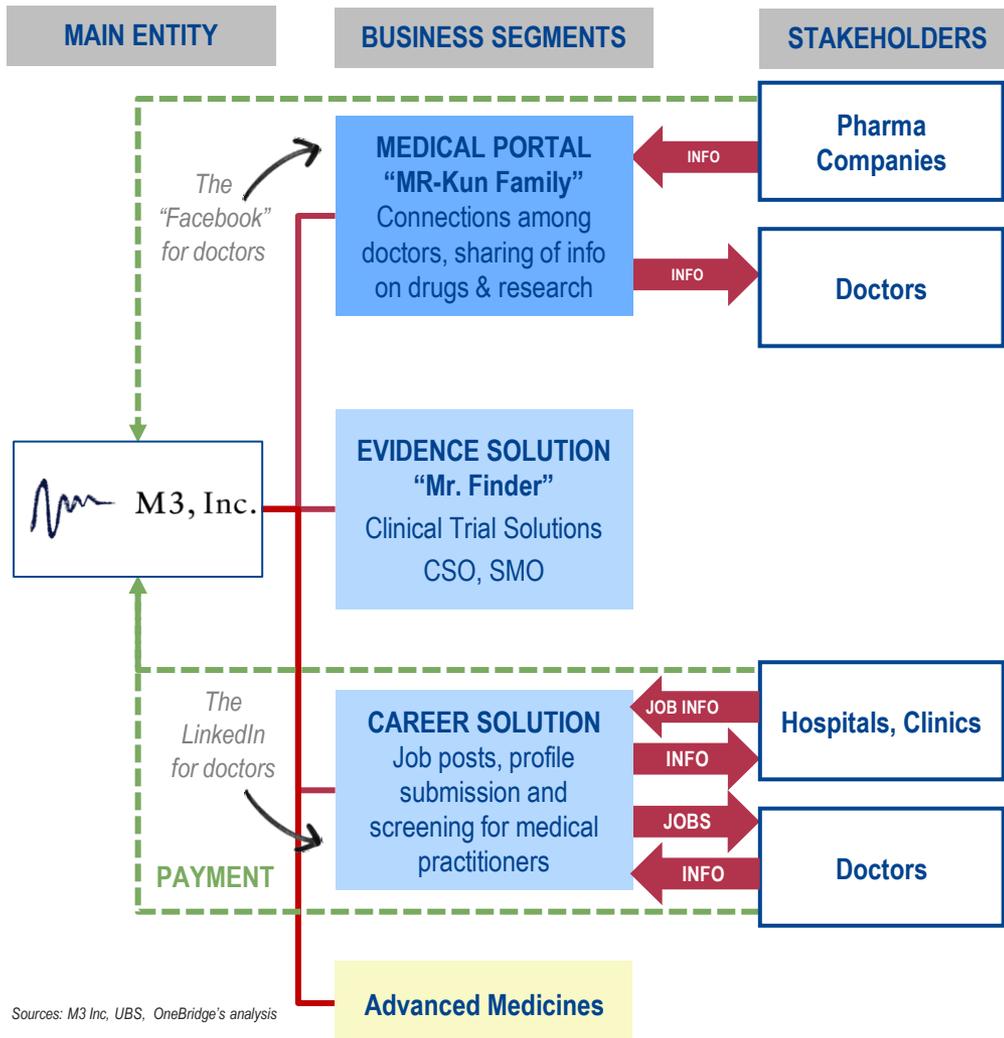


Through its subsidiaries and affiliates, M3, Inc. is able to provide international services to Germany, Spain, France, USA, United Kingdom, China, Korea and India.



Business Model

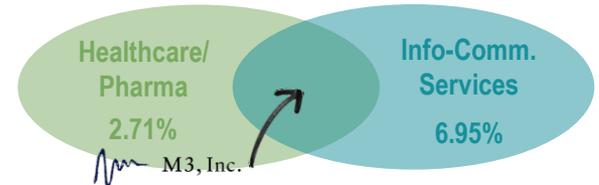
One of the most innovative growth companies in the world¹.



Sources: M3 Inc, UBS, OneBridge's analysis

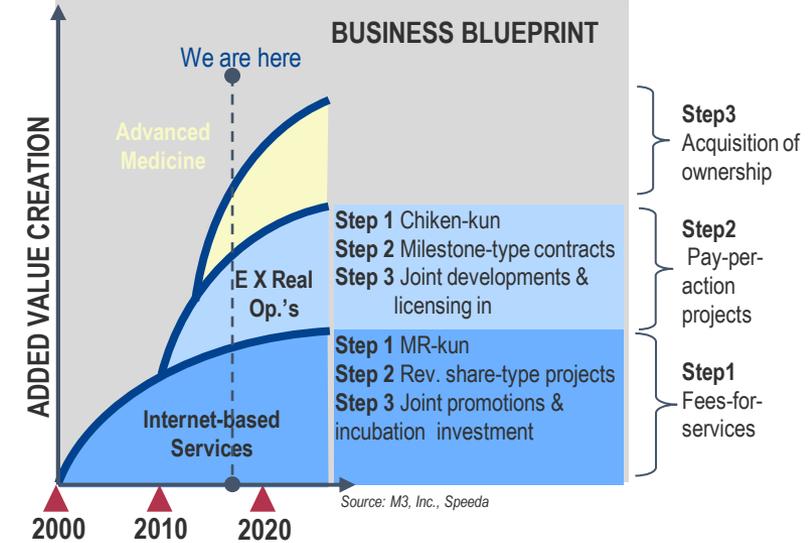
¹M3, Inc. was number 6 on Forbes' Most Innovative Companies List in 2016. 2017-2018 GLOBAL NETWORK INVESTMENT COMPETITION

M3 Inc's Business Industry(ies)



M3 Inc business overlaps info-communications (internet-based info platform) and healthcare/pharma (medical industry parties-oriented). With its clear strategy of entering advanced medicines, M3 Inc is gaining even more strong footprint in healthcare.

In Japan, healthcare and info-communication industries are projected to have positive sales growths of 2.71% and 6.95%, respectively. Therefore, M3 Inc is in a favorable business area with expected strong growth.



Valuation| Multiples

As M3 Inc is uniquely situated at the overlapping of healthcare and information technology industries and has a clear and ambitious strategy to enter advanced medicines, it has monopolistic position in its unique business area and therefore, multiples valuation for M3 Inc does not give a clear insightful look into the company value.

Company	Price	↓MktCap	P/S	P/E	P/B	NPM
M3 Inc	JP 3,590	1,162,495	13.6x	65.5x	16.2x	20%
Syngene Internat	IN 504	100,770	8.1x	33.9x	7.1x	24%
Linical	JP 1,357	33,572	3.7x	22.9x	7.8x	17%
Hangzhou Tiger-A	CN 32	9,601	11.0x	68.8x	7.0x	12%
Carenet Inc	JP 869	9,601	3.9x	30.9x	5.9x	7%
Evotec Ag	DE 17	2,446	10.3x	75.7x	7.2x	17%
Average (excl. M3)			7.4x	46.4x	7.0x	

Sources: Speeda, Bloomberg, Onebridge's analysis. Price is share price on Nov 9th, 2017. MktCap unit is mnJPY

Company	Price	MktCap	P/S	P/E	P/B	NPM
M3 Inc	JP 3,590	1,162,495	13.6x	65.5x	16.2x	20%
Facebook Inc-A	US 179	59,234,575	14.2x	34.6x	7.3x	37%

Sources: Speeda, Bloomberg, Onebridge's analysis. Price is share price on Nov 9th, 2017. MktCap unit: mnJPY

- No companies are truly comparable to M3 Inc as we found. Some companies share similar business models in medical portal, but of significantly smaller scales (Carenet); some share CSO, CRO businesses (Syngene, Linical, Hangzhou Tiger-A, Evotec), but none of them are in similar range of businesses and have achieved the scales and market shares M3 Inc has. We believe that is the reason M3 Inc's P/S, P/E, and P/B are significantly higher from those of all above mentioned companies.
- As M3 Inc's medical portal connects doctors to doctors and to pharmaceutical companies and assists the flows/sharing of medical information, including drug information and researches, its business model is essentially like Facebook but only for medical professionals. By looking at how Facebook is valued, we believe, will provide more insights than most other companies. However, as M3 Inc as now been advancing into advanced medicines, and much growth is expected from this third step of development, Facebook is also not useable as comparable for M3 Inc

Valuation| Discounted Cash Flow

M3 Inc is well positioned to capture the large remaining market for medical portal business. Also with their clear strategy of entering advanced medicines, we expect continued strong growth in sales. According to our DCF model, the share price is ¥3,953 per share, 10% upside potential. We recommend BUY.

M3 Inc

WACC	8.44%
Terminal Growth Rate	5%

	FY17	FY17/09	FY18f	FY19f	FY20f	FY21f	FY22f	FY23f
EBIT	25.0	27.8	13.4	49.5	60.0	71.7	78.4	86.1
CIT	(9)	(11)	(5)	(19)	(23)	(27)	(30)	(33)
D&A	0.9	1.0	0.3	1.4	1.4	1.4	1.4	1.4
NWC Δ	0.7	(0.5)	0.6	(1.6)	(0.0)	(1.1)	(0.4)	(0.3)
CapEx	-	-	-	-	-	-	-	-
FCFF	17.1	17.7	9.3	30.5	38.6	44.7	49.6	54.5
PV			9.0	27.2	31.8	34.0	34.7	35.2

Terminal value 1,074

EV 1,246

Sensitivity of stock price to WACC & TGR

		7.4%	7.9%	8.4%	8.9%	9.9%	
Cash for op.	25						
Non-op. assets	-	4.0%	4,079	3,558	3,154	2,832	2,351
Non-op. liabilities	-	4.5%	4,686	4,001	3,491	3,095	2,522
Equity value	1,271	5.0%	5,542	4,596	3,925	3,425	2,729
Shares o/s (mn)	324	5.5%	6,839	5,435	4,508	3,851	2,982
DCF Share Price	3,925	6.0%	9,037	6,705	5,330	4,422	3,299
Current share price	3,605						

- The underlying market for medical portal business is still very large and uncaptured and M3 Inc is at the unrivalled position to capture. At moment, in Japan only, M3 Inc has about 50 main clients which each brings ¥0.5b in sales on average and M3 Inc believes that they can double the number of clients and sales per client, which will drive the sales to 4x – 5x the current level. We think 3x-4x the current sales is highly achievable given their dominance and well reception in the industry.
- As revenue for half year of 2018 (FY17/09) has reached ¥80bn already, we expect strong sales performance for FY18, which ends at March 31st, 2018
- This company has no loans even though it has completed a number of M&A deals paid in cash in the recent years. In the calculation of WACC, the cost of debt is 0%, cost of capital is 8.44%, hence WACC is 8.44%

Glossary

- ¥: yen
 - [#]tn: trillion
 - [#]bn: billion
 - [#]mn: million
- C**
- CN: China
 - CRO: Contract research Organization
- D**
- DE: Germany
 - Dr.: doctor
- I**
- IN: India
- J**
- JP or JPN: Japan
- M**
- MR: Medical Rep (sales representative for Pharmaceutical companies)

- P**
- PC: Pharmaceutical companies
- S**
- SMO: Site Management Organization
- T:**
- TYO: The Tokyo Stock Exchange
- U**
- USD: United State dollars

Disclaimer

Some information, such as those on the company's business model as well as the financial projections and calculations, were devised with the understanding gathered from exchanges with academics and information from resources feasibly accessible to the team and use of a reasonable amount of assumptions. The team cannot and does not verify or guarantee the accuracy or reliability in entirety of the information contained herein, the suitability or profitability of any particular investment, or the potential value of any investment or informational source. The team has taken all the necessary precautions to ensure that the calculations and analyses are correct.

M3, Inc. List of Subsidiaries and Affiliates

SUBSIDIARIES

M3 USA Corporation (United States of America)
M3 Global Research (United Kingdom)
Doctors.net.uk Limited (United Kingdom)
Rotamaster (United Kingdom)
VIDAL France S.A. (France)
Medizinische Medien Informations GmbH (Germany)
VIDAL Vademecum Spain, S.A. (Spain)
Medi C&C Co., Ltd. (Korea)
金葉天成 (北京) 科技有限公司 (China)

M3 India (India)
iTICKET Corporation (Japan)
Mebix, Inc. (Japan)
Clinical Porter Inc. (Japan)
M3 Career, Inc. (Japan)
Reno.Medical K.K. (Japan)
M PLUS Corporation (Japan)
e-SMO Inc. (Japan)
MIC Medical Corporation (Japan)

C.M.S Co.Ltd, (Japan)
Mediscience Planning, Inc. (Japan)
M-cube, Inc. (Japan)
M3 Doctor Support Corporation (Japan)
G-TAC Co.,Ltd. (Japan)
M3 Marketing, Inc. (Japan)
Neues Co, Ltd (Japan)
Nouvelle Place Inc. (Japan)
POC Clinical Research Inc. (Japan)

QLife, Inc. (Japan)
TECOM, Inc. (Japan)
Cosmotec Co., Ltd. (Japan)
JAMECS Inc. (Japan)

AFFILIATES

Medical Net Communications, Inc. (Japan)
Honyaku Center Inc. (Japan)
P5, Inc. (Japan)
Hyuga Pharmacy Corporation (Japan)