

May 2, 2014

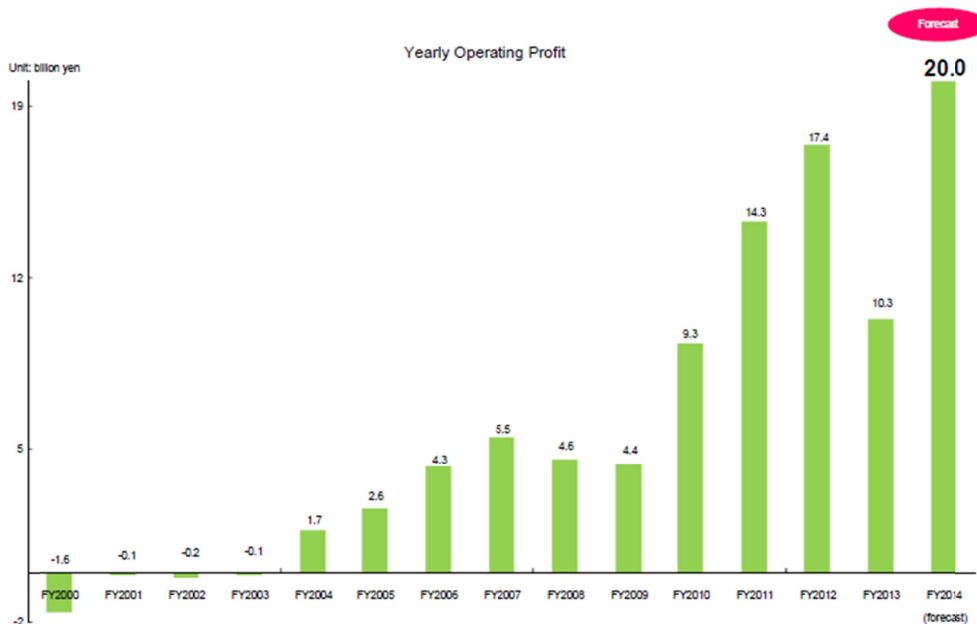
Dear clients and colleagues,

About investment philosophy, a question we got asked very often is: Ok, you identified a list of quality companies. But WHEN do you pull the trigger? Well, we believe earnings growth per share drives stocks price. When a company grows, it often goes through many phases. When growth arrives at a certain point, company needs to make investments to reach the next level, such as starting a new initiative, hiring more people, building more plants, and increasing marketing expenses, etc. These investments often lead to margin erosion and earnings decline. Nowadays the stock market tends to value companies in short term, and does not like such phases. So the stock price suffers. At Global Alpha we are neither value nor momentum investors. We try to initiate a position at the inflection point when the investment phase is almost over. Then we expect earnings growth to accelerate driving stock price.

CyberAgent is a good example. It's a leading internet company in Japan that made big investment in the fiscal year 2013/9 to transform its business to a smartphone platform. You may see from the chart that its operating profit dropped 40% y/y in that year. However, management expects its operating profit to double in FY2014/9. We initiated the position in the Global portfolio in Nov 2012, and the stock is up 160% since then vs. 68% of Nikkei 225 Index.

Yearly Operating Profit

Consolidated operating profit: 20 billion yen (two times that for the previous term)



Source: company presentation

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

This weekly we shall profile CyberAgent (4751 JP, @ 4195yen). <http://www.cyberagent.co.jp/en/>

History and Business Overview

Founded in 1998, CyberAgent has an impressive growth path. From 2000 to 2013, its annual sales grew from 3B to 162B yen without M&A. It received the Venture of the Year award in 1999 and went public in 2000. In 2004, it launched Ameba, a blog service similar to Twitter. In 2012 and 2013 it went through a successful transition to a mobile platform for its core businesses as follows.

- Ameba: It has over 10 million smartphone subscribers, and offers 43 communities and 77 games. Revenue is generated from selling virtual contents and ads.
- Smartphone internet advertisement
- Social games

Target Market

In Japan the smartphone ad market size was 117B yen in 2013, and is expected to growing at 17% CAGR till 2017. The ratio of smartphone subscriptions is 37% now, expected to reach 73% in 4 years.

Management

Mr. Fujita, President (founder), controls 23% of the company. When CyberAgent went public in 2000, at age 26 he was the youngest president in the history of Tokyo Stock Exchange.

Market Data

Market Cap \$2.6B, net cash \$265M, div yield 1.0%, ev/sales (2015/9) 1.1x, ev/ebitda 7.1x, p/e 16.6x, gross margin 35%, operating margin 12.5%, profit margin 5.5%, roe 13%.

Competition

Game software: Capcom, Square Enix, Konami, Namco Bandai, Nexon
Social gaming: Gree, DeNA
Social networking: mixi

Competitive advantages

- Ameba is the no. 1 blog service in Japan, with the 2nd largest number of monthly page views (24.4B) in Japan after Yahoo!.
- Sales and operating profit margin of smartphone ads are No. 1 in Japan with 27% market share.
- It has the largest sales of social games in Japan. Number of users reached 30 million.

Growth strategy

- To expand users and contents in Ameba, the key growth driver.
- To reach more industries in smartphone ads.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

- To develop new popular social games.

Risks

- Execution in rapid expansion.
- Competition in games.
- Tighter regulations on social games: e.g. to protect minors from excessive spending.

Valuation

Target price = 6,800 yen , using DCF model at growth rate of 20% for 6 years, 4% at maturity, and WACC of 10%.

Catalysts for value creation

Profit growth at Ameba, improved margins at the internet ads thanks to ad technology, and new hit games.

Have a nice weekend.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.