

13-Nov-12

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■ Confirming Expansion of the Revenue Base Via Increased Active Account Numbers

In PIPED BITS's FY2/12 Q2 cumulative results (Mar-Aug) released on September 27, significant gains were attained in both revenue and earnings, as its core PaaS (Cloud) service SPIRAL® grew.

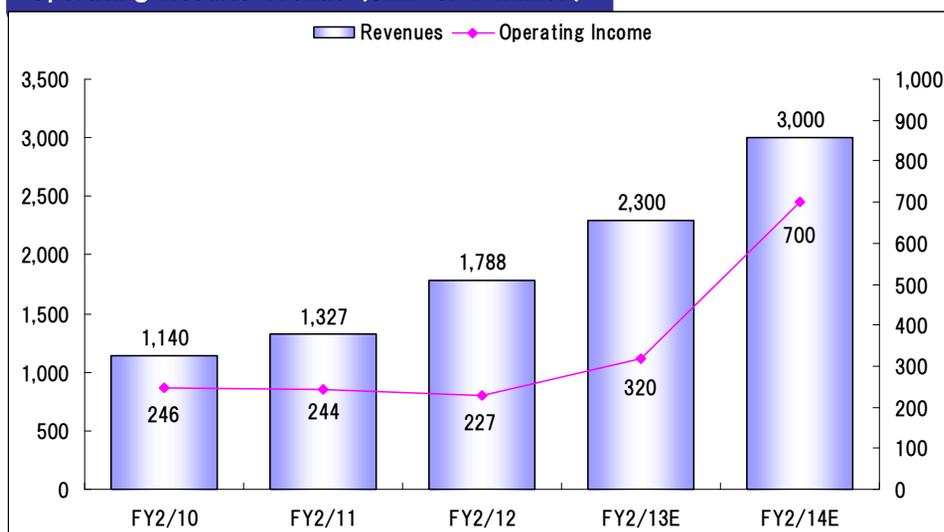
Revenues rose 35.9% YoY to JPY1,103 million, while operating income rose 76.2% YoY to JPY144 million, ordinary income by 72.3% YoY to JPY142 million, and net income by 49.6% YoY to JPY82 million. Amidst a favorable environment, with the market for Cloud expanding, PB succeeded in strengthening SPIRAL® functionality and marketing activities.

The number of active accounts that have continuously used SPIRAL® for 6 months or more also rose significantly YoY by 1,093 to 3,419, again confirming future expansion in the revenue base.

■ Check Points

- Increased Sales & Earnings Significantly Exceed the Q2 Upward Revision
- Aiming to Tackle Smartphone Development Needs with SPIRAL®
- Proactive Business Investment, Including M&A, Amidst a Background of Being Able to Generate Strong FCF

Operating Results Trends (Unit: JPY million)



■ Scope of Operations

Providing Various Services Online in PaaS Format

PIPED BITS (hereafter PB), under its management philosophy of being “a bank for information assets” , and based on its proprietary developed systems development environment SPIRAL®, provides a variety of services in PaaS format (Note 1) via the internet. Within SPIRAL® a variety of application software, that has been developed based on various components, has been stored, including CRM (Customer Relationship Management), SFA (Sales Force Automation), and electronic conversion of pay statements; with PB maintaining customer databases, and providing respective applications in accordance with their needs.

(Note 1) Cloud computing: is a structure enabling the use of various computing functions via the internet, which is divided into 3 levels - the SaaS (Software as a Service) software usage, the PaaS (Platform as a Service) development and execution environment, and IaaS (Infrastructure as a Service) devices and other hardware.

■ Actual Results of Measures this H1

March 21 Announced the Updated Version of SPIRAL® (Towards SPIRAL®1.11.1)

Given significant enhancement in expressiveness and flexibility, employing the “PHP” web development language that has strong HTML affinity in the updated version of SPIRAL® announced March 21, PB is now able to provide an environment enabling web page creation that is more dynamic and richer than that to date. Also, it delivers improved operability, functionality, and safety, as well as increased data categories. Provision of the new version commenced from April.

May 9-11, PB exhibited in the 3rd Spring Cloud Computing EXPO,

Undertaking brand development and sales promotion activities for SPIRAL® as a PaaS.

May 30 Commenced Providing the Construction Cloud Service ArchiSymphony®.

On March 1, PaperLess Studio Japan, which has been made a subsidiary, commenced providing ArchiSymphony®, the first Japanese BIM construction information platform that allows seamless integration with BIM design support software. Since then it has been steadily increasing member numbers.

May 31 Announced the Rasen Engine - a High-Speed E-mail Distribution Engine for Mobiles

The Rasen Engine is an e-mail distribution engine with 4 times the speed compared to that of the existing e-mail distribution capability to smartphones and other mobile devices. It possesses cloud service industry record levels, with capacity for mail distribution speeds at a delivery rate of 1.4 million/h to PCs (actual recorded base) and 1.2 million/h to mobiles. With high-speed e-mail distribution possible to multidevices, it seeks to improve service quality for existing customers, while establishing an ordering structure for large-scale mobile projects.

■ Scope of Operations

June 5 Announced the “JoyPla®” Joint Pharmaceuticals and Medical Supplies Purchasing Platform for Small- and Mid-Tier Hospitals

This is a cloud service that delivers lower purchasing costs and reductions in administrative costs relating to ordering through joint purchasing. The service was commenced in July.

June 7 Provision of the Voting System for the “AKB48 27th Single Selection Election”

This was the largest ever vote taken over the internet, and with know-how from last year’s voting system, smartphone compatibility, and implementation of further improvement and enhancement of functions, it was able to cope with access concentration and increased traffic, and allowed PB to support the fair and smooth carrying out of the election.

July 13 Commenced Providing “SPIRAL® Affiliates”

This is a service that allows collective management of affiliate service providers (herein “ASPs”), and by selecting the most appropriate media, we may expect effective advertising results. Further, as a result of reduction in media renewal operations through One Tag, embedding tags into the advertisers media, and outsourced administration of the confirmation of advertising results, it is possible to facilitate reduced operational burdens in ASP administration and management.

July 17 Decision to Open the Sapporo Branch

The decision to open its Sapporo Branch, was mainly aimed at strengthening Hokkaido regional marketing activities, as well as developing and delivering support for website creators and other business partners; with sales commencing on September 3.

July 24 Announced the Updated Version of SPIRAL® (Towards SPIRAL®1.11.2)

In the current H1, a second updated version of SPIRAL® was undertaken. As part of strengthening the development environment for smartphone applications, PB reinforced security for customized program mechanisms used as APIs. Also, it provided SPIRAL® Sharing as an iPhone application that helps realize O2O (Online to Offline).

August 31 SPIRAL® PLACE Contract User Numbers Exceed 5,000

SPIRAL® PLACE, which is a cloud format groupware/CMS/SNS collaborative platform, has, in the 7 months since the service was launched, provided over 5,000 free accounts. PB plans to commence provision of a paid service in FY2/13, with a target of 10,000 contract users by FY2/14.



Trends in Operating Results

Increased Sales & Earnings Significantly Exceed the Q2 Upward Revision

(1) Overview of Q2 FY2/12 Financial Statements

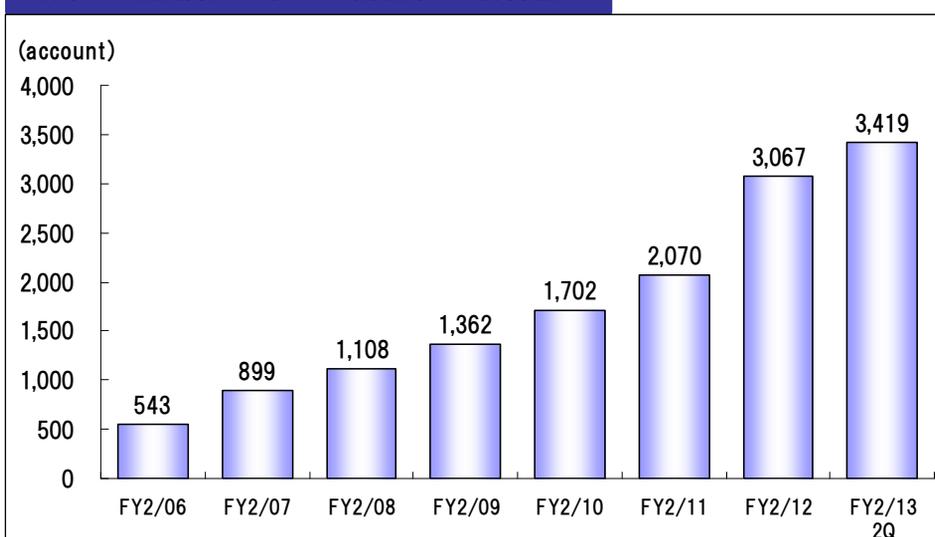
In the cumulative Q2 FY2/12 financial statements (March-August) released by PB on September 27, revenues rose 35.9% YoY to JPY1,103 million, operating income by 76.2% YoY to JPY 144 million, ordinary income by 72.3% YoY to JPY142 million, and quarterly net income by 49.6% to JPY82 million. Thus sound operating results are continuing, with significant gains in revenues and earnings exceeding even the upwardly revised figures announced on August 31.

Business Result of Q2 FY2/12 (Unit: JPY million)

	FY2/12	FY2/13	
	Q2	Q2	YoY
Revenues	812	1,103 ¹	+35.9%
Operating Income	82	144 ¹	+76.2%
Ordinary Income	82	142 ¹	+72.3%
Quarterly Net Income	55	82 ¹	+49.6%
Active Account No.s	2,326	3,419 ¹	-

Amidst this background, there was mainly an increase in account numbers due to the provision of the new version of SPIRAL[®]. The number of active information platform accounts, with continuous usage of 6 months or more, rose significantly YoY by 1,093 to 3,419, and contributed greatly to the rise in revenues and earnings. At the same time, cancellations were contained at relatively low levels, around 2.8% Q1 to 3.5% Q2. This net rise in customer numbers, in addition to expanding a stable source of recurring income, will lead to increases in revenues and profitability per account in existing accounts given increases in record numbers and commencement of multiple service usage.

The number of active account



■ Scope of Operations

Also, latent accounts (i.e. non-paying accounts that have the potential to become active accounts in the future) were 5,259 at the end of Q2, and are also expected to support the pace of net increase in customer numbers going forward.

By segment, in information platform operations that account for the majority of revenues, PB succeeded in strengthening functionality and marketing activities for its core service SPIRAL®, with revenues rising 26.2% YoY to JPY884 million, and segment profits rising 30.4% YoY to JPY 179 million. The operating income margin entered the 20% arena, rising 0.67 points to 20.2%. As a result of the media strategy operations, that support customer advertising and marketing, expanding marketing activities based mainly around affiliate advertising, revenues grew 206.7% YoY to JPY199 million, while segment losses improved JPY22 million to JPY6 million. In EC management operations that administer, plan and create EC websites tailored to apparel and fashion, operations have not been fully established yet, with revenues of JPY20 million and segment losses of JPY27 million.

Full-year Outlook for an Earnings Contribution from Media Strategy Operations

(2) Full-year FY2/13 Operating Forecasts

It is expected that rapid growth will continue, with revenues rising 28.5% YoY to JPY2,300 million, operating income rising 40.5% YoY to JPY320 million, ordinary income rising by 41.2% YoY to JPY320 million, and net income rising by 35.5% YoY to JPY189 million.

Business Result, FY2/09 to FY2/13E (Unit: JPY million)

FY	Revenues	YoY	Operating Income	YoY	Ordinary Income	YoY	Net Income	YoY	EPS (JPY)	Dividend (JPY)
FY2/09	1,034 _i	21.1%	251 _i	0.0%	252 _i	0.0%	146 _i	-0.7%	8,924.93	0
FY2/10	1,140 _i	10.2%	246 _i	-1.8%	247 _i	-1.9%	146 _i	0.5%	8,963.67	0
FY2/11	1,327 _i	16.4%	244 _i	-0.9%	245 _i	-0.8%	113 _i	-22.6%	6,932.33	0
FY2/12	1,788 _i	34.7%	227 _i	-6.8%	226 _i	-7.6%	139 _i	23.0%	39.60	0
FY2/13E	2,300 _i	28.6%	320 _i	41.0%	320 _i	41.6%	189 _i	36.0%	25.03	0

1-for-200 stock split in January 2012, 1-for-2 stock split in July 2012

It is expected that PB will grow active account numbers to 5,000, as it tackles latent accounts, with growth and expansion in revenues from stable revenue provider SPIRAL®, which is also the mainstay of growth, continuing.



■ Scope of Operations

While PB is undertaking version updates of SPIRAL® to version 1.11.1 in April 2012 and version 1.11.2 in July, it is further expected that there will be another update in H2 to version 1.11.3, with the introduction of a new function which is an application enabling optional settings objects created on SPIRAL® to be freely packaged, depending on the scope of use. Recognition of SPIRAL® is growing as a cloud service that is able to handle even larger and more customized projects than those to date, which appears to be linked to expansion in orders.

In May, Accounting De Net® became Mac OS compatible. There are virtually no cloud accounting services that are Mac compatible, and it is thought that its introduction into design and architectural offices, where Mac usage is high, will proceed, being able to show differentiation in the small- and medium-sized corporate accounting software field.

Also, at the end of Q2, which marks 7 months since the release of SPIRAL PLACE®, which is cloud format groupware compatible with CMS and SNS, 5,000 accounts have already been secured. Going forward, PB aims to secure 10,000 accounts by the end of FY2/13, continuing to promote the introduction of its free service, but plans to also commence provision of a paid version in H2, and thus it may be expected SPIRAL PLACE® will start contributing to earnings.

Additionally, a contribution is expected in active account numbers and earnings from small- and mid-tier joint pharmaceutical and medical supplies purchasing platform Joypla®, which started offering its service in July.

In respect of information asset platform operations, the outlook is for revenues to increase steadily as PB meets heightened customer needs, with SPIRAL® updates and other measures raising its flexibility and reliability as a PaaS. The outlook is also for significant increases in the level of profits, with increased R&D costs from consolidation of development structure systems being absorbed by the impact of higher revenues, curbs in recruitment and other HR expenses, and improved efficiency in advertising.

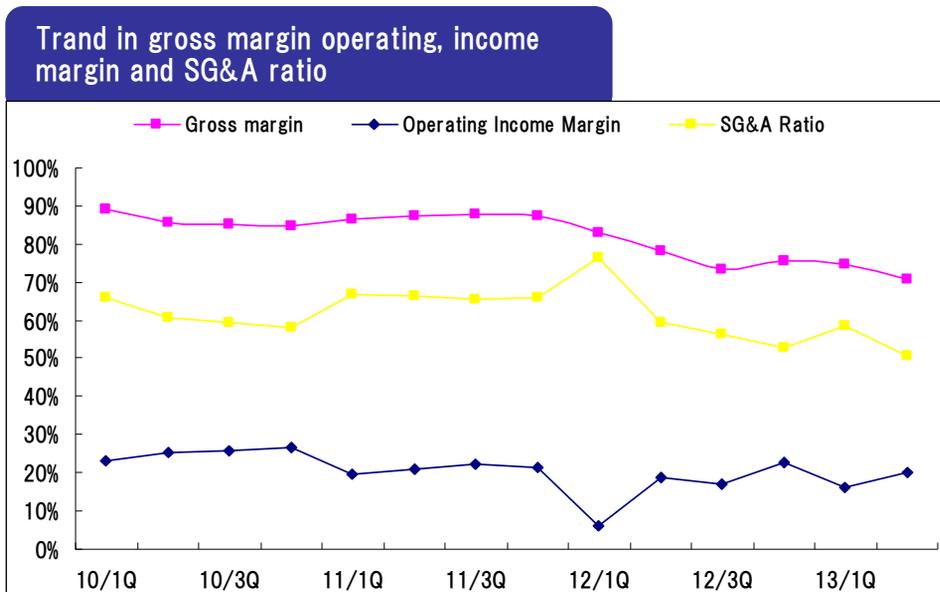
In media strategy operations also, the outlook is to boost revenues, as PB aims to increase collaboration with information asset platform operations, proactively engaging in cross-selling and other marketing activities, and realizing synergies via sharing client information and other measures. Up until Q2 this segment was loss making, however, it should become profitable from Q3, with its operations contributing to earnings for the full-year.

At the time of revising results forecasts at the end of August, only the cumulative Q2 results forecasts were revised up, with full-year forecasts left untouched due to uncertainty in the economy and business conditions. However, it is felt that operations will expand at an accelerated pace in the second half also, and we believe there is significant room for an upward revision in full-year forecasts.

Maintaining a High Level of Around 20% in Operating Income Margins

(3) Trends in Profitability

A characteristic of PB’ s profitability is it’ s extremely high 70-90% gross profit margin. This is due to the high level of SPIRAL®’ s marginal income ratio, where revenues attained significantly exceed fixed costs. Perhaps almost all of revenue gains from increases in active SPIRAL® accounts may be thought of as adding incrementally to gross profits on sales.



It may be inferred that the trend for declines in that gross profit margin are due to increases in transactions giving rise to subcontractor costs with development of media EC operations and EC management operations raising the cost of goods to sales ratio. However, given that, on the other hand, against increases in revenues, SG&A expenses, such as HR expenses, R&D costs and advertising expenses, have been successfully controlled by replacing them with subcontractor costs, the operating income margin maintains a high level of around 20%.

The reason SG&A costs rose in Q1 FY2/12 and there was a marked, temporary decline in the operating income margin was due to a temporary rise in advertising expenses as part of branding and sales promotion in that quarter, when PB exhibited in the “2nd Spring Cloud Computing EXPO” .



Expectations for Continued Earnings Growth & Profitability in Media Strategy Operations

(4) Results by Operating Segment

A characteristic of PB' s profitability is its extremely high 70-90% gross profit margin. This is due to the high level of SPIRAL®' s marginal income ratio, where revenues attained significantly exceed fixed costs. Perhaps almost all of revenue gains from increases in active SPIRAL® accounts may be thought of as adding incrementally to gross profits on sales.

Quarterly Sales and Business Result FY2/11 to FY2/13E (Unit: JPY million)

Information Asset Platform Operations		FY2/11	FY2/12	FY2/13E	FY2/12				FY2/13	
					Q1	Q2	Q3	Q4	Q1	Q2
Information Asset Platform Operations	Revenues	1,316	1,495	-	344	356	388	405	429	454
	Segment Profit	255	324	-	49	87	82	104	82	96
	Profit Margin	19.4%	222.0%	-	14.2%	24.4%	21.1%	25.7%	19.1%	21.1%
Media Strategy Operations	Revenues	11	222	-	15	49	93	64	84	114
	Segment Profit	-11	-39	-	-16	-12	-1	-9	-3	-2
	Profit Margin	-100.0%	-17.6%	-	-106.7%	-24.5%	-1.1%	-14.1%	-3.6%	-1.8%
EC Management Operations	Revenues	-	70	-	24	22	13	11	9	10
	Segment Profit	-	-57	-	-13	-12	-19	-11	-15	-11
	Profit Margin	-	-81.4%	-	-54.2%	-54.5%	-146.2%	-100.0%	-166.7%	-110.0%
Head Office		0	0	0	0	0	0	0	0	0
TOTAL	Revenues	1,327	1,788	2,300	384	427	495	481	524	579
	Segment Profit	244	227	320	19	62	62	83	62	82
	Profit Margin	18.4%	12.7%	13.9%	4.9%	14.5%	12.5%	17.3%	11.8%	14.2%

■ Growth Strategy by Operating Segment

Aiming to Tackle Smartphone Development Needs with SPIRAL®

(1) Growth Strategy for Information Asset Platform Operations

In this operating segment, it is expected that SPIRAL® will account for the majority of revenues. Given SPIRAL®’ s pay-per-month revenue model it has stable margins. SPIRAL® contracts carry a minimum contract term of 6 months (after which they are renewable for another 6 months), with an initial cost of JPY100,000 per account. The monthly usage fee is a minimum of JPY25,000, with a structure that carries a charge by volume depending on the number of records held.

From FY2/13, Media EC operations changed name to Media Strategy Operations



Source: Company

Factors behind growth in SPIRAL® operations may be displayed as set out below.

$$\text{Growth in SPIRAL® operations} = \text{growth in active accounts} \times \text{growth in fees per account}$$

The requirements for growth in SPIRAL® operations may be reduced to growth in 2 items: active accounts, and fees per accounts.

- (a) Resolution of client issues
- (b) Resolution of regional/industry issues
- (c) Resolution of social issues



(a) In the resolution of client issues, since its founding PB has aimed increase active account numbers and fees per account by providing proposals to resolve operational issues for the client base, being mid-tier corporate customers to which the SPIRAL® service is provided and that have already introduced the systems. In terms of proposals to resolve new issues, we may point to the provision of development environment for smartphone applications via updates to SPIRAL®, the provision of compatibility with SPIRAL® and core systems, and the provision of new platforms that expand the types of information assets able to be actively used and managed, while being compatible with SPIRAL®. We may point inter alia to SPIRAL EC®, Accounting De Net®, SPIRAL PLACE®, and ArchiSymphony® as new platforms provided to date. Going forward, while increasing new platforms, make them even more compatible, centered around SPIRAL®, enhancing PB's ability to resolve issues, and ultimately realizing increases in active account numbers and fees per account.

SPIRAL EC® is an EC platform specializing in apparel, Accounting De Net® is a cloud accounting platform, SPIRAL PLACE® is cloud format groupware, while ArchiSymphony® is a Japanese-first BIM construction information platform service.

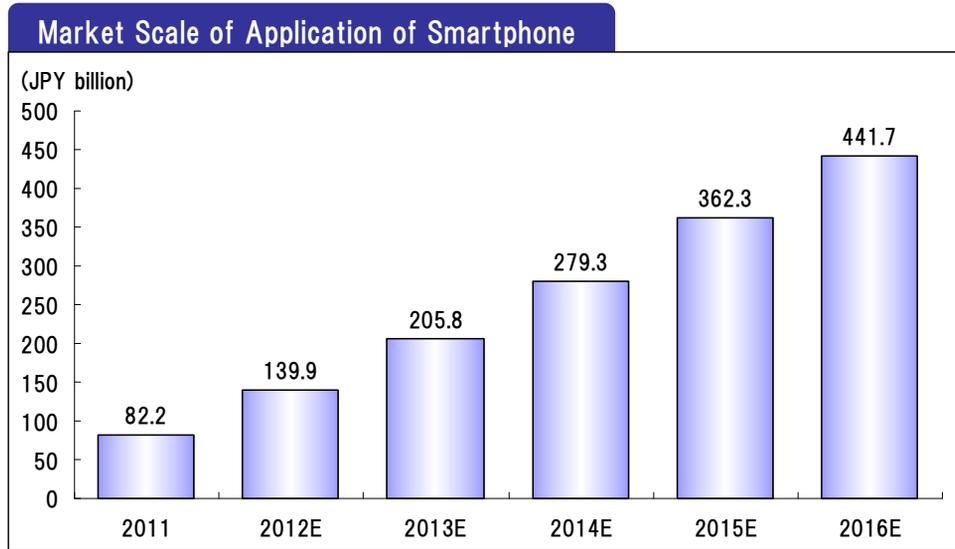
(b) Resolving regional and industry issues is a strategy working from the perspective of introducing CRM and other systems at a regional or industry level for that customer base that doesn't have the capacity to introduce systems as a single enterprise. Bireki® and I LOVE Shimokitazawa are examples of information platforms for resolving regional and industry issues. PB aims through this strategy to expand active account numbers. Bireki® is a shared platform for beauty salons and their customers, while I LOVE Shimokitazawa is region specific social networking site used a revitalization measure for the local shopping district.

(c) Resolving social issues involves a strategic perspective to create new businesses not seen to date, that provides new solutions for opening and sharing customer data between companies. In relation to this, while there are no explicit examples, future developments by PB will be closely watched.

As a potential for further future growth for SPIRAL®, we may point to an increased need for it as a smartphone application development platform, tackling solution development needs that are compatible with core systems.

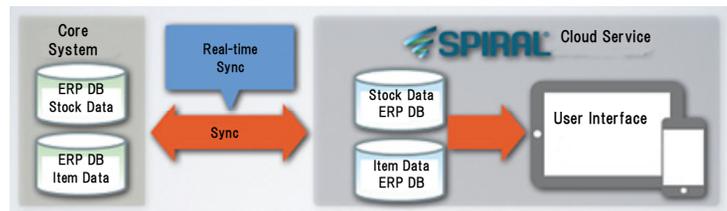
In the latest version of SPIRAL®, PB has prepared an environment where smartphone application developers can devote themselves entirely to application development, without worrying about the server side, which has strengthened smartphone application development-related functions. Going forward also, the market for smartphone applications is expected to maintain high growth rates, and PB aims through SPIRAL® to tackle smartphone application development needs.

■ Growth Strategy by Operating Segment



Further, if one uses SPIRAL® API, it is possible to rapidly develop at low cost, with the core database as is, solutions where the core system is compatible with cloud services. Examples of introducing core system compatibility are also emerging.

Core Systems Compatibility



Source: Company

The new function application planned to be introduced in the updated version of SPIRAL® scheduled for this H2, optional settings objects such as databases, web forms, and lists created on SPIRAL, may be freely packaged as applications depending on the usage. Via this function, in addition to enhancing user interfaces, PB will seek to significantly improve operational efficiency in establishing and developing by multiple application usage.

Freely Packaged Depending on Usage



Source: Company



Seeking Proprietary Service Rollout & Creation of SPIRAL ® Synergies

(2) Media Strategy Operations Growth Strategy

Media strategy operations became operational in December 2010, with internet advertising sales being the core business. In addition to marketing of proprietary advertising media and as an agent for other companies' advertising media, it carries out website planning and creation. The method of recording revenues from advertising agency activities employs a net sales basis, where media space purchase amounts are deducted from sales amounts for media space.

The growth strategy for these operations is to foster new proprietary media tailored to specific categories such as JoyPla®, Seijiyama®, Bireki®, and ArchiSymphony®, and while expanding sales of that proprietary media and also expanding submissions to other companies' web media, develop a quintessentially PB media, aiming to grow through the rollout of services that possess originality. The systems architectural platform is SPIRAL®, with the goal being to demonstrate the synergistic effects of organically linking both parties.

Aiming for Growth in Total Distribution Volumes by Adding Value to EC Administration

(3) EC Management Operations Growth Strategy

EC management operations became operational in March 2011, with operations assigned from other firms forming the core business. Specializing in apparel and fashion EC, its strength is in the delivery of fulfillment services in relation to EC management, including logistics, settlements and call center support, in addition to EC website development, management outsourcing, planning, and creation.

The growth strategy is to broaden the range of proposals in relation to EC website management to PB's new and existing customers, offer fulfillment services with even greater added value than those to date, demonstrate the impact of synergies from advertising marketing with media strategy operations, and aim to increase the total value handled.

An Approach Latent Markets with Low Cloud Penetration

(4) Introduction of New Operations

In addition to businesses purchased from other companies, PB's new business entails platforms developed to resolve issues in various industries, which are the result of PB dividing its sales structures by industry, pursuing study projects in each of those industries, and having examined each of the issues in those industries. A distinctive feature is that PB may rapidly undertake an approach to markets with large potential, but where there has not yet been a shift to cloud.

Business Platform

	JoyPla	ArchiSymphony	Bireki	Accounting De Net	Seijiyama
					
Industry	Healthcare	Architecture	Beauty	Accounting	Politics
Market Size	JPY 9 trillion	JPY 15 trillion	JPY 2 trillion	JPY 0.3 trillion	JPY 6 trillion
Target	BtoB	BtoB	BtoC	BtoB	BtoC

「JoyPla®」

This is a joint pharmaceutical and medical supplies purchasing platform for small- and mid-tier hospitals, the service having been launched on July 2, 2012. Small- and mid-tier hospitals cannot exert real bargaining power in relation to pharmaceuticals and medical supplies, and have limited room for cost reduction.

PB, through its joint pharmaceutical and medical supplies purchasing platform JoyPla, by aggregating participating small- and mid-tier hospitals, realizes reductions in purchasing prices through negotiations that utilize its economies of scale, and aims to contribute to lowering costs for these small- and mid-tier hospitals.

In the next 3 years, PB aims to have 400 participating hospitals, with the volume of goods handled being JPY15,000 million.

「ArchiSymphony®」

This is a business that supports 3D design called BIM (Building Information Modeling). Specifically, it is a service that links BIM design support software and construction materials catalogues on cloud, and allows the introduction of BIM, without changing the existing operational flow. BIM designs 3D models on a computer, allowing all data relating to the building design such as the areas, specifications for materials used, quantities, prices, and expected life to be added, and is a tool for being able to ascertain the life cycle also of buildings after design. BIM is becoming essential in the competition for the design of global, large-scale facilities, and while globally its penetration rate is growing, with the US at 50% and Europe 34%, it appears that Japan remains around 1%. However, given the impact of globalization as Japanese general contractors enter overseas markets and foreign firms enter Japan, opportunities for introducing BIM are gradually rising.

PB, collaborating with PaperLess Studio Japan, which it acquired, launched the ArchiSymphony® Project. One factor behind BIM not being common in Japan is that, in addition to requiring significant changes to existing workflows, a BIM database for materials does not exist. PB, as noted above, in addition to connecting to existing workflows via cloud, is engaging in work to develop a specifications database for materials. In interviewing PB, we were able to confirm it was already receiving partial orders.

「Bireki®」

This is a website aimed at CRM (Customer Relationship Management) for beauticians and the brokering of beauty-related products. From the concept of “My Own Hair Catalogue Created With The Beautician (Bireki®)”, its distinctive feature is that customers’ past hairstyles are stored like an album, and when styling the customer’s hair, the beautician may look back and offer advice or suggestions. Because beauticians are obliged to record in a Hair Chart past data such as the customer’s hairstyles, hair type, and whether or not they have allergies, it has been applied for use in CRM. Competing systems stop at being tools for creating electronic beauty charts. Bireki services have been offered from the 2011 Spring/Summer period, with one initiative to further extend Bireki® being the acquisition of Club Japan (Biyoshi Meikan) operations from the Samurai Project in March 2012. For its earnings model PB is considering, in addition to CRM system usage fees, brokering beauty-related products and collecting commission from manufacturers. The market potential is great, with around 220,000 beauty salons nationally, 456,000 employed beauticians, and the scale of the market around JPY2 trillion (of which beauticians are JPY1.4 trillion, source: Ministry of Health, Labour and Welfare et al). If we assume that sales promotion, advertising, and systems-related costs are equivalent to general services industries at around 3-5%, in this industry, PB’s target market may be inferred to be in the order of JPY60-100 billion.

「Accounting De Net®」 「Blue Return De Net®」

This is a cloud service that targets mainly small- and medium-sized enterprises with 20 staff or less and sole traders. It enables document preparation from online input of receipt journal and payment slip entries through to the final financial statements and blue return forms. PB aims over the next 3 years to acquire 3,000 customer contracts, solidify its position as the de facto standard for cloud accounting services for small- and medium-sized enterprises.

「Seijiyama®」

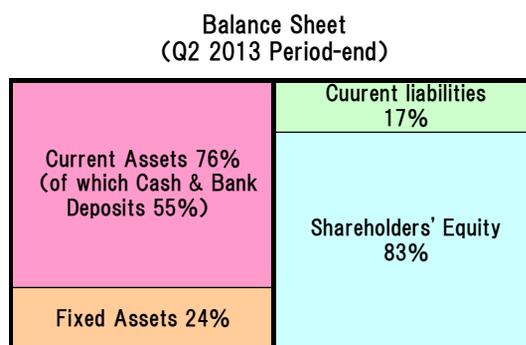
This is a website related to politics that was started in March 2011. As one of the largest scale online databases of its kind, it boasts 1.6 million page views per month. Its content has compiled in database form matters from the national and (in part) local administrations, such as information relating to national elections, information regarding politicians and political parties, bills before the assemblies, parliamentary Q&A, and the content of public hearings, with its distinctive feature being the superior nature of its comprehensiveness. Its business model, in addition to public relations activities for the politicians themselves, is that it provides PaaS and other systems the purpose of which is public use by local government and electoral committees, and it is expected that it will market media space within the website. Launched as a business in H1 FY2/13, it is expected to contribute to earnings in H2. For the present, sales of advertising space will be its main focus.

Moreover, in respect of public relations activities for elections and politicians, there are a number of regulations, and currently it attracts some restrictions operationally. However, in the future, if elections are carried out over the internet, it should prove to be an opportunity for PB, which already has a track record with serial number voting systems. As for markets related to politics, there is a lack of clarity given that information such as official statistics and data from think tanks does not exist, however, the number of members nationally totals around 53,000 (national and local government members and heads), and there is an estimated JPY6+ trillion in expenses related to politics (the lion's share of JPY2.3 trillion being staff costs) (source: extracts from the Japan Center for Economic Research December 2012 materials "Heizo Takenaka's Policy School"). It is attractive as a market where one national election requires incurring costs in excess of JPY50 billion.

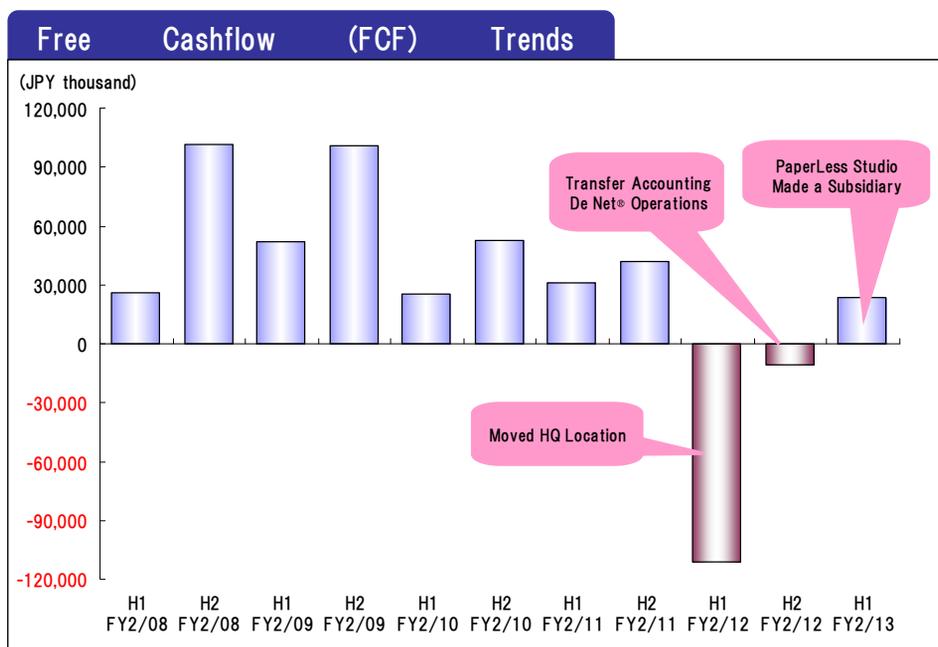
■ Examining Financials & Policies to Reward Shareholders

Proactive Business Investment, Including M&A, Amidst a Background of Being Able to Generate Strong FCF

Looking at PB’ s balance sheet, as set out in the diagram below, show it is in an extremely stable financial position, with a shareholders’ equity ratio of 83%, interest bearing debt and fixed liabilities at zero, while it possesses cash and deposits at banks of JPY1.08 billion, which represent 55% of total assets.



In its main business SPIRAL® it records revenues that significantly exceed fixed costs, and so further has an extremely high marginal income ratio. Additionally, given that it has an accretive pay-per-month business model, as noted below, the impact of the stable free cashflow it has secured is displayed in the balance sheet.



We looked at free cashflow on a half-yearly basis, and, in the absence of shifting headquarters and/or M&A, currently PB is a company with the ability to generate JPY30-100 million in free cashflow per half-year.

In relation to dividend policy, PB is giving priority to re-investment to expand operations, and has continued to not offer a dividend since listing. Its growth strategy involves that required in order to further expand SPIRAL® and establish and seek early profitability in new businesses that are synergistic with SPIRAL®, which in addition to continuing upfront investment in areas such as securing and developing human resources, R&D on new functions and services, and advertising to raise its profile, entails PB undertaking M&A that is synergistic with SPIRAL®. PB's policy is to retain free cashflows internally, and allocate them to further enhance corporate value and results.

On the other hand, in the event that PB achieves the results shown in its mid-term management plan (FY2/14 revenues of JPY3 billion), it plans to commence offering dividends from FY2/14.

Profit & Loss Statement (Unit: JPY million, %)

	FY2/08	FY2/09	FY2/10	FY2/11	FY2/12	FY2/13E	FY2/14E
Revenues	855	1,034	1,140	1,327	1,788	2,300	3,000
COGs	133	154	159	168	409		
Gross Profit	720	880	981	1,159	1,379		
SG&A	469	629	735	914	1,151		
Operating Income	251	251	246	244	227	320	700
Non-operating income	0	1	0	0	0		
Non-operating expenses	0	0	0	0	1		
Ordinary Income	252	252	247	245	226	320	700
Extraordinary Income	0	0	2	7	8		
Extraordinary Losses	0	0	0	63	0		
IBIT	252	252	249	188	235		
Corporate tax	105	106	103	75	95		
Minority Interests	0	0	0	0	0		
Net Income	147	146	146	113	139	189	420
Growth Rate (% YoY)							
Revenues	+22	+21	+10	+16	+35	+29	+30
Operating Income	+11	0	-2	-1	-7	+41	+119
Ordinary Income	+21	0	-2	-1	-8	+42	+119
Net Income	+18	-1	-0	-23	+23	+36	+122
Margin (%)							
Gross Margin	84.2	85.1	86.1	87.3	77.1	-	-
SG&A Ratio	54.9	60.8	64.5	68.9	64.4	-	-
Operating Income Margin	29.4	24.3	21.5	18.4	12.7	13.9	23.3
Ordinary Income Margin	29.5	24.4	21.7	18.5	12.6	13.9	23.3
Net Income Margin	17.2	14.1	12.8	8.5	7.8	8.2	14.0
Tax (%)	41.7	42.1	41.4	40.1	40.4	-	-

Source: Prepared by Fisco from the Financial statements, including the Yukashoken Hokokusho

Balance Sheet (Unit: JPY million, %)

	FY2/08	FY2/09	FY2/10	FY2/11	FY2/12
Current Assets	812	974	1,074	1,198	1,407
Cash & Bank Deposits	676	817	896	946	1,045
Trade Receivables	125	145	167	189	299
Fixed Assets	69	84	138	192	370
Tangible Fixed Assets	33	35	50	18	68
Intangible Fixed Assets (of which Goodwill)	4	5	43	68	177
	-	-	(12)	(10)	(69)
Investments & other assets	31	43	44	106	124
Total Assets	881	1,059	1,212	1,391	1,777
Current Liabilities	124	157	166	238	233
Fixed Liabilities	10	4	0	0	0
Total Liabilities	135	162	166	238	233
Shareholders' Equity	746	898	1,046	1,152	1,544
(Treasury Stock)	(0)	(0)	(0)	(0)	(0)
(Retained Earnings)	(457)	(603)	(750)	(863)	(1,003)
Total Liabilities & Shareholders' Equity	881	1,059	1,212	1,390	1,777
Interest Bearing Liability Total	0	0	0	0	0
Net Cash	676	817	896	946	1,045
Shareholders' Equity Ratio	85%	85%	86%	83%	87%
Net Cash Ratio	77%	77%	74%	68%	59%
Cash+Working Capital Ratio	77%	76%	74%	65%	63%

Source: Financial Statements (Yukashoken Hokokusho)

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