

## Cross Marketing Group Inc.

3675 TSE Mothers

11-Apr.-16

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## ■ Delivering Record-High Business Results Through Group Expansion

Cross Marketing Group Inc. (3675) is a corporate integrated marketing group whose core strengths lie in marketing research. When it was founded, the company was initially focused on online research. However, Cross Marketing Group expanded its business fields to encompass virtually every area of marketing research, including offline research, through proactive business expansion and M&A activity in Japan and abroad. In addition, the company branched out to the mobile and smartphone fields and Web marketing. Concurrently, Cross Marketing Group has been proactively making inroads into new business regions through such means as M&As primarily in Asia. In these ways, the company has been steadily laying the groundwork for becoming Asia's No.1 marketing research group. As of December 31, 2015, Cross Marketing Group had business sites in more than 20 locations in 12 countries in North America, Europe, and Asia, in addition to its business sites in Japan.

Looking at business performance in FY12/15 (January-December 2015), Cross Marketing Group posted net sales of ¥14,859mn, up 82.5% YoY, and operating income of ¥1,233mn, up 129.9%. The company posted record net sales and operating income, with net sales surpassing ¥10,000mn and operating income exceeding ¥1,000mn as a group for the first time. This tremendous growth in net sales and operating income reflect not only the positive contribution to results of two newly consolidated subsidiaries, but also the positive impact of introducing the percentage-of-completion method of accounting at certain subsidiaries, which helped to lift earnings.

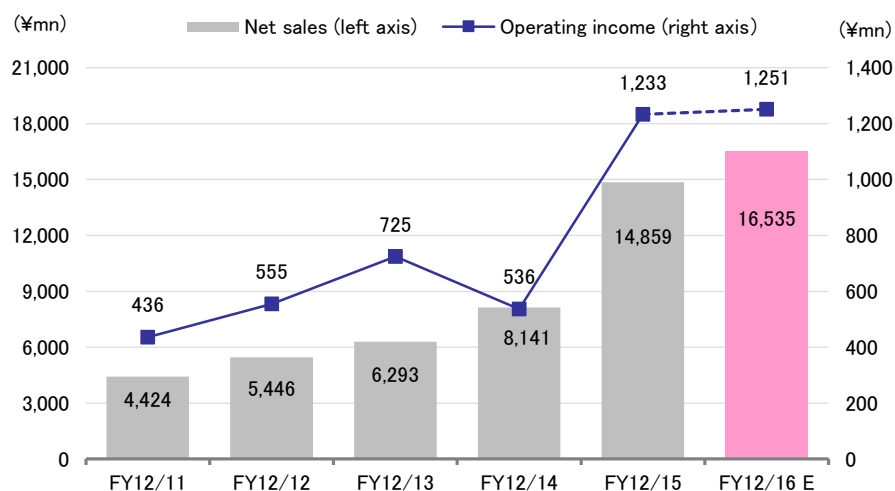
In FY12/16, Cross Marketing Group is forecasting net sales of ¥16,535mn, up 11.3% YoY, and operating income of ¥1,251mn, up 1.5% YoY. This would represent only a small increase in operating income despite double-digit top-line growth. The main reason for the projected limited earnings growth is that the positive impact from introducing the percentage-of-completion method of accounting in the previous fiscal year was a one-time factor that will not carry over to future years. Excluding this special factor, the adjusted operating income growth rate is estimated to be just under 20.0%. In light of the uncertain outlook for global economic conditions, the company has set conservative forecasts centered on Asia. However, there have been no recent signs of any downturn, and judging by the steady increases in the order backlog in the IT solution business and other factors, we believe that conditions will remain firm for Cross Marketing Group. That said, we need to be watchful of the Group's projected decline in earnings for 1H FY12/16 (January to June) based on the step-down from inflated earnings recorded in 1H FY12/15 due to restrained personnel recruitment.

Until now, the company had adopted a basic dividend policy of successively raising the dividend by targeting a consolidated dividend payout ratio of 20% after achieving consolidated ordinary income of ¥1,000mn. Now that it has reached this goal, the Group has shifted to a policy of determining the amount of dividends by targeting a consolidated dividend payout ratio of around 15%. Accordingly, the annual dividend for FY12/16 is forecast at ¥5.0 per share (comprising an interim dividend of ¥2.5 per share, year-end dividend of ¥2.5 per share, and a dividend payout ratio of 15.2%). This means that the amount of dividends will be reduced. However, the company has not changed its approach of rewarding shareholders by maintaining stable dividends even in these times of strong demand for capital.

## ■ Check Point

- Cross Marketing Group posted record-high earnings in FY12/15, surpassing net sales of ¥10,000mn and operating income of ¥1,000mn as a group for the first time.
- Excluding a special positive factor in FY12/15, the adjusted operating income growth rate for FY12/16 is estimated to be just under 20%.
- The company shifted to a dividend policy of determining the amount of dividends by targeting a consolidated dividend payout ratio of around 15%, but has not changed its approach of maintaining stable dividends.

Net Sales and Operating Income



## ■ Company History and Overview

### Entering Overseas Markets by Driving M&A Activity and Expanding the Business Portfolio by Developing New Businesses, While Focusing on the Core Research Business in Japan

Cross Marketing Group is a holding company that owns subsidiaries that are engaged in the research business, IT solution business and the others business. The Group provides a wide range of services in the marketing fields. Besides business sites in Japan, the Group has business sites in more than 20 locations in 12 countries in North America, Europe and Asia.

The company can trace its roots to Cross Marketing Inc., a marketing research company with core strengths in online research that was founded in April 2003. In May 2006, Cross Marketing entered into a capital and business alliance with EC Navi (currently Voyage Group (3688): the operator of the EC Navi integrated online shopping site) and its subsidiary Research Panel, Inc. (a research monitor management company). Following its listing on the Mothers section of the Tokyo Stock Exchange in October 2008, Cross Marketing Inc. has been concentrating on expanding its business portfolio through proactive M&A activity. Transition to a holding company framework was completed through the establishment of Cross Marketing Group Inc. in June 2013.

Looking at the size of the Group's core research business, this business forms the second largest group in this sector after the largest cluster formed by the major marketing research firms INTAGE HOLDINGS Inc. (4326) and MACROMILL, INC. At the time of its founding, Cross Marketing Inc.'s main customers were major market research firms such as the former Dentsu Research Inc. However, from around the time of its listing on the Mothers section of the Tokyo Stock Exchange in 2008, the company's customer base has been expanding tremendously as a result of its focus on driving growth in business with corporations.

Concurrently, the company began expanding its business portfolio worldwide through proactive M&A activity. In Japan, the company launched its IT solution business after succeeding to a portion of Index Inc.'s mobile solution business in August 2011. In February 2015, the Group converted Research and Development, Inc. ("R&D"), which is engaged in planning, design, implementation and consulting related to market research, from an affiliate into a consolidated subsidiary.



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\* Although Jupiter commenced business in January 2014, it holds a large number of companies, primarily research companies active globally, as a result of its ability to develop new customers and strong research quality.

Overseas, the Group set up consolidated subsidiaries in Shanghai, China in May 2012 and in Singapore in September 2013. In January 2014, Union Panels Pte. Ltd. was established in Singapore, as a business site mainly to provide a framework for supplying a research panel exchange service that links partner local research panels in multiple countries, primarily in Asia, with research panels created in-house. Moreover, in August 2015, consolidated subsidiary Cross Marketing (Thailand) Co., Ltd. was established in Thailand, marking the Group's entry into its sixth Asian country. In January 2016, the Group established Cross Marketing Group USA, Inc. (Cross Marketing Group USA) in the U.S.

In parallel, the Group has pushed ahead with proactive M&A activity. In August 2013, the Group acquired shares in Markelytics Solutions India Private Limited (a marketing research company with main clients in North America and Europe; headquarters: Bangalore, India; "Markelytics") and in Medical World Panel Online Inc. (an administration and management company for research monitors exclusively comprising healthcare professionals and patients, for each disease category; headquartered in the U.S.; "Medical World Panel"). Following on from these acquisitions, in November 2014 the Group converted Kadance International Business Research Pte. Ltd. (active in marketing research business and management of subsidiaries and other entities), a marketing research group conducting a market research business in eight countries in North America, Europe and Asia, into a subsidiary. Furthermore, the Group made Jupiter MR Solutions Co., Ltd. ("Jupiter")\* of Thailand a subsidiary (voting interest: 49.0%) in August 2015. In addition, in an effort to cultivate the North American market and make it one of the group's growth platforms, Cross Marketing Group USA entered into a memorandum of understanding agreement on the transfer of business from Japan Publicity Inc. With this move, the Group put in place a framework for supplying services focused on marketing research in North America.

### History

Date	History
April 2003	Founded in Shibuya, Tokyo
May 2006	Entered into a capital and business alliance with Voyage Group and its subsidiary Research Panel, Inc.
October 2008	Listed on the Mothers section of the Tokyo Stock Exchange
August 2010	Entered into a capital and business alliance in the mobile research field with Net Asia Co., Ltd.
August 2011	Subsidiary Cross Communication Inc. commenced operations after succeeding to a portion of Index Inc.'s mobile solution business
May 2012	Established subsidiary Cross Marketing China Inc. in Shanghai, China
April 2013	Established UNCOVER TRUTH Inc.
June 2013	Transitioned to a holding company framework by establishing Cross Marketing Group Inc.
August 2013	Acquired shares in Markelytics Solutions Private Limited and Medical World Panel Online Inc.
September 2013	Established subsidiary Cross Marketing Asia Pte. Ltd. in Singapore
November 2013	Converted UTIL Inc. into a wholly owned subsidiary
January 2014	Established Union Panels Pte. Ltd. in Singapore
May 2014	Relocated headquarters to Shinjuku, Tokyo
November 2014	Converted Kadance International Business Research Pte. Ltd. into a wholly owned subsidiary
February 2015	Converted affiliate Research and Development, Inc. into a consolidated subsidiary
April 2015	Cross Communication Inc. established subsidiary Cross Propworks Inc. in Hakodate
July 2015	Established two wholly owned consolidated subsidiaries, Medilead Inc. and D & M, Inc.
August 2015	Converted Jupiter MR Solutions Co., Ltd. of Thailand into a subsidiary. Established Cross Marketing (Thailand) Co., Ltd.
September 2015	Cross Communication Inc. converted JIN SOFTWARE (renamed Cross J Tech Inc. on December 1) into a subsidiary.
November 2015	Entered into a memorandum of understanding agreement on the transfer of marketing business from Japan Publicity Inc.
January 2016	Established Cross Marketing Group USA, Inc.
April 2016	Scheduled to convert mixi research, Inc., a subsidiary of mixi, Inc., into a subsidiary

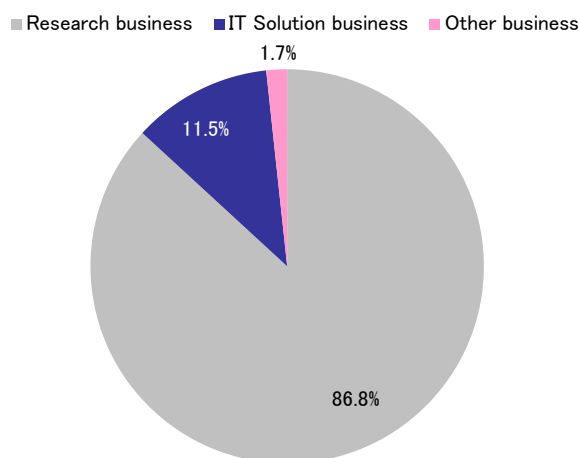
Source: Compiled by FISCO based on Cross Marketing Group Inc.'s website, annual securities reports, earnings presentation materials and other sources

## Business Outline

### Expansive Customer Base in the Research Business, Spanning Research Firms to Corporations

As of December 31, 2015, the Cross Marketing Group was made up of the holding company Cross Marketing Group Inc. and 31 consolidated subsidiaries, including Cross Marketing Inc., which conducts marketing research with strengths in online research, and R&D, which conducts planning, design, and consulting related to marketing research with strengths in offline research, as well as Research Panel, Inc., which is an equity-method affiliate. The Cross Marketing Group is engaged in its mainstay research business, which represented 86.8% of net sales in FY12/15, along with the IT solution business, which represented 11.5% of net sales in FY12/15, and the others business, which represented 1.7% of net sales in FY12/15.

Segment Sales Composition (FY12/15)



Source: Compiled by FISCO based on the company's earnings presentation materials

\*1 Internet research involves preparing questionnaire programs in line with research requests, sending the questionnaires to registered monitors (respondents) who have already agreed to participate in research, and collecting the responses over the Internet. The company has more than 1.80 million questionnaire monitors in Japan. These monitors are classified based on their basic attributes, and are also grouped into around 20 categories such as seniors, mobile phone users, automobile owners and cosmetics users. This classification enables the company to smoothly conduct research focused on specific targets.

\*2 Quantitative research is research designed to quantitatively grasp the behavior patterns, awareness and preferences of consumers. Data is collected according to product characteristics, via research conducted using postal mail and telephone, in addition to the aforementioned Internet channel. Another data collection channel is CLT research (on-site venue research) where research participants are assembled at a venue to collect questionnaires and conduct interviews.

\*3 Qualitative research refers to a research technique in which in-depth assessments and opinions about products are gathered through dialogue with consumers and other users. This approach is employed when performing research to verify hypotheses, understand consumer awareness, assess new products and so forth. Research involves focus group interviews, where research participants are interviewed in a roundtable format; in-depth interviews, where research participants are interviewed one by one, and home or office visits where staff conduct questionnaires and interviews by visiting research participants in their homes or at their workplaces.

### Weighting of Overseas Research Business Grows Higher

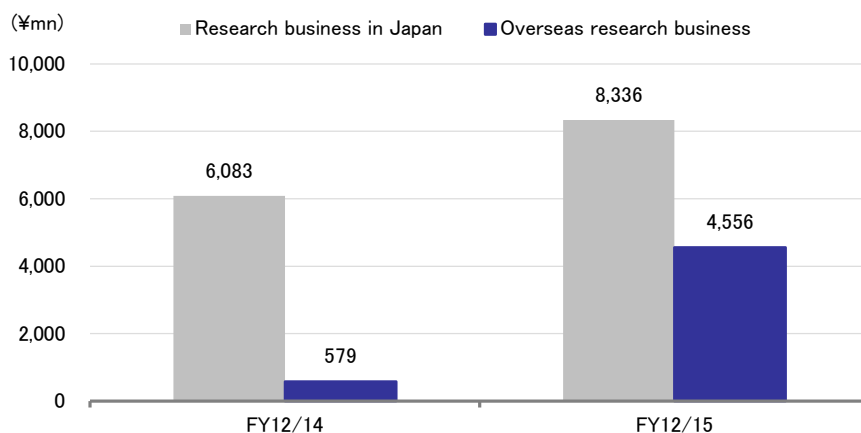
#### (1) Research Business

In the research business, the Group provides services such as online research\*1, where questionnaire programs are developed in line with the content of research plans and questionnaires are collected from research collaborators via Internet servers, as well as offline quantitative research services\*2 and qualitative research services\*3.

The research business is divided into the research business in Japan and the overseas research business. The research business in Japan is carried out by the core company Cross Marketing Inc., as well as R&D and UTIL Inc., which were converted into subsidiaries. Meanwhile, the overseas research business is carried out by Cross Marketing China and Cross Marketing Asia, as well as Kadence, Markelytics, and Medical World Panel, which were converted into subsidiaries. In FY12/14, the research business in Japan accounted for 74.7% of overall net sales, while the overseas research business accounted for 7.1%. In FY12/15, the weighting of the overseas research business rose, with 56.1% of net sales generated in Japan and 30.7% generated overseas. This increase was the result of the conversion of Kadence into a consolidated subsidiary.

In the research business in Japan, the Group's customers include market research firms, advertising agencies, think tanks and consulting firms, along with corporations (spanning a wide range of sectors, including media and publishing, chemical products manufacturers, mobile phone companies, social games, and home electric appliances), government offices, and schools. In the overseas research business, the Group's customers include European and North American multi-national companies (spanning a wide range of sectors, including finance, beverages, food, home electric appliances, electronic equipment), as well as Japanese companies that have entered or are planning to enter Asian markets.

Net sales of research businesses in Japan and overseas



Source: Compiled by FISCO based on the company's earnings presentation materials

## Acquisition of an Engineering Service Company That Develops Highly Original Websites and Apps

### (2) IT Solution Business

The IT solution business is carried out by consolidated subsidiary Cross Communication Inc. In this business, the Group serves as a full-line provider of all manner of functions needed for services such as planning, development, operation and promotions for websites, applications and systems centered on mobile platforms and smartphones. There is an expansive range of main users, from financial institutions engaged in securities and foreign exchange trading and other activities, to major travel agencies. The Hakodate Technical Center was set up in Hakodate to enhance development capabilities by securing human resources who have become difficult to recruit and retain in the Tokyo metropolitan area. Moreover, Cross Propworks Inc. (Established in April 2015; Headquarters: Hakodate, Hokkaido), a subsidiary of Cross Communication Inc., conducts outsourcing services such as data processing and other tasks within the Group. In addition, Cross J Tech Inc. (Acquired in September 2015; Headquarters: Tokyo) provides system engineering services where engineers are stationed at the offices of customers.

### (3) Others Business

The others business is made up of the Web marketing business and the promotion business. In the Web marketing business, consolidated subsidiary UNCOVER TRUTH Inc. conducts businesses such as Web and mobile marketing and UI and UX consulting\*1. Its core services are the sale of USERDIVE\*2, a tool for internal analysis of websites and smartphone sites, and the provision of consulting services using this tool. The number of companies that have introduced USERDIVE has surpassed 200 (as of December 31, 2015), with these companies spanning a wide range of sectors such as chemicals, pre-owned car sales, ISP, and satellite broadcasting. Meanwhile, in the promotion business, consolidated subsidiary D & M, Inc. conducts business related to marketing support, such as promotions.

\*1UI stands for User Interface. It refers to the words and other expressions used in on-screen displays, windows, and menus when operating computers, mobile devices and other equipment, and the ease of operation when using those devices. UX stands for User Experience. It collectively refers to the experience a user has when using or consuming a particular product or service. The UX concept emphasizes how enjoyably and comfortably users are able to do what they really want, in addition to specific functions and user friendliness.

\*2A tool that uses a "heat map" and video to visualize the activity of users visiting websites.



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**Business Activities and Main Group Companies**

Name of business	Business activities	Main Group companies
Research business	All aspects of business related to marketing research, including online research	Cross Marketing Inc. Research Panel, Inc. Research and Development, Inc. UTIL Inc. Medilead Inc. Cross Marketing China Inc. Cross Marketing Asia Pte. Ltd. Markelytics Solutions India Pte. Ltd. Medical World Panel Asia Union Panels Pte. Ltd. Kadence International Business Research Pte. Ltd. Jupiter MR Solutions Co., Ltd. Cross Marketing (Thailand) Co., Ltd.
IT solution business	Planning, development and operation of services for mobile devices and engineer staffing services	Cross Communication Inc. Cross J Tech Inc.
Others business		
Web marketing business	Web and mobile marketing and UI and UX consulting services	UNCOVER TRUTH Inc.
Promotion business	Businesses related to marketing support, such as promotions	D & M, Inc.

Source: Compiled by FISCO from earnings reports

■ **Strengths and Business Risks**

**Strengths Lie in Top-Level Questionnaire Collection Capabilities in Japan and Support Network in Asia**

Cross Marketing Group’s strengths lie in having top-level questionnaire collection capabilities in Japan with more than 1.80 million questionnaire monitors in its mainstay online research services. In addition, as the production of questionnaires becomes automated, other companies have been increasingly offering speed and low cost as their main selling points. Against this backdrop, another strength of Cross Marketing Group is that it customizes the design of its questionnaires to obtain even more accurate data according to the needs of user companies. These strengths have been strongly appreciated by its customers, leading to growth in direct sales to corporations generated without going through research firms and advertising agencies, and have served as a major engine behind sales growth.

Moreover, the company has business sites in six Asian countries (as of December 31, 2015: India, Indonesia, China (Shanghai, Hong Kong), Vietnam, Singapore, Thailand). As a Group, the company has a system in place to conduct research for Japanese companies seeking to enter the Asian region and to provide support for marketing and other activities. This is yet another strength of Cross Marketing Group.

In terms of business risks, in the research business, the company is susceptible to the impact of business cycles, and may easily fall prey to price competition due to the low barriers to entry in this business. Both of these factors are general risks common to the entire marketing research industry. Moreover, in terms of risks specific to the company, the business results of Kadence, which was acquired in FY12/14, are reliant upon the human networks of each of its group companies (especially that of the CEOs in each country). Therefore, we must be mindful of the fact that personnel turnover could have an impact on the company’s business results. Incidentally, to minimize this risk, the acquisition price of Kadence has been set within the range of US\$13.99mn to US\$28.99mn, with the acquisition price conditional upon Kadence achieving its business targets from 2015 to 2017.

In the IT solution business, given that the company conducts system development, it faces risks associated with the incidence of unprofitable projects. Until now, the main projects have been relatively small projects between ¥10mn and ¥30mn for which risk management is easy. However, the company is currently seeing an increase in projects exceeding ¥50mn. That said, even if unprofitable projects were to arise, we believe the impact on business results would be fairly limited.

## Financial Results Trends

### Rapid Growth in Business Results Driven by Positive Contribution of Newly Consolidated Subsidiaries Through M&A Activity

#### (1) Consolidated Results for FY12/15

In its consolidated business results of for FY12/15, Cross Marketing Group posted record-high net sales and earnings at all levels atop substantial increases in both net sales and operating income. Net sales were ¥14,859mn, up 82.5% YoY; operating income was ¥1,233mn, up 129.9% YoY; and net income amounted to ¥559mn, up 127.6% YoY. The Group surpassed net sales of ¥10,000mn and operating income of ¥1,000mn for the first time.

#### Outline of FY12/15 Consolidated Business Results

	FY12/14		FY12/15		
		Versus sales		Versus sales	YoY change
Net sales	8,141	—	14,859	—	82.5%
Research business	6,663	81.8%	12,902	86.8%	93.6%
Japan	6,083	74.7%	8,336	56.1%	37.0%
Overseas	579	7.1%	4,556	30.7%	688.2%
IT solution business	1,372	16.9%	1,704	11.5%	24.2%
Others business	106	1.3%	253	1.7%	138.0%
Cost of sales	5,063	62.2%	8,542	57.5%	68.7%
Gross profit	3,079	37.8%	6,318	42.5%	105.2%
SG&A expenses	2,543	31.2%	5,085	34.2%	100.0%
Operating income	536	6.6%	1,233	8.3%	129.9%
Research business	1,334	16.4%	2,374	16.0%	77.9%
IT solution business	211	2.6%	192	1.3%	-9.0%
Others business	-53	-0.7%	-56	-0.4%	—
Adjustments	-956	-11.7%	-1,278	-8.6%	—
Ordinary income	521	6.4%	1,185	8.0%	127.3%
Net income	245	3.0%	559	3.8%	127.6%

Source: Compiled by FISCO based on earnings reports and presentation materials.

This sales growth was mainly attributable to a solid performance by existing Group companies, along with positive contributions from Kadence and R&D, two newly consolidated subsidiaries (Kadence and R&D contributed a combined ¥5,952mn to net sales). Although the cost of sales rose to ¥8,541mn in line with sales growth, gross profit rose substantially to ¥6,317mn, up 105.2% YoY, due to a contribution of profit from the Kadence Group, which has high profit margins. Consequently, the gross margin increased from 37.8% in the previous fiscal year to 42.5% in FY12/15. Moreover, a solid performance by existing operating companies in the research business, along with increased gross profit in the IT solution business, also made a positive contribution.

Meanwhile, SG&A expenses increased to ¥5,085mn, up 100.0% YoY, mainly due to an increase in amortization of goodwill from new consolidations (¥102mn), and an increase in personnel expenses (¥227mn) in conjunction with bolstering staff levels at existing operating companies. The rate of increase in SG&A expenses was held below that of the increase in gross profit thanks to the positive impact of controlling expenses primarily at subsidiaries in Japan. For these reasons, operating income rose significantly by ¥696mn YoY to ¥1,233mn, and the operating margin increased from 6.6% in FY12/14 to 8.3%.

Comparing these business results with the company's forecasts (net sales forecast of ¥14,733mn and operating income forecast of ¥945mn), both net sales and operating income surpassed forecasts. This mainly reflected an increase in gross profit (¥130mn) due to higher-than-forecast sales in the research business, as well as higher-than-forecast results in the IT solution business (¥65mn) and in the others business (¥70mn), which served as positive factors.



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\*1 Specifically, the percentage-of-completion method of accounting was adopted in the U.S., Indonesia and India. The company uses the inspection basis as its sales recognition method. However, in the aforementioned three countries, receipt of sales proceeds had been used in lieu of inspection as a sales recognition method because there is no formal accounting definition of "inspection" in those countries. In consideration of the impact on earnings of timing differences between project completion and receipt of sales proceeds, the company changed its method for recognizing sales.

\*2 In November 2015, the company conducted a capital increase through the public offering of 1,500 thousand newly issued shares (¥384.60 per share), for the purpose of repaying invested funds and stabilizing its financial position, along with ensuring that it is positioned to flexibly address other investments, in order to speed up overseas business expansion. Through this public offering, the company raised ¥576m, and used these funds for the following purposes: (1) Extend loans of ¥35mn to Group companies; (2) Provide funds of ¥58mn to establish a subsidiary (Cross Marketing Group USA); (3) Repay funds of ¥434mn used to acquire Kadence and Jupiter; (4) Provide funds of ¥50mn for the introduction of a consolidated accounting system and for consulting on consolidated earnings and tax affairs.

### ○ Research Business

In the research business, net sales rose substantially to ¥12,902mn, up 93.6% YoY. The main factors were solid performances by existing Group companies, as well as positive contributions (of ¥5,952mn) from two newly consolidated subsidiaries, namely Kadence and R&D. By region, in the research business in Japan, net sales increased ¥8,336mn, up 37.0% YoY, mainly due to a contribution to sales from R&D. In the overseas research business, net sales increased sharply by 688.2% YoY to ¥4,556mn. The main reason was that Kadence joined the Group as a newly consolidated subsidiary.

Meanwhile, the Group also recorded a large increase in segment income of ¥2,374mn, up 77.9% YoY. Segment income was lifted (profit contribution of ¥191mn) by the start\*1 of the adoption of the percentage-of-completion method of accounting at certain Kadence companies, as well as rigorous cost management and control of expenses centered on personnel expenses at existing subsidiaries in Japan.

### ○ IT Solution Business

In the IT solution business, the Group delivered a double-digit increase in net sales of 24.2% YoY to ¥1,704mn. The main contributing factor was steady growth in orders and deliveries for both existing and new projects due to proactive sales activities. Cross J Tech Inc., which was converted into a subsidiary in September 2015, contributed positively in terms of both sales and profit. In contrast, segment income unavoidably declined 9.0% YoY to ¥192mn due to increased personnel expenses and recruitment costs, as efforts were continued to increase staff levels with a view to expanding business over the medium term.

### ○ Others Business

In the others business, net sales rose sharply to ¥253mn (up 138.0% YoY). However, the Group posted a segment loss of ¥56mn, mostly unchanged from the segment loss of ¥53mn in FY12/14. The main reason for the sharp increase in net sales was brisk sales of USERDIVE, the core product in the Web marketing business undertaken by UNCOVER TRUTH Inc. Moreover, D & M, Inc., which was established in July, also contributed positively to sales. That said, the segment loss was attributable to the high cost burden associated with every business in this segment being in a launch phase. The segment loss remained mostly on a par with FY12/14.

## Marked Improvement in Key Performance Indicators through Growth in Business Results and Execution of Equity Finance

### (2) Financial Position

Looking at the Group's financial position at the end of FY12/15, total assets were ¥9,970mn, an increase of ¥2,098mn YoY. This increase was mainly attributable to an increase in notes and accounts receivable (up ¥1,193mn YoY) in conjunction with increases in sales and newly consolidated subsidiaries, along with an increase in cash and deposits (up ¥977mn YoY) in line with increases in profits and newly consolidated subsidiaries plus fund procurement undertaken in November 2015. This was despite the negative factor of a decrease in goodwill (down ¥100mn YoY) owing to the recording of an impairment loss at Kadence Indonesia.

Meanwhile, liabilities were ¥6,025mn, up ¥1,050mn YoY. The increase was mainly due to an increase of ¥1,304mn in long-term liabilities reflecting an increase in long-term debt (up ¥1,157mn YoY). This was partly offset by a decline of ¥253mn in current liabilities due to a decrease in short-term debt (down ¥1,290mn YoY) due to refinancing of the short-term debt procured for the acquisition of Kadence shares to long-term debt. In addition, net assets increased ¥1,047mn YoY to ¥3,945mn. The main factors were increases paid-in capital and capital surplus due to an increase in capital through a public offering\*2 (up ¥576mn YoY) and an increase in retained earnings (up ¥491mn YoY) as a result of recording net income.





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Looking at cash flows, cash and cash equivalents as of the end of FY12/15 were ¥2,384mn, an increase of ¥976mn from the previous fiscal year-end. Net cash provided by operating activities was ¥801mn. The main components increasing cash were income before income taxes of ¥1,144mn, depreciation and amortization of ¥208mn, and impairment loss of ¥173mn. Net cash used in investing activities was ¥18mn. The main uses of cash were the acquisition of subsidiary's shares and the acquisition of intangible assets, which were partly offset by a cash inflow from the withdrawal of time deposits. Net cash provided by financing activities was ¥204mn. The main cash inflows were proceeds from long-term debt and proceeds from capital increase through a public offering, which were partly offset by cash outflows due to net change in short-term debt and the repayment of long-term debt.

**Balance Sheets, Cash Flow Statements, and KPIs**

(¥mn)

	FY12/13	FY12/14	FY12/15	YoY change	Main factors behind changes
Current assets	2,479	4,164	6,423	2,259	Cash and deposits +977 Accounts receivable +1,193
Fixed assets	1,533	3,708	3,548	-160	Goodwill -100
Total assets	4,012	7,872	9,970	2,098	
Current liabilities	1,438	4,343	4,090	-253	Accounts payable +149 Current portion of long-term debt +258 Short-term debt -1,290
Long-term liabilities	16	632	1,935	1,304	Long-term debt +1,157
Total liabilities	1,454	4,975	6,025	1,050	
Net assets	2,558	2,897	3,945	1,047	Paid-in capital +288 Capital surplus +288 Retained earnings +491
Total liabilities and net assets	4,012	7,872	9,970	2,098	
Interest-bearing debt	135	2,671	2,837	166	Short-term debt -1,290 Current portion of long-term debt +258 Current portion of corporate bonds +30 Long-term debt +1,157 Corporate bonds +10
Net cash	644	-1,264	-453	811	
Operating cash flow	445	453	801		
Investing cash flow	-362	-2,271	-18		
Financing cash flow	-178	2,435	204		
Cash and cash equivalents	779	1,407	2,384		
Current ratio	172.4%	95.9%	157.0%		
Equity ratio	61.3%	34.5%	37.8%		
ROA	21.1%	8.8%	13.3%		
ROE	19.7%	9.5%	17.2%		
Operating margin	11.5%	6.6%	8.3%		

Source: Compiled by FISCO based on earnings reports and company materials

In the two fiscal years through FY12/14, the company's current ratio and equity ratio, which serve as KPIs of financial soundness, had sharply deteriorated, mainly because of an increase in debt to proactively execute M&As and as a result of newly consolidated subsidiaries. However, in FY12/15, the current ratio, a measure of financial health, improved from 95.9% to 157.0%, while the equity ratio improved from 34.5% to 37.8%. This improvement was mainly due to two factors: (1) the refinancing of short-term debt taken out to acquire Kadence shares into long-term debt; (2) the positive impact of expansion in business results and fund procurement via a capital increase through public offering undertaken in November 2015. Furthermore, all indicators of profitability, namely ROA, ROE and operating margin, improved in step with expansion in business results. In addition, net cash improved as a result of decreased cash outflow. That said, interest-bearing debt increased by ¥166mn to ¥2,837mn, compared with ¥2,671mn as of the end of FY12/14, partly due to the Jupiter acquisition. Reducing interest-bearing debt thus remains a key priority for the future. However, the company has mostly completed its large M&As following the conversion of R&D into a consolidated subsidiary in February 2015, and the company's business model is conducive to generating positive cash flows. Therefore, we expect that the company's financial position will continue to improve going forward.



## Anticipating Double-Digit Sales Growth in FY12/16

### (3) Company forecasts for FY12/16

#### a) Results forecasts for FY12/16

Based on forecasts set forth in its medium-term management plan (net sales of ¥16,287mn and operating income of ¥1,249mn), the company is forecasting net sales of ¥16,535mn (up 11.3% YoY) and operating income of ¥1,251mn (up 1.5% YoY) for FY12/16. Although the company is projecting double-digit sales growth, operating income is forecast to remain mostly flat.

#### Summary of Results Forecasts for FY12/16

	FY12/15			FY12/16 Forecasts		
		Versus sales	YoY change		Versus sales	YoY change
Net sales	14,859	—	82.5%	16,535	—	11.3%
Research business	12,902	86.8%	93.6%	13,832	83.7%	7.2%
Japan	8,336	56.1%	37.0%	9,050	54.7%	8.6%
Overseas	4,556	30.7%	688.2%	4,782	28.9%	4.7%
IT solution business	1,704	11.5%	24.2%	2,094	12.7%	22.9%
Others business	253	1.7%	138.0%	609	3.7%	140.6%
Operating income	1,233	8.3%	129.9%	1,251	7.6%	1.5%
Research business	2,374	16.0%	77.9%	—	—	—
IT solution business	192	1.3%	-9.0%	—	—	—
Others business	-56	-0.4%	—	—	—	—
Adjustments	-1,278	-8.6%	—	—	—	—
Ordinary income	1,185	8.0%	127.3%	1,213	7.3%	2.3%
Net income attributable to owners of the parent company	559	3.8%	127.6%	640	3.9%	14.6%

Source: Compiled by FISCO based on earnings reports and presentation materials.

Net sales are forecast to grow firmly in all businesses. Looking more closely at each segment, double-digit sales growth is expected to be driven by a solid performance in the research business in Japan, as well as substantial growth in the IT solution business and the others business. On the other hand, earnings growth is projected to be small mainly because the positive impact from the adoption of the percentage-of-completion method of accounting at overseas subsidiaries in the previous fiscal year was a one-time factor that will not carry over to future years. Excluding the special one-time factor stemming from the adoption of the percentage-of-completion method, the adjusted operating income growth rate is projected to be just under 20.0%.

Forecasts and measures by segment are as follows.

#### ○ Research business

In the research business, net sales are projected to grow steadily to ¥13,832mn (up 7.2% YoY). In the research business in Japan, net sales are forecast at ¥9,050mn (up 8.6% YoY). In the overseas research business, net sales are forecast at ¥4,782mn (up 4.7% YoY), representing a lower level of projected growth than in Japan. This forecast is mainly based on the absence of the positive impact of the adoption of the percentage-of-completion method recorded in the previous fiscal year, which will serve as negative factor, as well as a conservative outlook in consideration of the economic environment and forex movements in Asia.

Turning to the Group's measures, the Group had seen a decline in productivity because it had given priority to expanding its business size until now. To surmount this challenge, the Group will work to enhance productivity and added value by expanding solution services that address marketing issues faced by clients through multi-faceted services including offline and global research. In addition, business will be expanded by adopting net sales and profit per employee as KPIs. Moreover, the Group will take steps to cultivate the North American market and enhance synergies with Asia. It will also advance the expansion of service fields, including brand assessments, workshops, and neuromarketing.

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○ **IT Solution Business**

In the IT solution business, net sales are forecast at ¥2,094mn (up 22.9% YoY), marking double-digit growth. The main reason is that Cross J Tech Inc., which was converted into a subsidiary in September 2015, is expected to make a full positive contribution to sales throughout the year. The Group will make strides to develop new customers by enhancing its consulting-based sales capabilities, while working to enhance productivity and quality. Moreover, the Group seeks to expand into new services and business fields by developing recurring revenue-based services in the IT solution field, such as engineer staffing services and the private DMP service.

○ **Others business**

In the others business, the Group is projecting a high rate of sales growth, with net sales forecast at ¥609mn (up 140.6% YoY). The Group's basic policy is to target top-line growth by proactively recruiting staff. In addition to these efforts, in the Web marketing business, the Group will strive to enhance and differentiate its services by forming tie-ups with third-party partners. Meanwhile, in the promotion business, the Group will address customer needs by making fine-tuned improvements to services.

Based on uncertainties in terms of the outlook for global economic trends, the Group has set conservative forecasts primarily in Asia. However, we believe that the Group will continue to see firm conditions based on factors such as a build-up of the order backlog in the IT solution business, with no recent signs of a slowdown.

**b) Company Forecasts of Consolidated Business Results for 1H FY12/16**

In 1H FY12/16 (January to June), the Group's consolidated results forecasts are for net sales of ¥7,757mn (up 9.5% YoY) and operating income of ¥418mn (down 22.4%). The Group is forecasting a double-digit decrease in operating income despite higher net sales. The projected higher sales is based on expectations of a solid performance by the research business, as well as positive contributions from subsidiaries in Thailand and the U.S., as well as Cross J Tech Inc. Meanwhile, the projected decline in earnings is based on the anticipated step-down from inflated earnings recorded in 1H FY12/15 due to rigorous control of costs centered on personnel expenses, including staff recruitment in the research business.

**Company forecasts for 1H FY12/16**

	FY12/15			FY12/16			YoY change in FY12/16		
	1H result	2H result	Full-year result	1H forecast	2H forecast	Full-year forecast	1H forecast	2H forecast	Full-year forecast
Net sales	7,084	7,776	14,859	7,757	8,778	16,535	9.5%	12.9%	11.3%
Operating income	539	694	1,233	418	833	1,251	-22.4%	20.0%	1.5%
Operating margin	7.6%	8.9%	8.3%	5.4%	9.5%	7.6%	-	-	-
Ordinary income	526	659	1,185	399	814	1,213	-24.2%	23.5%	2.3%
Net income attributable to owners of the parent company	405	153	559	183	457	640	-54.9%	198.6%	14.6%

Source: Compiled by FISCO based on earnings reports

■ **Growth Strategy**

**Further Accelerate the Medium-Term Growth Pace and Steadily Lay the Groundwork for Becoming Asia's No. 1 Marketing Group**

**(1) Outline of the Medium-term Management Plan**

The company has delivered top-line growth for 11 consecutive years through to FY12/14, while maintaining growth at a faster pace than overall market growth in the online research field. This has been achieved by appropriately investing capital in a well-timed manner to capture market expansion in the online research field. Investments have focused on forming questionnaire panels through tie-ups, investing in online research systems, expanding the size of business by increasing sales staff, and assuring quality by securing researchers.

Aiming to sustain and further accelerate this pace of growth, the company has formulated a three-year medium-term management plan running from FY12/15 to FY12/17, announcing the plan on November 2014. Specifically, the three years covered by the plan have been positioned as a period for accelerating efforts to lay the groundwork for becoming Asia's No.1 marketing group by proactively working to expand business fields and business areas. Under this plan, the company will implement various measures based on four priorities: existing businesses, human resources strategy, new businesses and overseas expansion.

Specifically, the company will implement the following measures:

**Existing businesses:** Work to drive steady growth and establish an earnings base in the research business

**Human resources strategies:** Promote nurturing and enhancement of staff recruited in large numbers up to December 2014

**New businesses:** Promote nurturing and expansion of business fields in the IT solution business and Web marketing business

**Overseas expansion:** Establish a network spanning all Asian regions by setting up business sites in areas where the Group does not have a presence

The Group has revised the numerical targets it initially announced in its medium-term management plan (net sales of ¥15,725mn and operating income of ¥1,440mn for FY12/17) because those targets did not reflect the impact of converting R&D into a consolidated subsidiary in February 2015. After carefully assessing the impact, the Group announced its revised targets in August 2015. According to the announcement, the Group raised its targets to net sales of ¥17,985mn and operating income of ¥1,545mn for FY12/17.

#### Medium-Term Management Plan Targets and Results, and Company Forecasts

	(¥mn)				
	FY12/15 target	FY12/15 result	FY12/16 target	FY12/16 forecast	FY12/17 target
Net sales	14,733	14,859	16,287	16,535	17,985
Research business	12,892	12,902	13,781	13,832	14,910
Japan	8,889	8,336	8,938	9,050	9,259
Overseas	4,003	4,566	4,844	4,782	5,650
IT solution business	1,691	1,704	2,065	2,094	2,505
Others business	150	253	440	609	570
Operating income	945	1,233	1,249	1,251	1,545
Ordinary income	900	1,185	1,200	1,213	1,500

Source: Compiled by FISCO based on Cross Marketing Group's disclosure materials

## Established North American Subsidiary, Along With Setting Up a Business Site in Sixth Asian Country

### (2) Progress Since the Start of FY12/15

Looking at the execution of growth strategies set forth in the medium-term management plan, the Group has been working to drive steady growth and build an earnings base in the mainstay research business. Following the conversion of R&D into a subsidiary in February 2015, the company reshaped its organization in July by centralizing overlapping organizations within the Group at R&D. In July, the Group also set up Medilead Inc., a company specializing in medical-related fields that brings together experienced researchers from Cross Marketing Inc. and R&D under the same roof. This is in order to provide higher quality services to address growing research needs in the medical-related fields, which are anticipated to grow in future. Through these measures, the Group has a framework in place to provide services that address the specialization requirements of each market both in online and offline research.

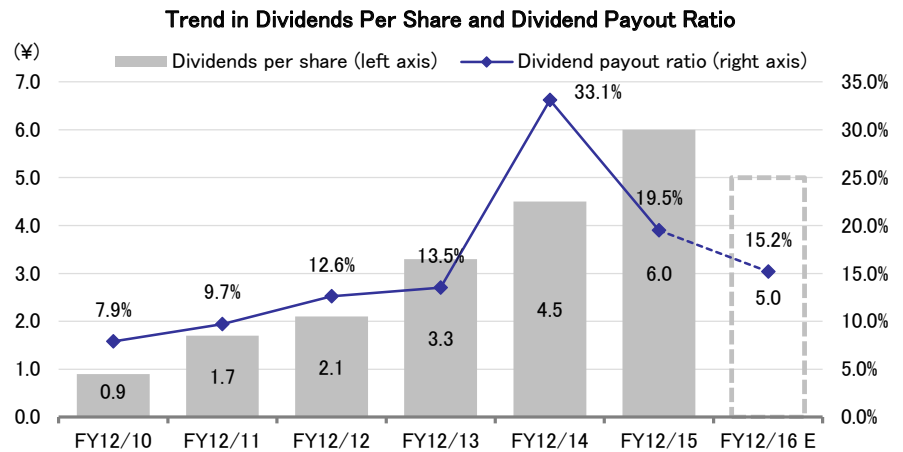
In new businesses, Cross Communication Inc. set up Cross Propworks Inc. in April with the aim of capturing demand related to outsourcing needs both within and outside the Group. This was followed in September by the conversion of Cross J Tech Inc. into a consolidated subsidiary. Meanwhile, in overseas business expansion, the Group entered into a business alliance with Shyu Company Co., Ltd. of Thailand in August. It then converted Jupiter into a subsidiary and set up Cross Marketing (Thailand) Co., Ltd. as a consolidated subsidiary. Furthermore, in November, the Group agreed to succeed to the North American marketing business of Japan Publicity. To assume this business, Cross Marketing Group USA was established in January 2016. With these steps, the Group has put in place a framework to provide marketing research services primarily on the West Coast of North America.

## Shareholder Returns

### Shift in Policy to Paying Stable Dividends Targeting a Consolidated Payout Ratio of Around 15%

The company recognizes that returning profits to shareholders is one of its key management priorities. Accordingly, the company's basic policy is to strive to return profits to shareholders through dividends, while comprehensively taking into account business investment, cash flows and other conditions. Looking at the company's specific dividend policy, until now, the company has sought to successively raise the dividend by targeting a consolidated dividend payout ratio of 20% after achieving consolidated ordinary income of ¥1,000mn. However, in light of surging current funding requirements, future business investment plans, and other factors going forward, the Group has shifted to a basic policy of determining the amount of dividends by targeting a consolidated dividend payout ratio of around 15%.

In line with its policy until now, in FY12/15, management decided to raise the year-end dividend to ¥4.5 per share (annual dividend of ¥6.0 per share, dividend payout ratio of 19.5%), compared with its year-end dividend forecast of ¥2.2 per share, after achieving its FY12/15 ordinary income target of ¥1,000mn. Meanwhile, in line with the new basic policy, management plans to pay an annual dividend of ¥5.0 per share for FY12/16. (This breaks down into an interim dividend of ¥2.5 per share and year-end dividend of ¥2.5 per share, with a dividend payout ratio of 15.2%.) This means that the amount of dividends will be reduced. However, the company has not changed its approach of rewarding shareholders by maintaining stable dividends even in these times of strong demand for capital.



Note1: The company conducted a 2-for-1 stock split on February 18, 2013, and a 3-for-1 stock split on June 1, 2014. Dividends per share for prior years are adjusted for these stock splits retrospectively.  
 Note2: Dividends per share for prior years are rounded down to the first decimal place after adjusting for stock splits retrospectively.

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