

Cross Marketing Group Inc.

3675

TSE Mothers

20-Apr.-2017

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<http://www.fisco.co.jp>

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■ Summary

Adjusted operating profit up 28.9% YoY in FY12/16

Cross Marketing Group Inc. <3675> (hereafter, also “the Company”) is an integrated marketing group offering total one-stop support for online services, from marketing research to the development of smartphone apps and website construction, as well as promotion services.

1. Business segments

The Company has three business segments: research business, IT solutions business, and other businesses. The research business handles a wide range of business domains including online research and marketing research. The IT solutions business handles services such as planning, development, operation and engineer dispatch for mobile platforms and smartphones. The other businesses segment mainly handles the web marketing business and the promotion business. In FY12/16, the research business supplied 83.7% of the Group’s total consolidated net sales (68.9% of segment sales were from domestic operations and 31.1% were from the overseas market), the IT solutions business accounted for 11.9%, and other businesses, for 4.3%. In terms of profit, the research business supplied 168.2%, the IT solutions business accounted for 13.0%, other businesses for 5.5%, and adjustments for -86.7%.

2. FY12/16 results

In FY12/16, the Group’s consolidated net sales grew 7.5% year on year (YoY) to ¥15,969mn, operating profit rose 8.9% to ¥1,342mn, ordinary profit was up 6.9% to ¥1,267mn, and profit attributable to owners of parent jumped 49.8% to ¥837mn. Operating profit surpassed the Group’s target in its medium-term management plan of ¥1,249mn in FY12/16 by 7.4%. While sales decline overseas in the research business and changes to the IT solutions business structure had negative impacts on gross profit, this was outweighed by growth in gross profit from sales growth in the domestic research business and other businesses and lower companywide costs and SG&A expenses, resulting in YoY operating profit growth of 8.9%. However, in FY12/15, changes in accounting methods used by subsidiary Kadence boosted operating profit by ¥191mn to ¥1,233mn. Adjusted for this factor, FY12/15 operating profit was therefore ¥1,041mn and FY12/16 operating profit therefore rose by a more sizable 28.9% YoY.

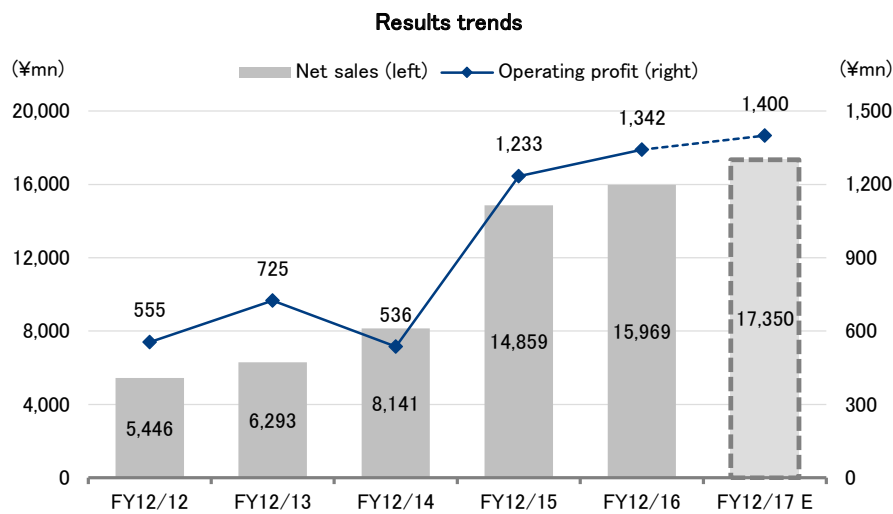
3. FY12/17 forecast

For FY12/17, the Group forecasts net sales of ¥17,350mn (up 8.6% YoY), operating profit of ¥1,400mn (up 4.3%), ordinary profit of ¥1,382mn (up 9.1%), and profit attributable to owners of parent of ¥825mn (down 1.4%). While the Company expects a negative impact on income from rising labor costs and other costs under SG&A expenses, it forecasts income growth as these negative factors are outweighed by growth in gross profit from sales growth in the research business and the IT solutions business. The Company now expects to fall slightly short of the targets set out in its current medium-term management plan for FY12/17, the final year covered by the plan, but expects the trend of growth in sales and income to continue.

Summary

Key Points

- Integrated marketing group offering total one-stop support for online services, from marketing research to the development of smartphone apps and website construction, as well as promotion services.
- FY12/16 net sales up 7.5% YoY to ¥15,969mn, operating profit rose 8.9% to ¥1,342mn, surpassing medium-term plan target by 7.4%. Operating profit up 28.9% YoY when adjusted for changes in accounting methods in FY12/15
- Forecasts FY12/17 net sales of ¥17,350mn (up 8.6% YoY), operating profit of ¥1,400mn (up 4.3%), slightly short of medium-term plan target, but maintaining income growth trend



Source: Prepared by FISCO from securities reports and the Company's financial results

Company profile

Aims to expand into new business areas through proactive M&A

1. Company profile

Cross Marketing Group is a holding company. Its subsidiaries engage in research, IT solutions and other businesses, primarily in the field of marketing, and offer a wide range of services, including in the fields of mobile devices and smartphones and web marketing. With facilities in Japan and more than 20 offices in 10 other countries in Europe, the Americas, and Asia, the Group is proactively expanding into new business areas and new geographical markets with the aim of becoming Asia's No.1 marketing group.

At the end of FY12/16, the Group was made up of 5 affiliate companies and 29 group companies including 6 companies in the domestic research business, 19 companies in the overseas research business, 3 companies in the IT solutions business, and one in the other businesses segment. At that time, it had 758 employees in Japan and 656 overseas.

Company profile

Business Activities



Source: From the Company's results briefing materials

2. History

The Group can trace its roots to Cross Marketing Inc., a marketing research company that was founded in April 2003. In May 2006, Cross Marketing entered into a capital and business alliance with EC Navi (currently VOYAGE GROUP, Inc. <3688>: the operator of the EC Navi integrated online shopping site) and its subsidiary Research Panel, Inc. (a research monitor management company). Cross Marketing holds a 40% stake in Research Panel, Inc., and VOYAGE GROUP holds a 60% stake. In October 2008, Cross Marketing listed its shares on the Mothers section of the Tokyo Stock Exchange. Thereafter, the company aggressively expanded its business base through M&A. In 2013, a decade after the company's establishment, Cross Marketing converted to a holding company, Cross Marketing Group, in what it refers to as its second founding. The Group then launched new businesses and expanded into Asian countries. 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 corporate clients.

At the same time, the Company expanded its business base in Japan and overseas through M&As. In Japan, the Company bought part of Index Inc.'s mobile solutions business in August 2011 and started its own IT solutions business through subsidiary Cross Communication Inc. In February 2015, the Group converted Japanese affiliate Research and Development, Inc., which plans, designs, implements and consults about marketing research, into a consolidated subsidiary. In September 2015, in order to strengthen its ability to respond to users' needs in terms of technological capacity and engineer training capabilities, subsidiary Cross Communication bought JIN SOFTWARE, which develops systems and dispatches engineers to other companies, making it a wholly-owned subsidiary. In December 2015, JIN SOFTWARE changed its name to Cross J Tech Inc. In April 2016, the Group acquired shares in mixi research, Inc., which is strong in mystery shopper surveys and other forms of undercover surveys, to strengthen the service lineup of its research business. mixi research became a consolidated subsidiary and changed its name to Shopper's Eye, Inc.

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Company profile

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. in the U.S.

In August 2013, the Group acquired shares in Markelytics Solutions India Private Limited ("Markelytics") and in Medical World Panel Online Inc. ("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, "Kadance"), 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: 24.2%) 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 (established January 2016) entered into a memorandum of understanding agreement on the transfer of business from Japan Publicity Inc. in November 2015. With this move, the Group put in place a framework for supplying services focused on marketing research in North America.

History

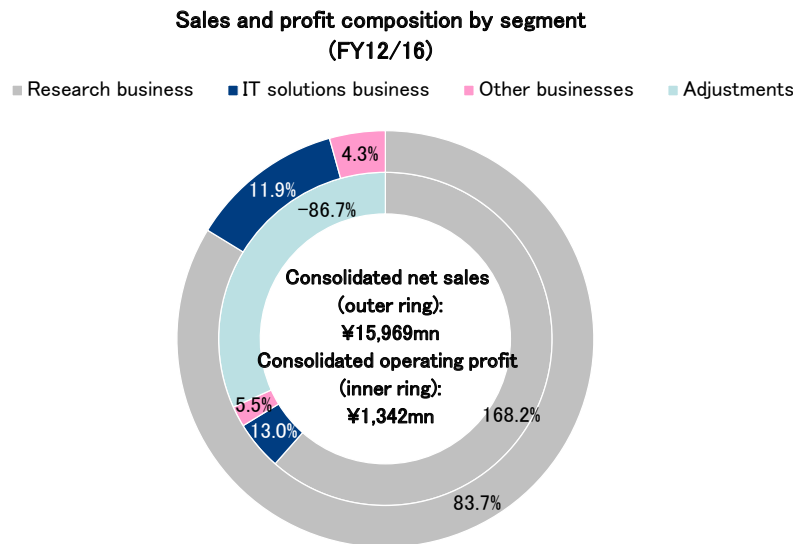
Date	History
April 2003	Founded in Shibuya, Tokyo
May 2006	Entered into a capital and business alliance with VOYAGE GROUP, Inc. and its subsidiary Research Panel, Inc.
October 2008	Listed on the Mothers section of the Tokyo Stock Exchange
August 2011	Subsidiary Cross Communication Inc. commenced operations after succeeding to a portion of Index Inc.'s mobile solution business
May 2012	Established subsidiary Cross Marketing China Inc. in Shanghai, China and commenced operations
April 2013	Established UNCOVER TRUTH Inc.
June 2013	Transitioned to a holding company framework by establishing Cross Marketing Group Inc. through a sole-share transfer
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 and commenced operations
November 2013	Converted UTIL Inc. into a wholly owned subsidiary by simplified share exchange
November 2014	Converted Kadance Group, which operates in eight countries in North America, Europe, and Asia, 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 Medilead Inc. and D&M, Inc. and commenced operations
August 2015	Established Cross Marketing (Thailand) Co., Ltd. and converted Jupiter MR Solutions Co., Ltd. of Thailand into a subsidiary
September 2015	Cross Communication Inc. converted JIN SOFTWARE (renamed Cross J Tech Inc.) into a subsidiary
November 2015	Accepted transfer of marketing business from Japan Publicity Inc.
January 2016	Established Cross Marketing Group USA, Inc.
April 2016	Began operations at Shopper's Eye, Inc.

Source: Prepared by FISCO from the Company's results briefing materials

Business overview

Providing a wide range of services through the core research business

The Group has three main business segments: research business, IT solutions business, and other businesses. In FY12/16, the research business supplied 83.7% of the Group's total consolidated net sales and 168.2% of operating profit, followed by the IT solutions business which accounted for 11.9% of net sales and 13.0% of operating profit. Other businesses supplied 4.3% of net sales and 5.5% of operating profit, while adjustments accounted for -86.7% of operating profit.



Source: Prepared by FISCO from the Company's financial results

The research business in Japan is carried out by Cross Marketing Inc., Research Panel, Inc., Research and Development, Inc., Medilead Inc., UTIL Inc., EnviroSell Japan Inc., and Shopper's Eye, Inc. Meanwhile, the overseas research business is carried out by Kadence, Markelytics, Medical World Panel Online Inc., Jupiter MR solutions Co., Ltd., Union Panels Pte. Ltd., Cross Marketing Asia Pte. Ltd., Cross Marketing China Inc. (Shanghai), Cross Marketing (Thailand) Co., Ltd., and Cross Marketing Group USA, Inc. The IT solutions business is carried out mainly by Cross Communication Inc., Cross Propworks Inc., and Cross J Tech Inc. In the other businesses segment, the web marketing business is carried out by UNCOVER TRUTH Inc. and the promotion business by D&M, Inc.

Business overview

The Group's 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.
		Medilead Inc.
		UTIL Inc.
		ENVIROSELL
		Shopper's Eye, Inc.
		Kadence International Business Research
		Markelytics Solutions India
		MedePanel Online
		Jupiter MR Solutions
		Union Panels
		Cross Marketing Asia
		Cross Marketing China
Cross Marketing (Thailand)		
Cross Marketing Group USA		
IT solutions business	Planning, development and operation of services for mobile devices and promotion	Cross Communication Inc.
		Cross Propworks Inc.
		Cross J Tech Inc.
Other businesses	Web marketing	Web and mobile marketing and UI and UX consulting services
	Promotion	Businesses related to marketing support, such as promotions
		UNCOVER TRUTH Inc. (affiliate)
		D&M, Inc.

Source: Prepared by FISCO from securities reports and the Company's financial results

1. Research business

Net sales in the research business in FY12/16 amounted to ¥13,372mn, of which ¥9,213mn was from domestic operations (68.9% of research business net sales) and ¥4,160mn was from overseas (31.1%).

The Group conducts marketing research, including online research. Online research involves preparing questionnaire programs in line with research requests and hosting them on questionnaire servers. Then, data collection and analysis is conducted by screening registered monitors (respondents), administering the questionnaire, and applying data cleaning techniques. The results are then delivered to the client. The monitor recruitment fee is then paid to the research panel. Online research offers many advantages as results are available in a few days, easy to processing due to digital data, there are no costs for printing, postage, or labor costs for survey administrators, and compensation for respondents is much lower than for other survey methods. This allows clients to quickly hear from hundreds of thousands of respondents and makes it possible to survey "rare targets" that tend to have low response rates. Online research is becoming more widely used owing to its speed, low cost, and scalability. In marketing research, after consulting with clients regarding the background and goals of the research to be conducted, the Group develops research methods to achieve these goals, then assists in questionnaire design and, after assuring that the questionnaire will achieve the desired goals, conducts market research surveys. The data is then analyzed and detailed in a research report and then discussions are held with the client to determine what actions should be taken to resolve any issues.

The Group has top-level questionnaire collection capabilities in Japan with more than 1.9 million questionnaire monitors. These monitors are classified based on their basic attributes, and are also grouped into around 20 easy-to-use categories such as non-seniors, mobile phone users, automobile owners and cosmetics users. The Group's customers include market research firms, consulting firms, and advertising agencies as well as direct corporate clients.

Business overview

Recruitment of monitors is conducted through EC Navi, an integrated online shopping site managed by VOYAGE GROUP, parent company of Research Panel. In addition, the Group has an agreement with Credit Saison <8253> wherein Credit Saison members that wish to participate in surveys are recruited through a service operated by Research Panel called Eikyufumetsu Research.

The research business has launched a new service based on RDIT (Random Domain Intercept Technology). RDIT is the only survey method that can randomly intercept online survey respondents (Internet users who are not members of survey panels) based on Internet traffic. Unlike other services, RDIT provides data from randomized fresh samples taken from all Internet users. Clients may conduct surveys in different countries or regions based on the same specifications. The data capture method used by RDIT results in samples that are representative of the Internet user population. Sales of RDIT services have been steadily increasing since RIWI Corp., which provides RDIT services, conducted daily tracking polls ahead of the 2016 US presidential election and correctly predicted the result on November 4.

2. IT solutions business

The IT solutions business handles services such as planning, development, operation and engineer dispatch for mobile platforms and smartphones. Subsidiary Cross Communication mainly provides a wide range of products and services including website construction, smartphone app development, tools and packages, surveys and analysis, operations outsourcing, infrastructure and server construction and operation, online promotion, and security services. Main customers range from financial institutions engaged in securities and foreign exchange trading and other activities to major travel agencies. Moreover, Cross Propworks, a subsidiary of Cross Communication, conducts outsourcing services such as data processing and other tasks within the Group. In addition, subsidiary Cross J Tech provides system engineering services where engineers are staffed and stationed at the offices of customers.

3. Other businesses

The other businesses segment is made up of the web marketing business and the promotion business. In the web marketing business, UNCOVER TRUTH uses USERDIVE, a tool that uses a heat map and video to visualize the activity of users visiting websites to provide websites and smartphone sites UI and UX analysis and consulting services. The promotion business is conducted by consolidated subsidiary D&M and consists of marketing support services including promotion.

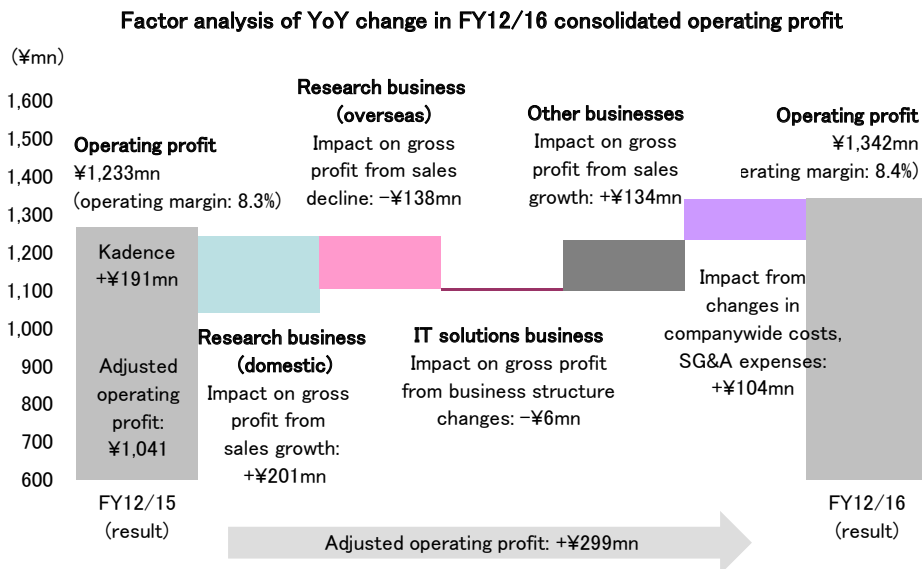
In September 2016, UNCOVER TRUTH conducted a capital increase of roughly ¥400mn with Draper Nexus Ventures as the lead investor. The purpose of the capital increase was to accelerate growth by securing human resources to conduct more product development and strengthen the company's business and expand overseas operations. In addition to Draper Nexus Ventures, Nippon Venture Capital, CyberAgent, Inc. <4751>, Accord Ventures Inc., Mizuho Capital Co., Ltd., and NISSAY CAPITAL Co., Ltd. provided capital. UNCOVER TRUTH was converted to an equity-method subsidiary at end-3Q FY12/16 because the Company's ownership ratio was reduced as a result of this capital increase and the Group posted an extraordinary gain of ¥159mn (consolidated basis).

Results trends

13 Consecutive years of sales growth, second consecutive year of record-high recurring income

1. Consolidated Results for FY12/16

In its consolidated business results of for FY12/16, Cross Marketing Group posted net sales of ¥15,969mn, up 7.5% YoY, operating profit of ¥1,342mn, up 8.9%, ordinary profit of ¥1,267mn, up 6.9%, and profit attributable to owners of parent of ¥837mn, up 49.8%. While net sales fell short of the Group's forecast, operating profit surpassed its forecast by 7.3% and sales and profit both reached record highs for the second consecutive year. While sales decline overseas in the research business and changes to the IT solutions business structure had negative impacts on gross profit, this was outweighed by growth in gross profit from sales growth in the domestic research business and other businesses and lower companywide costs and SG&A expenses. Profit attributable to owners of parent showed a sizable increase because, although the Group posted an extraordinary loss of ¥38mn on write downs at Kadence Vietnam, it also posted an extraordinary gain of ¥159mn from recognition of a gain on change in equity associated with the capital increase through third-party allocation at UNCOVER TRUTH in September 2016.

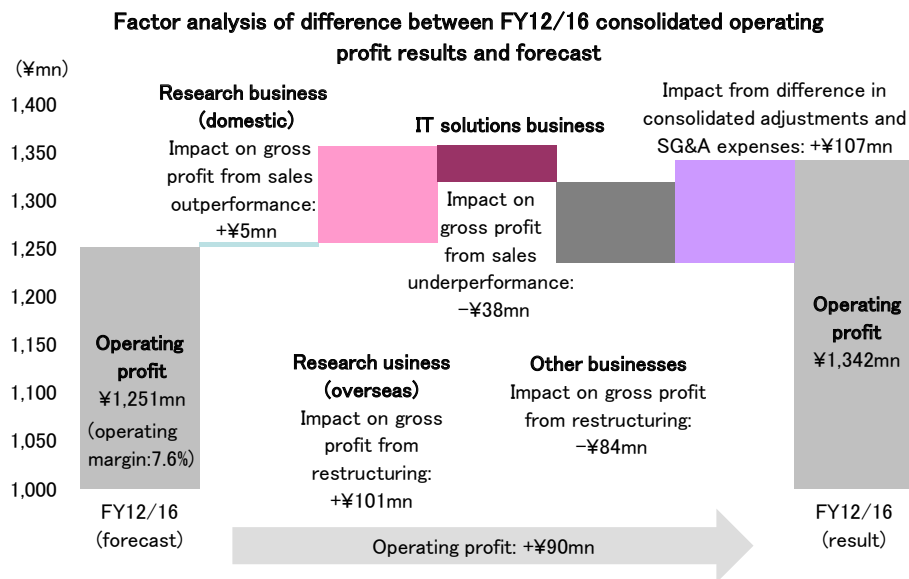


Source: Prepared by FISCO from the Company's results briefing materials

Consolidated operating profit surpassed the Company's forecasts by ¥90mn. While a shortfall in sales in the IT solutions business and changes to the structure of the other businesses segment had negative impacts on gross profit, this was outweighed by positive impacts on gross profit from sales growth in the domestic research business and restructuring of the overseas research business and lower companywide adjustments and SG&A expenses, resulting in the Group surpassing its forecast.

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Results trends



Source: Prepared by FISCO from the Company's results briefing materials

Simplified consolidated statements of income

	(mn)					
	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17 (forecast)
Net sales	5,446	6,293	8,141	14,859	15,969	17,350
YoY	23.1%	15.6%	29.4%	82.5%	7.5%	8.6%
Cost of sales	3,443	3,765	5,063	8,542	9,430	
YoY	20.8%	9.3%	34.5%	68.7%	10.4%	
Gross profit	2,003	2,528	3,079	6,318	6,539	
YoY	27.4%	26.2%	21.8%	105.2%	3.5%	
SG&A expenses	1,448	1,803	2,543	5,085	5,197	
YoY	27.4%	24.5%	41.1%	100.0%	2.2%	
Operating profit	555	725	536	1,233	1,342	1,400
YoY	27.3%	30.8%	-26.1%	129.9%	8.9%	4.3%
Ordinary profit	581	751	521	1,185	1,267	1,382
YoY	6.7%	29.2%	-30.5%	127.3%	6.9%	9.1%
Profit	313	438	245	559	837	825
YoY	-5.1%	40.1%	-44.0%	127.6%	49.8%	-1.4%

Source: Prepared by FISCO from securities reports and the Company's financial results

Results trends

(1) Segment performance**a) Research business**

Sales rose and profit declined in the research business as net sales rose 3.6% YoY to ¥13,372mn and segment profit declined 5.0% to ¥2,256mn. Domestic sales were ¥9,213mn and overseas sales were ¥4,160mn. In addition to strong growth in domestic sales, newly consolidated subsidiaries such as Shopper's Eye contributed to sales growth. Shopper's Eye began operation in April 2016 and has been expanding the research business by launching undercover survey services and securing its own survey panel of 100,000 members. In the overseas research business, operations in the US and Thailand, which began in 2016, got off to a smooth start, but overall overseas sales declined owing to forex factors and YoY deterioration in the economic environment in some countries and regions. The Group estimates consolidated annual forex sensitivity for every ¥1 change versus the US dollar at ¥42mn for net sales and ¥3mn for profit. As the Group's overseas businesses are still in the early stages of development and are based in a wide range of countries, exchange rate trends for any single currency do not have a large impact on earnings. Segment profit declined owing to factors such as upfront investment costs.

b) IT solutions business

In the IT solutions business, net sales increased 11.9% YoY to ¥1,907mn while segment profit declined 8.8% to ¥175mn. Cross Communication, which handles systems development and maintenance, achieved steady growth and Cross J Tech, which handles engineer dispatch, made its first full-year contribution to earnings as shares were acquired in FY12/15. These factors resulted in strong sales growth. Segment profit declined as costs increased because the Group prioritized the hiring of human resources to drive medium- to long-term growth.

c) Other businesses

In the others business, net sales rose 172.7% YoY to ¥690mn and segment profit was ¥74mn (loss of ¥55mn in FY12/15). As a result of the capital increase conducted at UNCOVER TRUTH, the company was converted into an equity-method affiliate starting in 4Q and D&M, which handles the promotion business, got off to a smooth start, with sales skyrocketing roughly 700% YoY. D&M is working toward a full-scale launch of its promotion services by leveraging knowledge gained from the research business. The company has made steady progress in customer development since it began operations in July 2015 and sales are rising.

(2) Financial position and cash flow

Looking at the Group's financial position at the end of FY12/16, total assets were ¥9,932mn, a decrease of ¥38mn YoY. Current assets rose by ¥135mn YoY while non-current assets declined by ¥173mn. The decline in non-current assets was from a ¥253mn reduction in goodwill, which we attribute to a write down at Kadence Vietnam. Liabilities were ¥5,459mn, down ¥566mn YoY. While interest-bearing debt declined by ¥432mn to ¥2,405mn as of end-FY12/16, liabilities declined YoY on lower income taxes payable and a decrease in the provision for bonuses. Net assets increased by ¥529mn to ¥4,474mn due to recording profit attributable to owners of parent. The equity ratio was 43.6% and the current ratio was 177.4%, indicating that the Group's financial position is strong. ROE rose from 17.2% in FY12/15 to 20.7% in FY12/16.

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Results trends

Simplified balance sheet

	(mn)				
	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
Current assets	2,047	2,479	4,164	6,423	6,557
Cash and deposits	862	779	1,407	2,384	2,160
Notes and accounts receivable - trade	941	1,410	1,800	2,993	3,386
Non-current assets	1,041	1,533	3,708	3,548	3,375
Property, plant and equipment	74	100	496	462	457
Intangible assets	366	803	2,336	2,283	1,918
Goodwill	177	601	2,056	1,956	1,703
Investments and other assets	600	630	876	802	1,000
Total assets	3,088	4,012	7,872	9,970	9,932
Current liabilities	986	1,438	4,343	4,090	3,697
Accounts payable - trade	423	614	898	1,048	1,198
Short-term loans payable and other short-term borrowings	79	135	320	608	895
Non-current liabilities	1,071	16	632	1,935	1,762
Long-term loans payable and other long-term borrowings	52	-	52	1,687	1,510
Total liabilities	1,071	1,454	4,975	6,025	5,459
Interest-bearing debt	131	135	372	2,295	2,405
Subscription rights to shares	1	-	-	16	15
Non-controlling interests	16	97	183	156	133
Total net assets	1,826	2,558	2,897	3,945	4,474

Source: Prepared by FISCO from securities reports and Company's financial results

Cash and cash equivalents as of the end of FY12/16 were ¥2,159mn, a decrease of ¥224mn from the previous fiscal year-end. Net cash provided by operating activities was ¥437mn. The main components increasing cash were ¥1,391mn of profit before income taxes, ¥187mn of, depreciation costs, an increase in accounts payable of ¥174mn, and an amortization of goodwill of ¥152mn which outweighed negative factors including a ¥676mn in income taxes paid, an increase of ¥486mn in notes and accounts receivable-trade, and ¥159mn from recognition of a gain on change in equity. Net cash used in investment activities was ¥220mn including ¥84mn for purchase of property, plant and equipment, ¥80mn for purchase of intangible assets, and payment for lease deposit of ¥58mn. Net cash used in financial activities was ¥127mn. While there was inflow of ¥434mn from proceeds from share issuance to non-controlling shareholders, this was outweighed by outflows of ¥620mn for repayment of long-term loans payable and ¥273mn for net decrease in short-term loans payable.

Simplified cash flow statement

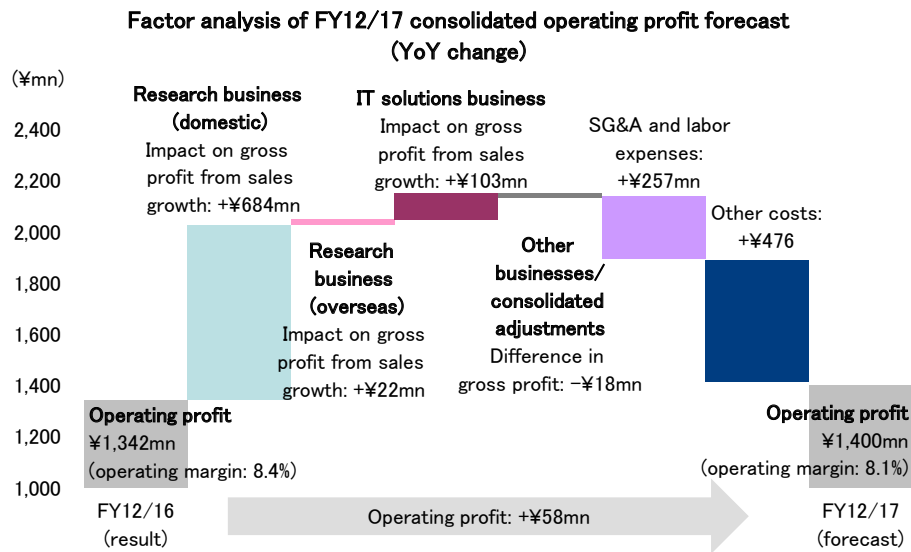
	(mn)				
	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
Cash flows from operating activities (a)	503	445	453	801	437
Cash flows from investing activities (b)	156	-362	-2,271	-18	-220
Cash flows from investing activities	-206	-178	2,435	204	-127
Free cash flow (a) + (b)	659	83	-1,817	783	217
Cash and cash equivalents at end of period	862	779	1,407	2,384	2,159

Source: Prepared by FISCO from securities reports and the Company's financial results

Results trends

2. Company forecasts for FY12/17

For FY12/17, the Group forecasts consolidated net sales of ¥17,350mn (up 8.6% YoY), operating profit of ¥1,400mn (up 4.3%), ordinary profit of ¥1,382mn (up 9.1%) and profit attributable to owners of parent of ¥825mn (down 1.4%). While the Group expects a negative impact on profit from an increase in SG&A expenses owing to higher labor costs and other expenses, it expects this to be outweighed by growth in gross profit from sales growth in the domestic and overseas research businesses and the IT solutions business.



Source: Prepared by FISCO from the Company's results briefing materials

Group-wide measures planned for 2017 include expanding into new research businesses including medical research and shopper research, investment in the digital marketing field, strengthening of global partnerships, and strengthening of human resource development.

■ Medium-term management plan

While the Group expects to fall slightly short of the operating profit target for FY12/17, the final year covered by its medium-term management plan, it expects to reach its target for cumulative ordinary profit.

1. Positioning of the medium-term management plan

The three years covered by the medium-term management plan, FY12/15 to FY12/17, 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. In existing businesses, the Group will work to drive steady growth and establish an earnings base in the research business and, in human resources strategies, will promote nurturing and enhancement of staff recruited in large numbers. In new businesses, they will promote nurturing and expansion of business fields and, regarding overseas expansion, will establish a network spanning all Asian regions.

2. Business segment strategies

(1) Research business

a) Domestic

- 1) Work to drive steady growth and establish an earnings base for this core earnings-generating business
- 2) Strengthen development of services using the newest technologies and trends to make online research a core business
- 3) Conduct integrated consulting and planning and provide higher-added-value services that meet clients' needs

b) Overseas

- 1) Focusing on Asia, establish networks in accordance with the pace of growth of the marketing research market in each country
- 2) Accelerate business development through strengthening of ties with new M&A additions to the Group such as Markelytics and Kadence

(2) IT solutions business

- 1) Strengthen systems for development to ensure steady growth of existing businesses
- 2) Strengthen connections between Group businesses by working to develop systems for new services

(3) Other businesses

- 1) Expand overseas deployment of Web analysis tool USERDIVE, in use since FY12/13
- 2) Provide new services and advance into related fields

Medium-term management plan

3. Progress made

In FY12/15, the first year covered by the current medium-term management plan, the Group targeted net sales of ¥14,733mn and ordinary profit of ¥900mn and surpassed these targets with net sales of ¥14,859mn and ordinary profit of ¥1,185mn. In FY12/16, the second year covered by the plan, net sales were ¥15,969mn, slightly short of the target of ¥16,287mn but ordinary profit of ¥1,267mn surpassed the Group's target (¥1,200mn) for the second consecutive year. In FY12/17, the Company forecasts net sales of ¥17,350mn and ordinary profit of ¥1,382mn, slightly below the medium-term management plan targets of net sales of ¥17,985mn and ordinary profit of ¥1,500mn. However, both sales and profit remain on an uptrend. The three years covered by the plan remain positioned as a period for accelerating efforts to lay the groundwork for becoming Asia's No.1 marketing group.

Medium-term management plan targets, results, and Company forecasts

	(mn)					
	FY12/15 target	FY12/15 result	FY12/16 target	FY12/16 result	FY12/17 target	FY12/17 forecast
Net sales	14,733	14,859	16,287	15,969	17,985	17,350
Operating profit	945	1,233	1,249	1,342	1,545	1,400
Ordinary profit	900	1,185	1,200	1,267	1,500	1,382

Source: Prepared by FISCO from the Company's results briefing materials and financial results

Share supply-demand balance

High ratio of individual investors

Looking at a breakdown of shareholders as of December 31, 2016, we see 3.1% ownership by financial institutions, 4.0% by financial instruments business operators, 18.2% by other companies, 0.8% by overseas corporations, and an overwhelming majority of 73.9% by individual investors and others. Moreover, as of December 31, 2016, the top shareholder was President and CEO, Miki Igarashi with 42.27% ownership and the second-largest shareholder was VOYAGE GROUP, with which the Group has a capital and business tie up, with 13.21%.

Ownership ratio by shareholder type (as of December 31, 2016)

	(%)						
	Governments and local public bodies	Financial institutions	Financial instruments business operators	Other companies	Overseas corporations	Individual investors and others	Total
Ownership ratio	-	3.1	4.0	18.2	0.8	73.9	100.0

Source: Securities reports

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Share supply-demand balance

Major Shareholders (as of December 31, 2016)

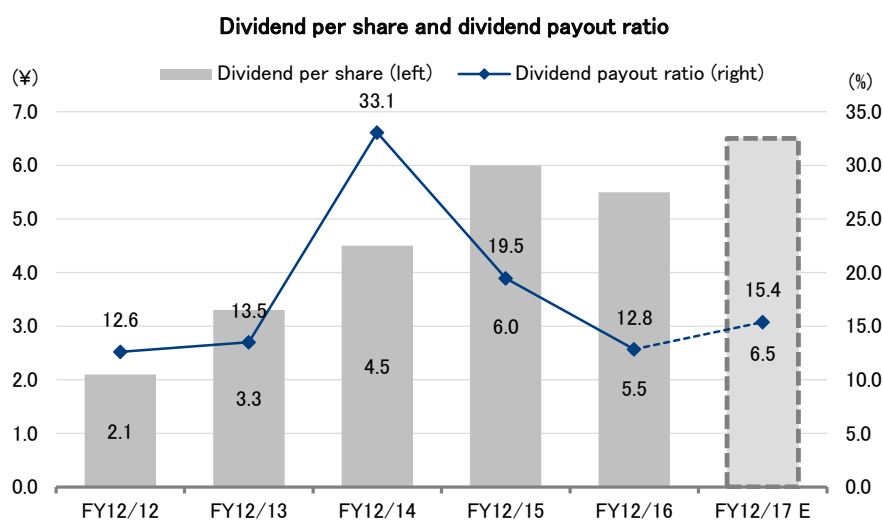
Ranking	Name	No. of shares held	Ratio of total shares issued (%)
1	Miki Igarashi	8,256,500	42.27
2	VOYAGE GROUP, Inc.	2,580,000	13.21
3	Shigeki Hitomi	751,200	3.85
4	Dentsu Macromill Insight, Inc.	480,000	2.46
5	Video Research Ltd.	480,000	2.46
6	The Master Trust Bank of Japan, Ltd. (trust account)	448,700	2.30
7	Hisako Igarashi	390,000	2.00
8	SBI SECURITIES Co., Ltd.	308,800	1.58
9	Chihiro Yoshida	267,600	1.37
10	Tomoko Igarashi	210,000	1.08
Total		14,261,400	73.02

Source: Quarterly securities reports

Shareholder return policy

Commitment to payout ratio of around 15%

The Company targets a consolidated dividend payout ratio of approximately 15%. However, the Company calculates its payout ratio based on adjusted profit. In other words, distributable funds are calculated based not on actual profit, but on profit excluding extraordinary gains and losses. In FY12/16, the Group posted an extraordinary gain of ¥159mn from recognition of a gain on change in equity and an extraordinary loss on write downs of ¥38mn. Therefore, distributable funds were calculated based on income adjusted for extraordinary factors of ¥717mn, applying a payout ratio of 15% to the number of shares issued for a year-end dividend of ¥3.0 per share, combined with the midterm dividend for total annual dividend distributions of ¥5.5 per share.



Source: Prepared by FISCO from securities reports and the Company's financial results

Note: The Group 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, rounded down to the first decimal place.

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