

Cross Marketing Group Inc.

3675

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FISCO Ltd. Analyst

Kimiteru Miyata



FISCO Ltd.

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

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■ Summary

Toward new growth through digital transformation

1. Despite being a late-comer, has become one leader of the marketing research industry

Cross Marketing Group Inc. <3675> is comprised of three businesses: Research, IT solutions, and other businesses. The original research business offers a one-stop service for various marketing research services based primarily on online research while expanding its overseas business. The IT solutions business handles mobile system planning, development, and operations, and also dispatches engineering personnel. Under other businesses, the Company runs a promotion services business to provide marketing support. Despite being a late-comer to the industry when it was founded, the Company has since become one of the largest companies in the marketing research industry. Currently, on the one hand it is crossing-over the functions of each business and strengthening its ability to respond to diversifying customer needs, while on the other hand it is progressing its responses to rapid digitalization.

2. Expanding solutions from research on core competencies

A feature of the Company's research business is the quality and quantity of its panels (registered monitors). In terms of quantity, it is able to secure sufficient quantity as it has 2.27mn people on its active panels, and when combined with those of its business partners, it has a total of 4.73mn people. In terms of quality, it constantly maintains the basic attributes of panels so they are up-to-date, and it categorizes them in advance so that they are easy to use. It also conducts thorough quality control of the panels, including de-registering malicious, fraudulent respondents. All of the responsible people, including sales staff, researchers, and directors, work together to contact customers, and its support system to solve problems has been highly evaluated. Moreover, the Company differentiates itself from its competitors through its high quality, including the experience of its researchers in appropriately planning and designing solutions to problems, and its proposals of total marketing solutions that utilize functions inside and outside of the Group, including the IT solutions business.

3. Opportunities are increasing due to digital transformation

In the most recent 5 years from 2015 to 2019, the Company progressed various measures in order to realize sustainable growth, including actively expanding businesses in growth areas and investing toward strengthening profitability, as well as pursuing further Group synergies. As a result, it evolved from being an online research company to a marketing solutions company. In 2020, we have entered an era that is overflowing with data, so its idea is to support customers' marketing on the two axes of marketing solutions and digital transformation. On the other hand, the Company itself has the opportunity to benefit from digital transformation, such as by advancing to the next growth stage and reducing costs through automation. Moreover, it is expected that synergies between the IT solutions business and the promotions business will strengthen.

Summary

4. In FY12/19, the structural reforms overseas and strong performance in Japan continued

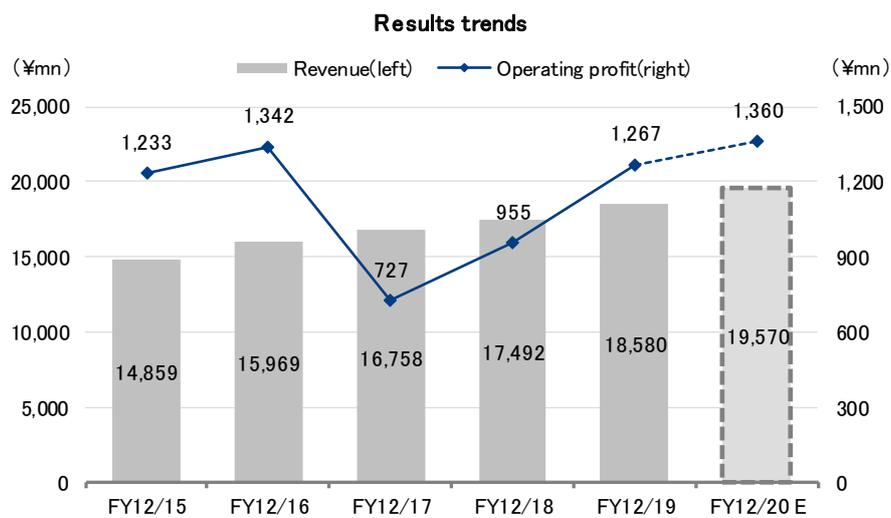
In the FY12/19 results, revenue was ¥18,580mn (up 6.2% year-on-year (YoY)), operating profit was ¥1,267mn (up 32.7%), and the net loss attributable to owners of parent was ¥477mn (compared to profit of ¥507mn in the same period in the previous fiscal year). Compared to the initial Company forecasts, revenue was ¥1,420mn below forecast, operating profit ¥17mn above forecast, and net profit attributable to owners of parent ¥1,047mn below forecast. The reason why revenue was below forecast was that the recording of revenue from scheduled large-scale projects in the Kadence Group was delayed, while the reason why net profit attributable to owners of parent was below forecast was the recording of an impairment loss in each company in the Kadence Group. The businesses in Japan are performing extremely well, which led to operating profit being above forecast. In particular, revenue grew significantly in the IT solutions business and the promotions business, so it can be said that the Company is entering a growth period.

5. Is forecasting record high earnings in FY12/20, so will again increase the dividend

For the FY12/20 results, the Company is forecasting record high earnings, of revenue of ¥19,570mn (up 5.3% YoY), operating profit of ¥1,360mn (up 7.3%), and net profit attributable to owners of parent of ¥820mn (an increase of ¥1,297mn). However, profitability in the overseas research business is expected to improve due to the structural reforms up to FY12/19, while the strong performances of the domestic businesses are also forecast to continue, and therefore the Company's forecasts seem slightly conservative. In the medium-term, it is considered that it will simultaneously grow sales and improve profitability on the two axes of marketing solutions and digital transformation. For the FY12/20 dividend, in accordance with the consolidated dividend payout ratio target of 15%, it plans to increase the annual dividend per share to ¥6.2.

Key Points

- A feature is marketing solutions that leverage Group synergies
- Is both growing sales and improving profitability through digital transformation
- Is forecasting record high earnings in FY12/20, so plans to again increase the dividend



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

■ Company profile

Marketing solutions × digital transformation

1. Business overview

The Company is comprised of three businesses: Research, IT solutions, and other businesses. Its original business was marketing research based primarily on online surveys, but over the years, it has developed a full range of services covering all areas of marketing research with quantitative and qualitative studies. Most of the research is based on online surveys, but offline surveys and other types of research are done as well. The IT solutions business does mobile system planning, development, and operations, and also dispatches engineering personnel. Other businesses include a promotion services business for marketing support. With these service lines, the Company has greatly expanded its business interests from online survey-based marketing research to marketing solutions. Currently, on the twin axes of marketing solutions and digital transformation*, it is even more strongly crossing-over the functions of each business and enhancing its ability to respond to diversifying customer needs, and the room for growth is expanding.

| * Digital transformation: the concept that the spread of IT will make every aspect of people's lives more comfortable. |

Despite being a late-comer, has become one leader in the marketing research industry

2. History

The Company can trace its roots to Cross Marketing Inc., an online research company that was founded in April 2003 by Miki Igarashi, the current representative director, president and CEO. In May 2006, Cross Marketing entered into a capital and business alliance with EC Navi Inc. (currently VOYAGE GROUP Inc. (CARTA HOLDINGS, INC. <3688>), the operator of ad platform and point media businesses). In March 2007, it entered into capital alliances with major research companies such as Dentsu Research Inc. (currently DENTSU MACROMILL INSIGHT, INC.) and Video Research Ltd. In October 2008, Cross Marketing listed its shares on the Mothers Section of the TSE. In August 2011, it acquired Index Inc.'s mobile solutions business (currently the IT solutions business). Through efforts including establishing a subsidiary in Shanghai, China and entering-into overseas markets, the Company aimed to expand its business areas from online research to marketing research and marketing solutions. In 2013, after changing the name to the Cross Marketing Group, Inc., and becoming the holding company, it accelerated M&A and new businesses, including acquiring a series of leading companies like Kadence, Research and Development, Inc., Medilead Inc., and Supotant Co., Ltd., thereby further spreading its business wings. Then in April 2018, its listing was upgraded to the First Section of the Tokyo Stock Exchange (TSE), and even while being a late-comer, it has come to be one leader in the marketing research industry, while also expanding the scope of its business beyond the framework of this industry.

Company profile

History

Date	
April 2003	Founded in Shibuya-ku, Tokyo
January 2004	Relocated to Chuo-ku, 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 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
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.
May 2014	Relocated the head office to Shinjuku-ku, Tokyo (Tokyo Opera City)
November 2014	Converted Kadence Group, which operates in eight countries in North America, Europe, and Asia, into a wholly owned subsidiary
February 2014	Converted affiliate Research and Development, Inc. into a consolidated subsidiary
April 2014	Cross Communication Inc. established subsidiary Cross Propworks Inc. in Hakodate
July 2015	Established Medilead Inc., and D&M Inc., and they started operations
August 2015	Established Cross Marketing (Thailand) Co., Ltd. (currently, Kadence International (Thailand) Co., Ltd.)
November 2015	Cross Communication Inc. converted JIN SOFTWARE (renamed Cross J Tech Inc.) into a subsidiary
April 2016	Shopper's Eye Inc., started operations
March 2018	Listing was upgraded to the TSE 1st Section
April 2018	Established Cross Ventures Co., Ltd.
October 2018	Cross Communication made a subsidiary of Supotant Co., Ltd.
November 2019	Supotant Co., Ltd., merged with Cross J Tech Inc., and the company name was changed to Fittio Inc.

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

The major companies in the domestic marketing research industry are overwhelming the medium- and small-sized players

3. Industry environment

Marketing research is broadly divided into online research and offline research depending on whether it is conducted on the Internet or in the real world. The methods are also separated into panel research and ad hoc research. Compared to conventional offline research, such as visit surveys, mail surveys, and telephone surveys, online research is superior on the points of speed, costs, and scale. Therefore, the domestic market research industry is stably growing against the backdrop of factors like the expansion and diversification of consumption and the strong corporate results, and in this situation, particularly since 2000, the use of online research has rapidly progressed alongside the spread of the use of the Internet. The three major companies* in the industry, which include the Company, are integrating marketing research and IT solutions, widening their business scope to marketing solutions, and overwhelming the other industry players. Moreover, in recent years, the demands have changed from merely conducting research to providing high value-added services like consulting and research technologies compliant with the latest IT technologies and Big Data, and this has led to the gap between the major three companies and the others becoming increasingly wide.

* The three major companies: Macromill <3978>, INTAGE Holdings <4326>, and the Company.

■ Business activities

Evolving research

1. Domestic research business

The sequence of events in the Company's online research is as follows: develop a questionnaire program in accordance with the plan and place it on the questionnaire server; conduct the questionnaire among the extracted panels; carry out data cleaning, such as of logical contradictions and invalid answers; aggregate the survey results; and in many cases, prepare an analysis report and deliver it to the customer. Notable features of the Company are the quality and quantity of its panels, and its accompanying value-added services.

What is most important for online research is the quality and quantity of the panels. In terms of quantity, the Company boasts the largest number of questionnaire panels in Japan (as of December 2019) at the total of 4.73mn people on active panels including the 2.27mn people who answered a questionnaire within the last one year and the people of its business partners. In terms of quality, in addition to the basic information like gender, age, and place of residence, the panels cover basic attributes such as composition of co-habitants and living arrangements. Also, to ensure the reliability of the data, Research Panel Inc., updates the membership registration information every year and ensures that the panels' basic attributes information is always kept up to date. The Company also conducts thorough quality control of the panels, including checking the contents of the questionnaire survey responses and de-registering malicious, fraudulent respondents. In addition, in order to smoothly conduct the surveys, it segments the panels into specific themes in advance, such as car ownership or diseases, and it has prepared more than 20 specialist panels. From the above, it is apparent that the Company's online research is capable of highly accurate and efficient surveys.

Moreover, the Company is developing its digital marketing in combination with quantitative research and qualitative research that it conducts offline, including actually gathering together and interviewing survey respondents, and also in combination with existing survey methods like IT. In addition to the normal questionnaires, it uses Tableau, which is said to have the biggest share of the BI (Business Intelligence) tools market, to collect and analyze data posted on SNS and elsewhere, and to measure word-of-mouth share ratios and campaign effects, and it supports the construction of a data-driven decision-making system that integrates questionnaire data with existing data. In Cross Trace, which is a new service, by connecting and incorporating questionnaires and Internet access logs into attributes data, it attempts to understand the actual conditions of survey subjects in a more multifaceted manner; for example, by facilitating interviews with people who ended up not making a purchase.

In the domestic research business, Medilead, which was made a subsidiary in 2015, has been highly evaluated for its market solutions specializing in the pharmaceutical industry, and it is expanding the scope of its business. It researches the Group's panels of doctors and healthcare workers, and of patients, and it is able to provide a range of support, including to develop health risk model measures from a health management program, for journal articles and research on areas like drug discovery and clinical trials, through to supporting medical technologies evaluations. It can be said that these services provided by human resources who are experts in specialist fields are extremely high value-added ones.

The Kadence Group has temporarily finished structural reforms, and is back on the offensive

2. Overseas research business

Japanese companies are entering-into overseas countries in Asia and elsewhere, and the Company is also developing its business in Asia. However, from FY12/18 to FY12/19, the overseas business was placed in a holding pattern in order to build structures, including the further strengthening of the Kadence Group's structural reforms. At the present time, the Kadence Group has temporarily finished its structural reforms, so after working to strengthen the overseas organizational structure, it will steadily open bases in New York, the US and in areas in Asia that it has not yet entered-into, while in English-speaking countries in Asia, it will establish BPO (Business Process Outsourcing) bases and R&D centers. In these ways, its policy is to once again start reducing costs and bolster capacities by strengthening the infrastructure.

Provides a one-stop service for marketing solutions for mobile

3. IT solutions business

The IT solutions business offers a one-stop service for all essential functions in mobile and smartphone services, from marketing to planning, development, operation, and promotion. More specifically, the IT solutions business engages in website construction, smartphone app development, various tools and software package provision, surveys and analysis, infrastructure and server building, online promotions, security measures, and operational outsourcing. The Company has strengths in building and operating systems for financial institution apps and settlement and point management that require robust performance, large-scale systems with millions of members, along with other systems. The Company also conducts systems development addressing the latest features for rapidly advancing mobile equipment. Furthermore, the Company is capable of smoothly applying the PDCA cycle to marketing strategies of customer companies and achieving even greater outcomes by leveraging the strengths of its mainstay research business.

The Company has an extensive track record for development and management in the financial services industry, centered on securities companies, including that the apps it has developed have high shares of the accounts of listed Internet securities companies. The background to this track record is its expansion of sales to customers like credit card companies and online banks. Moreover, it does not only provide apps, it additionally provides human resources to customer companies, while also conducting management-related operations with continuity. Therefore, Supotant, which conducted human resources introductions and dispatches specializing in the Internet and e-commerce, and Cross J Tech Inc., were merged and the company name changed to Fittio Inc., and it is currently dispatching human resources to manage and maintain websites and e-commerce sites developed for customers. In addition, Group company Cross Ventures Co., Ltd., has invested in AdInte Co., Ltd., which is developing AI Beacon, an O2O (Online to Offline) service that effectively approaches users, including by sending pushing notifications when they are close to a store counter. For the Company's existing customer services, the plan is to implement them in actual stores and other places. In such ways, the IT solutions business has many promising projects, and it is expected to achieve high growth in the future also.

Business activities

Collaborations are being advanced inside and outside of the Group

4. Other businesses (the promotions business)

The core of other businesses is the provision by D&M Inc., of cutting-edge marketing services, such as digital marketing that utilizes consumer data and digital promotions. It provides services and supports its customers' marketing strategies using its proprietary OODA (Observe, Orient, Decision, Action) marketing system, which is different from the traditional PDCA. It is also progressing data collaborations with major DMP (Data Management Platforms) like TREASURE DATA and Adobe, while by coordinating large-scale attributes data and data on companies, it has become able to respond to the increasingly complex needs of advertisers and changes to the market environment. The promotions business is able to provide a one-stop marketing solutions service from the Company as a whole through the collaboration of the research business and the IT solutions business.

List of business subsidiaries

Marketing Research		IT Solutions	
Cross Marketing	Cross Marketing is the pioneer in online research with full service marketing research capabilities.	Cross Communication	Cross Communication are IT specialists engaged in the planning, development and operation of mobile and smartphone oriented websites and systems.
R&D	R&D offers value added information (insights) through market research planning, design, implementation and consultation services.	Cross Propworks	Cross Propworks offers development and design of multi-device oriented websites and systems, as well as a variety of data processing services.
medilead	Medilead is full service MR agency focused on delivering insights derived from key stakeholders in the healthcare industry.	Fittio	Fittio offers and supports human resources specialized in IT/ Web business industries.
ENVIROSELL	Envirosell Japan offers analyses of shopper behavior and business consulting services.	Others	
Shopper's Eye	Service standards are evaluated from the perspective of the consumer through the use of mystery shoppers		
Kadence International	Kadence International is a global insight agency engaged in marketing research with offices in the UK, the USA, and Asia. Headquarter of the holding company is in Singapore.		
MARKELYTICS	Markelytics is a leading market research agency providing end-to-end research solutions to clients around the world. Headquarter is in Bangalore.		
Medical World Panel	Medical World Panel manages and operates proprietary healthcare panels, and provides insights from key stakeholders in the healthcare industry.	D&M	D&M utilizes consumer data to offer cutting edge marketing services.
		CROSS VENTURES	Management support and Investment toward start-up which has unique technology and know-how in Internet industry.

Source: The Company's results briefing materials

A strength is its support system through flexible Group collaborations

5. Business strengths and weaknesses

Notable features of the Company's research would seem to be screen designs that make it easier for respondents to answer questions; distribution settings to achieve accurate target selection; accurate and high-quality data cleaning; quick response with screen formulation, distribution, and data delivery using a high-performance questionnaire system; an industry-leading number of panels in Japan; and surveys that are capable of targeting not only basic attributes, but also small, unique groups as well. However, the other major players in the industry also possess the same capabilities and services to some extent, so they do not significantly differentiate the Company.

Business activities

The Company's biggest strength is its support structure that brings together all sales staff, researchers, directors, and others who can adapt quickly and interact with clients to resolve issues in a unified manner, as opposed to the other major companies in the industry whose functions are relatively separate from one another. Furthermore, the Company's support structure, together with the experience of its researchers in providing suitable proposals and designs to address the client's situation, and its ability to provide total marketing solutions that utilize the functions of the IT solutions business and promotions business in the Group, are considered to effectively differentiate the Company from its competitors. Currently, it is consciously reinforcing these strengths. On the other hand, in overseas research, although its business development capabilities can be said to be a weakness, the structural reforms of the main companies for this business, the Kadence Group, have temporarily been finished, so this is expected to change to become a strength in the future.

■ Business structure and change of strategy

After its foundation, business expanded, centered on online research

1. Foundation to 2014

Since its foundation in 2003, it is considered that the Company has had three turning points during the course of its growth (refer to the "History" section). The first turning point was the capital and business alliance in 2006 with the VOYAGE GROUP (at that time, EC Navi). Through its capital participation in the research panels of the VOYAGE GROUP, it was able to acquire a large number of monitors, of 700,000 people on the research panels (at that time). Through this, it was then able to enter-into capital alliances with top class marketing research companies, of Dentsu Research (currently Dentsu Macromill Insight) and Video Research, and to greatly expand its business scope in just a short period of time after its establishment.

The second turning point was its listing on the TSE Mothers market in 2008, as through this, it acquired financial strength and name recognition. Therefore, it was able to secure panel numbers through business alliances with companies in other industries with a large number of monitors, including Rakuten Research, Inc. (currently, Rakuten Insight, Inc.) Elsewhere, it developed "pyxis2," which enables a questionnaire screen to be created and customized even without specialist knowledge, which led to the further expansion of its business scope. The third turning point was the period from 2013 to 2015, when using the opportunity of its change to a holding company structure, it conducted large-scale M&A and accelerated overseas business development. Through this, it enhanced its services functions and accelerated the development of bases in Asia.

In the most recent five years, has spread its wings and expanded the room for growth

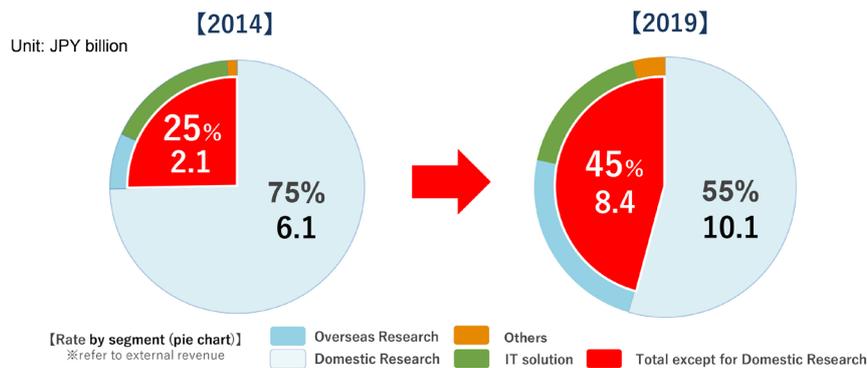
2. 2015 to 2019

In the most recent 5 years from 2015 to 2019, the Company progressed various measures in order to realize sustainable growth, including actively expanded businesses in growth areas and investing toward strengthening profitability, as well as pursuing further Group synergies. As a result, the percentage of total revenue from businesses other than the domestic research business was 25% in 2014, but it had grown to 45% by 2019.

Business structure and change of strategy

Changes in revenue by business segment

Rate of Total Revenue except for Domestic Research Reaches to 45% from 25% due to Growth of Overseas Research since 2014, IT solution and New businesses

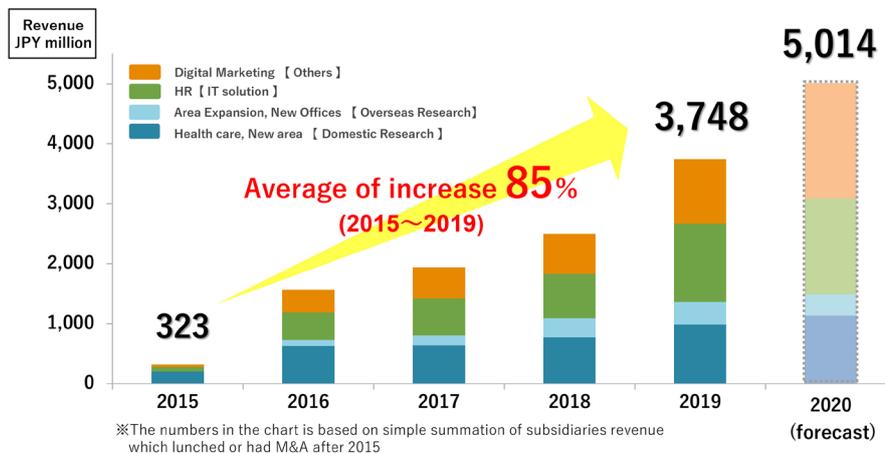


Source: The Company's results briefing materials

In results, the overseas research business, which the Company has worked to expand, centered on the Kadence Group, was forced to restructure due to management issues, which led to the structural reforms from FY12/18 to FY12/19. But domestically, it established and acquired subsidiaries and actively integrated them, including establishing Medilead and D&M in 2015 and establishing Fittio through the merger of Supotant and Cross J Tech in 2019, spreading its wings even wider. At the same time, the subsidiaries progressed measures to improve management efficiency. Thanks to the above efforts, the average revenue growth rate for new businesses and areas from the time their development started in 2015 is 85%, which is an extremely high growth rate. This development will link to the developments for the next stage of growth, and when looking back at these five years at some time in the future, they will probably be regarded as the fourth turning point.

Revenue contribution through spreading its wings from 2015 onwards

Average of Increase in Revenue from 2015 to 2019 is 85% by New Businesses and Area Expansion since 2015



※The numbers in the chart is based on simple summation of subsidiaries revenue which lunched or had M&A after 2015

Source: The Company's results briefing materials

Spreading its wings through strengthening for digital transformation

3. Measures for 2020

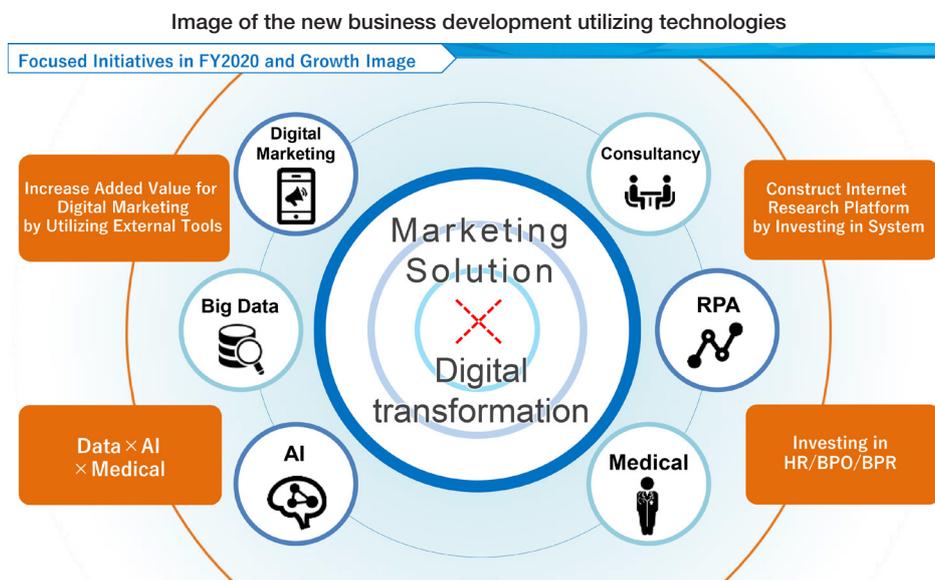
Due to the current rapid spread of IT, there has been a flood of Big Data in various places. In the marketing area also, on the one hand customers have become able to automatically accumulate this data, but on the other hand, they are faced with the major problem of precisely analyzing and managing it. The solution to this problem would seem to be linking at the fastest speeds and in the optimum ways customers' data and the Company's research data, and also integrating marketing solutions and digital transformation. Going forward, it is considered that the Company will take on this new phase and support its customers' marketing on the two axes of marketing solutions and digital transformation.

But on the other hand, the Company itself is receiving opportunities thanks to digital transformation, such as to advance to the next growth stage and reduce costs through automation. For example, Medilead is able to provide high-value added services that are the optimal solutions through not only conducting patient healthcare research, but also through consulting and data science (analysis) in expert fields specializing in pharmaceuticals and providing support for journal articles. Conversely, it is progressing the automation of online research, including utilizing assets on servers and creating questionnaire reports through advanced digitalization, and productivity is expected to improve from the realization of fastest speeds. For these developments, the Company Group is superior to the other major research companies in its industry in the area of system flexibility, and to marketing companies in the area of research functions. Therefore, it is thought that the Company will be able to actually take advantage of the increasing opportunities.

In the IT solutions business, Supotant and Cross J Tech merged and Fittio was established in 2019. Utilizing this new Fittio brand, the Company plans to actively conduct business development and investment in the IT human resources area. Fittio has a comprehensive services website for job seekers with experience in the IT and Internet industries, while it has also established three specialist websites, of staffing according to employment type (general dispatches / introductions, planned dispatches), careers (human resources introductions), and freelance (SES / outsourcing), and the idea is to approach a wide range of human resources. In addition, for fashion-related data, of which there is an abundance on the Internet, its policy is to utilize AI and other technologies and to acquire expertise in various areas, from image analysis through to sales projections, and to develop this expertise as services.

In the promotions business, a synergy, of improvements in the accuracy of promotions, is being created through collaborations with research businesses inside and outside of Japan. However, the Company's policy is to especially strengthen collaborations with external parties in order to further improve functions, so in the digital marketing area, the Company Group has entered-into an external business alliance with XICA CO.,LTD. Centered on XICA Magellan, which is the leading domestic MMM tool, joint services have been launched with Cross Marketing, for a service in which consumer awareness data, of name awareness and levels of preference, are surveyed and data is acquired on a weekly and daily basis, which makes it possible to see the effects on business results of changes in awareness, and with D&M, for a service to use commitment-type Internet advertising management that reduces the cost per acquisition by 10%. MMM tools use statistical analysis techniques to quantitatively measure effects on business results, such as the effects of various market policies on sales, and to conduct optimization and simulations of marketing investment.

Business structure and change of strategy



Source: The Company's results briefing materials

Business trends

Every domestic business continues to perform well

1. FY12/19 results

For FY12/19, the Company reported revenue of ¥18,580mn (+6.2% YoY), operating profit of ¥1,267mn (+32.7%), ordinary profit of ¥1,150mn (+36.9%) and loss attributable to owners of parent of ¥477mn (net profit attributable to owners of parent was ¥507mn in the same period of the previous year).

FY12/19 results

	FY12/18	Ratio (%)	FY12/19	Ratio (%)	Change (%)
Revenue	17,492	100.0%	18,580	100.0%	6.2%
Gross profit	6,430	36.8%	7,164	38.6%	11.4%
SG&A expenses	5,475	31.3%	5,897	31.7%	7.7%
Operating profit	955	5.5%	1,267	6.8%	32.7%
Ordinary profit	840	4.8%	1,150	6.2%	36.9%
Net profit attributable to owners of parent	507	2.9%	-477	-2.6%	-

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

Business trends

Compared to the initial Company forecasts, revenue was ¥1,420mn below forecast, operating profit ¥17mn above forecast, ordinary profit ¥41mn above forecast, and net profit attributable to owners of parent ¥1,047mn below forecast. The reason why revenue was below forecast was that the recording of revenue of scheduled large-scale projects in the Kadence Group was delayed, the reasons why operating profit and ordinary profit were above forecast were that the domestic businesses performed solidly and that cost controls were effective, while the reason why net profit attributable to owners of parent was below forecast was that on considering the delays in recording large-scale projects, the changes to the organizational structure, and the results trends, an impairment loss of ¥1,085mn was recorded as an extraordinary loss in each company in the Kadence Group.

Revenue and profits increased in the IT solutions business and the promotions business

2. FY12/19 results by business segment

In the results by business segment, in the research business, revenue was ¥14,554mn (up 1.8% YoY), and operating profit was ¥2,249mn (up 15.7%); in the IT solutions business, revenue was ¥3,284mn (up 29.2%) and operating profit was ¥274mn (down 6.2%); and in other businesses, revenue was ¥742mn (up 13.0%) and operating profit was ¥106mn (up 80.2%).

FY12/19 results by business segment

	(¥mn)				
Revenue before adjustment	FY12/18	Ratio (%)	FY12/19	Ratio (%)	Change (%)
Research	14,293	81.7%	14,554	78.3%	1.8%
Domestic research	9,551	54.6%	10,132	54.5%	6.1%
Overseas research	4,742	27.1%	4,421	23.8%	-6.8%
IT solutions	2,542	14.5%	3,284	17.7%	29.2%
Other businesses	656	3.8%	742	4.0%	13.0%

Segment profit before adjustment	FY12/18	Profit margin (%)	FY12/19	Profit margin (%)	Change (%)
Research	1,943	13.6%	2,249	15.5%	15.7%
IT solutions	292	11.5%	274	8.3%	-6.2%
Other businesses	59	9.0%	106	14.3%	80.2%

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

In the research business, the Company progressed new customer acquisitions and the deepening of relations with existing customers both domestically and overseas. Domestically, it strengthened the sales structure, centered on the mainstay Cross Marketing, and it developed and provided new services in the areas of digital marketing and Big Data. Orders increased from customers like general business companies and advertising agencies, and the results were solid. In particular, at Medilead, which conducts a medical and healthcare research business, orders rose as it developed and deployed new services and as it actively conducted sales activities, and therefore revenue grew significantly, up 33% YoY. Overseas, while there are bases where results are trending stably, some bases have been reorganized, including in Hong Kong and Vietnam, in response to their respective situations. The good news is that results are bottoming-out and will improve, including that the revenue from some delayed, large-scale projects will be recorded in 4Q.

Business trends

The IT solutions business, in addition to acquiring new customers through actively conducting sales activities, has been able to continuously acquire new orders from existing customers, mainly from the financial services industry in which it specializes. Also, Supotant, which was made a subsidiary, entered the scope of consolidation in November 2018, so revenue trended favorably. However, while this business worked to secure gross profit margins by thoroughly managing development resources and the quality of outsourcing projects, operating profit declined due to the amortization of goodwill for Supotant. For the other businesses, results at D&M, which conducts the promotions business, trended stably, as it strengthened the sales structure through collaborations within the Group and acquired customers, including advertising agencies. In addition, revenue and profits increased significantly for digital marketing, promotions services, and others, through the active acquisition of management-type projects.

The forecasts are for record high earnings, but they are slightly conservative

3. FY12/20 outlook

For the FY12/20 results, the Company is forecasting revenue of ¥19,570mn (up 5.3% YoY), operating profit of ¥1,360mn (up 7.3%), ordinary profit of ¥1,330mn (up 15.7%), and net profit attributable to owners of parent of ¥820mn (up ¥1,297mn).

Forecasts for FY12/20

	FY12/19	Ratio (%)	FY12/20 forecast	Ratio (%)	Change (%)
					(¥mn)
Revenue	18,580	100.0%	19,570	100.0%	5.3%
Operating profit	1,267	6.8%	1,360	6.9%	7.3%
Ordinary profit	1,150	6.2%	1,330	6.8%	15.7%
Net profit attributable to owners of parent	-477	-2.6%	820	4.2%	-

Segment revenue before adjustment	FY12/19	Ratio (%)	FY12/20 forecast	Ratio (%)	Change (%)
Research	14,554	78.3%	15,014	76.7%	3.2%
Domestic research	10,132	54.5%	10,738	54.9%	6.0%
Overseas research	4,421	23.8%	4,276	21.8%	-3.3%
IT solutions	3,284	17.7%	3,554	18.2%	8.2%
Other businesses	742	4.0%	1,002	5.1%	35.1%

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

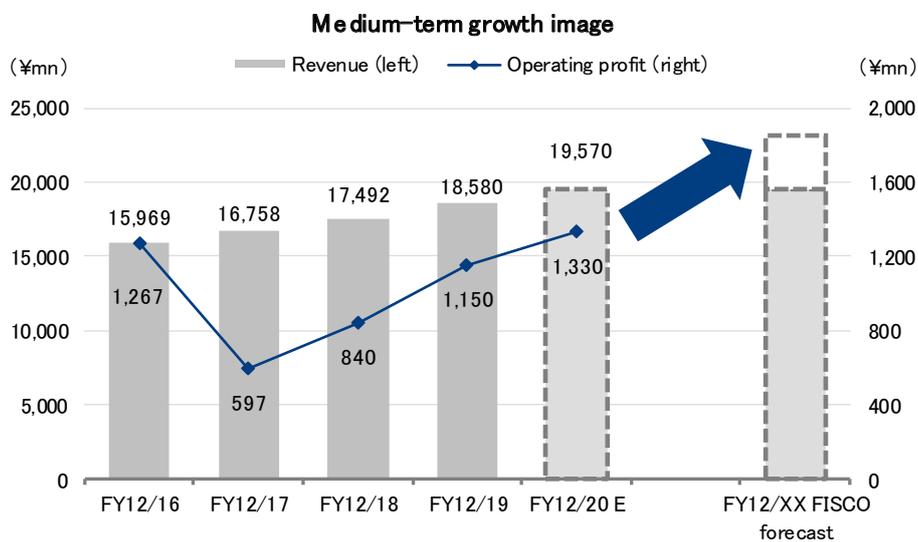
In the mainstay domestic research business, the Company's policy is on the one hand to acquire new customers and deepen relations with existing customers, and on the other hand to invest in systems and to progress BPO (Business Process Outsourcing) and BPR (Business Process Re-engineering) toward improve efficiency and productivity. In the overseas research business, the aim is to secure a certain level of earnings while once again rebuilding the business structure and organization structural to make growth possible for the Kadence Group as a whole. In the digital marketing area, including the IT solutions business, it plans to conduct further active investment. In this way, its policy is to aim to steadily expand the business scope of each business, improve added-value, and build a high productivity business structure, while also recruiting human resources, developing services, and investing alongside digital transformation toward growth in the medium term. That said, profitability in the overseas research business is expected to improve due to the structural reforms up to FY12/19, while the strong performances of the domestic businesses are forecast to continue, so the Company's forecasts seem slightly conservative.

Toward simultaneously growing revenue and improving profitability in the medium-term

4. Medium-term growth image

In the medium-term, in an age that is overflowing with data, it is considered that the Company will support its customers' marketing on the two axes of marketing solutions and digital transformation. In marketing solutions, the analog aspect, such as consulting, tends to be given more emphasis, while conversely, against the backdrop of digitalization that is quickening at an accelerating pace, it seems that failing to keep up with digital transformation could prove fatal. For marketing solutions, the Company is collaborating with companies inside and outside of the Group to pursue synergies, and it is expected that it will further strengthen the spreading of its business wings, from solutions by researching core competencies through to consulting, human-resources dispatches, and services specialized in areas of expertise. For digital transformation also, by thoroughly automating while also having sufficient flexibility, it will increase customer convenience in areas ranging from the preparation of survey questionnaires through to the confirmation of the questionnaire screen and deliveries, and this is also expected to lead to cost reductions for the Company.

The domestic research business is growing steadily, and a round of structural reforms in the overseas research business has been completed. In the IT solutions business also, the growth potential of the promotions business is strengthening. Of course, it seems that upfront investment will be necessary, but it is thought that through marketing solutions and digital transformation, the Company will be able to simultaneously grow and improve profitability in the medium-term, while also entering a new growth stage.



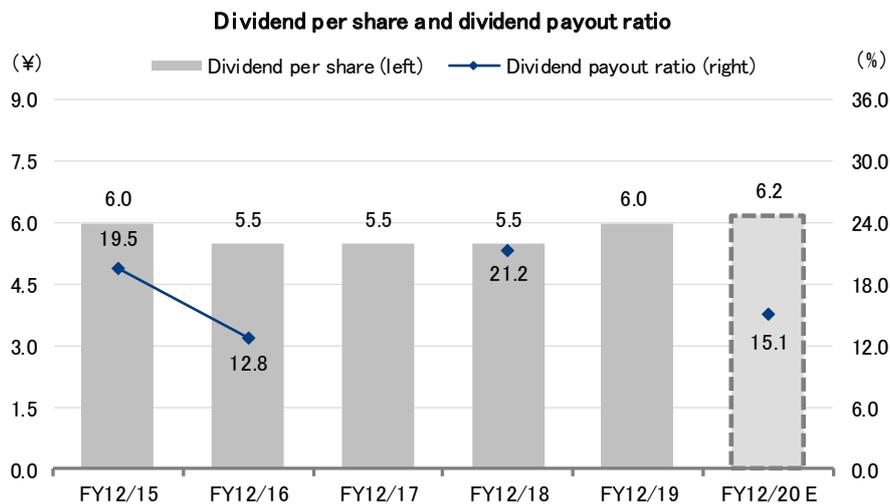
Source: Prepared by FISCO from the Company's materials

Shareholder return policy

Increase in Dividend Planned for FY12/20

The Company is aware that returning profits to shareholders is one of its most important management issues, and its basic policy is to work to return profits to shareholders through paying dividends, while comprehensively taking into consideration factors such as business investment and cash flow conditions. While its basic policy is to stably and continuously return profits to shareholders through dividends, in view of the great demands on capital at the present time and business investment plans for the future, it has decided to pay an annual dividend based on a dividend payout ratio target of roughly 15% of consolidated earnings. The Company basically pays a dividend from surplus twice a year, of an interim dividend and a period-end dividend, and as the decision-making bodies for these dividends, the interim dividend is decided by the Board of Directors and the period-end dividend by the General Meeting of Shareholders. The Company's Article of Incorporation stipulate that "Dividends from surplus can be paid from a resolution of the Board of Directors to those shareholders listed in the final register of shareholders on June 30 of each year and to registered pledgees of shares."

In FY12/19, the Company recorded a net loss attributable to owners of parent, but this was mainly due to a temporary factor, of the impairment of goodwill in the overseas research business. Therefore, it paid an annual dividend per share of ¥6.0 (interim dividend of ¥3.0), which was as initially anticipated. For FY12/20, it is forecast to record net profit attributable to owners of parent and moreover, to achieve record high earnings. Therefore, in accordance with the consolidated dividend payout ratio target of 15%, it plans to pay an annual dividend per share of ¥6.2 (an interim dividend of ¥3.1).



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

■ Information security

The research business collects personal information from those surveyed. Group companies that may come into possession of personal information—including the parent company, UTIL, Inc., D&M, Inc., Research Panel, Inc. and Medilead Inc.—have all been certified as meeting the data privacy standards set forth by JIPDEC (Japan Information Processing and Development Center) for the proper collection, management, and handling of personal information.



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■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: support@fisco.co.jp