

COMPANY RESEARCH AND ANALYSIS REPORT

Hotto Link Inc.

3680

TSE Mothers

25-Oct.-2017

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Index

Summary	01
1. The FY12/17 1H results exceeded forecasts from the higher sales and profits at Effyis	01
2. Results are set to be positive in 2H also and the FY12/17 results are likely to exceed the Company forecasts	01
3. The growth drivers will be sales of social big data and marketing support services	02
Company profile	03
1. Company history.....	03
2. Business description.....	04
3. Hotto Link's strength.....	07
Results trends	08
1. Overview of the FY12/17 1H results.....	08
2. Financial position and financial indicators.....	10
Business outlook	11
1. Outlook for FY12/17.....	11
2. The growth strategy for the future.....	12
Shareholder return policy and business risks	16
1. Shareholder return policy.....	16
2. Business risks.....	16

Hotto Link Inc. | 25-Oct.-2017
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Summary

Business are expected to enter a growth stage from sales of social big data and the expansion of marketing support services

Hotto Link (3680) (hereafter, "the Company") is developing businesses centered on a cloud-based service that provides useful information for corporate marketing strategies and risk management by gathering and analyzing data posted on Twitter, blogs, and other social media. In January 2015, it made a subsidiary of U.S. Effyis, Inc. (hereafter, "Effyis"), which is a major distributor of social big data, and in addition it is currently developing a marketing support service that utilizes word-of-mouth data on a major Chinese social media site. The Company transitioned to International Financial Reporting Standards (IFRS) in FY12/15.

1. The FY12/17 1H results exceeded forecasts from the higher sales and profits at Effyis

In the FY12/17 1H consolidated results, net sales increased 5.6% YoY to ¥1,196mn and operating profit was ¥31mn (compared to a loss of ¥582mn in the same period in the previous fiscal year), which were above both the results in the same period in the previous fiscal year and the Company forecasts. The main factors were that Effyis net sales trended strongly, up 12% YoY, and its profits also improved and it returned to profitability. In addition, Trend PR*, which is a marketing support service for China, made a steady start. Profits greatly improved, mainly because the impairment loss of ¥593mn at Effyis that was recorded in the same period in the previous fiscal year was eliminated. When looking based on EBITDA (operating profit + depreciation and amortization + impairment loss), which excludes the effects of the impairment loss and depreciation and amortization expenses, profits increased 11.8% YoY to ¥215mn. In addition to the effects of the exchange rate on the earnings of Effyis (it was assumed that the rate would be ¥100 to U.S. \$1, but the average rate was ¥112 to \$1), the main reason why the results exceeded the forecasts was that the sales volume for social big data has increased since May 2017 from the new acquisition of the data rights to "reddit," which is one of the world's leading social media sites.

* Trend PR is a service intended for companies that are aiming to expand the sales of their own products to Chinese consumers through proposing and implementing optimal promotions based on analyses of word-of-mouth data on SNS. It utilizes the Company's strength of being able to use the data of a major Chinese SNS provider, and it is attracting increasing attention as it not only makes visible the effects of marketing-related costs, but also it is highly cost effective.

2. Results are set to be positive in 2H also and the FY12/17 results are likely to exceed the Company forecasts

Assuming an exchange rate of ¥100 to \$1 in 2H, the Company has left unchanged its initial forecasts for the FY12/17 consolidated results, or net sales to increase 11.7% YoY to ¥2,443mn and operating profit of ¥29mn. However, at FISCO we think that if the exchange rate trends around ¥110 to \$1, it is highly likely that the results will exceed the forecasts. This is because at Effyis, sales from the acquisition of "reddit" data access rights will be a factor causing results to rise in 2H. In addition, inquiries for Trend PR have been strong, and moreover the Company has not incorporated into its forecasts the contribution of BuzzSpreader, which is a social media management support tool utilizing Instagram, and this will also cause the results to rise. It is possible that expenses will increase to strengthen personnel in order to respond to the active inquiries for Trend PR, but it is expected that this increase will be fully absorbed by the effects of the higher sales.

Hotto Link Inc. | **25-Oct.-2017**
3680 TSE Mothers | <http://www.hottolink.co.jp/>

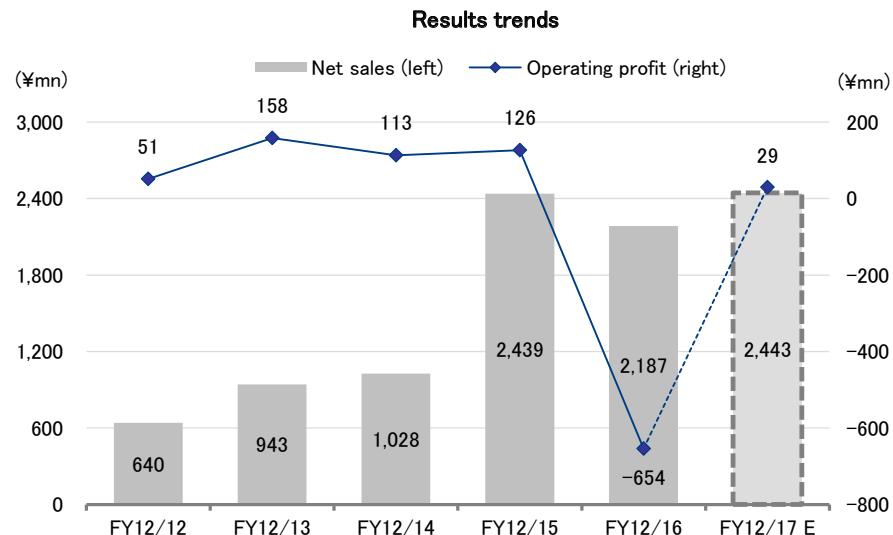
Summary

3. The growth drivers will be sales of social big data and marketing support services

From FY12/18 onwards, results are expected to enter a fully-fledged growth stage. This is because, in the context of the spread around the world of various IT solutions services that utilize social big data, earnings growth is expected for Effyis as it sells the access rights to this big data. In addition, Trend PR is forecast to contribute fully to earnings from FY12/18 onwards. There have been many inquiries for Trend PR from SMEs wanting to expand their sales in China, and but going forward, the Company can be expected to receive orders from major companies as well. It also plans to horizontally develop this service for countries in Asia other than China and to expand its target customers to overseas companies, and the strategy is to advance these steps while utilizing M&A and related measures. In terms of the risk factors, it is necessary to be aware that earnings may be negatively affected in the event that the data distribution of the major Chinese SNS company is regulated by government policies.

Key Points

- Evolving from the provision of marketing support tools utilizing social big data to the development of solutions services
- The FY12/17 results may exceed the Company forecasts due to the continued strong performance of Effyis and the contribution of new services
- Its policy is to provide high-quality marketing support services, both domestically and overseas, through gathering and analyzing social big data from around the world and adding AI technologies



Note: results are consolidated from FY12/13 onwards and based on IFRS standards from FY12/14 onwards.
 Source: Prepared by FISCO from the Company's financial results

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Company profile

From the provision of marketing support tools utilizing social big data to the development of solutions services

1. Company history

The Company was founded in June 2000 by President and Representative Director Koki Uchiyama with a mission of "Establishing the infrastructure for a knowledge-recycling society to contribute to realizing a world in which everyone can feel "hotto" ("hotto" means "relieved" in Japanese), which is where the Company name came from. President Uchiyama has a track record of participating in development of technologies from the very dawn of the Internet market, including participating in the Japan Search Engine Development Project, which was the first Japanese search engine, while at graduate school in 1995.

The Company provided an analysis service based on articles posted on social media, including on individual blogs and 2channel, from the second half of 2000, which was the start of the rapid spread of social media in the Internet industry. Following on from the analysis of blogs in 2005, it acquired the Dentsu Buzz Research Business (analysis of social big data) in 2008 from Gala Buzz Inc., and started in earnest to provide its current mainstay service, the social media analysis tool kuchikomi@kakaricho. Then in 2012, it made a wholly owned subsidiary (by absorption merger) of Gala Buzz, which provides e-mining social risk monitoring services, and added their services to its lineup.

For its social media analysis service, it is necessary to purchase data, such as articles posted on SNS that are held by various social media companies. But in addition to blogs, the Company has concluded official contracts with various operating and data supply companies and thereby obtained the rights to use and sell data on major SNS such as 2channel, Twitter, and SINA Weibo. SINA Weibo is the largest SNS in China, and in June 2014, the Company entered into a business alliance with Effyis of the United States, which is the only company in the world to have acquired a marketing license with full access rights to the data of SINA Weibo, and it has the exclusive sales agency rights for the Asia Pacific region other than China. The Company made Effyis a wholly owned subsidiary in January 2015.

In 2015, when the number of tourists from China visiting Japan rapidly increased, the Company launched Visualized China Trend EXPRESS, which is a regular report on inbound tourism consumption trends from an analysis of word-of-mouth data on SNS. Then, on entering 2017, it launched Trend PR, a marketing support service utilizing social big data for the Chinese market. Also, in June 2016, it released BuzzSpreader, a social media management support tool utilizing Instagram. In these ways, it has been enhancing its service lineup.

Hotto Link Inc. | **25-Oct.-2017**
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Company profile

History

Date	Major event
June 2000	Hotto Link Inc. established in Yoyogi, Shibuya Ward, Tokyo (currently Chiyoda Ward, Tokyo)
November 2005	Became a subsidiary of Opt Inc.
March 2008	Acquired the Dentsu Buzz Research Business (analysis of social big data) from Gala Buzz Inc.
July 2008	Officially launched the social media analysis tool kuchikomi@kakaricho
May 2012	Acquired all shares and made a subsidiary of Gala Buzz Inc. (absorption merger in October 2012), which provides e-mining social risk monitoring services
October 2012	Concluded an exclusive commercial usage licensing agreement for the information posted on the 2channel site with Tokyo Plus, Co., Ltd., which manages the 2channel site, and Mirai Kensakue Brazil, Co., Ltd.
November 2012	Entered into a strategic business alliance with U.S. Gnip, Inc., a provider of social big data (acquired by Twitter in 2014), and acquired the rights to use Twitter data globally and at all times
December 2012	Entered into a capital and business alliance with Salesforce.com, Inc. and Synergy Marketing Inc.
March 2013	Established Hotto Link Consulting Inc. as a consolidated subsidiary
July 2013	Entered into a capital and business alliance with Hitachi Systems, Ltd.
December 2013	Listed on the Tokyo Stock Exchange Mothers market
January 2014	Entered into a strategic business alliance with Netyear Group Corporation
June 2014	Entered into a business alliance with U.S. Effyis, Inc., a social media data distribution company, and acquired exclusive sales agency rights for SINA Weibo in the Asia Pacific region excluding China
July 2014	Entered into a business alliance with PQ Shanghai Co., Ltd., which provides an integrated monitoring service of national brands in China, with the aim of developing and spreading the use of a social media analysis service
January 2015	Made a subsidiary of U.S. Effyis, Inc.
May 2015	Started to provide Visualized China Trend EXPRESS, a regular report specializing in inbound tourism consumption
November 2015	Changed the name of Hotto Link Consulting, Inc. to Trend EXPRESS, Inc. Entered into a business alliance with Nightley Inc.
December 2015	Acquired the shares of PQ Shanghai (ownership ratio: 19%)
June 2016	Established Trend EXPRESS Tianjin Inc. and Hotto Link Hong Kong Limited
August 2016	Subsidiary Trend EXPRESS Tianjin Inc. announced a business alliance with the QQ.com educational channel for video production, and started distribution on "Tencent Video (V.QQ.com)," which is China's largest online video site
October 2016	Trend EXPRESS, Inc. entered into businesses alliances with SINA Japan Synthesis Network Group Co., Ltd., SINA Japan Weibo, Co., Ltd., SINA Japan Property Co., Ltd., and SINA Japan Travel Co., Ltd.
May 2017	U.S. subsidiary Effyis Inc., entered-into a business alliance with U.S. Reddit, Inc., which manages the global social news website "reddit"
June 2017	Released BuzzSpreader, a social media management support services

*1 Will dissolve the capital alliance with U.S. Salesforce.com, Inc., in 2017

*2 Dissolved the capital alliance with Hitachi Systems, Ltd., in 2016

Source: Prepared by FISCO from the Company's website

2. Business description

The Company discloses information on three businesses: SaaS* Business, Solutions Business, and Crossbound Business. The descriptions of each are as follows.

※ SaaS (Software as a Service): A software service in which software is provided to customers over communication networks and they can use the software when needed by accessing the network. It is a stock-type business model that generates recurring revenues from a fixed customer base by gathering monthly usage fees.

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Hotto Link Inc. | 25-Oct.-2017
3680 TSE Mothers <http://www.hottolink.co.jp/>

Company profile

(1) SaaS Business

In this business, the Company provides two services, kuchikomi@kakaricho and e-mining. kuchikomi@kakaricho is an analysis tool utilized to investigate, for example, a company's product development, sales promotion activities, and comparisons with competitors based on social big data gathered from sites including 2channel, Twitter, and various types of blogs. Meanwhile, e-mining is a social risk monitoring tool through which rumors and other information that could damage reputation of goods and services or a brand image in the future are quickly discovered using social big data that has been gathered, enabling effective measures to be created and implemented to deal with the risk before it materializes. The price structure for each of these services consists of an initial registration fee of ¥100,000 and a monthly usage fee, starting from ¥100,000 for kuchikomi@kakaricho and from ¥130,000 for e-mining. The monthly usage fee is calculated based on the number of usable IDs, the number of media subjects to analyze, data capacity, and other factors. Some large corporate customers spend up to ¥1mn a month on usage fees.

The number of corporate subscribers to the two services is over 1,900 on a cumulative basis (over 900 for kuchikomi@kakaricho and over 1,000 for e-mining). Of these, there are currently approximately 500 active corporate subscribers. The industry breakdown shows that the corporate subscribers span a wide range of sectors, from consumer goods manufacturers to the services and finance sectors. Approximately 80% of the corporate users are major corporations.

kuchikomi@kakaricho has the following features. It possesses Japan's largest social media coverage and it is easy to operate and to perform real-time searches, such as trend analysis and attribute analysis. It also has functions such as cross-media analysis spanning television, news websites, and other media, plus a data import analysis function to perform text mining of data held internally by corporate customers (questionnaires, call logs, etc.) Notably, for social media analysis, Hotto Link has a dominant advantage in Japan in terms of the sheer volume of social data it possesses and it covers approximately 90% of all blogs in Japan. In addition, the Company holds all historical data on the 2channel bulletin board site and has entered into a marketing agency agreement with Gnip, Inc., which markets Twitter data worldwide, and it gathers all the data. The kuchikomi@kakaricho tool can be applied promptly to a company's marketing initiatives through real-time features such as trend analysis. For this reason, kuchikomi@kakaricho is being positioned as a support tool that helps to improve return on investment (ROI) for marketing departments.

Meanwhile, e-mining is a tool that automatically gathers data from Twitter, 2channel, and other sources according to preset risk-related keywords and provides alert functions that enable companies to promptly detect any developments of risk. Monitoring covers approximately 2,000 types of media and goes beyond 2channel and Twitter, extending to blogs and various news sites. Each day, e-mining monitors approximately 13 million web pages and reports the search results by category. In particular, recently there has been a notable increase in damage caused by harmful rumors being spread via postings on social media, and e-mining is being adopted primarily by major corporations to address this type of risk.

In addition, in June 2017 the Company newly began providing BuzzSpreader, which is a social media management support tool utilizing Instagram. BuzzSpreader is an API sharing software functions with Instagram and, and uses an AI engine independently developed by the Company to consider the three elements of hashtag usage trends, the input of keywords, and account positioning (strength) to automatically generate hashtags that Instagram users can more easily see, making it easier to raise the level of attention on posted images. It can also carry out various analyses and operations management, and it is service that contributes to improved ROI. Since the launch of this service, the Company has received many inquiries for it, mainly from apparel and food manufacturers, and new contracts are increasing.

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Hotto Link Inc. | 25-Oct.-2017
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(2) Solutions Business

This business is comprised of the social media data sales business of Effyis (brand name: Socialgist), which was made into a subsidiary in January 2015, and the data platform service that provides systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho.

Effyis gathers social big data from sources such as blogs, bulletin boards, Q&A, and review sites worldwide, which it sells to customers that include the world's major IT companies (social big data analysis firms and marketing platforms, as well as business intelligence (BI) and other tool vendors). It is one of the three major social big data distribution and sales companies. Effyis particularly possesses overwhelming strength in collecting social big data in China, as it is the only company in the world to have acquired a marketing license with full access rights to the data of a major Chinese social media. Effyis' main clients include global IT companies like IBM and Salesforce.com, and it also has a track record of selling data to numerous organizations, including financial and government institutions and venture companies. Salesforce.com is its largest customer, believed to account for about 15% of sales.

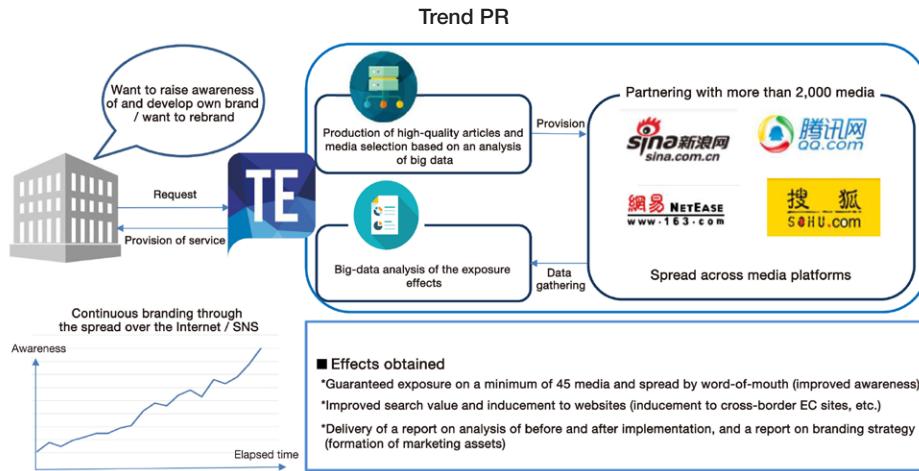
(3) The Crossbound Business

This is the business conducted by the subsidiary Trend Express, Inc. In addition to China Trend Express, which is a regular report service on the consumption trends of Chinese visitors to Japan, and customized research services that are tailored to customer needs, in 2017, Trend PR, which is marketing support service for the Chinese market, was fully launched.

Of these services, China Trend Express is provided for a monthly fee of ¥80,000, while the customized research services start from ¥1 million. In addition, Trend PR is a service that provides highly cost effective marketing support to meet customer needs, of developing name awareness of companies' own products and brands in the Chinese market and thereby expanding sales. Specifically, based on the analysis of social big data in the Chinese market, which is one of the Company's strengths, it turns the PDCA cycle, from the planning and execution of the optimal marketing measures to the subsequent measurement of effects and proposals for improvements, to provides sales support for customers in the Chinese market while improving cost effectiveness. In terms of the marketing measures, they are spread effectively on more than 2,000 media sites that the Company is cooperating with in China, based on the analysis of big data. If seen from the customer side, it makes all the data visible, so it has the advantage of enabling an objective analysis of cost effectiveness and makes it easier to create a budget for promotion measures. The fees for a single order vary according to the order, but it starts providing services from around several million yen. By June 2017, the Company has been providing this marketing support to more than a dozen companies, and each have highly evaluated the service and some have already decided to renew the contract. In terms of customer attributes, many are SMEs that want to conduct effective promotions with only a small budget.

Hotto Link Inc. | **25-Oct.-2017**
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Company profile



Source: The Company's results briefing materials

3. Hotto Link's strength

Hotto Link's strength lies in having established its position as the world's leading social media distribution company through making Effyis a subsidiary. In addition, by combining its world-class big data analysis technologies with Effyis' advanced data streaming technologies, it has put in place a system for providing even more rapid and advanced analysis services.

Moreover, the number of companies providing services to gather and analyze social big data has increased in the last few years, but many of these competitors have not concluded official usage agreements with SNS and only provide services from gathering open data on social media. While gathering data in this way without incurring costs increases the profit margin, the Company thinks it will become difficult to gather data in this way in the future. In fact, in February 2017, U.S. Twitter announced its intention to prohibit the unauthorized gathering of open data, and it also slightly raised the data sales price. This development means that gaps will open up between the competition from the viewpoint of the quality of the content of their services, which at FISCO, we think will prove advantageous for the Company.

Hotto Link Inc. | 25-Oct.-2017
 3680 TSE Mothers | <http://www.hottolink.co.jp/>

Results trends

Higher sales and profits from the recovery of Effyis earnings

1. Overview of the FY12/17 1H results

In the FY12/17 1H consolidated results, net sales increased 5.6% YoY to ¥1,196mn, operating profit was ¥31mn (compared to a loss of ¥582mn in the same period in the previous fiscal year), profit before tax was ¥9mn (a loss of ¥616mn), and profit for the period attributable to owners of the parent was ¥7mn (a loss of ¥603mn), meaning every item was higher than in the same period in the previous fiscal year. A major factor behind the higher profits was the elimination of the Effyis impairment loss of ¥593mn that was recorded in the same period in the previous fiscal year, but even when removing its effects, profits still increased. EBITDA (operating profit + depreciation and amortization + impairment loss) also increased, up 11.8% to ¥215mn. The Company does not release forecasts for the 1H results, but it would seem that both net sales and operating profit exceeded expectations by around ¥100mn. The assumption for the exchange rate was ¥110 to \$1, but in 1H the average rate was ¥112 to \$1, which was a major factor behind the Effyis results exceeding their forecasts.

FY12/17 1H consolidated results

	FY12/16 1H			FY12/17 1H	
	Result	% of sales	Result	% of sales	YoY
Net sales	1,132	-	1,196	-	5.6%
Cost of sales	570	50.4%	630	52.7%	10.5%
SG&A expenses	551	48.7%	534	44.7%	-3.0%
Other income / loss	-592	-	0	0.0%	-
Operating profit	-582	-	31	2.6%	-
Profit before tax	-616	-	9	0.8%	-
Profit for the period	-603	-	7	0.6%	-
EBITDA	192	17.0%	215	18.0%	11.8%

Note: Profit for the period is profit for the period attributable to owners of the parent. EBITDA is operating profit + depreciation and amortization + impairment loss

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

(1) Segment sales by service

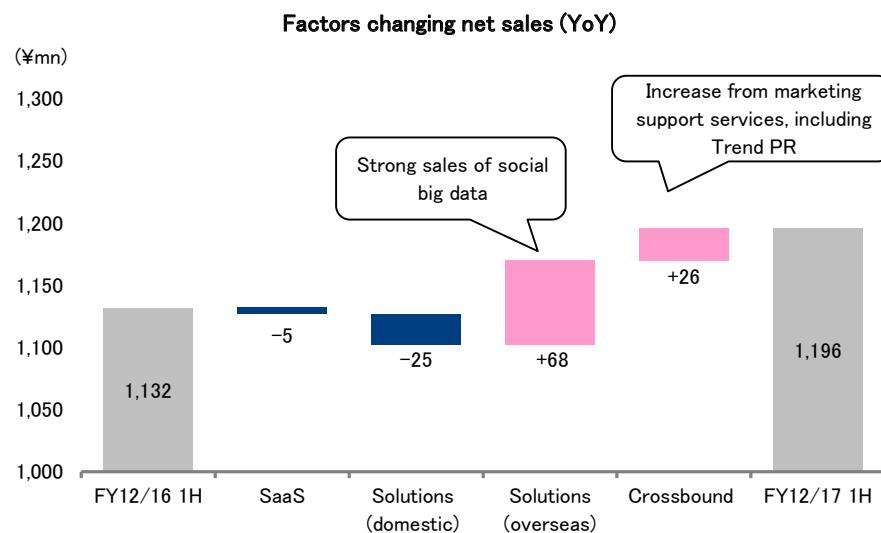
Looking at the trends by business, net sales decreased 1.4% YoY to ¥400mn in the SaaS Business, they trended basically unchanged for "e-mining" services, and they declined slightly for "kuchikomi@kakaricho." This was because of the switch from an in-house server to a cloud server in order to maintain and improve quality, and also because the Company planned its set sales with BuzzSpreader when it was newly released from June 2017, and therefore it refrained from activities to acquire new customers up until May. However, this decline is considered to be temporary. Since its release, there have been many inquiries for BuzzSpreader and the Company is already starting to acquire a track record of contracts with apparel and food-related companies.

Hotto Link Inc. | **25-Oct.-2017**
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Results trends

In the Solutions Business, net sales increased 6.5% YoY to ¥713mn. Within this amount, in overseas sales, Effyis sales of social big data trended strongly, rising ¥68mn. Conversely, domestic sales declined ¥25mn, mainly due to the end of a large-scale project recorded in the same period in the previous fiscal year. The Effyis results would seem to be that net sales increased 12% to ¥650mn and operating profit was ¥50mn (compared to a loss of around ¥30mn in the same period in the previous fiscal year). Sales rose of social big data for the main customers of global IT companies, while another factor behind the higher sales was that from May 2017, the Company concluded a data usage agreement with Reddit, Inc., of the United States and became able to sell the social media data on its “reddit” social news website. “reddit” is one of the world’s leading news websites and has more than 270 million users a month. It has a lot of word-of-mouth information, and the acquisition of the rights to use its social media data is expected to contribute to the value of the Company’s services and its improved competitiveness.

In the Crossbound Business, net sales increased 46.5% YoY to ¥82mn. Sales of “Trend Express,” which is the Crossbound consumption trend analysis report that utilizes social big data, were strong. Other factors behind the higher sales were the smooth starts made by the newly launched marketing support services, including Trend PR. Trend PR has already been ordered by more than a dozen SMEs, mainly cosmetics and daily items companies, and all of them have highly evaluated the service, resulting in renewed contracts.



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

(2) Factors causing profits to change

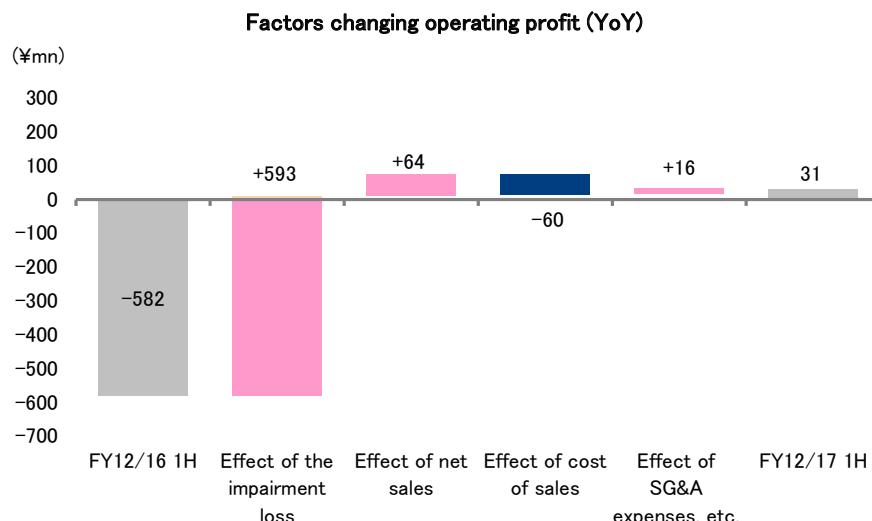
Looking next at the factors causing profitability to change, the factors increasing profits included the elimination of the Effyis impairment loss of ¥593mn, and also the increase in gross profit from the higher sales and the reduction of SG&A expenses and other expenses. SG&A expenses decreased ¥16mn YoY. Breaking this down, although personnel expenses increased ¥23mn in order to strengthen the sales force for the Crossbound Business, there were decreases for sales rights amortization of ¥19mn, the allowance for doubtful accounts of ¥16mn, and R&D expenses of ¥7mn.

The cost-of-sales ratio rose 2.3 percentage points YoY, which was due to factors including the increase in the purchase amount at Effyis, the rise in the price of some social media data, and the expenses arising from the change of server.

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Hotto Link Inc. | 25-Oct.-2017
 3680 TSE Mothers | <http://www.hottolink.co.jp/>

Results trends



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

Made progress in reducing interest-bearing debt and its financial condition continued to improve

2. Financial position and financial indicators

Looking at the Company's financial condition at the end of FY12/17 Q2, total assets were up ¥82mn on the end of the previous fiscal year to ¥4,412mn. Breaking down the main change factors, in current assets, cash and deposits increased ¥136mn, mainly due to the exercise of stock options, while in non-current assets, goodwill decreased ¥75mn from the impact of the exchange rate.

Total liabilities were down ¥143mn on the end of the previous fiscal year to ¥2,295mn, primarily because of a decrease in interest-bearing debt of ¥170mn. Total equity was up ¥226mn on the end of the previous fiscal year to ¥2,116mn. This was mainly from the increases in capital and capital surplus following the exercise of stock options.

Looking at the main financial indicators, the equity ratio, which is an indicator of management stability, has steadily recovered to 48.0% after bottoming-out at 30.8% at the end of FY12/15. Similarly, the interest-bearing debt ratio has also continued to improve to below the 100% level, to 83.6%. The Company's financial condition temporarily worsened when it raised funds from borrowing in order to make a subsidiary of Effyis (January 2015). But it can be said to be steadily improving, including due to the increase in capital on the exercise of stock acquisition rights and the reduction in interest-bearing debt. Its financial condition is also expected to further improve in the future from the expansion in earnings.

Hotto Link Inc. | **25-Oct.-2017**
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Results trends

Consolidated statement of financial position and financial indicators

	FY12/14	FY12/15	FY12/16	FY12/17 1H	(¥mn)
Current assets	2,927	949	1,246	1,378	132
(Cash and deposits)	2,772	611	940	1,077	136
Non-current assets	349	3,796	3,083	3,034	-49
(Goodwill)	197	2,891	2,162	2,086	-75
Net assets	3,276	4,745	4,329	4,412	82
Total liabilities	1,893	3,284	2,439	2,295	-143
(Interest-bearing debt)	1,700	2,730	1,940	1,770	-170
Total equity	1,382	1,461	1,890	2,116	226
(Stability)					
Equity ratio	40.8%	30.8%	43.7%	48.0%	
Interest-bearing debt	122.9%	186.8%	102.7%	83.6%	

Note: Based on IFRS from FY12/15

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

Business outlook

FY12/17 results may exceed the Company forecasts due to the continued strong performance of Effyis and the contributions of new services

1. Outlook for FY12/17

The Company has left unchanged its initial forecasts for the FY12/17 consolidated results, of net sales to increase 11.7% YoY to ¥2,443mn, operating profit of ¥29mn (a loss of ¥654mn in the previous fiscal year), profit before tax of ¥1mn (a loss of ¥671mn), profit for the period attributable to owners of the parent of ¥1mn (a loss of ¥639mn), and also for EBITDA to increase 7.0% to ¥354mn. But in terms of profits, as 1H results have already exceeded their full-year forecasts, and also as the Company assumed an exchange rate for 2H of ¥100 to \$1, at FISCO we think that if the exchange rate continues at its current level, it is highly likely that the results will exceed the forecasts. On entering Q3, Effyis results are continuing to be strong, including due to additional effect of the start of sales of "reddit" data. Moreover, the Company has started to conclude contracts for BuzzSpreader, which it did not incorporate into the forecasts, and this may also contribute to an increase in earnings. Another factor will be that Effyis is working to newly acquire the rights to use social media, which will also add to its results if agreements are concluded during the fiscal period.

FY12/17 consolidated outlook

	FY12/16		FY12/17			(¥mn)
	Result	% of sales	Company target	% of sales	YoY	Rates of progress up to Q2
Net sales	2,187	-	2,443	-	11.7%	49.0%
Operating profit	-654	-	29	1.2%	-	108.2%
Profit before tax	-671	-	1	0.0%	-	954.9%
Profit for the period	-639	-	1	0.0%	-	750.2%
EBITDA	318	14.6%	354	14.5%	7.0%	60.8%

Note: Profit for the period is profit for the period attributable to owners of the parent. EBITDA is operating profit + depreciation and amortization + impairment loss

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

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Business outlook

For the Effyis results, the assumption was that the exchange rate would be ¥100 to \$1, so the forecasts for the full fiscal year were for net sales to increase 5.9% to ¥1,156mn and operating profit of ¥54mn (compared to a loss of ¥40mn in the previous fiscal year). Looking at the progress made up to Q2, it achieved 56% of the net sales forecast and over 90% of the operating profit forecast. The results in 2H will be dependent on the exchange rate, but if it continues at its current level of around ¥110 to \$1, it is highly likely that both net sales and operating profits will exceed their forecasts.

On the other hand, looking at the domestic business, sales are forecast to increase slightly YoY in the SaaS Business, as “kuchikomi@kakaricho” sales are set to recover, while we can also expect them to rise from the new contracts for BuzzSpreader. In the Crossbound Business too, sales are expected to increase greatly, up by 2.5 times YoY, to ¥300mn. Most of this increase will be from the contribution of Trend PR. Inquiries for it have been extremely strong, mainly from local companies, so it would seem that the forecast can be achieved if the sales structure is strengthened. But in profits, it has spent heavily on upfront expenses, including personnel expenses to strengthen the sales structure, and therefore profits are forecast to decline YoY. Currently, Trend Express has some dozen personnel and the intention is to further increase this number in the future. However, in FY12/18, the aim is to increase sales by several times compared to the sales forecast in the Crossbound Business in FY12/17, and therefore it can be expected to contribute to profits from then on.

The Company's policy is to provide high-quality marketing support services, both domestically and overseas, through gathering and analyzing social big data from around the world and adding AI technologies

2. The growth strategy for the future

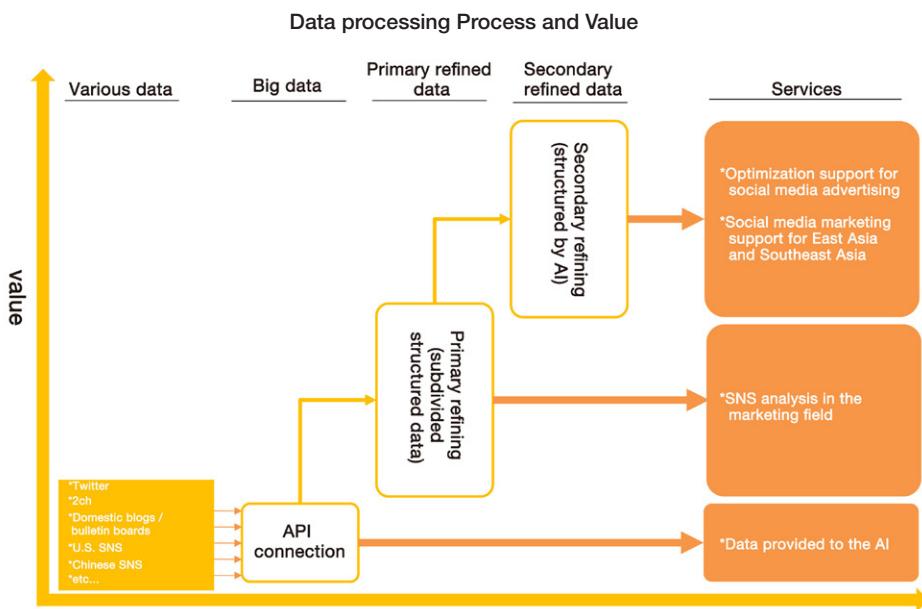
(1) Developing a variety of solutions services domestically and overseas

By making a subsidiary of Effyis, the Company became able to provide a variety of solution services by gathering, analyzing and processing the most social big data from across the world. Going forward, its results are expected to enter a fully-fledged growth stage from it utilizing this strength.

The Company's services can be divided into three levels according to the process. The first is the business of Effyis, which involves the wholesales to global IT companies like IBM and Saleseforce.com of the access rights to the big data it gathers from the various social media. The second is SaaS services like “kuchikomi@kakaricho,” in which the Company subdivides the gathered “social big data” and processes it into structured data, which is used by the customers themselves, such as for marketing analysis. The third is social medium optimization support and marketing support, in which the Company provides solutions services optimized to meet customer needs through utilizing AI technologies for the data that has undergone a primary refinement. In terms of the value added by its services, social media optimization support and marketing support is positioned as adding the most value.

Hotto Link Inc. | **25-Oct.-2017**
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Business outlook



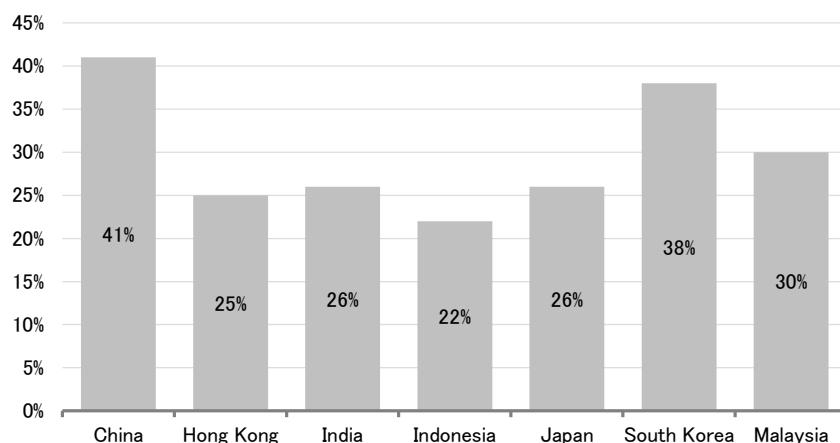
Source: The Company's results briefing materials

Also, a point that can be said to be in common to all services is the question of how much social big data they can gather, and this will be an important factor in determining the quality and the competitiveness of the service. From this viewpoint, it can be said to be hugely significant that the Company made a subsidiary of Effyis, which is one of the world's leading social big data distributors. In China, where word-of-mouth information on SNS is an important source of information when purchasing products, the importance of utilizing social big data within a marketing strategy is particularly great, and the fact that the Company can gather and analyze the data from a major Chinese SNS is its greatest strength. There are many industries that place importance on marketing measures that utilize social media, including the apparel, food and beverages, cosmetics, and daily-items industries. But in addition to these, recently other industries, like housing, education, and the amusement industries, have also started to strengthen these measures, and so the Company's target customer groups are expected to widen in the future.

Hotto Link Inc. | 25-Oct.-2017
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Business outlook

The percentage of consumers who check online, word-of-mouth information when purchasing a product



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

Looking by customers and by regional strategy, the Company is currently targeting Japanese customers for its SaaS Business and Crossbound Business, but in the future, it is considering developing overseas companies as customers as well. In fact, the inquiries about BuzzSpreader that utilizes Instagram, which is one of the world's leading social media sites, have included those from overseas companies. Its marketing support services are currently for Japanese companies that are targeting the Chinese market, but in the future, it intends to expand the target regions to not just China, but to neighboring countries, like South Korea, Taiwan and other countries in South East Asia. It is also looking to provide the same services to overseas companies. In the event it provides services to overseas companies, Japan will also be added to the target markets. When developing its business in other countries, the Company's strategy is to advance into them while utilizing capital and business alliances and conducting M&As for local social big data distribution companies, analysis companies, and other such companies. At the present time, it is receiving many inquiries for the Chinese market and therefore it is prioritizing its marketing support services business for this market, but it is considering developing its business for neighboring countries in the future.

(2) The conditions of the new services

Currently, the number of contracts for BuzzSpreader is starting to increase, mainly from apparel and food manufacturers. One of the features of this service is that it uses machine-learning technologies for the automatic generation of optimal hashtags and for a recommendation function, and the accuracy of these functions improves as data is accumulated. Therefore, the number of contracts is expected to grow as the client companies use it and their ROI (return on investment) improves.

In terms of the image of BuzzSpreader in the future, it is considered that the Company will provide an integrated, comprehensive support service that is required for social marketing, of content analysis, advertising optimization, and account management, not just for Instagram, but for all of the main SNS, like twitter, and it is developing the service toward becoming this image. If it is able to provide such a service, we can expect sales in the SaaS Business, which have slumped in the last few years, to change direction and start to grow once again.

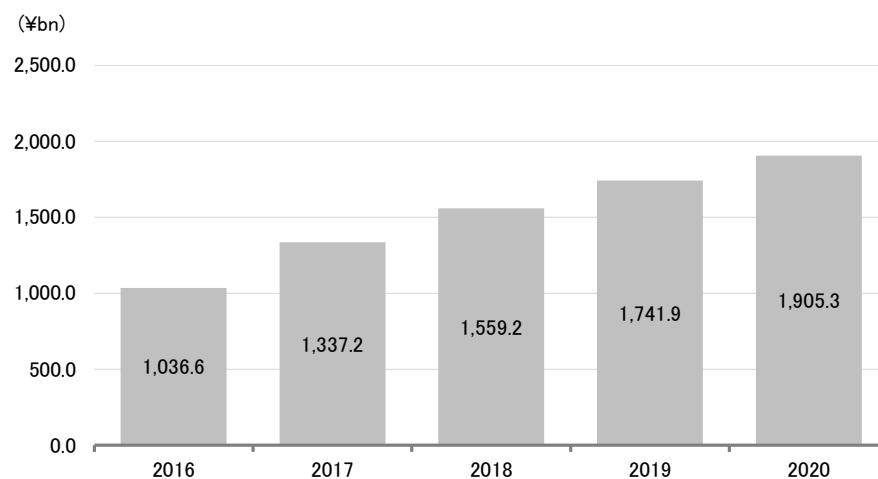
Hotto Link Inc. | 25-Oct.-2017
3680 TSE Mothers | <http://www.hottolink.co.jp/>

Business outlook

Trend PR is also attracting attention as a business with high growth potential for the future. Since the full launch of this service, its more than one dozen customer companies have conducted promotion measures and it has proved to be highly effective for all of them, and some have already decided to renew their contract. Awareness is spreading of the Company's services as measures for highly effective marketing in the Chinese market. In particular, the seminars it holds in regional areas are always popular and inquiries from the SMEs participating in them are increasing. As its services makes it possible to see ROI and there are specific examples of past successes, it seems that the responsible persons at the potential customers are more easily able to propose a budget for these marketing measures to their management team, which is serving to strengthen inquiries. The current situation is of a bottleneck in sales resources to the extent that the Company is unable to respond to all of the inquiries it is receiving. Therefore, for the time being, its policy is to actively recruit sales personnel.

According to a survey report by the Ministry of Economy, Trade and Industry, the value of cross-border distribution from Japan to China is forecast to grow at an annual rate of 16%, from ¥1.03 trillion in 2016 to ¥1.9 trillion in 2020. As they are marketing measures to effectively expand sales of companies' own products in this growth market, the Company's services, which provide optimized promotion measures based on an analysis of social big data, are forecast to enter a stage of fully-fledged growth from FY12/18 onwards. At FISCO, we think that these services will develop to become one of its earnings pillars in the next few years.

The value of cross-border distribution from Japan to China



Source: prepared by FISCO from the Ministry of Economy, Trade and Industry's "Market research on e-commerce" report (April 24, 2017)

Hotto Link Inc. | 25-Oct.-2017
3680 TSE Mothers | <http://www.hottolink.co.jp/>

■ Shareholder return policy and business risks

Still in the upfront investment period, so payment of dividends is not planned

1. Shareholder return policy

Regarding the return of profits to shareholders, Hotto Link plans to pay dividends to shareholders in the future. However, it considers that it is still currently in the upfront investment period where it should actively allocate funds primarily to investment in businesses and to the recruitment and training of talent. Accordingly, the same as in the previous fiscal year, the Company does not plan to pay a dividend in FY12/17.

2. Business risks

Looking at business risks, changes in management policy by companies from which Hotto Link purchases social media data could lead to cancellations of current license agreements or changes in government policies or the like make conceivable the idea that social media data cannot be delivered and this could have an impact on the Company's financial results. That said, looking only at its relationships with the companies Hotto Link buys from, it already has many corporate customers in Japan. Furthermore, the amount of data purchased is expected to continue to increase in the future, including from the growth of the Crossbound Business. Therefore, at FISCO, we believe that the likelihood that license agreements will be cancelled is extremely low.

Also, due to the growth in the results of Effyis, the percentage of sales from overseas in the FY12/17 1H results reached a level of more than 50%, and should the yen strengthen, there is the risk that Effyis results will be reduced when converted into yen.



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