

Hotto Link Inc.

3680

TSE Mothers

21-May-2020

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

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Summary

Aiming for strong medium-term growth in marketing-support services utilizing social big data

Hotto Link Inc. <3680> (hereafter, also “the Company”) is an IT company that conducts development and sales, including for analysis tools and marketing-support services that utilize social media data. Its subsidiaries are U.S.-based Effyis, Inc. which sells data access rights to major social media, and Trend EXPRESS Inc., which is developing services targeting the Chinese market, including Trend PR*1, a Web promotion-support service, and Cross-border EC X (cross)*2, a cross-border EC service to China.

*1 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 analysis 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 distinctive that it not only makes visible the effects of marketing-related costs, but also it is highly cost effective.

*2 Cross-border EC X is the Company’s one-stop service to support customers, from customer acquisition through to distribution, through promotions measures that utilize about 450,000 social buyers between Japan and China, the leading stores on the major EC mall Taobao, and the leading KOL.

1. Overview of the FY12/19 results

In the FY12/19 consolidated results, net sales increased 14.0% year-on-year (YoY) to ¥3,695mn, marking a record high. This result was due to the strong performance by both the domestic SNS advertising/SNS management consulting service and the Crossbound Business, which centers on the promotion-support service in China. Conversely, the Company recorded an operating loss of ¥1,699mn (compared to operating profit of ¥328mn in the previous fiscal year), which was the first operating loss in three years. The main reasons for this were the rise in data costs in the SaaS Business, rising personnel costs accompanying the growth of the Crossbound Business, a deterioration in profits in the data access rights sales business, and the booking of an impairment loss (¥759mn) on goodwill related to Effyis.

2. FY12/20 outlook

For FY12/20, the Company has put off releasing its outlook for business results due to the uncertain business impact of the novel coronavirus, and the Company plans to announce its outlook when it can make reasonable forecasts. As Company-specific business plans, the Company will focus on the SNS advertising/SNS management consulting business, which has high potential demand, and will work to improve productivity by utilizing the AI-powered tools it has developed on its own. With regard to Effyis, in addition to the effects of implementing business structural reforms such as personnel reductions, it expects to become profitable by commercializing new data processing services and dark web* data. In addition, Trend EXPRESS will continue to invest aggressively, including developing new products, enhancing manpower (mainly in China), and accelerating the cross-border e-commerce business, aiming to achieve an operating profit in 2021 and beyond.

* The dark web refers to websites that cannot be found by ordinary search engines such as Google, and cannot be viewed by ordinary web browsers such as Chrome, Firefox, and Safari. The dark web is often used by criminal organizations and other nefarious entities.

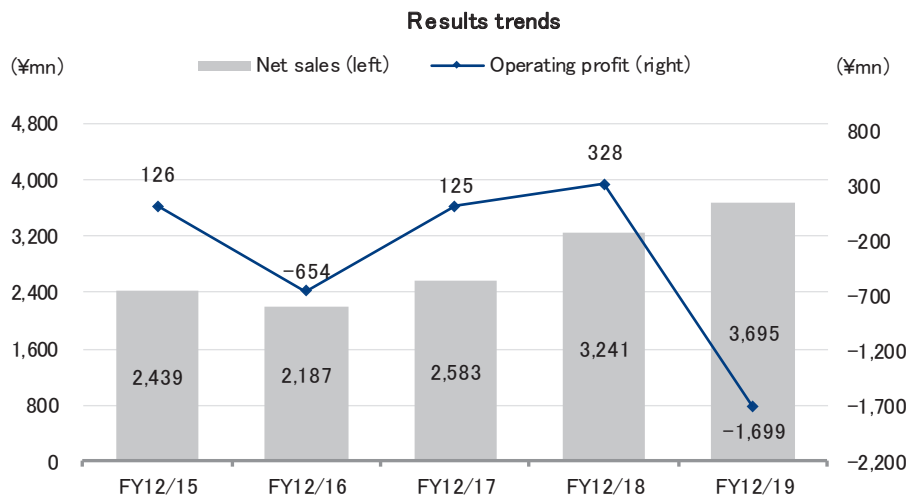
Summary

3. Growth strategy

The Company has the strengths of having “global scale data access rights” and “data analysis technologies” that it has independently cultivated, and sets out a strategy of aiming for business expansion in the data utilization area by organically combining its portfolio of multiple businesses. Promotions using social media are highly cost-effective, so high growth is expected in the future, and there are significant business opportunities in this area. In the Japanese market, the Company, and in the Chinese market, Trend EXPRESS, will pursue growth by bolstering their respective brand strength in the field of social media data utilization. In addition, Effyis, which sells SNS data access rights, aims to grow globally as a DaaS (Data as a Service) company. In the short term, the spread of the novel coronavirus is a risk factor, but the business base for medium- to long-term growth has steadily improved, so future developments will be watched carefully.

Key Points

- Expanding from social big data collection and analytical tools into utilization support solution services
- In FY12/19, the Company posted an operating loss due to the deterioration in profits at Effyis and the booking of an impairment loss, but net sales were a record high once again
- In FY12/20, the Company is aiming for growth in the SNS marketing-support business targeting Japan and China



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

■ Company profile

Expanding from social big data collection and analytical tools into utilization support solution 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).” Mr. Uchiyama has been involved with development of technology from the beginning of the Internet market, including participation in the Japan Search Engine Development Project, one of Japan’s earliest search engines, while in graduate school in 1995.

The Company provided an analysis service based on articles posted on social media, including on personal blogs and 2channel, from the second half of 2000s, 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 it started in earnest to provide its current mainstay service, the social media analysis tool BuzzSpreader powered by kuchikomi@kakaricho (kuchikomi@kakaricho).

In 2012, the Company made the e-mining social risk monitoring service Gala Buzz into a wholly-owned subsidiary, merging it in the same year and adding services to its lineup. However, in October 2018, the risk management-related businesses centered on this service were transferred to Relief Sign Co., Ltd., through a company split, and in December of the same year, the majority of its shares were sold to S. Front Inc. (the investment ratio after the sale of shares became 34%, and became an equity method affiliate).

As the Company had solidified its policy of developing its business centered on the “social and big data × marketing” area, it established Hotto Link Consulting (currently Trend EXPRESS) in 2013 and made a subsidiary of Effyis, which is a major social media distribution company that has access rights to the social data of major SNS and conduct sales in 2015 and has constructed a business foundation overseas. Also, as the number of tourists from China visiting Japan has been rapidly increasing, Trend EXPRESS (investment ratio, 57.3%) launched China Trend EXPRESS, which is a regular reporting service on inbound tourism consumption trends based on analysis of word-of mouth data (i.e., postings) from SNS in 2015. Since 2017, the Company has been successively launching services including Trend PR, a web promotion support service in the Chinese market and Cross-border EC X, a cross-border EC service for China, focusing on expanding business targeting the Chinese market. In January 2020, to further strengthen business development in the Chinese market, Trend EXPRESS’s Chinese subsidiary and business partner Husen (Shanghai) Commerce Consulting Co., Ltd. were merged to form Trend Express China as a new, wholly-owned subsidiary of Trend EXPRESS.

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Company profile

Company 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 Kensaku 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
March 2013	Established Hotto Link Consulting Inc. as a consolidated subsidiary
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 Effyis, Inc., a U.S. social media data distribution company and acquired exclusive agency rights for Sina Weibo in the Asia-Pacific, 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
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	Commenced sales of BuzzSpreader, a social media management support service
April 2018	Trend EXPRESS Inc., started providing Cross-border EC X, a cross-border EC support service for China
October 2018	The risk management-related businesses centered on "e-mining" were succeeded by Relief Sign Co., Ltd. through a company split, and the majority of its shares were sold in December 2018 and it became an equity method affiliate (investment ratio, 34%).
February 2019	Trend EXPRESS Inc., started providing Trend MOVIE as a new service
March 2019	Started a blockchain R&D project and as the first phase, concluded an investment agreement with SAMURAI Security Inc.
August 2019	Renamed the social media analysis tool kuchikomi@kakaricho to BuzzSpreader powered by kuchikomi@kakaricho
November 2019	Entered into a business tie-up with a dot co.,Ltd., and began providing SNS GROWTH PARTNER, a service which contributes to SNS growth

Source: Prepared by FISCO from the Company's website and press releases

The Company divides its businesses into three segments, the SaaS Business, the Solutions Business, and the Crossbound Business

2. Business description

The Company divides its businesses into three segments, the SaaS Business, the Solutions Business, and the Crossbound Business. These businesses are conducted by the Company and its three subsidiaries (Effyis, Trend EXPRESS, Trend Express China). The descriptions of each business are below.

Company profile

(1) SaaS Business

In the SaaS Business, kuchikomi@kakaricho is the main service. kuchikomi@kakaricho is an analysis tool that, based on social big data gathered from sites including 5channel, Twitter, and various types of blogs, is applied to items such as surveys for a company's product development, sales promotion activities, and comparisons with competitors. The initial installation fee is ¥100,000 and the monthly usage fee starts at ¥130,000, which is calculated based on the number of user IDs, the number of media subjects to analyze, the data volume, and other factors, and some large users spend around ¥1mn a month on usage fees. It has been introduced by more than 1,000 companies in total, and of these, approximately 300 are active corporate subscribers. It has also been introduced by companies in a wide range of industries, including consumer-goods manufacturers, service and finance industries, and approximately 80% of the companies using it are large scale.

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, the Company 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 5channel bulletin board site and gathers worldwide Twitter data based on the agreements it has entered with these partners. The tool can be applied promptly to a company's marketing initiatives through real-time features such as trend analysis.

(2) Solutions Business

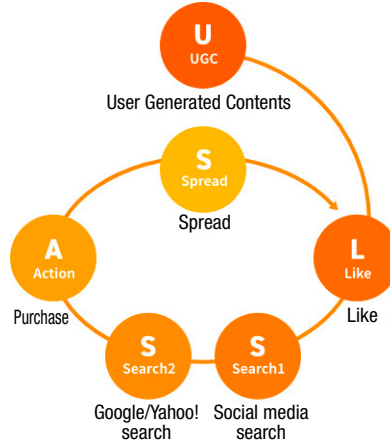
The Solutions Business comprises the SNS marketing-support business offered in Japan by the Company and the social media data access rights sales business carried out by Effyis (brand name: Socialgist).

In the SNS marketing-support business, the Company has a data platform service (OEM provision) of data and analytical engines which comprise kuchikomi@kakaricho that it provides to Sler and others, and a marketing-support service (SNS advertising sales and consulting service) primarily utilizing Twitter, and is currently focusing on the latter's business. This is because the Company has operational know-how for highly cost-effective promotions, and there is a high level of demand for consulting with respect to these kinds of promotions.

As a promotional measure using SNS, the Company is systemizing the purchasing-behavior process of consumers as ULSSAS. Specifically, with UGC (User Generated Content, such as word-of-mouth reviews by users) as the starting point, as a process with a series of steps of Like → Search 1 (search on SNS) → Search 2 (search in a search engine) → Action (purchase) → Spread, realizing "increases in sales" of its customer companies' products by cycling this process. The know-how to create this cyclical process is viewed as important. Advertising sales account for the majority of sales, but the profit margin is low, and the business model is one that seeks to earn profits via consulting services.

Company profile

ULSSAS, an SNS era purchasing-behavior process



Source: The Company's website

On the other hand, Effyis is a major social big data distribution and sales company that gathers big data from sources such as blogs, bulletin boards, Q&A, and review sites worldwide, which it sells to customers that include global IT companies (social big data analysis firms and marketing platforms, as well as business intelligence (BI) and other tool vendors). With the exception of Twitter, it is the largest major corporation to handle data on leading public SNS platforms in the world. Effyis' main clients include Salesforce.com (CRM) and IBM (IBM), and it also has a track record of selling data to numerous organizations, including financial and government institutions, and venture companies that provide the SaaS Business.

(3) Crossbound Business

This is the business conducted by the subsidiary Trend EXPRESS. In addition to China Trend EXPRESS (a monthly fee of ¥80,000), 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 June 2017, Trend PR, which is a web promotion support service for the Chinese market, was launched. This was followed in December 2017 by the launch of Cross-border EC X, a service for cross-border ecommerce sales to China.

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 (creating online articles that are attractive to Chinese people and optimal exposure to web media) and execution of the optimal marketing measures to the subsequent measurement of effects and proposals for improvements, to help customers increase sales in the Chinese market. If seen from the customer side, it makes all the data visible, so it is clearly cost effective and makes it easier to create a budget for promotion measures. The fees for a single order (single PDCA cycle) vary according to the order, but the average is around ¥3mn to ¥5mn. Many clients are B2C companies such as cosmetics, daily goods, and healthcare product manufacturers.

Company profile

On the other hand, Cross-border EC X is a service that effectively improves name recognition and realizes higher sales in the Chinese market through partnerships, including with the leading stores that have opened on Taobao, which is a major EC site; the individual stores of key opinion leaders (KOL); and Weidian, which is a network of about 70 million social buyers including those operating about 450,000 stores between Japan and China. It provides one-stop service from customer acquisition, through to customer support. The business model is that the Company obtains performed-based fees according to the sales of the targeted product. Therefore, if the targeted product becomes a major hit and its sales explode during the promotions period, its contribution to earnings also increases.

The Company's strength is having built one of the world's largest platforms for collecting, analyzing, and utilizing social media data

3. Hotto Link's strength

The Company's strength lies in having established its position as one of the world's leading social media distribution companies 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 as well as for developing solution services that utilize big data by gathering and analyzing it.

There are many competitor companies providing services to collect and analyze social big data, but within them, quite a few provide a service to crawl and collect only social media open data. 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, Twitter announced its intention to prohibit the unauthorized gathering of open data, while Facebook also prohibits the external sale of data. In Europe, the handling of personal information is becoming more strictly regulated by the introduction of GDPR*. Due to these changes to the market environment, in the future the value of social media data is expected to increase even more. From the viewpoint of the quality of services, these series of developments signify that a gap will open up between the Company and its competitors. Considering that Effyis, which holds data access rights to major social media platforms around the world, is a subsidiary of the Company, at FISCO we think recent developments will be advantageous for the Company.

* GDPR (General Data Protection Regulation): a law that regulates the protection of personal information within the EU that was adopted by the European Parliament and the European Council in April 2016. After a two-year transition period, it started being applied from May 2018.

Results trends

In FY12/19, the Company posted an operating loss due to the deterioration in profits at Effyis and the booking of an impairment loss, but net sales were a record high once again

1. Overview of the FY12/19 results

In the FY12/19 consolidated results, net sales increased 14.0% YoY to ¥3,965mn, the operating loss was ¥1,699mn (compared to a profit of ¥328mn in the previous fiscal year), the loss before tax was ¥1,707mn (profit of ¥305mn), and the loss for the period attributable to owners of the parent was ¥1,634mn (profit of ¥111mn). Net sales were higher for the third consecutive year, and a record high, but the Company posted a loss for the first time in three years.

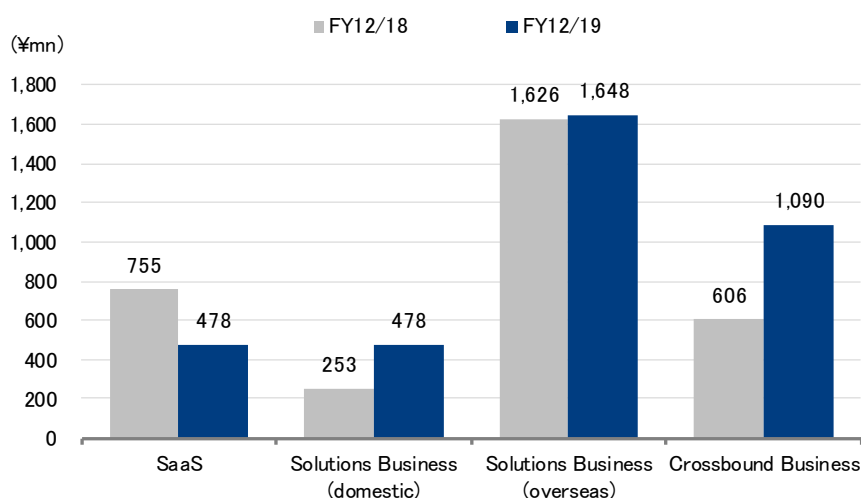
FY12/19 results (consolidated)

	FY12/18		Company plans	FY12/19		
	Results	% of sales		Results	% of sales	YoY
Net sales	3,241	-	3,519	3,695	-	14.0%
Gross profit	1,328	41.0%	-	1,113	30.1%	-16.2%
SG&A expenses	1,382	42.7%	-	1,895	51.3%	37.1%
Other expenses and earnings	382	11.8%	-	-917	-24.8%	-
Operating profit	328	10.1%	-1,533	-1,699	-46.0%	-
Profit before tax	305	9.4%	-1,561	-1,707	-46.2%	-
Profit for the period attributable to owners of the parent	111	3.4%	-1,500	-1,634	-44.2%	-
EBITDA	704	21.7%	-	-273	-7.4%	-

Note: Company plans refer to forecasts announced in November 2019.

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

Sales by segment



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

Results trends

Looking at the changes in sales by segment, in the SaaS Business, sales declined ¥228mn due to the impact of the transfer of the e-mining business in December 2018, but sales were strong in both the domestic SNS advertising/management consulting business (+¥224mn) and the Crossbound Business (+¥484mn) and slightly exceeded the Company's forecast. Conversely, profits deteriorated considerably. Factors included the deterioration in Effyis' profits, the posting of an associated impairment loss (¥759mn), the increase in strategic investment in growth in the Crossbound Business, the posting of a loss on retirement of software assets (¥183mn) in conjunction with stopping external sales of some BuzzSpreader functions, and the non-recurrence of the gain on the sale of e-mining (¥378mn) posted in December 2018.

The cost of sales increased ¥670mn YoY. The factors for this included a ¥101mn increase in the cost of sales in the SaaS Business due to the rise in data costs and in conjunction with the increase in sales in the SNS advertising/management consulting business, the ¥375mn increase in cost of sales in association with the rise in sales in the Crossbound Business, and the ¥193mn increase in cost of sales resulting from the change in the sales mix in the data access rights sales business (increase in the ratio of data with high cost of sales ratios) and the increase in new market development costs.

Meanwhile, SG&A expenses increased ¥513mn. Of this increase, ¥108mn was due to increases in personnel expenses, business outsourcing expenses, and depreciation costs in the SaaS Business and the SNS advertising/management consulting business, ¥234mn was due to increases in personnel expenses and business outsourcing expenses associated with business expansion in the Crossbound Business, ¥101mn was due to increases in personnel expenses and business outsourcing expenses in order to develop new markets in the data access rights sales business, while ¥43mn was the result of carrying over loan loss reserves in conjunction with the deterioration of the market.

At the end of FY12/19, the Company had 70 employees (+11 YoY), Trend EXPRESS had 45 employees (+17), while Effyis had 48 employees (+4). Effyis added employees during the fiscal year, but carried out business structural reforms towards the end of the fiscal year, so the number of employees at the end of FY12/19 was 10 lower than the peak number during the fiscal year.

Marketing support service utilizing SNS achieved high growth worldwide

2. Trends by business segment

(1) SaaS Business

In the SaaS Business, net sales decreased 36.7% YoY to ¥478mn. The transfer of the e-mining business caused sales to decline ¥228mn, and sales declined only approximately 9% YoY if you look at kuchikomi@kakaricho only. Competition in the social listening tool market is intensifying, and demand is becoming bipolarized, with a low price point in the range of a few dozen thousand yen per month, and a high price point in the range of a few hundred thousand yen per month. Amid this trend, the number of contracts held by the Company, which provides service in the middle price point range, fell slightly, resulting in a decline in sales. However, looking at net sales on a quarterly basis, sales bottomed out at ¥111mn in Q2 FY12/19 and then increased to ¥118mn in Q4 FY12/19, so signs of a modest recovery have emerged.

Results trends

The Company has not disclosed profits for the SaaS Business, but it appears that the impact of the price increases of Twitter data was significant, resulting in a decline in profits. Meanwhile, Relief Sign Co., Ltd. (the company to which the e-mining business was transferred) has become an equity method affiliate (34% ownership stake), and in FY12/19 the Company posted ¥18mn of equity-method income as non-operating profit.

(2) Solutions Business

In the Solutions Business, net sales increased 13.2% YoY to ¥2,126mn. Of this amount, sales in Japan of the SNS advertising/SNS management consulting service increased 88.6% to ¥478mn, while the number of contracts also grew significantly, by 3.2x. As the number of companies utilizing social media as a promotional tool increases, the strong performance was aided by proactive initiatives to bolster the marketing system based on the strengths of its extensive track record and operational know-how, and client development efforts. The customer repeat rate is high, and there seems to be progress with cultivating national brands as customers, so it appears that the increase in sales led to an increase in profits as well.

Net sales of data access rights to various SNS by Effyis increased just 1.4% YoY to ¥1,648mn. The market for social media data access rights had been growing at a double-digit annual rate, but Facebook stopped data sales from 2018, while GDPR regulations (privacy protection regulations) also began being enforced in 2018, leading to data access rights being a paid-for and expensive service. This trend led to the flattening out of sales. SaaS companies that utilize social data have been hurt by the higher costs of data usage, and this has led to some companies suspending service or merging with industry peers, against a backdrop of a spread in this trend.

On the profits front, in addition to sluggish sales, the increase in the sales ratio of high cost-of-sales-ratio data, higher development, personnel, and business outsourcing expenses in order to develop new markets (such as the finance market) in order to recover profits, as well as the posting of ¥43mn in bad loan reserves, along with other factors, led to an operating loss for the first time in three years, which appears to have had a negative impact of ¥260mn YoY. In addition, as a result of posting this loss, the Company posted an impairment loss of ¥759mn (goodwill balance is ¥1,071mn).

In order to rebuild Effyis' earnings, the Company has been carrying out business restructuring since October 2019 (reduction of development and outsourcing costs accompanying the suspension of unprofitable projects, reduction of personnel hired for new market development, etc.) In December 2019, the Company's Chairman Koki Uchiyama took over as CEO, and revealed that the Company aims to return to profitability in FY12/20 under the new management regime. At FISCO, we believe that stricter regulation of personal information management on the Internet is a positive trend for Effyis, which holds legitimate data access rights, and this will help to improve Effyis' competitiveness of over the medium to long term.

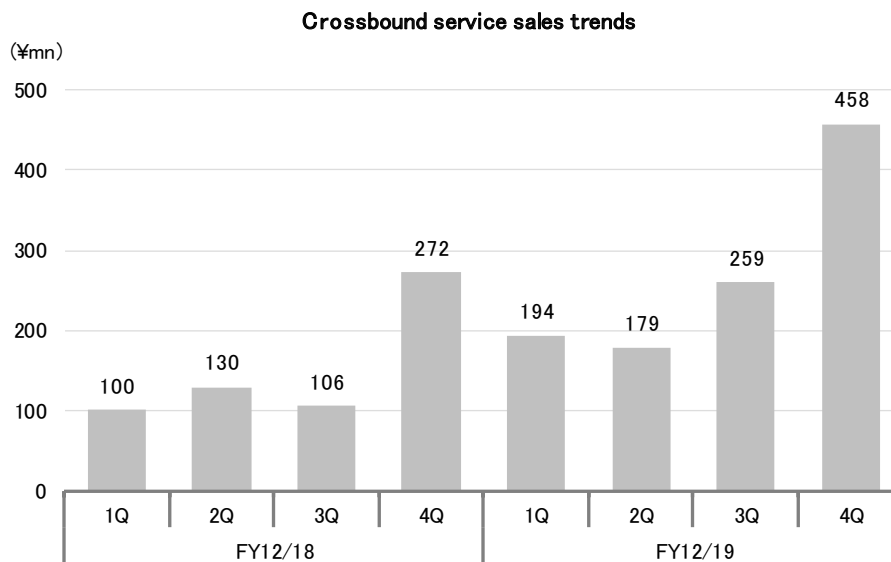
(3) Crossbound Business

In the Crossbound Business, net sales increased significantly, up 79.8% YoY to ¥1,090mn. A key reason for this was the considerable growth in sales of Trend PR, a promotion support service for Japanese companies entering the China market. Sales also grew steadily on a quarterly basis, suggesting that the effects of strategic investments such as strengthening the marketing system have emerged. Regarding other services, while reporting sales continued to be strong, cross-border EC X sales appear to have fallen short of initial expectations. Although the operational issues, such as customs procedures, have been resolved, the inability of Japanese companies' EC shops to flexibly change selling prices seems to have led to struggling sales.

In terms of profits, gross profit increased ¥109mn YoY due to the increase in sales. However, SG&A expenses increased ¥234mn due to the increase in personnel and business outsourcing expenses in conjunction with business expansion. It appears that the operating loss increased by ¥125mn YoY.

Results trends

Concerning Trend EXPRESS, a capital increase via third-party allotment (¥79mn) to NTT DOCOMO Ventures, Inc. was carried out in December 2019. Going forward, Trend EXPRESS will start providing and linking its social big data analysis services in the Greater China region to the NTT Group’s inbound and big data-related businesses. This capital increase resulted in the Company’s ownership ratio in Trend EXPRESS falling from 75.7% to 57.3%.



Source: Prepared by FISCO from the Company’s securities report and quarterly securities report

(4) Seed Investment in Long-Term Business

The Company has an annual investment budget of ¥100mn which it uses to explore the possibilities of new services and businesses using blockchain technology, in order to increase corporate value over the medium to long term. In March 2019, the Company invested in sports support tech company SAMURAI Security Inc., while in 4Q FY12/19 the Company invested in a Los Angeles (U.S.) blockchain fund specializing in cryptocurrencies, thereby attaining opportunities to collect information and contacts related to influential venture companies around the world as well as technologies and businesses. In addition, in 4Q FY12/19, the Company invested in a Myanmar web portal company in order to gather information for entering the Southeast Asian market. In addition, the third phase of the University of Tokyo’s Endowed Chair for Blockchain Innovation, which the Company has been participating in since November 2018, started in October 2019, and talented human resources from various fields have been gathering.

* This company is developing fan engagement platforms for sports business to connect sports teams, athletes, and fans, leveraging the Yell system, a local currency in Toyama Prefecture that uses blockchain technology to economically connect the local community and people with ties to the community, and the know-how to develop engagement platforms to promote the use of local currencies.

Results trends

Maintaining a sound financial position, but profitability has declined significantly which could become a problem

3. Financial position and financial indicators

Looking at the financial position at the end of FY12/19, total assets declined ¥430mn YoY to ¥5,385mn. In terms of the main change factors, in current assets, cash and cash equivalents declined ¥275mn, mainly due to investment in personnel for business expansion and the increase in expenses to cultivate new clients, while trade and other receivables increased by ¥157mn and income tax-receivable increased by ¥71mn. In addition, non-current assets of ¥759mn and ¥183mn on the retirement of software assets were negative factors, while ¥770mn was recorded as right-of-use assets (assets from lease transactions) following the start of the application of IFRS No.16 from 2019.

Total liabilities increased ¥1,155mn YoY to ¥2,332mn. This increase was due to the ¥251mn increase in interest-bearing debt and the ¥772mn increase in lease liabilities, despite the ¥123 decline in income tax-payable. Total equity declined ¥1,585mn to ¥3,053mn, due to the posting of a loss for the period attributable to owners of the parent of ¥1,634mn.

Looking at management indicators, the ratio of equity attributable to the owners of the parents, which indicates management stability, declined from 79.4% to 52.5%, although it was maintained above the 50% level. The interest-bearing debt ratio increased to 21.8%, but net cash (cash and cash equivalents minus interest-bearing debt) remained positive, so the Company is maintaining its financial soundness. Meanwhile, profitability declined significantly YoY, partially due to the booking of a goodwill impairment loss. The EBITDA margin, which excludes impairment losses and depreciation, was minus 7.4%. The factors included the deterioration due to the changes in the market environment and strategic investments in conjunction with business expansion, so future initiatives targeting a recovery will be watched.

Statement of financial position and financial indicators

	(¥mn)				
	FY12/16	FY12/18	FY12/18	FY12/19	Change
Current assets	1,246	1,426	2,441	2,328	-112
(Cash and cash equivalents)	940	1,074	1,976	1,700	-275
Non-current assets	3,083	3,165	3,374	3,056	-317
(Goodwill)	2,162	2,103	1,871	1,071	-799
Total assets	4,329	4,591	5,815	5,385	-430
Total liabilities	2,439	1,981	1,176	2,332	1,155
(Interest-bearing debt)	1,940	1,426	364	616	251
Total equity	1,890	2,610	4,638	3,053	-1,585
(Stability)					
Ratio of equity attributable to the owners of the parents	43.7%	55.8%	79.4%	52.5%	-26.9pt
Interest-bearing debt ratio	102.7%	55.7%	7.9%	21.8%	13.9pt
(profitability)					
ROE	-38.2%	6.3%	3.1%	-43.9%	-47.0pt
Operating profit margin	-29.9%	4.9%	10.1%	-46.0%	-56.1pt
EBITDA margin	14.6%	18.8%	21.7%	-7.4%	-29.1pt

Note: Based on IFRS

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

■ Outlook

FY12/20 results will be disclosed when it is possible to make reasonable estimates

1. Outlook for FY12/20

The Company has not determined its outlook for FY12/ 20 results. Although the Group's business is expected to perform well, the Company has determined that it is difficult to disclose a reasonable business outlook as the novel coronavirus continues to spread not only in China but around the world. In particular, the percentage of overall sales accounted for by the Crossbound Business targeting the Chinese market was close to 30% in FY12/19, which will have a significant effect on business results. The Company plans to disclose its earnings outlook when it is able to reasonably forecast results.

From FY12/20, the Company will change its business segmentation from the SaaS Business, Solutions Business, and Crossbound Business, to a system based on the operating companies. These new segments will be the Japanese market (the Company), the Chinese market (Trend EXPRESS), and the global market (Effyis). Each business area has established visions as follows.

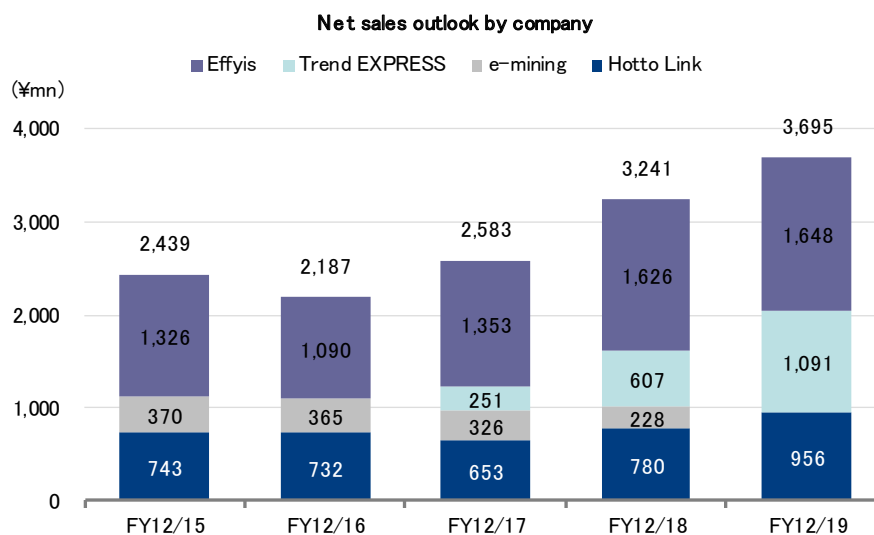
- (1) With respect to the Japanese market, the aim is to create a standard for social media marketing in the Japanese market, seeking to establish Hotto Link as the dominant SNS marketing brand in Japan.
- (2) With respect to the Chinese market, the aim is to establish Trend EXPRESS as the premier brand for Chinese marketing, seeking to become the No.1 company in terms of client evaluation, employee satisfaction, and exposure on TV and in other mass media exposure. Mass media exposure refers to the number of times the company receives exposure by mass media, such as survey data.
- (3) Regarding the global market, the aim is to grow Effyis as a DaaS (Data as a Service) company, and to build up the Socialgist brand.

In FY12/20, the Company aims for growth in the SNS marketing support business targeting Japan and China

2. FY12/20 business plan

As its business plan for FY12/20, the Company will aim to expand the SNS marketing support business, as well as bolster the Company's profitability by re-allocating resources to high-profit-margin services and by reviewing costs.

Outlook



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

In terms of initiatives to bolster profitability, the Company will re-assign personnel in the high-profit-margin SNS advertising/consulting business and in the new service of professional generated content (PGC). In addition, the development of new functions (AI-equipped tools) of BuzzSpreader will be temporarily halted, and its function will be used internally to increase productivity, while at the same time assigning development staff to operational system development for the high-growth SNS advertising and consulting service in order to curb the growth in personnel.

At Trend EXPRESS, the funds raised in December 2019 will be used on new project development, to bolster personnel, to accelerate the Cross-border EC business, and to pursue M&A, while it is expected that bringing former partner Husen in as a Group company will reduce the cost of sales (outsourcing costs). Bringing Husen into the Group is expected to reduce the cost of sales by approximately 5%. Initially, the aim was to achieve an operating profit in FY12/20, but there are concerns about the cooling down of the Chinese economy due to the spread of the novel coronavirus, so there is a possibility that Trend EXPRESS will not achieve an operating profit until FY12/21.

With respect to Effyis, as mentioned above, the company is reviewing and selecting newly-cultivated businesses, ending unprofitable projects, and carrying out appropriate cost-cutting measures including layoffs. With these actions, the company is expecting to achieve an operating profit in FY12/20.

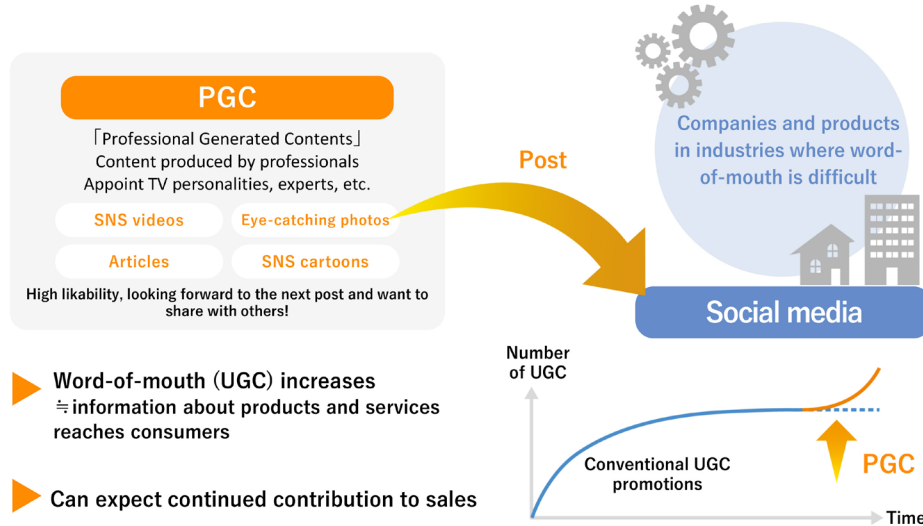
The strategies by market are as follows.

(1) Japanese market

In the Japan market, the Company is aiming to expand sales in the SNS marketing support business, which has data analysis as its strength. In the second half of 2019, as the Company launched the PGC service as a new service that will make effective marketing possible even for products for which user generated content (UGC) is challenging to produce, and in addition to cultivating new customers, the Company will work to discover additional needs for existing customers in order to increase spending per customer. PGC refers to content produced by professionals. TV personalities, experts, and other highly influential people are appointed to produce SNS videos, articles, etc., and by combining this with conventional UGC measures (ULSASS), the amount of word-of-mouth on SNS will continually increase, leading to sales of the target products.

Outlook

Details of PGC service



- ▶ **Word-of-mouth (UGC) increases**
 ≙ information about products and services reaches consumers
- ▶ **Can expect continued contribution to sales**

Source: The Company's results briefing materials

In addition, the Company plans to build a platform that responds to diverse customer needs and increase its opportunities to win orders by aggressively promoting alliances with competitors that have strengths that the Company does not possess. Specifically, in November 2019, the Company concluded a business alliance a dot co.,ltd., which specializes in creating effective promotions which become buzzworthy, while in February 2020 the Company entered into a sales agency agreement with Shuttlerock Japan Limited, a developer of digital marketing support tools. The Company also concluded a business alliance with Morning Labo, Inc., which specializes in developing content for women. Going forward, the Company will advance its alliance strategy if there are companies with strengths that the Company does not possess, thereby bolstering its service lineup.

The Company expects kuchikomi@kakaricho to perform at a level similar to FY12/19. With respect to the number of employees in the domestic business, the Company plans to add a few employees in order to bolster the marketing platform of the marketing support service.

Business alliance partners and description

Alliance timing	Company name	Description
November 2019	a dot co.,ltd	The Company will launch the following three features as a collaborative service with a dot, which excels at creating promotions that become effective buzz topics. 1) Based on analysis of social big data, provide measures that will become topics that match brands, and then support promotional services that will lead to sales promotion and increased recognition 2) In addition to temporary effects only at the time of the campaign, create a topic and build a structure where UGC and followers accumulate on SNS 3) Utilize the behavior-purchasing process of the SNS era of ULSSAS originating with UGC, and carry out highly cost-effective marketing programs
February 2020	Shuttlerock Japan Limited	The Japanese subsidiary of New Zealand-based Shuttlerock. The Company will respond to diverse customer needs by combining its strengths in social media marketing support know-how with Shuttlerock Japan's UGC utilization and creative production system. The Company concluded a sales agency agreement to sell Shuttlerock Japan's UGC visualization tool "Shuttlerock," the Twitter campaign tool "BBF," and advertisement production creative tool "CREATIVEWORKS" according to customers' needs.
February 2020	Morning Labo Inc.	Leveraging Morning Labo's expertise in developing content reflecting women's insights, the Company will launch "GIRLS CONTENTS LABEL," a women's content development service that contributes to the creation of positive feelings and fan-building through SNS content. This will become an effective content marketing strategy service for improving the brand strength and sales of companies and their products and services.

Source: Prepared by FISCO from press releases

Outlook

(2) Chinese market

In January 2020, Trend EXPRESS established a new company, Trend Express China, through the management integration of its Chinese subsidiary and its partner Husen, and will aim for further growth in the marketing support business in the Greater China area, centered on the mainland China market. In addition, in order to quickly identify local needs in China and create new businesses and services, the division responsible for new product development was transferred from the Japan headquarters to Trend Express China.

The plan is to continue to aggressively invest in personnel, and to increase the number of employees by about 15-20 in 2020, mainly in China. However, there is a possibility that this plan may be revised depending on the developments with respect to the novel coronavirus. This infectious disease has been spreading in China since late January, and it has started to have a significant impact on the economy. The Company's business has also been affected, and the rapid increase in demand for masks and hygiene products could lead to higher earnings for the Company. On the other hand, overall consumption has chilled, and logistics functions have been paralyzed and factory operations in China have been suspended, which is causing shortages in the supply of products itself despite demand, so overall the virus seems to be having a negative impact. Given the fact that demand itself is robust, we believe that business is likely to return to a high-growth trajectory if the novel coronavirus problem subsides.

(3) Global market

Effyis has improved its profit structure by implementing business structural reforms, and will aim to return to operating profitability again in 2020. In addition to the expectation for fixed costs to be reduced by over ¥100 mn, the Company will focus on selling high-margin social media data, for which sales declined in the previous fiscal year, and improve the profit margin by changing the sales composition ratio.

Also, as a new initiative, Effyis will start selling dark web data in the first half of 2020 to capture demand in the risk management domain. The dark web refers to websites that cannot be accessed by ordinary keyword searches or browsers. The dark web is used as a platform to buy and sell personal information, conduct illegal drug transactions, engage in money laundering and exchange information about terrorist activities, and is a hotbed of crime. In recent years, as a part of security measures on the part of companies and governments, budgets for risk management have been increasing. Effyis will commercialize this area, having determined that it can expect a certain amount of demand and earn decent profits. Although crawling is the method used to acquire data, it is difficult to acquire data by general techniques, and advanced know-how is required. Collecting data through crawling costs very little, so it is expected to be a highly profitable product. The impact on overall sales will be minimal, but it is expected to contribute to higher profit margins.

Effyis will also work to add value to the data through its proprietary analysis. For example, one strategy is to add value by processing data to make it easy for users to use, such as automatically translating Russian data into English and selling it. Target customers will be risk management companies and end customers such as brand manufacturers. Regarding personnel, the number of personnel was adjusted to an appropriate level by the end of FY12/19, so the plan is to maintain the current level of personnel in FY12/20.

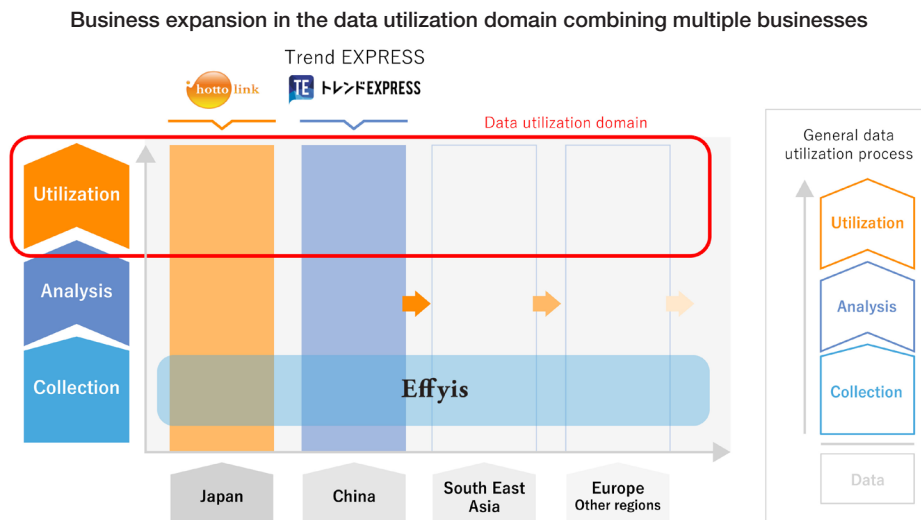
The strategy is to expand business in the data utilization domain

3. Medium-term growth strategy

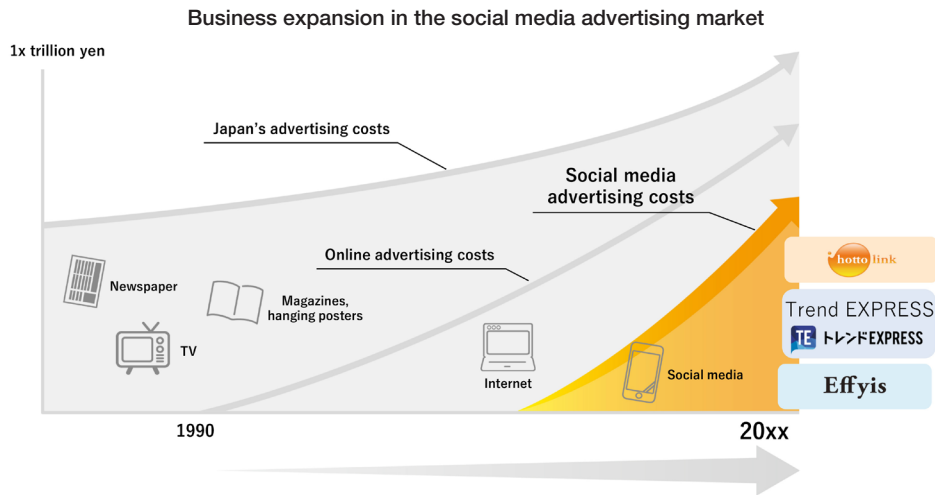
The Company’s medium-term growth strategy is to have “global scale data access rights” and to realize business expansion in the data utilization area by utilizing its strength in “data analysis technologies” that it has independently cultivated, while organically combining its portfolio of multiple businesses. In addition to its existing businesses, the Company is looking to generate new businesses utilizing data.

The Company’s services can be divided into three levels according to the process. The first is the business of Effyis, of sales of big data access rights that it has collected from various social media to customers including global IT companies like Salesforce.com and IBM. The social big data it handles covers all the main, major SNS throughout the world, and it is no exaggeration to say that it has established an overwhelmingly leading position in the industry in terms of both type and quantity. Therefore, as this position is not likely to be shaken in the future, it is anticipated that it will support the Company’s results as a source of earnings expected to grow stably.

The second is the tools to analyze the social big data that it has collected. This is what kuchikomi@kakaricho offers, but in the last few years, it has entered the maturing stage, and sales are expected to remain stable going forward. The third level is services that utilize the social big data that have been collected and analyzed, and this is the area that the Company will most focus on as a future business pillar. Currently, the Company does business in the Japanese and Chinese markets, but going forward it is looking to expand to other regions, such as Southeast Asia, and aims to make a leap forward as a global company. In the advertisement market, the ratio of online advertising is increasing year by year, and within online advertising, social media advertising is a field in which high growth is expected to continue. Given this, the Company has a big opportunity for growth, so its future actions will be closely watched.



Outlook



Source: The Company's results briefing materials

Contribute to bringing people and information together and realizing a society that can be “hotto,” and raise corporate value

4. SDGs initiatives

As initiatives for SDGs, the Company has started activities to act as a receptacle for diversity toward realizing a society that can be “hotto.” Specifically, the Company has started the Famiee project launched with the aim of realizing a society in which a wide variety of family types are recognized, and established Famiee as a general incorporated association in August 2019, with Company President and Representative Director Uchiyama as the representative director. Also, President and Representative Director Uchiyama has been appointed as the project leader of the Japan Association of New Economy’s SOGI Empowerment Team to create an environment in which it is comfortable for LGBT and other sexual minorities to exist, and this team is conducting educational activities. In terms of initiatives within the Company, the Company has been participating in the PRIDE Index* since 2019 and is working to promote understanding about LGBT among employees, and is proactively establishing a workplace environment where the individuality of all members is utilized as diversity and where everyone can demonstrate his or her abilities to the fullest extent. With respect to the PRIDE Index, within its Employment Rules, Internal Regulations, and Corporate Ethics Charter, the Company has documented in writing that discrimination related to sexual philosophy or gender identity are prohibited, and marriage congratulatory payments and family-event vacations apply the same to common-law marriages and to same-sex partnerships. The Company received the Gold prize, the highest award, in the PRIDE Index 2019, which indexed the level of accomplishment of the policies described above.

* The PRIDE Index is an index developed by the work with Pride voluntary organization to evaluate initiatives for LGBT and other sexual minorities, which was introduced into workplaces in Japan for the first time in 2016. In 2019, more than 190 companies and organizations were participating in it.

■ Shareholder return policy and business risks

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

1. Shareholder return policy

The Company plans to return profits to shareholders in the future by paying dividends. But at the current point in time, to actively allocate funds, such as to business investment and the recruitment and training of human resources, it is aiming to improve its corporate value (increase its share price) through growing earnings, which it considers will maximize returns to shareholders in the future. Therefore, continuing from previously, it does not plan to pay a dividend in FY12/20.

2. Business risks

Looking at business risks, changes in management policy by companies from which the Company purchases social media data could lead to cancellations of license agreements or changes in government policies or the like in each country could prevent the delivery of social media 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 that utilize social media worldwide. 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, overseas sales accounted for about 45% of the total sales in FY12/19, so it is necessary to be aware of the risk from exchange-rate fluctuations. At the current time, overseas sales are only from Effyis, so should the yen strengthen, the results from Effyis would be reduced on being converted into yen. In addition, for the sales promotion support service for Chinese market, if the economic situation in China should worsen or its legal system change, this may impact the sales of Trend PR and Cross-border EC X, so these are risk factors.

■ Information security measures

The services offered by the Company and its group companies depend on large server farms and Internet connections, so management takes information security very seriously. To prevent system failures or outages caused by cyber-attacks that would interfere with the performance of services for customers, the Company constantly monitors system operations, maintains backup systems, and uses cybersecurity measures to thwart malware and other cyber-threats.



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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