

Hottolink, Inc.
3680 TSE Mothers

4-Mar.-15

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FISCO Ltd. Analyst
Yuzuru Sato

■ Targeting Faster Growth in the Social Big Data Field Following Acquisitions

Hottolink (3680) has been growing on the back of cloud-based services that utilize data posted on blogs and social media such as Twitter. In January 2015, Hottolink acquired Effyis, Inc., a U.S.-based social media data provider, for US\$22mn (service brand name: Socialgist, hereafter “Socialgist”). As a social media data platform service company, Hottolink is now positioned to target faster growth eyeing the global market.

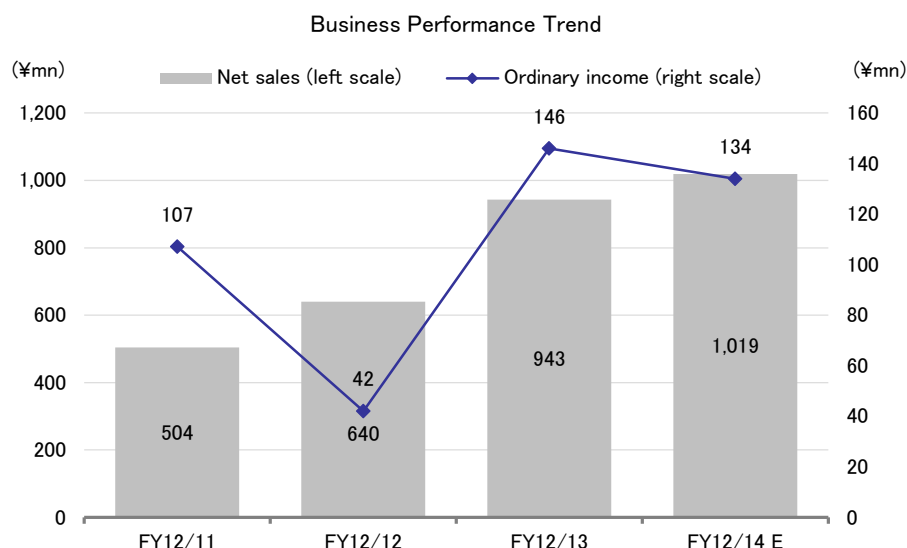
Looking at the Company’s consolidated business performance in FY12/14, Hottolink is forecasting higher sales and lower earnings. Net sales are projected at ¥1,019mn, up 8.1% year on year, and operating income is projected at ¥147mn, down 7.0% year on year. The main factor behind the lower earnings outlook is higher personnel costs due to an increase in the workforce, amid sluggish sales in the cloud service business, which includes services such as kuchikomi@kakaricho. This weak sales outlook reflects a low retention rate for services targeting medium-sized companies. Hottolink will tackle these issues by launching upgraded versions of kuchikomi@kakaricho and e-mining that reflect the needs of medium-sized companies from the end of 2014 to the early 2015, in addition to increasing customer convenience mainly by making services available on smart devices. Through these measures, Hottolink will strive to improve the retention rate, with the aim of achieving double-digit growth in net sales.

The performance outlook for FY12/15 calls for large increases in sales and earnings due to the conversion of Socialgist into a subsidiary in January 2015. In FY12/14, Socialgist is expected to post net sales of approximately ¥1,100mn and operating income of approximately ¥100mn on a yen basis. It follows that at least the same amount of operating income as in FY12/14 should be added to Hottolink’s consolidated results in FY12/15. Social big data is not only being utilized by an increasing number of companies in marketing fields, but is also expanding to a range of other sectors such as finance, politics and mass media. Therefore, Hottolink has substantial growth potential based on its advanced analytical expertise and development capabilities in social big data.

Overseas, Hottolink plans to push ahead with M&As in the Southeast Asian market, where economic growth is expected. The Company’s future expansion offers strong prospects, factoring in synergies with Socialgist. Looking at management targets for the near term, Hottolink is targeting net sales of ¥2,418mn and operating income of ¥544mn by FY12/15 or FY12/16. Considering the anticipated increase in the number of customers through the launch of new services in Japan and the conversion of Socialgist into a subsidiary, Hottolink is firmly on track to achieving those targets. Therefore, earnings are projected to enter an expansionary phase in step with growth in the social big data market.

■ Check Point

- An innovative company focused on technological development, driving expansion in social media analysis services
- One of only a few companies generating earnings in the big data market
- Targeting net sales of ¥2,418mn and operating income of ¥544mn in FY12/15 or FY12/16



■ Corporate Outline

An innovative company focused on technological development, driving expansion in social media analysis services

(1) Corporate History

In June 2000, Mr. Koki Uchiyama, the current President and CEO, founded Hottolink Inc. The Company's mission is to "Make the world 'Hotto' ('relief') place for all people by building infrastructure for a knowledge intensive society." Mr. Uchiyama has been involved in the development of Internet technology from the infancy of the Internet market. Notably, as a graduate student in 1995, he participated in the Japan Search Engine development project to create Japan's first Internet search engine.

Although the search engine development project faltered due to the subsequent emergence of the Yahoo! and Google search engines, Mr. Uchiyama used the technical expertise he obtained through this experience to found Hottolink in 2000. The Company developed a tool bar that allows a "Like" button to be put on websites, and launched a "Social Bookmark" service that gathers users' favorite websites. Analysis of websites gathered in this way made it possible to grasp user preferences, paving the way for the subsequent development of recommendation engines and the launch of related services. Back then, Hottolink's sales were sluggish because the technologies it provided were far ahead of market needs at the time. However, even in the early 2000s Hottolink had already developed a service that predated the "Like" function of today's Facebook. In so doing, Hottolink laid a solid foundation as an innovative company focused on technology development.

Thereafter, the Internet industry started to see rapid growth in the popularity of individual blogs and social media sites, such as 2channel. Hottolink began expanding analysis services based on articles posted on social media sites. Beginning with the launch of blog analysis in 2005, Hottolink acquired the Dentsu Buzz Research service (social big data analysis service) from Gala Buzz Inc. in 2008. That year, Hottolink fully rolled out the kuchikomi@kakaricho social media analysis tool, its current core service. In 2012, Hottolink added the e-mining social media risk monitoring service to its lineup by converting into a wholly owned subsidiary (to be conducted through an absorption-type merger later in the same year) Gala Buzz, which had previously provided the e-mining service.

In social media analysis services, Hottolink must purchase data, such as posted articles, that are owned by social media sites. Hottolink has entered into agreements with various operating companies, data providers and other entities to acquire the marketing and usage rights to social media data of major social networking service (SNS) providers such as 2channel, Twitter and Sina Weibo, in addition to blogs. In June 2014, Hottolink entered into a business alliance with Socialgist, which holds global marketing rights to data on Sina Weibo, China's largest SNS site. Through this alliance, Hottolink has acquired exclusive marketing agent rights to Sina Weibo data in the Asia Pacific region outside China.

Corporate History

Month / Year	Main Events
June 2000	Hottolink Inc. was founded in the Yoyogi district of Shibuya-ku, Tokyo (currently located in Chiyoda-ku, Tokyo)
Nov. 2005	Became a subsidiary of OPT, Inc.
Mar. 2008	Acquired the Dentsu Buzz Research service (social big data analysis) from Gala Buzz Inc.
July 2008	Launched the official version of kuchikomi@kakaricho, a social media analysis tool
May 2012	Acquired all shares of Gala Buzz Inc., the provider of the e-mining social risk monitoring service, and converted Gala Buzz into a subsidiary (absorption-type merger in October 2012)
Oct. 2012	Entered into an exclusive commercial licensing agreement with Tokyo Plus Co., Ltd. and Mirai Kensaku Brazil, LLC, the operators of the 2channel site, for information posted on the 2channel site
Nov. 2012	Entered into a strategic alliance with U.S.-based Gnip, Inc., a social media data provider (acquired by Twitter in 2014), acquiring usage rights to Twitter data globally and for all time periods.
Dec. 2012	Became the only Japanese company selected to join the Plugged In To Gnip Partner Program of U.S.-based Gnip, Inc. Formed a capital and business alliance with U.S.-based Salesforce.com and SynergyMarketing, Inc.
Mar. 2013	Established Hottolink Consulting Inc. as a consolidated subsidiary
July 2013	Formed a capital and business alliance with Hitachi Systems, Ltd.
Dec. 2013	Shares listed on Tokyo Stock Exchange Mothers market
Jan. 2014	Formed a strategic business alliance with Netyear Group Corporation
June 2014	Formed a business alliance with U.S.-based Socialgist (to be converted into a subsidiary by Hottolink in January 2015), a social media data provider, thus acquiring exclusive marketing agent rights for Sina Weibo data in the Asia Pacific region outside of China
July 2014	Formed an alliance on the development and popularization of social media analysis services with Ideal Marketing Strategist Co., Ltd., which is developing integrating monitoring services for national brands in China
Nov. 2014	Acquired Socialgist

One of only a few companies generating earnings in the big data market

(2) Business Overview

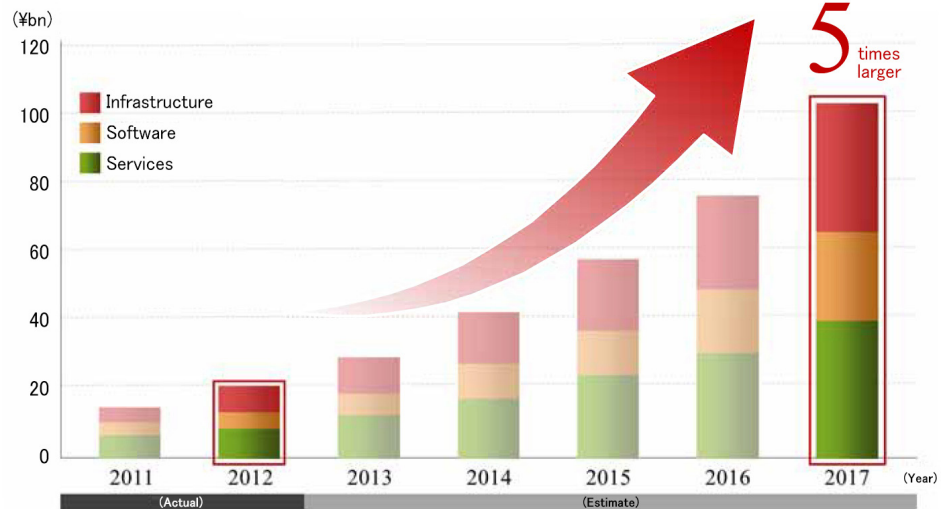
Guided by its business concept of "Big Data x Social x Cloud," Hottolink is pushing ahead with business development initiatives. In the past few years, an increasing number of companies have begun to utilize big data as a key tool in their marketing strategies. Going forward, some observers estimate Japan's big data-related market will grow by more than 40% a year, and surpass ¥100 billion by 2017.



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Domestic Big Data Technology and Service Market Trend



Source: IDC Japan, <http://www.idcjapan.co.jp/Press/Current/20130826Apr.html>

Source: Earnings presentation materials

Against this backdrop, the current reality is that hardly any independent companies among those providing big data services are actually generating profits. One reason for this is believed to be that the entrants in each layer of the big data market are fragmented among data-owning companies, IT infrastructure companies, analysis engine providers and application development companies. In contrast, Hottolink's strength lies in its ability to provide one-stop services spanning all layers. The Company is also attracting attention as an enterprise that has already established a profitable business model in the big data market.

Hottolink currently discloses information in three business segments: the SaaS* Business, the Solution Business and Others (melody and ringtone services). The chart below classifies the products and services of the core SaaS Business and the Solution Services Business segments by layer and billing format.

Composition of Business Segments and Products and Services

Business Segment		SaaS	Solutions		
Products and services	Entrants	Tools	Data	Analysis engine	Consulting
Knowledge	Dentsu, Hakuodo, Accenture, etc.				Hottolink Consulting
Application	SAP, IBM, NRI, Salesforce, Oracle, etc.	kuchikomi@kakaricho "e-mining"			
Analysis engine	SAP, IBM, NRI, NEC, NTT DATA, Fujitsu, etc.			Full text search, text mining, sentiment analysis, related word analysis	
IT infrastructure	IBM, Amazon, Hitachi, Fujitsu, NEC, etc.				
Big data	Facebook, Twitter, Google, CCC, etc.		Twitter, blogs, 2channel, etc.	Twitter, blogs, 2channel, etc.	
Billing format		Cloud			Contractor
Usage fee		¥0.1-1.0mn / month	¥0.1-3.0mn / month		¥0.5mn / project or more

Source: Prepared by FISCO based on Hottolink materials and interviews

OSaaS Business

The SaaS Business currently accounts for approximately 70% of net sales. In this business, Hottolink is expanding services through two products: (1) kuchikomi@kakaricho, a social media analysis tool; and (2) e-mining, a risk monitoring tool. 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. The monthly usage fee is calculated on the number of usable IDs, the number of media subject to analysis, data capacity and other factors. Some large corporate customers spend up to ¥1mn a month to use these services.

The number of corporate subscribers is over 1,700 for the two services combined on a cumulative basis. Of this, there are currently approximately 500 active corporate subscribers. The industry breakdown shows 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 perform real-time searches, such as trend analysis and attribute analysis. It also has functions such as cross-media analysis spanning television, Web news sites and other media, plus a data import analysis function to perform text mining of data held internally by corporate customers (questionnaires and call logs, etc.).

The scope of data coverage is of particular importance to social media analysis. Hottolink has a dominant advantage in Japan in terms of the sheer amount of social data it possesses. For example, 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. In addition, Hottolink covers approximately 90% of blogs in Japan (more than 37 million bloggers). Incidentally, SNS platforms such as Facebook and LINE both have a large amount of users, and Hottolink collects certain data from these platforms on a limited basis. However, Hottolink does not put particular emphasis on these SNS platforms. There are two reasons. First, this data carries relatively low importance for corporations because these SNS platforms are closed community sites focused on interactions between "Friends." Second, these SNS platforms do not provide data to third parties without the consent of users.

The kuchikomi@kakaricho tool can be applied promptly to a company's marketing initiatives through real-time features such as trend analysis. For example, previously companies would almost always produce and broadcast only one TV commercial for a new product. Recently, companies have been producing several different TV commercials for a new product and broadcasting them over the same time period. Next, kuchikomi@kakaricho is employed to analyze the number of online responses to each of the TV commercials for a certain period. The companies are able to implement marketing initiatives such as increasing the exposure of a particular commercial that garnered the largest number of responses. Ultimately, these measures help to improve ROI for marketing departments.

As marketing capabilities become increasingly crucial to the competitiveness of companies, kuchikomi@kakaricho can be used in every stage of marketing, from pre-launch surveys of new products and services, to sales promotions and advertising, sales, and support. For this reason, kuchikomi@kakaricho is being steadily adopted primarily by major corporations as a support tool for enhancing marketing capabilities.

Meanwhile, e-mining has main features that include alert functions based on a system that automatically collects all postings on 2channel and Twitter, according to pre-set risk-related keywords. Monitoring covers a wide range beyond 2channel and Twitter, extending to blogs and various news sites. Each day, e-mining monitors approximately 13 million web pages and reports search results by category. For members-only SNS platforms such as Facebook and mixi, Hottolink provides a separate staffed monitoring service.

In the past few years, there has been a notable increase in the number of cases where the reputations of companies have been harmed by postings to social media. It has become crucial for corporate risk management to identify these risks and to implement response measures at an early stage. e-mining is being adopted primarily by major corporations as a service that addresses these sorts of needs.

OSolution Business

The Solution Business accounts for 24% of net sales. This segment consists of two different businesses: (1) the data platform business, which provides systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho; and (2) the consulting business developed by subsidiary Hottolink Consulting Inc.

The data platform business embeds Hottolink's data and analysis engines into the products and services of customers such as systems integrators. Embedding proprietary customer data and social data into mission-critical systems enables more advanced analysis. The initial deployment fee is ¥500,000 and monthly usage fee is based on a tiered billing structure according to the number of requests. Customers spend between ¥0.1mn and ¥3mn on these data platform services. Meanwhile, the consulting business provides social media analysis reports to advanced users.

Ownership of Japan's Largest Amount of Social Big Data with Strong Data Analysis Capabilities and Sales Channels

(3) Hottolink's Strengths

In summary, Hottolink has the following three strengths: (1) The Company has Japan's largest coverage of social media data; (2) it has world class big data analysis technologies; and (3) it has strong sales channels.

In big data analysis technologies, Hottolink has received an investment from salesforce.com, Inc., a global cloud computing services company, and serves as a technical partner of this firm. Hottolink's world-class big data analysis technologies are borne out by the fact that it is the only company in Japan whose data and analysis engines are embedded in the CRM service of salesforce.com, Inc. Furthermore, the Company continues to push ahead with the development of next-generation technologies. Notably, development personnel account for approximately 41% of Hottolink's employees (including temporary staff and contractors). Additionally, Hottolink is conducting joint research and other related activities by providing data to universities including the University of Tokyo, Tokyo Institute of Technology, and Waseda University. This joint research enables Hottolink to recruit some of Japan's best talent and secure technologies, forming another key strength of the Company.

In regard to sales channels, Hottolink has formed alliances with 9 companies as an OEM partner and solution partner, as noted earlier, and with 4 companies as a sales partner, in an effort to expand sales of its proprietary products and services. This is in addition to direct sales to customers.



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Strong Sales Channels

OEM Partners and Solution Partners			
Dentsu Inc. 	Toppan Printing Co., Ltd. 	Nomura Research Institute, Ltd. 	Hitachi Systems, Ltd.
Tribal Media House, Inc. 	KANTAR JAPAN INC. 	CyberBuzz, Inc. 	Agile Media Network Inc.
Platform ID, Inc. 			

Sales Partners

Dentsu Public Relations Inc. 	OPT, Inc. 	GaiaX Co., Ltd. 	E-Guardian Inc.
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Source: Earnings presentation materials

■ Financial results trends

Performance Falls Below Forecast in First Three Quarters of FY12/14

(1) Performance Trends for the Nine Months Ended September 2014

Consolidated financial results for the nine months ended September 2014 (January to September 2014) were announced on November 7. Net sales were ¥735mn, up 10.2% year on year, operating income was ¥93mn, down 17.0%, ordinary income was ¥93mn, down 15.3%, and net income for the first three quarters was ¥40mn, down 26.0%. Overall, the Company closed its books with higher sales and lower earnings.

Financial Results for the Nine Months Ended September 2014 (Consolidated)

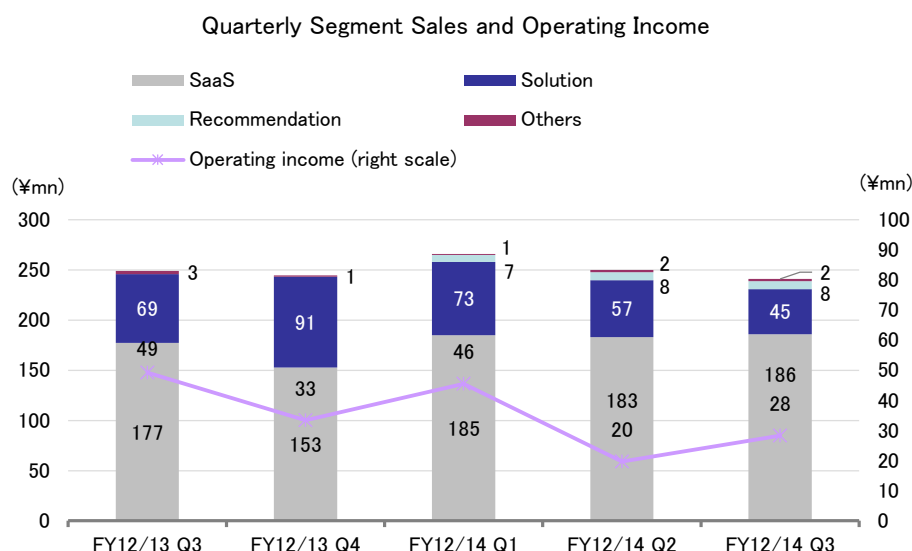
	Nine months ended Sep. 2013		Nine months ended Sep. 2014		
	Actual	vs sales	Actual	vs sales	Y-o-Y change
Net sales	667	—	735	—	10.2%
Cost of sales	246	37.0%	286	39.0%	16.2%
Selling, general and administrative expenses	307	46.1%	354	48.3%	15.3%
Operating income	112	16.9%	93	12.7%	−17.0%
Ordinary income	110	16.6%	93	12.8%	−15.3%
Net income	54	8.2%	40	5.5%	−26.0%

The main reason for the lower earnings was higher personnel costs due to an increase in development and sales personnel, amid weaker-than-anticipated sales growth in the SaaS Business and Solution Business.

Looking at sales trends in each business, sales in the SaaS Business rose 3.8% to ¥554mn. Total subscriptions increased only slightly, despite steady gains in new subscriptions for both kuchikomi@kakaricho and e-mining, mainly due to a greater-than-anticipated number of cancellations at renewal time centered on medium-sized companies. Although the retention rate for large corporations was high, there were many cancellations by medium-sized companies. This mainly reflects an inability among medium-sized companies to use these tools effectively. Even when the tools are used effectively, many medium-sized companies find that they are unable to take full advantage of the tools within the vertical hierarchies of their organizations.

Net sales in the Solution Business rose by a steady 38.8% year on year to ¥175mn. In this segment, the data platform business saw growth in the number of subscriptions driven by an ongoing expansion in the application fields for social big data and the “socialization” of enterprise software in various fields. Meanwhile, sales in the consulting business rose on the back of a stronger need for social media analysis primarily among major corporations. However, sales in both of these businesses fell short of the Company’s initial forecasts.

Looking at trends in segment sales and operating income on a quarterly basis, sales growth has been anemic in both the SaaS Business and Solution Business in the past year, and increases in personnel costs have pressured earnings in the past two quarters. Given that the Company’s current core businesses are both stock-type cloud service businesses based on recurring revenues from a fixed customer base, the main factor behind the weak sales growth is likely to be sluggish growth in the number of subscriptions since the third quarter of the previous fiscal year.



To overcome these challenging conditions, the Company stepped up initiatives in the third quarter to form business alliances with companies that utilize social big data and launch new services in the social domain. Details are shown in the table below.

Initiatives since July 2014

Month / year	Initiatives
July 2014	Formed an alliance on the development and popularization of social media analysis services with Ideal Marketing Strategist Co., Ltd., which is developing integrating monitoring services for national brands in China
July 2014	Formed business alliance with FISCO Ltd. to utilize kuchikomi@kakaricho as part of FISCO financial data content
Aug. 2014	Commenced joint research with NHK Science & Technology Research Laboratories on TV program tweet analysis
Aug. 2014	Began providing Social Profiling Data based on text data posted to social media
Aug. 2014	Hottolink Consulting launched the Social Ethnography service to enable companies to develop products and implement shopping promotions for specific user groups
Sep. 2014	Hottolink Consulting launched the Community Cluster Analysis service to automatically group consumers into communities based on their strong connections with one another on social media
Sep. 2014	Released a smartphone version of e-mining

The business alliance with Ideal Marketing Strategist Co., Ltd. of China consists of a scheme where the Hottolink Group provides Chinese social media data to Japanese global companies developing business in the Chinese market, and Ideal Marketing Strategist provides analysis, reporting and consulting services based on this data.

* Customers are provided with quantified data about users' interest and concerns, and their loyalty to a particular brand, based on postings to social media. With this service, companies and advertisement distributors send their lists of Twitter account names to Hottolink, and Hottolink prepares profile data for each account based on the vast amount of data it possesses, and delivers the profile data to customers.

Furthermore, under the business alliance with FISCO Ltd. (3807), a new service that integrates Hottolink's social big data analysis know-how and FISCO's stock analysis know-how is scheduled to be provided as FISCO financial data content. The financial services sector is already starting to see some U.S. hedge funds make use of social big data as an investment management tool. Looking ahead, demand for social big data in the financial services sector is projected to increase.

Turning to new services, Hottolink began providing Social Profiling Data* in August. This data is expected to serve as a tool that helps advertisement distributors to more precisely distribute targeted advertisements based on user interests and concerns. The data is also expected to boost the effectiveness of recommendations on developing new customers in corporate CRM activities.

Social Ethnography is a consulting service offered by Hottolink Consulting. Values and trends specific to a user group are grasped based on data posted to social media by a particular user group, and the causes and rationale for changes in purchasing behavior and processes are derived. This enables business enterprises and advertising agencies to develop products and services that target a particular user group and to come up with effective shopping promotion.

The Community Cluster Analysis service is another consulting service. It automatically groups consumers with strong connections with one another into communities based on data these consumers post to social media, making it possible to identify the attitudes, interests, concerns and preferences of each community. As a result, business enterprises and advertising agencies are able to focus on a specific target when seeking to understand the response to advertising on social media, and are able to formulate measures to optimize advertising effectiveness based on those results.

Business Sectors to Shift Dramatically from FY12/14 Following the Socialgist Acquisition

(2) Financial forecasts for FY12/14

Looking at consolidated financial forecasts for FY12/14, Hottolink has made a downward revision of its initial forecasts for both sales and earnings (as of the third quarter earnings announcement). Net sales are forecast at ¥1,019mn, an increase of 8.1% year on year. Operating income is forecast at ¥147mn, a decrease of 7.0%, and ordinary income is forecast at ¥134mn, a decrease of 8.2%. Net income for the year is forecast to decrease 15.9% to ¥58mn.

Revisions to Financial Forecasts

	Net sales	Operating income	Ordinary income	Net income	EPS
Initial forecasts	1,261	270	270	130	13.45
Revised forecasts	1,019	147	134	58	5.96
Change	-242	-123	-136	-72	

Segment sales

	FY12/11	FY12/12	FY12/13	FY12/14	Growth rate
SaaS Business	324	477	678	769	7.1%
Solution Business	45	94	216	242	12.0%
Recommendation Business	120	56	40	-	-
Others	14	11	8	7	-12.7%
Total	504	640	943	1,019	8.1%

Note: The Recommendation Business was transferred to the SaaS Business in FY12/14. The growth rate for the SaaS Business is inclusive of the Recommendation Business.

As mentioned earlier, the reason for the revised forecast is that sales in the SaaS Business and Solution Business were lower than initially forecast. In regard to the Solution Business, a national government project anticipated at the beginning of the fiscal year is taking more time to implement than originally expected. For this reason, the recognition of sales for this project will be pushed back to the next fiscal year. This is another factor behind the revised forecast.

Financial results for FY12/14 will be marked by higher sales and lower earnings. Looking at just the fourth quarter, net sales are forecast at ¥284mn, up 2.9% year on year, and operating income is forecast at ¥53mn, up 15.2%. On a quarterly basis, Hottolink is anticipating record-high results. This outlook is based on the benefits of the aforementioned launch of new services and expansion in consulting projects.

Heading into FY12/15, Hottolink is expected to restore double-digit growth. The Company should reap the benefits of the new products it will launch from the end of 2014 to the start of 2015. These products are designed to win over more medium-sized corporate customers, which has hitherto been a challenge for the SaaS Business. There are clear reasons for the low subscriber retention rate among medium-sized companies. Hottolink will roll out new, upgraded versions of both e-mining and kuchikomi@kakaricho. These new products will incorporate improvements necessary to address each of the reasons for the low retention rate (beta versions are already available).

The use of social big data is undoubtedly a crucial priority for companies seeking to attain growth. Financial data released by U.S.-based Twitter shows that data sales in 2014 rose sharply by approximately 60% year on year. It is evident that the use of social big data is catching on globally.

In contrast, Hottolink is currently experiencing soft growth because the use of social big data has not caught on among medium-sized companies in Japan. In addition to launching new services that address the needs of medium-sized companies, Hottolink plans to provide services compatible with multiple devices, including smartphones and tablet devices. The Company's strategy for increasing the number of subscriber companies is to develop an environment where services are accessible anytime, anywhere.

○ Acquisition of U.S.-based Socialgist

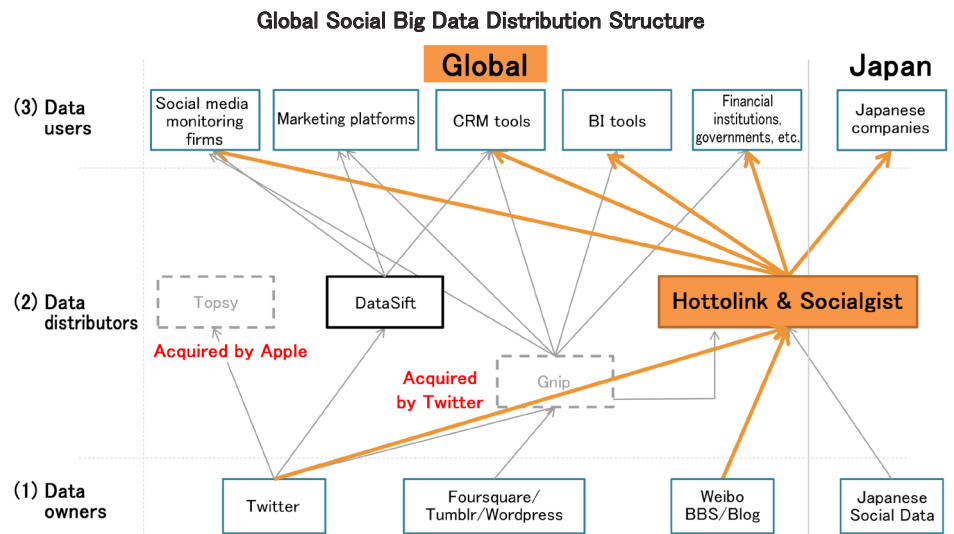
On November 9, Hottolink announced that it will convert U.S.-based Socialgist, a social media data provider, into a wholly owned subsidiary. The shares are planned to be acquired on January 5, 2015 for an acquisition cost of US\$22mn (¥2,464mn). For this reason, Socialgist will become a consolidated subsidiary of Hottolink from FY12/15.

Hottolink will finance the acquisition cost of US\$22 million (¥2,596mn) from borrowings of ¥2,100mn from financial institutions (repayment date: end of March, 2015) and the Company's internal funds.

Established in 2000 as a startup, Socialgist collects and provides social media data from sources such as blogs, bulletin boards, Q&A and review sites. It is known for its advanced data streaming technology. Another strength of Socialgist is that it is the world's only company to acquire a marketing license with full access rights to Sina Weibo data. Sina Weibo has been dubbed the "Chinese Twitter." It is China's largest SNS with more than 600mn accounts, and 120mn posts a day. Socialgist does business with customers that include the world's major social big data monitoring firms and marketing platforms, as well as CRM, business intelligence (BI) and other tool vendors, along with financial institutions and governments. In June 2014, Hottolink entered into a business alliance with Socialgist and acquired exclusive marketing agent rights to China-based Sina Weibo data in the Asia-Pacific region outside China.

The ongoing realignment and consolidation of data distributors in the global market for social media data can be cited as one factor behind this acquisition. The social media data sector has three major types of players: (1) the major SNS operators that own data, such as Twitter and Sina Weibo; (2) the data distributors that purchase this data and resell it to companies; and (3) the social media data users. Regarding data distributors, U.S.-based Apple Inc. acquired the American company Topsy Labs Inc., a provider of Twitter search and analysis services, for more than US\$200mn in December 2013. Additionally, in April 2014, U.S.-based Twitter, Inc. acquired the American company Gnip, Inc., which holds marketing rights to the full archive of Twitter data for all periods worldwide (held by only two companies in the world).

These industry realignments and consolidation actions can be interpreted as a sign of the increasing importance of data distribution companies. This, in turn, reflects the growing needs of the players who use social media data. As many more types of social media data become available and the amount of data increases significantly, these data users are seeking to gather a diverse array of social media data comprehensively, steadily and without omission.



Faced with this upheaval in the market landscape, Hottolink may have judged that the Socialgist acquisition would be the most effective means of achieving further growth as a data distributor. The acquisition offers Hottolink a number of benefits. These include establishing a key position as an independent company among global data distributors, acquiring outstanding talent and major customers on a global basis, and gaining access to a more expansive range of opportunities for M&As and other initiatives.

Looking at the impact of the Socialgist acquisition on Hottolink's products and services, the acquisition should open up new possibilities for the Company. For example, it will be able to expand functionality through the Sina Weibo data supply service, provide an overseas version of kuchikomi@kakaricho, and launch China risk detection services based on Sina Weibo data. These possibilities bolster the view that the acquisition has further enhanced Hottolink's growth potential.

Socialgist's most recent financial results are shown in the table below. In FY12/14, Socialgist posted record-high financial results for the nine months ended September 2014. Assuming an exchange rate of ¥120 to US\$1, net sales of around ¥1,100mn and operating income of around ¥100mn are projected for FY12/14. With financial results projected to continue expanding steadily in 2015 and beyond, Socialgist is expected to contribute positively to Hottolink's consolidated financial results from the first fiscal year after the acquisition.

Incidentally, Hottolink will begin applying International Financial Reporting Standards (IFRS) to its consolidated financial results from FY12/15 (Japanese GAAP will be applied from the 1Q to 3Q of FY12/15). As a result, the amortization of goodwill will no longer be reflected in profit or loss. This means that Socialgist's financial results will be added directly to those of Hottolink without any offsets. Amortization of goodwill is projected at ¥57mn in Hottolink's consolidated financial results for FY12/14. Because this charge will no longer be reflected in FY12/15, it will be a factor that pushes up earnings. That said, it should be noted that this impact on earnings is due to a change in accounting methods. Hottolink will still face the risk of an impairment loss if Socialgist is judged to be unable to generate earnings commensurate with goodwill due to future deterioration in its financial results.

Socialgist's Financial Results

FY	FY12/11	FY12/12	FY12/13	FY12/14 Q3
Net sales	3,741	5,296	7,751	7,202
Operating income	730	322	97	625
Net income	485	257	30	535
Total assets	1,191	1,452	2,325	2,872
Net assets	61	-870	-893	-357

(US\$th)

■ Financial status and risk factors, shareholder return policy

Socialgist Acquisition Pushes Up Interest-bearing Debt, But Management Indicators Remain Sound

(1) Financial status

The financial status of Hottolink as of September 30, 2014 is shown in the table below. As of September 30, 2014, total assets were ¥2,128mn, up ¥660mn from December 31, 2013. The main factor increasing total assets was an increase of ¥728mn in cash and deposits due to the execution of short-term loans payable. The main factor reducing total assets was amortization of goodwill of ¥43mn.

Meanwhile, as of September 30, 2014, total liabilities were ¥810mn, an increase of ¥612mn from December 31, 2013. The main factor increasing total liabilities was the procurement of short-term loans payable of ¥700mn to fund the Socialgist acquisition. Net assets increased ¥48mn from December 31, 2013 to ¥1,317mn, mainly due to the recording of net income of ¥40mn.

Looking at the main management indicators, the current ratio was 223.7% and equity ratio was 61.9%, both of which are considered to be sound levels. The Company's financial position could deteriorate temporarily following the increase in interest-bearing debt due to the Socialgist acquisition. However, the financial position should improve as a trend in step with earnings growth in FY12/15 and beyond.

Balance sheets

	(¥mn)				
	FY12/11	FY12/12	FY12/13	FY12/14 Q3	Changes
Current assets	124	307	1,113	1,807	694
(Cash and deposits)	58	226	949	1,677	728
(Accounts receivable-trade)	49	71	133	107	-25
Non-current assets	215	409	353	320	-33
Tangible assets	46	34	43	45	1
Intangible assets	100	346	285	251	-34
Investments and other assets	68	28	24	23	-1
Total assets	339	717	1,467	2,128	660
Current liabilities	53	265	194	808	613
Non-current liabilities	33	67	3	2	-0
(Interest-bearing debt)	38	236	0	700	700
Total liabilities	87	333	198	810	612
Shareholders' equity	252	384	1,267	1,317	48
Capital stock	201	203	552	557	4
Capital surplus	289	174	617	620	2
Retained earnings	-188	29	98	139	40
Treasury stock	-50	-23	-	-	-
AOCl (accumulated other comprehensive income)				0	0
Minority shareholders' interest and subscription rights to shares				0	0
Total net assets	252	384	1,268	1,317	48
Total liabilities and net assets	339	717	1,467	2,128	660
(Stability ratio)					
Current ratio (current assets ÷ current liabilities)	232.4%	116.0%	572.3%	223.7%	
Equity ratio (shareholders' equity ÷ total assets)	74.3%	53.6%	86.5%	61.9%	
Interest-bearing debt ratio (interest-bearing debt ÷ total assets)	11.4%	61.7%	0.0%	32.9%	

Attractive customer base, despite the risk of changes in management policy by data purchasers

(2) Risks

In terms of business risks, changes in management policy by companies that purchase social media data could lead to a cancellation of current subscriptions, and this could have a negative impact on financial results. That said, Hottolink already has approximately 500 corporate customers in Japan. Furthermore, the amount of data purchased is expected to continue to increase mainly based on expansion in the data platform business. Considering these factors, FISCO believes there is an extremely low likelihood that operators would cancel their subscriptions.

In addition, in the event of the Company being unable to secure adequate human resources in the course of strengthening its capacity to develop new services, the Company's development capabilities could be weakened. This could hinder earnings growth. Hottolink has hitherto recruited outstanding talent primarily through mid-career recruitment. However, Hottolink has improved its market recognition by going public, and is now pushing ahead with many more joint research projects with universities. As a result, we believe that conditions are now favorable for the Company to recruit outstanding talent.

Maintain no dividend policy for the near term, allocate funds to investment and human resources

(3) Shareholder return policy

Regarding the return of profits to shareholders, Hottolink plans to pay out dividends to shareholders in the future. However, Hottolink believes that it is currently in an upfront investment phase where it should actively allocate funds primarily to capital investment and the recruitment and training of talent. Accordingly, Hottolink plans to maintain its no dividend policy in FY12/14.

Consolidated Statements of Income

	(¥mn, %)				
	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14 E
Net sales	428	504	640	943	1,019
(YOY)	48.1	17.7	26.9	47.3	8.1
Cost of sales	185	220	297	348	
(Ratio to net sales)	43.2	43.6	46.4	36.9	
Selling, general and administrative expenses	157	176	290	437	
(Ratio to net sales)	36.9	34.9	45.3	46.3	
Operating income	84	107	51	158	147
(YOY)	–	27.4	–51.7	209.8	–7.0
(Ratio to net sales)	19.6	21.2	8.0	16.8	14.4
Ordinary income	83	107	42	146	134
(YOY)	–	28.9	–60.2	247.6	–8.2
(Ratio to net sales)	19.4	21.2	6.6	15.5	13.2
Income before income taxes and minority interests	62	107	39	143	
(YOY)	–	72.6	–63.6	266.7	
(Ratio to net sales)	14.6	21.2	6.1	15.2	
Total income taxes	–10	–1	9	74	
(Effective tax rate)	–	–	25.0	51.9	
Net income	72	108	29	69	58
(YOY)	–	50.0	–73.0	136.1	–15.9
(Ratio to net sales)	16.8	21.4	4.5	7.3	5.7
(Major indicators)					
Number of issued shares (thousand shares)	5	5	5	1,934	9,735
Earnings per share (¥)	12,993.82	97.20	6.46	11.04	5.96
Dividend per share (¥)	0.0	0.0	0.0	0.0	0.0
Net assets per share (¥)	34,539.78	280.36	75.22	130.77	–
Number of employees	15	17	26	28	–
(Average number of temporary employees, not included above)	1	2	8	11	–

Note: Figures are non-consolidated through FY12/12 and consolidated from FY12/13.

■ Growth strategy

Targeting Net Sales of ¥2,418mn and Operating Income of ¥544mn in FY12/15 or FY12/16

As its near-term management targets, Hottolink is targeting net sales of ¥2,418mn and operating income of ¥544mn for FY12/15 or FY12/16. The exercise of the stock options with charge, which will be issued in February 2015, will be conditional upon the achievement of these targets.

As stated earlier, the financial results of Socialgist will be added to those of Hottolink in FY12/15 without any offsets, and amortization of goodwill will no longer be recorded. Therefore, even if existing businesses were to record flat growth, net sales and operating income are both projected to double in FY12/15, with net sales and operating income forecast to increase to around ¥2,100mn and ¥300mn, respectively. In practice, Hottolink and Socialgist could both achieve double-digit annual growth. Accordingly, Hottolink is well on track to achieving its management targets by FY12/16.

The composition of consolidated net sales will change dramatically as a result of the Socialgist acquisition. In FY12/14, the SaaS Business accounted for 75% of net sales, while the Solution Business accounted for 24%. In FY12/15, the Solution Business is projected to expand to nearly 70% of net sales, becoming Hottolink's core business. This change is in line with the Company's medium-term management strategy, specifically its strategy for evolving from a cloud "tool" vendor to a cloud "platform" vendor.

Major changes are reshaping the market environment that surrounds Hottolink. This upheaval is one factor behind the Company's drive to become a cloud "platform" vendor. For example, social big data is now being used in many different sectors, such as finance, politics, news media and government, in addition to traditional marketing fields. Meanwhile, enterprise software vendors are moving to incorporate social big data into their proprietary services in an effort to deliver high value-added services. To convert these changes in the market landscape into business opportunities, Hottolink is seeking to maximize growth opportunities by optimizing and effectively allocating human resources. In fact, Hottolink is making steady progress on collaborative initiatives via business alliances with enterprise software vendors and various media companies.

Expanding Into a Wide Range of Sectors

Month / year	Activities
Feb. 2014	Established links with BI tool for Tokyo's gubernatorial election, in collaboration with WingArc Inc. (politics)
June 2014	Became a core member of The Strategic Council for Creating Data-Driven Innovation, led by the Ministry of Economy, Trade and Industry (multiple industries)
June 2014	Analysis Dashboard for AKB48 General Election (entertainment)
July 2014	Business alliance with FISCO Ltd. (finance)
Aug. 2014	Commenced joint research with NHK Science & Technology Research Laboratories on TV program tweet analysis (broadcasting)

Hottolink also intends to vigorously push ahead with an M&A strategy as part of its medium-term growth strategy.

As the Socialgist acquisition drives immediate expansion in the Company's global network, Hottolink will take full advantage of its strengths in the course of establishing a dominant position as a social media data distribution company. Possible M&A targets could include companies that provide social media data analysis services in the Southeast Asian market. This is because the Southeast Asian market offers strong economic growth potential, and will be watched closely as a market where marketing analysis needs will increase among global companies. By acquiring a social media data analysis service company in the Southeast Asian market, Hottolink intends to cement a solid position as a cloud "platform" vendor in the Southeast Asian market and thereby accelerate growth.

Hottolink is set to expand services by offering an overseas version of kuchikomi@kakaricho, including China data, as a result of converting Socialgist into a subsidiary. This offers strong prospects as it will enable Hottolink to support the business activities of Japanese companies abroad. Similarly, there are high hopes for an overseas version of e-mining, as it will help Japanese companies implement risk management measures in response to unforeseeable events such as strikes at overseas plants and an escalation of anti-Japan sentiment.

Over the medium and long term, Hottolink aims to achieve net sales of ¥10,000mn as early as possible. This will be done by executing three growth strategies: (1) refine services in the social big data marketing field, (2) expand the data platform business in a wide range of sectors in Japan and (3) expand business overseas through M&As. Hottolink will be able to ensure steady profitability because its core operation is the cloud service business. In addition, the Company's only main variable expense is data purchasing costs, which represent a small percentage of net sales, at around 10%. The largest component of fixed expenses is personnel costs, which account for 30-35% of net sales. With the workforce in Japan expected to increase by around 10 employees a year going forward, personnel costs are now expected to increase at a more moderate pace. For these reasons, profitability is expected to improve in step with sales growth.

Future Financial Targets

	FY12/13 Actual	FY12/15 or FY12/16	
			Change from FY12/13
Net sales	943	2,418	256%
Operating income	158	544	344%

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