

Hottolink, Inc.

3680 TSE Mothers

24-Apr.-15

Important disclosures
and disclaimers appear
at the end of this document.

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* This figure is calculated provisionally based on a 10-year amortization period. Accordingly, the figure could change depending on discussions with Hottolink's auditing firm.

■ Higher growth potential driven by the Socialgist acquisition

Hottolink (3680) is developing a core cloud-service business that provides useful information to business managers by gathering and analyzing data posted on Twitter, blogs and other social media. In January 2015, Hottolink acquired Effyis.inc., a U.S.-based social media data provider, for US\$22mn (approximately ¥2,596mn) (service brand name: Socialgist, hereafter "Socialgist").

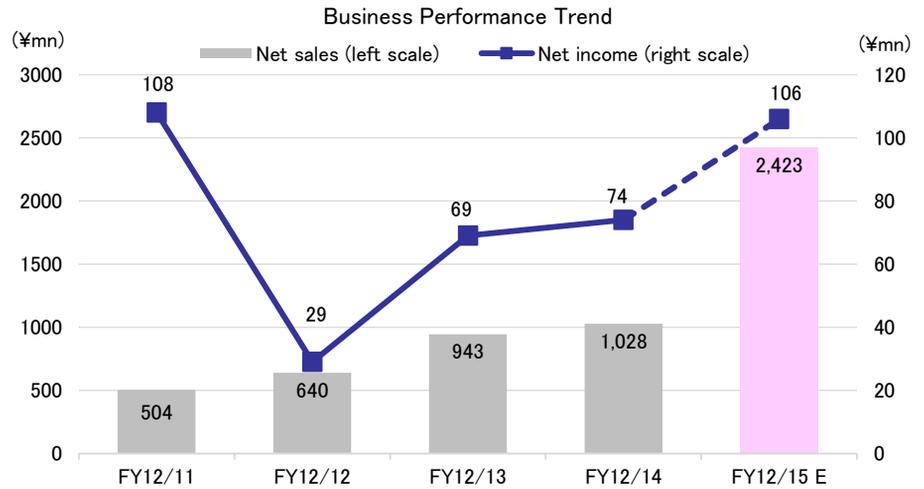
In FY12/15, Hottolink is projecting large increases in sales and earnings due to the conversion of Socialgist into a subsidiary. The Company is forecasting net sales of ¥2,423mn, up 135.7% year on year ("yoy"), and operating income of ¥208mn, up 41.9% yoy. Socialgist's business results are expected to account for about half of Hottolink's overall business performance in FY12/15. Socialgist is the world's only company to acquire a marketing license with full access rights to the data of Sina Weibo, which is the Chinese version of Twitter. Socialgist has continued to deliver double-digit annual growth rate in net sales. Through this acquisition, Hottolink has established a key position in the global market as a data distribution player in the social media space, and the Company's future growth potential has increased further.

Although the Company will adopt International Financial Reporting Standards (IFRS) from FY12/15, Hottolink will announce its business results based on Japanese accounting standards through the third quarter of FY12/15, and will therefore record amortization of goodwill for this period. For this reason, it should be noted that Hottolink's profitability will appear to deteriorate temporarily. Notably, Hottolink is highly likely to incur an operating loss in the first quarter of FY12/15, due to the recording of M&A-related expenses (just over ¥100mn) in addition to an increase in amortization of goodwill (from ¥14mn to ¥90mn).*

Hottolink's existing businesses showed a slower pace of growth in FY12/14. Hottolink believes that this reflects a period of transition as its customer base of social media data users expands from major corporations to middle tier companies. In FY12/15, the Company is forecasting a double-digit annual growth rate in net sales based on a higher number of customers. The increase in customers will be driven by upgrading and expanding the functionality of core services such as kuchikomi@kakaricho and e-mining, and increasing its sales personnel.

■ Check Point

- Hottolink's strength lies in world class big data analysis technologies
- Delivered record results for the second straight year atop higher sales in both of Hottolink's core businesses
- Targeting net sales of ¥10bn as early as possible by driving growth worldwide



* Consolidated figures from FY12/13
* Financial forecasts for FY12/15 are based on IFRS.

Business overview

SaaS Business represents just over 70% of net sales

(1) Description of business

Hottolink has developed tools for gathering and analyzing postings on a variety of social media, such as Twitter, 2channel, Sina Weibo and various blogs. It provides services that put this information to good use in corporate marketing strategies, risk management and other functions.

Looking at Hottolink’s core services, in the SaaS* Business, Hottolink offers services such as kuchikomi@kakaricho and e-mining, for which the Company directly enters into subscription agreements with customers. In the Solution Business, Hottolink provides analysis tools and data to systems integrators and tool vendors, along with consulting services to client companies. The chart below describes each business segment.

Composition of Business Segments and Products and Services

Business Segment		SaaS	Solution Business		
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, Sina Weibo, 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

○SaaS Business

The SaaS Business currently accounts for just over 70% of Hottolink's net sales. In the SaaS Business, Hottolink provides 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 ¥130,000. The monthly usage fee is calculated based 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.).

Notably, 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).

The kuchikomi@kakaricho tool can be applied promptly to a company's marketing initiatives through real-time features such as trend analysis. For this reason, kuchikomi@kakaricho is being steadily adopted primarily by major corporations as a support tool that helps to improve return on investment (ROI) for marketing departments.

Meanwhile, e-mining is a tool that automatically collects data from Twitter, 2channel and other sources according to pre-set risk-related keywords. The e-mining service provides alert functions that enable companies to promptly detect any dispersion of these risks. Monitoring covers a wide range beyond 2channel and Twitter, extending to blogs and various news sites. Each day, e-mining monitors approximately 12 million web pages and reports search results by category.

Recently, there has been a notable increase in incidents that have spread out via postings on social media, such as food contamination problems. It has become crucial for corporate risk management to promptly identify these risks and to implement response measures at an early stage. Accordingly, e-mining is being adopted primarily by major corporations.

○Solution Business

The Solution Business accounts for just over 20% of Hottolink's net sales. In the Solution Business, Hottolink provides two different services: (1) data platform services that provide systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho; and (2) consulting services developed by subsidiary Hottolink Consulting Inc.

Data platform services, which represent the bulk of the Solution Business, involves supplying Hottolink's data and analysis engines for use in the products and services of systems integrators and tool vendors. This allows systems integrators and other third parties to provide higher value-added services to their end customers. The initial deployment fee is ¥500,000 and the 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.

Hottolink's strengths: world-class big data analysis technologies

(2) Hottolink's strengths

Hottolink's strengths lie in having world class big data analysis technologies, in addition to Japan's largest coverage of social media data. Hottolink's outstanding technological capabilities are highlighted by the use of its data and analysis engines in the customer relationship management (CRM) services provided by salesforce.com, Inc., a global cloud computing services enterprise.

Hottolink continues to internally develop next-generation technologies in the big data field, with development personnel accounting for approximately 41% of its employees (including temporary staff and contractors). At the same time, Hottolink is conducting joint research and other activities by providing data to universities including the University of Tokyo, Tokyo Institute of Technology, and Waseda University. Another strength of the Company is that it is able to recruit some of Japan's best talent in the course of undertaking these sorts of joint research activities.

■ Financial results trends

Delivered record results for the second straight year atop higher sales in both of Hottolink's core businesses

(1) Outline of performance trends for FY12/14

Consolidated financial results for FY12/14 were announced on February 12, 2015. Net sales were ¥1,028mn, up 8.9% yoy, operating income was ¥146mn, down 7.3%, ordinary income was ¥163mn, up 11.7%, and net income for the year was ¥74mn, up 7.2%.

Although net sales fell short of the Company's initial forecast of ¥1,261mn, Hottolink delivered record net sales for the second straight year atop higher sales in both the core SaaS Business and the Solution Business. On the earnings front, operating income declined mainly because of higher personnel costs (up ¥47mn yoy) due to an increase in development and sales personnel. However, ordinary income remained on a growth track, owing to the recording of foreign exchange gains of ¥28mn under non-operating items.

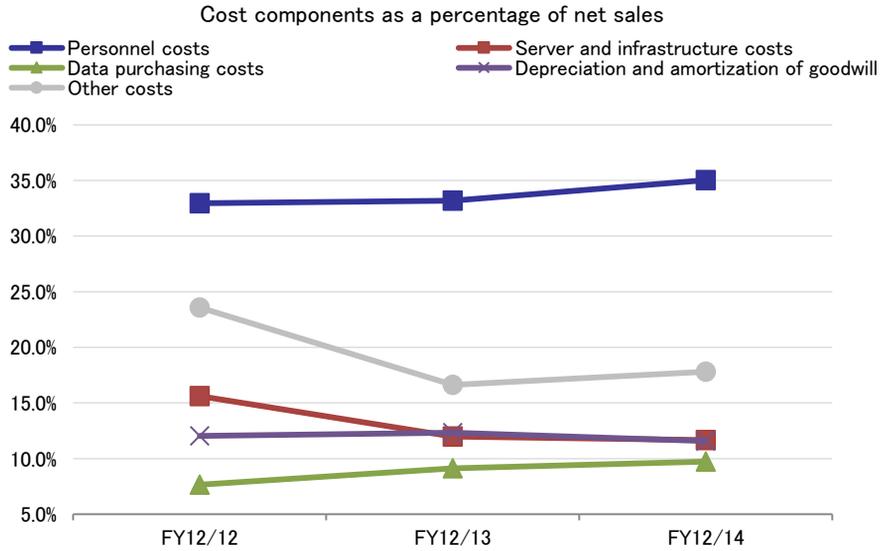
The operating margin was 14.3%, a decrease of 2.5 percentage points yoy. Looking at cost components as a share of net sales, personnel costs rose 0.9 percentage points, while other costs increased 1.2 of percentage point. This indicates that higher personnel costs were the primary factor behind the lower profit margin.

Financial results for FY12/14

	FY12/13		Company plan	FY12/14			
	Actual	vs sales		Actual	vs sales	Y-o-Y change	vs plan
Net sales	943	–	1,019	1,028	–	8.9%	0.9%
Cost of sales	348	36.9%	–	395	38.4%	13.4%	–
Selling, general and administrative expenses	437	46.3%	–	486	47.3%	11.3%	–
Operating income	158	16.7%	147	146	14.3%	–7.3%	–0.7%
Ordinary income	146	15.5%	134	163	15.9%	11.7%	21.6%
Extraordinary gains (losses)	–2	–	–	–9	–	–	–
Net income	69	7.3%	58	74	7.2%	7.2%	27.6%

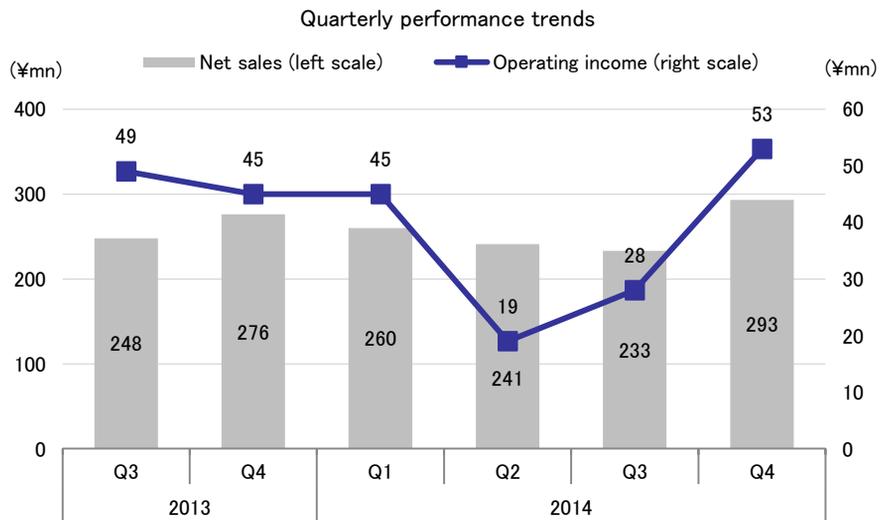
Note: Company plans refer to forecasts announced in November 2014.

In terms of quarterly performance trends, it is noteworthy that the Company's business results have been picking up momentum in FY12/14, with net sales showing a double-digit increase in the fourth quarter, after struggling to grow in the first three quarters.



A strong showing by the Solution Business, despite a slight slowdown in the SaaS Business

(2) Net sales by service





Hottolink, Inc.
3680 TSE Mothers

24-Apr.-15

○SaaS Business

Net sales in the SaaS Business rose 4.2% yoy to ¥749mn, slightly slower than its previous double-digit growth rate. This was mainly because the number of active corporate subscribers increased only slightly from the previous fiscal year-end, which primarily reflected the expiry of subscriptions and cancellations among short-term users, despite steady growth in orders for kuchikomi@kakaricho and e-mining.

Many of the short-term corporate users whose subscriptions expired were middle-tier companies, SMEs and other firms. The majority of these companies were trialing the service. Most of these companies do not yet have the personnel, internal organizations and other resources in place to effectively use Hottolink's tools and apply these tools to their business strategies. Consequently, quite a few of these companies seem to have terminated their subscriptions after using the services for only a short period. That said, a similar pattern of events unfolded when major companies began introducing these tools in 2009 or so. Therefore, Hottolink believes that middle-tier and smaller companies will eventually deploy the personnel and establish the internal organizations needed to effectively use social media analysis tools. In the process, the number of active corporate subscribers should return to a faster pace of growth.

○Solution Business

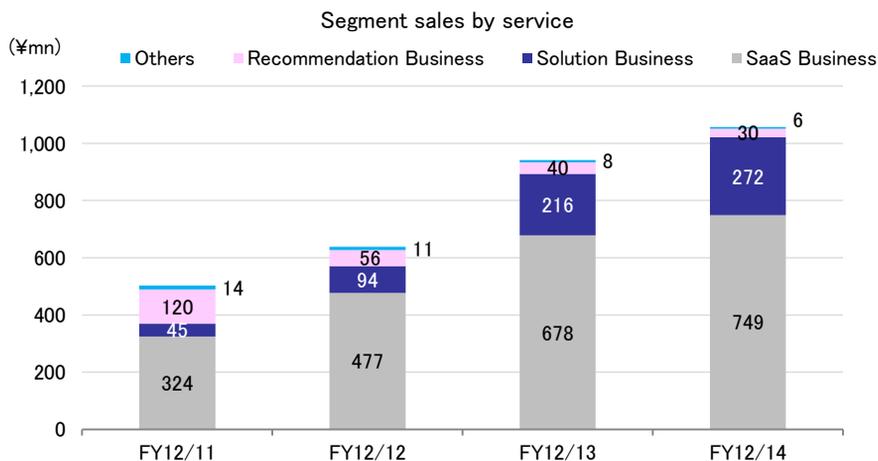
Net sales in the Solution Business were strong, increasing 25.6% yoy to ¥272mn. Looking at the components, data platform services posted brisk net sales, driven partly by the benefits of increasing sales personnel in step with the ongoing expansion of application fields for social media data and the "socialization" of enterprise software in various fields. Meanwhile, the consulting business also saw steady growth in net sales 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 as changes in market conditions were more gradual than initially anticipated by the Company.

Significantly higher net sales and earnings projected in FY12/15

(3) Financial forecasts for FY12/15

In terms of consolidated financial forecasts for FY12/15, Hottolink is projecting significant increases in both net sales and earnings. Net sales are projected at ¥2,423mn, up 135.7% yoy. Operating income is forecast at ¥208mn, up 41.9%, and net income for the year is forecast at ¥106mn, up 42.8%. The largest contributor to the Company's business results will be Socialgist, which was converted into a wholly owned subsidiary following an investment of US\$22mn (approx. ¥2,596mn) in January 2015. Although Socialgist has not disclosed its financial forecasts, we believe that Socialgist will account for around half of Hottolink's consolidated business results.

The projected growth rate for operating income is small compared with that of net sales. This is attributable to anticipated M&A-related expenses (just over ¥100mn) and higher personnel costs. The number of employees is projected to reach 104 as of December 31, 2015, comprising 37 Socialgist employees and new staff (+7 employees) following an increase in sales and development personnel.



Note: The Recommendation Business was transferred to the SaaS Business in FY12/14 due to a contraction in net sales.

OSocialgist

Established in 2000 as a U.S.-based startup, Socialgist collects and provides social media data from sources such as blogs, bulletin boards, Q&A and review sites worldwide. Besides its advanced technological capabilities in the data streaming field, Socialgist is notable for being the world's only company to acquire a marketing license with full access rights to the data of Sina Weibo, which has been dubbed the "Chinese Twitter" (China's largest social networking service (SNS) with over 600 million accounts and 120 million posts a day). Sina Weibo data sales currently represent just over 30% of Socialgist's net sales.

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 marketing agent rights to Sina Weibo data in the Asia-Pacific region outside China.

Looking at Socialgist's latest business performance, net sales have continued to show a strong double-digit annual growth rate in step with expansion in the social media market. Incidentally, although Socialgist has not disclosed its financial results for FY12/14, we believe that its net sales rose to around US\$9mn, while its operating profitability tumbled into the red. However, excluding special factors, operating profitability was positive. The main factors behind this performance were measures accompanying the conversion of Socialgist into a subsidiary, namely the recording of an allowance for doubtful accounts, as well as the strategic disposal of negative items from the company's books through to the end of the previous fiscal year.

Goodwill of around ¥3,000mn on the Socialgist acquisition exceeds the acquisition cost of approximately ¥2,596mn, and Socialgist's net assets stood at negative ¥893mn as of December 31, 2013. Extrapolating back from these figures, we can estimate that Socialgist incurred a net loss for the year of between ¥200mn and ¥300mn in FY12/14.

Socialgist's Financial Results

	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



Hottolink, Inc.
3680 TSE Mothers

24-Apr.-15

○ Adoption of IFRS

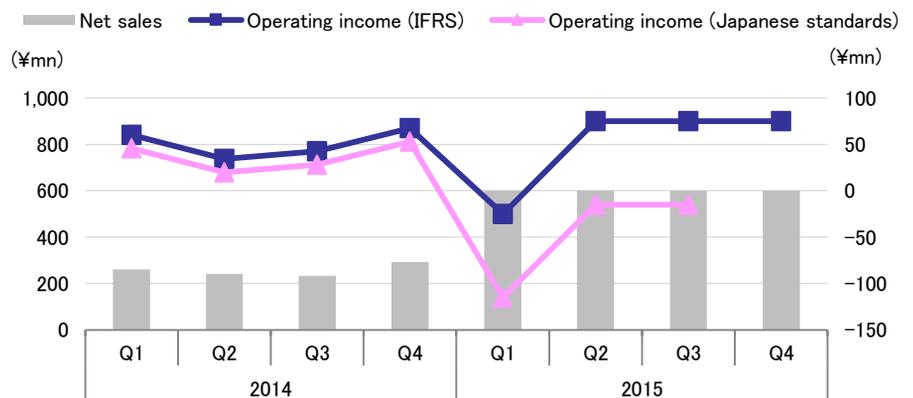
Hottolink has announced that it will transition from Japanese accounting standards to international accounting standards, i.e., IFRS, beginning with its consolidated financial results for FY12/15. The biggest difference between the two accounting standards lies in the treatment of amortization of goodwill. Under Japanese accounting standards, companies must reflect amortization of goodwill in profit and loss for the fiscal year. However, under IFRS, companies are not required to book amortization of goodwill.

It should also be noted that Hottolink will only start adopting IFRS with its announcement of full-year financial results for FY12/15. This means that its financial results through FY12/15 Q3 will be announced based on Japanese accounting standards. Even if the company’s net sales were to double in the first three quarters compared with the previous year, its earnings are highly likely to decline as amortization of goodwill pressures profits. Notably, Hottolink is highly likely to incur an operating loss in FY12/15 Q1, partly due to anticipated M&A-related expenses.

To make the situation easier to understand, the following is a rough outline of the trend in Hottolink’s quarterly financial results. First, let’s take a look at a simplified illustration of the Company’s full-year projections in which projected net sales and operating income are divided evenly on a quarterly basis. In this case, Hottolink should generate net sales of around ¥600mn every quarter. In terms of operating profitability under IFRS, Hottolink will incur an operating loss of ¥25mn in FY12/15 Q1 (including M&A-related expenses of ¥100mn), followed by steady quarterly operating income of ¥75mn from FY12/15 Q2 onward.

In contrast, under Japanese accounting standards, Hottolink will record amortization of goodwill of ¥90mn every quarter (including amortization of goodwill on the Socialgist acquisition of around ¥75mn). Therefore, amortization of goodwill will be a factor that pushes down earnings. Accordingly, Hottolink is highly likely to post lower profits on higher net sales through FY12/15 Q3, compared with the same period last year. In actuality, considering that net sales are projected to increase continuously in FY12/15, the amount of the operating loss in FY12/15 Q1 could be slightly larger than assumed here. Nevertheless, Hottolink is expecting higher profits on higher net sales for FY12/15 on a full-year basis, as it will be announcing full-year financial results based on IFRS.

Illustration of projected financial results



* For FY12/15, the Company’s full-year projections for net sales and operating income are divided evenly on a quarterly basis. However, earnings appear to decline in FY12/15 1Q due to the recording of M&A-related expenses of ¥100mn in that quarter alone.



Hottolink, Inc.
3680 TSE Mothers

24-Apr.-15

○ Outlook for existing businesses

Looking at earnings excluding amortization of goodwill and M&A expenses, Hottolink expects a double-digit annual growth rate in net sales and earnings in both existing businesses and the Socialgist business.

In existing businesses, Hottolink launched an upgraded version of e-mining in January 2015. Specifically, the Company dramatically enhanced its user friendliness by, for example, enabling e-mining to support various smart devices, so that users are able to monitor the tool from any location. In addition, the user interface was improved by adding dashboard functions and navigation functions, so that anybody can effectively use the tool. The upgraded version of e-mining has earned high marks from customers, and a similar version upgrade is planned for kuchikomi@kakaricho this spring. Hottolink is implementing a strategy for increasing net sales in the SaaS Business and reducing the subscription cancellation rate for customers among middle-tier companies by enhancing the user friendliness of these tools.

In the Solution Business, Hottolink expects to increase net sales to existing corporate partners that are embedding Hottolink's data and analysis engines into their own products and services. Additionally, Hottolink will seek to develop new partner companies in this business.

In the social media analysis field, the market environment is showing signs of positive tailwinds, particularly following the emergence of food contamination problems that became a major social concern at the beginning of the year. The key to driving faster growth in this environment lies not just in winning more new accounts, but also in reducing the subscription cancellation rate.

○ Outlook for Socialgist's financial results

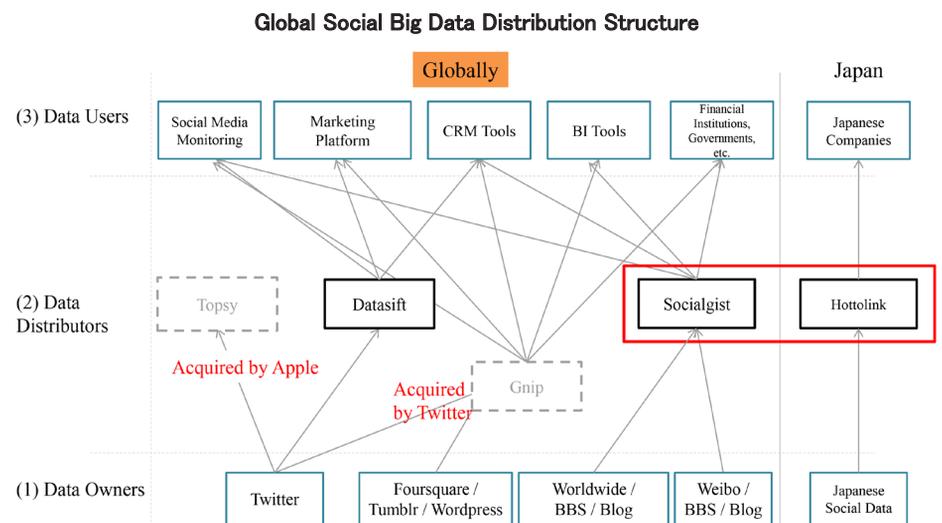
Meanwhile, Socialgist is expected to continue delivering double-digit net sales growth atop strong sales of Sina Weibo data provision services. The main factor behind this outlook is the growing need for social media analysis services as market strategies and risk management in China becoming increasingly crucial to global corporations. In regard to personnel, Socialgist's fixed costs will remain mostly unchanged as it only needs to increase back office staff by one or two employees. Therefore, Socialgist is expected to contribute positive operating income to Hottolink from the beginning of the fiscal year in line with its projected increase in net sales. Incidentally, Socialgist's net sales will be included in the Solution Business.

Growth strategy

Targeting net sales of ¥10bn as early as possible by driving growth worldwide

Guided by the business concept of “Big Data x Social x Cloud,” Hottolink’s strategy is to drive growth by providing social media data and analysis engines in various market sectors. In particular, the conversion of Socialgist into a subsidiary is highly significant as it will enable Hottolink to capture growth in overseas markets, as well as in Japan.

The structure of the social big data distribution market can be broadly divided into three layers: data owners, data distributors, and data users. Of these, Hottolink and Socialgist belong to the data distributor layer. Data distributors possess marketing licenses for social media data and fulfill the role of bridging social media data owners (such as Twitter and 2channel) and data users (corporate customers). Looking at trends in the global market, the data owners have been converting these data distributors into subsidiaries for the past one or two years. These trends can be interpreted a sign of the increasing importance of data distribution companies in the market.



In this market environment, Hottolink believes that the Socialgist acquisition has delivered the following three main benefits:

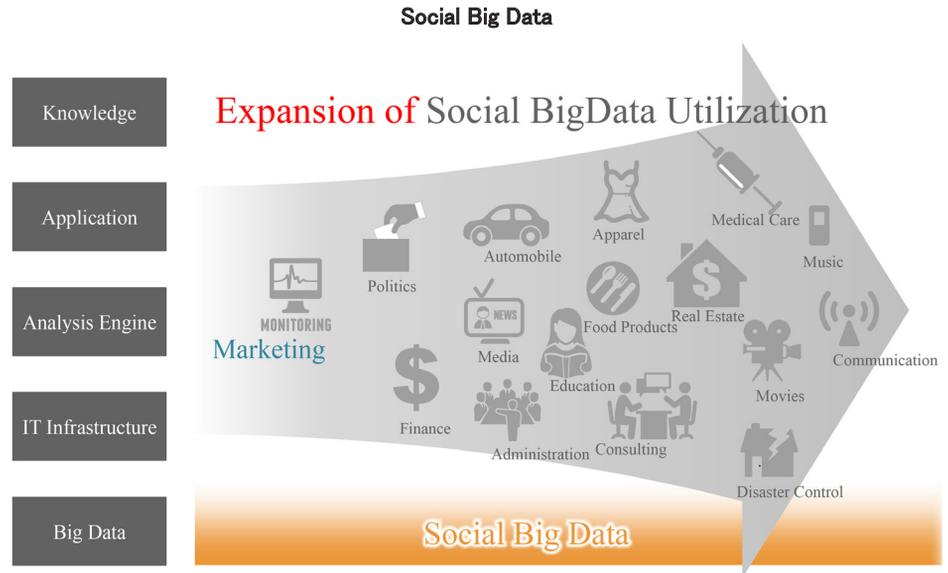
- Obtained a key position as a data distributor in the global social big data industry
- Obtained businesses, services, and a customer base in the global market that have the same business volume and growth potential as Hottolink
- Obtained internationally minded personnel who are able to build businesses on an equal footing with major global corporations

Furthermore, Hottolink plans to develop a sophisticated analysis service by integrating its data analysis technologies and Socialgist’s data streaming technologies.

Meanwhile, in the Japanese market, the importance of social media analysis has continued to increase year after year. Notably, the SNS usage rate has increased to 60% of Japan’s population and big data related markets are projected to grow rapidly at a pace of 37.5% per year from 2012 to 2017. Therefore, Hottolink should continue to benefit from positive tailwinds in the Japanese market.

24-Apr.-15

In terms of market sectors, future growth in demand is anticipated in all manner of sectors. These include not only consumer goods manufacturers, but also politics, news media, finance and government. Growth in social media analysis services appeared to temporarily slow down as 2014 ended up as a transitional year for the penetration of these services. However, as noted earlier, Hottolink’s strategy is to drive faster growth by expanding the range of market sectors through the development of new services, along with reducing the subscription cancellation rate by providing highly user-friendly tools. In addition, Hottolink will continue to proactively execute business alliances in the course of developing markets.



Source: Disclosure materials issued by Hottolink

Hottolink is targeting net sales of ¥10,000mn as early as possible by driving this growth worldwide over the medium and long term. It will be straightforward for Hottolink to ensure relatively steady profitability because its core operation is the cloud services business, which is a stock-type business that generates recurring revenues from a fixed customer base. 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 33–35% of net sales. With Hottolink’s workforce in Japan expected to increase by only around several employees a year going forward, its personnel cost ratio is projected to gradually decrease. For these reasons, Hottolink’s profitability is expected to steadily improve in step with sales growth.

■ Financial status and risk factors

Projected upturn in ROE, despite a further decrease in ROA

(1) Financial status

Looking at the financial status of Hottolink as of December 31, 2014, total assets were ¥3,244mn, up ¥1,777mn from December 31, 2013. The main factor increasing total assets was short-term loans payable of ¥1,700mn for the Socialgist acquisition. Cash and deposits increased by ¥1,823mn, roughly in line with the increase in short-term loans payable.

In addition, given that Hottolink completed payment of the entire acquisition cost of Socialgist (approx. ¥2,596mn) in January, Hottolink appears to have executed additional new borrowings to raise business funds. Initially, Hottolink was planning to repay the short-term loans payable by exercising subscription rights to shares issued in January via a third-party allotment. However, Hottolink did not exercise these subscription rights based on its expectations of a higher stock price in the future (The exercise price is ¥1,223.). Instead, Hottolink has refinanced the short-term loans payable by executing long-term loans payable. For this reason, the Company no longer faces any cash flow issues.

Looking at key financial indicators, Hottolink's stability indicators have slightly deteriorated. Specifically, there has been a decline in the equity ratio and a higher interest-bearing debt in step with the procurement of debt. Although the debt level is likely to reach a short-term peak in FY12/15 Q1, we believe that the debt level is not problematic in light of the prevailing ultra-low interest rates. In addition, Hottolink plans to repay debt through funds generated by growth in its financial results and the exercise of subscription rights to shares.

Looking at profitability indicators, ROA and ROE both decreased yoy in FY12/14, mainly due to increases in total assets and net assets, respectively. In FY12/15, ROA is likely to decrease further, mainly because of a projected increase of more than ¥2,000mn in total assets due to the conversion of Socialgist into a subsidiary. Meanwhile, an upturn in ROE is projected, mainly based on an increase in earnings, along with the fact that Socialgist has accumulated losses (a factor that will reduce net assets). Furthermore, the operating margin is expected to decrease to a single-digit level of 8.6% in FY12/15, mainly based on anticipated M&A expenses. However, the operating margin should return to the 10% level from FY12/16 onwards.

Consolidated balance sheets

	(¥mn)				
	FY12/11	FY12/12	FY12/13	FY12/14	Changes
Current assets	124	307	1,113	2,934	1,821
(Cash and deposits)	58	226	949	2,772	1,823
Non-current assets	215	409	353	309	-44
Total assets	339	717	1,467	3,244	1,777
Current liabilities	53	265	194	1,891	1,696
Non-current liabilities	33	67	3	2	-1
(Interest-bearing debt)	38	236	0	1,700	1,700
Total liabilities	87	333	198	1,893	1,695
Total net assets	252	384	1,268	1,350	81
(Stability ratio)					
Current ratio (current assets ÷ current liabilities)	232.4%	116.0%	572.3%	155.2%	
Equity ratio (equity ÷ total assets)	74.3%	53.6%	86.5%	41.6%	
Interest-bearing debt ratio (interest-bearing debt ÷ equity)	15.4%	61.7%	0.0%	125.9%	
(Profitability ratios)					
ROA (ordinary income ÷ total assets)	31.2%	8.1%	13.4%	6.9%	
ROE (net income ÷ equity)	48.6%	9.2%	8.4%	5.7%	
Operating margin	21.2%	8.1%	16.7%	14.3%	

* Figures from FY12/13 onward are shown on a consolidated basis.

Financial results are susceptible to the risk of changes in contractual conditions

(2) Risks

Looking at risks that could affect financial results, changes in management policy by companies that purchase social media data could lead to a cancellation of current subscriptions, and this could have an 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. Therefore, FISCO believes there is an extremely low likelihood that subscriptions will be cancelled.

The same holds true for Socialgist. Notably, in the event of a change in contractual conditions with Sina Weibo, a major data supplier, there is the risk of an impact on financial results.

Maintain no dividend policy for FY12/15 due to current upfront investment phase

(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 investment in development, and the recruitment and training of talent. Accordingly, Hottolink plans to maintain its no dividend policy in FY12/15.

Consolidated statements of income

	(¥mn)				
	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15
Net sales	504	640	943	1,028	2,423
(YOY)	17.7%	26.9%	–	8.9%	135.7%
Cost of sales	220	297	348	395	–
(Ratio to net sales)	43.8%	46.5%	36.9%	38.4%	–
Selling, general and administrative expenses	176	290	437	486	–
(Ratio to net sales)	35.0%	45.4%	46.3%	47.3%	–
Operating income	107	51	158	146	208
(YOY)	26.2%	–51.7%	–	–7.3%	41.9%
(Ratio to net sales)	21.2%	8.1%	16.7%	14.3%	8.6%
Ordinary income	107	42	146	163	–
(YOY)	28.6%	–60.2%	–	11.7%	–
(Ratio to net sales)	21.2%	6.6%	15.5%	15.9%	–
Income before income taxes and minority interests	107	39	143	154	–
(YOY)	71.2%	–63.5%	–	7.1%	–
(Ratio to net sales)	21.3%	6.1%	15.3%	15.0%	–
Total income taxes	–1	9	74	79	–
(Effective tax rate)	–	25.0%	51.9%	51.8%	–
Net income	108	29	69	74	106
(YOY)	48.8%	–73.0%	–	7.2%	42.8%
(Ratio to net sales)	21.5%	4.6%	7.3%	7.2%	4.4%
(Major indicators)					–
Average number of shares during the period (thousand shares)	5	5	5,899	9,727	–
Earnings per share (¥)	97.20	6.46	11.74	7.63	10.89
Net assets per share (¥)	280.36	75.22	131.20	138.75	–

* Figures from FY12/13 onward are shown on a consolidated basis.

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