

PIPEDO HD, Inc.
 3919 Tokyo Stock Exchange First
 Section

8-Jun.-16

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

FISCO Ltd. Analyst
 Noboru Terashima

*1 PIPEDO HD is a pure holding company established by a single transfer of shares from the former PIPED BITS on September 1, 2015, with the former PIPED BITS becoming its wholly owned subsidiary on the same date. In conjunction with this, PIPED BITS was delisted from the Tokyo Stock Exchange First Section on August 27, 2015, and PIPEDO HD was listed on the same First Section on September 1, 2015.

*2 The results are those of PIPED BITS up until August 2015, and then those of PIPEDO HD from September 2015 onward. YoY comparisons here and below are against the results of PIPED BITS.

■ Providing the SPIRAL® Platform in Cloud Format

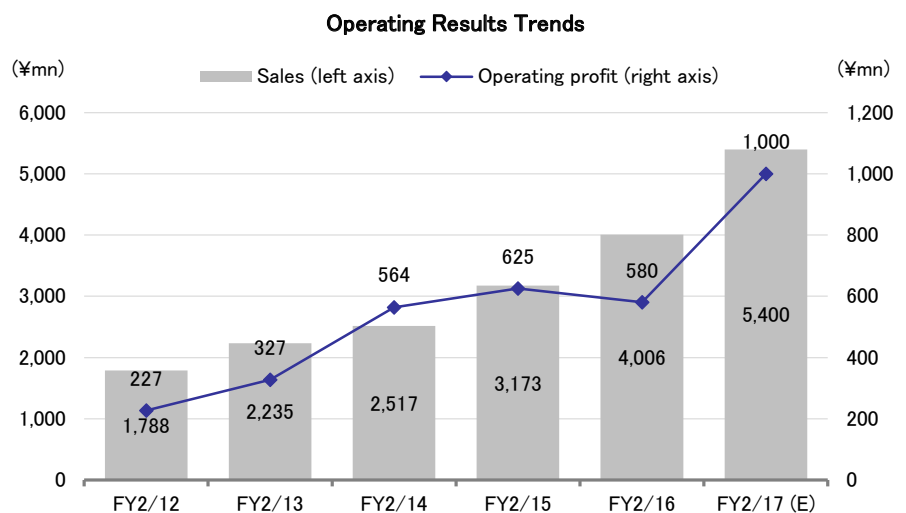
PIPED BITS, which is the consolidated subsidiary of PIPEDO HD <3919>*1, is a unique IT company that provides its proprietary product SPIRAL® (middleware) in cloud format. Not only does it provide this platform to large- and mid-sized companies such as national clients, and SME-sized Slers (system integrators), but also undertakes the sale of applications it develops itself aimed at specific industries (such as the beauty salon and construction industries).

In the results for FY2/16*2, sales were ¥4,006mn (up 26.2% YoY), operating profit was ¥580mn (down 7.1%), recurring profit was ¥560mn (down 11.7%), and net profit was ¥247mn (down 33.4%). Net sales were mostly in line with the initial plan, but operating profit was lower than planned, declining YoY due to vigorous upfront investments. Despite the decline in profits, net sales grew steadily, relieving any need for serious concern.

FY2/17 is the final year of the three –year Mid-term Management Plan and the Company's realistic targets for this year are sales of ¥5,400mn (up 34.8% YoY), operating profit of ¥1,000mn (up 72.2%), recurring profit of ¥990mn (up 76.5%), and profit attributable to owners of parent of ¥580mn (up 133.9%). The forecast is for fairly rapid growth, but this seems quite achievable considering the low-level of profit in the previous fiscal year due to aggressive investment and the cloud-based nature of the core business. Trends such as the number of active accounts will also need to be watched closely, along with the conditions surrounding the introduction of the My Number National ID system.

■ Check Point

- Started operations from a service for safely storing and effectively leveraging information assets
- Increased sales and decreased profits due to aggressive upfront investment
- Forecast sales to rise 34.8% YoY to ¥5.4bn, net profit to rise 133.9% to ¥5.8 bn



■ Corporate Outline

Started operations from a service for safely storing and effectively leveraging information assets

The Company is a pure holding company established by a single transfer of shares from the former PIPED BITS on September 1, 2015. As of March 2016, it has nine consolidated subsidiaries and one equity method affiliate. However, PIPED BITS remains the core company of the Group as before, and the following corporate history and business details are those of PIPED BITS.

(1) Corporate history

PIPED BITS was established by its founder and current President of PiPEDO HD, Nobuaki Satani, in April 2000. For most companies, data acquired in the course of business including customer attributes and e-mail addresses form important “information assets”, so the Company commenced operations with services to effectively use them at the same time as managing them securely. What was developed in-house in order to carry out this business was the proprietary SPIRAL® platform for data management. (Details to follow). Subsequently, the Company developed a range of applications based around SPIRAL® and has been engaged up to the present time in rolling-out these business applications.

PIPEDO HD History

Sep. 2015	PIPEDO HD was established by a single transfer of shares from PIPED BITS Co., Ltd. and listed on the Tokyo Stock Exchange First Section (PIPED BITS Co., Ltd. was delisted in August 2015). PIPEDO HD acquired the shares of the four subsidiaries of PIPED BITS Co., Ltd. by a property dividend, converting them into its own subsidiaries.
Dec. 2015	Made additional investment into Current Inc., converting it into a subsidiary
Mar. 2016	Established GONDOLA CO., LTD., FRIENDIT Inc., and BIREKI Co., Ltd.

PIPED BITS History

Apr. 2000	Established as K.K. Sahara in Tokyo's Setagaya Ward, aiming at e-mail based marketing support software, after receiving a capital investment from Current Inc. (Tokyo, Setagaya Ward).
Oct. 2000	Developed e-mail marketing platform “SPIRAL Messaging Place®”.
Dec. 2000	Spun-off to become independent via an MBO, and relocated headquarters to 1-12-15 Jinnan, Shibuya Ward, Tokyo.
Jan. 2001	Changed trade name to PIPED BITS Co., Ltd.
Feb. 2001	Launched SPIRAL Messaging Place® ASP service.
Apr. 2001	Introduced a sales agent system to SPIRAL Messaging Place®.
Dec. 2001	Introduced SLA (Quality Certification System) to SPIRAL Messaging Place®.
Dec. 2006	Listed on the TSE Mothers exchange.
Apr. 2009	Changed the service name from SPIRAL Messaging Place® to SPIRAL®.
Jan. 2010	Acquired certain operations, namely the CMS and EC businesses from HiDESIGNS Inc.
Apr. 2010	Launched apparel EC platform “SPIRAL EC®”.
Dec. 2010	Started to tackle the Internet advertising and Internet media-related areas. Launched Media EC operations.
Mar. 2011	Acquired the Apparel web solution business from Gras CORPORATION. Launched E-Commerce Business to operate, manage and develop e-commerce sites tailored to the apparel and fashion space.
Sep. 2011	Increased capital via a 3rd party capital allotment to United Ventures Inc. Acquired “Net de Kaikei”, a cloud-based accounting business, from Business Online Co., Ltd.
Mar. 2012	Acquired “Biyoshimeikan project”, a hair catalogue publication business, from SAMURAI PROJECT CORPORATION. Made Paperless Studio Japan Co., Ltd. a subsidiary.
Mar. 2014	Made AsBase Inc. a subsidiary via a stock swap.
Feb. 2015	Invested in Sprinklr Japan KK to make inroads into the SNS business.
Mar. 2015	Subscribed to a third party allocation of shares by Current, Inc. Invested in Sprinklr, Inc. (United States)
May 2015	Established Publica Co., Ltd.
July 2015	Began providing My Number total solutions Established WEARHEART Inc.

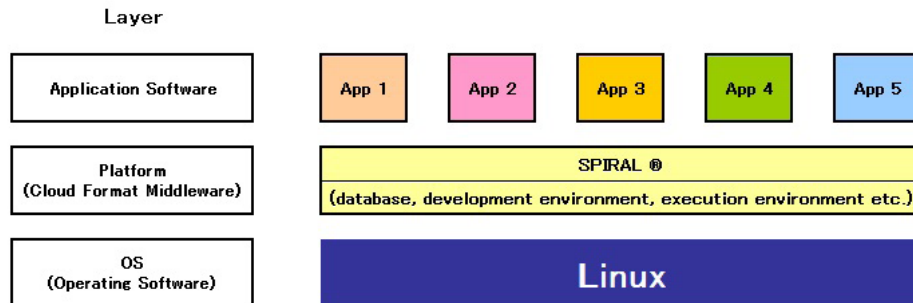
The flagship product is SPIRAL®, developed in-house

(2) Description of business

a) Product outline

In a word, the Group's flagship business is its proprietary platform SPIRAL®, and the provision to users of related applications, not by way of outright sales but rather in a rental format (a monthly fee method). Within the layers of software, SPIRAL®'s position may be referred to as a cloud format middleware.

Positioning of SPIRAL®



Source: Prepared by FISCO from company materials

Generally, when developing operational and other systems, the majority of companies need to purchase the hardware required to develop and run the system, the operating system (OS), development environment (tools), database(s), middleware and other elements themselves (or outsource development), and by combining them, develop the base (platform) in order to run the system. Additionally, they must also bear the burden (cost) of maintaining it post-development. However, with SPIRAL® developed by PIPED BITS, because the development tools are embedded, not only can a range of applications be easily developed, given that it also has a database built-in, it also enables the use and sharing in each application of customer and other data stored in SPIRAL®. Further, these applications and data classes may be easily reproduced and delivered. This provides a significant advantage over package software.

As a result, corporate customers may easily and holistically operate with (use) and manage data, and at the same time greatly reduce application development costs by using SPIRAL®. Additionally, given that it is a pay-for-use monthly fee format platform, it further helps to reduce costs. Starting with major financial institutions, the companies that have introduced SPIRAL® include many preeminent corporations.

Recently in the IT industry, the majority of services is provided in a cloud format, and is described in a variety of ways depending on the content of the particular cloud format service. The Company's SPIRAL® belongs to the area called PaaS (Platform as a Service).

b) Description and pricing of major products

As noted above, the Company's flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it are SME-sized system integrators (SIs) that undertake development aimed at large tier companies and main street SMEs that internally develop in-house operating systems and other software, and also web production and web development companies. By using SPIRAL®, the Company is able to internally develop applications aimed at specific industries and users, and then also sell these applications. These types of core products are not sold as a package, but are sold entirely in a cloud-based (monthly fee) format. Below are the major products and their monthly pricing (minimum fees).

It goes without saying that in the Company's business model, increases in active accounts (fee-based) is linked to sales growth. However, the fees mentioned below are only basic or minimum fees and the actual fees change depending on data volumes (pay-for-use). Therefore, sales do not simply equal the number of accounts multiplied by the basic fee. But in order to view sales trends, the number of active accounts is an important indicator.

SPIRAL®: the Company's flagship product. The core platform including installed database(s), development environment, and execution environment. From ¥25,000/month.

SPIRAL PLACE®: Cloud format groupware possessing website creation and updating functions, and at the same time linked to SNS. As groupware, it allows web content enhancement and updating as well as traffic analysis via simple (manual) operations while sharing calendars and files, being also linked to Facebook and Twitter. It is highly regarded by retail chain stores and others that employ large numbers of staff. Basic fees are from ¥6,000/month.

SPIRAL EC®: An e-commerce (EC) platform focused on apparel. While pursuing a sophisticated brand image for EC sites aimed at apparel, it is highly regarded by the industry for resolving a number of issues, such as simplifying update procedures and also containing this within a low budget. Usage fees are pay-for-use with a maximum fee of 5% of the distribution amount.

Net de Kaikei® and Net de Aoiroshinkoku®: A cloud format accounting service targeting small- to medium-sized companies and sole proprietors. It is building up a brand in clerical accounts administration for small- and mid-tier businesses. Its operations were acquired and sales launched in September 2011.

SPIRAL Affiliate®: A holistic ASP affiliate management service that reduces the issues and costs associated with introducing and operating affiliate marketing for advertisers. It contains a number of special features, such as free upfront costs for SPIRAL® users only.

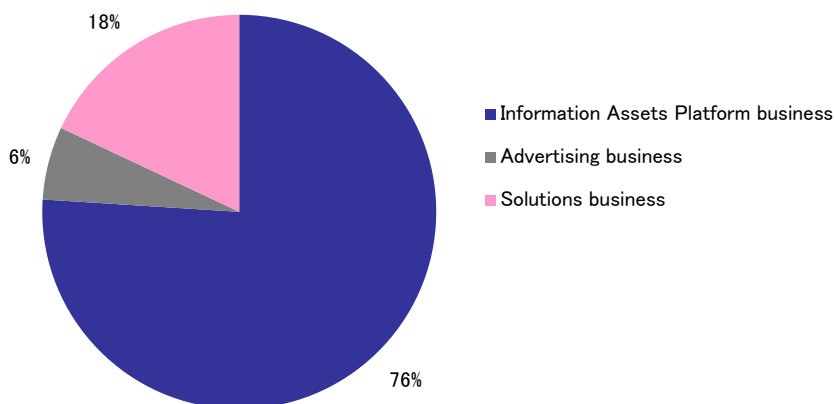
Other: there are also applications aimed at specialist fields and industry sectors. Further, through alliances with various specialist companies, the goal is to expand the use and applications of SPIRAL®.

c) Operating segments

Based on the major products such as those noted above, the Company's operating segments are classified as set out below.

	FY2/16	
	Sales	Operating profit
Information Assets Platform business	3,041	552
SPIRAL® SPIRAL PLACE® Net de Kaikei®, Net de Aoiroshinkoku® Other	Provision of PaaS centered on SPIRAL®	
Advertising business	222	53
SPIRAL Affiliate® Advertising	Advertising services centered on affiliate advertising	
Solutions business	743	-25
Apparel EC management BIM consulting, contracting of other design proposals	Apparel EC management, contracting of other design proposals, etc.	

Sales by Segment



d) Other consolidated subsidiaries and their business operations

In addition to the mainstay businesses (PIPEDO BITS) described above, the Company also operated various related businesses via the following subsidiaries.

o **Paperless Studio Japan Co., Ltd.**

Paperless Studio Japan is involved in the building project production and management and BIM (Building Information Modeling) consultant businesses. The company also runs BIM and CIM personnel courses for people working in design and construction. In May 2012, the company started providing the BIM construction information platform ArchiSymphony®.

○ **AsBase Inc.**

AsBase develops and provides the ASP/SaaS type call center platform service BizBase (groupware, work flow, attendance management, expense calculation, transportation fee calculation, business talk records, customer management, work progress, time card, shift management, screen sharing and remote operation, point management, etc.)

○ **Publica Co., Ltd.**

A specialist company for providing open data services to local governments and government agencies. Publica promotes the opening of data held by government agencies, local governments and private-sector businesses, and develops services that make use of the data to enable it to be managed autonomously. Publica has developed a system for internet distribution of local government public relations bulletins—the “My Public Relations Bulletin” system.

○ **WEARHEART Inc.**

WEARHEART was established in July 2015 to develop e-commerce for the women’s magazine ViVi published by Kodansha Ltd. The company is primarily responsible for the aspects of system development, website construction, product purchasing, and distribution. It provides information as well as new products and services that lead the apparel and fashion industry.

○ **GONDOLA CO.,LTD**

GONDOLA was formed by the corporate split of a previously existing media strategy company on March 1, 2016. The company is active in the three service domains of advertising solutions, web solutions, and social management. By combining an original service line-up in planning, production, system development, and operation, with IT utilizing information management platforms such as SPIRAL Affiliate®, SPIRAL® and Sprinklr, GONDOLA enables one-stop solutions for corporate management issues and business activity optimization.

○ **FRIENDIT Inc.**

FRIENDIT provides comprehensive support for e-commerce related system implementation, online shop management, and omni-channels at the strategic level. Assisting customers with the common issues of personnel shortages and experience gaps, FRIENDIT produces marketing activities that directly boost sales volume and value, from IT-based administration optimization through to promoting use of data on products, members, and purchasing. The company was formed on March 1, 2016 by a corporate split off from the in-house Apparel and Fashion Company.

○ **BIREKI Co., Ltd.**

BIREKI provides IT services centered on the digital medical record app “BIREKI®” for beauty salons. The company’s business activities aim to enrich the lives of the public by helping to increase the value of as many people working in the beauty industry as possible and making beauty therapy more accessible and enjoyable. The company was newly established on March 1, 2016 through a corporate split-off from the previous Bireki Company.

○ **Current, Inc.**

Current’s core businesses involve web access improvement and digital CRM for developing loyal users (implementation services such as communication and data management design, message creation and construction, message delivery, and effect verification) while integrating information assets and implementing optimal messaging to users. Aiming to generate business synergies between Current, with its strengths in stationed marketing support, and PIPED BITS, which has expertise in information asset utilization and IT solutions, the Company increased its equity stake in Current in December 2015 and converted it into a subsidiary.

Freedom to customize is SPIRAL®'s greatest distinguishing feature

(3) Special characteristics and strengths

a) Ease of system construction

SPIRAL®'s greatest distinguishing feature is its ability to be freely customized. As explained above, the Company itself combines SPIRAL®'s functions, and develops applications for its own operational systems and specific customers (areas), and excluding areas such as financial institutions, which require extremely high reliability, it is not an exaggeration to say that every operational system in the world at large may be created by combining SPIRAL®'s functions. These types of operational systems have been generally developed by operators known as Slers. However, it is possible to replace the majority of the work traditionally done by Slers through a combination of SPIRAL® functions, with corporate customers able to easily undertake a range of development and system creation themselves.

b) Every type of application can be linked

SPIRAL® possesses a broad range of functions. However, the most basic function is that it enables, for example, a corporate customer managing databases over the Internet to easily engage in various tasks, from database creation through to data manipulation, batch data registration and downloading for registration, updating and deletion. Specifically, in cases such as those where companies undertake online surveys, market research or new product evaluations, on the company side, by using SPIRAL® they can very easily create a survey, deliver it to targeted and prospective customers, have them complete the surveys, and then collect them. If a customer satisfaction questionnaire is linked to the customer database, it becomes possible to analyze them according to customer attributes, and conduct follow-up in order to enhance satisfaction levels. Survey results may be aggregated in real time, and compiled into a report. Via SPIRAL®, this series of actions between different applications may all be easily undertaken with simple (manual) operations.

In the same way, with regards to creating forms, such as for gift promotions/affinity marketing campaigns, recruitment application forms, questionnaire forms, seminar applications, account openings, and information requests, it is possible via SPIRAL® to expeditiously undertake actions such as form creation; the recording, updating, and deletion of member attributes; and login verification. For example, in a case such as holding seminars, even if hypothetically multiple seminars are proceeding simultaneously, the taking of multiple applications and management of cancellations can be carried out instantaneously, making the holding of the seminar more efficient. It is also easy to develop this data in a search form tabulating it, having a yes or no Q&A questionnaire, or creating a summary chart or graph. Also, given the addition of services from AsBase Inc. that possesses audio (telephone) solutions, and an alliance with Sprinklr Japan KK, whose strength is systems for SNS, it is expected that customer convenience will be enhanced further.

One of the Company's competitors is salesforce.com, Inc. of the United States, but this company has grown through repeated acquisitions of other companies. Therefore, its various applications were developed by the different companies it acquired, so each application was not created on the same platform. Consequently, when a client needs to link multiple applications, in many cases this requires additional development costs and time. On this point, SPIRAL® is considerably superior to salesforce.com's product, as its applications are on the same platform and as a result, each of the applications can be easily (inexpensively and quickly) linked.

c) Superiority in installation costs and security

Further, because SPIRAL® is not sold as package software, but provided as a pay-as-you-go cloud service, a distinctive feature is that client companies may themselves build requisite systems rapidly and at low cost, without taking and incurring unnecessary time and expenses. That is, even in the initial period when the system is installed, it can be developed from just a small investment without incurring major costs.

In addition to its superiority in terms of costs, the Company also provides guarantees, maintenance, and monitoring functions on the security front, which is extremely convenient, particularly for SME-sized Slers. For example, in the event that vulnerability is identified in the SSL (Security Sockets Layer), which is the most widely used communication cryptographic technology on the Internet, normally it is necessary for each Sler to individually deal with this vulnerability. But if SPIRAL® is used, the Company is able to take all necessary actions and the issue is resolved on SPIRAL®, eliminating the need for the Slers to deal with it individually.

d) Installation case studies

One example of a successful installation of the Company's SPIRAL® was the case of Asahi Fire and Marine Insurance Co., Ltd. The company introduced SPIRAL® as a customer service system. By linking client attributes with various types of data, the number of requests for information materials increased by 130 times, and the work time needed from receiving to answering a customer request was reduced from the usual time of around 30 minutes to just 2 or 3 minutes. Moreover, when introducing the system, the Company competed with other Sler companies to win the account and the Company's quote was only about 1/10th the cost of its competitors. Although every case is different, this example clearly demonstrates the competitive advantages of SPIRAL®.

■ Operating Results Trends

Increased sales and decreased profits due to aggressive upfront investment

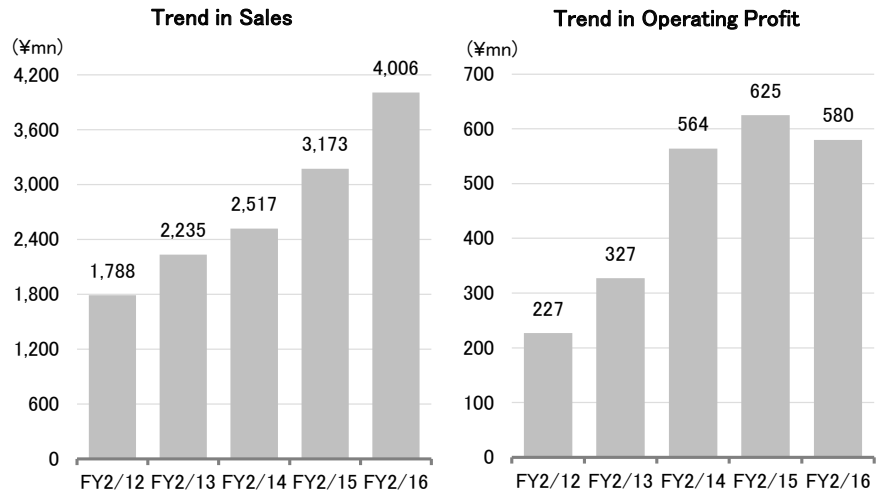
Note: As previously explained, on September 1, 2015, the Company established PIPEDO HD as a pure holding company and transitioned to a pure holding company system. Therefore, the FY2/16 results described below prior to August 2015 are for the former PIPED BITS before the transition to the holding company, while the results from September 2015 onward are for PIPEDO HD.

(1) FY2/16 results (actual)
a) Sales and earnings

In FY2/16, the Company recorded sales of ¥4,006mn (up 26.2% YoY), operating profit of ¥580mn (down 7.1%), recurring profit of ¥560mn (down 11.7%), and net profit of ¥247mn (down 33.4%). Net sales were mostly in line with the initial plan, however results from operating profit and below finished on a downward revised level. The decline in profit despite steady sales growth was a result of aggressive personnel recruitment and other upfront investments to prepare future growth, as described below. The Company claims that there is not cause for major alarm as its top line continues to grow.

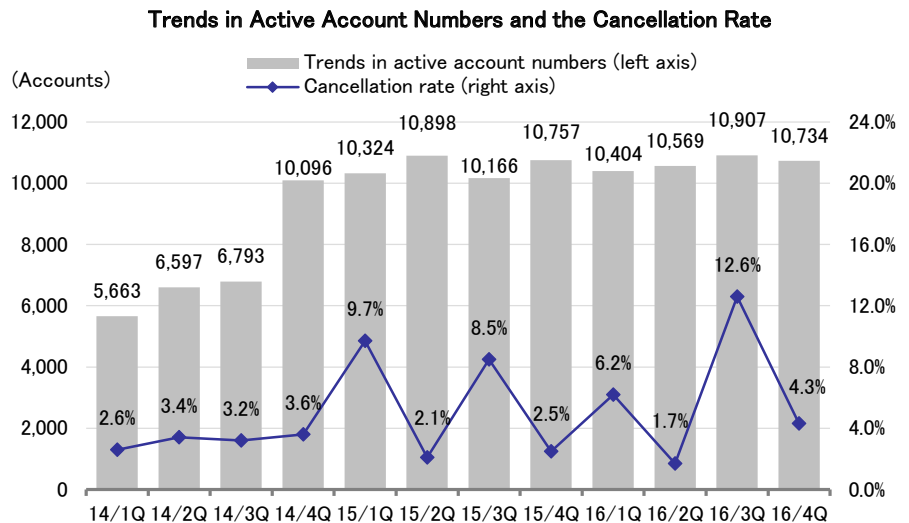
Summary Income Statement

	(¥mn, %)					
	FY2/15		FY2/16		(Change)	
	Amount	%	Amount	%	Amount	%
Sales	3,173	100.0	4,006	100.0	832	26.2
Information Assets Platform business	2,627	82.8	3,041	75.9	414	15.8
Advertising business	146	4.6	222	5.5	75	51.6
Solutions business	400	12.6	743	18.5	342	85.7
Gross profit	2,416	76.1	2,857	71.3	440	18.2
SG&A expenses	1,791	56.4	2,276	56.8	485	27.1
Operating profit	625	19.7	580	14.5	-44	-7.1
Information Assets Platform business	596	-	552	-	-43	-7.3
Advertising business	17	-	53	-	35	199.5
Solutions business	11	-	-25	-	-36	-
Recurring profit	634	20.0	560	14.0	-73	-11.7
Net profit	372	11.7	247	6.2	-124	-33.4



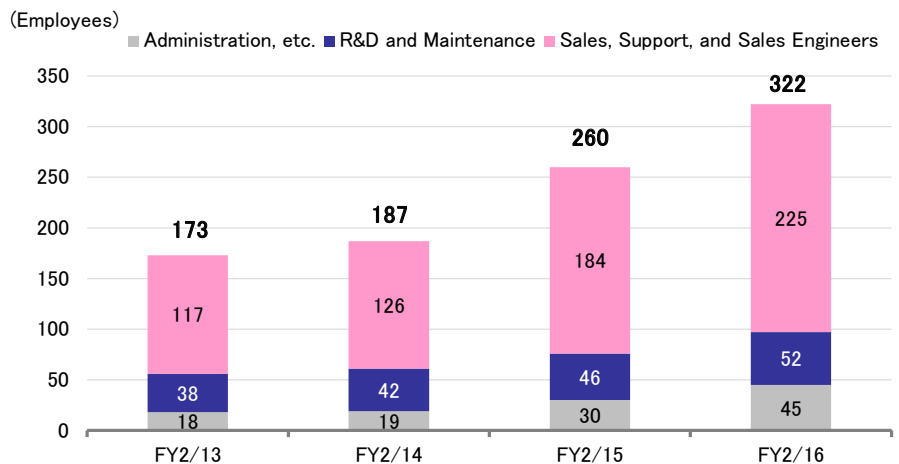
Note: Figures for FY2/13 and prior fiscal years are derived from non-consolidated financial statements. Figures prior to August 2015 are for PIPED BITS.

In the Information Asset Platform business, which is the main business, as is shown in the figure below, the number of active accounts at the end of FY2/16 was 10,734, down 23 compared to the end of FY2/15. But the main factor behind the decline in the number of accounts was the cancellation of large-order accounts with comparatively inexpensive unit prices. Conversely, medium- and large-size accounts increased, and the per-account amount also rose due to the provision of various services. As a result, segment sales greatly increased.



With regards to costs, as planned the Company is actively recruiting human resources, so by the end of FY2/16 employee numbers had increased by 62 (23.8%) compared to the end FY2/15 to 322 employees. But within this increase, 16 employees are still at the training stage (in other words, they are generating costs but not contributing to sales as members of the sales force), making them upfront cost personnel. Furthermore, since the Company made aggressive up-front investments in many subsidiaries, as described below, its profitability declined, and profits fell year on year. Going forward, the employees newly recruited and still undergoing training will be added to and strengthen the sales force, so it is highly likely that profits will change considerably.

Trends in Employee Numbers

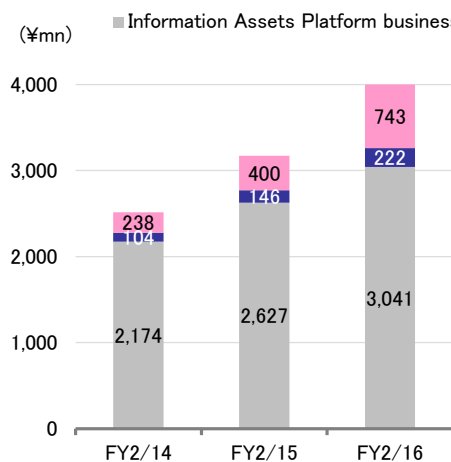


b) Profit and loss by segment

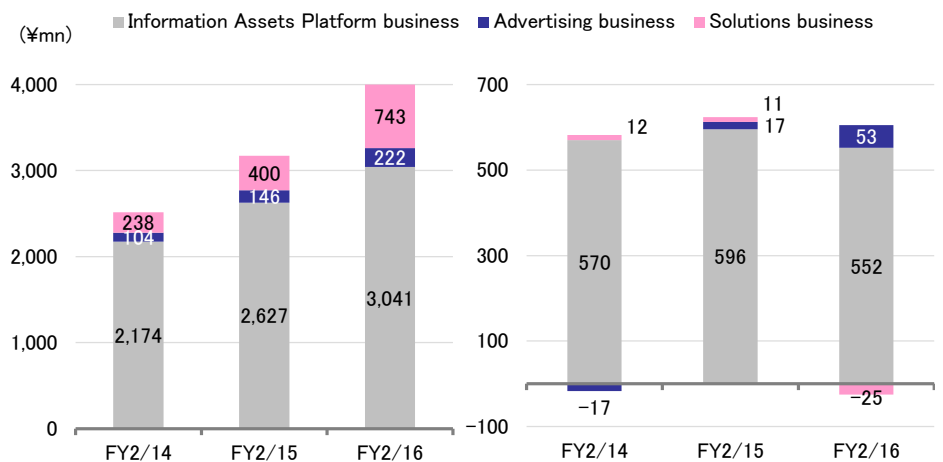
In sales by segment, sales for the Information Asset Platform business were ¥3,041mn (up 15.8% YoY), mainly reflecting a steady increase in sales of the flagship product SPIRAL®. Advertising business sales were ¥222mn (up 51.6%), led by sales of SPIRAL Affiliate®. Solutions business sales increased sharply to ¥743mn (up 85.7%), mainly reflecting the inclusion of WEARHART and Current in the scope of consolidation, as well as strong performance by Paperless Studios Japan and the outsourcing/production business and an increase in sales of EC management.

In operating profit by segment, the Information Assets Platform business recorded operating profit of ¥552mn (down 7.3% YoY), with profit declining due to delays in starting up the new Sprinklr-related operations and My Public Relations Bulletin, although SPIRAL® maintained solid profit growth. Operating profits in the Advertising business increased to ¥53mn (up 199.5%) due to an increase in sales. In the Solutions business, the Company recorded an operating loss of ¥25mn (compared to operating profit of ¥11mn), due to upfront investment in WEARHEART and increased personnel costs at Paperless Studios Japan.

Trend in Sales by Segment



Trend in Earning by Segment



c) Main upfront investments

At PIPED BITS, the abovementioned aggressive recruitment of personnel increased personnel costs by about ¥351mn YoY. A six-month training program for these personnel is now completed, and their contribution to earnings through winning sales is expected to exceed the personnel cost going forward.

Paperless Studio Japan increased its payroll in preparation for increasing demand going forward. The personnel cost for these production staff increased by around ¥40mn YoY. The organization capacity utilization rate is now increasing and it is expected to contribute to future earnings.

WEARHEART incurred about ¥80mn in upfront investments in the process of quickly achieving a membership organization with over 500,000 customers and a monthly distribution amount of over ¥40mn. However, these are temporary costs, and are not expected to recur in the future.

Publica incurred upfront investments of approximately ¥13mn associated with startup costs. However, sales are expected to absorb these costs in FY2/17.

The Company made an additional investment in Current (equity-method affiliate), which is mainly involved in the digital CRM business, converting it into a consolidated subsidiary. Through this investment, the Company aims to deepen the strong relationship between Current and the Group, as well as enhancing and expanding its earning capability.

d) Financial position and cash flows

Looking at the Company's financial position as of the end of FY2/16, total assets were ¥3,757mn (up ¥368mn YoY). The major factors were a ¥591mn increase in fixed assets following the investment in Sprinkl, Inc., and a decline in current assets (mainly cash and deposits) of ¥223mn. Total liabilities were ¥1,923mn (up ¥1,173mn), mainly due to a ¥1,123mn increase in current liabilities (primarily borrowings). Net assets declined ¥805mn to ¥1,833mn, largely due to an increase in treasury stock associated with the transition to a holding company.

Balance Sheets

	(¥mn)		
	End of FY2/15	End of FY2/16	Change
Current assets	2,142	1,919	-223
Fixed assets	1,245	1,837	591
Total assets	3,388	3,757	368
Current liabilities	749	1,873	1,123
Fixed liabilities	-	50	50
Total liabilities	749	1,923	1,173
Total net assets	2,638	1,833	-805

In terms of cash flows, operating activities provided net cash of ¥424mn. Investing activities used net cash of ¥734mn (mainly for the investment of ¥479mn in Sprinkl, Inc., software assets of ¥137mn, and investment of ¥29mn in MAKEHOUSE), and financing activities used net cash of ¥138mn. Consequently, cash and cash equivalents stood at ¥920mn at the end of FY2/16.

Cash Flow Statement

	(¥mn)	
	FY2/15	FY2/16
Cash flow from operating activities	562	424
Cash flow from investing activities	-598	-734
Cash flow from financing activities	-55	-138
Change in cash and cash equivalents	-91	-448
Year-end balance of cash and cash equivalents	1,368	920

Forecast sales to rise 34.8% YoY to ¥5.4bn, net profit to rise 133.9% to ¥5.8bn

(2) FY2/17 (full-year forecasts)

The forecasts for FY2/17, which is already underway, are for sales of ¥5,400mn (up 34.8% YoY), operating profit of ¥1,000mn (up 72.2%), recurring profit of ¥990mn (up 76.5%), and net profit attributable to owners of parent of ¥580mn (up 133.9%).

	(¥mn, %)					
	FY2/16		FY2/17 (plan)		(Change)	
	Amount	%	Amount	%	Amount	%
Sales	4,006	100.0	5,400	100.0	1,394	34.8
Operating profit	580	14.5	1,000	18.5	420	72.2
Recurring profit	560	14.0	990	18.3	430	76.5
Net profit	247	6.2	580	10.7	333	133.9

The Company is planning a significant increase in profit from FY2/16. Considering that it uses a recurring revenue business model (cloud-based), the profit target should be achievable provided the Company can secure sales. Sales are divided between continuous monthly subscriptions and ordinary discrete sales. Subscription sales in FY2/16 amounted to around ¥2,758mn, and if the sales for the final month of February 2016 continue for another 12 months, subscription sales can be expected to reach ¥3,000mn. On top of this, the Company expects to win around ¥815mn of new orders in FY2/17, bringing projected subscription sales for FY2/17 to a total of ¥3,815mn. Adding projected ordinary sales for the year of ¥1,685mn (FY2/16: ¥1,218mn), projects sales for FY2/17 come to ¥5,500mn. In other words, if it can achieve ¥815mn in new subscription sales and ¥1,685mn in ordinary sales, the Company will reach the full-year sales target, so it does not seem unrealistic.

Looking at sales by segment (envisaged), the Information Assets Platform business is projecting a sales increase of around ¥987mn, with BIREKI®, Publica, and Sprinklr achieving profitability. In the Advertising business, sales are projected to increase by ¥350mn, based on winning orders through a new company jointly invested with East Japan Marketing & Communications, Inc. and capturing SNS advertising demand. The Solutions business is projecting an increase of ¥693mn in sales, mainly from increased sales at Paperless Studio Japan and WEARHEART. The newly consolidated Current is also planning an increase of ¥480mn in sales. Altogether, these projections add up to an increase in sales of around ¥2,500mn to approximately ¥6,500mn. The target of ¥5,500mn therefore appears to be quite achievable.

Looking at expenses, the Company recruited a large number of personnel from FY2/14 to FY2/15, and these employees are already starting to contribute on the frontlines. Staff increases are expected to be more subdued in FY2/17, and growth in personnel costs will also be lower. That is to say, the growth in sales should easily absorb increased expenses, and the Company is likely to achieve a significant increase in profit as long as it can increase sales.

a) Status and outlook for operating companies

o PIPED BITS Co., Ltd.

The mainstay service SPIRAL® is expected to continue performing strongly. Demand is also emerging for new services such as My Number, Kokoro No Kenshin Center, Omni Channel Contact Center. The company is also starting to receive orders in the Sprinklr sales agency business.

o Paperless Studio Japan Co., Ltd.

The emergence of demand growth for BIM is helping to drive the company's performance. Group management resources have been invested, such as dispatching directors from the holding company and providing sales support, with the goal of helping the company contribute to profits.

o AsBase Inc.

Issues remain with regard to stable system operation and sales and development structures to support future growth. The holding company started to assist with structure reinforcement at the end of 2015. This is expected to produce a recovery in performance in FY2/17, enabling stable contribution to profit.

o Publica Co., Ltd.

The number of local governments posting public relations bulletins has risen to around 200, or over 10% of all local governments. The company will launch a paid service in FY2/17, and is expected to contribute to profit.

o WEARHEART Inc.

The company has carried out a major overhaul of NET ViVi CC, the official online shop of the magazine ViVi, operated by the company. The company is focusing on raising the overall level of the e-commerce distribution amount, including the announcement of a plan for fold-in advertising in collaboration with ViVi.

o GONDOLA CO., LTD

In addition to its existing businesses, GONDOLA has established a new company with joint investment from East Japan Marketing & Communications, Inc. GONDOLA intends to generate profits through the new company by supporting it with the secondment of a director and employees. The company is also beginning to receive orders in the Sprinklr sales agency business.

- **FRIENDIT Inc.**

Assisting customers with the common issues of personnel shortages and experience gaps, FRIENDIT will aggressively sell marketing packages that directly boost sales volume and value, from IT-based administration optimization through to promoting use of data on products, members, and purchasing.

- **BIREKI Co., Ltd.**

BIREKI provides services to help improve beauty salon operations, centered on a digital medical record app (BIREKI®) for beauty salons. Currently the company is focused on increasing the number of salons and customers using the service and on improving the app, aiming to achieve profitability in FY2/17.

- **Current, Inc.**

Current is focused on sales promotion activities in tight coordination with PIPED BITS. The company provides marketing solutions and operating staff as a package to companies that have staff shortages. It is working to improve its earnings structure by changing to a sound cost structure and developing sales cooperation within the Group.

b) Mid-term management plan 2017 earnings targets

The Company initially announced a mid-term management plan starting in FY2/15 and finishing in FY2/17 with final-year targets of net sales of ¥9,200mn and operating profit of ¥2,800. However, in light of the current situation, the Company now faces significant difficulty in reaching these targets. Therefore, the plan for FY2/17 has been revised to a more realistic level as described above. Although this represents a downward revision, it is a realistic one, and compared with FY2/14 results, the revised figures still represent a 118% increase in sales and a 148% increase in operating profit. Moreover, the target is also quite high compared to FY2/16 results, but given the cloud-based business model, as described above, the target should be very achievable.

c) Impact of the introduction of the My Number National ID system

The introduction of the My Number National ID system represents a seismic shift in the Company's business landscape that will have a significant bearing on the outlook for its future performance. Notification of personal ID numbers to Japanese citizens, mainly by local governments, started in October 2015, and the numbers entered use in January 2016. Measures such as upgrading systems and reviewing operations management are currently being planned to prepare for the start of personal ID number data sharing between National government institutions in January 2017, with local governments to follow in July 2017.

Notably, under the My Number system, in addition to national governments, local governments and various other public institutions, ordinary companies will also be legally required to manage and maintain records by linking an employee's personal information to his or her personal ID number. Previously, the Act on the Protection of Personal Information required companies to manage only their customers' personal information. But in contrast, the My Number system will require companies to manage the personal numbers of all employees together with various other types of records, such as wages, taxes, pension, and health insurance data. Therefore, a large number of companies are highly likely to be compelled to overhaul their current IT systems for HR management, payroll, and other tasks, and will also have to construct a management system for this data.

In this way, the mechanism to coordinate My Number information with various other types of information and for its integrated management is exactly the field (database management) in which SPIRAL®, the Company's flagship product, excels, and moreover the Company's strength is that it can provide total support in this field, including arranging issues, preparing in-company systems, and building a management environment.

It is highly likely that the Company will see an even further increase in the number of inquiries for its products alongside the progress made in introducing the My Number system. It has also held or jointly held more than 30 seminars throughout the country, and more than 1,000 companies have participated in these seminars. The Company's plan going forward is to actively disseminate information and focus on uncovering potential new accounts.

One more positive effect of the My Number system that is not immediately apparent will be for orders of SI accounts. The benefits of the My Number system will be felt not just by the Company, but also by major Slers, and currently many of these major Slers are incredibly busy with My Number-related operations and so are unable to accept orders for SI accounts that they would normally accept. Therefore, these accounts are being redirected to PaaS vendors like the Company, and this will be another major positive effect for the Company.

Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.