

# **PiPEDO HD, Inc.**

**3919**

Tokyo Stock Exchange First Section

27-Dec.-2017

FISCO Ltd. Analyst

**Noboru Terashima**



FISCO Ltd.

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

## ■ Index

<b>■ Summary</b> .....	<b>01</b>
1. Operating profit increased 6.2% YoY in 1H FY2/18 roughly in line with forecast .....	01
2. Modest forecast for FY2/18 as the first year of the new medium-term business plan .....	01
3. New medium-term plan sets realistic goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20 .....	01
<b>■ Company profile</b> .....	<b>02</b>
1. Company profile .....	02
2. History .....	02
3. Business overview .....	03
<b>■ Results trends</b> .....	<b>09</b>
● Summary of 1H FY2/18 results .....	09
<b>■ Business outlook</b> .....	<b>14</b>
● FY2/18 outlook .....	14
<b>■ Medium- to long-term growth strategy</b> .....	<b>14</b>
1. New medium-term plan sets fairly realistic goals .....	14
2. Priority measures .....	15
<b>■ Shareholder return policy</b> .....	<b>16</b>

## Summary

### Main business is provision of cloud-type middleware SPIRAL®

PiPEDO HD, Inc. <3919> is a pure holding company (hereafter, also “the Company”), and PIPED BITS Co., Ltd., its main consolidated subsidiary, is a unique IT company that supplies the SPIRAL® platform (middleware) in a cloud format. The Company provides a platform for national clients and other large companies, mid-sized companies, and smaller system integrators and also sells proprietary applications for specific industries (such as beauty and construction industries) and engages in businesses that utilize these applications.

#### 1. Operating profit increased 6.2% YoY in 1H FY2/18 roughly in line with forecast

The Company reported ¥2,517mn in net sales (up 7.2% year on year (YoY)), ¥433mn in operating profit (up 6.2%), ¥431mn in recurring profit (up 4.0%), and ¥292mn in profit attributable to owners of parent (up 56.4%) in 1H FY2/18, roughly in line with the period-start forecast. The information asset platform business delivered by PIPED BITS, the core Group company, led the advances in earnings.

#### 2. Modest forecast for FY2/18 as the first year of the new medium-term business plan

The Company’s FY2/18 forecast, left unchanged, targets ¥5,300mn in net sales (up 10.4% YoY), ¥845mn in operating profit (up 0.0%), ¥835mn in recurring profit (down 3.4%), and ¥470mn in profit attributable to owners of parent (up 16.2%). While this forecast envisions healthy expansion of net sales, it only expects flat earnings because of proactive investments, mainly in personnel, as the first year of a new three-year plan. However, these are constructive outlays aimed at realizing robust gains in the final fiscal year of the medium-term plan, and the content is not a reason for concern.

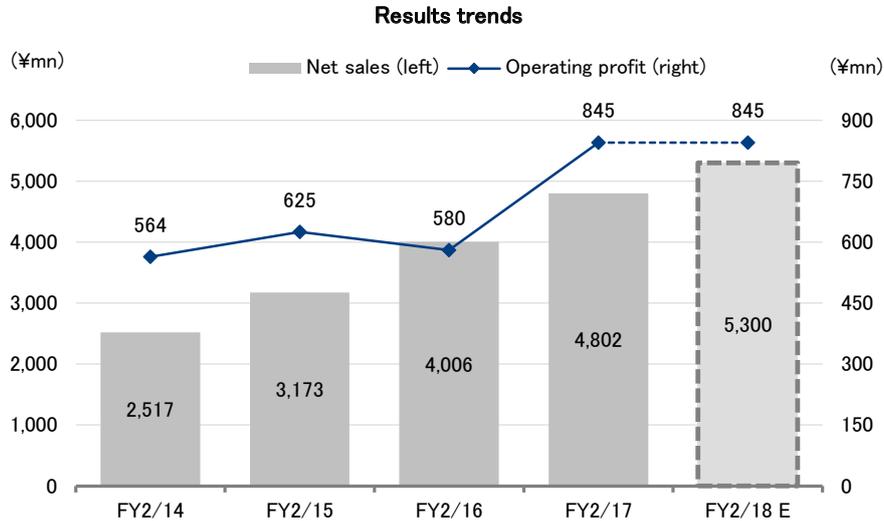
#### 3. New medium-term plan sets realistic goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

The Company announced the new medium-term (three-year) business plan that sets goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20. We think the goals in this plan are very realistic and well within reach following the Company’s experience of missing goals in its previous medium-term plan. In fact, earnings might exceed the goals and trends should be closely monitored.

#### Key Points

- Conducts businesses that primarily leverage the proprietary SPIRAL® platform
- Flat forecast for FY2/18 earnings, though likely to raise targets
- New medium-term plan sets goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

Summary



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

## Company profile

### Conducts businesses that primarily leverage the proprietary SPIRAL® platform

#### 1. Company profile

The Company is a pure holding company established through a transfer of shares from PIPED BITS on September 1, 2015. It has 13 consolidated subsidiaries and one equity-method affiliate as of Aug. 31, 2017.

#### 2. 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, Inc.** | 27-Dec.-2017  
 3919 Tokyo Stock Exchange First Section | <https://www.pipedohd.com/>

Company profile

**PIPEDO HD history**

<b>Sep. 2015</b>	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 by a property dividend, converting them into its own subsidiaries.
<b>Dec. 2015</b>	Made additional investment into Current Inc., converting it into a subsidiary
<b>Mar. 2016</b>	Established GONDOLA CO., LTD., FRIENDIT Inc., and BIREKI Co., Ltd.
<b>Oct. 2016</b>	Established BLOOM NOTES, INC.
<b>March 2017</b>	Established VOTE FOR, INC. and I LOVE, INC.

Source: Prepared by FISCO from the Company's website

**PIPED BITS history**

<b>Apr. 2000</b>	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)
<b>Oct. 2000</b>	Developed e-mail marketing platform "SPIRAL Messaging Place®".
<b>Dec. 2000</b>	Spun-off to become independent via an MBO, and relocated headquarters to 1-12-15 Jinnan, Shibuya Ward, Tokyo.
<b>Jan. 2001</b>	Changed trade name to PIPED BITS Co., Ltd.
<b>Feb. 2001</b>	Launched SPIRAL Messaging Place® service
<b>Apr. 2001</b>	Introduced a sales agent system to SPIRAL Messaging Place®
<b>Dec. 2001</b>	Introduced SLA (Quality Certification System) to SPIRAL Messaging Place®
<b>Dec. 2006</b>	Listed on the TSE Mothers exchange
<b>Apr. 2009</b>	Changed the service name from SPIRAL Messaging Place® to SPIRAL®.
<b>Jan. 2010</b>	Acquired certain operations, namely the CMS and EC businesses from HiDESIGN Inc.
<b>Apr. 2010</b>	Launched apparel EC platform "SPIRAL EC®".
<b>Dec. 2010</b>	Started to tackle the Internet advertising and Internet media-related areas. Launched Media EC operations.
<b>Mar. 2011</b>	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.
<b>Sep. 2011</b>	Increased capital via a third party capital allotment to United Ventures Inc., Acquired "Net de Kaikai", a cloud-based accounting business, from Business Online Co., Ltd.
<b>Mar. 2012</b>	Acquired "Biyoshimeikaikan", a hair catalogue publication business, from SAMURAI PROJECT CORPORATION. Made PaperlessStudio co., Ltd. a subsidiary.
<b>Mar. 2014</b>	Made AsBase Inc. a subsidiary via a stock swap.
<b>Feb. 2015</b>	Invested in Sprinklr Japan KK
<b>Mar. 2015</b>	Subscribed to a third party allocation of shares by Current, Inc. Invested in Sprinklr, Inc. (United States)
<b>May 2015</b>	Established Publica Co., Ltd.
<b>July 2015</b>	Established WEARHEART Inc.

Source: Prepared by FISCO from the Company's website

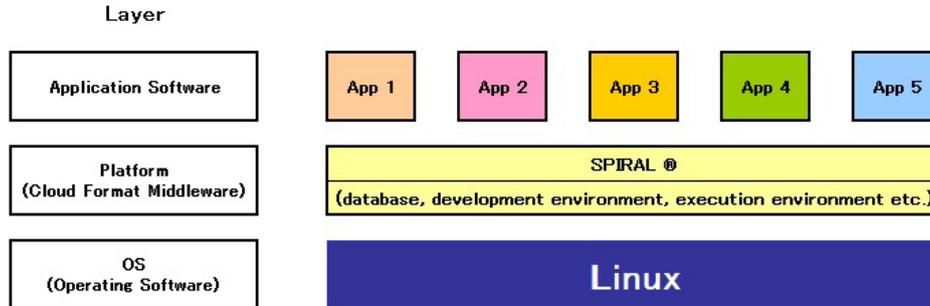
**3. Business overview**

**(1) Product overview**

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-based middleware.

Company profile

Positioning of SPIRAL®



Source: Prepared by FISCO from Company website and 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 has a database built-in too, it also enables the use and sharing in each application of customer and other data stored in SPIRAL®. Further, these applications and data 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 are provided in a cloud format, with them being described in a variety of ways depending on the content of the particular cloud format service. PIPED BITS's SPIRAL® belongs to the area called PaaS (Platform as a Service).

**(2) Main product content and prices**

The Company's flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it are large companies which internally develop in-house operating systems and other software, SME-sized system integrators that undertake development of systems for SMEs, and also web production and web development companies. By using SPIRAL®, the Company is also 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 an ASP 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.

## Company profile

**a) SPIRAL®**

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

**b) 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.

**c) 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. Fees are pay-for-use up to 5% of the transaction amount.

**d) 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 offers for SPIRAL® users only, such as free upfront costs.

**e) 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®.

| \* Announced exits from Net de Kaikei® and Net de Aoiroshinkoku® in May 2017 |

**(3) Business segments**

Up until FY2/17, the Company had three main business segments – information asset platform business, advertising business, and solutions business. In FY2/18, it newly established the social innovation business. The information asset platform business supplies PaaS mainly through SPIRAL®, including SPIRAL®, SPIRAL PLACE®, SPIRAL EC®, and others. The advertising business handles agent sales of various Internet ads and consists of SPIRAL AFFILIATE®, listing, and other advertisements. The solutions business receives contracting of apparel EC operations and other production projects and is divided into production, EC operations, BIM consulting, digital CRM, order-made personnel training service, and other consignments. The social innovation business promotes activities with public benefits, such as efforts to realize Internet voting and stimulate local areas and shopping districts.

## Company profile

## Segment information

	1H FY2/18		Main business activities
	Net sales	Operating profit (loss)	
Information asset platform business	1,722	438	Provision of PaaS centered on SPIRAL®
Advertising business	88	-22	Advertising services centered on affiliate advertising
Solutions business	687	28	Apparel EC management, contracting of design projects, etc.
Social innovation business	18	-10	Promotes activities with public benefits, such as efforts to realize Internet voting and stimulate local areas and shopping districts

(¥mn)

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

**(4) Other consolidated subsidiaries and their business operations**

In addition to the mainstay businesses (PIPED BITS), the Company also operates various related businesses via the following subsidiaries\*.

\* Dissolved WEARHEART Inc. and exited this business at the end of February 2017

**a) PaperlessStudio co., Ltd.**

PaperlessStudio is involved in the building project planning 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®. It also released ArchiSymphonyVBP, the first cloud service exclusively for BIM/CIM collaboration in Japan, in September 2017 (details provided below).

**b) 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.).

**c) Publica Co., Ltd.**

A specialist company for providing services using open data from local governments and government agencies. Publica promotes the availability 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.

**d) 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.

## Company profile

**e) 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.

**f) BIREKI Co., Ltd.**

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

**g) 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 PIPED BITS, which has expertise in information asset utilization and IT solutions, and Current, with its strengths in stationed marketing support, the Company increased its equity stake in Current in December 2015 and converted it into a subsidiary.

**h) BLOOM NOTES, INC.**

The Company spun off its division in charge of in-house human resource development and education as a subsidiary on October 3, 2016 in order to provide similar education services to external customers. It organized knowhow into a structured program to resolve issues related to human resource development at SMEs and also operates a human resource development agent business to support implementation.

**i) VOTE FOR, INC.**

The Company established this entity in March 2017 to facilitate Internet-based voting. It aims to build voting systems that utilize blockchain and other new technologies. It also continues to operate the Sejiyama® political and election information site that existed internally.

**j) I LOVE, INC.**

The Company created this entity in March 2017 to make further progress in the “I LOVE ShimoKitazawa” local revitalization project and pursue development of a new transaction format for single-coin donations, tips, and other small-sum transactions employing smartphone virtual currency.

## SPIRAL®'s primary feature is flexible customization

### (5) 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, almost any operational system could be created by combining SPIRAL®'s functions. These operational systems have been generally developed by operators known as system integrators. However, it is possible to replace the majority of the work traditionally done by system integrators 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 (such as registration, updating and deletion), batch data registration, and downloading. Specifically, in cases such as those where companies undertake online surveys, market research or new product evaluations, by using SPIRAL® the company 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 operations.

In the same way, with regard to creating forms, such as for gift promotions/affinity marketing campaigns, recruitment application forms, inquiry 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 that possesses voice (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.

## Company profile

**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 system integrators. 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 system integrator 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 system integrators to deal with it individually. Use of SPIRAL®, meanwhile, reassures end customers about security.

**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, thereby realizing a 10-fold increase in efficiency. Moreover, when introducing the system, the Company competed with other system integrators 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®.

## Results trends

### Earnings on track with forecast led by the information asset platform business

**● Summary of 1H FY2/18 results**
**(1) Profit-and-loss conditions**

The Company reported ¥2,517mn in net sales (up 7.2% YoY), ¥433mn in operating profit (up 6.2%), ¥431mn in recurring profit (up 4.0%), and ¥292mn in profit attributable to owners of parent (up 56.4%) in 1H FY2/18, roughly on track with the period-start forecast.

The information asset platform business, which provides PaaS service primarily through the mainstay SPIRAL® platform, led gains in sales and operating profit. The advertising business posted a loss, though the amount was minor, due to failed efforts to capture major deals. The solutions business, which handles apparel EC operations and BIM production, delivered a profit, albeit at just a small level.

Additionally, the Company placed businesses with public benefits under the social innovation business as a new segment from this fiscal year. While sales and operating income are still minor, it created the segment because of the prospect of growth in these areas.

## Results trends

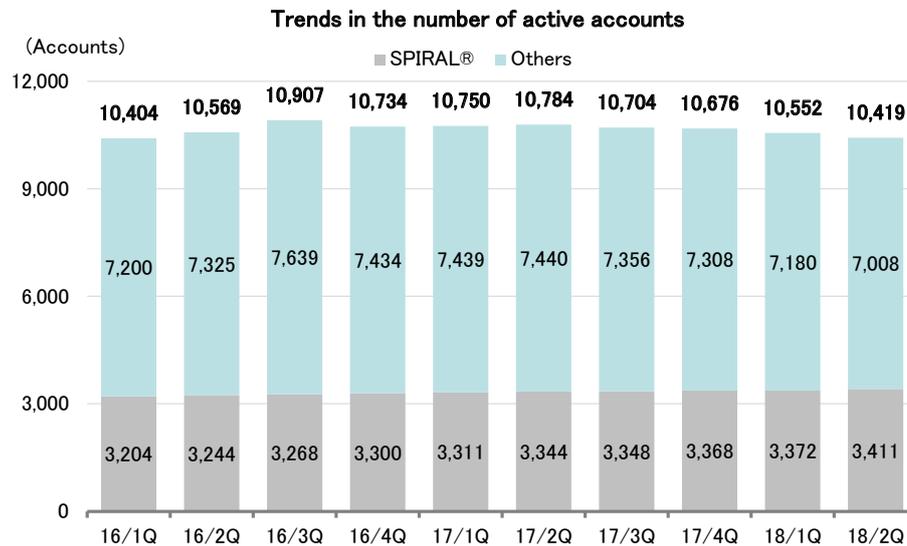
## Summary income statement

	1H FY2/17		1H FY2/18		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	2,348	100.0	2,517	100.0	169	7.2
Information asset platform business	1,631	69.5	1,722	68.4	91	5.6
Advertising business	118	5.0	88	3.5	-29	-25.1
Solutions business	581	24.8	687	27.3	106	18.3
Social innovation business	17	0.7	18	0.7	1	6.4
Gross profit	1,645	70.1	1,770	70.3	125	7.6
SG&A expenses	1,236	52.7	1,336	53.1	100	8.1
Operating profit	408	17.4	433	17.2	25	6.2
Information asset platform business	433	-	438	-	4	1.1
Advertising business	31	-	-22	-	-53	-
Solutions business	-33	-	28	-	62	-
Social innovation business	-21	-	-10	-	11	-
Recurring profit	415	17.7	431	17.2	16	4.0
Profit attributable to owners of parent	186	8.0	292	11.6	105	56.4

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

**(2) Trends in active accounts**

The number of active accounts influences the Company's results because it mainly operates cloud-based businesses. The Company had 10,419 active accounts (down by 257 accounts compared with the end of FY2/17) at the end of 1H FY2/18. While SPIRAL®, a higher-priced product that is driving earnings growth, is making healthy gains, the number of accounts fell because of exits from some businesses (Net de Kaikei® and Net de Aoiroshinkoku®) as already explained.



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

## Results trends

**(3) Profit and loss by segment**

The Information asset platform business booked ¥1,722mn in net sales, a 5.6% YoY increase, with healthy growth in mainstay SPIRAL® service as the driver, as noted earlier. The advertising business sales slipped 25.1% YoY to ¥88mn because of a tougher competitive environment and budget cutbacks at some major clients. The solutions business sales expanded 18.3% YoY to ¥687mn with support from upbeat PaperlessStudio and consignment/production business and increased EC operation sales. Net sales in the social innovation business, a new segment from this fiscal year, were up 6.4% YoY to ¥18mn.

In operating profit, information asset platform business realized a 1.1% YoY increase to ¥438mn owing largely to robust results from mainstay SPIRAL®. The advertising business reported a ¥22mn operating loss (vs. a ¥31mn profit in the previous fiscal year) due to the sales slump. The solutions business, meanwhile, delivered a ¥28mn profit (vs. a ¥33mn loss) thanks in part to the dissolution of WEARHEART. The social innovation business had a ¥10mn operating loss (vs. a ¥21mn loss).

**(4) Financial standing and cash flow conditions**

Looking at the financial position at the end of 1H FY2/18, total assets were down ¥26mn from the end of the previous fiscal year to ¥5,038mn. Current assets decreased by ¥175mn, with the main factors being declines in cash and deposits of ¥68mn and in notes and accounts receivable of ¥116mn. Fixed assets increased ¥149mn, primarily due to increases in intangible fixed assets of ¥57mn and investments and other assets of ¥85mn. Total liabilities were down ¥226mn from the end of the previous fiscal year to ¥2,748mn. This was mainly due to decreases in accrued income taxes of ¥97mn and long-term borrowings of ¥134mn. Net assets were ¥2,289mn, up ¥200mn. This was mainly due to an increase in retained earnings of ¥201mn following the recording of a quarterly net profit.

**Balance sheet**

	(¥mn)		
	End of FY2/17	End of 1H FY2/18	Change
Current assets	3,340	3,165	-175
Fixed assets	1,723	1,872	149
Total assets	5,064	5,038	-26
Current liabilities	1,818	1,727	-91
Fixed liabilities	1,155	1,020	-134
Total liabilities	2,974	2,748	-226
Net assets	2,089	2,289	200

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

Cash provided by operating activities was ¥399mn, with the main income items being the recording of net profit before income taxes of ¥432mn, depreciation and amortization of ¥88mn, a decrease in accounts receivable of ¥116mn, while the main expenditure items included an increase in inventory assets of ¥49mn. Cash used in investing activities was ¥250mn, with the main expenditure items including the acquisition of intangible fixed assets (largely software) of ¥125mn and of investment securities of ¥77mn. Cash used in financing activities was ¥217mn, with the main items including ¥135mn for the payment of short-term borrowings and ¥91mn for the payment of dividends. As a result, during the period, cash and cash equivalents decreased ¥68mn, and the balance of cash and cash equivalents at the end of the period was ¥2,075mn.

## Results trends

## Cash flow statement

	(¥mn)	
	1H FY2/17	1H FY2/18
Cash flow from operating activities	234	399
Cash flow from investing activities	-142	-250
Cash flow from financing activities	1,386	-217
Change in cash and cash equivalents	1,477	-68
Year-end balance of cash and cash equivalents	2,397	2,075

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

**(5) Main policies and topics from 1H**
**a) Established two consolidated subsidiaries (March 2017)**

The Company established VOTE FOR and I LOVE, which had been internal entities, as consolidated subsidiaries. VOTE FOR aims to realize Internet-based voting and build voting systems that utilize blockchain and other new technologies. I LOVE seeks to make further progress in the "I LOVE ShimoKitazawa" local revitalization project and pursue development of a new transaction format for single-coin donations, tips, and other small-sum transactions employing smartphone virtual currency.

**b) Subscribed to a third-party allocation of shares by Cross Rink Inc. (March 2017)**

The Company subscribed to a third-party allocation of shares by Cross Rink Inc. (¥52mn), which operates websites that broadly support the relaxation market (Hitosapo®, Caresapo®, Onemorehand®, Rakurira®, and others) (this entity is not consolidated). It hopes to share experiences, knowhow, knowledge, and other resources with Group companies and lift the quality of each other's services.

**c) Launch of the BIREKI® original icon plan (April 2017)**

BIREKI started provision of the "original icon plan" that enables beauty salons to create an app with their own design in order to promote the salon's unique brand. The first business to adopt this service was "luve heart's And Be," which mainly operates in Osaka City.

**d) Exits from Net de Kaikei® and other services (May 2017)**

The Company exited Net de Kaikei® and Net de Aoiroshinkoku® services due to tougher competition in the cloud accounting industry and diminished service competitiveness in functionality. While these exits affected the number of accounts, they do not have much impact on overall income (FY2/17 results were ¥18mn in net sales and a ¥12mn operating loss).

**e) Tokyo Metropolitan Assembly election coverage on Seijiyama® (June 2017)**

The Seijiyama® political and election information site carried special feature pages on the Tokyo Metropolitan Assembly election (official announcement on June 23, 2017 and voting on July 2) entitled "Tokyo Metropolitan Assembly Member Election 2017" and "Comparison of Main Policies and Campaign Promises." Demand for this site is still minor, but is likely to grow alongside of progress with Internet voting.

Results trends

**f) Strengthened collaboration of SPIRAL® and other systems**

Through collaboration with AsBase Inc.'s Biz Base®, the Company aims to improve sales activities by unifying information from the sales division and inside sales division managed by separate systems. (July 2017)

The Company also started collaboration with LINE Corporation <3938> (August 2017). It built an attribute-based distribution system for students at Meijo University using SPIRAL® and LINE® for use as a mechanism to contact students. It hopes to leverage this case to promote deployments at other schools too.

**g) Distribution of “My Public Relations Bulletin” on “i-concier®” (August 2017)**

The Company started distribution of articles for viewing “My Public Relations Bulletin” issued by 320 local governments on the “i-concier®” information service provided by NTT DOCOMO, INC. <9437>. This service facilitates distribution and viewing of on “i-concier®” through conversion to data of contents from the public relations magazines of local governments issued on paper media up to now. Digitalization is likely to generate demand from even more local governments.

**h) Started provision of ArchiSymphonyVBP (September 2017)**

The Company developed the first dedicated cloud service for BIM/CIM collaboration in Japan that enables real-time sharing of construction and design data and started providing this service.

The United States, the United Kingdom, and other major advanced countries are requiring construction business reforms led by BIM\*1 and CIM\*2 and implementing them at the national level. In Japan, the Ministry of Land, Infrastructure, Transportation, and Tourism formulated BIM and CIM guidelines. While these formats are making rapid inroads, they have not become industry-wide business reforms that alter construction workflow to suit BIM/CIM, as has happened with BIM/CIM in other major advanced countries, and Japan is not yet harnessing the full benefits of BIM/CIM. Reasons include 1) expensive deployment costs, 2) significant difficulties with system operations, 3) lack of operational knowhow, and 4) differences in information policies at related companies and very strong resistance to sharing 3D construction and design data and other information among related parties.

\*1 BIM (Building Information Modeling): This format creates a Building Information Model (BIM model) for the building field via a combination of 3D shape information prepared on a computer with finishing, materials and parts specifications and performance, cost information, and other attribute information. Utilization of BIM improves efficiency in all processes from the building lifecycle (ranging from design to construction and subsequent maintenance and management). Many test projects are taking place globally, and international standardization is moving forward.

\*2 CIM (Construction Information Modeling): This format broadens use of BIM from the building field to construction and aims to enhance productivity for the construction industry as a whole.

Amid these conditions, ArchiSymphonyVBP, the dedicated cloud service for BIM/CIM collaboration launched by the Company, comprehensively manages the information security policies of various companies related to construction projects and realize real-time sharing and permanent management of 3D construction and design data in virtual conditions as a first-time initiative in Japan. The project was realized through collaboration with I-NET CORP. <9600>, which operates cloud data centers, and technology cooperation from Nvidia, which leads in GPU virtualization technology, and VMware, Inc., which leads in virtual desktop (VDI) technology. The initiative aims to develop a de-facto standard for the information platform used in domestic construction industry reforms and is likely to make sizable contributions to earnings in the near future.

**i) SPIRAL EC® support for Amazon Pay**

The Company started provision of a new version of SPIRAL EC® (3.3.0) that supports Amazon Pay settlement service that simplifies product purchases using an account from the Amazon.co.jp comprehensive online store.

## Business outlook

### Flat forecast for FY2/18 earnings, though likely to raise targets

#### ● FY2/18 outlook

The Company's FY2/18 forecast targets ¥5,300mn in net sales (up 10.4% YoY), ¥845mn in operating profit (up 0.0%), ¥835mn in recurring profit (down 3.4%), and ¥470mn in profit attributable to owners of parent (up 16.2%).

The Company only expects flat operating profit, despite a double-digit rise in sales, because of proactive investments, mainly in personnel, in the first year of the new medium-term plan (explained below) aimed at reaching the goals. We think this is a very conservative earnings view, which assumes modest sales growth paired with maximum imaginable expenses, and might be revised higher during the period.

#### Forecast

	(¥mn, %)					
	FY2/17		FY2/18 forecast		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	4,802	100.0	5,300	100.0	498	10.4
Operating profit	845	17.6	845	15.9	0	0.0
Recurring profit	864	18.0	835	15.8	-29	-3.4
Profit attributable to owners of parent	404	8.4	470	8.9	66	16.2

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

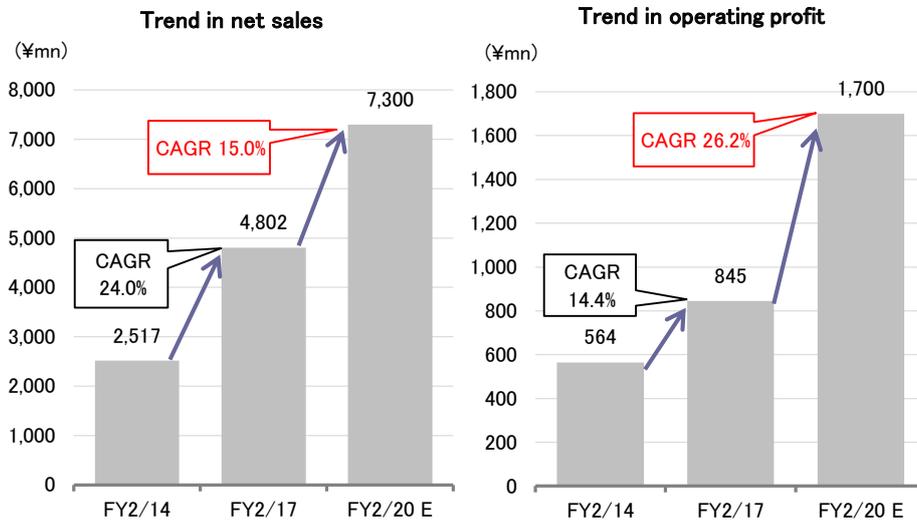
## Medium- to long-term growth strategy

### New medium-term business plan sets goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

#### 1. New medium-term plan sets fairly realistic goals

The Company announced the Medium-Term Business Plan 2020, a new medium-term business plan with FY2/20 as the final year, after completing the previous medium-term plan in FY2/17. The new plan sets goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20 that work out to average annual growth rates (CAGR) from FY2/17 of 15.0% in net sales (vs. 24.0% in the previous plan period) and 26.2% in operating profit (vs. 14.4%).

Medium- to long-term growth strategy



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

The Company described its new medium-term business plan: "Our previous medium-term plan utilized a bottom-up approach with maximum goals from subsidiaries. However, some companies substantially missed these goals and others achieved healthy growth but lagged their projections. The new medium-term plan hence utilizes minimum attainable goals and also incorporates maximum potential risk at holding-company level." We think this is a fairly conservative outlook due to factoring in maximum possible expenses with highly realistic sales targets.

**2. Priority measures**

The Company uses a title of "Re-Innovation" for the new medium-term plan and seeks to become a "corporate group that contributes to a future rich information lifestyle." It intends to implement the priority measures covered below to achieve this goal and the above-mentioned qualitative values.

**(1) Promote "real x IT"**

The Company intends to strengthen the contact point between real business and IT and pursue innovative businesses. It established new subsidiaries as examples.

**a) VOTE FOR**

The Company established this entity in Mach 2017 to conduct "real x IT" business using the Seijiyama® political and election information website that existed internally. It aims to build voting systems that utilize blockchain and other new technologies that facilitate Internet-based voting with emphasis on Seijiyama® and Internet-based voting.

Medium- to long-term growth strategy

#### b) I LOVE

The Company created this entity in Mach 2017 to make further progress in the “I LOVE ShimoKitazawa” local revitalization project that had already been taking place internally and apply this knowhow to cultivate “towns capable of delivering enjoyable services on par with shopping malls and theme parks.” Specifically, it will pursue development of a new transaction format for single-coin donations, tips, and other small-sum transactions employing smartphone virtual currency.

#### (2) Group hiring and group cultivation

Group companies will conduct common elementary education in the IT field in order to boost the overall knowledge level and reduce time spent on training front-line staff. It hopes to maximize earnings in FY2/20 through these efforts and hire about 150 people as a group by FY2/19. As the first initiative, the Company hired 63 people in 1H FY2/18 with 38 people hired by the Group and 25 people hired at individual companies and plans to hire roughly the same number of people in 2H.

Subsidiary BLOOM NOTES (established in October 2016) will support the group hiring and cultivation. This entity’s main business is a customized personnel training service for arrangement of unique knowhow at customer companies into a program and assistances in implementation, and the Company plans to harness the same program for cultivation of its own Group personnel.

#### (3) Effective utilization of information assets at Group companies

The Company intends to further promote customer and product/service matching at Group companies and create new transactions and businesses.

## ■ Shareholder return policy

### Targets 33.9% dividend payout ratio in FY2/18

The Company has presented a shareholder return policy of paying cash dividends with a target dividend payout ratio of about 30%. It plans to pay a ¥21 annual dividend again in FY2/18, putting dividend payout using the profit target at 33.9%.



## 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.