

## PIPEDO HD, Inc.

3919

Tokyo Stock Exchange First Section

25-Nov.-2019

FISCO Ltd. Analyst

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FISCO Ltd.

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

## ■ Index

■ <b>Summary</b> .....	<b>01</b>
1. Summary of 1H FY2/20 results .....	01
2. FY2/20 outlook .....	01
3. Medium-Term Business Plan .....	01
■ <b>Company profile</b> .....	<b>02</b>
1. Company profile .....	02
2. History .....	02
3. Business overview .....	03
■ <b>Results trends</b> .....	<b>10</b>
● Summary of 1H FY2/20 results .....	10
■ <b>Business outlook</b> .....	<b>16</b>
1. FY2/20 outlook .....	16
2. Grounds for achieving the increase in net sales .....	16
■ <b>Medium- to long-term growth strategy</b> .....	<b>18</b>
1. Medium-Term Business Plan .....	18
2. Priority measures .....	19
3. Fund-raising initiative .....	19
■ <b>Shareholder return policy</b> .....	<b>21</b>

## Summary

### In 1H FY2/20, operating profit increased 209.8% YoY due to the effects of the upfront investment up to the previous fiscal year

PIPEDO HD, Inc. <3919> (hereafter, “the Company”) is a pure holding company, and PIPED BITS Co., Ltd., its main consolidated subsidiary, is a unique IT company that supplies its proprietary 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. Summary of 1H FY2/20 results

In the 1H FY2/20 results, net sales were ¥2,989mn (+14.0% YoY), operating profit was ¥545mn (+209.8%), recurring profit was ¥551mn (+217.7%), and profit attributable to owners of parent was ¥346mn (+357.1%). Net sales grew steadily due to the effects of the upfront investment up to the previous fiscal year (mainly to recruit human resources). On the other hand, profitability also improved greatly because a round of cost increases was completed. Profits increased significantly YoY, but the Company said that “this was within our expectations and as an absolute level, they still cannot be said to be at a high level.”

#### 2. FY2/20 outlook

In FY2/20, the year under review, the Company’s forecast of ¥6,500mn in net sales (+19.9% YoY), ¥1,200mn in operating profit (+204.5%), ¥1,190mn in recurring profit (+204.7%) and ¥700mn in profit attributable to owners of parent (+397.4%) remains unchanged from the initial plan. On a full fiscal year basis, the Company is also forecasting a large increase in operating profit and all lower profit lines, and because the profitability of the Company’s core cloud-based business has a high upper limit, these figures should be achievable as long as the Company secures net sales. The large number of human resources hired over the past two years (FY2/18 and FY2/19) has started to contribute to the Company’s business, which may allow for further upward revision.

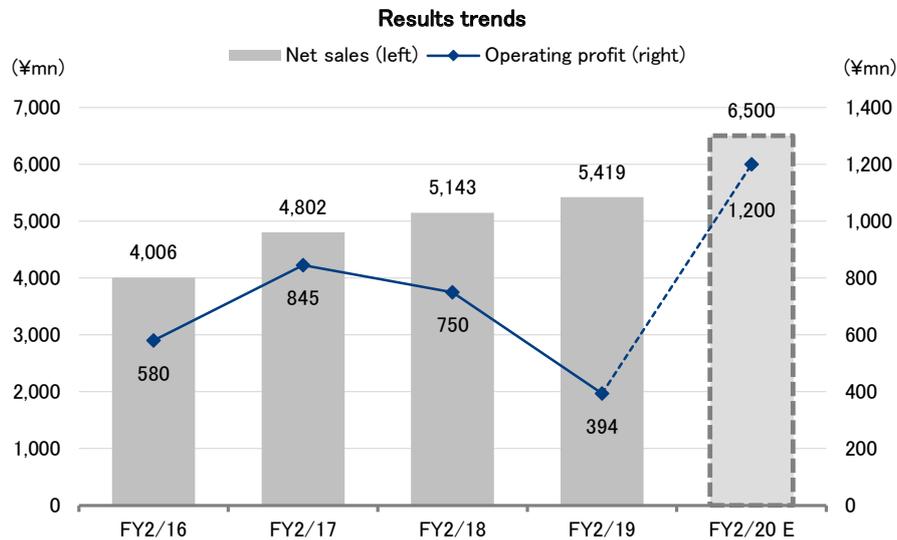
#### 3. Medium-Term Business Plan

The Company’s announced medium-term business plan (three-year plan) targets ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20, the final fiscal year of the plan. In its official operating results announcement, the Company’s forecasts for FY2/20 are the aforementioned ¥6,500mn in net sales and ¥1,200mn in operating profit, but internally the Company has not yet revised the targets in the medium-term business plan. Reaching these targets will not be easy, but these targets are not unattainable in light of its cloud format business model, and we will be closely monitoring trends going forward.

#### Key Points

- Conducts businesses that primarily leverage the proprietary SPIRAL® platform
- Expecting a major recovery in FY2/20, with a 204.5% increase in operating profit
- Internally, the medium-term business plan remains unchanged at ¥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 11 consolidated subsidiaries and one equity-method affiliate as of August 31, 2019.

#### 2. History

PIPED BITS was established in April 2000 by Nobuaki Satani, the current President of PIPEDO HD. For most companies, data acquired in the course of business including customer attributes and email addresses form important "information assets," so PIPED BITS 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 in rolling out these business applications.

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 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>Mar. 2017</b>	Established VOTE FOR, INC. and I LOVE, INC.
<b>Dec. 2017</b>	Established L Coin, 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 HIDESIGNS 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>Jul. 2015</b>	Established WEARHEART Inc.

Source: Prepared by FISCO from the Company's website

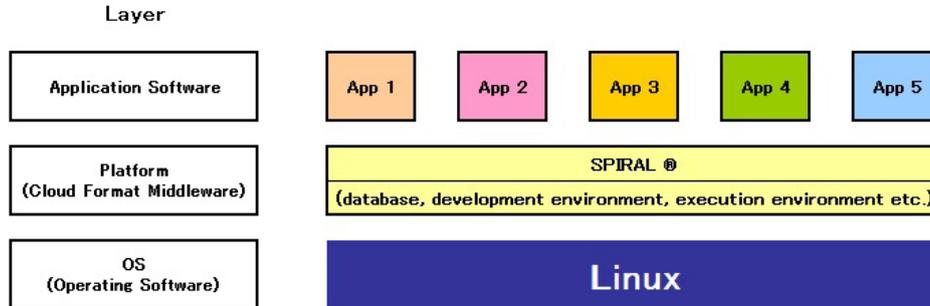
### 3. Business overview

#### (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 its post-development. As SPIRAL® developed by PIPED BITS is already equipped with development tools. Not only does this enable easier development of different kinds of applications, but also customer data and other data stored in SPIRAL® can be shared and used with other applications due to the platform’s built-in database. Furthermore, 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. SPIRAL® belongs to the area generally called PaaS (Platform as a Service), in other words, not only applications used in various business operations, but it is also the field of providing the platforms that run these applications on a cloud format.

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

The Company’s flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it range from large companies which internally develop operating systems and other software to 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 (outright sales) 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 (fee-based) accounts 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®**

This is the Company's main product. The core platform is equipped with a database, development environment, execution environment, and other features. While it is often utilized in email distribution, seminar management, and questionnaire form creation applications, this product offers many other functions as well. Furthermore, it flexibly coordinates with services from other companies and customization can substantially broaden the scope of applications. The monthly fee starts at ¥25,000 (excluding tax).

**b) SPIRAL PLACE®**

Cloud format groupware possessing website creation and updating functions, and at the same time linked to SNS. As groupware, SPIRAL PLACE® enables calendar and file-sharing while using simple (manual) operations to enhance and update web content, as well as traffic analysis. It can also be linked to Facebook and Twitter. It is highly regarded by retail chain stores and others that employ large numbers of staff. Basic fees start at ¥6,000/month (excluding tax).

**c) SPIRAL EC®**

An e-commerce (EC) platform focused on apparel. It is highly received by the industry for resolving a number of issues, such as simplifying update procedures and maintaining a low budget, while also pursuing a sophisticated brand image for EC sites for apparel. 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 includes special offers for SPIRAL® users, such as no initial costs.

**e) Other**

There are also applications aimed at specialist fields and industry sectors. Also, through alliances with various specialist companies, the Company aims to expand the use and applications of SPIRAL®.

**(3) Business segments**

Up until FY2/18, the Company had four business segments – the information asset platform business, the advertising business, the solutions business, and the social innovation business. Furthermore, from FY2/19 the Company has integrated these four segments into three main segments: the “Function-based Segment,” the “Field-based Segment,” and “Group Common Segment.”

The main segments are divided according to target client. The Function-based Segment comprises businesses utilizing the cloud and other IT platforms to target companies and organizations expected to have room for improvements in operating efficiency in CRM, sales promotions, and EC. These are businesses in which sales activities can be carried out horizontally. The Field-based Segment includes businesses that target specific industries and fields for which innovation through new information-sharing models utilizing the cloud and other IT platforms can be expected. These businesses involve vertical sales. The Group Common Segment includes the management costs of the pure holding company, which were previously allocated to business areas, and costs related to Group hiring and development.

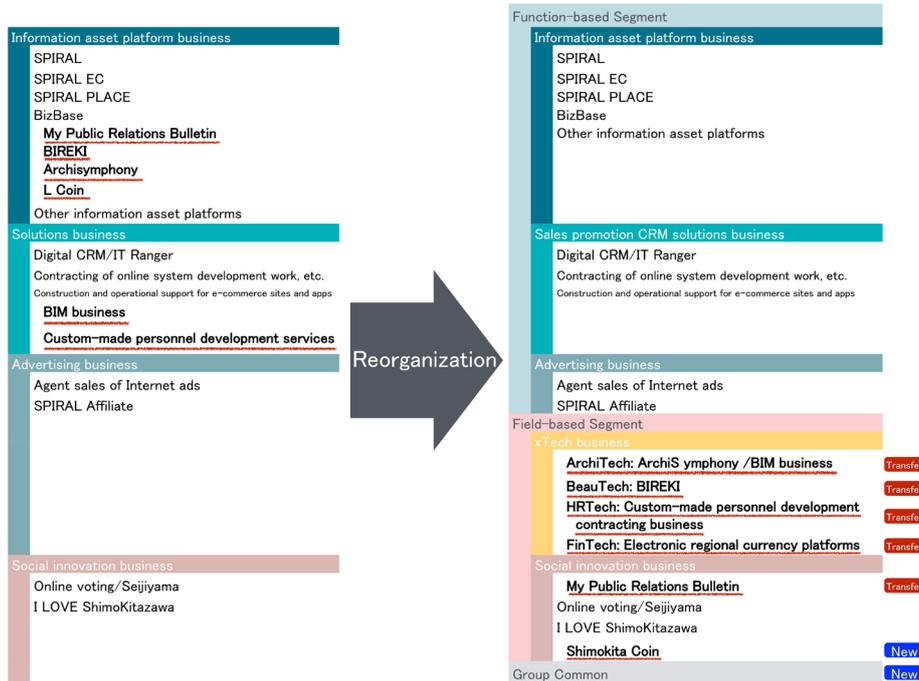
Company profile

Segment reorganization (Main segments/segment details)

<p><b>Function-based Segment</b></p> <p><u>Information asset platform business</u></p> <p><u>Sales promotion CRM solutions business</u></p> <p><u>Advertising business</u></p>	<p>Businesses utilizing the cloud and other IT platforms to target companies and organizations expected to have room for improvements in operating efficiency in CRM, sales promotions, and EC</p> <p>Development and provision of systems that assist clients in reducing costs and improving business efficiency to help solve issues in society, where there is a shortage of manpower</p> <p>Provision of services utilizing IT to optimize operations and create contact opportunities with customers as well as enhance these contact points; development of optimal IT systems for clients according to their needs</p> <p>Planning of promotions tailored to customers' objectives; production, development and management of advertising contents; agency sales of online ads</p>
<p><b>Field-based Segment</b></p> <p><u>xTech business</u></p> <p><u>Social innovation business</u></p>	<p>Businesses targeting specific industries and fields for which innovation through new information-sharing models utilizing the cloud and other IT platforms can be expected</p> <p>Business expected to create innovative services in the industry by utilizing IT to share information across company and organizational lines</p> <p>Business engaging in activities with public benefits, aiming not to help individual companies and industries solve internal problems, but to solve broader societal issues</p>
<p><b>Group Common</b></p>	<p>The pure holding company's management costs, costs related to Group hiring and development, etc.</p>

Source: The Company's results briefing materials

Segment reorganization (changes in segment by product and service)



Source: The Company's results briefing materials

(4) Other consolidated subsidiaries and their business overview

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

Company profile

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

PaperlessStudio is involved in the construction project planning and management and BIM (Building Information Modeling) consultant businesses. The company also runs BIM and CIM (Construction Information Modeling) personnel workshops for people working in design and construction. In May 2012, the company started providing the BIM construction information platform ArchiSymphony®. In September 2017, it also released ArchiSymphonyVBP, the first cloud service in Japan exclusively for BIM/CIM collaboration.

**b) 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. The company has developed a system for Internet distribution of local government public relations bulletins—the “My Public Relations Bulletin” system\*.

| \* On March 15, 2019, Publica Co., Ltd. merged with VOTE FOR, INC. |

**c) GONDOLA CO., LTD**

GONDOLA was formed by the corporate split of the 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, the company enables one-stop solutions for corporate management issues and business activity optimization.

**d) 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, the company 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.

In April 2018, FRIENDIT took over SPIRAL EC® and SPIRAL PLACE®, which were owned by PIPED BITS, and also carried out an absorption merger of AsBase Inc., which had been providing the ASP/SaaS type call center platform service BizBase®. With these moves, the company will develop new services integrating SPIRAL EC®, SPIRAL PLACE®, and cloud computer-telephony integration (CTI).

**e) 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.

## Company profile

**f) 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.

**g) 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.

**h) 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 Seijiyama@ political and election information website that existed internally\*.

| \* Publica underwent an absorption merger on March 15, 2019. |

**i) 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 electronic regional currency.

**j) L Coin, Inc.**

The Company invested 70% in L Coin, which was established in December 2017, as a consolidated subsidiary. L Coin builds payment systems for local governments, companies, and local financial institutions using an electronic regional currency platform that applies blockchain technology and thereby promotes cashless transactions in local communities. It can also issue unique electronic regional currencies at low cost through the platform and supports smooth development of payment systems and store point systems.

**k) Shimokita Coin, Inc.**

This company was established in March 2018 as a subsidiary of L Coin. Using an electronic regional currency platform provided by L Coin, the company issues electronic regional currency limited to the Shimokitazawa area. Also, the company aims to energize the local economy by working with I LOVE to attract investment and member stores among local shops.

## 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. The Company itself combines SPIRAL®'s functions to develop applications for its own operational systems and specific customers (areas). Apart from 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. For this reason, SPIRAL® is attractive not only to large corporations, but also SMEs that are unable to bear the high cost of systems development, as the platform is affordable and easy to use.

#### 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 in which 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 can 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 (now FRIENDIT) 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. <CRM> 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**

Also, 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.

Many SMEs cannot afford the expenses required for system development and security. The Company's products solve these issues in a one-stop manner; thus the Company's products are attractive not only to large corporations but to SMEs in particular.

**d) Installation case studies**

One example of a successful installation of the Company's SPIRAL® was the case of Rakuten General Insurance Co., Ltd. (formally known as 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 approximately 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

### In the 1H FY20 results, profits increased significantly

**● Summary of 1H FY2/20 results**
**(1) Profit-and-loss conditions**

In the 1H FY2/20 results, net sales were ¥2,989mn (+14.0% YoY), operating profit was ¥545mn (+209.8%), recurring profit was ¥551mn (+217.7%), and profit attributable to owners of parent was ¥346mn (+357.1%). Sales grew steadily due to the effects of the upfront investment up to the previous fiscal year (mainly to recruit human resources). On the other hand, profitability also improved greatly because a round of cost increases was completed. Profits increased significantly YoY as initially forecast, and were generally within the expected range.

By segment, results steadily grew in the mainstay information asset platform business, while the strong performance of the advertising business also contributed to the increase in profits. On the other hand, the Field-based Segment, which includes the xTech business and the social innovation business, is growing little by little, although its contribution to profits is still small.

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## Results trends

## Summary income statement

	1H FY2/19		1H FY2/20		(Change)	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	2,623	100.0	2,989	100.0	366	14.0
(Function-based Segment)						
Information asset platform business	1,801	68.7	2,051	68.6	249	13.9
Sales promotion CRM solutions business	504	19.2	454	15.2	-49	-9.9
Advertising business	204	7.8	357	11.9	153	75.1
(Field-based Segment)						
xTech business	75	2.9	87	2.9	11	15.6
Social innovation business	37	1.4	38	1.3	1	3.1
Gross profit	1,840	70.2	2,115	70.8	274	14.9
SG&A expenses	1,664	63.5	1,569	52.5	-95	-5.7
Operating profit	176	6.7	545	18.3	369	209.8
(Function-based Segment)						
Information asset platform business	489	-	633	-	143	29.4
Sales promotion CRM solutions business	-10	-	5	-	16	-
Advertising business	34	-	127	-	92	266.6
(Field-based Segment)						
xTech business	-30	-	-32	-	-2	-
Social innovation business	-17	-	-21	-	-4	-
Company-wide costs	-289	-	-166	-	122	-
Recurring profit	173	6.6	551	18.5	378	217.7
Profit attributable to owners of parent	75	2.9	346	11.6	270	357.1

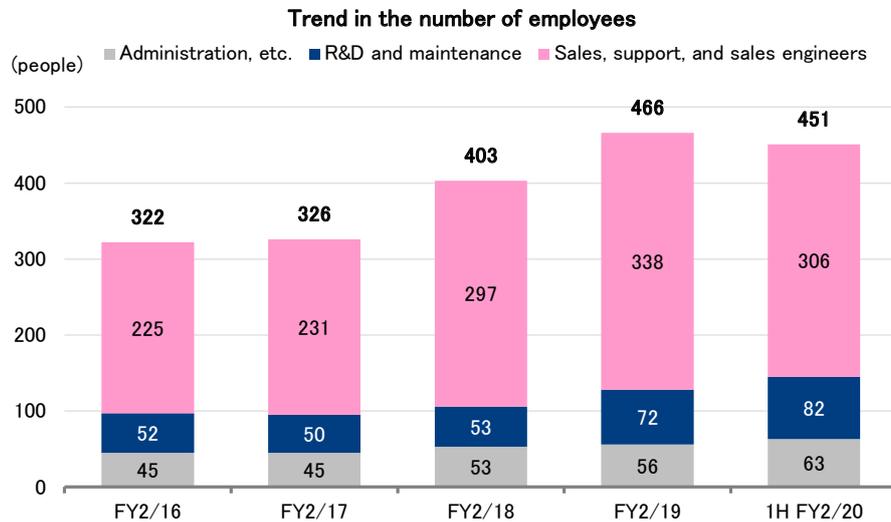
Source: Prepared by FISCO from the Company's financial results

Net sales increased ¥366mn YoY. The change factors were an increase of ¥249mn from the information asset platform (+¥271mn for SPIRAL and -¥13mn for BizBase), a decrease of ¥49mn from sales promotion CRM solutions (-¥34mn for production and development and -¥18mn for digital CRM), an increase of ¥153mn from advertising (+¥141mn for SPIRAL Affiliate and +¥11mn for agency sales for online advertising), an increase of ¥11mn from the xTech business (+¥10mn for BIREKI), and an increase of ¥1mn from the social innovation business (+¥5mn for Seijiyama and -¥5mn for I LOVE Shimokitazawa).

## (2) Trend in the number of employees

The Company had declared that it would aggressively hire (invest) in FY2/18 and FY2/19 in order to realize goals in the medium-term business plan that lasts through FY2/20, as explained below. In fact, it hired 90 people in FY2/18 and another 76, including both mid-career hires and new university graduates, in FY2/19. However, it did not recruit any mid-career hires in the current 1H, and as a result, the number of employees at the end of the current 1H was 451 people (-15 people YoY).

## Results trends



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

### (3) Profit and loss by segment

The profit and loss in the Function-based Segment was as follows.

#### a) Information asset platform business

Net sales were ¥2,051mn (+13.9% YoY) and operating profit was ¥633mn (+29.4%). The human resources recruited up to the previous fiscal year were able to fully contribute as employees, so sales increased from the steady performances of each product, especially of the mainstay SPIRAL®. Moreover, the Company kept down various expenses, mainly personnel expenses, so segment profit also increased.

#### b) Sales promotion CRM solutions business

Segment net sales decreased to ¥454mn (-9.9% YoY), including as a reaction to a large-scale project acquired in the previous fiscal year. But as the profitability of each project improved, the segment profit-loss improved YoY to a profit of ¥5mn (compared to a loss of ¥10mn in the same period in the previous fiscal year).

#### c) Advertising business

Results improved significantly, with net sales of ¥357mn (+75.1% YoY) and segment profit of ¥127mn (+266.6%). In this segment, there is a tendency for earnings to fluctuate greatly depending on the trends at customers, but in this fiscal period, it can be said to have performed comparatively strongly. Results also trended favorably in the joint business with an advertising-related subsidiary of East Japan Railway Company <9020>, which was launched previously, and it contributed to agency sales for online advertising.

Profit and loss in the Field-based Segment was as follows.

Results trends

**d) xTech business**

This business engages in projects expected to create innovative services in the industry by utilizing IT to share information across company and organizational lines. Net sales were ¥87mn (+15.6%), while operating loss of ¥32mn (versus a loss of ¥30mn in the previous fiscal year) was recorded. BIREKI® results were comparatively strong, but there are still many services in this business operating below the break-even point, so this segment recorded a loss. The main services of the business are as follows.

- 1) ArchiTech: BIM construction information platform ArchiSymphony®
- 2) BeauTech: Provides BIREKI®, an app that provides an electronic hair design records for customers and salons
- 3) HRTech: Custom-made personnel development contracting business to innovate company's development of personnel, started a paid occupational referral business in March 2018 after receiving approval from the Minister of Health, Labour and Welfare
- 4) FinTech: Electronic regional currency platforms

**e) Social innovation business**

This business engages in activities with public benefits, aiming to not just help individual companies and industries solve internal problems, but to also solve broader societal issues. The business booked net sales of ¥38mn (+3.1%) and a loss of ¥21mn (versus a loss of ¥17mn in the previous fiscal year). My Public Relations Bulletin, a service that helps municipalities open up and utilize their PR magazines, continued to grow steadily, and the number of posting municipalities has already exceeded 700, which covers roughly 40% of the approximately 1,750 total municipalities. In addition, both the online voting-related business and Seijiyama®, the politics and election information website, are both enjoying healthy growth.

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

Looking at the financial position at the end of 1H FY2/20, total assets were up ¥119mn from the end of the previous fiscal year to ¥5,997mn. Current assets increased by ¥152mn, with the main factors being a decrease in cash and deposits of ¥48mn and an increase in notes and accounts receivable of ¥190mn. Fixed assets decreased ¥33mn, primarily due to a decrease in tangible fixed assets of ¥10mn and in investments and other assets of ¥23mn. Total liabilities were down ¥130mn from the end of the previous fiscal year to ¥3,303mn. This was mainly due to a decrease in short-term loans payable (including the current portion of long-term loans payable) of ¥309mn and an increase in accrued income taxes of ¥203mn. Net assets were ¥2,694mn, up ¥250mn. This was mainly due to the increase in retained earnings of ¥285mn following the recording of a quarterly net profit.

**Simplified balance sheet**

	(¥mn)		
	End of FY2/19	End of 1H FY2/19	Change
<b>Current assets</b>	3,737	3,890	152
<b>Fixed assets</b>	2,140	2,107	-33
<b>Total assets</b>	5,877	5,997	119
<b>Current liabilities</b>	2,508	2,503	-5
<b>Fixed liabilities</b>	925	800	-125
<b>Total liabilities</b>	3,434	3,303	-130
<b>Net assets</b>	2,443	2,694	250

Prepared by FISCO from the Company's financial results

## Results trends

Cash provided by operating activities was ¥533mn, with the main income items being the recording of net profit before income taxes of ¥553mn and depreciation and amortization of ¥84mn, while the main expenditure items included an increase in accounts receivable of ¥190mn. Cash used in investing activities was ¥87mn, with the main expenditure items including the acquisition of intangible fixed assets (largely software) of ¥78mn. Cash provided by financing activities was ¥494mn, with the main items including ¥434mn for the net increase of borrowings and ¥60mn for the payment of dividends. As a result, during the period, cash and cash equivalents decreased ¥48mn, and the balance of cash and cash equivalents at the end of the period was ¥2,374mn.

## Simplified cash flow statement

	(¥mn)	
	1H FY2/19	1H FY2/20
Cash flow from operating activities	196	533
Cash flow from investing activities	-283	-87
Cash flow from financing activities	280	-494
Change in cash and cash equivalents	193	-48
Balance of cash and cash equivalents at the end of the period	2,109	2,374

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

**(5) Main policies and topics during 1H FY2/20**
**a) Started the first-phase services for the cutting-edge, construction process rental business (March 2019)**

In March, PaperlessStudio launched services to provide at any time a BIM and CIM introduction-support service and a BIM and CIM practical-use service, which are tailored to actual use at work sites by design and construction industry users and building owners throughout the country. These are the first-phase services for the cutting-edge, construction process rental business, which has been jointly launched with the construction rental major AKTIO Corporation, and I-NET Corp <9600>.

**b) The 2019 unified local elections (March 2019)**

Targeting all elections, not only in cities and wards but also in towns and villages (235 elections for the heads of local governments and 766 elections for members of local assemblies, including by-elections), the Company actively provided information useful for voting by comprehensively posting election information, including information on the candidates, and the results of the casting and counting of votes.

**c) Selected as an IT Management Focus Company 2019 (April 2019)**

Thanks to its proprietary strengths, including SPIRAL and an Internet-based voting system that utilizes the Individual Number Cards and blockchain technology, the Company was highly evaluated by the Ministry of Economy Trade and Industry (METI) as having future and development potential and on the point of improving enterprise value. Therefore, METI selected it as an IT Management Focus Company 2019, recognizing it to be a company that has once again implemented measures worthy of focus for IT management.

**d) Merger of VOTE FOR and Publica (May 2019)**

VOTE FOR (the surviving company), which manages a political and election information website, and Publica (dissolving company), which provides the My Public Relations Bulletin, were merged. The aim of the merger is to improve profitability by increasing management efficiency and reducing common costs.

**e) A new option added to BizBase (August 2019)**

An SMS automated transmission function has been added to BizBase (a call center platform capable of providing automated call and voice response services), which is provided by FRIENDIT. This function can send URL and other information on SMS according to the content of answers provided by users.

Results trends

As a specific example of use by an eating or drinking establishment, when such an establishment receives a telephone reservation outside of working hours, to prevent a missed reservation, in addition to an automated voice message, the reserving party is guided to the reservation form URL on SMS, which enables the reserving party to reserve at any time without having to worry about working hours, and also eliminates the stress of having to wait on the phone. For the eating and drinking establishments, its advantages include reducing the work to receive reservations and preventing problems that arise from misunderstandings about what was said or heard on the phone.

**f) Successful online voting demonstration test (August 2019)**

The Company successfully completed an online voting demonstration test. It provided a system to Tsukuba City that allows for online voting at any time and place by using Individual Number Cards x face authentication x blockchain, the first such system in Japan. The following four points were successfully demonstrated in this test: 1) Improved convenience (last year a 6 to 16 alphanumeric character password was used, but this year face authentication was used, which improved convenience); 2) voting was not restricted by time or place (the voting-terminal requirements were eased and restrictions on time and place were abolished); 3) improved voting-process speed (changed to a blockchain platform and the processing speed was improved); and 4) confirmation of voting and overwriting voting (voters could check their own vote during the voting period and change their voting content to overwrite their vote).

**g) Certified as a Technology Partner of LINE <3938> (August 2019)**

The Company is collaborating with API-related services, mainly focusing on LINE official accounts, and it has been certified as a Technology Partner that provides services. Its LINE collaboration solutions include a CRM data collaboration, a log collaboration, segment distribution, 1-to-1 talks, step delivery, rich-content delivery, and a payment collaboration.

**h) Held events in Shimokitazawa (April to August 2019)**

It held the Baru Baru Shimokitazawa event in Golden Week and August, during which the Shimokita Coin Point Redemption Campaign was implemented. It has more than 100 affiliated stores in the Shimokitazawa region.

**i) Continuously launching new SPIRAL solutions (April to September 2019)**

It released multiple SPIRAL business-efficiency solutions specializing in various industries and operations, as described below.

**Business efficiency solutions of SPIRAL**

<b>Manufacturer</b>	Exhibition follow-up solution Agency sales support system solution Warranty registration management system solution
<b>Finance</b>	Occupational sales support solution Consultation and store-visit reservation system
<b>Retail</b>	Pre-store visit ordering system solution
<b>Pharmaceuticals</b>	Online drug learning system Publicly offered research grants management system
<b>Real estate</b>	Payment arrears notification system solution
<b>General affairs</b>	Visitor reception management system
<b>Labor</b>	Year-end tax adjustment application system

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

#### Results trends

In this way, the demand base is expanding for SPIRAL, which is the mainstay product that is being developed and provided for various solutions that are specialized by industry and operations, and we can expect its sales to grow in the future. Another point that is worthy of praise is the fact that in the Company, these products are not being led by the headquarters, but rather they are been developed by the head offices of each individual business.

#### j) Started providing new versions of SPIRAL (July and October 2019)

While maintaining SPIRAL's strengths of flexibility and versatility, the Company is continuously conducting R&D so that it can meet demand in advance, and it has launched SPIRAL Ver.1.12.8 (realizes flexible application development and operations and maintenance) and SPIRAL Ver.1.13 (meets the need for evolved face authentication).

## Business outlook

### For FY2/20, the initial forecasts have been left unchanged, with operating profit to increase 204.5%

#### 1. FY2/20 outlook

In FY2/20, the Company is forecasting ¥6,500mn in net sales (+19.9% YoY), ¥1,200mn in operating profit (+204.5%), ¥1,190mn in recurring profit (+204.7%) and ¥700mn in profit attributable to owners of parent (+397.4%). The Company is forecasting a large increase in operating profit and all lower profit lines, but these figures seem achievable based on the results already achieved up to the 1H, as described above. Also, the Company's mainstay business is Cloud-based and its marginal profit ratio is high, so if it secures sufficient net sales, it seems highly possible that results will actually exceed the forecasts.

#### FY2/20 forecasts

	(¥mn, %)						
	FY2/19		FY2/20 E		Change		
	Amount	% of total	Amount	% of total	Amount	%	
<b>Net sales</b>	5,419	100.0	6,500	100.0	1,080	19.9	
Information asset platform business	3,669	67.7	4,200	64.6	530	14.5	
Sales promotion CRM solutions business	1,025	18.9	1,330	20.5	304	29.7	
Advertising business	482	8.9	590	9.1	107	22.3	
xTech business	163	3.0	270	4.2	106	64.9	
Social innovation business	78	1.5	110	1.7	31	39.8	
<b>Operating profit</b>	394	7.3	1,200	18.5	805	204.5	
<b>Recurring profit</b>	390	7.2	1,190	18.3	799	204.7	
<b>Profit attributable to owners of parent</b>	140	2.6	700	10.8	559	397.4	

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

#### 2. Grounds for achieving the increase in net sales

The Company has given the following reasons as grounds for its forecast of a nearly 20% increase in net sales in FY2/20.

## Business outlook

**(1) Growth in main product SPIRAL®**

One reason for the lack of growth in the main product SPIRAL® in FY2/19 was the fact that many existing salespeople (veterans) spent some of their time teaching newly-hired salespeople. Over the past two years, the Company has hired many new employees (166 people) and has been aggressively training these new employees so that they can contribute. Many of the Company's existing salespeople were involved in the education and training of the new employees, and this negatively impacted the performance of these existing salespeople. In FY2/20, not only will newly-hired salespeople contribute to the Company's performance, but veteran salespeople will be able to focus on their own sales efforts, thereby growing the sales of the main product.

**(2) Growth in large value general sales**

Up until the previous fiscal year, the Company's overall strategy had been to emphasize contract sales (ongoing contracts in which sales are posted each month), while general sales (one-off sales of large amounts) were somewhat less of a priority than contract sales. Because FY2/20 is the final fiscal year of the medium-term business plan, the Company plans to go after general sales more aggressively than before (while still keeping a balance with contract sales), and therefore expects net sales to increase.

**(3) Growth in SPIRAL EC®**

In FY2/19, the Company both worked on developing a new SPIRAL EC® product for EC, and also worked to transfer this business from PIPED BITS to FRIENDIT. As a result, net sales related to SPIRAL EC® fell to a lower-than-usual level. However, in FY2/20, net sales are expected to recover due to the fact that the development work and the business transfer have been completed.

**(4) Rebound in sales promotion CRM solutions**

The sales promotion CRM solutions business generally sees high year-to-year fluctuations in net sales, and in FY2/18 the business acquired relatively large projects. The Company expected a recoil decline in FY2/19, but actual net sales fell even more than forecast. Looking at FY2/20, the Company is expecting a rebound increase from last year's large decline, so the Company is projecting a recovery in the sales promotion CRM solutions business. Still, recovery means a return to the FY2/18 level, so the expectations are not excessive.

**(5) Ongoing strong performance in the advertising business**

The advertising business is expected to perform strongly in continuation from FY2/19. In particular, the joint business with an advertising-related subsidiary of East Japan Railway Company, which the Company has been focusing on, finally got up and running in earnest in FY2/19, so the Company expects the advertising business to continue to see an increase in net sales in FY2/20.

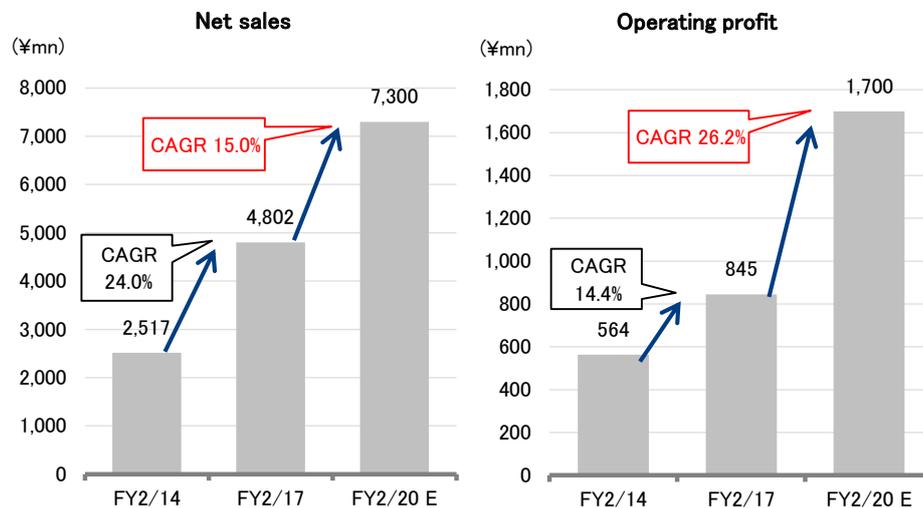
As discussed above, there are buds for growth in net sales in each business in FY2/20, and a 20% increase in net sales should not be too hard to achieve. Also, as discussed above, the Company's business has a high maximum profit margin, so as long as the Company can maintain an increase in net sales, it should be able to achieve nearly 200% increase in operating profit.

## ■ Medium- to long-term growth strategy

### Medium-term plan goals unchanged at ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

#### 1. Medium-Term Business Plan

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



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

Meanwhile, however, in its official earnings report, the Company announced a net sales forecast of ¥6,500mn (+19.9% YoY) and an operating profit forecast of ¥1,200mn (+204.5%) for FY2/20. These forecasts are a bit conservative, as they take a variety of risks into consideration at the management level.

In contrast, the forecasts in the medium-term business plan (net sales = ¥7,300mn; operating profit = ¥1,700mn) are the aggregates of the projections for each operating company. Therefore, internally, no revisions have been made to the forecasts for FY2/20. In other words, all of the operating companies are working towards achieving these internal targets. These are extremely high targets, but certainly not impossible to reach. Again, as long as the Company can book net sales, profits will come easily.

We will keep a close watch on the Company's trends going forward, focusing on whether or not the Company is able to make full use of the large number of employees hired over the past two years as planned.

Medium- to long-term growth strategy

## 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 rich information lifestyle with a future.” It intends to implement the priority measures covered below to achieve this goal and the above-mentioned numerical targets.

### (1) Promote “real × IT”

The Company intends to strengthen the contact point between real business and IT and pursue innovative businesses. The establishment of new subsidiaries was a specific example.

#### a) VOTE FOR

The Company established this entity in March 2017 to conduct “real × 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.

#### b) I LOVE

The Company created this entity 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 electronic regional currency.

### (2) Group hiring and group development

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. With a goal of maximizing profits in FY2/20, the Company hired 90 people in FY2/18 (including new university graduates and recent graduates with work experience) and another 76 people in FY2/19. There will be a respite in large-scale hiring after this phase.

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

## 3. Fund-raising initiative

The Company announced the following share buyback and fund-raising plan that targets future growth.

### (1) Acquiring its own shares from subsidiaries

The Company acquired 500,000 shares of its stock owned by consolidated subsidiary PIPED BITS for ¥767mn. However, this transaction simply transferred ownership and does not affect consolidated results because it obtained the Company’s own shares held by a consolidated subsidiary. PIPED BITS originally purchased these shares in response to a request from a minority shareholder prior to formation of the holding company.

Medium- to long-term growth strategy

## (2) Issuance of No.5 and No.6 new share warrants

Additionally, the Company issued new share warrants (No.5: 250,000 shares; No.6: 250,000 shares)\* for third-party allotment to Macquarie Bank Limited.

| \* Refer to the Company's website for details. (Japanese only) |

Key points are a ¥1,800 exercise price for No.5 (with no revisions to the exercise price) and a ¥1,800 bottom in the exercise price for No.6, but an ability to raise this level to over ¥1,800 by the Company resolution. This puts the maximum number of shares available for allocation at 500,000 shares and supports a minimum procurement value of ¥900mn. Additionally, total outstanding issuance volume should not increase if warrants are exercised because the Company plans to utilize the above-mentioned treasury shares acquired from the subsidiary (500,000 shares). Existing shareholders hence would not incur dilution.

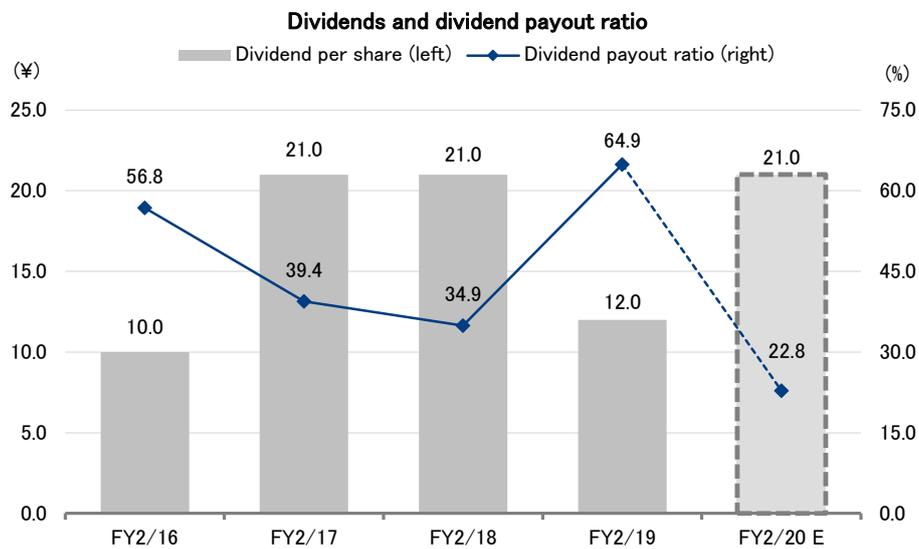
Furthermore, Macquarie Bank Limited, the recipient of the new share warrants, paid ¥5,872,000 for the warrants and is unlikely to exercise the rights until the shares trade at ¥1,800 or above in order to recoup its outlay. We expect gradual sale of acquired shares in the market after purchase using the warrants and contribution to better liquidity in the stock market once these shares enter the market.

While this fund-raising scheme is attractive to all stakeholders (the Company, existing investors, and the warrant recipient), it requires a share price of over ¥1,800. We think the Company hence must attain goals from the FY2/20 forecast.

## Shareholder return policy

### Forecasting an annual dividend of ¥21 in FY2/20

The Company is committed to a 30% dividend payout ratio as a shareholder return policy. It paid a ¥21.0 annual dividend in FY2/18, and despite the decline in profits it paid a ¥12.0 annual dividend in FY2/19 (resulting in a 64.9% dividend payout ratio due to the special nature of the operating results). Furthermore, in FY2/20, the Company has announced that it will pay an annual dividend of ¥21.0 based on its forecast for an increase in profit.



Prepared by FISCO from the Company's financial results



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