

# **PiPEDO HD, Inc.**

**3919**

Tokyo Stock Exchange First Section

22-Jun.-2020

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## Summary

### Profits sharply higher in FY2/20 on benefits from early investments made through the previous fiscal year, operating profit rose 252.9% YoY

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 FY2/20 results

The Company reported ¥6,207mn in net sales (+14.5% YoY), ¥1,390mn in operating profit (+252.9%), ¥1,402mn in recurring profit (+259.1%), and ¥688mn in profit attributable to owners of parent (+389.1%). Sales climbed at a healthy pace, particularly in the mainstay information asset platform business, on early investments (primarily in hiring) made through the previous fiscal year, and profitability rose substantially on exhaustion of the upward trend in expenses, including curtailment of new hires. Nevertheless, even with the steep YoY profit increase, operating profit missed the ¥1,700mn final goal in the three-year Medium-Term Business Plan. The COVID-19 outbreak did not affect FY2/20 results.

#### 2. FY2/21 outlook

Due to uncertainty in the outlook with unavoidable impact by the COVID-19 outbreak, the Company’s FY2/21 consolidated guidance adopts ranges using scenarios of “impact lasting through 1Q” and “impact lasting through 2Q” of ¥5,600–6,200mn in net sales (-9.8% to -0.1% YoY), ¥700–1,200mn in operating profit (-49.7% to -13.7%), ¥700–1,200mn in recurring profit (-50.1% to -14.4%), and ¥350–600mn in profit attributable to owners of parent (-49.2% to -12.8%). The Company intends to promptly revise guidance if the situation changes further. While it has not decided the annual dividend yet, the policy of a 30% dividend payout ratio remains intact.

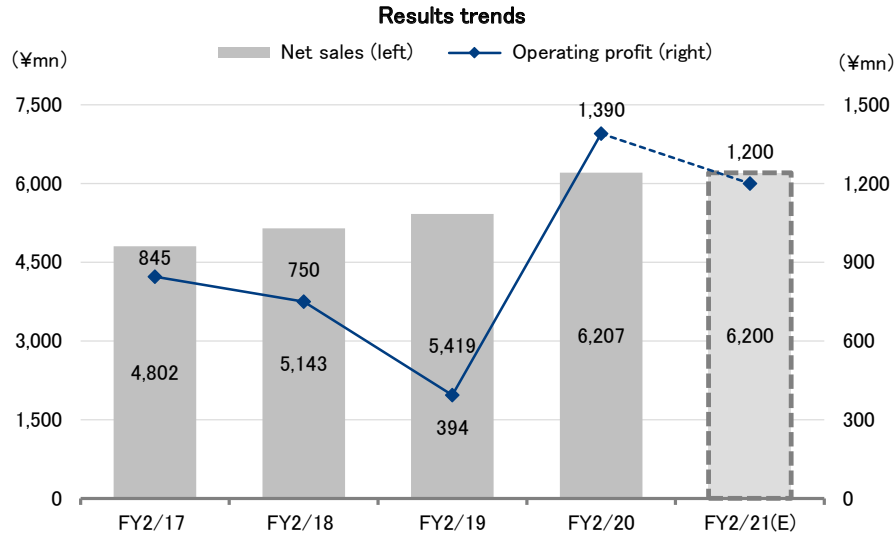
#### 3. Medium-Term Business Plan

The Company completed its three-year Medium-Term Business Plan in FY2/20. Despite missing final goals of ¥7,300mn in net sales and ¥1,700mn in operating profit, we think compound average growth rates (CAGR) posted in these three years were upbeat at 8.9% in net sales and 18.0% in operating profit. The Company had intended to announce a new 2023 Medium-Term Business Plan, but the COVID-19 situation delayed this release. It stated that “we intend to announce the 2023 Medium-Term Business Plan once it is possible to present reasonable assumptions.”

#### Key Points

- Conducts businesses that primarily leverage the proprietary SPIRAL® platform
- Operating profit rose sharply in FY2/20 with a 252.9% YoY increase
- Postponed announcement of the 2023 Medium-Term Business Plan, intends to disclose it after the COVID-19 outbreak situation settles down

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 April 10, 2020.

#### 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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Company profile

**PiPEDO HD history**

Sep. 2015	PIPEDO HD was established by a single transfer of shares from PIPED BITS Co., Ltd. and listed on the Tokyo Stock Exchange First Section (PIPED BITS Co., Ltd. was delisted in August 2015). PIPEDO HD acquired the shares of the four subsidiaries of PIPED BITS by a property dividend, converting them into its own subsidiaries.
Dec. 2015	Made additional investment into Current Inc., converting it into a subsidiary
Mar. 2016	Established GONDOLA CO., LTD., FRIENDIT Inc., and BIREKI Co., Ltd.
Oct. 2016	Established BLOOM NOTES, INC.
Mar. 2017	Established VOTE FOR, INC. and I LOVE, INC.
Dec. 2017	Established L Coin, Inc.
Mar. 2018	Established Shimokita Coin, Inc.
Apr. 2018	Implemented an absorption merger with FRIENDIT Inc. as the surviving entity and AsBase Inc. as the eliminated entity
May 2019	Implemented an absorption merger with VOTE FOR, INC. as the surviving entity and Publica Co., Ltd. as the eliminated entity
Mar. 2020	Established Double Sharp Partners Corporation

Source: Prepared by FISCO from the Company's website

**PIPED BITS history**

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

Source: Prepared by FISCO from the Company's website

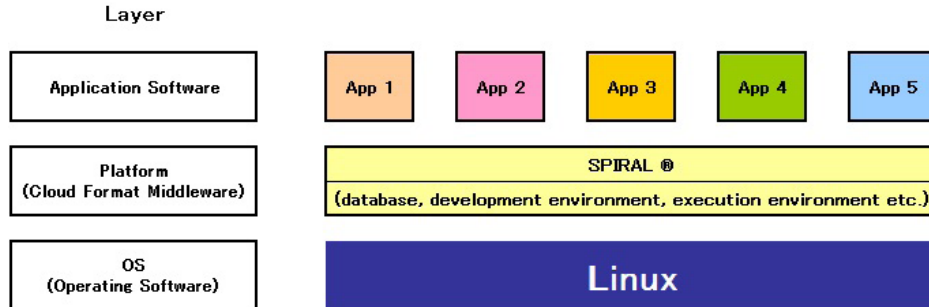
### 3. Business overview

#### (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 are 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.

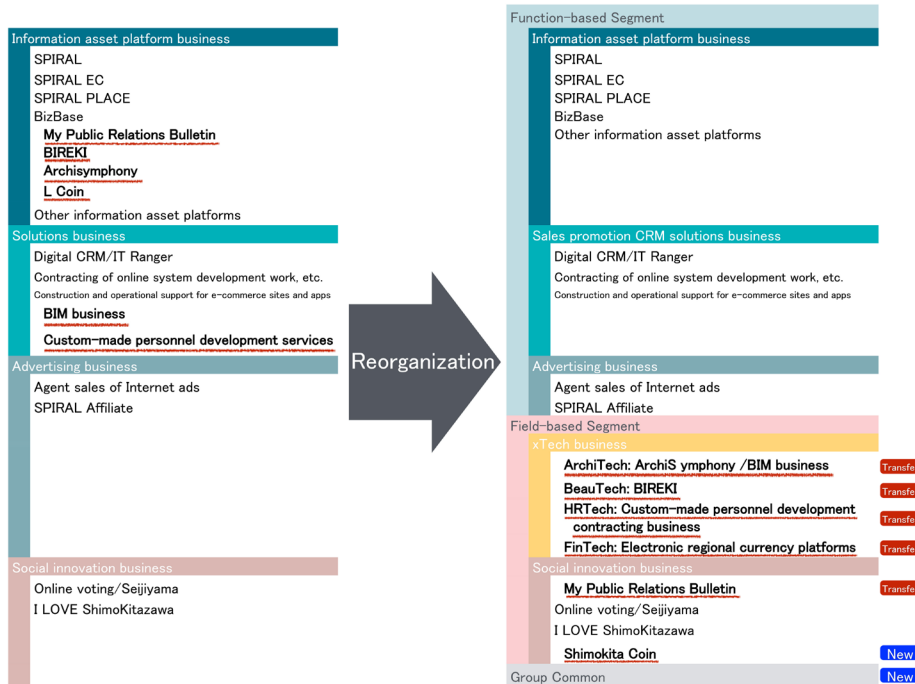
Company profile

Segment reorganization (Main segments/segment details)

Function-based Segment	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
Information asset platform business	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
Sales promotion CRM solutions business	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
Advertising business	Planning of promotions tailored to customers' objectives; production, development and management of advertising contents; agency sales of online ads
Field-based Segment	Businesses targeting specific industries and fields for which innovation through new information-sharing models utilizing the cloud and other IT platforms can be expected
xTech business	Business expected to create innovative services in the industry by utilizing IT to share information across company and organizational lines
Social innovation business	Business engaging in activities with public benefits, aiming not to help individual companies and industries solve internal problems, but to solve broader societal issues
Group Common	The pure holding company's management costs, costs related to Group hiring and development, etc.

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) 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 May 1, 2019. |

**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 Sprinkl, 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.

**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.

## Company profile

**g) I LOVE, INC.**

The Company created this entity in Mach 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.

**h) 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.

**i) 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.

**j) Double Sharp Partners Corporation**

The Company established this entity on March 4, 2020 as a specialty organization focused on investing in venture companies inside and outside the Group with the aim of promoting longer-term advances by the Group and higher profitability.

## **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.

## Company profile

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

**c) Superiority in installation costs and security**

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

### Operating profit increased 252.9% YoY in FY2/20

#### ● Summary of FY2/20 results

##### (1) Profit-and-loss conditions

The Company reported ¥6,207mn in net sales (+14.5% YoY), ¥1,390mn in operating profit (+252.9%), ¥1,402mn in recurring profit (+259.1%), and ¥688mn in profit attributable to owners of parent (+389.1%). Sales climbed at a healthy pace, particularly in the mainstay information asset platform business, on early investments (primarily in hiring) made through the previous fiscal year, and profitability rose substantially on exhaustion of the upward trend in expenses, including curtailment of new hires. Nevertheless, even with the steep YoY profit increase, operating profit missed the ¥1,700mn final goal in the three-year Medium-Term Business Plan. The COVID-19 outbreak did not affect FY2/20 results.

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.

## Results trends

## Summary income statement

	FY2/19		FY2/20		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	5,419	100.0%	6,207	100.0%	788	14.5%
(Function-based Segment)	5,177	95.5%	5,940	95.6%	762	14.7%
Information asset platform business	3,669	67.7%	4,249	68.4%	579	15.8%
Sales promotion CRM solutions business	1,025	18.9%	963	15.5%	-62	-6.1%
Advertising business	482	8.9%	727	11.7%	245	50.8%
(Field-based Segment)	242	4.5%	267	4.3%	25	10.5%
xTech business	163	3.0%	188	3.0%	24	15.1%
Social innovation business	78	1.5%	79	1.3%	0	0.9%
Gross profit	3,757	69.3%	4,489	72.3%	731	19.5%
SG&A expenses	3,363	62.1%	3,099	49.9%	-264	-7.9%
Operating profit	394	7.3%	1,390	22.4%	996	252.9%
(Function-based Segment)	955	-	1,813	-	857	89.7%
Information asset platform business	828	-	1,419	-	591	71.3%
Sales promotion CRM solutions business	45	-	84	-	38	84.1%
Advertising business	81	-	309	-	227	279.6%
(Field-based Segment)	-94	-	-76	-	18	-
xTech business	-55	-	-34	-	21	-
Social innovation business	-38	-	-41	-	-2	-
Company-wide costs	-467	-	-346	-	120	-
Recurring profit	390	7.2%	1,402	22.6%	1,012	259.1%
Profit attributable to owners of parent	140	2.6%	688	11.1%	547	389.1%

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

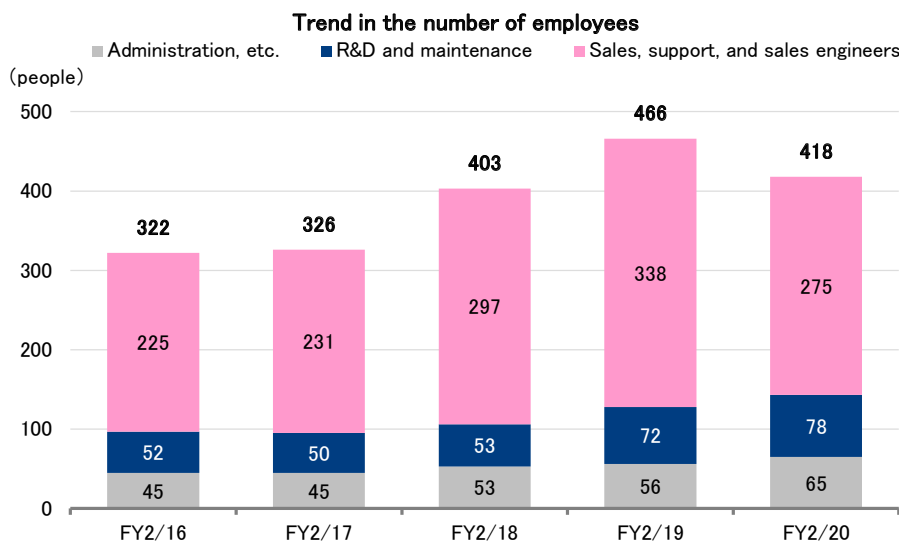
Net sales rose ¥788mn YoY with a segment breakdown of +¥579mn in information asset platform sales (+¥609mn in SPIRAL®), -¥62mn in sales promotion CRM solutions (-¥42mn in digital CRM, -¥31mn in operation assistance), +¥245mn in advertising (+¥230mn in SPIRAL Affiliate®), and +¥24mn in xTech business (+¥25mn in Bireki, +¥22mn in BIM, -¥23mn in order-made personnel training services, and +¥0mn in social innovation business).

Operating profit expanded by ¥996mn YoY. Main profit boosts were ¥788mn from higher sales, ¥49mn from decline in hiring costs, ¥48mn from decline in personnel expenses, ¥47mn from lower depreciation costs, ¥27mn from decline in R&D expenses, ¥26mn from decline in advertising and promotional expenses, ¥19mn from cost reduction, and ¥30mn from decline in other expenses. Meanwhile, a ¥42mn rise in paid fees negatively affected profits (this includes ¥24mn in fees related to exercise of new share warrants).

## (2) Trend in the number of employees

The Company had aggressively hired (invested) in FY2/18 and FY2/19 in order to realize goals in the medium-term business plan that lasts through FY2/20. 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 conduct any hiring, including new university graduates, in FY2/20, and as a result, the number of employees at the end of FY2/20 dropped to 418 people (-48 people YoY) due to natural attrition and dissolution of a subsidiary (explained below).

## 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

This segment booked ¥4,249mn in net sales (+15.8% YoY) and ¥1,419mn in operating profit (+71.3%). Key sales drivers were increase in SPIRAL® active accounts to 3,680 accounts (+2.6% YoY), function enhancement and security feature (biometric authentication support) additions, and success in meaningful sales activities with sufficient understanding of product content and features by sales personnel recruited in aggressive hiring since FY2/18 thanks to the training effect. While sales value is still low, My Number (personal ID number) solutions and other areas contributed to sales growth too. Segment profit improved significantly on stronger sales because of high profitability once sales exceed breakeven since the core product is a cloud service and on curtailed spending, mainly in personnel expenses.

#### b) Sales promotion CRM solutions business

This segment reported ¥963mn in net sales (-6.1%), a YoY decline that included non-recurrence a major deal obtained in the previous fiscal year, though improvement in operating profit to ¥84mn (+84.1%) with better profitability on various deals. However, both sales and profits are still low, and segment momentum stalled in the past three years (during the Medium-Term Business Plan period).

#### c) Advertising business

This segment posted ¥727mn in net sales (+50.8%) and ¥309mn in operating profit (+279.6%). Both sales and profits climbed sharply. The Internet advertising market expanded according to data from Dentsu and other sources, and this trend helped lift segment sales. With daily changes in regulations for this market, technology developments and other revisions to comply with such changes must be handled directly. Profitability improved because of the switch from outsourcing to internal work for a portion of the distribution tool in this environment. Higher margin contributed to the steep profit gain.

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

Results trends

**d) xTech business**

This business makes effective use of IT technology to share information beyond corporate and industry association boundaries and has the potential to create innovative services for the industry. It had ¥188mn in net sales (+15.1%) and a ¥34mn operating loss (vs. a ¥55mn loss in the previous fiscal year). Despite the segment-level loss, this reflected the impact of dissolving Bloom Notes, Inc. (order-made personnel training business) in December 2019, and other areas posted profits. However, business scale is still minor and does not have much impact on the Company's overall income.

**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 ¥79mn (+0.9% YoY) and a loss of ¥41mn (versus a loss of ¥38mn 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 830, which covers roughly 50% 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 and are fields of future growth despite currently being small-scale and making on a minor contribution to earnings.

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

Looking at the financial position at the end of FY2/20, total assets were up ¥1,250mn from the end of the previous fiscal year to ¥7,128mn. Current assets increased by ¥1,454mn, with the main factors being a decrease in cash and deposits of ¥1,114mn and an increase in accounts receivable of ¥258mn. Fixed assets decreased ¥204mn, primarily due to a decrease in tangible fixed assets of ¥20mn and in investments and other assets of ¥189mn. Total liabilities were down ¥207mn from the end of the previous fiscal year to ¥3,226mn. This was mainly due to a decrease in short-term loans payable (including the current portion of long-term loans payable) of ¥438mn, an increase in accrued income taxes of ¥485mn and a decrease in long-term borrowings of ¥960mn. Net assets were ¥3,901mn, up ¥1,458mn. This was mainly due to the increase in retained earnings of ¥688mn following the recording of net profit and disposal of treasury shares worth ¥893mn.

**Simplified balance sheet**

	(¥mn)		
	End of FY2/19	End of FY2/20	Change
<b>Current assets</b>	3,737	5,191	1,454
Cash and deposits	2,423	3,538	1,114
Notes and accounts receivable	1,112	1,371	258
<b>Fixed assets</b>	2,140	1,936	-204
Tangible fixed assets	105	85	-20
Intangible fixed assets	473	478	5
Investments and other assets	1,561	1,372	-189
<b>Total assets</b>	5,877	7,128	1,250
<b>Current liabilities</b>	2,508	2,626	117
Short-term loans, etc.	1,263	825	-438
<b>Fixed liabilities</b>	925	600	-325
<b>Total liabilities</b>	3,434	3,226	-207
<b>Net assets</b>	2,443	3,901	1,458
<b>Retained earnings</b>	2,563	3,121	558

Prepared by FISCO from the Company's financial results

## Results trends

Cash provided by operating activities was ¥1,272mn, with the main income items being the recording of net profit before income taxes of ¥1,193mn and depreciation and amortization of ¥171mn, while the main expenditure items included an increase in accounts receivable of ¥258mn. Cash used in investing activities was ¥175mn, with the main expenditure items including the acquisition of intangible fixed assets (largely software) of ¥172mn. Cash provided by financing activities was ¥17mn, with ¥899mn from disposal of treasury shares as the main inflow item and ¥763mn for the net payment of borrowings and ¥129mn for the payment of dividends as the main outflow items. As a result, during the period, cash and cash equivalents increased ¥1,114mn, and the balance of cash and cash equivalents at the end of the period was ¥3,538mn.

## Simplified cash flow statement

	(¥mn)	
	FY2/19	FY2/20
Cash flow from operating activities	458	1,272
Cash flow from investing activities	-383	-175
Cash flow from financing activities	431	17
Change in cash and cash equivalents	507	1,114
Balance of cash and cash equivalents at the end of the period	2,423	3,538

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

**(5) Main topics during FY2/20**
**a) Dissolved subsidiary Bloom Notes (December 2019)**

Bloom Notes offered "order-made personnel training business" that helped companies build and operate programs utilizing their own knowhow. However, income deviated significantly from the initial business plan, and the Company concluded that it lacked an outlook for expanding income and decided in December 2019 to dissolve this entity. While FY2/20 statements still reflect results from Bloom Notes, the Company no longer includes it from FY2/21.

**b) Procured funds by exercising new share warrants**

The Company procured about ¥900mn in funds by exercising all new share warrants issued in No. 5 and No. 6 rounds in April 2018. The following list presents related events.

October 2015: Company acquired its own shares from a shareholder who opposed reorganization and held them as treasury shares

- 500,000 ordinary shares acquired for ¥894mn (¥1,788 per share)

April 2018: Allocated new share warrants as No. 5 and No. 6 rounds to Macquarie Bank Limited

- 5,000 warrants (corresponding to 500,000 shares)
  - Through January 2020: Exercised all new share warrants issued in No. 5 and No. 6 rounds
- Exchanged 500,000 treasury shares in the exercise (this transaction did not involve dilution due to issuing new shares)
- Procurement value totaled ¥900mn (¥1,800 per share)

Macquarie Bank Limited reported that it mainly sold the acquired shares in the market. This indicated improved share liquidity compared to previously.



## Business outlook

### Disclosed ranges in FY2/21 guidance because of uncertainty

#### 1. FY2/21 outlook

Due to uncertainty in the outlook with unavoidable impact by the COVID-19 outbreak, the Company's FY2/21 consolidated guidance adopts ranges using scenarios of "impact lasting through 1Q" and "impact lasting through 2Q" of ¥5,600–6,200mn in net sales (-9.8% to -0.1% YoY), ¥700–1,200mn in operating profit (-49.7% to -13.7%), ¥700–1,200mn in recurring profit (-50.1% to -14.4%), and ¥350–600mn in profit attributable to owners of parent (-49.2% to -12.8%). The Company intends to promptly revise guidance if the situation changes further. While it has not decided the annual dividend yet, the policy of a 30% dividend payout ratio remains intact.

#### FY2/21 forecasts

	FY2/20		FY2/21 E		Change		(¥mn)
	Amount	% of total	Amount	% of total	Amount	%	
Net sales	6,207	100	5,600–6,200	100	-608--7	-9.8%--0.1%	
Operating profit	1,390	22.4	700~1,200	12.5~19.4	-691~-191	-49.6%~-13.7%	
Recurring profit	1,402	22.6	700~1,200	12.5~19.4	-702~-202	-50.1%~-14.4%	
Profit attributable to owners of parent	688	11.1	350~600	6.3~9.7	-339~-89	-49.2%~-12.8%	

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

#### 2. Impacts by segment

The Company is utilizing telework for over 90% of executives and employees in the Group as of early May 2020. Customers have responded with business suspensions, shorter hours, restraint, and other measures, and we expect lost orders or reduced scale in some ongoing projects. The following points cover impacts on individual business segments.

##### (1) Information asset platform

There is unlikely to be much impact on system usage fee revenue (recurring sales), the main component of SPIRAL® business income. Although impact on SPIRAL® deals currently in the implementation phase should also be modest, new discussions have stalled and these conditions might affect 2H orders.

Meanwhile, inquiries related to telework and workflow conversion to an IT environment have risen, and the Company is focusing on provision of solutions needed in this environment.

##### (2) Sales promotion CRM solutions

Existing business in the M&A field faces heavy impact with stalled customer activity. We expect temporary interruptions and lost orders in system building projects.

##### (3) Advertising

Internet advertising is confronting delayed placements and distribution halts. In some industries, however, companies are stopping off-line advertisements and switching to emphasis on Internet ads. This activity has positive implications.

## Business outlook

**(4) xTech/Social innovation**

- a) For BIM business, demand for remote sharing of 3D design information is likely to emerge.
- b) For “My Kohoshi” business, placements have been trending upward amid active efforts by local public entities to disseminate information.
- c) For Bireki®, steep decline in beauty salon customer volume is affecting business.
- d) For “I LOVE Shimokitazawa,” inability to hold events is a major setback.
- e) For Seijiyama® business, Internet-based voting momentum has been growing with tailwind from inroads by the My Number (personal ID number) system.
- f) For Shimokita Coin, circulation value at restaurants has been declining (this lowers fee income).

## ■ Medium- to long-term growth strategy

### Postponed announcement of the new Medium-Term Business Plan

**● Medium-Term Business Plan**

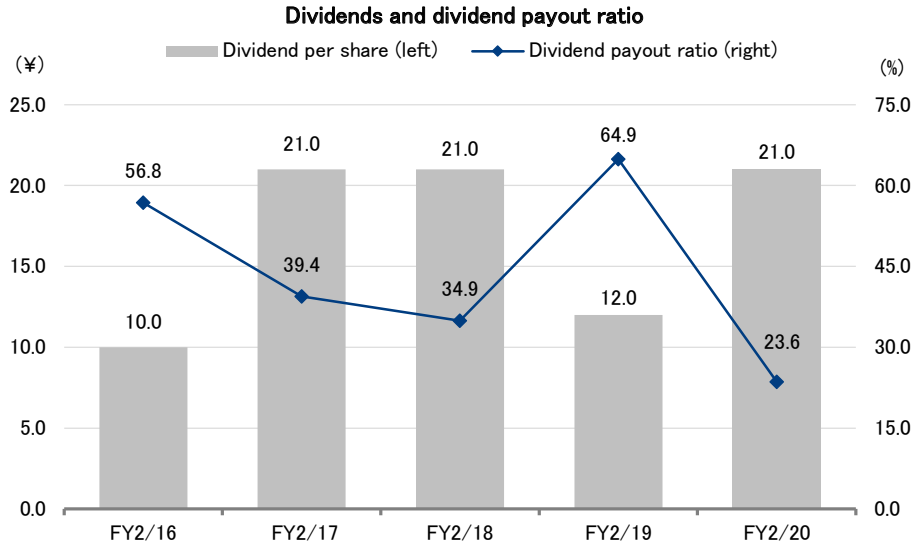
The Company completed its three-year Medium-Term Business Plan in FY2/20. Despite missing final goals of ¥7,300mn in net sales and ¥1,700mn in operating profit, we think compound average growth rates (CAGR) posted in these three years were upbeat at 8.9% in net sales and 18.0% in operating profit. The Company had intended to announce a new 2023 Medium-Term Business Plan, but the COVID-19 situation delayed this release. It stated that “we intend to announce the 2023 Medium-Term Business Plan once it is possible to present reasonable assumptions.”

## ■ Shareholder return policy

### Maintains the 30% dividend payout ratio policy, though has not decided the FY2/21 dividend yet

The Company has committed to a 30% dividend payout ratio as its shareholder return policy. It paid a ¥12.0/share dividend in FY2/19 and ¥21.0/share dividend in FY2/20. While it has not decided the FY2/21 dividend yet because of the COVID-19 situation, the Company explained that “we maintain the existing commitment to a 30% dividend payout ratio.” It intends to disclose the dividend target at the announcement of updated guidance once the COVID-19 outbreak settles down.

Shareholder return policy



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



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