

Cross Marketing Group Inc.

3675

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■ Index

■ Summary	01
■ Company profile	02
1. Business overview	02
2. History	03
3. Industry environment	04
4. Research business	05
5. IT solutions business and other businesses	07
■ Business model	08
1. Earnings structure	08
2. Strengths and weaknesses	09
3. Turning points	09
■ Business trends	11
1. FY12/18 results	11
2. FY12/18 results by business segment	12
3. Financial position at the end of FY12/18	13
4. Business initiatives for FY12/19	14
5. FY12/19 outlook	16
■ Medium-term management plan	17
■ Shareholder return policy	18
■ Information security	19

Summary

Harnessing strengths for the next growth phase

Cross Marketing Group Inc. <3675> is comprised of three businesses: Research, IT solutions, and other businesses. The mainstay research business offers a one-stop service for various marketing research services based primarily on online research. The IT solutions business handles smartphone app planning, development, and operations, and also dispatches engineering personnel. Under other businesses, the Company runs a promotion services business to provide marketing support. Despite being a late-comer to the industry when it was founded, the Company has since become one of the largest companies in the marketing research industry. It is currently strengthening functions in various businesses, arranging crossover of business functions, and bolstering response capabilities to diversifying customer needs. It is also actively expanding the scope of overseas business.

Quality and quantity of registered monitors is a key attribute of the Company's research business. In terms of quantity, at about 5mn people, the Company has a sufficient volume of active registered monitors. For quality, it applies strict quality management for registered monitors, such as constantly keeping the latest information on basic attributes related to registered monitors and eliminating registration in the case of inappropriate responses. As for its support structure, as opposed to its competitors, whose functions are relatively separate from one another, the Company holds an advantage in having sales staff, researchers, directors, and all other personnel who interact with clients work to resolve issues in a unified manner. From a customer perspective, in addition to the support structure, the Company differentiates itself from peers in the experience of its researchers who make suitable proposals and designs for addressing issues and proposes comprehensive marketing solutions that utilize IT solutions and other functions inside and outside the group. The Company is consciously seeking to leverage these strengths at this point.

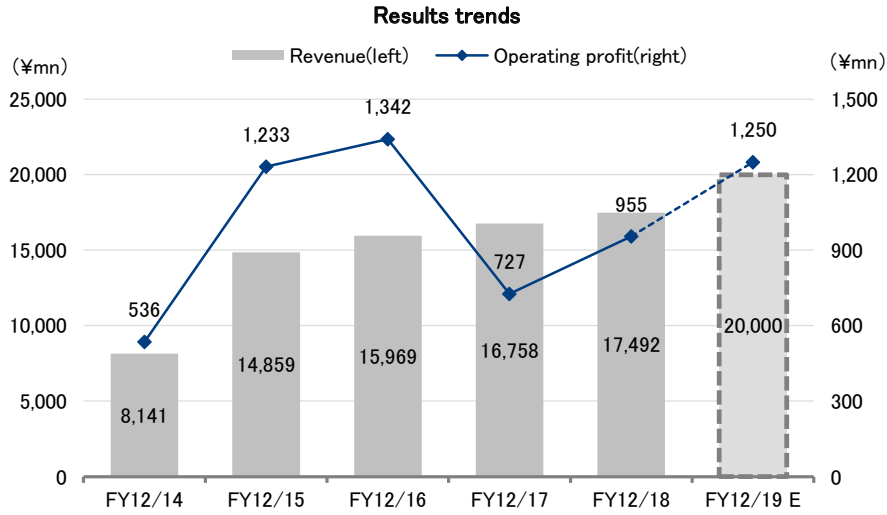
For FY12/18, the Company reported revenue of ¥17,491mn (+4.4% YoY) and operating profit of ¥954mn (+31.4%). It lowered the outlook during the year because of needing time to strengthen internal and external sales organization structures aimed at improvement in productivity, an outstanding issue, and further growth. In Q4, meanwhile, the Company showed signs of recovery in its business performance with favorable trends in medical-related research and positive effects from reinforcement measures for the sales organization structure. For FY12/19, the Company projects revenue of ¥20,000mn (+14.3% YoY) and operating profit of ¥1,250mn (+30.9%). Despite plans to expand investments in hiring and various measures, it anticipates recovery in profitability on sustained broadening of business scope in domestic and overseas research business and progress building a business structure with high added value and robust productivity.

IT and other technologies are advancing at faster paces and promotion methods are rapidly shifting from mass media to digital marketing. We think an era has arrived that lets the Company leverage its strengths more effectively, including a vibrant network of monitors in terms of quality and quantity, support structure that resolve issues by interacting with customers in a unified manner, and ability to propose marketing solutions with crossover of group functions. The Company is also ramping up strategic alliances with different industries and quickly building a business structure with high added value and robust productivity. We expect it to solidify drivers for the next phase of medium-term growth in FY12/19.

Key Points

- Currently broadening business scope from online research to marketing solutions
- Strengths are monitor quality and quantity, unified support, and group function crossover
- Earnings bottom in FY12/18, harnessing strengths to drive medium-term growth in FY12/19

Summary



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

Company profile

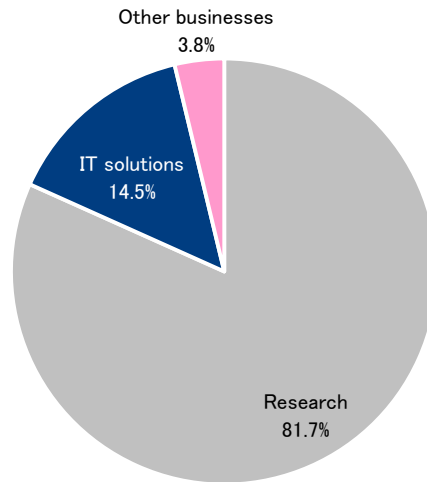
Broadening business scope to marketing solutions

1. Business overview

The Company is comprised of three businesses: Research, IT solutions, and other businesses. Its original business was marketing research based primarily on online surveys, but over the years, it has developed a full range of services covering all areas of marketing research with quantitative and qualitative studies. Most of the research is based on online surveys, but offline surveys and other types of research are done as well. The IT solutions business does mobile system planning, development, and operations, and also dispatches engineering personnel. Other businesses include a promotion services business for marketing support. With these service lines, the Company has greatly expanded its business interests from online survey-based marketing research to marketing solutions. Now, the Company is strengthening each business function in combination with advances in time and technology, and reinforcing its capabilities to respond to diversifying customer needs by crossing over functions among businesses. It is also actively expanding overseas domains. As of the end of FY12/18, the Company had a total of more than 20 offices in 11 countries as well as 33 subsidiaries and 4 affiliated companies.

Company profile

Revenue breakdown by segment (Q3 FY13/18)



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

Grew rapidly into a major firm in Japan's research industry

2. History

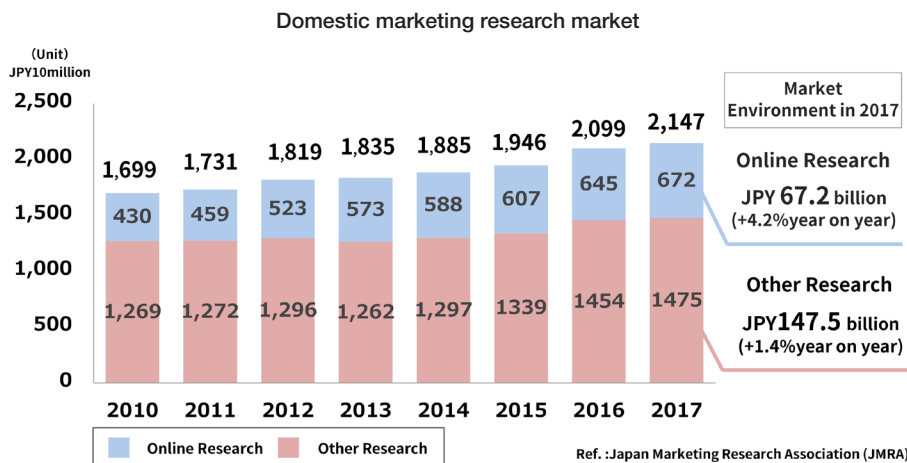
The Company can trace its roots to Cross Marketing Inc., an online research company that was founded in April 2003 by Miki Igarashi, the current representative director, president and CEO. In May 2006, Cross Marketing entered into a capital and business alliance with EC Navi Inc. (currently VOYAGE GROUP Inc. (CARTA HOLDINGS, INC. <3688>), the operator of ad platform and point media businesses). In March 2007, it entered into capital alliances with major research companies such as Dentsu Research Inc. (currently DENTSU MACROMILL INSIGHT, INC.) and Video Research Ltd. In October 2008, Cross Marketing listed its shares on the Mothers Section of the TSE and subsequently broadened business from online research to marketing research and marketing solutions. In February 2011, it formed an alliance with Rakuten Research, Inc. and others to jointly develop a monitor database. In August 2011, it acquired Index Inc.'s mobile solutions business (currently the IT solutions business). In 2013, a decade after the company's establishment, Cross Marketing converted to a holding company, Cross Marketing Group, in what it refers to as its second founding. The Company is accelerating M&A and new business and overseas initiatives. It has actively acquired and developed powerful companies such as Kadence International Business Research Pte. Ltd. in 2015 and Research and Development, Inc., while also successfully changing its listing to the First Section of the Tokyo Stock Exchange (TSE) in March 2018. Despite having been a late starter, the Company is now counted among the research industry's leading companies in Japan.

Steadily growing marketing research industry in Japan

3. Industry environment

Marketing research is broadly divided into online research and offline research depending on whether it is conducted on the Internet or in the real world. The methods are also separated into panel research and ad hoc research. Panel research collects data from a fixed target group over an extended amount of time periodically and in defined locations. Ad hoc research, in contrast, is one-off research that designs a questionnaire and other materials each time for a region or target group to fulfill a purpose. While both approaches require considerable time and effort, ad hoc research must be customized in each case and is even more laborious. The marketing research industry in Japan continues to steadily grow with increased and more diversified consumption and strong corporate earnings.

Online research expanded along with growing utilization of the Internet from 2000. Key differences compared to offline research are the short number of days in which survey results can be obtained: easier processing of response data because it is already digitalized: lower costs for printing, mailing, and survey staff: reduction of response gifts: ability to conduct surveys of a few hundred thousand people in a short period: and ability to survey rare targets. Online research excels in speed, cost, and scale, and these attributes have rapidly driven usage. In the market research industry, major companies fuse market research like this with IT solutions to expand their business scope to include marketing solutions. We note that there are three largest firms dominating the marketing research industry: Macromill, Inc. <3978> (with fiscal year ending in June), INTAGE HOLDINGS Inc. <4326> (fiscal year ending in March), and Cross Marketing Group (fiscal year ending in December).



Source: The Company's results briefing materials

High quality and number of registered monitors supporting the online research business

4. Research business

(1) Research steps

Marketing research usually adheres to the following steps: 1) Listen to the client about the survey background and purpose and prepare the method to achieve the survey goal, 2) support survey form planning and design and confirm purpose of the survey, 3) handle fieldwork in the various processes to improve quality, 4) implement suitable planning and conduct compilation and analysis, 5) prepare a report with detailed analysis of the survey results, and 6) conduct discussions which lead solutions. Online research service consists of the following detailed steps: 1) Receive a research request from the client and develop a questionnaire program that reflects planned content. Host the materials on the questionnaire server. In the survey itself, 2) conduct preliminary screening to extract registered monitors suited to giving responses, 3) request e-mail distribution of questionnaire notification to affiliate Research Panel, Inc. for the purpose of notifying registered monitors and recruiting questionnaire respondents from the registered monitors, and 4) pay an honorarium (operating company points, etc.) to registered monitors who respond to the questionnaire via Research Panel and complete the questionnaire survey after collecting required sample volume. Then, 5) data cleaning is implemented with a system check and visual check by dedicated staff to remove contradictory or improper replies. After the survey, 6) results are compiled and delivered to the customer and various statistical analysis reports may be prepared if requested by the client. Finally, 7) pay Research Panel for use of its registered monitors.

(2) Registered monitors

Quality and quantity of registered monitors is the most important factor to the Company's marketing research business. In terms of quantity, at 1.8mn people, the Company has a very large number of active registered monitors. These registered monitors are recruited from the members-only websites run by VOYAGE GROUP, Credit Saison Co., Ltd. <8253>, and others, and managed by Research Panel. In the case of VOYAGE GROUP, members of its EC Navi website (a comprehensive shopping website) are invited to register at Research Panel. In the case of Credit Saison, Credit Saison website members who wish to participate in surveys are asked to sign up as registered monitors with Eikyufumetsu Research, which is operated by Research Panel. The Company also has a reciprocal agreement that gives it access to the networks of registered monitors of other marketing research firms, which have a combined total of more than 3.2mn active monitors. This means the Company could potentially make use of a total of 5mn active monitors, which is more than enough in terms of quantity.

For quality, Research Panel annually updates member registered information to ensure data reliability and constantly keeps the latest information on basic attributes related to registered monitors. It also checks the content of survey responses for individual registered monitors and actively manages the quality of registered monitors, such as eliminating registration in the case of inappropriate responses. Additionally, it extracts registered monitors for specific features, such as consumer goods ownership and assets, and places them in categories (car owner, mobile phone owner, asset owner, etc.). This method facilitates highly accurate and effective surveys without having to define survey conditions each time. Skepticism about reliability in online research's early years has almost entirely disappeared now thanks to cumulative efforts with these measures and there has been sufficient securing of quality.

Company profile

(3) Coverage ranges from online research to marketing research and now aiming for overseas

The Company steadily broadened business scope from Internet to offline research leveraging online research know-how and the infrastructure explained above. Offline research offers quantitative surveys using questionnaires and interviews with research participants gathered at a venue and qualitative surveys via interviews of research participants in a panel discussion format. Furthermore, the Company supplies various research services that combine IT with existing survey methods. These capabilities have enabled it to build an extensive track record in a broad range of industries, including food products, beverages, cosmetics, pharmaceuticals, automotive, research firms, advertising and mass media, financial and insurance services, wholesale and retail, and services. The Company can also accommodate various themes, such as consumer activity, concept tests, product evaluation, packaging tests, advertising effect measurement, advertising evaluation, usage patterns, commercial zones and areas, brand evaluation, and customer satisfaction (CS). Furthermore, Japanese companies are increasing their expansion overseas to places like countries in the rest of Asia and the Company has accelerated its Asian expansion. FY12/18 performance remained at the same level to rebuild its overseas framework, however, the Company successfully expanded overseas research sales to about half that of domestic research.

Main services in the research business

Research type	Research method	Service content
Quantitative research	Online research	Original questionnaire program that meets customer needs is created on the Internet and registered monitors fill out the questionnaire
	Mailing research	Questionnaires are mailed to research participants and then collected. Results are compiled and analyzed
	Phone research	Research staff interview research participants by phone and questionnaire results are compiled and analyzed
	CLT research	Research participants gather at a designated venue for questionnaires and interview surveys. Results are compiled and analyzed. People walking in the area by the venue are selected as participants in some cases
	Mobile research	Original questionnaire program that meets customer needs is created in a mobile format for the Internet and registered monitors fill out the questionnaire
	Home-use test	Send products to the research participant's home to obtain product evaluation in a questionnaire after test use or tasting. Involves product delivery, questionnaire collection, and compilation and analysis of results
Qualitative research	Focus group interview	Gather a group (normally 5-8 people) and interview of research participants conducted by a moderator in a panel discussion format
	In-depth interview	One-to-one interview of research participants by a moderator
	Home visit	Visit research participants at home or work to conduct questionnaires and interviews
	Shop along	Accompany research participants on shopping trips to conduct questionnaires and interviews
	Eye-tracking survey	Measure "view movement" by research participants using a special eye-tracking system
Others	Overseas survey	Surveys in 85 countries - mainly developed countries (US and Europe), BRICS, Southeast Asia, and Oceania
	ID-POS data	Various types of research using ID-attached POS data at supermarkets, drugstores, and convenience stores

Source: Prepared by FISCO from the Company's securities report

Integrated service through marketing solutions

5. IT solutions business and other businesses

The IT solutions business offers a one-stop service for all essential functions in mobile and smartphone services, from marketing to planning, development, operation, and promotion. More specifically, the IT solutions business engages in website construction, smartphone app development, various tools and software package provision, surveys and analysis, infrastructure and server building, online promotions, security measures, and operational outsourcing. The Company has experience in building and operating systems for financial institution apps and settlement and point management that require robust performance, large-scale systems with millions of members, along with other systems. The Company also has operations capable of development to address the latest features for rapidly advancing mobile equipment. Furthermore, the Company is capable of smoothly applying the PDCA cycle to marketing strategies of customer companies and achieving even greater outcomes by leveraging the strengths of its mainstay research business. In other businesses, the Company provides marketing assistance services, mainly through promotion business operator D&M, Inc. It is capable of delivering integrated marketing solutions by bringing IT solutions and promotions businesses together with research business.

Main services in the IT solutions business

Service	Content
Website (PC/smartphone) construction	Services ranging from site strategy proposals to system development, site design, and maintenance and operation
Smartphone app development	Planning and development of iPhone and Android native apps supporting a broad array of applications from entertainment to business
Tool and package supply	Provision of various tools and packages to support web strategies that meet customer needs
Research and analysis	Hypothesis assessment and improvement proposals based on website research and analysis that aims to contribute to enhanced customer KPIs
Operations outsourcing	Consignment of website operations, such as content updates, email magazine distribution, user support, and site inspection
Infrastructure and server construction and operation	Construction, operation, and hosting of an infrastructure environment that supports large-scale, concentrated access
Web promotion	Provision of optimal promotion measures for purpose (customer draw and member acquisition) and platform attributes
Security measures	Comprehensive security measures for site operation, such as personal information protection and site vulnerability checks

Source: Prepared by FISCO from the Company's securities report

■ Business model

Upfront investments aimed at expansion of business scope keeping profitability low

1. Earnings structure

Taking a close look at sources of earnings, we note that costs of researchers and directors fall under cost of sales while selling and overhead costs (the functions used in common with the headquarters) are booked under SG&A expenses. With regard to the flow of business and the functions, after the sales team brings in a project, researchers put together a proposal for a specific research approach and work out the details of the research methodology. The director is the individual who, depending on the size of the research and scope of the project, will design and oversee the research process, collect the data, and turn the results into a research product, and the researchers create a research report. Simplifying the contributions to earnings, one might say that the Company should be able to increase both sales and gross profit by increasing productivity through a proper balancing of the skills of the directors, and by building up the expertise and size of the research department. On the other hand, increasing the size of the sales team would lead to more orders, and indirect costs need to be properly matched to the size of operations.

Looking at the operating profit margins reported by the leading firms in the industry for the most recent fiscal year, we find Macromill with an operating profit margin of 19.0% (¥40,024mn in revenue and ¥7,607mn in operating profit in FY6/18), INTAGE 8.0% (¥50,499mn in revenue and ¥4,023mn in operating profit in FY3/18), and Cross Marketing Group 5.5% (¥17,492mn in revenue and ¥955mn in operating profit in FY12/18). Macromill is highly efficient because a large percent of its research is based on online research. INTAGE's margins are lower than Macromill because INTAGE mainly conducts offline and panel research and these are rather labor-intensive services. The Company's profitability is relatively weak for having started as an online research specialist. We attribute this result to decline in the share of online research that generates attractive margin within the overall business amid broadening of scope from the full range of marketing research to marketing solutions and modest pressure from upfront costs for M&A, new business development, and promotion of overseas efforts in recent years. The former is unavoidable as a strategic choice. For the latter, the Company is steadily eliminating these impacts and we believe Q4 FY12/18 was the bottom. This is why the Company forecasts restoring its operating profit margin to 6.3% in FY12/19. Since the operating profit margin previously reached 8.4% in FY12/16, on par with INTAGE, we think it is likely to return to the 8% range in the future.

Strength in cross-segment support structure

2. Strengths and weaknesses

Notable features of the Company's research are screen designs that make it easier for respondents to answer questions; distribution settings to achieve accurate target selection; accurate and high-quality data cleaning; quick response with screen formulation, distribution, and data delivery using a high-performance questionnaire system; industry-leading number of registered monitors in Japan; and surveys that are capable of targeting not only basic attributes but also small, unique groups as well. However, major peers possess these capabilities and services too and they do not provide significant differentiation. The Company's biggest strength is its support structure that brings together all sales staff, researchers, directors, and others who interact with clients to resolve issues in a unified manner, as opposed to its competitors whose functions are relatively separate from one another. Furthermore, the Company's support structure together with the experience of its researchers in making suitable proposals and design to address the client's situation and its ability to provide comprehensive marketing solutions that draw on internal IT solutions capabilities appear to effectively distinguish the Company from its competitors in the eyes of clients. The Company is also consciously reinforcing these strengths.

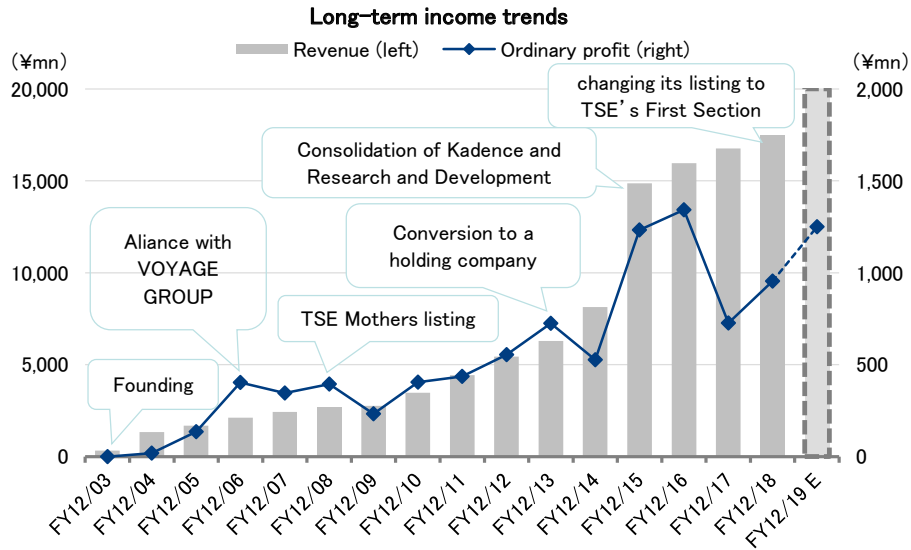
Weaknesses or challenges, meanwhile, are delay in improving its profit margin because of growth in labor-intensive services with the increase in offline research and inadequate domestic and overseas recognition. However, with the listing on TSE's First Section in 2018, efforts to improve efficiency through the reorganization of domestic subsidiaries, and structural reforms at Kadence acquired in 2014, it has achieved progress both in terms of improving profitability and increasing recognition.

Catalyst for further growth in the third turning point

3. Turning points

Cross Marketing was founded in 2003 and was viewed as the latest arrival in the online research industry at the time. However, it has successfully grown into a company that leads the marketing research industry. We see the Company's growth story as being marked by three major turning points thus far.

Business model



Source: Prepared by FISCO from Company materials

The first turning point was the business and capital alliance with VOYAGE GROUP (then EC Navi) in 2006. Cross Marketing invested in Research Panel, which was part of VOYAGE GROUP, and thereby obtained access to its large monitor base of 700,000 people (at the time). This event served as a catalyst for capital alliances with top-class research firms Dentsu Research (currently DENTSU MACROMILL INSIGHT) and Video Research and significant expansion of business scope despite just having been established. The IPO on the TSE Mothers Section in 2008 was the second major turning point. Leveraging funds and increased recognition from the listing, Cross Marketing arranged business alliances with peers that possessed large-scale monitor groups, such as Rakuten Research, and secured access to more monitors. Separately, it developed pyxis2, which facilitates creation and customization of questionnaire screens without expert knowledge, and this contributed to rapid expansion of business scope.

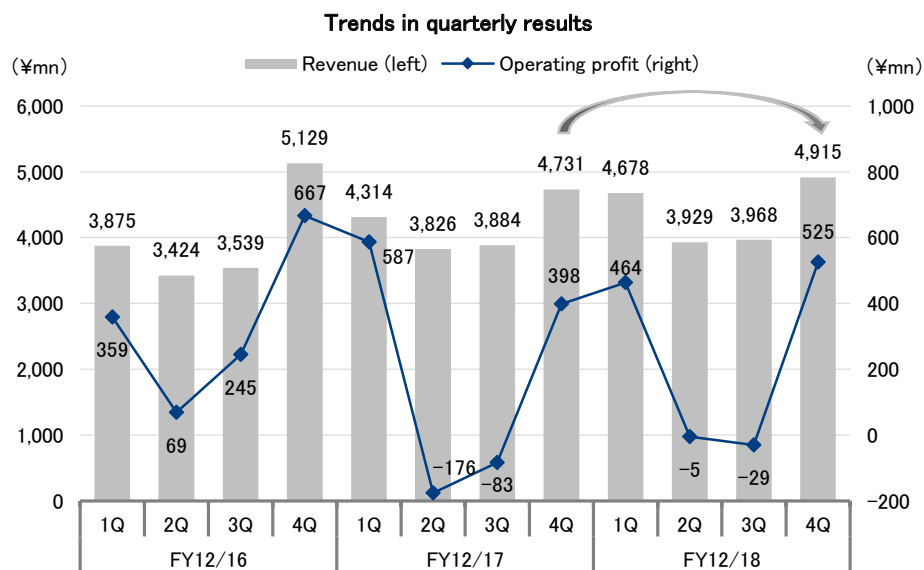
The Company came to its third major turning point in 2013-15 when it switched to a holding company structure that allowed it to accelerate M&A activity and overseas expansion. While has been accelerating site development in Asia as a result, the goal is not just increasing the number of subsidiaries, but monetizing and growing subsidiaries that will drive its next phase of growth. Results flattened to some extent in FY12/17 to FY12/18 due to promoting better business efficiency, subsidiary governance, and enhanced functionality and mutual utilization of capabilities. However, we expect these adjustments to spur further growth in light of recent advances in development of overseas operations and entry into a new business stage of marketing solutions that integrate marketing research and IT solutions in Japan.

Business trends

Income recovery in Q4 after overcoming the flat stage

1. FY12/19 results

For FY12/18, the Company reported revenue of ¥17,491mn (+4.4% YoY), operating profit of ¥954mn (+31.4%), ordinary profit of ¥839mn (+40.6%), and net profit attributable to owners of parent of ¥506mn (vs. a ¥703mn loss in FY12/17). While the Japanese economy moderately recovered thanks to improvements in corporate profits and the jobs environment, political, economic, and financial market uncertainty continued in other countries. Even though the Company implemented measures to broaden business scope, grow the mainstay domestic research business, and pursue group synergies, its efforts to boost productivity, an outstanding issue, and bolster domestic and overseas sales organization structure to drive further growth required more time than anticipated and management lowered the FY12/18 forecast in November 2018. In Q4, meanwhile, the Company showed signs of recovery in its business performance as revenue in the mainstay Cross Marketing exceeded the year-ago level with a positive effect from reinforcement measures for the sales organization structure and favorable trends in medical-related research that delivered 30% YoY sales growth.



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

Overseas research revenue declined as a result, but domestic research and IT solutions fueled higher revenue overall. Operating gross margin fell by 2.8ppt because of higher outsourcing costs with the impact of major deals booked in Japan and other countries. Nevertheless, in FY12/18, the Company benefitted from the absence of past goodwill amortization charges from “additional payments related to the acquisition of Kadence shares” booked in Q2 FY12/17 and reduction of SG&A expenses by ¥421mn due to curtailment of other spending. It also booked gain on change in equity of ¥165mn under extraordinary income due to its affiliated company UNCOVER TRUTH Inc. underwriting third-party allocation of new shares.

Business trends

FY12/18 results

	FY12/17	Ratio (%)	FY12/18	Ratio (%)	(¥mn, %) Change (%)
Revenue	16,758	100.0	17,491	100.0	4.4
Gross profit	6,622	39.5	6,429	36.8	-2.9
SG&A expenses	5,895	35.2	5,474	31.3	-7.1
Operating profit	726	4.3	954	5.5	31.4
Ordinary profit	597	3.6	839	4.8	40.6
Net profit attributable to owners of parent	-703	-4.2	506	2.9	-

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

Solutions business driving profits

2. FY12/18 results by business segment

Breaking down results by segment, the research business posted ¥14,293mn in revenue (+1.7% YoY) and ¥1,943mn in operating profit (+3.3%), the IT solutions business posted ¥2,542mn in revenue (+18.4%) and ¥291mn in operating profit (+15.1%), and other businesses reported ¥656mn in revenue (+18.6%) and ¥58mn in operating profit (+96.1%).

(1) Research business

The Company strengthened provision of comprehensive marketing research services in Japan and overseas and recruited new customers and deepened relationships with existing customers. While domestic research business slowed in Q2-Q3, orders volume expanded, primarily in the mainstay Cross Marketing, on strengthening overseas surveys through group collaboration and sales measures, such as development and provision of new services including the digital marketing field. Medilead Inc., which provides medical-related research services, performed well too. Decline in overseas research revenue, meanwhile, despite continued recruitment of large project orders at Kadence, occurred because of sluggish sales operations amid efforts to rebuild the organizational structure. Profits increased on higher sales, even with a rise in outsourcing costs due to large projects booked in Japan and overseas.

(2) IT solutions business

The Company maintains good relationships with existing clients in the financial services industry, thanks to its lengthy track record and strong trust, and hence continued to receive orders for financial app development projects. New projects for Internet Banks and others are increasing too. Projects have been getting larger due to growing customer app preference. Earnings were driven by both Cross Communication Inc., which develops systems, and Cross J Tech Inc., which dispatches engineers.

(3) Other businesses

In other businesses, the Company continues to expand the scope of its services through business alliances and other activities and cultivate new clients, mainly at D&M, which engages in the promotion services business. While sales mix shifted in some areas due to changes in the business environment, this segment expanded earnings by reinforcing the sales organization structure and utilizing sales measures that emphasize profitability.

Business trends

FY12/18 results by business segment

(¥mn)					
Revenue (before adjustments)	FY12/17	Ratio (%)	FY12/18	Ratio (%)	Change (%)
Research	14,057	83.9	14,293	81.7	1.7
Domestic research	9,075	54.2	9,551	54.6	5.2
Overseas research	4,983	29.7	4,742	27.1	-4.8
IT solutions	2,147	12.8	2,542	14.5	18.4
Other businesses	553	3.3	656	3.8	18.6
Profit (before adjustments)	FY12/17	Profit margin (%)	FY12/18	Profit margin (%)	Change (%)
Research	1,880	13.4	1,943	13.6	3.3
IT solutions	253	11.5	291	1.8	15.1
Other businesses	29	9.0	58	5.4	96.1

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

Across-the-board improvement in financial conditions

3. Financial position at the end of FY12/18

As of the end of FY12/18, the Company's consolidated balance sheet reported current assets of ¥7,273mn (+¥815mn YoY), with cash and deposits at ¥2,605mn (+¥559mn) and notes and accounts receivable-trade at ¥3,311mn (-¥81mn), and non-current assets at ¥3,156mn (+¥51mn), including goodwill at ¥1,481mn (-¥35mn) based on a ¥239mn decline in scheduled depreciation and foreign currency translation and a ¥204mn increase from acquiring shares of Supotant Co., Ltd. As a result, total assets amounted to ¥10,429mn (+¥866mn). In liabilities, current liabilities stood at ¥4,298mn (+¥594mn), with accounts payables-trade at ¥1,573mn (+¥193mn), and short- and long-term borrowings at ¥2,880mn (+¥47mn). Total liabilities were at ¥6,529mn (+¥564mn). As a result, net assets worked out to ¥3,900mn (+¥302mn), including ¥2,898mn (+¥413mn) in retained earnings.

Cash and cash equivalents totaled ¥2,604mn (+¥558mn YoY) at the end of FY12/18. Net cash provided by operating activities was ¥1,035mn (+¥104mn). The main cash outflows include ¥164mn in gain on change in equity and ¥388mn in income taxes paid and cash inflows include ¥1,002mn in profit before income taxes and ¥182mn in amortization of goodwill. Net cash used in investing activities was ¥350mn (-¥1,002mn) with main cash outflows include ¥216mn in purchase of investment securities and ¥132mn in purchase of shares of subsidiaries resulting in change in scope of consolidation. Net cash used in financial activities was ¥98mn (-¥400mn), the main cash outflows include ¥535mn in repayments of long-term loans payable and ¥92mn in cash dividends paid and cash inflows include ¥500mn in proceeds from long-term loans payable. In financial indicators, the stability indicator was unchanged but not at a problematic level, while profitability and asset profitability significantly improved.

Business trends

Simplified financial values for FY12/18

balance sheet	FY12/17 (¥mn)	FY12/18 (¥mn)	Change (¥mn)	Cash flows	FY12/17 (¥mn)	FY12/18 (¥mn)	Change (¥mn)
Total assets	9,563	10,429	866	Cash flows from operating activities	931	1,035	104
Current assets	6,458	7,273	815	Cash flows from investing activities	-1,353	-350	1,002
Equipment assets	2,133	2,063	-69	Cash flows from financing activities	301	-98	-400
Goodwill	1,515	1,480	-35				
Financial assets	6,468	7,212	743	financial indicators	(%)	(%)	(point)
Cash and deposits	2,046	2,605	559	Return on equity (net profit)	-18.0	14.0	-
Notes and accounts payable - trade	1,379	1,572	193	Return on assets (ordinary profit)	6.1	8.4	2.3
Interest-bearing debt	2,833	2,880	46	Operating margin	4.3	5.5	1.2
Shareholders' equity	3,613	4,042	428	Shareholders' equity ratio	36.3	36.3	0.0
Net assets	3,598	3,899	302				

Note 1: Equipment assets = Property, plant and equipment + intangible assets

Note 2: Financial assets = Total assets – inventory assets – equipment assets

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

Time to highlight strengths with new technology as a strategy

4. Business initiatives for FY12/19

(1) Arrival of an excellent opportunity to leverage strengths

In FY12/18, the Company successfully achieved two major tasks of changing its listing to TSE's First Section and implementing structural reforms at Kadence and appears to have moved off an earnings bottom in Q4. Meanwhile, looking again at the surrounding environment, IT and other technologies are advancing at faster paces and promotion methods are rapidly shifting from mass media to digital marketing. Nevertheless, the Company possesses clear strengths with its support structure that resolve issues by interacting with customers in a unified manner and comprehensive marketing solutions that utilize researcher experience and group IT solutions functions. We think it should be capable of strategically highlighting these advantages in FY12/19 since it is overcoming challenges and will be focusing on FY12/19 strategies.

(2) Initiatives in domestic research business

Digital marketing is an area that the Company wants to strengthen in domestic research business. It plans to begin building and providing research services that utilize SNS. For Instagram, it will utilize 3.77mn domestic research monitors and a network of 3,600 influencers in Japan and overseas to deliver services that get to the core of consumer sentiment, along with ordinary questionnaire surveys. For 50 media (including Twitter), it aims to offer services for collection and analysis of SNS submission data, measurement of word-of-mouth share rates, and measurement of campaign effect. The Company also intends to integrate questionnaire data and existing data and utilize Tableau, the Business Intelligence (BI) tool with top market share, to provide support for building data-driven decision-making operations. Cross Trace, a new service, combines attribute data, questionnaire results, and Web access logs for a more multifaceted understanding of the actual conditions of survey coverage, including contact with people not making purchases, and supports optimized digital marketing.

Business trends

We think there are only a handful of research companies in Japan capable of integrating various new function and data in research business as described above. Additionally, the Company aims to expand direct transactions with advertising agencies and end user (ordinary companies) through these activities. In this process, we expect client interest in consulting-type solutions as a core service, rather than looking at the Company as just a research firm. The Company is already moving forward with initiatives for business with these aspects and appears to have increased the number of client firms by about 1.3 times from 2016 level in 2018. For the fast-growing medical business, it plans to hire talented people with more expertise who understand the medical field and English from outside and reinforce overseas sales activities and collaboration with overseas group companies.

(3) Initiatives in overseas research business

In overseas business, the Company intends to steadily open sites in areas that it has not entered yet and strengthen the infrastructure foundation. It significantly advanced global efforts with the consolidation of Kadence and related structural reforms and is strengthening support for not only Japanese, but also European and US customers, including establishment of a site in the US (New York), the largest market. It created a subsidiary in the Philippines and is promoting broad coverage in Asia. The Company hopes to lower unit costs and secure capacity by reinforcing the infrastructure foundation. Specifically, it established a business process outsourcing (BPO) site in the Philippines, an English-speaking country, and is consolidating research activities (online, data collection and analysis, etc.) in the group. It plans to open an R&D center, build an online panel (Asia), and develop new technology in India, another English-speaking country, too.

(4) Initiatives in IT solutions business

In IT solutions, the Company has an extensive app development and operation track record in the financial industry, mainly with securities firms. Roughly 40% of 27mn app accounts at listed Internet securities firms run on apps that the Company had developed. The Company highlights this track record as it seeks business with credit card companies, Internet banks, and others. Furthermore, it wants to not only supply apps, but also provide IT human resources to clients and obtain ongoing operational work. It acquired Supotant, which introduces and dispatches human resources with Web and EC expertise, as a subsidiary to accomplish this. The Company also plans to launch a learning and training school aimed at IT engineer shortages and raising productivity. It intends to follow up with people after they get jobs and hold seminars at companies hiring these people. Cross Ventures Inc., a group company, invested in Adlnte Co., Ltd., which developed AIBeacon OtoO (Online to Offline) service that delivers push notifications and makes other effective approaches when a user is near a store. The Company plans to outfit real-world stores with the system as a service for existing clients. We expect strong growth in IT solutions business because it has many attractive opportunities.

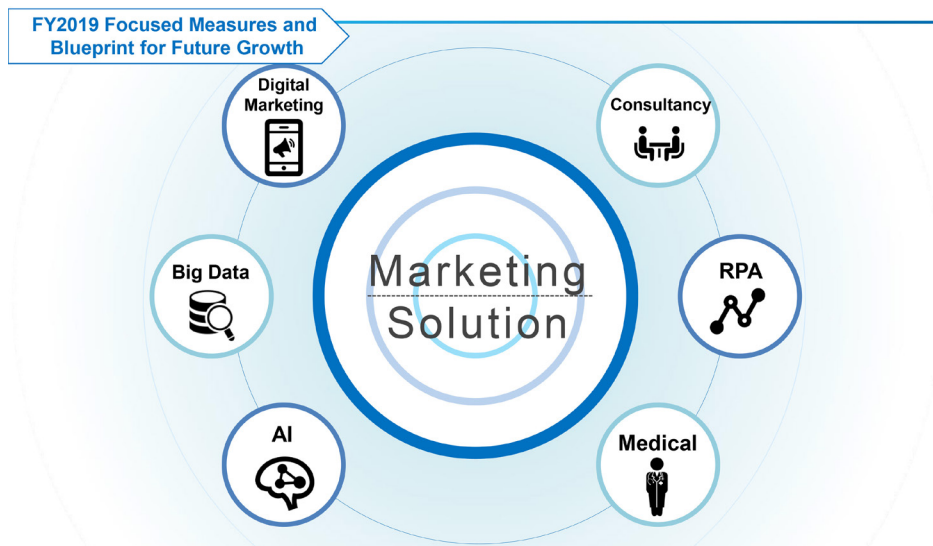
In promotions business, the Company is utilizing data collaboration with TREASURE DATA, Adobe, and other major data management platform (DMP) firms. It has built a promotions network, mainly run by subsidiary D&M, that integrates large-scale attributes data and corporate data to deal with increasingly sophisticated advertiser needs and changes in the market environment. The Company targets steady sales expansion by harnessing knowhow and resources from its research business to expand managed-type ad business and provide site analysis and Web-contact data analysis services.

Adopting an offensive posture in FY12/19

5. FY12/19 outlook

The Company intends to develop new services and businesses and strengthen group collaboration in digital marketing and IT areas with robust growth potential. It therefore plans to aggressively invest in digital marketing and big data, including IT solutions and Web promotions businesses. Meanwhile, in mainstay domestic and overseas research businesses, it plans to actively invest in upstream research areas, such as consulting business, and medical and other growth areas with the goal of enhancing profitability. For domestic research, an industry with prospects of stable growth in the 2-3% range, the Company promotes business automation and productivity improvement with system investments, including robotic process automation (RPA) and artificial intelligence (AI), and builds human resource cultivation programs that factor in various client issues. For overseas research business, which has strong growth potential, the Company aims to consolidate business activities through establishment of BPO sites and dynamically develop and invest in new technologies by opening R&D centers. It expects these efforts to develop a business structure with high added value and robust productivity as a marketing solutions company.

Main measures and growth image for FY12/19



Source: The Company's results briefing materials

Based on these trends, the Company's FY12/19 outlook calls for revenue of ¥20,000mn (+14.3% YoY), operating profit of ¥1,250mn (+30.9%), ordinary profit of ¥1,109mn (+32.0%), and net profit attributable to owners of parent of ¥570mn (vs. +12.5%). It is aiming for revenue in the ¥20bn range for the first time through steady expansion of business scope and hopes to revive profitability, despite cost burden from hiring and various measures, through pursuit of high added value and strong productivity.

Business trends

Forecasts for FY12/19

	FY12/18	Ratio to revenue (%)	FY12/19 forecast	Ratio to revenue (%)	Change (%)
Revenue	17,492	100.0	20,000	100.0	14.3
Operating profit	955	5.5	1,250	6.3	30.9
Ordinary profit	840	4.8	1,109	5.5	32.0
Net profit (loss) attributable to owners of parent	507	2.9	570	2.9	12.5

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

Segment forecasts for FY12/19

	FY12/18	Ratio to revenue (%)	FY12/19 forecast	Ratio to revenue (%)	Change (%)
Research	14,293	83.9	15,676	78.4	9.7
Domestic research	9,551	54.6	10,220	51.1	7.0
Overseas research	4,742	27.1	5,456	27.3	15.0
IT solutions	2,542	14.5	3,308	16.5	30.1
Other businesses	656	3.8	1,017	5.1	55.1

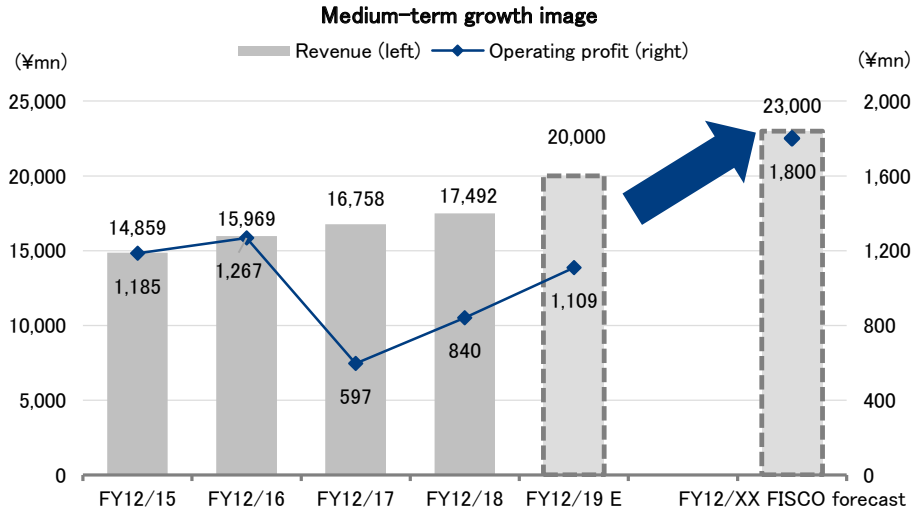
Source: Prepared by FISCO from Company materials

Medium-term management plan

Previous medium-term management plan built a foundation

While the Company missed goals from the medium-term management plan that positioned 2015-2017 as a period for geographic expansion as well as for entering into new business domains, it also faced more special factors than usual, including extraordinary amortization of goodwill and impairment losses related to Kadence. Nevertheless, domestic and overseas marketing-related markets were healthy during this period and the Company achieved smooth progress in expansion of business areas. Establishment is almost complete for a broad network in Asia with the BPO site in the Philippines and an R&D center in India. The Company started developing operations on the East Coast (New York), in addition the West Coast, in the US too. In expansion of business scope, meanwhile, it is entering new areas, such as medical and undercover shopper surveys, and cultivating peripheral businesses, including promotions (D&M) and engineer dispatching. Furthermore, it is making progress in addressing digital marketing and other new technologies. While the Company slightly undershot goals from the previous medium-term management plan, we think it achieved steady advances in building a foundation as a comprehensive marketing solutions group. It is headed toward improved productivity and further growth with the reforms at Kadence and progress with internal initiatives for marketing solutions. We are looking forward to the next medium-term management plan.

Medium-term management plan



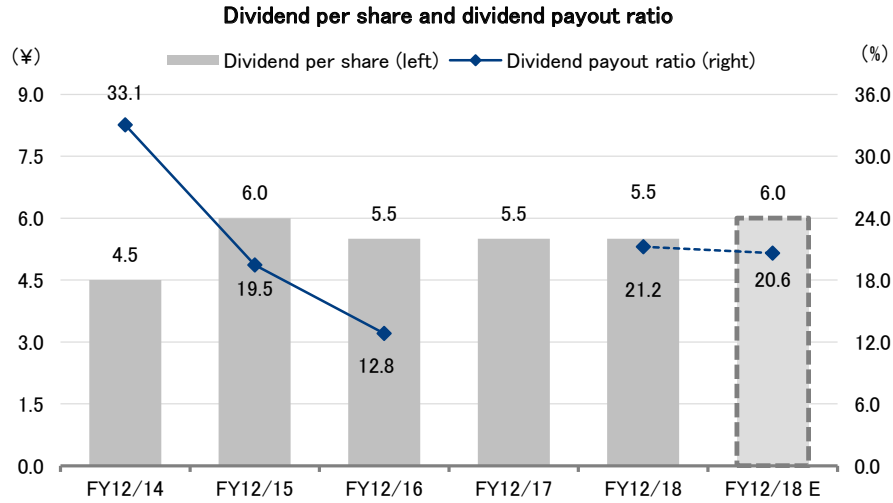
Source: Prepared by FISCO from Company materials

Shareholder return policy

Annual dividend maintained for FY12/18

With regard to dividends, the Company maintains a policy of providing stable returns to shareholders in the form of dividends. However, in view of the great demands on capital at the present time and business investment plans for the future, management has decided to pay an annual dividend based on a dividend payout ratio of roughly 15% of consolidated earnings. Reflecting the policy of providing stable returns to shareholders, a dividend of ¥5.5 per share was paid in FY12/18, the same as in FY12/17, as the Company's listing was changed to TSE's First Section and structural reform carried out at Kadence. The forecast calls for a dividend increase of ¥0.5 per share to ¥6.0 in FY12/19, based on the recent performance trends. For FY12/19 interim dividend, the Company maintains the plan of ¥3.0 per share.

Shareholder return policy



Note: Conducted a 3-for-1 stock split on June 1, 2014. Dividend per share values shown here have been retroactively adjusted.
 Source: Prepared by FISCO from the Company's financial results

Information security

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