

# Hotto Link Inc.

**3680**

TSE Mothers

29-Mar.-2018

FISCO Ltd. Analyst

**Yuzuru Sato**



FISCO Ltd.

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

## ■ Index

<b>■ Summary</b>	<b>01</b>
1. Rapid growth at Effyis drives FY12/17 net sales to new record high	01
2. Company sees top-line growth accelerating to 25% in FY12/18	01
3. Growth driver will be promotion support services, a field that utilizes social big data	02
<b>■ Company profile</b>	<b>03</b>
1. Company history	03
2. Business description	04
3. Hotto Link's strength	07
<b>■ Results trends</b>	<b>07</b>
1. Overview of the FY12/17 results	07
2. Financial position and financial indicators	10
<b>■ Business outlook</b>	<b>12</b>
1. Outlook for FY12/17	12
2. Segment sales outlook by service	12
3. Medium- to long- term growth strategy	16
<b>■ Shareholder return policy and business risks</b>	<b>17</b>
1. Shareholder return policy	17
2. Business risks	18
<b>■ Information Security Measures</b>	<b>18</b>

## Summary

### Entering the stage for rapid growth with the full-scale take off of promotion support services utilizing social big data

Hotto Link (3680) (hereafter, “the Company”) is developing businesses centered on a cloud-based service that provides useful information for corporate marketing strategies and risk management by gathering and analyzing data posted on Twitter, blogs, and other social media. In January 2015, it made a subsidiary of U.S. Effyis, Inc. (hereafter, “Effyis”), which is a major distributor of social big data. With this, the Company has gained access to worldwide social media data and is also developing analysis services for social media using AI technology. The Company transitioned to International Financial Reporting Standards (IFRS) in FY12/15.

#### 1. Rapid growth at Effyis drives FY12/17 net sales to new record high

For FY12/17, Hotto Link reported consolidated net sales of ¥2,583mn (+18.1% YoY) and an operating profit of ¥125mn (versus a year-earlier loss of ¥654mn). This represents a record high for net sales and is the first time in two years that Hotto Link has reported has both higher sales and higher earnings. Aided by rising demand for social media data, sales at Effyis rose 24% YoY to ¥1,353mn while sales at the Crossbound Business jumped 104% YoY to ¥251mn as business took off at its mainstay Trend PR\* service that provides promotional support for companies selling to the Chinese market. At the operating profit level, the main factors behind the sharp turnaround were the dropout of the ¥593mn impairment loss booked in relation to Effyis in the previous year and the rebound in sales and earnings at Effyis. Additional contributions came from the Crossbound Business, which saw a sharp jump in sales in Q4 and for the first time was able to contribute to earnings on a monthly basis despite registering a loss for the year owing to upfront investments made to build up its business infrastructure.

\* Trend PR is a service intended for companies that are aiming to expand the sales of their own products to Chinese consumers through proposing and implementing optimal promotions based on analysis of word-of-mouth data on SNS. It utilizes the Company's strength of being able to use the data of a major Chinese SNS provider, and it is attracting increasing attention as it not only makes visible the effects of marketing-related costs, but also it is highly cost effective.

#### 2. Company sees top-line growth accelerating to 25% in FY12/18

For FY12/18, Hotto Link is forecasting a 25.0% YoY increase in net sales to ¥3,229mn but is expecting operating profit to decline 33.0% YoY to ¥84mn. The projected decline in operating profit reflects the cost of ongoing investment spending to build up its operating infrastructure to support future expansion and develop new AI technology-based services. Top-line growth is expected to accelerate, however, as Effyis further expands its business following the signing of a new data access agreement with a major social media company and sales at the Crossbound Business more than triple on contributions from Trend PR and newly introduced Trend EKKYO, a total solutions service for companies doing cross-border ecommerce sales to China. For the year, Hotto Link is assuming an average exchange rate of ¥105/USD.

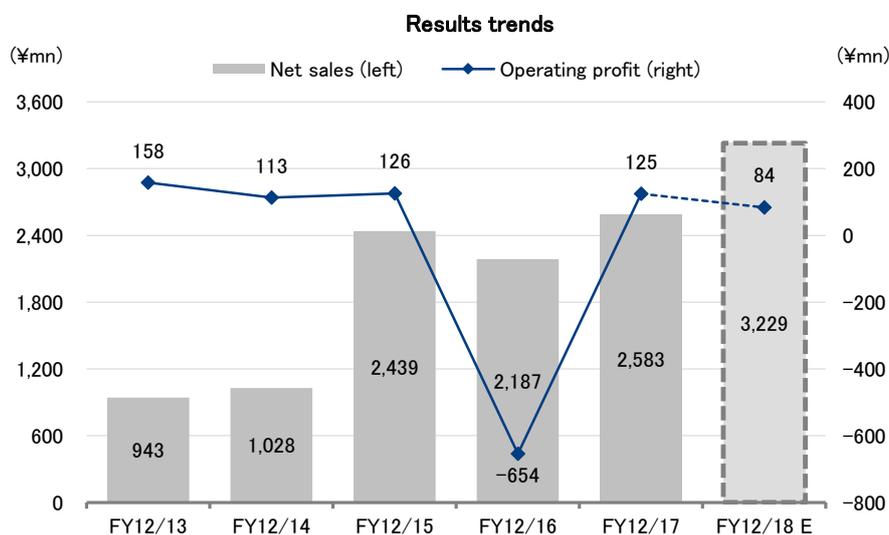
Summary

**3. Growth driver will be promotion support services, a field that utilizes social big data**

With regard to its business plans for FY12/18 and beyond, the Company says it no longer intends to focus solely on social big data gathering and analysis, but will instead expand into fields that utilize this data. Towards this end, Hotto Link plans to move into more businesses that make use of social big data in marketing-related applications. In addition to its Trend PR promotion support service and new Trend EKKYO service for companies selling to the highly promising Chinese market, Hotto Link has also started a new SNS-based video promotion service (CutChaTV) for the Japanese domestic market with the aim of driving future growth. With Trend EKKYO, Hotto Link is looking to do more than just help client companies increase cross-border ecommerce sales to China by running effective online promotions both inside and outside of online shopping malls, it is offering a full range of support services with everything from customer support to distribution. This new service warrants especially close attention going forward because it has the potential to make significant contributions to earnings in the future, as its remuneration includes not only a fixed, base charge but also a commission based on the amount of sales. Once the Crossbound Business is able to establish a solid revenue base in both Japan and China, management plans to foster further growth by using the same model to grow businesses in Southeast Asia and other regions as well.

**Key Points**

- Expanding from social big data collection and analytical tools into promotion support services
- Company sees sales growth accelerating in FY12/18 but earnings coming down under weight of upfront investment spending to support business expansion and development of new services
- Aiming to provide high-quality marketing support services globally through gathering and analyzing social big data from around the world and adding AI technologies



Note: Results are based on IFRS standards from FY12/14 onwards.  
 Source: Prepared by FISCO from the Company's financial results

## ■ Company profile

### Expanding from social big data collection and analytical tools into promotion support services

#### 1. Company history

The Company was founded in June 2000 by President and Representative Director Koki Uchiyama with a mission of “Establishing the infrastructure for a knowledge-recycling society to contribute to realizing a world in which everyone can feel “hotto” (“hotto” means “relieved” in Japanese), which is where the Company name came from. President Uchiyama has a track record of participating in development of technologies from the very dawn of the Internet market, including participating in the Japan Search Engine Development Project, which was the first Japanese search engine, while at graduate school in 1995.

The Company provided an analysis service based on articles posted on social media, including on individual blogs and 2channel, from the second half of 2000, which was the start of the rapid spread of social media in the Internet industry. Following on from the analysis of blogs in 2005, it acquired the Dentsu Buzz Research Business (analysis of social big data) in 2008 from Gala Buzz Inc., and started in earnest to provide its current mainstay service, the social media analysis tool kuchikomi@kakaricho. Then in 2012, it made a wholly owned subsidiary (by absorption merger) of Gala Buzz, which provides e-mining social risk monitoring services, and added their services to its lineup.

For its social media analysis service, it is necessary to purchase data, such as articles posted on SNS that are held by various social media companies. But in addition to blogs, the Company has concluded official contracts with various operating and data supply companies and thereby obtained the rights to use and sell data on major SNS such as 2channel, Twitter, and SINA Weibo. SINA Weibo is the largest SNS in China, and in June 2014, the Company entered into a business alliance with Effyis of the United States, which is the only company in the world to have acquired a marketing license with full access rights to the data of SINA Weibo, and it has the exclusive sales agency rights for the Asia Pacific region other than China. The Company made Effyis a wholly owned subsidiary in January 2015.

As the number of tourists from China visiting Japan soared in 2015, Hotto Link launched Visualized China Trend EXPRESS, a regular reporting service on inbound tourism consumption trends based on analysis of word-of-mouth data (i.e., posting) from SNS. It followed this up in 2017 with the launch of Trend PR, a promotion support service utilizing social big data for companies selling to the Chinese market. In June 2017, Hotto Link launched BuzzSpreader, a social media management support tool utilizing Instagram, then followed this in December with the launch of Trend EKKYO and CutChaTV. Trend EKKYO is a comprehensive service for companies contemplating cross-border ecommerce sales to China, including everything from online promotion inside and outside of online shopping malls to bring in customers, to sales and customer support, to distribution. CutChaTV is a video promotion service created for distribution via SNS such as Twitter and Facebook; aimed at the Japanese domestic market, CutChaTV features an original online TV series based on the Company's analysis of postings on social media.

Company profile

History

Date	Major event
June 2000	Hotto Link Inc. established in Yoyogi, Shibuya Ward, Tokyo (currently Chiyoda Ward, Tokyo)
November 2005	Became a subsidiary of Opt Inc.
March 2008	Acquired the Dentsu Buzz Research Business (analysis of social big data) from Gala Buzz Inc.
July 2008	Officially launched the social media analysis tool kuchikomi@kakaricho
May 2012	Acquired all shares and made a subsidiary of Gala Buzz Inc. (absorption merger in October 2012), which provides e-mining social risk monitoring services
October 2012	Concluded an exclusive commercial usage licensing agreement for the information posted on the 2channel site with Tokyo Plus, Co., Ltd., which manages the 2channel site, and Mirai Kensakue Brazil, Co., Ltd.
November 2012	Entered into a strategic business alliance with U.S. Gnip, Inc., a provider of social big data (acquired by Twitter in 2014), and acquired the rights to use Twitter data globally and at all times
December 2012	Entered into a capital and business alliance with Salesforce.com, Inc. and Synergy Marketing Inc.
March 2013	Established Hotto Link Consulting Inc. as a consolidated subsidiary
July 2013	Entered into a capital and business alliance with Hitachi Systems, Ltd.
December 2013	Listed on the Tokyo Stock Exchange Mothers market
January 2014	Entered into a strategic business alliance with Netyear Group Corporation
June 2014	Entered into a business alliance with U.S. Effyis, Inc., a social media data distribution company, and acquired exclusive sales agency rights for SINA Weibo in the Asia Pacific region excluding China
July 2014	Entered into a business alliance with PQ Shanghai Co., Ltd., which provides an integrated monitoring service of national brands in China, with the aim of developing and spreading the use of a social media analysis service
January 2015	Made a subsidiary of U.S. Effyis, Inc.
May 2015	Started to provide Visualized China Trend EXPRESS, a regular report specializing in inbound tourism consumption
November 2015	Changed the name of Hotto Link Consulting, Inc. to Trend EXPRESS, Inc. Entered into a business alliance with Nightley Inc.
December 2015	Acquired the shares of PQ Shanghai (ownership ratio: 19%)
June 2016	Established Trend EXPRESS Tianjin Inc. and Hotto Link Hong Kong Limited
August 2016	Subsidiary Trend EXPRESS Tianjin Inc. announced a business alliance with the QQ.com educational channel for video production, and started distribution on "Tencent Video (V.QQ.com)," which is China's largest online video site
October 2016	Trend EXPRESS, Inc. entered into businesses alliances with SINA Japan Synthesis Network Group Co., Ltd., SINA Japan Weibo, Co., Ltd., SINA Japan Property Co., Ltd., and SINA Japan Travel Co., Ltd.
May 2017	U.S. subsidiary Effyis Inc., entered-into a business alliance with U.S. Reddit, Inc., which manages the global social news website "reddit"
June 2017	Released BuzzSpreader, a social media management support services
December 2017	Trend EXPRESS, Inc. starts Trend EKKYO services to help companies test cross-border ecommerce sales; begins webcasting SNS TV series on CutChaTV

\*1 Will dissolve the capital alliance with U.S. Salesforce.com, Inc., in 2017

\*2 Dissolved the capital alliance with Hitachi Systems, Ltd., in 2016

Source: Prepared by FISCO from the Company's website

2. Business description

The Company divides its businesses into three segments, SaaS\* Business, Solutions Business, and Crossbound Business, and uses the resources of the parent and two subsidiaries (Trend EXPRESS, Inc. and Effyis) to pursue these business lines. The descriptions of each are found below.

\* SaaS (Software as a Service): A software service in which software is provided to customers over communication networks and they can use the software when needed by accessing the network. It is a stock-type business model that generates recurring revenues from a fixed customer base by gathering monthly usage fees.

## Company profile

**(1) SaaS Business**

In this business, the Company provides two services, kuchikomi@kakaricho and e-mining. kuchikomi@kakaricho is an analysis tool utilized to investigate, for example, a company's product development, sales promotion activities, and comparisons with competitors based on social big data gathered from sites including 2channel, Twitter, and various types of blogs. Meanwhile, e-mining is a social risk monitoring tool through which rumors and other information that could damage reputation of goods and services or a brand image in the future are quickly discovered using social big data that has been gathered, enabling effective measures to be created and implemented to deal with the risk before it materializes. The price structure for each of these services consists of an initial registration fee of ¥100,000 and a monthly usage fee, starting from ¥100,000 for kuchikomi@kakaricho and from ¥130,000 for e-mining. The monthly usage fee is calculated based on the number of usable IDs, the number of media subjects to analyze, data capacity, and other factors. Some large corporate customers spend up to ¥1mn a month on usage fees.

The number of corporate subscribers to the two services is over 1,900 on a cumulative basis (over 900 for kuchikomi@kakaricho and over 1,000 for e-mining). Of these, there are currently approximately 500 active corporate subscribers. The industry breakdown shows that the corporate subscribers span a wide range of sectors, from consumer goods manufacturers to the services and finance sectors. Approximately 80% of the corporate users are major corporations.

kuchikomi@kakaricho has the following features. It possesses Japan's largest social media coverage and it is easy to operate and to perform real-time searches, such as trend analysis and attribute analysis. It also has functions such as cross-media analysis spanning television, news websites, and other media, plus a data import analysis function to perform text mining of data held internally by corporate customers (questionnaires, call logs, etc.) Notably, for social media analysis, Hotto Link has a dominant advantage in Japan in terms of the sheer volume of social data it possesses and it covers approximately 90% of all blogs in Japan. In addition, the Company holds all historical data on the 2channel bulletin board site and gathers worldwide Twitter data based on the agreement it has entered with a partner. The kuchikomi@kakaricho tool can be applied promptly to a company's marketing initiatives through real-time features such as trend analysis. For this reason, kuchikomi@kakaricho is being positioned as a support tool that helps to improve return on investment (ROI) for marketing departments.

Meanwhile, e-mining is a tool that automatically gathers data from Twitter, 2channel, and other sources according to preset risk-related keywords and provides alert functions that enable companies to promptly detect any developments of risk. Monitoring covers approximately 2,000 types of media and goes beyond 2channel and Twitter, extending to blogs and various news sites. Each day, e-mining monitors approximately 13 million web pages and reports the search results by category. In particular, recently there has been a notable increase in damage caused by harmful rumors being spread via postings on social media, and e-mining is being adopted primarily by major corporations to address this type of risk.

In addition, the Company provides BuzzSpreader, which is a social media management support tool utilizing Instagram as well as CutChaTV, which is a video promotion service created for distribution via SNS. BuzzSpreader is an API sharing software functions with Instagram and, and uses an AI engine independently developed by the Company to consider the three elements of hashtag usage trends, the input of keywords, and account positioning (strength) to automatically generate hashtags that Instagram users can more easily see, making it easier to raise the level of attention on posted images. It can also carry out various analyses and operations management.

**(2) Solutions Business**

This business is comprised of the social media data (data access rights) sales business of Effyis (brand name: Socialgist), which was made into a subsidiary in January 2015, and the data platform service that provides systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho.

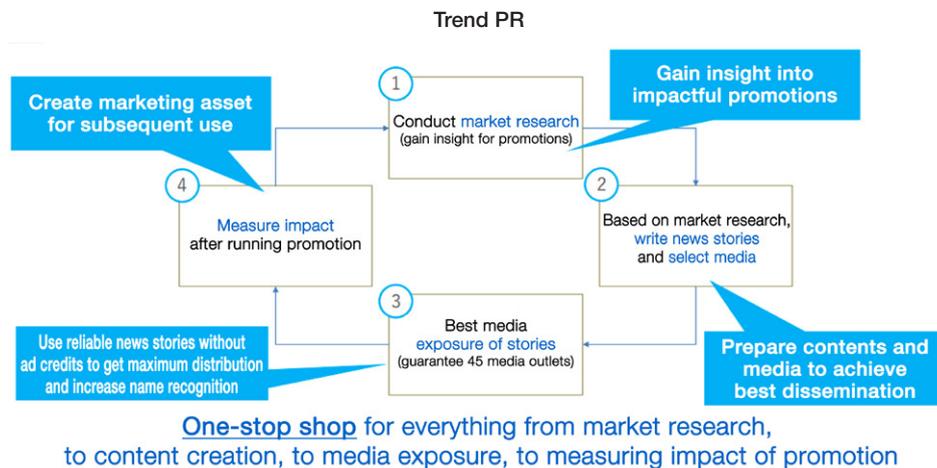
Company profile

Effyis gathers social big data from sources such as blogs, bulletin boards, Q&A, and review sites worldwide, which it sells to customers that include the world’s major IT companies (social big data analysis firms and marketing platforms, as well as business intelligence (BI) and other tool vendors). It is one of the three major social big data distribution and sales companies. Effyis particularly possesses overwhelming strength in collecting social big data in China, as it is the only company in the world to have acquired a marketing license with full access rights to the data of a major Chinese social media. Effyis’ main clients include global IT companies like Salesforce.com (CRM) and IBM, and it also has a track record of selling data to numerous organizations, including financial and government institutions and venture companies. Salesforce.com is its largest customer, believed to account for about 15% of sales.

**(3) Crossbound Business**

This is the business conducted by the subsidiary Trend Express, Inc. In addition to China Trend Express, which is a regular report service on the consumption trends of Chinese visitors to Japan, and customized research services that are tailored to customer needs, in 2017, Trend PR, which is a promotion support service for the Chinese market, was launched. This was followed in December 2017 by the launch of Trend EKKYO, a comprehensive support service for companies looking at cross-border ecommerce sales to China, including everything from promotional support, to online sales and customer support, to distribution.

Of these services, China Trend Express is provided for a monthly fee of ¥80,000, while the customized research services start from ¥1 million. In addition, Trend PR is a service that provides highly cost effective marketing support to meet customer needs, of developing name awareness of companies’ own products and brands in the Chinese market and thereby expanding sales. Specifically, based on the analysis of social big data in the Chinese market, which is one of the Company’s strengths, it turns the PDCA cycle, from the planning and execution of the optimal marketing measures to the subsequent measurement of effects and proposals for improvements, to provide sales support for customers in the Chinese market while improving cost effectiveness. In terms of the marketing measures, the Company selects from among more than 2,000 affiliated media sites in China based on the analysis of big data to effectively expand. If seen from the customer side, it makes all the data visible, so it has the advantage of enabling an objective analysis of cost effectiveness and makes it easier to create a budget for promotion measures. The fees for a single order (single PDCA cycle) vary according to the order, but the average is around ¥3mn to ¥5mn. By December 2017, the Company had provided this promotion support to about 20 companies, and each have highly evaluated the service with a contract renewal rate of 100%. In terms of customer attributes, many are SMEs that want to conduct effective promotions with only a small budget.



Source: The Company's results briefing materials

### 3. Hotto Link's strength

Hotto Link's strength lies in having established its position as the world's leading social media distribution company through making Effyis a subsidiary. In addition, by combining its world-class big data analysis technologies with Effyis' advanced data streaming technologies, it has put in place a system for providing even more rapid and advanced analysis services as well as for developing solution services that utilize big data by gathering and analyzing it.

Moreover, the number of companies providing services to gather and analyze social big data has increased in the last few years, but many of these competitors provide services from gathering only open data on social media through web crawling. While gathering data in this way without incurring costs increases the profit margin, the Company thinks it will become difficult to gather data in this way in the future. In fact, in February 2017, U.S. Twitter announced its intention to prohibit the unauthorized gathering of open data, also the data sales price may rise, partly following the rise in the value of social media data. This development means that gaps will open up between the competition from the viewpoint of the quality of the content of their services, which at FISCO, we think will prove advantageous for the Company.

## Results trends

### Sharp rebound in FY12/17 results reflects recovery at Effyis, growth in the Crossbound Business

#### 1. Overview of the FY12/17 results

For FY12/17, Hotto Link reported higher sales and higher earnings, with consolidated net sales of ¥2,583mn (+18.1% YoY), operating profit of ¥125mn (versus year-earlier loss of ¥645mn), profit before tax of ¥94mn (versus loss of ¥671mn), and profit for the period attributable to owners of the parent of ¥141mn (versus loss ¥639mn). Driven by top-line gains at Effyis and in the Crossbound Business, overall sales reached a record high for the first time in two years. At the operating profit level, earnings were up ¥799mn versus the previous year, bolstered by the dropout of ¥593mn in impairment losses booked in connection with Effyis the previous year and improvements in profitability stemming from the rise in sales. EBITDA of ¥486mn was up 52.0% (¥167mn) versus FY12/16.

Sales and earnings both finished above the Company's initial forecast, with net sales coming in ¥140mn above plan, operating profit ¥96mn above plan, and profit for the period ¥140mn above plan. The higher-than-expected net sales and operating profit were attributable in large part to above-plan results at Effyis. The reduction in US taxes stemming from the tax reform legislation enacted in 2017 boosted profit for the period by ¥71mn. With regard to exchange rates, the yen was slightly weaker than expected, averaging ¥113/USD for the year versus the Company's initial assumption of ¥110/USD.

## Results trends

## FY12/17 consolidated results

	FY12/16			FY12/17			
	Results	% of sales	Company forecast	Results	% of sales	YoY change	vs. forecast
Net sales	2,187	-	2,443	2,583	-	+395	+140
Cost of sales	1,056	48.3%	-	1,211	46.9%	+155	-
SG&A expenses	1,115	51.0%	-	1,087	42.1%	-28	-
Other income / loss	-594	-27.2%	-	1	0.1%	+596	-
Operating profit	-654	-29.9%	29	125	4.9%	+779	+96
Profit before tax	-671	-30.7%	-	94	3.7%	+766	-
Profit for the period	-639	-29.3%	1	141	5.5%	+780	+140
EBITDA	318	14.6%	354	486	18.8%	+167	-

Note: EBITDA is operating profit + depreciation and amortization + impairment loss

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

### (1) Progress toward business plan

In FY12/17, the Company's business plan called for 1) developing new products to create a foundation for renewed growth in the domestic SaaS Business, 2) accelerating and achieving rapid growth in the Crossbound Business, and 3) continued expansion of the amount of social big data handled by Effyis. At FISCO, we believe the Company's business strategy proceeded generally in line with this plan.

In the SaaS Business, the Company launched a new service in June 2017, releasing BuzzSpreader 1.0. Having taken its first step as a provider of comprehensive support tools for social media management, Hotto Link continues to work on developing new tools that will link to Twitter, Facebook, and other SNS. December 2017 brought the launch CutChaTV. Featuring a webcast of an original online TV series with compelling storylines based on analysis of comments posted on social media, CutChaTV offers branding-support solutions services using SNS to disseminate webcasts.

In the Crossbound Business, the Company began offering Trend PR, a promotion support service for the Chinese market. After compiling a large number of success stories, it followed this up in December 2017 with the launch of Trend EKKYO. Trend EKKYO goes well beyond promotion support for ecommerce to China, providing a total solutions service package with everything from sales support for online stores, to customer support and distribution support.

At Effyis, sales and earnings benefited greatly from a new partnership agreement with US-based Reddit, Inc., which operates the rapidly expanding "reddit" social news website. Inked in May 2017, the partnership agreement with Reddit, Inc. also covers data usage rights. With more than 270mn users a month, "reddit" is one of the world's leading news websites.

### (2) Segment sales by service

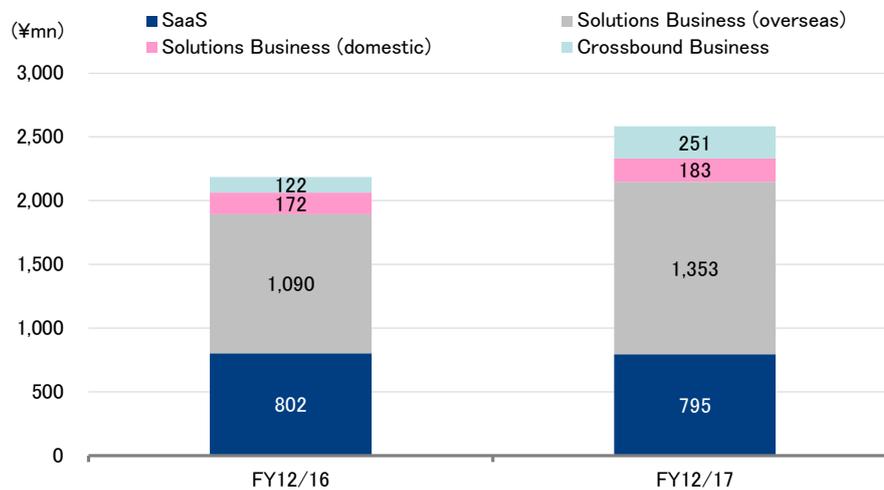
In the SaaS Business, FY12/17 sales declined 0.9% YoY to ¥795mn. The decline reflected lower revenues from e-mining services while demand for its mainstay kuchikomi@kakaricho services held up well with the Company reported a growing number of contract signings. It is a small amount, but the Company also reported a decline in the sales generated by its ringtone download service, where sales fell to ¥4mn from ¥7mn in the previous year. Also contributing to the decline was the closure of its Recognize recommendation solution service (which worked on consignment) at the end of 2017.

Results trends

In the Solutions Business, sales rose 21.8% YoY to ¥1,536mn. The largest contribution to growth came from the overseas sales of Effyis, which rose 24.2% to ¥1,353mn on the back of rising sales of access rights to its trove of social big data. Meanwhile, in Japan, revenues from consulting services rose a solid 6.6% to ¥183mn.

In the Crossbound Business, sales increased 104.6% YoY to ¥251mn. Sales of “Trend Express,” which is a crossbound consumption trend analysis report that utilizes social big data, were strong. Other factors behind the higher sales were the smooth starts made by the newly launched promotion support services, including Trend PR. In particular, Trend PR has been ordered by SMEs such as cosmetics and daily items companies, both resulting in higher sales and repeat orders.

Segment sales by service



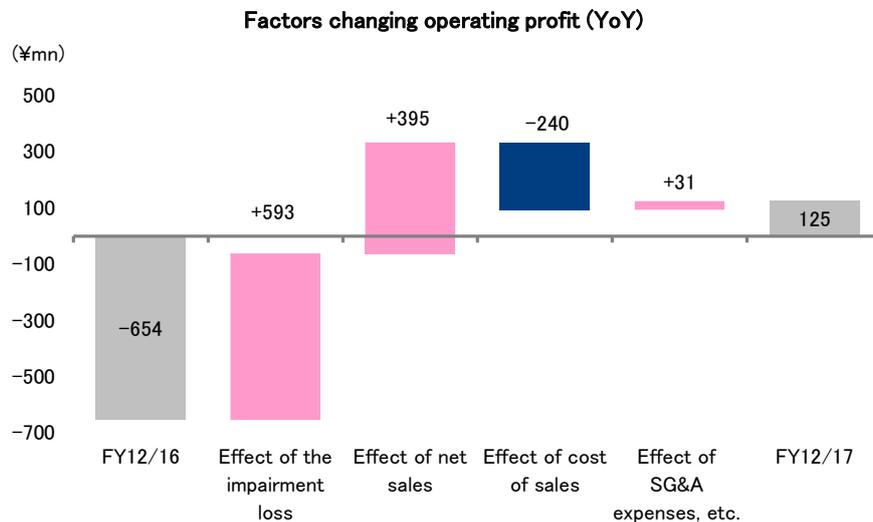
Source: Prepared by FISCO from the Company's financial results

(3) Factors causing profits to change

Looking now at factors contributing to the change in operating profit, we find the dropout of the impairment losses booked in connection with Effyis adding ¥593mn, the increase in sales adding ¥395mn, and cuts in SG&A expenses adding ¥31mn. Drags on earnings came from a ¥240mn increase in the cost of sales, which was attributed to a number of factors, including the rise in sales at Effyis and the accompanying increase in purchasing cost, increased spending to develop new services in the SaaS Business, and increased upfront investment spending in the Crossbound Business.

Looking at contributions to operating profit by company, we find the parent booking a ¥55mn operating profit (versus year-earlier loss of ¥42mn) and Effyis booking a ¥144mn operating profit (versus year-earlier loss of ¥40mn). Based on this, we estimate that Trend Express, which operates the Crossbound Business, booked an operating loss of approximately ¥73mn.

## Results trends



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

## Company issues new share warrants through private placement to fund business expansion, reduce interest-bearing debt

### 2. Financial position and financial indicators

As of the end of FY12/17, the Company's balance sheet showed total assets of ¥4,591mn, an ¥261mn increase over the end of the previous year. Contributing to this was a ¥133mn increase in cash and deposits stemming from the issuing (through a private placement) and exercise of new stock warrants, and a ¥90mn increase in the value of investment securities reported under non-current assets. Offsetting this in part was a ¥58mn decline in goodwill resulting from differences in foreign exchanges rate at period-end.

Total liabilities of ¥1,981mn were down ¥458mn versus the end of the previous year, the bulk of the decline stemming a ¥513mn reduction in interest-bearing debt. Total equity of ¥2,610mn was up ¥720mn, with ¥197mn of this coming from the issuing (through a private placement) and exercise of new stock warrants and ¥324mn from an increase in the Company's capital surplus. Total equity was also bolstered by the profit for the period, which reduced the negative balance of retained earnings from ¥464mn to ¥321mn.

In November 2017, subsidiary Trend Express raised additional capital through a private placement, the proceeds are going to fund development and advertising/promotional spending aimed at responding to the increased demand for its promotion support service for companies selling to the China market. In addition to two venture capital funds, Evolvable Asia Corp. <6191> also subscribed to the new issue. With Trend Express raising a total of ¥180mn in new capital from these sources, Hotto Link has reduced its stake in Trend Express from 100% to 75% and it is starting to look like an IPO is being contemplated.

## Results trends

Turning now to key financial indicators, we find the equity ratio, a indicator of financial stability, rising from 43.7% at the end of FY12/16 to 55.8% at the end of FY12/17. This is the first time since FY12/13 that the equity ratio has been above 50%. The Company also made good progress paying down the debt incurred when acquiring Effyis, bringing down its interest-bearing debt ratio from 102.7% at the end of FY12/16 to 55.7% at the end of FY12/17 and significantly improving its financial position. The Company's profitability has improved as well. FY12/17 results put Hotto Link in the black for the first time in two years and, while the operating profit margin and EBITDA margin have yet to recover the levels seen in FY12/14 and earlier years, with the Crossbound Business now growing in earnest we see profitability continuing to improve over the medium term.

On February 26, 2018, Hotto Link announced that it was issuing new stock warrants through a private placement with the proceeds being used to reduce interest-bearing debt and fund additional investments aimed at growing the business, including hiring additional personnel and acquisitions. If exercised, the warrants issued would increase the number of shares outstanding by 2,446,100 for potential dilution of roughly 18%. If all of the warrants were exercised at the initial strike price of ¥695 per share it would raise approximately ¥1.7bn in new capital. Of this, the Company indicated that it planned to put ¥500mn towards the hiring of additional employees to work in product development, use ¥200mn to expand its marketing team, use ¥300mn for the acquisition of a marketing company, and use ¥700mn to repay interest-bearing debt.

## Consolidated statement of financial position and financial indicators

	(¥mn)					
	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	Change
<b>Current assets</b>	1,113	2,927	949	1,246	1,426	180
(Cash and deposits)	949	2,772	611	940	1,074	133
<b>Non-current assets</b>	353	349	3,796	3,083	3,165	81
(Goodwill)	-	197	2,891	2,162	2,103	-58
<b>Net assets</b>	1,467	3,276	4,745	4,329	4,591	261
<b>Total liabilities</b>	198	1,893	3,284	2,439	1,981	-458
(Interest-bearing debt)	-	1,700	2,730	1,940	1,426	-513
<b>Total equity</b>	1,268	1,382	1,461	1,890	2,610	720
<b>(Stability)</b>						
Equity ratio	86.5%	40.8%	30.8%	43.7%	55.8%	+12.1pt
Interest-bearing debt	-	122.9%	186.8%	102.7%	55.7%	-47.0pt
<b>(Profitability)</b>						
ROE (Return on equity)	8.4%	5.8%	1.3%	-38.2%	6.2%	+44.4pt
Operating profit margin	16.7%	11.0%	5.2%	-29.9%	4.9%	+34.8pt
EBITDA margin	29.1%	21.7%	20.1%	14.6%	18.8%	+4.2pt

Note: Based on IFRS from FY12/15

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

## Business outlook

### Company sees sales growth accelerating in FY12/18 but earnings coming down under weight of upfront investment spending to support business expansion and development of new services

#### 1. Outlook for FY12/17

For FY12/18 Hotto Link is forecasting higher sales but lower earnings, with net sales rising 25.% YoY to ¥3,229mn, while operating profit declines 33.0% to ¥84mn and profit for the period attributable to owners of the parent drops 79.1% YoY to ¥29mn. The downturn in operating profit reflects the cost of heavy investment spending in strategic initiatives, including building up business infrastructure to cope with the high level of demand in the Crossbound Business and developing new products in the SaaS Business. The downturn in earnings is expected to be temporary, though, and management expects the investments to lead to even faster top-line growth. Growth is expected especially in the Crossbound Business, where management sees sales more than tripling over the previous year as its promotion support services business expands to meet the growing needs of Japanese consumer goods manufacturers selling to the Chinese market. The forecast assumes the gross profit margin will decline from 46.9% in FY12/17 to 41.6% in FY12/18, but this is in large part due to recent increases in purchasing cost for social media data. For foreign exchange rates, the Company is looking for the yen to strengthen against the US dollar, assuming an average exchange rate of ¥105/USD during FY12/18 versus ¥113/USD during FY12/17.

#### FY12/18 consolidated outlook

	FY12/17		FY12/18		YoY
	Results	% of sales	Company target	% of sales	
Net sales	2,583	-	3,229	-	+25.0%
Gross profit	1,211	46.9%	1,342	41.6%	+10.8%
SG&A expenses	1,087	42.1%	1,257	38.9%	+15.7%
Operating profit	125	4.9%	84	2.6%	-33.0%
Profit before tax	94	3.7%	-	-	-
Profit for the period	141	5.5%	29	0.9%	-79.1%
EBITDA	486	18.8%	445	13.8%	-8.5%

Note: EBITDA is operating profit + depreciation and amortization + impairment loss  
 Source: Prepared by FISCO from the Company's financial results

#### 2. Segment sales outlook by service

##### (1) SaaS Business

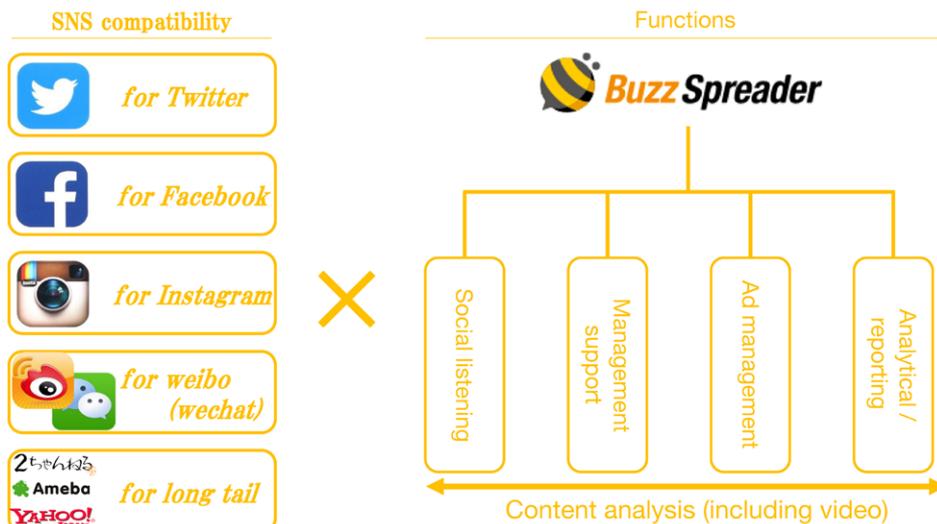
In the SaaS Business, management sees FY12/18 sales staying basically flat, with declining revenues from its ringtone download service and the termination of its Recognize service effectively offsetting the gains expected from growth at its kuchikomi@kakaricho service, where more and more client companies are signing up as companies large and small start making greater use of social big data in their operations. With regard to e-mining, Hotto Link's social risk monitoring tool, the Company said that a new product utilizing AI technology is under development and it expects a further boost in sales once the product is released. The new product will use AI technology to automatically respond to social media postings to prevent harm to the client company's reputation. In the past, Hotto Link monitored social media and responded to damaging posts using human-wave tactics. The Company has already introduced a trial version of its new AI technology-based product since the start of 2018 and expects to watch the system in operation, work out the bugs, and come closer to a final version in the months ahead.

Business outlook

With regard to BuzzSpreader, the social media management support tool that utilizes Instagram, the Company said it has started development work aimed at creating a comprehensive social media management tool that will cover connections to all the major SNS (Twitter, Facebook, etc.) and provide all of the functions, including analytical, management, ad management, and posting management functions needed for solutions marketing, and that as a result, it has temporarily suspended service on BuzzSpreader. Once it is developed, this promising new service would significantly increase the impact of sales support using SNS and allow sales promotions to be done globally. Expectations are high but the target date for completion is not until sometime in 2020 or 2021.

BuzzSpreader

Plans to offer comprehensive social media management tool that connects to major SNS and provide all analytical, management, ad management, posting management and other functions needed for solutions marketing



Source: The Company's results briefing materials

In December 2017 the Company started up CutChaTV. With the service costing client companies about ¥300,000 per product placement, it is aimed primarily at large TV companies. The first sponsor was Nisshin Foods Inc., which was looking to raise brand awareness for its fast-cooking pasta by having it featured in an SNS TV series that is being co-produced with BS-TBS and webcast using Twitter, Facebook, and other SNS. The current series will have a total of 13 episodes. As of the end of the episode six it had a cumulative total of some 4.7mn viewers, a large enough audience to assume that name recognition of the product did indeed increase to some extent. The Company is currently in negotiations with a number of other potential clients and expects to see further additions to sales once firm orders have been made.

With regard to the development of new services, Hotto Link says it currently has about 30 people working in development but is planning to expand its development team by another 10 to 20 people over the next one to two years.

Business outlook

**(2) Solutions Business**

In the Solutions Business, management is looking for another good year at Effyis, anticipating double-digit growth in sales and earnings even assuming an exchange rate of ¥105/USD. The bullish outlook reflects not only the ever-growing volume of social big data handled by existing client companies but also increasing numbers of new clients. Already in Q1, a new contract giving Effyis access rights to the data of a large global SNS promises to boost both sales and earnings. With this contract Effyis has extended its coverage to nearly every SNS user in the entire world, thereby solidifying its strategic position as a social big data distribution company. Sporting an 11% operating profit margin in FY12/17, the Solution Business promises to be a major driver of sales and earnings growth in the future.

**(3) Crossbound Business**

In the Crossbound Business, the Company is looking for sales to more than triple versus FY12/17, with much of the growth coming from Trend PR and Trend EKKYO promotion support services for companies selling to the Chinese market. As discussed previously, Trend PR began service in 2017. It has already handled about 20 assignments and all of the promotions are said to have been effective, leading to higher sales of the client company's product as well as repeat orders.

**PR Trend success stories**

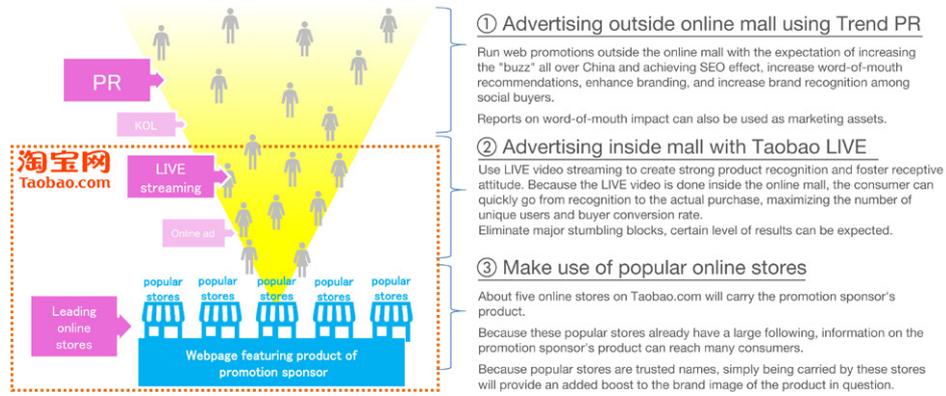
- Sunscreen products for women (led to increased sales)  
 After running promotion, 150,000 units previously stored in warehouses in China were sold out within two weeks; stores in Japan also experienced binge-buying, depleting the 150,000 units in Japanese warehouses within one month
- Pharmaceutical product (led to increased sales, expansion of distribution network)  
 After running promotion, sellers in Japan saw binge-buying with sales of a few thousand units per day; in China, the number of online stores selling the product jumped from 10 to 150
- Facial wash product for women (enhance branding, expand distribution network)  
 Once the promotion had driven up SNS media references past the 100mn mark, the number of online stores in China handling the product jumped from zero to more than 300

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

After seeing how successful its promotion support service has been and the active demand for such services, the Company decided to expand the scope of support services for companies that are either starting cross-border ecommerce sales to China or are planning to start, adding support for ecommerce sales, customer support, and distribution on top of promotional support to create a total solutions service called Trend EKKYO. Started in December 2017, Trend EKKYO does not just try to increase sales by establishing an online store on one of China's major online marketplaces; its real strength lays in its unrivaled ability to collect and analyze social big data, which is key to designing promotion campaigns that will increase product recognition and demand among consumers. To increase product recognition outside of online shopping malls, Trend EKKYO uses live streaming events run on the mall website to help attract customers and this together with the stocking of the product by popular stores in the mall leads to higher sales.

Business outlook

Trend EKKYO

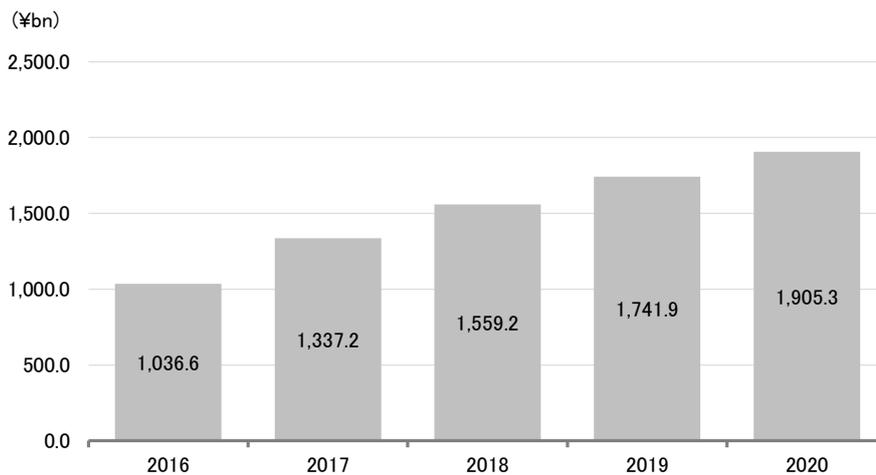


Source: The Company's results briefing materials

With regard to the service's fee structure, the Company said it is able to handle assignments starting from ¥5.0mn. Trend PR has a fixed charge per PDCA cycle. Trend EKKYO also collects a commission depending on the sales results, so handling what turns out to be a hit product could make a substantial contribution to earnings. Cross-border ecommerce sales from Japan to China totaled ¥1,036.6 billion in 2016 and are projected to grow at an annual rate 16% through the year 2020, reaching ¥1,905.3 billion. With its promotion support service for Japanese companies selling to the Chinese market already starting to build up an impressive track record, at FISCO we see great growth potential for the Company in this area.

At this time Trend Express has only a five-person sales team, leaving it desperately short in terms the human resources needed to meet the level of demand. Trend Express says it would like to expand its sales team to 20 people by the end of 2018.

The value of cross-border distribution from Japan to China



Source: Prepared by FISCO from the Ministry of Economy, Trade and Industry's "Market research on e-commerce" report (April 24, 2017)

## **Aiming to provide high-quality marketing support services globally, through gathering and analyzing social big data from around the world and adding AI technologies**

### **3. Medium- to long- term growth strategy**

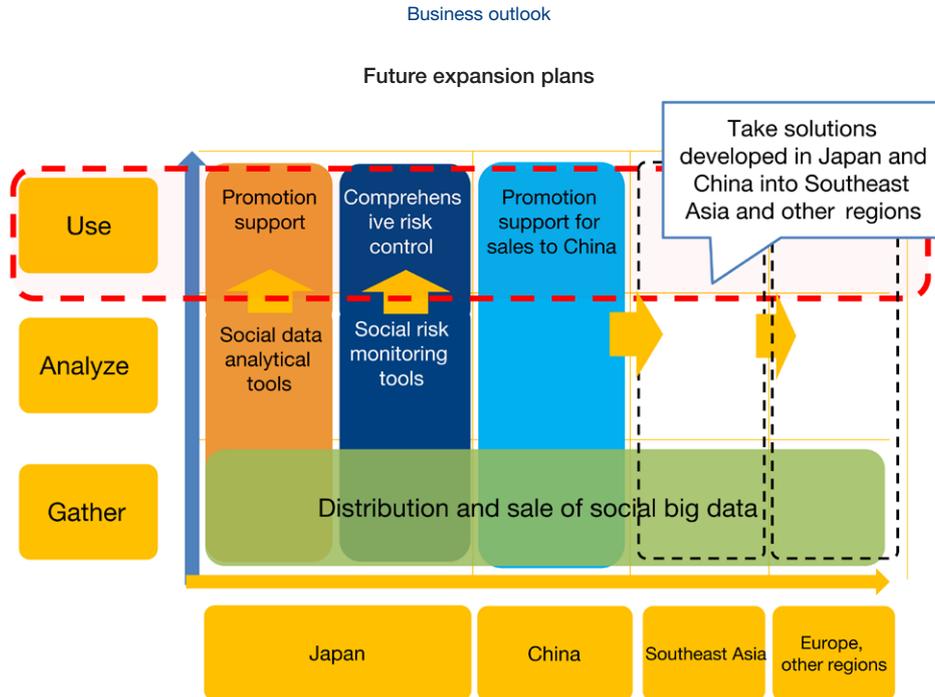
By making Effyis a subsidiary, the Company is now capable of providing a variety of solution services by gathering, analyzing and processing the greatest volume of social big data from across the world. Going forward, its results are expected to enter a fully-fledged growth stage from utilizing this strength.

The Company's services can be divided into three levels according to the process. The first is the business of Effyis, which involves the wholesaling to global IT companies like IBM and Salesforce.com of access rights to the big data it gathers from various social media. The second is SaaS services like kuchikomi@kakaricho and e-mining, in which the Company subdivides the gathered "social big data" and processes it into structured data that is used by the customers themselves, such as for marketing analysis. The third is social medium optimization support and promotion support services, in which the Company provides solutions services optimized to meet customer needs through utilizing AI technologies for data that has undergone a primary refinement. In terms of the value added by its services, social media optimization support and promotion support services are positioned as adding the most value.

Also, a point that can be said to be in common to all services is the question of how much social big data they can gather, and this will be an important factor in determining the quality and the competitiveness of the service. From this viewpoint, it can be said to be hugely significant that the Company made a subsidiary of Effyis, which is one of the world's leading social big data distributors. In China, where word-of-mouth information on SNS is an important source of information when purchasing products, the importance of utilizing social big data within a marketing strategy is particularly great, and the fact that the Company can gather and analyze the data from a major Chinese SNS is its greatest strength.

With regard to Hotto Link's customer and geographic strategy, at this time SaaS Business and Crossbound Business are targeted at Japanese companies, but management says it is also thinking about marketing overseas to non-Japanese companies at some point in the future. In fact, the Company says it has received a large number of inquiries about BuzzSpreader, which uses Instagram (a international social media outlet), and for this reason decided to push ahead with the development of a comprehensive social media management tool that will include all major SNS. Once development work is completed and the new product is brought to the market, it is likely the product will be marketed not only domestically but overseas as well.

With regard to promotion support services, right now the service is aimed at Japanese companies that are selling goods in the Chinese market, but here too Hotto Link is contemplating offering the service to overseas companies as well. With respect to the timing of such a move, management said once it has its promotion support services for sales to the Chinese market on a profitable footing it will start looking to expand the service for sales by Japanese companies into neighboring countries in the region (such as South Korea, Taiwan, and countries in Southeast Asia) and will also start looking at offering the service to overseas companies, some of which would undoubtedly be aiming to increase sales in Japan. In this relation, the Company noted that when it came time to extend its business into other countries it would do so with the help of a capital alliance or acquisition of local companies engaged in social big data distribution or market analysis.



• [ ] Areas where Company plans to build up operations  
Source: The Company's results briefing materials

## Shareholder return policy and business risks

**Still in the upfront investment period, so payment of dividends is not planned**

### 1. Shareholder return policy

Regarding the return of profits to shareholders, Hotto Link plans to pay dividends to shareholders in the future. However, it considers that it is still currently in the upfront investment period where it should actively allocate funds primarily to investment in businesses and to the recruitment and training of talent. Accordingly, the same as in the previous fiscal year, the Company does not plan to pay a dividend in FY12/18.

## 2. Business risks

Looking at business risks, changes in management policy by companies from which Hotto Link purchases social media data could lead to cancellations of current license agreements or changes in government policies or the like in each country could prevent the delivery of social media and this could have an impact on the Company's financial results. That said, looking only at its relationships with the companies Hotto Link buys from, it already has many corporate customers that utilize social media worldwide. Furthermore, the amount of data purchased is expected to continue to increase in the future, including from the growth of the Crossbound Business. Therefore, at FISCO, we believe that the likelihood that license agreements will be cancelled is extremely low.

Also, due to the growth in the results of Effyis, the percentage of sales from overseas in the FY12/17 results reached a level of more than 50%, and should the yen strengthen, there is the risk that Effyis results will be reduced when converted into yen.

## ■ Information Security Measures

The services offered by Hotto Link and its group companies depend on large server farms and internet connections, so management takes information security very seriously. To prevent system failures or outages caused by cyber-attacks that would interfere with the performance of services for customers, the Company constantly monitors system operations, maintains backup systems, and uses cybersecurity measures to thwart malware and other cyber-threats.



## Disclaimer

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

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

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

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

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

FISCO Ltd.