

# Hotto Link Inc.

**3680**

TSE Mothers

9-May-2019

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## ■ Summary

### The promotion-support service that utilizes SNS is growing rapidly

Hotto Link Inc. (3680) (hereafter, “the Company”) conducts the SaaS Business, which includes tools to collect and analyze data posted on social media and SNS marketing tools. In addition, its subsidiaries, of Effyis, Inc. in the United States is developing the Solutions Business for the distribution and sales of social media data, and Trend EXPRESS, Inc., is developing the Crossbound Business, including a Web promotion-support service targeting the Chinese market and a cross-border EC service.

#### 1. FY12/18 results

In the FY12/18 consolidated results, net sales increased 25.5% year-on-year (YoY) to ¥3,241mn and operating profit rose 160.9% to ¥328mn. Sales were a new record high, mainly because the Solutions Business performed strongly in Japan and overseas, while sales also grew greatly in the Crossbound Business, mainly for Trend PR\*, a Web promotion-support service. In addition, operating profit increased significantly due to the recording of ¥382mn in gain on sales of shares of subsidiary conducting the risk-related businesses, including e-mining. Excluding this factor, profits actually decreased because of the cost-increase factors, including the rise in upfront investment costs in the Crossbound Business, the higher data-purchase prices in the SaaS Business, and the occurrence of a minimum guarantee payment following the start of sales of data access rights of a major overseas SNS. However, if excluding these special cost-increase factors, a YoY increase in operating profit was secured and there has been no change to the upward trend in profits.

\* 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. FY12/19 outlook

The forecasts for the FY12/19 consolidated results are for net sales to increase 31.8% YoY to ¥4,272mn and operating profit to decrease 89.2% to ¥35mn. The growth in net sales will continue to be driven by the Solutions Business and the Crossbound Business. In the Crossbound Business, the outlook is for sales of Trend PR to increase, and moreover, although sales were sluggish of Cross-border EC X (cross)\*, a cross-border EC service launched in the previous fiscal year, the Company expects a sales contribution from Q2 onwards. Conversely, operating profit will decline as the gain on sales of shares recorded in FY12/18 will not be recorded, but if excluding this factor, it will increase ¥89mn. The reason why the extent of the increase in profits is small compared to the increase in sales is that the active investment will continue in the Crossbound Business, mainly in human resources. The sales promotion measures utilizing SNS implemented by the Company are highly cost effective, and it is receiving many inquiries to the extent that it does not have sufficient human resources to deal with them. Therefore, it is positioning upfront investment costs as necessary to deal with this demand.

\* Cross-border EC X is the Company’s one-stop service to support customers, from customer acquisition through to distribution, through promotions measures that utilize the 450,000 social buyers between Japan and China, the leading stores on the major EC mall Taobao, and the leading KOL.

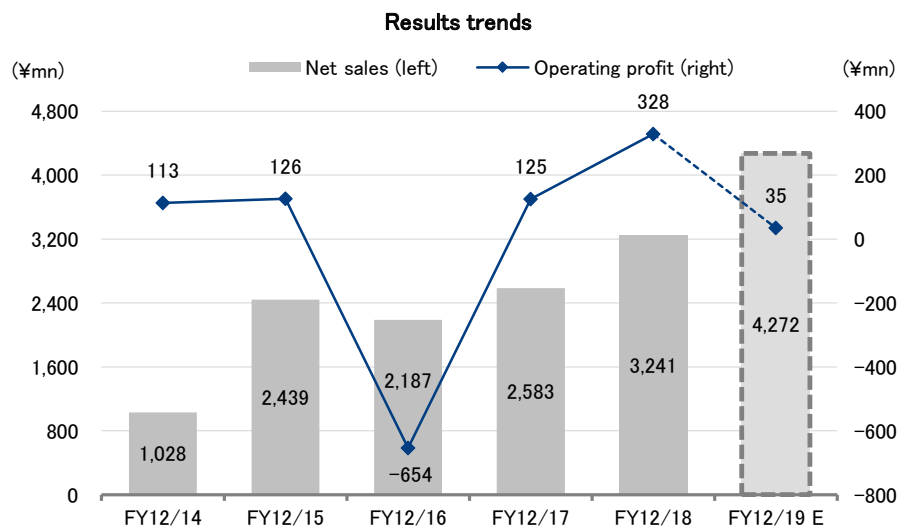
Summary

3. Growth strategy

The Company's strategy is to achieve high growth by fully shifting from providing conventional social media analysis services to providing solutions services that utilize analyzed data in the marketing area. In the SaaS Business, it intends to develop products along with kuchikomi@kakaricho by enhancing the AI functions of BuzzSpreader, the social media marketing tool. Also, in the Crossbound Business, as with Trend PR, sales of Cross-border EC X are expected to grow. The cross-border EC distribution amount from Japan to China is forecast to grow by more than 20% a year in the future, and the potential demand is enormous. Further, as this service has a performance-based business model, in which fees depend on the sales amounts of the targeted products, if these products sell well, its contribution to earnings could grow significantly. For the time being, the Company is actively conducting investment that prioritizes sales growth, and this is keeping down the growth in profits. However, at FISCO we forecast that once these new services start to get on track, profit growth will also accelerate.

Key Points

- Once again achieved record high net sales in FY12/18 from the strong performances of the Solutions Business and the Crossbound Business
- In FY12/19 also, the Company is actively conducting strategic investment to accelerate sales growth
- Outlook is for the fully-fledged expansion of the marketing-support service in Japan and overseas utilizing social big data



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

## ■ Company profile

### Expanding from social big data collection and analytical tools into utilization 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. Mr. Uchiyama has been involved with development of technology from the beginning of the Internet market, including participation in the Japan Search Engine Development Project, one of Japan’s earliest search engines, while in graduate school in 1995.

The Company provided an analysis service based on articles posted on social media, including on personal blogs and 2channel, from the second half of 2000s, 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.

In 2012, the Company made the e-mining social risk monitoring service Gala Buzz into a wholly-owned subsidiary, merging it in the same year and adding services to its lineup. However, in October 2018, the risk-related businesses centered on this service were transferred to Relief Sign Co., Ltd., through a company split, and in December of the same year, the majority of its shares were sold to S. Front Inc. (the investment ratio after the sale of shares became 34%, and became an equity method affiliate). As the Company had solidified its policy of developing its business strategy centered on the “social and big data × marketing” area, in January 2015, it made a subsidiary of Effyis in the United States, which is a major social media distribution company that has access rights to the social data of major SNS in China and the United States, and has constructed a business foundation overseas. Also, as the number of tourists from China visiting Japan has been rapidly increasing, the subsidiary Trend EXPRESS (investment ratio, 75.0%) launched Visualized China Trend EXPRESS, which is a regular reporting service on inbound tourism consumption trends based on analysis of word-of mouth data (i.e., postings) from SNS. Then in 2017, the Company launched Trend PR, a promotion support service utilizing social big data for companies selling to the Chinese market. Further, in December 2017, it launched Cross-border EC X, a cross-border EC business for China, and in these ways, it has been successively launching services targeting the Chinese market.

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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 Effyis, Inc., a U.S. social media data distribution company
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
October 2018	The risk-related businesses centered on "e-mining" were succeeded by Relief Sign Co., Ltd. through a company split, and the majority of its shares were sold in December 2018 and it became an equity method affiliate (investment ratio, 34%).

\*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, the SaaS\* Business, the Solutions Business, and the Crossbound Business. These businesses are conducted by the Company and its four subsidiaries (Effyis, Trend EXPRESS, Trend EXPRESS Tianjin, and Hotto Link Hong Kong). The descriptions of each business are below.

**(1) SaaS Business**

In the SaaS Business, kuchikomi@kakaricho is the main service. kuchikomi@kakaricho is an analysis tool that, based on social big data gathered from sites including 2channel, Twitter, and various types of blogs, is applied to items such as surveys for a company's product development, sales promotion activities, and comparisons with competitors. The initial installation fee is ¥100,000 and the monthly usage fee starts at ¥100,000, which is calculated based on the number of user IDs, the number of media subjects to analyze, the data volume, and other factors, and some large users spend around ¥1mn a month on usage fees. It has been introduced by more than 1,000 companies in total, and of these, approximately 300 are active corporate subscribers. It has also been introduced by companies in a wide range of industries, including consumer-goods manufacturers, service and finance industries, and approximately 80% of the companies using it are large scale.

#### Company profile

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, the Company 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 agreements it has entered with these partners. The 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.

Other than the above, sales of BuzzSpreader, which is a social media marketing tool, were launched in May 2018. It is a cloud service that can realize one-stop support, such as for posting advertisements on SNS, account management, and analysis and reporting functions, and it is compliant with Twitter and Instagram. It utilizes an AI engine for proprietary targeting and automatic generation of hashtag recommendations, and it is a highly cost effective marketing tool. The initial installation cost is ¥100,000, and the monthly fee starts from ¥50,000. The Company is still at the stage of developing its functions, so it is not actively working to expand sales at this point and therefore it has only been introduced by a few companies. It is currently developing an AI function that will automate the management consulting process, and the Company is aiming to have it completed by the summer of 2020.

#### (2) Solutions Business

This business is comprised of the social media data (data access rights) sales business of Effyis (brand name: Socialgist), the data platform service that provides systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho, and the marketing support service that utilize Twitter. The Effyis business accounts for nearly 90% of sales in this segment.

Effyis is a major social big data distribution and sales company that 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). With the exception of Twitter, it is the largest major corporation to handle data on leading public SNS platforms in the world. 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 (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 7.9% of sales.

#### (3) Crossbound Business

This is the business conducted by the subsidiary Trend EXPRESS. 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 June 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 Cross-border EC X, a service for cross-border ecommerce sales to China.

#### Company profile

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.

On the other hand, Cross-border EC X is a service that effectively improves name recognition and realizes higher sales in the Chinese market through partnerships, including with the leading stores that have opened on Taobao, which is a major EC site; the individual stores of key opinion leaders (KOL); and Weidian, which is a network of about 450,000 stores of social buyers between Japan and China. It provides one-stop service from customer acquisition, customer support, through to distribution. The business model is that the Company obtains performed-based fees according to the sales of the targeted product. Therefore, if the targeted product becomes a major hit and its sales explode during the promotions period, its contribution to earnings also increases.

### 3. Hotto Link's strength

The Company's strength lies in having established its position as one of the world's leading social media distribution companies 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.

There are many competitor companies providing services to collect and analyze social big data, but within them, quite a few provide a service to crawl and collect only social media open data. 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, Twitter announced its intention to prohibit the unauthorized gathering of open data, while Facebook also prohibits the external sale of data. In Europe, the handling of personal information is becoming more strictly regulated. Due to these changes to the market environment, in the future the value of social media data is expected to increase even more. From the viewpoint of the quality of services, these series of developments signify that a gap will open up between the Company and its competitors. Considering that Effyis, which holds data access rights to major social media platforms around the world, is a subsidiary of the Company, at FISCO we think recent developments will be advantageous for the Company.



## Results trends

### In FY12/18, once again achieved record high sales from the strong performances of the Solutions Business and the Crossbound Business

#### 1. Overview of FY12/18 results

In the FY12/18 consolidated results, net sales increased 25.5% YoY to ¥3,241mn, operating profit rose 160.9% to ¥328mn, profit before tax grew 223.2% to ¥305mn, and profit for the period attributable to owners of the parent decreased 21.2% to ¥111mn. Net sales were once again a record high, while operating profit was also a record high.

The factors behind the higher net sales were that sales were strong in the Solutions Business both in Japan and overseas, and also the major sales growth in the Crossbound Business, particularly for the promotion-support service. Gross profit increased 9.6% to ¥1,328mn, a lower growth rate compared to the sales-increase rate. This was mainly because in the SaaS Business, Twitter increased its data fees, causing costs to rise, and in the Solutions Business (overseas), a minimum guarantee payment was generated in conjunction with sales of major SNS data access rights outside of the United States from a new contract concluded in FY12/18. If calculating gross profit after excluding these factors, it increased approximately 21% YoY.

SG&A expenses increased 27.2% to ¥1,382mn. The main increase factors were the rises in personnel expenses due to business expansion and in advertising expenses to acquire new customers in the Crossbound Business, and the increase in sales personnel expenses in the Solutions Business (overseas). Also, in the fiscal period under review, ¥382mn was recorded in Q4 as gain on sales of shares of subsidiary conducting the risk-related businesses, which caused operating profit to increase. The Company invested ¥92mn in the Crossbound Business (including investments to recruit human resources and for development) in advance in Q4 using the funds acquired from the sale of a subsidiary's shares. On calculating operating profit supposing that the shares of this subsidiary had not been sold (including excluding the investment pushed forward and the costs relating to the sale of shares), it becomes ¥53mn.

Profit for the period attributable to owners of the parent declined, but this was mainly because the Company decided to dispose of deferred tax assets after carefully examining their recoverability. Also, the yen appreciated slightly, with an average exchange rate during the period of ¥110 to US\$1 (compared to ¥113 to US\$1 in the previous fiscal year). However, the impact of this on Effyis' results was negligible.

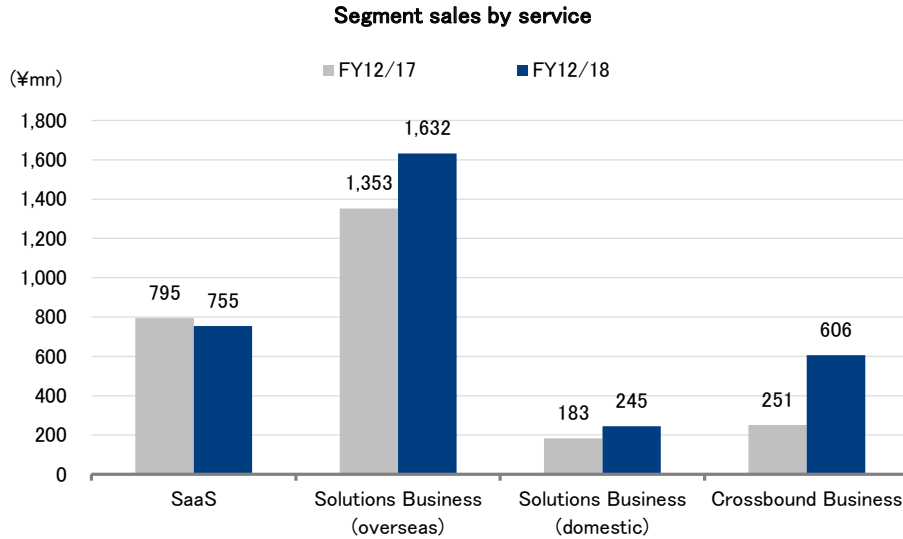
#### FY12/18 results

	FY12/17		FY12/18		YoY
	Results	% of sales	Results	% of sales	
Net sales	2,583	-	3,241	-	25.5%
Gross profit	1,211	46.9%	1,328	41.0%	9.6%
SG&A expenses	1,087	42.1%	1,382	42.7%	27.2%
Other expenses and earnings	1	0.1%	382	11.8%	-
Operating profit	125	4.9%	328	10.1%	160.9%
Profit before tax	94	3.7%	305	9.4%	223.2%
Profit for the period attributable to owners of the parent	141	5.5%	111	3.4%	-21.2%
EBITDA	486	18.8%	704	21.7%	45.0%

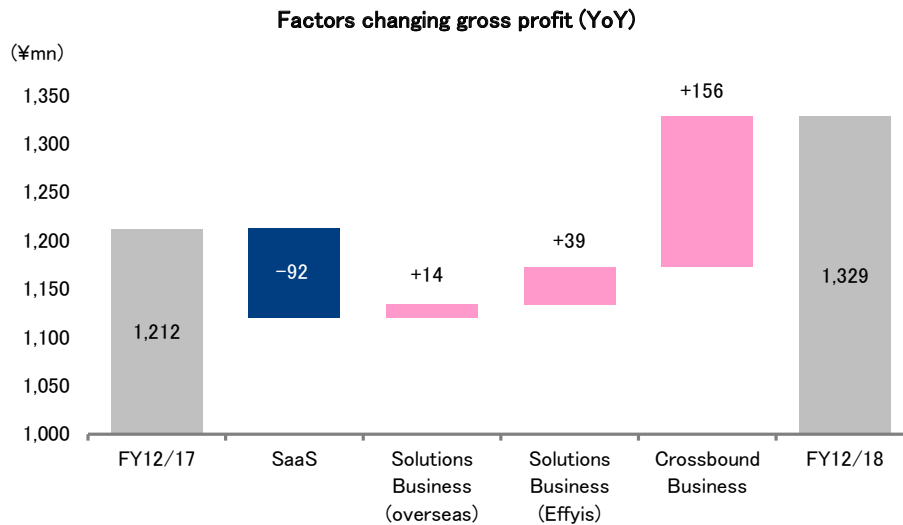
Note: EBITDA = operating profit + depreciation and amortization

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

Results trends

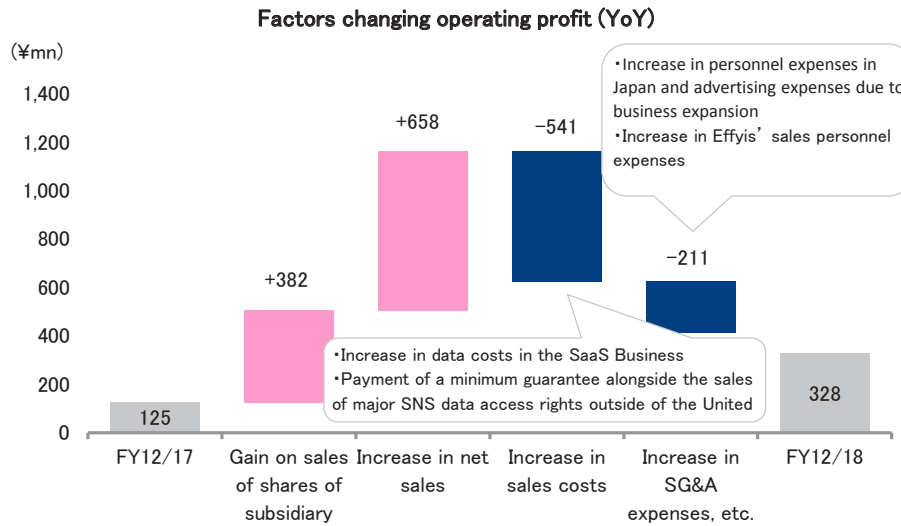


Source: Prepared by FISCO from the Company's financial results and results briefing materials



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

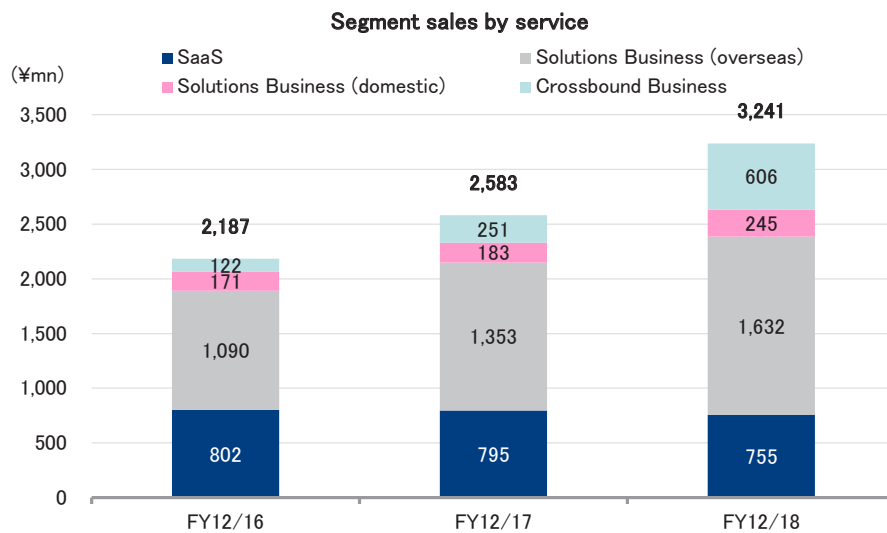
Results trends



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

## Fully fledged expansion of the Crossbound Business, centered on Trend PR, the sales promotion support service for the Chinese market

### 2. Segment sales by service



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

## Results trends

**(1) SaaS Business**

In the SaaS Business, net sales decreased 5.0% YoY to ¥755mn, which was mainly because although kuchikomi@kakaricho performed strongly, sales of “e-mining” declined. The majority of the shares of Relief Sign, the subsidiary that conducts the “e-mining” business, were sold in December 2018, and it became an equity method affiliate (investment ratio, 34%).

As a new service in FY12/18, sales of BuzzSpreader, a social media marketing tool, were launched in May 2018. It is a service that contributes to improved ROI by reducing the time spent on advertising and account management, and to improve the efficiency of social media marketing through the use of an AI engine and social and big data independently developed by the Company. The Company improved its API function to respond to the price increase of Twitter data, causing the service launch period to delay, so its contribution to sales was basically zero. But going forward, the plan is to expand sales by conducting sales activities together with the marketing-support service (advertising sales and management consulting) that utilizes Twitter. Also, in the future, it intends to use the AI engine to realize a function for a labor-intensive management consulting service, and the Company is currently working on its development with the aim of completing it by around the summer of 2020.

**(2) Solutions Business**

In the Solutions Business, net sales increased 22.3% YoY to ¥1,878mn, of which, Effyis’ net sales grew 20.6% to ¥1,632mn. In a situation in which the number of companies using social and big data for management is increasing every year, sales of data access rights increased for major SNS in the United States and China. In addition, the Company newly acquired a sales license for data access rights to a major SNS outside of the United States, which also became a factor increasing sales.

Facebook has suspended data sales due to the problem of the leak of personnel information, and it seems that this has also provided advantageous for Effyis. This is because following the loss of the data from Facebook, the value of data from other social media has risen relatively. Effyis intends to continue to acquire data access rights for new media to continue to grow stably in the future

Looking at Effyis’ performance results, net sales increased by double digits YoY, but it seems that operating profit was only slightly above ¥100mn, which is a decline of around 10%. This was because from Q3, it incurred a minimum guarantee payment alongside sales of data access rights of a major SNS company outside of the United States that it newly acquired. Although this minimum guarantee payment will continue until Q2 of 2019, the monthly usage fee will grow by double digits compared to in the previous year, so profits are forecast to return to an upward trend from FY12/19 Q3 onwards.

On the other hand, in the Solutions Business in Japan, sales increased 34.2% YoY to ¥246mn. A marketing-support service (advertising sales and management consulting) that utilize Twitter was newly launched, which contributed approximately ¥90mn and was a sales-increase factor. There are appearing many success case studies, such as a dramatic increase in the number of responses on SNS from the marketing measures implemented using this service, and it is an area in which high growth can be expected in 2019 also.

Results trends

**(3) Crossbound Business**

In the Crossbound Business, net sales increased greatly, up 141.6% YoY to ¥606mn. The main factors behind this were that sales were strong of the reporting service to analyze consumption behavior of overseas visitors to Japan and consumers in the Chinese market, and in addition, the fully fledged expansion of sales of Trend PR, which is a promotion support service for China launched in 2017. The number of Trend PR customers increased by 1.2 times compared to the end of the previous fiscal year, and the average spend per customer also doubled. Many success case studies are starting to appear, and the seminars that the Company holds are always fully attended and it is making steady progress in acquiring new customers.

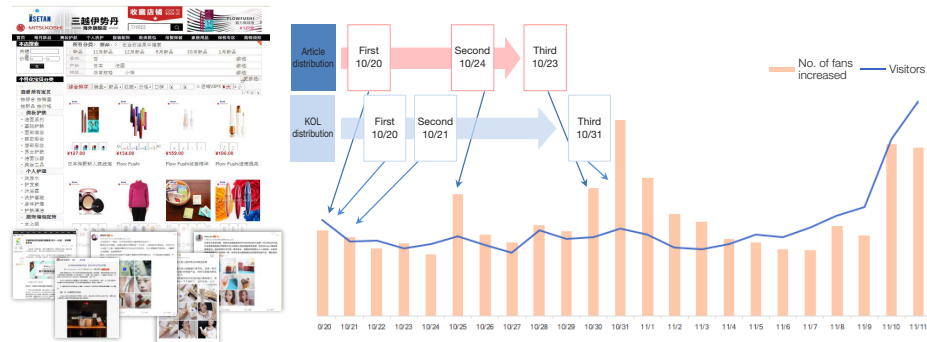
An example of a success case study is Isetan Mitsukoshi Holdings Ltd. <3099>, which searched for promotion insights through a pre-analysis and conducted content design, and implemented KOL measures for W11 (Double Eleven), a major event in the Chinese EC industry that takes place on November 11 every year. As a result, the number of site fans increased by more than 400%, and the number of site visitors rose by more than 300% compared to before it implemented the measures, and it achieved a significant increase in sales. In addition, after a certain cosmetics manufacturer implemented the measures, word-of-mouth on SNS increased rapidly and its number of word-of-mouth exposures exceeded those of competing products. In addition, its target groups expanded and the number of stores handling its products on the major EC mall Taobao dramatically increased, which resulted in higher sales. Prior to the measures, there were practically no stores on Taobao that handled its products, but after the measures, the number increased to 308 stores.

**Promotion support case studies for China (Isetan Mitsukoshi Holdings)**

The numbers of site fans and visitors increased rapidly due to the ongoing measures

Searched for promotion insights through a pre-analysis and conducted content design, and implemented KOL measures for W11 (Double Eleven), a major event in the Chinese EC industry that takes place on November 11 every year.

The number of site fans increased by more than 400% and the number of site visitors rose by more than 300% compared to before it implemented the measures, and it achieved a significant increase in sales!



Source: The Company's results briefing materials

For Cross-border EC X, which has been launched as a new service, it took some time to build the sales process, such as the time required for the trade procedures, so its launch was later than initially planned and its contribution to sales was negligible. However, the Company is making steady progress in expanding the sales channel. For example, in April 2018, it concluded a business-alliance agreement with Weidian, which is China's largest C-to-C social commerce app, enabling it to utilize network of 450,000 stores and social buyers between Japan and China. It is currently at the stage of accumulating sales expertise and conducting analyses, and it plans to realize fully fledged sales growth after constructing the business scheme.

## Interest-bearing debt significantly decreased and the financial structure greatly improved

### 3. Financial position and financial indicators

Looking at the financial condition at the end of FY12/18, total assets were up ¥1,223mn on the end of the previous fiscal year to ¥5,815mn. The main change factors were that in current assets, cash and cash equivalents increased ¥901mn alongside the exercise of new share warrants, and that in non-current assets, goodwill decreased ¥231mn, while other investment assets rose ¥442mn on an increase in the market value valuations of investment securities.

Total liabilities were down ¥804mn on the end of the previous fiscal period to ¥1,176mn. This was mainly because, although income tax-payable increased ¥102mn, interest-bearing debt decreased ¥1,062mn. Total equity rose ¥2,027mn to ¥4,638mn. The main factors behind this were increases of capital and capital surplus of ¥915mn and ¥940mn respectively from the exercise of new stock warrants, and the recording of profit for the period attributable to owners of the parent of ¥111mn.

Looking at the main management indicators, the ratio of equity attributable to the owners of the parents, which indicates management stability, rose significantly, from 55.8% at the end of the previous fiscal year to 79.4%, while the interest-bearing debt ratio fell from 55.7% to 7.9%, so the financial structure greatly improved. All of the new share warrants issued in March 2018 have been exercised, which enabled the Company to raise funds of ¥1820mn, part of which was allocated to the repayment of borrowing. It intends to use the remaining funds to recruit and train human resources and for M&A for business expansion; for strategic investment, including for capital and business alliances; and to repay the remaining borrowing. Net cash (cash and cash equivalents – interest-bearing debt) also greatly improved, from negative ¥352mn at the end of FY12/17 to positive ¥1,611mn at the end of FY12/18. So it can be said that going forward, the Company has in place the financial foundation on which to actively invest in its businesses.

#### Statement of financial position and financial indicators

	As of December 31, 2015	As of December 31, 2016	As of December 31, 2017	As of December 31, 2018	Change
(¥mn)					
Current assets	949	1,246	1,426	2,441	1,014
(Cash and cash equivalents)	611	940	1,074	1,976	901
Non-current assets	3,796	3,083	3,165	3,374	208
(Goodwill)	2,891	2,162	2,103	1,871	-231
<b>Total assets</b>	<b>4,745</b>	<b>4,329</b>	<b>4,591</b>	<b>5,815</b>	<b>1,223</b>
Total liabilities	3,284	2,439	1,981	1,176	-804
(Interest-bearing debt)	2,730	1,940	1,426	364	-1,062
<b>Total equity</b>	<b>1,461</b>	<b>1,890</b>	<b>2,610</b>	<b>4,638</b>	<b>2,027</b>
<b>(Stability)</b>					
Ratio of equity attributable to the owners of the parents	30.8%	43.7%	55.8%	79.4%	23.6pt
Interest-bearing debt ratio	186.8%	102.7%	55.7%	7.9%	-47.8pt
<b>(profitability)</b>					
ROA (return on assets)	1.5%	-	2.1%	5.9%	3.8pt
ROE (return on equity attributable to the owners of the parents)	1.3%	-	6.3%	3.1%	-3.2pt
Operating profit margin	5.2%	-29.9%	4.9%	10.1%	5.2pt
EBITDA margin	20.1%	14.6%	18.8%	21.7%	2.9pt

Note: Based on IFRS

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

## ■ Outlook

### In FY12/19 also, intends to actively conduct strategic investment and accelerate sales growth

#### 1. Outlook for FY12/19

For the FY12/19 consolidated results, the Company is forecasting higher sales but lower profits, with net sales to increase 31.8% YoY to ¥4,272mn, operating profit to decrease 89.2% to ¥35mn, and profit for the period attributable to owners of the parent to decline 41.7% to ¥64mn. It is assuming an exchange rate of ¥105 to US\$1.

For net sales, although the sale of the e-mining business will be a sales-decrease factor (approximately ¥250mn), the Solutions Business and Crossbound Business are expected to continue to achieve high growth, so the outlook is for the sales-increase rate to accelerate even more compared to FY12/18. Conversely, the main reason for the decrease in operating profit will be that the gain on sales of shares of ¥382mn recorded in FY12/18 will not be recorded. If excluding the effect of this gain on sales of shares, the forecast is for profits to increase ¥89mn. But even in this case, the extent of the increase in profits is small compared to the increase in sales. This is because the Company is expected to see some impacts remain from active investment towards the growth of the Crossbound Business, development cost in the SaaS Business, price increase of Twitter data, and payment of minimum guarantee at Effyis.

#### FY12/19 consolidated outlook

	FY12/18		FY12/19		
	Results	% of sales	Company target	% of sales	YoY
Net sales	3,241	-	4,272	-	31.8%
Gross profit	1,328	41.0%	1,689	39.5%	27.1%
SG&A expenses	1,382	42.7%	1,694	39.7%	22.6%
Other expenses and earnings	382	11.8%	40	0.9%	-89.5%
Operating profit	328	10.1%	35	0.8%	-89.2%
Profit for the period attributable to owners of the parent	111	3.4%	64	1.5%	-41.7%
EBITDA	704	21.7%	412	9.6%	-41.5%

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

## Outlook is for the fully-fledged expansion of the marketing support service that utilizes social and big data in Japan and overseas

### 2. Sales outlook by operating company

#### (1) Hotto Link

The Company's FY12/19 results are expected to remain at around the same level as in FY12/18 (net sales of ¥1,008mn and operating loss of ¥127mn). In the SaaS Business, earnings will decrease due the sale of the e-mining business, but this will be covered by the growth in the results of the SNS marketing-support service. In the SaaS Business, sales of kuchikomi@kakaricho are expected to continue to trend strongly, while for BuzzSpreader, the Company's policy is to introduce as a bundle service with the SNS marketing-support service, for which demand is strong, and sales of around tens of millions of yen are expected. The outlook is for fully fledged growth from the second half of 2020 onwards following the automation of the management consulting function. Inquiries for the SNS marketing-support service are increasing and sales are expected to rise by 5 times YoY to around ¥500mn. Also, in the medium- to long-term, the Company has in its sights expanding the SaaS Business in Japan into the South East Asia region as well.

#### (2) Trend EXPRESS

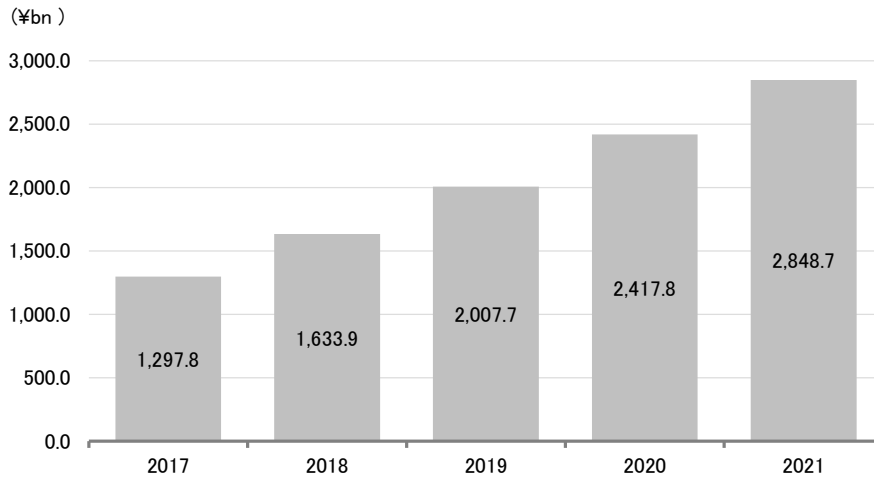
In FY12/19, Trend EXPRESS net sales are expected to double YoY, to around ¥1.1bn to ¥1.2bn. The plan is to increase sales in all services, but even among them, inquiries for Trend PR are rising alongside the improvement in its name awareness, and it is expected to drive the increase in sales. The outlook for Cross-border EC X is that it is expected to contribute to sales from Q2, which is when the business structure will be in place, and to achieve sales of more than ¥100mn for the full fiscal year.

According to the "Market research on e-commerce" report (April 2018) issued by the Ministry of Economy, Trade, and Industry, the value of cross-border EC distribution from Japan to China is projected to experience a high growth rate of around 22% a year, rising from ¥1.2978 trillion in 2017 to ¥2.8487 trillion in 2021. This rapid growth suggests that there is strong potential demand for Cross-border EC X. The forecast in the report of one year ago was for annual growth of 16% (2016-2020), so its momentum is accelerating. It is said that in China, SNS is the media with the most influence on the consumption trends of individuals, and it would seem that the Company, which has full access to collect data from a major Chinese SNS and which can formulate optimized promotions measures using its advanced analytical capabilities, will be able to further demonstrate its strength in the future. Therefore, at FISCO, we think that sales in the Crossbound Business will grow significantly.



Outlook

The value of cross-border distribution from Japan to China



Source: The Ministry of Economy, Trade and Industry's "Market research on e-commerce" report (April 2018)

To realize high sales growth for Trend EXPRESS, the Company plans to actively invest in human resources, and it plans to increase the number of employees to 60 by the end of FY12/19 from 24 at the end of FY12/18. There are many customer companies that want to effectively attack the Chinese market through utilizing SNS, and to acquire these potential customer companies, the Company has decided that this is the period in which to actively invest in human resources. Therefore, in FY12/19, business expenses, mainly personnel expenses, are forecast to increase by around ¥200mn YoY and the operating loss to rise in the range of tens of millions of yen.

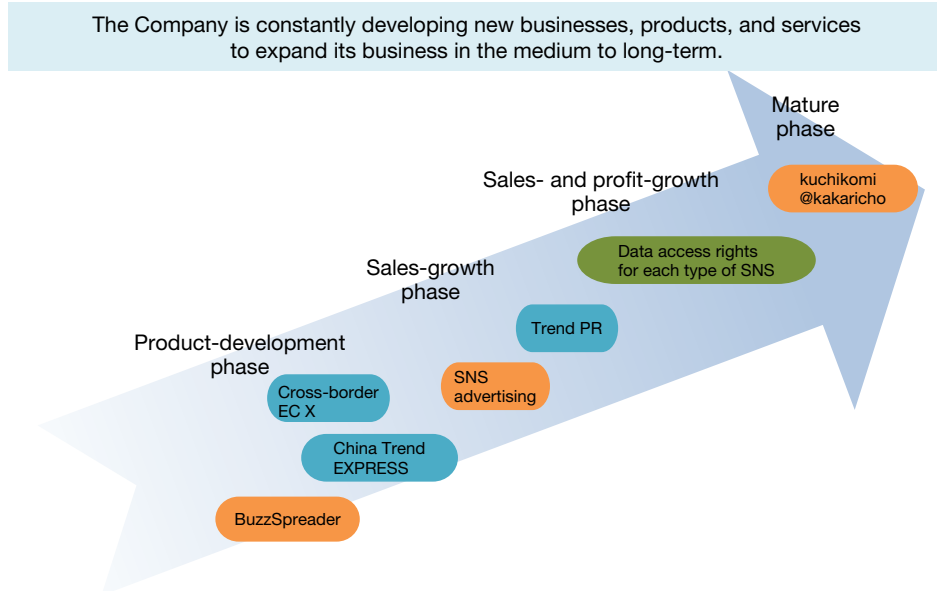
**(3) Effyis**

In Effyis, net sales are forecast to rise 20% YoY, while operating profit will also change direction and increase. The minimum guarantee payment will continue until FY12/19 Q2, but the stock sales, which is the portion of sales increase from monthly usage fee, will contribute to the higher profits. For the future also, Effyis is working to acquire data access rights to new social media, and it intends to solidify its position as a major company for external sales of social media data to realize stable growth.

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Outlook

The life stage of each business portfolio



Source: The Company's results briefing materials

The growth strategy of each business

The business	Hotto Link	Trend EXPRESS	Effyis
Business description	SNS marketing support business for the Japanese market	Marketing support business for the Chinese market	SNS data access rights sales business
Business strategy	<ul style="list-style-type: none"> <li>✓ Shifting to a marketing-support business with SaaS as a strength</li> <li>✓ Realizing effective marketing through developing tools with AI installed</li> <li>✓ Expanding the business in Japan into the South East Asia region also</li> </ul>	<ul style="list-style-type: none"> <li>✓ Providing a one-stop support service for the PDCA cycle in marketing for China</li> <li>✓ Strengthening the cross-border EC service by expanding the product lineup and sales channels</li> </ul>	<ul style="list-style-type: none"> <li>✓ Acquiring even more data sales rights for the main SNS</li> </ul>

Source: The Company's results briefing materials

## Aiming for global business development in the “social and big data × marketing” area

### 3. Growth strategy

The Company's services can be divided into three groups according to their process. The first is the business of Effyis, in which the access rights to big data collected from various social media are sold unchanged via wholesale to global IT companies like IBM and Safesforce.com. The social big data it handles covers practically all of the world's major SNS, and it ranks first in the industry for both data type and quantity. Therefore, it is expected that its dominant position will not be shaken in the future and that it will continue to support the Company's results as a source of earnings for which stable growth is expected.

The second are tools for analyzing collected social and big data, and kuchikomi@kakaricho corresponds to this. They have entered the mature stage in the last few years, but even so sales are being maintained at around the same level. It seems that in the background to this is that market needs are not simply for analyses, but also for tools to utilize the results of these analyses. Therefore, in the future also, it is forecast that sales of analysis tools will continue to trend at the same level.

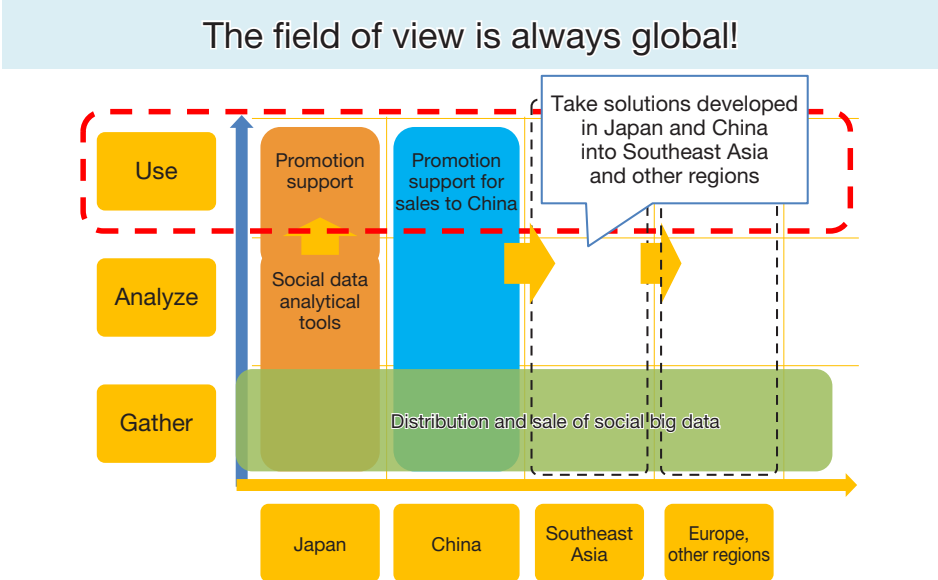
Third are services utilizing collected and analyzed social and big data, and it is a field that the Company is focusing on as a business pillar of the future. In the SaaS Business, it is working to improve the AI functions of BuzzSpreader, and its fully-fledged growth is expected from 2020 onwards.

It seems possible that BuzzSpreader sales can grow to at least the same scale as those of kuchikomi@kakaricho. Growth is expected for the marketing-support service utilizing SNS not just for Japan, but for the Chinese market also. In particular, the name awareness of Trend PR, which is a service for the Chinese market, is rising in the industry from its success case studies, and its popularity is such that if a seminar on it is held, it will be basically be fully attended every time. An issue is that human resources are not keeping up with demand, so going forward, the Company plans to actively invest in human resources.

For the future, the Company plans to horizontally deploy the solutions it has developed for Japan and China into South East Asia and other businesses areas, and to make a dramatic leap forward as a global company. For the time being, it is at the stage of upfront investment, mainly investing in human resources, which is keeping down profit growth. But it has reached the stage of having established a business foundation in the Crossbound Business, and at FISCO, we think its ability to grow profits is going to dramatically accelerate. The Company is continuing to investigate opportunities for M&A and capital and business alliances. In terms of the target candidates, in Japan the Company is looking for advertising agencies that will lead to the strengthening of social media marketing-support services, while overseas, it is looking for data analysis service companies and advertising agencies involved in social media marketing in South East Asia.

Outlook

Medium- to long-term business development



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

The Company plans to return profits to shareholders in the future by paying dividends. But at the current point in time, to actively allocate funds, such as to business investment and the recruitment and training of human resources, it is aiming to improve its corporate value (increase its share price) through growing earnings, which it considers will maximize returns to shareholders in the future. Therefore, continuing from previously, it 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 the Company purchases social media data could lead to cancellations of 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.

We encourage readers to review our complete legal statement on "Disclaimer" page.

## Shareholder return policy and business risks

Also, overseas sales accounted for 50% of the total sales in FY12/18, so it is necessary to be aware of the risk from exchange-rate fluctuations. At the current time, overseas sales are only from Effyis, so should the yen strengthen, the results from Effyis would be reduced on being converted into yen. In addition, for the sales promotion support service for China, if the economic situation in China should worsen or its legal system change in the future, this may impact the cross-border EC distribution amount, so these are indirect risk factors.

## ■ Information security measures

The services offered by the Company 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.



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