

Hotto Link Inc.

3680

Tokyo Stock Exchange Growth Market

27-Sept.-2022

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Summary

In FY12/22 2Q, new record high in net sales; Crossbound Business and DaaS Business driving results; 1H in line with forecasts thanks to portfolio management

Hotto Link Inc. <3680> (hereafter, also “the Company”) is an IT company that mainly delivers digital marketing support services that utilize social media data. Its key subsidiaries are U.S.-based Effyis, Inc. which sells data access rights to major social media, and TrendExpress Inc., which is developing services targeting the Chinese market, including Web promotion-support service and cross-border EC service to China.

1. Results trends

In FY12/22 1H, the Company’s consolidated results were net sales of ¥3,385mn (+28.4% year on year (YoY)), operating profit of ¥71mn (-8.2%), loss before tax of ¥90mn (versus profit of ¥217mn a year earlier), and loss attributable to owners of parent of ¥60mn (versus profit of ¥160mn a year earlier). The Crossbound Business and DaaS Business drove results, and net sales set a new record high. Even with some slowing since 1Q, mainly due to changes in the external environment, double-digit sales growth was recorded in both the SNS Marketing Support Business and Crossbound Business as the Company’s sales strategy paid dividends. The gross profit margin declined due in part to an increased sales share from upfront investment in the Crossbound Business, but operating profitability was attained by rigorously controlling SG&A expenses through automation of business processes, reducing hiring costs through referral-based recruitment, and other initiatives. There was a loss attributable to owners of parent of ¥60mn as a result of recording a valuation loss of ¥317mn on Web3-related investments. Assets were ¥652mn, increasing to two times the amount of investment. The Company makes medium- to long-term investments after carefully investigating trends in Japan and overseas; it does not take a short-term view. Assets are steadily increasing against investments, and the Company conducts business development aiming for a balance between aggressiveness and stability with respect to volatility, establishing subsidiary Nonagon Capital LLC for its investment activities, for example, so in FISCO’s view there are no major concerns.

2. FY12/22 outlook

In its FY12/22 outlook, the Company is forecasting net sales to increase 21.4% YoY to ¥7,976mn, operating profit to decrease 54.8% to ¥161mn, profit before tax to decrease 86.8% to ¥140mn, and profit attributable to owners of parent to decrease 87.0% to ¥99mn. Operating profit will temporarily drop below the previous year due to active investment aimed at achieving medium-term targets. Recent results are progressing according to plan thanks to flexible actions that are more impervious to fluctuations in the business environment and economic conditions, including changes to the sales mix of each business. The Company is projecting further growth by promoting “ambidextrous management,” which involves deepening existing businesses and exploring new business opportunities. The Company is also focused on active investment and M&A with companies that have technologies and networks, reviewing its business portfolio, and also developing new businesses in areas such as Web3. Its net sales forecasts take into account the impact of the external environment and are set conservatively, so FISCO believes it is possible that the Company will announce upward revisions to its results outlook or that results will end up surpassing full-year forecasts.

Summary

3. Medium- to long-term growth strategy

Currently, the importance of marketing using SNS is rapidly increasing. In the three media domains in marketing of owned media*1, paid media*2 and earned media*3, marketing methods utilizing word-of-mouth (earned media) on SNS are beginning to attract attention due to their massive influence. However, a company cannot control word-of-mouth, so the cost-effectiveness depends on how optimally information is disseminated to users and how effectively it is spread. Using this strength in SNS word-of-mouth as a selling point, the Company provides integrated marketing services centered on SNS in the three aforementioned media domains. Also, in the three steps of big data, which are information collection, analysis, and utilization (marketing), the Company provides services in which the sales of each are divided into “recurring revenue-type” and “non-recurring revenue-type.” From the perspective of client companies, this allows them to use the Company’s services to solve the problems they face in each phase of the chain at any time, from information collection to marketing. In this sense, the Company’s overall service lineup is part of a client’s business base as a single marketing platform. By leveraging its special characteristics of “integrated marketing services centered on SNS” and “platform service,” the Company has built a large presence in the industry, and at FISCO we think that the Company will see an increase in incoming orders going forward from major companies that it was unable to approach in the past.

*1 Owned media is owned and operated by a company. Examples in digital marketing include a company’s website, SNS accounts, etc.

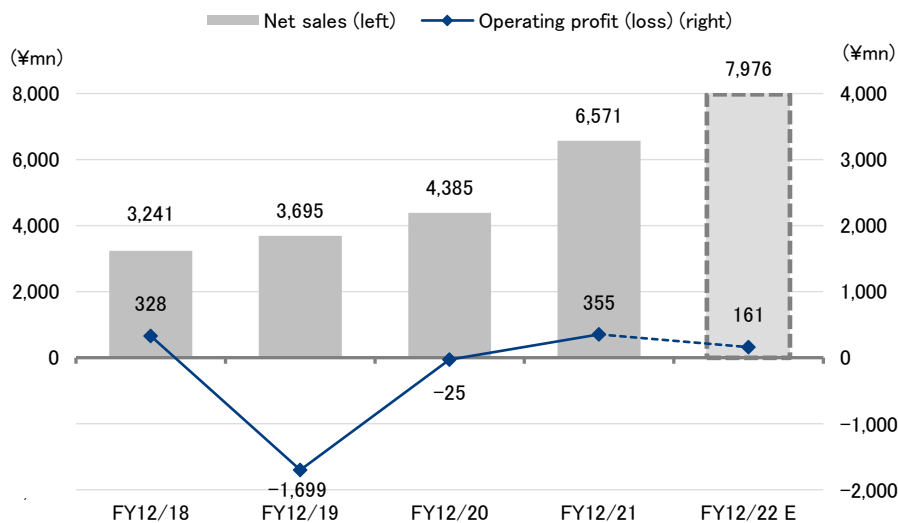
*2 Paid media is owned by a different company and provides exposure through the payment of advertising fees. Examples in digital marketing include search engine advertisements, SNS advertisements, news sites, etc.

*3 Earned media reflects comments by consumers, and cannot be controlled by a company. Examples in digital marketing include consumer blogs, SNS, etc.

Key Points

- Posted record high net sales and secured positive operating profit in FY12/22 1H
- Regarding the FY12/22 outlook, the Company is steadily securing earnings toward achievement of its medium-term targets. It is taking flexible actions in the face of a changing external environment, and business conditions are good. It is possible that full-year forecasts will be exceeded
- Integrated marketing services and a platform service give the Company a competitive advantage in the growth market

Results trends



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

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

■ Company profile

Both deepening existing businesses and exploring new businesses through “ambidextrous management;” its search for new business opportunities several years ago now driving the Company growth

1. Company history

The Company was founded in June 2000 by current President and Representative Director Koki Uchiyama with a raison d’être of “establishing the infrastructure for a knowledge-recycling society to contribute to creating a world wherein people can feel the essence of ‘Hotto’ (a Japanese word translated as ‘a feeling of relief’).” 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 (currently 5channel), from the second half of the 2000s, which was the start of the rapid spread of social media in the Internet industry. Starting with 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 BuzzSpreader Powered by kuchikomi@kakaricho (kuchikomi@kakaricho).

In 2012, it made Gala Buzz, which provided a social risk monitoring service called e-mining, a wholly owned subsidiary (merged and absorbed the same year), and added the service to its lineup. However, risk management-related businesses, which centered on this service, were transferred to Reliefsign Co., Ltd.* via a company split in October 2018, and a majority of its shares were sold to S. Front Inc. in December of the same year. The Company’s investment stake was 34% after the sale, but it sold additional shares in 2020, which put its stake at 24%. In conjunction with a capital and business alliance with Masterpiece Group, Inc. announced in June 2022, all shares owned in Reliefsign were exchanged for new shares issued by the Company. This made Reliefsign a wholly owned subsidiary of Masterpiece Group, and in FY12/22 2Q it ceased being an equity-method affiliate of the Company.

* Reliefsign was established by the Company and Masterpiece Group as a joint venture with S. Front and became a consolidated subsidiary of Masterpiece Group.

As the Company had solidified its policy of developing its business centered on the “social and big data × marketing” area, it established Hotto Link Consulting (currently TrendExpress) in 2013. In addition, it made a subsidiary of Effyis, which is a major social media distribution company that has access rights to the social data of major SNS and conduct sales, in 2015, and constructed a business foundation overseas. Also, to take advantage of the rapidly increasing number of tourists from China visiting Japan, TrendExpress (investment ratio: 54.55%) launched China Trend Express, which is a regular reporting service for inbound tourism consumption trends based on analysis of word-of-mouth data (i.e., postings) from SNS, in 2015. Since 2017, the Company has been successively launching services including Trend PR, a web promotion support service in the Chinese market and Cross-border EC X, a cross-border EC service for China, focusing on expanding business targeting the Chinese market. In January 2020, to further strengthen business development in the Chinese market, TrendExpress’s Chinese subsidiary and business partner Husen (Shanghai) Commerce Consulting Co., Ltd. were merged to form Trend Express China as a new, wholly-owned subsidiary of Trend Express.

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Company profile

In May 2022, the Company established Nonagon Capital as a subsidiary to conduct investment activities with a view to the full-fledged launch of the Web3 related business. It plans to start managing a pilot fund to investigate future scalability, and, along with effectively utilizing existing initiative results and networks in the area of Web3, it will also strengthen networks overseas.

Company 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
June 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 Kensaku 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
March 2013	Established Hotto Link Consulting Inc. as a consolidated subsidiary
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 and acquired exclusive agency rights for Sina Weibo in the Asia-Pacific, 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 TrendExpress 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
October 2016	TrendExpress 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	Commenced sales of BuzzSpreader, a social media management support service
April 2018	TrendExpress Inc., started providing Cross-border EC X, a cross-border EC support service for China
October 2018	The risk management-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%).
February 2019	TrendExpress Inc., started providing Trend MOVIE as a new service
March 2019	Started a blockchain R&D project and as the first phase, concluded an investment agreement with SAMURAI Security Inc.
August 2019	Renamed the social media analysis tool kuchikomi@kakaricho to BuzzSpreader powered by kuchikomi@kakaricho
November 2019	Entered into a business tie-up with a dot co.,ltd., and began providing SNS GROWTH PARTNER, a service which contributes to SNS growth
January 2020	Formed through a merger of Husen (Shanghai) Commerce Consulting Co., Ltd. and TrendExpress' Chinese subsidiary and acquired as wholly owned subsidiary TRENDEXPRESS CHINA
November 2021	Started to provide a new product launch package specializing in promotion through SNS
December 2021	Signed an advertising agency contract with TikTok For Business, and began a full-scale launch of TikTok marketing support business
May 2022	Nonagon Capital LLC established for Web3-related investment
June 2022	Capital and business alliance with Masterpiece Group
July 2022	Started ad agency service for Pinterest, a visual search tool

Source: Prepared by FISCO from the Company's website and press releases

2. Business description

The Company's businesses are broadly divided into the SNS Marketing Support Business, Crossbound Business, DaaS Business and Web3 related business. In the social big data market, the Company's business involves integrating the three areas of collection, analysis and utilization. In addition, through "ambidextrous management," which means both deepening existing businesses and exploring new business opportunities, the Company is building a business portfolio for achieving a high rate of growth. In terms of the areas it is looking to develop going forward, the Company launched investment activities into Web3-related areas on a full-fledged basis, predicting in Web3 a paradigm shift in the Internet overall and its next innovations.

(1) SNS Marketing Support Business

This business, which is operated under Hotto Link, consists of domestic SNS advertising and SNS management consulting and the kuchikomi@kakaricho SNS analysis tool. The sales breakdown in FY12/22 1H was SNS advertising/SNS operational consulting at 21.5%, and SNS marketing tools at 6.8%. The Company expects the ratio of sales in SNS advertising/SNS operational consulting to further increase going forward as a result of capturing robust demand from companies utilizing social media.

In the SNS Marketing Support Business, the Company provides marketing support services (SNS advertising agent sales and management consulting), primarily utilizing Twitter. In SNS management consulting, it draws on the social big data it possesses and the expertise and unique methods it has built up over many years to conduct measures on Twitter and other social media that increase product awareness and boost sales for customer companies. Its service mix is broadly divided into non-recurring revenue-type services consisting of SNS advertising, reporting and content creation and recurring revenue-type services consisting of consulting and SNS account management for clients. The number of consulting and SNS account management contracts—recurring revenue-type services—are steadily increasing, and orders for non-recurring revenue-type services are increasing in step with this, creating a positive, reinforcing cycle.

Its customers span a range of industries, centering on B2C companies in sectors like food and beverages, beauty and cosmetics, and online learning site management. In terms of their size, a majority of its customers are companies with around ¥100.0bn in sales. This is because most companies larger than this utilize television commercials and other such media and already have established relationships with major ad agencies, which means a high barrier to entry. With regard to the performance of SNS advertising, the Company beats out the large ad agencies, and it has even received orders from major automakers. Recently, the Company has been working to expand its customer portfolio, increasing the percentage of sectors unaffected by the business cycle, such as fintech and the communication and energy sectors. Also, to raise sales per customer and acquire new customers, the Company intends to form alliances across sector and industry boundaries.

As a promotional measure using SNS, the Company thinks it is important to increase User Generated Contents (UGC; word-of-mouth and other contents from users) and systematizes the purchasing-behavior process of consumers related to UGC as ULSSAS. Specifically, a follower that sees a starting-point UGC (Twitter submission) adds a Like. The next step is a search within the SNS (Search1) or the use of Google or some other search engine to confirm the product (Search2) and buy the product (Action). After that is dissemination on Twitter (Spread). By repeating this series of processes, the Company boosts sales of the customer company's product.

Company profile

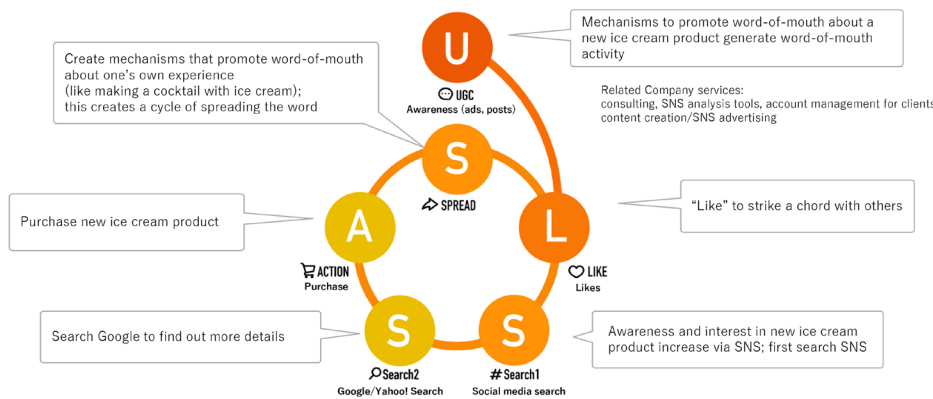
Unique methods devised by the Company from success patterns accumulated over many years are vital to efficiently build the process cycle and serve as a primary factor to differentiate the Company from competitors. For example, the Company conducts an analysis that brings together not only information collected from Twitter but also a variety of data including blogs and other word-of-mouth sites and distributes advertisements for the product being promoted to the ideal UGC source extracted automatically using AI. This capability has boosted interest in the Company’s marketing support service as a service with high cost efficacy and supports an impressive repeat usage ratio of over 70%. Hotto Link is an established brand in Twitter marketing.

Meanwhile, kuchikomi@kakaricho, an SNS analysis tool, 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, a key strength, and it covers approximately 90% of all blogs in Japan. In addition, the Company holds all historical data on the 5channel bulletin board site and gathers worldwide Twitter data based on the agreements it has entered with these partners.

Customer companies use kuchikomi@kakaricho to analyze social big data and apply results to product development, sales promotion activities, and comparisons with competitors and other surveys. The initial deployment fee is ¥100,000, and monthly charges begin at ¥130,000. Customers pay additional fees based on the number of certified user IDs, coverage media, data capacity, and other aspects. Among major users, some companies pay a monthly fee of about ¥1mn. More than 1,000 companies have cumulatively deployed the service, and about 300 of these companies are currently active users. Roughly 80% of users are large companies. The customer base covers a wide range of industries, including consumer goods manufacturers, services firms, and financial institutions.

SNS Marketing Support Business example (success story of using the unique ULSSAS method)

Example of ULSSAS in promoting a new ice cream product



Source: The Company's financial results supplemental briefing materials

Company profile

(2) Crossbound Business

The Crossbound Business, which is developed by subsidiary TrendExpress, includes a reporting service that analyzes crossbound consumption trends, primarily using social big data, the Trend PR online promotion support service for the Chinese market, which was started in 2017, and the Cross-border EC X e-commerce support service for the Chinese market. The reporting service includes China Trend Express, a regular publication that analyzes the consumption trends of foreign visitors to Japan, as well as customized research services based on customer needs. With a mission of pursuing possibilities in the data connecting people and the world in order to help lead global business to success, one-stop support is provided for Chinese market strategy through logical marketing pivoting on data analysis.

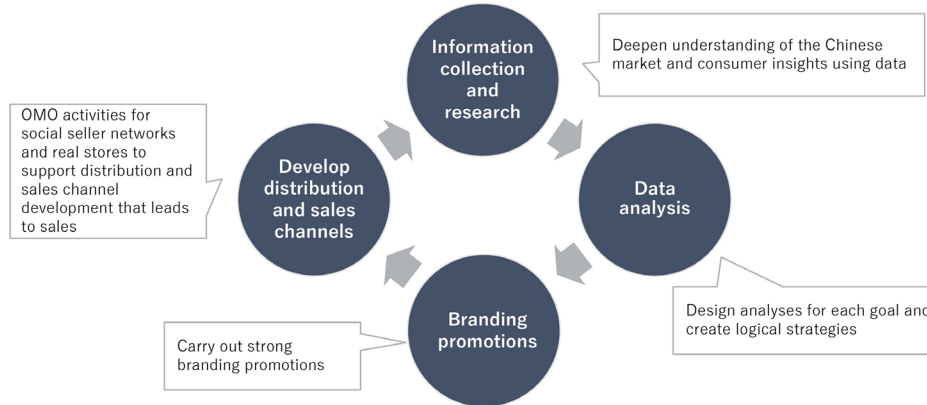
Trend PR is a service that provides highly cost-effective marketing support to meet customer needs of developing name awareness of companies' own products and brands in the Chinese market and thereby expanding sales. Specifically, based on the analysis of social big data in the Chinese market, which is one of the Company's strengths, it turns the PDCA cycle, from the planning (creating online articles that are attractive to Chinese people and optimal exposure to web media) and execution of the optimal marketing measures to the subsequent measurement of effects and proposals for improvements. With this approach, it helps customers increase sales in the Chinese market. From the customer's perspective, all the data is visualized, so the cost efficiency is made clear and it becomes easier to create a budget for promotional measures. The fees for a single order (a single PDCA cycle) vary according to the order, but the average is around ¥3mn to ¥5mn. Many clients are BtoC companies such as cosmetics, daily goods, and healthcare product manufacturers.

Meanwhile, Cross-border EC X has partnerships with leading stores and key opinion leaders (KOL, which is synonymous with an influencer; often refers to influencers in China) that have opened stores on Taobao, which is a major EC site, and it also has approximately 70 million users. It has partnered with companies such as Weidian, which is a network of approximately 450,000 social buyer stores between Japan and China. It uses these networks to carry out sales promotions and effectively improves name recognition in the Chinese market and increases sales of products. The business model is one in which the Company provides one-stop service from customer acquisition through to sales, distribution, and customer support and 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.

In addition, on Douyin, the Chinese e-commerce giant also known as the Chinese TikTok, enhancements to customer services are making steady progress, with the full-fledged start of support for overseas expansion by existing customers, for example, and the Company intends to conduct upfront investments and strategic order-taking that anticipates the post Covid-19 environment.

Company profile

Crossbound Business services

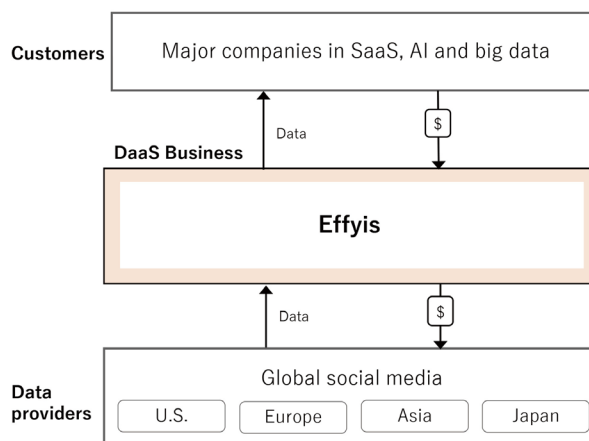


Note 1: Social sellers are people who use social media to communicate and sell product information from a standpoint close to consumers.
 Note 2: OMO (online merges with offline) is a type of marketing that brings together the Internet (e-commerce, websites, apps, etc.) and offline (real stores).
 Source: The Company's financial results supplemental briefing materials

(3) DaaS Business

The DaaS Business is run globally by Effyis (under the brand name Socialgist) and involves selling access rights to social media data. Effyis has sales contracts related to data access rights for social media (blogs, bulletin boards, Q&A, review sites, etc.) with open SNS operating companies around the world, with the exception of Twitter, and it sells those rights to global IT companies (social big data analysis, marketing platforms, and business intelligence and other tool vendors). Its major customers include Salesforce <CRM> and IBM <IBM> as well as financial institutions, government bodies, IT ventures involved in SaaS services, and numerous other companies. Effyis is one of the world's largest companies in the social big data market and the only one that has acquired sales contracts for SNS data access rights from diverse data providers around the world. GNIP, Inc. of the U.S. is in the same business, but it is a subsidiary of Twitter <TWTR> and only handles Twitter data.

DaaS Business model

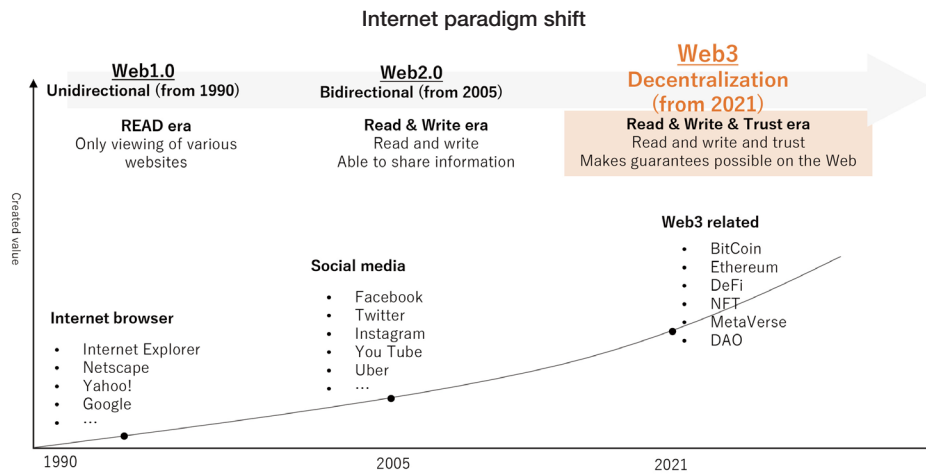


Source: The Company's financial results supplemental briefing materials

Company profile

(4) Web3 related business

The Web3 related business is a new segment the Company has established anticipating a major paradigm shift in the Internet as a whole. The background to this is the development of decentralized autonomous Web3 technology in response to the harmful effects of power being overly centralized in Web 2.0. The idea is that the Web 2.0 era of “read and write” is beginning to transition to an era of “read and write and trust.” Even recently, innovations using blockchain technology have been coming out in succession, including the issue of cryptocurrencies, decentralization of services, clarification of digital data ownership, the token-based incentive revolution, and decentralized autonomous organization using tokens. The Company established Nonagon Capital, an investment business subsidiary, in May 2022 for the full-fledged launch of the Web3 related business. Along with effectively utilizing existing Web3 initiatives results and networks, it plans to strengthen networks overseas. In terms of specific initiatives for commercialization, the Company will make new limited partnership investments in overseas Web3 startup investment funds in order to further expand its coverage of Web3 trends overseas.



Source: The Company's financial results supplemental briefing materials

Results trends

In FY12/22 1H, new record high in net sales; results driven by Crossbound Business and DaaS Business, and operating profit achieved for the eighth consecutive quarter

1. Overview of FY12/22 1H results

In the Company's consolidated results for FY12/22 1H, net sales totaled ¥3,385mn (+28.4% YoY), operating profit, ¥71mn (-8.2%), loss before tax, ¥90mn (versus profit of ¥217mn a year earlier), and the loss attributable to owners of parent, ¥60mn (versus profit of ¥160mn a year earlier). Results were driven by the Crossbound Business and DaaS Business, and net sales set a new record high. In both the SNS Marketing Support Business and Crossbound Business, the sales strategy paid dividends and sales climbed by double digits despite slowing in the first quarter primarily caused by changes in the external environment. The gross profit margin decreased by 7.4 percentage points YoY to 27.8% due in part to upfront investment in the Crossbound Business increasing sales share, but an operating profit was secured through rigorous control of SG&A expenses, including business process automation and reducing hiring costs through referral-based recruitment. Automating internal ad watching and reporting led to an increase in the volume of ads handled per person. SG&A expenses were ¥877mn (+2.8% YoY) and the SG&A expense ratio declined substantially to 25.9% from 32.4% the previous year.

Web3 related investment recorded a valuation loss of ¥317mn, and there was a loss attributable to owners of parent of ¥60mn, but assets totaled ¥652mn, increasing to double the amount of investments, which were ¥323mn. The Company makes medium- to long-term investments after carefully investigating trends in Japan and overseas; it does not take a short-term view. Assets are steadily increasing against investments, and the Company conducts business development aiming for a balance between aggressiveness and stability with respect to volatility, establishing subsidiary Nonagon Capital to conduct investment activities, for example, so in FISCO's view there are no major concerns.

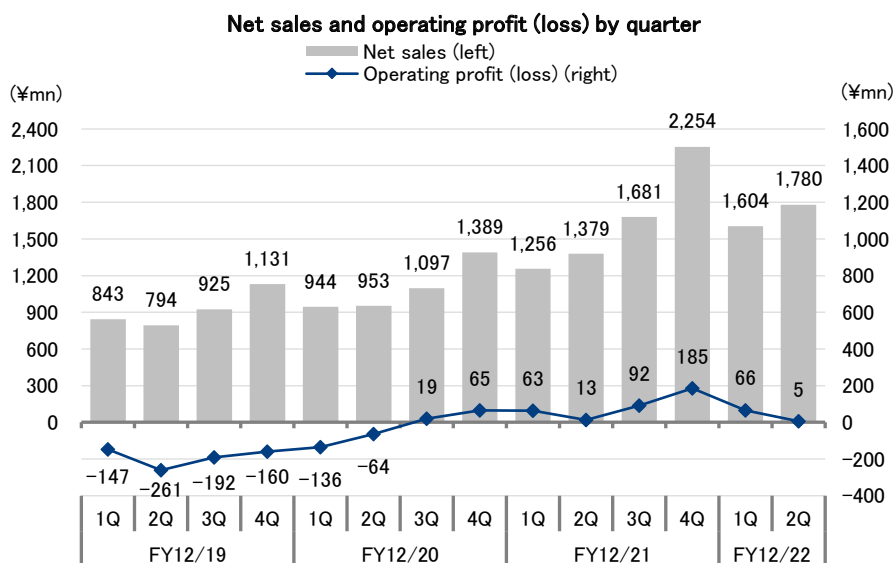
Through growth investment and control of SG&A expenses, operating profit was achieved for the eighth consecutive quarter, a streak that began in FY12/20 3Q. Level costs excluding upfront investments have been declining, and FISCO believes that profitability is clearly increasing.

FY12/22 1H consolidated results

	FY12/21 2Q		FY12/22 2Q			
	Results	% of sales	Results	% of sales	Change	YoY
Net sales	2,635	-	3,385	-	749	28.4%
Gross profit	927	35.2%	941	27.8%	14	1.6%
SG&A expenses	854	32.4%	877	25.9%	23	2.8%
Operating profit (loss)	77	2.9%	71	2.1%	-6	-8.2%
Profit (loss) before tax	217	8.3%	-90	-2.7%	-307	-
Profit (loss) attributable to owners of parent	160	6.1%	-60	-1.8%	-221	-

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

Results trends



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

2. Trends by business segments

(1) SNS Marketing Support Business

Net sales from the SNS Marketing Support Business rose 6.7% YoY to ¥958mn. Of this, sales from SNS advertising/SNS management consulting services increased 13.2% to ¥726mn, and sales of SNS analysis tools declined 9.6% to ¥231mn. Overall, segment results went according to plan. In SNS advertising/SNS management consulting, a double-digit increase in sales was achieved as a result of success in capturing robust demand from companies utilizing social media. By the size of customer based on net sales, customers with annual sales of ¥20mn or more increased significantly. The Company acquired leads by holding solutions seminars and succeeded in sales activities and service provision for companies with strong affinities with its own services. In addition, various types of content production contributed to the year-end sales push and term-end budget acquisitions. Initiatives to increase recurring revenue-type contracts and sales per customer were also fruitful. At the same time, various customers reined in promotional expenses because of rising raw material costs due primarily to yen depreciation, so the Company will raise the ratio of industry sectors not affected by business conditions, such as fintech and the communication and energy sectors. To enhance its customer portfolio, the Company will continue working to acquire customers by holding solutions seminars, as many of the seminar participants have existing concerns and issues, so high sales efficiency and contract rates can be expected

Sales of SNS analysis tools decreased in line with forecasts. This business has a high market share in an area with a low market growth rate and sluggish competition. The Company will continue it going forward while considering the balance between segment sales and SG&A expenses.

In addition, the Company began an ad agency service for Pinterest, a visual search tool, in July 2022. Further expanding the media it covers, after Instagram and TikTok, a high-quality service can be expected that draws on the Company's social big data and data analysis capabilities. Pinterest has over 400 million active monthly users, and Generation Z, men and Millennials are driving its growth. The Company has multiple people on staff who have operated and grown Pinterest accounts, and drawing on their knowledge, it will provide the following services.

Results trends

1) Pinterest ad agency service

A dedicated Pinterest ad team performs initial advertising design, makes improvements, and conducts reporting for the client.

2) Creative ad design optimized to Pinterest

The Company's design team, which is highly experienced in creative content for social media, handles creative design on behalf of the client.

3) Pinterest utilization support consulting

The account management team, whose members have experience growing Pinterest accounts, teaches the key points of Pinterest account management as a type of curriculum.

Pinterest is characterized by having many users with high purchasing power. There are 1.2 times more users with annual household income of ¥6.0mn or more than non-users, and 2.8 times more who search for and purchase products on social media. For this reason, it is effective for promoting sales of tangible brands and high-end products, and in the Company's view it has high affinities with interior design, apparel, tourism, food products, cosmetic products, and other goods and services. For this reason, it is expected to strongly appeal to companies that want to research users with strong intentions to purchase high-end goods and companies concerned about sharply rising CPA in existing media.

Overall, the SNS Marketing Support Business has seen an increase in projects provided to large companies, including the following most recent examples.

- JINS HOLDINGS Inc. <3046>
Used Twitter to increase the number of word-of-mouth posts by approximately 4x, and the number of brand searches by 1.7x, thereby contributing to enhancing the brand strength.
- TORIDOLL Holdings Corporation <3397>
(Marugame Seimen) Used Twitter to help attract customers. Contributed to a 1.9x increase in the number of initial speed sales on the re-sale menu
(Kona's Coffee) Used Instagram to double the number of followers.
- Chateraise Co., Ltd.
Using Twitter, gained over 350,000 Twitter followers, and contributed to an increase in store sales.
- Milbon CO., LTD. <4919>
Used Twitter and Instagram to increase the number of word-of-mouth posts by 6x times. Supported Instalive streaming, which got 450,000 viewers.
- Johnsonville Japan G.K. (joint venture)
Used Twitter and Instagram to increase word-of-mouth posts 9x, contributing to an increase in sales proportional to the number of word-of-mouth posts.

In addition to the above, the Company worked on many other projects, including for a dairy product manufacturer and an automaker. We at FISCO believe that the Company will further raise its credibility in the industry by building up its track record with these kinds of large companies.

Results trends

(2) Crossbound Business

Net sales from the Crossbound Business increased 69.9% YoY to ¥1,444mn. In 2Q, net sales set a new record high and was well above the previous year, but the figure was short of the target in full-year forecasts. Recurring revenue-type sales slowed due in part to the impact of disruptions in logistics networks caused by the lockdown in Shanghai, but sales post-lockdown recovered quickly and growth continues as the Company meets high demand. In addition, the Company began full-fledged overseas development support on Douyin for existing customers, and it continues to steadily expand customer services. In non-recurring revenue-type sales, large projects were acquired in overseas promotions for domestic companies and in other areas. The Company will pursue further growth through upfront investment and strategic order-taking that anticipates the post-Covid-19 environment.

The following are some of the recent achievements in Crossbound Business marketing for the Chinese market.

- Shiseido Japan Co., Ltd.
Conducted social media promotions. Helped increase not only inbound sales but also sales at e-commerce sites and real stores.
- Earth Corporation Chinese affiliate
Analyzed online data and ran campaign. Helped increase sales during the period by 2x YoY
- Sunstar Co., Ltd.
Developed content in collaboration with a Japanese anime character. Helped increase “Singles Day” cross-border EC sales by 2x YoY
- Kobayashi Pharmaceutical Chinese affiliate
- Pigeon (Shanghai) Co., Ltd.
- Sony (China) Limited

There have also been numerous successes in various industries including cosmetics, sanitary chemicals and cosmetic devices, and FISCO believes that business performance will also increase rapidly in proportion with growth in the cross-border EC market.

(3) DaaS Business

In the DaaS Business, net sales increased by 10.8% YoY to ¥982mn, coming in ahead of full-year forecasts. Price revisions were implemented from the fourth quarter of FY12/21, and the increased service prices contributed to sales. The business is recorded in U.S. dollars, so sharp yen depreciation is also a factor in the increase in sales. The exchange rate assumption at term-start was ¥110.00, and this has not been changed as of the present. Effyis, the Company’s U.S. subsidiary, continues to maintain good relationships with media that own social big data throughout the world and will focus on the stable provision of data and acquiring contracts for data access rights from new media.

(4) Web3 related business

In the Web3 related business, launching the business was the primary activity in FY12/22 2Q, so no net sales were generated. There is increasing volatility in Web3-related markets, but the Company intends to make investments from a long-term viewpoint and not pursue short-term profits while taking into account the impact on its financial statements. The investment recovery period is expected to be around five years, so FISCO believes that the impact on results in FY12/22 will be negligible.

Results trends

3. Financial position and financial indicators

Looking at the Company's financial position in FY12/22 1H, total assets increased by ¥29mn YoY to ¥7,343mn. The main causes of the change included, in current assets, an increase of ¥14mn in inventories due to having products for delivery to social buyers on the cross-border EC platform. Keeping inventory at the Company is temporary, and it is judged that there is no inventory risk and no problem in terms of asset value. Cash and cash equivalents decreased ¥103mn and trade and other receivables decreased ¥156mn. In non-current assets, goodwill increased ¥263mn from foreign currency translation adjustment, other financial assets increased ¥96mn from a stock exchange, and investments accounted for by the equity method decreased ¥164mn.

Total liabilities decreased by ¥263mn YoY to ¥2,919mn. Short-term borrowings increased ¥210mn from transferring the current portion of long-term borrowings. Total equity increased ¥292mn to ¥4,424mn. The main causes were other equity components increasing ¥331mn and non-controlling interests increasing ¥7mn.

Looking at management indicators, the ratio of equity attributable to owners of parent, which indicates stability of management, increased from 52.9% at the end of the previous fiscal year to 56.5%, showing an improvement. The interest-bearing debt ratio declined from 28.4% to 28.2%. We at FISCO think that there is minimal financial concern in the near term because the Company can expect profits to accumulate going forward while profitability improves.

Consolidated balance sheet and management indicators

	(¥mn)				
	FY12/19	FY12/20	FY12/21	FY12/22 2Q	Change
Current assets	2,328	2,710	3,444	3,216	-227
(Cash and cash equivalents)	1,700	2,067	2,598	2,494	-103
Non-current assets	3,056	3,057	3,870	4,127	256
(Goodwill)	1,071	1,367	1,530	1,794	263
Total assets	5,385	5,767	7,314	7,343	29
Total liabilities	2,332	2,795	3,183	2,919	-263
(Interest-bearing debt)	616	851	1,097	1,171	74
Total equity	3,053	2,972	4,131	4,424	292
(Shareholders' equity)	2,825	2,793	3,866	4,152	285
[Stability]					
Ratio of equity attributable to owners of parent	52.5%	48.4%	52.9%	56.5%	3.6pt
Interest-bearing debt ratio	21.8%	30.5%	28.4%	28.2%	-0.2pt

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

■ Outlook

The business environment of the SNS Marketing Support Business and the Crossbound Business remains favorable. High certainty of achieving the FY12/22 results forecast

1. FY12/22 consolidated results outlook

In its outlook for FY12/22, the Company is forecasting net sales to increase 21.4% YoY to ¥7,976mn, operating profit to decrease 54.8% to ¥161mn, profit before tax to decrease 86.8% to ¥140mn, and profit attributable to owners of parent to decrease 87.0% to ¥99mn. Operating profit will fall below the previous year temporarily due to active investment to achieve medium-term targets. Recent results are progressing according to plan as a result of flexible actions not easily affected by changes in the business environment or economic conditions, including changing the sales mix in each business. The Company expects further growth through the promotion of “ambidextrous management” that consists of deepening existing businesses and exploring new business opportunities. In addition, the Company is focused on active investment and M&A in companies with technologies and networks, reviewing its business portfolio, and developing new business in the Web3 field. The forecast for net sales takes into account the impact of the external environment and is set conservatively, so in FISCO’s view it is possible that the Company announces upward revisions to its results forecasts or results come in above full-year forecasts.

FY12/22 consolidated results outlook

	FY12/21		FY12/22			
	Results	% of sales	Forecast	% of sales	Change	YoY
Net sales	6,571	-	7,976	-	1,405	21.4%
Operating profit	355	5.4%	161	2.0%	-194	-54.8%
Profit before tax	1,059	16.1%	140	1.8%	-919	-86.8%
Profit attributable to owners of parent	764	11.6%	99	1.2%	-665	-87.0%

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

In the SNS Marketing Support Business, net sales forecasts are set conservatively while taking into account the spread of the novel coronavirus (Covid-19). However, demand for marketing using social media is expected to continue to steadily rise, and for the Company, which will gradually raise its profile in the industry as transactions with major companies increase, a tailwind continues to blow, and it is expected that sales will continue healthy growth going forward. In addition, the Company started an advertising service for Pinterest, a visual search tool, in July 2022 in order to expand the media it handles. Drawing on its strengths in social big data and data analysis, the Company provides ad management, creative ad design, and consulting services to support utilization. The Company has multiple staff members with experience in operating and growing Pinterest accounts, and by taking advantage of their knowledge, further growth in orders is expected.

Outlook

In addition, most recently, the Company has been enhancing its service lineup. In November 2021, it started to provide a new product launch package which will maximize anticipation for new products starting from SNS. In this service, analysis and research corresponding to each phase, including before and after the launch of the new product, is carried out by a team that includes data scientists. Through network analysis, cluster analysis, and in-depth social listening, it visualizes the perspectives and targets of the plan, and analyze the perspectives through which the product is being discussed. This service translates the contents of that analysis into policies to drum up anticipation of the product toward the sales launch and plans that ensure the product continues to be a hot topic once it goes on sale. It also tackles various creative aspects such as illustrated comics, videos and live broadcasts in order to maximize the effectiveness of the plan. When employing influencers, the Company uses its proprietary method of “data-evidenced casting” centered on data analysis to identify influencer candidates with a high affinity to a company’s brand, and then implements casting with a high probability of success. Delivering new product contents to consumers with precision throughout advertisements generates a high degree of awareness through the arising UGC. This leads to products which offer high hopes of effective promotion utilizing the Company’s strengths of SNS big data analysis and know-how about creating UGC.

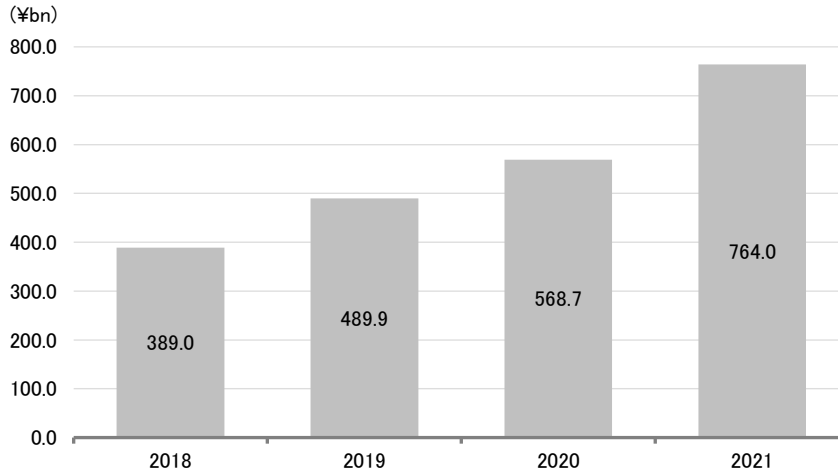
In the Crossbound Business, the cross-border EC market continues its strong growth, and the Company aims to further expand the business scale of its cross-border EC platform. The growth rate in recurring revenue-type sales is healthy, but its gross profit margin is lower compared to non-recurring revenue-type sales. However, the recurring revenue-type sales market has the potential to grow dozens of times over, and FISCO believes that capturing market share at this present stage will greatly contribute to medium- to long-term earnings growth. In addition, there is a high likelihood that the number of foreign visitors to Japan will recover substantially after Covid-19 subsides, so inbound consumption is expected to increase. Repeat purchases through cross-border EC after returning home can be expected as well, so sales growth is anticipated on both the inbound and outbound sides. In this business, sales tend to be concentrated in the second half due to the impact of “Singles Day” in China, so FISCO believes that further sales growth can be expected in the third and fourth quarters.

2. Favorable business environment

Growth is accelerating in the domestic Internet advertising market related to the SNS Marketing Support Business. As stated in Company materials, in 2019 Internet advertising surpassed television advertising, and in 2021 it grew to ¥2.7trn. For companies that advertise online, it is easy to direct ads toward the target segments they want to appeal to and the cost effectiveness is transparent, so companies using Internet advertising as a promotion policy are rapidly increasing. It is said that social media advertising in particular will be the main battleground going forward. The social media advertising market continues to grow steadily, and in 2021 it had grown into a ¥764.0bn market, up 134.3% from the previous year. The background to this is that social media allows users to post their impressions and other comments on products, so information spreads easily in an organic way, which can make promotions highly cost effective.

Outlook

The social media advertising market in Japan



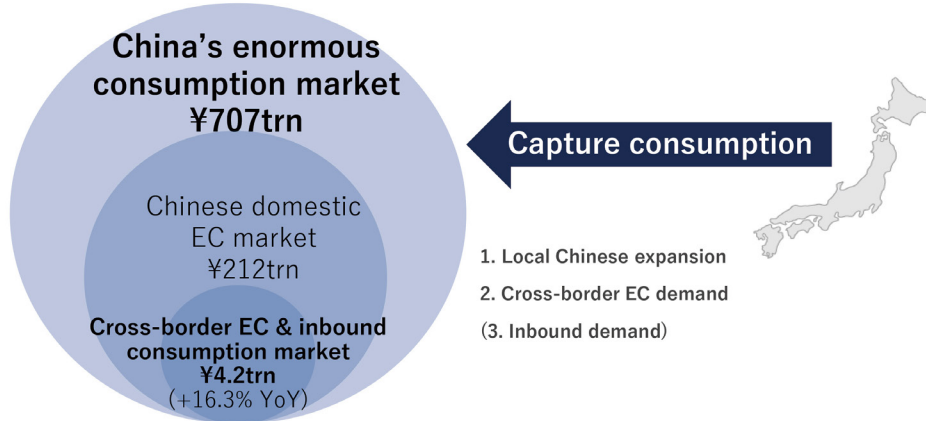
Source: Prepared by FISCO from the Company's business plans and materials on growth potential

Amid this kind of market expansion, many players, both large and small, are competing in the SNS marketing industry as a growth industry, and the battle over market share is fierce. However, the Company is collecting assets such as SNS-related big data based on its ownership of U.S. subsidiary Effyis, and has many years of expertise and a track record in terms of analyzing and utilizing this big data, which has become a big strength of the Company under the platform service discussed below. In the short-term, we at FISCO think that this will lead to a further increase in market share, and over the long term it will be a main factor behind the stabilization of the Company's market share as well as avoidance of price competition. The online advertising business is receiving a lot of attention from investors as a growth industry, and the Company's strong results and this type of strength are viewed positively, so at FISCO we expect this business in particular to take center stage.

In addition, the enormous consumer market in China related to the Crossbound Business is on the scale of ¥707trn, and it is one of the important markets for Japanese companies. Taking only the cross-border EC consumer market, even it is ¥4.2trn, so SNS marketing plays an important role in capturing consumption demand. According to the White Paper on International Economy and Trade 2022 from the Ministry of Economy, Trade and Industry, China's real GDP is trending above pre-Covid-19 levels, but there has been slowing in the growth rate because of the re-spread of infections under the country's zero-Covid policy since 2021, real estate regulations, and the high price of materials, among other factors. However, recently, the Chinese government has taken measures to stimulate the economy, lowering the automobile purchase tax and distributing regional product coupons, for example, and demand that had been pent up due to Covid-19 is now being acted upon. As a result of these measures, personal consumption is recovering, and there has been no change in the fact that this is a growth market over the medium to long term. TrendExpress, which is under the Company's umbrella, utilizes big data on consumer trends in China to not only analyze events but also their background and customer insights in order to build customer strategies that anticipate trends. FISCO expects that growth in orders, which has been strong recently, will further accelerate.

Outlook

China's enormous consumption market



Source: From the Company's business plans and materials on growth potential

3. Launch of Web3 related business

The Company launched the Web3 related business on a full-fledged basis as a new segment with a view to overseas development. The business will be developed by newly established subsidiary Nonagon Capital. The plan is to begin operations as a pilot fund for researching scalability going forward. The Web3 related business is positioned as “exploration” in the Company’s ambidextrous management, and it will seek, primarily through investment, to capture new business opportunities and earnings. In addition, along with effective utilization of existing initiatives and networks in the Web3 area, the Company will also work to strengthen networks overseas. It will pay careful attention to risk management. While keeping in close communication with the Tokyo Stock Exchange and Financial Services Agency, the Company will implement various measures in order to minimize the risk to financial statements. The impact of establishing this new segment on the Company’s results this term will be negligible, and it is also not incorporated into its five-year plan. However, considering that it is investment in a growth business from the seed stage, FISCO believes it will be a growth factor in the Company’s long-term performance.

Medium- to long-term growth strategy

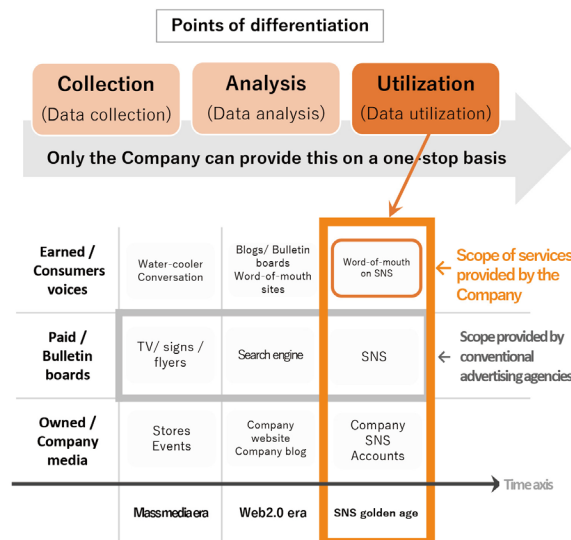
Integrate data collection, analysis and use and provide marketing pivoting on consumer feedback

As discussed above, the SNS-based marketing is rapidly increasing in importance. Typically, media used in marketing consists of three types: “owned media” owned by the Company, “paid media” owned by a different company and provides exposure through the payment of advertising fees, and “earned media” that reflects comments by consumers and cannot be controlled by a company. These three types of media also exist in SNS marketing. Examples of owned media include a company’s SNS accounts, while examples of paid media include advertisements on Twitter, Facebook, and Instagram, etc. and examples of earned media include word-of-mouth advertising on SNS. These days, marketing methods utilizing word-of-mouth (earned media) on SNS are beginning to attract attention due to their massive influence. However, since word-of-mouth on SNS cannot be controlled by companies, cost-effectiveness depends on how the information can be disseminated to the most appropriate users and spread most effectively. Leveraging its strengths of social big data analysis capabilities accumulated since its founding and social data collection capabilities owned by Effyis, the Company established a management method that circulates the purchasing-behavior process through SNS. This approach has succeeded in achieving high performance. Using this strength in word-of-mouth advertising on SNS as a weapon, the Company provides an integrated marketing service centered on SNS in the three domains of owned media, paid media, and earned media.



Source: From the Company's business plan and materials on growth potential

Integrated marketing service through three media types



Source: The Company's financial results supplemental briefing materials

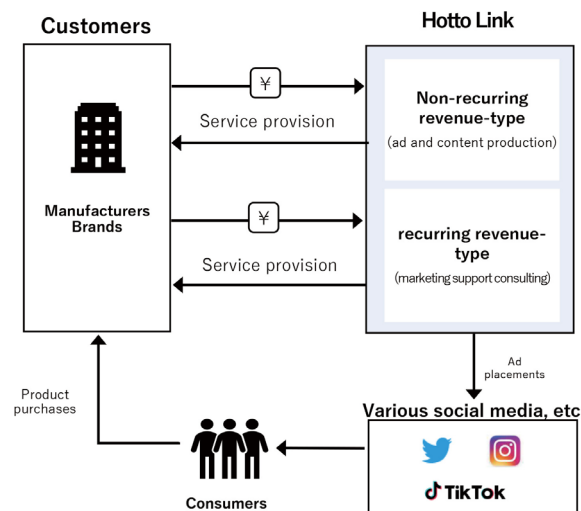
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Medium- to long-term growth strategy

In addition to covering the three domains with an integrated service, there are several points for the Company to further raise the appeal of its services. The first is the utilization of big data, which involves three steps: 1) information collection, 2) analysis, and 3) utilization. The company 1) has a global database in the DaaS Business for information collection; 2) has SNS analysis tools and utilizes reporting services in the Crossbound Business in terms of analysis; and 3) provides value through the SNS Marketing Support Business and the Crossbound Business in terms of utilization. In each step, the Company has a wealth of knowledge and experience, and maximizes the value of big data by having these function organically together. In addition, the Company is currently carrying out horizontal development, including development of new services in each domain and collaborations with other companies. We believe that this business development will further bolster the Company’s strengths, and will boost the future expansion of market share and larger earnings.

The Company’s business model can be viewed as having a recurring revenue-type business and a non-recurring revenue-type business. In the three steps of “information collection,” “analysis,” and “utilization (marketing)” discussed above, the Company offers services whereby sales for each step are divided into “recurring revenue-type” and “non-recurring revenue-type.” From the perspective of client companies, this allows them to use the Company’s services to solve the problems they face in each phase of the chain at any time, from information collection to marketing. In this sense, the Company’s overall service lineup can become a part of a client’s business foundation as a single marketing platform. Also, since the Company responds efficiently in a one-stop manner, it can be expected to have a greater benefit than asking multiple companies for help in each phase. From the perspective of the Company, there are recurring revenue-type services such as data access rights sales, analysis tools, consulting, and SNS account management at each stage of “information collection,” “analysis,” and “utilization,” which enhances the stability of earnings. In addition, increasing contracts for these recurring revenue-type services will also make it easier to receive additional orders for non-recurring revenue-type services, which will accelerate the growth in net sales. By taking advantage of the above-mentioned features of having an “integrated marketing service centered on SNS” and a “platform service,” the Company’s presence in the marketing industry is growing, and at FISCO we believe that orders from major companies that were difficult to approach in the past will also gradually increase going forward.

Business model consisting of non-recurring revenue and recurring



Source: The Company’s financial results supplemental briefing materials

■ Shareholders' return policy

Near-term policy of allocating profits to necessary investment during the period of business expansion

The Company recognizes returning profits to shareholders as an important task of management, and it has a basic policy of paying a stable dividend while maintaining internal reserves for future business expansion and strengthening its management base. The Company intends to return profits to shareholders through dividends in the future, but it has no specific plans to do so as of the present. Regarding internal reserves, the Company will actively allocate funds to business investment and to hiring and training personnel and will work to raise corporate value and increase its share price through earnings growth. As stated above, for the foreseeable future the Company will need funds for upfront investment, so FISCO thinks the focus should be on the future return on invested funds.

■ Initiatives for the SDGs

Searching for sustainable forms of production and consumption through business activities and support for gender equality

The Company states its mission as "Make the world Hotto" and "We create a world wherein people can feel the essence of 'Hotto' – Japanese concept word translated as 'a feeling of relief'." The Company identifies the elements needed for SDG initiatives as SNS marketing, currently the Company's main business, and blockchain technology, the seed of medium- and long-term businesses. In SNS marketing, directly connecting companies and consumers will be tied to the search for sustainable forms of production and consumption in which processes from product and service planning and production to consumption are conducted highly efficiently. In addition, the Company supports gender equality through personnel and financial support for the Famiee Project utilizing blockchain technology. This project aims to achieve a society in which diverse family structures are accepted as normal. To that end, it issues family relation certificates utilizing blockchain technology to LGBT couples and people in other family arrangements not recognized by law as legal marriages or parent-child relationships. Certificate holders receive access as family members to services provided by a network of companies, including employee benefits and beneficiary rights for housing loans and life insurance. As of August 2022, 73 organizations, including major corporations and local government bodies, have joined the network and it is expected to expand further going forward.

Initiatives for the SDGs

SDGs initiatives through business

SNS marketing

Blockchain technology

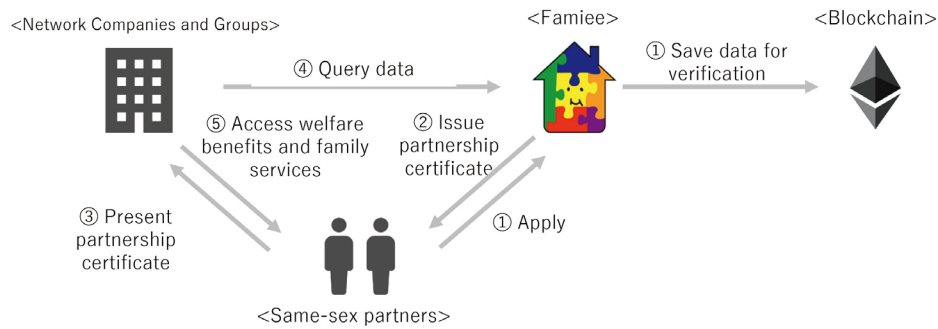
SNS marketing connects consumers and companies, and through conversation and cooperation it will be tied to the search for new forms of sustainable development and consumption in which processes from product and service planning and production to consumption are conducted highly efficiently.

Through both personnel and financial support for the Famiee Project, which issues partnership certificates that utilize blockchain technology out of a commitment to a society that recognizes diverse family formats, the Company provides support for gender equality.



Source: The Company's financial results supplemental briefing materials

Famiee Scheme



Source: The Company's financial results supplemental briefing materials



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