

Hotto Link Inc.

3680

Tokyo Stock Exchange Growth Market

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Summary

Net sales reached a record high in FY12/23 1H. Creating a flexible business portfolio to address changes in the external environment, realizing expansion of existing businesses and medium- to long-term earnings contributions from new businesses

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 Nonagon Capital LLC, which manages investments in the Web3 field.

1. FY12/23 1H Results trends

In FY12/23 1H, the Company’s consolidated results were net sales of ¥2,225mn (-34.3% year on year (YoY)), operating profit of ¥89mn (+26.0%), profit before tax of ¥192mn (loss of ¥90mn in the same period of the previous fiscal year), and profit attributable to owners of parent of ¥148mn (loss of ¥60mn). Net sales reached a record high on solid performance in each business via “ambidextrous management,” which involves deepening existing businesses and exploring new business opportunities. The Company sold the Crossbound Business in the previous fiscal year, leaving it with three business segments from FY12/23: SNS Marketing Support Business, DaaS Business and Web3 related business. The Company is reviewing its flexible product portfolio to address dramatic changes in the external environment, and plans to work on generating business synergies in the future, in addition to investing in Web3 related business, which is positioned as a medium- to long-term growth area, and core SNS business.

2. FY12/23 outlook

For FY12/23, the Company is forecasting net sales of ¥4,846mn (+16.1% YoY), operating profit of ¥99mn (-95.1%), profit before tax of ¥85mn (-95.3%), and profit attributable to owners of parent of ¥69mn (-96.1%). The figures for YoY comparisons are based on results excluding the Crossbound Business in connection with the sale of that business. FY12/22 operating profit includes ¥1,899mn from extraordinary factors due to the partial sale of the Crossbound Business. The outlook calls for operating profit to decline when the Crossbound Business’ results and the gain on its sale are excluded, but temporarily due to active investment to achieve medium-term targets. In FY12/23 1H, net sales were in line with plan and operating profit outpaced plan. Nevertheless, the Company maintained its full-year forecasts because the environment surrounding the SNS industry is changing rapidly. Since scrapping five-year targets will enable flexible management decisions in response to dramatic changes in the external environment, and results are outpacing the full-year forecasts, we at FISCO believe the targets will probably be met.

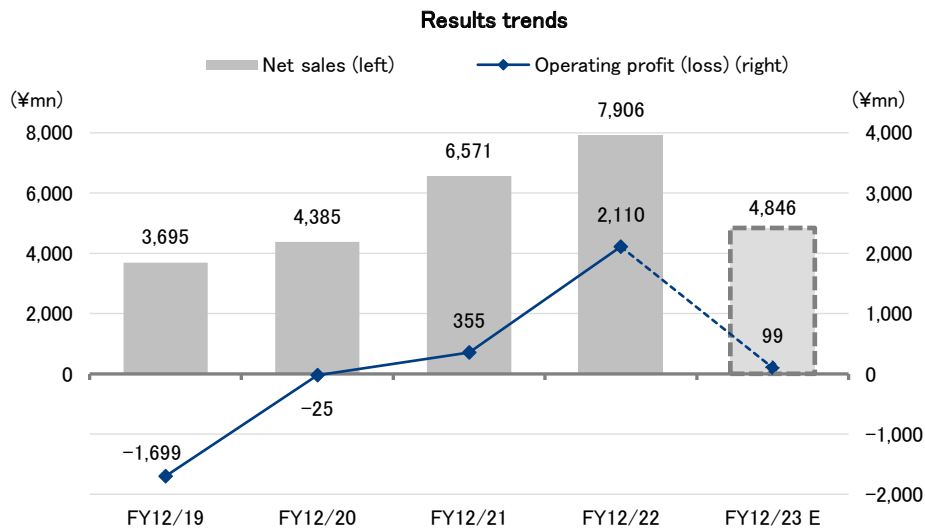
3. Medium- to long-term growth strategy

As a medium- to long-term growth strategy, the Company had set five-year targets, but that also had the effect of constraining flexible management decisions in response to changes in the external environment. Therefore, the Company decided to scrap five-year targets. This will make it easier to respond promptly and appropriately to dramatic changes in the environment in existing and new business areas, and further raise enterprise value. Recently, the Company acquired wevnl Inc.’s SNS advertising business and part of its media business (fasme), enabling it to deliver one-stop service from the awareness through the purchasing phase by providing SNS advertising (acquisition type), Google and other search advertising services, and so on. At FISCO, we believe that expansion of business scope in this way reinforces the Company’s strengths, and will support growth in its earnings and market share going forward.

Summary

Key Points

- Net sales reached a record high in FY12/23 1H. Solid performance in each business was driven by “ambidextrous management” involving deepening existing businesses and exploring new business opportunities
- The Company maintained its FY12/23 results outlook. Full-year targets look attainable since progress was ahead of plan as of end-1H
- “Five-year targets” scrapped due to changes in the external environment, business sale, etc. As an integrated marketing provider, the Company plans to enhance its competitive advantages in the growth market



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

Company profile

Both deepening existing businesses and exploring new businesses through “ambidextrous management.” Now working on the agile modification of the business portfolio

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.

Company profile

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 Ltd. 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.

The Company established TrendExpress Co., Ltd. (formerly Hotto Link Consulting Inc.) in 2013. 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 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, promoting the expansion of business, targeting the Chinese market. In January 2020, to further strengthen business development in the Chinese market, TrendExpress's Chinese subsidiary and business partner Shuhuiguang (Shanghai) Consulting Co., Ltd. were merged to form Shuhuiguang (Shanghai) Consulting Co., Ltd. as a new, wholly-owned subsidiary of Trend Express. In November 2022, the Company transferred a portion of its shares in TrendExpress to TrendExpress, with the aim of effectively utilizing Group resources and maximizing enterprise value. Accompanying this, TrendExpress was removed from consolidated subsidiaries, after which its name was changed to NOVARCA Inc. The Company still holds the portion of its shares that were not subject to the transfer, and plans to further enhance enterprise value by cultivating business synergies with NOVARCA.

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 (project) 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. Moreover, the Company acquired wevna's SNS advertising business and part of its media business (fasme) in February 2023, with the aim of "deepening" the SNS Marketing Support Business. It looks to bring together personnel and working knowledge pertaining to Google and other search advertising, wevna's SNS advertising (acquisition type), and so forth with personnel and expertise in the area of utilizing SNS through collection, analysis, and utilization of its big data to provide new services to existing customers, develop new customers, and generate other synergies.

2. Business description

The Company's businesses are broadly divided into the SNS Marketing Support 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 November 2022, it sold the Crossbound Business and removed it from consolidated subsidiaries to effectively utilize Group resources and maximize enterprise value. By investing the funds obtained from the sale of the Crossbound Business to invest in existing and new businesses, it aims to create a business portfolio that is resilient to the external environment and achieves independent growth.

(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 FY12/23 1H was SNS advertising/SNS operational consulting at 36.6%, and SNS marketing tools at 9.7%. Demand from companies utilizing SNS is robust, and areas where demand can be captured alongside market growth are expanding. Also, the Company has expanded its service domain by acquiring SNS advertising and media business from wevna, effectively extending its reach for tapping into market growth. The Company expects SNS advertising/SNS management consulting's share of sales to increase further on the back of these developments.

In the SNS Marketing Support Business, the Company provides marketing support services (SNS advertising agent sales and management consulting), primarily utilizing X (formerly 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 X (formerly 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, and beauty and cosmetics. 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. 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 (X (formerly 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 X (formerly Twitter) (Spread). By repeating this series of processes, the Company boosts sales of the customer company's product.

Company profile

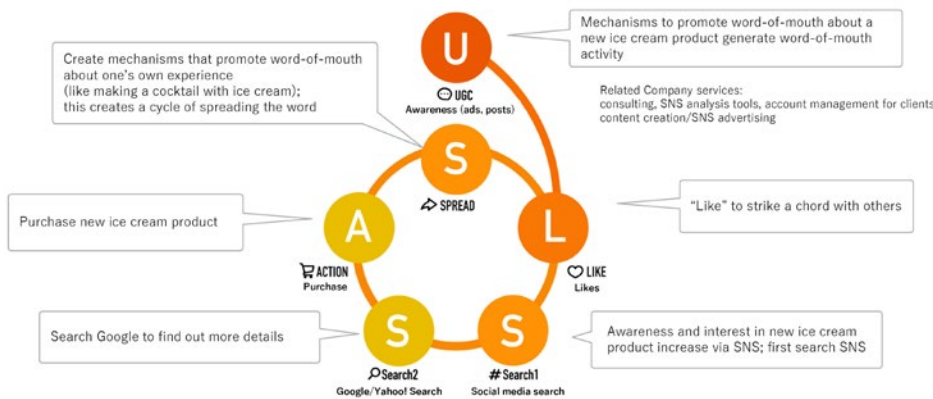
Unique methods devised by the Company from success patterns accumulated over many years are vital to efficiently build the process cycle and serve as a primary factor to differentiate the Company from competitors. For example, the Company conducts an analysis that brings together not only information collected from X (formerly 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 X (formerly 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 X (formerly 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 ¥140,000. 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

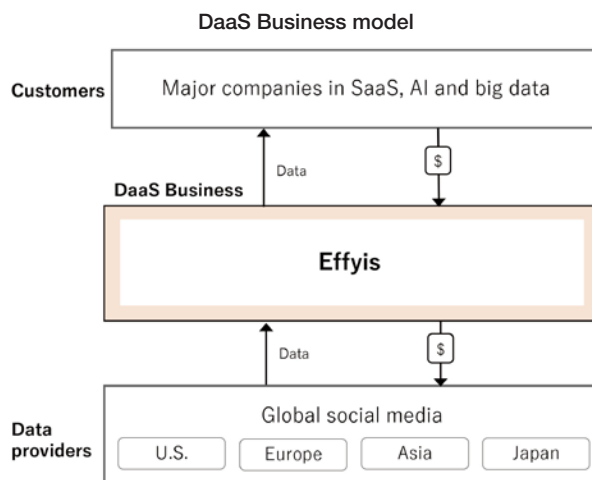


Source: The Company's financial results supplemental briefing materials

Company profile

(2) 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 X (formerly 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 X Corp. and only handles X (formerly Twitter) data.



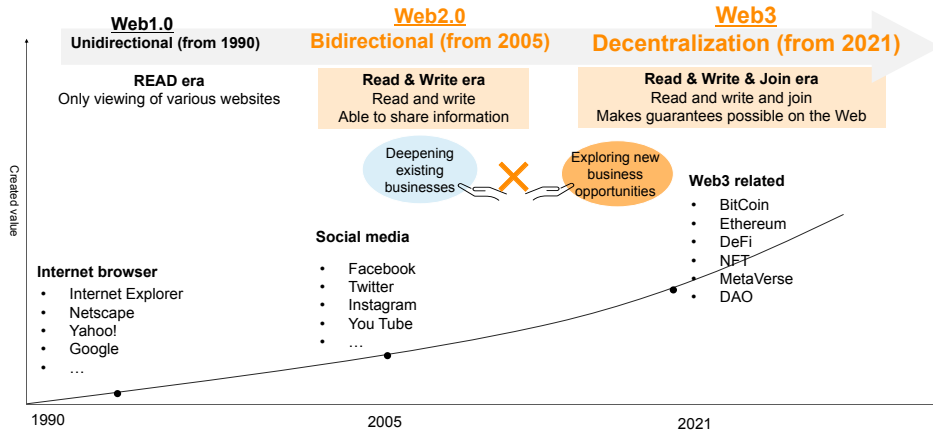
Source: The Company's financial results supplemental briefing materials

(3) 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 participate.” 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. Looking to a full-scale launch of Web3 related business, the Company is working on a pilot fund (project) for conducting research via investments in the Web3 industry through subsidiary Nonagon Capital. It plans to start managing a pilot fund (project) to investigate future scalability. It established Nonagon Capital's Singapore corporation so that speedy investment decisions would not be hindered by Japan's domestic laws and regulations. From FY12/23, it intends to expand its global network, with a view to increasing the fund's size as well. Further, it plans to go beyond investing in companies, tokens, and so forth by considering incubating new businesses, in addition to generating synergies with its own businesses as Web3 related business.

Company profile

Internet paradigm shift



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

3. Business model and strengths

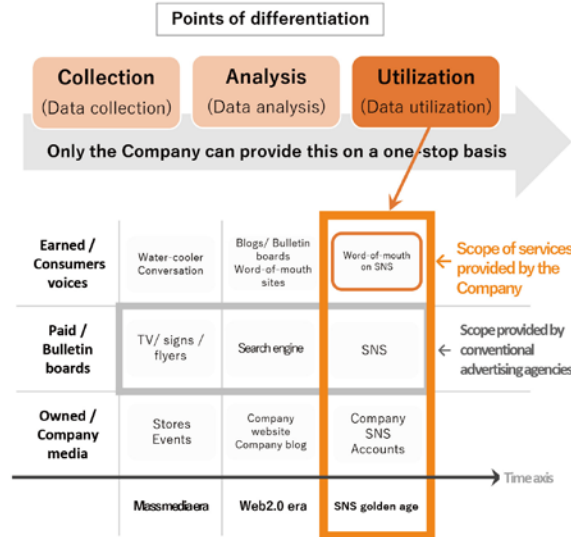
In recent years, SNS-based marketing has rapidly increased in importance. Typically, media used in marketing consists of three types: “owned media” owned by the Company, “paid media” owned by a different company and provides exposure through the payment of advertising fees, and “earned media” that reflects 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 X (formerly 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 attracting 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 will provide an integrated marketing service centered on SNS in the three domains of owned media, paid media, and earned media.

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Company profile

Integrated marketing service through three media types



Source: The Company's financial results supplemental briefing materials

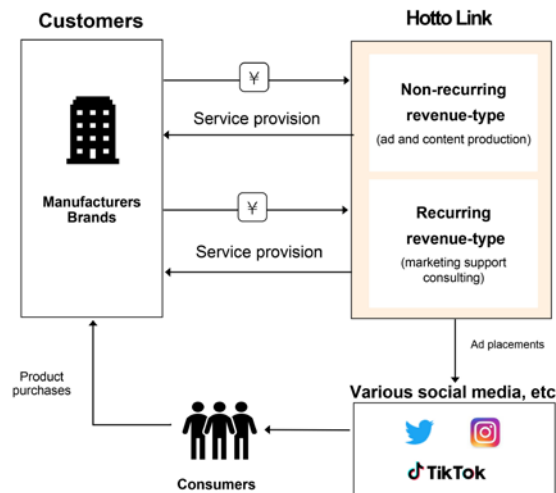
In addition to covering the three domains with an integrated service, there are several points for the Company to further raise the appeal of its services. The first is utilizing big data. For that, it is important to have infrastructure in place to correctly 1) collect, 2) analyze, and 3) utilize data. The Company refers to that as “intellectual circular infrastructure,” and has developed business with a view to establishing and building up intellectual circular infrastructure since its establishment.

The Company 1) has a global database in the DaaS Business for collection; 2) leverages SNS analysis tools in terms of analysis; and 3) provides value through the SNS Marketing Support Business. 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 currently plans to provide SNS advertising (acquisition type), Google and other search advertising services, and so forth through the SNS advertising business and partial media business (fasme) that it has acquired. By gaining the ability to deliver one-stop service from the awareness through the purchasing phase, the Company is expected to further expand its business domain. At FISCO, 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.

Company profile

In addition, 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 “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. 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 “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,” 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 increase going forward.

Business model consisting of non-recurring revenue and recurring revenue



Source: The Company’s financial results supplemental briefing materials

Results trends

Net sales reached a record high on solid performance in each business. “Ambidextrous management” balanced accelerating growth in existing businesses with exploring new business opportunities

1. Overview of FY12/23 1H results

In FY12/23 1H, the Company's consolidated results were net sales of ¥2,225mn (-34.3% year on year (YoY)), operating profit of ¥89mn (+26.0%), profit before tax of ¥192mn (loss of ¥90mn in the same period of the previous fiscal year), and profit attributable to owners of parent of ¥148mn (loss of ¥60mn). Net sales reached a record high on solid performance in each business via “ambidextrous management,” which involves deepening existing businesses and exploring new business opportunities. The Company sold the Crossbound Business in the previous fiscal year, leaving it with three business segments from FY12/23: SNS Marketing Support Business, DaaS Business and Web3 related business.

In the SNS Marketing Support Business, sales grew despite impact from some sluggish performance in connection with X's (formerly Twitter) spec changes as the newly acquired SNS advertising and media business were incorporated into earnings. In the DaaS Business, sales and operating profit topped plan as demand from companies for SNS data remained solid. In Web3 related business, the Company newly invested in two companies in 1H. It plans to continue to consider investments while closely monitoring industry trends. As an overall trend, the Company is advancing flexible product portfolio review amid a rapidly changing environment in the SNS marketing market. In addition to investment in the core SNS business and Web3 related business positioned as a medium- long-term growth area, the Company plans to work on generating business synergies going forward.

SG&A expenses were ¥642mn (-26.8% YoY), while the SG&A expense ratio increased to 28.9% from 25.9% in FY12/22 1H. The Company is rigorously controlling SG&A expenses, including by automating business processes and reducing hiring costs through referral-based recruitment. In the marketing support business, it will continue to hire necessary personnel while keeping an eye on market conditions. In the DaaS business, it will continue to control expenses related to hiring and system investment. We at FISCO believe that margins are rising and the volume of ads handled per person is on an uptrend as a result of automating internal ad watching and reporting.

FY12/23 1H consolidated results

	(¥mn)					
	FY12/22 1H		FY12/23 1H			
	Results	% of sales	Results	% of sales	Change	YoY
Net sales	3,385	-	2,225	-	-1,159	-34.3%
Gross profit	941	27.8%	732	32.9%	-209	-22.3%
SG&A expenses	877	25.9%	642	28.9%	-235	-26.8%
Operating profit	71	2.1%	89	4.0%	18	26.0%
Profit before tax	-90	-2.7%	192	8.7%	282	-
Profit attributable to owners of parent	-60	-1.8%	148	6.7%	208	-

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

2. Trends by business segments

(1) SNS Marketing Support Business

In the SNS Marketing Support Business, net sales rose 7.5% YoY to ¥1,030mn. Within that, sales from SNS advertising/SNS management consulting services increased 12.3% to ¥815mn, while sales of SNS analysis tools declined 7.3% to ¥214mn. Despite some weak results in existing businesses due to soaring data prices and changes in customer trends accompanying X's (formerly Twitter) spec changes, segment sales reached an all-time high for 1H as the SNS advertising and media businesses acquired from wevna1 were incorporated into earnings from March 2023.

In SNS advertising/SNS management consulting services, 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, inquiries and requests for information documents from new customers as well as project referrals from existing customers also contributed to sales growth. Moreover, upselling and cross-selling through the expansion of alliances and new services led to a rise in profitability. As for soaring data prices alongside X's (formerly Twitter) spec changes, the Company is negotiating with clients to raise fees, pass on part of the increase to prices, and so forth.

Sales of SNS analysis tools decreased YoY. This is because sales staff focused on SNS advertising/SNS management consulting, partly since the swiftly changing external environment surrounding the business has blurred visibility on things like SNS data providers' handling policies. This business has a high market share in an area with a low market growth rate and sluggish competition. FISCO's view is that it will stay around the same scale going forward, taking into account the balance between segment sales and SG&A expenses.

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 X (formerly 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 X (formerly 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 X (formerly Twitter), gained over 350,000 X (formerly 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. 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.
- **Orion Breweries, Ltd.**
 Used X's (formerly Twitter) UGC to increase customer contact points, which contributed to online sales 50x higher than a year ago.
- **Paidy Inc.**
 Promoted "relevance" through X (formerly Twitter) ads utilizing media like comics and videos, which contributed to 6mn downloads.

Results trends

Also, marketing support combining several SNS contributed, including the following most recent examples.

- **KOSÉ Corporation<4922>**

Conducted operations with the aim to create long-term fans among customers.

Used Instagram and X (formerly Twitter), focusing on communication with fans.

- **NTT DOCOMO, INC.**

Supported d POINT CLUB's Instagram management, achieving an average of 100,000 reel plays.

Employed an array of ideas and a flexible management framework to accelerate SNS use.

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. As the Company is also developing new customers in industries that are not easily affected by business sentiment, we at FISCO expect industries such as IT and finance to account for a higher share of its customer portfolio in the future.

(2) DaaS Business

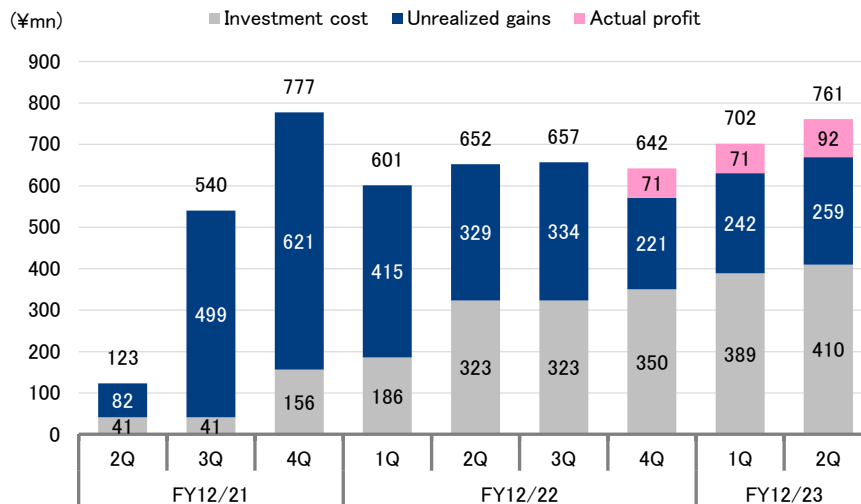
In the DaaS Business, net sales increased 21.7% YoY to ¥1,195mn, an all-time high for 1H. In addition to ongoing solid demand for corporate SNS data, upselling to existing customers, and new customer acquisitions, positive forex impact due to a weaker yen against the US dollar contributed to sales. Meanwhile, the Company took steps to prepare for risks accompanying SaaS industry realignment and changes in SNS companies' policies. In addition, the Company retained employees by increasing base pay in response to inflation in the United States. The business is recorded in U.S. dollars, so sharp yen depreciation is also a factor in the increase in sales. The Company assumed a rate of ¥130.00/US dollar at the start of FY12/23, whereas the rate was ¥132.41 during 1Q and ¥137.49 during 2Q. The business is also steadily growing on a US dollar basis. 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.

(3) Web3 related business

The Web3 related business is being operated as a pilot fund (project) mainly for the purpose of industry research, so does not generate sales. The Company also seized opportunities from heightened volatility in Web3-related markets to make new investments in 1H, as well as secured profits from some investments. Having obtained cash from the partial sale of the Crossbound Business, it will accelerate investment in the Web3 domain where strong growth is anticipated in the future. The investments it is making in Web3 related business are limited partnership investments in overseas investment funds targeting blockchain and startup companies. So if a portfolio fund holds its assets as virtual currency prior to investment, it could have a limited impact on the Company's operating results and financial condition. The Company makes medium- to long-term investments after carefully researching trends in Japan and overseas; it does not take a short-term view. Since assets are steadily growing in relation to the amount of investments and the Company is developing business aiming for a balance between aggressiveness and stability with respect to volatility, FISCO's view is that there are no major concerns.

Results trends

Quarterly trends in Web3 related investments and returns



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

3. Financial position and financial indicators

Looking at the Company's financial position in FY12/23 1H, total assets increased by ¥240mn from the end of the previous fiscal year to ¥8,711mn. Current assets decreased by ¥169mn to ¥4,140mn. Looking at the main causes of the change, cash and cash equivalents increased ¥106mn, and other current assets increased ¥23mn due to growth in accounts receivable. On the other hand, corporate income taxes receivable decreased ¥283mn, and trade and other receivables decreased ¥15mn. Non-current assets increased by ¥409mn to ¥4,571mn. Looking at the main causes of the change, right-of-use assets decreased ¥35mn. Conversely, goodwill increased ¥255mn accompanying business acquisitions, other intangible assets such as software increased ¥48mn, and other financial assets rose ¥22mn. Investments through overseas investment funds in Web3 related business are included in non-current assets.

Total liabilities decreased by ¥68mn from the end of the previous fiscal year to ¥2,455mn. Current liabilities increased by ¥20mn to ¥913mn. Looking at the main causes of the change, other current liabilities decreased ¥81mn. Meanwhile, corporate income taxes payable increased ¥41mn, and trade payables and other liabilities increased ¥31mn due partly to a rise in accounts payable, and lease liabilities increased ¥22mn. Non-current liabilities decreased by ¥88mn to ¥1,542mn. Looking at the main causes of the change, deferred tax liabilities increased ¥15mn, and other non-current liabilities increased ¥7mn due partly to a rise in long-term accounts payable. However, borrowings declined ¥60mn and lease liabilities decreased ¥50mn.

Total equity increased by ¥308mn from the end of the previous fiscal year to ¥6,255mn. The main causes for the change were retained earnings increasing ¥148mn and other equity components increasing ¥137mn due to foreign currency translation adjustments of the financial statements of overseas subsidiaries.

Results trends

Looking at management indicators, the ratio of equity attributable to owners of parent, which indicates stability of management, increased from 70.2% at the end of the previous fiscal year to 71.8%, showing an improvement. Also, the interest-bearing debt ratio declined from 14.8% to 13.2%. The Company's financial position has become stronger since total equity increased sharply due to growth in profit from the sale of the Crossbound Business. It plans to continue to consider M&A and starting up new businesses utilizing its healthy financial standing. 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)				
	End of FY12/20	End of FY12/21	End of FY12/22	End of FY12/23 1H	Change
Current assets	2,710	3,444	4,309	4,140	-169
(Cash and cash equivalents)	2,067	2,598	3,596	3,703	106
Non-current assets	3,057	3,870	4,162	4,571	409
(Goodwill)	1,367	1,530	1,298	1,673	375
Total assets	5,767	7,314	8,471	8,711	240
Total liabilities	2,795	3,183	2,523	2,455	-68
(Interest-bearing debt)	851	1,097	879	825	-54
Total equity	2,972	4,131	5,947	6,255	308
(Shareholders' equity)	2,793	3,866	5,947	6,255	308
[Stability]					
Ratio of equity attributable to owners of parent	48.4%	52.9%	70.2%	71.8%	1.6pt
Interest-bearing debt ratio	30.5%	28.4%	14.8%	13.2%	-1.6pt

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

■ Outlook

Creating a flexible business portfolio that addresses changes in the external environment. Full-term targets are likely to be met as performance is currently strong

1. FY12/23 consolidated results outlook

For FY12/23, the Company is forecasting net sales of ¥4,846mn (+16.1% YoY), operating profit of ¥99mn (-95.1%), profit before tax of ¥85mn (-95.3%), and profit attributable to owners of parent of ¥69mn (-96.1%). The figures for YoY comparisons are based on results excluding the Crossbound Business in connection with the sale of that business. FY12/22 operating profit includes ¥1,899mn from extraordinary factors due to the partial sale of the Crossbound Business. The outlook calls for operating profit to decline when the Crossbound Business' results and the gain on its sale are excluded, but temporarily due to active investment to achieve medium-term targets.

Outlook

Going forward, the Company aims to create a business portfolio resilient to changes in the economy and business climate while advancing steps from both the “deepening” and “exploring” fronts in each business. Also, the Company expects to attain further growth by promoting “ambidextrous management” entailing deepening existing businesses and exploring new business opportunities, and by making investments in growth while maintaining the profit structure. To bolster existing businesses, the Company will promote M&A and active investment in companies with technologies and networks, and strengthen hiring and development of personnel in the IT industry where heightened human resource mobility is anticipated. To strengthen Web3 related business, it will also consider scope for bolstering investments in outstanding companies, expanding fund size, launching its own businesses, and generating synergies.

In FY12/23 1H, net sales were in line with plan and operating profit outpaced plan. Nevertheless, the Company maintained its full-year forecasts because the environment surrounding the SNS industry is changing rapidly. As described later, scrapping five-year targets will enable flexible management decisions in response to dramatic changes in the external environment, and results are outpacing the full-year forecasts, so we at FISCO believe the full-term targets are attainable.

FY12/23 consolidated results outlook

	(¥mn)							
	FY12/22		FY12/22 (Results excluding the Crossbound Business)		FY12/23			
	Results	% of sales	Results	% of sales	Results	% of sales	Change	YoY
Net sales	7,906	-	4,175	-	4,846	-	671	16.1%
Operating profit	2,110	26.7%	2,023	48.5%	99	2.0%	-1,924	-95.1%
Profit before tax	1,875	23.7%	1,800	43.1%	85	1.8%	-1,715	-95.3%
Profit attributable to owners of parent	1,818	23.0%	1,779	42.6%	69	1.4%	-1,710	-96.1%

Note: YoY comparisons are based on results excluding the Crossbound Business in connection with the sale of that business.

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

2. Outlook by business segments

(1) SNS Marketing Support Business

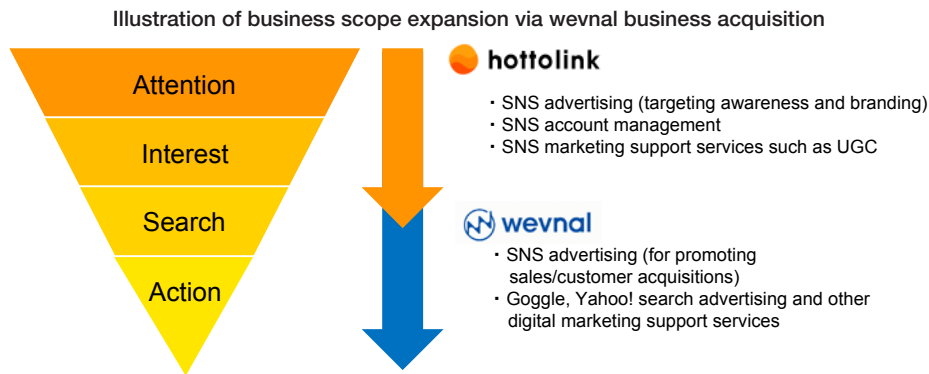
The SNS Marketing Support Business aims for one-stop provision of services matching customer needs, balancing the expansion of customer numbers with growth in sales per customer. The SNS advertising business and partial media business (fasme) acquired from wevna have started providing SNS advertising (acquisition type) as well as Google and other search advertising services. wevna is a company that continues to grow, with BOTCHAN brand experience (BX) platform development and provision as its main business. By acquiring wevna's SNS advertising business and part of its media business (fasme), it has become possible for the Company to provide high quality services to a wider range of customers by owing its media, in addition to enhancing SNS marketing support services, which are one of its strengths. Specifically, the Company looks to bring together personnel and working knowledge pertaining to Google and other search advertising, wevna's SNS advertising (acquisition type), and so forth with personnel and expertise in the area of utilizing SNS through collection, analysis, and utilization of its big data to provide new services to existing customers, develop new customers, and generate other synergies. By conducting SNS advertising that combines the Company's expertise in promoting awareness and branding by acquiring targeted followers with wevna's expertise in promoting customer acquisitions and sales by directing users to purchasing pages and landing pages, the Company will be able to provide one-stop services from the awareness through the purchasing phase, so further expansion of its business scope can be expected.

Outlook

In each phase from awareness to purchasing, there are many companies providing marketing support services. However, there are few companies that can provide high-quality services for all of the phases to meet customer needs in an integrated manner. Demand for marketing using SNS is expected to continue to expand at a solid clip in the future. As there are ongoing tailwinds for the Company, which is steadily strengthening its presence in the industry in part by increasing business with large companies, we at FISCO expect healthy growth in sales.

On the other hand, risks accompanying changes in the external environment bear watching. Changes in SNS operators' management policies are directly linked to changes in data providers' selling prices. Also, any changes in things like how information is provided and whether or not data is sold would be major changes for SNS analysis tools that the Company provides, clients who use the service, and so forth.

The Company regards these changes in the external environment as opportunities for growth, and plans to establish a system for appropriately responding to the changing market climate by flexibly revising strategies and considering countermeasures. Currently, there is growing demand for new SNS marketing methods because of spec changes and a rise in data prices due to changes in the management policy of X (formerly Twitter) operator X Corp. In addition, the Company expects user generated content (UGC), which is among its strengths, to rise in value not just due to the influence of major SNS operators, but also because of a transition to a long tail of media due to the arrival of the AI era. Based on this, the Company is promoting new measures in tune with changes in the external environment. By utilizing M&A and business alliances to expand the scope of its SNS marketing support for companies, acquiring niche media through M&A and coordinating with existing SNS marketing, the Company aims to increase unit prices and the customer base. It plans to deliver results by flexibly addressing the changing external environment in this way.



Source: The Company's financial results supplemental briefing materials

(2) DaaS Business

The DaaS Business will work to raise sales per customer through changes in the price structure and service content. The Company aims to increase sales by using the relationships with SNS companies that it has built up to date to develop new business in the financial industry. Along with that, it will explore launching new businesses and strengthening personnel systems, while emphasizing profitability. It assumes an exchange rate range of ¥130-¥135 to the US dollar. Although yen depreciation is an upside factor for earnings in the business, the Company will work to grow the business with an emphasis on growth on a US dollar basis.

Outlook

(3) Web3 related business

Web3 business involves research and investment activities in the Web3 industry through the Company's subsidiary Nonagon Capital. While the Company has positioned these activities as a pilot fund (project) to date, it will focus on building a global network with a view to expanding the fund's size in the future. Also, it plans to go beyond investing in companies, tokens, and so forth by considering incubating new businesses, in addition to generating synergies with its own businesses as Web3 related business. Nonagon Capital has invested in seven companies as of June 2023, and is building its own networks by speaking at Web3-related conferences in Japan and overseas. With Web3-related markets becoming increasingly volatile, as exemplified by the failures of some cryptocurrency exchanges, technology is being advanced with an eye to social implementation in various areas in countries around the world. At the same time, rapid development of legislation is being considered. The Company views these changes as opportunities, and will continue to focus on areas of technological innovation such as the issue of cryptocurrencies, decentralization of services, clarification of digital data ownership, the token-based incentive revolution, and decentralized autonomous organization using tokens.

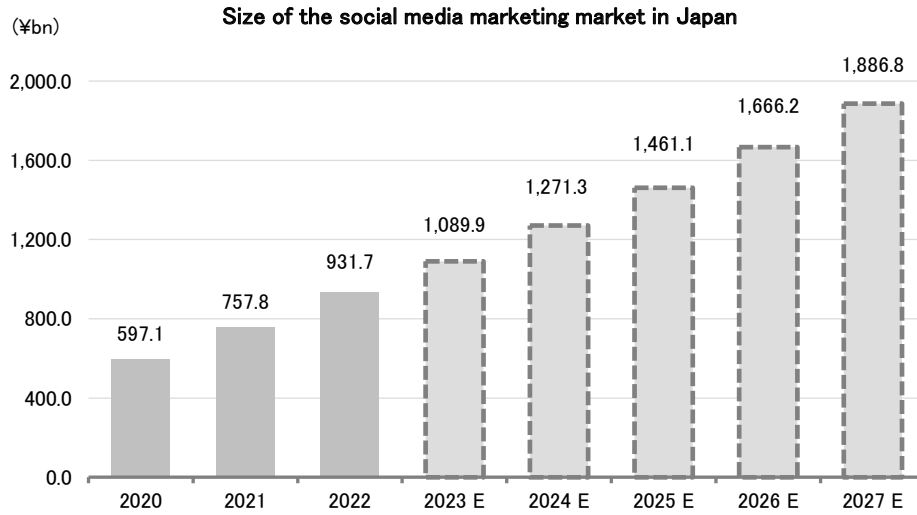
Favorable business environment with steady growth in the domestic social media marketing market and Internet advertising market

3. Business environment

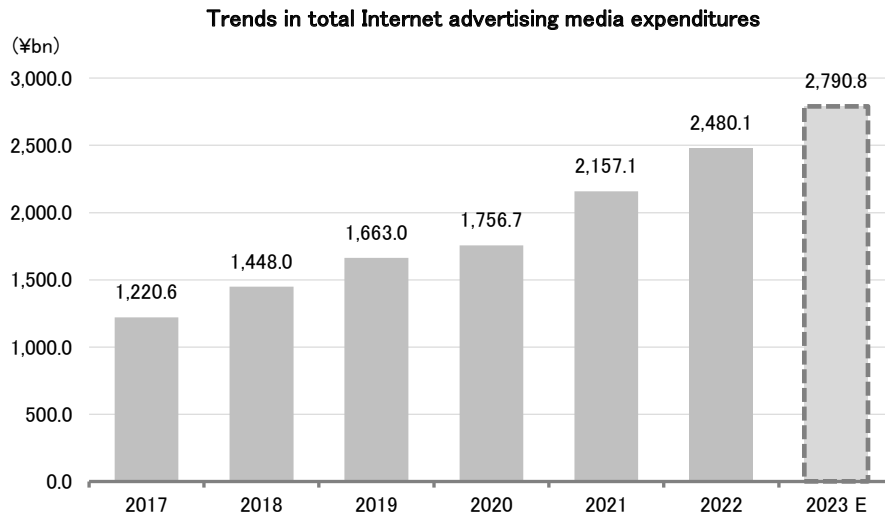
The domestic social media marketing market related to the SNS Marketing Support Business is growing faster. As stated in the Company's materials, the social media advertising market continues to grow steadily, and expanded 22.9% YoY to ¥931.7bn in 2022. Also, it is expected to grow into a ¥1,886.8bn market in 2027. Companies using social media advertising as one promotional measure are rapidly increasing because it makes it easy for companies placing the ads to deliver them to the target segments they want to appeal to, and provides transparency on cost effectiveness. This is apparently partly because social media facilitates the spread of information in an organic way as users post their impressions and other comments on products, which can make promotions highly cost effective. 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 in the form of 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. We at FISCO think this will lead to a further increase in market share in the short term, and be a main factor behind the stabilization of the Company's market share as well as avoidance of price competition over the long term.

The Internet advertising market overall also continues to steadily grow. According to "2022 Advertising Expenditures in Japan," released by Dentsu, total Internet advertising media expenditures grew 15.0% YoY to ¥2,480.1bn in 2022. They are forecast to grow to ¥2,790.8bn in 2023. The Company's acquisition of business from wevna has enabled it to provide Google, Yahoo!, and other Internet advertising, rather than just SNS advertising. So, going forward, it will focus on tapping into the Internet advertising market, which is triple the scale of the social media marketing market. The online advertising business is receiving a lot of attention from investors as a growth industry, and the Company's strong results and strengths built up through existing businesses are viewed positively, so at FISCO we expect this business in particular to take center stage.

Outlook



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



Source: Prepared by FISCO from Dentsu's "2022 Advertising Expenditures in Japan"

Outlook

4. Web3-related investments through Nonagon Capital

The Web3 related business is being operated as a pilot fund (project) for researching future scalability in the Web3 industry through Nonagon Capital, a subsidiary for investment business. It is positioned as a business for “exploration” in the Company’s ambidextrous management, and aims to seize new business opportunities and earnings, primarily through investment. Also, the Company intends to strengthen networks overseas, in addition to effectively utilizing networks and results from initiatives in the Web3 domain so far. While volatility is increasing in the Web3 industry, President and Representative Director Koki Uchiyama has moved to a base overseas and is catching up on the latest information locally. At FISCO, we think that it is the mix of good and bad conditions that makes it a time for planting seeds, where promptly collecting information and networking with key persons in the industry is important. The Company is paying 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. However, FISCO believes the Web3 related business will be a growth factor in the Company’s long-term performance, considering that it is an investment in a growth business from the seed stage.

■ Medium- to long-term growth strategy

Scrapped five-year targets. Focusing on expansion of existing businesses and medium- to long-term earnings contributions from new businesses

1. Scrapping of five-year targets

As a medium- to long-term growth strategy, the Company had set five-year targets, but that also had the effect of constraining flexible management decisions in response to changes in the external environment. Therefore, the Company decided to scrap five-year targets in order to respond promptly and appropriately to dramatic changes in the environment in existing and new business areas, and further raise enterprise value. Regarding the external environment surrounding the Company, there are risk factors on the macro side such as heightened geopolitical risks, rising interest rates in Europe and the U.S., the Bank of Japan’s policy changes and interest rate hikes. Also, changes in SNS operators’ management policies and ways of providing information could affect demand trends, competitive climate, and the convenience of services. In fact, some of the Company’s system development costs rose through the end of FY12/23 1H, partly because of major system modifications required for the services it provides to address X’s (formerly Twitter) spec changes. The speed of change in the industry is dramatic compared with other industries, and changes often need to be addressed in a couple of days, so timely investment is required. Also, announcements of changes in things like specs and policies are often subject to abrupt revisions, and require preparations in response even if no changes end up being made. For the reasons above, we at FISCO believe the scrapping of five-year targets is necessary in order to respond promptly and appropriately to dramatic changes in the external environment and raise enterprise value.

Medium- to long-term growth strategy

On the other hand, there are also some opportunities in the external environment. The rapid spread of AI tools is making generating text and images more efficient, and the evolution of AI tools is making utilizing big data more important. These trends accelerate the cycle of collection, analysis, and utilization of data in existing businesses. Also, the development of legislation and preparations for market expansion that are underway in the Web3 domain are tailwinds for the Company's Web3 related business. Also, lower valuations for startups and venture companies could create an advantageous environment for M&A and alliances. FISCO's view is that scrapping five-year targets will enable flexible management, thereby leading to growth in net sales and operating profit in existing businesses and medium- to long-term earnings contributions from new businesses.

2. Business direction

(1) Existing businesses

In the existing business area of Web 2.0, the Company aims to expand business and enhancing competitiveness by using the funds obtained from the sale of the Crossbound Business to invest in personnel, technology, and businesses, as well as strengthen organizations and services that contribute to customer companies' sales growth. Further, the Company will continue to consider capital alliances and M&A with businesses and external companies that have the potential to generate synergies with its existing businesses, aiming to diversify its business portfolio and create new growth engines. However, risks accompanying changes in the external environment bear watching. Regarding potential impact on business from external factors such as changes in SNS operators' management policies and methods of information provision, the Company will establish a system for appropriately responding to the changing market climate by flexibly revising strategies and considering countermeasures.

(2) New businesses

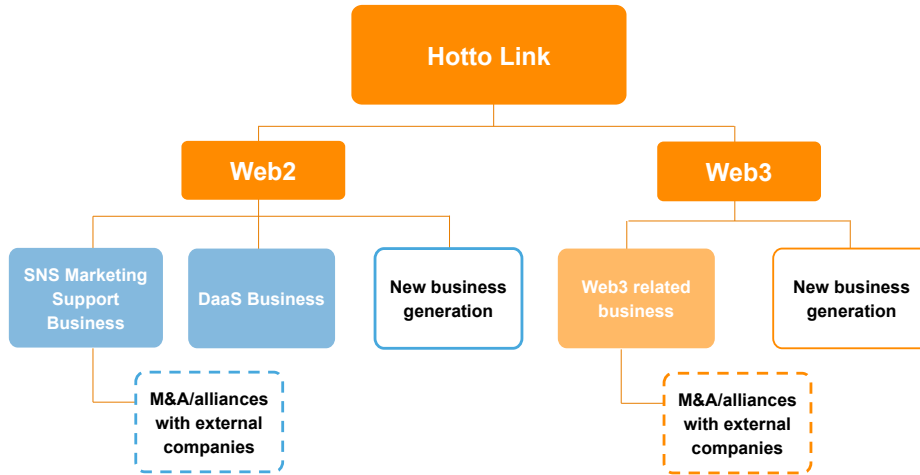
In the new business area of Web3, the Company is running operations as a pilot fund for conducting research on the Web3 industry to minimize volatility. This enables investment management that minimizes risks to the Company's financial conditions and operating results. Also, in new business development, the Company is not simply investing in companies and tokens, but is also considering incubation to develop new businesses and generate synergies with existing businesses. Its specific approaches include using SNS to raise awareness of Web3 services and support user expansion, SNS marketing support incorporating non-fungible token (NFT) and other Web3 technology, and research on providing value through data collection, analysis, and utilization in the Web3 domain. Through these initiatives, the Company is advancing a strategy for its pursuing diverse exit strategies and securing sustainable earnings, not just capital gains in new business development.

(3) Overall

The Company's overall strategy focuses on expanding its unique business portfolio, and flexibly rearranging its components. It will promote expansion of its unique business portfolio through business development driven by ambidextrous management involving strengthening incubating functions and growing existing and new businesses. This will establish a diverse revenue stream and build a strong position in the face of market volatility. Regarding investees in the investment business, options include flexible portfolio reshuffling with an eye to future IPOs. Through such reshuffling, the Company will tap into growth in the Internet market, while addressing risks due to the changing environment. In addition, the Company is also focusing on AI tools, especially using AI tools like ChatGPT to generate text and images more efficiently. It is promoting the use of AI tools within the Company, and considering establishing a framework for cooperation across specialist teams. These initiatives are expected to enhance operational efficiency and promote the development of creative services and content. Additionally, the Company is taking steps to raise the added value of existing services and enhance operational productivity, and will work to improve customer experience and strengthen competitiveness. The Company also considers new business development on an ongoing basis, and FISCO's view is that it is taking a proactive approach to flexibly addressing changes in the market.

Medium- to long-term growth strategy

Image of business portfolio expansion



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

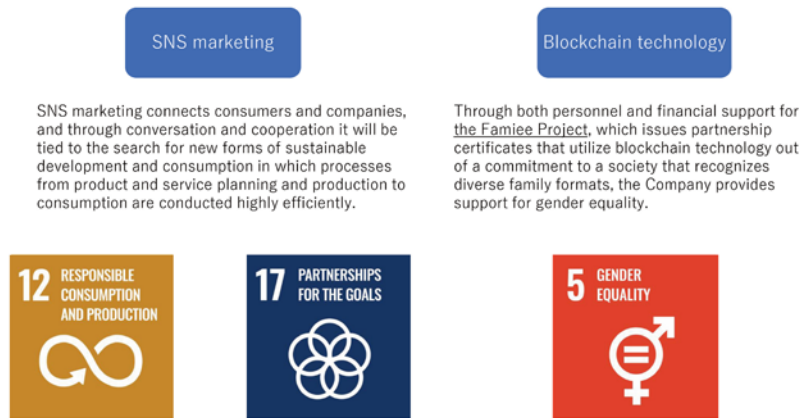
The Company recognizes returning profits to shareholders as an important management task. Currently, it is not providing dividends because it has positioned enhancing enterprise value by turning changes in the external environment into business opportunities as a top priority. For the foreseeable future, the Company will need funds for upfront investment. Therefore, FISCO thinks the focus should be on the future returns on the investments.

Initiatives for the SDGs

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

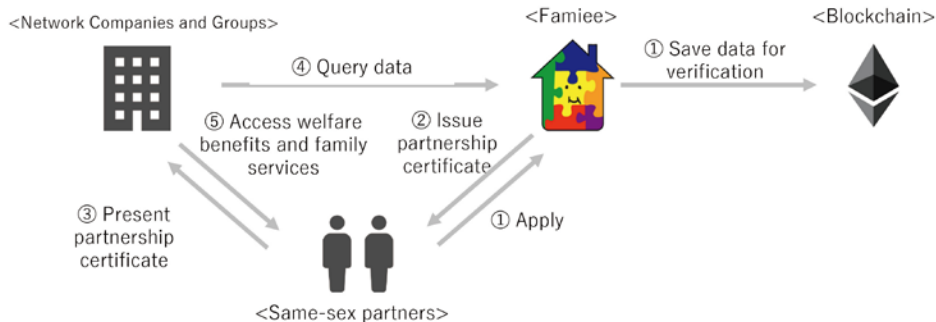
The Company states its mission as “Make the world Hotto” and “We create a world wherein people can feel the essence of ‘Hotto’ – Japanese concept word translated as ‘a feeling of relief’.” The Company identifies the elements needed for SDG initiatives as SNS marketing, currently the Company’s main business, 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 2023, 80 organizations, including major corporations and local government bodies, have joined the network and it is expected to expand further going forward.

SDGs initiatives through business



Source: The Company's financial results supplemental briefing materials

Famiee Scheme



Source: The Company's financial results supplemental briefing materials

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