

Cross Marketing Group Inc.

3675

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■ Summary

Steady progress toward becoming a comprehensive marketing solutions group

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

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

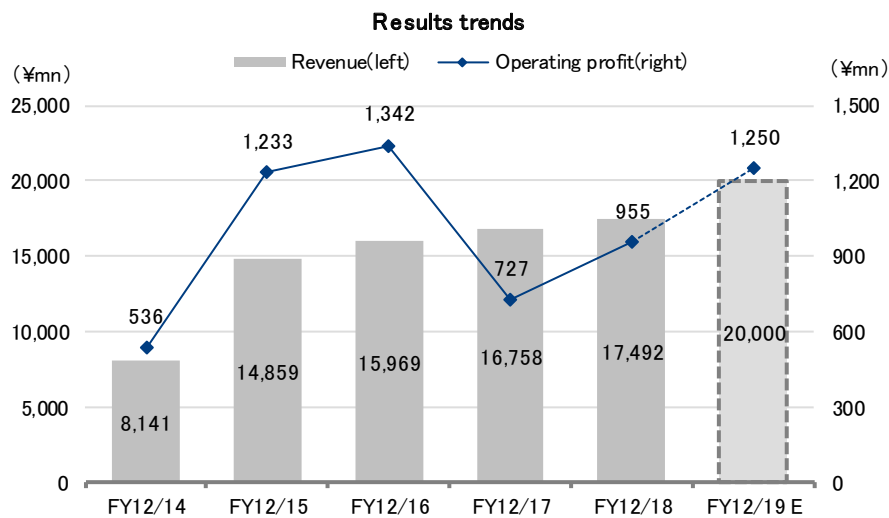
For 1H FY12/19, the Company reported revenue of ¥8,808mn (+2.3% year on year (YoY)) and operating profit of ¥423mn (-7.7%). Results fell short of targets, primarily in profit attributable to owners of parent (initial forecast of ¥147mn in profit versus an actual loss of ¥955mn). This was due changes in organizational structure at overseas subsidiary Kadence following the acquisition of its stock; to timing differences in booking of earnings from large projects, making it impossible to expect the initially estimated level of earnings; and to the impairment of Kadence goodwill, a move taken from a conservative perspective. The Company's full-year FY12/19 outlook calls for revenue of ¥20,000mn (+14.3% YoY) and operating profit of ¥1,250mn (+30.9%). Aside from profit attributable to owners of parent, this is the same as the initial outlook, but assumes that mainstay domestic businesses will continue to perform strongly, that overseas results will recover, and that amortization of goodwill will be reduced by about ¥70mn in 2H through booking of impairment losses.

In the medium term, the Company intends to develop new services and businesses and strengthen group collaboration in digital marketing, IT and other areas with robust growth potential. It thus plans to continue aggressively investing in its IT solutions and web promotion businesses. In the domestic research business, it also plans to actively invest in upstream research areas such as the consulting business, and in medical, big data, AI and other growth areas with the goal of enhancing profitability. Meanwhile, in overseas business, while the impact of the impairment of goodwill at Kadence remains, the Company is beginning to build a foundation for business in Asia, with a business process outsourcing (BPO) site in the Philippines and an R&D center in India. Domestic and overseas marketing-related markets remain strong, and the Company is making steady progress in creating a base for becoming a comprehensive marketing solutions group.

Summary

Key Points

- Currently broadening business scope from online research to marketing solutions
- Strengths are monitor quality and quantity, unified support, and group function crossover
- Harnessing strengths, a positive external environment, Kadence impairment as a springboard for returning to a growth track



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

Company profile

From online research to marketing solutions

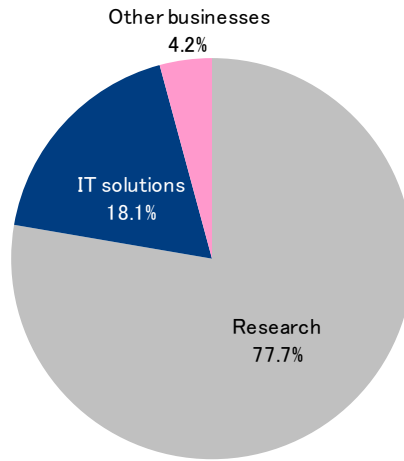
1. Business overview

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

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

Company profile

Sales breakdown by segment (1HFY12/19)



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

Grew rapidly as one of the major firms in Japan's research industry

2. History

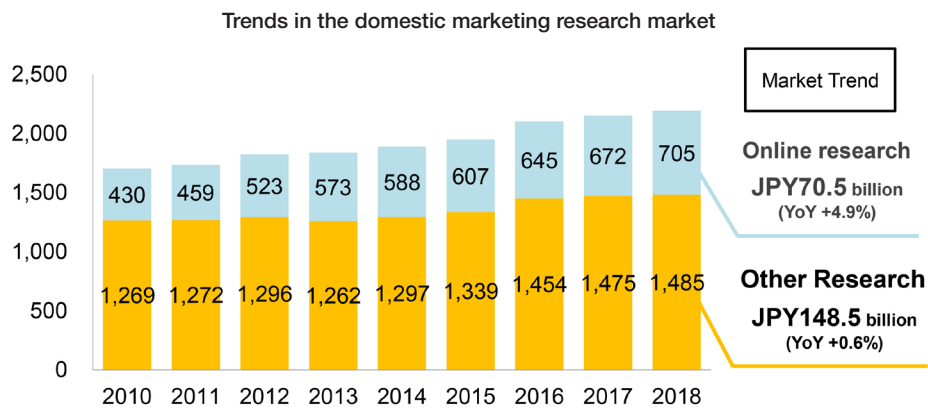
The Company can trace its roots to Cross Marketing Inc., an online research company that was founded in April 2003 by Miki Igarashi, the current representative director, president and CEO. In May 2006, Cross Marketing entered into a capital and business alliance with EC Navi Inc. (currently VOYAGE GROUP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

Steadily growing marketing research industry in Japan

3. Industry environment

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

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



Reference : Japan Marketing Research Association (JMRA)

Source: The Company's results briefing materials

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

4. Research business

(1) Research steps

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

(2) Registered monitors

Quality and quantity of registered monitors is the most important factor to the Company's marketing research business. In terms of quantity, at 1.8mn people, the Company has a very large number of active registered monitors. These registered monitors are recruited from the members-only websites run by VOYAGE GROUP, Credit Saison Co., Ltd. <8253>, and others, and managed by Research Panel.

In the case of VOYAGE GROUP, members of its EC Navi website (a comprehensive shopping website) are invited to register at Research Panel. In the case of Credit Saison, Credit Saison website members who wish to participate in surveys are asked to sign up as registered monitors with Eikyufumetsu Research, which is operated by Research Panel. The Company also has a reciprocal agreement that gives it access to the networks of registered monitors of other marketing research firms, which have a combined total of more than 3.2mn active monitors. This means the Company could potentially make use of a total of 5mn active monitors, which is more than enough in terms of quantity.

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

Company profile

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

The Company steadily broadened business scope from Internet to offline research leveraging online research know-how and the infrastructure explained above. Offline research offers quantitative surveys using questionnaires and interviews with research participants gathered at a venue and qualitative surveys via interviews of research participants in a panel discussion format. Furthermore, the Company supplies various research services that combine IT with existing survey methods. These capabilities have enabled it to build an extensive track record in a broad range of industries, including food products, beverages, cosmetics, pharmaceuticals, automotive, research firms, advertising and mass media, financial and insurance services, wholesale and retail, and services. The Company can also accommodate various themes, such as consumer activity, concept tests, product evaluation, packaging tests, advertising effect measurement, advertising evaluation, usage patterns, commercial zones and areas, brand evaluation, and customer satisfaction (CS). Furthermore, Japanese companies are increasing their expansion overseas to places like countries in the rest of Asia and the Company has accelerated its Asian expansion. While overseas businesses marked time between FY 12/18 and FY 12/19 as they built out their operations, revenue has grown to about half that of the domestic research business.

Main services in the research business

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

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

Providing integrated service through marketing solutions

5. IT solutions business and other businesses

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

Main services in the IT solutions business

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

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

■ Business model

Recovery of an operating profit margin that bottomed out in FY12/18

1. Earnings structure

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

Looking at the operating profit margins reported by the leading firms in the industry for the most recent fiscal year, we find Macromill with an operating profit margin of 17.5% (¥44,279mn in revenue and ¥7,751mn in operating profit in FY6/19), INTAGE 7.9% (¥53,986mn in revenue and ¥4,268mn in operating profit in FY3/19), and Cross Marketing Group 5.5% (¥17,491mn in revenue and ¥954mn in operating profit in FY12/18). Macromill is highly efficient because a large percent of its research is based on online research. INTAGE's margins are lower than Macromill because INTAGE mainly conducts offline and panel research and these are rather labor-intensive services. The Company's profitability is relatively weak for having started as an online research specialist. We attribute this result to decline in the share of online research that generates attractive margin within the overall business amid broadening of scope from the full range of marketing research to marketing solutions and modest pressure from upfront costs for M&A, new business development, and promotion of overseas efforts in recent years. The former is unavoidable as a strategic choice, but the latter is expected to be resolved once profits begin to come in. With operating profit margins originally at 8.4% (FY12/16), about on par with INTAGE, they are seen as highly likely to recover to the 8% range in the future. For the time being, plans call for returning operating profit margins, which bottomed out in FY12/18, to 6.3% in FY12/19.

Strength in cross-segment support structure

2. Strengths and weaknesses

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

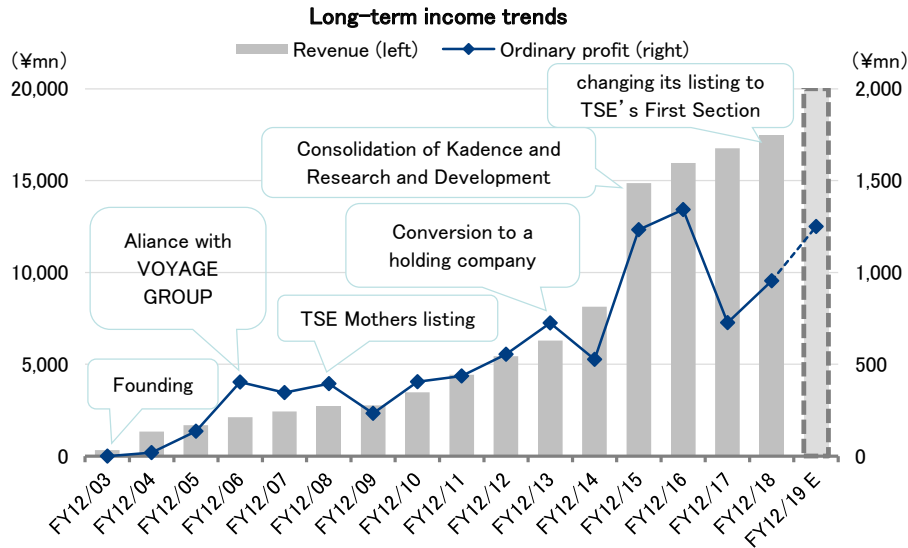
Weaknesses or challenges, meanwhile, are delay in improving its profit margin because of growth in labor-intensive service with the increase in offline research, and inadequate domestic and overseas recognition, as well as the fact that performance at Kadence, acquired in 2014, have not improved as expected. In response to these issues, the Company has reorganized its domestic subsidiaries, while listing on the first section of the Tokyo Stock Exchange in 2018; in FY12/18 it began a strong push toward structural reforms at Kadence. It has begun to make progress both in terms of improving profitability and increasing recognition.

Building on growth during turning points

3. Turning points

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

Business model



Source: Prepared by FISCO from Company materials

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

The Company came to its third major turning point in 2013-15 when it switched to a holding company structure that allowed it to accelerate M&A activity and overseas expansion. While has been accelerating site development in Asia as a result, the goal is not just increasing the number of subsidiaries, but monetizing and growing subsidiaries that will drive its next phase of growth. Results flattened to some extent in FY12/17 to FY12/18 due to promoting better business efficiency, subsidiary governance, and enhanced functionality and mutual utilization of capabilities. However, in 1H FY12/19, the Company moved to write down goodwill at Kadence while seizing the initiative to restart its overseas business. Domestically, it entered a new stage of business with its marketing solutions—the integration of its marketing research and IT solutions—raising expectations for regrowth.

■ Business trends

Overseas business undergoes a correction in FY12/19 despite successful domestic initiatives

1. Business initiatives for FY12/19

(1) Arrival of an excellent opportunity to leverage strengths

To achieve sustainable growth, the Company is moving to aggressively expand its business in growth areas and invest in enhancing profitability. At the same time, it is moving forward with a variety of initiatives, including the pursuit of greater group synergies. In FY12/18 it successfully shifted to the First Section of the Tokyo Stock Exchange, and began working on structural reforms at Kadence. Meanwhile, looking again at the surrounding environment, IT and other technologies are advancing at faster paces and promotion methods are rapidly shifting from mass media to digital marketing. Nevertheless, the Company possesses clear strengths with its support structure that resolve issues by interacting with customers in a unified manner and comprehensive marketing solutions that utilize researcher experience and group IT solutions functions. In FY12/19, it plans to continue strategic development of these strengths domestically, while further enhancing structural reforms at Kadence overseas.

(2) Initiatives in domestic research business

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

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

Business trends

In IT solutions, the Company has an extensive development and operations track record focused mainly on securities firms in the finance industry, with a high share of accounts maintained by listed securities companies running on apps the Company has developed. Building on this track record, the Company is expanding business with credit card companies, Internet banks, and others. Furthermore, it wants to not only supply apps, but also provide IT human resources to clients and obtain continuous operational work. Toward that end, the Company has turned Supotant Co., Ltd. into a subsidiary as a company with human resource introduction and dispatches that specialize in internet and e-commerce, which further ties into convenience for customers through operation of internet and e-commerce websites and dispatching the human resources it maintains. The Company obtained shares in Supotant Co., Ltd. not only because there is greater demand for building e-commerce websites, but also because the Company plans to launch a learning and training school aimed at IT engineer shortages and raising productivity. It intends to follow up with people after they get jobs and hold seminars at companies hiring these people. Furthermore, the group company Cross Ventures Inc. invested in Adlnte Co., Ltd., which developed AlBeacon OtoO (Online to Offline) service that delivers push notifications and makes other effective approaches when a user is near a store. The Company plans to outfit real-world stores with the system as a service for existing clients. We expect strong growth in the IT solutions business because of the many attractive opportunities it offers.

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

(3) Slight changes in overseas research business initiatives

While the domestic business progressed largely according to plan in 1H FY12/19, revisions are being made in the overseas research business. Initially, the plan was to lower costs and enhance capabilities by moving forward with structural reforms at Kadence while steadily expanding sites in new areas in the U.S. (New York) and areas that have not been penetrated in Asia, and strengthen infrastructure foundations by establishing business process outsourcing (BPO) sites in English-speaking Asia and opening an R&D center. Contrary to this somewhat aggressive strategy, however, unfavorable business conditions at Kadence in 1H FY12/19 called for further enhancing structural reforms there, although the Company's basic policy toward its overseas strategy remains unchanged.

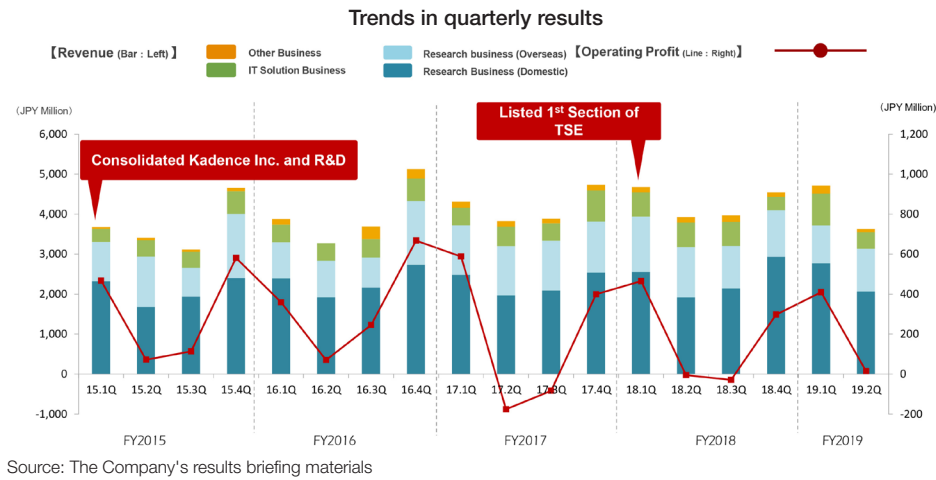
Accelerating structural reforms at Kadence

2. 1H FY12/19 results

For 1H FY12/19, the Company reported revenue of ¥8,808mn (+2.3% YoY), operating profit of ¥423mn (-7.7%), ordinary profit of ¥340mn (-16.6%) and loss attributable to owners of parent of ¥954mn (profit attributable to owners of parent was ¥186mn in the same period of the previous year).

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Business trends



Going into FY12/19, the Company's domestic businesses performed strongly, but in overseas research, sluggish business conditions at the four companies of the Kadence group and timing differences in booking profits from large projects made it impossible to expect the originally estimated profits. As a result, The Company reported revenue of ¥626mn, operating profit of ¥43mn and ordinary profit of ¥36mn. Because impairment losses to goodwill of the four companies of ¥1,021mn were recorded as special losses, results fell short of the target of ¥1,102mn in profit attributable to owners of parent. Note that while gross profit margins improved by 1.4 points, this was due to postponing the booking of profits from low-profit large overseas projects, and to continued investment in the IT solutions business and other businesses even as revenue targets went unmet and despite a 1.9 point rise in the SG&A expense ratio. Impairment losses on goodwill also resulted in a year-on-year drop of ¥1,153mn in goodwill on the balance sheet, to ¥327mn, reducing goodwill amortization expenses in 2H FY12/19 by about ¥70mn (a reduction of about ¥140mn on a full-year basis).

1H FY12/19 results

	1H FY12/18	Ratio (%)	1H FY12/19	Ratio (%)	(¥mn, %) Change (%)
Revenue	8,607	100.0	8,808	100.0	2.3
Gross profit	3,178	36.9	3,371	38.3	6.1
SG&A expenses	2,719	31.6	2,947	33.5	8.4
Operating profit	458	5.3	423	4.8	-7.7
Ordinary profit	408	4.7	341	3.9	-16.6
Profit attributable to owners of parent	186	2.2	-954	-10.8	-

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

Other businesses excluding Kadence progressed stably

3. 1H FY12/19 results by business segment

(1) Research business

The research business posted revenue of ¥6,845mn (-3.8% YoY) and operating profit of ¥874mn (-14.6%). Progress was made both in Japan and overseas in developing new customers and deepening relationships with existing customers, and in providing comprehensive marketing research services. Still, due to poor performance at Kadence, results from the domestic research business were unable to fully compensate for the overseas research business, and performance fell short of targets.

a) Domestic research

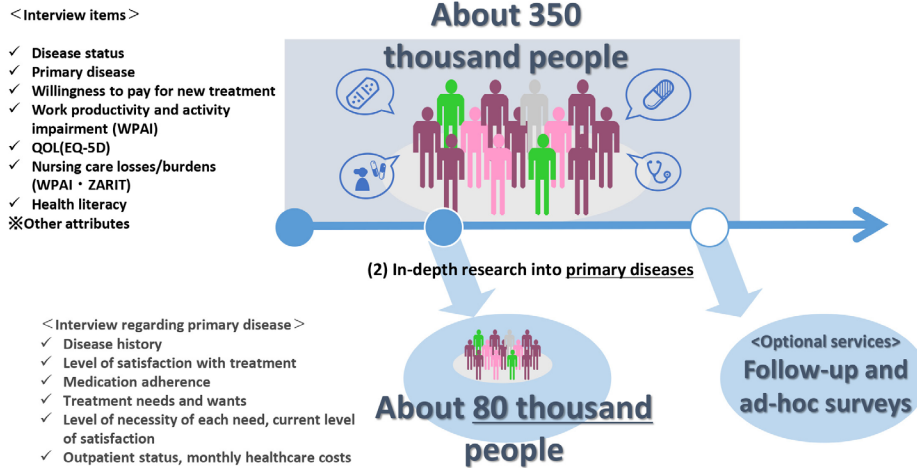
The domestic research business reported revenue of ¥4,831mn (-2.4% versus initial forecast, +8.0% YoY). The market for domestic research showed solid growth in excess of 2%, but the Company, along with other major market research firms, delivered even higher growth of between 8 to 10%. Behind this growth is an increasing concentration of business among top firms, driven in part by the fact that net-based research constantly requires new technology and thus significant capital for system investment and operation, and to a period of ownership change, primarily among small and medium-sized research firms. In the midst of this environment, the Company is beginning to establish a foundation in terms of scale and organization. While some of its operating companies have struggled, by enhancing its sales structure, and by developing and providing new services—including in the digital marketing and big data fields—the Company has seen orders increase, primarily from research firms and advertising agencies. It has also been successful in actively marketing to foreign-owned firms by offering medical research and enhanced ability to handle global projects, resulting in significant growth.

While mainstay subsidiary Cross Marketing performed strongly, in 2015 it split off its dedicated medical research practice to launch Medilead, which has seen profits increase significantly thanks to a positive environment driven by an aging population, and to efforts to incorporate the needs of major foreign-owned manufacturers. Unlike domestic pharmaceutical companies, overseas manufacturers emphasize patient surveys, are profitable and have strong research needs, allowing Medilead to successfully hire specialists and expand its lineup (this also resulted in its ability to make deep inroads into the industry). At the same time, Medilead has already conducted a survey targeting ordinary consumers, male and female, nationwide to design its Medilead Healthcare Panel, building Japan's largest disease information panel comprising 350 thousand people (150 thousand who have been hospitalized within the past year; 200 thousand who have not been hospitalized during the same period).

Business trends

Overview of the Medilead Healthcare Panel Survey

(1) Large-scale survey targeting ordinary consumers



Source: Medilead website

b) Overseas research

The overseas research business reported revenue of ¥2,015mn (-19.6 versus initial forecast, -23.8% YoY). While some overseas companies performed strongly, winning prizes offered to research companies, multiple sites saw sluggish business performance. One major project undertaken by the group, primarily in the U.S., was expected to post revenue in 2Q, but due to the time it took to start the project, that initial plan has now slid into 2H or later, making recovery of that investment in FY12/19 difficult. In England, Indonesia and Singapore, meanwhile, changes in organizational structures following acquisitions has caused some instability in near-term business performance. Given the above, the Company took a conservative approach to accelerating structural reforms and decided to write off goodwill in Kadence in a single move. While further investigation is needed in some areas, significant progress seems to have been made in governance. Note that the large project in question has not gone away, and because Kadence continues to acquire projects of one kind or another each quarter, this should not have a major impact when considered over a certain period of time.

(2) IT solutions business

The IT solutions business posted revenue of ¥1,590mn (+2.9% versus initial forecast, +28.6 YoY) and operating profit of ¥159mn (+45.2%). Building on its positive relationship with the financial services industry, the business continues to capture orders from existing customers, and is also moving to aggressively develop new customers, backed by its technology and sales capabilities. At the same time, it is working to secure gross profit margins by ensuring adequate development resources and thorough quality control.

Cross Communication, Inc. has built a track record enabling it to capture about 60% market share in application development for listed online security firms, and the reputation for reliability it has acquired in the securities industry has allowed it to steadily expand orders for application development for online banks, insurance companies and other financial institutions, bringing double-digit revenue growth. Because security and reliability are important components of developing applications for financial institutions, few companies are able to offer stable development services, and the market is not big enough to attract major SI firms. This has afforded the Company an unchallenged position, and offers it significant room to expand into servicing regional banks, credit card companies and others. Acquisition of the shares of Supotant Co., Ltd. in 2018 has also contributed significantly to earnings.

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(3) Other businesses

Other businesses reported revenue of ¥371mn (-14.1% versus initial forecast, +34.9% YoY), and ordinary profit of ¥52mn (versus ¥1mn in the same period the previous year). Centered around D&M, which conducts the promotions business, they engage in marketing and providing promotional services. Their strong profitability can be attributed to a brisk market for digital marketing; a sales organization enhanced through stronger cross-group collaboration with the research business; more aggressive efforts to capture managed-type business deals; acquisition of profitable deals; and what might be called a synergistic use of surveys as a tool for attracting customers.

1H FY12/19 results by business segment

(¥mn, %)					
Revenue before adjustment	1H FY12/18	Ratio (%)	1H FY12/19	Ratio (%)	Change (%)
Research	7,116	82.7	6,845	77.7	-3.8
Domestic research	4,472	52.0	4,831	54.8	8.0
Overseas research	2,644	30.7	2,015	22.9	-23.8
IT solutions	1,216	14.1	1,590	18.1	30.8
Other businesses	275	3.2	371	4.2	34.9

Segment profit before adjustment	1H FY12/18	Profit margin (%)	1H FY12/19	Profit margin (%)	Change (%)
Research	1,023	14.4	874	12.8	-14.6
IT solutions	109	9.0	159	10.0	45.2
Other businesses	1	0.5	52	14.3	3,768.5

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

Anticipating 2H results that further strengthen business development

4. FY12/19 outlook

The Company's FY12/19 outlook calls for revenue of ¥20,000mn (+14.3% YoY), operating profit of ¥1,250mn (+30.9%), ordinary profit of ¥1,109mn (+32.0%) and net loss attributable to owners of parent of ¥490mn (versus a net profit of ¥506mn in the same period of the previous year). With 2Q targets unmet and the occurrence of goodwill impairment losses, the Company now expects to post a net loss attributable to owners of parent, but revenue, operating profit and ordinary profit remain as initially forecast. This is due to continued strong performance forecast for domestic businesses; the expectation that performance overseas will be in line with initial forecasts for 2H after failing to meet 2Q targets; and because strong results are forecast for 2H in part due to the fact that about ¥70mn in goodwill amortization expenses expected to be reported in 2H FY12/19 will not be expensed due to impairment losses.

Nevertheless, a certain level of uncertainty remains with progress in the overseas research business, and some impact can be expected from the coming hike in the consumption tax in Japan. Aside from profit attributable to owners of parent, the Company has thus left its initial forecast unchanged.

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Forecasts for FY12/19

(¥mn, %)

	FY12/18	Ratio (%)	FY12/19 forecast	Ratio (%)	Change (%)
Revenue	17,491	100.0	20,000	100.0	14.3
Gross profit	6,429	36.8	-	-	-
SG&A expenses	5,474	31.3	-	-	-
Operating profit	954	5.5	1,250	6.3	30.9
Ordinary profit	839	4.8	1,109	5.5	32.0
Profit attributable to owners of parent	506	2.9	-490	-2.5	-

Segment revenue before adjustment	FY12/18	Ratio (%)	FY12/19 forecast	Ratio (%)	Change (%)
Research	14,293	81.7	15,676	78.4	9.7
Domestic research	9,551	54.6	10,220	51.1	7.0
Overseas research	4,742	27.1	5,456	27.3	15.1
IT solutions	2,542	14.5	3,308	16.5	30.1
Other businesses	656	3.8	1,017	5.1	55.0

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

Medium-term growth image largely unchanged despite Kadence write-down

5. Medium-term growth image

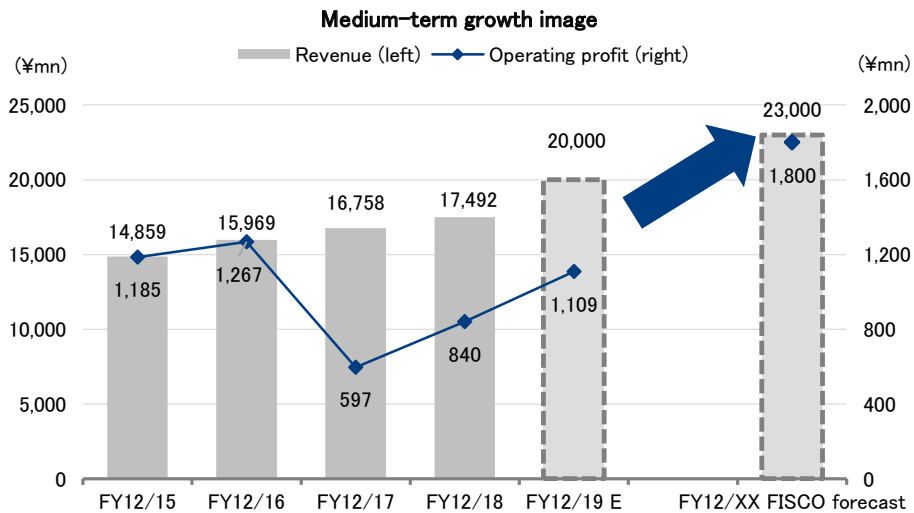
The Company intends to develop new services and businesses and strengthen group collaboration in digital marketing and IT areas with robust growth potential going forward in the medium-term. It therefore plans to continue aggressively investing in digital marketing and big data, including IT solutions and Web promotions businesses. Meanwhile, in mainstay domestic research businesses, it plans to actively invest in upstream research areas, such as consulting business, and medical and other growth areas with the goal of enhancing profitability. For domestic research, an industry with prospects of stable growth in the 2-3% range, the Company promotes business automation and productivity improvement with system investments, including robotic process automation (RPA) and artificial intelligence (AI), and builds human resource cultivation programs that factor in various client issues.

Domestic businesses, which delivered strong near-term results, are expected to continue leading growth in the medium term.

Meanwhile, no changes are expected in the Company's approach to and major trends in the overseas research business. It needs to make inroads in Asia and the U.S., which will likely require the use of M&A. That said, Kadence also needs a recovery strategy. To build an environment that allows the Company to focus on business development, it plans to clarify a shift in roles from general management to specific responsibility for management of overseas subsidiaries, with accounting and finance controlled in Japan. Naturally, this will mean giving Japan greater control over Kadence as well. Later, the Company plans to consolidate sites where profitability is unlikely due to the trade war between the U.S. and China, while continuing active investment in countries with a demographic dividend. As it strives toward medium-term regrowth, the Company expects to quickly rebuild its business through a reduced cost structure and enhanced governance, working to monetize overseas businesses from their bottom in FY12/19. While the Company has already made progress in establishing a BPO site and its India R&D center, its belief that its overseas businesses will drive growth remains unchanged, a view backed by its high-value-added, high-productivity structure as a marketing solutions company.

Business trends

Domestic and overseas marketing-related markets remain strong, and the Company is making steady progress in expanding its business fields. While it has had its ups and downs, it is moving forward to build a foundation for its overseas business, consolidating operations at its BPO site and establishing an R&D center in India for the development of new technology. Meanwhile, it is expanding into new areas of business, including the medical field and mystery shoppers, and is cultivating peripheral businesses, including the promotion business (D&M) and an engineer dispatching business. It is also moving to respond to new technologies such as digital marketing. While the impairment of goodwill at Kadence will have some lingering effect, the company is making solid progress in building a base for becoming a comprehensive marketing solutions group.



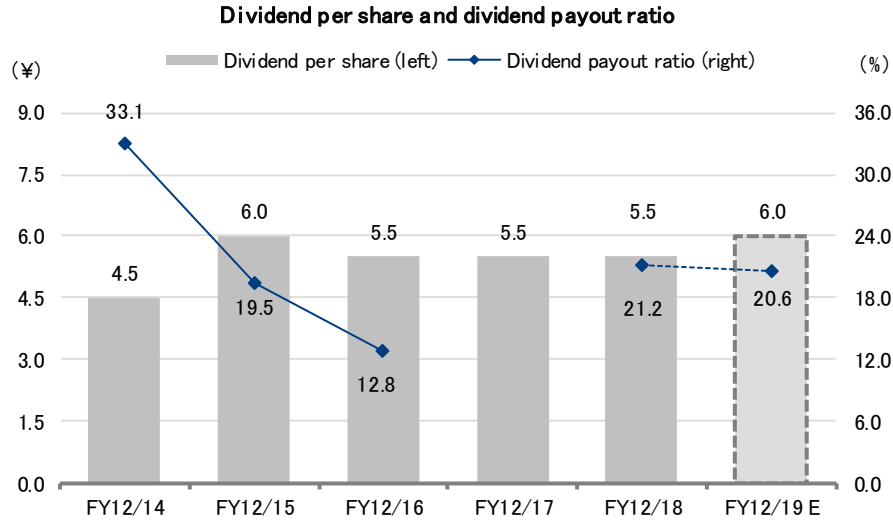
Source: Prepared by FISCO from Company materials

Shareholder return policy

Increase in Dividend Planned for FY12/19

The Company maintains a policy of providing stable returns to shareholders in the form of dividends. However, in view of the great demands on capital at the present time and business investment plans for the future, management has decided to pay an annual dividend based on a dividend payout ratio of roughly 15% of consolidated earnings. While a net loss is forecast for FY12/19, the net loss attributable to owners of parent is due to the impairment of goodwill in the overseas research business, a transient event, and the Company thus plans to maintain its assumption of an annual dividend of ¥6.0 per share. Note that an interim dividend of ¥3.0 is planned for FY12/19.

Shareholder return policy



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

Information security

The research business collects personal information from those surveyed. Group companies that may come into possession of personal information—including the parent company, UTIL, Inc., D&M, Inc., Research Panel, Inc. and Medilead Inc.—have all been certified as meeting the data privacy standards set forth by JIPDEC (Japan Information Processing and Development Center) for the proper collection, management, and handling of personal information.



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