

Cross Marketing Group Inc.

3675

Tokyo Stock Exchange First Section

15-Oct.-2020

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

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Summary

Aiming for re-growth “after coronavirus”

1. Business expansion through promoting digital transformation based on marketing solutions

Cross Marketing Group Inc. <3675> (hereinafter, “the Company”) is comprised of three businesses: research, IT solutions, and other businesses. In the mainstay research business, centered on online research, it provides a one-stop service, from analysis through to consulting and reporting, to meet the research needs of various domestic and overseas customers. The IT solutions business handles mobile system 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. Currently, based on marketing solutions, which crosses over each of the businesses, it is promoting digital transformation to respond to the rapid digitalization, and continues to grow while meeting diversifying customer needs.

2. Further reinforcing its strengths of marketing solutions and digital transformation

A feature of the Company’s research business is the quality and quantity of its panels (registered monitors). In terms of quantity, it is able to secure sufficient quantity as it has 2.19mn people on its active panels, and when combined with those of its business partners, it is said to have a total of 4.65mn people (as of October 2019). In terms of quality, it constantly maintains the basic attributes of panels so they are up-to-date, and categorizes them in advance so that they are easy to use. It also conducts thorough quality control of the panels, including de-registering malicious, fraudulent respondents. Its strengths include that all of the responsible people, including sales staff, researchers, and directors work together in the support system to solve customer problems; the experience of its researchers in appropriately planning and designing solutions to problems; and an organizational structure that facilitates the flexible use of functions inside and outside of the Group. In addition to these basic features and strengths, it is considered that in the future, the expansion of its business scope through promoting digital transformation based on its marketing solutions will be a factor that will further differentiate the Company from its competitors.

3. Although 1H results were severe due to the impact of the novel coronavirus, the Company is still developing an active strategy

The FY12/20 1H results were severe, with revenue of ¥7,700mn (down 12.6% year-on-year (YoY)) and operating profit of ¥166mn (down 60.8%). This was mainly because economic activity around the world was greatly restricted by the impact of the novel coronavirus pandemic. Additionally, within the Company, the research business struggled, as it tends to reflect the economic environment more than the IT solutions business and the other businesses. In particular, conditions were extremely severe in the overseas research business that is conducted in many cities where lockdown measures were implemented, and in such ways, the impact of the novel coronavirus pandemic is being observed in great detail. Despite this, from this fiscal period onward, the Company is actively developing a growth strategy through promoting digital transformation. While on the one hand it will develop new services of customer journey-type data analysis and support to grow D-to-C (manufacturer direct sales) brands, on the other hand it is developing initiatives including establishing and integrating new companies and entering into business partnerships.

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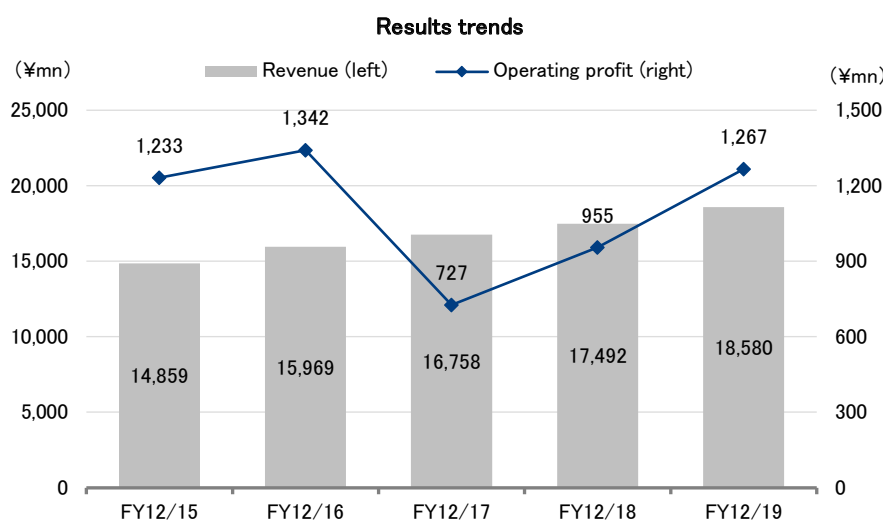
Summary

4. Although the current period's results appear severe, the Company is eyeing new record highs “after coronavirus”

As its response for “after coronavirus,” it is thought that the Company will promote “reforms to achieve both business maintenance and growth.” Despite this, the end of the novel coronavirus pandemic is currently still not in sight, so it has not yet decided on the FY12/20 full year results forecasts. However, in terms of the current business conditions on entering the 3Q, it appears that conditions bottomed-out in the 1H, which is when the state of emergency was declared, and there are signs of a recovery. Therefore, for the 3Q results, revenue is expected to return to approximately the same level as in the same period in the previous fiscal year, so it is considered that results will be set on a recovery track by controlling SG&A expenses. As a result, while it appears difficult to secure FY12/20 results of the same level as in FY12/19, it is likely that they will acquire momentum from FY12/21 onwards. Above all, as there seems to be no major changes to the Company’s medium- to long-term strategy and with the “after coronavirus” period not that far away, it is considered possible to see a recovery, of new record high results and a medium-term growth trend.

Key Points

- Business expansion centered around marketing solutions and digital transformation
- Although conditions are extremely severe in FY12/20 due to the impact of the novel coronavirus pandemic, the Company continues to conduct active management
- Possible to see a recovery “after coronavirus,” with new record high results and a medium-term growth trend



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

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Company profile

Widening the room for growth by meeting diversifying customer needs, centered on online research

1. Business overview

The Company businesses are divided into three segments: 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, and for both online and offline, it provides a one-stop service domestically and overseas through a wide range of surveys. 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. Up to the present time, the Company has more strongly crossed over the functions of each business and greatly expanded its business scope from online survey-based marketing research to marketing solutions centered on online research. Currently, based on marketing solutions, it is promoting digital transformation* to respond to the rapid digitalization and expanding its business scope with the aim of heightening its ability to meet diversifying customer needs, so the room for growth is widening.

| * Digital transformation (DX): the concept that the spread of IT will make every aspect of people's lives more comfortable. |

Going forward, growth is expected to continue in the medium- to long-term

2. History

The Company can trace its roots back 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. In August 2011, it acquired Index Inc.'s mobile solutions business (currently the IT solutions business). Through efforts including establishing a subsidiary in Shanghai, China and entering overseas markets, the Company aimed to expand its business areas. In 2013, it changed its company name to Cross Marketing Group Inc., and became a holding company, and in March 2018, its listing was upgraded to the 1st Section of the TSE. In addition, it accelerated M&A, new businesses, and structural reforms, including acquiring a series of leading companies like Research and Development, Inc., and Supotant Co., Ltd., and even while being a late-comer, it has quickly come to be a leader in the marketing research industry. Since 2020 began, unfortunately results in the industry as a whole have temporarily been kept down due to the impact of the novel coronavirus pandemic. Yet in the marketing research market, which is projected to grow in the medium- to long-term, the Company is continuously developing a growth strategy and it is expected to continue to achieve medium- to long-term growth "after coronavirus."

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Company profile

History

Date	
April 2003	Founded in Shibuya-ku, Tokyo
January 2004	Relocated to Chuo-ku, Tokyo
May 2006	Entered into a capital and business alliance with Voyage Group and its subsidiary Research Panel, Inc.
October 2008	Listed on the Mothers section of the Tokyo Stock Exchange
August 2011	Subsidiary Cross Communication Inc. commenced operations after succeeding to a portion of Index Inc.'s mobile solution business
May 2012	Established subsidiary Cross Marketing China Inc. in Shanghai, China and commenced operations
June 2013	Transitioned to a holding company framework by establishing Cross Marketing Group Inc. through a sole-share transfer
August 2013	Acquired shares in Markelytics Solutions Private Limited and Medical World Panel Online Inc.
May 2014	Relocated the head office to Shinjuku-ku, Tokyo (Tokyo Opera City)
November 2014	Converted Kadence Group, which operates in eight countries in North America, Europe, and Asia, into a wholly owned subsidiary
February 2014	Converted affiliate Research and Development, Inc. into a consolidated subsidiary
April 2014	Cross Communication Inc. established subsidiary Cross Propworks Inc. in Hakodate
July 2015	Established Medilead Inc., and D&M Inc., and they started operations
August 2015	Established Cross Marketing (Thailand) Co., Ltd. (currently, Kadence International (Thailand) Co., Ltd.)
November 2015	Cross Communication Inc. converted JIN SOFTWARE (renamed Cross J Tech Inc.) into a subsidiary
April 2016	Shopper's Eye Inc., started operations
March 2018	Listing was upgraded to the TSE 1st Section
April 2018	Established Cross Ventures Co., Ltd.
October 2018	Cross Communication made a subsidiary of Supotant Co., Ltd.
November 2019	Supotant Co., Ltd., merged with Cross J Tech Inc., and the company name was changed to Fittio Inc.
June 2020	Cross Marketing Inc., conducted an absorption merger of Research and Development, Inc. aimed at strengthening online and offline synergies

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

The novel coronavirus pandemic has cast a large shadow over the marketing research industry

3. Industry environment

Alongside factors such as the diversification of consumption and the expansion of corporate results, the marketing research market has grown stably. On broadly classifying marketing research in actual companies conducting surveys in the field and online, it can be divided into online research and offline research. In this situation, online research is superior on the points of speed, costs, and scale compared to conventional offline research such as visit surveys, mail surveys, and telephone surveys. Therefore, since 2000, the online research market has been rapidly expanding alongside the spread of Internet usage. In addition, the industries' three major companies* are integrating marketing research with promotions, IT solutions, and consulting to expand their business scope to marketing solutions, while companies other than these major companies are aiming to survive by demonstrating their uniqueness. Moreover, in recent years, within the digital-transformation movement, it has become necessary to make full use of the latest IT technologies in order to respond to needs for big data surveys and analyses.

* The three major companies: Macromill <3978>, INTAGE Holdings <4326>, and the Company.

Company profile

Since the beginning of 2020, the novel coronavirus pandemic has had a devastating impact and has cast a large shadow over the marketing research industry. In particular, there was a three-month period from April to June during which a state of emergency was declared in Japan, and the entire world adapted self-restraint for sales and going out. Overseas, measures included cities being placed on lockdown, and in many regions, the downturn in economic activities was even stronger than in Japan. Therefore, particularly for offline surveys, in which the potential for person-to-person contact is high, and also in industries that have been strongly affected by the impact of the novel coronavirus pandemic, cancellations and postponements of research activities occurred, and results were extremely severe for every company. Although there was a second wave of the novel coronavirus pandemic, which had temporarily slowed down, from July onward, economic activities have gradually restarted and the business conditions of each company in the industry appear to be showing signs of recovery. However, in terms of the industry as a whole, it is expected to take at the very least around one year to recover from the slump in results during the April-to-June period. Therefore, it is anticipated that digital transformation to promote improved efficiency will further accelerate. In the next section, the Company's businesses, followed by the results, will be described in detail.

April to June 2020 results of listed marketing research companies

(¥mn)

Code	Trading name	Revenue	YoY difference	Operating profit	YoY difference	Research features
4326	INTAGE Holdings	10,676	-653	-774	-896	Japan's largest marketing research company. Strengths include panel surveys.
3978	Macromill	7,718	-2,307	-5,653	-6,580	Mainly conducts online surveys. Conducts low-cost market surveys domestically and overseas. Also provides analysis services.
3675	Cross Marketing Group	3,081	-1,016	-261	-275	Mainly online, but offline as well. Provides a one-stop service, from planning through to aggregating and analysis.
3695	GMO Research	696	-70	-25	-25	Mainly online surveys. Provides work support, such as for aggregating and analysis. Has internal and external survey respondents.
6555	MS&Consulting	206	-446	-202	-224	A mystery shopper specialist. Main customers are retail companies. Also offers consulting.
2467	VLC Holdings	316	4	-113	34	User needs surveys and brands surveys. 20% for Maruetsu.

Note: MS&Consulting (6555) figures are an aggregation of March to May

Source: prepared by FISCO from each company's financial results, financial results briefing materials, and websites

Business activities

The research business is evolving and its business scope is expanding

1. Domestic research business

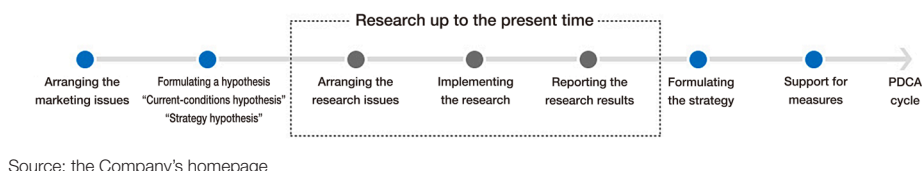
The sequence of events in the Company's online research is as follows: develop a questionnaire program in accordance with the plan and place it on the questionnaire server; conduct the questionnaire among the extracted panels; carry out data cleaning, such as of logical contradictions and invalid answers; aggregate the survey results; and in many cases, prepare an analysis report and deliver it to the customer. Notable features of the Company are the quality and quantity of its panels, and its accompanying value-added services, such as analysis reports.

Business activities

What is most important for online research is the quality and quantity of the panels. In terms of quantity, the Company boasts the largest number of questionnaire panels in Japan (as of October 2019) with a total of 4.65mn people on active panels including the 2.19mn people who answered a questionnaire within the last one year and people from its business partners. In terms of quality, in addition to the basic information like gender, age, and place of residence, the panels cover basic attributes such as composition of co-habitants and living arrangements. In order to ensure the reliability of the data, Research Panel Inc. also updates the membership registration information every year and ensures that the panels' basic attributes information is always kept up to date. The Company also conducts thorough quality control of the panels, including checking the contents of the questionnaire survey responses and de-registering malicious, fraudulent respondents. In addition, in order to smoothly conduct the surveys, it segments the panels into specific themes in advance, such as car ownership or diseases, and has prepared more than 20 specialist panels. From the above, it is apparent that the Company's online research is capable of highly accurate and efficient surveys.

Moreover, the Company is developing its digital marketing in combination with quantitative research and qualitative research that it conducts offline, including actually gathering together and interviewing survey respondents, and also in combination with existing survey methods like IT. In addition to the normal questionnaires, it collects and analyzes data posted on SNS and elsewhere and supports the construction of a data-driven decision-making system that integrates questionnaire data with existing data. Medilead, which was made a subsidiary in 2015, conducts research using panels of doctors, medical practitioners, and patients, and provides various types of support, including support for creating health management programs and illness-onset risk models, and support for writing theses, research and medical technology evaluations, including for drug discovery and clinical trials. For such services that are focused on specialized areas, aspects such as securing specialized human resources and responding to new technologies are necessary; therefore, they can be called services with extremely high added value. Therefore, Medilead's marketing solutions have acquired extremely strong reputations and its business scope is expanding.

Roadmap for Marketing Solutions



Source: the Company's homepage

The Kadence Group has completed the first stage of structural reform

2. Overseas research business

Japanese companies are entering-into overseas countries in Asia and elsewhere, and the Company is also developing its business in Asia. In 2014, it conducted an M&A of the Kadence Group, which conducts a marketing research business in the United States, the United Kingdom, and Asia, thereby strengthening its business development in Asia. However, because it barely contributed to consolidated results due to organizational issues and other factors, the Company advanced structural reforms in FY12/18 and FY12/19. Currently, the Kadence Group has completed the first stage of the structural reforms and aims to further strengthen its organizational structure. In the future, it is thought that the infrastructure foundation will be strengthened, such as by steadily developing bases in the United States (the West Coast area) and the areas in Asia it has not yet entered, and establishing BPO (Business Process Outsourcing) bases and R&D centers in the English-speaking regions of Asia.

Strengths include developing systems with the required robustness for the financial services industry

3. IT solutions business

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 strengths in building and operating systems for financial institution apps and settlement and point management that require robust performance and large-scale systems with millions of members, along with other systems. The Company has an extensive track record for development and management in the financial services industry, centered on securities companies. For instance, the apps it has developed have high shares of the accounts of listed Internet securities companies. The background to this track record is its expansion of sales to customers such as credit card companies and online banks. Moreover, it does not only provide apps, it additionally provides human resources to customer companies, while also conducting management-related operations with continuity. Therefore, in 2019, Supotant, which conducted recruitment and temporary staffing with a focus on the Internet and e-commerce, and Cross J Tech Inc., were merged and the company name was changed to Fittio Inc. The company has strengthened temporary staffing to manage and maintain websites and e-commerce sites developed for customers.

The Company's marketing solutions key business

4. Other businesses (the promotions business)

The core of other businesses is the provision by D&M Inc. of cutting-edge marketing services, such as digital marketing that utilizes consumer data and digital promotions. Among those other businesses, the unique marketing system of OODA (Observe, Orient, Decision, Action), which differs from the traditional PDCA, has acquired an excellent reputation as a service to support customers' marketing strategies. It is also advancing data collaborations with major DMP (Data Management Platforms) like TREASURE DATA and Adobe, and has become able to respond to the increasingly complex needs of advertisers and changes to the market environment by coordinating large-scale attributes data and data on companies. The promotions business can be said to be a key business, because it is provided as a one-stop, integrated service for the Company's marketing solutions through a collaboration between the research business and the IT solutions business.

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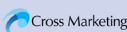













Business activities

A strength is its support system through Group collaborations

5. Business strengths

Notable features of the Company's research would seem to be 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; an industry-leading number of panels in Japan; and surveys that are capable of targeting not only basic attributes, but also small, unique groups as well. However, the other major players in the industry also possess the same capabilities and services to some extent, so they do not significantly differentiate the Company. Its greatest strength is considered to be its support structure that brings together all the responsible people, including sales staff, researchers, and directors, who can adapt quickly and interact with clients to resolve issues in a unified manner, as opposed to the other major companies in the industry whose functions tend to be separate from one another. Furthermore, the Company's support structure, together with the experience of its researchers in providing suitable proposals and designs to address the client's situation, and its strengths can be said to include its ability to provide total marketing solutions that utilize the functions of the IT solutions business and promotions business in the Group, which is considered to effectively differentiate the Company from its competitors. Below are the Group companies that constitute the Company's businesses and support its strengths.

List of Group companies

Marketing Research		IT Solutions	
	Cross Marketing is the pioneer in online research with full service marketing research capabilities.		Cross Communication are IT specialists engaged in the planning, development and operation of mobile and smartphone oriented websites and systems.
	R&D offers value added information (insights) through market research planning, design, implementation and consultation services.		Cross Propworks offers development and design of multi-device oriented websites and systems, as well as a variety of data processing services.
	Medilead is full service MR agency focused on delivering insights derived from key stakeholders in the healthcare industry.		Fittio is engineer placement agency oriented IT/Web
	EnviroSELL Japan offers analyses of shopper behavior and business consulting services.	Others	
	Service standards are evaluated from the perspective of the consumer through the use of mystery shoppers		D&M utilizes consumer data to offer cutting edge marketing services.
	Kadence International is a global insight agency engaged in marketing research with offices in the UK, the USA, and Asia.		Management support and investment toward start-up which has unique technology and know-how in internet industry.
	Markelytics is a leading market research agency providing end-to-end research solutions to clients around the world.		
	Medical World Panel manages and operates proprietary healthcare panels, and provides insights from key stakeholders in the healthcare industry.		
	Support client to deal with marketing problems with web research and BPR/BPO service		

Source: the Company's results briefing materials

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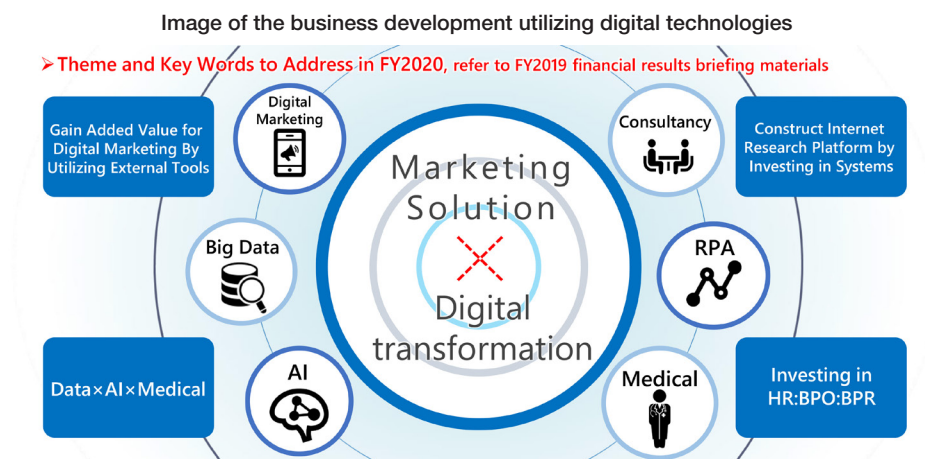
Business strategy

Evolving research for digital transformation

1. The strategy conducted since 2020

Due to the current rapid spread of IT, there has been a flood of Big Data in various fields. Even in the marketing aspect, while on the one hand customers have become able to automatically accumulate this data, they are faced with the major problem of precisely analyzing and managing it. In order to solve this problem, the Company provides a high-value-added reporting service through data engineering (aggregating large volumes of data by engineers) that ties as quickly as possible and optimally aspects such as customers' big data and the Company's research data and consulting capabilities, and marketing solutions (analysis by marketers). Furthermore, it also integrates marketing solutions and digital transformation, and the Group is evolving its support capabilities through marketing by actively conducting measures in this new phase.

Specifically, as previously stated, Medilead is not only conducting research with doctors and patients, but also providing high-value-added services, including consulting specialized in the expert fields of medicine and data science (analysis), and support for writing theses. On the other hand, by advancing the shift to online research and the automation of research, digital transformation is expected to improve productivity for the Company as well. Within this development, not only the major companies in the same industry, but also consulting firms and advertising agencies are also beginning to make efforts. But it is considered that the Company is superior to others in the same industry in terms of its systems' flexibility and mobility, and to companies outside of the industry in terms of its research functions.



Source: the Company's results briefing materials

Continuing to implement a growth strategy during the novel coronavirus

2. Specific measures in FY12/20 1H

In FY12/20 1H, the impact of the novel coronavirus pandemic was enormous and inevitably it attracted a lot of attention. Yet even in this situation, the Company continued to actively implement a growth strategy to develop digital transformation based on marketing solutions, and is currently developing and market launching new services. It provides the services described below, including customer journey-type data analysis, support for the growth of D-to-C (manufacturer direct sales) brands, Web crawling that uses AI, positional information big data analysis, and Qwantz, which is a self-selection questionnaire. Aside from these, it has established withwork Inc., as marketing research operations base in Fukuoka in order to conduct risk hedging in the event of a disaster and to strengthen and recruit human resources. It integrates the online research mainly conducted by Cross Marketing and the offline research mainly conducted by Research and Development, and with ICT and other factors in the background, it is responding to the evolution of marketing activities in customers. Also, D&M has entered-into a business partnership with Temona Inc., and it is providing marketing support to the businesses that use Temona's subscription system, while Cross Communication Inc., has developed CONNECT, a new smartphone securities app with the stability and the robustness required by Daiwa Securities Group Inc.<8601>.

New services in 2020 1H

a) Customer journey-type data analysis

The CRM analysis service, which aims to utilize companies' big data, is a fully customized support service to deal with the issue of companies' utilization of big data, including to convert to customer journey-type data, to actualize customers and their issues, and for test marketing. It seems that orders are currently increasing as a marketing support tool during the novel coronavirus pandemic. Customer journey-type data analysis refers to using big data analysis to make visible customers' (individual customers') behaviors, thoughts, and emotions (the customer journey) that tend not to be seen in conventional marketing.

Example of a customer journey-type data analysis



Note: Diagram shows the marketing flow, of awareness data and behavior data and the calculation of LTV (Life Time Value) based on an analysis of macro and micro customer data ~ the simulation of revenue improvement ~ improvement measures ~ the verification of results by test marketing.

Source: the Company's results briefing materials

b) Support for the growth of D-to-C (manufacturer direct sales) brands

This service, which was jointly developed for D-to-C brands by NEWROPE Co. Ltd., which is investing in Cross Ventures Inc., and by Cross Communication Inc., is a targeting service that utilizes their abundant track records in data marketing. Image data on SNS is analyzed using fashion AI technology, a database is created, a reserve army of fans is extracted and fans are efficiently acquired, which will ultimately lead to continuous communication with fans.

Business strategy

c) Web crawling using AI

This is a service to support decision making by customers in the big data era. It uses AI and collects, coordinates, and analyzes data from more than 1.7 billion websites around the world.

d) Positional information big data analysis

This is a service in which D&M conducts questionnaires and behavioral analysis and creates reports in relation to consumers who are estimated to live in residential areas through the positional information big data analysis of X-Locations Inc., which has a business partnership with D&M. Its aims including acquiring new customers, promoting repeats among existing customers, and improving customer-attraction efficiency through advertising.

e) The Qwantz self-selection questionnaire

This self-selection questionnaire provided by D&M has inexpensive fees and fast delivery, and it is easy for respondents to use. Using partner companies' demographic data on site visits and app usage for more than 5 million people, including on gender, age, and place of residence, allows the company to effectively narrow down the destinations to which the questionnaire will be sent.

Business trends

Profits decreased significantly due to the impact of the novel coronavirus

1. FY12/20 1H results

The FY12/20 1H results were severe, with revenue of ¥7,700mn (down 12.6% YoY), operating profit of ¥166mn (down 60.8%), ordinary profit of ¥186mn (down 45.6%), and net profit attributable to owners of parent of ¥32mn (a return to profitability). The reason for these results was solely the spread of the novel coronavirus pandemic. Alongside the spread of the pandemic, the Company's business activities were greatly restricted by the declaration of a state of emergency among other factors. The impact of the novel coronavirus pandemic was significant overseas as well, and there were regions where the Company's business activities were even more restricted than in Japan. Therefore, the research business struggled as it tends to reflect the economic environment more than the IT solutions business and the other businesses, and the overseas research business particularly struggled. Against this backdrop of the social and economic environments, on the one hand the Company implemented measures like reducing expenditures that are not necessary or urgent, establishing a remote-working environment, and ensuring it had sufficient liquidity on hand, while on the other hand, it continued with a strategy to realize sustainable growth, including by investing and pursuing Group synergies. The reason why net profit attributable to owners of parent increased significantly in FY12/20 1H was a reaction to the goodwill impairment loss that was recorded in the same period in the previous fiscal year due to the structural reforms of the Kadence Group.

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Business trends

FY12/20 1H results

	FY12/19 1H	Ratio (%)	FY12/20 1H	Ratio (%)	(¥mn, %) Change (%)
Revenue	8,808	100.0	7,700	100.0	-12.6
Gross profit	3,371	38.3	2,937	38.1	-12.9
SG&A expenses	2,947	33.5	2,771	36.0	-6.0
Operating profit	423	4.8	166	2.2	-60.8
Ordinary profit	341	3.9	186	2.4	-45.6
Net profit attributable to owners of parent	-955	-10.8	32	0.4	-

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

On dividing the 1H into the 3 months of the 1Q and the 3 months of the 2Q, the situation in the 1Q was that the impact of the novel coronavirus pandemic was still hardly being felt, but that on entering the 2Q, the virus rapidly spread, a declaration of a state of emergency was issued within Japan, and the self-restraint on going out and sales activities became widespread. There were also regions overseas in which economic activities were paralyzed, due in part to lockdowns in major cities. Based on these conditions, the Company moved quickly to keep down costs, including labor costs and advertising costs. Furthermore, alongside the declaration of a state of emergency, there were also decreases in other costs, such as for transportation and consumables, while goodwill amortization costs also decreased due to the impairment loss in the previous period. As a result, in the 2Q alone, it reduced SG&A expenses by ¥177mn. However, inherently the 2Q is not a period that generates profits, and this reduction was unable to cover for the declines in revenue and gross profit, leading to a loss of profit.

Comparison of the 3-month results of the 1Q and the 2Q

	3 months of 1Q	FY12/19 1Q	Ratio (%)	FY12/20 1Q	Ratio (%)	(¥mn, %) Change (%)
Revenue		4,711	100.0	4,618	100.0	-2.0
Gross profit		1,875	39.8	1,867	40.4	-0.4
SG&A expenses		1,465	31.1	1,440	31.2	-1.7
Operating profit		409	8.7	427	9.2	4.3
Ordinary profit		366	7.8	412	8.9	12.8
Net profit attributable to owners of parent		192	4.1	250	5.4	30.1

	3 months of 2Q	FY12/19 2Q	Ratio (%)	FY12/20 2Q	Ratio (%)	(¥mn, %) Change (%)
Revenue		4,097	100.0	3,081	100.0	-24.8
Gross profit		1,496	36.5	1,069	34.7	-28.5
SG&A expenses		1,481	36.2	1,330	43.2	-10.2
Operating profit		14	0.3	-261	-8.5	-
Ordinary profit		-24	-0.6	-226	-7.4	-
Net profit attributable to owners of parent		-1,146	-28.0	-218	-7.1	-

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

The IT solutions business and the promotions business performed steadily overall

2. FY12/20 1H results by business segment

Looking at the FY12/20 1H results by segment, in the research business, revenue was ¥5,970mn (down 14.9% YoY) and operating profit was ¥739mn (down 15.4%); in the IT solutions business, revenue was ¥1,711mn (up 0.7%) and operating profit was ¥61mn (down 61.9%); and in other businesses, revenue was ¥369mn (down 3.2%) and operating profit was ¥82mn (up 54.9%). Breaking down revenue in the research business, domestically it was ¥4,474mn (down 7.4%) and overseas it was ¥1,256mn (down 37.7%).

FY12/20 1H results by business segment

(¥mn, %)					
Revenue before adjustment	FY12/19 1H	Ratio (%)	FY12/20 1H	Ratio (%)	Change (%)
Research	7,013	79.6	5,970	77.5	-14.9
Domestic research	4,831	54.8	4,474	58.1	-7.4
Overseas research	2,015	22.9	1,256	16.3	-37.7
IT solutions	1,698	19.3	1,711	22.2	0.7
Other businesses	381	4.3	369	4.8	-3.2

Segment profit before adjustment	FY12/19 1H	Profit margin (%)	FY12/20 1H	Profit margin (%)	Change (%)
Research	874	12.5	739	12.4	-15.4
IT solutions	159	9.4	61	3.5	-61.9
Other businesses	53	13.9	82	22.3	54.9

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

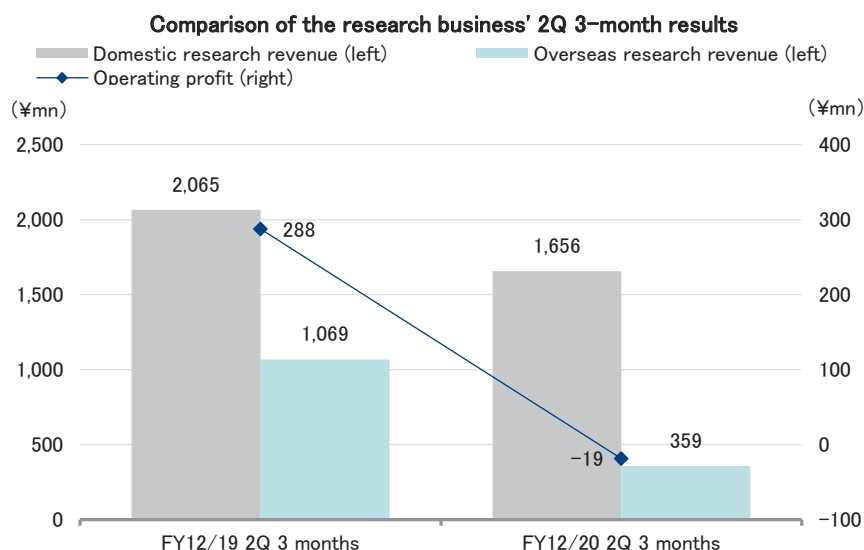
In the domestic research business, the declaration of a state of emergency due to the novel coronavirus pandemic resulted in restrictions on companies' business activities and other impacts, and particularly in the 2Q, in which customer companies reviewed their research budgets and some projects already underway were cancelled or postponed. In particular, from the viewpoint of avoiding contact to prevent the spread of the virus, the number of offline survey projects was significantly reduced. Despite efforts to acquire orders and provide services, growth was also sluggish for survey projects conducted on the Internet, mainly for those industries directly affected by the declaration of a state of emergency. In October 2020 (scheduled), Cross Marketing, which is mainly responsible for online research, will absorb Research and Development, which is mainly responsible for online survey research, but this will be conducted as part of an existing plan aimed at synergies from the time of the M&A of Research and Development rather than a result of the novel coronavirus pandemic. Although sales activities in the overseas research business, have been restricted in many overseas bases more than in Japan, due in part to the city-wide lockdowns and restrictions on going out, the structural reforms from the previous period were continued and the organizational structure was greatly reviewed while considering the circumstances at each individual base. Therefore, revenue declined significantly.

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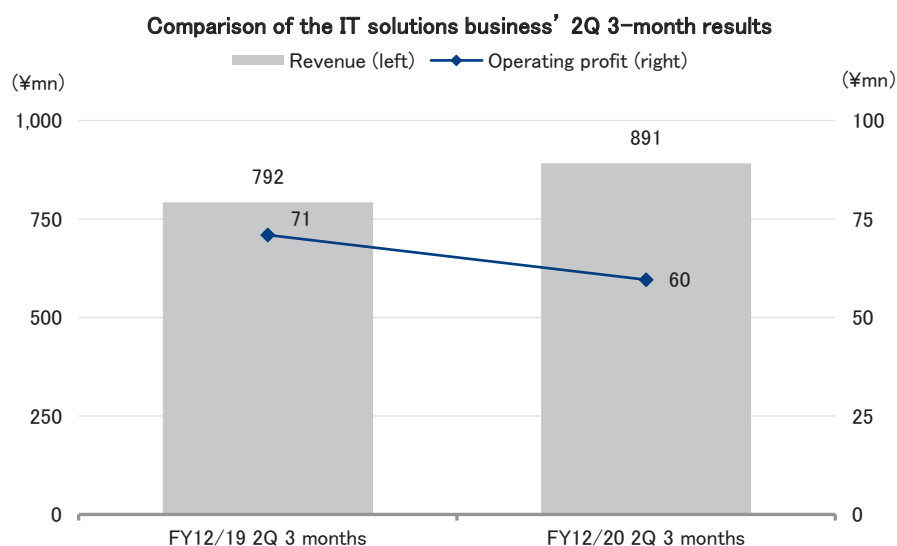
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Business trends



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

In the IT solutions business and the other businesses, the novel coronavirus pandemic appears to have had a slight impact on ordering activities, but hardly affected sales, which can be said to be solid. In the IT solutions business, resources were concentrated in large-scale outsourced development projects throughout the 1H, and operating profit was recovering toward the 2Q. However, costs to respond to large-scale projects increased, resulting in a profit decline.



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

In other businesses, progress was made including for collaborations within the Group with the research business to strengthen the sales structure and services and for collaborations with other companies. However, revenue declined slightly due to the effects of the pandemic, including a slowdown in new customer acquisitions and the postponements and cancellations of some projects. Despite this, an increase in operating profit was still secured, mainly from the thorough management of the gross profit margin and reviews of various costs.

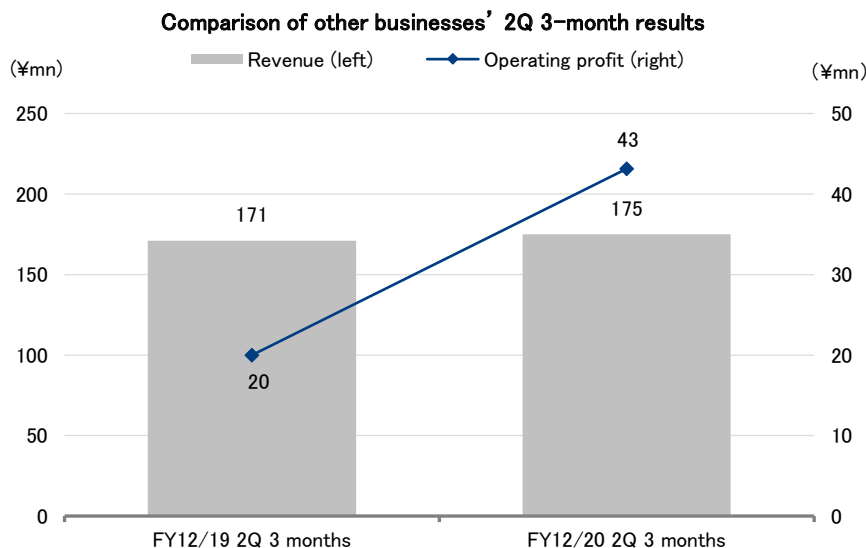
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Business trends



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

Results outlook

Progressing reforms to achieve both business maintenance and growth

1. Responses for “after coronavirus” and the 3Q business conditions

Although there is still no vaccine for the novel coronavirus, in anticipation of the “after coronavirus” period, the Company's approach is to advance “reforms to achieve both business maintenance and growth” as a corporate group responding to changes to society and to values. Within this approach, it has defined the short- to medium-term risks and the specific response policies for the “after coronavirus” conditions that are currently being considered. “After coronavirus,” it will first look at the changes to work styles and to organizational management, and as its response policy, it will conduct both office work and remote work, premised on a safe working environment. In addition, to support this it will progress reforms to the personnel evaluation system and to management. It seems that the novel coronavirus pandemic is accelerating the downturn in offline survey projects, so based on this, the Company will progress the shift to online research and digital transformation. From viewpoints such as avoiding contact, it is considered that the ways of conducting sales activities and customer acquisition will change, but by strengthening digital marketing and the CRM system, it will construct new relationships with customers. To respond to changes to consumer behavior and values and to the business environment, it will invest in existing businesses so that it can provide new value and added value. There is the concern that the speed of growth will slow down due to the slump in business activities, but against the backdrop of new borrowing of ¥2bn (disclosed in June 2020), the Company will continue to invest to maintain and grow its businesses. As described below, the marketing research market will continue to grow in the long term, while transforming the past, present, and future. Precisely for such a market, new responses are necessary for “after coronavirus,” but it is considered that there has been no change to the Company's strategy of continuing to actively conduct business activities.

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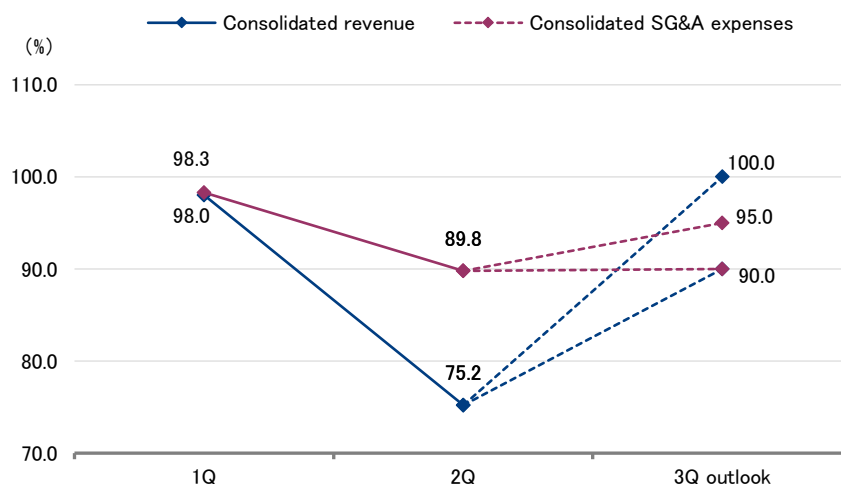
Results outlook

Bottomed-out in the 2Q, toward a recovery in the 3Q

2. Outlook for 3Q revenue and policies

In terms of the developments at the present time, business conditions bottomed-out in the 1H, in which a state of emergency was declared, and appear to be recovering in the 3Q. In addition to the contributions of strongly performing segments like promotions, large-scale projects at overseas bases are scheduled to be recorded in the 3Q. Therefore, the Company's total consolidated 3Q revenue is expected to be in a range of decreasing 10% to unchanged YoY. Conversely, its policy is to control SG&A expenses and reduce them by from 10% to 5% YoY, including by keeping down costs that are not necessary or urgent, reviewing the organizational structure, and reducing the floorspace of the head office through establishing remote working.

Outlook for the FY12/20 3Q consolidated revenue and SG&A expenses (YoY growth)



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

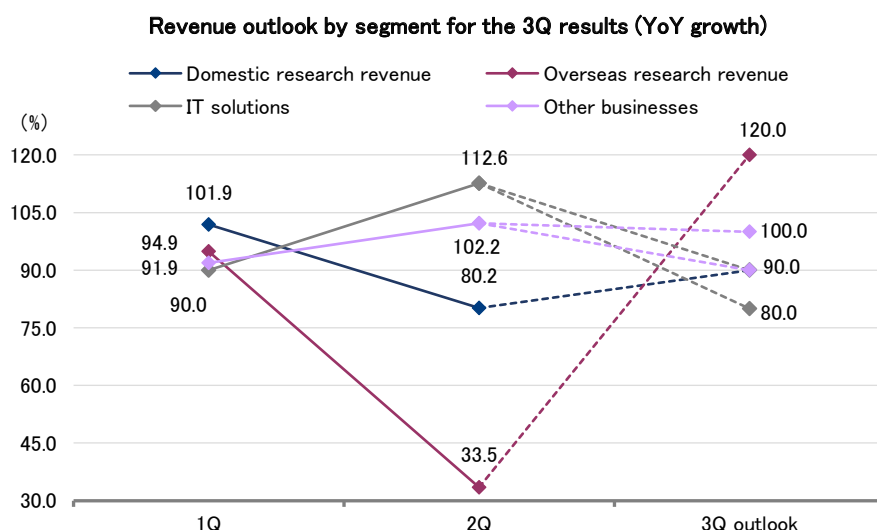
In the domestic research business, inquiries for online research have hit bottom, while for offline projects, actual surveys will be restarted and mystery-shopper surveys continue to be strong, so after bottoming-out in May, the recovery trend is continuing. Therefore, the Company's policy is to strengthen services like face-to-face surveys using Zoom and online seminars. However, its results are not expected to realize a V-shaped recovery from the recovery conditions of customers' business activities, and for the 3 months of the 3Q, revenue in the domestic research business is forecast to decline 10% YoY. In the overseas research business, the recovery has been slow in bases, mainly for offline surveys. However, business activities are gradually restarting and large-scale projects are scheduled in the US, so the forecast is for revenue to increase 20%. In addition, the Company plans to progress the shift to online, expenditure reductions, and the structural review. In the IT solutions business, restrictions to ordering activities occurred in the 1H, including those for outsourced developments and dispatches of human resources, so revenue is expected to decline in a range of from 20% to 10%. Therefore, in addition to focusing on already ordered projects, the Company intends to strengthen new services and marketing to secure the number of projects. In other businesses, the severe conditions for acquiring new customers are continuing, and in this situation, the number of projects from some existing customers is declining and the forecast is for revenue to decrease in a range from 10% to unchanged YoY. As well as continuing to strengthen collaborations inside and outside the Group, the Company's policies are to review the personnel plan and the sales policies and methods, and to strengthen inbound marketing.

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Results outlook



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

Although it seems difficult to increase profits in the current period, the Company is acquiring momentum toward the next period

3. FY12/20 results outlook

The Company has not yet decided on the FY12/20 full year results forecasts. This is because there is still no end in sight to the global novel coronavirus pandemic, and the outlook remains uncertain in terms of how the external environment will change in the future. Therefore, at the current time, it has determined it to be difficult to rationally estimate results forecasts. The Company intends to quickly announce them at the time when rational calculation becomes possible.

Since the beginning of 3Q, economic activities in various countries, including in Japan, have been gradually recovering, although the impact of the novel coronavirus pandemic remains. The Company is also on a recovery track toward achieving revenue of around the same level as in the same period in the previous fiscal year, centered on its mainstay domestic and overseas research business. In the IT solutions business and the other businesses, conditions are expected to be somewhat severe in the 3Q due to the impact of the slowdown in ordering activities in the 1H, but a recovery is expected in the 4Q. For profits, the Company is attempting to support the results recovery by thoroughly controlling SG&A expenses. From the above, the image for the full year results is that revenue and profits will both rise and get on a recovery track toward the 4Q, but it is expected that it will be difficult for these increases to completely cover for the negative results in the 1H. However, in FY12/21, by further advancing cost controls, it is possible that revenue will return to the same level as in FY12/19 and that the profit level will also recover. Therefore, a renewal of peak profit may be on the horizon, depending on the recovery of economic activities.

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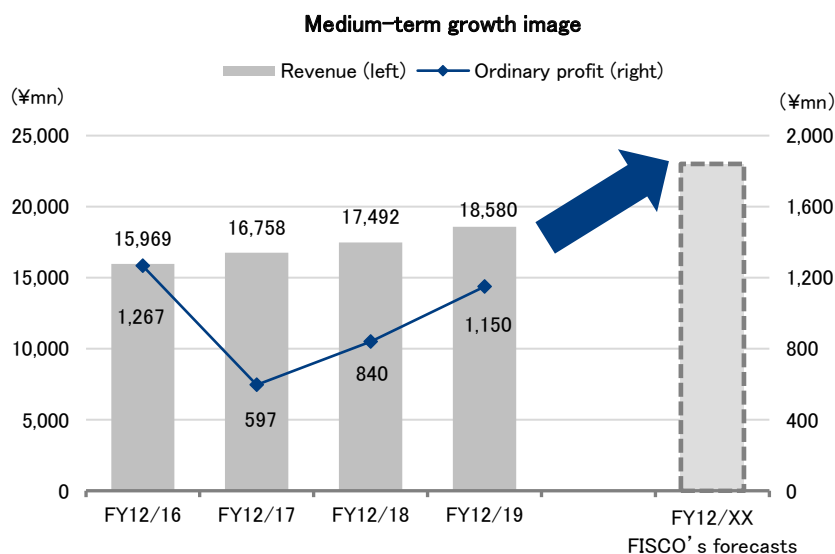
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Results outlook

Opening-up a path to re-growth “after coronavirus”

4. Medium-term growth image

In the marketing research industry, it has become necessary to respond to an era in which needs and targets have diversified alongside market growth and in which the flood of data is increasing more and more. In doing so, in marketing solutions, analog aspects, such as consulting, have come to be prioritized more. On the other hand, it has become necessary to conduct digital transformation in order to steadily keep up with digital technologies that are becoming more sophisticated at an accelerating pace. In its marketing solutions, through collaborations inside and outside of the Group, the Company has been expanding its services menu from solutions centered on research to consulting, temporary staffing, services specializing in expert fields, and other services. Furthermore, for digital transformation, it is increasing the convenience of the research process, including for creating survey questionnaires, through automation and other methods, while it is also expected to continue to work to improve functions to facilitate instantaneous processing and analysis of enormous volumes of data. The current situation is that these efforts have been temporarily suspended in response to the novel coronavirus pandemic, but conversely, the Company is continuing with a series of measures with an eye toward growth in the medium- to long-term. In this situation, the conditions in each business are presently gradually recovering, and slowly but surely it has become possible to see the future image. Specifically, it is considered that the Company's image in the future will be to open up a path for “after coronavirus” through marketing solutions and digital transformation, and that it will return to a medium-term growth track.



Source: prepared by FISCO from Company materials

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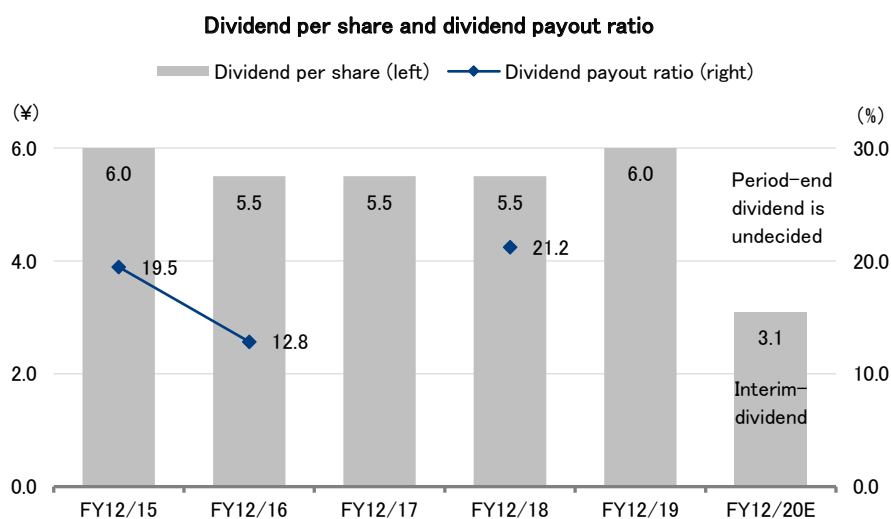
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Shareholder return policy

In FY12/20, the interim dividend is ¥3.1, while the period-end dividend is still undecided

The Company is aware that returning profits to shareholders is one of its most important management issues. Its dividend policy is to continuing to stably return profits to shareholders through dividends and to determine the dividend amount based on the current rigorous demand for capital and the business investment plan for the future, while targeting a consolidated dividend payout ratio of around 15%. In the FY12/20 full year consolidated results forecasts, for the interim dividend it has maintained the initial forecast (¥3.1), as it acquired a certain level of earnings in FY12/20 and also based on its dividend policy of continuing to stably return profits to shareholders through dividends. However, due to the impact of the novel coronavirus pandemic and with maintaining management stability and a continuous cash flow as its top priorities, the Company has not yet decided on the full year results forecasts. Alongside this, it has also not determined the period-end dividend. Going forward, it plans to quickly announce the period-end dividend forecast at the time when rational calculation becomes possible, while considering the FY12/20 full year consolidated results and cash flow conditions.



Note: dividend payout ratios for FY12/17 and FY12/19 are not shown as net losses were recorded.
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) and conduct proper collection, management, and handling of personal information.

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