

Cross Marketing Group Inc.

3675

Tokyo Stock Exchange First Section

19-Apr.-2021

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

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19-Apr.-2021
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Summary

Aims to harness digital transformation as a catalyst for growth

1. Responding to dramatic changes in the business environment and customer needs driven by digital transformation

Cross Marketing Group Inc. <3675> (hereinafter “the Company”) is a holding company that engages in research, marketing solutions, and other businesses through management of its subsidiaries. Research is the founding business, and the Company broadly conducts business across the full scope of marketing research. Currently, however, digital transformation is dramatically changing social and economic environments and customer needs. The change is enabling companies to easily obtain big data, such as smartphone location data and web access logs, and increased digital contact with customers is contributing to formation of a massive digital marketing market in the marketing process. The Company aims to capitalize on this massive market by revising business segments to facilitate an effective response to such changes in the environment and place digital marketing at the core of its business.

2. Reorganized into the digital marketing business, data marketing business, and insight business

The Company reorganized into three new business segments—the digital marketing business, data marketing business, and insight business. The digital marketing business covers the IT solutions business and other businesses (promotions) from the previous structure. The data marketing business handles research from the former research business segment, and the insight business replaces other businesses besides research from this segment, such as analysis and reporting. One reason for the change in business segments is clarification of positioning and determination in these fast-growing markets. Furthermore, it hopes to achieve high growth by positioning the digital marketing business as the main growth driver and continuously expand corporate value as a total marketing solutions company. In the research business (data marketing business and insight business), its founding area that remains an important earnings base and strength, the Company intends to promote operations that emphasize stable growth.

3. Recovery trend from FY12/20 3Q

The FY12/20 results were revenue of ¥15,985mn (down 14.0% year on year (YoY)) and operating profit of ¥986mn (down 22.2%). While the domestic economy slumped substantially due to the spread of COVID-19 infections, activity gradually picked up after the government lifted its state of emergency declaration. Demand for digital transformation support has remained vibrant despite the COVID-19 pandemic, and the Company pursued business initiatives that leverage digital technology and reinforcement of profitability and competitiveness in existing businesses. Thanks to these efforts, the Company’s various businesses hit their normal stride from 3Q, including during the phase when COVID-19 infections began to spread again in November 2020. Additionally, operating profit returned to the previous 2H level in FY12/20 2H with support from curtailment of SG&A expenses, and ordinary profit improved to an increase, due in part to recording of subsidy income. The Company announced the acquisition of DO HOUSE Inc. as part of strengthening the digital marketing business (officially a subsidiary from January 2021).

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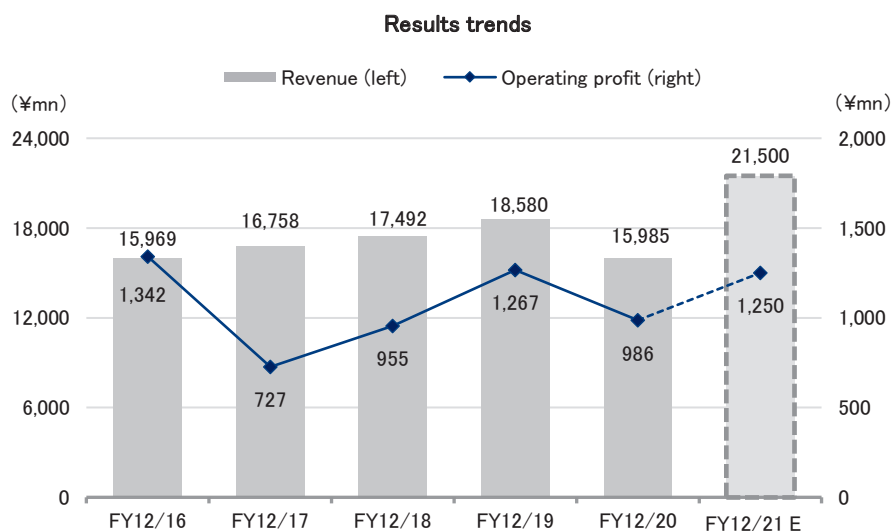
Summary

4. Expecting sharply higher sales and profits and a dividend hike in FY6/21 (revised fiscal year)

The Company revised the fiscal year from December to June along with the change in segments. This revision intends to rectify inefficiencies related to overlap of the fiscal year-end month with a busy month with large earnings. Since the Company provisionally disclosed its earnings and dividend outlook for FY12/21 (Jan–Dec), it has not announced a forecast for FY6/21 even though the current fiscal year will be an abnormal six-month period. Nevertheless, considering the Company's seasonality and other aspects, we estimate roughly ¥500mn in operating profit in FY6/21 and a ¥3.2 dividend based on the interim dividend for FY12/21. In any case, FISCO anticipates sharply higher sales and earnings in FY6/21 or FY12/21 as a result of rebounding from the previous year's COVID-19 setback, responding to new markets driven by digital transformation, and acquiring DO HOUSE as a subsidiary. Over the medium term, the Company is likely to steadily advance as a digital marketing company and should move within reach of ¥30bn in revenue in the near future through this process.

Key Points

- Revised business segments to address digital transformation
- Targeting growth in the digital marketing business, positions the former research business as the earnings foundation
- Earnings sharply recovered in FY12/20 2H, also expecting significantly higher sales and profits in 2021 (revised fiscal year)



* The FY12/21 outlook covers FY12/21 as the Company has not disclosed a forecast for FY6/21 (abnormal six-month period)
Source: Prepared by FISCO from the Company's financial results

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Company profile

Evolution from research to digital marketing

1. Business overview

The Company is a holding company that engages in research, marketing solutions, and other businesses through management of its subsidiaries. It changed business segments at the start of 2021 to the digital marketing business, data marketing business, and insight business as the three new pillars. The digital marketing business covers the IT solutions business and other businesses (promotions) from the previous structure. The data marketing business handles research from the former research business segment, and the insight business replaces other businesses besides research from this segment, such as analysis and reporting. Currently, rapid advances in digitalization and digital transformation* are dramatically changing social and economic environments and diversifying customer needs. To address these environment changes and achieve further growth, the Company decided to develop business with an emphasis on digital marketing.

* Refers to dramatic advances by companies and society through utilization of data and digital technology and fundamental changes in various value standards.

Rapidly emerged in the marketing research industry

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 Inc. 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 Inc. 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 First Section of the TSE. In addition, it accelerated M&A, including acquiring a series of leading companies like Supotant Co., Ltd. and DO HOUSE Inc., new businesses, and structural reforms, and even while being a late-comer, it has quickly come to be a leader in the marketing research industry. However, earnings temporarily stalled, along with the overall industry, in 2020 due to the impact of COVID-19. Digital transformation, which has become a major trend, is rapidly changing corporate and societal formats. In response to these dramatic changes, the Company revised business segments at the start of 2021 and thereby transformed itself into an organizational framework capable of efficiently capitalizing on the new era.

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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
October 2020	Cross Marketing Inc. conducted an absorption merger of Research & Development Inc. aimed at strengthening online and offline synergies
January 2021	Converted DO HOUSE Inc. into a subsidiary

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

Digital transformation offers business opportunities

3. Industry environment

The research market has steadily expanded along with diversifying consumption and increase in corporate earnings. Since 2000, online research exhibited rapid market expansion along with broader internet usage. Furthermore, three major industry firms*¹ broadened industry scope by combining marketing research with promotions, IT solutions, and consulting as marketing solutions. In recent years, meanwhile, digital transition has enabled companies to easily acquire smartphone position data, web access logs, and other large-scale secondary data (big data). Companies can analyze this secondary data and apply it to internet advertising, D2C*², and other corporate value enhancement measures. However, many companies are not sufficiently utilizing acquired big data in their businesses.

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

*2 D2C (Direct to Consumer): Directly promoting and selling products to consumers via the internet and other channels without going through advertising agents and retailers.

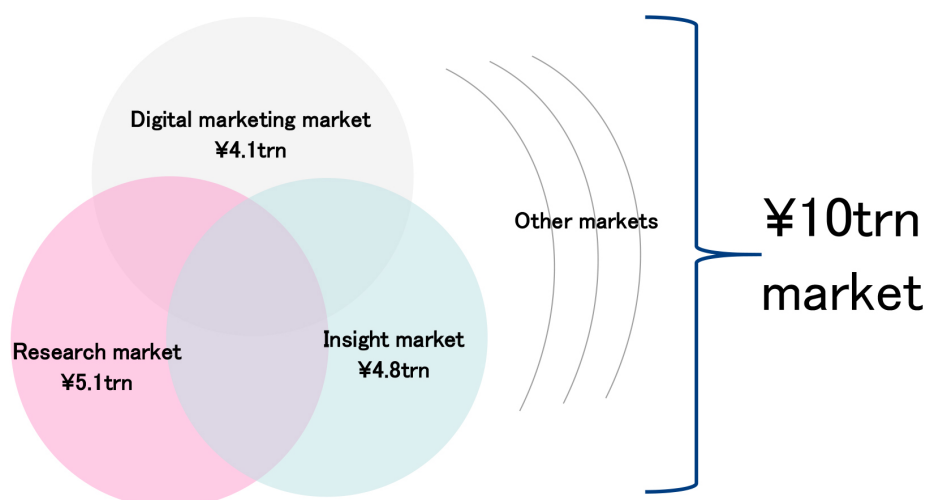
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Company profile

This environment creates a business opportunity to investigate and analyze big data and convert it into information with high usage value. Conventional enhancement of data value often consisted of partial optimization as various industries approached the business from their own specialties, such as research, consulting, IT, advertising, and marketing. With big data, the market is looking for overall optimization that goes beyond industries. Business for converting big data into a format with added value hence is likely to offer strong growth against the backdrop of digital transformation. This type of digital marketing, in the broad sense, is forming a major market. The Company is coming to the market from a marketing and IT perspective and sees this change as a business opportunity.

Industries related to this market in research are data marketing (research) at ¥5.1trn globally (2019; applies to all figures below) and insight (non-survey research tasks such as data analysis and report preparation) at ¥4.8trn globally. Furthermore, digital marketing (narrow sense) consists of the domestic internet advertising market at ¥2.1trn and D2C market at ¥2trn. The estimated value of markets targeted by the Company is over ¥10trn even after considering overlap in these areas. This is a massive market, and few companies are capable of covering it entirely on their own. Within the industry, the three major online research firms, including the Company, with core competence in questionnaires and other acquisition of primary information are well positioned in this market as their skills in analyzing data obtained from surveys and using it in reporting and promotions should contribute to enhancing the precision of corporate big data. Furthermore, companies approaching the market from other industries are potential partners for overall optimization, rather than rivals, currently. The Company also intends to pursue collaboration related to this point.

Image of the market targeted by the Company



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

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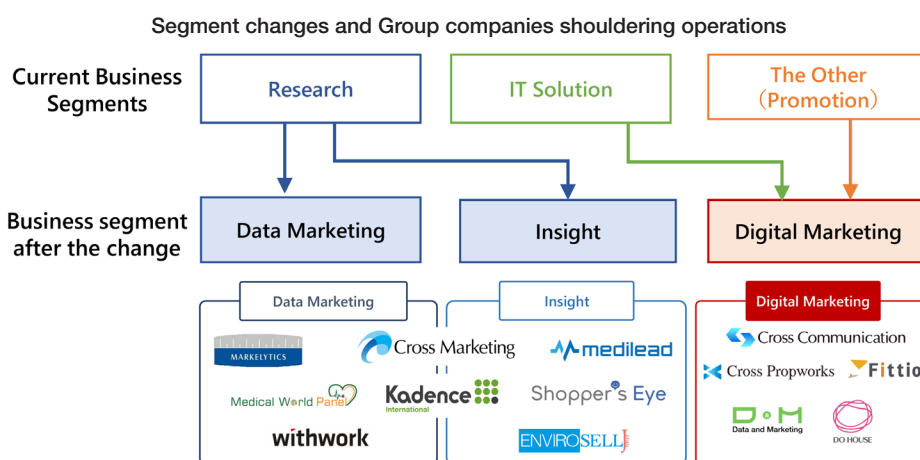
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Business activities

Reorganized into the digital marketing business, data marketing business, and insight business as three new pillars

1. Reorganization of Business Segments

The Company reorganized business segments at the outset of FY12/21. The three new business segments are the digital marketing business, data marketing business, and insight business. The digital marketing business covers the IT solutions business and other businesses (promotions) from the previous structure. The data marketing business handles research from the former research business segment, and the insight business replaces other businesses besides research from this segment, such as analysis and reporting. Reasons for the change in business segments are entry as a research company into the targeted digital marketing market and clarification of positioning and determination internally and externally, in response to rapid developments in the market against a backdrop of digital transformation. Additionally, the Company wants to continuously expand corporate value as a comprehensive marketing solutions company by emphasizing the digital marketing business as the primary growth driver and adjusting business direction and management sentiment to growth. Meanwhile, since the research business (data marketing business and insight business) is still a strength and constitutes an earnings foundation that supports the Company, the policy is sustaining stable growth through management that capitalizes on the advantage.



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

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Business activities

Integration of IT solutions and promotions, promoting growth

2. Digital marketing business

In the digital marketing business, the Company provides comprehensive solution services for IT business such as promotions and marketing assistance mainly using digital technology, internet commerce, and system development, maintenance, and operation. In the former IT solutions business, it delivered a range of solution services in a one-stop manner such as website construction, smartphone app development, tool and package provision, surveys and analysis, infrastructure and server construction, web promotions, security measures, and operation outsourcing (including personnel dispatches). In particular, its strengths are systems that require robustness, such as financial institution apps and payment and point management, and building and operating large-scale systems for 1mn people. The former promotions business, meanwhile, offered cutting-edge marketing services, such as digital marketing using consumer data and digital promotions. The Company already has an alliance with a major DMP* firm and is capable of addressing increasingly complex advertiser needs and changes in the market environment by linking large-scale attribute data and corporate data. Looking back, it is evident that the Company had sustained high growth up to now in the IT solutions business and promotions business that are core components of the digital marketing business.

* DMP (Data Management Platform): This refers to a platform that handles centralized management of big data stored on various servers on the internet, a company's site log data, and other data. Analysis of these data supports optimization of advertising distribution and other action plans.

In December 2020, the Company announced the acquisition of DO HOUSE, which operates a marketing service mainly in metro Tokyo, as a subsidiary (official start as a subsidiary in January 2021). DO HOUSE operates Moratame.net and Tentame! media, and has formed its own consumer network (panel) with 5.5mn people using free sampling promotions (including this panel expands the Company's total panel size to 8mn people). Sampling promotions send cosmetics, beverages, foods, and other products to consumers and have them fill out questionnaires. This is a sales promotion method used in multipurpose marketing, including manufacturer product development and product cultivation assistance. DO HOUSE's main characteristics are ties with major manufacturers (which the Company does not have) and product inventory and handling. Meanwhile, the research business is a very small percentage of overall income. These aspects give it a complementary relationship with the Company.

DO HOUSE revenue trend and main services and operated media



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

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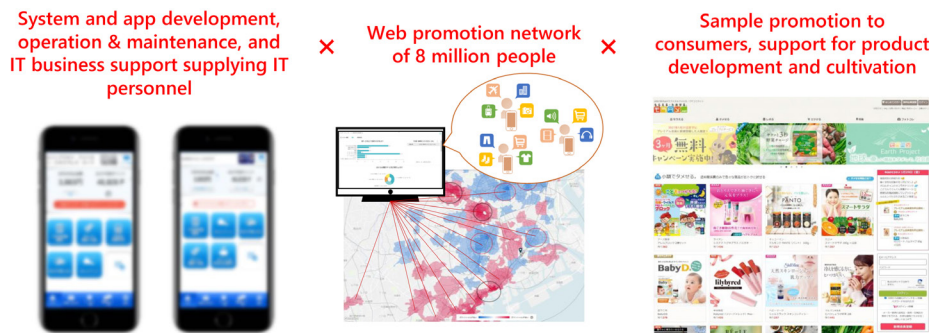
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Business activities

By acquiring DO HOUSE as a subsidiary, the Company is able to directly incorporate DO HOUSE's growth potential in its consolidated income. In other words, in addition to its existing capabilities in IT business support, such as system and app development, operation, and maintenance and IT personnel supply, its web promotion network reinforced by 8 million people, broader promotion service, including sample promotions to consumers, product development, and production cultivation assistance, benefits from cross-selling through the expanded customer base, and ties with major manufacturers that it had not dealt with previously can newly be viewed as strengths. The wider "tool kit" of capabilities in the digital marketing business enables the Company to deliver new services and steadily broaden its business scope.

Overview of the current digital marketing business



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

Panel size and quality strengths in online research

3. Data marketing business

In the data marketing business, the Company provides data collection and other services via online and offline research from the former research business and assists customers in making decisions about business activities and marketing activities. Panel size and quality are the most important qualities in online research. In terms of volume, the Company has 2.19mn active panelists who responded to a questionnaire within the last year* and possesses one of Japan's largest questionnaire panels with 4.65mn active panelists when also counting alliance partners (as of October 2019). In addition to basic information, such as gender, age group, and residence location, quality refers to basic attributes, such as the structure of family members living together, and member registration information is updated annually to keep basic attributes current. It also requires rigorous panel quality management, such as removing registrations of respondents giving intentionally disingenuous answers. To realize smooth surveys, the Company prepares over 20 specialized panels with a predefined theme such as car ownership. The Company has strengths in online research panel size and quality as explained above. Other important advantages are salespeople, researchers, directors, and other related parties working together with customers, in contrast to other large firms with splintered functionality, and a support framework for dynamic issue solutions in an integrated way by Group companies. The Company conducts overseas research business as well and is preparing to expand further through structural reforms and reinforcement of the infrastructure foundation.

| * 8mn people including DO HOUSE's panel. |

Support customer decisions by gleaning insights from consumers

4. Insight business

The insight business inherited the former research business segment's activities other than research and supports customers in making decisions through provision of solutions, such as analysis, reporting, consulting, and discovery of consumer insights*. The business also conducts analysis of data submitted via SNS and other services and data-driven consulting that integrates questionnaire data and secondary data. For example, utilizing research with a panel of doctors, medical professionals, and patients, it assists formulation of health management programs and illness occurrence risk models and supports document, research, and medical technology evaluation related to drug creation and clinical trials. The service is very highly rated. The insight business in specialized areas (along the lines described above) is an extremely high-value-added service as it requires recruitment of specialty personnel, response to new technologies, and other capabilities, rendering it a strength of the Company. Total marketing solution proposals that dynamically apply digital marketing business functions are an advantage as well.

* Insight (marketing term): Refers to a purchasing trigger obtained from analysis of the mentality structure underlying consumer behavior and attitudes. Insight is the switch that brings out latent consumer needs.

Business trends

Rapid earnings recovery in 2H

1. FY12/20 results

The FY12/20 results were revenue of ¥15,985mn (down 14.0% YoY), operating profit of ¥986mn (down 22.2%), ordinary profit of ¥1,078mn (down 6.2%), and profit attributable to owners of parent of ¥467mn (loss attributable to owners of parent of ¥477mn for the previous fiscal year). While the domestic economy slumped substantially due to the spread of COVID-19 infections and the related state of emergency declared in April and May, activity gradually picked up after the government lifted its state of emergency declaration. However, many companies have continued facing difficult conditions due to renewed expansion of COVID-19 infections and uncertainty regarding when the situation will subside. In the global economy, despite resumption of economic activities in some regions, many major cities remain in a state of significantly curtailed activities and certain regions are dealing with even tougher economic conditions than in Japan. The steep YoY rise in profit attributable to owners of parent, meanwhile, stemmed from non-recurrence of booking impairment losses on goodwill and fixed assets at overseas subsidiaries of the Kadence Group with weakened earnings outlooks in FY12/19 located in the UK, USA, Indonesia and Singapore.

FY12/20 results

	FY12/19		FY12/20		Change (%)
	Results	Versus sales	Results	Versus sales	
Revenue	18,580	100.0	15,985	100.0	-14.0
Gross profit	7,164	38.6	6,331	39.6	-11.6
SG&A expenses	5,897	31.7	5,345	33.4	-9.4
Operating profit	1,267	6.8	986	6.2	-22.2
Ordinary profit	1,150	6.2	1,078	6.7	-6.2
Profit attributable to owners of parent	-477	-2.6	467	2.9	-

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

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Business trends

The Company's income structure exhibits seasonality with larger profits in December. In FY12/20, many companies were unable to prepare earnings outlooks and remained undecided at the start of the period due to the impact of COVID-19. The Company took a similar stance and confronted a particularly tough situation due to the difficulty of forecasting profits in the fiscal year-end month (December) related to seasonality. However, the Company's sales hit their usual stride from 3Q, including during the phase when COVID-19 infections began to spread again in November 2020, as companies rigorously implemented measures to prevent infections, companies are restoring budget execution to pre-COVID-19 levels, and the Company's transactions address such companies. Additionally, operating profit returned to the previous 2H level in FY12/20 2H with support from a decline in fixed costs in overseas business as a result of structural reforms and curtailment of domestic SG&A expenses on use of remote work, and ordinary profit improved to an increase due to subsidy income and smaller equity-method investment losses.

FY12/20 1H and 2H results

	FY12/19 1H		FY12/20 1H		Change (%)
	Results	Versus sales	Results	Versus sales	
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	2,948	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
Profit attributable to owners of parent	-955	-10.8	32	0.4	-

	FY12/19 2H		FY12/20 2H		Change (%)
	Results	Versus sales	Results	Versus Sales	
Revenue	9,771	100.0	8,285	100.0	-15.2
Gross profit	3,793	38.8	3,394	41.0	-10.5
SG&A expenses	2,949	30.2	2,574	31.1	-12.7
Operating profit	844	8.6	820	9.9	-2.8
Ordinary profit	809	8.3	893	10.8	10.4
Profit attributable to owners of parent	477	4.9	435	5.2	-8.9

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

Revenue recovered for all segments in 4Q

2. FY12/20 results by business segment

Looking at the FY12/20 results by segment, in the research business, revenue was ¥11,970mn (down 17.8% YoY) and operating profit was ¥2,039mn (down 9.3%); in the IT solutions business, revenue was ¥3,241mn (down 1.3%) and operating profit was ¥194mn (down 29.1%); and in other businesses, revenue was ¥773mn (up 4.3%) and operating profit was ¥103mn (down 2.3%), reflecting a difficult environment. However, business conditions recovered from 3Q.

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Business trends

FY12/20 results by business segment

(¥mn, %)

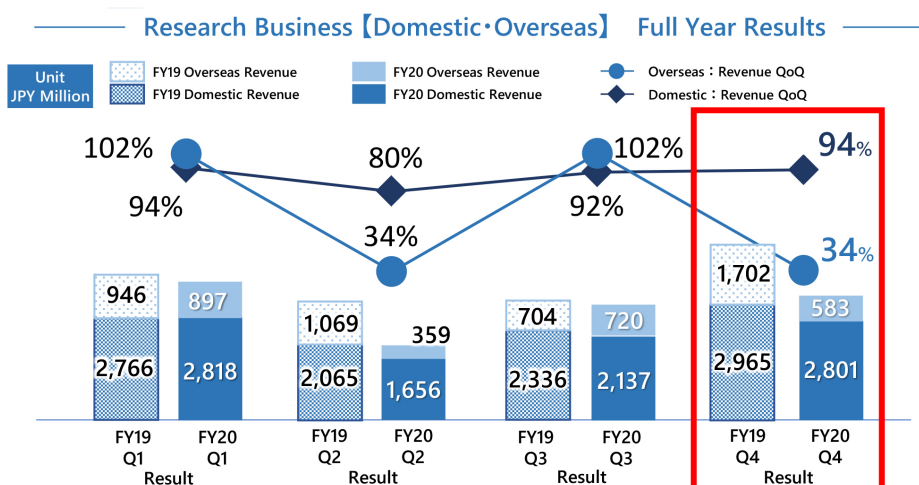
Revenue	FY12/19		FY12/20		Change (%)
	Results	Versus sales	Results	Versus sales	
Research	14,554	78.3	11,970	74.9	-17.8
Domestic research	10,132	54.5	9,411	58.9	-7.1
Overseas research	4,421	23.8	2,559	16.0	-42.1
IT solutions	3,284	17.7	3,241	20.3	-1.3
Other businesses	742	4.0	773	4.8	4.3

Segment profit before adjustment	FY12/19		FY12/20		Change (%)
	Results	Profit margin (%)	Results	Profit margin (%)	
Research	2,249	15.5	2,039	17.0	-9.3
IT solutions	274	8.3	194	6.0	-29.1
Other businesses	106	14.3	103	13.4	-2.3

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

The research business reported lower sales and profits due to curtailment of business activities at customers and a steep decline in survey cases (particularly for offline surveys), mainly in 2Q, because of the COVID-19 pandemic. After the state of emergency ended, however, business gradually recovered from 3Q, and medical and undercover surveys were healthier than in the previous year at the full-year level. Revenue rebounded to a 6% YoY decline in 4Q. Operating profit recorded a profit on a non-consolidated basis in 4Q, despite backlash decline from booking a major overseas deal in 4Q FY12/19, thanks to cutbacks in fixed costs through structural reforms and other measures. The IT solutions business confronted moderately difficult conditions as order activity was restricted due to the impact of the spread of COVID-19 infections and resources were concentrated in large, low-margin projects. Nevertheless, orders picked up from 3Q and revenue recovered to an 8% YoY gain in 4Q. The IT-related staffing business posted higher revenue and profits from an increase in registered persons. Other businesses (promotions business) reported a robust 22% YoY increase in 4Q revenue, the highest-ever quarterly revenue, due to collaboration within the Group, promotion of alliances with external companies and reinforcement of sales operations, in addition to an accelerated customer shift to the network driven by the COVID-19 pandemic. As a result, even though media prices (unit costs) climbed due to short-term overheating in the advertising market, profit stayed at the same level as the previous year.

Quarterly revenue trends in the research business

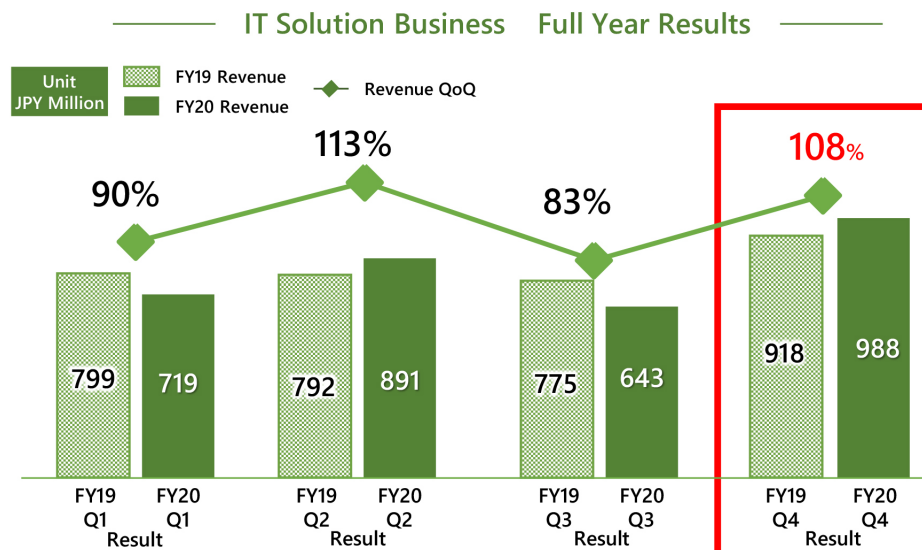


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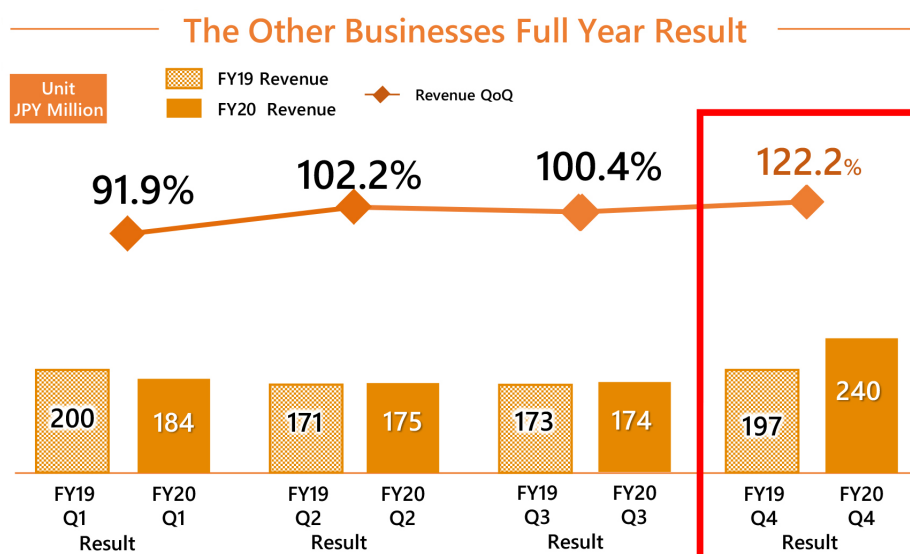
Business trends

Quarterly revenue trends in the IT solutions business



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

Quarterly revenue trends in other businesses (promotions)



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

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Business trends

Promoting reinforcement of profitability and competitiveness through business initiatives utilizing technology

3. Main measures for FY12/20

The Company pursued business initiatives utilizing technology in response to digital transformation and thereby promoted reinforcement of existing business profitability and competitiveness. Priority measures include Group reorganization and reinforcement, provision of new services that address digitalization, expansion of business scope to D2C, and development and strengthening of digital marketing services in collaboration with external companies. The acquisition of DO HOUSE explained above is also a priority measure that addressed digital transformation.



The domestic research business reorganized and reinforced the Group with the aim of bolstering profitability and competitiveness. The merger of Cross Marketing Group and Research & Development Inc. responded promptly to changes in the research market and offered one-stop services with high continuity and efficiency. The establishment of withwork Inc., an outsourcing site for research business based in Fukuoka, targeted business continuity in a disaster, new personnel hiring and training, and enhancement of operating capacity and quality. Separately, the Company is accelerating provision of new services that respond to advances in digital technology and digital shift by customers, including a fully customized service that provides customer journey-type data analysis through visualization of big data from user (individual) behavior, thoughts, and emotions (customer journey); open data-related service that utilizes AI to improve efficiency and sophistication of the process of collecting and analyzing all data from sites worldwide; and service that helps enhance digital user experience (UX) (Cross-UX jointly provided with Popinsight, Inc.).

In the IT solutions business, the Company assisted customers in digital shift expanded business in the D2C area, a growth market, utilizing digital technology. It developed a new targeting service for D2C brands using NEWROPE Co., Ltd.'s AI technology that analyzes image data on SNS services, started provision of D2C Growth Partner as a total assistance service supporting growth by D2C brands in collaboration with Third Office Co., Ltd. that handles apparel planning and development, and developed the CONNECT app for a new smartphone securities company operated by Daiwa Securities Group Inc. In other businesses (web promotions business), it strengthened development of its digital marketing services through collaboration with external companies. It provided marketing assistance using a consumer network panel to businesses utilizing the temona inc. (3985) subscription system and jointly developed a marketing issues solution assistance service that leverages technology from X-Locations Inc., which analyzes position information big data, and D&M, Inc.'s marketing know-how.

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Results outlook

Changes the fiscal year-end timing to improve management efficiency

1. Change in fiscal year-end timing from December to June

The Company announced a change in the fiscal year-end timing from December to June from 2021, along with the segment revisions. It did not release an earnings forecast for FY12/20 due to an increase in volatility of such estimations with the overlap of the fiscal year-end month and a busy month with large earnings, in addition to uncertainty from the COVID-19 pandemic. Inefficiency caused by the overlap of the fiscal year-end month and a busy month affects other areas too, including formulation of investment and earnings outlooks and efficient Group operation. The Company decided to change the fiscal year-end timing at this juncture, using heightened attention to the inefficiency of a December fiscal year-end amid the COVID-19 pandemic as a catalyst, with the aim of rectifying inefficiencies and improving management efficiency. It hence will have a one-year statement for FY12/20, an abnormal six-month statement for FY6/21 and a one-year statement from FY6/22.

However, while it is normal to disclose the earnings and dividend outlooks even if the fiscal-year period changes, the Company's earnings and dividend outlooks presented with the abbreviated FY12/20 financial statements released at the same time as the disclosure of the change in the fiscal year-end timing only showed values based on FY12/21 (Jan–Dec 2021), the existing period-end month. The background to this stance is the difficulty of presenting a reasonable outlook for results beyond 12 months amid continued uncertainty in the prospect of impact by the COVID-19 pandemic in FY6/22, the period following FY6/21. At the same time, the Company is substituting the strategy and earnings and dividend outlooks for FY6/21 with the outlook for FY12/21 (Jan–Dec) that it can reasonably forecast (It has previously not disclosed interim outlooks). Therefore, our description of earnings and dividend outlooks below rely on 2021 (Jan–Dec), but also include the FY6/21 outlook as much as possible.

Promotion of business model evolution and expansion of business areas with a theme of DX Action

2. FY12/21 (Jan–Dec 2021) outlook and priority strategies

The Company's FY12/21 (Jan–Dec 2021) outlook projects ¥21,500mn in revenue (up 34.5% YoY), ¥1,250mn in operating profit (up 26.8%), ¥1,235mn in ordinary profit (up 14.5%), and ¥757mn in profit attributable to owners of parent (up 62.2%). Amid rapid changes in the research market against the backdrop of digital transformation, the Company aims to achieve further growth and enhance corporate value as a comprehensive marketing solutions company with the digital marketing business as the growth driver.

FY12/20 (Jan–Dec 2021) outlook

	FY12/20		FY12/21*		Change (%)
	Results	Versus sales	Forecasts	Versus sales	
Revenue	15,985	100.0	21,500	100.0	34.5
Operating profit	986	6.2	1,250	5.8	26.8
Ordinary profit	1,078	6.7	1,235	5.7	14.5
Profit attributable to owners of parent	467	2.9	757	3.5	62.2

* FY12/21 does not actually exist, but these values are shown for convenience.
Source: Prepared by FISCO from the Company's financial results

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Results outlook

Outlook for FY12/21 (Jan–Dec 2021) segment revenue

	FY12/20		FY12/21*		Change (%)
	Results	Versus sales	Forecasts	Versus sales	
Digital marketing	4,659	29.1	9,014	41.9	93.5
Data marketing	5,623	35.2	6,378	29.7	13.4
Insight	5,702	35.7	6,107	28.4	7.1

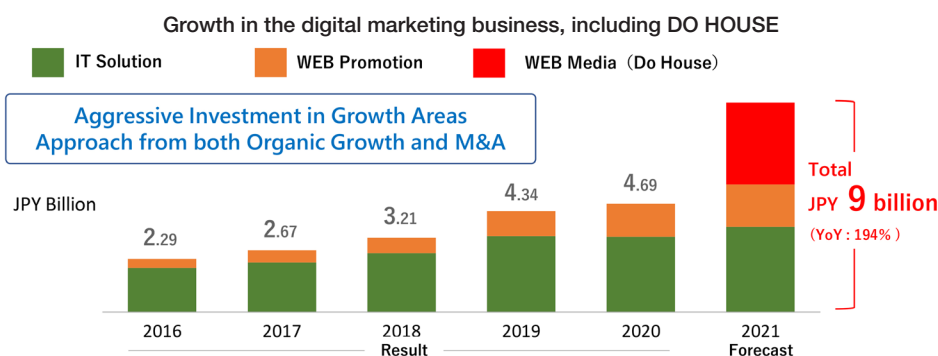
* FY12/21 does not actually exist, but these values are shown for convenience.

Note: Revenues for each business segment have been retroactively adjusted to the new business segments and are not audited results.

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

The FY12/21 (Jan–Dec 2021) policy calls for even stronger promotion of digital shift and various measures than before as an overall Group with DX Action as the theme and advancement of the business model and expansion of business scope in digital marketing areas, including the boost from acquisition of DO HOUSE as a subsidiary. Specific initiatives include Data Marketing Solution which analyzes real behavior data, Sales DX which leverages customer behavior analysis obtained from web access logs and other big data, Business Process Transformation which promotes remote work through work process and system revisions and enhancement of work productivity, D2C Growth Partner which aims to maximize customer income via analysis of massive consumer data, Open Innovation which expands digital services through alliances, and Digital Sales which has specialty teams utilize and analyze customer data to solve the digital issues of customers.

The Company's revenue outlook for the new business segments based on these activities are the digital marketing business at ¥9,014mn (up 93.5% YoY), data marketing business at ¥6,378mn (up 13.4%), and insight business at ¥6,107 (up 7.1%). In 2021, other than sharply higher growth rates in the digital marketing business due to the addition of DO HOUSE to the scope of consolidation, the scenario calls for balanced growth (recovery) in existing businesses and building a foundation for advancement to future growth. While FY6/21 is an abnormal six-month fiscal period, it can be viewed as 1H results for FY12/21 (Jan–Dec 2021). Furthermore, considering the earnings balance between 1H and 2H in a typical year, 1H accounts for roughly just under 50% of revenue and about 40% of operating profit (though this fluctuates considerably depending on the fiscal year). Based on these trends, FISCO thinks the Company is targeting about ¥10,000mn in revenue (up 30% YoY) and ¥500mn in operating profit (a three-fold increase).



※Sales for 2016-2020 are provisional totals of sales that apply to the new segment categories and are not audited results.

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

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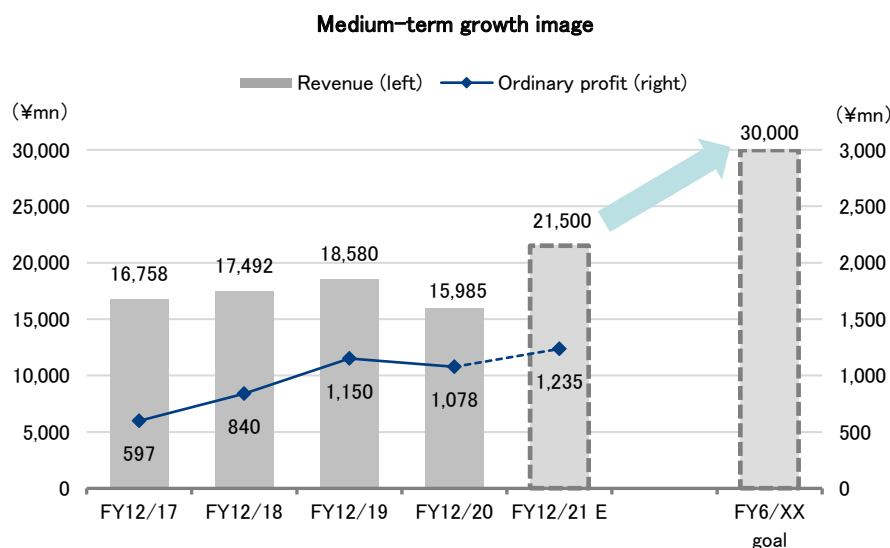
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Results outlook

Targeting ¥30bn in revenue over the medium term

3. Medium-term growth image

With its segment changes, the Company has clearly focused on digital marketing, a new growth market worth over ¥10trn. By continuously implementing measures and investments aimed at this market, it hopes to achieve sustainable growth and expand corporate value. Meanwhile, it is pursuing stable growth in research, data marketing, and insight businesses that are still the main earnings foundation through leveraging opportunities from digital transformation. The Company's business model, which started in online research, evolved into marketing research with the additions of offline research, analysis, reporting, and other functions and then advanced to marketing solutions by providing consulting and IT solutions in marketing research. It has now started evolving toward digital marketing with a further addition of digital transformation, a new era, to marketing solutions. The Company aims to leverage this evolution to achieve longer-term growth and should move within reach of ¥30bn in revenue in the near future through this process.



* While the Company has changed the fiscal period to FY6/21, figures for FY12/21 are shown for convenience.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

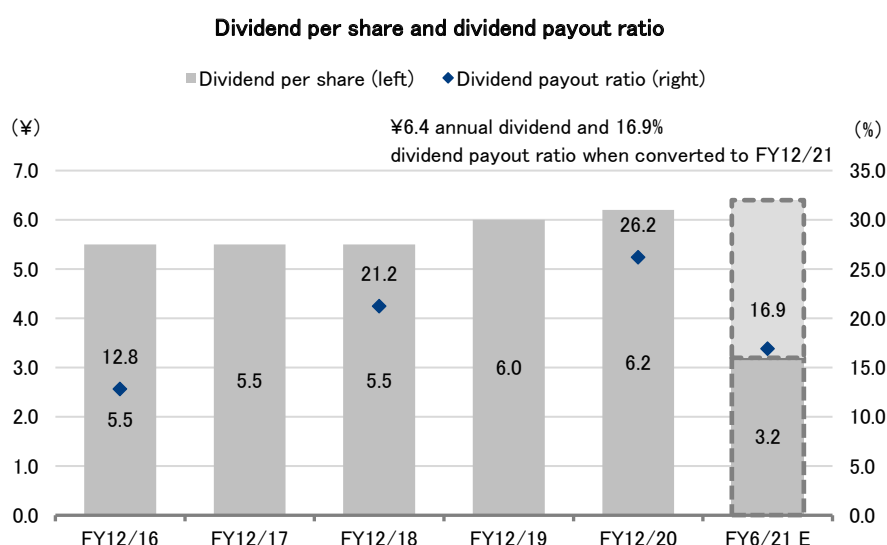
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Shareholder return policy

Plans to raise the dividend by ¥0.2 in Jan–Dec 2021

The Company acknowledges return of profits to shareholders as an important theme in overall management. It presents a basic policy of striving to return profits to shareholders through dividends while comprehensively considering business investments, the cash flow situation and other aspects. Based on a dividend policy that aims for stable continuation of returning profits to shareholders via dividends, it “determines dividend amount based on a consolidated payout ratio of approximately 15%” in light of current robust funding and the future business investment plan. The Company pays dividends from surplus funds twice a year in interim and year-end dividends. While decisions by the Board of Directors can determine the interim and year-end dividends, the Company normally utilizes a resolution at the General Shareholders’ Meeting to pass the year-end dividend. The Articles of Incorporation state that “The Company may make decisions regarding dividends for surplus funds and other items listed in Article 459, Paragraph 1 of the Companies Act through resolutions by the Board of Directors unless stipulated separately by other laws.” Given these points, the Company has decided to pay ¥6.4 as the effective annual dividend in FY12/21 (Jan–Dec 2021) and expects to pay ¥3.2, the interim dividend for FY12/21, as the FY6/21 dividend.



Note: Dividend payout ratios for FY12/17 and FY12/19 are not shown as loss attributable to owners of parent 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, 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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