Hotto Link Inc.
3680 TSE Mothers

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FISCO Ltd. Analyst
Yuzuru Sato

Accelerating growth by expanding inbound consumption support services utilizing social big data both for Japan and Asia

Hotto Link (3680) (hereafter, also "the Company") is developing businesses centered on a cloud service that provides useful information for corporate marketing strategies and risk management by gathering and analyzing data posted on Twitter, blogs, and other social media. In January 2015, Hotto Link made U.S. company Effyis inc. (hereafter, Effyis) a subsidiary, establishing its position as the world's leading social big data distribution company. In June 2016, the Company began a business partnership with Tencent Holdings Limited, a major Chinese IT company, and it is strengthening its inbound consumption support services. Since 2015, Hotto Link has transitioned to IFRS (International Financial Reporting Standards).

In the FY12/16 1H (January to June 2016) consolidated results, net sales decreased 6.9% year-on-year (yoy) to ¥1,132mn and the operating loss was ¥582mn (compared to operating income of ¥11mn in the same period in the previous fiscal year). Although the mainstay businesses trended strongly, sales declined due to factors including the impact of changes to the contract form for sales of social big data and impact of the strong yen. Profits also deteriorated significantly, which was mainly due to the recording of ¥593mn as an impairment loss on goodwill relating to Effyis. But EBITDA (operating income + amortization + impairment loss) trended positively, up 14.4% to ¥192mn.

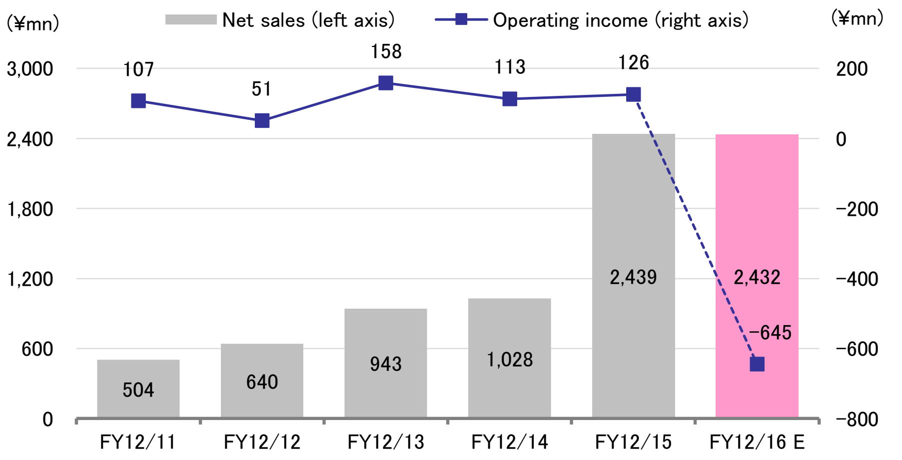
The outlook for the FY12/16 results is for net sales to decrease 4.0% yoy to ¥2,342mn and an operating loss of ¥645mn (compared to operating income of ¥126mn in the previous fiscal year). In 2H also, the forecast is for an operating loss of ¥63mn, but this will be due to the increase in start-up costs for the business expansion of the inbound consumption support services and also the costs incurred for the relocation of the head office, and if these factors are excluded, the forecast is for profitability. It is assumed that the exchange rate in 2H will be ¥100 to US$1.

The Company's medium-term targets for FY12/20 are net sales of ¥10.0bn, with an overseas sales ratio of 80%. It is thought that it will accelerate growth not only from developing its inbound consumption support services that utilize social big data for Japan, but also for Asia.

Check Point

- EBITDA, which indicates profitability, increased 14.4% yoy, and steady progress is being made
- Spotlight on the expansion of inbound consumption support services
- Positioned global inbound consumption support services as its new growth driver

Results trends



Note: Consolidated figures from FY12/13
Note: The FY12/14 and FY12/15 results, and the FY12/16 results forecasts, are based on IFRS

Business overview

Develops tools for gathering and analyzing postings on social media, such as Twitter and 2channel

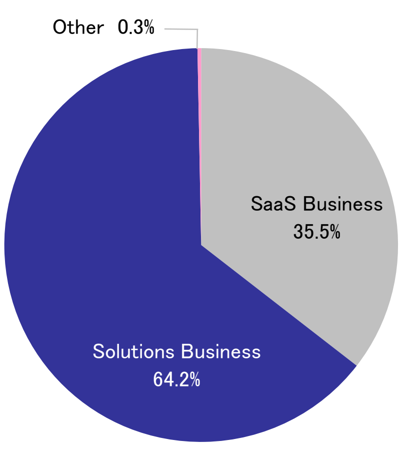
(1) Business description

Hotto Link has developed tools for gathering and analyzing postings on a variety of social media, such as Twitter, 2channel, Weibo, and various blogs. It provides services that put this information to good use in corporate marketing strategies, risk management, and other functions.

Looking at Hotto Link's core services, its businesses can be divided into the SaaS* Business, which provides tools for collecting and analyzing social data, and the Solutions Business, which sells analytical tools and social data to system integrators and tool vendors, or the sales of reports using this data to analyze inbound consumption trends. Looking at the percentages of total sales in FY12/16 1H, the SaaS Business contributed 35.5% and the Solutions Business 64.1%. The descriptions of each business are as follows.

* SaaS (Software as a Service): A software service in which software is provided to customers over communication networks. Customers are able to use the software when needed by accessing the network. It is a stock-type business model that generates recurring revenues from a fixed customer base by collecting monthly usage fees.

Percentage of sales by business (FY12/16 1H)



○ **SaaS Business**

The SaaS Business is comprised of two services; kuchikomi@kakaricho, which is a social big data analysis tool, and e-mining, which is a risk monitoring tool. The price structure for each of these services consists of an initial registration fee of ¥100,000 and a monthly usage fee, starting from ¥100,000 for both kuchikomi@kakaricho and for e-mining. The monthly usage fee is calculated based on the number of usable IDs, the number of media subject to analysis, data capacity, and other factors. Some large corporate customers spend up to ¥1mn a month on usage fees.

The number of corporate subscribers to the two services is over 1,9000 on a cumulative basis (over 900 for kuchikomi@kakaricho and over 1,000 for e-mining). Of these, there are currently approximately 500 active corporate subscribers. The industry breakdown shows that the corporate subscribers span a wide range of sectors, from consumer goods manufacturers to the services and finance sectors. Approximately 80% of the corporate users are major corporations.

kuchikomi@kakaricho has the following features. It possesses Japan's largest social media coverage and it is easy to operate and to perform real-time searches, such as trend analysis and attribute analysis. It also has functions such as cross-media analysis spanning television, web news sites, and other media, plus a data import analysis function to perform text mining of data held internally by corporate customers (questionnaires and call logs, etc.)

Notably, Hotto Link has a dominant advantage in Japan in terms of the sheer volume of social data it possesses and covers approximately 90% of all blogs in Japan. In addition, the Company holds all historical data on the 2channel bulletin board site and has entered into a marketing agency agreement with Gnip, Inc., which markets Twitter data worldwide. The kuchikomi@kakaricho tool can be applied promptly to a company's marketing initiatives through real-time features such as trend analysis. For this reason, kuchikomi@kakaricho is being positioned as a support tool that helps to improve return on investment (ROI) for marketing departments.

Meanwhile, e-mining is a tool that automatically collects data from Twitter, 2channel, and other sources according to pre-set risk-related keywords. The e-mining service provides alert functions that enable companies to promptly detect any developments of risk. Monitoring covers approximately 2,000 media and goes beyond 2channel and Twitter, extending to blogs and various news sites. Each day, e-mining monitors approximately 13 million web pages and reports the search results by category. In particular, recently, there has been a notable increase in damage caused by harmful rumors being spread via postings on social media, and e-mining is being adopted primarily by major corporations to address this type of risk.

○ **Solutions Business**

The Solutions Business is comprised of the social media data sales business of Effyis (brand name: Socialgist), which was made into a subsidiary in January 2015, and the service to analyze the consumption trends among foreign tourists to Japan developed by its subsidiary Trend EXPRESS. The Solution Business also includes the data platform service that provides systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho.

Effyis collects social big data from sources such as blogs, bulletin boards, Q&A, and review sites worldwide, which it sells to customers that include the world's major IT companies (social big data analysis firms and marketing platforms, as well as business intelligence (BI) and other tool vendors). Effyis particularly possesses overwhelming strength in social big data in China, and it is the only company in the world to have acquired a marketing license with full access rights to the data of a Chinese social media major. Effyis' main clients include global IT companies such as Salesforce.com and IBM, and it also has a track record of sales to financial and government institutions.

Also, within the services to analyze the consumption trends of foreign tourists to Japan, in May 2015 the Company launched the Visualized China Trend EXPRESS service, which analyzes the consumption trends of Chinese tourists to Japan for a monthly fee of ¥80,000. Hotto Link also provides customized research services according to the needs of customers.

(2) Hotto Link's strengths

Hotto Link's strength lies in having established its position as the world's leading social media distribution company through making Effyis, a subsidiary. In addition, by combining its world class big data analysis technologies with Effyis' advanced data streaming technologies, it has put in place a system for providing even more rapid and advanced analysis services.

Financial results trends

EBITDA, which indicates profitability, increased 14.4% yoy, and steady progress is being made

(1) FY12/16 1H results overview

In the 1H FY12/16 consolidated results that the Company announced on August 12, net sales decreased 6.9% yoy to ¥1,132mn and the operating loss was ¥616mn (compared to operating income of ¥11mn in the same period in the previous fiscal year), the loss before income taxes was ¥616mn (a loss of ¥38mn), and the net loss attributable to the owners of the parent company was ¥603mn (a loss of ¥51mn).

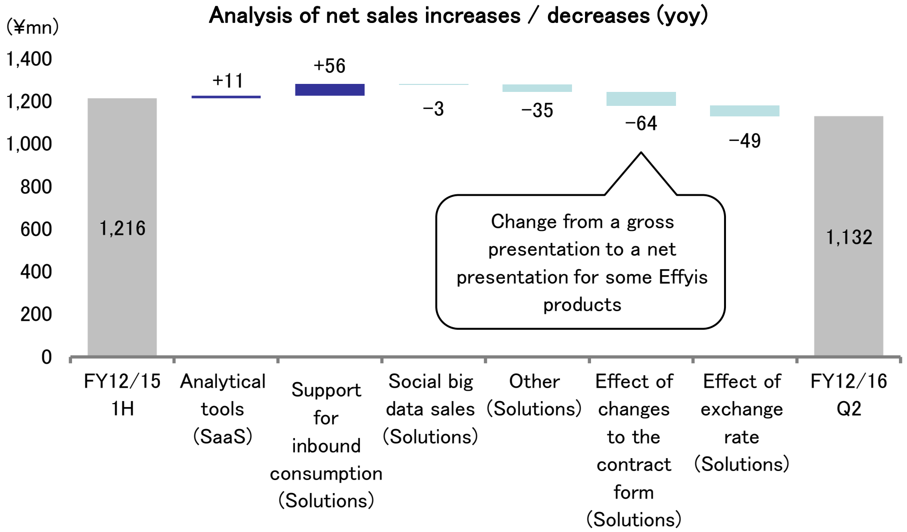
1H FY12/16 results (consolidated)

	FY12/15 1H		FY12/16 1H		
	Result	vs sales	Result	vs sales	yoy change
Net sales	1,216	-	1,132	-	-6.9%
Cost of sales	650	53.5%	570	50.4%	-12.3%
SG&A expenses	554	45.6%	551	48.7%	-0.5%
Other income / loss	0	-0.0%	-592	-52.3%	-
Operating income	11	1.0%	-582	-51.4%	-
Income before income taxes	-38	-3.2%	-616	-54.4%	-
Net income attributable to the owners of the parent company	-51	-4.2%	-603	-53.3%	-
EBITDA	168	13.8%	192	17.0%	14.4%

Note: EBITDA is calculated as operating income + amortization + impairment losses

The main factors causing net sales to increase or decrease were that on the one hand sales in the SaaS Business trended strongly, up ¥11mn yoy, with sales of support services for inbound consumption, centered on the China Trend EXPRESS that was launched in May 2015, rising ¥56mn, but that on the other hand, net sales from social big data and from the other Solutions Business declined ¥3mn and ¥35mn respectively. Also, from this fiscal period the Company changed the form of the sales contract (from a gross presentation to a net presentation) for some Effyis products, which reduced sales ¥64mn, while the impact of the strong yen also caused sales to fall ¥49mn.

Analysis of net sales increases / decreases (yoy)



Source: prepared by FISCO from the financial results summary supplementary materials

The main factors causing operating income to rise or fall were the decline of ¥4mn due to the reduction in gross profit from the lower sales, and the increase of ¥3mn because of the lower SG&A expenses. On a main-business basis, operating income trended roughly unchanged from the same period in the previous fiscal year, but this result deteriorated yoy due to the recording of an impairment loss of ¥593mn relating to the goodwill of Effyis. Specifically, as a result of the implementation of an impairment test based on the business plan as of June 2016 and calculations to evaluate fair value, the value of goodwill was reduced from US$22mn at the time of acquisition to US$17mn. This was mainly because although Effyis' 1H results were in profit, they were below the initial targets. It is also considered to be due to the fact that assessments by auditing companies have been made stricter following cases of fraudulent accounting by major companies. If profits from Effyis deteriorate further in the future, there is the risk that the Company will once again record an impairment loss on goodwill. But at the current time, its profits are recovering and at FISCO we think this is unlikely. Income on an EBITDA (operating income + amortization + impairment losses) basis, which in substantive terms indicates profitability, increased 14.4% yoy to ¥192mn, and steady progress was made.

Sales of the China Trend EXPRESS trended strongly

(2) Sales trends by business segments

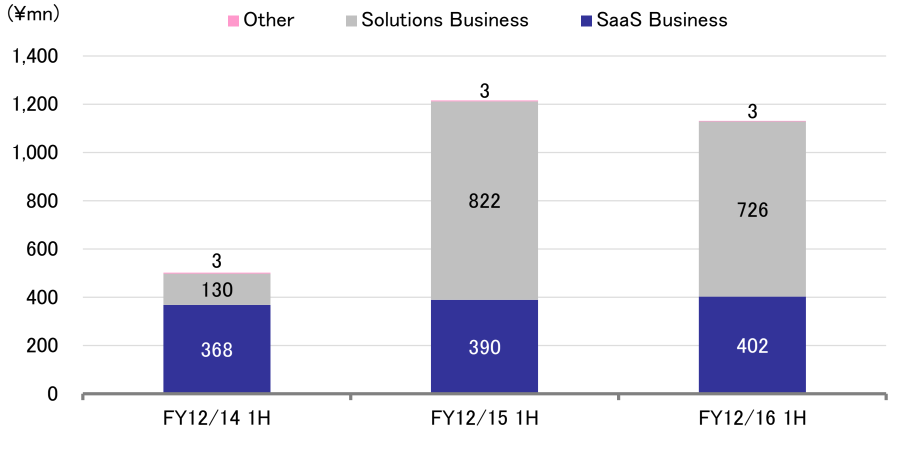
Looking by business segment, net sales in the SaaS Business rose 3.1% yoy to ¥402mn from the steady increase in new orders for the releases of both kuchikomi@kakaricho and e-mining.

In the Solutions Business, net sales fell 11.7% to ¥726mn. This was mainly because Effyis net sales, which constitute approximately 80% of the sales in this business, fell ¥116mn following the change to the method of recording sales* and also the impact of the strong yen. After excluding these factors and on a local currency basis, net sales still fell slightly, but this was primarily because sales of some social media data products were temporarily suspended on entering 2016, and if excluding these products, double-digit growth was maintained.

* Up to the previous fiscal year, the recording of royalties relating to data purchases were included in net sales, but from this fiscal year, net sales are recorded using a net-amount presentation that does not include royalties.

In the Solutions Business in Japan, support services for inbound consumption trended favorably. At the end of June, 86 companies were contracted to the China Trend EXPRESS service that was market launched in May 2015, which provides analytical reports of trends in inbound consumption. This is an increase of 25 companies compared to the end of the previous fiscal year. The Company has also received 26 orders for customized reports and the related net sales rose ¥56mn yoy. Conversely, in the other Solutions Business, sales declined ¥35mn.

Sales trend by business segment



Source: prepared by FISCO from the financial results summary

(3) Financial position

Looking at the Company's financial position at the end of June 2016, total assets had declined ¥838mn compared to the end of the previous fiscal year to ¥3,907mn. Within this amount, current assets rose ¥241mn to ¥1,191mn from the increase in cash and deposits following the raising of funds from a third-party allocation of shares and the execution of share acquisition rights. But non-current assets declined ¥1,079mn to ¥2,716mn from the recording of an impairment loss on goodwill and of depreciation and amortization on other intangible assets.

Total liabilities fell ¥1,130mn from the end of the previous fiscal year to ¥2,153mn, mainly due to the reduction in interest-bearing debt. Total equity increased ¥292mn to ¥1,754mn, as although capital and retained earnings rose ¥1,267mn from the third-party allocation of shares and the exercise of share acquisition rights, this increase was offset by the recording of a net loss.

Looking at the key financial indicators, due to the increase in capital and the reduction of interest-bearing debt, the equity ratio rose from 30.8% at the end of the previous fiscal year to 44.9%. Conversely, the interest-bearing debt ratio fell from 186.8% to 96.7% and the Company's financial status can be said to have improved.

Consolidated balance sheet

	End of FY12/14	End of FY12/15	End of FY12/16 1H	Change
Current assets	2,927	949	1,191	241
(Cash and deposits)	2,772	611	885	273
Non-current assets	349	3,796	2,716	-1,079
(goodwill)	197	2,891	1,933	-957
Total assets	3,276	4,745	3,907	-838
Total liabilities	1,893	3,284	2,153	-1,130
(interest-bearing debt)	1,700	2,730	1,696	-1,034
Total equity	1,382	1,461	1,754	292

• Indicators of stability

	End of FY12/14	End of FY12/15	End of FY12/16 1H
Equity ratio	42.2%	30.8%	44.9%
Interest-bearing debt ratio	51.9%	186.8%	96.7%

Note: IFRS were adopted from FY12/15
Source: prepared by FISCO from the financial results summary

Outlook for the future

Spotlight on the expansion of inbound consumption support services

(1) FY12/16 results outlook

For the FY12/16 consolidated results, the initial forecasts have been downwardly revised to net sales declining 4.0% yoy to ¥2,342mn, an operating loss of ¥645mn (compared to operating income of ¥126mn in the previous fiscal year), and a net loss attributable to the owners of the parent company of ¥667mn (net income of ¥18mn). The main reason why net sales were downwardly revised was the strong yen, with the yen set to strengthen in 2H from ¥116 to the dollar to ¥100 the dollar. The operating income forecast has also been reduced ¥742mn compared to the initial target. The primary factors behind this were the recording in Q2 of an impairment loss of ¥593mn, a foreign exchange loss of ¥21mn following the revision of the assumed exchange rate, costs of ¥40mn relating to the relocation of the head office (scheduled for November 2016), and management costs of ¥100mn for the overseas subsidiaries (in Tianjin in China and in Hong Kong) that were newly established in June 2016 as bases for business expansion in China and South East Asia. After excluding the impairment loss, the effects of the strong yen, and the additional costs for business expansion, the forecasts can be said to be slightly above the initial targets.

FY12/16 consolidated results outlook

	FY12/15		FY12/16 (forecast)			
	Result	vs sales	Initial target	Revised target	vs sales	yoy
Net sales	2,439	-	2,500	2,342	-	-4.0%
Operating income	126	5.2%	97	-645	-27.5%	-
Net income attributable to the owners of the parent company	18	0.8%	20	-667	-28.5%	-

Source: prepared by FISCO from financial results summary

In the outlook by business segment, net sales in the SaaS Business are expected to trend strongly and increase 2 to 3% yoy. Within the Solutions Business, factors affecting Effyis include the strong yen and the change to the method of recording sales, and in this segment, net sales are forecast to fall from ¥1,328mn in the previous fiscal year to around ¥1,100mn. Conversely, in inbound consumption support services, sales from the China Trend EXPRESS and from customized support are expected to increase in 2H also and to double to ¥220mn.

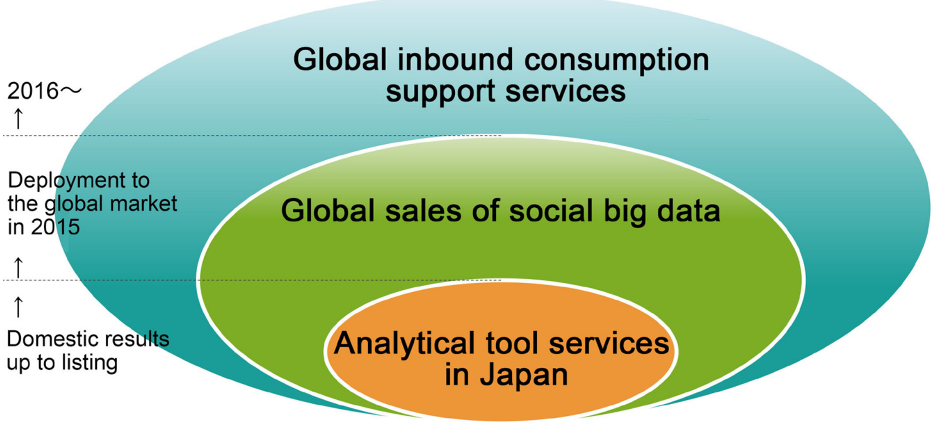
Positioned global inbound consumption support services as the new growth driver

(2) Medium-term targets

The Company's medium-term targets for FY12/20 are net sales of ¥10.0bn, with an overseas sales ratio of 80%. In the future, it plans to create a business on a scale of ¥100.0bn.

In terms of the business portfolio toward achieving these targets, in addition to the existing businesses, of the domestic business of analytical tool services for social big data, and the global business of sales of social big data by Effyis that was made into a subsidiary in 2015, for the future the Company has positioned global inbound consumption support services as the new growth driver, and it plans to actively invest management resources in it.

Business portfolio toward achieving the medium-term targets



Source: reprinted from the financial results summary supplementary materials

Looking at domestic inbound consumption, the trend in the last year has been for a change from the consumption of goods to the consumption of services. In addition, this is a difficult area for companies to create marketing measures for, due to factors such as each country's culture being different. In this situation, the Company has the technologies and expertise to be able to collect social big data from across the world and analyze this data in real time, so is considered to be in a position to be able to propose effective marketing measures. Currently, it is providing services to analyze Chinese tourists' consumption trends in Japan, but for the future, it is developing the same service for tourists from China to countries other than Japan, including various countries in Asia. It also plans to sequentially launch services to analyze consumption trends in Japan among tourists from Asian countries other than China.

For its inbound consumption support service menu, the Company is developing its businesses to provide in each country products such as "○○ Trend EXPRESS" (a weekly report service for a monthly fee of ¥80,000) and customized reports according to customer needs (several million yen × several times a year). Already in various Asian countries, it is developing these businesses in parallel with negotiations toward realizing M&A and collaborations with related businesses (including social media companies, social data analysis companies, and advertising agencies), and they are scheduled to be launched in various countries, starting from Thailand.

In terms of the investment in order to expand these businesses, the Company plans to invest a total of around ¥800mn in the 2 year period of 2016 and 2017 (as of when the plan was formulated in January 2016). It has already raised the majority of the funds for this investment following the implementation in January 2016 of a third-party allocation of shares and the exercise of share acquisition rights. In addition, in July 2016 it newly acquired borrowing of ¥300mn to serve as long-term working capital, and it is accumulating cash on hand.

Business investment plan (February 2016 to January 2018)

○Investment to acquire data marketing rights and to expand data collection capabilities in China and Southeast Asia
Hotto Link plans to acquire one social big data distribution company in China and Southeast Asia (acquisition price, ¥300mn). If the Company is unable to realize this acquisition, it will form business alliances with social media companies (4 companies) and intends to spend a total of ¥250mn on data marketing license fees and ¥50mn on system-development costs.
¥60mn for system development costs, including to acquire social media in specific areas (positional information, video, audio, etc.), sensor data (human body data, traffic data, etc.), and government related data.
○ Investment to develop new products and services for the inbound consumption market
The Company plans to acquire South Korean and Thai social analysis companies for enhancing its "○○ Trend EXPRESS" lineup for the domestic market. A total of ¥200mn. If the acquisitions are not feasible, it plans to develop the business in-house.
¥50mn system development costs (multilingual analysis engine) to provide overseas versions of China Trend EXPRESS (China, Thailand, Singapore, Dubai, and South Korea) and ¥50mn for the systems development of analysis engines compatible with each country's social media.
Plans to acquire a Chinese company. ¥93mn to acquire its shares.
¥50mn for the research and development of the Sign Discovery System, which analyzes social big data to discover products and services expected to be big hits in the future.

Source: prepared by FISCO from Company presentation materials

Shareholder returns policy and risk factors

As still in the upfront investment period, does not plan to pay a dividend in FY12/16 also

(1) Shareholder returns policy

Regarding the return of profits to shareholders, Hotto Link plans to pay dividends to shareholders in the future. However, it considers that it is still currently in the upfront investment period where it should actively allocate funds primarily to investment in businesses and to the recruitment and training of talent. Accordingly, the same as in the previous fiscal year, the Company does not plan to pay a dividend in FY12/16.

(2) Risk factors

Looking at business risks, changes in management policy by companies that Hotto Link purchases social media data could lead to cancellations of current license agreements and this could have an impact on the Company's financial results. That said, it already has many corporate customers in Japan, Furthermore, the amount of data purchased is expected to continue to increase, mainly based on the expansion of services to support inbound consumption. Therefore, at FISCO we believe that the likelihood that license agreements will be cancelled is extremely low.

In addition, due to the fact that more than half of its net sales are provided by overseas sales, the Company faces an exchange rate fluctuation risk when the results of its overseas subsidiaries are converted into yen. It attempts to mitigate this risk by maintaining a balance between assets and liabilities denominated in yen and in foreign currencies.

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