COMPANY RESEARCH AND ANALYSIS REPORT

Hotto Link Inc.

3680

TSE Mothers

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Summary

Aiming for regrowth from launches of new services in FY12/17

Hotto Link (3680) (hereafter, "the Company") is developing businesses centered on a cloud-based 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, it made a subsidiary of U.S. Effyis, Inc. (hereafter, "Effyis"), which is a major distributor of social big data, and in addition it is currently developing an inbound tourism consumption support service that utilizes word-of-mouth data on a major Chinese social media site. The Company transitioned to International Financial Reporting Standards (IFRS) in FY12/15.

1. Posted an operating loss in FY12/16 mainly due to the recording of an impairment loss at Effyis, but is steadily launching new services

In the FY12/16 consolidated results, net sales decreased 10.3% year on year (YoY) to ¥2,187mn and the operating loss was ¥654mn (compared to profit of ¥126mn in the previous fiscal year). Sales declined due to factors including a change in the contract form for some of Effyis' products and the appreciation of the yen. In profits, the reason for the operating loss was that in addition to the impact of the lower sales, an impairment loss on goodwill at Effyis of ¥593mn was recorded. However, inbound tourism consumption support services, including China Trend EXPRESS which is being strengthened as a new business, are being steadily launched, and net sales grew to exceed ¥100mn.

2. Outlook for FY12/17 is for higher sales and profits from the recovery in earnings at Effyis and the launch of new services

The outlook for the FY12/17 consolidated results is for higher sales and profits, with net sales to increase 11.7% YoY to ¥2,443mn and operating profit of ¥29mn. It is assumed that the exchange rate will be ¥100 to U.S.$1, which is conservative. Net sales are forecast to increase by double digits from the recovery at Effyis and the contribution of Trend PR, which is a service launched in February 2017. This service is intended for companies aiming to expand the sales of their own products to Chinese consumers through proposing and implementing optimal promotions based on analyses of word-of-mouth data on SNS. It utilizes the Company's strength of being able to use the data of a major Chinese SNS provider that is a vendor of Effyis. In China, consumption trends change in the short term and word-of-mouth information on SNS is very influential, so it can be said that this service offers high usage value for companies looking to expand their businesses in China. The Company expects net sales of around ¥300mn from its Crossbound Business (inbound and outbound tourism consumption support services), which includes China Trend EXPRESS. Looking at results on a quarterly basis, at FISCO, we expect that the slight operating loss will continue in 1Q due to high personnel expenses, but that from 3Q onwards this will change to a profit trend due to the increase in sales from the new services.

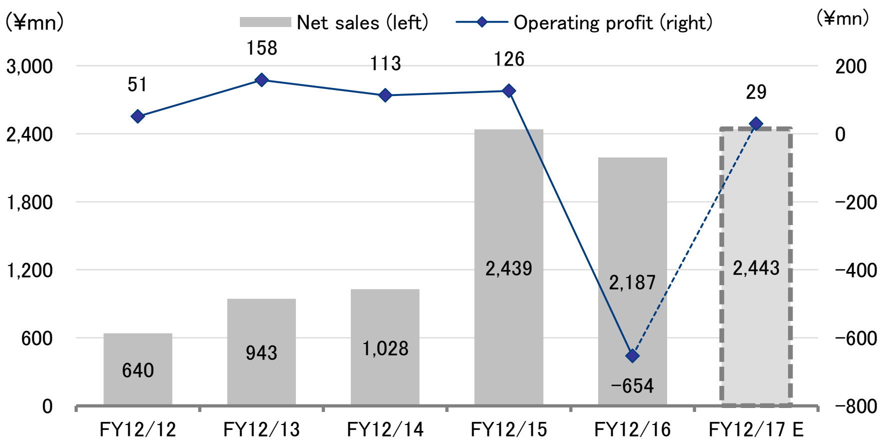
3. Developed an image and video analysis tool that utilizes AI technologies, and its sales will be launched in the spring of 2017

The Company will launch a new analysis tool that utilizes AI technologies, such as machine learning, from the spring of 2017. It obtained a license to use the data of a major photo-sharing app company, and it will utilize AI technologies to carry out highly accurate attribute determination and information recommendation from the hash tags and photos uploaded to this company's site in order to provide a service used by companies for their marketing measures. Its policy is to first sell this service to its approximately 500 existing customer companies that use its kuchikomi@ kakaricho and e-mining services. As the sales of this tool are not included in the FY12/17 sales targets, if it sells steadily, it is possible that it will be a factor causing results to exceed the targets.

Key Points

- Focusing on its tool for analyzing word-of-mouth data on SNS and inbound tourism consumption support services
- Sales and profits will change to an increase in FY12/17 from the recovery of earnings at Effyis and the launch of new services
- Following on from China, it intends to develop its business in various Asian countries, aiming for net sales of ¥10bn

Results trends



* Figures from FY12/13 onward are shown on a consolidated
* Figures from FY12/14 onward are based on IFRS

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

Company profile

Focusing on its tool for analyzing word-of-mouth data on SNS and inbound tourism consumption support services

1. Company history

The Company was founded in June 2000 by President and Representative Director Koki Uchiyama with the mission of "Establishing the infrastructure for a knowledge-recycling society to contribute to realizing a world in which everyone can feel "hotto" ("hotto" means "relieved" in Japanese). President Uchiyama has a track record of participating in the development of technologies from the very dawn of the Internet market, including participating in the Japan Search Engine Development Project, which was the first Japanese search engine, while at graduate school in 1995.

The Company provided an analysis service based on articles posted on social media, including on individual blogs and 2channel, from the second half of 2000, which was the start of the rapid spread of social media in the Internet industry. Following on from the analysis of blogs in 2005, it acquired the Dentsu Buzz Research Business (analysis of social big data) in 2008 from Gala Buzz Inc., and started in earnest to provide its current mainstay service, the social media analysis tool kuchikomi@kakaricho. Then in 2012, it made a wholly owned subsidiary (by absorption merger) of Gala Buzz, which provides e-mining social risk monitoring services, and added their services to its lineup.

For its social media analysis service, it is necessary to purchase data, such as the articles posted on SNS that are held by the various social media companies. But in addition to blogs, the Company has concluded official contracts with various operating and data supply companies and thereby obtained the rights to use and sell data on major SNS such as 2channel, Twitter, and SINA Weibo. SINA Weibo is the largest SNS in China, and in June 2014, the Company entered into a business alliance with Effyis of the United States, which is the only company in the world to have acquired a marketing license with full access rights to the data of SINA Weibo, and it has the exclusive sales agency rights for the Asia Pacific region other than China. The Company made Effyis a wholly owned subsidiary in January 2015.

In 2015 when the number of tourists from China visiting Japan rapidly increased, the Company launched Visualized China Trend EXPRESS, which is a regular report on inbound tourism consumption trends from an analysis of word-of-mouth data on SNS. It is currently concentrating on strengthening its corporate sales product support services based on the keywords of “tourism x consumption x social big data” and on developing analytical tools that utilize AI technologies.

History

Date	Major event
June 2000	Hotto Link Inc. established in Yoyogi, Shibuya Ward, Tokyo (currently Chiyoda Ward, Tokyo)
November 2005	Became a subsidiary of Opt Inc.
March 2008	Acquired the Dentsu Buzz Research Business (analysis of social big data) from Gala Buzz Inc.
July 2008	Officially launched the social media analysis tool kuchikomi@kakaricho
May 2012	Acquired all shares and made a subsidiary of Gala Buzz Inc. (absorption merger in October 2012), which provides e-mining social risk monitoring services
October 2012	Concluded an exclusive commercial usage licensing agreement for the information posted on the 2channel site with Tokyo Plus, Co., Ltd., which manages the 2channel site, and Mirai Kensakue Brazil, Co., Ltd.
November 2012	Entered into a strategic business alliance with U.S. Gnip, Inc., a provider of social big data (acquired by Twitter in 2014), and acquired the rights to use Twitter data globally and at all times
December 2012	Entered into a capital and business alliance with Salesforce.com, Inc. and Synergy Marketing Inc.
March 2013	Established Hotto Link Consulting Inc. as a consolidated subsidiary
July 2013	Entered into a capital and business alliance with Hitachi Systems, Ltd.
December 2013	Listed on the Tokyo Stock Exchange Mothers market
January 2014	Entered into a strategic business alliance with Netyear Group Corporation
June 2014	Entered into a business alliance with U.S. Effyis, Inc., a social media data distribution company, and acquired exclusive sales agency rights for SINA Weibo in the Asia Pacific region excluding China
July 2014	Entered into a business alliance with PQ Shanghai Co., Ltd., which provides an integrated monitoring service of national brands in China, with the aim of developing and spreading the use of a social media analysis service
January 2015	Made a subsidiary of U.S. Effyis, Inc.
May 2015	Started to provide Visualized China Trend EXPRESS, a regular report specializing in inbound tourism consumption
November 2015	Changed the name of Hotto Link Consulting, Inc. to Trend EXPRESS, Inc. Entered into a business alliance with Nightley Inc.
December 2015	Acquired the shares of PQ Shanghai (ownership ratio: 19%)
June 2016	Established Trend EXPRESS Tianjin Inc. and Hotto Link Hong Kong Limited
August 2016	Subsidiary Trend EXPRESS Tianjin Inc. announced a business alliance with the QQ.com educational channel for video production, and started distribution on “Tencent Video (V.QQ.com),” which is China’s largest online video site
October 2016	Trend EXPRESS, Inc. entered into businesses alliances with SINA Japan Synthesis Network Group Co., Ltd., SINA Japan Weibo, Co., Ltd., SINA Japan Property Co., Ltd., and SINA Japan Travel Co., Ltd.

Source: Prepared by FISCO from the Company’s website

2. Business description

The Company discloses information on three businesses: SaaS* Business, Solutions Business, and Other. The descriptions of each are as follows.

> * SaaS (Software as a Service): A software service in which software is provided to customers over communication networks and they can 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 gathering monthly usage fees.

(1) SaaS Business

In this business, the Company provides two services, kuchikomi@kakaricho and e-mining. kuchikomi@kakaricho is an analysis tool utilized to investigate, for example, a company's product development, sales promotion activities, and comparisons with competitors based on social big data gathered from sites including 2channel, Twitter, and various types of blogs. Meanwhile, e-mining is a social risk monitoring tool through which rumors and other information that could damage the reputation of goods and services or a brand image in the future are quickly discovered using social big data that has been gathered, enabling effective measures to be created and implemented to deal with the risk before it materializes. 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 kuchikomi@kakaricho and from ¥130,000 for e-mining. The monthly usage fee is calculated based on the number of usable IDs, the number of media subjects to analyze, 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 1,900 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, news websites, and other media, plus a data import analysis function to perform text mining of data held internally by corporate customers (questionnaires, call logs, etc.)

Notably, for social media analysis, Hotto Link has a dominant advantage in Japan in terms of the sheer volume of social data it possesses and it 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, and it gathers all the data. 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 gathers data from Twitter, 2channel, and other sources according to preset risk-related keywords and provides alert functions that enable companies to promptly detect any developments of risk. Monitoring covers approximately 2,000 types of 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.

(2) Solutions Business

This 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, Inc. The Solutions 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 gathers 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). It is one of the three major social big data distribution and sales companies. Effyis particularly possesses overwhelming strength in collecting social big data in China, as it is the only company in the world to have acquired a marketing license with full access rights to the data of a major Chinese social media. Effyis' main clients include global IT companies like IBM and Salesforce.com, and it also has a track record of selling data to numerous organizations, including financial and government institutions and venture companies. The IBM Group is its largest customer, accounting for over 20% of sales.

Also, within the services to analyze the consumption trends of foreign tourists to Japan, in May 2015, the Company began sales of 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 (from ¥1mn). As of FY12/16, around 70 organizations had contracted for the Visualized China Trend EXPRESS service.

3. Hotto Link's strength

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.

Moreover, the number of companies providing services to gather and analyze social big data has increased in the last few years, but many of these competitors have not concluded official usage agreements with SNS and only provide services from gathering open data on social media. While gathering data in this way without incurring costs increases the profit margin, the Company thinks it will become difficult to gather data in this way in the future. In fact, in February 2017, Twitter announced that it intends to prohibit the unauthorized gathering of open data in the future, which is expected to prove a beneficial development for the Company.

Results trends

Posted an operating loss in FY12/16, mainly due to the recording of an impairment loss at Effyis

1. Overview of the FY12/16 results

Net sales decreased 10.3% YoY to ¥2,187mn, operating loss was ¥654mn (compared to profit of ¥126mn in the previous fiscal year), loss before tax was ¥671mn (income of ¥60mn), and loss attributable to owners of the parent was ¥639mn (profit of ¥18mn), due to declines in sales and profits. Also, EBITDA, which is operating profit combined with depreciation and amortization and impairment loss, fell 34.9% to ¥318mn.

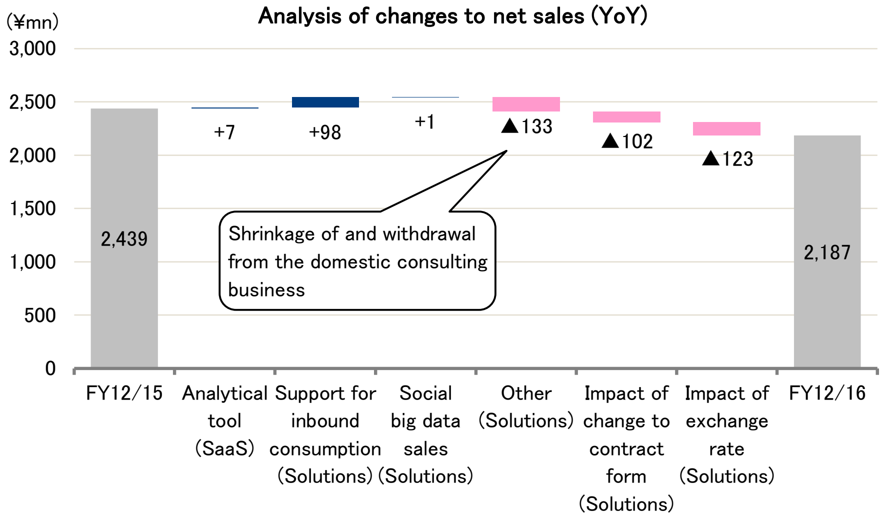
FY12/16 consolidated results

(¥mn)

	FY12/15		FY12/16				
	Result	% of sales	Company target	Result	% of sales	YoY change	Change vs target
Net sales	2,439	-	2,342	2,187	-	-251	-154
Gross profit	1,248	51.2%	-	1,056	48.3%	-192	-
SG&A expenses	1,121	46.0%	-	1,115	51.0%	-5	-
Other income and expenses	-0	-	-	-594	-	-593	-
Operating profit	126	5.2%	-645	-654	-	-780	-9
Profit before tax	60	2.5%	-667	-671	-	-731	-4
Profit for the period	18	0.8%	-667	-639	-	-658	27
EBITDA	489	20.1%	-	318	14.6%	-171	-

Note: Net income is net income attributable to the owners of the parent. EBITDA is operating profit + depreciation and amortization + impairment loss
Source: Prepared by FISCO from the Company's financial results

Looking at the factors causing net sales to change, support services for inbound tourism consumption grew steadily, with net sales increasing ¥98mn YoY. Conversely, the factors causing net sales to decline were ¥133mn from the shrinkage of and withdrawal from the domestic consulting business, ¥123mn from the impact of the appreciation of the yen (from ¥120 to ¥108 to U.S.$1), and ¥102mn from the effects of the change in the method of recording sales of some Effyis products, from a gross presentation to a net presentation.



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

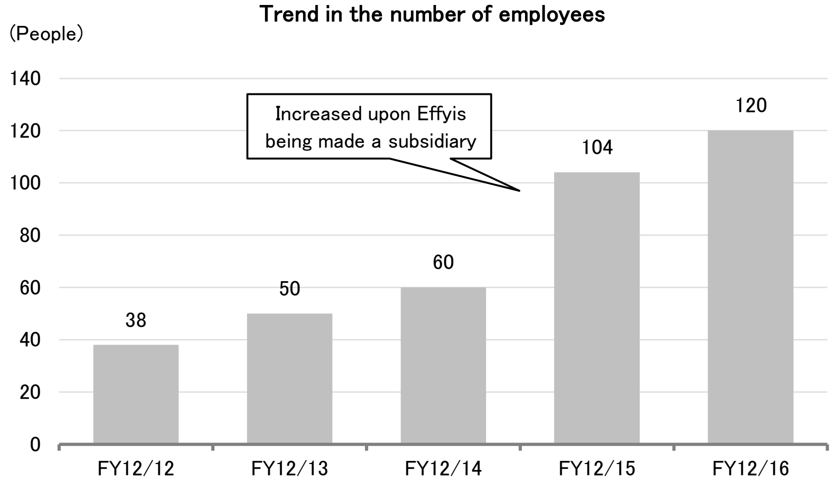
In addition, while the reduction in SG&A expenses of ¥5mn was a factor pushing up operating profit, an operating loss was still recorded due to the impact of the decline factors, which included a fall in gross profit of ¥192mn and an impairment loss on the goodwill of Effyis of ¥593mn. Other than the impairment loss, the factors causing operating profit to fall included temporary expenses to relocate the Head Office of ¥19mn and Effyis PPA* amortization of ¥37mn.

* PPA (Purchase Price Allocation): a procedure to allocate the purchase price of an M&A to the assets and liabilities of the acquired company based on the market prices on the date of record of the assets and liabilities of the acquired company. It is processed within one year of the acquisition.

Looking at the results at Effyis, net sales declined 17.9% YoY to ¥1,090mn and operating loss was ¥40mn (compared to profit of ¥98mn in the previous fiscal year). Even when excluding the effects of the appreciation of the yen and the changes to the method of recording sales of some products, net sales still fell slightly less than 1%. This was mainly because sales of some supplier products were temporarily suspended until around spring, and also there was a delay in the recording of net sales due to the change in the contract method with some major customers. If excluding these factors, social big data sales are steadily increasing.

The number of employees at the end of the fiscal period (including temporary and outsourced employees) increased by 16 people YoY to 120 employees (80 in Japan and 40 overseas). This was primarily due to the increase in the number of sales staff toward the launch of the PR promotions business for Chinese consumers in 4Q.

Trend in the number of employees



Note: Total number of full-time, temporary, and outsourced employees

Source: Prepared by FISCO from the securities report

Sales declined in the Solutions Business, but remained firm in the SaaS Business

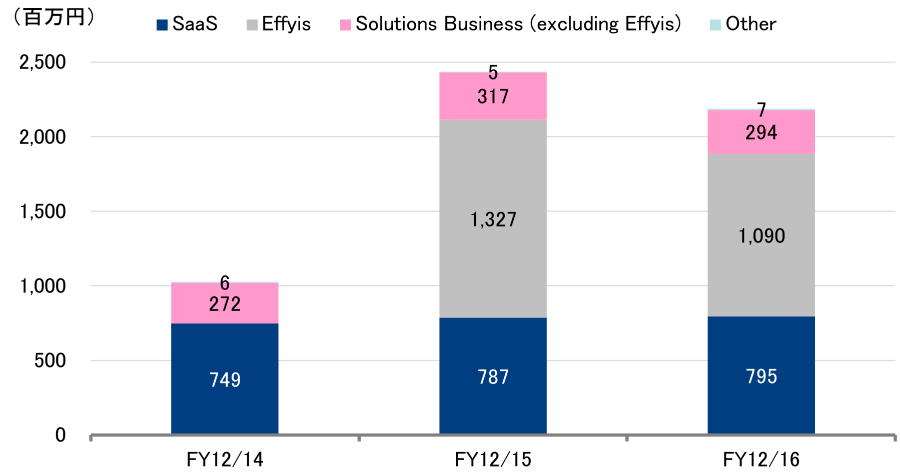
2. Sales trend by business

Looking by business, net sales in the SaaS Business rose 0.9% YoY to ¥795mn. Although the Company steadily acquired new orders for the kuchikomi@kakaricho and e-mining services, many of the applications were for short-term usage and the number of corporate subscribers remained at about the same level as in the previous fiscal year, of around 500.

In the Solutions Business, net sales fell 15.8% YoY to ¥1,384mn. Sales from Effyis constitute about 80% of the sales in this business, and as previously described, they fell 17.9%, while the ¥133mn decline from the shrinkage of and withdrawal from the domestic consulting business was another factor behind the lower sales. Conversely, in the inbound tourism consumption support service business, the number of orders for products such as Visualized China Trend EXPRESS and customized reports grew steadily, and sales increased ¥98mn to ¥120mn.

In terms of the business progress made in FY12/16, the Chinese subsidiary entered into a business alliance with the educational channel QQ.com, a portal site operated by Tencent of China, for video production on the Japanese channel of the “Enough Seen” educational program that is distributed on V.QQ.com (Tencent Video), which is China’s largest video distribution site. In addition, in collaboration with Nightley Inc., which operates a location intelligence business, the Company has developed and launched sales of customized reports on the consumption trends of foreign tourists to Japan that combines locational information and word-of-mouth information.

Net sales by business



Source: Prepared by FISCO from the securities report

Improved financial structure from the implementation of equity finance

3. Financial position and financial indicators

Looking at the financial position at the end of December 2016, total assets were down ¥415mn at the end of the previous fiscal year to ¥4,329mn. Within this amount, current assets rose ¥296mn to ¥1,246mn from the increase in cash and deposits following the financing from a third-party allocation of shares and the execution of share acquisition rights. But non-current assets declined ¥712mn to ¥3,083mn on the recording of an impairment loss on goodwill of Effyis and the amortization of intangible assets.

Total liabilities fell ¥844mn at the end of the previous fiscal year to ¥2,439mn, mainly due to the reduction in interest-bearing debt. Total equity increased ¥428mn to ¥1,890mn, as although common stock and capital surplus rose ¥1,330mn 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 of ¥639mn and the acquisition of treasury shares of ¥140mn.

Looking at the main 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 43.7%. Conversely, the interest-bearing debt ratio fell from 186.8% to 102.7%, and the Company's financial structure can be said to have improved. It has indicated that its policy going forward will be to work to further reduce interest-bearing debt. If all unexercised stock acquisition rights for Oak Capital <3113> that were issued in 2016 are exercised (exercise price ¥545), capital of ¥321mn can be raised.

On the other hand, looking at the indicators of profitability, the EBITDA margin fell from 20.1% in the previous fiscal year to 14.6%. In addition to the fact that earnings at Effyis deteriorated due to temporary factors, on a Company stand-alone basis, another factor was that operating profit worsened (from operating profit of ¥51mn in the previous fiscal year to an operating loss of ¥41mn) due to the recording of higher personnel expenses and expenses for the relocation of the Tokyo Head Office.

Consolidated statement of financial position

(¥mn)

	FY12/13	FY12/14	FY12/15	FY12/16	Change
Current assets	1,113	2,927	949	1,246	296
(Cash and deposits)	949	2,772	611	940	329
Non-current assets	353	349	3,796	3,083	-712
(Goodwill)	-	197	2,891	2,162	-729
Total assets	1,467	3,276	4,745	4,329	-415
Total liabilities	198	1,893	3,284	2,439	-844
(Interest-bearing debt)	-	1,700	2,730	1,940	-790
Total equity	1,268	1,382	1,461	1,890	428
(Stability)					
Equity ratio	86.5%	40.8%	30.8%	43.7%	
Interest-bearing debt ratio	-	122.9%	186.8%	102.7%	
(Profitability)					
ROE (Return on equity)	8.4%	5.8%	1.3%	-	
Operating profit margin	16.7%	11.0%	5.2%	-	
EBITDA margin	29.1%	21.7%	20.1%	14.6%	

Note: Based on IFRS from FY12/15
Source: Prepared by FISCO from the securities report

Business outlook

Sales and profits will change to an increase in FY12/17 from the recovery of earnings at Effyis and the launch of new services

1. Outlook for the FY12/17 results

The outlook for the FY12/17 consolidated results is for higher sales and profits, with net sales to increase 11.7% YoY to ¥2,443mn, operating profit of ¥29mn (compared to loss of ¥654mn in the previous fiscal year), profit before tax of ¥1mn (loss of ¥671mn), and profit attributable to owners of the parent of ¥1mn (loss of ¥639mn). In addition to the end of the impairment loss of goodwill, the main factor behind the improved results will be the recovery in earnings at Effyis. Moreover, EBITDA is forecast to increase 7.0% YoY to ¥354mn.

The forecast for Effyis results are for net sales to rise 5.9% YoY to ¥1,156mn and operating profit of ¥54mn (compared to loss of ¥40mn in the previous fiscal year), assuming an exchange rate of ¥100 to U.S.$1. Calculated on a dollar basis, net sales will increase 14%. As previously explained, the main factors behind the higher sales will be the end of the impact of the suspension of sales of some products in FY12/16 (around U.S.$1.5mn), the recording of sales from major customers that were delayed from an early fiscal period, and the progress made in acquiring new customers. The January and February sales trended slightly above target, so it would seem that steady progress is being made.

Looking at the Company's own businesses and the Trend EXPRESS business, the outlook is for net sales to increase ¥256mn YoY. Sales in the SaaS Business will trend firmly, while in the Crossbound Business (inbound tourism consumption support services and promotion services for the Chinese market) that develops Trend EXPRESS, sales will increase by 2.5 times to ¥300mn. However, profits are expected to decline in the domestic business because of the increase in personnel and development expenses relating to the new services.

Looking at the results trends on a quarterly basis, at FISCO we expect that the slight operating loss will continue in 1Q due to the high personnel expenses, but that this will change to a profit trend from 3Q from the increase in sales from the new services.

FY12/17 consolidated results outlook

(¥mn)

	FY12/16		FY12/17		
	Result	% of sales	Company target	% of sales	YoY
Net sales	2,187	-	2,443	-	11.7%
Operating profit	-654	-	29	1.2%	-
Profit before tax	-671	-	1	0.0%	-
Profit for the period	-639	-	1	0.0%	-
EBITDA	318	14.6%	354	14.5%	7.0%

Note: Profit for the period is profit attributable to owners of the parent. EBITDA is operating profit + depreciation and amortization + impairment loss
Source: Prepared by FISCO from the Company's financial results

In the Chinese market, Trend PR was launched as a sales support service in February 2017

2. Overview of the new services

The Company is launching new services in the SaaS Business and the Crossbound Business in FY12/17. An overview of the services is provided below.

(1) SaaS Business

In this business, from the spring of 2017, the Company will begin providing an SNS analysis tool that utilizes AI technologies for highly precise semantic analysis and recommendations, particularly for images, as typified by Instagram, and for hashtags. This tool will be useful for companies that are planning and implementing marketing measures and measuring their effects.

Image information on SNS has been gathered and analyzed in the past, but for the current service, the Company has obtained a license from Instagram, Inc. to use its data to develop a tool that can improve the efficiency of SNS management by utilizing AI technologies. In terms of the benefits for customer companies, using this tool will enable them to quickly ascertain various information, like the popularity of their products and current trends, which they can utilize for developing new products and implementing sales promotions. The Company's policy at the current time is to conduct sales mainly for its existing customers of around 500 companies. The sales for this tool are not included in the FY12/17 sales targets, so if the number of contracting companies increases, it can be expected to be a factor behind results exceeding targets.

The Company has been using AI technologies since 2005 to improve the functions of kuchikomi@kakaricho and e-mining. In addition, it has been at the forefront of the industry for services that utilize AI technologies and has been developing various types of services, such as for forecasting stock prices and election results. Sales of analysis tools have slumped in the last few years, but currently solutions businesses that utilize AI technologies are being launched in various industries, and it is predicted that the market scale of the related industries will grow rapidly by around 7 times, from ¥3.445 trillion in 2015 to ¥23.638 trillion in 2020. Therefore, the Company's policy is also to focus on developments in the future toward uncovering demand for its analytical tools.

(2) Crossbound Business

In this business, the Company launched Trend PR, which is a promotion service targeting Chinese consumers, in February 2017. It is intended for companies wanting to sell their own products and services in China. Word-of-mouth information on web media and SNS is important in China, where it accounts for 55% of the total in terms of the media referred to when consumers are deciding on a purchase. Trend PR is a service that can gather this word-of-mouth data on SNS by utilizing the Company's strengths to the greatest possible extent.

In terms of the service flow, it is a one-stop service in which first, market research is conducted on the product or service designated by the customer company (analysis of word-of-mouth information on SNS), and then based on the results of this survey, articles that will be effective for Chinese consumers are created, the optimal web media for the target reach are selected, the consumers are exposed to the articles (guaranteeing exposure through a total of 45 media outlets over 3 cycles), and the effects are measured after the implementation of the promotion (1 cycle lasts approximately 2 months). While the Company guarantees exposure through 45 media outlets, in reality, it is known that the information spreads naturally to other web media and SNS, so total exposure will ultimately be more than 4 times that amount. The service fee is ¥3mn for a contract that rotates this PDCA cycle 3 times. The market research and the measurement of effects are carried out by the Company's affiliate PQ Shanghai (ownership ratio: 19.9%).

Looking at success stories in the past, there was a case in which the SNS market research ascertained that pregnant Chinese women tend to not use makeup, so articles were created pointing pregnant women toward mineral cosmetics that are good for them. These articles spread across web media, and as a result store sales increased by 3 times after the information was posted. In addition, there was a case in which prior to the implementation of the promotion, sales of diet foods were slumping, but after the implementation of word-of-mouth PR on SNS to improve the recognition of products, sales grew by an average of 20% a month. There are also many Japanese companies that struggle with sales promotions in China, and it is considered that potential demand is large for Trend PR, which makes full use of word-of-mouth information to implement promotions.

The Company has already received two orders since announcing this service in February. In the Crossbound Business, it is targeting an increase in net sales from ¥120mn in the previous fiscal year to ¥300mn, and most of this is expected to be from Trend PR. Therefore, in the previous 4Q, it strengthened personnel, including by recruiting Chinese speakers and people with advertising agency experience, and currently it is conducting sales activities with a structure of 12 to 13 personnel. For the time being, a loss will be recorded in this business due to the high personnel expenses, but if sales increase, it is expected to contribute to profits.

Following on from China, it intends to develop its business in various Asian countries, aiming for net sales of ¥10bn

3. 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, the Company has positioned global inbound tourism consumption support services as its new growth driver for the future, in addition to the existing domestic business of analytical tool services for social big data and global business of sales of social big data by Effyis, which was made into a subsidiary in FY12/15. Its strategy is to realize growth by organically combining these three businesses.

Looking at domestic inbound tourism 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 gather social big data from across the world and analyze this data in real time, so it is considered to be in a position to be able to propose effective marketing measures. Up to FY12/16, it provided services to analyze Chinese tourists' consumption trends in Japan, but as previously explained, in FY12/17 it will launch the PR promotion service for Chinese consumers in China. Its policy for the time being is to focus on developing this promotion support service for Chinese consumers, but it also plans to sequentially launch the same service in Asian countries other than China, while entering into business alliances with local companies and conducting M&A.

For its inbound tourism consumption support service menu, the Company will develop 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). Candidate partners include local social media companies, social data analysis companies, and advertising agencies. Its policy for the immediate future is to get the new service that is to be launched in FY12/17 on track and continue to improve its financial structure. After that, it plans to advance into other Asian countries or the Middle East and Europe.

Shareholder return policy and business risks

Still in the upfront investment period, so payment of dividends is not planned

1. Shareholder return 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 FY12/17.

2. Business risks

Looking at business risks, changes in management policy by companies from which 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 in the future, including from the growth of the Crossbound Business. Therefore, at FISCO, we believe that the likelihood that license agreements will be cancelled is extremely low.

In addition, the overseas sales ratio in FY12/16 was around the 50% level and there is fluctuation risk when converting the results of Effyis into yen due to exchange rate fluctuations. Furthermore, goodwill at Effyis was ¥2,162mn at the end of FY12/16, and it is necessary to be aware that it is possible an impairment loss will be recorded again in the future depending on how results trend.

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