

Hotto Link Inc.

3680

TSE Mothers

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■ Summary

Entering the stage for rapid growth with the full-scale transition from social big data analysis to utilization services

Hotto Link Inc. (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 Effyis, Inc. (hereafter, “Effyis”) in the U.S., which is a major distributor of social big data. With this, the Company has gained access to worldwide social media data. In January 2015, it made a subsidiary of Effyis, Inc. (hereafter, Effyis), which is a major U.S. distributor of social big data, making it possible for it to utilize global social media data. The subsidiary Trend EXPRESS, Inc., has launched a cross-border EC service that utilizes social media data, and it is currently being developed to become the third pillar of earnings.

1. FY12/18 1H results

In the FY12/18 1H (January to June 2018) consolidated results, net sales increased 22.8% year on year (YoY) to ¥1,468mn and operating profit rose 127.7% to ¥71mn. EBITDA (operating profit + depreciation and amortization + impairment loss), which is a key indicator for the Company, also improved, up 19.6% to ¥257mn. Effyis’ net sales were strong, up 18.04% to ¥750mn, mainly due to the expansion of the amount of SNS data handled. In the Crossbound Business being deployed by Trend EXPRESS, sales steadily grew of Trend PR*, which is a promotion support service for China, up 178.4% to ¥229mn, and this was a factor behind the major growth in results.

* Trend PR is a service intended for companies that are aiming to expand the sales of their own products to Chinese consumers through proposing and implementing optimal promotions based on analysis 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, and it is attracting increasing attention as it not only makes visible the effects of marketing-related costs, but also it is highly cost effective.

2. FY12/18 outlook

For the FY12/18 consolidated earnings, the Company has left unchanged its initial forecasts, of net sales to increase 25.0% YoY to ¥3,229mn and operating profit to decrease 33.0% to ¥84mn. For the rates of progress for the forecasts up to Q2, it made steady progress for the net sales forecast, at 45.5%, but it achieved 84.8% of the operating profit forecast and is greatly ahead of schedule. In 2H, it is assumed that the exchange rate will be ¥105 to US\$1, while a new service, Cross-border EC X (cross) is expected to contribute to earnings. Therefore, at FISCO, we think that if the exchange rate continues at the current level, it is highly likely that results will exceed the forecasts. The Company is maintaining its initial forecasts because it is difficult to forecast the extent to which the new service will grow. The exercise of all of the new share warrants issued in March 2018 has been completed, raising funds of ¥1,820mn. Within this amount, the Company plans to allocate ¥700mn to investing in securing and training human resources, ¥300mn to M&A and to strategic investments such as capital and business alliances, and the remaining ¥700mn together with cash on hand to completely repay borrowing of ¥1,240mn.

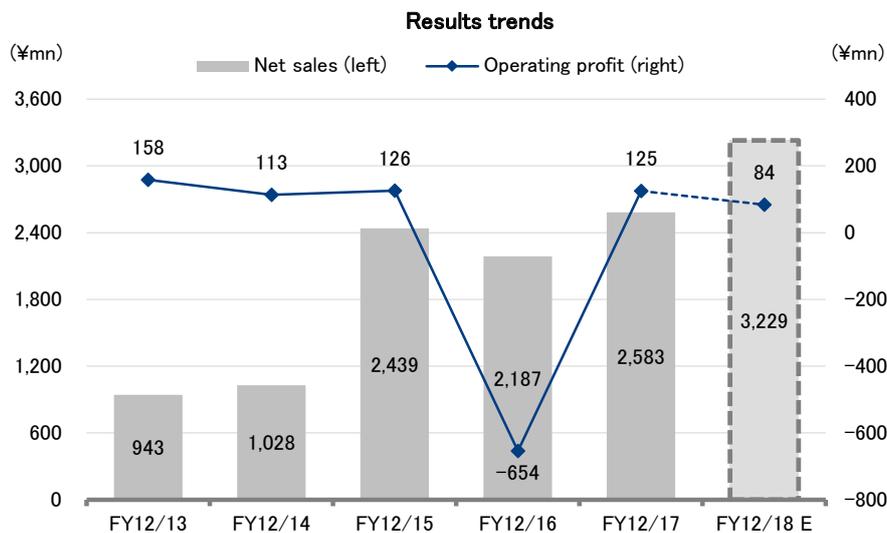
Summary

3. Growth strategy

The Company's strategy is to further grow earnings by transitioning from its existing business, of social media analysis services, to solutions services that utilize analyzed data. With regards to the collection of social big data, Effyis holds the worldwide access rights for the data of major SNS, and it has come to have an overwhelming presence. Services that utilize the Company's analytical capabilities, in addition to this ability to collect data, were launched in 2017, and they are expected to grow greatly in the future both in Japan and overseas. In terms of the utilization services, in addition to BuzzSpreader, which is a social media marketing support tool released in May 2018, the focus will be on Cross-border EC X, which is a cross-border EC sales support service. In particular, the contribution to earnings of Cross-border EC X is expected to greatly increase, as its business model is performance-based fees according to the sales of the targeted product. Going forward, the Company has in sight deploying it not only in China, but also in Southeast Asia, while considering M&A and other measures. It is targeting net sales of ¥10bn in FY12/20.

Key Points

- Expanding from providing social big data collection and analytical tools into services that apply data
- Major increases in sales and profits in FY12/18 1H from the strong sales of social big data access rights and the launch of a promotion support service
- Services utilizing social big data are growing in Japan and China, and the plan is to deploy them horizontally to Southeast Asia and other regions



Note: Results are based on IFRS standards from FY12/14 onwards.
 Source: Prepared by FISCO from the Company's financial results

■ Company profile

Expanding from social big data collection and analytical tools into utilization services

1. Company history

The Company was founded in June 2000 by President and Representative Director Koki Uchiyama with a 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),” which is where the Company name came from. Mr. Uchiyama has been involved with development of technology from the beginning of the Internet market, including participation in the Japan Search Engine Development Project, one of Japan’s earliest search engines, while in graduate school in 1995.

The Company provided an analysis service based on articles posted on social media, including on personal blogs and 2channel, from the second half of 2000s, 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. In 2012, the Company made the e-mining social risk monitoring service Gala Buzz into a wholly-owned subsidiary, merging it in the same year and adding services to its lineup.

For its social media analysis service, it is necessary to purchase data, such as articles posted on SNS that are held by various social media companies. Therefore, the Company has concluded official contracts with various operating and data supply companies and obtained the rights to access and sell data on major SNS other than blogs, such as 2channel, Twitter, and other major SNS in the U.S. and China.

As the number of tourists from China visiting Japan soared in 2015, the Company launched Visualized China Trend EXPRESS, a regular reporting service on inbound tourism consumption trends based on analysis of word-of-mouth data (i.e., posting) from SNS. It followed this up in 2017 with the launch of Trend PR, a promotion support service utilizing social big data for companies selling to the Chinese market. In June 2017, the Company launched BuzzSpreader, a social media management support tool utilizing Instagram, then followed this in December with the launch of Trend EKKYO and CutChaTV. Trend EKKYO is a comprehensive service for companies contemplating cross-border e-commerce sales to China, including everything from online promotion inside and outside of online shopping malls to bring in customers, to sales and customer support, to distribution. CutChaTV is a video promotion service targeting the Japanese domestic market. The service plans and produces original web dramas based on the Company’s analyses of posts on social media, then promotes the series on SNS such as Twitter and Facebook.

Company profile

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 Efyis, Inc., a U.S. social media data distribution company
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. Efyis, 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.
May 2017	U.S. subsidiary Efyis Inc., entered-into a business alliance with U.S. Reddit, Inc., which manages the global social news website "reddit"
June 2017	Released BuzzSpreader, a social media management support services
December 2017	Trend EXPRESS, Inc. starts Trend EKKYO services to help companies test cross-border ecommerce sales; begins webcasting SNS TV series on CutChaTV

*1 Will dissolve the capital alliance with U.S. Salesforce.com, Inc., in 2017

*2 Dissolved the capital alliance with Hitachi Systems, Ltd., in 2016

Source: Prepared by FISCO from the Company's website

2. Business description

The Company divides its businesses into three segments, SaaS* Business, Solutions Business, and Crossbound Business, and uses the resources of the parent and two subsidiaries (Trend EXPRESS and Efyis) to pursue these business lines. The descriptions of each are found below.

* 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 business model that generates recurring revenues by gathering monthly usage fees.

Company profile

(1) SaaS Business

In this business, the Company provides two services, kuchikomi@kakaricho and e-mining. The kuchikomi@kakaricho service is an analysis tool that based on social big data gathered from sites including 2channel, Twitter, and various types of blogs; the tool is applied to items such as surveys for a company's product development, sales promotion activities, and comparisons with competitors, etc. Meanwhile, e-mining is a social risk monitoring tool through which rumors and other information that could damage 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 user 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 2,000 on a cumulative basis (over 1,000 for kuchikomi@kakaricho and over 1,000 for e-mining). Of these, there are 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, the Company 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 gathers worldwide Twitter data based on the agreements it has entered with these partners. The 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.

Other than the above, going forward the services with growing sales will include BuzzSpreader, which is a social media marketing tool that realizes a one-stop service for the posting of advertisements on Twitter and Instagram, account management, and analyses and reports, and also CutChaTV*, which is a video promotion service using SNS.

* As video promotion services utilizing the Internet have many competitors and a low profit margin, currently the Company is not actively conducting sales activities.

Company profile

(2) Solutions Business

This business is comprised of the social media data (data access rights) sales business of Effyis (brand name: Socialgist), which was made into a subsidiary in January 2015, and the data platform service that provides systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho. The Effyis business accounts for nearly 90% of sales in this segment.

Effyis is a major social big data distribution and sales company that 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). With the exception of Twitter, it is the largest major corporation to handle data on leading public SNS platforms in the world. 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 Salesforce.com (CRM) and IBM, and it also has a track record of selling data to numerous organizations, including financial and government institutions and venture companies. Salesforce.com is its largest customer, believed to account for about 15% of sales.

(3) Crossbound Business

This is the business conducted by the subsidiary Trend EXPRESS. In addition to China Trend EXPRESS, which is a regular report service on the consumption trends of Chinese visitors to Japan, and customized research services that are tailored to customer needs, in June 2017, Trend PR, which is a promotion support service for the Chinese market, was launched. This was followed in December 2017 by the launch of Cross-border EC X, a comprehensive support service for companies looking at cross-border ecommerce sales to China, including everything from promotional support, to online sales and customer support, to distribution.

Of these services, China Trend EXPRESS is provided for a monthly fee of ¥80,000, while the customized research services start from ¥1 million. In addition, Trend PR is a service that provides highly cost effective marketing support to meet customer needs, of developing name awareness of companies' own products and brands in the Chinese market and thereby expanding sales. Specifically, based on the analysis of social big data in the Chinese market, which is one of the Company's strengths, it turns the PDCA cycle, from the planning and execution of the optimal marketing measures to the subsequent measurement of effects and proposals for improvements, to provide sales support for customers in the Chinese market while improving cost effectiveness. In terms of the marketing measures, the Company selects from among more than 2,000 affiliated media sites in China based on the analysis of big data to effectively expand. If seen from the customer side, it makes all the data visible, so it has the advantage of enabling an objective analysis of cost effectiveness and makes it easier to create a budget for promotion measures. The fees for a single order (single PDCA cycle) vary according to the order, but the average is around ¥3mn to ¥5mn.

On the other hand, Cross-border EC X is a service that effectively improves name recognition and realizes higher sales in the Chinese market through disseminating word-of-mouth information by utilizing sales promotions and influencers, including the leading stores that have opened on Taobao, which is a major EC site, and the individual stores of key opinion leaders (KOL) on the Internet in China. The fee differs depending on the size and the duration of the promotion, the same as for Trend PR, but the major differences between them are that Cross-border EC X provides a one-stop service, from pre-sales analysis through to post-sales follow-up, and its business model is that the Company obtains performed-based fees according to the sales of the targeted product. Therefore, if the targeted product becomes a major hit and its sales explode during the promotions period, its contribution to earnings also increases.

3. Hotto Link's strength

The Company'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 as well as for developing solution services that utilize big data by gathering and analyzing it.

There are many competitor companies providing services to collect and analyze social big data, but within them, quite a few provide a service to crawl and collect only social media open data. 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 its intention to prohibit the unauthorized gathering of open data, while Facebook also prohibits the external sale of data. In Europe, the handling of personal information is becoming more strictly regulated. Due to these changes to the market environment, in the future the value of social media data is expected to increase even more. From the viewpoint of the quality of services, these series of developments signify that a gap will open up between the Company and its competitors, which at FISCO we think will be advantageous for it.

Results trends

Major increases in sales and profits in FY12/18 1H from the strong sales of social big data access rights and the launch of a promotion support service

1. Overview of FY12/18 1H results

In the FY12/18 1H consolidated results announced on August 14, 2018, the Company recorded higher sales and profits, with net sales increasing 22.8% YoY to ¥1,468mn, operating profit rising 127.7% to ¥71mn, profit before tax growing 463.0% to ¥53mn, and profit for the period attributable to owners of the parent climbing 502.0% to ¥45mn. The Company does not disclose forecasts on a fiscal half-year basis, but it would seem that both sales and profits are trending above their respective forecasts.

Net sales were a new record high for a fiscal half year. This was due to the strong sales by Effyis of social big data access rights, and also the steady launch of the promotion support service being deployed by Trend EXPRESS. The gross profit margin declined by 3.0 percentage points, from 47.3% in the same period in the previous fiscal year to 44.3%, but this was mainly because of changes to the sales mix. SG&A expenses increased 8.6% YoY, mainly due to the rise in external business outsourcing expenses to improve business efficiency. But despite this, the operating profit margin rose from 2.6% in the same period in the previous fiscal year to 4.9% due to the effects of the higher sales. Also, EBITDA, which is a key indicator for the Company, rose 19.6% to ¥257mn, a new record high on a fiscal half-year basis. The average exchange rate was ¥110 to US\$1 (¥112 to US\$1 in the same period in the previous fiscal year), so the yen strengthened slightly, but the effect of this on Effyis' results was negligible.

Results trends

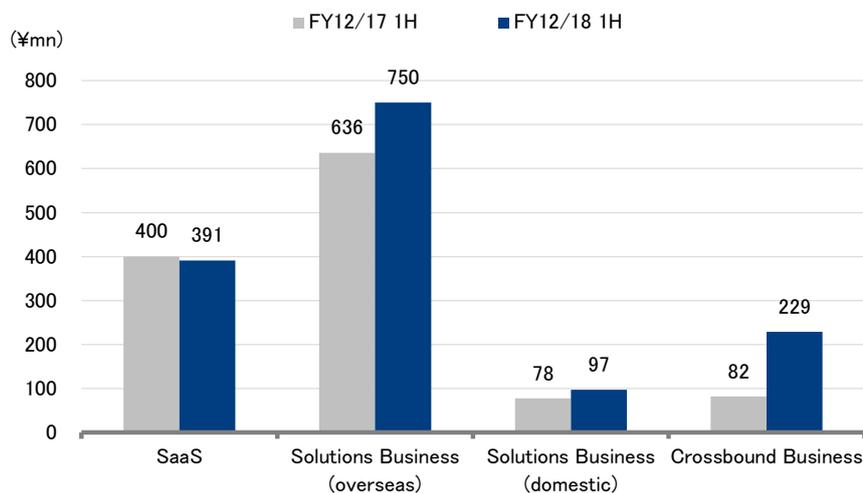
FY12/18 1H results

	FY12/17 1H		FY12/18 1H		YoY
	Results	% of sales	Results	% of sales	
Net sales	1,196	-	1,468	-	22.8%
Gross profit	565	47.3%	651	44.3%	15.1%
SG&A expenses	534	44.7%	580	39.6%	8.6%
Operating profit	31	2.6%	71	4.9%	127.7%
Profit before tax	9	0.8%	53	3.7%	463.0%
Profit for the period attributable to owners of the parent	7	0.6%	45	3.1%	502.0%
EBITDA	215	18.0%	257	17.5%	19.6%

Note: EBITDA = operating profit + depreciation and amortization + impairment loss

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

Segment sales by service



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

Releasing services utilizing social big data one after another

2. Segment sales by service

(1) SaaS Business

In the SaaS Business, net sales decreased 2.2% YoY to ¥391mn. This was because while sales of kuchikomi@kakaricho were strong, they declined for e-mining. Both services are expected to perform well going forward, but toward further business expansion in the future, the Company will not simply provide analytical tools, and in May 2018, it started to provide services that utilize analyzed data.

Results trends

The first such service is BuzzSpreader, which is a social media marketing tool that realizes a one-stop service for posting advertisements on SNS, account management, and analyses and reports. It is a service that utilizes the AI engine developed by the Company to make it possible to target keywords more effectively and in a timely manner, and it contributes to improving the efficiency of the management of social media marketing and the ROI. The Company enhanced the functions of this service in August 2018. Specifically, it added follow-up and retweet campaign management functions for Twitter, and a hashtag recommendation function for images posted on Instagram by using an AI engine. Instagram is one important media for companies in order to conduct social media marketing, and if it is possible to automatically generate effective hashtags with AI, this greatly reduces the workload of the person responsible for managing social media, so the needs for this service are expected to be great. Together with a general consulting service for social media management, the Company has also started sales of social ads, and recently they have grown to a scale of ¥20mn a month. Together with BuzzSpreader, they are expected to contribute to earnings from 2H onwards.

The other is a service that reduces the risk of web flaming, and the Company has started providing the service Flaming Prevention Training for Workers, which is a web flame crisis management program. It is an educational program that enables users to experience various SNS flaming cases that are simulated on a smartphone screen. The Company is conducting promotions activities for it not only for its e-mining customers, and it seems that it is being well received by customers. It is expected to contribute to sales, at the same time as the recovery of e-mining, from Q3 onwards.

(2) Solutions Business

In the Solutions Business, net sales increased 18.8% YoY to ¥847mn. Within this amount, Effyis' net sales rose 17.9% to ¥750mn, which was a new record high for a fiscal half year. This was mainly because, in a situation in which the number of companies utilizing social big data for management is increasing each year, sales steadily grew of the data access rights of a major U.S. SNS, and also that outside of the U.S., it newly acquired the sales license for data access rights for a major SNS. Through this, the Company has acquired the data access rights for practically all of the major SNS throughout the world. In terms of the net increase in monthly fees, the actual increase in the January-June period compared to December in the previous year was an increase of US\$159,000 (calculated annually, a factor increasing sales by approximately ¥200mn). From 2H also, sales are expected to trend upward.

Facebook has stopped sales of data due to the problem of the leakage of personal information, while the management of personal information is becoming stricter, such as following the enforcement of the General Data Protection Regulation (GDPR) in the EU. In this situation, the social big data distribution sales industry seems to be undergoing reorganization, which is said to be stimulating the mobilization of human resources. For Effyis, which does not handle Facebook data, this can be an opportunity to establish an overwhelming position in the industry, and it is aiming to further increase earnings while recruiting excellent human resources. It appears that in 1H, Effyis' results were increases in sales and profits that exceeded the initial forecasts.

On the other hand, sales also increased in the Solutions Business in Japan, up 24.3% YoY to ¥97mn. This was mainly due to the increase in sales of system development projects associated with the OEM provision of kuchikomi@kakaricho.

(3) Crossbound Business

In the Crossbound Business, net sales increased 178.4% YoY to ¥229mn. The main factors were that sales were strong of the reporting service that utilizes social big data to analyze the consumer behavior of overseas visitors to Japan and in China; that sales of Trend PR, which is a promotion support service for the Chinese market launched in 2017, increased ¥70mn; and that sales of other promotion services grew steadily.

Results trends

The Company also released Cross-border EC X as a new service. It had received orders for 15 projects up to Q2, but within these, it started promotions only for 3 projects for reasons including the time required for trade procedures. Therefore, its sales up to Q2 were negligible. As these trade procedures are being sequentially eliminated, the outlook is for it to contribute to higher sales from Q3 onwards. The majority of customers are major companies, such as cosmetics and apparel companies, and if its effect in increasing sales are confirmed at these customers as the first stage, the products targeted for promotion may expand going forward, so we will be paying attention to developments in the future.

To completely repay interest-bearing debt by the end of Q3 and will change to offensive management

3. Financial position and financial indicators

Looking at the financial condition at the end of FY12/18 1H, total assets were up ¥1,757mn on the end of the previous fiscal year to ¥6,349mn. The main change factors were that in current assets, cash and cash equivalents increased ¥1,583mn alongside the exercise of new share warrants, and that in non-current assets, other investment assets rose ¥153mn on the market value valuations of investment securities.

Total liabilities were down ¥177mn on the end of the previous year to of ¥1,803mn, which stemmed from a ¥186mn reduction in interest-bearing debt. Total equity was up ¥1,935mn to ¥2,610mn, with ¥913mn of this coming from the exercise of new stock warrants and ¥935mn from an increase in the Company's capital surplus. Total equity was also bolstered by profit for the period attributable to owners of the parent, which reduced the negative balance of retained earnings by ¥45mn.

Looking at the main management indicators, the ratio of equity attributable to the owners of the parents, which indicates management stability, rose from 55.8% at the end of the previous fiscal year to 70.9%, while the interest-bearing debt ratio fell from 55.7% to 27.6%, so both indicators improved greatly. All of the new share warrants issued in March 2018 have been exercised, which enabled the Company to raise funds of ¥1,820mn. Within this amount, it plans to allocate ¥700mn to investing in securing and training human resources, ¥300mn to M&A and to strategic investments such as capital and business alliances, and the remaining ¥700mn together with cash on hand to completely repay borrowing of ¥1,240mn. As its financial position greatly improves, its policy is to conduct offensive management toward growing results, such as by conducting active investments in the future.

Results trends

Statement of financial position and financial indicators

	As of December 31, 2015	As of December 31, 2016	As of December 31, 2017	As of June 30, 2018	Change
	(¥mn)				
Current assets	949	1,246	1,426	3,044	1,617
(Cash and cash equivalents)	611	940	1,074	2,657	1,583
Non-current assets	3,796	3,083	3,165	3,305	139
Property, plant and equipment	67	84	62	52	(10)
(Goodwill)	2,891	2,162	2,103	2,061	(41)
Total assets	4,745	4,329	4,591	6,349	1,757
Total liabilities	3,284	2,439	1,981	1,803	(177)
(Interest-bearing debt)	2,730	1,940	1,426	1,240	(186)
Total equity	1,461	1,890	2,610	4,546	1,935
(Stability)					
Ratio of equity attributable to the owners of the parents	30.8%	43.7%	55.8%	70.9%	15.1pt
Interest-bearing debt ratio	186.8%	102.7%	55.7%	27.6%	-28.1pt

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

Outlook

The new services will be added to the growth of the existing businesses, and the outlook is for the high growth to continue from FY12/18 2H onwards

1. Outlook for FY12/18

For the FY12/18 consolidated earnings, the Company has left unchanged its initial forecasts, of net sales to increase 25.0% YoY to ¥3,229mn, operating profit to decrease 33.0% to ¥84m, and profit for the period attributable to owners of the parent to decrease 79.1% to ¥29mn. Looking at the rates of progress for these forecasts up to Q2, it had achieved 45.5% of the net sales forecast and 84.8% of the operating profit forecast, so the rate of progress for operating profit was particularly high. This was mainly because, as previously explained, profits from subsidiaries, including Effyis and Trend EXPRESS, were higher than anticipated. The Company has decided to leave its full fiscal year forecasts unchanged as it may actively investment in 2H, including in human resources. However, due to factors such as that sales are continuing to trend strongly, the launches of new services like Cross-border EC X, and that the assumed exchange rate of ¥105 to US\$1 is conservative, at FISCO we think that it is highly likely that results will exceed forecasts on a profits basis.

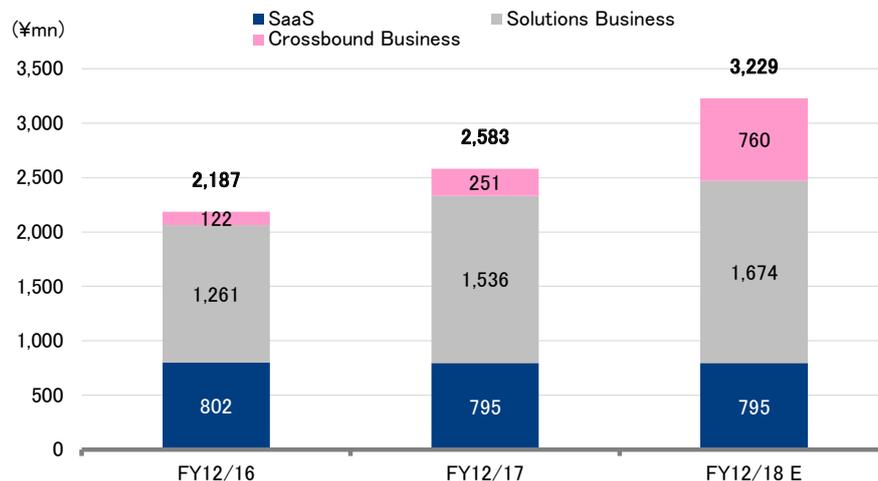
Outlook

FY12/18 consolidated outlook

	FY12/17		FY12/18		YoY
	Results	% of sales	Company target	% of sales	
Net sales	2,583	-	3,229	-	25.0%
Gross profit	1,211	46.9%	1,342	41.6%	10.8%
SG&A expenses	1,087	42.1%	1,257	38.9%	15.7%
Operating profit	125	4.9%	84	2.6%	-33.0%
Profit before tax	94	3.7%	-	-	-
Profit for the period attributable to owners of the parent	141	5.5%	29	0.9%	-79.1%
EBITDA	48.4	18.7%	445	13.8%	-8.1%

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

Segment sales by service



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

2. Segment sales outlook by service

(1) SaaS Business

In the SaaS Business, earnings are expected to be at basically the same level as in the previous fiscal year. We are starting to see a trend of the companies utilizing social big data for management spreading from large companies to medium-sized companies, so the upward trend in the number of contracts for kuchikomi@kakaricho is expected to continue. In addition, e-mining, which is a social risk monitoring tool, is expected to recover from 2H due to the progress made in product bundle sales with Flaming Prevention Training for Workers, which is a new service.

The Company expanded the functions of the new service of BuzzSpreader in August 2018, and it is aiming to implement full-scale promotions activities toward becoming profitable in the next year. Sales of social ads are strong, so it is forecast to grow to become a mainstay service in the SaaS Business.

Outlook

(2) Solutions Business

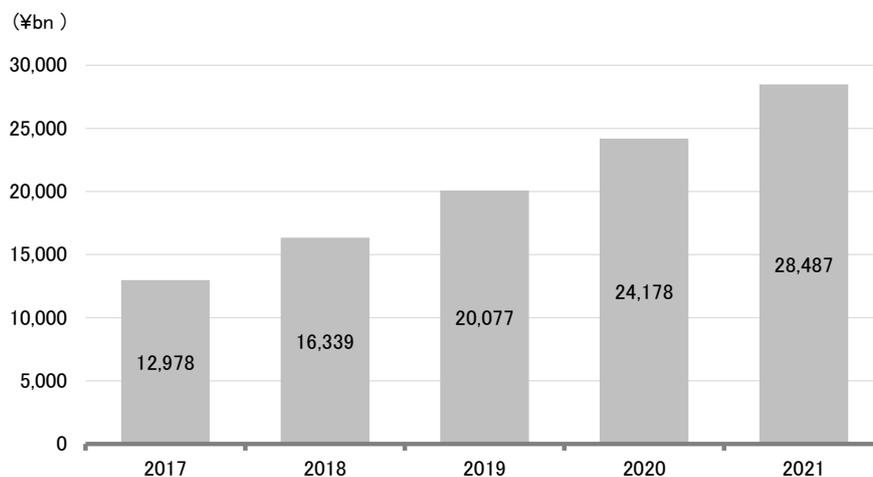
In the Solutions Business, Effyis is forecast to continue to trend strongly even when assuming an exchange rate of ¥105 to US\$1, with sales and profits set to increase by double digits YoY. Not only is the volume of social big data handled increasing year by year for existing customers, the number of new customers is rising as well. Outside of the United States also, the Company has newly concluded a data access rights sales contract with a major SNS company, and moreover it has acquired the sales license for the full-access rights for a major Chinese SNS, and these will also be factors behind the higher sales. Effyis is close to having a recurring-income business model, in which if its customer companies use social big data, its sales increase, so its sales are expected to contribute as a stable source of earnings for the Company in the future. Effyis' operating profit margin was 11% in FY12/17, and it is expected to be kept in a range of around 10% in the future.

(3) Crossbound Business

In the Crossbound Business, net sales are forecast to increase by more than 3 times YoY to ¥760mn. In particular, Trend PR and Cross-border EC X, which are promotion support services for the Chinese market, are expected to grow. Since the Trend PR service was launched in 2017, it has obtained large promotion effects for practically all of its projects, and it has a track record of contributing to higher sales of customer companies' products. Therefore, it is extremely likely that the same positive effects can also be obtained from Cross-border EC X. In addition to the basic fees, Cross-border EC X obtains performance-based fee income according to the sales of the relevant product. Therefore, if a product it promotes is a hit, then it is possible that its contribution to profits will increase, and there are major expectations for this service.

In the market research on e-commerce report (April 2018), which is released by the Ministry of Economy, Trade, and Industry each year, it was estimated that the cross-border EC distribution amount from Japan to China will continue to have a high growth rate of around 22% a year, rising from ¥1.2978 trillion in 2017 to ¥2.8487 trillion in 2021. The forecast in the report of one year ago was for annual growth of 16% (2016-2020), so its momentum is accelerating. It is said that in China, SNS is the media with the most influence on the consumption trends of individuals, and it would seem that the Company, which has full access to collect data from a major Chinese SNS and which can formulate optimized promotions measures using its advanced analytical capabilities, will be able to further demonstrate its strength in the future. Therefore, at FISCO, we think that sales in the Crossbound Business will grow significantly.

The value of cross-border distribution from Japan to China



Source: The Ministry of Economy, Trade and Industry's "Market research on e-commerce" report (April 2018)

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Services utilizing social big data are growing in Japan and China, and the plan is to deploy them horizontally to Southeast Asia and other regions

3. Growth strategy

The Company's services can be divided into three groups according to their process. The first is the business of Effyis, in which the access rights to big data collected from various social media are sold unchanged via wholesale to global IT companies like IBM and Safesforce.com. The social big data it handles covers practically all of the world's major SNS, and it ranks first in the industry for both data type and quantity. Therefore, it is expected that its dominant position will not be shaken in the future and that it will continue to support the Company's results as a source of earnings for which stable growth is expected.

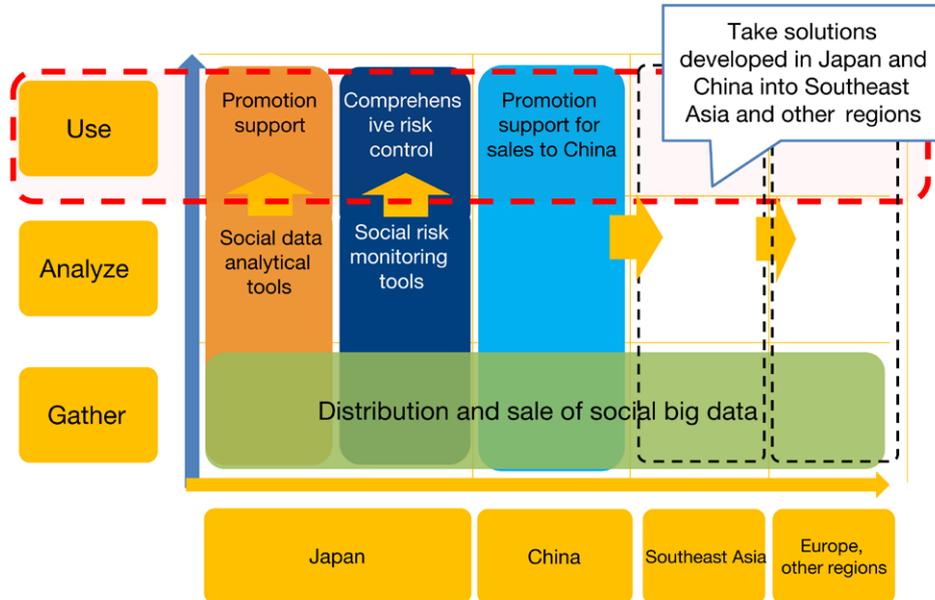
Second are the SaaS services, including kuchikomi@kakaricho, which is a tool for analyzing collected social big data, and e-mining. But their growth has been sluggish in the last few years, mainly because of the increase in the number of competitors. However, a strength of the Company's analytical tools is that they are highly accurate, as they are based on the overwhelming volume of data it collects and its advanced analytical capabilities. So going forward, these services are expected to perform strongly by generating synergies with the utilization services.

Third are services utilizing collected and analyzed social big data. They include the social media marketing support tool BuzzSpreader, the service for comprehensive countermeasures against the risk of web flaming, and the sales promotion support services for the Chinese market. In particular, due to its excellent track record, the brand power in the industry of the sales support service for China provided by Trend EXPRESS is high, and when its seminars are held, they are popular enough that they receive a full turnout. The current issue is that human resources are not keeping pace with demand, so the Company plans to actively invest in human resources in the future.

It is considered that the Company is aiming for sales of ¥10bn in FY12/20 by strengthening these services in Japan and overseas. Also, in the future, it has in sight the horizontal deployment of these business models to Southeast Asia and other regions.

Outlook

Future expansion plans



• [Dashed Box] Areas where Company plans to build up operations
 Source: The Company's results briefing materials

Through making Effyis a subsidiary, the Company has become able to collect the most social big data in the world and then provide various solutions services by analyzing, processing, and utilizing this data. As it took some time to put the Effyis management structure in place, it had to record an impairment loss on goodwill in FY12/16, and its results temporarily worsened. However, Effyis has been profitable since 2017, and currently it has already entered a growth phase. Trend EXPRESS is also expected to become profitable in FY12/18 and has entered a high-growth phase. Looking back on the Company's developments in the last few years, from 2015 to 2016, it established a management base toward deploying its businesses worldwide, and from 2017, it began deploying its businesses globally, starting from the Chinese market. Looking to the future, at FISCO we think we can expect to see further growth through it providing services in utilization fields not just in Japan, but overseas also.

The Company will continue to consider M&A and capital and business alliances. The targets for these in Japan will be advertising agencies that will lead to the strengthening of its social media marketing support services. Overseas, the candidates will include Southeast Asia data analysis services companies and advertising agencies involved in social media marketing.

■ Shareholder return policy and business risks

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

1. Shareholder return policy

The Company plans to return profits to shareholders in the future by paying dividends. But at the current point in time, in order to actively allocate funds, such as to business investment and the recruitment and training of human resources, it is aiming to improve its corporate value (increase its share price) through growing earnings, which it considers will maximize returns to shareholders in the future. Therefore, continuing from previously, it does not plan to pay a dividend in FY12/18.

2. Business risks

Looking at business risks, changes in management policy by companies from which the Company purchases social media data could lead to cancellations of license agreements or changes in government policies or the like in each country could prevent the delivery of social media and this could have an impact on the Company's financial results. That said, looking only at its relationships with the companies Hotto Link buys from, it already has many corporate customers that utilize social media worldwide. 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.

Looking at the risk of exchange-rate fluctuations, due to the growth of Effyis, in FY12/18 1H, the percentage of total sales provided by overseas sales was at a level above 50%. Should the yen strengthen, there is a risk that the contribution from Effyis will be reduced when converted into yen. Also, with regards to the sales promotion support services for China, should the yen strengthen against the yuan, this would impact the cross-border EC distribution amount, and it is an indirect risk factor.

■ Information security measures

The services offered by the Company and its group companies depend on large server farms and Internet connections, so management takes information security very seriously. To prevent system failures or outages caused by cyber-attacks that would interfere with the performance of services for customers, the Company constantly monitors system operations, maintains backup systems, and uses cybersecurity measures to thwart malware and other cyber-threats.



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