

Hotto Link Inc.

3680

TSE Mothers

6-Nov.-2019

FISCO Ltd. Analyst

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FISCO Ltd.

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

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Summary

The promotion-support service that utilizes SNS continues to grow

Hotto Link Inc. <3680> (hereafter, also “the Company”) is an IT company that conducts development and sales, including for analysis tools and marketing-support tools that utilize social media data. Its subsidiaries are Effyis, Inc. which sells data access rights to major social media, and Trend EXPRESS Inc., which is developing services targeting the Chinese market, including Trend PR*1, a Web promotion-support service, and Cross-border EC X (cross)*2, a cross-border EC service.

*1 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 distinctive that it not only makes visible the effects of marketing-related costs, but also it is highly cost effective.

*2 Cross-border EC X is the Company’s one-stop service to support customers, from customer acquisition through to distribution, through promotions measures that utilize the 450,000 social buyers between Japan and China, the leading stores on the major EC mall Taobao, and the leading KOL.

1. Overview of the FY12/19 1H results

In the FY12/19 1H (January to June 2019) consolidated results, net sales increased 11.6% year-on-year (YoY) to ¥1,638mn and progressed basically in line with the Company forecast. This was mainly because, despite the impact of the transfer of the e-mining business in December 2018, which caused sales to decrease approximately ¥0.15bn, sales steadily grew, including of social media data access rights and the Web promotion-support service in China. Conversely, an operating loss of ¥408mn was recorded (compared to operating profit of ¥71mn in the same period in the previous fiscal year). The main reasons for this were the rise in data costs in the SaaS Business, and also due to the payments of minimum guarantees for some suppliers in sales of data access rights and changes to the sales composition ratio, and that the Company actively invested in growth (investment in human resources and development) toward business expansion.

2. FY12/19 outlook

For the FY12/19 consolidated results, the Company has left the initial forecasts unchanged, of net sales to increase 31.8% YoY to ¥4,272mn and operating profit to decrease 89.2% to ¥35mn. The rate of progress up to Q2 was 38.4% of the net sales forecast, but it is aiming to achieve this forecast through the fully fledged launch of sales of BuzzSpreader, which is a marketing support tool equipped with AI functions, in the fall of 2019 in the SaaS Business, and also by growing the SNS marketing support service and the cross-border EC business for China. For profits, it plans to actively invest in growth in the 2H also, so at FISCO we think that profits may be below forecast.

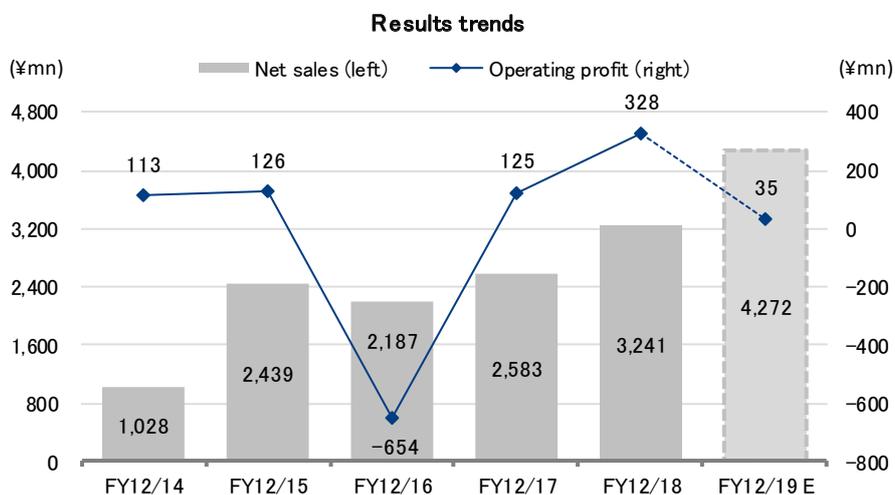
Summary

3. Growth strategy

The Company is aiming to achieve high growth through fully shifting from providing conventional social media analysis services to solutions services that utilize analyzed data in the marketing area. In the SaaS Business, it is focusing on increasing sales of BuzzSpreader, which is a tool to improve the cost effectiveness of SNS marketing. Also, Trend EXPRESS is working to further grow sales of its services for the Chinese market, including the promotion-support service Trend PR and the Cross-border EC X service. Although there are concerns about a slowdown of the Chinese economy, the Chinese EC market has expanded in scale to be worth around ¥120 trillion and still has enormous growth potential. In particular, Cross-border EC X has a performance-based fees business model, so should a product be a hit, its contribution to profits will grow commensurately larger. Effyis continues to focus on acquiring the data access rights to the main social media, and it is aiming for further growth as a social media data distribution company. The management of personal information on the Internet is becoming stricter than ever, such as through the implementation of the GDPR regulations in Europe, and in this situation its value is also expected to rise. In addition, as a new initiative, the Company has started considering the possibility of a business and services that utilize blockchain technology.

Key Points

- The promotion-support service that utilizes SNS is achieving high growth in Japan and overseas
- In FY12/19, profits may be below the Company forecasts, but the outlook is still for the high growth in nets sales to continue from the active investment
- The fully-fledged expansion of the SNS marketing-support service in Japan and overseas utilizing social big data has potential for growth.



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

■ Company profile

Expanding from social big data collection and analytical tools into utilization support solution 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).” 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 it started in earnest to provide its current mainstay service, the social media analysis tool BuzzSpreader powered by 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. However, in October 2018, the risk-related businesses centered on this service were transferred to Relief Sign Co., Ltd., through a company split, and in December of the same year, the majority of its shares were sold to S. Front Inc. (the investment ratio after the sale of shares became 34%, and became an equity method affiliate).

As the Company had solidified its policy of developing its business centered on the “social and big data × marketing” area, in January 2015, it made a subsidiary of Effyis in the United States, which is a major social media distribution company that has access rights to the social data of major SNS, and has constructed a business foundation overseas. Also, as the number of tourists from China visiting Japan has been rapidly increasing, the subsidiary Trend EXPRESS (investment ratio, 75.0%) launched China Trend EXPRESS, which is a regular reporting service on inbound tourism consumption trends based on analysis of word-of mouth data (i.e., postings) from SNS in 2015. Since 2017, the Company has been successively launching services including a web promotion service and Cross-border EC X, a cross-border EC service for China.

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Company profile

Company 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 Kensaku 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
March 2013	Established Hotto Link Consulting Inc. as a consolidated subsidiary
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 Effyis, Inc., a U.S. social media data distribution company and acquired exclusive agency rights for Sina Weibo in the Asia-Pacific, 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
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 Effyis Inc., entered-into a business alliance with U.S. Reddit, Inc., which manages the global social news website "reddit"
June 2017	Commenced sales of BuzzSpreader, a social media management support service
April 2018	Trend EXPRESS Inc., started providing Cross-border EC X, a cross-border EC support service for China
October 2018	The risk-related businesses centered on "e-mining" were succeeded by Relief Sign Co., Ltd. through a company split, and the majority of its shares were sold in December 2018 and it became an equity method affiliate (investment ratio, 34%).
February 2019	Trend EXPRESS Inc., started providing Trend MOVIE as a new service
March 2019	Started a blockchain R&D project and as the first phase, concluded an investment agreement with SAMURAI Security Inc.
August 2019	Renamed the social media analysis tool kuchikomi@kakaricho to BuzzSpreader powered by kuchikomi@kakaricho

Source: Prepared by FISCO from the Company's website

The Company divides its businesses into three segments, the SaaS Business, the Solutions Business, and the Crossbound Business.

2. Business description

The Company divides its businesses into three segments, the SaaS Business, the Solutions Business, and the Crossbound Business. These businesses are conducted by the Company and its five subsidiaries (Effyis, Trend EXPRESS, Trend EXPRESS Tianjin, Hotto Link Hong Kong, etc.). The descriptions of each business are below.

Company profile

Business and services

Business classification	Products and services	Business entity
SaaS Business	BuzzSpreader (SNS marketing tools) BuzzSpreader powered by kuchikomi@kakaricho (SNS analytical tools) *Integrate kuchikomi@kakaricho into BuzzSpreader brand	Hotto Link
Solutions Business	(Domestic) SNS advertisements and management consulting service (SNS marketing support service)	Effyis
	(Overseas) Data access rights of major SNS providers	
Crossbound Business	Cross-border EC X (a cross-border EC service for China) China Trend EXPRESS (Consumption trends and trend information media in China) Trend PR (Web promotion for China)	Trend EXPRESS

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

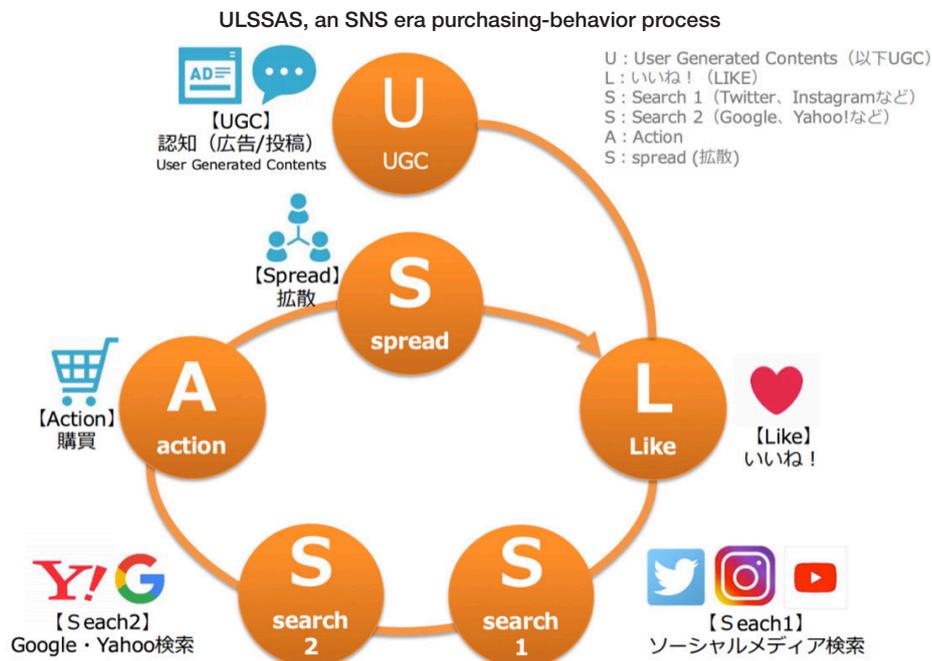
(1) SaaS Business

In the SaaS Business, BuzzSpreader powered by kuchikomi@kakaricho (kuchikomi@kakaricho) and BuzzSpreader are the main services. kuchikomi@kakaricho is an analysis tool that, based on social big data gathered from sites including 5channel, Twitter, and various types of blogs, is applied to items such as surveys for a company's product development, sales promotion activities, and comparisons with competitors. The initial installation fee is ¥100,000 and the monthly usage fee starts at ¥130,000, which is calculated based on the number of user IDs, the number of media subjects to analyze, the data volume, and other factors, and some large users spend around ¥1mn a month on usage fees. It has been introduced by more than 1,000 companies in total, and of these, approximately 300 are active corporate subscribers. It has also been introduced by companies in a wide range of industries, including consumer-goods manufacturers, service and finance industries, and approximately 80% of the companies using it are large scale.

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 5channel 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.

Also, BuzzSpreader, which is a social media marketing tool whose sales were launched from May 2018, is a tool that can realize one-stop service, including posting advertisements on SNS, account management, and analysis and report functions. It is a service to improve advertising effects and to reduce the work burden through improving targeting accuracy by using the AI developed independently by the Company. In the fall of 2019, it is scheduled to enhance its functions and start fully fledged sales, but it has not yet decided the initial introduction cost and the monthly usage fees. The Company is systemizing the purchasing-behavior process of consumers in the SNS era as ULSSAS. Specifically, with UGC (User Generated Content, such as word-of-mouth reviews by users) as the starting point, as a process with a series of steps of Like → Search 1 (search on SNS) → Search 2 (search in a search engine) → Action (purchase) →, Spread, BuzzSpreader is utilized to circulate this process, realizing "increases in sales" of its customer companies' products.

Company profile



Source: Prepared by FISCO from the Company's data

(2) Solutions Business

This business is comprised of the social media data (data access rights) sales business of Effyis (brand name: Socialgist), the data platform service (OEM) that provides systems integrators and other customers with the data and analysis engines that make up kuchikomi@kakaricho, and the marketing support service that utilize Twitter.

Effyis is a major social big data distribution and sales company that gathers 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' main clients include global IT companies like Salesforce.com (CRM) and IBM (IBM), and it also has a track record of selling data to numerous organizations, including financial and government institutions, and venture companies that provide the SaaS Business.

(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 service for cross-border ecommerce sales to China.

Company profile

China Trend EXPRESS is provided for a monthly fee of ¥80,000, while the customized research services start from ¥1.2 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 (creating online articles that are attractive to Chinese people and optimal exposure to web media) and execution of the optimal marketing measures to the subsequent measurement of effects and proposals for improvements, to help customers increase sales in the Chinese market. 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 partnerships, including with the leading stores that have opened on Taobao, which is a major EC site; the individual stores of key opinion leaders (KOL); and Weidian, which is a network of about 70 million social buyers including those operating about 450,000 stores between Japan and China. It provides one-stop service from customer acquisition, through to customer support. The 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.

Established its position as one of the world's leading social media distribution companies

3. Hotto Link's strength

The Company's strength lies in having established its position as one of the world's leading social media distribution companies 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 by the introduction of GDPR*. 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. Considering that Effyis, which holds data access rights to major social media platforms around the world, is a subsidiary of the Company, at FISCO we think recent developments will be advantageous for the Company.

* GDPR (General Data Protection Regulation): a law that regulates the protection of personal information within the EU that was adopted by the European Parliament and the European Council in April 2016. After a two-year transition period, it started being applied from May 2018.

Results trends

In the FY12/19 1H results, recorded an operating loss due to active investment, but net sales steadily grew

1. Overview of the FY12/19 1H results

In the FY12/19 1H consolidated results, net sales increased 11.6% YoY to ¥1,638mn, the operating loss was ¥408mn (compared to profit of ¥71mn in the same period in the previous fiscal year), the loss before tax was ¥421mn (profit of ¥53mn), and the loss for the period attributable to owners of the parent was ¥348mn (profit of ¥45mn).

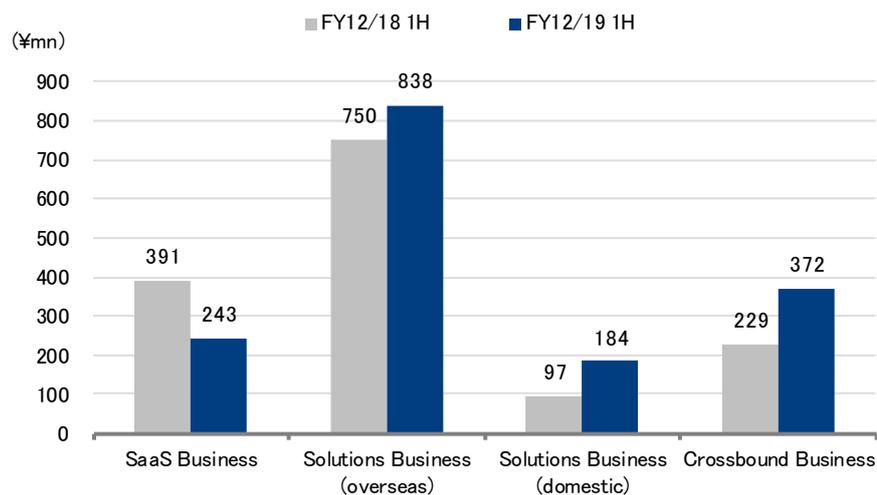
FY12/19 1H results (consolidated)

	FY12/18 1H		FY12/19 1H		YoY
	Results	% of sales	Results	% of sales	
Net sales	1,468	-	1,638	-	11.6%
Sales costs	817	55.7%	1,093	66.7%	33.8%
SG&A expenses	580	39.6%	954	58.3%	64.4%
Operating profit	71	4.9%	-408	-24.9%	-
Profit before tax	53	3.7%	-421	-25.7%	-
Profit for the period attributable to owners of the parent	45	3.1%	-348	-21.2%	-
EBITDA	257	17.5%	-151	-9.3%	-

Note: EBITDA = operating profit + depreciation and amortization

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

Sales by segment

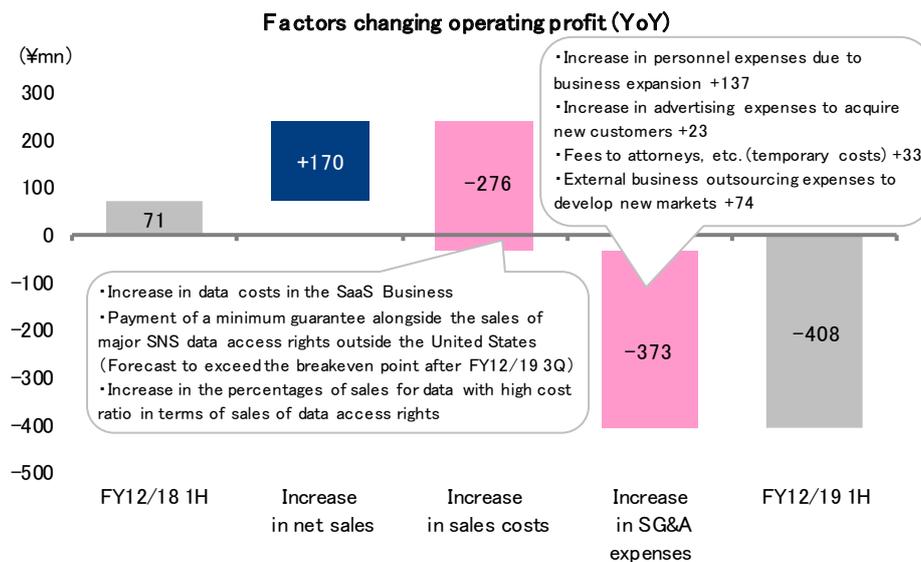


Source: Prepared by FISCO from the Company's quarterly securities report

Results trends

Looking at the changes in sales by segment, in the SaaS Business, sales declined due to the impact of the transfer of the e-mining business in December 2018, but they trended strongly in both the Solutions Business and the Crossbound Business and were basically in line with the Company forecast. Conversely, profits deteriorated considerably, but this was mainly because cost of sales increased ¥276mn YoY and SG&A expenses rose ¥373mn.

The main reasons for the increase in cost of sales included the rise in data costs in the SaaS Business, and also that in Effyis, the percentage of sales provided by social data with high cost ratios increased, and because since the previous fiscal year, it has continued to record minimum guarantee payments for the SNS companies with which it has concluded agreements. This round of minimum guarantee payments will be completed from FY12/19 Q3, after which sales of the data access rights of these SNS companies is expected to become profitable. On the other hand, the main factors behind the higher SG&A expenses were the increases in personnel expenses (+¥137mn) due to business expansion, mainly in the Crossbound Business, and the rise in advertising expenses (+¥23mn) to acquire new customers, and also in Effyis, the increase in external business outsourcing expenses (+¥74mn) to develop new markets, and in temporary costs (+¥33mn) for fees to attorneys and others. The number of employees in Trend EXPRESS increased from 24 people at the end of the previous fiscal year to 32 people at the end of FY12/19 Q2, and the plan is to increase this number to 40 people by the end of FY12/19 and then to 50 to 60 people by the end of FY12/20.



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

Promotion support service for China utilizing SNS achieved high growth

2. Net sales trends by business

(1) SaaS Business

In the SaaS Business, net sales decreased 37.8% YoY to ¥243mn. This was because although sales of kuchikomi@kakaricho were at the same level as in the previous fiscal year, the transfer of the e-mining business caused sales to decline approximately ¥0.15bn. It was transferred to Relief Sign Co., Ltd., which is an equity method affiliate, and in FY12/19 1H, equity-method income of ¥12mn was recorded in non-operating profit.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

The start of the BuzzSpreader service was delayed in order to improve its API functions to respond to the price increases of Twitter data, so its contribution to sales was practically zero. However, this response has now been completed and sales activities are expected to restart from the fall of 2019. The Company is currently at the stage of progressing development in order for the AI to automate the advertising management role that is carried out by the marketing manager, and it is targeting a release in the summer of 2020.

(2) Solutions Business

In the Solutions Business, net sales increased 20.7% YoY to ¥1,022mn. Within this amount, sales in Japan of the SNS advertising /SNS management consulting service increased 89.6% to ¥184mn, while the number of contracts also grew significantly, up 77.7%. The initiatives to strengthen the marketing and sales structures also contributed to the higher sales.

Net sales of data access rights to various SNS by Effyis increased 11.7% YoY to ¥838mn and were also above forecast. Since 2018, Facebook has stopped data sales, while Twitter has implemented price increases, which has proved advantageous as demand has risen for the data of other social media. However, profits still declined, mainly because demand for social media data with high cost ratios grew more than expected and due to the recording of minimum guarantee payments.

Alongside the start of operations of the GDPR regulations in 2018, the market environment surrounding social media data is changing, which is having both negative and positive effects for Effyis. The negative effects include the increase in the percentage of sales provided by some social media data with high cost ratios and the decreases in the percentages of bulletin boards and small media data that have low cost ratios, which has caused the profitability of Effyis to decline. Other negative factors include that in sales, the costs of data access rights of customer SaaS companies have risen, causing earnings to deteriorate, and the number of cancelled contracts due to business discontinuations and bankruptcies has increased.

On the other hand, the positive effects include that demand has risen for the data of other social media held by Effyis due to the end of sales of Facebook data and the price increases by Twitter. Also, because personal information management has become more strictly regulated, for Effyis, which holds correctly regulated data access rights, offers for new collaborations from platformers have increased.

(3) Crossbound Business

In the Crossbound Business, net sales increased greatly, up 62.2% YoY to ¥372mn. The main factors behind this were that sales were strong of the reporting service to analyze consumption behavior of overseas visitors to Japan and consumers in the Chinese market, and in addition, the fully-fledged expansion of sales of Trend PR, which is a promotion support service for China launched in 2017. However, the results were slightly short compared to forecast since the period of recording of some projects' sales was pushed back to July.

Cross-border EC X does not yet have any effect on earnings, but the number of projects is forecast to increase toward the November sales season after the National Day of the People's Republic of China, and it is expected to contribute to profits from the 2H of FY12/19. Together with the Weidian management-company group, in order to support the sales activities of the network of about 450,000 stores of foreign social buyers in Japan the Company has developed World X, which is a dedicated app to procure the goods of Cross-border EC X contracting companies, and it released it in May 2019. By using this app, social buyers can receive purchase-price discounts and various special gifts according to their frequency of use. They are also able to participate in events to have opportunities to communicate directly with companies' related parties, and the Company is aiming to promote sales by stimulating the motivation of social buyers.

Cash and cash equivalents are currently declining due to the active investment toward business expansion, but financial soundness is being maintained

3. Financial position and financial indicators

Looking at the financial position at the end of FY12/19 Q2, total assets were up ¥155mn on the end of the previous fiscal period to ¥5,971mn. The main change factors were that in current assets, cash and cash equivalents declined ¥559mn, mainly due to investment in human resources for business expansion and in expenses to acquire new customers. Also, in non-current assets, an increase factor was that ¥754mn was recorded as right-of-use assets (assets from lease transactions) following the new application of IFRS No.16 from 2019.

Total liabilities were up ¥768mn on the end of the previous fiscal period to ¥1,945mn. This was mainly because although income tax-payable decreased ¥134mn, lease liabilities of ¥750mn were recorded, an increase factor. Total equity declined ¥612mn to ¥4,025mn, with the main factors being the recording of a loss for the period attributable to owners of the parent of ¥348mn, and that non-controlling interests declined ¥33mn.

Looking at the main management indicators, the ratio of equity attributable to the owners of the parents, which indicates management stability, declined from 79.4% to 67.6%, although it was maintained above the 50% level. The interest-bearing debt ratio was also maintained at the low level of 8.4%, so it can be judged that the Company is maintaining its financial soundness.

Statement of financial position and financial indicators

	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19 1H	Change
	(¥mn)					
Current assets	949	1,246	1,426	2,441	1,867	-573
(Cash and cash equivalents)	611	940	1,074	1,976	1,416	-559
Non-current assets	3,796	3,083	3,165	3,374	4,103	729
(Goodwill)	2,891	2,162	2,103	1,871	1,817	-54
Total assets	4,745	4,329	4,591	5,815	5,971	155
Total liabilities	3,284	2,439	1,981	1,176	1,945	768
(Interest-bearing debt)	2,730	1,940	1,426	364	340	-23
Total equity	1,461	1,890	2,610	4,638	4,025	-612
(Stability)						
Ratio of equity attributable to the owners of the parents	30.8%	43.7%	55.8%	79.4%	67.6%	-11.7pt
Interest-bearing debt ratio	186.8%	102.7%	55.7%	7.9%	8.4%	0.5pt

Note: Based on IFRS

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

■ Outlook

In FY12/19, profits may be less than forecast, but the outlook is for the high growth in net sales to continue from the active investment

1. Outlook for FY12/19

For the FY12/19 consolidated results, the Company has left the initial forecasts unchanged, of net sales to increase 31.8% YoY to ¥4,272mn, operating profit to decline 89.2% to ¥35mn, and profit for the period attributable to the owners of the parent to fall 41.7% to ¥64mn (assuming an exchange rate of ¥105 to US\$1).

Looking at the rates of progress up to Q2, net sales were basically as forecast at 38.4%, but operating profit was below forecast due to the impact of the price increases for Twitter data and changes to the sales composition ratio in Effyis. Looking toward the 2H, net sales in Japan are expected to grow in the Solutions Business and the Crossbound Business, and it is possible that the full fiscal year sales forecast will be achieved. But at FISCO, we think that while sales may achieve their full fiscal year forecast, it is highly likely that profits will be below forecast. This is because there has been no change to the Company's policy of actively investing, including investing in human resources and development toward business expansion and investing in advertising expenses to acquire customers. At Effyis, although a round of minimum guarantee payments with companies with which it concluded agreements in the previous fiscal period will be completed, if it decides to conclude new agreements to acquire SNS data, minimum guarantee payments may be separately generated through the agreements with these companies. Operating profit in the previous fiscal period included a gain on the sale of shares of ¥382mn (sale of the e-mining business) as other earnings.

FY12/19 consolidated outlook

(¥mn)

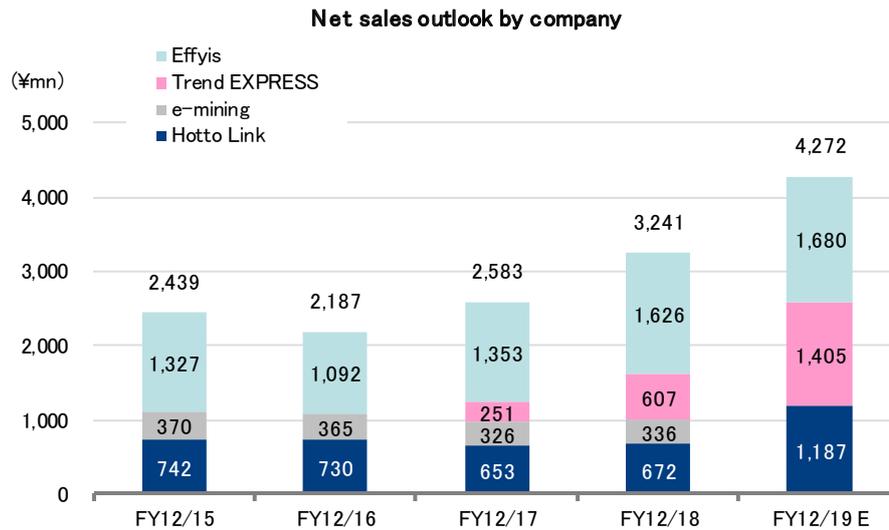
	FY12/18		FY12/19		YoY
	Results	% of sales	Company target	% of sales	
Net sales	3,241	-	4,272	-	31.8%
Gross profit	1,328	41.0%	1,689	39.5%	27.1%
SG&A expenses	1,382	42.7%	1,694	39.7%	22.6%
Other expenses and earnings	382	11.8%	40	0.9%	-89.5%
Operating profit	328	10.1%	35	0.8%	-89.2%
Profit before tax	305	9.4%	20	0.5%	-93.2%
Profit for the period attributable to owners of the parent	111	3.4%	64	1.5%	-41.7%
EBITDA	704	21.7%	412	9.6%	-41.5%

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

Outlook

Outlook is for the fully-fledged expansion of the marketing support service that utilizes social and big data in Japan and overseas

2. Sales outlook by operating company



Note: The majority of the shares of Relief Sign, the subsidiary that conducts the "e-mining" business, were sold in December 2018

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

(1) Hotto Link

The Company is forecasting net sales of ¥1,187m, which when compared to the net sales result in the previous fiscal period after excluding the e-mining business, would be a major increase in sales, up 76%. The main factor will be the rapid growth of sales in Japan of the SNS marketing support service, up ¥0.05bn, which is by approximately 5 times compared to in the previous fiscal period. In the SaaS Business, sales of kuchikomi@kakaricho will trend steadily, while the Company intends to continue to introduce BuzzSpreader as a set with the SNS marketing support service for which demand is strong. Moreover, fully-fledged growth is expected from the latter half of 2020 following the automation of the management consulting function. Profits are forecast to decline due to the increase in personnel expenses alongside the expansion of the marketing support business and the implementation of upfront investment, including investment to develop BuzzSpreader.

(2) Trend EXPRESS

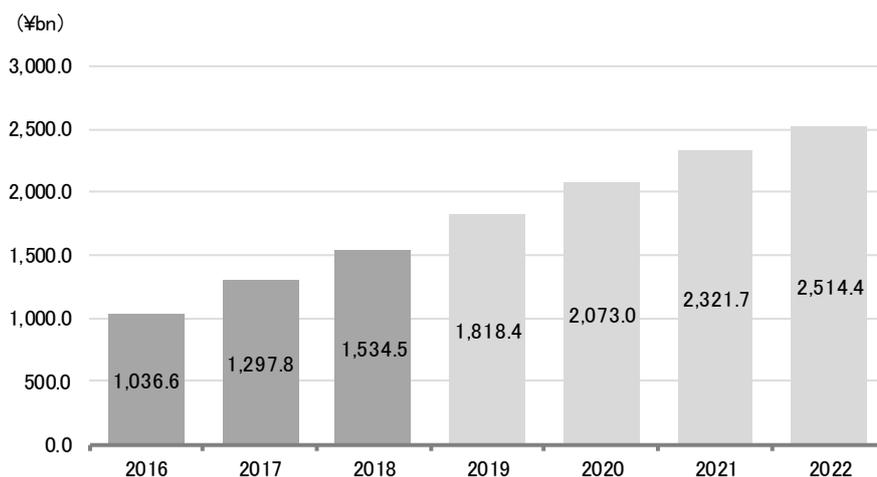
In Trend EXPRESS, the outlook is for net sales to increase 131% YoY to ¥1,405mn. The forecast is for sales of all services to grow, but among them, sales of Trend PR are set to grow especially greatly alongside the improvement in its name recognition. Sales of Cross-border EC X are also expected to become fully fledged from the 2H, including due to the progress made in strengthening the business structure and the launch of the World X app for social buyers. So for the full fiscal year, sales of more than ¥0.01bn are expected. However, compared to the initial forecasts, the rate of progress up to Q2 was low at 27%, so catching up in the 2H will be important.

Outlook

On the other hand, in order to realize high sales growth, the Company plans to actively invest in human resources in the 2H as well, and to increase the number of employees from 24 people at the end of the previous fiscal period to 40 people by the end of the FY12/19. In addition, in order to acquire new customers, advertising expenses will increase, including to hold seminars. So in profits, the outlook is for the loss to grow compared to in the previous fiscal period to around tens of millions of yen.

According to the “Market research on e-commerce” report (May 2019) published by the Ministry of Economy, Trade, and Industry, the value of cross-border EC distribution from Japan to China is projected to achieve a high growth rate of around 13% a year, rising from ¥1.5345 trillion in 2018 to ¥2.5144 trillion in 2022, indicating that there is significant potential demand for Cross-border EC X. In particular, in China, around half of the total cross-border EC market involves purchases via social buyers, so the Company’s strength, of having built a network with social buyers, is set to be actualized in the future, and the forecast is for profitability to be achieved from FY12/20 onwards.

Cross-border EC distribution amount from Japan to China



Source: The Ministry of Economy, Trade and Industry’s “Market research on e-commerce” report (May 2019)

(3) Effyis

In Effyis, net sales are forecast to increase only slightly YoY, up 3% to ¥1,680mn. This is because it is anticipated that for the exchange rate, the yen will strengthen by around 5%, from ¥110 to US\$1, which was the result in the previous period, to ¥105 to US\$1. However, the rate of progress for the sales forecast up to Q2 was slightly above forecast at 49.9%, and it is fully possible that the amount may increase, depending on the exchange rate in the near future. On the other hand, operating profit is forecast to increase, but at FISCO we think it is highly likely that profits will decline for the full fiscal year due to the previously mentioned factors, of a temporarily decline in profitability due to changes in the sales composition ratio, that the Company is investigating acquiring additional social media data access rights (including through M&A), and that it is implementing various initiatives in order to increase its presence in the industry.

The fully-fledged expansion of the SNS marketing-support service in Japan and overseas utilizing social big data has potential for growth.

3. Growth strategy

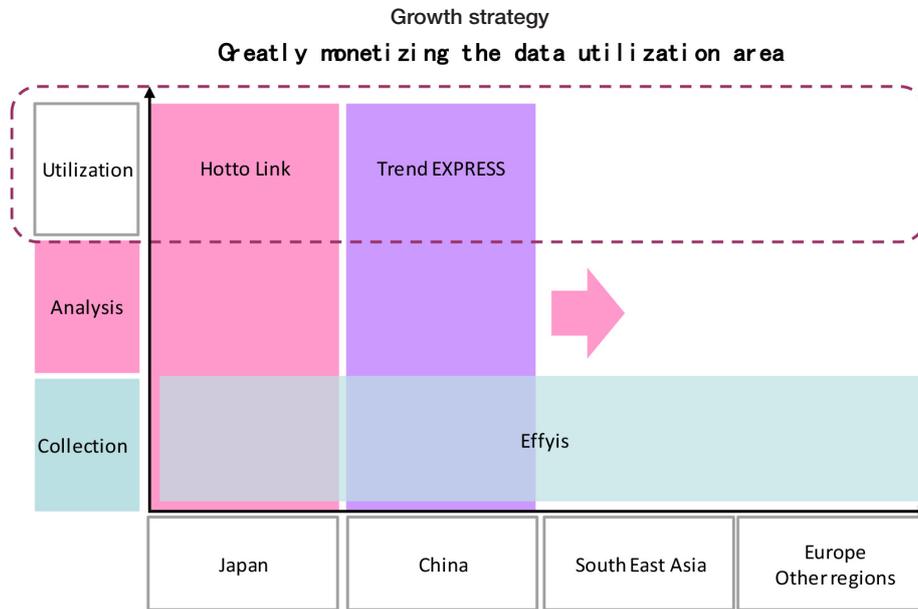
The Company's growth strategy is to have "global scale data access rights" and to realize business expansion in the data utilization area by utilizing its strength in "data analysis technologies" that it has independently cultivated, while organically combining its portfolio of multiple businesses.

The Company's services can be divided into three levels according to the process. The first is the business of Effyis, of sales of big data access rights that it has collected from various social media to customers including global IT companies like Salesforce.com and IBM. The social and big data it handles covers all the main, major SNS throughout the world, and it is no exaggeration to say that it has established an overwhelmingly leading position in the industry in terms of both type and quantity. Therefore, as this position is not likely to be shaken in the future, it is anticipated that it will support the Company's results as a source of earnings expected to grow stably.

The second is the tools to analyze the social and big data that it has collected. This corresponds to kuchikomi@kakaricho, but in the last few years, it has entered a mature stage and sales have also continued to trend stably. The third is services that utilize the social and big data collected and analyzed, and it is an area that the Company is focusing on as a business pillar of the future. In the SaaS Business, BuzzSpreader, which is a tool that automates SNS advertising management through the equipped AI engine, is expected to achieve fully-fledged growth from 2020 onwards. BuzzSpreader is also set to contribute to improving the profitability of the Group as a whole by reducing the personnel expenses ratio through its utilization for Trend PR's services.

Marketing methods are changing from conventional one-way market measures that utilize the mass media to marketing methods that use Internet advertising, assuming that consumers, alongside the spread of the Internet, are themselves using search engines to search for products that they are interested in. Moreover, through the spread of SNS, marketing measures that utilize SNS, including word-of-mouth diffusion effects such as from online reviews, are starting to rise to prominence, and going forward, it is forecast that the number of companies utilizing SNS will increase due to the high cost effectiveness of this approach. The Company's strengths include such SNS marketing support services in Japan and China, and it is aiming to establish itself as the leading brand and achieve further business expansion. As the next stage for this, it intends to develop horizontally the same strategy in Southeast Asia and other regions, with the goal of taking a major leap forward as a global company.

Outlook



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

Strategy by business

Business entity	Hotto Link Inc.	Trend EXPRESS	Effyis
Growth target	<ul style="list-style-type: none"> • Create the standard for social media marketing • By 2020, establish Hotto Link as the leading brand when speaking of SNS marketing 	<ul style="list-style-type: none"> • Become the No.1 marketing company for China • By 2020, establish Trend EXPRESS as the leading brand when speaking of marketing for China 	<ul style="list-style-type: none"> • Establish the Effyis brand when speaking of social data
Business strategy	<ul style="list-style-type: none"> • Expand SNS marketing support business • Realize SNS marketing support that does not depend on human labor power through utilizing the Company's own SaaS tool equipped with AI 	<ul style="list-style-type: none"> • Provide one-stop support for the PDCA cycle in marketing for China • Strengthen the cross-border EC service by enhancing the product lineup and sales channels • Realize SNS marketing support that does not depend on human labor power through utilizing the Company's own SaaS tool equipped with AI 	<ul style="list-style-type: none"> • Acquire even more data sales rights for the main SNS • Sponsor various events to increase the Company's presence in the industry

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

Is starting to investigate a new business and services that utilize blockchain technology

4. New initiatives

(1) Initiatives for a blockchain business

The Company is newly starting to invest in a blockchain-related technology company (setting an investment framework of ¥0.1bn a year) in order to explore the possibilities for a new business and services utilizing blockchain technology, which is expected to spread in the future. As the first phase of the investment, in March 2019 it invested ¥10mn in SAMURAI Security Inc., which is a venture company that utilizes blockchain technology in the sports-tech area.

Outlook

Also, with the aim of realizing a society in which a wide variety of family types are recognized, the Company has started the Famiee project to provide a service to issue partnership certificates utilizing blockchain technology, and it has established a general incorporated association. In addition, the second period of the University of Tokyo's Endowed Chair for Blockchain Innovation is currently underway, and it plans to recruit talented human resources from it.

(2) ESG initiatives

As initiatives for ESG, the Company has started activities to act as a receptacle for diversity toward realizing a society that can be "hotto." Specifically, the Company's President and Representative Director Uchiyama has been appointed as the project leader of the Japan Association of New Economy's SOGI Empowerment Team to create an environment in which it is comfortable for LGBT and other sexual minorities to exist, and it is conducting public-relations and educational activities, including holding seminars. In terms of in-Company initiatives, it is participating in the PRIDE Index* in 2019 and working to promote understanding about LGBT among employees. Specifically, within its Employment Rules, Internal Regulations, and Corporate Ethics Charter, it has documented in writing that sexual thoughts and discrimination relating to gender identity are prohibited, that the application of marriage payments and family-events vacations apply the same to common-law marriages and to same-sex marriages, and other such aspects.

* The PRIDE Index is an index developed by the work with Pride (wwP) voluntary organization to evaluate initiatives for LGBT and other sexual minorities, which was introduced into workplaces in Japan for the first time in 2016. In 2018, more than 150 companies were participating in it.

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, 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.

Shareholder return policy and business risks

Also, overseas sales accounted for 50% of the total sales in FY12/18, so it is necessary to be aware of the risk from exchange-rate fluctuations. At the current time, overseas sales are only from Effyis, so should the yen strengthen, the results from Effyis would be reduced on being converted into yen. In addition, for the sales promotion support service for China, if the economic situation in China should worsen or its legal system change in the future, this may impact the sales of Trend PR and Cross-border EC X, so these are indirect risk factors.

■ 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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