

Hotto Link Inc.

3680

TSE Mothers

2-Apr.-2021

FISCO Ltd. Analyst

Daiki Ishizu



FISCO Ltd.

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

■ Index

■ Summary	01
1. Results trends	01
2. FY12/21 outlook	01
3. Medium-to long-term growth strategy	02
■ Company profile	03
1. Company history	03
2. Business description	04
■ Results trends	07
1. Overview of the FY12/20 results	07
2. Trends by business segments	08
3. Financial position and financial indicators	10
■ Outlook	11
1. Outlook for FY12/21	11
2. Outlook for the social media advertising market	12
3. Five-year plan	13
4. SDGs initiatives	14
■ Medium- to long-term growth strategy	15
1. Integrated marketing services centered on SNS	15
2. Oriented towards being a platform service	16

Summary

Aiming for 35% annual growth in net sales through integrated marketing and platform services

Hotto Link Inc. <3680> (hereafter, also “the Company”) is an IT company that mainly delivers digital marketing support services that utilize social media data. Its key subsidiaries are U.S.-based Effyis, Inc. which sells data access rights to major social media, and TrendExpress Inc., which is developing services targeting the Chinese market, including Web promotion-support service and cross-border EC service to China.

1. Results trends

In FY12/20, the Company’s consolidated results were ¥4,385mn in net sales (+18.7% year on year (YoY)), ¥25mn in operating loss (versus an operating loss of ¥1,699mn a year earlier), loss before tax of ¥84mn (versus loss before tax of ¥1,707mn a year earlier), and profit attributable to owners of parent of ¥18mn (versus a ¥1,634mn loss a year earlier). Increases in sales in both the SNS Marketing Support Service and the DaaS Business helped push net sales for the full fiscal year to an all-time record high. There was also a significant improvement in profit, due to both the impact of higher sales, as well as the Company’s cost-cutting efforts since FY12/19.

2. FY12/21 outlook

For the FY12/21 outlook, the Company is forecasting net sales of ¥5,366mn (+22.4% YoY), operating profit of ¥147mn (versus a ¥25mn loss), profit before tax of ¥224mn (versus an ¥84mn loss), and profit attributable to owners of parent of ¥167mn (versus ¥18mn). In the SNS Marketing Support Business, the Company is expecting demand to increase going forward due to the COVID-19 pandemic and the accompanying rise in the importance of SNS marketing. In the Crossbound Business, we at FISCO think that rapid growth in outbound promotion will continue given the increase in demand among client companies. In addition, the Company has set net sales growth as a key metric in its five-year targets. By achieving average annual growth of 35%, in FY12/25 the Company will aim for net sales of ¥20.0bn (3.7x that of FY12/20), and operating profit of ¥2.46bn (16.7x), operating margin of 12.3% (-0.6% in FY12/20). Five years from now, the Company expects net sales in the Crossbound Business to exceed net sales in the SNS Marketing Support Business, which currently accounts for the largest percentage of overall net sales. This indicates the Company’s plan to grow as a global company. With respect to business profits, the Company expects profits in both the SNS Marketing Support Business and the Crossbound Business to exceed that of the DaaS Business, which currently contributes the most to overall profits, and the SNS Marketing Support Business and the Crossbound Business will be the drivers of the Company’s earnings.

Summary

3. Medium-to long-term growth strategy

The Company has established “integrated marketing services centered on SNS” as the pillar of its plan for growth. These days, the enormous influence of word-of-mouth on SNS cannot be ignored. The Company has had a strong performance in the word-of-mouth domain by establishing its proprietary methods based on marketing techniques leveraging SNS-based earned media (word-of-mouth), and the Company provides integrated marketing services centered on SNS in the three domains of owned media*1, paid media*2, and earned media*3. Also, the Company’s platform service, which brings together the stacked business and the one-shot business, is one of its strengths. The Company’s business involves service divided into stacking the three steps of dig data involving information collection, analysis, and utilization (data access rights, analytical tools, marketing such as SNS account management and consulting) and one-shot services (content production, advertising management, etc.). From the perspective of client companies, this allows them to use the Company’s services to solve the problems they face in each phase of the chain at any time, from information collection to marketing. In this sense, the Company’s overall service lineup can become a part of a client’s business base as a single marketing platform. From the Company’s perspective, it is able to increase the stability of earnings through stacked services, and it is also easier to receive additional orders for one-shot services, which will accelerate the growth in net sales.

*1 Owned media is owned and operated by a company. Examples in digital marketing include a company’s website, SNS accounts, etc.

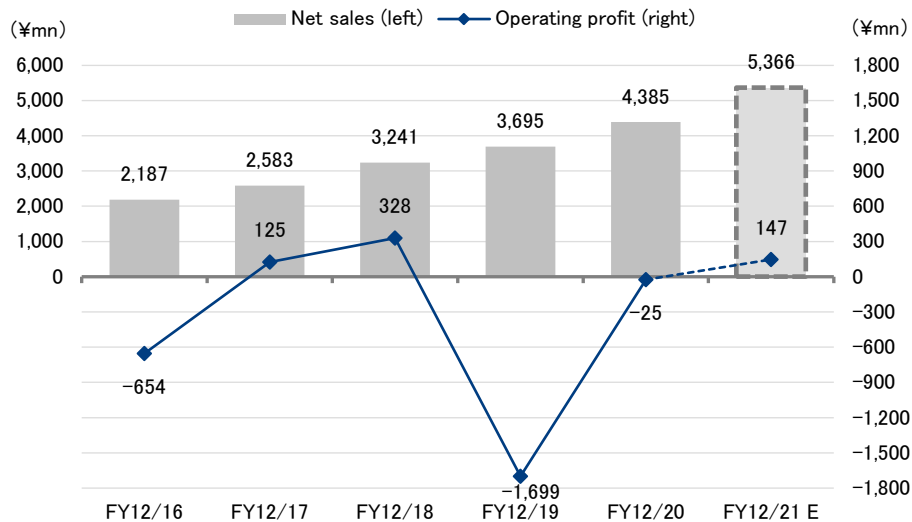
*2 Paid media is owned by a different company and provides exposure through the payment of advertising fees. Examples in digital marketing include search engine advertisements, SNS advertisements, news sites, etc.

*3 Earned media reflects comments by consumers, and cannot be controlled by a company. Examples in digital marketing include consumer blogs, SNS, etc.

Key Points

- In FY12/20, net sales increased and losses contracted significantly due to growth in the SNS Marketing Support Business and the DaaS Business
- The SNS Marketing Support Business and the Crossbound Business are growing. Aiming for 35% growth in net sales over the next five years
- The keys to growth are integrated marketing and platform-type services

Results trends



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

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

■ Company profile

Entering the China market with marketing utilizing social big data as a weapon. Aiming to become a global company

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 (currently 5channel), from the second half of 2000s, which was the start of the rapid spread of social media in the Internet industry. Starting 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 (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 management-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. While the investment stake was 34% after selling the shares, it is currently at 24% due to additional sales in 2020. This does not change the status of equity-method affiliate.

As the Company had solidified its policy of developing its business centered on the “social and big data × marketing” area, it established Hotto Link Consulting (currently TrendExpress) in 2013 and made a subsidiary of Effyis, which is a major social media distribution company that has access rights to the social data of major SNS and conduct sales in 2015 and has constructed a business foundation overseas. Also, as the number of tourists from China visiting Japan has been rapidly increasing, TrendExpress (investment ratio, 57.3%) 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 Trend PR, a web promotion support service in the Chinese market and Cross-border EC X, a cross-border EC service for China, focusing on expanding business targeting the Chinese market. In January 2020, to further strengthen business development in the Chinese market, TrendExpress’s Chinese subsidiary and business partner Husen (Shanghai) Commerce Consulting Co., Ltd. were merged to form TRENDEXPRESS CHINA as a new, wholly-owned subsidiary of TrendExpress.

Hotto Link Inc. | 2-Apr.-2021
 3680 TSE Mothers | <https://www.hottolink.co.jp/english/>

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
June 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 TrendExpress 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	TrendExpress 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	TrendExpress Inc., started providing Cross-border EC X, a cross-border EC support service for China
October 2018	The risk management-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	TrendExpress 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
November 2019	Entered into a business tie-up with a dot co.,ltd., and began providing SNS GROWTH PARTNER, a service which contributes to SNS growth
January 2020	Formed through a merger of Husen (Shanghai) Commerce Consulting Co., Ltd. and TrendExpress' Chinese subsidiary and acquired as wholly owned subsidiary TRENDEXPRESS CHINA

Source: Prepared by FISCO from the Company's website and press releases

Providing high-value-added marketing support using purchasing process theory ULSSAS

2. Business description

The Company changed business segments in FY12/20 from SaaS Business, Solutions Business, and Crossbound Business previously to SNS Marketing Business, DaaS Business, and Crossbound Business. These changes reflect the decision in 2019 to make the SNS Marketing Support Business its main area in the business strategy for future growth and suspend development of new tools in the previous SaaS Business.

Company profile

(1) SNS Marketing Support Business

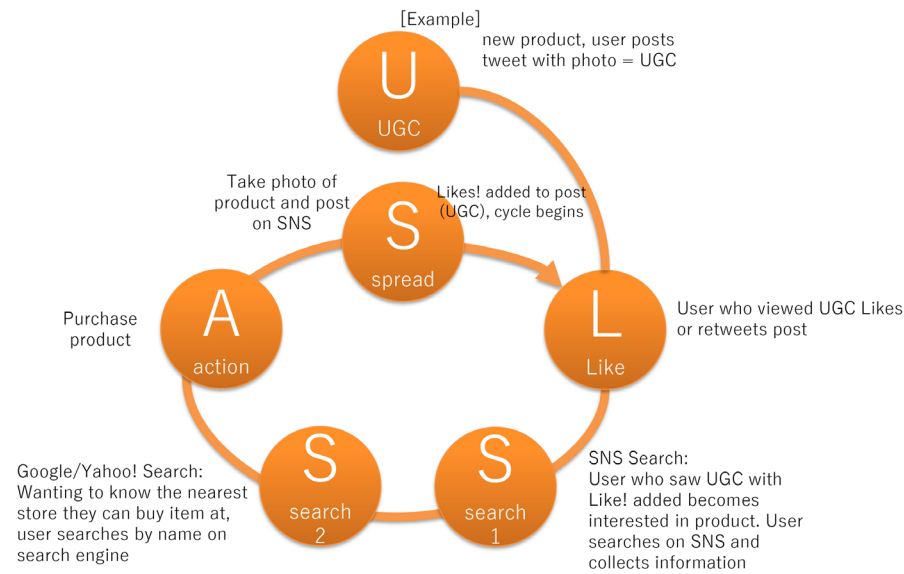
This business, which is operated under Hotto Link, consists of domestic SNS marketing support service and the kuchikomi@kakaricho SNS analysis tool. Sales breakdown in FY12/20 was domestic SNS marketing support service at 69% and kuchikomi@kakaricho at 31%. The Company expects an upward trend in the domestic SNS marketing support service share.

In the SNS Marketing Support Business, the Company mainly provides marketing support services utilizing Twitter (SNS advertising agent sales and management consulting service). Management consulting implements measures through Twitter and other places to raise awareness of products from customer companies and lift sales utilizing social big data it holds and knowhow and unique methods accumulated over many years. Currently, advertising sales account for the majority of sales, but the profit margin is low, and the business model is one that seeks to earn profits via consulting services. In ordinary cases, the order price begins at a few hundred million yen per project. It is possible to increase annual transaction value to over ¥100mn by adding more handled products if efficacy is confirmed.

Customer companies cover a wide range of industries, though mainly B2C businesses, such as food and beverages, beauty and cosmetics, and online learning site operators. Many companies have sales in the ¥100bn range. Large companies, meanwhile, utilize TV commercials and other media and already have relationships with major advertising firms. This presents a tough hurdle for market entry. Nevertheless, SNS advertising management achieves stronger performance than major advertising agents, and the Company has received orders from leading automakers in some cases. The Company is currently becoming more highly regarded in the industry, and it appears that the Company's chances of doing business with major companies are growing a bit.

As a promotional measure using SNS, the Company thinks it is important to increase User Generated Contents (UGC; word-of-mouth and other contents from users) and systematizes the purchasing-behavior process of consumers related to UGC as ULSSAS. Specifically, a follower that sees a starting-point UGC (Twitter submission) adds a Like. The next step is search within the SNS (Search1) or use of Google or some other search engine to confirm the product (Search2) and buying the product (Action). After that is dissemination on Twitter (Spread). By driving this process cycle, the Company boosts sales of the customer company's product.

ULSSAS, an SNS era purchasing-behavior process



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

Company profile

Unique methods devised by the Company from success patterns accumulated over many years are vital to efficiently build the process cycle and serve as a factor to differentiate the Company from competitors. For example, the Company conducts an analysis that brings together not only information collected from Twitter but also a variety of data including blogs and other word-of-mouth sites and distributes advertisements for the product being promoted to the ideal UGC source extracted automatically using AI. This capability has boosted interest in the Company's marketing support service as a service with high cost efficacy and supports an impressive repeat usage ratio of over 70%. Hotto Link is an established brand in Twitter marketing.

Meanwhile, kuchikomi@kakaricho, an SNS analysis tool, 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, a key strength, 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.

Customer companies use kuchikomi@kakaricho to analyze social big data and apply results to product development, sales promotion activities, and comparisons with rivals and other surveys. The initial deployment fee is ¥100,000, and monthly charges begin at ¥130,000. Customers pay extra fees based on the number of certified user IDs, coverage media, data capacity, and other aspects. Among major users, some companies pay a monthly fee of about ¥1mn. More than 1,000 companies have cumulatively deployed the service, and about 300 of these companies are currently active users. Roughly 80% of users are large companies. The customer base covers a wide range of industries, including consumer goods manufacturers, services firms, and financial institutions.

(2) DaaS Business

DaaS Business is the business run by Effyis that sells access rights to data from social media with global operations (under the Socialgist brand name). Effyis concludes sales contracts for data access rights to social media (blogs, bulletin boards, Q&A, review sites, etc.) with open SNS operators worldwide other than Twitter and sells rights to global IT companies (social big data analysis, marketing platforms, and BI and other tool vendors). In other words, it is a distributor of social big data and holds a position as one of the largest firms worldwide in this market. Besides main customers such as Salesforce.com <CRM> and IBM <IBM>, this service caters to financial institutions, government entities, venture IT companies that operate SaaS and other businesses, and many other companies.

(3) Crossbound Business

Crossbound Business, which is operated by subsidiary TrendExpress, offers reporting service that analyzes crossbound consumption trends mainly utilizing social big data, web promotion support for the Chinese market (Trend PR) launched in 2017, cross-border EC support service for the Chinese market (Cross-border EC X), and other services. Reporting service delivers China Trend Express (¥80,000 per month), a regular report that analyzes consumption trends of foreign visitors to Japan, and customized research service tailored to customer needs. Going forward, the Company plans to focus on promotion support for the Chinese market and cross-border EC support service in the Crossbound Business.

Company profile

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. With this approach, it helps customers increase sales in the Chinese market. If seen from the customer side, it makes all the data visible, so it is clearly cost effective 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. Many clients are B2C companies such as cosmetics, daily goods, and healthcare product manufacturers.

On the other hand, Cross-border EC X is a service that effectively improves name recognition and increases sales in the Chinese market through partnerships, including those with 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 one in which 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.

Results trends

Achieved all-time high sales in FY12/20. Structural reforms were successful, resulting in a significant improvement in profits

1. Overview of the FY12/20 results

In FY12/20, the Company's consolidated results were ¥4,385mn in net sales (+18.7% YoY), ¥25mn in operating loss (vs. a loss of ¥1,699mn a year earlier), ¥84mn in loss before tax (vs. a loss of ¥1,707mn), and ¥18mn in loss attributable to owners of the parent (vs. a loss of ¥1,634mn). Increases in sales in both SNS marketing support services and the DaaS Business helped push net sales for the full fiscal year to an all-time record high. There was also a significant improvement in profit, due to both the impact of higher sales and the Company's cost-cutting efforts it has implemented since FY12/19.

FY12/20 results (consolidated)

	FY12/19		FY12/20			
	Results	% of sales	Results	% of sales	Change value	YoY
Net sales	3,695	-	4,385	-	689	18.7%
Gross profit	1,113	30.1%	1,614	36.8%	501	45.0%
SG&A expenses	1,895	51.3%	1,674	38.2%	-221	-11.7%
Operating profit (loss)	-1,699	-46.0%	-25	-0.6%	1,673	-
Profit (loss) before tax	-1,707	-46.2%	-84	-1.9%	1,623	-
Profit (loss) attributable to owners of parent	-1,634	-44.2%	18	0.4%	1,653	-

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

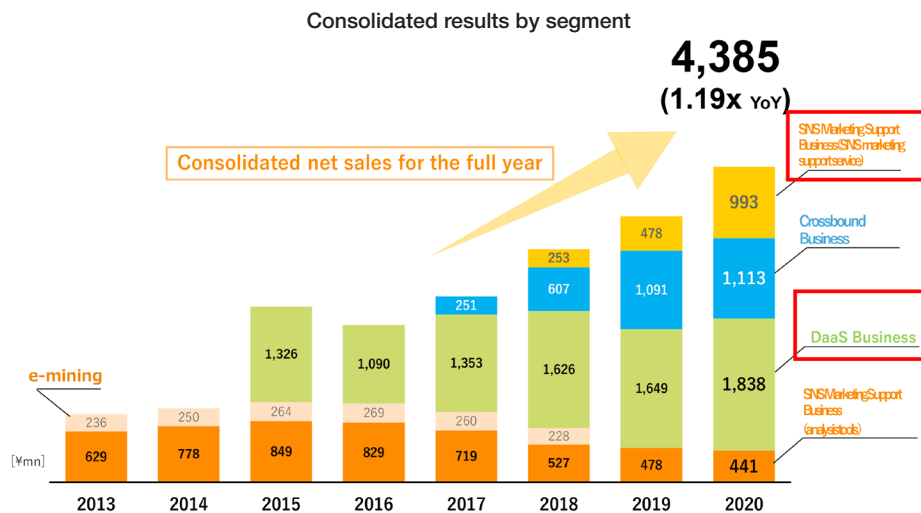
Results trends

Cost-cutting initiatives resulting in the contraction of losses were as follows. In the SNS Marketing Support Business, the Company halted new tool development in the SaaS Business during FY12/19, and optimized personnel in the development division by moving an entire team to a promising company with the potential to utilize the technology. With this move, personnel costs in the development division were reduced. In addition, because the Company eliminated existing assets for new tools in FY12/19, FY12/20 depreciation costs declined 12.3%, or ¥59mn, YoY. In SNS marketing support service-related operations, progress was made on automation and labor-saving measures, and productivity increased. In the DaaS Business, the Company selected and suspended new businesses, and reduced personnel in businesses other than the core businesses in FY12/19 2H. Efforts to improve system and data center efficiency were also continued. In the Crossbound Business, the inclusion from January 2020 of China-based Husen, a former external partner, resulted in a reduction in outsourcing expenses, and productivity increased by concentrating personnel in the outbound domain, which is seeing marked growth.

Elsewhere, the Company's SG&A expenses declined significantly by 11.7% YoY to ¥1,674mn. The main factors for this were the reduction in business outsourcing costs and advertising and promotional costs as a part of cost-cutting efforts, and a decline in travel and transportation costs due to employee teleworking and the curtailment of business travel.

Outbound sales increased 2.3x with the pickup of consumption in China

2. Trends by business segments



Results trends

(1) SNS Marketing Support Business

In the SNS Marketing Support Business, net sales rose 50.0% YoY to ¥1,434mn, including a steep rise in SNS marketing support service sales to ¥993mn (up 2.1x). Due to the impact of COVID-19, clients in certain sectors curtailed promotions, including event-related activities, resulting in some postponements and cancellations of projects during April and May 2020. As a result, net sales in FY12/20 declined temporarily, but then recovered from June 2020 based on the growing importance of SNS marketing amid the emergence of the new lifestyle amid the pandemic. The Company amassed some success stories in which customers it supports saw increases in sales, and these examples were featured in certain marketing industry media. The growing positive buzz about the Company's services led to an increase in projects. Additionally, the Company was successful in up-selling and cross-selling for more than half of its existing customers, and unit prices rose.

Specifically, in response to vibrant SNS marketing demand, the Company reinforced the SNS advertising/SNS management consulting sales staff with the addition of 15 people compared to the end of FY12/20 to 37 people, and achieved high growth by achieving an increase in operational efficiency with the deployment of proprietary tools containing AI (it deployed the advertisement submission system in FY12/20 2Q). The Company is also broadening the service line-up with unique solutions. It began marketing support using Instagram in FY12/20 1Q as a new service. It launched a contents development service for women and provision of video solutions utilizing animation on Twitter as well. In 2Q, the Company released "talent at-home video production package," "SNS live commerce," "employee influencer development support service," and other services. In 3Q, the Company entered into a business tie-up with video production company THINGMEDIA Inc., allowing the Company to offer live streaming and one-stop SNS video advertisement support, from production to distribution. To continue solidifying Hotto Link as an SNS marketing brand, the Company cooperates with contacts from various media sources and has published numerous books about SNS marketing written by employees.

SNS analysis tool sales, meanwhile, dropped 7.7% YoY to ¥441mn. This mainly stemmed from a decline in new contracts as sales personnel were heavily allocated to the marketing support service.

(2) DaaS Business

In the DaaS Business, net sales increased 11.5% YoY to ¥1,837mn with support from upbeat sales of access rights to data from major SNS operators worldwide. In May 2020, the Company concluded an exclusive data access rights sales contract with Quora (approximately 300 million visitors per month), one of the largest knowledge-sharing platforms in the world, and this has been contributing to recent operating performance. Also, in October 2020, Effyis concluded a data access rights sales agreement with Tumblr, a U.S.-based blog service. Tumblr is a blog platform where users can post images, videos, audio, and other content without selecting a category, and is available in 18 languages. The platform has more than 500 million blogs, and more than 14 million posts per day. Many Gen-Z (the generation born since 1995) creators use Tumblr, and Tumblr makes it possible to more acutely ascertain user needs compared to other general SNS. With this, we at FISCO believe that the data assets owned by the Company have increased in value. The industry has adopted stricter rules on managing personal information from the Internet over the past few years, and at FISCO, we believe this is a positive trend for Effyis, which holds legitimate data access rights, and this will help to improve Effyis' competitiveness of over the medium to long term.

Results trends

(3) Crossbound Business

In the Crossbound Business, net sales increased 2.0% YoY to ¥1,113mn. Since February 2020, when restrictions were placed on people entering from China as a measure to prevent the spread of COVID-19, demand for promotions targeting travelers from China (inbound) has stopped. On the other hand, with respect to promotions targeting the Chinese market (outbound), there has been a recovery within China in purchasing desire from FY12/20 2Q, and demand for promotions targeting the Chinese market among the Company's client companies expanded. In addition, in November 2020, the Company began offering the new target sampling service "SURPRISE BOX." This service selects targets among Chinese consumers based on screening factors such as age, gender, residence, as well as interests and behavior patterns, and provides them with product samples. After that, the service collects surveys from consumers who have tried the product, and then analyzes the survey results and provides a report.

In this business, up until FY12/19 inbound promotions accounted for approximately 60% of projects, while outbound promotions accounted for roughly 40% of projects. However, in FY12/20 outbound net sales increased 2.3x YoY due to the aforementioned business environment, and ended up accounting for more than half of net sales for the full year.

Despite the rise in interest-bearing debt, still little cause for concern based on the improvement trend in earnings

3. Financial position and financial indicators

Looking at the financial position at the end of FY12/20, total assets increased ¥382mn YoY to ¥5,767mn. Looking at the main changes, in current assets, cash and cash equivalents increased ¥366mn, while in non-current assets, goodwill rose ¥295mn on the inclusion of the Husen business under the Crossbound Business. Total liabilities increased ¥463mn YoY to ¥2,795mn. Due to the unpaid portion of the Husen business transfer value, other current liabilities increased ¥206mn and other non-current liabilities increased ¥150mn. In addition, borrowings increased ¥247mn. Meanwhile, total equity declined ¥81mn compared to the end of FY12/19 to ¥2,972mn. Due to a net loss of ¥51mn and a ¥79mn decline in other components of equity due to foreign currency translation adjustments on the financial statements of overseas subsidiaries, equity attributable to owners of the parent fell ¥32mn, and non-controlling interest declined ¥48mn.

Looking at management indicators, the ratio of equity attributable to owners of parent, which indicates management stability, declined from 52.5% at the end of FY12/19 to 48.4%, but it was maintained at around 50%, which is a high level. Additionally, although the interest-bearing debt ratio increased from 21.8% to 30.5%, there is minimal concern about the Company's financial condition as it is in the process of accumulating profits. Net cash (cash and cash equivalents – interest-bearing debt) is a robust ¥1,216mn, and we at FISCO feel that there should be no obstacles to the Company's business development in the near term, including proactive investment.

Results trends

Consolidated balance sheet and management indicators

	FY12/17	FY12/18	FY12/19	FY12/20	Change value
	(¥mn)				
Current assets	1,426	2,441	2,328	2,710	381
(Cash and cash equivalents)	1,074	1,976	1,700	2,067	366
Non-current assets	3,165	3,374	3,056	3,057	1
(Goodwill)	2,103	1,871	1,071	1,367	295
Total assets	4,591	5,815	5,385	5,767	382
Total liabilities	1,981	1,176	2,332	2,795	463
(Interest-bearing debt)	1,426	364	616	851	235
Total equity	2,610	4,638	3,053	2,972	-81
(Shareholders' equity)	2,560	4,614	2,825	2,793	-32
(Stability)					
Ratio of equity attributable to owners of the parents	55.8%	79.4%	52.5%	48.4%	-4.1pt
Interest-bearing debt ratio	55.7%	7.9%	21.8%	30.5%	8.7pt

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

Outlook

The Company's FY12/21 results outlook seems conservative. The SNS Marketing Support Business and the Crossbound Business are expected to continue to perform well

1. Outlook for FY12/21

For the FY12/21 outlook, the Company is forecasting net sales of ¥5,366mn (+22.4% YoY), operating profit of ¥147mn (versus a ¥25mn loss), profit before tax of ¥224mn (versus an ¥84mn loss), and profit attributable to owners of parent of ¥167mn (versus ¥18mn). Given the current trend of earnings growth, these forecasts seem a bit conservative. In the SNS Marketing Support Business, the Company is expecting demand to increase going forward due to the COVID-19 pandemic and the accompanying rise in the importance of SNS marketing. In addition, the Company's services are being held in higher regard within the industry and it is expanding its service lineup. With these factors, we at FISCO think that the Company's sales will grow faster than the pace of market expansion. In Instagram marketing, an analysis service centered on the number of hashtag posts was launched in FY12/21 1Q, and the breadth of the Instagram marketing service is steadily widening. Currently, Instagram marketing support sales are firm, and we at FISCO believe that sales will speed up even more going forward. In the Crossbound Business, on the inbound side, it is still unclear when there will be a recovery in travelers to Japan, but in the outbound business we at FISCO think that the rapid growth will continue given the increase in demand among client companies.

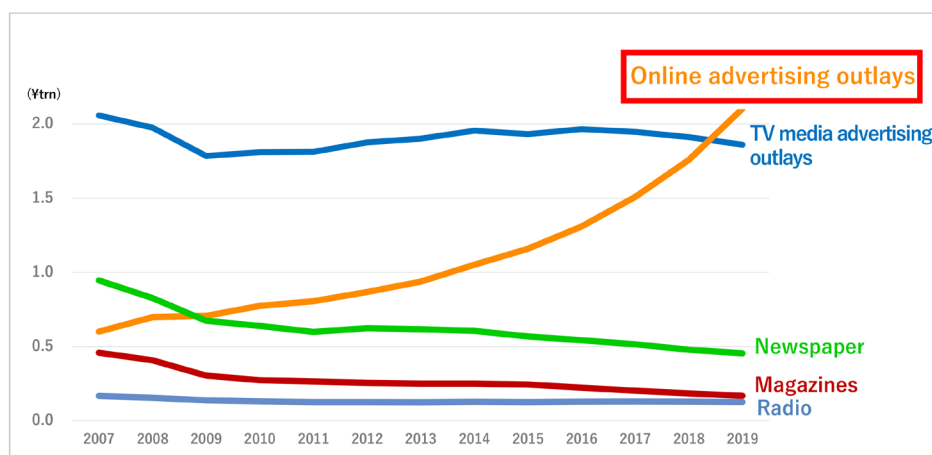
In expenses, the continuation of some measures that have not been completed, such as the enhancement of system and data center efficiency in the DaaS Business, will contribute to the cost reduction measures which the Company has been working on continuously since the second half of 2019. In addition, with the development and utilization of AI within the Company, it will continue to work on improving operational efficiency and productivity in the SNS Marketing Support Business, and we at FISCO think that it will contribute to the build-up of profits.

Expecting the domestic internet advertising market to continue to grow at an annualized double-digit rate

2. Outlook for the social media advertising market

According to the Company's materials, the online advertising market in Japan has been sustaining growth at a double-digit annual pace and surpassed TV advertising for the first time in 2019. This trend reflects the ability to utilize the Internet at anytime and anywhere thanks to broad inroads by PCs and smartphones in society. A growing number of companies are utilizing this media as part of their promotional measures because of the ease of distributing advertisements to the target segment being pursued and digital visualization of cost efficacy that appeal to companies issuing advertisements.

Changes in the domestic advertising market



Source: Prepared by FISCO from Dentsu's "Advertising Outlays in Japan 2019"

Source: The Company's results briefing materials

Social media advertisements appear likely to become the main battlefield in the online advertising market. Twitter, Facebook, YouTube, and other social media have rapidly spread in the past few years, and usage time per day by social media users is increasing. Furthermore, user comments on products and other messages submitted by users on Twitter service spontaneously amplify the spread of information and thereby achieve a promotion effect with robust cost performance. This aspect is boosting interest in social media advertisements.

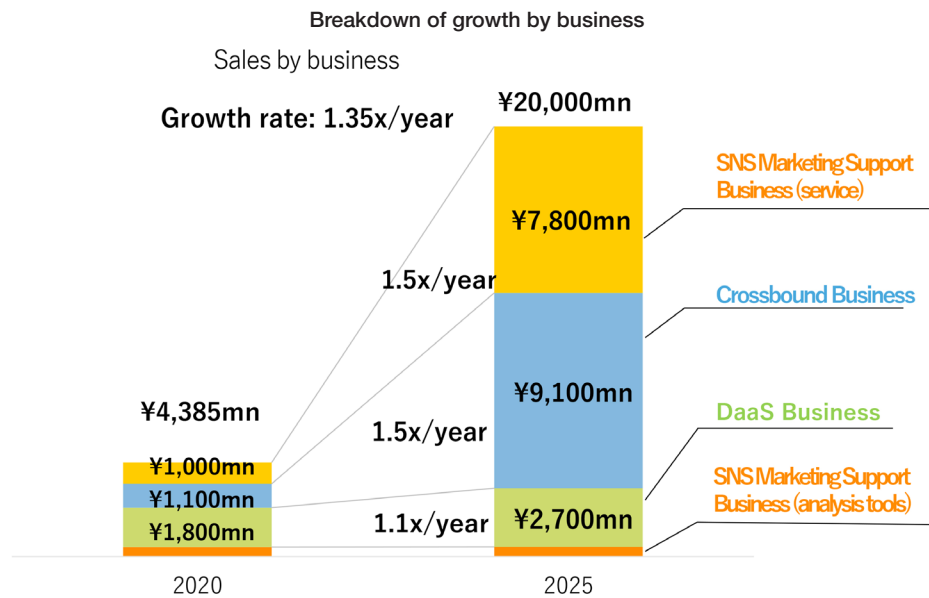
According to the Company's materials, the digital advertising market in the U.S. is projected to expand from about ¥14.4trn in 2020 to roughly ¥18.9trn in 2024, including a rise in the share of social media advertising from 28% in 2020 to 29% in 2024. Japan's digital advertising market, meanwhile, could increase from about ¥1.7trn in 2020 to about ¥2trn in 2024, including an increase in the social media advertising share from 15% in 2020 to 17% in 2024. The social media advertising market in Japan hence offers the prospect of growing from roughly ¥256.2bn in 2020 to about ¥333.5bn in 2024, which works out to an annualized rate of roughly 7%. An important point is Japan's overly small market scale for digital advertising, compared to the U.S. FISCO thinks Japan's digital advertising market has significant growth potential considering market size in the U.S. and expects continuation of double-digit annual growth. Social media advertising, in particular, is fairly low in Japan at just 15% of the digital advertising market, compared to the U.S. as of 2020. We believe Japan has potential to expand to the same level as the U.S. based on current inroads by social media, and this provides the basis for our outlook that the social media advertising market in Japan has a strong possibility of achieving robust growth.

Aiming for average annual sales growth rate of 35% over upcoming five years. Targeting 50% growth in the SNS Marketing Support Business and Crossbound Business

3. Five-year plan

The Company has set net sales growth as a key metric in its five-year targets. By achieving growth at an annual average rate of 35%, the Company will aim for net sales of ¥20.0bn (3.7x higher than FY12/20), operating profit of ¥2.46bn (16.7x), and operating margin of 12.3% (-0.6% in FY12/20) in FY12/25. Looking at net sales targets in each segment, in FY12/25 the Company is targeting net sales of ¥7.8bn in the SNS Marketing Support Business (service), ¥9.1bn in the Crossbound Business, ¥2.7bn in the DaaS Business, and ¥0.4bn in the SNS Marketing Support Business (analysis tools). Five years from now, the Company expects net sales in the Crossbound Business to exceed net sales in the SNS Marketing Support Business, which currently accounts for the largest percentage of overall net sales. This indicates the Company's strategy to grow as a global company. These targets do not account for investments in new businesses, or sales and profits from such new businesses that are not currently planned. Therefore, depending on how the Company's businesses develop, it is possible that results could exceed these forecasts.

With respect to business profits, the Company expects profits in both the SNS Marketing Support Business and the Crossbound Business to exceed that of the DaaS Business, which currently contributes the most to profits, and on the profit front SNS Marketing Support Business and the Crossbound Business will be the drivers of the Company's earnings.



Outlook

In the SNS Marketing Support Business, the Company aims for an annual average growth rate in net sales of 50%. As the digital marketing market grows steadily, and the expansion of the social media marketing market is expected to accelerate due to the impact of COVID-19, the Company intends to drive the market forward as a leading company in SNS marketing. As its strategy, in addition to creating a standard for SNS marketing, the Company will expand its service scope from the Twitter area to the overall SNS domain. The Company will provide the market a high-value-added, sales-accumulating-type service as a platform, and apply strong technological capabilities to in-house operational systems to realize non-labor-intensive operations. As measures being advanced now, the Company is expanding its Instagram support projects and working to enter the Top 10 of the Twitter advertising agency rankings (currently 18th).

The Company is also aiming for a 50% annual average growth rate in net sales in the Crossbound Business. Although there is no clear outlook for a recovery in the inbound market, the outbound market, including the cross-border EC market, is expected to expand rapidly. Accompanying the age of big data, client needs for data marketing are forecast to quickly increase. However, with the backdrop of an expanding market, there is a strong possibility that competition with local Chinese companies will intensify for services for which differentiation is difficult. Amid this environment, targeting the outbound market, the Company plans to expand and differentiate its proprietary services that leverage the strength of its data utilization from the competition, and provide the high-value-added and sales-accumulating services as a platform. As an example of immediate initiatives, the Company will accelerate the cross-border EC platform business, expand sales of the new service “SURPRISE BOX,” and enhance the speed of its proprietary services.

In the DaaS Business, the Company is aiming for an 8% annual average growth rate in net sales. Industry consolidation is taking place among SNS marketing tool players, and there is a possibility that the market will contract over the medium term. Although growth can be expected in the risk management market, there are concerns that it will experience the same lifecycle as SNS market tools over the medium to long term. On the other hand, there are signs that new markets such as those for financial services and voice AI devices will be created, and it is worth exploring the possibilities. Based on this business environment, the Company intends to cultivate new markets by expanding its data provision partners, while growing profits in existing markets. Immediate measures include developing new markets for the finance industry and voice AI devices, researching needs, and hypotheses and verification.

4. SDGs initiatives

As SDG initiatives, the Company promotes the following measures aimed at realizing a society that can be “hotto” – (1) actively recommends that employees participate in activities that contribute to society, (2) gives aid as a company to realization of gender equality outside of the company and activities aimed at removing inequality, and (3) promotes revisions to company rules and establishment of an environment that is welcoming to LGBT people.

For (1), CEO Uchiyama serves as project leader of Japan Association of New Economy’s SOGI Empowerment PT that aims to create a work environment that welcomes LGBT people and other sexual minorities and engages in awareness-raising activities. Additionally, employees cooperate in the Famiee project that seeks to realize a society that accepts diverse family formats. For (2), the Company donates operating funds and office space to the Famiee project. For (3), the Company adopted a program that allows use of a “partnership certificate” for homosexual couples as a certificate of family relations that NPO Famiee started issuing in February 2021 in applying to internal welfare and benefit services.

Outlook

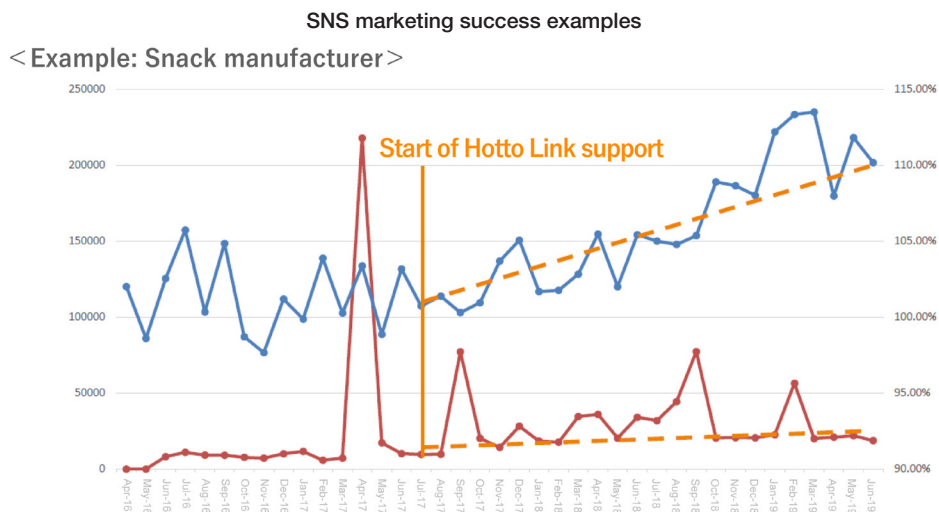
In addition, the Company was awarded “Gold” recognition, the highest ranking, in the PRIDE Index 2020, an index formulated by the organization called work with Pride that evaluates companies’ efforts to establish a welcoming workplace environment for members of the LGBT community and other sexual minorities. This was the second consecutive year that the Company received the “Gold” recognition.

Medium- to long-term growth strategy

Further differentiate integrated marketing services centered on SNS

1. Integrated marketing services centered on SNS

Marketing utilizing SNS is extremely important today, the golden age of SNS. Typically, media used in marketing consists of “owned media” that is owned by the Company, “paid media” that is owned by a different company and provides exposure through the payment of advertising fees, and “earned media” that reflects comments by consumers and cannot be controlled by a company. These three types of media also exist in SNS marketing. Examples of owned media include a company’s own SNS accounts, examples of paid media include advertisements on Twitter or Facebook, and examples of earned media include word-of-mouth advertising on SNS. These days, marketing methods utilizing word-of-mouth (earned media) on SNS are beginning to attract attention due to their massive influence. However, since word-of-mouth on SNS cannot be controlled by the company, cost-effectiveness depends on how the information can be disseminated to the most appropriate users and spread most effectively. The role of a marketing support company tends to make a difference in this segment. Leveraging strengths of social big data analysis capabilities accumulated since its founding and social data collection capabilities owned by Effyis, the Company established a management method using the ULSSAS purchasing-behavior process based on SNS it devised. This approach has succeeded in achieving high performance.

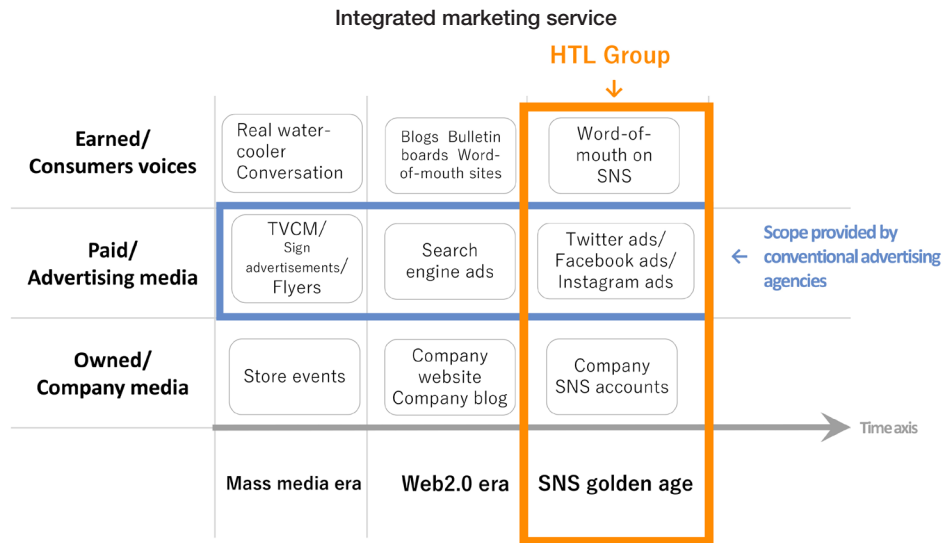


Source: The Company’s results briefing materials

Using this strength in word-of-mouth advertising on SNS as a weapon, the Company will provide an integrated marketing service centered on SNS in the three domains of owned media, paid media, and earned media.

Hotto Link Inc. | 2-Apr.-2021
 3680 TSE Mothers | <https://www.hottolink.co.jp/english/>

Medium- to long-term growth strategy



Source: The Company's results briefing materials

Being able to provide marketing services in the three domains centered on SNS is a strength, and there are several key points to enhancing the appeal of its services. The first is the use of big data. Utilization of big data involves three steps: 1) information collection, 2) analysis, and 3) utilization. The company 1) has a global database in the DaaS Business for information collection; 2) has SNS analysis tools and utilizes reporting services in the Crossbound Business in terms of analysis; and 3) Provides value through the SNS Marketing Support Business and the Crossbound Business in terms of utilization. In each step, the Company has a wealth of knowledge and experience, and maximizes the value of big data by having these function organically together. In addition, although the data collected in the DaaS Business is currently advanced to the “utilization” step in Japan and China, it is expected that the same step will be taken in Europe and the United States in the future, which is one factor that greatly raises the Company’s growth expectations as a global company.

In addition, as a “technology company,” the ability to provide advanced technology and data-driven marketing utilizing this technology also creates high added-value. The Company can be regarded as a technology company in that it possesses abundant data and monetizes the data through integrated marketing services utilizing advanced technologies such as natural language processing and machine learning in analysis. These data-driven marketing methods are very different from traditional advertising agencies, leading to service differentiation. In addition, the platform service format, which will be described in detail below, is also enhancing its appeal.

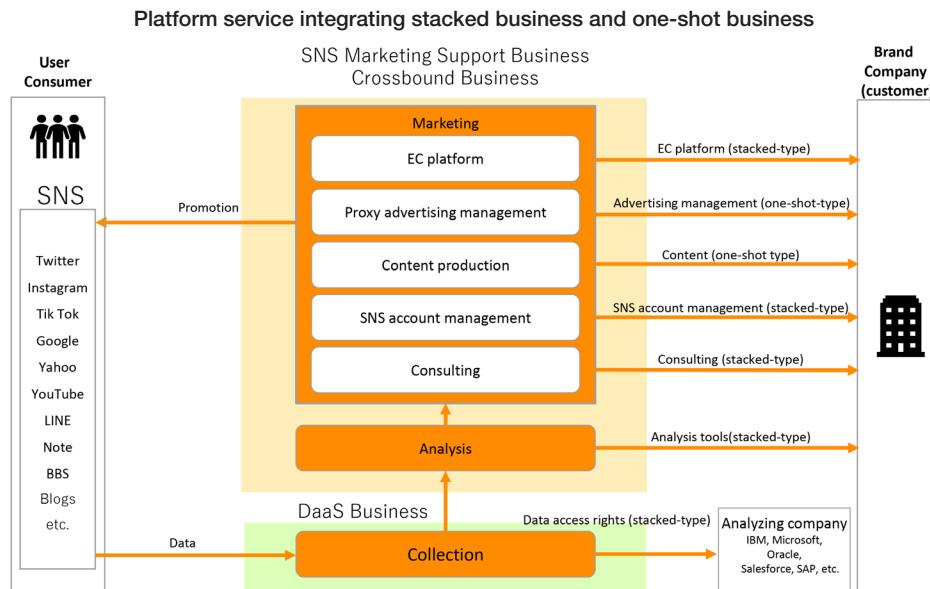
Changing to a platform service will speed up the increase in orders received for both stacked-type and one-shot-type business

2. Oriented towards being a platform service

The Company will provide a platform service that integrates stacked business and one-shot business. In the three steps of “information collection,” “analysis,” and “utilization (marketing)” discussed above, the Company offers services whereby sales are divided into “stacked-type” and “one-shot-type” for each step.

Medium- to long-term growth strategy

From the perspective of client companies, this allows them to use the Company's services to solve the problems they face in each phase of the chain at any time, from information collection to marketing. In this sense, the Company's overall service lineup can become a part of a client's business foundation as a single marketing platform. Also, since the Company responds efficiently in a one-stop manner, it can be expected to have a greater benefit than asking multiple companies for help in each phase. From the perspective of the Company, there are stacked services such as data access rights sales, analysis tools, consulting, and SNS account management at each stage of "information collection," "analysis," and "utilization," which enhances the stability of earnings. In addition, increasing contracts for these stacked services will also make it easier to receive additional orders for one-shot services, which will accelerate the growth in net sales. By taking advantage of the above-mentioned features of having an "integrated marketing service centered on SNS" and a "platform service," the Company's presence in the marketing industry is growing, and at FISCO we believe that orders from major companies which were difficult to approach in the past will also gradually increase going forward.



Source: The Company's results briefing materials



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp