

COMPANY RESEARCH AND ANALYSIS REPORT

Hotto Link Inc.

3680

TSE Mothers

1-Oct.-2021

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FISCO Ltd.

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

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Summary

FY12/21 1H results progress was strong. Expectations for further growth in the SNS Marketing Support Service and the Crossbound Business

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 FY12/21 1H, the Company's consolidated results were ¥2,635mn in net sales (+38.9% year on year (YoY)), which was a record high, operating profit of ¥77mn (versus an operating loss of ¥121mn a year earlier), profit before tax of ¥217mn (versus loss before tax of ¥155mn a year earlier), and profit attributable to owners of parent of ¥160mn (versus a ¥144mn loss a year earlier), as the Company successfully generated a profit. SG&A expenses increased 5.3% YoY to ¥854mn, mainly due to a rise in personnel costs accompanying the expansion of the business scope. However, based on the decline in both outsourcing costs as well as travel and transportation costs due to the curtailment of business trips, the SG&A ratio declined significantly from 42.7% in the year earlier period to 32.4%. Level costs excluding upfront investments are on a declining trend, and at FISCO we think that profitability is clearly improving. On a quarterly basis, the improvement in profit is more pronounced than the increase in net sales. From FY12/18 3Q to FY12/20 2Q, the Company posted operating losses due to the focus on upfront investments, but the Company has been continually posting profits since FY12/20 3Q.

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 ¥181mn (versus a ¥51mn loss). Looking at the progress rates through FY12/21 1H, net sales were 49.1% of the fiscal year forecast, operating profit was at 52.7%, and net profit was at 88.9%. These are extremely strong progress rates considering the fact that the Company's business model is such that earnings are heavily skewed towards 2H. At FISCO, we think there is a high likelihood that the Company will announce an upward revision of its earnings forecast or the Company's full fiscal year earnings will end up exceeding the forecasts.

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3. Medium- to long-term growth strategy

Currently, the importance of marketing using SNS is rapidly increasing. In the three media domains in marketing of owned media*¹, paid media*² and earned media*³, based on its high level of influence, people are beginning to focus on marketing techniques leveraging earned SNS-based word-of-mouth (earned media). However, a Company cannot control word-of-mouth, so the cost-effectiveness depends on how optimally information is disseminated to users and then becomes widespread. Using this strength in SNS word-of-mouth as a selling point, the Company provides integrated marketing services centered on SNS in the three aforementioned media domains. Also, in the three steps of big data involving information collection, analysis, and utilization (marketing), the Company provides services in which sales of each are divided into stacked business and one-shot business. 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 is part of a client's business base as a single marketing platform. By leveraging its special characteristics of "integrated marketing services centered on SNS" and "platform service," the Company has built a large presence in the industry, and at FISCO we think that the Company will see an increase in incoming orders going forward from major companies which it was unable to approach in the past.

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

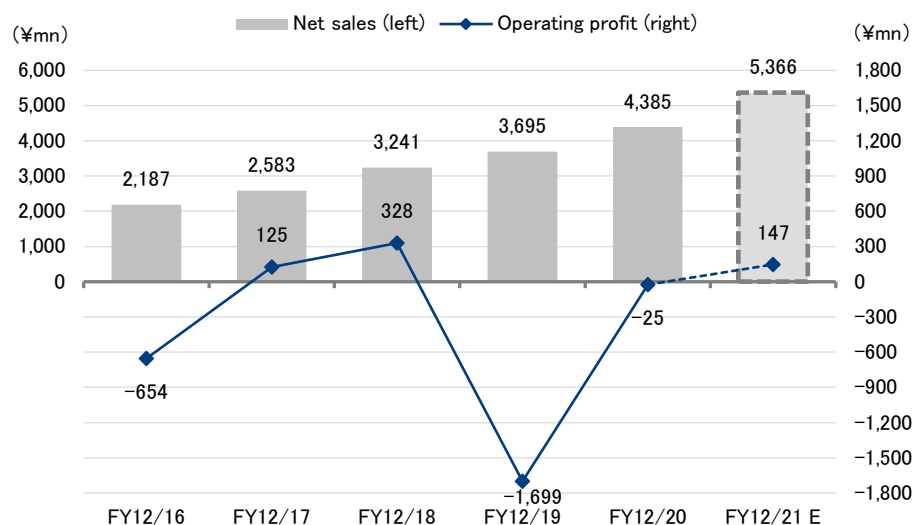
*2 Paid media is owned by a different company and provides exposure through the payment of advertising fees. Examples in digital marketing include search engine advertisements, SNS advertisements, news sites, etc.

*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 FY12/21 1H, net sales were a record high while all profit lines turned positive
- With favorable progress towards full-year forecasts, there is a strong possibility of upward revisions of the forecasts or for results to exceed the forecasts
- Integrated marketing services and a platform service give the Company a competitive advantage in the growth market

Results trends



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

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

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Company profile

A technology company that works with SNS-related big data. Will enhance its brand image with a redesigned logo

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.

In June 2021, the Company redesigned its corporate logo as a part of its effort to go back to the premise of its aim of providing “social media marketing with warmth.”

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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

2. Business description

The Company changed business segments in FY12/20 from SaaS Business, Solutions Business, and Crossbound Business previously to SNS Marketing Support 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.

(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. The sales breakdown in FY12/21 1H was SNS advertising/SNS operational consulting at 71.4%, and SNS marketing tools at 28.6%. The Company expects the ratio of sales in domestic SNS advertising/SNS operational consulting to increase going forward in conjunction with the growing appeal of these services.

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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.

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.

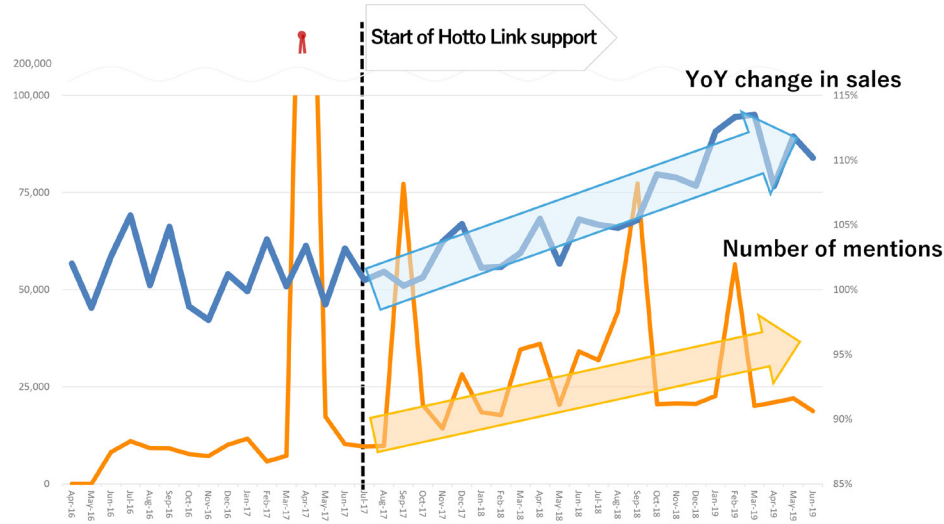
Meanwhile, kuchikomi@kakaricho, an SNS analysis tool, has the following features. It possesses Japan's largest social media coverage and it is easy to operate and to perform real-time searches, such as trend analysis and attribute analysis. It also has functions such as cross-media analysis spanning 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.

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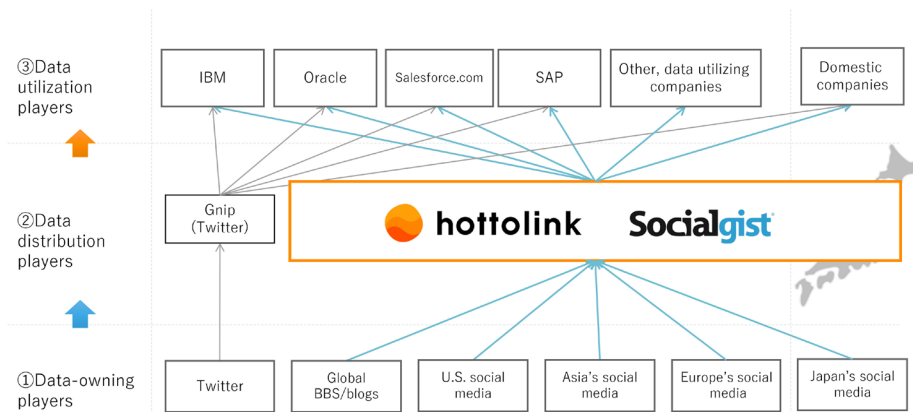
SNS Marketing Support Business example (confectionery manufacturer)



(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.

DaaS Business services



Source: The Company's financial results supplementary materials

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(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.

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.

Meanwhile, Cross-border EC X has partnerships with leading stores and key opinion leaders (KOL, which is synonymous with an influencer; often refers to influencers in China) that have opened stores on Taobao, which is a major EC site, and it also has approximately 70 million users. It has partnered with companies such as Weidian, which is a network of approximately 450,000 social buyer stores between Japan and China. It uses these networks to carry out sales promotions and it effectively improves name recognition in the Chinese market and increases sales of products. 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 record-high net sales in FY12/21 1H, along with marked improvement in profitability as profit turned positive

1. Overview of FY12/21 1H results

In FY12/21 1H, the Company's consolidated results were ¥2,635mn in net sales (+38.9% YoY), which was a record high, operating profit of ¥77mn (versus an operating loss of ¥121mn a year earlier), profit before tax of ¥217mn (versus loss before tax of ¥155mn a year earlier), and profit attributable to owners of parent of ¥160mm (versus a ¥144mn loss a year earlier), as the Company successfully generated a profit.

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Results trends

SG&A expenses increased 5.3% YoY to ¥854mn, mainly due to a rise in personnel costs accompanying the expansion of the business scope. However, based on the decline in both outsourcing costs as well as travel and transportation costs due to the curtailment of business trips, the SG&A ratio declined significantly from 42.7% in the year earlier period to 32.4%. Level costs excluding upfront investments are on a declining trend, and at FISCO we think that profitability is clearly improving.

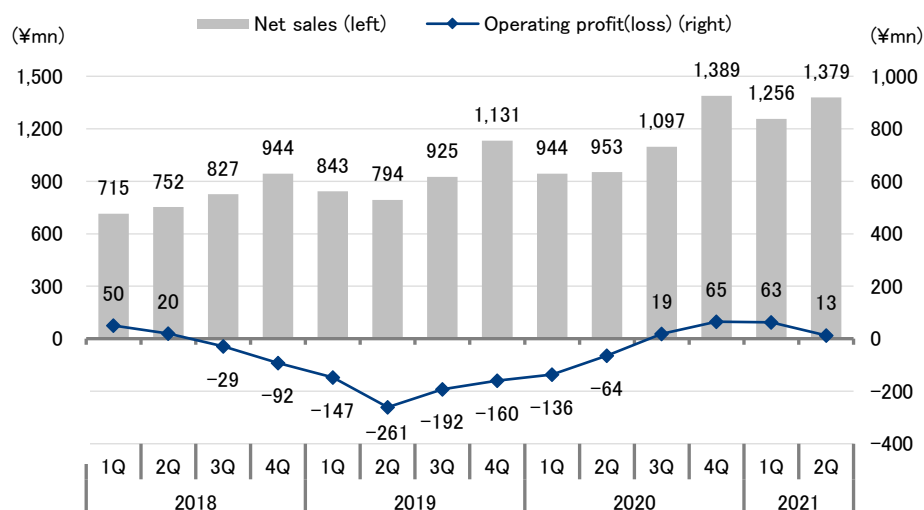
On a quarterly basis, the improvement in profits is more pronounced than the increase in net sales. From FY12/18 3Q to FY12/20 2Q, the Company posted operating losses due to the focus on upfront investments, but the Company has been continually posting profits since FY12/20 3Q.

FY12/21 1H consolidated results

	FY12/20 2Q		FY12/21 2Q			
	Results	% of sales	Results	% of sales	Change value	YoY
Net sales	1,897	-	2,635	-	738	38.9%
Gross profit	665	35.0%	927	35.2%	262	39.5%
SG&A expenses	811	42.7%	854	32.4%	43	5.3%
Operating profit (loss)	-121	-6.4%	77	2.9%	199	-
Profit (loss) before tax	-155	-8.2%	217	8.3%	373	-
Quarterly profit (loss)	-144	-7.6%	-160	6.1%	304	-
Profit (loss) attributable to owners of parent	-66	-3.5%	178	6.8%	244	-

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

Net sales and operating profit (loss) by quarter



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

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Results trends

2. Trends by business segments

(1) SNS Marketing Support Business

In the SNS Marketing Support Business, net sales rose 54.0% YoY to ¥898mn, including a steep rise in SNS advertising/SNS management consulting sales to ¥641mn (up 76.8%). SNS marketing became increasingly important amid the emergence of the new lifestyle during 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 bolstered its sales staff and otherwise enhanced its sales capacity. Automation and labor-saving progressed with the deployment of proprietary tools containing AI the Company introduced in FY12/20, leading to higher productivity. Sales of SNS tools increased 16.4% YoY to ¥256mn.

There was also a steady increase in marketing support projects using Instagram which the Company started in FY12/20 1Q. This service is divided into the following three parts.

1) Instagram utilization consulting

In addition to delivering know-how based on its proprietary curriculum using Instagram, the Company offers support for formulating Instagram utilization strategies that will lead to higher sales linked to marketing strategies, as well as proposes promotion strategies. The Company supports the building of cycles that will result in UGC being created naturally.

2) Instagram advertising on clients' behalf

With fast-acting Instagram ads, the Company helps client companies gain good followers and build a strong foundation for word-of-mouth to spread. The Company also supports the distribution of advertisements for UGC creation and promotion. The Company can offer various types of advertisements, such as photo advertisements, video advertisements, carousel advertisements, stories advertisements, discovery tab advertisements, and brand content advertisements.

3) Instagram account management on clients' behalf

For companies that do not have the resources to operate and manage an account, the Company offers dedicated account management teams to operate and manage accounts their behalf.

In addition, the Company started providing a data analysis service for Instagram. Instagram can acquire data with the app's Insights function. Meanwhile, although various data that cannot be confirmed by Insights can be obtained from the official API provided by Instagram, the problem is that it is technically difficult for employees in charge of managing SNS to use this, and therefore this data cannot be easily obtained. By offering an analytical service by data analysis experts aimed at solving this problem, companies will be able to grasp data helpful in managing their Instagram accounts. By grasping the number of hash- tagged posts and the correlation of various indexes, it is easier to gain hints to increase Instagram access, and it is easier to gain hints for increasing word-of-mouth that leads to purchases. As a client company, it is more cost-effective to outsource this service to the Company, which possesses a wealth of expertise and a deep track record, than to hire specialists in house, so incoming orders are expected to increase in the future.

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Results trends

Overall, the SNS Marketing Support Business has seen an increase in projects provided to large companies, including the following most recent examples.

- Orion Breweries, Ltd.
Used Twitter to support an approximately 50x growth in EC sales.
- Johnsonville Japan (joint venture)
Used Twitter and Instagram to increase word-of-mouth posts 9x, contributing to an increase in sales proportional to the number of word-of-mouth posts.
- Chateraise Co., Ltd.
Using Twitter, gained over 350,000 Twitter followers, and contributed to an increase in store sales.
- Milbon CO., LTD. <4919>
Used Twitter and Instagram to increase the number of word-of-mouth posts by 6x times. Supported Instalive streaming, which got 450,000 viewers.
- TORIDOLL Holdings Corporation <3397> (Marugame Seimen)
Used Twitter to help attract customers. Contributed to a 1.9x increase in the number of initial speed sales on the re-sale menu
- JINS HOLDINGS Inc. <3046>
Used Twitter to increase the number of word-of-mouth posts by approximately 4x, and the number of brand searches by 1.7x, thereby contributing to enhancing the brand strength.

In addition to the above, the Company worked on many other projects, including for a dairy product manufacturer and an automaker.

By building up its track record with these kinds of large companies, the Company will further raise its credibility in the industry, and at FISCO we expect this to contribute to even more growth in orders received going forward.

(2) Crossbound Business

In the Crossbound Business, net sales increased 96.2% YoY to ¥850mn. While demand for promotions targeting travelers from China (inbound) was stopped, with respect to promotions targeting the Chinese market (outbound) where a stable economic recovery is ongoing, the Company proactively captured the growing demand from client companies. In addition, the cross-border EC transaction-type newly developed business started contributing to sales from FY12/21 2Q.

In terms of other new initiatives, TrendExpress began collaborating with M-Force inc. which provides marketing-related services. According to The Ministry of Economy, Trade and Industry's White Paper on International Economy and Trade 2021, in 2020 China's real GDP grew 2.3% YoY, making it the only major country in the world to record positive growth, and retail sales in China have maintained a positive trajectory since August 2020, as the Chinese market has been the first in the world to return to a growth track. Given this, Western brands in the cosmetics and luxury domains are carrying out bold marketing targeting the Chinese market, and are showing an aggressive stance towards capturing demand. On top of this, for Japanese companies, for which it is difficult to exceed Western companies in terms of supply volume, "high-quality customer strategies" are needed. TrendExpress, which is under the Company's corporate umbrella, uses big data on consumer activity in China to analyze not only phenomena but also the background behind them as well as customer insight. By doing so, it builds customer strategies that anticipate trends. Also, M-Force crosses its proprietary framework "9segs(R)" to the real-time user voices provided by Trend Express to analyze customer insights necessary to achieve medium- to long-term targets, and also supports the formulation of customer strategies by quantitatively analyzing factors such as customer structures and customer images of both a company and its competitors, as well as purchasing trends. With this collaboration, the functions of the outbound promotion support services for the Company's clients will be further enhanced, and we at FISCO expect the current strong pace of increasing orders received to speed up even more going forward.

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Results trends

(3) DaaS Business

In DaaS Business, net sales increased 0.7% YoY to ¥887mn. The growth in net sales was limited due to the fact that one SNS data access rights contract was not renewed. It seems that the non-renewal of the contract was due to geopolitical issues. As a result of this, the Company is expecting full-year net sales and operating profit to be lower than the initial forecasts by approximately ¥300mn and ¥10mn, respectively. However, the Company immediately responded by cutting related costs in order to limit the extent of the decline in profits.

3. Financial position and financial indicators

Looking at the financial position at the end of FY12/21 1H, total assets increased ¥505mn versus the end of the previous fiscal year to ¥6,273mn. Looking at the main changes, in current assets, cash and cash equivalents increased ¥231mn due to factors including the rise in net sales, while in non-current assets, other financial assets increased ¥197mn due to factors such as the market value of securities and long-term loans to employees, while goodwill increased ¥97mn due to foreign currency translation adjustments.

Total liabilities increased ¥66mn versus the end of the previous fiscal year to ¥2,862mn. In non-current liabilities, borrowings increased ¥187mn. Also, total equity increased ¥439mn versus the end of the previous fiscal year to ¥3,411mn, mainly due to a ¥178mn increase in retained earnings, as well as a ¥67mn increase in equity and a ¥77mn increase in capital surplus due to pay-ins accompanying the exercise of stock options.

Looking at management indicators, the ratio of equity attributable to owners of parent, which indicates management stability, increased from 48.4% at the end of FY12/20 to 51.2%, showing an improvement. Although the interest-bearing debt ratio rose from 30.5% to 32.3%, we at FISCO think that there is minimal financial concern in the near term because we can expect profits to accumulate going forward while profitability improves.

Consolidated balance sheet and management indicators

	FY12/18	FY12/19	FY12/20	FY12/21 2Q	(¥mn) Change value
Current assets	2,441	2,328	2,710	2,925	214
(Cash and cash equivalents)	1,976	1,700	2,067	2,298	231
Non-current assets	3,374	3,056	3,057	3,348	290
(Goodwill)	1,871	1,071	1,367	1,465	97
Total assets	5,815	5,385	5,767	6,273	505
Total liabilities	1,176	2,332	2,795	2,862	66
(Interest-bearing debt)	364	616	851	1,038	187
Total equity	4,638	3,053	2,972	3,411	439
(Shareholders' equity)	4,614	2,825	2,793	3,213	419
[Stability]					
Ratio of equity attributable to owners of the parents	79.4%	52.5%	48.4%	51.2%	2.8pt
Interest-bearing debt ratio	7.9%	21.8%	30.5%	32.3%	1.8pt

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

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■ Outlook

High certainty of achieving FY12/21 results forecasts. The SNS Marketing Support Business and the Crossbound Business will become even more appealing

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 (799.5% increase). Looking at the progress rates through FY12/21 1H, net sales were 49.1% of the fiscal year forecast, operating profit was at 52.7%, and net profit was at 88.6%. These are extremely strong progress rates considering the fact that the Company's business model is such that earnings are heavily skewed towards 2H. At FISCO, we think there is a high likelihood that the Company will announce an upward revision of its earnings forecast or the Company's full fiscal year earnings will end up exceeding the forecasts.

FY12/21 consolidated results outlook

	FY12/20		FY12/21				(¥mn)
	Results	% of sales	Forecast	% of sales	Change value	YoY	
Net sales	4,385	-	5,366	-	980	22.4%	
Operating profit (loss)	-25	-0.6%	147	2.7%	172	-	
Profit (loss) before tax	-84	-1.9%	224	4.2%	308	-	
Quarterly profit (loss)	-51	-1.2%	181	3.4%	232	-	
Profit attributable to owners of parent	18	0.4%	167	3.1%	148	799.5%	

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

In the SNS Marketing Support Business, in FY12/21 2Q there was a strong building up of profits due to the budget consumption at the end of 1Q. While at first glance it seems that there was a dulling of growth due to the postponement of promotions based on the declaration of a state of emergency in 2Q, there was steady growth in the number of contracts by existing clients, and the retention rate exceeded 90%, so business development was positive on the whole. As COVID-19 continues to spread, demand for marketing using SNS is expected to expand going forward. For the Company, which is steadily bolstering its presence in the industry, including an increase in business with large companies, this will provide a tailwind and sales are expected to grow favorably going forward.

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In addition, most recently, the Company has been enhancing its service lineup. In August 2021, the Company announced that it will begin to provide influencer marketing support on a full-fledged basis. Specifically, the Company will support “influencer discovery/casting” and “implementation of strategies based on data analysis” based on SNS big data, which is the Company’s strength. SNS is widely used today, and interest in utilizing influencers is growing based on the fact that not only media companies but individuals now have the ability to spread information. Recently, as regulations on digital advertising are advancing, word-of-mouth on social media is receiving attention as an alternative technique, and utilizing influencers is one solution. Meanwhile, many companies are facing problems such as not being able to see the results after posting PR, not knowing which influencers are the best fits for their brands (they do not know the criteria for deciding other than the number of followers), and not having the influencers lead to purchases. Through its influencer marketing support service, the Company uses its proprietary method of “data-evidenced casting” to identify influencer candidates with a high affinity to a company’s brand, and then offering data-based casting with a high probability of success. Also, when it comes to casting, in addition to designing “who to use,” in order to generate results, it is important to decide the message of “what to say and how to say it” as well as to build relationships with influencers, and the Company leverages its know-how in creating hot topics to help clients plan their influencer campaigns. This influencer marketing support is starting with demand led by customers, and in addition to enhancing the service lineup, the Company has been able to secure a decent amount of demand at the launch. In addition, we view the fact that this is based on strong business relationships and relationships of trust with client companies as an extremely positive point.

Regarding the China Crossbound Business, there is a seasonality in which sales are heavily weighted in the second half of each fiscal year, and sales growth can be expected to exceed the first half. In addition, sales increased in FY12/21 1H as a result of speedily launching new ongoing or transaction-based services with the aim of reforming the business structure from FY12/20 2H. These services have been well received by clients, and significant growth is expected to continue in 2H. In addition, as mentioned above, progress is being made on service functions based on collaboration with other companies, and it is expected that incoming orders will increase as the appeal of these services grows. Furthermore, we at FISCO believe that there is a strong outlook for sales to increase over the medium to long term due to the combination of growth in demand and improvements in supply.

2. Favorable business environment

The online advertising market in Japan has been growing at a double-digit annual pace, and surpassed TV advertising for the first time in 2019. For companies placing ads, it is easy to distribute the ads to the target segment being pursued and digital visualization of the cost-effectiveness is possible. As a result, the number of companies using this as a promotion campaign is rapidly increasing. Social media advertisements appear likely to become the main battlefield. 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.

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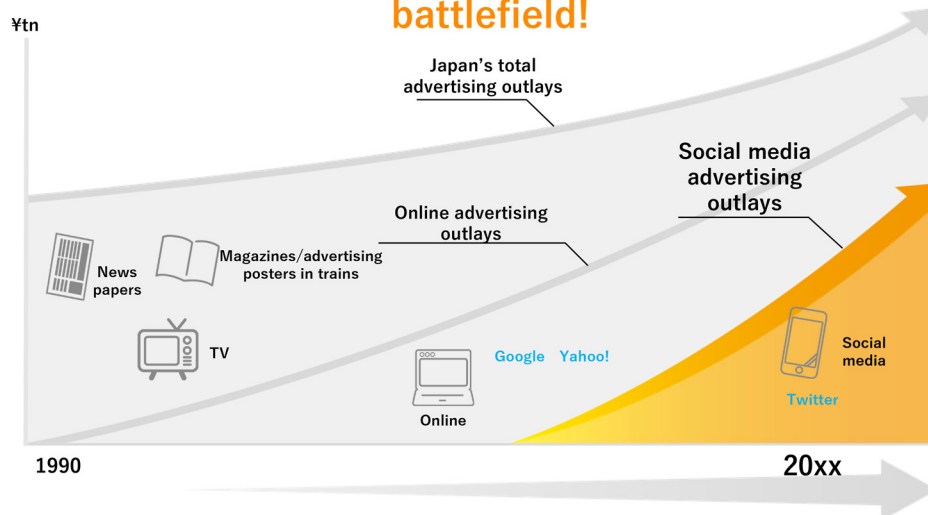
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Outlook

Business environment

Within the online advertising market,
the social media advertising market is growing, and is becoming the next main battlefield!



Source: The Company's financial results supplementary materials

Amid this kind of expansion of the market, many players, both large and small, are competing in the SNS marketing industry as a growth industry, and the battle over market share is fierce. However, being a technology company, the Company is collecting assets such as SNS-related big data based on its ownership of U.S. subsidiary Effyis, and has many years of expertise and a track record in terms of analyzing and utilizing this big data, and this has become a big strength of the Company under the platform service that will be discussed below. In the immediate future, we at FISCO think that this will lead to a further increase in market share, and over the long term it will be a factor for the Company's market share to stabilize as well as for the Company to avoid price competition. The online advertising business is receiving a lot of attention from investors as a growth industry, and the Company's strong results and this type of strength are viewed positively, so at FISCO we expect the Company to receive a particularly high level of attention.

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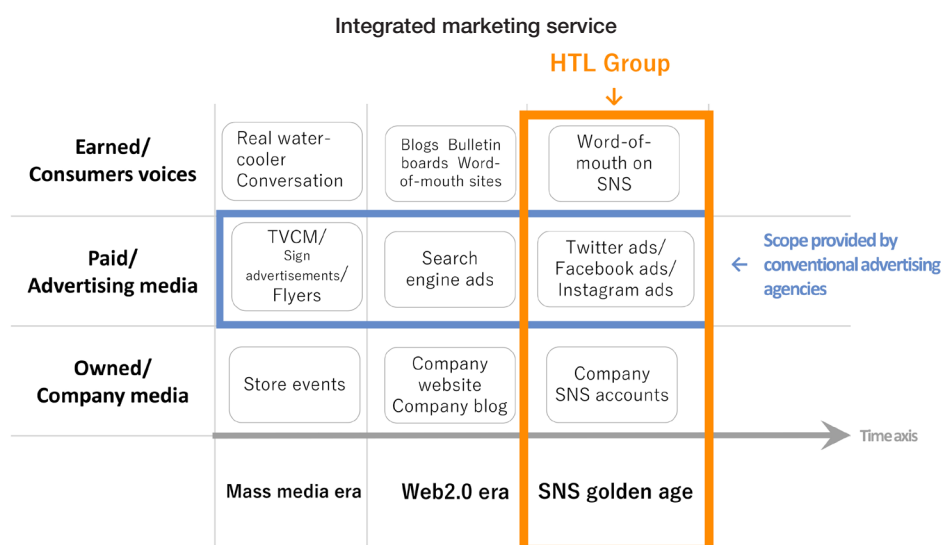
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Medium- to long-term growth strategy

Business with large companies is growing based on the one-stop offering of the three types of media and the three steps

As discussed above, the SNS-based marketing is rapidly increasing in importance. 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. 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 purchasing-behavior process based on SNS it devised. This approach has succeeded in achieving high performance. 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.



Source: The Company's results briefing materials

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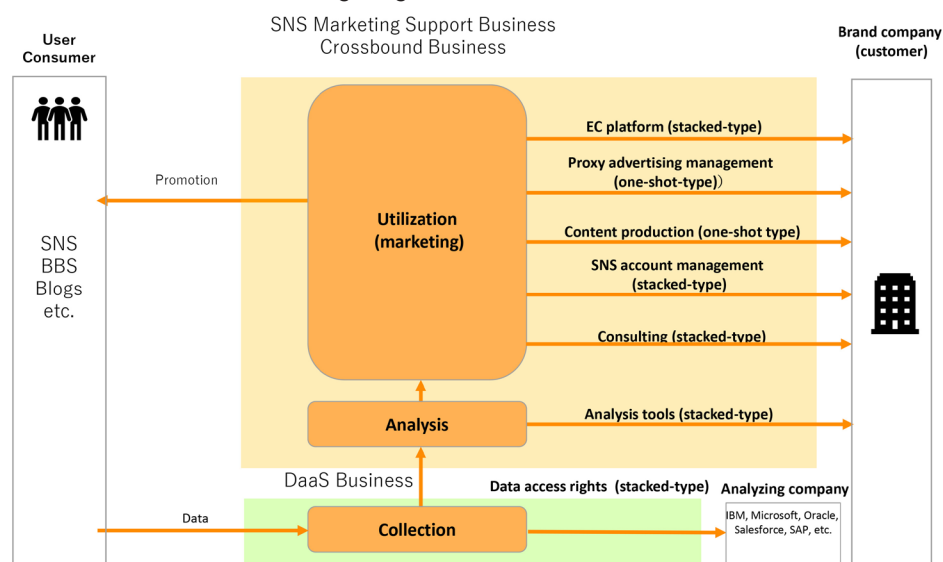
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Medium- to long-term growth strategy

In addition to covering the three domains with an integrated service, there are several points for the Company to further raise 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, the Company is currently carrying out horizontal development, including development of new services in each domain and collaborations with other companies. We believe that this business development will further bolster the Company's strengths, and will support the future expansion of market share and larger earnings.

The Company's business model can be viewed as having a stacked-type business and a one-shot business. In the three steps of "information collection," "analysis," and "utilization (marketing)" discussed above, the Company offers services whereby sales for each step are divided into "stacked-type" and "one-shot-type." 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.

Platform service integrating stacked business and one-shot business



Source: The Company's financial results supplementary materials

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