

Hotto Link Inc.

3680

Tokyo Stock Exchange Growth Market

7-Apr.-2022

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* This is an English translation of a report issued on March 22, 2022.

Summary

SNS Marketing Support Business and Crossbound Business grew rapidly. Record high net sales were recorded in FY12/21

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, the Company’s consolidated results were ¥6,571mn in net sales (+49.9% year on year (YoY)), which was a record high, operating profit of ¥355mn (versus an operating loss of ¥25mn in the previous year), and net profit of ¥808mn (versus a ¥51mn loss), leading to a significant increase in sales and profit. SG&A expenses came to ¥1,813mn (+8.3%). Although outsourcing costs and commission expenses declined as the Company made efforts to reduce costs, personnel costs increased in conjunction with the expansion of the business scope. The SG&A ratio declined significantly from 38.2% in the previous year to 27.6% against the backdrop of improvements to the efficiency of SG&A expenses through cost reductions and an increase in net sales. Level costs excluding upfront investments are on a declining trend, and we at FISCO think that profitability is improving. Remarkable improvements are being made in terms of both net sales and operating profit. From FY12/18 3Q to FY12/20 2Q, the Company posted operating losses due to a focus on upfront investments, but the Company has been continually posting profits since FY12/20 3Q.

2. FY12/22 outlook

For the FY12/22 outlook, the Company is forecasting net sales of ¥7,976mn (+21.4% YoY), operating profit of ¥161mn (-54.8%), and net profit of ¥116mn (-85.6%). Due to active investments aimed at achieving medium-term targets, operating profit is forecast to fall below FY12/21, but this will be temporary. The SNS Marketing Support Business and the Crossbound Business have been growing rapidly and showing favorable results recently. Additionally, the Company will carry out a full-scale launch of its blockchain business during this term, and will make active investments aimed at medium- to long-term growth. The net sales forecast has been set conservatively considering the impact from the spread of COVID-19 (hereafter, “COVID-19 pandemic”), so we at FISCO think there is a high likelihood that the Company will announce an upward revision of its earnings forecast or that its full fiscal year earnings will end up exceeding the forecasts.

Summary

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, marketing methods utilizing word-of-mouth (earned media) on SNS are beginning to attract attention due to their massive influence. However, a company cannot control word-of-mouth, so the cost-effectiveness depends on how optimally information is disseminated to users and how effectively it is spread. 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, which are information collection, analysis, and utilization (marketing), the Company provides services in which the 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 that it was unable to approach in the past.

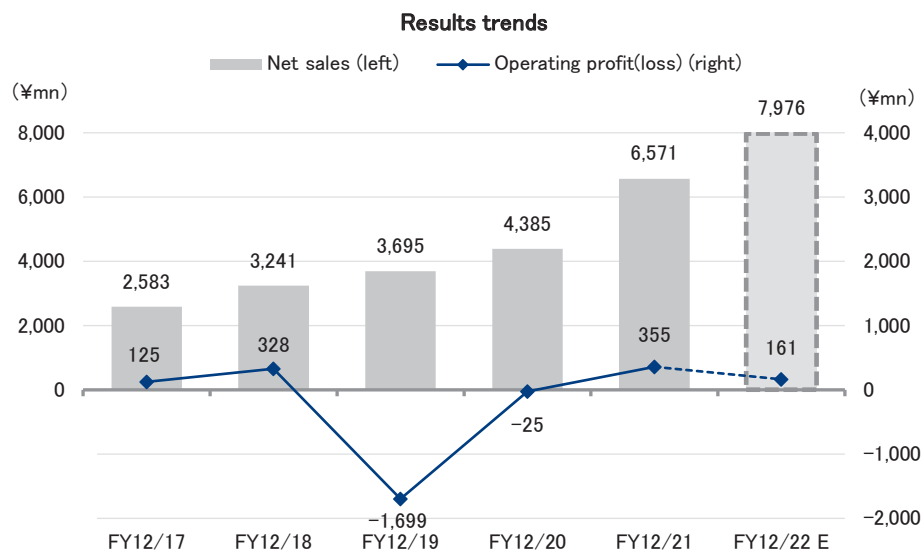
*1 Owned media is owned and operated by a company. Examples in digital marketing include a company's website, SNS accounts, etc.

*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

- Recorded record high net sales, with significant increases in sales and profit in FY12/21
- In FY12/22, is forecasted to secure earnings in an aim at achieving medium-term targets. Although operating profit is forecast to fall below FY12/21, due to active investments, there is a strong possibility of exceeding the forecast on account of favorable conditions
- Integrated marketing services and a platform service give the Company a competitive advantage in the growth market



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

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

■ 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 current President and Representative Director Koki Uchiyama with a mission of “establishing the infrastructure for a knowledge-recycling society to contribute to creating a world wherein people can feel the essence of ‘Hotto’ (a Japanese word translated as ‘a feeling of relief’)”. 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 the 2000s, which was the start of the rapid spread of social media in the Internet industry. Starting with the analysis of blogs in 2005, it acquired the Dentsu Buzz Research Business (analysis of social big data) in 2008 from Gala Buzz Inc., and started in earnest to provide its current mainstay service, the social media analysis tool 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 the service 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 its 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. In addition, it 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 constructed a business foundation overseas. Also, to take advantage of the rapidly increasing number of tourists from China visiting Japan, TrendExpress (investment ratio: 57.3%) launched China Trend EXPRESS, which is a regular reporting service for 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 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
November 2021	Started to provide a new product launch package specializing in promotion through SNS
December 2021	Signed an advertising agency contract with TikTok For Business, and began a full-scale launch of TikTok marketing support business

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

2. Business description

The Company changed its 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 advertising and SNS management consulting and the kuchikomi@kakaricho SNS analysis tool. The sales breakdown in FY12/21 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.

In the SNS Marketing Support Business, the Company mainly provides marketing support services utilizing Twitter (SNS advertising agent sales and management consulting service). In management consulting, the Company 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 in which the Company 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 they mainly consist of B2C businesses, such as food and beverages, beauty and cosmetics, and online learning site operators. In terms of scale, many companies have sales in the ¥100bn range. Larger companies, meanwhile, often 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 even received orders from leading automakers in some cases. The Company is currently becoming more highly regarded in the industry, and as a result it appears that the Company's opportunities to do business with major companies are continuing to increase.

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 a search within the SNS (Search1) or the use of Google or some other search engine to confirm the product (Search2) and buy the product (Action). After that is dissemination on Twitter (Spread). By repeating this series of processes, the Company boosts sales of the customer company's product.

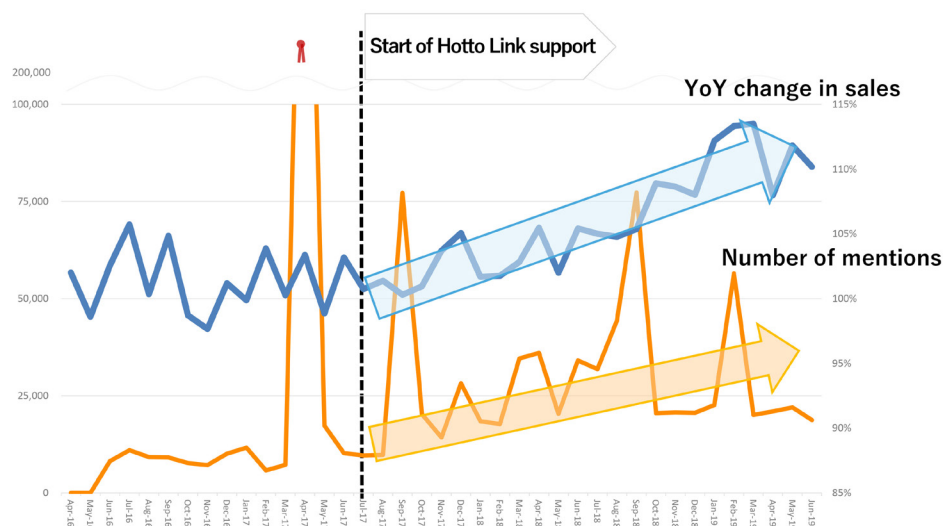
Unique methods devised by the Company from success patterns accumulated over many years are vital to efficiently build the process cycle and serve as a primary factor to differentiate the Company from competitors. For example, the Company conducts an analysis that brings together not only information 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.

Company profile

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 competitors and other surveys. The initial deployment fee is ¥100,000, and monthly charges begin at ¥130,000. Customers pay additional 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.

SNS Marketing Support Business example (confectionery manufacturer)



Source: The Company's financial results supplementary materials

(2) Crossbound Business

Crossbound Business, which is operated by subsidiary TrendExpress, offers services such as reporting that analyzes crossbound consumption trends mainly utilizing social big data, web promotion support for the Chinese market (Trend PR) launched in 2017, and cross-border EC support for the Chinese market (Cross-border EC X). The reporting service delivers China Trend Express (which is free to register), a regularly issued report that analyzes consumption trends of foreign visitors to Japan, and customized research service tailored to customer needs. Promotion support for the Chinese market and cross-border EC support service in the Crossbound Business will become focus areas going forward.

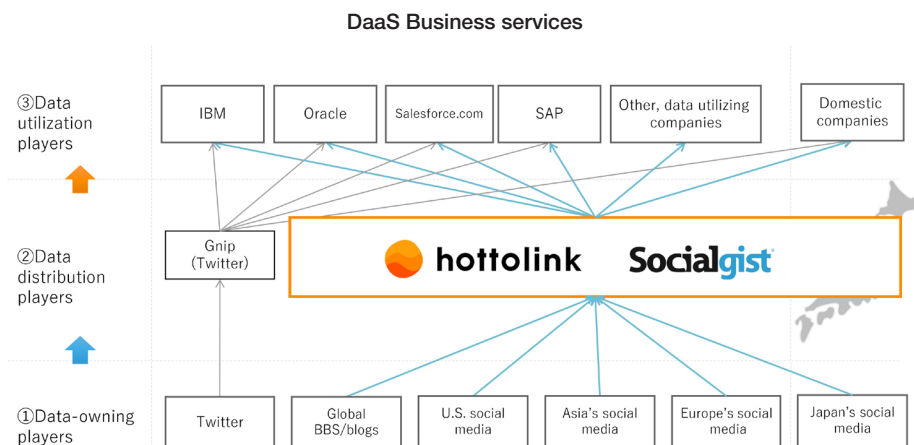
Company profile

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. From the customer's perspective, all the data is visualized, so the cost efficiency is made clear and it becomes easier to create a budget for promotional measures. The fees for a single order (a 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 effectively improves name recognition in the Chinese market and increases sales of products. The business model is one in which the Company provides one-stop service from customer acquisition through to sales, distribution, and customer support and obtains performed-based fees according to the sales of the targeted product. Therefore, if the targeted product becomes a major hit and its sales explode during the promotions period, its contribution to earnings also increases.

(3) DaaS Business

DaaS Business is run by Effyis (under the Socialgist brand name) and involves the sale of access rights to data from social media operating on a global scale. 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. Its main customers include Salesforce.com <CRM> and IBM <IBM> in addition to financial institutions, government entities, venture IT companies that operate SaaS and other businesses, and many other companies.



Source: The Company's financial results supplementary materials

Results trends

Recorded record high net sales in FY12/21, and made remarkable improvements in profitability with all profit items returning to profit

1. Overview of FY12/21 results

In FY12/21, the Company's consolidated results were ¥6,571mn in net sales (+49.9% YoY), which was a record high, operating profit of ¥355mn (versus an operating loss of ¥25mn), profit before tax of ¥1,059mn (versus loss before tax of ¥84mn), net profit of ¥808mn (versus net loss of ¥51mn) and profit attributable to owners of parent of ¥764mn (a profit of ¥18mn in the previous year), resulting in a significant increase in sales and profit.

SG&A expenses increased 8.3% from the previous year to ¥1,813mn, 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 commission expenses, the SG&A ratio declined significantly from 38.2% in the previous year to 27.6%. 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 it has been continually posting profits since FY12/20 3Q.

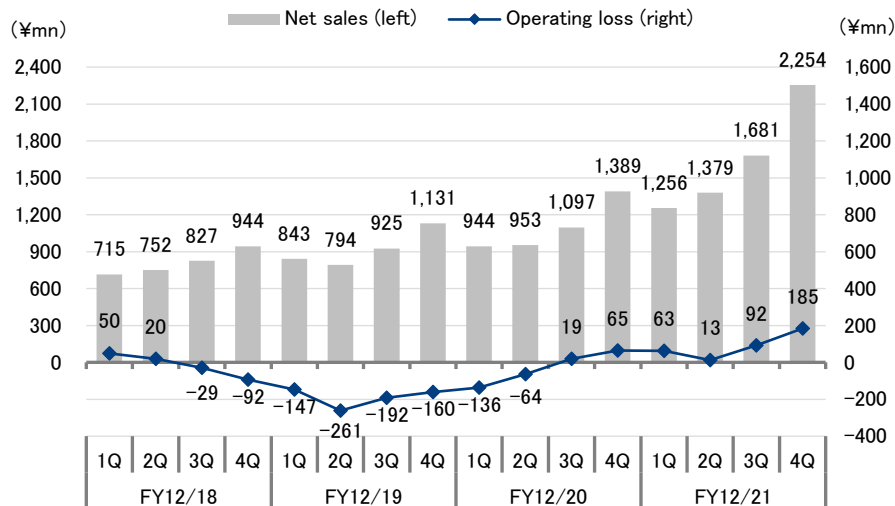
FY12/21 consolidated results

	FY12/20		FY12/21		Change	YoY
	Results	% of sales	Results	% of sales		
Net sales	4,385	-	6,571	-	2,185	49.9%
Gross profit	1,614	36.8%	2,160	32.9%	546	33.8%
SG&A expenses	1,674	38.2%	1,813	27.6%	139	8.3%
Operating profit (loss)	-25	-0.6%	355	5.4%	381	-
Profit (loss) before tax	-84	-1.9%	1,059	16.1%	1,143	-
Net profit (loss)	-51	-1.2%	808	12.3%	860	-
Profit (loss) attributable to owners of parent	19	0.4%	764	11.6%	745	-

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

Results trends

Net sales and operating profit (loss) by quarter



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

2. Trends by business segments

(1) SNS Marketing Support Business

In the SNS Marketing Support Business, net sales rose 31.7% YoY to ¥1,888mn, including a steep rise in SNS advertising/SNS management consulting sales to ¥1,387mn (+39.7%). 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 13.7% YoY to ¥501mn.

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.

Results trends

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.

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

- **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

- **TORIDOLL Holdings Corporation <3397> (Kona's Coffee)**

Used Instagram to double the number of followers.

- **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. We at FISCO believe that the Company will further raise its credibility in the industry by building up its track record with these kinds of large companies. It also signed an advertising agency contract with TikTok For Business in December 2021. It is expected that the full-scale launch of TikTok marketing support business will contribute to further growth going forward.

(2) Crossbound Business

In the Crossbound Business, net sales increased 167.2% YoY to ¥2,974mn. In line with the positive growth of the Chinese economy, the Company continued to concentrate on outbound demand and achieved solid business growth, thereby securing net sales. Meanwhile, in newly developed services for cross-border EC platforms, the number of dealers and brands grew rapidly, making a significant contribution to sales results.

Results trends

As a new initiative, 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 feedback 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 personas 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.

(3) DaaS Business

In DaaS Business, net sales decreased 7.1% YoY to ¥1,707mn. Looking at the results of 4Q alone, sales increased compared to the same period of the previous fiscal year due to the progress made on price revisions for major clients. This led to a ¥45mn increase in sales in FY12/21 4Q compared to FY12/21 3Q. However, net sales for the full fiscal year decreased YoY due to the fact that one SNS data access rights contract was not renewed. It is understood that the non-renewal of the contract was mainly due to geopolitical issues. The Company's U.S. subsidiary Effyis is continuing to maintain positive relations with media companies possessing social big data throughout the world, and is aiming to provide stable data and steadily acquire data access rights contracts from new types of media. It intends to ensure profitability by continuing to conduct negotiations over price revisions on an individual basis as needed.

3. Financial position and financial indicators

Looking at the financial position at the end of FY12/21, total assets increased ¥1,546mn from the end of the previous fiscal year to ¥7,314mn. In terms of the main changes, in current assets, cash and cash equivalents increased ¥531mn due to factors including the rise in net sales, while inventories increased ¥131mn. This is mainly due to the increase in products to be delivered to social buyers on cross-border EC platforms. The retention of the products by the Company is temporary and there is no inventory risk, so we at FISCO have determined that there are no problems with the nature of its assets. In non-current assets, other financial assets increased ¥832mn due to factors such as a ¥114mn investment in a new blockchain fund and ¥621mn in gain on valuation of securities related to this investment, while goodwill increased ¥162mn due to foreign currency translation adjustments.

Total liabilities increased ¥387mn compared the end of the previous fiscal year to ¥3,183mn. In non-current liabilities, borrowings increased ¥254mn. The contents of the borrowings were costs associated with business development in the SNS Marketing Support Business. Moreover, total equity increased ¥1,159mn compared to the end of the previous fiscal year to ¥4,131mn. This was mainly due to a ¥764mn increase in retained earnings, as well as a ¥145mn combined increase in equity and capital surplus due to pay-ins accompanying the exercise of stock options.

Results trends

Looking at management indicators, the ratio of equity attributable to owners of parent, which indicates stability of management, increased from 48.4% at the end of the previous fiscal year to 52.9%, showing an improvement. The interest-bearing debt ratio declined from 30.5% to 28.4%. We at FISCO think that there is minimal financial concern in the near term because the Company can expect profits to accumulate going forward while profitability improves.

Consolidated balance sheet and management indicators

	(¥mn)				
	FY12/18-end	FY12/19-end	FY12/20-end	FY12/21-end	Change
Current assets	2,441	2,328	2,710	3,444	733
(Cash and cash equivalents)	1,976	1,700	2,067	2,598	531
Non-current assets	3,374	3,056	3,057	3,870	812
(Goodwill)	1,871	1,071	1,367	1,530	162
Total assets	5,815	5,385	5,767	7,314	1,546
Total liabilities	1,176	2,332	2,795	3,183	387
(Interest-bearing debt)	364	616	851	1,097	246
Total equity	4,638	3,053	2,972	4,131	1,159
(Total equity attributable to owners of parent)	4,614	2,825	2,793	3,866	1,072
[Stability]					
Ratio of equity attributable to owners of parent	79.4%	52.5%	48.4%	52.9%	4.5pt
Interest-bearing debt ratio	7.9%	21.8%	30.5%	28.4%	-2.1pt

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

■ Outlook

Investment in blockchain business while continuing to heighten the appeal of the SNS Marketing Support Business and the Crossbound Business. High certainty of achieving the FY12/22 results forecast

1. FY12/22 consolidated results outlook

For the FY12/22 outlook, the Company is forecasting net sales of ¥7,976mn (+21.4% YoY), operating profit of ¥161mn (-54.8%), profit before tax of ¥140mn (-86.8%), net profit of ¥116mn (-85.6%), and profit attributable to owners of parent of ¥99mn (-87.0%). Due to active investments aimed at achieving medium-term targets, operating profit is forecast to fall below the previous year, but this will be temporary. The SNS Marketing Support Business and the Crossbound Business have been growing rapidly, while the net sales forecast has been set conservatively considering the impact from the COVID-19 pandemic. For this reason, we at FISCO, 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.

Outlook

FY12/22 consolidated results outlook

	FY12/21		FY12/22			
	Results	% of sales	Forecast	% of sales	Change	YoY
Net sales	6,571	-	7,976	-	1,404	21.4%
Operating profit	355	5.4%	161	2.0%	-194	-54.8%
Profit before tax	1,059	16.1%	140	1.8%	-919	-86.8%
Net profit	808	12.3%	116	1.5%	-692	-85.6%
Profit attributable to owners of parent	764	11.6%	99	1.2%	-665	-87.0%

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

In the SNS Marketing Support Business, the Company has conservatively set a net sales forecast considering the impact from the COVID-19 pandemic. However, demand for marketing using SNS is expected to expand in the future as well. For the Company, which is steadily bolstering its presence in the industry by, for instance, increasing business with large companies, this will provide a tailwind, and sales are expected to grow favorably going forward. The Company will also newly establish a TikTok service team and provide consulting services matched to the products of client companies that utilize its strengths in order to expand the media which it supports. It is expected that these efforts will be accompanied by an increase in the scale of target customers, so the Company plans to enhance its systems to handle increased orders, and forecasts that its sales operation division system will increase 2.2 times in size compared to FY12/20. Although operating profit is forecast to temporarily decrease in conjunction with factors such as an increase to personnel costs, the Company has set medium-term sales and profit growth in its sights and aims to continue active investments.

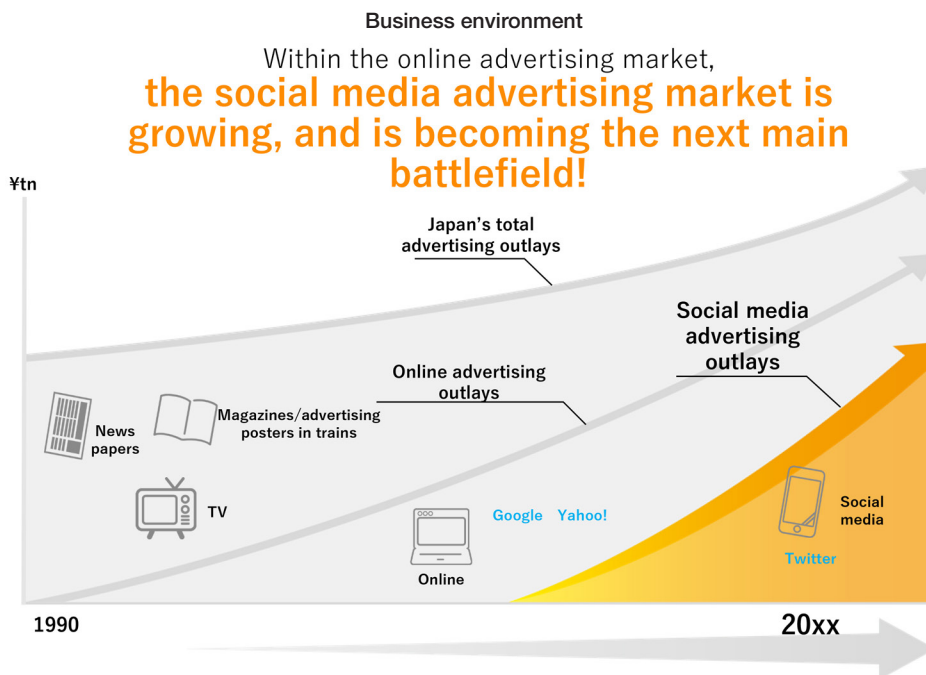
In addition, most recently, the Company has been enhancing its service lineup. In November 2021, it started to provide a new product launch package which will maximize anticipation for new products starting from SNS. In this service, analysis and research corresponding to each phase, including before and after the launch of the new product, is carried out by a team that includes data scientists. Through network analysis, cluster analysis, and in-depth social listening, the service will visualize the perspectives and targets of the plan, and analyze the perspectives through which the product is being discussed. This service will translate the contents of that analysis into policies to drum up anticipation of the product toward the sales launch and plans that ensure the product continues to be a hot topic once it goes on sale. It will also tackle various creative aspects such as illustrated comics, videos and live broadcasts in order to maximize the effectiveness of the plan. When employing influencers, the Company uses its proprietary method of "data-evidenced casting" centered on data analysis to identify influencer candidates with a high affinity to a company's brand, and then implements casting with a high probability of success. Delivering products to consumers with precision throughout advertisements will generate a high degree of awareness through the arising UGC. This leads to products which offer high hopes of effective promotion utilizing the Company's strengths of SNS big data analysis and know-how about creating UGC.

Regarding the Crossbound Business, the Company will aim to expand the scope of its business even further, and redirect its mainstay services. Up until now, promotion support had been the main business, while cross-border EC platform business occupied a position similar to a side business. However, the Company will significantly expand cross-border platforms in FY12/22. Because this business has a low gross profit margin in comparison to promotion support services, the overall gross profit margin will decrease in the short term. Nevertheless, the Company has set medium-term sales and profit growth in its sights and aims to enhance its structure.

Outlook

2. Favorable business environment

It has been said that the online advertising market in Japan is growing at a double-digit annual pace, and the number of companies putting further emphasis on this market is on the rise due to the COVID-19 pandemic. For companies placing ads, it is easy to distribute the ads to the target segment being pursued and it is possible to digitally visualize cost-effectiveness. As a result of these and other factors, the number of companies using this as a promotional 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 spontaneously amplify the spread of information and thereby achieve promotional benefits with high cost-effectiveness. This aspect is boosting interest in social media advertisements.



Source: The Company's financial results supplementary materials

Amid this kind of market expansion, 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, which has become a big strength of the Company under the platform service 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 main factor behind the stabilization of the Company's market share as well as avoidance of 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 this business in particular to take center stage.

3. Investments in blockchain business

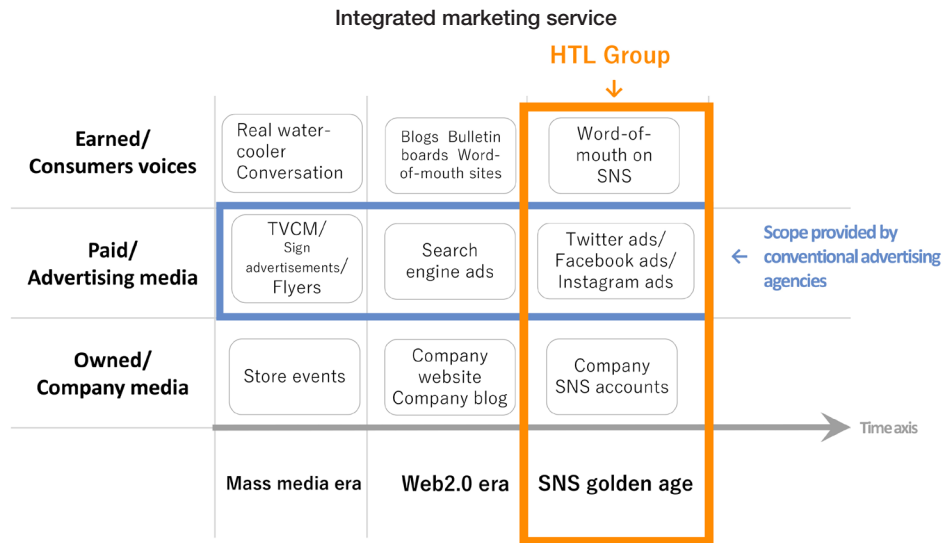
During FY12/22, the Company plans to launch a blockchain business. The plan is to begin with an investment business and establish a new segment within the fiscal year. In line with this, the Company states that it is considering recording gain or loss on valuation of investments in blockchain, which is currently recorded as gain on valuation of securities, as operating profit. However, as gain or loss on valuation of investments in blockchain is difficult to forecast, it is being excluded from the current results forecast. Having said that, when considering the ¥621mn in gain on valuation of securities and investment in a business that will grow over the medium- to long-term, we at FISCO see this as the main factor that will lead to an upturn in results from FY12/22 onward.

■ 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 three types: “owned media” owned by the Company, “paid media” 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, while 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 companies, cost-effectiveness depends on how the information can be disseminated to the most appropriate users and spread most effectively. Leveraging the 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 it systematically organized based on SNS. 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.

Medium- to long-term growth strategy

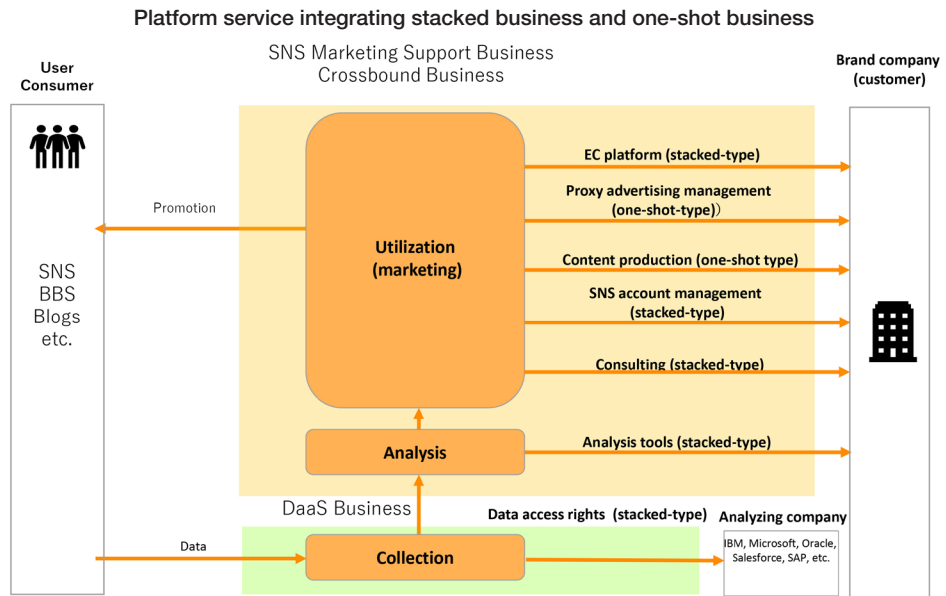


Source: The Company's results briefing materials

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 utilization of big data, which 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 boost 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 that were difficult to approach in the past will also gradually increase going forward.

Medium- to long-term growth strategy



Source: The Company's financial results supplementary materials



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