

PIALA Inc.

7044

TSE Mothers

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FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

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Summary

Fast-growing provider of marketing assistance services with KPI commitments focused on beauty & health and food markets

PIALA Inc. <7044> (hereinafter referred to as “the Company”) is a “marketing commitment company” that guarantees KPIs, ranging from new customer acquisition to customer cultivation, to its clients operating EC sites and maximizes marketing effect with focus on beauty & health (B&H) and food markets. It has been sustaining growth through creation of hit products that use digital marketing measures optimized with accumulated big data and unique knowhow together with real marketing measures and establishment of win-win relationships with customers. The Company was founded in 2004 and listed its shares on the TSE Mothers Market in December 2018.

1. 1H FY12/19 results

The Company reported 1H FY12/19 (Jan –Jun 2019) consolidated results with ¥6,279mn in net sales and ¥162mn in operating profit. While a YoY comparison is not available, these were upbeat results with net sales and gross profit setting all-time highs on a half-year basis and net sales and operating profit beating initial forecast by 3.1% and 44.8%, respectively. Hits with supplement and cleansing products it handles led sales growth. Operating profit overshot initial forecast mainly on lower hiring and educational costs, advertising and promotional costs, and work outsourcing costs than budgeted. The Company announced a strategic business alliance with NTP Corporation, the official Japanese distribution agent for Chinese media NetEase News, in May 2019 and started selling Japanese products through Kaola.com, a major Chinese cross-border EC mall operator, in August 2019.

2. FY12/19 outlook

The Company forecasts for all-time high consolidated results in FY12/19 with net sales at ¥12,775mn (+20.7% YoY) and operating profit at ¥395mn (+24.0%), retaining its initial forecast. It expects upbeat sales to continue in 2H as well because of the tendency of mail-order product hits to sustain the hit trend for about three years in B&H and food markets and also factors in cross-border EC service expansion in China, Thailand, and other countries. In August 2019, the Company announced a business alliance with UDN SPORTS, which conducts management activities for professional athletes, and intends to assist in producing goods (developing and selling original products) and services (planning soccer classes, events, etc.).

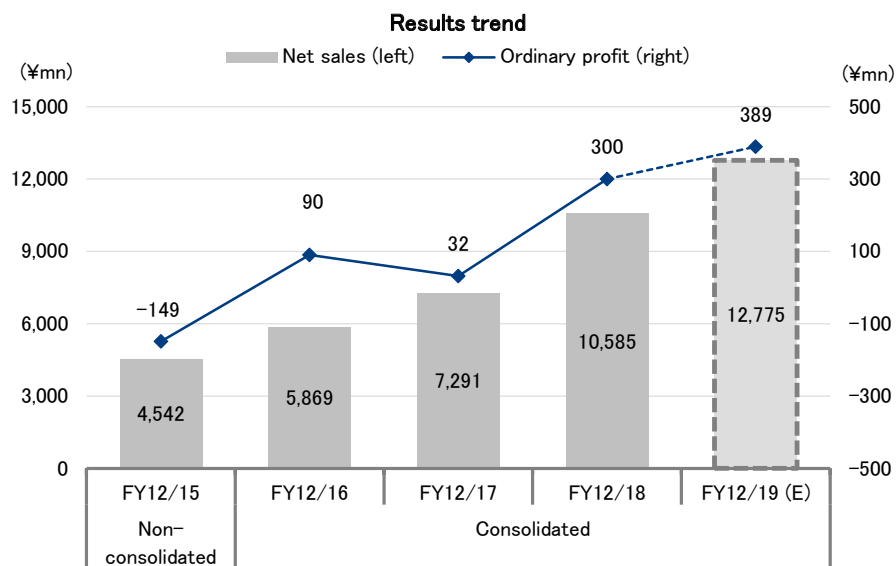
3. Growth strategy

As the growth strategy, the Company aims to expand KPI commitment business that uses big data and AI (customer volume increase x rise in average spending) with specialization in B&H and food markets that fit well with digital marketing, to promote global rollout mainly through cross-border EC (expanded operation of cross-border EC and promotion of marketing with KPI commitments mainly in the Asian region), and to create new businesses utilizing unique data and marketing tech (healthtech-related business). The Company expects continued stable growth in B&H and food areas that it targets and hopes to expand sales at a pace of at least 20% a year through sustained delivery of hit products based on KPI commitments, a unique service, in marketing assistance for mail-order and EC companies. It also plans to promote BEATMAKER as a new service to accelerate growth in KPI commitment services. This service targets higher transaction value to fuel growth by creating successful products via assistance at the customer product development stage in the B&H area.

Summary

Key Points

- Marketing assistance company that specializes in beauty & health (B&H) and food industries and provides unique KPI commitment services with a performance guarantee
- FY12/19 results likely to exceed its forecast on upbeat KPI commitment services and improved productivity
- Aims for at least 20% annual growth by strengthening KPI commitment services, promoting global rollout led by cross-border EC assistance, and creating new businesses



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

Company overview

Marketing assistance company that specializes in B&H and food industries and provides unique KPI commitment services with a performance guarantee

1. History

The Company traces its roots to the establishment of PIALA Inc. with ¥1mn in capital by Takao Asuka, the current CEO, in 2004. Mr. Asuka had been running the marketing division at major foreign-capital apparel firm Triumph International (Japan) Ltd. before he founded Piala. He is a strongly independent person and wanted to launch his own apparel company. This led to establishment of the Company with three friends from his school years (all founding members are still active at the Company).

Company overview

The Company initially began with a business model of enclosing ad flyers in paper catalogs based on experience from previous job years. It started Web marketing services in 2008. These include current RESULT EC (EC cart system) and RESULT PLUS (affiliate ASP). The Company only outsourced development of the first version of RESULT PLUS service and has developed all subsequent platforms, including RESULT EC and RESULT MASTER, a marketing automation tool equipped with AI (developed in 2012), on its own.

In the rollout of digital marketing assistance services, the Company introduced KPI commitment service that acquires performance income by giving clients its solution at no charge and committing to results (new customer acquisitions, repeat order acquisitions, etc.) for clients as a way of differentiating itself from the many companies developing and providing these solutions. The Company boosted its reputation with client companies and moved onto a growth trajectory thanks to steadily delivering results, such as selling out products that clients normally sold over a year in three months and fostering hit products.

The Company's business specializes in mail-order companies in B&H and food areas that exhibit high affinity with SNS and other digital media as customer targets. It is also focusing on face-to-face marketing that delivers robust cost performance in these areas and designated roughly 20,000 post offices nationwide as advertising agents to handle demonstration sales, concern consultations, and other activities in September 2018.

In apparel business, which was one of the founding aims, the Company ramped up the Marblee brand in 2009, but sold this brand and exited apparel in 2016. It has been expanding business since then through specialization in marketing assistance. PIALA Holding Limited acquired all Company shares in 2012, making a shift to a holding company framework with PIALA Holding Limited as the parent company. Management took this action with the aim of listing its shares on the Hong Kong market because of poor conditions in the Japanese stock market at the time and did not involve any external capital. When Japan's market environment subsequently improved, the Company switched its policy to pursuing an IPO in Japan and hence eliminated the holding company format in 2014. It successfully listed on the TSE Mothers Market in December 2018.

History

Date	Event
March 2004	Established PIALA Inc. to handle advertising agent business and production business (changed the organization to a stockholding company (kabushiki kaisha) in 2005)
September 2008	Started provision of EC system "JOY EC" (now, "RESULT EC") Started provision of closed affiliate ASP "RESULT PLUS"
October 2009	Started an apparel division in the brand business
April 2010	Started Chinese market entry assistance business
September 2010	Established Marblee Japan Inc.
February 2012	PIALA Holding Limited acquired all Company shares in 2012, making a shift to a holding company framework with PIALA Holding Limited as the parent company
September 2012	Started provision of AI-embedded marketing tool "JOY MASTER" (now, "RESULT MASTER")
November 2012	Established consolidated subsidiary PIATEC (Thailand) Co., Ltd. in Thailand
January 2013	Absorbed Marblee Japan Inc.
March 2013	Established consolidated subsidiary PG-Trading (HangZhou) Co., Ltd. in China
July 2014	Established consolidated subsidiary PIALab. Inc. in Okinawa
August 2014	Dissolved the holding company framework under PIALA Holding Limited Acquired patents related to unique features "contribution level analysis using attribution scores" and "LTV analysts, etc. for each advertising promotion" in attribution analysis tool "RESULT MASTER"
September 2016	Sold the Marblee apparel brand business operated by Piala
December 2018	Listed shares on the TSE Mothers Market
May 2019	Concluded a strategic business alliance in beauty & health (B&H) and food areas with NTP Corporation, the official Japanese distributor of NetEase News, a media business of major Chinese Internet services firm NetEase, Inc.
July 2019	Established subsidiary PG-Trading (Taiwan) Co., Ltd. in Taiwan
August 2019	Established subsidiary CHANNEL J (THAILAND) Co., Ltd. in Thailand

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

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2. Group framework and business content

(1) Subsidiaries

The Company and five consolidated subsidiaries handle its businesses. Subsidiary PIALab. Inc., which researches marketing automation, data, and contents and develops applications in Okinawa, opened the Tokushima Omotenashi Research Center as a Tokushima branch office in May 2018 and has ramped up call center activities (about 65 employees including part-time workers) at this site. It aims to develop new “Omotenashi Service” that utilizes people and technology while broadening scope to chat, mail magazines, and other areas. The Company had been outsourcing call-center operations previously (eight locations, 20 sites), but plans to implement some internally.

PIATEC (Thailand) Co., Ltd. handles system development and production activities, offers Thailand market entry assistance, and operates Japanese food portal video media Channel J. Additionally, PG-Trading (HangZhou) Co., Ltd. covers marketing planning, production, design, and advertising operation, and other activities using major EC sites (Tmall/Taobao, etc.), major SNS (WeChat, Weibo, etc.), and other channels.

Overview of consolidated subsidiaries

	Investment stake	Business description
PIALab. Inc.	100.0%	System development and call center operation, maintenance, and management activities
PIATEC (Thailand) Co., Ltd.	99.0%	IT and production activities, Thailand market entry assistance, and Japanese food portal video media Channel J operation, etc.
PG-Trading (HangZhou) Co., Ltd.	100.0%	Marketing planning, production, design, and advertising operation

Source: Prepared by FISCO from the Company’s securities report

(2) Business description

The Company’s Group promotes EC Transformation* with a vision of “Smart Marketing for Your Life” and a corporate motto of “all actions create a WIN world.” With a mission of creating value by bringing customers into contact with better products to help them enjoy the purchasing activity itself and by maximizing customer satisfaction, the Company provides marketing assistance services that range from new customer acquisition to customer cultivation for clients operating EC sites focused on B&H and food markets.

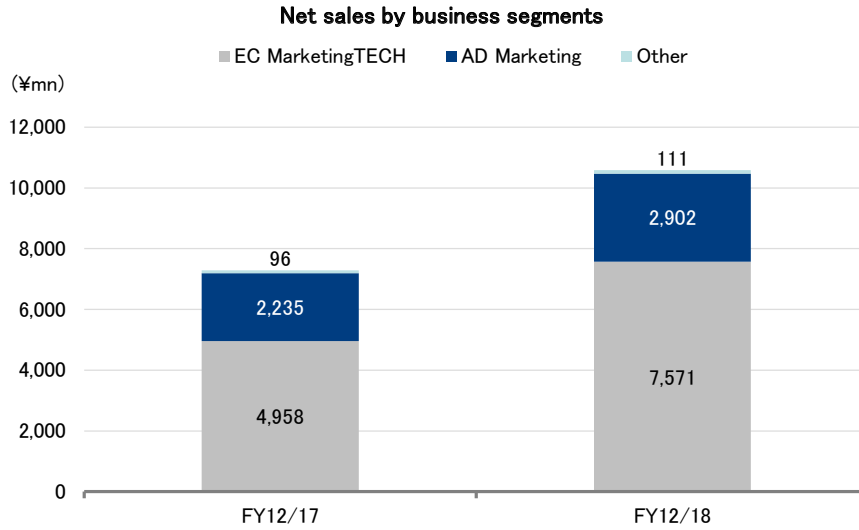
* This term is a redefined version of “digital transformation,” the concept of IT inroads changing people’s lives in a positive direction in all respects, applied to the Company’s Group business foundation. The EC environment has dramatically progressed over the past few years, including changes in purchasing behavior and communications due to wider smartphone use, SNS utilization, advances in ad technology, and ability to utilize major shopping mall IDs on self-run EC sites. Meanwhile, responses to these changes in the EC environment require corresponding costs and knowledge. EC Transformation strives to build more favorable relationships with consumers through selection of optimal solutions, improved efficiency in comprehensive marketing activities, and enhanced engagement that supports realization of corporate goals that respond to the new environment.

The Company’s services consist of EC MarketingTECH* and AD Marketing segments, and EC MarketingTECH is the primary service area at 71.5% of overall sales in FY12/18. These businesses focus on B&H and food industries because of the prospect of stable growth in these markets, driven by heightened interest in health and beauty, including anti-aging measures and preventive medicines, as the senior population continues to expand for the time being, in contrast to the downward trend in Japan’s overall population. Furthermore, B&H and food markets fit well with digital marketing. The Company hence believes it can deliver marketing assistance with higher cost performance than rivals by utilizing its expert knowhow accumulated up to now along with big data analysis and AI technology.

* This term combines marketing and technology. It refers to optimization of marketing with technology and also technologies that make this possible, including MA tools, EC cart systems, and other solutions as well as DMP (refer to page 6) and AI.

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Company overview



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

a) EC MarketingTECH

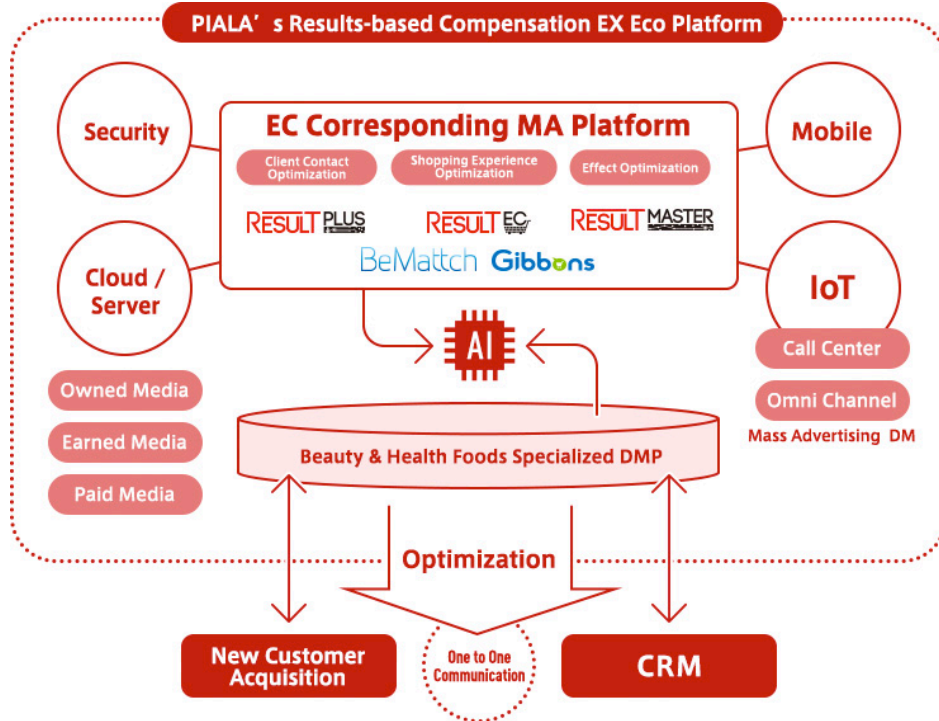
EC MarketingTECH provides KPI commitment services using the Company's self-developed RESULT series for mail-order companies in B&H and food areas. Clients, the Company, or both sides utilize the DMP* (preference information, attributes, etc. from past cases) that accumulates data by user concerns in B&H and food areas, based on knowhow from cumulative marketing assistance for over 600 companies and proprietary data collection, and the RESULT series, mainly RESULT MASTER equipped with AI functionality. Roughly 80% of new clients are introductions from advertising agencies and others.

* DMP (Data Management Platform): This is a platform that manages a variety of information data accumulated online. The DMP enables segmentation of gathered information and supports one-to-one marketing tailored to individual customers.

The advantage of data accumulation by user concerns is the ability to offer marketing measures that are most suited to individual customer products using AI because it not only acquires and manages data in real time on characteristics of selected products from data collected by social media, but also adds tags to specific concerns of users, such as "blotches" and "wrinkles."

Company overview

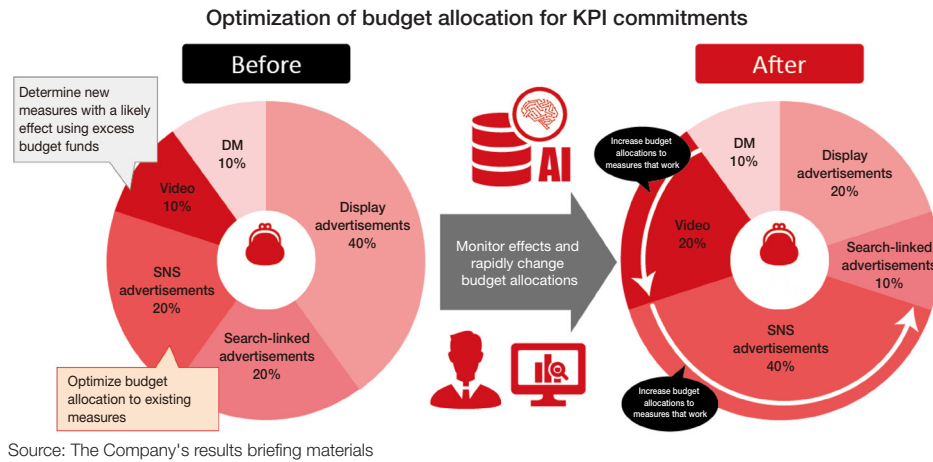
Marketing platform with KPI commitments



Source: The Company's results briefing materials

KPI commitment, meanwhile, refers to the Company's guarantee of a "new customer acquisition unit price" incurred to acquire new customer purchases of client products. For example, after initially negotiating with the client and setting a "new customer acquisition unit price," which serves as the KPI, the Company decides the advertising method, such as targeted media (portal sites, social media, YouTube and other video media, etc.), affiliates, and display ads, based on marketing budget allocation optimized using information from RESULT MASTER and knowhow accumulated on its own (including assessments by people), and places advertisements. The advertising method incorporates new technologies and methods for 10-20% because the Company believes it is important to accumulate data on all advertising methods (recently video ads in which Vtubers introduce products via real images have been eliciting a larger response). When new customers purchase client products as a result of these marketing measures, the Company receives performance compensation calculated as "number of new buyers x new customer acquisition unit price" and books this amount as revenue. The rate plan begins at a minimum of ¥500,000 per deal. While the Company also offers a variety of other KPI besides new customer acquisition, such as subscription purchase plan sign-ups and dormant customer buying restarts, roughly 90% of its current business utilizes new customer acquisition as the KPI.

Company overview



From the client perspective, cost performance is confirmed ahead of time because the client only pays a certain predetermined amount for acquisition of a single new customer. Ordinary marketing assistance services decide on a promotion budget and carry out advertising within this framework. Results hence do not attain initial goals in some cases. Cost performance declines if this happens. In KPI commitment service, clients avoid this risk because payments are tied to results. The format therefore is very accessible to clients as well.

Advertising placement fees for various media comprise the bulk of Company costs and are booked as unit costs. Main media include Google, Yahoo!, LINE, and Facebook. While Yahoo! was at roughly 40% of advertising costs through FY12/18, its share has dropped substantially since December 2018 due to restrictions applied to advertising in the B&H area. Additionally, profit margin fluctuates at the level of individual promotion deals (gross margin ranges from 3% to 30%) because of variation in required costs in the performance-based revenue model. While this runs the risk of hurting profitability, the Company implements measures to mitigate business risk, such as “not guaranteeing the number of customer acquisitions” in KPI commitments and installing a cost-cutting tool for cases in which initially anticipated marketing results have not materialized (when cumulative loss value exceeds a certain level in cases without results after a defined period, etc.) that automatically halts activities. Even when the cost-cutting tool is triggered, the Company retains its trust relationship with the subject client and pursues promotions again using a different product.

b) AD Marketing

AD Marketing covers marketing assistance services that do not use the RESULT series. This business provides EC assistance by proposing diverse and optimal media and methods ranging from conventional media to regional papers, area-specific magazines, and other niche media that address issues in the direct marketing efforts of clients. Furthermore, the Company offers unique media with advertising slots that the Company exclusively covers, sells advertising slots, handles telemarketing, DM, real events, Web videos, and buzz marketing, and also assists in entry into China and other overseas markets (Web marketing, site production, SNS operation, sales promotions, etc.).

The model applied to income from clients in this business charges fixed-value compensation (fees) unrelated to assistance service results. Recently, however, the Company has reached a stage of shifting to KPI commitment service that charges compensation according to results with KPIs based on client issues and budgets.

Results trends

Booked all-time high sales and gross profit in 1H FY12/19

1. Overview of 1H FY12/19 results

The Company reported 1H FY12/19 consolidated results with ¥6,279mn in net sales, ¥162mn in operating profit, ¥163mn in ordinary profit, and ¥117mn in profit attributable to owners of parent. While a YoY comparison is not available, these were upbeat results with net sales and gross profit setting all-time highs on a half-year basis and net sales and operating profit beating initial forecast by 3.1% and 44.8%, respectively. Operating profit overshot mainly on increased sales and lower hiring and educational costs, advertising and promotional costs, and work outsourcing costs than budgeted thanks to personnel efficiency enhancement efforts. The Company posted just under ¥100mn in costs related to the headquarters move and space addition in May 2019 as SG&A expenses. Its new location can accommodate up to 220 employees. With 118 employees in parent operations at the end of 1H (vs. 105 employees at the end of FY12/18), the Company has prepared an office environment to handle additional people.

1H FY12/19 results (consolidated)

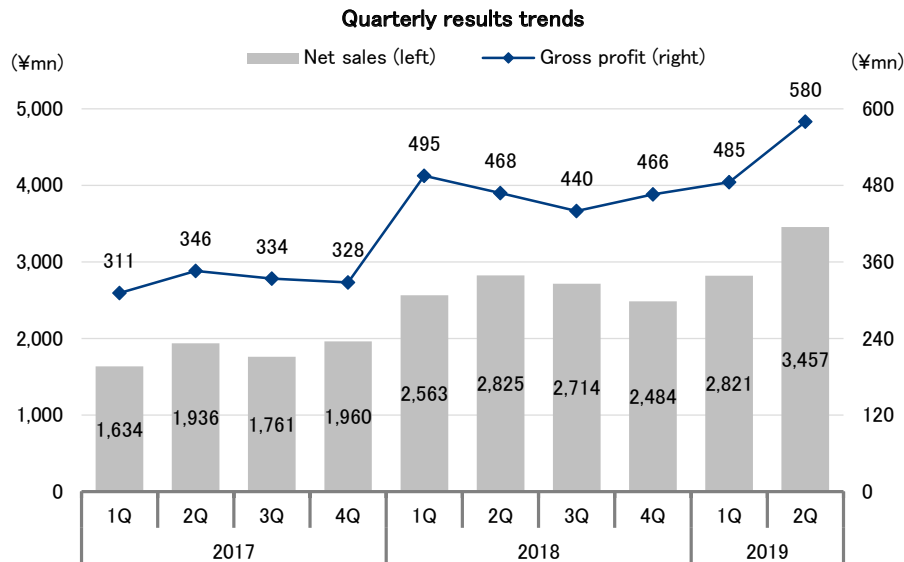
(million yen)

	1H FY12/19 results				
	Initial forecast	% of net sales	Results	% of net sales	vs. forecast
Net sales	6,093	100.0%	6,279	100.0%	3.1%
Gross profit	-	-	1,065	17.0%	-
SG&A expenses	-	-	903	14.4%	-
Operating profit	112	1.8%	162	2.6%	44.8%
Ordinary profit	109	1.8%	163	2.6%	50.0%
Profit	78	1.3%	117	1.9%	50.5%

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

Looking at quarterly net sales and gross profit trends, 2Q (Apr-Jun 2019) growth rates accelerated versus 1Q levels to +22% YoY to ¥3,457mn in net sales and +24% to ¥580mn in gross profit. Strong sales gains by multiple products and higher performance income in KPI commitment services led 2Q momentum. Products with large contributions were Regain Triple Force, a supplement from mail-order sales operator and Daiichi Sankyo <4658> group firm Im Co., Ltd. that mainly handles cosmetics and health foods, with a 199% increase from 1Q, Company A's cleansing product with a 481% gain, and mail-order sales major Dinos Cecile Co., Ltd.'s cosmetics product imini repair serum with a 42% gain. Average sales per company improved by just under 20% YoY to slightly above ¥500,000 thanks to having multiple hit products. The Company expects upbeat sales to continue in 2H as well because of the tendency of mail-order product hits to sustain the hit trend for about three years in B&H and food markets.

Results trends



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

FY12/19 results likely to exceed its forecast on upbeat KPI commitment services and improved productivity

2. FY12/19 outlook

The Company forecasts for all-time high results in FY12/19 with net sales at ¥12,775mn (+20.7% YoY), operating profit at ¥395mn (+24.0%), ordinary profit at ¥389mn (+29.4%), and profit attributable to owners of parent at ¥273mn (+42.0%). While management retained initial forecast, we think profits are likely to beat these targets because of much stronger profits than planned through 1H and further promotion of human resource efficiency in 2H.

In net sales, the Company forecasts a 21% YoY increase in EC MarketingTECH that reflects upbeat inquiries for KPI commitment services. It has been receiving a high volume of promotion requests (more than a few tens of customers) because of significant benefits for customers from its unique marketing assistance services with KPI commitments, as explained above. The Company does not accept orders for all deals in order to limit the percentage of new deals out of total deals to a certain level from a business risk perspective. It selects deals that appear likely to receive a healthy sales increase effect through its measures from candidate opportunities and adopts these ones as new deals. Furthermore, products that succeeded as hits in 1H should continue to contribute income in 2H. We think the Company is capable of attaining the sales target in this business.

The Company also projects sales growth exceeding 20% in AD Marketing. It is strengthening real promotion efforts at post offices and other locations and expects growth in cross-border EC assistance business in Thailand and Vietnam and marketing assistance services via Kaola.com, the largest Chinese cross-border EC mall, launched in August 2019.

Results trends

Furthermore, the Company has opportunities with BEATMAKER, a new service that handles product development activities announced in July 2019, including a business alliance with a sports-related company. Specifically, in August 2019, it announced a business alliance with UDN SPORTS, which conducts management activities for professional athletes, and intends to assist in producing goods (developing and selling original products) and services (planning soccer classes, events, etc.). It already completed development of some products and is currently at a stage of waiting for sales to begin.

FY12/19 outlook (consolidated)

	FY12/17		FY12/18		FY12/19		1H progress rates
	Results	% of net sales	Results	% of net sales	Forecast	% of net sales	
Net sales	7,291	100.0%	10,585	100.0%	12,775	100.0%	49.2%
Gross profit	1,310	18.0%	1,869	17.7%	2,379	18.6%	44.8%
SG&A expenses	1,279	17.5%	1,544	14.6%	1,984	15.5%	45.5%
Operating profit	31	0.4%	324	3.1%	395	3.1%	41.1%
Ordinary profit	32	0.4%	300	2.8%	389	3.0%	42.0%
Profit attributable to owners of parent	19	0.3%	192	1.7%	273	2.1%	43.0%

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

Stable financial conditions with the capital ratio in the 45% range, reached positive retained profit too

3. Financial condition

In financial conditions, the Company reported ¥3,651mn in total assets, an increase of ¥538mn from the end of FY12/18, at the end of 1H FY12/19. Main changes in current assets were an increase of ¥663mn in trade receivables accompanying business expansion and a decline of ¥325mn in cash and deposits. Non-current assets changes included increases of ¥79mn in property, plant and equipment related to the headquarters move and space addition and ¥144mn in investments and other assets from purchase of investment securities.

Total liabilities rose by ¥413mn from the end of FY12/18 to ¥1,981mn, including additions of ¥373mn accounts payable - trade related to business expansion and ¥139mn in interest-bearing debt due to higher costs related to the headquarters move and space addition. Net assets increased by ¥125mn to ¥1,669mn, mainly on a ¥117mn increase in profit attributable to owners of parent. Retained earnings reached positive territory, albeit just slightly at ¥10mn.

In business indicators, while the interest-bearing debt ratio climbed from 29.6% at the end of FY12/18 to 35.7% due to an increase in interest-bearing debt, the capital ratio was at a stable level of 45.7% thanks to funds raised in the December 2018 IPO. Sales receivables turnover, meanwhile, lengthened from 1.37 months at the end of FY12/18 to 1.79 months. We think the large increase in sales since May was the main cause. Nevertheless, this level is not a concern with the recovery period still at less than two months.

Results trends

Consolidated balance sheet

	End-FY12/17	End-FY12/18	End-FY12/19 End-2Q	Change
(¥mn)				
Current assets	1,418	2,733	3,064	330
(Cash and deposits)	444	1,444	1,119	-325
(Trade receivables)	837	1,210	1,873	663
Non-current assets	211	379	587	208
Property, plant and equipment	26	22	102	79
Intangible assets	95	138	122	-16
Investments and other assets	89	218	362	144
Total assets	1,629	3,112	3,651	538
Current liabilities	1,120	1,394	1,794	399
Non-current liabilities	144	174	187	13
Total liabilities	1,264	1,568	1,981	413
(Interest-bearing debt)	309	456	596	139
Total net assets	364	1,544	1,669	125
(Retained earnings)	-298	-106	10	117
Management indicators				
(Stability)				
Current ratio	126.5%	196.1%	170.8%	
Shareholder equity ratio	22.3%	49.6%	45.7%	
Interest-bearing debt ratio	85.1%	29.6%	35.7%	
Sales receivables turnover (months)	1.38	1.37	1.79	

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

Main initiatives

Aims for at least 20% annual growth by strengthening KPI commitment services, promoting global rollout led by cross-border EC assistance, and creating new businesses

1. Market environment

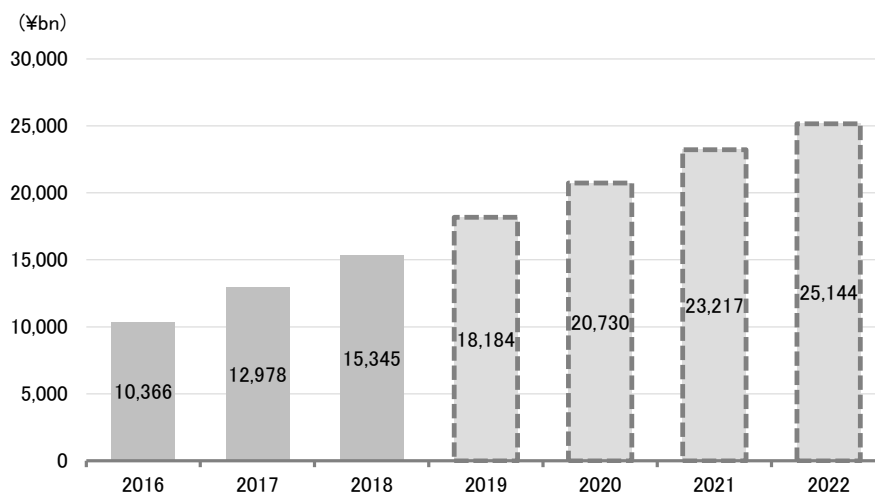
Mail-order and EC market value in B&H and food industry areas targeted by the Company grew from ¥2.1trn in 2018 to ¥2.2trn in 2019 and is likely to sustain stable growth in the single-digit range annually against a backdrop of increasing potential customer volume due to aging society advances, growing awareness of health, and widening engagement of women in society. This trend hence supports an outlook for expansion of marketing costs invested by mail-order and EC companies in line with market growth. In particular, the number of companies putting emphasis on digital marketing measures has risen over the past few years amid EC market expansion and we expect continuation of double-digit growth in the digital marketing segment.

Healthcare industry outlooks indicate rapid expansion in the domestic market from ¥16trn in 2013 to ¥26trn in 2020 and ¥37trn in 2030 as markets for preventive care, health management services, and other areas steadily progress alongside aging society advances. These conditions should increase business opportunities for the Company as a supplier of marketing assistance to health food companies and sports gym operators and other health-related services companies.

Main initiatives

Furthermore, the global cross-border EC market also continues to expand with support from globalization progress and economic growth in developing countries. China, a highly advanced EC society and the largest source of demand, reached \$939.4bn in Internet retail market value in 2016, giving it a massive market that is well above the second-place US at \$571.6bn and amounts to roughly 40% of the entire world. Cross-border EC merchandising value from Japan to China grew from ¥1.0trn in 2016 to ¥1.5trn in 2018 and is expected to climb to ¥2.5trn in 2022, a robust 13.1% average annual growth rate in the next four years. We believe this area offers an attractive market to the Company too.

Cross-border EC merchandising value from Japan to China



Source: Prepared by FISCO from METI's "Market Survey on EC Transactions" (May 2019)

2. Growth strategy

The Company aims to achieve sales growth of over 20% a year by focusing on the following three areas.

(1) Reinforcing recurring solutions with KPI commitments that utilize data and AI

The Company hopes to continue "customer volume increase x rise in average spending" and realize accelerated growth through provision of highly effective marketing assistance service using data analysis and AI with a unique business model that commits to KPIs and accumulated hit product creation.

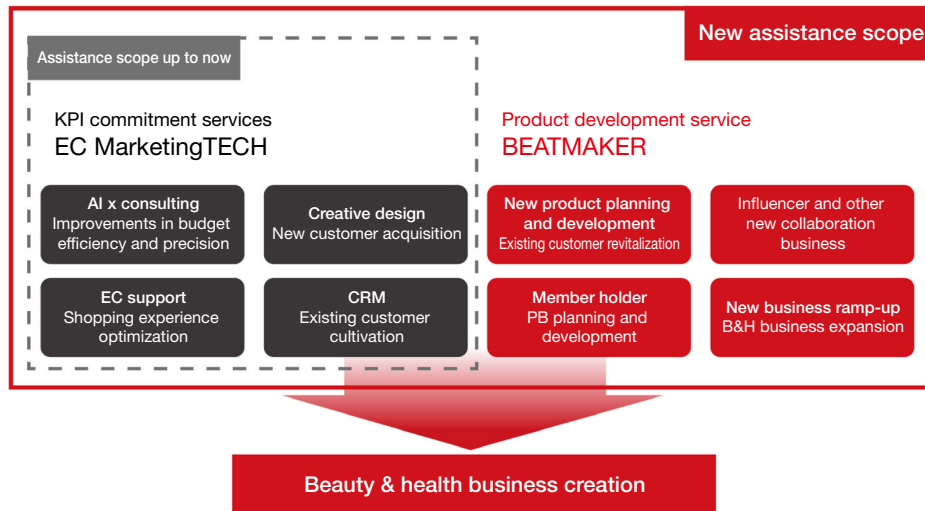
a) Broadening BEATMAKER service scope

The Company intends to focus on BEATMAKER as a new service that accelerates growth in KPI commitment services. This service supports customers in the B&H field from the product development stage and develops products that sell. Properly understanding and utilizing consumer concerns and other issues in product development is the most important aspect of developing B&H products. The Company collects large amounts of data through the RESULT series and already applies it to marketing measures. Through application of this knowhow to product development, it aims to raise the hit rate even further from the existing 15-20% level. Customer targets range broadly from existing B&H mail-order sales and EC companies to companies with a member base and companies interested in launching new B&H businesses. Previously mentioned UDN SPORTS is an example.

Main initiatives

The Company experimentally started BEATMAKER service a year and a half ago and has steadily built business operations, including development of manufacturing consignment sites. It currently has 4-5 customers and will be starting sales within the year. The business model seeks profits through KPI commitment services and does not charge for product development activities. It positions product development activities as upfront investment because of the prospect of a higher hit rate than in existing business.

Expansion of KPI commitment business



Source: The Company's results briefing materials

b) Improved customer assistance through the business alliance with Brangista

The Company also announced a business alliance with Brangista Inc. <6176> in April 2019 and has started providing a variety of assistance services to boost customer sales. Specifically, it proposes and provides Brangista's EC Support Pro* to customers and seeks to expand product sales by broadening brand promotion effect beyond just direct EC sites to the three major malls (Rakuten, Amazon, and Yahoo!). Additionally, the Company intends to utilize Brangista's subsidiary in Taiwan to support necessary website production and EC consulting activities when its over 600 existing domestic customers enter the Taiwanese market, and hopes to expand customer volume with proposals of its own EC consulting services to Brangista customers.

* This is a one-stop service that covers design and production, consulting, Web promotion, and site operation for EC sites, including direct sites and the three major malls (Rakuten, Amazon, and Yahoo!). It has cumulative support results with 400 companies and over 1,000 sites.

c) Reinforcing "new real" business

In real marketing service, the Company has built a new sales methodology platform based on "real marketing x technology" and is working on development of a new purchasing experience with "real experience x data acquisition." Since 2018, it has been conducting demonstration sales of cosmetics, supplements, and other products at about 2,000 post offices and expanded location scope in light of positive results to major supermarkets, department stores, home centers, bathing facilities, and other sites (offered at 2,805 sites as of the end of June 2019). The marketing style of collecting data on consumer concerns (knee and lower back pain, etc.) with questionnaires and recruiting purchases by having people actually use products has done well. This is similar to the "insurance counter" style. The Company plans to utilize data obtained from questionnaires in devising measures for existing businesses and in developing healthcare-related business that it aims to pursue as new business.

Main initiatives

(2) Promoting globalization mainly driven by cross-border EC

The Company also intends to strengthen cross-border EC business efforts as a growth strategy. In addition to existing activities in Thailand, it started supplying Japanese products to Kaola.com, China's largest cross-border EC mall*, in August 2019 and is beginning cross-border EC business in Vietnam, Taiwan, and other countries. As products, it intends to sell items that address market trends in each country, such as cosmetics and foods (Japanese beef and seafood) scheduled for deregulation in Thailand, supplements in Vietnam, and quasi-drugs and functional foods in Taiwan. The Company plans to focus on selling high-end products in the food category and wants to raise the sales ratio of cross-border EC business to 10% within 1-2 years as the current goal. In Taiwan, it newly established a subsidiary to handle related operations (import consignment sales, logistics, customer support, advertising, etc.) accompanying expansion of cross-border EC business.

* Sales shares estimates by iiMedia Research, a Chinese research firm, put Kaola.com as the market leader at 25.8% and Tmall Global in second place at 21.9%.

(3) Creating new businesses with unique data and marketing tech

The Company aims to ramp up new healthtech-related business as a third pillar by utilizing accumulated data and knowhow. This initiative involves utilization of data accumulated from real marketing activities explained above. While it is unlikely to have much impact on income results for the time being, the Company intends to cultivate this business as a future pillar.

Three main pillars going forward

1. Reinforcing recurring solutions with KPI commitments that utilize data and AI

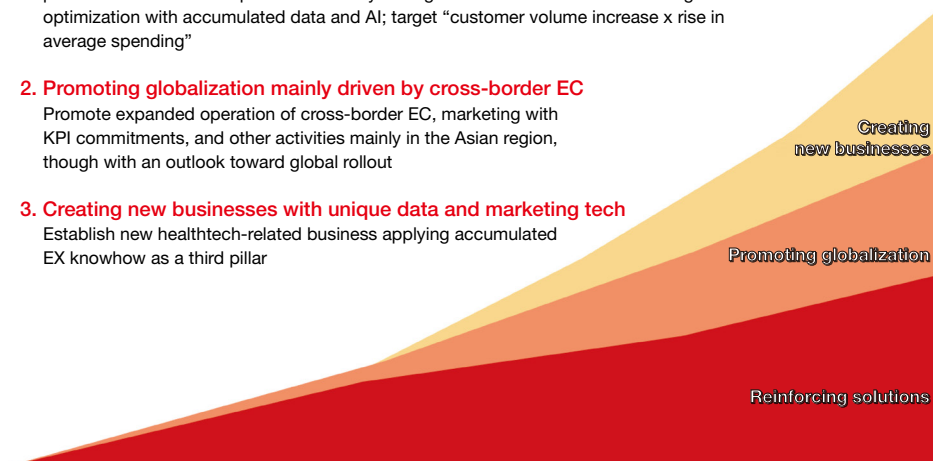
Promote growth by increasing customer volume through provision of solutions that use performance-based compensation and by raising client transaction volume through optimization with accumulated data and AI; target "customer volume increase x rise in average spending"

2. Promoting globalization mainly driven by cross-border EC

Promote expanded operation of cross-border EC, marketing with KPI commitments, and other activities mainly in the Asian region, though with an outlook toward global rollout

3. Creating new businesses with unique data and marketing tech

Establish new healthtech-related business applying accumulated EX knowhow as a third pillar



Source: The Company's results briefing materials

■ Shareholder return policy

Near-term priority on accumulating retained earnings and investing in growth

The Company's shareholder return policy fundamentally targets accumulation of retained earnings needed for future business initiatives and reinforcement of financial standing alongside sustained payment of stable dividends. At this point, however, the Company is still not paying dividends because it has almost no retained earnings and other funds available for dividends. It currently does not offer an outlook on the possibility of paying dividends and implementation timing. The Company intends to consider shareholder return measures while keeping a balance with retained earnings in light of a comprehensive assessment of profits trends, financial standing, business investment plans, and other aspects.



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■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: support@fisco.co.jp