

PIPED BITS Co., Ltd.3831 Tokyo Stock Exchange
First Section

28-May-15

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Noboru Terashima

■ Fulfilling the New Mid-term Management Plan by Delivering Solutions to Customers, Regions and Society as a Whole

PIPED BITS (3831) is a unique IT company that provides its proprietary product SPIRAL® (middleware) in cloud format. Not only does it provide this platform to mid- and large tier corporations, but also undertakes the sale of applications it develops itself aimed at specific industries (such as the beauty salon and construction industries).

In FY2/15, it showed significant year-on-year gains in both sales and earnings, but fell slightly below its initial plan targets. Sales were ¥3,173mn, (+26.1% YoY), operating profit was ¥625mn (+10.7% YoY), recurring profit was ¥634mn (+12.2% YoY) and net profit was ¥372mn (+8.7% YoY). In FY2/16, which is already underway, the Company expects to achieve record-high results for the second straight year. It is forecasting sales of ¥4,000mn (+26.0% YoY), operating profit of ¥820mn (+31.2% YoY), recurring profit of ¥820mn (+29.2% YoY) and net profit of ¥490mn (+31.6% YoY).

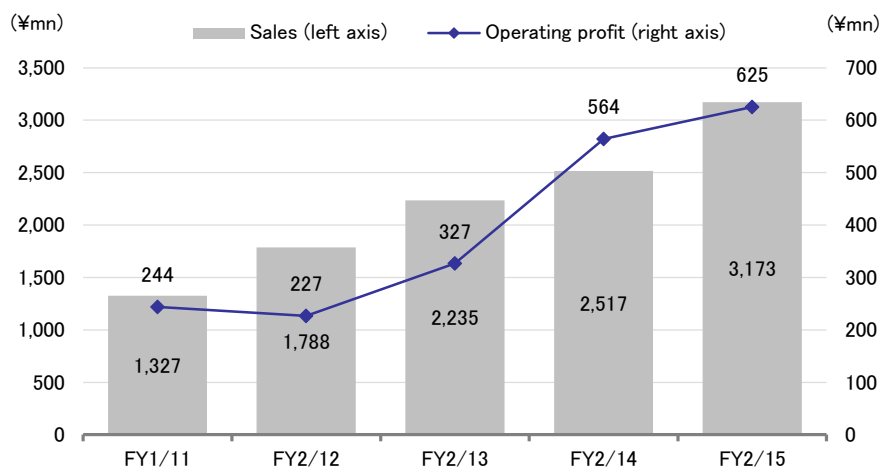
Further, the Company has embarked on a new Mid-term Management Plan, having its final year in FY2/17, with the ultimate goals of ¥9,200mn in sales (approximately 3.7 times compared with FY2/14) and operating profit of ¥2,800mn (5.0 times compared with FY2/14).

Guided by the slogan “the 3-year revolution toward being a next generation IT vendor,” PIPED BITS plans to expand its business based on three strategies: provide solutions to clients, b) provide solutions to regions and industries and c) provide solutions to society. The plan’s final targets are arguably very lofty compared with forecasts for FY2/16. However, we believe that PIPED BITS will be able to attain these targets provided that the Company takes full advantage of the cloud format business model where its core business domain lies. Trends such as the number of active accounts will also need to be watched closely, along conditions surrounding the introduction of the “My Number” National ID system.

■ Check Point

- Delivered record-high operating profit, with steady progress on HR recruitment
- Steadily on track to achieve FY2/16 targets based on a stronger workforce and robust sales inquiries
- Capture growing demand from the introduction of the “My Number” system by reinforcing the organization

Operating Results Trends



Consolidated financial statements prepared from FY2/14

Corporate Outline

Expanding business around SPIRAL®, a proprietary platform developed in-house

(1) Corporate history

PIPED BITS, hereafter “PB” or “the Company,” was established by its Founder and current President, Nobuaki Satani, in April 2000. For most companies, data acquired in the course of business including customer attributes and e-mail addresses form important “Information Assets”, so PB commenced operations with services to effectively use them at the same time as managing them securely. What was developed in-house in order to carry out this business was the proprietary SPIRAL® platform for data management. (Details to follow). Subsequently, PB developed a range of applications based around SPIRAL®, and has been engaged up to the present in rolling-out these business applications.

Corporate history

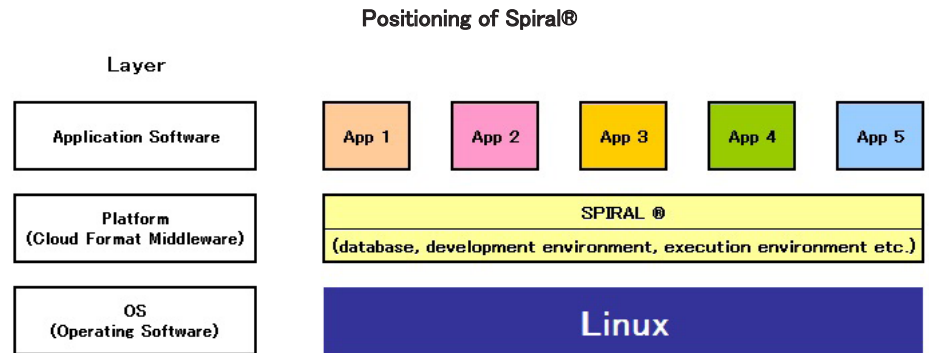
Apr. 2000	Established as K.K. Sahara in Tokyo’s Setagaya Ward, aiming at e-mail based marketing support software, after receiving a capital investment from Current Inc. (Tokyo, Setagaya Ward).
Oct. 2000	Developed e-mail marketing platform “SPIRAL Messaging Place®”.
Dec. 2000	Spun-off to become independent via an MBO, and relocated headquarters to 1-12-15 Shinnan, Shibuya Ward, Tokyo.
Jan. 2001	Changed trade name to PIPED BITS Co., Ltd.
Feb. 2001	Launched SPIRAL Messaging Place® ASP service.
Apr. 2001	Introduced a sales agent system to SPIRAL Messaging Place®.
Dec. 2001	Introduced SLA (Quality Certification System) to SPIRAL Messaging Place®.
Dec. 2006	Listed on the TSE Mothers exchange.
Apr. 2009	Changed the service name from SPIRAL Messaging Place® to SPIRAL®.
Jan. 2010	Acquired certain operations, namely the CMS and EC businesses from HiDESIGNS Inc.
Apr. 2010	Launched apparel EC platform “SPIRAL EC®”.
Dec. 2010	Started to tackle the Internet advertising and Internet media-related areas. Launched Media EC operations.
Mar. 2011	Acquired the Apparel web solution business from Gras CORPORATION. Launched E-Commerce Business to operate, manage and develop e-commerce sites tailored to the apparel and fashion space.
Sep. 2011	Increased capital via a 3rd party capital allotment to United Ventures Inc. Acquired “Net de Kaikai”, a cloud-based accounting business, from Business Online Co., Ltd.
Mar. 2012	Acquired “Biyoshimeikan project”, a hair catalogue publication business, from SAMURAI PROJECT CORPORATION. Made Paperless Studio Japan Co., Ltd. a subsidiary.
Mar. 2014	Made AsBase Inc. a subsidiary via a stock swap.
Feb. 2015	Invested in Sprinklr Japan KK to make inroads into the SNS business.

Help to manage information assets and cut costs, a priority for virtually all companies

(2) Description of business

(Product Outline)

In a word, PB's flagship business is its proprietary platform SPIRAL®, and the provision to users of related applications, not by way of outright sales but rather in a rental format (a monthly fee method). Within the layers of software, SPIRAL®'s position may be referred to as a cloud format middleware.



Source: Prepared by FISCO from company materials

Generally, the majority of companies, when developing operational and other systems, need to purchase the hardware required to develop and run the system, the operating system (OS), development environment (tools), database(s), middleware and other elements themselves (or outsource development), and develop, by combining them, the base (platform) in order to run the system. Additionally, they must also bear the burden (cost) of maintaining it post-development. However, with SPIRAL® developed by PB, because the development tools are embedded, not only can a range of applications be easily developed, given that it also has a database built-in, it enables the use and sharing in each application of customer and other data stored in SPIRAL®. Further, these applications and data classes may be easily reproduced and delivered. This provides a significant advantage over package software.

As a result, corporate customers may easily and holistically operate with (use) and manage data, and at the same time greatly reduce application development costs by using SPIRAL®. Additionally, given that it is a pay-for-use monthly fee format platform, it further helps in cost reduction. Starting with major financial institutions, the names of companies that have introduced SPIRAL® include many preeminent corporations.

Recently in the IT industry, the majority of services are provided in a cloud format, with them being described in a variety of ways depending on the content of the particular cloud format service.. PB's SPIRAL® belongs to the area called PaaS (Platform as a Service).



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Major Cloud Format Services & Profiles

SaaS	Provides applications (software)
BaaS	Provides functions required on the server side for smartphone application development and operation
PaaS	Provides the base for running applications
IaaS	Virtualization of infrastructure such as servers, CPUs & storage

Source: PB homepage

(Description and Pricing of Major Products)

As noted above, PB’s flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it are medium and small tier system integrators (SIs) that undertake development aimed at large tier companies and main street SMEs that internally develop in-house operating and other software. By using SPIRAL®, PB is able to internally develop applications aimed at specific industries and users, and then also sell these applications. These types of core products are not sold as a package, but are sold entirely in a cloud-based monthly fee format. Below are the major products and their monthly pricing (minimum fees).

It goes without saying that in PB’s business model, increases in active accounts (fee-based) is linked to sales growth. However, the fees mentioned below are only basic or minimum fees and the actual fees change depending on data volumes (pay-for-use). Therefore, sales do not simply equal the number of accounts multiplied by the basic fee. But in order to view sales trends, the number of active accounts is an important indicator.

SPIRAL®: PB’s flagship product. The core platform including installed database(s), development environment, and execution environment. From ¥25,000/month.

SPIRAL PLACE®: Cloud format groupware possessing website creation and updating functions, and at the same time linked to SNS. As groupware, it allows web content enhancement and updating as well as traffic analysis via simple (manual) operations while sharing calendars and files, being also linked to Facebook and Twitter. It is highly regarded by retail chain stores and others that employ large numbers of staff. Basic fees are from ¥6,000/month.

SPIRAL EC®: An e-commerce (EC) platform focused on apparel. While pursuing a sophisticated brand image for EC sites aimed at apparel, it is highly regarded by the industry for resolving a number of issues, such as simplifying update procedures and also containing this within a low budget. Usage fees are pay-for-use with a maximum fee of 5% of the distribution amount.

Net de Kaikei and Net de Aoiroshinkoku: A cloud format accounting service targeting small- and mid-tier companies and sole proprietors. It is building up a brand in clerical accounts administration for small- and mid-tier businesses. Its operations were acquired and sales launched in September 2011.

SPIRAL Affiliate: A holistic ASP affiliate management service that reduces the issues and costs associated with introducing and operating affiliate marketing for advertisers. It contains a number of special features, such as free upfront costs for SPIRAL® users only.

Other: As noted below, there are also applications aimed at specialist fields and industry sectors. Pricing is from one hundred to several thousand yen per month.

(Operating Segments)

Based on major products such as those noted above, PB's operating segments are classified as set out below.

Sales by segment

(¥mn)

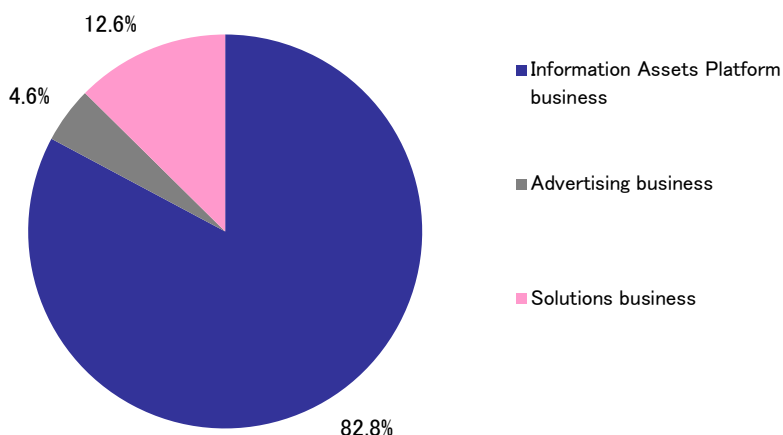
	FY2/15	
	Sales	Operating profit
Information Assets Platform business	2,627	596
SPIRAL® SPIRAL PLACE® Net de Kaikei Other	Provision of PB's PaaS centered on SPIRAL®	
Advertising business	146	17
SPIRAL Affiliate Advertising	Advertising services centered on affiliate advertising	
Solutions business	400	11
Design EC Management BIM consulting, other contract works	Apparel EC management, contracting of other design proposals etc.	

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**Sales by segment
(FY2/15: ¥3,173mn)**



Building a competitive edge through links with various applications plus maintenance and monitoring functions

(3) Special Characteristics and Strengths

(Ease of system construction)

SPIRAL®'s greatest distinguishing feature is its ability to be freely customized. As explained above, PB itself combines SPIRAL®'s functions, and develops applications for its own operational systems and specific customers (areas), and, excluding areas such as financial institutions which require extremely high reliability, it is not an exaggeration to say that every operational system in the world at large may be created by combining SPIRAL®'s functions. These types of operational systems were generally developed by operators known as system integrators (SIers). However, it is possible to replace the majority of the work traditionally done by SIers through a combination of SPIRAL® functions, with corporate customers being enabled to easily undertake a range of development and system creation themselves.



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(Every type of application can be linked)

SPIRAL[®] possesses a broad range of functions. However, the most basic function is that it enables, for example, a corporate customer managing databases over the Internet to easily engage in tasks from database creation to those such as data manipulation, batch data registration and downloading for registration, updating and deletion. Specifically, in cases such as those where companies undertake online surveys, market research or new product evaluations, on the company side, using SPIRAL[®] they may very easily create a survey, deliver it to targeted and prospective customers, have them complete the survey, and then collect them. If a customer satisfaction questionnaire is linked to the customer database, it becomes possible to analyze them according to customer attributes, and follow-up in order to enhance satisfaction levels. Survey results may be aggregated in real time, and compiled into a report. Via SPIRAL[®], this series of actions between different applications may all be easily undertaken with simple (manual) operations.

In the same way, in relation to creating forms, such as for gift promotions/affinity marketing campaigns, recruitment application forms, questionnaire forms, seminar applications, account openings, and information requests, it is possible via SPIRAL[®] to expeditiously undertake actions such as form creation; the recording, updating, and deletion of member attributes; and login verification. For example, in a case such as holding seminars, even if hypothetically multiple seminars are proceeding simultaneously, the taking of multiple applications and management of cancellations is able to occur instantaneously, making the holding of the seminar efficient. It is also easy to develop this data in a search form tabulating it, having a yes or no Q&A questionnaire, or (creating) a summary chart or graph. Also, given the addition of services from AsBase Inc., a subsidiary that possesses audio (telephone) solutions as noted below, and an alliance with Sprinklr Japan KK, which has strengths in social media management platforms, it is expected that customer convenience will be enhanced further.

One of PB's competitors is salesforce.com, Inc. of the United States, but this company has grown through repeated acquisitions of other companies. Therefore, because its various applications were developed by the different companies it acquired, each application was not created on the same platform. Consequently, when a client needs to link multiple applications, in many cases this requires additional development costs and time. On this point, PB's SPIRAL[®] is considerably superior to salesforce.com's product, as its applications are on the same platform and as a result, each of the applications can be easily (inexpensively and quickly) linked.

(Superiority in installation costs and security)

Further, because SPIRAL[®] is not sold as package software, but provided as a pay-as-you-go cloud service, a distinctive feature is that client companies may themselves build requisite systems rapidly and at low cost, without incurring unnecessary time and expense. That is, even in the initial period when the system is installed, the system can be developed from just a small investment without incurring major costs.

In addition to its superiority in terms of costs, PB also provides guarantees, maintenance, and monitoring functions on the security front, which is extremely convenient, particularly for medium- and small-tier SIs. For example, in the event that a vulnerability is identified in the SSL (Security Sockets Layer), which is the most widely used communication cryptographic technology on the Internet, normally it is necessary for each SI to individually deal with this vulnerability for each system. But if SPIRAL[®] is used, PB is able to take all necessary actions and the issue is resolved on SPIRAL[®], eliminating the need for the SIs to deal with it individually. On the other hand, in terms of security the use of SPIRAL[®] can also be said to give a sense of security to the final client.

(Installation case studies)

One example of a successful installation of PB's SPIRAL® was the case of Asahi Fire and Marine Insurance Co., Ltd. The company introduced SPIRAL® as a customer service system. By linking client attributes with various types of data, the number of requests for information materials increased by 130 times, and the work time needed from receiving to answering a customer request was reduced from the usual time of around 30 minutes to just two or three minutes. Moreover, when introducing the system, PB competed with other Slers to win the account. PB's quote was about 1/10th the cost of its competitors. Although every case is different, this example clearly demonstrates the competitive advantages of SPIRAL®.

■ Operating results trends

Delivered record-high operating profit, with steady progress on HR recruitment

(1) FY2/15 Results (Actual)

Sales and Earnings

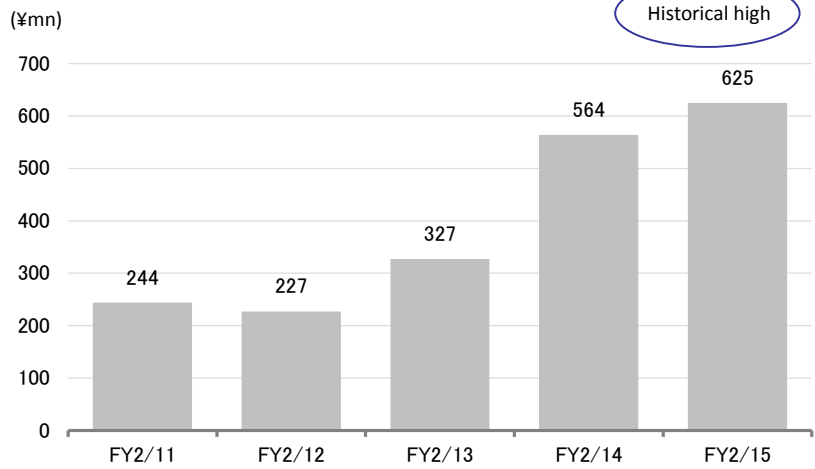
PB's FY2/15 results were sales of ¥3,173mn, (+26.1% YoY) operating profit of ¥625mn (+10.7% YoY), recurring profit of ¥634mn (+12.2% YoY), and net profit of ¥372mn (+8.7% YoY). In addition to year-on-year gains in both sales and earnings, the Company delivered record-high operating profit. However, the Company's performance fell slightly below its initial forecast (operating profit and recurring profit of ¥700mn). Rather than reflecting weak demand, the main reason was a slight delay in strengthening the workforce, as it took longer than anticipated to train and assign newly recruited employees to the frontlines. The operating profit result reflects the higher costs incurred as PB made more progress than initially anticipated on human resources (HR) recruitment. In FY2/16, PB is expected to make greater headway on assigning personnel recruited in FY2/15 to the frontlines, along with an anticipated increase in new accounts. Based on this, the Company should be able to regain lost ground in terms of its performance. For these reasons, PB's performance, when examined closely, was fairly solid.

Summary Income Statement for FY2/15

	FY2/14		FY2/15		(Chg)	
	Amount	%	Amount	%	Amount	%
Sales	2,517	100.0	3,173	100.0	656	26.1
Information Assets Platform business	2,174	86.4	2,627	82.8	453	20.8
Advertising business	104	4.1	146	4.6	42	40.2
Solutions business	238	9.5	400	12.6	162	67.6
Gross profit	1,993	79.2	2,416	76.1	423	21.2
SG&A expenses	1,428	56.7	1,791	56.4	363	25.4
Operating profit	564	22.4	625	19.7	61	10.7
Information Assets Platform business	570	-	596	-	26	4.5
Advertising business	-17	-	17	-	34	-
Solutions business	12	-	11	-	-1	-9.6
Recurring profit	565	22.5	634	20.0	69	12.2
Net profit	342	13.6	372	11.7	30	8.7

Sales by segment showed sales from the Information Asset Platform business of ¥2,627mn, the Advertising business of ¥146mn, and the Solutions business of ¥400mn. In addition, all segments achieved operating profitability. Operating profit by segment showed the Information Asset Platform business with ¥596mn, the Advertising business with ¥17mn, and the Solutions business with ¥11mn.

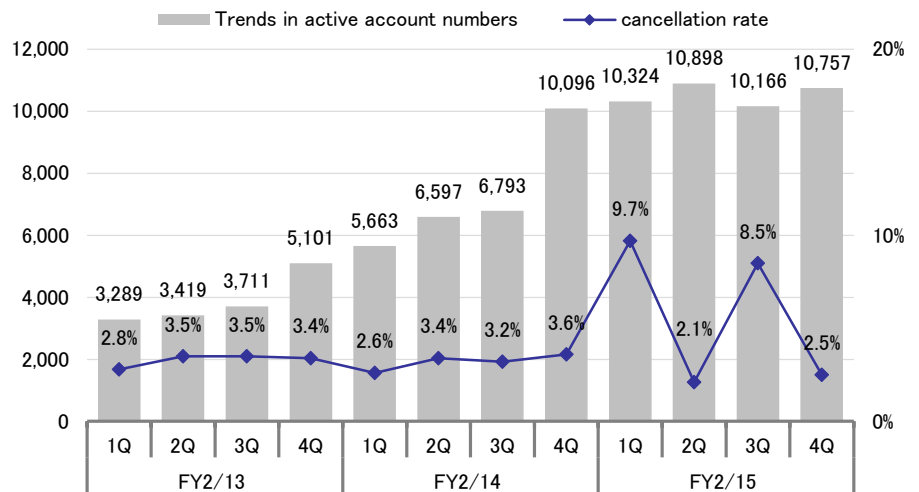
Trends in Operating Profit



* Figures for FY2/13 and prior fiscal years are derived from non-consolidated financial statements.

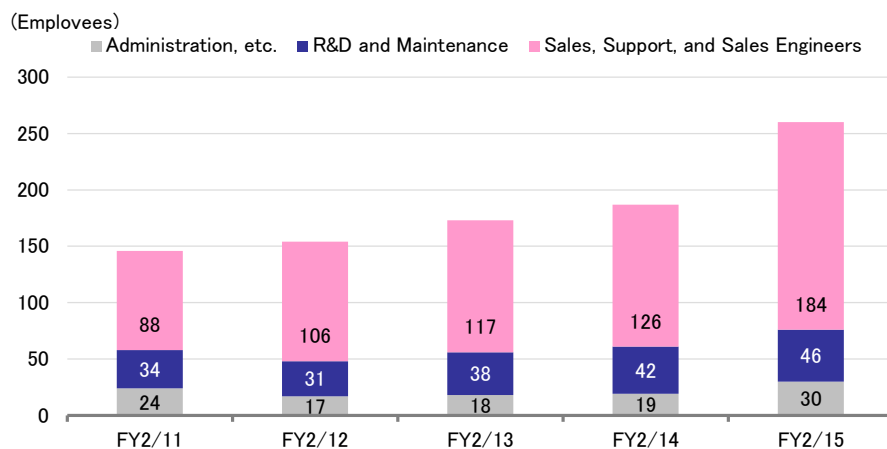
In addition to active account numbers increasing significantly to 10,757 (+661 YoY) as of the end of FY2/15, increases in sales in the core Information Asset Platform business were due to the amount of monthly fees per account rising in step with a higher number of information asset records as a result of the provision of a wide range of services. Another factor was an increase in the number of accounts generating large amounts of fees. Also, the cancellation rate returned to the ordinary low level, following the resolution of the special factors seen in FY2/15 Q3 (September to November 2014), which is contributing to stable profits.

Trends in active account numbers and the cancellation rate



Moreover, it has proactively recruited human resources, which as is described below, is one of the key initiatives in its new Mid-term Management Plan. The number of employees had increased dramatically to 260 as of the end of FY2/15, compared with 187 at the end of the previous fiscal year. This increase reflected the recruitment of 119 employees against the initially planned recruitment of 90 employees. Extended HR training periods led to slower than anticipated progress on the assignment of trained personnel to the frontlines, and this caused delays in their contribution to earnings. In line with these delays, sales fell slightly below the plan targets, and operating profit was also below the plan target. However, considering that demand for PB's services was solid, this result did not raise any concerns about the substance of the Company's performance. Rather, it is commendable that earnings still rose after absorbing the increase in operating expenses associated with such a large increase in personnel. Looking ahead, these newly recruited personnel can be expected to start contributing to a stronger workforce, offering strong prospects for a dramatic positive change in earnings going forward.

Trends in Employee Numbers



*Excluding staff of subsidiaries

(Financial Position and Cash Flows)

Looking at PB's financial position as of February 28, 2015, total assets were ¥3,388mn up ¥745mn from the previous fiscal year-end. The major factors were a ¥759mn increase in fixed assets (primarily reflecting an increase in goodwill of ¥144mn from the acquisition of AsBase Inc. through a simplified stock swap, and an investment of ¥500mn in Sprinklr Japan KK). Total liabilities rose ¥167mn to ¥749mn, due to a ¥167mn increase in current liabilities. Net assets rose ¥578mn to ¥2,638mn, largely due to the recording of net profit.

Balance sheets

	(¥mn)		
	End of FY2/14	End of FY2/15	Chg
Current assets	2,156	2,142	-14
Fixed assets	486	1,245	759
Total assets	2,643	3,388	745
Current liabilities	582	749	167
Fixed liabilities	-	-	-
Total liabilities	582	749	167
Total net assets	2,060	2,638	578

In terms of cash flows, operating activities provided net cash of ¥562mn. Investing activities used net cash of ¥598mn, mainly for the investment of ¥500mn in Sprinklr Japan KK. Financing activities used net cash of ¥55mn. Consequently, cash and cash equivalents stood at ¥1,368mn as of February 28, 2015.

Cash Flow Statement

	(¥mn)	
	FY2/14	FY2/15
Cash flow from operating activities	392	562
Cash flow from investing activities	-71	-598
Cash flow from financing activities	0	-55
Change in cash and cash equivalents	321	-91
Year-end balance of cash and cash equivalents	1,459	1,368

Steadily on track to achieve FY2/16 targets based on a stronger workforce and robust sales inquiries

(2) FY2/16 (Full-year Forecasts)

The forecasts for FY2/16, which is already underway, are for sales of ¥4,000mn (+26.0% YoY), operating profit of ¥820mn (+31.2% YoY), recurring profit of ¥820mn (+29.2% YoY), and net profit of ¥490mn (+31.6% YoY).

FY2/16 Full-year Forecasts

	FY2/15		FY2/16 E		(Chg)	
	Amount	%	Amount	%	Amount	%
Sales	3,173	100.0	4,000	100.0	827	26.0
Operating Profit	625	19.7	820	20.5	195	31.2
Recurring Profit	634	20.0	820	20.5	186	29.2
Net Profit	372	11.7	490	12.3	118	31.6

As noted earlier, PB's business model is a recurring revenue model; the core PaaS product is expected to develop further; annual account cancellation rates remain in the order of 2-3%; and additionally, inquiries for the products are firming. Judging from these facts, PB is highly likely to achieve its targets.

As touched on earlier, in FY2/15 PB recruited a large number of personnel in (119 employees), and these employees are already starting to contribute on the frontlines. This factor will also boost the Company's performance in FY2/16. Also, the Company plans to recruit around 75 new staff members in FY2/16 (there were 260 staff members at the end of FY2/15). The aforementioned forecasts take into account the related personnel cost increases. Put differently, this means that the Company has considerable latitude with respect to budgeted operating expenses. From this perspective, barring any drastic declines in earnings, PB is highly likely to achieve its profit targets.

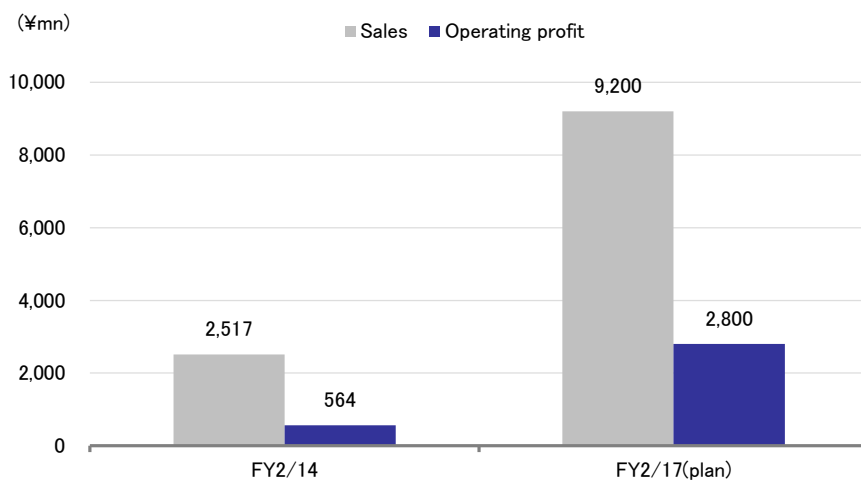
■ New Mid-term Management Plan and Future Operating Strategies

Capture growing demand from the introduction of the “My Number” system by reinforcing the organization

The previous Mid-term Management Plan ended in the previous fiscal year. In response, the Company has announced its new 2017 Mid-term Management Plan under the slogan “The 3-year revolution to become a next-generation IT vendor”. The plan’s numerical targets are sales of ¥9,200mn (3.7 times compared with the FY2/14 actual result), and operating profit of ¥2,800mn (5 times compared with the FY2/14 actual result). The following three key initiatives have been adopted in order to achieve the plan’s targets.

- Enhance the speed of making business decisions and profitability at new businesses via the introduction of the in-house company system
- Expand business through proactive M&As and alliances
- Proactive HR recruitment and training

Mid-term Management Plan Targets and Results



(Introduce the in-house company system)

The in-house company system has been introduced for major new businesses. The aim of this is to enhance the speed of making business decisions and the profitability of new businesses, and to ensure their work practices conform to their target industry. For example, in sales for Bireki, which is focused on the beauty salon industry, given that most customers are beauty salons, many beauty salon customers would have (weekly) holidays on Tuesdays and Wednesdays. In contrast to this, PB’s sales staff takes their (weekly) holidays on Saturdays and Sundays, marketing efficiency will be poor. Through the in-house company system, the in-house company for Bireki operations is able to freely select weekly holidays and working hours, allowing marketing efficiency to be increased. To date, the in-house company system has been introduced for Bireki, Seijiyama, and I Love Shimokitazawa operations. But depending on the circumstances, PB will consider introducing the in-house company system to other businesses.

PB also announced that it will transition to a pure holding company in September 2015. In terms of the transition method, the Company plans to set up PiPED HD, Inc. as a wholly owning parent company through a share transfer from the current PIPED BITS Co., Ltd., which will thereby become a wholly owned subsidiary of the new parent company. It seems possible that each business unit that is currently an in-house company will become a subsidiary under the holding company in the future.

(Expand business through proactive M&As and alliances)

At PB, M&A is positioned as a key operational strategy and it is constantly seeking candidate companies. Even currently, it appears that PB is in the process of considering a number of deals. PB's M&A targets mainly fall into two groups. The first, like AsBase Inc. which we will discuss below, are companies that are able to provide services that PB does not currently have. By incorporating these services into PB's platform, customers will be able to receive an even broader range of services. Put differently, companies that can provide "sibling services" are candidates. The second group targets industries that have been extremely slow to adopt IT, and companies in those industries that may have limited IT ability but are well versed in their industry. Tie-ups between these sorts of companies and PB will help facilitate the adoption of IT within these industries.

○Making AsBase a subsidiary

As part of its M&A strategy, in March 2014, PB made AsBase Inc. a 100%-owned subsidiary via a stock swap. AsBase Inc.'s main businesses are audio and telephone solutions (call centers, telemarketing, etc.). Given that audio solutions are from one-to-one interactions, it has been difficult to compile data until now, and it is a field that even PB had not been able to create. However, by making AsBase Inc. a subsidiary, PB has been able to link audio and telephone solutions with its flagship product SPIRAL®, and increase customer satisfaction significantly. In essence, it has enabled a "Web+Audio" service to be provided over the cloud.

One example of linking the Internet with a call center is the case of booking hotel reservations online. This normally requires users to input the necessary information via a keyboard or other device. But users such as the elderly who are unfamiliar with entering data online can instead contact a call center and communicate the required information by voice to complete their Internet reservation. (Note: unlike the case of simply making a reservation over the telephone, this example only applies to reservations made over the Internet).

Making AsBase Inc. a subsidiary as noted above was not simply to boost PB's sales and operating profit figures. Significantly, this initiative is expected to generate additional value by capturing synergies with the existing SPIRAL® product. Further, AsBase Inc. is a technology development-driven company, with marketing based on outright sales of on-premise software products. By joining the PB Group, AsBase Inc. can now develop business on the cloud, and we may expect AsBase's own operations to expand.

○Alliance with Sprinkler Japan KK

Similarly, as part of business expansion efforts, in January 2015 PB made an investment of ¥500mn in 17.5% of the shares of Sprinkler Japan KK, the Japanese arm of U.S.-based Sprinkler Inc. Sprinkler Inc.'s core businesses consist of (1) customer experience management services for companies seeking to use social networking services (SNS) to perform CRM, product promotions, marketing and sales promotions, and (2) the delivery of platforms that help those companies to enhance their business performance through customer experience management. In Japan, more and more companies are using SNS to expand their own businesses, whereas in the U.S. an even larger number of companies are already using SNS for advertising and marketing purposes. Against this backdrop, Sprinkler Inc. is playing a key role in encouraging the use of social media by companies.



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PB invested in Sprinkler Japan KK to achieve two main goals. First, PB will be able to expand its customer base by referring the services of Spinklr Inc. to the Company's customers. Second, PB will be able to provide even more advanced services in the future by linking SPIRAL® and other PB services to the SNS systems of Sprinklr Inc. The investment in Sprinklr Japan KK will not start contributing to sales immediately. However, if companies expand their CRM activities using SNS, we believe that the investment will eventually start to contribute positively to PB's earnings.

(Proactive HR recruitment and training)

Prior to the current Mid-term Management Plan, PB had advanced its previous Mid-term Management Plan with FY2/14 as its final year. Unfortunately, PB's results for FY2/14 fell short of the plan's targets. PB analyzed the situation and concluded that the main reason for this was "insufficient resources." That is to say, although there were ample inquiries from customers, insufficient staff to win new accounts, provide support and fulfill other roles resulted in the loss of many accounts. Therefore, under the current Mid-term Management Plan, PB initiated a policy to proactively recruit staff. Accordingly, although PB had planned to recruit around 90 employees (mainly in Sales) in FY2/15, it actually recruited 119 employees Group-wide.

Additionally, after reflection on the last Mid-term Management Plan, effort will be put into not only recruiting numbers, but also training (education, development). Already three sales experts are undertaking the training of new recruits as specialist trainers and PB is aiming to rapidly increase its human resources through the SIP (Spirer Incubation Program), which is its original training program for new staff. In this way, it is training the "next generation of IT professionals" who will become its core staff in subsequent periods and will help it realize its goal of being a "next generation service vendor." Actually, it is expected that this strengthening of human resources will occur after 1-2 years, with it anticipated that it will contribute to sales from 2H FY2/16. However, it is policy at PB not to loosen the reins on HR training. It is expected that the benefits of this policy will be realized in the final year of the Mid-term Management Plan, FY2/17.

Impact of the introduction of the "My Number" National ID system

The introduction of the so-called "My Number" National ID system represents a seismic shift in the Company's business landscape that will have a significant bearing on the outlook for its future performance. The relevant bills for the "My Number" system were enacted on May 24, 2013. Currently, local governments are taking the lead in modifying IT systems, revising various operations and performing other tasks ahead of the notification of personal ID numbers to Japanese citizens in October 2015, and the start of use of personal ID numbers in January 2016. In addition, national government institutions will begin sharing personal ID number data in January 2017 and the sharing of this information will be expanded to local governments in July 2017.

Until now, Japan has used ID numbers to identify individuals in various fields and organizations. For example, national and local governments and other entities have used universal pension numbers for the pension system and insurance identification numbers for long-term term care insurance. Reference numbers have also been used for clerical purposes within local governments. However, there have been no numbers that identify individuals across different fields and organizations. This had made it considerably difficult to identify an individual's personal information as belonging to the same person when it is managed across different fields and organizations. In response, Japan has decided to introduce a "My Number" national ID system, assigning to every Japanese citizen a personal ID number that can be used across different fields and institutions. These numbers will ensure that personal information on an individual that is held by multiple institutions can be confirmed to belong to that same person.

Notably, under the “My Number” system, ordinary companies, in addition to national governments, local governments and various other public institutions, will be required to manage and maintain records by linking an employee’s personal information to his or her personal ID number. Previously, the Act on the Protection of Personal Information required companies to manage only their customers’ personal information. By contrast, the “My Number” system will require companies to manage the personal numbers of all employees together with various types of records such as wages, taxes, pension, and health insurance data. Therefore, a large number of companies are highly likely to be compelled to overhaul or rebuild their current IT systems for HR management, payroll and other tasks.

Database management systems that facilitate integrated management with these types of data and personal ID numbers are indeed the core strength of PB’s mainstay product SPIRAL®. There is a high likelihood that customer inquiries for PB’s products could increase as the introduction of the “My Number” system progresses further. Another advantage is that major corporations that have introduced on-premise software products will need to rebuild their IT systems as a result of the “My Number” system. In the process, considering the cost factors, these companies could shift to a cloud-based system. At any rate, it is evident that the introduction of the “My Number” system will create demand related to personal ID numbers for the IT industry as a whole. Against this backdrop, PB is anticipated to derive particularly significant benefits from this demand, and future developments will attract considerable attention.

■ Supplemental information (Main application products)

Providing highly user-friendly services to a wide range of fields spanning beauty parlors, healthcare, architecture and politics

Bireki: Released in January 2012 aimed at beauticians and beauty parlors. It is a new social service that records and archives a photographic record of hairstyles for beauty parlor customers, enabling communication between client companies and their users. Previously at beauty parlors, any records retained of customer hairstyle were all handwritten. This was transformed into a service when one of PB’s salesmen proposed retaining them as digital image data, but is now spreading throughout the industry, centered on popular and charismatic stylists at famous establishments.

For beauty parlors, because previous hairstyles are kept as photographs, it is possible to reproduce them down to subtle details, enabling links to popular stylists and salons outside the beauty parlor in question. On the beauty parlor side also, it reduces the burden of managing hairstyle records, with a benefit being that it makes it easier to attract and retain customers.

JoyPla: A cloud format pharmaceutical and medical supplies ordering system aimed at medical institutions. It differs from traditional joint purchasing systems that only allow purchasing of designated products. By using cloud and aggregating orders from many medical institutions, it enables each medical institution to freely select the products it needs, while maintaining trading relationships with existing wholesalers, with a key characteristic being that users may additionally enjoy the cost reductions from joint purchasing. Further, given that orders to multiple wholesalers may be carried out in a single operation, it also enables reductions in the burden associated with ordering procedures for medical institutions.

A new version of JoyPla was launched in February 2015. It comes standard with inventory management functions that are easy for small and medium-sized hospital to use, such as withdrawal slip and inventory processing functions.



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ArchiSymphony: An application aimed at the construction industry that was launched as a service in May 2012. It is handled by Paperless Studio Japan Co., Ltd., which PB made a subsidiary through an M&A, and it offers a 3-D design support service called BIM (Building Information Modeling). It is a service that links BIM design support software with construction materials catalogues over the cloud and that allows BIM to be introduced without changing the existing operational flow. It may be used for free as an electronic building materials catalogue, with downloaded product data reflected in architectural plans. Costing calculations are also made possible, with fees corresponding to the volume of information disclosed being borne by the building material manufacturer.

BIM (Building Information Modeling) is a database of building attributes that adds construction and maintenance costs, including those for materials and works as well as other data, to completed 3-D models of buildings recreated on a computer screen. Using this is a new construction process for the building industry, and is used in tasks from design and construction to operation and maintenance.

Although BIM has yet to fully penetrate the Japanese market, in Singapore reportedly they have already shifted to BIM for building certification applications up to 10,000 square meters. Building estimation also, which is taken to be the most difficult task at a construction site, is also being undertaken using ArchiSymphony as a form of electronic catalogue. By using ArchiSymphony, a customer can significantly reduce time and effort, and as a platform like a 3-D data library, it has the hidden potential to be developed significantly in the future.

Within this advance of BIM, Paperless Studio Japan agreed to form a business tie-up with Penta-Ocean Construction<1893> in April 2014. Moreover, Paperless Studio Japan conducted a workshop in the “Ministry of Land, Infrastructure, Transport and Tourism, the Impact of BIM” seminar sponsored by the Kensetsutsushin Shimbun Corporation. In such ways, it is cementing its leadership position for consulting projects related to BIM. For the future, Paperless Studio Japan aims to link PB’s SPIRAL® with BIM.

Seijiyama: A political and election information platform was released in March 2011. In the House of Councillors Election in July 2013, the ban on election campaigning over the Internet (or net electioneering) was lifted. However, the lifting of the ban does not appear to have brought significant benefits to PB. In any event it is expected that Internet electioneering activity will progress further, and that this will be a major tailwind for PB, a first mover in this field. In October 2014, PB launched “Politician Profile Webpages” that allow candidates for office to share their profile, policies, messages and other information with voters. Moreover, in March 2015, PB began providing “Members-only Seijiyama Services for Members of the Diet” ahead of nationwide local elections in April 2015. The Company is focusing on increasing the number of member politicians, in addition to encouraging voters to participate in the political process. Future developments in this field will be watched closely.

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