

PiPEDO HD, Inc.
 3919 Tokyo Stock Exchange
 First Section

24-Nov.-16

Important disclosures
 and disclaimers appear
 at the end of this document.

FISCO Ltd. Analyst
 Noboru Terashima

*1 PiPEDO HD is a pure holding company established by a single transfer of shares from the former PIPED BITS (formerly (3831)) on September 1, 2015, with the former PIPED BITS becoming its wholly owned subsidiary on the same date. In conjunction with this, PIPED BITS was delisted from the Tokyo Stock Exchange First Section on August 27, 2015, and PiPEDO HD was listed on the same First Section on September 1, 2015.

*2 The results are those of PIPED BITS up until August 2015, and then those of PiPEDO HD from September 2015 onward. YoY comparisons here and below are against the results of PIPED BITS.

■ Aiming for ¥5,400mn in Sales and ¥1,000mn in Operating Profit in FY2/17, the Final Year of the Mid-term Management Plan

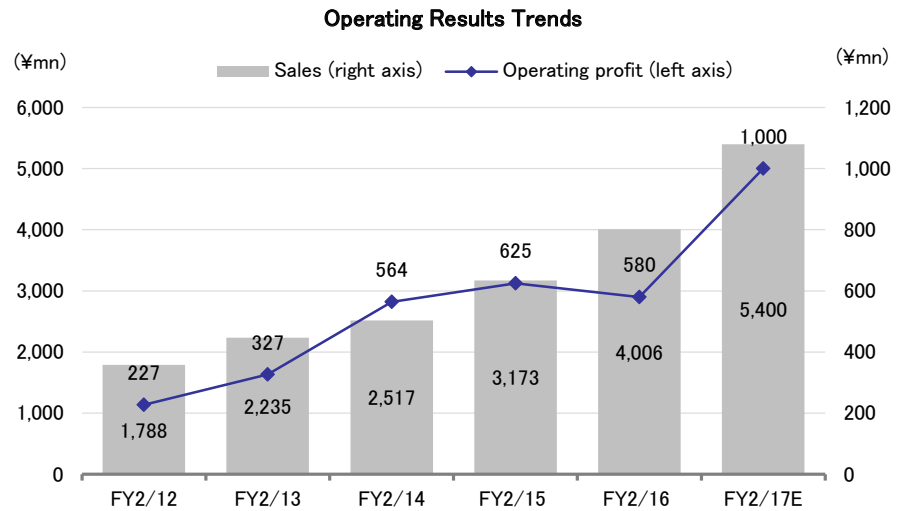
PIPED BITS, which is the consolidated subsidiary of PiPEDO HD (3919) *1, is a unique IT company that provides its proprietary product SPIRAL® (middleware) in cloud format. Not only does it provide this platform to large- and mid-sized companies such as national clients, and SME-sized SIs (system integrators), but also undertakes the sale of applications it develops itself aimed at specific industries (such as the beauty salon and construction industries).

In the results for 1H FY2/17*2, sales were ¥2,348mn (up 24.8% YoY), operating profit was ¥408mn (up 19.3%), recurring profit was ¥414mn (up 24.6%), and net profit attributable to owners of the parent was ¥186mn (up 3.8%). While profit increased from the same period in the previous year, they slightly missed initial target. The main cause of these shortfalls was an almost total suspension of new sales efforts for roughly one month due to putting priority on apologies and explanations to existing customers following unauthorized access to the Company's SPIRAL EC® product that occurred during the period. Excluding this impact, earnings were on track with the outlook. While the unauthorized access was a major problem because of the Company's emphasis on security, management issued a report confirming safeness for not only SPIRAL EC®, which had the unauthorized access, but also the core SPIRAL® service in July. The Company only had a few cancellations related to the unauthorized access incident thanks to its sincere apologies and explanations to existing customers.

FY2/17 is the final year of the three-year Mid-term Management Plan and the Company's realistic targets for this year are sales of ¥5,400mn (up 34.8% YoY), operating profit of ¥1,000mn (up 72.2%), recurring profit of ¥990mn (up 76.5%), and net profit attributable to owners of the parent of ¥580mn (up 133.9%). The forecast is for fairly rapid growth, but this seems achievable considering the low level of profit in the previous fiscal year due to aggressive investment and the cloud-based nature of the core business. Trends such as the number of active accounts will also need to be watched closely, along with the conditions surrounding the introduction of the My Number National ID system.

■ Check Point

- Provides proprietary SPIRAL® in an ASP format rather than outright sale
- Only had a few cancellations, despite the unauthorized access incident, and bolstered trust from customers thanks to a timely response
- Posted higher sales and profits even with the above-mentioned response



■ Corporate Outline

Operates the SPIRAL® platform for management of information assets

The Company is a pure holding company established by a single transfer of shares from the former PIPED BITS on September 1, 2015. As of October 3, 2016, it has 10 consolidated subsidiaries, one equity method affiliate, and three other companies in which it owns stakes. However, PIPED BITS remains the core company of the Group as before and the following corporate history and business details are those of PIPED BITS

(1) Corporate history

PIPED BITS was established by its founder and current President of PIPEDO HD, 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 the Company 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, the Company developed a range of applications based around SPIRAL® and has been engaged up to the present time in rolling-out these business applications.



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PIPEDO HD History

Sep. 2015	PIPEDO HD was established by a single transfer of shares from PIPED BITS Co., Ltd. and listed on the Tokyo Stock Exchange First Section (PIPED BITS Co., Ltd. was delisted in August 2015). PIPEDO HD acquired the shares of the four subsidiaries of PIPED BITS Co., Ltd. by a property dividend, converting them into its own subsidiaries.
Dec. 2015	Made additional investment into Current, Inc., converting it into a subsidiary
Mar. 2016	Established GONDOLA CO., LTD., FRIENDIT Inc., and BIREKI Co., Ltd.

PIPED BITS History

Apr. 2004	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 Jinnan, Shibuya Ward, Tokyo.
Jan. 2001	Changed trade name to PIPED BITS Co., Ltd.
Feb. 2001	Launched SPIRAL Messaging Place® 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 Kaikei", a cloud-based accounting business, from Business Online Co., Ltd.
Mar. 2012	Acquired "Biyoshimeikaikan", 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
Mar. 2015	Subscribed to a third party allocation of shares by Current, Inc. Invested in Sprinklr, Inc. (United States)
May 2015	Established Publica Co., Ltd.
Jul. 2015	Began providing SPIRAL® My Number total solutions, Established WEARHEART Inc.

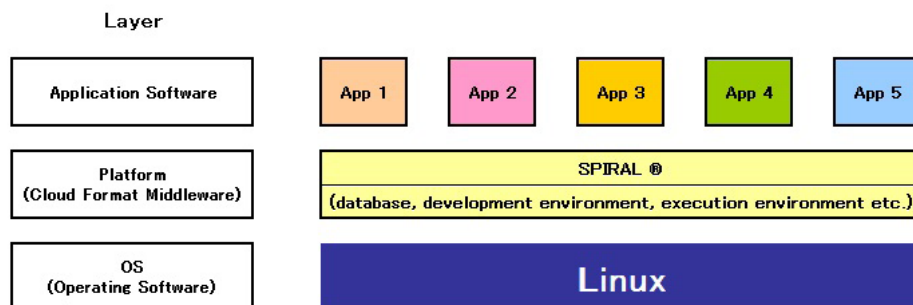
Provides proprietary SPIRAL® in an ASP format rather than outright sale

(2) Description of business

a) Product outline

The Group'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 ASP format. Within the layers of software, SPIRAL®'s position may be referred to as a cloud-based middleware.

Positioning of SPIRAL®



Source: Prepared by FISCO from company materials

Generally, when developing operational and other systems, the majority of companies 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 by combining them, develop 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 PIPED BITS, because the development tools are embedded not only can a range of applications be easily developed, given that it has a database built-in too, it also 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 to reduce costs. Starting with major financial institutions, the companies that have introduced SPIRAL® include many preeminent corporations.

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

b) Description and pricing of major products

As noted above, the Company's flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it are SME-sized SIs that undertake development aimed at large tier companies and main street SMEs that internally develop in-house operating systems and other software, and also web production and web development companies. By using SPIRAL®, the Company 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 an ASP format. Below are the major products and their monthly pricing (minimum fees).

It goes without saying that in the Company'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® : The Company'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 to medium-sized companies and sole proprietors. It is building up a brand in financial 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.

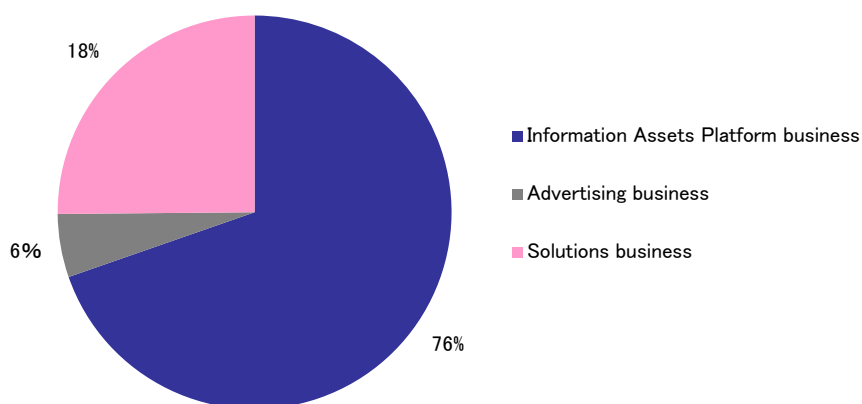
Other : There are also applications aimed at specialist fields and industry sectors. Further, through alliances with various specialist companies, the goal is to expand the use and applications of SPIRAL®.

c) Operating segments

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

	1H FY2/17	
	Sales	Operating profit
Information Assets Platform Business	1,635	404
SPIRAL® SPIRAL PLACE® Net de Kaikei®, Net de Aoiroshinkoku® Other	Provision of PaaS centered on SPIRAL®	
Advertising business	122	34
SPIRAL Affiliate® Advertising	Advertising services centered on affiliate advertising	
Solutions business	590	-30
Apparel EC management BIM consulting, contracting of design proposals	Apparel EC management, contracting of design proposals, etc.	

Sales by Segment (FY2/16: ¥1,881mn)



d) Other consolidated subsidiaries and their business operations

In addition to the mainstay businesses (PIPEDO BITS) described above, the Company also operated various related businesses via the following subsidiaries.

○ **Paperless Studio Japan Co., Ltd.**

Paperless Studio Japan is involved in the building project production and management and BIM (Building Information Modeling) consultant businesses. The company also runs BIM and CIM personnel courses for people working in design and construction. In May 2012, the company started providing the BIM construction information platform ArchiSymphony®.

○ **AsBase Inc.**

AsBase develops and provides the ASP/SaaS type call center platform service BizBase (groupware, work flow, attendance management, expense calculation, transportation fee calculation, business talk records, customer management, work progress, time card, shift management, screen sharing and remote operation, point management, etc.).

○ **Publica Co., Ltd.**

A specialist company for providing open data services to local governments and government agencies, Publica promotes the availability of data held by government agencies, local governments and private-sector businesses, and develops services that make use of the data to enable it to be managed autonomously. Publica has developed a system for internet distribution of local government public relations bulletins—the “My Public Relations Bulletin” system.



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○ **WEARHEART Inc.**

WEARHEART was established in July 2015 to develop e-commerce for the women's magazine ViVi published by Kodansha Ltd. The company is primarily responsible for the aspects of system development, website construction, product purchasing, and distribution. It provides information as well as new products and services that lead the apparel and fashion industry.

○ **GONDOLA CO.,LTD.**

GONDOLA was formed by the corporate split of a previously existing media strategy company on March 1, 2016. The company is active in the three service domains of advertising solutions, web solutions, and social management. By combining an original service line-up in planning, production system development, and operation, with IT utilizing information management platforms such as SPIRAL Affiliate®, SPIRAL® and Sprinklr, GONDOLA enables one-stop solutions for corporate management issues and business activity optimization.

○ **FRIENDIT Inc.**

FRIENDIT provides comprehensive support for e-commerce related system implementation, online shop management, and omni-channels at the strategic level. Assisting customers with the common issues of personnel shortages and experience gaps, FRIENDIT produces marketing activities that directly boost sales volume and value, from IT-based administration optimization through to promoting use of data on products, members, and purchasing. The company was formed on March 1, 2016 by a corporate spilt-off from the in-house Apparel and Fashion Company.

○ **BIREKI Co., Ltd.**

BIREKI provides IT services centered on the digital medical record app "BIREKI®" for beauty salons. The company's business activities aim to enrich the lives of people by helping to increase the value of as many people working in the beauty industry as possible and making beauty therapy more accessible and enjoyable. The company was newly established on March 1, 2016 through a corporate spin-off from the previous Bireki Company.

○ **Current, Inc.**

Current's core businesses involve web access improvement and digital CRM for developing loyal users (implementation services such as communication and data management design, message creation and construction, message delivery, and effect verification) while integrating information assets and implementing optimal messaging to users. Aiming to generate business synergies between Current, with its strengths in stationed marketing support, and PIPED BITS, which has expertise in information asset utilization and IT solutions, the Company increased its equity stake in Current in December 2015 and converted it into a subsidiary.

○ **BLOOM NOTES, INC.**

The Company spun off its division in charge of in-house human resource development and education as a subsidiary on October 3, 2016 in order to provide similar education services to external customers. It organized knowhow into a structured program to resolve issues related to human resource development at SMEs and also operates a human resource development agent business to support implementation.

Freedom to customize is SPIRAL®'s greatest advantage over products from other companies

(3) Special characteristics and strengths

a) Ease of system construction

SPIRAL®'s greatest distinguishing feature is its ability to be freely customized. As explained above the Company 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, almost any operational system could be created by combining SPIRAL®'s functions. These operational systems have been generally developed by operators known as Slers. However, it is possible to replace the majority of the work traditionally done by Slers through a combination of SPIRAL® functions, with corporate customers able to easily undertake a range of development and system creation themselves.



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b) 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 various tasks, from database creation through to data manipulation (such as registration, updating and deletion), batch data registration, and downloading. Specifically, in cases such as those where companies undertake online surveys, market research or new product evaluations, on the company side, by using SPiRAL® they can very easily create a survey, deliver it to targeted and prospective customers, have them complete the surveys, 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 conduct 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 operations.

In the same way, with regards 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 can be carried out instantaneously, making the holding of the seminar more 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 that possesses voice (telephone) solutions, and an alliance with Sprinklr Japan KK, whose strength is systems for SNS, it is expected that customer convenience will be enhanced further.

One of the Company's competitors is salesforce.com, Inc. of the United States, but this company has grown through repeated acquisitions of other companies. Therefore, its various applications were developed by the different companies it acquired, so 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, 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.

c) Superiority in installation costs and security

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

In addition to its superiority in terms of costs, the Company also provides guarantees, maintenance and monitoring functions on the security front, which is extremely convenient, particularly for SME-sized Slers. For example, in the event that 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 system integrator to individually deal with this vulnerability. But if SPiRAL® is used, the Company is able to take all necessary actions and the issue is resolved on SPiRAL®, eliminating the need for the Slers to deal with it individually. Use of SPiRAL®, meanwhile, reassures final customers about security.

d) Installation case studies

One example of a successful installation of the Company'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 2 or 3 minutes. Moreover, when introducing the system, the Company competed with other Sler companies to win the account and the Company's quote was only about 1/10th the cost of its competitors. Although every case is different, this example clearly demonstrates the competitive advantages of SPiRAL®.

* As previously explained, on September 1, 2015, the Company established PIPEDO HD as a pure holding company and transitioned to a pure holding company system. Therefore, the FY2/16 results described below prior to August 2015 are for the former PIPED BITS before the transition to the holding company, while the results from September 2015 onward are for PIPEDO HD.

Operating Results Trends

Posted higher sales and profits even with the problem of unauthorized access in 1H FY2/17

(1) 1H FY2/17 results

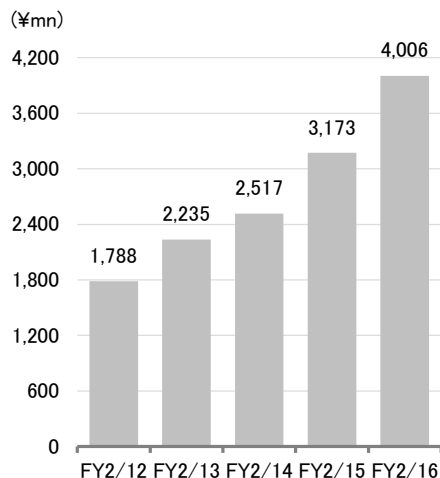
a) Sales and earnings

In 1H FY2/17, the Company recorded sales of ¥2,348mn (up 24.8% YoY), operating profit of ¥408mn (up 19.3%), recurring profit of ¥414mn (up 24.6%), and net profit attributable to owners of the parent of ¥186mn (up 3.8%). Profits increased YoY, though were slightly below initial forecast. The main cause of these shortfalls was the almost entire suspension of new sales efforts for roughly one month due to putting priority on apologies and explanations to existing customers following unauthorized access to the Company's SPIRAL EC® product that occurred during the period. Excluding this impact, earnings were on track with the outlook. While the unauthorized access was a major problem because of the Company's emphasis on security, management issued a report confirming safeness for not only SPIRAL EC®, which had the unauthorized access, but also the core SPIRAL® service in July. The Company only had a few cancellations related to the unauthorized access incident thanks to its sincere apologies and explanations to existing customers. (Details to follow.)

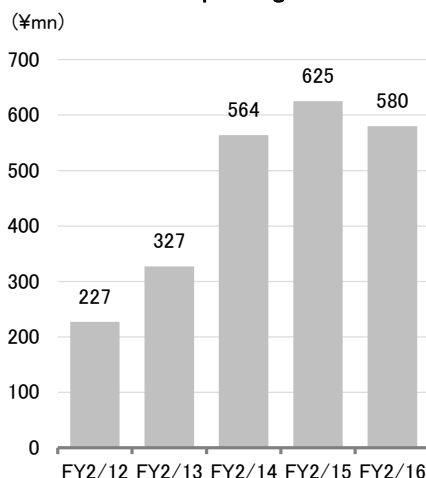
Summary Income Statement

	1H FY2/16		1H FY2/17		(Change)	
	Amount	%	Amount	%	Amount	%
Sales	1,881	100.0	2,348	100.0	466	24.8
Information Assets Platform business	1,499	79.7	1,635	69.6	135	9.1
Advertising business	109	5.8	122	5.2	12	11.1
Solutions business	271	14.5	590	25.2	318	117.2
Gross profit	1,389	73.9	1,645	70.1	255	18.4
SG&A expenses	1,047	55.7	1,236	52.7	189	18.1
Operating profit	342	18.2	408	17.4	66	19.3
Information Assets Platform business	303	-	404	-	100	33.1
Advertising business	27	-	34	-	6	24.9
Solutions business	11	-	-30	-	-41	-
Recurring profit	333	17.7	415	17.7	82	24.9
Net profit attributable to owners of the parent	180	9.6	186	8.0	6	3.8

Trend in Sales



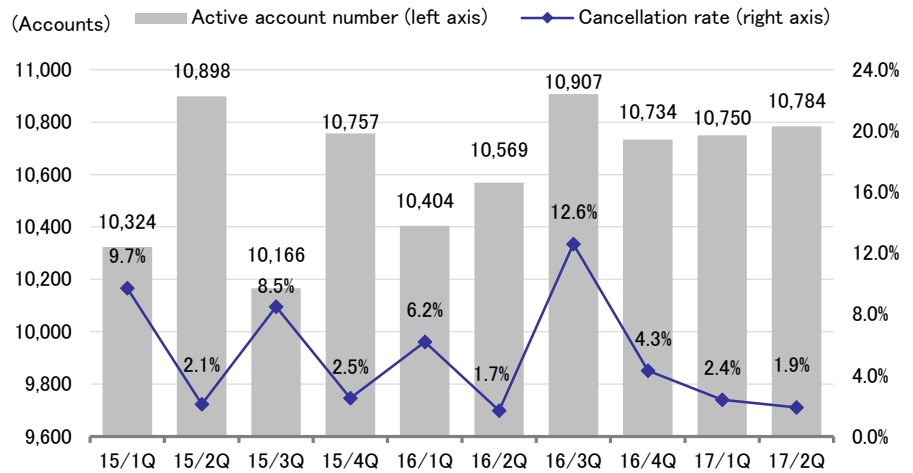
Trend in Operating Profits



Note: Figures for FY2/13 and prior years are derived from non-consolidated financial statements. Figures prior to August 2015 are for PIPED BITS.

The number of active accounts strongly affects the Company's income trends because it mainly operates cloud-base business as explained above. The number of active accounts at the end of 1H FY2/17 was 10,784 up 215 or 2% compared to the end of 1H FY2/16. By products, active accounts totaled 3,344 (up 100 or 3.1%) for SPIRAL®, 5,410 (up 108 or 2%) for SPIRAL PLACE®, and 54 (down 5 or 8.5%) for SPIRAL EC®, which are core services and have relatively high average pricing, and 1,270 (down 37 or 2.8%) for Net de Kaikei® and Net de Aoiroshinkoku®, which has relatively low pricing. These trends indicate why the sales growth rate rose more than growth in overall number of active accounts.

Trends in Active Account Number and the Cancellation Rate

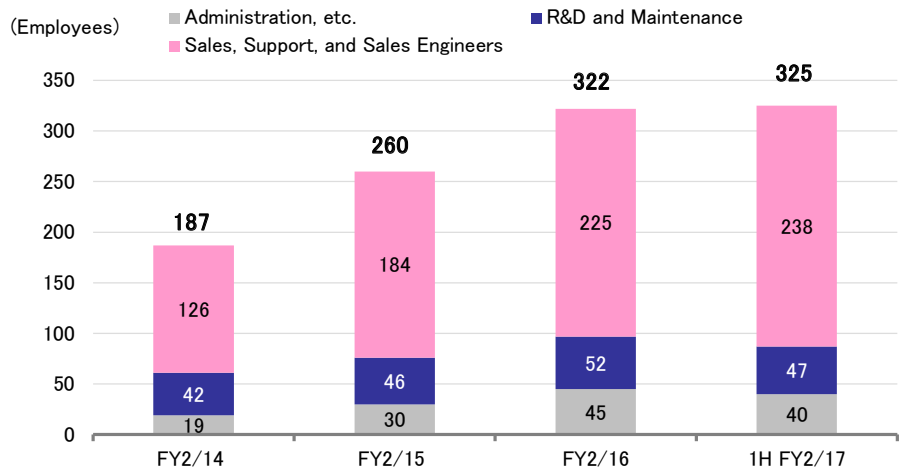


b) Profit and loss by segment

In sales by segment, sales for the Information Asset Platform business were ¥1,635mn (up 9.1% YoY), mainly reflecting a steady increase in sales of the flagship product SPIRAL®. Advertising business sales were ¥122mn (up 11.1%), led by sales of SPIRAL Affiliate®. Solutions business sales increased sharply to ¥590mn (up 117.2%), mainly reflecting the inclusion of WEARHART and Current in the scope of consolidation, as well as strong performance by Paperless Studios Japan and the outsourcing/production business and an increase in sales of EC management.

In operating profit by segment, the Information Assets Platform business recorded operating profit of ¥404mn (up 33.1% YoY), due to steady profit growth in SPIRAL®. Operating profit in the Advertising business increased to ¥34mn (up 25.9%) due to an increase in sales. In the Solutions business, the Company recorded an operating loss of ¥30mn (compared to operating profit of ¥11mn), due to upfront investment in WEARHEART and increased personnel costs at Paperless Studios Japan.

Trend in Employee Numbers



Until FY2/16, the Company aggressively invested in human resources and increased number of employees. In 1H FY2/17, however, it curtailed investments in employment and thus only added three employees from the end of FY2/16 to 325 employees at the end of 1H FY2/17 (up 65 employees YoY).

Bolstered trust from customers, despite unauthorized accesses, thanks to its timely response

c) Impact of unauthorized accesses to SPIRAL EC®

One of the Company's core products, SPIRAL EC®, a platform specialized for the apparel industry, encountered unauthorized access from an external party in June 2016, and the Company discovered that personal information might have been improperly viewed as well as signs of personal information leaks. The Company promptly took the following measures in its dealings with all customers.

○First notice (June 22)

Report on the event, impact scope, cause, and occurrence background and emergency actions and policies for preventing recurrence in light of this information

○Second notice (June 30)

Follow-up report on emergency actions and policies for preventing recurrence. Explanation of the background and aim of the establishment of the "unauthorized access countermeasures office" as part of prevention efforts

○Third notice (July 15)

Follow-up report on emergency actions implemented after the second notice. Report on appointment of an external security specialist as a technical adviser on prevention measures and establishment of an emergency security countermeasures council

○Fourth notice (July 27)

Report on "confirmation of a certain level of safeness in the current system" (safety declaration) by the emergency security countermeasures council including the external security specialist (technical adviser) mentioned in the third notice

The Company also announced that it conducted a comprehensive inspection of SPIRAL®, a core service with a different system configuration, and confirmed this system's security in addition to SPIRAL EC® being affected by the unauthorized access incident).

All of the Company's employees took part in immediate and careful response to existing customer after the unauthorized access incident, and this approach forced the Company to suspend new sales efforts for roughly a month. The disruption was a factor that contributed to missing the initial forecast as noted above. The Company also booked a roughly ¥15mn extraordinary losses for one-time costs related to damage compensation and service security enhancement measures.

The unauthorized access incident was a serious matter for the Company in light of "reliable security" being one of the sales points for the service (software), and there was a possibility of "questions about whether the business could continue" depending on circumstances. However, the Company's employees joined together to deliver a rapid and sincere response to the incident, and this effort resulted in advancing repairs and improvements of the service (software) and minimized the loss of customer trust. In fact, the Company only had a few cancellations after the unauthorized access and this outcome confirms that customers continue to trust the Company.

While the Company confronted crisis conditions at one point because of the unauthorized access incident, as explained above, it has not only fully achieved service (product) safeness, but also even bolstered security. It lost one month's worth of new sales opportunities. Yet the experience raised employee cohesiveness and awareness of operations further and showing intangible positive effect. Furthermore, the Company kept cancellations to a small amount and has not lost customer trust. The unauthorized access problem hence has been fully resolved at this point and is not affecting the Company's business.

d) Financial position and cash flows

Looking at the Company's financial position as of the end of 1H FY2/17, total assets were ¥5,354mn (up ¥1,597mn YoY). The major factor was a rise in current assets (mainly cash and deposits) of ¥1,477mn as a result of ¥1,500mn in bank loans. Total liabilities were ¥3,452mn (up ¥1,528mn), mainly due to a ¥1,240mn increase in fixed liabilities related to an increase of long-term loans payable. Net assets rose ¥68mn to ¥1,902mn, largely due to an increase in legal retained profit from booking quarterly net profit.

Balance Sheets

	(¥mn)		
	End of FY2/16	End-of 1H FY2/17	Change
Current assets	1,919	3,534	1,615
Fixed assets	1,837	1,820	-17
Total assets	3,757	5,354	1,597
Current liabilities	1,873	2,161	288
Fixed liabilities	50	1,290	1,240
Total liabilities	1,923	3,452	1,528
Total net assets	1,833	1,902	68

In terms of cash flows, operating activities provided net cash of ¥234mn. Investing activities used net cash of ¥142mn (mainly ¥83mn in purchase of intangible fixed assets and ¥60mn in purchase of investment securities), and financing activities provided net cash of ¥1,386mn (mainly ¥1,600mn in proceeds from loans payable). Consequently, cash and cash equivalents increased ¥1,477mn to ¥2,397mn at the end of 1H FY2/17 (up from ¥920mn at the end of FY2/16).

Cash Flow Statement

	(¥mn)	
	1H FY2/16	1H FY2/17
Cash flow from operating activities	238	234
Cash flow from investing activities	-701	-142
Cash flow from financing activities	-49	1,386
Change in cash and cash equivalents	-512	1,477
Year-end balance of cash and cash equivalents	855	2,397

Forecast sales to rise 34.8% YoY to ¥5.4bn, net profit to rise 133.9% to ¥5.8bn

(2) FY2/17 (full-year forecasts)

The forecasts for FY2/17, which is already underway, are for sales of ¥5,400mn (up 34.8% YoY) operating profit of ¥1,000mn (up 72.2%), recurring profit of ¥990mn (up 76.5%), and net profit attributable to owners of the parent of ¥580mn (up 133.9%).

	FY2/16		FY2/17 (E)		(Change)	
	Amount	%	Amount	%	Amount	%
Sales	4,006	100.0	5,400	100.0	1,394	34.8
Operating profit	580	14.5	1,000	18.5	419	72.2
Recurring profit	560	14.0	990	18.3	429	76.5
Net profit attributable to owners of the parent	247	6.2	580	10.7	332	133.9

While fulfillment rates for FY2/17 forecast were just 43.5% in sales and 40.9% in operating profit, the Company uses a recurring revenue business model (cloud-base), and we think it is sufficiently within reach of FY2/17 targets in light of full contributions in 2H from sales at customers (accounts) acquired during 1H.

The Company does not disclose segment sales forecast. However, it expects higher sales for the information assets platform business to post higher sales as BIREKI, Publica, and Sprinklr monetize, and for the advertising business owing to the acquisition of orders through a new company jointly established with East Japan Marketing & Communications, Inc. and others, as well as the acquisition of SNS advertising demand. For the solutions business, it factors in higher sales at Paperless Studio Japan and WEARHEART and sales from Current, a newly consolidated subsidiary. For these reasons, the ¥5,400mn goal does not seem difficult to attain in light of these trends.

Looking at expenses, the Company expects a decline in the growth pace for personnel costs as the Company recruited a large number of personnel from FY2/14 to FY2/15, and these employees are already starting to contribute on the frontlines. Sales growth hence should be capable of absorbing higher spending, and profit should rise sharply if sales can be expanded. Additionally, as noted above, the Company has fully resolved the unauthorized accesses problem that occurred in June 2016, and this incident does not affect the FY2/17 outlook.

■ Mid-term Management Plan

Healthy qualitative progress toward goals

(1) Current Mid-term Management Plan

The Company announced a Mid-term Management Plan (three years) that lasts through FY2/17 as the final year, and its current numerical goals are ¥5,400mn in sales and ¥1,000mn in operating profit, as noted above. These goals work out to increases versus FY2/14 levels of 118% in sales and 148% in operating profit. While these are strong growth rates for an ordinary company, profit growth seems inadequate in comparison to the sales growth as a cloud-based business.

Primary reasons for the slightly weak profit growth rate were the increase in employees due to aggressive investment in human resources to prepare for future growth and expansion of group companies through M&A and spinoffs of internal operations. However, these are upfront investments in future growth and adhere to the Mid-term Management Plan. While it appears that quantitative values might be slightly lacking relative to the plan's goals, the Company is making sufficient progress in qualitative content.

(2) Next Mid-term Management Plan

The Company is currently in the process of formulating the next Mid-term Management Plan for FY2/18 and beyond. While it put priority on strengthening personnel and adding group companies during the current Mid-term Management Plan period, as noted above, the aim in the next plan is monetizing these upfront investments. The Company has already procured ¥1,500mn in funds, taking advantage of low interest rates, and is prepared on a funding basis for the next growth phase. It will be interesting to see the numerical targets set by the Company in the next Mid-term Management Plan.

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