

PIPEDO HD, Inc.

3919

Tokyo Stock Exchange First Section

18-Nov.-2021

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

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Summary

Operating profit increased 48.8% YoY in 1H FY2/22. Company announced that it would conduct an MBO

PIPEDO HD, Inc. <3919> (hereafter, “the Company”) is a pure holding company, and PIPED BITS Co., Ltd., its main consolidated subsidiary, is a unique IT company that supplies its proprietary SPIRAL® platform (middleware) in a cloud format. The Company provides a platform for national clients and other large companies, mid-sized companies, and small and medium-sized system integrators and also sells proprietary applications for specific industries (such as beauty and construction industries) and engages in businesses that utilize these applications. On September 30, 2021, the Company announced a tender offer (MBO: Management Buyout).

1. Summary of 1H FY2/22 results

In 1H FY2/22, net sales were ¥3,795mn (up 27.6% year on year (YoY)), operating profit was ¥824mn (up 48.8%), recurring profit was ¥879mn (up 57.9%), and profit attributable to owners of parent was ¥566mn (up 56.0%), as results significantly exceeded the initial forecasts. Due to the impacts of the COVID-19 pandemic, there was a steady continuation of orders received for urgent system projects related to dealing with the COVID-19 pandemic, which led to a large increase in both sales and profit in the mainstay Horizontal DX (mainly cloud) segment, and this was the driver for overall results. In Vertical DX (xTech and social innovation), net sales remained small in scale and an operating loss was posted, but the impact on overall results was minimal. In Customer Engagement, both sales and profit increased due to the steady acquisition of advertising projects, but in CRM solutions sales increased while an operating loss was posted. The number of active SPIRAL® accounts steadily increased, but the majority of the increase came from fixed-term contracts* related to COVID-19 pandemic response, while it appears that the growth in continuing contracts, which are the basis for the Company’s original business model, was not necessarily large.

* Fixed-term contracts refer to contracts from local governments and other entities that have an end date, unlike continuing contracts (that automatically renew almost every year), which form the core of the Company’s conventional cloud contracts.

2. FY2/22 outlook

For FY2/22 consolidated results forecasts, the Company has left its revised forecasts announced in June 2021 unchanged. It is forecasting ¥7,300mn in net sales (up 11.9% YoY), ¥1,500mn in operating profit (up 5.1%), ¥1,500mn in recurring profit (up 3.1%), and ¥900mn in profit attributable to owners of parent (down 26.6%). The decline in profit attributable to owners of parent is due to the posting of gains on sales of U.S. stocks in the previous fiscal year. Despite the fact that 1H results were stronger than expected, the Company left its full-year forecasts unchanged. This was due to the fact that, as the COVID-19 pandemic is in the process of being brought under control with the good progress on COVID-19 vaccinations, there is a strong likelihood that the fixed-term contracts of the same type provided in order to deal with the pandemic will expire in 2H. Also, although the Company paid a dividend of ¥11.0 per share at the end of 1H FY2/22, the Company plans to pay no fiscal year-end dividend on the condition that the tender offer is deal gets done.

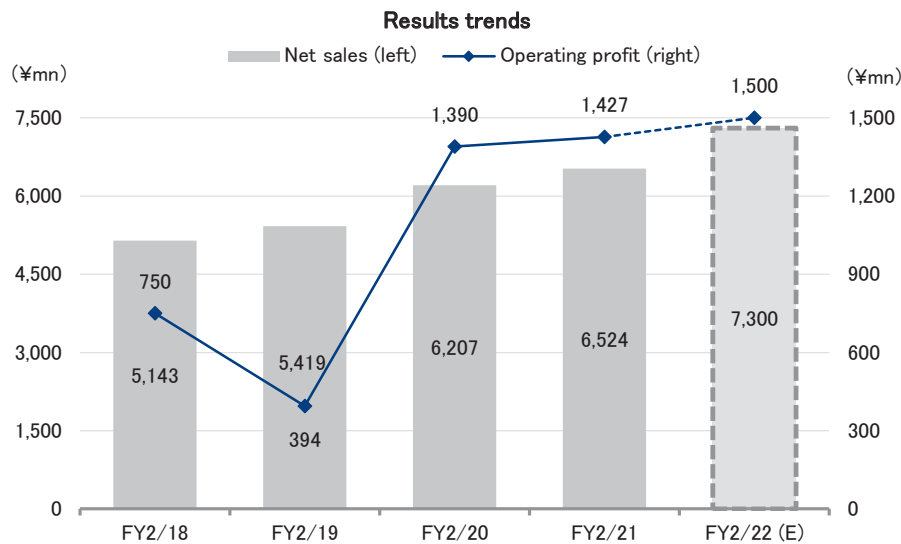
Summary

3. MBO

On September 30, 2021, the Company announced that it will carry out a tender offer for common shares and stock acquisition rights, as well as subsequently acquire treasury shares. The details are found on the materials that the Company has disclosed, and the Company is announced that it will recommend for this MBO. Additionally, the Company has announced that it intends to delist its shares after the completion of the acquisition of treasury shares and the tender offer.

Key Points

- Conducts businesses that primarily leverage the proprietary SPIRAL® platform
- 1H FY2/22 operating profit increased 48.8% YoY, and the Company expects full-year operating profit to rise 5.1% YoY
- Announced an MBO and acquisition of treasury shares. After the deal is complete, the Company intends to delist its shares



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

Company profile

Conducts businesses that primarily leverage the proprietary SPIRAL® platform

1. Company profile

The Company is a pure holding company established through a transfer of shares from PIPED BITS on September 1, 2015. It has 12 consolidated subsidiaries and one equity-method affiliate as of August 31, 2021.

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Company profile

2. History

PIPED BITS was established in April 2000 by Nobuaki Satani, the current president of PIPEDO HD. For most companies, data acquired in the course of business including customer attributes and email addresses form important “information assets,” so PIPED BITS 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 in rolling out these business applications.

PIPEDO HD history

Sep. 2015	PIPEDO HD was established by a single transfer of shares from PIPED BITS Co., Ltd. and listed on the First Section of Tokyo Stock Exchange (PIPED BITS Co., Ltd. was delisted in August 2015). PIPEDO HD acquired the shares of the four subsidiaries of PIPED BITS via a property dividend, converting them into its own subsidiaries
Dec. 2015	Made additional investment in Current Inc., converting it into a subsidiary
Mar. 2016	Established GONDOLA CO., LTD., FRIENDIT Inc., and BIREKI Co., Ltd.
Oct. 2016	Established BLOOM NOTES, INC.
Mar. 2017	Established VOTE FOR, INC. and I LOVE, INC.
Dec. 2017	Established L Coin, Inc.
Mar. 2018	Established Shimokita Coin, Inc.
Apr. 2018	Implemented an absorption merger with FRIENDIT Inc. as the surviving entity and AsBase Inc. as the eliminated entity
May 2019	Implemented an absorption merger with VOTE FOR, INC. as the surviving entity and Publica Co., Ltd. as the eliminated entity
Mar. 2020	Established Double Sharp Partners Corporation

Source: Prepared by FISCO from the Company's website

PIPED BITS 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 Jinnan, Shibuya Ward, Tokyo
Jan. 2001	Changed trade name to PIPED BITS Co., Ltd.
Feb. 2001	Launched SPIRAL Messaging Place® service, an 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 Tokyo Stock Exchange Mothers market
Apr. 2009	Changed the service name from SPIRAL Messaging Place® to SPIRAL®
Jan. 2010	Acquired certain operations, namely the CMS and EC businesses of HiDESIGNS Inc.
Apr. 2010	Launched apparel EC platform SPIRAL EC®
Dec. 2010	Started to tackle the internet advertising and internet media-related areas and launched media EC operations
Mar. 2011	Acquired the apparel web solution business of Gras CORPORATION and launched e-commerce business to operate, manage, plan and produce e-commerce sites tailored to the apparel and fashion space
Sep. 2011	Increased capital via a third-party capital allotment to United Ventures Inc. Acquired Net de Kaikei®, a cloud-based accounting business, from Business Online Co., Ltd.
Mar. 2012	Acquired Bijoshimeikan, a hair catalogue publication business, from SAMURAI PROJECT CORPORATION Made PaperlessStudio co., Ltd. a subsidiary
Mar. 2014	Made AsBase Inc. a subsidiary via a stock swap
Feb. 2015	Invested in Sprinklr Japan KK
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	Established WEARHEART Inc.

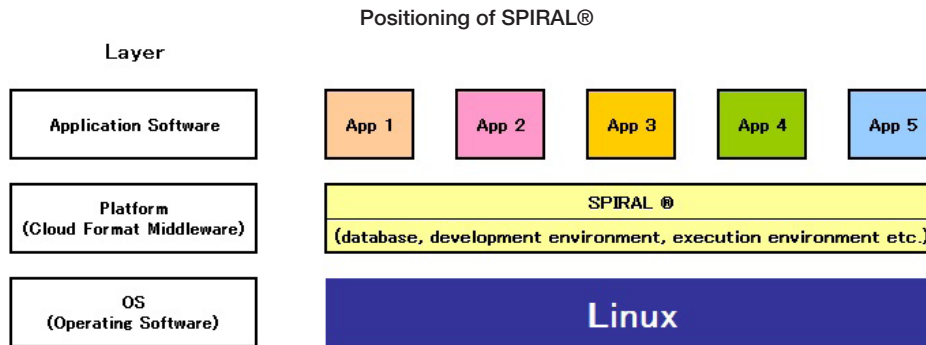
Source: Prepared by FISCO from the Company's website

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3. Business overview

(1) Product overview

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 format (a monthly fee method). Within the layers of software, SPIRAL®’s position may be referred to as a cloud-based middleware.



Source: Prepared by FISCO from Company website and 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 its post-development. As SPIRAL® developed by PIPED BITS is already equipped with development tools, this not only enables easier development of different kinds of applications, but customer data and other data stored in SPIRAL® can also be shared and used with other applications thanks to the platform’s built-in database. Furthermore, these applications and data 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 have been provided in a cloud format, with them being described in a variety of ways depending on the content of the particular cloud format service. SPIRAL® belongs to the area generally called PaaS (Platform as a Service), in other words, this field provides not only applications used in various business operations, but also the platforms that run these applications in a cloud format.

(2) Main product content and prices

The Company’s flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it range from large companies which internally develop operating software and other software to small and medium-sized system integrators who develop systems for SMEs and web production and development companies. By using SPIRAL®, the Company is also able to internally develop applications aimed at specific industries and users, and then sell those applications. These types of core products are not sold as a package (outright sales) but are sold entirely in an ASP format. Below are the major products and their monthly pricing (minimum fees).

Company profile

It goes without saying that in the Company's business model, increases in active (fee-based) accounts are 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.

a) SPIRAL®

This is the Company's main product. The core platform is equipped with a database, development environment, execution environment, and other features. While it is often utilized in email distribution, seminar management, and questionnaire form creation applications, this product offers many other functions as well. Furthermore, it flexibly coordinates with services from other companies and customization can substantially broaden the scope of applications. Monthly usage fees start from ¥50,000 (excluding tax; the price was revised in October 2020).

b) SPIRAL PLACE®

Cloud format groupware possessing website creation and updating functions, and at the same time linked to SNS. As groupware, SPIRAL PLACE® enables calendar and file sharing while using simple operations to enhance and update web content, as well as traffic analysis. It can also be linked to Facebook and Twitter. It is highly regarded by retail chain stores and others that employ large numbers of staff. Basic fees start at ¥6,000/month (excluding tax).

c) SPIRAL EC®

An e-commerce (EC) platform focused on apparel. It is highly received by the industry for resolving a number of issues, such as simplifying update procedures and maintaining a low budget, while also pursuing a sophisticated brand image for EC sites for apparel. Fees are pay-for-use up to 5% of the transaction amount.

d) SPIRAL Affiliate®

A holistic ASP affiliate management service that reduces the issues and costs associated with introducing and operating affiliate marketing for advertisers. It includes special offers for SPIRAL® users, such as no initial costs.

e) Other

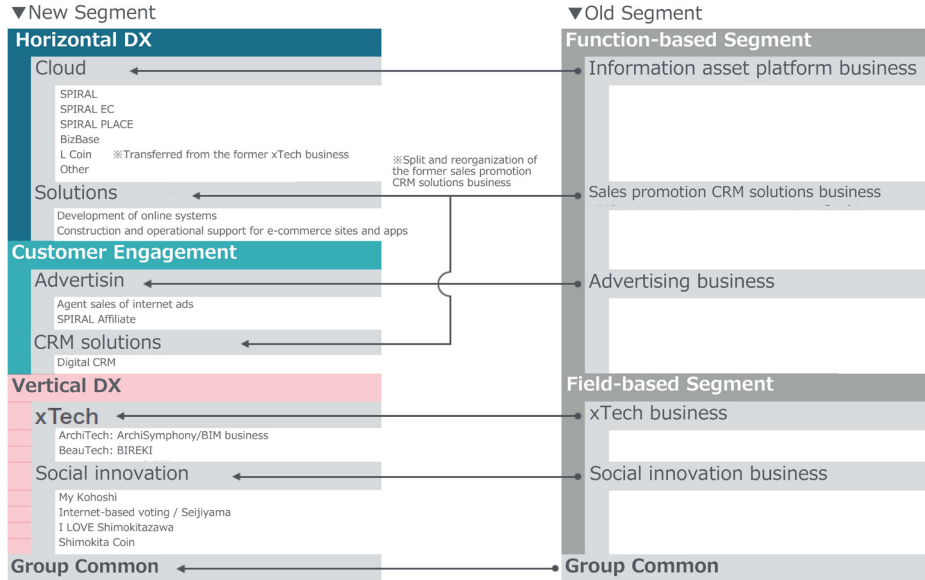
There are also applications aimed at specialist fields and industry sectors. Furthermore, through alliances with various specialist companies, the Company aims to expand the use and applications of SPIRAL®.

(3) Business segments

In terms of its business segments, until FY2/21, the Company divided itself into the Function-based segment, the Field-based segment, and the Group Common segment, and each of its businesses were sorted into one of these segments. However, in order to set the Group on a clearer growth trajectory, the Company made changes to its business segments taking effect from FY2/22. Specifically, upon splitting up its existing sales promotion CRM solutions business, the Company created a "Horizontal DX" segment which consists of the solutions portion of its sales promotion CRM solutions business combined with its information asset platform business (cloud services). The Company also created a new "Customer Engagement" segment which encompasses its advertising business integrated with other operations of the sales promotion CRM solutions business. The name of the existing Field-based segment was changed to the "Virtual DX" segment given that it engages in industry- and sector-specific solutions. The Group Common segment comprises the pure holding company management costs, Group hiring- and development-related costs, investment gains/losses, and other items that had previously been split up among each business sector.

Company profile

Changes to business segments



Source: The Company's results briefing materials

Overview of segments

Segment	Description	Businesses
Horizontal DX	Cloud As one solution in today's society facing a shortage of manpower, develop and provide systems that contribute to cost reductions and operational efficiency improvements in client companies/organizations	SPIRAL, SPIRAL EC, BizBase
	Solutions Provide services that support business optimization utilizing IT in client companies and organizations and the creation and strengthening of contact opportunities with customers, and contract the development of optimal IT systems for clients according to their needs	Web system development, EC site/app construction
Vertical DX	xTech Support the promotion of DX specializing in various fields, including construction, beauty, government/bureaucracy, town management, etc.	BIM business, BIREKI
	Social innovation Engage in businesses with public benefits, aiming not to help individual companies and industries solve internal problems, but to solve broader societal issues	My Kohoshi, Internet-based voting/Seijiyama, I LOVE Shimokitazawa, Shimokita Coin
Customer Engagement	Advertising Utilize online advertisements to help attract customers, and provide services that seamlessly support CRM after bringing in customers	SPIRAL Affiliate, agency sales of online advertising
	CRM solutions Comprehensive support for companies' digital marketing by providing the knowledge of dedicated data scientists and a secure environment so that companies can strategically operate CRM utilizing customer data	Digital CRM
Group Common	Group Common Segment comprising the management costs of the pure holding company, costs related to Group hiring and development, investment income/losses, etc., which are not directly linked to the businesses in any segment	Pure holding company management costs, Group hiring and development costs, investment income/losses
	Group Common Same as above	

Source: The Company's results briefing materials

(4) Main consolidated subsidiaries and their business overviews

In addition to the mainstay businesses (PIPED BITS' SPIRAL®), the Company also operates various related businesses via the following subsidiaries.

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

Company profile

a) PaperlessStudio co., Ltd.

PaperlessStudio is involved in the construction project planning and management and BIM (Building Information Modeling) consultant businesses. The company also runs BIM and CIM (Construction Information Modeling) personnel workshops for people working in design and construction. In May 2021, the company concluded a BIM/CIM partnership agreement with four construction companies in Saitama, and it is now working to advance construction DX.

b) VOTE FOR, INC.

The Company established this entity in March 2017 to facilitate internet-based voting. It aims to build voting systems that utilize blockchain and other new technologies. It also continues to operate the Seijiyama® political and election information website that existed internally*.

| * Publica underwent an absorption merger on May 1, 2019. |

c) GONDOLA CO., LTD.

GONDOLA was formed by the corporate split of the Media Strategy Company on March 1, 2016. The company is active in the three service domains of advertising solutions, web solutions, and social management. With its original service lineup in planning, production, system development, and operation, the company enables one-stop solutions for solving companies' management issues and optimizing their business activities.

d) 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 insufficient experience, the company produces marketing activities that directly boost sales volume and sales figures, 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 split-off from the in-house Apparel and Fashion company.

e) BIREKI Co., Ltd.

BIREKI provides IT services centered on the digital 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 treatments more accessible and enjoyable. The company was newly established on March 1, 2016 through a corporate spin-off from the previous Bireki Company.

f) 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 PIPED BITS, which has expertise in information asset utilization and IT solutions, and Current, with its strengths in stationed marketing support, the Company increased its equity stake in Current in December 2015 and converted it into a subsidiary. In April 2020, the company transferred its mainstay business to GONDOLA. In April 2021, the Company then sold all of its shares of Current, removing Current from the Company's scope of consolidation.

g) I LOVE, INC.

The Company created this entity in March 2017 to make further progress in the I LOVE Shimokitazawa local revitalization project and pursue development of a new transaction format for donations, tips, and other small-sum transactions employing electronic regional currency.

Company profile

h) L Coin, Inc.

The Company invested 70% in L Coin, which was established in December 2017, making it a consolidated subsidiary. L Coin builds payment systems for local governments, companies, and local financial institutions using an electronic regional currency platform that applies blockchain technology and thereby promotes cashless transactions in local communities. It can also issue unique electronic regional currencies at low costs through the platform and supports smooth development of payment systems and store point systems.

i) Shimokita Coin, Inc.

This company was established in March 2018 as a subsidiary of L Coin (an indirectly owned subsidiary of the Company). Using an electronic regional currency platform provided by L Coin, the company issues electronic regional currency limited to the Shimokitazawa area. Also, the company aims to energize the local economy by working with I LOVE to attract investment and member stores among local shops.

j) Double Sharp Partners Corporation

The Company established this entity on March 4, 2020 as a specialty organization focused on investing in venture companies inside and outside the Group with the aim of promoting longer-term advances and higher profitability by the Group.

SPIRAL®'s primary feature is flexible customization

(5) Special characteristics and strengths**a) Ease of system construction**

SPIRAL®'s greatest distinguishing feature is its ability to be freely customized. The Company itself combines SPIRAL®'s functions to develop applications for its own operational systems and specific customers (areas). Almost any operational system could be created by combining SPIRAL®'s functions. These operational systems have been generally developed by operators known as system integrators. However, it is possible to replace the majority of the work traditionally done by system integrators through a combination of SPIRAL®'s functions, with corporate customers able to easily undertake a range of development and system creation themselves. For this reason, SPIRAL® is attractive not only to large corporations, but also SMEs that are unable to bear the high cost of system development, as the platform is affordable and easy to use.

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 in which companies undertake online surveys, market research or new product evaluations, the company can very easily create a survey, deliver it to targeted and prospective customers, have them complete the surveys, and then collect them using SPIRAL®. 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 can 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.

Company profile

In the same way, with regard to creating forms, such as for gift promotions/affinity marketing campaigns, recruitment application forms, inquiry 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 (now FRIENDIT), which possesses voice (telephone) solutions, it is expected that customer convenience will be enhanced further.

One of the Company's competitors is salesforce.com Co., Ltd. <CRM> of the US, 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, one could say that 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 easily (inexpensively and quickly) be linked.

c) Superiority in installation costs and security

Also, 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 costs, 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 small and medium-sized system integrators. 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 system integrators to deal with it individually. Use of SPIRAL®, meanwhile, reassures end customers about security.

Many SMEs cannot afford the expenses required for system development and security. The Company's products solve these issues in a one-stop manner; thus, the Company's products are attractive not only to large corporations but to SMEs as well.

d) Installation case studies

A case study of the Company's installation of SPIRAL® is provided by Oriental Hotel Tokyo Bay. This hotel was using a coupon delivery app to deliver coupons to registered users. But the app was not linked to their PMS*, so it could not be linked to the hotel's members and could not effectively deliver coupons to members. As a result, the hotel could not effectively entice hotel members to visit, and it was losing opportunities to improve earnings. So the Company developed an information system that linked to member information within the hotel's PMS and did not use a smartphone app, but rather used SPIRAL® and LINE, which enabled it to cut development costs in half. Linking SPIRAL®, LINE, and the hotel's PMS and distributing effective information on LINE based on hotel members' frequency of use, gender, and address has made it possible to promote visits by hotel members. All installation case studies are not the same, but this is an excellent case study showing the superiority of SPIRAL®.

* PMS (Property Management System): A system for accommodation reservations, room management, etc.

■ Results trends

In 1H FY2/22, operating profit increased 48.8% YoY due to growth in the cloud domain

● Summary of 1H FY2/22 results

(1) Profit and loss conditions

In 1H FY2/22, net sales were ¥3,795mn (up 27.6% YoY), operating profit was ¥824mn (up 48.8%), recurring profit was ¥879mn (up 57.9%), and profit attributable to owners of parent was ¥566mn (up 56.0%), as results significantly exceeded the initial forecasts.

Due to the impacts of the COVID-19 pandemic, there was a steady continuation of orders received for urgent system projects related to dealing with the COVID-19 pandemic, which led to a large increase in both sales and profit in the mainstay Horizontal DX segment (mainly cloud), and this was the driver of overall results. In Vertical DX (xTech and social innovation), net sales remained small in scale and an operating loss was posted, but the impact on overall results was minimal. In Customer Engagement, both sales and profit increased due to the steady acquisition of advertising projects, but in CRM solutions sales increased while an operating loss was posted. The number of active SPIRAL® accounts steadily increased, but the majority of the increase came from fixed-term contracts related to COVID-19 pandemic response, while it appears that the growth in continuing contracts, which are the basis for the Company's original business model, was not necessarily large.

In profit-loss, the gross profit margin improved to 76.6% (75.6% in the year-earlier period), mainly due to the increase in the percentage of total sales provided by the cloud domain which has a comparatively high profit margin, and the liquidation of an unprofitable subsidiary, and gross profit was ¥2,907mn (up 29.2% YoY). SG&A expenses increased 22.8%, as although operating expenses (business trip expenses, etc.) decreased due to the impact of the COVID-19 pandemic, there were increases in outsourcing costs due to business expansion, personnel expenses following the recruitment of new graduates, as well as the posting of expenses related to the MBO (¥142mn). As a result, operating profit increased 48.8% YoY.

Results trends

Simplified income statement

	(¥mn)					
	FY2/21 2Q		FY2/22 2Q		Change	
	Results	% of sales	Results	% of sales	Amount	%
Net sales	2,974	100.0%	3,795	100.0%	820	27.6%
(Horizontal DX)	2,251	75.7%	2,914	76.8%	663	29.5%
Cloud	2,077	69.8%	2,726	71.8%	649	31.3%
Solutions	174	5.9%	187	5.0%	13	7.9%
(Vertical DX)	128	4.3%	129	3.4%	0	0.5%
xTech	91	3.1%	92	2.4%	1	1.5%
Social innovation	37	1.3%	36	1.0%	0	-2.0%
(Customer Engagement)	594	20.0%	751	19.8%	156	26.3%
Advertising	354	11.9%	431	11.4%	76	21.7%
CRM solutions	240	8.1%	319	8.4%	79	33.2%
Gross profit	2,249	75.6%	2,907	76.6%	657	29.2%
SG&A expenses	1,695	57.0%	2,082	54.9%	386	22.8%
Operating profit	553	18.6%	824	21.7%	270	48.8%
(Horizontal DX)	734	32.6%	1,117	38.3%	383	52.2%
Cloud	691	33.3%	1,058	38.8%	366	52.9%
Solutions	42	24.2%	59	31.7%	17	41.4%
(Vertical DX)	-0	-0.5%	-17	-13.3%	-16	-
xTech	12	14.0%	1	1.1%	-11	-91.9%
Social innovation	-13	-36.2%	-18	-49.9%	-4	-
(Customer Engagement)	77	13.1%	123	16.4%	45	58.1%
Advertising	129	36.6%	169	39.2%	39	30.4%
CRM solutions	-51	-21.5%	-45	-14.3%	5	-
Company-wide costs	-257	-	-399	-	-141	-
Recurring profit	557	18.7%	879	23.2%	322	57.9%
Profit attributable to owners of parent	362	12.2%	566	14.9%	203	56.0%

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

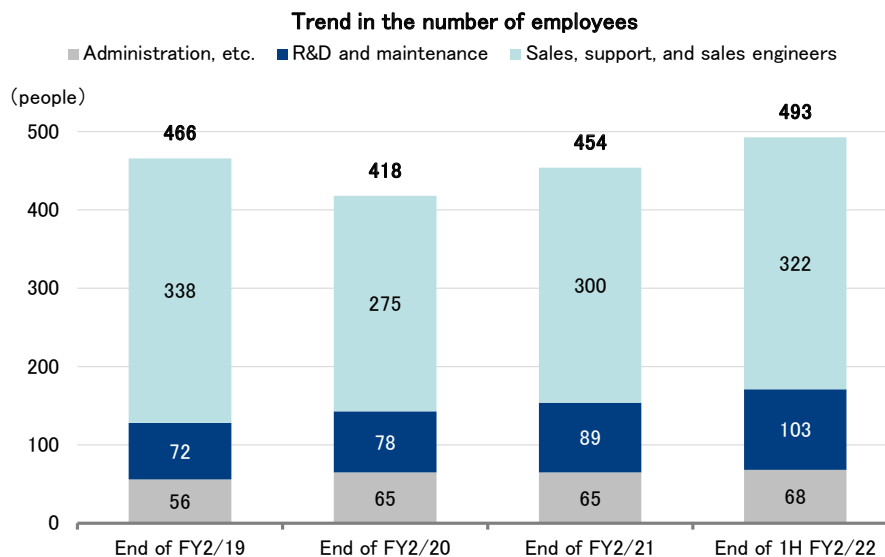
Net sales increased ¥820mn YoY, with the main factors of change including an increase of ¥663mn in the Horizontal DX segment (of which, an increase of ¥649mn in cloud), an increase of ¥0mn in the Vertical DX segment, and an increase of ¥156mn in the Customer Engagement segment (of which, an increase of ¥76mn in advertising and an increase of ¥79mn in CRM solutions).

Operating profit increased by ¥270mn YoY. Primary factors behind the change included an increase of ¥820mn due to the increase in net sales, a ¥33mn increase in others, a ¥172mn decrease due to an increase in work consignment costs (of this, ¥142mn increase from MBO-related costs), a ¥156mn decrease due to an increase in outsourcing expenses associated with the increase in sales, ¥106mn decrease due to an increase in personnel expenses attributable mainly to the hiring of 31 new graduates, a ¥81mn decrease due to the increase in research and development expenses, and a ¥66mn decrease due to the increase in sales promotion expenses.

Results trends

(2) Trend in the number of employees

The Company actively recruited human resources (conducted up-front investment) from FY2/18 to FY2/19 in order to achieve the targets in the medium-term business plan which establishes FY2/20 as the final year, and at the end of FY2/19, it had 466 employees. Subsequently, in FY2/20, it refrained from new recruitment, including of new graduates, so at the end of FY2/20, this number had declined to 418 employees. However, with an eye to growth in the future, on entering FY2/21, it recruited 37 new graduates and 11 recent graduates who had prior work experience but were unemployed at the time. As a result, when combined with the natural decrease, the Company had 454 employees at the end of FY2/21 (up 36 employees compared to the end of the previous fiscal period). Additionally, because the Company hired 31 new graduates since the start of FY2/22, the number of employees increased to 493 at the end of 1H FY2/22. The fact that the Company was able to absorb the increase in personnel and achieve a large increase in operating profit is worthy of praise.



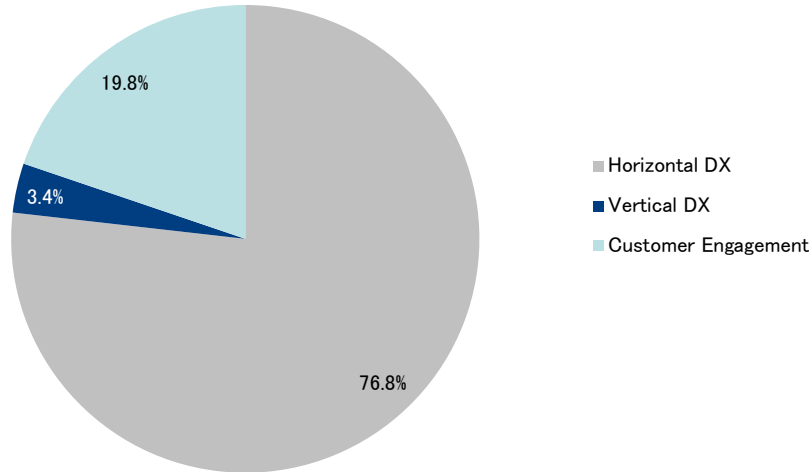
Source: Prepared by FISCO from the Company's results supplementary materials

Results trends

(3) Profit and loss by segment

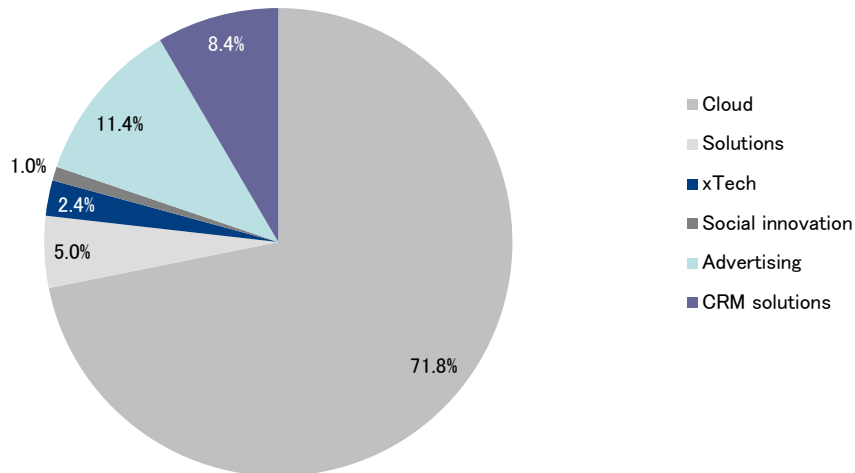
The situation by segment is discussed below.

Ratio of sales by major segment
 (1H FY2/22: ¥3,795mn)



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

Ratio of sales by sub-segment
 (1H FY2/22: ¥3,795mn)



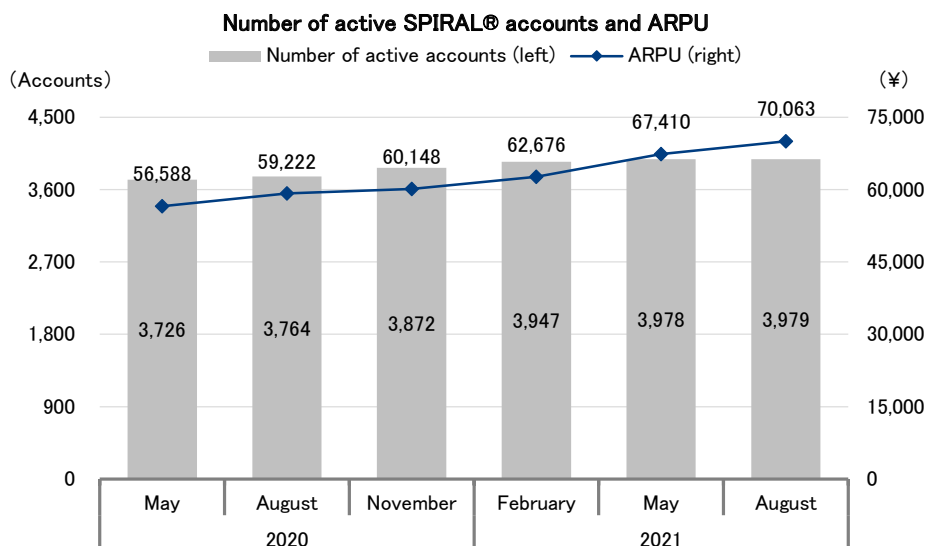
Source: Prepared by FISCO from the Company's results supplementary materials

Results trends

a) Horizontal DX: Cloud

Net sales were ¥2,726mn (up 31.3% YoY) and operating profit was ¥1,058mn (up 52.9%). Contract sales (cloud-use monthly fees) increased significantly, as the number of active SPIRAL® accounts (including fixed-term contracts) had increased to 3,979 at the end of 1H FY2/22 (3,947 at the end of FY2/21, and 3,764 at the end of 1H FY2/21), and ARPU* also rose. On the other hand, general sales, which are spot sales, were a bit weak due to the self-restraint on sales activities and postponements of sales talks as a result of the COVID-19 pandemic. This business's mainstay is contract sales, and after passing the profit-loss breakeven point, the profit margin is high, so segment profit rose alongside the increase in contract sales. However, it should be noted that the main factor behind the increase in the number of active SPIRAL® accounts was fixed-term contracts primarily from local governments, such as urgent orders for systems related to dealing with the COVID-19 pandemic response.

* ARPU: Average Revenue Per User



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

b) Horizontal DX: Solutions

Net sales were ¥187mn (up 7.9% YoY) and operating profit was ¥59mn (up 41.4%). There was an increase in the ratio of sales of projects for Web system development consignment and operational support not involving outsourcing, so the profit margin improved.

c) Vertical DX: xTech, Social innovation

Net sales were ¥129mn (up 0.5% YoY) and operating loss was ¥17mn (operating loss of ¥0mn in the year-earlier period), so results were generally on par with the year-earlier period. Because the level was low, the impact on overall results was small.

d) Customer Engagement: Advertising

Net sales were ¥431mn (up 21.7% YoY) and operating profit was ¥169mn (up 30.4%). Both sales and profit increased due to strong acquisitions of new budgets for SPIRAL Affiliate®.

Results trends

e) Customer Engagement: CRM solutions

Net sales were ¥319mn (up 33.2% YoY) due to an order for a large project being received. However, this is a long-term project so profitability at the current point in time is difficult, and a loss of ¥45mn was posted (¥51mn loss in the year-earlier period).

(4) Financial position and cash flow conditions

Looking at the financial position at the end of 1H FY2/22, total assets were ¥8,642mn (up ¥568mn on the end of the previous fiscal period). Current assets increased ¥530mn, with the main factors including that cash and deposits increased ¥579mn and notes and accounts receivable decreased ¥195mn. Fixed assets increased ¥37mn due to factors including the ¥46mn decline in intangible fixed assets and a ¥77mn increase in investments and other assets.

Total liabilities were ¥3,641mn (up ¥59mn from the end of the previous fiscal period), mainly due to a ¥71mn increase in accrued income tax. Net assets were ¥5,000mn (up ¥508mn), primarily because retained earnings increased ¥456mn due to the recording of profit attributable to owners of parent.

Simplified balance sheet

	(¥mn)		
	End of FY2/21	End of 1H FY2/22	Change
Current assets	6,921	7,452	530
Cash and deposits	5,049	5,628	579
Notes and accounts receivable	1,641	1,445	-195
Fixed assets	1,152	1,189	37
Tangible fixed assets	85	91	6
Intangible fixed assets	428	382	-46
Investments and other assets	638	715	77
Total assets	8,074	8,642	568
Current liabilities	3,127	3,226	98
Short-term loans payable, etc.	1,302	1,303	1
Fixed liabilities	454	415	-39
Long-term loans payable	453	411	-41
Total liabilities	3,582	3,641	59
Net assets	4,491	5,000	508

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

Net cash provided by operating activities was ¥747mn, with the main revenue items including the recording of net profit before income tax of ¥861mn, income taxes paid of ¥211mn, and income tax refund of ¥90mn. Net cash used in investing activities was ¥143mn, with the main items including expenditure on the acquisition of intangible fixed assets of ¥28mn, expenditure on the acquisition of investment securities of ¥25mn, and expenditure of ¥55mn for the sale of shares of a subsidiary accompanying a change in the scope of consolidation. Net cash used in financing activities was ¥61mn, with the main expenditure items including the dividend payment of ¥109mn. As a result, cash and cash equivalents increased ¥579mn during the period, and the balance of cash and cash equivalents at the end of 1H FY2/22 was ¥5,628mn.

Results trends

Simplified cash flow statement

	(¥mn)	
	1H FY2/21	1H FY2/22
Cash flow from operating activities	268	747
Cash flow from investing activities	-136	-143
Cash flow from financing activities	37	-61
Change in cash and cash equivalents	170	579
Balance of cash and cash equivalents at the end of 1H FY2/22	3,708	5,628

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

(5) Main topics during 1H FY2/22

a) “JoyPla” uses DX to solve inventory management problems in the healthcare field (April)

PIPED BITS released an upgraded version of JoyPla, the cloud-based mutual sharing SPD system* for small- and medium-sized hospitals. This is compatible with GS1-128 which enables barcode management of medical equipment, expiration dates, manufacturing lot numbers, and other details, and helps reduce operational costs related to inventory management as well as ensures safety at small- and medium-sized hospitals.

* SPD (Supply Processing and Distribution) system: A goods/logistics management system that improves hospital management and improves the efficiency of management operations, including cost reduction and cost management, by integrally managing inventory management, purchasing management, transport management, and consumption management of goods used and consumed by hospitals (medicines, reagents, sterilization/recycled products, stationery/ daily miscellaneous goods, printed materials, etc.).

b) Formal release of Koho Plus – My ○○ (April)

VOTE FOR formally released Koho Plus – My ○○ as a service platform supporting DX for local governments in regional areas. This service supports bi-lateral communication between local governments and residents, centered on public relations bulletins.

c) Sale of subsidiary's shares (April)

The Company sold all of its shares of Current, Inc., and Current was removed from the Company's scope of consolidation.

d) Upgraded version of SPIRAL® ver.1 (May)

With the aim of enhancing performance and safety, PIPED BITS upgraded SPIRAL® ver.1, and began providing the new version 1.13.4 which is compatible with PHP7.4 and promotes SSL at all times.

e) Issued carbon offset certificates (May)

PIPED BITS began issuing “Spiral Carbon Offset Certificates” for 2020. This contributes to realizing a decarbonized society by supporting users' SDGs initiatives. Since establishing the “Green IT Basic Policy” in 2008, PIPED BITS has been advancing the “Spiral Leads Green Project” which aims to achieve harmony between environmental protection and the advancement of IT-based life. Becoming carbon neutral and issuing offset certificates are both part of this project, and this marks the 12th consecutive year for this initiative.

f) Enhancement of SPIRAL® support (July)

PIPED BITS has started to provide “shared screen support” that allows support staff to see the computer screens of SPIRAL® users as they provide them with support. Unlike voice-only telephone support, by providing support while viewing the same screen as the customer, customers feel less anxious and a support experience providing a greater sense of security is provided.

Results trends

g) Released SPIRAL HR Cloud (August)

PIPED BITS began providing SPIRAL HR Cloud, an employee data management platform that eliminates paper documents in administrative procedures between employees and personnel management staff.

Business outlook

Kept FY2/22 revised forecasts unchanged, expecting 5.1% YoY increase in operating profit

● FY2/22 outlook

For FY2/22 consolidated results forecasts, the Company has left the revised forecasts announced in June 2021 unchanged. It is forecasting ¥7,300mn in net sales (up 11.9% YoY), ¥1,500mn in operating profit (up 5.1%), ¥1,500mn in recurring profit (up 3.1%), and ¥900mn in profit attributable to owners of parent (down 26.6%). The decline in profit attributable to owners of parent is due to the posting of gains on sales of on U.S. stocks in the previous fiscal year. Despite the fact that 1H results were stronger than expected, the Company left its full-year forecasts unchanged. This was due to the fact that, as the COVID-19 pandemic is in the process of being brought under control with good progress on COVID-19 vaccinations, there is a strong likelihood that the fixed-term contracts of the same type provided in order to help customers deal with the pandemic will expire in 2H.

FY2/22 forecasts

	FY2/21		FY2/22		Change	
	Results	% of sales	Forecast	% of sales	Amount	%
Net sales	6,524	100.0%	7,300	100.0%	775	11.9%
Operating profit	1,427	21.9%	1,500	20.5%	72	5.1%
Recurring profit	1,455	22.3%	1,500	20.5%	44	3.1%
Profit attributable to owners of parent	1,226	18.8%	900	12.3%	-326	-26.6%

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

■ MBO

On September 30, 2021, the Company announced that it will carry out a tender offer for common stock and stock acquisition rights, as well as subsequently acquire treasury shares. For details, please refer to the materials that the Company has disclosed on its website.

Notice Regarding Start of Tender Offer for the Company's Shares, etc. by Mirai Saiteki Group Co., Ltd. (Only in Japanese)

https://www.pipedohd.com/news/pdf/irnews20210930_01.pdf

Notice Regarding MBO and Recommendation to Support (Only in Japanese)

https://www.pipedohd.com/news/pdf/irnews20210930_02.pdf

Notice Regarding Plans to Acquire Treasury Shares and Tender Offer for Treasury Shares (Only in Japanese)

https://www.pipedohd.com/news/pdf/irnews20210930_03.pdf

Also, the Company announced that it will recommend to be for this MBO. Additionally, the Company has announced that after the acquisition of the treasury shares and the completion of the tender offer, it intends to delist its shares.

■ Shareholder return policy

For 1H FY2/22, paid a dividend of ¥11.0 per share, while there will be no year-end dividend based on certain conditions

The Company has stated a dividend payout ratio of 30% as its shareholder return policy, and paid a dividend of ¥11.0 per share at the end of 1H FY2/22. Concerning the FY2/22 year-end dividend, the Company plans to not pay any dividend on the condition that the tender offer is executed.

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