

PIPEDO HD, Inc.

3919

Tokyo Stock Exchange First Section

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Summary

New medium-term business plan targets ¥7,300mn in net sales and ¥1,700mn in operating income in FY2/20

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

1. FY2/17 results missed initial guidance, though earnings increased sharply YoY

The Company reported ¥4,802mn in net sales (up 19.9% year on year (YoY)), ¥845mn in operating profit (up 45.6%), ¥864mn in recurring profit (up 54.1%), and ¥404mn in profit attributable to owners of parent (up 63.1%) in FY2/17. It lowered targets during the fiscal year because initial targets were fairly bullish, and the FY2/17 results exceeded the revised targets. Earnings grew at a strong pace in FY2/17, a positive trend. Information Asset Platform business delivered by PIPED BITS, the core group company, led the advances in earnings.

2. Modest forecast for FY2/18 as the first year of the new medium-term business plan

The Company’s FY2/18 forecast targets ¥5,300mn in net sales (up 10.4% YoY), ¥845mn in operating profit (up 0.0%), ¥835mn in recurring profit (down 3.4%), and ¥470mn in profit attributable to owners of parent (up 16.2%). While this plan envisions healthy expansion of net sales, it only expects flat earnings because of proactive investments, mainly in personnel, as the first year of a new three-year plan. However, these are constructive outlays aimed at realizing robust gains in the final fiscal year of the medium-term plan, and the content is not a reason for concern.

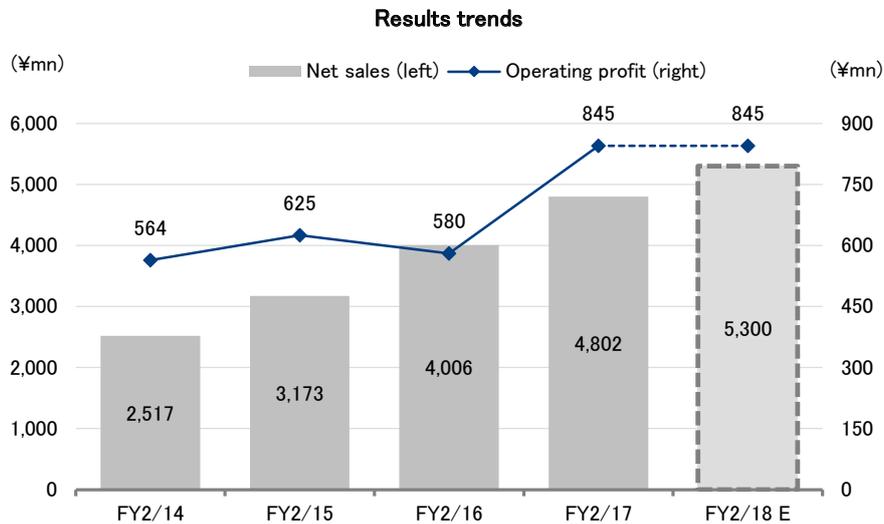
3. New medium-term plan sets realistic goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

The Company announced the new medium-term (three-year) business plan that sets goals of ¥7300mn in net sales and ¥1,700mn in operating profit in FY2/20. We think the goals in this plan are very realistic and well within reach following the Company’s experience of missing goals in its previous medium-term plan. In fact, earnings might exceed the goals and trends should be closely monitored.

Key Points

- Implements businesses that primarily leverage the proprietary SPIRAL® platform
- Expecting flat operating profit in FY2/18 due to proactive investments
- New medium-term plan sets goals of ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

Summary



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

Company profile

Implements 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 11 consolidated subsidiaries, one equity-method affiliate, and four other investee companies as of March 31, 2017. Nevertheless, PIPED BITS remains the core company in the group so our review of the history and business content focuses on PIPED BITS.

2. 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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Company profile

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 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.
Oct. 2016	Established BLOOM NOTES, INC.

Source: Prepared by FISCO from Company website

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 third party capital allotment to United Ventures Inc., Acquired "Net de Kaikai", 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.
July 2015	Began providing My Number total solutions Established WEARHEART Inc.

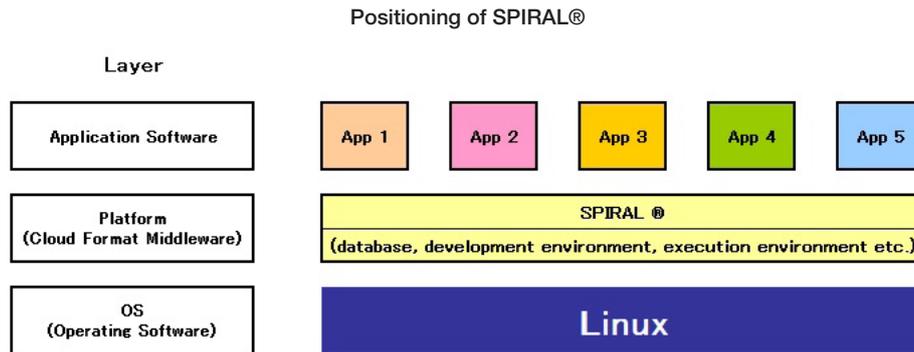
Source: Prepared by FISCO from Company website

Company profile

3. Business content

(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 ASP format. 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 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 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. PIPED BITS's SPIRAL® belongs to the area called PaaS (Platform as a Service).

(2) Main product content and prices

As noted above, the Company's flagship product SPIRAL® is a platform environment. Accordingly, the main customers using it are large tier companies which internally develop in-house operating systems and other software, SME-sized Slers that undertake development of systems for SMEs, 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).

Company profile

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.

a) SPIRAL®

The Company's flagship product. The core platform including installed database(s), development environment, and execution environment. From ¥25,000/month.

b) 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.

c) 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 determined by the transaction amount.

d) Net de Kaikei®, Net de Aoiroshinkoku®

A cloud format accounting service targeting small to medium-sized companies and sole proprietors. Its operations were acquired and sales launched in September 2011.

e) 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.

f) 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®.

(3) Business segment

The Company has three main business segments – Information Asset Platform business, Advertising business, and Solutions business. Information Asset Platform business supplies PaaS mainly through SPIRAL®, including SPIRAL®, SPIRAL PLACE®, SPIRAL EC®, Net de Kaikei®, and others. Advertising business handles agent sales of various Internet ads and consists of SPIRAL AFFILIATES®, listing, and other advertisements. Solutions business receives consignments of apparel EC operations and other production projects and is divided into production, EC operations, and BIM consulting and others.

Company profile

Segment information

	(¥mn)	
	FY2/17	
	Net sales	Operating profit
Information Assets Platform business	3,386	853
SPIRAL@		
SPIRAL EC		
Net de Kaikei	Provision of PaaS centered on SPIRAL@	
Other		
Advertising business	231	55
SPIRAL Affiliate		
Advertising	Agent sales of various Internet ads	
Solutions business	1,183	-62
Design		
EC management	Apparel EC management, contracting of design proposals, etc.	
BIM consulting, other contracting services		

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

(4) Other consolidated subsidiaries and their business operations

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

a) 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@.

b) 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.).

c) 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.

d) WEARHEART Inc.

WEARHEART was established in July 2015 to develop e-commerce for the women's magazine ViVi published by Kodansha Ltd. The company was primarily responsible for the aspects of system development, website construction, product purchasing, and distribution. However, the Company dissolved this entity at end of February 2017 because income did not grow as anticipated (note: results appeared in consolidated data through FY2/17).

Company profile

e) 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.

f) 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 split-off from the in-house Apparel and Fashion Company.

g) 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.

h) 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.

i) 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.

j) VOTE FOR,INC.

The Company established this entity in March 2017 to conduct business using the Seijiyama® political and election information site that existed internally. It aims to build voting systems that utilize blockchain and other new technologies that facilitate Internet-based voting.

k) 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 single-coin donations, tips, and other small-sum transactions employing smartphone virtual currency.

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. 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.

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 regard 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.

Company profile

c) 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 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®.

■ Results trends

FY2/17 results missed period-start forecast, though negatives are gone

1. Profit-and-loss conditions

The Company reported ¥4,802mn in net sales (up 19.9% YoY), ¥845mn in operating profit (up 45.6%), ¥864mn in recurring profit (up 54.1%), and ¥404mn in profit attributable to owners of parent (up 63.1%) in FY2/17. While operating profit was considerably below initial guidance (¥1,000mn), it exceeded the revised target from during the year.

Main reasons for undershooting period-start forecast were the EC-related subsidiary launched with upbeat growth expectations exhibited sluggishness and fraudulent access to the Company's products during the period resulted in a complete suspension of new sales activities for roughly a month.

While fraudulent access presented a severe challenge, the Company has fully repaired and resolved the situation and is restoring customer trust. Internal controls, meanwhile, have been improved. Furthermore, the Company already dissolved the struggling EC subsidiary (WEARHEART) at the end of February 2017, protecting itself from further downside. Earnings at many other subsidiaries are lagging expectations, but steadily growing and the Company is bolstering internal management and other capabilities. The Company explained that "problems should be eliminated during the current fiscal year and this is preparing us for the next growth stage." While earnings missed period-start guidance, operating profit rose 45.6% YoY, a positive result.

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Results trends

Summary income statement

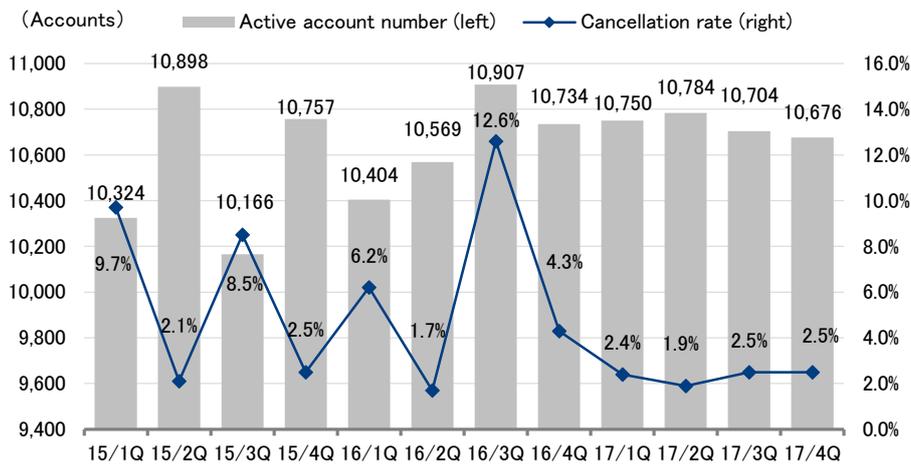
	FY2/16		FY2/17		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	4,006	100.0	4,802	100.0	795	19.9
Information Assets Platform business	3,041	75.9	3,386	70.5	345	11.4
Advertising business	222	5.5	231	4.8	9	4.4
Solutions business	743	18.6	1,183	24.7	440	59.3
Gross profit	2,857	71.3	3,280	68.3	423	14.8
SG&A expenses	2,276	56.8	2,435	50.7	158	7.0
Operating profit	580	14.5	845	17.6	264	45.6
Information Assets Platform business	552	-	853	-	300	54.4
Advertising business	53	-	55	-	1	3.0
Solutions business	-25	-	-62	-	-37	-
Recurring profit	560	14.0	864	18.0	303	54.1
Profit attributable to owners of parent	247	6.2	404	8.4	156	63.1

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

(1) Trends in active account

Active account volume strongly influences the Company's results because it mainly operates cloud-based businesses. Active account volume dropped by 58 accounts from the end of the previous fiscal year to 10,676 accounts at the end of February 2017. Net sales are growing, despite the drop in overall active accounts, due to decline in accounts with relatively low average spending and increase in accounts with relatively high average spending. We think these trends might continue and advise monitoring of not just the number of overall accounts but also the content.

Trends in active account number and the cancellation rate



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

Results trends

(2) Profit and loss by segment

Information Asset Platform sales expanded 11.4% YoY to ¥3,386mn thanks to healthy growth by the mainstay SPIRAL® product. Advertising sales were up 4.4% to ¥231mn with SPIRAL AFFILIATES®, though only slightly improved. Solutions business recorded a sharp 59.3% increase in sales to ¥1,183mn because of new consolidation of WEARHEART and Current, upbeat Paperless Studio Japan and consignment and production businesses, and higher sales in EC operations.

Next, we look at operating profit trends by segments. Information asset platform business realized a 54.4% YoY increase to ¥853mn owing largely to robust results from mainstay SPIRAL®. Advertising operating profit was only about flat YoY at a 3.0% increase to ¥55mn. Solutions business, meanwhile, incurred a ¥62mn operating loss (vs. a ¥25mn loss in the previous year) because investments at WEARHEART and higher personnel costs at Paperless Studio Japan. Losses widened even with the steep rise in sales. The Company hence decided to shrink the EC operations business and dissolve WEARHEART at the end of February 2017.

(3) 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.

a) 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

b) 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

c) 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

d) 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

Additionally, the Company announced that it conducted comprehensive inspections and confirmed safeness at not only SPIRAL EC®, which was affected by the fraudulent access, but also its mainstay SPIRAL® service that utilizes a different configuration. It took quick actions in dealing with existing customers after discovery of the fraudulent access, and all employees joined together in handling the responses. This approach halted new sales activities for about one month and thereby contributed to missing initial forecast as already explained. The Company booked about ¥15mn in extraordinary losses to cover damages compensation and one-time costs related to strengthening service security.

Results trends

The unauthorized access incident was a lethal 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.

2. Financial standing and cash flow conditions

Looking at financial standing at the end of FY2/17, total asset value increased by ¥1,307mn from the end of the previous fiscal year to ¥5,064mn mainly because of a ¥1,223mn rise in cash and deposits (current assets) associated with bank loans worth ¥1,500mn. Total liabilities climbed by ¥1,015mn to ¥2,974mn primarily due to the ¥1,105mn increase in fixed liabilities related to higher long-term loans payable. Net asset value grew by ¥256mn to ¥2,089mn mainly owing to a ¥404mn increase in legal retained earnings from booking profit attributable to owners of parent.

Balance sheet

	(¥mn)		
	End of FY2/16	End of FY2/17	Change
Current assets	1,919	3,340	1,421
Fixed assets	1,837	1,723	-113
Total assets	3,757	5,064	1,307
Current liabilities	1,873	1,818	-54
Fixed liabilities	50	1,155	1,105
Total liabilities	1,923	2,974	1,051
Total net assets	1,833	2,089	256

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

Cash flow from operating activities had a ¥623mn surplus with main items as ¥775mn in profit before income taxes, ¥191mn in depreciation, and ¥306mn in income tax paid. Cash flow from investing activities had a ¥179mn deficit, primarily because of the ¥169mn purchase of intangible assets, to acquire software and other intangible assets. Cash flow from financing activities had a ¥779mn surplus with ¥921mn in net inflow for loans and ¥144mn in outflow for cash dividends paid. As a result, cash and cash equivalents grew by ¥1,223mn during the period to ¥2,143mn at period-end.

Cash flow statement

	(¥mn)	
	FY2/16	FY2/17
Cash flow from operating activities	424	623
Cash flow from investing activities	-734	-179
Cash flow from financing activities	-138	779
Change in cash and cash equivalents	-448	1,223
Year-end balance of cash and cash equivalents	920	2,143

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

Business outlook

Expecting flat operating profit in FY2/18 because of proactive investments

The Company's FY2/18 guidance targets ¥5,300mn in net sales (up 10.4% YoY), ¥845mn in operating profit (up 0.0%), ¥835mn in recurring profit (down 3.4%), and ¥470mn in profit attributable to owners of parent (up 16.2%).

The Company only expects flat operating profit, despite a double-digit rise in sales, because of proactive investments, mainly in personnel, in the first year of the new medium-term plan (explained below) aimed at reaching the goals. We think this is a very conservative earnings view, which assumes modest sales growth paired with maximum imaginable expenses, and might be revised higher during the period.

Results forecast

(¥mn, %)

	FY2/17		FY2/18 forecast		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	4,802	100.0	5,300	100.0	498	10.4
Operating profit	845	17.6	845	15.9	0	0.0
Recurring profit	864	18.0	835	15.8	-29	-3.4
Profit attributable to owners of parent	404	8.4	470	8.9	66	16.2

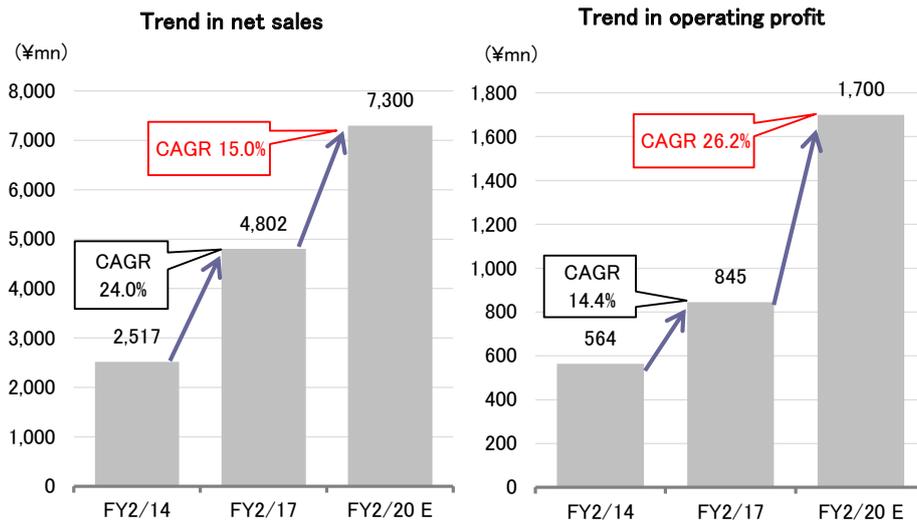
Source: Prepared by FISCO from the Company's financial results and results briefing materials

■ Medium-to-long-term growth strategy

New medium-term business plan sets goals of ¥7300mn in net sales and ¥1,700mn in operating profit in FY2/20

1. New medium-term plan sets fairly realistic goals

The Company announced the Medium-Term Business Plan 2020, a new medium-term business plan with FY2/20 as the final year, after completing the previous medium-term plan in FY2/17. The new plan sets goals of ¥7300mn in net sales and ¥1,700mn in operating profit in FY2/20 that work out to average annual growth rates (CAGR) from FY2/17 of 15.0% in net sales (vs. 24.0% in the previous plan period) and 26.2% in operating profit (vs. 14.4%). While group companies have separately presented more ambitious goals and are striving to achieve these levels, the Company refers to its plan as an “outlook” that factors in a certain amount of future uncertainty (rather than goals), taking into account its experience of missing earnings goals in its previous medium-term plan.



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

The Company described its new medium-term business plan in the following way, “Our previous medium-term plan utilized a bottom-up approach with maximum goals from subsidiaries. However, some companies substantially missed these goals and others achieved healthy growth but lagged their projections. The new medium-term plan hence utilizes minimum attainable goals and also incorporates maximum potential risk at holding-company level.” We think this is a fairly conservative outlook due to factoring in maximum possible expenses with highly realistic sales targets.

Medium-to-long-term growth strategy

2. Priority measures

The Company uses a title of “Re-Innovation” for the new medium-term plan and seeks to become a “corporate group that contributes to a future rich information lifestyle.” It intends to implement the priority measures covered below to achieve this goal and the above-mentioned qualitative values.

(1) Promote “real x IT”

The Company intends to strengthen the contact point between real business and IT and pursue innovative businesses. It established new subsidiaries as examples.

a) VOTE FOR

The Company established this entity in Mach 2017 to conduct “real x IT” business using the Seijiyama® political and election information site that existed internally. It aims to build voting systems that utilize blockchain and other new technologies that facilitate Internet-based voting with emphasis on Seijiyama® and Internet-based voting.

b) I LOVE

The Company created this entity in Mach 2017 to make further progress in the “I LOVE ShimoKitazawa” local revitalization project that had already been taking place internally and apply this knowhow to cultivate “towns capable of delivering enjoyable services on par with shopping malls and theme parks.” Specifically, it will pursue development of a new transaction format for single-coin donations, tips, and other small-sum transactions employing smartphone virtual currency.

(2) Group hiring and group cultivation

Group companies will conduct common elementary education in the IT field in order to boost the overall knowledge level and reduce time spent on training front-line staff. It hopes to maximize earnings in FY2/20 through these efforts and hire about 150 people as a group by FY2/19.

Subsidiary BLOOM NOTES (established in October 2016) will support the group hiring and cultivation. This entity’s main business is a customized personnel training service for arrangement of unique knowhow at customer companies into a program and assistances in implementation, and the Company plans to harness the same program for cultivation of its own group personnel.

(3) Effective utilization of information assets at group companies

The Company intends to further promote customer and product/service matching at group companies and create new transactions and businesses.

Shareholder return policy

The Company has presented a shareholder return policy of paying cash dividends with a target dividend payout ratio of about 30%. It plans to pay a ¥21 annual dividend again in FY2/17, putting dividend payout using the profit target at 33.9%.



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