

PIPEDO HD, Inc.

3919

Tokyo Stock Exchange First Section

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Summary

Main business is provision of cloud-type middleware SPIRAL®

PIPEDO HD, Inc. <3919> (hereafter, also “the Company”) is a pure holding 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 and also sells proprietary applications for specific industries (such as beauty and construction industries) and engages in businesses that utilize these applications.

1. Operating profit down 11.2% YoY in FY2/18 with advertising business missing forecast

In FY2/18, the Company reported ¥5,143mn in net sales (+7.1% YoY), ¥750mn in operating profit (-11.2%), ¥749mn in recurring profit (-13.3%), and ¥457mn in profit attributable to owners of parent (+13.2%). These results slightly undershot forecast from the 1H announcement. Advertising shortfall was the primary reason for missing the outlook and mainstay information asset platform business expanded at a healthy pace. This concern hence did not raise concern. Profit attributable to owners of parent increased because of the absence of extraordinary losses incurred in FY2/17 (impairment losses, security incident response losses, and others).

2. Expects a 33.4% YoY decline in FY2/19 operating profit due to investing in personnel ahead of the following fiscal year

The Company’s FY2/19 forecast targets ¥5,800mn in net sales (up 12.8% YoY), ¥500mn in operating profit (down 33.4%), ¥490mn in recurring profit (down 34.6%), and ¥300mn in profit attributable to owners of parent (down 34.5%). While this forecast envisions healthy expansion of net sales, the Company expects significant decline in earnings because of proactive investments, mainly in personnel, toward the final year of the three-year plan. However, these are constructive outlays aimed at realizing robust gains in the final fiscal year of the medium-term plan, and it is not a reason for concern.

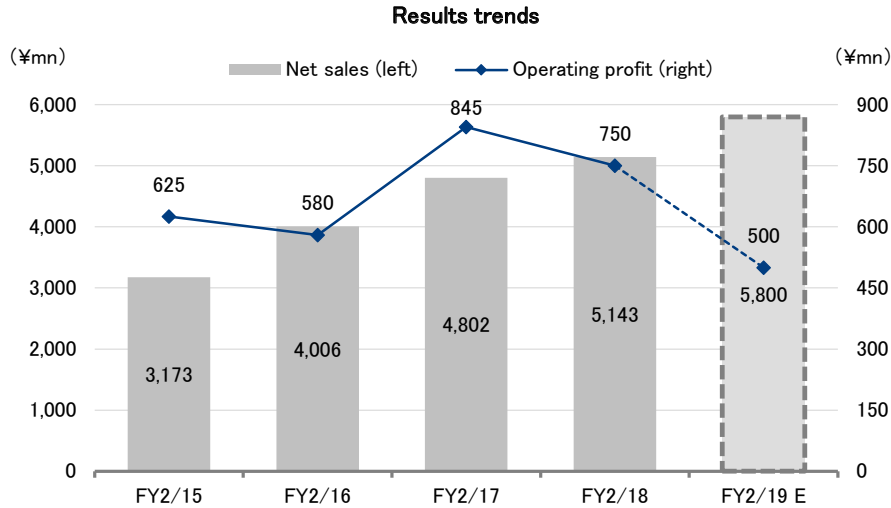
3. Medium-term plan goals unchanged at ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

The Company’s three-year medium-term business plan targets ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20. It maintains the initial plan goals because personnel hired in the first two years of the plan period (FY2/18 and FY2/19) should contribute significantly to the final fiscal year. We will be closely monitoring these trends because of larger profit change rates if results proceed in line with the plan.

Key Points

- Conducts businesses that primarily leverage the proprietary SPIRAL® platform
- Forecasts a decline in FY2/19 profit, though it is not a concern because spending is aimed at driving results in the following fiscal year
- Medium-term plan goals unchanged at ¥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

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 14 consolidated subsidiaries and one equity-method affiliate as of February 28, 2018.

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 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.
Mar. 2017	Established VOTE FOR, INC. and I LOVE, INC.
Dec. 2017	Established L Coin, Inc.

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
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 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

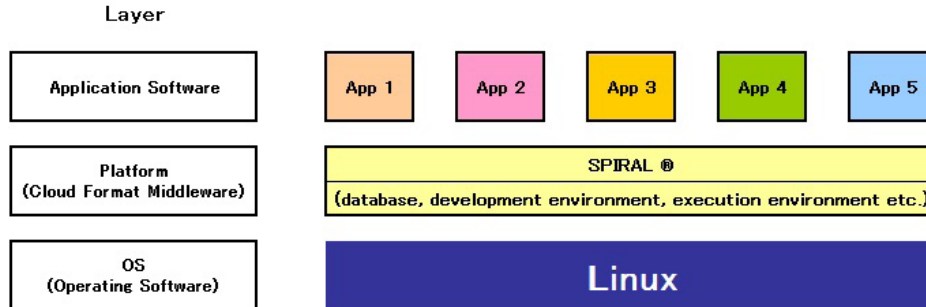
3. Business overview

(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.

Company profile

Positioning of SPIRAL®



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. However, with SPIRAL® developed by PIPED BITS, the use and sharing in each application of customer and other data stored in SPIRAL® can be used and the development tools are embedded, which allows for a range of applications to be easily developed as it has a built-in database. Further, 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 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. SPIRAL® belongs to the area called PaaS (Platform as a Service).

(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 in-house operating systems and other software to SME-sized system integrators that undertake development of systems for SMEs, and also web production and web development companies. By using SPIRAL®, the Company is also 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.

Company profile

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. The monthly fee starts at ¥25,000.

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 start at ¥6,000/month.

c) SPIRAL EC®

An e-commerce (EC) platform focused on apparel. While pursuing a sophisticated brand image for EC sites for 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. 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 contains a number of special offers for SPIRAL® users, such as free upfront costs.

e) Other*

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

| * Announced exits from Net de Kaikei® and Net de Aoiroshinkoku® in May 2017 |

(3) Business segments

Up until FY2/17, the Company had three main business segments – information asset platform business, advertising business, and solutions business. In FY2/18, it newly established the social innovation business. The information asset platform business supplies PaaS mainly through SPIRAL®, including SPIRAL®, SPIRAL PLACE®, SPIRAL EC®, and others. The advertising business handles agent sales of various Internet ads and consists of SPIRAL Affiliate®, listing, and other advertisements. The solutions business receives contracting of apparel EC operations and other production projects and is divided into production, EC operations, BIM consulting, digital CRM, custom-made personnel training service, and other consignments. The social innovation business promotes activities with public benefits, such as efforts to realize Internet voting and stimulate local areas and shopping districts.

Company profile

Segment information

(¥mn)

	FY2/18		Main business activities
	Net sales	Operating profit (loss)	
Information asset platform business	3,605	761	Provision of PaaS centered on SPIRAL®
Advertising business	209	-37	Advertising services centered on SPIRAL Affiliate®
Solutions business	1,287	46	Apparel EC management, contracting of design projects, etc.
Social innovation business	41	-19	Promotes activities with public benefits, such as efforts to realize Internet voting and stimulate local areas and shopping districts

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

(4) Other consolidated subsidiaries and their business overview

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

* Dissolved WEARHEART Inc. and exited this business at the end of February 2017

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 courses for people working in design and construction. In May 2012, the company started providing the BIM construction information platform ArchiSymphony®. It also released ArchiSymphonyVBP, the first cloud service exclusively for BIM/CIM collaboration in Japan, in September 2017 (details provided below).

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 services using open data from 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. The company has developed a system for Internet distribution of local government public relations bulletins—the "My Public Relations Bulletin" system.

d) 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. 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, the company enables one-stop solutions for corporate management issues and business activity optimization.

Company profile

e) 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, the company 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. With April 1, 2018 as the effective date, FRIENDIT absorbed AsBase, Inc., with FRIENDIT the surviving entity.

f) 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.

g) 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.

h) 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.

i) 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.

j) 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 cryptocurrency.

k) L Coin, Inc.

The Company invested 70% in L Coin, which was established in December 2017, as 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 cost through the platform and supports smooth development of payment systems and store point systems.

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 to develop applications for its own operational systems and specific customers (areas). Apart from 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 system integrators. However, it is possible to replace the majority of the work traditionally done by system integrators 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, by using SPIRAL® the company 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, 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 that possesses voice (telephone) solutions, and an alliance with Sprinkl 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. <CRM> 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 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, after the system is installed, it can be developed with just a small investment.

Company profile

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 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.

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, thereby realizing a 10-fold increase in efficiency. Moreover, when introducing the system, the Company competed with other system integrators 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

Earnings on track with forecast led by the information asset platform business

● Summary of FY2/18 results**(1) Profit-and-loss conditions**

In FY2/18, the Company reported ¥5,143mn in net sales (+7.1% YoY), ¥750mn in operating profit (-11.2%), ¥749mn in recurring profit (-13.3%), and ¥457mn in profit attributable to owners of parent (+13.2%). It already projected flat profits on higher sales in forecast at the period-start and 1H announcement because of aggressive hiring (investment) plans. While the results slightly missed the forecast and profit dropped YoY, the primary cause was shortfall in the advertising business. In this business, the Company was unsuccessful in efforts to secure a relatively large deal in 1H. It presented targets aimed at catching up in 2H, but was unable to achieve these levels. Nevertheless, mainstay information asset platform business is expanding at a healthy pace, and overall content did not raise concerns. Profit attributable to owners of parent increased because of non-recurrence of extraordinary losses incurred in FY2/17 (impairment losses, security incident response losses, and others).

Results trends

Summary income statement

	FY2/17		FY2/18		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	4,802	100.0	5,143	100.0	341	7.1
Information asset platform business	3,380	70.4	3,605	70.1	225	6.7
Advertising business	224	4.7	209	4.1	-14	-6.6
Solutions business	1,167	24.3	1,287	25.0	120	10.3
Social innovation business	30	0.6	41	0.8	10	34.2
Gross profit	3,280	68.3	3,560	69.2	279	8.5
SG&A expenses	2,435	50.7	2,809	54.6	373	15.3
Operating profit	845	17.6	750	14.6	-94	-11.2
Information asset platform business	913	-	761	-	-152	-16.7
Advertising business	48	-	-37	-	-85	-
Solutions business	-66	-	46	-	113	-
Social innovation business	-49	-	-19	-	29	-
Recurring profit	864	18.0	749	14.6	-114	-13.3
Profit attributable to owners of parent	404	8.4	457	8.9	53	13.2

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

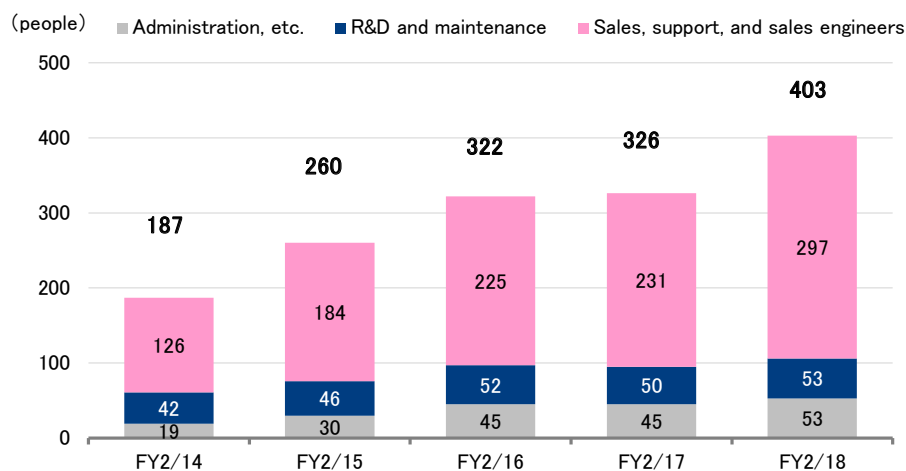
(2) Trends in active accounts

The number of active accounts influences the Company's results because it mainly operates cloud-based businesses. The Company had 10,129 active accounts (down by 547 accounts compared with the end of FY2/17) at the end of FY2/18. While earnings driver SPIRAL® is making healthy gains, the number of accounts fell because of exits from some businesses (Net de Kaikei® and Net de Aoiroshinkoku®) as already explained.

(3) Trend in the number of employees

The Company had declared that it would aggressively hire (invest) in FY2/18 and FY2/19 in order to realize goals in the new medium-term business plan that lasts through FY2/20, as explained below. In fact, employee headcount at period-end climbed sharply (by 77 people or 23.6% YoY) to 403 people in FY2/18 due to hiring 90 people, including new university graduate.

Trend in the number of employees



Source: Prepared by FISCO from the Company's materials

Results trends

(4) Profit and loss by segment

The information asset platform business posted ¥3,605mn in net sales (+6.7% YoY) thanks to healthy growth in core product SPIRAL®. Segment profit, however, slipped 16.7% to ¥761mn because this segment incurred a large portion of the cost increase from adding people. However, the result was within the range expected initially and not a cause for concern.

The advertising business booked ¥209mn in net sales (-6.6%) and a ¥37mn segment loss (vs. a ¥48mn profit in the previous fiscal year). It had a loss due to inability to secure a relatively large deal in 1H. While the Company aimed to catch up in 2H, the outcome was less than planned and this business reported a loss for the full year as well.

The solutions business recorded ¥1,287mn in net sales (+10.3% YoY), mainly on support from upbeat trends in PaperlessStudio and consignment and production businesses and increase in e-commerce management sales. Earnings improved too with a boost from higher sales to a ¥46mn profit (vs. a ¥66mn loss a year earlier). The social innovation business, a new segment from FY2/18, booked ¥41mn in net sales (+34.2% YoY) and a ¥19mn segment loss (vs. a ¥49mn loss a year earlier). This segment did not have much impact on overall results because of its small values.

(5) Financial standing and cash flow conditions

Looking at the financial position at the end of FY2/18, total assets were up ¥42mn from the end of the previous fiscal year to ¥5,107mn. Current assets decreased by ¥207mn, with the main factors being a decline in cash and deposits of ¥227mn and an increase in notes and accounts receivable of ¥59mn. Fixed assets increased ¥249mn, primarily due to increases in intangible fixed assets of ¥88mn and investments and other assets of ¥136mn. Total liabilities were down ¥255mn from the end of the previous fiscal year to ¥2,718mn. This was mainly due to a decrease in long-term borrowings of ¥267mn. Net assets were ¥2,388mn, up ¥298mn. This was mainly due to an increase in retained earnings of ¥298mn following the recording of net profit.

Simplified balance sheet

	(¥mn)		
	End of FY2/17	End of FY2/18	Change
Current assets	3,340	3,133	-207
Fixed assets	1,723	1,973	249
Total assets	5,064	5,107	42
Current liabilities	1,818	1,831	12
Fixed liabilities	1,155	887	-268
Total liabilities	2,974	2,718	-255
Net assets	2,089	2,388	298

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

Cash provided by operating activities was ¥647mn, with the main income items being the recording of net profit before income taxes of ¥182mn, depreciation and amortization of ¥729mn, while the main expenditure items included an increase in accounts receivable of ¥59mn. Cash used in investing activities was ¥461mn, with the main expenditure items including the acquisition of intangible fixed assets (largely software) of ¥235mn and of investment securities of ¥102mn. Cash used in financing activities was ¥413mn, with the main items including ¥269mn for the payment of borrowings and ¥159mn for the payment of dividends. As a result, during the period, cash and cash equivalents decreased ¥227mn, and the balance of cash and cash equivalents at the end of the period was ¥1,916mn.

Results trends

Cash flow statement

	(¥mn)	
	FY2/17	FY2/18
Cash flow from operating activities	623	647
Cash flow from investing activities	-179	-461
Cash flow from financing activities	779	-413
Change in cash and cash equivalents	1,223	-227
Year-end balance of cash and cash equivalents	2,143	1,916

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

(6) Main policies and topics
a) Established two consolidated subsidiaries (March 2017)

The Company established VOTE FOR and I LOVE, which had been internal entities, as consolidated subsidiaries. VOTE FOR aims to realize Internet-based voting and build voting systems that utilize blockchain and other new technologies. I LOVE seeks 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 cryptocurrency.

b) Subscribed to a third-party allocation of shares by Cross Rink Inc. (March 2017)

The Company subscribed to a third-party allocation of shares by Cross Rink Inc. (¥52mn), which operates websites that broadly support the relaxation market (Hitosapo®, Caresapo®, Onemorehand®, Rakurira®, and others) (this entity is not consolidated). It hopes to share experiences, knowhow, knowledge, and other resources with Group companies and lift the quality of each other's services.

c) Launch of the BIREKI® original icon plan (April 2017)

BIREKI started provision of the "original icon plan" that enables beauty salons to create an app with their own design in order to promote the salon's unique brand. The first business to adopt this service was "lurve heart's And Be," which mainly operates in Osaka City.

d) Exits from Net de Kaikei® and other services (May 2017)

The Company exited Net de Kaikei® and Net de Aoiroshinkoku® services due to tougher competition in the cloud accounting industry and diminished service competitiveness in functionality. While these exits affected the number of accounts, they did not have much impact on overall income (FY2/17 results were ¥18mn in net sales and a ¥12mn operating loss).

e) Tokyo Metropolitan Assembly election coverage on Seijiyama® (June 2017)

The Seijiyama® political and election information website carried special feature pages on the Tokyo Metropolitan Assembly election (official announcement on June 23, 2017 and voting on July 2) entitled "Tokyo Metropolitan Assembly Member Election 2017" and "Comparison of Main Policies and Campaign Promises." Demand for this website is still minor, but is likely to grow alongside of progress with Internet voting.

f) Strengthened collaboration of SPIRAL® and other systems

Through collaboration with AsBase's BizBase®, the Company aims to improve efficiency in sales activities by unifying information from the sales division and inside sales division managed by separate systems. (July 2017)

The Company also started collaboration with LINE Corporation <3938> (August 2017). It built an attribute-based distribution system for students at Meijo University using SPIRAL® and LINE® for use as a mechanism to contact students. It hopes to leverage this case to promote deployments at other schools too.

Results trends

g) Distribution of My Public Relations Bulletin on i-concier® (August 2017)

The Company started distribution of articles for viewing My Public Relations Bulletin issued by 320 local governments on the i-concier® information service provided by NTT DOCOMO, INC. <9437>. This service facilitates distribution and viewing of on i-concier® through conversion to data of contents from the public relations magazines of local governments issued on paper media up to now. Digitalization is likely to generate demand from even more local governments.

h) Started provision of ArchiSymphonyVBP (September 2017)

The Company developed the first dedicated cloud service for BIM*1/CIM*2 collaboration in Japan that enables real-time sharing of construction and design data and started providing this service.

*1 BIM (Building Information Modeling): This format creates a Building Information Model (BIM model) for the building field via a combination of 3D shape information prepared on a computer with finishing, materials and parts specifications and performance, cost information, and other attribute information. Utilization of BIM improves efficiency in all processes from the building lifecycle (ranging from design to construction and subsequent maintenance and management). Many test projects are taking place globally, and international standardization is moving forward.

*2 CIM (Construction Information Modeling): This format broadens use of BIM from the building field to construction and aims to enhance productivity for the construction industry as a whole.

The United States, the United Kingdom, and other major advanced countries are requiring construction business reforms led by BIM and CIM and implementing them at the national level. In Japan, the Ministry of Land, Infrastructure, Transportation, and Tourism formulated BIM and CIM guidelines. While these formats are making rapid inroads, they have not become industry-wide business reforms that alter construction workflow to suit BIM/CIM, as has happened with BIM/CIM in other major advanced countries and Japan is not yet harnessing the full benefits of BIM/CIM. Reasons include 1) expensive deployment costs, 2) significant difficulties with system operations, 3) lack of operational knowhow, and 4) differences in information policies at related companies and very strong resistance to sharing 3D construction and design data and other information among related parties.

Amid these conditions, ArchiSymphonyVBP, the dedicated cloud service for BIM/CIM collaboration launched by the Company, comprehensively manages the information security policies of various companies related to construction projects and realize real-time sharing and permanent management of 3D construction and design data in virtual conditions as a first-time initiative in Japan. The project was realized through collaboration with I-NET CORP. <9600>, which operates cloud data centers, and technology cooperation from Nvidia Corporation <NVDA>, which leads in GPU virtualization technology, and VMware, Inc. <VMW>, which leads in virtual desktop infrastructure (VDI) technology. The initiative aims to develop a de-facto standard for the information platform used in domestic construction industry reforms and is anticipated to make sizable contributions to earnings in the near future.

i) SPIRAL EC® support for Amazon Pay (September 2017)

The Company started provision of a new version of SPIRAL EC® (3.3.0) that supports Amazon Pay settlement service that simplifies product purchases using an account from the Amazon.co.jp comprehensive online store.

j) Establishment of subsidiary L Coin (December 2017)

The Company invested 70% in L Coin to make 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 areas. It can also issue unique electronic regional currencies at low cost through the platform and supports smooth development of payment systems and store point systems.

k) Merger of consolidated subsidiaries FREINDIT and AsBase (April 2018)

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

Business outlook

Projects a 33.4% decline in FY2/19 operating profit, mainly because of investments aimed at an uplift in FY2/20

● FY2/19 outlook

The Company's FY2/19 forecast targets ¥5,800mn in net sales (up 12.8% YoY), ¥500mn in operating profit (down 33.4%), ¥490mn in recurring profit (down 34.6%), and ¥300mn in profit attributable to owners of parent (down 34.5%).

With plans to hire 95 people in FY2/19, after large-scale hiring (90 people) in FY2/18, as the groundwork for achieving goals in the new medium-term business plan described below, the Company expects weaker FY2/19 profits due to investments in training and educational costs for the new hires.

Forecast

	(¥mn, %)					
	FY2/18		FY2/19 forecast		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	5,143	100.0	5,800	100.0	656	12.8
Operating profit	750	14.6	500	8.6	-250	-33.4
Recurring profit	749	14.6	490	8.4	-259	-34.6
Profit attributable to owners of parent	457	8.9	300	5.2	-157	-34.5

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

Medium to long-term growth strategy

Medium-term plan goals unchanged at ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20

1. Medium-Term Business Plan 2020 goals unchanged

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 ¥7,300mn in net sales and ¥1,700mn in operating profit in FY2/20 that work out to compound average growth rates (CAGR) from FY2/17 of 15.0% in net sales (vs. 24.0% in the previous plan) and 26.2% in operating profit (vs. 14.4%).

Business outlook

The Company has not changed goals from the medium-term business plan, despite the prospect of a decline in FY2/19 profits as explained above. This stance factors in earlier recognition of costs (training and educational costs, etc.) prior to sales contributions from major hiring with 90 people in FY2/18 and 95 people in FY2/19 (planned) aimed at realizing the plan goals. On its website, the Company explains: “Our group does not immediately assign newly hired people to front-line operations. Instead, after a concentrated training period that lasts about six months in which new hires thoroughly learn our services and systems, we make assignment to group companies, taking into account the person’s request and suitability...New hires do not contribute to results during the initial six months or so after being hired because of focus just on training. The group’s investments are hiring costs as well as training and personnel costs in the subject period.” The Company thus expects a steep profit recovery in FY2/20 after a setback in FY2/19.

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 numerical targets.

(1) Promote “real x IT”

The Company intends to strengthen the contact point between real business and IT and pursue innovative businesses. The establishment of new subsidiaries was a specific example.

a) VOTE FOR

The Company established this entity in Mach 2017 to conduct “real x IT” business using the Seijiyama® political and election information website 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 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 cryptocurrency.

(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. With a goal of maximizing profits in FY2/20, the Company hired 90 people in FY2/18 (including new university graduates and recent graduates with work experience) and intends to hire another 95 people in FY2/19.

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

3. Fund-raising initiative

The Company announced the following share buyback and fund-raising plan that targets future growth.

(1) Acquiring its own shares from subsidiaries

The Company acquired 500,000 shares of its stock owned by consolidated subsidiary PIPED BITS for ¥767mn. However, this transaction simply transferred ownership and does not affect consolidated results because it obtained the Company's own shares held by a consolidated subsidiary. PIPED BITS originally purchased these shares in response to a request from a minority shareholder prior to formation of the holding company.

(2) Issuance of No.5 and No.6 new share warrants

Additionally, the Company adopted a resolution to issue new share warrants (No.5 250,000 shares, No.6 250,000 shares) for third-party allotment to Macquarie Bank Limited.

Key points are a ¥1,800 exercise price for No.5 (with no revisions to the exercise price) and a ¥1,800 bottom in the exercise price for No.6, but an ability to raise this level to over ¥1,800 by Company resolution. This puts the maximum number of shares available for allocation at 500,000 shares and supports a minimum procurement value of ¥900mn. Additionally, total outstanding issuance volume should not increase if warrants are exercised because the Company plans to utilize the above-mentioned treasury shares acquired from the subsidiary (500,000 shares). Existing shareholders hence would not incur dilution.

Furthermore, Macquarie Bank Limited, the recipient of the new share warrants, paid ¥5,872,000 for the warrants and is unlikely to exercise the rights until the shares trade at ¥1,800 or above in order to recoup its outlay. We expect gradual sale of acquired shares in the market after purchase using the warrants and contribution to better liquidity in the stock market once these shares enter the market.

While this fund-raising scheme is attractive to all stakeholders (the Company, existing investors, and the warrant recipient), it requires a share price of over ¥1,800. We think the Company hence must attain goals from the above-mentioned medium-term business plan.

■ Shareholder return policy

Maintaining a 30% dividend payout ratio in FY2/19 despite profit decline

The Company is committed to a 30% dividend payout ratio as a shareholder return policy. It paid a ¥21.0 annual dividend in FY2/18, which worked out to a 34.9% dividend payout ratio. While it expects lower profits in FY2/19 as explained above, the Company plans to pay a ¥12.0 dividend in order to keep the payout ratio at 30%.



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