

PiPEDO HD, Inc.

3919

Tokyo Stock Exchange First Section

16-Nov.-2020

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

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Summary

In 1H FY2/21, secured an operating profit increase of 1.5% YoY, despite the impact of the coronavirus

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 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. Summary of 1H FY2/21 results

In 1H FY2/21, net sales were ¥2,974mn (down 0.5% year on year (YoY)), operating profit was ¥553mn (up 1.5%), recurring profit was ¥557mn (up 1.0%), and profit attributable to owners of parent was ¥362mn (up 4.8%). In the mainstay information asset platform business, contract sales (cloud-use monthly fees) were comparatively strong, but general sales (spot sales) were impacted by the novel coronavirus pandemic and trended weakly while sales activities remained stagnant, so segment net sales increased by only 1.5%. In the other segments, while some businesses benefitted from the novel coronavirus pandemic, taken as a whole, sales declined. In profit-loss, the gross profit margin improved from changes to the composition of sales, which absorbed the rises in SG&A expenses, mainly due to the increase in personnel, and therefore an operating profit increase was secured. It would seem that these can be said to be strong results in an environment characterized by the novel coronavirus pandemic.

2. FY2/21 outlook

For the FY2/21 consolidated results outlook, the impact of the novel coronavirus pandemic is unavoidable, so the Company initially announced forecasts over ranges. At the time of announcing the 1Q results, it upwardly revised the lower limits of the range forecasts, and at the current time, it is forecasting net sales from ¥5,800mn to ¥6,200mn (down 6.6% to 0.1% YoY), operating profit from ¥1,000mn to ¥1,200mn (down 28.1% to 13.7%), recurring profit from ¥1,000mn to ¥1,200mn (down 28.7% to 14.4%), and profit attributable to owners of parent from ¥700mn to ¥800mn (up 1.7% to 16.2%). It upwardly revised the forecast for profit attributable to owners of parent to a YoY increase because it resolved to sell investment securities (to be recorded in extraordinary income) during the current period. The Company paid an interim dividend of ¥9, but it has not yet decided on the annual dividend. However, its policy is to maintain a dividend payout ratio of 30%.

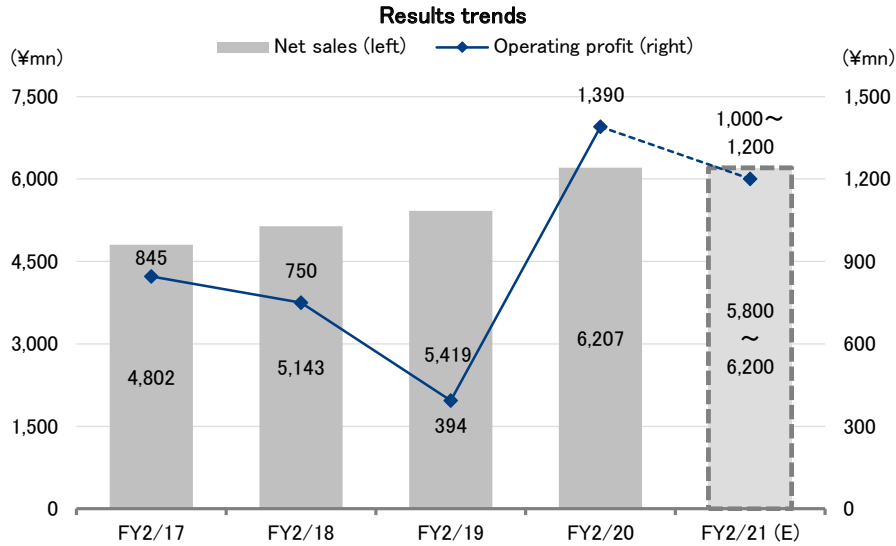
3. Medium-term business plan

Originally, the Company had planned to announce its new 2023 Medium-Term Business Plan, but it has postponed it due to the impact of the novel coronavirus pandemic. It has stated, “We intend to announce the medium-term business plan once it is possible to present reasonable assumptions.”

Key Points

- Conducts businesses that primarily leverage the proprietary SPIRAL® platform
- In 1H FY2/21, secured an operating profit increase of 1.5% YoY
- Postponed announcement of the 2023 Medium-Term Business Plan, intends to disclose it after the COVID-19 outbreak situation settles down

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 13 consolidated subsidiaries and one equity-method affiliate as of August 31, 2020.

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.

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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 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 Biyoshimeikan, 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

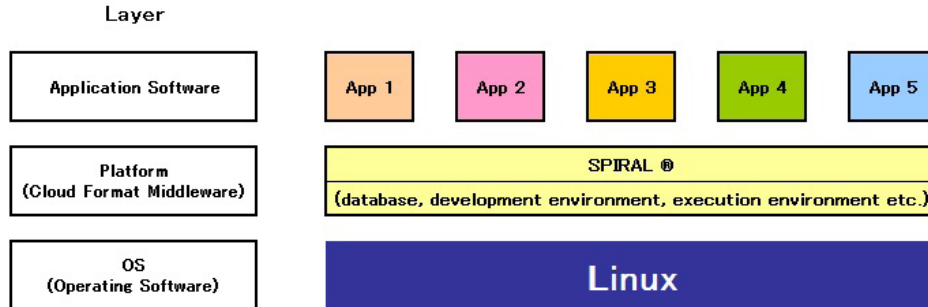
3. Business overview

(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. 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).

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.

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. 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

Up until FY2/18, the Company had four business segments: the information asset platform business, advertising business, solutions business, and social innovation business. Furthermore, from FY2/19, the Company has integrated these four segments into three main segments: the Function-based Segment, Field-based Segment, and Group Common Segment.

The main segments are divided according to target client. The Function-based Segment comprises businesses utilizing the cloud and other IT platforms to target companies and organizations expected to have room for improvements in operating efficiency in CRM, sales promotions, and EC. These are businesses in which sales activities can be carried out horizontally. The Field-based Segment includes businesses that target specific industries and fields for which innovation through new information-sharing models utilizing the cloud and other IT platforms can be expected. These businesses involve vertical sales. The Group Common Segment includes the management costs of the pure holding company, which were previously allocated to business areas, and costs related to Group hiring and development.

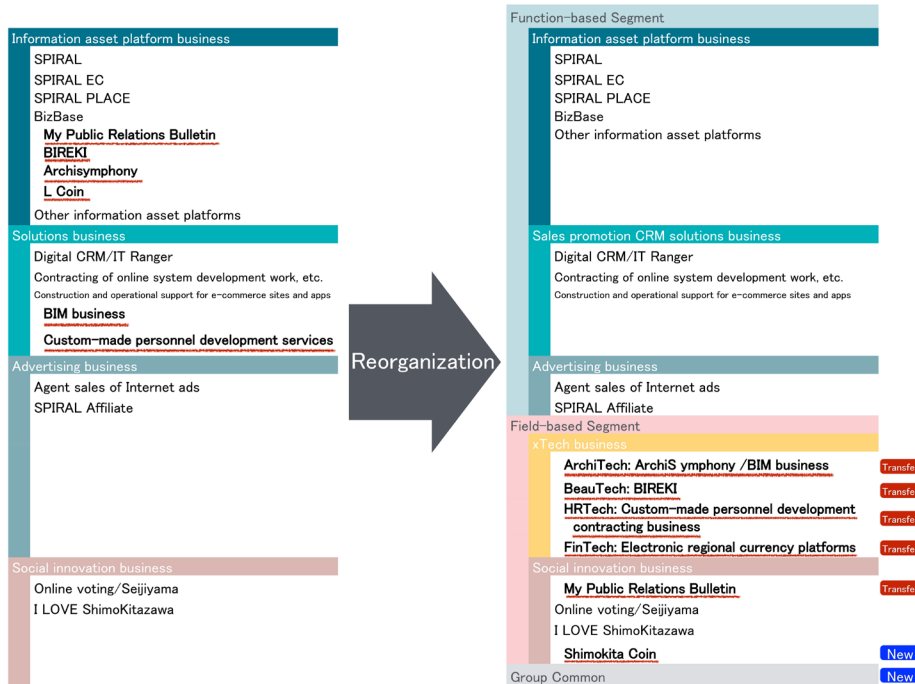
Company profile

Segment reorganization (Main segments/segment details)

<p>Function-based Segment</p> <p><u>Information asset platform business</u></p> <p><u>Sales promotion CRM solutions business</u></p> <p><u>Advertising business</u></p>	<p>Businesses utilizing the cloud and other IT platforms to target companies and organizations expected to have room for improvements in operating efficiency in CRM, sales promotions, and EC</p> <p>Development and provision of systems that assist clients in reducing costs and improving business efficiency to help solve issues in society, where there is a shortage of manpower</p> <p>Provision of services utilizing IT to optimize operations and create contact opportunities with customers as well as enhance these contact points; development of optimal IT systems for clients according to their needs</p> <p>Planning of promotions tailored to customers' objectives; production, development and management of advertising contents; agency sales of online ads</p>
<p>Field-based Segment</p> <p><u>xTech business</u></p> <p><u>Social innovation business</u></p>	<p>Businesses targeting specific industries and fields for which innovation through new information-sharing models utilizing the cloud and other IT platforms can be expected</p> <p>Business expected to create innovative services in the industry by utilizing IT to share information across company and organizational lines</p> <p>Business engaging in activities with public benefits, aiming not to help individual companies and industries solve internal problems, but to solve broader societal issues</p>
<p>Group Common</p>	<p>The pure holding company's management costs, costs related to Group hiring and development, etc.</p>

Source: The Company's results briefing materials

Segment reorganization (changes in segment by product and service)



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.

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 2012, the company started providing the BIM construction information platform ArchiSymphony®. In September 2017, it also released ArchiSymphonyVBP, the first cloud service in Japan exclusively for BIM/CIM collaboration.

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. By combining an original service lineup, including planning, production, system development, and operation, with IT utilizing information management platforms such as SPIRAL Affiliate® and SPIRAL®, the company enables one-stop solutions for corporate management issues and business activity optimization.

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.

Also, in April 2018, the Company acquired SPIRAL EC® and SPIRAL PLACE® from PIPED BITS, and moreover, it conducted an absorption merger of AsBase Inc., which provided BizBase®, an ASP/SaaS-type call center platform service. Through this, it progressed the development of SPIRAL EC® and SPIRAL PLACE®, and furthermore of a new service integrated with Cloud CTI. But then in May 2020, it transferred SPIRAL PLACE® back to PIPED BITS. Linking the information assets of PIPED BITS' HR cloud service with SPIRAL PLACE®, with which it has high affinity, has made it possible to further advance workstyle reforms and customer companies' business continuity.

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.

Company profile

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.

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.

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). 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®'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.

Company profile

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.

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 Japan, 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.

Company profile

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 FY2/21, profits increased despite the impact of the novel coronavirus pandemic

● Summary of 1H FY2/21 results
(1) Profit and loss conditions

The Company reported ¥2,974mn in net sales (down 0.5% YoY), ¥553mn in operating profit (up 1.5%), ¥557mn in recurring profit (up 1.0%), and ¥362mn in profit attributable to owners of parent (up 4.8%).

By segment, in the mainstay information asset platform business, contract sales (cloud-use monthly fees) were comparatively strong, but general sales (spot sales) trended at a low level as sales activities stagnated due to the impact of the novel coronavirus pandemic, so segment net sales increased by only 1.5% YoY. In the other segments, including the sales promotion CRM business, advertising business, xTech business, and social innovation business, sales were impacted by the novel coronavirus pandemic and trended at low levels.

In profit-loss, the gross profit margin improved to 75.6% (70.8% in the same period in the previous fiscal year), mainly due to the increase in the percentage of total sales provided by the information asset platform business, which has a comparatively high profit margin, and the liquidation of an unprofitable subsidiary, and gross profit was ¥2,249mn (up 6.4% YoY). SG&A expenses increased 8.1%, as although operating expenses (business trip expenses, etc.) decreased due to the impact of the novel coronavirus pandemic, other expenses increased, including personnel expenses following the recruitment of new graduates. As a result, an operating profit increase of 1.5% was secured.

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Results trends

Simplified income statement

	1H FY2/20		1H FY2/21		Change
	Amount	% of total	Amount	% of total	
Net sales	2,989	100.0%	2,974	100.0%	-0.5%
(Function-based Segment)	2,863	95.8%	2,849	95.8%	-0.5%
Information asset platform business	2,051	68.6%	2,082	70.0%	1.5%
Sales promotion CRM solutions business	454	15.2%	412	13.9%	-9.2%
Advertising business	357	12.0%	354	11.9%	-0.8%
(Field-based Segment)	126	4.2%	125	4.2%	-1.0%
xTech business	87	2.9%	87	3.0%	0.3%
Social innovation business	38	1.3%	37	1.3%	-4.1%
Gross profit	2,115	70.8%	2,249	75.6%	6.4%
SG&A expenses	1,569	52.5%	1,695	57.0%	8.1%
Operating profit	545	18.3%	553	18.6%	1.5%
(Function-based Segment)	766	-	819	-	6.9%
Information asset platform business	633	-	694	-	9.6%
Sales promotion CRM solutions business	5	-	-4	-	-
Advertising business	127	-	129	-	1.8%
(Field-based Segment)	-54	-	-7	-	-
xTech business	-32	-	5	-	-
Social innovation business	-21	-	-13	-	-
Company-wide costs	-166	-	-257	-	-
Recurring profit	551	18.5%	557	18.7%	1.0%
Profit attributable to owners of parent	346	11.6%	362	12.2%	4.8%

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

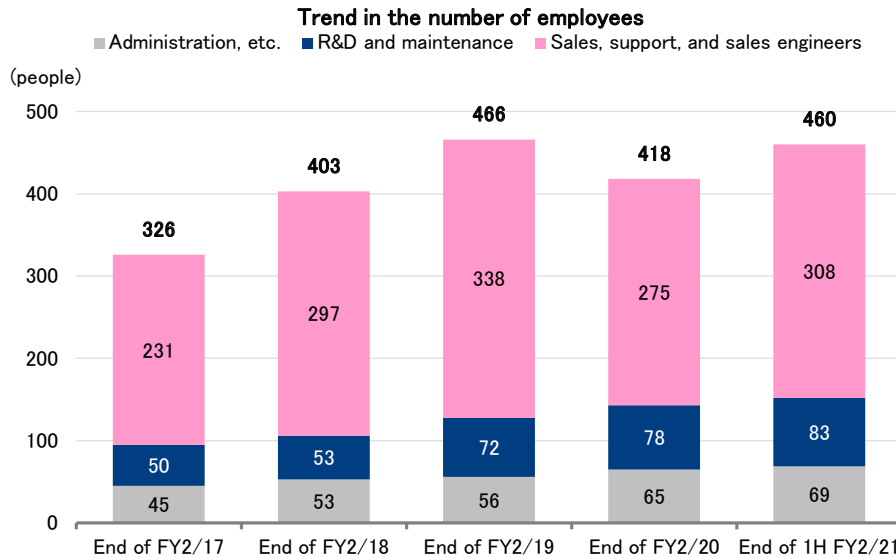
Net sales decreased ¥14mn YoY, with the main factors of change including an increase of ¥31mn in the information asset platform business (of which, an increase of ¥37mn for SPIRAL), a decrease of ¥41mn in the sales promotion CRM solutions business (of which, decreases of ¥12mn for digital CRM and ¥16mn for operations assistance), a decrease of ¥2mn in the advertising business, and a decrease of ¥1mn in the xTech business/social innovation business (of which, increases of ¥5mn for Bireki® and ¥7mn for BIM, and a decrease of ¥12mn for order-made personnel training services).

Operating profit increased ¥8mn YoY. The main increase factors included that outsourcing expenses decreased ¥112mn (of which, outsourcing expenses decreased ¥62mn through moving advertising management work in-house and ¥41mn due to improvements to production and development productivity) and transportation expenses declined ¥11mn. The main decrease factors were that net sales decreased ¥14mn, work consignment expenses increased ¥57mn (of which, ¥32mn from partial work consignments due to the shortage of personnel and ¥15mn in consulting expenses associated with sales), personnel expenses/training expenses rose ¥20mn, and other expenses grew ¥22mn.

(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 460 employees at the end of 1H FY2/21 (up 42 employees compared to the end of the previous fiscal period).

Results trends



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

(3) Profit and loss by segment

The profit and loss in the Function-based Segment was as follows.

a) Information asset platform business

Net sales were ¥2,082mn (up 1.5% YoY) and operating profit was ¥694mn (up 9.6%). Contract sales (cloud-use monthly fees) were strong, as the number of active SPIRAL® accounts had increased to 3,690 at the end of the period (3,680 at the end of the previous period). On the other hand, general sales, which are spot sales, trended at a low level, mainly because of the self-restraint on sales activities and postponements of sales discussions due to the impact of the novel coronavirus pandemic. This business's mainstay products are cloud-based, so after passing the profit-loss breakeven point, the profit margin is high, and moreover, the Company curtailed various expenses, mainly personnel expenses. Therefore, alongside the increase in sales, segment profit increased.

b) Sales promotion CRM solutions business

Demand from customers decreased due to the impact of the novel coronavirus pandemic, so net sales declined to ¥412mn (down 9.2% YoY). Alongside the decline in sales, the operating loss was ¥4mn (compared to profit of ¥5mn in the same period in the previous fiscal year).

c) Advertising business

Net sales were ¥354mn (down 0.8% YoY) and operating profit was ¥129mn (up 1.8%). Although this business was affected by the stagnation of economic activities due to the impact of the novel coronavirus pandemic, a partial shift to online advertising was seen. So results remained unchanged YoY upon incorporating these factors.

Profit and loss in the Field-based Segment was as follows.

Results trends

d) xTech business

This business can be expected to create innovative services for industries by utilizing IT technologies to share information across companies and organizations. Net sales were ¥87mn (up 0.3% YoY) and operating profit was ¥5mn (compared to a loss of ¥32mn in the same period in the previous fiscal year). Sales of BIM were comparatively strong, while Bireki® also maintained an increase in sales. However, beauty salons, the main customers, were impacted by the novel coronavirus pandemic, so profits were low. Segment profit-loss improved YoY, but this was mainly due to the liquidation of an unprofitable subsidiary (in December 2019).

e) Social innovation business

This business engages in activities with public benefits, aiming to not just help individual companies and industries solve internal problems, but also to solve broader societal issues. The business booked net sales of ¥37mn (down 4.1% YoY) and an operating loss of ¥13mn (versus a loss of ¥21mn in the previous fiscal year). Due to the impact of the novel coronavirus pandemic, various events were canceled and postponed, and services such as I LOVE Shimokitazawa and Shimokita Coin® were greatly affected. Conversely, sales continued to steadily increase of My Kohoshi (My Public Relations Bulletin), a service that helps local governments open up and utilize their PR magazines. By August 2020, the number of posting local governments had reached 872, covering around 50% of the local governments within the country. This segment remains small in scale and its contribution to earnings is low, but it is a field that can be expected to grow in the future.

(4) Financial position and cash flow conditions

Looking at the financial position in 1H FY2/21, total assets were ¥7,214mn (up ¥86mn on the end of the previous fiscal period). Current assets increased ¥71mn, with the main factors including that cash and deposits increased ¥72mn and notes and accounts receivable decreased ¥178mn. Fixed assets increased ¥14mn, as intangible fixed assets decreased ¥5mn and investments and other assets rose ¥19mn. Total liabilities were ¥3,442mn (up ¥216mn), mainly due to a ¥477mn increase in short-term loans payable, etc. that includes the current portion of long-term loans payable, and a ¥306mn decrease in accrued income tax. Net assets were ¥3,772mn (down ¥129mn), primarily because retained earnings increased ¥265mn, following the recording of profit attributable to owners of parent, and the acquisition of treasury shares of ¥341mn.

Simplified balance sheet

	(¥mn)		
	End of FY2/20	End of 1H FY2/21	Change
Current assets	5,191	5,263	71
Cash and deposits	3,538	3,611	72
Notes and accounts receivable	1,371	1,193	-178
Fixed assets	1,936	1,950	14
Tangible fixed assets	85	86	1
Intangible fixed assets	478	473	-5
Investments and other assets	1,372	1,391	19
Total assets	7,128	7,214	86
Current liabilities	2,626	2,832	206
Short-term loans payable, etc.	825	1,302	477
Fixed liabilities	600	610	10
Total liabilities	3,226	3,442	216
Net assets	3,901	3,772	-129

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

Results trends

Cash flow provided by operating activities was ¥268mn, with the main revenue items including the recording of net profit before income tax of ¥558mn, depreciation and amortization of ¥78mn, and a decrease in accounts receivable of ¥178mn, while the main expenditure items included a decrease in accrued consumption taxes of ¥110mn. Cash flow used in investing activities was ¥136mn, primarily allocated to the acquisition of intangible fixed assets, mainly software, of ¥63mn and the acquisition of investment securities of ¥74mn. Cash flow provided by financing activities was ¥37mn, with the main revenue item from borrowing (net) of ¥487mn, and the main expenditure items including the acquisition of treasury shares of ¥342mn and dividend payments of ¥97mn. As a result, cash and cash equivalents increased ¥170mn during the period, and the balance of cash and cash equivalents at the end of 1H FY2/21 was ¥3,708mn.

Simplified cash flow statement

	(¥mn)	
	1H FY2/20	1H FY2/21
Cash flow from operating activities	533	268
Cash flow from investing activities	-87	-136
Cash flow from financing activities	-494	37
Change in cash and cash equivalents	-48	170
Balance of cash and cash equivalents at the end of 1H FY2/21	2,374	3,708

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

(5) Main topics during 1H FY2/21

a) Established the CVC (Corporate Venture Capital) fund and launched an investment business

Previously, the Company had directly invested in (funded) companies, including promising venture companies. However, with this method, depending on how results have trended at the company invested in, there are cases where the Company has had to book impairment loss in its results, which can distort financial results. Therefore, in March 2020, it established Double Sharp Partners Corporation as the investment business subsidiary, and in April, as the first fund, it formed the Double Sharp Partners Fund-1 (fund scale: ¥500mn, period: 10 years) and launched an investment business via a partnership.

It has already invested in three companies (around ¥20mn to ¥30mn in each): Knowledge Merchants Works Inc. (which provides the Hata Luck store management tool), JOINS co., Ltd. (which provides JOINS, a service that matches individuals working secondary or side jobs in major cities with regional companies), and Subslife Inc. (which provides a furniture subscription-type service). The Company has stated, "In the future, we will invest in companies if there are good candidates."

b) The acquisition of treasury shares

The Company resolved to acquire treasury shares in order to improve capital efficiency and to prepare to implement capital policies in the future. It has already acquired them, and the summary of this acquisition is shown below.

Type of shares to be acquired: the Company's common shares

Total number of shares that can be acquired: 500,000 shares (upper limit)

Total acquisition price of shares: ¥500mn (upper limit)

Acquisition period: From April 22, 2020 to October 21, 2020

Acquisition method: Market purchases on the Tokyo Stock Exchange

The situation as of September 30, 2020 was as follows.

Cumulative number of treasury shares acquired: 243,900 shares (progress rate: 48.8%)

Cumulative total of acquisition price: ¥341,471,300 (progress rate: 68.3%)

Treasury shares held: 244,086 shares (3.0% of total issued shares of 8,135,264 shares)

Results trends

c) Providing useful solutions for the novel coronavirus pandemic

Expectations for IT have risen during the novel coronavirus pandemic, so the Company has developed and started to provide several useful solutions for the “with corona” and “after corona” periods.

Specifically, it has started providing the following services: a free-of-charge smartphone app for reporting health conditions, solutions for virtual general meetings of shareholders, an app enabling condominium management companies to receive online emergency inquiries, and a ticket management service for beauty salons to manage the sales of prepurchase tickets. Also, services it is developing include an app to support stores in Shimokitazawa by prepurchasing store points, and a takeout menu reservation app that makes it possible to receive orders without having to wait.

d) Started providing SPIRAL® Ver.1.13.2

In August 2020, the Company released SPIRAL® Ver.1.13.2, which provides improved operability and visibility when building a members-only website. It is continuously expanding and strengthening the functions of SPIRAL® as a platform.

(6) The impact of the novel coronavirus pandemic

Stagnant sales activities have been seen, including that orders and sales discussions are being pushed back. But on the other hand, demand for IT has risen, and based on this, at the current time inquiries are increasing. The effects of the coronavirus on each segment are described below.

a) Information asset platform business

The impact on system usage fees (stock sales), which is the basis of the revenue from SPIRAL®, has been minimal. Sales activities to acquire new customers through outbound sales are proving difficult, but due to the spread of teleworking and the rising need to utilize IT for work, the number of online consultations is increasing, and these are being converted into projects.

b) Sales promotion CRM solutions business

In sales promotions and CRM management projects, orders have been lost and postponed, so sales have decreased. Also, for the inside sales agency business, sales discussions for new projects have stalled.

c) Advertising business

This business has been affected by the stagnation of corporate advertising and publicity activities, mainly due to self-restraint on purchasing activities. In particular, it has been impacted by the stagnation of internet advertising relating to traffic advertisements.

d) xTech business/social innovation business

The BIM business is performing comparatively strongly. Beauty salons, which are the customers for Bireki®, have closed for business one after another, but even so its results have remained firm. Publications of My Kohoshi are increasing as part of local governments’ measures to actively disseminate information. The impact on I LOVE Shimokitazawa has been great, because events cannot be held. For Shimokita Coin®, circulation in restaurants has been greatly reduced. For internet-based voting/Seijiyama, a rising internet-based voting movement can be seen.

Results trends

e) The Group common/all companies

In April 2020, 37 new graduates were recruited, and after the declaration of a state of emergency was ended, some came to work and participated in training. From around August, the recruits were sequentially allocated to work positions after their training was completed. Furthermore, the Company plans to announce a new medium-term business plan, which will be based on the new normal, after the novel coronavirus pandemic has settled down (it has not yet decided when it will be announced).

Business outlook

Disclosed ranged forecasts for FY2/21 due to uncertainty

● FY2/21 outlook

For the FY2/21 consolidated results outlook, the impact of the novel coronavirus pandemic is unavoidable, so the Company initially announced forecasts over ranges. At the time of announcing the 1Q results, it upwardly revised the lower limits of the range forecasts, so it is now forecasting net sales from ¥5,800mn to ¥6,200mn (down 6.6% to 0.1% YoY), operating profit from ¥1,000mn to ¥1,200mn (down 28.1% to 13.7%), recurring profit from ¥1,000mn to ¥1,200mn (down 28.7% to 14.4%), and profit attributable to owners of parent from ¥700mn to ¥800mn (up 1.7% to 16.2%). It upwardly revised the forecast for profit attributable to owners of parent to a YoY increase because it resolved to sell investment securities (around ¥280mn, to be recorded in extraordinary income) during the current period. The Company paid an interim dividend of ¥9, but it has not yet decided on the annual dividend. However, its policy is to maintain a dividend payout ratio of 30%.

FY2/21 forecasts

	FY2/20		FY2/21		Change	
	Amount	% of total	Forecast	% of total	Amount	%
Net sales	6,207	100.0%	5,800-6,200	100.0%	-407~-7	-6.6%~-0.1%
Operating profit	1,390	22.4%	1,000~1,200	17.2%~19.4%	-390~-190	-28.1%~-13.7%
Recurring profit	1,402	22.6%	1,000~1,200	17.2%~19.4%	-402~-202	-28.7%~-14.4%
Profit attributable to owners of parent	688	11.1%	700~800	12.1%~12.9%	111~11	1.7%~16.2%

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

■ Medium- to long-term growth strategy

Postponed announcement of the new 2023 Medium-Term Business Plan

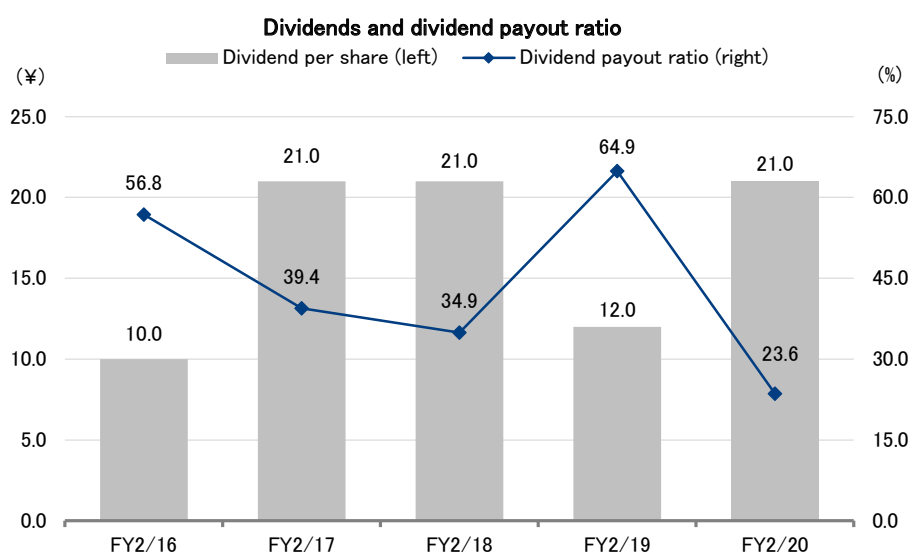
● Medium-term business plan

The Company completed its previous three-year medium-term business plan in FY2/20. Despite missing final goals of ¥7,300mn in net sales and ¥1,700mn in operating profit, we think compound average growth rates (CAGR) posted in these three years were upbeat at 8.9% for net sales and 18.0% for operating profit. The Company had intended to announce the new 2023 Medium-Term Business Plan, but the COVID-19 situation delayed this release. It stated, "We intend to announce the medium-term business plan once it is possible to present reasonable assumptions."

■ Shareholder return policy

Maintains the 30% dividend payout ratio policy, though has not yet decided on the FY2/21 dividend

The Company has committed to a 30% dividend payout ratio as its shareholder return policy. It paid per share annual dividends of ¥12.0 in FY2/19 and ¥21.0 in FY2/20. In FY2/21, it has paid an interim dividend of ¥9.0, but as the future remains uncertain, specifically the impact of the novel coronavirus pandemic, it has not yet decided on a period-end dividend. However, the Company has stated, "We will maintain our previous commitment of a dividend payout ratio of 30%," and it is expected to announce the dividend when the novel coronavirus pandemic situation settles down.



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



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