

Hotto Link Inc.

3680

Tokyo Stock Exchange Growth Market

1-Jul.-2024

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Summary

Net sales reached record highs in each business in FY12/23. Operating profit substantially outperformed target due to “ambidextrous management”

Hotto Link Inc. <3680> (hereafter, also “the Company”) is an IT company that mainly delivers digital marketing support services that utilize social media data. Its key subsidiaries are U.S.-based Effyis, Inc. which sells data access rights to major social media platforms, and Nonagon Capital LLC, which manages investments in the Web3 field. The Company engages in operations through three business segments, the “SNS Marketing Support Business,” “DaaS Business,” and “Web3 related business” segments effective from FY12/23, upon having sold the Crossbound Business in FY12/22.

1. FY12/23 results trends

In FY12/23, the Company’s consolidated results were net sales of ¥4,739mn (-40.1% year on year (YoY)), operating profit of ¥220mn (-89.6%), profit before tax of ¥287mn (-84.7%), and profit attributable to owners of parent of ¥226mn (-87.5%). Whereas sales and profits decreased relative to the previous fiscal year due to the Company’s sale of the Crossbound Business, each business segment posted record-high net sales and operating profit substantially outperformed the target as a result of the Company having made flexible management decisions in response to dramatic changes in the external environment enlisting its “ambidextrous management” approach. In the SNS Marketing Support Business, sales increased despite having been temporarily affected by X’s (formerly Twitter) spec changes, due to the segment’s focus on development and sales of new services. In the DaaS Business, results exceeded forecasts amid consistent demand for various types of data combined with tailwinds from yen depreciation. In the Web3 related business, the Company invested in seven companies. The Company will focus on investing in its Web3 related business and generating business synergies in that regard as it continues to review its flexible product portfolio in response to market changes with respect to SNS marketing going forward.

2. FY12/24 outlook

For FY12/24, the Company is forecasting net sales of ¥4,503mn (-5.0% YoY), operating profit of ¥172mn (-21.9%), profit before tax of ¥180mn (-37.1%), and profit attributable to owners of parent of ¥93mn (-58.9%). The Company intends to persist with initiatives to tap demand attributable to expansion of the social media marketing market. Meanwhile, it seeks to secure profits while investing in human capital with the aim of increasing sales, to which end it will place focus on intensifying recruitment efforts in the SNS Marketing Support Business. Whereas the Company forecasts lower sales and profits based on a conservative outlook with respect to results of the volatile DaaS Business, it anticipates robust growth in the Internet and digital marketing markets. FISCO deems that the Company’s full-year targets are attainable in part given that it is now able to address a wide range of customer needs as a result of it having augmented its lineup of services, and also given that the Company is making flexible management decisions in response to dramatic changes in the external environment enlisting its “ambidextrous management” approach.

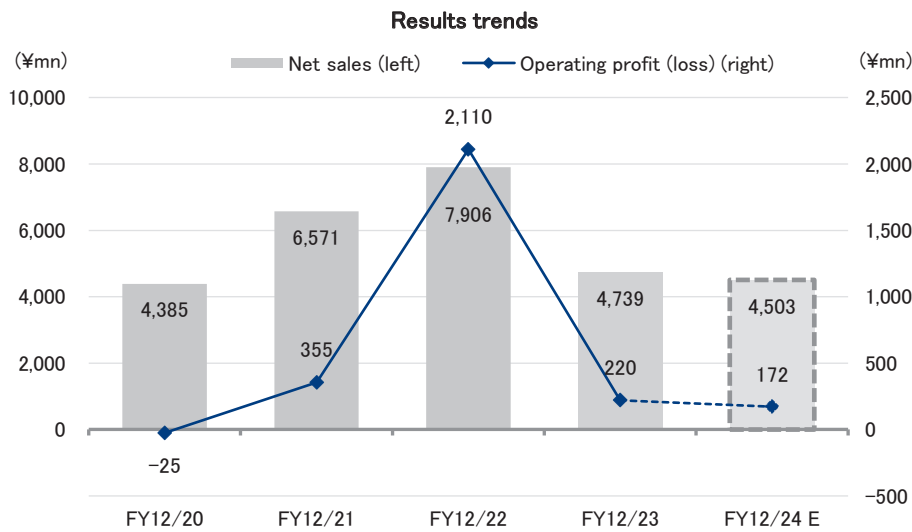
Summary

3. Medium- to long-term growth strategy

Whereas the Company had set five-year targets as its medium- to long-term growth strategy, it ended up scrapping those five-year targets given that the targets had the effect of constraining flexible management decisions in response to changes in the external environment. This will make it easier for the Company to respond promptly and appropriately to dramatic changes in the environment in existing and new business areas, and further raise enterprise value. Upon having acquired wevna Inc.'s SNS advertising business and part of its media business (fasme), the Company has gained the ability to deliver one-stop service from the awareness through the purchasing phases by currently providing SNS advertising (acquisition type) as well as Google and other search advertising services. At FISCO, we believe that expansion of business scope reinforces the Company's strengths, and will support growth in its market share and earnings.

Key Points

- Net sales reached a record high in FY12/23. Solid performance in each business was driven by “ambidextrous management” involving deepening existing businesses and exploring new business opportunities
- The Company forecasts lower sales and profits in FY12/24. Whereas the Company enlists a conservative forecast with respect to results of the DaaS Business, its full-year targets look attainable given robust performance of the Internet and digital marketing markets
- “Five-year targets” scrapped to achieve flexible management. As an integrated marketing provider, the Company plans to enhance its competitive advantages in growth markets



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

■ Company profile

Striking a balance between deepening existing businesses and exploring new businesses through “ambidextrous management.” Growth driven by initiatives to flexibly reshuffle the business portfolio

1. Company history

The Company was founded in June 2000 by current President and Representative Director Koki Uchiyama with a raison d'être of “establishing the infrastructure for a knowledge-recycling society to contribute to creating a world wherein people can feel the essence of ‘Hotto’ (a Japanese word translated as ‘a feeling of relief’).” Mr. Uchiyama has been involved with development of technology from the beginning of the Internet market, including participation in the Japan Search Engine Development Project, one of Japan’s earliest search engines, while in graduate school in 1995.

The Company provided an analysis service based on articles posted on social media, including on personal blogs and 2channel (currently 5channel), from the second half of the 2000s, which was the start of the rapid spread of social media in the Internet industry. Starting with the analysis of blogs in 2005, it acquired the Dentsu Buzz Research Business (analysis of social big data) in 2008 from Gala Buzz Inc., and started in earnest to provide its current mainstay service, the social media analysis tool BuzzSpreader Powered by kuchikomi@kakaricho (kuchikomi@kakaricho).

In 2012, it made Gala Buzz, which provided a social risk monitoring service called e-mining, a wholly owned subsidiary (merged and absorbed the same year), and added the service to its lineup. However, risk management-related businesses, which centered on this service, were transferred to Reliefsign Co., Ltd.* via a company split in October 2018, and a majority of its shares were sold to S. Front Ltd. in December of the same year. The Company’s investment stake was 34% after the sale, but it sold additional shares in 2020, which put its stake at 24%. In conjunction with a capital and business alliance with Masterpiece Group, Inc. announced in June 2022, all shares owned in Reliefsign were exchanged for new shares issued by the Company. This made Reliefsign a wholly owned subsidiary of Masterpiece Group, and in FY12/22 2Q it ceased being an equity-method affiliate of the Company.

* Reliefsign was established by the Company and Masterpiece Group as a joint venture with S. Front and became a consolidated subsidiary of Masterpiece Group.

Company profile

The Company established TrendExpress Co., Ltd. (formerly Hotto Link Consulting Inc.) in 2013. It made a subsidiary of Effyis, which is a major social media distribution company that has access rights to the social data of major SNS and conduct sales, in 2015, and constructed a business foundation overseas. Also, to take advantage of the rapidly increasing number of tourists from China visiting Japan, TrendExpress launched China Trend Express, which is a regular reporting service for inbound tourism consumption trends based on analysis of word-of mouth data (i.e., postings) from SNS, in 2015. Since 2017, the Company has been successively launching services including Trend PR, a web promotion support service in the Chinese market and Cross-border EC X, a cross-border EC service for China, promoting the expansion of business, targeting the Chinese market. In January 2020, to further strengthen business development in the Chinese market, TrendExpress's Chinese subsidiary and business partner Shuhuiguang (Shanghai) Consulting Co., Ltd. were merged to form Shuhuiguang (Shanghai) Consulting Co., Ltd. as a new, wholly-owned subsidiary of Trend Express. In November 2022, the Company transferred a portion of its shares in TrendExpress to TrendExpress, with the aim of effectively utilizing Group resources and maximizing enterprise value. Accompanying this, TrendExpress was removed from consolidated subsidiaries, after which its name was changed to NOVARCA Inc. The Company still holds the portion of its shares that were not subject to the transfer, and plans to further enhance enterprise value by cultivating business synergies with NOVARCA.

In May 2022, the Company established Nonagon Capital as a subsidiary to conduct investment activities with a view to the full-fledged launch of the Web3 related business. It plans to start managing a pilot fund (project) to investigate future scalability, and, along with effectively utilizing existing initiative results and networks in the area of Web3, it will also strengthen networks overseas. Moreover, the Company acquired wevna's SNS advertising business and part of its media business (fasme) in February 2023, with the aim of "deepening" the SNS Marketing Support Business. It looks to bring together personnel and working knowledge pertaining to Google and other search advertising, wevna's SNS advertising (acquisition type), and so forth with personnel and expertise in the area of utilizing SNS through collection, analysis, and utilization of its big data to provide new services to existing customers, develop new customers, and generate other synergies.

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Company profile

Company history

| Date | Major event |
|---------------|---|
| June 2000 | Hotto Link Inc. established in Yoyogi, Shibuya Ward, Tokyo (currently Chiyoda Ward, Tokyo) |
| November 2005 | Became a subsidiary of Opt Inc. |
| March 2008 | Acquired the Dentsu Buzz Research Business (analysis of social big data) from Gala Buzz Inc. |
| July 2008 | Officially launched the social media analysis tool kuchikomi@kakaricho |
| June 2012 | Acquired all shares and made a subsidiary of Gala Buzz Inc. (absorption merger in October 2012), which provides e-mining social risk monitoring services |
| October 2012 | Concluded an exclusive commercial usage licensing agreement for the information posted on the 2channel site with Tokyo Plus, Co., Ltd., which manages the 2channel site, and Mirai Kensaku Brazil, Co., Ltd. |
| November 2012 | Entered into a strategic business alliance with U.S. Gnip, Inc., a provider of social big data (acquired by Twitter in 2014), and acquired the rights to use Twitter data globally and at all times |
| March 2013 | Established Hotto Link Consulting Inc. as a consolidated subsidiary |
| December 2013 | Listed on the Tokyo Stock Exchange Mothers market |
| January 2014 | Entered into a strategic business alliance with Netyear Group Corporation |
| June 2014 | Entered into a business alliance with Effyis, Inc., a U.S. social media data distribution company and acquired exclusive agency rights for Sina Weibo in the Asia-Pacific, excluding China |
| July 2014 | Entered into a business alliance with PQ Shanghai Co., Ltd., which provides an integrated monitoring service of national brands in China, with the aim of developing and spreading the use of a social media analysis service |
| January 2015 | Made a subsidiary of U.S. Effyis, Inc. |
| May 2015 | Started to provide Visualized China Trend EXPRESS, a regular report specializing in inbound tourism consumption |
| November 2015 | Changed the name of Hotto Link Consulting, Inc. to TrendExpress Inc. Entered into a business alliance with Nightley Inc. |
| December 2015 | Acquired the shares of PQ Shanghai (ownership ratio: 19%) |
| June 2016 | Established Trend Express Tianjin Inc. and Hotto Link Hong Kong Limited |
| October 2016 | TrendExpress Inc. entered into businesses alliances with SINA Japan Synthesis Network Group Co., Ltd., SINA Japan Weibo, Co., Ltd., SINA Japan Property Co., Ltd., and SINA Japan Travel Co., Ltd. |
| May 2017 | U.S. subsidiary Effyis Inc., entered-into a business alliance with U.S. Reddit, Inc., which manages the global social news website "reddit" |
| June 2017 | Commenced sales of BuzzSpreader, a social media management support service |
| April 2018 | TrendExpress Inc., started providing Cross-border EC X, a cross-border EC support service for China |
| October 2018 | The risk management-related businesses centered on "e-mining" were succeeded by Relief Sign Co., Ltd. through a company split, and the majority of its shares were sold in December 2018 and it became an equity method affiliate (investment ratio, 34%) |
| February 2019 | TrendExpress Inc., started providing Trend MOVIE as a new service |
| March 2019 | Started a blockchain R&D project and as the first phase, concluded an investment agreement with SAMURAI Security Inc. |
| August 2019 | Renamed the social media analysis tool kuchikomi@kakaricho to BuzzSpreader powered by kuchikomi@kakaricho |
| November 2019 | Entered into a business tie-up with a dot co.,ltd., and began providing SNS GROWTH PARTNER, a service which contributes to SNS growth |
| January 2020 | Formed through a merger of Husen (Shanghai) Commerce Consulting Co., Ltd. and TrendExpress' Chinese subsidiary and acquired as wholly owned subsidiary TRENDEXPRESS CHINA |
| November 2021 | Started to provide a new product launch package specializing in promotion through SNS |
| December 2021 | Signed an advertising agency contract with TikTok For Business, and began a full-scale launch of TikTok marketing support business |
| May 2022 | Nonagon Capital LLC established for Web3-related investment |
| June 2022 | Capital and business alliance with Masterpiece Group |
| July 2022 | Started ad agency service for Pinterest, a visual search tool |
| November 2022 | Removed TrendExpress from consolidated subsidiaries upon having transferred ownership of shares to TrendExpress |
| February 2023 | Acquired wevna Inc.'s SNS advertising business and part of its media business |

Source: Prepared by FISCO from the Company's website and press releases

2. Business description

The Company's businesses are broadly divided into the SNS Marketing Support Business, DaaS Business and Web3 related business. In the social big data market, the Company's business involves integrating the three areas of collection, analysis and utilization. In addition, through "ambidextrous management," which means both deepening existing businesses and exploring new business opportunities, the Company is building a business portfolio for achieving a high rate of growth. In November 2022, it sold the Crossbound Business and removed it from consolidated subsidiaries to effectively utilize Group resources and maximize enterprise value. By investing the funds obtained from the sale of the Crossbound Business to invest in existing and new businesses, it aims to create a business portfolio that is resilient to the external environment and achieves independent growth.

(1) SNS Marketing Support Business

This business engages in operations involving domestic SNS advertising and SNS management consulting, as well as the kuchikomi@kakaricho SNS analysis tool. The sales breakdown in FY12/23 was SNS advertising/SNS management consulting at 37.3%, and SNS analysis tools at 8.8%. Amid a scenario of market growth underpinned by robust demand particularly with respect to corporate use of SNS, the segment has expanded its service domain by acquiring SNS advertising and media business from wevna, thereby extending its capacity for tapping into mounting demand. In addition, the segment launched its new "HottoLink Creator Marke (Hokkuri)" influencer marketing service in February 2024, thereby enabling it to provide influencer marketing methods that address challenges encountered by many companies and produce results. The Company expects SNS advertising/SNS management consulting's share of sales to increase further on the back of these developments.

In the SNS Marketing Support Business, the Company provides marketing support services (SNS advertising agent sales and management consulting), primarily utilizing X (formerly Twitter) and Instagram. In SNS management consulting, it draws on the social big data it possesses and the expertise and unique methods it has built up over many years to conduct measures on X (formerly Twitter) and other social media that increase product awareness and boost sales for customer companies. Its service mix is broadly divided into non-recurring revenue-type services consisting of SNS advertising, reporting and content creation and recurring revenue-type services consisting of consulting and SNS account management for clients. The number of contracts for recurring revenue-type services are steadily increasing, and orders for non-recurring revenue-type services are increasing in step with this, creating a synergistic effect.

Its customers span a range of industries, centering on B2C companies in sectors like food and beverages, and beauty and cosmetics. In terms of their size, a majority of its customers are companies with around ¥100.0bn in sales. This is because most companies larger than this utilize television commercials and other such media and already have established relationships with major ad agencies, which means a high barrier to entry. With regard to the performance of SNS advertising, the Company beats out the large ad agencies, and it has even received orders from major automakers. Recently, the Company has been working to expand its customer portfolio, increasing the percentage of sectors unaffected by the business cycle, such as fintech and the communication. Also, to raise sales per customer and acquire new customers, the Company intends to form alliances across sector and industry boundaries.

Company profile

As a promotional measure using SNS, the Company thinks it is important to increase User Generated Contents (UGC; word-of-mouth and other contents from users) and systematizes the purchasing-behavior process of consumers related to UGC as ULSSAS. Specifically, a follower that sees a starting-point UGC (X (formerly Twitter) submission) adds a Like. The next step is a search within the SNS (Search1) or the use of Google or some other search engine to confirm the product (Search2) and buy the product (Action). After that is dissemination on X (formerly Twitter) (Spread). By repeating this series of processes, the Company boosts sales of the customer company's product.

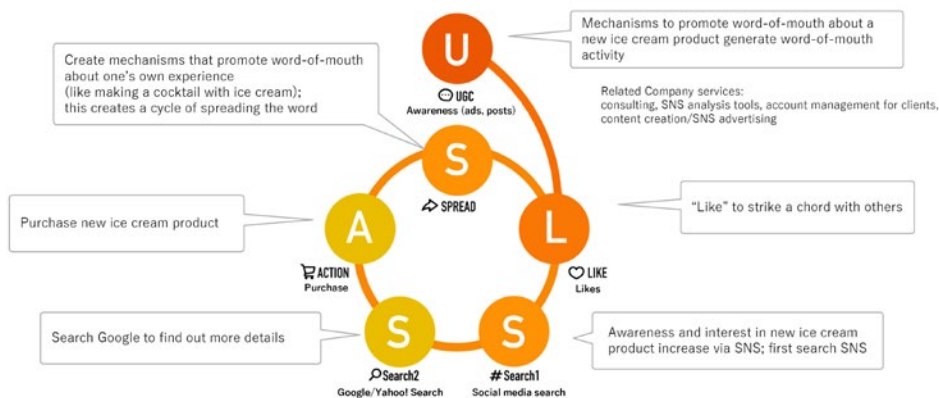
Unique methods devised by the Company from success patterns accumulated over many years are vital to efficiently build the process cycle and serve as a primary factor to differentiate the Company from competitors. For example, the Company conducts an analysis that brings together not only information collected from X (formerly Twitter) but also a variety of data including blogs and other word-of-mouth sites and distributes advertisements for the product being promoted to the ideal UGC source extracted automatically using AI. This capability has boosted interest in the Company's marketing support service as a service with high cost efficacy and supports an impressive repeat usage ratio of over 70%. Hotto Link is an established brand in X (formerly Twitter) marketing.

Meanwhile, kuchikomi@kakaricho, an SNS analysis tool, has the following features. It possesses Japan's largest social media coverage and it is easy to operate and to perform real-time searches, such as trend analysis and attribute analysis. It also has functions such as cross-media analysis spanning television, news websites, and other media, plus a data import analysis function to perform text mining of data held internally by corporate customers (questionnaires, call logs, etc.) Notably, for social media analysis, the Company has a dominant advantage in Japan in terms of the sheer volume of social data it possesses, a key strength, and it covers approximately 90% of all blogs in Japan. In addition, the Company holds all historical data on the 5channel bulletin board site and gathers worldwide X (formerly Twitter) data based on the agreements it has entered with these partners.

Customer companies use kuchikomi@kakaricho to analyze social big data and apply results to product development, sales promotion activities, and comparisons with competitors and other surveys. The initial deployment fee is ¥100,000, and monthly charges begin at ¥140,000. Customers pay additional fees based on the number of certified user IDs, coverage media, data capacity, and other aspects. Among major users, some companies pay a monthly fee of about ¥1mn. More than 1,000 companies have cumulatively deployed the service, and about 300 of these companies are currently active users. Roughly 80% of users are large companies. The customer base covers a wide range of industries, including consumer goods manufacturers, services firms, and financial institutions.

SNS Marketing Support Business example (success story of using the unique ULSSAS method)

Example of ULSSAS in promoting a new ice cream product

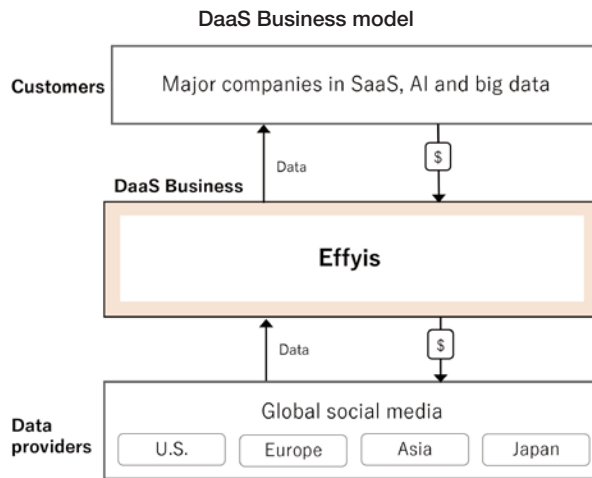


Source: The Company's financial results supplemental briefing materials

Company profile

(2) DaaS Business

The DaaS Business is run globally by Effyis (under the brand name Socialgist) and involves selling access rights to social media data. Effyis has sales contracts related to data access rights for social media (blogs, bulletin boards, Q&A, review sites, etc.) with open SNS operating companies around the world, with the exception of X (formerly Twitter), and it sells those rights to global IT companies (social big data analysis, marketing platforms, and business intelligence and other tool vendors). Its major customers include Salesforce <CRM> and Microsoft <MSFT> as well as financial institutions, government bodies, IT ventures involved in SaaS services. Effyis is one of the world’s largest companies in the social big data market and the only one that has acquired sales contracts for SNS data access rights from diverse data providers around the world.



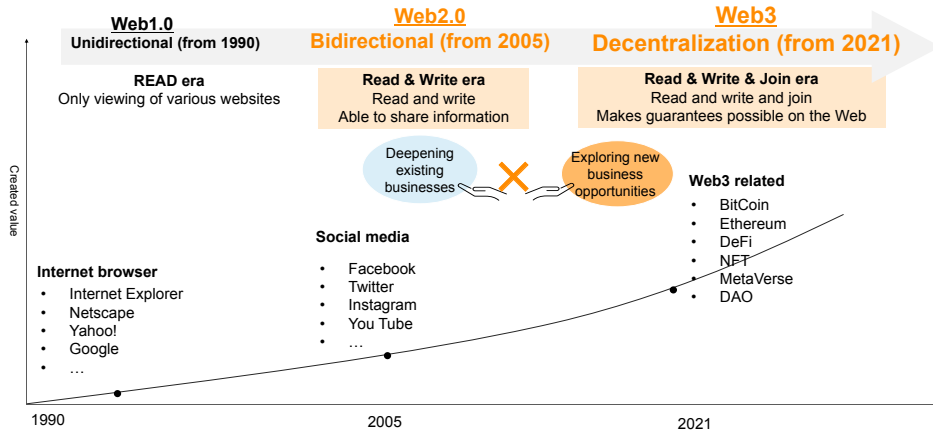
Source: The Company's financial results supplemental briefing materials

(3) Web3 related business

The Web3 related business is a new segment the Company has established anticipating a major paradigm shift in the Internet as a whole. The background to this is the development of decentralized autonomous Web3 technology in response to the harmful effects of power being overly centralized in Web 2.0. The idea is that the Web 2.0 era of “read and write” is beginning to transition to an era of “read and write and participate.” Even recently, innovations using blockchain technology have been coming out in succession, including the issue of cryptocurrencies, decentralization of services, clarification of digital data ownership, the token-based incentive revolution, and decentralized autonomous organization using tokens. Looking to a full-scale launch of Web3 related business, the Company is working on a pilot fund (project) for conducting research via investments in the Web3 industry through subsidiary Nonagon Capital. It plans to start managing a pilot fund (project) to investigate future scalability. It established Nonagon Capital’s Singapore corporation so that speedy investment decisions would not be hindered by Japan’s domestic laws and regulations. Recently, in December 2023, it announced a collaboration with HAKUHODO KEY3 to launch an overseas expansion support business for Japanese companies in the Web3 domain. From FY12/24, it plans to go beyond investing in companies, tokens, and so forth by considering incubating new businesses, in addition to generating synergies with its existing businesses and Web3 related business.

Company profile

Internet paradigm shift



Source: The Company's business plans and materials on growth potential

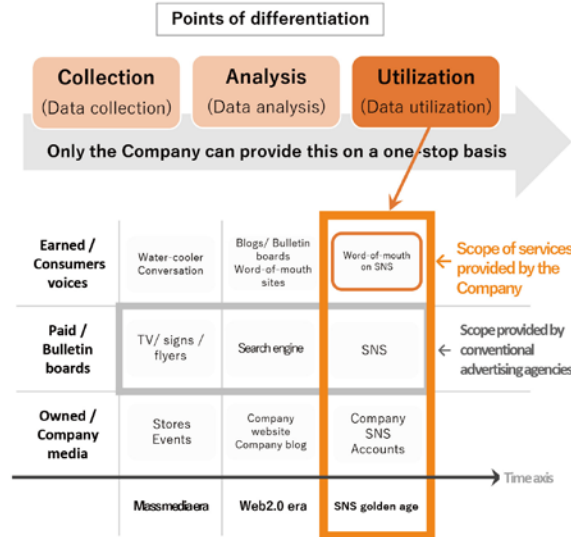
3. Business model and strengths

In recent years, SNS-based marketing has rapidly increased in importance. Typically, media used in marketing consists of three types: “owned media” owned by the company itself, “paid media” that is owned by a different company and provides exposure through the payment of advertising fees, and “earned media” that reflects comments by consumers and cannot be controlled by a company. These three types of media also exist in SNS marketing. Examples of owned media include a company’s SNS accounts, while examples of paid media include advertisements on X (formerly Twitter), Facebook, and Instagram, etc. and examples of earned media include word-of-mouth advertising on SNS. These days, marketing methods utilizing word-of-mouth (earned media) on SNS are attracting attention due to their massive influence. However, since word-of-mouth on SNS cannot be controlled by companies, cost-effectiveness depends on how the information can be disseminated to the most appropriate users and spread most effectively.

Leveraging its strengths of social big data analysis capabilities accumulated since its founding and social data collection capabilities owned by Effyis, the Company established a management method that circulates the purchasing-behavior process through SNS. This approach has succeeded in achieving high performance. Using this strength in word-of-mouth advertising on SNS as a weapon, the Company will provide an integrated marketing service centered on SNS in the three domains of owned media, paid media, and earned media.

Company profile

Integrated marketing service through three media types



Source: The Company's financial results supplemental briefing materials

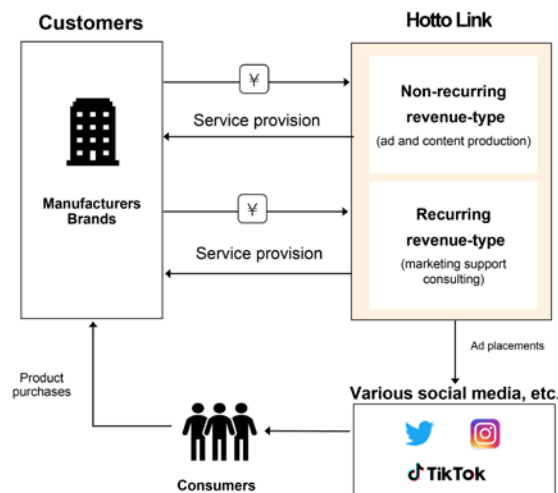
In addition to covering the three domains with an integrated service, there are several points for the Company to further raise the appeal of its services. The first is utilizing big data. For that, it is important to have infrastructure in place to correctly 1) collect, 2) analyze, and 3) utilize data. The Company refers to that as “intellectual circular infrastructure,” and has developed business with a view to establishing and building up intellectual circular infrastructure since its establishment.

The Company 1) has a global database in the DaaS Business for collection; 2) leverages SNS analysis tools in terms of analysis; and 3) provides value through the SNS Marketing Support Business. In each step, the Company has a wealth of knowledge and experience, and maximizes the value of big data by having these function organically together. In addition, the Company currently plans to provide SNS advertising (acquisition type), Google and other search advertising services, and so forth through the SNS advertising business and partial media business (fasme) that it has acquired. By gaining the ability to deliver one-stop service from the awareness through the purchasing phase, the Company is expected to further expand its business domain. At FISCO, we believe that this business development will further bolster the Company’s strengths, and will boost the future expansion of market share and larger earnings.

Company profile

In addition, the Company’s business model can be viewed as having a recurring revenue-type business and a non-recurring revenue-type business. In the three steps of “collection,” “analysis,” and “utilization (marketing)” discussed above, the Company offers services whereby sales for each step are divided into “recurring revenue-type” and “non-recurring revenue-type.” From the perspective of client companies, this allows them to use the Company’s services to solve the problems they face in each phase of the chain at any time, from information collection to marketing. Since the Company responds efficiently in a one-stop manner, it can be expected to have a greater benefit than asking multiple companies for help in each phase. From the perspective of the Company, there are recurring revenue-type services such as data access rights sales, analysis tools, consulting, and SNS account management at each stage of “collection,” “analysis,” and “utilization,” which enhances the stability of earnings. In addition, increasing contracts for these recurring revenue-type services will also make it easier to receive additional orders for non-recurring revenue-type services, which will accelerate the growth in net sales. By taking advantage of the above-mentioned features of having an “integrated marketing service centered on SNS,” the Company’s presence in the marketing industry is growing, and at FISCO we believe that orders from major companies that were difficult to approach in the past will also increase going forward.

Business model consisting of non-recurring revenue and recurring revenue



Source: The Company’s financial results supplemental briefing materials

■ Results trends

Success achieved in portfolio management through “ambidextrous management.” Each business segment posted record-high net sales and operating profit substantially outperformed the target

1. Overview of FY12/23 results

In FY12/23, the Company's consolidated results were net sales of ¥4,739mn (-40.1% YoY), operating profit of ¥220mn (-89.6%), profit before tax of ¥287mn (-84.7%), and profit attributable to owners of parent of ¥226mn (-87.5%). The Company's operations consist of three business segments, the “SNS Marketing Support Business,” “DaaS Business,” and “Web3 related business” segments, effective from FY12/23, upon the Company having sold the Crossbound Business in FY12/22. Whereas sales and profit consequently decreased relative to the previous fiscal year, the three business segments posted record-high net sales and operating profit substantially outperformed the target amid a scenario where each of the businesses performed well through “ambidextrous management,” which involves deepening existing businesses and exploring new business opportunities.

In the SNS Marketing Support Business, although results in the short term were temporary affected by X's (formerly Twitter) spec changes, sales increased amid a focus on development and sales of new services that address customer needs. The segment has been making progress in acquiring new customers and raising sales per customer by generating synergies between its existing businesses and the SNS advertising and media business acquired from wevna. In the DaaS Business, net sales and operating profit exceeded targets amid solid demand from customers for various types of data combined with tailwinds from yen depreciation. Whereas growth of the social media listening market stagnated, the segment has been encountering steadily escalating demand from the digital risk market and has also been exploring possibilities for tapping into demand from the generative AI market. In the Web3 related business, the Company invested in seven companies in FY12/23 and plans to continue to consider investments while closely monitoring industry trends. The Company contends that Web3 is currently in the social implementation phase and is accordingly focusing on launching new Web3 related businesses and generating synergies with its existing businesses, in addition to undertaking investment. With the Company advancing flexible product portfolio review amid a rapidly changing environment in the SNS marketing market, FISCO's view is that it will continue to make further progress in generating business synergies going forward, in addition to its investment in the core SNS business and Web3 related business positioned as a medium- long-term growth area.

Whereas SG&A expenses decreased 32.8% YoY to ¥1,323mn given that SG&A expenses previously in FY12/22 included expenses incurred in selling the Crossbound Business, the SG&A expense ratio increased to 27.9% from 24.9% in FY12/22. However, FISCO believes that profitability is rising amid an upward trend in the volume of ads handled per person as a result of the Company automating its internal ad watching and reporting initiatives, in addition to ongoing efforts to control SG&A expenses, such that include automating business processes and reducing hiring costs through referral-based recruitment.

Results trends

FY12/23 consolidated results

| | FY12/22 | | FY12/23 | | | YoY |
|---|---------|------------|---------|------------|--------|--------|
| | Results | % of sales | Results | % of sales | Change | |
| Net sales | 7,906 | - | 4,739 | - | -3,167 | -40.1% |
| Gross profit | 2,160 | 27.3% | 1,566 | 33.0% | -594 | -27.5% |
| SG&A expenses | 1,968 | 24.9% | 1,323 | 27.9% | -644 | -32.8% |
| Operating profit | 2,110 | 26.7% | 220 | 4.7% | -1,889 | -89.6% |
| Profit before tax | 1,875 | 23.7% | 287 | 6.1% | -1,587 | -84.7% |
| Profit attributable to owners of parent | 1,818 | 23.0% | 226 | 4.8% | -1,591 | -87.5% |

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

2. Trends by business segments

(1) SNS Marketing Support Business

Net sales rose 5.7% YoY to ¥2,184mn. Within that, sales from SNS advertising/SNS management consulting services increased 10.2% to ¥1,767mn, while sales of SNS analysis tools declined 9.7% to ¥416mn. Although some results of existing businesses were affected by soaring data prices and changes in customer trends accompanying X's (formerly Twitter) spec and policy changes, the segment focused on development and sales of new services that address customer needs. Segment sales reached an all-time high also given progress achieved in acquiring new customers and raising sales per customer by generating synergies between existing businesses and SNS advertising and media businesses acquired from wevna. Amid a scenario of drastic changes upon the segment having finished addressing updates to algorithm specs and advertising policy, FISCO believes that a source of strength in terms of the segment maintaining upward sales momentum in the ongoing FY12/24 derives from its swift decision-making and flexibility.

In SNS advertising/SNS management consulting services, the Company has been focusing on M&As and service expansion drawing on its strengths in terms of stable cash flows and its proprietary SNS marketing support. The segment has augmented its lineup of services so that it can serve a wide range of customers, which has involved extending its support media to the Meta and TikTok platforms, in addition to X (formerly Twitter) platform previously. With the segment having acquired leads by holding solutions seminars in addition to augmenting its solutions as mentioned previously, it has also achieved success in undertaking sales activities and providing services to enterprises closely aligned with the Company's services. Inquiries and requests for information documents from new customers as well as project referrals from existing customers also contributed to sales growth.

Sales of SNS analysis tools decreased YoY. This is because sales staff focused on SNS advertising/SNS management consulting, partly since the swiftly changing external environment surrounding the business has blurred visibility on things like SNS data providers' handling policies. This business has a high market share in an area with a low market growth rate and sluggish competition. FISCO's view is that it will stay around the same scale going forward, taking into account the balance between segment sales and SG&A expenses.

Overall, the SNS Marketing Support Business has seen an increase in projects provided to large companies, including the following most recent examples.

Results trends

- **JINS HOLDINGS Inc. <3046>**
 Used X (formerly Twitter) to increase the number of word-of-mouth posts by approximately 4x, and the number of brand searches by 1.7x, thereby contributing to enhancing the brand strength.
- **TORIDOLL Holdings Corporation <3397>**
 Marugame Seimen: Used X (formerly Twitter) to help attract customers. Contributed to a 1.9x increase in the number of initial speed sales on the re-sale menu.
 Kona's Coffee: Used Instagram to double the number of followers.
- **Chateraise Co., Ltd.**
 Using X (formerly Twitter), gained over 350,000 X (formerly Twitter) followers, and contributed to an increase in store sales.
- **Milbon CO., LTD. <4919>**
 Used Twitter and Instagram to increase the number of word-of-mouth posts by 6x. Supported Instalive streaming, which got 450,000 viewers.
- **Johnsonville Japan G.K. (joint venture)**
 Used Twitter and Instagram to increase word-of-mouth posts 9x, contributing to an increase in sales proportional to the number of word-of-mouth posts.
- **Orion Breweries, Ltd.**
 Used X's (formerly Twitter) UGC to increase customer contact points, which contributed to online sales 50x higher than a year ago.
- **Paidy Inc.**
 Promoted "relevance" through X (formerly Twitter) ads utilizing media like comics and videos, which contributed to 6mn downloads.

Also, marketing support combining several SNS contributed, including the following most recent examples.

- **KOSÉ Corporation <4922>**
 Conducted operations with the aim to create long-term fans among customers.
 Used Instagram and X (formerly Twitter), focusing on communication with fans.
- **NTT DOCOMO, INC.**
 Supported d POINT CLUB's Instagram management, achieving an average of 100,000 reel plays.
 Employed an array of ideas and a flexible management framework to accelerate SNS use.

In addition to the above, the Company worked on many other projects, including for a dairy product manufacturer and an automaker. We at FISCO believe that the Company will further raise its credibility in the industry by building up its track record with these kinds of large companies. As the Company is also developing new customers in industries that are not easily affected by business sentiment, we at FISCO expect industries such as IT and finance to account for a higher share of its customer portfolio in the future.

(2) DaaS Business

Net sales increased 17.9% YoY to a record high of ¥2,555mn. Factors contributing to sales included positive forex impact due to a weaker yen against the U.S. dollar, in addition to a scenario where both net sales and operating profit outperformed targets amid ongoing solid demand for corporate data, upselling to existing customers, and new customer acquisitions. Meanwhile, the Company took steps to prepare for risks accompanying SaaS industry realignment and changes in SNS companies' policies.

Results trends

Whereas growth of the social media listening market stagnated, the segment has been encountering steady growth in demand from the digital risk market and has also been exploring possibilities for tapping into demand from the generative AI market. The prospect of training and continuously refining generative AI models hinges on collecting large volumes of data, which can be done through approaches that involve gathering data limited to specific media and services, and through approaches that involve web crawling for data that is widely available online. In particular, given the situation where industry-specific information and other such data is often held exclusively by certain enterprises, FISCO deems that there is potential for the emergence of new data provision services that involve increasing the number of data providers and accumulating data through the Company's own web crawling efforts.

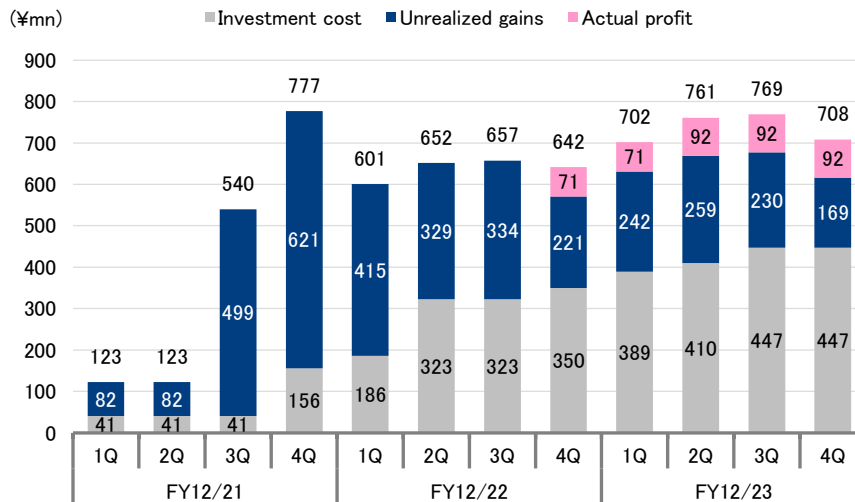
The increase in sales is also attributable to sharp yen depreciation given that the DaaS Business records its earnings in U.S. dollars. The yen depreciated significantly to ¥147.86/U.S. dollar in 4Q, from the Company's assumed rate of ¥130.00 at the start of FY12/23. The segment has been achieving steady growth on a U.S. dollar basis, excluding effects of forex. Meanwhile, the Company's U.S. subsidiary Effyis continues to maintain good relationships with media that own social big data throughout the world while focusing on consistently providing data and acquiring contracts for obtaining data access rights from new media.

(3) Web3 related business

The Web3 related business is being operated as a pilot fund (project) mainly for the purpose of industry research, so does not generate sales. The Company also seized opportunities from heightened volatility in Web3-related markets to invest in seven companies through Nonagon Capital in FY12/23, for a cumulative total of ten companies. Having obtained cash from the partial sale of the Crossbound Business, it will accelerate investment in the Web3 domain where strong growth is anticipated in the future. In December 2023, the Company announced a collaboration with HAKUHODO KEY3 to launch an overseas expansion support business for Japanese and U.S. companies. The investments it is making in Web3 related business are limited partnership investments in overseas investment funds targeting blockchain and startup companies. So if a portfolio fund holds its assets as virtual currency prior to investment, it could have a limited impact on the Company's operating results and financial condition. However, since the Company makes medium- to long-term investments after carefully researching trends in Japan and overseas rather than taking a short-term view, assets are steadily growing in relation to the amount of investments and the Company is developing business aiming for a balance between aggressiveness and stability with respect to volatility. For these reasons, FISCO's view is that there are no major concerns.

Results trends

Quarterly trends in Web3 related investments and returns



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

3. Financial position and financial indicators

Looking at the Company's financial position at the end of FY12/23, total assets increased by ¥19mn from the end of the previous fiscal year to ¥8,490mn. Current assets decreased by ¥68mn to ¥4,240mn. Looking at the main causes of the change, trade and other receivables increased ¥296mn, and other current assets increased ¥18mn. On the other hand, cash and cash equivalents decreased ¥101mn, and corporate income taxes receivable decreased ¥283mn. Non-current assets increased by ¥87mn to ¥4,250mn. Looking at the main causes of the change, other financial assets decreased ¥231mn, and right-of-use assets decreased ¥76mn. Conversely, goodwill increased ¥317mn accompanying business acquisitions, and other intangible assets increased ¥71mn. Investments through overseas investment funds in Web3 related business are included in non-current assets.

Total liabilities decreased by ¥170mn from the end of the previous fiscal year to ¥2,353mn. Current liabilities increased by ¥126mn to ¥1,019mn. Looking at the main causes of the change, borrowings increased ¥25mn, trade payables and other liabilities increased ¥86mn, lease liabilities rose ¥11mn, and corporate income taxes payable gained ¥39mn. Meanwhile, other current liabilities decreased ¥35mn. Non-current liabilities decreased by ¥297mn to ¥1,333mn. Looking at the main causes of the change, borrowings decreased ¥132mn, lease liabilities declined ¥74mn, deferred tax liabilities decreased ¥96mn, and other non-current liabilities declined ¥7mn.

Total equity increased by ¥189mn from the end of the previous fiscal year to ¥6,137mn. The main causes for the change were retained earnings increasing ¥226mn, while other equity components decreased ¥59mn due to foreign currency translation adjustments of the financial statements of overseas subsidiaries.

Looking at management indicators, the ratio of equity attributable to owners of parent, which indicates stability of management, increased from 70.2% at the end of the previous fiscal year to 72.3%, showing an improvement. Also, the interest-bearing debt ratio declined from 14.8% to 12.6%. The Company's financial position has become stronger since total equity increased sharply due to growth in profit from the sale of the Crossbound Business. It plans to continue to consider M&A and starting up new businesses utilizing its healthy financial standing. We at FISCO think that there is minimal financial concern in the near term because the Company can expect profits to accumulate going forward while profitability improves.

Results trends

Consolidated balance sheet and management indicators

| | End of FY12/19 | End of FY12/20 | End of FY12/21 | End of FY12/22 | End of FY12/23 | Change |
|--|----------------|----------------|----------------|----------------|----------------|--------|
| | (¥mn) | | | | | |
| Current assets | 2,328 | 2,710 | 3,444 | 4,309 | 4,240 | -68 |
| (Cash and cash equivalents) | 1,700 | 2,067 | 2,598 | 3,596 | 3,495 | -101 |
| Non-current assets | 3,056 | 3,057 | 3,870 | 4,162 | 4,250 | 87 |
| (Goodwill) | 1,071 | 1,367 | 1,530 | 1,298 | 1,615 | 317 |
| Total assets | 5,385 | 5,767 | 7,314 | 8,471 | 8,490 | 19 |
| Total liabilities | 2,332 | 2,795 | 3,183 | 2,523 | 2,353 | -170 |
| (Interest-bearing debt) | 616 | 851 | 1,097 | 879 | 772 | -107 |
| Total equity | 3,053 | 2,972 | 4,131 | 5,947 | 6,137 | 189 |
| (Shareholders' equity) | 2,825 | 2,793 | 3,866 | 5,947 | 6,137 | 189 |
| [Stability] | | | | | | |
| Ratio of equity attributable to owners of parent | 52.5% | 48.4% | 52.9% | 70.2% | 72.3% | 2.1pt |
| Interest-bearing debt ratio | 21.8% | 30.5% | 28.4% | 14.8% | 12.6% | -2.2pt |

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

Outlook

Forecast for lower sales and profits based on conservative outlook for the volatile DaaS Business. Intensifying recruitment efforts in the SNS Marketing Support Business

1. FY12/24 consolidated results outlook

For FY12/24, the Company is forecasting net sales of ¥4,503mn (-5.0% YoY), operating profit of ¥172mn (-21.9%), profit before tax of ¥180mn (-37.1%), and profit attributable to owners of parent of ¥93mn (-58.9%). Whereas the Company intends to persist with initiatives to tap demand attributable to expansion of the social media marketing market, the forecast calls for lower sales and profits given a conservative outlook with respect to results of the volatile DaaS Business. Meanwhile, the Company seeks to secure profits while investing in human capital with the aim of increasing sales, to which end it will place focus on intensifying recruitment efforts in the SNS Marketing Support Business.

The Company will generate intra-Group synergies and consider M&A options while promoting “deepening” and “exploring” initiatives in each business. The Company expects to attain further growth through investment while maintaining its profit structure in aiming to create a business portfolio resilient to trends in the business environment and the economy. The SNS Marketing Support Business will enhance its framework for achieving customer satisfaction and enabling unit price increases by accelerating the pace of personnel recruitment, thereby sustaining its trend of sales growth by augmenting its support media and providing new services. Moreover, it will consider flexible M&A options enlisting the abundance of cash derived from sale of the Crossbound Business. In the DaaS Business, although the Company forecasts a decrease in sales upon factoring in effects of discontinuing contracts with data providers, it projects higher profits given the likelihood of demand from new markets such as those related to digital risk and generative AI, alongside implementing cost control measures. In the Web3 related business, whereas the impact of the segment on the Company's results will be negligible, the Company will explore synergies with its existing businesses as part of its existing services and new businesses, in addition to its investment undertaken through investment funds.

Outlook

In FY12/23, net sales fell slightly below target at 97.7% of the forecast, operating profit amounted to 222.2% of the target. Whereas the Company forecasts lower sales and profits in FY12/24 based on a conservative outlook with respect to results of the volatile DaaS Business, it is making flexible management decisions in response to dramatic changes in the external environment enlisting its “ambidextrous management” approach given that it anticipates robust growth in the Internet and digital marketing markets. As such, FISCO deems that there is a possibility of the Company achieving its full-year targets given that it is now able to address a wide range of customer needs as a result of it having augmented its lineup of services.

FY12/24 consolidated results outlook

| | FY12/23 | | FY12/24 | | (¥mn) | |
|---|-----------|------------|----------|------------|--------|--------|
| | Results | % of sales | Forecast | % of sales | Change | YoY |
| | Net sales | 4,739 | - | 4,503 | - | -236 |
| Operating profit | 220 | 4.6% | 172 | 3.8% | -48 | -21.9% |
| Profit before tax | 287 | 6.1% | 180 | 4.0% | -107 | -37.1% |
| Profit attributable to owners of parent | 226 | 4.8% | 93 | 2.1% | -133 | -58.9% |

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

2. Outlook by business segments

(1) SNS Marketing Support Business

The Company forecasts net sales in this segment of ¥2,467mn (+12.9% YoY). The segment will accelerate its pace of personnel recruitment, enhance its framework for achieving customer satisfaction and enabling unit price increases, and focus on initiatives for sustaining its trend of sales growth by augmenting its support media and providing new services. Moreover, it will engage in strategies looking toward business expansion while considering flexible M&A options enlisting the abundance of cash derived from sale of the Crossbound Business. With respect to personnel recruitment, the segment plans to hire around 30 employees, thereby increasing the overall workforce by about 20% to 30%.

The segment is currently providing the “HottoLink Creator Marke (Hokkuri)” service, launched in February 2024. This involves facilitating essential influencer marketing initiatives that are not short-lived through appropriate targeting, casting, and plan design leveraging the Company's strengths in data analysis. Three strengths are cited with respect to the Hokkuri service in that it makes it possible to (1) sufficiently capture target audience attention (awareness), (2) cast influencers who resonate with the audience, and (3) design plans aligned with user insights. The service involves streaming advertisements to target audiences and analyzing community clusters through an approach developed in-house, thereby making it possible to capture target audience attention by effectively streaming advertisements to users who are inclined to react positively to products of customer companies. Moreover, the service makes it possible to identify influencers who are closely aligned with such products based on data analysis, while also stimulating purchasing behavior and generating buzz by enlisting an approach that entails joint creation of content rather than merely having influencers post PR content. In addition, the service enables customers to maximize the effectiveness of initiatives linked to their overall SNS strategies through meticulous design of plans that generate buzz, underpinned by insights of users who are inclined to react positively to products of customer companies. Whereas typical approaches to influencer marketing make it possible to instantaneously generate buzz but tend not to culminate in sustained results, the “HottoLink Creator Marke (Hokkuri)” service makes it possible to achieve sustained buzz through appropriate targeting, casting, and plan design leveraging the Company's strengths in data analysis.

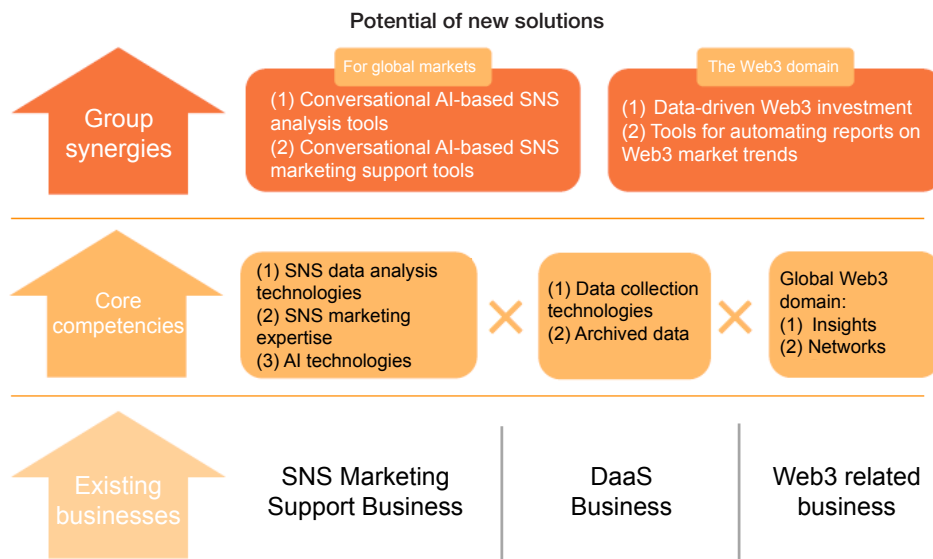
Hotto Link Inc. | 1-Jul.-2024
3680 Tokyo Stock Exchange Growth Market | <https://www.hottolink.co.jp/english/>

Outlook

In each phase from awareness to purchasing, there are many companies providing marketing support services. However, there are few companies that can provide high-quality services for all of the phases to meet customer needs in an integrated manner. Demand for marketing using SNS is expected to continue to expand at a solid clip in the future. As there are ongoing tailwinds for the Company, which is steadily strengthening its presence in the industry in part by increasing business with large companies, we at FISCO expect healthy growth in sales.

On the other hand, risks accompanying changes in the external environment bear watching. Changes in SNS operators' management policies are directly linked to changes in data providers' selling prices. Also, any changes in things like how information is provided and whether or not data is sold would be major changes for SNS analysis tools that the Company provides, clients who use the service, and so forth.

The Company regards these changes in the external environment as opportunities for growth, and plans to establish a system for appropriately responding to the changing market climate by flexibly revising strategies and considering countermeasures. Currently, there is growing demand for new SNS marketing methods because of spec changes and a rise in data prices due to changes in the management policy of X (formerly Twitter) operator X Corp. In addition, the Company expects user generated content (UGC), which is among its strengths, to rise in value not just due to the influence of major SNS operators, but also because of a transition to a long tail of media due to the arrival of the AI era. As a new initiative to adapt to changes in the external environment, the Company will accelerate the pace of personnel recruitment and develop new solutions by leveraging synergies inside and outside the Group to expand the scope of its SNS marketing support for companies. By enhancing its framework for achieving customer satisfaction and enabling unit price increases, it plans to deliver results by flexibly addressing the changing external environment.



Source: The Company's financial results briefing materials

Outlook

(2) DaaS Business

The Company forecasts net sales in this segment of ¥2,015mn (-21.1% YoY), given effects of discontinuing contracts with data providers. Meanwhile, the outlook for segment profit is positive, although not disclosed. As for the environment surrounding DaaS Business, customer interest in concerns related to digital risk is poised to increase amid mounting awareness of crisis management in cyberspace. Meanwhile, the Company's data crawling capabilities and distinctive datasets are likely to encounter growing demand as advances are made in developing industry-specific generative AI. The Company seeks to achieve higher profits by reinforcing segment cost controls while focusing on development of new markets. Although yen depreciation is an upside factor for earnings in the DaaS Business, the Company seeks to achieve business growth on a U.S. dollar basis.

(3) Web3 related business

This segment is placing focus on creating synergies with existing businesses and launching new businesses, in addition to making investment through funds. Specifically, the segment intends to embark on Web3 shared research business beginning in April 2024. This will entail reporting to Japanese companies with respect to the latest topics and insights obtained from the Company's business activities as well as from its global network of venture capital firms, founders and startups in the Web3 domain. The segment is also in the process of considering options for launching other new businesses. The impact of this on the Web3 related business results outlook is likely to be negligible.

The Company will persist in carrying out investment activities and research in the Web3 industry through its subsidiary Nonagon Capital. With Web3-related markets becoming increasingly volatile due to failures of some cryptocurrency exchanges, technology is being advanced with an eye to social implementation in various areas in countries around the world. At the same time, rapid development of legislation is being considered. The Company views these changes as opportunities, and will continue to focus on areas of technological innovation such as the issue of cryptocurrencies, decentralization of services, clarification of digital data ownership, the token-based incentive revolution, and decentralized autonomous organization using tokens.

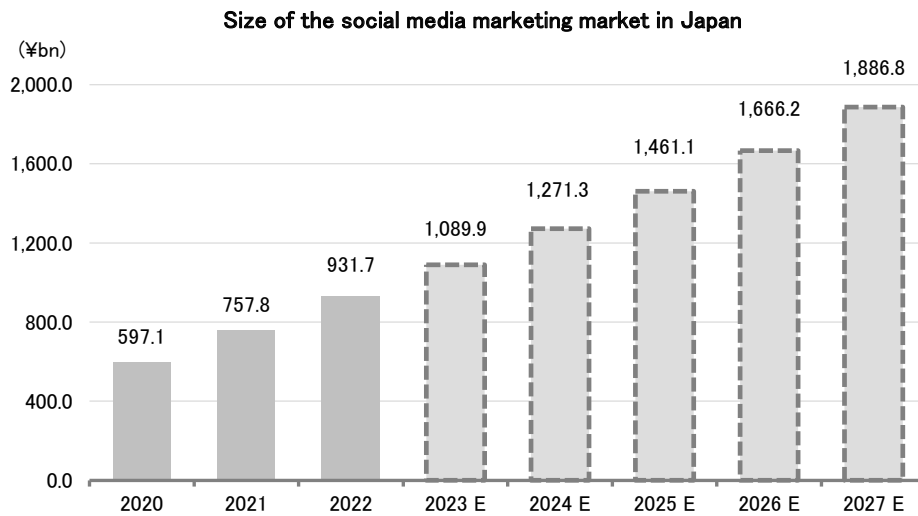
Solid business environment with steady growth in the domestic social media marketing market and Internet advertising market

3. Business environment

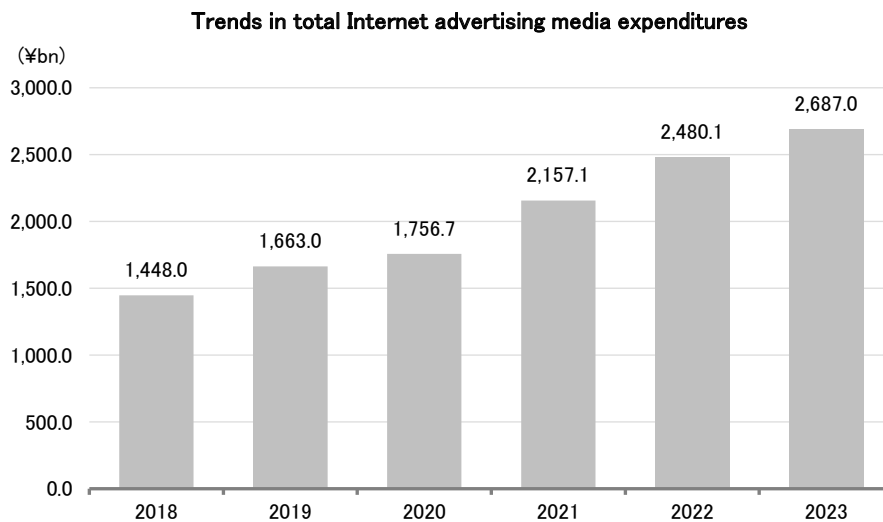
The domestic social media marketing market related to the SNS Marketing Support Business is growing faster. As stated in the Company's materials, the social media advertising market continues to grow steadily, and expanded 22.9% YoY to ¥931.7bn in 2022. Also, it is expected to grow into a ¥1,886.8bn market in 2027. Companies using social media advertising as one promotional measure are rapidly increasing because it makes it easy for companies placing the ads to deliver them to the target segments they want to appeal to, and provides transparency on cost effectiveness. This is apparently partly because social media facilitates the spread of information in an organic way as users post their impressions and other comments on products, which can make promotions highly cost effective. Amid this kind of market expansion, many players, both large and small, are competing in the SNS marketing industry. However, the Company is collecting assets in the form of SNS-related big data based on its ownership of U.S. subsidiary Effyis, and has many years of expertise and a track record in terms of analyzing and utilizing this big data. We at FISCO think this will lead to a further increase in market share in the short term, and be a main factor behind the stabilization of the Company's market share as well as avoidance of price competition over the long term.

Outlook

The Internet advertising market overall also continues to steadily grow. According to “2023 Advertising Expenditures in Japan,” released by Dentsu, total Internet advertising media expenditures grew 15.0% YoY to ¥2,480.1bn in 2022 and reached ¥2,687.0bn in 2023. The Company’s acquisition of business from wevna has enabled it to provide Google, Yahoo!, and other Internet advertising, rather than just SNS advertising. So, going forward, it will focus on tapping into demand in the Internet advertising market, which is triple the scale of the social media marketing market. The online advertising business is receiving a lot of attention from investors as a growth industry, and the Company’s strong results and strengths built up through existing businesses are viewed positively, so at FISCO we expect this business in particular to take center stage.



Source: Prepared by FISCO from the Company’s business plans and materials on growth potential



Source: Prepared by FISCO from Dentsu’s “2022 Advertising Expenditures in Japan” and “2023 Advertising Expenditures in Japan”

Outlook

4. Web3-related investments through Nonagon Capital

In the Web3 related business, Nonagon Capital, a subsidiary for investment business, operates as a pilot fund (project) for researching future scalability in the Web3 industry. It is positioned as a business for “exploration” in the Company’s ambidextrous management, and aims to seize new business opportunities and earnings, primarily through investment. Also, the Company intends to strengthen networks overseas, in addition to effectively utilizing networks and results from initiatives in the Web3 domain so far. While volatility is increasing in the Web3 industry, President and Representative Director Koki Uchiyama has moved to a base overseas and is catching up on the latest information locally. At FISCO, we think that it is the mix of good and bad conditions that makes it a time for planting seeds, where promptly collecting information and networking in the industry is important. The Company is paying careful attention to risk management. While keeping in close communication with the Tokyo Stock Exchange and Financial Services Agency, the Company will implement various measures in order to minimize the risk to financial statements. FISCO believes the Web3 related business will be a growth driver in the Company’s long-term performance, considering that it is an investment in a growth business from the seed stage.

■ Medium- to long-term growth strategy

Scrapped five-year targets.

Focusing on expansion of existing businesses and medium- to long-term earnings contributions from new businesses

1. Scrapping of five-year targets

As a medium- to long-term growth strategy, the Company had set five-year targets, but that also had the effect of constraining flexible management decisions in response to changes in the external environment. Therefore, the Company decided to scrap five-year targets in order to respond promptly and appropriately to dramatic changes in the environment in existing and new business areas, and further raise enterprise value. Regarding the external environment surrounding the Company, there are risk factors on the macro side such as heightened geopolitical risks, rising interest rates in Europe and the U.S., the Bank of Japan’s policy changes and interest rate hikes. Also, changes in SNS operators’ management policies and ways of providing information could affect demand trends, competitive climate, and the convenience of services. In fact, spec changes by X (formerly Twitter) required the Company to undertake major system modifications for the services it provides, which affected some of its results. The speed of change in the industry is dramatic compared with other industries, and changes often need to be addressed in a couple of days, so timely management decisions are required. Also, announcements of changes in things like specs and policies are often subject to abrupt revisions, and require preparations in response even if no changes end up being made. For the reasons above, we at FISCO believe the scrapping of five-year targets was necessary in order to respond promptly and appropriately to dramatic changes in the external environment and raise enterprise value.

Medium- to long-term growth strategy

There are also business opportunities in the changing external environment. The rapid spread of AI tools is making generating text and images more efficient, and the evolution of AI tools is making utilizing big data more important. These trends accelerate the cycle of collection, analysis, and utilization of data in existing businesses. Also, the development of legislation and preparations for market expansion that are underway in the Web3 domain are tailwinds for the Company's Web3 related business. Also, lower valuations for startups and venture companies could create an advantageous environment for M&A and alliances. FISCO's view is that scrapping five-year targets will enable flexible management, thereby leading to growth in net sales and operating profit in existing businesses and medium- to long-term earnings contributions from new businesses.

2. Business direction

(1) Existing businesses

In the Web 2.0 domain, the Company aims to expand business and enhancing competitiveness by using the funds obtained from the sale of the Crossbound Business to invest in personnel, technology, and businesses, as well as strengthen organizations and services that contribute to customer companies' sales growth. Further, the Company will continue to consider capital alliances and M&A with businesses and external companies that have the potential to generate synergies with its existing businesses, aiming to diversify its business portfolio and create new growth engines. Regarding potential impact on business from external factors such as changes in SNS operators' management policies and methods of information provision, the Company will establish a system for appropriately responding to the changing market climate by flexibly revising strategies and considering countermeasures.

(2) New businesses

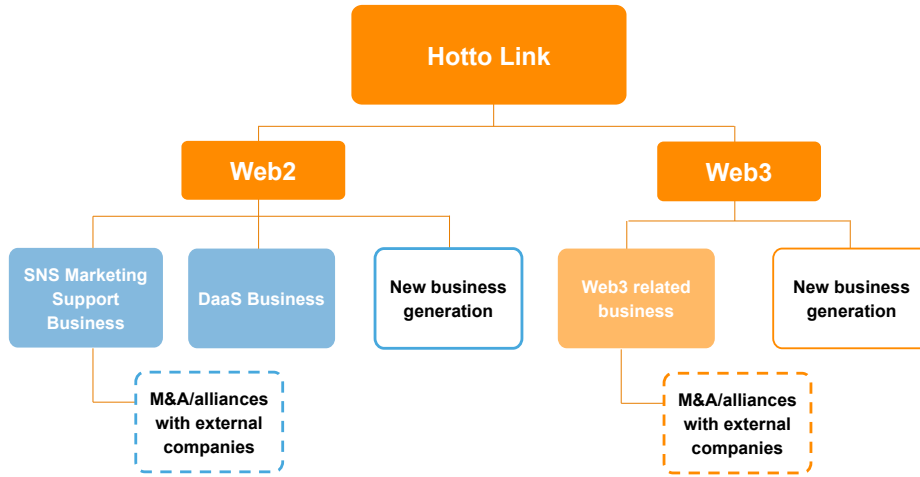
In the Web3 domain, the Company is running operations as a pilot fund for conducting research on the Web3 industry to minimize volatility. This enables investment management that minimizes risks to the Company's financial conditions and operating results. Also, in new business development, the Company is not simply investing in companies and tokens, but is also considering incubation to develop new businesses and generate synergies with existing businesses. Its specific approaches include using SNS to raise awareness of Web3 services and support user expansion, SNS marketing support incorporating non-fungible token (NFT) and other Web3 technology, and research on providing value through data collection, analysis, and utilization in the Web3 domain. The Company aims to secure sustainable earnings by pursuing not only capital gains but also diverse exit strategies.

(3) Overall

The Company's overall strategy focuses on expanding its unique business portfolio, and flexibly rearranging its components. It will promote expansion of its business portfolio through business development driven by ambidextrous management involving strengthening incubating functions and growing existing and new businesses. This will establish a diverse revenue stream and build a strong management foundation in the face of market volatility. Regarding investees in the investment business, options include flexible portfolio reshuffling with an eye to future IPOs. Through such reshuffling, the Company will tap into growth in the Internet market, while addressing risks due to the changing environment. In addition, the Company is also focusing on AI tools, especially using AI tools like ChatGPT to generate text and images more efficiently. It is promoting the use of AI tools within the Company, and considering establishing a framework for cooperation across specialist teams. These initiatives are expected to enhance operational efficiency and promote the development of creative services and content. Additionally, the Company is taking steps to raise the added value of existing services and enhance operational productivity, and will work to improve customer experience and strengthen competitiveness. The Company also considers new business development on an ongoing basis, and FISCO's view is that it is taking a proactive approach to flexibly addressing changes in the market.

Medium- to long-term growth strategy

Image of business portfolio expansion



Source: The Company's financial results supplemental briefing materials

Shareholders' return policy

Near-term policy of allocating profits to necessary investment during the period of business expansion

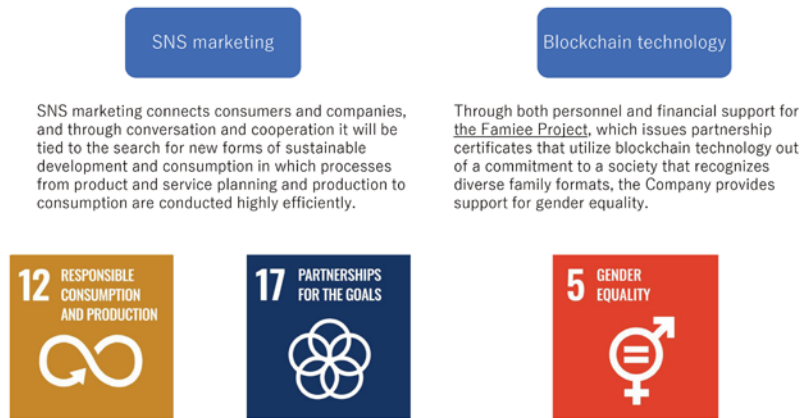
The Company recognizes returning profits to shareholders as an important management task. Currently, it is not providing dividends because it has positioned enhancing enterprise value by turning changes in the external environment into business opportunities as a top priority. For the foreseeable future, the Company will need funds for upfront investment. Therefore, FISCO thinks the focus should be on the future returns on the investments.

Initiatives for the SDGs

Searching for sustainable forms of production and consumption through business activities. Support for gender equality

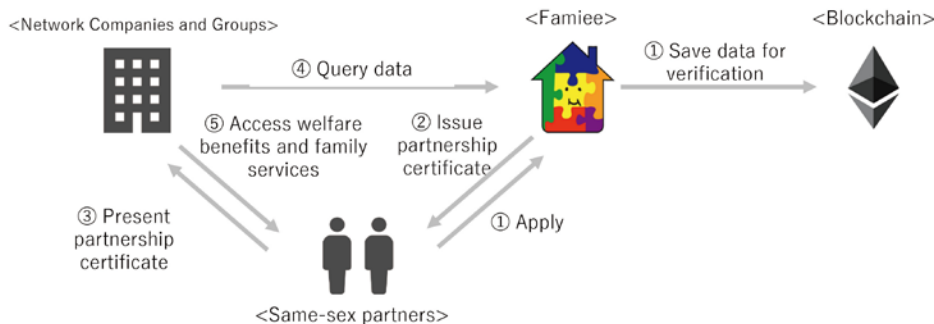
The Company states its mission as “Make the world Hotto” and “We create a world wherein people can feel the essence of ‘Hotto’ – Japanese concept word translated as ‘a feeling of relief’.” The Company identifies the elements needed for SDG initiatives as SNS marketing, currently the Company’s main business, and blockchain technology, the seed of medium- and long-term businesses. In SNS marketing, directly connecting companies and consumers will be tied to the search for sustainable forms of production and consumption in which processes from product and service planning and production to consumption are conducted highly efficiently. In blockchain technology, the Company supports gender equality through personnel and financial support for the Famiee Project. This project aims to achieve a society in which diverse family structures are accepted as normal. To that end, it issues family relation certificates utilizing blockchain technology to LGBT couples and people in other family arrangements not recognized by law as legal marriages or parent-child relationships. Certificate holders receive access as family members to services provided by a network of companies, including employee benefits and beneficiary rights for housing loans and life insurance. As of February 2024, 88 organizations, including major corporations and local government bodies, have joined the network and it is expected to expand further going forward.

SDGs initiatives through business



Source: The Company's financial results supplemental briefing materials

Famiee Scheme



Source: The Company's financial results supplemental briefing materials

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



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