

# SIR Corporate Report

August 21<sup>st</sup>, 2015

## Hotto Link Inc. (TSE Mothers : 3680)



### Business Overview

- Hotto Link (“the Company”) is a provider of cloud-service utilizing social big data.
- The Company provides social media analyzing tools such as “*kuchikomi@kakaricho*” (analyzes data such as those from Twitter all around the world, “2 channel (*ni channeru*, a Japanese textboard, to which the Company has exclusive rights for commercial use)” in Japan and blog data of over 34 million users) . They also provide tool-type products such as “e mining”, a service which monitors “social risk”(damage caused by negative rumors etc.)
- In addition to providing conventional marketing analysis tools (“tool-type” products, as mentioned above) , the Company intends to establish its position in the market as a big data distributor. By strengthening their ability to provide cloud-platforms, they intend to expand their business into many areas such as tourism (by providing information on “inbound” (ie. foreigners coming into Japan) Chinese tourists), as well as into the area of finance.
- The Company raises its revenue from monthly fees they collect from customers of their tool-type products and platform services.
- The Company aspires to establish a firm position as a data distributor. To do so, they are expanding their collaboration with foreign companies who are holders of big data; they have acquired Effyis Inc. of the US, which is the only company in the world that has the marketing license with full access rights to “Weibo(微博)”, the Chinese version of Twitter. They have also made capital investments to a Chinese media monitoring/analysis company Pu Qian. Through such expansions in their overseas business, the Company aims to have 80% of their sales from overseas businesses in the medium term.

•The Company will transition to using IFRS from the end of this fiscal year (the Company presently uses Japanese GAAP). Therefore, expenses for amortization of goodwill should be adjusted (added back) when closing accounts for the full fiscal year.



Overseas sales now accounts for 55% of total net sales. Operating income before amortization of goodwill is around zero.

(FYE December 2015, 2Q Review)

【Summary of Financial Results (Jan-Jun 2015)】

(unit: million yen)

	FYE Dec 2015 (Q2)	FYE Dec 2014 (Q2)	yoy
Net Sales	1,216	502	242%
Operating Profit	-132	65	—
OP margin	-10.9%	13.0%	—
Ordinary Profit	-182	65	—
Net profit	-162	27	—
OP before amortization of goodwill	0	94	—

Sales for this Q2 (cumulative) was 2.4 times as large as the sales for the same time last fiscal year, primarily because of the acquisition of Effyis Inc. For the breakdown of sales, tool-type products accounted for approximately 32% at 390 million yen where by data sales through “big data platforms” accounted for approximately 68% at 822 million yen (this was approximately 6.3 times greater than sales of big data platforms last year).

Operating income was a negative 132million yen (ie. operating loss).This was because Japanese GAAP required amortization of goodwill arising in relation to the acquisition of Effyis, which amounted to approx. 65 million yen (per quarter). As the Company plans to transition to IFRS from Japanese GAAP by the end of this fiscal year, this amortization cost should be “added back” when closing accounts for the full fiscal year. When we take this into consideration, operating income before amortization for this Q2 (cumulative) is just breaking-even (ie. OP is around zero).

There are other temporary expenses such as those arising from the acquisition of Effyis, as well as other anticipatory-type investments such as royalty fees to the Chinese social media to which the Company signed a new sales contract. (While this business was making losses in Q1, it was able to break-even in Q2.)

Such expenses of a temporary nature as well as anticipatory-type investments have been made in order to promote the globalization of the business as well as endeavoring to strengthen their data sales capabilities. Therefore, as sales grow in these areas, the Company’s earnings should also improve.

And adjusting for these one-off type expenses, operating profit were around 52 million yen (after these adjustments).

#### 【Growth Strategy of the Company】

The Company is striving to grow further by promoting the following utilizing social big data:

1. Further penetration in the marketing field (responding to advanced and diversified needs)
2. Expansion into diverse industries and establishment of key position as data distributor
3. Expansion overseas

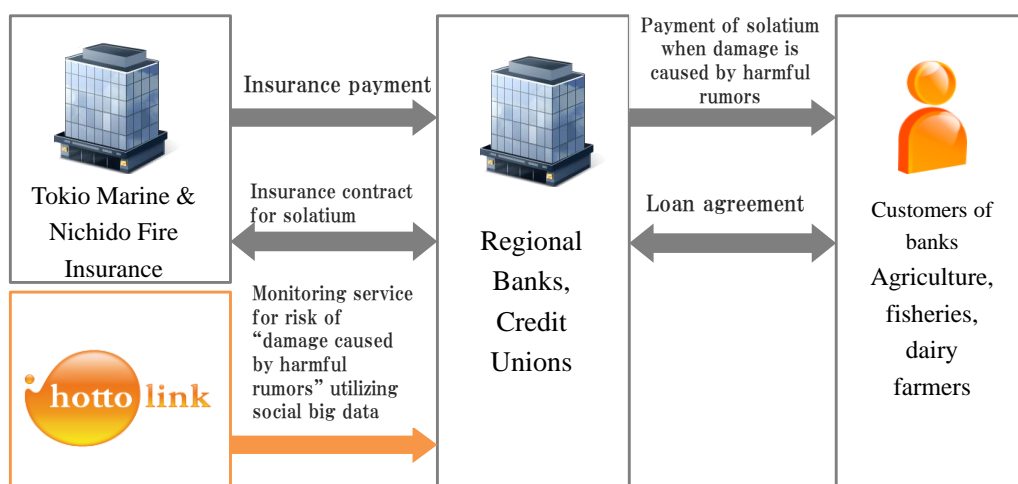
Progress on each of the items for Q2 were as follows:

For 1., the Company launched new versions for the service “e mining” and “*kuchikomi@kakaricho*”. By doing so, they intend to strengthen their ability to

acquire new customers as well as lower the incidence of cancellations.

For 2., the Company has signed data sales contracts with StockTwits (a company which provides a global social networking service specializing in investors and traders), as well as with a major Chinese social media company. Through these agreements, the Company intends to enrich the “contents” of their big data and raise their position as a data distributor in the market. They have also started to provide new services to industries such as tourism and finance utilizing these data.

For example, in the area of finance, Tokio Marine & Nichido Fire Insurance has started to provide a new insurance product (using the big data provided from the Company) to protect against damages caused by harmful rumors on the web. Also Miyazaki Bank has started to provide a new type of loan which incorporates this insurance product (“*Honen Mansaku*”) to primary industry workers.

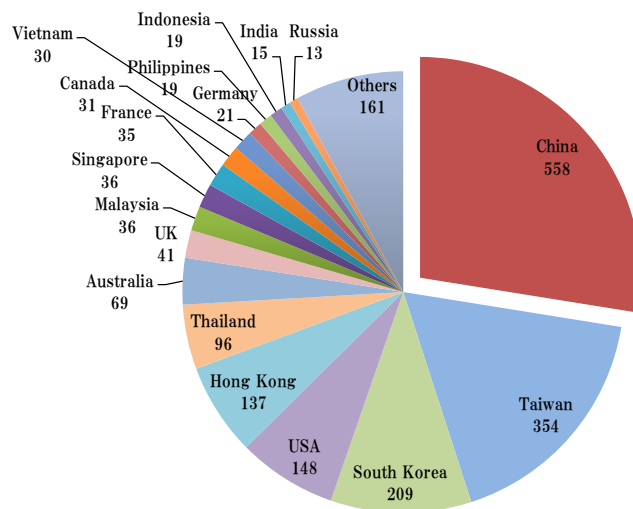


Also, to the tourism industry, the Company has started to provide a service called “Visualized China Trend EXPRESS”, which reports, 4 times a month, by utilizing Chinese big data, on the latest consumption trend of “inbound” Chinese tourists coming to Japan.



The Company is promoting their business to industries that are currently not using big data; for example, potential clients such as duty free stores may better prepare their inventory for these Chinese tourists by utilizing this service. In particular, observing the consumption by tourists visiting Japan from Asia and the greater China regions in 2014 (chart below), it is expanding, and therefore much attention is paid towards the how these markets will develop in the future.

**Tourism consumption for inbound tourists from different countries/ regions (2014)** (unit: billion yen)



(Japan Tourism Agency : "Consumption trend survey for foreigners visiting Japan")

On August 21<sup>st</sup>, the Company announced that they will form a business alliance with "Yamatogoro.JP".



This site operates one of the largest B to B portal site for local governments and companies promoting “inbound” tourism (foreign tourists into Japan); they provide a “one-stop shop” for useful information on inbound tourism. The Company plans to penetrate further into the tourism industry by collaborating with Yamatogokoro.jp in providing information on the “inbound” tourism to these local governments and interested companies.

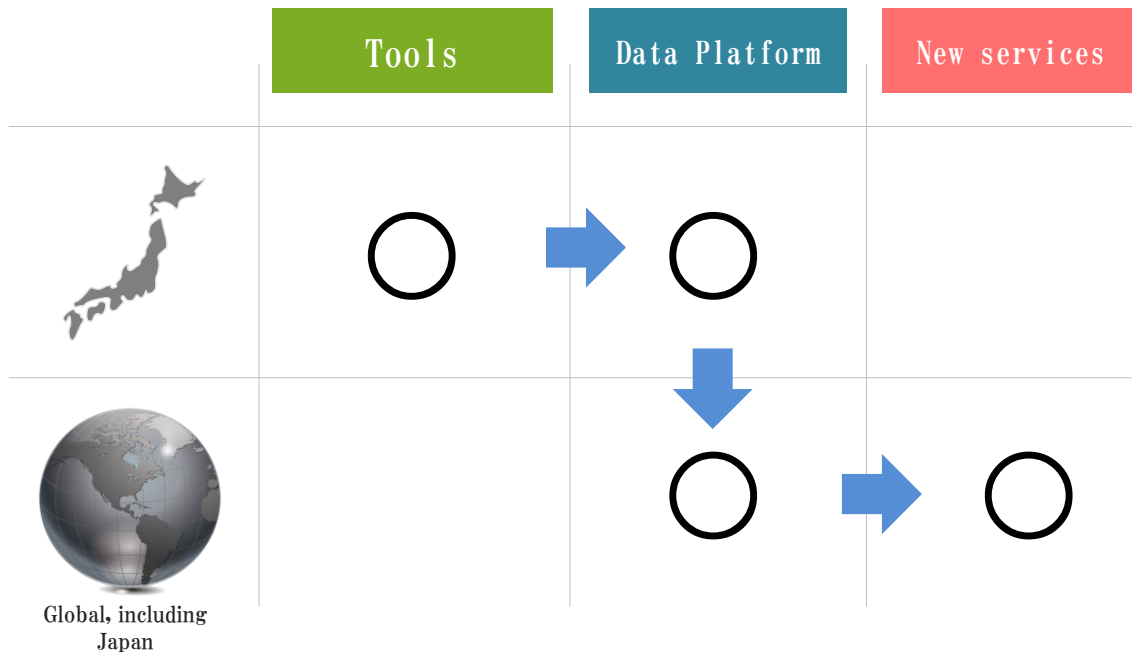
In addition to the announcement of forming of a business alliance, the Company also announced that they have signed a sales agency agreement with Yamatogokoro.jp for the distribution of “Visualized China Trend EXPRESS”.

Regarding the big data on Chinese inbound tourists, the Company is also thinking of expanding the provision of information to other countries as well, and the Company may establish its position as an important provider of information on “inbound” tourism.

For 3., through the acquisition of Effyis, now 55% of the Company’s net sales is from overseas business. It is expected that the Company grow into a global company by promoting PMI (Post-Merger Integration) . The Company has also signed a capital and business alliance contract with a Chinese media monitoring and analysis company “Pu Qian” (Ideal Marketing Strategist Co. Ltd.), to further their globalization efforts.

**【Medium term targets】**

By implementing growth strategies as mentioned above, the Company aims to reach sales of 10 billion yen (of which 80% comes from overseas businesses) by 2020. To achieve this target, the Company intends to change from a provider of “tool-type products” (which was what they have mainly been doing in the Japanese market) to become a “big data distributor”. And by expanding this business globally, establish themselves as a global distributor of such big data and also add new services.



**SIR sees Hotto link as a Company with high potential. While they are still making anticipatory investments, they are in areas of high growth potential, which should support high growth for the Company in the future. SIR intends to closely monitor their developments.**

**Yuichi Sekiguchi**  
**CEO Strategic IR Insight, Inc.**

#### Global Disclaimer

This document has been prepared by Strategic IR Insight Inc. (hereafter "SIR"). This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject SIR to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to information concerning SIR. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. SIR does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of SIR. Any statements contained in this report attributed to a third party represent SIR's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions.

Research will initiate, update and cease coverage solely at the discretion of SIR. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information.

SIR specifically prohibits the redistribution of this document in whole or in part without the written permission of SIR and SIR accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. All rights reserved.