

# SIR Corporate Report

November 15, 2015

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



### Business overview

- Hotto Link is a cloud-based social data provider.
- *Kuchikomi@kakaricho*, a social-media analytics tool, and *E-mining*, a social media risk monitoring tool, are its key products. *Kuchikomi@kakaricho* offers access to data of followings: 1. Twitter globally, 2. 2channel (Ni Channerua, a popular Japanese message board) with an exclusive distribution right, 3. Blogs with more than 34 million users.
- Apart from an exclusive distributor of 2channel data, its US subsidiary Effyis, acquired in January 2015, owns an exclusive distribution license of access rights to data of Weibo, the Chinese version of Twitter.
- On top of conventional marketing analytics tools, Hotto Link, as a key player of big data providers, intends to leverage information of Japan's inbound tourists from China to expand its exposure to new areas including tourism and financial markets. The initiative will be supported by increased offerings of cloud-based platform services.
- The revenue model is to generate revenue streams by charging users (customers) monthly subscription fees for analytics tools and platform services
- Hotto Link's mid-term target is to generate 80% of group sales from overseas markets. To achieve the goal, it will continue to reinforce its presence as a key big data distributor while actively forming alliances with foreign companies owning big data. The acquisition of Effyis is a just stepping stone to its global growth. It has also recently acquired a stake in a Chinese company Pu Qian which offers social media monitoring services and analytics.
- Hotto Link is in a process of consolidating Effyis, a US-based subsidiary acquired in



【Summary of downward revision】

	New Estimates	Old Estimates	Difference	Change
Sales	2,409	2,423	△14	△0.6%
Operating Income	△31	208	△239	—
Net Income	△124	106	△230	—

Following are the detailed breakdown of above-mentioned cost increases.

(Note: The discrepancy between sum of expenses in following tables and the change in net income in the guidance revision table comes from corporate taxes and other items.

- ① Changes required for the migration of its accounting reporting standards from Japanese GAAP to IFRS given consolidation of the US subsidiary

Item	Amount Difference	Details
<b>Overseas</b>		
Depreciation expense	+46	A change in depreciation methods from double-declining balance, a common method in the US, to straight line required by IFRS. As a result, depreciation expenses will increase.
Personnel expense	+60	Revision of Effyis' employment cash incentive schemes from 2015 and forward
Total	+106	

② Increased operating expenses as a result of business expansion

Item	Amount Difference	Details
<b>Overseas</b>		
Personnel, Marketing, and fee changes etc.	+ 77	Costs for creating a portal site for customer support, increased hiring of sales force and management, as well as spending on consulting and auditing services
<b>Domestic</b>		
Rental	+ 30	Increased rental expenses of cloud servers resulting from business expansion
Total	+ 107	

③ Bad debt write-off as a result of changes in business conditions after acquisition

④ Losses on foreign exchange resulting from fund transfer for payment of acquisition

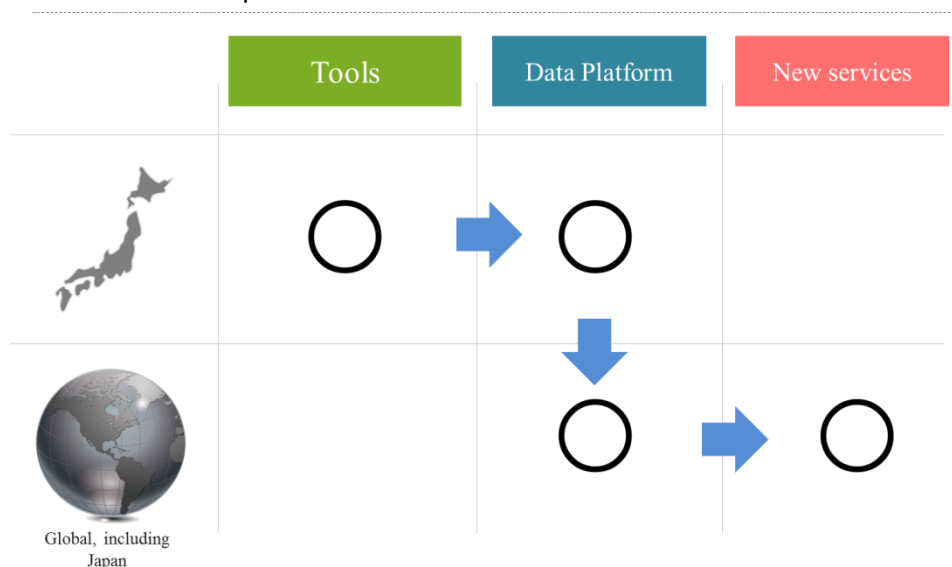
Item	Difference	Details
<b>Overseas</b>		
Allowance for bad debt	+ 30	Bad debt write-off after changes in business condition after acquisition
Foreign exchange loss	+ 33	Foreign exchange loss associated with fund transfer for Effyis acquisition
Total	+ 63	

The above cost breakdown indicates that the additional cost increases associated with the organic growth is only ¥30 million while cost increases related to global expansion is ¥246 million. Among the ¥246 million cost increase, the real increase in

expenses is ¥107 million including ¥77 million for overseas expansion and ¥30 million for the bad debt write-off. The remaining cost increase is caused by the change of its accounting reporting standards.

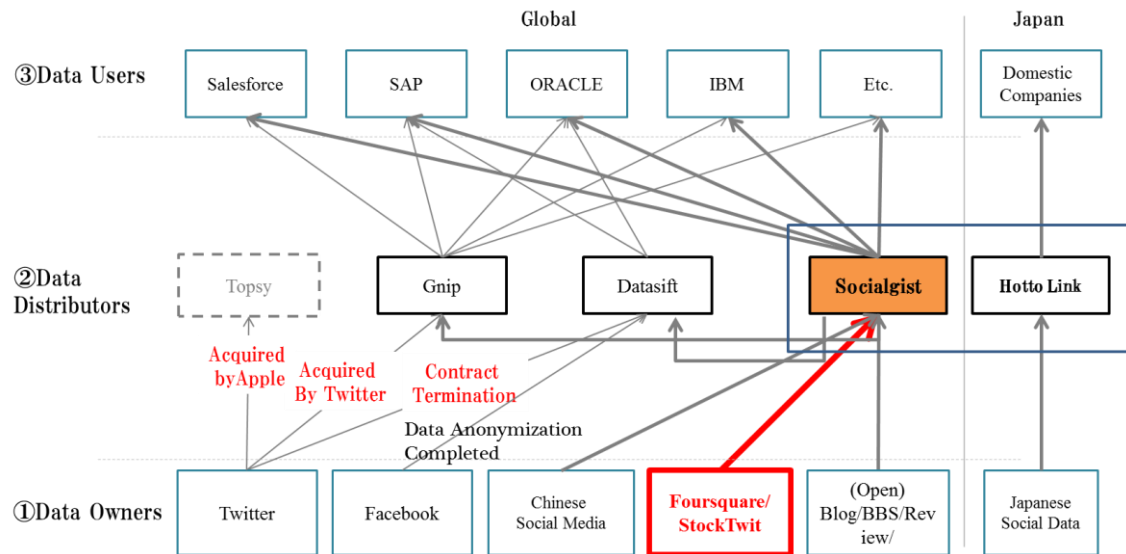
Note: A foreign exchange loss incurred due to a drop in the value of a foreign currency in the end of the review period compared to the value in the beginning of the period.

【Business development】



The above graph explains how Hotto Link has evolved its business model from offering conventional social big data analytics tools in the domestic market (Kuchikomi@kakarichol, a marketing analytics tool, and E-mining, a social risk monitoring analytics tool) to growing its global presence. In order to become a global player in the social big data distribution arena, we consider acquisition of Effyis a necessary strategic move for its future growth.

During the 3Q, Hotto Link has formed a new partnership with Foursquare which will provide users' review data with users' location information. The attempt reveals that it is on a way to expanding its overseas business and attaining its goal to become a truly global social big data provider.



Moreover, rather than simply being a data distributor, Hotto Link has leveraged its technologies and knowhow in big data analytics tools and developed a visualization-based analytics tool, China Trend Express, which has been seeing solid growth. In order to capture corporate demand for such analytics tools which produce analysis results in simple but effective manner, Hotto Link has changed the name of its subsidiary Hotto Link Consulting to Trend Express and intends to increase the product offerings of such big data tools.

**SIR considers the downward revision a temporary negative while Hotto Link is in a transition phase preparing itself to become a truly global big-data distributor. SIR intends to pay close attention to how Hotto Link's growth strategies play out and contribute to business expansion.**

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