

Kyodo Public Relations

Independent PR agency: New management team promoting reforms, revenue and profits up, working to respond to a changing media landscape

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Business

Leveraging media to manage relationships between clients and consumers

Pioneering PR agency in Japan: Kyodo PR is an independent public relations agency, not affiliated with any advertising agency, overseas firm, or corporate group. It is the fifth-largest PR agency in Japan by revenue. Founded in 1964, the company is one of Japan's oldest PR firms. Kyodo PR primarily assists Japanese companies with PR strategies, encouraging media to incorporate news messages its clients wish to convey (free of charge in articles and programs).

Overview of clients and contract types: The company provides services under two main types of contracts: retainers (around 50% of revenue) and optional/spot agreements (around 40%). Retainer agreements are long-term PR support and consulting agreements, typically lasting six months or longer. Kyodo PR has approximately 200 retainer clients (average annual billing per client of JPY10.7mn) and 400 spot clients (JPY4.3mn). More than 70% of clients are Japanese companies, renewal rates are high, and nearly half have been clients for five years or more. Kyodo PR employs around 200 PR professionals, who work in teams and handle more than 5,000 projects each year. Historically, the company has lost money in two periods (the first following the global financial crisis and the second due to a scandal involving the previous management team). However, earnings have increased since Tetsuya Tani's appointment as president in August 2015, thanks to higher revenue in each segment and curtailed personnel expenditure.

Performance trends

FY12/18: Company forecasts 13.4% YoY increase in operating profit

1H FY12/18: The company generated revenue of JPY2.6bn (+32.0% YoY), operating profit of JPY226mn (+186.1% YoY), recurring profit of JPY224mn (+194.7% YoY), and net income of JPY184mn (+206.7% YoY). Revenue rose in all segments. In the Retainer segment, the number of contracts increased and average revenue per client rose. In Optional & Spot, the number of sales promotion and ad agency projects increased. In Paid Publicity, orders for magazine and outdoor advertising exceeded the company's forecast.

FY12/18 company forecast: The company forecasts revenue of JPY4.5bn (+2.8% YoY), operating profit of JPY300mn (+13.4% YoY), recurring profit of JPY295mn (+14.3% YoY), and net income of JPY248mn (+12.4% YoY).

Medium-term strategy

Core competency in highly specialized PR consulting, also focus on online media

The company plans to announce a medium-term plan but has not done so as of this report's date of publication. Shared Research believes that the main thrust of the plan will be on moving Kyodo PR from the management reform stage to the growth phase and increasing revenue and personnel numbers. Financial strategy will focus on curtailing expenditures, boosting internal reserves, and reinvesting in growth fields. The PR industry is rife with M&A activity; Shared Research thinks that Kyodo PR will also take an active part in M&A. First, the company will focus on boosting revenue, thus raising per-employee productivity, and next, it will pursue M&A and focus on increasing personnel numbers.

Strengths and weaknesses

Strengths

Due to long history, well known and trusted by large Japanese companies:

Founded in 1964. More than 70% of clients are Japanese companies. Generates most business through passive leads. Direct contracts with some 80% of clients.

Stable client relationships: Retainer clients amount to roughly 200. Half the company's revenue is generated from retainer agreements (six months or longer), and half of these are long-term (five years or more).

Solid media relationships: Has built information network of personal contacts spanning multiple layers of media contacts. Facilitates connections between clients and media personnel.

Weaknesses

Small scale of PR industry exacerbated when moving into adjacent areas:

Smaller than overseas PR and Japanese ad markets (Domestic PR market about 1/64 the size of ad market).

Lacks global personnel needed to move into promising future markets:

In dire need of personnel capable of managing projects internationally.

Few personnel in social media field:

The company has few social media savvy personnel, although leveraging word-of-mouth communications and influencers is of increasing importance in fields adjacent to PR as well as in branding strategies.

Profit growth drivers

Now: Stable, highly profitable, long-term retainer agreements.

Future: Japanese companies transitioning to US-style PR (outsourcing PR activities). As media landscape changes, Kyodo PR is moving into ad and marketing fields.

Indices	
Market capitalization	JPY6.6 bn
Stock price (2018/10/12)	JPY1,632
Shares issued (incl. treasury shares)	4,072,596 shares
Foreign stockholding ratio	0.29 %
BPS (FY12/17)	JPY252.37
PBR (FY12/17)	6.47 x
PER (FY12/18 Est.)	25.5 x
Dividend (FY12/18 Est.)	JPY1.67
Dividend yield (FY12/18 Est.)	0.10 %
ROE (FY12/18 Est.)	24.6 %
Net debt / Equity ratio (FY12/17)	-30.6 %

		Earnings											
		Revenue (JPYmn)		Operating profit (JPYmn)		Recurring profit (JPYmn)		Net income (JPYmn)		EPS (JPY)	BPS (JPY)	ROA (RP-based)	ROE
		YoY	YoY	YoY	YoY	YoY	YoY	YoY	YoY				
FY12/08	Cons.	4,845	7.4%	-31	-115.4%	-36	-118.3%	-109	-261.5%	-26.72	312.24	-1.6%	-7.8%
FY12/09	Cons.	4,293	-11.4%	-134	335.6%	-132	263.1%	-152	39.8%	-37.79	261.67	-6.4%	-13.1%
FY12/10	Cons.	4,604	7.2%	75	-156.2%	6	-104.4%	25	-116.7%	6.32	264.63	0.3%	2.4%
FY12/11	Cons.	4,329	-6.0%	168	123.5%	171	2835.1%	57	126.3%	14.31	269.63	8.2%	5.4%
FY12/12	Cons.	4,257	-1.7%	108	-35.6%	114	-33.3%	19	-67.2%	4.72	267.95	5.8%	1.8%
FY12/13	Cons.	4,019	-5.6%	-101	-193.6%	-100	-187.4%	-57	-403.3%	-14.36	248.19	-5.0%	-5.6%
FY12/14	Cons.	4,063	1.1%	-386	280.9%	-385	285.7%	-515	803.1%	-129.65	125.26	-17.1%	-69.4%
FY12/15	Cons.	3,705	-8.8%	131	-133.9%	126	-132.7%	108	-121.0%	27.19	157.16	5.4%	19.3%
FY12/16	Cons.	4,100	10.7%	180	37.6%	181	43.3%	163	51.2%	41.11	196.45	9.0%	23.2%
FY12/17	Cons.	4,379	6.8%	265	46.7%	259	43.1%	221	35.3%	55.61	252.37	13.3%	24.7%
FY12/18	Cons. Est.	4,500	2.8%	300	13.4%	295	14.1%	248	12.2%	64.01	334.68	13.1%	20.9%

Source: Shared Research based on company data

Notes: Figures are rounded to the nearest JPYmn.

The company conducted a three-for-one stock split in July 2018.

Figures may differ from company materials due to differences in rounding methods.

Business

Leveraging media to manage relationships between clients and consumers

Company overview

Kyodo PR is one of Japan’s oldest PR companies and ranks fifth in the industry by revenue. The company is independent, unaffiliated with any advertising agency, foreign PR firm, or corporate group.

Sakae Ohashi founded the company in 1964. Kyodo PR listed on JASDAQ in 2005, becoming the first Japanese PR company to list its shares. Historically, the company has lost money in two periods (the first following the global financial crisis and the second due to a scandal involving the previous management team). In 2015, Tetsuya Tani (from leading shareholder Shinto Tsushin Co., Ltd.*¹) was appointed president, and profit has trended upward since FY12/15*². The company has 203 employees on a parent-only basis and 240 on a consolidated basis (as of December 31, 2017).

- Pioneering PR agency
- ▶ Well-known, independent PR agency
 - ▶ Performance recovering under new management team
 - ▶ Mostly long-term client contracts
 - ▶ Work handled by teams, based on its own plans and proposals

*¹ An independent, integrated advertising agency with headquarters in Nagoya and Tokyo. Founded in 1972. Has 228 employees (August 2017) and revenue of JPY19.5bn (FY08/17). In FY12/14, Shinto Tsushin became Kyodo PR’s largest shareholder, owning 29.97% of shares. (In FY12/13, the largest shareholder was the late Sakae Ohashi, who owned 20.63% of shares.)

*² Kyodo PR posted recurring losses for two consecutive years from FY12/13, due in part to a scandal involving the diversion of in-house funds by the founder and president in 2011.

Business model

The company primarily assists Japanese companies with public relations strategies and branding. The company encourages media to include (free of charge in media articles and programs) the news messages*³ its clients wish to convey to general consumers.*⁴ The company earns fees from clients for supporting their PR activities and providing consulting services.

*³ As well as promoting news messages, PR companies may work to prevent the spread of scandals about a client or minimize the damage when a scandal surfaces.

*⁴ Consumers of general society being the public, as well as business partners

Differences between PR companies and ad agencies

PR companies provide corporate and other information to media, which communicate this information in their broadcasts and articles. As media choose what information to disseminate, no fees are required to publish information. By contrast, advertising agencies purchase media space on behalf of corporate and other clients, which they use to communicate messages to consumers. As a result, advertising messages are certain to be disseminated. Advertising agencies receive advertising and intermediary commissions from their clients.

Clients, contract types, and fees

- ▶ **Clients:** Companies and government agencies. Kyodo PR’s top four client sectors (among clients under agreements lasting six months or more) are telecommunications and information services (19.7%), other services (17.0%),

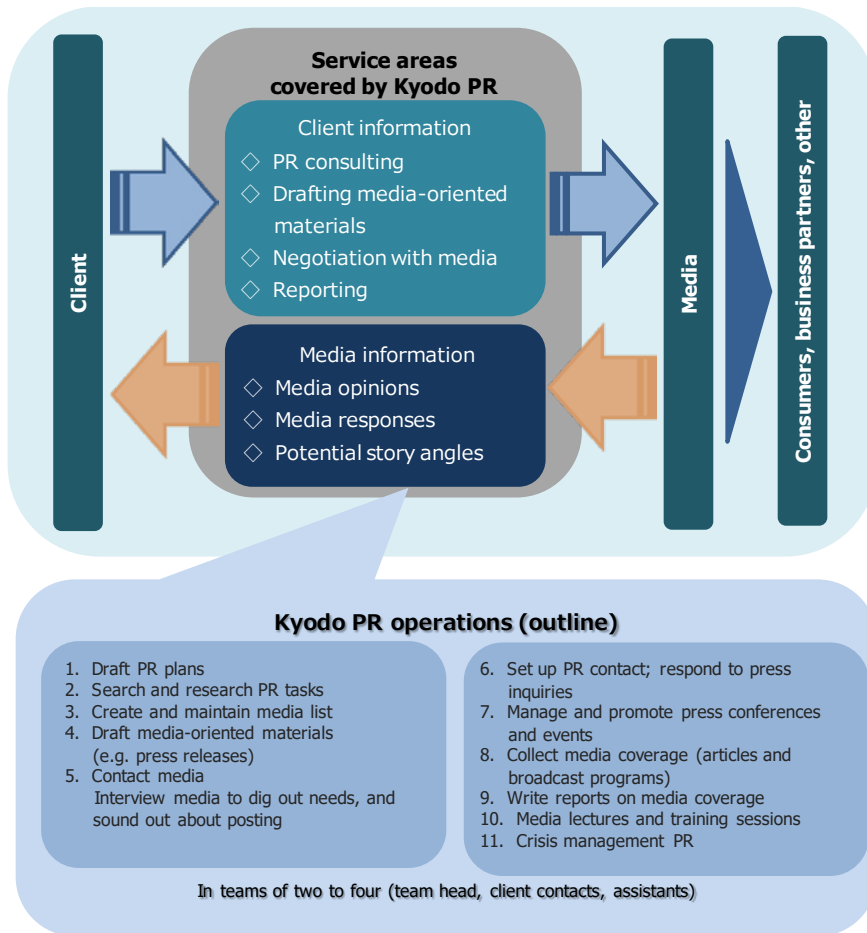
machinery, equipment, and other manufacturing (14.8%), and government agencies and municipal bodies (12.5%). More than 70% of clients are Japanese companies.

- ✔ **Contract types:** Contracts lasting six months or longer are called “retainer” agreements. The other main type of agreement is “optional/spot.” The latter covers additional services provided to retainer clients and contract periods of less than six months. Clients mostly pay fees on a monthly basis. Agreements generally renew automatically.
- ✔ **Contract periods of six months or more are mainstream:** The company has around 200 retainer clients, on agreements lasting six months or more. These clients account for around half of revenue. Also, 46.2% of clients are long-term, having been with Kyodo PR for more than five years. The company also has around 400 optional/spot clients, which generate some 40% of revenue.
- ✔ **Fees:** Retainer fees (simple calculation) average JPY10.7mn/year per client, while optional/spot fees average JPY4.3mn/year (FY12/17).
- ✔ **Team structure:** Kyodo PR employs some 200 PR professionals, who work in teams of two to four, handling more than 5,000 projects per year. Employees must be familiar with corporate PR activities and individual media characteristics and have personal contacts with key media personnel. These skills are the backbone of the company’s business. (Service details are described in more detail below.)
- ✔ **Client relationships:** Trust is important because the company handles confidential client information (new products and the like). To maintain long-term contracts, the company must consistently plan and propose effective public relations activities.
- ✔ **Transaction format:** Around 80% of revenue comes from direct client relationships, and the remaining 20% from advertising agencies. These ratios have been steady over the past decade. The company explains, however, that contract formats and business models are changing rapidly, as PR and advertising agencies seek to enter the other’s territory, making use of online and social media.

Main operations

The company formulates public relations strategies for clients (PR consulting) and encourages media to incorporate news messages its clients wish to convey by drafting media-oriented client materials and negotiating with media. At the same time, the company provides media feedback to clients, communicating media opinions, responses, and potential story angles. Items 1 through 11 in the figure below indicate specific services.

Kyodo PR's services and operations



Source: Shared Research based on company data

PR companies typically offer the following services.

- Outsourced PR services:** PR companies serve as a proxy for a company’s PR manager and handle relatively simple operations: drafting press releases, attending interviews, distributing press releases, and clipping*¹.

*¹ PR agency staff check newspapers and magazines for relevant articles and earmark important content. Clipping is one of fundamental PR services in media relations.

- Handling media relationships:** PR companies handle corporate PR managers’ task of building close relationships with various media*², offering clients the benefit of media relationships. In this service, corporate PR managers draft PR plans.

*² Newspapers, magazines, radio, and television are considered the four largest mass media. Other media also exist, such as outdoor advertising and direct mail. In recent years, consumer-generated media (CGM) such as blogs and social media have grown in importance. Accordingly, PR companies have had to become familiar with social media tools such as YouTube, Twitter, and Facebook.

- Consulting:** PR companies handle all PR tasks, including drafting plans, negotiating with media, gaining media exposure, and measuring effectiveness. As Kyodo PR has many clients on long-term contracts, it can provide a full range of support, from relatively simple operations to consulting. The company’s strategy is to focus on high value-added consulting.
- Projects outsourced from large ad agency groups:** When large advertising agencies offer integrated media communications support to their clients, PR services may be included in the package. In such cases, the ad agencies may outsource the PR portion to other companies within their groups or to independent PR agencies. PR

companies that are part of large ad agency groups are competitors, but at the same time, their parent companies (ad agencies) are Kyodo PR's clients that account for some 20% of revenue.

- Handling of online and social media:** PR companies distribute news releases, video, and other forms of information via online and social media. This type of service requires less consulting expertise in such areas as maintaining close media relationships and drafting and proposing PR plans. In 2017, Kyodo PR began providing "local influencer"^{*3} PR, aimed at online media. In February 2018, the company entered a capital alliance with VAZ Inc.^{*4} to provide clients with youth-oriented influencer marketing^{*5} services.

^{*3} Experts, critics, or internet personalities with strong influence in a specific area. In the PR industry, agency personnel **focus** on media relations targeting local influencers, who are also the focus of attention in other industries.

^{*4} This venture company, established in July 2015, operates in the influencer marketing and entertainment services business. The company handles production, using around 70 influencers centered on popular YouTubers.

^{*5} This marketing method involves finding people who hold influence in a particular community or industry being targeted by a product or brand and tailoring initial approaches to these influencers.

- Overseas development, diversification:** Overseas, PR agencies help form public opinion in relation to international disputes and play a role in election campaigns. In Japan, the WPP and Omnicom groups help draft public relations strategy for the Liberal Democratic Party and the Democratic Party of Japan. Some PR companies also diversify, focusing on such areas as restaurant branding and operation or the management of prominent athletes.

Sales activities

The company generates most of its business through passive leads, but the new management team is moving toward a more active selling style, renaming Business Headquarters as the PR Account Headquarters to indicate the company's clear focus on generating revenue (previously, the department was mainly in charge of business contracts). Currently, PR managers of potential client companies contact Kyodo PR directly by phone or online. The company also generates new business through client referrals. Recently, the company has been working to generate more customers through online contacts, and has focused on search engine optimization (SEO), an approach for putting specific websites higher in search engine results. The company says that recently, it has received more online inquiries from potential clients as a result. Kyodo PR plans to take a more active sales approach via the PR Account Headquarters.

Revenue by type of business

Kyodo PR operates in three main segments.

- Retainer:** In 1H FY12/18, revenue of JPY1.1bn (44.4% of total)

In this segment (around 200 clients), the company provides PR support and consulting services for companies under agreements lasting six months or more. Activities include formulating PR strategy, helping clients draft news releases, preparing mass media contact lists, and providing support for the PR side of crisis management. The company checks and reports on mass media exposure.
- Optional & Spot:** Revenue of JPY889mn (34.8% of total)

In this segment (around 400 clients), the company provides one-time additional services to retainer clients, as well as retainer-type services for periods of less than six months. Activities include press conferences, PR events, press seminars, and preparation of PR manuals for crisis management. Business in this segment also

Segments

- Retainer:** PR support activities for clients on long-term contracts; approximately 200 clients
- Optional & Spot:** Temporary, additional services; about 400 clients
- Paid Publicity:** Services similar to those offered by advertising agencies

includes PR activities for a certain period (two or three months) spanning press conferences on new product launches, as well as announcements and other PR surrounding tradeshows, art exhibitions, and other events.

➤ **Paid Publicity:** Revenue of JPY530mn (20.8% of total)

In this segment, the company purchases media space on specific newspaper and magazine pages, as meets client needs and PR content, and helps clients post articles to communicate their intended messages.

Overseas developments

China	In 1998, established a joint venture (Beijing); in 2006, established a wholly owned subsidiary (Shanghai)
	In 2015, transferred interest in Shanghai subsidiary
	In 2018, established the Japan China Anti-Infringement and Anti-Counterfeit Innovation Association (JCAAA) with Tredia, Inc., and others
	In 2018, signed a primary agency agreement with Lakala of China
Taiwan	In 2017, entered an alliance with Elite PR Group, one of Taiwan’s largest PR companies
	In 2018, opened a branch office in Taiwan
US	In 2000, established a wholly owned subsidiary (New York); liquidated the company in 2002
	In 2011, entered a business alliance with Ruder Finn, a US PR agency
South Korea	In 2006, opened a branch office in Seoul
	In 2008, closed the branch office in Seoul and established Kyodo PR Korea Co., Ltd.
	In 2010, sold Kyodo PR Korea’s shares
Europe	In 2008, opened offices in Germany and Belgium
	In 2012, relocated Belgium office to London
	In 2013, closed offices in Germany and the UK

Group companies

➤ **Kyowa Public Relation Co., Ltd. (wholly owned)**

The subsidiary has eight employees, specializing in PR involving medical products and pharmaceuticals

➤ **Manhattan People Inc. (wholly owned)**

This agency specializes in product PR related to film and video. For Western films, the agency handles publicity from the time movie companies purchase films through to initial screening. For Japanese films, the company handles publicity from the time production is announced up through initial screening. The agency handles publicity for items other than films as well, such as VTR (DVD) software, game software, and publications. The company has 29 employees.

Market environment

Japanese PR market

➤ **Market size (narrow sense):** In a narrow sense, the Japanese PR market had a value of JPY101.6bn in FY2016 (estimate based on biennial survey by the Public Relations Society of Japan), up from JPY65.0bn in FY2006 with a 4.6% CAGR over that decade. The CAGR from FY2014 to FY2016 was 3.5%.

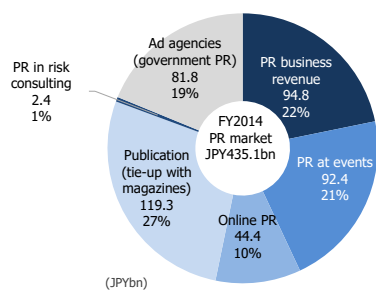
➤ **Market size (broad sense):** In a broad sense, the Japanese PR market had a value of JPY435.1bn in FY2014 (estimate based on biennial survey by the Public Relations Society of Japan). “Broad sense” includes categories adjacent to pure PR in such areas

- Japanese PR market
- ▶ Defined narrowly, JPY101.6bn
- ▶ Defined broadly, JPY435.1bn
- ▶ PR budgets are smaller than advertising budgets

as events, online, publishing (magazine editorial tie-ups), risk consulting, and advertising (government PR).

- ▶ **Expanding importance in broad sense:** In the PR industry, points of contact with consumers and business partners are growing more diverse, due to the proliferation of various handheld devices and social media. Influencers who transmit information on social media can have an unexpected impact on a brand’s image.
- ▶ **Required changes in the PR industry:** Nowadays, in addition to being familiar with conventional media, PR industry professionals need to be familiar with trends among influencers (people who exert the most influence), broadcasters (the next-highest rank of influence-wielders), and listeners (the remaining 90%).
- ▶ **More departments participating in PR:** As media grow more diverse and segmented, communicating with these media is requiring more cooperation among different corporate departments: marketing, planning, and customer service as well as PR. For this reason, the company explains, many PR and advertising industry personnel believe that the PR industry is undergoing a fundamental shift as the market transforms.
- ▶ **More diverse use of advertising budgets:** In the past, the line between public relations and advertising budgets was relatively clear, but this boundary is blurring as each business expands into adjacent areas. In 2017, advertising expenditure in Japan amounted to JPY6.4tn (source: Dentsu). In most corporate sectors, advertising expenditure equates to 1–5% of sales. Advertising expenditures account for a particularly high percentage in the telecommunications and service industry, at 15–20%. In the cosmetics and health foods industry, the ratio is around 10%. (Figures are based on information disclosed in listed companies’ annual securities reports.) Japan’s top five advertisers by gross advertising expenditure are Toyota (JPY448.7bn), Sony (JPY363.8bn), Nissan (JPY313.4bn), AEON (JPY193.7bn), and Seven-Eleven (JPY160.3bn) (figures from research by Toyo Keizai, ranking 300 companies by advertising expenditures in 2017). The company ranked 250th spent around JPY2.4bn on advertising, and the 300th company approximately JPY1.6bn.
- ▶ **PR budgets:** PR budgets are much smaller compared to advertising budgets, typically tens of millions of yen and at most around JPY200mn. However, Kyodo PR explains that whereas companies are quick to cut advertising budgets when operating performance is poor, they are less likely to reduce PR budgets.

Japanese PR market (broad sense)



Source: Shared Research based on the Public Relations Society of Japan materials

Overseas PR markets

- ▶ **US PR market:** Worth approximately JPY1tn, more than 10 times the size of the Japanese market

Reasons for differences between US and Japanese PR markets

- ▶ **Historical background:** In the United States, the PR industry emerged out of efforts to mold public opinion surrounding the Revolutionary War. In Japan, public relations entered along with the US promotion of democratization in Japan following World War II.

US PR market

- ▶ US market more than 10 times the size of the Japanese market
- ▶ PR a growth element in light of the marketing mix
- ▶ Global restructuring picking up in both the PR and advertising industries

- PR industry development:** The US PR market has expanded significantly over its long history. In the US, the industry is moving into adjacent areas and onto an international stage.
- Differences in corporate culture and service content:** Most US companies employ both internal PR staff and external PR companies. PR is considered a specialist area, with high salary levels (annual salaries average around USD60,000, topping out at USD100,000–USD150,000) and high mobility. In Japan, salaries at the four listed PR companies range from JPY5.3mn to JPY6.0mn. This compares with a range of JPY10.9mn to JPY12.7mn for large listed advertising agencies.

PR market expands through moving into adjacent areas

- Japanese and US advertising markets:** The value of the US advertising market in 2018 is around JPY20tn (Magna Global estimate), with 46% of this amount going toward digital advertising. In 2016, US marketing budgets—including advertising—amounted to USD41.4bn (JPY45.5tn at JPY110/USD), while advertising expenditure in Japan was JPY6.4tn in 2017 (Dentsu estimate). Digital advertising accounted for around 20% of the total expenditure for Japan.
- PR market expected to grow:** The PR market is forecast to grow in value from USD5.0bn (JPY0.6tn) in 2016 to USD17.0bn (JPY1.9tn) in 2030. This growth assumes that corporate PR departments will invest in social media (Credit Suisse estimate).

US marketing mix calculations

(USDbn)	Brand Building		Call to Action		
	2016	2030	2016	2030	
TV	55	98	14	70	
Digital	6	35	54	221	
Newspaper	15	3	4	1	
Magazine	15	3	2	0	
Radio	2	3	16	3	
OOH	8	13	1	0	
Movie	1	1	0	0	
SUM 2016	101		90		191
SUM 2030		157		295	452
Sponsorship	35	60			
PR	5	17			
Telemarketing			56	9	
DM			49	8	
Pricing and in-store promotion			77	125	
SUM 2016	40		182		222
SUM 2030		77		142	
Total 2016	141		273		414
Total 2030		234		435	669

About brand building and call to action	Marketing budgets are divided into categories. In Japan, budgets are typically divided into advertising and promotions. Marketing budgets in Japan typically do not include a branding component. Due to expanding budgets for social media, PR department budgets are increasing from USD5bn to USD17bn.
OOH	An initialism for “out of home,” OOH refers to advertising media that consumers come into contact with when away from home. It includes hanging ads on trains and buses, exterior ads wrapped around vehicles, posters inside stations and other sorts of transport advertising. OOH also includes signs and placards located near the tops of buildings, huge ads on construction sites, and roadside billboards.
Sponsorship	Companies and brands provide money, physical items, and personnel to support culture, art, sports, entertainment and other events. In exchange, they have the opportunity to exclusively expose their company or product brands at the events. When events are covered by the media, the company or brand gains publicity from this exposure.
Price promotions	Advertisers attempt to stimulate purchases by reducing product prices or offering a greater amount of product for the same price. In other methods, customers may receive bargain-priced products or bonus packs (packs of additional product), coupons, or cash back.

Source: Shared Research, based on *The Future of Advertising*, by Credit Suisse & ZenithOptimedia

- ▶ **Overseas PR companies:** The world’s five largest PR companies have between 3,000 and 6,000 employees each and offices in more than 100 locations around the world, including Japan.
- ▶ **PR industry restructuring:** M&A activity has been rife in the PR industry. In 2018, two companies in the WPP Group merged—Burson-Marsteller (ranked sixth in the industry) and Cohn & Wolfe (12th)—to become the third-largest PR company. Donna Imperato, from the smaller Cohn & Wolfe, was appointed as the new CEO. Prior to the merger, Burson-Marsteller’s performance had been sluggish. As this example illustrates, the industry is reshuffling PR companies that fail to respond to changes in the operating environment and stall.
- ▶ **PR industry in relation to advertising industry restructuring:** Many PR companies belong to the world’s four largest advertising groups (the four mega-agencies are WPP, Omnicom, Publicis, and Interpublic). In terms of industry structure, the large ad agencies are sometimes considered to be “upstream” of PR companies. Like PR companies, ad agencies have been going through repeated M&A.
- ▶ **Failed M&A and new entries in the advertising industry:** Omnicom of the US and Publicis of France agreed to a merger of equals in July 2013, but merger plans were abandoned in May 2014. Industry attention has also focused on the world’s fifth-largest mega-agency, Dentsu. Meanwhile, the consulting firm Accenture and IBM are advancing in the advertising industry revenue rankings.
- ▶ **PR industry alliances in Japan and overseas:** In 2010, Dentsu Public Relations entered a business alliance with the MSL Group (the Publicis Group, France). In 2009, Hakuodo formed an alliance with Ketchum (Omnicom Group, US). In 1999, WPP entered a capital and business alliance with Asatsu-DK. Although WPP had been the largest shareholder, owning 24% of shares, the alliance ended in 2017. In 2002, WPP entered a capital and business alliance with PRAP Japan. Through an affiliated company, WPP holds a 20% share of the Japanese PR firm.

Global PR company rankings and Japanese PR companies

Rank	Company	Group	Gross profit (USD'000)		YoY	No. of employees	*1
			2,017	2,016			
1	Edelman (US)	Independent	893,591	874,968	2.1%	5,940	
2	Weber Shandwick (US)	Interpublic	805,000	825,000	-2.4%	***	*2,3
(3)	Burson Cohn & Wolfe (US)	WPP	709,000	704,000	0.7%	4,000	*4,5
3	FleishmanHillard (US)	Omnicom	570,000	570,000	0.0%	***	*2,6
4	Ketchum (US)	Omnicom	550,000	562,000	-2.1%	***	*2,6
5	Burson-Marsteller (US)	WPP	463,000	480,000	-3.5%	3,133	
6	MSL (France)	Publicis	460,000	460,000	0.0%	3,022	*7
7	Hill+Knowlton Strategies (US)	WPP	400,000	395,000	1.3%	2,500	
8	Ogilvy and Mather (US)	WPP	354,000	361,000	-1.9%	2,000	
9	BlueFocus (China)		321,850	268,676	19.8%	650	
10	Cohn & Wolfe (US)	WPP	246,000	224,000	9.8%	***	
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16	Vector		146,000	106,000	37.7%	650	
19	Sunny Side Up		123,925	116,500	6.4%	321	
28	Ruder Finn		68,000	67,400	0.9%	580	
48	Dentsu Public Relations		45,000	44,600	0.9%	270	
53	PRAP Japan	WPP	41,500	41,000	1.2%	293	
57	Kyoto PR		39,063	37,723	3.6%	240	

*1 Overseas PR and advertising agencies record “fee-based” sales as revenue. In Japan, agencies record revenue as turnover. “Fee-based” sales equate to gross profit under Japanese accounting standards.

*2 The top PR companies have 3,000–5,000 employees and operate in more than 100 global locations.

*3 Interpublic Group (US) is the world’s fourth-largest advertising agency, with 50,200 employees and JPY900.0bn in revenue.

*4 Fifth-ranked Burson-Marsteller and 10th-ranked Cohn & Wolfe merged in 2018, becoming the third-largest agency.

*5 The WPP Group (UK) is the world’s largest advertising agency group, with 162,000 employees and JPY2.3tn in revenue.

*6 The Omnicom PR Group, which has 10 PR agencies including FleishmanHillard and Ketchum, has more than 6,000 employees. The Omnicom Group (US) is the world’s second-largest advertising agency, with 77,300 employees and JPY1.9tn in revenue.

*7 Including alliance partners, the MSL Group (the PR division of the Publicis Group) has 4,000 employees. The Publicis Group (France) is the third-largest advertising agency, with revenue of JPY1.2tn.

Source: Shared Research, based on *Global TOP PR Agency Ranking 2018* and the *Holms Report*

Competitors

Kyodo PR's competitors include Dentsu Public Relations (unlisted), Sunny Side Up (TSE2: 2180), PRAP Japan (JASDAQ: 2146), Vector (TSE1: 6058), and Ozma PR (unlisted). The Japanese PR industry includes many other boutique firms with only a few employees.

Dentsu Public Relations is a subsidiary of Dentsu (TSE1: 4324), the largest advertising agency in Japan. Likewise, Ozma PR is a subsidiary of Hakuhodo DY Holdings (TSE1: 2433). PRAP Japan is a PR company in which WPP, a large overseas advertising agency, holds 20% effective ownership through an affiliate. Kyodo PR, Sunny Side Up, and Vector are all independent.

As described above, the PR industry is being restructured, driven by the global mega-agencies. Also, the advertising industry is moving into adjacent areas. As a result, PR agencies are facing competition from the mega-agencies and large Japanese advertising agencies.

Competitor characteristics and differences from Kyodo PR

Looking at business portfolios, Kyodo PR is strong in traditional PR services, Sunny Side Up is diversified, and Vector is focused on the online and social media. Kyodo PR was established in 1964, around the same time as Dentsu Public Relations (1960). Established later were PRAP Japan (1970), Sunny Side Up (1985), and Vector (1993).

Below, we outline the characteristics of Kyodo PR's competitors, listed in order of most similar first.

PRAP Japan

- This company is notable for its high overseas revenue ratio: 24.5% (FY08/17), with 85.8% of which coming from China. Competitors other than PRAP Japan have overseas revenue ratios of less than 10%, so do not disclose this information (including Kyodo PR).
- The number of employees decreased after the global financial crisis, then remained flat, and is now trending upward, growing from 190 (FY08/05) to 293 (FY08/17) (see table below for details).

Sunny Side Up

- ▷ This company is pursuing a path of diversification. Specifically, it is focusing on the bills business (eponymous restaurant branding and operation) and the Sports business (involving management of famous athletes). In the bills business, the company incurs the costs of restaurant openings, so its revenue structure differs from that of other PR companies. By comparison, Kyodo PR is non-diversified, focusing solely on PR.
- ▷ Sunny Side Up derives 41.1% of revenue from the Marketing Communications business, which has an OPM of 10.4%, and 29.6% from the bills business, which has an OPM of 3.1% (FY06/17).
- ▷ In FY06/17, Sunny Side Up had a total of 273 employees involved in various types of businesses, including bills: 74 in the Marketing Communications business in the PR department, 30 in the SP and MD business (provides communication expertise to promote store purchases), 21 in the Sports business, 75 in the bills business, and 73 in the other. The number of employees is on an upward trend.

Vector

- ▷ Vector is active in PR involving the online and social media, which is contributing to profits. By segment, the Public Relations business accounted for 71.8% of profit, the Press Release Distribution business for 12.4%, the Video Release Distribution business for 8.0%, and other businesses for 7.1% (FY02/18). Online and social media are included in businesses other than PR. Kyodo PR is also focusing on this area, by strengthening its relationship with VAZ.
- ▷ The number of employees at Vector has increased rapidly, rising from 116 (FY02/10) to 659 (FY02/18). By segment, the Public Relations business employs 554 people,

the Press Release Distribution business 53, the Video Release Distribution business 29, and other businesses 23 (as of February 28, 2018).

▮ Dentsu Public Relations

- ▷ As a PR company affiliated with Dentsu, Japan’s largest advertising agency, Dentsu Public Relations provides services to support the integrated media communications Dentsu offers its clients.
- ▷ Kyodo PR and other independent PR firms also handle businesses outsourced by large advertising agencies.
- ▷ Dentsu, Dentsu group advertising agencies, and Dentsu Public Relations together are competitors of Kyodo PR. At the same time, Dentsu and its group advertising agencies are also clients, as Kyodo PR generates around 20% of revenue from businesses outsourced by such agencies. The situation is similar at Vector and Sunny Side Up.

▮ Overseas PR companies

- ▷ Large overseas PR companies have offices in more than 100 locations around the world, including Japan.
- ▷ These companies face off against Kyodo PR on competitive project bids.
- ▷ Overseas, PR companies help shape public opinion in international disputes and election campaigns. In Japan, the WPP and Omnicom groups help formulate public relations strategy for Japan’s Liberal Democratic Party and the Democratic Party of Japan.

Kyodo PR vs. competitors

Ticker	Company	Group	Revenue		Gross profit		No. of employees	
			(JPYmn)	(Per head)	(JPYmn)	(Per head)	(month-end)	
(Unlisted)	Dentsu Public Relations	Dentsu	11,452	42.4	-	-	270	Feb 2018 *1
2180	Sunny Side Up	Independent	13,892	50.9	2,146	7.9	273	Jun 2017
2436	Kyodo PR	Independent	4,379	18.2	2,558	10.7	240	Dec 2017 *2
2449	PRAP Japan	*3	6,592	22.5	1,650	5.6	293	Aug 2017
6058	Vector	Independent	20,090	30.5	12,637	19.2	659	Feb 2018
(Unlisted)	Ozma PR	Hakuhodo	3,462	18.9	-	-	183	Apr 2018 *4

*1 In 2010, Dentsu Public Relations formed a business alliance with the MSL Group (Publicis Group).

*2 In 2011, Kyodo PR entered a business alliance with the PR company Ruder Finn (US).

*3 In 2007, Kyodo PR entered a business alliance with GlobalCom, a global PR network.

*4 In 2002, PRAP Japan and WPP entered a capital and business alliance (20.3%).

*5 In 2009, Hakuhodo entered a business alliance with Ketchum (Omnicom Group).

Ticker	Company	Fiscal year	OP (JPYmn)	OPM	ROA (RP-based)	ROE	Equity ratio	Net Debt-to-Equity ratio	Main businesses (% of revenue)
2180	Sunny Side Up	FY06/17	387	2.8%	5.3%	22.4%	26.7%	0.43	Marketing Communications (41), SP- MD (19), Sports (9), bills (30)
2436	Kyodo PR	FY12/17	264	6.0%	10.5%	24.8%	50.8%	-0.24	Retainer (49), Optional & Spot (39), Paid Publicity (12)
2449	PRAP Japan	FY08/17	819	12.4%	8.7%	12.7%	66.8%	-0.82	Communication services (100)
6058	Vector	FY02/18	3,026	15.1%	7.7%	15.0%	56.3%	-0.14	PR (72), Press Release Distribution (8), Video Release Distribution (4)
	Average		1,370	11.2%	9.0%	17.5%	58.0%	-0.40	

Source: Shared Research, based on annual securities reports

Employee numbers

(No. of employees)	CY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Ticker	Company FY end														
2180	Sunny Side Up	Jun	-	-	116	137	160	166	143	164	197	186	196	260	273
	Change		-	-	-	21	23	6	-23	21	33	-11	10	64	13
2436	Kyodo PR	Dec	205	260	295	310	324	299	291	264	261	227	224	223	240
	Change		-	55	35	15	14	-25	-8	-27	-3	-34	-3	-1	17
2449	PRAP Japan	Aug	190	204	232	245	248	260	257	257	263	259	275	289	293
	Change		-	14	28	13	3	12	-3	0	6	-4	16	14	4
6058	Vector	Feb	-	-	-	-	-	116	144	188	230	266	331	385	505
	Change		-	-	-	-	-	-	28	44	42	36	65	54	120

Source: Shared Research, based on annual securities reports

Earnings

FY12/18: Company forecasts 13.4% YoY growth in operating profit

FY12/17 results

Overview

Revenue was JPY4.4bn (+6.8% YoY), operating profit was JPY265mn (+46.7% YoY), recurring profit was JPY259mn (+43.1% YoY), and net income was JPY221mn (+35.3% YoY). Revenue has been rising since bottoming out at JPY3.7bn in FY12/15. Likewise, operating profit has trended upward since FY12/14, when the company posted an operating loss of JPY386mn. From FY12/15 to FY12/17, revenue in the Paid Publicity segment rose JPY332mn, revenue in the Optional & Spot segment was up JPY204mn, and revenue in the Retainer segment grew JPY141mn. Revenue in the Paid Publicity and Optional & Spot segments includes the cost of purchasing media and event space as cost of revenue, so these segments are less profitable than the Retainer segment. The upswing in the Retainer segment is most indicative of the company's resurgent performance.

Personnel expenses, which comprise the largest portion of the company's expenses, have been flat. The SG&A expense item of "salaries, allowances, and bonuses" topped out at JPY1.6bn level in FY12/13–FY12/14, and has since fallen to JPY1.3bn level. The number of employees bottomed out at 223 (FY12/16), but has risen to 240 (FY12/17). Since FY12/15, "employee bonuses" has been added as the SG&A expense item, reflecting operating performance: JPY73mn in FY12/15, JPY137mn in FY12/16, and JPY131mn in FY12/17. While employee bonuses have grown to JPY131mn in FY12/17, salaries, allowances, and bonuses have decreased by JPY485mn in FY12/17 compared to its peak level in FY12/09. Overall SG&A expenses, however, have increased: JPY2.2bn in FY12/15, JPY2.2bn in FY12/16, and JPY2.3bn in FY12/17.

FY12/17 results: Revenue +6.8% YoY, operating profit +46.7% YoY

Business by segment

- Retainer:** The number of contracts grew, and revenue amounted to JPY2.1bn (+3.8% YoY). Principal areas of increase were foreign clients as well as information services, other services, and machinery and equipment manufacturing industries. The company aims to boost the Retainer business through acquiring more clients. Revenue from the Retainer segment reached its highest levels since FY12/05 in FY12/08, at JPY2.6bn. At that time, however, the company had more than 300 employees, and SG&A expenses were rising rapidly. Hence, although revenue grew in FY12/08, the company posted an operating loss. The company needs to expand the Retainer business in line with growth in its employee numbers.
- Optional & Spot:** Revenue was JPY1.7bn (-5.4% YoY). The main area for contracts in this segment was machinery and equipment manufacturing. Since FY12/05, revenue from the Optional & Spot segment has not exceeded JPY1.9bn. Revenue in this segment is more variable than that in the Retainer segment. In the United States, for example, the PR industry is affected by events such as presidential elections and the Olympic Games occurring in the same year. Japan's PR industry is similarly affected by various events.
- Paid Publicity:** Revenue was JPY519mn (+137.0% YoY). The main area for contracts was machinery and equipment manufacturing. Paid Publicity is an area of focus for Kyodo PR, but the segment currently contributes relatively little.

Revenue by segment										
(JPYmn)	FY12/08 Act.	FY12/09 Act.	FY12/10 Act.	FY12/11 Act.	FY12/12 Act.	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.
Revenue	4,845	4,293	4,604	4,329	4,257	4,019	4,063	3,705	4,100	4,379
YoY	7.4%	-11.4%	7.2%	-6.0%	-1.7%	-5.6%	1.1%	-8.8%	10.7%	6.8%
Retainer	2,598	2,437	2,328	2,331	2,151	2,070	2,137	1,990	2,052	2,131
YoY	3.8%	-6.2%	-4.5%	0.1%	-7.7%	-3.8%	3.2%	-6.9%	3.1%	3.8%
% of total revenue	53.6%	56.8%	50.6%	53.8%	50.5%	51.5%	52.6%	53.7%	50.0%	48.7%
Optional & Spot	1,845	1,520	1,818	1,794	1,850	1,678	1,693	1,524	1,827	1,728
YoY	14.5%	-17.6%	19.6%	-1.3%	3.1%	-9.3%	0.9%	-10.0%	19.9%	-5.4%
% of total revenue	38.1%	35.4%	39.5%	41.4%	43.5%	41.8%	41.7%	41.1%	44.6%	39.5%
Paid Publicity	402	335	456	202	254	267	231	187	219	519
YoY	1.8%	-16.7%	36.1%	-55.7%	25.7%	5.1%	-13.5%	-19.0%	17.1%	137.0%
% of total revenue	8.3%	7.8%	9.9%	4.7%	6.0%	6.6%	5.7%	5.0%	5.3%	11.9%

Source: Shared Research, based on annual securities reports

Note: Figures may differ from company materials due to differences in rounding methods.

1H FY12/18

Overview

Revenue was JPY2.6bn (+32.0% YoY), operating profit was JPY226mn (+186.1% YoY), recurring profit was JPY224mn (+194.7% YoY), and net income was JPY184mn (+206.7% YoY). SG&A expenses amounted to JPY1.1bn (-1.5% YoY), of which personnel expenses were JPY899mn (-0.2% YoY). Many inquiries from potential clients were about sales promotion and other integrated PR projects.

Business by segment

- ▶ **Retainer:** Number of contracts increased, notably in the service and IT/telecommunications industries. In addition, the company acquired overseas clients, leading to an increase in the average revenue per client and a rise in profitability. Revenue was JPY1.1bn (+9.5% YoY).
- ▶ **Optional & Spot:** The number of sales promotion projects increased, as did the number of projects outsourced from advertising agencies. Revenue was JPY 889mn (+20.3% YoY).
- ▶ **Paid Publicity:** Revenue was JPY530mn (+231.3% YoY). The increase was due to placements of magazine ads and outdoor advertising.

Other

Kyodo PR is strengthening its business in Greater China. The company established a branch in Taiwan in July 2018. In 2017, it signed a strategic partnership agreement with Elite PR Group, the largest PR company in Taiwan, and is working to expand sales. Also, in collaboration with Tredia, Inc., Kyodo PR established the Japan China Anti-Infringement and Anti-Counterfeit Innovation Association (JCAAA). In China, the company signed a primary agency agreement with Lakala, a leading e-commerce platform operator in China.

Cumulative (JPYmn)	FY12/16				FY12/17				FY12/18	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	1,081	1,974	2,857	4,100	1,013	1,934	2,965	4,379	1,292	2,553
YoY	16.4%	10.6%	7.2%	10.7%	-6.3%	-2.0%	3.8%	6.8%	27.5%	32.0%
Gross profit	602	1,148	1,713	2,396	597	1,217	1,838	2,558	673	1,347
YoY	1.9%	0.4%	0.9%	3.3%	-0.9%	5.9%	7.3%	6.7%	12.8%	10.7%
GPM	55.7%	58.2%	60.0%	58.5%	58.9%	62.9%	62.0%	58.4%	52.1%	52.7%
SG&A expenses	545	1,088	1,630	2,216	567	1,137	1,697	2,293	560	1,120
YoY	-2.6%	-1.4%	-0.6%	1.3%	4.1%	4.5%	4.1%	3.5%	-1.3%	-1.5%
SG&A ratio	50.4%	55.1%	57.1%	54.1%	56.0%	58.8%	57.2%	52.4%	43.3%	43.9%
Operating profit	57	60	83	180	29	79	140	265	113	226
YoY	82.2%	51.6%	46.7%	37.6%	-49.3%	30.9%	69.1%	46.7%	289.7%	186.1%
OPM	5.3%	3.1%	2.9%	4.4%	2.9%	4.1%	4.7%	6.0%	8.7%	8.9%
Recurring profit	63	61	83	181	27	76	136	259	111	224
YoY	103.1%	62.4%	55.8%	43.3%	-56.8%	23.7%	64.5%	43.1%	311.1%	194.7%
RPM	5.8%	3.1%	2.9%	4.4%	2.7%	3.9%	4.6%	5.9%	8.6%	8.8%
Net income	57	55	71	163	23	60	110	221	97	184
YoY	88.5%	190.3%	116.5%	51.2%	-59.9%	9.4%	54.1%	35.3%	321.7%	206.7%
Net margin	5.3%	2.8%	2.5%	4.0%	2.3%	3.1%	3.7%	5.0%	7.5%	7.2%

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

FY12/18 company forecast

Overview

The company forecasts revenue of JPY4.5bn (+2.8% YoY), operating profit of JPY300mn (+13.4% YoY), recurring profit of JPY295mn (+14.3% YoY), and net income of JPY248mn (+12.4% YoY). Revenue and profit were both up sharply YoY in 1H FY12/18, but the company maintains a conservative forecast, as it thinks large projects may carry forward to FY12/19.

FY12/18 company forecast: Revenue +2.8% YoY, operating profit +13.4% YoY

Company forecast by segment

- Retainer:** The company expects the Retainer segment to remain robust. It aims to increase the number of retainer agreements and billing per customer.
- Optional & Spot:** The company anticipates a continued increase in the number of sales promotion and advertising agency projects.
- Paid Publicity:** Although this business has continued to be strong, it mainly involves spot agreements, so persistency is uncertain.

Medium-term strategy

Core competency in highly specialized PR consulting, also focus on online media

Core strategy

The company plans to announce a medium-term plan but has not done so as of this report's date of publication. Shared Research believes that the main thrust of the plan will be moving Kyodo PR from the management reform stage to the growth phase and increasing revenue and personnel numbers. Financial strategy will focus on curtailing expenditures, boosting internal reserves, and reinvesting in growth fields. The PR industry is rife with M&A activity; Shared Research thinks that Kyodo PR will also take an active part in M&A. First, the company will focus on boosting revenue, thus raising per-employee productivity, and next, it will pursue M&A and focus on increasing personnel numbers.

Company intends to announce a medium-term plan

- ▶ New plan likely to focus on making the shift from management reform to growth
- ▶ Aiming to boost per-employee productivity and then increase personnel numbers

Priority measures

- 1) Strengthen retainer-based PR
- 2) Augment marketing PR, enhance tie-ups with advertising agencies
- 3) Build up the digital communication business
- 4) Reinforce the seminar and content businesses

- 5) Strengthen business in Greater China

Medium-term strategies

- ▶ **Retainer PR:** After surveying current clients, strengthen planning capabilities to help maintain long-term contracts. Boost per-employee productivity by strengthening highly specialized PR consulting and increasing the number of retainer agreements and billing per customer.
- ▶ **Marketing PR:** Employ integrated PR methods to resolve clients' marketing issues and help roll out long-term branding campaigns. The focus on marketing PR will lead to strengthening online media, which has strong operational ties with PR.
- ▶ **Digital communication:** Add more personnel in specialized departments, build teams that operate across the company, and strengthen relationships with local influencers and VAZ.
- ▶ **Seminars and content:** Use live digital distribution to strengthen schools/training business, and find content to support PR. To date, the company's Institute of Public Relations has had a distinctive "contributing to the industry" flavor. Kyodo PR now plans to convert it to a business.
- ▶ **Business in Greater China:** Kyodo PR opened a branch in Taiwan in July 2018. The company is currently expanding business in Taiwan through a strategic partnership with a local PR company, Elite PR Group. Kyodo PR has also established the Japan China Anti-Infringement and Anti-Counterfeit Innovation Association (JCAAA). In addition, the company has formed a primary agency agreement in China with Lakala*, through which it aims to expand business on the Chinese mainland.

- Lakala: This company is one of China's largest digital payment platform operators (approximately 5mn member stores, 2.7mn corporate users, 100mn individual users, and annual turnover of around JPY34tn).
- As Lakala's primary agency on payment services for the Japanese market, Kyodo PR has begun cultivating relationships with member stores (mainly among its Japanese clients). Through Lakala, Kyodo PR can facilitate the introduction of China's leading digital payment services, Alipay and WeChat Pay.
- Kyodo PR is using information on Lakala's more than 100mn Chinese customers (big data) to analyze their behaviors and areas where they transact business and then propose inbound promotions and services that direct these members to its client companies. Kyodo PR provides comprehensive inbound solutions by leveraging synergies with existing PR and promotional services.
- Digital payment platform operators: Digital payment is commonplace in China and the US, and is becoming standard for payments between individuals.
- In China, smartphones have been exploding in popularity. Smartphone-based digital payment platforms are growing accordingly.
- Inbound promotion, inbound solutions: PR that promotes tourist spots, products, and services targeting foreign tourists visiting Japan. Inbound promotions target people who plan to visit Japan, first-time visitors, and repeat visitors. Promotions employ social media, video distribution, email magazines, websites, mass-media ads, guidebooks, and pamphlets.
- Foreign tourists visiting Japan also go to places other than big cities and well-known tourist spots, and it is difficult to predict what types of stores and products will attract their attention. PR activities include planning and proposal of inbound businesses involving various cities and business categories.
- In marketing jargon, "inbound" generally refers to visits or phone calls from customers. The word is used to refer to content that is enhanced to encourage access on the part of consumers. "Outbound," by contrast, refers to proactive sales.

Strengths and Weaknesses

Strengths

- Due to long history, well known and trusted by large Japanese companies:** Established in 1964, Kyodo PR is a pioneer in the Japanese PR industry. Due to its long history, the company is well known and trusted by PR managers of large Japanese companies. More than 70% of clients are Japanese companies, and Kyodo PR conducts business directly with some 80% of clients. The company gets most of its business through passive leads, when PR managers contact Kyodo PR directly by phone or online. The company also generates substantial new business through client referrals.
- Stable client relationships:** Retainer clients amount to roughly 200. Around half of revenue is generated from retainer agreements (six months or longer). Half of these retainer clients have worked with Kyodo PR for five years or more. The company also has more than 400 spot clients, excluding those that are also retainer clients. Kyodo PR aims to be a “PR partner” for clients, providing PR consulting (formulating strategy) and execution. In addition to being well known and trusted in the industry, Kyodo PR has access to new product and other confidential client information. This factor, combined with Japanese business customs, encourages long-term relationships.
- Solid media relationships:** The company has spent many years building up relationships with media, which are crucial because media produce free-of-charge articles and programs that communicate clients’ news messages to general consumers. Kyodo PR has former reporters from large newspaper companies and publishers on staff as full-time advisors. The company also has a strong network of media contacts built up through a variety of other information routes. With media relationships running the gamut from cub reporter to chief editor, Kyodo PR can connect clients with key media personnel via information-exchange seminars.

Weaknesses

- Small scale of the PR industry exacerbated when moving into adjacent areas:** Kyodo PR is small in comparison to overseas PR companies and Japanese advertising agencies. Further, the PR industry in Japan is smaller than those overseas and the Japanese advertising industry (the domestic advertising market is around 64 times larger than the PR market [JPY6.4tn vs JPY100.0bn]). The proliferation of social media and the emergence of influencers are blurring the boundaries between PR and advertising. Small scale then becomes a more apparent weakness, as it limits opportunities to move into areas adjacent to PR.
- Lacks global personnel needed to move into promising future markets:** To date, Kyodo PR has made numerous forays into, and then withdrawn from, overseas operations. Although the company thinks the ability to make global PR proposals will become more important, it has cultivated few global personnel. The PR industry is growing more international, and US-style high value-added business is a promising area. Kyodo PR is trying to build up business in Greater China, but currently faces personnel shortages. The company needs to hire additional talent capable of handling global operations.
- Few personnel in social media field:** Leveraging word-of-mouth communications and influencers is of growing importance to fields adjacent to PR and in corporate branding strategy, but Kyodo PR has relatively few people who are well versed in social media. Currently, it has around 10 specialists in this field, and management policy is to dispatch these personnel to individual teams. However, Shared Research believes this number is too small to allow for effective service segmentation, given the rapid rise in the number of social media outlets.

Strengths

- ▶ Well known and trusted
- ▶ Stable client relationships
- ▶ Solid media relationships

Weaknesses

- ▶ Small scale exacerbated when moving into adjacent areas
- ▶ Lacks global personnel needed to move into promising future markets
- ▶ Few personnel in social media field

Income statement

Income statement (JPYmn)	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	4,845	4,293	4,604	4,329	4,257	4,019	4,063	3,705	4,100	4,379
YoY	7.4%	-11.4%	7.2%	-6.0%	-1.7%	-5.6%	1.1%	-8.8%	10.7%	6.8%
Cost of revenue	1,981	1,493	1,827	1,620	1,693	1,632	2,223	1,385	1,703	1,822
Gross profit	2,865	2,801	2,776	2,708	2,564	2,387	1,840	2,320	2,396	2,558
YoY	2.3%	-2.2%	-0.9%	-2.5%	-5.3%	-6.9%	-22.9%	26.1%	3.3%	6.7%
GPM	59.1%	65.2%	60.3%	62.6%	60.2%	59.4%	45.3%	62.6%	58.5%	58.4%
SG&A expenses	2,895	2,935	2,701	2,540	2,456	2,488	2,227	2,189	2,216	2,293
SG&A ratio	59.8%	68.4%	58.7%	58.7%	57.7%	61.9%	54.8%	59.1%	54.1%	52.4%
Operating profit	-31	-134	75	168	108	-101	-386	131	180	265
YoY	-115.4%	335.6%	-156.2%	123.5%	-35.6%	-193.6%	280.9%	-133.9%	37.6%	46.7%
OPM	-0.6%	-3.1%	1.6%	3.9%	2.5%	-2.5%	-9.5%	3.5%	4.4%	6.0%
Non-operating income (expenses)	7	9	9	9	9	7	9	5	14	2
Non-operating expenses	13	7	78	6	3	5	8	10	13	8
Recurring profit	-36	-132	6	171	114	-100	-385	126	181	259
YoY	-118.3%	263.1%	-104.4%	2835.1%	-33.3%	-187.4%	285.7%	-132.7%	43.3%	43.1%
RPM	-0.8%	-3.1%	0.1%	4.0%	2.7%	-2.5%	-9.5%	3.4%	4.4%	5.9%
Extraordinary gains	39	3	54	0	0	64	0	6	0	0
Extraordinary losses	17	9	3	10	57	43	1	0	0	2
Income taxes	102	19	31	104	39	-22	129	24	17	36
Implied tax rate	-744.8%	-13.4%	55.2%	64.5%	67.4%	28.1%	-33.5%	18.0%	9.6%	13.9%
Minority interests	-6	-5								
Net income	-109	-152	25	57	19	-57	-515	108	163	221
YoY	-261.5%	39.8%	-116.7%	126.3%	-67.2%	-403.3%	803.1%	-121.0%	51.2%	35.3%
Net margin	-2.2%	-3.5%	0.6%	1.3%	0.4%	-1.4%	-12.7%	2.9%	4.0%	5.0%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

SG&A expenses (JPYmn)	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Directors' compensations	119	127	121	115	99	106	81	102	105	118
Provision for doubtful accounts	75	46	4	4	0	6	3	1	3	15
Salaries, allowances, and bonuses	1,722	1,756	1,654	1,601	1,540	1,585	1,245	1,255	1,242	1,271
Employee bonuses								73	137	131
Miscellaneous salaries	52	39	35	36	36	28	28	28	33	38
Retirement benefit expenses	14	39	68	34	40	32	84	76	63	57
Legal welfare expenses	250	254	254	251	255	273	194	175	202	214
Rents	263	275	235	209	202	203	181	170	166	164
Other	399	399	330	290	283	255	410	309	265	286
Total	2,895	2,935	2,701	2,540	2,456	2,488	2,227	2,189	2,216	2,293

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Balance sheet

Balance sheet (JPYmn)	FY12/08 Cons.	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.
ASSETS										
Cash and deposits	523	414	551	530	539	701	851	473	611	659
Notes and accounts receivable	906	811	827	767	759	770	695	647	720	960
Other	55	149	181	144	94	237	554	808	123	148
Allowance for doubtful accounts	-76	-120	-123	-6	-4	-9	-7	-5	-8	-20
Total current assets	1,453	1,253	1,437	1,435	1,388	1,699	2,093	1,921	1,446	1,748
Total tangible fixed assets	254	233	201	183	143	102	99	91	87	99
Total intangible fixed assets	46	32	21	10	3	6	5	13	29	22
Investment securities	32	33	45	49	66	29	42	51	53	63
Allowance for doubtful accounts	-5	-7	-66	-184	-181	-181	-186	-125	-124	-127
Investments and other assets	401	478	457	432	350	284	210	221	222	244
Total fixed assets	700	744	678	625	496	392	315	325	338	366
Total assets	2,164	2,005	2,119	2,059	1,884	2,090	2,408	2,247	1,784	2,113
LIABILITIES										
Notes and accounts payable	325	189	271	245	184	258	258	159	175	326
Short-term debt	78	294	262	200	206	251	317	300	274	300
Income taxes payable	65	27	57	80	6	8	84	10	16	58
Other	200	209	224	210	218	276	987	989	335	313
Total current liabilities	668	719	814	735	615	793	1,646	1,459	800	996
Long-term borrowings	0	0	0	0	0	157	162	101	154	51
Total fixed liabilities	220	237	244	244	204	311	264	163	203	109
Total liabilities	888	956	1,058	979	819	1,104	1,910	1,622	1,003	1,105
Net assets										
Capital stock	420	420	420	420	420	420	420	420	420	420
Capital surplus	361	361	361	361	361	361	361	361	361	361
Retained earnings	500	292	288	308	289	214	-301	-166	-3	218
Total net assets	1,276	1,049	1,060	1,080	1,065	986	498	625	782	1,008
Total liabilities and net assets	2,164	2,005	2,119	2,059	1,884	2,090	2,408	2,247	1,784	2,113

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Per-share data (JPY)

Per share data (split adjusted) (JPY)	FY12/08 Cons.	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons. Est.
Shares issued (year end:'000)	4,072.6	4,072.6	4,072.6	4,072.6	4,072.6	4,072.6	4,072.6	4,072.6	4,072.6	4,072.6	4,072.6
EPS	-26.7	-37.8	6.3	14.3	4.7	-14.4	-129.7	27.2	41.1	55.6	64.0
Dividend per share	18.6	9.3	9.3	9.3	9.3	0.0	0.0	0.0	0.0	0.0	1.7
Book value per share	312.2	261.7	264.6	269.6	268.0	248.2	125.3	157.2	196.4	252.4	334.7

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: The company conducted a three-for-one stock split on common shares on July 1, 2018. The number of post-split shares is provided by the company.

Cash flow statement

Cash flow statement (JPYmn)	FY12/08 Cons.	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.
Cash flows from operating activities (1)	-17	-161	209	34	-20	-121	76	-260	125	152
Cash flows from investing activities (2)	1	-102	-2	44	52	79	8	-68	-16	-15
Cash flows from financing activities	-79	152	-68	-99	-35	182	68	-79	31	-89
Depreciation and amortization (A)	61	47	35	28	22	13	11	10	15	20
Capital expenditures (B)	0	0	0	0	10	0	0	0	0	0
Working capital changes (C)	13	-4	-65	-35	53	-63	-75	50	58	89
Simple FCF (NI + A + B - C)	-61	-101	126	120	-2	19	-429	68	120	152

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Financial ratios

	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
Financial ratios	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ROA (RP-based)	-1.6%	-6.4%	0.3%	8.2%	5.8%	-5.0%	-17.1%	5.4%	9.0%	13.3%
ROE	-7.8%	-13.1%	2.4%	5.4%	1.8%	-5.6%	-69.4%	19.3%	23.2%	24.7%
Total asset turnover	2.14	2.06	2.23	2.07	2.16	2.02	1.81	1.59	2.03	2.25
Current ratio	217.6%	174.2%	176.6%	195.3%	225.6%	214.2%	127.2%	131.7%	180.8%	175.4%
Net asset ratio	59.0%	52.3%	50.1%	52.5%	56.5%	47.2%	20.7%	27.8%	43.8%	47.7%
Quick ratio	222.3%	190.9%	191.7%	196.1%	226.2%	215.3%	127.6%	132.1%	181.8%	177.4%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Policy on shareholder returns

Revised dividend forecast for FY12/18 from JPY5.00 to JPY5.01 (JPY1.67 after split)

The company's basic policy is to distribute dividends in line with earnings for the period, taking into account the parent company's financial condition and the need to reinforce the management base and financial structure.

On May 29, 2018, the company revised its dividend forecast. On June 30, 2018, the company conducted a three-for-one stock split on common shares. To simplify rounding following the stock split, the company increased its dividend forecast from JPY5.00 to JPY5.01. This figure corresponds to a post-split dividend of JPY1.67 per share.

Shareholders

Top shareholders	Shares held	Shareholding ratio
Shinto Tsushin Co., Ltd.	479,132	36.1%
Techno Global Institute K.K.	200,000	15.1%
SMBC Nikko Securities Inc.	69,500	5.2%
Tomoaki Sato	55,800	4.2%
KyoP Group Employees' Shareholding Association	39,600	3.0%
Fumihiko Yamamoto	27,500	2.1%
Nagaki Ko	27,000	2.0%
Iwao Uemura	22,400	1.7%
Japan Securities Finance Co., Ltd.	21,000	1.6%
Japan Trustee Services Bank, Ltd. (Trust account)	19,200	1.4%

Source: Shared Research based on company data

Note: Shareholding ratio is based on the figure obtained by excluding treasury shares (30,000) from total shares issued (1,357,000).

Note: As of June 30, 2018

Corporate governance

Organization form and capital structure	
Controlling shareholder	None
Parent company code	N/A
Directors	
Number of directors under Articles of Incorporation	9
Directors' terms under Articles of Incorporation (years)	1
Number of independent outside directors	1
Audit & Supervisory Board	
Number of Audit & Supervisory Board members under Articles of Incorporation	3
Number of independent outside members of Audit & Supervisory Board	2
Other	
Number of independent officers (outside directors and outside members of Audit & Supervisory Board)	3
Participation in electronic voting platform	N
Other initiatives to enhance voting rights of investors	N
Providing convocation notice in English	N
Disclosure of directors' compensation	N
Disclosure of executive officers' compensation	N
Policy on determining amount of compensation and calculation methodology	Y
Takeover defenses	N

Source: Shared Research based on company data

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