

## Bridge Report INTERTRADE Co., Ltd. (3747)

 Kazuya Nishimoto, President	Company	INTERTRADE Co., Ltd.	
	Code No.	3747	
	Exchange	TSE, Second Section	
	Industry	Information, Communications	
	President	Kazuya Nishimoto	
	HQ Address	Kayabacho First Building, 1-17-21 Shinkawa, Chuo-ku, Tokyo	
	Year End	September	
	URL	<a href="http://www.itrade.co.jp/">http://www.itrade.co.jp/</a>	

### — Stock Information —

Share Price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
¥290	7,185,600 shares		¥2,083 million	-	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
-	-	-	-	¥147.87	2.0x

\* Share price as of closing on January 8, 2019. Number of shares outstanding as of most recent quarter end, excluding treasury shares. ROE and BPS are the values as of the end of the previous term.

### — Consolidated Earnings Trends —

(Units: Million Yen)

Fiscal Year	Sales	Operating Profit	Current Profit	Parent Net Profit	EPS (¥)	Dividend (¥)
September 2015	2,459	-165	-164	-331	-46.08	0.00
September 2016	2,358	11	14	7	0.98	0.00
September 2017	2,017	-458	-459	-334	-	0.00
September 2018	1,892	-335	-334	-338	-	0.00
September 2019 Est.	2,339	-170	-170	-175	-	0.00

\* Estimates are those of the Company. From the fiscal year ended September 2016, the definition for net profit has been changed to net profit attributable to parent company shareholders (Abbreviated as parent net profit).

This Bridge Report reports earnings results of INTERTRADE Co., Ltd. for the fiscal year ended September 2018 and the outlook for earnings estimates for the fiscal year ending September 2019.

1. Company Overview
2. Fiscal Year September 2018 Earnings Results
3. Fiscal Year September 2019 Earnings Estimates
4. Conclusions

## Key Points

·The sales for the FY September 2018 were down 6.2% year on year, and there was an operating loss of 335 million yen (458 million yen in the previous term). The decrease in operating loss was due to a significant improvement in the performance of the healthcare business, in addition to sales growth in the business solutions business, which turned profitable. However, both sales and profits declined in the company's main business, the financial solutions business. For this business, the sales of securities dealing systems fell, and the cancellation of contracts for large orders affected its performance. Both sales and operating profit/loss fell below initial estimates.

·Mr. Kazuya Nishimoto, previously Vice President and Director, was appointed President and Representative Director on Oct. 1. President Nishimoto, who has experience engaging in system development at a securities company, was one of the founding members. When the company was established in Jan. 1999, he assumed office as President and Representative Director. After serving in this position for two years, he returned to the field, taking command of development as an engineer. In Mar. 2012, he began participating in management once more, taking the position of Vice President and Director (while also working as the General Manager of Business 2 Division). He has also been making efforts towards diversification, such as developing the healthcare business.

·The sales for the FY September 2019 are estimated to rise 23.6% year on year, with an operating loss of 170 million yen. Sales estimates are based on dealings with a high probability to receive orders, so if new orders are received, performance may exceed expectations. Meanwhile, regarding profit and loss, costs will continue to exceed the sales in the financial solutions business with the development of high added value products that incorporate new technology, and in the healthcare business with industry-academia collaborative research. However, from FY 9/2020 onward, the company will enter a period when it will see returns on its investments, bringing recovery of business up to full speed. The company plans to announce the medium-term business plan (which is currently being formulated) at the start of 2019, after the general shareholders' meeting on Dec. 21, 2018.

## 1. Company Overview

INTERTRADE mainly operates the financial solutions business with a focus on development and maintenance services for securities dealing systems. It also operates the business solution business including development of group management packaged software, health care business including manufacturing and sales of supplements and cosmetic products using *sparassis crispa*, and the complimentary proprietary fund management business within the financial solutions business.

Apart from INTERTRADE, the INTERTRADE Group consists of the Company, the following 3 consolidated subsidiaries: 1) BSI Co., Ltd. (66.7% ownership) which develops and maintains the integrated business management platform called "GroupMAN@IT e2" (the business solutions business); 2) INTERTRADE HEALTHCARE Co., Ltd.(100% ownership) which manufactures and processes *sparassis crispa*, and sells *sparassis crispa*-related products via the Internet and catalog mail orders; and 3) Iter Corporation (21% ownership) which develops and sells solutions, products, and services using the Fintech-related technology. On July 31, 2018, the company transferred shares of TRADEX Co., Ltd., which had been handling the investment education business.

### 【Corporate History】

In 1998, the Acts for the Financial System Reform was established under the administration of Prime Minister Hashimoto. In the same year, Internet securities such as E-Trade and Charles Schwab emerged in the U.S. It was also the time when terms such as "Financial Big Ban" and "Net-venture" began to be used more commonly. Under these circumstances, based on the belief that the stock trading method would drastically change as a result of the Internet and further liberalization of financial services (e.g. transition to e-trade), the company was established in Jan. 1999, with two people who have a background working at securities companies, including the current President and Representative Director, Mr. Kazuya Nishimoto.

The Company started as a consulting company for front systems and expanded its business to sell packaged software for dealing/trading. In September 2000, it began sales of “Trade Office-SX”, a packaged dealing system software for securities companies. At that time, the technology for e-trading was still under development, and there were only a handful of vendors that were specialized in the front systems for stock trading for financial institutions. Because of its affordable front system with excellent operability and functionality, “Trade Office-SX” was sought after by many securities companies’ equity department. The “Information distribution service” (distributing trade information of major stock exchanges such as Tokyo Stock Exchange), commenced in March 2003, grew steadily. In September 2004, the Company was listed on the Mothers Section of the Tokyo Stock Exchange. Its market share further increased by the sales of “TIGER Trading System”, the successor of “Trade Office-SX” launched in August 2007. Aiming to offer comprehensive solutions for securities companies, the Company also achieved strong business results in the realm of back office systems for securities companies (Client information and account reserves management systems) and middle office systems (Risk management systems to measure risks of contract positions). In January 2005, it launched “ITMonster”, the world’s only auction-style private trading system (PTS).

However, after the bankruptcy of Lehman Brothers in 2008, the company began to develop ASP for its services, while also looking into the diversification of business in the non-financial IT and life science fields, which are expected to grow steadily. The management solutions development company BSJ Co., Ltd. was turned into a subsidiary in October 2012. In order to grow the healthcare business (previously known as the food service business), the company renamed and restructured its subsidiary, Pal Co., Ltd. (Currently known as INTERTRADE HEALTHCARE Co., Ltd.) was turned into a subsidiary to secure sales channels for the healthcare business,

## **【Business Contents】**

The Company’s businesses are composed of the following: the financial solutions business which designs, develops, and sells packaged front systems for securities businesses with securities companies as clients; the business solutions business that designs, develops, and sells corporation-oriented packaged systems with general business firms as clients; the healthcare business which develops and sells healthcare products, such as supplements, and cosmetics, and procures and sells health-related products, to consumers; and the investment education business which is aimed at educating individual investors through various approaches, such as holding investment education seminars and disseminating trade information. The sales composition ratio of each business segment for the FY September 2018 was as follows: 72.2% for the financial solutions business; 14.0% for the business solutions business; 13.6% for the healthcare business; and 0.2% for the investment education business.

### **Financial Solutions Business**

In addition to the securities dealing system “Prospect,” the retail foreign exchange trading system “fortissimo,” and the off-exchange transaction system “ITMonster,” which have been introduced to the general trading participants of Tokyo Stock Exchange, the Company designs, develops, and sells “J1” that is a system for connection with systems used in various stock exchanges, including arrowhead, ToSTNeT, and J-GATE, “MEX&MSR III” which can perform purchase and selling simulations and tuning, such as algorithm programs, and “DPSS” which provides various kinds of information necessary for intelligence trading on trading systems in real-time, chart, and historical-analysis formats. The Company also engages in design, development, and sale of middleware and communications software.

Recently, utilizing know-how gained from the above products, the company has also been developing a solution called “Spider,” which uses blockchain technology to provide an infrastructure for next-generation businesses.

### **Business Solutions Business**

The Company aims to secure stable sales and profit based on the following 3 pillars: 1) the packaged services with a focus on internally developed integrated business management platforms “GroupMAN@IT e<sup>2</sup>” (or “e<sup>2</sup>”) and “Gadics MAN@IT”; 2) the system engineering services (SES) which mainly provides maintenance and operation; and 3) the support center services that offer system design, development, and establishment, and to provide comprehensive multi-vendor, multi-product, and multi-business system support services. BSJ Co., Ltd, one of the Company’s consolidated subsidiaries, engages in development and maintenance of “e<sup>2</sup>.”

Companies often use multiple operational systems for accounting, human resources, payroll, facilities, and materials, and, in many instances, each system is sold by different vendors for each task, or a parent company and its subsidiaries use different systems sold by different vendors

for similar tasks, which is making it difficult to control management information, or in other words, business analysis of the entire corporate group through data sharing of each system, in an integrated manner within a company or a corporate group. This is why many companies invest a great amount in constructing a separate system for coordination (major system companies are extremely negative about connecting their own systems with other companies' systems). In contrast, as "GroupMAN@IT e" is equipped with a highly flexible interface called "FLEX I/O," it is possible to connect various data of different vendors or systems. On the other hand, "Gadies MAN@IT" is not offered as a function, but, as a "virtual engineer," it supports operation and management of personal computers at low cost on a cloud basis from 4 aspects, including "collection," "decision making," "implementation," and "confirmation."

## Healthcare Business

In the healthcare business, the Company engages in various activities, ranging from cultivation of *sparassis crispa* to sale of *sparassis crispa*-related products (i.e., supplements, health food products, and cosmetic products) under its own brand name, OEM supply, and sale of raw materials for use in cosmetic products that are manufactured using ingredients derived from *sparassis crispa*, both in and outside of Japan. With INTERTRADE taking charge of managing the overall healthcare business, including marketing, INTERTRADE HEALTHCARE Co., Ltd. manufactures and processes *sparassis crispa*, and sells *sparassis crispa*-related products via the Internet and catalog mail orders. Furthermore, the Company is currently endeavoring to obtain scientific evidence concerning immune-stimulating functions of the components derived from *sparassis crispa* through industry-government-academia collaborative research. The human clinical trials carried out in 2013 have confirmed not only that the *sparassis crispa*-derived component "LB-Scr" is effective against type-II diabetes, Type-I allergic diseases, and liver function indicators ( $\gamma$ -GTP, GOT, and GPT), and changes in skin type, but also that, through studies of adverse events, it is safe and causes no side effect.

## Sparassis Crispa

*Sparassis crispa* thrives naturally in Japan, Europe and America in coniferous forests at an altitude of 1,000 meters in which edible mushrooms typically does not grow under ordinary circumstances, which makes it very rare to find naturally grown *sparassis crispa*; therefore, it is called "rare mushroom." In addition, although typical mushrooms are in brown, *sparassis crispa* is in beautiful white to pale yellow, as if fluffy white flowers are blooming. *Sparassis crispa* has over 35% of the  $\beta$ -glucan content, which plays a particularly important role in maintaining good health (compared to *agaricus* mushrooms which has 12.5% of the  $\beta$ -glucan content), and besides, it is rich in myriad effective components, such as amino acids and trehalose. Moreover, *sparassis crispa* is edible.

## 2. Fiscal Year September 2018 Earnings Results

### (1) Consolidated Earnings

(Units: Million Yen)

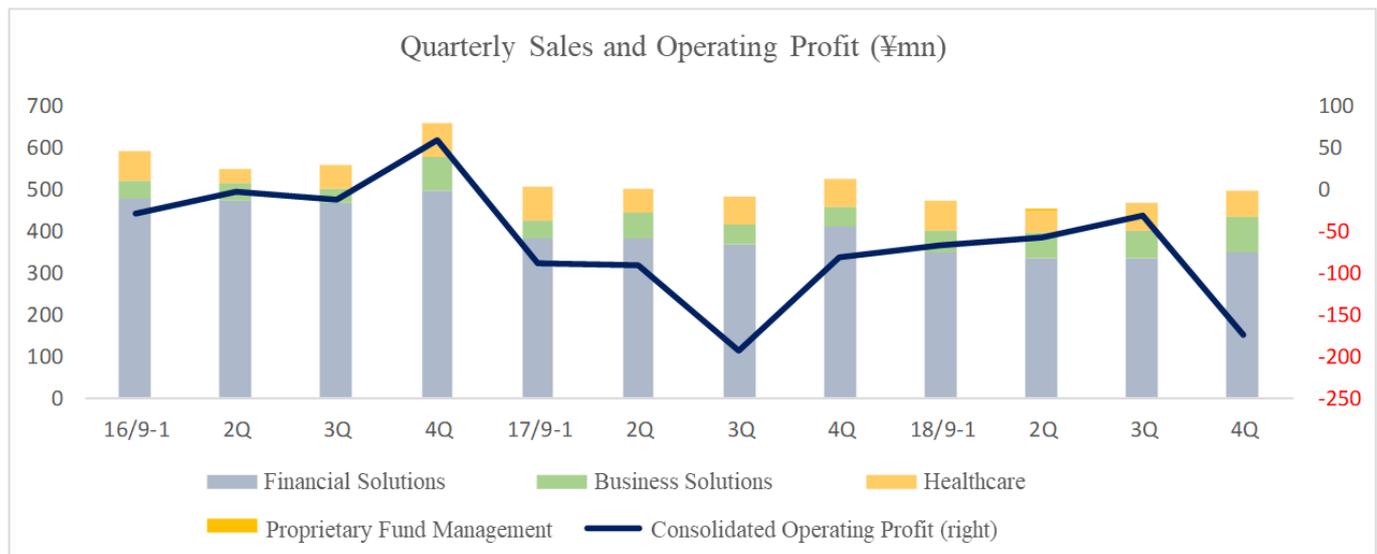
	FY9/17	Share	FY9/18	Share	YY Change	Revised Est. in Sep.	Divergence
Sales	2,017	100.0%	1,892	100.0%	-6.2%	1,890	+0.1%
Gross Profit	467	23.1%	462	24.4%	-1.0%	-	-
SG&A	925	45.9%	797	42.2%	-13.8%	-	-
Operating Profit	-458	-	-335	-	-	-390	-14.1%
Current Profit	-459	-	-334	-	-	-393	-14.8%
Net Profit	-334	-	-338	-	-	-398	-15.1%

\* Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (applies to all tables in this report)

### Sales decreased 6.2% year on year, with an operating loss of 335 million yen (458 million yen in the previous term)

Sales were 1,892 million yen, down 6.2% year on year. Sales grew 31.5% year on year in the business solutions business, but fell 11.3% year on year in the company's main business, the financial solutions business. Sales also declined 5.5% year on year in the healthcare business, due to the difficulty in procuring goods.

Operating loss shrank due to valuation loss of inventories for the healthcare business recorded in the previous term with efforts to improve financial health, reductions in R&D expenses and company-wide cost reductions. However, because the company lost large orders for overseas companies (cancellation of order agreements in the financial solutions business), the funds already spent on development were recorded as expenses, and figures were lower than the initial estimate (20 million yen).



## (2) Segment Sales, Profits Trends

(Units: Million Yen)

	FY9/17	Share	FY9/18	Share	YY Change
Financial Solutions	1,541	76.4%	1,366	72.2%	-11.3%
Business Solutions	201	10.0%	264	14.0%	+31.5%
Healthcare	272	13.5%	257	13.6%	-5.5%
Investment Education	2	0.1%	3	0.2%	+18.5%
<b>Total Sales</b>	<b>2,017</b>	<b>100.0%</b>	<b>1,892</b>	<b>100.0%</b>	<b>-6.2%</b>
Financial Solutions	367	23.9%	136	10.0%	-63.0%
Business Solutions	-58	-	11	-	-
Healthcare	-424	-	-176	-	-
Investment Education	-41	-	-27	-	-
<b>Adjustments</b>	<b>-300</b>	<b>-</b>	<b>-278</b>	<b>-</b>	<b>-</b>
<b>Total Operating Profit</b>	<b>-458</b>	<b>-</b>	<b>-335</b>	<b>-335-</b>	<b>-</b>

### Financial Solutions Business

Sales were 1,366 million yen, down 11.3% year on year. Profit for the segment was 136 million yen, down 63.0% year on year. While sales of securities dealing systems declined due to contract cancellation, the contract for large orders for “Spider” by overseas companies was canceled, because the final terms could not be agreed upon due to repeated changes in the client companies’ business plan. Consequently, sales were less than initial estimates. Regarding profit, because of a decrease in the sale of securities dealing systems and the cancellation of order agreements with overseas companies, all development costs after the orders were received were recorded as expenses.

### Sales by Products

(Units: Million Yen)

	FY9/17	Share	FY9/18	Share	YY Change
Securities dealing systems	1,000	64.9%	862	63.1%	-13.8%
Exchange terminals	276	17.9%	267	19.6%	-3.1%
FX systems	174	11.3%	146	10.8%	-15.6%
Exchange-related systems 27	54	3.6%	55	4.0%	+0.2%
Others	34	2.3%	33	2.5%	-2.6%
<b>Total</b>	<b>1541</b>	<b>100.0%</b>	<b>1,366</b>	<b>100.0%</b>	<b>-11.3%</b>

# Bridge Report



## Business Solutions Business

Sales were 264 million yen, up 31.5% year on year. Profit for the segment was 11 million yen (a loss of 58 million yen in the previous term). Sales increased due to orders for the company's internally-developed integrated management platform "GroupMAN@IT e" from major companies and the increase of new customers in the support center business, from whom the company anticipates continuous transactions. The company improved profitability, securing a segment profit of 11 million yen by increasing sales and reducing man-hours needed for development.

## Healthcare Business

Sales were 257 million yen, down 5.5% year on year. The loss for the segment was 176 million yen (a loss of 424 million yen in the previous term). Sales fell year on year due to the decreased sales of procured goods, but the sales of sparassis crispa products increased thanks to active sales in department stores, including the new product "IT-Sparassis Crispa Seasoning" released in Jan. 2018, and the launch of the supplement "Estro Rich," which contains "IT-Sparassis Crispa" and is sold exclusively by the major pharmaceutical wholesaler OHKI CO., LTD. The sales composition ratio and gross profit margin improved. Segment loss decreased as a result of a significant decline in R&D expenses for "IT-Sparassis Crispa" and valuation loss of inventories recorded in the previous term.

## (3) Financial Conditions and Cash Flow

### Summarized Balance Sheet

(Units: Million Yen)

	9/17	9/18		9/17	9/18
Cash, Equivalents	1,177	831	Payables	58	152
Receivables	195	234	Short term interest bearing liabilities (including lease obligations)	158	151
Inventories	49	79	Current Liabilities	310	383
Current Assets	1,519	1,208	Long term interest bearing liabilities (including lease obligations)	71	19
Tangible Assets	49	40	Noncurrent Liabilities	74	22
Intangible Assets	10	10	Net Assets	1,400	1,062
Investments, Others	205	208	Total Liabilities, Net Assets	1,784	1,468
Noncurrent Assets	265	259	Interest Bearing Liabilities	229	170

Total assets at the end of the term were 1,468 million yen, down 316 million yen from the end of the previous term. Equity ratio was 72.4% (78.5% in the previous term).

### Summarized Cash Flow Statement

(Units: Million Yen)

	FY9/17	FY9/18	YY Change	
Operating Cash Flow (A)	-318	-245	+72	-
Investing Cash Flow (B)	186	-40	-226	-
Free Cash Flow (A+B)	-132	-286	-153	-
Financing Cash Flow	-21	-60	-38	-
Cash and Equivalents at Term End	1,177	831	-346	-29.4%

**3. Fiscal Year September 2019 Earnings Estimates****(1) Consolidated Earnings**

(Units: Million Yen)

	FY9/18	Share	FY9/19 Est.	Share	YY Change
Sales	1,892	100.0%	2,339	100.0%	+23.6%
Operating Profit	-335	-	-170	-	-
Current Profit	-334	-	-170	-	-
Net Profit	-338	-	-175	-	-

**Sales estimated to rise 23.6% year on year, operating loss reduced to 170 million yen**

Sales are estimated to increase 23.6% year on year to 2,339 million yen, and are based on dealings with a high probability to receive orders, so if new orders are received, performance may exceed expectations. Operating loss was 170 million yen. Costs will continue to exceed the sales in the financial solutions business with the development of high added value products that incorporate new technology, and in the healthcare business with industry-government-academia collaborative research. However, from FY 9/2020 onward, the company will enter a period when it will see returns on its investments, bringing recovery of business up to full speed. The company plans to announce the medium-term business plan (which is currently being formulated) in Jan. 2019, after the general shareholders' meeting on Dec. 21, 2018.

**(1) Future Activities****Business Solutions Business**

The company's policy is to stabilize earnings. Until now, there was a large fluctuation in performance depending on whether or not there were orders for large-scale transactions. For this reason, while working to secure repeat orders from existing customers, the company will expand their range of business to include medium-sized companies in addition to large companies, and strive to acquire new orders. In addition, the company's main integrated management platform "GroupMAN@IT e<sup>2</sup>" will be switched over to continuous billing (subscription plan).

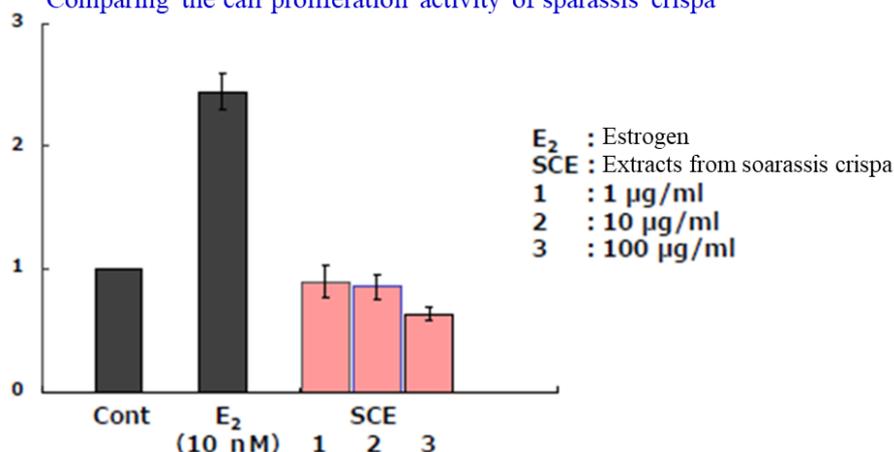
**Healthcare Business**

The company aims to continue the industry-government-academia collaborative research, and increase sales for "IT-Sparassis Crispa." It will increase sales of "IT-Sparassis Crispa" by expanding the range of business through the sale of raw materials and OEM patents. It will also further increase efforts to display product functionality. In research and development, the company will complete the remaining tasks for the silent estrogen research, which is in the final stage.

**Industry-government-academia collaborative research**

A compound called "silent estrogen" (an estrogen-like chemical compound which is recognized as functioning in a similar manner to estrogen), which displays estrogenic activity (to be described later in this report) but does not proliferate cells, has been discovered in the extract from the type strain of *sparassis crispa*. "Silent estrogen" does not exhibit any weaknesses of estrogen (a female hormone) while having advantages of estrogen. Estrogen pharmaceuticals that contain the components of estrogen are used in medical treatment of menopausal disorders and arteriosclerosis in women, which are allegedly caused by hormonal imbalance attributed to a decline in estrogen; however, as estrogen also serves to facilitate cell proliferation, there is a risk that it may activate tumor cells, causing breast, endometrial, and other cancers. In contrast, while "silent estrogen" has estrogen-like physiologically active functions, it does not facilitate the proliferation of cancer cells. Placenta (roughly equivalent to estradiol) is also known to promote estrogenic activity, but the placenta is an extremely strong facilitator of cell proliferation.

Comparing the call proliferation activity of sparassis crispa



(Source: INTERTRADE)

The placenta's domestic market size is about 25 billion yen, and is growing at a rate of roughly 20% per year. The global market scale is around 300 billion yen. Even with a 5 to 10% share, the scale of sales is extremely large. Moreover, it would have a large impact on profit due to the high profitability of the market.

### Aiming to turn a profit next term

Because the process took 2.5 to 3 times longer than expected, the achievement of profitability was delayed. Although there are still many issues to be addressed, the company will prioritize turning a profit. Specifically, during this term, the company will prove that sparassis crispa displays the characteristics of silent estrogen, and begin working to show its functionality. It plans to monetize the results in FY 3/2020 by increasing sales of in-house products and supplying products to supplement manufacturers.

Here, estrogen is a female hormone whose physiological functions (estrogenic activity) include stimulation of growth of mammary glandular cells, ovulation control in the ovary, feminization of the central nervous system (consciousness), and prevention of arteriosclerosis, and is characterized by a rapid reduction before the menopause. Insufficient estrogen also causes Alzheimer's disease and other dementia (menopause and arteriosclerosis). The company has obtained a patent for a prophylactic/therapeutic drug for Alzheimer's dementia that uses "silent estrogen."

### Financial Solutions Business

The company intends to build a revenue base around Spider. While securing repeat orders in existing businesses, it aims to obtain large orders for in-house products. It will also begin full-scale operation of Spider, which uses blockchain technology to provide an infrastructure for next-generation businesses. Spider is characterized by being able to adapt to a wide range of markets, both financial and otherwise. Due to the prevalence of Fintech, the number of non-financial institutions that develop and provide new financial services is increasing, and Spider can meet the needs of these companies as well.



#### 4. Conclusions

The company decided to amend the Articles of Incorporation at the general shareholders' meeting on Dec. 21, 2018. In preparation for future business development, it will clarify the scope of activities by changing or making additions to Article 2 (Purposes) of the current Articles of Incorporation. Specifically, the term "financial business" will be removed from the list of objectives, and replaced by "all work related to the sale and exchange of virtual currency and virtual assets and their derivatives," "loan settlements," "money transfers," "crowdfunding," "e-commerce," "banking, trust funds, life insurance and other financial-related businesses," and "the trade of commodities and commodity futures." In the financial solutions business, while continuing to provide existing services, the company is believed to start focusing on the development of the Fintech field by utilizing a system that incorporates new technology. The company aims to become profitable in FY 9/2020, followed by reforms in preparation for the next ten years. We would like to pay attention to the medium-term business plan that will be announced in early 2019.

#### <Reference: Regarding Corporate Governance>

##### ◎ Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	4 directors, including 1 outside one
Auditors	3 auditors, including 2 outside ones

##### ◎ Corporate Governance Report

**Updated on Dec. 28, 2018**

###### Basic concept

The basic goal of the Company's corporate governance is to maximize the Company Group's corporate value. The Company will achieve the basic goal from the perspectives of "Management transparency", "Legal compliance", and "Efficient management".

The management team, led by the President, plays a role to maintain good relationships with the Company Group's stakeholders (e.g. shareholders, customers, business partners, employees). To fulfil this role, it is important to establish and operate a system to understand management situation and disclose information in a timely and appropriate manner in compliance with laws, ordinances, and regulations.

#### <Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

##### 【Principle 3-1】 Enrichment of information disclosure

(3) The policies and procedure that are adopted by the board of directors for determining the remuneration paid to the senior management and directors

(4) The policies and procedure that are adopted by the board of directors for appointing the senior management and nominating candidates for directors and auditors

(5) Explanation given, based on the above (4), by the board of directors about individual appointments of the senior management and nominations of candidates for directors and auditors

With regard to (3), (4), and (5), although our Company has not released any specific contents at this moment, we have carried out the following internal proceedings or procedure:

(3) Regarding the policies and procedure adopted by the board of directors for determining the remuneration paid to the senior management and directors, the remuneration of our directors and executive officers will vary according to the performance indicator that has been internally determined in advance.

(4) Regarding the policies and procedure adopted by the board of directors for appointing the senior management and nominating candidates for directors and auditors, it has been stipulated in our internal regulations that employees with certain levels of in-house grades, or higher grades, which are given based on the abilities of organizational management and business execution, are eligible to be assigned as directors and executive officers. Although clear procedures have not been established for dismissal, the Board of Directors will review each situation, and decisions not to re-appoint will be made based on the company's performance, how well the targets for the fiscal year were achieved, and advice from outside directors and outside corporate auditors. The matter may also be discussed at the general shareholders' meeting. Candidates for auditors who will be requested to take the position include personnel who possess knowledge about management tasks, show a high level of expertise, and have a strong sense of ethics. After consent is given by the Board of Auditors, the Board of Directors will make a final decision.

(5) Regarding explanations given, based on the above (4), by the board of directors about individual appointments of the senior management and nominations of candidates for directors and auditors, our Company describes appointments and nominations in the management meeting and the whole company meeting held, in principle, once every month.

## <Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

### **【Principle 1-4】 Strategically held shares**

When the Company holds shares of other listed companies as strategically held shares, the shares should contribute to the growth of the Company through business partnership, etc. with the share-issuing companies. The board of directors regularly monitors the business performance of the share-issuing companies and their partnership status with the Company. The voting rights concerning strategically held shares are determined case by case because there are many items to take into consideration such as the management team's background, business performance, and external environment. In principle, the Company does not own strategically held shares.

### **【Principle 1-7】 Related party transactions**

In our Company, regarding transactions with any of our directors, which are related parties, it is required to obtain approval of the board of directors for such related party transactions, and carry out surveys as to transactions between our corporate group and our directors or their relatives every year in order to check whether or not any transactions were conducted with related parties. In addition, we pay attention to transactions between our Company and any of our major shareholders so that such transactions do not threaten common interests of shareholders, and submit reports to the board of directors according to importance.

### **【Principle 3-1】 Enrichment of information disclosure**

- (1) Our Company discloses our business principles, business plans, and other matters on our website and material of financial results.
- (2) Our basic views and guidelines regarding corporate governance are stated in **【Basic concept on corporate governance, capital composition, corporate attribute, and other basic information】** of this report.
- (3) Our Company has adopted a system where the remuneration paid to the management varies in connection with the business results of our Company as a whole and those of the business headquarters, aiming to support management in exerting entrepreneur spirits by giving appropriate incentives. The remuneration paid to directors are determined in connection with the net profit, and besides, it is stipulated in our internal regulations that our directors shall hold more than 10,000 shares in our Company or shares worth of the market value of 3 million yen.
- (4) Our Company's policy is to appoint persons, who have appropriate abilities to fulfill the responsibilities of directors, based on personality, knowledge, experience, and business performance, and the board of directors makes a decision. Our Company asks persons who possess knowledge of managerial issues and extensive expertise to serve as auditors.
- (5) Appointment of directors and auditors is as stated in the reference document of a notice on convocation of a general shareholders' meeting. In addition, matters as to outside directors are included in **【Matters Related to Directors】** of this report.

### **【Principle 5-1】 Policy for Constructive Dialogue with Shareholders**

The Company's Administration Department, led by the President, carries out IR tasks.

Once a year, the Company hosts a financial results briefing and shares a video of the briefing on the Company's website. It also hosts meetings for individual investors and organizes individual meetings as needed.

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