

Bridge Report Evolvable Asia Corp. (6191)

 CEO Hideki Yoshimura	Company	Evolvable Asia Corp.	 EVOLABLE ASIA
	Code No.	6191	
	Exchange	TSE 1st Section	
	Industry	Service industry	
	CEO	Hideki Yoshimura	
	Address	Atago Green Hills Mori Tower, 2-5-1 Atago, Minato-ku, Tokyo	
	Business	The Company provides online air ticket reservation services called “Soratabi” and “AirTrip” with a focus on domestic travels. It also provides OEM. It also operates Information Technology (IT) offshore development business in Vietnam.	
	Year-end	End of September	
	URL	https://www.evolableasia.com/	

— Stock Information —

Share Price	Number of shares issued		Total market cap	ROE (Actual)	Trading Unit
¥2,999	16,731,900 shares		¥50,178 million	26.0%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
TBD	-	¥35.66	84.1 times	¥136.44	22.0 times

*The share price is the closing price on July 3. The number of shares issued was taken from the latest brief financial report, ROE and BPS were taken from the brief financial report of the previous term.

* The Company implemented a stock split at 1:300 in December 2015 and 1:3 in August 2016. BPS is calculated assuming that the share split was implemented at the beginning of the Fiscal Year ended September 2015.

— Earnings Trends —

(Unit: Million yen or yen)

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Sep. 2014 (Actual)	1,451	99	93	44	3.28	0.00
Sep. 2015 (Actual)	2,754	312	305	172	12.56	0.00
Sep. 2016 (Actual)	4,000	618	571	340	22.17	0.00
Sep. 2017 (Forecast)	6,147	1,001	961	594	35.66	TBD

*Forecast is based on the Company’s estimate. The Company implemented a stock split at 1:300 in December 2015 and 1:3 in August 2016. EPS is calculated assuming that the share split was implemented at the beginning of the Fiscal Year ended September 2014. Net income is profit attributable to owners of the parent. Hereinafter the same.

This report outlines the first half of Fiscal Year September 2017 earnings results and other information about Evolvable Asia Corporation.

— Table of Contents —

- [1. Company Overview](#)
 - [2. First Half of Fiscal Year September 2017 Earnings Results](#)
 - [3. Fiscal Year September 2017 Earnings Estimates](#)
 - [4. Future Growth Strategy](#)
 - [5. Conclusions](#)
- [<Reference: Regarding Corporate Governance>](#)

Key Points

- **Evolable Asia Corp. handles the largest number of domestic airline tickets among the Online Travel Agents (OTAs*). It is the only OTA that has signed agreements with all of the domestic airline groups. The Company has 4 business segments. The online travel agency business is engaged in the provision of online travel agency services that provide mostly domestic airline tickets online. The inbound travel business is responding to the rapidly increasing inbound tourist demand. The IT offshore development business operates the largest Japanese company in Southeast Asia. The last one is the investment business.**
- **Sales were 2,498 million yen, up 43.5% year on year. Operating income was 385 million yen, up 32.1% year on year. Both sales and operating income marked a record high for the second quarter. The trading volume for the second quarter was 15,746 million yen, up 33.2% year on year, marking a record high for the second quarter. Gross profit ratio increased thanks to the economies of scale as a consequence of increase in trading volume, while operating income ratio dropped due to the preparation for business from the second half and the cost for getting listed in the first section of Tokyo Stock Exchange. This follows their expectations.**
- **There is no revision to the full-year earnings forecast for the term ending Sep. 2017. Sales are estimated to grow 53.7% year on year to 6.1 billion yen. The trading volume is forecasted to be 35,366 million yen, up 27.3% year on year. Since low cost carriers (LCCs) made a figure, the needs for the comparison of domestic airline tickets have grown, and the market scale is forecasted to keep growing. Operating income is projected to rise 61.9% year on year to 1 billion yen. The economies of scale will keep growing, offsetting SG&A expenses and increasing profit considerably. Operating income ratio is estimated to rise 0.8% year on year. The company will take advantage of its strengths and characteristics in each business domain, with the aim of “achieving a trading volume of 100 billion yen and becoming No.1 in each business by 2020.”**
- **The company’s target is to achieve “a trading volume of 100 billion yen in 2020 and being the industry leader in every business area”. Being asked about this, the CEO Yoshimura responded: “It all depends on whether we can establish a brand that says ‘domestic air tickets equal us’.” It is worthwhile keeping an eye closely on the company’s speedy business development following its “commencement of OEM supply to H.I.S.” and “commencement of sales of domestic accommodations, overseas air tickets and minpaku through AirTrip”, and the progress in its trading volume (the company discloses its trading volume on a monthly basis).**

1. Company Overview

Evolable Asia Corp. is Japan’s largest Online Travel Agent (OTA*) in terms of its number of domestic airline tickets handled. It is the only OTA that has signed agreements with all of the domestic airline groups. The Company has four business segments. The online travel agency business segment provides online travel agency services, the largest part of which is online sales of domestic airline tickets. The inbound travel business segment responds to the rapidly increasing inbound tourist demand. The IT offshore development business segment conducts operations that are the largest among those operated by Japanese companies in Southeast Asia. The last one is the investment business. The Company aims at “achieving the trading volume of 100 billion yen and becoming the top in each business segment by 2020”, using its unique strengths and characteristics.

*OTA (Online Travel Agent) : Travel agents that are specialized in providing travel commodities on the Internet.

【Corporate history】

In May 2007, CEO Yoshimura established Tabi Capital Co., Ltd. together with Chairman Oishi to provide online travel agency services.

Since then, the Company has been expanding its product line-up through M&A and business transfers.

In March 2012, the Company began IT offshore development business in Vietnam. Taking this opportunity, in order to clearly show the Company's direction towards the integrated IT business, it changed its name to the current name in October 2013.

In March 2016, it was listed on the Mothers Section of the Tokyo Stock Exchange. One year later, in March 2017, it moved to the First Section of the Tokyo Stock Exchange.

【Corporate philosophy, etc.】

Corporate philosophy	<p>One Asia Asia becomes one and leads the world.</p> <p>Asia is emerging as a single economic zone. Under this circumstance, through the movement of people and businesses, EVOLABLE ASIA will serve as a bridge linking Asia. EVOLABLE ASIA links Asia, and Asia becomes connected.</p>
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The Company's name "Evolable Asia" is derived from "Evolve", "Able" and "Asia". It means an ever evolving Asia.

Mission	Harnessing the power of IT for the movement of people and collaboration in Asia
Code of conduct	<ul style="list-style-type: none"> ◇ Always put customers first! We are always aware of our customers' point of view and work for the customers. ◇ Conscientiousness, peace of mind and trust are more important than anything! It is the core of our business to provide detailed work, give peace of mind to our customers and respond to their trust. ◇ Continue to improve as professionals! We cannot grow unless we improve each and every aspect of our work. ◇ Swift response, fast implementation, speed! We respond to our customers faster than any other companies and develop a system faster than any other companies.

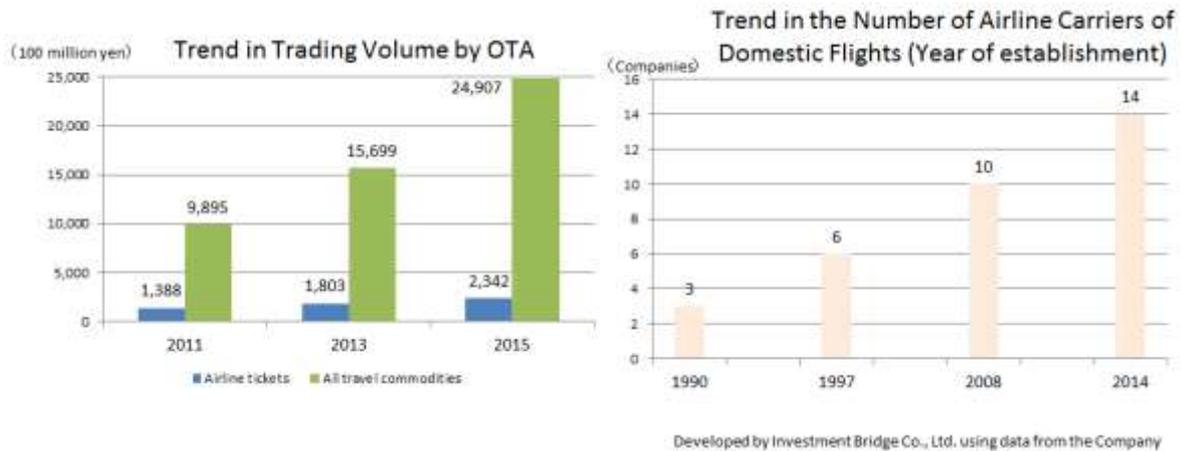
【Market environment】

◎Online travel commodities sales continue to grow.

The number of airline companies providing domestic flights has increased due to the rapid growth of low-cost carriers (LCCs). This has resulted in an increase in OTA users due to growing demand for comparison searches. The trading volume of travel commodities by OTA in the Fiscal Year 2015 was 2.5 trillion yen with an annual growth rate of 26% since 2011. It is a rapidly growing industry.

This rapid growth is mainly due to the domestic accommodation market. The trading volume of airline tickets is 230 billion yen, an annual double-digit growth rate of 14%.

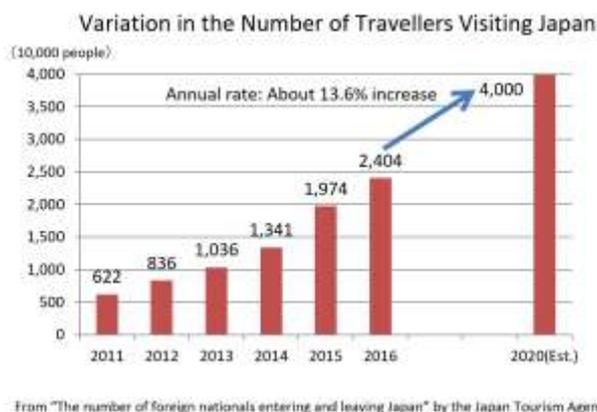
Following the domestic accommodation industry, the domestic flight ticket market is expected to grow significantly.



◎Rapid growth of foreign travelers visiting Japan

The number of tourists visiting Japan in 2016 was 24.04 million, up 20% YoY.

The government announced that the target of the number of inbound foreign visitors would be 40 million in 2020.



◎IT offshore development that has a large potential for growth

The outsourcing software development market in Japan is about 10 trillion yen, and the annual growth rate is about 3%. Among them, the offshore development is only about 1% (about 100 billion yen).

In the US, the rate is over 10%, indicating that the Japanese market can grow to the scale of 1 trillion yen (increase from current 1% to 10%).

Actually, the order amount from Japan to Vietnam is increasing at an annual rate of 17.8%.

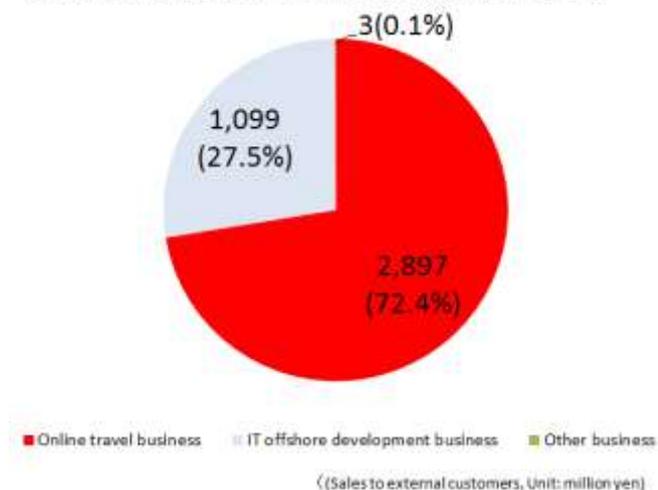
【Business contents】

The Company’s main businesses are online travel agency business, inbound travel business, IT offshore development business, and investment business. (The business segments are divided into online travel agency business segment, IT offshore development business segment, and other business segment. The inbound travel business is included in the online travel agency business segment.)

Each business segment is growing based on its unique strengths and characteristics.



Sales composition (FY ended September 2016)



◎ **Online Travel Agency Business**

The company sells travel commodities such as domestic airline tickets, domestic accommodations, overseas airline tickets, and overseas accommodations online.

Domestic airline tickets	<ul style="list-style-type: none"> Contracts signed with all domestic airline groups
Domestic accommodations	<ul style="list-style-type: none"> Offering 1,400 facilities, mostly luxurious ryokans, in Japan.
Overseas airline tickets / accommodations	<ul style="list-style-type: none"> Issuing international airline tickets as an authorized IATA agent (※). Offering about 40,000 overseas facilities.

※IATA (International Air Transport Association): The IATA is a trade association of the world’s airlines.

The Company has various sales channels as follows:

Sales channels	Overview
Direct sales site (B-to-C)	The Company operates various websites to sell domestic airline tickets at “Soratabi.com”, provides an integrated service platform at “AirTrip”, provides integrated travel at “TRIPSTAR”, “Airs Gate”, and “e-koukuuken.com”, sells international airline tickets at “CAS Tour”, and promotes overseas hotels at “tabiweb”.
B-to-B-to-C	The Company provides travel content to the online media of over 500 companies. The media will enjoy benefits such as enriching original content, enhancing customer satisfaction, and creating new profit sources.
Wholesale service (B-to-B)	The Company provides mainly domestic airline tickets and sales management systems to travel agencies.
Business Travel Management (BTM)	The Company provides a free cloud-based service called “Tabi Pro-BTM” for corporate business trip management.

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(Direct sales sites)



(From the Company’s website)

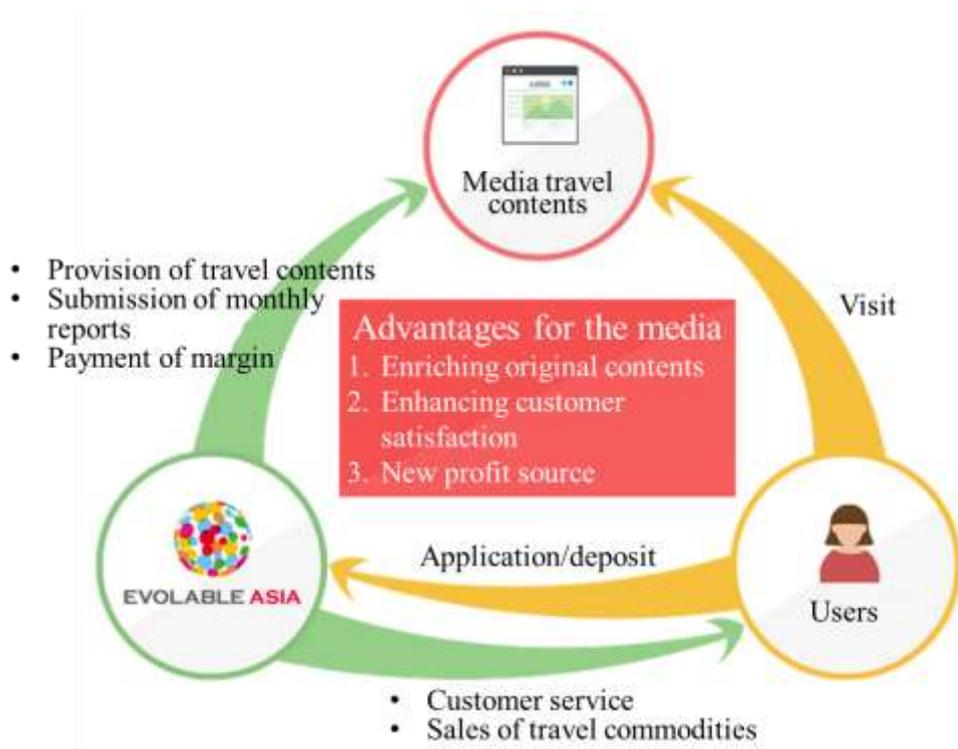
(Strengths of business)

The Company has the largest trading volume of domestic airline tickets in the Japanese OTA industry. The agreements with all domestic airline groups, a unique business condition enjoyed only by the Company, enable the Company to issue flight tickets. Advantageous procurement prices combined with self-issuing of tickets (no need to outsource) make its cost competitiveness overwhelmingly strong. In addition, the Company has “competitive supply routes” based on strong relationships of trust with each airline company resulting from long-term business relationships, “diverse sales routes”, and “low-cost system development using its own offshore IT development capacity”. Because of these factors, the Company has created high barriers to entry.

◎ Inbound Travel Business

The demand from the inbound foreign travelers is expected to grow. In order to respond to this demand, the Company offers multilingual websites (currently 7 languages) to sell travel commodities directly to inbound travelers online and provide search/reservation engine of domestic travel content (mainly domestic flight tickets) on an OEM basis to the local travel agencies and media operators primarily in the Asian region.

The company plans to start Japan’s first cooperation in system operation with “Ctrip.com,” which is the largest travel agency in China, in the field of domestic airline tickets.



(From the Company's HP)

(Strengths of business)

The Company's expertise in OEM provision and its proprietary offshore development allow them to meet customers' needs with inexpensive and speedy development.

◎IT offshore development business

The Company hires about 600 skilled engineers in 3 locations (Ho Chi Minh, Hanoi, and Da Nang) in Vietnam as of March 2017.

It offers system development of web services, applications, etc. and business process outsourcing (BPO). The customers are mostly web service providers such as DeNA Travel Co., Ltd. and GREE, Inc.

(Strengths of business)

The Company has recruiting capabilities in Vietnam and expertise in starting development teams.

Against the backdrop of a shortage of IT engineers and rising wages for engineers in Japan, since its establishment in 2012, the Company has grown to have the largest number of employees among the Japanese offshore development companies in Southeast Asia.

The company does not offer entrusted development but is specialized in lab-style development services.

The operation rate is almost 100% because the Company forms a team with dedicated staff members for each customer to reflect the customer's needs on a long-term (in principle, over a year) contract basis and the team operates under respective customer.

In addition, customers are billed engineers' cost from the time of employment. Therefore, there is no risk for the Company in terms of delayed delivery or idle employees.

Because of its stock business model, scale expansion and significant increase in earnings can be expected.

2. First Half of Fiscal Year September 2017 Earnings Results**(1) Consolidated Business Results**

(unit: million yen)

	1H FY 9/16	Ratio to sales	1H FY 9/17	Ratio to sales	YoY
Sales	1,741	100.0%	2,498	100.0%	+43.5%
Gross margin	1,412	81.1%	2,101	84.1%	+48.8%
SG&A expenses	1,120	64.3%	1,715	68.7%	+53.1%
Operating income	292	16.8%	385	15.4%	+32.1%
Ordinary income	265	15.2%	359	14.4%	+35.2%
Net income	159	9.1%	248	9.9%	+55.4%

* Net income means profit attributable to owners of parent.

Sales and profit grew considerably, marking a record high for the 2nd quarter.

Sales were 2,498 million yen, up 43.5% year on year. Operating income was 385 million yen, up 32.1% year on year. Both sales and operating income marked a record high for the second quarter.

The trading volume for the second quarter was 15,746 million yen, up 33.2% year on year, marking a record high for the second quarter.

Gross profit ratio increased thanks to the economies of scale as a consequence of increase in trading volume, while operating income ratio dropped due to the preparation for business from the second half and the cost for getting listed in the first section of Tokyo Stock Exchange. This follows their expectations.

(2) Trends by segment

	1H FY 9/16	Composition ratio	1H FY 9/17	Composition ratio	YOY
Sales					
Online travel agency business	1,189	68.3%	1,851	74.1%	+55.7%
IT offshore development business	609	35.0%	695	27.8%	+14.0%
Other businesses	3	0.2%	0	0.0%	-79.6%
Adjustment	-62	-	-49	-	-
Total	1,741	100.0%	2,498	100.0%	+43.5%
Operating income					
Online travel agency business	430	36.2%	587	31.7%	+36.4%
IT offshore development business	45	7.4%	59	8.5%	+30.7%
Other businesses	-0	-	-0	-	-
Adjustment	-183	-	-260	-	-
Total	292	16.8%	385	15.4%	+32.1%

* The composition ratio of operating income means operating income margin.

(1) Online travel agency business

Sales and profit grew.

(Online travel agency business)

*B to C services (operation of a website for directly selling travel commodities to general consumers by PC and smartphone)

Users increased steadily, because the company enhanced the measures for reeling in new customers, such as listing advertisement, and improved UI for increasing repeat customers.

*B to B to C services (business of offering travel contents by using the brands of business partners)

Sales grew, because the company increased communication with clients, for the purpose of offering services that meet the needs of major clients and promoting them to use the company's services more.

The company started the alliance with Skyscanner in March 2017 and the alliance with H.I.S. in April 2017.

*B to B services (business of wholesale to other travel agencies)

Sales dropped about 25% year on year, mainly due to the trend of the entire industry and the measures of clients.

*BTM services (business of managing the in-company procedures for approval for business trips and arranging business trips in an integrated manner)

In the business model of the company, sales grow in parallel with the growth of the number of client companies and the rate of utilization. Accordingly, sales grew, because the company increased sales staff and promoted customers who had not used their services frequently to use them.

(2) IT offshore development business

Sales and profit grew.

The number of engineers increased steadily, due to the enhancement of the capability of selling through sales staff training, the customer management in each laboratory for motivating engineers, the increase and training of laboratory managers for business management, and so on.

The company established a development system specializing in each industry, such as the video game one, and nurtured a development environment that meets the needs of clients, to enhance the satisfaction level of clients. For example, the company developed a scheme where client enterprises dispatch expatriate staff and they stay in a laboratory in Ho Chi Minh and another scheme where client enterprises can remotely check the progress of development at a laboratory in Hanoi from Japan.

(3) Financial condition and cash flow

◎ Summarized Balance Sheet

(unit: million yen)

	End of Sep. 2016	End of Mar. 2017		End of Sep. 2016	End of Mar. 2017
Current assets	4,024	4,004	Current liabilities	2,280	2,319
Cash and deposits	2,356	2,507	Trade payables	1,293	1,193
Trade receivables	1,104	955	Short-term interest-bearing debts	225	235
Inventories	274	63	Noncurrent liabilities	189	173
Noncurrent assets	817	1,170	Long-term interest-bearing debts	87	77
Property, plant and equipment	40	153	Net assets	2,371	2,682
Intangible assets	305	443	Retained earnings	444	693
Investments and other assets	470	572	Shareholders' equity	2,289	2,543
Total assets	4,841	5,174	Total liabilities and net assets	4,841	5,174

Current assets were nearly unchanged from the end of the previous term, as cash and deposits increased, but trade receivables and inventories declined. Noncurrent assets grew 353 million yen from the end of the previous term, due to the growth of guaranty money deposited, etc. Total assets increased 333 million yen to 5,174 million yen.

Total liabilities were 2,492 million yen, nearly equal to the amount at the end of the previous term.

Net assets rose 311 million yen to 2,682 million yen, due to the growth of retained earnings through profit increase.

As a result, equity ratio increased 2.1% from 47.0% at the end of the previous term to 49.1%.

◎Cash Flow

(unit: million yen)

	1H FY 9/16	1H FY 9/17	Increase/decrease
Operating CF	229	564	+335
Investing CF	-59	-315	-256
Free CF	169	248	+78
Financing CF	1,248	-0	-1,248
Cash and equivalents	2,022	2,477	+455

The surplus of operating CF expanded due to profit growth, etc.

The deficit of investing CF augmented due to the acquisition of investment securities, the payment of security deposits, etc., but the surplus of free CF grew.

Financing CF became negative, because the income from the capital increase through a public offering decreased from the previous term.

The cash position improved.

3. Fiscal Year September 2017 Earnings Estimates

(1) Consolidated earnings forecast

(unit: million yen)

	FY 9/16	Ratio to sales	FY 9/17 (Forecast)	Ratio to sales	YoY
Sales	4,000	100.0%	6,147	100.0%	+53.7%
Operating income	618	15.5%	1,001	16.3%	+61.9%
Ordinary income	571	14.3%	961	15.6%	+68.2%
Net income	340	8.5%	594	9.7%	+74.8%

No revision to the earnings forecast. Sales and profit are estimated to grow considerably this term, too.

There is no revision to the full-year earnings forecast. Sales are estimated to grow 53.7% year on year to 6.1 billion yen. The trading volume is forecasted to be 35,366 million yen, up 27.3% year on year. As travelers increasingly use the Internet, the market scale is forecasted to keep growing.

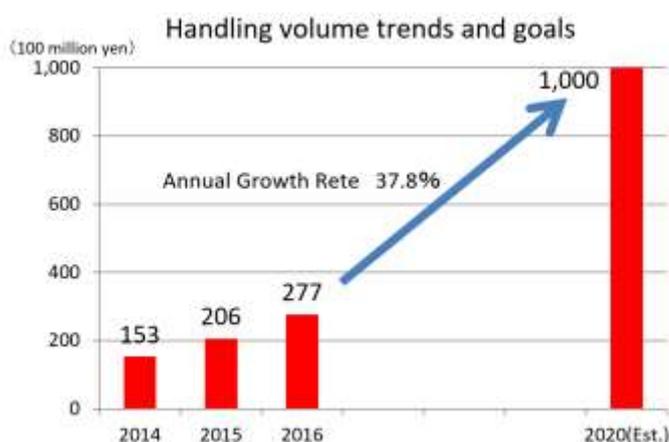
Operating income is projected to rise 61.9% year on year to 1 billion yen. The economies of scale will keep growing, offsetting SG&A expenses and increasing profit considerably.

Operating income ratio is estimated to rise 0.8% year on year.

The company decided to pay a term-end dividend for commemorating the listing in the first section of Tokyo Stock Exchange, although its amount is still to be determined.

4. Future Growth Strategy

The Company aims to **“achieve a trading volume of 100 billion yen and to become No.1 in each business by 2020.”**



Online travel agency business	<p>Established as the top brand in domestic flight ticket sales It will establish AirTrip as a brand that comes to everyone's mind when it comes to domestic flight ticket sales.</p>
Inbound travel business	<p>Top made-in-Japan platform for “minpaku” private home accommodation Largest domestic sales in camper rentals business.</p>
IT offshore development business	<p>Top Japanese company in IT offshore development By 2020, it will increase lab personnel to 3,000 and become the top company in IT offshore development in terms of development quality, sales, and development scale.</p>

From this term, the “investment business” is recognized as the fourth business.

The growth strategies and major recent topics for each business are as follows:

(1) Online Travel Agency Business**A. The comprehensive travel platform “AirTrip”**

The domestic airline ticket sales market is a mega market of about 1.5 trillion yen, but it has no truly dominant brands comparable to “Jalan” and “Rakuten Travel” of the online hotel reservation market.

While the combined market share of Jalan and Rakuten is estimated to be about 40% in the online hotel reservation market, in the online domestic airline ticket sales market, even Evolvable Asia, the industrial leader among domestic flight online travel agents (OTAs), occupies only 2% of the market.

Under these circumstances, the company founded the new brand “AirTrip” during the previous term and it is hoping to make this brand the overwhelming leader in the online domestic air ticket market by offering a thorough service.

The company offers some of the industry’s best customer returns prospects by “focusing on returning the reward points to customers by reducing the customer-attraction expenses through the existing web advertisements”, “returning 2% of airfare purchase price to customers”, and “reward points earned through AirTrip can be used to purchase air tickets or can be exchanged with various collective loyalty points, frequent flyer miles, gift coupons, etc. via G-Point.”

Additionally, the chat facility was added to its existing web, telephone and e-mail customer service recently, and the superbly maneuverable user interface with its smooth and intuitive operability helps the company to pursue the better user accessibility.

The company aims to offer the highest value for money and the most useful services to customers.

The company positions “AirTrip” as a comprehensive travel service platform and has commenced the sales of domestic accommodation booking, overseas air tickets and private home accommodation, in addition to traditional domestic air tickets. It is planning to expand its merchandise range.

As the company believes that the strengths of “AirTrip” are the track record as the leader of the online air ticket industry and its thorough customer returns, the company’s policy is to secure profits through the sales of domestic airline tickets while actively returning the profits to customers with other merchandise.

Through expansion and integration of merchandise, the reward points can be now used across the board; therefore in the domestic accommodation booking services, the company has realized a 7% return, one of the highest in the industry.

B. BTM (Business Travel Management) Market

The size of the Japanese business travel management (BTM) market is in the region of 6.4 trillion yen and of that, domestic travels and accommodations are said to occupy roughly 1.8 trillion yen. Some studies claim that with the introduction of BTM, business travel expenses can be reduced as much as 10-20% but as the majority of companies are not managing the business travel expenses when it comes to airfares, and this promises to be the area of further growths in the future.

Specifically, the company is working to secure more business partners and speed up the market development.

Apart from airline tickets, the company is also planning to start selling the “Shinkansen (bullet train) + accommodations” packages. It will continue striving to respond to all business trip needs.

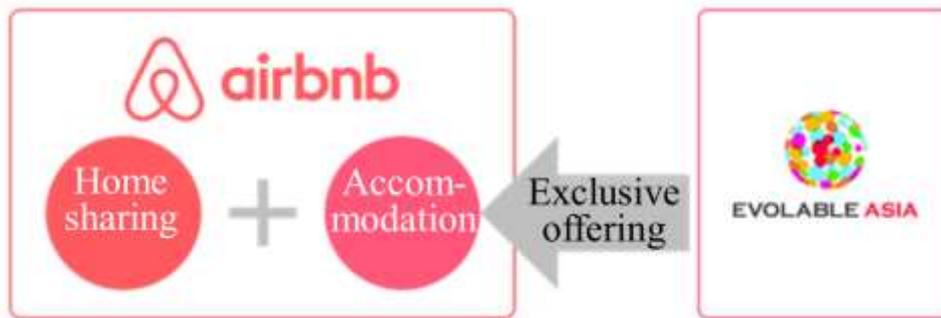
Topics**◎Exclusive agreement with Airbnb to develop accommodation facility operations**

In May 2017, the company signed the business tie-up agreement with Airbnb, the world leader of the private home accommodation industry and the operator of the world’s largest community-driven marketplace, regarding the development of accommodation facility operations in Japan.

Airbnb has so far publicized the private homes that are posted by individuals on its platform primarily, but in the future it is planning to publicize the hotels and *ryokans* (traditional Japanese inns) in Japan, that offer their unique hospitalities. In conjunction with this business policy, Evolvable Asia will develop operations of exclusive hotels and ryokans, and publicize these accommodation facilities on the Airbnb platform through the API cooperation with its system.

The use of private home accommodations started off with the demands from foreign visitors to Japan, and just under 20% of these visitors are said to use Airbnb.

In addition, the number of Japanese users is steadily rising and the alliance with the Airbnb which is the world leader in the industry will offer the company to create significant business opportunities to improve the convenience of “AirTrip” as the comprehensive travel platform.



(From the company website)

◎Grand Opening of Overseas Air Ticket Service

In May 2017, the overseas air ticket service – which had been pre-opened back in March on the comprehensive travel service platform “AirTrip” – was fully opened.

During the pre-opening period, the service only traded in the tickets of the legacy carriers but with its grand opening, 10 LCCs (low-cost carriers) that fly in and out of Japan (Jetstar, Jetstar Japan, Jetstar Asia, Peach Aviation, Vanilla Air, Spring Airlines, Spring Japan, AirAsia, Thai AirAsia, Tigerair Taiwan) were duly added.

In the future, the company is planning to gradually increase the number of overseas LCC services until it trades in the air tickets of about 100 LCCs.

The company is aiming for a trading volume of 10 billion yen in 3 years.

◎Expanding into Overseas BTM

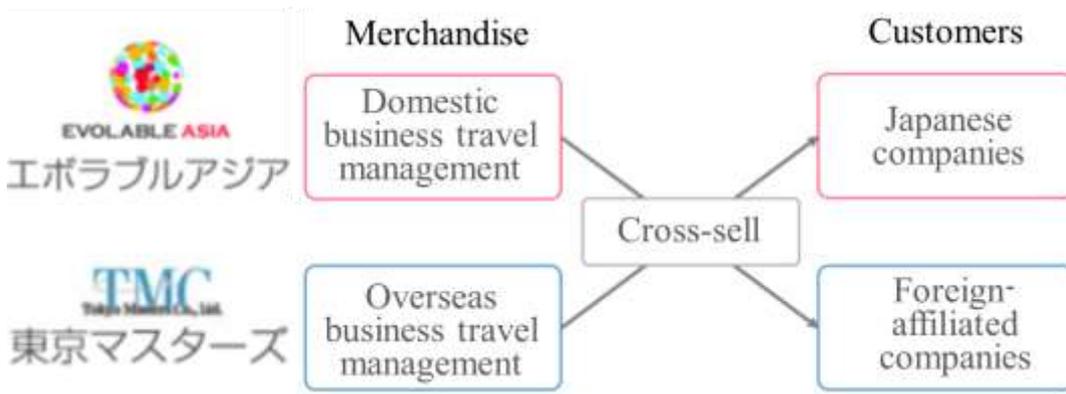
In May 2017, the company acquired 100% of the stocks of Tokyo Masters Co., Ltd., an overseas business travel management specialist, and made it into a subsidiary.

The company’s business travel management (BTM) business was quite powerful in terms of the domestic business travel needs, but in terms of the overseas business travel management needs, it had a limited capacity trading in overseas air tickets etc.

To speed up the business development to respond to the customer needs, the company acquired 100% of the stocks of Tokyo Masters, whose strength was in the overseas business travel management. Tokyo Masters was established about 40 years ago and it now has numerous foreign-affiliated companies as its customers.

The company is planning to start trading in the overseas air tickets, etc. concerning the overseas business trips in earnest. Furthermore with Evolvable Asia’s solid customer base – mainly Japanese companies – and that of Tokyo Masters – foreign-affiliated companies – they believe that they will be able to cross-sell their merchandise to each other’s customers, resulting in business synergies.

At the end of March 2017, the number of client companies in this business was 782, but with the acquisition of Tokyo Masters, it rose to 1,057. The company is hoping to achieve a trading volume of 10 billion yen before long.



(From the company website)

(2) Inbound Travel Business

The company is poised to introduce various forms and methods of meeting the inbound travel demands.

A. Strengthening Domestic Air Tickets Sales

In May 2017, the company concluded a business tie-up agreement with Ctrip.com – China’s largest travel agency – that would be the first such agreement in Japan with a view of system collaboration in the domestic air ticket field.

Background of the alliance

In 2016, there were 6.37 million visitors from China, making them the largest group by countries at just under 30 % of all overseas visitors to Japan (2.4 million visitors).

It is expected that the number will rise further in the foreseeable future and the domestic air ticket sales to them are seen to possess a huge market potential.

Evolable Asia is able to stably supply domestic air tickets with price advantage, and it has the added strength of its system development capacities on the back of its Vietnamese system engineers.

The alliance was reached as Ctrip highly appreciated the fact that it would be able to collaborate with Evolvable Asia in each other’s search, reservation and sales systems without losing its own UI (user interface) and UX (user experiences) to offer high-grade merchandise to the users.

In the future, the two companies are planning to strengthen their collaborations under this ‘win-win’ relationship in order to offer even better services to the users and to help expand/develop each other’s businesses further.

The development of the system collaboration is progressing smoothly and they believe that the service would be able to commence during the 4th quarter.



Ctrip website image: <http://www.ctrip.com/>

(From the company website)

B. C2C platform for “minpaku” (private home accommodation)

As the company aspires to become the No.1 *made-in-Japan* C2C platform for “minpaku” (private home accommodation) services, it commenced the full operation of its “minpaku” services on its comprehensive travel service platform “AirTrip” in April 2017, and at the same time listed the hostels nationwide and about 300 legal special-district private home accommodation properties (Ota City, Tokyo; Osaka Prefecture; Osaka City; Kitakyushu City).

The company’s minpaku C2C platform “AirTrip Minpaku” is characterized by its “listing of only legal properties”, “convenience of the MADE IN JAPAN quality”, and “simultaneous offering of transportation options (air tickets & Shinkansen) essential for travelling”.

The company wants to build a site in the *minpaku* market currently dominated by the foreign visitors to Japan that is also easily and comfortably accessible to Japanese users and at the same time offer various modes of transport, so that *minpaku* eventually becomes a go-to scene for everyone for not only trips but also business trips and event participations. In terms of the target number of properties, it is looking to list about 10,000 properties in 2018 after the new minpaku-related law is enacted in preparation for the 2020 Tokyo Olympic and Paralympic Games, and about 30,000 properties by the time of the opening of the games.

Additionally, this will contribute to ease the problems of lack of accommodation facilities and the “hollowing out” of apartment blocks, and the company is planning to offer the “air tickets + minpaku” package products and multilingual services eventually so that the foreign visitors to Japan can also use the services.

C. Campers

The company aims to become the domestic leader in the camper rental industry. It is planning to increase its fleet to 300 owned campers by 2020.

Topics**◎Collaboration with H.I.S.**

In May 2017, the company’s subsidiary El Monte RV Japan Co., Ltd. concluded a business tie-up agreement with H.I.S. Co., Ltd. (code no. 9603; First Section of the Tokyo Stock Exchange) to fortify the domestic operations aimed at inbound demands.

Background and Outline of Business Tie-up

Specific points are as follows:

- H.I.S. will introduce the domestic camper rental services on its direct sales website, and the customers will be directed to the camper rental website operated by El Monte RV Japan.
- H.I.S. will integrate rental campers into its package products to promote sales.

To raise the profile of camper travelling in Japan as a new form of travelling, and as an alternative form of facilities to tackle the lack of accommodation facilities, the two companies are poised to strengthen their collaboration in the future and seize upon the further demands.

◎Capital and Business Tie-up with AMBITION Corp. to Strengthen Business Collaboration at Accommodation Facilities Aimed at Inbound Travelers

The company concluded a capital and business tie-up agreement with AMBITION Corp. (code no. 3300; Mothers of TSE) in order to strengthen the business collaboration at the accommodation facilities aimed at inbound travelers.

Objectives and Background of Alliance

In January 2016, the regulations concerning *minpaku* were eased and Ota City in Tokyo and Osaka Prefecture were designated the special districts.

Soon afterwards, a property managed by AMBITION in Ota City (*C'est Jolie Ikegami*; Ikegami, Ota City, Tokyo) was approved for business by Ota City authority as the *minpaku* property; Evolvable Asia decided to take advantage of this opportunity to begin the *minpaku* properties agency business by concluding a business tie-up agreement with AMBITION in May 2016.

One of AMBITION's growth strategies in its property management business is the appropriate response to *minpaku* demands, therefore it is steadily working to accumulate the know-how and lay down the foundations to this end, such as the commencement of the *minpaku* concierge services. As of the end of March 2017, the number of properties it managed under its property management business was 8,420 with roughly 80% of those properties located in Tokyo, and it is managing its businesses while carefully monitoring the population growth of Tokyo as well as the rising number of tourists visiting Japan.

Another AMBITION's strategy is to offer services from development & planning to purchasing, renting management, trade mediation, renting mediation, sales, and *minpaku* as a one-stop destination and to be able to respond to the customers' diverse needs. To achieve this, it has made it clear that it will actively engage in M&A and the development of accommodation facilities for the inbound travelers.

Evolvable Asia is expanding its business in the *minpaku*-related areas, having not only started to accept the reservations through its "*minpaku*" services on its comprehensive service platform "AirTrip" recently, but also concluding the business tie-up agreement with Airbnb – the operator of the world's largest private home accommodation platform – to undertake its expansion in the hotel and *ryokan* field inside Japan exclusively.

Therefore, the company deemed that an even more in-depth alliance with AMBITION was beneficial to both companies in expanding their businesses and increasing their corporate values.

Outline of Alliance

* Business Tie-up

The *minpaku* properties that are developed, arranged, sourced and managed by AMBITION are made available for reservation and sales by Evolvable Asia via "AirTrip".

Evolvable Asia will also assist AMBITION with the customer attraction activities such as reservation, sales, etc. and the IT management activities, in regard to the accommodation facilities aimed for the inbound travelers, that are developed, arranged, and managed by AMBITION.

* Capital Tie-up

To further deepen the business tie-up, Evolvable Asia will take over the common stocks newly issued by AMBITION via the third-party allocation of stocks.

This investment forms part of Evolvable Asia's investment business and the company hopes to reap benefits from the business synergies through the business tie-up with AMBITION as well as the returns expected through AMBITION's future growth.

The number stocks acquired via the third-party allocation of stocks was 337,200 (ratio of voting rights after allocation: 10.05%) and the acquisition cost, approx. 400 million yen.

(3) IT Offshore Development Business

The Company aims to increase the number of lab personnel from current 700 to 3,000 by 2020.

To achieve this, the following 4 measures will be implemented.

1) Developing more offices

The Company will optimize 3 offices including Ho Chi Minh City, Hanoi, and Da Nang to make them suitable offices for project implementation. It will reduce expenses and improve performance. It will also promote development in other locations in Vietnam and other countries.

2) Acquiring projects in Europe and the USA.

It aims to acquire projects in the U.S. and Europe from the Silicon Valley office.

The West Coast areas in the USA are facing serious shortages of engineers and sharp increases in salaries, and the demand for IT offshore development is large. The demand is expected to increase even further from now on.

3) Improving the capacity of the upstream development process

The Company will strengthen alliances with partners capable of handling the upstream development process. This will allow the overseas transfer of development projects needing requirement definitions in Japan and comprehensive proposals of a development team to companies with no internal system division.

4) Developing Japanese-speaking human resources

The Company will improve Japanese language education provided to employees by creating a Japanese language school within the company. It will also promote the referral of Japanese-speaking engineers to Japanese companies in cooperation with partners.

Main topics

◎DeNA's Vietnamese subsidiary made into a group company

In March 2017, the company's Vietnamese subsidiary Evolvable Asia Co., Ltd. made Punch Entertainment (Vietnam) Company Limited (HQ: Vietnam) – a subsidiary of DeNA Co., Ltd. (code no. 2432; First Section of the Tokyo Stock Exchange) – into a subsidiary through equity transfer.

Background of Equity Transfer from Punch

The secondary market* of the Japanese smartphone gaming is growing vastly and it is expected to reach 100 billion yen before the end of this year.

To respond to the increasing demand from its clients for new game development and management needs, the company is now fully engaged in the new game development and management business.

Punch Entertainment boasts over 100 engineers who have wealth of experience in developing new games as well as the managing records and know-how.

Through the recent acquisition, Evolvable Asia Co., Ltd. was able to acquire these capable engineers, and the company judged that inheriting part of DeNA's game management business would strengthen its game development base and considered it a worthwhile route to charge into the secondary market further.

*Secondary: The method in which the operation of games is continued after they are consigned/sold by the original developer/operator to a third party, which specializes in the operation of the games.

Punch Entertainment's performance during the term ending December 2016 was sales of 328 million yen and an operating income of 19 million yen, therefore it is expected to contribute to the group's consolidated results as a consolidated subsidiary.

◎Group Expansion to Respond to Diverse Needs

In May 2017, the company's Vietnamese subsidiary Evolvable Asia Co., Ltd. acquired the stocks of EVA Co., Ltd. (Chofu City, Tokyo) and Everddy Co., Ltd. (Minato City, Tokyo), making them into its affiliated companies.

Acquisition of Stocks: Background and Objectives

In offering lab-type offshoring development services the company received the requests for upstream process serviced as well as the introduction of Vietnamese engineers from its corporate customers, and in response to such requests with better quality service, the company decided to acquire the stocks of the two companies that are highly experienced in these needs.

EVA Co., Ltd changed its name to “EVOLABLE Asia Solutions Co., Ltd.” and it will offer services in the development upstream process, while Everddy Co., Ltd. has changed its name to “Evolable Asia Agent Co., Ltd.” to introduce Vietnamese engineers to various clients.

Both Mr. Tran Van Minh, the CEO of EVOLABLE Asia Solutions Co., Ltd. (formerly the CEO of EVA Co., Ltd.), and Mr. Akimasa Kim, the CEO of Evolvable Asia Agent Co., Ltd. (formerly the CEO of Everddy Co., Ltd.), have a wealth of business experiences and the company is confident that these newly-joined talents will be able to greatly speed up this business.

(4) Investment Business

From the current term, the company has positioned its investment business as the fourth pillar of its businesses with the CVC (corporate venture capital) characteristics, and it will pursue its synergy effects as well as the opportunities for capital gains.

On top of the additional investment into Willgate, Inc. mentioned above, the company made the following additional investments.

- ✧ Capital participation through third-party allocation of shares in Donut Robotics Co., Ltd. (Kitakyushu City, Fukuoka Prefecture), which specializes in developing, producing and selling small-sized robots
- ✧ Capital participation in Cocolive Inc. (HQ: Minato City, Tokyo; CEO Takanobu Yamamoto), which specializes in supporting the house-hunting through data
- ✧ Investment in Piala Inc. (HQ: Shibuya City, Tokyo), which operates “RESULT Platform” – a marketing automation system that utilizes AI
- ✧ Capital participation through third-party allocation of shares in GOLF LIFE Inc. (HQ: Shibuya City, Tokyo), which operates a major golf school portal “Golf School Guide”

With each of these investments, the company hopes to reap the returns through the growth of each company and it will also consider various business collaboration options with them.

Incidentally, the Cocolive CEO Takanobu Yamamoto has been responsible in various projects such as launching the Japanese language products at Expedia as the project manager, and has held various posts such as the CEO of Tripadvisor and the president and representative director of Rakuten Travel, making him a highly experienced individual in the online travel business and digital marketing fields. He was appointed to Evolvable Asia’s external advisor as of April 1st 2017.

5. Conclusions

The company’s target is to achieve “a trading volume of 100 billion yen in 2020 and to be the industry leader in every business area”. Being asked about this, the CEO Yoshimura responded: “It all depends on whether we can establish a brand that says ‘domestic air tickets equal us’.”

It is worthwhile keeping an eye closely on the company’s speedy business development following its “commencement of OEM supply to H.I.S.” and “commencement of sales of domestic accommodations, overseas air tickets and *minpaku* through AirTrip”, and the progress in its trading volume (the company discloses its trading volume on a monthly basis).

<Reference: Regarding Corporate Governance>

◎ Organization type and the composition of directors

Organization type	Company with an audit and supervisory board
Directors	7 directors, including 2 outside ones
Auditors	4 auditors, including 2 outside ones

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Last updated on Mar. 31, 2017.

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

Principles	Reasons for not implementing the principles
【Supplementary Principle 4-1-2】	Our company has not disclosed our mid-term management plan, but the board of directors designs mid-term management plans and manages their progress. We will discuss the disclosure of our mid-term management plans.
【Principle 4-8】	Our company appoints an independent outside director, who exchanges opinions with our executives, auditors, and others when necessary in accordance with the purposes of the independent executive system, actively expresses opinions and debates at meetings of the board of directors, etc., and so is considered to fulfill the duties as an independent outside director. In addition, one out of two outside auditors is registered as an independent executive, so that we have 2 independent executives and 4 outside executives. Accordingly, we think that they fulfill the roles of overseeing and supervising business administration. From now on, we will plan to increase independent outside directors, in order to strengthen our corporate governance further.

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

Principles	Disclosure contents
【Principle 1-4】	Our company may hold shares strategically, if the shareholding is expected to strengthen business cooperation or contribute to the maintenance or improvement of our corporate value. As of now, we do not hold any listed shares.
【Principle 5-1】	The management department is in charge of our IR activities, and the divisions of finance, accounting, publicity, general affairs, human resources, and management planning cooperate in promoting constructive dialogue with shareholders and investors. In addition, we hold a results briefing session involving executives twice a year, and a company briefing session for individual investors, and deal with the request for individual interviews within a reasonable range.

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