

## Bridge Report WELLNET CORPORATION (2428)

 Kazuhiro Miyazawa, President	Company	WELLNET CORPORATION	
	Code No.	2428	
	Exchange	TSE 1st	
	Industry	Service	
	President	Kazuhiro Miyazawa	
	HQ Address	1-1-7 Uchisaiwaicho, Chiyoda-ku, Tokyo	
	Year-end	June	
	URL	http://www.well-net.jp/	

### — Stock Information —

Share Price	Shares Outstanding		Market Cap.	ROE (actual)	Trading Unit
¥1,148	18,930,444 shares		¥21,732million	10.2%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥50.00	4.4%	-	-	¥423.89	2.7x

\* Stock price as of the close on March 2 2018. Number of shares outstanding at the end of the most recent quarter excludes treasury shares.

ROE is from the previous fiscal year. BPS is from the end of the first half of this fiscal year.

The estimated EPS is still to be announced because the earnings forecast for the fiscal year June 2018 includes many uncertainties.

### — Non-Consolidated Earnings Trend —

(Units: Million Yen)

Fiscal Year	Net Sales	Operating Profit	Current Profit	Net Profit	EPS	Dividend (¥)
June 2013	6,866	1,393	1,420	759	37.82	12.50
June 2014	7,600	1,473	1,488	913	46.26	23.50
June 2015	8,888	1,637	1,520	938	48.37	25.00
June 2016	10,529	2,054	2,007	1,350	71.91	40.00
June 2017	10,260	1,099	1,239	869	46.36	50.00
June 2018 Est.	-	-	-	-	-	50.00

\*A 2 for 1 stock split was implemented on July 1, 2016. EPS and DPS are calculated retroactively.

\*The earnings forecast for the fiscal year June 2018 is still to be announced due to a lot of uncertainties.

We present this Bridge Report on WELLNET CORPORATION reviewing its earnings results of the first half of fiscal year June 2018.

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## Key Points

•The sales for the second quarter of the fiscal year June 2018 were 4,911 million yen, down 7.3% year on year, which resulted from the shrinking production of OEM products, in addition to the declining sales caused by merger of convenience-store chains, and the reconsideration of transaction conditions with the company's major clients; however, the electronic settlement market was booming on a continuous basis and sales of products for other existing business operators showed healthy growth. Operating profit dropped 56.3% year on year to 349 million yen. While gross profit and its rate decreased due to the price strategies for major enterprises, research and development (R&D) investment went up because of not only proactive investment, such as strengthening of personnel, addition of new application functions, and promotion targeted at consumers, but also the start of biometric authentication according to the necessity of stricter measures against unlawful acts in order to promote Shiharai-Hisho, which was developed for financial institutions.

•The earnings forecast for the fiscal year June 2018 has not been announced, because there have been a lot of uncertainties that could affect business performance and it has been difficult to estimate figures while the company has aggressively engaged in promotional activities for fostering public awareness of "Bus Mori!" and "Shiharai-Hisho" and increasing the number of downloads of the apps. The forecast will be announced when it becomes possible to estimate figures rationally. The dividend amount is to be 50 yen/share, unchanged from the previous term.

•Some projects in the existing businesses were less successful, but otherwise the booming market of non-face-to-face payment settlement allowed the company to thrive, keeping pace with the market growth. The company's great strength lies in this steadiness; however, although "Bus Mori!" and "Shiharai-Hisho," the two services that will lead the company's future growth, are making an incremental progress, it is unfortunately still impossible to predict when they will contribute to revenue. We would like to pay attention to when these two services will make full contributions in the medium and long terms.

## 1. Company Overview

WELLNET provides electronic payment settlement system for sales business operators selling various products and services.

With the key concepts of "real time" and "one stop," WELLNET offers a "convenient direct sales platform" to provide (1) its customers (i.e. the purchaser of service and goods) with the convenience of purchasing whatever they want at any time and from any place, and (2) its sales business operators (i.e. WELLNET's direct customers) with the capability of "maximizing sales opportunities" in selling products and services over the Internet.

The multiple payment service, which is WELLNET's core business, has been implemented by a wide range of clientele including major Japanese airlines and express bus companies, in addition to major mail-order businesses. Ever since its inception, WELLNET has endeavored to maintain the spirit of taking on new challenges which is engrained in its corporate DNA.

### <Corporate History>

WELLNET CORPORATION got its start as a subsidiary of a gas and fuel merchant called Ichitaka Takahashi Co., Ltd. in Hokkaido for the purpose of developing new businesses.

At the time of its inception, utility bill payment services at convenience stores had already begun. However, the Company began preparations for the expansion of payment settlement services to include mail order catalog sales.

WELLNET developed an integrated seamless "convenience store consigned bill payment settlement service" that included the functions of printing and mailing of invoices, and bill payment information processing which could be used 24 hours a

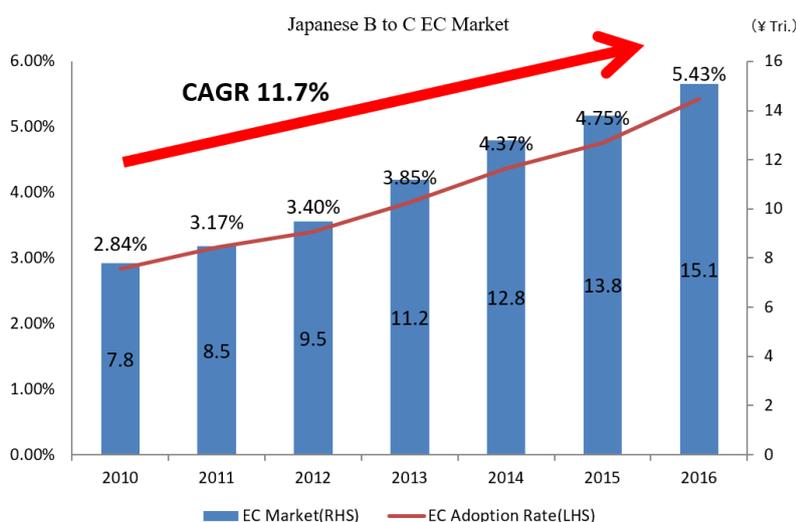
day, 365 days a year. This system quickly spread amongst product and service merchants because it was distributed free of charge and enabled them to dispense with making large outlays to develop their own payment settlement systems. Furthermore, WELLNET developed a system that allows customers to avoid having to print out paper copies of invoices and allows for customers to make real time connections for electronic invoices and payments, which is the system currently used widely. The system's ability to eliminate development costs and to allow customers make electronic payment settlement connections with convenience stores and other payment outlets without the need to sign agreements has contributed to its strong reception and numerous implementations by airlines and bus companies, in addition to boosting WELLNET's earnings. In 2004, the Company listed its shares on the JASDAQ market. Thereafter, WELLNET has expanded the provision of its "multiple payment service" to include large companies such as amazon, Yahoo! Shopping, Yahoo! Auction, low cost carrier (LCC) airlines, West Japan Railway Company and JR Kyushu Railway Company. In addition, the Company has also focused its attention upon developing applications for the rapidly growing electronic ticket service market including the cellphone ticketing service, which has many good track records.

1983	Apr	Established to develop electronic payment settlement systems for Ichitaka Takahashi Co., Ltd.
1996	Jul	The company name WELLNET CORPORATION was adopted
1997	Apr	Start of consigned invoice issuance, convenience store bill payment services
1998	Mar	"Convenience store bill payment system" was officially certified by the Ministry of International Trade and Industry to be in compliance with the new business law
2000	May	Development of a KIOSK terminal capable of paperless and real time cash payment settlement (Currently known as the multiple payment service) was completed and was put into use at nationwide Lawson convenience stores.
	Jul	Began provision of an airline ticket "cashless ticket service" using KIOSK terminals to Japan Airlines, All Nippon Airways, and Japan Air System
2001	Mar	Started a "express bus ticket consigned payment settlement and ticket issuance service" using KIOSK terminals
	Apr	Payment settlement service using KIOSK terminals expanded to Family Mart
2002	Jul	Cellular telephone ticket (Later renamed to "electronic authentication") service was used for a concert at the Nippon Budokan to an audience of 13,000 people
2003	Jan	"Paperless and real time cash payment settlement system" connected with Mizuho Bank ATMs
2004	Jan	Multiple payment service fortified, connections with Internet banking, mobile banking formed
	Dec	Shares listed on the JASDAQ market
2005	Feb	Multiple payment service expanded to Seven-Eleven
2006	Apr	Began provision of multiple payment service to Amazon
2008	May	Started providing game attendance record system (One Touch Pass) electronic authentication system to all the J-League soccer games
	Aug	Began provision of settlement services to Rakuten Auction
	Dec	Started provision of ticketless entrance authentication system and cellular telephone ticket service to the Sapporo Dome
2009	Jan	Started "Cash transfer service to the bank account"
	Jun	Ichitaka Takahashi Co., Ltd. turned into a fully owned subsidiary through exchange of shares
2011	Jul	Business alliance formed with E-Store
2012	Jan	Began provision of multiple payment service to the LCC Peach Aviation
	Jun	Provision of "SUPER SUB" service integrating functions ranging from reservations to electronic authentication has been started
2013	Jun	Formed a partnership with Seicomart and began provision of multiple payment service to it
	Oct	Began providing "Cash receipt service at Convenience Stores"

	Dec	Began provision of multiple payment service to STORES.jp
2014	Feb	Shares transferred from JASDAQ to Tokyo Stock Exchange Second Section
	Dec	Shares transferred from TSE Second Section to TSE First Section
	Dec	Began provision of “Busmori ! ®”, Bus IT Promotion Solution
2015	June	Began "Doshin Mirai-kun WELLNET Scholarship," supporting students of four technical colleges in Hokkaido.
2016	Jun	Additional donation to “Doshin Mirai-kun — WELLNET Scholarship”
	Jun	Announced a 5-year mid-term managerial plan.
	Aug	Started the “Bus Mori! Concierge” service.
	Dec	Started offering the Multiple payment service and the Transfer service to West Japan Railway Company and JR Kyushu Railway Company.
2017	Mar	Started offering the “smartphone commutation ticket” service in the “Bus Mori!” in cooperation with 3 JR bus agencies.
	Apr	Offered the multi-payment service to “Furusato Choice,” a portal site for benefit-your-locality tax scheme.
	Jun	Started offering the “solution service for online enrollment procedures” to colleges.
	Jun	Additional donation to “Doshin Mirai-kun — WELLNET Scholarship”
	Aug	Launched the Shiharai-Hisho service.
	Sep	Shifted the organizational structure to a company with audit and supervisory committees.
	Dec	Started offering “GakuNin-wari,” a student discount ticket service, in “Bus Mori!.”
2018	Jan	Started offering a service, “Electronic Ticket Collection,” for airport busses operated by Hokkaido Chuo Bus Co., Ltd.
	Jan	Announced the start of offering the “Smartphone Commuter Pass” function of “Bus Mori!” to JR Hokkaido (a railway company).
	Mar	Announced the start of offering the “Smartphone Coupon” function of “Bus Mori!” to the busses operated by Nishi-Nippon Railroad Co., Ltd. and Kyushu Sanko Bus Co., Ltd.

**<Market Conditions>**

According to the Ministry of Economy, Trade and Industry’s report entitled FY 2016 Research on Infrastructure Development in Japan’s Information-based Economy Society (E-Commerce Market Survey) issued on April 24, 2017, the Japanese electronic commerce market (B to C) for consumers rose by 9.9% year-over-year to ¥15.1 trillion in 2016. Compound average growth rate (CAGR) from 2010 to 2016 is 11.7%.



(Source: The chart made by Investment Bridge based on the data above from the Ministry of Economy, Trade and Industry)

The rate of EC adoption (share of e-commerce transactions amongst all the transactions) is still only 5.43% for the sale of goods, but it is growing steadily.

#### <B to C EC Market Scale by Industry (2016)>

Industry		EC Market (¥100mm)	YY Change (%)	EC Adoption Rate (%)
Sale of goods	Clothing, Accessories	15,297	+10.5	10.93
	Home appliances, AV equipment, Computers & Peripherals	14,278	+9.0	29.93
	Food, Beverages, Alcohol	14,503	+10.2	2.25
Services	Travel services	30,393	+5.4	-
	Financial services	6,113	-1.2	-
	Ticketing	4,468	+19.1	-
Digital	Online games	13,090	+3.5	-
	E-publishing (digital books/magazines)	2,151	+21.5	-
	Paid video streaming	1,153	+77.4	-

(Source: The chart made by Investment Bridge based on the data above from the Ministry of Economy, Trade and Industry)

#### <Business Description>

With the key concepts of “real time” and “one stop,” WELLNET offers a “convenient direct sales platform” to provide (1) its customers (i.e. the purchaser of service and goods) with **the convenience** of purchasing whatever they want at any time and from any place, and (2) its sales business operators (i.e. WELLNET's direct customers) with the their capability of “**maximizing sales opportunities**” in selling products and services over the Internet.

The business segment to be reported is only “payment settlement and authentication business.” The following section will introduce the primary services of WELLNET.

#### «Settlement service»

##### ① Multi-payment service

It becomes possible to electronically charge and settle payment on a real-time basis without using any written bills, just by creating a connection with WELLNET.

Business operators do not need to develop systems for connecting to various payment receiving institutions, such as convenience stores, banks, post offices, and credit card companies, or sign individual contracts.

## <Advantages and Characteristics>

- ◇ Business operators only have to offer data to WELLNET, after settlement transactions of purchasers and users. WELLNET explains payment methods to purchasers and users.
- ◇ Since it is possible to electronically charge and obtain receipt information on a real-time basis without using any written bills, business operators can use the system instantly.
- ◇ Even if purchase contents (amounts) are changed, the payment of the changed amount can be settled.
- ◇ WELLNET provides modules for receiving information free of charge, and so system connection is easy.
- ◇ WELLNET develops and operates cutting-edge settlement systems, and so business operators do not need to develop systems.
- ◇ The service was launched in July 2000, and has been adopted by all of Japanese airlines, major express buses, major mail-order companies, etc.
- ◇ The operation center offers payment settlement services 24 hours a day, every day, with the 24-hour manned monitoring system.
- ◇ For paperless settlement, WELLNET has developed the largest infrastructure network in Japan.

## ② Paper-less settlement service

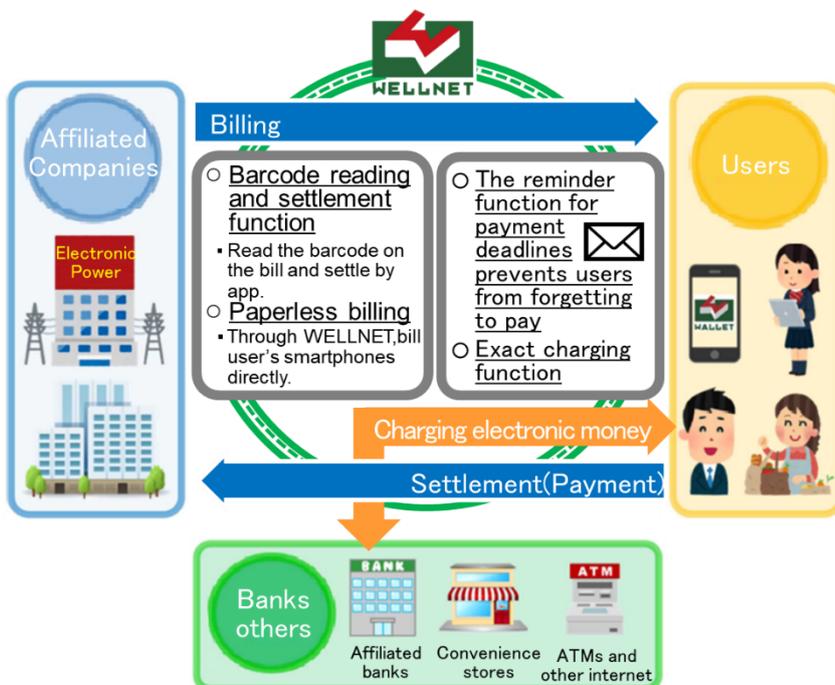
It is possible to issue a written bill and charge and settle payment electronically on a real-time basis with a single service.

### (Features)

- ◇ Enterprises only have to upload the data of the bills to be sent to their customers to the management window in the WELLNET format. WELLNET sends the bills on behalf of enterprises by mail.
- ◇ The bills include the guide for a website for applying for electronic settlement, and customers easily complete the procedures in the website provided by WELLNET with a PC or a smartphone.
- ◇ Then, it becomes unnecessary to send bills to customers who have applied for paperless settlement.

## ③ Shiharai-Hisho

A sever-based type electronic money service. By utilizing the smartphone app “Shiharai-Hisho,” it is possible to complete payment anywhere without going to a convenience store or an ATM of banks.



### (Features)

- ◇ It is possible to pay a bill immediately just by reading the barcode on the bill sent to the customer with a camera.
- ◇ This provides customers who do not have a credit card with an instant payment method.
- ◇ It is also possible to debit from an account of an affiliated bank.
- ◇ It is easy to keep track of the amount of money deposited, as the prepaid electronic money system has been adopted.

- ◇ When the payment of monthly public charges, etc. is registered, the app will notify customers of the deadline for payment, and so this is expected to prevent customers from forgetting to pay a bill.

## 《Cash transfer service》

### ① Cash transfer service to the bank account

This service allows merchants to use the Internet to efficiently make payments to customers for reasons such as refunds for cancellations. WELLNET operates a dedicated website that allows consumers to use an ID received from the merchant and to input their own bank account information for merchants to make payments to.

#### <Advantages and Characteristics>

- ◇ The ability of consumers to input their own bank account information and automatic processing of this information allows merchants to reduce their work load by eliminating the need to input account information.
- ◇ Increases customer satisfaction by allowing merchants to make payment of refunds within the same day.
- ◇ Eliminates the need for merchants to develop their own refund systems.
- ◇ Eliminates the need to retain bank account information of customers and reduces the risk of leakage of personal information.

### ② Cash receipt (Transfer) service at Convenience Stores

As with the Cash transfer service to the bank account, this service concerns refunds when consumers cancel an order from a merchant. Unlike the Cash transfer service to the bank account, this service requires no bank account.

The consumer inputs a cash pickup number and ID (provided by the merchant) into a Lawson convenience store “Loppi” multimedia terminal, which issues a cash exchange ticket, and this cash exchange ticket can be exchanged for cash at the register.

#### <Advantages and Characteristics>

- ◇ Merchants can avoid risks related to possessing customer bank account data
- ◇ Cost reduction due to no handling charges of postal transfers or bank transfers
- ◇ Smooth refunds with no risk of errors in handling bank account information

## 《Billing (Payment/Invoices at Convenience Stores) Services》

### ① Convenience store bill payment service

WELLNET’s bar code payment invoice issuance system and accounts receivable recovery via convenience store consigned bill payment service. WELLNET’s bar code payment invoice system available at convenience stores and post offices uses an internally developed payment receipt issuance and payment information processing software called “ConPay Kun” to allow merchants to easily print out invoices and receipts, easily process payment information and make ledger notes of payment receipt.

Payment information is transmitted on the next business day after the payment is made (For payment at post offices, two business days), and automatically makes ledger notes of the payment.

Currently, bills for mail order sales, fuel expenses, various membership fees, etc. can be paid in arrears using this system.

#### <Advantages and Characteristics>

- ◇ Payments can be made 24 hours a day, 365 days a year at nationwide convenience stores (Available at approximately 58,000 stores with 14 different convenience store chains, as of June 2017), relieving bill paying customers from the need to rush to post offices and banks during normal business hours.
- ◇ The packaged software “ConPay Kun” is provided free of charge, allowing merchants to begin operating the payment systems within short time after application.
- ◇ Merchants can print out their own bill payment receipts, and avoid leakage of customer information because the payment information is based on numeric bar code information only.

### ② Consigned Invoice Issuance Service

WELLNET provides total comprehensive bill payment issuance and payment settlement support services including consigned bar code invoice payment printing and mailing functions, payment confirmation, and payment ledger note.

In particular, its bill payment services are used commonly for payment of services that do not entail shipment of goods (gas bills, various membership fees).

In addition, automatic payment and other information receipt services (Invoice issuance, payment service packaged software “Tokoro Kun”) are also provided.

## 《Bus IT solution “Bus Mori!®”》

In Mar. 2001, WELLNET launched the service of enabling customers to buy a booked ticket for an inter-city express bus anytime 24 hours a day at a convenience store, for the first time in Japan. Since then, the company has concluded a contract with over 100 bus agencies, and issued bus tickets for several hundred routes. In the field of electronic tickets, the company has achieved some results and accumulated know-how to issue and authenticate electronic air tickets for cell phones and then tickets at Sapporo Dome, etc.

The culmination of the know-how is “Bus IT Project”.

This is an innovative service that can considerably improve the convenience for both bus agencies and users. While users can search for and book a bus service to reach a destination at ease without fail, bus agencies manage inventory efficiently on a real-time basis, increase selling opportunities, and settlement payment without fail.

This service is composed of 2 systems: “Bus Mori!,” which has been evolved considerably from “Bus Mori! NAVI,” a smartphone app for displaying bus routes in a map and buying a ticket for bus users, and “Bus Mori! MONTA,” a service of the real-time management of data on express bus reservations for bus agencies that use tablet terminals.

As of Dec. 2017, the number of downloads of the “Bus Mori!” app is about 80,000, and the number of routes that accept a smartphone ticket is 186.

The company released the new function “Smartphone Commuter Pass” and started to provide “Electronic Ticket Collection” and “Electronic Coupons” to promote the “Bus IT Project.” which enable both bus companies and users to take big advantage

## 【“Bus Mori!,” Japan’s first smartphone app for searching for and booking an express bus seat, buying its ticket, and getting on the bus, which increases the convenience of inter-city express buses】

As for express bus tickets, it was common to book and buy tickets via the website of each bus agency or by telephone, but this service enabled customers to book and purchase an express bus ticket (while choosing a seat for some routes), change plans, and receive a refund, with simple operation.

Users can receive the latest news about express buses and push notifications when a deadline for payment draws near, while bus agencies can send directions to reach a bus stop.

In addition to tickets issued at convenience stores, electronic tickets which are displayed on the screen of smartphones are now available, resulting in significant improvement of user-friendliness because users can buy tickets anywhere and anytime 24 hours a day with their smartphones at hand.

Users can receive the latest news about express buses and push notifications when a deadline for payment draws near, while bus agencies can send directions to reach a bus stop.

As for the methods for authenticating electronic tickets, in addition to “Bus Mori! MONTA” which is an in-vehicle tablet terminal that has been already released, the company plans to add the function to authenticate tickets with “electronic punching” to “Bus Mori!” for bus agencies with no “authentication terminal” (scheduled in Dec. 2017). This will cover almost all the bus routes and therefore the number of routes where “electronic tickets” are acceptable will increase.

### <Improvements and merits that would be brought by installation>

	Before the installation of MONTA	After the installation of MONTA	Improvements and merits
Selling period	The selling period ends before departure.	The selling period continues till the last bus stop. *	It is possible to get on a bus at a bus stop along the way.
Span-based sale	Difficult	Possible	Selling opportunities are maximized.
Measures for delays	Once user book a bus, user cannot get on a preceding bus that is delayed due to traffic congestion.	After seeing vacant seats, user can change booked seats. The previously booked seat becomes available to others.	It is possible to cope with “traffic congestion,” which is one of the reasons why passengers refrain from using a bus. It will improve customer satisfaction level.



Seat change	It is impossible to change booked seats, even if there are vacant seats.	Since seat information is available on a real-time basis, users can change seats as they want. No double-booking.	It will improve the satisfaction level of users. The number of vacant seats due to cancellation just before departure will decrease.
Fare calculation	Bus crews calculate fares.	MONTA calculates fares.	There will be no calculation mistakes. The burden on crews will decrease.
Refunds	To receive a refund after cancelling a bus ticket, it is necessary to send the ticket by mail.	Immediately refundable*	The frustration of users will be dispelled.

The services with \* are under development, and depend on the judgment of bus agencies.

Through the installation of “Bus Mori!®,” users and bus agencies can receive the following merits.

	Bus Mori!	Bus Mori! MONTA
Merits for users	<ul style="list-style-type: none"> <li>◇ The search function of the app is all free of charge.</li> <li>◇ By using the instant purchase function of the app, it is possible to pay with one touch.</li> <li>◇ It is possible to display a ticket, cancel it, and receive a refund.</li> <li>◇ The reminder function for payment deadlines prevents users from forgetting to pay.</li> <li>◇ It is possible to buy a ticket from the record of previously bought tickets.</li> </ul>	<ul style="list-style-type: none"> <li>◇ It is possible to get on a bus at a bus stop along the way.</li> <li>◇ Even after the departure of the first bus stop, it is possible to buy a bus ticket just before getting on a bus.</li> <li>◇ It is unnecessary to attach a ticket when receiving a refund after cancellation.</li> </ul>
Merits for bus agencies	<ul style="list-style-type: none"> <li>◇ It is possible to secure sales channels via apps.</li> <li>◇ With contents indicated in various languages (including English and simplified Chinese *not adopted in some cases), it is possible to use the app abroad.</li> </ul>	<ul style="list-style-type: none"> <li>◇ It is possible to sell tickets even after the departure of the first bus stop.</li> <li>◇ Span-based sale is possible.</li> <li>◇ Online sale is possible just before each user gets on a bus.</li> <li>◇ With QR authentication, it is possible to check the boarding of passengers online.</li> <li>◇ When a user purchases a ticket in a bus, fares are calculated and displayed.</li> </ul>

On Oct. 2, 2016, the FM program “BUSTALGIA” was started for the purpose of promoting Bus Mori! via 38 JFN stations with the key station being Tokyo FM. This program spotlights little-known places rather than sightseeing spots, introduces towns visited by bus with poems, and aims to motivate viewers to “visit the places by bus.”

From Oct. 2017, one year after that, the company has been broadcasting a more effective promotional program titled “Bustabist (Travel by Bus).”

《SUPER SUB” Service》

An online ticket solution that provides one-stop, comprehensive services ranging from ticket issuance, payment, and authentication functions.

This system eliminates the need for merchants to develop individual systems that connect to servers, allowing for easy use by not only merchants but also individuals holding events.

This system was launched in June 2012 aiming at increasing the number of customers, in addition to the existing large clients such as airlines and bus companies, based on its efficient and low-cost strategy.

## <Advantages and Characteristics>

- ◇ Event organizers can create web pages for their events as to their ticket reservation, application and sales, simply by entering basic information relating to the events such as ticket pricing, location, date of the event, etc. into the registration page (Currently only available to PCs).
- ◇ Simply linking the above web pages to the organizer's event page will enable the launch of ticket sales.
- ◇ Customers seeking to participate in an event can purchase tickets via PCs, smartphones, and cellular telephones.
- ◇ Both e-tickets and paper tickets printed at convenience stores can be used. The tickets use QR codes and special applications will be used for authentication of these codes for entry to events. The system allows for smooth operations at events through accurate authentication. It is also possible to use just paper tickets, in which case the authentication application is unnecessary.
- ◇ Similar to multiple payment services, this service provides a multitude of various payment settlement methods.
- ◇ The system can be launched within three weeks from application for ticket through installment of the system to the sales of tickets.
- ◇ There are no initial costs or basic monthly fees. In exchange, a commission of 5% of ticket sales is collected to help keep operational costs extremely low.
- ◇ Not only for permanent facilities, this system is suitable for limited time events, concerts, lectures, seminars, regional events, parties, reunions and other events that range from 10 to 5,000 attendants.

## <ROE Analysis>

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17
<b>ROE (%)</b>	<b>9.8</b>	<b>11.3</b>	<b>11.5</b>	<b>16.3</b>	<b>10.2</b>
Net Profit Ratio Margin	11.06%	12.01%	10.55%	12.83%	8.48
Total Asset Turnover	0.36 times	0.36 times	0.43 times	0.52 times	0.47
Leverage	2.43×	2.58×	2.50×	2.44x	2.54

The ROE of WELLNET is over 8%, which is the general target for Japanese companies. With leverage over 2 times (capital ratio of 38.2% previous year), this may appear to be the reason, but in the case of WELLNET, it is because deposits received as a payment agent are cross posted as cash and deposits and current liabilities. Considering this, the financial situation is extremely stable, and that high net profit margin is the main reason for the high ROE.

## <Characteristics and Strengths>

### ① Strong Track Record of Implementations, Strong Customer Base

WELLNET's multiple payment service has developed a highly favorable reputation for its ability to eliminate development expenses at the time of their implementation and the need to form contracts with each payment institution. WELLNET's service has been introduced to the leading companies in each industry as described below.

One of WELLNET's largest assets is the highly favorable reputation received from airlines and bus companies for their system's real time capabilities.

It is this strong customer base that lies at the core of its highly favorable reputation, which is considered to be an important "invisible asset."

Airlines	All Nippon Airways, Japan Air Lines, Air Do, Star Flyer, Solaseed Air, Oriental Air Bridge, Jetstar, Peach Aviation, Korean Air, Air Asia X, Air China, others
Buses	Over 500 Japanese bus lines from over 100 bus-operating companies including: Kousoku Bus Net (JR Bus Kanto, Nishi Nihon, Tokai, Chugoku, Shikoku, Kyushu, etc.), Highwaybus.com (Keio Electric Railways, Nagoya Railroad, Tokyu, etc.), @Bus-de (Nishi-Nippon Railroad [Kyushu 14-company confederation including Nishi-Nippon Railroad]), Keihin Kyuko Bus, Airport Limousine (Airport Transport Service), Net-de-bus (Ryobi Bus), Hassha All Right Net (Hankyu Bus, Nankai Bus, Kintetsu Bus, Shinki Bus, Meitetsu Bus, Seibu Bus, Kokusai Kogyo, Alpico Kotsu, Fuji Kyuko, Konan Bus, Odakyu Hakone Highway Bus, Shimotsui Dentetsu Bus, Ichihata Bus, Shikoku Kosoku Bus, Iyo Railway Bus, Kyushu Sanko Bus, etc.), others

Ferry	Tokai Kisen, Shin Nihonkai Ferry, KYUSYU SHOSEN, Ferry Sunflower
Mail Order, Others	Amazon, Yahoo! Shopping, Yahoo! Auction, Qoo 10, Google, Estore, STORES.jp, Takken Family, R-bies, Aflac, AIU, Mitsui Direct, R-bies INC., Dinos, Sofmap, Jalpak, ANA Sales, MOL Ferry, Sony Music Artists, Hankyu Department Store, Tokyo Department Store, Kintetsu Department Store, Saikaya, Kansai Electric Power, Chugoku Electric Power, Chubu Electric Power, Kyushu Electric Power, Hokkaido Electric Power, Hokuriku Electric Power, KDDI, Toyo Keiki (e-gas tickets), University entrance examination fees, University admission fees and tuition, entrance examination fees for various universities, Sundai, Disco Corporation, Shizuoka Cultural Foundation, Hanshin Koshien Stadium, Tokyo Metropolitan Symphony Orchestra, Recruit, The New Japan Philharmonic, NHK Symphony Orchestra, Hanshin Koshien Stadium, Dialog in the Dark Japan, Recruit, Trust Bank others
Internet DE Transfer	All Nippon Airways, Peach Aviation, So-net, Sagawa Express, Sumitomo Mitsui Card, YJFX! Japan Securities Finance, JFX, Hirose Trader, Brother Industries, Future, Recruit, Benesse Corporation, GREE, Vanilla Air, Askul, others
Electronic Authentication	Fujikyu Highland, Huis Ten Bosch, others

## ② Corporate DNA: Always Taking on New Challenges

E-Billing Service, Billing Service, various money transfer services, cellular telephone ticket service and other services and systems developed by WELLNET, in almost all the cases, represent the first applications of their kind to be commercialized within Japan.

Furthermore, the above implementation examples of systems are validation of their superiority. As WELLNET is not an affiliate or subsidiary of a large company, it started out without large amounts of business resources, including money, people and assets.

Despite this fact, the spirit of “always taking on new challenges” engrained in the corporate DNA of WELLNET allowed it to become the “de facto standard setter” in electronic bill payments.

President Miyazawa believes that the meaning and appeal of business are “to continue to believe in your own ability, to envision and take on the risk of developing mechanisms that would be convenient to have, and to provide them in tangible, readily available forms.”

Moreover, in our interview, Mr. Miyazawa also said that “the reason for our Company to exist is to come up with systems that only we can create.”

Since WELLNET is a small company with about 100 employees, keeping up the spirit of taking on new challenges engrained in its corporate DNA and the ideal represented in its corporate principle of “WELLNET Arete” seems to be vital to the company’s existence.

## 2. Fiscal Year June 2018 Earnings Results and Fiscal Year June 2018 Earnings Estimates

### (1) Earning overview (Non-Consolidated)

(Units: Million Yen)

	FY6/17 2Q	Share	FY6/18 2Q	Share	YY Change
Sales	5,300	100.0%	4,911	100.0%	-7.3%
Gross Profit	1,427	26.9%	1,068	21.7%	-25.2%
SG&A	629	11.9%	719	14.6%	+14.3%
Operating Profit	798	15.1%	349	7.1%	-56.3%
Ordinary Profit	930	17.5%	366	7.5%	-60.6%
Net Profit	634	12.0%	240	4.9%	-62.0%

### Both sales and profit declined.

The sales were 4,911 million yen, down 7.3% year on year, which resulted from the shrinking production of OEM products, in addition to the declining sales caused by merger of convenience-store chains, and the reconsideration of transaction conditions with the company's major clients; however, the non-face-to-face payment settlement market was booming on a continuous basis and sales of products for other existing business operators showed healthy growth.

Operating profit dropped 56.3% year on year to 349 million yen. While gross profit and its rate decreased due to the price strategies for major enterprises, research and development (R&D) investment went up because of not only proactive investment, such as strengthening of personnel, addition of new application functions, and promotion targeted at consumers, but also the start of biometric authentication according to the necessity of stricter measures against unlawful acts in order to promote Shiharai-Hisho, which was developed for financial institutions.

### (2) Financial Condition and Cash Flow

#### ◎ Summarized Balance Sheet

(Unit: Million Yen)

	End of Jun. 2017	End of Dec. 2017		End of Jun. 2017	End of Dec. 2017
<b>Current Assets</b>	20,753	16,521	<b>Current Liabilities</b>	13,513	10,160
<b>Cash and Deposits</b>	15,848	12,577	<b>Trade Accounts Payable</b>	920	556
<b>Trade Accounts Receivable</b>	690	571	<b>Settlement Deposits</b>	11,381	7,942
<b>Securities</b>	2,999	1,999	<b>Fixed Liabilities</b>	164	177
<b>Fixed Assets</b>	1,704	1,929	<b>Long-term Accounts Payable</b>	119	119
<b>Property, Plant, and Equipment</b>	415	504	<b>Net Assets</b>	8,780	8,113
<b>Intangible Fixed Assets</b>	829	939	<b>Retained Earnings</b>	5,203	4,486
<b>Investments, Other</b>	459	485	<b>Treasury Stock</b>	-682	-640
<b>Total Assets</b>	22,457	18,451	<b>Liabilities and Net Assets</b>	22,457	18,451

\* Trade accounts receivable is the total of accounts receivable and operating earnings receivable. Trade accounts payable is the total of book debt and operating expenses payable.

Current assets went down 4.2 billion yen from the end of the previous term due to a decline in cash and deposits, and securities. Cash and deposits include the settlement deposits in the collection agency business (to be remitted to enterprises in the following month) posted in current liabilities, which amounts to 7.9 billion yen. Total assets shrank by 4.0 billion yen from the end of the previous term to 18,451 million yen.

As for liabilities, current liabilities decreased 3.3 billion yen from the end of the previous term due to a drop-in settlement deposits and other factors. Total liabilities stood at 10,337 million yen, down 3.3 billion yen from the end of the previous term.

The decrease in retained earnings reduced net assets by 600 million yen from the end of the previous term to 8,113 million yen.

Consequently, capital-to-asset ratio rose 4.8% to 43.5% from 38.7% at the end of the previous term.

(It is 76.4%, if the settlement deposits are excluded from assets and liabilities.)

## ◎ Cash Flow

(Unit: Million Yen)

	FY6/17 2Q	FY6/18 2Q	Changes
Operating Cash Flow	2,888	-3,142	-6,030
Investing Cash Flow	-36	-189	-152
Free Cash Flow	2,851	-3,331	-6,183
Financing Cash Flow	-668	-939	-270
Cash Equivalents	17,141	11,077	-6,063

Operating CF slipped into deficit due to several factors, such as the decrease in pretax net profit.

The deficit of investing CF widened due to the increase in payments for purchases of securities and other factors, and free CF also went into the red.

The deficit of financing CF ballooned up because of the rise in the amount of dividends to pay, the decline in earnings from issuance of share options, and the like.

The cash position decreased.

## (3) Regarding the outlook for business performance in the fiscal year June 2018

As of the date of the announcement of financial results for the fiscal year June 2017 (Aug. 7, 2017), the earnings forecast for the fiscal year June 2018 was not announced, because there were a lot of uncertainties that could affect business performance and it was difficult to estimate figures while the company aggressively engaged in promotional activities for popularizing “Bus Mori!” and “Shiharai-Hisho” and increasing the number of downloads of apps.

The forecast will be announced when it becomes possible to estimate figures rationally.

The dividend amount is to be 50 yen/share, unchanged from the previous term.

## (4) Topics

### ◎ Progress in the Bus IT Project

\*The app has been downloaded 80,000 times and covered 186 bus routes.

\*\*“Smartphone Commuter Pass,” the first smartphone service in Japan that enables users to purchase commuter passes just through simple operation on their smartphones “at any time,” “from any place,” and “simply and quickly” 24 hours a day, has been introduced by 3 companies.

In addition to busses, the “Smartphone Commuter Pass” service will become available in some railway areas of the Sekihoku and Senmou Lines of JR Hokkaido, starting on April 1, 2018.

\*In December 2017, the company started offering services of booking and purchasing tickets for express buses, which makes the most of the “Academic Access Management Federation in Japan (GakuNin),” a cooperative authentication infrastructure established in collaboration between universities all across Japan and National Institute of Informatics (NII), for confirming the enrollment status of students who receive student discount when booking or buying tickets.

This enables verification of the student status on “Bus Mori!,” and students no longer have to present their student identification when purchasing a ticket at a discount at boarding.

Traditionally, student identification must be checked face-to-face when a student buys a ticket or gets on a bus, in which the bottleneck is that human resources are always required; in contrast, via the “Academic Access Management Federation,”

the student status can be verified on smartphones, and besides, students can book and purchase express bus tickets using their smartphones at any time and place since their student identification will be confirmed via “Bus Mori!”

The service is scheduled to be released, with 11 bus companies that provide “GakuNin-wari” discount, and a total of 10 educational institutions, including 7 universities and 3 colleges of technology, which collaborate with the “Bus Mori!” service.

\*A radio program, “Bus-Tabist,” began to be aired in October 2017, aiming to spur demand for busses, improve the public impression as to busses, and promote the “Bus Mori!” service. The program is broadcasted every Sunday from 12:00 to 12:25 on 38 radio stations of the Japan FM Network, including TOKYO FM.

\*The company started providing services, on “Bus Mori!,” of sale of bus tickets and electronic ticket collection for bus routes that are not on a reservation basis. Users of “Bus Mori!” can buy bus tickets using their smartphones, regardless of the time and location. Fares need not be paid or received in cash when users get on or off a bus.

Furthermore, “MY Sokugai,” a function with which users can register bus routes that they have taken at least once in order to buy bus tickets for the routes only through simpler operation from next time onwards, has been introduced.

The first route to which the service has been adopted is the New Chitose Airport Line operated by Hokkaido Chuo Bus, and the company plans to expand the number of bus routes covered by this service serially, including airport busses across Japan and intercity express busses.

In addition, the service has been made available in multiple languages, including English, Chinese, and Korean, aiming to relieve burdens on bus crew who are dealing with the growing number of foreign tourists visiting Japan.

#### ◎ Progress in the Shiharai-Hisho service

In August 2017, it became available, to pay The Kansai Electric Power Co., Inc. electricity charges through the “function to read the barcode of a wire-transfer form for settlement of fees.” This is the first step in putting Shiharai-Hisho into practice.

Payment of 3,500 bills, which accounts for about 15%, of a total of approximately 230 million bills (per year) of public utility charges, such as electricity, liquefied petroleum gas (LPG), city gas, and water, are made by forwarding payment slips by mail.

Business operators will be able to enjoy enormous benefits if they can cut down on the mailing costs.

WELLNET focuses on taking approaches not only to other electricity power companies but also to the aforementioned business operator.

Moreover, the company is conducting negotiations over a partnership deal with several financial institutions, with the aim of raising the number of affiliated financial institutions that provide the service of depositing electronic money with Shiharai-Hisho to 20, in addition to Sumitomo Mitsui Banking Corporation and Hiroshima Bank, Ltd. with which the company has already forged partnership.

### **3. Interview with President Miyazawa**

We interviewed President Miyazawa about the progress in their businesses and other approaches.

#### (Bus IT Project)

Although Kyushu and Hokkaido fell behind other regions, the major bus companies of the regions, Nishi-tetsu Bus and Hokkaido Chuo Bus, respectively, have introduced “Bus Mori!,” allowing our company to secure a foothold throughout Japan. As the “seed sowing” period has been completed, the next key is how we increase the number of users.

According to the survey we conducted, while around 90% of the respondents, regardless of gender and age, said “yes” to the question, “Do you think it is convenient if you can buy tickets for express buses via a smartphone app and display a

ticket on your smartphone?” but more than 90% of all the male and female respondents of all ages said “no” to the question, “Have you heard of the “Bus Mori!” service?”

The issue is how we raise the public awareness of “Bus Mori!” and, as one of the efforts toward awareness improvement, we will engage in promoting the service through “Bus-Tabist,” an FM radio program, and providing incentives.

As it is also important to deal with the rising number of individual tourists from overseas to Japan, our company released the English, Chinese, and Korean versions of “Bus Mori!” in December 2017.

It is certain that it is not going to be easy to make a shift from the conventional paper bus tickets to smartphone-based tickets since some users are psychologically reluctant to accept such a shift; however, a sudden breakthrough will come at some point in the future.

(Shiharai-Hisho)

Our company is trying approaches directly to corporations with needs to reduce mailing costs of bills for electricity, gas, and LPG, and is receiving considerably positive response.

As is the case with Bus Mori!, the issue in Shiharai-Hisho is how to encourage more users to use the service, or in other words, how to increase the number of downloads of the app; therefore, we will take multifarious approaches.

In addition to issuance of coupons by electricity power companies (users must download the app in order to use the coupons), WELLNET will engage in promotional activities, starting in April.

Furthermore, our company will host university-sponsored events for university students, who are the major target of the service, as test marketing.

Although this effort may take a while, we will proactively pursue approaches to corporations, financial institutions, and individual users.

(With regard to corporate governance)

As one of the priority policies to carry out, our company has proclaimed “maintenance and improvement of the robust corporate structure” in our new 5-year mid-term management plan.

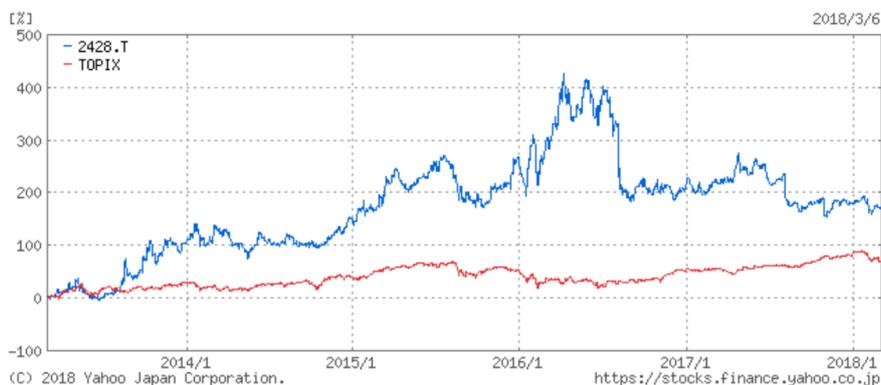
Specifically, with the aim at a streamlined and effective management system, we are dividing business administration and execution; in addition, in order to secure the transparency and objectivity of business administration, we have shifted our corporate structure to the company with audit and supervisory committees, and at the same time, appointed 3 outside directors (audit and supervisory committee members), which accounts for more than half of 5 directors. Our company has set director’s term of service at one year for retaining a sense of tension among directors.

These efforts at transparency have been highly thought of by foreign investors.

Furthermore, we have added 3 operating officers in order to establish a system for achieving our goals, while increasing the number of sales staff and honing their skills with the aim of promoting Shiharai-Hisho and Bus Mori!. In addition, our company is recruiting full-time employees for curbing and reducing outsourcing costs and conducting in-house production. Utilization of “Doshin Mirai-kun WELLNET Scholarship,” a scholarship system, and partnership forged with colleges of technology have made it possible for our company to secure excellent human resources.

## 4. Conclusions

Some projects in the existing businesses were less successful, but otherwise the booming market of non-face-to-face payment settlement allowed the company to thrive, keeping pace with the market growth. The company’s great strength lies in this steadiness; however, although “Bus Mori!” and “Shiharai-Hisho,” the two services that will lead the company’s future growth, are making an incremental progress, it is still impossible to predict when they will contribute to revenue. We would like to pay attention to when these two services will make full contributions in the medium and long terms.



\* relative stock price 5years Blue: WELLNET, Red: TOPIX

## <Reference 1: Outline of the new 5-year mid-term managerial plan>

### 【Outline】

WELLNET has made non-face-to-face settlements and related services the domain of the business, and with the know-how and outcomes accumulated in that domain, the company has expanded the business results. The non-face-to-face settlement market is expecting some level of growth, and so the company aims to continue developing and maintaining the current business scheme.

During the new 5-year mid-term managerial plan, the business environment surrounding WELLNET is expected to have massive changes, with the rapid development of FinTech and its implementation in addition to the beginning of the use and application of IoT. WELLNET has made active investments for turning this change into a new business opportunity, and aims to achieve an ordinary profit of ¥5 billion in the term ending Jun. 2021, which is the last fiscal year of the mid-term plan.

### 【Individual Projects】

#### A. FinTech Service - Shiharai-Hisho

The mainstay of the WELLNET's current revenue is its real-time cash settlement, however seeing great potential in further expanding digital money and cashless settlements in the future, the company formulated the concept in 2011, and since then has worked on defining requirements and developing the digital money service, Shiharai-Hisho, which was released in Aug. 2017.

Shiharai-Hisho, a smartphone app, controls digital money on a server, and has the following functions.

- ① Users can add electronic money from any of allied banks. It is also possible to add money from other payment receiving agencies.
- ② Automatic reminder function, so business operators do not need to remind people to pay via mail.
- ③ The reminder function of “Hisho” will prevent users from “forgetting to pay inadvertently,” which leads to improvements in money collection rate.

From the viewpoint of business operators who provide services and products, they will not miss out on a sales opportunity because payment is settled the time when the purchase is made.

In addition, multiple small payments can now be made for digital content and other material, which have not been cost-efficient until now. Likewise, one-click payment, in which there has been a growing need for, is also possible.

Furthermore, business operators in the domain of deferred payment will be able to cut costs for issuing invoices due to conventional paper invoices being switched to digital invoices.

Regarding the distribution of Shiharai-Hisho, the company will proceed with the following promotions and make major efforts to expand and spread the app.



- ① Appealing to business operators who have already installed WELLNET’s settlement system.
- ② Joint operations with allied banks.
- ③ A new settlement method will appear on the payment method window (provided by WELLNET) used by consumers million times a month.
- ④ Active consumer-oriented promotion.

**B. Bus IT Project**

The company will actively develop, release, and promote “Bus Mori! Series,” which is the core of the Bus IT Project. The company released Bus Mori! MONTA, an in-vehicle terminal for authentication for intercity express buses, and in August 2016, they released a smartphone app, Bus Mori!, which is a heavily improved version of Bus Mori! NAVI.

Since the increase of consumers who know, download and use this application is an important factor in turning a profit, they actively promote Bus Mori!.

**C. Open Innovation**

The domain of WELLNET’s business and related business has been undergoing a massive revolution with IoT, FinTech, etc., and at the same time there are growing business opportunities.

The company intends to implement measures to seize those opportunities.

Concretely, the company will strengthen the ties with universities, business entities and firms that possess expertise and technology to appropriately respond to these business opportunities. Also, the company has been prepared to establish WELLNET Venture Capital, a CVC designed to develop a settlement related platform business by affiliating with other companies and invest in the research and development of financial services.

**D. Building the visualized profit structure system and the automated operation system**

The company will visualize the basic information required to execute PDCA according to the productivity and profitability of each service in order to enhance ROI. The company will promote the smooth interaction in the operation so that it can prevent the back office from swelling during the company’s expansion.

**E. Governance – conducting proper corporate activities**

WELLNET has established the following “WELLNET Arete” for representing company significance and behavioral policies for employees to aim for effective governance. Even if products change, the action philosophy that forms the foundation of the company will pass onto the employees.

(Arete in Greek, means “virtue”, “prowess” and “excellence”.)

<p><b>* WELLNET Arete</b></p> <ul style="list-style-type: none"> <li>➤ Contributing to the society by creating "mechanisms that are convenient to have"</li> <li>➤ Proposing and spreading those "mechanisms" throughout the world</li> <li>➤ Allocating profit to employees, shareholders and investments in the future</li> </ul>
<p><b>* WELLNET Employee Arete</b></p> <ul style="list-style-type: none"> <li>➤ To avoid the pitfalls of stereotypes. I will think freely.</li> <li>➤ Thinking for one’s self, proposing the best solution.</li> <li>➤ The discussion should be open and the “People who are responsible to decide” will make the decisions, which will be implemented by the organization.</li> <li>➤ Promoting open discussions, while clearly defining the factors of “who” will do “what” by “when.”</li> <li>➤ Repeating the process of validation and improvement.</li> <li>➤ Making honest, accurate and quick reports.</li> <li>➤ Conducting business after documenting services to be provided and compensation to be received.</li> <li>➤ Non-acceptance of entertainment and gifts.</li> </ul>

## &lt;Reference 2: Regarding corporate governance&gt;

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

Organization type	Company with audit and supervisory committee
Directors	5 directors, including 3 external one

◎ **Corporate Governance Report**

Last update date: September 28, 2017

&lt;Disclosure Based on the Principles of the Corporate Governance Code&gt;

In “Corporate Governance” of the corporate profile in the website of WELLNET, “the policy for the corporate governance code” is disclosed.

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