

Bridge Report WELLNET CORPORATION (2428)

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

— Stock Information —

Share Price	Shares Outstanding	Market Cap.	ROE (actual)	Trading Unit	
¥1,002	18,574,344 shares	¥18,611million	6.0%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥50.00	5.0%	-	-	¥420.62	2.4x

* Stock price as of the close on August 22, 2018. Number of shares outstanding at the end of the most recent quarter excludes treasury shares.

ROE and BPS are from the previous fiscal year.

The earnings forecast for the fiscal year June 2019 is unpublished as of now as there are many uncertain factors.

— Non-Consolidated Earnings Trend —

(Units: Million Yen)

Fiscal Year	Net Sales	Operating Profit	Current Profit	Net Profit	EPS	Dividend (¥)
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	9,783	677	708	495	26.31	50.00
June 2019 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 2019 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 fiscal year June 2018.

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Key Points

- The sales for the fiscal year June 2018 were 9,783 million yen, down 4.6% year on year. The decline in sales was due to the sales convergence due to the integration of convenience store chains, revised terms of sale with major business partners, and OEM reductions, but the market for non-face-to-face payment settlement continued to expand, and sales to existing enterprises are growing steadily with the exception of certain factors. Operating profit dropped 38.3% year on year to 677 million yen. While gross profit and its rate decreased due to the price strategies for major businesses, there were active investments, such as increase of staff, addition of new application functions, and promotion targeted at consumers. Also, R&D expenses increased, because in order to expand Shiharai-Hisho, which was developed for financial institutions, it became necessary to implement stricter measures to prevent fraud and therefore biometric authentication was started.
- The earnings forecast for the fiscal year June 2019 has not been announced at the beginning of the fiscal year, because there are many uncertainties that could affect business performance. Their uncertainties come from that the company is continually developing additional functions and working on the automated operation of “Bus Mori!” and “Shiharai-Hisho,” and they are actively promoting awareness and downloads of the apps. The forecast will be announced when it becomes reasonably possible to estimate figures. The dividend amount is to be 50 yen/share, unchanged from the previous term.
- Both sales and profit declined. But if certain factors are excluded (such as the reduction in OEMs), profits increased by roughly 10% supported by the expansion of market for non-face-to-face payment settlement by roughly 7%. WELLNET expects that the impact of decreased convenience store sales will subside in about one year. We would like to pay much attention to when earnings are likely to recover and the contribution of new businesses will begin.

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.

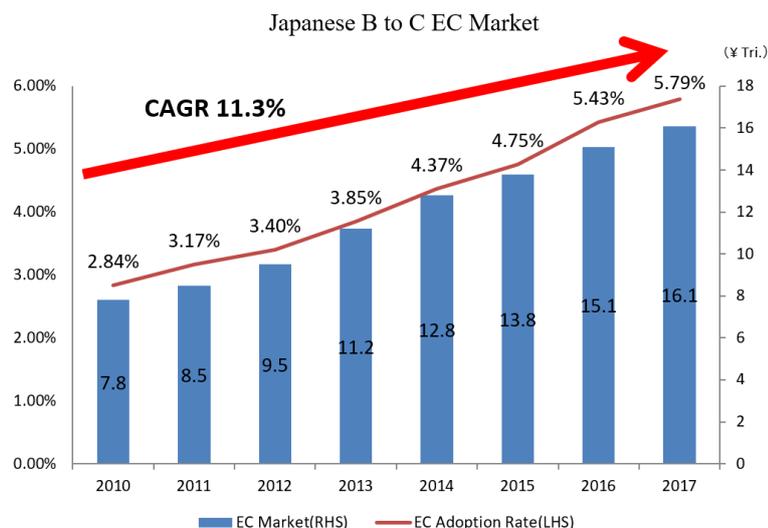
Thereafter, WELLNET has expanded the provision of its "multiple payment service" to include large companies such as amazon, Yahoo! Shopping, Yahoo! Auction, low cost carrier (LCC) airlines, West Japan Railway Company and JR Kyushu Railway Company. In addition, the Company has also focused its attention upon developing solutions leveraging the know-how of 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.
	Mar	Announced the release of the “Smartphone Commuter Pass” function of “Bus Mori!” to Keihin Kyuko Bus Company (YCAT)
	Apr	Began providing the “Bus Mori!” student discount ticket “Gakunin-Wari” for Hokkaido Chuo buses
	Apr	Began providing the Shiharai-Hisho service for three additional banks (Japan Post Bank, Mie Bank, and Daisan Bank)
	May	Began providing a cash receipt service at Seven Eleven ATMs
	Jun	Began providing the Shiharai-Hisho service to Kyushu Electric Power Company
	Jul	Began providing the Shiharai-Hisho service to Hokkaido Electric Power Company
	Jul	Began providing coupons for free rides on fixed-route buses through “Bus Mori!” (Nara Kotsu Bus Company)
	Jul	Started electronic ticket collection on seasonal sightseeing buses through “Bus Mori!” (Zentan Bus)
	Oct	Announced that cash transfers will be possible 24 hours a day using the Internet DE Receipt service

<Market Conditions>

According to the Ministry of Economy, Trade and Industry’s report entitled FY 2017 Research on Infrastructure Development in Japan’s Information-based Economy Society (E-Commerce Market Survey) issued on April 25, 2018, the Japanese electronic commerce market (B to C) for consumers rose by 9.1% year-over-year to ¥16.1 trillion in 2017. Compound average growth rate (CAGR) from 2010 to 2017 is 11.3%.



(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 5.79% for the sale of goods, but it is growing steadily.

<B to C EC Market Scale by Industry (2017)>

Industry		EC Market (¥100mm)	YY Change (%)	EC Adoption Rate (%)
Sale of goods	Clothing, Accessories	16,454	+7.6%	11.54%
	Home appliances, AV equipment, Computers & Peripherals	15,332	+7.4%	30.18%
	Food, Beverages, Alcohol	15,579	+7.4%	2.41%
Services	Travel services	33,742	+11.0%	-
	Financial services	6,073	-0.7%	-
	Ticketing	4,595	+2.9%	-
Digital	Online games	14,072	+7.5%	-
	E-publishing (digital books/magazines)	2,587	+20.1%	-
	Paid video streaming	573	+8.3%	-

(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

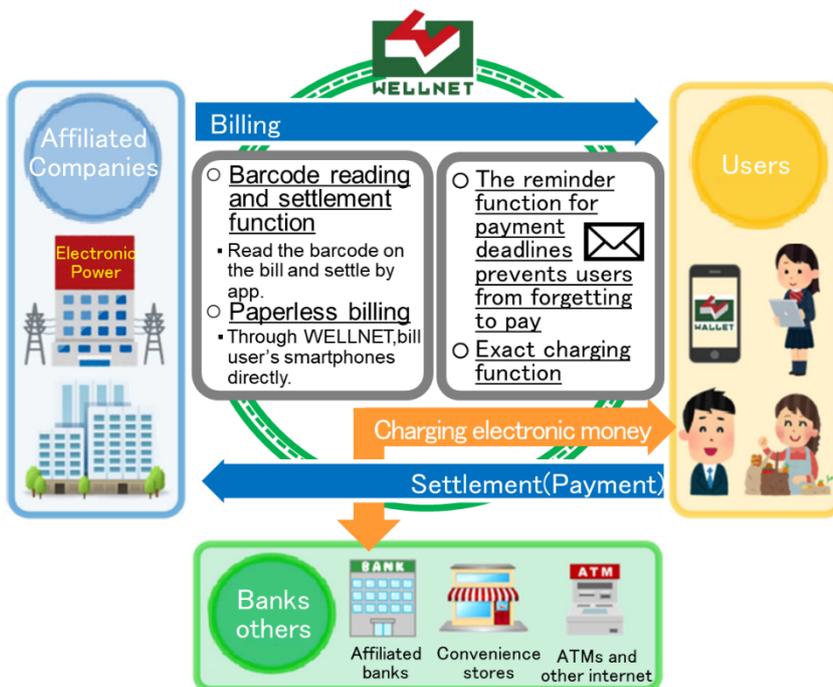
It is possible to issue a written bill and charge and settle payment electronically on a real-time basis with a single service.

(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 pay instantly 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.

From the end of October 2018, 24-hour processing for cash transfers will be made possible.

<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.

From May 2018, the company partnered with “Seven Payment Service,” making it possible to receive cash at Seven Eleven convenience stores. This significantly increased the number of locations where cash could be received.

<Advantages and Characteristics>

- ◇ Merchants do not need to collect the consumer's account information beforehand.
- ◇ Compared to postal transfers, there are lower costs and cash can be received quickly.
- ◇ 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. 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, 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 12 different convenience store chains, as of August 2018), relieving bill paying customers from the need to rush to post offices and banks during normal business hours.
- ◇ Merchants can 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).

WELLNET also provides a service that reduces postage expenses by allowing business operators to go paperless. By using this service, businesses can promote electronic bills simply by having the bills issued through WELLNET, and enjoy the benefit of reduced postage expenses. This service can also lead a seamless introduction of Shiharai-Hisho, the electronic payment plan that is expected to grow dramatically in the future.

«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 Bus Mori!”.

This is an innovative service that can considerably improve the convenience for both bus agencies and users. Users can reserve and purchase bus tickets safely and securely from their smartphone, anytime and anywhere. Bus agencies also become more efficient by using electronic tickets. As a result, sales opportunities can be maximized.

The “Bus Mori!” series has been expanded. It includes “Bus Mori!,” a consumer smartphone application, and “Bus Mori! MONTA,” a service for bus agencies that use tablet terminals that allows them to manage express bus reservations in real time.

As of September 2018, the number of downloads of the “Bus Mori!” is about 150,000, and there are more than 250 routes that accept smartphone tickets. There are also more than 20,000 active users (those who use the app at least once a month).

The company released the new function “Smartphone Commuter Pass” and started to provide “Electronic Ticket Collection,” “Electronic Coupons,” and “Free Pass” 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.

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 added the function to authenticate tickets with “electronic punching” to “Bus Mori!” for bus agencies with no “authentication terminal”. This is covering almost all the bus routes and therefore the number of routes where “electronic tickets” are acceptable is increasing.

Outline of the functions of “Bus Mori!”

A smartphone suffices for completing all procedures
With a smartphone only, customers can easily purchase any of tickets for inter-city express buses and airport shuttle buses for over 100 companies handled by WELLNET.
When a frequently used ticket is registered in “Instant Purchase,” it becomes possible to buy the ticket with one click.
For a ticket bought under the “Instant Purchase” mode, it is possible to change it to the ticket for the next bus with one click. (The use for an airport or the like is assumed.)
It is also possible to buy a ticket from the list of previously purchased tickets
A smartphone suffices for completing the procedures for cancellation.

Several languages are available, including Japanese, English and Chinese (simplified).

【“Bus Mori! MONTA,” a service of the real-time management of data on express bus reservations for bus agencies】

“Bus Mori! MONTA,” which can manage inventory on a real-time basis based on mobile data communications, is characterized by the following functions. It would reduce the burdens on crews and maximize selling opportunities.

- ① Electronic seat chart: User can check the reservations and vacant seats of buses currently in operation.
- ② Ticket sale: If a user who has not yet paid the fare gets on a bus, the fare for the user can be displayed.
- ③ Ticket confirmation and authentication: User can authenticate the tickets of users, handle them online, and update reservation information.

On October 2, 2017, the company began a FM radio program called “Bus-Tabist (Travel by Bus),” which promotes “Bus Mori!” across 38 JFN stations, with the key station being Tokyo FM. Reaching 1.7 million listeners, this program uses short stories to introduce areas along “Bus Mori!” routes.

《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>

	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18
ROE (%)	11.3	11.5	16.3	10.2	6.0
Net Profit Ratio Margin	12.01	10.55	12.83	8.48	5.06
Total Asset Turnover	0.36	0.43	0.52	0.47	0.50
Leverage	2.58	2.50	2.44	2.54	2.38

The ROE of WELLNET in the previous term was under 8%, which is the general target for Japanese companies.

This was due to stagnation in sales caused by a decrease in convenience store related sales (PIN/POSA) for existing business, reductions in OEMs, price strategies in regard to major business operators, and a drop in net profit margin due to investment in the company's growth. However, this is expected to subside soon.

We would like to pay attention to when profitability will recover and allow ROE to rise once more.

<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, etc.
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, Tokyu 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	Bus Mori!

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 2019 Earnings Estimates

(1) Earning overview (Non-Consolidated)

(Units: Million Yen)

	FY6/17	Share	FY6/18	Share	YY Change
Sales	10,260	100.0%	9,783	100.0%	-4.6%
Gross Profit	2,586	25.2%	1,866	19.1%	-27.8%
SG&A	1,487	14.5%	1,188	12.1%	-20.1%
Operating Profit	1,099	10.7%	677	6.9%	-38.3%
Ordinary Profit	1,239	12.1%	708	7.2%	-42.9%
Net Profit	869	8.5%	495	5.1%	-43.1%

Both sales and profit declined.

The sales for the fiscal year June 2018 were 9,783 million yen, down 4.6% year on year. The decline in sales was due to the sales convergence due to the integration of convenience store chains, revised terms of sale with major business partners, and OEM reductions, but the market for non-face-to-face payment settlement continued to expand, and sales to existing enterprises are growing steadily with the exception of certain factors. Operating profit dropped 38.3% year on year to 677 million yen. While gross profit and its rate decreased due to the price strategies for major businesses, there were active investments, such as increase of staff, addition of new application functions, and promotion targeted at consumers. Also, R&D expenses increased, because in order to expand Shiharai-Hisho, which was developed for financial institutions, it became necessary to implement stricter measures to prevent fraud and therefore biometric authentication was started.

(2) Financial Condition and Cash Flow

◎ Summarized Balance Sheet

(Unit: Million Yen)

	End of Jun. 2017	End of Jun. 2018		End of Jun. 2017	End of Jun. 2018
Current Assets	20,753	14,481	Current Liabilities	13,513	8,725
Cash and Deposits	15,848	10,564	Trade Accounts Payable	920	585
Trade Accounts Receivable	690	575	Settlement Deposits	11,381	6,959
Securities	2,999	1,999	Fixed Liabilities	164	178
Fixed Assets	1,704	2,330	Long-term Accounts Payable	119	119
Property, Plant, and Equipment	415	528	Net Assets	8,780	7,907
Intangible Fixed Assets	829	1,105	Retained Earnings	5,203	4,690
Investments, Other	459	696	Treasury Stock	-682	-1,054
Total Assets	22,457	16,811	Liabilities and Net Assets	22,457	16,811

* 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 6.2 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 6.9 billion yen. Total assets shrank by 5.6 billion yen from the end of the previous term to 16,811 million yen.

As for liabilities, current liabilities decreased 4.7 billion yen from the end of the previous term due to a drop-in settlement deposits and other factors. Total liabilities stood at 8,904 million yen, down 4.7 billion yen from the end of the previous term.

The decrease in retained earnings reduced net assets by 800 million yen from the end of the previous term to 7,907 million yen.

Consequently, capital-to-asset ratio rose 7.8% to 46.5% from 38.7% at the end of the previous term.

(It is 78.7%, if the settlement deposits are excluded from assets and liabilities.)

◎ Cash Flow

(Unit: Million Yen)

	FY6/17	FY6/18	Changes
Operating Cash Flow	2,328	-3,993	-6,321
Investing Cash Flow	-1,341	35	+1,376
Free Cash Flow	987	-3,958	-4,945
Financing Cash Flow	-596	-1,405	-809
Cash Equivalents	15,348	9,983	-5,364

Operating CF slipped into deficit due to several factors, such as the decrease in pretax net profit. Investing CF turned positive due to the decrease in purchase of securities, but free CF turned negative. The deficit of financing CF expanded due to the acquisition of treasury stocks.

The cash position decreased.

(3) Regarding the outlook for business performance in the fiscal year June 2019

As of the date of the announcement of financial results for the fiscal year June 2018 (Aug. 7, 2018), the earnings forecast for the fiscal year June 2019 has not been announced at the beginning of the fiscal year, because there are many uncertainties that could affect business performance. Their uncertainties come from that the company is continually developing additional functions and working on the automated operation of “Bus Mori!” and “Shiharai-Hisho,” and they are actively promoting awareness and downloads of the apps. The forecast will be announced when it becomes reasonably possible to estimate figures. The dividend amount is to be 50 yen/share, unchanged from the previous term.

(4) Topics

① Progress of the Shiharai-Hisho service

◎ Business operators and financial institutions using the service

Of about 220 million utility bills (electricity, LPG, city gas, water, etc.) per year, 30.3 million (about 15%) are made by forwarding payment slips by mail.

Business operators can enjoy enormous benefits if they can cut down on the mailing costs.

The service was adopted by the three power companies: Kansai Electric Power Company (from August 2017), Kyushu Electric Power Company (from June 2018), and Hokkaido Electric Power Company (from July 2018). Preparations are being made to reach more electric power companies, and the company is making approaches to LPG and gas companies as well.

Partnered financial institutions using Shiharai-Hisho for electronic money charging include SMBC (from August 2017), Japan Post Bank (from April 2018), Daisan Bank (from January 2018), Mie Bank (from March 2018), Chiba Kogyo Bank (from April 2018.), Taiko Bank (from July 2018), Hokkaido Bank (from July 2018), and Ehime Bank (from July 2018). In addition to these, preparations are being made for more than 10 other banks.

Because financial institutions require a very high level of security, development took some time but was completed without trouble. The company believes that this will also speed up future partnerships.

WELLNET also added Shiharai-Hisho to existing payment methods, of which there are roughly 7 million monthly transactions. Shiharai-Hisho was also linked with “Bus Mori!”

◎ Promotional activities

In order to raise user awareness, WELLNET is conducting the following promotional activities.

* Roughly 13,000 advertisements were distributed on lunch trays across 31 universities (45 university cafeterias) in the Kansai area. Point gifts with a 500 yen value were also given under the “Student Life Support” campaign, which took place in May and June of 2018.

* In May 2018, WELLNET began promoting through videos by YouTuber.

* In addition to printing a notice on the back side of Kansai Electric payment forms, the company also offers point giveaway campaigns and campaigns with incentives to introduce friends.

② Progress of the bus IT project

◎ Functions and current status

The smart ticket (released in August 2016) has been adopted by 36 bus agencies, encompassing 250 routes.

Six companies adopted the smartphone commuter pass released in March 2017, and 11 companies adopted the online student discount released in December 2017.

In addition to user functions such as “Free Pass” (released in July 2018) and “Electronic Ticket Collection” (released in January 2018), four bus companies have also adopted “Bus Mori! MONTA” (released in 2016), which is used to manage conductor tasks.

◎ “Bus Mori!” Application

* The number of downloads of the application “Bus Mori!” have reached 150,000, and active users (those who used the app at least once a month) exceeded 20,000 people. The app is also available in English, Chinese, and Korean (as of the end of September 2018) to be used by tourists. New functions include automatic processing of cancellation in the event of suspension of the bus service, an assistant function to remind users of departure times and due dates for ticket payment, as well as direct withdrawal from bank accounts by linking with Shiharai-Hisho.

◎ Public Relations

*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.

* Announced mainly to bus users using campaign buses, advertisements on the bus timetable, and distribution of leaflets in buses.

*According to the survey WELLNET 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?” Improving awareness is key.

③ Corporate Governance System

The company is focusing more on strengthening its governance system than it has in the past, and they have changed to a streamlined and effective management system by dividing business administration and execution. In order to ensure the transparency and objectivity of management, the majority of directors are outside directors.

The company also strengthened their quality control team and internal auditing system to further eliminate mistakes and defects.

3. Conclusions

Both sales and profit declined. But if certain factors are excluded (such as the reduction in OEMs), profits increased by roughly 10% supported by the expansion of market for non-face-to-face payment settlement by roughly 7%. WELLNET expects that the impact of decreased convenience store sales will subside in about one year. We would like to pay much attention to when earnings are likely to recover and the contribution of new businesses will begin.

* relative stock price 2years 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.

<Reference 2: Regarding corporate governance>

◎ 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, 2018

<Disclosure Based on the Principles of the Corporate Governance Code>

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

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

Principle	Disclosure contents
【Principle 1-4 So-called strategically held shares】	The Company considers business strategies and relations with business partners comprehensively. Depending on the number of shares held, the Board of Directors or the Representative Director will determine if there is a valid purpose for strategically held shares, judge whether the benefits and risks associated with holding shares are reasonable for the capital cost, and consider other potential uses for funds, before carrying out such share holdings. In addition, there are no formalized criteria for the exercise of voting rights pertaining to such shares. After considering whether the proposals conform to its own holding policy, whether they contribute to the sound management of the issuing company, and whether corporate value can be improved, the Company examines each proposal and decides whether it is approved or rejected.
【Principle 4-8 Utilize independent external directors.】	The Board of Directors is composed of 5 directors, including 3 outside directors (members of the committee for audit, etc.). As the members of the committee for audit, etc. have voting rights at a meeting of the Board of Directors, they can effectively supervise directors and operating officers from an independent objective viewpoint. Accordingly, the Company can conduct fair, transparent business administration. The 3 outside directors (members of the committee for audit, etc.) have been registered as independent outside directors.
【Principle 5-1 Policy for constructive dialogue with shareholders】	The Company accepts shareholders’ request for dialogue proactively. For shareholders and investors, the Company holds a session for briefing financial results every six months, and a small meeting when necessary. The Company appoints the director and administrative manager as a director in charge of IR, so that he/she controls the sections related to IR activities, such as the administrative section, and facilitates the daily cooperation between the sections. The director in charge of IR accepts IR-related questions from investors by telephone and at small meetings, etc. and holds a semiannual session for briefing financial results to analysts and institutional investors. At that session, the president or the director in charge of IR gives explanations.



	<p>At the dialogue with investors, the Company discusses items regarding the sustainable growth of the Company and the medium/long-term improvement in corporate value at a briefing session or a small meeting, and pays attention to the management of insider information.</p>
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